



US Economic Outlook

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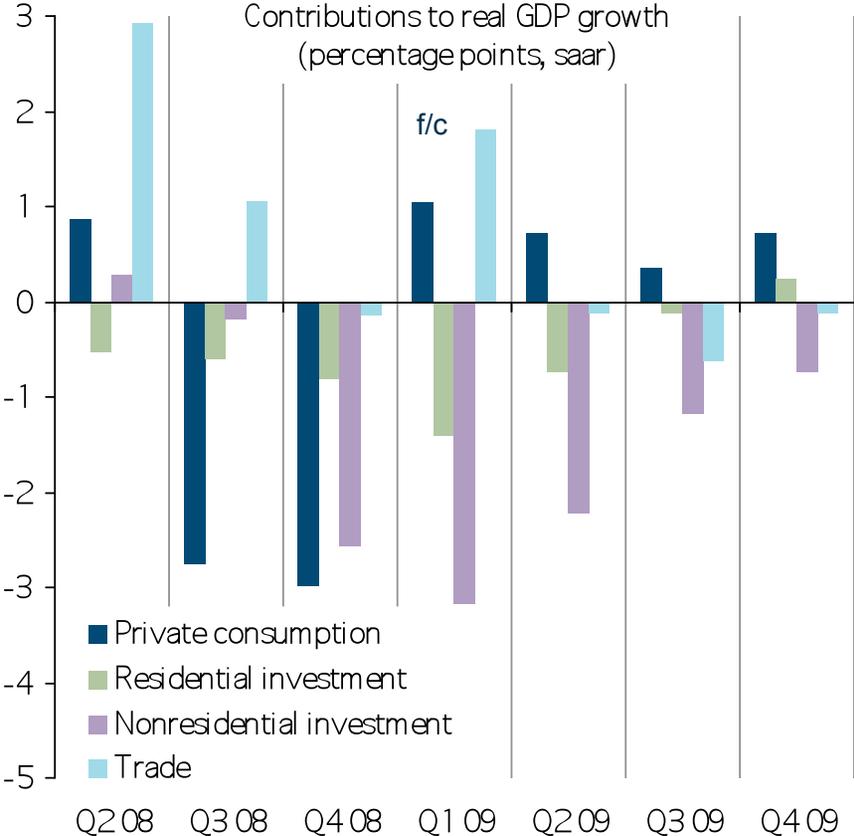
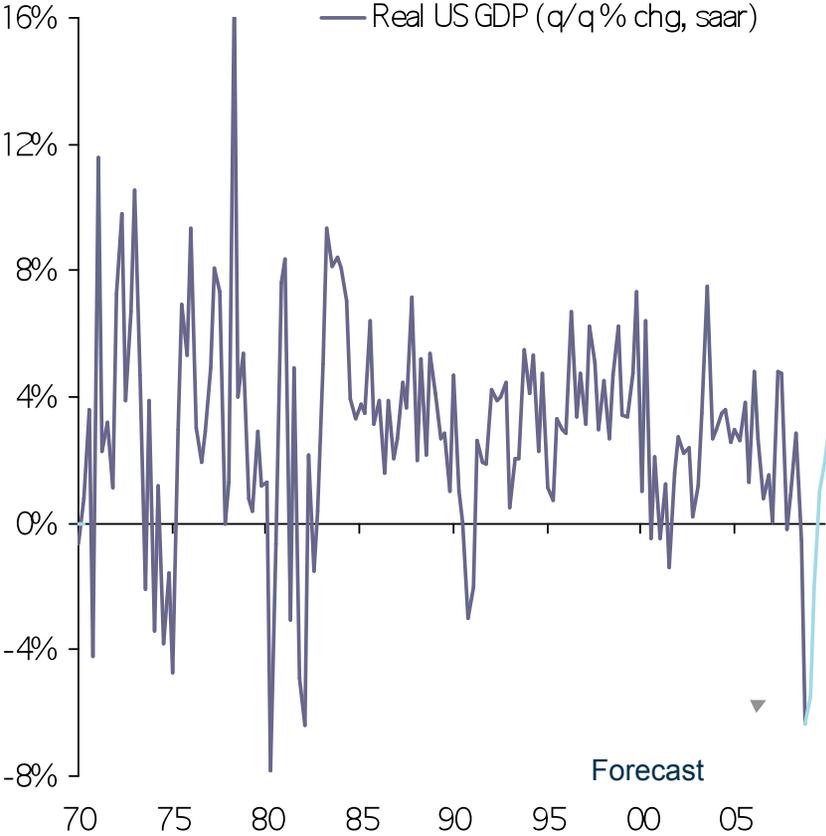
Key outlook themes

- ▶ US GDP to contract sharply through H1 09, as credit tightening, financial turmoil, and slower exports bite
- ▶ Sharp contraction rotating to businesses from consumers
- ▶ Fed to stay on hold at 0-0.25% through 2010; market interventions now the main policy tool
- ▶ Headline inflation to be negative y/y for most of 2009, core inflation to decelerate

	2008		2009			
	Q3	Q4	Q1	Q2	Q3	Q4
Real GDP (% q/q saar)	-0.5	-6.3	-5.5	-2.0	1.0	2.0
Unemployment rate (%)	6.1	6.9	8.1	9.1	9.5	9.8
Headline CPI (% y/y)	5.3	1.6	0.0	-1.4	-2.1	0.8
Core CPI (% y/y)	2.5	2.0	1.7	1.7	1.3	1.4
Fed funds rate (%)	2.00	0-0.25	0-0.25	0-0.25	0-0.25	0-0.25

Source: Barclays Capital. Note: Interest rate figures are end of quarter.

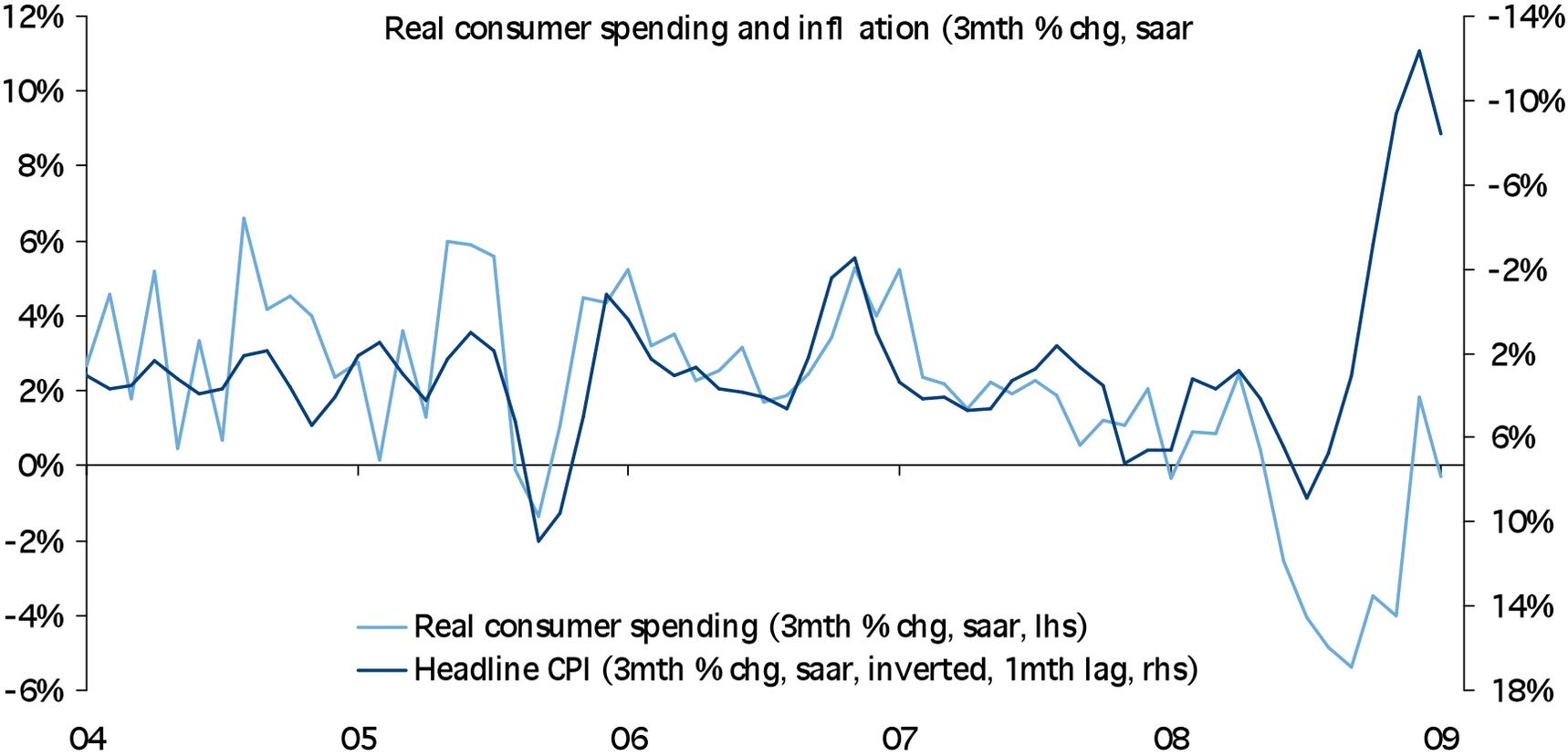
Real GDP to contract less sharply in Q2 09; rotation occurring



Source: BEA, Haver Analytics, Barclays Capital.



