J.P.Morgan

Economic Research
May 28, 2010

Global Data Watch

- **A testing phase for global growth resiliency begins with May releases**
- **May PMIs and US payrolls expected to signal rotation between manufacturing and service sector activity**
- **The Bank of Canada and Brazil on track for tightening; Asian central banks equivocate with China adjustments pushed out to 3Q**

The test starts now

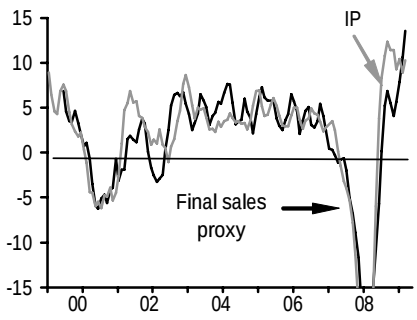
Beyond a modest downward revision to our Euro area growth forecast, we have not materially altered our global outlook in the face of the latest wave of financial market stress. This partly reflects a view that markets are pricing in event risks—of a European sovereign debt default or broadening banking crisis—that are unlikely to be realized. However, market movements also incorporate concerns that a positive feedback loop could shift into reverse as rising financial sector risk aversion reduces global credit availability and weighs on business and household confidence. To be sure, powerful forces are generating global lift at present and there are important offsets to the fall in price of risk assets—notably lower energy prices and risk-free interest rates. But the financial shock emanating from Europe still has the capacity to temper growth.

While we await data to gauge the shock's impact, it is important to recognize the strides the global economy has made in the first four months of the year. Industrial production is estimated to have increased at a 10% annualized rate during this period, a development mirrored in the sharp rise in our global PMI survey. Global employment gains were established and our proxy of final sales gains—which track retail sales volumes and capital goods shipments—increased at its fastest pace in over a decade. These developments support our view that global growth is broadening and that GDP growth this quarter will rival 4Q09 for the strongest gain during this expansion.

Looking ahead, the forecast calls for a continued broadening in the base of growth alongside important rotations and a small moderation in the overall pace of global growth. The key rotation is sectoral. Manufacturing output gains are expected to come off the boil—slowing to a still strong 6% pace—while service sector activity picks up. Consistent with this shift is a geographic rotation. A moderation in growth in Emerging Asia is in the cards, led by a downshift in China from its

Global final sales and IP

%3m/3m, saar



Marking global growth forecasts

	1Q10	May	Jun-Jul
Manufacturing			
Industrial output (%ch., saar)	10.3	9.0	6.0
Manufacturing PMI - output	58.9	57.0	56.0
Labor markets			
All-sector PMI - employment	49.0	51.0	52.0
US initial jobless claims	464	455	430
Services			
Services PMI - activity	53.3	57.0	57.0
Shoko-Chukin - non-mfg.	42.0	46.0	48.0
Euro area			
German IFO	96.5	101.5	101.0
Euro all-industry PMI - output	54.4	56.2	55.5

Note: Industrial output growth is three month change (saar) for May and Jun-Jul

Contents

Bruce Kasman
(1-212) 834-5515
bruce.c.kasman@jpmorgan.com
JPMorgan Chase Bank NA

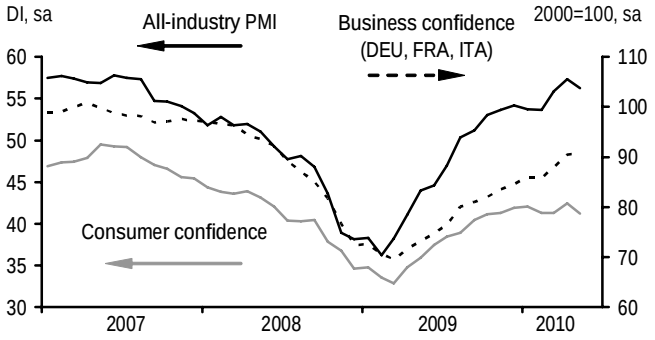
David Hensley
(1-212) 834-5516
david.hensley@jpmorgan.com
JPMorgan Chase Bank NA

Joseph Lupton
(1-212) 834-5735
joseph.p.lupton@jpmorgan.com
JPMorgan Chase Bank NA

www.morganmarkets.com

JPMorgan Chase Bank NA, New York
Bruce Kasman (1-212) 834-5515
bruce.c.kasman@jpmorgan.com
Joseph Lupton (1-212) 834-5735
joseph.p.lupton@jpmorgan.com
David Hensley (1-212) 834-5516
david.hensley@jpmorgan.com

Euro area PMI and confidence surveys



current double-digit pace of increase. Growth in the developed world is expected to remain comfortably above trend with an anticipated lift in Western Europe tempered but not short-circuited by recent developments.

It is against this backdrop that we present markers to assess how well our forecast is tracking. In next week's releases, we expect the output index of the global manufacturing PMI survey to step down to 57.0 in May, led by a drop in the US ISM. Around midyear, we expect this downshift to end with the output indexes of both surveys settling around 56. At the same time, we are looking for solid readings from the service sector and the labor market. We expect US private payrolls to increase about 150,000 in May, a pace anticipated to remain in place in the coming months. Consistent with this forecast, initial jobless claims are expected to fall to about 430,000 in the coming weeks.

Euro area: cyclical lift meets financial risk

The potential negative spillovers to growth are obviously greatest in the Euro area, which stands at the epicenter of the financial shock. Growth prospects will certainly be diminished by the latest developments. In judging the magnitude of the drag, it is important to recognize two points about the current position of the regional economy.

- Following three quarters in which GDP growth averaged less than 1% annualized, a powerful cyclical tailwind is pushing up economic activity into midyear. The rebound in regional exports is striking, as is the improvement in business surveys, which points to an improvement in domestic spending. Absent the shock, these forces looked likely to propel regional growth well above trend by midyear.
- Fiscal policy is neutral for 2010. Despite the additional actions taken on the periphery, the fiscal easing in Germany, the Netherlands, Austria, and Finland leaves the region's fiscal thrust roughly neutral this year. Fiscal tightening does become a large drag next year, with our forecast pointing to a tightening of a little more than 1% of GDP.

For now, we view the financial shock as sufficient to limit the regional upturn to achieving growth of around 2% in the coming quarters. While this outcome would be below what had been anticipated only weeks ago, it still represents an upward trajectory for regional performance as the year continues. Risks are, of course, squarely skewed to the downside, and financial market stress will likely need to abate between now and midyear for this outcome to be realized.

As we look to the next ECB meeting on June 10, it is worth considering whether the central bank will become a risk manager and take additional steps against the backdrop of heightened stress and downside risk. In our view, a package of measures that included a 50bp rate cut and unlimited long-dated refi tenders—with maturities of six months to 12 months—would be reasonable. These steps would exhaust the ECB's conventional avenues of support and provide an implicit signal that it was ready to move quickly into unconventional easing territory if conditions deteriorate further. The move would also make sense as inflation is set to undershoot the ECB's expectations, as laid out in the March forecast. Indeed, the central bank's own methodology for forecasting inflation points to a significant undershoot of the price stability objective on an 18-month horizon.

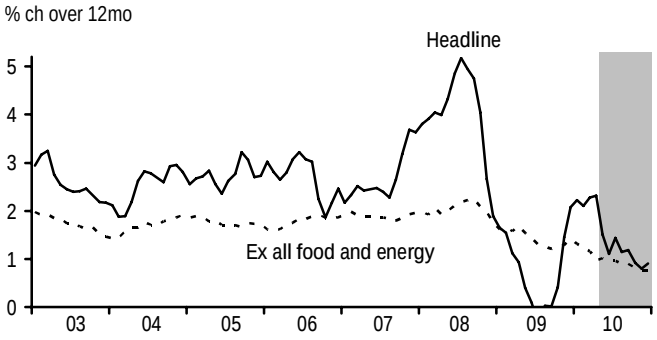
Central bank reactions to vary

The central bank calendar is busy elsewhere in the next several weeks. Rather than considering easing, these meetings will provide us with insight into how the timetable for policy rate normalization might be affected by potential fallout from the European debt crisis. In the Americas, projected moves remain on track:

- The Bank of Canada is expected to begin a tightening cycle next Tuesday. The Canadian economy is growing robustly, with limited slack and core inflation near target. With rates at an emergency low 0.25%, policymakers have signaled they are ready to move.
- Brazil's COPOM will also hike rates even as it reassesses its policy stance on June 9. Until recently, the strong data flow was raising the possibility that policymakers might step up the pace of tightening from 75bp/meeting to 100bp. However, the more uncertain global backdrop probably rules out such an aggressive step. At the same time, the bar for a slowdown in the hiking pace to 50bp

JPMorgan Chase Bank NA, New York
Bruce Kasman (1-212) 834-5515
bruce.c.kasman@jpmorgan.com
Joseph Lupton (1-212) 834-5735
joseph.p.lupton@jpmorgan.com
David Hensley (1-212) 834-5516
david.hensley@jpmorgan.com

Global consumer prices



or an early pause is quite high. The crucial variable that would lead to a change in the COPOM's stance would be a clear signal of contagion through credit channels akin to what happened in late 2008.

In Australasia, it is more likely that policy decisions could be influenced by recent events:

- Our long-standing call has been that Chinese policymakers would raise policy rates and their currency in either May or June. However, indications are that Chinese authorities are becoming increasingly concerned about the prospects for China's export sector, even as domestic demand is moderating in response to previous tightening measures. We now expect rate hikes to be delayed to the third quarter, with the 1-year working capital rate ending the year at 5.85% (vs. 6.12%). We maintain our view that China will relax its hold on the currency by midyear.
- Monetary policymakers gather next week in the Philippines, Thailand, and Indonesia. EM Asian policymakers have been very slow to normalize policy rates despite robust growth, limited slack, and an upturn in core inflation; so far, the only actions taken have been in India and Malaysia. Officials in the Philippines, where this week's reports showed that GDP rose at a blistering 12.9% annual rate in 1Q, are expected to deliver an initial 25bp rate hike next week. However, this has become a close call in light of recent developments. While ASEAN direct trade exposures to the EU area are relatively low, the indirect effects of a broader hard-currency funding squeeze bear watching. In this context, next week's policy communications merit close attention.
- The Reserve Bank of Australia is likely to pause when it meets next Tuesday amid renewed financial market instability and early signs that 150bp worth of tightening since last October is beginning to affect household spending. Moreover, in a change of forecast, we now believe the pause in policy changes will extend at least until the August Board meeting to see if there is clear evidence of a slowdown in the global economy.

The inflation wedge will narrow rapidly

One constant feature of the 2000s expansion was the positive wedge between headline and core inflation, reflecting the record surge in commodity prices. History is repeating itself in the current expansion on this issue. Once again, the commodity complex rallied in tandem with the recovery in global growth. This has produced a surge in headline inflation, even as core inflation has retreated to record lows. As of April, the positive wedge between global headline and core inflation was 1.3%-pts, similar to the early years of the 2000s expansion. The policy response in the developed world also has been similar to that time, with the G-3 central banks firmly on hold, preoccupied with the need to support growth. The situation is different in the EM, where slack is more limited, but even so, the move to normalize policy has been slow.

Some relief on headline inflation may be in sight. Oil prices have tumbled since the flare-up of the Euro area debt crisis, while agricultural commodity prices have been trending down all year. Based on current spot prices, the base effect for energy prices will decline sharply from 47%oya in April to 15%oya in May, while it will turn negative for agricultural prices. If these spot prices persist, these base effects will be broadly neutral in 3Q. In the event, headline inflation would converge to the much lower rate of core inflation.

Japan: Upbeat May Shoko Chukin survey

This week's incoming Japanese releases were mixed with notable softening in April labor market data. However, we believe that the most important release this week was the May Shoko Chukin small business survey, as it is the first reliable survey to reflect the impact of growing uncertainty. The outcome was better than expected with both manufacturers and nonmanufacturers expecting further improvement in their business conditions into June. Elsewhere, real export volumes grew rapidly in April as moderating export value growth to China was more than offset by sales to the US. The April IP report, due next Monday, includes manufacturers' industrial production forecasts for May and June. These forecasts will be key indicators of the current state of the economy and guide our view that the economy will grow at about a 2.5% pace during the middle quarters of the year.

Editor
Sandy Batten (1-212) 834-9645 *sandy.batten@jpmorgan.com*

JPMorgan Chase Bank, New York
David Hensley (1-212) 834-5516
david.hensley@jpmorgan.com
Joseph Lupton (1-212) 834-5735
joseph.p.lupton@jpmorgan.com
Carlton Strong (1-212) 834-5612
carlton.m.strong@jpmorgan.com

Global economic outlook summary

	Real GDP			Real GDP							Consumer prices			
	% over a year ago			% over previous period, saar							% over a year ago			
	2009	2010	2011	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	1Q10	2Q10	4Q10	2Q11
The Americas														
United States	-2.4	3.5	3.1	5.6	3.0 ↓	4.0	4.0	3.5	2.5	2.5	2.4	1.8 ↓	0.9 ↓	1.1
Canada	-2.6	3.6	2.9	5.0	6.0	3.3	3.2	3.5	3.0	2.0	1.6	1.3	1.8	2.1
Latin America	-2.9	4.9	3.8	7.1	3.0 ↑	4.5 ↓	2.7 ↓	4.1 ↓	4.3 ↑	5.3 ↑	6.0 ↑	6.5 ↑	7.3	7.1 ↑
Argentina	-2.0	6.0 ↑	4.0 ↑	7.9	10.0 ↑	8.0	3.0	4.0 ↑	3.0 ↑	4.0 ↑	9.0 ↑	9.0 ↑	10.0	11.0 ↑
Brazil	-0.2	7.0	4.0	8.4	8.7	6.3	4.8	4.0	3.8	4.2	4.9	5.3	5.8	4.5
Chile	-1.5	5.0 ↓	6.0 ↑	6.2	-5.9	10.0 ↑	20.0 ↓	10.0 ↓	2.0 ↑	0.0 ↑	-0.3	3.3	4.0 ↓	3.8
Colombia	0.4	3.0	4.1	4.7	2.7	2.8	2.9	3.1	4.5	4.8	2.0	2.1	3.3	3.6
Ecuador	0.4	2.0	3.0	1.3	2.0	3.5	4.0	4.5	3.0	2.5	4.1	3.9	4.7	4.4
Mexico	-6.5	4.5	3.5	7.9	-1.4	3.2	-1.8	4.2	5.7	7.9	4.8	4.4	5.1	4.5
Peru	0.9	6.5	6.0	11.5	7.3	4.5	4.1	4.0	7.0	6.9	0.7	1.0	2.1	2.2
Venezuela	-3.3	-4.0 ↓	1.0 ↓	-5.3 ↓	-5.6 ↓	-5.0 ↓	5.0 ↓	1.0 ↓	1.0 ↓	1.0 ↓	27.4 ↓	31.8	33.7	39.3
Asia/Pacific														
Japan	-5.2	3.5	2.2	4.2	4.9	2.5	2.7	2.7	2.2	2.0	-1.2	-1.4	-0.7	0.1
Australia	1.3	3.1	3.6	3.7	3.0	3.3	3.8	3.9	3.1	4.2	2.5	2.5	2.6	3.0
New Zealand	-1.6	2.6	2.6	3.3	1.9	3.7	3.7	2.9	1.4	2.3	2.0	2.2	2.3	2.8
Asia ex Japan	4.6	8.9 ↑	7.2 ↓	7.3 ↑	12.4 ↑	6.8	6.4 ↓	6.8	7.1 ↓	7.4	4.3 ↑	5.1 ↑	5.0 ↑	4.1 ↑
China	8.7	10.8	9.4	10.8	13.1	9.4	9.3	9.0	9.1	9.5	2.2	3.2	3.1	2.4
Hong Kong	-2.8	6.8	4.2	10.0	10.0	4.3	4.0	3.8	4.2	4.3	1.9	2.4	2.3	1.9
India	7.2	8.3	8.5	-2.0	15.2 ↑	7.8 ↓	7.4 ↑	8.7	8.0 ↑	8.3 ↑	15.4 ↑	16.3 ↑	14.5 ↑	11.4 ↑
Indonesia	4.5	6.2	5.8	6.2	5.4	6.0	4.0	5.0	6.5	6.5	3.7	5.3	6.3	4.9
Korea	0.2	5.8	4.1	0.7	7.5	4.0	4.5	3.8	4.0	4.0	2.7	2.8	3.4	3.6
Malaysia	-1.7	7.7	4.8	8.2	5.0	4.0	5.0	5.0	4.9	4.9	1.3	1.7	2.4	2.4
Philippines	1.1 ↑	6.8 ↑	4.3	7.6 ↑	12.9 ↑	5.0	3.5	4.0	4.5	4.5	4.3	5.0	5.2	4.9
Singapore	-1.3	10.5 ↑	4.3 ↓	-1.0	38.6	5.7 ↑	-11.5 ↓	4.9	7.4 ↑	7.4 ↑	0.9	3.4	4.7	3.7
Taiwan	-1.9	9.2	4.8	16.7	11.3	3.3	3.5	3.5	5.0	5.3	1.3	0.9	2.0	1.8
Thailand	-2.2 ↑	8.5 ↑	4.0 ↓	17.0 ↑	16.0 ↑	-2.0 ↓	2.8 ↓	2.8 ↓	6.0 ↓	5.5 ↓	3.7 ↓	5.5	4.4	3.0
Africa/Middle East														
Israel	0.7	3.0	4.5	4.8	3.3	3.5	3.0	3.0	4.0	5.0	3.5	3.0	3.0	3.2
South Africa	-1.8	3.0	3.5	3.2	4.6 ↑	4.0	3.5	3.7	3.6	2.8	5.7	4.9	5.8	5.7
Europe														
Euro area	-4.0	1.3	1.9	0.2	0.8	3.0	2.0	1.8	1.8	1.8	1.1	1.5	1.5	0.9
Germany	-4.9	1.9	2.6	0.7	0.6	3.0	3.0	3.0	2.5	2.5	0.8	1.0	1.2	0.9
France	-2.5	1.7	2.1	2.2	0.5	3.0	2.0	2.0	2.0	2.0	1.5	1.8	1.3	0.6
Italy	-5.1	1.4	2.0	-0.2	2.1	2.5	1.5	2.0	2.0	2.0	1.3	1.5	1.5	1.1
Norway	-1.5	1.7	2.7	1.6	0.6	2.5	3.0	3.0	2.5	2.5	2.9	3.0	1.6	0.7
Sweden	-5.1	3.6 ↑	3.0	1.7 ↑	5.9 ↑	4.5 ↑	3.5	3.0	2.8	2.8	1.0	0.8 ↓	1.8 ↑	2.8 ↑
Switzerland	-1.5	2.5	2.8	3.0	2.5	2.8	3.0	3.0	2.8	2.8	1.1	1.0	0.9	0.8
United Kingdom	-4.9	1.5 ↑	3.0	1.8	1.2 ↑	3.0	3.0	3.5	2.5	3.0	3.3	3.5	2.6	1.7
Emerging Europe	-5.0	4.1	4.8 ↑	2.5	2.2	8.1 ↑	3.3 ↓	3.3 ↓	4.0	4.4	6.1	5.5 ↓	5.7 ↓	5.4
Bulgaria	-5.0	-0.5	4.5	…	…	…	…	…	…	…	…	…	…	…
Czech Republic	-4.2	2.0	4.0	3.0	0.7	3.0	2.5	2.0	3.0	4.0	0.7	1.3	2.8	2.8
Hungary	-6.3	0.8	4.0	0.8	3.6	2.0	2.0	1.5	3.5	4.0	6.0	4.8	3.7	2.8
Poland	1.8	3.2	4.2	5.3	3.0	4.0	2.7	3.0	3.0	4.0	3.0	2.0	2.6	2.8
Romania	-7.1	1.0	4.0	…	…	…	…	…	…	…	4.6	4.4	4.7	4.5
Russia	-7.9	5.5	5.0	2.7	2.2	13.5 ↑	4.0 ↓	4.0 ↓	5.0	5.0	7.2	5.8 ↓	6.7 ↓	7.0
Turkey	-4.7	5.1	5.5	…	…	…	…	…	…	…	9.3	10.3	8.5	6.6
Global	-2.5	3.6	3.3	4.0 ↑	3.8 ↑	4.0 ↑	3.5	3.4	3.0	3.1	2.2	2.2	2.0 ↑	1.8 ↑
Developed markets	-3.4	2.7	2.6	3.3	2.6 ↓	3.3	3.1	2.9	2.3	2.3	1.5	1.3 ↓	1.0 ↓	1.0
Emerging markets	1.0	6.9 ↑	5.8 ↓	6.3 ↑	8.1 ↑	6.3 ↑	4.9 ↓	5.4 ↓	5.8	6.2 ↑	5.1 ↑	5.4 ↑	5.6 ↑	5.0 ↑
Memo:														
Global — PPP weighted	-0.8	4.8	4.3	4.7	5.5	5.0	4.3	4.3	4.1	4.1	3.3	3.5	3.3	2.9

Note: For some emerging economies, 2009-2011 quarterly forecasts are not available and/or seasonally adjusted GDP data are estimated by J.P. Morgan.
Bold denotes changes from last edition of *Global Data Watch*, with arrows showing the direction of changes. Underline indicates beginning of J.P. Morgan forecasts.

JPMorgan Chase Bank, New York
David Hensley (1-212) 834-5516
david.hensley@jpmorgan.com
Joseph Lupton (1-212) 834-5735
joseph.p.lupton@jpmorgan.com
Carlton Strong (1-212) 834-5612
carlton.m.strong@jpmorgan.com

G-3 economic outlook detail

Percent change over previous period; seasonally adjusted annual rate unless noted

				2009	2010				2011		
	2009	2010	2011	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q
United States											
Real GDP	-2.4	3.5	3.1	5.6	3.0	4.0	4.0	3.5	2.5	2.5	3.0
Private consumption	-0.6	2.6	2.6	1.6	3.5	3.3	3.0	3.0	2.5	2.0	2.5
Equipment investment	-16.6	10.8	9.5	19.0	12.7	12.0	12.0	10.0	9.0	8.0	8.0
Non-residential construction	-19.8	-13.0	1.5	-18.0	-15.3	-8.0	-3.0	-3.0	0.0	7.0	9.0
Residential construction	-20.5	1.4	15.7	3.7	-10.7	5.0	10.0	15.0	15.0	20.0	20.0
Inventory change ($ bn saar)	-108.3	49.1	51.9	-19.7	33.9	47.0	59.1	56.3	48.2	49.9	53.1
Government spending	1.8	0.3	-0.1	-1.3	-1.9	0.5	1.1	1.4	-0.8	-1.0	-1.0
Exports of goods and services	-9.6	12.6	9.8	22.8	7.2	14.0	12.0	11.0	9.0	9.0	8.0
Imports of goods and services	-13.9	10.0	7.5	15.8	10.4	8.0	8.0	8.0	7.0	8.0	7.0
Domestic final sales contribution	-2.8	2.2	2.9	1.5	2.0	3.1	3.3	3.4	2.6	2.5	2.9
Inventories contribution	-0.6	1.2	0.0	3.8	1.7	0.4	0.4	-0.1	-0.3	0.0	0.1
Net trade contribution	1.0	0.1	0.2	0.3	-0.7	0.5	0.3	0.2	0.1	0.0	0.0
Consumer prices (%oya)	-0.3	1.6	1.1	1.5	2.4	1.8	1.2	0.9	0.8	1.1	1.2
Excluding food and energy (%oya)	1.7	0.8	0.6	1.7	1.3	0.9	0.6	0.3	0.4	0.4	0.6
Federal budget balance (% of GDP, FY)	-9.9	-9.4	-7.8								
Personal saving rate (%)	4.2	3.4	3.7	3.7	3.4	3.3	3.3	3.5	3.5	3.6	3.7
Unemployment rate (%)	9.3	9.6	9.2	10.0	9.7	9.7	9.6	9.5	9.4	9.3	9.1
Industrial production, manufacturing	-11.3	5.2	4.0	5.5	6.3	7.0	5.0	4.0	3.0	3.0	4.5
Euro area											
Real GDP	-4.0	1.3	1.9	0.2	0.8	3.0	2.0	1.8	1.8	1.8	1.8
Private consumption	-1.0	0.0	1.3	-0.2	-1.0	1.0	1.0	1.0	1.5	1.5	1.5
Capital investment	-10.8	-1.7	3.8	-5.2	-3.0	2.0	3.0	4.0	4.0	4.0	4.0
Government consumption	2.3	0.8	1.0	-0.4	0.0	1.0	1.0	1.0	1.0	1.0	1.0
Exports of goods and services	-12.8	7.5	8.1	7.6	6.0	10.0	8.0	8.0	8.0	8.0	8.0
Imports of goods and services	-11.4	4.6	7.7	5.1	1.0	7.5	6.5	7.5	8.0	8.0	8.0
Domestic final sales contribution	-2.5	-0.1	1.7	-1.3	-1.2	1.2	1.4	1.6	1.9	1.9	1.9
Inventories contribution	-0.8	0.2	-0.1	0.4	-0.1	0.7	-0.1	-0.1	-0.2	-0.2	-0.2
Net trade contribution	-0.8	1.2	0.3	1.0	2.1	1.1	0.7	0.4	0.2	0.2	0.2
Consumer prices (HICP, %oya)	0.3	1.4	1.0	0.4	1.1	1.5	1.5	1.5	1.3	0.9	0.9
ex unprocessed food and energy	1.3	0.7	0.7	1.0	0.9	0.8	0.7	0.6	0.6	0.6	0.7
General govt. budget balance (% of GDP, FY)	-6.3	-6.7	-5.5								
Unemployment rate (%)	9.4	9.9	9.5	9.8	10.0	10.0	9.8	9.7	9.6	9.5	9.4
Industrial production	-14.8	6.7	3.2	8.8	16.2	4.0	3.5	3.5	3.0	3.0	3.0
Japan											
Real GDP	-5.2	3.5	2.2	4.2	4.9	2.5	2.7	2.7	2.2	2.0	1.5
Private consumption	-1.0	2.2	1.7	2.7	1.3	2.0	2.3	2.5	1.2	1.8	1.0
Business investment	-19.3	2.8	6.0	5.1	4.2	8.0	8.0	6.0	6.0	5.0	5.0
Residential construction	-13.9	-2.9	9.7	-10.3	1.1	18.0	15.0	10.0	10.0	8.0	5.0
Public investment	8.0	-8.9	-11.6	-4.7	-6.5	-25.0	-15.0	-10.0	-8.0	-10.0	-12.0
Government consumption	1.6	1.5	0.9	2.8	2.0	1.5	0.5	1.0	1.2	0.5	0.5
Exports of goods and services	-24.1	23.5	8.7	25.2	30.5	12.0	11.0	10.0	8.0	6.0	8.0
Imports of goods and services	-16.9	8.6	7.9	6.3	9.6	8.0	9.0	9.0	8.0	6.0	7.0
Domestic final sales contribution	-3.5	1.5	1.8	2.3	1.4	1.8	2.2	2.3	1.7	1.7	1.1
Inventories contribution	0.2	-0.2	-0.1	-0.6	0.4	-0.2	-0.3	-0.2	0.1	0.0	-0.1
Net trade contribution	-2.0	2.2	0.5	2.5	3.0	0.9	0.7	0.6	0.4	0.3	0.5
Consumer prices (%oya)	-1.4	-1.1	-0.1	-2.0	-1.2	-1.4	-1.3	-0.7	-0.5	0.1	0.2
General govt. net lending (% of GDP, CY)	-6.8	-7.5	-8.8								
Unemployment rate (%)	5.1	4.8	4.5	5.2	4.9	4.8	4.8	4.7	4.6	4.6	4.5
Industrial production	-21.8	21.9	10.0	25.9	30.9	15.0	12.0	12.0	8.0	8.0	10.0
Memo: Global industrial production	-11.1	8.7	5.3	10.5	12.2	7.6	6.1	5.4	4.5	4.8	5.6
%oya				-2.8	8.4	9.9	9.0	7.7	5.9	5.2	5.1

Note: More forecast details for the G-3 and other countries can be found on J.P. Morgan's Morgan Markets client web site.

JPMorgan Chase Bank NA, New York
David Hensley (1-212) 834-5516
david.hensley@jpmorgan.com
Joseph Lupton (1-212) 834-5735
joseph.p.lupton@jpmorgan.com
Michael Mulhall (1-212) 834-9123
michael.r.mulhall@jpmorgan.com

Central Bank Watch

	Official interest rate	Current	Change from Aug '07 (bp)	Last change	Next meeting	Forecast next change	Jun 10	Sep 10	Dec 10	Mar 11	Jun 11
Global	GDP-weighted average	1.32	-334				1.34	1.42	1.50	1.58	1.78
excluding US	GDP-weighted average	1.88	-247				1.91	2.03	2.14	2.26	2.38
Developed	GDP-weighted average	0.52	-359				0.52	0.55	0.58	0.63	0.83
Emerging	GDP-weighted average	4.52	-234				4.59	4.87	5.14	5.35	5.56
Latin America	GDP-weighted average	5.99	-294				6.29	6.85	7.31	7.49	7.77
CEEMEA	GDP-weighted average	4.22	-264				4.11	4.12	4.41	4.49	4.82
EM Asia	GDP-weighted average	4.09	-201				4.13	4.41	4.60	4.88	5.02
The Americas	GDP-weighted average	0.78	-481				0.83	0.92	1.00	1.06	1.43
United States	Federal funds rate	0.125	-512.5	16 Dec 08 (-87.5bp)	23 Jun 10	2Q 11 (+25bp)	0.125	0.125	0.125	0.125	0.50
Canada	Overnight funding rate	0.25	-400	21 Apr 09 (-25bp)	1 Jun 10	1 Jun 10 (+25bp)	0.50	1.00	1.50	2.00	2.50
Brazil	SELIC overnight rate	9.50	-250	28 Apr 10 (+75bp)	9 Jun 10	9 Jun 10 (+75bp)	10.25	11.50	12.50	12.50	12.50
Mexico	Repo rate	4.50	-270	17 Jul 09 (-25bp)	18 Jun 10	2Q 11 (+25bp)	4.50	4.50	4.50	4.50	4.75
Chile	Discount rate	0.50	-450	9 Jul 09 (-25bp)	15 Jun 10	15 Jun 10 (+25bp)	0.75	1.50	2.25	3.75	5.00
Colombia	Repo rate	3.00	-600	30 Apr 10 (-50bp)	25 Jun 10	1Q 11 (+50bp)	3.00	3.00	3.00	4.00	5.00
Peru	Reference rate	1.50	-300	6 May 10 (+25bp)	10 Jun 10	July 10 (+25bp)	1.50	2.25	3.00	3.75	4.50
Europe/Africa	GDP-weighted average	1.29	-323				1.28	1.30	1.35	1.42	1.51
Euro area	Refi rate	1.00	-300	7 May 09 (-25bp)	10 Jun 10	On hold	1.00	1.00	1.00	1.00	1.00
United Kingdom	Repo rate	0.50	-500	5 Mar 09 (-50bp)	10 Jun 10	10 Feb 11 (+25bp)	0.50	0.50	0.50	0.75	1.00
Sweden	Repo rate	0.25	-325	2 Jul 09 (-25bp)	1 Jul 10	**1 Jul 10 (+25bp)**	0.25	**0.75**	**1.00**	**1.25**	**1.50**
Norway	Deposit rate	2.00	-250	5 May 10 (+25bp)	23 Jun 10	22 Sep 10 (+25bp)	2.00	2.25	2.50	2.75	3.25
Czech Republic	2-week repo rate	0.75	-200	6 May 10 (-25bp)	23 Jun 10	2Q 11 (+25bp)	0.75	0.75	0.75	0.75	1.00
Hungary	2-week deposit rate	5.25	-250	26 Apr 10 (-25bp)	31 May 10	21 Jun 10 (-25bp)	5.00	4.50	4.50	4.50	4.50
Israel	Base rate	1.50	-250	28 Mar 10 (+25bp)	28 Jun 10	**3Q 10 (+25bp)**	**1.50**	2.25	2.75	3.25	3.75
Poland	7-day intervention rate	3.50	-100	24 Jun 09 (-25bp)	30 Jun 10	1Q 11 (+25bp)	3.50	3.50	3.50	3.75	4.00
Romania	Base rate	6.25	-75	4 May 10 (-25bp)	30 Jun 10	30 Jun 10 (-25bp)	6.00	5.50	5.50	5.50	5.75
Russia	1-week deposit rate	3.25	25	29 Apr 10 (-25bp)	May 10	May 10 (-25bp)	3.00	3.00	3.00	3.00	3.50
South Africa	Repo rate	6.50	-300	25 Mar 10 (-50bp)	22 Jul 10	2Q 11 (+50bp)	6.50	6.50	6.50	6.50	7.00
Switzerland	3-month Swiss Libor	0.25	-225	12 Mar 09 (-25bp)	Jun 10	16 Dec 10 (+25bp)	0.25	0.25	0.50	0.75	1.00
Turkey	1-week repo rate	7.00	-1050		17 Jun 10	14 Oct 10 (+50bp)	7.00	7.00	8.50	8.50	8.50
Asia/Pacific	GDP-weighted average	2.18	-126				2.20	2.34	2.45	2.59	2.67
Australia	Cash rate	4.50	-175	4 May 10 (+25bp)	1 Jun 10	**Aug 10 (+25bp)**	4.50	**4.75**	**5.00**	**5.25**	**5.50**
New Zealand	Cash rate	2.50	-550	30 Apr 09 (-50bp)	10 Jun 10	29 Jul 10 (+25bp)	2.50	3.00	3.50	4.00	4.25
Japan	Overnight call rate	0.10	-43	19 Dec 08 (-20bp)	14 Jun 10	4Q 11 (+15bp)	0.10	0.10	0.10	0.10	0.10
Hong Kong	Discount window base	0.50	-625	17 Dec 08 (-100bp)	24 Jun 10	2Q 11 (+25bp)	0.50	0.50	0.50	0.50	1.00
China	1-year working capital	5.31	-126	22 Dec 08 (-27bp)	2Q 10	**3Q 10 (+27bp)**	**5.31**	**5.58**	**5.85**	**6.12**	**6.12**
Korea	Base rate	2.00	-250	12 Feb 09 (-50bp)	10 Jun 10	3Q 10 (+25bp)	2.00	2.25	2.50	2.75	3.00
Indonesia	BI rate	6.50	-200	5 Aug 09 (-25bp)	4 Jun 10	1Q 11 (+25bp)	6.50	6.50	6.50	6.75	7.00
India	Repo rate	5.25	-250	20 Apr 10 (+25bp)	27 Jul 10	2Q 10 (+25bp)	5.50	6.00	6.00	6.50	6.75
Malaysia	Overnight policy rate	2.50	-100	13 May 10 (+25bp)	8 Jul 10	3Q 10 (+25bp)	2.50	3.00	3.00	3.00	3.00
Philippines	Reverse repo rate	4.00	-350	9 Jul 09 (-25bp)	3 Jun 10	3 Jun 10 (+25bp)	4.25	4.75	5.00	5.00	5.00
Thailand	1-day repo rate	1.25	-200	8 Apr 09 (-25bp)	2 Jun 10	14 July 10 (+25bp)	1.25	1.50	1.75	2.00	2.25
Taiwan	Official discount rate	1.25	-188	18 Feb 09 (-25bp)	2Q 10	3Q 10 (+25bp)	1.25	1.50	1.75	2.00	2.25

Bold denotes move since last GDW and forecast changes. Underline denotes policy meeting during upcoming week.

JPMorgan Chase Bank, London
Jan Loeys (44-20) 7325-5473
jan.loeys@jpmorgan.com

The J.P. Morgan View: Markets

More market than economic correction

- **Asset allocation:** Medium-term positive view on risky assets remains in place, even as we recognize continued volatility over the next month.
- **Economics:** Damage to real economy from market sell-off is modest so far, keeping growth forecasts on hold.
- **Fixed income:** Short-dated Euro area high-yielders offer value for investors who can weather near-term volatility.
- **Equities:** Overweight markets that are more remote from the epicenter of the crisis, such as US industry groups with little euro exposure, and India and Mexico in EM.
- **Credit:** We maintain an underweight in European senior bank debt, especially that of Spanish banks.
- **FX:** A rebound in risky assets should ultimately help EUR slide down further, mostly versus EM and commodity currencies.
- **Commodities:** Commodity prices to move higher in the medium term.

Risky asset classes—equities, credit, commodities, and EM—rebounded strongly yesterday, after having hit new lows for the year, pushing them up over the week. Government bonds moved down in mirror image. One sunny day does not make a summer season, though. Our best guess is that **skittish investors and only slowly receding uncertainty will keep markets quite volatile over the next month.** A new low cannot be excluded. **Over the next one to two months, however, a relatively resilient economic and profit outlook should push riskier assets up on average, and government bonds down.**

The main question with which market participants are struggling is how much damage increased fundamental uncertainty and market volatility may have inflicted on economic conditions. From one side, have we just witnessed a mindless panic by investors afraid of their own shadow that will soon be trumped by a teflon economy? Or, is the sell-off of risky markets the precursor and force that will drag down the world economy, in a rerun of the subprime/Lehman crisis of 2008? Our view is that it is neither, but that it is more the former than the latter—**an 80/20 market correction versus an economic correction**. This is not to say that we are ready to lower global growth forecasts, but more that without the sell-off this month, we would have been raising them. Initial indications of the US growth consensus are showing a 0.1% drop in the forecast for the next four quarters—a rounding error, but still a break in forecast momentum.

Where is the real damage so far, and where is it not? Real damage can be found from a clear lurch toward fiscal tightening in Europe, weaker manufacturing PMIs, and increased funding problems for European banks. Confidence surveys remain strong, though, and lower interest rates, lower oil prices, and a cheaper euro are providing positive feedback from the market correction.

The risky-market correction is a month old. Recent activity data, which almost all relate to March and April, thus cannot tell us anything about the damage of this month's sell-off. What they do tell us is that growth momentum was strong going into this month, with analysts raising earnings and growth forecasts for most regions in April. Evidence for this month consists of sentiment and purchasing manager surveys (PMIs). See the Euro area essay among others in this *GDW* for a review. In sum, European manufacturing sentiment surveys have actually improved, likely reflecting the export-boosting impact of the weaker euro. Manufacturing PMIs in many countries are coming off the boil, but remain consistent with strong growth. J.P. Morgan's Global PMIs will come out next week.

Pressure on European governments to tighten up their finances is increasing. On net, we find that fiscal policy is likely neutral by now in the Euro area, only turning tighter next year by just over 1% of GDP. For 2010, tightening in the periphery is offset by easing in the core.

Funding problems for European banks are not abating, but neither are they worsening this week (see today's *Flows & Liquidity*). Core Euro banks remain reluctant to lend to the periphery, forcing the latter to the ECB. USD funding pressures stabilized this week, with no further drops in non-US financial CP outstandings and little demand for USD repos at the ECB. Conditions are worse in the Euro bond market where there has been virtually no bank issuance this month, and where the ECB has not intervened, yet.

Fixed income

A modest reversal of this month's flight to safety saw core bond markets sell off and EM bonds rally. US Treasuries underperformed German Bunds, in keeping with the greater volatility of Treasuries, which gives the Treasury-

Bund spread a bearish bias. We remain short Treasuries against Bunds.

ECB buying has largely stabilized Greek, Irish, and Portuguese government bonds, where purchases have been focused. But this relative stability has not translated to Spanish and Italian bonds, which have seen spreads widening steadily over the past two weeks, approaching the levels before the ECB started buying, even before Fitch's downgrade of Spain this evening. The ample funding soon to be available from the European Stabilization Mechanism means **we continue to see value in short-dated Euro area high-yielders**, though only for investors who can weather high volatility. This is particularly so for Italy, where government debt is high, but the deficit is below the Euro area average, and reliance on foreign investors is less marked than elsewhere.

EM local bonds rallied across the board this week, reflecting the general recovery in risky markets. For the full month, EM underperformed, in a correction sparked by concern about sovereign risk, despite the fact that government balance sheets are healthier in aggregate in EM than DM. Indeed, **government debt and deficits are both around half as large in emerging economies as in their advanced counterparts**. This should make EM more resilient in the medium term, but for now funds are flowing out of EM bonds, ending a string of unbroken inflows since September, as is typical at times of heightened volatility. **We stay long in South Africa**, where debt is low, the deficit is improving, and we expect the central bank to remain on hold until 2Q next year.

Equities

No news was good news this week. Equity prices are up on the week and volatility is sharply lower from the peak seen at the end of the previous week. Equity investors have moved from panic to a wait-and-see mode and are trying to assess the damage that the financial stress of the past month has caused to the real economy. We believe that it will take time for markets to make that assessment and most likely June will see a volatile range for equities.

Our strategy focuses on **overweighting markets that are more remote from the epicenter of the crisis**, such as US industry groups with little euro exposure, and India and Mexico in EM. We are not yet recommending an overall overweight in EM versus DM equities, but we feel that the domestic engines of growth in the above EM countries are strong enough to cushion their equity markets from DM growth shocks. Within the US, the industry groups with the least euro exposure are Utilities, Wireless, Construction Materials, Telecom Services, Road & Rails, and Health Care Providers (see *US Equity Strategy*, Tom Lee).

We continue to see more upside for **defensive vs. cyclical sectors** and for **large vs. small caps**. Overweighting cyclical sectors and small caps were consensus trades and have retraced so far only a small portion of their YTD outperformance. The early indications from US and Euro area business surveys suggest a loss of momentum for global manufacturing, which is negative for cyclical stocks. In terms of small caps, their illiquidity cushions them during modest market sell-offs as investors tend to sell their more liquid holdings, but acts as a drag during more significant market sell-offs due to flight to liquidity.

Credit

Credit market performance was mixed this week, with high yield and EM credit rallying along with the equity market, while high grade corporate bond spreads widened in both the US and Europe.

European corporates continued to underperform US HG. We believe the trend will continue and keep an **overweight in US HG versus Euro area HG**. We are more positive on US HG as the current spreads of 177bp are now 50bp wider than the low in mid-April and fundamentals remain constructive. Although some investors are selling US HG bonds as yields are due to rallying US Treasuries, a lack of supply in US HG credit, steady inflows from retail investors and insurance companies, and a shrinking supply of US securitized credit provide a strong backdrop for a rebound once risk appetite returns.

In contrast, we are less positive on European HG not only because of the potential contagion from the European sovereign debt crisis, but also because there is little demand for Euro HG bonds. Given the higher perceived risk of Euro HG, investors and banks now both believe their existing holdings are too high. The outlook of European senior bank debt, one-third of the Euro HG universe, is also poor. We maintain **underweight European senior bank debt** as the term funding market is barely functional, creating a large backlog of supply that will hit the market later in the year.

We expect **peripheral European banks** to be more vulnerable to the current liquidity squeeze than banks of core European countries. However, for **Spanish banks** the problems are particularly acute due to their largely unresolved solvency issues. This will continue to weigh on investor sentiment for Spanish banks even when liquidity pressures

are eased for other European banks (see *European Banks H2 Outlook*, Roberto Henriques, May 27).

Foreign exchange

Stronger equity markets pushed up high-beta currencies this week, after a bad sell-off last week. The price action in EUR/USD has been mixed, falling to a midweek low of 1.2154 before staging an impressive rally toward 1.2450 at one point. This rally coincides with comments from a number of sovereign wealth funds reaffirming their commitment to Euro assets following speculation that some are increasingly concerned about the deteriorating fiscal outlook in the region. For now, fears over potential capital flight from the Euro area have been allayed. Nonetheless, this remains a potential medium-term risk to EUR should conditions in the region continue to deteriorate. Having been stopped out of our EUR shorts versus Asian FX and CHF last week, we have been stopped out of our last remaining cash position, short GBP versus CHF. **Given our view that risk markets should rebound from current levels over the next one to two months, EUR should underperform the high-yielding and EM currencies** as the ECB cements its status as a funding currency. EUR/USD should trade a range until the Fed begins to signal its intention to remove policy stimulus.

