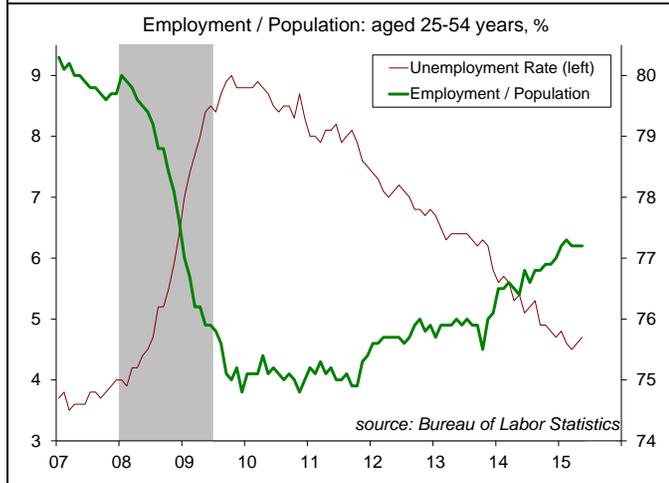
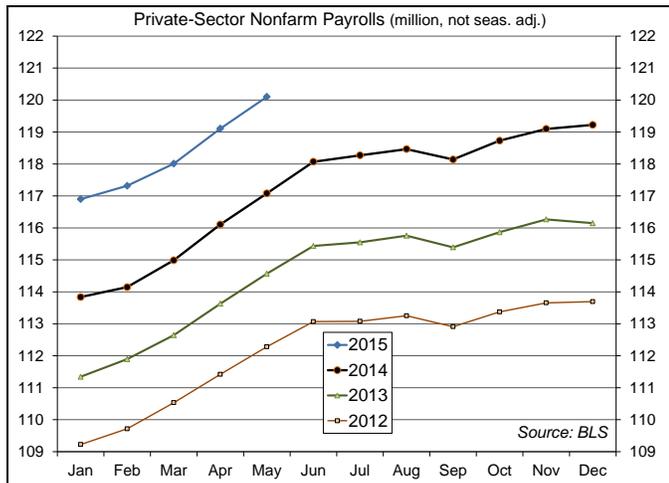


Weekly Economic Monitor

An Important Week for Economic Data

Fed officials have signaled that monetary policy decisions will be data-dependent. Hence, financial market participants will closely examine upcoming economic reports. Data are expected to remain consistent with an improving economy and an initial increase in short-term interest rates by the end of the year.

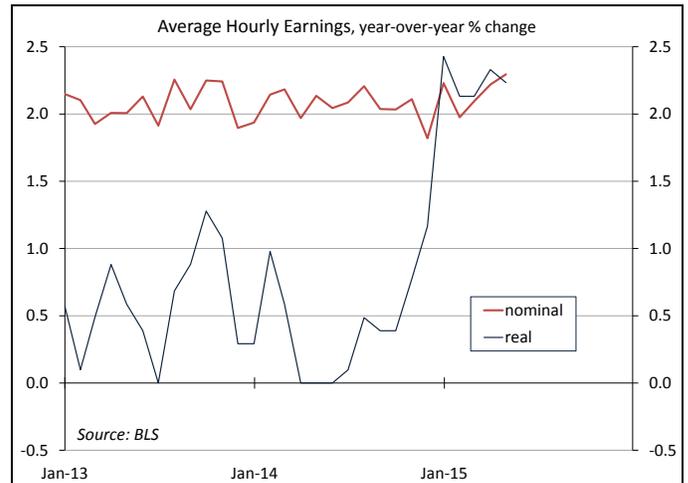
Job growth has been strong over the last several months. While average monthly gains have slowed in the first half of this year, the pace has remained strong. There's some statistical uncertainty in the monthly payroll figures (which are reported accurate to ±105,000), but the three-month average helps smooth out the noise. Prior to seasonal adjustment, we normally see sharp gains in payrolls in the spring, and the 2015 figures have been consistent with the usual pattern. However, it's worth noting that the unadjusted payroll figures are trending three million higher than a year ago.



