



FINANCIAL
SERVICES

The US Economy

Still the biggest kid on the block

With China recently toppling Japan to become the world's second biggest economy, it prompts the question: How secure is the US at No. 1?

After all, if China's gross domestic product (GDP) is growing at 10 per cent a year, surely the status of the US as the economic powerhouse is under threat?

The answer is not any time soon. Despite the fallout from the global financial crisis, the US is still the world's largest national economy with GDP at \$14.87 trillion in the third quarter of 2010. That's a massive 20 per cent of the world's total output, built on the power generated by US consumers. Consumption in many of the 50 states equals or exceeds that of entire countries around the world. California alone has a GDP nearly twice that of Australia, and on a world table would slot in at No. 8, between Italy and Russia.

But the emergence of China in recent years has it nipping at America's heels. With 10 per cent annual growth China is expected to overtake the US between 2017 and 2025. The speed of China's urbanisation and industrialisation — now up to 170 cities with more than one million citizens — is driving their economy, and prices for Australian resources.

Despite this rate of growth in China, the US economy will lose little clout in the global economy or in its impact on Australia.

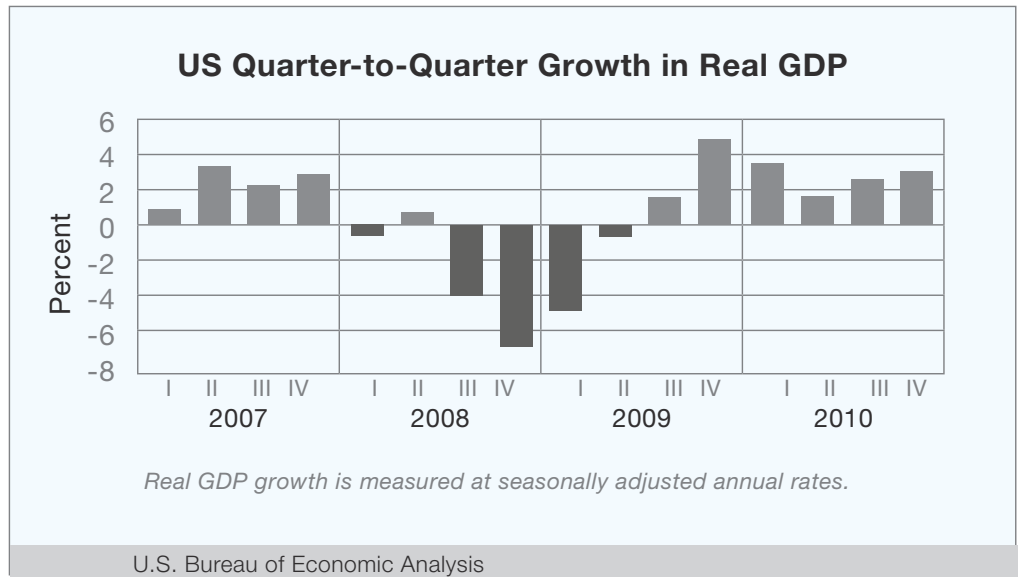
Renewed growth

In 2008–2009, there was much talk about the US being a basket case but the green shoots of recovery are now emerging. While it is not out of the woods yet, the US currently has the fastest growing economy of the western industrialised world. GDP grew at 2.9 per cent in 2010, compared with a 2.6 per cent contraction in 2009.

Much of the recovery rested on a 4.4 per cent rise in consumer spending in the fourth quarter of 2010, its fastest rate since 2006.

In addition, exports improved, imports fell and residential housing picked up, all helping to boost economic growth. And recent estimates from the US Federal Reserve predict goods and services output to grow between 3.4 and 3.9 per cent in 2011, a rate not seen since 2004.

Snapshot



Against this, much of the strength in US companies comes from outsourcing jobs to countries with lower labour costs, so US unemployment remains stubbornly high, despite the fall from 9.8 per cent in November to 9.0 per cent in January.

Debt of course remains a key problem for the US. The US budget deficit is expected to reach a record \$1.48 trillion this year, which is roughly 10 per cent of GDP.

As Atlanta Federal Reserve Bank president Dennis P Lockhardt says: "Although we are in recovery at the moment and we are seeing growth...until we have dealt with the underlying fiscal issues we are not growing on absolutely sound foundations."

Investor's hopes

Nevertheless investors are firmly of the view that the US has turned the corner and this is reflected in the strength of Wall Street.

Always a barometer of future expectations, the Dow Jones index closed above the 12,000 mark in February for the first time in 30 months.

And a stronger Wall Street lifts the local stock market. Asia's growing influence may mean the nexus between the US and Australian markets may not be as strong as in the past, but Wall Street's performance is still reflected in Australia's morning trade.

There are many Australian companies which benefit from this uptick in the US economy. Certainly the growth in consumer spending is music to the ears of companies like Westfield with its many US shopping malls and News Limited with its exposure to the advertising dollar.

And Brambles and Toll also benefit as more economic activity means more goods transported around the US. Other winners include BHP-Billiton, Billabong, QBE Insurance, Cochlear and Incitec Pivot.

While China may be roaring ahead, the US will remain a mighty force, especially with its economy nearly back on track and building a head of steam.