Economic Outlook 2014: Are We There Yet?

Beth Ann Bovino
Chief U.S. Economist

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Data as of November 10, 2013

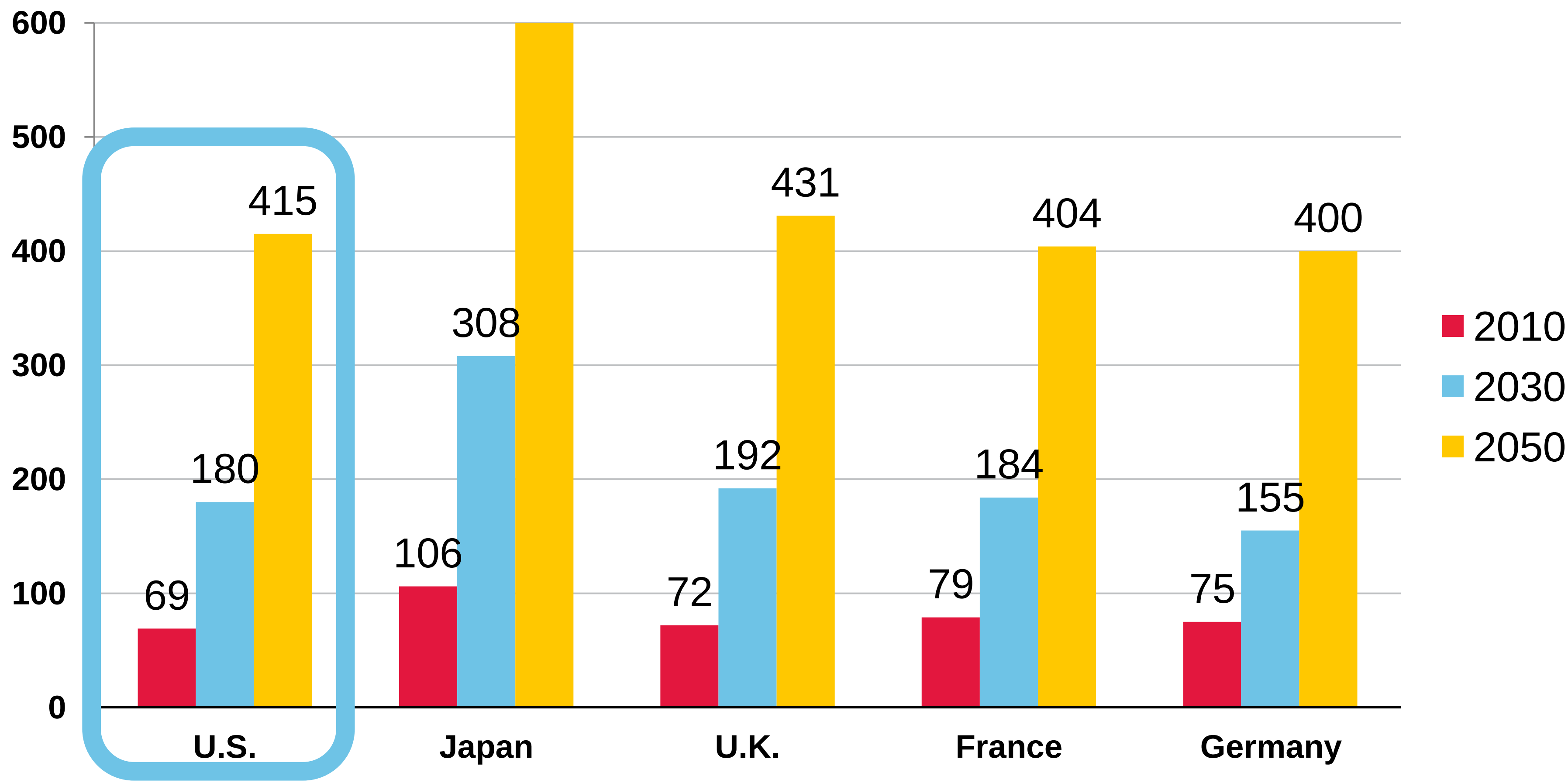
Today / Tomorrow

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

