Consensus Revenue Estimating Conference

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

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MACROECONOMIC ADVISERS
By IHS Markit

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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%.

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US economic growth by sector

Real GDP and its components

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

Source: IHS Markit

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Other key US indicators

Key indicators

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

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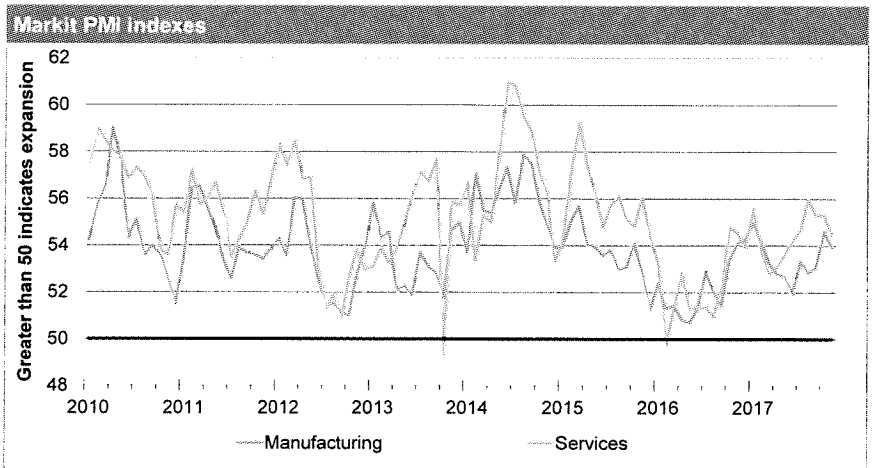
IHS Markit PMIs signal moderate economic growth



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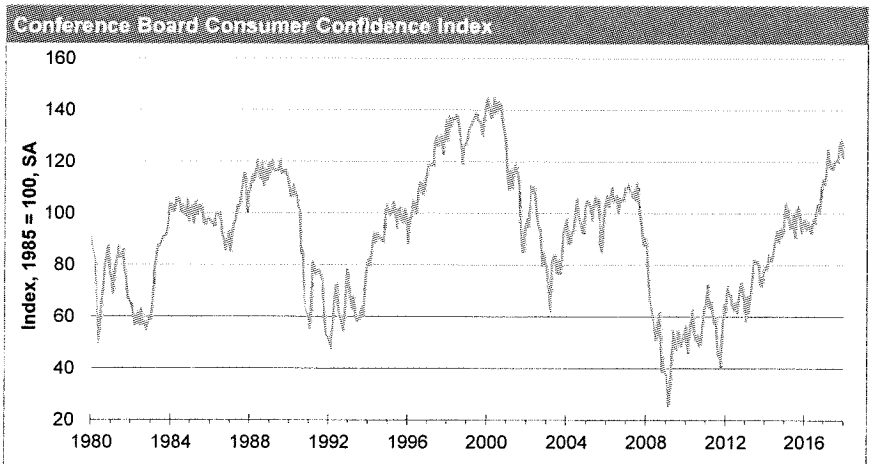
Consumer confidence is riding high



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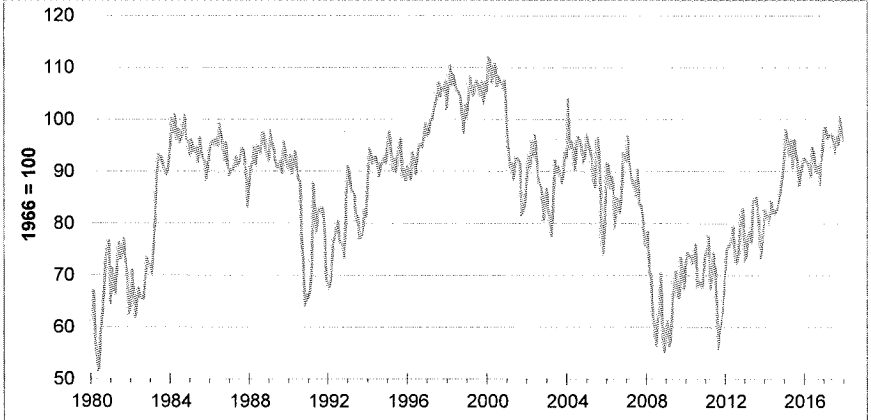
Consumer sentiment is upbeat, supported by improving household finances and sustained job growth



