



# U.S. ECONOMIC & INTEREST RATE OUTLOOK

**Northern Trust**  
Global Economic Research  
50 South LaSalle  
Chicago, Illinois 60603  
northerntrust.com

**Carl R. Tannenbaum**  
Chief Economist  
312.557.8820  
ct92@ntrs.com

**Asha G. Bangalore**  
Economist  
312.444.4146  
agb3@ntrs.com

November, 2012

## • Our updated forecast anticipates some movement on the “fiscal cliff.”

Post elections, financial markets are on the watch for a resolution of fiscal cliff. Early remarks from leaders on both sides suggest a conciliatory tone and a willingness to negotiate in order to prevent a large reduction in government spending and a significant tax hike. The pressure they face is substantial, as nervous post-election trading suggests high anxiety on the part of investors. Our pre-election comment of [November 1](#) outlines the issues that are at stake.

Our expectation remains that the worst case will not come to pass, and that the cliff will be softened to a slope sometime in the next six to eight weeks. Still, it is unlikely that all of the spending cuts and tax increases will be reversed, and we’ve reflected that in a forecast for a somewhat softer first quarter of 2013.

We have tweaked our forecast of fourth quarter GDP to account for Sandy and to reverse some non-recurring increases seen in the third quarter. As a result of these changes, we expect fourth quarter real GDP to advance at a 1.5% annual pace, representing a slowing from the third quarter.

## US Economic Outlook


	2011		2012				2013				Q4 to Q4 change			Annual change		
	11:3a	11:4a	12:1a	12:2a	12:3a	12:4f	13:1f	13:2f	13:3f	13:4f	2011a	2012f	2013f	2011a	2012f	2013f
Real Gross Domestic Product (% change, SAAR)	1.3	4.1	2.0	1.3	2.0	1.3	1.6	1.9	2.1	2.2	2.0	1.6	1.9	1.8	2.1	1.7
Consumer Price Index (% change, annualised rate)	3.1	1.3	2.5	0.8	2.3	3.3	2.0	1.7	1.7	2.0	3.3	2.2	1.9	3.1	2.2	2.1
Civilian Unemployment Rate (% average)	9.1	8.7	8.3	8.2	8.1	7.8	7.7	7.6	7.5	7.3				9.0*	8.1*	7.5*
Federal Funds rate	0.08	0.07	0.10	0.15	0.14	0.15	0.15	0.15	0.15	0.15				0.10*	0.14*	0.15*
2-yr. Treasury Note	0.28	0.26	0.29	0.29	0.26	0.30	0.30	0.30	0.30	0.45				0.45*	0.29*	0.34*
10-yr. Treasury Note	2.43	2.05	2.04	1.82	1.64	1.80	1.85	1.90	1.95	2.15				2.79*	1.83*	1.96*

a=actual  
f=forecast  
\*=annual average

Key elements of the current forecast include:

- Consumer spending is projected to have grown only 1.5% in the final three months of the year, a slowing that is partly related to the storm. Incoming household sector data on employment, sales, housing starts, and home prices point to improvements that will make a positive contribution to fourth quarter real GDP growth.
- Business spending is estimated to have advanced at a tepid pace, as firms continue to hold back as fiscal policy discussions continue.
- Net exports should post a small widening as exports are held back by soft economic conditions abroad.

The opinions expressed herein are those of the author and do not necessarily represent the views of The Northern Trust Company. The Northern Trust Company does not warrant the accuracy or completeness of information contained herein, such information is subject to change and is not intended to influence your investment decisions.

- 
- The Federal Reserve will not waiver from its current course. The President's re-election makes it much less likely that a change in philosophy is at hand.

Economic developments in Europe and China will have an important bearing on the growth path of the US economy. We continue to assume orderly resolutions of present challenges in both markets, but the risk of disorder remains.