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US Outlook

The US Economic Outlook

January 2015

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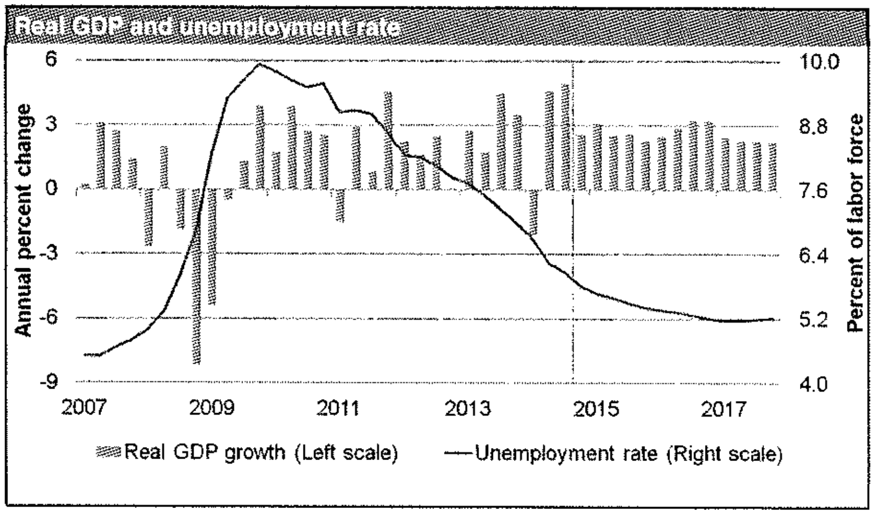
The US economic expansion will continue

- Accelerations in consumer spending and homebuilding, along with continued robust capital spending, will support growth.
- As the largest net importer of crude oil, the US is a beneficiary of lower oil prices, but oil industry investment will be slashed in 2015.
- Consumers will boost spending in response to declining gasoline prices and gains in employment, real disposable income, and net worth.
- The recovery in homebuilding will gain momentum as labor markets improve and credit standards ease.
- Interest rates will rise significantly over the next three years as monetary accommodation is withdrawn.

US real GDP growth and the unemployment rate



US economic growth by sector

Real GDP and its components

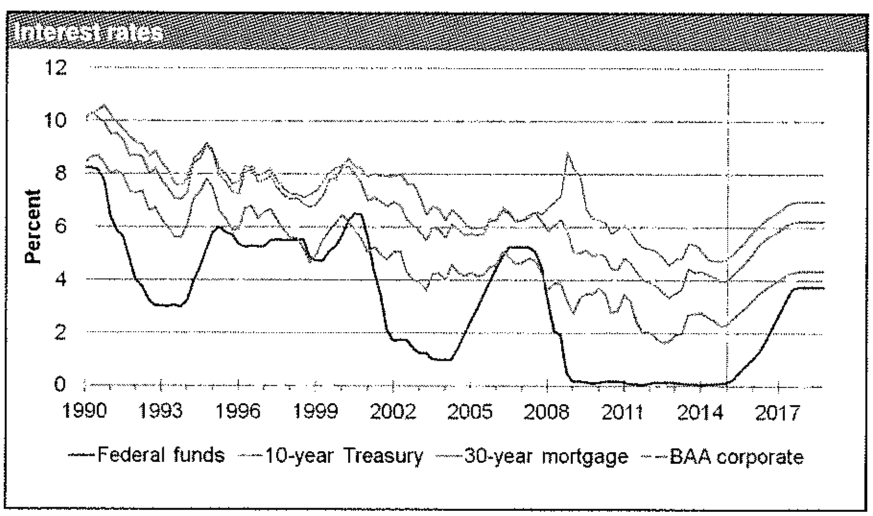
Percent change	2014	2015	2016	2017
Real GDP	2.4	3.1	2.7	2.7
Consumption	2.5	3.4	3.0	2.9
Residential investment	1.6	11.1	11.3	7.9
Business fixed investment	6.3	4.8	5.4	5.6
Federal government	-2.0	-0.3	-0.4	-0.7
State & local government	0.9	1.2	0.9	1.0
Exports	3.2	3.9	3.3	3.8
Imports	3.8	5.3	5.6	5.3

Other key US indicators

Key indicators

Percent change	2014	2015	2016	2017
Industrial production	4.3	3.4	3.7	3.0
Payroll employment	1.8	2.0	1.8	1.2
Light-vehicle sales (Millions)	16.4	16.9	17.2	17.5
Housing starts (Millions)	0.99	1.16	1.35	1.50
Consumer Price Index	1.6	0.1	2.3	2.4
Core CPI	1.8	2.0	2.1	2.1
Brent crude oil price ($/barrel)	100	64	75	84
Federal funds rate (%)	0.1	0.4	1.6	3.3
10-year Treasury yield (%)	2.5	2.7	3.6	4.2

Interest rates will rise from exceptionally low levels



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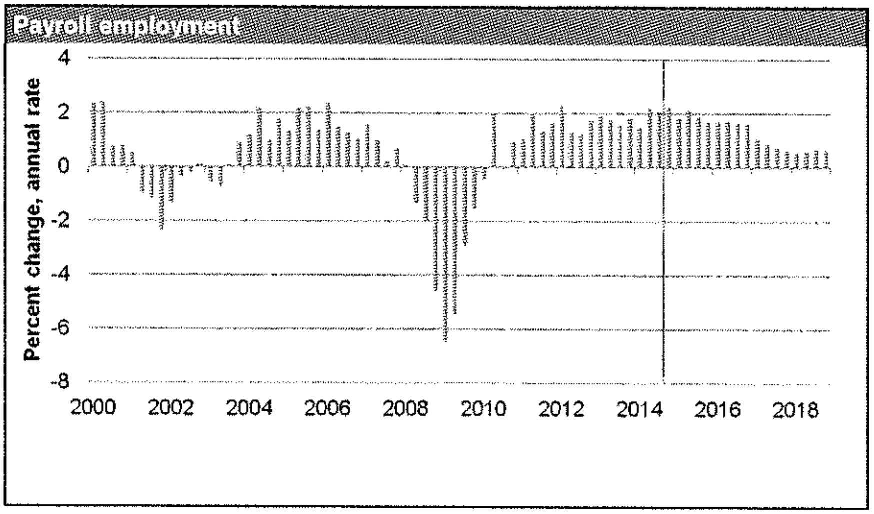
US employment growth will decelerate



