

U.S. ECONOMY REPORT

“Housing Sector Continues to Show Improvements; Industrial Output Rises and Dollar Appreciates Against Euro”

Name of Country	Latest Quarter GDP Growth	Previous 5-Year Average Growth	IMF Forecast for 2010	Interest Rate	Inflation Rate	Unemployment Rate
U.S.	3.20%	1.17%	3.10%	0.25%	2.20%	9.90%
Euro Zone	0.20%	0.84%	1.00%	1.00%	1.50%	10.00%
Japan	4.90%	1.68%	1.90%	0.10%	-1.10%	5.00%
China	11.90%	10.19%	10.00%	5.31%	2.80%	4.20%
Germany	0.20%	-0.70%	1.20%	1.00%	1.30%	7.80%
France	0.10%	-0.15%	1.50%	1.70%	1.70%	10.10%
U.K.	0.20%	0.67%	1.30%	0.50%	3.70%	8.00%

Note: All % figures are in y-o-y basis

Source: www.tradingeconomics.com, IMF

Key U.S. Economic Indicators for April 2010



Note: Indicators are on a month-over-month basis

Quick Fundamentals (U.S. Economy)	
GDP Size (US \$ Trillion)	14.20
GDP Growth (Last Year)	0.18%
GDP Growth (Last 5-Year Avg)	1.17%
Population (Million)	307.47
Population Growth (Last Year)	0.91%
Total Revenue/GDP	19.60%
Total Debt/GDP	41.00%
Exports/GDP	12.70%
FDI Last Year (US \$ Billion)	237.54
Fiscal Deficit Last Year	3.2%

Source: World Bank and BOE Research (as per latest available figures)

ECONOMIC UPDATE:

Monthly Indicators Point U.S. Economy is Heading for Broader Recovery: The economic recovery in the U.S., the world's largest economy is shaping up. Considering the bottoming out of the housing market, continuous growth in the industrial output, rising retail sales and a rebound in consumer spending, the U.S. economic recovery, which started last year, will be stronger than previously estimated. According to the National Association of Business Economics (NABC), the U.S. economy will expand 3.2% this year. Economists surveyed by NABC also boosted projections for payrolls and consumer spending. Risks to economic growth such as inflation are lower, and concerns regarding consumer retrenchment and domestic financial headwinds have diminished. National Association of Business Economics also predicted that corporate profits will rise 20% in 2010 and 7% next year. In April 2010, industrial output, retail sales, and housing sales were impressive.

Despite the debt crisis in Europe, the U.S. economy recovery will be less impacted as economic indicators are strong. The global economic recovery is led by the U.S. and Asian economies.

Chart 1: Housing Market Snapshot – April 2010

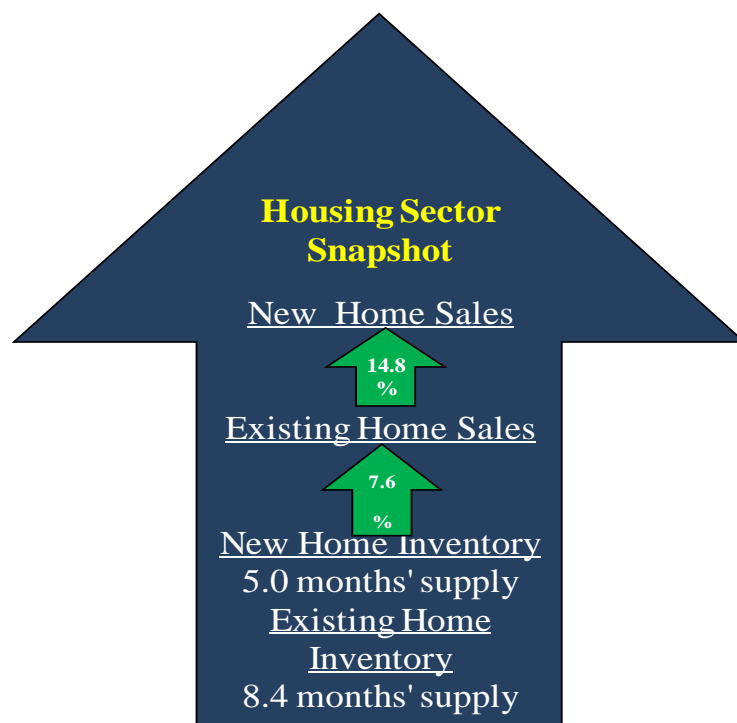


Table 1: Key U.S. Economy Indicators

KEY INDICATORS (Latest Month)	
Indicators	Change
Chain Store Sales	0.8%
Durable Goods	2.9%
Retail Sales	0.4%
Vehicle Sales	11.2%
Construction Spending	-1.3%
Consumer Price Index	0.1%
New -Home Sales	14.8%
Pending-Home Sales	5.3%
Existing-Home Sales	7.6%
Factory Orders	1.1%
Producer Price Index	-0.1%
Industrial Production	0.8%
Personal Income	0.4%
Exports of Goods and Services (m-o-m)	3.21%
Imports of Goods and Services (m-o-m)	3.06%

All figures are on a m-o-m basis.

