

# Weekly guidebook for the global investor



## ■ Nonfarm post-mortem: Like GDP, the devil is in the details

As was the case with the GDP report – where the story beneath the story was the first decline in real final domestic demand in 17 years – there were some “devil-type” characteristics in the details of the employment report.

## The week ahead: Light on the economic data side

Next week promises to be much lighter on the economic data side and only a smattering of Fed speak is on the docket, the most notable of which will be a speech on mortgage foreclosures from Chairman Bernanke on May 5th.

On the data side, we will get the 1Q report on productivity and unit labor costs, the March international trade report and the ISM non-manufacturing data for April.

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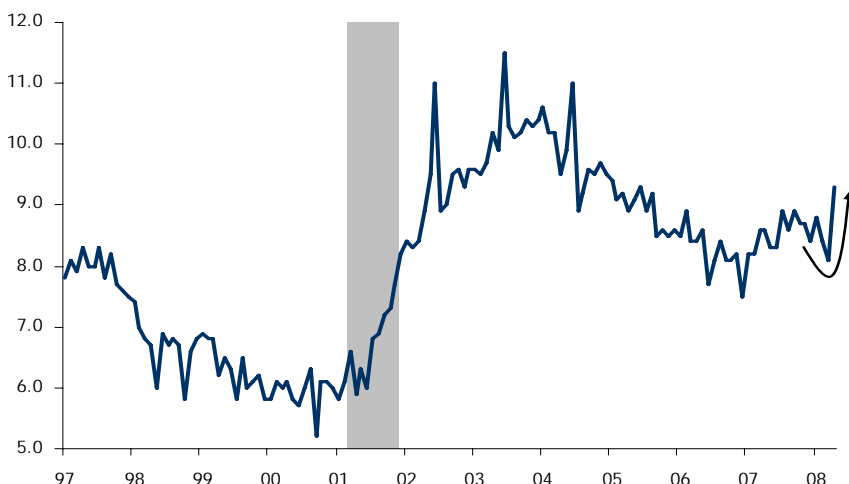
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## Getting longer for the unemployed to find new work

Median duration of unemployment (weeks)



Source: Bureau of Labor Statistics, Merrill Lynch

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## Macro viewpoint

### Nonfarm post-mortem:

### Like GDP, devil is in the details

#### Some *devil-type* characteristics in the employment report

While we had been expecting a much softer nonfarm payroll headline today, we had also said that even if the data had lined up on the sluggish side, we thought the risks to the market would be pretty one-sided. Based on the response to whatever weak data have been released in recent weeks – Philly Fed, housing sales and inventories, consumer confidence – it seems as though investors have already made up their minds that any pre-May data that prints weak is old news given the upcoming dose of tax relief. At the same time, it appears that any piece of information that does not come out weaker than expectations – GDP, ISM and now nonfarm payroll – is living proof that a recession never was in the cards.

#### The headline was far less negative than we expected

As was the case with the GDP report – where the story beneath the story was the first decline in real final domestic demand in 17 years – there were some “devil-type” characteristics in the details of the employment report. The headline of -20,000 was far less negative than what we or the consensus had expected though our adjustment of the Bureau of Labor Statistics birth-death model suggests that payrolls were over-counted by roughly 50,000. Nevertheless, the unemployment rate did dip to 5.0% from 5.1% (4.953% to the third decimal, in fact) on the back of a 362,000 bounce in the Household Survey – though still fractionally below the levels prevailing late last year.

#### Report was weaker than the headline portrays, in our view

Bonds have sold off sharply in the aftermath of the employment data, and the 2-year note yield hit 2.5% and the 10-year note to 3.85%, which is territory that looks highly attractive at this juncture unless of course you are of the view that the Fed is going to be tightening policy anytime soon. From our lens, today’s report was much weaker than the headline portrays, as if losing a net 20,000 jobs is ever a signpost of a healthy economy to begin with. To wit:

#### 1) Companies cut hours

While companies did not cut as many positions as we expected; they cut the hours instead. The average work week plunged 0.3% (and, aggregate hours worked were down at an annual rate of 1% in the past three months), which, by the way, would be the equivalent of 400,000 job cuts. We view this as a sign that labor market conditions and domestic demand are far softer than the headline suggests.