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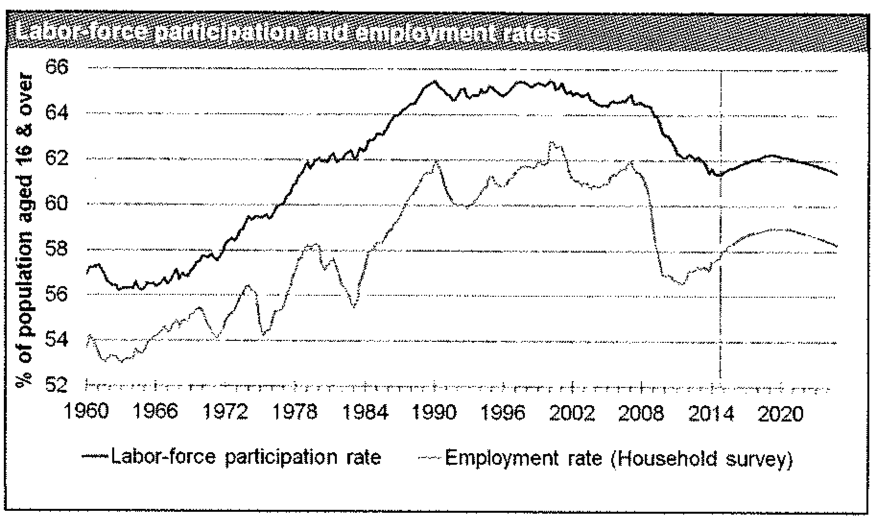
With the population aging, labor-force participation and employment rates will not return to prerecession levels



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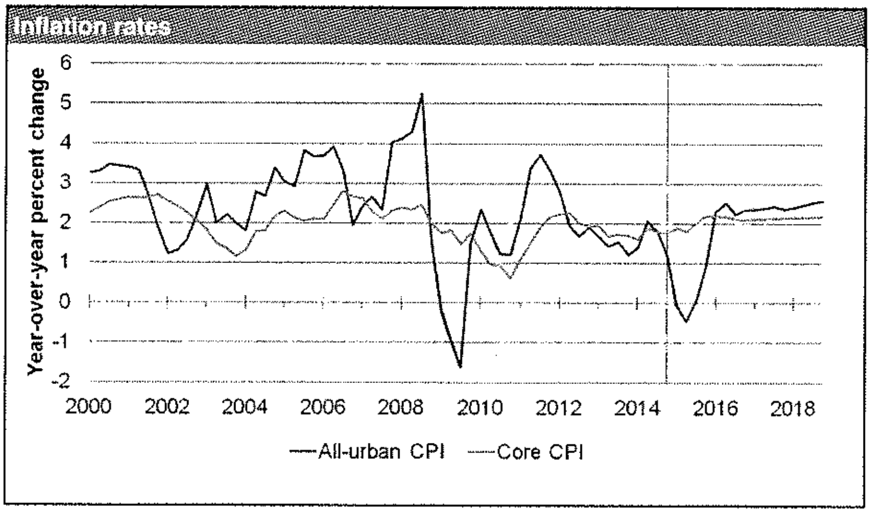
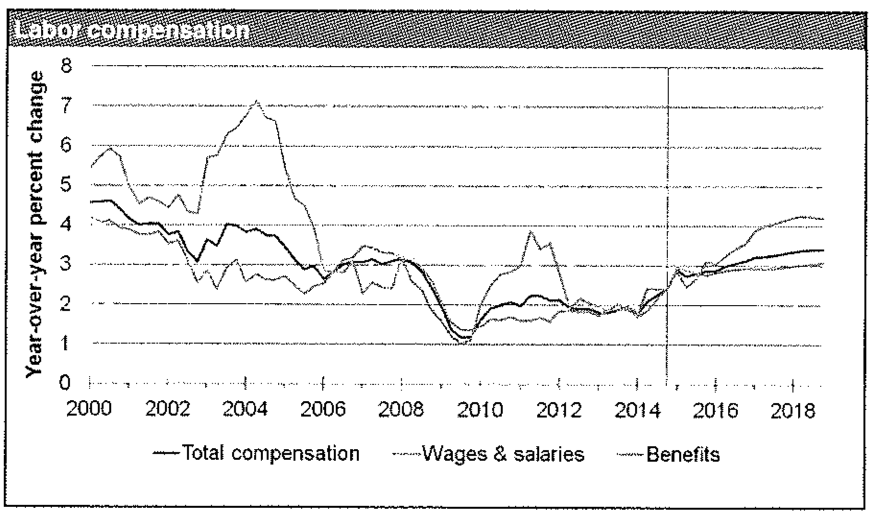
Falling gasoline prices are reducing headline inflation; core inflation remains near 2%



Labor compensation will accelerate as markets tighten and the Affordable Care Act is implemented



