

# Weekly guidebook for the global investor

## Macro viewpoint: Housing, credit and labor ... oh my!

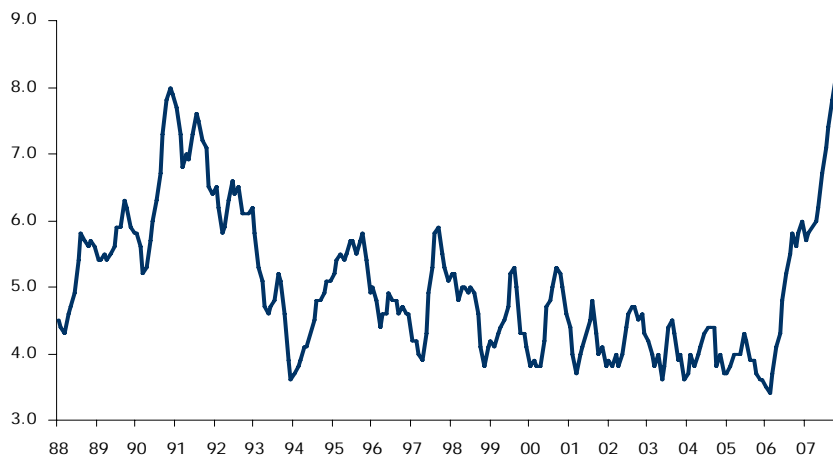
Recent data releases and reports suggest that the consumer will continue to be pressured on all fronts: income (or cash flow), wealth and credit. Consumers can spend using any of these buckets. However, with the labor market continuing to weaken, housing continuing to deteriorate and credit harder to come by, the outlook for spending remains bleak despite recent declines in gasoline prices.

## The week ahead: Growth & employment take center stage

The upcoming week contains a full economic data calendar including the advance 2Q GDP figures, 2Q Employment Cost Index, July nonfarm payrolls and the manufacturing ISM. On Tuesday we expect to see declines in both the latest Case-Shiller home price data for May and Consumer Confidence for July. The ADP Employment report, released on Tuesday, is seen falling a modest 4K month over month in July versus our estimate of 70K decline in July Nonfarm payrolls. Only one Federal Reserve official is on the speaking docket early in the week and then the FOMC enters the one-week blackout window.

### Taking builders record time to sell their units

New 1-family homes: Median number of months for sale since completion



Source: Census Bureau, Merrill Lynch



<b>David A. Rosenberg</b> North American Economist MLPF&S david_rosenberg@ml.com	+1 212 449 4937
<b>Drew T. Matus</b> Economist MLPF&S drew_matus@ml.com	+1 212 449 2650
<b>Sheryl King</b> Economist MLPF&S sheryl_king@ml.com	+1 212 449 2527
<b>Lori J Helwing</b> Economist MLPF&S lori_helwing@ml.com	+1 212 449 5887
<b>Carolyn Kwan</b> Economist Merrill Lynch (Canada) carolyn_kwan@ml.com	+1 416 369-4095
<b>Neil Dutta</b> Economist MLPF&S indraneil_dutta@ml.com	+1 212 449 9527

## Table of contents

Macro Viewpoint	2
Key market movers	3
Merrill Lynch proprietary indicators	9
Debt Issuance/Policy Speakers	10
Economic Forecasts Table	11
Rolling Calendar	13

## Recent publications

[\*The emperor's new clothes,\*](#)  
[25 July 2008](#)

[\*New home sales: Nice headline, iffy\*](#)  
[details, 25 July 2008](#)

[\*Sector shifts from the Beige Book,\*](#)  
[25 July 2008](#)

[\*Housing market deteriorates further in\*](#)  
[June, 24 July 2008](#)

Merrill Lynch does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

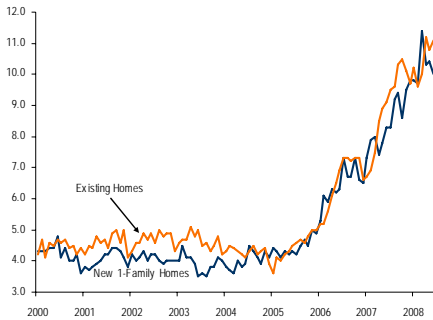
Refer to important disclosures on page 14.

## Macro viewpoint

### Housing, credit and labor ... oh my!

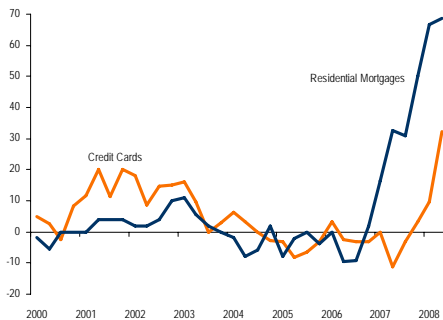
Recent data releases and reports suggest that the consumer will continue to be pressured on all fronts: income (or cash flow), wealth and credit. Consumers can spend using any of these buckets. However, with the labor market continuing to weaken, housing continuing to deteriorate and credit harder to come by, the outlook for spending remains bleak despite recent declines in gasoline prices.

**Chart 1: Housing inventories remain high (months' supply)**



Source: Department of Commerce, National Association of Realtors, Merrill Lynch

**Chart 2: Lending standards tighten across the board (Net % of banks tightening standards)**



Source: Federal Reserve, Merrill Lynch

### Housing inventories imply further home price declines

High inventories suggest still-falling prices putting further pressure on consumers' balance sheets. Although new home inventories declined in the latest month, the supply of both new and existing homes on the market remains elevated. As existing homes are occupied by consumers (as opposed to owned by builders) and with existing home sales making up more than 90% of all home sales in June, the high level of inventories in this category may be more meaningful to the consumer. Indeed, the low level of turnover in occupied homes suggests that more consumers may be feeling stuck in a losing trade.

### Credit continues to tighten

Access to credit is likely to become harder to come by and more expensive. The just released Beige Book appeared to capture some of the not-yet released Senior Loan Officer Survey for July (we estimate the release of this survey on 11 August). The Beige Book noted that "most districts reported a further tightening of credit standards..." Given how tight banks' lending standards have already become (Chart 2), it is hard to fathom how much tighter standards can get. However, such language is consistent with the gradual reduction in loans and leases on bank balance sheets we have witnessed since these peaked in mid-March. It seems clear that, to the extent credit remains available, we can expect to see more evidence of the rising cost of credit as banks, as noted in the Beige Book, raise rates "in response to increases in their cost of capital."