#### 2) A clear disinflationary trend in wages

What drives consumer spending inevitably is income growth. Average weekly earnings fell 0.2% sequentially in April in what was the largest decline in two years. This dragged the year-on-year rate down to 3.1% from 3.3% in March, 3.7% in February and the nearby peak of 3.8% posted last November in what is clear disinflationary trend in wages. (Given our 3.8% inflation rate forecast for April, the nominal gain implies negative real wage-based growth of -0.7% YoY)

### 3) Rebound in Household Survey was all in part-time jobs

While there was a nice rebound in the Household Survey, it was all in part-time employment – that is not the driver of confidence and spending. Growth in full-time jobs is what drives those things. And, full-time employment actually fell 375,000 in April and is down 572,000 year-to-date. Maybe this is why consumer confidence managed to hit new cycle lows this month irrespective of the better-than-expected payroll figure.

### 4) Number working part-time for economic reasons surged

Of the folks who were working part-time in April, the number doing so for “economic reasons” (mostly slack business conditions) surged 306,000 or 6.3% – again the steepest runup in two years.

### 5) Unemployment rate for full-time workers at a cycle-high

Did the unemployment rate really go down? Certainly not for anyone working full-time, where it actually stayed at a cycle high of 5%. The unemployment rate for part-time workers was the real driver as that metric fell sharply to 4.9% from 5.3%. As we said above, many of those part-time workers are doing so because they have to, not because they want to. Moreover, the all-inclusive unemployment rate that includes all forms of labor market slack (the U-6 definition) actually rose from 9.1% in March to 9.2% in April – the highest it has been since March/05. And the growing slack in the labor market, as discussed above, is underscored by the deceleration evident in wage trends.

### 6) Taking longer for the unemployed to find new work

Another sign of a fundamentally weak labor market was highlighted in the average and median duration of unemployment – it is taking longer and longer for the ranks of the unemployed to find a new job. The former rose from 16.2 weeks to 16.9 weeks; the latter jumped from 8.1 weeks to 9.3 weeks and that is the highest since the summer of 2005.

### 7) Workers taking on more than one job

Typically, in a recession (assuming this is still the case), couples try to supplement their incomes by taking on another job – especially if a spouse is laid-off or sees his or her hours worked cut back (which was indeed the case in April). So, another devil in the details today was that the number of people who took on more than one job (“multiple jobholders”) soared 195,000 or by 2.6%.

### 8) Cyclically sensitive employment areas are in recession

In terms of sectors, the real big surprise in the April report was in business services, notably in the administrative support and waste service component, which surged 39,000 (a big swing from 44,000 decline in March). Financial services, if you can believe it, eked out a 3,000 gain – where, we have no clue. But this is highly unlikely to be sustained. The restaurant industry added 18,000 positions, but if Starbucks’s store closures are any indication of what is happening in this part of the consumer discretionary pie, then we would be looking for weakness in this sector going forward. Education and health is in boom mode still, and added a hefty 52,000 jobs last month. But, the cyclically sensitive areas are in a full-blown recession, of that there is little doubt: manufacturing down 46,000; construction down 61,000; retail down 27,000; transportation services down 5,000; even the natural resource sector shed 3,000 jobs.

### 9) The decline in payrolls was broadly based

The diffusion indices fell through the floor in April to 45.4 in April from 48 in March – this measures the share of industries adding to payrolls and shows that even though the headline job loss was lower than expected, the decline was very broadly based across sectors.

### 10) Triple-digit payroll decline could come in May

The leading indicators we like to look at tell us that May is likely going to prove to be a much more difficult month for payrolls – we could see the first triple-digit decline since March 2003. The workweek, temp agency employment (-9,000) and downward revisions (-8,000) are all signaling another decline in any event. And, if jobless claims stay where they finished off April, the payroll decline in May is sure to exceed 20,000. While health-education will continue to provide a buffer, the sources of support in today's report are unlikely to be repeated – financials and leisure/hospitality (which rose 18,000). The latter may succumb to declining travel plans, which as we saw in the Conference Board confidence report this week, sagged to a 30-year low in April. In the meantime, the highest inventory/sales ratios in manufacturing since 2001 point to further factory job losses. And, there is another big leg to come in the construction sector too so these areas of decline will remain so for several quarters to come, in our view.

**David Rosenberg**, Chief North American Economist, Merrill Lynch, +1 212 449 4937

## Key market movers

### The week ahead

#### Fed officials to discuss foreclosures

Next week promises to be much lighter on the economic data side and only a smattering of Fed speak is on the docket, the most notable of which will be a speech on mortgage foreclosures from Chairman Bernanke on May 5th. We will also hear from Fed Governor Krozner on mortgage foreclosures and Kansas City Fed President Hoenig will deliver an address on market risks and policy. Former Fed chief Greenspan will be on the tapes Thursday as he delivers a keynote address to a conference in New York City.

