

## **US WEEKLY BRIEF**

### **Congress deals the President one victory and one setback**

In the flurry of legislative activity before recessing for the Thanksgiving holiday, Congress passed landmark legislation expanding and reforming the Medicare system. This was an important victory for the President, who had made the addition of a prescription drug benefit to Medicare a centrepiece of his domestic agenda. This success reinforces his image of a compassionate conservative and takes away an issue that the Democrats might have used to their advantage during next year's election campaign.

However, the final bill is not an unmixed blessing: there are a couple of features included that are quite controversial. First, it introduces means testing to Medicare, requiring seniors with higher incomes to pay higher premiums for their Medicare coverage. This is controversial because it takes what has been seen as a straight insurance program and twists it at least partially into a welfare program, which could erode support for the system. The second controversial new element is that the legislation opens the program to private sector competition, in the hope that this will reduce costs. Among other complaints, critics contend that the private programs could siphon off the healthiest seniors, leaving the public program with the sickest and causing costs to rise, undermining the system. Finally, the prescription drug coverage will not be nearly as good as the recipients expect: the premiums and deductibles are quite large, and after an initial benefit has been paid, patients will have to cover all costs until a 'catastrophic' level of out-of-pocket expense is reached. If the Democrats can exploit these features of the new plan, they may still have an issue for next year.

The energy bill did not fare as well. The \$96 billion bill would expand incentives for increasing supplies of fossil fuels, subsidize the construction of a natural gas pipeline from Alaska to Chicago, and mandate the doubling of the amount of ethanol that is used as a gasoline additive. It is controversial for its expense, the lack of conservation and other green measures. In addition, the bill also protected the makers of MTBE, a fuel additive that is known to contaminate ground water, from new lawsuits, which was very unpopular with a number of senators. The bill failed to win the support of enough (60) senators to cut off debate, and so it was withdrawn from consideration. Republican congressional leaders have promised to bring it back early in the new year, in the hope that the controversies will have died down sufficiently to enable passage.

Congress left much business unfinished. Only seven of the 13 appropriations bills, which provide funding for the government for the fiscal year that which started October 1, have been passed. A catchall bill, to cover the remaining six may be enacted when Congress returns in December, or it could be postponed until January. In the meantime, government operations have been funded by a series of continuing resolutions. In addition, Congress has not acted to remove US export subsidies that the World Trade Organization has ruled against, and there is pending legislation to fund highway construction for the next five years, limit medical lawsuits, and provide corporate relief on pension funding. With next year being an election year, it may be difficult to clear away all of this leftover business.

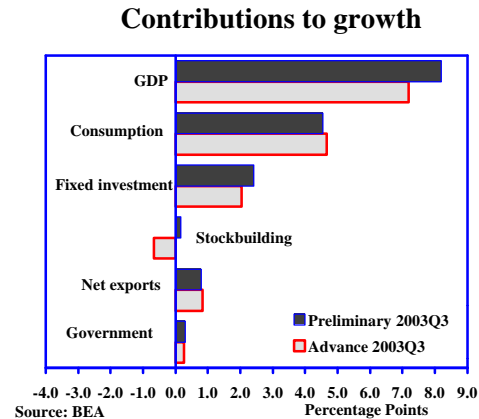
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# US WEEKLY BRIEF

## THE LATEST DATA IN DETAIL

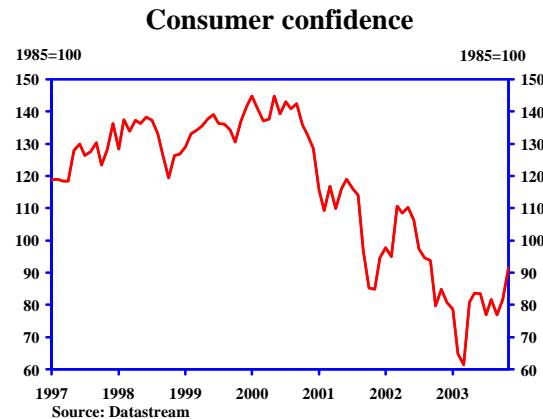
### Gross domestic product (2003Q3, first revision)

Q3 GDP growth was revised from an annual rate of 7.2% to 8.2%. Fixed investment and stock building were the key sources of the upward revision, easily offsetting a minor downward revision to consumer spending. Despite the downward revision, consumer spending provided the bulk of growth in Q3, with fixed investment the second largest contributor. The positive contribution from stockbuilding suggests that it will provide less support to growth in Q4 than we had been anticipating.