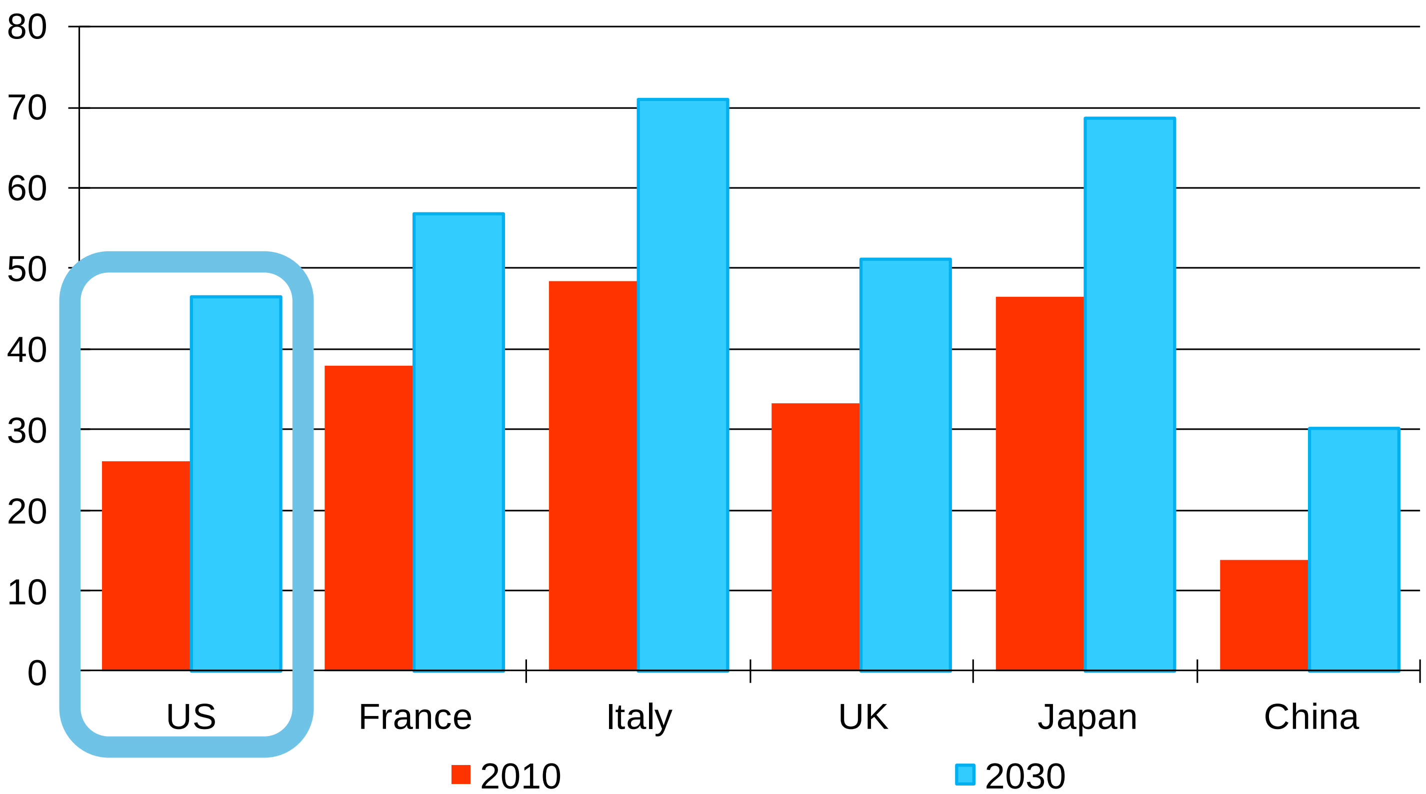
Global Challenges Are Building

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**

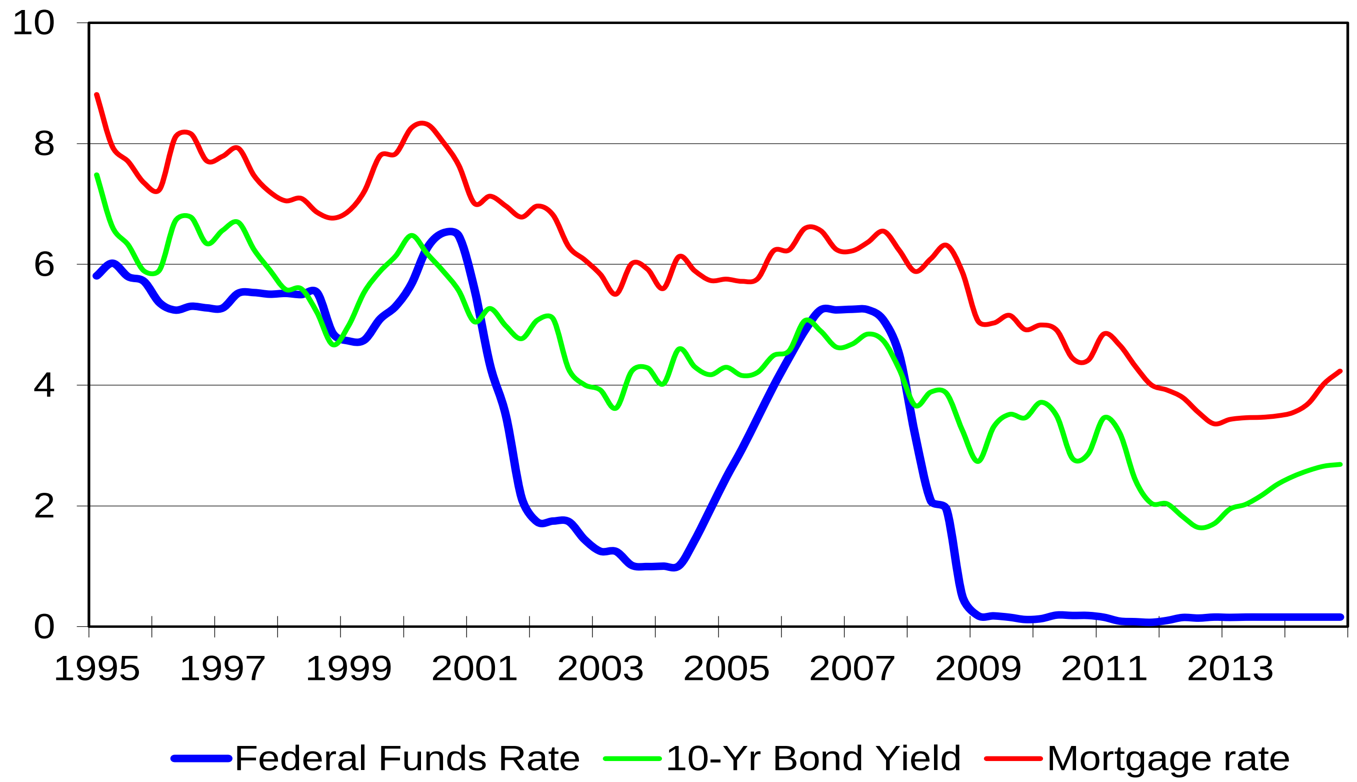
Source: Organisation for Economic Co-operation and Development