Global crude oil price dynamics

Downside risks

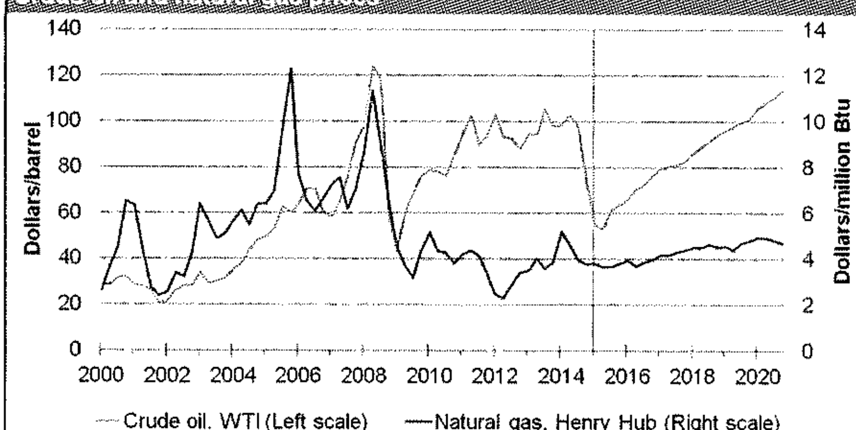
- Sluggish demand growth, especially from China
- Rising North American production
- Recovery in Libyan production
- Fight for market share by producers
- Potential rise in Iranian oil exports

Upside risks

- Accelerating global demand, partly in response to lower prices
- Rising geopolitical tensions and potential supply disruptions (Iraq, Libya, Nigeria, Venezuela, and elsewhere)
- Rising development costs

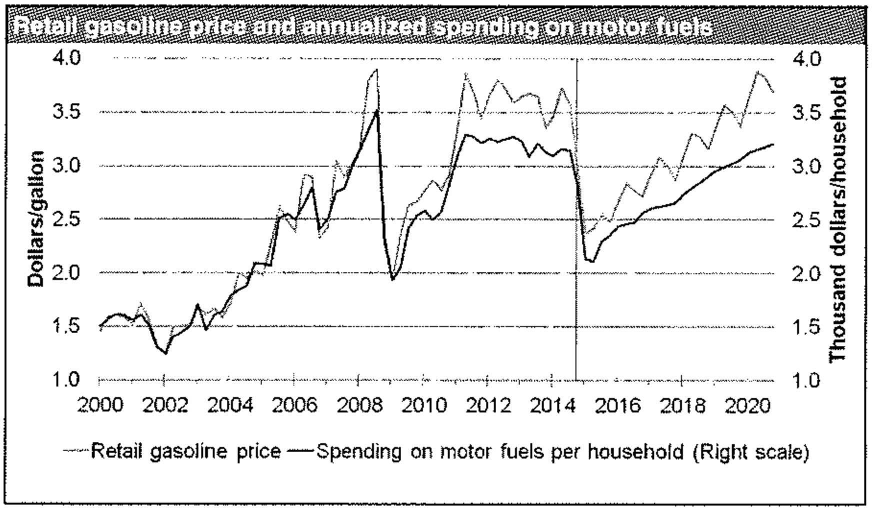
US crude oil prices are plummeting, while natural gas prices are stable

Crude oil and natural gas prices

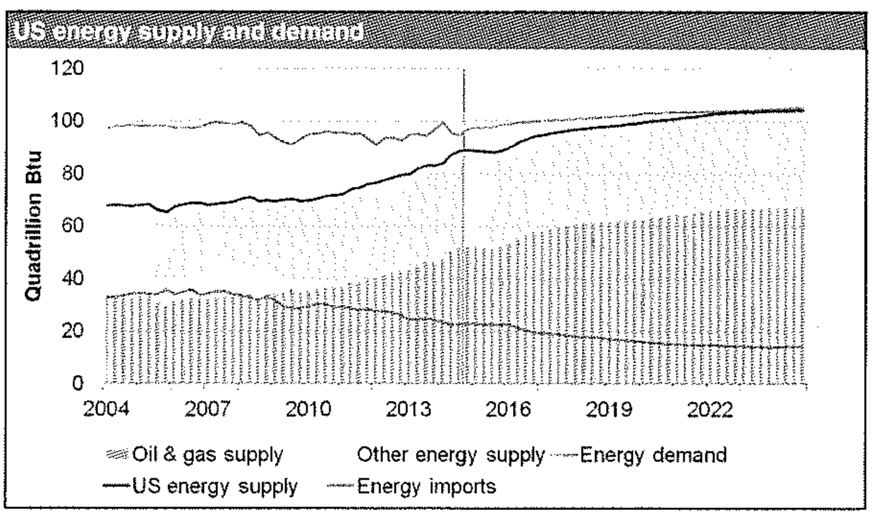


Source: IHS Energy

The drop in gasoline prices means substantial savings for US households



After a pause in 2015, US energy production will resume growth as oil prices recover



Forces affecting consumer spending

Positive forces
- Falling gasoline prices
- Employment growth
- Rising disposable income
- Rising asset prices
- Easing credit standards

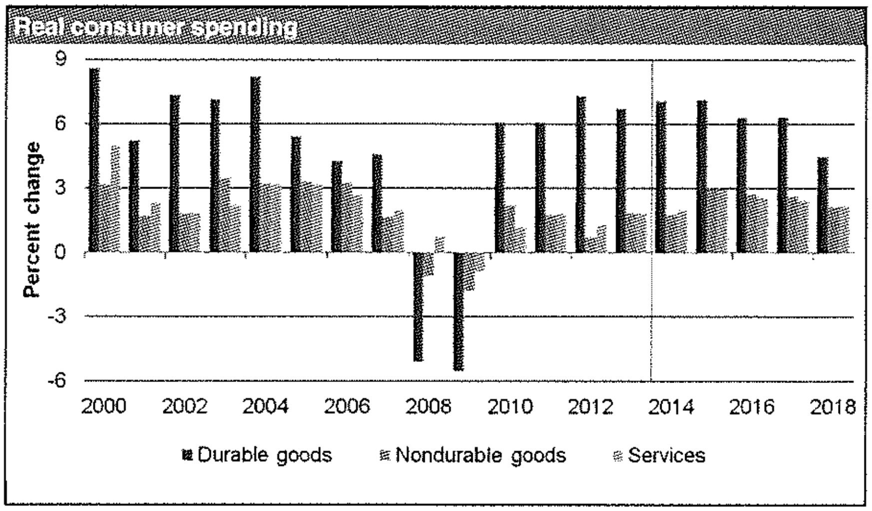
Negative forces
- Weak wage growth
- High debt burdens
- Delayed homeownership
- Rising interest rates

