

# Recession, rehab and recovery

## Macro Viewpoint: Recession, rehab and recovery

One way to think of the US (and global) economy is as a patient in rehab following a horrible auto accident. After the Lehman Brothers collapse, policy makers staunched the bleeding with massive fiscal and monetary injections. The patient has stabilized and, with continued aggressive policy support, is improving. However, a real recovery will come only after a long stint in the rehabilitation center.

### The week ahead: Jam-packing a short week

Ahead of the Thanksgiving holiday here in the US, a wide range of data reports will be crammed into the first few days of the week. News on the housing market will be a highlight with both new and existing home sales due; watch for conflicting outcomes as the tail-end of first-time buyers pile into the existing home data (up 3.4% MoM after a 9.4% surge in September), while new home sales retreat by another 2.0% MoM in October. The early November approval for a broadened tax credit will ultimately provide positive support for sales as we head into 2010.

Table 1: The economic data on deck for 23 to 27 November

Date	Time	Indicator	Period	BofAML Estimate	Consensus	Previous
11/23	10:00	Existing Home Sales	OCT	5.76M	5.70M	5.57M
11/24	8:30	GDP QoQ (Annualized)	3Q S	2.6%	2.9%	3.5%
11/24	8:30	GDP Price Index	3Q S	0.8%	0.8%	0.8%
11/24	8:30	Corporate Profits After Tax YoY	3Q	-6.3%	n/a	-15.3%
11/24	9:00	S&P/CS Composite-20 YoY	SEP	-9.0%	-9.1%	-11.3%
11/24	9:00	S&P/CS National HPI YoY	3Q	-12.7%	-11.0%	-14.9%
11/24	10:00	Consumer Confidence	NOV	48.5	47.0	47.7
11/25	8:30	Personal Income	OCT	0.1%	0.2%	0.0%
11/25	8:30	Personal Spending	OCT	0.6%	0.5%	-0.5%
11/25	8:30	PCE Core Prices (Y/Y%)	OCT	1.5%	1.4%	1.3%
11/25	8:30	Durable Goods Orders	OCT	1.0%	0.5%	1.4%
11/25	8:30	Durables Ex Transportation	OCT	1.2%	0.7%	1.2%
11/25	8:30	Initial Jobless Claims	21-Nov	490K	500K	505K
11/25	10:00	U. of Michigan Confidence	NOV F	67.0	67.0	66.0
11/25	10:00	New Home Sales	OCT	395K	405K	402K

Source: BofA Merrill Lynch Global Research, Bloomberg

## Bank of America Merrill Lynch

### US Economics

MLPF&S

**Ethan S. Harris** +1 646 855 3755

Economist  
MLPF&S  
ethan.harris@baml.com

**Drew T. Matus** +1 646 855 9314

Economist  
MLPF&S  
drew.matus@baml.com

**Michael S. Hanson** +1 646 855 6854

Economist  
MLPF&S  
m.hanson@ml.com

**Lori J Helwing** +1 646 855 9317

Economist  
MLPF&S  
lori.helwing@baml.com

**Gary Bigg** +1 646 855 9880

Economist  
MLPF&S  
gary.bigg@baml.com

**Neil Dutta** +1 646 855 9322

Economist  
MLPF&S  
indraneil.dutta@baml.com

### Table of contents

Macro Viewpoint	2
The week ahead	5
Debt issuance/policy speakers	9
Economic forecasts table	10
Rolling calendar	12

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[10 November 2009](#)

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[FY2010 Treasury Issuance Outlook,](#)  
[23 October 2009](#)

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[23 September 2009](#)

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Refer to important disclosures on page 13 to 14.

Ethan S. Harris +1 646 855 3755  
Head of North American Economics

We expect Q3 GDP growth to be revised down from 3.5% to 2.6%

Even the hawks on the FOMC have said they are in no hurry to hike rates

## Macro viewpoint

### Recession, rehab and recovery

On net, the data flow over the past couple of weeks has been a bit weaker than expected. On a positive note, the slow recovery in consumer spending remains on track. Retail sales came in better than expected, with a 1.4% MoM increase in October and with “core” retail sales rising 0.5% – the third consecutive monthly increase. On the other hand, industrial production rose just 0.1% in October, marking the smallest of four increases in a row. The housing data were also weak. Homebuilders took a break in October, as they waited to see if the home-buyer tax credit would be extended: starts tumbled 10.6% and the homebuilder survey was flat at 17. With weaker inventories for September, we now expect Q3 GDP growth to be revised down from 3.5% to 2.6%.

The inflation news in October was heavily distorted by the motor vehicle sector. Inflation data for the month typically includes new model year pricing for vehicles, which results in volatility in measured auto prices. That caused the October core PPI to plunge 0.6%, while the core CPI rose an above-trend 0.2%. Stripping out motor vehicles leaves a more sensible 0.1% increase in PPI and a flat read on CPI, respectively.

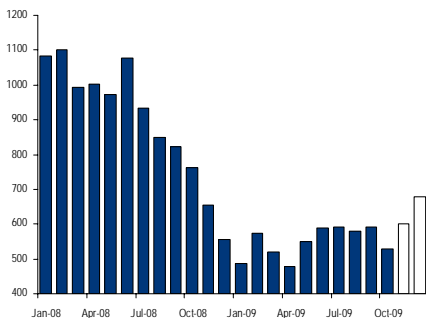
The data and Fed commentary have dovetailed in recent weeks. Even hawks on the FOMC, such as Presidents Plosser and Lacker, have made it clear that they are in no hurry to hike. This has put downward pressure on the Treasury yield curve: for example, from a local peak on October 26 to November 19, two-year yields have dropped 31 bp and 10-year yields are down 20 bp. In the year ahead, we expect mini-cycles in interest rates as the markets repeatedly jump the gun—and then back off—in expecting rate hikes. A sustained rise at the short end is unlikely until late in 2010.

### Economic rehab

One way to think of the US (and global) economy is as a patient in rehab following a horrible auto accident. After the Lehman Brothers collapse, policy makers staunchly bled the bleeding with massive fiscal and monetary injections. The patient has stabilized and, with continued aggressive policy support, is improving. However, a real recovery will come only after a long stint in the rehabilitation center.

