

Weekly guidebook for the global investor



The Macro viewpoint: Spring cleaning of our outlook

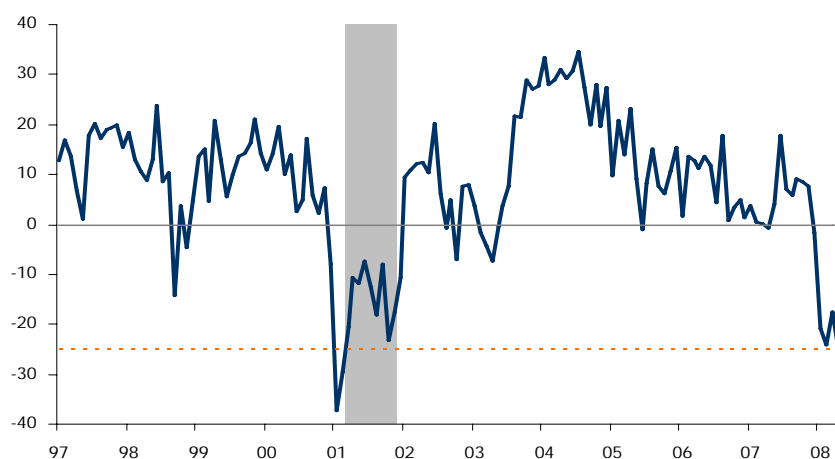
We did some spring cleaning of our GDP forecast this week, dusting off our assumptions about how well business sector spending is faring given the roiled financial markets and tighter credit conditions. The result was a four-tenths haircut to our 1H GDP forecast, to -0.7% annualized from -0.3% previously, driven by a quicker downturn in nonresidential investment spending and a sizable inventory correction in the auto sector.

The week ahead

Light week on the economic data front with March reports for durable goods, new and existing home sales the highlights. The Fed's calendar is light next week as well, as we enter the *blackout period* ahead of the April 29-30 FOMC meeting.

Philly Fed manufacturing index breaks down to a 7-year low

Philly Fed Business Outlook Survey: General Activity Diffusion Index



Shaded region represents period of US recession
Source: Philadelphia Federal Reserve Bank, Merrill Lynch

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Table of contents

Macro Viewpoint	2
Key market movers	5
Merrill Lynch proprietary indicators	8
Debt Issuance/Policy Speakers	9
Economic Forecasts Table	10
Rolling Calendar	12

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Refer to important disclosures on page 13.

Macro viewpoint

Forecast update

Spring cleaning of our investment outlook

Decline in H1 GDP likely twice as deep

We did some spring cleaning of our GDP forecast this week, dusting off our assumptions about how well business sector spending is faring given the roiled financial markets and tighter credit conditions. The result was a four-tenths haircut to our 1H GDP forecast to -0.7% annualized from -0.3% previously, driven by a quicker downturn in nonresidential investment spending and a sizable inventory correction in the auto sector.

Shading down 2008 GDP to 0.7% from 0.9%

For the most part, the balance of our outlook is right on track: another 30% downleg in homebuilding, a deep consumer recession that probably lasts well into 2009 and a substantial turnaround in the current account, which helps cushion the blow. Our full-year GDP forecast falls to 0.7% for 2008, from 0.9% previously, and is slightly lower, at 0.5%, for 2009 (was 0.6% prior).

Expect earnings to come under pressure

We continue to expect an outright profit recession, with EPS operating earnings to decline by 9% in 2008, to \$75.00 (was \$75.50 previously) and then post only a small rebound to \$77.50 in 2009 (was \$78.00) a 3.3% increase over 2008.

Commercial construction boom turns bust

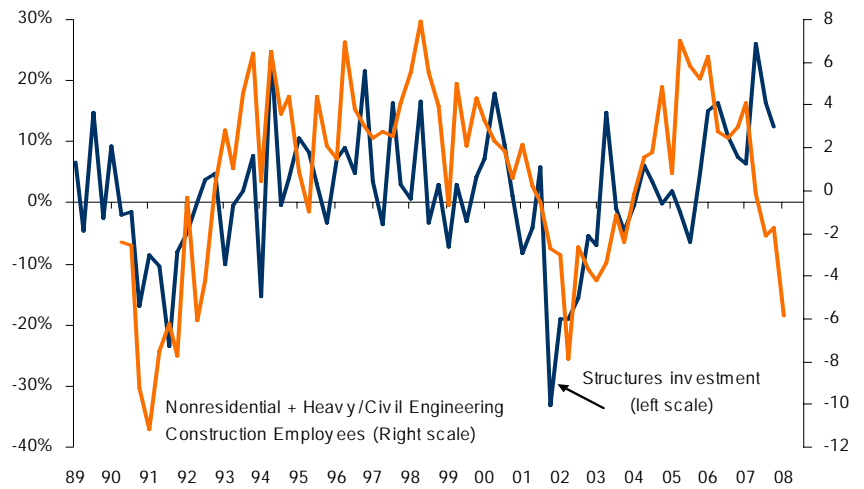
Commercial construction has rolled over, driven by the substantial tightening in credit conditions that started late last year. Banks materially tightened lending standards for commercial and industrial loans in the fourth quarter of last year, and by the first quarter they were at a historic high. The regression work we did earlier this year suggested that it took about 2-3 quarters for a tightening in credit to have an impact on building, and the rollover we're now seeing is about right on cue.

