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United States Business Forecast Report Q3 2014

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Abstracts

Core Views

We expect a strengthening US consumer and stronger fixed investment growth this year to boost real GDP growth to 2.8% from 1.9% in 2013. While high frequency data suggest economic growth slowed in Q114, we expect that the slowdown was largely weather-related, with signs suggesting that its impact on the economy has already begun to dissipate.

We forecast a sustained improvement in US fiscal accounts due to the combined impact of stronger revenue from an accelerating economy and controlled spending growth due to the federal budget sequester. As a result, we forecast a continuing of the multi-year narrowing trend in the federal budget deficit, with the shortfall shrinking to 3.3% of GDP in 2014, from 4.0% of GDP in 2013.

We expect that stronger external demand and reduced reliance on energy imports due to greater domestic crude oil production will see the US external account position strengthen again this year. We forecast the current account deficit will narrow to 2.1% of GDP this year from 2.3% of GDP in 2014.

We continue to believe that the US Federal Reserve will wind down its current quantitative easing programme before the end of 2014, despite rather weak economic data in the first quarter of the year. That said, we acknowledge that substantial slack remains in the labour market, and in light of a weak inflation outlook we do not anticipate monetary tightening until H215.

We believe stronger real GDP growth and improving external demand will produce another year of labour market tightening in the US, forecasting the unemployment rate to fall from 6.7% in February to 6.2% by year-end. That said, we expect long-term

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unemployment to remain relatively elevated, and if the economic weakness we saw in the first months of the year were to continue in the months ahead, we could revise our forecasts to reflect fewer gains in the labour market this year.

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 November midterm elections. As a result, we believe the final two years of President Barack Obama's second term will be marked by renewed legislative efforts by Republicans to roll back key parts of the Affordable Care Act health reform law, his signature legislative achievement, as well as the potential for additional tax and spending cuts. Such initiatives could set the stage for a return of the type of legislative brinksmanship that has become common in recent years, elevating policy risk substantially.

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Stronger External Demand To Narrow Current Account Shortfall

We expect that stronger external demand and reduced reliance on energy imports due to greater domestic crude oil production will see the US external account position strengthen again this year. We forecast the current account deficit will narrow to 2.1% of GDP this year from 2.3% of GDP in 2014.

Table: CURENT ACOUNT

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Additional Gains In 2014

We believe stronger real GDP growth and improving external demand will produce another year of labour market tightening in the US, forecasting the unemployment rate to fall from 6.7% in February to 6.2% by year-end.

Fiscal Policy

Deficit To Narrow Again In 2014

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