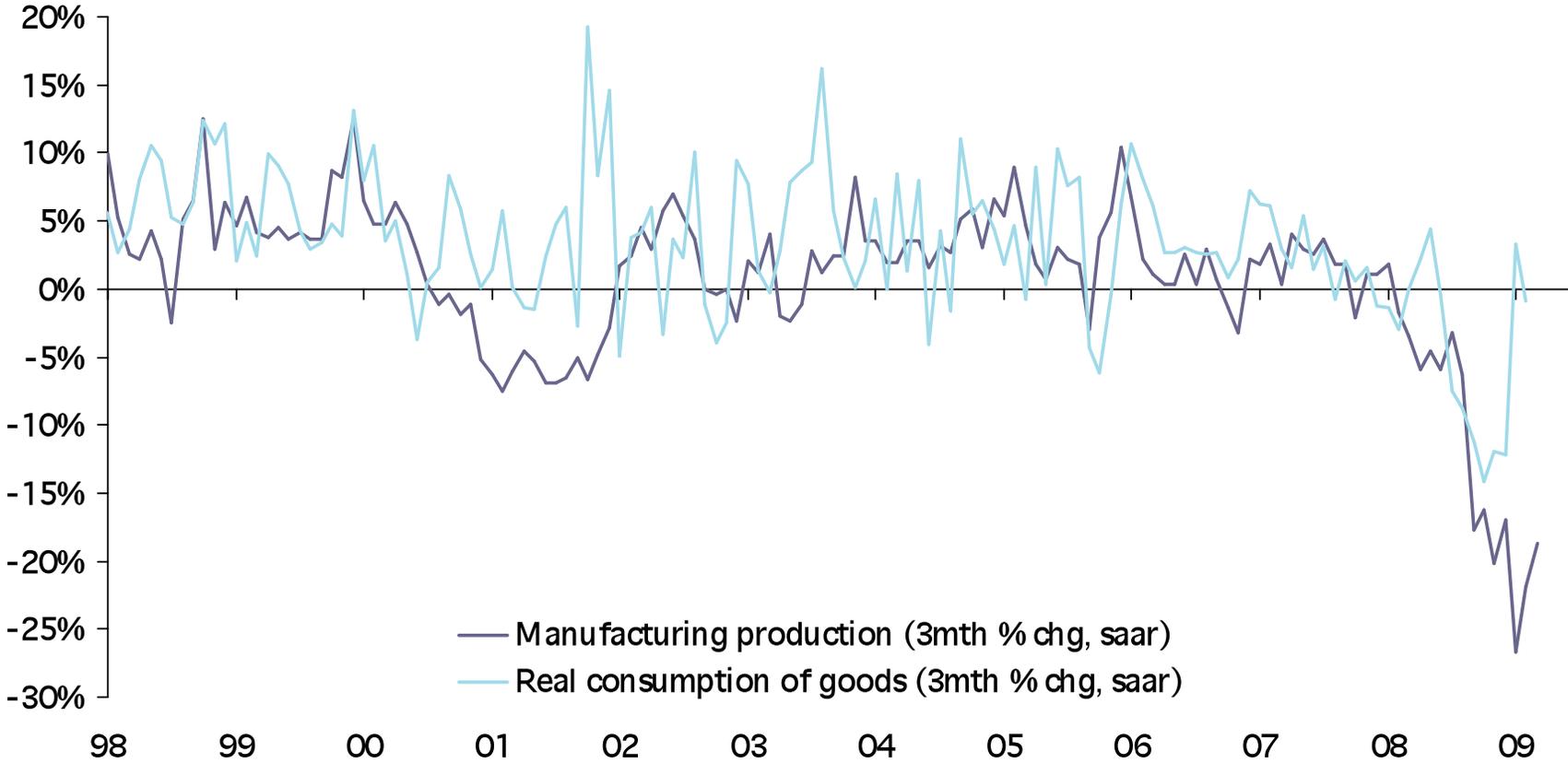
Decline in inflation supporting consumer real income and spending



Source: BEA, BLS, Haver Analytics.



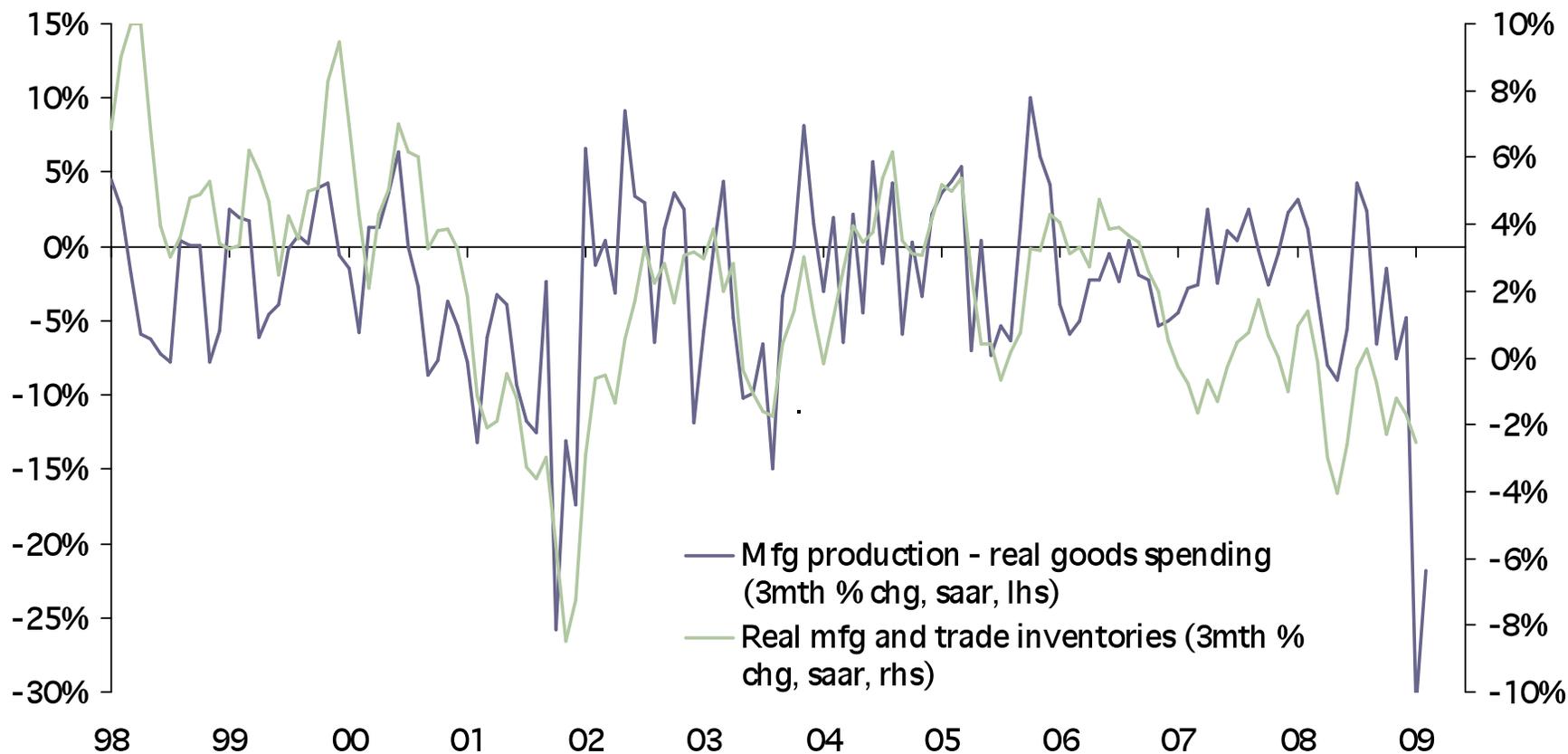
Production has been cut far below the growth of goods consumption



Source: FRB, BEA, Haver Analytics



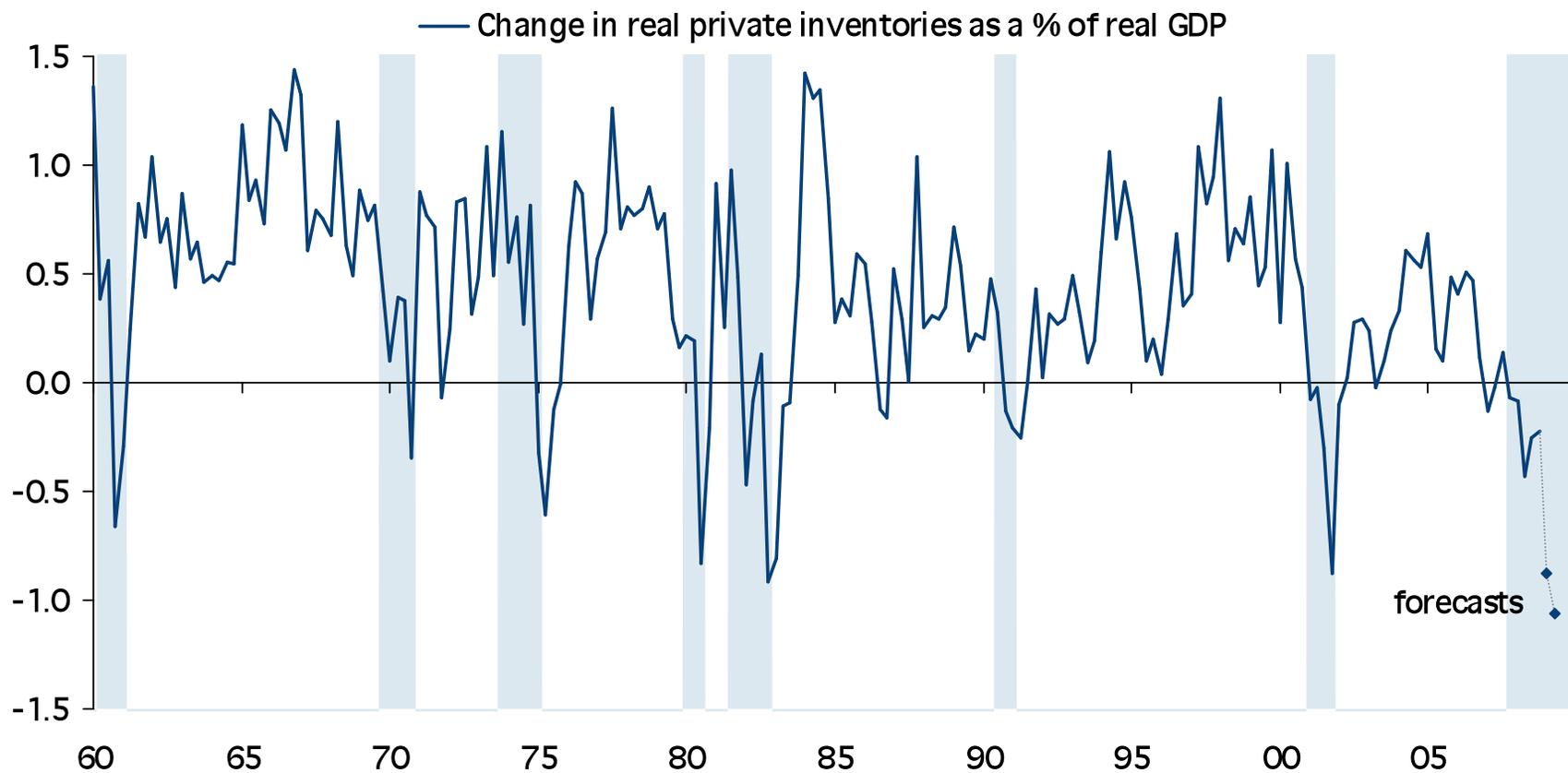
The gap between production and consumption points to a large inventory cut