U.S. HOUSING SECTOR:

Improvements in Housing Market on Track:

(1) New Home Sales:

U.S. new home sales continue to surge in April 2010, with an increase of 14.8% from March 2010. New home sales jumped 47.8% from March 2009. Also, the inventory of new homes available for sales declined to 5.0 months' supply in April 2010 from 6.7 in March 2010. The median sales price of new houses sold in April 2010 was \$198,400, while the average sales price was \$249,500.

(2) Existing Homes Sales:

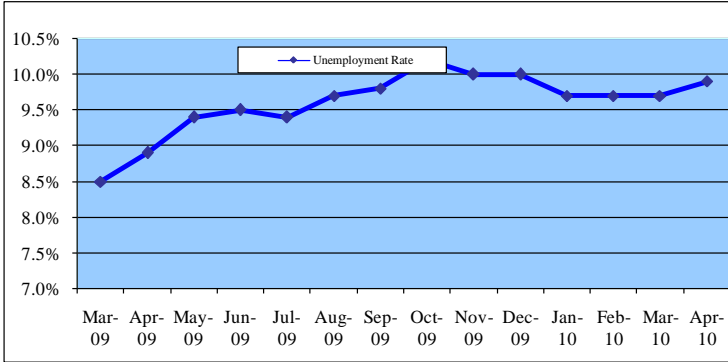
Existing home sales in the U.S. rose 7.6% on a sequential basis to an annual pace of 5.77 million units in April 2010 (compared to 5.36 million in March 2010) higher than analysts' expectations. Inventory of used homes rose 11.5% at the end of the month to 4.04 million units available for sale. That represented an 8.4-month supply at the current sales pace, compared to an 8.1-month supply in March 2010. The median price for an existing home was \$173,100 in April 2010, up 4.0% from April 2009. We believe that existing home sales may do better than the new-home market going forward. The wave of foreclosures during the recent economic turmoil has ushered in cheap deals. As a result, the average 30-year mortgage rate was 5.10% in April 2010, up from 4.97% in March 2010.

(3) Pending Homes on an Upswing:

Sales of new homes increased 5.3% in March 2010 from February 2010. U.S. pending home sales rose 21.1% from March 2009. As pending home sales index is a leading indicator for the housing sector, the upswing indicates the housing market has already moved out of the downturn. Clearly, the buyer tax credit has helped stabilize the housing market.

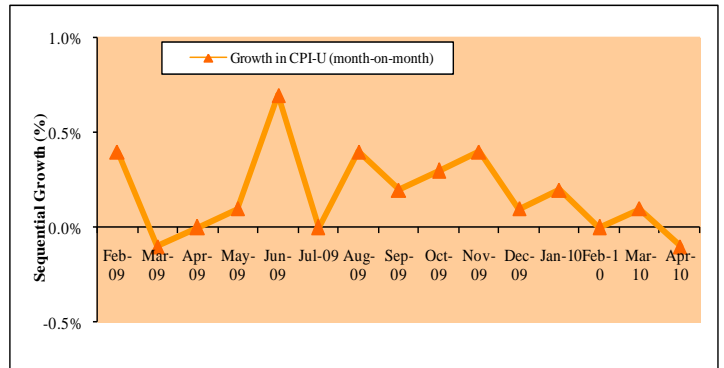
Conclusion: The housing market, one of most damaged sectors that had been affected by the recent global recession, appears to be on recovery mode. The continuous increase of housing sales in new, existing and pending home sales supported by government-sponsored stimulus packages reflects that the housing market is heading for a smooth recovery. However, the oversupply and high unemployment rate remain key concerns. We believe the recent surge in housing sales can be attributed to the tax credit that ended on April 30 2010. Over the near term, the housing market could struggle slightly following the expiration of the buyer tax credit. Considering the recent trend in the housing market, home sales should slowly pick up.