The equity market rally this past week has taken place against the backdrop of a further improvement in global macro fundamentals with G-10 economic data surprises approaching cyclical highs. The buildup of AUD long positions since the start of this year according to IMM data has been almost totally liquidated while a large proportion of CAD longs have also been unwound. This would normally provide fertile ground for a continued appreciation of high-beta FX. However, with both FX and equity volatility still elevated and the risk of additional regulatory announcements at the G-20 Summit in June, the **recovery in the high-beta currencies is likely to be constrained.**

Commodities

Commodities rallied more than 5% this week, recovering some of the recent losses. Energy was the best performing sector, up 6% since last Friday. Crude oil is now trading close to $75, almost $5 higher than last week's close. We remain with a positive outlook for crude prices, as we still believe that the large price move was mostly due to position squaring. Fundamentals are still supportive and should not be seriously affected near term. Even though our bias is to reduce price forecasts, there is still upside from current levels. Looking at the WTI and Brent curves relative to one and two weeks ago, we have clearly seen a flattening of the front end and a steepening of the back end—to us that is a clear, but modest response to the oil spill and drilling moratorium and as higher costs and lack of access reduce future supplies.

Base metals are up 2% this week. From a fundamental perspective, the outlook for the base metals generally remains sound. Economic data continue to support the view that the global industrial recovery is gaining momentum. Thus, there will continue to be a solid pull for metals from fabricators as restocking supports a robust cyclical recovery. We remain bullish, but a material price rally becomes less likely as we enter 2H on the back of a moderation in the restocking cycle and a possible slowdown in Chinese demand.

Ten-year Government bond yields

	Current	Jun 10	Sep 10	Dec 10	Mar 11
United States	3.28	3.30	3.60	4.00	4.25
Euro area	2.68	2.75	3.05	3.15	3.25
United Kingdom	3.58	3.70	3.85	4.00	4.30
Japan	1.25	1.40	1.50	1.55	1.55
GBI-EM	6.92			7.90	

Credit markets

	Current	YTD Return
US high grade (bp over UST)	177	3.6%
Euro high grade (bp over Euro gov)	214	3.0%
USD high yield (bp vs. UST)	706	3.3%
Euro high yield (bp over Euro gov)	770	3.7%
EMBIG (bp vs. UST)	335	3.2%
EM Corporates (bp vs. UST)	366	2.7%

Foreign exchange

	Current	Jun 10	Sep 10	Dec 10	Mar 11
EUR/USD	1.23	1.25	1.25	1.20	1.18
USD/JPY	90.8	87	90	93	96
GBP/USD	1.45	1.44	1.39	1.35	1.34

Commodities - quarterly average

	Current	10Q2	10Q3	10Q4	11Q1
WTI ($/bbl)	74	86	94	93	90
Gold ($/oz)	1213	1150	1250	1200	1175
Copper($/m ton)	6955	8000	7150	6750	6500
Corn ($/Bu)	3.60	3.75	3.90	3.80	4.00

Source: J.P. Morgan, Bloomberg, Datastream

JPMorgan Chase Bank NA, New York
Bruce Kasman (1-212) 834-5515
bruce.c.kasman@jpmorgan.com
Joseph Lupton (1-212) 834-5735
joseph.p.lupton@jpmorgan.com
David Hensley (1-212) 834-5516
david.hensley@jpmorgan.com

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Argentina takes "fiscal damage control" to a new level, Jan 22, 2010
Mexico: recent inflation will not trigger an early hike, Jan 8, 2010

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India: inflation turning sticky, Mar 26, 2010
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World Financial Markets, *Second quarter 2010*, Mar 18, 2010
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The hangover: a muted recovery for US consumers, Jan 28, 2010
Central bank exits and FX performance, Dec 18, 2009
World Financial Markets, *First quarter 2010*, Dec 17, 2009

1. Research notes listed have been published in the *GDW; Special Reports* and *Global Issues* are stand-alone features, but may also have appeared in some form in *GDW*.

JPMorgan Chase Bank, London
David Mackie (44-20) 7325-5040
david.mackie@jpmorgan.com

Economic Research Note

Euro area institutional structure in a state of flux

- **Momentum to further fiscal integration**
- **Debate about ECB's objectives and independence**

The solvency questions being raised about some of the sovereigns in the Euro area have not only created weakness and volatility in asset markets and stress in the banking system, they have also put the institutional structure of the region into flux. There is now huge uncertainty about what the Euro area will look like after the crisis. It seems likely that, in order for the EMU to survive and prosper, a greater degree of fiscal integration will occur over time, but in the current political climate it is not easy to see how we get from here to there. As important, there are questions being raised about how this crisis will change the ECB's behavior in the medium term.

The Euro area's fiscal architecture

The greatest overhaul will undoubtedly come on the fiscal side. Up until now, the Euro area's fiscal structure has involved a small, balanced EU budget—with a level of expenditure equal to 1% of areawide GDP—and significant autonomy of budgets at the national level. The Stability and Growth Pact was supposed to provide the incentives and sanctions to ensure that national fiscal policy did not destabilize the monetary union; it clearly failed in this task.

Where the fiscal structure goes over time is unclear. The support package for Greece and the European Stabilization Mechanism clearly represent significant steps toward mutual fiscal support. But, for now, the support is in the form of loans rather than transfers. Whether this remains the case is one of the key uncertainties. Many commentators argue that the region can only survive with a far greater degree of fiscal integration, which would mean greater supranational authority over national budgetary decisions and more cyclical and structural transfers from one country to another. As is often pointed out, other monetary unions such as the United States have much larger fiscal transfers than currently in the Euro area (table). However, even with a greater degree of centralization, the issue of fiscal discipline at the national level would remain an important one.

For now, Euro area policymakers are looking simply to strengthen the existing fiscal architecture: budgetary policy will still be set at the national level, but with more peer review and sanctions for excessive deficits. In the words of the European Commission, "The Stability and Growth Pact provides the right framework for an orderly exit from the crisis."

Fiscal transfers in the US

	Per capita real GDP	Federal spending received - Federal taxes paid	
	% of US	$ billions	% of state GDP
Mississippi	63.9	13.7	17.3
New Mexico	81.6	10.7	15.8
West Virginia	67.1	7.3	13.7
Alabama	78.9	17.4	11.5
North Dakota	89.0	2.8	11.4
Alaska	118.7	4.4	11.2
Louisiana	84.5	19.1	10.4
Virginia	111.0	34.9	9.9
Kentucky	79.9	12.7	9.1
Montana	73.0	2.6	8.7
South Dakota	95.2	2.6	8.6
Maine	80.6	3.6	8.2
Hawaii	100.5	4.2	7.6
Arkansas	74.8	6.5	7.5
Oregon	96.8	-0.8	-0.6
Washington	104.7	-3.3	-1.2
Wisconsin	93.7	-3.2	-1.5
Delaware	161.2	-1.1	-2.0
Colorado	109.4	-4.7	-2.2
Massachusetts	122.0	-7.2	-2.3
New York	121.3	-23.8	-2.5
California	110.8	-47.6	-2.9
Illinois	104.5	-19.0	-3.4
Minnesota	110.6	-9.5	-4.1
New Hampshire	101.1	-2.3	-4.3
Connecticut	131.7	-9.5	-5.0
Nevada	109.7	-6.0	-5.4
New Jersey	118.9	-27.5	-6.5

This table shows the fourteen largest beneficiaries and the fourteen largest contributors to the US fiscal union. Source: http://www.bea.gov/regional/index.htm#gsp, http://www.taxfoundation.org/research/show/22685.html

The European Commission set the ball rolling two weeks ago with some proposals for reforming the Stability and Growth Pact. These proposals include making surveillance procedures more comprehensive, incorporating EU priorities into national legislation (essentially some kind of balanced budget law), a greater use of debt levels to determine the appropriate fiscal stance, and an earlier imposition of sanctions (such as interest-bearing deposits and suspension of payments from the EU budget). Last week, Germany put forward its own views on what should happen. In addition to the measures suggested by the Commission, Germany would also like to see nonfinancial sanctions (for example, a loss of voting rights) and an orderly default mechanism to mean that debt restructuring is the ultimate sanction for a lack of fiscal discipline. After the German proposals were published, Ecofin had a meeting at which apparently there

was a broad consensus on developing a set of financial and nonfinancial sanctions (although not necessarily involving a loss of voting rights), but there was little support for the idea of an orderly default mechanism. In our view, the German position has a certain logic to it. The "no bailout" clause of the Lisbon Treaty suggests that the ultimate sanction on a sovereign that cannot achieve debt sustainability on its own is debt restructuring. In the absence of an orderly default mechanism, it is not clear what the consequences would be if a country failed to meet the conditionality that is agreed as part of a multilateral support program. Given the lack of support for the German idea, it is not clear how the rest of the region can come up with credible sanctions that square this particular circle. Legislative proposals on a new Stability and Growth Pact are due by October.

The Euro area's monetary architecture

There is also uncertainty about the monetary regime. The ECB's decision to start purchasing the debt of sovereigns whose solvency is in question has not only been controversial within the central bank, but also has raised questions outside about its independence. It could be argued that these purchases are against the spirit of the Lisbon Treaty, if not the letter, and it is hard to know what the central bank would do if sentiment toward these sovereigns was very negative even after the European Stabilization Mechanism was established. Even though the liquidity support mechanisms would meet the sovereigns' gross funding needs for an extended period, the ECB could find itself under pressure to buy significant amounts of debt in the secondary markets if existing holders wanted to sell. This pressure on the ECB could be particularly intense if sovereigns did not meet their fiscal objectives. It is not clear what the ECB would do in such an environment. Last week, ECB council member Bini Smaghi said, "We do not intend to finance the governments." This is reassuring. But, back in January, ECB President Trichet said, "We will not change our collateral framework for the sake of any particular country"—yet that is exactly what the ECB did three months later.

The ECB has tried to create the sense that these purchases are "ring fenced" by highlighting their temporary nature and stressing that they will be sterilized. But, in the event, the auction of one-week term deposits, which can be used as collateral in the ECB's normal tender operations, is not sterilization as we would understand it. Given the small size of the purchases so far, this probably does not matter much. But, it would matter if the outright purchases increased significantly in size. Yet, in such an environment, sterilization might not be the ECB's biggest headache: tensions within the governing council would likely be very great.

The opposition of one, and possibly both, of the German representatives on the governing council to the decision to buy the debt of sovereigns whose solvency is in question begs the question not only of how the ECB will behave in a crisis, but also of how the central bank will behave in more normal times. There are many commentators who view inflation as an acceptable, even desirable, burden-sharing mechanism. It shares the burden of fiscal adjustment with creditors and those on fixed incomes. For now, the ECB is opposed to the use of an inflation tax. In his interview with *Der Spiegel* on May 13, President Trichet said, "Inflation is destructive for societies and democracy. Inflation is a tax on the poor and the weak. That is my very firm conviction." But, it is possible to imagine a situation in which the ECB comes under significant political pressure to increase its inflation objective over time. It is also possible to imagine that the central bank comes under pressure to be more activist, in order to manage demand more aggressively around the inflation objective.

The issue of EMU expulsion

In recent months, there has been a debate around whether a temporary suspension, or even a permanent expulsion, from EMU should be viewed as the ultimate sanction for sovereigns that fail to abide by the fiscal and other rules. While such an idea is anathema to many, there is a certain logic behind it. The European Council in mid-February not only criticized Greece for having an excessive fiscal deficit, but also "issued a recommendation to Greece to bring its economic policies into line with the Union's broad economic policy guidelines and remove the risk of jeopardizing the proper functioning of economic and monetary union." Clearly, EMU members have responsibilities to behave in a way that ensures the stability of the region as a whole. Presumably, the forbearance of the rest of the region would not last forever. Currently, the creation of an expulsion mechanism is not being considered.

A crisis resolution mechanism

According to the European Commission, the European Stabilization Mechanism provides a framework for a permanent crisis resolution mechanism, in which financial assistance is provided in the form of lending rather than transfers or debt guarantees, countries are subject to strict conditionality in terms of fiscal objectives, and borrowing rates are set at a level to encourage a return to financing in the capital markets. A permanent crisis resolution mechanism also raises questions about how the ECB will fulfil its financial stability responsibilities on an ongoing basis, and whether there needs to be a permanent change in the structure of its balance sheet.

JPMorgan Securities Japan Co., Ltd.
Masaaki Kanno (81-3) 6736-1166
masaaki.kanno@jpmorgan.com
Miwako Nakamura (81-3) 6736-1167
miwako.nakamura@jpmorgan.com

Economic Research Note

Japan: as trade surplus widens, income surplus narrows

- **The current account surplus increased to 3.8% of GDP in 1Q10, after bottoming in 1Q09**
- **Trade surplus rebounded on export volume rise, despite a partial offset by deteriorated terms of trade**
- **Income account surplus continues to fall at modest pace, with interest receipts on bonds reducing**
- **Current account surplus to remain high, but stay below the recent peak due to soft income account surplus**

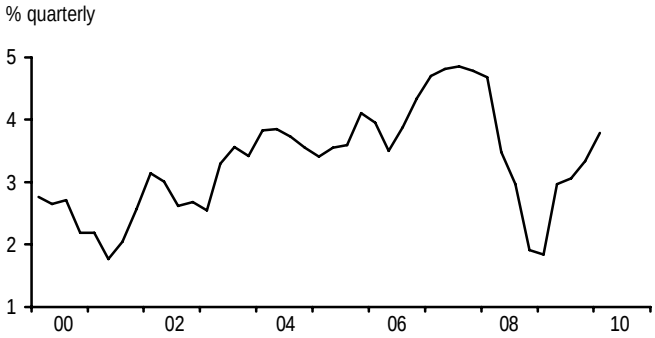
The current account (C/A) surplus returned to a rising trend during 2009. In 1Q10, its ratio relative to GDP reached 3.8%, compared to 1.8% in 1Q09. The ratio last quarter was close to that in 2Q08, just prior to the global downturn, and in 3Q06, when the zero-interest-rate policy was lifted. However, the composition of the surplus has changed; the share coming from the merchandise trade surplus has increased, and the share coming from the income account surplus has decreased, as the recovery in the C/A surplus has been led by the trade account and the income account surplus is still on a downtrend. Indeed, the share of the income account surplus in the C/A surplus fell to 64%, from 90% in 2Q08 and 71% in 3Q06. Meanwhile, the share of the trade surplus rose to 52%, from 28% in 2Q08 and 47% in 3Q06. We believe this trend is likely to continue in the near future.

Trade surplus increased on recovery in export volumes

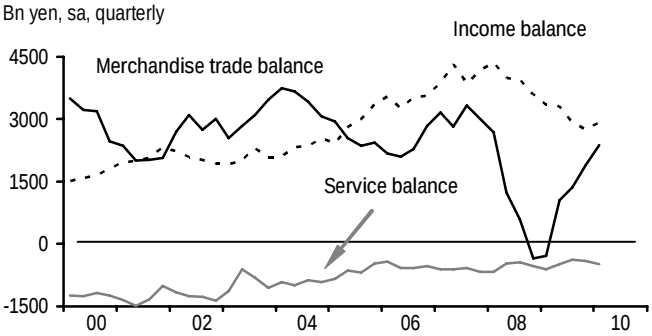
The recent recovery of the trade surplus basically reflects a rise in volumes. According to the BoJ's real trade indices report, 1Q real exports grew 41.7%oya—at a much faster pace than real imports at 11.7%oya. As a result, the real trade surplus recovered 66% of the loss it experienced during the recession period. However, international terms of trade have deteriorated during the past four quarters, reflecting the slower rise in export prices (0.6%) than import prices (7.8%). In Japan, commodities and energy have larger shares in imports than in exports.

Looking ahead, as long as the global economy continues to grow, Japan's export volume will likely continue to rise at an even faster pace than global IP. Accordingly, the C/A surplus is likely to expand further in coming quarters. In 1H08, however, the C/A surplus plunged as the surge in commodity and oil prices more than offset increases in ex-

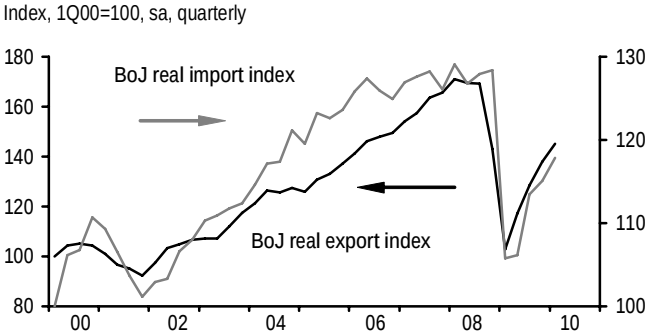
Current account balance as percent of GDP



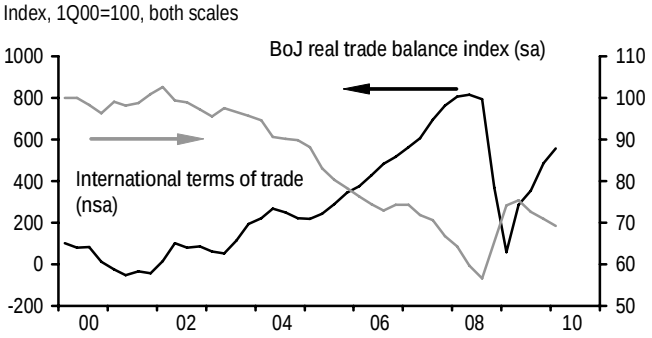
Major three components of current account balance



Real exports and imports



Real trade balance and international terms of trade



JPMorgan Securities Japan Co., Ltd.
Masaaki Kanno (81-3) 6736-1166
masaaki.kanno@jpmorgan.com
Miwako Nakamura (81-3) 6736-1167
miwako.nakamura@jpmorgan.com

port volume. Growth of the C/A surplus could moderate or even fall if import prices surge and the international terms of trade deteriorate massively. Note, however, that there has been a structural change in Japan's exports: manufacturers are moving production to emerging countries in order to reduce costs related to EM demand. In the longer term, this will likely have an adverse impact on Japan's exports, the trade balance, and the C/A surplus.

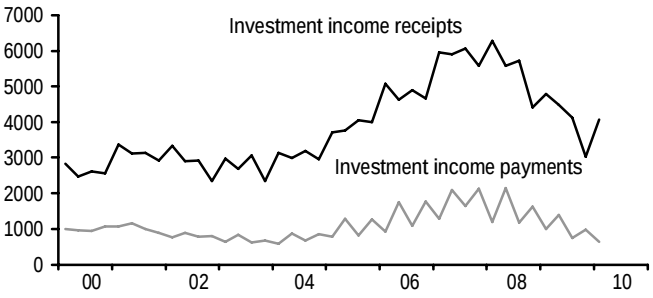
Income account surplus continues to fall

The income account surplus has been on a downtrend since 1Q08, as all three major components of the receipt side—interest receipts on bonds, direct investment income receipts, and dividend receipts on equities—have fallen. While the income account surplus surged in 1Q10, this was likely due to a temporary increase in dividend payments to parent companies from overseas affiliates at fiscal year-end, to compensate for soft profits from the domestic businesses. We expect some negative payback for this in 2Q.

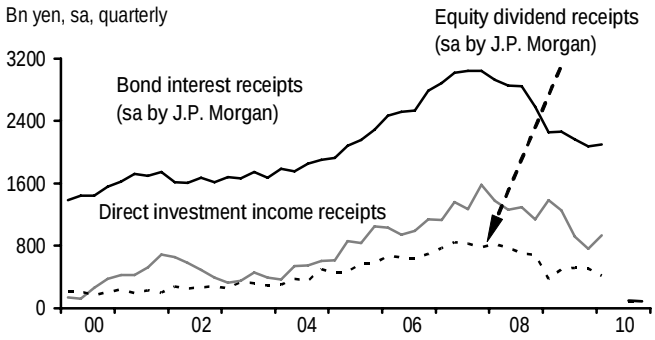
As payments on investments in Japan held by foreigners have been broadly stable over time, the income account surplus is determined mainly by the receipt side. Among the three major components, interest receipts on bonds make up the largest share with 53.3% of 2009 total receipts, compared to 26.1% for direct investment income receipts and 11.4% for dividend receipts on equities.

While the yen value of foreign bonds held by the residents of Japan rose 9.8% in 2009 to ¥297 trillion (of which ¥200 trillion is held by the private sector and ¥97 trillion by the government), interest income receipts fell due to the declines in interest rates. On our calculation based on BoJ data, the average return of foreign bonds in yen terms fell to 2.7% in 4Q09 from 3.3% a year ago. At the same time, both equity dividend receipts and direct investment receipts declined, due to dips in the profits of overseas companies, including Japanese affiliates.

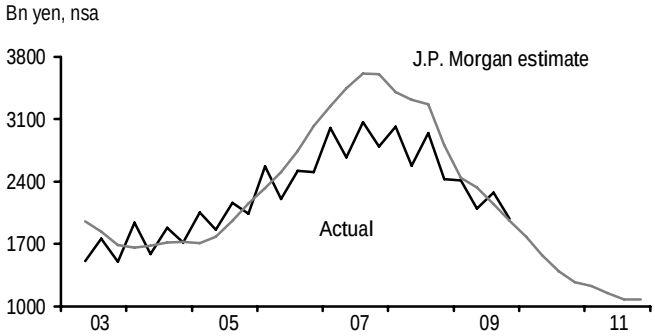
Receipts and payments of investment income in BoP report



Breakdown of investment income receipts



Interest receipts on foreign bonds



Rise in overall surplus to be restrained by soft income balance

Income receipts for direct investment and equity investment are expected to stabilize soon, in line with the recovering global economy. However, receipts for bond investment will likely continue to fall in the coming quarters due to the decline in bond yields, albeit with a lag. By our calculation, the average duration of invested foreign bonds is approximately three years. If this is correct, the average yield of foreign bond investment by Japanese residents should continue to fall until 2011, and then stabilize. On the other hand, direct investment receipts should rise over time, reflecting the ongoing increase in FDI. Note, however, that the reinvested portion of retained earnings at Japanese overseas affiliates, which does not cause money transfers to Japan, is included in investment income receipts for accounting purposes; this is offset by an outflow in the capital account. This exaggerated the income account surplus by 9.4% in 2009 and 15.8% in 2008. In all, the growth of the income C/A surplus is unlikely to rise as it did until 2006 unless bond yields rebound sharply.

JPMorgan Chase Bank, London
Malcolm Barr (44-20) 7777-1080
malcolm.barr@jpmorgan.com
Allan Monks (44-20) 7777-1188
allan.j.monks@jpmorgan.com

Economic Research Note

UK inflation: another upside surprise for a tolerant MPC

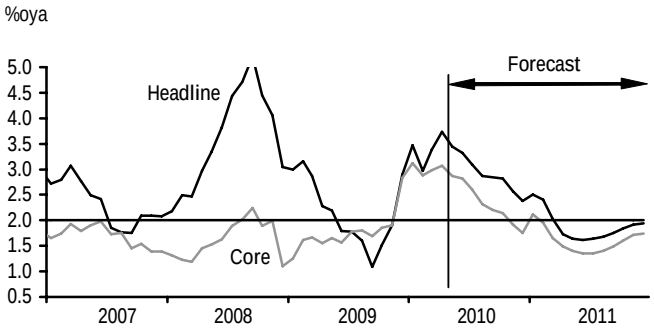
- **April CPI print marks a new high for this upswing, but the trend from here is downward**
- **MPC will not respond to CPI outturns while expectations are stable and downside growth risks remain**

April's rise in CPI inflation to 3.7%oya, the highest since November 2008, came as a surprise. The increase raises two questions: what is going on with inflation itself, and how is the Bank of England likely to respond? On the first, close examination of the recent data does not suggest that our basic models of the core inflation process have broken down. Those models suggest that the trend in core inflation, excluding the impact of VAT changes, is downward. There remains wriggle room for services price inflation to surprise on the upside for a while longer, but much less so for core goods prices: an acceleration in the latter would be a direct challenge to our forecast. At the level of headline inflation, food prices could also generate further bumps. But, even allowing for a rise in VAT to 20% in January, we continue to forecast that inflation will slip below 3% by the end of the summer, and below the 2% target in 2Q11. We look for both headline and core inflation to bottom out near 1.5% in mid-2011.

For the Monetary Policy Committee (MPC), recent outturns extend the period since 2006 in which CPI has been both persistently higher than the 2% target and higher than the MPC had forecast. As it looks forward, however, the MPC's inflation forecasts are shaped by its views on the extent of slack and the stability of inflation expectations. The measures of inflation expectations the MPC monitors have been steady, and nominal wage growth has been depressed. Indeed, few would disagree that significant slack exists at current levels of output. BoE Governor King's letter after the April CPI print emphasized uncertainty about the inflation outlook, and the need to monitor expectations. But, it retains the central view that current high inflation outturns are temporary, and that inflation is likely to fall well below target in 2011.

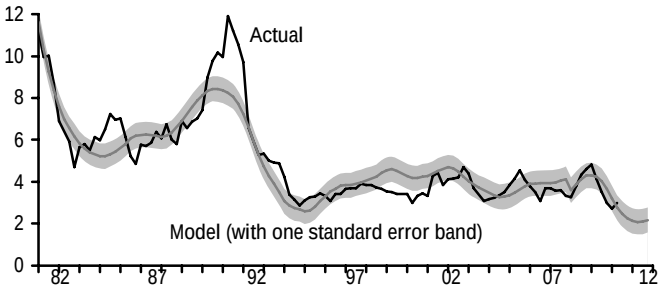
While risks to the outlook for growth remain to the downside, the majority of the MPC will continue to regard high inflation as temporary. But as risks to the growth outlook become more symmetric, the recent history of inflation performance will encourage the MPC to begin a gradual tightening policy, which we have penciled in for early 2011.

CPI inflation



Services inflation model

%oya, excludes estimate of VAT effect



What to make of higher inflation

Our forecast had anticipated that CPI inflation would peak in January near 3.5%oya before heading lower. But, the prints for both March and April have shown core inflation running firmer than we had thought, with headline inflation also pushed up by an acceleration in food prices. Our usual procedure is to model services and core goods inflation separately, while treating potential moves in food and energy price inflation as a wild card. Looking at each component in turn:

- A simple model based on slack, the trend in unit wage costs, and inertia in the inflation process itself does a reasonable job of picking up swings in services price inflation over recent decades. We simulate this model forward from the end of 2007, and without plugging in services CPI outturns themselves. The model suggests services CPI should be on a declining trend and running at around 2.8% currently. The services CPI data have been slowing since late 2008, but that trend has been interrupted since November. A significant part of the swing upward in services inflation reflects the impact of VAT changes. Once our estimate of the impact from VAT is excluded, the April services CPI print is running at 3.0%oya, close to the model projection. Within the usual bounds of model error, there is still some scope for the data to move upward (by up to half a percentage point).

- Core goods pricing is considerably more difficult to model, partly because of the influence of import prices and the changing composition of the basket. A model based on slack, unit wage costs, and import and producer prices suggests that, as the impact from currency weakness is fading, core goods inflation should be turning to head significantly lower. After adjusting for the recent hike in VAT, the over-year-ago rate did appear to turn lower in 1Q. April's data, however, suggest unexpected resilience in this part of the basket. The April data give an ex. VAT inflation rate of 1.4%, compared to the model's 2Q forecast of -0.3, and a 3Q forecast of -1.4%. Stability in the inflation rate for this part of the basket into 3Q would be a clear challenge to the model projection.

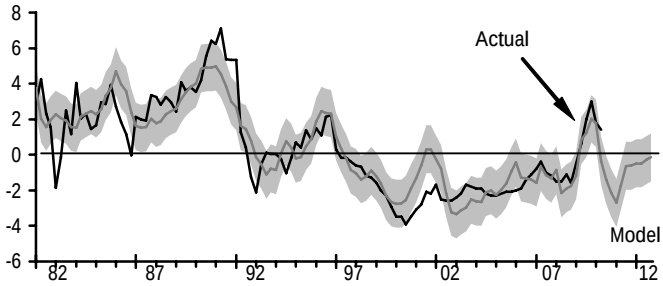
Inflation under the food, alcohol, and tobacco heading has also run firm over the past handful of months. But, with import prices and producer prices for foodstuffs relatively stable, and the energy costs associated with food distribution also steady, we would not expect this to persist for much longer. Given that there is some persistence of errors across all categories we have revised our near-term inflation forecasts up after the past couple of releases. The resilience of core goods pricing, in particular, bears watching. But, we continue to expect inflation to head significantly lower and to move below the target in the first half of next year, even with another hike in VAT occurring during that period.

MPC blushes and carries on

The persistence of upside surprises in inflation is becoming an embarrassment for the MPC. Inflation has now averaged 0.6%-pt above the 2% target since 2006, a period during which the MPC has persistently underestimated one- and two-year-ahead inflation outturns. While the MPC has highlighted the risk that high inflation rates are reflected in inflation expectations and wage and price setting, it has identified little evidence that this is occurring. Surveys of households' medium-term expectations are relatively stable, and the same is true of measures derived from surveys of forecasters and the market for inflation swaps. With expectations for inflation stable, and slack still extant, the MPC does not place much weight on current inflation outturns as a signal of the medium term. Some on the MPC (Andrew Sentance in particular) have suggested that the recent history of upside shocks to the inflation rate may be informative about future trends, but the majority on the MPC are unpersuaded. While risks to the outlook remain to the downside, the MPC's response to higher inflation will likely be tougher rhetoric, but little action. By extension, we doubt that low inflation outturns will prevent the MPC from turning toward policy tightening as risks to the growth outlook subside, even as inflation itself nudges below the target. At that point, the prospect of narrowing slack, the recent history of inflation overshoot, and an extremely loose policy stance will encourage the MPC to begin to tighten.

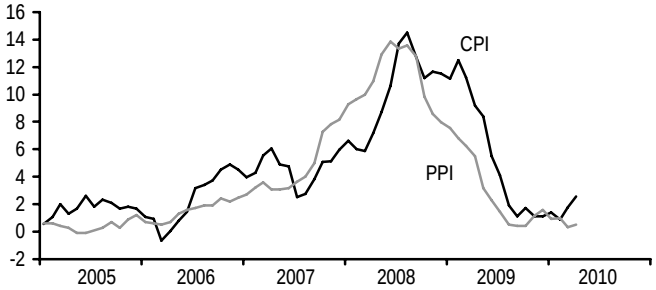
Core goods model

%oya, excludes estimate of VAT effect



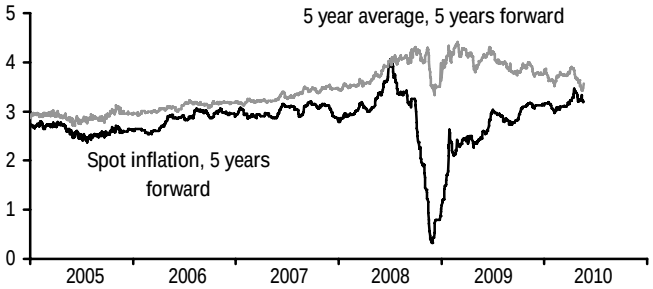
Food prices: CPI versus PPI output food products

% oya



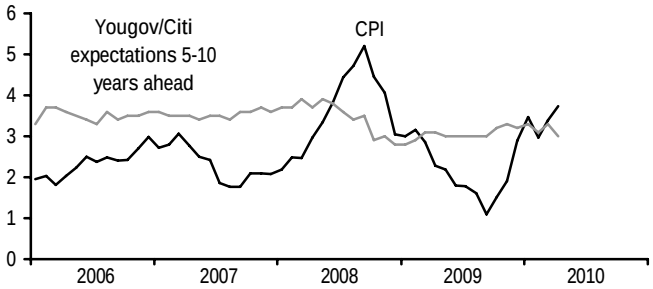
Inflation expectations from inflation swaps

% per annum



Inflation versus household inflation expectations

%oya



JPMorgan Australia Ltd., Sydney
Helen Kevans (61-2) 9220-3250
helen.e.kevans@jpmorgan.com

Economic Research Note

First home buyers to suffer most as RBA tightens policy

- **Assertive RBA tightening now pushing interest rate burdens to pre-crisis levels**
- **Pain for first home buyers lured by government stimulus will be most intense**
- **Further rate hikes are likely, owing to deteriorating inflation outlook**

Australian mortgage holders have watched anxiously as interest rates have increased rapidly over the past eight months. One reason for this anxiety is that the transmission of changes to monetary policy has been direct. Indeed, commercial banks have lifted their variable loan rates by 25bp, or more, following each of the official rate hikes delivered by the RBA since October. Most mortgages in Australia are taken out on a variable-rate basis; fixed-rate loans accounted for under 5% of new loans issued in the past year. Households' debt servicing costs, therefore, already have risen significantly. With market interest rates set to head higher as the RBA attempts to suppress an inflation threat, these interest burdens are set to hit historical highs.

Rate hikes already delivered are biting

The assertive policy tightening has occurred as the RBA unwinds the emergency policy settings put in place in the midst of the global financial crisis. The RBA has lifted the official cash rate 150bp since October 2009. Early in the current tightening cycle, however, some local lenders increased their variable loan rates by more than the rise in the official cash rate. Standard variable home loan rates (SVR) rose by 160bp on average over this period.

The rapid pace at which the RBA stepped away from emergency settings caught many borrowers off guard, especially those who entered the mortgage market when interest rates were at generational lows. It seems many new borrowers overcommitted, and cracks have started to appear. Following the most recent rate hike in May, which took the average SVR to an 18-month high of 7.4%, confidence among mortgage holders slumped 8.1%m/m, nearly four times the drop following the five previous rate hikes in this cycle. Many borrowers appear to have crossed the pain threshold.

First home buyers to suffer the most

Higher income earners and those who have owned property for an extended period are better positioned to deal with further rate hikes. They have more equity in their homes and lower mortgages as a multiple of their incomes. Investors also have watched property values rise significantly in recent years, particularly relative to first home buyers (FHBs), so have a substantial equity buffer. In contrast, lower income earners, many of whom are FHBs, will suffer the most as mortgage repayments continue to rise; their mortgages are large as a multiple of their incomes and as a ratio of the value of their homes.

Household interest rate burdens

	Housing debt[1]		Interest payments[1]	
	Total	FHB[2]	Total	FHB[2]
Mar 08	135.8	127.5	12.9	11.9
Jun 08	135.2	131.5	13.0	12.4
Sep 08	134.7	135.9	12.8	12.7
Dec 08	133.0	141.7	9.3	9.7
Mar 09	133.0	144.6	8.0	8.5
Jun 09	133.7	142.9	8.0	8.3
Sep 09	135.0	137.1	8.1	8.0
Dec 09	138.2	140.4	9.3	8.9
Mar 10	140.3	142.4	9.4	9.6
Jun 10	142.4	144.4	10.5	10.7
Sep 10	144.6	146.4	11.1	11.2
Dec 10	146.8	148.5	11.6	11.7
Mar 11	149.1	150.6	12.2	12.3
Jun 11	151.4	152.8	12.7	12.8
Sep 11	153.7	155.0	13.3	13.4
Dec 11	156.0	157.2	13.9	14.0

[1]Percentage of disposable income
[2]First home buyers

Our analysis shows that FHBs' higher leverage, combined with their lower household incomes, has increased their sensitivity to rate rises. The average loan size for FHBs was A$240,000 in the 12 months before the government expanded the FHBs' grant in October 2008. The average loan size for FHBs rose to A$275,000 thereafter, until the expiry of the grant in December last year. In December, the loan size peaked at A$290,000. FHB demand has started to retreat, with FHBs accounting for just 16% of all loans issued in March, compared to a peak of 29% in mid-2009. FHB interest will remain depressed, with the RBA having hiked the official cash rate another 50bp since March.

Also, affordability is worsening. According to the Housing Industry of Australia (HIA), FHB housing affordability approached record lows in 1Q. The HIA housing affordability index dropped 28.7%oya in the March quarter, with mortgage repayments accounting for 25% of FHBs' incomes. Rising interest rates and elevated house prices were to blame. Nationwide house prices spiked 20%oya in 1Q, un-

derpinned by strong employment growth, the expanded government support to FHBs, and the fact that population growth easily has outstripped new home construction. Conditions are starting to cool, though, with auction clearance rates dropping by as much as 14%-pts last weekend.

Variable mortgage rates to head near 9%

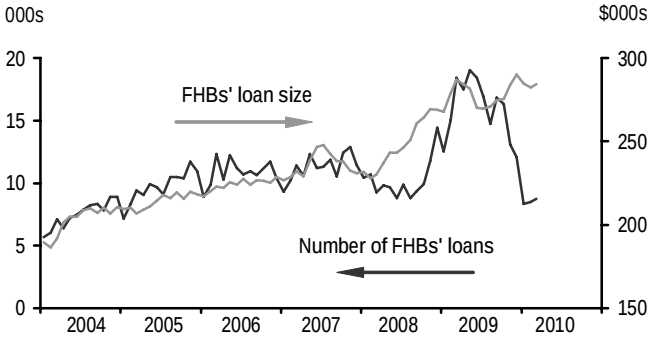
With the policy stance now closer to "normal" and market interest rates back to "average" levels for most borrowers, the first phase of the RBA's tightening cycle is over. The minutes from the RBA's most recent Board meeting described current policy settings as "well placed" and suggested there were early signs that interest rate increases had started to affect consumer behavior. Retail sales, for example, have been subdued since January and home loan approvals recently tumbled. In fact, new loan commitments now are at a nine-year low, and will likely fall further given the deterioration in affordability and banks' efforts to tighten their lending standards. The interest rate-sensitive sectors of the economy are already growing below trend.

These data reaffirm our view that the RBA will take a breather for now, so borrowers can expect some reprieve. The deteriorating inflation outlook means, though, that officials soon will embark on the second phase of the tightening cycle, one that will push policy into restrictive territory. The rising medium-term inflation pressure stems partly from the stimulatory effects of the resources boom, including the booming terms of trade and rising wage pressure. Headline inflation, on our forecasts, will track above the RBA's 2%-3% target range in the period ahead, and core inflation will meander above the top of the target later this year, meaning that further rate hikes will be necessary.

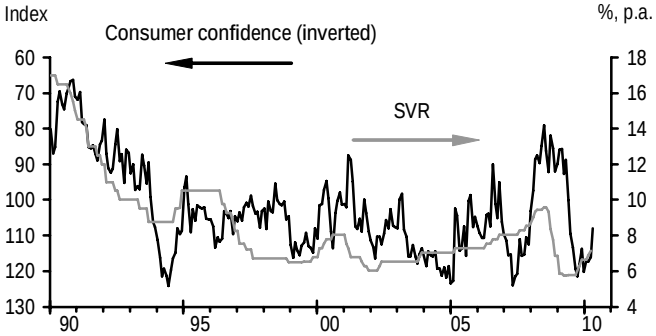
We have based our analysis of the impact on households of an RBA cash rate of 6% by end-2011, although this forecast assumes that heightened sovereign concerns do not escalate to the extent that they prompt downgrades to our global growth forecast, and thus the outlook for Australia. Assuming that the current spread between market interest rates and the official cash rate is maintained (at 290bp, compared to 180bp pre-crisis), this means that the average SVR will likely rise to nearly 9%. Households' interest rate burdens will, as a result, hit record levels. Based on these assumptions, households will be paying 13.9% of their disposable income in interest rate payments by the end of next year, or a slightly higher 14% for FHBs (table, previous page).

Already, mortgage stress is on the rise. Financial services consulting firm Fujitsu estimates that mortgage stress now is affecting almost 40% of the 270,000 people who have

First home buyers' home loan demand tumbling



Consumer confidence and mortgage rates



borrowed to enter the property market since June 2008. Mortgage stress generally is defined as expenditure of at least 30% of income on home loan repayments. It typically leads to households cutting back on spending elsewhere and putting more expenditures on credit cards, which is behind our forecast of sub-trend growth in consumption spending this year and next.

Debt accumulation partly to blame

The significant increase in interest rate burdens owes partly to the rapid rate of household debt accumulation in recent years, despite the structural decline in inflation and interest rates. The proportion of housing debt to disposable income in Australia is among the highest in the developed world, having grown substantially over the past two decades. This ratio fell slightly at end-2008 as some households delevered after the financial crisis. Households were quick to take on debt again, though, after the government announced its generous fiscal stimulus package, which included the expansion of the FHBs' grant. It was then that, for the first time, the debt to disposable income ratio among FHBs overtook that of all households (again, see table). At the end of 2009, housing debt to disposable income ratios were at 138% for all households, but 140% for FHBs. We calculate that this measure will rise to 156% for all households by the end of next year, and an even higher 157% for FHBs.

JPMorgan Chase Bank NA, New York
Robert Mellman (1-212) 834-5517
robert.e.mellman@jpmorgan.com

United States

- **Reports on consumer spending, manufacturing, and homebuying all show some degree of slowing in May**
- **Upcoming reports on May activity will be important in conditioning views on recent activity**
- **Forecast for key May data look for a 140,000 rise in private payrolls, ISM manufacturing to slip to 58.5**

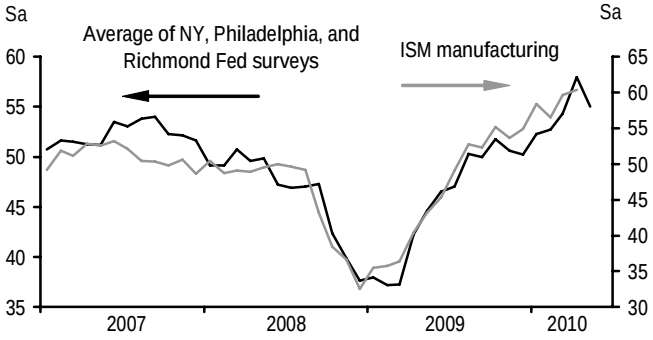
Incoming data for April including the durable goods report and new home sales add to the picture of an economy in solid recovery prior to the equity market declines associated with the Euro area fiscal crisis. However, available information on activity in May generally point to slowing in varying degrees for consumer spending, manufacturing, and home buying. (The latter is directly related to the end of the second round of homebuyer tax credits.)

It is still too early to judge either the extent of the recent slowing or whether the slowing is mainly an early response to the Euro area contagion or simply a wiggle that reflects the normal volatility in the data. The key upcoming May reports on the labor market, the ISM business surveys, and auto sales will tell us a lot more about activity. The forecasts look for some cooling in May relative to the very good April data. The ISM manufacturing survey is expected to come down to 58.5 after the strong 60.4 the prior month. Temporary hiring for the decennial Census could add over 400,000 jobs in the upcoming May employment report. More important for gauging the health of the business cycle, we look for 140,000 new private sector jobs, a slowing from the 231,000 pace in April.

Data hint at slowing in May

Most reports on economic activity in March and April are consistent with very solid growth. But the fragmentary information we have for May points to at least modest slowing. Real consumer spending on goods posted strong gains of 6.5% saar in 1Q10 and an average 5.5% over the past three quarters. But it appears that growth in May will be well below this recent trend. Guidance from the auto industry suggests that new car and light truck sales will edge down to a 11.0 million selling rate in May (from 11.8 million in February and 11.2 million in March), absent aggressive sales incentives over the Memorial Day holiday weekend. And while the weekly ICSC series on chain store sales is generally a poor guide to consumer spending, the 1.9% monthly decline so far in May does seem to point to no better than a modest increase in core retail sales.

Average of regional composites and ISM manufacturing survey



Durable goods orders
%ch saar

	3Q09	4Q09	1Q10	2Q10
Total	28.0	5.6	23.4	20.1
Ex transportation	20.6	13.6	18.3	17.7
Core capital goods orders	22.5	13.2	14.9	17.6
Core capital goods shipments	5.0	8.2	12.1	15.7
Item: Real business spending on equipment and software	1.5	19.0	13.4	

Note: Growth rates for 2Q10 are based on April readings.

With the end of the second homebuyer tax credit, it appears that housing activity will also decline in May. The 10.3% decline in April housing permits points to a decline in housing starts in May. And total home sales also look set to retreat after surging 17.3% (not annualized) in March and April. Mortgage applications for home purchase have plunged 36.3% over the first three weeks of May to their lowest level of the expansion.

Regional manufacturing surveys available for this month also point to at least a modest decline in the ISM manufacturing survey and a slowing in factory IP in May. The composite measures calculated from components of the three major regional Fed surveys for May in hand so far—from the New York, Philadelphia, and Richmond Federal Reserve banks—each declined by an average of 3.0pts. Components measuring new orders also slipped in each of the three surveys. The forecast for the ISM manufacturing survey looks for a decline to 58.5 from 60.4.

