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US Weekly Economic Update

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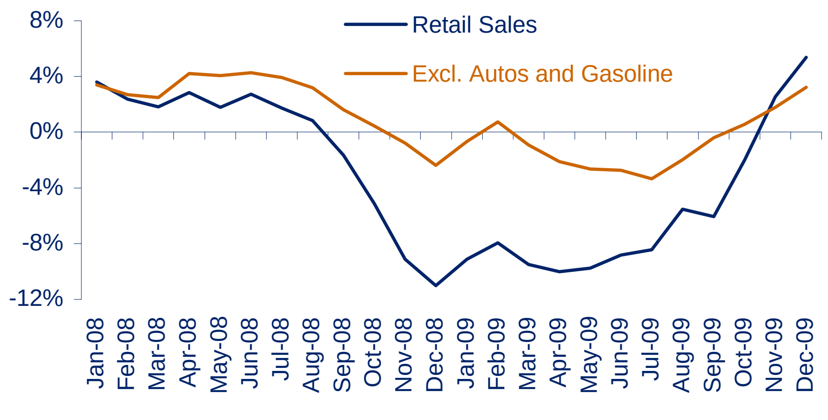
- **It looks like consumers got their shopping in ahead of the pre-Christmas rush.** Retail sales in December were lower than those in November, marking the third consecutive year shoppers hit the stores early. Overall though, it was a much better year for retailers than 2008 as spending was up 5.4% compared to the year before. Stripping out gasoline and auto sales the picture was good, but less glossy. Core spending rose 2.3%, with the difference between headline- and core-spending largely the result of gas sales up more than a third (as oil is almost twice the price it was last year).
- **Consumer prices ended the year higher than they started it.** Despite inflation running negative for eight months of 2009, consumer price inflation reached 2.7% in December, largely a result of energy prices rising 18% from their low in December 2008. But weakness in demand also weighed on price pressures. The price for services, which make up around three-quarters of the economy, saw the smallest rise since 1945. Their non-tradable nature make services a good guide to domestic inflationary pressure, which is expected to remain weak for much of this year.
- **Finally, industrial production continued its march higher in December.** Industrial output ticked up 0.6% m/m, extending the recovery which began in July. Output is now 5% above its low but still 10% off the pre-crisis high. At the current rate of expansion this would take 22 months for output to return to pre-crisis levels. A consequence of higher output is businesses sitting on fewer idle resources, evidenced by a (slowly) rising rate of capacity utilisation, up half a percentage point to 72%.

Chart of the week: Year-on-year growth in retail sales

Source: Thomson Datastream



MARKET RATES MONITOR	15th January 2010	8th January 2010	Year ago
Fed Funds Rate Target	0.25%	0.25%	0.25%
10-yr US Treasury yield	3.70%	3.83%	2.43%
30-yr Mortgage (Freddie Mac)	5.06%	5.09%	5.01%
US dollar/Japanese Yen	90.86	92.95	90.22
Euro/US Dollars	1.44	1.43	1.35
British Pound/US dollars	1.63	1.60	1.52