Consensus Revenue Estimating Conference

The US economic outlook and the expanding role of e-commerce

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IHS Markit

Tax cuts will boost US economic growth in 2018-21

• The US economy has solid momentum entering 2018. With the Tax Cuts and Jobs Act (TCJA) taking effect, annual real GDP growth is projected to pick up from 2.2% in 2017 to 2.7% in 2018.

• The TCJA will boost US economic growth by 0.1 percentage point in 2018, 0.2 point in 2019 and 2020, and 0.1 point in 2021. Its impact on growth is neutral in 2022-25 and turns negative in 2026-27 when provisions expire and rising federal debt crowds out private investment.

• Consumer spending continues to drive US growth, supported by rising employment, household wealth, and real incomes (all helped by tax cuts).

• Business fixed investment will benefit from expanding global markets, an easing of regulatory policies, and a more competitive tax environment.

• Increasing household formation by young adults, low supplies of homes for sale, and rising prices will encourage more homebuilding.

• Consumer and business confidence have been elevated during 2017 and heading into 2018.

• The Federal Reserve is expected to gradually raise the federal funds rate to a high near 3.5% in 2021, overshooting its long-run equilibrium of 2.75%.
### US economic growth by sector

#### Real GDP and its components

<table>
<thead>
<tr>
<th>Percent change</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP</td>
<td>2.2</td>
<td>2.7</td>
<td>2.6</td>
<td>2.0</td>
</tr>
<tr>
<td>Consumption</td>
<td>2.7</td>
<td>2.7</td>
<td>2.5</td>
<td>2.2</td>
</tr>
<tr>
<td>Residential investment</td>
<td>1.7</td>
<td>2.7</td>
<td>5.3</td>
<td>4.7</td>
</tr>
<tr>
<td>Business fixed investment</td>
<td>4.8</td>
<td>5.5</td>
<td>5.0</td>
<td>3.5</td>
</tr>
<tr>
<td>Federal government</td>
<td>-0.2</td>
<td>-0.4</td>
<td>-0.2</td>
<td>0.0</td>
</tr>
<tr>
<td>State &amp; local government</td>
<td>0.0</td>
<td>0.9</td>
<td>0.9</td>
<td>1.1</td>
</tr>
<tr>
<td>Exports</td>
<td>3.4</td>
<td>5.3</td>
<td>4.3</td>
<td>3.7</td>
</tr>
<tr>
<td>Imports</td>
<td>3.8</td>
<td>6.2</td>
<td>4.8</td>
<td>4.2</td>
</tr>
</tbody>
</table>

Source: IHS Markit

### Other key US indicators

#### Key Indicators

<table>
<thead>
<tr>
<th>Percent change</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial production</td>
<td>1.9</td>
<td>3.3</td>
<td>3.0</td>
<td>2.2</td>
</tr>
<tr>
<td>Payroll employment</td>
<td>1.5</td>
<td>1.6</td>
<td>1.5</td>
<td>0.7</td>
</tr>
<tr>
<td>Light-vehicle sales (Million units)</td>
<td>17.2</td>
<td>16.9</td>
<td>16.8</td>
<td>16.8</td>
</tr>
<tr>
<td>Housing starts (Million units)</td>
<td>1.21</td>
<td>1.29</td>
<td>1.40</td>
<td>1.45</td>
</tr>
<tr>
<td>Consumer Price Index</td>
<td>2.1</td>
<td>1.7</td>
<td>1.9</td>
<td>2.8</td>
</tr>
<tr>
<td>Core CPI</td>
<td>1.8</td>
<td>1.9</td>
<td>2.2</td>
<td>2.5</td>
</tr>
<tr>
<td>Brent crude oil price (USD/barrel)</td>
<td>55</td>
<td>57</td>
<td>58</td>
<td>67</td>
</tr>
<tr>
<td>Federal funds rate (%)</td>
<td>1.0</td>
<td>1.8</td>
<td>2.5</td>
<td>3.1</td>
</tr>
<tr>
<td>10-year Treasury yield (%)</td>
<td>2.3</td>
<td>3.0</td>
<td>3.5</td>
<td>3.7</td>
</tr>
</tbody>
</table>

Source: IHS Markit
IHS Markit PMIs signal moderate economic growth

Markit PMI indexes

Source: IHS Markit
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Consumer confidence is riding high

Conference Board Consumer Confidence Index

Source: Conference Board, IHS Markit
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Consumer sentiment is upbeat, supported by improving household finances and sustained job growth