Finally, the trend in initial jobless claims has stopped declining and been essentially flat since mid-March. To be sure, April payroll growth was appreciably stronger than had been expected against the backdrop of claims. But the forecast looks for a slowing in May private sector payroll growth from 231,000 in April to 140,000 in May (with total employment growth of 545,000, boosted by Census hiring).

Filling in the April activity reports

This week's round of April data on durable goods, new home sales, and consumer spending showed a good start to second-quarter growth, but do not tell anything about how growth will respond to the equity market decline since the April 23 peak and to other swings in financial markets and commodity prices.

Another strong quarter shaping up for durables. New factory orders for durable goods increased 2.9% in April following dull gains over the two prior months. But monthly swings in the total have been dominated by fluctuations in orders for civilian aircraft and other volatile transportation components. New orders ex. transportation, and core capital goods orders and shipments were soft in April after much larger combined gains the two months before.

These monthly fluctuations are common in the series on durable goods. Looking through the monthly volatility, the trend in growth generally remained strong through April, consistent with strong readings for the April ISM manufacturing survey and manufacturing IP. Absent an unexpectedly abrupt response to the recent equity market decline, real business spending looks set to grow at a double-digit pace for the third consecutive quarter.

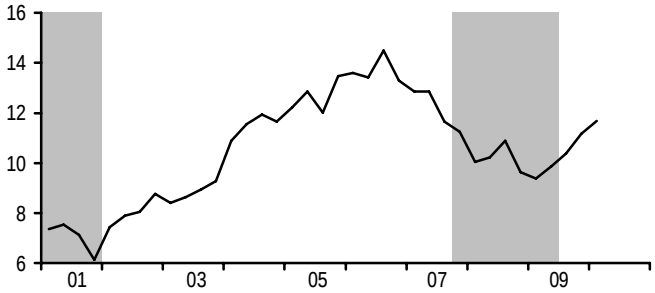
New home sales up, housing inventories down. The second homebuyer tax credit lifted new home sales 14.8% samr in April on top of the 29.9% increase in March. The strong response of new home sales to the tax credit this time contrasts with the much more tepid response to the first round and was unexpected. To be sure, the sharp decline in mortgage purchase applications in May points to a near-term decline in home sales ahead. But the strong recent pace of home sales is a positive for homebuilding activity through the rest of the year. It indicates that underlying demand may be stronger than expected (which is not saying a lot). And it has helped to bring inventories of unsold homes down to 211,000, nearly 55% below the level in April 2008 and the lowest-number inventory since 1970. Working off inventories of unsold homes is one prerequisite for substantial increases in homebuilding activity in coming quarters.

A slowdown in April spending. Strong gains in February and March were followed by a slowdown in April, as a pause in spending led to flat real consumption growth. Some payback looked inevitable as retail spending consistently surprised to the upside in the first quarter.

New home sales and existing home sales

Profit margin, nonfinancial corporate business

Percent, adjusted domestic profits as share of NFCB GDP



Another quarter of rapid growth in profits

Real GDP growth for 1Q10 was revised slightly lower to 3.0% (from 3.2%) on the basis of downward revisions to components including consumer services spending and business investment in software. But the revision did not really change the recent contours of growth. Similarly, the government's estimate of 4Q09 nominal wage and salary income was revised even lower based on more accurate source data, to -0.8% saar (from 1.1%). Wage and salary income in 1Q10 still shows an acceleration to 3.2% annualized growth.

The GDP revision also includes the first estimate of 1Q10 corporate profits. Total adjusted profits rose 5.5% at a quarterly rate, a slowing from the torrid growth path over the two prior quarters but still a strong gain. Through 4Q09, the rebound in operating earnings was led by the financial industry. But domestic nonfinancial profits are also coming on strong—up 8.7% saqr in 4Q09 and 6.0% in 1Q10, or 32.7% at an annual rate over the past two quarters. Moreover, profit margins, including those of nonfinancial corporates, are running substantially higher than in the early stages of the recovery from the prior recession in 2001.

Data releases and forecasts

Week of May 31 - June 4

Tue
Jun 1
10:00am

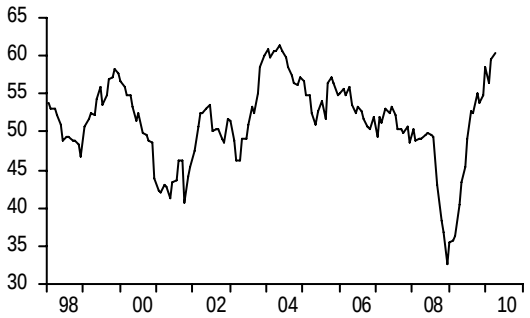
ISM manufacturing survey
Sa

	Feb	Mar	Apr	May
Overall index	56.5	59.6	60.4	58.5
Production	58.4	61.1	66.9	
New orders	59.5	61.5	65.7	
Inventories	47.3	55.3	49.4	
Employment	56.1	55.1	58.5	
Supplier deliveries	61.1	64.9	61.3	
Export orders	56.5	61.5	61.0	
Imports	56.0	57.0	58.0	
Prices	67.0	75.0	78.0	

The ISM manufacturing survey has probably been the most upbeat indicator over the course of this recovery. The April read touched one of the highest levels seen in the last 20 years and the details of the report were also very strong. Some cooling is inevitable. Indeed, the May regional manufacturing surveys have generally shown the manufacturing sector is starting to lose some altitude. Even so, our expectation for a decline to 58.5 would still leave the ISM survey in territory consistent with very robust industrial output growth.

ISM manufacturing - composite

Index, sa



Tue
Jun 1
10:00am

Construction spending
%m/m sa

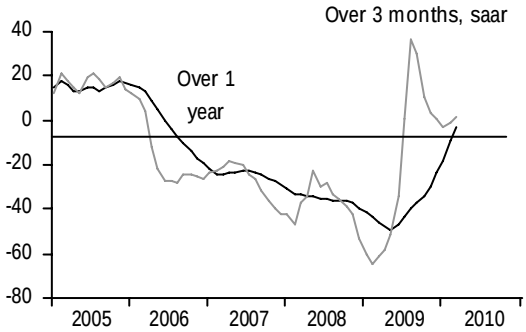
	Jan	Feb	Mar	Apr
Nominal	-0.7	-2.1	0.2	-0.3
Private	-0.1	-2.4	-0.9	-0.2
Residential	3.8	-3.4	-1.1	1.1
Nonresidential	-3.3	-1.5	-0.7	-1.2
Public	-1.9	-1.6	2.3	-0.5

The nominal value of construction spending increased 0.2% in March, the first increase since October. That increase was partly the result of a rare increase in public construction spending, a category that had been wheezing for much of the prior year. In April, we expect that, as in March, the past pattern of housing starts points to an increase in single-family home construction. We look for only a modest decline in multifamily homebuilding. We anticipate trend-like declines in public and private nonresidential construction.

Although we expect construction spending to decline, on net, over the remainder of the year, the pace of decline should moderate. Spending on structures has fallen to 7.4% of GDP, a postwar low. Moreover, if financial conditions improve, as had been the trend prior to the intensification of the Greek crisis, that would remove one significant hurdle to construction spending.

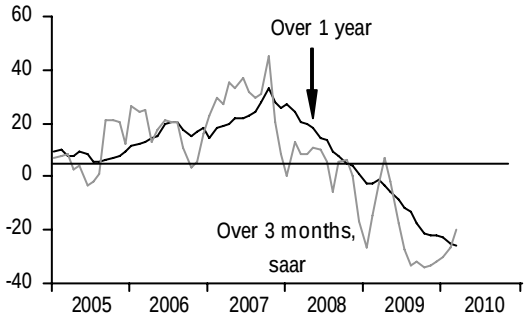
Private nominal new residential construction spending

Percent change



Private nominal nonresidential construction spending

Percent change, excludes mining and oil and gas well drilling



Wed
Jun 2
8:15am

ADP employment
Change from month ago, sa

	Feb	Mar	Apr	May
ADP	3	19	32	
BLS private payroll	62	174	231	

The April ADP employment survey missed the first print on BLS private payrolls—the concept it allegedly should predict—by 199,000, the largest miss in over a year. As has been the case for a year, the direction of the miss was the same, as ADP underpredicted the first print of private payrolls.

Wed
Jun 2
10:00am

Pending home sales

Sa, unless noted

	Jan	Feb	Mar	Apr
Total (mn, ar)	90.2	97.7	102.9	106.0
%ch m/m	-7.8	8.3	5.3	3.0
%oya (nsa)	8.6	17.4	23.5	17.0

Pending home sales, which lead existing home sales by one to two months, surged in February and March, as buyers presumably rushed to take advantage of the homebuyer tax credit. That credit was available to purchasers who had a firm contract signed by the end of April. Those buyers were then able to close on the home as late as the end of June. Because of this added two-month grace period from contract signing to closing, we expect that the pending home sales index still received some support into April. Pending home sales are measured at the time of contract signing, whereas existing home sales are measured at the point of contract closing.

Wed
Jun 2

Motor vehicle sales

Mn, saar

	Feb	Mar	Apr	May
Light trucks and autos	10.3	11.8	11.2	11.0
Imports	2.5	2.8	2.5	
Domestics	7.9	9.0	8.7	
Autos	3.7	4.3	3.9	
Light trucks	4.1	4.7	4.8	

Ever since the cash-for-clunkers incentive program last summer and the associated short-term payback the following month, light vehicle sales have fluctuated between 10.0 million and 12.0 million units at an annual rate. For May, industry reports are guiding right in the middle of that range, 11.0 million saar, with retail looking a little weaker and fleet sales a little stronger.

Thu
Jun 3
8:30am

Jobless claims

000s, sa

	New claims (wr.)		Continuing claims		Insured
	Wkly	4-wk avg	Wkly	4-wk avg	Jobless,%
Mar 20	445	454	4681	4684	3.6
Mar 27	442	448	4562	4651	3.5
Apr 3	463	451	4686	4649	3.7
Apr 10	480	458	4663	4648	3.6
Apr 17[1]	459	461	4653	4641	3.6
Apr 24	451	463	4627	4657	3.6
May 1	446	459	4659	4651	3.6
May 8	446	451	4656	4649	3.6
May 15[1]	474	454	4607	4637	3.6
May 22	460	457			
May 29	445	456			

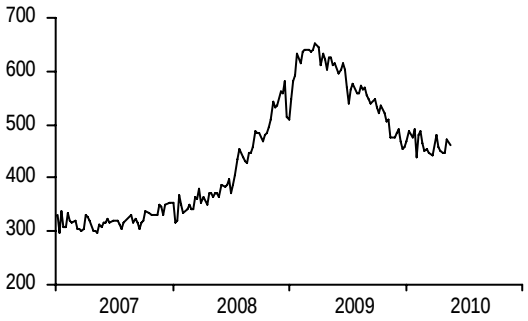
1. Payroll survey week

Initial jobless claims for the week ending May 22 declined to 460,000, reversing half of the 28,000 increase that occurred in the prior week. The latest claims figure is close to the first-half average. The failure of claims to move down in recent months has been a disappointment.

The commentary on the prior week's data gave little definitive signal as to what has caused the latest jump in claims. Claims in the week ending May 15 did increase 3,000 in Tennessee, which experienced some flooding, but this explains only part of the spike. For the week ending May 29, we look for jobless claims to return toward their early May levels.

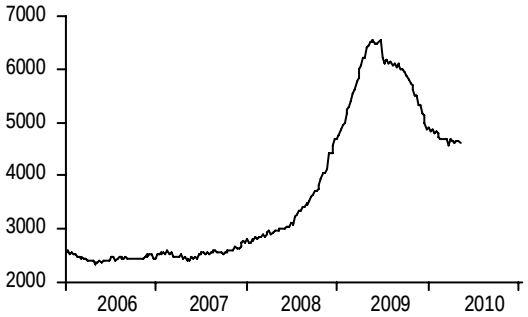
Initial jobless claims

000s, sa



Continuing jobless claims (first 26 weeks of UI)

000s, sa



Thu
Jun 3
8:30am

Productivity and costs

Nonfarm business sector, %q/q saar, unless noted

	4Q09	Rev 4Q09	Prel 1Q10	Rev 1Q10
Productivity	6.3	6.3	3.6	3.2
%oya	5.6	5.6	6.3	6.2
Output	7.0	7.0	4.4	4.0
%oya	-0.3	-0.3	3.1	3.0
Hourly compensation	0.4	-2.0	1.9	3.2
%oya	0.8	0.2	2.3	2.1
Unit labor costs	-5.6	-7.8	-1.6	0.1
%oya	-4.6	-5.1	-3.7	-3.9
Hours	0.7	0.7	0.8	0.8
%oya	-5.6	-5.6	-3.0	-3.0

Nonfarm business output growth was revised down 0.4%-pt in the first quarter to 4.0%. With little revision

to hours, we are expecting productivity to be marked down 0.4%-pt as well. Hourly compensation was revised higher in the first quarter. However, the downward revision to compensation in the fourth quarter of last year means that over-year-ago unit labor cost growth should be revised down from -3.7% to -3.9%.

Thu Jun 3 10:00am

ISM non manufacturing survey

Sa

	Feb	Mar	Apr	May
Nonmfg. index (NMI)	53.0	55.4	55.4	54.0
Business activity	54.8	60.0	60.3	
New orders	55.0	62.3	58.2	
Employment	48.6	49.8	49.5	
Prices	60.4	62.9	64.7	

In recent months, the improvement in the ISM nonmanufacturing index has been one of the recovery's last remaining pieces of the puzzle to be put in place, as it signaled that the service economy was joining the vibrant bounce in the manufacturing sector. For May, we look for the NMI to take a step back. One reason is that real estate and construction firms are well-represented in the NMI, and some indicators point to a drop-off in residential real estate activity following the end of the homebuyer tax credit at the end of April. Another reason is that weekly chain store sales indicators suggest that the somewhat hot pace of retail spending cooled off in May. Finally, and most conjecturally, the events overseas and the associated market stress could be hitting business confidence: the business activity component of the NMI is a general sentiment-like gauge, and if there is any Europe effect we would expect it to show up there.

Thu Jun 3 10:00am

Factory goods report

%m/m sa,unless noted

	Jan	Feb	Mar	Apr
New orders	3.0	0.4	1.1	2.0
Shipments	0.6	-0.5	2.3	1.3
Inventories	0.3	1.0	0.3	0.8
Inventory/sales ratio	1.24	1.26	1.24	1.23

Orders received by manufacturers of durable goods increased 2.9% in April, according to already-released data, as a surge in aircraft orders offset declines elsewhere. Nondurable orders (which are reported as equal to shipments) should increase 1.2%, according to our estimates, as rising petroleum and chemical prices likely supported growth in the nominal value of factory output. Nondurable inventories are expected to increase 1.0%, and total inventories should be up 0.8%.

Annual revisions to factory shipments and inventories show substantial downward revisions to the level of shipments, little revision to the level of inventories, and hence a modest upward revision to the level of the inventory-to-shipments ratio.

Fri Jun 4 8:30am

Labor-market report

Sa

	Feb	Mar	Apr	May
Payroll employment				
ch, m/m, 000s	39	230	290	545
Private payrolls	62	174	231	140
Goods-producing	-28	55	65	10
Construction	-51	26	14	-10
Manufacturing	16	19	44	20
Service-providing	67	175	225	535
Private service-providing	90	119	166	130
Wholesale trade	3	10	4	
Retail trade	7	15	12	
Professional services	56	13	80	
Temporary help	36	32	26	
Education/health	30	54	35	
Leisure and hospitality	23	41	45	
Government	-23	56	59	405
Average weekly hours	33.9	34.0	34.1	34.1
Index, hrs worked (%m/m)	-0.2	0.4	0.4	0.1
Hourly earnings (%m/m)	0.1	-0.1	0.0	0.1
%oya	2.0	1.7	1.6	1.6
Unemployment rate (%)	9.7	9.7	9.9	9.7

The headline figure in the May payroll report should be dominated by the increase in decennial Census temporary workers, which we expect will add about 420,000 to nonfarm employment. Factoring in a 15,000 decline in other government workers—a trend that reflects weak state and local finances—we anticipate a 405,000 increase in government payrolls. We expect private sector employment will increase by 140,000, which would represent a noticeable deceleration from last month's 231,000 increase. We think there are some reasons to expect the strength in goods-producing employment to soften. First, residential construction activity looks like it might be trailing off in May following the expiration of the homebuyer tax credit. Second, the early May manufacturing surveys suggest the factory sector is still doing well but is not quite as boomy as in April. We also look for some slowing in the pace of private service-providing jobs, based on jobless claims and what looks to be a little cooling in the retail sector. It seems likely that many of the Census workers may be drawn from outside the labor force, such as students. For this reason, we expect the 545,000 headline number will only push the unemployment rate down to where it was in March, 9.7%. The increase in the workweek has been a major source of hours growth, though we look for that to have taken a breather in May, as it is quite unusual for the workweek to increase for three consecutive months. Finally, we look for average hourly earnings growth to accelerate to a 0.1%m/m increase after two extremely weak readings.

Review of past week's data

Existing home sales (May 24)

	Feb	Mar		Apr	
Total (mn, saar)	5.01	~~5.35~~	*5.36*	~~5.65~~	*5.77*
%m/m	-0.8	~~-6.8~~	*7.0*	~~-5.6~~	*7.6*
%oya nsa	7.1	~~19.6~~	*20.2*	~~20.2~~	*26.2*
Months' supply (nsa)	8.5	~~-8.0~~	*8.1*		*8.4*
Single-family	8.2	~~-7.7~~	*7.8*		*8.2*
Median price (%oya)	-2.1	~~-0.4~~	*-0.2*		*4.0*

Existing home sales rose 7.6% in April to an annual rate of 5.77 million, following a 7.0% increase in March. Single-family homes rose 7.4% last month. The March-April strength in home sales almost surely owes in part to the homebuyer tax credit, which expired at the end of last month. The 35% decline in mortgage purchase applications in the first two weeks of May points to a fall-off in home sales after the expiration of the credit. The rules of the tax credit require only that a firm contract be signed by the end of April; closing can occur as late as the end of June. Because existing home sales are measured at time of closing, this series may come back down gradually over the next two months. Inventories of unsold homes on the market—which are not seasonally adjusted—were up 11.5%, which is a little more than their normal seasonal increase in April. The median sales prices for existing homes sold in April was up 4.0% from a year ago, and the average price was up 4.6%; each of these increases was the highest since 2006. Some of the strength in pricing may have been due to a compositional shift, as sales growth was strongest in the higher-priced Northeast.

Home price indexes (May 25)

%oya, unless noted

	Jan		Feb		Mar	
S&P/Case-Shiller						
20-city composite	-0.7		~~-0.6~~	*0.7*	~~-2.6~~	*2.3*
%m/m	0.3		-0.1		~~-0.3~~	*0.0*
10-city composite	-0.1		1.4			*3.1*
FHFA purchase-only						
%oya	~~-3.3~~	*-3.2*	~~-3.4~~	*-3.6*	~~-2.6~~	*-2.2*
%m/m sa	-0.6		~~-0.2~~	*-0.4*	~~-0.2~~	*0.3*

	3Q09		4Q09		1Q10	
S&P/Case-Shiller						
National composite	~~-8.7~~	*-8.5*	~~-2.5~~	*-2.3*		*2.0*
FHFA						
All transactions (%q/q)	-2.4	*-2.4*	~~-0.7~~	*-0.6*		*-1.6*
%oya	~~-4.0~~	*-3.9*	~~-4.7~~	*-4.4*		*-6.8*
Purchase-only (%q/q sa)	~~-0.1~~	*-0.1*	~~-0.1~~	*-0.5*		*-1.9*
%oya	-3.8		~~-1.3~~	*-1.5*		*-3.1*

The Case-Shiller 20-city house price index for March declined 0.05% samr and was 2.35% above the year-ago level. National prices, which are available quarterly, fell 3.2% in the first quarter of 2010, but were up 2.0%oya. Readings for individual cities over the past three months show strong gains in California (San Diego, San Francisco, and Los Angeles), near stabilization in other previously weak areas (Miami, Tampa, Las Vegas, Phoenix), and the largest price declines in interior cities (Chicago, Detroit, and Atlanta).

Consumer confidence (May 25)

Sa

	Mar	Apr		May	
Conference Bd index	52.3	~~57.9~~	*57.7*	~~53.0~~	*63.3*
Present situation	25.2	~~28.6~~	*28.2*		*30.2*
Jobs plentiful	4.0	~~4.8~~	*4.7*		*4.6*
Jobs hard to get	46.3	~~45.0~~	*44.8*		*43.6*
Plentiful less hard to get	-42.3	~~-40.2~~	*-40.1*		*-39.0*
Expectations	70.4	77.4			*85.3*

The Conference Board's measure of consumer confidence increased over 5pts in May to 63.3, exceeding expectations and reaching the highest level since March 2008. Recent developments in financial markets have not been confidence-inspiring, but two facts should be kept in mind: first, relative to the Michigan survey, the questions in the Conference Board survey tend to be more weighted toward labor-market rather than financial-market conditions, and second, the Conference Board sample period effectively covers roughly the first half of the month, and was completed by last Wednesday. Those caveats aside, May's report shows that improvements in the real economy are gradually chipping away at consumers' sense of gloom. This month's improvement was more pronounced in the expectations component, which increased almost 7pts, than in the present situations component, which only increased 2pts. The share of households judging jobs to be hard to get less the share assessing them as plentiful stood at 39%, about a percentage point less than in April, which may signal an improvement in the unemployment rate in the May labor market report.

Durable goods (May 26)

%m/m sa

	Feb	Mar		Apr	
New orders	0.5	~~-1.2~~	*0.0*	~~-2.3~~	*2.9*
Ex transportation	2.1	~~-3.7~~	*4.8*	~~-0.6~~	*-1.0*
Nondef cap. gds ex air	3.0	~~-4.6~~	*6.5*	~~-1.0~~	*-2.4*
Shipments	-1.5	~~-1.5~~	*2.1*	~~-0.8~~	*1.4*
Nondef cap. gds ex air	2.3	~~-1.9~~	*2.3*	~~-1.0~~	*0.2*
Inventories	0.7	~~-0.4~~	*0.6*		*0.7*

New orders at manufacturers of durable goods rose 2.9% in April, thanks to a surge in aircraft orders; excluding transportation equipment, orders fell 1.0%. The important core (nondefense ex. aircraft) capital goods category saw orders fall 2.4%, which would suggest this is a poor report. However, given the very strong core capital goods numbers in March (which were revised up further), the trend for corporate investment spending looks quite solid. Even with the April decline, core capital orders early in the second quarter are increasing at an 18% annual rate and shipments are rising at a 16% annual rate. Whether recent market volatility affects business psychology and willingness to undertake capital projects remains an open question, but we can at least say that through April the hard data on business investment look quite encouraging.

New home sales (May 26)

	Feb		Mar		Apr	
Total (000s, saar)	~~324~~	*338*	~~411~~	*439*	~~430~~	*504*
%m/m	~~-4.1~~	*-3.2*	~~-26.9~~	*29.9*	~~-4.6~~	*14.8*
%oya nsa	~~-13.8~~	*-6.9*	~~-22.6~~	*25.8*	~~-24.6~~	*50.0*
Months' supply	~~8.6~~	*8.2*	~~6.7~~	*6.2*		*5.0*
Median price (%oya)	~~-5.7~~	*4.8*	~~-4.3~~	*7.1*		*-9.5*

New home sales jumped almost 15% in April to an annual rate of 504,000, the highest pace of sales in two years. The May surge follows a 30% burst in new home sales in March and points to a strong effect of the homebuyer tax credit in stimulating sales. Of course, it's hard to say for sure how much of the sales growth is due to the tax credit, but one piece of circumstantial evidence supporting this story is the increased share of lower-priced homes sold last month: homes priced under $200,000 accounted for 52% of sales, up 10%-pts from their share in January. (To qualify for the $8,000 credit, the purchase price had to be less than $800,000 and the credit was phased out for incomes above $125,000.)

This support to lower-priced homes may help explain why home sales were up the most in the South, but flat in the Northeast. This regional shift in composition of home sales may also account for much of the deterioration in pricing measures last month: average prices were down 7.5% from a year ago and median prices were down 9.5%. The decline in mortgage purchase applications early in May points to a fall-off in sales, though one lasting effect of the credit should be a reduction in inventories; new homes on the market declined another 16,000 to 211,000.

Gross domestic product (May 27)

%ch, q/q saar, unless noted

	4Q09		Adv 1Q10		Second 1Q10	
Real GDP	5.6		3.2		~~3.4~~	*3.0*
Final sales	1.7		1.6		~~1.6~~	*1.4*
Domestic final sales	1.4		2.2		~~3.3~~	*2.0*
Consumption	1.6		3.6		~~4.0~~	*3.5*
Equip. and software	19.0		13.4		~~17.3~~	*12.7*
Nonres. structures	~~-18.0~~	*-18.1*	-14.0		~~-15.2~~	*-15.3*
Residential investment	3.7		-10.9		~~-11.1~~	*-10.7*
Government	-1.3		-1.8		*-1.9*	
Net exports (%-pt contr.)	0.3		-0.6		~~-1.7~~	*-0.7*
Inventories (%-pt contr.)	3.8		1.6		~~1.8~~	*1.6*
Core PCE price index	1.8		0.6			*0.6*
%oya	1.5		1.4			*1.4*
GDP chain price index	0.5		0.9			*1.0*
%oya	0.7		0.4			*0.5*
Adj. corporate profits	8.0				~~5.0~~	*5.5*
%oya	30.6				~~30.3~~	*31.0*

GDP growth in the first quarter was revised down from an initially reported 3.2% growth rate to 3.0%. The downward revision is largely due to weaker spending on software investment and on housing services. Adjusted corporate profits increased 5.5% last quarter, a very respectable growth rate but a definite slowing from the 10.8% and 8.0% surges reported in the third and fourth quarters, respectively. With the pace of decline in unit labor costs apparently abating, corporates will have a hard time repeating the type of cost cutting that boosted bottom line growth last year.

Personal income (May 28)

%m/m sa, unless noted

	Feb		Mar		Apr	
Personal income	~~0.1~~	*0.0*	~~0.3~~	*0.4*	~~0.5~~	*0.4*
Wages & salaries	0.1		~~0.2~~	*0.3*	~~0.7~~	*0.4*
Consumption	0.5		0.6		~~0.1~~	*0.0*
Real consumption	0.5		0.5		*0.0*	
PCE price index	0.0		0.1		~~0.1~~	*0.0*
Core	0.04		~~0.08~~	*0.10*	~~0.07~~	*0.08*
Mkt-based core	0.1		0.1			*0.1*
Core (%oya)	1.3		1.3		~~1.1~~	*1.2*
Mkt-based core (%oya)	1.2		1.1			*0.9*
Saving rate	~~3.0~~	*3.3*	~~2.7~~	*3.1*	~~3.2~~	*3.6*

Personal income increased a solid 0.4% in April, reflecting a good increase in labor income. This increase occurred even as government social assistance came off; real income excluding transfers rose a very respectable 0.6%. Real consumer spending was flat on the month, as households pulled back on retail spending and auto purchases. A decline in spending on utilities also held down outlays. The closely watched core PCE price gauge increased a low-side 0.1%, in line with expectations, and is up 1.2%oya. The market-based core PCE measure, which excludes imputed prices, is up only 0.9%oya.

Consumer sentiment (May 28)

	Apr	Pre May	Fin May	
Univ. of Mich. Index (nsa)	72.2	73.3	~~71.5~~	*73.6*
Current conditions	81.0	81.1		*81.0*
Expectations	66.5	68.3		*68.8*
Inflation expectations				
Short term	2.9	3.1		*3.2*
Long term	2.7	2.9		*2.9*
Home buying conditions	154.0	150.0		*150.0*

Consumer sentiment came in at 73.6 in May, up a little from the 72.2 seen in April, but unchanged from both the March and February readings. The level of consumer sentiment remains quite low, particularly if the economy is almost a year into an expansion. Nonetheless it is reassuring that the recent financial market turbulence doesn't seem to have had a big impact on consumer attitudes. Long-term inflation expectations were 2.9%, high by the standards of this year but in the middle of the range seen over the past few years. One-year-ahead inflation expectations were 3.2%, the highest in over a year. Near-term inflation expectations tend to follow energy prices and will likely come off in the next month or two as energy prices ease.

JPMorgan Chase Bank NA, New York
Robert Mellman (1-212) 834-5517
robert.e.mellman@jpmorgan.com

US focus: stabilizing house prices

- The Case-Shiller report on March house prices confirms the message that house prices have stabilized over the past year. The Case-Shiller 20-city measure of house prices declined a slight 0.05% in March (samr) and is up a modest 0.3% saar over the past three months and up 2.3%oya. Other measures of house prices including the Loan Performance and FHFA series are also reasonably close to year-ago levels.

- House prices in California have generally been increasing over the past year, and prices in San Francisco and San Diego are showing the largest annual gains among the 20 cities in the Case-Shiller sample.

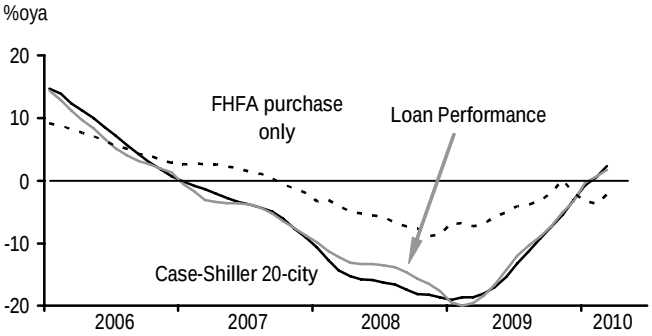
- Home prices in other boom-bust cities including Miami, Tampa, Phoenix, and Las Vegas have stabilized over the past three to six months.

- The weakest pricing over the past three months has been in Detroit, Chicago, and Atlanta. But recent declines have followed good gains in prior months.

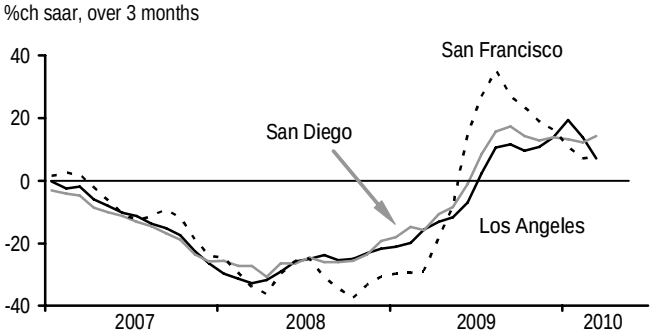
S&P Case-Shiller price index, % year-over-year

City	Oct 09	Nov 09	Dec 09	Jan 10	Feb 10	Mar 10
20-city composite	-7.3	-5.4	-3.1	-0.7	0.7	2.3
Atlanta	-8.1	-6.2	-3.9	-2.2	-0.9	-1.3
Boston	-2.8	-0.7	0.5	1.5	1.8	3.8
Charlotte	-7.0	-5.5	-3.7	-3.2	-2.6	-3.9
Chicago	-10.1	-8.5	-7.2	-4.4	-3.0	-2.3
Cleveland	-3.5	-2.5	-1.3	0.4	3.9	6.7
Dallas	-0.6	1.4	3.0	4.2	2.6	3.0
Denver	-0.1	0.5	1.2	2.7	3.6	4.1
Detroit	-15.4	-13.2	-10.3	-7.3	-5.3	-4.6
Las Vegas	-26.6	-24.5	-20.6	-17.4	-14.6	-12.0
Los Angeles	-6.3	-3.5	0.0	3.9	5.3	6.0
Miami	-14.0	-12.1	-9.9	-6.7	-4.4	-1.7
Minneapolis	-8.2	-6.5	-2.1	1.8	3.0	6.5
New York	-8.0	-7.4	-6.3	-5.3	-4.1	-2.4
Phoenix	-18.1	-14.2	-9.2	-4.6	-1.6	2.4
Portland	-9.9	-7.5	-5.4	-4.2	-4.8	-2.8
San Diego	-2.4	0.4	2.7	5.9	7.6	10.8
San Francisco	-2.6	1.0	4.8	9.0	11.9	16.2
Seattle	-12.4	-10.6	-7.9	-6.0	-5.6	-3.6
Tampa	-15.2	-13.2	-11.0	-7.4	-6.0	-3.5
Washington D.C.	-2.6	-0.6	1.9	3.2	5.0	5.6

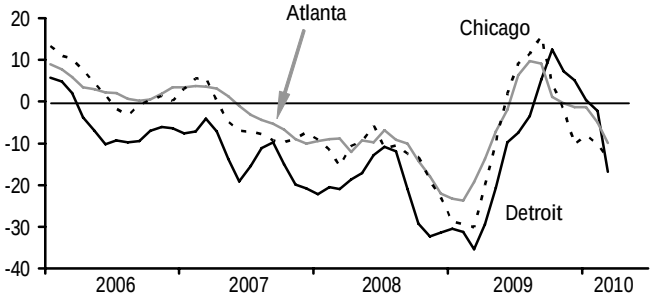
Three measures of house prices



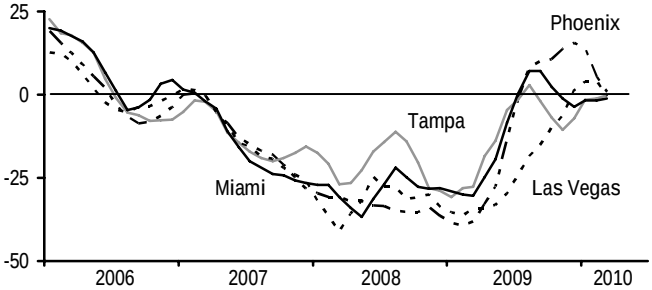
Case-Shiller house prices, California cities



Case-Shiller house prices, cities with recent weakness



Case-Shiller house prices, boom-bust cities outside of California



JPMorgan Chase Bank, London
Greg Fuzesi (44-20) 7777-4792
greg.x.fuzesi@jpmorgan.com
Marta Bastoni (44-20) 7325-9114
marta.x.bastoni@jpmorgan.com

Euro area

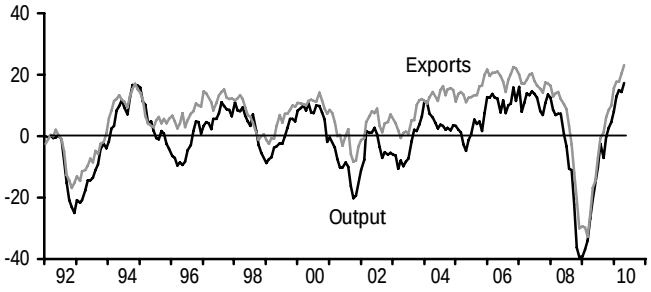
- **Sentiment indicators continue to hold up in May**
- **Fiscal policy stance still neutral in Euro area this year, despite heavy news flow about "new" measures**
- **Uneven export recovery in the region**

With the sovereign debt turmoil continuing to buffet financial markets, it is important to gauge the negative spillover effects this could have on the real economy. One important channel is via sentiment. With further national business and consumer surveys for the month of May becoming available this week, it is clear that there has not yet been any sharp break to the downside. At worst, surveys are reversing the solid gains they made in April, although some surveys actually reached new recovery highs in May. The outlook remains very uncertain, but the hit to confidence appears limited thus far.

On the business side, the French INSEE survey showed manufacturing confidence nudging up by one point to a new recovery high, while the whole economy measure was unchanged. In the Italian ISAE and Dutch CBS surveys, manufacturing confidence also reached new highs, while a sizable drop was recorded in the Belgian BNB survey. Finally, we highlighted last week that the German surveys for May were sending mixed messages, with a further improvement in manufacturing reported in the IFO survey but a large fall reported in the German manufacturing PMI (albeit from an extremely high level). The new details published by the IFO this week suggest that German industry remains confident of very strong growth over the next six months, with the production and export expectations indices hitting all-time highs.

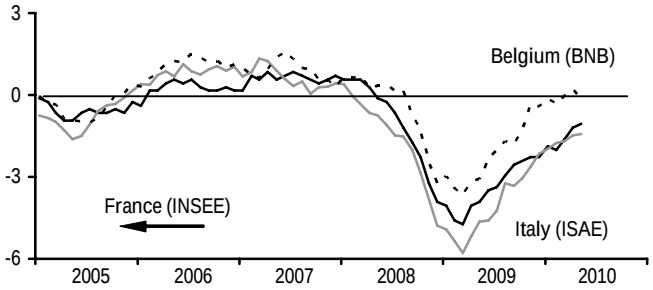
German IFO: export and production expectations in manufacturing

% balance



Manufacturing confidence

Standard deviation from 2000 to 2007 average



Fiscal thrust across the Euro area

%-pt change in cyclically adjusted primary positions
A positive is a move to tightening

	2010	2011	2012
Euro area	-0.2	1.3	1.2
Germany	-3.1	0.5	1.5
France	0.2	1.9	1.2
Italy	0.1	0.8	0.7
Spain	2.7	3.4	1.8
Netherlands	-1.5	0.8	0.3
Belgium	1.3	0.6	0.8
Austria	-1.2	0.9	0.7
Greece	9.5	1.9	1.3
Ireland	0.9	0.8	2.1
Finland	-1.4	0.6	0.1
Portugal [1]	2.4	3.8	2.1

Note: J.P. Morgan calculations based on the Stability and Growth Programs and additional measures approved by national parliaments.
1. For Portugal, more details expected with the forthcoming midyear budgetary review.

Euro area fiscal policy: not yet tight

With many Euro area sovereigns under pressure to address large fiscal deficits, there is a steady stream of news about fiscal tightening measures. It is not always clear whether the announcements refer to additional fiscal measures, or simply spell out how the existing consolidation plans will be achieved in practice. In our judgement, the news this week out of Germany, France, and Italy largely reflects decisions about how the fiscal tightening that has already been planned for next year will be achieved. Thus, this recent news from these countries does not affect our estimate of the fiscal drag in the region. Overall, we continue to see fiscal policy as largely neutral this year and only tightening in the region as a whole from next year (by just over 1% of GDP). That fiscal policy is not tightening yet in the entire region is largely due to ongoing loosening in a few countries, notably in Germany, the Netherlands, Austria, and Finland. This easing broadly offsets the very large tightenings that are already planned in Spain (2.7% of GDP), Portugal (2.4% of GDP), and Greece (9.5% of GDP).

JPMorgan Chase Bank, London
Nicola Mai (44-20) 7777-3467
nicola.l.mai@jpmorgan.com
David Mackie (44-20) 7325-5040
david.mackie@jpmorgan.com

Tracking the recovery of exports

With concerns about domestic demand rising due to the sovereign debt turmoil, it is possible that the region will need to rely for longer on exports as the main source of growth. Fortunately, significant support is in the pipeline in this regard from the 10% depreciation of the trade-weighted currency this year. While this is a positive for growth, the benefits are likely to be distributed unevenly across the region.

There are striking differences in the importance of exports and trade across Euro area countries. Among the large economies, Germany has a particularly high export share of GDP (47%). This implies that an export recovery is particularly important for the German economy after the sharp falls during the recession. In comparison, exports account for just under 30% of the French, Italian, and Spanish economies. Trade shares generally tend to be higher among the smaller economies, but Portugal and Greece stand out for having very small export sectors. In the case of Greece, these exports are also concentrated in services, rather than in goods, likely reflecting its specialization in tourism.

There are also differences in product mix, such as the relative importance of capital goods and car production in German exports. During the recession, capital goods exports fell sharply in all countries, but the large drop in consumer goods exports out of Germany reflects the drop in auto exports. Overall, exports of both goods and services fell by close to 20% in most countries, with the notable exceptions of Ireland and Finland, reflecting special factors (product mix in the former and proximity to Baltic economies undergoing large adjustments in the latter). Nevertheless, given the large export share in certain economies, such as Germany, the impact has been disproportional.

It is mainly the recovery of goods exports that can be tracked on a monthly and timely basis. The most recent data suggest that the trade recovery is broad-based across the region. After the weather-affected decline at the start of the year, German exports increased very sharply in February and March. These increases in Germany were broad-based by both destination and product category. A solid recovery is consistent with the German business surveys. In the rest of the region, exports have recovered more steadily in recent months, but even here they have recovered around half of the peak-to-trough declines seen during the recession. The weaker currency should support export performance across the region. But, given the high share of exports in the German economy and its high exposure to trade with countries outside of the Euro area, the currency support should be particularly significant here.

Euro area exports by country

%, 2007 values, "extra" refers to % of goods exports to outside of Euro area

	% of nominal GDP			% of goods exports			Extra
	Total	Services	Goods	Capital	Interm.	Cons.	
Euro area	41	9	32	18	52	28	49
Germany	47	7	40	22	50	26	56
France	27	5	21	17	50	30	50
Italy	29	5	24	18	49	31	54
Spain	27	9	18	11	48	39	42
Netherlands	75	14	60	20	54	23	39
Belgium	83	na	na	9	58	32	37
Austria	59	16	44	20	56	23	45
Portugal	33	8	24	10	55	33	33
Greece	23	13	9	7	53	40	56
Ireland	81	na	na	17	51	29	59
Finland	46	9	37	31	57	12	70

Note: Euro area includes both intra- and extra-Euro area trade. Consumer goods include exports of passenger cars and fuel.

Export falls during the recession

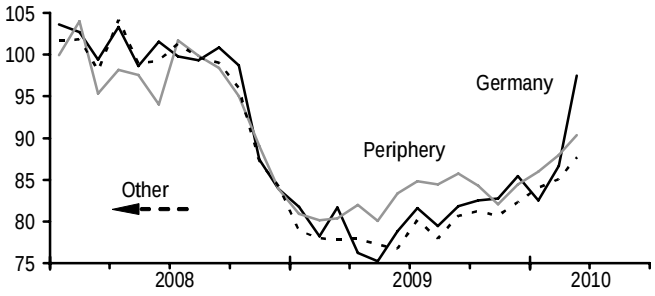
%, decline from 3Q08 to trough, export volumes

	National accounts			Merchandise exports			Extra
	Total	Services	Goods	Capital	Interm.	Cons.	
Euro area	-16	-8	-18	-30	-22	-11	-20
Germany	-18	-11	-21	-35	-24	-21	-25
France	-14	-11	-16	-27	-23	-11	-16
Italy	-21	-15	-22	-30	-26	-17	-27
Spain	-13	-13	-17	-37	-26	-16	-24
Netherlands	-11	-5	-13	-28	-23	-11	-17
Belgium	-17	na	na	-38	-21	-10	-19
Austria	-16	-11	-19	-31	-25	-16	-25
Portugal	-16	-9	-20	-36	-23	-14	-21
Greece	-20	-27	-12	-49	-24	-8	-12
Ireland	-3	na	na	-27	-23	-1	-15
Finland	-27	-18	-30	-54	-29	-44	-35

Note: Euro area includes both intra and extra Euro area trade, except in the columns showing merchandise goods, where it includes only extra-Euro area trade. At the country level, all national accounts and merchandise exports data include both intra- and extra-Euro area exports. Consumer goods include exports of passenger cars and fuel.

