MOODY'S ANALYTICS U.S. MACRO OUTLOOK: A SELF-SUSTAINING EXPANSION

NEW YORK, December 3 2014 — Moody’s Analytics, a leading provider of economic forecasts, says that the US economy is clearly in an expansionary mode, most evident in the growing jobs market, in its monthly outlook report, “U.S. Macro Outlook: A Self-Sustaining Expansion.”

“The US economy is finally off and running with the number of jobs continuing to grow and wages finally starting to rise, which will also bolster the prospects for the housing recovery,” says Mark Zandi, a Managing Director and Chief Economist at Moody’s Analytics. “Things are less rosy outside the US, however, the divergence between the US economy and much of the rest of the world is pretty striking.”

In the US, jobs continue to grow at a healthy 225,000 per month, with gains in nearly all industries and regions. If labor force participation rates remain steady, the US could reach full employment by late 2016. More jobs and stronger wage growth will bolster consumer spending. Also adding to consumers’ purchasing power is the sharp decline in oil prices. If oil prices stabilize at their current levels, household energy bills will decline significantly, potentially adding more than $500 to each household’s pockets.

The growing number of jobs also strengthens the prospects for a revival in the housing recovery: more jobs, combined with lower mortgage rates, will likely attract more potential homebuyers. Mortgage credit remains tight but is easing slowly as policymakers focus on making it easier for first-time buyers to obtain mortgages. At the same time, builders seem to be adjusting and are putting up smaller homes at more affordable prices; prospects for multifamily building are even better.

Overall, the US economy is clearly in the midst of a self-sustaining expansion; the situation is less sanguine in the rest of the world, however. In Europe, the drop in oil prices and a weaker euro will likely stave off a third recession in seven years, but only barely. Moreover, economic sanctions on Russia following its incursion into Ukraine have hurt badly. Elsewhere, Japan continues its struggle to break out of deflation, while China and much of the rest of the emerging world are, at best, holding their own.

And there are still external risks for the US economy. China’s slowdown could prove trickier than anticipated, ISIS-spawned terrorism is a concern, Russian president Vladimir Putin could escalate his incursion into Ukraine, and the potential for conflict with Iran over its nuclear program remains. And, Ebola remains a threat.

Still, these risks seem less onerous than what the US has grappled with since the financial collapse and the Great Recession. While growth could still stall, for the first time in many years the US economy seems to be firmly on the tracks.

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