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The Market Economist

Weekly Guidebook for the Global Investor
United States

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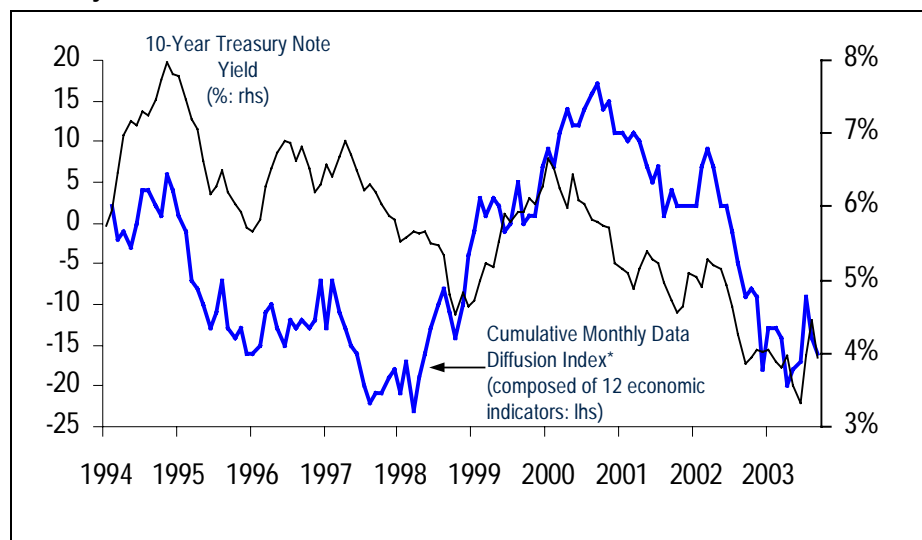
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*Upside economic data surprise minus downside data surprises
 Source: Haver Analytics, Merrill Lynch

Refer to important disclosures on page 19.
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View From the Desk

Autumn's Fall?

Roughly 85% of the economic data has come in below consensus expectations.

In the aftermath of this week's data flow, we now have roughly 85% of the economic data coming in below consensus expectations over the past month which is a huge swing from what we saw during the summer months when household cash flow was being underpinned by the transitory effects of the tax cut and lagged impact of the Spring mortgage refinancing boom. Fiscal stimulus and the bond-induced mortgage market relief, according to our estimates, will have been responsible for roughly three-quarters of the growth in the economy over the 2001-2004 period. Now with mortgage refinancings down 75% from the nearby peaks even with the downturn in market-determined interest rates of the past month, and no fresh tax relief until refund-time towards the tail-end of 2004Q1, it remains to be seen what underpinning there will be to the consumer heading into the final few months of the year — either we need an employment turnaround or a forecast that hinges on households drawing down what is already a historically low personal savings rate of 3.8%.

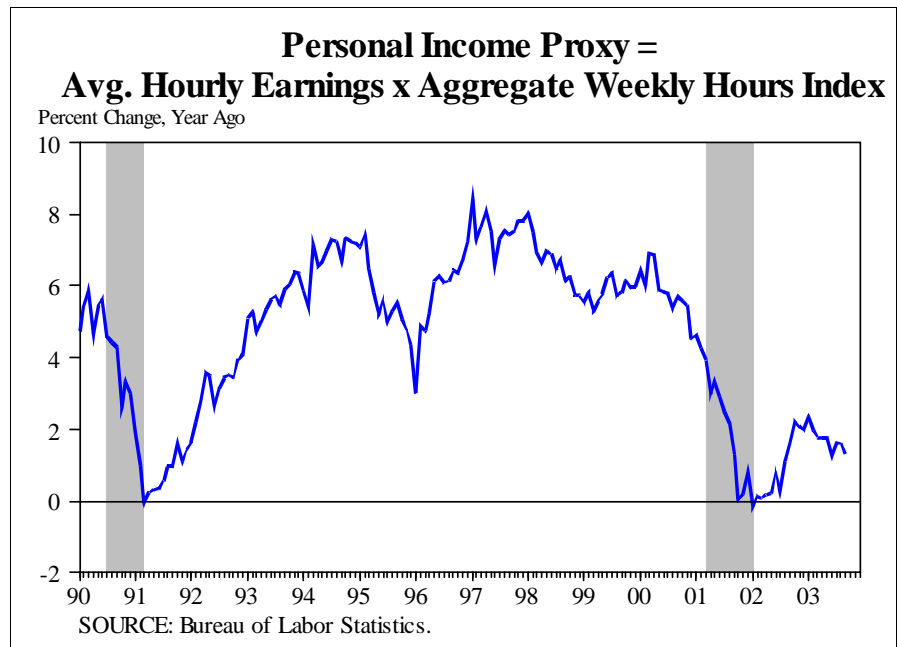
There is little anecdotal evidence that the job picture is about to become much brighter over the near-term.

We see little in the way of anecdotal evidence that the job picture is about to become much brighter over the near-term with the trend in jobless claims stubbornly stuck above 400k, help-wanted ads flirting near four-decade low levels, layoff announcements that are 9% higher than they were a year ago and households reporting that jobs are tougher to find now than at any other time since 1993. It's easy to blame China's FX regime, but the reality is that the depressed job market transcends the 1 million+ slide in factory payrolls since late 2001 — there has been no job growth in services during this 22-month recovery, which is unprecedented (a typical recovery sees service sector employment — which accounts for almost 85% of the total job pie — up over 5% by now). Further, the greatest risk to the outlook right now, especially if the economy sputters in the leadup to the '04 election, is the risk of protectionism — nothing will sow the seeds of a stagflationary environment better than that, and we don't like what we see (overt move to a soft \$ policy; trade retaliation threats against China; the breakdown of the Cancun talks; foreign visa restrictions).

Personal income is running at an anemic rate. Until that changes it is difficult to believe that the economy is set to embark on a sustained uptrend.

What we do know is that real personal disposable income (PDI) growth rose at about a 10% annual rate in Q3, which is the principal reason why spending was so strong last quarter. But that overall personal income gains were barely better than 1% — the PDI burst was Washington's massive tax cut (and one underwritten by the foreign bondholder). In Q4, what is likely to happen is that after-tax household earnings will converge on that single-digit growth rate in total income — a meager trend being pulled lower by 'bring-home-the-bacon' wage & salary income (60% of total personal income) which has actually fallen 0.1% in each of the past two months. Personal income is 85% of GDP, and outside of recurring bouts of tax relief, is running at an anemic rate. Until that changes — either through stepped-up compensation or an improved job picture — it is difficult for us to believe that the economy is set to embark on a sustained uptrend, with growth rates exceeding potential growth, which we believe to be at least 3.5%.

All of a sudden, Fed officials are talking more openly about the 'output gap' and the implications for further disinflation — at a time when the year-on-year trend in the core PCE deflator is running 80 basis points above the zero-line, when adjusted for its 0.5% upward bias as per FRB President Moskow delineation this week, leaves us with a view that the next move by the Fed could well be a rate cut. That is not in the market, but it may be starting to creep in.



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*...and consumer spending is
softening.*

In the meantime, we are seeing evidence that the consumer is heading onto a softer track in the post-back-to-school season. Curiously, this took place just as the consensus took up Q4 GDP to a 4% annual rate forecast. This, after what looks still to be an optimistic 5%+ estimate for Q3, given what we are seeing on the inventory withdrawal and trade deterioration front. ISM imports hit an all-time high in September and the export index faltered. Motor vehicle sales topped the consensus at 16.7 million SAAR units in September, again, based on massive incentives, but that still reflects a 13% haircut from the August blowout. Chain store sales appear to have slowed markedly this month and are running below plan. Consumer confidence is faltering even in the face of a rising stock market, a 1% funds rate and a fiscal deficit soon to head to \$600 billion or higher (and yet the just-released NYT/ABC News poll showed that half the respondents do not believe the tax relief is working).

The Conference Board's confidence index surprised to the downside in September as its University of Michigan counterpart did (down to 76.8 from 81.7, the lowest since March). What really caught our eye, though, was the slide in the 'here and now' current conditions index – down for five months in a row and at its lowest level now since November 1993. It has never been so weak this far into recovery, and attests to the severity of the job market weakness – another item that Fed officials have been discussing even as they retain their overall bullish view on the economic outlook. But if the 'buying intentions' figures are any indication – and we acknowledge that they are far from foolproof – then we are likely to see a much different consumer in coming months "intentions to buy a new car" down to 2% from 2.7% in September and at the lowest level since late-1974 while "intentions to buy a home" fell to 2.9% from 4.1%, the lowest in three years. We think that consumers, like businesses, will become increasingly focused on balance sheet repair and rebuilding savings, which by the way is part and parcel of the adjustment process towards bringing the current-account deficit down to more manageable levels (dollar depreciation on its own is no 'quick fix' to the balance of payments conundrum). In this light, perhaps the best thing the holiday shopping season may have going for it is the easy year-ago comps, since ex-auto retail sales fell 0.2% last December (just the 2nd decline in the past 10 years).