Euro area exports

3Q08 = 100, "Periphery" refers to Greece, Portugal, Spain, and Ireland



JPMorgan Chase Bank, London
Greg Fuzesi (44-20) 7777-4792
greg.x.fuzesi@jpmorgan.com
Marta Bastoni (44-20) 7325-9114
marta.x.bastoni@jpmorgan.com

Data releases and forecasts

Week of May 31 - June 4

Output and surveys

Real GDP

		2Q09	3Q09	4Q09	1Q10
Fri	Euro area (prelim)				
Jun 4	%q/q sa	-0.1	0.4	0.0	0.2
11:00am	%q/q saar	-0.5	1.6	0.2	0.8
	%oya	-4.9	-4.1	-2.2	0.5
	GDP components (%q/q saar)				
	Private consumption	0.3	-0.5	-0.2	-0.5
	Government consumption	2.6	3.0	-0.4	2.5
	Fixed investment	-6.2	-3.7	-5.2	-6.0
	Exports	-4.1	12.1	7.6	10.0
	Imports	-10.6	12.2	5.1	7.0
	Contributions to GDP growth (%q/q saar)				
	Domestic final sales	-0.6	-0.4	-1.3	-1.0
	Inventories	-2.7	2.0	0.4	0.6
	Net trade	2.8	0.1	1.0	1.3

Euro area GDP growth is likely to be confirmed at 0.8%q/q saar in 1Q10. The details are set to show another decline in domestic final sales, reflecting declines in consumer spending and fixed investment. The latter will include a weather-related hit to construction at the start of the quarter in addition to still-soft machinery investment. Consumer spending is also set to have declined again, reflecting broadly stable retail spending and falling car purchases. In contrast, available country information points to a solid gain in government consumption after the surprise fall in 4Q09.

Given the likely decline of domestic final sales, the growth in the region will have come again from inventory and net trade. The split here is slightly uncertain. The available monthly and survey data suggest a large net trade contribution and only a small one from inventory. This is reflected in our forecast. But, the available country data suggest a weaker net trade contribution and a stronger one from inventory; on this basis, it appears that strong imports in 1Q10 may have produced a net trade drag and an increase in inventory. Apart from questions around this split, we note that the recovery in exports remains firmly on track, as suggested by recent business surveys and the monthly trade data.

Purchasing managers index final (manufacturing)
Index, sa

		Feb	Mar	Apr	May
Tue	Euro area				
Jun 1	Overall region	54.2	56.6	57.6	55.9
10:00am					
9:55am	Germany	57.2	60.2	61.5	58.3
9:50am	France	54.9	56.5	56.6	56.2
9:45am	Italy	51.6	53.7	54.3	53.8
9:15am	Spain	49.1	51.8	53.3	52.5

Purchasing managers index final (services)
Index, sa

		Feb	Mar	Apr	May
Thu	Euro area				
Jun 3	Overall region	51.8	54.1	55.6	56.0
10:00am					
9:55am	Germany	51.9	54.9	55.2	53.7
9:50am	France	54.6	53.8	59.2	61.9
9:45am	Italy	50.8	55.3	54.5	54.5
9:15am	Spain	47.1	51.3	50.9	52.0

Purchasing managers index final (composite)
Index, sa

		Feb	Mar	Apr	May
Thu	Euro area				
Jun 3	Overall region	53.7	55.9	57.3	56.2
10:00am					
9:55am	Germany	55.7	58.7	59.3	55.5
9:50am	France	55.6	55.8	59.2	60.5
9:45am	Italy	51.9	55.6	55.1	54.6
9:15am	Spain	47.7	52.3	52.3	53.0

The composite output index of the flash PMI for May showed a 1.1pt decline, almost reversing the large increase in April. But, at 56.2, it continues to signal GDP growth at almost a 3% annualized pace. This is encouraging, and in the detail the composite employment index still rose to above 50 for the first time in this recovery. However, there were also some signs in the detail of some increase in business caution, such as lower output and new orders indices in manufacturing. Nevertheless, given the extent of the sovereign debt turmoil, the decline of the flash PMI in May was relatively modest.

Interesting to see in the final release will be whether the PMI sees any revision from the flash release. If this occurs, it may indicate that conditions worsened during the month and that the late responses were worse than the majority of responses already included in the flash PMI. In addition, the final PMI will give a full country breakdown. From the flash release, it appears that outside of Germany and France, the PMI rose 0.5pt on average in services and fell 0.8pt in manufacturing.

JPMorgan Chase Bank, London
David Mackie (44-20) 7325-5040
david.mackie@jpmorgan.com
Nicola Mai (44-20) 7777-3467
nicola.l.mai@jpmorgan.com

European Commission survey
% balance of responses, sa

		Feb	Mar	Apr	May
Mon	Euro area				
May 31	Industrial confidence	-13	-10	-7	-6
11:00am	Recent production trend	-5	0	8	—
	Production expectations	7	9	9	—
	Export order books	-42	-36	-32	—
	Stocks of finished products	4	0	-1	—
	Selling-price expectations	-4	-2	5	—
	Construction confidence	-29	-25	-25	—
	Retail confidence	-9	-6	-1	—
	Service confidence	1	1	5	—

We expect industrial confidence to have nudged up to -6 in May. Such an outcome would be consistent with the available national surveys (IFO, INSEE, ISAE, BNB), which saw further gains in industrial confidence despite the intensification of the sovereign debt turmoil. The weaker currency is providing important support in the current environment. Outside of industry, it is likely that confidence fell slightly in May, although this would come after very strong increases in April. Overall, we expect the EC survey to suggest a slight shift to increased caution on the part of firms, but without any dramatic breaks to the downside.

Demand and labor markets

Retail sales
Total sales, volumes

		Jan	Feb	Mar	Apr
Thu	Euro area				
Jun 3	%m/m sa	-0.3	-0.2	0.0	0.1
11:00am	%oya, working-day adj.	-0.6	-0.2	-0.1	—
Tue	Germany				
Jun 1	Sales ex autos and petroleum, volumes				
8:00am	%m/m sa	-1.5	1.6	-1.6	1.0
	%oya sa	-1.7	-0.1	-1.6	-1.2

Retail spending in both Germany and the Euro area overall has been broadly unchanged over the past year. We expect this trend to have continued in April. It is probably too early to expect the sovereign debt turmoil to have had a large negative impact on spending in April, given that consumer confidence actually rose strongly in the month (reflecting the increasing signs that labor markets are slowly stabilizing in the region). While Germany is likely to see an increase after a sizable fall in March, the Euro area aggregate is likely to have remained unchanged in April.

Unemployment
Seasonally adjusted

		Jan	Feb	Mar	Apr
Tue	Euro area				
Jun 1	Harmonized measure (Eurostat)				
11:00am	Unemployment rate (%)	9.9	10.0	10.0	10.1

		Feb	Mar	Apr	May
Tue	Germany				
Jun 1	Registered (ch m/m, 000s, sa)	-10	-42	-68	-15
9:55am	000s, nsa	3643	3568	3406	—
	Unempl. rate (%, sa)	8.1	8.0	7.8	7.8

		2Q09	3Q09	4Q09	1Q10
Thu	France				
Jun 3	ILO unemployment rate (%)	9.5	9.5	10.0	—
8:45am	ILO mainland unemp. rate (%)	9.1	9.1	9.6	—

At the Euro area level, the monthly change in unemployment was relatively large in March, rising 101,000. In addition, the Spanish data could see an upward revision due to the incorporation of more comprehensive 1Q10 data. In our view, both factors create the risk of pushing the Euro area unemployment rate up to 10.1%. Nevertheless, the business surveys are strongly suggesting that labor markets are stabilizing, and therefore the unemployment rate is likely to be very close to the peak in April.

In Germany, unemployment fell very sharply in April. While the German labor market is clearly improving, we think that the large monthly decline in unemployment in April is not yet sustainable. Therefore, we have penciled in a smaller decline for May.

Employment

		Jan	Feb	Mar	Apr
Tue	Germany				
Jun 1	Change m/m, 000s, sa	-18	-1	10	20
9:55am					

Given the large fall in unemployment already seen in April, it is likely that employment (which is reported with a one-month lag) increased again in April. These jobs are likely to be in government and related services, rather than in manufacturing, where there is still pressure to adjust labor costs. But, small gains in overall employment are consistent with the message sent by German business surveys.

Consumer confidence

		Feb	Mar	Apr	May
Mon	Euro area (European Commission survey)				
May 31	% balance of responses, sa				
11:00am	Consumer confidence (final)	-17	-17	-15	-18

Consumer confidence fell 2.5pts in May, more than reversing the large improvement seen in April. Nevertheless, this still left confidence in the range it has been in since October last year, despite the recent intensification of the sovereign debt turmoil. The final release will contain the full country and component breakdown. Indications from national surveys suggest small deteriorations in most countries and across most categories.

JPMorgan Chase Bank, London
Greg Fuzesi (44-20) 7777-4792
greg.x.fuzesi@jpmorgan.com
Marta Bastoni (44-20) 7325-9114
marta.x.bastoni@jpmorgan.com

Inflation

Consumer prices

Mon		Feb	Mar	Apr	May
May 31	Euro area (flash)				
11:00am	HICP (%oya nsa)	0.9	1.4	1.5	1.6
Mon	Italy (prelim)				
May 31	%m/m nsa	0.1	0.3	0.4	0.3
11:00am	%oya nsa	1.2	1.4	1.5	1.6
	HICP (%oya nsa)	1.1	1.4	1.6	1.7
Thu	Netherlands				
Jun 3	%m/m nsa	0.7	1.2	0.3	0.0
9:30am	%oya nsa	0.8	1.0	1.1	1.0
	HICP (%oya)	0.3	0.7	0.6	0.5

Euro area inflation is likely to have increased marginally in May, against the backdrop of a small rebound in core inflation in the month. The rebound is expected to be caused by inflation in services connected to tourism, which fell very sharply in April. For inflation in the more volatile components of energy and food, we expect a muted dynamic in both sectors, compared with the very sharp increases that took place in the last few months.

Producer prices

		Jan	Feb	Mar	Apr
Wed	Euro area				
Jun 2	%m/m nsa	0.7	0.1	0.6	0.9
11:00am	%oya nsa	-1.0	-0.4	0.9	2.8
Tue	France				
Jun 1	%m/m nsa	0.7	0.1	0.7	1.0
8:45am	%oya nsa	0.4	1.0	2.0	3.9

Producer prices in the Euro area are expected to rise even further in April, helped by the increases in import prices that are affecting the production of intermediate prices. We expect to see sequential increases also in food prices and marginally in consumer prices.

Financial activity and public finance

Money and credit data

		Jan	Feb	Mar	Apr
Mon	Euro area				
May 31	M3 (%m/m sa)	-0.3	0.0	0.1	0.2
10:00am	M3 (%oya)	0.1	-0.3	-0.1	-0.1
	M3 (%oya 3mma)	-0.1	-0.2	-0.1	-0.9
	Private loans (%oya)	-0.6	-0.4	-0.2	—

We expect Euro area M3 to increase slightly in April, but for the annual rate of change to remain slightly negative. Bank loan growth is likely to remain equally subdued. But, in the case of both money and loan developments, the details have been encouraging. In terms of M3 deposits, there has been an impressive acceleration in the growth of cash holdings by nonfinancial corporates (7%oya), suggesting better revenue and cost positions. In terms of loans, household borrowing has been expanding at a 3% annualized pace of growth, while nonfinancial corporate borrowing is gradually stabilizing.

Review of past week's data

Output and surveys

Manufacturing orders

Index, sa

	Jan		Feb		Mar	
Euro area						
Values						
New orders (%m/m sa)	~~-1.6~~	*-1.5*	~~1.5~~	*1.9*	—	*5.2*
New orders (%oya sa)	~~10.4~~	*10.3*	~~12.2~~	*12.5*	—	*19.2*

National business surveys

	Mar		Apr		May	
France (INSEE survey—manufacturing)						
Index						
Composite index	93		~~97~~	*96*	—	*97*
Index of past production	5		~~22~~	*21*	—	*22*
Expected output—personal	5		~~4~~	*6*	—	*4*
Expected output—general	-3		8		—	*-3*
Italy (ISAE survey)						
2000=100, sa						
Producer confidence	84.4		85.5		—	
Belgium (BNB survey)						
% balance of responses, sa						
Overall	-3.6		-2.4		—	*-4.9*
Manufacturing	-6.5		-4.5		—	*-7.8*
Commerce	-1.2		1.5		—	*-0.1*
Construction	-9.3		-7.0		—	*-6.5*

As in last week's German IFO, the business surveys are so far showing relatively little impact of the sovereign debt turmoil in the region. Instead, manufacturing confidence in the French INSEE survey reached a new recovery high, as did the Italian ISAE and the Dutch CBS surveys. Only the Belgian BNB survey fell more significantly across most sectors. For more discussion of the surveys, please see this week's essay.

Demand and labor markets

Domestic consumption

	Feb		Mar		Apr	
France						
Consumption of manufactured products, real terms						
%m/m sa	~~-1.4~~	*-1.6*	~~1.2~~	*1.6*	—	*-1.2*
%oya sa	~~1.3~~	*1.2*	~~2.5~~	*2.4*	—	*1.1*

French consumption of manufactured goods fell in April, reflecting to a large extent a sharp 9.5%m/m decline in car sales. This leaves overall spending almost 3% annualized below the 1Q10 average, but we note that the large swings in this spending indicator in recent quarters have not very accurately predicted overall household spending in the national accounts.

JPMorgan Chase Bank, London
David Mackie (44-20) 7325-5040
david.mackie@jpmorgan.com
Nicola Mai (44-20) 7777-3467
nicola.l.mai@jpmorgan.com

Inflation

Consumer prices

	Mar	Apr	May	
Euro area				
HICP (%oya nsa)	1.4	1.5	1.6	
Germany (prelim)				
%m/m nsa	0.5	-0.1	*0.1*	
%oya	1.1	1.0	*1.2*	
HICP (%oya)	1.2	1.0	*1.2*	
Baden Wuerttemberg (%oya)	1.3	1.1	~~1.3~~	*1.4*
Bavaria (%oya)	1.1	0.9	~~1.1~~	*1.2*
Brandenburg (%oya)	0.8	0.7	~~0.9~~	*1.0*
Hesse (%oya)	0.8	0.8	~~1.0~~	*0.8*
North-Rhine West (%oya)	1.2	0.8	*1.0*	
Saxony (%oya)	1.3	1.1	~~1.2~~	*1.1*
Spain (flash)				
HICP (%oya nsa)	1.5	1.6	~~16~~	*1.8*
Belgium CPI				
%m/m nsa	0.4	0.3	~~0.1~~	*0.4*
%oya nsa	1.7	1.8	~~1.9~~	*2.3*

The preliminary release of German inflation in May showed a normalization of core inflation, after the sharp decline in April. Besides the increased noise in core inflation since the beginning of the year, the trend has been one of a gradual decline, after the very stable trajectory maintained throughout last year.

As expected, the sharp decline seen in core service inflation in April was partially reversed in May, and core inflation was back up two-tenths to 0.7%oya in May. Package holidays prices rose 3.5%m/m in May. Hotels and restaurant inflation also rose again after the April noise, but the inflation rate is now well below the 4Q average (due the decline in VAT in accommodation prices in January). The rest of core inflation appears to have moved largely sideways. If the preliminary results are be confirmed, overall core inflation rose back to 0.7%oya in May, after falling to 0.5%oya in April.

Energy inflation remained almost unchanged in May. It appears that gasoline prices failed to reflect the downward trend this month after failing to reflect the upward movement in oil prices last few months as well. Food inflation was softer than expected, with seasonal food prices falling sharply in the month.

Import prices

	Feb	Mar	Apr	
Germany				
%m/m nsa	1.0	1.7	~~1.2~~	*2.0*
%oya nsa	2.6	5.0	~~7.1~~	*7.9*

Import price inflation in Germany reached in April its highest point since August 2008. The acceleration appears connected to the ongoing weakness of the euro. Prices in the energy component rose up sharply. However, there was a sharp upward movement in prices also in the core components. The sharpest price increases were concentrated in the raw materials (excluding fuels and food), where the exchange rate can have more effect on the final price. Consumer goods deflation eased a bit, moving from -2.6%oya in March to -2.0%oya in April, with a 0.4%m/m gain. Prices for consumer goods have increased consecutively for the last five months. Food inflation kept rising in April.

Producer prices

	Feb	Mar	Apr	
Italy				
%m/m nsa	0.3	0.5	__	*1.0*
%oya nsa	0.5	1.7	__	*3.1*

JPMorgan Securities Japan Co., Ltd.
Masamichi Adachi (81-3) 6736-1172
masamichi.x.adachi@jpmorgan.com

Japan

- **Small firms' sentiment held steady despite deteriorating financial markets**
- **Real exports remained solid in April**
- **Private consumption-related data again confusing; labor markets unexpectedly worsened in April**

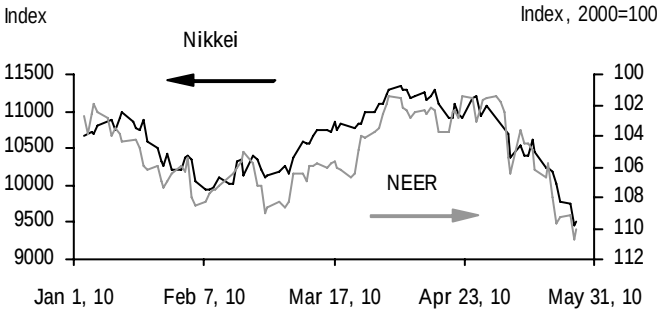
The spectacular volatility in financial markets continued this week as the Nikkei equity index edged down further from last Friday; the Nikkei has lost 6.5% in the past week and hit its year-to-date low on Tuesday. The index is still 11.7% and 13.9% below the end of last month and the recent April 5 peak, respectively. FX moves have also been negative: the nominal effective exchange rate of the yen was 8.5% higher than the trough reached May 3, and the currency has risen 11.6% against EUR and 4.6% against USD. Market volatility reflected continued concern about the Euro area and financial regulation in the US, and the escalation of tension in the Korean peninsula this week has worried investors further—although at this stage there has been no significant impact.

To be sure, there has been no sign that these fears have weighed on macroeconomic activity, at least so far. Indeed, the May Shoko Chukin small firms' survey suggested that business confidence was little changed from April, and companies are even looking for some improvement in June. However, it is hard to say just when financial markets will stabilize, and how economic agents will react to the uncertainty surrounding both financial markets and the global economy. While we do not think that the peak in Japan's recovery has passed yet, as some pessimists argue, the risk of some slowdown in momentum has risen in the past couple of weeks. Next week's April IP report, which includes manufacturers' output projections for May and June, and May's PMI (manufacturing on Monday, nonmanufacturing on Thursday) should be studied closely to gauge how the real economy may be affected by market shocks.

Small firms' sentiment holding steady

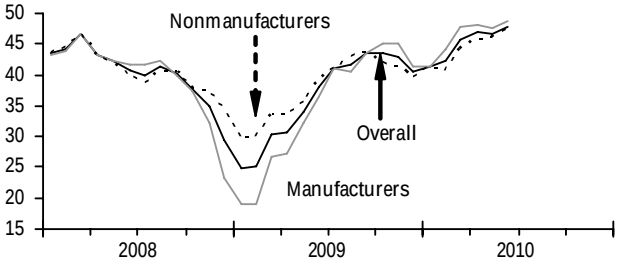
The Shoko Chukin small firms' sentiment index was essentially unchanged between April (46.8) and May (46.7), exceeding the outlook in the April report, which estimated a drop to 45.4. Moreover, small firms expect a rise to 47.9 in June, which would be the highest level since September 2007. The result suggests that the momentum in the economy has been holding up, despite the market turmoil. Note, however, that the survey period was early in the month, implying that the impact of market volatility was limited.

Equity prices and nominal effective exchange rates



Shoko Chukin small firm sentiment

DI, latest are outlook for June



Looking at the details, the manufacturing DI fell 0.7pt, with the mixed bag featuring a rise among machinery sectors—industrial, transport, and electrical—but a decline in others. However, the magnitude of the decline was much more modest than predicted in April's survey (the index marked 47.4 versus a projected 45.4). The June outlook suggests a rebound to 48.7. Meanwhile, the nonmanufacturing DI posted its third consecutive monthly rise to 46.0, after climbing to 45.7 in April and 44.1 in March; much of this can be attributed to improved sentiment among restaurants/hotels and retailers. These sectors benefited also from favorable weather during the Golden Week holidays. A further rise is forecast in June.

Outside of business conditions DIs, the inventory, capacity, and employment DIs for small firms continued to suggest that firms' perceptions of excess inventory, employment, and capacity have been falling. Overall, the outcome of this survey suggests that, while the level of activity remains depressed, a solid recovery lies ahead.

Exports remained solid in April

The BoJ real export index jumped 6.5%m/m sa in April, confirming our view that exports remained robust at the start of this quarter. In %3m/3m sequential terms, the pace

of increase picked up to 30.3% ar from 22.4% in March and 28.4% in February. While the trend of exports likely will moderate in the coming months, the April print was somewhat stronger than our expectations. Reviewing the customs trade data in value terms, exports to the US have been strengthening over the past few months, while the growth of exports to Asian countries, including China, has decelerated to a still-solid pace. Meanwhile, nominal exports to the EU, where fiscal pressures have clearly intensified of late, have been relatively soft.

Mixed consumption-related data register soft labor market reading

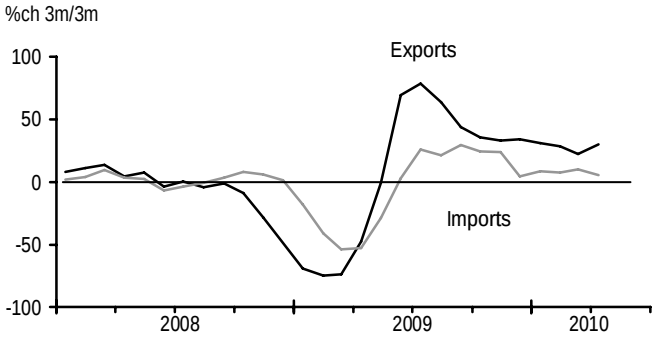
The major two monthly indicators of private consumption in April moved in different directions again, as was the case in January and February. Core real household spending was surprisingly weak, plunging 5.7%m/m sa in April (16.1% ar below the 1Q average). On the other hand, retail sales were firm, rising 0.5% in the month—this coming on the heels of three consecutive m/m rises and an 11.3% ar jump in 1Q.

It seems to us that the plunge in household spending mainly reflected inherent volatility in the survey sample. Indeed, spending jumped 5.0% in March, leaving the March/April average 1.6% higher than that of either January or February. As a result, we are putting more emphasis on retail sales to assess the momentum, but neither series is a particularly reliable indicator of GDP-based consumption. We have to wait for the Cabinet Office composite index of private consumption (probably out on June 7) for a more accurate reading.

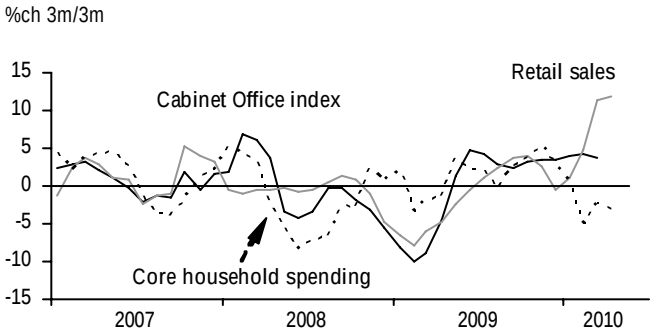
There were reasons to believe that consumption in April was softer than that in March: unusually cold weather, and a payback of the front-loading purchases in household appliances—the number of items that are subject to the "eco-point" has been reduced from April. Indeed, retail sales reports showed that the apparel and household machinery categories fell 4.3%m/m sa and 2.2%, respectively.

Looking ahead, though, the weather improved into May and the payback effects likely will stabilize. Moreover, the first payments of child allowances commence in June. Today's soft readings from labor market indicators—employment fell while the unemployment rate edged up to 5.1%—were discouraging, and a recent fall in equity prices is a decisive headwind to consumption. Nevertheless, an improvement in corporate profits and broadening improvement in economic activity are expected to support labor income and consumer sentiment. We think that the steady uptrend in consumption will continue, despite periods of moderation.

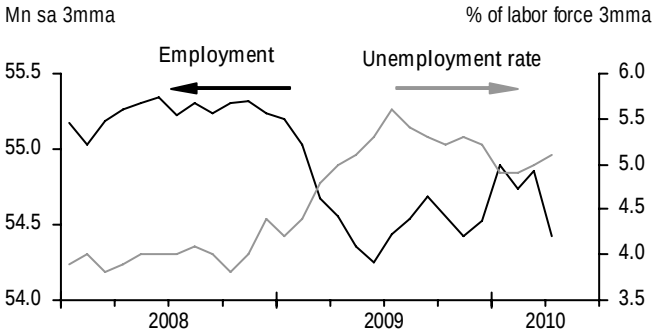
Real exports and imports



Consumption-related data



Payroll employment and unemployment rate



CPI deflation trend appears to be easing

The US-equivalent core CPI deflation accelerated to a 1.6%oya fall in April from a 1.1% decline in March. However, the April fall reflected the cuts in high school tuition, which were introduced by the new government as an initiative to support households. Excluding this special factor, the April reading should be -0.8%, suggesting that deflation eased. Given that the output gap has started to shrink from 2Q last year, the easing of deflation is consistent with the past experience that the lag between price change and the gap is one year. Deflation likely will continue to ease in coming quarters, albeit gradually.

JPMorgan Securities Japan Co., Ltd.
Miwako Nakamura (81-3) 6736-1167
miwako.nakamura@jpmorgan.com

Data releases and forecasts

Week of May 31 - June 4

Mon May 31 8:15am

Purchasing Managers Survey (manufacturing)

DI

	Feb	Mar	Apr	May
Overall index	52.5	52.4	53.5	53.5

The manufacturing PMI will likely remain well above the neutral 50 level, pointing to a steady underlying trend in the manufacturing sector.

Mon May 31 8:50am

Industrial production—preliminary

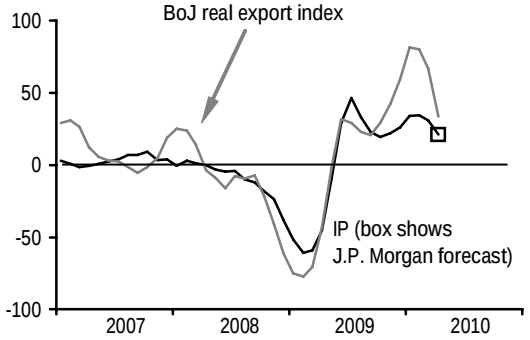
%m/m sa

	Jan	Feb	Mar	Apr
Production	4.3	-0.6	1.2	3.0
Shipments	4.5	-0.2	2.0	___
Inventories	1.1	1.6	-1.6	___
Inventory/shipment ratio	-1.8	0.3	-5.5	___

Manufacturers' output predictions included in the previous March report, the BoJ real export index, and the manufacturing PMI report uniformly suggest that industrial production will show a solid rise April.

Real exports and industrial production

%3m/3m saar



Mon May 31 10:30am

Employers' survey

%oya

	Jan	Feb	Mar	Apr
Total earnings per employee	-0.2	-0.7	1.0	___
Contracted wages	-0.5	-0.4	0.6	0.4
Scheduled payments	-0.8	-1.0	-0.2	___
Overtime payments	2.4	8.1	12.8	___
Special payments	8.4	-26.1	11.6	___
Total hours worked/employee	0.4	0.6	3.3	___
Regular employment	-0.2	0.2	0.2	___
Full-time workers	-0.8	-0.9	-0.1	___
Part-time workers	1.4	3.0	0.8	___

With the rapid rise in overtime payments, which is consistent with recovering industrial production, average contracted wages for March rose in over-year-ago terms for the first time since July 2008. The oya rise probably continued in April, as manufacturing output is expected to show a further solid rise.

Mon May 31 2:00pm

Housing starts

%oya, unless noted

	Jan	Feb	Mar	Apr
Housing units %oya	-8.1	-9.3	-2.4	10.0
%m/m sa	5.4	-7.9	7.5	1.5
Mn units saar	0.86	0.79	0.85	0.84

We expect housing construction to continue growing at a modest pace in 2Q, against the backdrop of improving household sentiment. There has also been news of progress in reducing inventories and a rise in the contract ratio in the metropolitan area condo market.

Mon May 31 2:00pm

Construction orders

%oya

	Jan	Feb	Mar	Apr
Total	15.7	-20.3	42.3	___
Domestic, private sector	9.5	-20.2	75.3	___
Domestic, public sector	13.7	-12.8	-14.3	___

Tue Jun 1 2:00pm

Auto registrations

%oya, unless noted

	Feb	Mar	Apr	May
Total	35.1	37.2	33.5	25.0
mn units saar	3.30	3.21	3.43	3.39
J.P. Morgan-adjusted (incl. light vehicles)				
mn units saar	4.08	3.95	4.16	___

It is likely that momentum in auto consumption, triggered by government measures to promote sales of environmentally friendly cars, moderated somewhat around the turn of the year. Note, though, that the weakness in the few months through March appears to have been exaggerated by consumers waiting for cuts in the auto weight tax (paid at registration or following compulsory inspections), which took effect on April 1.

Thu Jun 3 8:15am

Services/composite PMIs

DI

	Feb	Mar	Apr	May
Services (business activity)	44.6	48.3	50.2	___
Composite (output)	47.4	50.3	51.8	___

It is increasingly clear that the nonmanufacturing sector is now joining the recovery. Uptrends in nonmanufacturing DIs have been maintained in the early May business surveys (the Reuters Tankan large firm survey and the Shoko Chukin small firm survey), and the tertiary sector activity index for 1Q recorded the highest quarterly average level since 4Q08.

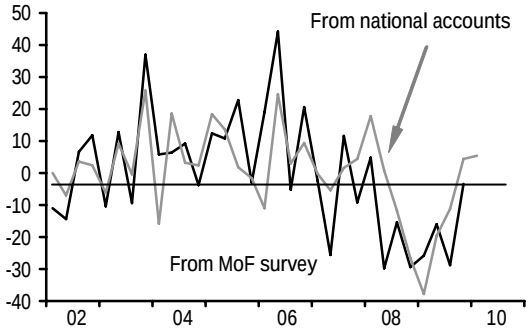
Thu
Jun 3
8:50am

MoF corporate survey
%oya, unless noted, nonfinancial firms

	2Q09	3Q09	4Q09	1Q10
Sales	-17.0	-15.7	-3.1	___
Current profits	-53.0	-32.4	102.2	___
Capital expenditures	-21.7	-24.8	-17.3	-9.5
Capex ex software				
%q/q saar	-16.0	-28.8	-3.4	16.2

The irregular weakness in this survey measure of capex is expected to have faded in the past quarter. Core capital goods shipments in the IP report, a monthly supply-side capex indicator, resumed q/q growth in 3Q09. Then, in 4Q09, GDP capex, which uses this survey as a major indicator of the demand side in the second estimate, also returned to growth.

Nominal business capital investment
%q/q saar



Review of past week's data

Index of all sector activity (May 24)
%m/m sa

	Jan		Feb		Mar	
All sector	3.4		-2.3		~~-0.6~~	*-0.8*
Tertiary sector	2.9		-0.3		-3.0	
Industrial production	4.3		-0.6		1.2	
Construction	0.7		~~4.5~~	*4.3*	___	*-3.8*
Public sector	~~0.1~~	*-1.3*	~~-1.2~~	*-0.9*	___	*0.6*

Corporate service prices (May 26)
%oya

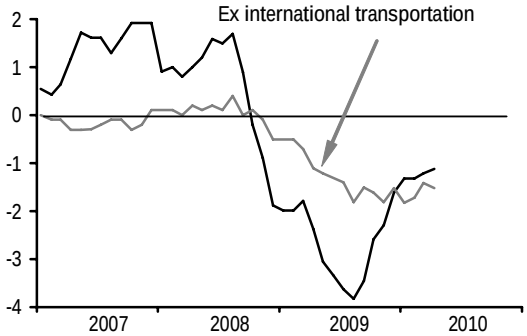
	Feb		Mar		Apr	
Overall	~~-1.2~~	*-1.3*	~~-1.1~~	*-1.2*	~~-0.7~~	*-1.1*
Ex international transport	~~-1.6~~	*-1.7*	~~-1.3~~	*-1.4*	___	*-1.5*

Deflation measured by the CSPI, after excluding international transportation (some components of which are affected by global demand and yen FX rates), has been little changed since summer 2009. The overall CSPI continued to show a modest slowdown, confirming that a rapid deflationary trend has come to an end—due mostly to the end of past price hikes in international transportation that increased the base.

Price declines for corporate services have been broad-based across components, but in April, the pace of oya decline in office rents accelerated, reflecting the start of a new fiscal year. Meanwhile, prices of transportation, even after excluding international transportation, and information services were relatively firm.

Looking ahead, deflation in the CSPI excluding international transportation, a core measure of the CSPI, is expected to continue for some time amid the still-large output gap.

Corporate service price index
2005=100 %oya



Shoko Chukin small firms' survey (May 26)

Diffusion index

	Mar	Apr	May
Sentiment index	45.8	46.8	~~45.5~~ *46.7*
Manufacturers	47.9	48.1	___ *47.4*
Nonmanufacturers	44.1	45.7	___ *46.0*
Sales (%oya)	3.4	~~5.1~~ *5.6*	___ *7.3*
Profit margins	-10.3	-10.1	___ *-11.3*
Financing conditions	-5.1	-2.4	___ *-4.8*
Inventory	-13.2	-11.5	___ *-10.8*
Capacity	-20.8	-19.4	___ *-18.2*
Employment	-10.5	-11.5	___ *-11.6*
Input prices	3.5	9.3	___ *14.2*
Output prices	-9.8	-6.9	___ *-5.0*

The headline index was virtually unchanged between April and May, counter to survey predictions for a much larger drop to 45.4. Furthermore, small firms' predictions for the June index look for a rise to 47.9, which, if realized, would be the highest level since September 2007. The result suggests that the momentum in the economy has been holding up, despite the financial market turmoil triggered by the European debt crisis. Note, however, that the responses in the May report were collected in the early part of the month, so it is possible that they do not reflect the full impact of the turmoil.

Looking at the details, a m/m fall in the manufacturing DI was broadly consistent with the survey predictions in the latest March IP report, in which the May manufacturing output is projected to show a modest payback for the rapid rise in April. But, the magnitude of the decline was much more modest than predicted in the April Shoko Chukin survey (45.4), mainly reflecting better-than-expected readings for machinery producers (industrial, transport, and electrical machinery).

Meanwhile, the nonmanufacturing DI posted its third consecutive rise, with sentiment among restaurants/hotels and retailers clearly improving, probably in part because of the strong sales during the Golden Week holidays. Outside of the business conditions DIs, each of the inventory, capacity, and employment DIs for small firms overall continued to suggest that companies' perceptions of excess inventories/capacity/employment have been fading.

As for June's survey predictions, the nonmanufacturing DI is forecast to rise further from a two-year high, and the manufacturing DI is expected to rebound on a broad basis. The next focus in gauging the near-term prospects for the manufacturing sector will be the manufacturers' output predictions included in the April IP report and the manufacturing PMI (each set to be released next Monday).

Customs-cleared international trade (May 27)

¥ bn sa, unless noted

	Feb	Mar	Apr
Balance	~~472~~ *564*	~~666~~ *768*	~~695~~ *729*
Exports (%m/m)	~~-1.8~~ *-1.4*	~~0.0~~ *1.0*	~~5.0~~ *2.3*
Imports (%m/m)	~~0.5~~ *0.2*	~~-3.7~~ *-2.8*	~~5.0~~ *3.4*
Balance (nsa)	647	952	~~690~~ *742*
BoJ real export index (%m/m)	1.1	2.8	___ *6.5*
BoJ real import index (%m/m)	1.8	~~-3.8~~ *-3.9*	___ *3.6*

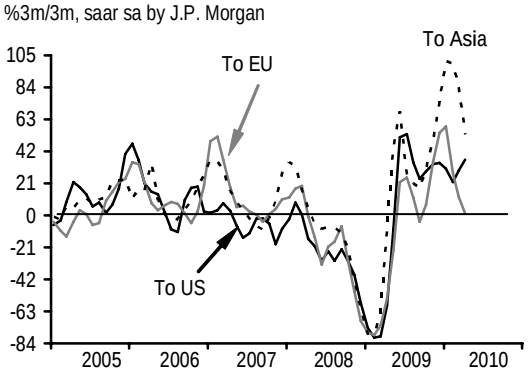
The m/m rise in the BoJ real export index in April was the fastest increase since April 2009. In %3m/3m sequential terms, the pace of the rise picked up to +30.3% ar, from +22.4% in March and +28.4% in February, though it is too early to conclude that this is the start of an accelerated trend.

Looking at the details of the customs trade data in value terms, exports to the US have been strengthening in the past few months, while the growth of exports to Asian countries, including China, has decelerated to a still-solid pace. Meanwhile, nominal exports to the EU, where fiscal pressure has intensified recently, have been relatively soft. Upon closer inspection of exported goods, shipments of autos remained solid, though the trend in nominal exports of electrical machinery has moderated of late.

The real import index also climbed a solid 3.6%m/m sa in April, thereby compensating for the previous month's 3.9% drop. On balance, the BoJ index of the real trade balance for last month rose to its highest level since October 2008. By contrast, however, the seasonally adjusted nominal trade balance fell modestly between March and April (to 729 billion yen from 768 billion yen) due mainly to a boost in nominal imports during the month on the back of surging commodity prices.

Value of exports by destination

%3m/3m, saar sa by J.P. Morgan



Consumer prices (May 28)

%oya

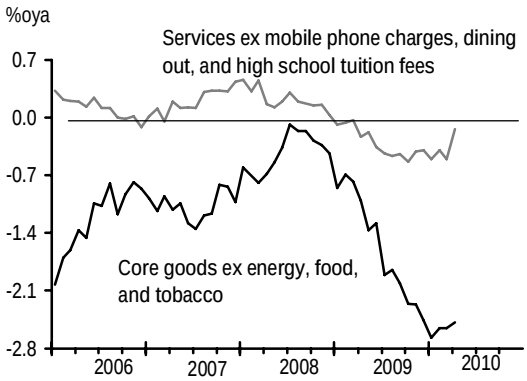
	Mar	Apr	May
Tokyo			
Overall	-1.7	-1.5	~~-1.3~~ *-1.4*
Core (ex fresh food)	-1.8	-1.9	-1.6
Ex food and energy	-1.2	-1.4	~~-1.3~~ *-1.4*
Nationwide			
Overall	-1.1	~~-1.3~~ *-1.2*	
Core (ex fresh food)	-1.2	~~-1.7~~ *-1.5*	
Ex food and energy	-1.1	~~-1.9~~ *-1.6*	

Deflation by the nationwide core CPI, as well as that by the "core core" CPI, which excludes all food and energy, intensified. However, those readings include the impace of the elimination/reduction of high school tuition fees, which was included as a part of the government's fiscal package. As this change subtracted 0.54%pt from the oya change in the core measure and 0.78%pt from that in the core core measure, the underlying message from the report is that deflation has started to ease at the consumer level.

Looking at the details of the core core measure, while the major contributor to the underlying solid reading was foreign package tours, where the oya decline has been decelerating since the start of this year, the easing of deflation was broad-based. Even the rapid declines in prices of educational/recreational durables (PCs, TVs, cameras, etc.) and of household durables (including air conditioners and refrigerators, which are targets of the government's "Eco-point system") appear to be moderating (-18.8% for education/recreation durables from -21.6% in March and -20.3% in February, and -9.2% for household durables from -10.5% and -10.6%, respectively).

In the preliminary May Tokyo report, the oya decline in the core CPI slowed 0.3%-pt to -1.6%, but this was driven by energy prices, and the pace of oya decline in the core core measure was unchanged from April. The May decline was after a smaller-than-expected April drop (the forecast incorporated a large drag from the elimination/reduction of high school tuition fees) and so, should be regarded as little changed.

Core CPI ex special factors



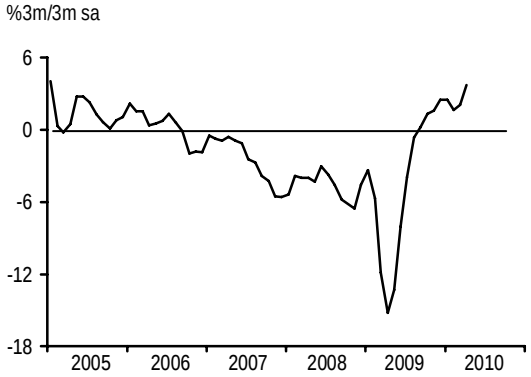
Labor force survey (May 28)

	Feb	Mar	Apr
Unemployment rate (% sa)	4.9	5.0	~~4.8~~ *5.1*
Labor force (%m/m sa)	-0.4	0.1	*-0.3*
Total employment (%m/m sa)	-0.4	-0.1	*-0.4*
Unemployed (%m/m sa)	-2.1	3.1	*2.4*
Job offers ratio (sa)	0.47	0.49	~~0.51~~ *0.48*

The unemployment rate continued to edge up in April, reflecting a m/m drop in the number of people employed at firms, which was the major cause of the decline in total employment. Also, the job offers ratio fell 0.01pt, after having risen since January this year.

However, we believe these were a temporary blips in an improving trend, not a change in the trend. Indeed, the labor market DIs in both the Economy Watchers survey and the consumer sentiment report have become increasingly upbeat in recent months. There was also positive news that new job offers continued to accelerate, with a %3m/3m sequential rise to 3.7% from 2.0% in March and 1.6% in February.

New job offers



Household survey of expenditures (May 28)

%m/m sa, incl. agricultural worker households

	Feb	Mar	Apr
All households			
Real spending	-1.6	5.9	~~-3.0~~ *-6.3*
%oya	-0.5	4.4	~~2.5~~ *-0.7*
Core	-0.7	5.0	*-5.7*
%oya	0.1	3.2	*-1.5*
Worker households			
Real disposable income	-0.1	-1.1	*1.2*
Propensity to spend ratio (%)	72.2	78.1	*72.7*

See main essay.

Commercial sales (May 28)

%oya, unless noted

	Feb	Mar	Apr
Commercial sales	~~-1.0~~ *-0.9*	2.4	*3.8*
Wholesale sales	~~-2.6~~ *-2.7*	1.5	*3.4*
Total retail sales	4.2	4.7	~~3.4~~ *4.9*
%m/m sa	0.9	0.8	~~-1.0~~ *0.5*

See main essay.

JPMorgan Chase Bank NA, New York
Sandy Batten (1-212) 834-9645
sandy.batten@jpmorgan.com
Silvana Dimino (1-212) 834-5684
silvana.dimino@jpmorgan.com

Canada

- **Real GDP probably accelerated in 1Q**
- **BoC to begin interest rate normalization**
- **Employment should have continued to expand in May**

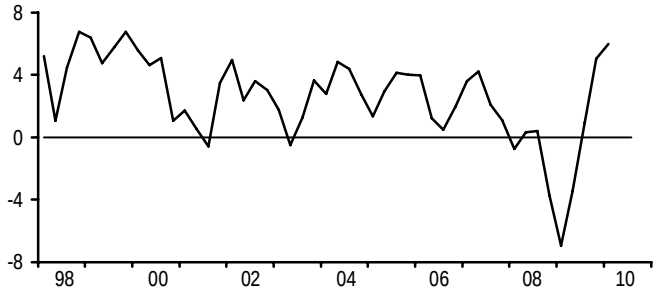
After a very quiet week shortened by a holiday, next week sees an explosion of key economic events and releases. March and 1Q GDP are released on Monday—we look for another marked quarterly increase. The Bank of Canada announces its interest rate decision on Tuesday—we look for a 25bp increase in the overnight rate, the first rate action since April 2009 and the first increase since July 2007. The week concludes with the monthly labor force survey—we look for a modest increase in employment on top of the second largest monthly increase in the history of the series dating back to 1966.

Key source data already released on the production side of the economy point to a 0.5%m/m increase in March GDP, which would yield a 6.0%q/q ar increase in 1Q on top of a 5%q/q ar rise in 4Q. (Note our 1Q expectation has been raised slightly from the previous 5.8% ar estimate.) This would be the largest quarterly increase in GDP since 4Q99. In terms of industries, the rebound has been concentrated in goods production (relative to services production), which was much harder hit in the preceding recession. In January/February, service production was up 3.3% ar from the 4Q average, about the same pace of increase as in 4Q. In contrast, goods production was up 9.7% ar in January/February from 4Q, up further from the 8.4%q/q ar jump in 4Q. (In the recent recession, goods production fell 13% peak to trough; services production fell only 1.2% peak to trough and has already more than recovered the output lost in the recession.)

