

CORNERSTONE MACRO

Economics, Policy & Strategy

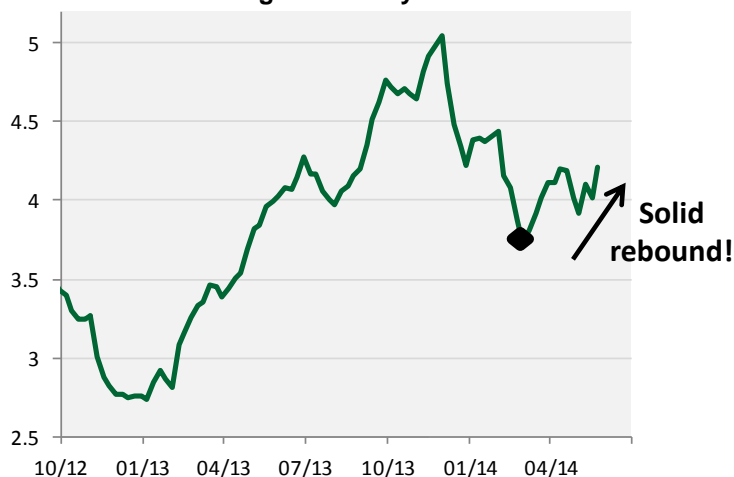
Economic Research

CSM's Economic Headlines:

- **CSM's Weekly U.S. Real Retail Sales Monitor Hooked Up.**
- **Inventories Could Lift 2Q Real GDP by Nearly 1.0 Pct. Pt.**

Important Economic Data Today:

CSM Weekly U.S. Real Retail Sales Monitor
13 Wk. Avg. Y/Y% May 24: 4.207%



- **CSM's Weekly U.S. Real Retail Sales Monitor Is in a Rising Trend**

Real Inventories	
Contribution to Ch. in Real GDP	
2010:4Q	2011:1Q
-1.6%	-1.1%
2011:1Q	2011:2Q
-1.1%	+0.7%
2011:3Q	2011:4Q
-1.6%	+2.7%
2012:2Q	2012:3Q
-0.9%	+0.6%
2012:4Q	2013:1Q
-2.0%	+0.9%
Average	
-1.4%	+0.8%

- **Based on recent precedents, real inventories are likely to rebound in 2Q.**

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CSM Economics Daily Update:

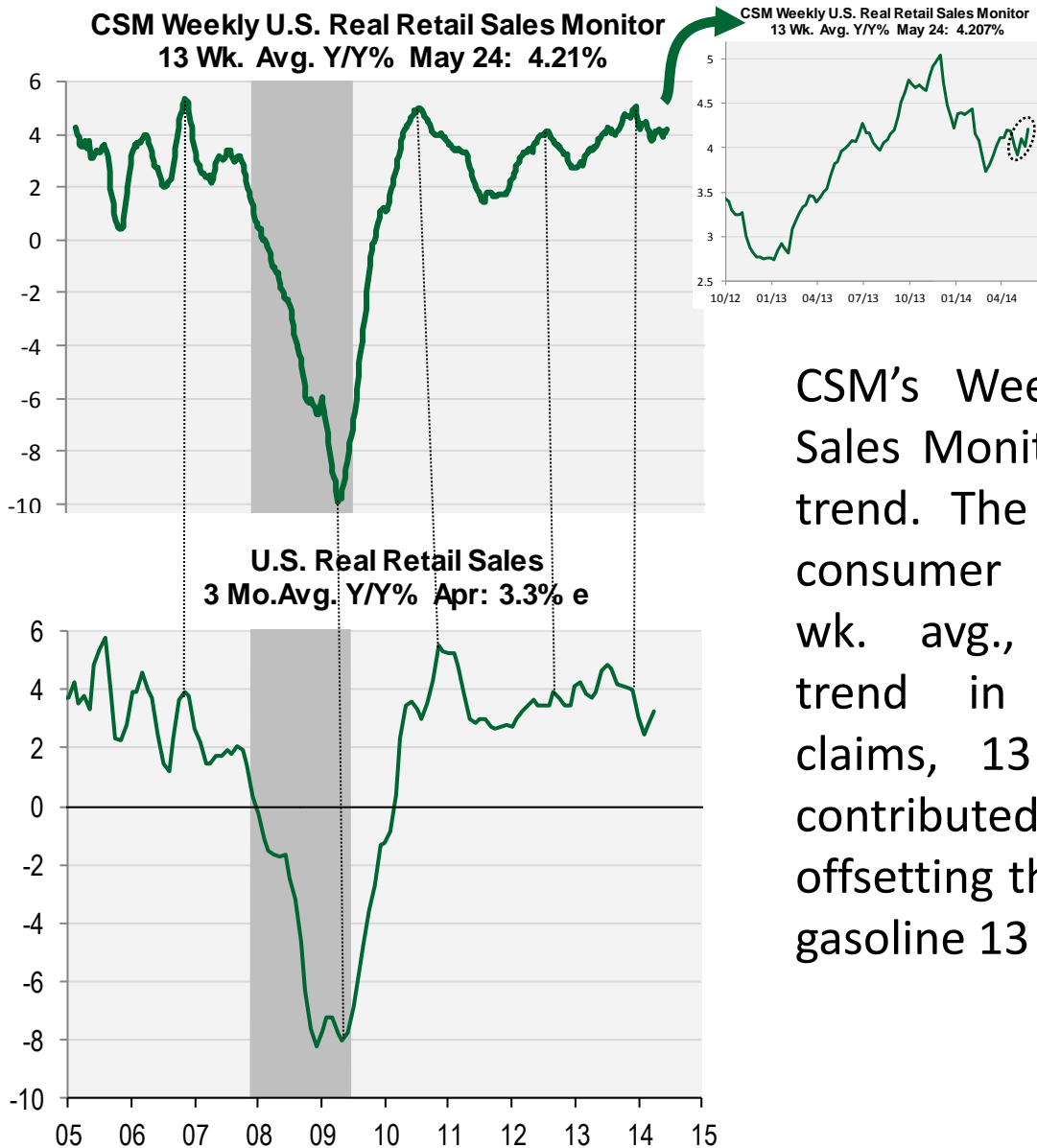
Here in the U.S.

