

Steady As She Goes

US Economic Outlook 2005

Brussels, 17 February 2005

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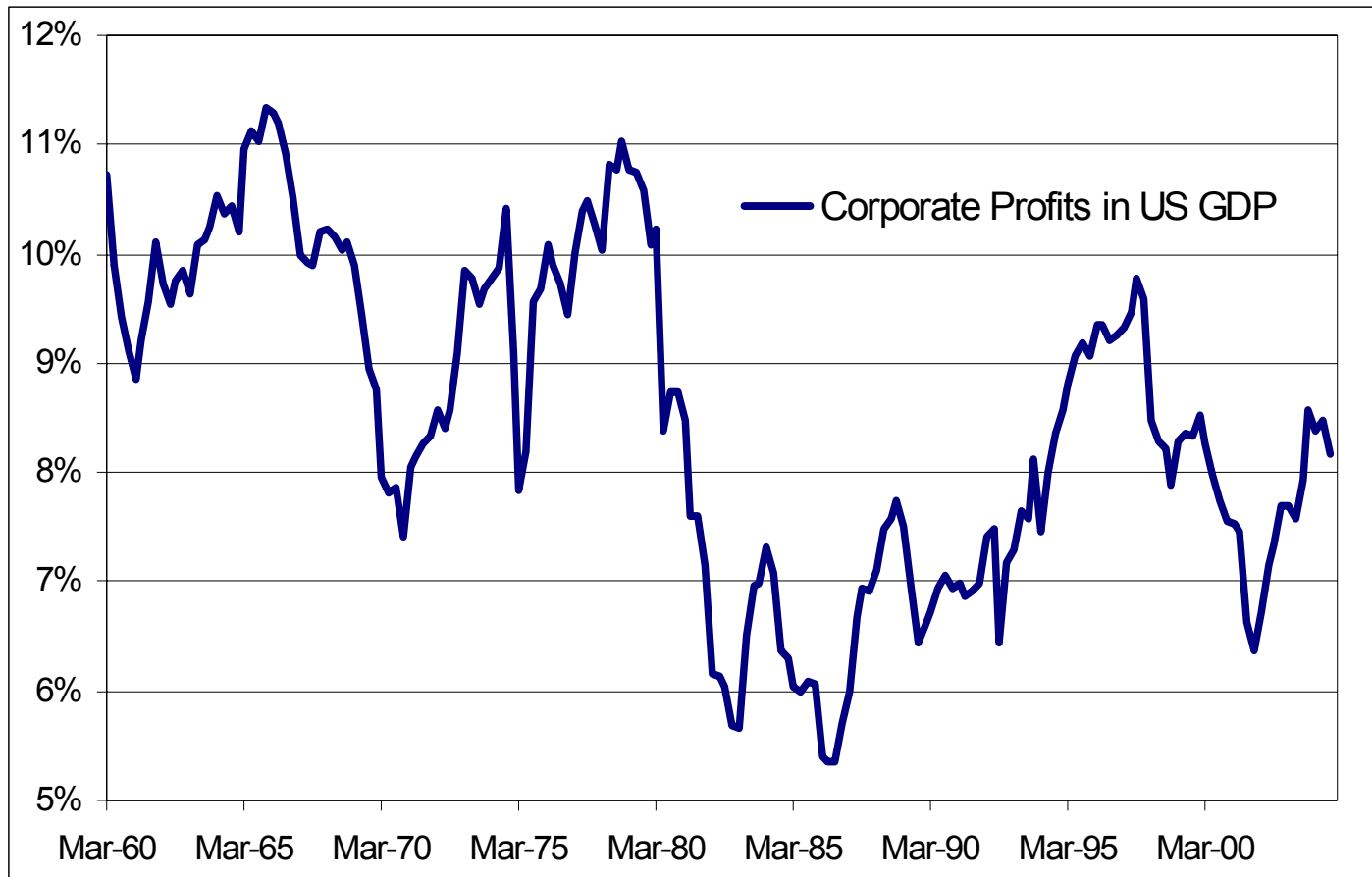
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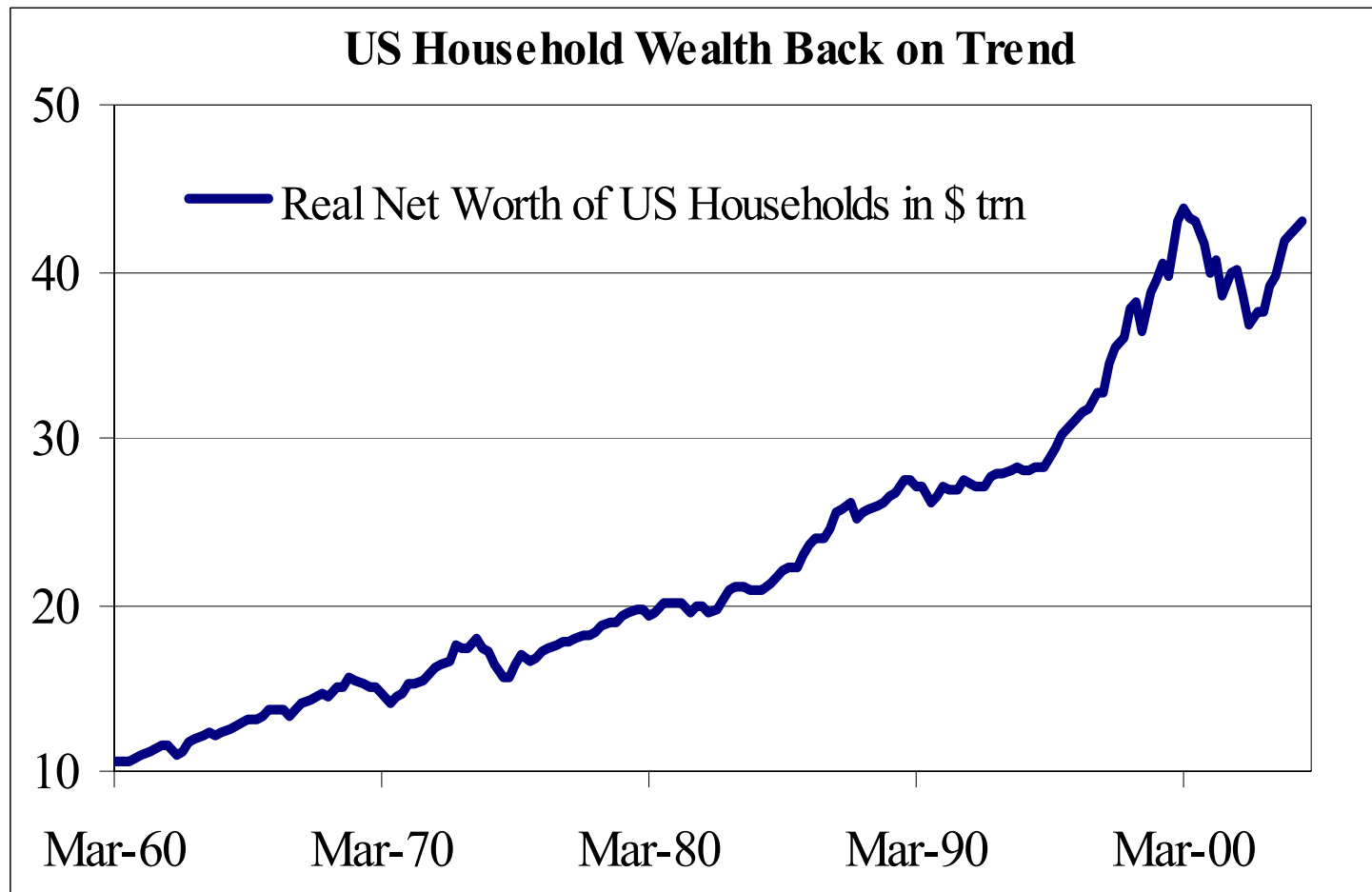
Post-Bubble Adjustment: Corporate Health Restored