The unemployment rate ticked up in May, but that is likely to have been noise (the rate is reported accurate to ±0.2%). Since

peaking in 2009, the unemployment rate has declined. However, the downtrend overstated the improvement in labor market conditions (as many people exited the labor force). More recently, the employment/population ratio has been trending gradually higher, with gains more pronounced in the key age cohort (those aged 25-54). The pace of job growth and the rise in the employment/population ratio suggest that growth is currently beyond a long-term sustainable rate, as firms will eventually run out of people to hire, but we are still a long way from hitting such constraints.

Average hourly earnings picked up in May, but not by much. Such gains are often revised away in the next month's report. Investors are likely to pay close attention to the June data, but the May pickup appears to be very tentative. Moreover, wage inflation is still far from what is considered normal (Fed Chair Yellen suggested that a good pace would be 3.5% or more).



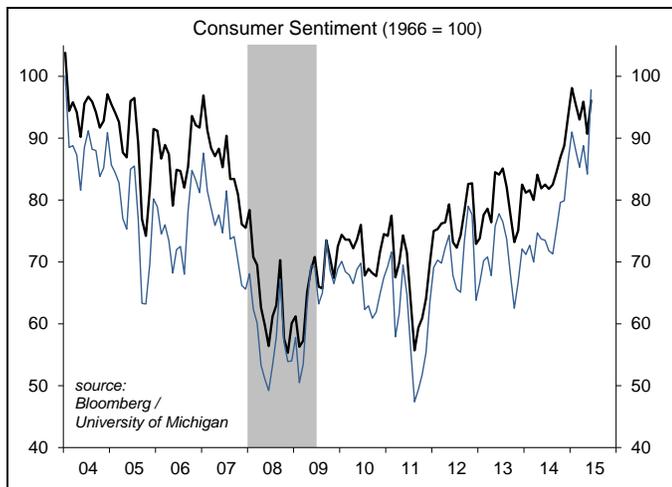
Real wages are up considerably from a year ago. However, the boost from lower gasoline prices will fade over time. Real wages have trended roughly flat since January. Motor vehicle sales rose sharply in May. However, part of that gain reflected a bounce-back from a soft April. Moreover, the early Memorial Day holiday led to two weekends of heavy sales promotions. June vehicles sales (to be reported on Wednesday) should show moderation. However, even with a pullback in unit auto sales in June, inflation-adjusted consumer spending (70% of GDP) would still be on track for about a 3.0% annual rate in 2Q15.

Financial market participants typically react to the latest monthly figure, ignoring the fact that there is often a lot of noise in the economic numbers. It's the underlying trends that are important. While we may see some mix in this week's data, the June figures on consumer confidence, ISM manufacturing, vehicle sales, and employment should remain consistent with an improving economy, more or less in line with Fed expectations.

	Treasury Yields								Dollar				Equities		
	13-wk	26-wk	52-wk	2-yr	3-yr	5-yr	10-yr	30-yr	\$/Euro	\$/BP	JY/\$	CD/\$	NASD	SPX	DJIA
5/29/15	0.01	0.06	0.26	0.61	0.94	1.49	2.12	2.88	1.099	1.529	123.98	1.247	5070.03	2107.39	18010.68
6/19/15	0.01	0.05	0.25	0.65	0.99	1.59	2.26	3.05	1.134	1.588	122.70	1.227	4513.42	2109.99	18015.95
6/26/15	0.01	0.07	0.29	0.71	1.09	1.75	2.48	3.24	1.117	1.574	123.78	1.231	4484.28	2101.68	17947.48

Recent Economic Data and Outlook

The week began with optimism that a Greek debt agreement would be worked out, but doubts returned after negotiations broke down. The economic reports were mixed. Home sales picked up, but durable goods orders were soft. Personal spending growth picked up in May and consumers were generally more optimistic about the future in June