### Labor market is laboring

Consumer cash flows seem unlikely to improve anytime soon. The labor market weakness evident in the claims figures suggest continued weakness in non-farm payrolls. Assuming payrolls fall by close to the amount we and the consensus expect, average monthly job growth over the past year will fall to -10,000. At the same time, the unemployment rate will have risen by 0.9pp to 5.6%, its highest level since mid-2004. Against this backdrop we think it unlikely we will witness substantial wage gains anytime soon. Anecdotal evidence from the Beige Book suggested that "wage pressures were modest."

### Refunding could highlight the rising budget deficit

The Treasury's refunding announcement will highlight the adverse effects on the budget of the rebate program and the risk to the budget posed by additional stimulus packages. As we noted in our [August Refunding Preview](#), we believe the deteriorating funding outlook may prompt the Treasury to re-introduce the 3-year note. This would be the second security re-introduced by the Treasury this calendar year as the Treasury responds to the worsening fiscal outlook.

Drew Matus, Economist, Merrill Lynch, +1 212 449 2650

## Key market movers

### The week ahead

#### Growth and employment to take center stage

The upcoming week contains a full economic data calendar including the advance 2Q GDP figures, 2Q Employment Cost Index, July nonfarm payrolls and the manufacturing ISM. Only one Federal Reserve official is on the speaking docket early in the week and then the FOMC enters the one-week blackout window.

#### 2Q GDP could disappoint markets – as could revisions!

In the advance 2Q GDP report we expect a gain of 1.6% versus consensus of 2.0%. The report will also include the annual 3-year revision. Our below-consensus 2Q forecast largely rests on the expectation of an upturn in import activity late in the second quarter, driven by a resumption in auto sector activity as the industry recovers from a strike at a key parts supplier. We expect this factor to limit the narrowing of the real trade deficit to just \$26B. As to the revisions, there are no absolute guarantees about the direction the top-line GDP numbers will go. However, we note that in all five of the past annual exercises, the revisions have been to the downside.

#### No spiral expected in ECI

The employment cost index has not been a key focus for markets in the past few years, given the relatively sedate and contained pace of wage growth. However, with the risk of wage-push inflation now a more hotly debated topic, this index probably now deserves closer scrutiny. We're expecting a stable result of just 0.7% QoQ in 2Q similar to 1Q, which will move the yearly rate down to a 2-year low of 3.1%.

#### Make it 7 in a row

Nonfarm payrolls will probably post a seventh consecutive decline, edging the unemployment rate up to 5.6% in June. Regional business surveys also imply we will see a tick down in the average workweek as production conditions continue to contract. Hourly wages gains will likely remain modest even with the implementation of a second hike in the Federal minimum wage on July 24.

#### Last hurrah for auto sales

We are above consensus on July motor vehicle sales, expecting a 14.2 million sales pace, a 0.8 million gain from June, in contrast to the consensus expectation for a broadly flat result. Sales incentives appear to be quite generous in July as dealers attempt to shift unwanted inventories of gas-guzzling trucks and SUVs. The University of Michigan consumer confidence report confirms that there were many impressive deals to be had in July – and we believe they were enough to lure customers into a purchase. However, with the unemployment rate on the rise and credit getting increasingly hard to come by, this could be the last '14 handle' we see on unit sales for some time to come.

#### Mishkin the lone FOMC speaker

Federal Reserve Governor Mishkin is expected to deliver a speech on Monday July 28<sup>th</sup>, just ahead of the FOMC one-week blackout window. The speech, on Fed communication strategy is expected to be identical to the one he delivered at the Bank of Canada Conference this week.

## Tuesday, 29 July

### Case Shiller Home Price Index (Composite 20), May—9:00am

	Exp	Cons	Range	History
Case Shiller	-1.0%	n/a	n/a	Apr = -1.4% vs. Mar = -2.2%

Source: Merrill Lynch, Bloomberg

The Case Shiller home price index for the 20 largest US cities is expected to fall 1.0% MoM in May. While this would be the smallest monthly decline we've seen in the past 7 months, it marks the 22<sup>nd</sup> consecutive decline, and a year-over-year pace of -15.3%. The latest upward trend in foreclosure rates, coupled with increased difficulty obtaining home financing suggests that the 23-year high in inventory levels will continue to put downward pressure on prices. Despite an 18% decline in home prices from peak levels in mid-2006, we estimate that home values are currently still 15-20% overvalued and are poised to fall by this amount by end-2009.

### Consumer Confidence, July—10:00 am

	Exp	Cons	Range	History
Consumer Confidence	48.0	50.0	48.0 – 55.0	Jun = 50.4 vs. May = 58.1

Source: Merrill Lynch, Bloomberg

The Conference Board's measure of consumer confidence is expected to decline 2.4 points to 48.0 in July, at the low end of the range of consensus opinions. This would take it to its lowest point since February 1992, particularly disappointing in light of the federal government stimulus checks that are now largely paid out. The weekly ABC confidence survey has held stable at -41, a broad improvement of 10 points from the May lows. However, the Conference Board's measure tends to shift more with job prospects, which are very soft (the unemployment rate near a four-year high, job losses for six consecutive months totaling almost 200K in Q2 alone, and continuing jobless claims holding well above the 3 million mark). The cut off date for the survey (mid-July) was also likely around the time of the sell-off and loss of confidence in the GSEs. Watch the expectations component, which in June plunged to 41.0 – any drop from here would be uncharted pessimism. The jobs-differential figure (jobs plentiful minus jobs hard-to-get) touched a four year low and will help fine-tune our call for payrolls on Friday.

## Wednesday, 30 July

### ADP Employment, July—8:15am

	Exp	Cons	Range	History
ADP Employment	-4K	-58K	-115 to 110K	Jun = -79K vs. May = -25K

Source: Merrill Lynch, Bloomberg

The ADP national employment report will probably show a MoM decline of 4K private payroll workers in July. Year-to-date ADP has been overestimating the Establishment survey of total nonfarm payrolls by an average of 85K, as well as the comparable private payroll figures by an average of 105K. In the past 3 months, this spread has narrowed by about 25K, as ADP has begun to report monthly declines. We attribute some of the difference between these data to the fact that ADP fails to capture large financial firms, who employ in-house payroll services rather than outsource to a firm like ADP. Still, we are expecting a 70K decline in the Establishment survey for nonfarm payrolls MoM in July.

