

The Fed's Holy Grail

Macro Viewpoint: The Fed's Holy Grail

The Fed will have a very hard time trying to be clear about its exit path while maintaining flexibility to respond to changing fundamentals. As in past cycles, we expect the markets to roll forward expectations of rate hikes—with the Fed expected to hike in 6 to 9 months ahead—until the actual first hike in March 2011.

Fed watch: The soap opera continues

Current San Francisco Fed President Janet Yellen appears likely to be nominated to succeed Don Kohn as Vice Chair of the Board of Governors. We expect she will get Senate approval and will serve as a counterweight to the increasingly vocal hawks on the FOMC. Meanwhile, we don't expect any meaningful change in the language of the FOMC statements until convincing signs of a sustained recovery are seen.

The week ahead: All eyes on the Fed

All eyes will be on the Fed next week. We are not expecting any major changes at Tuesday's meeting. The Fed will likely reiterate its pledge to keep rates "exceptionally" low for "an extended period." The data calendar heats up next week as well, and we will be on the receiving end of key reports on the inflation, housing, and the US industrial base.

The economic data on deck for 15 – 19 March

Date	Time	Indicator	Period	ML		
				Estimate	Consensus	Previous
3/15	8:30	Empire Manufacturing	MAR	23	20	24.91
3/15	9:00	Net Long-term TIC Flows	JAN	\$10.0 bn	n.a.	\$63.3 bn
3/15	9:15	Industrial Production	FEB	0.1%	0.1%	0.9%
3/15	9:15	Capacity Utilization	FEB	72.7%	72.6%	72.60%
3/15	13:00	NAHB Housing Market Index	MAR	17	17	17
3/16	8:30	Import Price Index (MoM)	FEB	-0.1%	-0.2%	1.4%
3/16	8:30	Housing Starts	FEB	550k	570k	591k
3/16	8:30	Building Permits	FEB	560k	610k	621k
3/16	14:15	FOMC Rate Decision	16-Mar	0.25%	0.25%	0.25%
3/17	8:30	Producer Price Index (MoM)	FEB	-0.2%	-0.2%	1.4%
3/17	8:30	PPI Ex Food & Energy (MoM)	FEB	0.1%	0.1%	0.3%
3/18	8:30	Initial Jobless Claims	13 Mar	455k	450k	462k
3/18	8:30	Consumer Price Index (MoM)	FEB	0.0%	0.1%	0.2%
3/18	8:30	CPI Ex Food & Energy (MoM)	FEB	0.0%	0.1%	-0.1%
3/18	8:30	Current Account Balance	4Q	-\$117 bn	-\$120 bn	-\$108 bn
3/18	10:00	Philadelphia Fed Survey	MAR	13.0%	17.0%	17.6
3/18	10:00	Leading Indicators Index	FEB	-0.1%	-0.1%	0.3%

Source: Bloomberg, BofA Merrill Lynch Global Research

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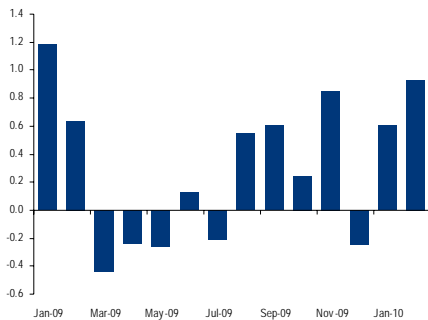
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Chart 1: Retail sales recovery
Retail control* (MoM % change)



Retail sales excluding autos, building materials, and gasoline stations
Source: Census, Bureau, BofA Merrill Lynch Global Research

Trimming the dead wood is not a signal
that a policy tightening is getting closer.

Macro viewpoint The Fed's Holy Grail

Despite nasty winter weather, data for February have been healthy. Consider the two most important hard numbers for the economy, payrolls and the "control" retail sales used to calculate consumption. Payroll employment only fell 36,000 in February, despite talk of 100,000-plus weather effects. Retail sales were even more impressive: the control rose 0.9%, following a solid January increase (Chart 1). Apparently, neither rain, nor snow nor gloom of night will stay the US shopper.

In light of the stronger underlying data, we have decided to revise our 1Q GDP growth forecast from 1.5% to 2.0% and our consumption forecast from 1.9% to 2.8%. Housing data have been weak, so the consumption improvement is partly offset by a downward revision to residential construction. We now look for a drop of 5% in 1Q and more moderate growth over the rest of the year as foreclosures continue unabated, preventing anything close to a normal housing recovery.

The search continues for the perfect FOMC directive

As some point the Fed will have to switch from its "extended period" promise to actual rate hikes. If recent history is a guide, the Fed will almost certainly be misinterpreted many times as it searches for the perfect language.

Despite the Fed's best efforts, the markets have already repeatedly tried to draw connections among three unrelated elements of Fed policy:

1. **Trimming dead wood:** the Fed has been gradually closing down policies that were needed in the heat of the crisis but have long been largely irrelevant. This includes normalizing the spread between the discount rate and the funds rate, and closing various liquidity facilities.
2. **Testing its tactics:** the Fed wants to have a wide range of tools to implement its exit strategy and rather than wait until the last minute, it is testing them now. These include a term deposit facility and reverse repos (with a broader set of both counterparties and collateral).
3. **Tightening monetary policy:** when the economy and capital markets can handle a policy tightening, the Fed will want to both reduce the size of its balance sheet and raise rates.

Fed officials have repeatedly said that these three policies are distinct and the markets have repeatedly ignored them. Thus, a number of FOMC officials have said that trimming the dead wood is not a signal that a policy tightening is getting closer. For example, the markets reacted to the rise in the discount rate—despite warnings from both the Fed minutes and Chairman Bernanke that a hike was coming, and despite a directive that said: "the modifications are not expected to lead to tighter financial conditions for households and businesses and do not signal any change in the outlook for the economy or for monetary policy."

