

US Weekly Economic Update

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- **There were some modestly encouraging signs in the data last week. Orders for capital equipment were up in May, and household incomes and expenditure also rose. However, the gain in incomes reflected tax cuts and increased social security payments from the government's fiscal stimulus plan.**
- **Durable goods orders jumped 1.8% m/m in May, after a similar gain in April.** Orders excluding aircraft and defence are less volatile and give a better indication of companies underlying investment intentions. This measure rose 4.8% m/m, the strongest gain since September 2004. Investment is firming, but from an extremely low base. Orders on this measure are still down 22% y/y.
- **Household incomes and spending increased in May.** Personal spending was up 0.3% m/m and personal income up 1.4% m/m. But the jump in incomes reflected tax cuts and increased social security payments from the government's stimulus plan. Without these, incomes would have dropped 0.1% m/m due to declining employment levels. A separate report showed that consumers grew a little more confident in June, with the University of Michigan index of consumer sentiment increasing to 70.8 from 68.7 in May.
- In last week's statement after its rate-setting meeting, the Fed confirmed that interest rates are likely to stay at exceptionally low levels "for an extended period", and that it would continue with its asset purchase scheme. To keep mortgage rates low, the Fed has committed to buying up to \$1.25 trillion of agency guaranteed mortgage debt and up to \$300bn of treasury bills. So far, it is about half way through this process.
- **Finally, in the euro area, the June composite flash PMI (a good early indicator of activity) showed a fractional improvement.** It rose marginally to 44.4 this month, some way up from February's low of 36 but still stubbornly below the 50-mark that would signal a return to growth. The performance of countries within the single currency area is not identical. Germany is still reeling from the decline in external demand that has knocked the wind out of its export sector, while countries such as Ireland and Italy are adjusting after large property bubble bursts and recent sovereign credit rating downgrades.

Chart of the week: Non-defense durable goods orders, exc. aircraft (Index 2000=100)

Source: Thomson Datastream



MARKET RATES MONITOR	26 th June 2009	19 th June 2009	Year ago
Fed Funds Rate Target	0.25%	0.25%	2.0%
10-yr US Treasury yield	3.52%	3.79%	4.07%
30-yr Mortgage (Freddie Mac)	5.42%	5.38%	6.42%
US dollar/Japanese Yen	95	97	107
Euro/US Dollars	1.41	1.39	1.57
British Pound/US dollars	1.65	1.64	1.99