

The Week Ahead in US Economics – May 30 - June 3, 2011



Monday	Tuesday	Wednesday	Thursday	Friday
May 30	31 S&P/Case-Shiller Index (Mar) (09:00) Chicago PMI (May) (09:45) Consumer Confidence (May) (10:00) ISM Milwaukee PMI (May) (10:00) Dallas Fed Mfg Survey (May) (10:30)	June 1 Challenger Job Cuts (May) (07:30) ADP Employment Report (May) (08:15) ISM Index (Apr) (10:00) Construction Spending (Apr) (10:00) Help-Wanted OnLine (May) (10:00) Domestic Vehicle Sales (May) (n/a) • Tsy's Geithner testifies on the state of the international financial system (10:00) • FRB Cleveland's Pianalto on "Labor Markets and Monetary Policy" (12:25) • FRB SF's Williams on economics instruction and monetary policy (22:30) • Treasury auctions 4-week and \$24 bln 1-year bills (11:30)	2 Monster Employment Index (May) (00:00) Initial Claims (5/28) (08:30) SHRM/Rutgers LINE (Jun) (08:30) Productivity & Costs (rQ1) (08:30) Factory Orders (Apr) (10:00) ICSC Chain Store Sales (May) (n/a) • Treasury announces 3- and 6-month bills (e: \$51 bln) (11:00) • Treasury announces 3- and 10-year notes and 30-Year bonds (e: \$66 bln) (11:00)	3 Employment Report (May) (08:30) ISM Non-Mfg Index (May) (10:00) • Fed Gov Tarullo on financial regulation (12:30) • FRB Boston's Rosengren at Stanford University (15:30)
Memorial Day				

all times are ET; FOMC voters in bold

Bottom Line

Economic data in the May 23 - 27 week provided routine disappointment, with just the occasional glimmer of hope. Richmond and Kansas City Fed manufacturing surveys, as well as April durable goods orders, confirmed the trend indicated by the prior week's numbers -- a second month of sharp decline in manufacturing sector growth, following supply chain disruptions from the Japan tsunami. The headline Q1 GDP gain was

unrevised at 1.8%, with consumption unsurprisingly being revised down despite positive revisions to retail sales. Unemployment claims again surprised with a jump to 424k, and April pending home sales plunged 11.6%, indicating poor existing home sales for the next couple of months. The only positive signs were slightly better than expected (but still extremely low) new home sales, and a gain in consumer sentiment on falling oil prices.

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The new week provides some of May's main numbers, so we'll get a clearer look at how the economy has reacted to the dip in oil prices, which should partially reverse the commodity price-driven narrative of the prior three months. Headwinds will remain, however, as the supply chain disruptions have clearly persisted, as has violent weather in parts of the country. The week's key release, Friday's employment report, should show the weakest payrolls gains since January, though not by a large margin. Manufacturing data will continue to be downbeat, and auto sales should drop, but consumer confidence should show another move upward.

Four Fed speakers are currently scheduled, with the only voter being Governor Tarullo (dove) on Friday, who will speak on financial regulation. Of the non-voters, FRB Cleveland's Pianalto (dove) speaks Wednesday on labor markets and monetary policy; FRB San Francisco's Williams (dove) will also talk Wednesday, on economics instruction and monetary policy; and Boston's Rosengren (dove) will speak at Stanford University on Friday. Treasury Sec. Geithner will testify Wednesday on the state of the international financial system.

The Fed will conduct three rounds of outright Treasury purchases, adding about \$15.6 bln to the Fed's balance sheet.

In addition to the weekly bill auction cycle, Treasury will auction \$24 bln 1-year bills on Wednesday, and announce 3- and 10-year notes (e: \$32 bln and \$21 bln, respectively) as well as 30-year bonds (e: \$13 bln) Thursday.

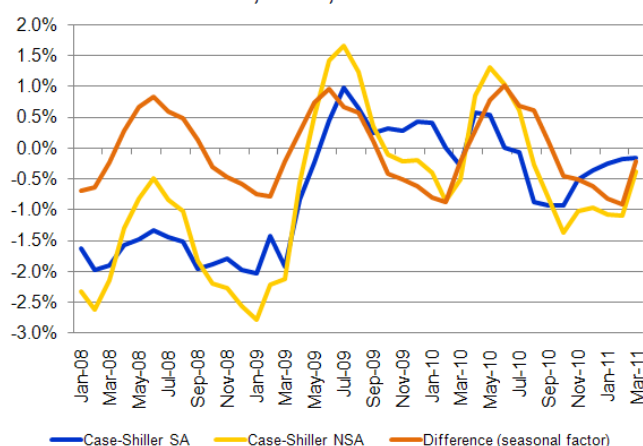
IFR Commentary

S&P/Case-Shiller Index (Mar) (Tue)