Table 1: Macro Forecasts

Real Economic Activity, % SAAR	Current		Previous	
	2008	2009	2008	2009
Real GDP	0.7	0.5	0.9	0.6
Consumer Spending	0.8	0.2	0.8	0.2
Residential Investment	-23.5	-12.9	-23.5	-11.6
Nonresidential Investment	1.9	-3.5	3.2	-2.5
Net Exports (Bil 00\$)	-448.1	-346.0	-452.5	-349.0
Inventory Accumulation (Bil \$)	-22.2	-11.1	-19.2	-12.3
Operating Corp. Profits After Tax (% YoY)	-12.4	1.8	-12.1	2.2
CPI, Consumer Prices (% YoY)	3.4	1.4	3.3	1.2
CPI ex Food & Energy (% YoY)	2.2	1.7	2.1	1.4

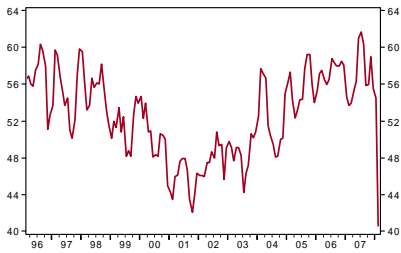
Source: Merrill Lynch

Chart 1: Nonresidential construction jobs disappear (QoQ annualized %)



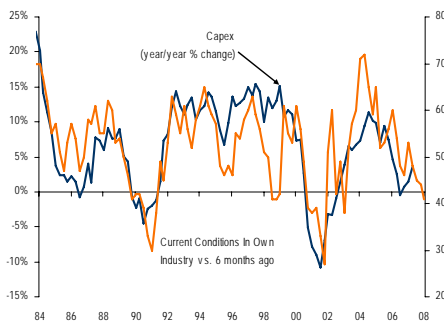
Source: Bureau of Labor Statistics, Bureau of Economic Analysis, Merrill Lynch.

Chart 2: Architect billings collapse
(Diffusion index: 50 and over = increase)



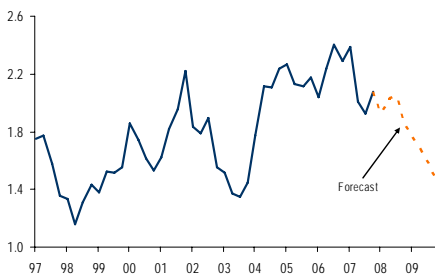
Source: American Institute of Architects, Merrill Lynch.

Chart 3: CEO worries imply capex pullback



Source: Bureau of Economic Analysis, The Conference Board, Merrill Lynch

Chart 1: Chart 4: Core heading back to target
(Core PCE price index, YoY%)



Source: Bureau of Economic Analysis, Merrill Lynch.

Billings collapse, construction jobs disappear

What tells us that the construction rollover is not an event on the horizon but a present day reality is the massive slide in commercial site payrolls since the end of last year and the unprecedented rollover in architect billings. The nonresidential construction sector has shed 40,000 jobs since the end of 2007, the deepest cuts since 2002 when nonresidential building was posting double-digit quarterly declines. And, architect billings in the C&I space have been in free-fall since December – the three-month annualized rate was -77.4% as of February.

Capex outlook to remain sluggish

Our capex outlook is broadly the same as before, with just 2% growth expected in 2008 as a soft first half gives way to some capex cutbacks this summer. The 1Q CEO confidence survey from the Conference Board confirms that business confidence is at recession-type lows; and that always means trimming spending plans (see Chart 3).

Bonus depreciation will give 4Q boost and 1Q bust

The bonus depreciation will give capex a brief boost in the last three months of the year, but expect spending to pull back sharply early next year. Past dalliances with bonus depreciation for capital spending tells us that there is not much deviation from pre-set spending patterns. At best, there is a flurry of capex orders just ahead of expiration as businesses rush to get the full advantage of the tax break. What we invariably see in the quarter after the deadline is a sharp pullback. We expect this latest round of capex incentives to produce a similar result.

Just-in-time axle strike

In the nick of time, as sales dwindle to the 15 million mark and fears mount of a drop to a 14-handle before too long, the motor vehicle sector finds itself in the midst of a protracted strike that has shuttered motor vehicle assembly plants across the Midwest. Even with this massive shutdown, the inventory-to-sales ratio is staying about unchanged at around two months. And, the scope for a rebuild after the strike's resolution is probably limited.

Inventory investment to shave 1.6ppts from 2Q GDP

We expect the positive inventory swing in 1Q to be unwound (and then some) in 2Q. A large portion of this can be attributed to declining motor vehicle inventories. This is both a result of the weakened outlook for sales, discouraging inventory building throughout the pipeline, and a negative impact from the production plant idling that we have seen in March and April (due to the ongoing strike at American Axle). We estimate that the production shutdowns are subtracting about 670,000 annualized motor vehicle units from inventory in the second quarter.

Inflation still to trend lower

Crude oil topping \$110 per barrel and gold prices hovering above \$900 an ounce keeps markets participants in the grip of stagflation fear. But we remain convinced we are not in for a 1970s-style stagflation. Inflation expectations, be they survey based or derived from the bond market, are still well within recent norms. Productivity growth is strong, which will go a long way toward holding down labor costs. Perhaps most importantly, the consumer is on the precipice of the first downturn in 16 years, and the gathering forces tell us that we are not going to escape with just the brief pause we saw back then.

We will admit that the current backdrop of a rapidly slowing economy, a credit crisis, and the threat of \$4 per gallon pump prices by Memorial Day poses a dilemma for the Federal Reserve, which wants to shield the economy without stoking an inflation inferno. The Fed, in our view, will stick to its guns, and the staff forecasts show that slower growth ahead will generate the spare capacity needed to tamp inflation pressures down the road. They believe, as we do, that the output gap will dominate any price shocks, be they currency, commodity or energy related, as long as inflation expectations remain contained.