The consumer market environment is improving

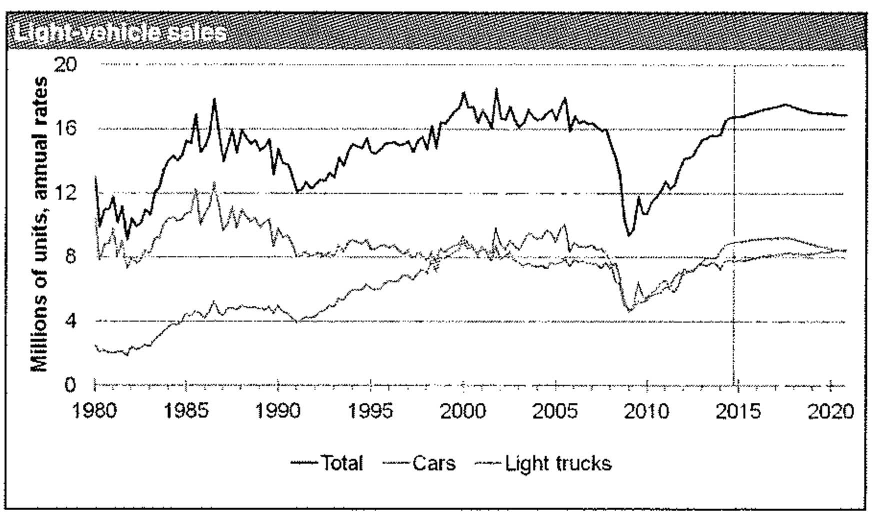
Consumer market indicators

Percent change	2014	2015	2016	2017
Real consumption	2.5	3.4	3.0	2.9
Real disposable income	2.4	3.3	2.8	3.6
Real household net worth	6.9	4.8	1.9	2.3
Payroll employment	1.8	2.0	1.8	1.2
Real wage rate	0.7	2.4	1.0	1.0
Consumption price deflator	1.3	0.5	1.8	2.0
Light-vehicle sales (Millions)	16.4	16.9	17.2	17.5
Single-family home sales (Millions)	4.77	5.29	5.68	5.63

Durable goods lead growth in consumer spending

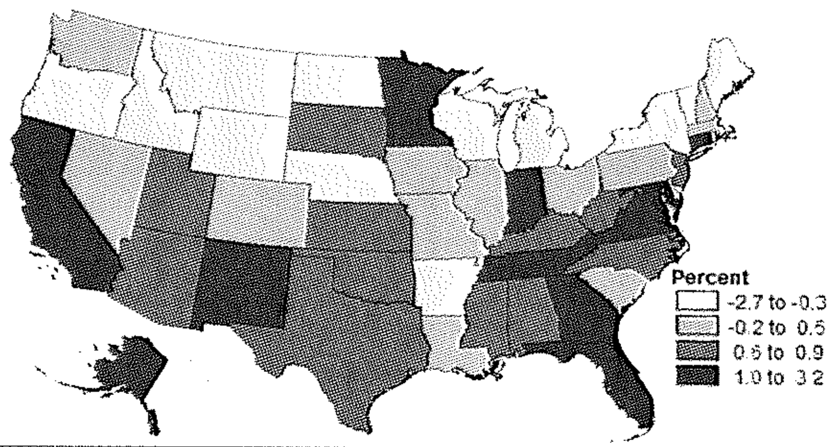


The recovery in light-vehicle sales nears completion; low gasoline prices shift demand to light trucks



Tennessee, Virginia and Florida will lead US growth in new car and truck registrations. ND and NY will lag.

New Passenger Car and Light Truck Registrations, 2014-19, Average Annual Growth

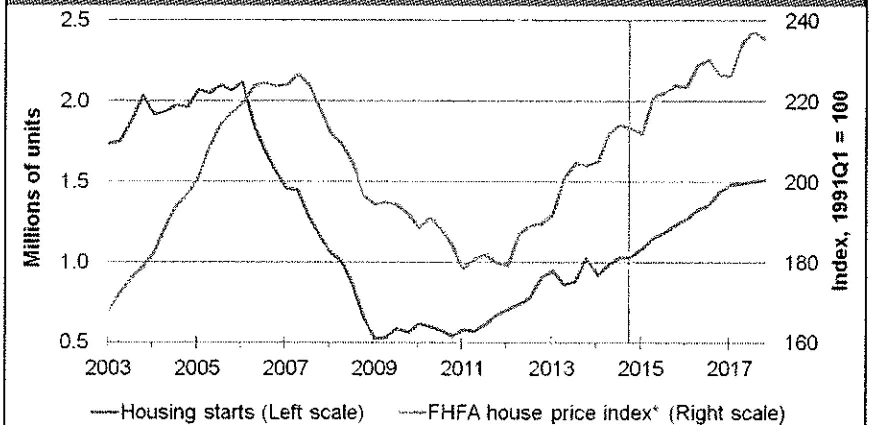


A delayed recovery in housing markets

- Robust job growth will fuel increases in housing demand.
- A moderation in house price inflation will help to preserve affordability.
- Rising mortgage rates will, however, restrain growth in home sales.
- The supply of buildable lots is rising as credit availability improves.
- Multifamily units will account for about one-third of housing starts.
- Young adults are delaying homeownership.
- Baby boomers are starting to downsize.