March's S&P/ Case-Shiller house price index should see a yr/yr pace of -3.2%, a marginal improvement from February's -3.3%. This would be the first improvement in the yr/yr pace seen since May 2010 reached +4.6%, supported by a tax credit that was then expiring. On a month/month basis the index has not increased since May 2010 after seasonal adjustment, but recently the picture has been getting less negative. We expect a 0.2% seasonally adjusted decline, which would match that seen in February with a modest further moderation in the pace of decline before rounding. Before seasonal adjustment we expect a 0.4% fall, significantly less negative than February's 1.1%

drop. March price data released with the existing home sales report and by the FHFA looks less weak on the month, but both continued to weaken on a yr/yr basis. April existing home prices showed more convincing signs of improvement. The house price picture is getting less negative but March is probably too early to look for an increase on the month. /ds

Case-Shiller, m/m, Seasonal Effects



Chicago PMI (May) (Tue)

The Chicago PMI should fall from 67.6 in April to about 61.0 in May. Many other regional surveys have fallen more sharply this month, and the Chicago region is particularly susceptible to weakness in auto manufacturing. Still, the Chicago reading was fairly resilient in April (shedding just three points to 67.6), which is one reason why we suspect that the sectoral slowdown involves more than just supply chain disruption.

Even so, we don't think Chicago will be able to dodge a sharp decline for another month. We don't look for it to fall as sharply as some of the others, but the region may simply be lagging a bit, as the Empire State survey did (the only major regional index to gain in April, before plunging in May). /tml

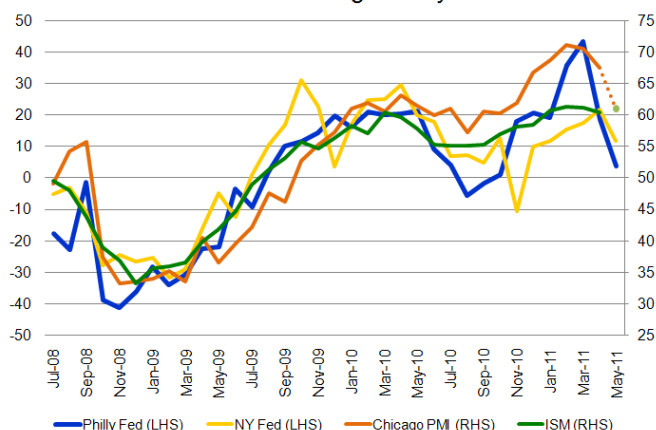
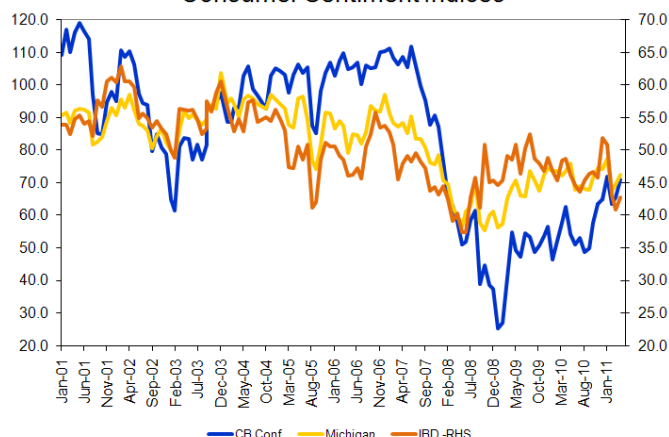
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Manufacturing Surveys

Consumer Sentiment Indices


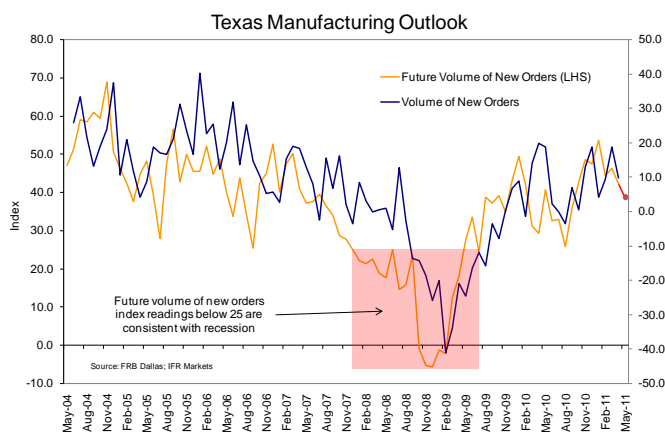
Consumer Confidence (May) (Tue)

