

Weekly guidebook for the global investor



Macro viewpoint: Markets could upstage Bernanke

Although financial events may overtake both Bernanke's testimony and the economy, the week ahead will provide a deluge of information on both the state of the Fed's thinking about the economy and the evolution of the economic outlook. Unfortunately, we think it is unlikely that the volume of data will improve the market's clarity around the prospects for the Fed, growth or inflation.

The week ahead: Big week of data in store

The week ahead is heavy on data flow, with several top-tier economic releases due, particularly loaded into Tuesday and Wednesday. Key figures will be retail sales, consumer prices and industrial production.

Consumer confidence lower today than in previous crisis periods

University of Michigan Index of Consumer Sentiment (index level)

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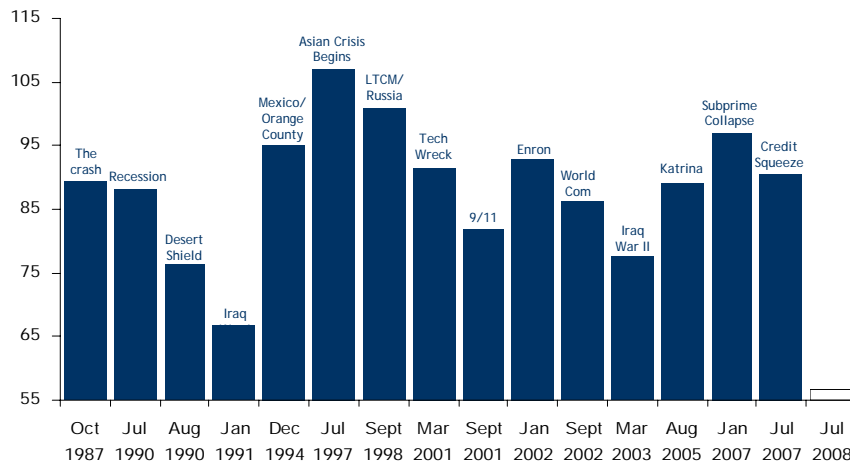
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Source: University of Michigan, Merrill Lynch

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Refer to important disclosures on page 14.

Macro viewpoint

Markets could upstage Bernanke

Focal points

Although financial events may overtake both Bernanke's testimony and the economy, the week ahead will provide a deluge of information on both the state of the Fed's thinking about the economy and the evolution of the economic outlook. Unfortunately, we think it is unlikely that the volume of data will improve the market's clarity around the prospects for the Fed, growth or inflation. Rather, we expect the testimony next week to be balanced and the data to be mixed suggesting we will end the week tired, but still lacking direction. We continue to believe that our view of the economy – economic weakness coupled with moderating inflation – will prevail.

Bernanke's Hike to the Hill

Federal Reserve Chairman Bernanke will travel to Capitol Hill on Tuesday to present the Federal Reserve's Monetary Policy Report to the Congress. We expect that testimony, as with the most recent FOMC statement, will suggest balanced growth and inflation risks. Within the testimony we should expect Bernanke to note a weak housing market, tight credit conditions and high energy prices as the main risks to growth even as he acknowledges the stimulus-boosted consumer spending figures and improved trade deficit (which have boosted our Q2 GDP estimate to 2.2%). Regarding inflation, we look for Bernanke to note the risks posed by rising food and energy prices as well as voicing concern over rising consumer inflation expectations. However, these concerns are unlikely to fit neatly with the still-uncertain growth outlook. The result will likely be another disjointed discussion of the growth and inflation outlooks – something for everyone.

The old versus the new

The data backdrop to the Chairman's testimony will further muddle the outlook. Timing is everything. Retail sales for June are likely to be solid and that strength may linger into July but the post-stimulus check outlook remains bleak. Likewise the weather likely pushed up industrial production in June but that effect is also temporary. More up-to-date releases such as the regional Fed manufacturing surveys should show declines in activity. Likewise, the nearly real-time initial claims figures should bounce above 400,000, emphasizing the weak state of the labor market and suggesting that consumers will face continued pressure on their cash flows in the months ahead.

Financial events may take center stage

It is possible that neither the economic data nor the testimony will hold center stage this week. Indeed, all of the scheduled releases and testimony may be upstaged by news, or the lack thereof, of additional government actions to stabilize the financial system. Chairman Bernanke already broached the idea of extending existing programs to provide liquidity to investment banks in his testimony last week as he noted that "in financial markets is ongoing." However, even these supportive comments appear to have been overtaken by recent events. When and how, or if, the Federal Reserve and the US Treasury react to the growing disruption in financial markets may prove more important to the markets than updated views on the real economy. After all, the Fed will not be raising rates when financial markets are under such stress.

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Key market movers

The week ahead: Big week of data in store

The week ahead is heavy on data flow, with several top-tier economic releases due, particularly loaded into Tuesday and Wednesday. Key figures will be retail sales, consumer prices and industrial production. Retail sales are expected to rise 1.1% MoM in June on the heels of 1.0% gain in May -- both of these figures were markedly boosted by the stimulus checks. Recently reported chain-store sales data revealed monthly gains highly concentrated at discounters, where consumers channeled spending primarily into basic soft goods. Retailers were noted for aggressively discounting to lure in consumers, who were coincidentally caught with a jump in gasoline prices to over the \$4/gallon mark.

