


# The U.S. Economic Outlook

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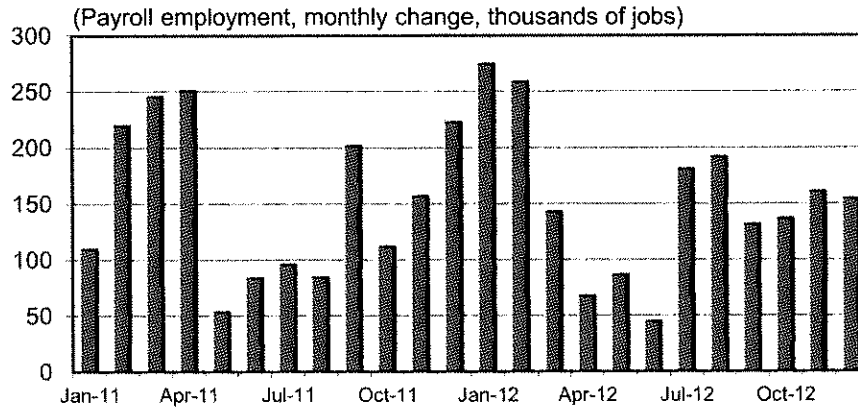


## The U.S. outlook

- Bad News: Momentum is modest. Hiring, capital spending both cautious.
- Bad News: Foreign weakness has dampened export growth
- Bad News: “Fiscal cliff” partially resolved, but stimulus removed (payroll tax cut), sequester only postponed, debt ceiling not addressed, and deficit only reduced by \$700 billion (over ten years)
- Good News: Credit conditions and demand for credit gradually improving
- Good News: Vehicles demand rising – pent-up demand coming through
- Good News: Housing activity and prices rising
- Good News: Unconventional oil and gas boost
- For 2013, continued modest growth is the most likely outcome

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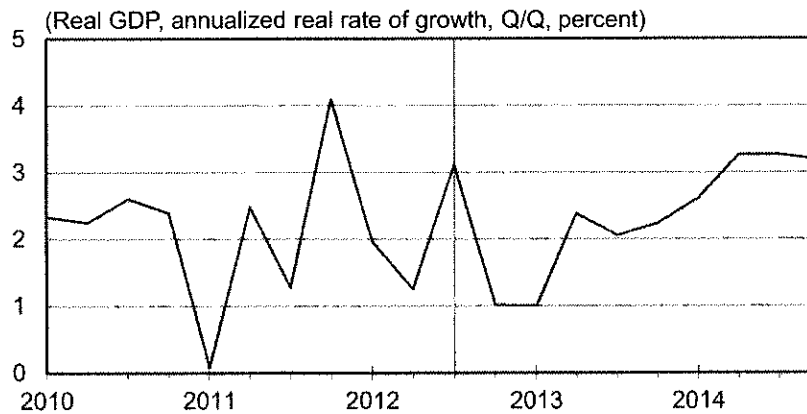
### Employment growth improved after mid-year lull



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### Recovery should gradually gain momentum – barring major policy blunders



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## U.S. economic growth by sector



(Percent change unless otherwise noted)

	2011	2012	2013	2014
<b>Real GDP</b>	1.8	2.3	1.7	2.7
<b>Final Sales</b>	2.0	2.1	1.8	2.7
<b>Consumption</b>	2.5	1.9	1.8	2.6
<b>Light Vehicle Sales (Millions)</b>	12.7	14.4	15.0	15.7
<b>Residential Fixed Investment</b>	-1.4	11.9	14.2	19.6
<b>Housing Starts (Millions)</b>	0.61	0.77	0.97	1.28
<b>Business Fixed Investment</b>	8.6	7.5	3.9	6.9
<b>Federal Government</b>	-2.8	-1.7	-2.9	-3.2
<b>State and Local Government</b>	-3.4	-1.3	-0.5	0.1
<b>Exports</b>	6.7	3.5	3.2	4.5
<b>Imports</b>	4.8	2.5	2.2	4.9

