

# **Economic Outlook 2015: Are We There Yet?**

**Beth Ann Bovino**  
**Chief U.S. Economist**

**Nov. 19, 2014**  
Data as of Nov 5, 2014

Permission to reprint or distribute any content from this presentation requires the prior written approval of Standard & Poor's. Copyright © 2013 by Standard & Poor's Financial Services LLC. All rights reserved.

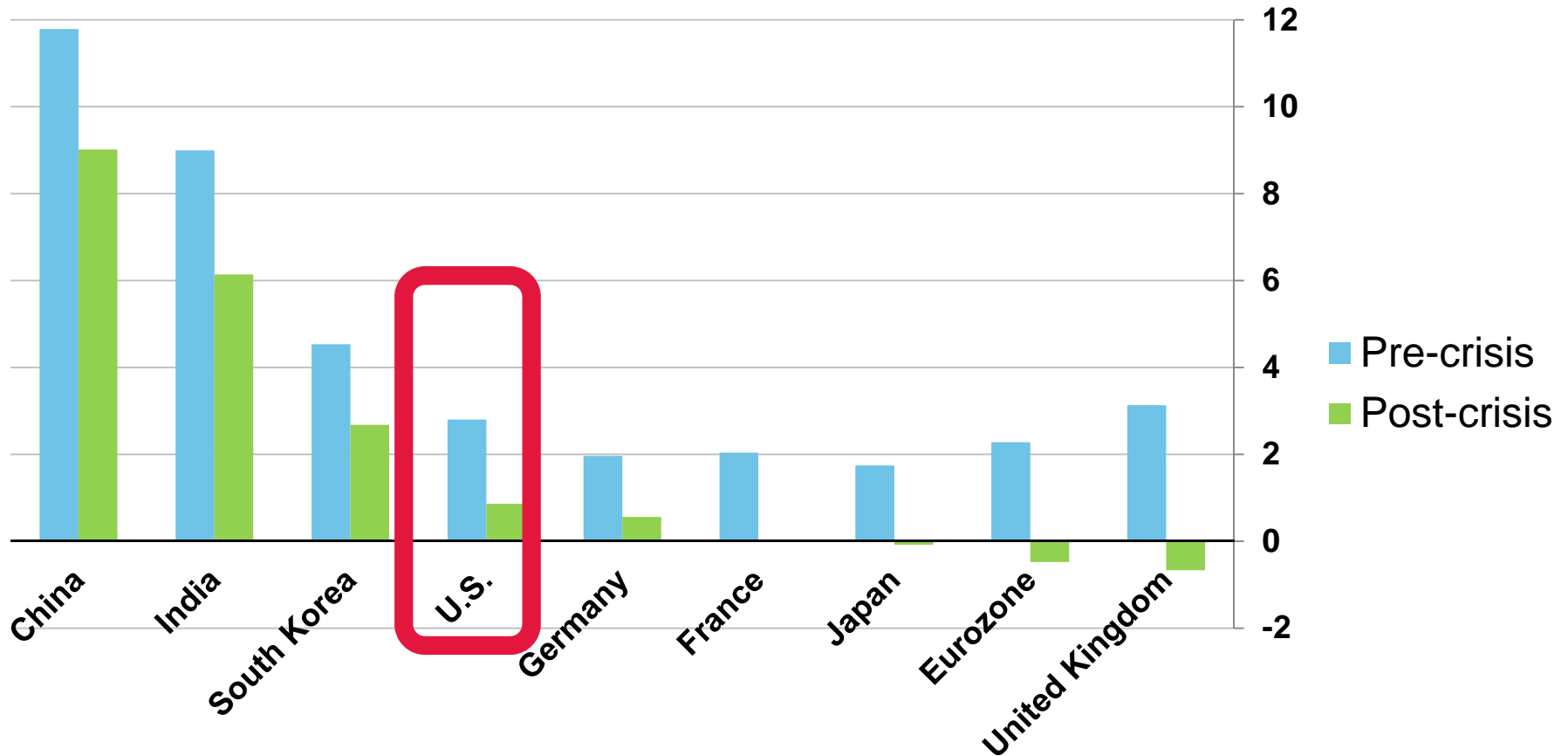


A A B C A B A C B A C A B A B C  
B C B A C B B B A A A B A C B A  
C A C B B A C A B B B C C C A B  
A B A C C C C B A C A C B C B A  
A A B C A B A C C A B A C A A B  
C B A C A C A A  
C B C B A B A B C B C B A B A C  
A B A C B B A C A B A C B B A A  
B C C C B A C C B C C C B A C C  
C A B C A B A C C A B C A B A B  
B C C C B A C A B C C C B A C C

# Setting The Stage

# A Two-Tiered Recovery

Average y-o-y growth rate, 5 years before and after



Source: Standard & Poor's Ratings Services, global insight

A A B C A B A C B A C A B A B C  
B C B A C B B B A A A B A C B A  
C A C B B A C A B B B C C C A B  
A B A C C C C B A C A C B C B A  
A A B C A B A C C A B A C A A B  
C **Today / Tomorrow** B A C A C A A  
C B C B A B A B C B C B A B A C  
A B A C B B A C A B A C B B A A  
B C C C B A C C B C C C B A C C  
C A B C A B A C C A B C A B A B  
B C C C B A C A B C C C B A C C

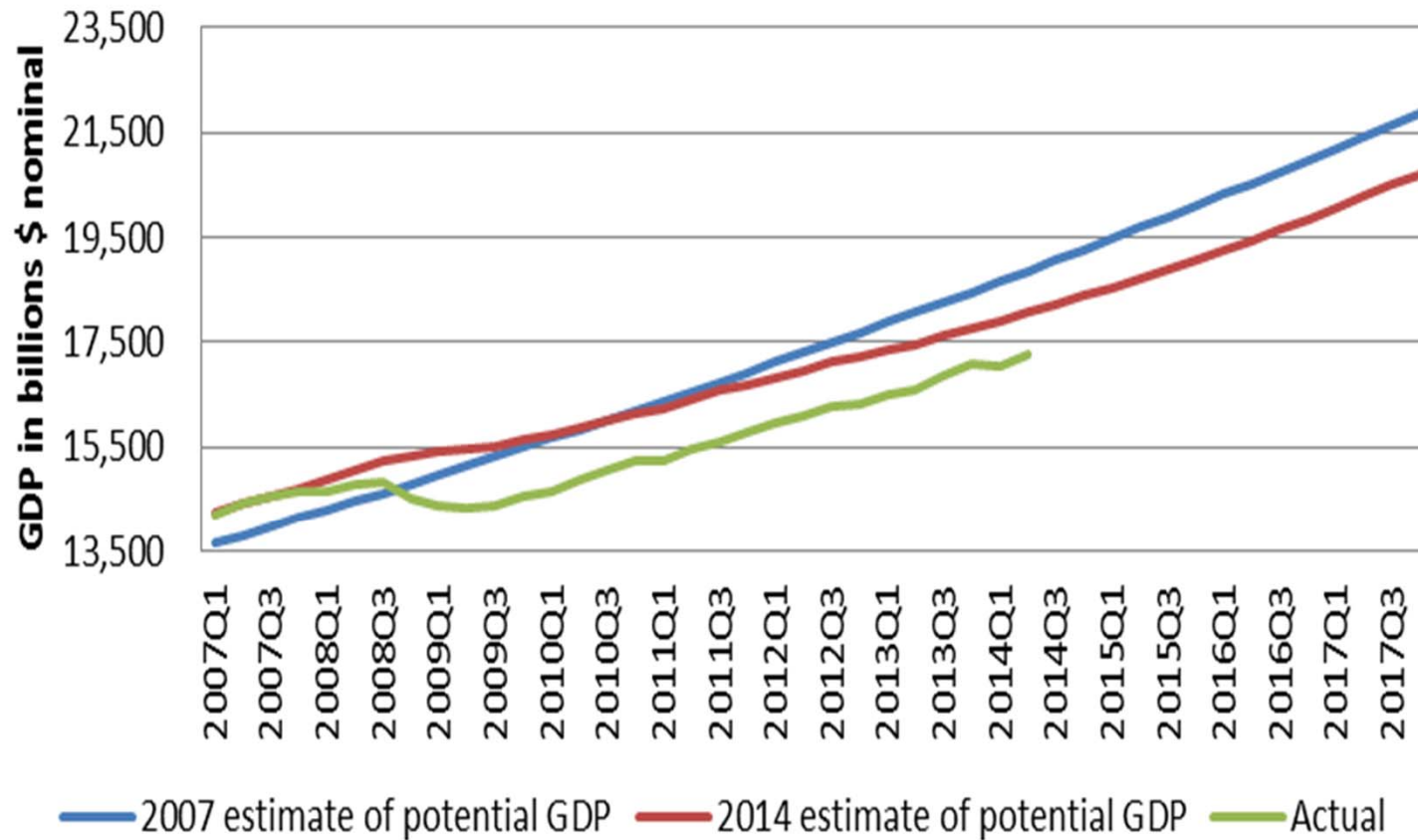
---

# Still Waiting For Take Off

- **Now in its 6<sup>th</sup> year, the U.S. recovery faces economic headwinds**
  - Export slowdown
  - Stimulus reversal
  - Fed policy unwind
  - People leaving the jobs market
- **Significant potential tail risks remain**
  - Policy risks from abroad spread to the U.S.
  - Sharp near-term austerity
  - Exports collapse on a spike in the dollar
  - Fed monetary policy normalization goes askew

# Half-Speed Ahead!

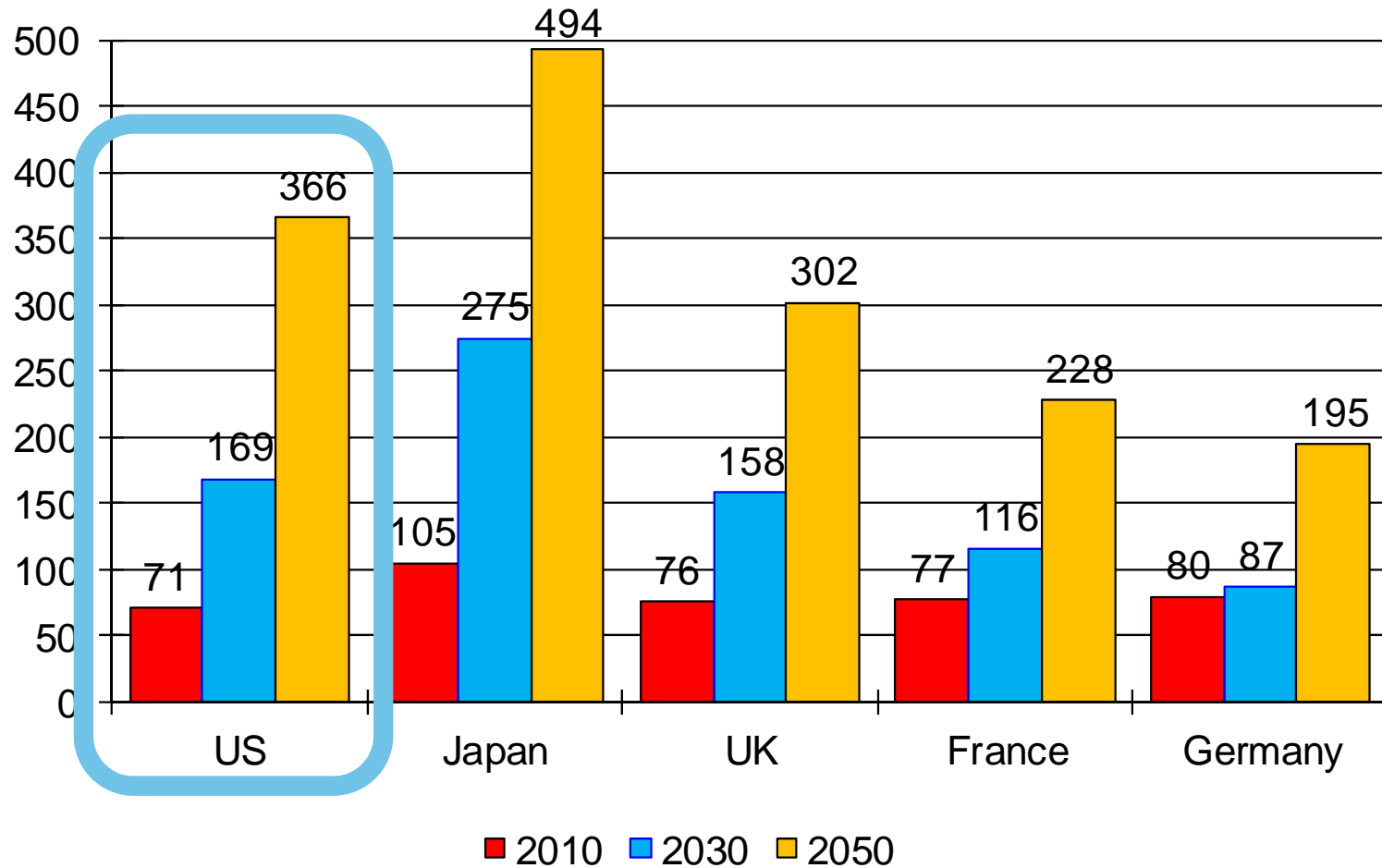
## Estimated Potential And Actual U.S. GDP