Many pundits are of the view that the profit recovery will be the tide that lifts the employment boat. But at the root of the earnings bounceback, in a tough pricing-power environment, has been relentless cutting of unit labor costs (did anyone hear what the ISM's Norbert Ore said on this matter?). And yes, part of the cash

The catch-22, of course, is that all this new technology is giving companies what they need to meet demand with a smaller workforce

flow pickup is being put back into the economy, largely in a very selective IT replacement cycle, but there are other factors competing for the liquidity growth such as pension shore-ups, debt retirement, dividend payouts and stock buybacks (note as well that durable goods orders fell a much larger-than-expected 1.1% in August which does not augur well for another quarter of strong business spending in Q4). The catch-22, of course, is that all this new technology is giving companies what they need to meet demand with a smaller workforce – rising productivity growth and expanding margins. Businesses either have to become convinced that the economy is going to embark on a phase of sustained and strong demand, or productivity will have to falter if employment – and hence labor income – is to stage a comeback over the near-term. In the interim, B2B over B2C themes would seem to make sense; a focus on what does well in dollar-down environments (gold, basic industry, consumer staples); and the risks of deflation will continue to trump inflation despite what the SOXX, CRB and Baltic Freight indexes are doing (probably more a reflection of what's going on in Asia than in America) which means that Rich Bernstein's income-oriented asset mix continues to make sense for long-term investors.

Was September's employment really bullish?

Now, what about September's seemingly bullish employment data? At first blush, September's job tally certainly offered up a psychological surprise to the upside given how sensitized we all were to seeing minus-signs next to the employment reports – terminating seven consecutive months of decline. But believe it or not, today's report actually came in below expectations (the bond market has yet to figure it out). Look at it this way - the consensus was looking for +0.1% on hours worked and +0.2% on earnings which would have yielded +0.3% on personal (wage & salary) income, which represents roughly half of GDP. What did we see instead? Notwithstanding the headline jobs number, hours worked stagnated and average hourly earnings fell 0.1%. In other words, work-related personal income fell 0.1% in September, which came in 0.4% below expectations (i.e. but the 'delta' represents roughly a 5.0% annual rate). Now how is that for bear market math?

Work-related personal income fell 0.1% in September, which came in 0.4% below expectations.

It is also interesting to see how practically everyone ignored the -52,000 print in the Household Survey – all of a sudden, nobody is questioning the validity of the Establishment survey. While there is no doubt the 57,000 increase was well above consensus expectations of a 20,000 decline and our own forecast of down-60,000. None of the anecdotal evidence was pointing in this direction (note as well that private sector employment was up 72,000, the best tally since January). The revision to August was also huge - now being reported at -41k instead of -93k. Bottom line is that the jobs market may be far from robust, but (i) it was not nearly as weak as it appeared on the surface through the summer and (ii) many 'leading indicators' within today's report suggests that we may have bottomed out on the employment decline front. Temp employment surged 33,000 and there were upward revisions to the back months — five straight monthly gains totaling 146,000 – and aggregate hours-worked looks to be stabilizing (and actually rose 0.2% in manufacturing for the first monthly increase since March 2002 and overtime hours rose as well). The fact that temp hirings have been so firm may reflect business cost-decisions to opt for part-time help rather than make the commitment to add staff permanently to payrolls (and incur the added expense of pensions and health care).

Still, this was not a strong report in and of itself and we shouldn't let the shock factor of a '+' sign confuse matters. Consider what we found beneath the surface:

- Even with last month's increase, nonfarm payrolls are still down 222,000 since April.
- The diffusion index, while improving to 47.1 from 39.6, still suggests that in terms of 'breadth', more employers are cutting than adding to staff loads. Over 70% of manufacturers were still cutting payrolls last month too despite the smaller-than-expected decline.

- Average hourly earnings fell 0.1% in the first decline since May 1989 and just for the second time in 17 years, so income growth remains sluggish. On a year-to-year basis, it slowed to 2.7% from 2.9% in August and 3.1% in July - only two other months in the past seven years has the annual pace been this soft.
- While the unemployment rate surprised by staying at 6.1% as opposed to rising a notch as was expected, other indicators pointed to accelerating slack like (i) the employment-to-population ratio which edged down to a 10-year low of 62.0% from 62.1% and (ii) the labor force participation rate fell to 66.1% from 66.2%, the lowest level in 12 years.
- The average duration of unemployment bounced back to 19.7 weeks from 19 weeks (highest since June) and the median rose to 10.1 weeks from 9.6.
- The pool of labor unemployed for 27 weeks shot up 8.6% month-on-month to 2.102 million (to 23.2% of the unemployed from a 21.8% share).
- Those who were working part-time last month because of “economic reasons” (like “slack work or business conditions”) soared 11.8% last month.
- The fact that aggregate hours worked managed to stabilize is less impressive than meets the eye considering that this was basically only due to a 2.5% spike in transportation equipment, likely owing to a brief increase in auto production, making up for production lost due to the August blackout. Ex-transportation equipment, hours worked fell 0.1% last month.
- In the Household Survey, we found that employment in the key ‘spending’ cohort of 25-54 years fell 107,000 in September after dropping 28,000 in August.

While bonds sell off on this report, ironically what we see is that over 40,000, or three-quarters of the runup in employment last month, can be traced back to the decline we saw in market interest rates and the beneficial impact this exerted on credit-sensitive sectors (one of the reasons why we think interest rates have to stay low). Adjust for that as well as the temp hirings, and the headline would have lined up in the red again.

All in all, this report offers evidence of some stabilization on the labor market front but it is way too premature to conclude from the details that we have fully turned the corner – the decline in wages and hours-worked outside of the automotive sector were soft spots. The combination of hours worked and earnings suggests that wage & salary income fell 0.1% in September (i.e. more than half of national income was down 0.1% last month – is that bullish?). Note as well that the preliminary estimate of the benchmark revision for the 12 months ending March ‘03 showed a downward revision to payrolls of 145,000 as opposed to the widely anticipated increase and did nothing to reconcile the nonfarm and household surveys.

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The employment report offers evidence of some stabilization but it is way too premature to conclude that we have fully turned the corner.

Hot Topic

Don't Dread the Drooping Dollar

What does a weaker dollar mean for the U.S. economy? Very little, on balance. Unless the gradual decline that we foresee turns into a rout, a weaker greenback probably will have a fairly small influence on U.S. growth and inflation. Corporate earnings ought to benefit from a smooth depreciation, and the current account should eventually narrow to a more sustainable level.

The trade-weighted dollar has been declining since the early part of 2002. Our foreign exchange analysts think that the decline will continue, taking the dollar about 10% lower between now and the end of 2004. They have had that forecast for some time, but they recently changed the pattern they expect the dollar to follow; they now think that more weakness will occur sooner rather later (see Table 1).

The impact of an additional 10% depreciation of the dollar should be small.

Table 1: Old and New Currency Forecasts

	Trade Weighted Dollar Major Currency Index (1973 = 100)			
	New Forecast	Percent Change Q/Q	Old Forecast	Percent Change Q/Q
3/31/02	107.58		107.58	
6/30/02	101.19	-5.9%	101.19	-5.9%
9/30/02	100.43	-0.8%	100.43	-0.8%
12/31/02	98.62	-1.8%	98.62	-1.8%
3/31/03	94.28	-4.4%	94.28	-4.4%
6/30/03	89.53	-5.0%	89.53	-5.0%
9/30/03	87.47	-2.3%	87.47	-2.3%
12/31/03 E	85.86	-1.8%	88.29	0.9%
3/31/04 E	83.07	-3.3%	86.41	-2.1%
6/30/04 E	81.43	-2.0%	82.86	-4.1%
9/30/04 E	79.12	-2.8%	80.00	-3.4%
12/31/04 E	78.78	-0.4%	78.78	-1.5%

Source: Federal Reserve Board, Merrill Lynch. E = Estimate.

