

Better mix

Macro Viewpoint: Better mix

As the economy picks up, so does the debate among hawks and doves at the Fed. A key point of contention is the role of economic slack in determining inflation. But, no matter how you slice it, we see plenty of spare capacity in the system. Our advice to clients is simple: focus on the signals from Bernanke, Kohn and other centrists on the FOMC. In our view, FOMC hawks have given a long string of misleading signals over the last several years.

The week ahead: Housing market front and center

The week ahead will highlight the most recent housing market news with reports on homebuilder sentiment, housing starts, prices and resale activity. Both single-family starts and existing home sales fell over the month in August as the maximum benefit from the first-time homebuyer tax credit began to run dry. Additional declines are likely in store for September as those looking to qualify for the benefit will have already missed the December 1st deadline to close on a home (at least a 60-day process) or build a new home (at least a 4-month process). Approval in Congress for an extension of this program will likely provide the next catalyst for future gains in housing activity.

Table 1: The economic data on deck for 19 to 23 October

Date	Time	Indicator	Period	BofAML		
				Estimate	Consensus	Previous
10/19	13:00	NAHB Housing Market Index	OCT	18	20	19
10/20	8:30	Producer Price Index (MoM)	SEP	-0.8%	0.0%	1.7%
10/20	8:30	PPI Ex Food & Energy (MoM)	SEP	0.1%	0.1%	0.2%
10/20	8:30	Housing Starts	SEP	600K	610K	598K
10/20	8:30	Building Permits	SEP	596K	590K	580K
10/22	8:30	Initial Jobless Claims	17-Oct	525K	515K	514K
10/22	10:00	Leading Indicators	SEP	1.0%	0.8%	0.6%
10/23	10:00	Existing Home Sales	SEP	5.03M	5.40M	5.10M

Source: Bloomberg, BofA Merrill Lynch Global Research

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Table of contents

Macro Viewpoint	2
The week ahead	4
Debt issuance/policy speakers	7
Economic forecasts table	8
Rolling calendar	10

Recent publications

[Illuminating the exit signs,
23 September 2009](#)

We outline the likely steps that Fed will take to exit its extraordinary monetary policy.

[Come together, 8 September 2009](#)

We initiate our new economic outlook.

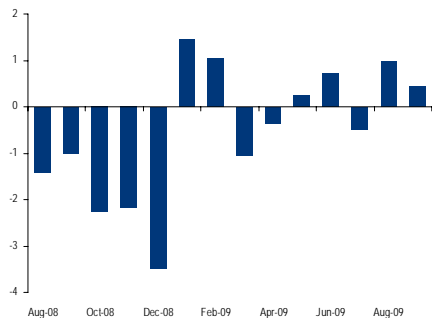
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Refer to important disclosures on page 11 to 12.

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Chart 1: A choppy recovery in retail sales
Retail sales ex autos (MoM % change)



Source: Census Bureau, BoFA Merrill Lynch Global Research

Macro viewpoint Better mix

Recent data point to both modestly higher overall growth and a shift in the mix of growth. Both industrial production and retail sales were stronger than expected in September. The cash for clunkers program caused a 2.2% upward spike in overall retail sales in August followed by a smaller 1.5% retrenchment in September. Stripping out autos, retail sales have been moving up in a two-steps forward, one-step back fashion since the start of the year (Chart 1). As a result, we have bumped up our estimate of Q3 consumption growth from 3.2% to 3.3%.

Despite the improvement in sales, inventories continue to plunge. For the business sector as a whole (which includes wholesale, manufacturing and retail), in the last three months business sales have jumped 2.3% while inventories have fallen 3.9%. As a result, the inventory-sales ratio has plunged back to its trend line. If the current path continues, inventories will severely overshoot to the downside (Chart 2).

Chart 2: The inventory sales ratio has already plunged back to its trend line
Total business: inventory to sales ratio



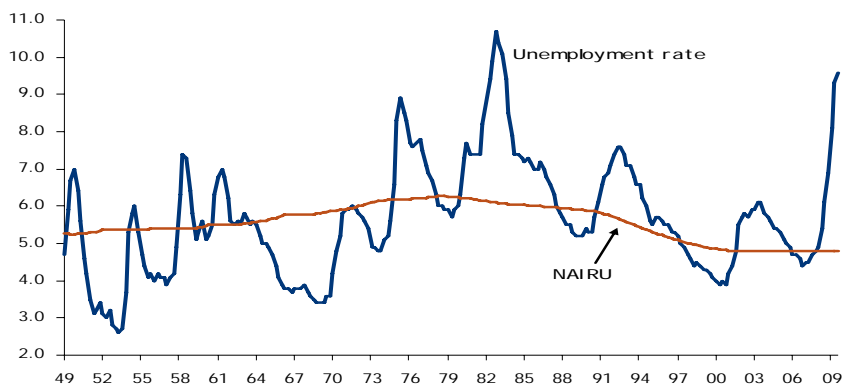
Source: Census Bureau, BoFA Merrill Lynch Global Research

