Moody's ANALYTICS

News

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MOODY'S ANALYTICS: SURGING US DOLLAR THREATENS ECONOMIC OUTLOOK

NEW YORK, April 24, 2015 – Moody's Analytics, a leading provider of economic forecasts, says that the recent slowdown in the US economy is only temporary, but the surging dollar will become a major drag on the nation's growth.

According to the report US Macro Outlook: Shedding the Weights, US real GDP will slow to 1.5 percent for the first quarter of 2015, because of low oil prices, unseasonably bad winter weather and the West Coast port strike. As these constraints ease, however, the US economy will grow by 3 percent for the year. Furthermore, by the second half of 2015, lower oil prices will boost the economy as consumers spend their gas savings.

The surging dollar, however, remains a threat. On a trade-weighted basis, the US dollar has increased by almost 15 percent from last year and by 20 percent against the yen and euro, driven by the European Central Bank's aggressive quantitative easing program last fall.

"The dollar's value rarely moves so dramatically or so broadly against almost every other currency, from the Brazilian real to the Turkish lira," said Mark Zandi, Managing Director and Chief Economist at Moody's Analytics.

Falling interest rates in Europe are adding capital into the US markets. Moreover, global geopolitical conflicts, including those related to ISIS, the Israeli-Palestinian standoff and the Russia-Ukraine conflict, are prompting panicked investors to move foreign money to the safety of the US. Both of these trends put upward pressure on the value of the dollar relative to other currencies.

While the dollar's strength preserves its status as the world's reserve currency and reduces import prices for US consumers, it also hurts American companies, especially large multinationals. US exports are more expensive for foreign buyers, and multinationals do not earn as much on their overseas operations.

In addition, as US households buy more imported products, the nation's trade deficit will increase. Moody's Analytics expects the dollar's appreciation to reduce US real GDP by roughly 0.5 percent.

Although the US economy is strong enough to manage this scenario, a continued rise in the dollar will endanger the country's economic outlook, especially as markets underestimate how quickly the Fed plans to normalize interest rates. Investors expect the federal funds rate to be around 1.5% at the end of 2017, compared with more than 3.0% in the Fed's forecast and 3.5% in the Moody's Analytics baseline.

Furthermore, risks of a currency war are rising. Historically, countries have depreciated their currencies in an effort to bolster the growth of their exports and economies.

"While there is no currency war today, there are fissures that bear close watching," said Zandi.

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 $3.3 billion in 2014, employs approximately 9,900 people worldwide and has a presence in 33 countries. Further information is available at www.moodysanalytics.com.

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