Real GDP fell at a 0.2% annual rate in the 3rd estimate for 1Q15 (vs. -0.7% in the 2nd estimate and +0.2% in the advance estimate). Consumer spending rose at a 2.1% annual rate (vs. +1.8% in the previous estimate). Business fixed investment fell by 2.0% (vs. -2.8%). Net exports (a wider trade deficit) subtracted 1.9 percentage points from GDP growth, the same as in the previous estimate, although exports rose less than in the 2nd estimate, while imports rose more (a larger subtraction from growth). A faster pace of inventory growth added 0.5 percentage point. Note that Gross Domestic Income rose at a 1.9% pace (+3.7% y/y). Domestic Final Sales (a measure of underlying domestic demand) rose 1.2% (+3.0% y/y).

Personal Income rose 0.5% in May (+4.4% y/y), with wages and salaries up by 0.5% (+5.0% y/y). Disposable income rose 0.5% (+3.8% y/y), up 0.2% adjusted for inflation (+3.5% y/y). **Personal Spending** jumped 0.9% (+3.6% y/y), reflecting a surge in motor vehicle sales and higher gasoline prices (ex-autos and gasoline, spending rose 0.4%). Inflation-adjusted spending rose 0.6% (+3.4% y/y) – on track for about a 3.0% annual rate in 2Q15 (vs. 2.1% in 1Q15 and +4.4% in 4Q15). The **PCE Price Index** rose 0.3% (+0.2% y/y), up 0.1% ex-food & energy (+1.2% y/y).

The University of Michigan's **Consumer Sentiment Index** rose to 96.1 in June, vs. 94.6 at mid-month and 90.7 in May. Expectations, thought to be a driver of big-ticket purchases, rose to 97.8 (vs. 84.2 in May) – the highest since January 2004.

Durable Goods Orders fell 1.8% in May, reflecting a sharp decline in aircraft orders (civilian -35.3%, military -6.3%). Ex-transportation, orders rose 0.5% (-1.3% y/y for the first five months of the year). Orders for nondefense capital goods ex-aircraft rose 0.4%, vs. -0.3% in April.

New Home Sales rose 2.2% (±16.7%) in May, to a 546,000 seasonally adjusted annual rate, up +19.5% y/y (±19.7%). Figures for February, March, and April were revised higher. Results varied by region (Northeast +87.5%, Midwest -5.7%, South -4.3%, West +13.1%).

Existing Home Sales rose 5.1% in May, to a 5.35 million seasonally adjusted annual rate (+9.2% y/y). Sales rose in all four regions in May (Northeast +11.3%, Midwest +4.1%, South +4.3%, East +4.3%). The National Association of Realtors noted that overall supplies remain “tight.” Homes were reported to be selling faster. Prices were said to be rising at or near double-digit percentages in many markets.

The **Chicago Fed National Activity Index**, a composite of 85 economic indicators, edged up to -0.17 in May, vs. -0.19 in April. The three-month average was -0.16, consistent with growth slightly below the long-term trend.

Economic Outlook (2Q15): Around a 2.5% annual rate.

Employment: The pace of job growth, while slower than in the second half of 2014, still appears to be relatively strong. Except for energy exploration, job losses are very limited. New hiring appears to have remained strong for small and medium-sized firms, but has slowed for larger firms.

Consumers: Strong job growth is supportive. Inflation-adjusted wages have been trending about flat since January, but are still up significantly from a year ago. Consumers are more optimistic about the economy, but generally remain judicious in how they spend their money.

Manufacturing: The strong dollar has been a constraint, but likely a transitory one (assuming the dollar stabilizes). A decline in corporate profits has contributed to a softening trend in capital spending. Domestic demand should be picking up.

Housing/Construction: Sales appeared mixed at the start of the spring selling season. Rising prices and relatively tight credit appear to be constraining the lower end of the market.

Prices: The PCE Price Index is about flat year-over-year – and the core inflation rate has moved lower in recent months. Pipeline pressures are mild. Wage pressures are limited. Inflation expectations remain well-anchored.