Source: CBO

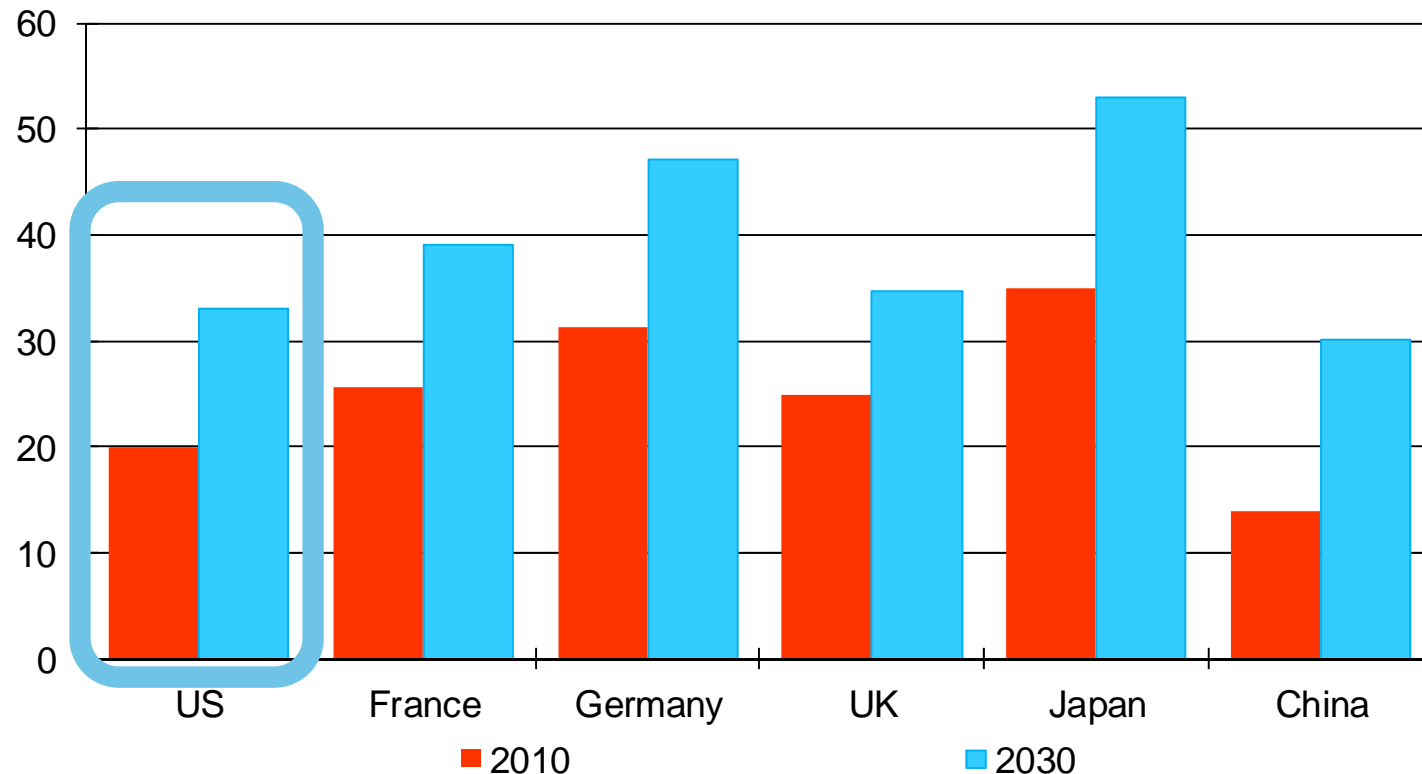
# Global Challenges Are Building

(Government debt as % of GDP)



Source: Standard & Poor's, 2013

# Aging Populations Strain Public Budgets

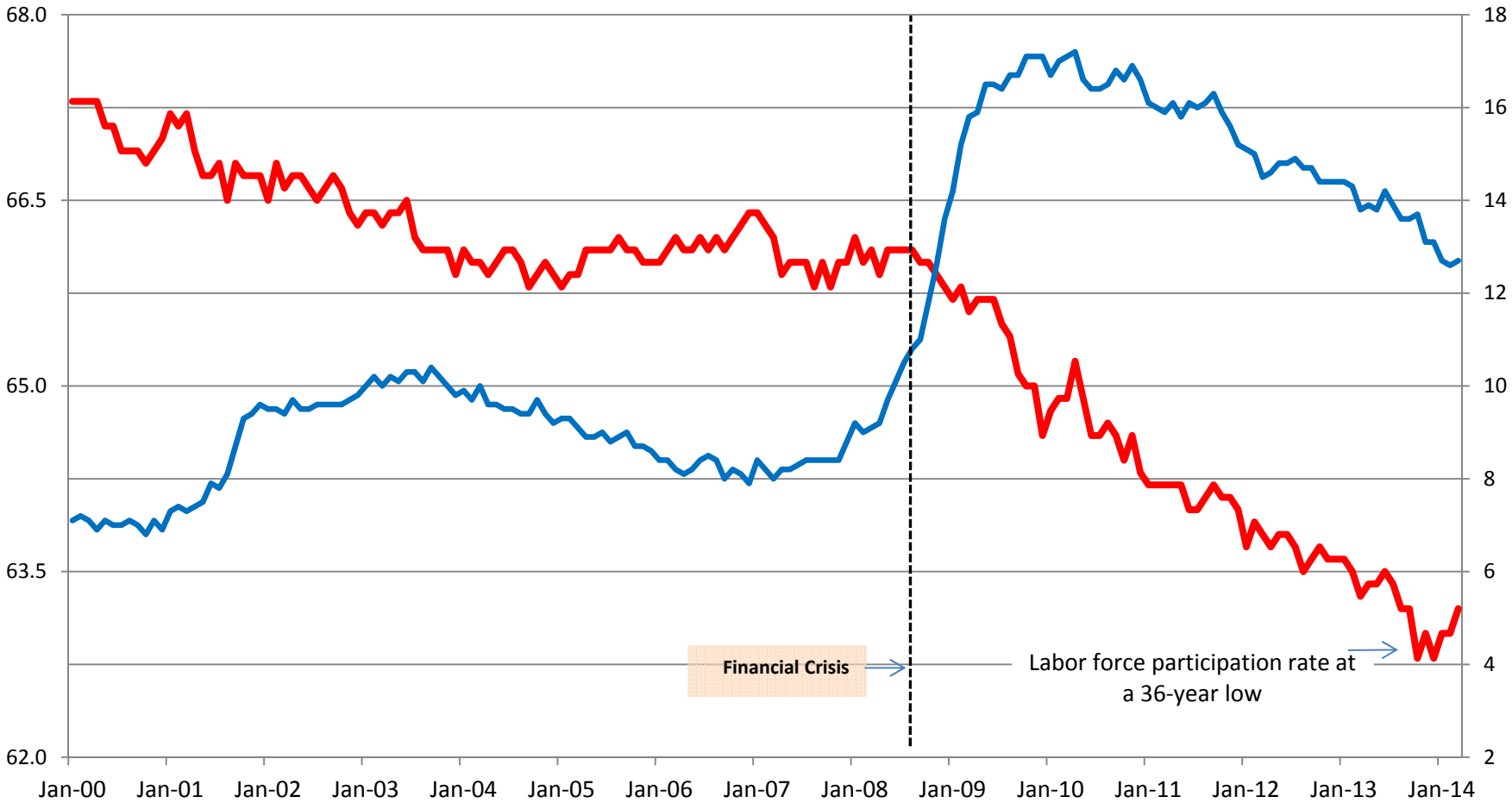


- **As world populations ages, retirees comprise greater percentage of the workforce**