Corporate America stands to benefit most from a weaker dollar. About 25% of S&P 500 profits come from operations abroad, and another 10% comes from exports (which have fairly long lead times). We estimate that currency translations alone will add \$1.30 to our estimates of S&P 500 operating EPS this year and next. That's one of the reasons why we raised our 2003 forecast to \$52.50 (14% growth) last month. Our 2004 forecast is a record \$58.00 (growth of 10.5%).

Corporate America benefits most, with a weaker dollar adding \$1.30 to S&P Operating EPS this year and next.

Looking at GDP, a decline in the dollar is likely to have a limited effect on growth. A weaker dollar does help the manufacturing sector by boosting foreign demand for U.S. exports and lowering U.S. demand for imports. However, in a services-driven economy, the factory sector simply isn't a big enough tail to wag the rest of the dog. As Table 2 on the following page indicates, manufacturing output growth typically rose by an average of eight-tenths of a percentage point and capacity utilization increased by 1.7 percentage points during past weak-dollar periods. But the manufacturing sector accounts for only 14% of GDP (down from 29% 50 years ago) and 11% of employment (vs. 32%).

Table 2: Periods of U.S. Dollar Declines and How the Economy Fared

		TWD (% change)	Core PPI (y/y %)	Nonpetroleum Import Prices (y/y %)	Core CPI (y/y %)	Mfg CapU (%)	IP - Mfg (y/y %)	Current Account (% GDP)	Operating Profits* (y/y %)	Real GDP (y/y %)
Peak	Mar-77		5.6	8.9	6.2	81.5	8.2	-0.6	7.1	3.4
Trough	Oct-78	-14.9	7.6	10.2	8.4	85.3	6.3	-0.1	26.4	6.6
1 Yr After Trough	Oct-79	5.0	9.5	12.4	10.1	83.1	0.7	0.0	5.9	1.4
Peak	Mar-85		2.3	-4.4	4.8	78.5	2.6	-2.3	2.5	4.2
Trough	Apr-88	-38.8	2.7	8.2	4.3	83.9	6.9	-2.3	55.5	4.5
1 Yr After Trough	Apr-89	5.1	4.2	1.4	4.5	84.1	1.7	-1.9	7.9	3.6
Peak	Jun-89		4.8	1.4	4.6	83.2	1.1	-1.9	7.9	3.6
Trough	Nov-90	-14.1	3.6	2.7	5.3	79.8	0.3	-1.0	-14.2	0.5
1 Yr After Trough	Nov-91	3.3	3.2	0.4	4.5	78.5	0.6	-0.3	-7.6	0.9
Peak	Feb-94		0.3	1.8	2.8	80.8	3.8	-1.4	14.7	3.4
Trough	Jun-95	-11.4	1.9	4.9	3.0	82.8	5.6	-1.7	22.6	2.4
1 Yr After Trough	Jun-96	8.9	1.7	-1.3	2.7	81.7	5.4	-1.5	8.5	4.0
Average Change:										
Peak to Trough		-19.8	0.7	4.6	0.7	2.0	0.8	0.3	14.5	-0.2
1 Year After Trough		5.5	0.7	-3.3	0.2	-1.1	-2.7	0.3	-18.9	-1.0
Current Peak	Feb-02		0.7	-5.1	2.6	73.0	-4.0	-4.1	1.1	1.4
Most recent		-17.4	0.5	0.8	1.3	72.1	-1.6	-5.1	11.9	2.5

Source: Bureau of Economic Analysis, Bureau of Labor Statistics, Federal Reserve Board, Standard & Poor's

Our econometric analysis indicates that a 10% drop in the dollar lifts real GDP by a mere 0.2% after one year.

Our econometric analysis indicates that a 10% decline in the dollar lifts real GDP by a only two-tenths of a percentage point after one year, an increase that is not statistically different from zero (see Table 3). The carry-over effect into the subsequent year is only one-tenth of a point. That means that the dollar would have to keep on going down year-in and year-out to exert a meaningful, long-lasting influence on overall economic activity. Our GDP forecast already includes the dollar decline that our foreign exchange team foresees, but the new quarterly pattern suggests that dollar weakness could boost growth by a very small amount (one-tenth of a point, at best) in the middle of 2004.

Table 3: Impact of a 10% Decline in the Trade Weighted Dollar

	1-Year	Maximum Impact (Quarters to Max Impact)
Import Prices (y/y %)	5.1	5.1 (4)
Core PPI (y/y %)	0.7*	1.0* (7)
Core CPI (y/y %)	0.3**	0.8** (10)
Current Account (% of GDP)	0.3	1.0 (12)
Real GDP (%)	0.2**	0.3** (7)
Impact of a 1% Relative Increase in Non-US Growth		
Current Account (% of GDP)	0.3	0.4 (8)

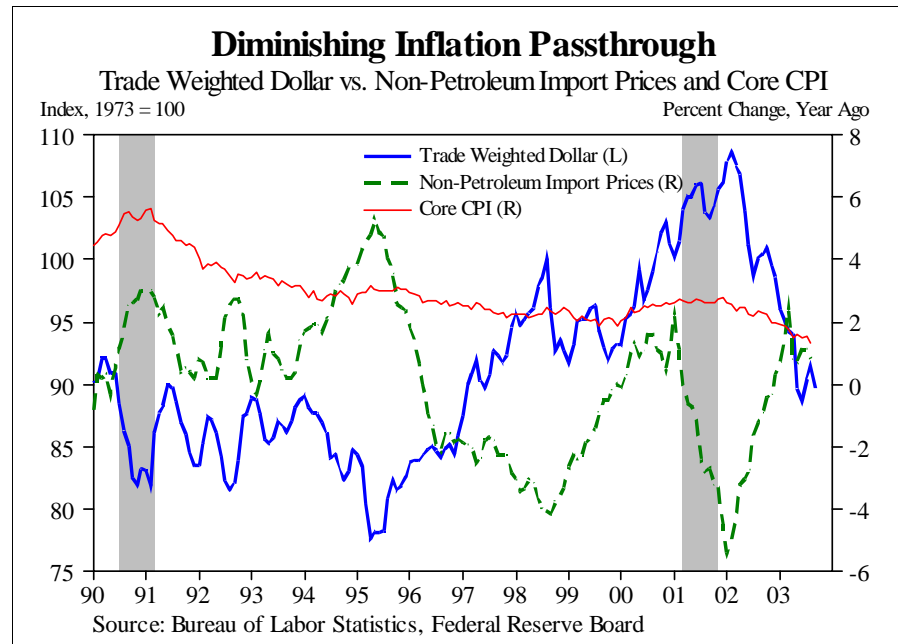
Source: Merrill Lynch. * Marginally Statistically Significant. ** Not Statistically Significant.

On the inflation front, the effects of a weaker dollar depend on what price measure you're looking at. The largest effect tends to be on import prices. Based on where we see the dollar going, the current 1% year-to-year trend in core import prices is likely to accelerate to 4-to-5% by the end of next year. That would be good news for U.S. producers who compete with imports.

Although import prices are likely to move higher, our research indicates that the pass-through from the dollar to finished goods prices is quite small (see Table 3 on the previous page). For the core PPI, the dollar weakness we expect would, on its own, push the year-to-year trend up by eight-tenths of a point to 1.3% at the end of 2004. That would help to ease deflation pressures in the manufacturing sector, but it would put the trend right back where it was late in 2001, when the economy was in recession.

Import prices will rise, but the passthrough to finished goods prices is limited.

For consumer prices, we find that there is no statistically significant relationship between movements in the value of the dollar and the core CPI (see chart below). That’s because companies are reluctant to raise prices (importers generally would rather let their margins be squeezed than lose market share). Another reason has to do with the fact that services account for most of the core CPI. Prices for services depend on labor costs. Consequently, it shouldn’t be surprising that core CPI inflation has declined significantly since the dollar peaked early in 2002 – from 2.6% then to 1.3% now. The message is clear: the further you move along the production chain toward the consumer, the more a weaker dollar acts as a margin crimp rather than a source of pricing power.