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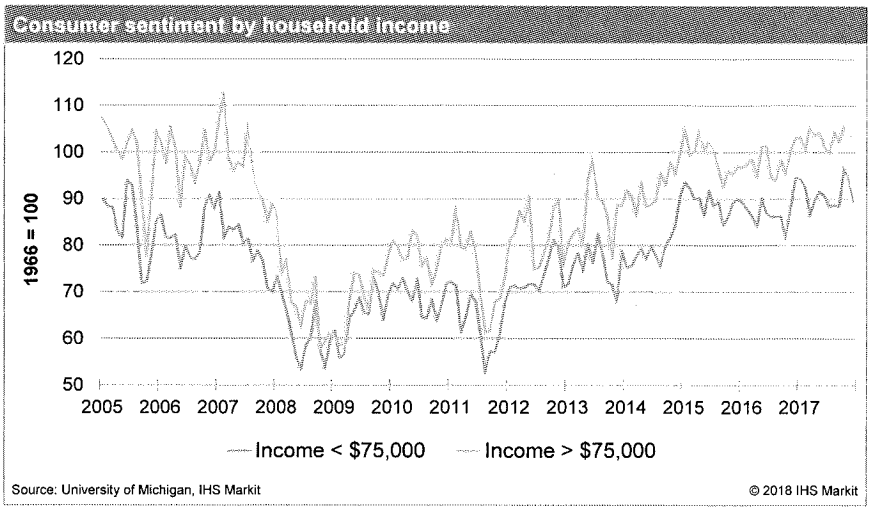
Consumer sentiment by household income



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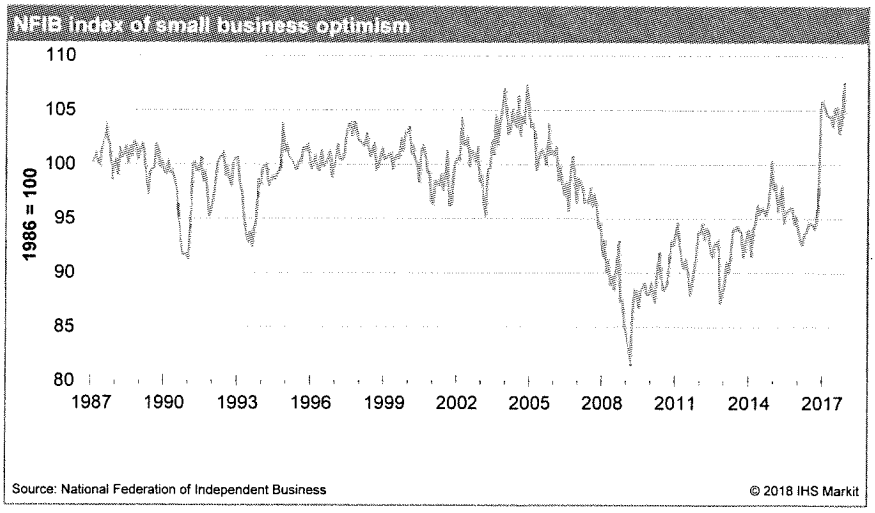
Small business sentiment has reached a 34-year high