Source: BEA, Census Bureau, Haver Analytics



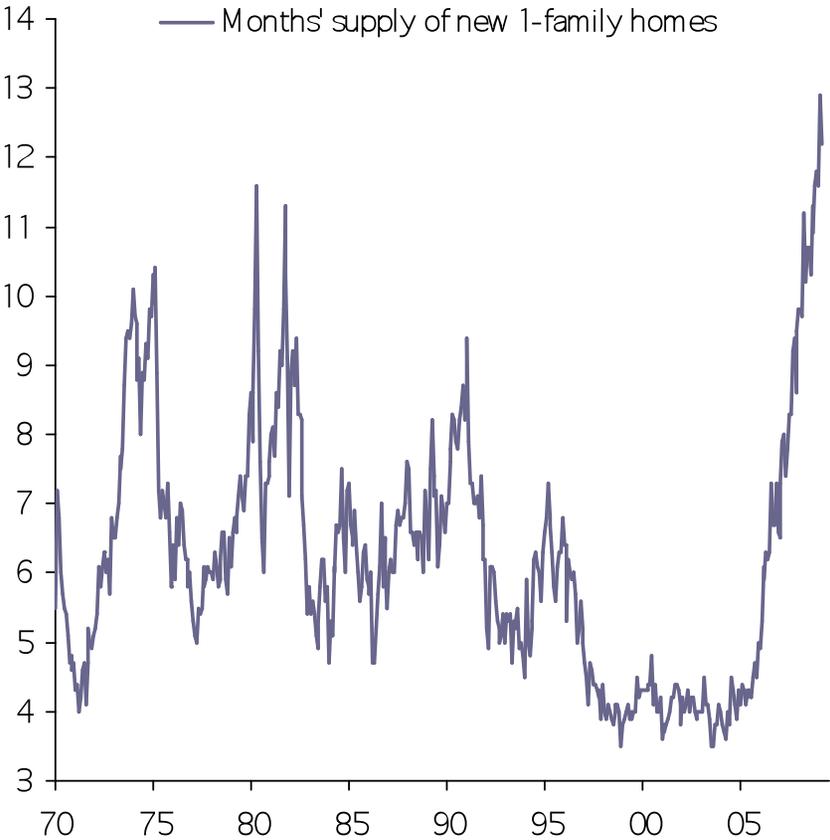
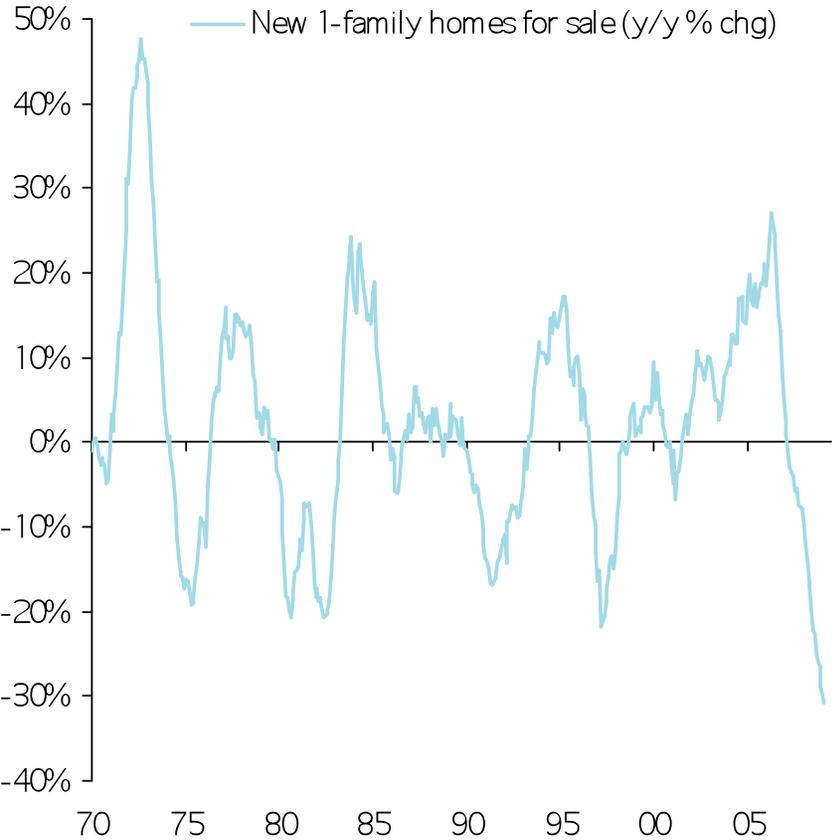
We look for the largest quarterly inventory decline on record



Source: BEA, Haver Analytics, Barclays Capital



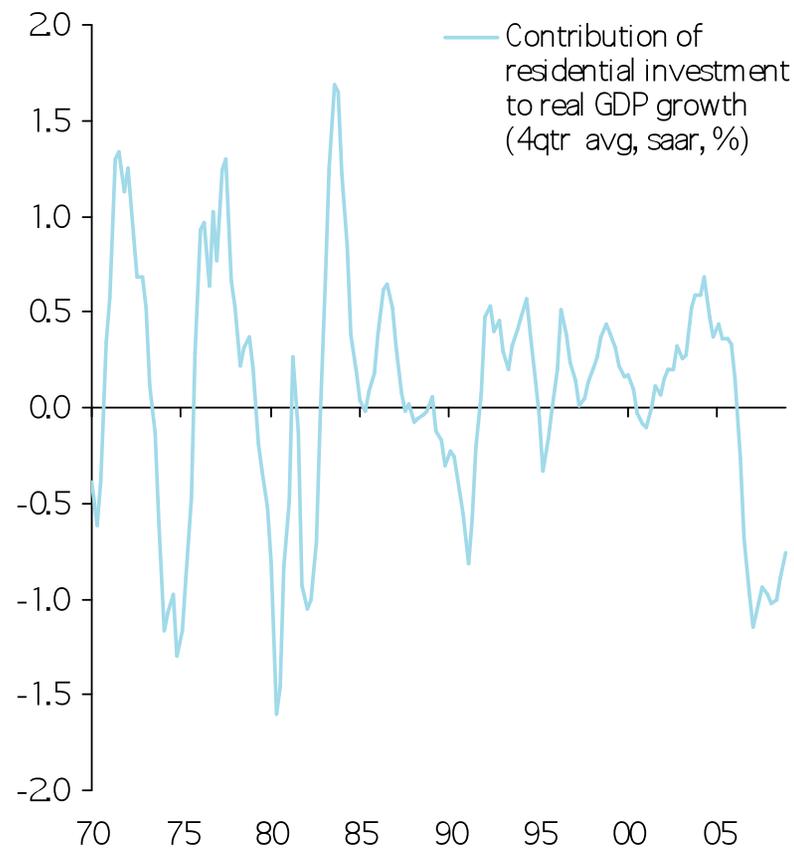
New home inventories falling sharply; months supply above previous peaks



Source: Census Bureau, Haver Analytics.



Bottom in starts closely follows bottom in sales; housing drag to fade in 2009



Source: Census Bureau, BEA, Haver Analytics.



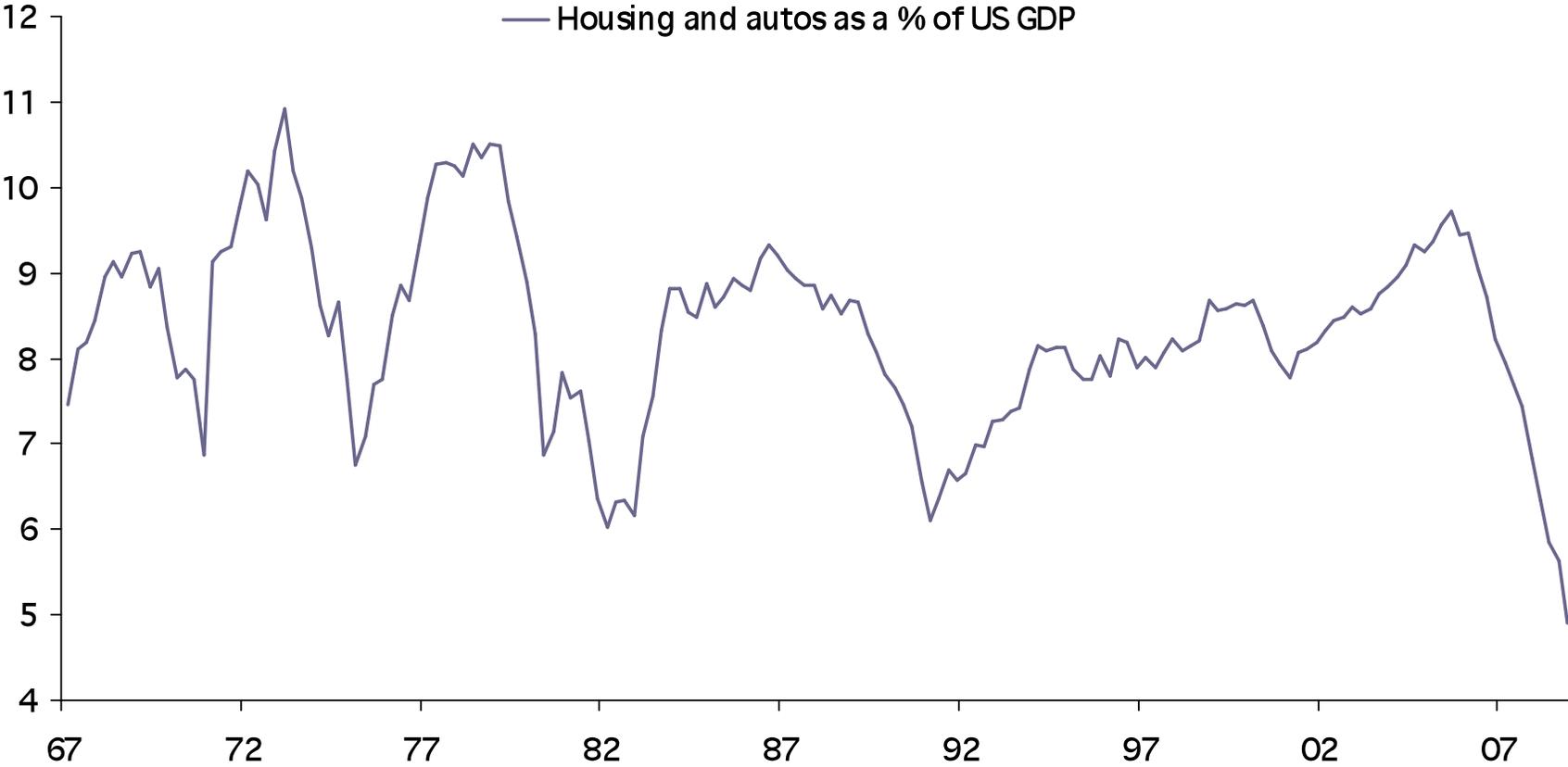
Housing affordability highest in decades



Source: WSJ, National Association of Realtors, Haver Analytics.



