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U.S. Economic Outlook



EULER HERMES
UMA

United States

A recovery on life support

Return to growth

The U.S. economy is on a course of modest growth that should continue through 2010 into 2011. GDP for Q3 2009 was 2.2%, for Q4 was 5.6%, and expectations for all of 2010 are around 3%. Consumer spending is modest but positive, as major retailers reported strong sales growth in February. Real personal consumption expenditures, on a year over year basis, are following exactly the pattern from previous recessions; a dramatic drop-off as the recession begins, and a sharp upturn as the recession ends due to pent-up demand. Other positive measures include durable goods orders, industrial production, the ISM indices, housing data, weekly jobless claims, the Beige Book and falling bankruptcies (down in the last quarter of 2009, but with a 40% rise for the whole of the year, to the highest level since 1993).

But the crisis is not yet over

The housing market has shown some weakness in the past two months, but by most measures it is much better than a year ago. The approach of the spring

buying season should boost sales. A tax credit incentive ends in April which could cause a brief surge and then a dip afterwards. But when mortgage rates start to rise later this year, the market could enjoy a resurgence of buyers rushing to lock in a low rate. Unfortunately, the unemployment rate remains very high at 9.7%. But job growth appears to be very near, as non-farm payrolls posted a gain in November 2009, and while the most recent February 2010 data showed a loss of 36,000 jobs, many analysts believe that without the distortion in the data from record snowstorms, job growth in February was actually positive. In addition, weekly jobless claims are down 30% from last spring, and are approaching levels which usually signal imminent gains in non-farm payrolls. Looking ahead, prospects are mostly positive. The yield curve is very steep, credit is growing and monetary and fiscal policy are still running very strong. Less than one half of the original USD 787bn fiscal stimulus package has actually been spent, leaving plenty of stimulus left to come, even as critics decry the growing

deficit and debt. In fact, Congress is on the verge of passing a new USD 150bn 'jobs bill', and a new health care plan may emerge soon. Monetary policy remains aggressive, but the Fed has signaled that it may start tightening soon. In fact, the Fed recently raised the discount rate, which is usually rarely used, back up to a more normal level relative to the Fed Funds rate. Expectations are that the Fed will start raising the Fed Funds rate in Q3 2010, however it may start mopping up the massive liquidity in the financial system before that. Monetary and fiscal policy stimulus could create inflationary pressures later in 2010 or early 2011, and interest rates are likely to climb given Fed tightening, inflationary fears, and a recovering economy. **o DN**

Economic forecasts

Change over the period, unless otherwise indicated: * contribution to GDP growth ** USD billions  Forecasts
Sources: IHS Global Insight, Euler Hermes forecasts

UNITED STATES	2008	2008	2009	2010	2011	06 09	09 09	12 09	03 10	06 10	09 10
GDP	100%	0.4	-2.4	2.9	2.2	-0.2	0.6	1.4	0.8	0.5	0.4
Consumer spending	70%	-0.2	-0.6	1.6	2.1	-0.2	0.7	0.4	0.4	0.3	0.3
Public spending	19%	3.1	1.8	2.0	1.4	1.6	0.7	-0.3	0.6	0.7	0.6
Investment	15%	-5.1	-18.3	1.6	4.8	-3.3	-0.3	1.2	0.6	0.5	0.8
Construction	3%	-22.9	-20.5	3.2	3.8	-6.4	4.4	0.9	1.0	0.6	0.6
Equipment	12%	1.6	-17.8	1.2	5.1	-2.5	-1.5	1.3	0.5	0.5	0.9
Stocks	*	0%	-0.3	-0.6	0.9	0.0	-0.4	0.2	0.2	0.1	0.0
Exports	12%	5.4	-9.6	12.7	7.5	-1.0	4.2	5.3	3.8	2.0	1.5
Imports	16%	-3.2	-13.9	8.9	7.4	-3.9	4.9	3.7	2.3	1.4	1.4
Net exports	*	-4%	1.2	1.0	0.2	-0.2	0.4	-0.2	0.1	0.0	0.0
Current account	**		-706	-430	-496	587					
Current account (% of GDP)			-4.9	-3.0	-3.3	-3.8					
Employment			-0.5	-3.8	-1.0	0.8					
Unemployment rate			5.8	9.3	9.8	9.5					
Wages			3.8	3.0	2.0	2.3					
Inflation			3.4	-0.1	2.2	2.0					
General government balance	**		-680	-1,471	-1,527	-1,308					
General government balance (% of GDP)			-4.7	-10.3	-10.3	-8.5					
Public debt (% of GDP)			74	86	94	100					
Nominal GDP	**		14,441	14,256	14,825	15,389					