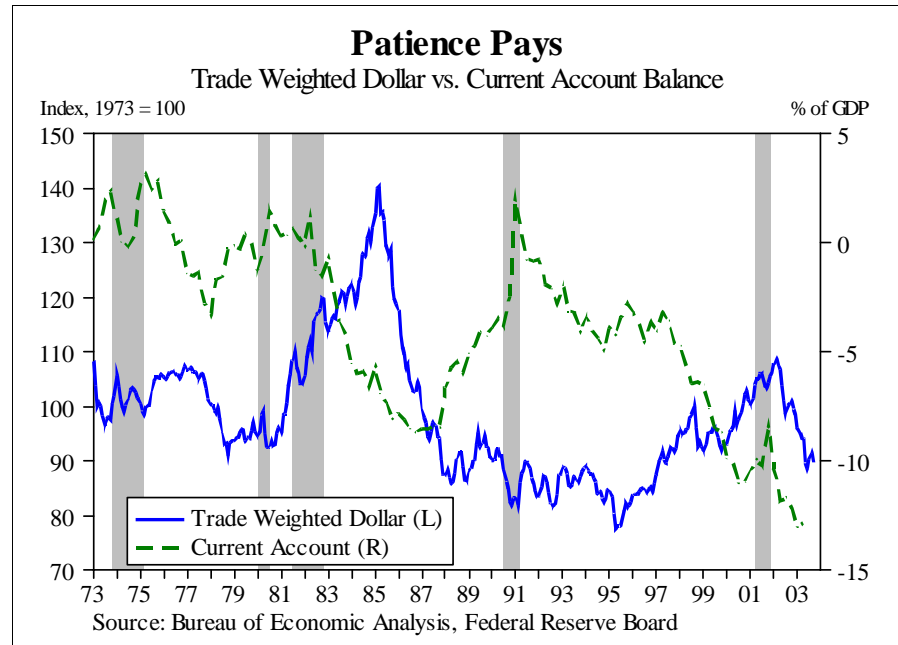
Because roughly one-quarter of S&P sales come from foreign affiliates, a decline in the dollar tends to immediately flow to the bottom line. In fact, the currency translation effect appears to be greater than the boost to competitiveness that a weaker dollar gives to exports (which represent about 10% of business sales). In virtually every period we examined, corporate earnings growth picked up during periods of dollar declines. The jump was substantial – 14.5 percentage points, on average (see Table 2 on page 7).

Since roughly a quarter of S&P sales come from foreign affiliates, a depreciation in the dollar tends to immediately flow through to a company’s bottom line.

The disparity between the sizable boost that a weaker dollar gives to earnings and the small effect that it has on GDP is an indication of the influence that currency changes have on margins. The U.S. may be a relatively “closed economy,” but U.S. companies – particularly larger companies and those in commodity-related sectors – aren’t isolated: fully one-third of aggregate corporate profits comes from offshore activity. That helps to explain why credit spreads generally tighten modestly, on average, when the dollar weakens. It also is a reason why large-capitalization stocks tend to significantly outperform small-cap stocks during dollar corrections (big companies often have much-greater foreign exposure than smaller ones).

Ultimately, the current account deficit will start to narrow, but the J-curve has a very long base in the U.S.

All of these forces ultimately will help to close the current-account deficit, but the process will be a long one. In the past, the current account continued to rise for some time as the dollar declined (see chart below). That's because most of the effects of a currency depreciation aren't felt until 18-to-24 months after the currency starts to fall (the infamous J-curve has a very long base in the U.S.). Given the depreciation that already has occurred since the beginning of 2002 and the amount we expect in the quarters ahead, the current-account deficit eventually should narrow by 2.7 percentage points.



The expected pick up in global growth will also help.

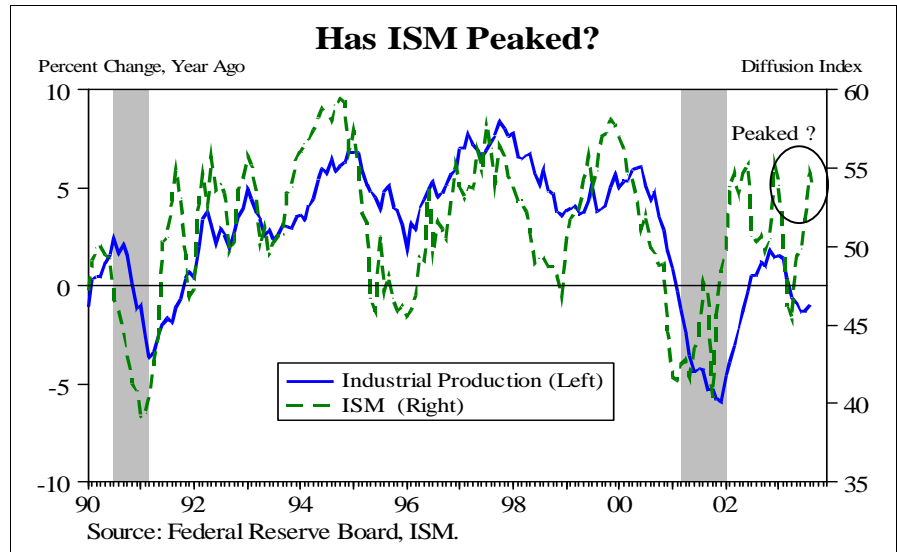
Why hasn't the weaker dollar had an effect on the current-account deficit yet? Because America's economy continues to grow faster than the economies of its major trading partners. Since the dollar started to depreciate, U.S. growth has outstripped Euroland growth by 1.7 percentage points. In that regard, it's important to note that a shift in demand growth of one percentage point from the U.S. to the rest of the world has the same one-year effect on the balance of payments as currency depreciation of 10% (see Table 3 on page 7). That means that the pick up in global growth that we expect would tend to alleviate some of the funding pressures associated with the current-account deficit.

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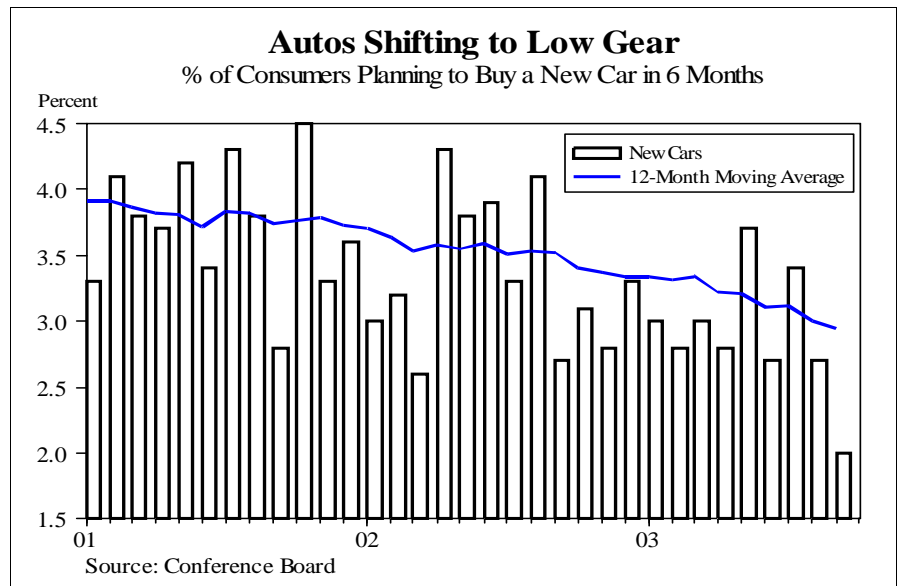
Steven Lauria
Managing Editor,
Global Research Highlights

Charts of the Week

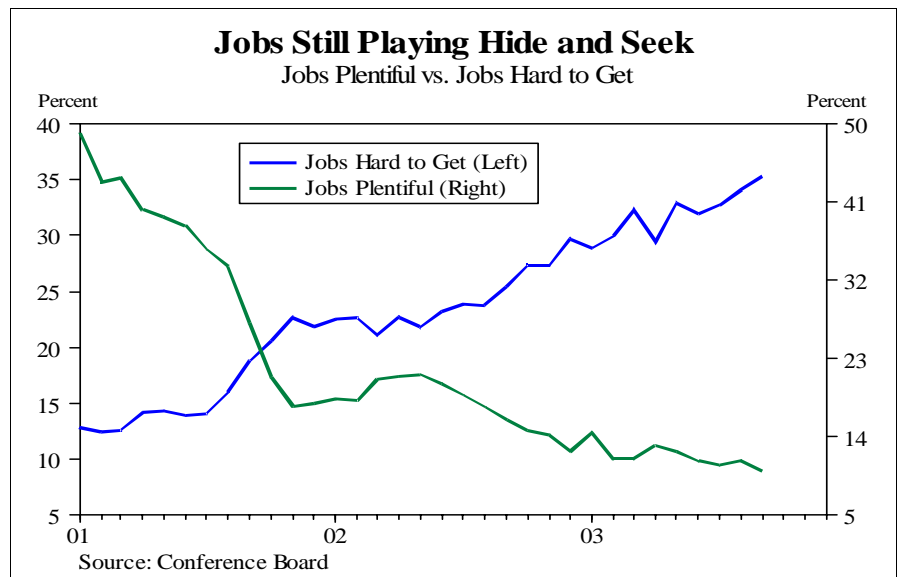
The dip in the ISM index for September may signal that a peak has been reached. If so, industrial production growth may have peaked as well.

