Moody's ANALYTICS

News

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MOODY'S ANALYTICS U.S. MACRO OUTLOOK: NEARING THE THRESHOLD

NEW YORK, August 8, 2012 — Moody's Analytics, a leading independent provider of economic forecasting, today released Chief Economist Mark Zandi's US economic outlook for August. According to "U.S. Macro Outlook: Nearing the Threshold," the recent lag between GDP growth and U.S. job creation is unusual and unlikely to continue. Moody's Analytics expects real U.S. GDP growth of 2.75% for the second half of 2013 and near 3% for 2014.

According to the report, weak GDP growth of 1.4% over the past year, is at odds with growth in gross domestic income and stronger job numbers. Historical data suggests that current U.S. job growth of 200,000 per month is consistent with a GDP growth rate as high as 3%. The disconnect between GDP growth and job growth may eventually be bridged by revisions, which will show GDP growth stronger than current data suggests, the report says.

"Weak GDP reflects temporarily weaker productivity growth and large government spending cuts," Zandi said. "Encouragingly, reduced economic uncertainty and improving credit conditions will boost the private economy and lead to larger gains in both output and jobs."

The report notes that the housing recovery will be a significant driver of job growth. While homebuilding and house prices have risen strongly since they hit bottom almost two years ago, the housing recovery has only begun. Housing starts are still running well below 1 million units per year, while the underlying demand for new homes supports an annual building rate closer to 1.7 million. Every new single-family home supports more than four jobs in construction, manufacturing, transportation, financial services, retail, and a range of other services in the year the home is put up. Each multifamily unit supports slightly more than one job.

"The anticipated increase in homebuilding through mid-decade should thus add some 3 million jobs to the nation's payrolls, a key to returning the economy to full employment," Zandi added.

The report also notes that the housing recovery is critically dependent on access to credit for first-time home buyers, mobilization of idle resources to build homes and, most importantly, the Federal Reserve's plans to unwind its monetary stance, including quantitiatve easing and near-zero interest rates.

The report concludes that quantitative easing will end by summer 2014 and rates will rise by summer 2015.

For more information, visit Moody's Analytics Dismal Scientist.

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Moody's Analytics helps capital markets and risk management professionals worldwide respond to an evolving marketplace with confidence. The company offers unique tools and best practices for measuring and managing risk through expertise and experience in credit analysis, economic research and financial risk management. By providing leading-edge software, advisory services and research, including proprietary analyses from Moody's Investors Service, Moody's Analytics integrates and customizes its offerings to address specific business challenges. Moody's Analytics is a subsidiary of Moody's Corporation (NYSE: MCO), which reported revenue of $2.3 billion in 2011, employs approximately 6,700 people worldwide and has a presence in 28 countries. Further information is available at www.moodysanalytics.com.

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