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

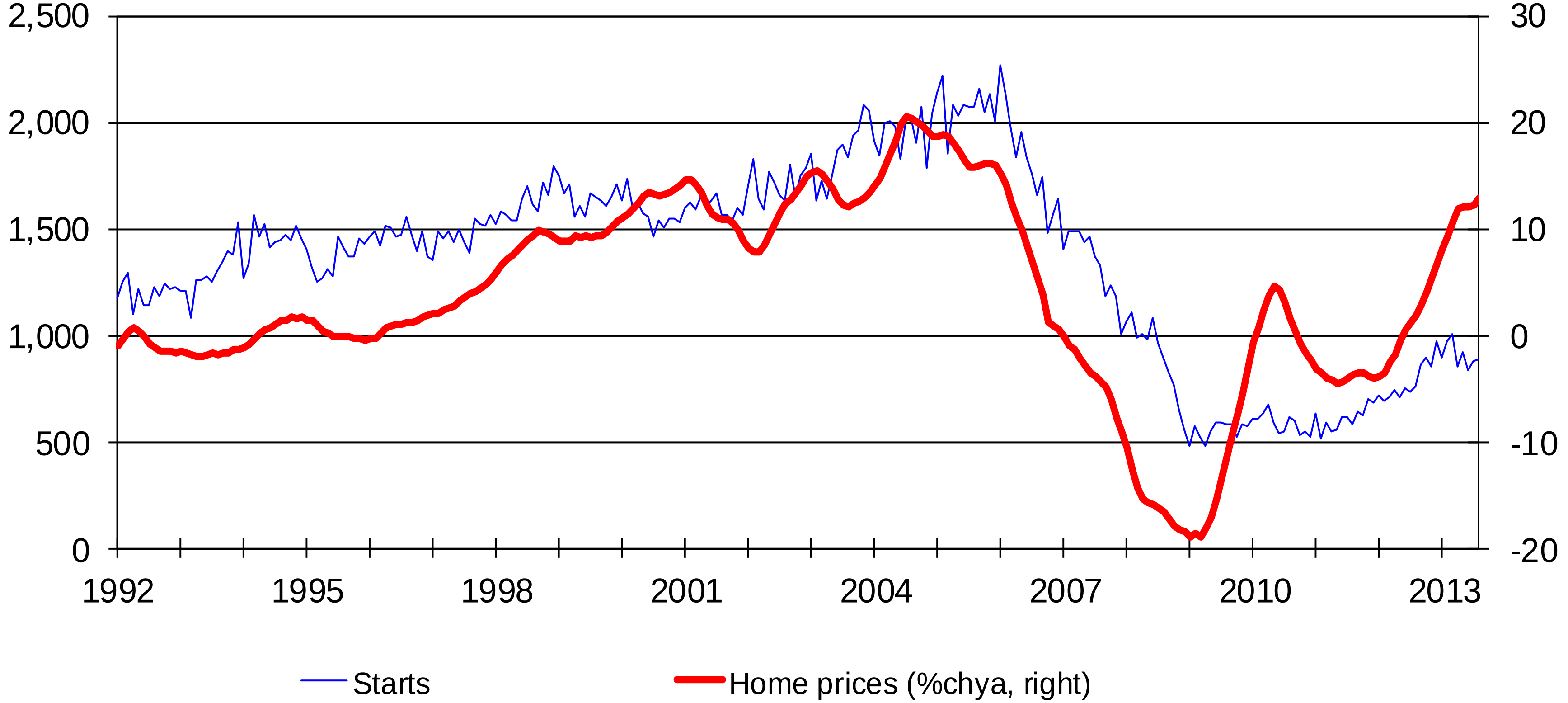


- **Tapering is results driven and tied to sustained