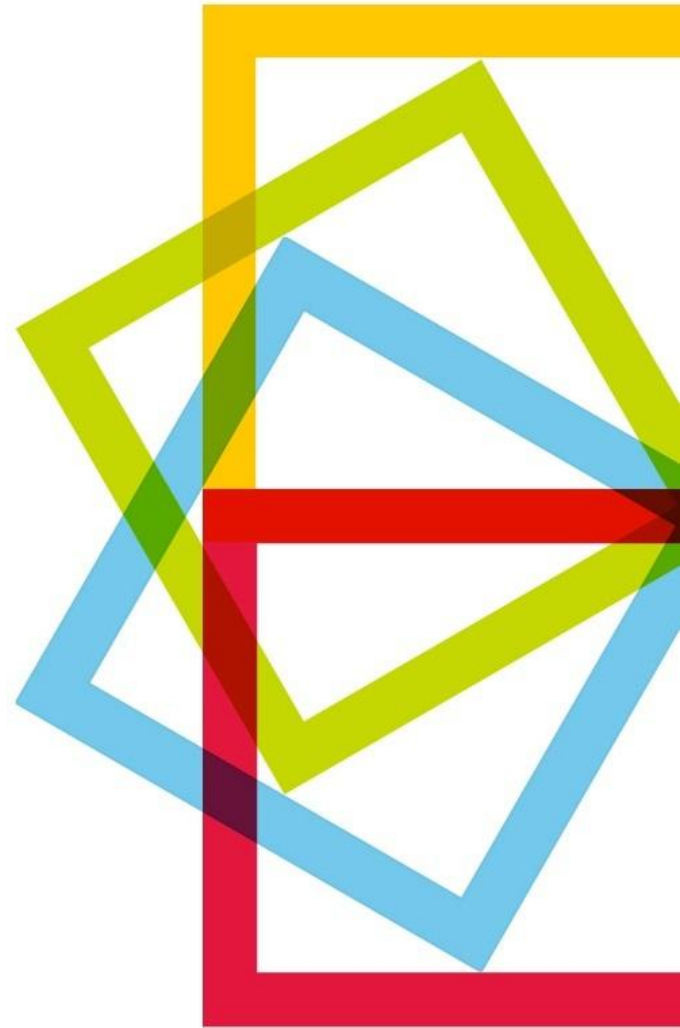


Economic Outlook 2014: Are We There Yet?