We don't expect that to happen. As in past cycles, we expect firms to ramp up production in the coming months to slow the pace of inventory liquidation. Indeed, with inventories still falling, there is a bit of "spring loading" going on, setting the economy up for a solid Q4. With this in mind, we have re-jiggered our GDP forecast: we now expect 2.2% growth in Q3 (down from 2.6%), but 4.2% growth in Q4 (up from 3.6%).

Camping with Kohn and debunking Bullard

As the economy picks up, so does the debate among hawks and doves at the Fed. A key point of contention is the role of economic slack in determining inflation. Recall the conventional inflation model: inflation is determined by "slack" in the economy and by inflation expectations. When slack is high, inflation tends to fall; when slack is tight, inflation tends to rise. Slack can be measured in a variety of ways. The simplest is to look at how high unemployment is relative to its inflation neutral "NAIRU." Chart 3 compares unemployment to an estimate of NAIRU from the Congressional Budget Office. A more complex measure of slack is the "output gap," which compares actual GDP to potential GDP—output when the economy is fully operational.

Chart 3: The unemployment rate is well above the inflation-Neutral NAIUR (percent)



Source: Bureau of Labor Statistics, Congressional Budget Office, BofA Merrill Global Research

Fed hawks, like St Louis President Bullard, argue that it is very hard to measure the output gap. He cites a study by Athanasios Orphanides that “argued that much of the run-up in inflation in the 1970s can be attributed to misreading the output gap.” In a thinly veiled counter attack, Vice Chairman Kohn argues that even if the output gap is being mismeasured there is still plenty of slack. He points to corroborating evidence: the historically low rate of capacity utilization, “downward pressure” on prices and wages, and “surprisingly strong” recent productivity growth. Looking ahead, he notes that policy must be forward looking and tighten before inflation pressures emerge; however, he expects the output gap and the gap between desired (roughly 2%) and actual inflation to “persist for quite some time.”

No matter how you slice it, there is plenty of spare capacity in the economy

We agree with Kohn: no matter how you slice it, there is plenty of spare capacity in the economy. Consider two extreme examples. First, suppose NAIUR has suddenly vaulted higher, matching its 6.3% peak in 1978. That still leaves the actual unemployment rate 3.5pp above NAIUR. The last time the unemployment gap was this big, back in the early 1980s, core inflation plunged over 3.0pp in the ensuing year. Second, suppose there is a replay of the early 1970s. Going into that period optimists argued that NAIUR could be as low as 4%, but in hindsight that is now assumed to be 2pp too low. Applying that error today puts the NAIUR at 6.8%. If Fed and private sector forecasts are correct, the unemployment rate is likely to be above this very pessimistic NAIUR for at least two years and probably much longer. In sum, we are very much in Kohn’s camp.

Not surprisingly, after the biggest recession in modern history, unemployment is not the only sign of slack. As we noted last week: the industrial capacity utilization rate is the lowest in its 40-year history, vacant homes remain near their all-time high, apartment vacancy rates are at a 23-year high (and are still rising), office vacancy rates are high and rising, and measures of spare capacity in the rest of the world are equally high. Does anyone see a pattern here?

As usual our advice to clients is simple: focus on the signals from Bernanke, Kohn and other centrists on the FOMC. FOMC hawks have given a long string of misleading signals over the last several years, in our view. Today, the hawks are jumping the gun in worrying about mismeasured capacity. The Fed will have some real decisions to make once the unemployment rate starts falling steadily. At some point a few years ahead, it will really matter whether NAIUR is 5%, 6% or 7%. We believe today it is largely irrelevant.

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The week ahead

Housing market front and center

The week ahead will highlight the most recent housing market news with reports on homebuilder sentiment, housing starts, prices and resale activity. Both single-family starts and existing home sales fell over the month in August as the maximum benefit from the first-time homebuyer tax credit began to run dry. Additional declines are likely in store for September as those looking to qualify for the benefit will have already missed the December 1st deadline to close on a home (at least a 60-day process) or build a new home (at least a 4-month process). Approval in Congress for an extension of this program will likely provide the next catalyst for future gains in housing activity.

