

US Weekly Economic Update

27 October 2009

Contacts:

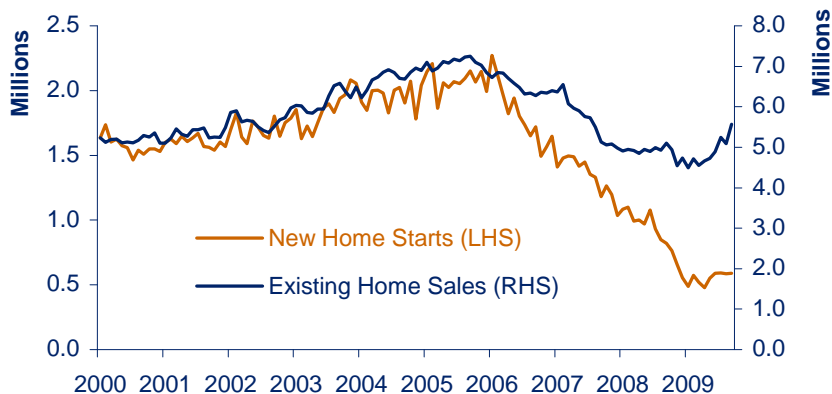
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- **Last week was a quiet one in terms of data releases, with little outside of a range of housing market statistics on the radar. Construction of new homes rose in September and the recent rise in building permits suggests this trend could continue. Further up the housing ladder, existing homes were being sold on at the fastest rate in over two years**
- **Building of new homes may finally contribute to economic growth in the quarters ahead.** In September work started on 590K homes (at an annualized rate), a slight improvement on the 587K in August. The number of new starts is still down heavily compared to last year (-28%) but is up from the lows seen in April (479K). Building permits, a guide to future activity, tells a similar story. The number of permits issued is also up from its trough in April. This suggests that new home construction could have added to economic growth in Q3. It is worth noting that housing starts appear to have leveled off at roughly one third of their long run average (chart).
- **Sales of existing homes climbed in September to the highest level for more than two years as homebuyers rushed to take advantage of the first-time-buyer tax credit before it expires in November.** Purchases jumped 9.2% y/y to a 5.6m annual rate, more than forecast and above the 5.1m units sold in August. The \$8,000 tax credit has added a temporary boost to sales, bringing forward purchases and helping to reduce excess supply. The number of previously owned homes on the market dropped 7.5% in September, reducing the stock of properties for sale. At the current sales pace, it would take 7.8 months to clear the backlog of homes on the market, close to the six months that signals a market in balance.

Chart of the week: Housing starts and existing home sales

Source: Thomson Datastream



MARKET RATES MONITOR	23 rd October 2009	16 th October 2009	Year ago
Fed Funds Rate Target	0.25%	0.25%	1.50%
10-yr US Treasury yield	3.49%	3.43%	3.99%
30-yr Mortgage (Freddie Mac)	5.00%	4.92%	5.94%
US dollar/Japanese Yen	92	91	100
Euro/US Dollars	1.50	1.49	1.34
British Pound/US dollars	1.63	1.63	1.72