Inflation heavily impacted by higher food and energy prices

On the inflation front, we will be getting June data for both consumer and producer prices. Headline gains will be heavily impacted by higher food and energy prices. Overall consumer prices are expected to rise 0.8% MoM boosting the yearly comparison in June to 4.7%. The core rate, excluding food and energy, is set to advance by 0.2% MoM, holding the year-on-year rate to 2.3%. On producer prices, we are looking for finished goods to surge 2.9% over the month in June with energy posting an outsized gain of 11%. Our forecast implies that the headline rate could rise to 10% YoY in June, the highest pace since the early '80s. Outside of food and energy, we see the core PPI gaining a trend-like 0.3% in June, which would take the YoY pace to 3.2% from 2.0% at end-2007.

Manufacturing data to reflect contraction

Several manufacturing data points are out this week -- the bottom line is that most reports will reveal contraction in activity. Starting with industrial production, we are looking for growth to increase 0.4% MoM in June, partially driven by a rebound in utilities output. Manufacturing output is seen rising 0.2% MoM. On a year-over-year basis, IP will contract by 0.1% in June for the second straight month. Surveys out next week (the NY Empire and Philly Fed indexes) will give us the first glimpses of activity at the start of the third quarter. We see both surveys posting marginally better (though still negative) prints relative to June, pointing to an ongoing contraction in the respective manufacturing regions.

The deep recession in housing continues

Housing news will continue to disappoint, still reflecting a recession. We anticipate that June housing starts will drop to an annualized pace of 955K units, a 17-year low. Depressed home sales coupled with still-record high inventory levels will continue to be a downward drag on housing starts for at least the next several quarters and recently higher mortgage rates aren't helping already tight credit conditions. Also on deck this week is the National Association of Homebuilders survey for July, which is likely to remain at its historic low of 18.

Bernanke Testimony to Congress takes center stage

The minutes of the 25 June FOMC meeting are likely to take a back seat to the more up-to-date testimony from Chairman Bernanke this week. We do not look for a surprise in the minutes relative to the statement but will be paying close attention to the inflation discussion in order to estimate how many colleagues are leaning towards Dallas Fed President Fisher's view of the risks to the outlook. Additionally, we will compare the tone of the minutes of this meeting to the tone of Bernanke's testimony to gauge whether there has been any shift in the Fed's view of the outlook over the last three weeks. We do not expect to see any.

Tuesday, 15 July

Producer prices for finished goods are expected to surge 2.9% MoM in June following a 1.4% rise in May

Producer Prices, June—8:30am

	Exp	Cons	Range	History
PPI	2.9%	1.3%	0.5 – 2.9%	May = 1.4% vs. Apr = 0.2%
Core PPI	0.3%	0.3%	0.1 – 0.4%	May = 0.2% vs. Apr = 0.4%

Source: Merrill Lynch, Bloomberg

Producer prices for finished goods are expected to surge 2.9% MoM in June following a 1.4% rise in May. Our estimate is markedly higher than then current consensus figures of 1.4%. Both food and energy prices, the two most volatile components, are poised to play a big role in the June print after already-strong gains posted in May. In particular, energy prices having risen across the board, and are forecast to post an outsized gain of 11% in June. We also see food prices rising 1.6% MoM. Together, these gains imply that the headline PPI could rise to 10% YoY in June from an average of 3.9% in 2007, the highest rate since the early '80s. Relative to 2007, energy prices account for nearly 90% of the year-to-date rise in the overall YoY PPI.

Outside of food and energy, we see the core PPI rising a trend-like 0.3% in June, which would take the YoY pace to 3.2% from 2.0% at end-2007. The two key core components -- consumer goods and capital equipment -- have both trended higher YTD, each running a full percentage point above December 2007 YoY gains. Producers are likely to face continued pressure to pass through price increases due to the ongoing surge in commodity prices as well as the weaker US dollar. However, the weak state of consumer demand will their ability to do so.

Retail sales are forecast to rise 1.1% MoM, boosted by spending of the stimulus checks

Retail Sales, June—8:30am

	Exp	Cons	Range	History
Retail Sales	1.1%	0.4%	-0.4 – 1.1%	May = 1.0% vs. Apr = 0.4%
Retail Sales ex Autos	1.6%	0.9%	0.0 – 1.6%	May = 1.2% vs. Apr = 1.0%

Source: Merrill Lynch, Bloomberg

Retail sales are forecast to rise 1.1% MoM in June following a 1.0% gain in May, with both of these figures boosted by spending of the stimulus checks. As of June 27, the Treasury issued a total \$78.3bln to low and middle income consumers, up \$30bln from the end of May. Recently reported chain-store sales data in June showed spending gains highly concentrated at wholesalers and discount stores, where consumers spent primarily on staples. Retailers aggressively discounted goods to lure in consumers, who were caught with gasoline prices breaking the \$4/gal mark in June, up 8% from May levels. As such, gas station sales will post a solid MoM gain on pricing. Auto sales are expected to be the biggest drag in the June report, as light vehicles posted a 5.6% decline MoM. Retail sales excluding autos, gasoline and building materials, a proxy for overall consumer spending, will probably rise 1.1% over the month. The Treasury announced last week that the bulk of the stimulus checks will be delivered by the second week of July. Consumer spending will probably slow abruptly not too long after that.