improvement in job market**

Source: Federal Reserve

Housing: A Driving Force

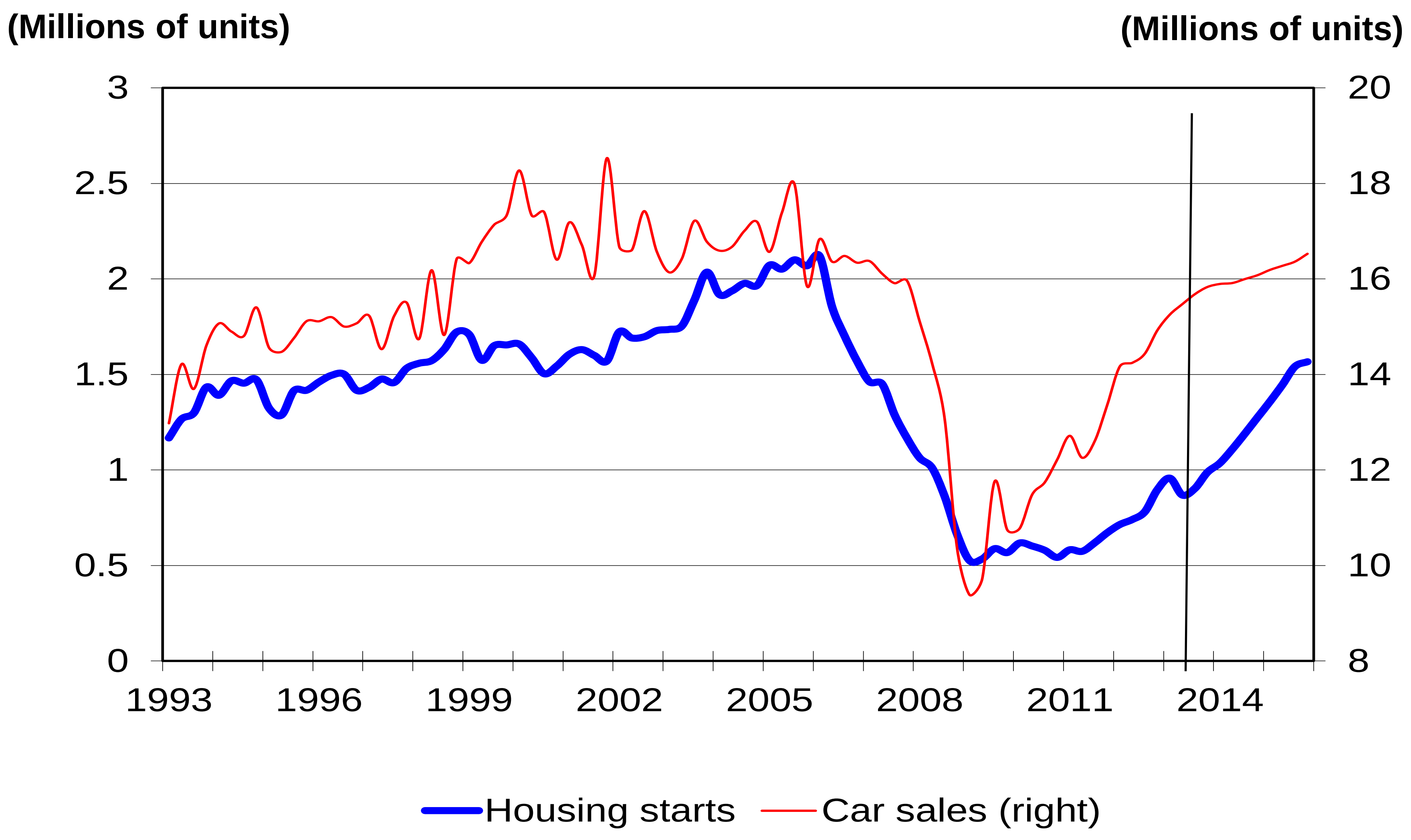
There Is No Housing Bubble (Yet)