[Sheryl King](#), Economist, Merrill Lynch, +1 212 449 2527

Key market movers

The week ahead

We expect the advance report on durable goods orders to show a 2.7% monthly increase, mainly driven by a rebound in machinery orders

Light week on the economic data front with March reports for durable goods, new and existing home sales the highlights. We expect the advance report on durable goods orders to show a 2.7% monthly increase, mainly driven by a rebound in machinery orders – a component that was absolutely crushed the previous month. Metals are likely to follow suit as global demand for these commodities continues to boom. The key nondefense capital goods excluding aircraft component, which is a proxy for capex spending, is expected to show about a 3% increase – but if not for the surge in machinery orders this component would have slipped about 0.5% on the month.

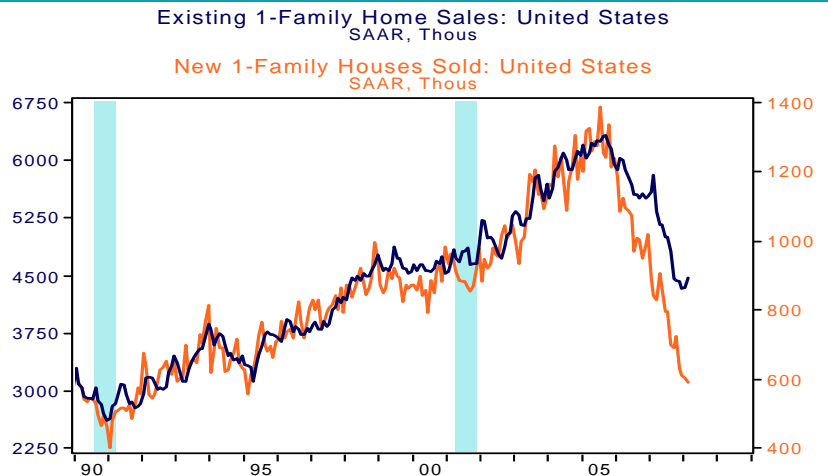
Both new and existing home sales are expected to show declines next week, in a sign that the housing market is far from bottoming

We expect both new and existing home sales to show declines next week, in a sign that the housing market is far from bottoming. Existing home sales are expected to post a modest 0.6% decline, while new home sales likely slipped about 2% on the month. The pending home sales report suggests a *flattish* outcome for existing sales, while weak mortgage applications data and the downbeat NAHB index point to a sharper pullback in new home sales. Demand for both new and existing homes continues to be crimped by tight lending standards and the unwillingness of many potential buyers to participate in a depreciating market. The weakness in sales will do little to alleviate the massive inventory overhang in the market and until we see more capitulation on pricing and improved credit markets sales have little chance of improving, in our view.

The Fedspeak calendar is light as we enter the *blackout period* ahead of the April 29-30 FOMC meeting

The Fedspeak calendar is light next week as we enter the *blackout period* ahead of the April 29-30 FOMC meeting. Chicago Fed President Evans (non-voter) will give opening remarks at an event in Chicago intended to educate consumers on money management and Fed Governor Kroszner will give a speech on community development.

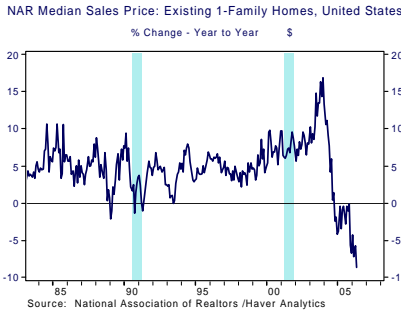
Housing market to remain in the doldrums



Source: Census Bureau, National Association of Realtors, Haver Analytics, Merrill Lynch

Wednesday, 23 April

More capitulation needed to pare inventories



Existing home sales, March—10:00 am

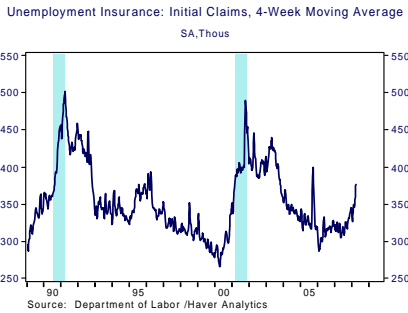
	Exp	Cons	Range	History
Existing home sales	5.00mn	4.95mn	4.80-5.08mn	Feb = 5.03mn vs Jan = 4.89mn

Source: Merrill Lynch, Bloomberg

Existing home sales are poised to slip a modest 0.6% MoM in March to an annualized selling rate of 5.00 million. Pending home sales, which lead existing sales by roughly two months, were up just 0.3% in January and suggest a *flatish* outcome for existing sales. Demand continues to be suppressed by tight lending standards for mortgages and the unwillingness of potential buyers to participate in a depreciating market. This lack of interest and ability to obtain financing is perpetuating the inventory overhang, which currently stands at 9.6 months' supply – about 80% above the normal rate. Until we see more capitulation on pricing and improved credit markets, sales have little chance of improving, in our view.

Thursday, 24 April

Initial claims up more than 30% from cycle low



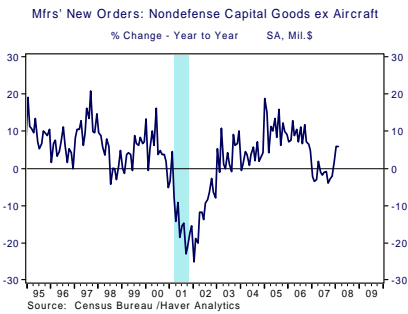
Initial jobless claims, week ending 04/19/08—8:30 am

	Exp	Cons	Range	History
Initial jobless claims	375K	375K	375-385K	April 12 = 372K

Source: Merrill Lynch, Bloomberg

Initial jobless claims probably rose to 375K in the week ending April 19 after a similar 372K print the prior week. This will take the four-week moving average to 377K from 376K, a level indicative of anemic employment growth. In non-seasonally adjusted terms, the current week typically witnesses 5K decline in claims. Given that claims of late have been somewhat skewed by auto production shutdowns, however, we could see a sharper reversal of roughly 12k. We expect most of the impact from the American Axle strike to have dissipated and believe that the current underlying level of claims, at around 370K, accurately reflects the current employment backdrop.