The Conference Board's May consumer confidence index should increase to 71.0 from 65.4, a second straight rise and putting it close to the year's high of 72.0 seen in February. Most of March's plunge to 63.8 will then have been reversed. Both the preliminary Michigan CSI and IBD/TIPP index increased in May, with the former crediting labor market improvements and downplaying the impact of killing Osama bin Laden, but the latter suggesting there was some bin Laden effect. Given that these indices also saw a temporary bounce following the capture of Saddam Hussein, we suspect the killing of Bin Laden did give confidence a boost. This should be visible in expectations, which should rise to 93.0 from 82.6. Consumers are unlikely to be too impressed by lower energy prices yet, though a rise in the final Michigan CSI relative to the preliminary suggests peaking has been noticed. With labor market perceptions having seen quite a sharp improvement in April there may be little scope for further gains in May. The present situation index should slip, to 38.0 from 39.6. A mix of firmer expectations but a weaker present situation will be consistent with the Michigan CSI's breakdown. The Conference Board's 1-year inflation expectation should see some slowing April's 6.3%, we expect to 6.0%, but this will remain well above the 5.2% pace seen at the end of 2010. /ds

Dallas Fed Mfg Survey (May) (Tue)

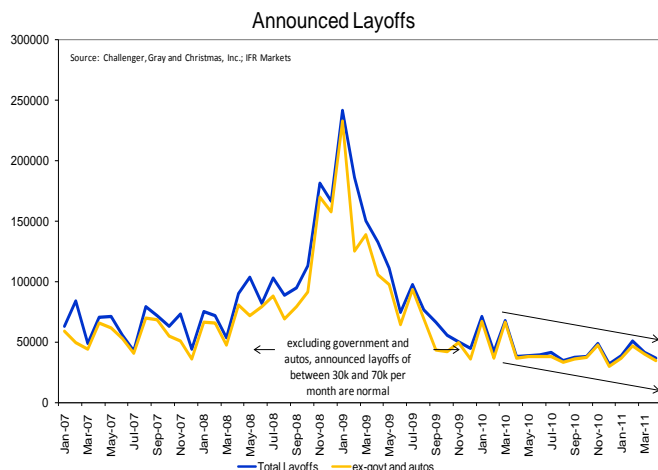
IFR estimates the production index in the Dallas Fed's Texas Manufacturing Outlook Survey will remain positive but slip to a lower single digit (e: 2.0) in May, a drop of just over six points from April. The index hit an 11-month high of 24.1 in March before slipping 16 points to 8.1 last month. Several components are at risk of printing below zero (i.e., showing contraction), though the number of employees index should remain close to its 6-month average (11.3). Indices measuring prices paid and prices received should both ease, with the spread between the two narrowing a bit, suggesting firms are passing on some costs on to wholesalers and beyond.

With manufacturers flummoxed by disaster-related supply chain disruptions, it's important to discern their outlooks rather than their current sentiments. The index on the future volume of new orders fell to a 7-month 42.2 low in April and a drop to the low 30s in May would support expectations of a summer soft patch like last year's. Future volume of new orders index readings below 25 are consistent with recession. /jh



Challenger Layoffs (May) (Wed)

IFR looks for layoff announcements of 41,810 in May, a 14.6% increase over April and a 7.7% increase over May 2010. Net of government and automotive sectors, however, we expect layoffs of only 28,022, an 18.6% drop from April and a 26.6% decline from last May. From April to October 2010, ex-government and automotive layoffs were steady between 33k and 38k per month. The minimum and maximum have expanded significantly since then but the average over the last six months (39,132) is only 6.7% higher than in the preceding 6-month period. Be prepared for an outlier but expect that it will revert to the mean later this summer. /jh



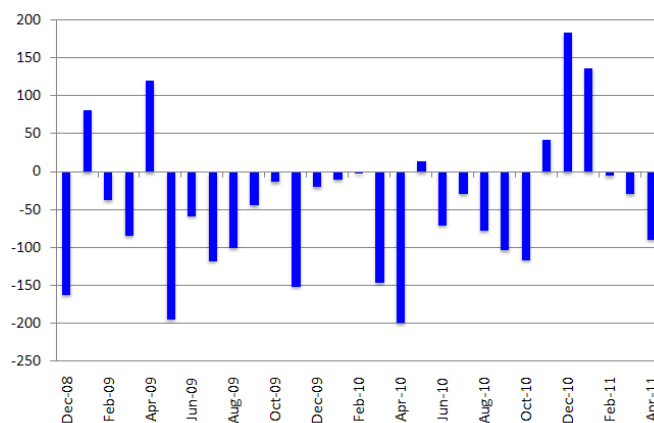
ADP Employment Report (May) (Wed)

IFR looks for the ADP Employment Report to show a gain of just 130k in May, easily the weakest reading since November. That would be 60k lower than our forecast for the BLS private payrolls reading, reflecting the fact that it

appears the ADP will trend toward larger underestimates as the year goes on.

