

# The US Economic Outlook

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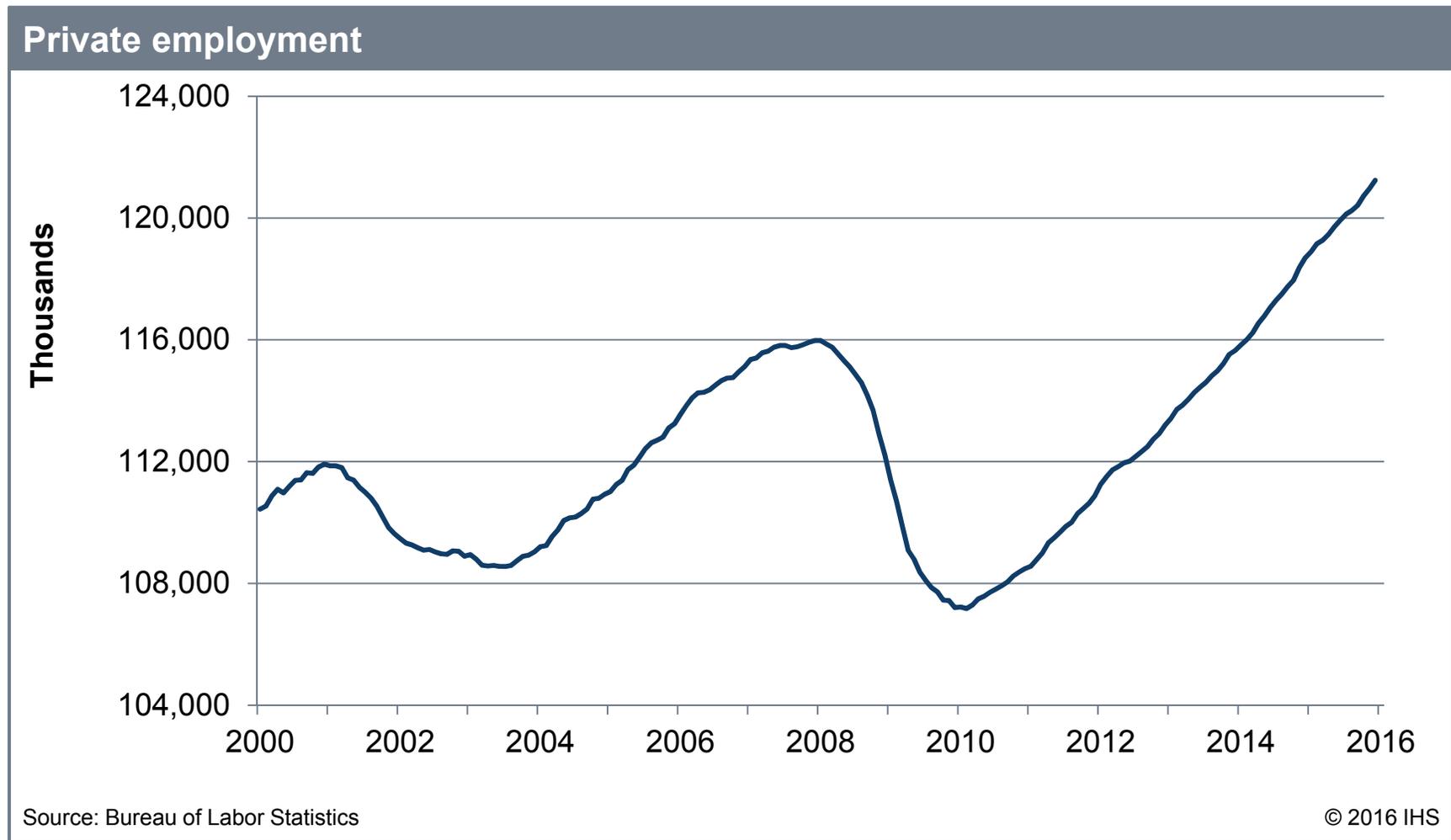
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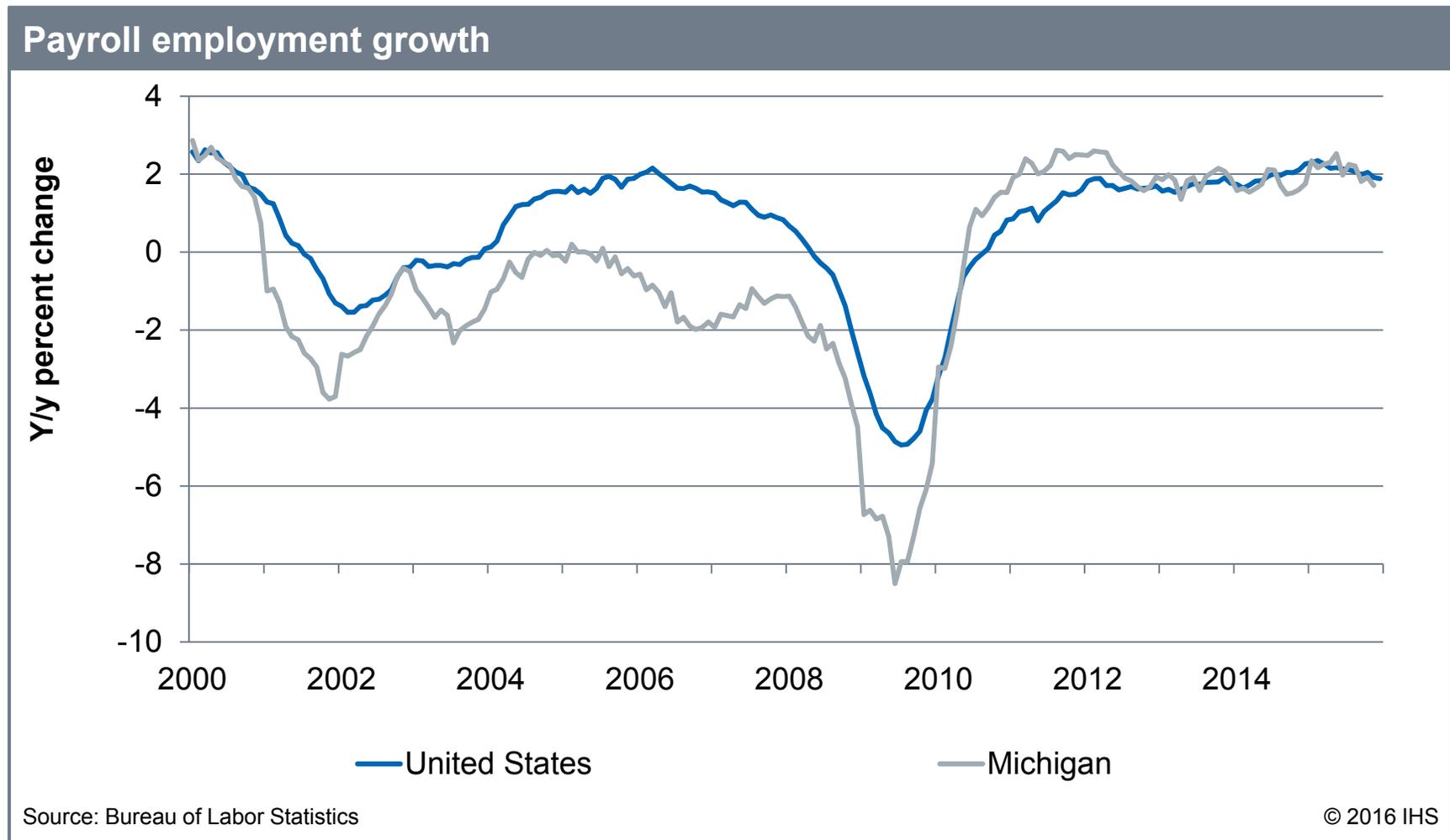
## The US economy on a moderate growth path

- An inventory correction held back growth in the second half of 2015.
- Consumer spending is supported by solid gains in employment, real disposable income, and housing asset values.
- Housing construction will steadily recover in response to rising employment, easing credit, and a higher household formation rate.
- International trade is creating headwinds for the US economy due to a strong dollar exchange rate and subpar growth in key export markets.
- A two-year federal budget agreement and suspension of the debt ceiling boosts near-term spending and reduces policy uncertainty.
- Interest rates will gradually increase through 2018.
- Real GDP growth will pick up from 2.4% in 2015 to 2.7% in 2016.

# Private employment at an all-time high

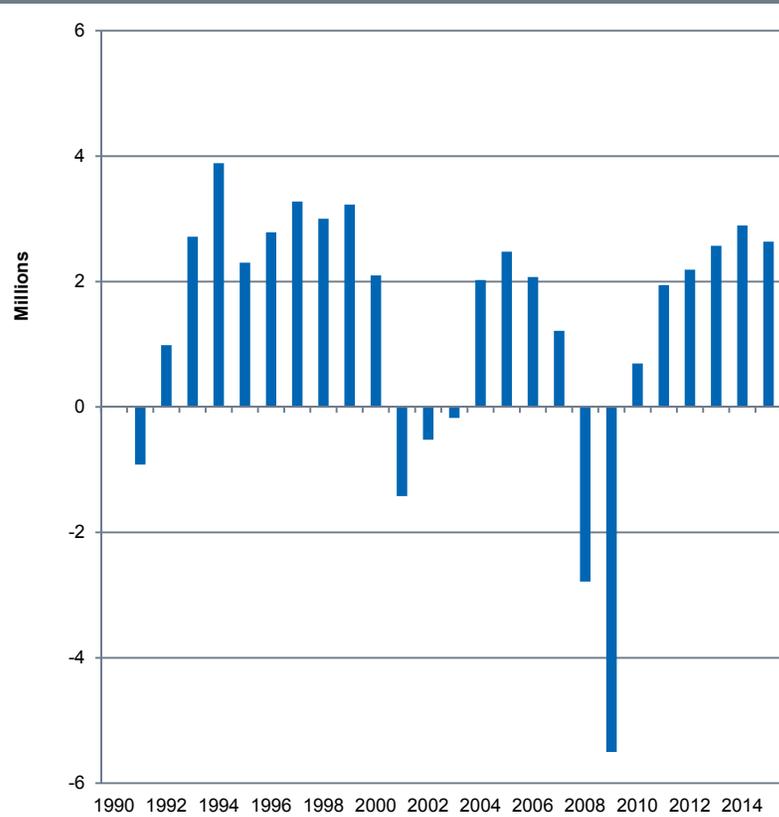


# Steady job growth



# 12-month payroll employment gains

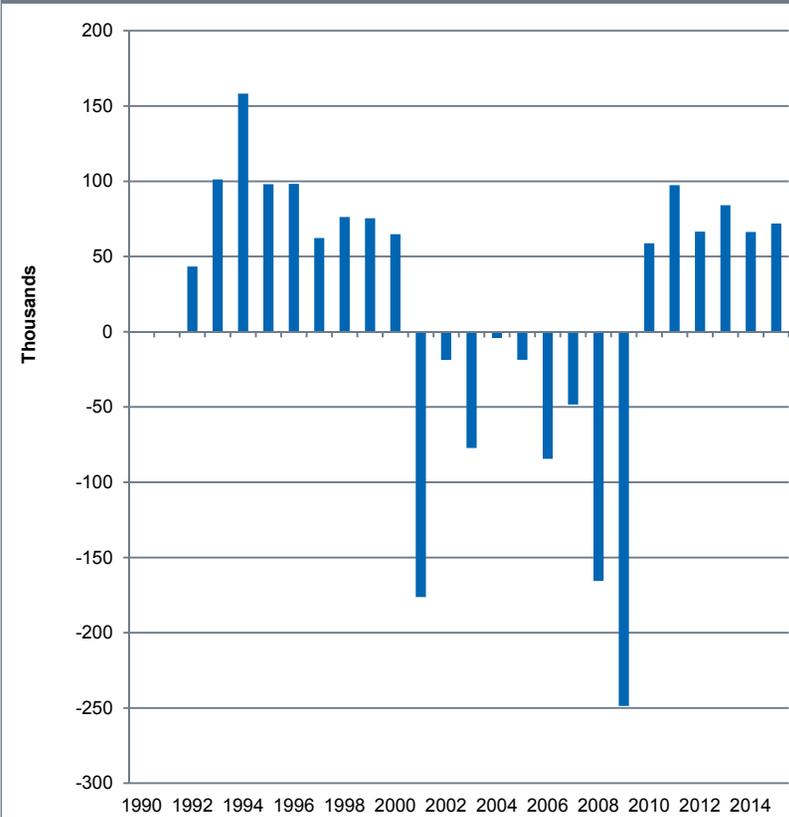
US 12-month payroll gains



Source: Bureau of Labor Statistics

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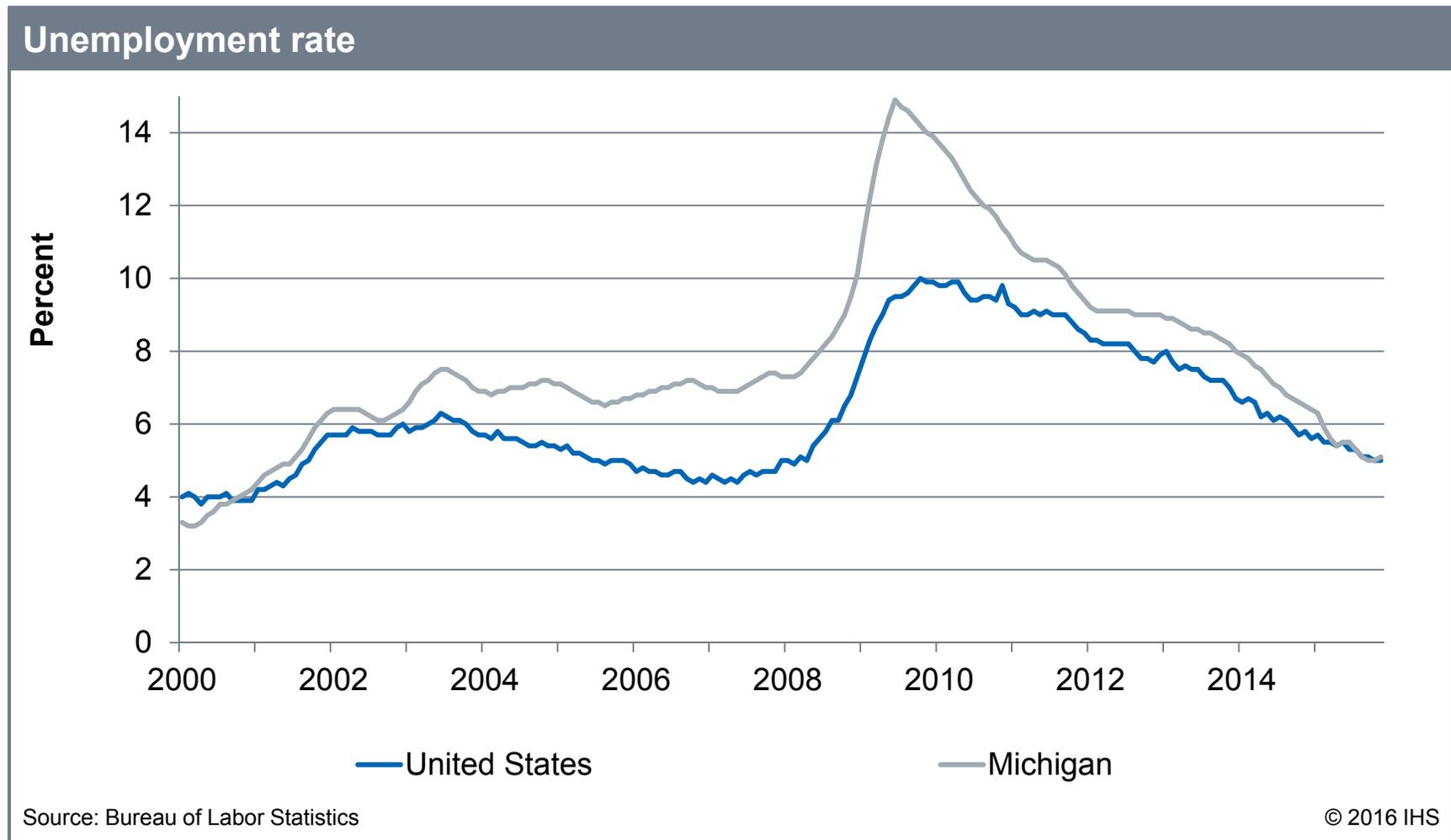
Michigan 12-month payroll gains