Recent housing data illustrates both the need for ongoing “rehab” and the willingness of policymakers to supply the medicine. In recent months, housing indicators have improved due to the entrance of bargain hunters, a temporary slowdown in foreclosures and the tax incentive for home buyers. In October, when builders were uncertain whether the incentive would be extended, housing starts dropped back to the bottom of their recent range (Chart 1). Now, with the tax incentive extended to next April, we expect housing activity to inch higher again. By April, with the labor market picking up and foreclosures beginning to ease, we think the housing market will stand on its own without the credit.

**Chart 1: Housing starts to inch higher**  
Housing starts (000s, annualized)

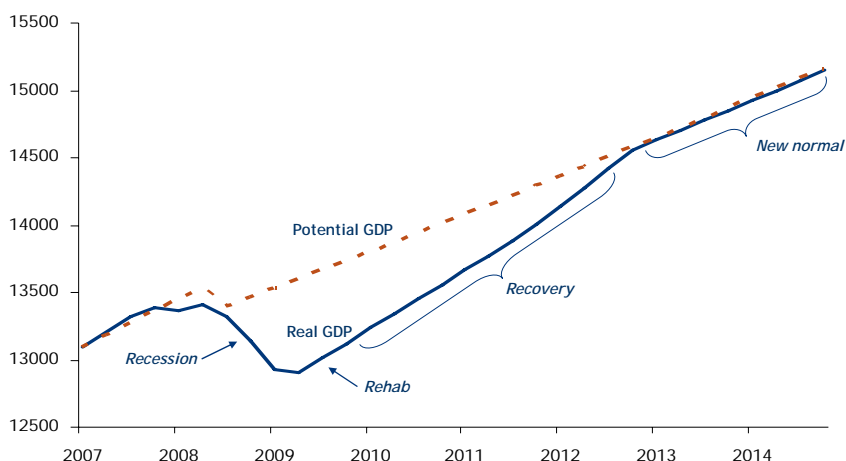


Unshaded bars represent BofA-Merrill Lynch Global Research forecast  
Source: Census Bureau, BofA Merrill Lynch Global Research

## Four phases

Chart 2 illustrates how we expect the economy to evolve over the next five-plus years. The dotted line is potential GDP: a measure of how much output the economy can produce when resources are fully employed. We believe that the path for potential GDP changed in two ways with the crisis. First, we have lowered the level of potential GDP in recognition of the severe misallocation of resources in the economy (too many resources allocated to servicing consumers and housing, and too few resources devoted to exports and capital spending). A corollary of this is, we believe, the inflation-neutral unemployment rate has risen from about 5% to 6%. Second, we have lowered the growth rate of potential because of the severe slowdown in capital investment. Thus, in the chart below, potential GDP dips by 1 pp in the middle of 2008 and the growth in potential slows from 2.5% to 2%.

Chart 2: A long slog back to potential growth  
(billions 2005\$)



Source: Bureau of Economic Analysis, Census Bureau, BofA Merrill Lynch Global Research

The solid line is our forecast of the level of real GDP. Note the four stages: recession, rehab, recovery and “the new normal.” In the rehab phase, aggressive monetary and fiscal policy spurs weak growth and a gradual healing process that spreads from sector to sector. Some wounds heal faster than others:

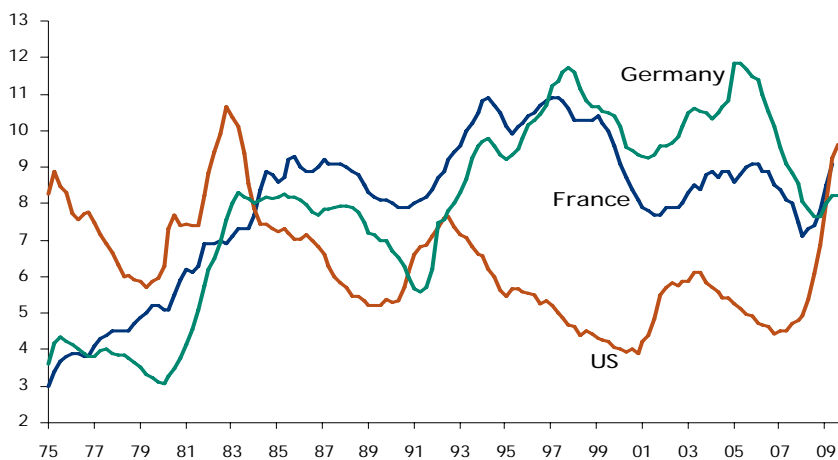
Absent shocks, the economy tends to gradually return to full employment

- **Early discharge:** Some sectors have already started to improve, including a tentative recovery in consumer spending, a pick-up in business investment, a bottoming in the housing recession and, most important, a turn in the inventory cycle.
- **Occupational therapy:** By Q1, we expect firms to finally acknowledge the recovery and begin to increase payroll employment.
- **Walking without support:** Over the course of the year, we expect a gradual improvement in bank and household balance sheets, including a slowing in the pace of home foreclosures.
- **Still bedridden:** We expect commercial construction to fall more for most of 2010.
- **A long road to recovery:** Perhaps the last sector to bottom out will be state and local governments. We expect severe budget problems to force belt tightening through 2012.

Once this healing process is well advanced, we expect a real recovery to kick in, with the economy converging back to normal even as policy stimulus fades. Absent shocks, the economy tends to gradually return to full employment. For example, coming out of the last two recessions, a variety of headwinds restrained growth and the unemployment rate continued to rise, but within two years, a real recovery had kicked in, and two to three years thereafter, the unemployment rate had returned to its normal or inflation-neutral level.

Could the economy remain stuck on a low GDP path? This is what happened in Japan in the 1990s. It was also the case in much of Europe in the 1970s and 1980s, when unemployment rose in recessions, but never came all the way back down during the recoveries (Chart 3). We think this scenario is unlikely for two reasons. First, the US has a more dynamic economy than Europe and Japan, with a particularly flexible labor market. As the chart shows, the US has not suffered from this upward stickiness. Second, US policymakers have been much more decisive than their Japanese counterparts. Quick Fed and fiscal action should prevent a deflationary psychology from becoming embedded in the US psyche.