Source: S&P Global Aging Report



# Longer Term Labor Market Concerns

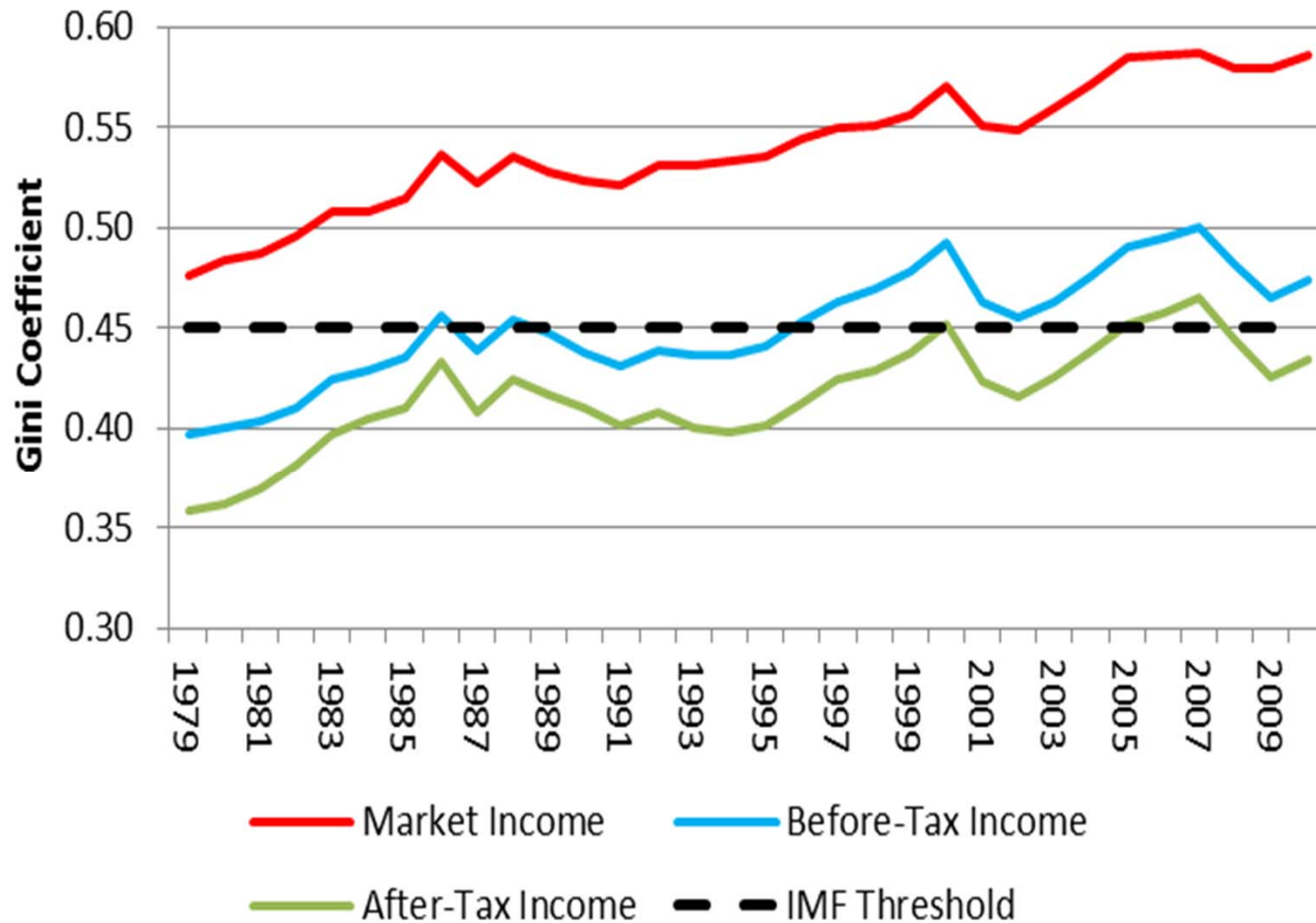


- **Labor market weakness affects generations**

Source: US Department of Labor-- The Bureau of Labor Statistics

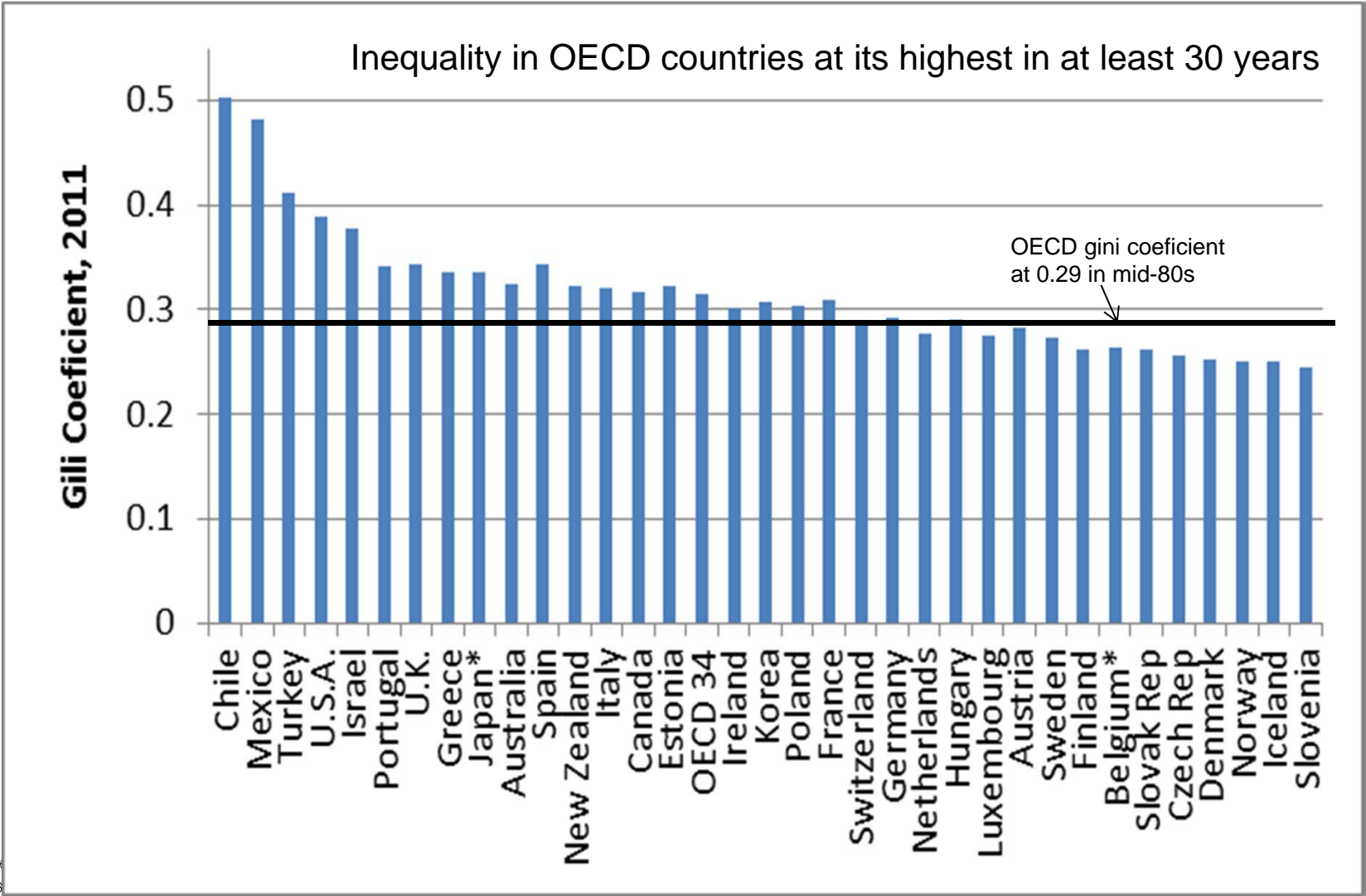
— left-axis Labor Participation rate      — secondary-axis U6 Rate

# The Distribution of After-Tax Household Income More Concentrated Over Time



Source: Source: Cc

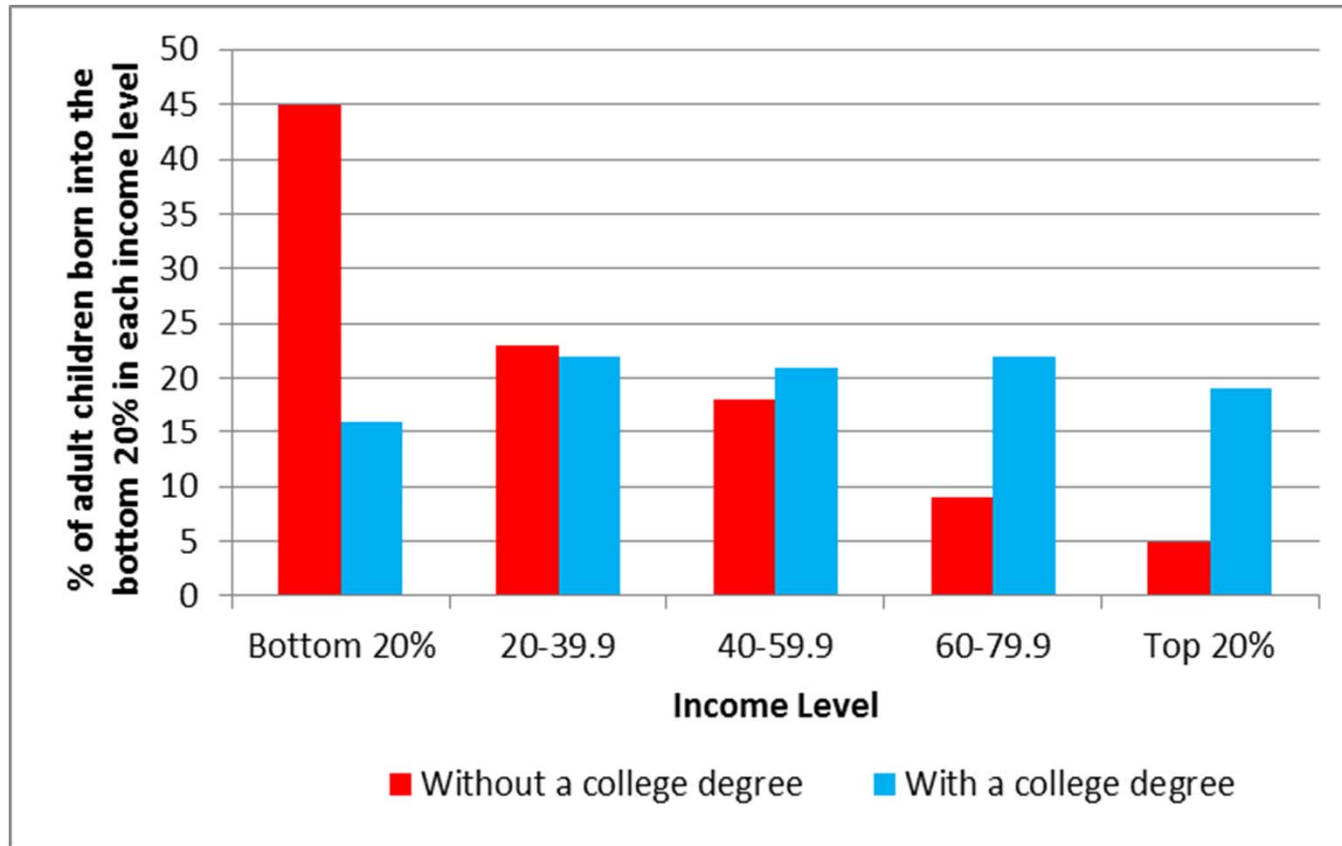
# Not just a problem of the U.S.