Share of pre-tax profits in US nominal GDP; source: BEA

US corporate profits have recovered back to normal. This bodes well for the investment outlook.

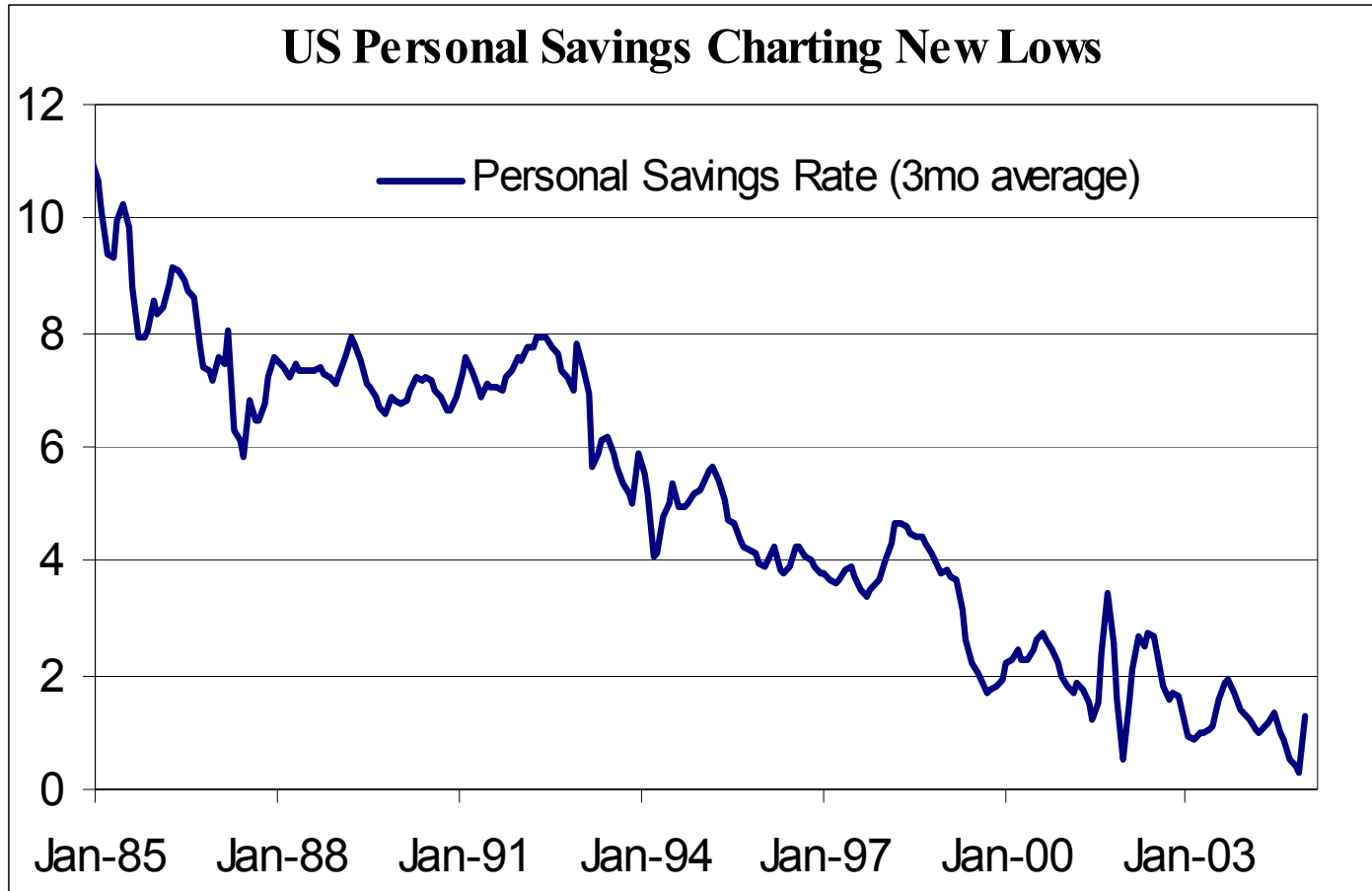
US Households: Rich....