No one at the Fed knows exactly when the tightening will start, but all agree that the exit tools should be fine tuned well in advance.

It is almost certain that any word changes will be misinterpreted in the markets.

We expect the FOMC to first change the duration statement by either dropping the word "extended" or substituting a softer word.

The markets also seem to tie the Fed's testing of tactics with the timing of tightening. The best example of this was the market concern about rate hikes when the Fed started asking primary dealers about their capacity to do reverse repos. In a recent speech Brian Sack, the man charged with implementing these tactics, reminded investors that "operations to drain reserves could be run on a limited basis well ahead of policy tightening." And Sack warns: "it will be difficult for market participants to make precise inferences about the timing of increases in the target interest rate from the patterns of reserve draining alone, in part because the FOMC has not specified the path of reserves it intends to achieve before raising interest rates." The sense in the markets is that the Fed would not be honing its tightening tools if it weren't ready to use them. The reality is that no one at the Fed knows exactly when the tightening will start, but all agree that the exit tools should be fine tuned well in advance.

What is your quest?

One of the trickiest parts of the Fed's exit strategy is figuring out how to word its policy promises. Currently, the FOMC promises to maintain "exceptionally low levels of the federal funds rate for an extended period." However, as the Wall Street Journal points out, "At some point, the Fed must undertake some delicate wordsmithing."

Good luck. It is almost certain that any word changes will be misinterpreted in the markets. After all, there isn't even any agreement about what the current language means. According to the Journal authors, "extended period" means "at least several more months"; according to Chicago Fed President Evans, it means three or four FOMC meetings (four to six months); and according to a number of hawks on the Committee, the language ties down policy for "too long." If there is no agreement on what the current language means, how much additional confusion will there be when the Fed modifies the language?

The last tightening cycle offers some limited clues about how the FOMC may fiddle with the language of their directives (Table 1). The Fed finished easing at the June 2003 meeting, cutting rates down to 1%. At the next meeting, in August 2003, the FOMC committed to maintaining an accommodative policy "for a considerable period." Five and a half months later, at the January 2004 meeting, the Fed shifted to being "patient in removing" its accommodative policy stance. Four months (and two meetings) after that, it introduced the "measured pace" language to signal an actual tightening of policy may begin—which happened at the very next FOMC meeting in June 2004, when the funds rate target was lifted to 1.25%.

The current language has both a "duration component"—the extended period—and a "level of rates component"—exceptionally low. No doubt someone at the Fed is pouring over a thesaurus looking for the perfect replacement. Should "extended" become "long"? Should "exceptionally low" become "relatively low"? We expect the FOMC to first change the duration statement by either dropping the word "extended" or substituting a softer word. Then, when the Fed starts tightening we would expect it to change the level component to convey the idea that some moderate rate hikes are likely, perhaps by dropping the word "exceptionally". As Mike Hanson notes in our Fed Watch, we believe the core of the FOMC will want to tie any language change to a fundamental improvement in the economy. With the unemployment rate stuck at 9.7%, we expect no change in the "extended period" language at Tuesday's FOMC meeting.

Table 1: Fed language changes during 2003-2006 tightening cycle

FOMC meeting date	Meetings since last change in language	Relevant new language
August, 2003	1	policy accommodation can be maintained for a <i>considerable period</i>
January, 2004	4	can be <i>patient</i> in removing its policy accommodation
May, 2004	2	policy accommodation can be removed at a pace that is likely to be <i>measured</i>
December, 2005	13	some <i>further measured</i> policy firming is likely to be needed

Source: Federal Reserve, BofA Merrill Lynch Global Research

The number shall be three

Stepping back, we have three pieces of advice for investors. First, take Fed officials at their word. Ben Bernanke is a great believer in policy transparency. This does not mean the Fed will tell the markets the exact policy path because Fed officials themselves are uncertain about that path. What it does mean is that investors should stop looking for secret signals. Second, listen to the core views of the committee and not the hawkish or dovish extremes. In particular, focus on Bernanke and the official directives. Third, focus on fundamentals: why would the Fed even hint at hiking rates when core inflation is below target and falling and the unemployment rate is stuck at double its historic average?

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Janet Yellen is likely to succeed Don Kohn as Vice Chairman of the Federal Reserve Board.

We don't see this appointment as meaningfully changing the Fed's plans for a gradual exit.

Any discussion of plans to drain reserves is at least another meeting away and the Fed will still not signal a change in the language on rates.

Fed watch

The soap opera continues

The drama that has surrounded the Federal Reserve of late continued unabated this week, as potential Fed nominees and speculation about changes to the statement language at next week's FOMC meeting loomed large in the financial press. Both of these plot lines may be less exciting than advertised, however.

Days of our lives

The list of potential cast members for the three open Board of Governor positions appears to have narrowed to a few leading roles. Current San Francisco Fed President Janet Yellen appears likely as the administration's nominee to succeed Don Kohn as Vice Chair. This appointment would address the greatest lacuna on the currently down-sized Board: the lack of macroeconomic expertise. It also strikes us as a reasonably safe choice in the current political environment. When all the talking is done, we expect she will be confirmed by a comfortable margin.

While Yellen's views are on the dovish side of the FOMC spectrum — it's hard to imagine a Fed official based in California who wouldn't be — we see her as an effective counterweight to the increasingly vocal hawks on the Committee. Like Chairman Bernanke and the majority of the FOMC, she does not believe that the Fed should start hiking rates in the next 6 months, given the outlook. On net, we don't see this appointment as meaningfully changing the Fed's plans for a gradual exit to a more "normal" policy stance.

The young and the restless

At the start of the week, Brian Sack, the system manager of the Fed's portfolio, spoke about preparations for the Fed's eventual exit. In his position at the New York Fed, Sack is an "implementer" and not a policy "decider." Nonetheless, his speech summarized key aspects of the likely sequence for the exit strategy: draining tests soon, asset sales much, much later; no rates signal from either.