## Thursday, 31 July

### Initial Jobless Claims, week ending 07/26/08—8:30am

	Exp	Cons	Range	History
Initial Claims	440K	390K	375 – 440K	July 19 <sup>th</sup> = 406K

Source: Merrill Lynch, Bloomberg

Initial claims for unemployment benefits are forecast to rise by 34K to 440K in the week ending July 26<sup>th</sup>. This would be the highest since the Katrina-related spike in 2005, but reflects some volatility related to the Department of Labor's seasonal factors that overestimated the auto-sector layoffs this year. The resulting seasonally adjusted data has been reported artificially low in the 1<sup>st</sup> two weeks of July and is reversing course over the last two weeks. By mid-August the data should be cleaner and we anticipate that underlying new claims will be trending at around 410K. This would imply an ongoing deterioration in the labor market that is consistent with anecdotal evidence revealed in the Fed's recent Beige Book.

### Real Gross Domestic Product, 2Q (A)—8:30am

	Exp	Cons	Range	History
Real GDP	1.6%	2.2%	0.9 – 4.2%	1Q = 1.0% vs. 4Q = 0.6%
GDP Price Index	1.4%	2.6%	0.4 – 3.5%	1Q = 2.7% vs. 4Q = 2.4%

Source: Merrill Lynch, Bloomberg

The advance report on GDP will probably show a 1.6% QoQ annualized increase in 2Q, a slight up-tick from 1.0% in the first quarter. The 2Q result will be boosted by rebate check spending, which likely accounted for all of the 1.4% QoQ annualized gain we expect in consumer spending. We expect nonresidential fixed investment to rise by 6.8% in 2Q on a combination of a nearly 10% gain in nonresidential building and a 5.3% rise in capex. Housing will likely contract by 12.3% in 2Q, exerting the least drag on top-line GDP growth since early 2006. Exports will probably see a 10.9% rise, which in combination with a meager 2.7% outturn from imports, will result in a \$26B narrowing in the real trade balance.

The PCE deflator will probably rise by 3.9% QoQ in 2Q, though the year-on-year rate will probably hold at about 3.3%. The core PCE deflator, the truer measure on underlying inflation trends, will probably see a 1.8% quarterly annualized gain that will keep yearly growth at a 2.1%, which is the pace core prices have held since last June. We expect a substantial rise in personal disposable income of 13.7% QoQ annualized, thanks to the \$80B (\$320B annualized) in rebate checks delivered in the quarter. The savings rate will probably rise to 3.0% in 2Q from 0.4% in 1Q, thanks again to the rebate checks.

Along with the second quarter report, the Bureau of Economic Analysis will release the annual revisions that will span 1Q 2005 to 1Q 2008. There is no guarantee what direction the revisions will take. But we note that in the past 5 revisions, there has always been a downgrade of GDP, by an average of 0.3 percentage points with a range of -0.1 in the 2004 revision to -0.4 in the 2002 revision. Notably, the latter exercise resulted in almost a full percentage point downgrade to the 2001 – the first time that year ever bore the 2-consecutive-quarters-of negative-GDP stamp.

**Employment Cost Index, 2Q—8:30am**

	Exp	Cons	Range	History
ECI	0.7%	0.7%	0.6 – 0.8%	1Q = 0.7% vs. 4Q = 0.8%

Source: Merrill Lynch, Bloomberg

We expect the employment cost index (ECI) to rise by an on-consensus 0.7% q/q (not annualized) in Q2. This matches the Q1 increase, but is a deceleration from the 0.8% average gain over the past couple of years. This would take the annual increase down to 3.1% y/y, from 3.3% in Q1. Fixed-weight average weekly earnings rose 0.8% q/q in Q2, slightly faster than the 0.7% gain in each of the last two quarters. However, we estimate that medical care inflation, a large part of employee benefits (which in turn account for about one-third of the overall ECI), decelerated. From the producer price index, medical care costs rose just 0.2% q/q, down from an average of 0.8% in the last three quarters.

**Chicago PMI, July—9:45 am**

	Exp	Cons	Range	History
Chicago PMI	49.5	49.0	48 – 50.7	Jun = 49.6 vs. May = 49.1

Source: Merrill Lynch, Bloomberg

The Chicago Purchasing Managers Index is expected to remain essentially unchanged at 49.5 in July versus 49.6 in June. Details from the Fed's Beige Book, which covers economic activity through the first two weeks in July, suggested that growth in manufacturing activity was *slightly* weaker in the region. Demand for heavy equipment and machinery, was reported strong as well as activity among export-related sectors (though slower demand from Europe was noted). As such, we expect the new orders component of the PMI to remain above 50 in July. Higher input prices remained an issue for many companies and are expected to show in the prices paid index, likely to be reported at around 85. Weekly production data for both autos and steel suggest that the production index will continue to reflect a contraction in activity during July. Employment growth, which has been contracting in the Chicago PMI for the past six months, is unlikely to show any improvement.

**Help Wanted Index, June—10:00am**

	Exp	Cons	Range	History
Help Wanted Index	16	n/a	n/a	May = 17 vs. Apr = 18

Source: Merrill Lynch, Bloomberg

The Help-Wanted index is expected to fall to 16 in June, after slipping to 17 in May (an all-time low in the 57 year history of this series). This indicator has been falling steadily since 2000, as classified ads migrate to other media, particularly the internet. However, the declines appear to be accelerating (having dropped five points since the beginning of the year after holding relatively stable through much of last year), suggesting that job market prospects continue to deteriorate.

