

# US Weekly Economic Update

1<sup>st</sup> February 2010

**Contacts:**

Julien Seetharamdoo

Group Economics

+ 44 131 626 3925

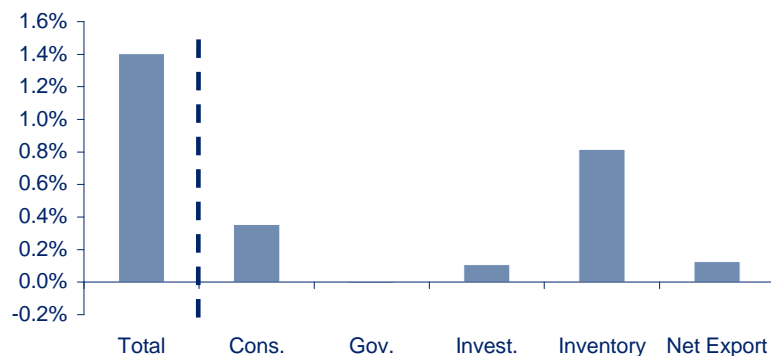
[julien.seetharamdoo@rbs.co.uk](mailto:julien.seetharamdoo@rbs.co.uk)

[www.citizensbank.com/economics](http://www.citizensbank.com/economics)

- **The US economy grew at a sprightly 5.7% annualized pace in Q4.** The bad news is that inventory liquidation was by far the largest source of growth in the quarter, accounting for 3.4 percentage points, or about 60%, of the Q4 gain. Perhaps the biggest surprise was a 13% (annualized) jump in business spending on equipment and software, driven by a sharp rise in tech outlays. Trade also provided support, as exports continued to rebound more quickly than imports. Consumer spending advanced at a respectable 2% pace, only modestly slower than the 2.8% rise recorded in Q1.
- **The US economy is headed in the right direction, but it's too early to declare that the recovery is secure.** Inventories can't form the basis of a durable upturn. Similarly, US businesses will only keep investing if they expect demand to continue to rise – especially since they still have oodles of spare capacity. And a self-sustaining rise in demand is far from assured. The US consumer sector, which accounts for 70% of all spending, is still under pressure. The recovery in global asset prices has helped ease the squeeze on household balance sheets, but repair work is still needed. Household net wealth is around \$5 trillion higher than it was in Q1 2009, but is still \$12 trillion below its peak. The US labour market remains in intensive care, with the unemployment rate still above 10% and income growth depressed. Moreover, the impetus from the fiscal stimulus is fading fast and the Federal Reserve is keen to wind down its extraordinary support measures too.
- **The Federal Reserve kept US rates on hold at 0% to 0.25% and reiterated that rates would remain low for an “extended period”.** But they also signalled that their ultra-stimulative policy stance is shifting. Kansas City Fed President Hoenig dissented, objecting to the "extended period" language in the policy statement. The Committee went as far as they realistically could in winding down their extraordinary liquidity programs. Policymakers will have to walk a fine line, ensuring that they don't raise rates too early (and threaten the recovery), or too late (and risk a significant inflation overshoot).

## Chart of the week: Contribution to 2009 Q4 GDP growth

Source: Thomson Datastream



MARKET RATES MONITOR	29 <sup>th</sup> January 2010	22 <sup>nd</sup> January 2010	Year ago
Fed Funds Rate Target	0.25%	0.25%	0.25%
10-yr US Treasury yield	3.63%	3.62%	287%
30-yr Mortgage (Freddie Mac)	4.98%	4.99%	5.10%
US dollar/Japanese Yen	90.66	90.09	9.818
Euro/US Dollars	1.39	1.41	1.28
British Pound/US dollars	1.60	1.61	1.44