Source: OECD  
dispos

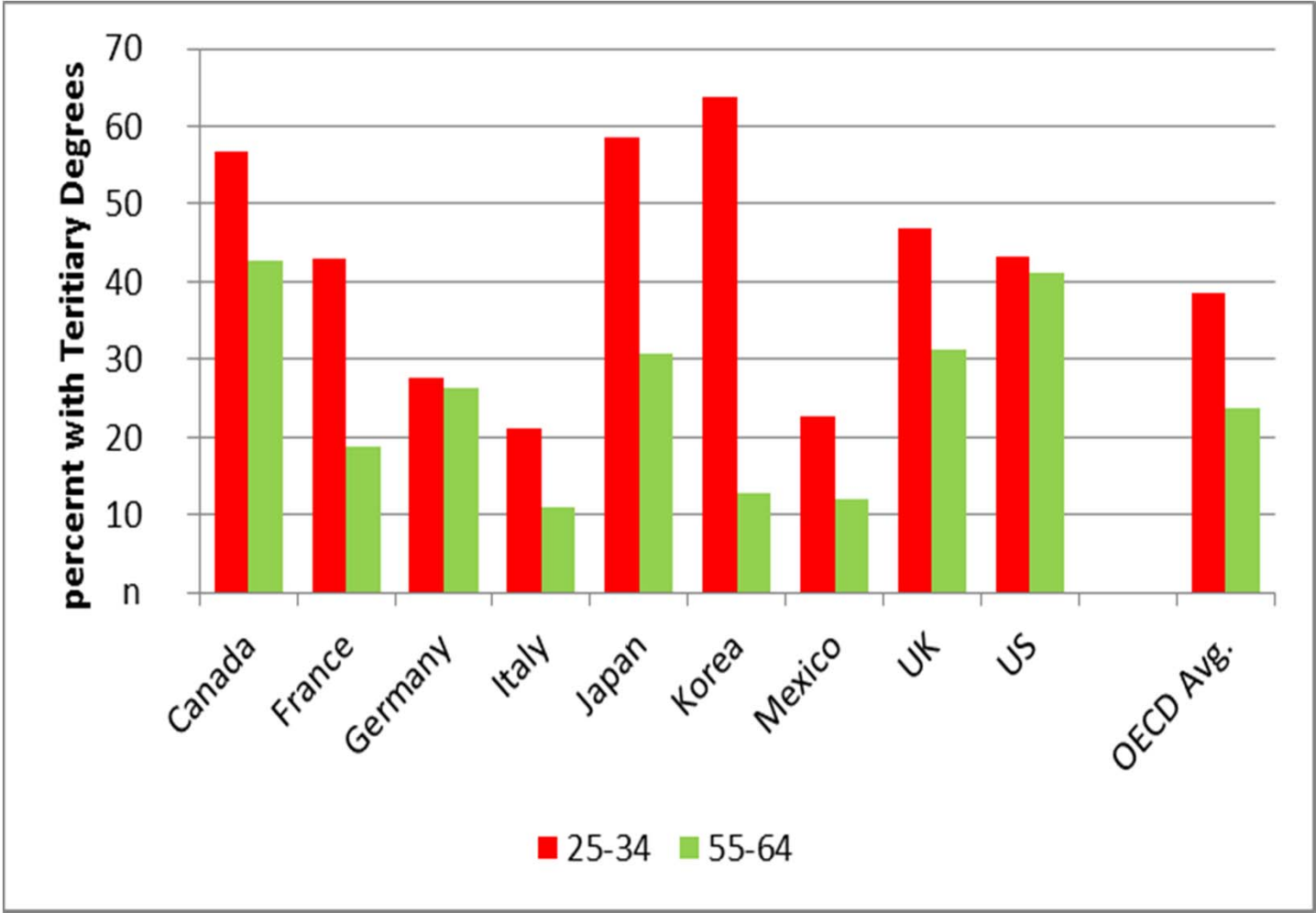
hold

# For the Poor, Little Chance of Entering the Upper End of the Income Range without a College Degree



Source: Haskins, Ron. "Education and Economic Mobility" 2008 Note: Calculations are based on the PSID, which compares children's adult income in U.S. at roughly age forty with that of their parents at about same age.

# U.S. Education Is Slipping Behind



Source: OECD Education at a Glance 2013

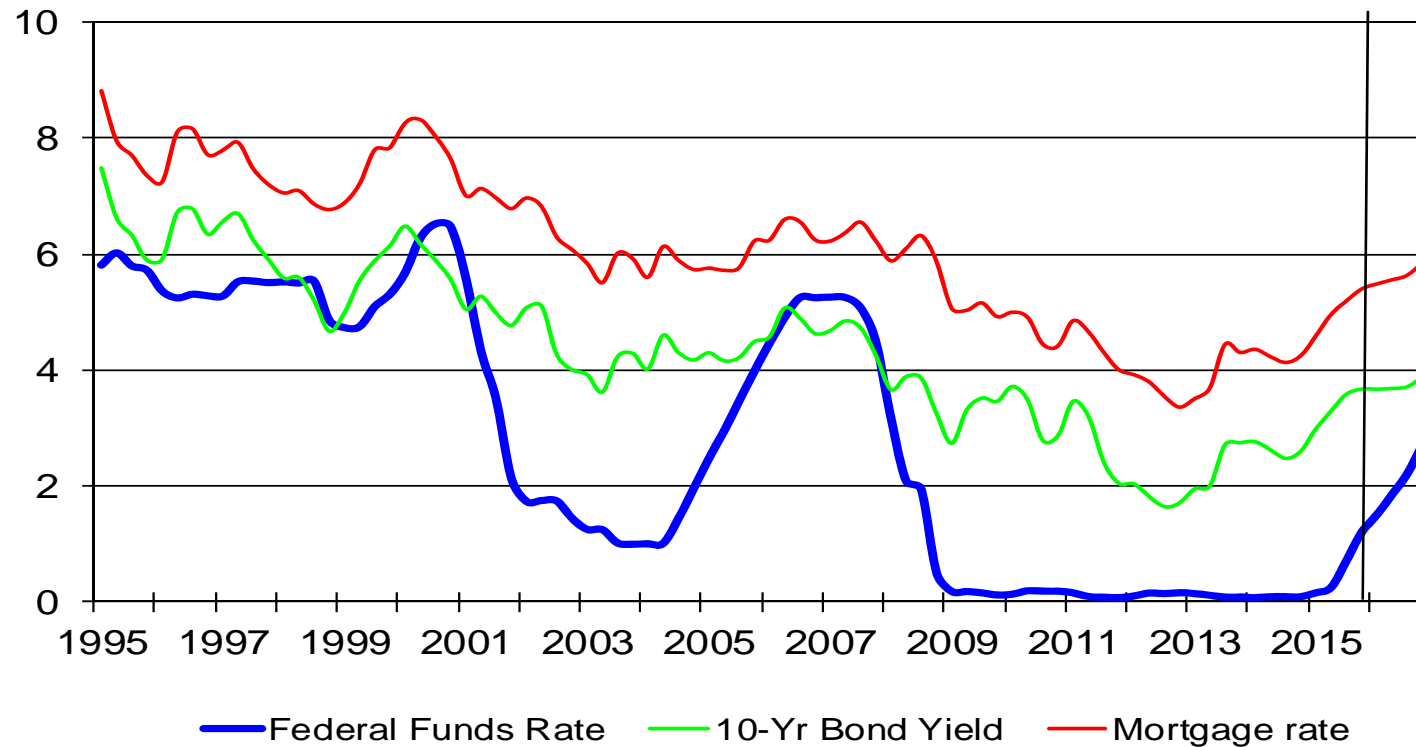
A A B C A B A C B A C A B A B C  
B C B A C B B B A A A B A C B A  
C A C B B A C A B B B C C C A B  
A B A C C C C B A C A C B C B A  
A A B C A B A C C A B A C A A B  
C **Don't Forget The Positives** C A A  
C B C B A B A B C B C B A B A C  
A B A C B B A C A B A C B B A A  
B C C C B A C C B C C C B A C C  
C A B C A B A C C A B C A B A B  
B C C C B A C A B C C C B A C C

---

# Why I'm Optimistic

- **Washington compromise + Fed policy**
- **Robust private demand & hiring, despite shocks**
- **A strengthening housing market**
- **Consumers are opening their checkbooks**
- **Manufacturing returns to the U.S.**

# The Fed's Still In The Game

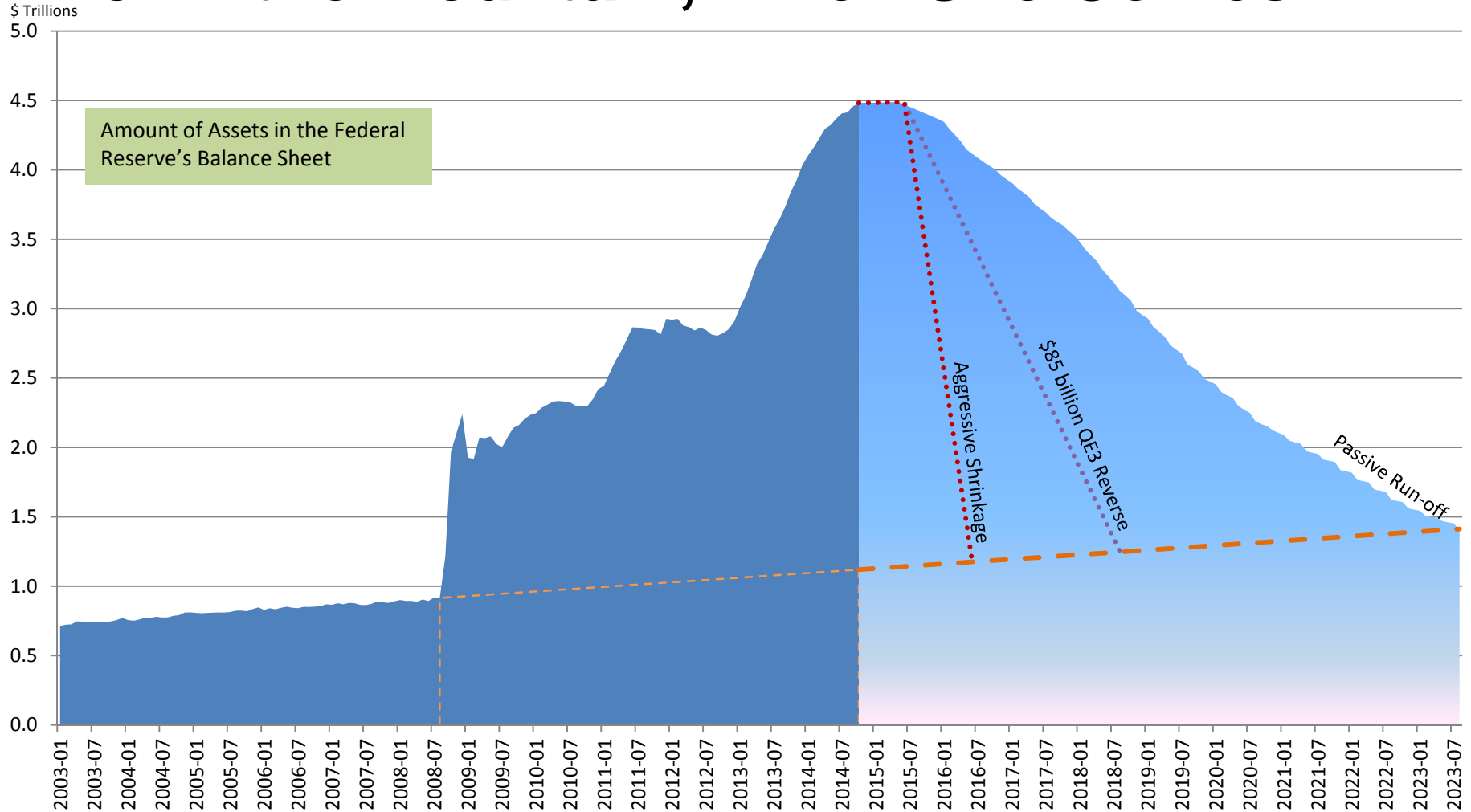


- **Slow shift from quantitative easing to interest rate policy with forward guidance**