Housing starts and home prices are recovering

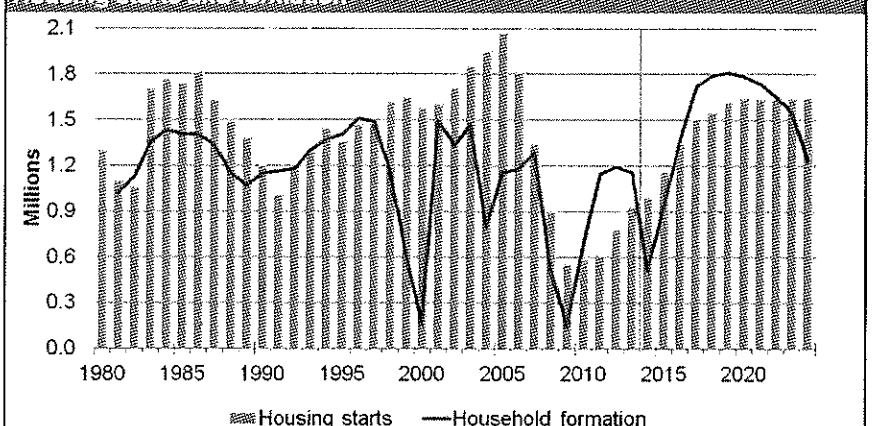
Housing starts and home prices



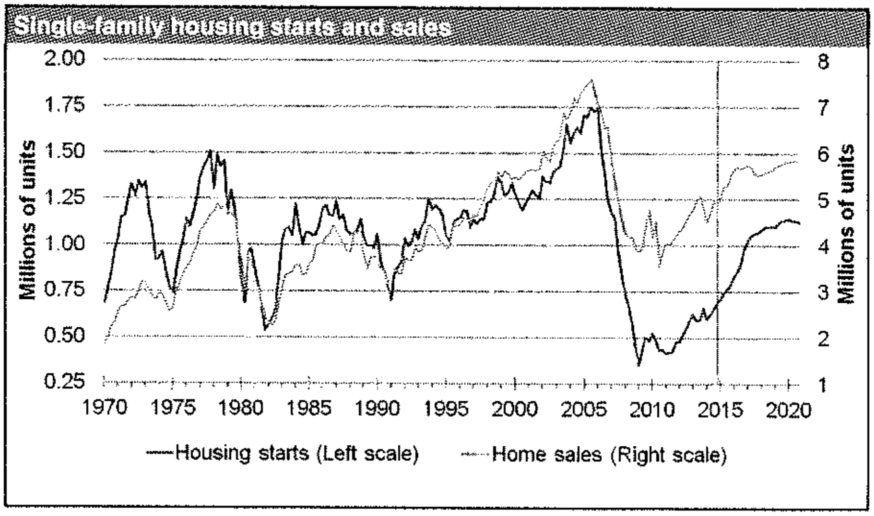
* Purchase-only index

A setback in household formation is delaying the recovery in housing starts

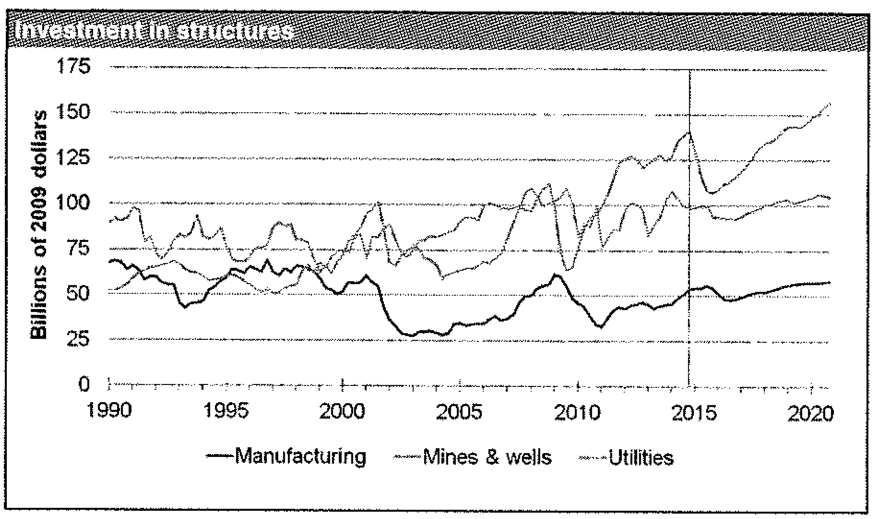
Housing starts and formation



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



Real private investment energy-related structures will decline sharply in 2015



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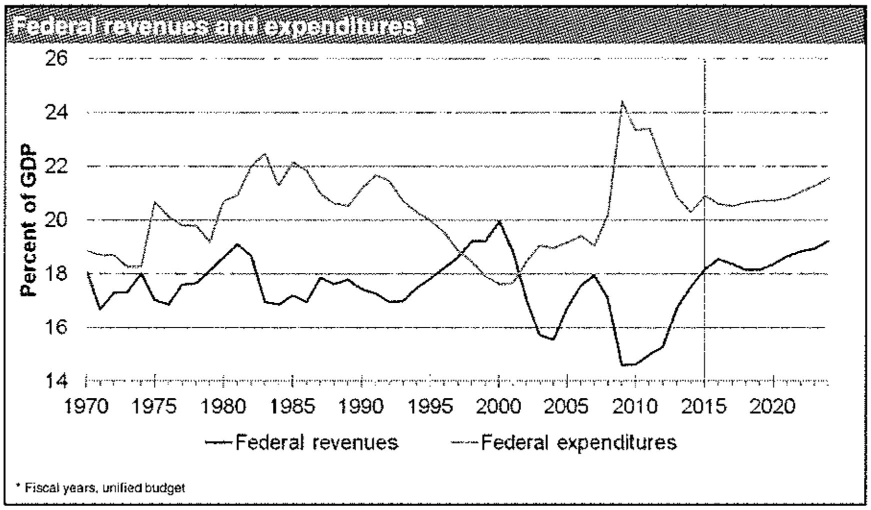
The gap between federal expenditures and revenues has narrowed but will not close