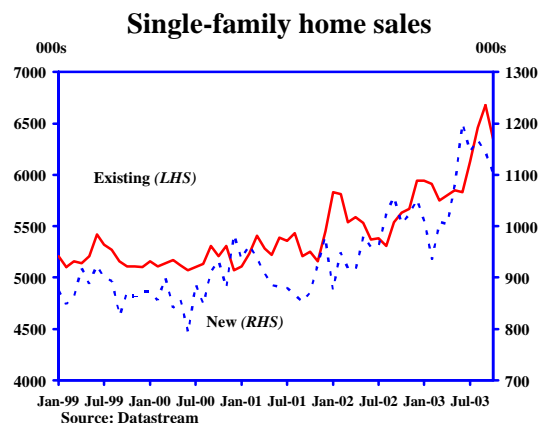
### Consumer confidence (November)

Consumer confidence jumped 10 points to 91.7 in November, a much larger improvement than had been anticipated. The current conditions index soared 13.1 points to 80.1, while the expectations index rose 7.9 points to 99.4. The November reading was the best since September 2002 and reflects the improvement in the labor market as reflected in three months of gains in payroll employment and a declining trend on unemployment insurance claims.



### Single-family home sales (October)

Both new and existing single-family home sales eased in October, but remain at very high levels. New home sales fell 3.5% while existing homes sales fell 4.9%, but combined single-family home sales were the third highest on record. We expect further moderation in home sales, partly because of the rise in long-term interest rates since June but also because the level of sales was too high to be sustainable. However, even with the rise in long-term rates, mortgage rates are low by historical comparisons, and so a sharp downturn in sales remains unlikely.

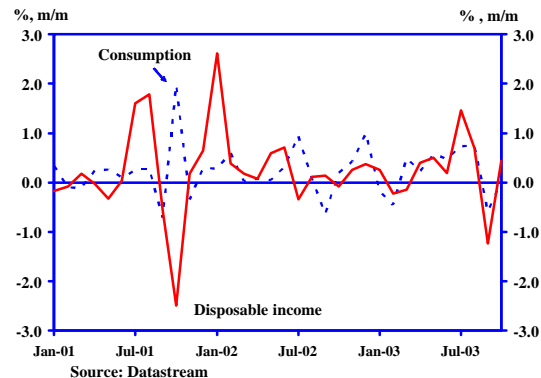


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## Real disposable income and consumer spending (October)

Both nominal and real disposable income rose 0.4% in October, about as expected. With the impact of advance childcare refunds past, taxes rose in line with income. Real consumer spending was unchanged, which was a bit stronger than we had anticipated, as a 1.9% decline in durable goods purchases was offset by 0.3% gains in both nondurable goods and services consumption. The decline in durable goods consumption was due to a drop in motor vehicle sales.

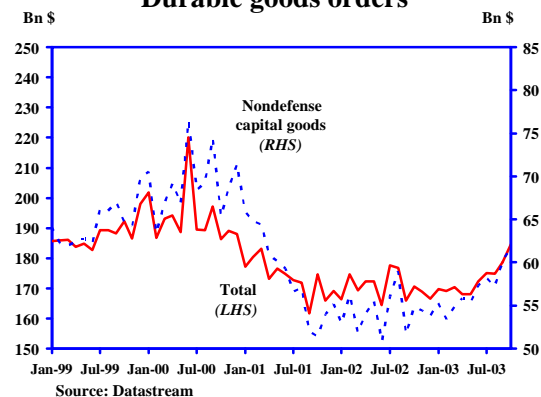
## Real disposable income and consumption



## Durable goods orders (October)

New orders for durable goods rose 3.3% in October, the fifth gain in the last six months and the largest gain since July 2002. In addition, the September increase was revised up from 1.1% to 2.1%, suggesting that the recovery in the manufacturing sector is gathering steam. Nondefense capital goods orders, considered an indicator for investment in equipment and software, rose 2.8% in October after a 5.1% gain in September and are now 12.8% above their year-earlier level.

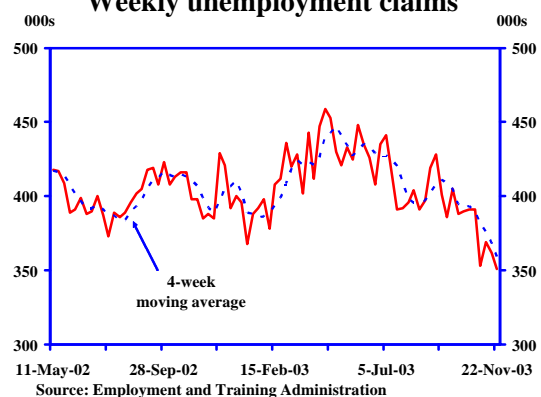
## Durable goods orders



## Unemployment claims (week ending November 22)

Initial claims for unemployment insurance fell 11,000 to 351,000 in the week ending November 22. The four-week moving average of initial claims, was down for a fifth consecutive week, falling 10,000 to 358,750. Continuing claims have also been trending lower over the past several weeks and dropped 105,000 to 3.368 million in the week ending November 15. The insured unemployment rate held steady at 2.7% for a third week in a row after 33 weeks in the 2.8%-3.0% range. All of these statistics point to an improving labor market.