Manufacturing activity in the New York region is likely to continue contracting

Empire Manufacturing Index, July—8:30am

	Exp	Cons	Range	History
Empire Manufacturing	-5.0	-8.0	-15.0 to -0.1	Jun = -8.7 vs. May = -3.2

Source: Merrill Lynch, Bloomberg

The Empire Index is expected to tick up marginally in July to -5.0 from -8.7 in June. This level suggests manufacturing activity in the region will continue to contract, marking 5 consecutive months of flat to negative growth. Commodity prices in early July have slightly eased from June, but remain at very elevated levels and continue to be a pressing problem for manufacturers caught with little ability to pass through surging input costs. Such trends have been reflected in the Empire price indexes and will be an ongoing story in the July data. Thus far, NY manufacturers have only modestly cut employees hours worked. We've yet to see declines in the "Number of employees" index and suspect that the July data could reveal a contraction in growth. The latest weekly continuing unemployment claims figures suggest that the labor market further deteriorated in late June.

Total business inventories are expected to rise 0.3% MoM in May following a 0.5% gain in April

Business Inventories, May—10:00am

	Exp	Cons	Range	History
Business Inventories	0.3%	0.5%	0.3 - 0.6%	Apr = 0.5% vs. Mar = 0.2%

Source: Merrill Lynch, Bloomberg

Total business inventories are expected to rise 0.3% MoM in May following a 0.5% gain in April. Already released data on manufacturing and wholesale inventories revealed gains of 0.5% and 0.8%, respectively, over the month. In the manufacturing sector, increases were seen in metals, petroleum and auto inventories. Among wholesalers, food and metal inventories rose on higher prices, while petroleum stocks declined, likely from lower imports in May. Retail inventories -- the one segment of total business inventories that requires forecasting in this report -- are seen falling 0.3% in May on a sharp MoM drop in auto stocks. The auto parts strike that idled vehicle production for the 3 months through the end of May, initially led to relatively modest declines in auto inventories during March and April. This decline should continue as a gain in retail auto sales during May likely led to a more significant decline in auto stocks over the month.

Consumer prices are expected to rise by 0.8% MoM in June, pressured by soaring food and energy prices

Wednesday, 16 July

Consumer Prices, June—8:30am

	Exp	Cons	Range	History
CPI	0.8%	0.7%	0.5 - 1.0%	May = 0.6% vs. Apr = 0.2%
Core CPI	0.2%	0.2%	0.1 - 0.4%	May = 0.2% vs. Apr = 0.1%

Source: Merrill Lynch, Bloomberg

Consumer prices are expected to rise by 0.8% MoM in June, pressured by soaring food and energy prices, which will send the yearly comparison to a 4.6%. Our food model, which is based on agriculture prices, exchange rates, and food-industry unit labor costs, is predicting that food prices will rise by 0.7% MoM in June and 5.1% YoY. Energy prices are expected to post a hefty 6.0% MoM increase in June, on the heels of a 4.4% gain in May, with gasoline, natural gas, heating fuel and electricity all contributing to the rise. Core CPI, excluding the volatile food and energy components, will advance by 0.2% MoM, holding the year-on-year rate to 2.3%. We expect to see continued upward pressure on food and energy prices as well as some continued pass-through into core CPI over the next several months. The Fed is still likely to see these price pressures as temporary given the severe headwinds facing the US consumer at this time.

Beneath the moderate trend in core prices in June, we expect to see a divergence in many components as slowing demand puts downward pressure on the price of some goods and services and rising commodity prices (especially energy) place upward pressure on others. We expect to see a decline in apparel prices as retailers try to clear surplus spring merchandise. Excess inventory is also expected to put downward pressure on motor vehicle prices as dealers offer cash incentives to move cars and, especially trucks, off of their lots. The high levels of housing inventory will also help sustain a moderating trend in owner's equivalent rent (OER) in June. However, rising utility prices, which has an inverse relationship with OER because the BLS nets out these costs, will also play an important role in tempering OER. Upward pressure on core CPI will probably come from airfares, which we expect to rise by 1.3% MoM to be up 15.1% year-on-year. Tobacco prices will likely also see an increase as many states implemented "sin-tax" hikes in June to make up for revenue (short falls) due to slowing income and real estate tax receipts.

Net foreign purchases of US long-term securities are forecast to rise to \$60bln in May after a strong gain of \$115bln in April

Net Foreign Purchases of US Long-term Securities, May—9:00am

	Exp	Cons	Range	History
TIC Data	\$60.0bn	\$67.5bn	\$58 – 60bn	Apr = \$115.1bn vs. Mar = \$79.6bn

Source: Merrill Lynch, Bloomberg

Net foreign purchases of US long-term securities are forecast to rise to \$60bln in May after a strong gain of \$115bln in April. Data from the Federal Reserve on foreign account custody holdings of government and agency securities showed a lighter-than-trend gain of \$11.3bln gain over the month, suggesting a softer gain in net foreign official purchases. While the S&P 500 and NASDAQ both rose MoM in May, the YoY performance turned decidedly negative and transaction volume fell for the second month in a row. As such, we may see a decline in total net equity purchases following the reported April outflows of -\$15bln. The US dollar (in nominal trade-weighted terms versus major currencies) posted a slight gain for the second consecutive month, a positive in terms of potential net international inflows.

