

US Weekly Economic Update

24th November 2008

Contacts:

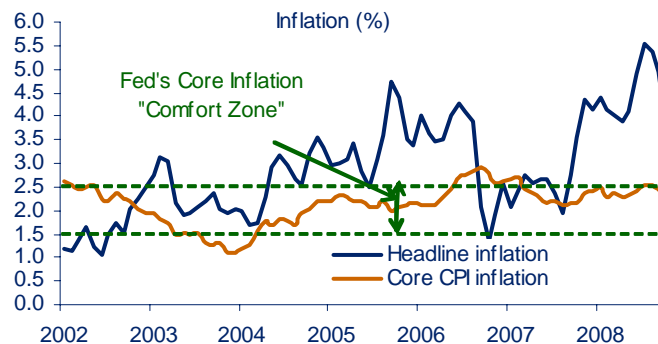
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- **Not so long ago inflation concerns dominated the economic debate, but now policymakers are pulling out all the stops to get the economy moving to stave off deflation (falling prices across the economy). In light of recent economic data, increasingly aggressive measures are likely.**
- **Consumer prices in the US recorded their largest ever month-on-month fall in October** as declining oil prices pulled energy and fuel costs down by over 8%. But the moderation was not purely the result of energy price trends, as core CPI (which excludes food and energy) declined for the first time since 1982. For example, prices for new and used autos fell as troubled car makers tried to offload their output at discounted prices to an ever more financially-constrained consumer. Prices of other discretionary items also dropped.
- We don't usually refer to weekly jobless figures but, in the week to the 15th November, **US initial jobless claims jumped to the highest level since 1992**. This is a worry, as the total number on benefits has already reached levels last seen in December 1982, and the US economy is forecast to contract next year. Fewer people in jobs mean less spending and lower growth, and ultimately less upward pressure on prices, further fanning deflation concerns. In terms of policy, **it means that going into 2009, the Federal Reserve will start to formally de-emphasize targeting the Fed funds overnight rate**. It will likely announce a new focus on explicitly expanding the quantity of liquidity to be offered to the financial system. This is known as quantitative easing.
- **In the Eurozone, the composite PMI, a key leading indicator, dropped below 40 for the first time since the series' inception**. The downturn was particularly marked in the manufacturing sector, whose PMI fell to a series low of 36.2, far below the 50 mark that separates expansion from contraction. The Eurozone's two largest economies are shouldering their share of the pain. Readings for Germany and France both fell to record lows, suggesting that overall economic activity will continue to contract in Q4.

Chart of the week: Headline and core inflation (% y/y)

Source: Thomson Datastream



MARKET RATES MONITOR	21 st November 2008	14 th November 2008	21 st November 2007
Fed Funds Rate Target	1.00%	1.00%	4.5%
10-yr US Treasury yield	3.20%	3.10%	4.00%
30-yr Mortgage (Freddie Mac)	6.04%	6.14%	6.24%
US dollar/Japanese Yen	94.94	95.01	108.43
Euro/US Dollars	1.2510	1.2524	1.4824
British Pound/US dollars	1.4788	1.4774	2.0551