Sack did highlight the fact that the current language of the statements provides a path for interest rates ("exceptionally low ... for an extended period") but is largely silent on a path for the balance sheet. Given the novelty of the asset purchase programs, that is not a great surprise: the Committee is still debating the best method for unwinding this part of policy, and how to communicate their plans to the markets with as few disruptions as possible. In his early-February testimony, Bernanke suggested the Fed could set policy, in part, with "targets for reserve quantities." While this phrase might invoke long-ago monetarist rules, in reality we expect this means announcing goals for and progress on reserve draining, just as the FOMC had done for asset purchases earlier.

Despite all the talk on the language, however, we don't anticipate any changes at the next meeting for two key reasons: first, the Fed wants to be very deliberate as it moves from one stage to the next, to be as transparent to markets as possible. For the March meeting, they want to confirm that the liquidity programs are no longer necessary and that the asset purchase programs will conclude as announced. Any discussion of plans to drain reserves is at least another meeting away — and still will not signal a change in the language on rates. And that brings up the second reason: the language on rates won't change until the recovery is on a clearly sustainable path. Barring a miraculous rebound in employment and lending this summer, an "extended period" of low rates — at least into early next year — seems to us to make the most sense.

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The week ahead

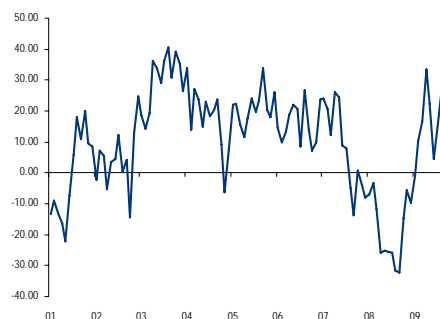
All eyes on the Fed

All eyes will be on the Fed next week – a rate decision will be handed down Tuesday at 2:15pm. We are not expecting any major changes in the policy statement with the Fed reiterating its pledge to keep rates “exceptionally” low for “an extended period.”

The data calendar heats up next week as well, and we will be on the receiving end of key reports on the inflation, housing, and the US industrial base. When the dust finally settles from the data deluge, we expect our key themes to be corroborated: moderating core inflation against an improving economic backdrop that is led by the industrial sector. In Thursday's CPI report, we are looking for goose-eggs on headline and core inflation. This will take the year-over-year rate on core inflation to just 1.3%, the lowest since early 2004 and serves as a reminder that the Fed has plenty of breathing room before it has to think about hiking rates. Industrial production, which is released Monday, is likely to rise just 0.1%. However, we expect to see continued improvement across the regional manufacturing surveys released by the Fed District Banks. The housing market is the one sector that remains the fly in the ointment. We are looking for sizeable, albeit weather-related, declines in housing starts and building permits.

Monday, 15 March

Empire manufacturing conditions improve General business conditions (index level)



Source: Federal Reserve Board, BofA Merrill Lynch Global Research

Empire Manufacturing, March—8:30am

	Exp	Cons	Range	History
Empire Manufacturing	23.0	20.0	7.50 to 28.00	Feb = 24.91 vs. Jan = 15.92

Source: Banc of America-Merrill Lynch, Bloomberg

The New York Empire Manufacturing Index is expected to drop marginally to 23.0 in March from 24.9 in January. Despite the improvement in the headline business conditions index, last month's report raised some yellow flags. Forward-looking indicators like new orders and expectations dropped. In addition, New York has seen a pick-up in jobless claims, which could result in a weaker employment component this month. The confluence of these factors is likely to yield a modest decline in the headline Empire index.

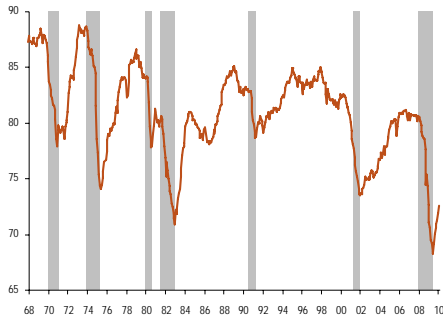
Net Long-term TIC Flows, Jan—9:00am

	Exp	Cons	Range	History
Net Long-term TIC flows	\$10.0 bn	n.a.	n.a.	Dec = \$63.3 bn vs. Nov = \$126.4 bn

Source: Banc of America-Merrill Lynch, Bloomberg

Net foreign purchases of US long-term securities are expected to rise \$10.0 billion in December. The Federal Reserve reported that custody holdings for foreign accounts fell by \$10.2 billion, with the bulk of the decline in the Treasuries sector. With the S&P 500 posting a solid 1.2% gain in January, the increase in net foreign purchases of US equities is expected to more than offset the decline in Treasury holdings.

Still lots of excess capacity in the economy
Capacity utilization (percent)



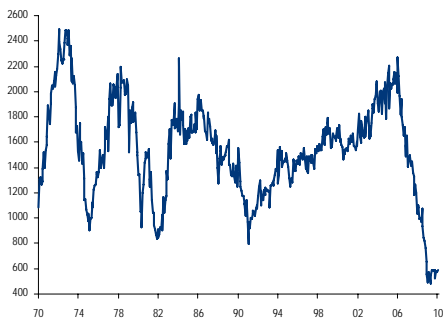
Source: Federal Reserve Board, BofA Merrill Lynch Global Research

Winter storms keep home builders depressed
Housing market index (index level)



Source: National Association of Home Builders, BofA Merrill Lynch Global Research

Weather distortions affect starts
Housing starts (thousands)



Source: Census Bureau, BofA Merrill Lynch Global Research

Industrial Production, February—9:15am

	Exp	Cons	Range	History
Industrial Production	0.1%	0.05%	-0.70 to 0.50	Jan = 0.9% vs. Dec = 0.6%
Capacity Utilization	72.7%	72.6%	72.0 to 72.6	Jan = 72.6% vs. Dec = 71.9%

Source: Banc of America-Merrill Lynch, Bloomberg

Industrial production likely advanced 0.1% in February after a 1.0% increase in January. We expect the rise in production to take capacity utilization to 72.7% from 72.6% in January. The extreme weather conditions that have hit much of the country will likely have a modest impact on the February data. The drop in manufacturing hours worked, reported in the February employment report, implies manufacturing production slowed last month. In addition, the ISM production index dropped to 58.4 from 66.2 in January. While that level is still consistent with expanding production, it does suggest a slower rate of growth this month.