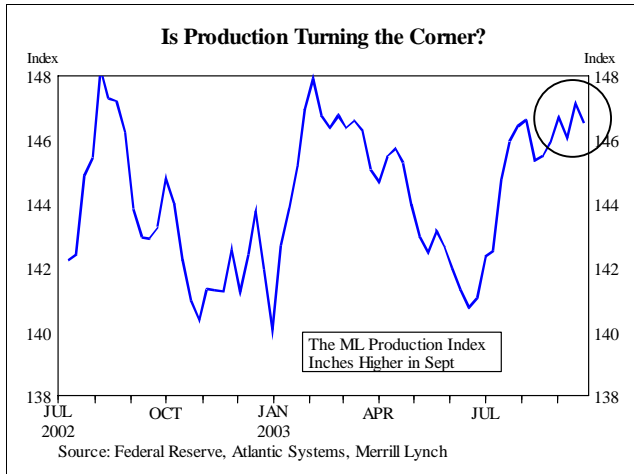


Consumer spending intentions have fallen of late. In fact, plans to buy a new car has shifted to a three-decade low.

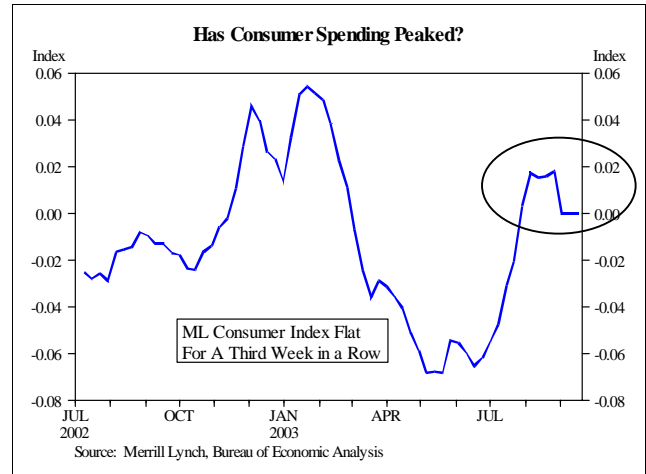


It doesn't take a data maven to know that the job market is still soft. Both the "jobs hard to get" and the "jobs plentiful" readings of the Conference Board's survey are at their weakest levels since December 1993.

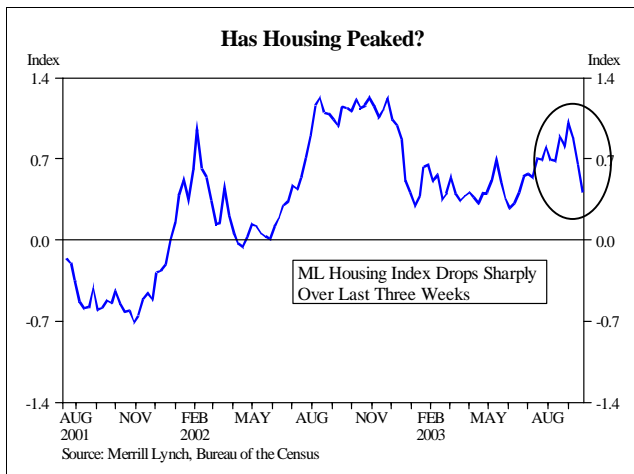


Merrill Lynch Proprietary Weekly Indicators
Chart 1: Production Index


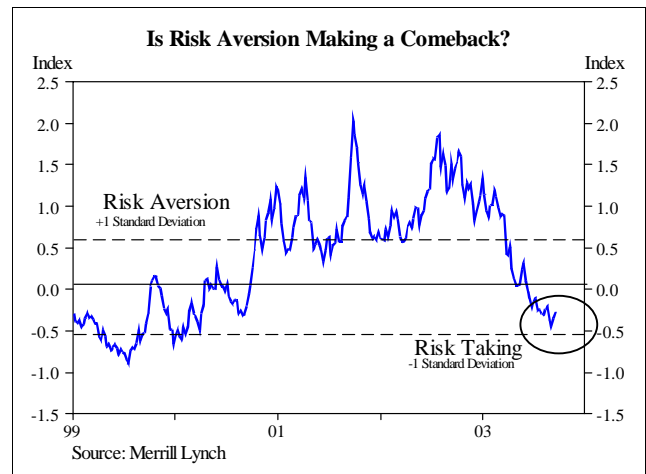
The ML Production index was down 0.4%, but the news was mixed. Auto production was down 1.9%, while electric production was down 0.9%. Railcar loadings, a proxy for production in the broader economy, was down 0.1%. However, there was some good news to write home about. Coal production was up a solid 2.4%, the second increase in a row. Lumber was up 0.3%, the fifth increase over the last six weeks. And raw steel was up (+0.1%), the first increase in seven weeks.

Chart 2: Consumer Index


It looks like the consumer ended Q3 on a soft note. Chain store sales have fallen for three weeks in a row. Perhaps this reflected labor market concerns. Continuing claims rose to the highest reading in 12 weeks suggesting that the job market remains depressed. This recent patch of soft data was captured in the ABC/Money Magazine consumer sentiment survey, which has fallen to very depressed levels..

Chart 3: Housing Index


Our Housing Index is now at its lowest reading since June 14, down in 6 of 8 weeks. The sharp decline in the MBA Purchase Index in August, coupled with a weak labor market suggests that housing activity probably softened in September, albeit from extremely robust levels.

Chart 4: Financial Stress Index


Our Financial Stress index was flat this week, however, we continue to see tentative signs of risk aversion re-emerging. Gold prices remain on an upward trend, up \$13/ troy ounce over the last four weeks. Staples have outperformed TMT for three weeks in a row (and by 3% in the last week of September). Treasuries have outperformed High Yield Corporate Bonds in three out of the last four weeks. And the VIX has risen from 18 to 22.

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Key Market Movers

Weekly jobless claims, trade figures, and inflation reports on tap next week.

Fed speak should be key following the employment data.

Consumers continue to borrow to fund their purchases.

Initial claims should remain little changed.

Core import prices likely tick up moderately.

The two big stories driving the markets are job growth (or lack thereof) and the dollar. In terms of those key stories there is not a lot going on this week on the data front. However, the weekly jobless report will receive top attention as it provides the latest snapshot of the labor market. The August trade numbers will be released on Friday and we expect it to show a deficit of \$40.0 billion. Even if the lower dollar raises imported good prices, that won't be enough to keep U.S. consumers from buying foreign toys (cars, DVD players, and plasma TVs). The September PPI (due Thursday) should show inflation remains subdued. The earnings season begins in earnest with Alcoa reporting on Tuesday.

Going forward, investors will be watching the data flow to see if upcoming reports suggest economic improvement can be sustained. Several Fed officials will be speaking during the week. These speeches will be particularly important given the better-than-anticipated payroll number we saw in September.

■ Tuesday, October 7, 2003

Consumer Credit, August – 3:00 pm

	Exp.	Consensus	Range	History
Consumer Credit	+\$5.1B	+\$6.4B	+\$3.0B to +\$9.0B	July = +\$6.0B vs. June = +\$0.2B

Source: Merrill Lynch, Bloomberg

The consumer continues to spend and, given the weakness we have seen in income gains, continues to borrow as well. Consumer credit rose \$5.1 billion in August. Revolving debt rose \$0.5 billion in August, while non-revolving debt rose \$4.6 billion. Retail sales were strong in August, rising 0.6%, auto sales were through the roof coming in at a 19.0 million-unit rate and consumer bank loan activity was up on the month.

■ Thursday, October 9, 2003

Jobless Claims Week Ended October 4 – 8:30 am

	Exp.	Consensus	Range	History
Jobless Claims	400,000	394,000	380,000 to 405,000	Week ending 9/27 = 399,000

Source: Merrill Lynch, Bloomberg

Despite the stronger-than-expected headline payroll number for September, the labor market remains weak. We expect claims to come in at about the same place as last week — 400,000. This would take the four-week moving average down to 396,500 its lowest level since mid-August.

Import Prices, September– 8:30 am

	Exp.	Consensus	Range	History
Import Prices	-0.3%	-0.2%	-0.9% to +0.4%	August = +0.2% vs. July = +0.5%

Source: Merrill Lynch, Bloomberg

Given the weakness in the dollar, import prices are a hot topic. For September, we think import prices slipped 0.3%. Non-petroleum prices rose 0.3%, due in part to the falling dollar. Petroleum import prices, however, dropped 5% on the month, pushing the overall import price index down.