- CSM's Weekly U.S. Real Retail Sales Monitor Hooked Up Last Week.
- Real Consumer Spending Was Disappointing in April, But Is Still on Track to Be Solid in 2Q.
- Real DPI Was OK in April, and Is Likely to Grow Roughly 2.5% Y/Y in 2014.
- Lumber Orders Have Rolled Over, Suggesting Housing Starts Are Fading.
- Inventories Could Lift 2Q Real GDP by Nearly 1.0 Pct. Pt.
- The Carolinas Have Been One Particular Beneficiary of the Manufacturing Renaissance.
- The Mfg Multiplier Matters: South Carolina.
- Despite the Explosion in the Fed's Balance Sheet, M2 Growth Is a Modest 6%.

International Topics

- China Is Pushing on a String: The Multiplier from Falling SHIBOR Is Declining.
- The Eurozone Recovery Remains Fragile, with Germany on Track to Slow in 2Q and Spain and Italy CPIs Stagnant.
- Is U.K. Consumer Confidence Leading U.S. Consumer Confidence?

CSM's Weekly U.S. Real Retail Sales Monitor Hooked Up Last Week.



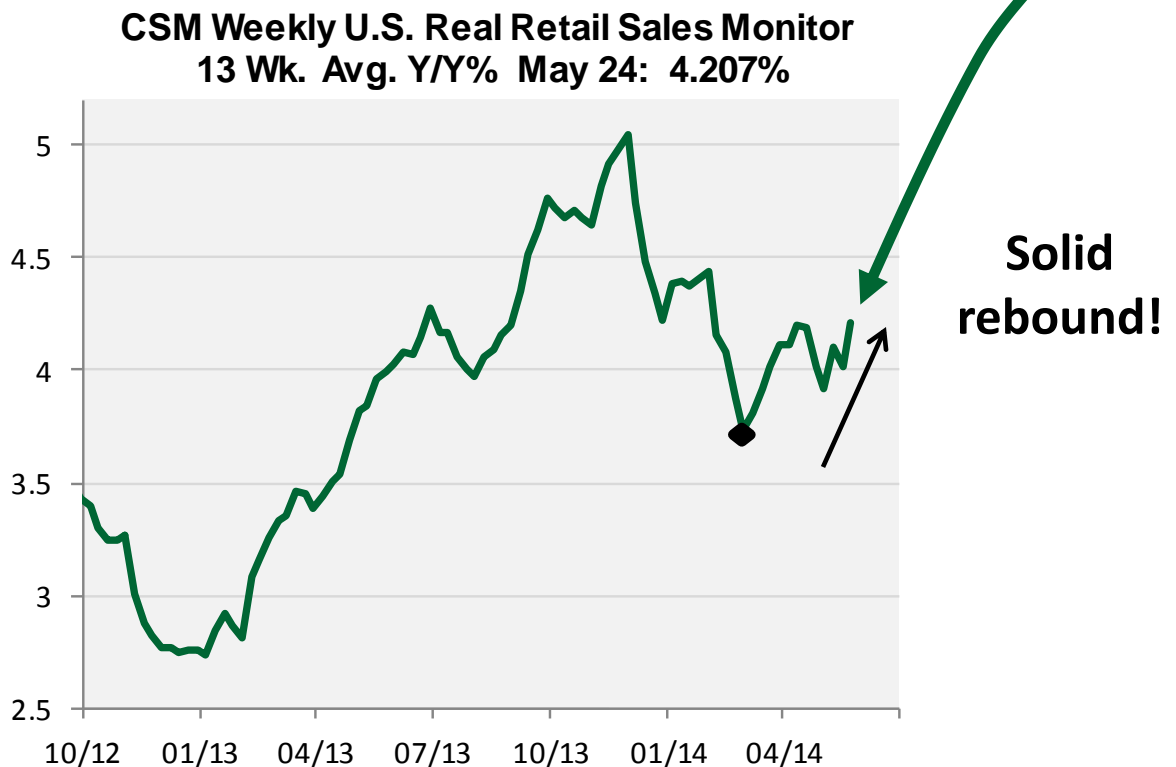
CSM's Weekly Real Retail Sales Monitor is in a rising trend. The strong level of consumer confidence, 13 wk. avg., and declining trend in unemployment claims, 13 wk. avg. y/y, contributed to the increase, offsetting the rising trend in gasoline 13 wk. avg. y/y.

CSM's Weekly U.S. Real Retail Sales Monitor 13 Wk. Avg. Y/Y%

Driver	T-Stat	Coefficient	May 24	Contribution
Constant	-1.3			-1.68
U.S. Retail Gasoline Price 13 Wk. Avg. Y/Y%	-3.2	-0.042	-0.3	0.01
Rasmussen Consumer Confidence 13 Wk. Avg.	3.3	0.044	102.2	4.53
U.S. Unemployment Claims 13 Wk. Avg. Y/Y%	-11.7	-0.157	-8.6	1.34
			Sum	4.21%
				R² = 88%

CSM's Weekly U.S. Real Retail Sales Monitor Hooked Up Last Week.

CSM's Weekly Real Retail Sales Monitor consists of just 3 weekly data points, which together have a 98% correlation with real retail sales. The rising trend in this monitor is evidence the economy is rebounding in 2Q.