Exports and pricing boosting capex orders



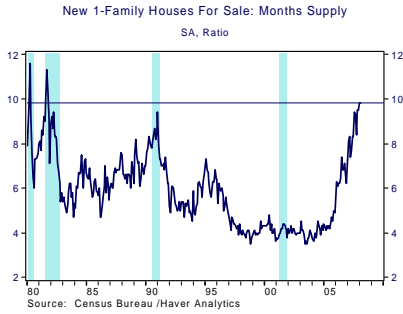
Durable goods orders, March—8:30 am

	Exp	Cons	Range	History
Durable goods orders	2.7%	0.1%	-1.7% to 2.7%	Feb = -1.1% vs Jan = -4.4%
Ex transportation	2.4%	0.4%	-1.0% to 2.7%	Feb = -2.4% vs Jan = -0.8%

Source: Merrill Lynch, Bloomberg

The advance report on durable goods is expected to show a 2.7% MoM increase in new orders, following two consecutive monthly declines. Driving this is an expected rebound in machinery orders (after a 12.3% plunge the month before) and a healthy boost in metals orders. The Fed's latest Beige Book signaled a pick-up in demand for these commodities. Also, machinery production was up firmly in March and metals prices continued to rocket higher. The transportation components are expected to print a firm increase as well as Boeing orders rose markedly on the month. Nondefense capital goods excluding aircraft, a capex proxy, looks to be up about 3% on the month. If not for the increase in machinery orders, this metric would actually have fallen about 0.5%. Higher pricing is playing a role in the orders figures: we look for real capex spending to grow a modest 1.1% SAAR in 1Q.

New home inventories still in the stratosphere



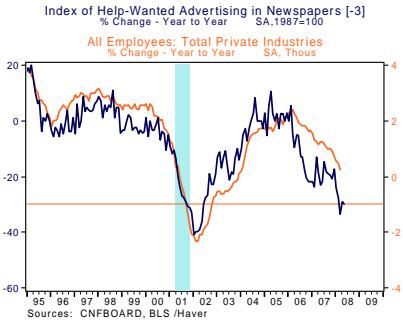
New home sales, March—10:00 am

	Exp	Cons	Range	History
New home sales	578K	585K	570-600K	Feb = 590K vs Jan = 601K

Source: Merrill Lynch, Bloomberg

The rate of new home sales probably fell about 2% MoM in March to just 578K units. Mortgage applications for home purchases, which work with a lag to sales, were down a sharp 11% on the month in February and this is indicative of very weak interest in the market for new homes. Also, the NAHB's present single family home sales component was unchanged at 20 in March, remaining near the record low of 18 set back in November (and just recently again in April). The weakness in sales will do little to alleviate the massive inventory overhang which currently stands at a 26-year high of 9.8 months. Price capitulation has not helped matters thus far either, with the 7.8% decline in average new home prices doing little to stimulate demand. In the latest Fed Beige Book, just released this week, a builder was quoted as saying that prices couldn't get *low enough* to clear out inventory – demand it seems, is just not there.

Help-wanted points to sharp payroll decline



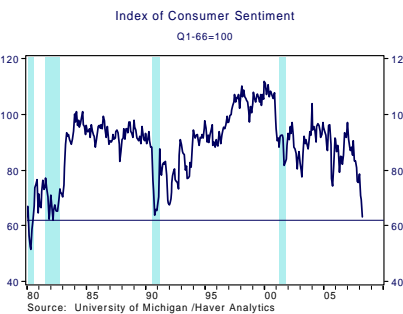
Help-wanted index, March—10:00 am

	Exp	Cons	Range	History
Help-wanted	20	20	20	Feb = 21 vs Jan = 22

Source: Merrill Lynch, Bloomberg

We look for the help-wanted index to slip to 20 in March, the second consecutive monthly decline. Hiring in the economy has been tepid at best, with many companies resorting to hiring freezes and not replacing departing staff. While the importance of this index seems to have deteriorated over the past few years, as many moved to the internet, this indicator still does a pretty good job of predicting the trend in payrolls. Indeed, it leads private nonfarm payroll growth by three months with an 88% correlation.

Sentiment poised to slip to a fresh 26-year low



University of Michigan consumer sentiment index, April (F)—10:00 am

	Exp	Cons	Range	History
U of M sentiment	62.0	63.8	62.0-72.0	Apr (P) = 63.2 vs Mar = 69.5

Source: Merrill Lynch, Bloomberg

The University of Michigan consumer sentiment index looks to slip even further to 62.0 in the April final release, after a 63.2 print in the preliminary report. Since the preliminary survey period, equity prices have dipped about 1.5%, gasoline prices pierced trough \$3.40/gallon (a 2% increase), and the ABC News weekly confidence survey has deteriorated to -39 from -34. These factors, coupled with the fact that the recession rhetoric continues to intensify will likely be more than enough to take confidence to a fresh 26-year low.