Chart 3: The US has a more flexible labor market  
Unemployment rate (percent)



Source: Haver Analytics, BofA Merrill Lynch Global Research

The fourth and final stage is the “new normal.” We don’t agree with super-pessimists that assume the new normal is chronic high unemployment and no growth. However, we agree that the best days for the economy are in the past. As we noted above, severe misallocation of resources has damaged the supply side of the economy, lowering long-run growth potential and increasing the inflation-neutral unemployment rate. Adding to the gloom, even after a full recovery in the economy, we expect chronic budget deficits of over 4% of GDP. A lot of the commentary on the economy confuses trend and business cycle developments. We are optimistic that the economy will recover from the recession; we are pessimistic about what happens after that.

Lori Helwing (646) 855 9317  
Neil Dutta (646) 855 9322

## The week ahead

### Jam-packing a short week

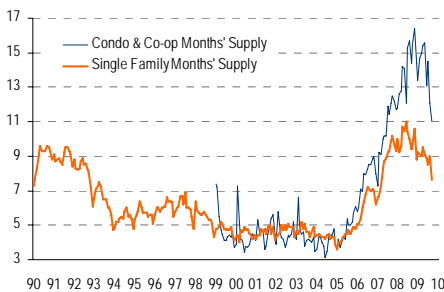
Ahead of the Thanksgiving holiday here in the US, a wide range of data reports will be crammed into the first few days of the week. News on the housing market will be a highlight, with both new and existing home sales due; watch for conflicting outcomes as the tail-end of first-time buyers pile into the existing home data (up 3.4% MoM after a 9.4% surge in September), while new home sales retreat by another 2.0% MoM in October. The early November approval for a broadened tax credit will ultimately provide positive support for sales as we head into 2010.

On Tuesday we expect to see a large downward revision to 3Q real growth – from 3.5% QoQ annualized to 2.6%, with a bigger drag from trade and less support from inventories. The first release of national profits will also capture attention and should show a strong 88% QoQ rebound, reflecting an ongoing recovery in domestic growth as well as profits derived abroad. Separately, Case Shiller home prices will be reported for 3Q, which, nationally, could reverse a 5.8% quarterly gain in 2Q. Later in the day, the FOMC minutes from the November 3-4<sup>th</sup> meeting will reveal the internal debate regarding the conditions for ending the “extending period” of low rates. An update of the Fed’s forecasts for inflation, growth and unemployment will also be of interest; relative to their June estimates, 2009 GDP is now tracking a bit firmer, while the unemployment rate has already exceeded projections. Most will be focused on the outlook for core inflation and the timing of a turn in the labor market.

The calendar for policy speakers goes quiet, as most will be on break. By Wednesday, the first round of consensus estimates for non-farm payrolls will be posted (results due November 4<sup>th</sup>) – our call is for drop of 125K MoM for November, with the unemployment rate rising 0.1ppts versus October to 10.3%.

## Monday, 23 November

### Still working through inventory overhang NAR Months' Supply of 1-Fam Homes & Condos



Source: National Association of Realtors, BofA-Merrill Lynch Global Research

### Existing Home Sales, October—10:00am

	Exp	Cons	Range	History
Existing Home Sales	5.76M	5.70M	5.20- 5.85M	Sep = 5.57M vs. Aug = 5.09M

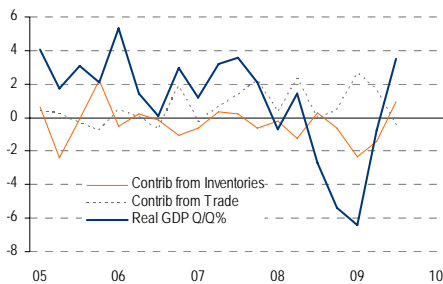
Source: BofA-Merrill Lynch Global Research, Bloomberg

Existing home sales are projected to rise 3.4% MoM in October to 5.76M annualized, following last month's blow-out 9.4% gain. Some first-time buyers may have scrambled to qualify for the initial tax credit program, slated to end December 1<sup>st</sup>, as closing times average at least 60 days. Foreclosure properties will likely account for at least 30% of transactions; this share, however, could rise back toward last year's 45% average as a new wave of heavily-discounted foreclosure properties comes into the market this winter. These homes could pressure home prices to the downside, even after 3 years of descent. Months' supply was still running at an elevated 7.8 in September, versus the longer-term norm of 5 to 6 months.

## Tuesday, 24 November

### 3Q GDP to be less robust

#### Real GDP & Contributions to Growth, QoQ SAAR



Source: BEA, BofA-Merrill Lynch Global Research

### Real GDP, 3Q (S)—8:30am

	Exp	Cons	Range	History
Real GDP QOQ Ann	2.6%	3.0%	2.6% to 3.5%	3Q(A) = 3.5% vs. 2Q = -0.7%
GDP Price Index	0.8%	0.8%	0.8% to 1.6%	3Q(A) = 0.8% vs. 2Q = 0.0%
Corp. Profits After Tax	-6.3%	n/a	n/a	2Q = -15.3%

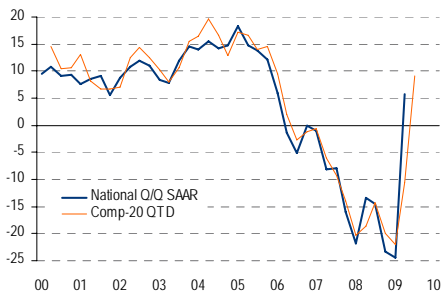
Source: BofA-Merrill Lynch Global Research, Bloomberg

The preliminary 3Q GDP report is expected to show a revised increase of 2.6% QoQ annualized versus the previously reported gain of 3.5%. The two largest downward revisions are likely to come from trade and inventories. Both export and import growth were probably stronger, creating more of a drag on headline growth. A larger drawdown in inventories and less investment in non-residential structures will also trim overall growth. The two areas where we could see slightly better growth are capex and government spending – revisions that greatly underwhelm the aforementioned downgrades. Altogether, the revised 3Q figure will still reflect the first quarter of growth following the "Great Recession".

The BEA will also release 3Q nationwide corporate profits (after tax) for the first time – we are forecasting a rebound of 85% QoQ annualized, following a modest gain of 3.6% in 2Q. To date, the bulk of the rebound in profits has been led by the domestic financial industry. We will be watching for non-financial domestic industries to show better strength in 3Q, along with a turn in profits sourced from abroad. Versus year-ago levels, after-tax profits should show a smaller contraction of 6.3% versus -15.3 YoY in 2Q. As a share of GDP (a proxy for corporate margins), profits should rise to 7.5% from the trough of 6.3% in 1Q.