#### Productivity growth should remain solid

On the data side, we will get the 1Q report on productivity and unit labor costs, the March international trade report and the ISM non-manufacturing data for April. We expect productivity growth to rise 1.8% QoQ annualized in the first quarter, which will send the yearly rate to a four-year high of 3.2%. Unit labor costs probably rose 3.7% on an annualized sequential basis but the year-on-year pace likely held to an extremely benign 0.5%.

#### Oil prices to boost trade deficit

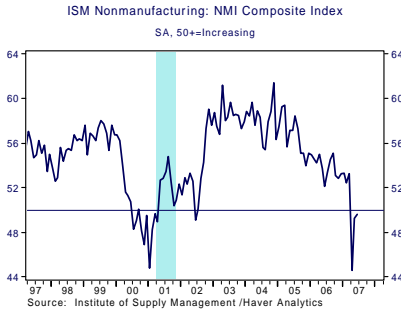
We expect the trade deficit to widen by \$1.8bn to \$64.1bn in March on a price-driven jump in the value of oil imports. Imports are expected to increase by 1.7%, while export growth should pull back slightly on a mixed bag of stronger foreign aircraft shipments and reduced motor vehicle exports. Prices are clearly playing a role in the trade numbers and we look for the inflation adjusted trade deficit to narrow to \$49.3bn from \$51.5bn.

#### Mixed report expected from non-manufacturers

The non-manufacturing ISM likely edged down to 49.0 in April from 49.6 in March, with the recession-bound construction sector still weighing heavily on the index while robust tourism activity provides some support. The earnings reporting season has just about wound down but we will get another 58 S&P 500 companies reporting next week.

## Monday, 5 May

### Look for services activity to remain in contraction



### ISM non-manufacturing, April—10:00 am

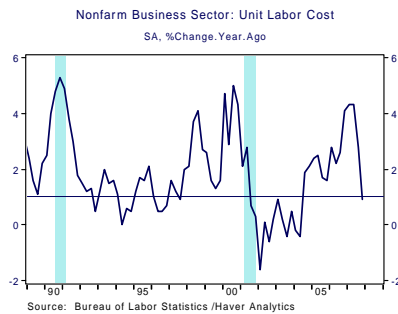
	Exp	Cons	Range	History
ISM non-manufacturing	49.0	49.1	47.5 – 51.0	Mar = 49.6 vs. Feb = 49.3

Source: Merrill Lynch, Bloomberg

The ISM non-manufacturing index likely ticked down a touch in April to 49.0 from 49.6 the previous month. The construction sector is likely to be heavily impacted by the latest down-leg in housing and weakness was apparent in the transportation services industry. Robust tourism activity due to the ultra-competitive dollar and continued strength in the health care sector should offset some of the negative impact to sentiment, however. The new orders index probably remained around 50 as resilient global demand continues to buttress this component. The employment index will likely tick higher as evidenced by the increase in services payrolls for the month, while prices paid are expected to fall just a tad as commodity spot prices came off their highs.

## Wednesday, 7 May

### Labor inflation pressures have rolled over sharply



### Productivity and unit labor costs, 1Q F—8:30 am

	Exp	Cons	Range	History
Nonfarm productivity	1.8%	1.5%	0.4 – 2.5%	4Q = 1.9% vs. 3Q = 6.3%
Unit labor costs	3.7%	2.5%	1.5 – 4.9%	4Q = 2.6% vs. 3Q = -2.7%

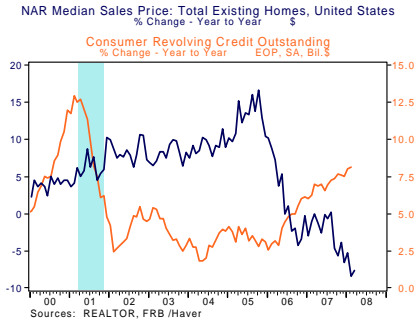
Source: Merrill Lynch, Bloomberg

Nonfarm business sector productivity probably increased by 1.8% QoQ annualized in 1Q, after a 1.9% rise in 4Q. The yearly rate likely accelerated to 3.2%, which would be the highest in almost four years, from 2.9% the previous quarter. We expect that nonfarm business output rose by 0.9% QoQ annualized in, while hours worked fell 0.9%.

Unit labor costs are expected to increase by 3.7% QoQ annualized in 1Q although the year-on-year pace probably held at a very low 0.5%. Compensation accruals in the nonfarm nonfinancial business sector increased by 4.1% QoQ in the first quarter. However, since financial sector earnings increased at a faster pace than the private sector average, we expect that nonfarm business sector compensation increased by 4.5% QoQ annualized in 1Q.