## Friday, 1 August

### Employment Report, July—8:30am

	Exp	Cons	Range	History
Nonfarm Payrolls	-70K	-75K	-150 to -10K	Jun = -62K vs. May = -62K
Unemployment Rate	5.6%	5.6%	5.3 – 5.6%	Jun = 5.5% vs. May = 5.5%
Avg Hourly Earnings	0.3%	0.3%	0.1 – 0.4%	Jun = 0.3% vs. May = 0.3%
Avg Weekly Hours	33.6	33.7	33.6 – 33.8	Jun = 33.7 vs. May = 33.7

Source: Merrill Lynch, Bloomberg

Nonfarm payrolls are forecast to fall 70K MoM in July, marking the 7<sup>th</sup> consecutive decline. Goods-producing industries are seen falling 60K over the month, slightly better than the YTD average decline of 79K. We expect further sharp declines in construction activity over the month and more layoffs in manufacturing sector (many auto related) over the month. Since mid-2006, the goods industries have shed nearly 1.1 million workers and are down 3.4% YoY (versus total payrolls which were flat YoY in June and poised to turn negative in July). Among the service sectors, both financial and employment staffing jobs are expected to post the largest monthly declines. We expect to see some offsetting job gains in health care services, leisure, hospitality, accommodation and food service establishments. Our forecasts are consistent with the Fed's latest Beige Book report, (which included information through the July survey period) noting "widespread weakness in the financial service, auto and construction industries" in several Districts.

Another area of weakness could be state and local government jobs, which account for 14% of total employment. Recently reported shortfalls in state and local budgets (whose governments are mandated by law to return to a balanced budget), are expected to bring substantial cutbacks in spending (labor included) in an effort to reduce expenses. These decisions began on July 1<sup>st</sup>, which coincided with the FY budgeting process. In the last episode of major budget deficits (FY 2003), local jobs were more heavily cut in August and September, while state employment trended lower on average beginning in the 2001 recession.

The unemployment rate is expected to tick up from 5.5% in June to 5.6% in July. Average weekly hours will probably fall from 33.7 to 33.6 in-line with regional surveys showing companies cutting costs in an effort to alleviate margin pressures. Average hourly earnings are expected to rise 0.3% MoM, and keeping the YoY pace steady at 3.4% in July.

### Construction Spending, June—10:00am

	Exp	Cons	Range	History
Construction Spending	0.0%	-0.3%	-3.0 to +0.4%	May = -0.4% vs. Apr = -0.1%

Source: Merrill Lynch, Bloomberg

Construction spending likely remained flat MoM in June following a 0.4% decline in May. Residential construction is expected to fall 0.7% over the month, led by a 2.0% decline in single-family units. Gains in multi-family units and home improvements are seen providing some offset over the month. Nonresidential construction probably rose 0.2% MoM, but is poised to weaken in upcoming months. The Fed's Beige Book noted particular weakness in both residential and commercial construction activity relative to early June. Public spending is expected to rise 0.5% in June, boosted by a 1.0% rise in federal construction. This is also an area expected to slow going forward, as budget constraints curtail spending projects.

### ISM Manufacturing Index, July—10:00am

	Exp	Cons	Range	History
ISM Manufacturing	49.0	49.1	47.8 – 52.5	Jun = 50.2 vs. May = 49.6

Source: Merrill Lynch, Bloomberg

The manufacturing ISM index is expected to fall slightly from 50.2 in June to 49.0 in July. This would mark the 11<sup>th</sup> straight month of essentially flat readings around the 50 level, suggesting no growth in manufacturing activity. To date, slowing domestic demand has been offset by growth in exports; however, there are signs that ex-US growth will slow in upcoming months and could weigh on ISM readings. The latest Beige Book by the Fed, which covered information through mid-July, noted robust export demand from overseas, but also cited that growth was slower, particularly from Europe. Also consistent with our forecast, the Beige Book reported that “*manufacturing activity declined or remained weak in most districts...although San Francisco reported stable or slightly increasing activity*” – the latter region accounts for nearly 20% of manufacturing nationally. The most recent regional manufacturing surveys point to flat or slightly weaker readings in July. Within the ISM details, prices are expected to remain elevated, barring the recent decline in oil prices. Most industrial prices continued to rise in July and energy prices are still higher on average versus June. The employment component, which has reflected accelerating job cuts over the past eight months, likely will continue to contract in July.

### Vehicle Sales, July—All day

	Exp	Cons	Range	History
Total Vehicle Sales	14.2mn	13.7mn	13.4 – 14.2mn	Jun = 13.6mn vs. May = 14.3mn

Source: Merrill Lynch, Bloomberg

Light vehicle sales are expected to rise to annualized rate of 14.2 mln units in July from a very depressed pace of 13.6 mln in June. Still, sales would have fallen by 12% year-to-date and likely will continue to track at a declining pace in the months ahead. Sales of light trucks are expected to post the most meaningful gain in July, boosted heavily by aggressive price discounting to clear bloated inventories. The most recent University of Michigan survey also showed that “buying conditions for vehicles” rose over the month – specifically on “prices are low/good deals”. Barring this gain, we expect that the ongoing shift from SUVs and trucks into smaller and more fuel efficient cars will continue to be an underlying trend. Moreover, we expect that rising unemployment and tight credit conditions will put further downward pressure on auto sales in the months to come, dragging the annualized sales pace below the 13 mln mark by year-end.

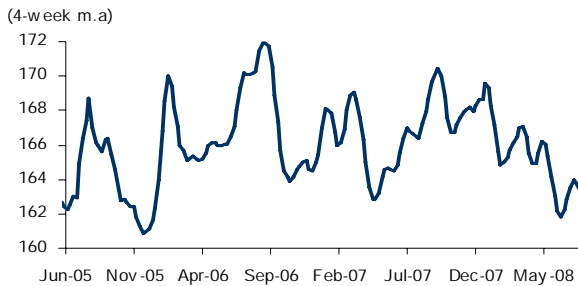
**Lori Helwing**, Economist, Merrill Lynch, +1 212 449 5887