National Association of Homebuilders HBI, March—1:00pm

	Exp	Cons	Range	History
Homebuilders Index	17	17	14.0 to 17.0	Feb = 17 vs. Jan = 15

Source: Banc of America-Merrill Lynch, Bloomberg

The National Association of Home Builders (NAHB) housing market index is expected to be unchanged in March at 17. March's reading continues to reflect extreme pessimism by home builders. The last time an optimistic reading (50 or higher) was posted was April 2006. Our forecast is in line with the recent observation in the March Federal Reserve Beige Book that home construction was down or stagnant in most Districts. With the home buyer tax credit currently set to expire at the end of April, economic fundamentals, such as firming economic demand and elevated levels of affordability, will be the primary drivers of housing demand over the remainder of the year.

Tuesday, 16 March

Housing Starts and Permits, February—8:30am

	Exp	Cons	Range	History
Housing Starts	550k	570k	532k to 600k	Jan = 591k vs. Dec = 575k
Building Permits	560k	610k	560k to 635k	Jan = 621k vs. Dec = 653k

Source: Banc of America-Merrill Lynch, Bloomberg

Housing starts are expected to slide 6.9% MoM in February to an annualized 550,000. Weather distortions are likely to play a prominent role in the February report. A total of 1.0 million workers reported not being able to report to work in February due to weather, a number significantly higher than the 0.5 million peak over the 1995 to 2009 period. Construction-specific employment data were also notably weak. Residential construction employment fell 0.9% MoM in February while aggregate construction hours plunged 4.0%. Total building permits, a leading indicator for future housing activity, are expected to fall 10% MoM to 560M. Severe winter weather likely restrained permit activity in the in the Northeast and South regions.

Import Price Index, February—8:30am

	Exp	Cons	Range	History
Import Prices	-0.1%	-0.2%	-1.0 to 0.7%	Jan = 1.4% vs. Dec = 0.2%

Source: Banc of America-Merrill Lynch, Bloomberg

Import prices are expected to fall 0.1% MoM in February, a significant shift from the 1.4% observed in January. On a year-on-year basis, however, this index (which is not seasonally adjusted) is likely to rise 11.4% over the depressed levels seen during the depth of the recession a year ago. The US dollar rose 1.6% on a trade-weighted basis in February – up for the third consecutive month – and the prices of several industrial and agricultural commodities declined. These should place downward pressure on import price inflation over the month.

Wednesday, 17 March

Producer Prices, February—8:30am

	Exp	Cons	Range	History
PPI	-0.2%	-0.2%	-0.6 to 1.4%	Jan = 1.4% vs. Dec = 0.4%
Core PPI	0.1%	0.1%	0.0 to 0.3%	Jan = 0.3% vs. Dec = 0.0%

Source: Banc of America-Merrill Lynch, Bloomberg

Headline producer price inflation should fall 0.2% in February, largely due to noticeable declines in agricultural and energy prices. Relative to the recessionary readings of a year ago, headline PPI should be up 5.0%. Spare capacity should continue to restrain core (excluding food and energy) producer price inflation at the finished goods stage of production, which looks likely to tick up 0.1% in February MoM, and climb 1.0% over the year. The consumer goods component of the PPI should continue to firm as household spending rebounds, supported this month by the unexpected pop in February's retail sales data. A rising dollar should place some downward pressure on capital goods price inflation.

Thursday, 18 March

Initial Jobless Claims, week ending 03/13/2010 —8:30am

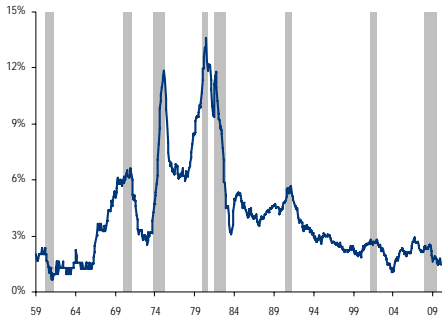
	Exp	Cons	Range	History
Initial Jobless Claims	455k	450k	442k to 460k	Mar 06 th = 462K

Source: Banc of America-Merrill Lynch, Bloomberg

Initial jobless claims are expected to drop 7,000 to 455,000 for the week ending March 13. This would take the four-week moving average on initial claims to 471,000 from 476,000 the week before. With the weather-related distortions beginning to fade for the claims data, we are expecting a steady descent in the level of initial claims below 450,000 over the next several weeks.