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

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

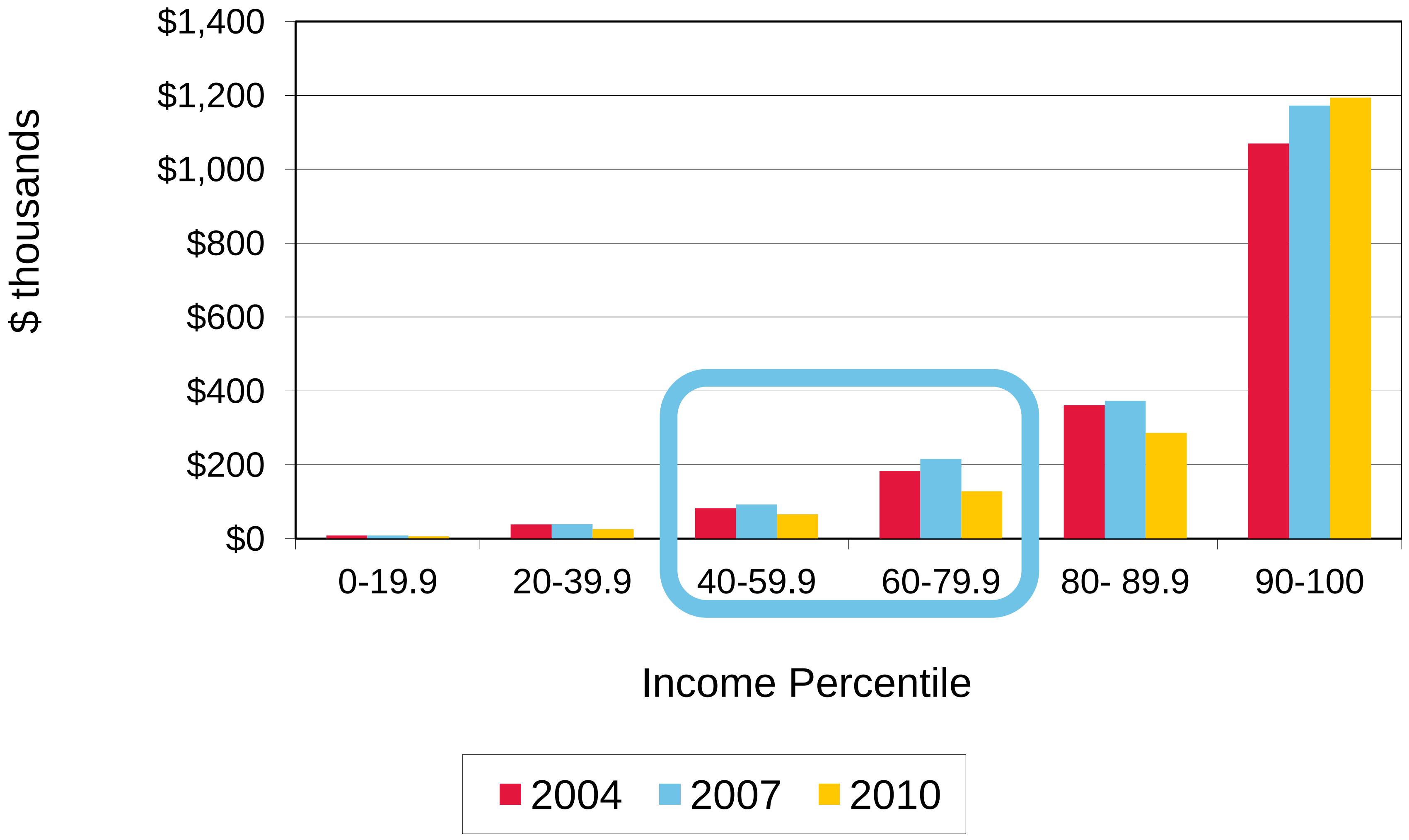
Car Sales Led Housing In This Recovery



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