**Sheryl King**, Economist, Merrill Lynch, +1 212 449 2527

**Carolyn Kwan**, Economist, Merrill Lynch (Canada), +1 416 369 4095

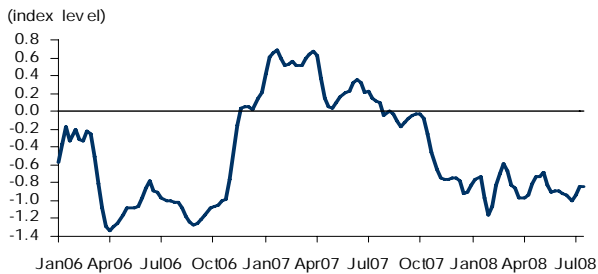
## Merrill Lynch proprietary indicators

The Merrill Lynch production index



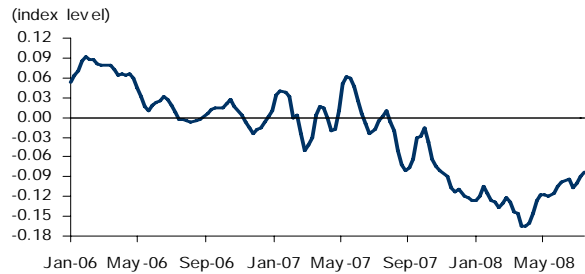
Our production index sank for the second consecutive week and is off 0.6% against June levels, indicating soft industrial production for July. While the performance within the components of our index was mixed, the biggest decliners are also the ones with the heaviest weight. Electrical production, which has the highest weight in our index, sank 0.8% on top of a 1.4% decline last week. Trucks and autos both fell sharply; truck production dropped 3.7% while auto production took a 4% hit on top of a 0.2% drop the week before. Putting upward pressure on the index was coal production, which rose 2.8% on top of a 2.1% jump the week prior. Raw steel production was up 0.3%, its first increase in three weeks. And, crude oil production was up 0.3%, building on last week's 0.1% gain.

The Merrill Lynch housing index



Our housing index fell fractionally for the first time in three weeks. However, the index has now spent 51 straight weeks in negative territory and reflects a housing market that is in depression and still in search of a bottom. Initial jobless claims rose for the second consecutive week flashing a weakening labor market. Meanwhile, the MBA's purchase index is running below its one-year average. This reflects a pull back in the demand for housing. Credit conditions remain tight as well. Commercial bank real estate loans continue to run below their one-year trend. And, rates on 30-year conventional mortgages are only 30 bps below the levels of a year-ago, which means that the aggressive rate relief provided by the Fed has yet to fully filter through into the private sector.

The Merrill Lynch consumer index



Our consumer index rose for the third consecutive week to the highest level since November 2007. However, the index is on the verge of spending an entire year, 51 consecutive weeks, in negative territory. The labor market has clearly deteriorated. Initial jobless claims rose above 400,000 for the second time in four weeks. This is a level consistent with large payroll declines. Meanwhile, the consumer continues to struggle with the lagged effect of crude oil prices, which, despite the recent drop off, remain above their one-year average. The deflation in real estate assets has been a well established story, but the consumer is also getting pinched with deflation in equity assets. The S&P 500 has dropped for nine weeks in a row and is running below its two-year average. Finally, consumer confidence remains weak and near 15-year lows.

The Merrill Lynch financial stress index



Our financial stress index dropped in the latest week but remains on the cusp of risk aversion territory and far from flashing normalized financial market conditions. Much of this week's drop can be traced to the sharp decline in the price of gold. The yellow metal is off nearly 4% against where it finished last week. Meanwhile, the VIX index, a measure of equity market volatility, dropped to its lowest level in six weeks. And speaking of the equity market, the S&P 500 outperformed Treasuries in the latest week. Credit spreads narrowed in the latest week as well. Two-year swap spreads dropped to their lowest level in five weeks. TED spreads were down too though, at 140 bps, still well above normal levels.

Neil Dutta, Economist, 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>
24-Jul	28-Jul	31-Jul	3-month	24	
24-Jul	28-Jul	31-Jul	6-month	23	
24-Jul	29-Jul	31-Jul	1-year	19	
28-Jul	29-Jul	31-Jul	4-week	24*	22*
30-Jul	6-Aug	15-Aug	10-year	15*	
30-Jul	7-Aug	15-Aug	30-year (R)	9*	(20)*
31-Jul	4-Aug	7-Aug	3-month	24*	
31-Jul	4-Aug	7-Aug	6-month	23*	
4-Aug	5-Aug	7-Aug	4-week	24*	0*

\* Estimate. ( ) = Paydown. (R) = Reopening. CMB = Cash Management Bill. \*\* New cash for combined 2 and 5-year note auction  
 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>
25-Jul	28-Jul	29-Jul	FRE 3-month	
25-Jul	28-Jul	29-Jul	FRE 6-month	
25-Jul	30-Jul	31-Jul	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\*

<b>Monday, July 28</b>	12:00 pm	Governor Mishkin Speaks on Communication in Washington – Prepared text and audience Q&A expected
<b>Tuesday, July 29</b>	12:30 pm	US Treasury Under Secretary David McCormick speaks at the Peterson Institute on oil prices and energy policies
<b>Wednesday, July 30</b>		<i>None scheduled at this point</i>
<b>Thursday, July 31</b>		<i>None scheduled at this point</i>
<b>Friday, August 1</b>		<i>None scheduled at this point</i>

