

US Weekly Economic Update

02 November 2009

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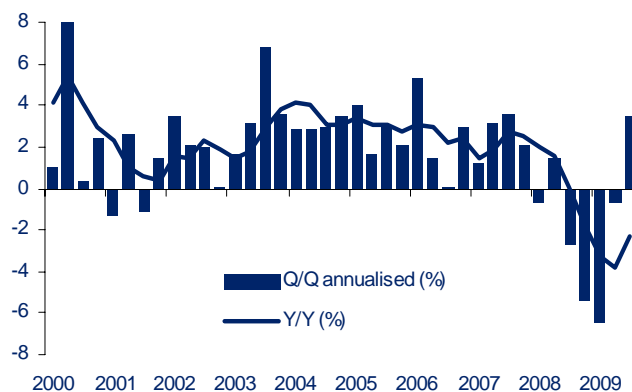
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- **The US economy expanded in the third quarter, after four consecutive quarterly contractions (see Chart). GDP grew 3.5% on a quarter-on-quarter annualized basis (-2.3% y/y). Consumer spending contributed 2.4 percentage points to overall growth, though an important part of this was because of the boost to spending on 'durable goods' due to the government's cash for clunkers program. Other components of the economy also added to growth, with housing construction posting an increase for the first quarter since 2005, and reduced inventory de-stocking also contributing. The US may be out of recession from an economists' definition, but with unemployment continuing to rise, it is unlikely to feel like that for some time for the man on the street.**
- Indeed, despite the Q3 GDP outturn the debate is still raging between those favoring a weak recovery versus those expecting a stronger rebound. We would emphasize the number of temporary measures used to stimulate the economy, and the ongoing need for consumers to save more and spend less in order to pay down debt. Both of these factors suggest to us a slow recovery, once the initial 'bounceback' in GDP is over.
- Indeed, other notable releases last week were personal consumption expenditure for September and consumer confidence. Americans cut spending for the first time in five months. Consumer spending fell by 0.5% in September after a 1.4% jump in August. The Reuters/University of Michigan final index of consumer sentiment also decreased to 70.6 in October from 73.5 the month before. The decrease in spending pushed the savings rate up to 3.3% from 2.8%. However the savings rate is still very low by historical standards, and is likely to rise further in the months ahead. With wages seeing the smallest 12-month gain since 1982, this suggests consumer spending will remain under some pressure.

Chart of the week: US GDP Growth

Source: Thomson Datastream



MARKET RATES MONITOR	30 th October 2009	23 rd October 2009	Year ago
Fed Funds Rate Target	0.25%	0.25%	1.00%
10-yr US Treasury yield	3.41%	3.49%	4.00%
30-yr Mortgage (Freddie Mac)	5.03%	5.00%	6.04%
US dollar/Japanese Yen	90.52	92	97
Euro/US Dollars	1.48	1.50	1.29
British Pound/US dollars	1.65	1.63	1.63