■ Friday, October 10, 2003
Producer Price Index, September – 8:30 am

	Exp.	Consensus	Range	History
Producer Price Index	0.0%	+0.1%	-0.2% to +0.7%	August = +0.4% vs. July = +0.1%
Core PPI	+0.1%	+0.1%	-0.1% to +0.3%	August = +0.1% vs. July = +0.2%

Source: Merrill Lynch, Bloomberg

No incipient signs of inflation.

Price pressures remain muted in the U.S. economy. While the falling dollar may have some effect on import prices, as we discussed in the ‘Hot Topic,’ neither the PPI nor the CPI is bound to feel any pronounced effects. The weak economy continues to dampen upward pressure on prices. Producer prices were unchanged in September, due to falling energy prices. This pushes the year-on-year rate down to 3.2%. Core PPI likely rose 0.1% on the month, with the year-on-year rate slipping to +0.3%.

International Trade, August – 8:30 am

	Exp.	Consensus	Range	History
International Trade	-\$40.0B	-\$41.2B	-\$43.4B to -\$39.0B	July = -\$40.3B vs. June = -\$40.0B

Source: Merrill Lynch, Bloomberg

The trade gap remains wide.

U.S. international trade likely came in at -\$40.0 billion for the month of August. As suggested by the strong ISM export orders index, exports rose 2.1% for the month to \$87.9 billion. Weak demand abroad will continue to plague U.S. exports. On the other side of the ledger, imports into the U.S. rose 1.1% in August to \$127.9 billion. Strong retail sales and a good reading for the ISM import orders index suggest that the U.S. consumer continues to spend, especially on imported goods.

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Earnings Update
Earnings Update

Company	Ticker	Reporting Date	Estimate		Range		2Q02	Y/Y	Sector	Industry	ML Analyst
			ML EPS	Consensus	High	Low					
Pepsico	PEP	10/07/2003	\$0.62	\$0.62	\$0.62	\$0.60	\$0.54	14.3%	Consumer Non-Durables	Food: Major Diversified	M.Feldman
Alcoa	AA	10/07/2003	\$0.27	\$0.30	\$0.40	\$0.24	\$0.26	14.2%	Non-Energy Minerals	Aluminum	D.Roling
Apollo Group	APOL	10/07/2003	\$0.35	\$0.34	\$0.36	\$0.33	\$0.26	31.2%	Consumer Services	Other Consumer Services	L.Fine
Yum Brands	YUM	10/07/2003		\$0.52	\$0.52	\$0.50	\$0.49	5.7%	Consumer Services	Restaurants	
Genentech	DNA	10/08/2003	\$0.27	\$0.25	\$0.27	\$0.23	\$0.23	10.0%	Health Technology	Biotechnology	E.Ende
Yahoo	YHOO	10/08/2003		\$0.09	\$0.11	\$0.08	\$0.05	76.0%	Technology Services	Internet Software/Services	
Abbott Labs	ABT	10/09/2003	\$0.54	\$0.53	\$0.54	\$0.53	\$0.48	10.8%	Health Technology	Pharmaceuticals: Major	D. Lemaitre, Cfa
Sun Trust	STI	10/09/2003	\$1.14	\$1.18	\$1.20	\$1.14	\$1.20	-2.1%	Finance	Major Banks	R.Quintanilla
Marriott	MAR	10/09/2003	\$0.40	\$0.38	\$0.40	\$0.33	\$0.46	-18.3%	Consumer Services	Hotels/Resorts/Cruiselines	D.Anders

Source: FactSet, Merrill Lynch

Debt Issuance

Table 1: Treasury Financing

(billions of \$)

Announcement Date	Auction Date	Settlement Date	Issue	Size	New Cash
Oct-2	Oct-6	Oct-9	3 & 6-Month	32.0	(0.8)
Oct-6	Oct-7	Oct-9	1-Month	15.0*	4.0*
Oct-9	Oct-13	Oct-16	3 & 6-Month	34.0*	(3.4)*
Oct-6	Oct-8	Oct-15	5-year	18.0*	18.0*
Oct-6	Oct-9	Oct-15	10-year TIPS(R)	7.0*	7.0*

* Estimate. () = Paydown. (R) = Reopening.

Table 2: Agency Financing

(billions of \$)

Announcement Date	Auction Date	Settlement Dates	Issue	Size
10/2	10/6	10/7	FRE 1-Month	1.0
10/2	10/6	10/7	FRE 2-Month	1.0
10/2	10/7	10/8	FRE 3-Month	5.0
10/2	10/7	10/8	FRE 12-Month	1.0
10/6	10/8	10/9	FNM 3-Month	
10/6	10/8	10/9	FNM 6-Month	
10/6	10/8	10/9	FNM 1-Year	
10/6	10/9	10/14	FNM Callable BM Notes	
10/8	10/15*	10/17	FRE 2-Year ^	
10/8	10/16*	10/17	FRE 10-Year ^	
10/9	10/14	10/15	FRE 1-Month	
10/9	10/14	10/15	FRE 2-Month	
10/9	10/15	10/16	FRE 3-Month	

FRE = Freddie Mac, FNM = Fannie Mae. * Pricing Date. BM = Benchmark

Source: Merrill Lynch.

Policy Speakers

U.S. Speaking Engagements & News Events

Mon	2:00 pm	EMU finance ministers (Eurogroup) will meet in Luxembourg.
	NA	President Bush will host Kenyan President Mwai Kibaki at the White House for state visit.
Tues	3:00 am	EU-15 finance ministers (Ecofin) will meet in Luxembourg.
	11:30 am	Freddie Mac chief economist Frank Nothaft will present fourth quarter economic forecast and business outlook in Washington.
	5:30 pm	Dallas Fed Reserve Bank Pres. Robert McTeer (non-voter) will address the New York University Money Marketeers, in New York.
Wed	8:45 pm	Kansas City Fed Reserve Bank Pres. Thomas Hoenig (non-voter) will speak about U.S. monetary policy and the economic outlook at a forum in Tulsa, Oklahoma. Audience Q&A possible.
	10:00 am	House Financial Services Committee markup H.R. bill to strengthen the regulation of the housing-related government sponsored enterprises in Washington. Fed Reserve Gov. Susan Schmidt Bies (voter) delivers a speech on the economic outlook at a conference in Murfreesboro, Tennessee.
	12:30 pm	Fed Reserve Vice Chairman Roger Ferguson (voter) delivers a speech on the future of financial services at a University of Massachusetts conference in Boston.
	4:00 pm	Fed Reserve Vice Chairman Roger Ferguson and Boston Fed Reserve Bank Pres. Cathy Minehan (non-voter) will speak at the opening of The New England Economic Adventure, an interactive educational exhibit in Boston.
Thurs	7:00 am	Bank of England announces interest rates.
	12:30 pm	Federal Reserve Bank of Minneapolis President Gary Stern (non-voter) speaks at the National Congress for Community Economic Development Conference in Detroit.
	1:00 pm	Fed Reserve Gov. Ben Bernanke (voter) to deliver a speech on "Monetary Policy and the Stock Market" at the London School of Economics.
	1:30 pm	Fed Reserve Gov. Edward Gramlich (voter) delivers a speech on predatory lending to the Texas Bankers Association convention in South Padre Island, Texas.
Fri	2:00 pm	Bond Market Association recommends early 2:00 p.m. EDT close of U.S. fixed income markets ahead of Columbus Day.

