MOODY'S ANALYTICS

News

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MOODY'S ANALYTICS JULY U.S. MACRO OUTLOOK: THE PRODUCTIVITY PUZZLE

NEW YORK, July 15, 2014 — Moody's Analytics, a leading provider of economic forecasts, expects GDP growth to accelerate through 2015, and full employment by late 2016, according to the firm's July outlook report, U.S. Macro Outlook: The Productivity Puzzle. In the report, Chief Economist Mark Zandi analyzes why US real GDP growth stalled during the first half of 2014 as job growth quickened across a wider range of industries, regions and pay scales.

"The jobs recovery is evident across firms of all sizes. Large companies were previously the key to job growth, but smaller companies are now taking the lead," says Zandi.

According to data provided by human resource management company ADP and analyzed by Moody's Analytics, more than 40% of the jobs added over the past year were at companies that employ fewer than 50 workers, slightly more than these firms' share of all jobs.

Additionally, the rate of layoffs was extraordinarily low, indicating that businesses appear happy with their current workforces. Employees who didn't meet standards were likely laid off during the Great Recession, and with labor compensation growth barely keeping pace with inflation, there is little incentive to make changes.

The combination of strong employment gains and struggling GDP growth is due to weak productivity growth. Behind the slowdown is declining labor mobility and a drop in business investment, which only recently surpassed its prerecession peak. Nevertheless, the reported slowdown, particularly over the past year, is likely overstated and temporary. GDP was hit hard by the unusually harsh winter weather, and by a sharp decline in healthcare spending caused partly by adjustments related to the Affordable Care Act.

"Although we don't expect underlying productivity growth to regain the heavy pace that prevailed prior to the recession, this won't be a near-term impediment to the US recovery. We expect GDP growth to rise, as well as full employment, by late 2016," Zandi adds.

However, a sustained slowdown in productivity will eventually weigh on the growth of incomes, profits and living standards. Advancement of currently stalled policy efforts to invest in education and infrastructure, and reform of corporate taxes and immigration policy are all keys to avoiding this.

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and financial risk management. By providing leading-edge software, advisory services and research, including the proprietary analysis of 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 $3.0 billion in 2013, employs approximately 8,500 people worldwide, and has a presence in 31 countries.

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