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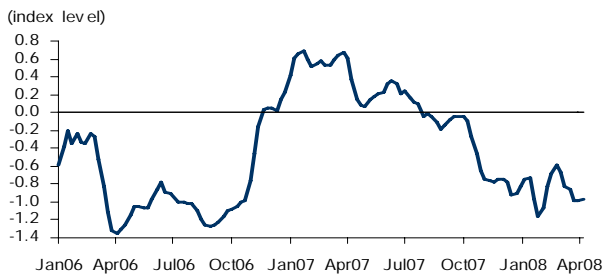
Merrill Lynch proprietary indicators

The Merrill Lynch production index



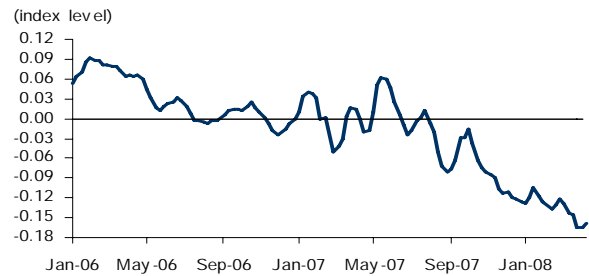
Our production index fell fractionally in the latest week building on steeper declines in the three previous weeks. We saw gains across the majority of the components. After declining for five weeks in a row, truck production rose 4.8%. Auto production posted a solid 3.4% gain on top of last week's 0.9% increase. Lumber production continues to rise – jumping 2.5% in what is the eighth consecutive increase. Electrical production, which has the largest weight in our index rose 0.8% – the third increase in a row. The components putting downward pressure on the index were coal production, which fell 0.5% after posting a 1.8% increase last week and railcar loadings, which fell 0.3% after rising for two weeks previously. Raw steel production continues to decline, dropping 0.5% in the latest week – that's the sixth consecutive decline.

The Merrill Lynch housing index



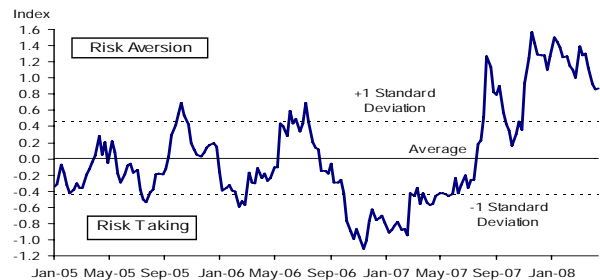
Our housing index rose for the first time in six weeks but has been in negative territory for more than nine months, reflecting a housing market in recession. The MBA's purchase index continues to run below its one-year average indicating that the demand for housing remains weak. Initial jobless claims rose in the latest week and the four week moving average remains at a level consistent with recession. Continuing claims continue to surge as well – the four-week moving average has risen for nine weeks in row indicating that the jobs market is getting increasingly precarious for those already unemployed. Finally, lending remains tight. Commercial bank real estate loans continue to run below their one-year average.

The Merrill Lynch consumer index



Our consumer index ticked up for the second week in a row but has been in negative territory for over nine months. The last time this index spent this much time in negative territory the US economy was in a recession. The labor market continues to deteriorate. Initial jobless claims rose in the latest week while continuing claims have been up for nine consecutive weeks and are at the highest level since mid-2004. This means it is getting tougher for unemployed workers to find a new job. Meanwhile, crude oil continues its price run-up unabated, remaining over \$110 per barrel and well above its one-year average. Downward pressure on household wealth continues with the S&P 500 falling last week and remaining below its two-year average. It should then come as no surprise that consumer confidence weakened to its lowest level in almost 15 years.

The Merrill Lynch financial stress index



Our financial stress index was flat in the latest week at its lowest level since November 2007. The index has been in risk aversion territory since late October and while conditions have improved recently, the index illustrates that considerable stress remains. Two year swap spreads, for example, have blown out to nearly 100 bps, well above their one-year average. The TED spread has widened to over 170 bps, which is roughly 8x above what is *normal*. Gold, long viewed as a hedge in times of heightened uncertainty, has been rising for the last two weeks. However, in a sign that the situation is starting to improve in the marketplace, we see that the VIX index, a measure of equity market volatility, has fallen six weeks in a row and is below its one-year average.

Neil Dutta, Research Analyst, MLPF&S, +1 212 449-9527

Debt issuance

Treasury financing (billions of \$)

<u>Announcement date</u>	<u>Auction date</u>	<u>Settlement date</u>	<u>Issue</u>	<u>Size</u>	<u>New cash</u>
-	-	Apr-21	Maturing CMB	-	(20.0)
-	-	Apr-22	Maturing CMB	-	(20.0)
Apr-17	Apr-21	Apr-24	3- & 6-month#	40.0	3.0
Apr-17	Apr-22	Apr-30	5-year TIPS#	8.0	8.0
Apr-21	Apr-22	Apr-24	1-month	12.0*	(12.0)*
Apr-21	Apr-23	Apr-30	2-year note	30.0*	8.4*
Apr-21	Apr-24	Apr-30	5-year note	19.0*	19.0*
Apr-24	Apr-28	May-1	3- & 6-month	35.0*	(6.0)*

* Estimate. () = Paydown. (R) = Reopening. CMB = Cash Management Bill.
Source: Bloomberg, U.S. Treasury, Merrill Lynch

Agency financing (billions of \$)

<u>Announcement date</u>	<u>Auction date</u>	<u>Settlement date</u>	<u>Issue</u>	<u>Size</u>
Apr-18	Apr-21	Apr-22	FRE 3-month	3.5
Apr-18	Apr-21	Apr-22	FRE 6-month	2.0
Apr-21	Apr-23	Apr-24	FNM 3-month	
Apr-21	Apr-23	Apr-24	FNM 6-month	
Apr-25	Apr-28	Apr-29	FRE 3-month	
Apr-25	Apr-28	Apr-29	FRE 6-month	
Apr-25	Apr-28	Apr-29	FRE 12-month	
Apr-25	Apr-30	May-1	FRE 1-month	

FRE = Freddie Mac, FNM = Fannie Mae, (R) = Reopening
Source: Bloomberg, Freddie Mac, Fannie Mae.

