

US Weekly Economic Update

23rd August 2010

Contacts:

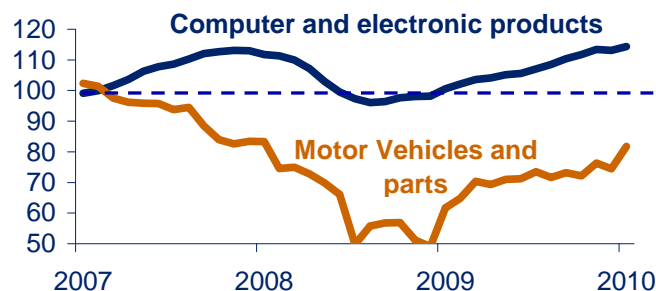
David Rea
Group Economics
+ 44 131 626 3889
david.a.rea@rbs.co.uk

www.citizensbank.com/economics

- **Last week it was announced that China had supplanted Japan as the world's second largest economy.** This was the second time Japan had lost the title in one year after China leapfrogged its neighbour in Q4 2009 but then lost out to a Japanese growth spurt early in 2010. It is expected that China will have firmly laid claim to the crown by Christmas, leaving only the USA (a long way) ahead in the economy size rankings. But one can't imagine there will be parties in the street just yet; on a per capita basis, China is barely ahead of El Salvador and still some way behind Albania!
- **Markets were spooked by a surge in weekly jobless claims.** This data series is notoriously volatile from week to week. But the fact that the number of people filing unemployment claims rose to its highest level since 2009 fanned investor concerns that the labour market situation is deteriorating again it could further undermine the recovery.
- **In the industrial sector, the recovery appeared to be more assured.** However, it is vital to draw a distinction between apparently healthy rates of growth and subdued levels of output to keep the recovery in the industrial sector in perspective. The headline growth figures showed an impressive 7.7% y/y increase in total output in July, but this is still 7% below the 2007 peak and hides significant variation across sectors.
- **The pick of the bunch is the high tech sector where production has already surpassed previous highs.** Utilities and output in the food/beverages sectors are also close to new highs, although both are typically less affected by business cycle fluctuations. By contrast, the sector that is currently recording the strongest annual growth rates probably has the most difficult road to travel. The motor vehicle sector saw a sharp rise in output in July, with production around 60% higher compared to the mid-2009 lows, although this is partly a reflection of the fact that there were fewer auto plant shutdowns for retooling this July than in previous years. Despite this increase, vehicle production is still more than 20% below pre-crisis levels and the structural problems in the industry suggest production is unlikely to surge past pre-crisis levels any time soon.

Chart of the week: Industrial production indices

Source: Thomson Datastream



MARKET RATES MONITOR	19 th August 2010	12 th August 2010	Year ago
Fed Funds Rate Target	0.25%	0.25%	0.25%
10-yr US Treasury yield	2.58%	2.74%	3.59%
30-yr Mortgage (Freddie Mac)	4.44%	4.49%	5.22%
US dollar/Japanese Yen	85.05	85.95	95.47
Euro/US Dollars	1.29	1.28	1.43
British Pound/US dollars	1.56	1.56	1.66