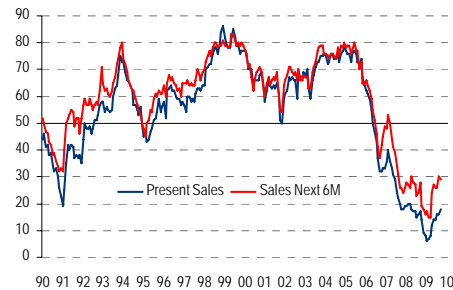
Beige Book may show signs of an autumn thaw

The latest installment of the Fed's Beige Book is also due on Wednesday, which will provide anecdotal evidence on economic activity over the last six weeks. We will be watching for signs of growth after most districts hinted that activity had leveled off in the last report. Two conferences hosted by Federal Reserve banks – one in San Francisco and the other in Boston – will feature presentations from and panels moderated by key FOMC members throughout the week. Chairman Bernanke and Vice Chair Kohn will both speak on Friday morning.

Monday, 19 October

Homebuilder sentiment could stall again

HMI: Sales of New 1-Fam Homes (Optimistic =100)



Source: National Association of Homebuilders, BofAML

NAHB Housing Market Index, October—1:00pm

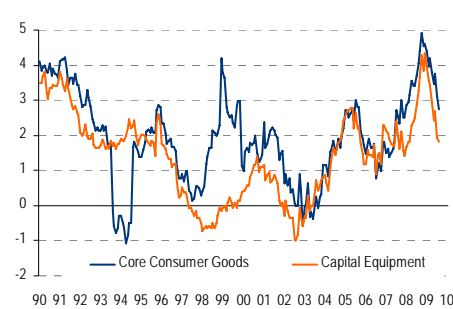
	Exp	Cons	Range	History
NAHB HMI	18	20	18 to 21	Sep = 19 vs. Aug = 18

Source: BofA Merrill Lynch Global Research, Bloomberg

After posting three consecutive monthly gains, the National Association of Homebuilders (NAHB) housing market index is expected to ease from 19 in September to 18 in October. The traffic of prospective buyers component is expected to be unchanged as the Conference Board's "plans to buy a new home in the next six months" index flattened out. At the same time, the present sales index is expected to fall with the imminent expiration of the first-time homebuyer tax credit a driving factor. Looking ahead, sales expectations could also be lower as homebuilders fear that the maximum sales boost from the tax benefit could already be behind us. Senate approval for an extension of this incentive would likely provide the next catalyst for optimism in this survey. Two major headwinds for homebuilders still persist: a record 12.9 months to sell properties after completion and the competing stock of distressed homes in the resale market.

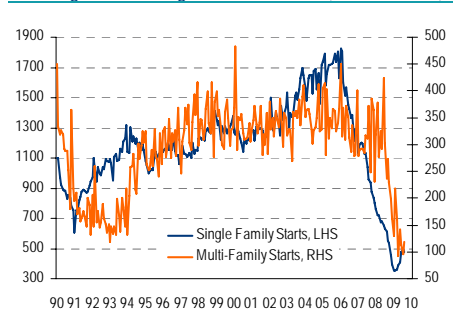
Tuesday, 20 October

Core PPI components trend lower PPI: Core Finished Goods, Y/Y%



Source: Bureau of Labor Statistics, BofAML

Multi-family starts still carving out bottom Housing Starts: Single & Multi-Units (SAAR, 000s)



Source: Census Bureau, BofAML

Initial claims coming off nicely Unemployment Insurance: Initial Claims, (4-week average, 000s)



Source: Department of Labor, BofAML

Producer Prices, September—8:30am

	Exp	Cons	Range	History
PPI	-0.8%	0.0%	-0.8 to 0.4%	Aug = 1.7% vs. Jul = -0.9%
Core PPI	0.1%	0.1%	-0.1 to 0.5%	Aug = 0.2% vs. Jul = -0.1%

Source: BofA Merrill Lynch Global Research, Bloomberg

The producer price index (PPI) for finished goods likely retreated by 0.8% M/M in September with declines for both food and energy goods. Excluding food and energy, the core PPI will likely be up 0.1% over the month with tepid gains for both consumer and capital equipment prices. Truck and car prices could reverse strong increases in August (which together fully accounted for the 0.2% rise in core PPI). Overall, the headline index will continue to deflate in annual terms; we expect -4.9% Y/Y versus -4.3% in August and the cycle low of -6.4% in July. Core prices are forecast to moderate to 2.0% Y/Y from 2.3% Y/Y in August and the cycle peak of 4.6% Y/Y in October 2008.