Inflation: A lagging indicator

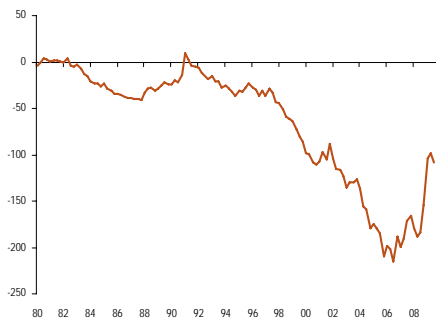
Core CPI (year-over-year %)



Source: National Bureau of Economic Research, BofA Merrill Lynch Global Research

Expect further widening in the current account

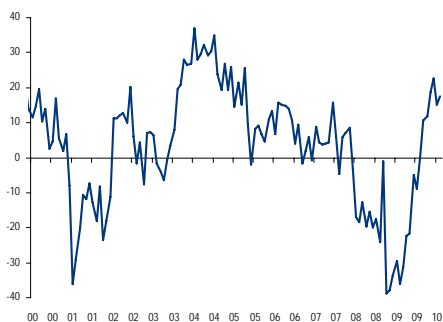
Current account balance (\$ billions)



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

Moderating manufacturing expansion

Philly Fed Business conditions index



Source: Federal Reserve Board, BofA Merrill Lynch Global Research

Consumer Price Index, February—8:30am

	Exp	Cons	Range	History
CPI	0.0%	0.1%	0.0 to 0.3%	Jan = 0.2% vs. Dec = 0.2%
Core CPI	0.0%	0.1%	-0.1 to 0.2%	Jan = -0.1% vs. Dec = 0.1%

Source: Banc of America-Merrill Lynch, Bloomberg

The consumer price index is expected to be unchanged MoM for February, as broad-based economic slack will continue to significantly restrain pricing pressures. We expect headline CPI inflation to rise 2.3% YoY in February – a deceleration from January’s 2.6% rise. Energy prices generally declined in February, with the average gasoline price about 8 cents lower than in January. Food prices likely rose slightly on net, offsetting the energy component decline. The continued weakness in the housing market looks likely to constrain prices for shelter (the largest component of the CPI) again this month. We anticipate the core CPI inflation rate to also be flat MoM, rising only 1.3% YoY. As year progresses, we expect core CPI inflation to moderate further.

Current Account Balance, 4Q—8:30am

	Exp	Cons	Range	History
Current Account	-\$ 117 bn	-120.0	-115.0 to -123.0	3Q = -\$108 bn vs. 2Q = -\$98 bn

Source: Banc of America-Merrill Lynch, Bloomberg

The U.S current account likely widened modestly from -\$108 billion in the third quarter 2009 to -\$117 billion for 4Q as a wider nominal trade deficit offsets lower net transfers and tax payments abroad. As a result, the deficit on the current account as a percent of GDP is expected to increase from 3.03% in the third quarter to 3.23% in the fourth quarter. The current account deficit for 2009 is expected to be \$427 billion. As economic activity firms, we expect a further widening in the current account in 2010.

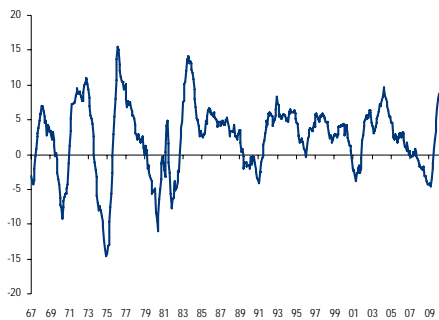
Philadelphia Fed Survey, March—10:00am

	Exp	Cons	Range	History
Philadelphia Survey	13.0	17.0	0.0 to 23.0	Feb = 17.6 vs. Jan = 15.5

Source: Banc of America-Merrill Lynch, Bloomberg

We expect the Philadelphia Fed Survey to decline to 13.0 in March from 17.6 in February – that still represents a level consistent with a modest recovery in industrial activity. The last report was notable for the sharp decline in order backlogs and delivery times. These declines imply a weakening demand backdrop, which we expect to translate into a lower headline index this month. To top it off, the expectations component in last month’s survey fell to its lowest level since April 2009.

Leading indicators still trending up
(year/year % change)



Source: Conference Board, Haver Analytics

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

	Exp	Cons	Range	History
Leading Indicator Index	-0.1%	-0.1%	-0.4% to 0.7%	Jan = 0.3% vs. Dec = 1.2%

Source: Banc of America-Merrill Lynch, Bloomberg

The Conference Board's Index of Leading Indicators is expected to drop 0.1% in February – the first decline since March 2009. On a year-over-year basis, the index would still rise to 9.1% – discounting a modest cyclical recovery. Keep in mind that many of the indicators that comprise the leading index have already been reported, and we expect this month's decline to be driven primarily by a drop in manufacturing hours worked (picked up in the February employment report). As we explain above, we are also forecasting a significant decline in building permits. Remember that the drop in hours worked and building permits is largely a result of the extreme weather conditions plaguing much of the country, which is why we believe last month's drop in the leading index is not the beginning of a trend.

Debt issuance

Treasury financing (billions of \$)

Bill auctions:				
Announcement date	Auction date	Settlement date	Issue	Size
11-Mar	15-Mar	18-Mar	3-month	26
11-Mar	15-Mar	18-Mar	6-month	28
15-Mar	16-Mar	18-Mar	4-week	31
15-Mar	17-Mar	18-Mar	SFP	25
Coupon auctions:				
18-Mar	23-Mar	31-Mar	2-Year note	44
18-Mar	24-Mar	31-Mar	5-Year note	42
18-Mar	25-Mar	31-Mar	7-Year note	32

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

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

Policy speakers

Key speaking engagements and news events*

Monday, March 15		<i>None scheduled at this point</i>
Tuesday, March 16	<i>2:15pm</i>	<i>FOMC Rate Decision</i>
Wednesday, March 17		<i>None scheduled at this point</i>
Thursday, March 18	<i>7:30am</i>	<i>Federal Reserve Governor Elizabeth Duke speaks at the Women's Leadership Forum at the America Bankers Association Government Relation Summit.</i>
	<i>9:00am</i>	<i>Kansas City Fed President Thomas Hoenig, Richmond Fed President Jeffrey Lacker, and Cleveland Fed President Sandra Pianalto speak at the American Bankers Association Government Relations Summit</i>
Friday March 19		<i>None scheduled at this point</i>
Saturday March 20	<i>9:00am</i>	<i>Federal Reserve Chairman Bernanke speaks at the Independent Community Bankers of America convention.</i>