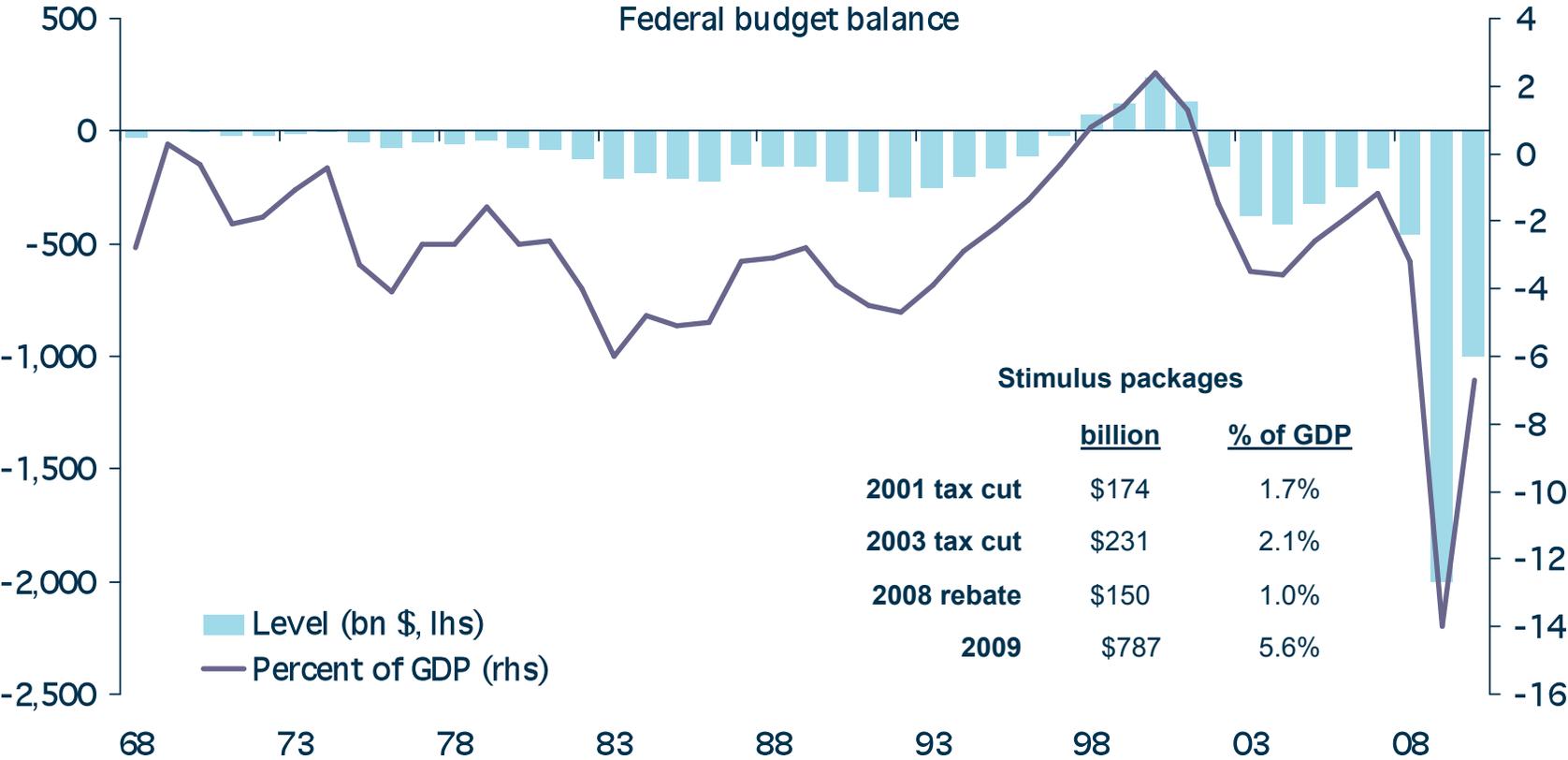
Credit-sensitive sectors have already been crushed



Source: BEA, Haver Analytics.



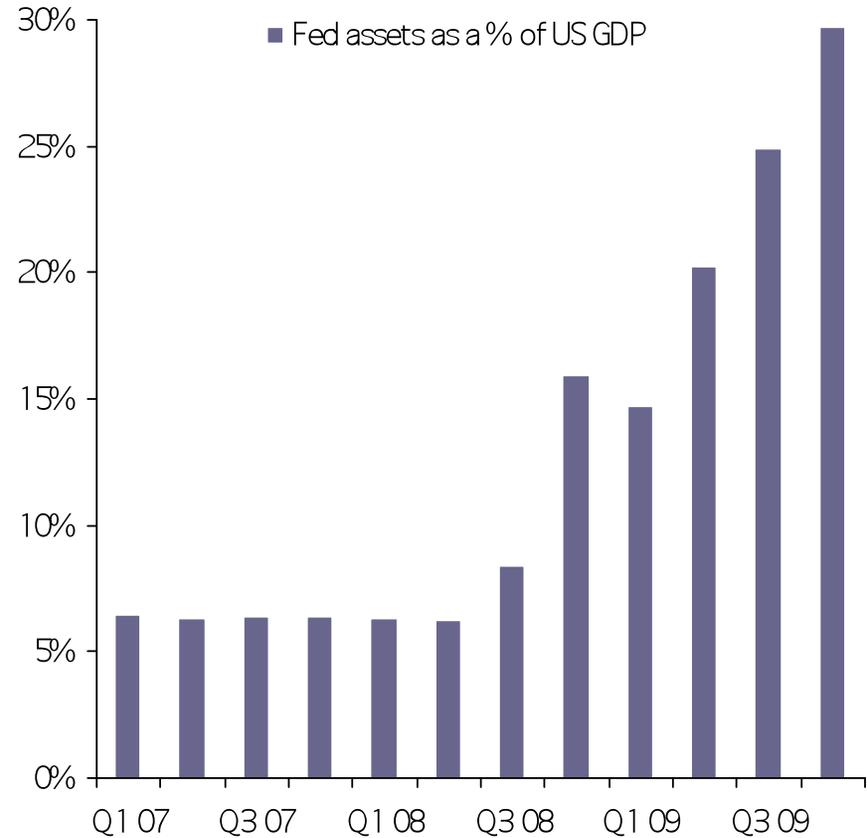
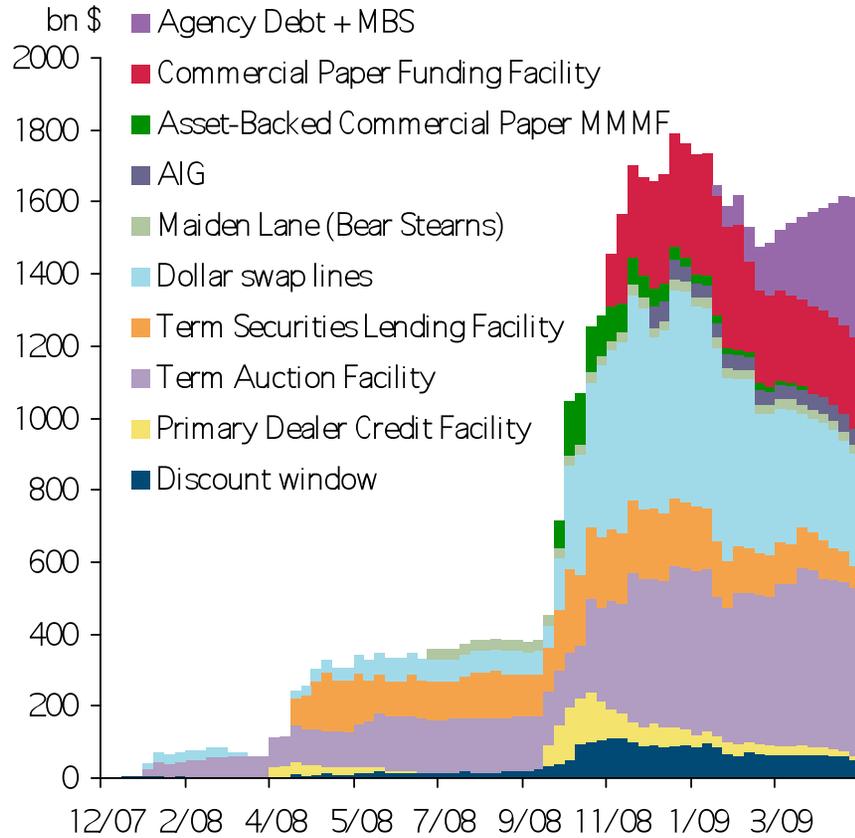
Fiscal package is massive



Source: BEA, CBO, Barclays Capital.