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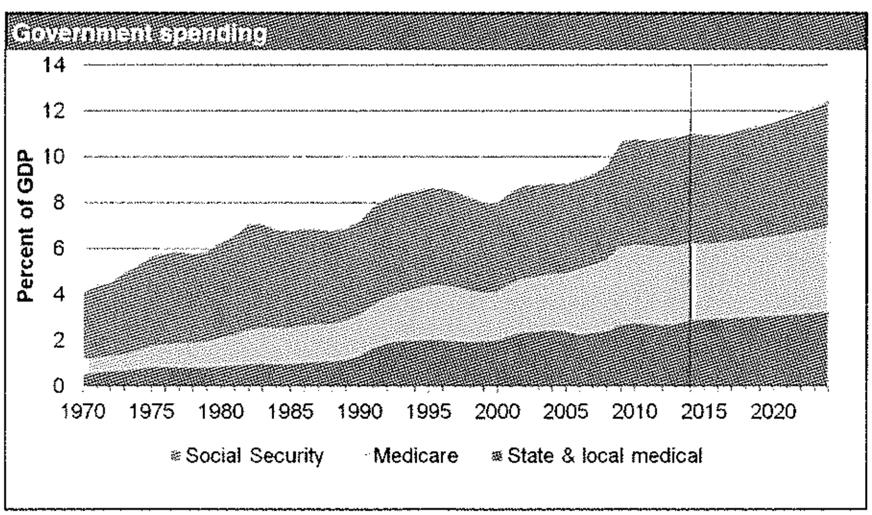
Government spending on Social Security and healthcare will increase as the population ages



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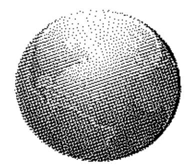
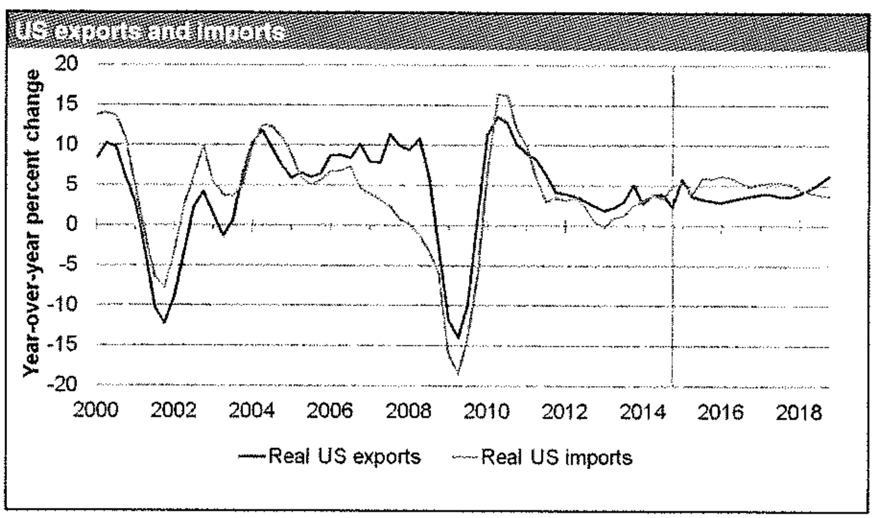
A gradual acceleration in the global economy

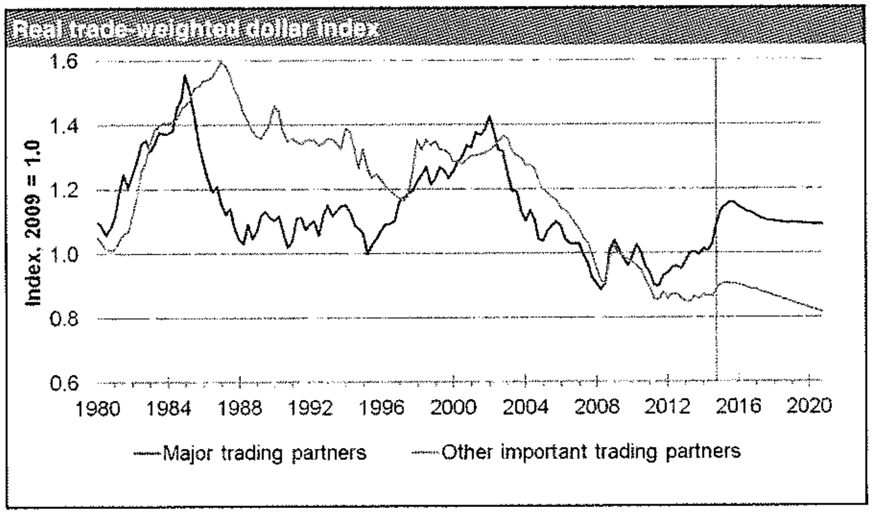
- Global growth will slowly pick up, led by the United States.
- The Eurozone's recovery will proceed at a slow pace, while UK growth will be comparatively robust.
- China's growth will slow further, to 6.5% in 2015, restrained by imbalances in credit, housing, and industrial markets.
- Growth paths in emerging markets will depend on structural reforms that raise productivity and allocate capital more efficiently.
- There is an abundance of geopolitical risk.



Import growth will exceed export growth in 2015–17



The dollar's real exchange value will stay competitive



Bottom line for the US economy

- Real GDP growth is projected to pick up to 3.1% this year, its fastest pace since 2005.
- Lower oil prices will be a net benefit to the economy.
- Consumer spending will be supported by gains in employment, real disposable income, and household wealth.
- Homebuilding will rise as household formation recovers.
- Real capital spending will increase about 5% annually in 2015–17.
- Net exports will restrain US economic growth through 2017, partly due to the dollar's appreciation.
- Interest rates will rise through mid-2017.
- Core inflation (excluding food and energy prices) will stay near 2%.