*Time and date subject to change

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

12 March 2010

Economic forecast summary

Real Economic Activity, % SAAR	1Q 09	2Q 09	3Q 09	4Q 09	1Q 10	2Q 10	3Q 10	4Q 10	2008	2009	2010	2011	
Real GDP	-6.4	-0.7	2.2	5.9	2.0	3.5	3.6	3.6	0.4	-2.4	3.2	3.4	
% Change, Year Ago	-3.3	-3.8	-2.6	0.1	2.3	3.4	3.7	3.2					
Final Sales	-4.1	0.7	1.5	1.9	2.7	2.5	2.8	2.9	0.8	-1.7	2.3	3.1	
Domestic Demand	-6.4	-0.9	2.3	1.6	2.5	2.7	2.7	2.8	-0.4	-2.7	2.2	3.1	
Consumer Spending	0.6	-0.9	2.8	1.7	2.8	2.0	2.2	2.1	-0.2	-0.6	2.1	2.4	
Residential Investment	-38.2	-23.2	18.9	5.0	-5.0	10.0	15.0	15.0	-22.9	-20.4	4.7	12.0	
Nonresidential Investment	-39.2	-9.6	-5.9	6.5	5.1	6.3	7.6	9.1	1.6	-17.7	3.7	11.3	
Structures	-43.6	-17.3	-18.4	-13.9	-12.0	-8.0	-4.0	-2.0	10.3	-19.6	-11.4	1.0	
Equipment and Software	-36.4	-4.9	1.5	18.2	12.6	12.0	12.0	13.0	-2.6	-16.7	10.9	14.8	
Government	-2.6	6.7	2.7	-1.2	2.0	2.5	0.8	0.5	3.1	1.9	1.6	0.0	
Exports	-29.9	-4.1	17.8	22.4	12.0	9.0	9.0	9.0	5.4	-9.6	12.3	9.4	
Imports	-36.4	-14.7	21.3	15.3	10.0	9.5	7.5	7.0	-3.2	-13.9	4.7	12.0	
Net Exports (Bil 05\$)	-386.5	-330.3	-357.4	-347.2	-348.4	-358.2	-359.0	-357.2	-494.3	-355.4	-345.8	-352.8	
Contribution to growth (ppts)	2.6	1.7	-0.8	0.3	0.0	-0.3	0.0	0.1	1.2	1.0	0.0	0.0	
Inventory Accumulation (Bil 05\$)	-113.9	-160.2	-139.2	-16.9	-38.9	-3.9	21.1	45.1	-25.9	-107.6	-88.8	-49.7	
Contribution to growth (ppts)	-2.4	-1.4	0.7	3.9	-0.7	1.1	0.8	0.7	-0.4	-0.6	0.9	0.4	
Nominal GDP (Bil \$)	14178	14151	14243	14462	14568	14695	14902	15091	14441	14259	14814	15499	
% SAAR	-4.6	-0.8	2.6	6.3	2.9	3.6	5.7	5.2	2.6	-1.3	3.9	4.6	
Key Indicators													
Industrial Production (% SAAR)	-19.2	-10.2	6.4	6.7	4.6	6.4	6.7	6.8	-2.2	-9.7	4.9	7.0	
Capacity Utilization (%)	70.4	68.7	70.0	71.4	72.9	73.7	74.3	74.9	77.5	70.1	74.0	76.5	
Nonfarm Payrolls (Average MoM change, 000s)	-753	-478	-260	-103	40	475	-187	73	-302	-398	100	219	
Civilian Unemployment Rate (%)	8.2	9.3	9.6	10.0	9.8	9.1	9.3	9.6	5.8	9.3	9.4	9.2	
Productivity (% SAAR)	0.9	7.6	7.8	6.9	-1.1	-0.8	1.8	1.5	1.8	3.8	2.6	2.0	
Real Disp. Personal Inc. (% SAAR)	0.2	6.2	-3.6	1.9	3.4	3.3	0.4	1.3	0.5	0.9	1.9	2.2	
Personal Savings Rate (%)	3.7	5.4	3.9	4.1	4.9	5.5	5.0	5.0	2.7	4.3	5.1	5.8	
Light Vehicle Sales (Millions SAAR)	9.5	9.6	11.5	10.9	10.7	11.5	12.2	12.8	13.2	10.4	11.8	14.1	
Housing Starts (Thous. SAAR)	528	540	587	559	620.0	725.0	775.0	920.0	900	553	760	1125	
Current Account (Bil \$)	-104.5	-98.0	-108.0	-115.0	-125.0	-130.0	-135.0	-140.0	-706.1	-425.5	-530.0	-600.0	
US Budget Balance									-455	-1417	-1250	-825	
Corporate Profits													
Operating Profits After Tax (Bil \$)	912.4	920.6	1037.9	1144.5	1146.5	1128.9	1223.7	1310.3	1068.2	1003.9	1202.4	1332	
% Change, Year Ago	-19.7	-15.3	-9.7	27.1	25.7	22.6	17.9	14.5	-2.0	-6.0	19.8	10.8	
Inflation													
GDP Price Index (% SAAR)	1.9	0.0	0.4	0.4	1.4	0.1	2.1	1.6	2.1	1.2	0.9	1.2	
% Change, Year Ago	1.9	1.5	0.6	0.7	0.5	0.6	1.0	1.3					
Core PCE Chain Prices (% SAAR)	1.1	2.0	1.2	1.6	0.7	1.4	1.5	1.3	2.4	1.5	1.3	0.9	
% Change, Year Ago	1.7	1.6	1.3	1.5	1.3	1.2	1.3	1.2					
CPI, Consumer Prices (% SAAR)	-2.2	1.9	3.7	2.6	1.6	1.1	2.7	1.3	3.8	-0.3	2.1	1.6	
% Change, Year Ago	-0.2	-1.0	-1.6	1.5	2.4	2.3	2.0	1.7					
CPI ex Food & Energy (% SAAR)	1.6	2.3	1.5	1.5	0.1	1.4	1.4	1.2	2.3	1.7	1.2	0.9	
% Change, Year Ago	1.7	1.8	1.5	1.7	1.4	1.1	1.1	1.0					
Global Economic Forecasts													
		GDP growth, %				CPI inflation, %				Short-term interest rates, %			
	2008F	2009	2010	2011	2008F	2009	2010	2011	2008F	2009	2010	2011	
Global	2.9	-0.8	4.4	4.6	5.5	1.6	3.2	3.0	2.58	2.67	3.07	4.04	
Global ex US	3.6	-0.4	4.7	4.9	6.0	2.1	3.6	3.4	3.28	3.39	3.89	4.87	
Euro Area	0.5	-4.0	1.7	2.6	3.3	0.3	0.8	1.2	1.00	1.00	1.250	3.00	
UK	0.5	-5.0	1.3	3.0	3.6	2.2	2.9	1.6	0.50	0.50	1.00	2.50	
Japan	-1.2	-5.2	2.6	2.1	1.5	-1.3	-0.9	0.0	0.10	0.10	0.10	0.50	
Canada	0.4	-2.6	3.4	3.6	2.4	0.3	2.1	2.9	0.25	0.25	1.50	2.75	
Emerging EMEA	4.7	-3.5	4.0	4.4	11.3	7.9	6.5	6.5	6.47	6.73	6.41	7.88	
Latin America	4.2	-2.0	4.1	4.1	7.9	6.3	6.4	6.2	7.00	7.22	8.95	9.20	
Brazil	5.1	-0.4	5.1	5.0	5.7	4.9	4.3	4.4	8.75	8.75	10.50	10.50	
Emerging Asia	7.4	6.0	8.2	7.8	6.6	0.4	4.5	3.6	4.18	4.24	4.81	5.38	
China	9.6	8.7	10.1	9.0	5.9	-0.7	3.4	3.1	5.31	5.31	5.49	5.76	