Housing Starts and Permits, September—8:30am

	Exp	Cons	Range	History
Housing Starts	600K	610K	582 to 630K	Aug = 598K vs. Jul = 589K
Building Permits	596K	590K	570 to 620K	Aug = 564K vs. Jul = 580K

Source: BofA Merrill Lynch Global Research, Bloomberg

Housing starts are forecast to be essentially flat over the month at an annualized 600K in September. Construction of multi-family housing is expected to rise 7.6% M/M after a strong gain in August. This rebound should continue after construction in this segment hit an all-time low earlier this year. Conversely, starts for single-family homes probably fell 1.5% M/M for the second straight monthly decline. We believe that last months' decline may have signaled that the maximum impact from the first-time homebuyer tax credit may already be behind us, as it takes at least 4 months to build a new home. We believe that approval for an extension of this benefit in Congress is imminent in upcoming weeks. Separately, total housing permits (a leading indicator for future starts) are expected to rise over the month from 580K in August to 596K in September.

Thursday, 22 October

Initial Jobless Claims, week ending 10/17/2009 —8:30am

	Exp	Cons	Range	History
Initial Jobless Claims	525K	517K	509 to 535K	Sep 10 th = 514K

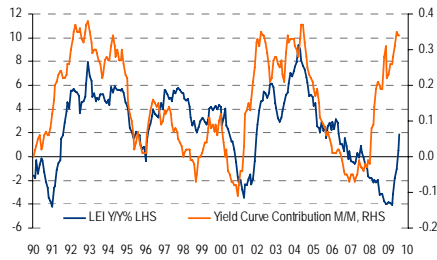
Source: BofA Merrill Lynch Global Research, Bloomberg

Initial unemployment claims are forecast to rise 11K to 525K in the week ending October 17th. At the same time, the 4-week average will continue to moderate back to early January levels. By the end of the year, we expect claims to fall to the 450-475 range and to lead gains in non-farm payrolls as we head into 2010. After falling below the 6M mark last week for the first time since March last ongoing benefits should continue to head lower from 5.99M. More workers are expected to exhaust their state-sponsored benefits and roll into the emergency extended benefit program, which provides up to an additional 20 weeks of income support. By year-end 1.4M workers are slated to fully exhaust their benefits -- for this reason we believe the Senate will pass legislation to provide an additional 13 weeks of support by as early as next week.

Signs the recovery will continue

Leading Indicators Composite, Y/Y%

Yield Curve: 10-Yr Treasury Less Fed Funds



Source: Conference Board, BofAML

Conference Board Index of Leading Economic Indicators, September—10:00am

	Exp	Cons	Range	History
Leading Indicators	1.0%	0.8%	0.3 to 1.0%	Aug = 0.6% vs. Jul = 0.9%

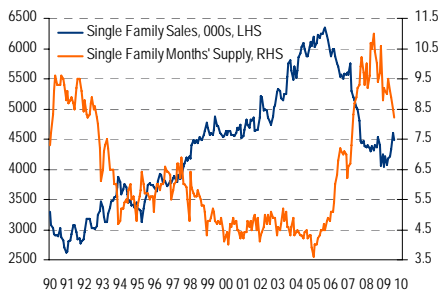
Source: BofA Merrill Lynch Global Research, Bloomberg

The Conference Board's index of Leading Indicators (LEI) likely rose 1.0% in September for the sixth consecutive monthly gain. A steep yield curve should provide the largest positive contribution over the month, as has been the case since late last year. Rebounds in consumer expectations, rising stock prices and fewer initial jobless claims should also provide a lift. Relative to year-ago levels, the LEI should be up 2.9%, versus 1.9% Y/Y in August and a meaningful improvement from the cycle low of -4.0% in March. We will also be watching the coincident to lagging index, which tends to have a stronger correlation with GDP growth and has also been posting increases since April.

