Euler Hermes Economic Research

Country Report

United States

Weak first quarter but rebound in consumption likely

General Information

GDP	USD16768.1 bn (World ranking 1, World Bank 2013)
Population	316 mn (World Ranking 3, World Bank 2013)
Form of state	Federal Republic
Head of government	Barack Obama (Democrat)
Next elections	2016 Presidential, Congressional, Gubernatorial

Strengths

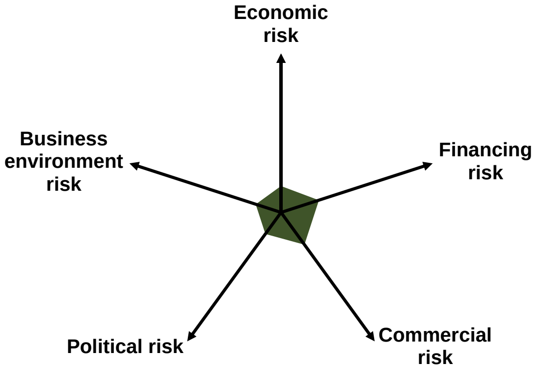
- World's largest economy
- Politically stable
- High per capita GDP
- Low unit labor costs
- High data transparency
- Reserve currency
- Large oil and gas reserves
- Diverse GDP
- Strong dollar (lowers inflation, interest rates)

Weaknesses

- High public debt, persistent budget deficits
- Structural unemployment
- Lack of skilled workers
- High corporate tax rate
- Bloated Federal Reserve balance sheet
- Erratic housing market
- Strong dollar (widens persistent trade deficit)

Country Rating

AA1



Source: Euler Hermes

Trade structure

By destination/origin (% of total)

Exports		Rank		Imports
Canada	17%	1	17%	China
Mexico	12%	2	14%	Canada
China	8%	3	12%	Mexico
Japan	5%	4	6%	Japan
Germany	4%	5	5%	Germany

By product (% of total)

Exports		Rank		Imports
N.E.S. Products	9%	1	16%	Crude Oil
Refined Petroleum	8%	2	6%	Cars and Cycles
Engines	5%	3	5%	Computer Equip.
Precisions Instr.	5%	4	5%	Telecom Equip.
Plastic Articles	4%	5	4%	Refined Petroleum

Source: Chelem (2013)

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Economic Overview

First quarter disappoints for the fifth time in six years

Real Gross Domestic Product (GDP) shrank at an annualized rate of -0.7% in the first quarter, repeating a pattern seen throughout the recovery of dramatic underperformance in Q1, as shown in figure 2. Two temporary factors contributed to the downturn this year. Firstly, the severe winter weather, including record snowfalls in the densely populated northeast, significantly damaged retail sales and housing activity. Secondly, the West Coast port strike had two effects, first harming retail sales of imported goods, and then sharply widening the trade deficit with a flood of imports as the backlog was reduced. However there were two more persistent factors which weighed on growth. First, orders for machinery and equipment suffered as a result of a dramatic fall in capital expenditures in the oil patch. Second, the value of the U.S. Dollar increased 12% since last June, making exports less competitive and also making it more difficult for domestic firms to compete against a flood of cheaper imports. We expect weak capital expenditures and a strong dollar will persist.

Consumption poised for rebound

However U.S. consumer expenditure is likely to rebound throughout 2015, powered by a host of positive forces. As shown in the chart, consumption has been very weak recently due in part to the winter weather. But this weak consumption has created pent-up demand which will provide a strong impetus for spending. At the same time personal income has been growing rapidly, providing fuel for future spending. These income gains have been a result of a steady improvement in the job market which has created an average of 247,000 jobs per month since January 2014. The improved labour market has also contributed to increased consumer confidence which has been hovering around the 100 level since January, signifying a strong economy. While consumers still haven't taken advantage of the gasoline dividend they may soon since these types of windfalls often operate with a lag. Consumer spending may also be fuelled by a recent rise in borrowing, since revolving debt, which is approximately 80% credit cards, rose sharply in March and April, posting the largest two month gain in over seven years. In fact this combination of pent-up demand, growing income, increased confidence, the gasoline dividend, and a sharp rise in consumer credit has recently produced the first sign of life in the consumer. Retail sales (40% of total consumption) rose for the third consecutive month in May with widespread gains, and are growing at a very strong 6.1% annualized rate over that period.

Fed likely to move later this year

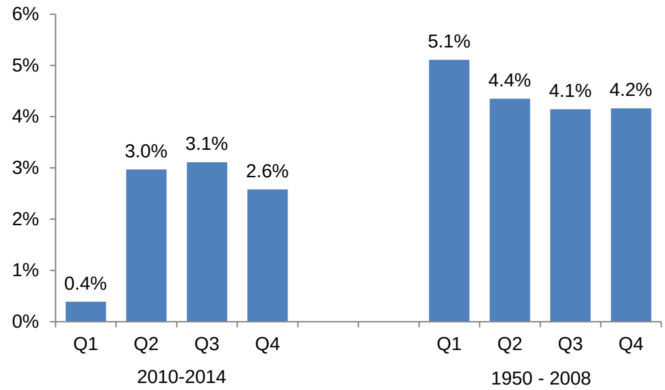
As the labour market firms and the deflationary effects wane from the fall in energy prices over the last year, it is expected that the Federal Reserve will start raising the short term Federal Funds rate late in 2015. The consensus believes that the first hike will come in September but EH believes that this move will not come until Q4. While the labour market is improving it is still well short of where it should be, and inflation remains firmly entrenched below the Fed's 2% target, suggesting a lack of urgency to act.

Figure 1: Key economic forecasts

	2013	2014	2015f	2016f
GDP growth (% change)	2.2%	2.4%	2.5%	2.7%
Inflation (%, end-year)	1.5%	0.7%	0.3%	2.2%
Fiscal balance (% of GDP)	-3.3%	-2.8%	-3.0%	-3.5%
Public debt (% of GDP)	103.5%	104.1%	104.5%	103.8%
Current account (% of GDP)	-2.4%	-2.4%	-2.4%	-2.2%

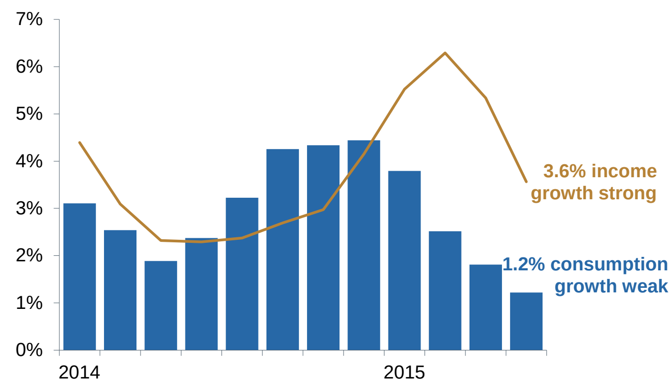
Sources: IHS, national sources, Euler Hermes

Figure 2: Real GDP Growth During Recoveries, Annualized Quarterly Rate



Sources: IHS, BEA, Euler Hermes

Figure 3 : Personal Income and Consumption, Annualized Quarterly Rate



Sources: IHS, BEA, Euler Hermes

Last review: 2015-06-16
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