### National home prices could reverse in 3Q

#### S&P/Case-Shiller Home Price Index: U.S. National vs Comp-20 (SA, QoQ %SAAR)



Source: S&P, Fiserv, MacroMarkets LLC, BofA-Merrill Lynch Global Research

### Case-Shiller Home Price Index, September—9:00am

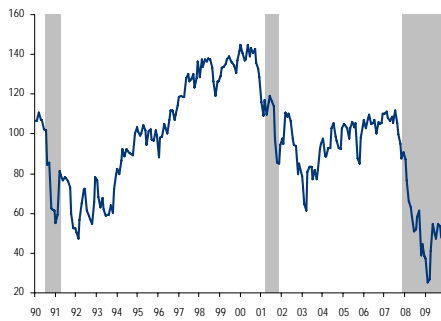
	Exp	Cons	Range	History
CS-Composite 20 YOY	-9.0%	-9.2%	-9.8% to -8.8%	Aug = -11.3% vs. Jul = -13.3%
CS- National HPI YOY	-12.7%	%	% to %	2Q = -14.9% vs. 1Q = -19.1%

Source: BofA-Merrill Lynch Global Research, Bloomberg

The Case-Shiller home price index for the 20 largest cities likely rose 0.7% MoM in September – a lighter gain than in the prior three months. Still, this would be the fifth monthly increase, for an annual decline of 9.0%. At the same time, months' supply eased to a 2½ year low; progress on the inventory side should eventually put a floor under home prices. The true test of a bottom in prices will occur this winter, when the market will be grappling with a new round of foreclosure supply. Indeed, just-released Loan Performance data for September revealed a 0.4% MoM decline in national home prices and the "return of more traditional seasonal patterns."

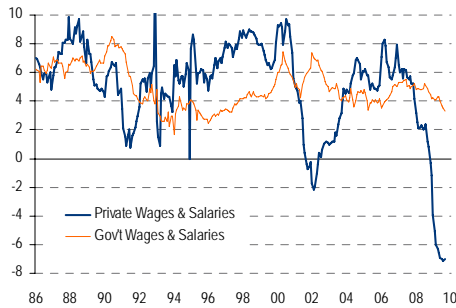
Separately, the 3Q national price index is expected to show an annualized QoQ decline of 5.0%, following a 5.8% gain in 2Q. This would translate into a year-over-year decline of 12.7% for a peak-to-trough drop of over 31%. In our view, downside of at least another 5% still lies ahead, with the bottom occurring by early 2010.

**Confidence still depressed**  
Conference Board Consumer Confidence



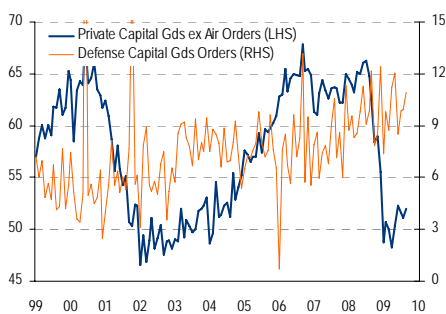
Source: Conference Board, BofA Merrill Lynch Global Research

**The government pays**  
Wage & Salary Disbursements, YoY%



Source: BEA, BofA-Merrill Lynch Global Research

**Turn in private investment coming along**  
Mfrs' New Orders: Capital Goods (SA, Bil.\$)



Source: Census Bureau, BofA-Merrill Lynch Global Research

**Conference Board Consumer Confidence, November—10:00am**

	Exp	Cons	Range	History
Consumer Confidence	48.5	47.0	40.4 – 51.0	Oct =47.7 vs. Sep = 53.4

Source: BofA-Merrill Lynch Global Research, Bloomberg

The Conference Board Consumer Confidence Index is expected to improve to 48.5 in November from 47.7 in October. That is still an extremely weak level of confidence roughly six months into a recovery. Despite the improvement in jobless claims, confidence continues to come under pressure from a weak labor market. The modest improvement we expect should mirror the modest improvement in the equity market over the month.

**Wednesday, 25 November**

**Personal Income and Outlays, October—8:30am**

	Exp	Cons	Range	History
Personal Income	0.1%	0.2%	-0.1% to 0.4%	Sep = 0.0% vs. Aug = 0.1%
Consumer Outlays	0.6%	0.5%	0.1% to 0.9%	Sep = -0.5% vs. Aug = 1.3%
Core PCE Prices YOY	1.5%	1.3%	1.3% - 1.4%	Sep = 1.3% vs. Aug = 1.3%

Source: BofA-Merrill Lynch Global Research, Bloomberg

Personal income is expected to rise 0.1% MoM in October. Private workers should see flat growth in their wages and salaries given fewer aggregate hours worked from the latest payroll report, while government workers should receive a 0.3% MoM rise. Disposable personal income was likely flat in October, although, after adjusting for inflation, could be down 0.3% MoM. Consumer spending is forecast to rebound 0.6% MoM, led by stronger durables outlays (primarily autos). This gain in spending suggests that the savings rate will retreat from 3.3% in September to 2.7%.

The headline PCE price index should be up 0.3% MoM in October, in step with the CPI results. In annual terms, overall prices are set to rise 0.2% after deflating for the past 5 months. A 0.2% gain in the core index implies a 1.5% YoY outcome, up from 1.3% YoY in September.

**Durable Goods Orders, October—8:30am**

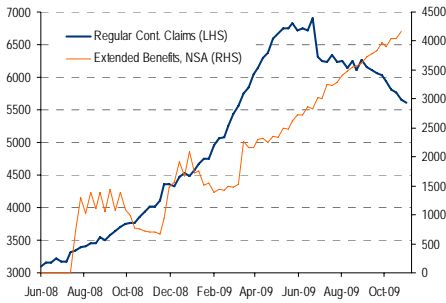
	Exp	Cons	Range	History
Durable Goods	1.0%	0.5%	-0.3% to 3.2%	Sep = 14% vs. Aug = -2.7%
Durable Goods ex Trans	1.2%	0.8%	0.2% to 1.5%	Sep = 1.2% vs. Aug = -0.5%

Source: BofA-Merrill Lynch Global Research, Bloomberg

Manufacturers' durable goods orders are forecast to rise 1.0% MoM in October, with a slightly stronger gain excluding transportation items. Fewer aircraft orders should be offset by rising orders for auto and defense aircraft. Indeed, Boeing reported only 14 new orders versus 20 in September. Stronger demand for metals-related goods, tech equipment and machinery should continue in October, as was evident in the ISM manufacturing orders index. Non-defense capital goods (ex air) orders likely rose 1.8% MoM – a sign that our Q4 forecast for a 4.5% QoQ annualized gain in real business investment is on track.