Beth Ann Bovino
Chief U.S. Economist

6 December 2013

Data as of November 10, 2013



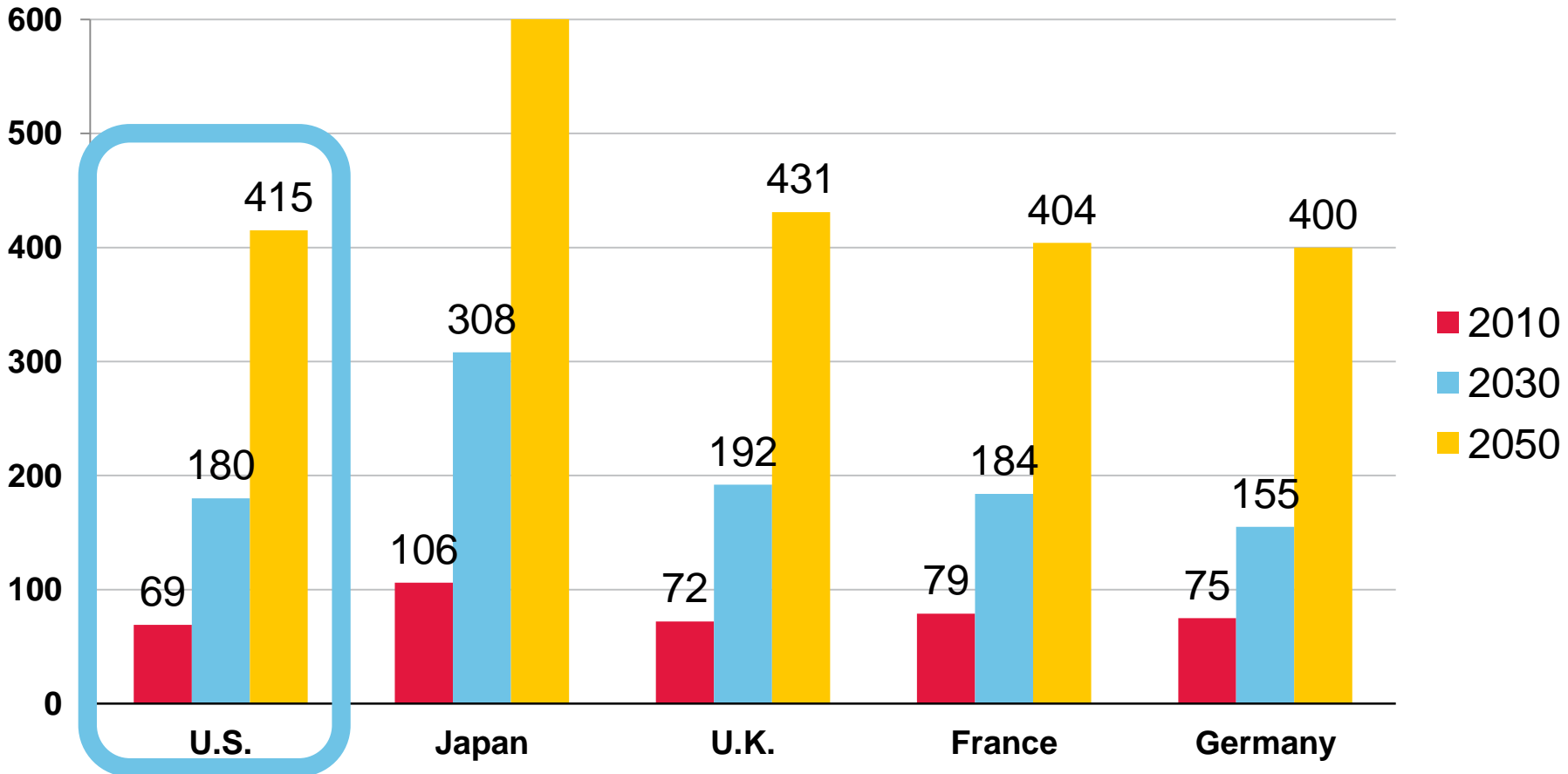
Today / Tomorrow

Recovery, Constrained By Headwinds

- **Now in its 5th year, the U.S. recovery faces economic headwinds**
 - Export slowdown
 - Stimulus reversal
 - Fiscal fog
- **Significant potential tail risks remain**
 - European debt crisis spreads to the U.S.
 - Sharp near-term austerity
 - Oil prices spike on Middle East turmoil
 - Fed removes liquidity sooner than expected

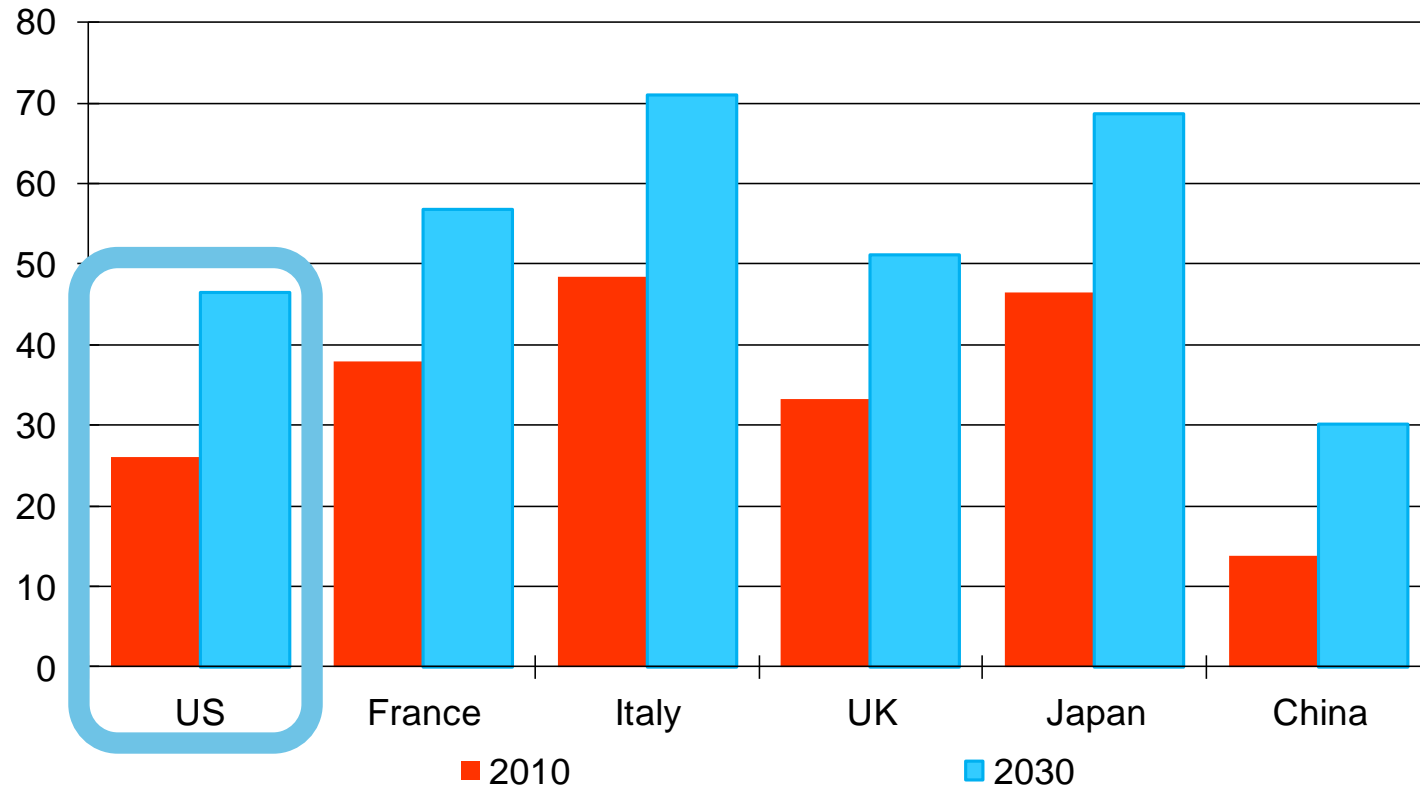
Global Challenges Are Building

Government Debt as % of GDP



Source: Global Aging Report 2010: An Irreversible Truth, Standard & Poor's Ratings Services,, government sources

Aging Populations, Increased Spending



- **As populations age around the world, retirees comprise greater percentage of the workforce**