Source: Federal Reserve



# Quantitative Easing: She'll Be Coming Down the Mountain, When She Comes

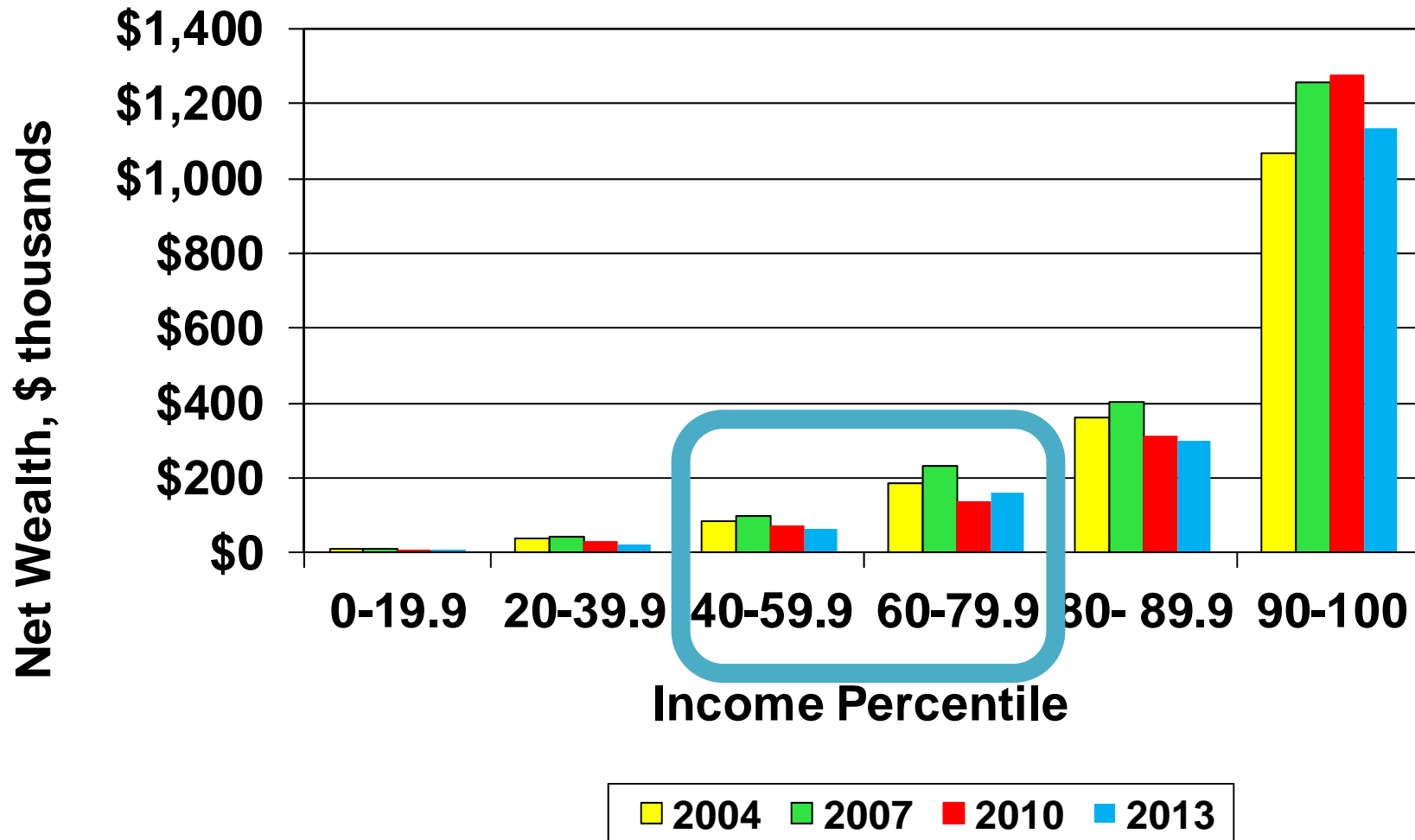


Source: The Federal Reserve and S&P Calculations.

Note: (1) Balance sheet's shrinkage to normal size starts on June of 2015 in all scenarios. The future "normal size" is based off pre-crisis linear trend. (2) In the passive run-off case, U.S. Treasury Securities are allowed to run-off as they mature and MBS pre-payments are assumed to be an average of \$250 billion per year till mid-2018, \$150 billion per year the next 2 years, and \$100 billion per year then on. In this scenario, balance sheet reaches normal size by 8/20. (3) In the Aggressive Shrinkage scenario, securities worth \$3.3 trillion are aggressively offloaded with in a year from June 2015.

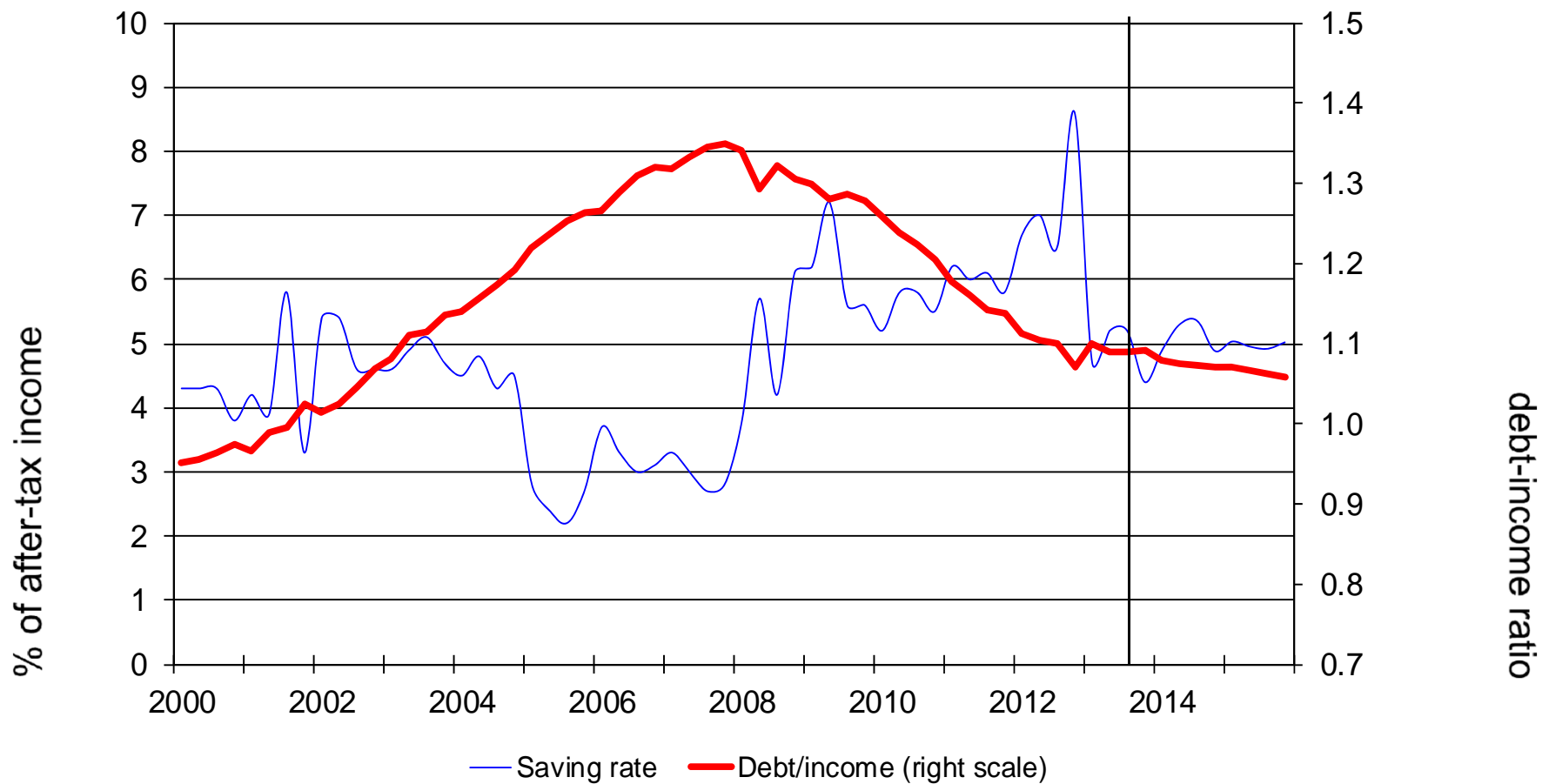
# Consumer Finances Improving

# Middle Class Was Hit the Hardest



Source: Federal Reserve Survey of Consumer Finances

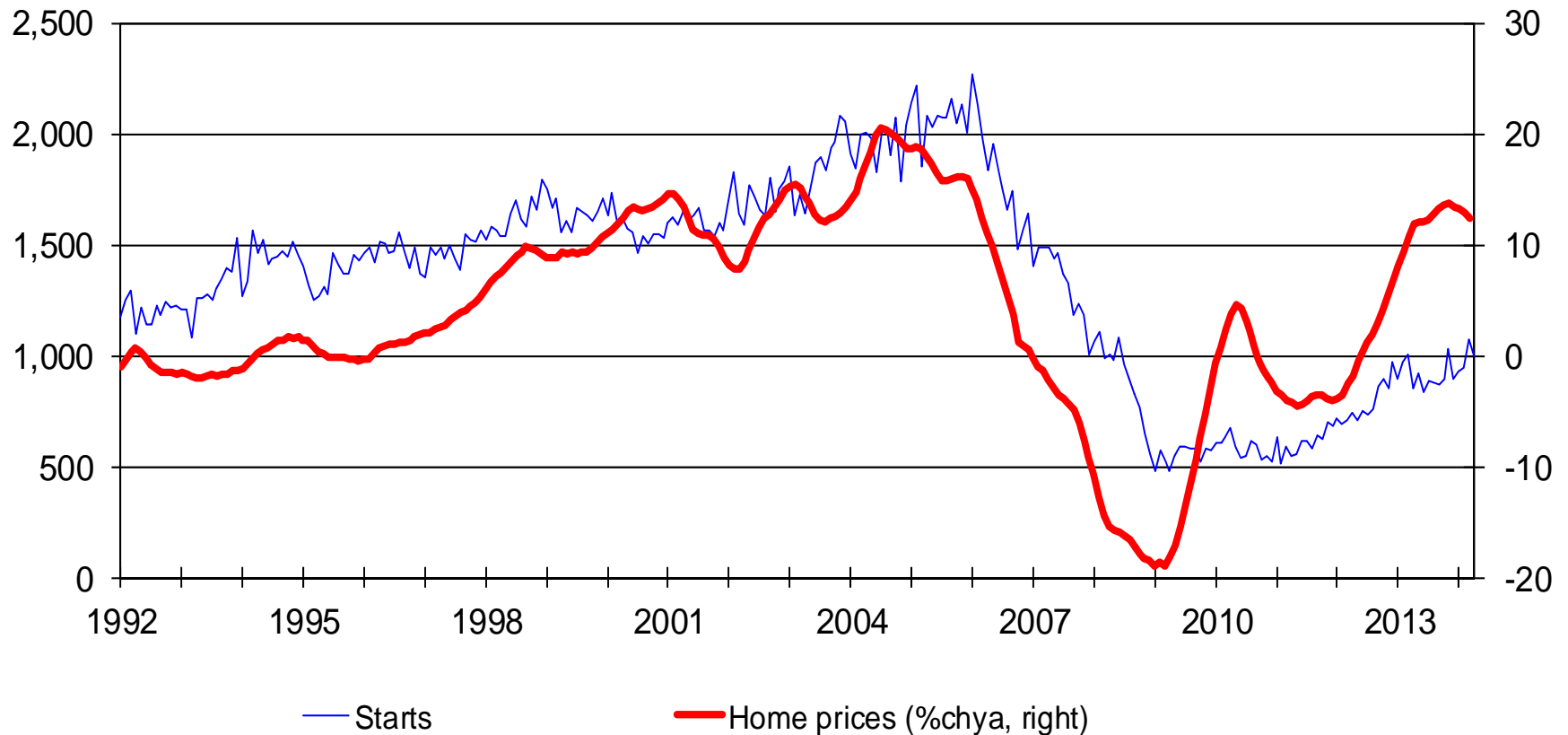
# Consumer Debt is Falling



Source: Bureau of Economic Analysis and Federal Reserve

A A B C A B A C B A C A B A B C  
B C B A C B B B A A A B A C B A  
C A C B B A C A B B B C C C A B  
A B A C C C C B A C A C B C B A  
A A B C A B A C C A B A C A A B  
C Housing: A Driving Force A C A A  
C B C B A B A B C B C B A B A C  
A B A C B B A C A B A C B B A A  
B C C C B A C C B C C C B A C C  
C A B C A B A C C A B C A B A B  
B C C C B A C A B C C C B A C C