Source: Fed

US households are not over-indebted. Their real wealth net of their debt is back on trend.

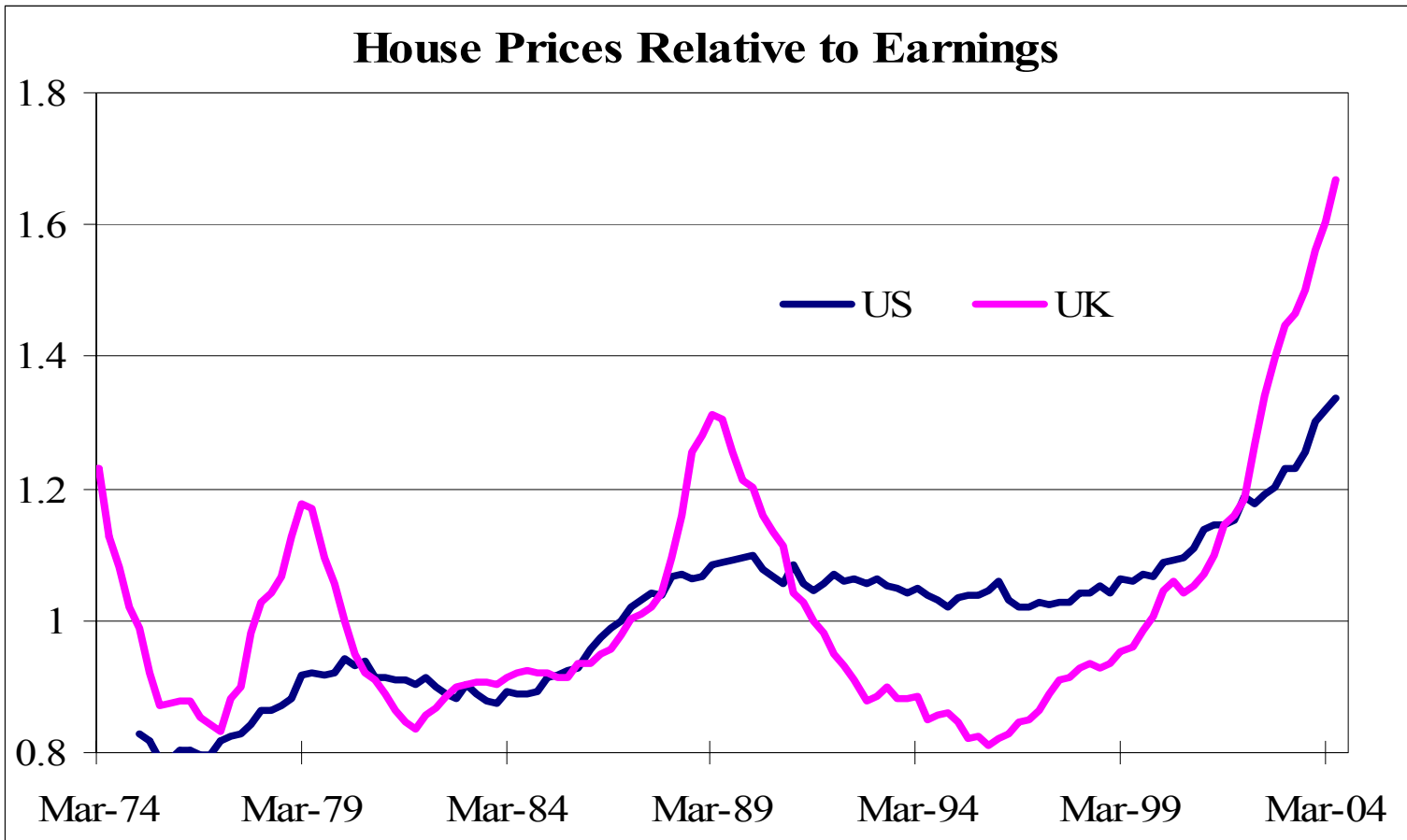
... and Spendthrift



In % of disposable income; source: BEA

Low interest rates and tax cuts have encouraged US households to further reduce their savings rate. We expect the savings rate to rise soon, but only gradually.