Our early tracking for 2Q is for a cyclical easing in productivity growth to 2.3% YoY and for unit labor cost growth to accelerate to 1.7%, which is still a very contained pace of labor cost that is running well below the underlying inflation trend of 2.0 to 2.5%.

**Rampant credit card use since housing rolled over**



**Consumer credit outstanding, March—3:00 pm**

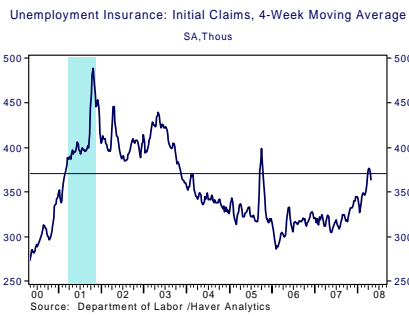
	Exp	Cons	Range	History
Consumer credit	\$7.0bn	\$6.1bn	\$4.0 – 10.0bn	Feb = \$5.1bn vs. Jan = \$10.3bn

Source: Merrill Lynch, Bloomberg

Consumer credit outstanding probably expanded by about \$7bn in March after growing by \$5bn in February. The increase will likely be driven once again by an expansion in revolving credit as folks in duress continue to tap their credit cards to purchase even essentials like food and gasoline. This component is now running at 8% from year ago levels – up from about 2.5% at the peak of the housing boom – which highlights the pickup in the use of plastic to finance consumption. Non-revolving credit outstanding (bank loans and lines of credit) likely grew a modest \$1.5bn as lending standards continue to limit financing from this source.

**Thursday, 8 May**

**Initial claims running 30% above the recent low**



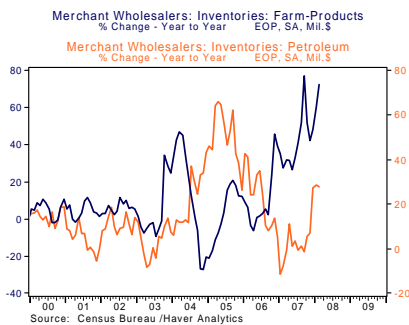
**Initial jobless claims, week ending 05/03/08—8:30 am**

	Exp	Cons	Range	History
Jobless claims	368k	375k	350 – 390k	April 26 <sup>th</sup> = 380k

Source: Merrill Lynch, Bloomberg

Initial jobless claims probably fell to 368k in the week ending May 3<sup>rd</sup>, after a hefty 380k print the week before. The recent volatility in claims is makes it clear that disruptions in the motor vehicle space and an early Easter holiday have made it extremely difficult to get an accurate seasonally adjusted read on claims. This level of claims is consistent with modest payroll declines. On our forecast, the four-week moving average would tick up to 367k from 364k previously. While claims remain below levels seen during past recessions, they only tell you about one side of the employment equation. The other side, hirings, looks extremely weak – with hiring intentions down 60% year-to-date according to the latest Challenger data –and we expect this to be reflected in negative nonfarm payroll prints in the months ahead.

**Palpable price impact in wholesale inventory data**



**Wholesale inventories, March—10:00 am**

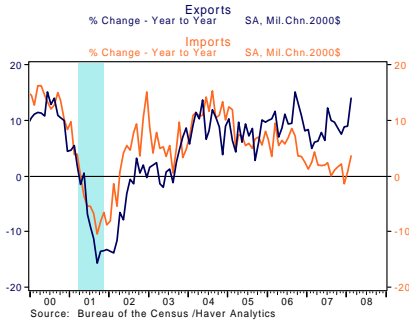
	Exp	Cons	Range	History
Wholesale inventories	0.3%	0.5%	-0.3 to 1.0%	Feb = 1.1% vs. Jan = 1.3%

Source: Merrill Lynch, Bloomberg

Wholesale inventories likely rose a modest 0.3% MoM in March, following gains of more than 1.0% in each of the past three months. The weakness is expected to come from the motor vehicle sector, as disruption to motor vehicle production due to the strike at American Axle likely helped pare inventories in this space. Excluding this component, we look for a 0.5% increase in wholesale inventories as sales at the retail level floundered. Some of this will likely be price related given the increases in food and energy costs on the month.