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Appendix I

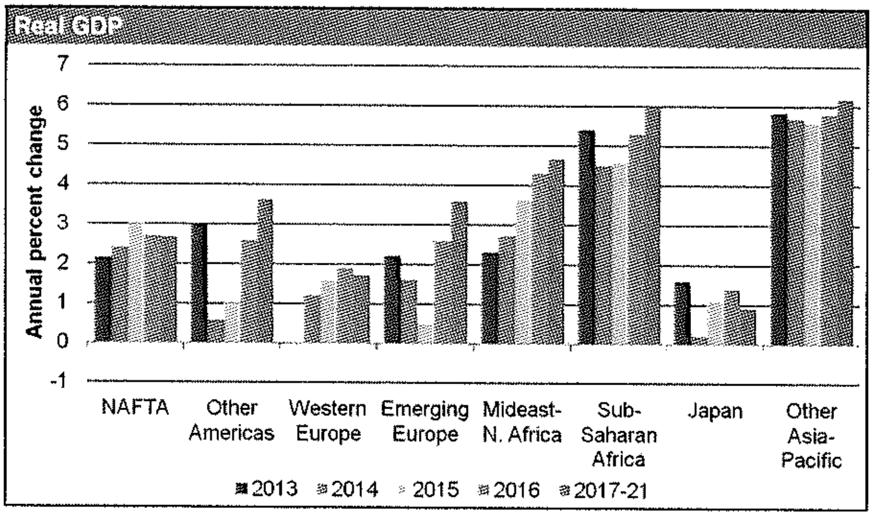
US industrial production growth

Industrial production				
Percent change	**2014**	**2015**	**2016**	**2017**
All manufacturing	3.9	4.3	3.8	2.9
Motor vehicles & parts	8.1	7.5	2.8	0.6
Computers & electronics	4.7	7.1	10.1	7.9
Electrical equip. & appliances	3.2	3.2	4.9	3.8
Machinery	6.9	3.3	2.4	4.1
Textiles	1.7	1.8	-1.1	-2.0
Furniture	6.7	6.2	4.6	2.6
Chemicals	2.3	4.9	3.3	4.7

US real construction growth by sector

Real investment in structures				
Percent change	**2014**	**2015**	**2016**	**2017**
Total construction	4.6	4.9	7.9	8.5
Residential	1.5	11.2	11.4	7.9
Commercial	12.4	11.1	16.2	12.8
Manufacturing	12.2	9.7	-10.2	4.3
Mines & wells	8.2	-15.2	-2.2	11.6
Healthcare	-8.7	9.9	12.2	10.9
Public utilities	10.9	-7.8	-1.6	3.8
Highways & streets	0.7	2.4	0.6	1.1
Public education	0.1	4.4	2.0	2.4

Asia-Pacific (excluding Japan) and Sub-Saharan Africa will achieve the fastest growth in real GDP



Appendix II – Income distribution

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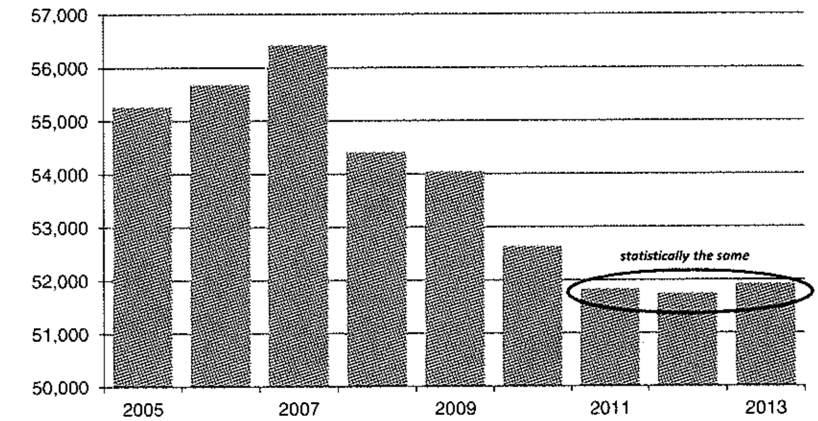
Incomes have declined in real terms and remain 8% below 2007 values.

Real median household income, 2013 dollars



Source: US Census: Income, Poverty and Health Insurance Coverage in the United States

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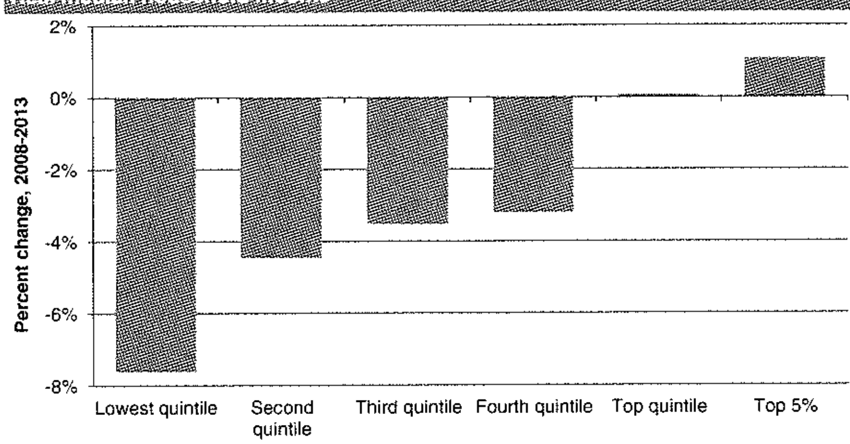
Since the financial crisis, the income situation for most consumers has been challenging.