Unemployment Rate Trend:



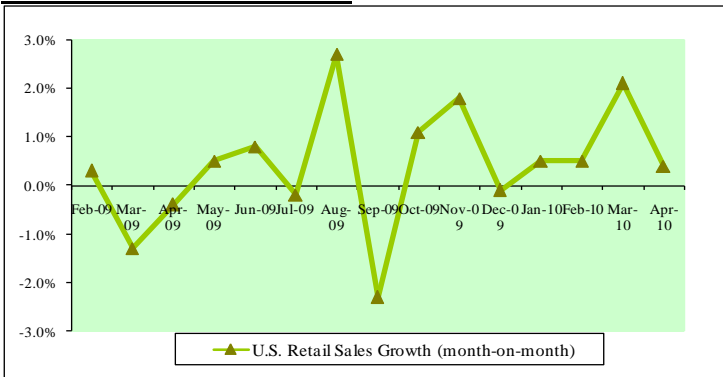
- U.S. unemployment rate rose to 9.9% in April 2010.
- The total number of unemployment in April 2010 was 15.3 million. The unemployment rate has been 9.7% for the first three months of this year.
- In April 2010, nonfarm payroll employment rose by 290,000. Manufacturing, professionals and business services, and health saw higher growth in employment creation.
- First-time unemployment claims rose sharply by 25,000 to 471,000 in the week ended May 14, 2010.
- Although major economic indicators have shown improvements, unemployment is yet to decline. This reflects that business are cautious while hiring employees and waiting for a clear economic recovery signal.

Consumer Price Index-Urban (CPI-U) Trend:



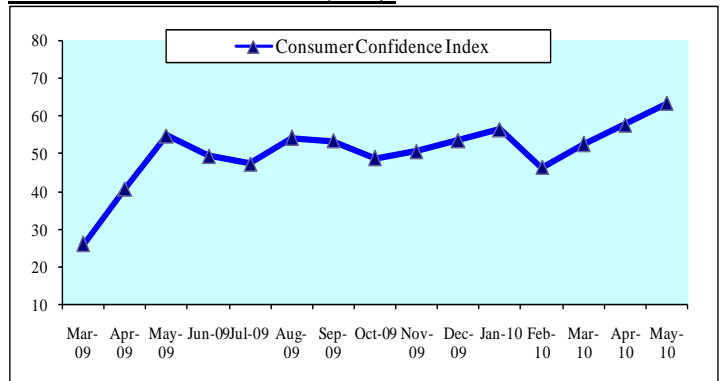
- CPI-U dropped unexpectedly by 0.1% in April 2010 compared to a 0.1% rise in March 2010. Over the past 12 months, the index climbed 2.2% before seasonal adjustments.
- The energy index dropped 1.4% in April 2010. The indexes for gasoline and natural gas both decreased significantly, outweighing increases in the indexes for fuel oil and electricity.
- Core CPI (which excludes food and energy prices) rose 0.9% in April 2010.
- As the CPI (U) dropped, the Federal Reserve will keep interest rates near zero for 2010.

U.S. Retail Sales Growth Trend:



- U.S. retail sales climbed 0.4% in April 2010, which topped the consensus estimate of 0.2%. This is a seventh consecutive month retail sales rose.
- Excluding auto sales rise of 0.5%, U.S. retail sales expanded 0.4% in April 2010.
- Consumers are expected to play a bigger role in the broadening economic recovery. The expected higher consumer spending will boost retail sales going forward.
- Retail sales are expected to benefit from the higher visibility of the economic recovery.

Consumer Confidence Index (CCI):

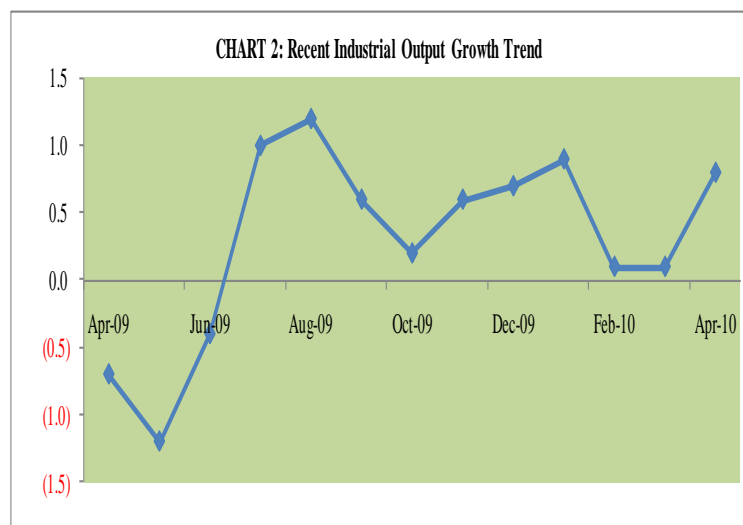


- The CCI jumped to 63.3 in May 2010 from 57.7 in April 2010. This is the third consecutive monthly gain.
- The Present Situation Index rose to 30.2 in May 2010 from 28.2 in April 2010.
- The Expectations Index improved to 85.3 for May 2010 compared to 77.4 for April 2010.
- With economic improvements visible, consumer confidence gained further ground in April and May 2010.