**More rolling into extended programs**

**Insured Unemployment, Regular & Extended 000s**



Source: Department of Labor, BofA-Merrill Lynch Global Research

**Initial Jobless Claims, week ending 11/21/2009 —8:30am**

	Exp	Cons	Range	History
Initial Jobless Claims	490K	500K	490K to 506K	Nov 14 <sup>th</sup> = 505K

Source: BofA-Merrill Lynch Global Research, Bloomberg

Initial unemployment claims are forecast to break below 500K for the first time since November 2008. We expect a figure of 490K, down 15K over the prior week. The resulting 4-week average should ease to 504K – a level last seen a year ago and consistent with moderating payroll losses. An improvement through year-end to the 450-475K range suggests that we could see positive payroll growth in early 2010. Separately, continuing claims (released with a lag) should continue to head lower from 5.6M; watch for a drop of at least 100K over the week. More workers are expected to join the 4.1M currently in the emergency extended benefit program, particularly after Congress approved an additional 14 to 20 weeks of income support.

**University of Michigan Consumer Sentiment Index, Nov (F)—10:00am**

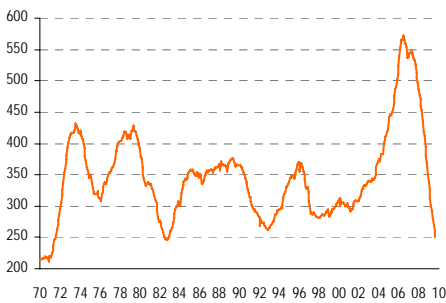
	Exp	Cons	Range	History
Consumer Sentiment	67.0	67.0	66.0 to 72.0	Nov (P) = 66.0 vs. Oct = 70.6

Source: BofA-Merrill Lynch Global Research, Bloomberg

The University of Michigan's Index of Consumer Sentiment is expected to be revised up to 67.0 from 66.0 in the preliminary November release. That would still be the weakest level for this index since August. Since the date of the last release, we have seen a number of modestly positive developments. First, the equity market has risen above the average of the first half of the month. Second, the Rasmussen and ABC News consumer sentiment indices have improved. Finally, initial claims have continued to decline.

**Correction in new home supply largely over**

**New 1-Family Houses For Sale, 000s**



Source: Census Bureau, BofA-Merrill Lynch Global Research

**New Home Sales, October—10:00am**

	Exp	Cons	Range	History
New Home Sales	395K	410K	375K - 420K	Sep = 402K vs. Aug = 417K

Source: BofA Merrill Lynch Global Research, Bloomberg

New home sales are expected to retreat 2.0% MoM in October to an annualized 395K. Sales should continue to pull back ahead of the December 1<sup>st</sup> expiry of the first-time homebuyer tax credit. The recent extension (and expansion) of the credit, however, should provide a boost to activity in future months. For now, builders are reporting that fully 33% of sales have been lost due to low appraisal values (up from 25% in July) – another reason that sales could fall in October. Further, the record 13 months time it is taking for builders to sell homes could warrant price concessions after a 10.2% MoM jump in the prior month. On the supply side, new home inventories have been worked down to more balanced levels after correcting 54% from the peak. We should see months' supply fall from 7.5 in September, nearing the long-term of average of between 6 and 7.

## Debt issuance

### Treasury financing (billions of \$)

#### Bill auctions:

Announcement date	Auction date	Settlement date	Issue	Size	New cash
19-Nov	23-Nov	27-Nov	3-month	30*	
19-Nov	23-Nov	27-Nov	6-month	31*	
23-Nov	24-Nov	27-Nov	4-week	30	2
25-Nov	30-Nov	3-Dec	3-month	28	
25-Nov	30-Nov	3-Dec	6-month	29	
30-Nov	1-Dec	3-Dec	4-week	30	(2)

#### Coupon auctions:

Announcement date	Auction date	Settlement date	Issue	Size	New cash
19-Nov	23-Nov	30-Nov	2-year note	44*	
	24-Nov	30-Nov	5-year note	42*	
	25-Nov	30-Nov	10-year note	32*	97
3-Dec	8-Dec	15-Dec	3-year note	40	
	9-Dec	15-Dec	10-year note - R	21	
	10-Dec	15-Dec	30-year bond - R	12	58

\*Announced (actual) values. ( ) = Paydown. (R) = Reopening.

Source: Bloomberg, U.S. Treasury, BofA Merrill Lynch Global Research

## Policy speakers

### Key speaking engagements and news events\*

Mon, November 23	6:00pm	St. Louis Fed President Bullard speaks on a panel discussion on "Weathering the Storm: The Challenges and Opportunities of a Global Slowdown"
Tues, November 24	2:00pm	Fed releases minutes from the November 3-4 FOMC meeting
Wed, November 25		None scheduled at this point
Thurs, November 26		None scheduled at this point
Friday, November 27		None scheduled at this point