University of Michigan Index of Consumer Sentiment

Source: University of Michigan, IHS Markit © 2018 IHS Markit

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Consumer sentiment by household income

Consumer sentiment by household income

Income < $75,000 - Income > $75,000

Source: University of Michigan, IHS Markit © 2018 IHS Markit

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Small business sentiment has reached a 34-year high

**NFIB Index of small business optimism**

Source: National Federation of Independent Business © 2018 IHS Markit

US stock prices have reached record highs in 2017

**S&P 500 stock price index**

Source: IHS Markit © 2018 IHS Markit
The dollar’s real exchange value will depreciate against major currencies after 2018

Despite 2016–17 gains, industrial materials prices remain well below their previous peaks
After a mild correction, industrial materials prices will gradually rise

Crude oil prices will gradually recover after 2018
US interest rates will rise as the Federal Reserve normalizes monetary policy

The US economic expansion will continue with solid real GDP growth in late 2017 and 2018
US industrial production growth is reviving as capital spending and exports accelerate

Services, manufacturing, and construction led job growth in the 12 months ended December 2017

Change in payroll employment, thousands

Prof. & business services
Health & social services
Leisure & hospitality
Construction
Manufacturing
Financial services
Other services
Local government
Transport & warehousing
Wholesale trade
Education
Mining & logging
Utilities
Federal government
State government
Information
Retail trade

Total change ≈ 2.1 million

Source: IHS Markit

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Western states will lead in employment growth

Nonfarm employment, annual percent change, 2018-22

Inventory investment will return to normal in 2018

Change in nonfarm inventories, 2009 dollars

Source: IHS Markit
Industrial production is recovering as global demand strengthens and inventory investment resumes

![Graph showing trend of industrial production and real GDP](image)

Source: IHS Markit © 2018 IHS Markit

Labor productivity is reviving; gains in total factor productivity will follow

![Graph showing trend of productivity](image)

1965-2016 average = 1.96%

Source: IHS Markit © 2018 IHS Markit
Core consumer price inflation is fluctuating around 2%

Goods prices expected to turn positive in 2019 but remain outpaced by services
Poverty rate pushed lower in 2015 and 2016

Wage gains will continue to outpace inflation
Incomes pushed past prerecession levels for most households in 2015-2016

Real mean household income by quintile

Real median household income made strides in last two years

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Household financial and real estate assets are rising

US light-vehicle sales have reached their peak; light trucks will continue to outsell cars
Clicks outpacing the bricks

E-commerce share of retail trade pushed further up in the third quarter

E-commerce share of total retail sales less restaurants

Source: IHS Markit

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Holiday retail sales growth maintains solid pace

Online holiday retail sales growth to maintain brisk pace
Online share of holiday retail sales

E-commerce retail sales, SA

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E-commerce retail share expanding

E-commerce retail share of total retail sales excluding food, gas, and autos, SA

Source: IHS Markit © 2018 IHS Markit

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Clicks outpacing the bricks

Department and online stores retail sales

Billions of dollars, SA


Electronic shopping and mail order

Department stores

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US housing starts continue their slow recovery

Single-family home sales and construction are not expected to regain their 2005 peaks
US oil drilling follows crude oil prices

![Weekly oil rig count and West Texas Intermediate crude oil price graph](image)

Sources: Baker Hughes and EIA, IHS Markit © 2018 IHS Markit

Near-term growth in real capital spending is led by equipment

![Real business fixed investment graph](image)

Source: IHS Markit © 2018 IHS Markit
Different investment cycles in industrial structures

Private investment in structures

Billions of 2009 dollars

Source: IHS Markit © 2018 IHS Markit

The US surplus in services trade partially offsets the deficit in merchandise trade

US net exports, NIPA

Bill. of dollars annual rates

Source: IHS Markit © 2018 IHS Markit
US federal budget deficits will increase after fiscal 2018

Bottom line for the US economy

- With personal and corporate income tax cuts enacted, the forecast of real GDP growth has been raised to 2.7% in 2018 and 2.6% in 2019.
- Consumer spending will be supported by solid gains in employment, real disposable incomes, and household net worth.
- Business fixed investment will benefit from sustained growth in global markets, along with an improving tax and regulatory environment.
- Due to supply constraints, the recovery in residential construction will proceed on a slow track.
- Wages and prices will accelerate as labor markets tighten.
- The Fed will gradually raise the federal funds rate to a high near 3.5% in 2021. It later settles back to its longer-run neutral rate of 2.75%.