Shaded regions represent BofA Merrill Lynch Global Research forecast

Source: BofA Merrill Lynch Global Research

12 March 2010

Interest rate forecast summary

(% EOP)	Q409	Q110	Q210	Q310	Q410	Q111	Q211	Q311	Q411	2009	2010	2011
<i>Fed Funds</i>	0.125	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.25-0.50	0.50-0.75	0.50-0.75	0.75-1.00	0.125	0.00-0.25	0.75-1.00
<i>3-Month T-Bill</i>	0.05	0.20	0.20	0.20	0.50	0.75	1.05	1.30	1.45	0.050	0.50	1.45
<i>3-Month LIBOR</i>	0.25	0.35	0.35	0.35	0.65	0.90	1.20	1.45	1.60	0.250	0.65	1.60
<i>2-Year T-Note</i>	1.14	1.00	1.20	1.30	1.50	1.65	1.75	1.90	2.00	1.140	1.50	2.00
<i>5-Year T-Note</i>	2.68	2.60	2.90	3.00	3.10	3.20	3.30	3.35	3.40	2.680	3.10	3.40
<i>10-Year T-Note</i>	3.84	3.60	4.00	4.10	4.25	4.30	4.40	4.45	4.45	3.840	4.25	4.45
<i>30-Year T-Bond</i>	4.64	4.45	4.75	4.90	4.95	4.95	5.00	5.00	5.00	4.640	4.95	5.00

Shaded regions represent BofA Merrill Lynch Global Research forecast

Source: Bloomberg, BofA Merrill Lynch Global Research

Monthly CPI forecast update

	Total CPI					Core CPI			
	(nsa)			(sa)		(nsa)		(sa)	
	Level	MoM	y/y	MoM	y/y	MoM	y/y	MoM	y/y
2010: Jan	216.687	0.34	2.6	0.17	2.7	0.03	1.6	-0.14	1.5
2010: Feb	216.999	0.14	2.3	0.05	2.3	0.22	1.3	0.04	1.3
2010: Mar	217.874	0.40	2.4	0.05	2.4	0.42	1.3	0.17	1.3
2010: Apr	218.454	0.27	2.4	0.10	2.4	0.04	1.1	0.05	1.1
2010: May	218.976	0.24	2.4	0.06	2.4	0.01	1.1	0.15	1.1
2010: Jun	219.919	0.43	2.0	0.28	2.0	0.12	1.2	0.21	1.2
2010: Jul	219.823	-0.04	2.1	0.22	2.1	0.01	1.2	0.10	1.2
2010: Aug	220.085	0.12	2.0	0.26	2.0	0.12	1.2	0.08	1.2
2010: Sep	220.318	0.11	2.0	0.20	2.0	0.13	1.0	0.04	1.0
2010: Oct	220.037	-0.13	1.8	-0.02	1.8	0.20	1.0	0.13	1.0
2010: Nov	219.696	-0.16	1.6	0.01	1.6	-0.12	1.0	0.08	1.0
2010: Dec	219.638	-0.03	1.7	0.32	1.7	-0.11	1.1	0.16	1.1