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## Other key indicators

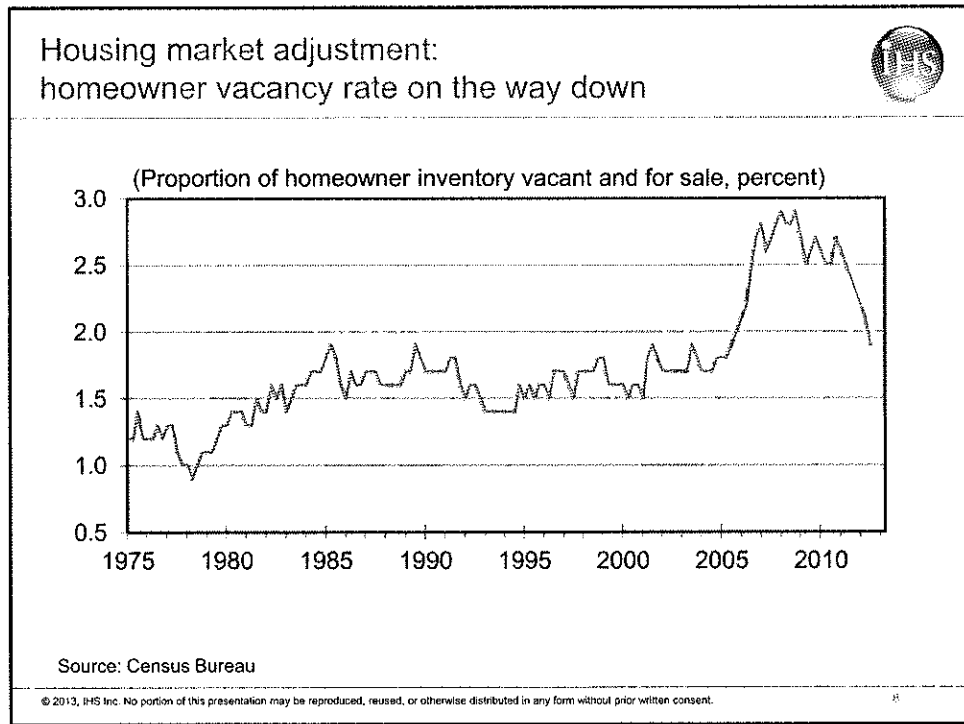
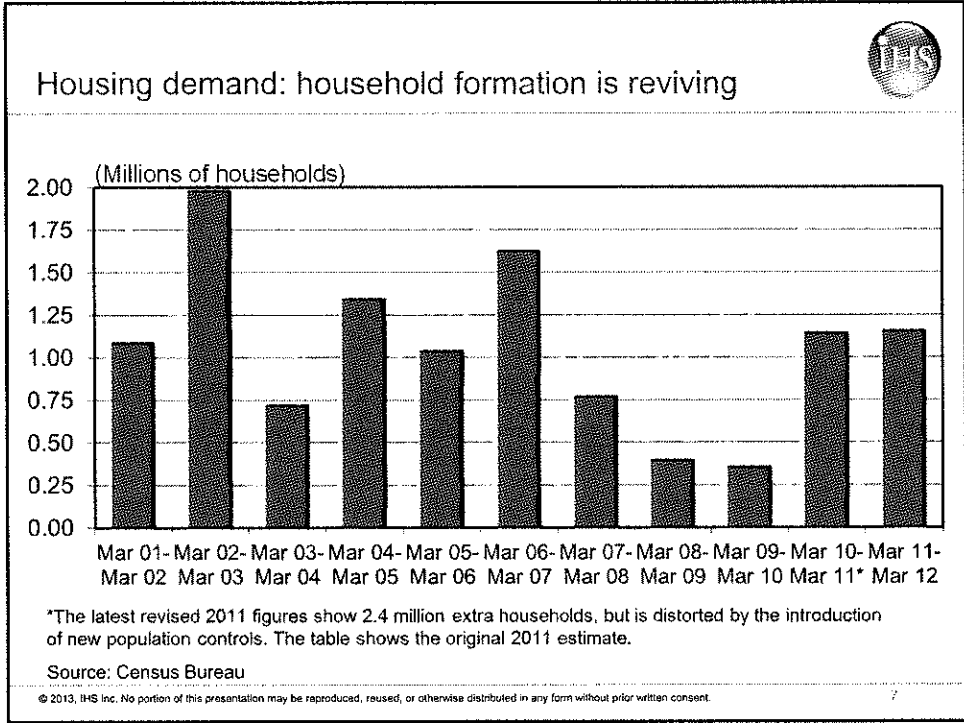