Analyst Certification

I, David A. Rosenberg, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Historical Economic Data

	2003			2003			2003			2002			
	Sept	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sept
Payroll Employment (000)	57	-41	-57	-83	-76	-22	-151	-121	158	-211	1	119	65
% Change, Year Ago	-0.3	-0.3	-0.3	-0.4	-0.3	-0.3	-0.3	-0.2	-0.2	-0.4	-0.4	-0.6	-1.0
Unemployment Rate (%)	6.1	6.1	6.2	6.4	6.1	6.0	5.8	5.8	5.7	6.0	5.9	5.8	5.7
Avg. Hourly Earnings (% Chg.)	-0.1	0.2	0.3	0.2	0.3	0.1	0.0	0.5	0.1	0.4	0.3	0.3	0.2
% Change, Year Ago	2.7	2.9	3.1	3.0	3.3	3.3	3.3	3.5	3.3	3.2	3.0	3.1	2.9
PPI (% Chg.)		0.4	0.1	0.5	-0.4	-1.7	1.4	1.1	1.4	-0.3	-0.3	0.8	0.3
% Change, Year Ago		3.4	3.0	3.0	2.5	2.4	4.0	3.3	2.5	1.2	1.0	0.7	-1.8
CPI (% Chg.)		0.3	0.2	0.2	0.0	-0.3	0.3	0.6	0.3	0.1	0.1	0.2	0.2
% Change, Year Ago		2.2	2.1	2.1	2.1	2.2	3.0	3.0	2.6	2.4	2.3	2.0	1.6
ISM Diffusion Index (%)	53.7	54.7	51.8	49.8	49.4	45.4	46.2	50.5	53.9	55.2	50.5	49.7	50.7
Industrial Production (% Chg.)		0.1	0.7	-0.1	0.0	-0.5	-0.6	0.0	0.7	-0.8	0.2	-0.6	-0.1
% Change, Year Ago		-1.0	-1.3	-1.4	-0.8	-0.5	0.5	1.4	1.6	1.5	1.8	1.0	1.2
Capacity Utilization, %		74.6	74.6	74.1	74.3	74.3	74.8	75.3	75.4	74.9	75.6	75.5	76.0
Durable Goods Orders (% Chg.)		-0.9	1.5	2.5	0.0	-1.4	0.7	-0.4	2.0	-1.4	-1.0	2.8	-6.0
% Change, Year Ago		-1.9	-1.5	4.8	-2.4	-2.5	0.5	-3.2	2.0	-1.6	1.8	-2.3	2.6
Factory Orders (% Chg.)			1.6	1.9	0.3	-2.6	1.5	-0.5	1.6	-0.3	-0.7	1.9	-3.1
% Change, Year Ago			1.5	4.3	0.0	-0.2	3.9	0.9	3.3	1.0	2.4	-0.6	1.8
Retail Sales (% Chg.)		0.6	1.3	0.9	0.5	-0.3	2.3	-1.4	0.4	1.4	0.8	0.1	-1.2
% Change, Year Ago		5.4	5.4	5.1	5.6	3.6	5.4	3.0	5.0	4.3	2.7	-0.8	5.2
Personal Consumption (% Chg.)		0.8	0.9	0.7	0.5	0.0	0.8	0.0	0.0	1.1	0.5	0.4	-0.4
% Change, Year Ago		5.4	4.9	5.1	4.8	4.3	4.8	4.2	5.1	5.5	4.6	3.7	5.9
Personal Income (% Chg.)		0.2	0.3	0.4	0.4	0.2	0.2	0.2	0.1	0.4	0.3	0.0	0.3
% Change, Year Ago		3.1	3.2	2.5	2.8	2.9	3.0	3.1	3.3	3.6	3.7	3.4	3.2
New Home Sales (SAAR, Thous.)		1150	1112	1179	1081	1004	1008	935	1009	1052	1022	1005	1057
% Change, Year Ago		12.2	15.7	22.9	10.2	9.6	9.9	-1.5	15.2	7.5	10.6	15.4	23.9
Existing Home Sales (SAAR, Thous.)		6470	6130	5830	5850	5800	5750	5910	5940	5940	5670	5630	5540
% Change, Year Ago		21.8	13.9	8.6	5.8	3.8	3.8	1.7	1.9	9.0	9.9	7.2	6.3
Housing Starts (SAAR, Thous)		1820	1892	1844	1745	1627	1742	1640	1828	1815	1760	1653	1810
% Change, Year Ago		11.7	13.6	8.0	-0.4	2.5	5.5	-9.7	8.7	15.8	9.9	7.3	15.9
International Trade (Bil \$)			-40.3	-40.0	-41.6	-41.9	-43.0	-38.6	-40.0	-42.3	-38.6	-35.2	-36.7
Consumer Conf. Conf. Board	76.8	81.7	77.0	83.5	83.6	81.0	61.4	64.8	78.8	80.7	84.9	79.6	93.7
Consumer Conf.-U. of Mich.	87.7	89.3	90.9	89.7	92.1	86.0	77.6	79.9	82.4	86.7	84.2	80.6	86.1
	03Q2	03Q1	02Q4	02Q3	02Q2	02Q1	01Q4	01Q3	01Q2	01Q1	00Q4	00Q3	00Q2
Real GDP, Chain-Weighted, SAAR	3.3	1.4	1.4	4.0	1.3	5.0	2.7	-0.3	-1.6	-0.6	1.1	0.6	4.8
% Change, Year Ago	2.5	2.0	2.9	3.3	2.2	1.4	0.1	-0.4	-0.1	1.5	2.3	3.7	4.9
Chain-Weighted Price Index, SAAR	1.0	2.4	1.8	1.0	1.2	1.3	-0.5	2.2	2.5	3.7	2.1	1.7	2.3
% Change, Year Ago	1.5	1.6	1.3	0.8	1.1	1.4	2.0	2.6	2.5	2.4	2.3	2.2	2.1
Nominal GDP, SAAR	4.3	3.8	3.2	5.1	2.5	6.5	2.2	1.9	0.9	3.0	3.2	2.2	7.3
% Change, Year Ago	4.1	3.6	4.3	4.0	3.3	2.8	2.0	2.3	2.3	3.9	4.6	6.0	7.1
Employment Cost Index, %	0.9	1.3	0.7	0.8	1.0	0.9	1.0	1.0	1.0	1.1	0.9	0.9	1.0
% Change, Year Ago	3.8	3.9	3.5	3.7	4.0	3.9	4.2	4.1	4.0	4.0	4.1	4.4	4.4
Productivity, Nonfarm, SAAR	6.8	2.2	1.6	5.9	1.0	9.3	8.4	3.1	1.7	-0.3	2.1	1.0	5.3
% Change, Year Ago	4.1	2.7	4.4	6.1	5.4	5.6	3.2	1.6	1.1	2.0	2.2	3.3	3.8
Unit Labor Costs, Nonfarm, SAAR	-2.8	1.8	0.0	-3.8	2.8	-5.1	-5.7	-1.0	0.3	4.9	1.0	8.0	-3.8
% Change, Year Ago	-1.2	0.2	-1.6	-3.0	-2.3	-2.9	-0.4	1.3	3.5	2.5	4.9	4.4	2.4

Merrill Lynch Economic Forecast Summary
 (As of September 5, 2003)