Friday, 23 October

Home resales on track for choppy recovery

NAR Existing 1-Family Home Sales, (SAAR, Units)



Source: National Association of Realtors, BofAML

Existing Home Sales, September—10:00am

	Exp	Cons	Range	History
Existing Home Sales	5.03M	5.38M	5.10 to 5.60M	Aug = 5.10M vs. Jul = 5.24M

Source: BofA Merrill Lynch Global Research, Bloomberg

Existing home sales are projected to fall 1.4% M/M to an annualized 5.03M in September for the second consecutive monthly decline. Given that it takes over 60 days to close on a sale, buyers looking to benefit from the credit are now on the cusp of qualifying. We will closely be watching for any progress in the Senate to extend the program, which we would view as a meaningful swing factor as we head into 2010. Single-family home sales are forecast to be down 1.5% M/M, with foreclosure properties accounting for at least 30% of transactions. The rising share of heavily-discounted foreclosure properties should weigh heavily on home prices on top of still-elevated inventory levels. Months' supply was still running at 8.5 in August versus the long-term norm of between 5 and 6 months.

Debt issuance

Treasury financing (billions of \$)

Bill auctions:

Announcement date	Auction date	Settlement date	Issue	Size	New cash
8-Oct	13-Oct	15-Oct	3-month	30	
8-Oct	13-Oct	15-Oct	6-month	30	
13-Oct	14-Oct	15-Oct	4-week	24	10
15-Oct	19-Oct	22-Oct	3-month	29	
15-Oct	19-Oct	22-Oct	6-month	29	
19-Oct	20-Oct	22-Oct	4-week	24	
15-Oct	20-Oct	22-Oct	1-year	24	9
Announcement date	Auction date	Settlement date	Issue	Size	New cash
22-Oct	26-Oct	30-Oct	5-Year TIPS (R)	7	
	27-Oct	2-Nov	2-Year note	43	
	28-Oct	2-Nov	5-Year note	40	
	29-Oct	2-Nov	7-Year note	29	98

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

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

Policy speakers

Key speaking engagements and news events*

Sunday, October 18	9:00pm	Federal Reserve Chairman Ben Bernanke and San Francisco Fed President Janet Yellen give welcome remarks at the San Francisco Fed's Asia Economic Policy Conference.
Monday, October 19	11:00am	Federal Reserve Chairman Ben Bernanke speaks on Asia and the global financial crisis
Tuesday, October 20	8:00pm	Federal Reserve Bank of Philadelphia President Charles Plosser speaks on a panel discussion on "Monetary Policy in a Tough Environment"
Wed, October 21	12:00pm	Federal Reserve Bank of Richmond President Jeffrey Lacker speaks at "Economics Made Easy: A Journalism Workshop" at the Richmond Fed
	1:00pm	Fed Governor Tarullo speaks on a topic yet to be determined
	2:00pm	Fed's Beige Book report released
Thurs, October 22	10:30am	Federal Reserve Bank of Boston President Eric Rosengren speaks as a presenter on a panel about financial stability
	4:00pm	Federal Reserve Bank of Chicago President Charles Evans speaks on a panel about US macroeconomic policy
Friday, October 23	8:30am	Federal Reserve Chairman Ben Bernanke speaks on financial regulation and supervision