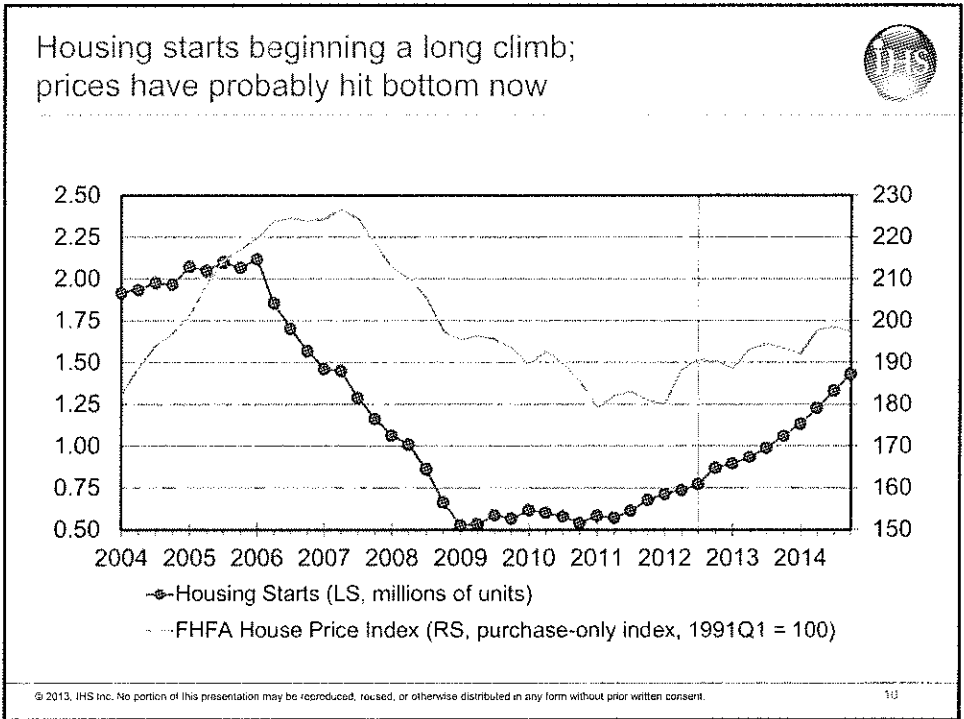
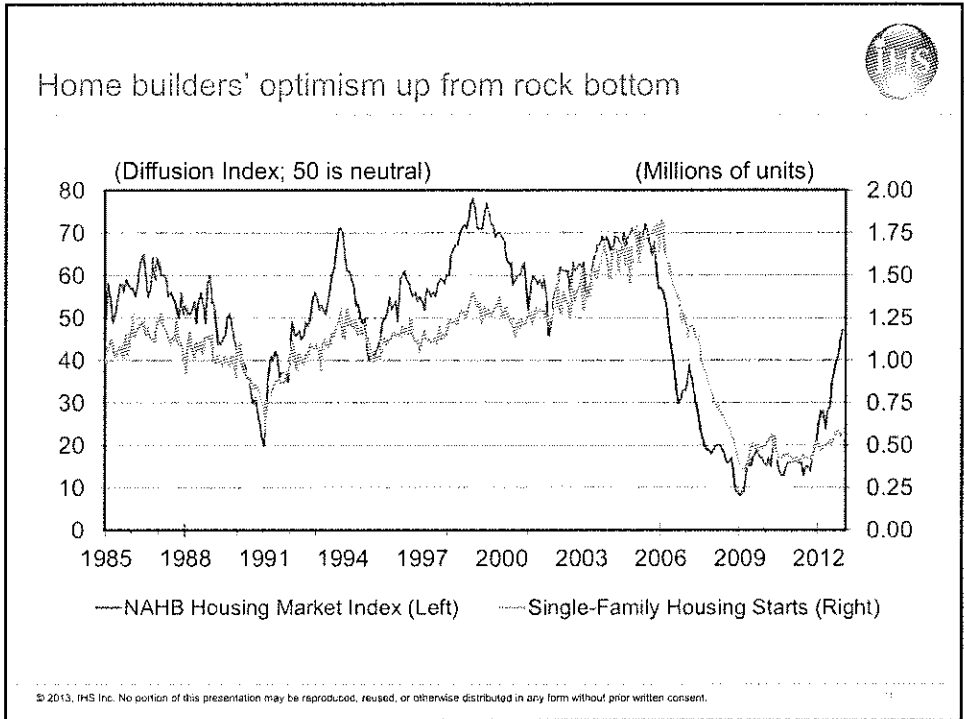
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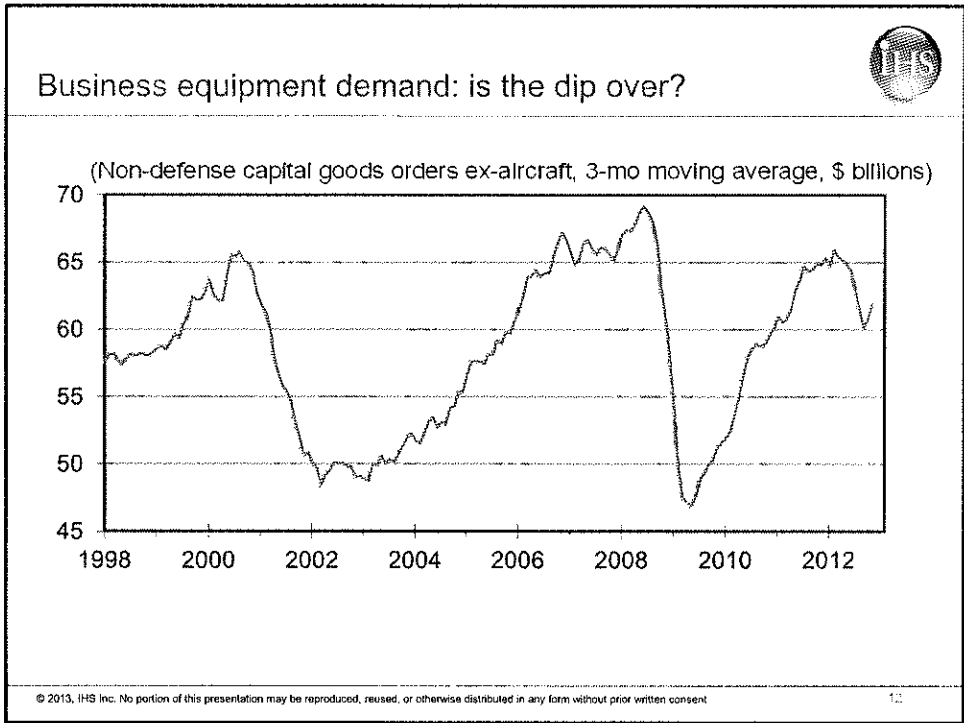
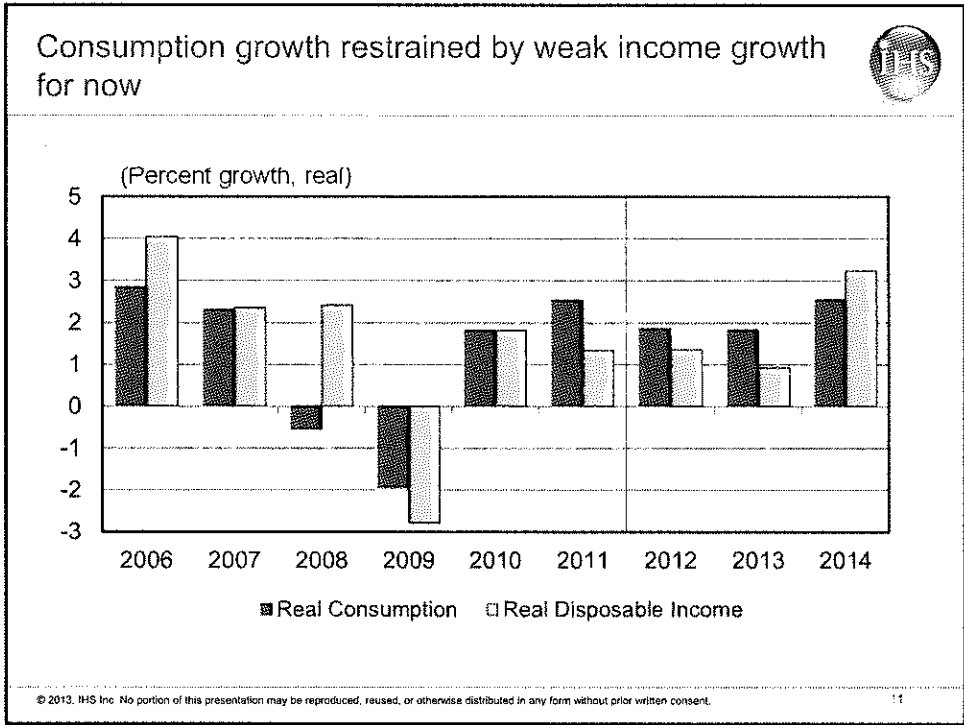
	2011	2012	2013	2014
<b>Industrial Production (% growth)</b>	4.1	3.6	2.0	3.0
<b>Employment (% growth)</b>	1.2	1.4	1.4	1.7
<b>Unemployment Rate</b>	9.0	8.1	7.6	7.3
<b>CPI Inflation</b>	3.1	2.1	1.4	1.7
<b>Oil Price* (Refiners, \$/bbl)</b>	102	102	91	85
<b>Natural Gas (Henry Hub, \$/mmbtu)</b>	3.99	2.75	4.01	4.89
<b>Core PCE Price Inflation</b>	1.4	1.7	1.3	1.7
<b>Federal Funds Rate</b>	0.10	0.14	0.16	0.16
<b>10-year Government Bond Yield</b>	2.79	1.80	2.01	2.60
<b>Dollar (Major Currencies, 2005=1)</b>	0.84	0.88	0.87	0.91