	2002.4	2003.1	2003.2	2003.3F	2003.4F	2004.1F	2004.2F	2004.3F	2004.4F	2002	2003F	2004F
Real Economic Activity, % SAAR												
Real GDP (Bil 96\$), % SAAR	1.4	1.4	3.1	4.0	3.0	3.2	3.8	3.4	3.6	2.4	2.5	3.4
% Change, Year Ago	2.9	2.0	2.5	2.5	2.9	3.3	3.5	3.3	3.5			
Final Sales	1.1	2.3	4.0	3.8	2.3	2.9	3.5	3.2	3.4	1.8	2.6	3.2
Domestic Demand	2.6	1.4	5.0	4.6	2.4	3.0	3.5	3.2	3.4	2.4	3.0	3.3
Consumer Spending	1.7	2.0	3.8	5.4	1.7	3.3	3.6	2.9	3.0	3.1	2.9	3.3
Durables	-8.2	-2.0	24.1	20.0	-5.0	3.5	3.5	3.0	3.2	7.3	6.9	4.8
Nondurables	5.1	6.1	1.1	5.5	3.0	3.3	4.0	3.2	3.0	3.2	3.7	3.5
Services	2.2	0.9	1.5	2.5	2.4	3.2	3.5	2.8	3.0	2.2	1.8	2.8
Residential Investment	9.4	10.1	4.5	7.9	4.7	-5.8	-5.3	-4.6	-3.0	3.9	6.6	-1.2
Nonresidential Investment	2.3	-4.4	8.0	8.2	6.4	5.2	6.1	6.8	8.4	-5.7	1.9	6.5
Structures	-9.9	-2.9	7.1	2.0	1.0	2.5	3.0	2.5	3.0	-16.4	-5.3	2.6
Equipment and Software	6.2	-4.8	8.2	10.0	8.0	6.0	7.0	8.0	10.0	-1.7	4.2	7.7
Government	4.6	0.4	8.2	-1.4	2.4	2.8	3.9	3.9	3.7	4.4	2.9	2.9
Exports	-5.8	-1.3	-1.2	2.5	3.2	3.7	4.6	3.5	3.7	-1.6	0.2	3.3
Imports	7.4	-6.2	7.9	8.6	3.5	3.8	4.7	3.0	3.9	3.7	4.1	4.6
Net Exports (billions of \$)	-532.2	-510.3	-543.6	-570.5	-576.2	-581.9	-589.0	-592.0	-598.1	-488.5	-550.1	-590.3
Inventory Accumulation	25.8	4.8	-20.9	-10.0	5.0	12.0	20.0	24.0	30.0	5.2	-5.3	21.5
Nominal GDP (billions of \$)	10,589	10,688	10,794	10,932	11,044	11,180	11,310	11,433	11,563	10,446	10,864	11,372
% SAAR	3.2	3.8	4.0	5.2	4.2	5.0	4.7	4.4	4.6	3.6	4.0	4.7
% Change, Year Ago	4.3	3.6	4.0	4.1	4.3	4.6	4.8	4.6	4.7			
Key Indicators												
Industrial Production, FRB, % SAAR	-3.4	0.3	-3.5	2.5	3.0	3.5	4.4	3.8	4.0	-0.7	-0.1	3.1
Capacity Utilization (percent)	75.3	75.2	74.3	74.5	74.8	75.2	75.8	76.2	76.7	75.6	74.7	76.0
Civilian Unemployment Rate (%)	5.9	5.8	6.2	6.2	6.4	6.5	6.5	6.4	6.3	5.8	6.1	6.4
Productivity, % SAAR	1.6	2.2	6.8	6.5	3.1	2.8	3.3	2.6	2.9	5.4	3.9	3.6
% Change, Year Ago	4.4	2.7	4.1	4.3	4.7	4.8	4.0	3.0	3.0			
Real Disp. Personal Inc. % SAAR	1.4	2.1	2.8	7.7	3.5	4.1	4.7	3.8	4.2	4.2	2.9	4.4
% Change, Year Ago	5.2	2.3	2.0	3.5	4.0	4.5	5.0	4.0	4.2			
Personal Savings Rate (%)	3.6	3.6	3.3	3.9	4.3	4.5	4.8	5.0	5.3	3.7	3.8	4.9
Light Vehicle Sales (Millions SAAR)	16.5	15.8	16.2	17.5	16.5	16.1	16.3	16.0	15.9	16.7	16.5	16.1
Housing Starts (Millions SAAR)	1.74	1.74	1.74	1.85	1.80	1.75	1.70	1.68	1.67	1.71	1.78	1.70
U.S. Budget Balance (billions of \$)										-157	-400r	-600r
Corporate Profits and Earnings												
Operating Corp. Profits After Tax (Bil \$)	573.7	578.6	670.7	711.4	714.8	743.0	769.0	759.9	795.5	574.2	668.9	766.9
% Change, Year Ago	-3.6	1.3	20.6	24.0	23.5	10.8	8.1	6.3	7.1	7.9	16.5	14.6
S&P 500 Earnings Per Share (\$)	3.00	11.92	11.30	12.07	10.95	13.40	13.95	13.65	13.00	27.59	46.24	54.00
% Change, Year Ago	-45.0	29.7	64.5	41.5	265.0	12.4	23.5	13.1	18.7	11.7	67.6	16.8
S&P 500 Operating EPS (\$)	11.94	12.48	13.07	13.25	13.70	13.90	14.70	14.40	15.00	46.04	52.50	58.00
% Change, Year Ago	20.1	15.0	12.3	14.1	14.7	11.4	12.5	8.7	9.5	18.5	14.0	10.5
Inflation												
GDP Price Index, % SAAR	1.8	2.4	0.9	1.2	1.2	1.8	0.9	1.0	1.0	1.2	1.4	1.2
% Change, Year Ago	1.3	1.6	1.5	1.5	1.4	1.3	1.3	1.2	1.2			
CPI, Consumer Prices, % SAAR	2.0	3.9	0.6	2.5	0.8	0.4	0.8	1.2	1.3	1.6	2.4	1.1
% Change, Year Ago	2.2	2.9	2.2	2.2	2.0	1.3	1.3	1.0	0.9			
CPI Ex Food & Energy, % SAAR	1.8	1.3	0.8	1.6	1.8	0.9	0.6	1.1	1.3	2.3	1.5	1.1
% Change, Year Ago	2.1	1.8	1.5	1.4	1.4	1.3	1.2	1.1	1.0			
International Trade and the Dollar												
Current Account (billions of \$)	-128.6	-136.1	-139.8	-150.4	-149.9	-145.7	-148.2	-149.5	-154.0	-480.8	-576.4	-597.6
Interest Rates												
Fed Funds (%)	1.44	1.26	1.25	1.00	1.00	1.00	1.00	1.00	1.00	1.65	1.15	1.00
2-Year Treasury Note (%)	1.89	1.65	1.42	1.75	1.60	1.80	2.05	2.15	2.50	2.65	1.60	2.15
10-Year Treasury Note (%)	4.01	3.92	3.62	4.30	4.20	4.25	4.50	4.35	4.60	4.60	4.00	4.45

R = Revised

Rolling Calendar of Business Indicators

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
<p>Oct 6 Treasury Stripping—September 5-Year Note Announcement—\$18.0B* 10-Year TIPS Announcement—\$7.0B*(R)</p>	<p>Oct 7 Consumer Credit Jun \$0.2B Jul \$6.0B Jul \$5.1B* BTM-USBW Store Sales—(week ending 10/04/03) LJR Redbook—(week ending 10/04/03)</p>	<p>Oct 8 Wholesale Inventories—August Jun -0.0% Jul 0.0% ABC/Money Magazine Consumer Survey—(week ending 10/05/03) Mortgage Banker's Survey—(week ending 10/03/03) 5-Year Note Auction—\$18.0B* 10-Year TIPS Auction—\$7.0B*(R)</p>	<p>Oct 9 Initial Unemployment Claims (week ending 10/04/03)—400,000* Import Prices Index Jul 0.5% Aug 0.2% Sep -0.3%* Export Prices Index—September Jul -0.1% Aug -0.1% Chain Store Sales—September Aug 5.1%</p>	<p>Oct 10 Producer Price Index Jul 0.1% Aug 0.4% Sep 0.0%* Core PPI Jul 0.2% Aug 0.1% Sep 0.1%* International Trade Jun -\$40.0B Jul -\$40.3B Aug -\$40.0B*</p>
<p>Oct 13 Columbus Day (Fixed Income Markets Closed)</p>	<p>Oct 14 Richmond FRB Index—September BTM-USBW Store Sales—(week ending 10/11/03) LJR Redbook—(week ending 10/11/03)</p>	<p>Oct 15 Empire State Manufacturing Survey—October Aug 9.98 Sep 18.35 Retail Sales—September Jul 1.4% Aug 0.6% Retail Sales Ex. Autos—September Jul 0.8% Aug 0.7% ABC/Money Magazine Consumer Survey—(week ending 10/12/03) Mortgage Banker's Survey—(week ending 10/10/03) Fed's Beige Book</p>	<p>Oct 16 Initial Unemployment Claims – (week ending 10/11/03) Consumer Price Index—September Jul 0.2% Aug 0.3% Core CPI—September Jul 0.2% Aug 0.1% Business Inventories—August Jun 0.0% Jul -0.1% Industrial Production—September Jul 0.7% Aug 0.1% Capacity Utilization—September Jul 74.6 Aug 74.6 Philadelphia Fed Survey—October Aug 22.1 Sep 14.6 NAHB Housing Market Index—October Aug 71 Sep 68 Real Earnings—September</p>	<p>Oct 17 Housing Starts—September Jul 1.87M Aug 1.82M Building Permits—September Jul 1.80M Aug 1.90M Consumer Sentiment (Univ. of Michigan)—Early October Aug 89.3 Sep 87.7</p>
<p>Oct 20 Leading Indicators Index—September Jul 0.6% Aug 0.4%</p>	<p>Oct 21 Treasury Statement—September BTM-USBW Store Sales—(week ending 10/18/03) LJR Redbook—(week ending 10/18/03)</p>	<p>Oct 22 ABC/Money Magazine Consumer Survey—(week ending 10/19/03) Mortgage Banker's Survey—(week ending 10/17/03)</p>	<p>Oct 23 Initial Unemployment Claims – (week ending 10/18/03)</p>	<p>Oct 24</p>

*Projections – subject to revision as additional data become available during the month (R) Reopening

Important Disclosures

Investment Rating Distribution: Global Group (as of 30 September 2003)					
Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	962	40.56%	Buy	328	34.10%
Neutral	1206	50.84%	Neutral	318	26.37%
Sell	204	8.60%	Sell	44	21.57%

* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months.

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