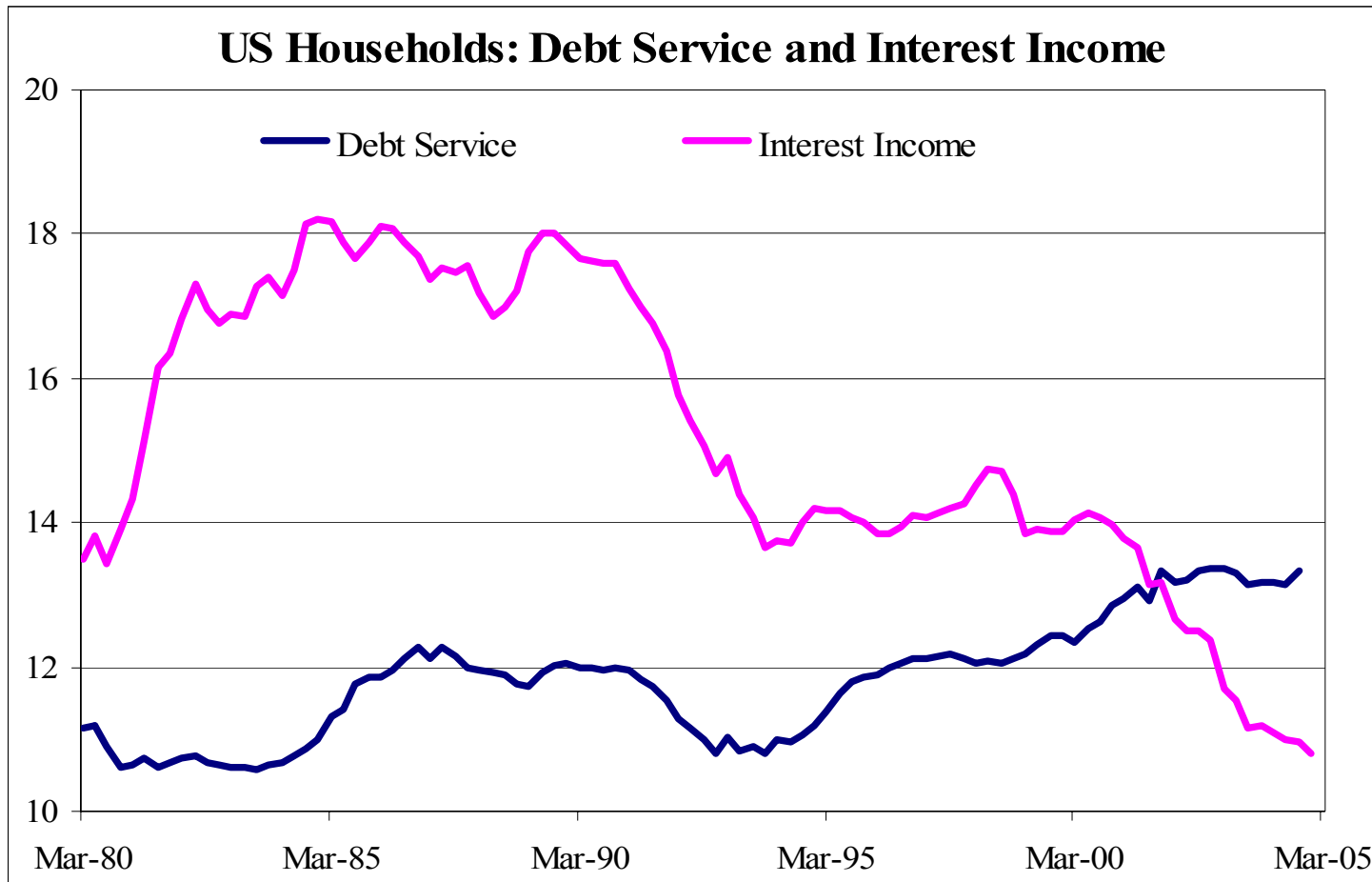
US vs UK House Prices: Spot the Bubble



Average earnings for UK; average weekly earnings for US; rebased to 1974-2003 average = 1; source: ONS; ODPM; BLS

The UK has a serious house price problem – the US does not. In a fast-growth economy such as the US, real estate prices should rise in real terms over time.

US Consumers: Will Higher Interest Rates Hurt?



In % of disposable income; sources: Fed; BEA

In line with lower nominal interest rates, interest income has fallen. Many households would benefit from higher interest rates.

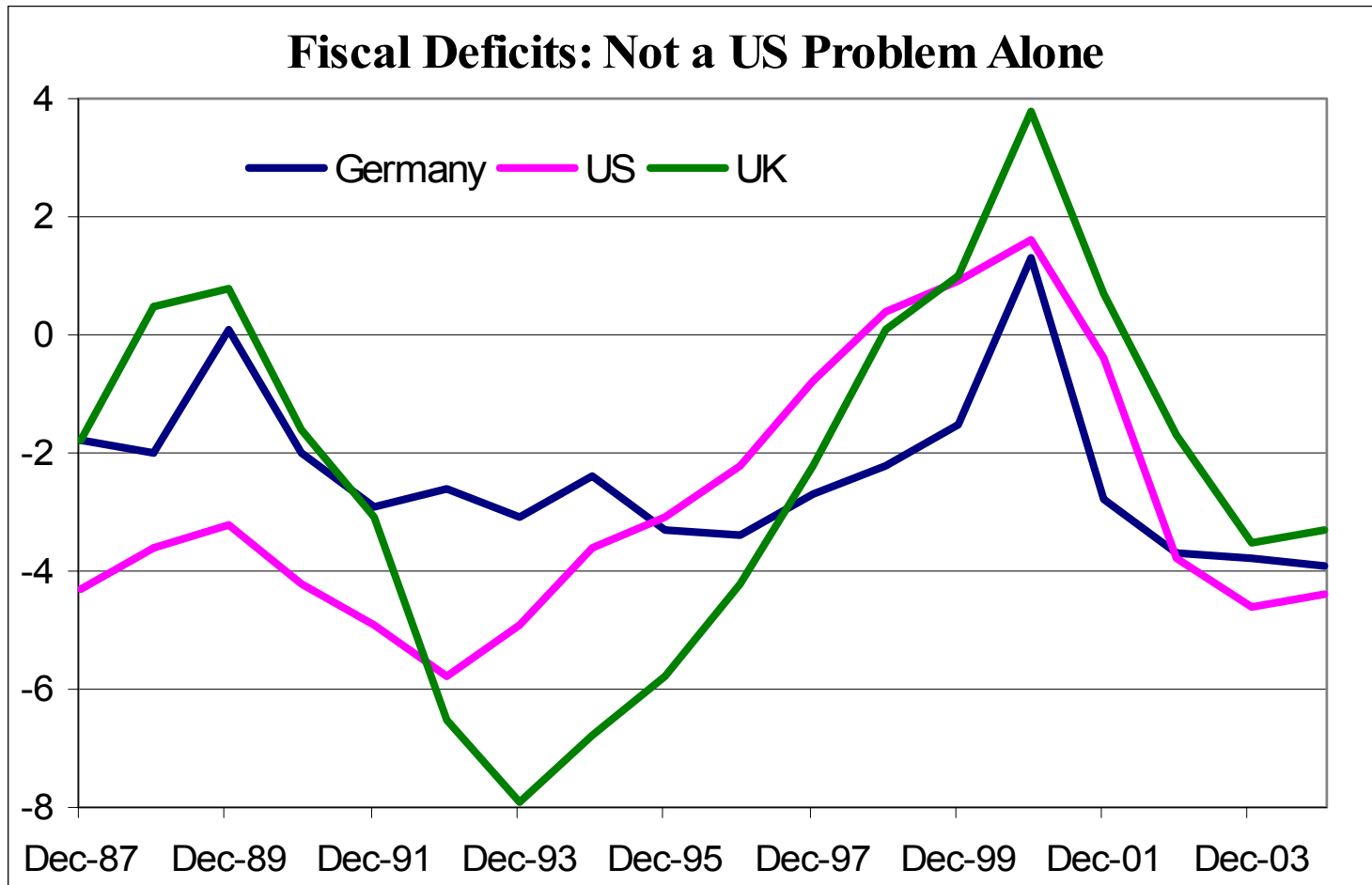
US: Jobless Recovery?