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

25 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	1.6	1.1	-2.5	-2.3	-0.5	2.0	2.5	2.2	1.5	-0.5
% Change, Year Ago	2.5	2.5	2.0	1.1	0.3	-0.5	-1.0	-0.8	0.4			
Final Sales	2.4	0.9	2.5	0.0	-2.4	-2.4	-0.1	1.4	2.5	2.5	1.7	-0.6
Domestic Demand	1.3	0.1	1.5	-0.2	-2.5	-3.3	-0.8	1.2	2.3	1.8	0.8	-1.1
Consumer Spending	2.3	1.1	1.4	0.2	-3.0	-2.4	0.0	1.8	2.5	2.9	1.2	-0.7
Durables	2.0	-6.0	-4.0	-0.7	-18.5	-10.0	0.5	2.5	3.5	4.7	-2.6	-6.0
Nondurables	1.2	-0.2	1.0	-3.5	-6.0	-3.5	-3.0	1.5	2.0	2.4	-0.2	-2.7
Services	2.8	3.1	2.5	2.3	1.3	-0.5	1.3	1.8	2.5	2.8	2.6	1.2
Residential Investment	-25.2	-24.5	-12.3	-14.2	-20.2	-21.0	-7.9	4.4	5.1	-17.0	-19.7	-12.8
Nonresidential Investment	6.0	0.5	6.8	-1.9	-1.0	-12.3	-8.7	-5.5	1.6	4.7	4.0	-5.4
Structures	12.4	1.3	9.7	-5.0	-9.0	-10.8	-8.0	-5.0	1.0	12.9	6.5	-6.6
Equipment and Software	3.1	0.2	5.3	-0.4	3.0	-13.0	-9.0	-5.8	2.0	1.3	2.8	-4.9
Government	1.9	2.1	1.8	1.7	1.9	1.7	1.8	1.8	1.6	2.0	2.3	1.8
Exports	6.5	5.5	10.9	5.2	4.8	3.0	2.8	3.2	2.4	8.1	8.3	4.0
Imports	-1.4	-0.7	2.7	2.6	2.5	-4.0	-2.4	1.0	1.5	1.9	0.9	-0.3
Net Exports (Bil 00\$)	-503.2	-480.2	-454.4	-447.8	-441.9	-409.7	-386.8	-379.2	-377.1	-555.6	-456.1	-388.2
Inventory Accumulation (Bil \$)	-18.3	-19.6	-44.6	-11.2	-13.5	-11.1	-21.0	-6.3	-7.3	4.6	-22.2	-11.4
Nominal GDP (Bil \$)	14074	14201	14308	14477	14520	14516	14518	14613	14741	13841	14376	14597
% SAAR	3.0	3.7	3.0	4.8	1.2	-0.1	0.1	2.7	3.6	4.9	3.9	1.5
% Change, Year Ago	5.1	4.8	3.9	3.6	3.2	2.2	1.5	0.9	1.5			
<b>Key Indicators</b>												
Industrial Production (% SAAR)	0.2	0.6	-3.2	0.0	-5.5	-7.3	-2.8	1.0	1.5	1.7	-0.1	-3.4
Capacity Utilization (%)	81.0	80.6	79.8	79.4	78.0	76.2	75.3	75.2	75.2	81.0	79.4	75.5
Civilian Unemployment Rate (%)	4.8	4.9	5.3	6.2	6.5	6.7	7.0	7.0	6.8	4.6	5.7	6.9
Productivity (% SAAR)	1.8	2.6	2.0	3.2	-0.7	0.4	2.5	3.1	2.5	1.8	2.6	1.5
% Change, Year Ago	2.9	3.3	3.1	2.4	1.8	1.2	1.3	1.3	2.1			
Real Disp. Personal Inc. (% SAAR)	0.9	1.4	13.7	-7.4	-3.6	1.0	2.2	2.9	3.0	3.1	2.2	0.3
% Change, Year Ago	2.4	1.4	4.9	1.9	0.7	0.6	-2.0	0.6	2.3			
Personal Savings Rate (%)	0.2	0.4	3.0	0.9	0.8	1.3	1.9	2.3	2.7	0.5	1.3	2.1
Light Vehicle Sales (Millions SAAR)	16.2	15.3	14.1	13.6	12.8	12.9	13.5	13.8	14.0	16.4	14.0	13.6
Housing Starts (Thous. SAAR)	1151	1053	1016	880	730	675	750	795	820	1341	920	760
Current Account (Bil \$)	-167.2	-176.4	-200.1	-213.8	-206.5	-192.2	-178.5	-177.6	-182.4	-731.2	-796.8	-730.7
U.S. Budget Balance (Bil \$)										-163	-425	-500
<b>Corporate Profits and Earnings</b>												
Operating Corp. Profits After Tax (Bil \$)	1114.6	1141.9	1084.4	939.5	805.5	849.8	863.7	892.6	943.7	1128.6	992.8	887.4
% Change, Year Ago	3.3	4.3	-5.9	-18.5	-27.7	-25.6	-20.4	-5.0	17.1	2.6	-12.0	-10.6
S&P 500 Reported EPS (\$)	7.8	15.5	17.0	12.5	10.7	12.2	12.6	12.3	14.0	66.2	55.8	51.0
% Change, Year Ago	-61.4	-27.1	-22.3	-17.5	37.1	-21.7	-25.8	-1.7	30.3	-18.8	-15.7	-8.5
S&P 500 Operating EPS (\$)	15.2	16.6	18.8	16.7	15.8	15.0	15.5	15.7	16.8	82.5	68.0	63.0
% Change, Year Ago	-30.8	-25.8	-21.7	-20.0	3.8	-9.7	-17.8	-6.0	6.6	-5.9	-17.7	-7.2
<b>Inflation</b>												
GDP Price Index (% SAAR)	2.4	2.7	1.4	3.7	3.7	2.2	0.5	0.7	1.1	2.7	2.4	2.0
% Change, Year Ago	2.6	2.2	1.9	2.6	2.9	2.7	2.5	1.8	1.1			
CPI, Consumer Prices (% SAAR)	5.0	4.3	5.0	8.4	4.4	1.7	-0.2	0.3	1.1	2.9	4.9	2.6
% Change, Year Ago	4.0	4.2	4.3	5.7	5.5	4.9	3.5	1.5	0.7			
CPI ex Food & Energy (% SAAR)	2.5	2.5	1.9	3.1	2.5	1.9	1.4	1.4	1.7	2.3	2.4	2.0
% Change, Year Ago	2.3	2.4	2.3	2.5	2.5	2.4	2.3	1.8	1.6			

Source: Merrill Lynch

25 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	1.74	1.65	1.60	1.40	1.25	1.45	1.90	3.36	1.60	1.90
3-Month LIBOR	4.85	2.95	2.78	2.80	2.75	2.15	2.05	1.95	2.35	4.85	2.75	2.35
2-Year T-Note	3.04	1.62	2.62	2.60	2.25	1.95	1.65	2.05	2.30	3.04	2.25	2.30
5-Year T-Note	3.45	2.46	3.33	3.45	3.20	2.75	2.40	2.60	2.85	3.45	3.20	2.85
10-Year T-Note	4.05	3.45	3.97	4.15	3.90	3.65	3.25	3.50	3.65	4.05	3.90	3.65
30-Year T-Bond	4.45	4.30	4.53	4.75	4.50	4.25	3.75	3.90	4.00	4.45	4.50	4.00

