

US Weekly Economic Update

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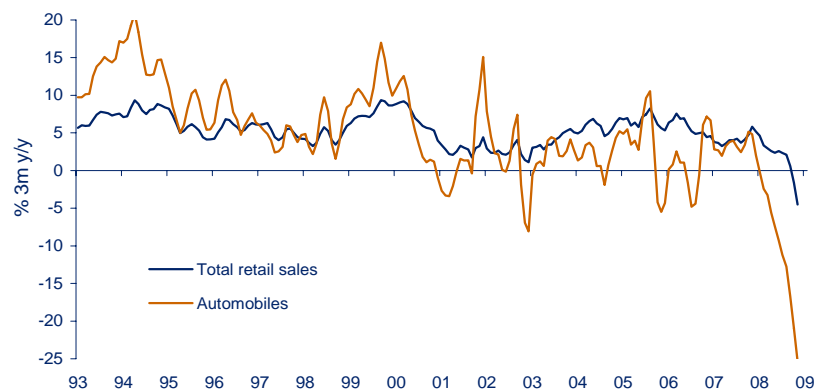
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- **Christmas is fast approaching, but there were few signs of seasonal cheer last week, with another batch of downbeat data and sharp swings in financial markets as investors contemplated the fate of auto producers.**
- **Hopes of assistance for auto makers appeared to be dashed last week** when the Senate rejected a bill approved by the House of Representatives amid wrangling over the need for the Big Three's workforce to accept wage cuts. The Treasury will probably step in until Congress reaches an agreement, using funds intended to purchase troubled financial assets (the TARP). Without such support, the threat of bankruptcy looms. Subsequent falls in global equity indices highlighted worries about the potential impact on the economy. Automotive manufacturing jobs generate more additional jobs than in other industries, and retail data suggest more unemployment is the last thing the economy needs. November sales fell by 7% y/y (sales of autos/parts fell by 25%, see chart).
- **Talk of OPEC production cuts boosted crude oil prices slightly.** Global oil demand remains on track to shrink this year for the first time since 1983 and is likely to fall further in 2009. Lower production would help close the looming gap between oil demand and supply, but there is only so much cutting OPEC can do and we would not be surprised if oil touched \$30 a barrel in the second quarter of 2009. Demand destruction is well ahead of supply reduction and there could be more pain in store for the OPEC cartel.
- **October 'real' industrial output data confirmed the quickening pace of the global downturn.** UK production contracted at the fastest rate since the 1990's recession while across the channel euro area output fell by 5.3% y/y. France, the second largest economy in the region, saw production shrink by 7% y/y, almost twice as fast as its larger neighbour Germany. The story was similar on the other side of the globe as India, the world's second most populous nation, recorded a first annual contraction in production since records begin in the mid 1990s. This compares to 7% average growth since 2000.

Chart of the week: US retail sales (% growth 3m y/y)

Source: Thomson Datastream



MARKET RATES MONITOR	12 th December 2008	5 th December 2008	14 th December 2007
Fed Funds Rate Target	1.00%	1.00%	4.25
10-yr US Treasury yield	2.60%	2.67%	4.24
30-yr Mortgage (Freddie Mac)	5.47%	5.53%	6.11
US dollar/Japanese Yen	91.35	92.05	113.35
Euro/US Dollars	1.34	1.27	1.44
British Pound/US dollars	1.49	1.46	2.01