The ADP returned to its 2010 form in April, underestimating the initial BLS private payrolls change by 89k, the most since last October. It has been trending further and further in the direction of underestimates since an astounding 184k overestimate in December, but we think that the underestimates will begin to plateau soon. That seems especially likely as it seems payrolls gains are set to soften in the wake of supply chain disruptions, violent weather and flooding, though the ADP series can be quite volatile. /tml

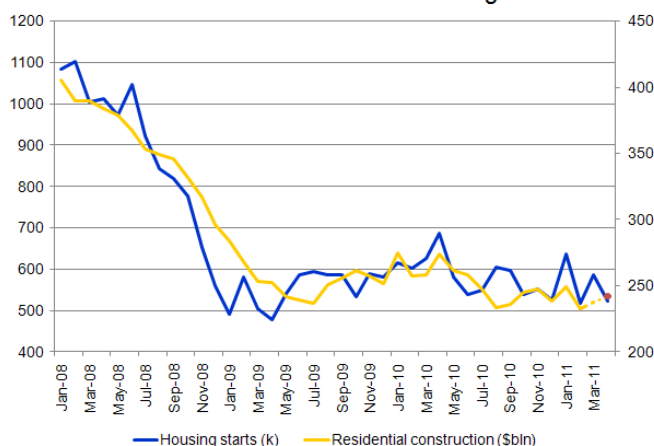
ADP Miss vs. Initial BLS



Construction Spending (Apr) (Wed)

Rebounding from weather setbacks since December, March's construction spending increase of 1.4% will be followed by a softer, yet still welcomed, rise of 1.1% for April. Every major component will have improved, just not as starkly as March's numbers, which marked a rebound from winter-depressed activity. Although starts were weak in April, strong performances in both starts and permits in March will feed through to push residential projects up 1.8%. The ever-fading government-supported projects category ought to cap at 0.3% growth in April, while the heavyweight private non-residential category, most of whose subcategories showed corrective gains in March, will continue to grow, this time by 1.3%. /vn

Residential Construction vs. Housing Starts



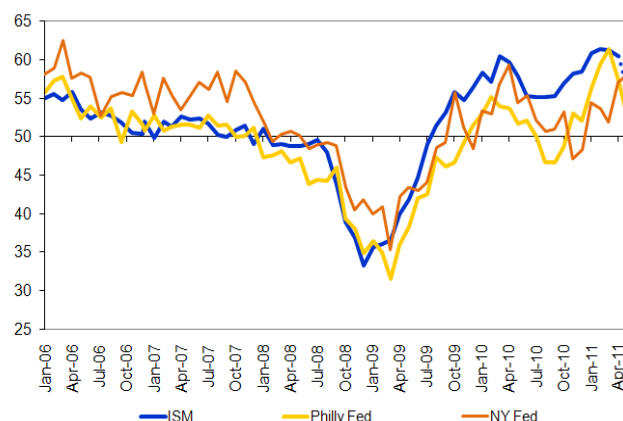
ISM Index (Apr) (Wed)

With most regional manufacturing surveys posting a second month of sharp declines, the ISM Manufacturing index should begin to follow suit, dropping four points to 56.4. We expect that every component index will drop, with employment being the only one not to drop significantly. Employment indices in the regionals have managed to hold firm on average, though most workweek indices have fallen to neutral.

ISM was among the most resilient manufacturing indicators in April, dropping just 0.8 points to 60.4. Supply chain disruptions resulting from the Japan tsunami will likely finally force ISM lower this month. Whether that's the whole story is hard to say: it provides a reasonable explanation for why nearly all regions would drop simultaneously and to similar degrees (or at least as similar as can be seen in such volatile reports), but even so, the magnitude of the decline is more than many analysts were expecting post-tsunami.