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	218.815	1.01	5.0	1.06	4.9	0.17	2.4	0.32	2.4
2008: Jul	219.239	0.19	5.3	0.56	5.3	0.15	2.4	0.24	2.4
2008: Aug	220.112	0.40	5.9	0.60	5.9	0.26	2.5	0.25	2.5
2008: Sep	220.945	0.38	6.0	0.47	6.0	0.25	2.5	0.23	2.5
2008: Oct	221.399	0.21	6.0	0.25	6.0	0.36	2.6	0.21	2.6
2008: Nov	221.342	-0.03	5.3	0.28	5.3	0.00	2.5	0.18	2.5
2008: Dec	221.320	-0.01	5.4	0.41	5.4	-0.09	2.5	0.18	2.5
2009: Jan	221.774	0.21	5.1	0.10	5.1	0.23	2.3	0.17	2.3
2009: Feb	222.468	0.31	5.1	0.05	5.1	0.43	2.4	0.13	2.4
2009: Mar	223.048	0.26	4.5	-0.26	4.5	0.45	2.4	0.14	2.4

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	1.57	1.51	1.48	1.42	1.40	1.38	1.33
Japanese Yen	¥/US\$	108	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	0.79	0.79	0.79	0.78	0.77	0.76	0.76
Swiss Franc	SF/US\$	1.04	1.05	1.07	1.10	1.10	1.12	1.16
	SF/Euro	1.63	1.59	1.58	1.56	1.54	1.54	1.54
Canadian \$	C\$/US\$	1.02	1.04	1.06	1.08	1.11	1.12	1.12
Australian \$	US\$/A\$	0.96	0.91	0.84	0.80	0.74	0.72	0.70
Chinese Renminbi	RMB/US\$	6.82	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\$	1011	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\$	30.45	30.25	30.00	30.25	30.50	30.75	31.00
Brazilian Real	BRL/US\$	1.57	1.65	1.70	1.75	1.75	1.80	1.80
Mexican Peso	MXN/US\$	10.09	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
<b>28 July</b>  	<b>29 July</b> 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) Mar ..... -2.2% Apr ..... -1.4% May ..... -1.0%* 10:00 am: Consumer Confidence May ..... 58.1 Jun ..... 50.4 Jul ..... 48.0*	<b>30 July</b> MBA Mortgage Applications —(week ending 7/25/08) 8:15 am: ADP Employment May ..... 25k Jun ..... -79k Jul ..... -4k*	<b>31 July</b> 8:30 am: Initial Jobless Claims —(week ending 7/26/08) – 440k* 8:30 am: Real GDP 4Q ..... 0.6% 1Q ..... 1.0% 2Q (A) ..... 1.6%* 8:30 am: GDP Price Index 4Q ..... 2.4% 1Q ..... 2.7% 2Q (A) ..... 1.4%* 8:30 am: Employment Cost Index 4Q ..... 0.8% 1Q ..... 0.7% 2Q ..... 0.7%* 9:45 am: Chicago PMI May ..... 49.1 Jun ..... 49.6 Jul ..... 49.5* 10:00 am: Help Wanted Index Apr ..... 18 May ..... 17 Jun ..... 16*	<b>1 August</b> 8:30 am: Nonfarm Payrolls May ..... -62k Jun ..... -62k Jul ..... -70k* 8:30 am: Unemployment Rate May ..... 5.5% Jun ..... 5.5% Jul ..... 5.6%* 8:30 am: Average Weekly Hours May ..... 33.7 Jun ..... 33.7 Jul ..... 33.6* 8:30 am: Average Hourly Earnings May ..... 0.3% Jun ..... 0.3% Jul ..... 0.3%* 10:00 am: ISM Manufacturing May ..... 49.6 Jun ..... 50.2 Jul ..... 49.0* 10:00 am: Construction Spending Apr ..... -0.1% May ..... -0.4% Jun ..... 0.0%* All-day: Vehicle Sales May ..... 14.3mn Jun ..... 13.6mn Jul ..... 14.2mn*
<b>4 August</b> 8:30 am: Personal Income Apr ..... 0.3% May ..... 1.9% Jun ..... 0.3%* 8:30 am: Personal Spending Apr ..... 0.4% May ..... 0.8% Jun ..... 0.6%* 8:30 am: Core PCE (YoY) Apr ..... 2.1% May ..... 2.1% Jun ..... 2.3% 10:00 am: Factory Orders Apr ..... 1.3% May ..... 0.6% Jun ..... 0.0%	<b>5 August</b> ABC/Washington Post Consumer Comfort Survey —(week ending 8/2/08) LJR Redbook —(week ending 8/1/08) 10:00 am: ISM Nonmanufacturing May ..... 51.7 Jun ..... 48.2 Jul ..... 48.0* 2:15 pm: FOMC Rate Decision <i>expected</i>	<b>6 August</b> MBA Mortgage Applications —(week ending 8/1/08)	<b>7 August</b> 8:30 am: Initial Jobless Claims —(week ending 8/2/08) 10:00 am: Pending Home Sales – Jun Apr ..... 7.1% May ..... 4.7% 3:00 pm: Consumer Credit – Jun Apr ..... \$7.8bn May ..... \$7.8bn	<b>8 August</b> 8:30 am: Nonfarm Productivity 4Q ..... 1.8% 1Q ..... 2.6% 2Q (P) ..... 2.0%* 8:30 am: Unit Labor Costs 4Q ..... 4.7% 1Q ..... 2.2% 2Q (P) ..... 1.8%* 10:00 am: Wholesale Inventories Apr ..... 1.4% May ..... 0.8% Jun ..... 1.3%
<b>11 August</b>	<b>12 August</b> ABC/Washington Post Consumer Comfort Survey —(week ending 8/9/08) LJR Redbook —(week ending 8/8/08) 8:30 am: Trade Balance – Jun Apr ..... -\$60.5bn May ..... -\$59.8bn 2:00 pm: Treasury Statement – Jul Jul 2007 ..... \$170.4bn	<b>13 August</b> MBA Mortgage Applications —(week ending 8/8/08) 8:30 am: Import Prices – Jul May ..... 2.6% Jun ..... 2.6% 8:30 am: Retail Sales – Jul May ..... 0.8% Jun ..... 0.1% 8:30 am: Retail Sales ex Autos – Jul May ..... 1.2% Jun ..... 0.8% 10:00 am: Business Inventories – Jun Apr ..... 0.5% May ..... 0.3%	<b>14 August</b> 8:30 am: Initial Jobless Claims —(week ending 8/9/08) 8:30 am: CPI – Jul May ..... 0.6% Jun ..... 1.1% 8:30 am: Core CPI – Jul May ..... 0.2% Jun ..... 0.3%	<b>15 August</b> 8:30 am: Empire Manufacturing – Aug Jun ..... -8.7 Jul ..... -4.9 9:00 am: TIC Data – Jun Apr ..... \$111.9bn May ..... \$67.0bn 9:15 am: Industrial Production – Jul May ..... -0.2% Jun ..... 0.5% 9:15 am: Capacity Utilization – Jul May ..... Jun ..... 79.9 10:00 am: University of Michigan Consumer Sentiment – Aug (P) Jun ..... 56.4 Jul ..... 56.6
*Projections—subject to revision as additional data become available during the month. (R) denotes reopening.				