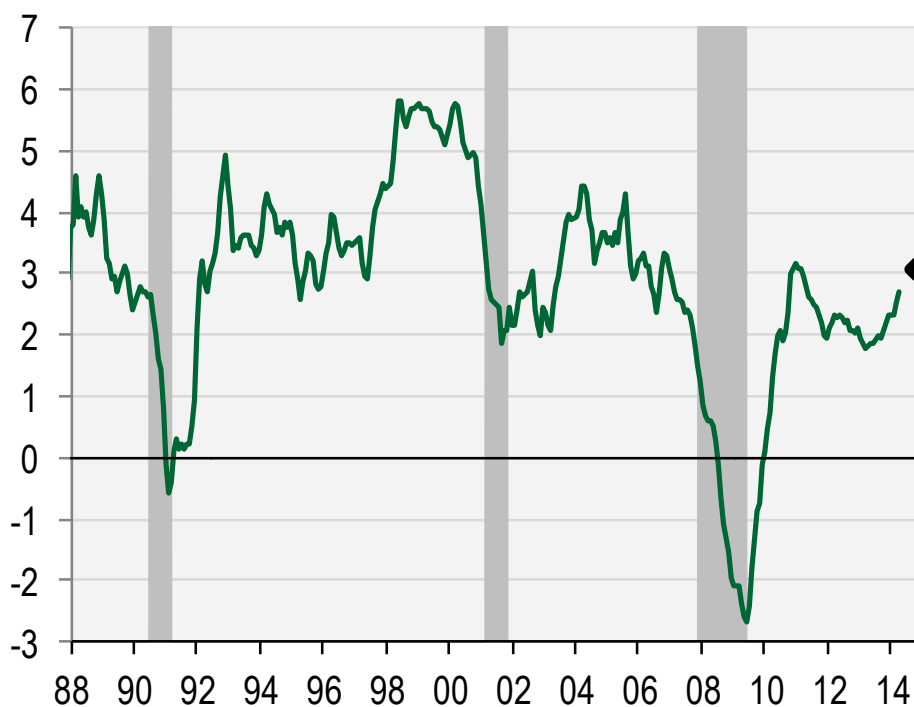


Real Consumer Spending Was Disappointing in April, But Is Still on Track to Be Solid in 2Q.

U.S. Real Consumer Spending	
M/M%	
Jan	0.0%
Feb	0.5%
Mar	0.8%
Apr	-0.3%

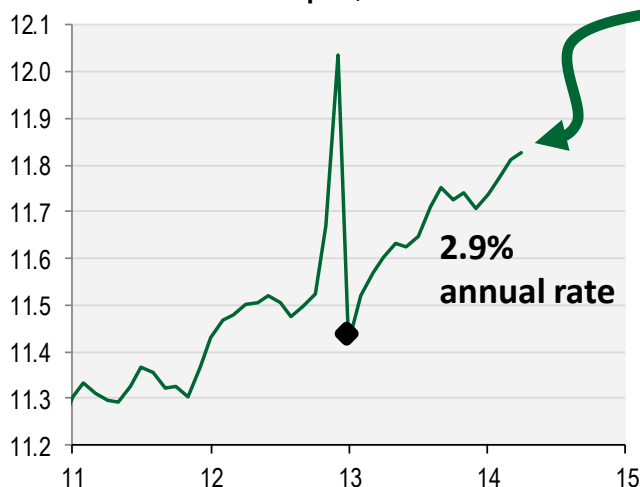
Real consumer spending declined 0.3% m/m in April, following strong monthly gains in February/March. The April decline reflected a 4.6% m/m decline in utilities (better weather), and a 2.8% m/m drop in new auto sales. If real consumer spending increases 0.3% in May & June, it will be up 3.0% q/q a.r. in 2Q. And if it increases 0.4% m/m in May & June, it will advance at a 3.5% q/q a.r. in 2Q. On a y/y basis, real consumer spending has accelerated to 2.7%. We expect it to reach 3.0% by the end of 2014.

U.S. Real Consumer Spending
3 Mo.Avg. Y/Y% Apr: 2.7%



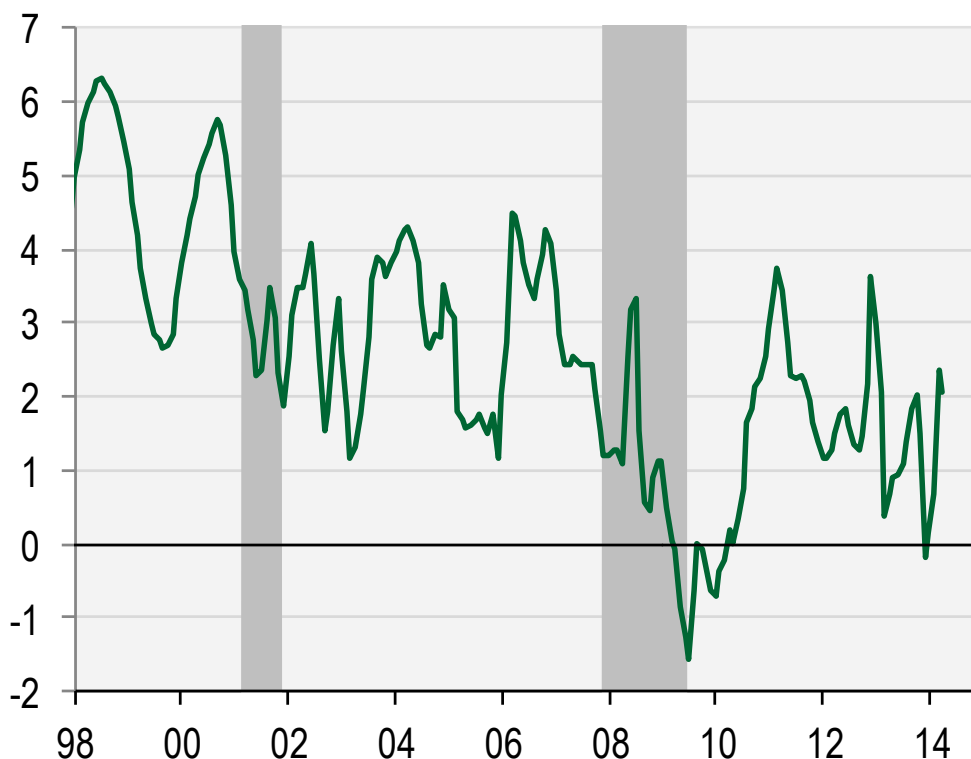
Real DPI Was OK in April, and Is Likely to Grow Roughly 2.5% Y/Y in 2014.