We'll be watching the ISM and regional surveys closely over the next few months to determine if the supply chain disruption is all there is, or if there's an underlying slowdown in manufacturing going on. If it's the former, we look for recovery to begin as we move into Q3. /tml

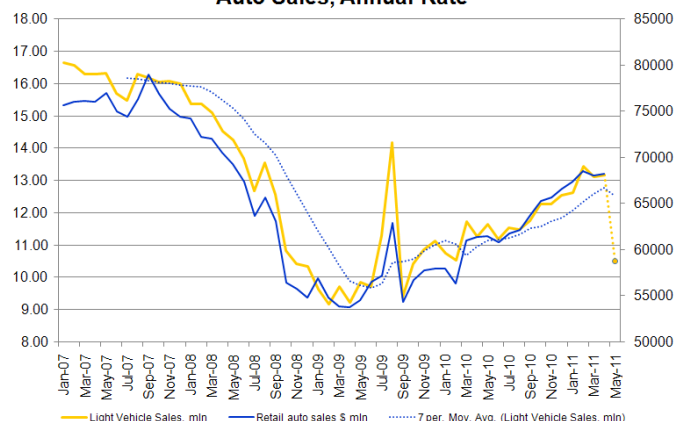
ISM vs. ISM-Weighted Fed Indices



Domestic Vehicle Sales (May) (Wed)

Light vehicle sales will have notably dipped for the first time in the last nine months, with auto sales only reaching a SAAR of 10.5 mln in May. The smallest sales pace in over a year will be the result of back-breaking gas prices, declining output from inventory shortages -- and resulting elevated prices. Although distributor Southeast Toyota drove up discounts and financing offers, the market in general skimmed on incentives aiming to protect profit margins due to impending model updates. Even though production and sales will stutter for the next couple readings, annual forecasts of 13 mln cars to be sold in 2011 still look valid. /vn

Auto Sales, Annual Rate

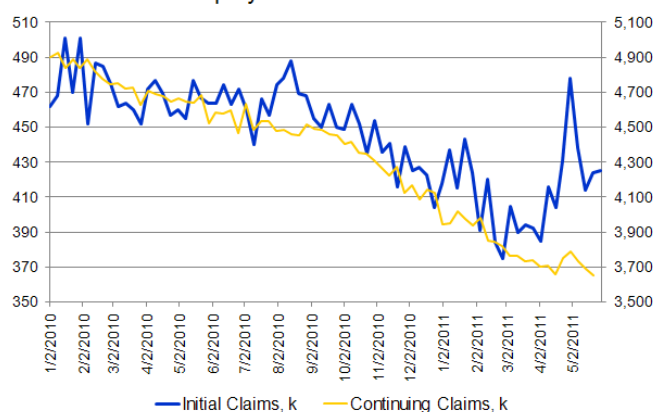


Initial Claims (5/28) (Thu)

Unable to live up to market optimism, claims – having just risen to 424,000 – ought to hold at 425,000 for the week ending May 28, as the filings anticipated for that week seem to have

already been received. The four-week moving average of nearly 439k is a far cry from the standard 390s of March and much of April, and the highest of 2011. Thankfully, it's propped by the whopping 478k reading four weeks ago that will finally be removed from the equation, helping the average improve to 425k. The emerging claims trend makes for cautious forecasting, as the hope for and expectation of fewer layoffs signaling a strengthening recovery is distorted by shocks both market and seasonal.

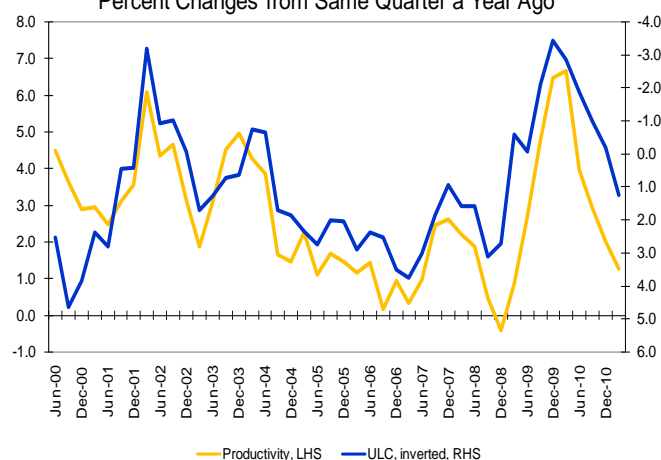
Continuing claims posted a decent decline to 3.69 mln, as we expected, and are positioned to drop again to 3.65 mln for the week ending May 21. /vn

Unemployment Insurance Claims


Productivity & Costs (rQ1) (Thu)

Q1 productivity should see a marginal upward revision to 1.7% from 1.6%. While Q1 GDP was disappointingly unrevised at 1.8% non-farm business output was revised up, to 3.2% from 3.1%. Assuming no revisions to hours worked, this should bring a marginal upward revision to productivity. Unit labor costs should be revised down to 0.7% from 1.0%, with a downward revision to compensation (as implied by revisions to compensation in the GDP breakdown) adding to the impact of the productivity revision. The overall deflator should however remain at 1.1%. The downward revision to unit labor costs could be offset by an upward revision to a surprisingly subdued Q1 rise of 1.2% in non-labor costs. Revisions to Q4 data released since the final Q4 productivity report suggest that quarter could also see a marginal upward revision to productivity (from 2.9%) and a slightly sharper downward revision to unit labor costs (from -1.0%). /ds