Looking at GDP from the expenditure side—the more common approach by economists—reveals broadly based growth. Real retail sales in the quarter point to a larger contribution from consumer spending in 1Q than the 2.1%-pt provided in 4Q; sales rose 7.8%q/q ar in 1Q, their most rapid quarterly advance since 4Q07. Housing starts slowed in 1Q, but still imply a significant boost from residential investment. Monthly trade data point to a neutral impact of net exports, due mostly to a sharp rebound in imports. But much of the rebound in imports reflected increased imports of equipment and machinery, which points to a rebound of business capex in 1Q after a decline in 4Q (remember Canadian businesses import more than 70% of their purchases of machinery and equipment). Business spending on structures, however, probably remained weak. Government stimulus programs are still in place and should be reflected

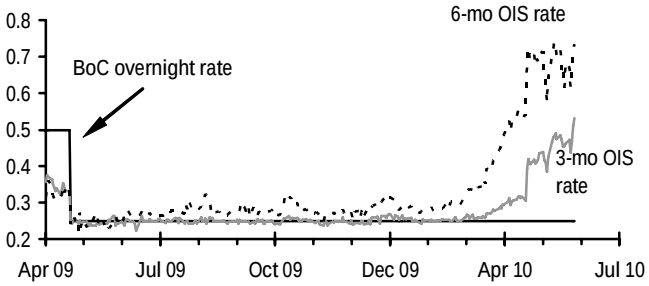
Real GDP

%q/q saar, last obs J.P. Morgan forecast



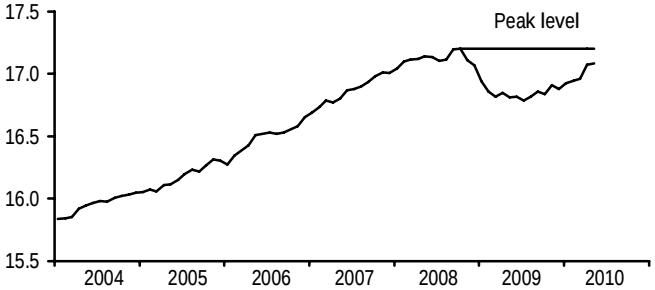
BoC overnight rate and OIS rates

%



Household employment

Mn, last obs J.P. Morgan forecast



in another solid rise in 1Q, though the pace should continue to slow slightly. Inventory data as always are sketchy—the data available point to a smaller decline in 1Q than in 4Q, which implies a small contribution to overall GDP growth.

Along with most of the market, we look for the BoC to begin to move policy away from its current emergency setting with a 25bp increase in the overnight rate at Tuesday's rate announcement. The BoC would be the first G-7 central bank to begin to normalize its policy stance. We do not expect the first rate action from the US Fed until next spring; we look for the BoJ to leave the policy rate unchanged until 4Q11 and the ECB to remain on hold until at least the end of 2011. The BoC has left its overnight rate at what it considers to be the effective lower bound of 0.25% since April

2009 and committed (conditional on its inflation outlook) to leave the rate unchanged until end-2Q10. It dropped this commitment in the April announcement. But in ensuing comments, Governor Carney stated that a move to tighten policy was not "preordained," no doubt an attempt to provide the Bank the flexibility it may need to respond to unexpected events or data releases in the interim. The intensification of the sovereign debt crisis in the Euro area since the last rate announcement no doubt has increased the degree of concern at the BoC and could delay a rate hike. However, we believe that the Bank will conclude that, with the recovery now firmly in place, the economy is no longer in need of a policy designed to combat an emergency situation notwithstanding the new risk posed by events in the Euro area.

It is quite likely that the Bank (and the markets) will see the expected rate hike as the beginning of a series of rate hikes. We look for 25bp increases at each of the four rate announcements this year after the one next week. Of particular interest will be what the Bank says in its announcement—will it attempt to provide some kind of road map for future rate actions? The turmoil in financial markets over the past six weeks has certainly clouded the outlook. So, it is quite likely that the Bank will be as noncommittal as possible. Consequently, it may simply repeat its April announcement and state that "it is appropriate to begin to lessen the degree of monetary stimulus" without providing any specifics.

Employment has risen in each month of this year, with 190,500 jobs added since last December and 108,700 coming in April. The economy has already regained 68% of the peak to trough jobs lost in the recent recession. And with the economy likely growing at nearly three times the BoC's estimate of its potential growth rate, it should have added another 10,000 jobs in May. The call on the unemployment rate is a little more difficult. The improvement in labor market conditions is attracting job seekers into the labor force (it rose 92,000 in April). However, new entrants are not likely to find jobs immediately, so they initially add to the ranks of the unemployed and hence may temporarily boost the unemployment rate. We look for unemployment to have been unchanged in May.

Data releases and forecasts

Mon May 31 8:30am — **Quarterly GDP**
Saar

	2Q09	3Q09	4Q09	1Q10
Real GDP, %q/q	-3.5	0.9	5.0	6.0
%oya	-3.5	-3.3	-1.2	2.1

Mon May 31 8:30am — **Monthly GDP**
Sa

	Dec	Jan	Feb	Mar
Total, %m/m	0.4	0.6	0.3	0.5
%oya	0.0	1.3	1.8	2.0

Mon May 31 8:30am — **Industrial PPI**
%m/m nsa, unless noted

	Jan	Feb	Mar	Apr
Total	0.4	0.1	-0.4	0.0
%oya	-0.2	-0.5	-1.3	-0.8
Ex energy	0.0	0.3	-0.6	0.0
%oya	-2.7	-2.8	-3.8	-3.2

Fri Jun 4 7:00am — **Labor force survey**
Sa

	Feb	Mar	Apr	May
Employment (mn)	16.95	16.96	17.07	17.08
ch, m/m, 000s	20.9	17.9	108.7	10.0
%m/m	0.1	0.1	0.6	0.1
%oya	0.5	0.9	1.3	1.6
Labor force (mn)	18.46	18.48	18.57	18.59
%m/m	0.0	0.1	0.5	0.1
%oya	0.8	0.9	1.2	1.2
Unemployment rate (%)	8.2	8.2	8.1	8.1
Avg hrly earnings (%oya)	2.5	2.5	2.3	2.6
Hours worked (%m/m)	0.2	-0.4	1.1	0.3

Fri Jun 4 8:30am — **Building permits**
Sa

	Jan	Feb	Mar	Apr
Total,%m/m	-4.7	-0.7	12.2	-1.5
%oya	32.9	56.4	38.9	21.9

Fri Jun 4 10:00am — **Ivey PMI**

	Feb	Mar	Apr	May
Sentiment index[1] (sa)	49.2	53.7	55.2	55.0
Purchasing index (nsa)	51.9	57.8	58.7	62.2
Prices index (nsa)	55.9	61.5	59.2	

1. Calculated and seasonally adjusted by J.P. Morgan.

Review of past week's data

Current account (May 28)
C$ bn saqr, unless noted

	3Q09		4Q09		1Q10	
Current account	-13.8		~~-9.8~~	*-10.2*	~~-7.3~~	*-7.8*
% of GDP	-3.6		~~-2.5~~	*-2.6*		
Merchandise	~~-4.1~~	*-3.4*	~~-0.6~~	*0.4*	~~-2.3~~	*1.7*
Nonmerchandise	~~-9.7~~	*-10.4*	~~-10.3~~	*-10.6*	~~-9.6~~	*-9.5*

Banco J.P.Morgan, S.A., Institución de Banca Múltiple,
J.P.Morgan Grupo Financiero
Gabriel Casillas (52-55) 5540-9558
gabriel.casillas@jpmorgan.com
Iker Cabiedes (52-55) 5540-9339
iker.x.cabiedes@jpmorgan.com

Mexico

- **Manufacturing exports continue to lead the recovery**
- **Strong FDI flow to manufacturing**
- **This is permeating the labor market**
- **Another benign inflation figure**

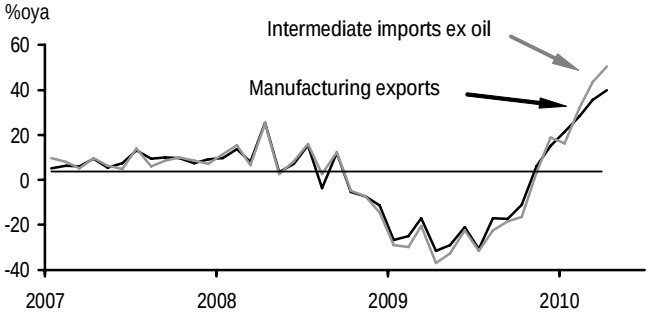
Trade reports during the week confirmed that manufacturing activity continues to lead the recovery. Manufacturing exports, which account for about 80% of total exports, accelerated to 40%oya in April after averaging 28% in 1Q10. Moreover, intermediate goods imports ex. oil (77% of total imports and highly correlated with manufacturing exports) boomed 50% in April after averaging 31% over the first three months of the year (first chart). The strong external rebound has led to a widening in the year-to-date surplus to US$343 million versus a US$1.7 billion deficit posted in the same period in 2009. In addition to the acceleration in exports, imports have also rebounded, albeit at a slower pace, reflecting the gradual but continued recovery in domestic demand.

The capital account posted a US$7.6 billion surplus in 1Q10 on the back of hefty portfolio and FDI inflows (second chart). FDI posted a robust US$4.3 billion inflow in the quarter, up from US$1.4 billion in 4Q09. About 35% of this investment was allocated in manufacturing, confirming that this sector will continue driving the rebound. Moreover, portfolio flows suggested that current account financing continues to be ample, printing US$9.6 billion in 1Q10, from US$7.6 billion and US$7.8 billion in the previous two quarters. Taking a look at the breakdown, fixed-income inflows posted a historical high of US$10.5 billion, reflecting US$5.4 billion in local market inflows and US$5.1 billion in foreign currency-denominated bonds. In our view, this indicated that foreign investors showed signs of increasing risk appetite, particularly for emerging markets during 1Q10. In this context, Mexico could continue to benefit in the second half of the year as global risk aversion on the back of the Euro crisis dissipates in the coming weeks. In sum, we believe that the external accounts in Mexico look quite healthy. We expect global conditions to continue to improve gradually, and domestic demand to accelerate in the second half of the year, which may translate into more FDI inflows and trade deficits in the next few quarters.

External rebound is now permeating the labor market

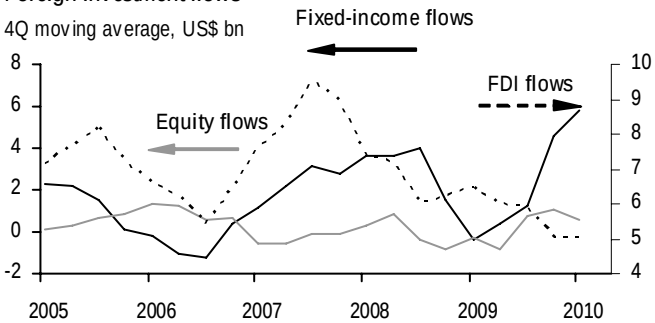
Even though the jobless rate surged to 5.4% in April from 4.8% in March, the jump was mainly due to seasonal effects as employers hired more temporary workers during the Easter holiday season, which fell in the first half of April, and adjusted their payrolls by the end of the month.

Manufacturing exports and intermediate good imports ex oil



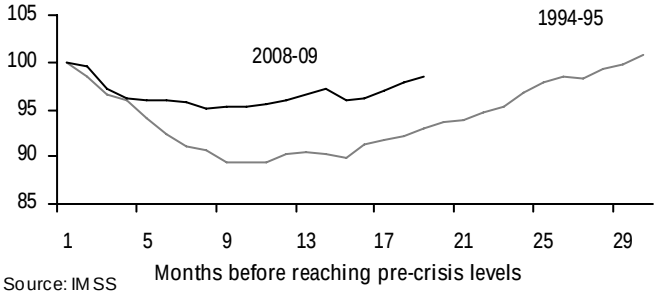
Source: INEGI

Foreign investment flows



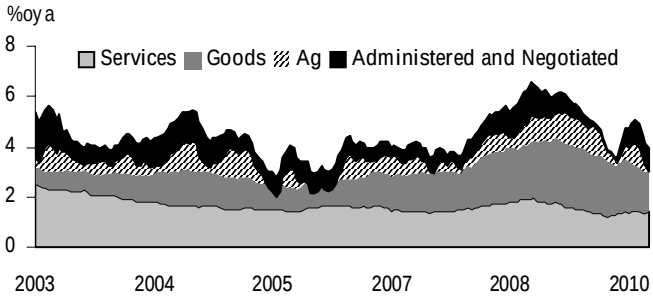
Source: Banxico

Formal employment trend at times of recession



Source: IMSS

CPI inflation by major subcomponents



Source: J.P. Morgan with data from Banco de México
1 Contribution to 12-month inflation by major subcomponents

Banco J.P.Morgan, S.A., Institución de Banca Múltiple,
J.P.Morgan Grupo Financiero
Gabriel Casillas (52-55) 5540-9558
gabriel.casillas@jpmorgan.com
Iker Cabiedes (52-55) 5540-9339
iker.x.cabiedes@jpmorgan.com

More important, we have observed that formal employment has significantly improved during the first four months of the year, indicating that the recent recession has had a softer impact on labor market conditions compared to previous economic downturns. A good way to assess the negative impact in the labor market is to compare the number of jobs lost and the period of time required to reach pre-crisis levels. During the last contraction, 700,000 jobs were lost; after 14 months, formal employment is very close to pre-crisis levels. In contrast, these same figures during the Tequila crisis back in 1994/95 were 1.1 million jobs lost and 30 months for recovery (third chart previous page). Furthermore, we believe that formal employment will remain on its uptrend and the jobless rate should gradually return to 4.5% by year-end as economic activity recovers.

More benign inflation

Inflation came in lower than expected at -0.54% in 1H May, pushing 12-month inflation down to 3.93% from 4.27% in April. Moreover, although this reading was mainly explained by the implementation of summer electricity tariff cuts and lower agricultural prices, we have reasons to believe that there will be only mild inflationary pressures in the coming months. When looking at CPI contributions by component, we have observed that most of the surge in inflation during 1Q10 was due to the one-off increase in taxes, as well as higher administered and agricultural prices, while the contribution from goods and services has actually dropped (fourth chart previous page). Hence, we anticipate inflation will remain subdued until 4Q10 when the electricity discounts are removed.

Data releases and forecasts

Week of May 31 - June 4

Mon Mar 31 9:00am — **Commercial bank credit supply**
%oya, real terms

	Jan	Feb	Mar	Apr
Credit to private sector	-5.9	-6.2	-5.1	___
Consumption	-20.3	-18.5	-18.1	___
Housing	10.7	10.3	9.1	___
Corporate	-4.0	-5.5	-3.6	___

Tue Jun 1 9:00am — **Banxico expectations survey**
%oya, average value

	Feb	Mar	Apr	May
Inflation				
End-2010	5.21	5.28	5.19	___
Four years forward	3.69	3.69	3.73	___
Real GDP				
2010	3.9	4.1	4.2	___
2011	3.7	3.6	3.6	___
USD/MXN				
2010	13.04	12.70	12.45	___
2011	13.24	12.93	12.72	___

Tue Jun 1 9:00am — **Family remittances**

	Jan	Feb	Mar	Apr
Total (US$ bn)	1.3	1.6	2.0	1.7
%oya	-15.8	-14.1	-7.3	-5.0

Tue Jun 1 9:00am — **Central bank foreign reserves**
US$ bn

	May 7	May 14	May 21	May 28
Gross international reserves	98.1	98.0	98.1	___

Thu Jun 3 12:00pm — **IMEF PMI survey**[1]
Index

	Feb	Mar	Apr	May
Manufacturing	52.2	53.7	54.6	54.0
Nonmanufacturing	53.7	55.1	54.1	54.0

1. Using the same methodology as the US ISM survey.

Thu Jun 3 2:30pm — **Consumer confidence, INEGI-Banxico**
Jan 2003=100

	Feb	Mar	Apr	May
Composite	80.6	81.8	82.5	83.0

Review of past week's data

Consumer prices (May 24)

	Apr 1H	Apr 2H	May 1H	
%2w/2w	-0.31	-0.18	~~-0.49~~	*-0.54*
Core	-0.03	0.09	~~0.04~~	*0.17*
%oya	4.41	4.13	~~3.98~~	*3.93*
Core	4.13	4.10	~~4.00~~	*4.13*

Trade balance (May 24)

	Feb		Mar		Apr	
Balance (US$ mn)	244		237		~~-150~~	*195*
ytd (US$ bn)	-0.1		0.2		~~0.0~~	*0.3*
Exports (US$ bn)	21.1		25.9		~~24.2~~	*25.0*
%oya	31.2		39.0		~~38.8~~	*43.2*
%m/m sa	~~2.5~~	*2.8*	~~3.3~~	*3.5*	~~3.1~~	*6.2*
Imports (US$ bn)	20.9		25.7		~~24.3~~	*24.8*
%oya	25.7		38.6		~~41.5~~	*43.9*
%m/m sa	~~2.2~~	*2.8*	~~5.5~~	*5.2*	~~2.3~~	*2.7*

Labor market report (May 25)
% of labor force

	Feb	Mar	Apr	
Open unemployment rate	5.4	4.8	~~4.9~~	*5.4*

Balance of payments (May 25)
US$ bn

	3Q09	4Q09	1Q10	
Current account balance	-3.7	-0.7	~~0.1~~	*-0.8*
Transfers	5.5	4.8	*4.8*	
CA as % of GDP	-1.6	-0.3	~~0.0~~	*-0.3*
Capital account balance	6.5	13.8	~~6.3~~	*7.6*
FDI	1.6	0.7	*4.3*	
Equity flows	2.1	0.6	*-0.7*	
Local bond market flows	2.2	1.8	~~2.6~~	*5.4*
Reserves, change	1.9	14.7	*4.8*	

JPMorgan Chase Bank, Sao Paulo
Fabio Akira Hashizume (55-11) 3048-3634
fabio.akira@jpmorgan.com
Julio Callegari (55-11) 3048-3369
julio.c.callegari@jpmorgan.com

Brazil

- **Domestic demand drivers strong, with labor market and bank credit support**
- **Robust growth leads to CA deterioration and fiscal push**
- **Euro concerns prevent more aggressive hike, but the bar is high for a slower tightening pace**

This week's reports on April bank credit and the labor market reinforced our view that the local demand drivers remain vigorous. Indeed, we believe domestic absorption will increase 10% this year, but the drag from net trade will keep GDP growth at 7%. In this context, although the Euro area problems reduce the likelihood of an acceleration in the monetary tightening pace to 100bp, the bar for a slowdown in the current tightening pace of 75bp is quite high, so we keep our forecast of 75bp for the next meeting (June 9) intact. Another consequence of booming domestic demand is that external accounts are deteriorating rapidly, while fiscal performance is getting a boost from the economy. Despite increasing external financing needs, the appetite for local financial assets remains strong in the fixed-income space, supported by favorable public debt dynamics coupled with high (and increasing) interest rates.

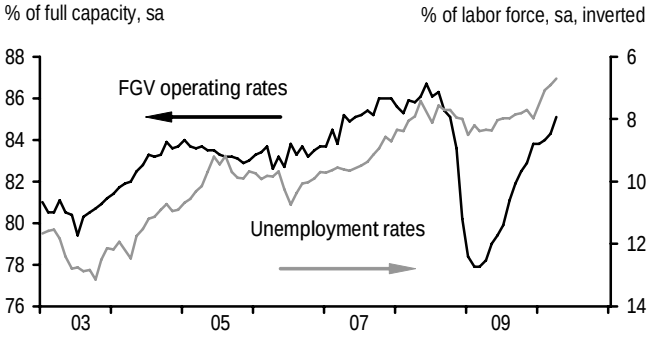
Hot labor market anticipates wage pressures

The April labor market report surprised to the strong side again, with the unemployment rate printing at 7.3% nsa, from 8.9% in April last year. On a seasonally adjusted basis, our estimate is that the unemployment rate is at 6.7%, which is the lowest level on record, and already well below the lower bound of the NAIRU (non-accelerating inflation rate of unemployment) range estimated by the BCB at 7.5%-8.5%. The labor report just reinforces our view that there is no economic slack in Brazil—with manufacturing utilization rates just 1%-pt below their historical high, and the unemployment rate already at a historical low (first chart)—making the underlying inflation trend worrisome. Indeed, total real labor income is already growing at a very strong pace, and anecdotal evidence is already pointing to hiring difficulty in specific sectors—like construction—raising the risks of an acceleration in wage inflation in the second half of this year, even assuming some growth moderation ahead.

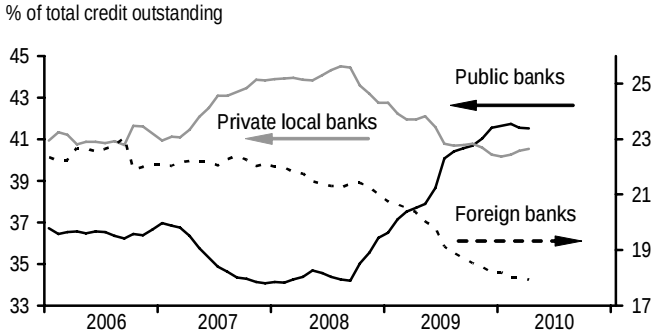
Still robust bank credit, with low dependency on foreign institutions

The April bank credit report showed only a slight improvement in total credit outstanding, to 45.2% of GDP follow-

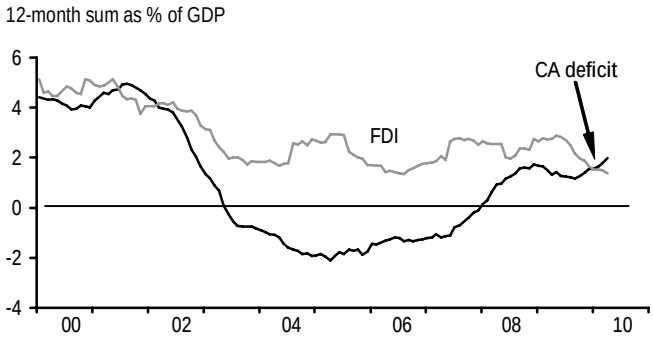
Tighter utilization of labor than capital



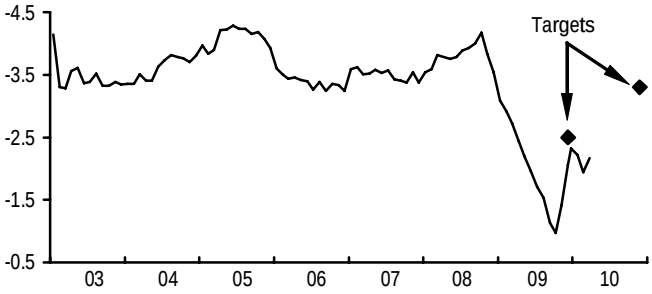
Share of credit market by type of institution



Current account deficit well above FDI inflows



Public sector primary result (ex interest)



JPMorgan Chase Bank, Sao Paulo
Fabio Akira Hashizume (55-11) 3048-3634
fabio.akira@jpmorgan.com
Julio Callegari (55-11) 3048-3369
julio.c.callegari@jpmorgan.com

ing a flat 45.0% reading from December to March. Public banks increased their share of the total stock of bank credit after the 2008 crisis, but their participation has begun to decline, falling to 41.5% in April from a peak of 41.7% in February. The acceleration in new loans extended by local private banks was reflected in an improvement in their share to 40.5% from 40.2% at the beginning of the year. The share of foreign banks in total credit continues to fall, dropping to 17.9% in April from 21% before the crisis and 25% at the beginning of this decade. The low (and declining) participation of foreign institutions in the bank credit market indicates that the credit channel of contagion from the Euro area crisis is less important than it was in the recent past.

Overheating economy leads to CAD deterioration and fiscal strength

The April BoP report reinforced the deteriorating trend in the current account deficit (the 12-month sum totaling 2.0% of GDP), unimpressive FDI flows, and still strong capital inflows. The April current account posted a US$4.6 billion deficit (J.P. Morgan: -US$ 4.2 billion; consensus: -US$4.8 billion), with the services account continuing to weigh on the negative side (-US$6.1 billion), while the recovery in the trade surplus (US$1.3 billion) does not yet reflect the substantial terms of trade gain from the 100% price increase in iron ore contracts. FDI inflows underperformed the consensus forecast for April (US$2.2 billion versus US$2.8 billion), and the 12-months' sum FDI declined to 1.4% of GDP, leaving external financing needs (CAD minus FDI) over the past 12 months at 0.6% of GDP, the highest level since 2001. April portfolio inflows were especially high (US$7.3 billion versus US$3.6 billion in March), with both equity inflows (US$3.3 billion) and fixed-income purchases in the local market (US$1.3 billion) registering strong performances.

According to the BCB, the partial May foreign portfolio flows have seen a dramatic change for equities to an outflow of US$463 million up to May 25. Fixed-income inflows, however, remain resilient, registering net purchases in the local bond market of US$1.7 billion this month. Still favorable fiscal accounts, along with very high interest rates, remain compelling factors for attracting foreign investors to the local fixed-income market, despite the ongoing Euro area jitters. Indeed, the April fiscal report showed a significant recovery in the public sector primary balance, which reached a surplus of R$19.8 billion from a small deficit of R$0.2 billion in March. This increase yielded a 12-month sum primary surplus of 2.2% of GDP, after bottoming at 1.0% last October, and up from 1.9% in March. Underpinned by a 16.7%oya boost in federal revenues (IPCA deflated), last month's result raises the odds of achieving the ambitious 3.3% target.

Data releases and forecasts

Week of May 31 - June 4

Tue Jun 1 7:00am	Industrial production	Jan	Feb	Mar	Apr
	%m/m sa	1.3	1.5	2.8	-0.4
	%oya nsa	16.0	18.2	19.7	17.2

Tue Jun 1 9:00am	Merchandise trade balance US$ bn	Feb	Mar	Apr	May
	Trade balance	0.4	0.7	1.3	1.7
	Year to date	0.3	0.9	2.1	3.9
	Past 12 months	24.3	23.2	20.8	19.9
	Exports	12.1	15.7	15.1	16.8
	%oya	27.2	33.1	23.0	40.2
	Imports	11.8	15.0	13.9	15.0
	%oya	50.8	50.2	61.1	61.4

Review of past week's data

Current account balance

US$ bn, net inflows

	Feb	Mar	Apr	
Current account (CA)	-3.3	-5.0	~~-4.2~~	*-4.5*
Trade balance	0.4	0.7	*1.3*	
CA, 12-mo. sum, %GDP	-1.7	-1.8	*-2.0*	
Foreign direct investment	2.8	2.0	~~2.8~~	*2.2*

National unemployment

% of labor force, new methodology

	Feb	Mar	Apr	
Open rate, nsa (30 days)	7.4	7.6	~~7.6~~	*7.3*

Public sector borrowing requirement

Minus denotes surplus

	Feb	Mar	Apr	
R$ bn				
Primary	0.9	-0.2	~~14.8~~	*19.8*
Primary, ytd	17.0	16.8	~~31.6~~	*36.6*
12-month sum, as % of GDP				
Primary	-2.2	-1.9	~~-2.0~~	*-2.1*
Interest payments	5.4	5.4	*5.4*	
Nominal	3.2	3.5	~~3.4~~	*3.2*

General prices (IGP-M)

%m/m nsa

	Mar	Apr	May	
Overall	0.9	0.8	~~1.3~~	*1.2*
%oya	1.9	2.9	~~4.3~~	*4.2*
Wholesale prices	1.0	0.7	~~1.6~~	*1.5*
Consumer prices	0.8	0.7	*0.5*	
Construction costs	0.5	1.2	~~1.2~~	*0.9*

JPMorgan Chase Bank, Sao Paulo/New York
Ben Ramsey (1-212) 834-4308
benjamin.h.ramsey@jpmorgan.com
Julio Callegari (55-11) 3048-3369
julio.c.callegari@jpmorgan.com

Andeans: Colombia, Ecuador, Peru, Venezuela

- **Venezuelan economy contracted sharply again in 1Q10, while the CA was stronger on higher oil prices**
- **We now see a 4% decline in 2010, with downside risk**
- **The public sector remains a net external creditor, but assets are declining and liabilities rising**

Venezuela's real GDP contracted 5.8%oya in 1Q10. This is the same pace as in 4Q09 and compares to -3.3%oya for full-year 2009. In sequential terms, 1Q growth contracted 5.6%q/q annualized (sa by J.P. Morgan), a bit deeper than the 5.3%q/q saar pace of 4Q09. By sector, non-oil GDP contracted 4.9%oya in 1Q10, while the oil sector declined 5%oya (first chart). Domestic demand dropped 17.8%oya during 1Q, broken down by a 27.9% fall in investment, a -5.9% result for private consumption, and -0.2% for public consumption.

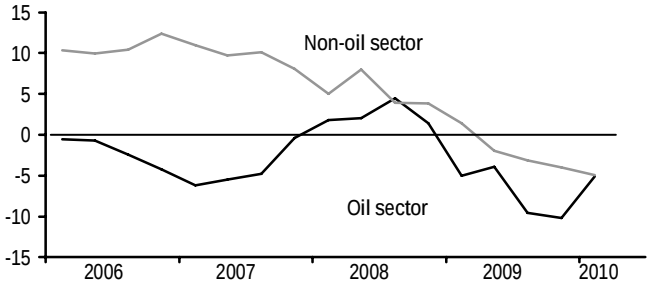
Investment decisions are being undermined by ongoing nationalization and broader concerns over property rights. Sentiment is further hurt by uncertainty over the FX regime, with corporates already struggling to access FX for key imported inputs since end-2008. Against this backdrop, an electricity crisis and related rationing measures constrained activity across the economy at a time when higher inflation is undercutting real wages and unemployment has been trending up. The April-May crisis in the parallel FX market, along with weekly nationalization headlines, suggests that these factors will remain a fundamental drag.

We now see the economy contracting 4% in 2010. We expect a moderate recovery in the oil sector in 2H10 as well as some marginal rebound in domestic demand as the government increases spending ahead of September legislative elections and as the electricity crisis eases somewhat. Our previous -1.5% forecast for 2010 was more optimistic about each of these drivers. We still expect some stabilization in 2H10 from a very low 2H09 base, which should allow the oil sector finally to contribute positively to growth in the second half of this year, though this assumption is tentative.

On external accounts, the current account posted a US$7.2 billion surplus in 1Q10. The positive headline figure—around 3.5% of estimated 2010 GDP—owes to higher oil prices and extremely soft imports. Total exports reached US$16.4 billion in the quarter, 95% of which was from oil. This represented a 67%oya nominal increase, despite a 5.9% fall in oil export volumes (reflecting both lower output and increased domestic demand due to the electricity crisis). Total imports fell 38%oya to US$6.8 billion owing to limited access to USD and the overall recession.

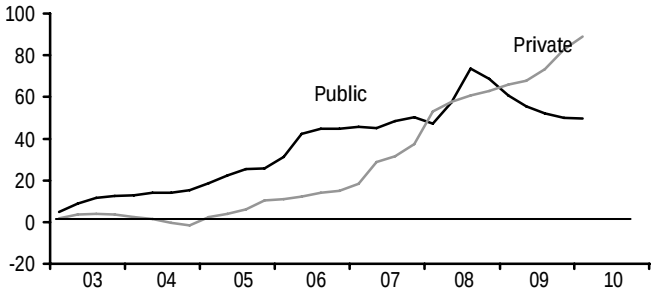
Venezuela: oil versus non-oil real GDP

%oya, nsa



Venezuela: net external creditor position

US$ bn



The current account surplus was more than matched by capital account outflows of US$11.5 billion. This led BCV FX reserves to fall US$6.1 billion during the quarter to US$28.9 billion (as of end-March). Of this outflow, US$5 billion reflected transfers of reserves to the government development fund, Fonden, while much of the rest reflected private capital flight (offset by drawdowns from government funds). According to the BCV's series on the net international investment position, overall Venezuela maintained a net international creditor position of US$138.8 billion in 1Q10. However, the respective standings of the public and private sectors have been diverging since the oil price peak in 3Q08. The private sector has been accumulating external assets (up to US$122.4 billion as of 1Q10) and retiring liabilities (down to US$33.3 billion), and currently has a net external position of US$89 billion (second chart). For its part, the public sector had a net external position of US$49.7 billion as of 1Q10, similar to 4Q09, but down from US$73.5 billion in 3Q08. The decline is a result of both a drawdown in public sector assets (down US$11 billion since the 3Q08 peak) and an increase in public sector liabilities (up US$13 billion since 3Q08 owing mostly to bond issuance).

JPMorgan Chase Bank, New York
Tejal Ray (1-212) 834-8580
tejal.t.ray@jpmorgan.com

Argentina:

Data releases and forecasts

Week of May 31 - June 4

Mon May 31	Construction activity	Jan	Feb	Mar	Apr
	%oya nsa	2.2	5.2	18.1	___

Review of past week's data

Trade balance

	Feb	Mar	Apr
US$ bn	1.22	0.31	___ *1.93*

Industrial production

	Feb	Mar	Apr
%oya nsa	11.0	10.6	___ *10.2*

Economic activity

	Feb	Mar	Apr
%oya nsa	4.9	6.0	___ *8.1*

Budget balance

	Feb	Mar	Apr
ARS bn	1.21	1.22	___ *1.88*

Chile:

Data releases and forecasts

Week of May 30 - June 4

Mon May 31	Unemployment rate	Jan	Feb	Mar	Apr
	% of labor force	9.7	9.1	9.0	___

Review of past week's data

Industrial production

	Feb	Mar	Apr
%oya nsa	0.5	-17.4	___ *-1.3*

Colombia:

Data releases and forecasts

Week of May 30 - June 4

Mon May 31	Unemployment rate	Feb	Mar	Apr	May
	% of labor force	3.5	3.5	3.0	___

Fri June 4	Consumer prices	Feb	Mar	Apr	May
	Consumer prices (%m/m)	0.83	0.25	0.46	0.27
	%oya	2.09	1.84	1.98	2.22
	Wholesale prices (%m/m)	0.86	0.58	0.47	___
	%oya	-0.44	-0.17	0.28	___

Review of past week's data

BanRep monetary policy meeting

	Mar	Apr	May
Repo rate %p.a.	.3.5	3.0	3.0

Ecuador:

Data releases and forecasts

Week of May 30 - June 4

Fri Jun 4	Consumer prices	Feb	Mar	Apr	May
	%m/m	0.34	0.16	0.51	___
	%oya	4.31	3.35	3.21	___

Review of past week's data

No data released.

Peru:

Data releases and forecasts

Week of May 30 - June 4

Fri May 28	Real GDP	2Q09	3Q09	4Q09	1Q10
	%oya nsa	-0.8	-0.2	3.8	6.6
	%q/q saar	-1.8	10.0	11.5	7.3

Tue Jun 1	Inflation	Feb	Mar	Apr	May
	Consumer prices (%m/m)	0.32	0.28	0.03	0.19
	%oya	0.84	0.76	0.77	1.01
	Wholesale prices (%m/m)	0.07	0.26	0.24	___
	%oya	-1.22	-0.47	0.48	___

Review of past week's data

No data released.

Venezuela:

Data releases and forecasts

Week of May 30 - June 4

No data releases expected.

Review of past week's data

Real GDP

	3Q09	4Q09	1Q10
%oya nsa	-4.61	-5.80	~~-4.0~~ *-5.76*
%q/q saar	-6.78	-5.30	~~-4.0~~ *-5.57*

JPMorgan Chase Bank, London
Malcolm Barr (44-20) 7777-1080
malcolm.barr@jpmorgan.com
Allan Monks (44-20) 7777-1188
allan.j.monks@jpmorgan.com

United Kingdom

- **Sluggish real growth reported for 1Q, but nominal growth strong; May consumer indicators weaken**
- **Boost from the inventory cycle does not have much further to run**

The strength of March industrial production pushed GDP growth up by a tenth from the first estimate to 0.3%q/q sa. The configuration of the output-side data looks positive going into 2Q after a weather- (and VAT hike-) affected 1Q. The level of services output was 0.5% above its 1Q average by March, while the equivalent figure for industrial production was 1.6%. If the March levels of output were simply sustained through 2Q, GDP would be likely to print at 0.6%-0.7%q/q. Our forecast of GDP growth at a 0.7%-0.8%q/q pace for 2Q is hence not very challenging in terms of what it requires the monthly data to do from here, even allowing for some payback for March's surge in April's industrial production data.

The standout observation in the 1Q data is the strength of nominal spending in the quarter, building on the acceleration seen since the middle of last year. The cash value of GDP at market prices is reported to have risen 2.1%q/q sa, and the annualized rate of growth over the past two quarters is now 6.6%, well above its near-5% average. Even on the basic prices measure (which extracts changes in indirect taxes), growth in the cash value has recovered to near average over the past two quarters. As Mervyn King would point out, policy in the first instance is about the generation of nominal spending growth, and the swing toward renewed growth in nominal spending is distinctly V-shaped (second chart).

The upswing in nominal spending growth is a positive sign for the longevity of the upswing, but it remains the case that sterling's decline is not generating a swing in the contribution to growth from net trade. As the monthly data had suggested, net trade was a drag on real GDP growth for the third consecutive quarter. Many commentators appear enthusiastic to identify any report of improved export or manufacturing performance as evidence that the drop in sterling is beginning to have an effect. We continue to think such an impact is barely perceptible, and improvement in exports and manufacturing output has reflected demand trends rather than exchange-rate-driven adjustment in relative prices.

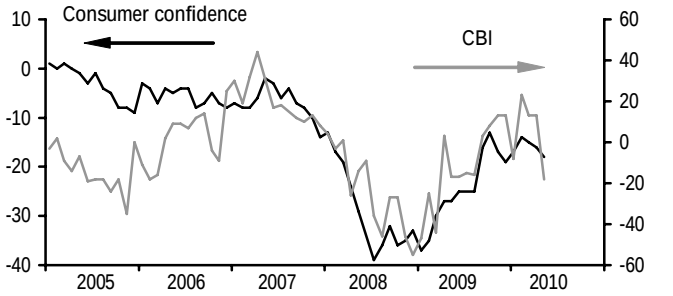
Though the 1Q data send encouraging signals about building momentum in growth, early consumer-related indicators for May have been weak. Consumer confidence nudged lower in the month. The headline index remains within the range seen since September, but the forward-looking parts of the survey (expectations for the economy and personal finances) showed a notable fall in May. The CBI's retail survey showed a sharp fall in the month, dropping to its lowest level since March 2009. April's retail sales data had left the series with decent momentum, pointing to a solid gain in 2Q in the absence of any sharp monthly declines; these hints suggest that momentum may falter in May.

Real GDP expenditure-side breakdown
%q/q sa

	Weight	Avg	1Q09	2Q09	3Q09	4Q09	1Q10
GDP	100	0.6	-2.6	-0.7	-0.3	0.4	0.3
Final domestic demand	103	0.6	-2.2	-1.5	0.5	0.1	0.3
Household consumption	62	0.7	-1.6	-0.9	0.0	0.4	0.0
Public consumption	21	0.4	-0.4	0.9	0.6	1.0	0.5
Gross fixed investment	18	0.9	-7.3	-7.2	2.8	-2.7	1.5
of which bus. capex	103	0.9	-8.9	-11.5	-0.8	-4.3	6.0
Total domestic demand	103	0.6	-2.4	-1.0	-0.1	0.8	0.6
Exports	27	1.1	-7.2	-1.8	0.6	3.8	0.0
Imports	30	1.2	-6.5	-2.9	1.2	4.7	1.4

Nominal GDP at market prices
%q/q ar

Consumer confidence versus CBI retail survey
GKF/NOP Index, sa
% bal, sa



JPMorgan Chase Bank, London
Allan Monks (44-20) 7777-1188
allan.j.monks@jpmorgan.com
Malcolm Barr (44-20) 7777-1080
malcolm.barr@jpmorgan.com

Next week sees the release of the PMI surveys for May. The CBI's industry survey for the month strengthened, although that likely reflects catch-up with strength already present in the manufacturing PMI reading. The services PMI reading will be important: declines in the past couple of readings have taken it back near its long-run average. The April reading may have been depressed by disruptions relating to volcanic ash, hence the forecast for a small gain in May. A decline to a significantly below-average level would be a concern.

Not much juice left in the inventory turn

The pace of inventory depletion in the 1Q10 data is reported to have been the slowest since 3Q08. That slowing contributed 0.4%-pt to the %q/q sa (not annualized) growth of GDP from the expenditure side. A similar-sized move in the 2Q data would move the change in inventories to close to flat. In the breakdown of the data, manufacturing inventories were reported to have risen very slightly in 1Q. If a change in inventory behavior is going to add significantly to growth beyond the next quarter or so, it will be necessary for levels of inventory across the economy to begin to rise; the boost from simply slowing the rate of drawdown does not have much further to run.

Could firms move into a phase of inventory rebuilding? The overall level of real inventories has fallen 11.5% from their peak during this recession. The magnitude of that decline is comparable to that seen over the early 1980s and early 1990s recessions (which saw peak-to-trough declines of 11.4% and 12.5%, respectively). But the decline has occurred within a much shorter space of time this time around (six quarters versus 13 in the early 1980s, and 14 in the early 1990s).

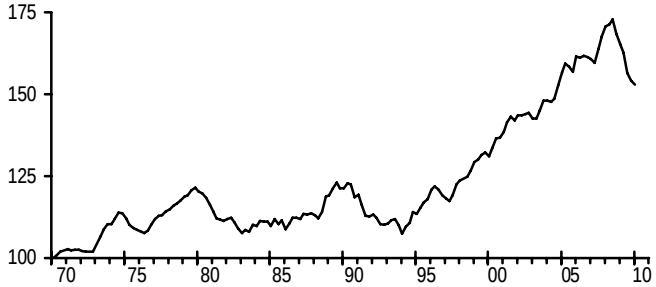
The relative rapidity of the decline may suggest that there is potential for a swifter move into a phase of inventory rebuilding. But scaling the level of inventories relative to the flow of GDP, the ratio remains within the range that has been seen over the past decade. Looking back at the past couple of cycles gives conflicting signals as to what to expect once the level of inventories has bottomed out. After the early 1980s' decline, the level of inventories languished near the lows for several years even after the bottom had been reached. In the early 1990s, inventory levels began to recover quite smartly after the bottom had been reached in 1994. Our forecast treads a middle path between these two cases, allowing for a shift toward modest rebuilding of inventories in the coming quarters that gains some strength in 2011. While that implies changes in inventories will tend to continue to add to growth as we look forward, the contribution to growth in GDP will be relatively small, and most of the impact will have been felt by 2Q10.

Real change in inventories

Bn chained 2005 GBP, sa

Level of real inventories

Index, 1970=100

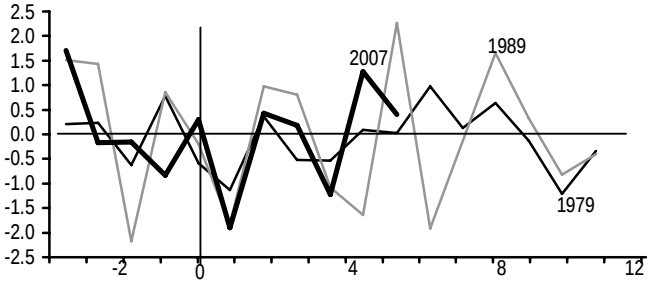


Ratio of real inventories to GDP

Index, 1970=100

Contribution of inventory change to real GDP growth

Contribution to real GDP growth % q/q sa; x axis is quarters from peak in level of inventories



JPMorgan Chase Bank, London
Malcolm Barr (44-20) 7777-1080
malcolm.barr@jpmorgan.com
Allan Monks (44-20) 7777-1188
allan.j.monks@jpmorgan.com

Data releases and forecasts

Week of May 31 - June 4

During the week — **Nationwide house price index**
Sa

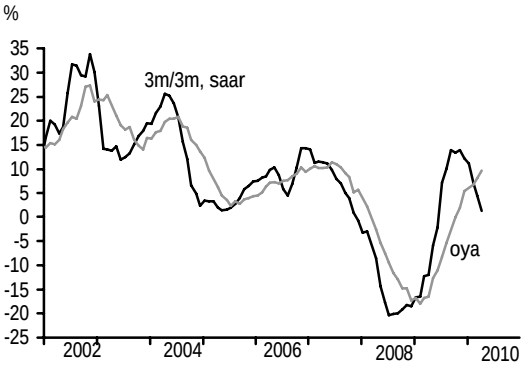
	Feb	Mar	Apr	May
%m/m	-1.0	1.0	1.0	0.5
%oya	9.3	9.1	10.6	9.8
%3m/3m saar	6.9	6.3	4.4	6.8

During the week — **Halifax house price index**
Seasonally adjusted

	Feb	Mar	Apr	May
%m/m	-1.6	1.0	-0.1	0.8
%oya	4.1	6.9	8.7	6.8
%3m/3m saar	7.2	2.4	-1.9	0.9

Averaging across the two lenders' indices, momentum in house price gains has been fading, albeit more slowly than most (ourselves included) had anticipated. Modest gains across both indices would end the recent slowing in the 3m/3m rate of change.