Policy speakers

Key speaking engagements and news events*

<u>Monday, April 21</u>	9:30 am	Chicago Federal Reserve Bank President Charles Evans (non-voter) gives welcoming remarks at the Money Smart Week Chicago Kick-Off Media Breakfast
	1:30 pm	Fed Governor Kroszner Speaks on Community Development in Minnesota
	2:30 pm	Chicago Federal Reserve Bank President Charles Evans (non-voter) Speaks to High School Students in Illinois
<u>Tuesday, April 22</u>	<i>Nothing scheduled at this point.</i>	
<u>Wednesday, April 23</u>	<i>Nothing scheduled at this point.</i>	
<u>Thursday, April 24</u>	<i>Nothing scheduled at this point.</i>	
<u>Friday, April 25</u>	<i>Nothing scheduled at this point.</i>	

*Time and date subject to change
Source: Bloomberg, Market News, Merrill Lynch

Economic forecast summary

Real Economic Activity, % SAAR	4Q2007	1Q2008	2Q2008	3Q2008	4Q2008	1Q2009	2Q2009	3Q2009	4Q2009	2007	2008F	2009F
Real GDP	0.6	0.6	-2.0	0.4	-0.5	-0.2	1.5	2.5	2.6	2.2	0.7	0.5
% Change, Year Ago	2.5	2.5	1.0	-0.1	-0.4	-0.6	0.3	0.8	1.5			
Final Sales	2.4	0.0	-0.4	-0.4	-0.6	-0.4	1.7	1.9	2.1	2.5	1.0	0.4
Domestic Demand	1.3	-0.5	-1.5	-0.8	-1.7	-1.6	0.9	1.7	2.0	1.8	0.1	-0.4
Consumer Spending	2.3	0.6	-0.7	0.2	-1.5	-0.7	1.5	2.0	2.4	2.9	0.8	0.2
Durables	2.0	-7.7	-5.3	-12.4	-10.0	-1.4	1.0	3.1	3.2	4.7	-4.2	-3.5
Nondurables	1.2	-1.0	-3.0	0.3	-4.0	-4.7	1.0	2.0	2.5	2.4	-0.6	-1.5
Services	2.8	2.9	1.2	2.5	1.2	1.3	1.7	1.8	2.1	2.8	2.4	1.7
Residential Investment	-25.2	-24.5	-27.4	-22.8	-22.7	-12.0	-2.5	1.0	1.5	-17.0	-23.5	-12.9
Nonresidential Investment	6.0	-0.5	-1.6	-3.5	-0.9	-9.1	-3.2	0.3	1.6	4.7	1.9	-3.5
Structures	12.4	-3.7	-5.5	-6.5	-8.0	-10.0	-5.0	1.0	1.5	12.9	2.1	-6.0
Equipment and Software	3.1	1.1	0.3	-2.0	2.5	-8.7	-2.3	0.0	1.6	1.3	1.9	-2.4
Government	1.9	0.8	1.3	1.4	1.7	1.3	1.7	1.4	1.1	2.0	1.8	1.5
Exports	6.5	9.0	4.0	4.5	4.5	4.5	4.3	3.9	3.2	8.1	7.8	4.3
Imports	-1.4	3.5	-3.6	0.5	-3.4	-4.5	-1.7	2.0	2.2	1.9	0.1	-1.9
Net Exports (Bil 00\$)	-503.2	-488.7	-455.4	-441.2	-407.3	-367.9	-343.1	-337.5	-335.4	-555.6	-448.1	-346.0
Inventory Accumulation (Bil \$)	-18.3	0.9	-46.8	-23.3	-19.6	-15.4	-23.9	-8.7	3.4	4.6	-22.2	-11.1
Nominal GDP (Bil \$)	14074	14172	14168	14259	14320	14382	14502	14647	14786	13841	14230	14579
% SAAR	3.0	2.8	-0.1	2.6	1.7	1.8	3.4	4.1	3.8	4.9	2.8	2.5
% Change, Year Ago	5.1	4.6	2.9	2.1	1.7	1.5	2.4	2.7	3.3			
Key Indicators												
Industrial Production (% SAAR)	0.2	0.0	-1.6	-0.5	-0.9	0.6	1.5	1.7	1.8	1.7	0.3	0.4
Capacity Utilization (%)	81.0	80.6	80.0	79.6	79.0	78.8	78.8	78.8	78.8	81.0	79.8	79.4
Civilian Unemployment Rate (%)	4.8	4.9	5.4	5.7	6.1	6.3	6.3	6.3	6.4	4.6	5.5	6.3
Productivity (% SAAR)	1.9	1.2	-3.0	2.5	1.0	0.5	2.5	3.2	3.0	1.8	1.4	1.5
% Change, Year Ago	2.9	3.0	1.5	0.6	0.4	0.2	1.6	1.8	2.3			
Real Disp. Personal Inc. (% SAAR)	0.1	1.3	8.3	0.8	-5.1	2.2	2.7	2.9	2.7	3.1	2.1	1.2
% Change, Year Ago	2.2	1.2	3.4	2.6	1.2	1.4	0.1	0.6	2.6			
Personal Savings Rate (%)	0.0	0.2	2.2	2.4	1.4	2.1	2.4	2.6	2.7	0.4	1.6	2.5
Light Vehicle Sales (Millions SAAR)	16.2	15.3	15.2	14.4	14.0	13.8	14.4	14.8	15.1	16.4	14.7	14.5
Housing Starts (Thous. SAAR)	1151	1035	930	790	680	720	780	815	845	1344	859	790
Current Account (Bil \$)	-172.9	-181.2	-167.1	-162.9	-146.0	-131.5	-121.5	-119.4	-119.4	-738.6	-657.3	-491.7
U.S. Budget Balance (Bil \$)										-163	-525	-425
Corporate Profits and Earnings												
Operating Corp. Profits After Tax (Bil \$)	1114.6	1079.2	1013.3	976.9	883.2	966.5	978.7	1007.4	1072.3	1128.6	988.2	1006.2
% Change, Year Ago	3.3	-1.5	-12.1	-15.2	-20.8	-10.4	-3.4	3.1	21.4	2.6	-12.4	1.8
S&P 500 Reported EPS (\$)	7.8	17.0	18.0	13.0	13.3	17.3	18.2	13.5	14.0	66.2	61.2	63.0
% Change, Year Ago	-61.4	-20.4	-18.0	-14.5	70.3	1.8	1.5	4.2	5.3	-18.8	-7.5	3.0
S&P 500 Operating EPS (\$)	15.2	19.0	20.5	18.5	17.0	19.5	21.0	19.0	18.0	82.5	75.0	77.5
% Change, Year Ago	-30.8	-15.1	-14.8	-11.4	11.7	2.6	2.4	2.7	5.9	-5.9	-9.1	3.3
Inflation												
GDP Price Index (% SAAR)	2.4	2.6	1.6	2.2	2.4	1.8	1.3	1.0	1.1	2.7	2.1	1.7
% Change, Year Ago	2.6	2.2	1.9	2.2	2.2	2.0	1.9	1.6	1.3			
CPI, Consumer Prices (% SAAR)	5.0	4.3	1.9	2.7	1.9	1.4	0.9	0.4	1.0	2.9	3.4	1.4
% Change, Year Ago	4.0	4.2	3.5	3.5	2.7	2.0	1.7	1.1	0.9			
CPI ex Food & Energy (% SAAR)	2.5	2.5	1.7	1.9	1.8	1.7	1.6	1.5	1.5	2.3	2.2	1.7
% Change, Year Ago	2.3	2.4	2.3	2.1	1.9	1.8	1.7	1.7	1.6			