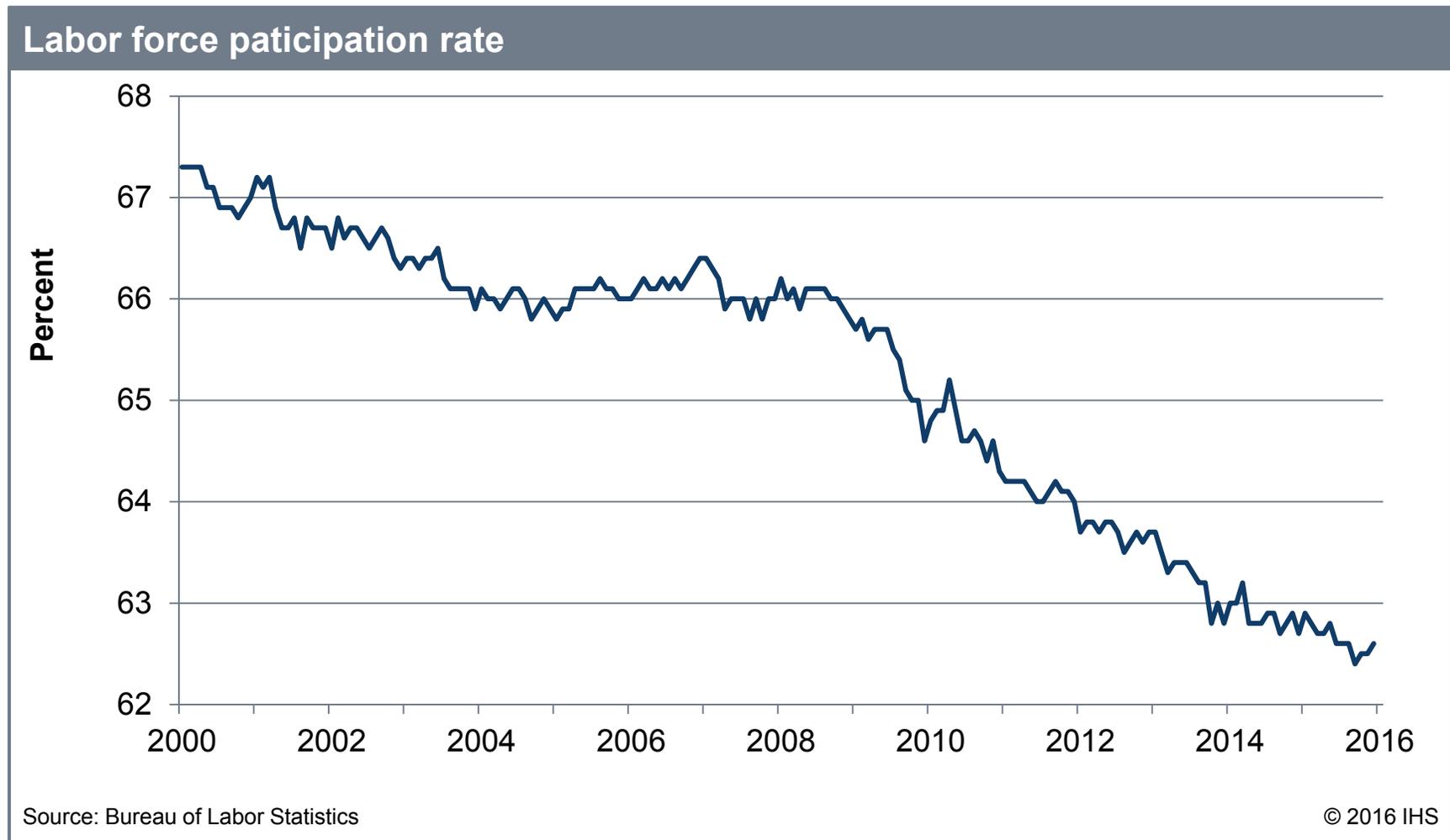
Source: Bureau of Labor Statistics

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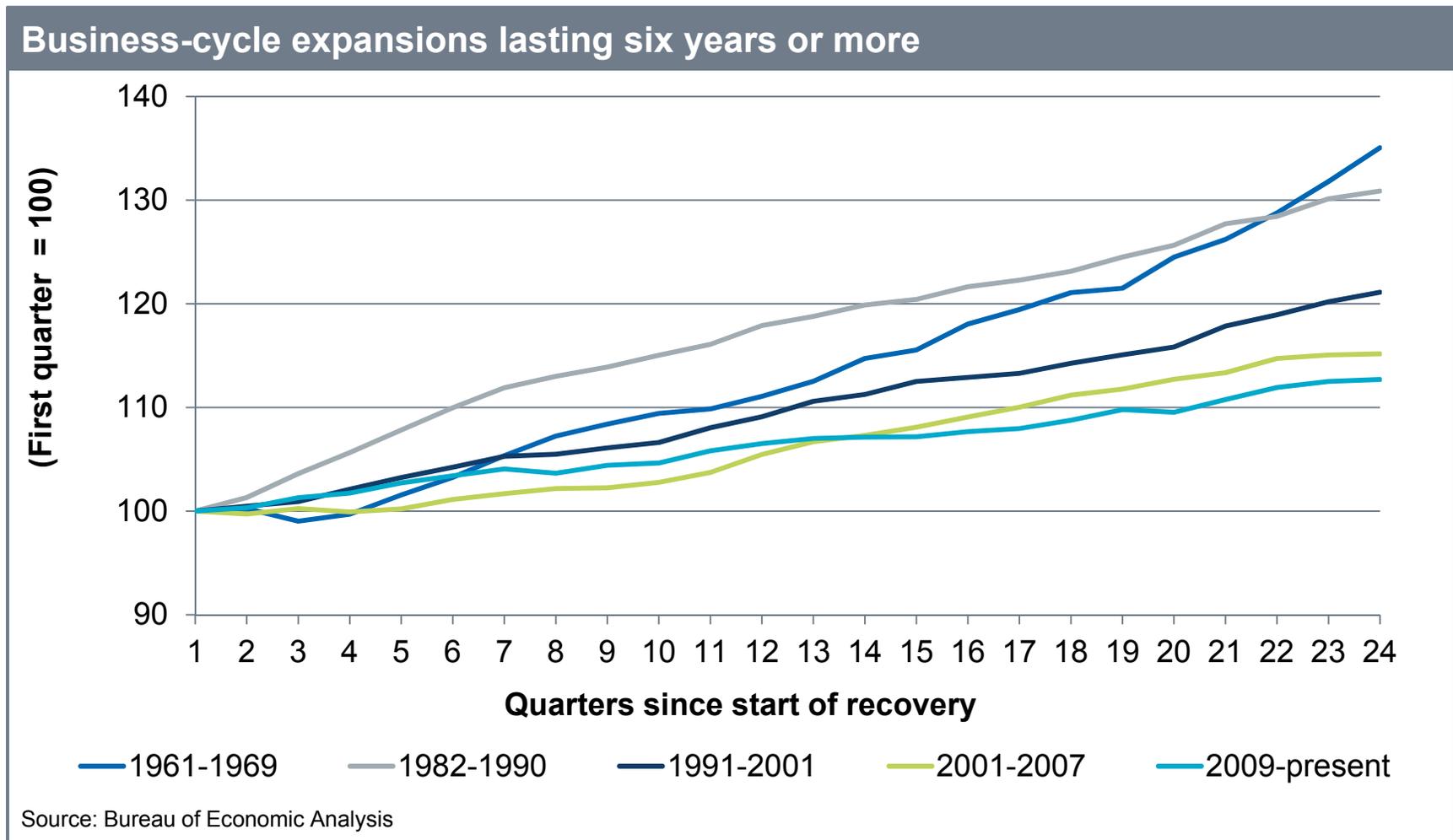
# Close to full employment!!!



# Participation rate: near 1978 levels



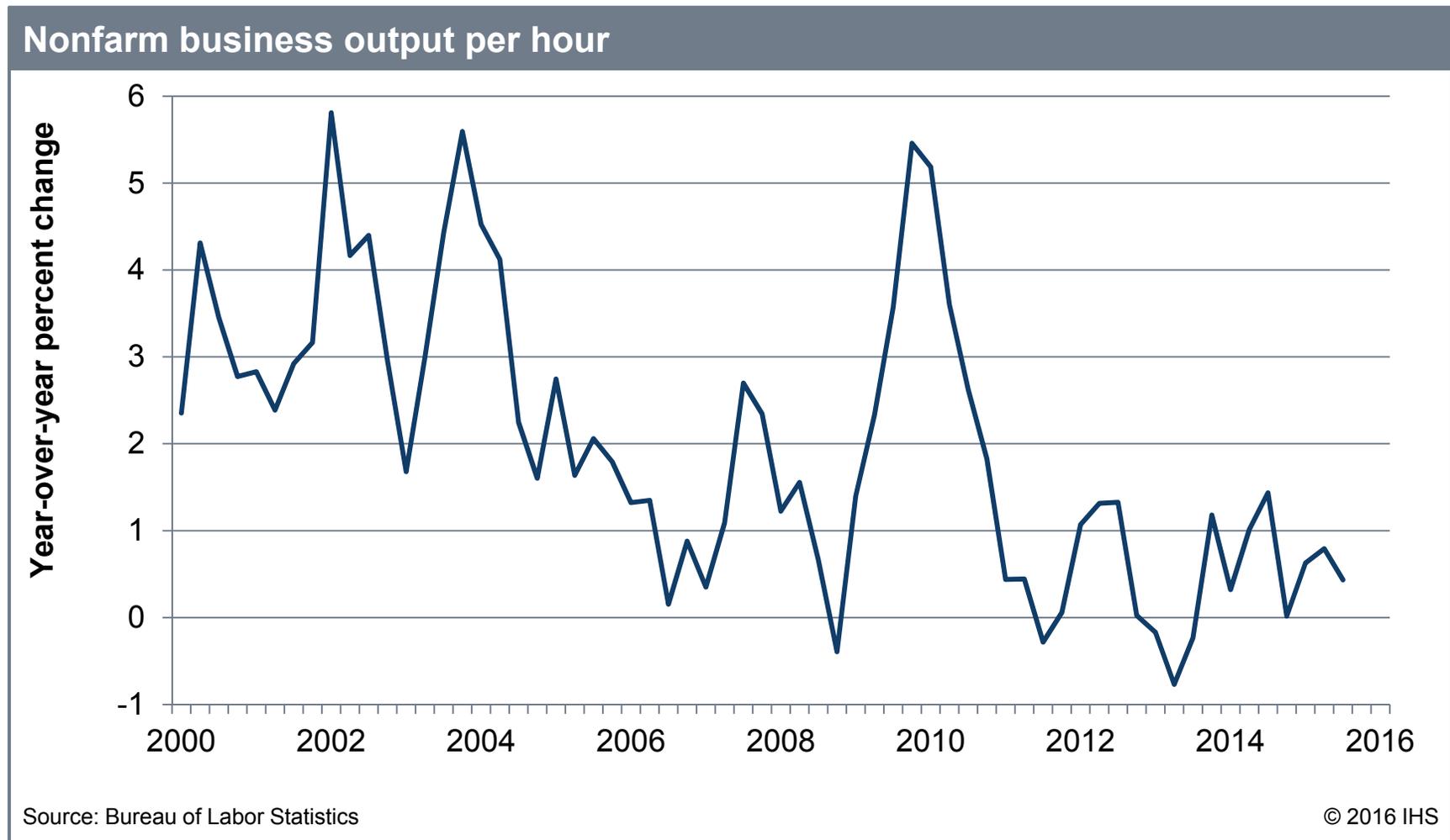
# US business-cycle expansions since start of recoveries



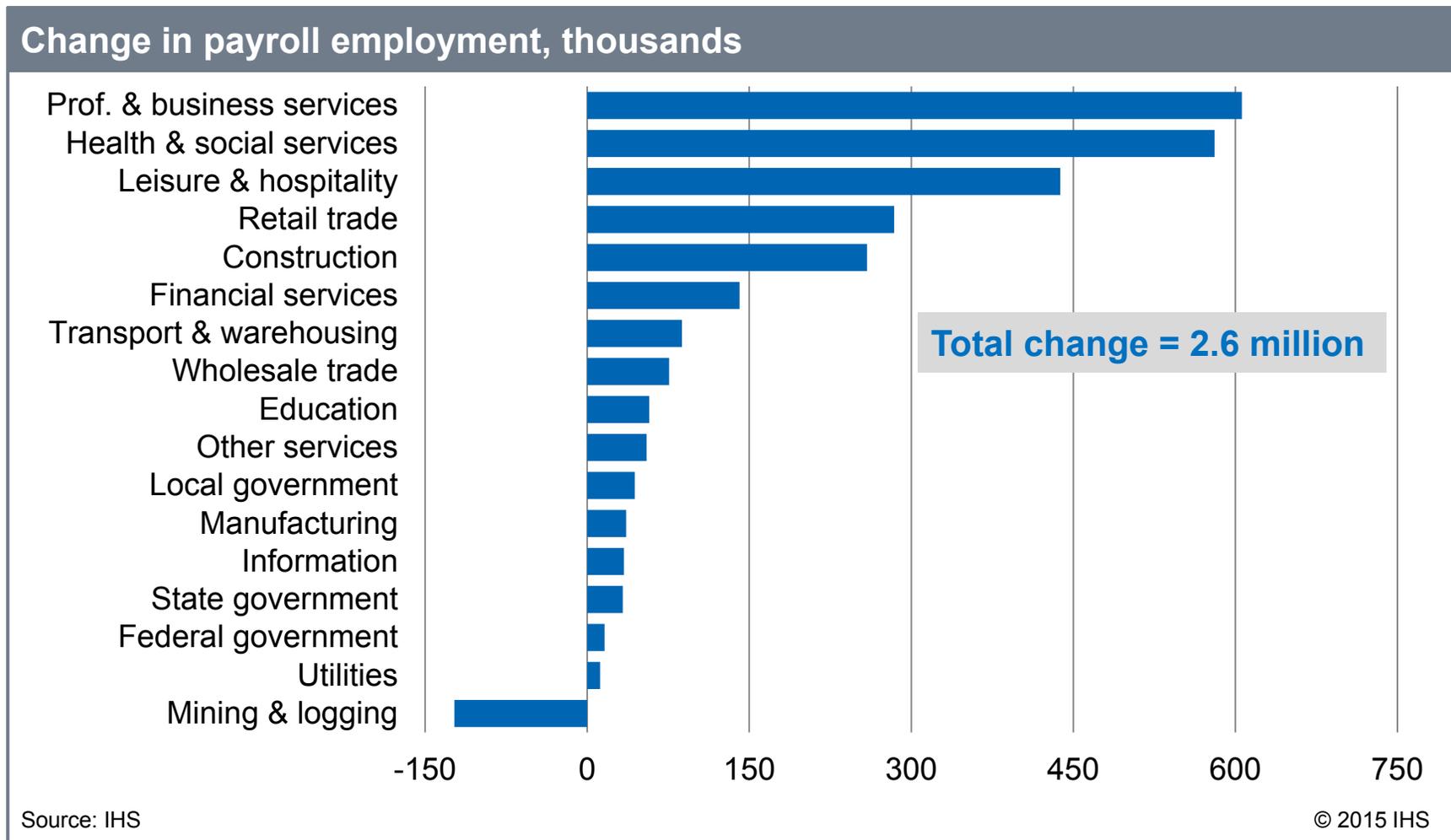
# Little Wage inflation



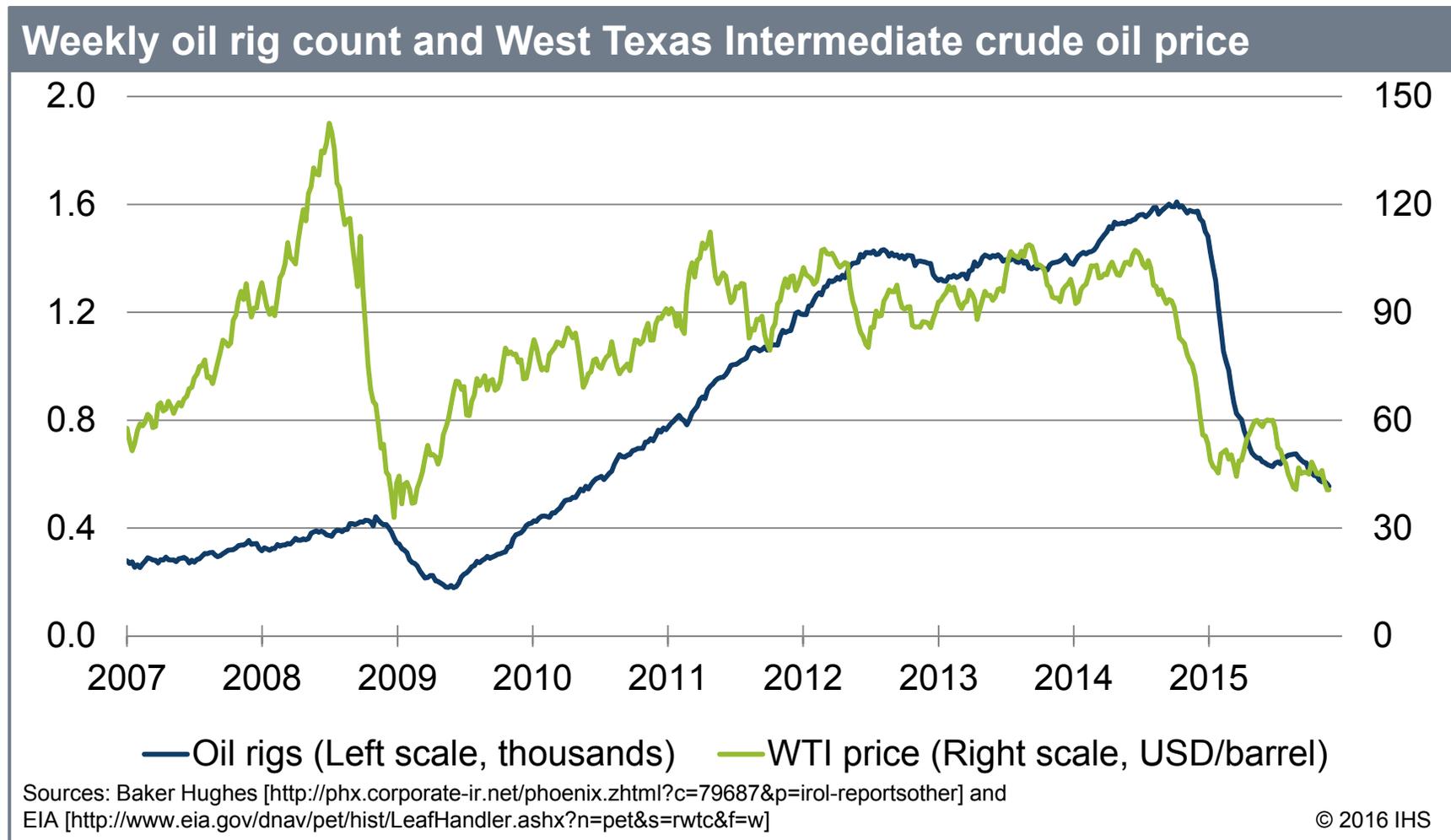
# Stagnant productivity growth



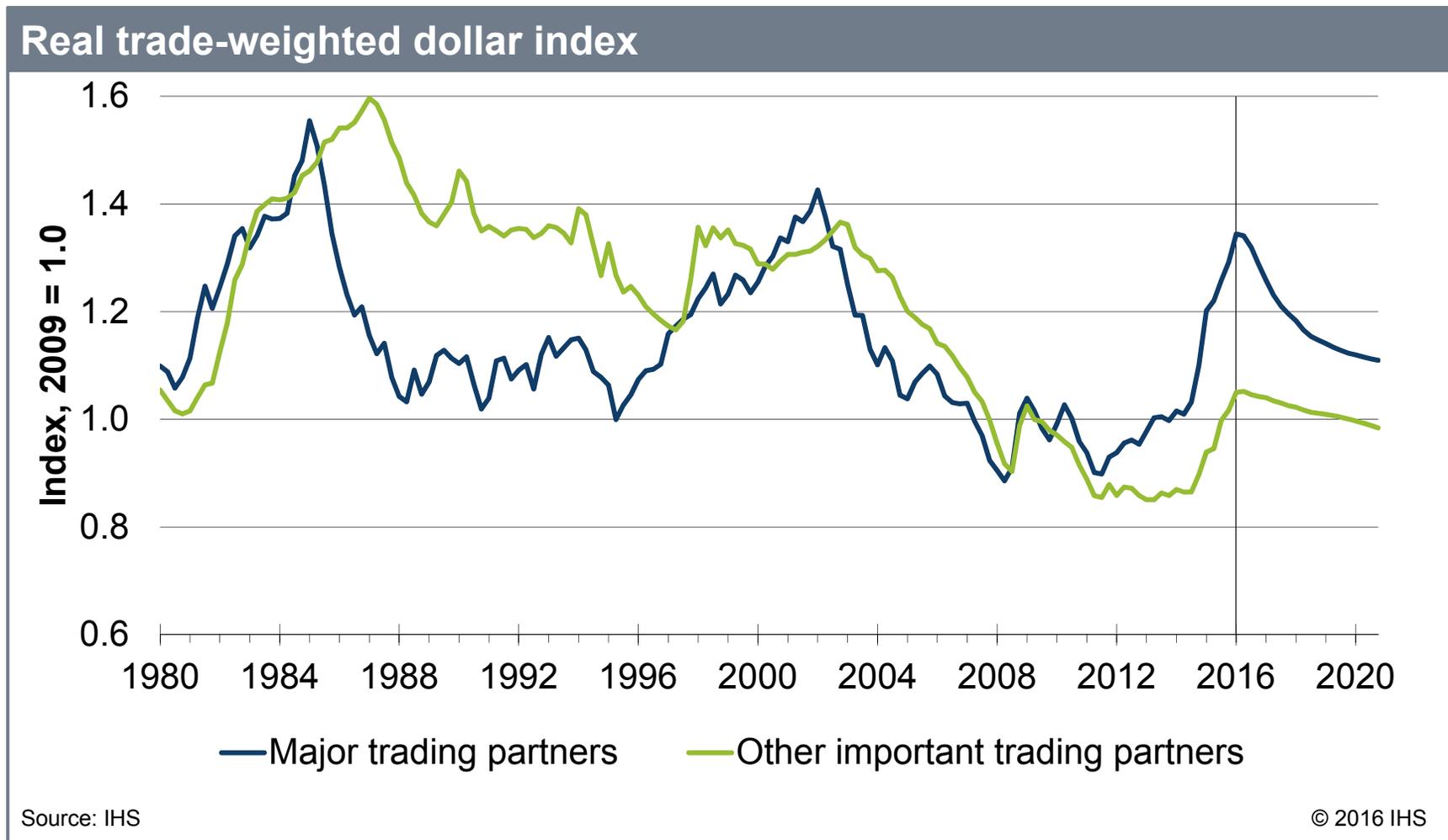
# Services recorded the largest employment increases during the 12 months ended November 2015



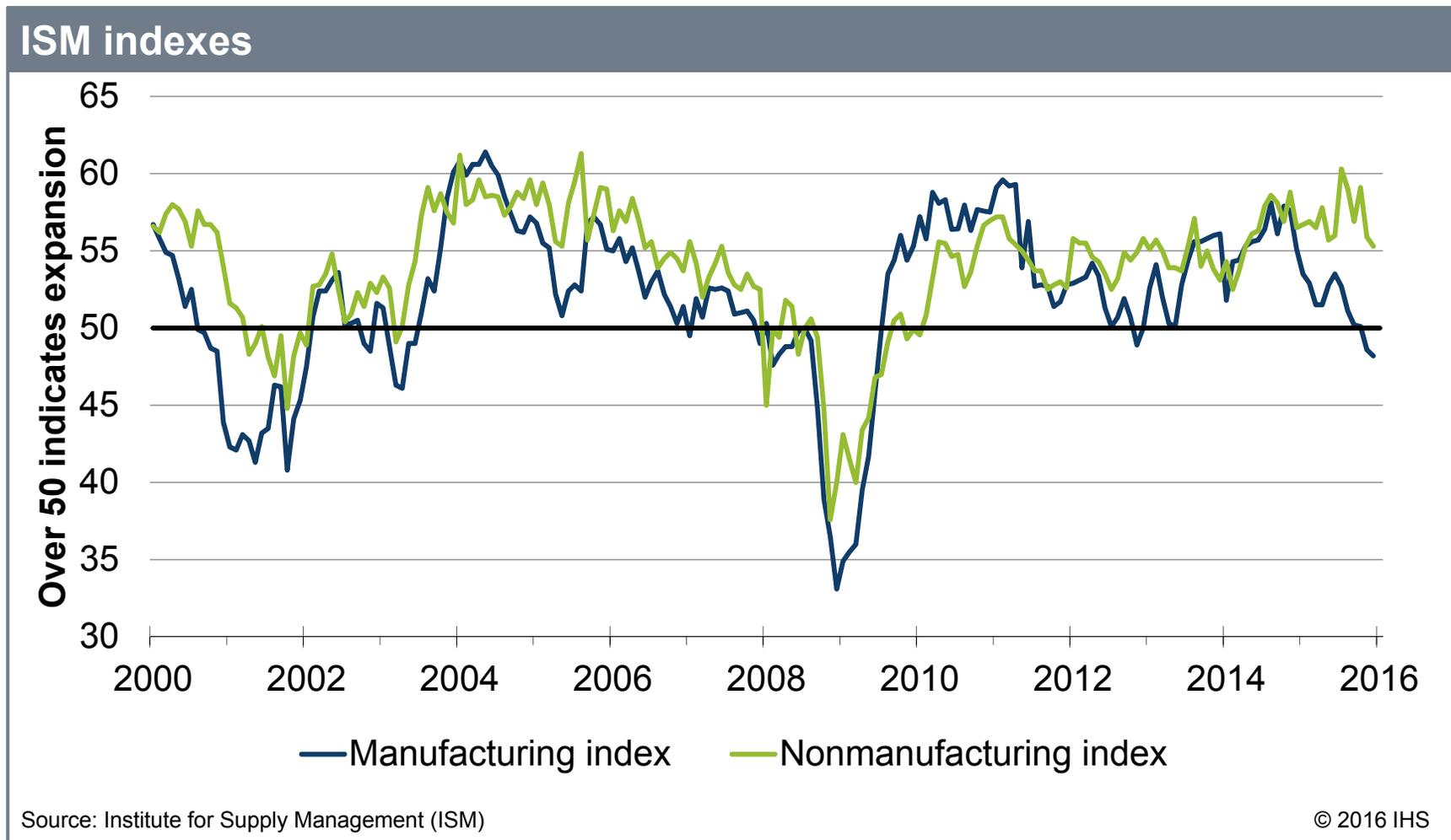
# Oil prices and drilling activity have collapsed