U.S. Real Disposable Personal Income
Apr: \$11.8

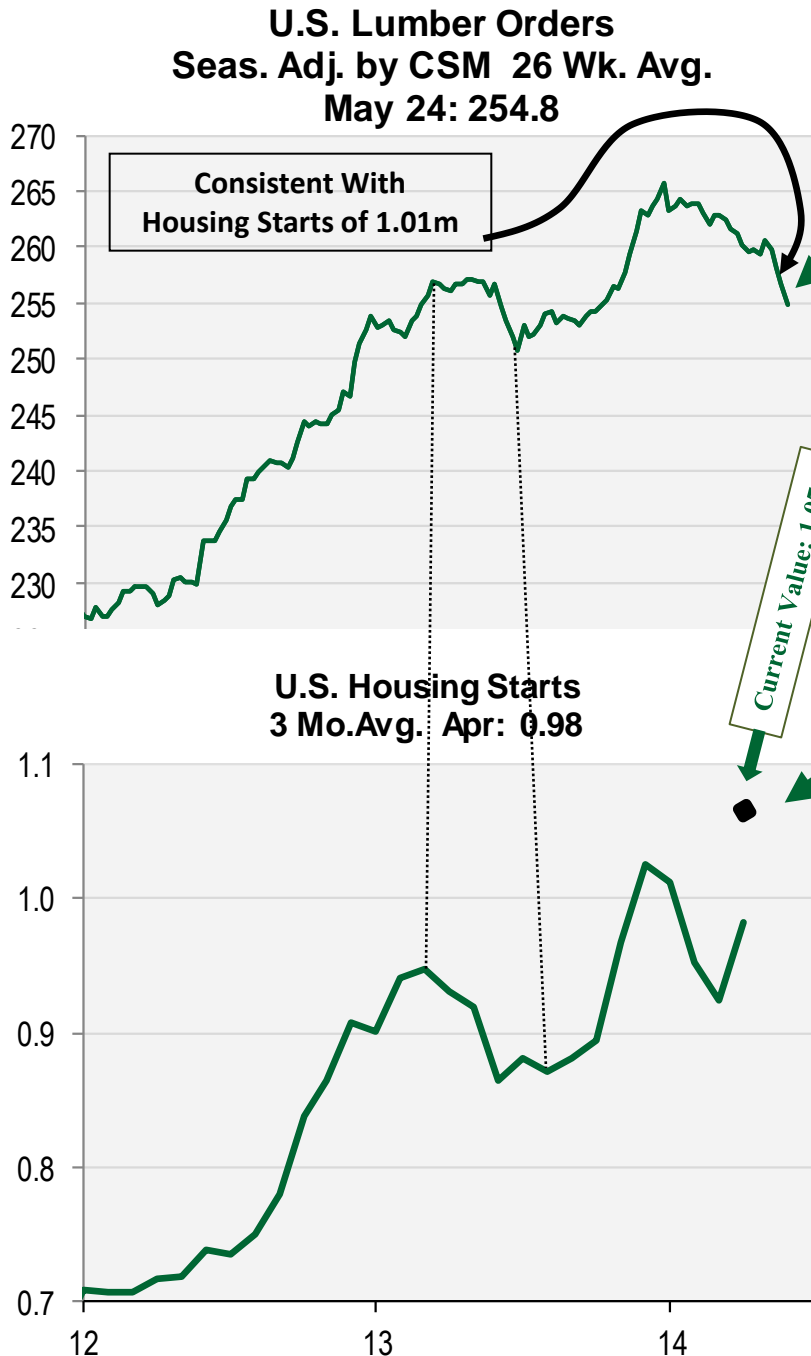


Real DPI increased 0.2% m/m in April, and is up 2.1% y/y (3 mo. avg.). The recent acceleration in real DPI in part reflects the “anniversarying” of the 2013 tax hikes. We expect real DPI to be roughly 2.5% y/y by the end of 2014, a support for consumer spending.

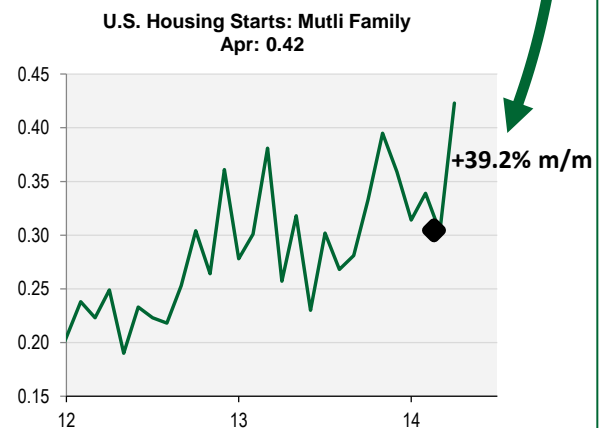
U.S. Real Disposable Personal Income
3 Mo.Avg. Y/Y% Apr: 2.1%



Lumber Orders Have Rolled Over, Suggesting Housing Starts Are Fading.