Source: Merrill Lynch

18 April 2008

Interest rate forecast summary

(% EOP)	4Q 07	1Q 08	2Q 08	3Q 08	4Q 08	1Q 09	2Q 09	3Q 09	4Q 09	2007	2008	2009
Fed Funds	4.25	2.25	2.00	1.75	1.25	1.00	1.00	1.00	1.00	4.25	1.25	1.00
3-Month T-Bill	3.36	1.38	1.25	1.00	1.00	1.00	1.05	1.05	1.10	3.36	1.00	1.10
3-Month LIBOR	4.85	2.95	2.45	2.10	1.95	1.65	1.30	1.30	1.35	4.85	1.95	1.35
2-Year T-Note	3.04	1.62	1.60	1.35	1.10	1.00	1.00	1.10	1.20	3.04	1.10	1.20
5-Year T-Note	3.45	2.46	2.45	2.25	2.00	1.85	1.60	1.65	1.70	3.45	2.00	1.70
10-Year T-Note	4.05	3.45	3.55	3.40	3.25	3.15	2.80	2.75	2.70	4.05	3.25	2.70
30-Year T-Bond	4.45	4.30	4.35	4.20	4.05	3.85	3.40	3.35	3.30	4.45	4.05	3.30

Shaded regions represent Merrill Lynch forecast.

Source: Merrill Lynch

Monthly CPI forecast update

	Total CPI					Core CPI			
	(nsa)			(sa)		(nsa)		(sa)	
	level	MoM	YoY	MoM	YoY	MoM	YoY	MoM	YoY
2007: Sep	208.490	0.28	2.8	0.37	2.8	0.24	2.1	0.22	2.1
2007: Oct	208.936	0.21	3.5	0.26	3.5	0.33	2.2	0.18	2.2
2007: Nov	210.177	0.59	4.3	0.90	4.4	0.06	2.3	0.24	2.4
2007: Dec	210.036	-0.07	4.1	0.36	4.1	-0.04	2.4	0.22	2.4
2008: Jan	211.080	0.50	4.3	0.39	4.4	0.37	2.5	0.31	2.5
2008: Feb	211.693	0.29	4.0	0.03	4.1	0.34	2.3	0.04	2.3
2008: Mar	213.528	0.87	4.0	0.34	4.0	0.47	2.4	0.15	2.4
2008: Apr	214.347	0.38	3.7	0.04	3.7	0.14	2.3	0.14	2.3
2008: May	215.030	0.32	3.4	0.17	3.4	-0.01	2.3	0.15	2.3
2008: Jun	215.435	0.19	3.4	0.26	3.4	0.02	2.2	0.16	2.2
2008: Jul	215.489	0.03	3.5	0.27	3.5	0.06	2.2	0.15	2.2
2008: Aug	215.444	-0.02	3.6	0.18	3.6	0.16	2.2	0.15	2.2
2008: Sep	215.557	0.05	3.4	0.14	3.4	0.16	2.1	0.14	2.1
2008: Oct	215.791	0.11	3.3	0.16	3.3	0.30	2.0	0.15	2.0
2008: Nov	215.479	-0.14	2.5	0.16	2.5	-0.04	1.9	0.15	1.9
2008: Dec	214.904	-0.27	2.3	0.15	2.3	-0.11	1.9	0.15	1.9