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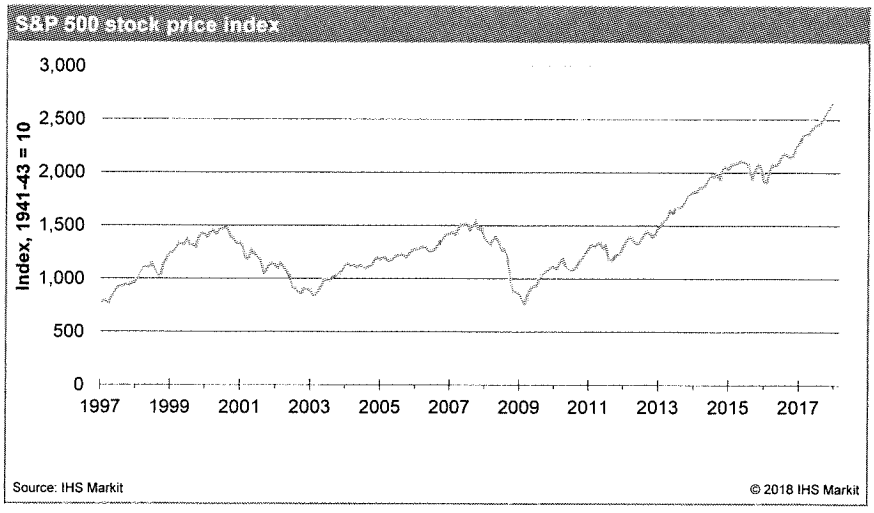
US stock prices have reached record highs in 2017



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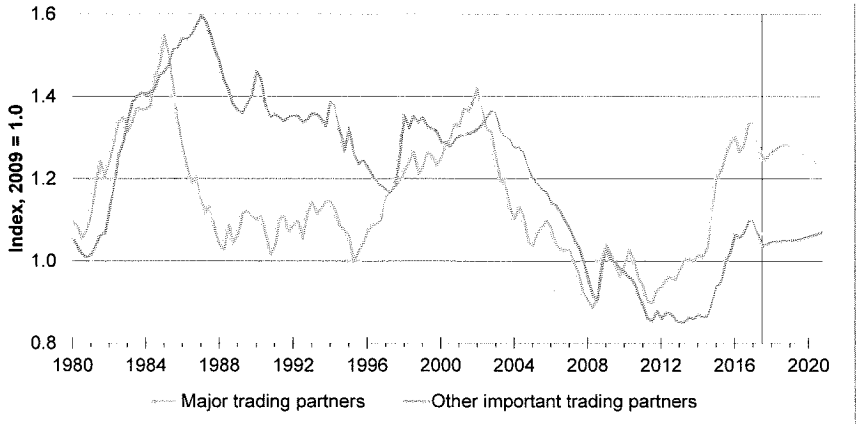
The dollar's real exchange value will depreciate against major currencies after 2018

Real trade-weighted dollar index



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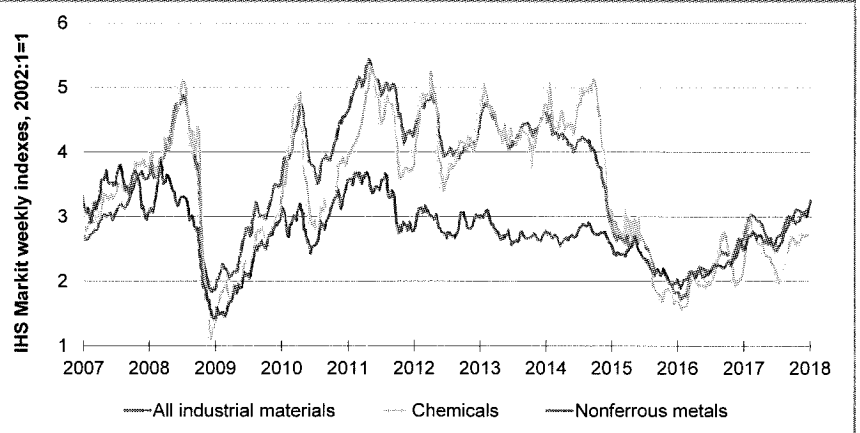
Despite 2016–17 gains, industrial materials prices remain well below their previous peaks