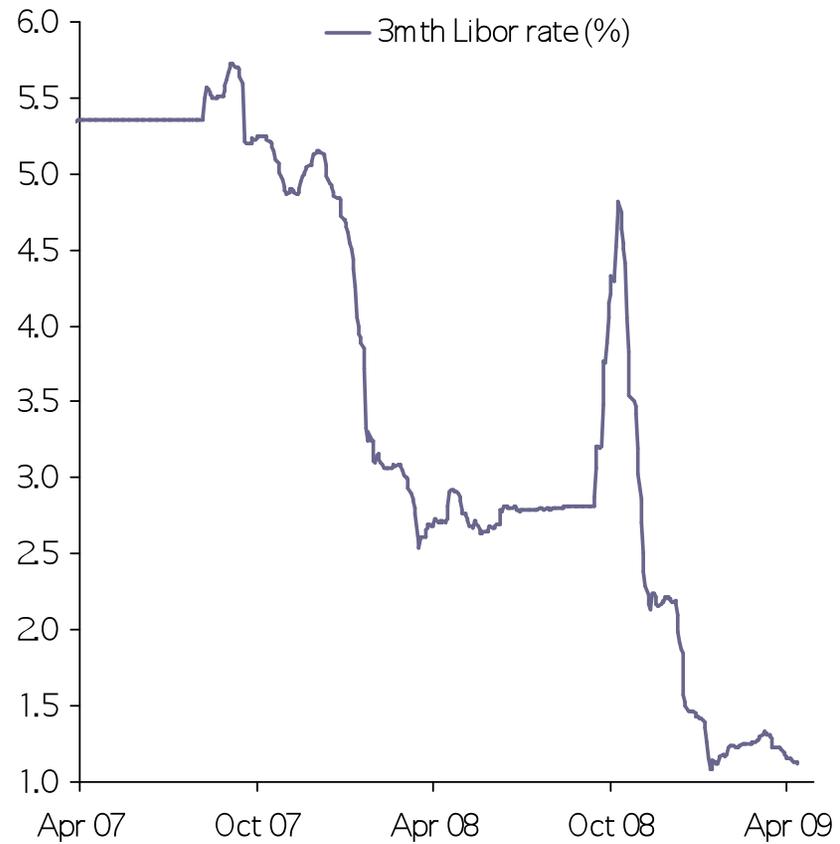
Fed balance sheet set to grow sharply this year



Source: FRB, BEA, Haver Analytics, Barclays Capital.



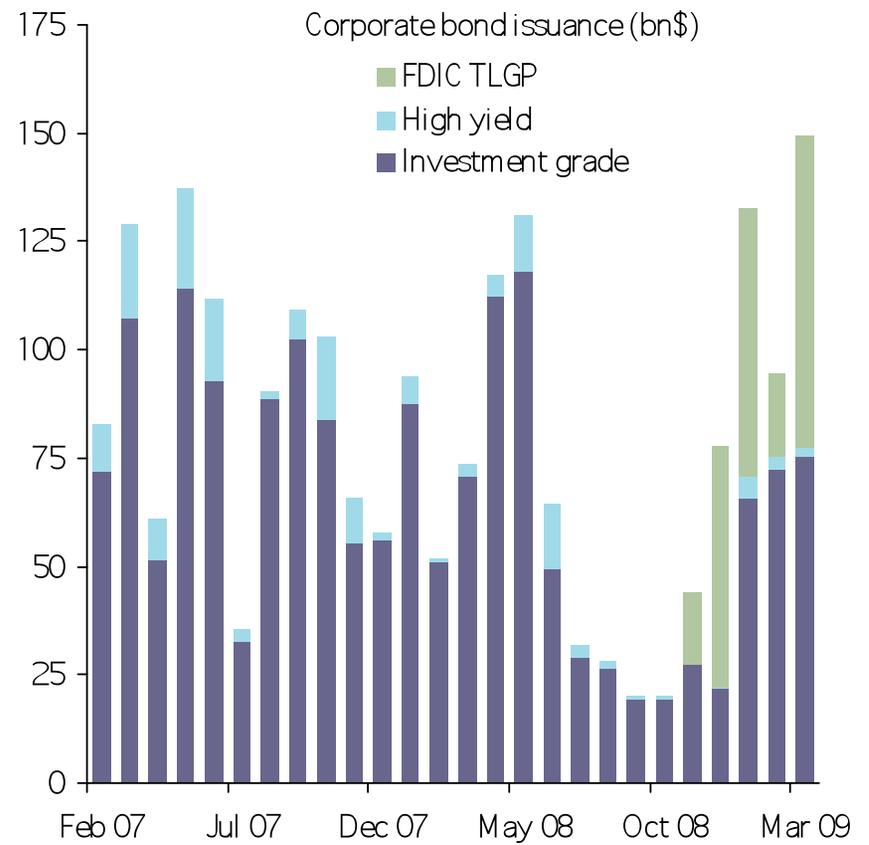
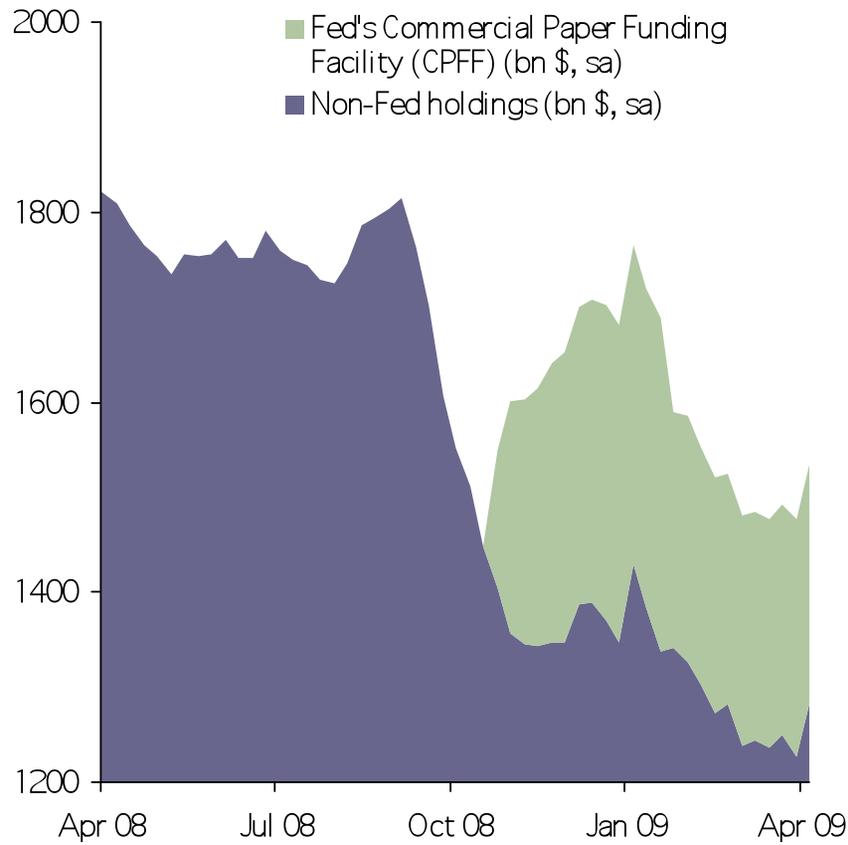
Some evidence of progress from credit market intervention



Source: FRB, Bloomberg, Haver Analytics.



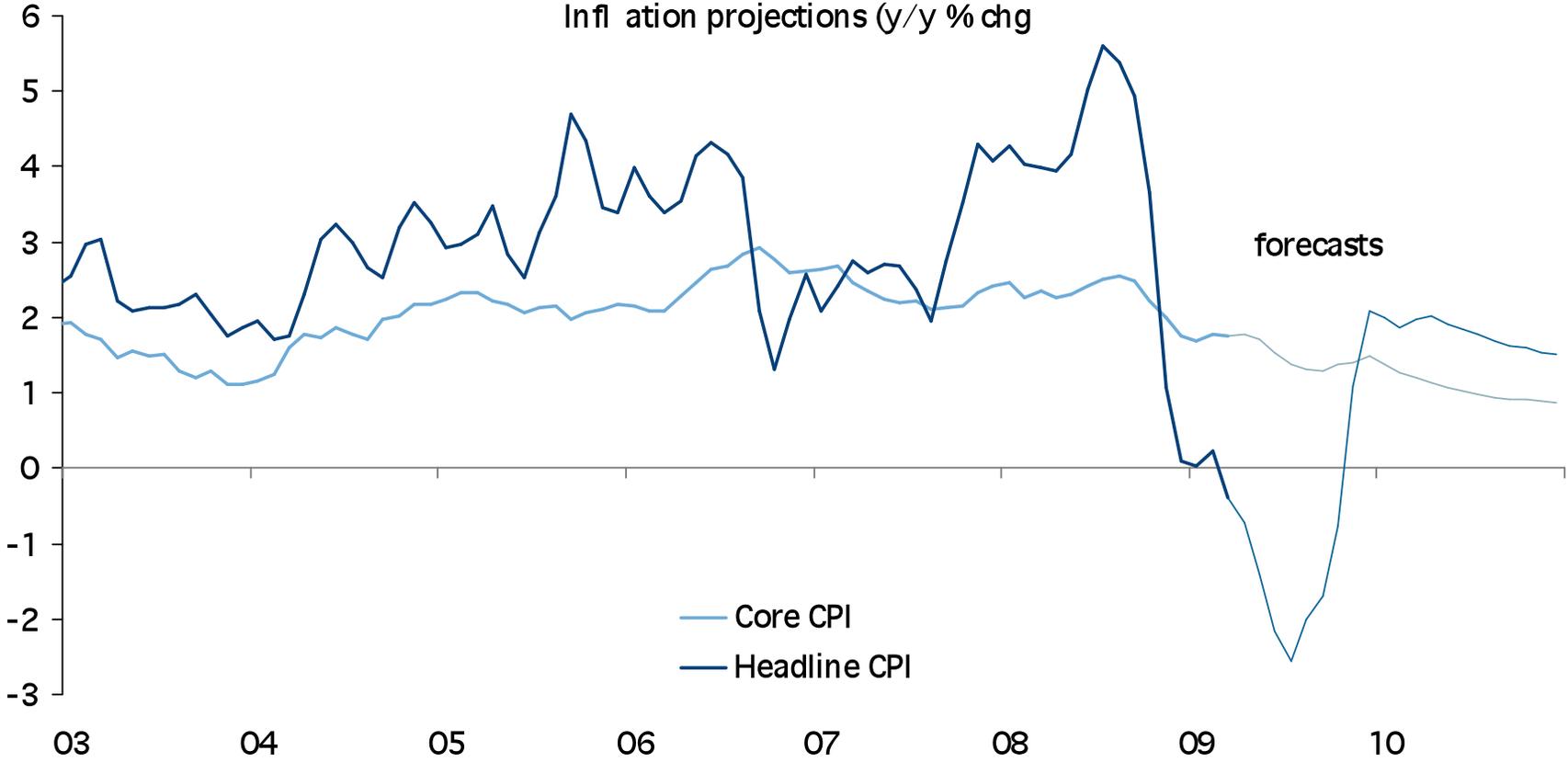
Some evidence of progress from credit market intervention



Source: FRB, FDIC, Haver Analytics, Bloomberg.