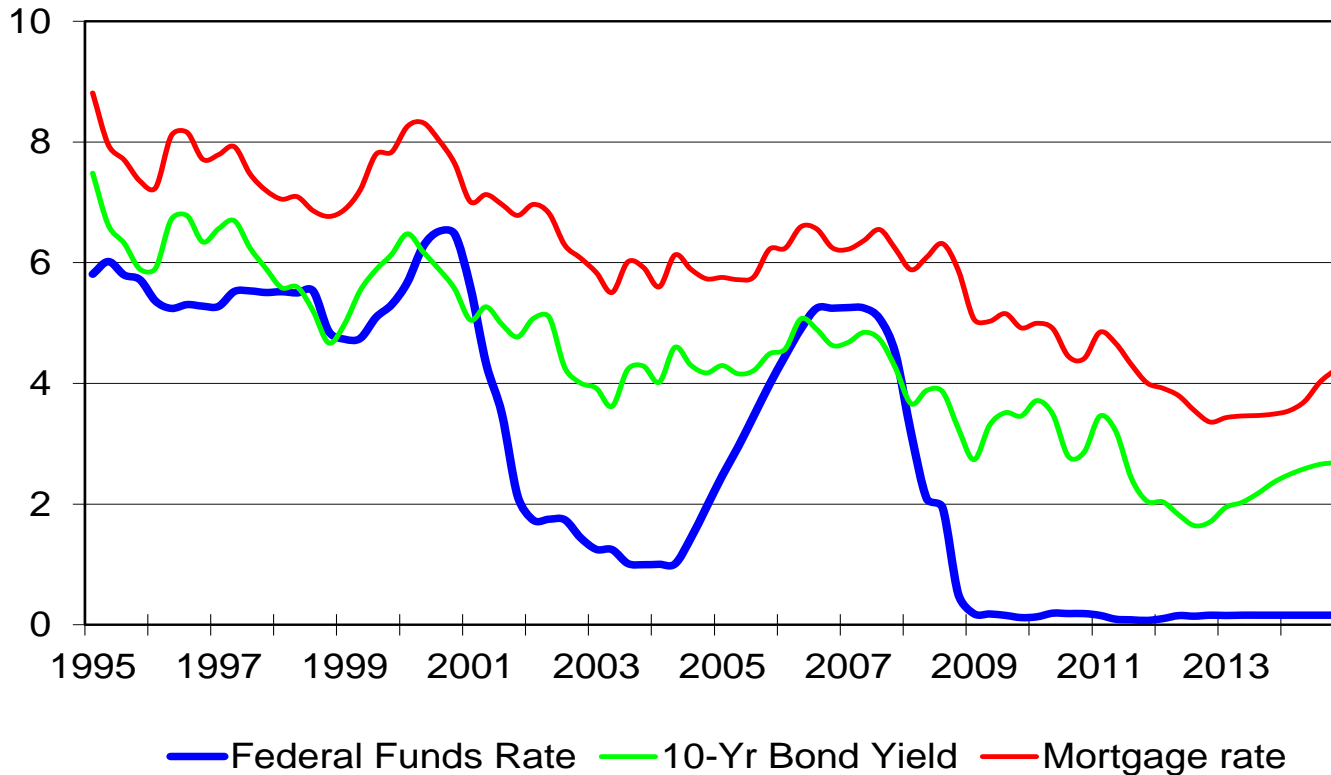
Source: Organisation for Economic Co-operation and Development

And Now, The Good News

Reasons For Optimism

- **Washington compromise + Fed policy**
- **Robust private demand and hiring despite shocks**
- **Housing prices are climbing higher**
- **Consumers are opening their checkbooks**
- **Manufacturing returns to the U.S.**