nsa: not seasonally adjusted, sa: seasonally adjusted

Source: BofA Merrill Lynch Global Research

FX rate forecast summary

Quarterly forecasts- G10 currencies

	Spot	Mar '10	Jun '10	Sep '10	Dec '10	Mar '11	Jun '11	Sep '11	Dec '11
G3									
EUR-USD	1.38	1.38	1.32	1.30	1.28	1.26	1.24	1.22	1.20
USD-JPY	91	85	87	89	91	95	99	103	106
EUR-JPY	125	117	115	116	116	120	123	126	127
Dollar Bloc									
USD-CAD	1.02	1.03	1.03	1.04	1.05	1.06	1.07	1.08	1.09
AUD-USD	0.92	0.91	0.89	0.87	0.85	0.81	0.78	0.75	0.72
NZD-USD	0.70	0.69	0.67	0.65	0.63	0.60	0.58	0.56	0.53
Europe									
EUR-GBP	0.91	0.89	0.87	0.85	0.83	0.82	0.81	0.80	0.80
GBP-USD	1.52	1.55	1.52	1.53	1.54	1.54	1.53	1.53	1.50
EUR-CHF	1.46	1.47	1.47	1.47	1.47	1.48	1.49	1.50	1.51
USD-CHF	1.06	1.07	1.11	1.13	1.15	1.17	1.20	1.23	1.26
EUR-SEK	9.71	9.85	9.80	9.75	9.70	9.65	9.60	9.55	9.50
USD-SEK	7.05	7.14	7.42	7.50	7.58	7.66	7.74	7.83	7.92
EUR-NOK	8.03	8.05	8.00	7.90	7.80	7.75	7.70	7.65	7.60
USD-NOK	5.83	5.83	6.06	6.08	6.09	6.15	6.21	6.27	6.33

The left of the currency pair is the denominator of the exchange rate.

Source: BofA Merrill Lynch Global Research

Rolling calendar of business indicators

Monday	Tuesday	Wednesday	Thursday	Friday
15 March 8:30 am: Empire Manufacturing Jan 15.9 Feb 24.9 Mar 23.0* 9:00 am: Net Long-term TIC Flows Nov \$126.4B Dec \$63.3B Jan \$10.0B* 8:30 am: Industrial Production Dec 0.7% Jan 1.0% Feb 0.1%* 8:30 am: Capacity Utilization Dec 71.9% Jan 72.6% Feb 72.7% 1:00 pm: NAHB Housing Market Index Jan 15 Feb 17 Mar 17*	16 March ABC/Washington Post Consumer Comfort Survey —(week ending 03/14/10) LJR Redbook —(week ending 03/13/10) 8:30 am: Import Price Index (MoM) Dec 0.2% Jan 1.4% Feb -0.1% 8:30 am: Housing Starts Dec 575K Jan 591K Feb 550K* 8:30 am: Housing Permits Dec 653K Jan 621K Feb 560K* 2:15 pm: FOMC Rate Decision	17 March MBA Mortgage Applications —(week ending 03/12/10) 8:30 am: Producer Price Index – Feb Dec 0.4% Jan 1.4% Feb -0.2%* 8:30 am: Core PPI Dec 0.0% Jan 0.3% Feb 0.1%*	18 March 8:30 am: Initial Jobless Claims —(week ending 03/13/10) – 455K* 8:30 am: Consumer Price Index – Feb Dec 0.2% Jan 0.2% Feb 0.0%* 8:30 am: Core CPI Dec 0.1% Jan -0.1% Feb 0.0%* 8:30 am: Current account balance 2Q -\$98 bn 3Q -\$108 bn 4Q -\$117 bn*	19 March 10:00 am: Philadelphia Fed Jan 15.5 Feb 17.6 Mar 13.0* 10:00 am: Leading Indicators Jan 1.2 Feb 0.3% Mar -0.1%*
22 March 8:30 am: Chicago Fed Nat'l Activity Index – Feb	23 March ABC/Washington Post Consumer Comfort Survey —(week ending 03/21/10) LJR Redbook —(week ending 03/20/10) 10:00 am: Existing Home Sales Dec 5.44M Jan 5.05M Feb 4.90M* 10:00 am: FHFA Home Price Index – Feb Nov 0.4% Dec -1.6% 10:00 am: Richmond Fed – Mar	24 March MBA Mortgage Applications —(week ending 03/19/10) 8:30 am: Durable Goods Orders – Feb Dec 1.8% Jan 2.6% 8:30 am: Durable ex Transportation – Feb Dec 1.4% Jan 0.0% 10:00 am: New Home Sales Dec 348K Jan 309K Feb 315K*	25 March 8:30 am: Initial Jobless Claims —(week ending 03/20/10)	26 March 8:30 am: Real GDP 2Q -0.7% 3Q 2.2% 4Q 5.9%* 8:30 am: GDP Price Index 2Q 0.0% 3Q 0.4% 4Q 0.4%* 9:55 am: U. of Michigan Confidence Feb 73.6 Mar 72.5
29 March 8:30 am: Personal Income – Feb Dec 0.3% Jan 0.1% 8:30 am: Personal Spending – Feb Dec 0.3% Jan 0.5% 8:30 am: PCE Core – Feb Dec 0.1% Jan 0.0%	30 March ABC/Washington Post Consumer Comfort Survey —(week ending 03/28/10) LJR Redbook —(week ending 03/27/10) 9:00 am: Case Shiller Home Price Index – Jan Nov 145.3 Dec 145.9 9:00 am: Case Shiller Comp 20 – Jan Nov -5.3% Dec -3.1% 10:00 am: Consumer Confidence – Mar Jan 56.5 Feb 46.0	31 March MBA Mortgage Applications —(week ending 03/26/10) 8:15 am: ADP Employment Change – Mar Jan -60K Feb -20K 9:45 am: Chicago PMI – Mar Jan 61.5 Feb 62.6 10:00 am: Factory Orders – Feb Dec 1.5% Jan 1.7%	01 April 8:30 am: Initial Jobless Claims —(week ending 03/27/10) 10:00 am: ISM Manufacturing – Mar Jan 58.4 Feb 56.5 10:00 am: Construction Spending – Feb Dec -1.2% Jan -0.6% All Day: Vehicle Sales – Mar Jan 10.80M Feb 10.36M	02 April 8:30 am: Nonfarm Payrolls – Mar Jan -26k Feb -36K 8:30 am: Unemployment Report – Mar Jan 9.7% Feb 9.7% 8:30 am: Average Hourly Earnings – Mar Jan 0.2% Feb 0.1% 8:30 am: Average Weekly Hours – Mar Jan 33.9 Feb 33.8
*Projections—subject to revision as additional data become available during the month.				

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