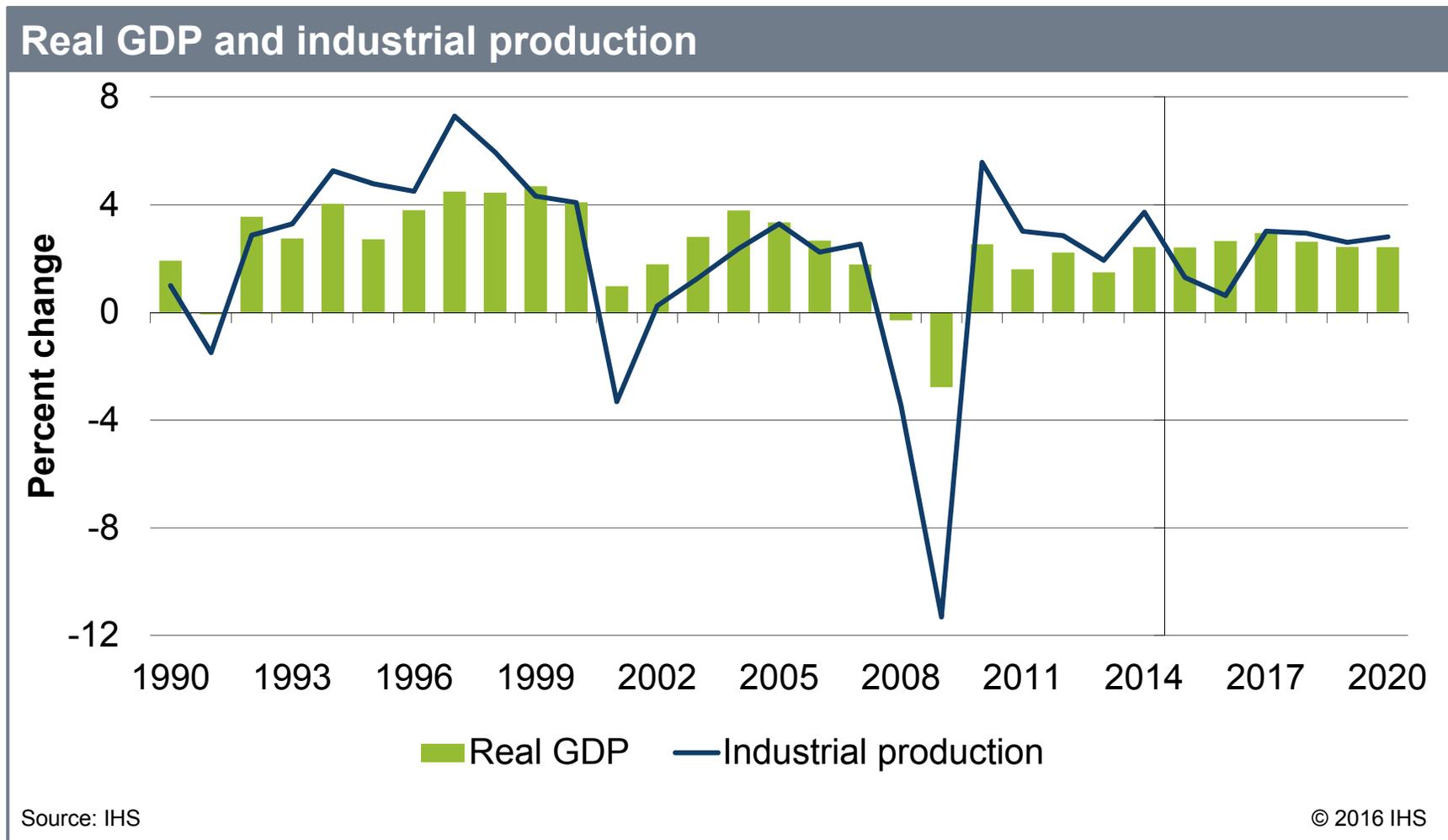
## A widening trade deficit will contribute to a retreat in the dollar's real exchange value in 2017–20



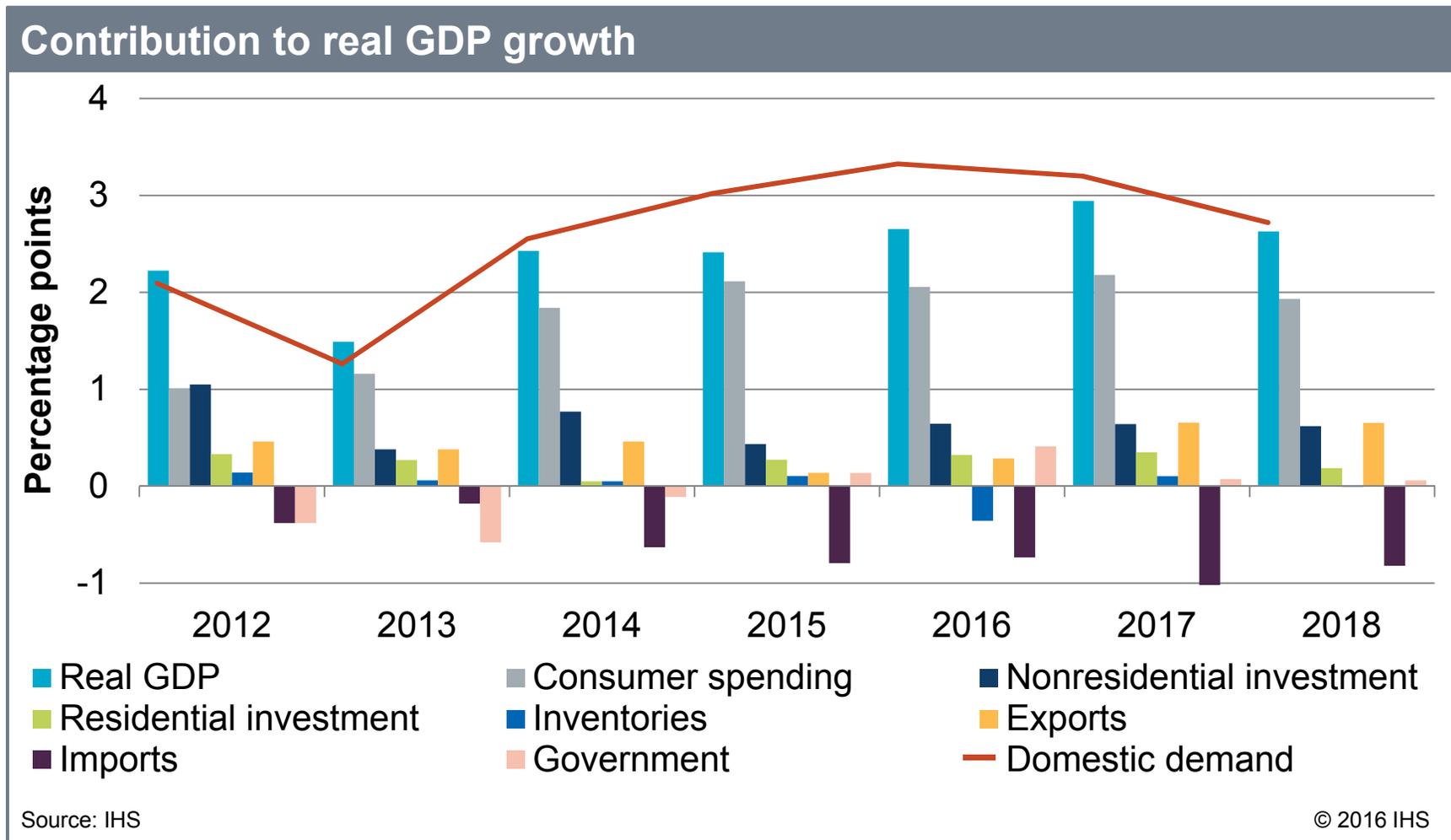
# The Institute for Supply Management's indexes signal a stall in manufacturing and moderate growth in services



# Industrial production growth has slowed sharply in response to the dollar's appreciation



# Sources of growth in US real GDP



## US economic growth by sector

### Real GDP and its components

Percent change	2014	2015	2016	2017
Real GDP	2.4	2.4	2.7	2.9
Consumption	2.7	3.1	3.0	3.2
Residential investment	1.8	8.6	9.5	9.6
Business fixed investment	6.2	3.4	5.0	5.0
Federal government	-2.4	-0.4	3.6	-0.8
State & local government	0.6	1.5	1.5	1.2
Exports	3.4	1.0	2.3	5.4
Imports	3.8	5.0	4.9	7.3

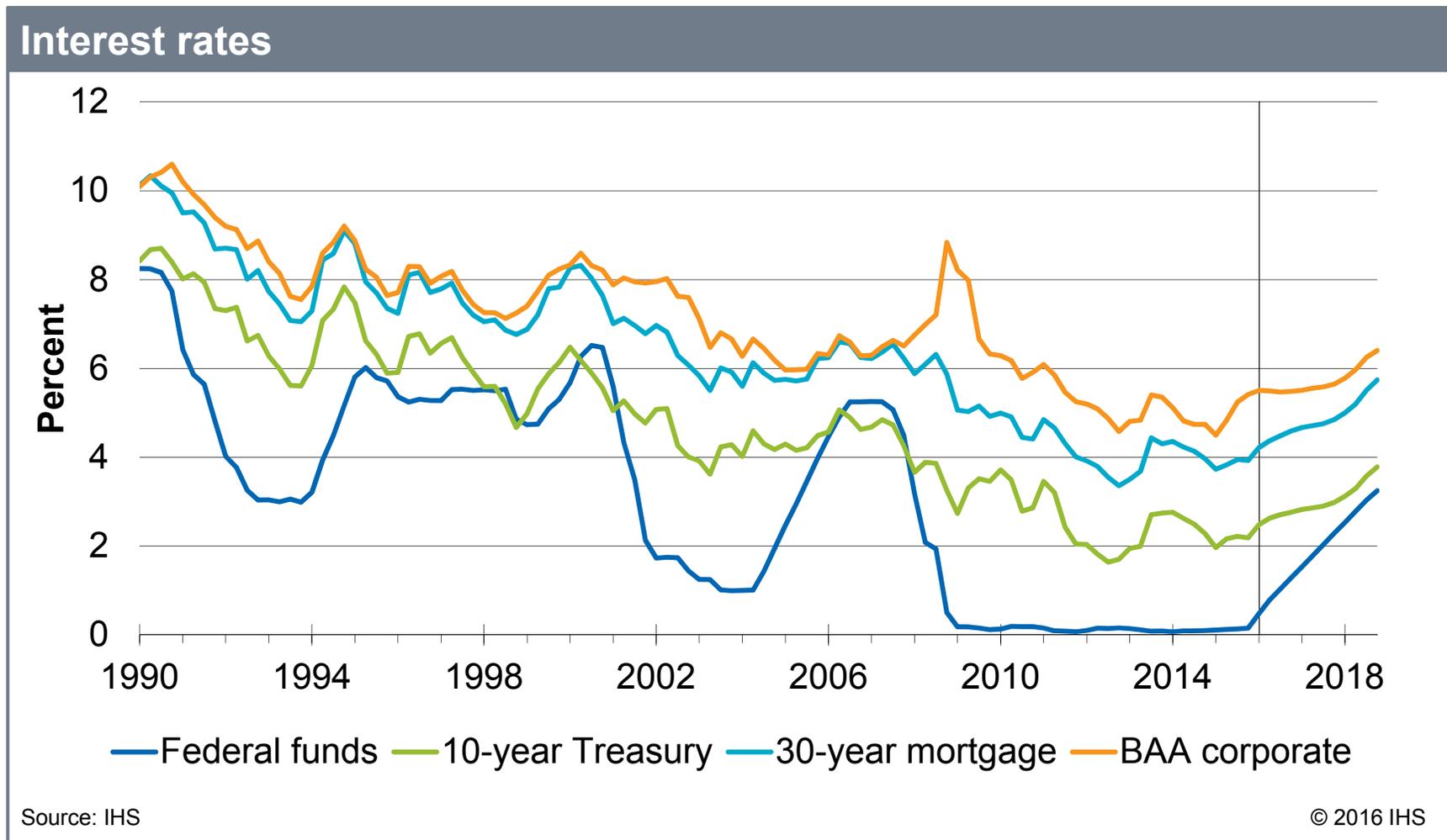
# Employment growth has been steadier than real GDP growth during the current expansion



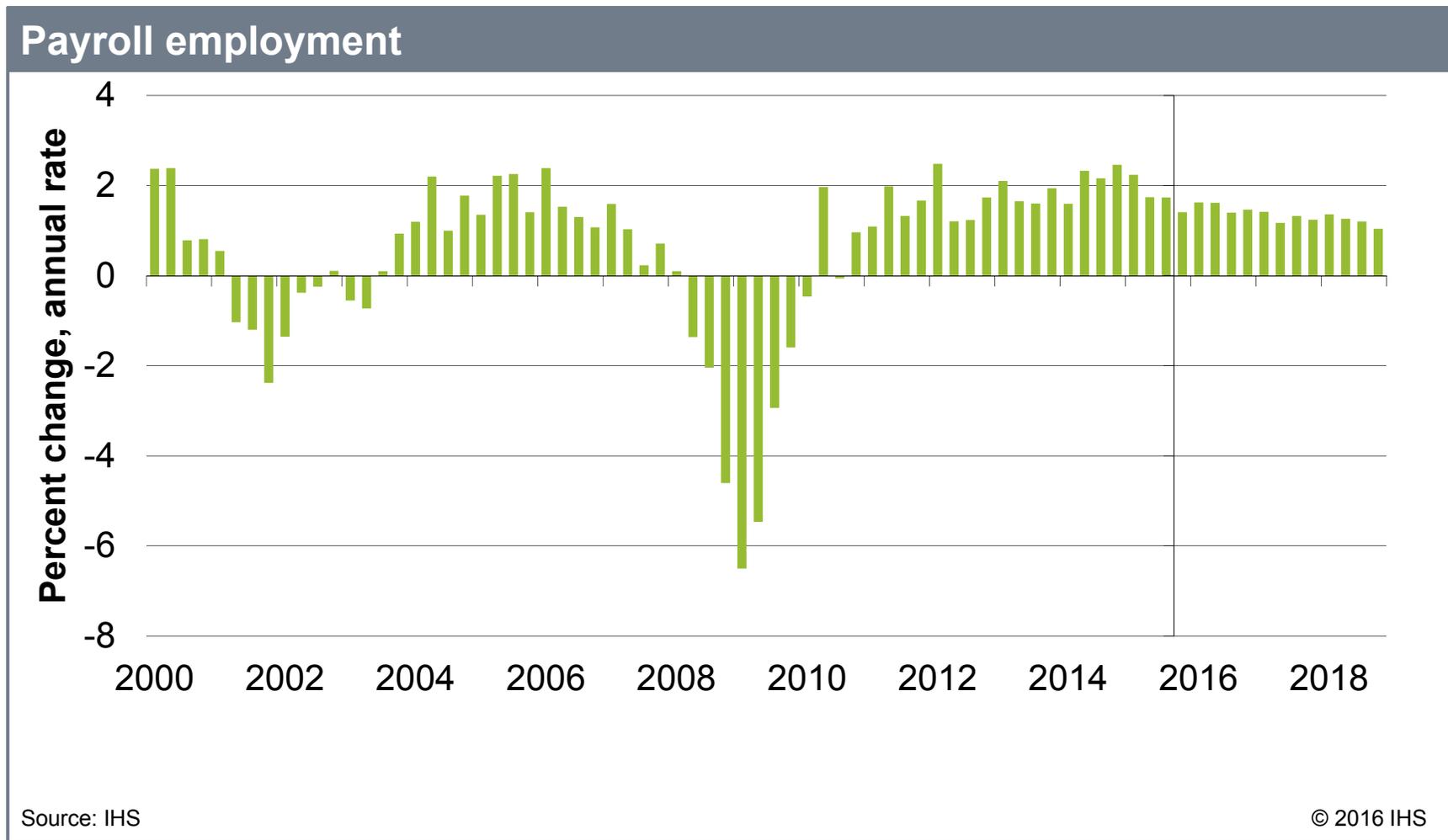
## Other key US indicators

Key indicators				
Percent change	2014	2015	2016	2017
Industrial production	3.7	1.3	0.6	3.0
Payroll employment	1.9	2.1	1.7	1.3
Light-vehicle sales (Millions)	16.4	17.4	17.8	18.2
Housing starts (Millions)	1.00	1.11	1.26	1.42
Consumer Price Index	1.6	0.1	1.2	2.6
Core CPI	1.7	1.8	1.9	2.0
Brent crude oil price (USD/barrel)	100	54	48	58
Federal funds rate (%)	0.1	0.1	0.9	1.9
10-year Treasury yield (%)	2.5	2.1	2.6	2.9

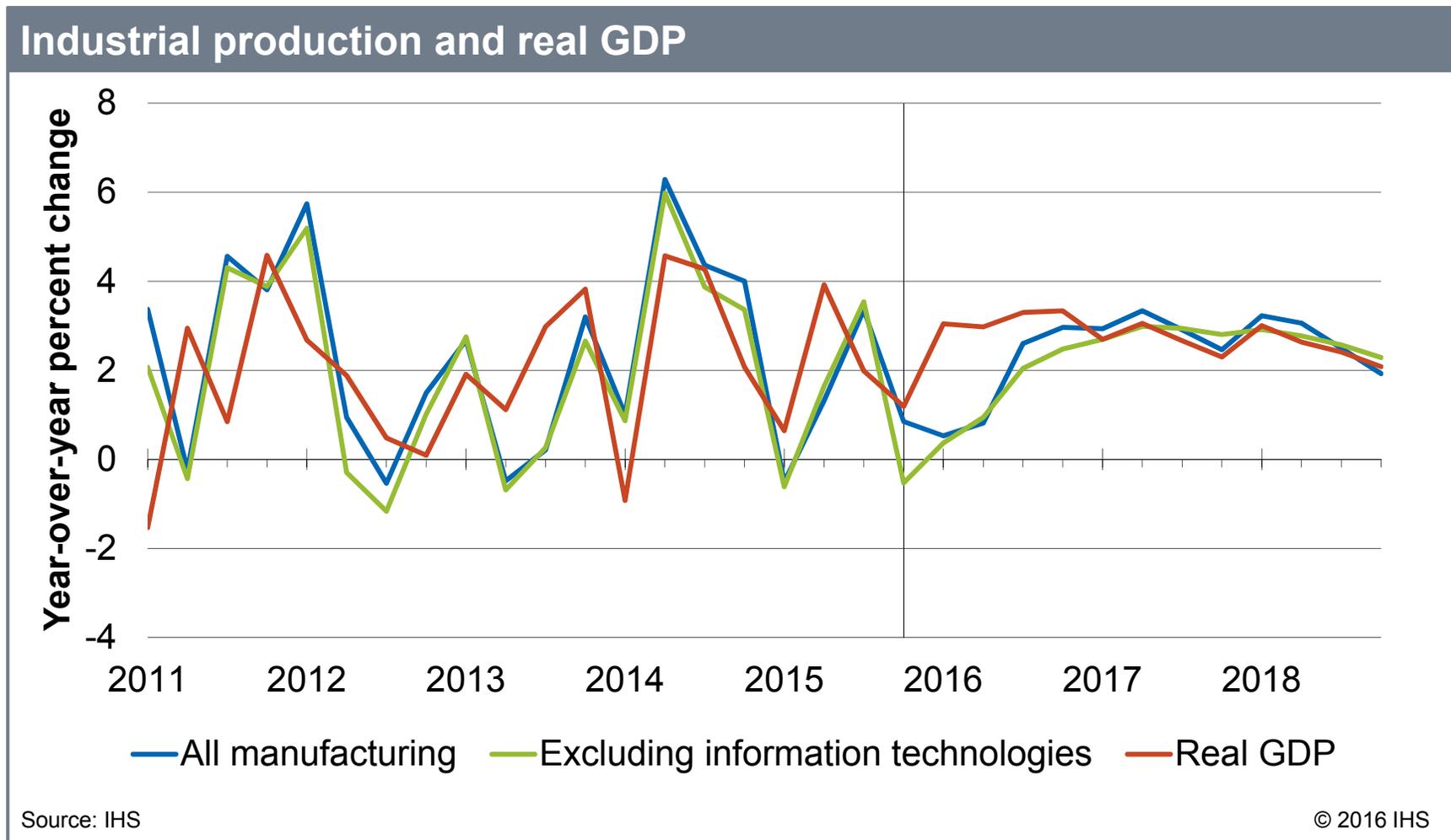
# Interest rates will rise from exceptionally low levels