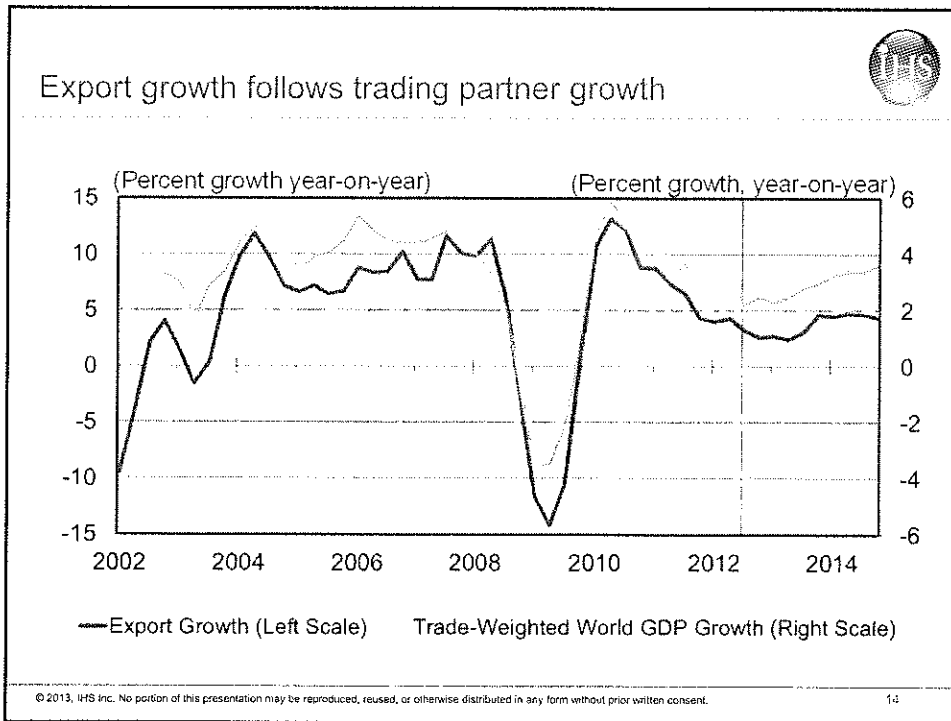
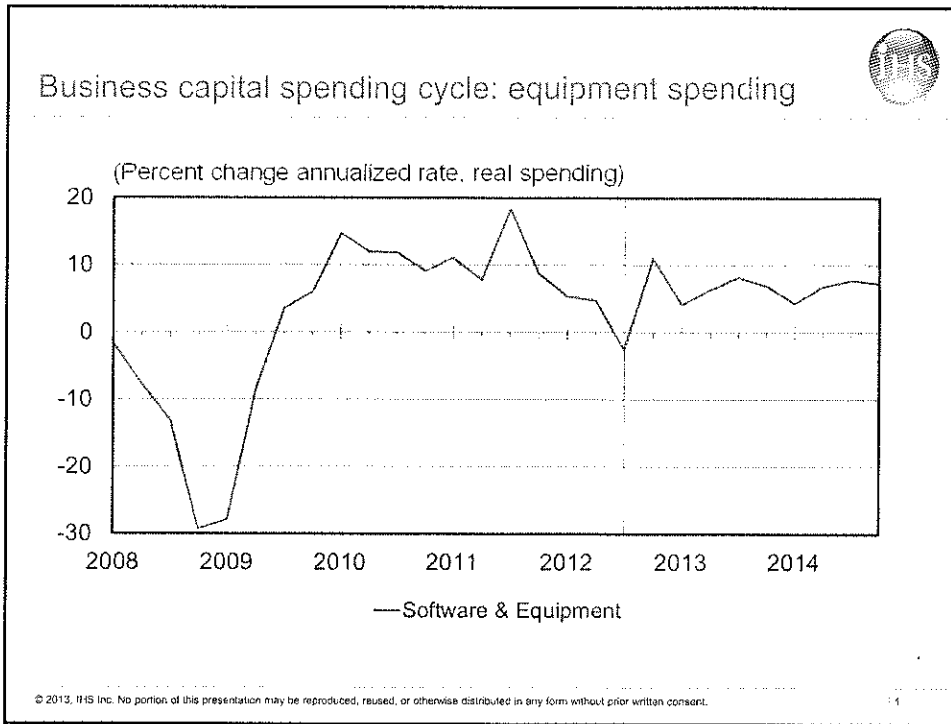
\*Refiners Acquisition Price of Crude Oil