Average of Halifax and Nationwide house prices indices



Tue Jun 1 9:30am — **PMI survey, manufacturing**
% balance, sa

	Feb	Mar	Apr	May
Overall index	56.7	57.3	58.0	58.0

May industry readings in business surveys around Europe have been broadly stable, while the CBI industry reading for the month continued to climb.

Wed Jun 2 9:30am — **Money supply** [1]
Seasonally adjusted

	Jan	Feb	Mar	Apr
M4 ex IOFCs (%m/m)	0.0	0.4	1.1	—
M4 ex IOFCs (%3m/3m ar)	0.4	-0.9	5.9	—
M4 (%m/m)	0.3	0.2	0.1	0.0
M4 (%oya)	5.0	3.8	3.5	3.3
M4 lending (%m/m)[2]	0.5	-0.2	0.3	-0.4
M4 lending (%oya)[2]	5.0	3.7	3.2	2.8

1. Forecast taken from provisional release.
2. Excludes the effect of securitization.

Wed Jun 2 9:30am — **Net lending to individuals (BoE release)**
£ bn, average

	Jan	Feb	Mar	Apr
Consumer credit (ch, m/m)	0.4	0.6	0.3	0.3
Secured lending (ch, m/m)	1.5	1.8	0.3	1.0
Mortgage approvals (000s sa)	47.9	46.9	48.9	49

Releases from the BBA and the BoE's lending panel suggest approvals and lending flows remained soft in the month.

Wed Jun 2 9:30am — **PMI survey, construction**
% balance, sa

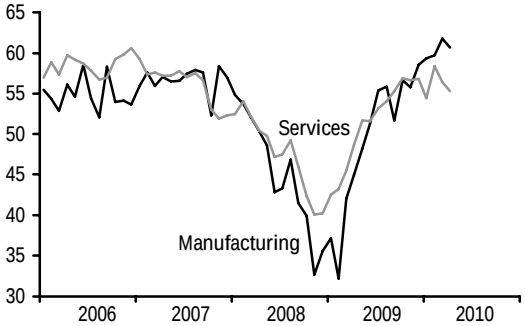
	Feb	Mar	Apr	May
Overall index	48.5	53.1	58.2	—

Thu Jun 3 9:30am — **PMI survey, services**
% balance, sa

	Feb	Mar	Apr	May
Overall business activity	58.4	56.5	55.3	56.0

This is the key release of the week. Declines since February have taken this reading back to its long-run average, while the new orders reading dipped below its average in April. Markit/CIPS suggested that disruption from the ash cloud may have impacted the April release, hence the forecast for a small gain.

PMI output readings



Fri Jun 4 9:00am — **New car registrations**
%3m/12m nsa

	Feb	Mar	Apr	May
Total	32.7	27.3	22.5	—
Private (ex business and fleet)	72.8	37.8	35.6	—

With the boost from the car scrappage scheme no longer in place, the over-year-ago rates for both private and total registrations will continue to fall.

JPMorgan Chase Bank, London
Allan Monks (44-20) 7777-1188
allan.j.monks@jpmorgan.com
Malcolm Barr (44-20) 7777-1080
malcolm.barr@jpmorgan.com

Review of past week's data

Real GDP (2nd estimate)

	4Q09	1Q10[1]	1Q10
Total GDP (%q/q sa)	0.4	0.2	*0.3*
%oya sa	-3.1	-0.3	*-0.2*
%q/q saar	1.8	0.8	*1.2*
Breakdown (%q/q sa)			
Private consumption	0.4	—	~~0.2~~ *0.0*
Public consumption	~~1.2~~ *1.0*	—	~~0.6~~ *0.5*
Fixed investment	~~-3.1~~ *-2.7*	—	~~0.5~~ *1.5*
Exports	~~3.7~~ *3.8*	—	~~-1.4~~ *0.0*
Imports	~~4.1~~ *4.7*	—	~~-0.2~~ *1.4*

1. Preliminary outcome

See main text.

Index of services

	Jan	Feb	Mar
%m/m sa	-0.8	0.6	~~0.2~~ *0.5*
%oya sa	-1.2	0.1	~~0.5~~ *0.8*
%3m/3m saar	2.3	1.8	~~0.7~~ *1.0*

BBA lending

	Feb	Mar	Apr
Secured lending (ch £ bn, sa)	~~2.7~~ *2.6*	~~2.4~~ *2.3*	~~2.5~~ *1.8*
Loan approvals (000s sa)[1]	~~33.4~~ *33.5*	~~34.9~~ *35.0*	~~37.0~~ *35.7*

1. For house purchase.

CBI survey of distributive trades

% balance

	Mar	Apr	May
Volume of retailer sales	13	13	~~13~~ *-18*

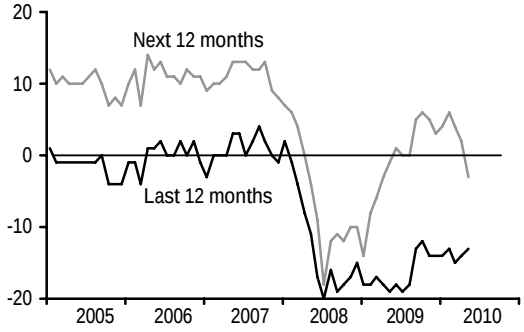
The CBI's May survey of retailers saw the headline reported sales balance plunging to the lowest reading since March 2009. The reading on expected sales for June saw a similar-sized plunge, although the balance on sales for the time of year held up rather better, falling only slightly to -13. Beyond unseasonable weather early in the month, the press release cites no specific reason for the sharp fall. The weakness in the May reading has also been reflected in the responses to the quarterly questions on employment and investment intentions, which fell back compared to February.

Gfk consumer confidence

	Mar	Apr	May
% balance, sa	-15	-16	~~-16~~ *-18*

Consumer confidence: personal finances

% balance sa



Consumer confidence: economic situation

% balance sa

JPMorgan Chase Bank International Limited, Moscow
Anatoliy Shal (7-495) 937-7321
anatoliy.a.shal@jpmorgan.com

Russia

- **Growth momentum strong in April**
- **Risks to near-term outlook: lower oil prices and tighter credit**

April activity reports were solid. Consumer activity continued to strengthen, with retail sales rising about 0.1%m/m sa on top of the 0.8%m/m gain in March, according to our estimates. That said, both anecdotal evidence and some data show that consumers are no longer trading down. Nonfood goods sales are recovering faster than food sales and store sales faster than open market sales. Strong car sales—up 29%m/m in April—driven not only by the car scrapping program, but also by firming consumer confidence, is another case in point. Strengthening consumption comes on the back of growing income. Given increases in social spending outlays, labor income has continued to recover in April, as the average real wage increased another 0.2% after an already strong 1.6%m/m sa gain in March. The unemployment rate fell to 8.2% nsa from 8.6%, but mainly on seasonal factors (roughly flat after seasonal adjustment).

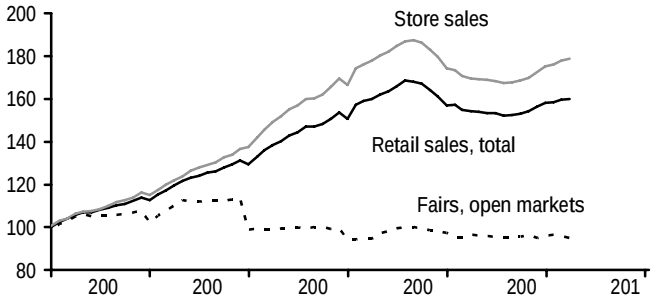
Industrial production rose a higher-than-expected 10.4%oya in April, up from 5.7% in March. The acceleration was due mainly to stronger manufacturing growth (15.7%oya up from 5.1%). This, in turn, came mainly on the back of a cyclical jump in turbines output, though growth in most other subsectors was also healthy. The strong IP report came on top of similarly strong PMI, business confidence, and capacity utilization readings, and adds to confidence that after a winter pause, the economy is (re)gaining momentum.

Importantly, after deep declines at the beginning of the year, capital investment and construction strengthened in March and April. Investment was up 0.3%m/m sa and construction rose 0.9%m/m in April, but the level of activity remained below the December local peak. Investment demand is growing not only on the back of firming business confidence, as indicated by activity surveys, but also thanks to gradually reviving domestic lending and a rapid rise in firms' profitability. After several consecutive months of declines, business loans were flat in March while consumer loans rose 0.3%m/m. The preliminary estimates released by CBR officials suggest that business loans increased a further 1.7% and consumer loans 1% in April.

Pre-tax profits of large- and medium-sized companies surged 49%oya (18%m/m) to RUB541 billion (US$18.3 billion) in March. The rise in earnings from a low base in

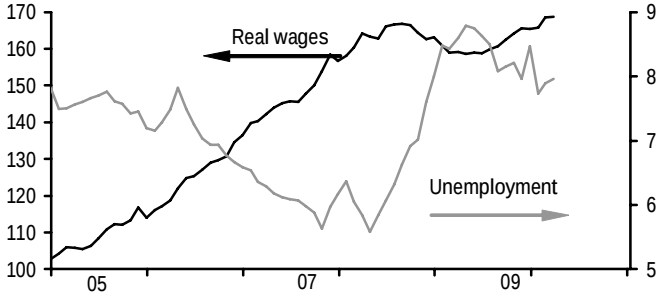
Real retail sales: Russia

Index, Dec04=100, sa by J.P. Morgan



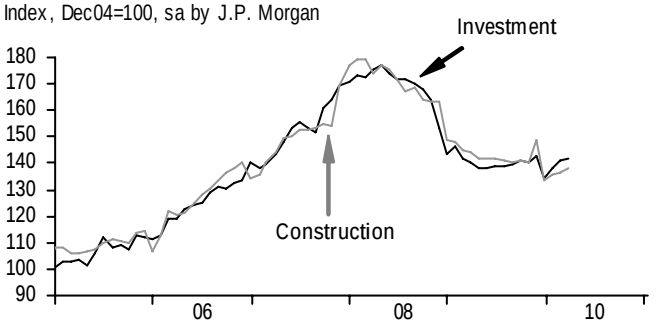
Real wages vs. unemployment

Index, Dec04=100, sa by J.P. Morgan %, sa by J.P. Morgan



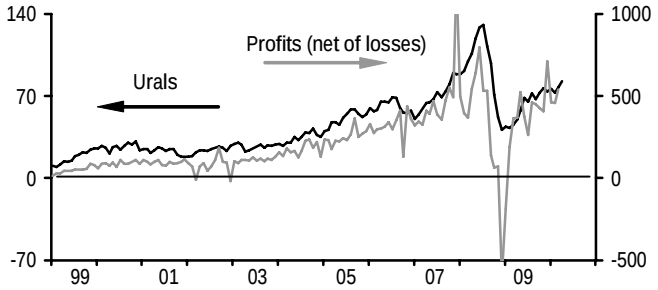
Capital investment vs. construction

Index, Dec04=100, sa by J.P. Morgan



Economy's profits (net of losses) vs. Urals crude price

$/bbl RUB bn



The Russia data watch is published biweekly, next on June 11.

2009 was hardly surprising, especially as oil prices increased markedly (fourth chart previous page). But strong earnings growth across many sectors hints that the oil windfall is already spilling over to domestic-oriented sectors. Most companies have by now ended aggressive cost cutting and the return to strong profits signals that businesses may become more expansionary in the coming months. Indeed, PMI surveys show that employment in both manufacturing and services is rising, while Rosstat data show that investment is recovering.

We, however, refrain from being overly optimistic about the near-term outlook, even as strong growth momentum has apparently carried into May. The change in the external environment is the key reason for our caution. Oil prices have recently fallen to near $70 from above $80/bbl, while access to foreign credit markets has worsened. Should Euro area-related risks continue to rise and commodity prices fall, this would hit business confidence and, hence, companies' expansion plans. Domestic business confidence has not yet reacted to increased global risks. The first May survey—the Rosstat survey—shows that confidence, in fact, edged up to -4 from -5 from April.

Data releases and forecasts

Weeks of May 31 - June 11

Consumer prices

	Feb	Mar	Apr	May
%m/m nsa	0.9	0.6	0.3	0.4
%oya	7.2	6.5	6.0	5.8

Federal budget

Ruble bn, cash flows

	Feb	Mar	Apr	May
Balance	-257	-138	-200	-140
% of GDP	-7.9	-3.9	-5.7	-3.9
Revenue	571	645	663	660
Tax revenue	537	626	640	630
% of GDP	16.5	17.8	18.4	17.7
Expenditure	827	783	863	800
Noninterest	809	748	857	780

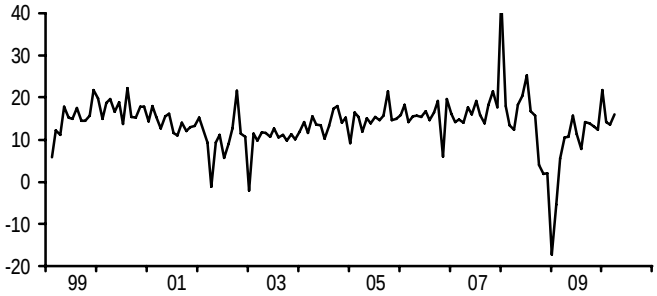
Merchandise trade

US$ mn, nsa

	Jan	Feb	Mar	Apr
Trade balance	16.5	16.6	15.4	15.0
Exports	28.0	30.9	33.7	33.9
%oya	56.1	66.3	62.2	61.0
Imports	11.3	15.5	18.7	19.2
%oya	7.8	15.1	29.1	30.0

Profits (net of losses)

% of GDP



Review of past two weeks' data

Real economy indicators

Real terms, %oya

	Feb	Mar	Apr	
Construction	-9.8	-5.1	~~-7.0~~	*-2.4*
Agriculture	3.3	4.1	~~4.0~~	*3.5*
Transportation	9.8	12.4	~~14.4~~	*14.8*
Fixed investment	-7.4	0.7	~~1.5~~	*2.5*
Retail sales	0.9	2.9	~~4.0~~	*4.2*
Average monthly wage due	2.5	3.0	~~4.0~~	*6.0*

Industrial producer prices

	Feb	Mar	Apr	
%m/m nsa	2.3	1.8	~~1.5~~	*3.2*
%oya	22.9	19.2	~~17.0~~	*17.9*

Broad money supply

	Feb	Mar	Apr	
Broad money, M2	15566	15997	~~16255~~	*16435*
%m/m nsa	1.5	2.8	~~1.6~~	*2.7*
%oya	29.5	32.1	~~31.7~~	*33.2*
Cash in circulation	3950	3986	~~4058~~	*4181*
%m/m nsa	2.0	0.9	~~1.8~~	*4.9*
%oya	19.6	21.6	~~19.0~~	*22.6*
Bank deposits	11616	12010	~~12197~~	*12254*
%m/m nsa	1.4	3.4	~~1.6~~	*2.0*
%oya	33.2	36.0	~~36.6~~	*37.2*

International reserves

US$ bn, eop

	Mar	Apr	May 21	
Gross international reserves	447.0	460.7	___	*453.4*
Gold	23.7	25.2	___	

Market indicators

End of period

	Mar	Apr	Apr 27
USD/RUB (official CBR)	29.50	29.15	30.88
RTS index (US$ terms)	1572	1573	1359

J.P. Morgan Chase Bank, Istanbul
Yarkin Cebeci (90-212) 319-8599
yarkin.cebeci@jpmorgan.com

Turkey

- **Change in leadership of the main opposition party reduces the risk of early elections**
- **However, it also increases the risk of a more contentious parliament next year**
- **Economic recovery is stronger than expected**

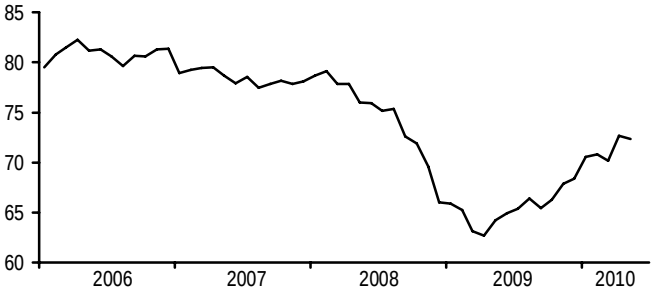
The presence of a market-friendly majority government has been one of the main factors behind Turkey's structural transformation and the resilience of Turkish financial markets in recent years. Despite occasional policy mistakes and growing reform fatigue, the ruling AKP managed to keep a comfortable majority in parliament, thanks mainly to a weak and fragmented opposition. The change in the leadership of the main opposition party, Republican People's Party (CHP), could strengthen and unify the opposition.

Kemal Kilicdaroglu, the former head of Turkey's social security administration (SSK) and the influential Istanbul MP, became the CHP's new party leader in the elections held during the CHP party congress last weekend. We feel his appointment could prove market-friendly in the short term, but increases political risks in the medium term. At the age of 62, Kilicdaroglu is still perceived as belonging to the younger generation of the party. His earlier successes in bringing forward corruption charges against some high-level AKP members along with his performance during the race for Istanbul mayor in the last local elections had already established his name in the party. When Deniz Baykal, the previous leader of the CHP party, was forced to to resign after the circulation of a video allegedly capturing him in an affair, Kilicdaroglu became the obvious candidate to be the new leader. Though he was the only candidate, it was still an achievement that he secured the support of all delegates in the election.

Kilicdaroglu's leadership has already energized CHP supporters and, according to opinion polls, support for the party has jumped by around 10%-pts to 30%-35%. This rather unexpected change in the political landscape will have two major repercussions. First, in the short term, Kilicdaroglu's success reduces the risk of early elections. The CHP had applied to the Constitutional Court for the annulment of AKP-sponsored constitutional amendments. We have been warning that if the Court indeed annuls the changes (the likelihood of which is not small), then Prime Minister Erdogan would very likely declare early elections, arguing that the courts are defying the will of the public, and would ask the electorate for a stronger mandate to prepare a new constitution. After Kilicdaroglu's election, however, Erdogan cannot risk an early election because with the current tailwind, the CHP should perform much better. So, Kilicdaroglu's election should prove market-friendly in the short term.

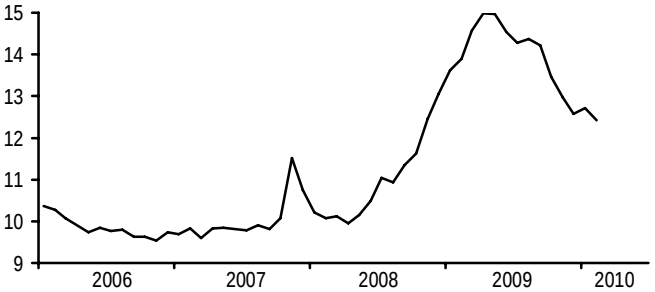
Capacity utilization

%, sa by J.P. Morgan



Unemployment rate

%, sa by J.P. Morgan



However, we cannot say the same thing for the medium term. The support for the CHP is likely to retreat somewhat when the "honeymoon effect" fades, but still the current CHP will most likely perform more strongly than Baykal's CHP. This could be a major blow to the AKP's ambitions of getting a strong mandate in next year's general elections, while at the same time increasing the risk of a more contentious parliament.

Meanwhile, recent data on capacity usage and unemployment provided fresh evidence of a sharp recovery in economic activity. Manufacturing capacity usage rose to 73.4% in May from 72.2% in April—its highest level since October 2008. Importantly, capacity usage increased in nearly all sectors, manifesting a broad-based recovery in production. Similarly, the unemployment rate fell to 14.4% in February from 14.5% in January. In seasonally adjusted terms, the unemployment rate dropped to 12.4%, its lowest rate since October 2008, and well below the May 2009 peak of 15.0%. Despite these stronger-than-expected figures, we think it is still early to revise the growth forecast up given the risk of spillover from the Euro area crisis.

The Turkey data watch is published biweekly; next on June 11.

J.P. Morgan Chase Bank, Istanbul
Yarkin Cebeci (90-212) 319-8599
yarkin.cebeci@jpmorgan.com

Data releases and forecasts

Weeks of May 31 - June 11

Mon May 31 10:00am

Foreign trade

US$ bn, except as noted

	Jan	Feb	Mar	Apr
Trade balance	-3.7	-3.4	-5.0	-5.6
Exports (FOB)	7.9	8.3	10.0	9.5
%oya	-0.2	2.3	22.4	25.6
Imports (CIF)	11.5	11.8	15.0	15.1
%oya	24.2	29.8	42.7	49.2

The recovery in global demand likely supported exports, while the recovery in domestic demand along with higher energy prices should have boosted imports.

Thu Jun 3 10:00am

Inflation

%

	Feb	Mar	Apr	May
Consumer prices				
%oya	10.1	9.6	10.2	10.1
%m/m	1.5	0.6	0.6	0.6
Producer prices				
%oya	6.8	8.6	10.4	11.2
%m/m	1.7	1.9	2.4	0.6
Core CPI (I)				
%oya	4.1	5.4	5.7	5.9
%m/m	-0.5	0.6	1.1	1.9

Inflation pressures should remain strong as economic activity picks up. A seasonal rise in clothing prices should be the main contributor to headline inflation, while a decline in oil prices along with the seasonal drop in food prices should keep headline inflation stable.

Tue Jun 8 10:00am

Industrial production

%oya

	Jan	Feb	Mar	Apr
Total	12.1	18.0	21.1	22.7
Manufacturing	14.5	20.4	23.9	25.3
Mining	0.5	12.2	9.1	9.3
Energy and utilities	3.1	5.3	6.7	8.9

Although the gradual recovery in domestic and external demand along with some inventory building is likely helping, the main factor behind elevated yearly growth should be the extremely weak base.

Fri Jun 11 10:00am

Balance of payments

US$ bn

	Jan	Feb	Mar	Apr
Current account	-2.9	-2.7	-4.3	-4.4
Trade balance	-2.6	-2.3	-3.6	-4.1
Exports, fob	8.4	9.0	10.7	10.2
Imports, fob	11.0	11.2	14.3	14.3
Net invisibles and transfers	0.3	0.4	-0.7	-0.3
Capital account	1.8	0.6	6.3	3.5
Overall balance	0.7	-1.7	1.9	2.5

The current account deficit likely widened on the back of stronger imports in April. The 12-month trailing CAD likely widened to US$24.8 billion (3.8% of GDP) in April from US$21.9 billion (3.4% of GDP) in March. This widening might look alarming at first glance, but it is mainly due to a very weak base and the pace will likely slow within a few months. Financing should not be a problem, as portfolio inflows pick up and the Treasury manages to borrow from abroad comfortably.

Review of past two weeks' data

Labor data

%

	Dec	Jan	Feb
Unemployment	13.5	14.5	~~14.9~~ *14.4*
Nonfarm payrolls (%y/y)	2.2	3.8	~~4.3~~ 5.5
Labor participation rate	47.6	47.5	~~47.2~~ *47.5*

The recovery in the labor market has been faster than expected. On a seasonally-adjusted basis, the unemployment rate has fallen back to the pre-Lehman level. Despite this improvement, high unemployment and the low labor participation rate show considerable slack in the labor market.

Consumer confidence

Index

	Feb	Mar	Apr
Consumer confidence	81.8	84.7	~~85.5~~ *85.8*
Purchasing power—current	73.8	76.1	~~77.5~~ 77.6
Purchasing power—future	80.8	82.7	~~83.3~~ *83.0*
Economic setting	78.3	82.3	~~84.0~~ *82.9*
Employment	77.1	79.0	~~79.5~~ *84.2*

The recovery in sentiment was broad-based and stronger than expected. Of particular note was the sharp improvement in labor market conditions.

CBRT rate decision

%

	Mar	Apr	May
CBRT ON borrowing rate	6.50	6.50	6.50

The CBRT remains confident of the disinflation story, is downplaying inflationary risks, is planning to implement its exit strategy gradually, and is determined to keep rates unchanged for a few more months.

Capacity utilization

%

	Feb	Mar	Apr
Total manufacturing	67.9	72.2	~~72.7~~ *73.4*
Durables	64.1	67.5	~~68.0~~ *72.2*
Nondurables	69.9	72.1	~~72.5~~ *71.9*

In April, manufacturing capacity usage reached its highest level since October 2008. Importantly, the recovery was quite uniform across sectors with each sector reporting an increase.

J.P. Morgan Australia Limited, Sydney
Stephen Walters (61-2) 9220-1599 Helen Kevans (61-2) 9220-3250
stephen.b.walters@jpmorgan.com helen.e.kevans@jpmorgan.com
Ben Jarman (61-2) 9220-1669
ben.k.jarman@jpmorgan.com

Australia and New Zealand

- **RBA will likely sit on the policy sidelines next week**
- **Aussie 1Q GDP outcome to be underwhelming**
- **NZ business surveys likely to be downbeat**

Amid signs that rising market interest rates are starting to bite in Australia, we believe the RBA next week can afford to sit on the policy sidelines. The Reserve Bank has hiked the cash rate 150bp since October last year, but it appears interest rate-sensitive sectors of the economy already are growing below trend. Credit and retail sales data next week will add to this picture. The RBNZ also can afford the time on the policy sidelines. Next week's business surveys in New Zealand should post a decline, reaffirming our view that the RBNZ will stand pat until July as officials assess the impact of sovereign concerns offshore.

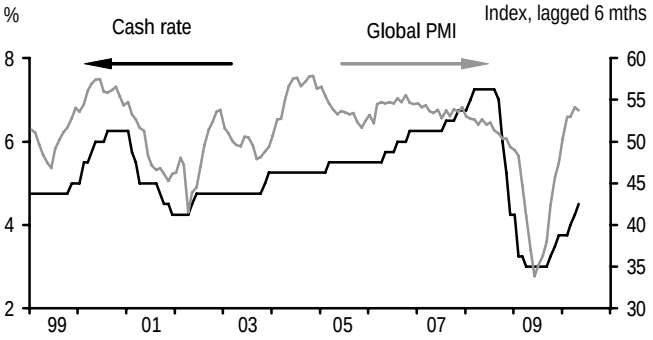
RBA to hold fire after brisk tightening

The RBA, having hiked the cash rate target at each of the past three monthly Board meetings, and at six of the past seven such gatherings, probably will pause on Tuesday. While the inflation outlook has deteriorated, owing partly to the sharp rise in tobacco prices from the recent tax rise, and partly to the plunge in AUD this month, officials will be anxious that the sovereign debt troubles in Europe may raise material risks for the global growth outlook. We suspect that the pause will last at least until the August Board meeting, which follows the release of the 2Q CPI report in late July. The policy pause will be extended if the instability in financial markets spills over to the real economy.

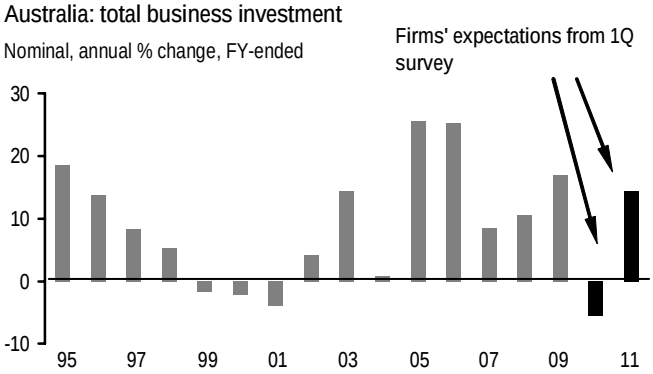
The RBA's commentary Tuesday announcing the unchanged target rate of 4.5% probably should be more balanced than the hawkish commentary delivered earlier this month, when the RBA lifted the cash rate a further quarter point. Officials will likely highlight the still robust economic conditions in Asia and the beneficial impact on Australia's national income of the soaring terms of trade. On the flip side, however, the commentary also will likely refer to the recent instability in financial markets, and the growing risk that these events will spill over to the real economy.

This change of tone from the RBA will signal that the cash rate's climb back into restrictive territory has stalled. The tightening cycle is not, however, over. Indeed, with core inflation likely to trough in the upper half of the RBA's 2%-3% target range and accelerate in 2011, we still expect a cash rate of 6% in this cycle. It now looks likely, though, that the RBA will take a little longer to get it there.

RBA cash target rate and J.P. Morgan global manufacturing PMI



Australia: total business investment



Aussie firms' capex plans still in place

This week's 1Q business investment survey confirms that Aussie firms' spending plans remain largely intact, although managers are slightly less upbeat than they were three months ago. Indeed, firms now plan to *boost* investment spending by 14% in the year ended June 2011; previously, the expectation was for an 18% rise. Spending in the March quarter unexpectedly fell, but there was an upgrade to spending in the December quarter. The surprise fall in private investment spending in the March quarter has trimmed our preliminary forecast for 1Q GDP to 0.4%q/q; the data are released next Wednesday. Monday's quarterly profits, inventories, and current account data, and Tuesday's public spending estimates will help us finalize the GDP estimate.

Importantly, firms' newfound caution does not fully reflect the government's planned changes to the tax regime for mining companies. Indeed, 99% of responses to the survey were collected *before* the government announced the contentious 40% tax on the "super profits" of mining companies. That said, there was widespread media and market speculation that the government preferred such an approach; mining industry respondents may, therefore, have taken this into account when completing the survey.

J.P. Morgan Australia Limited, Sydney
Stephen Walters (61-2) 9220-1599 Helen Kevans (61-2) 9220-3250
stephen.b.walters@jpmorgan.com helen.e.kevans@jpmorgan.com
Ben Jarman (61-2) 9220-1669
ben.k.jarman@jpmorgan.com

Since the government's announcement of the contentious new mining tax, which kicks in from July 2012, mining company executives, including from the world's largest commodity extractors, have lined up to condemn the idea. Some have announced intentions to scale back investment in Australia; others have put projects on hold or placed them "under review." The extent to which Australia's bulging investment pipeline has dwindled will be better reflected in the June quarter survey, released in August.

For now, for what it is worth, given that collection of the 1Q survey also predates the recent extreme volatility in global financial markets, which may make funding investment projects more problematic than managers believed was likely when they filled out the survey forms, Australia's investment pipeline remains swollen. Although firms trimmed spending slightly in real terms in the March quarter (after a healthy gain in the December quarter), managers still plan to lift spending by a double-digit growth rate in the year ended June 2011. This rise will be from already elevated spending levels in the year ended June 2010.

The details of the survey showed that a 15%q/q plunge in investment in manufacturing in 1Q caused the 0.2%q/q decline in total investment; investment in other sectors rose. Investment in mining grew 2.6%q/q; investment spending ex. mining dropped 1.4%. Firms raised spending on buildings and structures by 6.7%q/q, but trimmed spending on equipment, plant, and machinery by a similar amount. For 2009-10, firms' sixth estimate of spending plans for the full year printed below our expectation at A$108.7 billion. After adjustment for the usual estimation errors (using long-run average realization ratios), this implies that spending in the year ended June 2010 will be 5.5% below spending in 2008-09. Firms previously expected a drop of only 3.3%.

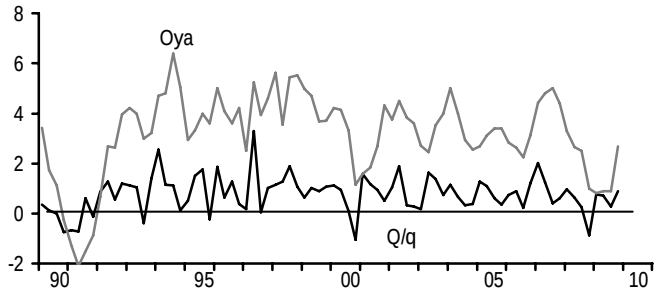
For 2010-11, firms' second estimate of spending for the year also came in below our expectation at A$103.9 billion. After adjustment, this implies a rise from the current fiscal year of 14.4%, down from the 18% rise implied from the December survey. If realized, though, the 14% gain next year will take investment spending to a record high.

1Q GDP report to show sub-trend growth

The 1Q GDP report on Wednesday should show that Australia's economy expanded at a sub-trend 0.4%q/q pace in the March quarter, a significantly slower pace than the 0.9% rate of advance in 4Q. This will push the annual growth rate down to 2.3%oya. The extension of the federal government's fiscal stimulus package means public investment again will have been an important contributor to

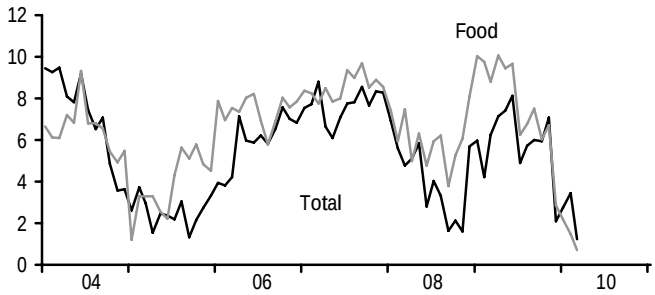
Australia: GDP

%, chain volume



Australia: retail sales

%oya



growth in the economy, as will have been private sector spending on investment, particularly in mining. Household spending growth, however, will have been subdued, with consumer income being squeezed by higher borrowing costs, in particular. Net exports probably will be a drag on GDP growth for the third straight quarter, with export volumes rising less than import volumes, which will be inflated by purchases of capital equipment.

Pieces of the GDP puzzle still missing

There remain several important components of the 1Q GDP print to be delivered next week, before the headline number prints Wednesday. The current account data should show a smaller deficit of A$16.3 billion, owing to a reduction in the trade deficit in the March quarter. As a percentage of GDP, the CAD probably will hit 5.0%. Further gains in commodity prices, which feed through into export income, should continue to trim the deficit over the remainder of the year.

Company profits likely rose a further 4.5%q/q, having finally turned the corner in 4Q. Mining profits likely rose into the new year, owing to higher commodity prices, but retailers had a tough time as consumers reined in spending. Inventories probably fell very slightly in 1Q, with better demand in the mining and wholesale sectors counterbalanced by sluggish retail sales volumes. We forecast a 0.1%q/q fall, which will subtract 0.1%-pt from 1Q GDP.

J.P. Morgan Australia Limited, Sydney
Stephen Walters (61-2) 9220-1599 Helen Kevans (61-2) 9220-3250
stephen.b.walters@jpmorgan.com helen.e.kevans@jpmorgan.com
Ben Jarman (61-2) 9220-1669
ben.k.jarman@jpmorgan.com

Aussie consumers pulling in purse strings

Retail sales in Australia likely posted another fall in April, marking the third monthly slide since the RBA commenced the current tightening cycle in October last year. Our forecast is for a fall of 0.2%m/m—consumer confidence was down in the month, monetary conditions were tight, and equities were lower. Solid employment gains probably prevented an even larger decline in consumer spending, however. Anecdotal evidence suggests consumers are taking a conservative approach to spending amid expectations that the RBA will continue tightening policy. Such spending restraint has led to continued discounting, which has weighed down retail sales values. Indeed, several major retailers have highlighted that the absence of the government's fiscal stimulus payments, which were delivered in late 2008 and early last year, is making comparative growth this year harder to achieve.

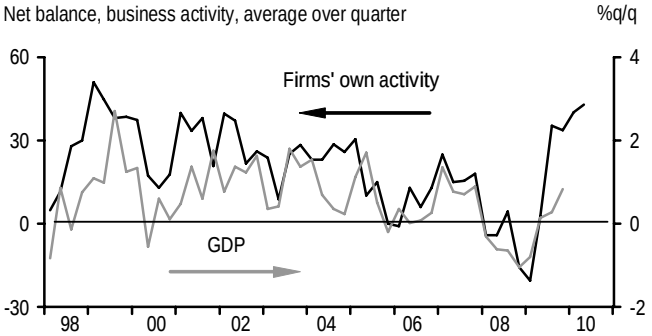
Retailers should expect further weakness in the months ahead. Consumer confidence tumbled in May, falling 7% over the month, the largest fall since October 2008. The deterioration in confidence owed mainly to the impact of higher mortgage rates. Mortgage repayments have risen significantly over the past eight months, which means discretionary spending probably will remain subdued.

Credit growth returning to normal

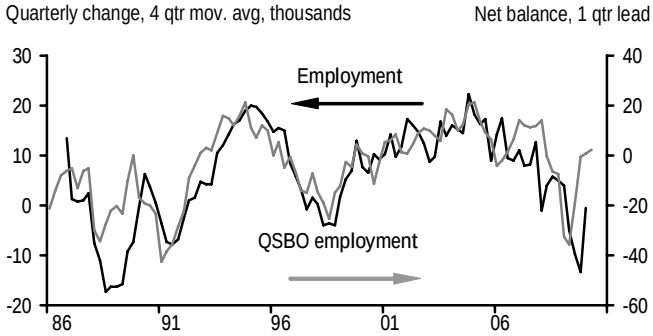
The RBA's credit aggregates released next week should show that credit growth eased in April, providing further evidence that the RBA's rate hikes are biting. Our forecast is for a 0.4%m/m rise versus +0.5% in March. Housing and personal credit growth will likely be lower, owing mainly to higher interest rates, although business credit growth, which turned positive in March for the first time since early 2009, should have picked up.

Credit conditions have been particularly tight for small- to medium-sized businesses since the onset of the financial crisis, and have been slow to recover compared to the turnaround in the broader economy. Larger firms, though, have had adequate access to global capital markets. Smaller businesses that rely more heavily on intermediation have found financing particularly hard to obtain. Housing credit in April will likely be the fastest-growing pool once again, although growth should slow to 0.6%m/m from 0.7%. We suspect that higher interest rates would have dampened demand for housing credit, but the absence of the expanded first home buyers' grant also will have played a part. We expect that personal credit growth will have eased marginally to 0.4%m/m from 0.5%.

New Zealand: NBNZ business outlook survey and GDP growth



New Zealand: Employment and QSBO expectations



Kiwi surveys will be gloomy

Two key surveys of business sentiment will be released in New Zealand next week—the monthly NBNZ business confidence survey and the quarterly NZIER survey. We expect that the surveys will point to a deterioration in confidence, reaffirming our view that the RBNZ will sit on the policy sidelines until July, beyond the consensus forecast for a June move. Indeed, there is no urgent need for the RBNZ to tighten policy, particularly when the domestic recovery remains patchy and given heightened sovereign debt concerns in the Euro area.

The headline reading on the NBNZ business confidence index likely eased in May to around 45 from the 49.5 level reported in April. The all-important firms' own activity outlook index also should post a decline, partly a payback for the sizable jump in the previous month, although this continues to suggest that the economy will expand at a relatively healthy clip in coming quarters. These findings will likely be supported by the NZIER Quarterly Survey of Business Opinion (QSBO), but we suspect that respondents probably expect that the recovery under way will continue at a slower pace than when last surveyed three months ago. The headline reading eased to +22 in 1Q, but will likely fall further to +20 in the current quarter, meaning that a net 20% of firms surveyed expect the economy to improve in the next six months. The QSBO also will provide important

J.P. Morgan Australia Limited, Sydney
Stephen Walters (61-2) 9220-1599 Helen Kevans (61-2) 9220-3250
stephen.b.walters@jpmorgan.com helen.e.kevans@jpmorgan.com
Ben Jarman (61-2) 9220-1669
ben.k.jarman@jpmorgan.com

information on firms' investment intentions, hiring plans, and, importantly, the pricing environment.

Australia:

Data releases and forecasts

Week of May 31 - June 4

Mon May 31 11:30am — **Inventories**
Seasonally adjusted

	2Q09	3Q09	4Q09	1Q10
%q/q	-1.9	0.1	0.2	-0.1
%oya	-1.4	-3.7	-2.6	-1.7

Mon May 31 11:30am — **Company operating profits**
Nominal, gross operating, sa

	2Q09	3Q09	4Q09	1Q10
%q/q	-6.9	-1.4	2.2	4.5
%oya	-12.6	-19.7	-11.2	-2.0

Mon May 31 11:30am — **Current account balance**
A$ bn, sa

	2Q09	3Q09	4Q09	1Q10
Current account (A$ bn)	-13.1	-14.7	-17.5	-16.3
% of GDP	-4.2	-4.7	-5.4	-5.0

Mon May 31 11:30am — **Private sector credit**
Seasonally adjusted

	Jan	Feb	Mar	Apr
%m/m	0.4	0.4	0.5	0.4
%oya	1.3	1.7	2.1	2.4

Tue Jun 1 11:30am — **Building approvals**
Seasonally adjusted

	Jan	Feb	Mar	Apr
%m/m	-5.0	-2.7	15.3	-6.0
%oya	53.5	36.3	51.6	32.3

Approvals should have fallen substantially, partly as payback for a surge in March.

Tue Jun 1 11:30am — **Retail trade**
Seasonally adjusted

	Jan	Feb	Mar	Apr
%m/m	0.9	-1.2	0.3	-0.2
%oya	2.7	3.4	1.2	0.5

Tue Jun 1 2:30pm — **RBA cash rate announcement**

No change expected. See main text.

Wed Jun 2 11:30am — **Real GDP**
Chain volume, sa

	2Q09	3Q09	4Q09	1Q10
%q/q	0.7	0.3	0.9	0.4
%oya	0.9	0.9	2.7	2.3

Thu Jun 3 11:30am — **Trade balance**
Seasonally adjusted

	Jan	Feb	Mar	Apr
Trade balance (A$ mn)	-951	-1701	-2082	-1800

Preliminary data showed imports were essentially flat in April. Exports, on the other hand, probably rose owing to a strong contribution from coal shipments.

Review of past week's data

Sales of new motor vehicles
Units, sa

	Feb		Mar		Apr	
%m/m	~~-1.9~~	*-1.8*	~~-2.7~~	*-2.8*	~~-3.5~~	*8.4*
%oya	~~17.3~~	*17.4*	~~19.2~~	*19.6*	~~11.8~~	*28.7*

WMI leading index

	Jan		Feb		Mar	
%m/m sa	~~0.4~~	*0.5*	0.5		__	*0.9*

Construction work done

	3Q09		4Q09		1Q10	
%q/q sa	~~1.6~~	*0.9*	~~2.6~~	*-0.2*	~~-1.0~~	*1.9*
%oya sa	~~5.4~~	*5.0*	~~3.9~~	*0.7*	~~6.9~~	*5.6*

Private new capital expenditure

	3Q09		4Q09		1Q10	
%q/q sa	~~-5.2~~	*-4.4*	~~5.5~~	*6.1*	~~5.0~~	*-0.2*
%oya sa	~~-2.7~~	*1.0*	~~-2.3~~	*-2.8*	~~7.4~~	*1.0*

New Zealand:

Data releases and forecasts

Week of May 31 - June 4

Mon May 31 3:00pm — **NBNZ business confidence**

	Feb	Mar	Apr	May
% balance of respondents	50.1	42.5	49.5	45

Tue Jun 1 1:00pm — **NZIER QSBO**
% balance of respondents

	3Q09	4Q09	1Q10	2Q10
Headline index	36	31	22	20

Review of past week's data

Trade balance

	Feb		Mar		Apr	
Trade balance (NZ$ mn, nsa)	~~335~~	*334*	~~567~~	*590*	~~500~~	*656*

Building consents

	Feb		Mar		Apr	
%m/m sa	~~5.8~~	*6.1*	~~-0.4~~	*0.1*	~~-2.0~~	*8.5*
%oya sa	29.8		~~32.9~~	*33.3*	~~15.8~~	*32.1*

JPMorgan Chase Bank, Hong Kong
Qian Wang (852) 2800-7009
qian.li.wang@jpmorgan.com
Grace Ng (852) 2800-7002
grace.h.ng@jpmorgan.com

Greater China

- **China: macro policy emphasis is "flexible" and "targeted"; global growth picture concerns intensify**
- **First rate hike is now expected to be delivered sometime in 3Q, with a total of two 27bp hikes in 2010**
- **Taiwan: April IP showed moderate gain; sequential growth momentum easing from heady post-crisis pace**
- **April unemployment rate fell further, demonstrating steady improvement in the labor market**

Amid uncertainty on both the global and domestic fronts, Chinese policymakers, characterizing 2010 as "the most complicated year" following "the most difficult year" of 2009, have remained cautious, maintaining a relatively accommodative monetary policy and keeping fiscal stimulus in place in 2010. Meanwhile, the authorities emphasized a "flexible" and "targeted" policy approach for 2010 in an effort to confront the prevailing macro conditions. As such, policy moves are generally data-dependent and reactive, rather than proactive, and it is not surprising to us that the authorities are increasingly biased toward growth, given the latest developments on the macro front.