We expect industrial production growth to increase 0.4% MoM in June following two months of consecutive declines

Industrial Production & Capacity Utilization, June—9:15am

	Exp	Cons	Range	History
Industrial Production	0.4%	0.0%	-0.3 – 0.5%	May = -0.2% vs. Apr = -0.7%
Capacity Utilization	79.6%	79.4%	79.0 – 79.7%	May = 79.4% vs. Apr = 79.6%

Source: Merrill Lynch, Bloomberg

We expect industrial production growth to increase 0.4% MoM in June following two months of consecutive declines. A rebound in utilities output, which can often be a swing factor in the MoM headline print, adds an additional 0.2 percentage points over the month. Manufacturing production is seen rising 0.2%. Autos are set to rise for the second straight month as assemblies continue to come back on-line following the resolution of the UAW strike at the end of May. Tech output will probably rise in June -- an area that has benefited from the weaker US dollar and relatively strong demand from overseas. On a year-over-year basis, tech has consistently averaged gains of 25% in 2008, while manufacturing growth ex tech is set to post its fourth monthly contraction in June (at an accelerating pace). The overall capacity utilization rate is expected to tick up slightly in June to 79.6% from May. Manufacturing utilization will also likely rise slightly, to 77.6% from 77.5% in May.

The National Association of Homebuilders housing market index will probably stay at the historic low of 18 in July

NAHB Housing Market Index, July—1:00pm

	Exp	Cons	Range	History
NAHB HMI	18	18	16 – 19	Jun = 18 vs. May = 19

Source: Merrill Lynch, Bloomberg

The National Association of Homebuilders housing market index will probably stay at the historical low of 18 in July, signaling that the real estate market remains in a deep recession. This is a diffusion index so any number below 50 indicates a contraction in activity. Mortgage applications for purchase are down slightly in the 4 weeks leading up to early July suggesting demand for homes remains very sluggish. Rising mortgage rates and elevated asking prices suggest affordability has deteriorated. Mortgage rates are 25 basis points higher than they were a month ago and are hovering at the highest level since last October. We believe median home prices remain about 10% to 15% overvalued relative to prevailing nationwide rents.

Thursday, 17 July

Initial claims for unemployment benefits are forecast to rise by 70K to 414K in the week ending July 12

Initial Jobless Claims, week ending 07/12/08—8:30am

	Exp	Cons	Range	History
Initial Claims	414	380k	350 – 414k	July 5 th = 346k

Source: Merrill Lynch, Bloomberg

Initial claims for unemployment benefits are forecast to rise by 70K to 414K in the week ending July 12. The previous week's reported decline of -58K was distorted downward by the Department of Labor's seasonal factor, which overestimated layoffs from auto plant shutdowns related to retooling. As such, actual auto-related layoffs will likely enter the data in this second of week of July. Look for a large WoW rise in the NSA initial claims figures, which, thanks to the government's now under-estimated seasonal factor, will result in sharp pop in the seasonally adjusted claims. In the weeks ahead to late August, the claims data will continue to be very volatile, making it difficult ascertain any emerging trends in the labor market. Still, the underlying fundamentals point to an ongoing deterioration in employment. The latest weekly jump in continuing claims to 3.2mIn at the end of June, the highest reading since December 2003, imply upward pressure on the current unemployment rate of 5.5%.

Housing starts are forecast to drop to an annualized pace of 955K units in June, a 17-year low

Housing Starts & Building Permits, June—8:30am

	Exp	Cons	Range	History
Housing Starts	0.955mn	0.960mn	0.935 – 1.03mn	May = 0.975mn vs. Apr = 1.008mn
Building Permits	0.973mn	0.965mn	0.925 – 0.98mn	May = 0.978mn vs. Apr = 0.982mn

Source: Merrill Lynch, Bloomberg

Housing starts are forecast to drop to an annualized pace of 955K units in June, a 17-year low. Single-family units are seen falling 5.8% MoM to an annualized pace of 635K versus the May figure of 674K (SAAR). Multi-family starts, which tend to be more volatile from month-to-month, are poised to rise in June with gains in both subcategories. Home completions are expected to drop to 840K from 869K in May, which should push the months supply down to 10.6 given our forecast for new home sales. Building permits probably continued to fall over the month to 973K units (SAAR).

The Philadelphia Fed manufacturing index is expected to rise to -14.0 in July from -17.0 in June

Philly Fed, July—10:00am

	Exp	Cons	Range	History
Philly Fed	-14.0	-15.0	-22.0 to -5.0	Jun = -17.1 vs. May = -15.6

Source: Merrill Lynch, Bloomberg

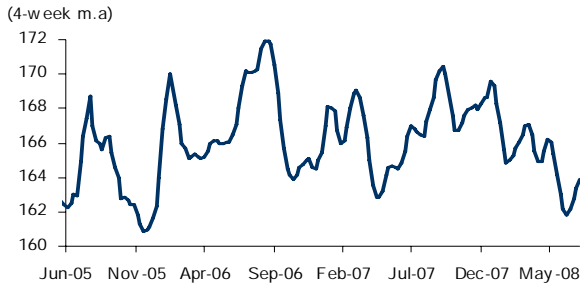
The Philadelphia Fed manufacturing index is expected to rise to -14.0 in July from -17.0 in June, though this is still a level that indicates a sizable monthly decline in manufacturing activity. The July outcome will lengthen the monthly string of below-zero prints to 7 months, the longest stretch of contracting activity since 2001. Prices paid will once again be noteworthy though we expect it to pull back from the 28-year high of 69.3 attained in June. Another subcomponent to watch will be the employment index, which sank to -6.9 in June from -1.0 in May. Other indicators such as initial jobless claims have moved up sharply so far in July, suggesting that the downturn in the US jobs market is deepening.