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Fiscal policy:  
The cliff crisis is over; now  
for the debt-ceiling crisis?

The 2013 fiscal cliff



	THE THREAT		THE OUTCOME	
	\$ billions	% of GDP	\$ billions	% of GDP
<b>All Figures Are Calendar Year</b>				
Bush tax cut expiry	197	1.2	35	0.2
Payroll tax cut expiry	113	0.7	113	0.7
Sequester spending cuts	72	0.4	postponed two months	
Emergency UI benefits expiry	30	0.2	extended one year	
Depreciation incentives expiry	66	0.4	extended one year	
AMT Fix not extended	114	0.7	extended permanent	
Doc Fix not extended	14	0.1	extended one year	
<b>Total Fiscal Cliff</b>	<b>606</b>	<b>3.7</b>	<b>148</b>	<b>0.9</b>
Affordable Care Act taxes	24	0.1	24	0.1
Other spending cuts	34	0.2	34	0.2
<b>Total Fiscal Tightening</b>	<b>664</b>	<b>4.1</b>	<b>206</b>	<b>1.3</b>

Source: IHS calculations based on CBO and OMB data

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## The next key fiscal deadlines



- March 1, 2013: Delayed sequester cuts kick in (\$1.2 trillion over ten years)
- End-Feb/early-March: Debt ceiling will need to be raised again
- March 27, 2013: Continuing Resolution authorizing FY2013 spending expires

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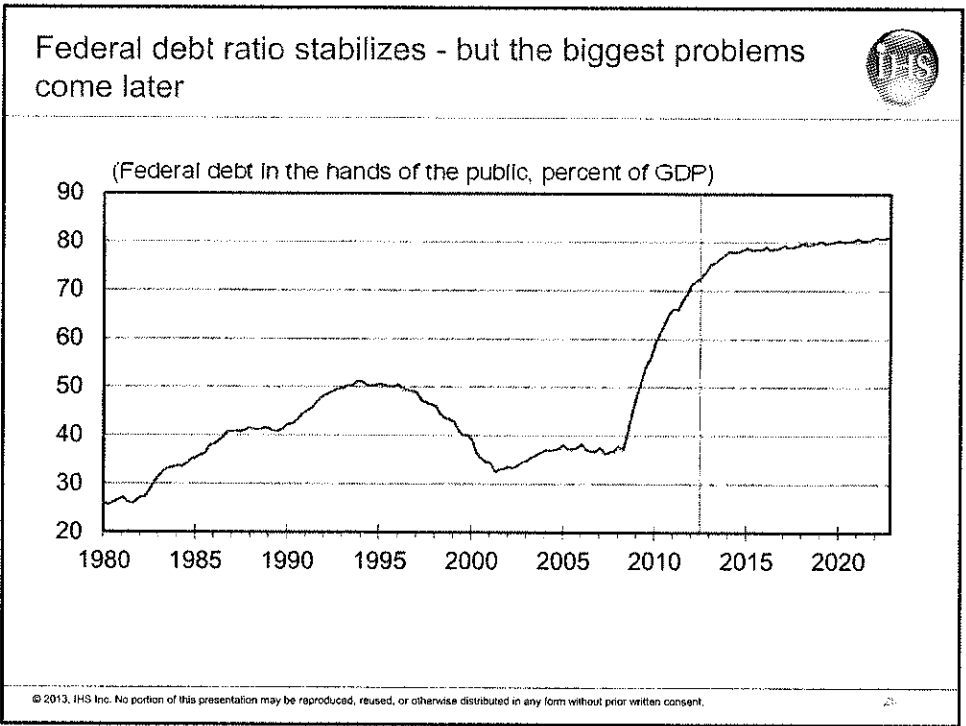
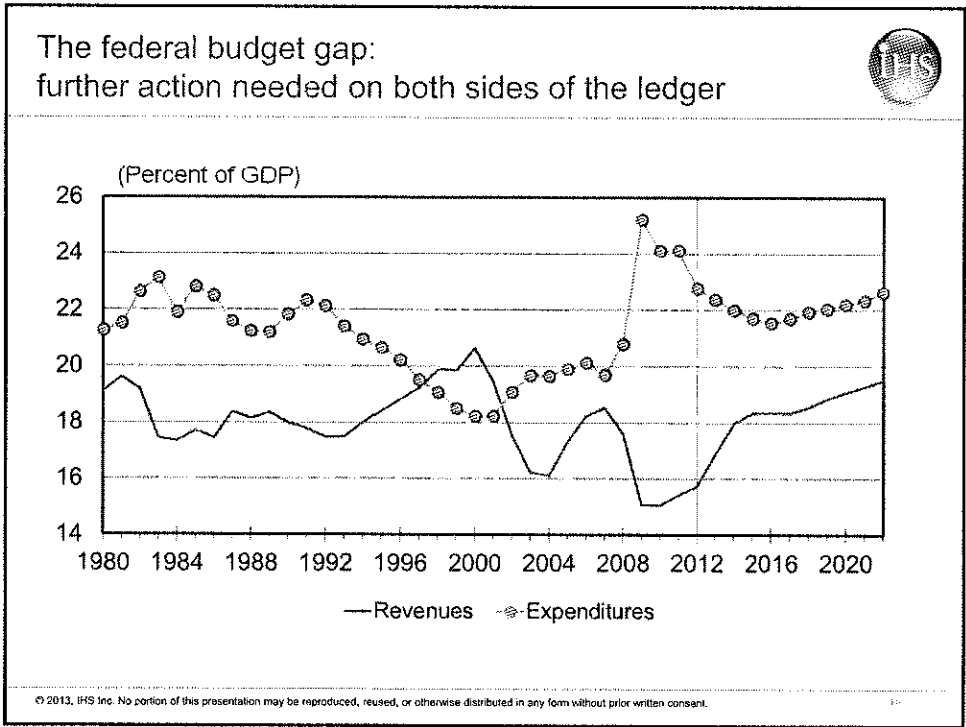
## Fiscal policy