\*Time and date subject to change

Source: Bloomberg, Market News, BofA Merrill Lynch Global Research

20 November 2009

## Economic forecast summary

Real Economic Activity, % SAAR	1Q 09	2Q 09	3Q 09	4Q 09	1Q 10	2Q 10	3Q 10	4Q 10	2008	2009	2010	2011
Real GDP	-6.4	-0.7	2.6	3.4	3.5	3.3	3.3	3.0	0.4	-2.5	3.0	3.3
% Change, Year Ago	-3.3	-3.8	-2.5	-0.4	2.2	3.2	3.4	3.3				
Final Sales	-4.1	0.7	2.2	1.2	2.4	2.5	2.6	2.3	0.8	-1.7	2.1	2.8
Domestic Demand	-6.4	-0.9	3.2	1.7	2.5	2.8	2.8	2.4	-0.4	-2.6	2.3	2.9
Consumer Spending	0.6	-0.9	3.4	0.8	1.8	1.9	2.0	2.0	-0.2	-0.6	1.7	2.4
Residential Investment	-38.2	-23.2	21.5	20.0	20.0	18.0	15.0	12.5	-22.9	-19.5	15.4	12.0
Nonresidential Investment	-39.2	-9.6	-2.8	0.2	6.0	7.7	8.6	7.3	1.6	-17.7	3.4	9.2
Structures	-43.6	-17.3	-14.3	-8.0	-2.5	-0.5	2.0	6.0	10.3	-18.8	-4.7	7.5
Equipment and Software	-36.4	-4.9	3.3	4.5	10.5	12.0	12.0	8.0	-2.6	-17.2	7.8	10.0
Government	-2.6	6.7	2.8	3.0	1.5	2.0	1.0	0.5	3.1	2.1	2.2	0.5
Exports	-29.9	-4.1	17.1	10.0	8.0	8.0	7.0	7.0	5.4	-10.3	8.5	8.2
Imports	-36.4	-14.7	21.6	12.0	8.0	9.0	7.0	7.0	-3.2	-14.1	8.7	7.3
Net Exports (Bil 05\$)	-386.5	-330.4	-360.7	-377.9	-385.2	-397.2	-404.0	-410.9	-494.3	-363.9	-399.3	-414.5
Contribution to growth (ppts)	2.6	1.6	-1.1	-0.5	-0.2	-0.4	-0.2	-0.2	1.2	0.8	-0.3	-0.1
Inventory Accumulation (Bil 05\$)	-113.9	-160.2	-143.2	-71.1	-35.7	-11.2	10.2	32.6	-25.9	-122.1	-1.0	51.7
Contribution to growth (ppts)	-2.4	-1.4	0.4	2.2	1.1	0.7	0.6	0.7	-0.4	-0.8	0.9	0.4
Nominal GDP (Bil \$)	14178	14151	14270	14436	14623	14743	14930	15105	14441	14259	14850	15502
% SAAR	-4.6	-0.8	3.4	4.8	5.3	3.3	5.2	4.8	2.6	-1.3	4.1	4.4
<b>Key Indicators</b>												
Industrial Production (% SAAR)	-19.2	-10.2	5.6	6.7	6.5	5.4	5.2	5.2	-2.2	-9.8	4.9	5.5
Capacity Utilization (%)	70.4	68.7	69.8	71.2	72.2	72.9	73.6	74.3	77.5	70.0	73.2	74.3
Nonfarm Payrolls (Average MoM change, 000s)	-691	-428	-226	-120	30	95	140	175	-257	-367	110	200
Civilian Unemployment Rate (%)	8.1	9.3	9.6	10.3	10.4	10.3	10.0	9.9	5.8	9.3	10.2	9.4
Productivity (% SAAR)	0.3	6.9	7.1	4.0	1.8	1.2	0.8	1.5	1.8	2.8	2.9	2.0
Real Disp. Personal Inc. (% SAAR)	0.2	3.8	-3.4	-2.2	2.5	3.1	1.5	2.5	0.5	0.3	0.9	2.6
Personal Savings Rate (%)	3.7	4.9	3.3	2.5	3.5	4.5	5.0	5.0	2.7	3.6	4.5	5.8
Light Vehicle Sales (Millions SAAR)	9.5	9.6	11.5	10.4	11.0	11.5	12.0	12.5	13.2	10.3	11.7	13.5
Housing Starts (Thous. SAAR)	528	540	589	610	765	830	890	950	900	567	859	1100
Current Account (Bil \$)	-104.5	-98.8	-105.0	-115.0	-120.0	-125.0	-140.0	-140.0	-706.1	-423.2	-525.0	-600.0
US Budget Balance									-455	-1500	-1225	-775
<b>Corporate Profits</b>												
Operating Profits After Tax (Bil \$)	912.4	920.6	1077.7	1213.4	1305.1	1306.2	1369.9	1417.7	1068.2	1031.0	1349.7	1456.2
% Change, Year Ago	-19.7	-15.3	-6.3	34.8	43.0	41.9	27.1	16.8	-2.0	-3.5	30.9	7.9
<b>Inflation</b>												
GDP Price Index (% SAAR)	1.9	0.0	0.8	1.4	1.8	0.0	1.9	1.8	2.1	1.3	1.1	1.1
% Change, Year Ago	1.9	1.5	0.7	1.0	1.0	1.0	1.3	1.4				
Core PCE Chain Prices (% SAAR)	1.1	2.0	1.4	1.8	1.2	0.8	0.7	0.8	2.4	1.6	1.2	0.6
% Change, Year Ago	1.7	1.6	1.3	1.6	1.6	1.3	1.1	0.9				
CPI, Consumer Prices (% SAAR)	-2.4	1.3	3.6	3.7	3.0	0.3	2.4	2.3	3.8	-0.3	2.5	1.5
% Change, Year Ago	-0.2	-0.9	-1.6	1.5	2.9	2.6	2.3	2.0				
CPI ex Food & Energy (% SAAR)	1.5	2.4	1.5	1.8	1.5	1.0	0.9	1.1	2.3	1.7	1.4	0.8
% Change, Year Ago	1.7	1.8	1.5	1.8	1.8	1.4	1.3	1.1				
<b>Global Economic Forecasts</b>												
	GDP growth, %				CPI inflation, %				Short-term interest rates, %			
	2008F	2009	2010	2011	2008F	2009	2010	2011	2008F	2009	2010	2011
Global	2.9	-0.8	4.4	4.5	5.4	1.6	2.9	3.0	2.64	2.70	3.24	4.03
Global ex US	3.6	-0.4	4.7	4.8	5.9	2.2	3.0	3.3	3.37	3.42	4.11	4.86
Euro Area	0.6	-3.8	2.2	2.5	3.3	0.3	0.8	1.3	1.00	1.00	2.50	3.00
UK	0.6	-4.7	1.2	2.7	1.5	2.0	2.0	1.5	0.50	0.50	1.50	2.75
Japan	-0.7	-5.6	3.1	2.4	1.4	-1.3	-0.5	0.3	0.10	0.10	0.25	0.50
Canada	0.4	-2.6	2.8	3.5	2.4	0.3	2.5	2.2	0.25	0.25	1.50	2.75
Emerging EMEA	4.7	-3.2	3.7	4.4	11.3	7.9	6.3	6.9	6.98	6.57	6.66	7.92
Latin America	4.2	-1.6	3.7	3.8	7.8	6.5	5.9	5.9	7.19	7.73	8.16	8.69
Brazil	5.1	0.5	5.3	4.5	5.7	4.9	4.1	4.4	8.75	8.75	8.75	8.75
Emerging Asia	7.0	5.7	8.2	7.6	6.6	0.5	3.2	3.3	4.18	4.24	4.71	5.46
China	9.0	8.7	10.1	8.8	5.9	-0.7	2.5	2.5	5.31	5.31	5.31	5.85