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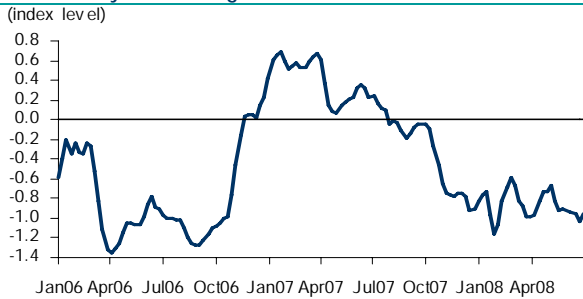
Merrill Lynch proprietary indicators

The Merrill Lynch production index



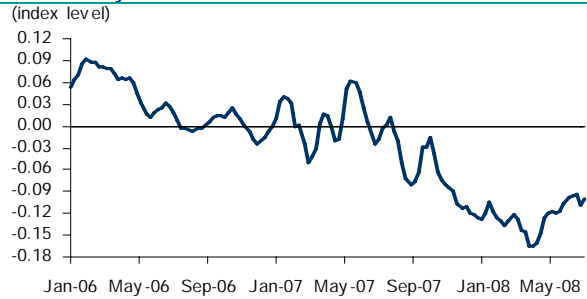
Our production index rose for the fourth consecutive week. The index was driven higher this week by truck and auto production; both rose by 4% on the week. However, seasonal factors are likely pushing the numbers higher and not properly accounting for the summer re-tooling. This will likely be picked up in coming weeks, pushing the index lower. The only other component that was up this week was railcar loadings, which rose 0.7% after a 0.6% decline the week before. All the other bits in our index were down. Raw steel production fell 1.2% after rising 0.2% last week. Coal production sank 0.7% and has been down for seven of the last eight weeks. Crude oil production fell 0.3%, down for the third week in a row. And, electrical production dropped 1.5% after a string of four consecutive weekly increases.

The Merrill Lynch housing index



Our housing index rose fractionally in the latest week but has been in negative territory for nearly a year, reflecting the fact that the housing market remains in a depression. The labor market is weakening; the four-week moving average on initial jobless claims is running above 380,000. That is a level consistent with payroll declines. Meanwhile, credit conditions remain tight; real estate loans from commercial banks continue to run below their one-year average. In a sign that the demand for housing remains weak, the MBA's purchase index continues to run below its one-year average. And, despite aggressive monetary easing from the Fed, the rates on conventional 30-year mortgages are just 20 bps below the levels of a year-ago, which means the Fed's interest rate relief has yet to filter down to the private sector.

The Merrill Lynch consumer index



Our consumer index rose fractionally in the latest week and has now been rising for six of the last seven weeks. However, the index has been in negative territory since last August and continues to reflect a weak consumer. The labor market is deteriorating. Continuing claims hit their highest level since December 2003. This suggests it's getting increasingly difficult for the unemployed to find new work and is likely to push the unemployment rate higher in coming months. Meanwhile, energy prices continue to pinch the consumer. The price of crude oil remains close to \$145 a barrel, and this will ultimately erode consumer purchasing power. Equity markets continue to implode and as a result, consumers are watching the value of their equity assets deflate. The S&P 500 was down for the eighth week in a row and is running below its two-year average.

The Merrill Lynch financial stress index



Our financial stress index was flat in the latest week remaining in risk aversion territory for the second consecutive week and continues to illustrate that financial conditions have failed to normalize. Baa spreads and TED spreads both widened in the latest week while the two-year swap spread remains well above its one-year average. Gold prices are flashing risk aversion as well having been up for four weeks in a row and trading above \$950 an ounce. The VIX index, a measure of equity market volatility, rose to its highest level since March. And, speaking of equity markets, the S&P 500, which has been falling for eight weeks in a row, underperformed Treasuries yet again. In terms of sectors, consumer staples outperformed technology indicating that investors are shifting away from risk.