# Job growth will slow as the US economy approaches full employment



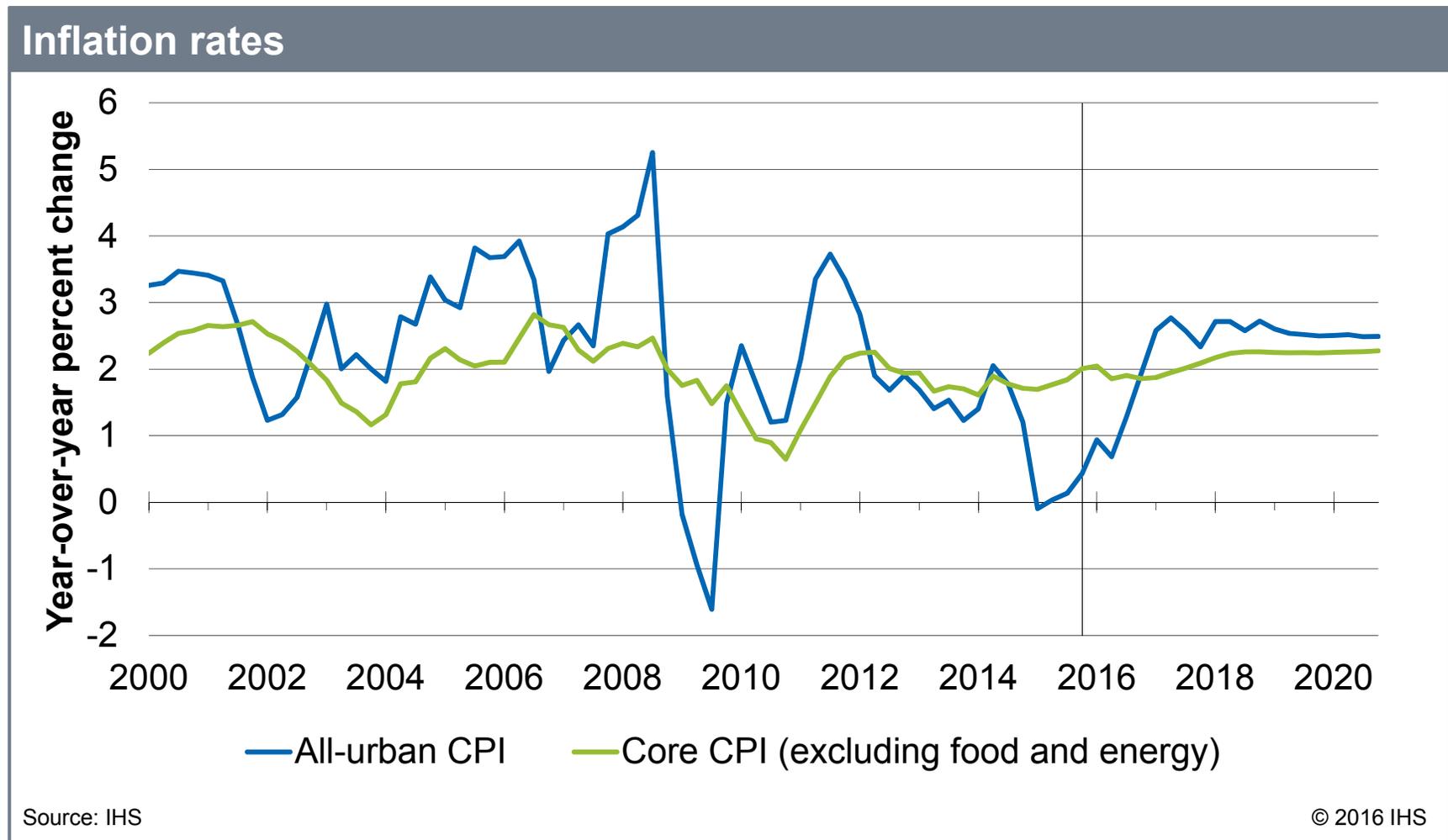
# After an inventory correction, manufacturing production growth will rebound in the second half of 2016



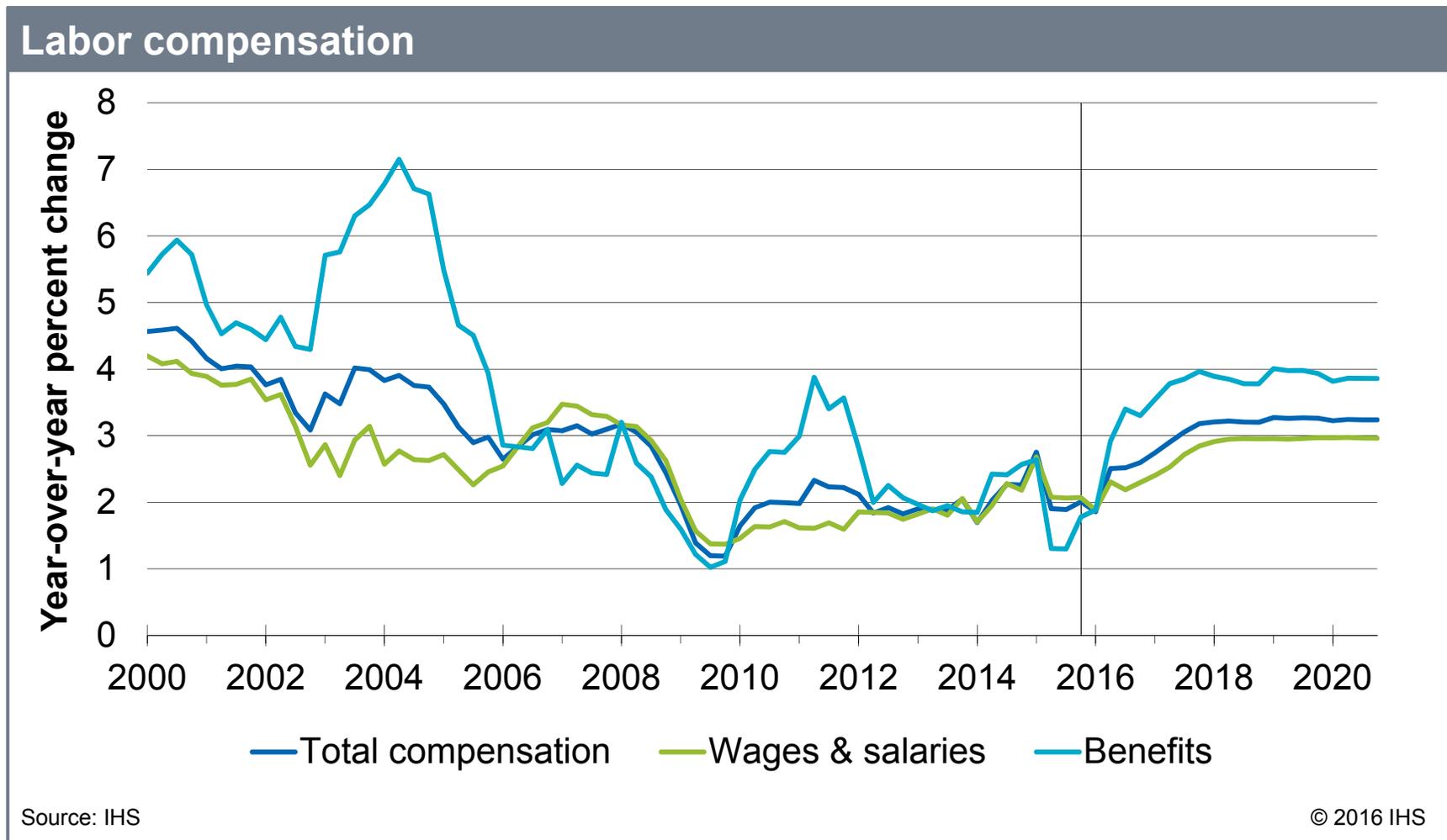
## US industrial production growth

<b>Industrial production</b>				
<b>Percent change</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
All manufacturing	2.8	2.3	1.5	2.8
Motor vehicles & parts	10.4	9.0	7.2	4.2
Computers & electronics	2.9	1.8	3.0	4.9
Electrical equip. & appliances	2.1	4.4	3.3	2.4
Machinery	4.7	0.1	-2.2	3.1
Textiles	3.4	0.2	2.7	-1.0
Furniture	6.5	4.3	3.3	2.8
Chemicals	1.8	3.3	1.4	3.5

# Consumer price inflation will pick up as commodity prices recover



# Worker compensation will accelerate as labor markets tighten and the Affordable Care Act is implemented

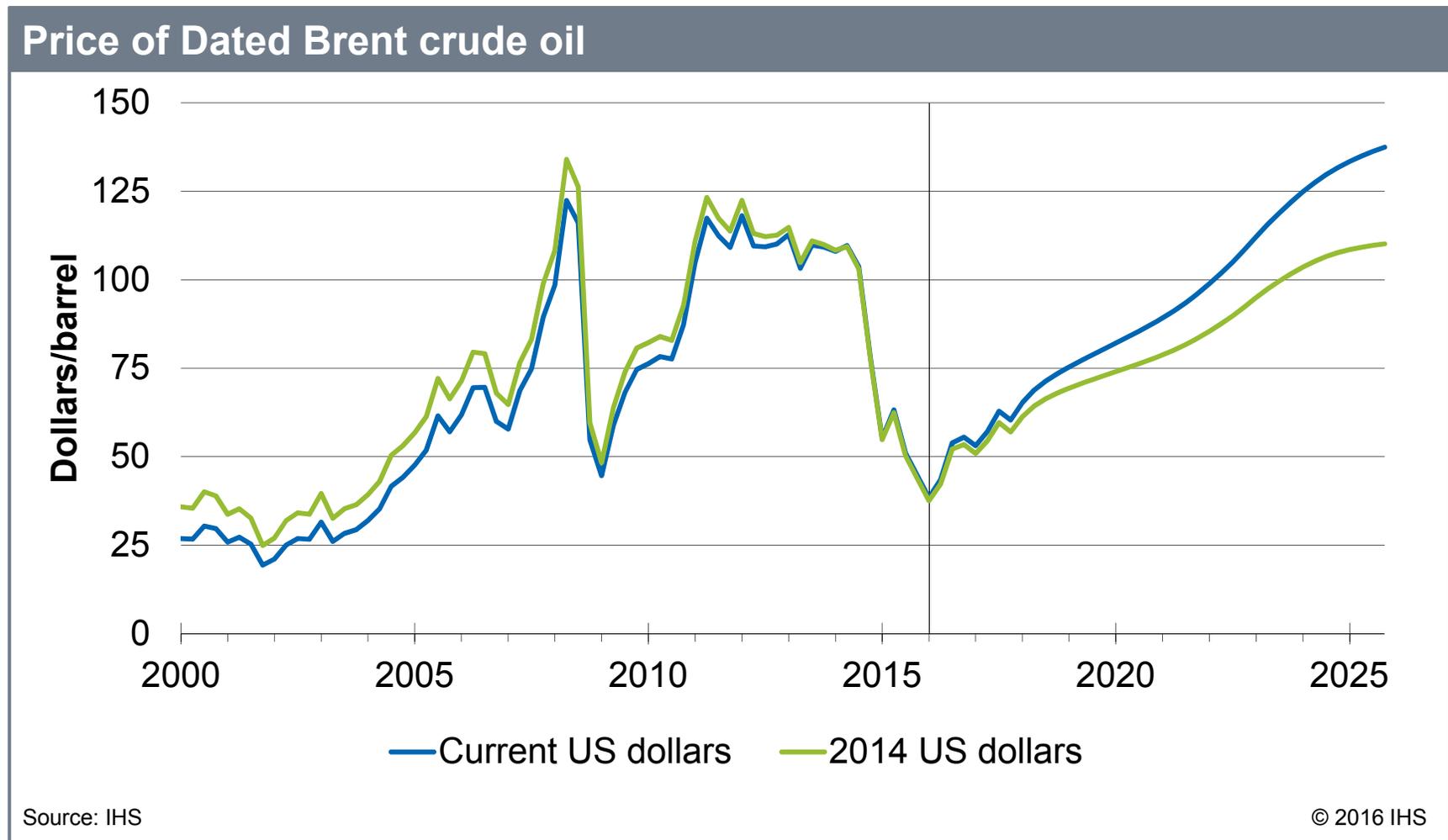


## The consumer market environment is improving

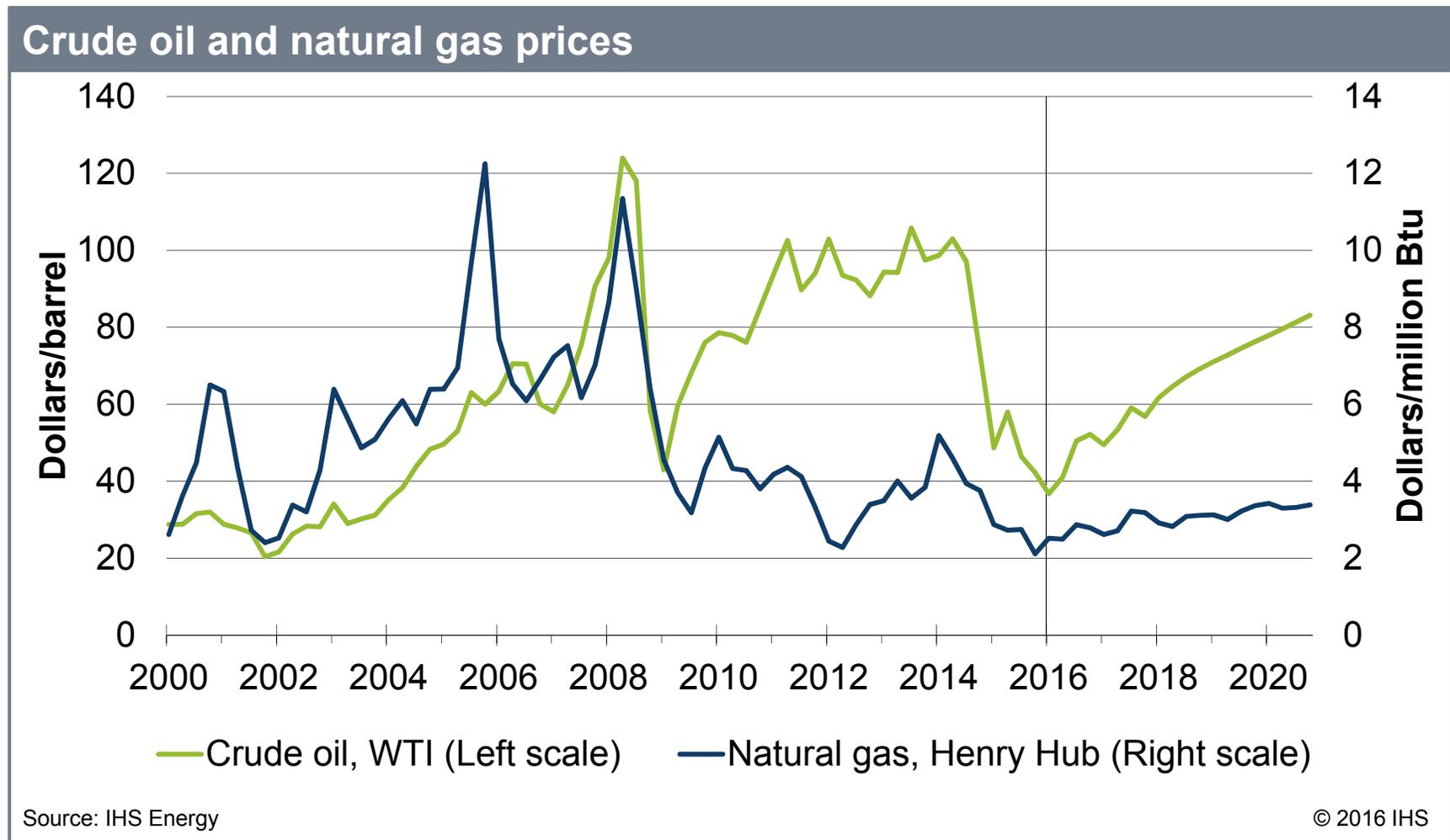
### Consumer market indicators

<b>Percent change</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Real consumption	2.7	3.1	3.0	3.2
Real disposable income	2.7	3.6	3.1	3.3
Real household net worth	4.8	3.2	3.4	3.1
Payroll employment	1.9	2.1	1.7	1.3
Real wage rate	0.6	1.9	1.2	0.6
Consumption price deflator	1.4	0.3	1.0	2.0
Light-vehicle sales (Millions)	16.4	17.4	17.8	18.2
Single-family home sales (Millions)	4.77	5.10	5.27	5.46

