

# US Weekly Economic Update

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- **US economic data disappointed on all fronts last week.** The estimate for growth in the second quarter was revised down showing the economy lost even more momentum than previously expected. In the three months to June GDP expanded by just 1.6% Q/Q on an annualised basis, down from a first estimate of 2.4% and less than half the pace of growth seen at the start of the year. A 25% increase in investment spending gave a massive boost to the economy, but this was more than offset by an even larger increase in imports which caused the net trade position to deteriorate further. As many of the stimulus measures that have supported the economy over the last year expire, growth momentum, and thus the recovery, could falter further.
- **Poor home sales data added to the gloom.** As the backlog of sales supported by the recently expired homebuyers tax credit worked through the system, there was only one direction July's figure could go. However, it was worse than even the most pessimistic of forecasts, as existing home sales fell 27% compared to June to the lowest level of sales since 1996. The tax credit brought sales forward to support the economy in its darkest hour. With its expiration we can expect sales to be depressed for several months and for prices to come under further pressure as housing demand evaporates. Even sales of shiny new homes did badly, falling 12% from an already suppressed level to just 40% of the long run average level.

**Chart of the week: Existing home sales plummet after tax credit ends**

Source: Thomson Datastream



MARKET RATES MONITOR	27 <sup>th</sup> August 2010	20 <sup>th</sup> August 2010	Year ago
Fed Funds Rate Target	0.25%	0.25%	0.25%
10-yr US Treasury yield	2.66%	2.62%	3.46%
30-yr Mortgage (Freddie Mac)	4.36%	4.42%	5.14%
US dollar/Japanese Yen	84.98	85.74	93.48
Euro/US Dollars	1.27	1.27	1.44
British Pound/US dollars	1.55	1.55	1.63