# Housing Bounces Back, Despite Dips

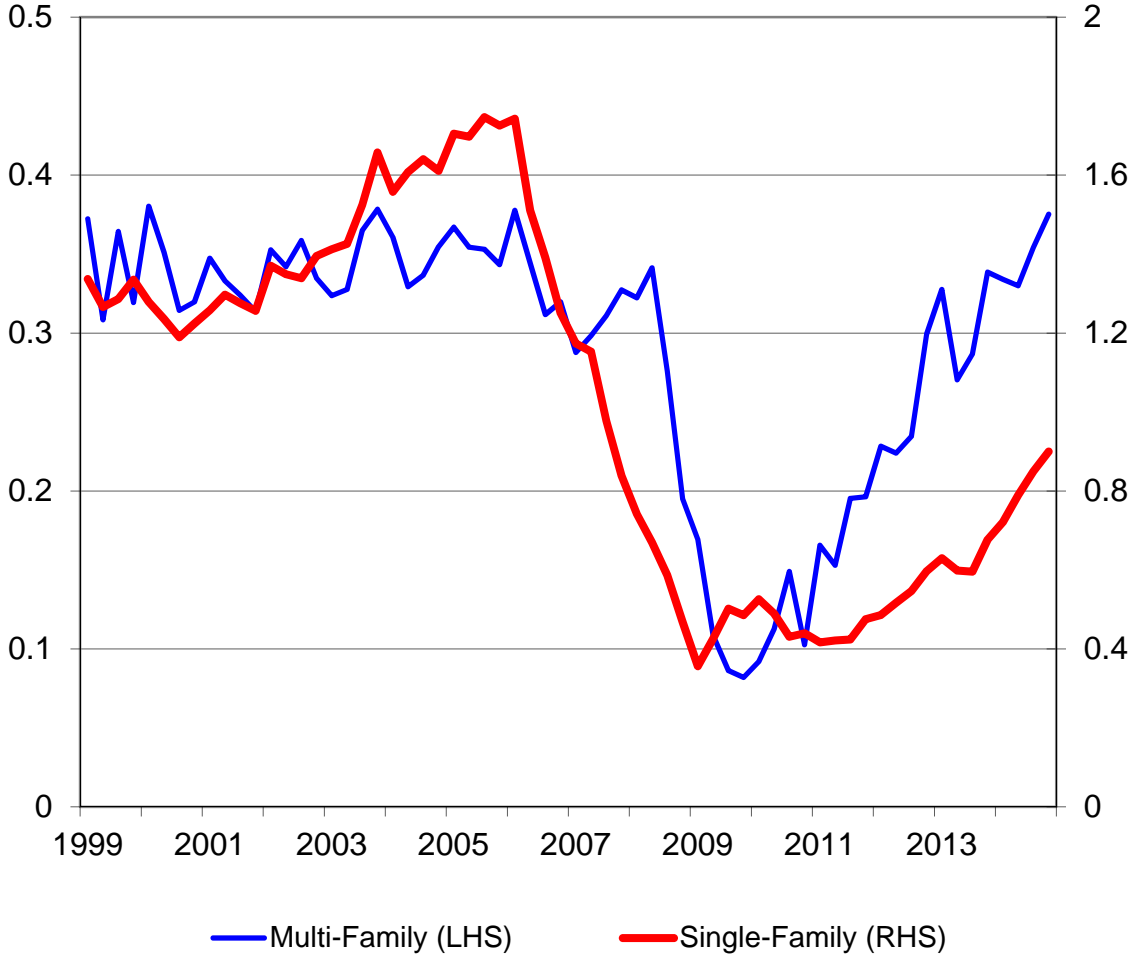


- **Recovering from an historic drop**

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

# Builders Started with Multi-Family

- Rental market heated up
- Multi-family starts lead the recovery
- Single family slow to bounce back



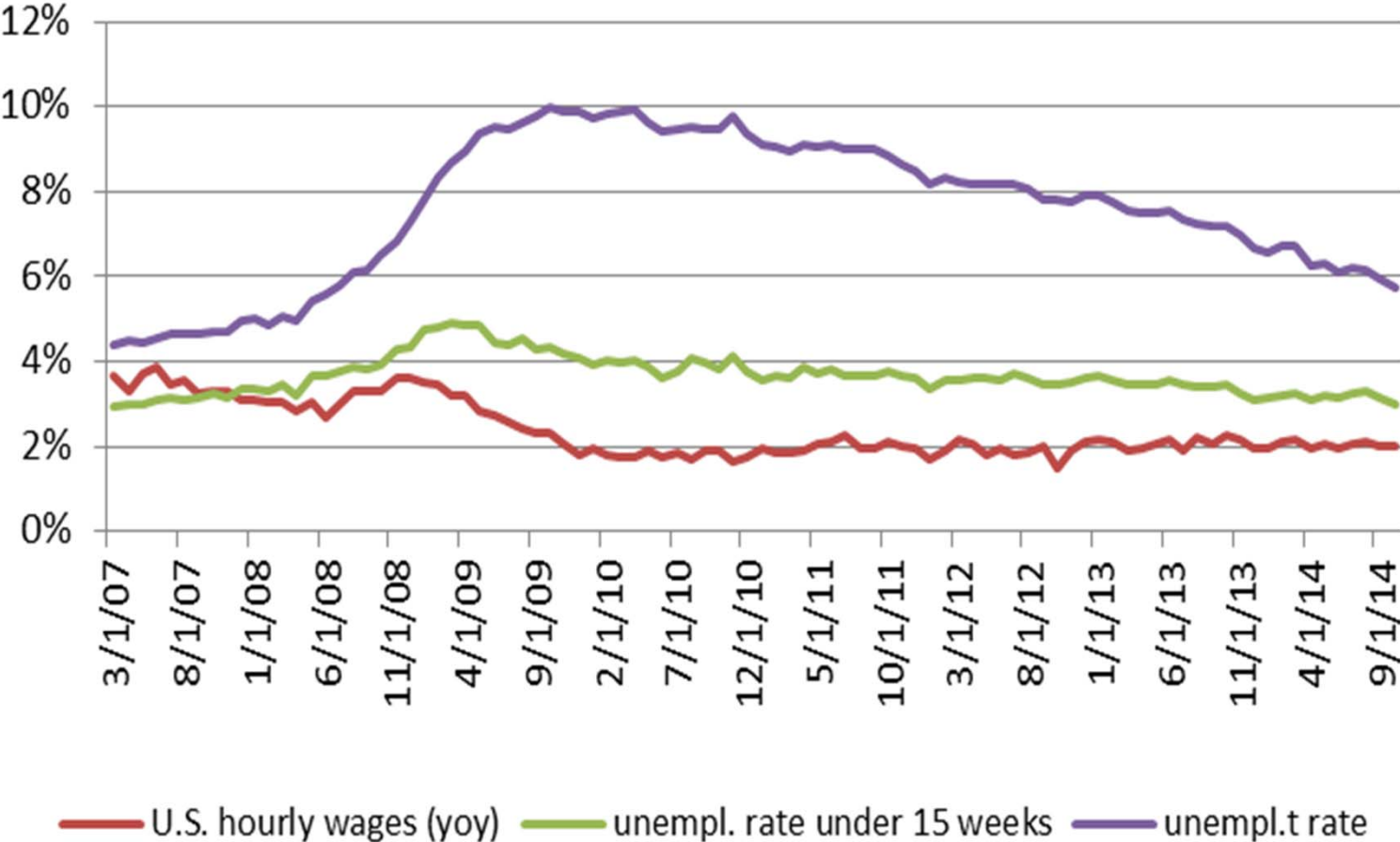
Source: Standard & Poor's Ratings Services; Census Bureau

A A B C A B A C B A C A B A B C  
B C B A C B B B A A A B A C B A  
C A C B B A C A B B B C C C A B  
A B A C C C C B A C A C B C B A  
A A B C A B A C C A B A C A A B  
C It All Comes Down To Jobs C A A  
C B C B A B A B C B C B A B A C  
A B A C B B A C A B A C B B A A  
B C C C B A C C B C C C B A C C  
C A B C A B A C C A B C A B A B  
B C C C B A C A B C C C B A C C