The Fed's Still In The Game

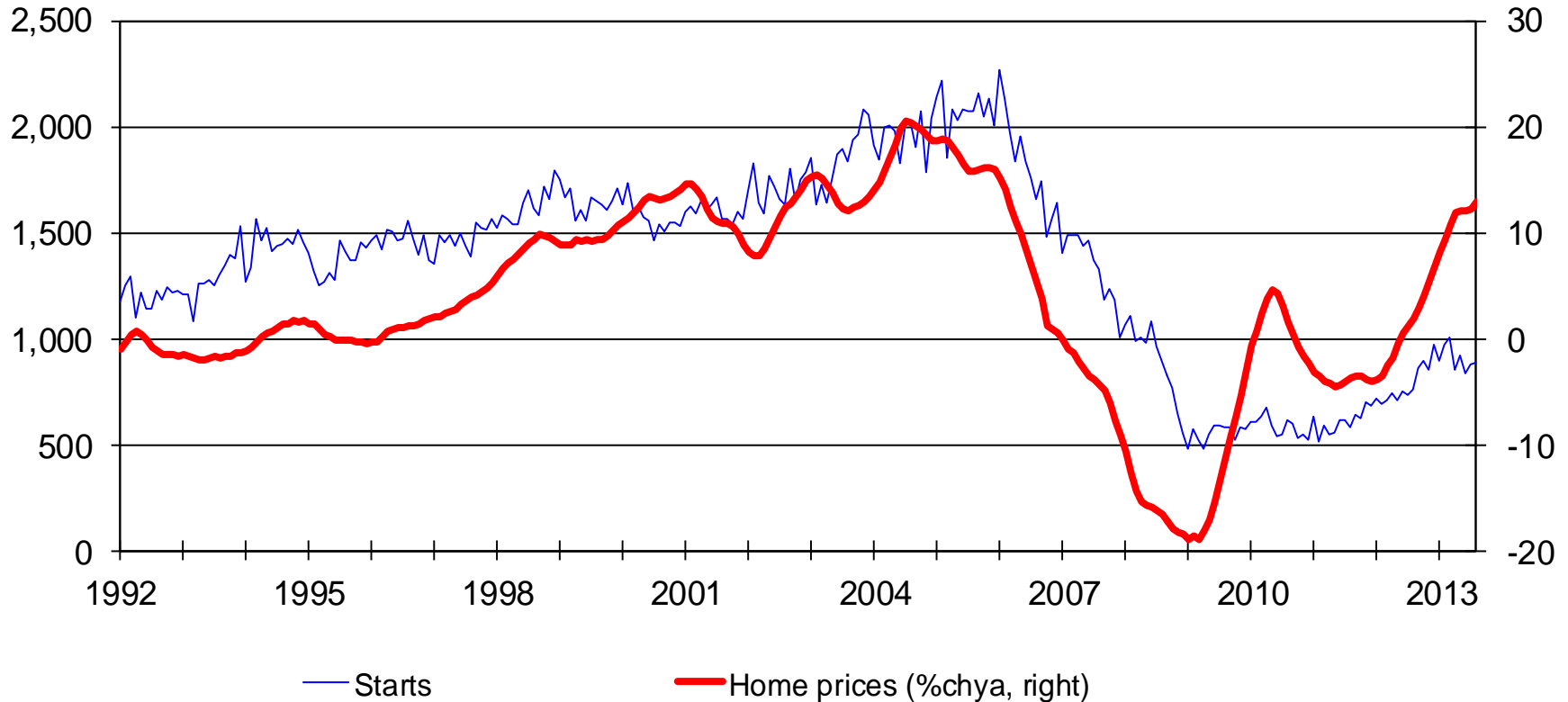


- **Tapering is results driven and tied to sustained improvement in job market**

Source: Federal Reserve

Housing: A Driving Force

There Is No Housing Bubble (Yet)



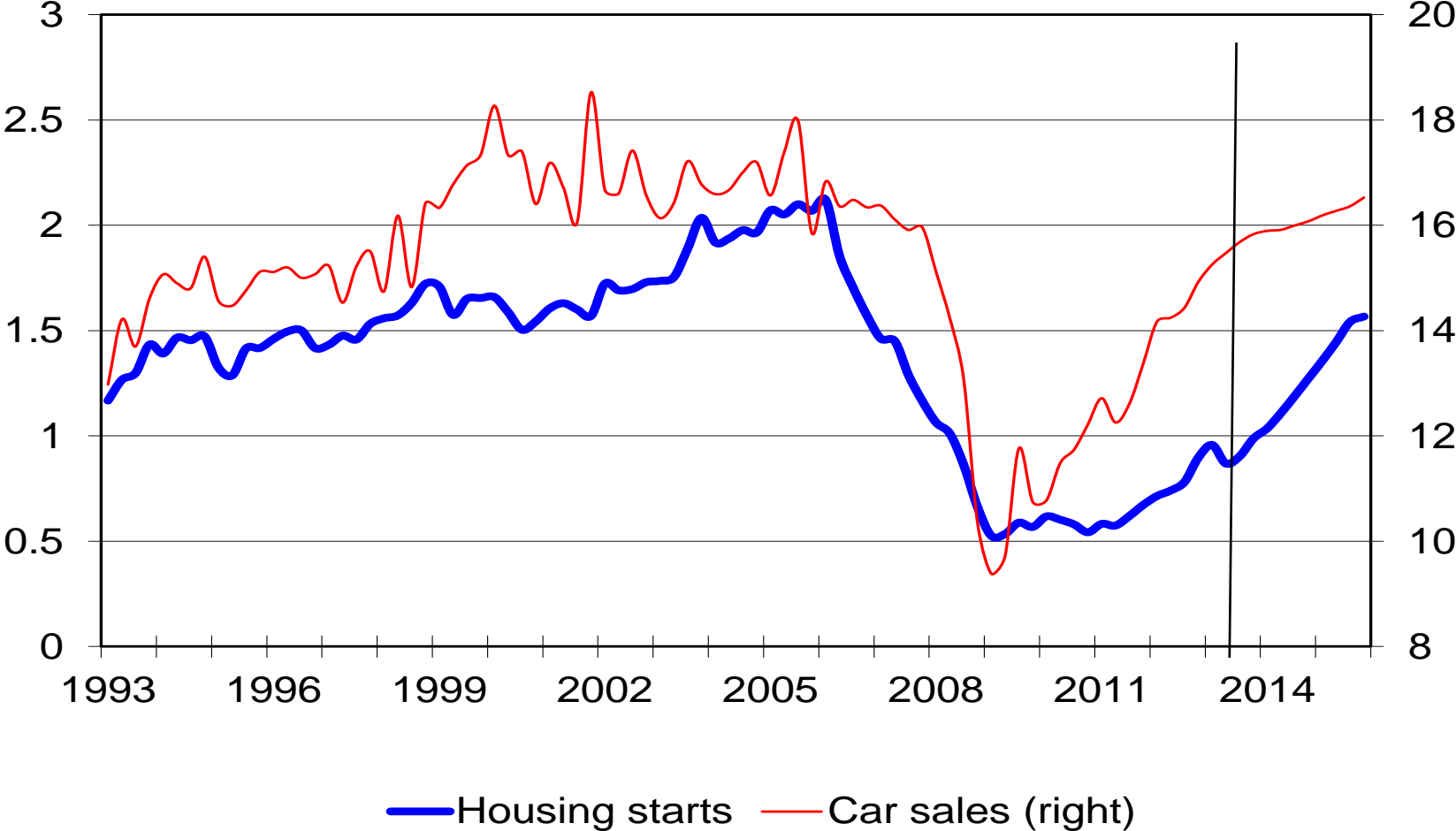
- **After a historic drop, starts, sales & prices are all recovering**

Source: S&P/Case-Shiller, February 2013; Census Bureau

Car Sales Led Housing In This Recovery

(Millions of units)