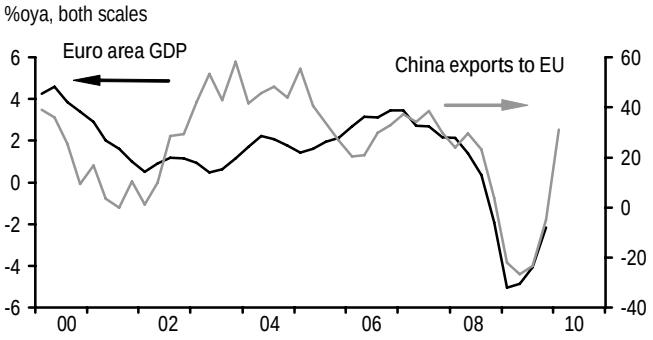
Although there have been signs of overheating domestically and the CPI is climbing, the recent global financial market turmoil has made Chinese authorities increasingly concerned about the impact on China's export sector and economy overall, given the potential slowdown in the EU and global economy, as well as a weakening euro. Indeed, China's exports to Europe have risen significantly over the past decade.

Meanwhile, instead of interest rate hikes, which could have a much broader impact across the economy, China has preferred to adopt sector-specific measures to tackle problems in certain domestic areas. From the policymakers' perspective, the targeted measures are effectively depressing property activity and local government investment, which reduces their concern over the risk of overheating. Although the headline CPI inflation rate (in %oya terms) is still picking up, China believes it can tolerate this trend for a while, especially as food price increases are still the major contributor to the headline CPI figure.

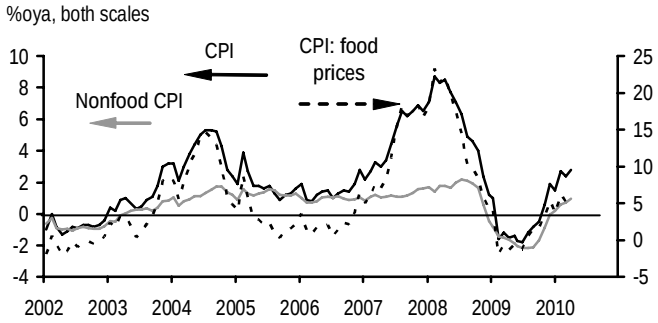
First rate hike to come in 3Q

As such, we believe the normalization on the monetary front, especially interest rate hikes, could be less than we had previously expected. We now expect the People's Bank of China to deliver the first rate hike sometime in 3Q

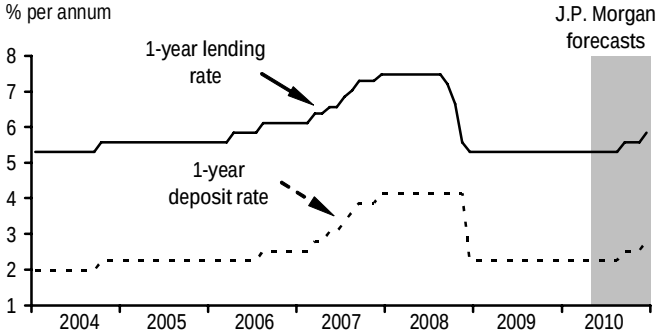
China exports to EU and Euro area GDP



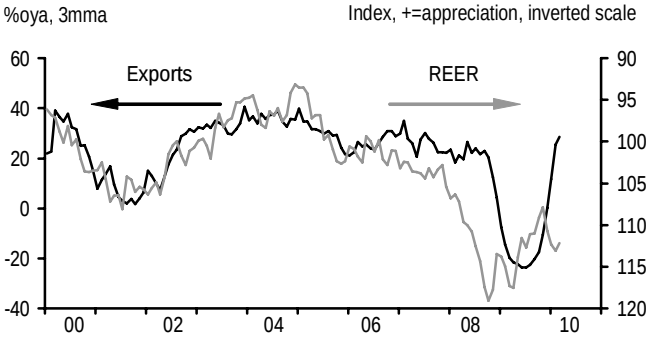
China: headline CPI, food prices, and nonfood CPI inflation



China: benchmark lending and deposit rates



China exports and real effective exchange rate



(previously we looked for the first rate move in May/June), with a total of two hikes, 27bp each, for the year (compared to a total of three hikes in our previous forecast).

With regard to the currency, we changed the year-end CNY/USD target to 6.6 from 6.5 recently, given the notable appreciation of CNY in REER terms. China will likely focus on increasing the flexibility of the currency regime, and we look for a widening of the daily trading band and introduction of more two-way volatility in the future. The timing, however, remains a political issue as the clock is ticking. Following the US-China Strategic and Economic Dialogue (SED) earlier this week, which, as was widely expected, did not deliver any surprises on the currency, the G-20 meeting next month will be another critical event on the political calendar. Overall, the chance is that China will move on CNY during the next two months.

Taiwan: moderate gain in April IP

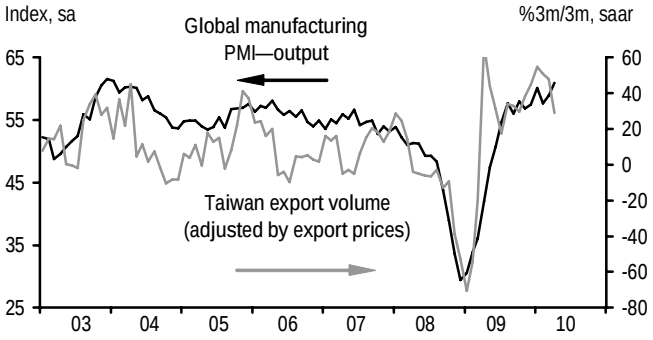
Taiwan's April IP rose 31.38%oya, compared to 39.2%oya growth in March. Seasonally adjusted, IP rose 0.5%m/m in April on the back of a 0.7%m/m decline in March. IP for information and electronics rose modestly by 0.2%m/m sa in April after an 0.8%m/m fall in March, with the sequential trend gaining 34.2%3m/3m saar. Meanwhile, nontech IP rose 0.6%m/m sa in April with the sequential trend rising gently at 4.8%3m/3m saar.

The latest trade reports from Taiwan showed that export growth, while still solid, has begun to moderate, compared to the elevated post-crisis recovery pace of the past year. Accordingly, growth momentum in Taiwan's IP cooled markedly going into 2Q10, with the sequential trend rising at a 19.4%3m/3m saar pace by April, following the elevated post-crisis rebound at around a 40%q/q saar pace in the previous three quarters.

Growth momentum normalizing

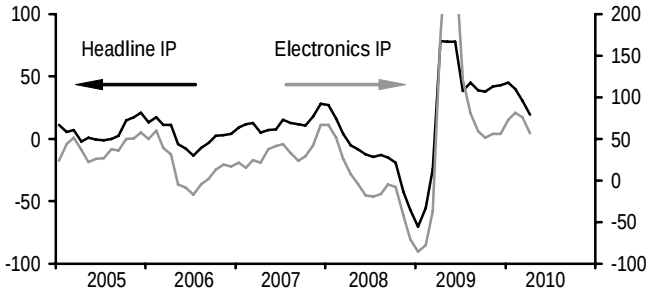
Looking ahead, our global team's base-case scenario is for global capital spending to rise at a double-digit pace over the course of 2010, while consumer spending is projected to sustain solid gains. Meanwhile, our global team recognizes the risks to the global growth picture from the European sovereign debt crisis. Also, Emerging Market PMIs underperformed Developed Market PMIs for the second month in a row in April. Furthermore, the pace of growth in Taiwan's imports of raw materials and intermediate goods has started to slow, suggesting that the rate of expansion in the export sector is also likely to slow.

Global manufacturing PMI and Taiwan real exports



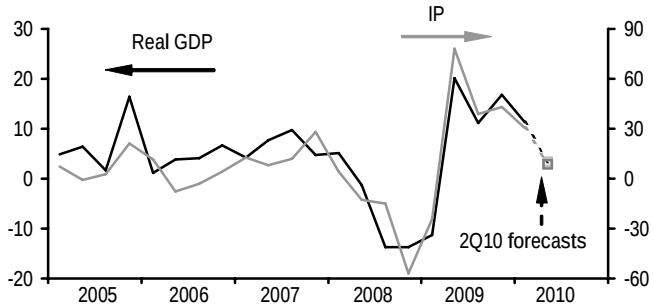
Taiwan: headline and electronics IP

%3m/3m saar, both scales

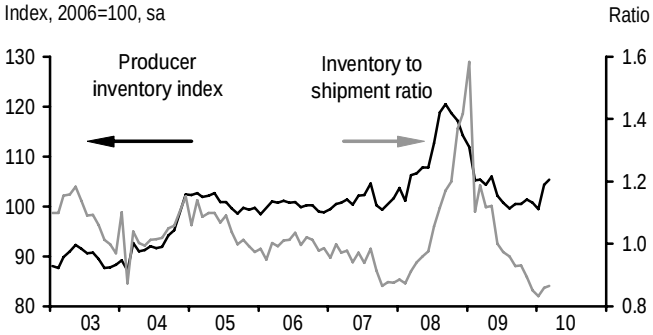


Taiwan: real GDP and IP growth

%q/q saar, both scales



Taiwan: producer inventory and shipments



JPMorgan Chase Bank, Hong Kong
Qian Wang (852) 2800-7009
qian.li.wang@jpmorgan.com
Lu Jiang (852) 2800-7053
lu.l.jiang@jpmorgan.com

Putting all of this together, we believe that Taiwan's export sector and industrial activity will exhibit steady, moderate growth in the coming quarters, though the pace of sequential gain may continue to slow from the sharp post-crisis rebound seen over the past 12 months. Our forecast for Taiwan's 2010 real GDP growth stands at 9.2%, with sequential growth expected to slip toward an average 3.5%q/q saar pace in the coming three quarters, compared to the double-digit annualized sequential growth rates seen over the past 12 months.

Turning to the inventory cycle, the latest data show that the manufacturing sector's total inventory rose 1.1%m/m sa in March (up 9.0%3m/3m saar). Meanwhile, shipments rose 0.5%m/m sa in March, with the sequential trend rising solidly at 30.2%3m/3m saar. The overall inventory to shipment ratio thus continued to hold around its historical lows (fourth chart). This suggests that as final global demand continues to pick up, inventory building should begin to boost overall growth.

April unemployment rate fell further

Taiwan's seasonally adjusted unemployment rate fell to 5.43% in April, compared to 5.64% in March. Total employment rose 0.26%m/m sa in April, with the underlying sequential trend rising solidly at 3.5%3m/3m saar. Total unemployment fell 16.3%3m/3m saar by April.

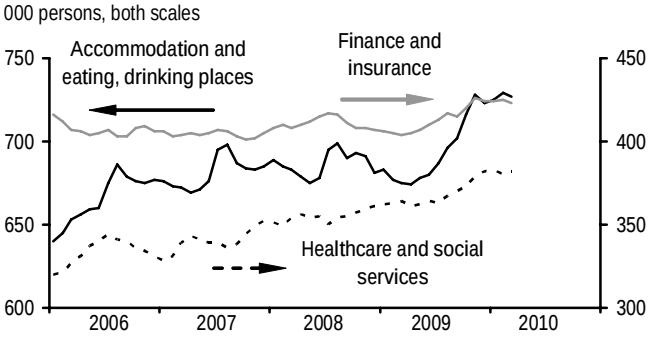
The steady, solid expansion in total employment since 3Q09 has followed the broad-based recovery in the overall economy, though the pace of the labor market recovery has lagged the sharp recovery in the IP cycle until early this year (first chart). Looking ahead, manufacturers in Taiwan, especially tech producers, are forecast to expand capex further and to increase hiring during the course of this year in response to the improving outlook for external demand.

On the domestic front, general confidence in the overall economic outlook has turned up notably, with a steady improvement in the services sectors. As such, the labor market should continue to improve steadily, supporting private consumption demand in the coming quarters.

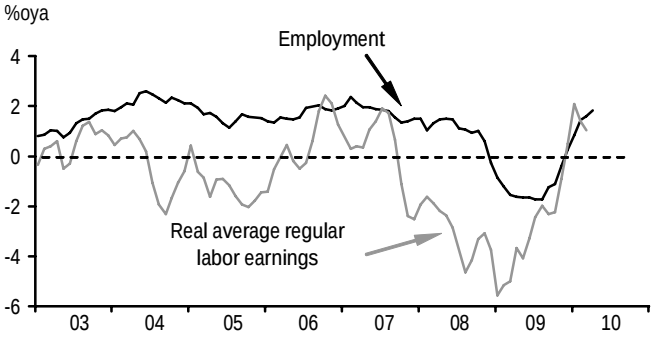
- Industrial employment has risen significantly in the past five months, jumping 5.7%3m/3m saar by April following the impressive recovery in the export sector. Employment in service sectors began to turn up earlier in this recovery, registering solid monthly gains since May last year, though the pace of expansion has moderated somewhat recently, at 0.4%3m/3m saar in April.

Taiwan: IP and industrial employment

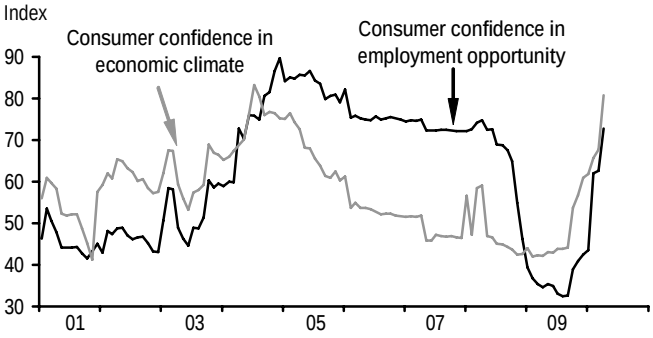
Taiwan: service sector employment



Taiwan: employment and real labor earnings



Taiwan: consumer confidence index—6-month outlook



JPMorgan Chase Bank, Hong Kong
Qian Wang (852) 2800-7009
qian.li.wang@jpmorgan.com
Grace Ng (852) 2800-7002
grace.h.ng@jpmorgan.com

- Average monthly regular labor earnings, which had fallen steadily since 3Q08, have begun to stabilize in recent months, with real average employment income recording positive growth at 1.0%oya by March.

- Not surprisingly, most recent surveys suggest that household confidence in employment opportunities and the general economic climate six months ahead lifted significantly through April.

China:

Data releases and forecasts

Week of May 31 - June 4

Tue Jun 1 9:00am — Manufacturing PMI, Index, sa

	Feb	Mar	Apr	May
Overall (Markit)	55.8	57.0	55.4	54.3
Output	57.8	58.1	57.1	__
Overall (NBS)	52.0	55.1	55.7	54.5
Output	54.3	58.4	59.1	__

Manufacturing PMIs likely eased moderately in May, as the ongoing credit policy to curb excessive lending and the tightening of housing policy continued to restrain activity in certain domestic sectors. Meanwhile, renewed concerns regarding the sustainability of the export recovery have risen, amid recent global financial turmoil and uncertainty over the EU and global growth outlook.

Review of past week's data

No data released.

Hong Kong:

Data releases and forecasts

Week of May 31 - June 4

Tue Jun 1 4:30pm — Retail sales volume, % change

	Jan	Feb	Mar	Apr
Oya	3.2	31.5	17.2	15.1
M/m sa	-0.2	9.9	-8.1	0.4

Retail sales volume is likely to post a decent growth rate in April backed by a steady labor market and a strong tourism flow, particularly from mainland China.

Review of past week's data

Merchandise trade (May 27)
HK$ bn

	Feb	Mar	Apr
Balance	-19.7	-38.9	~~-27.8~~ *-35.2*
Exports	182.5	231.8	~~248.0~~ *242.2*
%oya	28.5	32.1	~~24.6~~ *21.7*
Imports	202.1	270.6	~~275.8~~ *277.5*
%oya	22.4	39.8	~~28.1~~ *28.8*

Hong Kong's trade sector showed notable moderation in April from the previous month. The total value of exports and imports declined 2.0%m/m sa and 0.5%m/m sa, respectively. Details of the destinations suggested the total value of exports to Asia posted growth of 27.9%oya compared to 44.4%oya in March, mainly driven by a moderation in exports to Thailand and mainland China. Meanwhile, exports to the US increased 8.6%oya, while exports to Germany continued to deteriorate, registering a decline of 9.5%oya. Given the rather weak outlook for external demand, particularly from Europe, we expect Asian markets to continue to lead the growth, adding support to Hong Kong's merchandise trade performance in the coming months.

Taiwan:

Data releases and forecasts

Week of May 31 - June 4

No data releases.

Review of past week's data

Labor market survey (May 24)
%

	Feb	Mar	Apr
Unemployment rate, sa	5.7	5.6	~~5.5~~ *5.4*
Unemployment rate, nsa	5.8	5.7	5.4

Industrial production (May 24)
%

	Feb	Mar	Apr
Oya	35.2	39.2	~~33.7~~ *31.4*
M/m sa	2.5	-0.7	~~1.2~~ *0.5*

Composite leading indicator (May 27)
% change

	Feb	Mar	Apr
M/m sa	0.8	~~0.3~~ *0.2*	__ *0.4*

JPMorgan Chase Bank, Seoul
Jiwon Lim (822) 758-5509
jiwon.c.lim@jpmorgan.com

Korea

- **Business confidence and consumer sentiment remained resilient in May**
- **Next week: April IP and May customs trade**

Tensions between North and South Korea held the attention of financial markets in the earlier part of this week, but eventually showed some signs of stabilizing. Interestingly, local bond markets stayed firm, even as both KRW and equity prices fell sharply. Note that foreign investors remained net buyers of local bonds, in contrast with events in 2003 when North Korea withdrew from the Nuclear Non-Proliferation Treaty (NPT). At that time, all categories of South Korean assets were sold off, reflecting escalated sovereign risk in the Korean peninsula. However, the relatively firm local bond market this time implies that rising global risk aversion, due to European debt problems, played an important role in the recent sharp correction in KRW and equity prices, although Korea-specific geopolitical risks intensified this move. Thus, we maintain the view that the key risk factor to our forecast of 5.8%y/y for 2010 real GDP growth and 1,100 for end-2010 USD/KRW is still the progress of peripheral Europe's debt problems.

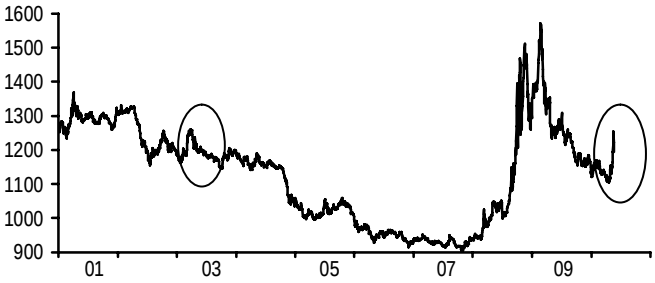
Both business and consumer sentiment relatively firm in May

Global risk aversion, compounded by escalating geopolitical risk in the Korean peninsula, damped financial markets to pull down KRW/USD and the KOSPI from their recent peaks in late April. However, both consumer and business sentiment stayed firm, with headline indices of both surveys edging higher. According to the Bank of Korea's monthly survey, headline consumer sentiment rose slightly to 111 in May, after staying at 110 for two months. The survey was taken during May 12-19, and thus reflected consumers' reaction to the sharp correction in KRW and equities. Out of six major components, four indices were unchanged, while the indices of consumers' assessment and outlook of general economic conditions improved slightly.

The BoK also reported the results of its business survey: the headline outlook index declined while the current conditions index edged higher. Due to the survey's short history, it is difficult to adjust for seasonal variation, but the alternative business survey by the Federation of Korean Industry (FKI) showed that the decline in the outlook index was only for seasonal reasons, with the seasonally adjusted one-month-ahead outlook index moving up slightly to 103.8 in May, after pulling back from 108.8 in March to 102.9 in April.

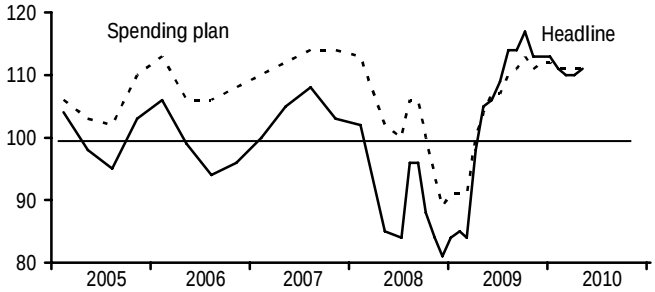
USD / KRW

Daily spot exchange rate



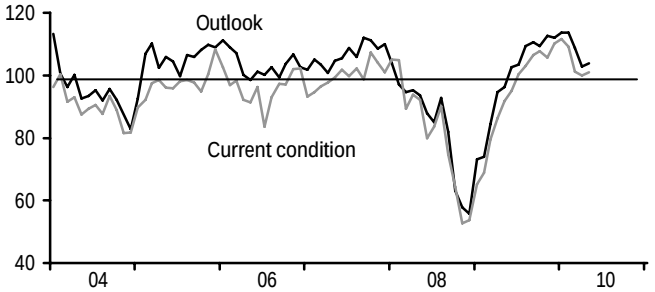
Consumer survey index

Neutral=100, nsa



Business survey by FKI

100=neutral reading, sa



Busy data calendar next week

Next week will bring a clutch of data on April activity. Based on the export outcome and trade prices released earlier this month, industrial production continued to rise, but at a slightly more moderate pace than in March. High-tech output likely remained firm, but was partially offset by weaker automobiles. Consumption goods sales are expected to rebound, but only partially reverse the previous month's decline. However, business equipment investment likely took a breather in April, after having been solid for several quarters. Also coming into focus will be May's customs trade report; we expect exports to Europe to soften, but not yet by enough to offset the gain in the shipments to other countries.

JPMorgan Chase Bank, Seoul
James Lee (822) 758-5512
james.dh.lee@jpmorgan.com

Data releases and forecasts

Week of May 31 - June 4

Mon May 31 8:00am — **Industrial production**
% change

	Jan	Feb	Mar	Apr
%oya	37.0	18.8	22.1	20.0
%m/m sa	0.0	3.3	1.6	0.8

Mon May 31 8:00am — **Producer shipments and inventories**
%oya

	Jan	Feb	Mar	Apr
Shipments	32.1	14.4	21.7	21.0
Inventories	-3.7	4.2	6.5	7.0

Producers' inventories likely moved up further, but are unlikely to exceed the gain in shipments. Accordingly, producers' inventories to shipments should have stayed at very low levels.

Mon May 31 8:00am — **Consumption goods sales**
% change

	Jan	Feb	Mar	Apr
%oya	6.9	13.1	9.7	8.7

Consumption goods sales rose modestly in April, but the base effect should have worked against the over-year-ago comparison figure.

Mon May 31 8:00am — **Composite leading indicator**
2005=100, sa

	Jan	Feb	Mar	Apr
Index	127.4	127.1	127.2	127.6

Mon May 31 8:00am — **Service activity**
%change

	Jan	Feb	Mar	Apr
%oya	4.4	7.3	5.2	4.0

Unfavorable weather conditions and the base effect likely slowed service activity growth in April.

Tues Jun 1 8:00am — **Consumer prices**
% change

	Feb	Mar	Apr	May
%oya	2.7	2.3	2.6	2.8
%m/m sa	0.2	-0.1	0.3	0.2

Consumer prices likely rose further in May, with domestic oil prices up on KRW depreciation. However, agricultural prices are expected to decline slightly, after six consecutive months of increase, with improved weather conditions resolving the supply shortage.

Tue Jun 1 10:00am — **Customs trade**
US$ bn nsa

	Feb	Mar	Apr	May
Trade balance	2.2	2.0	4.1	3.6
Exports	33.2	37.4	39.4	38.7
Imports	31.0	35.5	35.4	35.1

Both exports and imports likely rose on a seasonally adjusted trend basis. Import gains are expected to have exceeded export growth to narrow the trade surplus.

Thu Jun 3 6:00am — **Foreign exchange reserves**
US$ bn nsa

	Feb	Mar	Apr	May
Total	270.7	272.3	278.9	__

Fri Jun 4 8:00am — **Real GDP 2nd estimate**
% change

	3Q09	4Q09	1st 1Q10	2nd 1Q10
%q/q saar	13.4	0.7	7.5	7.6
%oya	1.0	6.0	7.8	7.8

Review of past week's data

Consumer survey (May 26)
100 = neutral reading, nsa

	Mar	Apr	May	
Index	110	110	~~107~~	*111*

See main story.

Current account (May 27)
US$ bn nsa

	Feb	Mar		Apr	
Balance	0.2	~~1.7~~	*1.8*	~~2.7~~	*1.5*

The current account surplus fell modestly; the merchandise trade surplus moved up, but the increase was more than offset by a seasonally wider deficit in the income account and current transfers. Seasonally adjusted, the current account surplus rose to US$2.4 billion in April from US$1.3 billion in March. Meanwhile, the capital account saw a larger surplus as foreign borrowing rebounded while portfolio inflows were firm.

FKI business survey (May 27)
100 = neutral reading, nsa

	Mar	Apr	May	
One-month-ahead outlook	111.2	113.4	~~105.0~~	*108.9*
Current conditions	113.1	108.9	~~108.0~~	*111.9*

Housing prices (May 28)
% change from previous week, apartment prices only

Week of May 10	May 17	May 24	
0.0	0.0	__	*0.0*

JPMorgan Chase Bank, Singapore
Matt Hildebrandt (65) 6882-2253
matt.l.hildebrandt@jpmorgan.com

ASEAN: Indonesia, Malaysia, Philippines, Singapore, Thailand, Vietnam

- **Singapore GDP surged at a record pace in 1Q**
- **Strong April IP and NODX reports suggest payback from 1Q surge will not materialize until next quarter**
- **Tightening labor market conditions set to drive inflation higher**

Singapore's 1Q GDP report was a good reminder that the country remains one of the most volatile economies in the world. After contracting modestly in 4Q09, Singapore expanded at a record pace in 1Q10 on the back of a biomedical-led manufacturing surge. Despite our expectation of payback later this year, the strong 1Q GDP result, combined with strong April export and IP data, has led us to revise up our 2010 GDP forecast to 10.5%.

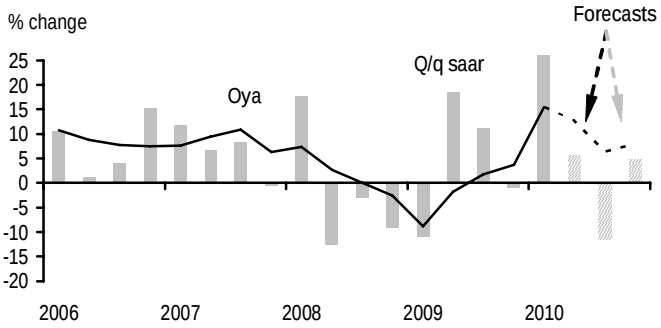
The economy's positive momentum carried into early 2Q as export and IP growth were strong in April. Much of the strength reflected the surge in the volatile biomedical cluster, but manufacturing in general was strong. While non-biomedical components may continue to expand in the coming months, pharmaceuticals will most likely correct from their blistering growth rate. This will have a notable impact on GDP growth, and we expect fairly large payback in 3Q. Nonetheless, the correction should be technical in nature, and we maintain our positive economic outlook as long as external demand continues to hold up.

Singapore's strong economic performance has translated into job growth. Wages are starting to rise, too, as is the labor force participation rate. These are clear indicators that labor market conditions are tightening, which in the past has led to greater domestic price pressures. In April, inflation rose 3.2%oya compared to only 1.6% the previous month. So far, the rise in inflation reflects administered energy prices, food, and housing. However, if strong growth continues and the labor market tightens further, domestic price pressures will likely become an important issue in 2H.

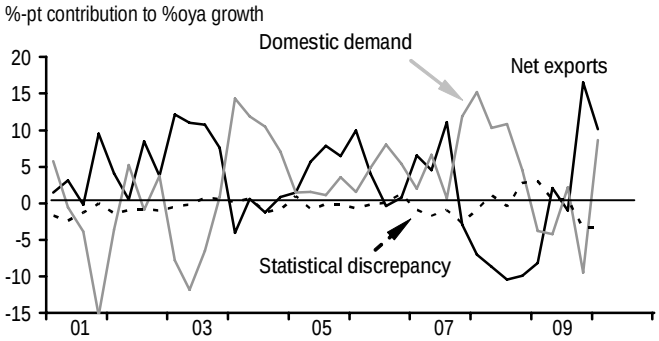
GDP continues to surprise on upside

GDP for 1Q10 surged 38.6%q/q saar, a stronger move than the already impressive 33% gain suggested by the Advance Estimate (based on the first two months of that quarter's data). Growth was led by fixed investment (+43.7% annualized) and exports (+17.7%), while private consumption (-1.3%) and government spending (-5.9%) took a breather. From the industry side, manufacturing was the driver (+157.6%), contributing 75% of the quarter's annualized

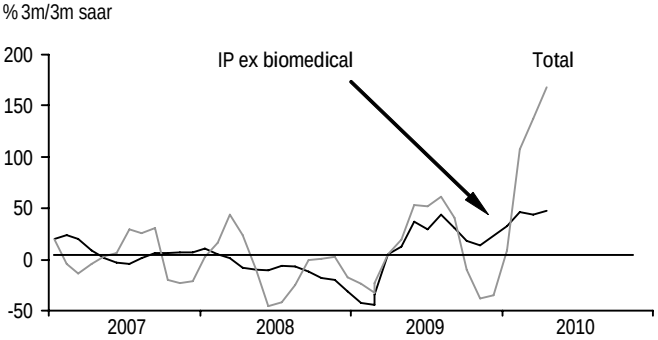
Singapore: GDP and forecasts



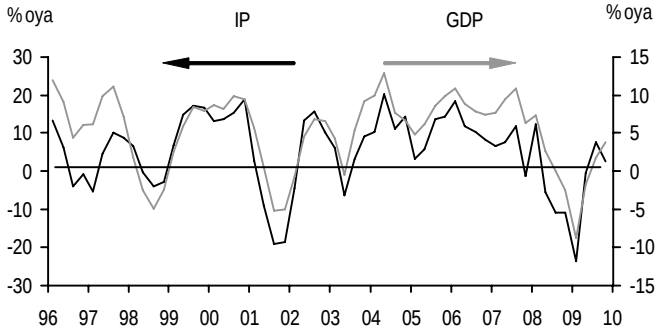
Singapore: contribution to GDP



Singapore: industrial production



Singapore IP and real GDP



GDP growth. On an over-year-ago basis, contributions were evenly shared, with manufacturing and services each accounting for about half of the 15.5%oya rise. This was reflected on the demand side with net exports contributing around 10%-pts to the 15.5%oya surge while domestic demand contributed an almost equal 8.7%-pts (the statistical discrepancy was 3.3%-pts).

April IP leads to further GDP revision

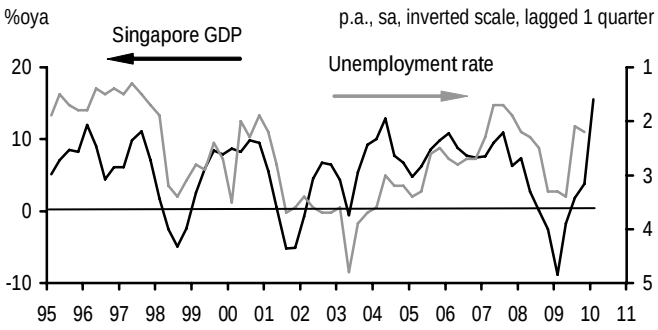
After the GDP release two weeks ago, we revised our 2010 GDP forecast higher to 9.6% from 9.2%. This view incorporated a contraction in GDP this quarter and then trend-like growth in 2H. However, this week's IP report suggests that payback will not be so quick; hence the further upward revision. Singapore IP surged 24.3%m/m sa in April, or 51.0%oya (consensus: 20.7%). On a sequential trend basis, IP soared 167.9%3m/3m saar, by far the strongest expansion since at least 1984.

IP strength was broad-based, but pharmaceuticals clearly stood out as the biggest driver, surging almost 80%m/m sa. Such strong growth is not sustainable, especially given the volatility of pharmaceutical production, so we continue to expect strong payback. We had previously expected the bulk of the payback to occur in 2Q, but it now looks likely to be mostly felt next quarter. Given the close relationship between IP and GDP growth, we have revised our quarterly GDP forecasts for the rest of 2010 to more appropriately reflect the new IP trajectory. As a result, we now expect sequential GDP contraction in 3Q rather than this quarter, and we have thus raised our 2010 GDP forecast further to 10.5% from the 9.6% upward revision introduced just last week following the GDP report.

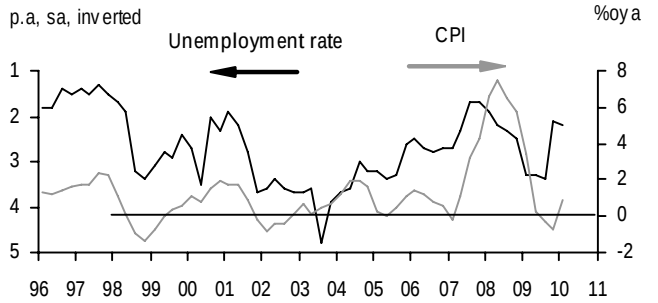
Inflation to get more attention in 2H

Since exiting recession, inflation concern has primarily centered on housing prices rather than on consumer prices. However, in April, inflation rose 3.2%oya from 1.6% in March. Most of the rise was due to a hike in electricity tariffs and expiration of service and conservancy charge subsidies. Moreover, the doubling in the over-year-ago rate of inflation from March likely overstated the speed at which price pressures are rising given more subdued sequential trend rises, but price pressures nevertheless are likely to build. This view reflects historical relationships between growth, labor market conditions, and consumer prices, which tend to move together, albeit often with a lag. However, if growth remains strong, we believe that the unemployment rate will likely continue to tighten from an already low level of 2.2% sa. Wages will then likely rise, leading to higher inflation in 2H10.

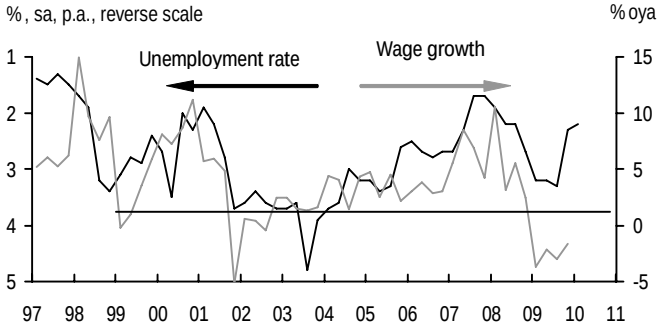
Singapore GDP and unemployment



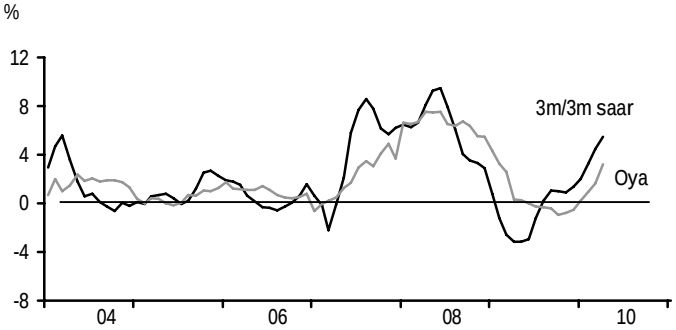
Singapore unemployment and CPI inflation



Singapore: labor market



Singapore: CPI inflation



JPMorgan Chase Bank, Singapore
Matt Hildebrandt (65) 6882-2253
matt.l.hildebrandt@jpmorgan.com

Indonesia:

Data releases and forecasts

Week of May 31 - June 4

Tue Jun 1 2:00pm — Merchandise trade, US$ bn nsa

	Jan	Feb	Mar	Apr
Trade balance	2.1	1.7	1.6	1.8
Exports (%oya)	59.3	56.5	46.6	32.1
Imports (%oya)	43.8	59.9	68.6	35.1

Tue Jun 1 2:00pm — Consumer prices, % change

	Feb	Mar	Apr	May
Oya	3.8	3.4	3.9	4.1
M/m sa	0.4	0.3	0.7	0.3
Food	4.8	4.1	5.9	—
Nonfood	3.5	3.2	3.4	—

Fri Jun 4 1:00pm — BI monetary policy meeting, % p.a.

	Mar	Apr	May	Jun
BI rate	6.50	6.50	6.50	6.50

Review of past week's data

No data released.

Malaysia:

Data releases and forecasts

Week of May 31 - June 4

Fri Jun 4 6:00pm — Merchandise trade, US$ bn nsa

	Jan	Feb	Mar	Apr
Trade balance	3.8	3.4	4.3	3.5
Exports	15.5	13.7	17.9	17.1
%oya	44.8	26.1	50.9	48.0
Imports	11.7	10.3	13.6	13.6
%oya	38.5	36.2	60.7	43.6

Review of past week's data

No data released.

Philippines:

Data releases and forecasts

Week of May 31 - June 4

Fri Jun 4 9:00am — Consumer prices, %oya

	Feb	Mar	Apr	May
All items	4.2	4.4	4.4	4.9
%m/m sa	0.8	0.2	0.2	0.3

Thu Jun 4 9:00am — BSP monetary policy meeting, % p.a.

	Mar	Apr	May	Jun
Reverse repo rate	4.00	4.00	4.00	4.25

Review of past week's data

Merchandise trade (My 26)
US$ bn nsa

	Jan	Feb	Mar
Imports	4.3	3.9	4.6
%oya	31.1	27.6	~~39.4~~ *38.9*

Imports rose 2.5%m/m sa in March, leaving them up 103.6%3m/3m saar. Nonelectronics, particularly consumer goods, and mineral fuel and lubricant imports, led the rise, though electronic imports edged higher as well.

Real GDP (May 27)
% change

	3Q09	4Q09	1Q10
%oya	0.4	1.8	~~4.6~~ *7.3*
%q/q saar	3.1	3.5	~~6.0~~ *12.9*

The Philippines' economy started 2010 on a robust note by surging 12.9%q/q saar. This left growth up 7.3%oya, much higher than market expectation (consensus: 4.4%). Growth was driven primarily by external demand, while private consumption and fixed investment grew meagerly. In over-year-ago terms, the story looks different. In terms of contributions to %oya growth, net trade was a drag while domestic demand accounted entirely for the economy's expansion.

Singapore:

Data releases and forecast

Week of May 31 - June 4

Wed Jun 2 9:30pm — Purchasing managers index, Level

	Feb	Mar	Apr	May
PMI	51.9	51.1	51.9	51.5
PMI—electronics	53.0	53.4	51.8	51.0

Review of past week's data

Consumer prices (May 24)
% change

	Feb	Mar	Apr
Oya	1.0	1.6	~~3.3~~ *3.2*
M/m sa	~~0.5~~ *0.6*	~~0.5~~ *0.4*	~~0.4~~ *0.5*

See main story.

Industrial production (May 26)
% change

	Feb	Mar	Apr
Oya	17.9	43.0	16.0
M/m sa	5.2	-1.5	-2.3

See main story.

JPMorgan Chase Bank, Singapore
Matt Hildebrandt (65) 6882-2253
matt.l.hildebrandt@jpmorgan.com

Thailand:

Data releases and forecasts

Week of May 31 - June 4

Mon May 31 2:30pm — Merchandise trade
US$ bn nsa

	Jan	Feb	Mar	Apr
Trade balance	0.6	0.5	1.1	-0.2
Exports, %oya	31.3	23.1	40.8	33.9
Imports, %oya	50.0	80.8	62.0	44.4

Mon May 31 2:30pm — Manufacturing production
% change

	Jan	Feb	Mar	Apr
Oya	29.0	30.3	32.6	19.0
M/m sa	-5.2	3.3	0.7	-1.0

Mon May 31 2:30pm — Private consumption index
% change

	Jan	Feb	Mar	Apr
Oya	4.8	9.7	7.4	6.1
M/m sa	-0.5	0.3	0.5	-0.5

Mon May 31 2:30pm — Private investment index
% change

	Jan	Feb	Mar	Apr
Oya	5.9	12.1	18.2	19.5
M/m sa	2.3	2.2	3.1	0.5

Tue Jun 1 4:00pm — Consumer prices
% change

	Feb	Mar	Apr	May
Oya	3.7	3.4	2.9	3.5
M/m sa	0.8	-0.9	-0.3	-0.5

Wed Jun 2 2:30pm — BoT monetary policy meeting
% p.a.

	Mar	Apr	May	Jun
One-day repo rate	1.25	1.25	1.25	1.25

With the economy still reeling from the political violence, the BoT is expected to leave its policy rate on hold, but the message is that the path to policy normalization is merely delayed, not shelved.

Review of past week's data

Real GDP (May 24)
% change

	3Q09		4Q09		1Q09	
%oya	-2.7		~~5.8~~	*5.9*	~~8.4~~	*12.0*
%q/q saar	~~6.9~~	*7.9*	~~15.3~~	15.5	~~2.8~~	*18.0*

Thailand's 1Q10 real GDP was up a very strong 18%q/q saar, well above the previous cycle's average growth rate of 4.5%q/q saar. Qualitatively, the impact of the recent political uncertainty is expected to lead to a contraction in activity during the current quarter, with a relatively modest recovery in 2H10. In terms of the point forecasts, 2Q10 growth is expected to contract 2.0%q/q saar from a previous forecast of 5.3% growth. The 2Q10 contraction also assumes a marked slowing in consumption due to lower tourist-related receipts and also lower service exports, again from the hit to tourism-related receipts. Beyond 2Q10, the 2H10 forecast assumes a below-trend expansion of 3.0%q/q saar, which is below the previous cycle average of 4.5%q/q saar—this would still boost overall 2010 growth to 8.5%oya from the previous forecast of 7.3%oya.

Vietnam:

Data releases and forecasts

Week of May 31 - June 4

Review of past week's data

Consumer prices
%oya

	Mar		Apr		May	
All items	9.4		9.2		~~10.0~~	*9.1*
%m/m sa	~~0.9~~	*0.8*	~~0.1~~	*0.0*	~~0.6~~	*0.0*

CPI inflation was generally flat for a second straight month, easing to 9.1%oya from 9.2% in April. This mostly reflected lower food and oil prices as core inflation (ex energy and food) rose 0.8%m/m sa. Meanwhile, core inflation is trending higher. Sequential trend core inflation was 7.7%3m/3m saar compared to 5.8% in April, and the over-year-ago rate accelerated to 7.7% from 7.3% in April.

Merchandise trade
US$ bn nsa

	Mar	Apr	May	
Trade balance	-1.2	-1.3	~~-1.5~~	*-0.8*
Exports, %oya	5.2	33.2	~~26.4~~	*38.2*
Imports, %oya	33.8	27.4	~~25.2~~	*20.8*

The trade deficit narrowed to US$800 million from US$1.3 billion in April and an average of US$1.2 billion in each of the first four months of the year. The narrowing in the deficit reflected improvement on both sides of trade, with exports rising 9.3%m/m sa while imports fell 2.1%. Sequential trend growth has mirrored monthly movements recently as exports surged 76.5%3m/3m saar in May from 21.5% in April, while imports contracted for a fourth straight month.

