

COUNTRY OVERVIEW: UNITED STATES

Economic & Political Intelligence Centre

SEPTEMBER 2013

Short-Term Risk: The American private sector is in great shape with corporate profitability at an all-time high, and record amounts of cash. Access to credit is good, even for small business. The key risks to the outlook are cutbacks in the government sector which could have a dampening effect on growth.

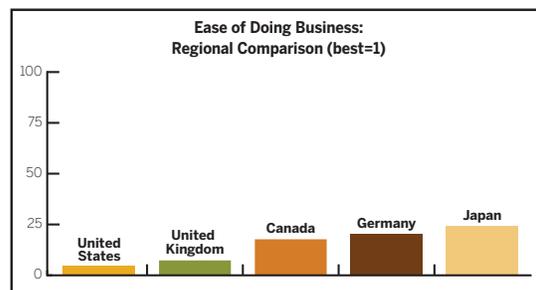
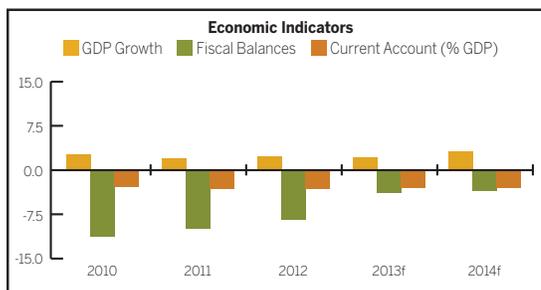
Medium-Long Term Commercial Risk: The USA is the world's most dynamic and innovative economy with the top multinational corporations. It is ranked as the 4th best market in terms of ease of doing business by the World Bank, 7th in terms of enforcing contracts and 15th in terms of resolving insolvency.

Sovereign Risk: Although the government has a large debt load, and fiscal deficit, sovereign risk is supported by low debt servicing costs and the government's ability to secure financing. Political gridlock remains a challenge, as worries over the debt ceiling will rattle investors even though the chance of default is near zero.

Country Overview: The US is the world's largest economy, accounting for 20 per cent of global GDP and is ranked the 4th best country in the world in terms of ease of doing business (World Bank). The major credit agencies all assign negative outlooks to their sovereign risk ratings because of budgetary gridlock which is a concern heading into 2013.

Trade and Investment Environment: Exports of Canadian goods to the US are projected to grow by just over six per cent in 2013. The US accounts for over 70 per cent of our merchandise exports, 40 per cent of the stock of Canadian direct investment abroad, and 50 per cent of all sales made by Canadian foreign affiliates. In terms of ease of trading across borders, enforcing contracts and resolving insolvency the US ranks 20th, 7th and 15th respectively (World Bank).

Outlook: After the historic re-election of President Barack Obama, the focus has shifted to whether the Administration can work out a deal with the Congress to balance the budget in the medium-term. However, the Congressional Budget Office projects that the deficit will fall to just four per cent of GDP in 2013, (down from the previous estimate of six per cent) as tax revenues are rising because of the strengthening economy. In fact, American business is performing extremely well: corporate profits are near an all-time high of \$1.9 trillion, while businesses are holding an estimated US\$ 3 trillion of cash and equivalents. Businesses remain reluctant to invest because of pessimism about conditions, but consumer confidence is rising. With household deleveraging largely complete, the ratio of debt service payments to personal disposable income is at its lowest level since 1994 and retail sales are strengthening. The housing market is improving with prices rising five months in a row and home sales up sharply. Because of pent-up demand, we expect that home starts will rise to 1.05 million in 2013 from 760,000 last year, and those new homes will require all sorts of spending on durable goods. As confidence builds, this recovery among consumers will give rise to increased business investment to meet this demand. EDC's estimate of the underlying growth in the US economy is in the mid-three per cent range, which, after subtracting fiscal drag from reductions in government spending and tax increases, yields an economic forecast of roughly two per cent growth for 2013.



Sources: EDC Economics, World Bank, Haver Analytics, Strategis, EPIC

EDC does not represent or warrant the accuracy or completeness of the contents. This information is presented for informational purposes only and is not to be relied upon by the reader.



COUNTRY STATS

President
Barack Obama

Next Elections
November 2016

Nominal GDP (2012)
USD 16.2 trillion

Total Trade/GDP (2012)
32%

Exchange Regime
Free float

Canadian Merchandise Exports to the United States (2011)
Total:
CAD 338.7 billion
Top Sectors:
Energy, automotive, ores

Risks to the Outlook
US business begins to spend massive cash reserves
Prolonged battle over the "debt ceiling"

Contact the Economic and Political Intelligence Centre for more information.
epic@edc.ca