Non-farm payrolls, Yoy change in %; source: BLS

Extra income from an improving labour market will benefit those households which have few assets and would be hurt by higher interest payments for mortgages and credit card debt.

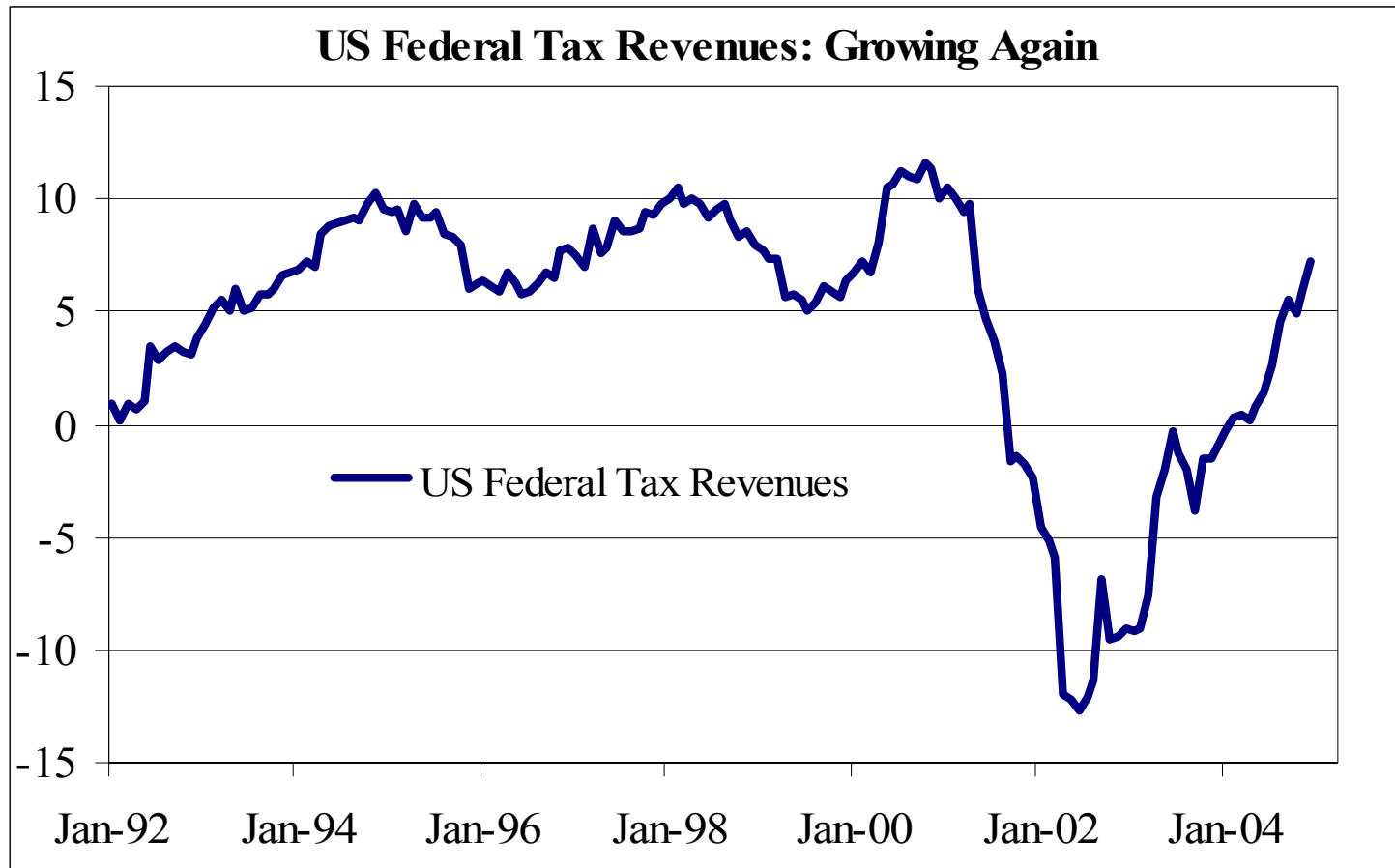
Are Fiscal Problems Depressing the USD?



General government financial balance in % of GDP; source: OECD

The US fiscal balance has deteriorated sharply since 2001 – but not much more so than in Germany and the UK.