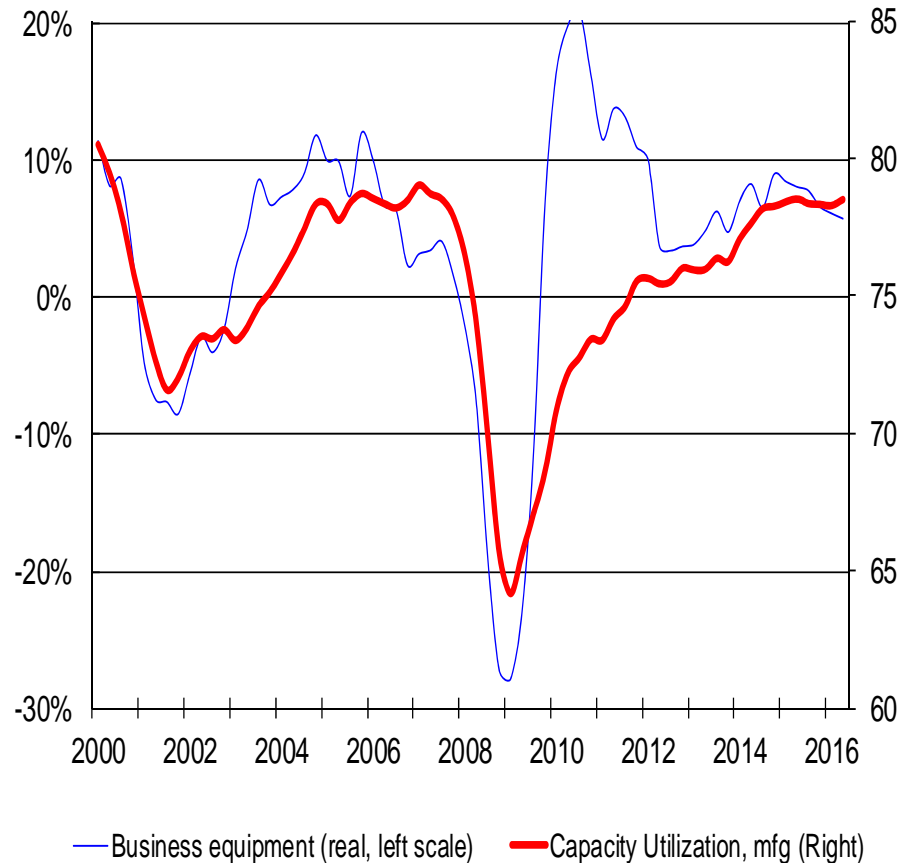


# How To Break Out Of The Slump?



Source: Bureau of Labor Statistics and Standard & Poor's Ratings Services

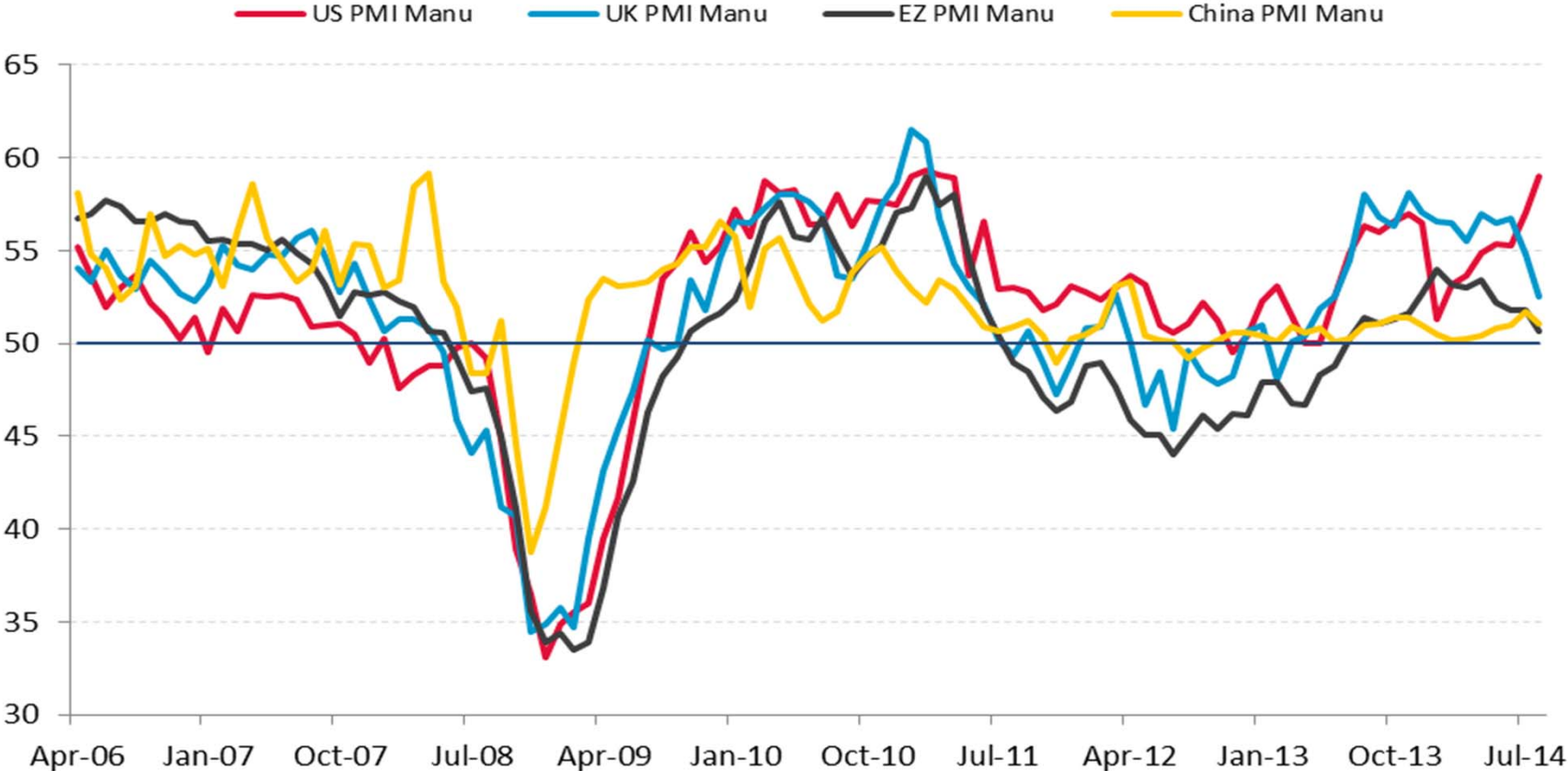
# Manufacturing Returns to U.S.



- **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

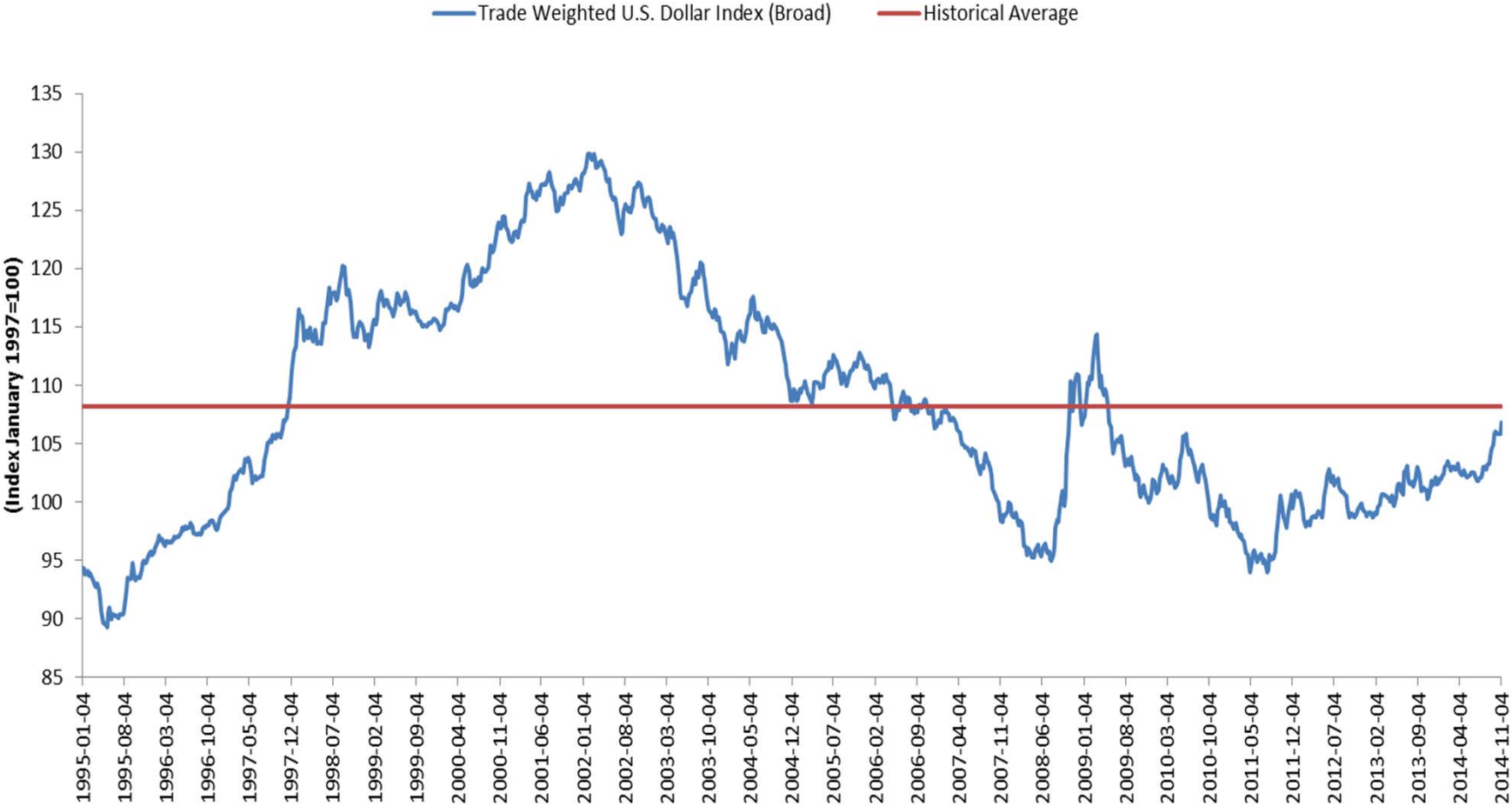
# Uneven Revival In Developed Markets



PMI reading >50 indicates expansion

Source: Bloomberg; latest data: July 2014

# U.S. Dollar still Under Historic Average



Source: Board of Governors of the Federal Reserve System, Standard & Poor's Ratings



# Thank You

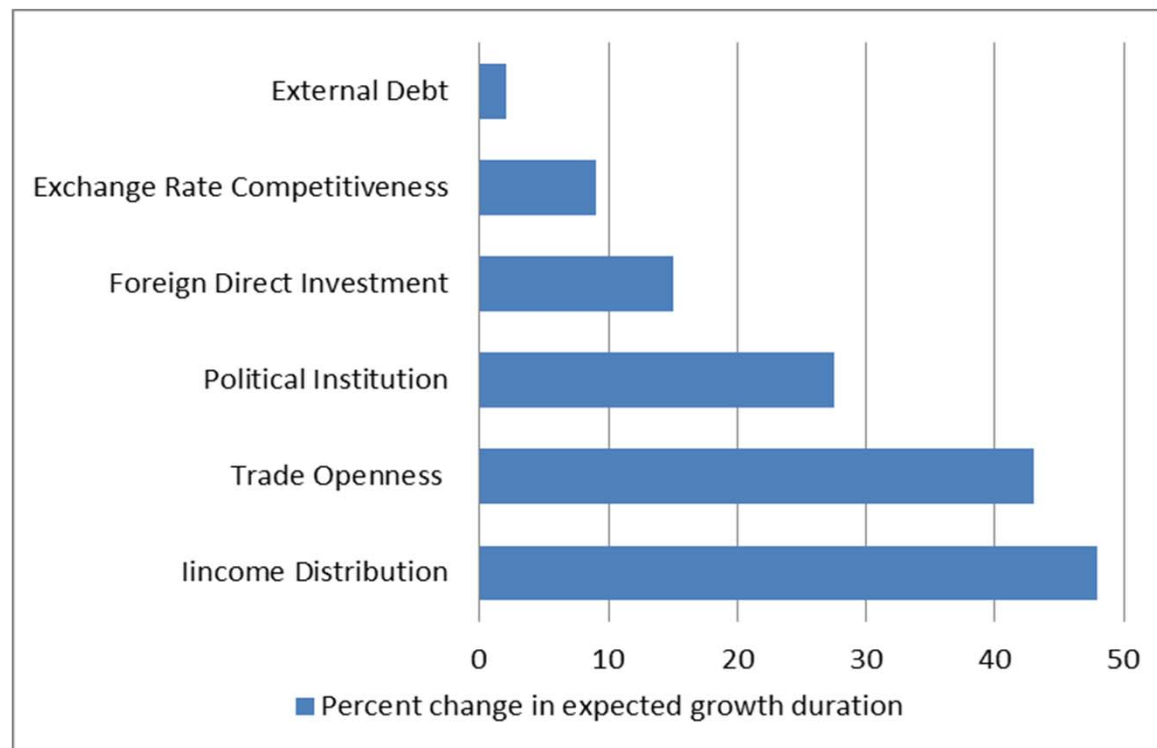
**Beth Ann Bovino**  
**Chief U.S. Economist**  
bethann.bovino@standardandpoors.com

A A B C A B A C B A C A B A B C  
B C B A C B B B A A A B A C B A  
C A C B B A C A B B B C C C A B  
A B A C C C C B A C A C B C B A  
A A B C A B A C C A B A C A A B  
C B A C A C A A  
C B C B A B A B C B C B A B A C  
A B A C B B A C A B A C B B A A  
B C C C B A C C B C C C B A C C  
C A B C A B A C C A B C A B A B  
B C C C B A C A B C C C B A C C