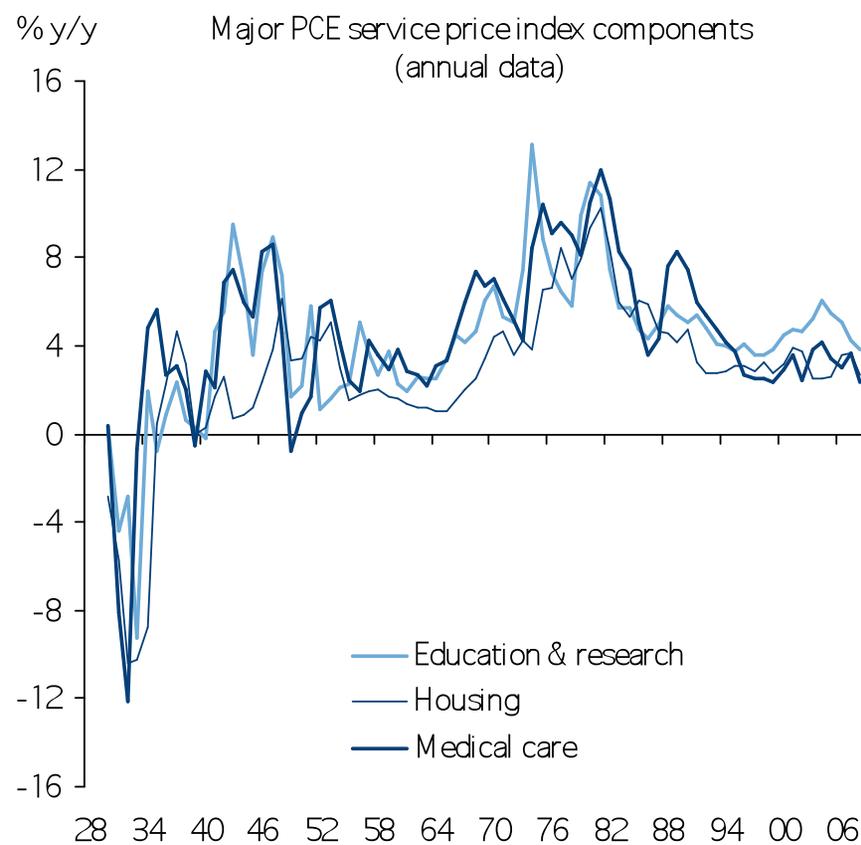
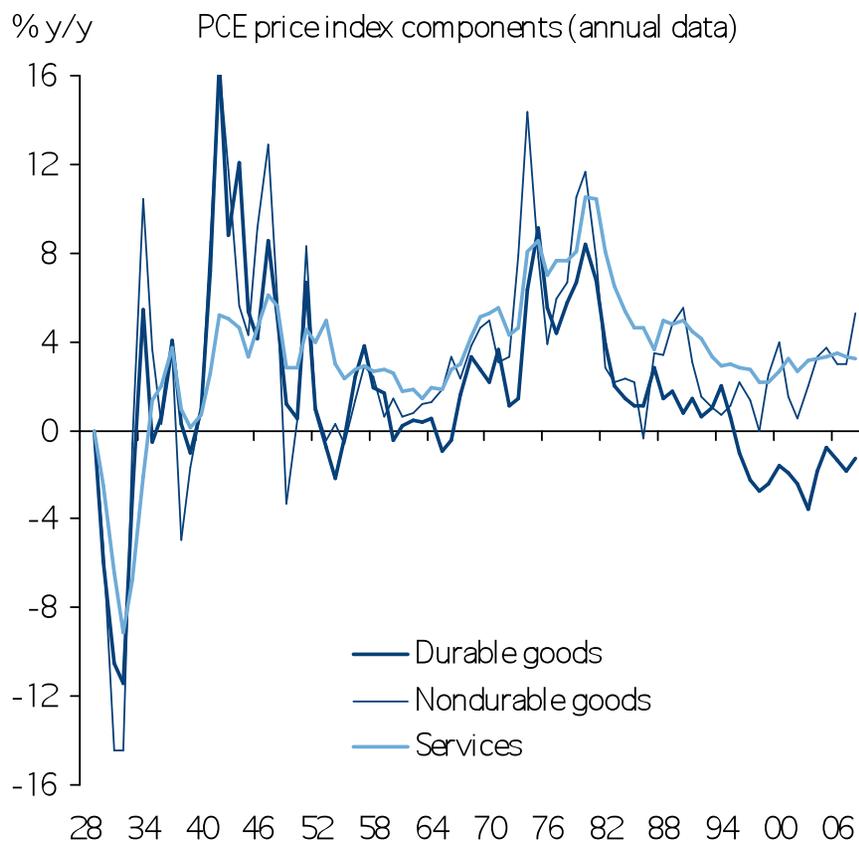
Headline inflation to decline substantially



Source: BLS, Haver Analytics, Barclays Capital.



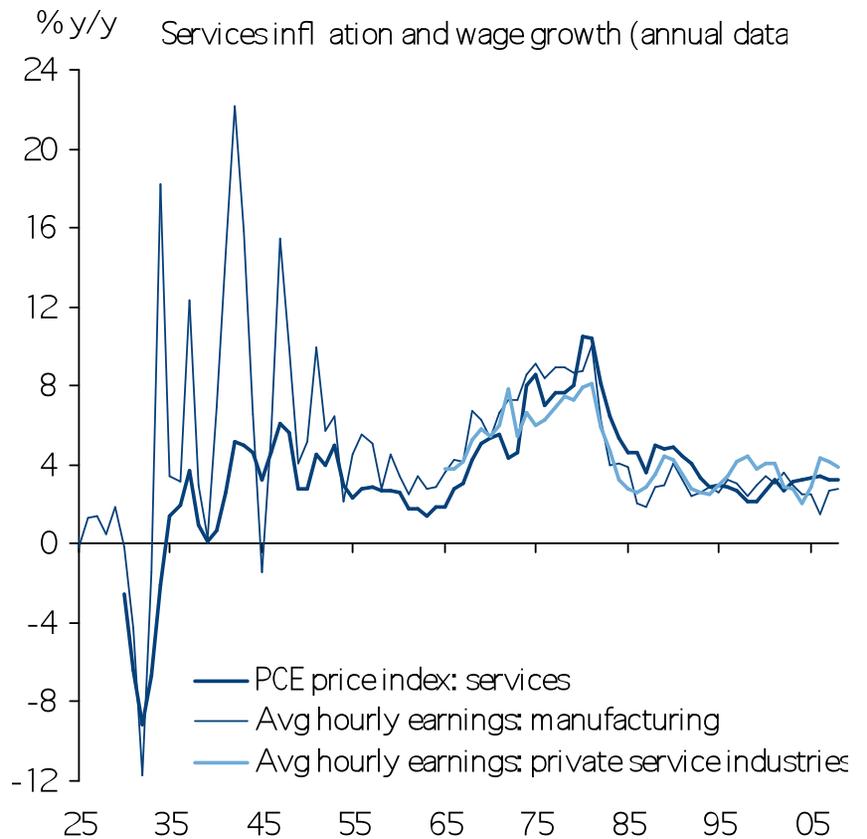
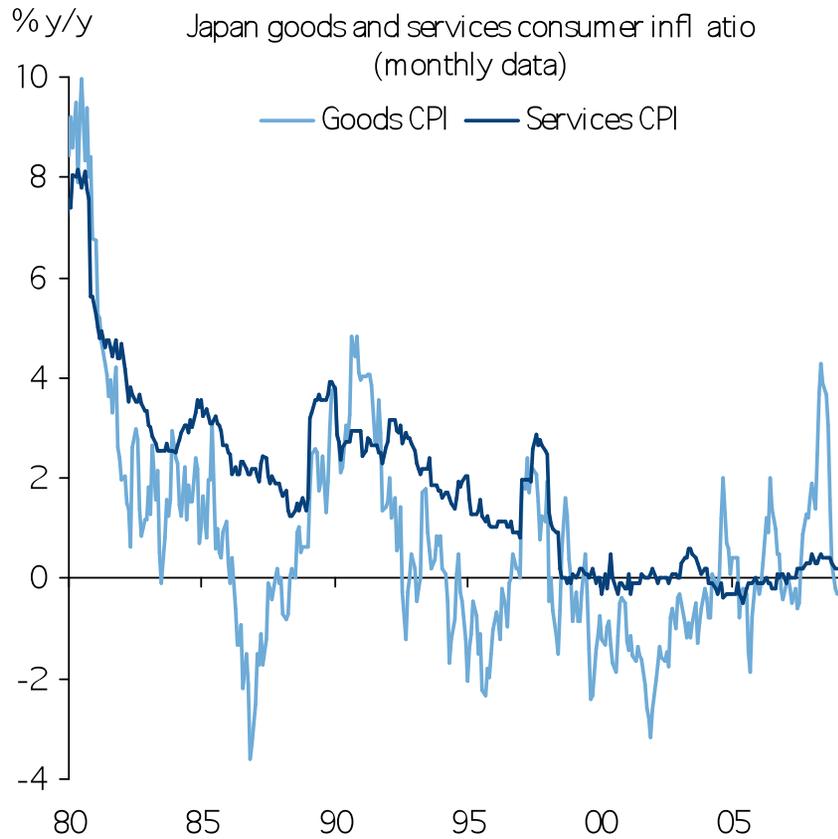
Service sector is key for deflation risks



Source: BEA, Haver Analytics.