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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>
10-Jul	14-Jul	17-Jul	3-month	24.0	
10-Jul	14-Jul	17-Jul	6-month	23.0	
14-Jul	15-Jul	17-Jul	4-week	28.0*	15.0*
17-Jul	21-Jul	24-Jul	3-month	24.0*	
17-Jul	21-Jul	24-Jul	6-month	23.0*	

* 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>
11-Jul	14-Jul	15-Jul	FRE 3-month	
11-Jul	14-Jul	15-Jul	FRE 6-month	
14-Jul	16-Jul	17-Jul	FNM 3-month	
14-Jul	16-Jul	17-Jul	FNM 6-month	

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

Policy speakers

Key speaking engagements and news events*

Monday, July 14		<i>Nothing scheduled at this point</i>
Tuesday, July 15	10:00 am	Chairman Bernanke delivers his semiannual monetary policy testimony to the Senate
	3:30 pm	San Francisco Fed President Yellen (non-voter) on stabilizing communities and the negative effects of foreclosures
Wednesday, July 16	10:00 am	Chairman Bernanke delivers his semiannual monetary policy testimony to the House
	2:00 pm	Minutes from the June 25-25 FOMC meeting released
	2:00 pm	Kansas City Fed President Hoenig (non-voter) speaks on the US economy
Thursday, July 17		<i>Nothing scheduled at this point</i>
Friday, July 18		<i>Nothing scheduled at this point</i>

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

11 July 2008

Economic forecast summary

Real Economic Activity, % SAAR	4Q2007	1Q2008	2Q2008	3Q2008	4Q2008	1Q2009	2Q2009	3Q2009	4Q2009	2007	2008F	2009F
Real GDP	0.6	1.0	2.2	-0.1	-0.5	-0.2	1.5	2.5	2.6	2.2	1.6	0.7
% Change, Year Ago	2.5	2.5	2.2	0.9	0.7	0.4	0.2	0.8	1.5			
Final Sales	2.4	0.9	3.9	-0.7	-0.5	-0.3	1.8	1.9	2.1	2.5	2.0	0.7
Domestic Demand	1.3	0.1	1.9	-1.1	-1.6	-1.6	0.9	1.7	2.0	1.8	0.8	-0.2
Consumer Spending	2.3	1.1	2.3	-0.4	-1.5	-0.7	1.5	2.0	2.4	2.9	1.4	0.3
Durables	2.0	-6.0	-2.3	-6.6	-10.0	-1.4	1.0	3.1	3.2	4.7	-2.4	-2.5
Nondurables	1.2	-0.2	3.5	0.3	-4.0	-4.7	1.0	2.0	2.5	2.4	0.8	-1.1
Services	2.8	3.1	2.6	0.5	1.2	1.3	1.7	1.8	2.1	2.8	2.4	1.5
Residential Investment	-25.2	-24.5	-13.2	-22.8	-22.7	-12.0	-2.5	1.0	1.5	-17.0	-21.0	-11.8
Nonresidential Investment	6.0	0.5	4.8	-3.5	-1.0	-9.1	-3.2	0.3	1.6	4.7	3.4	-3.1
Structures	12.4	1.3	7.5	-6.5	-8.0	-10.0	-5.0	1.0	1.5	12.9	5.9	-5.2
Equipment and Software	3.1	0.2	3.5	-2.0	2.5	-8.7	-2.3	0.0	1.6	1.3	2.2	-2.2
Government	1.9	2.1	1.8	1.4	1.7	1.3	1.7	1.4	1.1	2.0	2.2	1.5
Exports	6.5	5.5	8.4	4.5	4.5	4.5	4.3	3.9	3.2	8.1	7.7	4.5
Imports	-1.4	-0.7	-4.4	0.5	-3.4	-4.5	-1.7	2.0	2.2	1.9	-1.1	-1.9
Net Exports (Bil 00\$)	-503.2	-480.2	-428.0	-413.7	-380.0	-340.8	-316.1	-310.3	-308.1	-555.6	-425.5	-318.8
Inventory Accumulation (Bil \$)	-18.3	-19.6	-67.4	-47.5	-47.3	-45.4	-55.1	-39.9	-27.8	4.6	-45.5	-42.1
Nominal GDP (Bil \$)	14074	14201	14329	14405	14473	14529	14628	14753	14885	13841	14352	14699
% SAAR	3.0	3.7	3.6	2.2	1.9	1.6	2.8	3.5	3.7	4.9	3.7	2.4
% Change, Year Ago	5.1	4.8	4.1	3.1	2.8	2.3	2.1	2.4	2.8			
Key Indicators												
Industrial Production (% SAAR)	0.2	-0.4	-3.4	0.3	-1.0	0.4	1.1	1.5	1.5	1.7	-0.1	0.2
Capacity Utilization (%)	81.0	80.5	79.5	79.2	78.7	78.5	78.4	78.3	78.3	81.0	79.5	78.4
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)	1.8	2.6	2.6	2.5	1.0	0.5	2.5	3.2	3.0	1.8	2.8	1.8
% Change, Year Ago	2.9	3.3	3.2	2.4	2.2	1.6	1.6	1.8	2.3			
Real Disp. Personal Inc. (% SAAR)	0.9	1.4	14.5	-11.0	-1.2	2.2	2.7	2.9	2.7	3.1	2.0	0.7
% Change, Year Ago	2.4	1.4	5.1	1.1	0.5	0.7	-2.0	1.6	2.6			
Personal Savings Rate (%)	0.2	0.4	3.2	0.4	0.8	2.1	2.4	2.6	2.7	0.5	1.2	2.5
Light Vehicle Sales (Millions SAAR)	16.2	15.3	14.1	13.5	13.4	13.6	14.4	14.6	15.0	16.4	14.1	14.4
Housing Starts (Thous. SAAR)	1151	1053	930	790	680	720	780	815	845	1341	864	790
Current Account (Bil \$)	-167.2	-176.4	-167.1	-162.9	-146.0	-131.5	-121.5	-119.4	-119.4	-731.2	-652.4	-491.7
U.S. Budget Balance (Bil \$)										-163	-525	-425
Corporate Profits and Earnings												
Operating Corp. Profits After Tax (Bil \$)	1114.6	1141.9	990.5	955.6	865.4	945.5	957.4	985.4	1048.5	1128.6	988.4	984.2
% Change, Year Ago	3.3	4.3	-14.0	-17.1	-22.4	-17.2	-3.3	3.1	21.2	2.6	-12.4	-0.4
S&P 500 Reported EPS (\$)	7.8	15.5	18.0	13.0	13.3	17.3	18.2	13.5	14.0	66.2	59.8	63.0
% Change, Year Ago	-61.4	-27.1	-18.0	-14.5	70.3	11.1	1.5	4.2	5.3	-18.8	-9.7	5.4
S&P 500 Operating EPS (\$)	15.2	16.6	20.5	18.5	17.0	19.5	21.0	19.0	18.0	82.5	72.6	77.5
% Change, Year Ago	-30.8	-25.8	-14.8	-11.4	11.7	17.3	2.4	2.7	5.9	-5.9	-12.0	6.7
Inflation												
GDP Price Index (% SAAR)	2.4	2.7	1.4	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	1.9	1.9	1.6	1.3			
CPI, Consumer Prices (% SAAR)	5.0	4.3	4.7	7.9	4.5	2.0	-0.3	0.4	1.1	2.9	4.8	2.6
% Change, Year Ago	4.0	4.2	4.2	5.5	5.3	4.8	3.5	1.6	0.8			
CPI ex Food & Energy (% SAAR)	2.5	2.5	1.7	2.7	2.5	1.9	1.4	1.4	1.7	2.3	2.3	2.0
% Change, Year Ago	2.3	2.4	2.3	2.4	2.4	2.2	2.1	1.8	1.6			

