

US Weekly Economic Update

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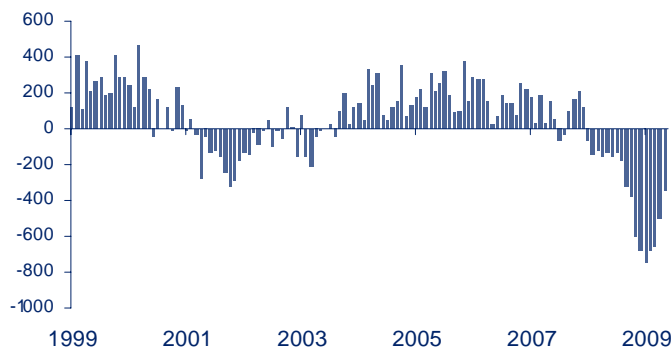
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- **It comes to something when a loss of 345,000 jobs is seen as an improvement, but that was the market's reaction on Friday when the US Department of Labor released its monthly non-farm payroll report for May. In April, the monthly loss in jobs was 504,000 and in March 652,000 (see Chart).**
- In May, there was a broad-based slowdown in the pace of job cuts, with construction, wholesale trade, retail trade, transportation, finance and insurance, professional/business services, education, health services and leisure and hospitality all showing a slower pace of job reductions. The only major private sector that continues to show increasing job losses is manufacturing, dragged down by problems in the auto sector.
- **A separate report on the state of the manufacturing sector, released earlier in the week, also buoyed investors. The manufacturing ISM index rose to 42.8 from 40.1 in April.** Most encouraging was the improvement in the new orders component, which increased to 51.1 from 47.2 in April. Readings above 50 signal expansion, and readings below 50 signal contraction. This was the first time that new orders have been above 50 since the recession officially started in late 2007. New orders are a good leading indicator, so we expect the overall manufacturing index to continue to improve. However, let's not get too excited. At the moment the headline index is still consistent with an economy that is contracting. It's just that the pace of contraction appears to be lessening.
- Developments in the bond market were also of interest. **The better than expected economic data last week pushed bond yields up.** The prospect of an improvement in economic growth led investors to adjust upwards their expectations for short-term interest rates, and as a result long rates rose as well. It is better that yields are going up because of the prospect of an improvement in the economy than because of investor worries over the funding of the budget deficit. However, **the Fed will still be watching the increase with concern because of the impact on mortgage rates.**

Chart of the week: Change in monthly non-farm payrolls (000s)

Source: Thomson Datastream



| MARKET RATES MONITOR | 5 th June 2009 | 29 th May 2009 | Year ago |
|------------------------------|---------------------------|---------------------------|----------|
| Fed Funds Rate Target | 0.25% | 0.25% | 2.0% |
| 10-yr US Treasury yield | 3.84% | 3.47% | 4.06% |
| 30-yr Mortgage (Freddie Mac) | 5.29% | 4.91% | 6.08% |
| US dollar/Japanese Yen | 98 | 95 | 106.12 |
| Euro/US Dollars | 1.40 | 1.42 | 1.55 |
| British Pound/US dollars | 1.60 | 1.61 | 1.95 |