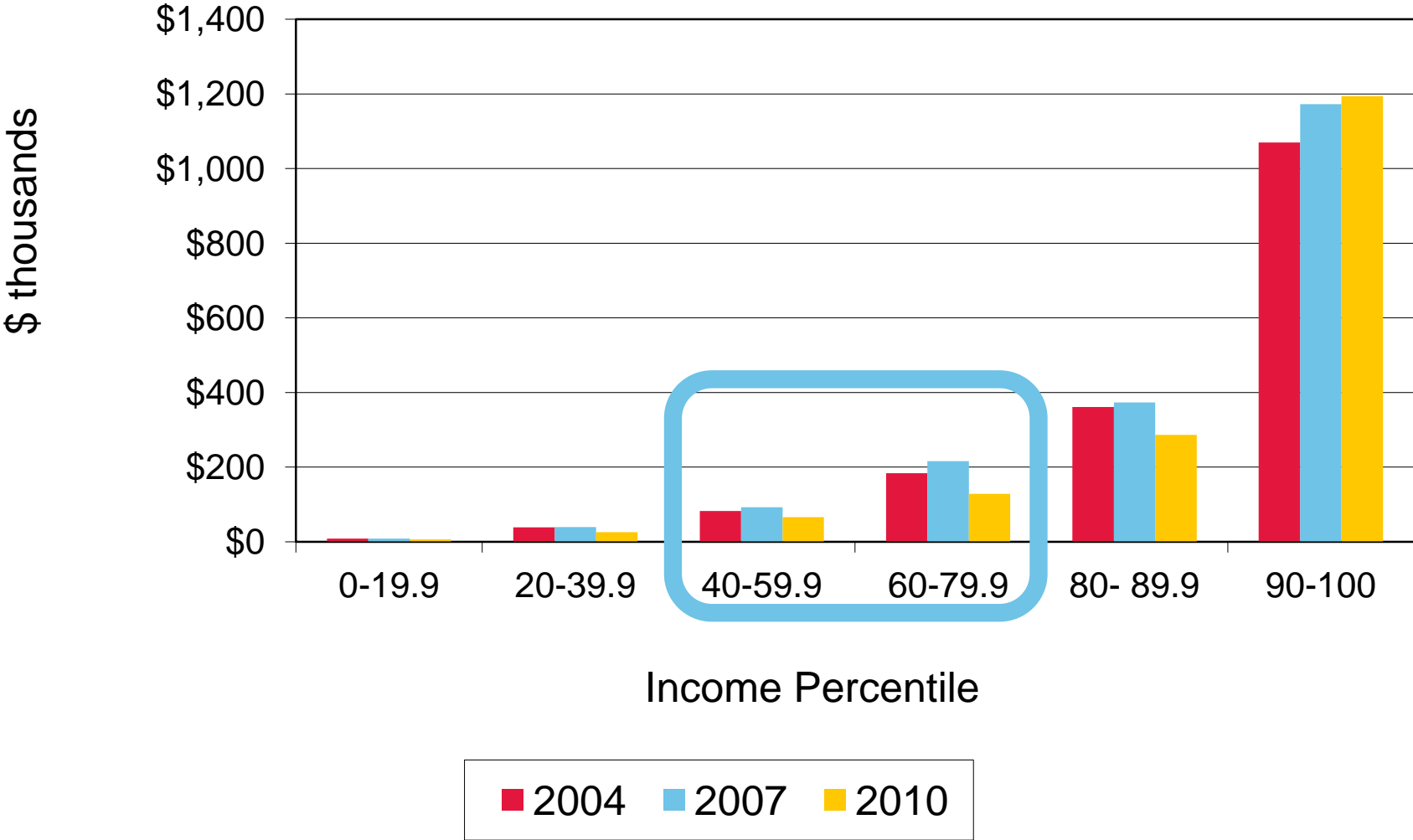
(Millions of units)