## Friday, 9 May

### Exports to continue to buttress the US economy



### International trade, March—8:30 am

	Exp	Cons	Range	History
Trade deficit	\$64.1bn	\$61.2bn	\$65.0 – 58.0bn	Feb = \$62.3bn vs. Jan = \$59.0bn

Source: Merrill Lynch, Bloomberg

We look for the international trade deficit to widen to \$64.1bn in March from \$62.3bn the prior month. Imports are estimated to be up 1.7% on the month while exports likely rose a more modest 1.2%. The main driver for imports looks to be an outsized gain in the petroleum component. While total imports of crude oil were up a modest 0.1% in volume terms, prices skyrocketed about 9.0% on the month. Imports of consumer goods should come in weak – after a 5.7% pop in February – as consumer spending has been relatively subdued.

The export side will probably see a pullback in motor vehicles as weekly railcar loadings slowed significantly. On the flipside, foreign shipments of aircraft looked solid as per the March Boeing data and ex transports exports likely remained resilient on firm global demand helped by a very weak dollar. Prices are clearly playing a role in the trade numbers and we look for the inflation adjusted trade deficit to actually narrow to \$49.3bn from \$51.5bn.

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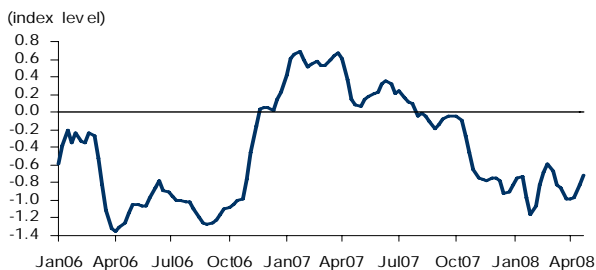
## Merrill Lynch proprietary indicators

### The Merrill Lynch production index



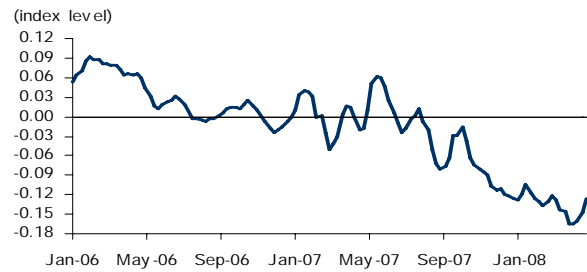
Our production index rose for the third week in a row. All of the up-move in the index this week came from truck production, which rose 1.6% on top of a 3.2% increase last week and auto production, which rose 3.9% – building on gains seen over the last three weeks. But the underlying details of the index were fairly weak. We saw weekly declines posted across the remaining components. Electrical production fell 0.4%, down for the second consecutive week. Railcar loadings fell nearly 1% and have dropped in two of the last three weeks. Coal production sank 2.9%, giving back last week's 1.2% increase. Raw steel production fell 0.3%, dropping for the eighth week in a row. And, crude oil production fell 0.1% after posting third consecutive weekly increases.

### The Merrill Lynch housing index



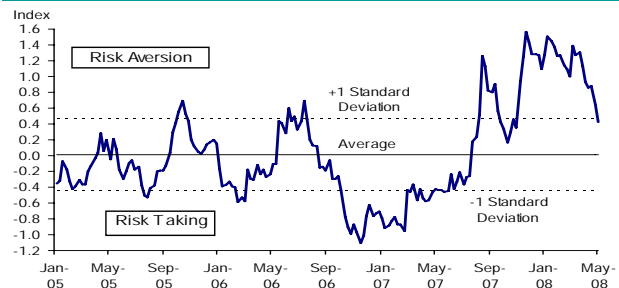
Our housing index rose for the third week in a row but has been in negative territory since last August, reflecting a housing market in recession. The demand backdrop remains weak. The MBA's purchase index has dropped for three consecutive weeks and continues to run below its one-year average on a year-over-year basis. Meanwhile, credit conditions still remain tight. Real estate loans from commercial banks are running below their one-year trend. Finally, the labor market continues to deteriorate. Initial jobless claims hit 380,000 in the latest week, which is a level consistent with job losses. The more ominous sign came in the continuing claims data. The four-week moving average on continuing claims has been rising steadily since the second week of February and is now at its highest level since May 2004. This suggests that the ranks of the unemployed will continue to swell.

### The Merrill Lynch consumer index



Our consumer index rose for the fourth consecutive week. Despite the latest string of gains, the index continues to reflect a consumer under duress. Initial jobless claims rose in the latest week while continuing claims crossed the 3 million mark to their highest level since April 2004. This tells us it is getting increasingly difficult for the newly unemployed to find work and that the unemployment rate will trend higher. Meanwhile, crude oil prices remain north of \$100 a barrel and that will hit the consumer at the gas pump. The continued run-up in energy prices coupled with the deteriorating labor market is undoubtedly weighing on consumer confidence, which fell for the fifth week in a row to a new cycle low. No surprise that chain-store sales continue to come in weak, running below their one-year average on a year-over-year basis.