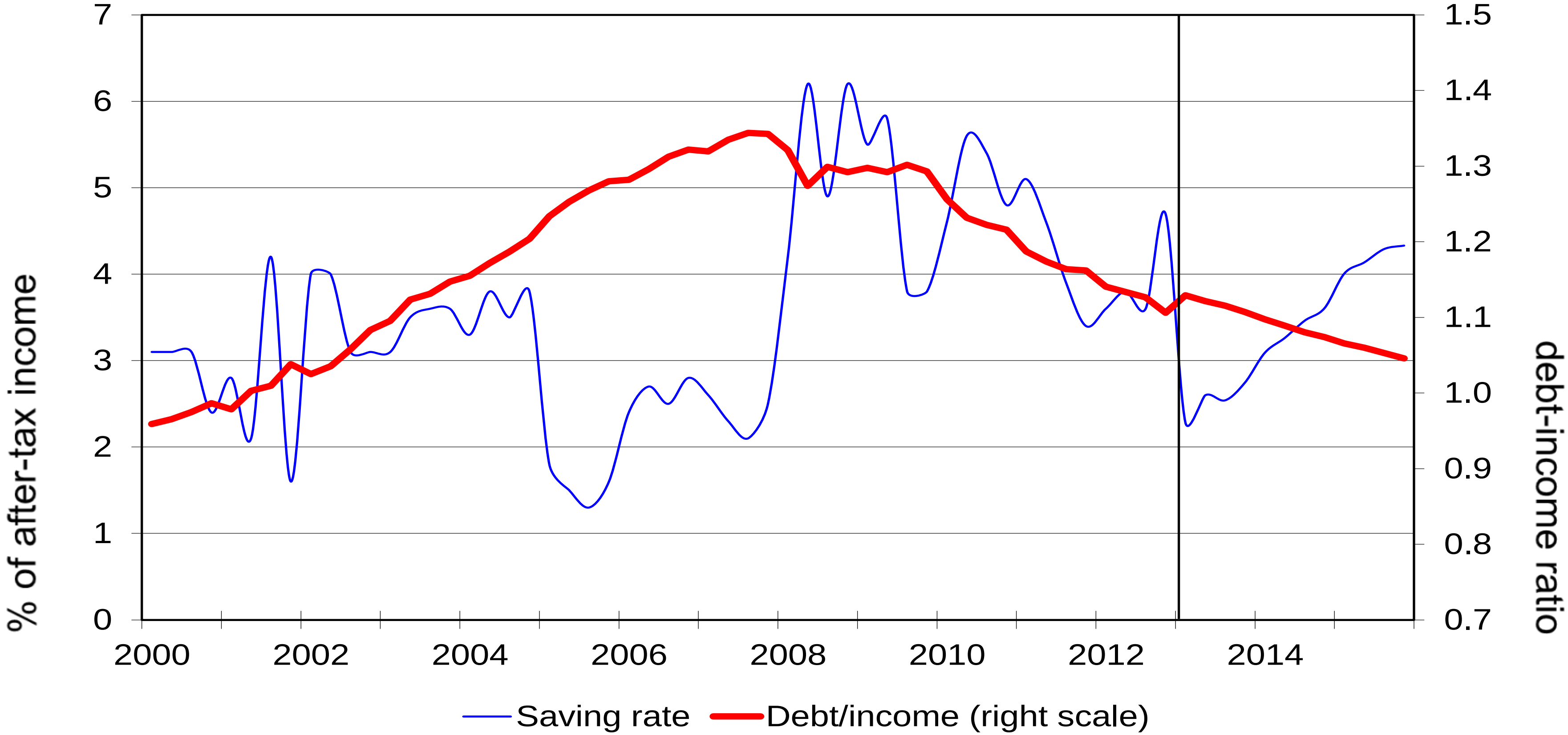
Consumer Finances Improving

The Impact On The Consumer



Source: Federal Reserve Survey of Consumer Finances

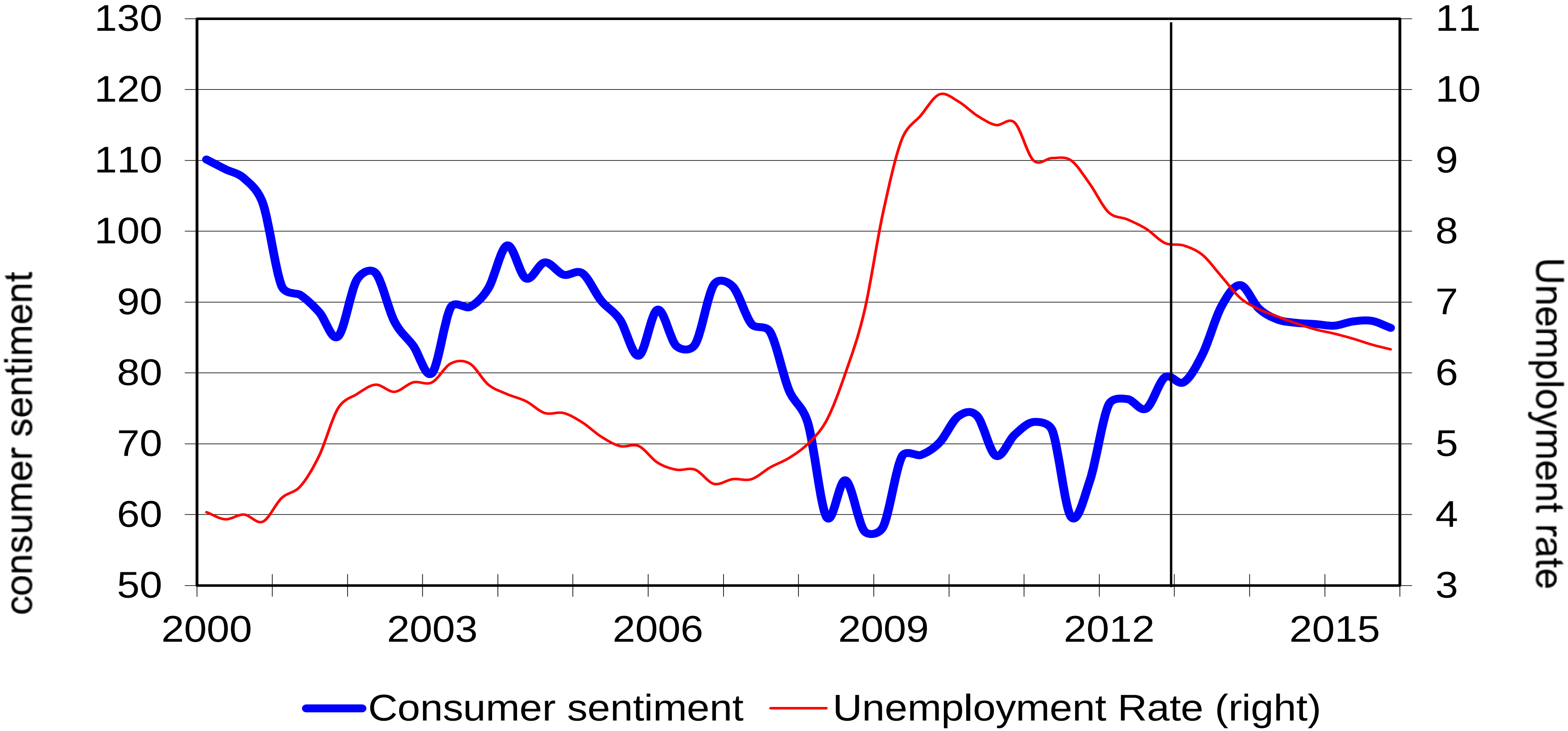
Consumer Debt is Falling



Source: Bureau of Economic Analysis and Federal Reserve