Shaded regions represent BofA-Merrill Lynch Global Research forecast

Source: BofA-Merrill Lynch Global Research

## Interest rate forecast summary

(% EOP)	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	2009	2010	2011
<i>Fed Funds</i>	0.125	0.125	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.25	0.50	0.75	1.00	0.00-0.25	0.00-0.25	1.00
<i>3-Month T-Bill</i>	0.21	0.19	0.11	0.20	0.20	0.20	0.20	0.45	0.70	1.00	1.25	1.40	0.20	0.45	1.40
<i>3-Month LIBOR</i>	1.19	0.60	0.27	0.35	0.35	0.35	0.35	0.60	0.85	1.15	1.40	1.55	0.35	0.60	1.55
<i>2-Year T-Note</i>	0.80	1.11	0.95	1.00	1.00	1.20	1.30	1.50	1.65	1.75	1.90	2.00	1.00	1.50	2.00
<i>5-Year T-Note</i>	1.66	2.57	2.32	2.50	2.60	2.90	3.00	3.10	3.20	3.30	3.35	3.40	2.50	3.10	3.40
<i>10-Year T-Note</i>	2.67	3.54	3.31	3.45	3.60	4.00	4.10	4.25	4.30	4.40	4.45	4.45	3.45	4.25	4.45
<i>30-Year T-Bond</i>	3.54	4.31	4.05	4.30	4.45	4.75	4.90	4.95	4.95	5.00	5.00	5.00	4.30	4.95	5.00

Shaded regions represent Banc of America Securities-Merrill Lynch forecast

Source: BofA-Merrill Lynch Global Research

## Monthly CPI forecast update

	Total CPI					Core CPI			
	Level	(nsa)		(sa)		(nsa)		(sa)	
		m/m	y/y	m/m	y/y	m/m	y/y	m/m	y/y
2009: Jul	215.351	-0.16	-2.1	0.00	-1.9	0.03	1.5	0.09	1.6
2009: Aug	215.834	0.22	-1.5	0.45	-1.4	0.11	1.4	0.07	1.5
2009: Sep	215.969	0.06	-1.3	0.17	-1.3	0.25	1.5	0.16	1.5
2009: Oct	216.177	0.10	-0.2	0.28	-0.2	0.27	1.7	0.18	1.7
2009: Nov	216.540	0.17	1.9	0.47	1.9	-0.06	1.8	0.15	1.8
2009: Dec	216.361	-0.08	2.9	0.16	2.9	-0.19	1.9	0.09	1.9
2010: Jan	217.336	0.45	2.9	0.30	2.9	0.24	1.8	0.13	1.8
2010: Feb	218.153	0.38	2.8	0.27	2.8	0.39	1.8	0.13	1.8
2010: Mar	218.991	0.38	3.0	0.00	3.0	0.38	1.7	0.11	1.7
2010: Apr	219.600	0.28	3.0	0.01	3.0	0.04	1.5	0.06	1.5
2010: May	219.771	0.08	2.8	-0.11	2.8	-0.08	1.5	0.07	1.5
2010: Jun	220.286	0.23	2.1	0.12	2.1	-0.05	1.3	0.08	1.3
2010: Jul	220.477	0.09	2.4	0.25	2.4	0.02	1.3	0.08	1.3
2010: Aug	220.721	0.11	2.3	0.33	2.3	0.11	1.3	0.07	1.3
2010: Sep	221.064	0.16	2.4	0.26	2.4	0.17	1.2	0.09	1.2
2010: Oct	220.916	-0.07	2.2	0.11	2.2	0.21	1.2	0.12	1.2
2010: Nov	220.684	-0.10	1.9	0.19	1.9	-0.13	1.1	0.08	1.1
2010: Dec	220.506	-0.08	1.9	0.17	1.9	-0.24	1.1	0.04	1.1

nsa: not seasonally adjusted, sa: seasonally adjusted

Source: BofA-Merrill Lynch Global Research


## FX rate forecast summary

(end of period)		Spot	Dec '09	Mar '10	Jun '10	Sep '10	Dec '10
Euroland Euro	EUR-USD	1.48	1.50	1.42	1.36	1.32	1.28
Japanese Yen	USD-JPY	89	93	95	100	105	110
	EUR-JPY	132	140	135	136	139	141
British Pound	GBP-USD	1.65	1.63	1.60	1.56	1.55	1.54
	EUR-GBP	0.90	0.92	0.89	0.87	0.85	0.83
Swiss Franc	USD-CHF	1.02	1.01	1.08	1.13	1.17	1.22
	EUR-CHF	1.51	1.52	1.53	1.54	1.55	1.56
Canadian \$	USD-CAD	1.07	1.02	1.05	1.06	1.07	1.08
Australian \$	AUD-USD	0.91	0.90	0.90	0.88	0.86	0.84
Chinese Renminbi	USD/CNY	6.83	6.70	6.65	6.60	6.55	6.50
Hong Kong \$	USD/HKD	7.75	7.80	7.80	7.80	7.80	7.80
Korean Won	USD/KRW	1163	1100	1100	1150	1050	1000
Singapore \$	USD/SGD	1.39	1.42	1.43	1.43	1.44	1.45
Taiwan \$	USD/TWD	32.33	31.00	31.50	32.00	32.50	33.00
Brazilian Real	USD/BRL	1.73	1.70	1.85	1.70	1.85	1.65
Mexican Peso	USD/MXN	13.10	13.25	13.15	13.00	12.70	12.30