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Productivity vs. Unit Labor Costs
Percent Changes from Same Quarter a Year Ago


Factory Orders (Apr) (Thu)

Factory orders have likely fallen 0.4% in April, with higher fuel costs pushing nondurable goods orders up 2.2%. That would be the fifth 2-handle growth rate in six months, but it won't be enough to overcome a 3.6% plunge in durable goods. Sharp drops in aircraft and motor vehicle orders (in part due to supply chain issues resulting from the Japan tsunami) torpedoed durables orders in April.

Ex-trans factory orders should fare a little better, with a 0.8% increase following on March's 2.7% gain. Ex-fuels and transport, however, orders will be likely nearer flat or negative, with durable goods orders ex-trans unlikely to be revised much up from the early reading of -1.5%.

The manufacturing sector has clearly been hit harder by the tsunami's aftereffects than most expected, and we should see a temporary plateau in orders and production. Recovery in growth should begin later in the spring and on through summer, but it could take quite a while for some producers to retool or for their Japanese suppliers to come back online. /tml

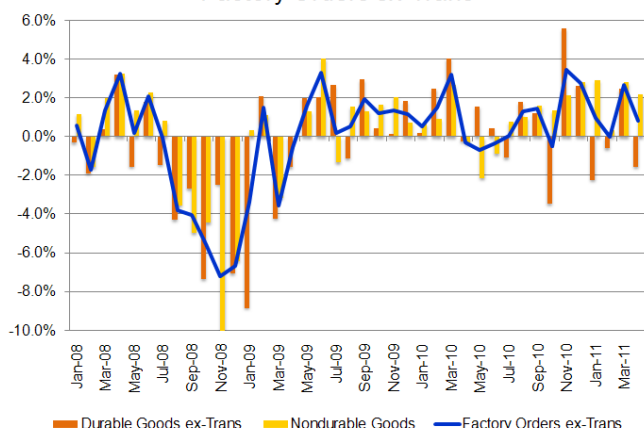


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Factory Orders ex-Trans



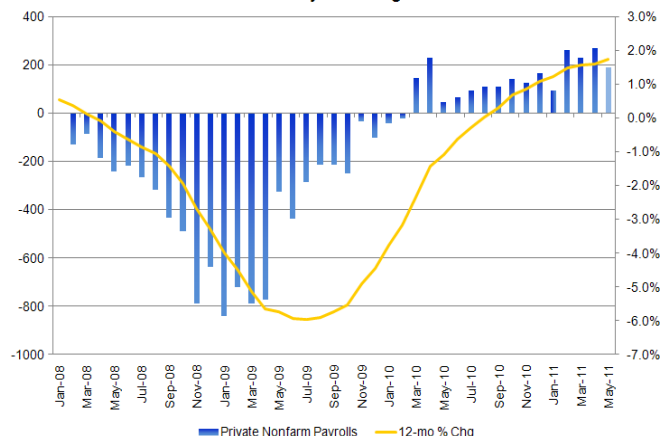
Employment Report (May) (Fri)

With a headline gain of 170k and private payrolls gain of 190k, we look for the May employment report to show the weakest private job gains since January, but still stronger than any month in 2010 but one. Some service sector categories of that saw outsized gains in April, such as retail trade, should see considerably smaller rises. Manufacturing looks set to take a hit from supply chain disruptions, particularly in the auto sector, even though the employment indices in regional surveys have shown more resilience than the composite and production readings.

The unemployment rate should edge back down to 8.9%, with job gains according to the household survey bouncing back from April's 190k loss. Average hourly income growth will likely just barely round up to 0.2%, while we see the average workweek sticking at 34.3 hours for a fourth month.