Interest Rates: Senior Fed officials believe that conditions are likely to warrant an initial increase in short-term rates this year, but the more important question is the pace of tightening after the initial hike (which is expected to be very gradual).

This Week:					<i>forecast</i>	last	last -1	comments
Monday	6/29	10:00	Pending Home Sales	May	+1.4%	+3.4%	+1.2%	trend is higher
Tuesday	6/30	9:00	Case-Shiller Home Price (20) year-over-year	Apr	+0.8%	+1.0%	+1.2%	a stronger trend in recent months
		9:45	Chicago PM Index	Jun	50.8	46.2	52.3	unexpectedly weak in May
		10:00	Consumer Confidence	Jun	98.2	95.4	94.3	likely to improve
Wednesday	7/01	8:15	ADP Payroll Estimate, th.	Jun	+195	+201	+165	moderately strong (watch for revisions)
		9:45	Markit US Manf PMI (final)	Jun	NF	54.0	54.1	down to 53.4 in the flash estimate
		10:00	ISM Manf. Index	Jun	53.0	52.8	51.5	moderate, mixed across industries
		10:00	Construction Spending	May	-1.2%	+2.2%	+0.5%	choppy components, watch for revisions
		tbd	Motor Vehicle Sales, mln domestically built	Jun	17.1	17.7	16.5	moderating (still strong)
Thursday	7/02	8:30	Jobless Claims, th.	6/27	275	271	268	a low trend
		8:30	Nonfarm Payrolls, th. private-sector	Jun	+210	+280	+221	still strong (but watch for revisions)
			Unemployment Rate		5.4%	5.5%	5.4%	likely lower
			employment/population		59.5%	59.4%	59.3%	trending gradually higher
			Avg. Weekly Hours		34.5	34.5	34.5	seen steady
			Avg. Hourly Earnings		+0.2%	+0.3%	+0.1%	modest wage pressures
		10:00	Factory Orders		-0.6%	-0.8%	+2.2%	durable goods orders reported at -1.8%
Friday	7/03		Ind. Day Holiday (observed)				markets closed	
Next Week:								
Monday	7/06	10:00	ISM Non-Manf. Index	Jun	56.0	55.7	57.8	moderate
Tuesday	7/07	8:30	Trade Balance, \$bln goods only	May	-43.0	-40.9	-50.6	seen wider
		10:00	JOLTS: hiring rate	May	NF	3.5	3.6	lower in April, but a gradual trend higher
		1:00	JOLTS: quit rate		NF	1.9	2.0	still below normal
Wednesday	7/08	1:00	Treasury Note Auction					3-year notes
		2:00	FOMC Minutes					re-opened 10-year notes looking for clues on timing and pace
Thursday	7/09	8:30	Jobless Claims, th.	7/04	275	275	271	holiday adjustment adds uncertainty
		1:00	Treasury Bond Auction					re-opened 30-year bonds
Friday	7/10		no significant data					Cootie Williams (1911), Lee Morgan (1938)

This Week...

Federal Reserve policy will be data dependent. Financial market participants will be paying close attention to the numbers and this week includes some fresh ones. We could see a reaction to surprises in consumer confidence or in the ISM Manufacturing Index, but most of the weight will be placed on June jobs data. Note that while Friday is an observed holiday, neither the stock market nor the bond market will close early on Thursday. However, market activity is expected to thin out after the data.