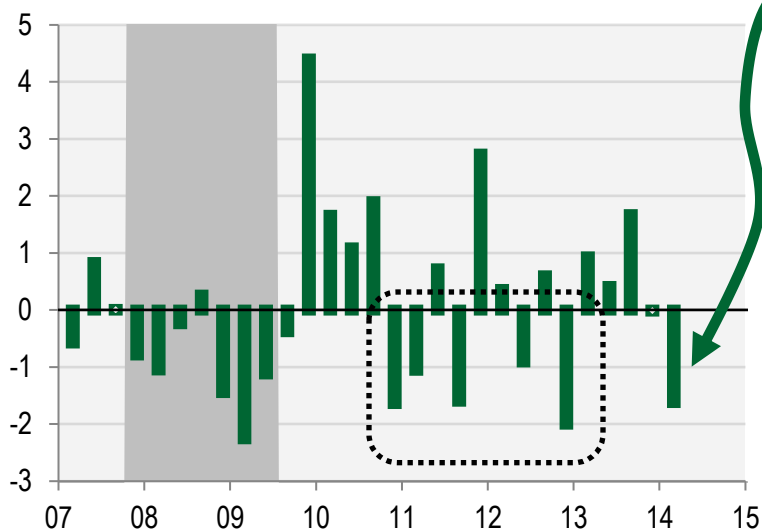


Lumber orders are rolling over, highlighting that the housing recovery remains slow-to-moderate, not moderate-to-fast. Housing starts in April rebounded from the severe winter, led by a pop in multi-family starts. However, lumber orders suggest the pace of starts moderates to roughly 1.02m from 1.07m in April. Since 1996, orders have had a 97% correlation with housing starts.



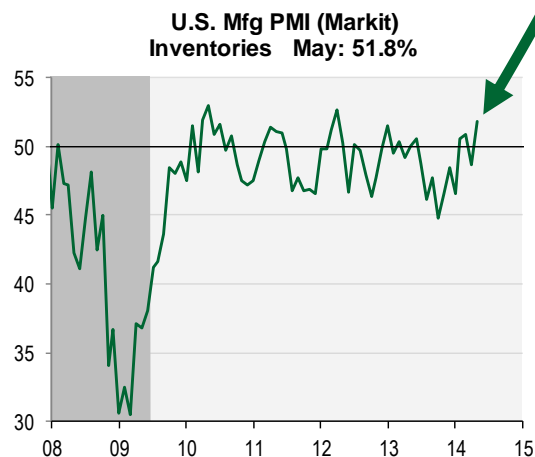
Inventories Could Lift 2Q Real GDP by Nearly 1.0 Pct. Pt.

Contribution to % Ch. in U.S. Real GDP
Change in Inventories
2014:1Q: -1.6%



Real inventories subtracted 1.6 pct. pt. from real GDP in 1Q. However, inventories are likely to be a lift to real GDP in 2Q. In the current recovery (prior to 1Q), inventories subtracted significantly from real GDP 5 times. In the subsequent quarter, they provided a positive contribution to GDP 4 out of those 5 times. The exception was 2011:1Q. The increase in the mfg PMI for inventories also suggests inventories will be a 2Q boost.

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The Carolinas Have Been One Particular Beneficiary of the Manufacturing Renaissance.

Factory-Job Rebound Produces Winners, Losers: New Jobs Often Cluster in Midwest, South

- U.S. factory-job gains - driven by a range of factors from cheaper domestic energy to the auto-industry recovery - have concentrated in pockets since the recession, particularly in the Southeast and Midwest.

WSJ, May 30

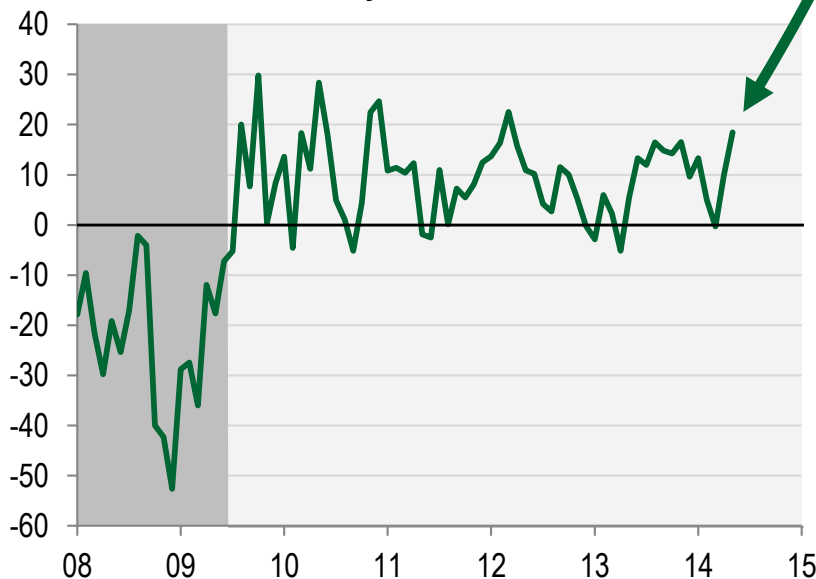
- Demand for civilian aircraft has created jobs in places such as Charleston County, S.C., where Boeing began 787 Dreamliner production in 2011.

WSJ, May 30

A *WSJ* article today highlights that the rebound in U.S. mfg jobs has been geographically uneven, with the Southeast and Midwest the biggest winners. Within the Southeast, the Carolinas have been a particular beneficiary. BMW opened a mfg plant in S.C. in 1992 (and is currently expanding it!), and now Boeing is producing 787s in Charleston. The Carolinas benefit from relatively low mfg wages and from being right to work states.