For more information, please consult our forthcoming detailed employment report preview. /tml

Private Payrolls Chg, k SA



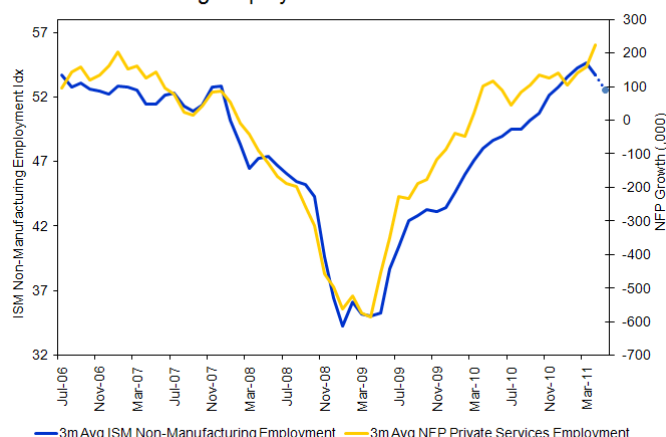
ISM Non-Mfg Index (May) (Fri)

IFR sees the ISM Non-Manufacturing Index rising from 52.8 in April to 53.3 in May. Though we believe that non-manufacturing activity grew at a slightly slower pace in May, as a post-Easter effect faded, the six-point plunge recorded by the April NMI probably overstated weakness.

The business activity and new orders indices will likely recover slightly (particularly as new orders plunged 11.4 points in April), while the employment index holds about steady and the supplier deliveries index dips modestly.

As lower oil prices filter into lower/slower-growing gas prices and violent weather hopefully fades, consumers should continue to regain confidence and fewer dollars should escape overseas. We look for slow recovery in the ISM NMI through the balance of spring. /tml

ISM Non-Mfg Employment vs. Private Services NFP



Week Ahead Calendar:

Date	ET	Release	Unit	Period	IFR Est	Prev	Median	Range	
May 31	09:00	S&P Case-Shiller Idx	%y/y	Mar	-3.2	-3.3	-3.3	-4.8	-2.9
May 31	09:45	Chicago PMI	Idx	May	61.0	67.6	63.0	56.0	67.0
May 31	10:00	Consumer Confidence	Idx	May	71.0	65.4	66.5	62.0	71.0
May 31	10:30	Dallas Fed Mfg Survey	Idx	May		8.1			
Jun 01	07:30	Challenger Job Cuts	k	May		36.49			
Jun 01	08:15	ADP Employment	k	May	130	179	170	125	228
Jun 01	10:00	Construction Spending	%m/m	Apr	1.1	1.4	0.4	-1.5	1.1
Jun 01	10:00	CB Help-Wanted OnLine Idx	k	May		123.8			
Jun 01	10:00	ISM Index	Idx	May	56.4	60.4	58.0	53.0	61.0
Jun 01	15:00	Total Vehicle Sales	M,AR	May	10.5	13.1	12.80	11.90	14.00
Jun 01	15:00	Domestic Car Sales	M,AR	May		4.8			
Jun 01	15:00	Domestic Truck Sales	M,AR	May		5.1			
Jun 02	00:00	Monster Employment Idx	Idx	May		145			
Jun 02	07:45	ICSC SIs Idx	%y/y	May		8.5			
Jun 02	08:30	Initial Claims	k	5/28	425	424	416	395	430
Jun 02	08:30	Continuing Claims	k	5/21	3650	3690	3670	3600	3700
Jun 02	08:30	Productivity (Final)	%q/q	Q1	1.7	1.6	1.7	1.4	2.4
Jun 02	08:30	Unit Labor Costs (Final)	%q/q	Q1	0.7	1.0	0.8	-0.5	1.4
Jun 02	08:30	SHRM/Rutgers LINE Mfg	Idx	Jun		0.4			
Jun 02	08:30	SHRM/Rutgers LINE Svcs	Idx	Jun		-6.9			
Jun 02	10:00	Factory Orders	%m/m	Apr	-0.4	3.4	-1.0	-3.0	3.2
Jun 02	10:00	Factory Orders ex-Autos	%m/m	Apr	0.8	2.6			
Jun 03	08:30	Nonfarm Payrolls	k	May	170	244	185	125	250
Jun 03	08:30	Private Payrolls	k	May	190	268	210	155	280
Jun 03	08:30	Unemployment Rate	%	May	8.9	9.0	8.9	8.7	9.1
Jun 03	08:30	Avg Hrly Earnings	%m/m	May	0.2	0.1	0.2	0.1	0.3
Jun 03	08:30	Work Week	hrs	May	34.4	34.3	34.3	34.2	34.4
Jun 03	10:00	ISM Non Mfg Idx	Idx	May	53.3	52.8	54.0	51.0	55.6

Consensus (median) forecasts supplied by Reuters News.