Summary of economic forecasts

GDP, inflation (change over the period, in %), unemployment rate (in % of labour force) ■ Forecasts
Sources: IHS Global Insight, Euler Hermes forecasts

Country		2008	2009	2010	2011
USA	GDP	0.4	-2.4	2.9	2.2
	Inflation	3.4	-0.1	2.2	2.0
	Unemployment rate	5.8	9.3	9.8	9.5
	General government balance (% of GDP)	-4.7	-10.3	-10.3	-8.5
	Public debt (% of GDP)	74	86	94	100
	Current account (% of GDP)	-4.9	-3.0	-3.3	-3.8
Canada	GDP	0.4	-2.6	2.7	3.0
	Inflation	2.3	0.3	2.0	1.8
	Unemployment rate	6.2	8.3	8.4	8.2
	General government balance (% of GDP)	0.3	-3.7	-2.8	-2.0
	Public debt (% of GDP)	63	70	69	67
	Current account (% of GDP)	0.5	-2.7	-2.1	-1.8
Japan	GDP	-1.2	-5.2	1.8	0.9
	Inflation	1.4	-1.5	-0.9	0.0
	Unemployment rate	4.1	5.2	4.8	4.4
	General government balance (% of GDP)	-7.4	-8.2	-9.5	-10.0
	Public debt (% of GDP)	171	184	193	202
	Current account (% of GDP)	3.3	2.8	3.7	4.5
Euro zone	GDP	0.5	-4.0	0.7	1.3
	Inflation	3.3	0.3	1.1	1.6
	Unemployment rate	7.6	9.5	10.3	10.5
	General government balance (% of GDP)	-2.0	-6.1	-6.5	-5.6
	Public debt (% of GDP)	70	78	84	87
	Current account (% of GDP)	-1.5	-0.7	-0.4	-0.5
Germany	GDP	1.0	-4.9	1.5	1.4
	Inflation	2.6	0.3	0.8	1.4
	Unemployment rate	7.5	7.8	8.5	8.9
	General government balance (% of GDP)	0.0	-3.3	-5.6	-4.7
	Public debt (% of GDP)	66	72	75	77
	Current account (% of GDP)	6.7	5.0	6.3	5.7
France	GDP	0.3	-2.2	1.0	1.8
	Inflation	2.8	0.1	1.2	0.8
	Unemployment rate	7.9	9.7	10.8	10.7
	General government balance (% of GDP)	-3.4	-7.5	-7.5	-7.3
	Public debt (% of GDP)	68	76	81	85
	Current account (% of GDP)	-2.3	-2.0	-2.3	-2.5
Italy	GDP	-1.3	-5.1	0.5	1.0
	Inflation	3.3	0.7	1.3	1.7
	Unemployment rate	6.8	7.8	9.0	8.5
	General government balance (% of GDP)	-2.7	-5.3	-5.3	-5.0
	Public debt (% of GDP)	106	115	119	121
	Current account (% of GDP)	-3.4	-3.3	-3.2	-3.4
Spain	GDP	0.9	-3.6	-0.6	0.8
	Inflation	4.1	-0.3	1.8	1.8
	Unemployment rate	11.3	18.0	19.8	19.8
	General government balance (% of GDP)	-4.1	-11.4	-9.8	-7.5
	Public debt (% of GDP)	40	55	66	72
	Current account (% of GDP)	-9.6	-5.1	-4.1	-3.8
Netherlands	GDP	2.0	-4.0	1.0	1.6
	Inflation	2.4	1.2	1.0	1.4
	Unemployment rate	3.9	4.9	6.2	6.2
	General government balance (% of GDP)	0.7	-4.9	-6.3	-5.2
	Public debt (% of GDP)	58	62	66	69
	Current account (% of GDP)	4.8	4.8	5.2	5.0
Belgium	GDP	0.8	-3.0	1.3	1.6
	Inflation	4.5	0.0	1.6	1.4
	Unemployment rate	8.3	9.2	10.5	10.3
	General government balance (% of GDP)	-1.2	-6.0	-4.8	-4.1
	Public debt (% of GDP)	90	98	101	102
	Current account (% of GDP)	-2.7	1.2	2.0	2.1