Source: Census Bureau, Global Insight, S&P Economics

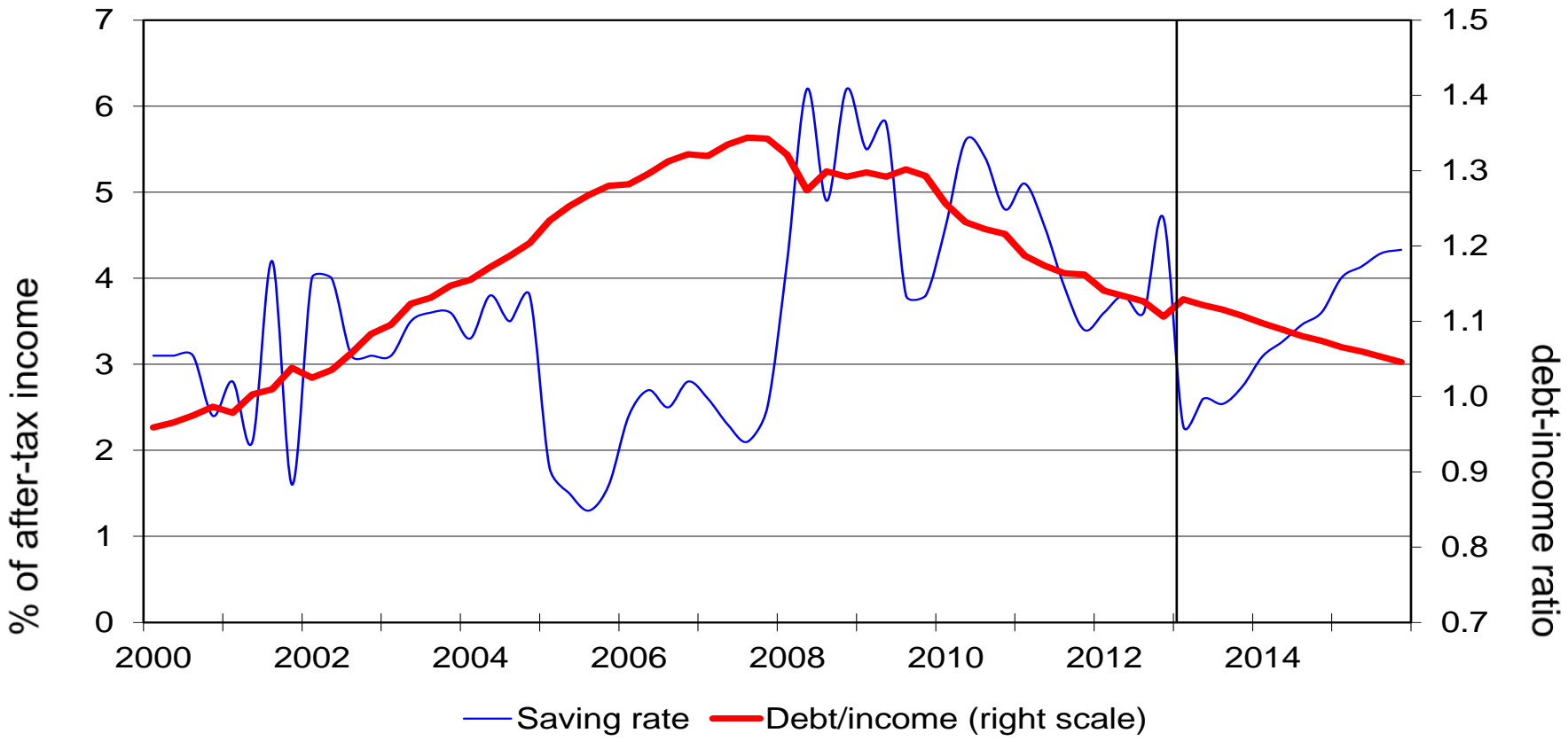
Consumer Finances Improving

The Impact On The Consumer



Source: Federal Reserve Survey of Consumer Finances

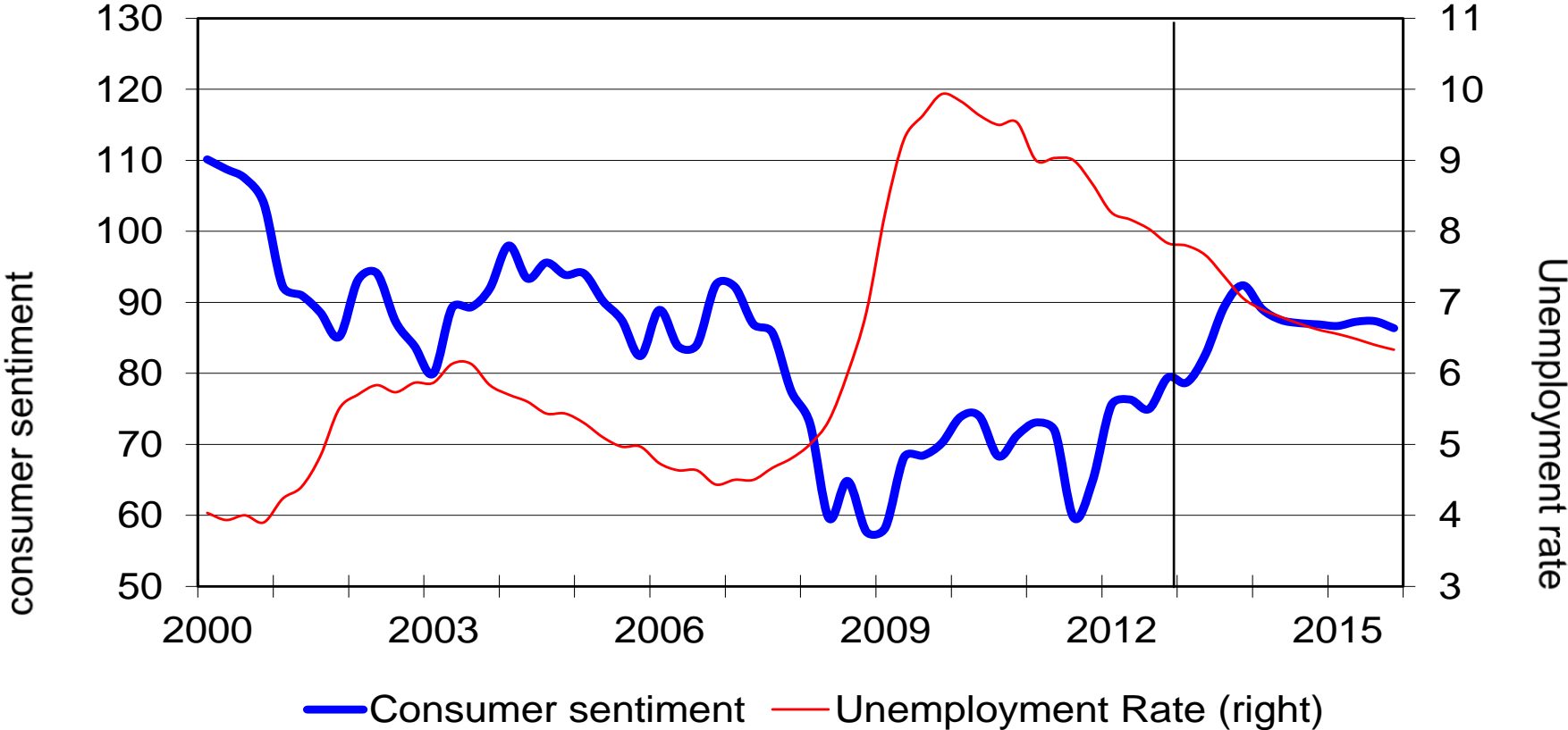
Consumer Debt is Falling



Source: Bureau of Economic Analysis and Federal Reserve

