

US Weekly Economic Update

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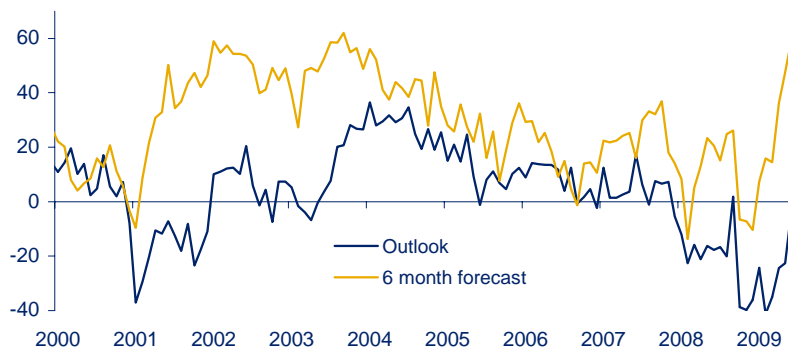
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- **Last week's data remained consistent with the theme of gradual economic improvement. The question remains whether momentum will stall, or the economy start to grow, in the second half of 2009. We expect the former, but hope for the latter.**
- **Inflation fell further** to -1.3% in May, the lowest in sixty years. This still largely reflects that oil prices have fallen sharply since peaking in July a year ago. Deflation will certainly intensify until that month this year. Excluding oil, and other volatile components, 'core' inflation fell only slightly to 1.8%. If this situation persists, and as oil-related base effects drop out, mutterings that deflation might not be the threat expected could begin to emanate from official sources.
- **Initial unemployment claims edged up** in early June, but retained a gradually downward trend. The four-week average fell to the lowest since mid-February, though remains high in historic terms. **Encouragingly, continuing claims plunged**, the first drop since early January. It is risky to read too much into one week's data, but with luck continuing claims will begin to follow initial claims lower. **Moreover, housing starts rebounded.** Recent swings were due to the volatile multi-family sector, while single-family starts rose for a third month. The number of single-family starts remains low (41% below a year ago), but a bottom in this series has past.
- **Industrial production fell by more than expected**, with autos output particularly weak, but April/May readings remained better than earlier drops, consistent with the pace of decline in manufacturing easing. **Capacity utilization still fell**, to 68.3%, well below the record (70.9%) recorded before this recession, **but, more positively, the Philadelphia Fed manufacturing index rose sharply** in June to the highest since September 2008 (see chart). The six-month outlook improved to the highest since 2003.

Chart of the week: Philly Fed Manufacturing Conditions Survey

Source: Thomson Datastream



MARKET RATES MONITOR	19 th June 2009	12 th June 2009	Year ago
Fed Funds Rate Target	0.25%	0.25%	2.00%
10-yr US Treasury yield	3.79%	3.81%	4.16%
30-yr Mortgage (Freddie Mac)	5.38%	5.59%	6.42%
US dollar/Japanese Yen	97	98	107
Euro/US Dollars	1.39	1.40	1.56
British Pound/US dollars	1.64	1.65	1.98