### The Merrill Lynch financial stress index



Our financial stress index illustrates that risk aversion is coming back in the marketplace. The index dipped into risk neutral territory for the first time since the first week of November 2007. The VIX index, a measure of equity market volatility, has dropped for eight weeks in a row and is now at its lowest level since October 2007. Gold, which is a classic safe-haven asset, has dropped sharply. Last we checked, it was running around \$855 an ounce, levels we haven't seen since the start of the year. Credit spreads have been coming down too. Baa spreads, TED spreads, and two-year swap spreads, while all elevated, narrowed in the latest week. And, investors are rotating into riskier sectors in the equity market; tech has outperformed consumer staples for the last two weeks. And, broadly speaking, the S&P 500 has outperformed Treasuries for the last three weeks.

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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>
Apr-28	Apr-29	May-1	1-month	14.0	(4.0)
Apr-30	May-7	May-15	10-year note	15.0	(5.7)
Apr-30	May-8	May-15	30-year bond (R)	6.0	6.0
May-1	May-5	May-8	3- & 6-month	43.0	2.0
May-5	May-6	May-8	1-month	22.0*	12.0

\* 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>
May-2	May-5	May-6	FRE 3-month	3.0
May-2	May-5	May-6	FRE 6-month	2.5
May-5	May-7	May-8	FNM 3-month	
May-5	May-7	May-8	FNM 6-month	
May-9	May-12	May-13	FRE 3-month	
May-9	May-12	May-13	FRE 6-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, May 5</u>	8:30pm	Fed Chairman Bernanke Speaks on Mortgage Foreclosures
<u>Tuesday, May 6</u>	9:30pm	Kansas City Fed President Hoenig Speaks in Denver on Market Risk and Policy
<u>Wednesday, May 7</u>	8:45am	Fed Governor Kroszner Speaks in Cincinnati on Foreclosures
<u>Thursday, May 8</u>	12:30pm	Former Fed Chairman Greenspan Speaks in New York
<u>Friday, May 9</u>		<i>Nothing scheduled at this point</i>