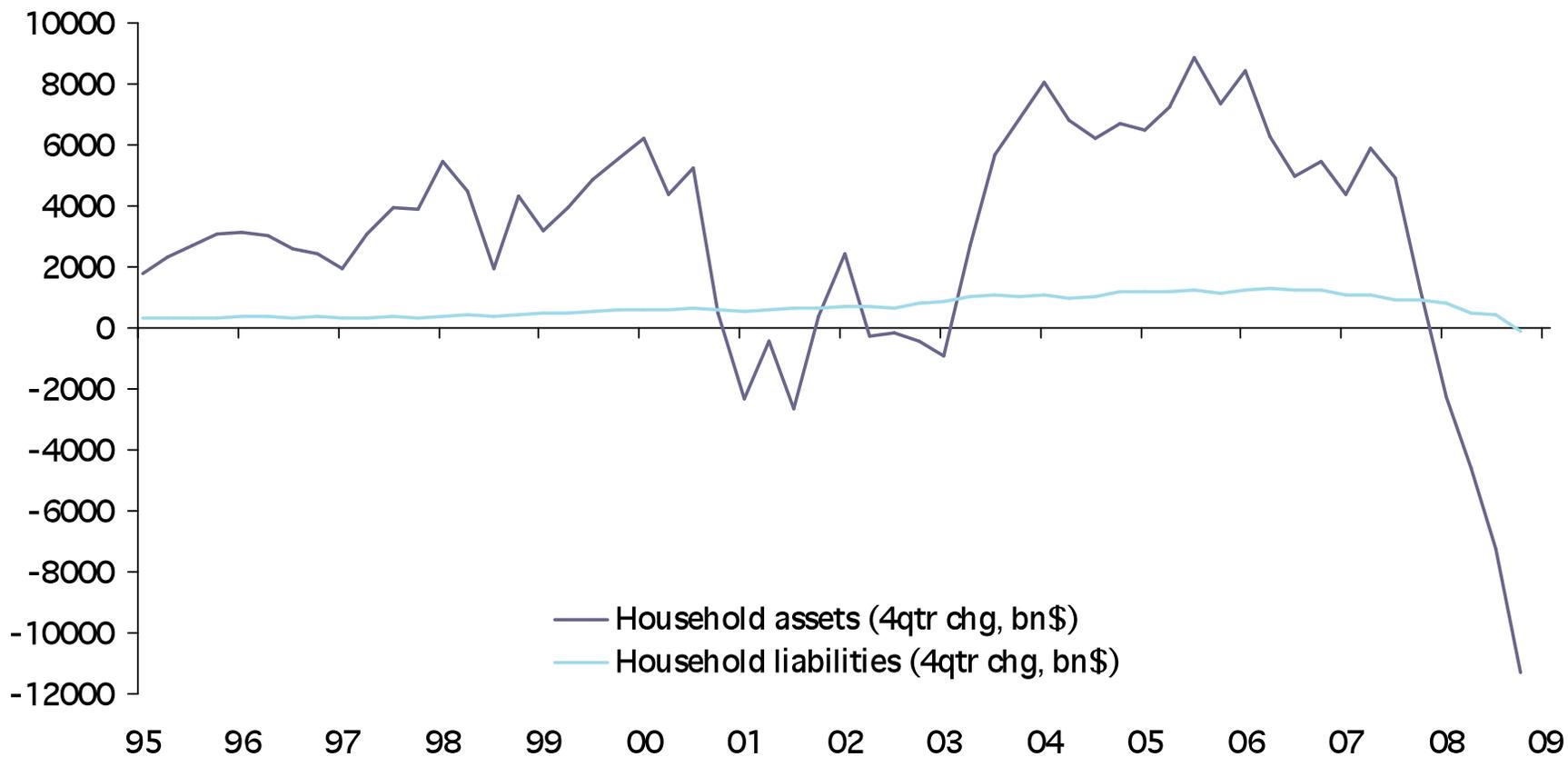


In Japan service prices flattened; wages drive service sector inflation



Source: Japanese Ministry of Internal Affairs and Communications, BEA, BLS, NBER, Haver Analytics, Barclays Capital.

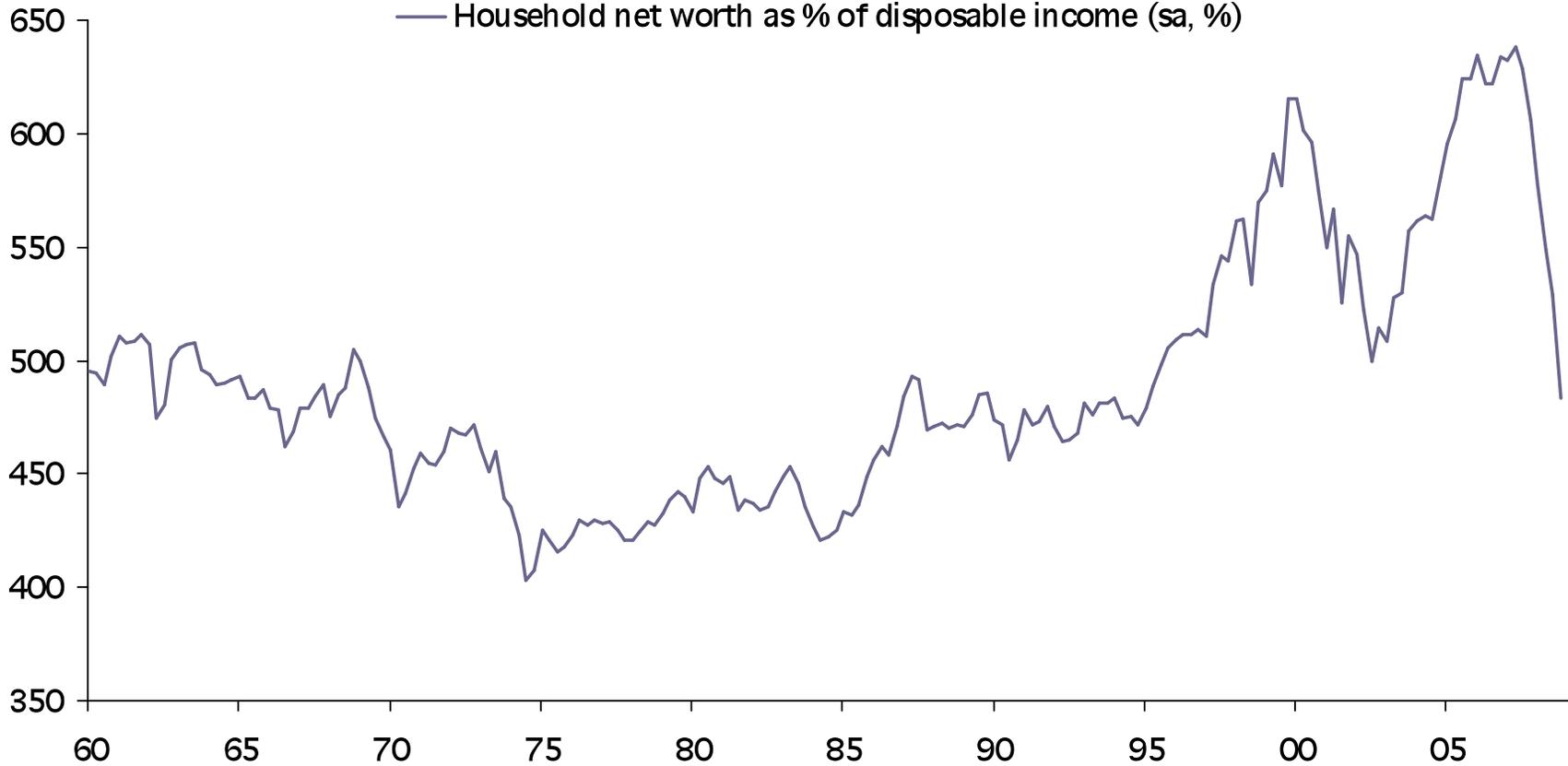
Value of household assets is falling



Source: FRB, Haver Analytics.



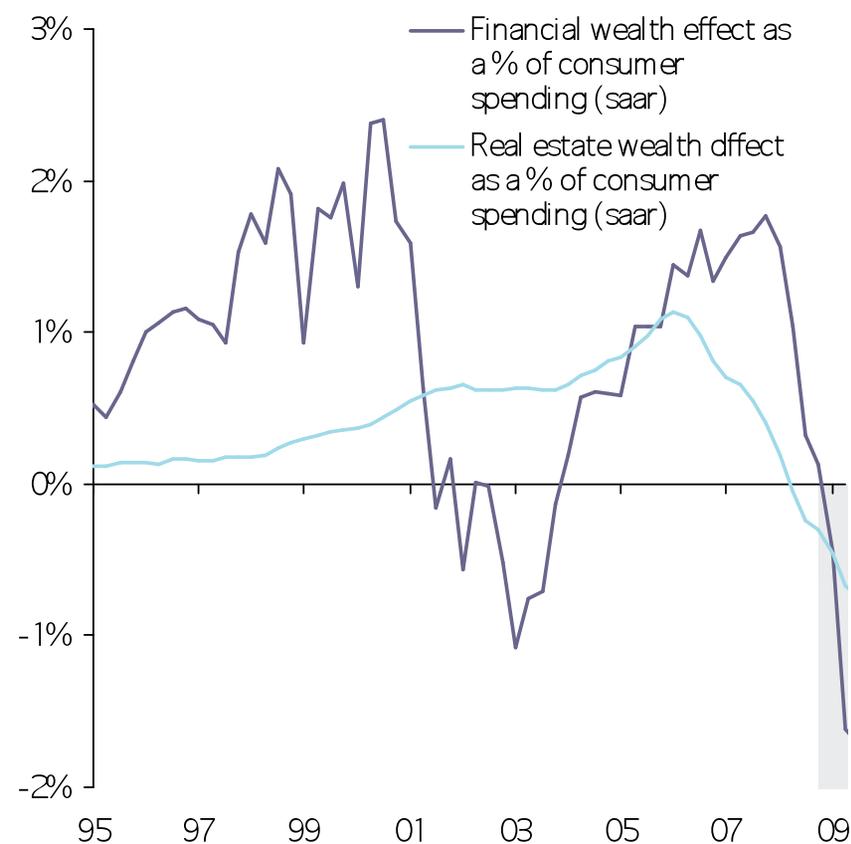
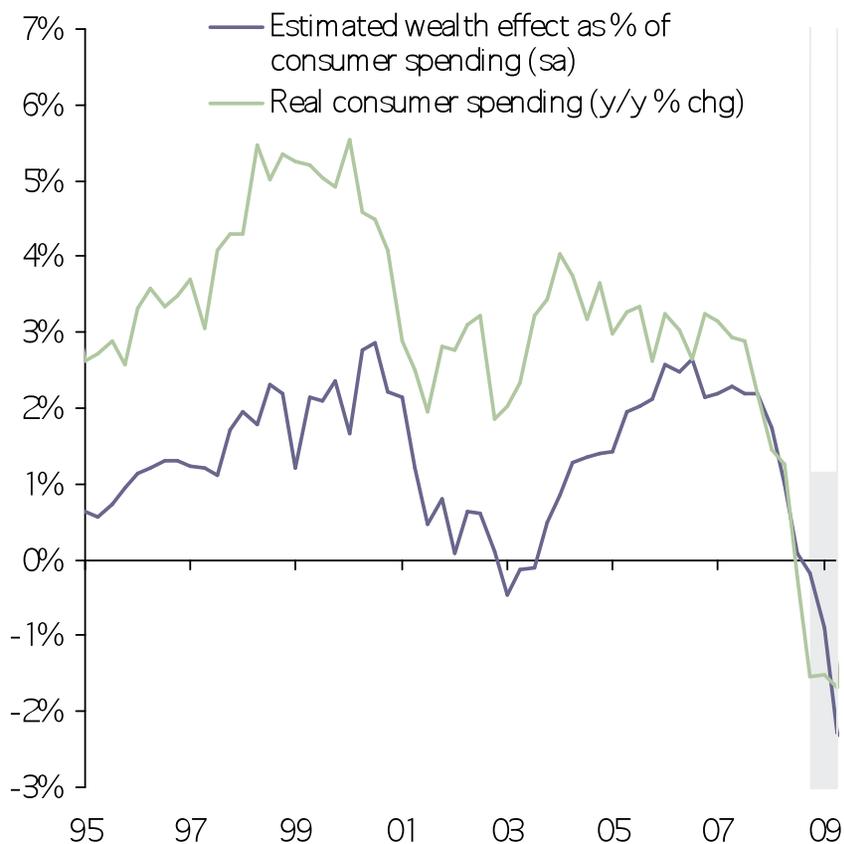
Household wealth has moved lower