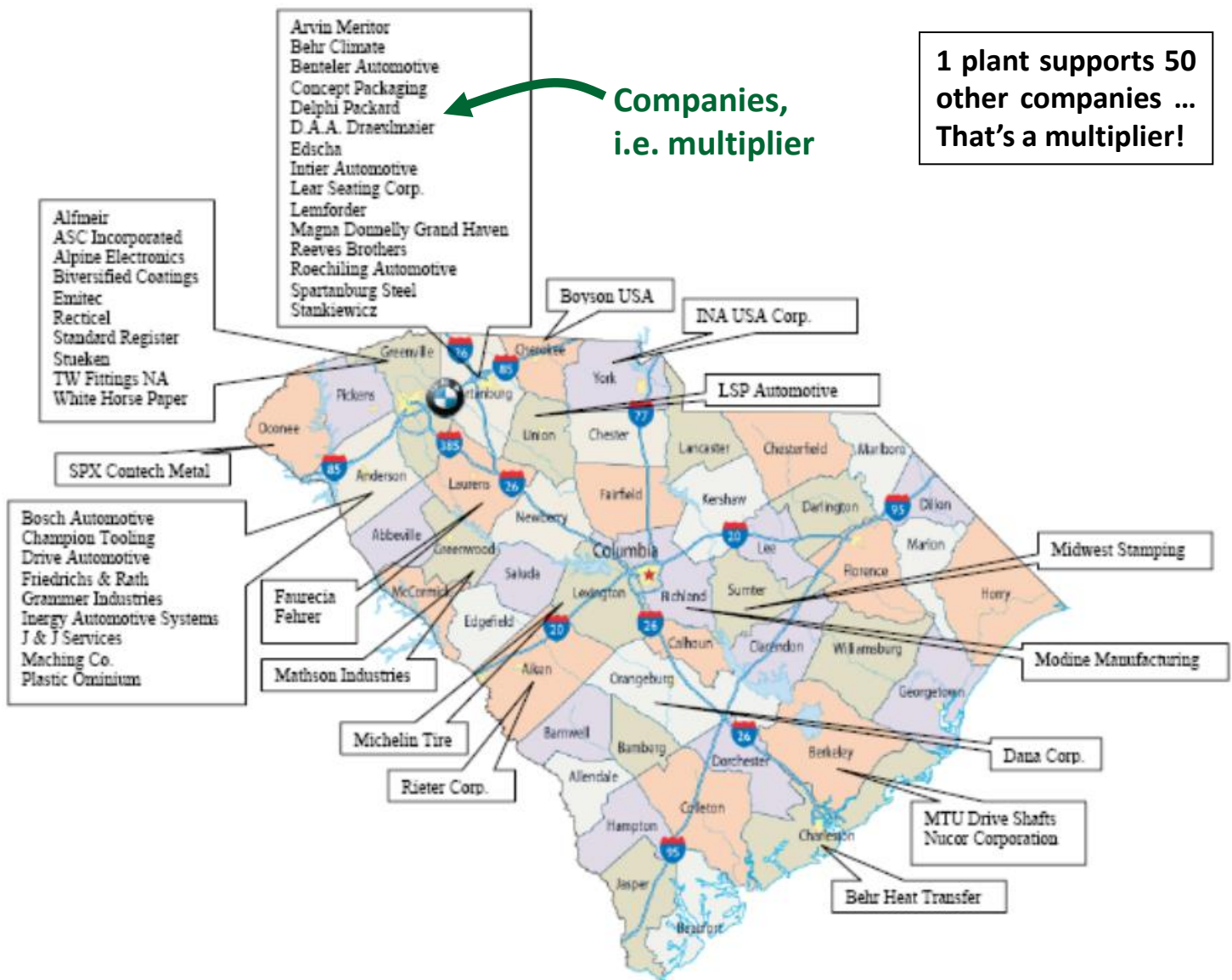
- BMW To Spend \$1B To Expand Output At South Carolina Factory By 50%
Forbes, Mar 28

Carolinas Survey of Business Activity
Seas. Adj. by CSM
May: 18.5%



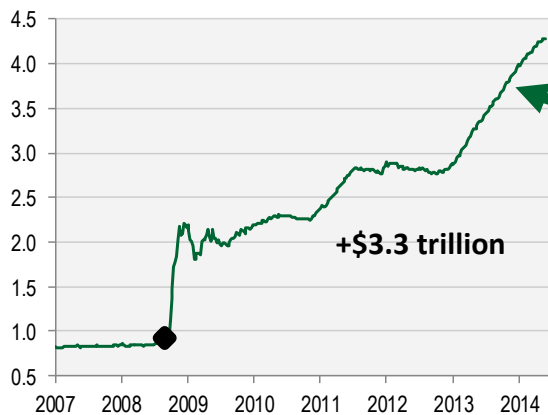
The Mfg Multiplier Matters: South Carolina.

In 1992, BMW announced that it would build a plant in South Carolina. And the firm has increasingly expanded its production facilities. As a result, suppliers, etc. have also built new facilities. This is a great example of the mfg multiplier. It has unfolded over 20 years, and the multiplier is on solid foundation and unlikely to be dismantled any time soon.