It All Comes Down To Jobs

The Jobs Market Drives Confidence

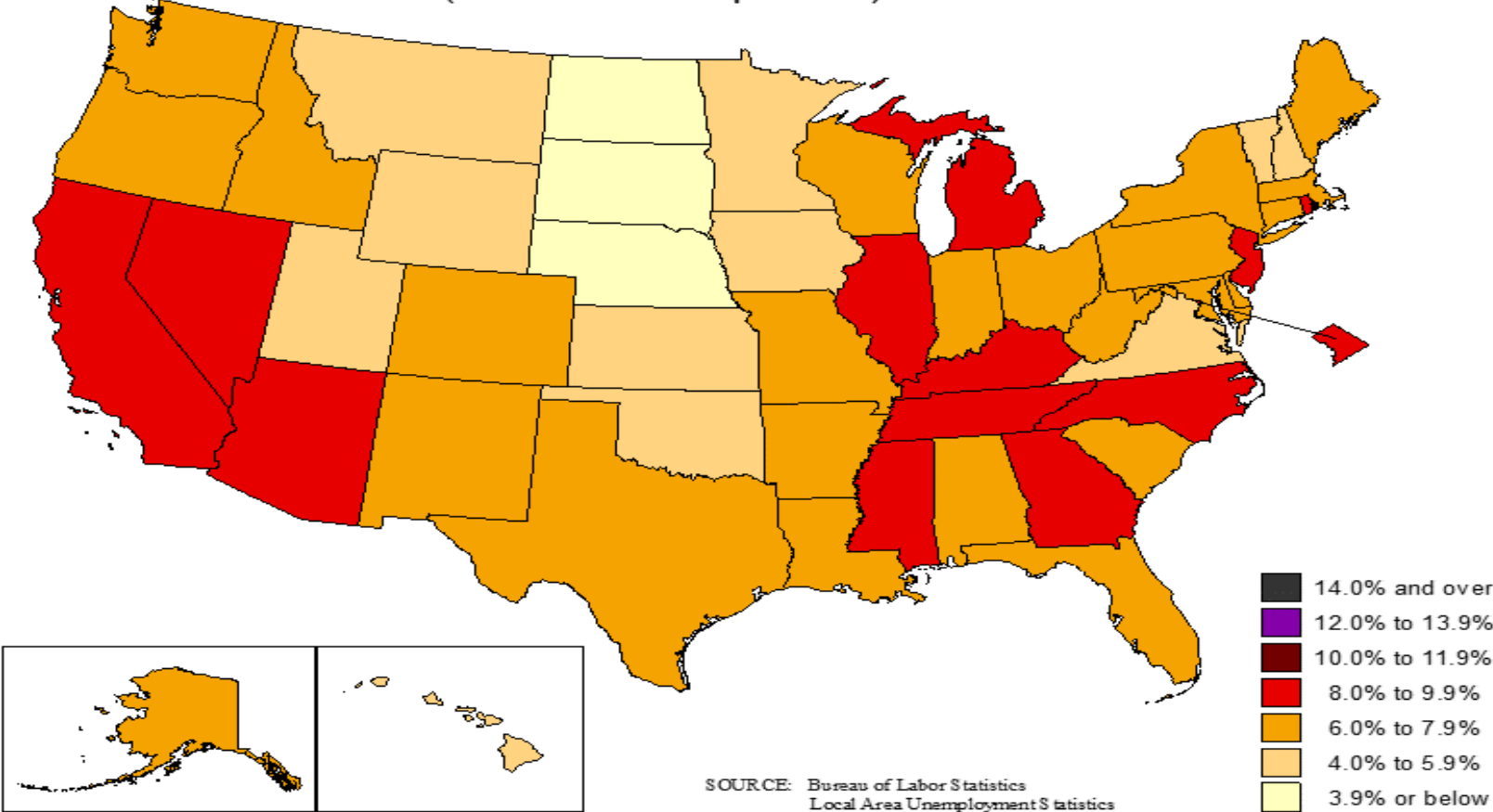


Source: Bureau of Labor Statistics and University of Michigan Survey Research Center, Standard & Poor's Ratings Services projections

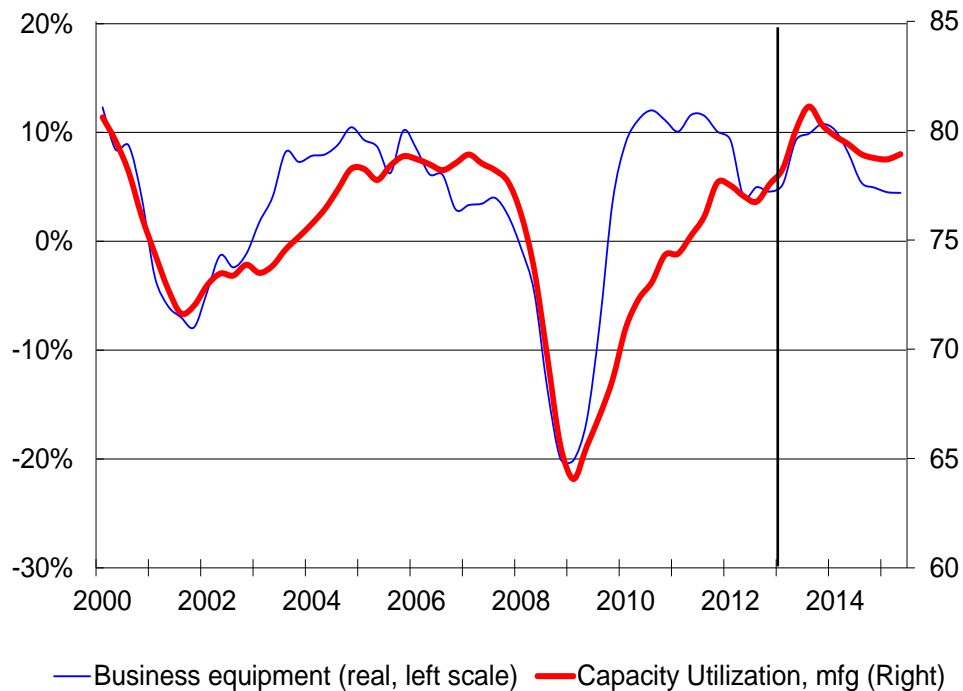
Who Is Getting Jobs?