Source: FRB, Haver Analytics.



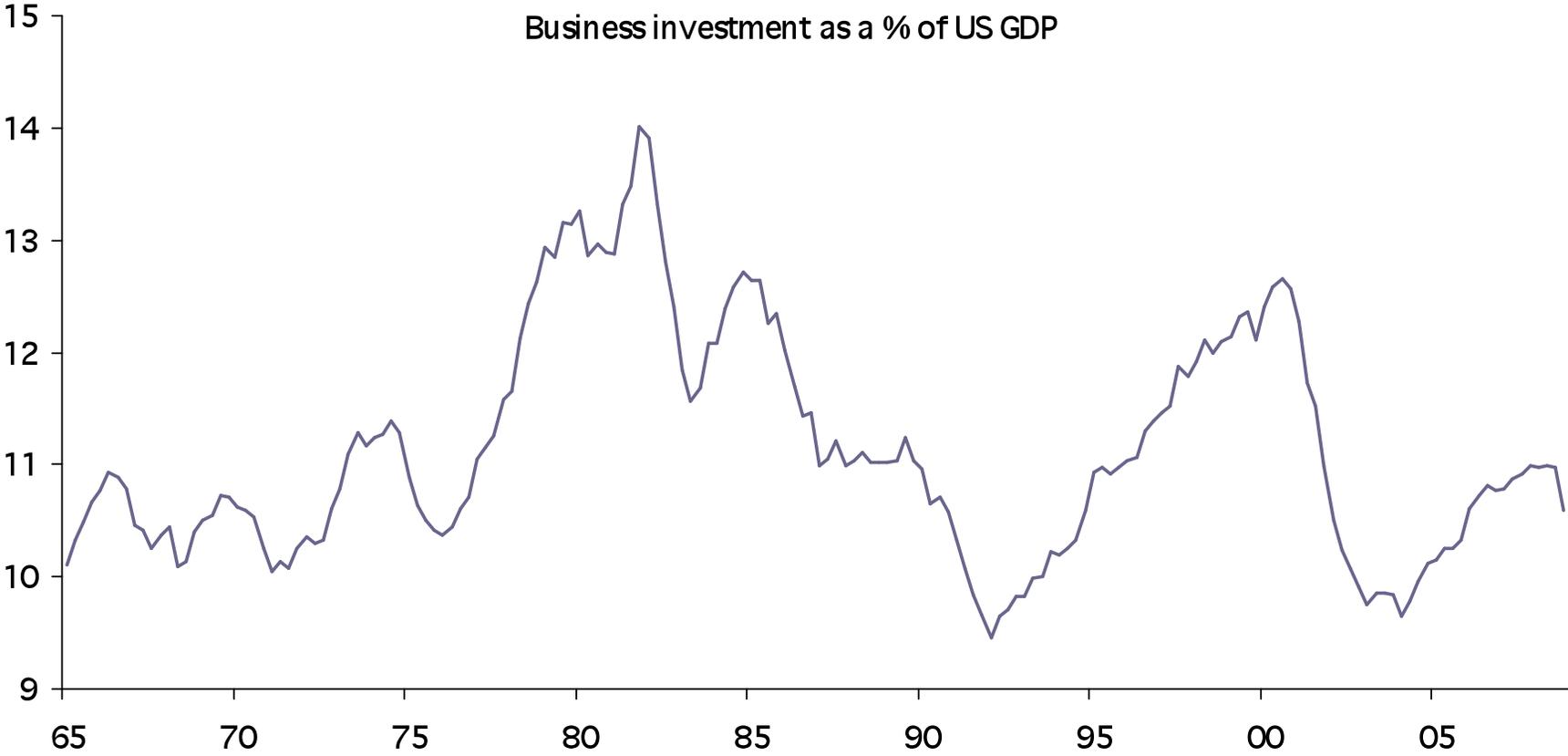
Wealth effect has turned negative



Source: FRB, Barclays Capital, Haver Analytics. Note: Shaded region indicates Barclays Capital forecast through H2 2009.



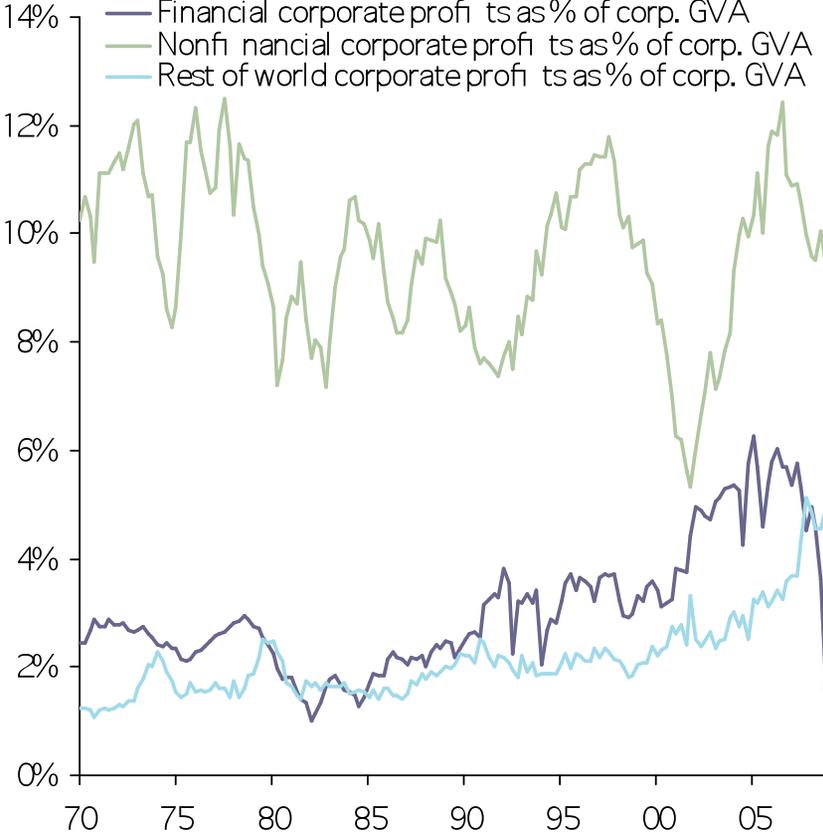
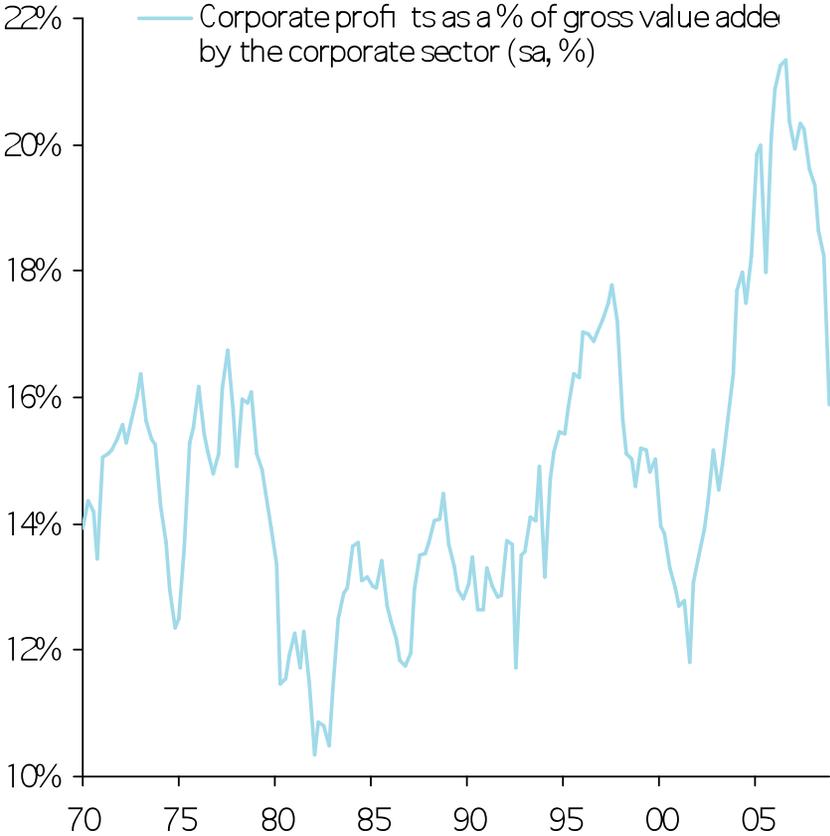
Business investment spending has been subdued



Source: BEA, Barclays Capital.



Corporate profit margins sliding



Source: BEA, Haver Analytics.



Earnings growth has not decelerated much as unemployment rate increased



Source: BLS, Haver Analytics.



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