Source: Merrill Lynch

11 July 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	2.00	2.00	1.50	1.50	1.50	2.00	4.25	2.00	2.00
3-Month T-Bill	3.36	1.38	1.85	1.85	1.80	1.45	1.25	1.45	1.90	3.36	1.80	1.90
3-Month LIBOR	4.85	2.95	2.75	2.80	2.70	2.10	2.00	1.90	2.35	4.85	2.70	2.35
2-Year T-Note	3.04	1.62	2.85	2.95	2.65	2.20	1.75	2.10	2.35	3.04	2.65	2.35
5-Year T-Note	3.45	2.46	3.60	3.85	3.45	2.90	2.45	2.60	2.90	3.45	3.45	2.90
10-Year T-Note	4.05	3.45	4.15	4.30	4.10	3.75	3.25	3.50	3.65	4.05	4.10	3.65
30-Year T-Bond	4.45	4.30	4.70	4.90	4.65	4.30	3.75	3.95	4.05	4.45	4.65	4.05

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
2008: Apr	214.823	0.61	3.9	0.21	3.9	0.09	2.3	0.10	2.3
2008: May	216.632	0.84	4.2	0.65	4.1	0.06	2.3	0.20	2.3
2008: Jun	218.096	0.68	4.7	0.84	4.7	0.07	2.3	0.22	2.3
2008: Jul	218.256	0.07	4.8	0.32	4.8	0.13	2.3	0.23	2.3
2008: Aug	219.995	0.80	5.8	1.00	5.8	0.24	2.4	0.23	2.4
2008: Sep	220.674	0.31	5.8	0.40	5.8	0.25	2.4	0.23	2.4
2008: Oct	220.899	0.10	5.7	0.15	5.7	0.36	2.4	0.21	2.4
2008: Nov	220.916	0.01	5.1	0.31	5.1	0.00	2.4	0.18	2.4
2008: Dec	220.945	0.01	5.2	0.44	5.2	-0.09	2.3	0.17	2.3
2009: Jan	221.555	0.28	5.0	0.17	5.0	0.23	2.2	0.17	2.2
2009: Feb	222.241	0.31	5.0	0.05	5.0	0.43	2.2	0.13	2.2
2009: Mar	222.759	0.23	4.3	-0.29	4.3	0.45	2.2	0.14	2.2

nsa: not seasonally adjusted, sa: seasonally adjusted
Source: Merrill Lynch

FX rate forecast summary

(end of period)		Spot	Sep 08	Dec 08	Mar 09	Jun 09	Sep 09	Dec 09
Euroland Euro	US\$/Euro	1.59	1.51	1.48	1.42	1.40	1.38	1.33
Japanese Yen	¥/US\$	106	103	102	100	98	98	98
	¥/Euro	169	156	151	142	137	135	130
British Pound	US\$/£	1.99	1.91	1.87	1.82	1.82	1.82	1.75
	£/Euro	0.80	0.79	0.79	0.78	0.77	0.76	0.76
Swiss Franc	SF/US\$	1.02	1.05	1.07	1.10	1.10	1.12	1.16
	SF/Euro	1.62	1.59	1.58	1.56	1.54	1.54	1.54
Canadian \$	C\$/US\$	1.01	1.04	1.06	1.08	1.11	1.12	1.12
Australian \$	US\$/A\$	0.97	0.91	0.84	0.80	0.74	0.72	0.70
Chinese Renminbi	RMB/US\$	6.83	6.75	6.70	6.60	6.60	6.50	6.50
Hong Kong \$	HK\$/US\$	7.80	7.75	7.75	7.75	7.75	7.75	7.75
Korean Won	KRW/US\$	1000	1000	975	950	975	1000	1000
Singapore \$	SGD/US\$	1.36	1.33	1.32	1.32	1.32	1.32	1.33
Taiwan \$	TWD/US\$	30.39	30.25	30.00	30.25	30.50	30.75	31.00
Brazilian Real	BRL/US\$	1.60	1.65	1.70	1.75	1.75	1.80	1.80
Mexican Peso	MXN/US\$	10.31	10.90	10.80	10.90	11.00	11.20	11.00