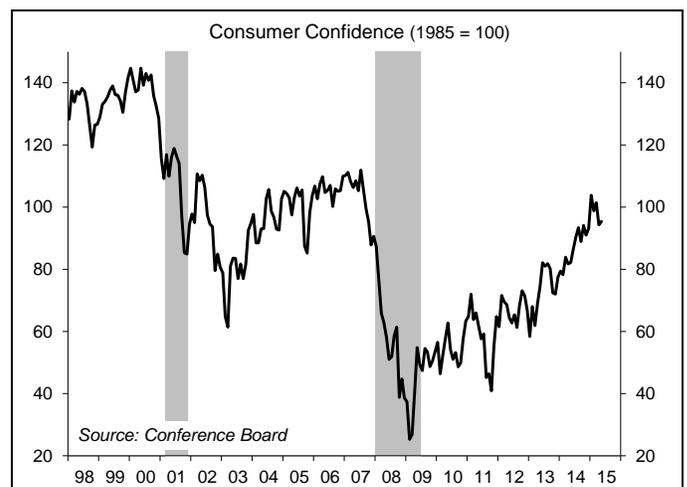
Monday

Pending Home Sales (May) – There's a fair amount of noise in the monthly figures, but the trend is higher.

Tuesday

Chicago Purchasing Managers Index (June) – Figures were weak in the winter, reflecting the impact of bad weather, the stronger dollar, and West Coast port delays. The April rebound was short-lived, as headline figures stumbled in May. Results for June are likely to be mixed, but generally lackluster.

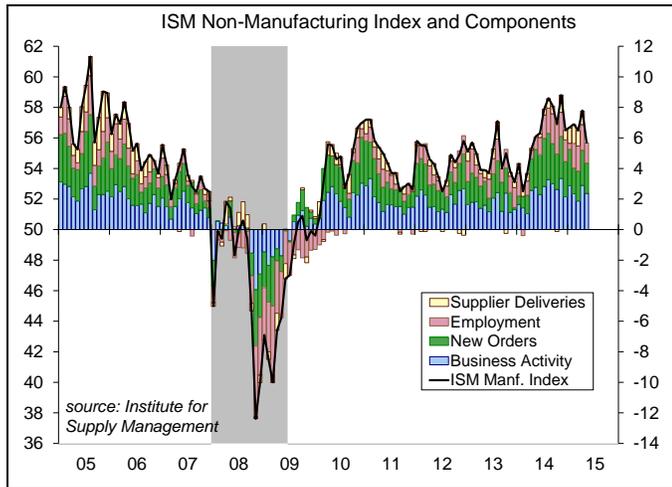
Conference Board Consumer Confidence Index (June) – Attitudes are likely to improve in June. Note that the advance figure is preliminary (based on information collected during the first half of the month). We may see a revision to May. Keep an eye on job market perceptions, which have been generally improving.



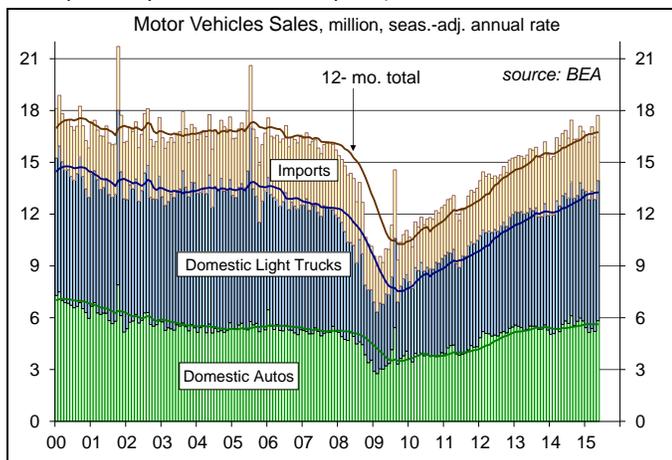
Wednesday

ADP Payroll Estimate (June) – The ADP estimate is not a good predictor of the official BLS figure, but could generate a market reaction if sufficiently stronger or weaker than anticipated.

ISM Manufacturing Index (June) – Factory sector activity has been mixed across industries, but generally soft in recent months. The headline figure is expected to remain at a moderate level in June, but watch new orders and employment.



Motor Vehicle Sales (June) – In May, unit sales rose to their highest level since 2005. However, that pop followed a soft April and the early Memorial Day holiday resulted in two weekends of heavy sales promotions. June sales are expected to be less robust, but still relatively strong. The bigger question is whether vehicle sales have reached a plateau. If so, vehicle sales would, on average, make little or no contribution to overall GDP growth over coming quarters (although there should still be some quarterly variation in the pace).