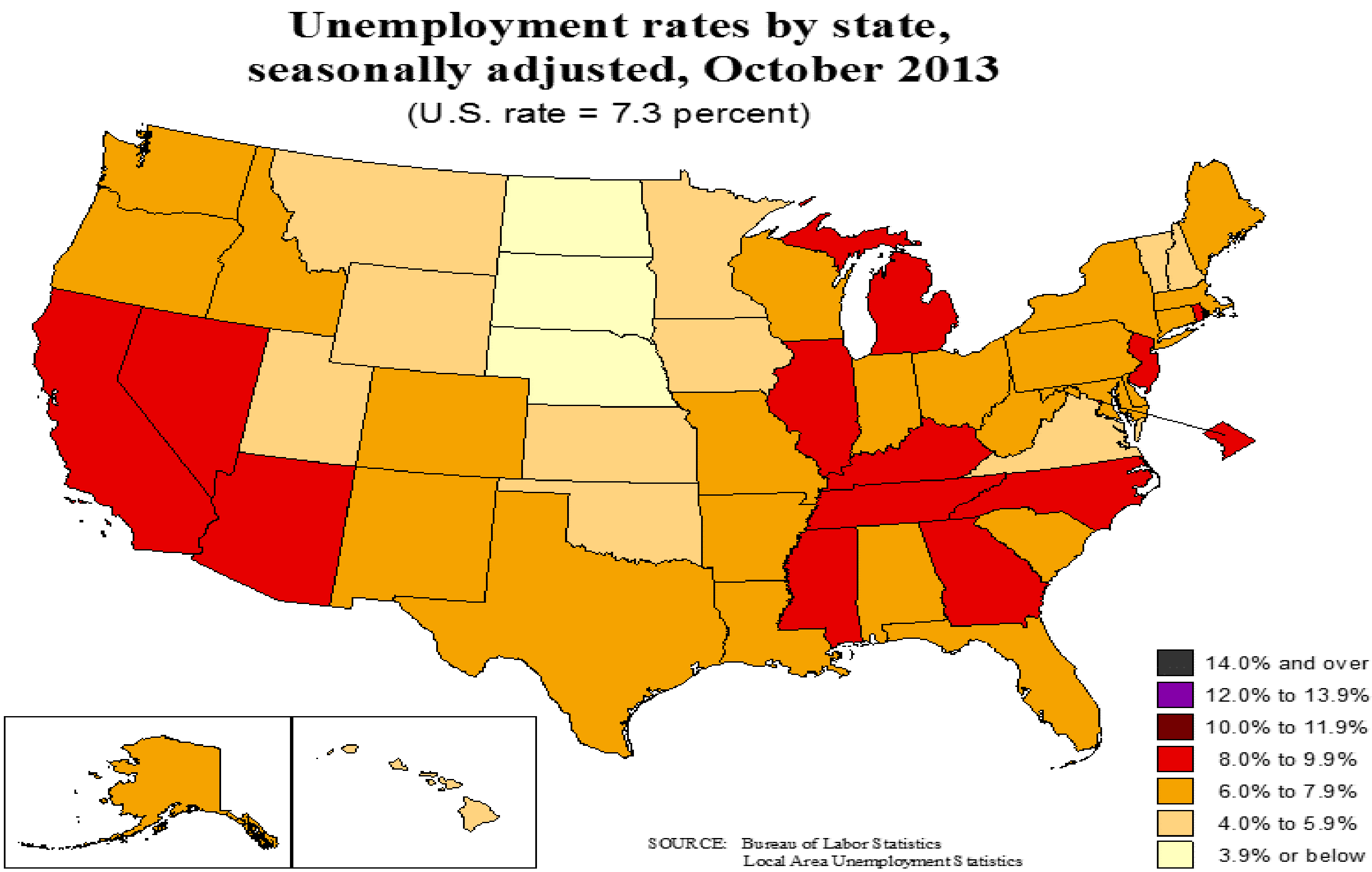
It All Comes Down To Jobs

The Jobs Market Drives Confidence

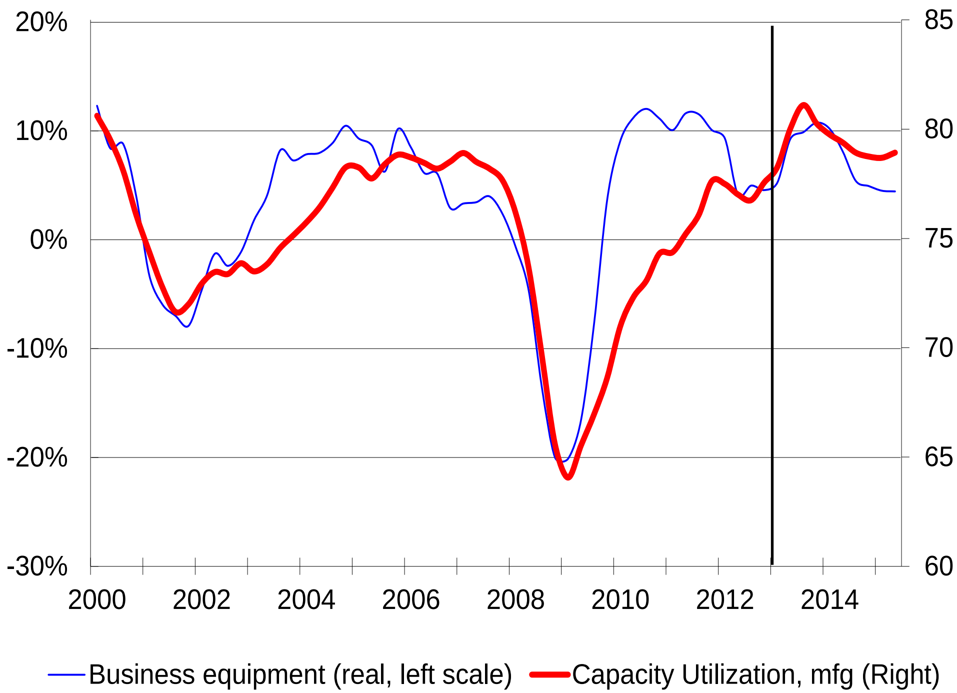


Source: Bureau of Labor Statistics and University of Michigan Survey Research Center, Standard & Poor's Ratings Services projections

