

US Weekly Economic Update

28th June 2010

Contacts:

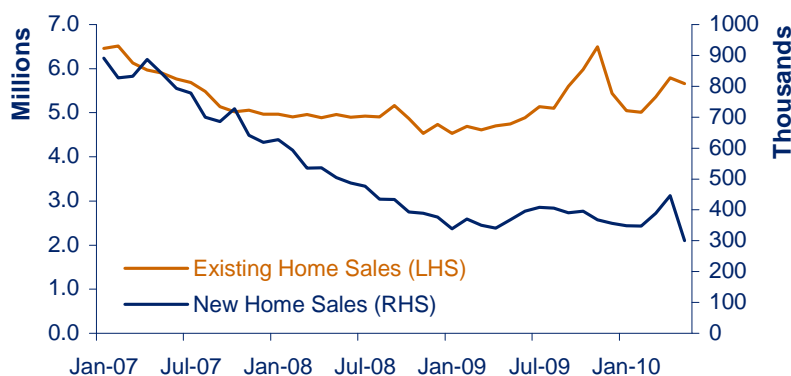
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- **Activity in the US housing market is indicative of the headwinds facing the economy.** New home sales fared much worse than expected in May plunging to 300,000 (annualised), the lowest level since the record began in 1963. The expiration of the home buyer tax credit was marked by a collapse in sales of 33% from the previous month, demonstrating the reliance of the housing market on government support. Existing home sales also disappointed. Purchases of existing homes dropped 2.2% in May to a 5.66 million annual rate, led by an 18% decline in the Northeast. Purchases in the West rose 5%, while sales in the Midwest and South remained almost static.
- **Lower sales and rising foreclosure rates do not appear to be affecting prices as would be expected.** House prices rose moderately in April, ticking up 0.8% from a month earlier. House prices have been recouping previous losses since February and are now 13% below their peak and on par with where they were in November 2004. Given the current rate of expansion, it would take another 18 months for housing to reach its pre-crisis price high.
- **Monetary policy makers are walking a fine line.** At Wednesday's meeting the FOMC kept rates on hold and reiterated that rates are likely to remain "exceptionally low" for an "extended period" - but the dissenting voice of Kansas City Fed President Hoenig was heard once again. Strong headwinds to the continued economic recovery are likely to moderate the pace of growth in the months ahead, but Hoenig remains concerned that the low rate will cause a build up of imbalances, increase risks to longer-run macroeconomic and financial stability, and reduce the committee's flexibility to raise rates.

Chart of the week: Home sales in the doldrums

Source: Thomson Datastream



| MARKET RATES MONITOR | 25 th June 2010 | 18 th June 2010 | Year ago |
|------------------------------|----------------------------|----------------------------|----------|
| Fed Funds Rate Target | 0.25% | 0.25% | 0.25% |
| 10-yr US Treasury yield | 3.12% | 3.24% | 3.79% |
| 30-yr Mortgage (Freddie Mac) | 4.69% | 4.75% | 5.38% |
| US dollar/Japanese Yen | 89.29 | 90.83 | 96.73 |
| Euro/US Dollars | 1.23 | 1.24 | 1.39 |
| British Pound/US dollars | 1.50 | 1.48 | 1.64 |