*Time and date subject to change

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

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	2.2	4.2	3.5	3.3	3.3	3.0	0.4	-2.5	3.1	3.3
% Change, Year Ago	-3.3	-3.8	-2.6	-0.3	2.3	3.3	3.6	3.3				
Final Sales	-4.1	0.7	2.9	1.3	2.4	2.6	2.6	2.3	0.8	-1.6	2.2	2.9
Domestic Demand	-6.4	-0.9	3.0	1.4	2.5	2.8	2.7	2.4	-0.4	-2.6	2.2	2.9
Consumer Spending	0.6	-0.9	3.3	0.5	1.8	1.8	2.0	2.0	-0.2	-0.6	1.6	2.4
Residential Investment	-38.2	-23.2	24.0	20.0	20.0	18.0	15.0	12.5	-22.9	-19.3	15.7	12.0
Nonresidential Investment	-39.2	-9.6	-2.8	0.1	5.9	7.6	8.4	7.3	1.6	-17.7	3.3	9.1
Structures	-43.6	-17.3	-15.0	-8.0	-2.5	-0.5	2.0	6.0	10.3	-18.9	-4.9	7.5
Equipment and Software	-36.4	-4.9	4.0	4.5	10.5	12.0	12.0	8.0	-2.6	-17.1	7.9	10.0
Government	-2.6	6.7	2.4	3.0	1.5	2.0	1.0	0.5	3.1	2.1	2.2	0.5
Exports	-29.9	-4.1	16.5	7.0	8.0	8.0	7.0	7.0	5.4	-10.6	7.8	8.2
Imports	-36.4	-14.7	15.0	7.0	8.0	9.0	7.0	7.0	-3.2	-14.9	7.1	7.3
Net Exports (Bil 05\$)	-386.5	-330.4	-337.3	-343.0	-349.7	-360.9	-367.1	-373.3	-494.3	-349.3	-362.7	-375.4
Contribution to growth (ppts)	2.6	1.6	-0.2	-0.2	-0.2	-0.3	-0.2	-0.2	1.2	0.8	-0.1	-0.1
Inventory Accumulation (Bil 05\$)	-113.9	-160.2	-184.4	-90.4	-55.3	-31.4	-10.6	11.2	-25.9	-137.2	-21.5	28.3
Contribution to growth (ppts)	-2.4	-1.4	-0.7	2.9	1.1	0.7	0.6	0.6	-0.4	-0.9	0.9	0.4
Nominal GDP (Bil \$)	14178	14151	14258	14449	14633	14758	14944	15116	14441	14259	14863	15512
% SAAR	-4.6	-0.8	3.0	5.5	5.2	3.5	5.1	4.7	2.6	-1.3	4.2	4.4
Key Indicators												
Industrial Production (% SAAR)	-19.2	-10.3	3.7	5.8	6.0	5.3	5.2	5.2	-2.2	-10.1	4.3	5.5
Capacity Utilization (%)	70.4	68.7	69.5	71.0	71.9	72.6	73.3	73.9	77.5	69.9	72.9	74.3
Nonfarm Payrolls (Average MoM change, 000s)	-691	-428	-256	-120	30	95	140	175	-257	-375	110	200
Civilian Unemployment Rate (%)	8.1	9.3	8.6	10.1	10.2	10.0	9.8	9.5	5.8	9.0	9.9	9.0
Productivity (% SAAR)	0.3	6.6	4.3	4.3	1.8	1.2	0.8	1.5	1.8	2.4	2.6	2.0
Real Disp. Personal Inc. (% SAAR)	0.2	3.8	-3.4	-1.7	2.4	2.9	1.5	2.5	0.5	0.3	0.9	2.6
Personal Savings Rate (%)	3.7	4.9	3.4	4.0	4.5	5.0	5.2	5.2	2.7	4.0	5.0	5.8
Light Vehicle Sales (Millions SAAR)	9.5	9.6	11.5	10.0	10.5	11.5	12.0	12.5	13.2	10.1	11.6	13.5
Housing Starts (Thous. SAAR)	528	540	596	690	770	830	890	950	900	588	860	1100
Current Account (Bil \$)	-104.5	-98.8	-105.0	-108.0	-112.0	-118.0	-120.0	-125.0	-706.1	-416.2	-475.0	-550.0
US Budget Balance									-455	-1500	-1225	-775
Corporate Profits												
Operating Profits After Tax (Bil \$)	912.4	920.6	963.9	1052.8	1118.8	1152.0	1186.5	1209.5	1068.2	962.4	1166.7	1274.8
% Change, Year Ago	-19.7	-15.3	-16.2	16.9	22.6	25.1	23.1	14.9	-2.0	-9.9	21.2	9.3
Inflation												
GDP Price Index (% SAAR)	1.9	0.0	0.8	1.3	1.7	0.2	1.8	1.7	2.1	1.3	1.1	1.1
% Change, Year Ago	1.9	1.5	0.7	1.0	0.9	1.0	1.2	1.3				
Core PCE Chain Prices (% SAAR)	1.1	2.0	1.4	1.1	0.9	0.8	0.9	0.9	2.4	1.5	1.1	0.6
% Change, Year Ago	1.7	1.6	1.3	1.4	1.4	1.1	0.9	0.9				
CPI, Consumer Prices (% SAAR)	-2.4	1.3	3.6	2.4	2.2	0.3	2.8	2.6	3.8	-0.3	2.4	1.6
% Change, Year Ago	-0.2	-0.9	-1.6	1.2	2.4	2.5	2.2	2.0				
CPI ex Food & Energy (% SAAR)	1.5	2.4	1.5	1.0	0.9	1.0	1.0	1.1	2.3	1.7	1.4	0.8
% Change, Year Ago	1.7	1.8	1.5	1.6	1.5	1.1	1.3	1.0				
Global Economic Forecasts												
	GDP growth, %				CPI inflation, %				Short-term interest rates, %			
	2008F	2009F	2010F	2011	2008F	2009F	2010F	2011	2008F	2009F	2010F	2011
Global	2.9	-0.9	4.3	4.5	5.5	1.6	2.8	2.8	2.65	2.74	3.29	3.79
Global ex US	3.6	-0.4	4.6	4.8	6.0	2.1	3.0	3.2	3.38	3.48	4.18	4.55
Euro Area	0.6	-3.8	2.2	2.5	3.3	0.3	0.9	1.3	1.00	1.00	2.50	3.00
UK	0.6	-4.4	1.2	2.5	3.6	2.0	2.0	1.5	0.50	0.50	2.00	3.00
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	-2.3	3.2	3.5	2.4	0.3	2.4	2.3	0.25	0.25	1.50	2.75
Emerging EMEA	4.7	-2.9	3.2	4.3	11.3	8.0	6.3	6.2	6.00	5.88	5.97	6.82
Latin America	4.2	-1.6	3.6	3.8	7.8	6.5	5.6	5.9	7.36	7.78	8.16	8.39
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	5.4	8.0	7.6	6.6	0.2	3.1	3.3	4.18	4.26	4.71	4.61
China	9.0	8.7	10.1	8.8	5.9	-1.0	2.5	2.5	5.31	5.31	5.31	5.85

