



The Week Ahead

April 28th, 2008

FOMC Policy Announcement (April 29-30th)

Fed Funds Forecast: 2.0% C: 2.0% P: 2.25%

In its next meeting the FOMC will probably reduce rates by only 25bp to 2%. Two reasons stand behind the deceleration of cuts: inflationary pressures and the use of other (and more effective) tools to address the current financial turmoil. We do not expect that the FOMC will decide to pause just yet, mainly because it would send the message that the rate cycle has touched bottom. The Fed is not ready or willing to send such a signal when, in words of Bernanke, the economy still faces downside risks due to the fact that "financial markets remain under considerable stress". Thus, as long as the stress persists, members will be biased towards additional easing. In our worst scenario, rates may go down to 1.5%, while if conditions improve, FOMC could pause under a wait-and-see strategy, and even hike rates by year-end.

Gross Domestic Product (1Q08, Thursday 8:30 ET)

F: 1.0% C: 0.4% P: 0.6%

We expect GDP growth in 1Q08 to be 1% on a quarterly annualized basis – higher than average consensus and stronger than 4Q07. Our optimism is solely based on an expected rebound in inventory accumulation, which experienced a sharp decline in 4Q07. In addition, contribution from net exports will remain strong while nonresidential investment will continue growing well above overall GDP (though will probably moderate). In contrast, the drag from residential investment will remain and personal consumption expenditures will probably decelerate substantially. We expect an inventory correction in 2Q08 and thus GDP growth in the following quarter is likely to be negative. For 2008 we maintain our forecast of 1% GDP growth, with a slow recovery starting in the second half of the year.

Nonfarm Payroll (April, Friday, 8:30 ET)

F: -100K C: -80K P: -80K

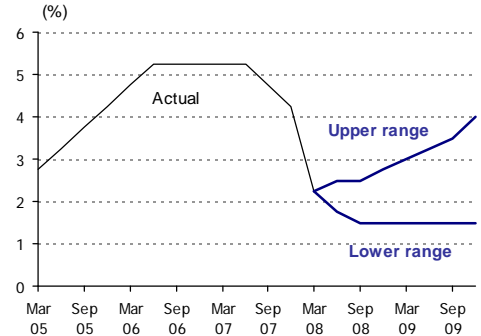
We expect labor markets to deteriorate further. The decline would be in line with the rise on jobless initial and continuing claims during the past weeks. We acknowledge that weekly jobless claims are extremely volatile, but their rise is consistent with other worsening signs. Important indications of further decline in labor markets are: the bleak evaluation reflected in the latest Beige Book and the significant decline in recent retail and housing sales. Continuing the worsening trend since early this year, we expect employment in the private sector to weaken at a larger pace than the offsetting gains from higher employment in the public sector. As before, private sector employment will probably show its worst numbers in the labor-intensive construction sector. It is again important to emphasize that, after several months of negative payroll data, up to now the labor contraction is relatively moderate when compared with other cyclical downturns.

Consumer Confidence (April, Tuesday, 8:30 ET)

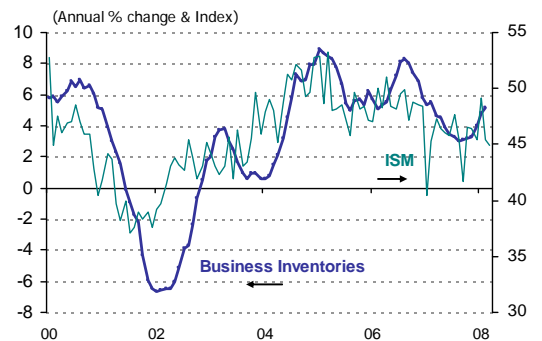
F: 61.0 C: 62.0 P: 64.5

Consumer confidence continues to deteriorate. In particular, consumer prospects on the overall state of the economy will remain at an alarming low level (last seen during the 1973 recession). Expectations will start improving only when current uncertainty about the housing and financial markets starts to dissipate.