# Crude oil prices will gradually recover

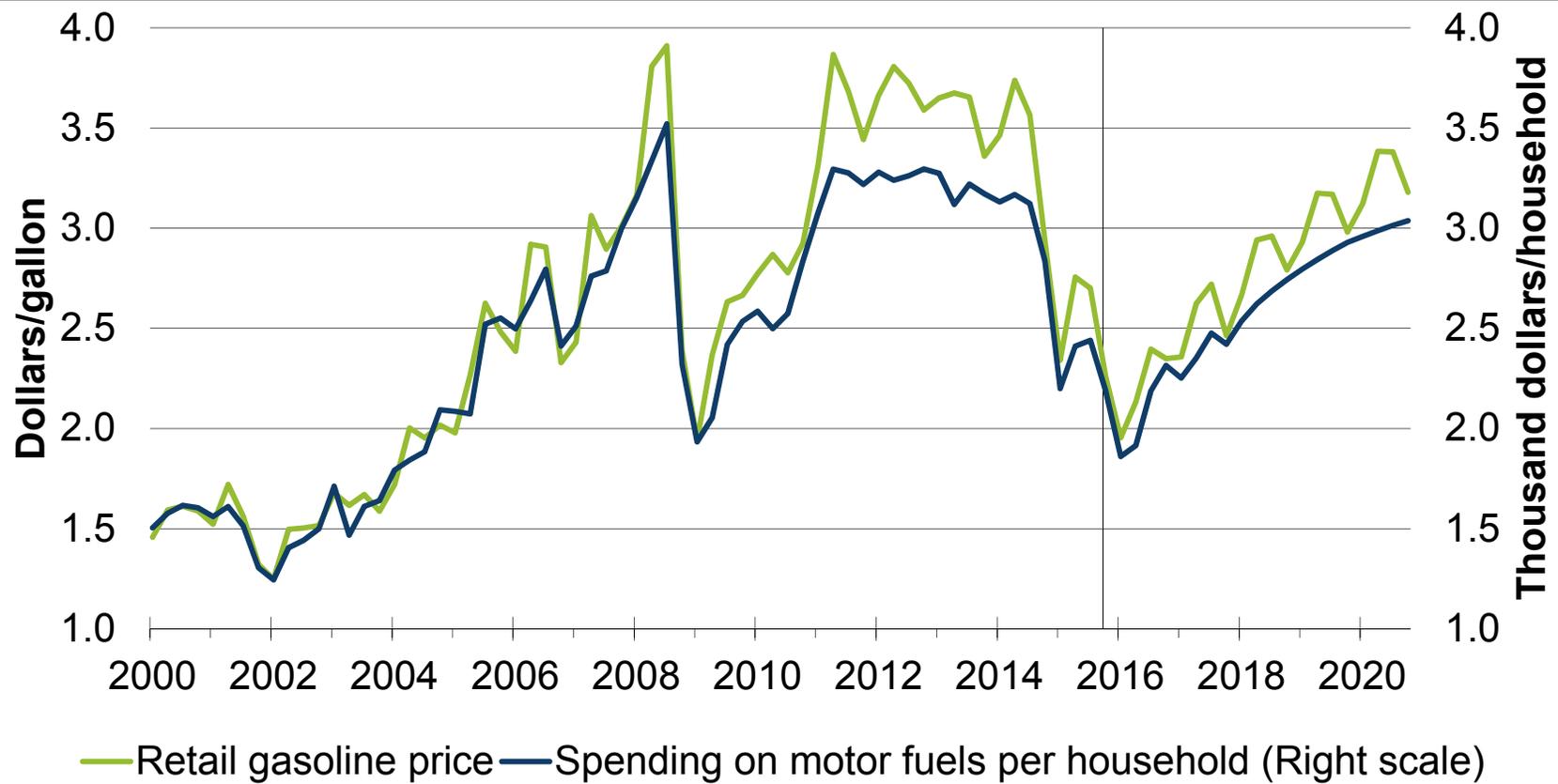


# US crude oil prices and natural gas prices



# Lower gasoline prices have brought substantial savings for US households

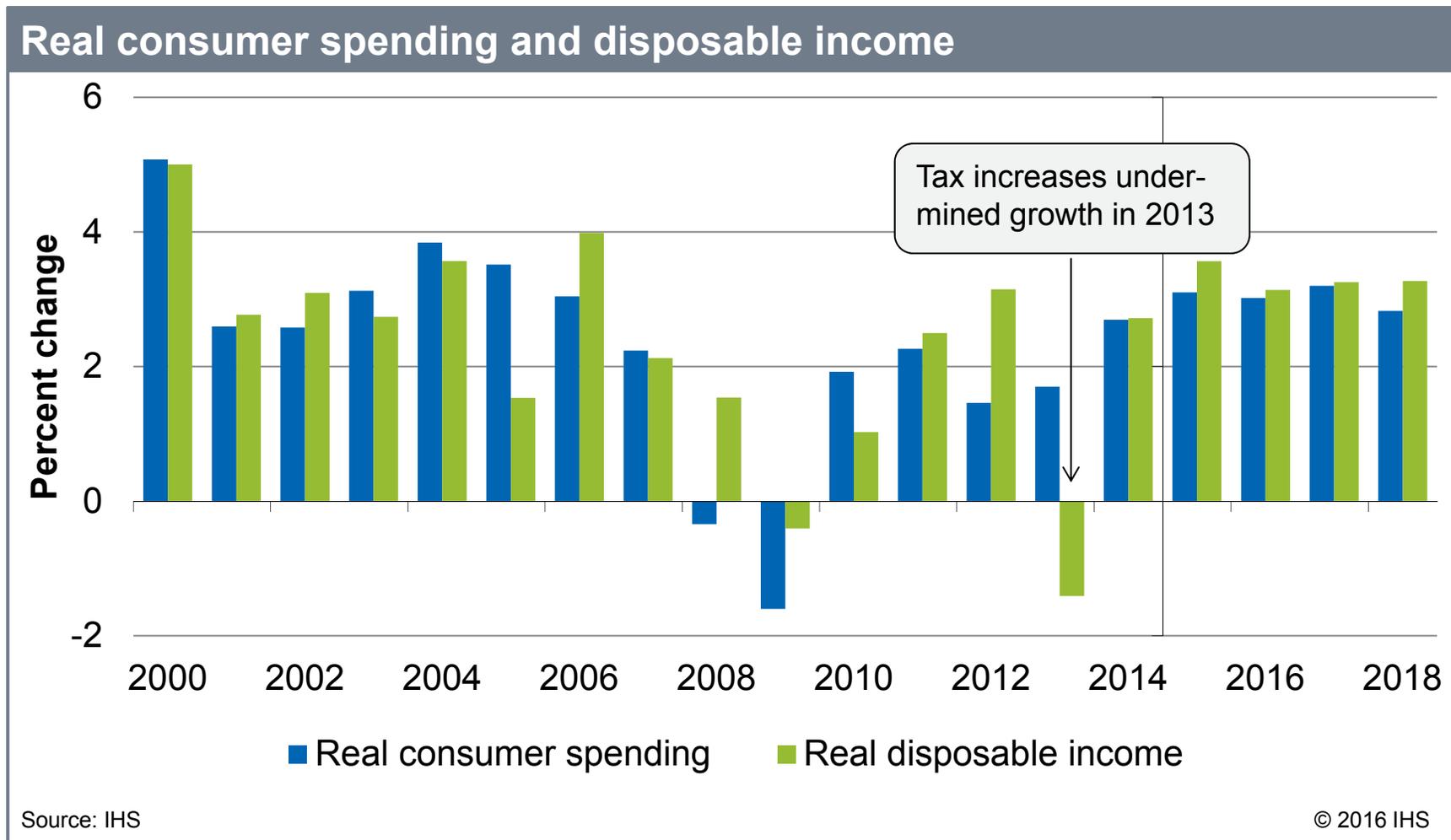
Retail gasoline price and annualized spending on motor fuels



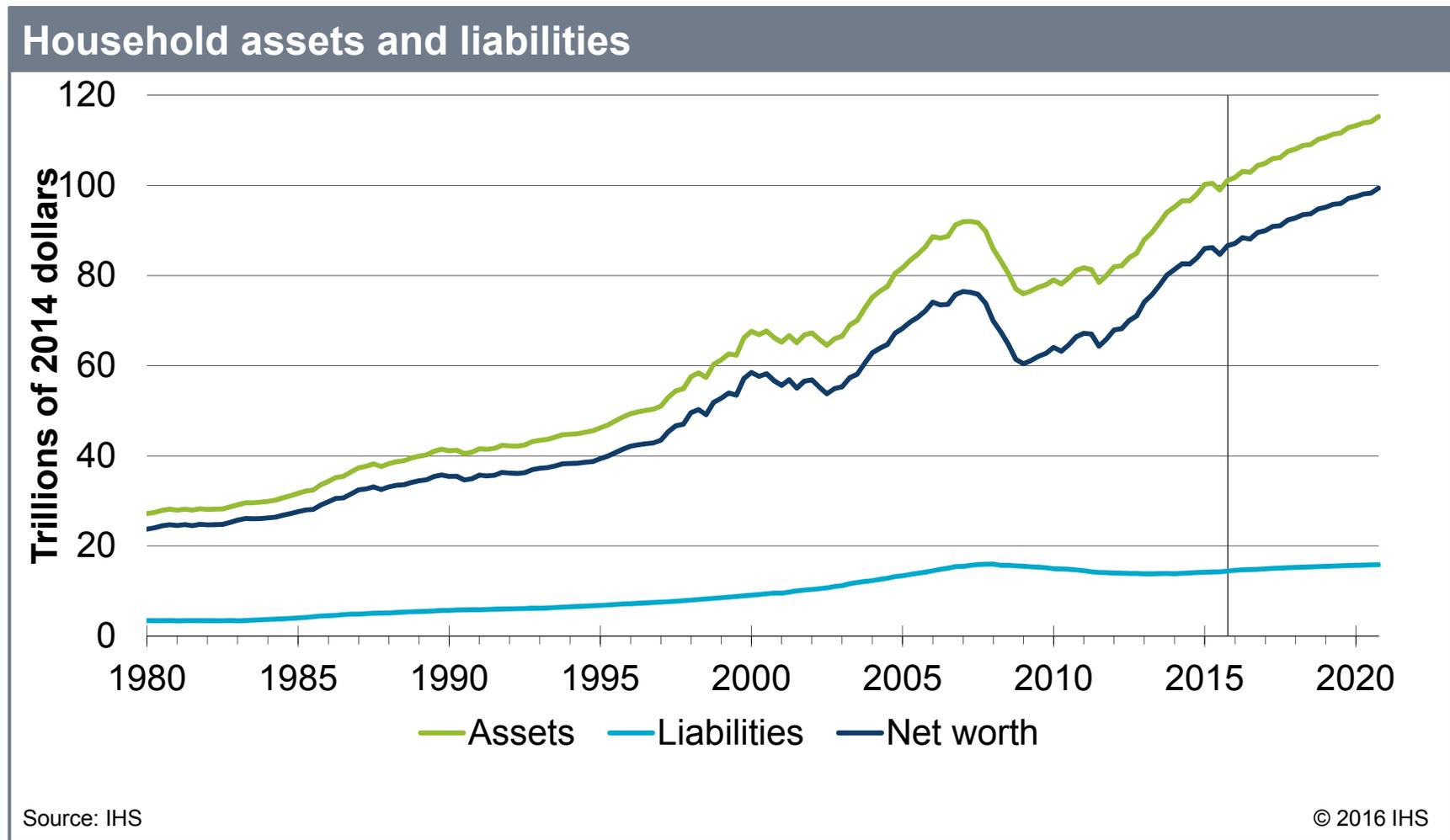
Source: IHS

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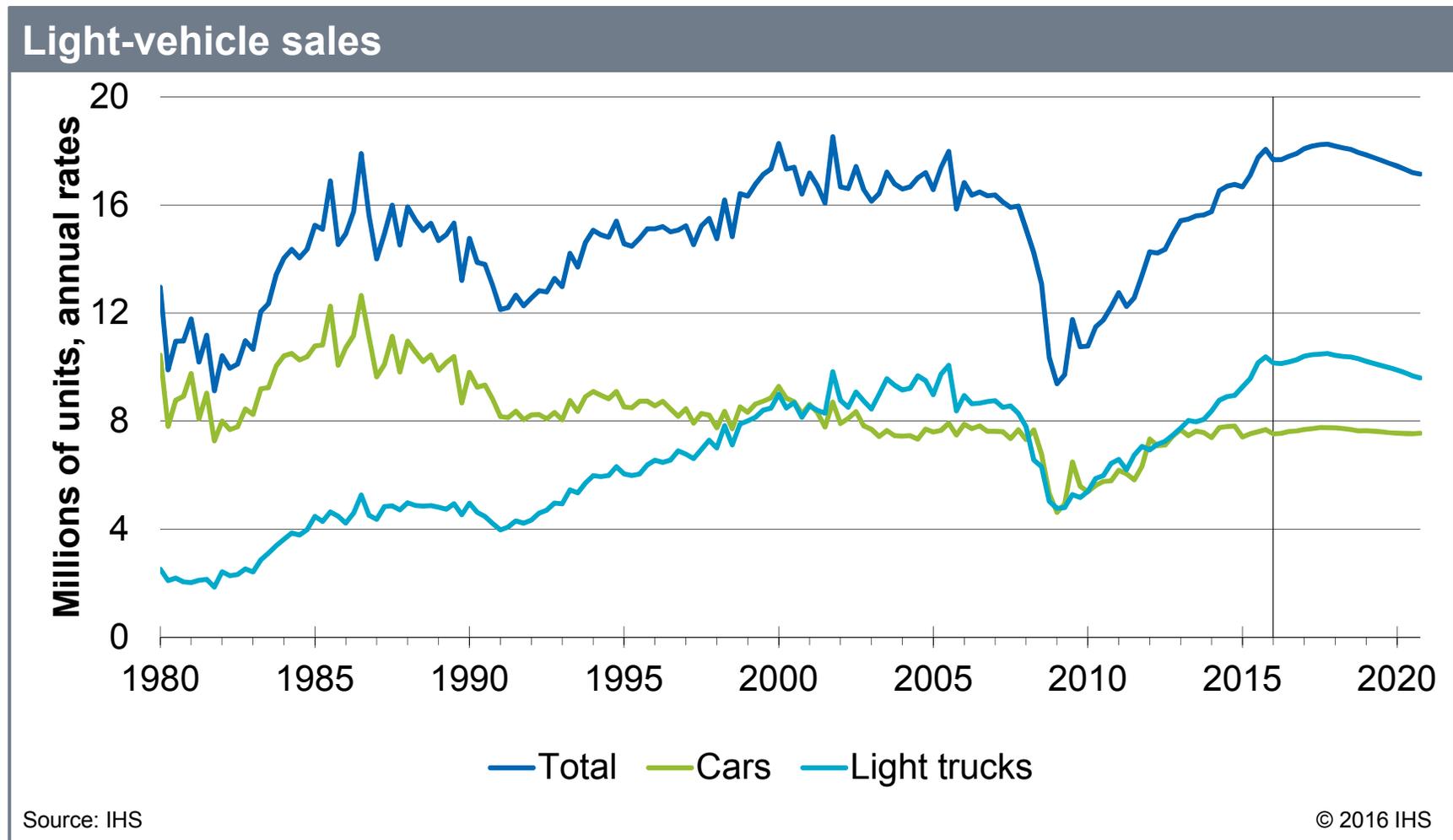
# Consumer spending will be supported by solid growth in real disposable income



# Real household net worth has reached a new high

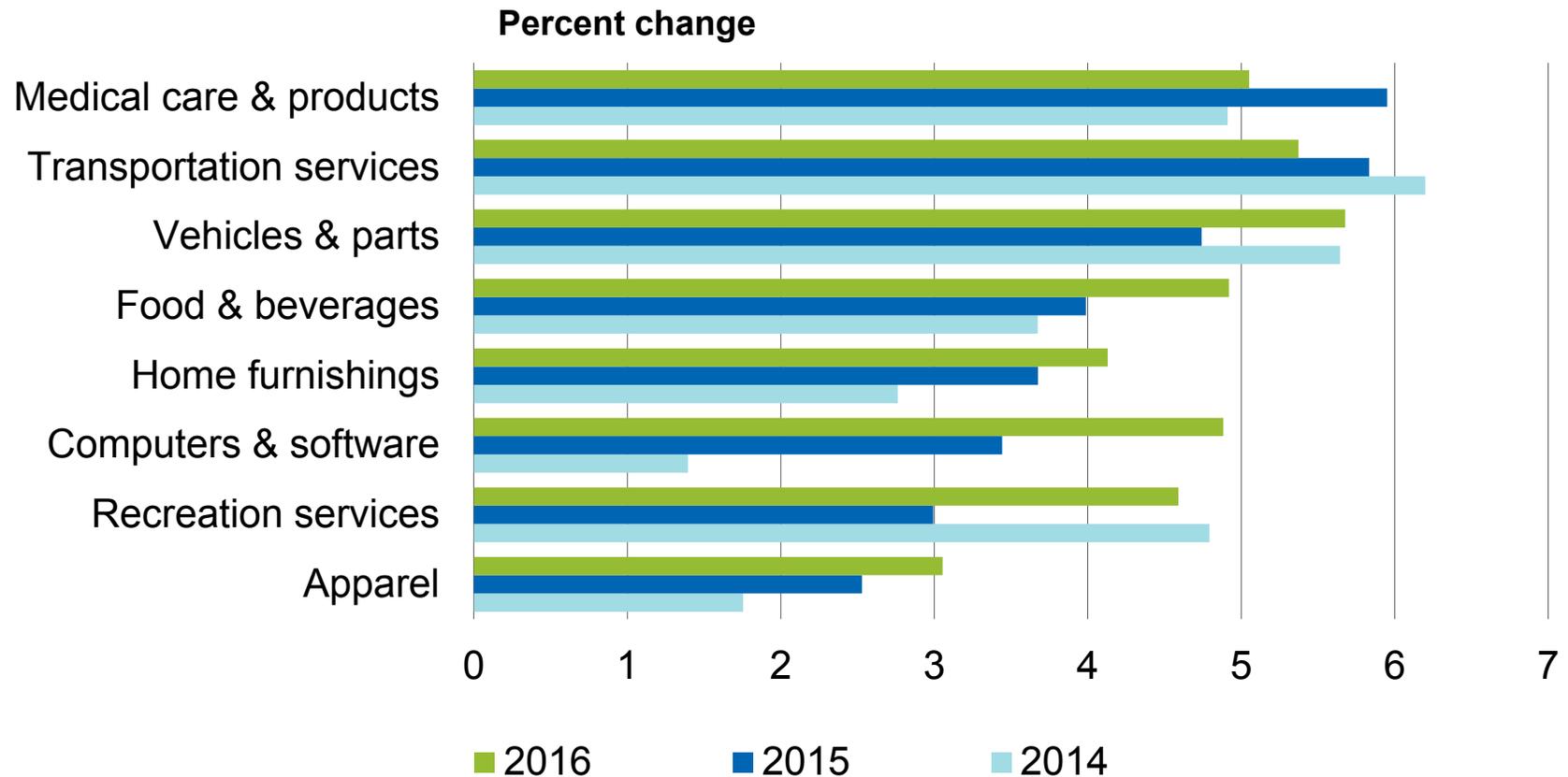


# Light-vehicle sales will peak in 2017; low gasoline prices boost demand for light trucks



# The consumer spending expansion is broadening

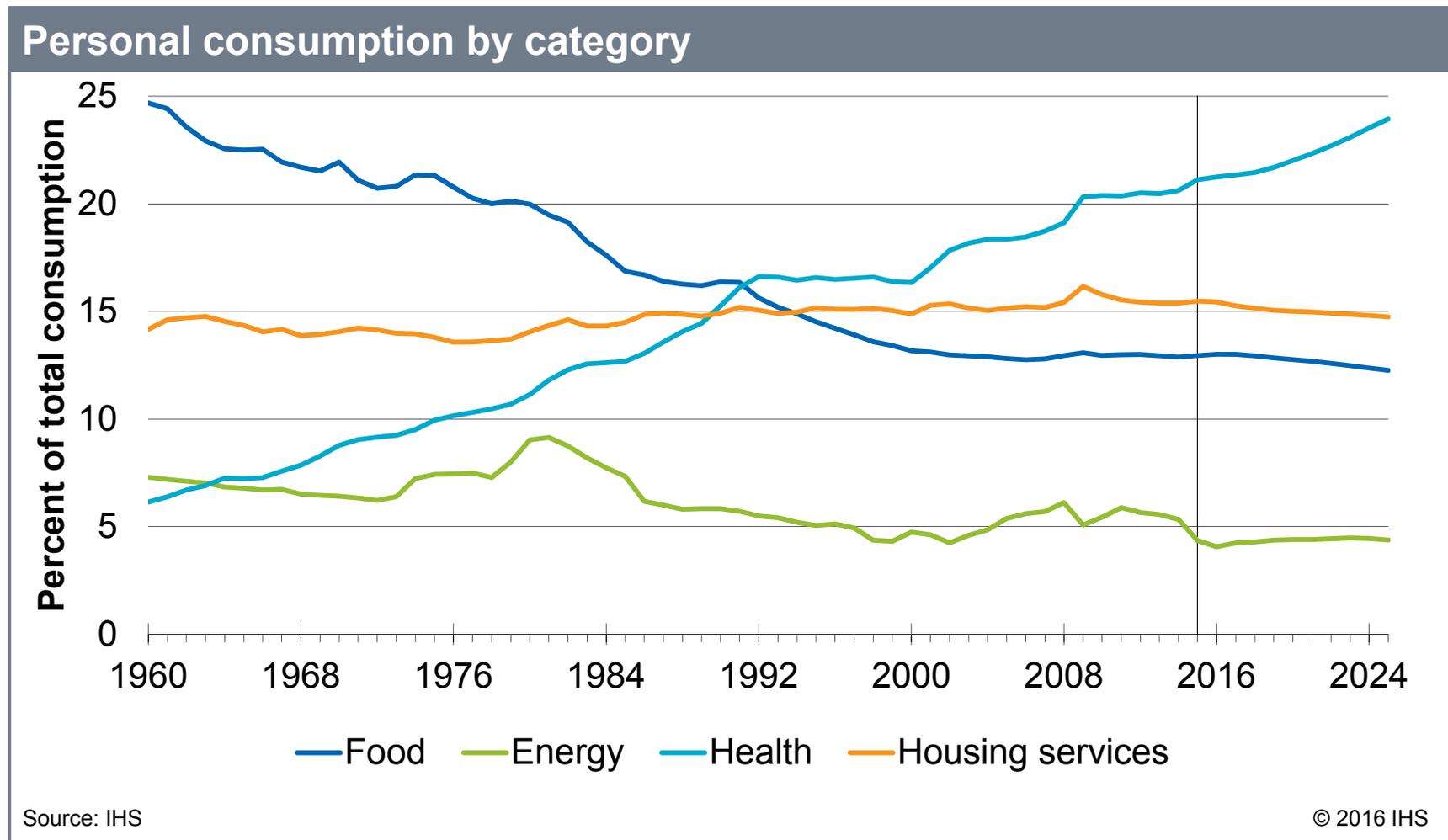
## Nominal consumer spending



Source: IHS

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# Healthcare will take a rising share of personal consumption expenditures in the decade ahead