Shaded regions represent BofAML forecast
Source: BofA Merrill Lynch 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 Research

Monthly CPI forecast update

	Total CPI					Core CPI			
	(nsa)			(sa)		(nsa)		(sa)	
	Level	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	215.920	-0.02	-0.3	0.21	-0.3	0.19	1.6	0.10	1.6
2009: Nov	215.658	-0.12	1.5	0.13	1.5	-0.14	1.6	0.06	1.6
2009: Dec	215.714	0.03	2.6	0.27	2.6	-0.24	1.7	0.03	1.7
2010: Jan	216.495	0.36	2.5	0.21	2.5	0.21	1.6	0.10	1.6
2010: Feb	217.281	0.36	2.4	0.26	2.4	0.38	1.5	0.13	1.5
2010: Mar	218.056	0.36	2.5	-0.02	2.5	0.38	1.5	0.11	1.5
2010: Apr	218.588	0.24	2.5	-0.03	2.5	0.04	1.3	0.06	1.3
2010: May	218.897	0.14	2.4	-0.05	2.4	-0.08	1.2	0.07	1.2
2010: Jun	219.615	0.33	1.8	0.21	1.8	-0.04	1.1	0.08	1.1
2010: Jul	219.808	0.09	2.1	0.25	2.1	0.03	1.1	0.09	1.1
2010: Aug	220.064	0.12	2.0	0.34	2.0	0.12	1.1	0.07	1.1
2010: Sep	220.459	0.18	2.1	0.29	2.1	0.18	1.0	0.10	1.0
2010: Oct	220.335	-0.06	2.0	0.17	2.0	0.20	1.0	0.12	1.0
2010: Nov	220.208	-0.06	2.1	0.19	2.1	-0.14	1.0	0.07	1.0
2010: Dec	219.951	-0.12	2.0	0.13	2.0	-0.25	1.0	0.03	1.0

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

FX rate forecast summary

(end of period)		Spot	Dec '09	Mar '10	Jun '10	Sep '10	Dec '10
Euroland Euro	US\$/Euro	1.49	1.50	1.42	1.36	1.32	1.28
Japanese Yen	¥/US\$	91	105	110	112	112	110
	¥/Euro	135	158	156	152	148	141
British Pound	US\$/£	1.63	1.76	1.71	1.68	1.67	1.66
	£/Euro	0.91	0.85	0.83	0.81	0.79	0.77
Swiss Franc	SF/US\$	1.02	1.05	1.11	1.15	1.18	1.21
	SF/Euro	1.52	1.58	1.58	1.57	1.56	1.55
Canadian \$	C\$/US\$	1.04	1.02	1.05	1.06	1.07	1.08
Australian \$	US\$/A\$	0.92	0.90	0.90	0.88	0.86	0.84
Chinese Renminbi	RMB/US\$	6.83	6.70	6.65	6.60	6.55	6.50
Hong Kong \$	HK\$/US\$	7.75	7.80	7.80	7.80	7.80	7.80
Korean Won	KRW/US\$	1178	1050	1100	1100	1050	1000
Singapore \$	SGD/US\$	1.39	1.46	1.43	1.46	1.47	1.48
Taiwan \$	TWD/US\$	32.29	30.50	30.00	32.00	32.50	32.00
Brazilian Real	BRL/US\$	1.71	1.80	1.80	1.80	1.95	1.75
Mexican Peso	MXN/US\$	13.06	13.75	13.75	13.50	13.40	12.85