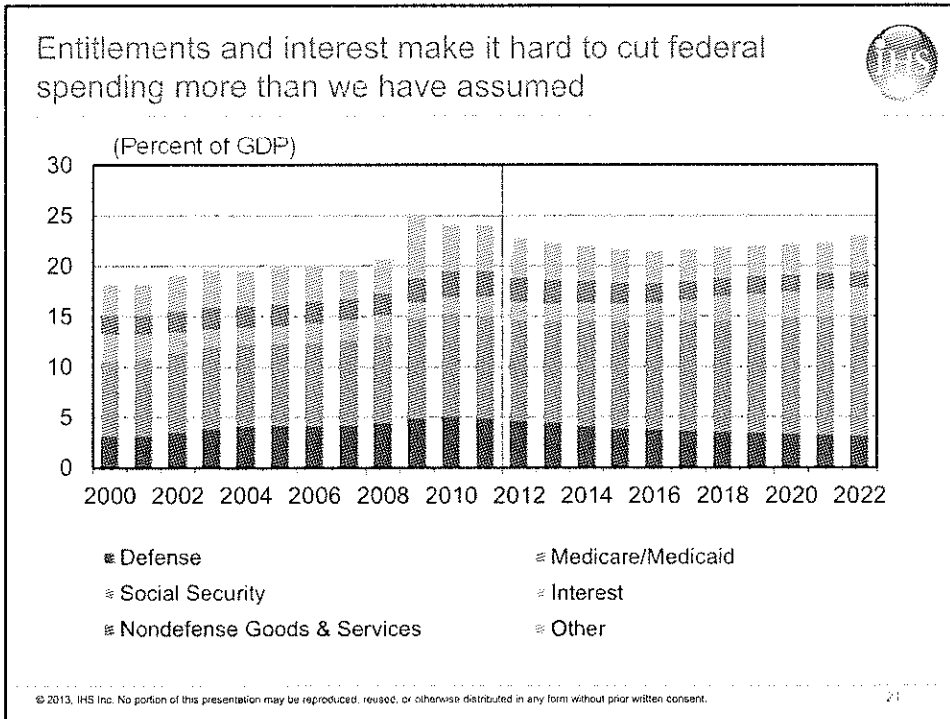


- Hitting the debt ceiling consequences would be far more severe than going off the fiscal cliff
  - Huge immediate cuts in government spending
  - Financial market panic on fear of debt default
  - More credit downgrades
- Huge argument brewing over whether sequester should be replaced by other spending cuts or by other spending cuts *and* revenues
- A series of temporary debt ceiling extensions, prolonging uncertainty, is highly likely
- Even if we can agree on \$1.2 trillion in deficit reduction, that won't be enough to stabilize the debt ratio (probably need another \$1 trillion)

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- ### Implications and bottom line
- The most likely outlook is continued, moderate growth in 2013. Early momentum hurt by loss of payroll tax cut, likelihood of more Washington drama
  - Faster growth in 2014 and 2015 helped by housing revival and more clarity on some of today's uncertainties
  - Some risks – Europe, oil shocks, China – are largely out of US control...
  - ... but domestic fiscal policy is a crisis made at home which can be fixed given the political will
  - But the process will continue to be messy, sapping the private sector's momentum
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Thank you!

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