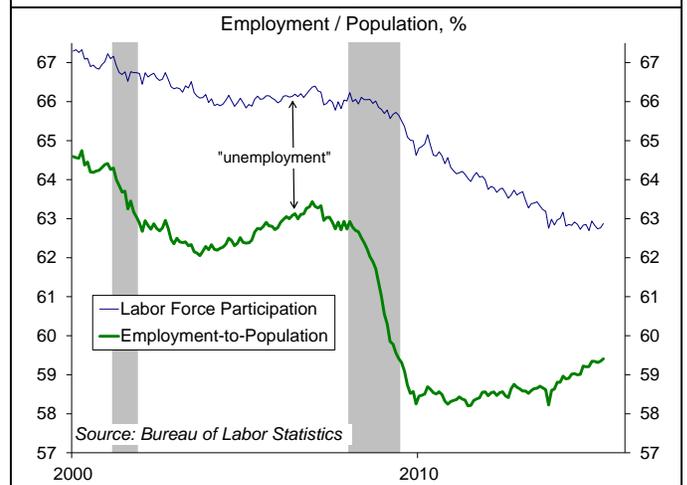
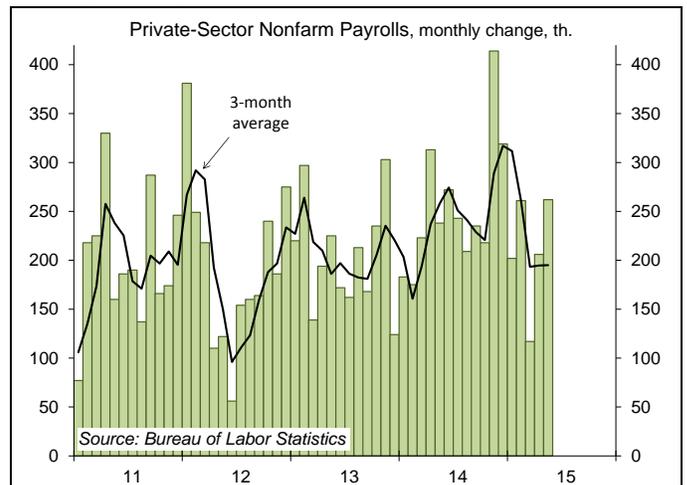


Thursday

Jobless Claims (week ending June 27) – Claims have continued to trend at a low level in recent weeks, consistent with further improvement in overall job market conditions. Seasonal adjustment will become more difficult in early July, due to the annual plant retooling shutdowns.

Employment Report (June) – Seasonal adjustment may be a factor here. In June 2014, education (public and private) fell by more than 800,000 (unadjusted), while non-education jobs rose by a little over 1.4 million. It seems a little silly to worry about the nearest 20,000 or 30,000 in the adjusted payroll figure (in addition, the monthly change is reported accurate to ±105,000). One shouldn't put too much weight on any one month. The three-month average should be relatively strong. The unemployment rate is expected to edge lower. The Fed expects that the rate will flatten in the months ahead, partly reflecting a

pickup in participation. As the job market improves, we can expect to see many of those on the sidelines (wanting a job but not officially counted as “unemployed”) return to the labor force. Average hourly earnings are likely to post a modest increase (note that these figures are often revised in the following month).



Friday

Independence Day Holiday (observed) – Markets closed.

Next Week ...

The calendar thins out, with the minutes of the June 16-17 FOMC policy meeting being the likely highlight.

Coming Events and Data Releases

July 14	Retail Sales (June)
July 15	Yellen Monetary Policy Testimony (House)
July 16	Yellen Monetary Policy Testimony (Senate)
July 29	FOMC Policy Decision (no press conference)
July 30	Real GDP (2Q15 advance, benchmark revisions)
September 17	FOMC Policy Decision, Yellen press conference
October 28	FOMC Policy Decision (no press conference)
December 16	FOMC Policy Decision, Yellen press conference