Spot price as of Friday morning
Source: BofA Merrill Lynch Research

Rolling calendar of business indicators

Monday	Tuesday	Wednesday	Thursday	Friday
19 October 1:00 pm: NAHB Housing Market Index Aug 18 Sep 19 Oct 18*	20 October ABC/Washington Post Consumer Comfort Survey —(week ending 10/18/09) LJR Redbook —(week ending 10/17/09) 8:30 am: Producer Price Index (MoM) – Jul -0.9% Aug 1.7% Sep -0.8%* 8:30 am: Core PPI (MoM) Jul -0.1% Aug 0.2% Sep 0.1%* 8:30 am: Housing Starts Jul 589K Aug 598K Sep 600K* 8:30 am: Building Permits Jul 564K Aug 580K Sep 596K*	21 October MBA Mortgage Applications —(week ending 10/016/09) 2:00 pm: Fed's Beige Book	22 October 8:30 am: Initial Jobless Claims —(week ending 10/17/09) – 525K 10:00 am: Leading Indicators Jul 0.9% Aug 0.6% Sep 1.0%*	23 October 10:00 am: Existing Home Sales Jul 5.24M Aug 5.10M Sep 5.03M*
26 October	27 October ABC/Washington Post Consumer Comfort Survey —(week ending 10/25/09) LJR Redbook —(week ending 10/24/09) 9:00 am: Case Shiller Composite 20 (YoY) Jun -15.4% Jul -13.3% Aug -11.0%* 10:00 am: Consumer Confidence – Oct Aug 54.5 Sep 53.1 Oct 54.5*	28 October MBA Mortgage Applications —(week ending 10/23/09) 8:30 am: Durable Goods Orders Jul 4.8% Aug -2.4% Sep 0.5%* 8:30 am: Durable Orders Ex Transport Jul 0.9% Aug -0.0% Sep 1.3% 10:00 am: New Home Sales Jul 426K Aug 429K Sep 425K*	29 October 8:30 am: Initial Jobless Claims —(week ending 10/24/09) 8:30 am: Real GDP 1Q -6.4% 2Q -0.7% 3Q (P) 2.2%* 8:30 am: GDP Price Index 1Q 1.9% 2Q 0.0% 3Q (P) 0.8%*	30 October 8:30 am: Personal Income Jul 0.2% Aug 0.2% Sep -0.1%* 8:30 am: Personal Spending Jul 0.2% Aug 1.3% Sep -0.4%* 8:30 am: Core PCE Prices (YoY) Jul 1.4% Aug 1.3% Sep 1.3%* 8:30 am: Chicago PMI Aug 50.0 Sep 46.1 Oct 48.5* 8:30 am: Employment Cost Index 1Q 0.3% 2Q 0.4% 3Q 0.5%* 9:55 am: U of Michigan Sentiment Sep 73.5 Oct (P) 69.4
2 November 10:00 am: ISM Manufacturing – Oct Aug 52.9 Sep 52.6 10:00 am: Construction Spending (MoM) – Sep Jul -1.1% Aug 0.8%	3 November ABC/Washington Post Consumer Comfort Survey —(week ending 11/01/09) LJR Redbook —(week ending 10/31/09) All Day: Total Vehicle Sales – Oct Aug 14.1M Sep 9.2M 10:00 am: Factory Orders – Sep Jul 1.4% Aug -0.8%	4 November MBA Mortgage Applications —(week ending 10/30/09) 8:15 am: ADP Employment Change – Oct Aug -277K Sep -254K 10:00 am: ISM Non Manufacturing – Oct Aug 48.4 Sep 50.9 2:15 pm: FOMC Rate Decision	5 November 8:30 am: Initial Jobless Claims —(week ending 10/31/09) 8:30 am: Nonfarm Productivity – 3Q (P) 1Q 0.1% 2Q 1.6% 8:30 am: Unit Labor Costs – 3Q (P) 1Q -1.3% 2Q -1.5%	6 November 8:30 am: Nonfarm Payrolls – Oct Aug -201K Sep -263K 8:30 am: Unemployment Rate – Oct Aug 9.7% Sep 9.8% 8:30 am: Average Hourly Earnings – Oct Aug 0.4% Sep 0.1% 8:30 am: Average Weekly Hours – Oct Aug 33.1 Sep 33.0 10:00 am: Wholesale Inventories – Sep Jul -1.6% Aug -1.3% 3:00 pm: Consumer Credit – Sep Jul \$19.0B Aug \$12.0B
*Projections—subject to revision as additional data become available during the month.				

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