Real median household income



Source: US Census: Income, Poverty and Health Insurance Coverage in the United States

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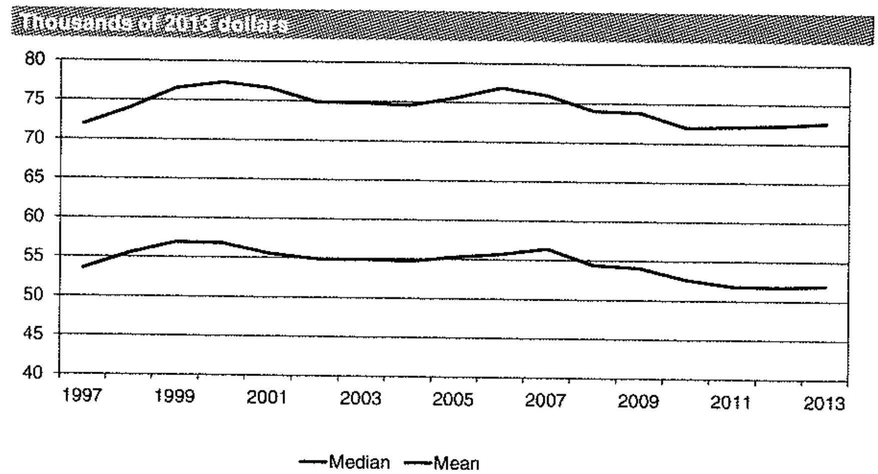
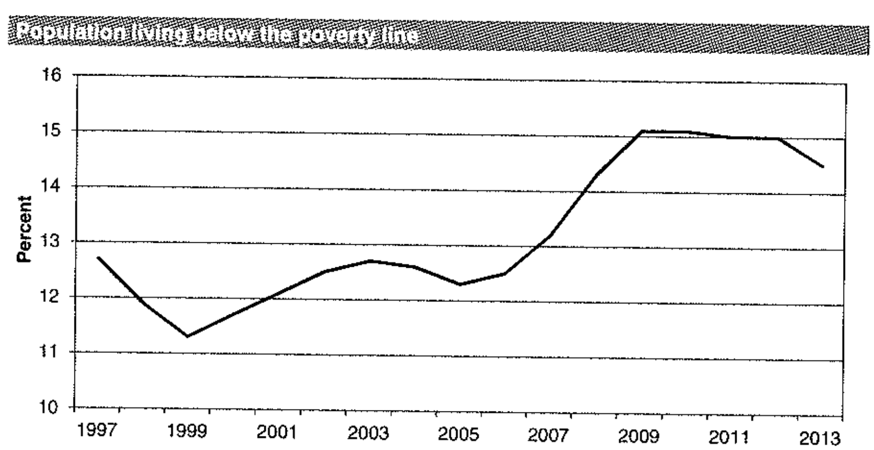
American household median income has stagnated.



Source: US Census: Income, Poverty and Health Insurance Coverage in the United States

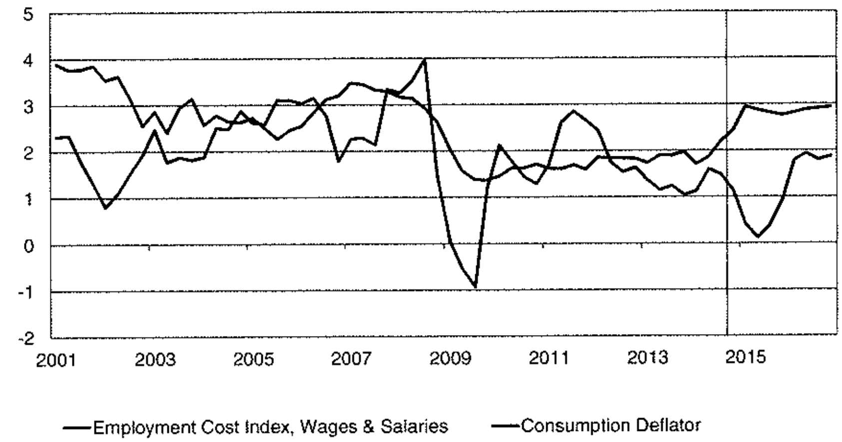
Poverty rate finally dipped in 2013.



Source: US Census: Income, Poverty and Health Insurance Coverage in the United States

Wages are growing faster than consumption, bolstering spending growth.

Percent change from a year earlier



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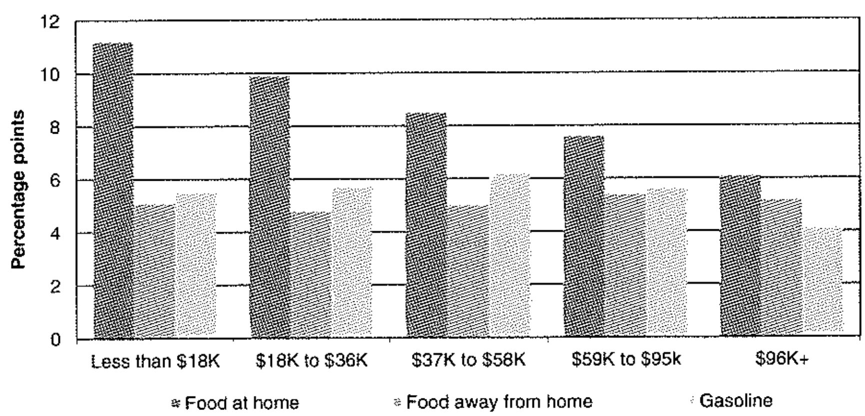
Food matters more than gasoline.

Share of total spending by household income categories, 2013



Source: Consumer Expenditure Survey, U.S. Bureau of Labor Statistics

Pump price relief: Food for thought

Spending and living conditions by income quintile (2013)

Income Quintile	Income per Household	People per Household	Vehicles per Household	Percent share of total spending: Food – At Home	Percent share of total spending: Food – Away from Home	Percent share of total spending: Gasoline & Motor Oil
Lowest 20%	< $18k	1.7	0.9	11.2	5.1	5.5
Second 20%	$18k - $36k	2.2	1.4	9.9	4.8	5.7
Third 20%	$37k - $58k	2.5	1.9	8.5	5.0	6.2
Fourth 20%	$59k - $95k	2.8	2.3	7.6	5.4	5.6
Highest 20%	$96k+	3.2	2.8	6.1	5.2	4.1

Source: Consumer Expenditure Survey, U.S. Bureau of Labor Statistics