Spot price as of Friday morning

Source: BofA-Merrill Lynch Global Research

## Rolling calendar of business indicators

Monday	Tuesday	Wednesday	Thursday	Friday
<b>23 November</b> 10:00 am: Existing Home Sales Aug ..... 5.09M Sep ..... 5.57M Oct ..... 5.76M*  9:00 am: Case Shiller- National Index (YoY) Q1 ..... -19.0% Q2 ..... -14.9% Q3 ..... -12.7%* 10:00 am: Consumer Confidence Sep ..... 53.4 Oct ..... 47.7 Nov ..... 48.5* 10:00 am: <i>Richmond Fed Index</i> - Nov 10:00 am: <i>FHFA Home Price</i> - 3Q 2:15 pm: <i>FOMC minutes</i> - 25-Nov	<b>24 November</b> ABC/Washington Post Consumer Comfort Survey —(week ending 11/22/09) <b>LJR Redbook</b> —(week ending 11/21/09) <b>8:30 am: Real GDP (QoQ)</b> 2Q ..... -0.7% 3Q (A) ..... 3.5% 3Q (P) ..... 2.6%* <b>8:30 am: GDP Price Index</b> 2Q ..... -0.02% 3Q (A) ..... 0.8% 3Q (P) ..... 0.8%* <b>8:30 am: Corporate Profits After Tax (YoY)</b> 1Q ..... -19.7% 2Q ..... -15.3% 3Q ..... -6.3%* <b>9:00 am: Case Shiller- Comp 20 (YoY)</b> Jul ..... -13.3% Aug ..... -11.3% Sep ..... -9.0%*	<b>25 November</b> MBA Mortgage Applications —(week ending 11/20/09) <b>8:30 am: Initial Jobless Claims</b> —(week ending 10/21/09) - 490K* <b>8:30 am: Personal Income</b> Aug ..... 0.2% Sep ..... 0.0% Oct ..... 0.1%* <b>8:30 am: Personal Spending</b> Aug ..... 1.4% Sep ..... -0.5% Oct ..... 0.6%* <b>8:30 am: Core PCE Prices (YoY)</b> Aug ..... 1.3% Sep ..... 1.3% Oct ..... 1.5% <b>8:30 am: Durable Goods Orders</b> Aug ..... -2.7% Sep ..... 1.4% Oct ..... 1.0%* <b>8:30 am: Durable Goods Orders Ex Transportation</b> Aug ..... -0.5% Sep ..... 1.2% Oct ..... 1.2%*	<b>26 November</b>  <b>Holiday Observed</b>  9:55 am: U. of Michigan Confidence- Oct ..... 70.6 Nov (P) ..... 66.0 Nov (F) ..... 67.0 <b>10:00 am: New Home Sales - Oct</b> Aug ..... 417K Sep ..... 402K Oct ..... 395K*	<b>27 November</b>
<b>30 November</b> 9:45 am: Chicago PMI Sep ..... 46.1 Oct ..... 54.2 Nov ..... 55.0*	<b>1 December</b> ABC/Washington Post Consumer Comfort Survey —(week ending 11/29/09) <b>LJR Redbook</b> —(week ending 11/28/09) <b>10:00 am: ISM Manufacturing</b> Sep ..... 52.6 Oct ..... 55.7 Nov ..... 56.0* <b>10:00 am: Construction Spending (MoM)</b> Aug ..... -0.1% Sep ..... 0.8% Oct ..... 0.3%* <b>All Day: Total Vehicle Sales</b> Sep ..... 9.2M Oct ..... 10.5M Nov ..... 10.2M* <b>10:00 am: Pending Home Sales</b> -Oct	<b>2 December</b> MBA Mortgage Applications —(week ending 11/27/09) <b>8:15 am: ADP Employment Change</b> Sep ..... -227K Oct ..... -203K Nov ..... -145K* <b>2:00 pm: Fed's Beige Book released</b>	<b>3 December</b> <b>8:30 am: Initial Jobless Claims</b> —(week ending 11/28/09) - 485K <b>8:30 am: Nonfarm Productivity</b> 2Q ..... 6.9% 3Q (P) ..... 9.5% 3Q (F) ..... 7.2%* <b>8:30 am: Unit Labor Costs</b> 2Q ..... -6.1% 3Q (P) ..... -5.2% 3Q (F) ..... -3.4%* <b>10:00 am: ISM Non-Manufacturing</b> Sep ..... 50.9 Oct ..... 50.6 Nov ..... 51.0*	<b>4 December</b> <b>8:30 am: Change in Nonfarm Payrolls</b> Sep ..... -219K Oct ..... -190K Nov ..... -125K* <b>8:30 am: Unemployment Rate</b> Sep ..... 9.8% Oct ..... 10.2% Nov ..... 10.3% <b>8:30 am: Average Hourly Earnings (MoM)</b> Sep ..... 0.1% Oct ..... 0.3% Nov ..... 0.1%* <b>8:30 am: Average Weekly Hours</b> Sep ..... 33.0 Oct ..... 33.0 Nov ..... 33.1* <b>10:00 am: Factory Orders -</b> Aug ..... -0.8% Sep ..... 0.9% Oct ..... 1.0%
<b>7 December</b> <b>3:00 pm: Consumer Credit - Oct</b> Aug ..... -9.9% Sep ..... -14.8%	<b>8 December</b> ABC/Washington Post Consumer Comfort Survey —(week ending 11/06/09) <b>LJR Redbook</b> —(week ending 12/05/09) <b>7:30 am: NFIB Small Business Optimism Index</b> -	<b>9 December</b> MBA Mortgage Applications —(week ending 12/04/09) <b>10:00 am: Wholesale Inventories</b> - Oct Aug ..... -1.3% Sep ..... -0.9%	<b>10 December</b> <b>8:30 am: Initial Jobless Claims</b> —(week ending 12/05/09) <b>8:30 am: Trade Balance - Oct</b> Aug ..... -\$30.8B Sep ..... -\$36.4B <b>10:00 am: Monthly Budget Statement - Nov</b> Nov 2008 ..... \$125.2B <b>12:00 pm: Fed Flow of Funds - 3Q</b>	<b>11 December</b> <b>8:30 am: Import Price Index (MoM) - Nov</b> Sep ..... 0.2% Oct ..... 0.7% <b>8:30 am: Retail Sales - Nov</b> Sep ..... -2.3% Oct ..... 1.4% <b>8:30 am: Retail Sales less Autos - Nov</b> Sep ..... 0.4% Oct ..... 0.2% <b>9:55 am: U. of Michigan Confidence - Dec (P)</b> Oct ..... 73.5 Nov (F) ..... 70.6 <b>10:00 am: Business Inventories - Oct</b> Aug ..... -1.6% Sep ..... -0.5%

\*Projections—subject to revision as additional data become available during the month.

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