Spot prices are as of Friday morning
Source: Merrill Lynch FX Strategy Team., Bloomberg

Rolling Calendar of Business Indicators

Monday	Tuesday	Wednesday	Thursday	Friday
14 July 	15 July ABC/Washington Post Consumer Comfort Survey —(week ending 7/13/08) LJR Redbook —(week ending 7/12/08) 8:30 am: PPI Apr 0.2% May 1.4% Jun 2.9%* 8:30 am: Core PPI Apr 0.4% May 0.2% Jun 0.3%* 8:30 am: Retail Sales Apr 0.4% May 1.0% Jun 1.1%* 8:30 am: Retail Sales ex Autos Apr 1.0% May 1.2% Jun 1.6%* 8:30 am: Empire Manufacturing May -3.2 Jun -8.7 Jul -5.0* 10:00 am: Business Inventories Mar 0.2% Apr 0.5% May 0.3%*	16 July MBA Mortgage Applications —(week ending 7/11/08) 8:30 am: CPI Apr 0.2% May 0.6% Jun 0.8%* 8:30 am: Core CPI Apr 0.1% May 0.2% Jun 0.2%* 9:00 am: TIC Data Mar \$79.6bn Apr \$115.1bn May \$60.0bn* 9:15 am: Industrial Production Apr -0.7% May -0.2% Jun 0.4%* 9:15 am: Capacity Utilization Apr 79.6% May 79.4% Jun 79.6%* 1:00 pm: NAHB Housing Market Index May 19 Jun 18 Jul 18* 2:00 pm: Minutes from the June 24-25 FOMC meeting released	17 July 8:30 am: Initial Jobless Claims —(week ending 7/12/08) -414k* 8:30 am: Housing Starts – Jun Apr 1.008mn May 0.975mn Jun 0.955mn* 8:30 am: Building Permits – Jun Apr 0.982mn May 0.978mn Jun 0.973mn* 10:00 pm: Philly Fed May -15.6 Jun -17.1 Jul -14.0*	18 July
21 July 10:00 am: Leading Indicators Apr 0.1% May 0.1% Jun -0.4%*	22 July ABC/Washington Post Consumer Comfort Survey —(week ending 7/20/08) LJR Redbook —(week ending 7/19/08)	23 July MBA Mortgage Applications —(week ending 7/18/08) 2:00 pm: Fed's Beige Book released	24 July 8:30 am: Initial Jobless Claims —(week ending 7/19/08) 10:00 am: Existing Home Sales Apr 4.89mn May 4.99mn Jun 4.94mn*	25 July 8:30 am: Durable Goods Orders – Jun Apr -1.0% May 0.0% 8:30 am: Durable Goods Orders ex Transportation – Jun Apr 1.9% May -0.8% 10:00 am: New Home Sales Apr 525k May 512k Jun 500k*
28 July 	29 July ABC/Washington Post Consumer Comfort Survey —(week ending 7/27/08) LJR Redbook —(week ending 7/26/08) 9:00 am: Case-Shiller Home Price Index (Composite 20) – May Mar -2.2% Apr -1.4% 10:00 am: Consumer Confidence – Jul May 58.1 Jun 50.4	30 July MBA Mortgage Applications —(week ending 7/25/08) 8:15 am: ADP Employment – Jul May 25k Jun -79k	31 July 8:30 am: Initial Jobless Claims —(week ending 7/26/08) 8:30 am: Real GDP – 2Q (A) 4Q 0.6% 1Q 1.0% 8:30 am: GDP Price Index – 2Q (A) 4Q 2.4% 1Q 2.7% 8:30 am: Employment Cost Index – 2Q 4Q 0.8% 1Q 0.7% 9:45 am: Chicago PMI – Jul May 49.1 Jun 49.6 10:00 am: Help Wanted Index – Jun Apr 18 May 17	1 August 8:30 am: Nonfarm Payrolls – Jul May -62k Jun -62k 8:30 am: Unemployment Rate – Jul May 5.5% Jun 5.5% 8:30 am: Average Weekly Hours – Jul May 33.7 Jun 33.7 8:30 am: Average Hourly Earnings – Jul May 0.3% Jun 0.3% 10:00 am: ISM Manufacturing – Jul May 49.6 Jun 50.2 10:00 am: Construction Spending – Jun Apr -0.1% May -0.4% All-day: Vehicle Sales – Jul May 14.3mn Jun 13.6mn
*Projections—subject to revision as additional data become available during the month. (R) denotes reopening.				

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