

United States Business Forecast Report Q1 2015

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Abstracts

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Core Views

The US economy will accelerate slightly this year, with real GDP growth increasing to 2.3% from 2.2% in 2013. Stronger contributions from personal consumption expenditure growth will be offset somewhat by slower fixed investment growth and a contraction in government spending, as well as a negative contribution from net exports.

The federal government's fiscal accounts will show another year of substantial improvement, due to stronger revenue collection and continued fiscal restraint due to the budget sequester. We forecast the deficit will narrow to 3.0% of GDP from 4.0% of GDP in 2013.

Stronger domestic oil and gas production will reduce the need for imported energy again in 2014, but this dynamic will be offset by accelerating domestic economic activity, which will boost imports. We forecast a 2.2% of GDP current account deficit this year, the narrowest since 1997. We continue to believe that the US Federal Reserve will wind down its current quantitative easing programme by end-2014. Substantial slack remains in the labour market, and in light of a weak inflation outlook we do not anticipate the first hike to the Fed funds rate until H215.

We believe that Republicans are heavily favoured to retain control of the US House of Representatives and slightly favoured to take control of the Senate from Democrats in the November mid-term elections. This will not represent a significant change to the status quo regarding the difficulty of passing legislation, since any major bill passed by the Republican Congress can still be vetoed by Democratic President Obama.

Major Forecast Changes

We have upgraded our 2014 GDP growth forecast to 2.3%, from 2.1% previously, due in large part to altered methodology and historical revisions by the Bureau of Economic Analysis. We are also now forecasting growth of 2.7% in 2015, up from 2.6%.

Contents

Executive Summary
Core Views
Major Forecast Changes
Key Risks To Outlook

CHAPTER 1: POLITICAL OUTLOOK

SWOT Analysis

BMI Political Risk Index

Domestic Politics

Foreign Policy Missteps Add To Democratic Woes Ahead Of Election

Political dynamics slightly favour the Republican Party in the lead-up to the November 4 mid-term election. While fast-moving events, particularly in the realm of foreign policy, have the potential to swing public opinion over the coming weeks, the intractable nature of the challenges the administration faces abroad suggests that a Democratic surge during the final stretch is unlikely.

Table: Political Overview

Foreign Policy

Quadruple Foreign Policy Challenges Necessitate Russian Cooperation

The US Obama administration faces four major foreign policy challenges - the Ukrainian conflict, the rise of the Islamic State, Iran's nuclear programme, and a more assertive China.

Long-Term Political Outlook

Fiscal And Inequality Concerns To Drive Political Debate

The long-term political outlook for the United States is improving, both at home and abroad. Nevertheless, there remain significant obstacles to policymaking, including rising polarisation in Washington and a growing mistrust of elected officials among the electorate.

CHAPTER 2: ECONOMIC OUTLOOK

SWOT Analysis

BMI Economic Risk Index

Economic Activity

Growth To Accelerate, But Remain Below Historical Trend

The US economy will see slightly stronger growth in 2014 and will accelerate further in

2015, on the back of a rebound in private spending on both consumer goods and capital investment. Over the longer term, growth will remain below the historical average due to constrained government spending and ongoing structural adjustments.

Table: Economic Activity

Balance Of Payments

Rising Energy Production To Drive Current Account Improvement

The US current account deficit will gradually decline as a percentage of GDP in the coming years, as the trade account will be bolstered by swelling domestic energy production which will spur export growth and reduce import demand. We forecast a current account shortfall of 2.2% of GDP in 2014 and 2.1% in 2015.

Table: Current Account

Monetary Policy

Rate Hikes Unlikely Until H215

Monetary policy in the US will remain extremely loose by historical standards, as the Federal Reserve remains wary of jeopardising the economic recovery, which has yet to gain significant momentum.

Table: Monetary Policy

Fiscal Policy

Budget Balance To Improve, But Long-Term Risks To The Downside

The US budget deficit will continue to narrow in the coming quarters amid stronger revenue growth and still-constrained expenditures.

However, the deficit will level off above the country's historical average, due primarily to structural factors which will exert upward pressure on spending.

Table: Fiscal Policy

CHAPTER 3: 10-YEAR FORECAST

The US Economy To 2023

Down But Not Out

The US economy's pace of growth is set to slow over the next 10 years to a long-term rate of 2.4% as deleveraging from a massive credit binge and demographic shifts takes their toll. Nonetheless, BMI believes that the US is going to remain the world's greatest economic power over our 10-year forecast period and beyond.

Table: Long-Term Macroeconomic Forecasts

CHAPTER 4: OPERATIONAL RISK

Operational Risk Index

Low Risk For Businesses

Operational Risk

Table: Developed States - Labour Market Risk

Table: Developed States - Logistics Risk

Table: Developed States - Crime And Security Risks

Table: Developed States - Trade And Investment Risk

CHAPTER 5: KEY SECTORS

Oil & Gas

Table: US Proven Oil & Gas Reserves And Total Petroleum Data

Table: US Proven Oil & Gas Reserves And Total Petroleum Data

Infrastructure

Table: Construction & Infrastructure Industry Data

Table: Construction & Infrastructure Industry Data

Other Key Sectors

Table: Pharma Sector Key Indicators

Table: Telecoms Sector Key Indicators

Table: Defence and Security Sector Key Indicators

Table: Food and Drink Sector Key Indicators

Table: Autos Sector Key Indicators

Table: Freight Key Indicators

CHAPTER 6: BMI GLOBAL ASSUMPTIONS

Global Outlook

Big Emerging Market Revisions

Table: Global Assumptions

Table: Developed States , Real GDP Growth H, %

Table: BMI VERSUS BLOOMBERG CONSENSUS REAL GDP GROWTH
FORECASTS, %

Table: Emerging Markets , Real GDP Growth , %

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