## Weekly unemployment claims



# US WEEKLY BRIEF

## THE WEEK AHEAD

	Previous data	Forecast	Comment
1 <sup>st</sup> – Construction spending (October)	1.3%, m/m 6.5%, y/y	0.6%, m/m 6.2%, y/y	Residential construction remains strong.
1 <sup>st</sup> – ISM manufacturing index (November)	57.0	57.0	The manufacturing sector continues to show signs of improvement.
3 <sup>rd</sup> – ISM nonmanufacturing index (November)	64.7	63.5	Even with a small decline, this indicates robust growth in the nonmanufacturing sector.
3 <sup>rd</sup> – Productivity (2003Q3, revised)	8.1%, q/q ar 4.7%, y/y	8.2%, q/q ar 4.7%, y/y	Both hours worked and output were revised higher.
4 <sup>th</sup> – Unemployment claims (week ending November 29)	351,000 358,750 4-week moving average	350,000 358,000 4-week moving average	
5 <sup>th</sup> – Payroll employment (November)	126,000 jobs	100,000 jobs	Job creation may have slowed in November, but stronger growth is expected in future months.
5 <sup>th</sup> – Unemployment rate (November)	6.0%	6.0%	Labor force growth is expected to grow moderately, offsetting gains in employment.
5 <sup>th</sup> – Manufacturers' orders (November)	0.5%, m/m 5.4%, y/y	2.2%, m/m 5.8%, y/y	Durable goods orders rose 3.3%. This assumes 1% growth in nondurable goods orders.
6 <sup>th</sup> – Consumer credit (October)	0.8%, m/m 3.9%, y/y	0.4%, m/m 4.3%, y/y	Retail sales fell in October, suggesting that consumers are becoming a bit more cautious.

<b>Key Indicators: United States</b>								
<i>Percentage changes from previous month unless otherwise stated</i>								
	Industrial production	Capacity Utilization	Unemployment	CPI	Core CPI	Consumer Confidence	Nominal Net Trade	Retail sales
		%	%			%	\$ bn	
<b>2002</b>								
<b>Dec</b>	-0.5	74.9	6.0	0.1	0.2	80.7	-42.3	1.4
<b>2003</b>								
<b>Jan</b>	0.5	75.2	5.7	0.3	0.1	78.8	-40.0	0.4
<b>Feb</b>	0.4	75.4	5.8	0.6	0.1	64.8	-38.6	-1.4
<b>Mar</b>	-0.7	74.8	5.8	0.3	0.0	61.4	-43.0	2.3
<b>Apr</b>	-0.6	74.2	6.0	-0.3	0.0	81.0	-41.9	-0.3
<b>May</b>	-0.1	74.1	6.1	0.0	0.3	83.6	-41.6	0.5
<b>June</b>	0.0	74.0	6.4	0.2	0.0	83.5	-40.0	0.9
<b>July</b>	0.8	74.5	6.2	0.2	0.2	77.0	-40.0	1.4
<b>Aug</b>	0.2	74.6	6.1	0.3	0.1	81.7	-39.5	1.0
<b>Sep</b>	0.5	74.9	6.1	0.3	0.1	77.0	-41.3	-0.4
<b>Oct</b>	0.2	75.0	6.0	0.0	0.2	81.7	-	-0.3
<b>Nov</b>	-	-	-	-	-	91.7	-	-

# US WEEKLY BRIEF

<b>Financial Indicators: United States</b>								
<i>Percentage changes from previous month unless otherwise stated</i>								
	<b>3-month T-bill</b>	<b>10-year T-bond</b>	<b>Money Supply</b>	<b>Exchange rate</b>	<b>Exchange rate</b>	<b>Exchange rate index</b>	<b>S&amp;P 500</b>	<b>Reserves</b>
	%	%		\$/€ avg.	Yen/\$ avg.	3/73=100		\$bn
<b>2002</b>								
<b>Dec</b>	1.19	4.03	5791.6	1.02	121.9	98.6	899.2	79006.0
<b>2003</b>								
<b>Jan</b>	1.17	4.05	5820.5	1.06	118.8	96.0	895.8	78434.0
<b>Feb</b>	1.17	3.90	5873.4	1.08	119.4	95.0	837.6	78579.0
<b>Mar</b>	1.13	3.81	5885.7	1.08	118.6	94.3	846.6	80049.0
<b>Apr</b>	1.13	3.96	5909.3	1.09	119.9	94.0	890.0	80405.0
<b>May</b>	1.07	3.57	5998.2	1.16	117.3	89.7	936.0	82287.0
<b>June</b>	0.92	3.33	6046.9	1.17	118.3	88.7	988.0	81660.0
<b>July</b>	0.90	3.98	6097.8	1.14	118.7	90.4	992.5	80620.0
<b>Aug</b>	0.95	4.45	6140.7	1.12	118.8	91.5	989.5	80422.0
<b>Sep</b>	0.94	4.27	6119.0	1.12	114.9	89.7	1019.4	-
<b>Oct</b>	0.92	4.29	6089.1	1.17	109.5	86.3	1038.7	-
<b>Nov</b>	-	-	-	-	-	-	-	-