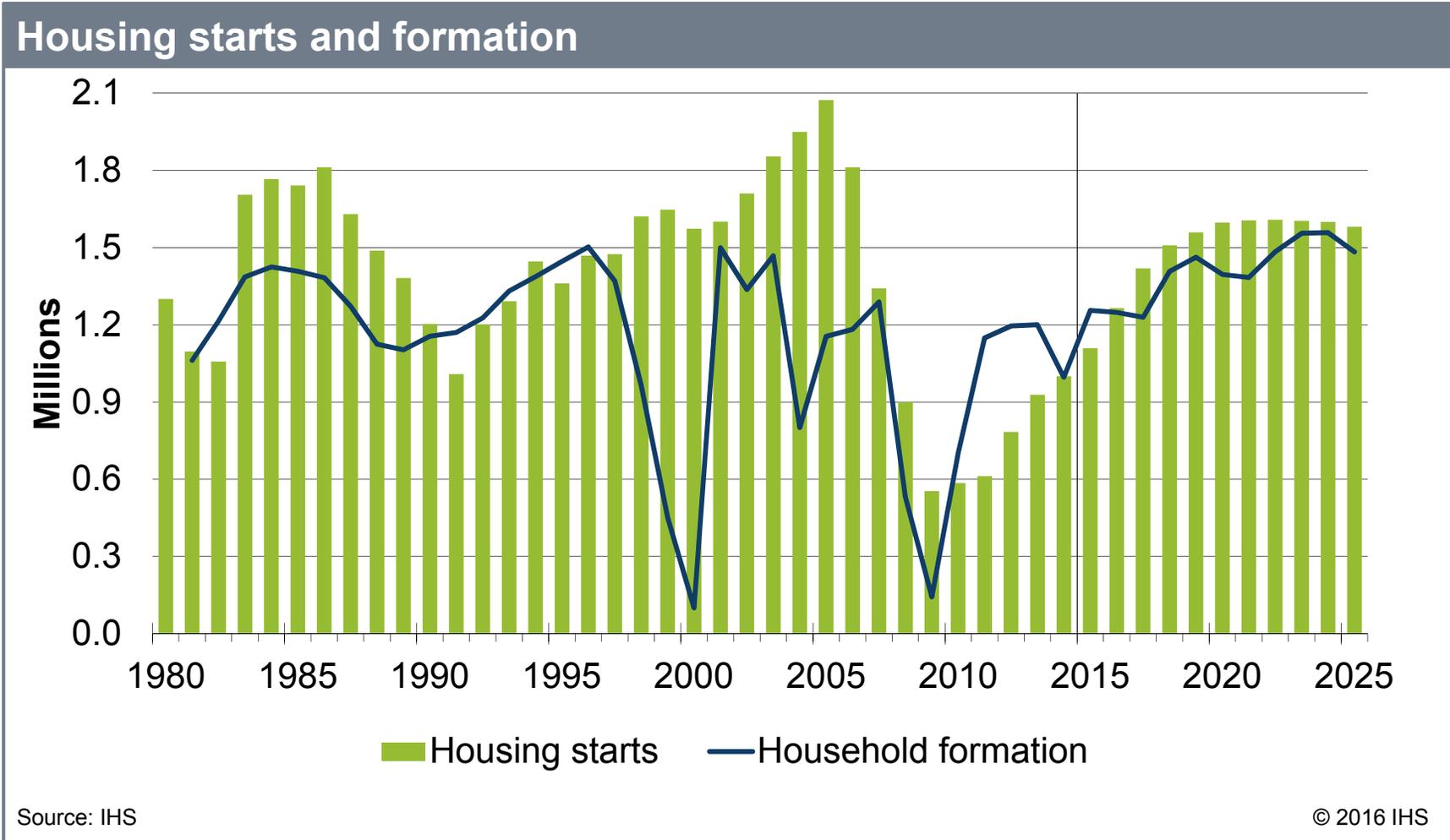


## The recovery in housing markets is gaining momentum

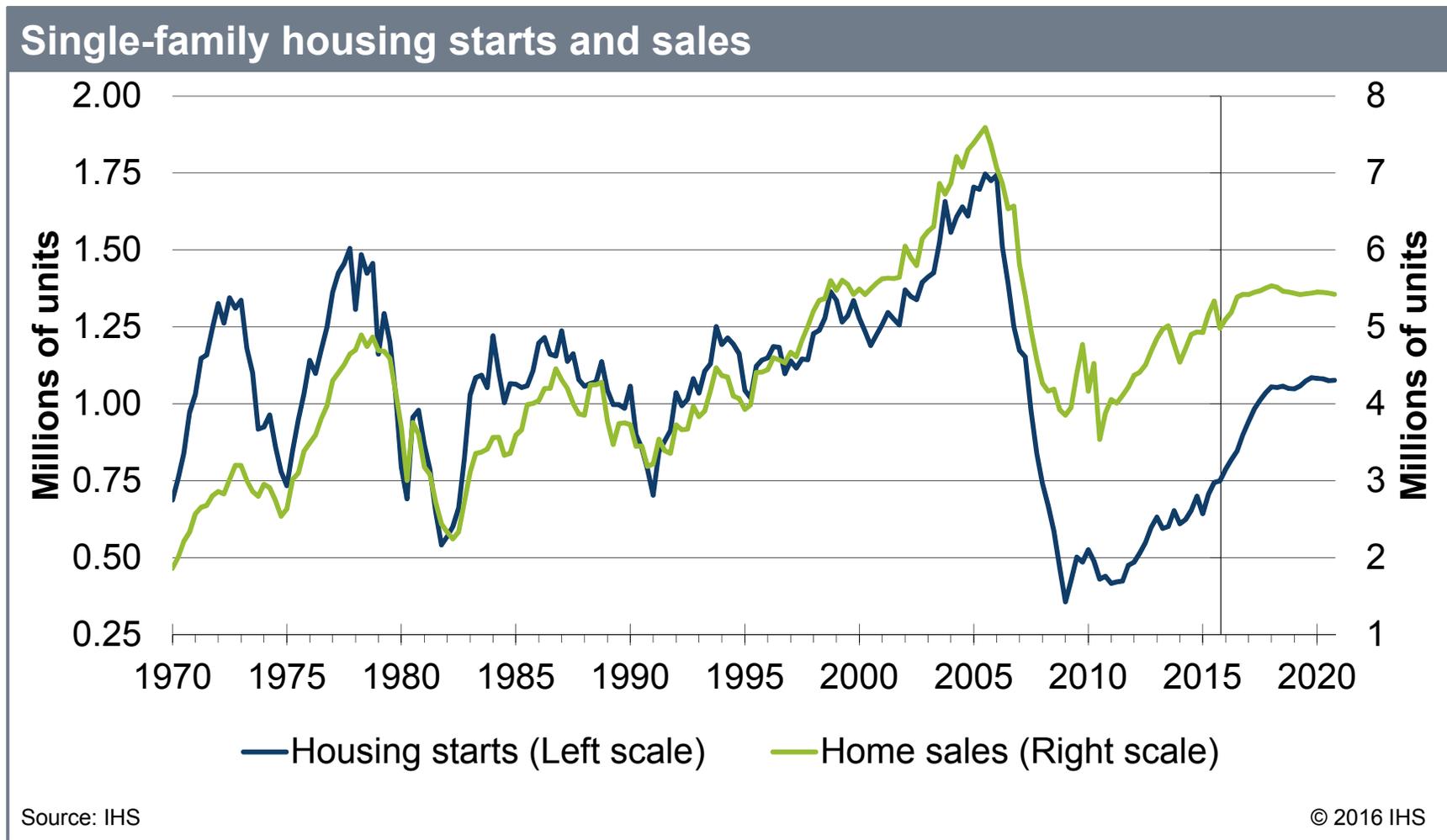
- Sustained job growth will support increases in housing demand.
- Credit availability is improving for home buyers and builders.
- Supplies of new and existing homes are tight, driving up prices.
- Multifamily units will account for about one-third of housing starts.
- Young adults have postponed homeownership, resulting in pent-up demand.
- Sales to first-time buyers are rising rapidly.
- Baby boomers are starting to downsize.



# A recovery in household formation will support further gains in housing starts



# Single-family home sales and construction are not expected to regain 2005 peaks



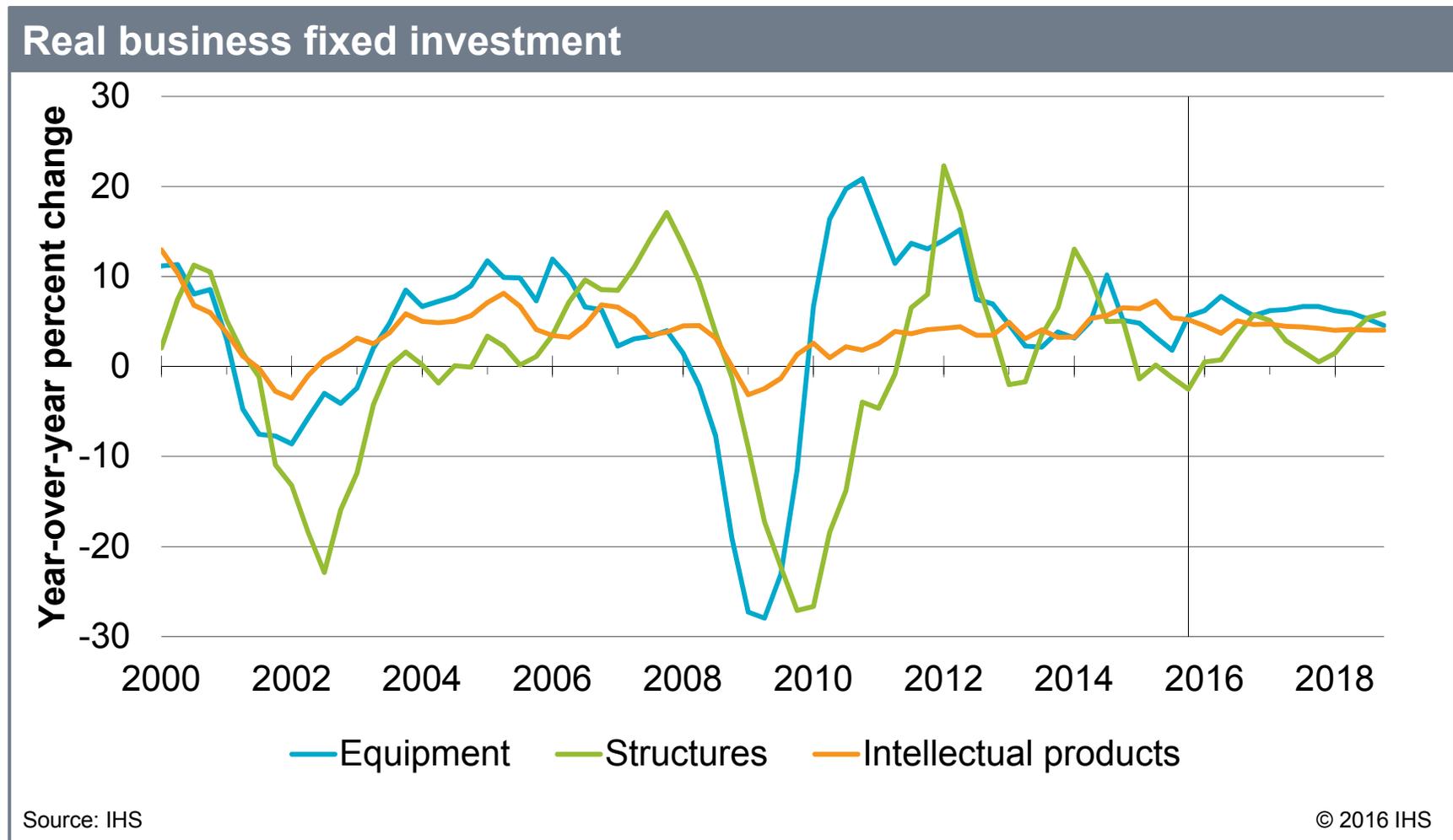
## Nonresidential fixed investment has slowed

- Most companies are investing at steady rates
- However, companies exposed to foreign competition (manufacturing), low oil and gas prices, and falling agricultural prices have cut capital spending sharply
  - Agricultural machinery is down 48% year-over-year, due to falling agricultural prices
  - Mining and oilfield machinery equipment is down 48% year-over-year—blame low oil prices
  - Railroad equipment is down 56% year-over-year
  - Special industrial machinery is down 20% year-over-year, thanks to the strong dollar
  - Mine and well structures are down 44% year-over-year

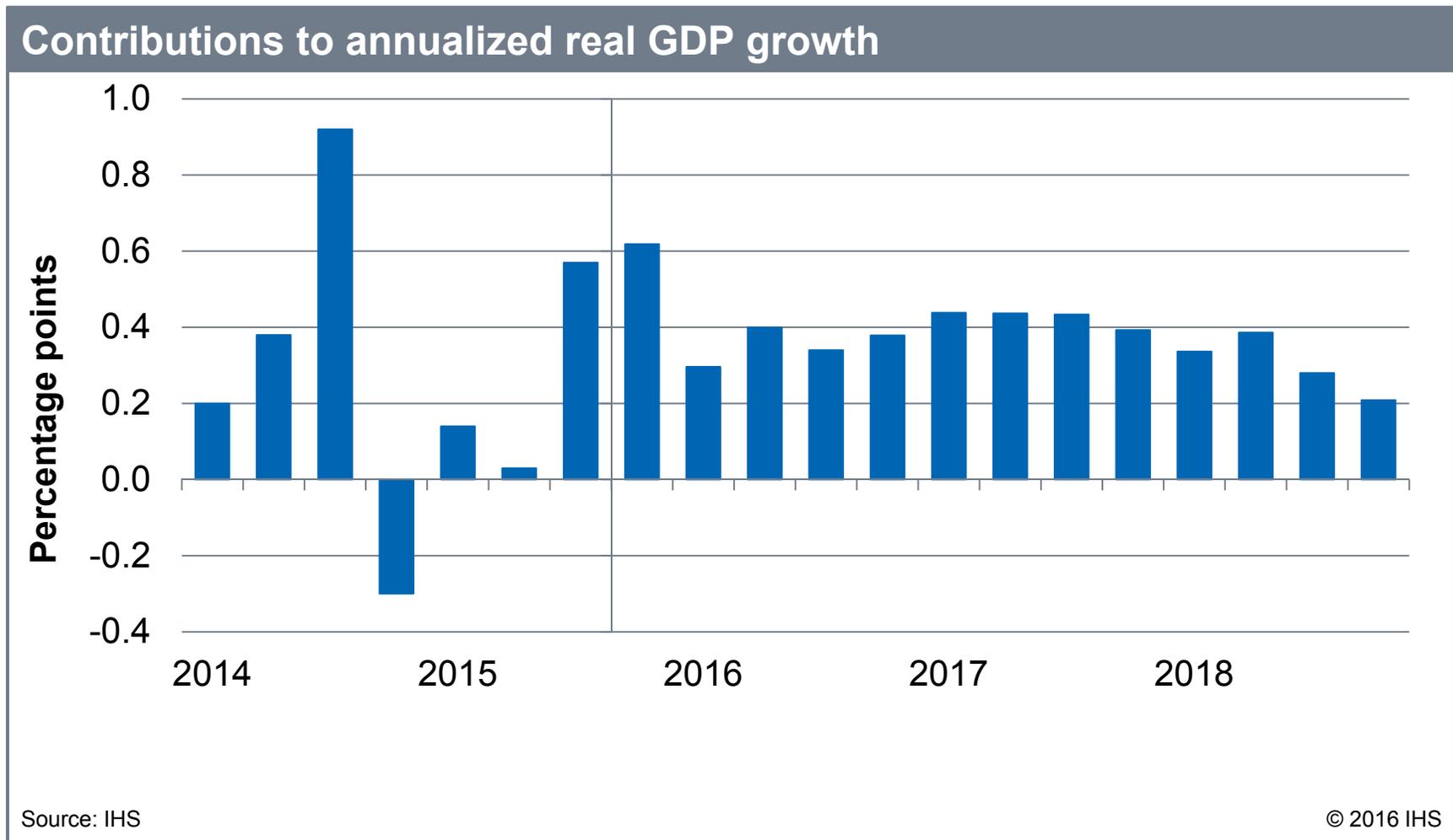
# Core capital goods orders and shipments remain weak



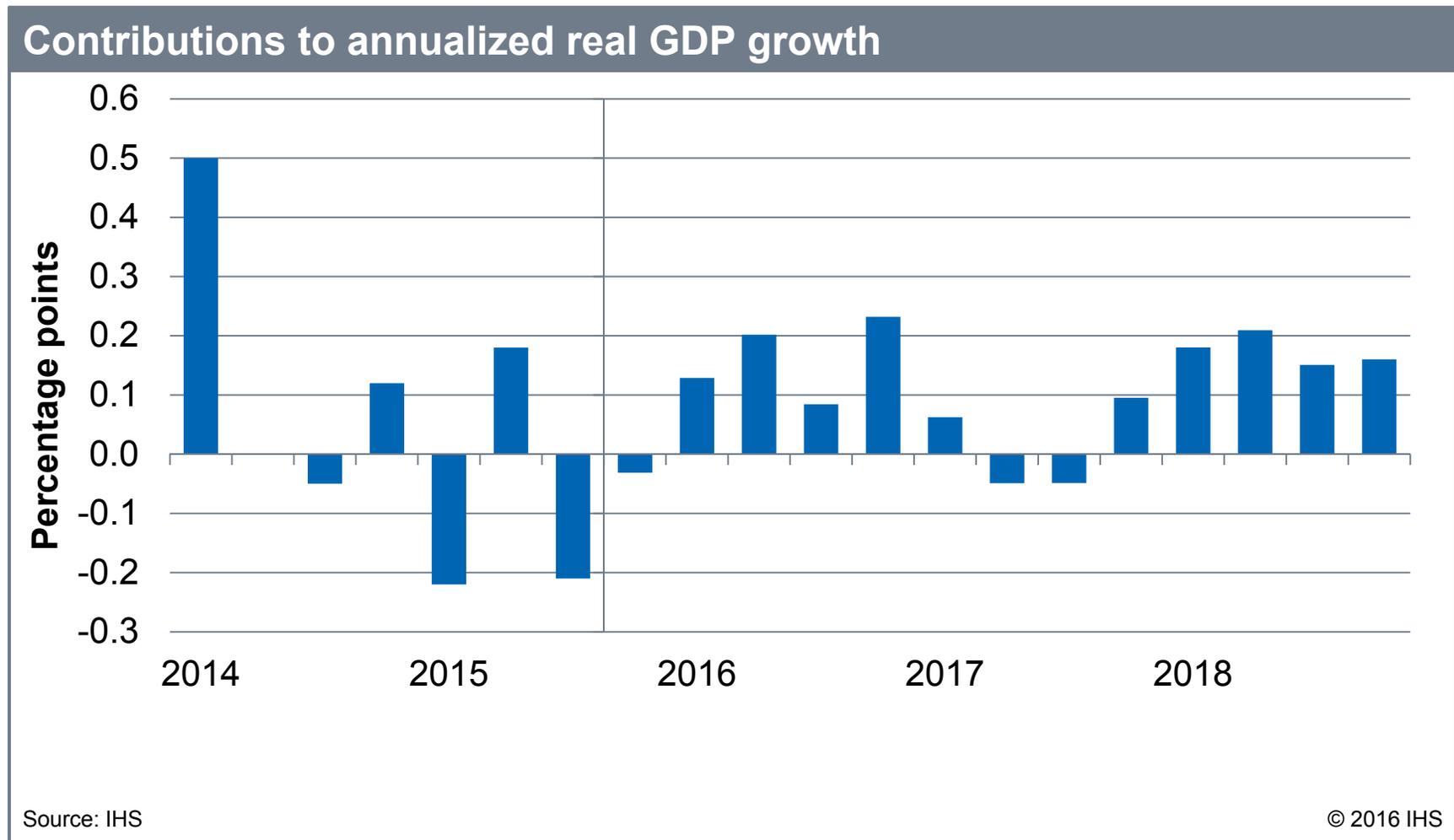
## Business fixed investment growth is held back by the plunge in spending on mining and petroleum structures