# Appendix

---

# Income Distribution Has A Stronger Impact On How Long Growth Lasts Than Other Factors



Source Berg and Ostry, "Equality and Efficiency", Sept. 2011

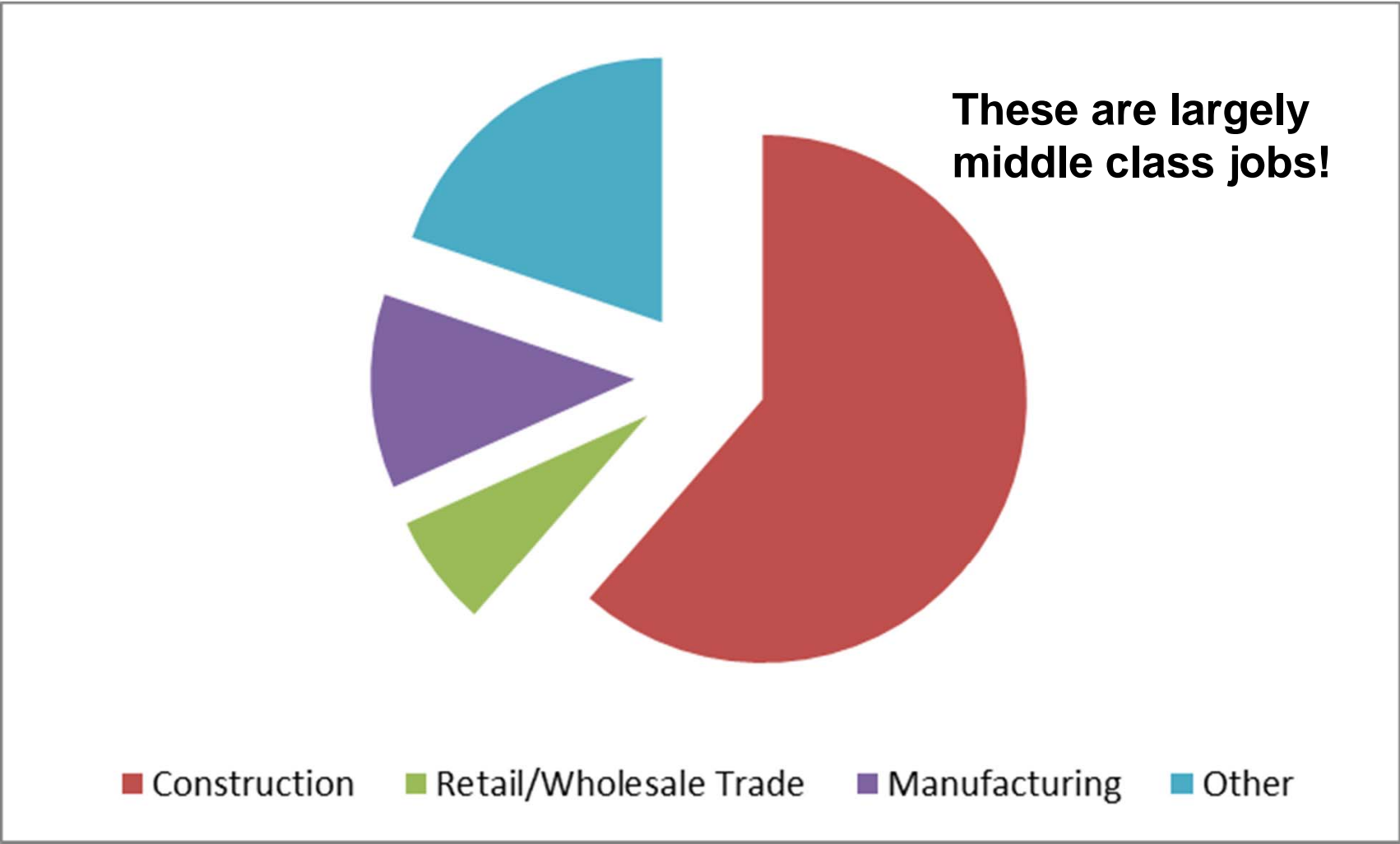


---

# Infrastructure To Give GDP A Lift?

- Schools are just one component of infrastructure,
- A \$1.3 billion real investment in highways could add 29,000 jobs to construction sector in 2015, even more jobs when you consider related business.
- The associated multiplier effect results in an additional \$2 billion to real GDP in 2015.
- Extra economic activity, and with it, extra taxes, helps reduce the federal deficit as well
- Once absorbed in economy, increased productive capacity means more growth and jobs later on.
- But beware the “Bridge to Nowhere”.

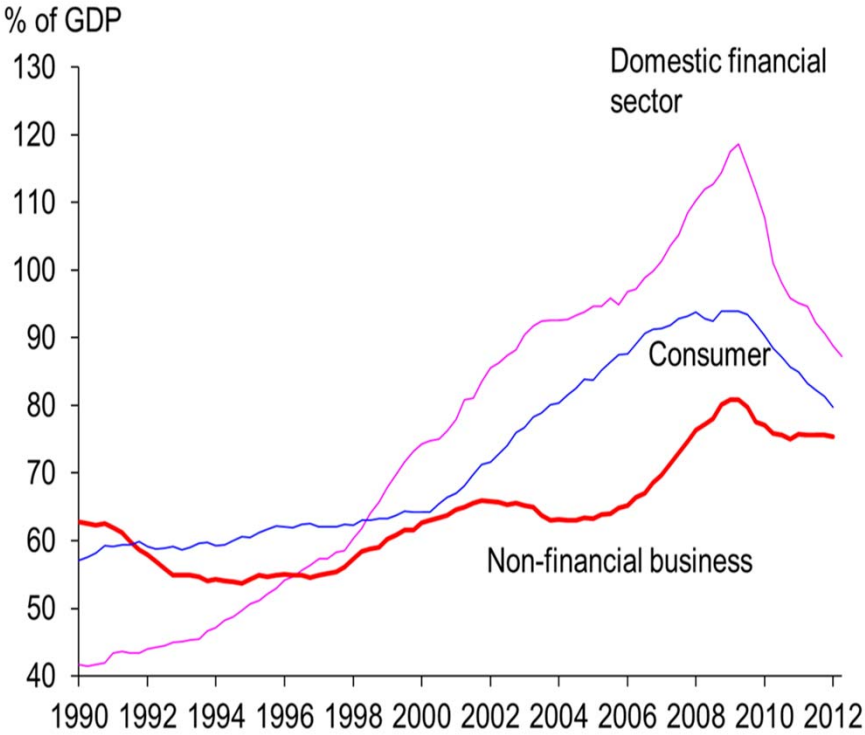
# Infrastructure Investment Supports Middle-Class Jobs



Source: Department of Treasury, Council of Economic Advisors.

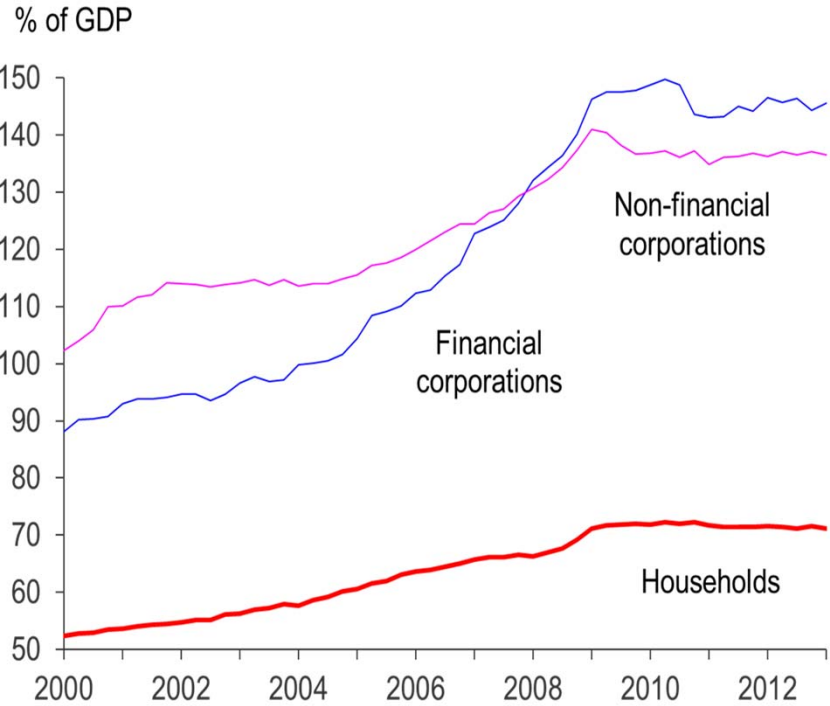
# US Deleveraging Is Farther Along Than its Peers

## US: Sectoral indebtedness



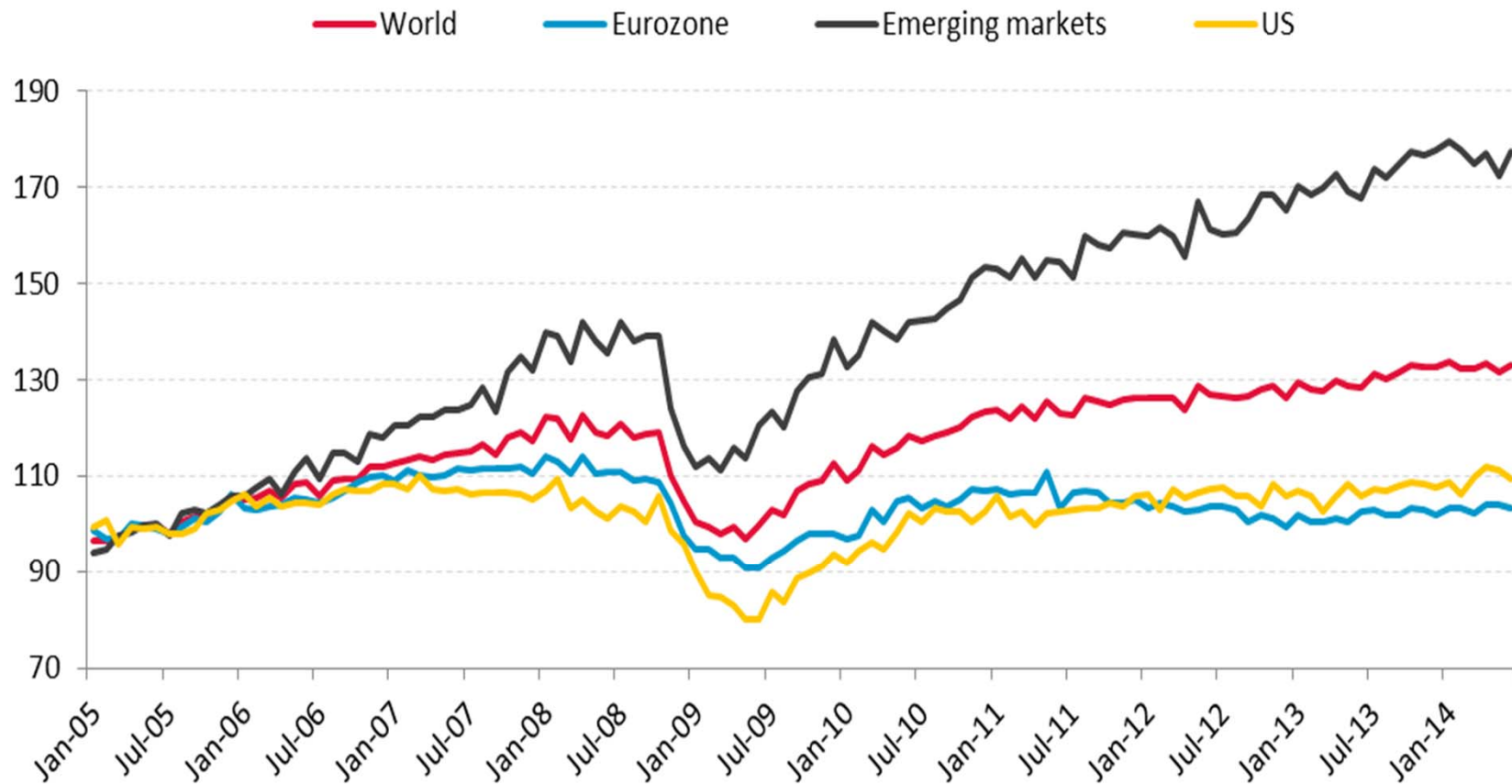
Source: Haver Analytics

## Eurozone: Financial balances



Source: Haver Analytics

# World Trade Growth Remains Soft (Volume Import Indices)



Source: Netherland Bureau of Economic Research: latest data point June 2014



---

Copyright © 2014 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](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://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](http://www.standardandpoors.com/usratingsfees).

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