nsa: not seasonally adjusted, sa: seasonally adjusted

Source: Merrill Lynch

FX rate forecast summary

(end of period)		Spot	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09	Sep 09	Dec 09
Euroland Euro	US\$/Euro	1.57	1.55	1.51	1.48	1.40	1.33	1.30	1.28
Japanese Yen	¥/US\$	105	102	102	102	100	98	98	98
	¥/Euro	165	158	154	151	140	130	127	125
British Pound	US\$/£	2.00	1.99	1.91	1.87	1.79	1.73	1.71	1.68
	£/Euro	0.79	0.78	0.79	0.79	0.78	0.77	0.76	0.76
Swiss Franc	SF/US\$	1.03	1.03	1.05	1.07	1.11	1.16	1.18	1.20
	SF/Euro	1.61	1.59	1.58	1.58	1.55	1.54	1.54	1.54
Canadian \$	C\$/US\$	1.01	1.02	1.04	1.06	1.08	1.11	1.12	1.12
Australian \$	US\$/A\$	0.93	0.94	0.91	0.84	0.80	0.74	0.72	0.70
Chinese Renminbi	RMB/US\$	6.99	6.85	6.70	6.60	6.55	6.60	6.50	6.50
Hong Kong \$	HK\$/US\$	7.79	7.75	7.75	7.75	7.75	7.75	7.75	7.75
Korean Won	KRW/US\$	1001	955	945	930	925	920	920	915
Singapore \$	SGD/US\$	1.36	1.33	1.32	1.33	1.33	1.34	1.35	1.36
Taiwan \$	TWD/US\$	30.41	31.00	32.25	32.50	32.50	32.75	33.00	33.50
Brazilian Real	BRL/US\$	1.67	1.70	1.80	1.80	1.85	1.85	1.90	1.90
Mexican Peso	MXN/US\$	10.44	10.90	11.20	11.00	11.15	11.20	11.40	11.20

Spot prices are as of Friday morning

Source: Merrill Lynch FX Strategy Team., Bloomberg

Rolling Calendar of Business Indicators

Monday	Tuesday	Wednesday	Thursday	Friday
21 April 2-year note announcement —\$30.0bn* 5-year note announcement —\$19.0bn*	22 April ABC/Washington Post Consumer Comfort Survey —(week ending 4/20/08) LJR Redbook —(week ending 4/19/08) 5-year TIPS auction—\$8.0bn	23 April MBA Mortgage Applications —(week ending 4/18/08) 10:00 am: Existing Home Sales Jan 4.89mn Feb 5.03mn Mar 5.00mn* 2-year note auction—\$30.0bn*	24 April 8:30 am: Initial Jobless Claims —(week ending 4/19/08) – 375k* 8:30 am: Durable Goods Orders Jan -4.4% Feb -1.1% Mar 2.7%* 8:30 am: Durable Goods Orders ex Transportation Jan -0.8% Feb -2.4% Mar 2.4%* 10:00 am: New Home Sales Jan 601k Feb 590k Mar 578k* 10:00 am: Help Wanted Index Jan 22 Feb 21 Mar 20* 5-year note auction—\$19.0bn*	25 April 10:00 am: University of Michigan Consumer Sentiment Mar 69.5 Apr (P) 63.2 Apr (F) 62.0*
28 April	29 April ABC/Washington Post Consumer Comfort Survey —(week ending 4/27/08) LJR Redbook —(week ending 4/26/08) 9:00 am: Case-Shiller 20-City Dec -2.1% Jan -2.4% Feb -2.0%* 10:00 am: Consumer Confidence Feb 76.4 Mar 64.5 Apr 60.0*	30 April MBA Mortgage Applications —(week ending 4/25/08) 8:15 am: ADP Employment Feb -18k Mar 8k Apr -55k* 8:30 am: Real GDP 3Q 4.9% 4Q 0.6% 1Q (A) 0.6%* 8:30 am: GDP Price Index 3Q 1.0% 4Q 2.4% 1Q (A) 2.6%* 8:30 am: Employment Cost Index 3Q 0.8% 4Q 0.8% 1Q 0.8%* 9:45 am: Chicago PMI Feb 44.5 Mar 48.2 Apr 47.5* 2:15 pm: FOMC Rate Decision Expected 10-year note announcement —\$15.0bn* 30-year bond (R) announcement —\$6.0bn*	1 May 8:30 am: Initial Jobless Claims —(week ending 4/26/08) 8:30 am: Personal Income Jan 0.3% Feb 0.5% Mar 0.3%* 8:30 am: Personal Spending Jan 0.4% Feb 0.1% Mar 0.2%* 8:30 am: Core PCE (YoY) Jan 2.0% Feb 2.0% Mar 1.9%* 10:00 am: ISM Manufacturing Feb 48.3 Mar 48.6 Apr 48.0* 10:00 am: Construction Spending Jan -1.0% Feb -0.3% Mar -0.6%* 10:00 am: Vehicle Sales Feb 15.4mn Mar 15.1mn Apr 15.1mn*	2 May 8:30 am: Nonfarm Payrolls Feb -76k Mar -80k Apr -90k* 8:30 am: Unemployment Rate Feb 4.8% Mar 5.1% Apr 5.2%* 8:30 am: Avg Hourly Earnings Feb 0.3% Mar 0.3% Apr 0.2%* 8:30 am: Avg Weekly Hours Feb 33.7 Mar 33.8 Apr 33.7* 10:00 am: Factory Orders Jan -2.3% Feb -1.3% Mar 1.5%*
5 May 10:00 am: ISM Non-manufacturing – Apr Feb 49.3 Mar 49.6	6 May ABC/Washington Post Consumer Comfort Survey —(week ending 5/04/08) LJR Redbook —(week ending 5/03/08)	7 May MBA Mortgage Applications —(week ending 5/02/08) 8:30 am: Nonfarm Productivity – 1Q (P) 3Q 6.3% 4Q 1.9% 8:30 am: Unit Labor Costs – 1Q (P) 3Q -2.7% 4Q 2.6% 3:00 pm: Consumer Credit – Mar Jan \$10.3bn Feb \$5.1bn 10-year note auction—\$15.0bn*	8 May 8:30 am: Initial Jobless Claims —(week ending 5/03/08) 10:00 am: Wholesale Inventories – Mar Jan 1.3% Feb 1.1% 30-year bond (R) auction—\$6.0bn*	9 May 8:30 am: Trade Balance – Mar Jan -\$59.0bn Feb -\$62.3bn

*Projections—subject to revision as additional data become available during the month. (R) denotes reopening.

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