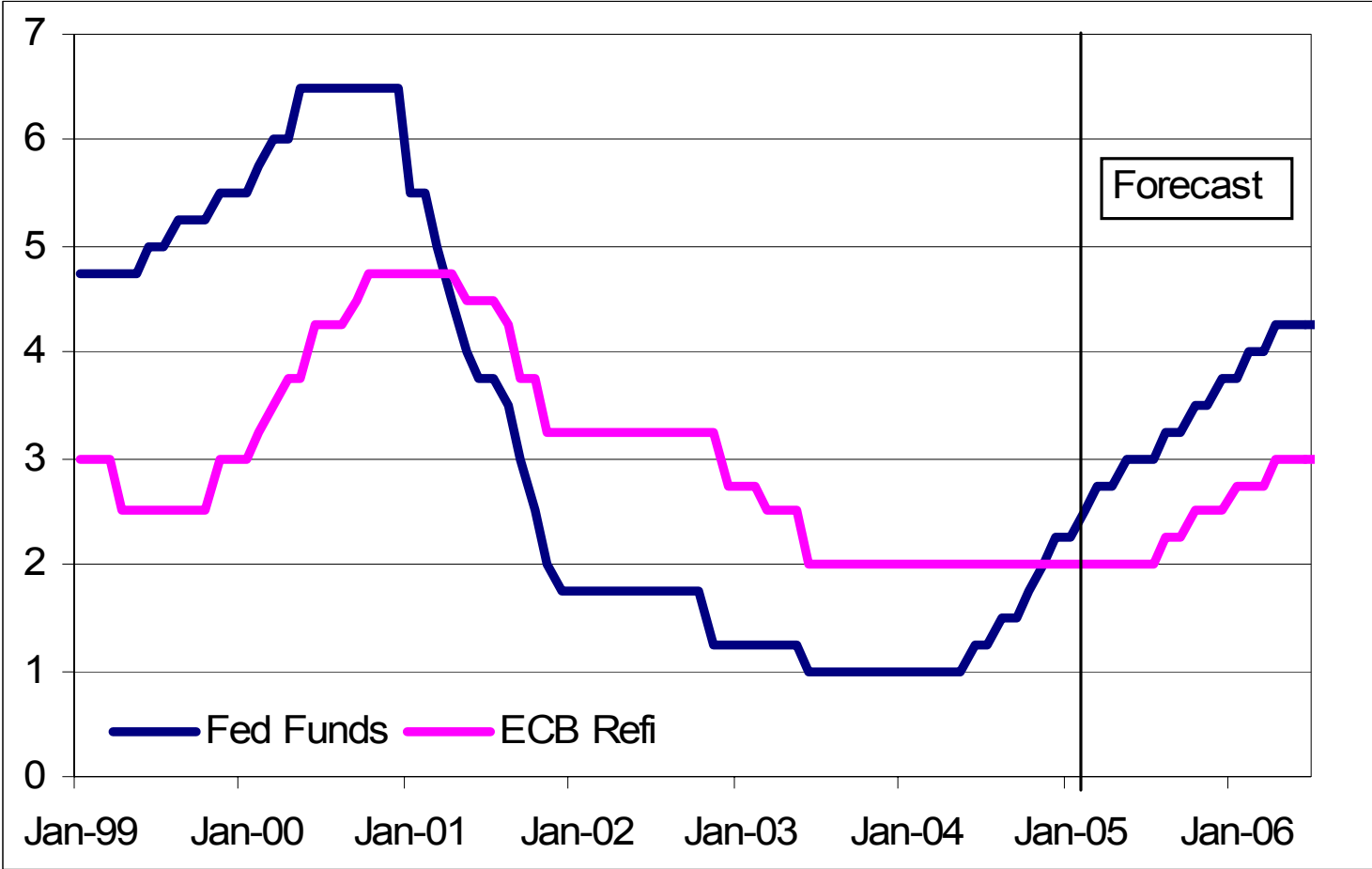
Fiscal Deficits – Signs of Improvement in US



Yoy change in %; source: US Treasury; BEA

The US fiscal balance has started to improve, helped by a rebound in tax revenues. The time of major new tax cuts is over. We expect US tax revenues to rise by at least 6% per year.