GDP, inflation (change over the period, in %), unemployment rate (in % of labour force)
Sources: IHS Global Insight, Euler Hermes forecasts

Forecasts

Country		2008	2009	2010	2011
Austria	GDP	1.9	-3.5	1.4	1.5
	Inflation	3.2	0.5	1.2	1.0
	Unemployment rate	5.8	7.2	7.2	6.9
	General government balance (% of GDP)	-0.4	-4.2	-5.6	-5.1
	Public debt (% of GDP)	63	69	73	76
	Current account (% of GDP)	3.2	2.1	2.7	3.2
Finland	GDP	1.2	-7.8	1.5	2.0
	Inflation	4.1	-0.2	0.9	1.7
	Unemployment rate	6.4	8.2	9.5	9.2
	General government balance (% of GDP)	4.2	-2.2	-4.5	-4.0
	Public debt (% of GDP)	34	44	52	58
	Current account (% of GDP)	3.1	1.3	2.4	2.7
Greece	GDP	2.0	-2.0	-1.7	-0.2
	Inflation	4.4	1.2	2.9	2.6
	Unemployment rate	7.7	9.5	10.9	10.9
	General government balance (% of GDP)	-7.7	-12.7	-8.7	-5.6
	Public debt (% of GDP)	98	114	123	126
	Current account (% of GDP)	-12.8	-9.7	-8.6	-14.1
Ireland	GDP	-3.0	-7.0	-1.1	1.5
	Inflation	3.8	-4.9	-1.0	1.0
	Unemployment rate	9.8	17.1	18.3	17.5
	General government balance (% of GDP)	-7.2	-11.7	-11.7	-10.2
	Public debt (% of GDP)	43	68	80	85
	Current account (% of GDP)	-5.2	-3.7	-3.7	-3.6
Portugal	GDP	0.0	-2.7	0.7	0.9
	Inflation	2.7	-0.9	1.3	2.1
	Unemployment rate	7.6	9.5	9.7	8.3
	General government balance (% of GDP)	-2.7	-9.3	-8.3	-5.0
	Public debt (% of GDP)	66	78	86	90
	Current account (% of GDP)	-10.5	-7.8	-6.5	-5.2
UK	GDP	0.5	-5.0	0.9	1.6
	Inflation	3.6	2.2	2.8	1.9
	Unemployment rate	5.8	7.7	8.5	9.1
	General government balance (% of GDP)	-4.3	-10.1	-13.1	-9.4
	Public debt (% of GDP)	52	69	84	90
	Current account (% of GDP)	-1.5	-1.1	-1.2	-1.2
Sweden	GDP	-0.5	-4.7	0.6	1.9
	Inflation	3.2	-0.3	1.6	1.0
	Unemployment rate	5.4	8.4	9.7	9.6
	General government balance (% of GDP)	2.5	-1.9	-2.5	-1.9
	Public debt (% of GDP)	38	42	44	45
	Current account (% of GDP)	9.5	7.4	8.6	8.4
Denmark	GDP	-0.9	-5.1	1.0	1.2
	Inflation	3.4	1.3	1.9	1.4
	Unemployment rate	3.3	6.0	7.4	7.6
	General government balance (% of GDP)	3.4	-2.9	-5.5	-4.5
	Public debt (% of GDP)	33	39	43	47
	Current account (% of GDP)	2.2	3.7	2.7	2.2
Norway	GDP	1.7	-1.4	1.6	2.1
	Inflation	3.6	2.1	1.6	1.2
	Unemployment rate	2.6	3.2	3.7	3.9
	General government balance (% of GDP)	18.6	7.4	6.5	7.0
	Public debt (% of GDP)	49	49	48	45
	Current account (% of GDP)	18.6	13.9	14.6	14.8
Switzerland	GDP	1.8	-1.5	1.5	1.7
	Inflation	2.3	-0.5	1.1	1.0
	Unemployment rate	2.6	3.7	4.6	4.4
	General government balance (% of GDP)	1.0	-0.2	-1.5	-1.3
	Public debt (% of GDP)	41	41	41	41
	Current account (% of GDP)	2.0	7.6	8.2	8.9

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Key Facts

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