J.P. Morgan Chase Bank, Mumbai
Jahangir Aziz (9122) 6157-3385
jahangir.x.aziz@jpmorgan.com

India

- **Higher-than-expected 3G license sales promise modestly lower-than-budgeted fiscal deficit for FY2010**
- **Bonds rally, but equities and the rupee tumble on global concern**
- **Next week's 1Q10 GDP growth likely around 8.5%**

In a rare occurrence, India's fiscal outturn for this year could be better than budgeted. The sale of 3G and wireless licenses turned out to be 0.7% of GDP (Rs480 billion, or US$11 billion) higher than budgeted. With much of this additional revenue likely be used to fund higher oil subsidies, the deficit outturn is unlikely to be significantly lower than targeted. Rather, the higher 3G revenue provides greater assurance that the budget target will be met. Bonds have rallied as a result, aided by the rise in risk aversion due to the European debt crisis, but on the flip side the latter has dented equities and the rupee. Separately, next Monday's 1Q10 GDP print is likely to come out strong at around 8.5%, reassurance that the economy remains fundamentally strong.

3G windfall improves fiscal deficit outlook

The sale of 3G and wireless licenses turned out to be Rs480 billion (US$11 billion or 0.7% of GDP) higher than budgeted. This has raised hopes that the fiscal deficit could end up much lower than budgeted (5.3% of GDP based on J.P. Morgan GDP estimates and 5.5% of GDP based on official estimates in February).

But outturn depends on oil subsidies

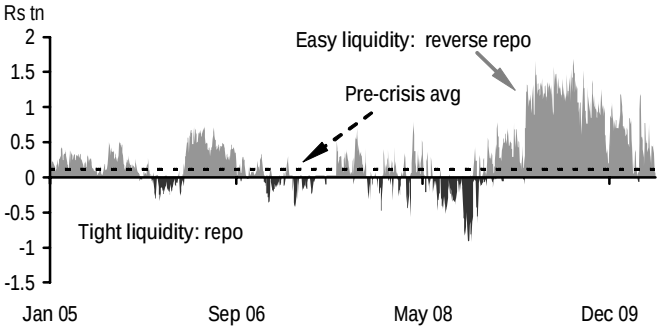
While the higher revenue improves the budget outlook, the impact on the deficit and the government's borrowing program is likely to be far more muted. The FY2011 budget allocated Rs30 billion for oil subsidies, significantly less than last year's Rs390 billion. So far this year (the fiscal year starts in April), the government has already paid Rs140 billion to cover losses of oil companies incurred last year. Even under strong assumptions of crude oil averaging $70/bbl for this fiscal year, the same as last year, and the government raising retail petroleum prices (fully deregulating petrol, hiking diesel 5% and LPG 15%) the losses of oil companies will run around Rs290 billion. In the past, the government has generally covered all losses on LPG and kerosene. Even if the government covers only 50% of these losses, the total additional oil subsidy would be around Rs290 billion, with the overall fiscal deficit reaching 5% of GDP against the budgeted 5.3% of GDP.

India: oil subsidy scenarios[1]

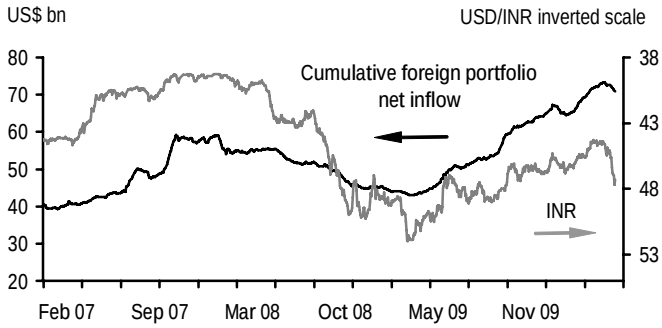
	FY2010	FY2011		
Crude ($/bbl)	70.0	80.0	75.0	70.0
Loss made by oil companies (Rs bn)	483	628	455	290
Auto fuels[2]	149	255	124	0
LPG and kerosene[3]	334	373	331	290
Government subsidy (Rs bn)[4]	390	314	228	145

1. Based on Pradeep Mirchandani's "India Refining and Marketing," J.P. Morgan, May 24, 2010
2. Assumes retail petrol to be derulated in FY2011 and diesel price raised Rs2/lt.
3. Assumes LPG price raised Rs50/cylinder in FY2011.
4. Rs140 bn of the suubsidy in FY2010 is to be paid in FY2011.

India: liquidity could tighten further in coming weeks



India: recent INR weakness appears overdone



With a more reasonable assumption of oil prices averaging $75/bbl, the additional subsidy runs around Rs370 billion, raising the deficit to 5.2% of GDP. If the government follows past policy and covers the entire loss on LPG and kerosene, the oil subsidy bill will use up the entire excess revenue from 3G sales.

The impact on the fiscal deficit or government borrowing is unlikely to be as large as implied by the rally in bond prices. Indeed, the government is likely to stick to its borrowing program as planned, with excess funds, if any, used

The India data watch is published biweekly, next on June 11.

to increase its cash position. Thus, we expect bond yields to firm in the coming months.

Liquidity to tighten in coming weeks

The higher 3G revenue comes with a price. As the government requires the entire Rs680 billion to be paid by end-May, we expect the banking system's liquidity situation to tighten significantly, possibly turning into deficit, when these payments are made. Added to that, there are advance tax payments due in June. The RBI has temporarily reduced the statutory liquidity requirement (the amount of government securities banks are mandated to hold) from 25% to 24.5% of deposits until early July. This should help, but upward pressures on the call money rate are likely to intensify. Liquidity should return to surplus in July.

Equities tumble and the rupee depreciates

Since the intensification of the European debt crisis in late April, equity prices have dropped 3% while USD/INR has depreciated over 6.5% on concerns over slower global recovery, rising risk aversion inducing foreign institutional investors to reduce their India exposure, and importers bringing forward their foreign currency demand.

Much of this reaction appears overdone. Foreign investment outflows have been on the order of US$2.3 billion; trade links to peripheral Europe are low (exports to Greece, Ireland, Portugal, and Spain together account for 4.5% of total exports); and India runs a small trade deficit with the EU (US$3.6 billion in 2009) such that even a weaker euro is unlikely to widen the overall trade deficit markedly.

1Q10 GDP growth likely around 8.6%

Next Monday's 1Q10 GDP growth is expected to be around 8.6%, driven by strong industrial production and improved winter crops. While the boost from fiscal stimulus is likely to have lessened, a strong export rebound is expected to have kept demand high. A modest improvement in investment may have also helped growth.

Data releases and forecasts

Week of May 31 - June 11

During the week — Core infrastructure index
% oya nsa

	Jan	Feb	Mar	Apr
Overall	9.5	4.7	7.2	__
%m/m sa	3.9	-2.6	1.8	__
Electricity	6.7	7.3	7.8	__
Coal	5.9	6.8	7.9	__
Finished steel	15.3	0.9	9.2	__
Crude petroleum	9.7	3.9	3.5	__
Petroleum refining	3.8	0.7	-0.4	__
Cement	12.4	7.9	7.8	__

Mon May 31 — Real GDP

	2Q09	3Q09	4Q09	1Q10
%oya	6.1	7.9	6.0	8.6
%q/q saar	7..0	15.0	-2.0	15.2

Tue Jun 1 — Manufacturing PMI survey

	Feb	Mar	Apr	May
Index	58.5	57.8	57.2	__
%m/m sa	1.4	-1.2	-0.9	__

Fri Jun 4 — Foreign exchange reserves
US$ bn

	Feb	Mar	Apr	May
Total foreign reserves	278.4	277.0	279.6	__
FX reserves ex. gold	254.0	252.8	261.1	__

Fri Jun 11 — Industrial production
%oya nsa

	Jan	Feb	Mar	Apr
Overall	16.7	15.1	13.5	13.2
%m/m sa	0.3	-0.4	-1.5	__
Mining	15.3	11.1	11.0	__
Manufacturing	17.9	16.1	14.3	__
Electricity	5.6	6.7	7.7	__

Review of past two week's data

Wholesale prices
%oya

	Feb	Mar	Apr
Overall	~~9.4~~ *10.1*	9.9	__ *9.6*
Primary	~~15.5~~ *16.0*	14.1	__ *13.9*
Energy group	10.2	12.7	__ *12.6*
Manufactured products	~~7.4~~ *7.5*	7.1	__ *7.1*

JPMorgan Chase Bank, Singapore
Sin Beng Ong (65) 6882-1623
sinbeng.ong@jpmorgan.com

Asia focus: limited export exposure to EU

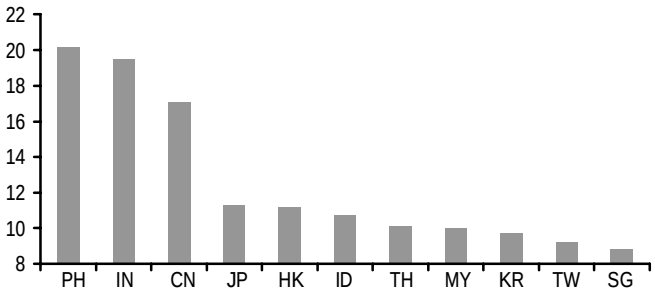
One of the channels through which Asia could be affected by the ongoing debt crisis in the Euro area is direct trade links, especially via exports, to the EU region. A couple of observations are worth making.

- Although overall export growth to the EU area has risen smartly, growth momentum from the EU still lags demand from the non-EU area. Excluding the EU region, EM Asia's exports overall would have risen at a slightly faster pace (chart and table opposite).

- By and large, the exposure of Asia to the more fiscally challenged economies of Greece, Ireland, Italy, Portugal, and Spain is relatively small—India has the largest total trade exposure, with 3.9% of total exports (table below). Regional export exposure to the broader EU area is small, totaling 13% of exports in 2009. The countries with the largest exposures are the Philippines, India, and China (chart below). In the Philippines and India, there appears to be a particularly large exposure to the Netherlands, which could reflect, among other things, the gemstone trade. Beyond these three countries, overall exposure is noticeably lower.

Asia: exports to EU area

% of total, 2009



Asia: export exposure to EU area

% of total exports, 2009

	GR	FR	UK	GIIPS[1]	Others[2]	Total
Asia	3.2	1.3	2.1	2.5	4.1	13.2
EM Asia	3.3	1.4	2.2	2.7	4.2	13.6
Philippines	6.5	0.7	0.8	0.9	11.3	20.2
India	3.2	1.9	3.7	3.9	6.8	19.5
China	4.2	1.8	2.6	3.5	5.1	17.1
Japan	2.9	1.1	2.0	1.6	3.7	11.3
Hong Kong	3.2	1.2	2.4	1.9	2.5	11.2
Indonesia	2.0	0.7	1.3	3.3	3.5	10.7
Thailand	1.7	1.0	2.1	1.8	3.4	10.1
Malaysia	2.7	1.0	1.3	1.1	4.0	10.0
Korea	2.4	0.8	1.0	2.4	3.1	9.7
Taiwan	2.3	0.7	1.5	1.7	3.1	9.2
Singapore	1.5	1.3	1.8	0.9	3.2	8.8

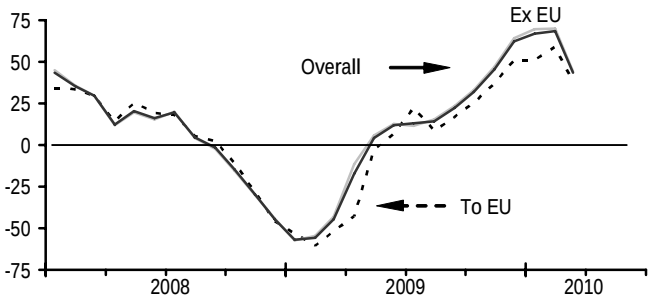
1. Greece, Ireland, Italy, Portugal, and Spain

2. Austria, Belgium, Cyprus, Finland, Luxembourg, Malta, Netherlands, and Slovakia

Although direct trade links to the EU appear limited, the impact on private sector sentiment should not be underestimated, and the dimensions of this risk remain unclear.

EM Asia ex. India: exports

%3m/3m, saar



EM Asia: exports

%3m/3m saar, US$ terms

	1Q09	2Q09	3Q09	4Q09	1Q10	Apr 10
EM Asia ex IN	-44.5	12.1	22.6	62.4	43.6	n/a
To EU	-51.7	7.0	16.8	51.1	37.7	n/a
Ex. EU	-43.1	13.1	23.7	64.5	44.4	n/a
China	-51.6	0.7	24.2	63.2	41.9	19.2
To EU	-58.3	9.2	19.5	50.8	57.2	27.3
Ex. EU	-49.7	-1.2	25.4	66.3	38.3	17.3
Hong Kong	-47.4	32.5	-4.7	40.1	45.4	n/a
To EU	-43.8	-13.0	-13.4	22.4	14.9	n/a
Ex. EU	-47.9	41.1	-3.4	42.7	49.9	n/a
India	-21.6	-18.1	53.6	81.2	35.5	n/a
To EU	-20.4	-21.7	28.6	176.9	n/a	n/a
Ex. EU	-21.9	-17.2	60.5	62.5	n/a	n/a
Indonesia	-50.8	39.1	47.2	116.8	36.5	n/a
To EU	-54.1	19.3	70.3	0.8	65.0	n/a
Ex. EU	-50.4	42.0	44.3	138.2	29.6	n/a
Korea	-39.8	40.7	20.4	58.0	28.8	26.0
To EU	-34.6	36.9	-21.6	83.3	-11.2	14.2
Ex. EU	-40.5	41.3	28.1	54.8	35.5	27.7
Malaysia	-42.1	-1.8	24.4	103.2	59.1	n/a
To EU	-48.7	-2.2	43.4	71.8	52.7	n/a
Ex. EU	-41.2	-1.8	22.2	107.4	59.8	n/a
Philippines	-50.8	45.5	26.4	48.2	49.6	n/a
To EU	-17.6	9.2	126.3	112.9	-48.9	n/a
Ex. EU	-56.1	55.2	10.2	34.3	94.6	n/a
Singapore	-41.0	13.8	39.3	71.6	33.1	20.8
To EU	-34.0	-14.8	32.5	46.9	26.4	91.8
Ex. EU	-41.7	17.5	40.0	74.3	33.8	15.4
Taiwan	-11.0	18.0	20.1	41.3	79.8	35.2
To EU	-47.7	-4.1	51.2	60.5	49.2	29.0
Ex. EU	-4.7	21.0	16.9	39.0	84.0	36.0
Thailand	-17.4	-11.5	39.2	59.7	54.4	n/a
To EU	-46.2	9.3	35.9	44.3	22.0	n/a
Ex. EU	-12.4	-14.0	39.6	61.9	59.2	n/a

JPMorgan Chase Bank NA, New York
Silvana Dimino (1-212) 834-5684
silvana.dimino@jpmorgan.com

US economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
31 May Memorial Day Markets closed Fed Chairman Bernanke (8:25pm) and Chicago Fed President Evans (9:10pm) speak at Bank of Korea Conference on Sunday, May 30 Philadelphia Fed President Plosser (5:30am) and Chicago Fed President Evans (10:25pm) speak at Bank of Korea Conference on Monday, May 31	1 Jun ISM manufacturing (10:00am) May 58.5 Construction spending (10:00am) Apr -0.3% Dallas Fed survey (10:30am) May	2 Jun ADP employment (8:15am) May Pending home sales (10:00am) Apr 3.0% Light vehicle sales May 11.0 mn	3 Jun Initial claims (8:30am) w/e prior Sat 445,000 Productivity and costs (8:30am) 1Q revised 3.2% (6.2%oya) Unit labor costs 0.1% (-3.9%oya) ISM nonmanufacturing (10:00am) May 54.0 Factory orders (10:00am) Apr 2.0% Chain store sales May Announce 3-year note $36 bn Announce 10-year note (r) $20 bn Announce 30-year bond (r) $13 bn Atlanta Fed President Lockhart (7:30am), Fed Chairman Bernanke (11:15 am), Boston Fed President Rosengren (12:15pm) and Kansas City Fed President Hoenig (1:15pm) speak	4 Jun Employment (8:30am) May 545,000 Unemployment rate 9.7% Average hourly earnings 0.1% Average weekly hours 34.1 Atlanta Fed President Lockhart speaks on US outlook (9:30am)
7 Jun Consumer credit (3:00pm) Apr San Francisco Fed President Yellen speaks (5:00pm)	8 Jun NFIB survey (7:30am) May JOLTS (10:00am) Apr Auction 3-year note $36 bn Fed Governor Duke (8:00am) and Kansas City Fed President Hoenig (7:00pm) speak	9 Jun Wholesale trade (10:00am) Apr Beige book (2:00pm) Auction 10-year note (r) $20 bn Fed Chairman Bernanke speaks at Richmond Fed Employment Conference (4:00pm)	10 Jun Initial claims (8:30am) w/e prior Sat International trade (8:30am) Apr Flow of funds (12:00pm) 1Q Federal budget (2:00pm) May Auction 30-year bond (r) $13 bn	11 Jun Retail sales (8:30am) May Consumer sentiment (9:55am) Jun preliminary Business inventories (10:00am) Apr Philadelphia Fed President Plosser (8:20am) and Minneapolis Fed President Kocherlakota (12:00pm) speak
14 Jun	15 Jun Import prices (8:30am) May Empire State survey (8:30am) Jun TIC data (9:00am) Apr NAHB survey (1:00pm) Jun	16 Jun PPI (8:30am) May Housing starts (8:30am) May Industrial production (9:15am) May Philadelphia Fed President Plosser speaks (2:15pm) Fed Chairman Bernanke speaks at Financial Regulation Conference in New York (5:45pm)	17 Jun Initial claims (8:30am) w/e prior Sat CPI (8:30am) May Current account (8:30am) 1Q Philly Fed survey (10:00am) Jun Leading indicators (10:00am) May Announce 2-year note $40 bn Announce 5-year note $38 bn Announce 7-year note $30 bn	18 Jun
21 Jun	22 Jun Existing home sales (10:00am) May FHFA HPI (10:00am) Apr Richmond Fed survey (10:00am) Jun Auction 2-year note $40 bn FOMC meeting	23 Jun New home sales (10:00am) May Auction 5-year note $38 bn FOMC meeting	24 Jun Initial claims (8:30am) w/e prior Sat Durable goods (8:30am) May KC Fed survey (11:00am) Jun Auction 7-year note $30 bn	25 Jun Real GDP (8:30am) 1Q third Consumer sentiment (9:55am) Jun final

JPMorgan Chase Bank, London
Marta Bastoni (44-20) 7325-9114
marta.x.bastoni@jpmorgan.com

Euro area economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
31 May Euro area: M3 (10:00am) Apr -0.1%oya EC business conf. (11:00am) May -6 %bal. sa EC cons. conf. final (11:00am) May -18 %bal. sa HICP flash (11:00am) May 1.6%oya, nsa Italy: CPI prelim (11:00am) May 1.6%oya, nsa ECB president Jean-Claude Trichet speaks in Vienna, Austria (10:00am) ECB president Jean-Claude Trichet's Keynote address at the Bank of Korea International Conference 2010	1 Jun Euro area: PMI Mfg final (10:00am) May 55.9 Index, sa Unemployment rate(11:00am) Apr 10.1%, sa Germany: Retail sales (8:00am) Apr 1.0%m/m,sa PMI Mfg final (9:55am) May 58.3 Index, sa Employment (9:55am) Apr 20 ch m/m, 000s, sa Unemployment (9:55am) May -15 ch m/m, 000s, sa France: PPI (8:45am) Apr Employment final (8:45am) 1Q PMI Mfg final (9:50am) May 56.2 Index, sa Italy: PMI Mfg (9:45am) May 53.8 Index, sa Spain: PMI Mfg (9:15am) May 52.5 Index, sa	2 Jun Euro area: PPI (11:00am) Apr 2.8%oya, nsa	3 Jun Euro area: PMI services final (10:00am) May 56.0 Index, sa PMI composite final (10:00am) May 56.2 Index, sa Retail sales (11:00am) Apr 0.1%m/m,sa Germany: PMI services final (9:55am) May 53.7 Index, sa PMI composite final (9:55am) May 55.5 Index, sa France: ILO unemployment (8:45am) 1Q PMI services final (9:50am) May 61.9 Index, sa PMI composite final (9:50am) May 60.5 Index, sa Italy: PMI services (9:45am) May 54.5 Index, sa PMI composite (9:45am) May 54.6 Index, sa Spain: PMI services (9:15am) May 52.0 Index, sa PMI composite (9:15am) May 53.0 Index, sa Netherlands: CPI (9:30am) May 1.0%oya, nsa	4 Jun Euro area: GDP prelim (11:00am) 1Q 0.8 %q/q, saar
7 Jun Germany: Mfg orders (12:00am) Apr	8 Jun Germany: Foreign trade (8:00am) Apr Industrial production (12:00am) Apr France: Foreign trade (8:45am) Apr Monthly budget situation (8:45am) Apr	9 Jun Belgium: GDP final (3:00am) 1Q	10 Jun Euro area: ECB rate announcement (1:45pm) No change expected ECB press conf. (2:30pm) Germany: CPI final (8:00am) May France: Industrial production (8:45am) Apr Italy: Industrial production (10:00am) Apr GDP final (11:00am) 1Q	11 Jun France: CPI (8:45am) May Spain: CPI final (9:00am) May
14 Jun Euro area: Industrial production (11:00am) Apr Italy: Labor costs (10:00am) 1Q	15 Jun Euro area: Foreign trade (11:00am) Apr Employment (11:00am) 1Q Germany: ZEW bus. survey (11:00am) Jun Italy: Foreign trade (10:00am) Apr Netherlands: Industrial production (9:30am) Apr	16 Jun Euro area: Labor costs (11:00am) 1Q HICP final (11:00am) May Italy: CPI final (10:00am) May	17 Jun Euro area: ECB monthly bulletin (10:00am) Jun	18 Jun Germany: PPI (8:00am) May Italy: Industrial orders (10:00am) Apr Belgium: BNB cons. conf. (3:00pm) May Netherlands: CBS cons. conf. (9:30am) Jun
21 Jun	22 Jun Euro area: BoP (10:00am) Apr EC cons. Conf. Prelim (4:00pm) Jun Germany: IFO bus. survey (10:00am) Jun Belgium: BNB bus. conf. (3:00pm) Jun	23 Jun Euro area: PMI flash (10:00am) Jun Mfg, services, composite Germany: PMI flash (9:30am) Jun Mfg, services, composite IFO bus. survey (10:00am) Mar France: INSEE bus. conf. (8:45am) Jun PMI flash(9:00am) Jun Mfg, services, composite Italy: ISAE cons. conf. (9:30am) Jun	24 Jun Euro area: Industrial new orders (11:00am) Apr France: Consumption of mfg goods (8:45am) May Netherlands: GDP final (9:30am) 1Q CBS bus. conf. (9:30am) Jun	25 Jun France: GDP final (8:45am) 1Q Italy: Contractual wages (10:00am)' May

Highlighted data are scheduled for release on or after the date shown. Times shown are local.

JP Morgan Securities Japan Co., Ltd
Miwako Nakamura (81-3) 6736-1167
miwako.nakamura@jpmorgan.com

Japan economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
31 May PMI manufacturing (8:15 am) May 53.5, DI IP preliminary (8:50 am) Apr 3.0%m/m, sa Nominal wages (10:30 am) Apr 0.4%oya Housing starts (2:00 pm) Apr 10.0%oya Construction orders (2:00 pm) Apr BoJ governor Shirakawa's speech at the Japan National Press club (1:30pm)	1 Jun Auto registrations (2:00 pm) May 25.0%oya Auction 10-year bond	2 Jun Monetary base (8:50 am) May Auction 3-month bill	3 Jun PMI services/ composite (8:15 am) May MoF corporate survey (8:50 am) 1Q capex, -9.5%oya BoJ board member Suda's address in Wakayama prefecture (11:00am)	4 Jun Auction 6-month bill
7 Jun	8 Jun M2 (8:50 am) May Current account (8:50 a m) Apr Economy watcher survey (2:00 pm) May Coincident CI (2:00 pm) Apr Auction 30-year bond	9 Jun Private machinery orders (8:50 am) Apr Auction 3-month bill	10 Jun GDP 2nd est. (08:50am) 1Q Corporate goods prices (8:50 am) May Consumer sentiment (2:00 pm) May Auction 5-year note	11 Jun
During the week: Cabinet Office private consumption index Apr				
14 Jun MoF business outlook survey (8:50 am) 2Q IP final (1:30 pm) Apr BoJ Monetary Policy Meeting Auction 1-year bill	15 Jun BoJ Monetary Policy Meeting and statement BoJ governor Shirakawa's press conference (3:30 pm)	16 Jun Tertiary sector activity index (8:50 am) Apr BoJ monthly economic report (2:00 pm) Auction 3-month bill Auction 20-year bond	17 Jun Reuters Tankan (8:30 am) Jun Flow of funds (8:50 am) 1Q Construction spending (2:00 pm) Apr	18 Jun Minutes of May 10 and May 20-21 BoJ MPM s (8:50 am)
During the week: Nationwide department store sales May				
21 Jun All sector activity index (1:30 pm) Apr	22 Jun	23 Jun Auction 3-month bill	24 Jun Trade balance (8:50 am) May Corporate service prices (8:50 am) May Auction 2-year note	25 Jun Nationwide core CPI (8:30 am) May

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JPMorgan Chase Bank NA, New York
Silvana Dimino (1-212) 834-5684
silvana.dimino@jpmorgan.com

Canada economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
31 May Quarterly GDP (8:30am) 1Q 6.0% Monthly GDP (8:30am) Mar 0.5% IPPI (8:30am) Apr 0.0% Ex energy 0.0%	1 Jun BoC rate announcement (9:00am) 0.50%	2 Jun	3 Jun	4 Jun Employment (7:00am) May 10 (0.1%) Unemployment rate 8.1% Building permits (8:30am) Apr -1.5% Ivey PMI (10:00am) May 62.2 JPM sentiment index (sa) 55.0
7 Jun	8 Jun Housing starts (8:15am) May	9 Jun	10 Jun International trade (8:30am) Apr New house price index (8:30am) Apr BoC Governor Carney speaks at International Organization of Securities Commissions Conference in Montreal (8:30am)	11 Jun Capacity utilization (8:30am) 1Q
14 Jun New vehicle sales (8:30am) Apr	15 Jun Manufacturing sales (8:30am) Apr Productivity and costs (8:30am) 1Q Existing home sales Apr	16 Jun	17 Jun Wholesale sales (8:30am) Apr	18 Jun Leading indicators (8:30am) May
21 Jun	22 Jun CPI (7:00am) May	23 Jun Retail sales (8:30am) Apr	24 Jun	25 Jun Payroll employment (8:30am) Apr

Highlighted data are scheduled for release on or after the date shown.

Latin America economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
31 May Argentina: Construction activity Apr Chile: BCCh minutes Unemployment rate Apr Colombia: Unemployment rate Apr Mexico: Monetary aggregates Apr	1 Jun Brazil: IPC-S May-31 0.28%m/m, nsa IP Apr 17.2%oya, nsa Trade balance May US$1.8bn Mexico: Central bank reserves Banxico survey May Family remittances Apr -4.5%oya Peru: CPI May 0.19%m/m, nsa WPI May	2 Jun Brazil: Fipe CPI May 30 0.23%m/m, nsa Capacity utilization Apr	3 Jun Mexico: Consumer confidence May 83.0 IMEF survey May Manufacturing 54.0 Nonmanufacturing 54.0 *Holiday: Brazil*	4 Jun Colombia: PPI May Ecuador: CPI May
During the week: Argentina: Government tax revenue May Colombia (Sat Jun 5): CPI May 0.27%m/m, nsa				
7 Jun Brazil: Auto Report (Anfavea) May Chile: Economic activity Apr Trade balance May Banamex survey *Holiday: Colombia, Venezuela*	8 Jun Brazil: GDP 1Q IPC-S Jun-7 Chile: CPI May Mexico: Central bank reserves	9 Jun Brazil: COPOM meeting Jun IPCA May Mexico: CPI May Core May	10 Jun Brazil: Fipe CPI Jun 7 Mexico: Auto report May Wage negotiations May Peru: BCRP meeting Jun Trade balance Apr	11 Jun Argentina: CPI May WPI May Colombia: BanRep minutes Mexico: IP Apr Fixed investment Mar
During the week: Venezuela: CPI May				
14 Jun Mexico: ANTAD same-store sales *Holiday: Colombia*	15 Jun Brazil: IPC-S Jun-14 Chile: BCCh meeting Jun Mexico: Central bank reserves Peru: GDP Apr Unemployment May	16 Jun Brazil: IGP-10 Jun FGV CPI IPC-S Jun 11 Retail Sales Apr Colombia: Trade balance Apr	17 Jun Argentina: Consumer confidence Jun	18 Jun Argentina: IP May GDP 1Q Current account balance 1Q Brazil: IGP-M 2nd rel Jun Colombia: IP Apr Retail sales Apr Mexico: Retail sales Banxico meeting
During the week: Argentina: Budget balance May Brazil: CAGED Formal job creation May				
21 Jun Mexico: Aggregate supply & demand 1Q	22 Jun Argentina: Trade balance May Brazil: IPC-S Jun-21 Mexico: Central bank reserves	23 Jun Mexico: Trade balance May	24 Jun Colombia: GDP 1Q Mexico: CPI Jun 1H Core CPI Jun 1H Unemployment rate May	25 Jun Argentina: Economic activity Apr Colombia: BanRep meeting Jun

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JPMorgan Chase Bank, London
Malcolm Barr (44-20) 7777-1080
Allan Monks (44-20) 7777-1188
Nicola Mai (44-20) 7777-3467

UK/Scandinavia/Switzerland economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
31 May Sweden: Business tendency (9:15am) May Consumer conf. (9:15am) May Wage stats (9:30am) Mar Norway: Retail sales (10:00am) Apr Credit indicator (10:00am) Apr	1 Jun United Kingdom: PMI Mfg (9:30am) May 58.0 sa Sweden: PMI (8:30am) May Financial Stability Report 2010:1 (9:30am) Norway: PMI Mfg (9:00am) May NEF HPI (11:00am) May Switzerland: GDP (7:45am) 1Q 2.4%q/q, saar PMI (9:30am) May 65.5 sa	2 Jun United Kingdom: Net secured lending to individuals (9:30am) Apr ch,m/m £1.0 bn Mortgage approvals 49K,,sa M4 & M4 lending final (9:30am) Apr PMI construction (9:30am) May	3 Jun United Kingdom: Nationwide HPI (7:00am) May 0.5 %m/m, sa PMI services (9:30am) May 56.0 sa	4 Jun United Kingdom: New car regs. (9:00am) May Switzerland: SNB's Philipp Hildebrand speaks (9:40am)
During the week : United Kingdom: Halifax HPI May 0.8%m/m, sa				
7 Jun Norway: IP Mfg (10:00am) Apr	8 Jun United Kingdom: BRC retail sales (12:01am) May Norway: Gallup cons. Conf. (7:00am) 2Q Norges Bank's Governor Svein Gjedrem speaks Switzerland: Unemployment (7:45am) May CPI 09:15am) May	9 Jun United Kingdom: N'wide cons. conf.(12:01am) May Markit jobs report (12:01am) May Trade balance (9:30am) Apr Quoted mortgage int. rates May Sweden: TNS prospers inflation expectation survey 2Q Industrial production and orders (9:30am) Apr Norway: Regional network 2/10 (10:00am)	10 Jun United Kingdom: MPC rate announcement and Asset purchase target (12:00pm) No change expected Sweden: CPI (9:30am) May AMV unemployment (10:00am) May Norway: CPI (10:00am) May PPI (10:00am) May	11 Jun United Kingdom: Industrial production (9:30am) Apr PPI (9:30am) Apr
14 Jun United Kingdom: BoE quarterly bulletin Q1 Switzerland: Producer and import prices (9:15am) May	15 Jun United Kingdom: RICS HPI (12:01am) May CPI (9:30am) May DCLG HPI (9:30am) Apr Norway: Trade balance (10:00am) May	16 Jun United Kingdom: Labor market report (9:30am) May	17 Jun United Kingdom: Retail sales (9:30am) May CBI industrial trends (11:00am) Jun BoE/Gfk NOP Inflation Attitudes Survey (10:30am) Sweden: Labor force survey (9:30am) May House prices (9:30am) May Switzerland: IP (9:15am) 1Q SNB rate announcement (9:30am) No change expected Financial Stability Report 2010 (10:00am)	18 Jun United Kingdom: M4 an M4 lending prelim (9:30am) May Public sector finances (9:30am) May Construction output (9:30am) 1Q
21 Jun United Kingdom: Rightmove HPI (12:01am) Jun Switzerland: Monthly Statistical Bulletin (9:00am) Jun	22 Jun United Kingdom: Budget report Switzerland: Trade balance (8:15am) May	23 Jun United Kingdom: MPC minutes (9:30am) BBA mortgage lending (9:30am) May CBI distributed trades (11:00am) Jun Sweden: PPI (9:30am) May The Swedish Economy (9:15am) 2Q Norway: AKU unemployment (10:00am) Apr Norges bank rate announcement (2:00pm) No change expected	24 Jun Norway: The 7th Norges Bank monetary policy conference (8:30am onwards)	25 Jun Norway: The 7th Norges Bank monetary policy conference (8:00am onwards) Switzerland: Monetary policy bulletin (11:00am) 2Q

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Emerging Europe/Middle East/Africa economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
31 May Hungary: PPI (9:00am) Apr -1.2%oya Monetary policy announcement No change Poland: GDP (10:00am) 1Q 3.2%oya Turkey: Foreign trade (10:00am) Apr -$5.6bn South Africa: Credit & money (8:00am) Apr Private sector credit -0.5%oya Trade balance (2:00pm) Apr	1 June Czech Rep: PMI (9:30am) May Hungary: PMI (9:00am) May Poland: PMI (9:00am) May 53.0 Finance Ministry CPI forecast May 2.5%oya Turkey: PMI (10:00am) May Russia: Manufacturing PMI May South Africa: Kagiso PMI (11:00am) May 57.0	2 June South Africa: Vehicle sales (11:00am) May	3 June Romania: Retail sales (10:00am) Apr Turkey: CPI (10:00am) May 0.6%m/m PPI (10:00am) May 0.6%m/m	4 June Hungary: Industrial output (9:00am) Apr 8.5%oya, wda
During the week:				
7 June Czech Rep: Trade balance (9:00am) Apr Industrial output (9:00am) Apr Retail sales (9:00am) Apr South Africa: Gross reserves (8:00am) May Russia: CPI May 0.4%m/m	8 June Czech Rep: Current account (10:00am) 1Q Hungary: Trade balance (9:00am) Apr EUR450mn Romania: Industrial output (10:00am) Apr Turkey: Industrial production (10:00am) Apr 22.7%oya	9 June Czech Rep: CPI (9:00am) May GDP final (9:00am) 1Q Hungary: Central bank minutes GDP final (9:00am) 1Q 0.1%oya Romania: Trade balance (10:00am) Apr	10 June Romania: CPI (10:00am) May South Africa: Manufacturing output (1:00pm) Apr	11 June Hungary: CPI (9:00am) May 4.8%oya Turkey: Current account (10:00am) Apr -$4.4bn
During the week:				
14 June Poland: Current account (2:00pm) Apr	15 June Czech Rep: PPI (9:00am) May Poland: CPI (2:00pm) May Turkey: Unemployment (10:00am) Mar Israel: CPI (6:30pm) May Russia: PPI May	16 June Czech Rep: Current account (10:00am) Apr Romania: Current account Apr Turkey: Consumer confidence (10:00am) May Russia: Industrial production May	17 June Poland: Average gross wages & employment (2:00pm) May Turkey: Monetary policy announcement no change South Africa: Retail sales (11:30am) Apr	18 June Hungary: Average gross wages (9:00am) Apr Poland: PPI (2:00pm) May Industrial output (2:00pm) May
During the week:				
21 June Hungary: Monetary policy announcement -25bp Russia: Capital investment May 6.0%oya Retail sales May 5.0%oya	22 June Poland: Core inflation (2:00pm) May	23 June Czech Rep Monetary policy announcement no change South Africa: CPI (11:30am) May	24 June Hungary: Retail sales (10:00am) Apr Turkey: Capacity utilization (4:30pm) May South Africa: PPI (11:30am) May	25 June
During the week:				

Non-Japan Asia economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
31 May Australia: Pvt. Sector credit (11:30 am) Apr 0.4%m/m, sa Current account balance (11:30 am) 1Q -16.3 A$bn, sa Company operating profits 1Q 4.5%q/q, sa Inventories (11:30 am) 1Q -0.1%q/q, sa India: GDP 1Q 8.6%oya Korea: IP (8:00 am) Apr 20.0%oya Leading index (8:00 am) Apr 127.6 Index, sa Service sector activity (8:00 am) Apr 4.0%oya New Zealand: NBNZ business confidence (3:00 pm) May 45% bal Thailand: Trade balance (2:30 pm) Apr -0.2 US$bn IP (2:30 pm) Apr 19.0 %oya PCI (2:30 pm) Apr 6.1%oya PII (2:30 pm) Apr 19.5%oya	1 Jun Australia: Building approvals (11:30 am) Apr 0.4%m/m, sa Retail sales (11:30am) Apr -0.2%m/m, sa RBA cash target (3:30 pm) Jun no change China: PMI manufacturing May 54.4 Index, sa Hong Kong: Retail sales (4:30 pm) Apr 15.1%oya India: PMI May Trade balance Apr Indonesia: CPI (2:00 pm) May 4.1%oya Trade balance (2:00 pm) Apr 1.8 US$bn Korea: CPI (8:00 am) May 2.8%oya New Zealand: NZIER QSBO 2Q10 (1:00 pm) 20% bal Thailand: CPI (2:00 pm) May 3.5%oya	2 Jun Australia: GDP (11:30 am) 1Q 0.4%q/q, sa New Zealand: ANZ commodity price (3:00 pm) May Singapore: PMI (9:30 pm) May 51.5 Level Thailand: BoT monetary policy meeting (2:30 pm) Jun no change Korea: Trade balance (10:00 am) May 3.6US$ bn *Holiday Korea*	3 Jun Australia: Trade balance (11:30 am) Apr -1800 A$bn, sa Korea: Foreign exchange (6:00 am) May Philippines: BSP Monetary policy meeting (5:00 pm) Jun 25 bp hike	4 Jun Indonesia: BI rate announcement (1:00 pm) Jun no change Korea: GDP (8:00 am) 1Q 7.8%oya Malaysia: Trade balance (6:00 pm) Apr 3.5 US$bn Philippines: CPI (9:00 am) May 4.9%oya
7 Jun Australia: ANZ job ads (11:30 am) May New Zealand: QVNZ house prices May Taiwan: CPI (4: 00 pm) May Trade balance (4:00 pm) May *Holiday New Zealand*	8 Jun Korea: PPI (12:00 pm) May New Zealand: Manufacturing activity (10: 30 am) 1Q	9 Jun Australia: Westpac consumer confidence (10: 30 am) Jun NAB bus. Confidence (11: 30 am) May Housing finance approvals (11:30 am) Apr Korea: Unemployment rate (9:00am) May Money supply (12:00 pm) May	10 Jun Australia: Unemployment rate (11: 30 am) May New Zealand: RBNZ official cash rate (9:00 am) Jun Business NZ PMI (10:30 pm) May Terms of trade (10:45 am) 1Q China: Trade balance (12:00 pm) May Korea: BoK monetary policy meeting (10:00 am) Jun Malaysia: IP (12:00 pm) Apr Philippines: Exports (9:00 am) Apr	11 Jun China: CPI 10:00 am) May PPI(10:00 am) May FAI (10:00am) May Retail sales (10:00 am) May IP (10:00 am) May India: IP Apr 13.2 %oya
During the week: China: Money supply May				
14 Jun India: WPI (12:00 pm) May Korea: Export price index, Import price index (12:00 pm) May New Zealand: Retail sales (10:45 am) Apr *Holiday Australia, China, Philippines*	15 Jun Singapore: Retail sales (1:00 pm) May *Holiday China*	16 Jun Australia: Westpac leading index (10: 30 am) Apr Dwelling starts (11:30 am) 1Q Malaysia: CPI (5:00 pm) May Philippines: OFW remittances Apr *Holiday China, Hong Kong, Taiwan*	17 Jun Hong Kong: Unemployment rate (4:30 pm) May Singapore: NODX (1:00 pm) May	18 Jun
During the week: China: FDI May Philippines: Budget balance May				
21 Jun Australia: New motor vehicle sales (11:30 am) May New Zealand: Visitor arrivals (10:45 am) May Taiwan: Export orders May	22 Jun Hong Kong: CPI (4:30 pm) May New Zealand: Credit card spending (3:00 pm) May Taiwan: Unemployment rate (4:00 pm) May	23 Jun Singapore: CPI (1:00 pm) May Taiwan: IP (4:00 pm) May New Zealand: Current account balance (10:45 am) 1Q	24 Jun Hong Kong: Trade balance (4:30 pm) May New Zealand: GDP (10:45 am) 1Q	25 Jun Philippines: Imports (9:00 pm) May New Zealand: Trade balance (10:45 am) May Singapore: IP (1:00 pm) May
During the week: Taiwan: CBC monetary policy meeting Jun Vietnam: CPI Jun				

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JPMorgan Chase Bank NA, New York
Michael Mulhall (1-212) 834-9123
michael.r.mulhall@jpmorgan.com

Global Data Diary

Week / Weekend	Monday	Tuesday	Wednesday	Thursday	Friday
31 May - 4 June	31 May	1 June	2 June	3 June	4 June
Russia • CBR mtg: -25bp	Canada • GDP (1Q) Euro area • EC business conf (May) • HICP flash (May) Hungary • NBH mtg: no chg India • GDP (1Q) Japan • IP prelim (Apr) • PMI mfg final (May) • Shirakawa speech Korea • IP (Apr) United States • Markets closed • Bernanke speech	Australia • RBA mtg: no chg Brazil • IP (Apr) Canada • BoC meeting: +25bp Euro area • PMI mfg final (May) Germany • Employment (May) • Retail sales (Apr) Japan • Auto regs (May) United States • ISM mfg (May)	Australia • GDP (1Q) Thailand • BoT meeting: no chg United Kingdom • Mortgage approvals (Apr) United States • Light vehicle sales (May) • Pending home sales (Apr) • ADP payrolls (May)	Euro area • PMI services/comp (May) • Retail sales (Apr) Japan • PMI services/comp (May) • MoF corp survey (1Q) Philippines • BSP meeting: +25bp United Kingdom • PMI services (May) United States • Factory orders (Apr) • ISM nonmfg (May) • Bernanke speech	Canada • Employment (May) Euro area • GDP prelim (1Q) Indonesia • BI meeting: no chg Korea • GDP (1Q) United Kingdom • Auto regs (May) United States • Employment (May)
7 - 11 June	7 June	8 June	9 June	10 June	11 June
	Brazil • Auto report (May) Germany • Mfg orders (Apr) Taiwan • Trade balance (May) United States • Consumer credit (Apr)	Brazil • GDP (1Q) Germany • Foreign trade (Apr) • IP (Apr) Japan • Economy Watcher survey (May) United States • JOLTS (Apr)	Brazil • COPOM mtg: +75bp Japan • Prv mach orders (Apr) United Kingdom • Cons conf (May) United States • Beige book	China • Trade balance (May) Euro area • ECB mtg: no chg Korea • BoK mtg: no chg New Zealand • RBNZ mtg: no chg Peru • BCRP mtg: No chg United Kingdom • MPC mtg: no chg United States • Flow of funds (1Q) • International trade (Apr)	China • CPI, FAI, retail sales, IP (May) India • IP (Apr) United Kingdom • IP (Apr) United States • Retail sales (May) • Cons sent (Jun)

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