



Weekly economic and market comment 10-09-11

The week ahead: The most important data and developments in the coming week are:

- During the week: The final two countries in the eurozone should pass the agreement to allow the second tranche of payments to Greece be completed. However, there are still provisions to be negotiated and the final agreement may include information that affects the markets. In particular I expect the haircut that holders of Greek debt to take will exceed the 21% previously agreed upon. Various European countries, including Germany and France, are preparing for this by making plans to shore up the capital in their banks.
- Thursday, October 13: The August U.S. trade deficit will be reported at 8:30am EDT and is expected to increase to \$46 billion from July's \$44.8 billion. The July number will be revised and, together, the July revision and August estimate will affect the forecast for third quarter GDP.
- Friday, October 14: U.S. retail sales for September likely increased by a solid 0.8%. While they do not affect this forecaster's estimate of third quarter GDP, they are important because they will indicate demand momentum going into the fourth quarter.
- Friday, October 14: The preliminary October estimate of consumer sentiment is likely to be near 60, only a bit above the final September reading of 59.4. The household financial situation and employment prospects are important determinants of this index.

My updated thinking on the economy and markets is contained in my monthly economic report, released earlier today (Sunday, October 9). The highlights are:

- Economy: Based on the September employment report and other recent data I (and most other forecasters) have raised my estimate of third quarter growth to 1.5-2% above my previous 0-1.5% estimate. The main factor that resulted in stronger growth was the rebound from temporary shocks such as weather and the Japanese earthquake. I expect growth to remain sluggish in the fourth quarter (1-2%), as forward-looking measures such as the Challenger Survey layoffs suggest continued weaker-than-needed employment and income growth.
- Stocks: I think the intraday S&P low near 1070 on October 4th is a benchmark for the low over this quarter. We may revisit or undercut the low, but I don't think we will go meaningfully lower. My low for the quarter is in the 1050-1080 area. I think rallies over the next few weeks will be contained in the 1200-1240 area. Earnings season goes into full swing this week and next. I expect earnings will, as usual, exceed expectations and that guidance will be quite cautious. I think this combination will be a neutral for the market.

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