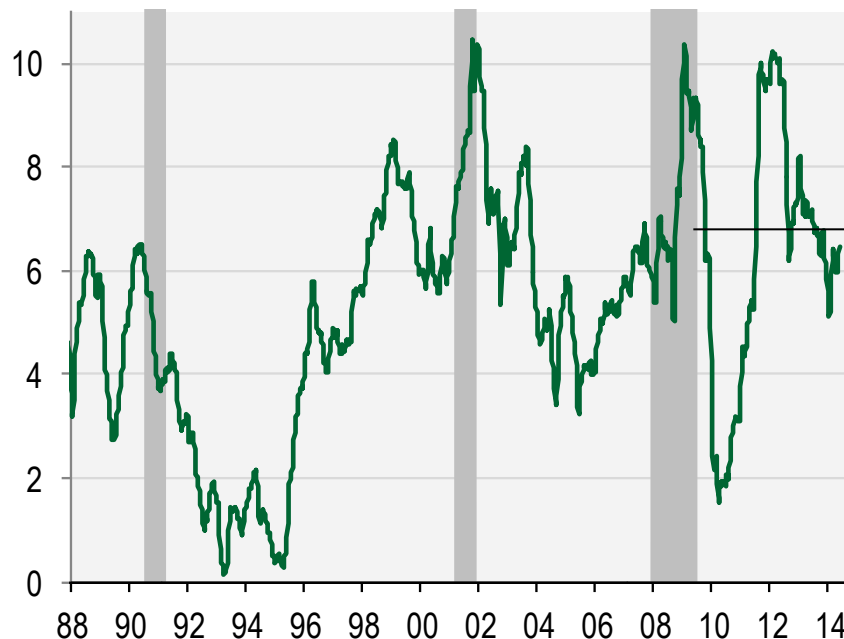
Despite the Explosion in the Fed's Balance Sheet, M2 Growth Is a Modest 6%.

Fed Balance Sheet
May 28: \$4.28 Trillion

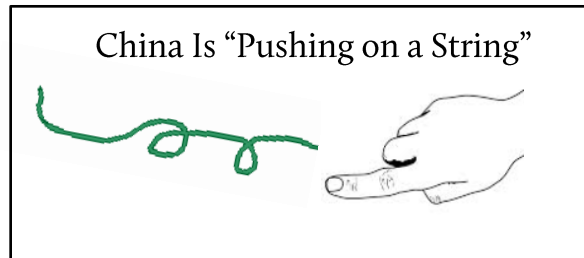


Although the Fed's balance sheet has increased 394%, or \$3.4 trillion, since 2008, M2 growth y/y has averaged 6.6% over that period, and is currently just 6.4%. That's not particularly inflationary, but it is fast enough to support growth. So now, the question is: when will velocity (GDP/M2) pick up? One answer is when debt growth accelerates. Stay tuned.

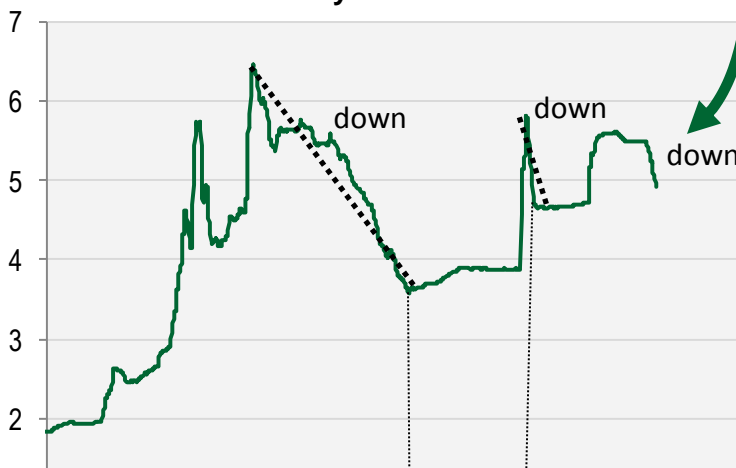
U.S. M2
4 Wk.Avg. Y/Y % May 19: 6.4%



China Is Pushing on a String: The Multiplier From Falling SHIBOR Is Declining.



China 3-Month SHIBOR
May 30: 4.93%



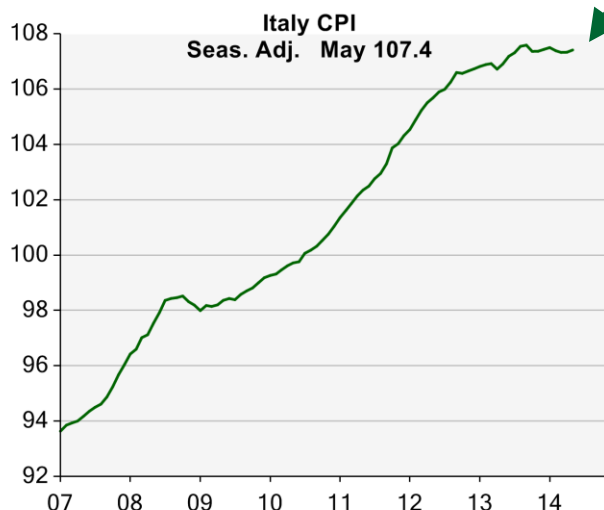
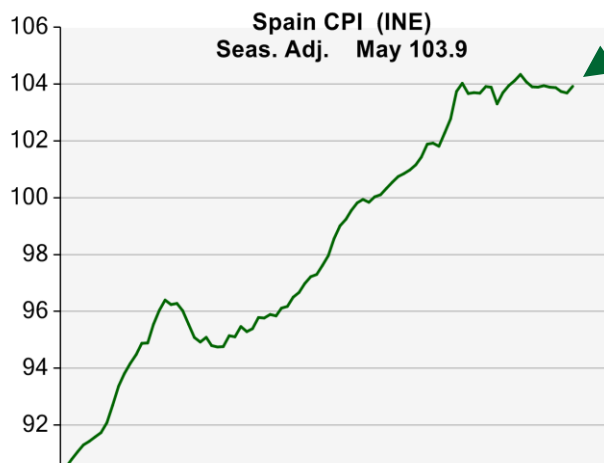
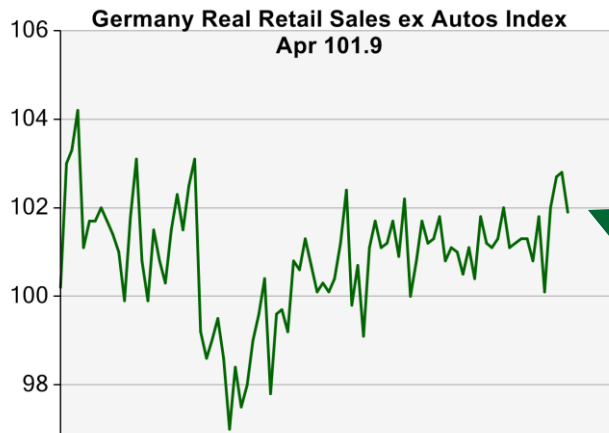
Iron Ore
May 30: \$91.8