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

02 May 2008

## Economic forecast summary

Real Economic Activity, % SAAR	4Q2007	1Q2008	2Q2008	3Q2008	4Q2008	1Q2009	2Q2009	3Q2009	4Q2009	2007	2008F	2009F
Real GDP	0.6	0.8	-0.7	-0.1	-0.5	-0.2	1.5	2.5	2.6	2.2	1.0	0.5
% Change, Year Ago	2.5	2.5	1.4	0.2	-0.1	-0.4	0.2	0.8	1.5			
Final Sales	2.4	0.3	0.6	-0.7	-0.5	-0.3	1.8	1.9	2.1	2.5	1.2	0.5
Domestic Demand	1.3	0.0	-0.5	-1.1	-1.6	-1.6	0.9	1.7	2.0	1.8	0.4	-0.4
Consumer Spending	2.3	1.0	0.2	-0.4	-1.5	-0.7	1.5	2.0	2.4	2.9	1.0	0.2
Durables	2.0	-6.1	-7.2	-6.6	-10.0	-1.4	1.0	3.1	3.2	4.7	-3.4	-2.8
Nondurables	1.2	-1.3	0.5	0.3	-4.0	-4.7	1.0	2.0	2.5	2.4	0.0	-1.3
Services	2.8	3.4	1.4	0.5	1.2	1.3	1.7	1.8	2.1	2.8	2.3	1.4
Residential Investment	-25.2	-25.7	-20.0	-22.8	-22.7	-12.0	-2.5	1.0	1.5	-17.0	-22.5	-12.3
Nonresidential Investment	6.0	-0.7	-1.4	-3.5	-0.9	-9.1	-3.2	0.3	1.6	4.7	1.9	-3.5
Structures	12.4	-0.2	-2.5	-6.5	-8.0	-10.0	-5.0	1.0	1.5	12.9	3.6	-5.8
Equipment and Software	3.1	-1.0	-0.9	-2.0	2.5	-8.7	-2.3	0.0	1.6	1.3	1.1	-2.4
Government	1.9	2.1	1.2	1.4	1.7	1.3	1.7	1.4	1.1	2.0	2.1	1.5
Exports	6.5	5.5	4.0	4.5	4.5	4.5	4.3	3.9	3.2	8.1	6.9	4.3
Imports	-1.4	2.5	-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	-495.9	-462.8	-448.7	-415.0	-375.8	-351.2	-345.6	-343.7	-555.6	-455.6	-354.1
Inventory Accumulation (Bil \$)	-18.3	1.8	-38.2	-18.8	-19.1	-17.8	-27.8	-12.6	-0.4	4.6	-18.6	-14.6
Nominal GDP (Bil \$)	14074	14179	14221	14297	14358	14420	14540	14686	14826	13841	14264	14618
% SAAR	3.0	3.0	1.2	2.2	1.7	1.8	3.4	4.1	3.8	4.9	3.1	2.5
% Change, Year Ago	5.1	4.6	3.3	2.3	2.0	1.7	2.2	2.7	3.3			
<b>Key Indicators</b>												
Industrial Production (% SAAR)	0.2	0.0	-0.3	-1.0	-0.8	0.6	1.5	1.7	1.8	1.7	0.5	0.5
Capacity Utilization (%)	81.0	80.6	80.2	79.7	79.2	79.0	79.0	79.0	79.0	81.0	79.9	79.0
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	1.8	-1.0	2.5	1.0	0.5	2.5	3.2	3.0	1.8	1.9	1.6
% Change, Year Ago	2.9	3.1	2.2	1.3	1.1	0.7	1.6	1.8	2.3			
Real Disp. Personal Inc. (% SAAR)	0.1	1.4	15.7	-12.2	0.1	2.2	2.7	2.9	2.7	3.1	2.0	0.9
% Change, Year Ago	2.2	1.2	5.1	0.8	0.8	1.0	-2.0	2.0	2.6			
Personal Savings Rate (%)	0.0	0.2	3.9	1.2	1.6	2.1	2.4	2.6	2.7	0.4	1.7	2.5
Light Vehicle Sales (Millions SAAR)	16.2	15.3	15.0	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
<b>Corporate Profits and Earnings</b>												
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
<b>Inflation</b>												
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	2.6	2.8	1.9	1.4	0.8	0.3	0.9	2.9	3.6	1.5
% Change, Year Ago	4.0	4.2	3.7	3.7	2.9	2.2	1.7	1.1	0.8			
CPI ex Food & Energy (% SAAR)	2.5	2.5	1.7	1.9	1.7	1.7	1.5	1.4	1.4	2.3	2.2	1.6
% Change, Year Ago	2.3	2.4	2.3	2.1	1.9	1.7	1.7	1.6	1.5			

