

US Weekly Economic Update

21st June 2010

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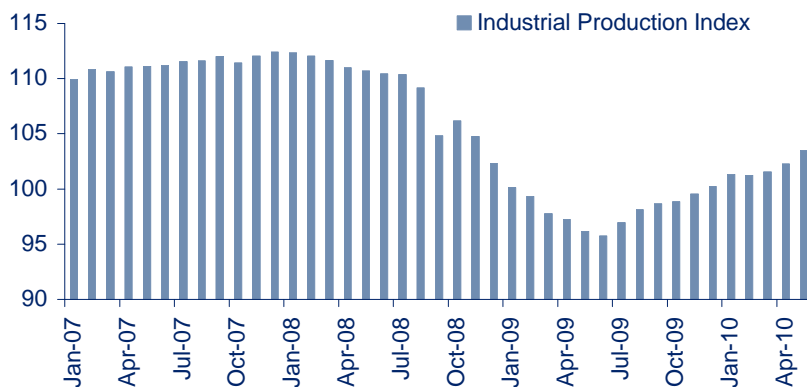
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- **Industrial production continued its march higher.** Industrial output rose by a healthy 1.2% m/m in May, extending the recovery that began in July 2009. Output is now 7.7% above its low. At the current rate of expansion it would take another seven months for output to return to the pre-crisis level – this may be a big ask but is not beyond the realms of possibility. As output expands, businesses are using up resources that fell idle during the recession. Capacity utilization increased by one percentage point, to 74.7% in May.
- **“Dis-inflation” remained the theme in the May inflation release.** Consumer price inflation dipped to 2.0% y/y in May, from 2.2% in April, maintaining the downward trend that started in January. Volatile movements in energy prices were behind the change - they were almost 15% higher than last year - whilst core CPI, which excludes energy, was just 0.9%, highlighting that deflation (outright declines in consumer prices) remains a real risk if the pace of the recovery slackens.
- **In fact, month-on-month, the deflationary trend was even sharper.** CPI inflation was negative for the second month in a row, at minus 0.2%. Oddly, energy prices were again the culprit. The price of crude oil averaged \$87 per barrel in April, against just \$75 per barrel in May. This meant falling energy prices pushed down headline inflation, but core inflation was stable at 0.1%.

Chart of the week: Industrial activity making a solid recovery

Source: Thomson Datastream



MARKET RATES MONITOR	18 th May 2010	11 th May 2010	Year ago
Fed Funds Rate Target	0.25%	0.25%	0.25%
10-yr US Treasury yield	3.24%	3.24%	3.81%
30-yr Mortgage (Freddie Mac)	4.75%	4.72%	5.59%
US dollar/Japanese Yen	90.83	91.92	98.27
Euro/US Dollars	1.24	1.20	1.40
British Pound/US dollars	1.48	1.46	1.65