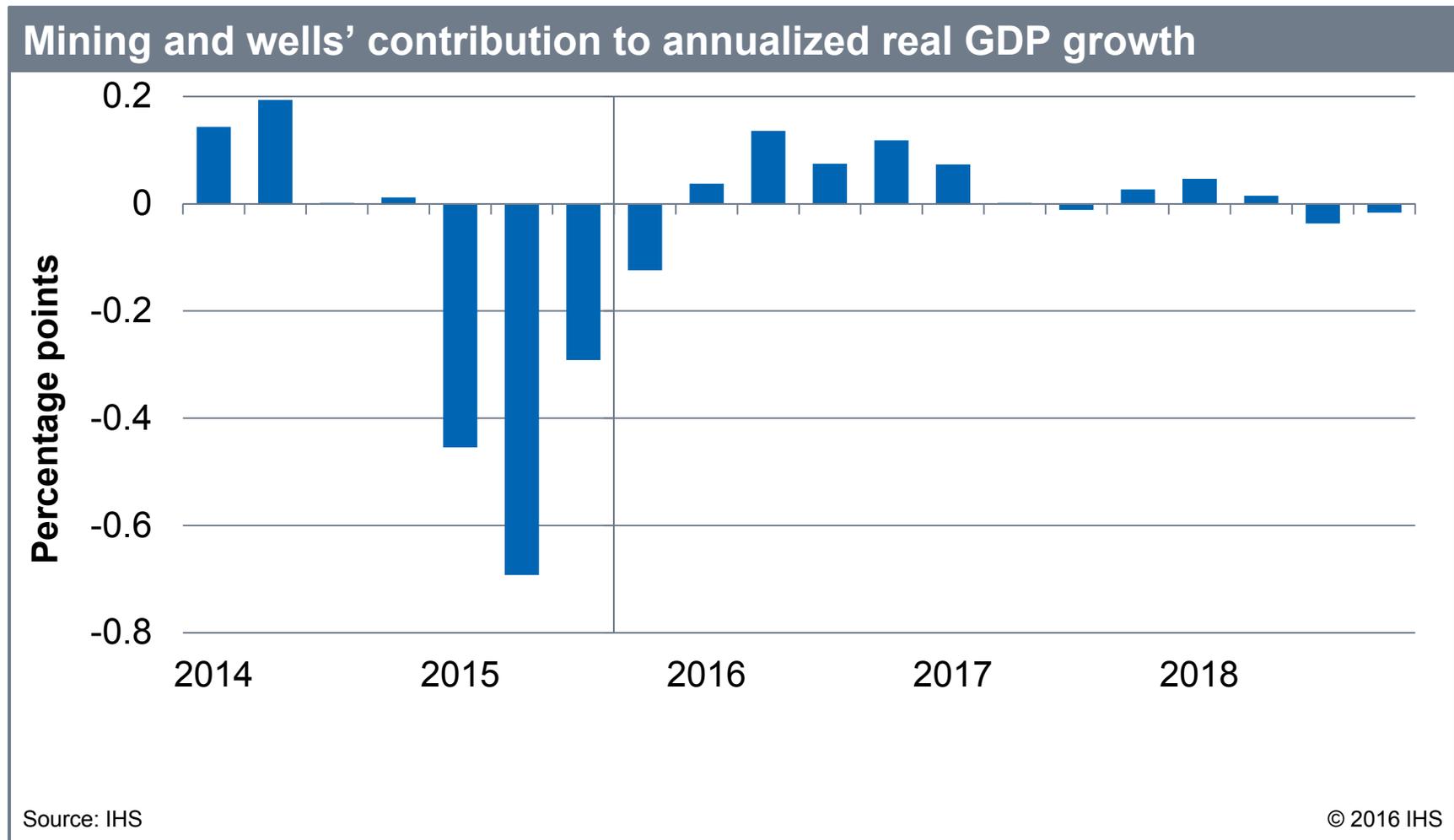
# Business equipment investment spending will pick up



# Building structures: A small plus for growth



## Drilling for oil will edge up as oil prices rise



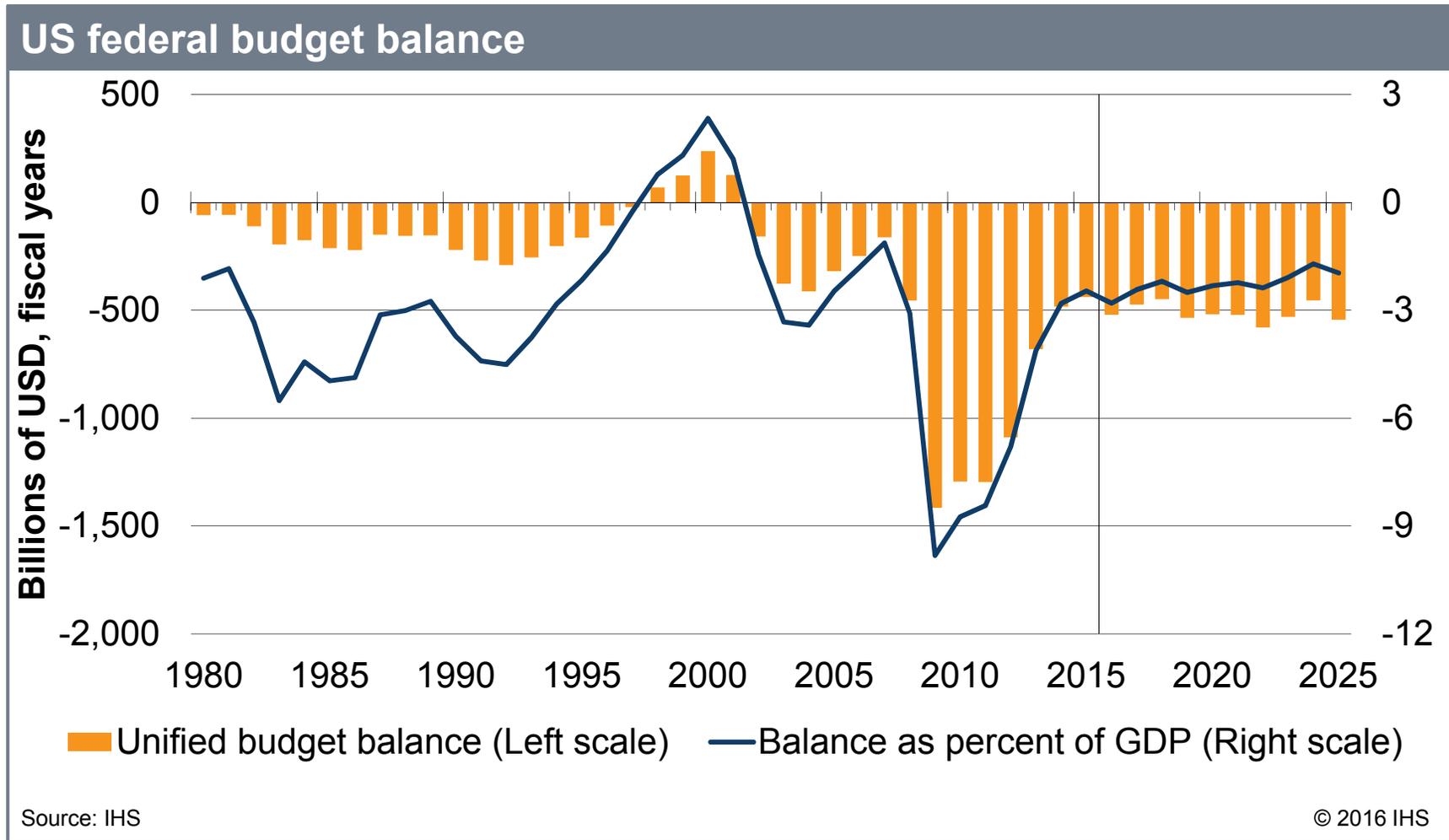
## US real construction growth by sector

Real investment in structures				
Percent change	2014	2015	2016	2017
Total construction	4.7	3.9	6.4	6.6
Residential	1.7	8.7	9.6	9.7
Commercial	19.3	12.3	8.3	11.0
Manufacturing	11.2	49.9	9.7	-16.9
Mines & wells	6.5	-34.7	-20.1	17.3
Healthcare	-7.6	15.0	5.3	7.0
Public utilities	6.2	-9.9	2.5	-5.0
Highways & streets	2.4	6.3	7.6	0.4
Public education	-1.7	5.9	5.3	2.1

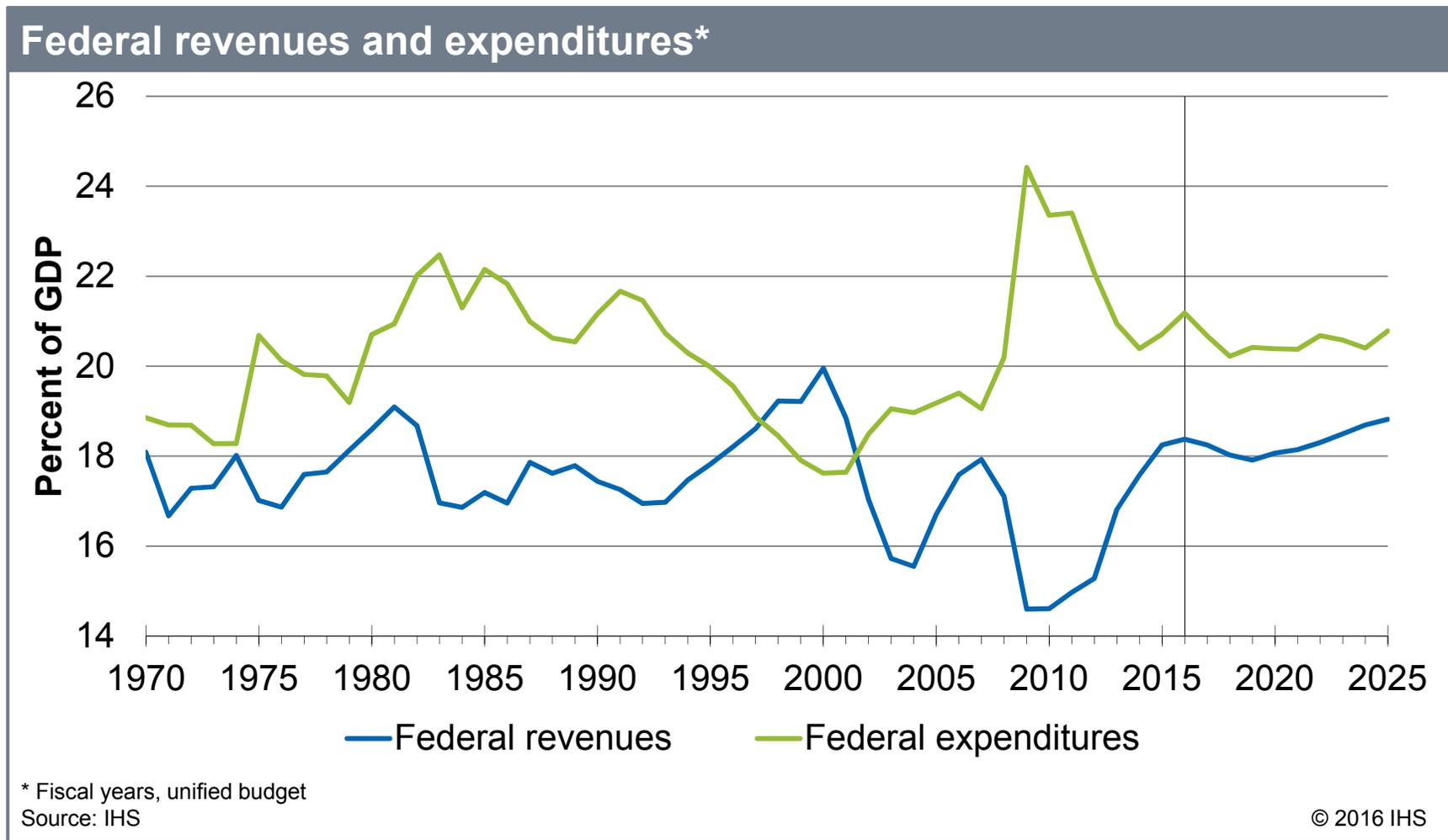
## The Bipartisan Budget Act of 2016 and other legislation bring clarity to federal fiscal policy

- The federal debt ceiling is suspended through March 2017 and the federal government is funded through September 2017.
- In December, Congress enacted appropriations and tax legislation.
  - A \$1.1-billion omnibus spending bill specifies fiscal 2016 expenditures, as well as a five-year highway funding bill.
  - Numerous temporary tax credits are made permanent, including the R&D tax credit, child tax credit, and earned income tax credit.
  - Some taxes enacted under Obamacare are delayed, including the excise tax on medical equipment sales and the tax on higher-premium employer-provided health insurance (postponed to 2020).
- The Export-Import Bank is reauthorized.
- Budget actions will add 0.2 percentage point to 2016 real GDP growth.

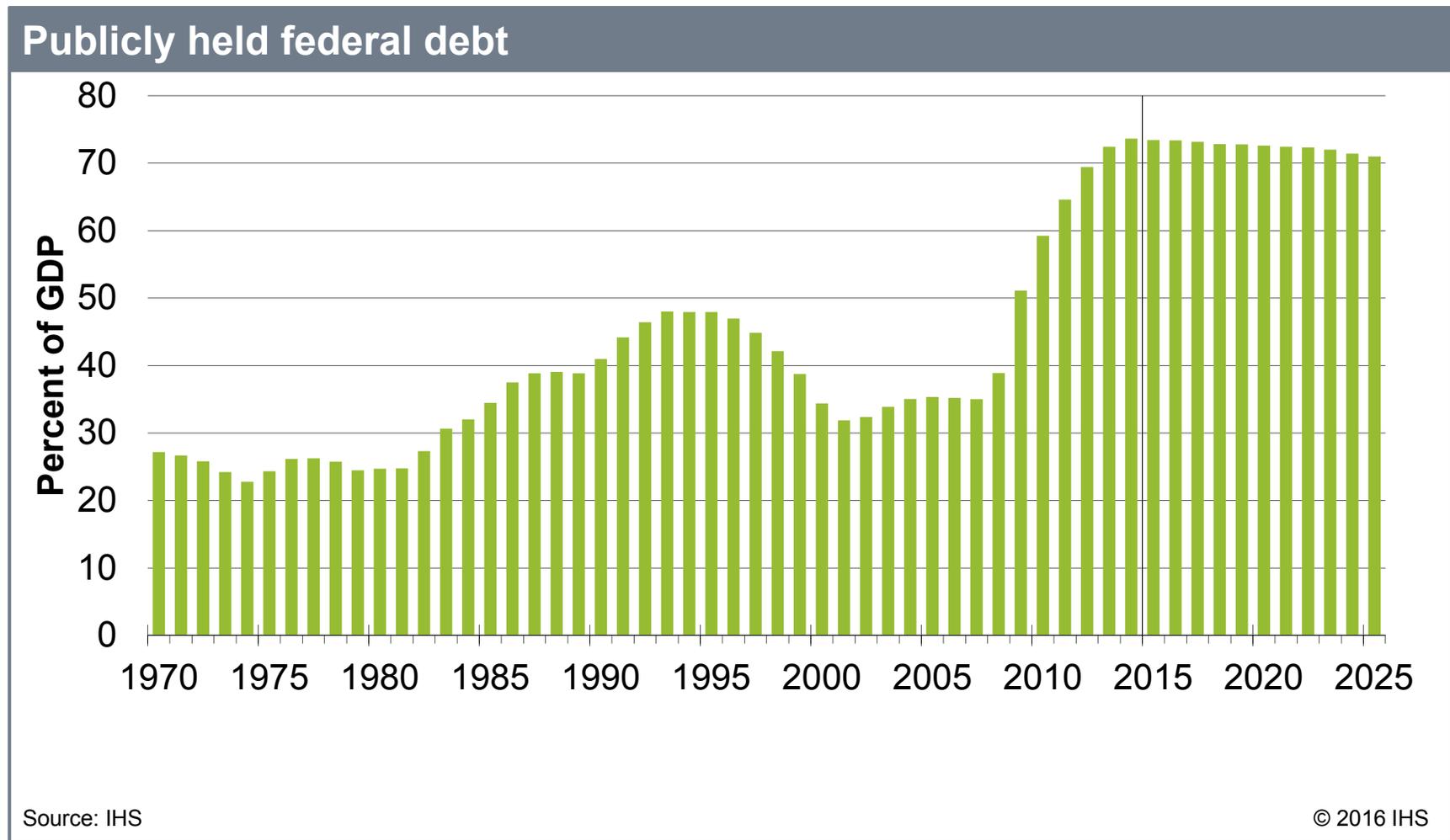
# The US federal budget will remain in deficit