The PBoC appears to have cut rates slightly, but the govt is tightening lending standards, which coincides with the decline in iron ore. This is a reminder that the effectiveness of lower rates alone, with investment 50% of GDP, will be limited... "Pushing on a String".

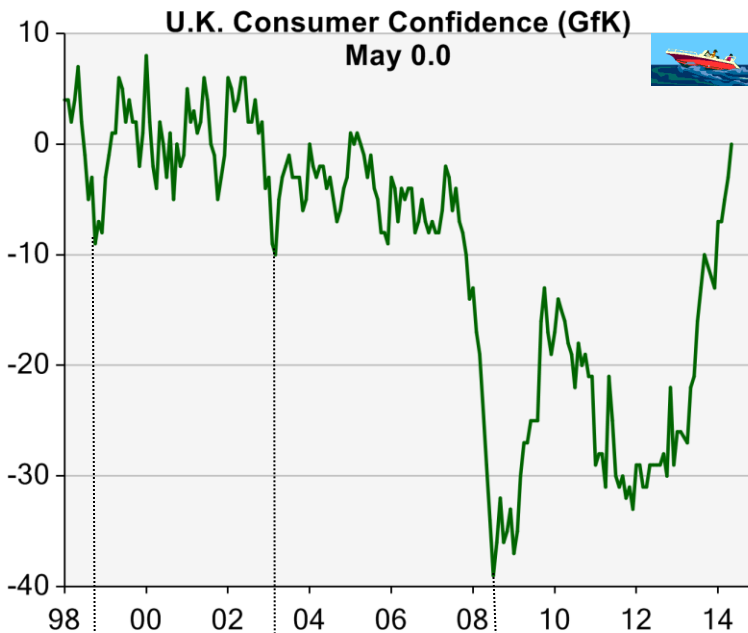
Super-Size Me! China's 'Mini' Stimulus Starts Expanding
 ➤ China's so-called mini-stimulus is beginning to morph into something larger.
Bloomberg, May 30

The Eurozone Recovery Remains Fragile, with Germany On Track to Slow in 2Q and Spain and Italy CPIs Stagnant.

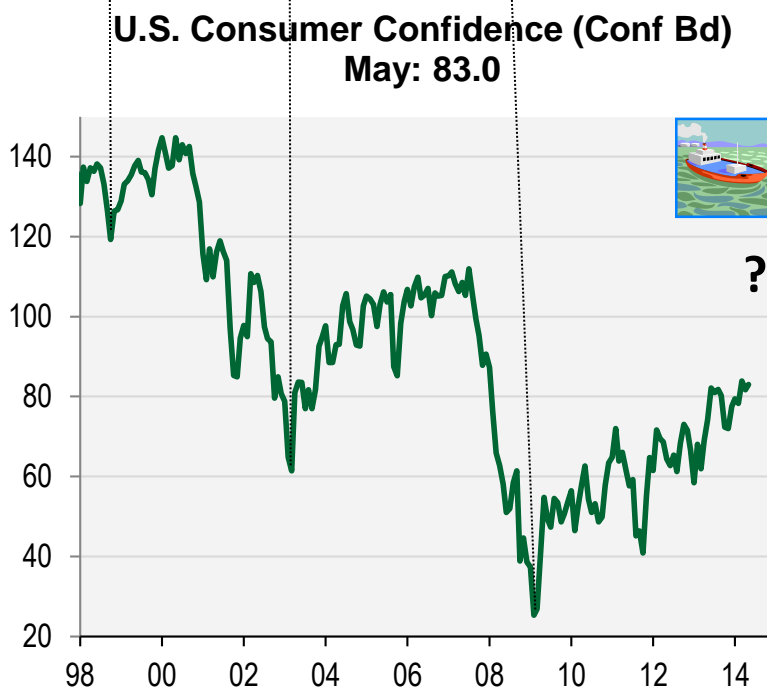


After a solid 1Q in Germany, with real GDP up at a 3.2% q/q annual rate, there's been a package of data pointing to a slowdown here in 2Q, e.g., mfg PMI and retail sales. In addition, CPIs have stagnated in both Spain and Italy. To be sure, restrained inflation is good for consumer spending, and this disinflation/deflationary backdrop keeps the door open for continued ECB easing. Roberto Perli expects the ECB to ease further next week.

Is U.K. Consumer Confidence Leading U.S. Consumer Confidence?



After being blasted in 2008 and 2011, over the past year U.K. consumer confidence has increased dramatically, back up to its “normal” historical range. Stronger employment, low inflation, higher house prices, continued low interest rates and higher stock prices have all been a work.



This may be a long shot, but historically it hasn't been unusual for the U.K. economy to lead the U.S. economy. The U.K. economy is obviously for smaller than the U.S. and can turn more quickly. An analogy is the U.K. is a speed boat whereas the U.S. is a super taker.