

US Weekly Economic Update

01 December 2008

Contacts:

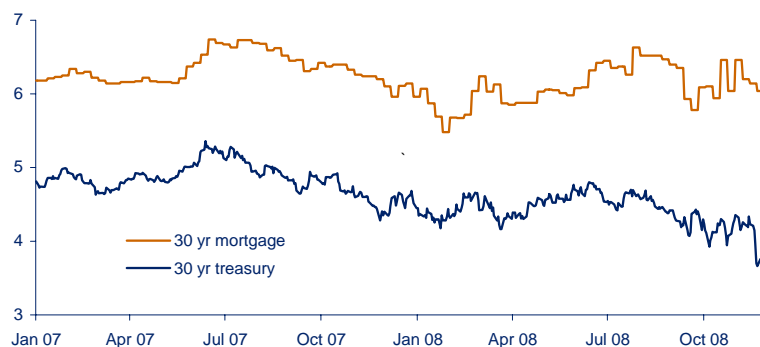
Julien Seetharamdoo
 Group Economics
 + 44 131 626 3925
julien.seetharamdoo@rbs.co.uk

www.citizensbank.com/economics

- **There was more doom and gloom in last week's data, but policymakers around the world announced a raft of measures to support activity. Further action is likely this week with rate cuts expected in the UK and Eurozone. Time will tell whether this can prevent the destructive de-leveraging (rapid debt reduction) that would lead to a deep and protracted global downturn.**
- In the US it was a case of another week, another set of weak data. Capital spending had already slowed abruptly due to financial turmoil and economic uncertainty, but investment lurched even lower in October. **A key indicator of investment (durable goods orders excluding defence and aircraft) fell 4.6% m/m in October.** This left orders 9% below their July peak - the largest three-month fall in the series history. But firms are not the only ones not spending. **Personal consumption plunged by 1% m/m in October, the largest drop since 2001.** Much of the fall reflects cheaper gasoline, but a fifth successive fall in spending is already a month longer than during the 1990s recession. Households are clearly saving much of the windfall from lower oil prices – the savings rate jumped to 2.4% from 1.0% in September.
- Also last week the **Federal Reserve announced it was going to spend up to \$600bn buying mortgage-backed securities and debt issued by government sponsored enterprises, primarily Fannie Mae and Freddie Mac.** Policymakers are trying to push down long-term mortgage rates in order to stabilise the housing market and, indirectly, financial markets. They are doing this by replacing the lack of investor appetite for mortgage securities with public money. **The announcement had an immediate impact, with yields on the benchmark 30-year mortgage rate falling below 6% (see chart).** The Fed's intervention is timely, as the latest housing market data show a re-acceleration in house price declines. On the 20-city Case-Shiller index, prices fell 1.8% m/m in September, the biggest monthly drop since March.

Chart of the week: 30yr mortgage rate vs. 30yr treasury yield

Source: Thomson Datastream



MARKET RATES MONITOR	28 th November 2008	21 st November 2008	28 th November 2007
Fed Funds Rate Target	1.00%	1.00%	4.50%
10-yr US Treasury yield	2.93%	3.20%	3.97%
30-yr Mortgage (Freddie Mac)	5.97%	6.04%	6.10%
US dollar/Japanese Yen	95.25	94.94	110.93
Euro/US Dollars	1.27	1.25	1.47
British Pound/US dollars	1.53	1.48	2.06