Who Is Getting Jobs?



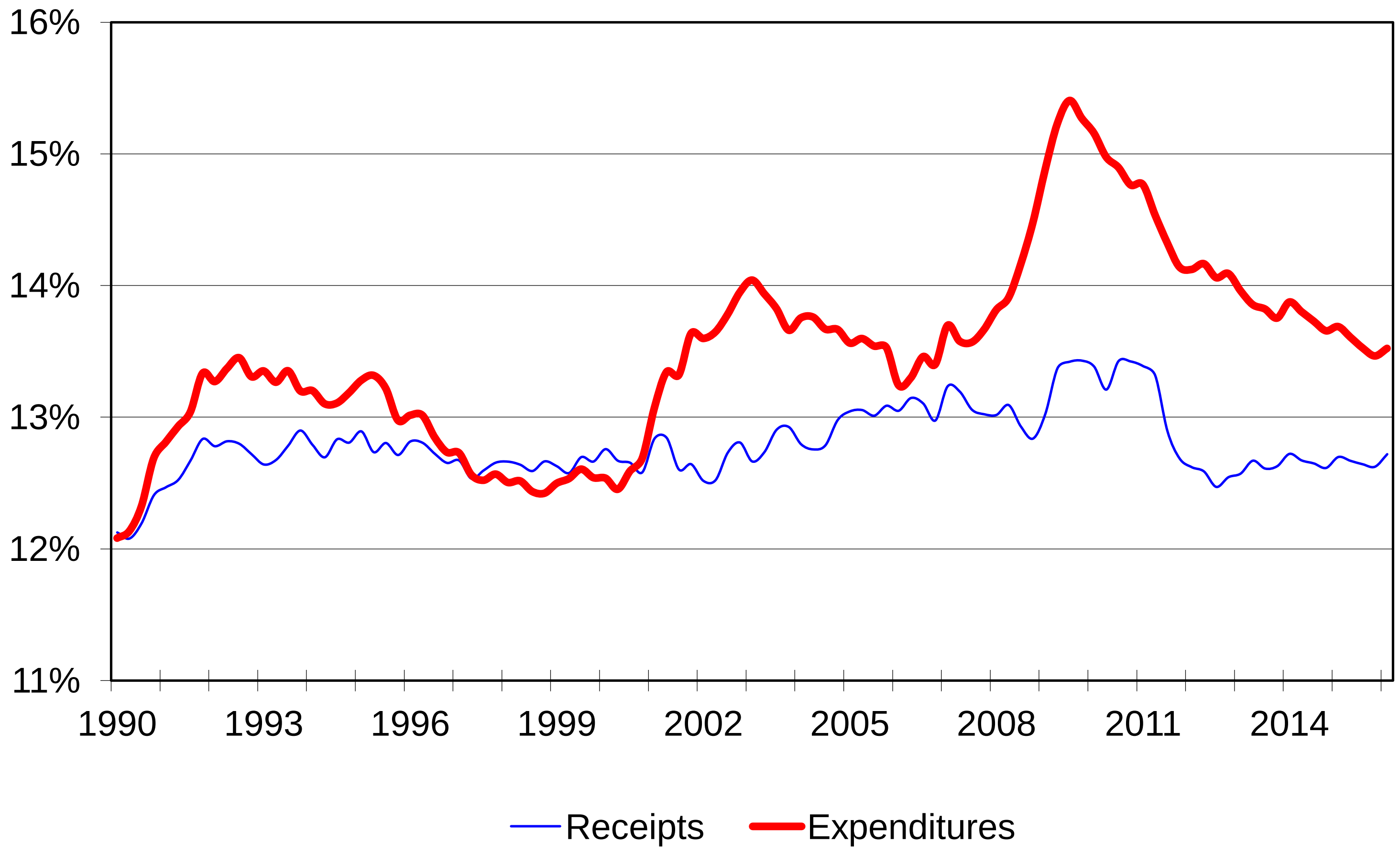
Manufacturing Returns to U.S.



- **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!**

Thank You

Beth Ann Bovino
Chief U.S. Economist
bethann.bovino@standardandpoors.com