On the Horizon:

Date	ET	Release	Unit	Period	IFR Est	Prev	Median	Range	
Jun 07	15:00	Consumer Credit	\$bln	Apr		6.02	5.50	5.50	7.07
Jun 09	08:30	Initial Claims	k	6/4		n/a			
Jun 09	08:30	Continuing Claims	k	5/28		n/a			
Jun 09	08:30	International Trade	\$bln	Apr		-48.2	-49.0	-51.6	-45.0
Jun 09	10:00	Wholesale Inventories	%m/m	Apr		1.1	1.0	0.5	1.5
Jun 09	10:00	Wholesale Sales	%m/m	Apr		2.9	2.0	0.6	2.5
Jun 10	08:30	Import Prices	%m/m	May		2.2	0.3	-2.2	2.0
Jun 10	09:55	Michigan Sentiment (pre)	Idx	Jun		74.3			
Jun 10	14:00	Treasury Budget	\$bln	May		-135.9			

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Review of the May 23 – 27 Week

Date	Release	Unit	Period	Actual	Rev	Previous	Median	Range	
May 23	CFNAI	Idx	Apr	-0.45	0.32	0.26			
May 24	New Home Sales	k,AR	Apr	323	301	300	300	280	320
May 24	Richmond Fed Comp Idx	Idx	May	-6		10			
May 24	Richmond Fed Mfg Idx	Idx	May	9		28			
May 24	Richmond Fed Svcs Idx	Idx	May	-13		6			
May 25	Durable Goods	%m/m	Apr	-3.6	4.4	4.1	-2.2	-5.7	3.1
May 25	Dur Goods ex-Trans	%m/m	Apr	-1.5	2.5	2.3	0.5	-1.2	2.9
May 25	Nondef Cap Gds ex-Air	%m/m	Apr	-2.6	5.4	4.3	0.2	-4.0	4.0
May 25	FHFA House Price Index	%y/y	Mar	-5.8		-5.7			
May 26	GDP (Prelim)	%,AR	Q1	1.8		1.8	2.1	1.6	2.6
May 26	Core PCE Defl (Prelim)	%,AR	Q1	1.4		1.5	1.5	1.5	1.6
May 26	GDP Final Sls (Prelim)	%,AR	Q1	0.6		0.8	1.0	0.7	1.3
May 26	Initial Claims	k	5/21	424		409	400	390	420
May 26	Continuing Claims	k	5/14	3690		3711	3700	3680	3720
May 26	Kansas City Fed Survey	Idx	May	1		14			
May 27	Personal Income	%m/m	Apr	0.4		0.5	0.4	0.2	0.7
May 27	Consumption (PCE)	%m/m	Apr	0.4	0.5	0.6	0.5	0.1	0.6
May 27	Core PCE Deflator	%m/m	Apr	0.2		0.1	0.2	0.1	0.5
May 27	Core PCE Deflator	%y/y	Apr	1.0		0.9			
May 27	Michigan Sent (Final)	Idx	May	74.3		72.4	72.4	70.0	75.0
May 27	Current Conditions (Final)	Idx	May	81.9		80.2	80.2	80.0	82.0
May 27	Expectations (Final)	Idx	May	69.5		67.4	67.5	65.5	70.2
May 27	Pending Home Sales Idx	%m/m	Apr	-11.6	3.5	5.1	-1.0	-3.5	6.0

Consensus (median) forecasts supplied by Reuters News.

Treasury Financing Calendar

Security	Type	Amount	Announcement	Auction	Settlement
10-Year	TIPS	\$11B	12-May	19-May	31-May
2-Year	NOTE	\$35B	19-May	24-May	31-May
5-Year	NOTE	\$35B	19-May	25-May	31-May
7-Year	NOTE	\$29B	19-May	26-May	31-May
13-Week	BILL	\$27B	26-May	31-May	02-Jun
26-Week	BILL	\$24B	26-May	31-May	02-Jun
52-Week	BILL	\$24B	26-May	01-Jun	02-Jun
4-Week	BILL	\$28B	31-May	01-Jun	02-Jun
13-Week	BILL	\$27B	02-Jun	06-Jun	09-Jun
26-Week	BILL	\$24B	02-Jun	06-Jun	09-Jun
3-Year	NOTE	e\$32	02-Jun	07-Jun	15-Jun
10-Year ^R	NOTE	e\$21	02-Jun	08-Jun	15-Jun
30-Year ^R	BOND	e\$13	02-Jun	09-Jun	15-Jun

R denotes reopening

Federal Reserve Purchase Schedule

Operation Date	Settlement Date	Operation Type	Maturity Range	Expected Purchase Size	IFR Expects
31-May	01-Jun	Outright Tsy Coupon Purchase	08/15/2028-05/15/2041	\$1.5-2.5 bln	\$1.8 bln
01-Jun	02-Jun	Outright Tsy Coupon Purchase	12/31/2016-05/31/2018	\$6-8 bln	\$6.9 bln
03-Jun	04-Jun	Outright Tsy Coupon Purchase	12/15/2013-05/31/2015	\$5-7 bln	\$6.9 bln

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