# The gap between federal expenditures and revenues will stay in the 2–3% range of GDP



# Federal government debt remains high relative to GDP

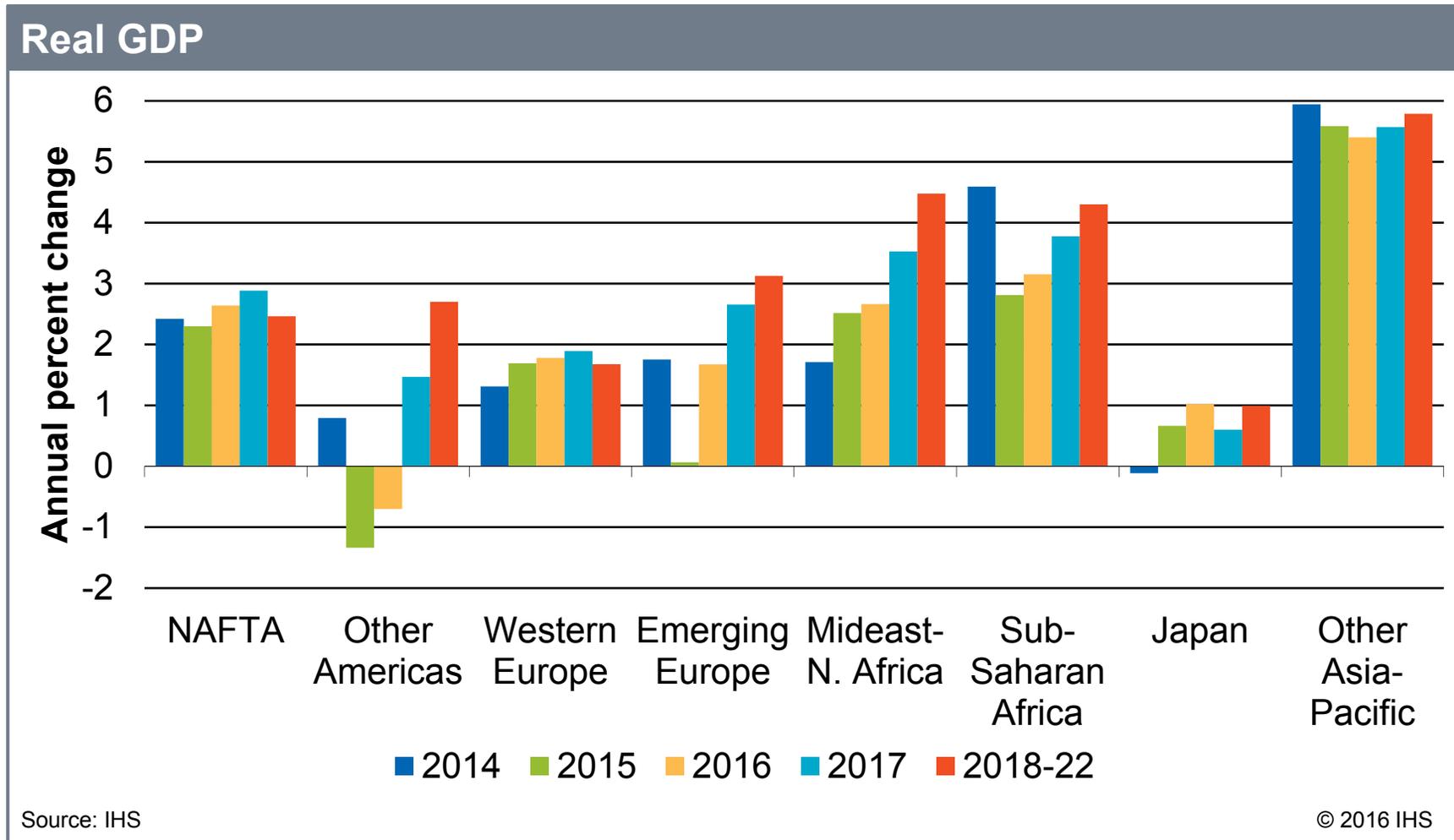


## A gradual acceleration in the global economy

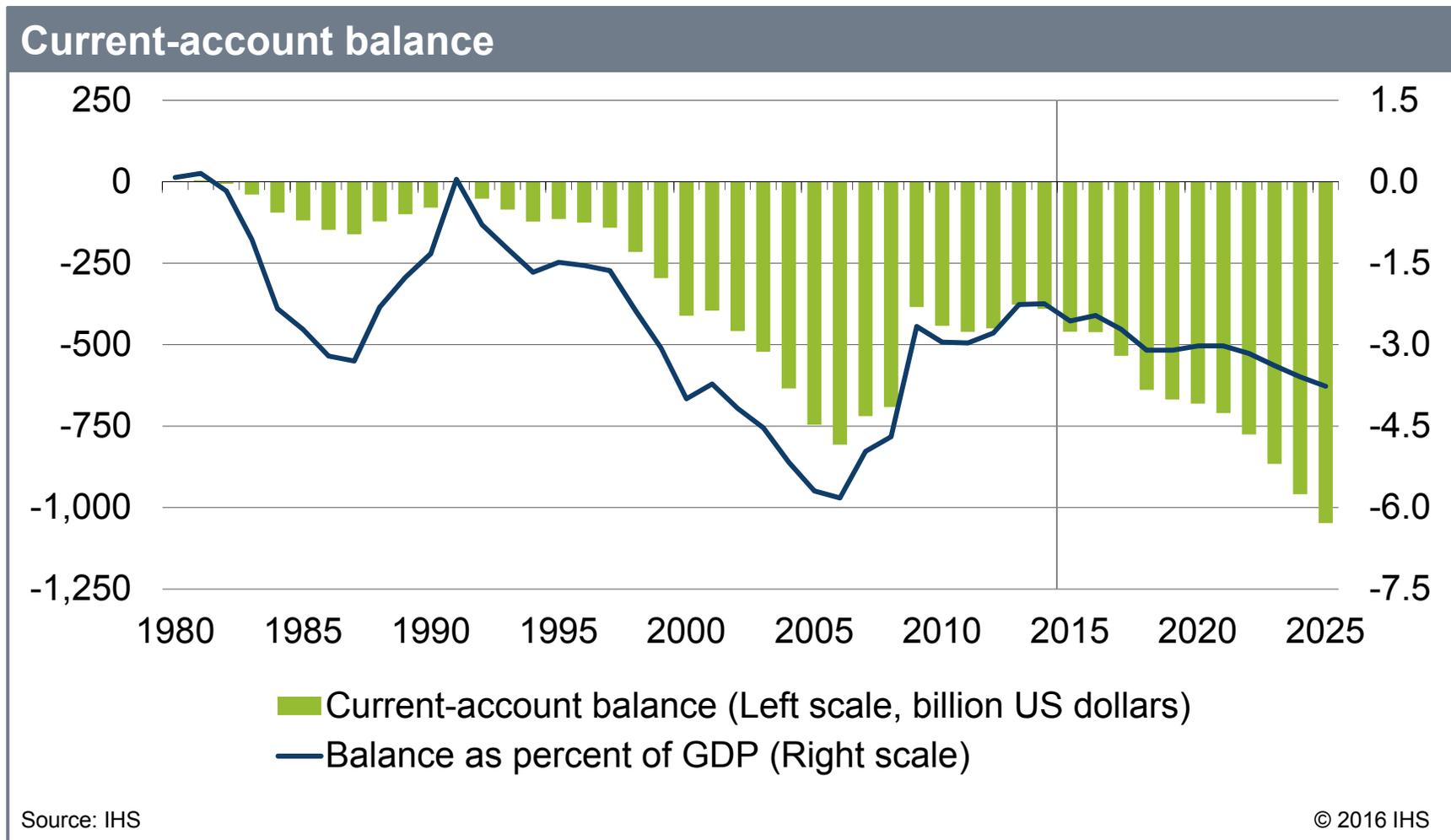
- The world economy remains in low gear; only a modest pickup in growth is expected in 2016.
- Eurozone growth will improve slightly, aided by monetary stimulus, currency depreciation, and pent-up demand.
- China's economic growth will slow further in 2016 because of imbalances in credit, housing, and industrial markets.
- The plunge in materials prices is restraining growth in the commodity-exporting countries of the Americas, Africa, and Asia-Pacific.
- Prospects for emerging markets depend on structural reforms that raise productivity and allocate capital more efficiently.



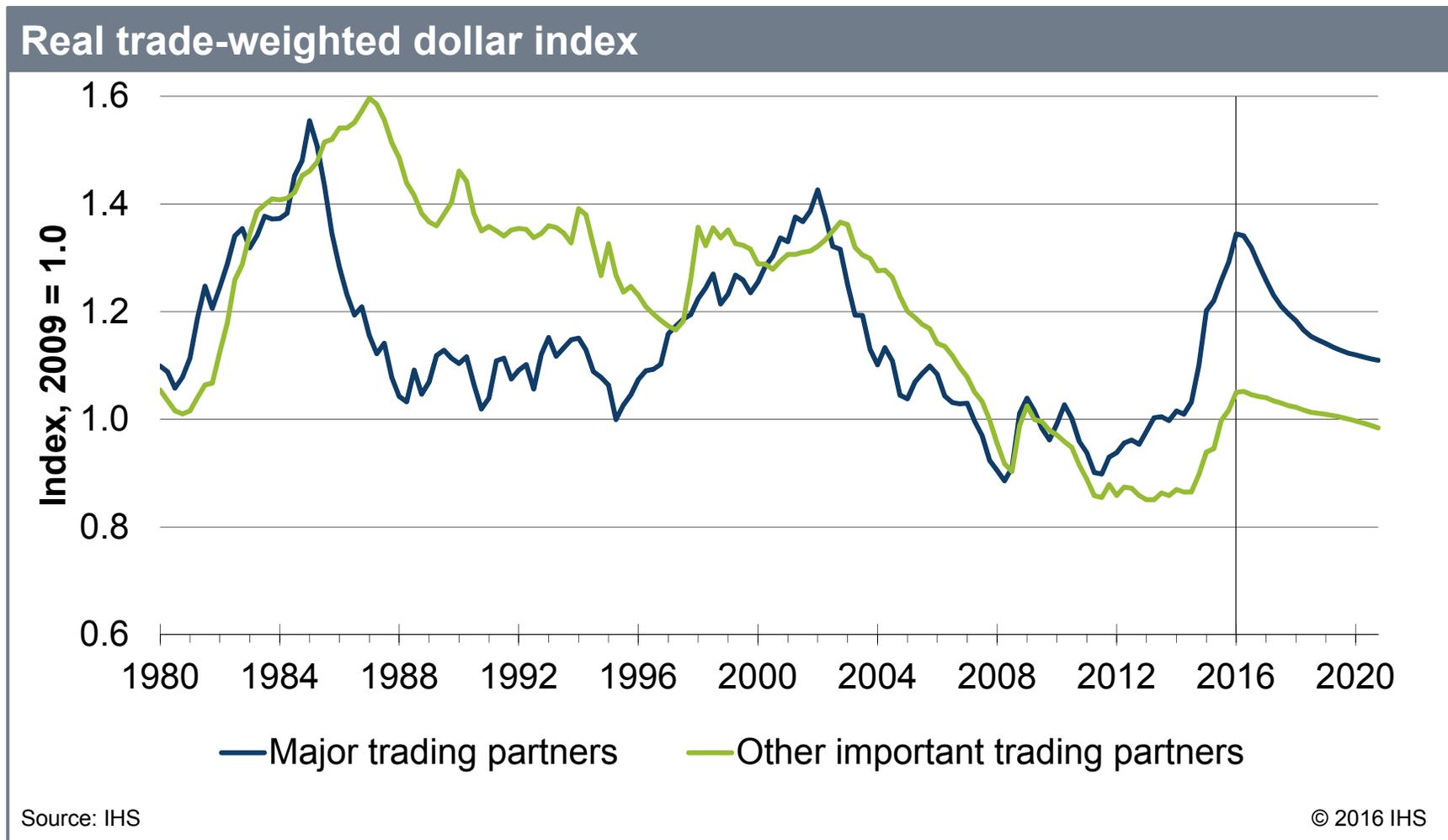
# Asia-Pacific (excluding Japan) will achieve the fastest growth in real GDP



# The US current account will remain in deficit



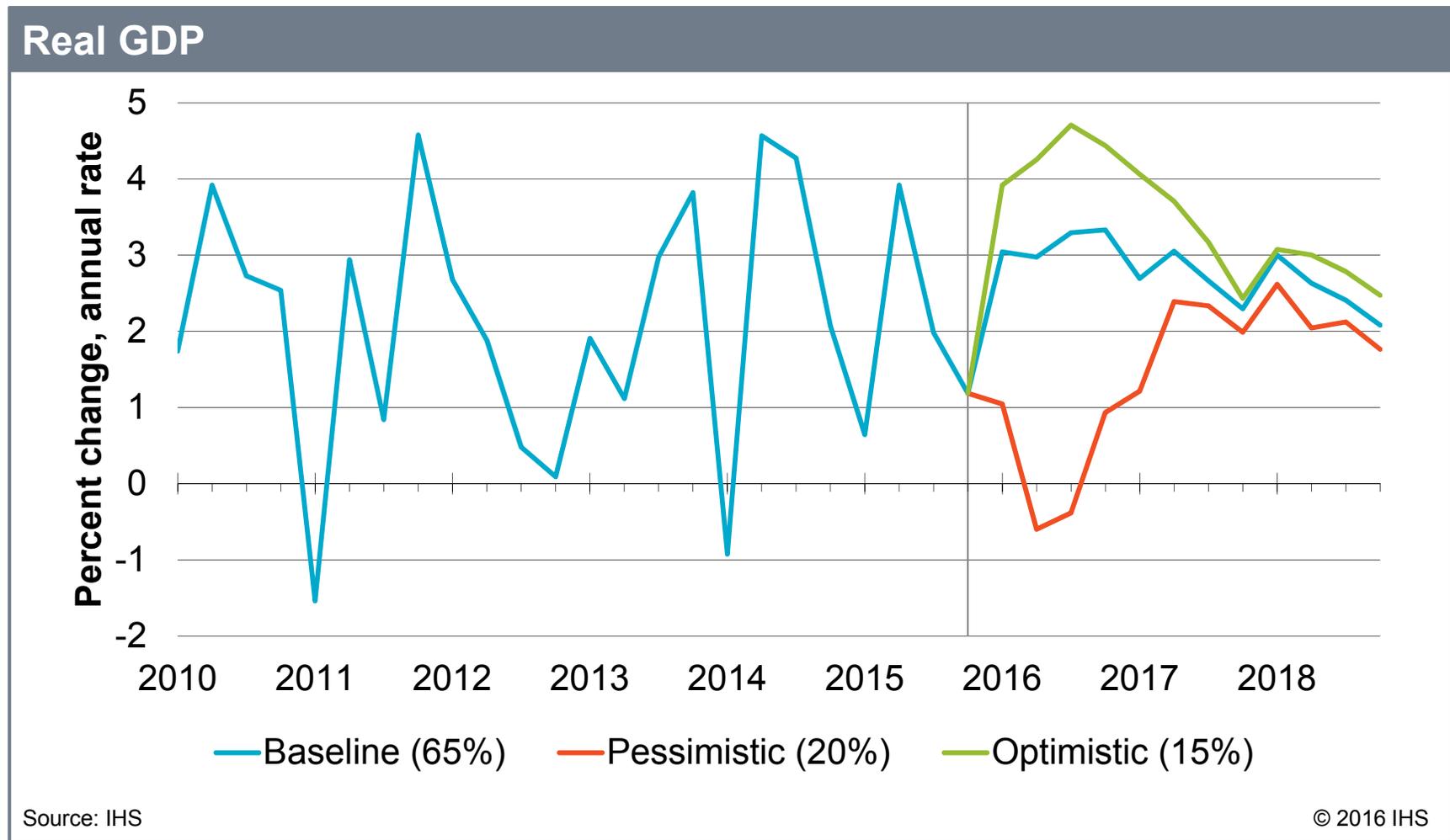
# A widening trade deficit will contribute to a retreat in the dollar's real exchange value in 2017–20



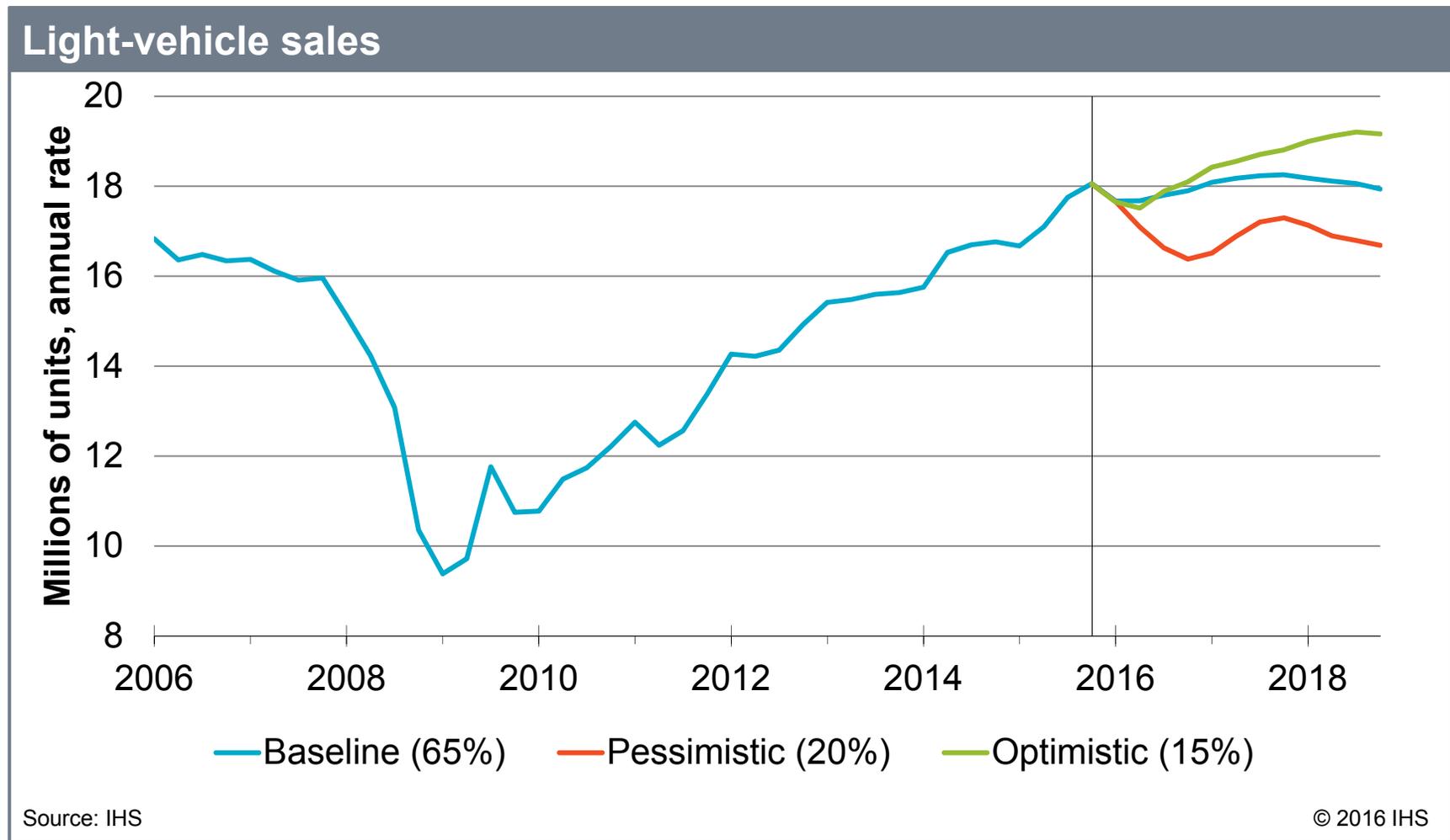
## Risks to the US forecast

Scenario	Characteristics
<b>Mild recession</b> (Probability = 20%)	<ul style="list-style-type: none"> <li>• Weaker global growth and a stronger dollar hurt exports.</li> <li>• A stock market plunge undermines consumer confidence.</li> <li>• Businesses reduce hiring and investment in structures.</li> <li>• As a result, the US experiences a mild recession in the second and third quarters of 2016.</li> </ul>
<b>Recovery gains momentum</b> (Probability = 15%)	<ul style="list-style-type: none"> <li>• Productivity accelerates, raising potential GDP growth.</li> <li>• Stronger global economic growth lifts US exports.</li> <li>• Construction surges in response to increased household formation and easing credit standards.</li> <li>• The Fed raises interest rates more quickly in 2016–17.</li> </ul>
<b>Baseline forecast</b> (Probability = 65%)	<ul style="list-style-type: none"> <li>• The Fed gradually raises interest rates in 2016–18.</li> <li>• Housing markets steadily recover over the next five years.</li> <li>• Global economic growth picks up moderately.</li> <li>• The Bipartisan Budget Act of 2016 sets the parameters for federal fiscal policy over the next two years.</li> </ul>

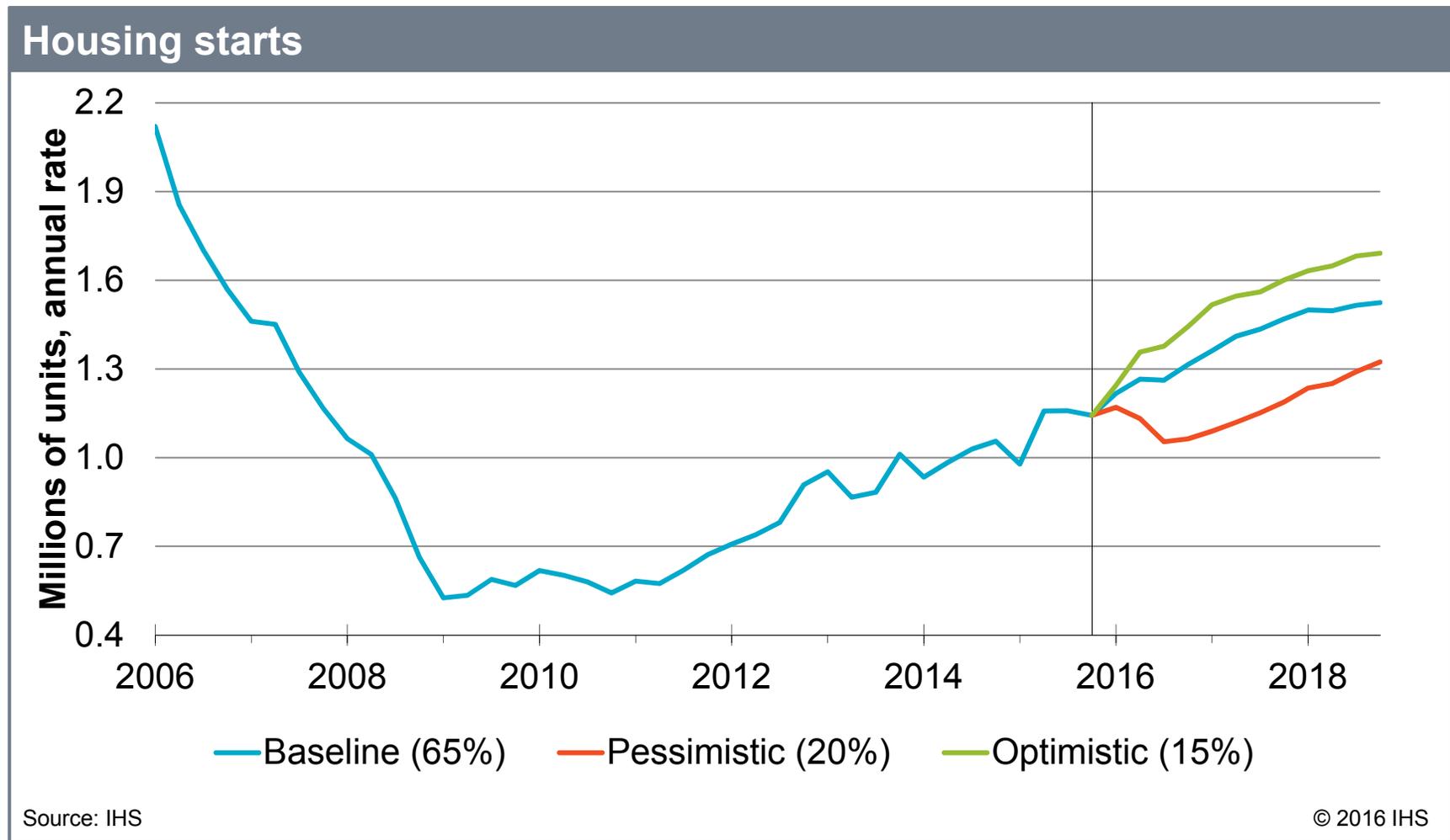
# Real GDP growth in alternative scenarios



# Light-vehicle sales in alternative scenarios



# Housing starts in alternative scenarios



## Bottom line for the US economy

- Consumer spending will be supported by gains in employment, real disposable income, and household net worth.
- Homebuilding will rise as credit availability improves and demand from young adults strengthens.
- Foreign trade will be a drag on US economic growth through 2018, due to a strong dollar and sluggish growth in major export markets.
- Real business fixed investment will post solid gains, led by information technology equipment and commercial structures.
- The Federal Reserve will gradually raise the federal funds rate; it will reach an equilibrium at 3.25% in late 2018.
- Core inflation will edge upward to the central bank's 2% target.
- Forecast risks are weighted to the downside.

# Thank you!

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