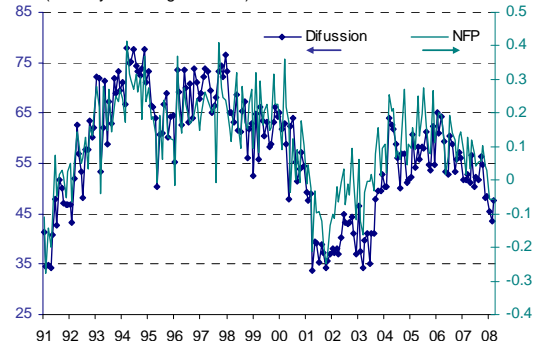
Fed funds rate forecast



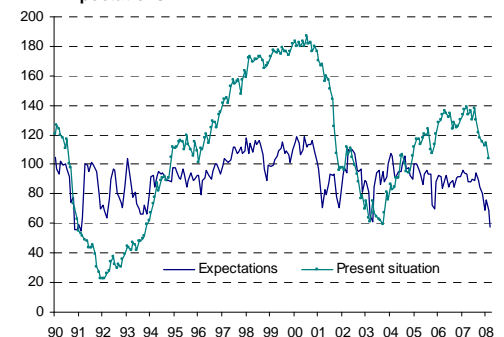
Business Inventories & ISM Inventories



Nonfarm Payroll & 1-month Diffusion Index



Consumer Confidence Indices: Current & Expectations



Economic Calendar

April/May

(Forecasts in bold, All times are EST)

Monday 21	Tuesday 22	Wednesday 23	Thursday 24	Friday 25
	10:00 Existing Home Sales (Mar) Feb 5.03M Mar 4.93M	7:00 MBA Purchase Applications (Apr 18) Apr 11 2.5% Apr 18 -14.2%	8:30 Initial Jobless Claims (Apr 19) Apr 12 375K Apr 19 342K 8:30 Durable Goods Orders (Mar) Feb -0.9% Mar -0.3% 8:30 Durable Goods Orders (Mar) Excl. Transportation Feb -2.1% Mar 1.5% 10:00 New Home Sales (Mar) Feb 575K Mar 526K	10:00 Consumer Sentiment (Apr) Preliminary 63.2 Final 62.6
28	FOMC Meeting Begins 10:00 Consumer Confidence Index (Apr) Mar 64.5 Apr 61.0	7:00 MBA Purchase Applications (Apr 25) 8:30 Employment Cost Index (1Q08) 4Q07 0.9% 1Q08 0.8% 9:45 NAPM-Chicago Index (Apr) Mar 48.2 Apr 48.0 9:45 GDP growth (1Q08) 4Q07 0.6% 1Q08 1.0% 14:15 FOMC Policy Announcement	8:30 Initial Jobless Claims (Apr 26) 8:30 Personal Income & Spending (Mar) Feb 0.5, 0.1% Mar 0.4, 0.2% 10:00 ISM Manufacturing Index (Apr) Mar 48.6 Apr 48.0 10:00 Construction Spending (Mar) Feb -0.3% Mar -0.5%	8:30 Nonfarm Payroll & U rate (Apr) Mar -80K 5.1% Apr -100K 5.2% 8:30 Average Hourly Earnings (Apr) Mar 0.3% Apr 0.3% 8:30 Average Weekly Hours (Apr) Mar 33.7 Apr 33.7
5	10:00 Nonmanufacturing ISM Index (Apr) Mar 49.6 Apr 49.0	7:00 MBA Purchase Applications (May 2) 8:30 Nonfarm Productivity (1Q08) 4Q07 1.9% 1Q08 2.0%	8:30 Initial Jobless Claims (May 3) 8:30 Wholesale Inventories (Mar) Feb 1.1% Mar 0.7%	8:30 International Trade (Mar) Feb -\$62.3B Mar -\$65.0B
12	8:30 Retail sales & Excl. Autos (Apr) Mar 0.2, 0.1% Apr 0.1, 0.1% 8:30 Import Price Index (Apr) Mar 2.8% Apr 1.5% 10:00 Business Inventories (Mar) Feb 0.6% Mar 0.6%	7:00 MBA Purchase Applications (May 9) 8:30 Headline CPI & Core (Apr) Mar 0.3, 0.2% Apr 0.3, 0.2%	8:30 Empire State Index (Apr) Mar 0.6 Apr -5.0 8:30 Initial Jobless Claims (May 10) 9:15 Industrial Production (Apr) Mar 0.3% Apr 0.1% 9:15 Capacity Utilization (Apr) Mar 80.5% Apr 80.6% 10:00 Philadelphia Fed (Apr) Mar -24.9 Apr -27.0 13:00 NAHB Housing Index (Apr) Mar 20 Apr 20	8:30 Housing Starts & Building Permits (Apr) Mar 947K, 927K Apr 935K, 966K 10:00 Consumer Sentiment (May)

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