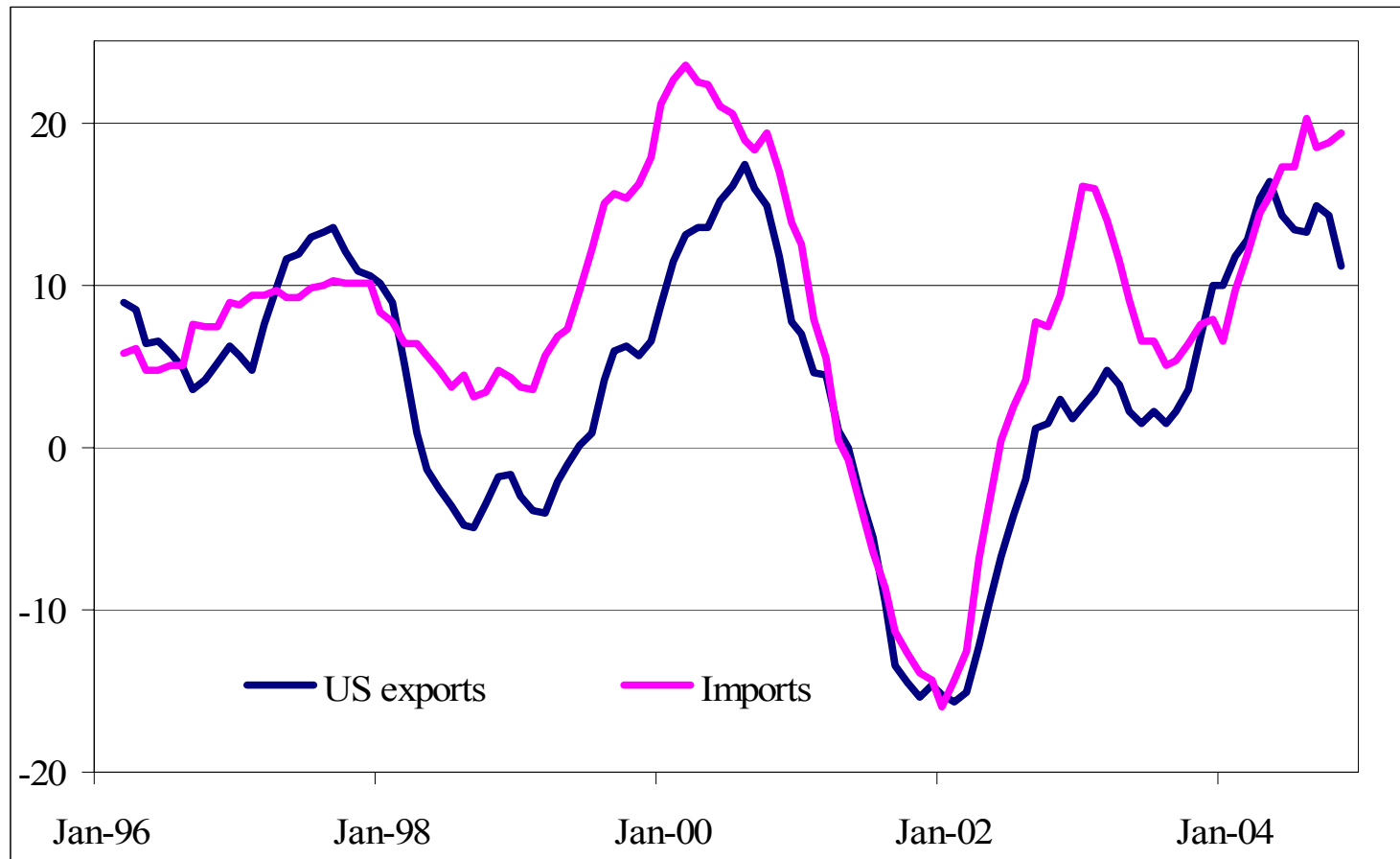
Fed Heading for 4.25% in 2006



Source: Fed, ECB; BoA forecasts for 2005 and 2006

Fed heading for 3.0% by May 2005 and a 4.25% peak in 2006. Fed rates to remain well above ECB rates.

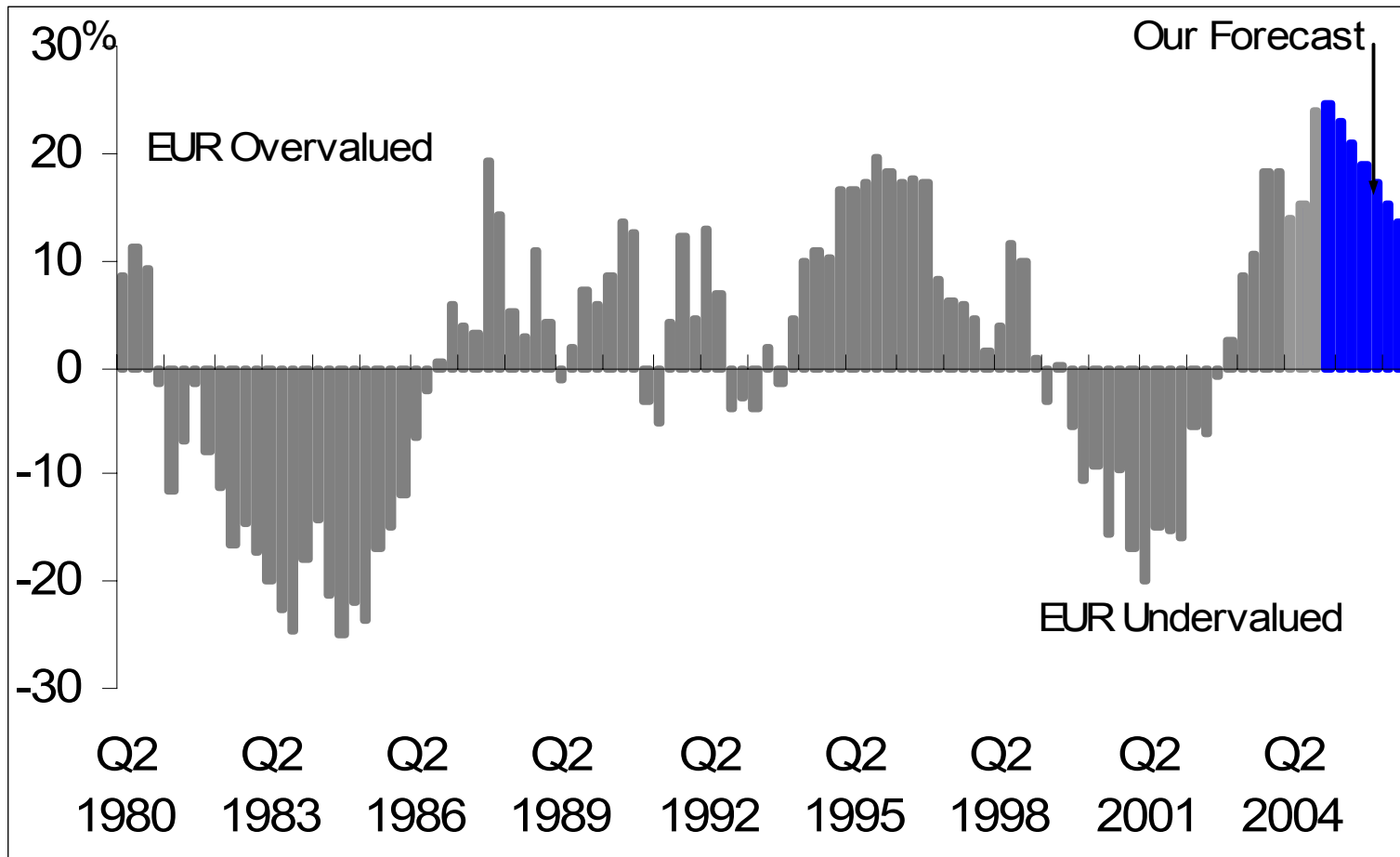
US External Deficits: Imports Still Rising Fast