Source: Merrill Lynch

### 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	214.630	0.52	3.8	0.17	3.8	0.14	2.3	0.15	2.3
2008: May	215.449	0.38	3.6	0.23	3.6	0.00	2.3	0.15	2.3
2008: Jun	215.840	0.18	3.6	0.25	3.6	0.02	2.2	0.16	2.2
2008: Jul	215.918	0.04	3.7	0.28	3.7	0.06	2.2	0.15	2.2
2008: Aug	215.876	-0.02	3.8	0.18	3.8	0.16	2.2	0.15	2.2
2008: Sep	216.002	0.06	3.6	0.15	3.6	0.16	2.1	0.14	2.1
2008: Oct	216.230	0.11	3.5	0.15	3.5	0.29	2.0	0.14	2.0
2008: Nov	215.896	-0.15	2.7	0.15	2.7	-0.05	1.9	0.14	1.9
2008: Dec	215.308	-0.27	2.5	0.15	2.5	-0.12	1.9	0.14	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	1.54	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	162	158	154	151	140	130	127	125
British Pound	US\$/£	1.97	1.99	1.91	1.87	1.79	1.73	1.71	1.68
	£/Euro	0.78	0.78	0.79	0.79	0.78	0.77	0.76	0.76
Swiss Franc	SF/US\$	1.06	1.03	1.05	1.07	1.11	1.16	1.18	1.20
	SF/Euro	1.63	1.59	1.58	1.58	1.55	1.54	1.54	1.54
Canadian \$	C\$/US\$	1.02	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\$	1010	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\$	30.49	31.00	32.25	32.50	32.50	32.75	33.00	33.50
Brazilian Real	BRL/US\$	1.65	1.70	1.80	1.80	1.85	1.85	1.90	1.90
Mexican Peso	MXN/US\$	10.46	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
<b>5 May</b> 10:00 am: ISM Non-manufacturing Feb ..... 49.3 Mar ..... 49.6 Apr ..... 49.0*  <i>Fed Senior Loan Officer Survey likely to be released today</i>	<b>6 May</b> ABC/Washington Post Consumer Comfort Survey —(week ending 5/04/08) <b>LJR Redbook</b> —(week ending 5/03/08)	<b>7 May</b> MBA Mortgage Applications —(week ending 5/02/08) <b>8:30 am: Nonfarm Productivity</b> 3Q ..... 6.3% 4Q ..... 1.9% 1Q (P) ..... 2.1%* <b>8:30 am: Unit Labor Costs</b> 3Q ..... -2.7% 4Q ..... 2.6% 1Q (P) ..... 3.7%* <b>3:00 pm: Consumer Credit – Mar</b> Jan ..... \$10.3bn Feb ..... \$5.1bn Mar ..... \$7.0bn*	<b>8 May</b> 8:30 am: Initial Jobless Claims —(week ending 5/03/08) – 368K <b>10:00 am: Wholesale Inventories</b> Jan ..... 1.3% Feb ..... 1.1% Mar ..... 0.3%*	<b>9 May</b> 8:30 am: Trade Balance Jan ..... -\$59.0bn Feb ..... -\$62.3bn Mar ..... -\$64.1bn*
<b>12 May</b> 2:00 pm: Budget Statement Apr 2007 ..... \$177.7bn Apr 2008 ..... \$190.0bn*	<b>13 May</b> ABC/Washington Post Consumer Comfort Survey —(week ending 5/11/08) <b>LJR Redbook</b> —(week ending 5/10/08) <b>8:30 am: Import Prices</b> Feb ..... 0.2% Mar ..... 2.8% Apr ..... -0.2%* <b>8:30 am: Retail Sales</b> Feb ..... -0.4% Mar ..... 0.2% Apr ..... -0.6%* <b>8:30 am: Retail Sales ex Autos</b> Feb ..... -0.1% Mar ..... 0.1% Apr ..... -0.4%* <b>10:00 am: Business Inventories</b> Jan ..... 0.9% Feb ..... 0.6% Mar ..... 0.2%*	<b>14 May</b> MBA Mortgage Applications —(week ending 5/09/08) <b>8:30 am: CPI</b> Feb ..... 0.0% Mar ..... 0.3% Apr ..... 0.2%* <b>8:30 am: Core CPI</b> Feb ..... 0.0% Mar ..... 0.2% Apr ..... 0.1%*	<b>15 May</b> 8:30 am: Initial Jobless Claims —(week ending 5/10/08) <b>8:30 am: Empire Manufacturing</b> Mar ..... -22.2 Apr ..... 0.6 May ..... 2.0* <b>9:00 am: TIC Data</b> Jan ..... \$57.1bn Feb ..... \$72.5bn Mar ..... \$90.0bn* <b>9:15 am: Industrial Production</b> Feb ..... -0.7% Mar ..... -0.3% Apr ..... -0.1%* <b>9:15 am: Capacity Utilization</b> Feb ..... 80.3% Mar ..... 80.5% Apr ..... 80.2%* <b>10:00 am: Philly Fed</b> Mar ..... -17.4 Apr ..... -24.9 May ..... -22.0* <b>1:00 pm: NAHB Housing Market Index</b> Mar ..... 20 Apr ..... 20 May ..... 20*	<b>16 May</b> 8:30 am: Housing Starts Feb ..... 1075k Mar ..... 947k Apr ..... 942k* <b>8:30 am: Building Permits</b> Feb ..... 984k Mar ..... 928k Apr ..... 910k* <b>10:00 am: University of Michigan Consumer Sentiment</b> Mar ..... 69.5 Apr ..... 62.6 May (P) ..... 60.0*
<b>19 May</b> 10:00 am: Leading Indicators – Apr Feb ..... -0.3% Mar ..... 0.1%	<b>20 May</b> ABC/Washington Post Consumer Comfort Survey —(week ending 5/18/08) <b>LJR Redbook</b> —(week ending 5/17/08) <b>8:30 am: PPI –Apr</b> Feb ..... 0.3% Mar ..... 1.1% <b>8:30 am: Core PPI –Apr</b> Feb ..... 0.5% Mar ..... 0.2%	<b>21 May</b> MBA Mortgage Applications —(week ending 5/16/08) <b>2:00 pm: Minutes of the April 29-30 FOMC meeting released</b>	<b>22 May</b> 8:30 am: Initial Jobless Claims —(week ending 5/17/08) <b>10:00 am: OFHEO House Price Index QoQ – 1Q</b> 3Q ..... -0.2% 4Q ..... 0.1%	<b>23 May</b> 10:00 am: Existing Home Sales – Apr Feb ..... 5.03mn Mar ..... 4.93mn

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

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