

US Weekly Economic Update

2nd August 2010

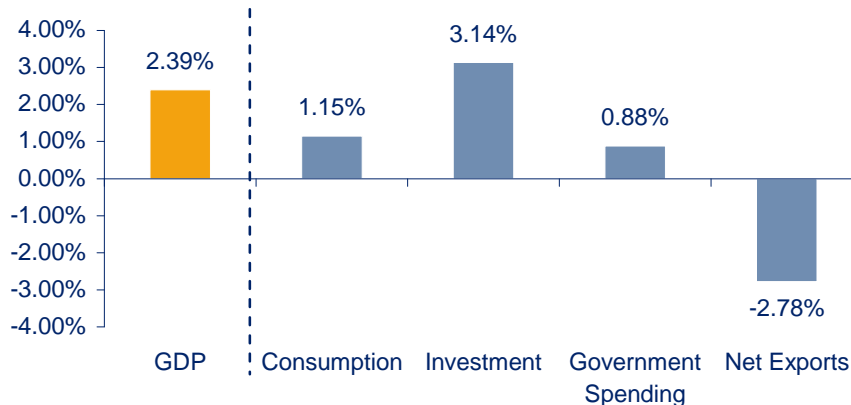
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- **US GDP growth slowed to 2.4% on an annualized basis in Q2 2010.** Estimates of Q1 growth were revised up to 3.7%, indicating a loss of momentum in the recovery of the world's largest economy. Global imbalances were in the spotlight again, as imports grew at nearly three times the pace of exports (29% and 10% annualised for imports and exports respectively). The economy, however, does appear to be weaning itself off its reliance on consumer spending. Consumption rose at an annual rate of 1.6% whereas private investment expanded by 29% (annualised).
- **Some comfort too came from the housing market, which showed some signs of improvement in June.** New home sales rose by more than expected, up at an annual rate of 330K in June, a 24% improvement from previous month. Meanwhile, house prices continue their upward slog. The Case-Shiller index showed that the prices in the 20 biggest cities climbed 4.6% y/y in May, the biggest year-on-year increase since 2006.
- **There was better news across the Atlantic for a continent concerned with deflation.** Inflation in the euro area jumped to 1.7% in July, the highest rate since November 2008. Yet with inflation still below the 2% target ceiling and an economic recovery far from secure, the European Central Bank is unlikely to alter rates later this week. For starters, there is still plenty of slack in euro area labour markets. The unemployment rate remained at 10% in June, meaning that 15.7m people are willing to work but could not find a job. This masks significant regional variation though: Austria and the Netherlands have the lowest unemployment rates (3.9% and 4.4% respectively) while the highest rates are in Spain (20%), Slovakia (15%) and Ireland (13.3%).

Chart of the week: Contribution to Q2 GDP growth

Source: Thomson Datastream, Q2 growth quarter on quarter annualised rate



MARKET RATES MONITOR	30 th July 2010	23 rd July 2010	Year ago
Fed Funds Rate Target	0.25%	0.25%	0.25%
10-yr US Treasury yield	2.94%	3.02%	3.70%
30-yr Mortgage (Freddie Mac)	4.54%	4.56%	5.20%
US dollar/Japanese Yen	86.66	87.29	94.71
Euro/US Dollars	1.30	1.28	1.42
British Pound/US dollars	1.57	1.54	1.64