“Happy Landing”

Not Your Typical Slowdown

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Best 3 years in a generation for global growth......

World GDP Growth 1975-2006 (Best 3 year average)

Source: IMF
Driven by the liquidity .... (hokey pokey?)

G7 Average interest rates

- G7 weighted average
- US

- 10 Year average
- 5 Year average

2000 2001 2002 2003 2004 2005 2006
Which super hero tells us the good times won’t end?

World GDP growth (%)

Source: IMF
The torch must be passed...
...to a new generation
Soft landing on two wheels?

US Real GDP Growth (%)

QOQA
Yoy
Long-Term Trend

Q1 00
Q3 00
Q1 01
Q3 01
Q1 02
Q3 02
Q1 03
Q3 03
Q1 04
Q3 04
Q1 05
Q3 05
Q1 06
Q3 06
You’ve shopped …… but not yet dropped

Household Spending/GDP (%)

Extra $3,700 spending a year per household!

Long Run
You’ve borrowed like there’s no tomorrow.....
But the asset boom that made it possible is ending?

US House Price Growth (%)

Source: OFHEO
Transition 2: Business pulling more weight
Capacity is tight = need to invest

Capacity Utilisation Rate (%)

Long Term Average

Hurricanes
Profits high = incentive to invest

Profit Share of National Income (%)

Long Run Average

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Money is cheap = means to invest

US Yield Curve (%)

Fed Funds 12M 2Y 3Y 5Y 10Y 30Y
After an investment ‘strike’
- potential for boom

Investment Spending (YOY %)

Non-Residential Structures

Equiptment & Software

Q2 00  Q4 00  Q2 01  Q4 01  Q2 02  Q4 02  Q2 03  Q4 03  Q2 04  Q4 04  Q2 05  Q4 05  Q2 06

Citizens Bank™
Transition 3: Consumers won’t disappear
Workers share at all time low

Wage & Salaries/National Income (%)

Long Run Average
Labour market very tight so incomes are rising

Unemployment Rate

Wage Growth YOY

Jan-02  |  Jun-02  |  Nov-02  |  Apr-03  |  Sep-03  |  Feb-04  |  Jul-04  |  Dec-04  |  May-05  |  Oct-05  |  Mar-06  |  Aug-06

1.0  |  2.0  |  3.0  |  4.0  |  5.0  |  6.0  |  %

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Less at the pump = more in the pocket

Regular Gasoline Prices ($/Gallon)

Source: Energy Information Administration

Hurricanes

-25%

Source: Datastream
So what do the transitions mean for interest rates?

Inflation (%)

Fed's Inflation "Comfort Zone"

Core CPI

CPI

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This far and no further?

Fed Funds Rate (%)

Neutral Range
Conclusion: Not your typical slowdown
What can you buy for one US worker?
Workers to match 1 American’s output?

- United States: 1
- United Kingdom: 2
- Poland: 6
- Mexico: 9
- Turkey: 6
- China: 7
- India: 8

Graph showing comparisons of workers needed to match 1 American’s output for different countries.
The real competitiveness gap ain’t as scary

Output per unit of Labour cost

United States
United Kingdom
Poland
Mexico
Turkey
China
India
You work harder than all your main competitors

Dolly Parton Days worked less than US average
Wealthier, harder working....and happy!

RICHER

HAPPIER

GDP per capita (1998 PPP)
The declared goal of your Independence......

“We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty and the pursuit of happiness”
Access our reports online

Citizensbank.com
www.citizensbank.com/cs/economic_reports.aspx

Rbs.com
www.rbs.com/economics

Contact us
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A word from our lawyers

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