Unemployment rates by state, seasonally adjusted, October 2013

(U.S. rate = 7.3 percent)



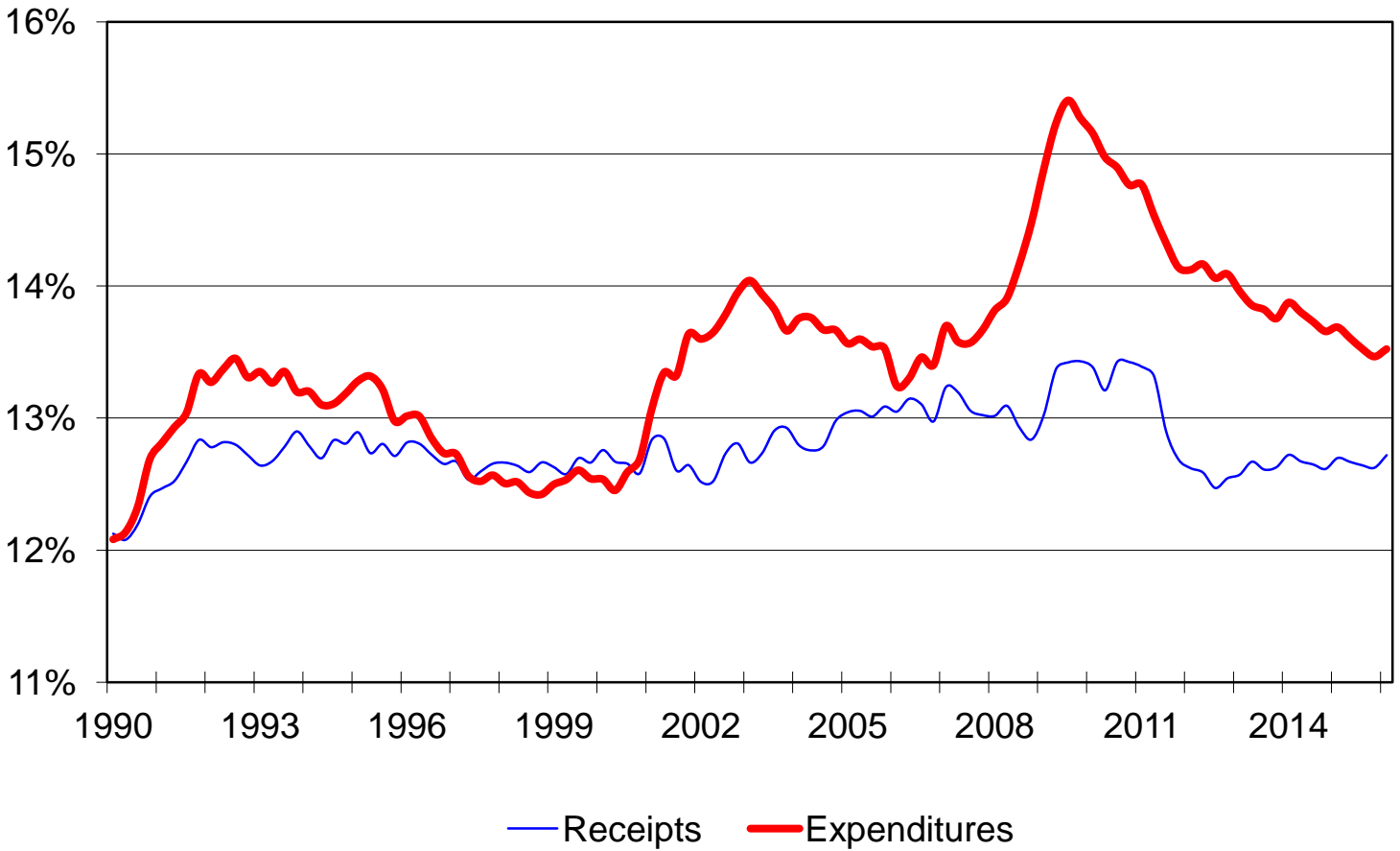
Manufacturing Returns to U.S.



- **Cheap energy attracts manufacturers**
- **Equipment production largely recovered**
- **Capacity utilization has improved**

Source: Federal Reserve; Bureau of Economic Analysis; Standard & Poor's Ratings Services Projections

State & Locals in the U.S. Improve



Source: Bureau of Economic Analysis; Standard & Poor's Ratings Services Projections

What Does It All Mean?

We're Not There Yet, But...

On Balance, Positives Seem to Outweigh the Risks

- **Risk of another U.S. recession is now 15% to 20%**
- **The same as in December, 2012.**
- **And almost twice that amount two years ago!**



**STANDARD & POOR'S
RATINGS SERVICES**

McGRAW HILL FINANCIAL

Thank You

Beth Ann Bovino

Chief U.S. Economist

bethann.bovino@standardandpoors.com



Copyright © 2013 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P, GLOBAL CREDIT PORTAL and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.