

# United States Business Forecast Report Q4 2014

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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 2.1% from 1.9% 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 current account deficit of 2.2% of GDP in 2014, the narrowest since 1997.

We continue to believe that the US Federal Reserve will wind down its current quantitative easing programme by end-2014, despite 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 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 November mid-term 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 brinkmanship that has become common in recent years, elevating policy risk substantially.

### Major Forecast Changes

We have revised down our 2014 real GDP forecast to 2.1% from 2.4% previously. The downward revision is due to base effects from a 2.9% contraction in Q114. We do not believe that this weak growth print was the start of a sustained slowdown in the US economy. We expect the current account shortfall to narrow only slightly this year, forecasting a 2.2% of GDP deficit in 2014, compared to our earlier forecast of 2.1%. The slower narrowing is due to a weaker goods trade account through the first five months of 2014.

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US Geopolitical Reversals Temporary, Iran And SE Asia Offer Opportunities

The US's geopolitical influence will continue to weaken over the next few years due to setbacks in Ukraine and the Levant. However,

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South East Asian states, as well as India.

Long-Term Political Outlook

Tough Challenges In The Coming Years

The 2010s continue to be challenging for the US, mainly due to the aftermath of the 2007-2009 recession and several unresolved foreign policy issues. Meanwhile, two of the main trends in US politics will be the rise of the south-western states and Hispanic-Americans as key forces.

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