## Important Disclosures

The analyst(s) responsible for covering the securities in this report receive compensation based upon, among other factors, the overall profitability of Merrill Lynch, including profits derived from investment banking revenues.

## Other Important Disclosures

### Information relating to Non-U.S. affiliates of Merrill Lynch, Pierce, Fenner & Smith Incorporated (MLPF&S):

MLPF&S distributes research reports of the following non-US affiliates in the US (short name: legal name): Merrill Lynch (France): Merrill Lynch Capital Markets (France) SAS; Merrill Lynch (Frankfurt): Merrill Lynch International Bank Ltd, Frankfurt Branch; Merrill Lynch (South Africa): Merrill Lynch South Africa (Pty) Ltd; Merrill Lynch (Milan): Merrill Lynch International Bank Limited; MLPF&S (UK): Merrill Lynch, Pierce, Fenner & Smith Limited; Merrill Lynch (Australia): Merrill Lynch Equities (Australia) Limited; Merrill Lynch (Hong Kong): Merrill Lynch (Asia Pacific) Limited; Merrill Lynch (Singapore): Merrill Lynch (Singapore) Pte Ltd; Merrill Lynch (Canada): Merrill Lynch Canada Inc; Merrill Lynch (Mexico): Merrill Lynch Mexico, SA de CV, Casa de Bolsa; Merrill Lynch (Argentina): Merrill Lynch Argentina SA; Merrill Lynch (Japan): Merrill Lynch Japan Securities Co, Ltd; Merrill Lynch (Seoul): Merrill Lynch International Incorporated (Seoul Branch); Merrill Lynch (Taiwan): Merrill Lynch Global (Taiwan) Limited; DSP Merrill Lynch (India): DSP Merrill Lynch Limited; PT Merrill Lynch (Indonesia): PT Merrill Lynch Indonesia; Merrill Lynch (KL) Sdn. Bhd.: Merrill Lynch (Malaysia); Merrill Lynch (Israel): Merrill Lynch Israel Limited; Merrill Lynch (Russia): Merrill Lynch CIS Limited, Moscow; Merrill Lynch (Turkey): Merrill Lynch Yatirim Bankasi A.S.; Merrill Lynch (Dubai): Merrill Lynch International Bank Ltd, Dubai Branch; MLPF&S (Zürich rep. office): MLPF&S Incorporated Zürich representative office.

This research report has been prepared and issued by MLPF&S and/or one or more of its non-U.S. affiliates. MLPF&S is the distributor of this research report in the U.S. and accepts full responsibility for research reports of its non-U.S. affiliates distributed in the U.S. Any U.S. person receiving this research report and wishing to effect any transaction in any security discussed in the report should do so through MLPF&S and not such foreign affiliates.

This research report has been approved for publication in the United Kingdom by Merrill Lynch, Pierce, Fenner & Smith Limited, which is authorized and regulated by the Financial Services Authority; has been considered and distributed in Japan by Merrill Lynch Japan Securities Co, Ltd, a registered securities dealer under the Securities and Exchange Law in Japan; is distributed in Hong Kong by Merrill Lynch (Asia Pacific) Limited, which is regulated by the Hong Kong SFC; is issued and distributed in Taiwan by Merrill Lynch Global (Taiwan) Ltd or Merrill Lynch, Pierce, Fenner & Smith Limited (Taiwan Branch); is issued and distributed in Malaysia by Merrill Lynch (KL) Sdn. Bhd., a licensed investment adviser regulated by the Malaysian Securities Commission; is issued and distributed in India by DSP Merrill Lynch Limited; and is issued and distributed in Singapore by Merrill Lynch International Bank Limited (Merchant Bank) and Merrill Lynch (Singapore) Pte Ltd (Company Registration No.'s F 06872E and 198602883D respectively). Merrill Lynch International Bank Limited (Merchant Bank) and Merrill Lynch (Singapore) Pte Ltd. are regulated by the Monetary Authority of Singapore. Merrill Lynch Equities (Australia) Limited, (ABN 65 006 276 795), AFS License 235132, provides this report in Australia. No approval is required for publication or distribution of this report in Brazil.

Merrill Lynch (Frankfurt) distributes this report in Germany. Merrill Lynch (Frankfurt) is regulated by BaFin.

### Copyright, User Agreement and other general information related to this report:

Copyright 2008 Merrill Lynch, Pierce, Fenner & Smith Incorporated. All rights reserved. This research report is prepared for the use of Merrill Lynch clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Merrill Lynch. Merrill Lynch research reports are distributed simultaneously to internal and client websites eligible to receive such research prior to any public dissemination by Merrill Lynch of the research report or information or opinion contained therein. Any unauthorized use or disclosure is prohibited. Receipt and review of this research report constitutes your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this report (including any investment recommendations, estimates or price targets) prior to Merrill Lynch's public disclosure of such information. The information herein (other than disclosure information relating to Merrill Lynch and its affiliates) was obtained from various sources and we do not guarantee its accuracy. Merrill Lynch makes no representations or warranties whatsoever as to the data and information provided in any third party referenced website and shall have no liability or responsibility arising out of or in connection with any such referenced website.

This research report provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment or any options, futures or derivatives related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that price or value of such securities and investments may rise or fall. Accordingly, investors may receive back less than originally invested. Past performance is not necessarily a guide to future performance. Any information relating to the tax status of financial instruments discussed herein is not intended to provide tax advice or to be used by anyone to provide tax advice. Investors are urged to seek tax advice based on their particular circumstances from an independent tax professional.

Foreign currency rates of exchange may adversely affect the value, price or income of any security or related investment mentioned in this report. In addition, investors in securities such as ADRs, whose values are influenced by the currency of the underlying security, effectively assume currency risk.

Merrill Lynch Research policies relating to conflicts of interest are described at <http://www.ml.com/media/43347.pdf>.