Yoy change in monthly trade data, in %, 3-month moving average; source: US Fed

High oil prices and buoyant domestic demand pushed up imports in late 2004. However, higher Fed rates and a less relaxed fiscal policy will constrain consumption growth and pave the way for lower external deficits.

EUR/USD: Well into the Overshooting Phase



Source: ECB; BoA foreign exchange strategy team (Fatih Yilmaz)

Our modeling work suggests that the long-term fair value for EUR/USD should be at \$1.05. The overshoot is already comparable to earlier phases of over- and undershooting.

US Economic Forecasts

		2004	2005	2006	Q104	Q204	Q304	Q404	Q105	Q205	Q305	Q405	Q106	Q206	Q306	Q406
GDP	% y/y	4.4	3.8	3.8	5.0	4.8	4.0	3.7	3.6	3.7	3.7	4.0	4.0	3.9	3.8	3.6
	%q/q ann.				4.5	3.3	4.0	3.1	3.9	3.9	4.0	4.0	4.0	3.6	3.4	3.5
Nominal GDP	% y/y	6.5	6.0	6.1												
Private consumption	% y/y	3.8	3.7	3.2	4.2	3.6	3.6	3.9	3.6	4.1	3.7	3.3	3.4	3.3	3.2	3.1
	%q/q ann.				4.1	1.6	5.1	4.6	3.0	3.5	3.6	3.3	3.2	3.2	3.0	3.0
Nonres fixed investment	% y/y	10.3	9.0	7.0	10.6	10.8	10.1	9.9	10.9	9.6	8.2	7.6	7.4	7.2	6.9	6.4
	%q/q ann.				4.2	12.4	13.0	10.3	8.0	7.0	7.5	8.0	7.0	6.5	6.0	6.0
Residential fixed investment	% y/y	9.5	1.8	1.2	11.3	13.2	8.0	5.7	5.4	1.3	0.2	0.5	0.3	0.9	1.8	1.8
	%q/q ann.				5.0	16.5	1.6	0.3	4.1	-0.7	-2.8	1.4	3.6	1.4	0.7	1.4
Gov't consumption/investment	% y/y	2.0	1.4	2.1	2.8	1.6	1.8	1.6	1.3	1.1	1.5	1.8	2.0	2.1	2.2	2.2
	%q/q ann.				2.5	2.2	0.7	0.9	1.3	1.6	2.0	2.2	2.2	2.2	2.2	2.2
Domestic final sales	% y/y	4.4	3.7	3.4	4.9	4.4	4.1	4.1	4.0	4.0	3.6	3.4	3.5	3.5	3.4	3.3
	%q/q ann.				3.9	3.5	4.9	4.3	3.3	3.4	3.4	3.6	3.5	3.3	3.1	3.1
Net exports ¹	\$ bn chn96	-586	-617	-595	-550	-580	-583	-632	-626	-620	-614	-609	-602	-598	-592	-586
	%q/q ann.	-0.7	-0.3	0.2	-0.8	-1.1	-0.1	-1.8	0.2	0.2	0.2	0.2	0.2	0.1	0.2	0.2
Stockbuilding ¹	\$ bn chn96	45.4	57.8	65.0	40.0	61.1	34.5	45.8	52.0	56.0	60.0	63.0	66.0	66.0	64.0	64.0
	%q/q ann.	0.4	0.1	0.1	1.2	0.8	-1.0	0.4	0.2	0.1	0.1	0.1	0.1	0.0	-0.1	0.0
C/A balance	\$ bn	-669	-655	-630												
	% of GDP	-5.6	-5.3	-4.8												
Industrial production ²	% y/y	4.1	3.8	3.6	2.8	5.0	4.6	4.2	3.7	3.6	3.9	3.7	3.7	3.6	3.5	3.5
	%q/q ann.				5.4	4.3	2.7	4.2	3.8	3.9	3.7	3.5	3.6	3.5	3.4	3.4
Unemployment rate ²	ave. level	5.5	5.3	5.0	5.7	5.6	5.4	5.4	5.4	5.3	5.2	5.1	5.1	5.0	5.0	4.9
	CPI ²	2.7	2.4	2.2	1.8	2.8	2.7	3.4	2.9	2.3	2.3	2.0	2.2	2.2	2.3	2.3
PPI ²	% y/y	3.6	2.9	1.9	3.6	4.7	1.9	3.4	1.8	2.1	2.0	2.2	2.4	2.2	2.3	2.4
	%q/q ann.				3.9	6.0	0.5	7.9	1.2	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Federal govt surplus ³	% of GDP	-3.6	-3.3	-2.8												
Federal govt debt ⁴	% of GDP	37.5	38.6	39.2												
Federal funds rate ⁵	%	1.3	3.0	3.7	1.0	1.0	1.4	1.9	2.4	2.9	3.1	3.4	3.7	3.9	4.1	4.3

Notes: ¹ 2nd line is contribution to GDP growth ² Quarterly levels are calculated as averages of monthly s.a. figures

³ By fiscal year ⁴ End of period ⁵ Quarterly averages of monthly rates/yields

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