Industrial Production Expands Strongly: The U.S. industrial output grew 0.8% in April 2010, compared to 0.1% rise in March 2010, beating consensus economists estimate of 0.7% (See Chart: 2, below). Manufacturing expanded 1%, while mining was up 1.4% in April 2010. However, these gains were marginally offset by a 1.3% drop in utilities. Production of business equipment rose 1%, a fourth consecutive rise. Consumer goods production rose 0.2%, while motor vehicle and parts production decreased 2.2% in April 2010 after a 1.9 percent rise in March 2010. Factory output is benefiting from the upswing in the inventory cycle, recovering global trade and the upbeat mood of consumers.

Capacity utilization improved to 73.7% in April 2010, an improvement of 0.6% from March 2010. This is the highest improvement since November 2008. The gauge averaged 80 over the past 20 years and suggests inflation remains low.

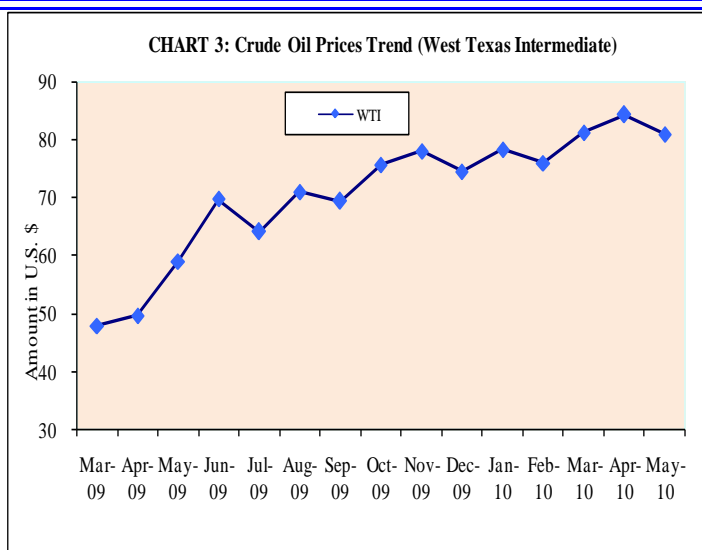
The gain in industrial output in April 2010 is a tenth consecutive month and reflects the broader-based recovery in the U.S. economy.



Source: The U.S. Federal Reserve, BOE

Oil Prices Moderate in May 2010: Oil prices corrected a little in May 2010 as average monthly oil prices remained at \$81 a barrel, compared to \$84.29 in April 2010. This fall was due to revised oil demand downwards by the OECD. Further, the European debt crisis impacted oil prices. In May 2010, investors worried about the debt crisis in Greece that could spread to European countries and hurt the global economic recovery. However, a strong recovery in Asia, led by India and China, and U.S. could offset a sluggish recovery in Europe and help bolster crude demand.

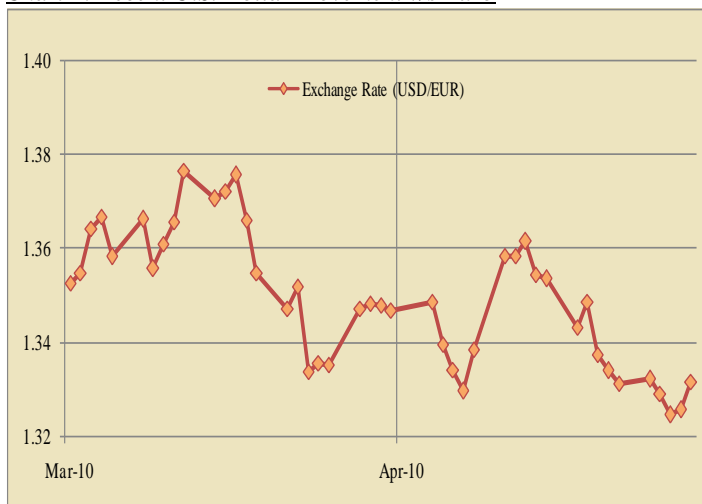
In June 2010, the U.S. Energy Information Administration (EIA) projected that crude oil prices will average \$82/barrel. We believe there is hardly any negative economic news that will impact oil prices as the U.S. economy is showing strong recovery.



Source: EIA, BOE

U.S. Dollar Continues to Appreciate: In May 2010, the U.S. Dollar continued to strengthen against the Euro (See Chart 4, below). As fear is growing regarding the spreading of the European- debt crisis, the U.S. dollar continued to rise in May 2010. The average monthly Euro value was \$1.2565 in May 2010 compared to \$1.3409 in April, as investors remain concerned over the sovereign credit situation in Greece and Portugal. As we do not expect the European debt crisis to end in the near term, the dollar could continue to report gains.

Chart 4: Recent U.S. Dollar Movement v/s Euro



Source: www.x-rates.com, BOE

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