IHS Markit Materials Price Index



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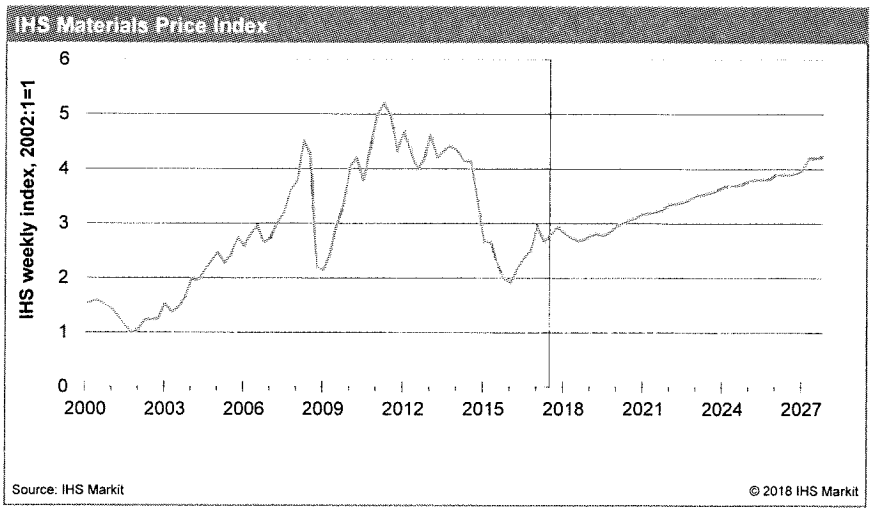
After a mild correction, industrial materials prices will gradually rise



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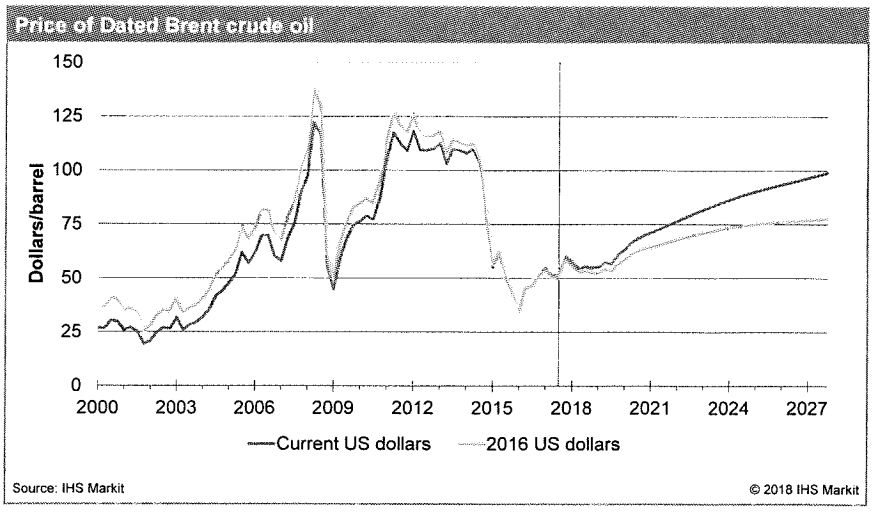
Crude oil prices will gradually recover after 2018



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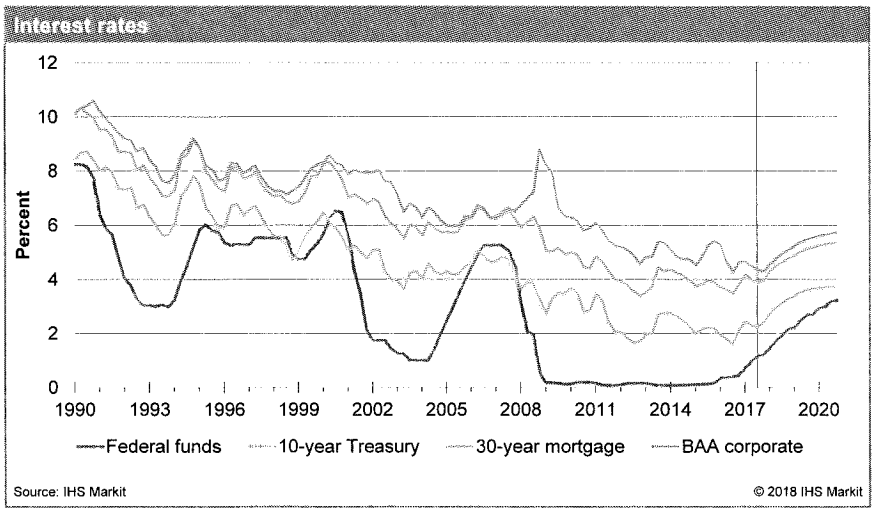
US interest rates will rise as the Federal Reserve normalizes monetary policy



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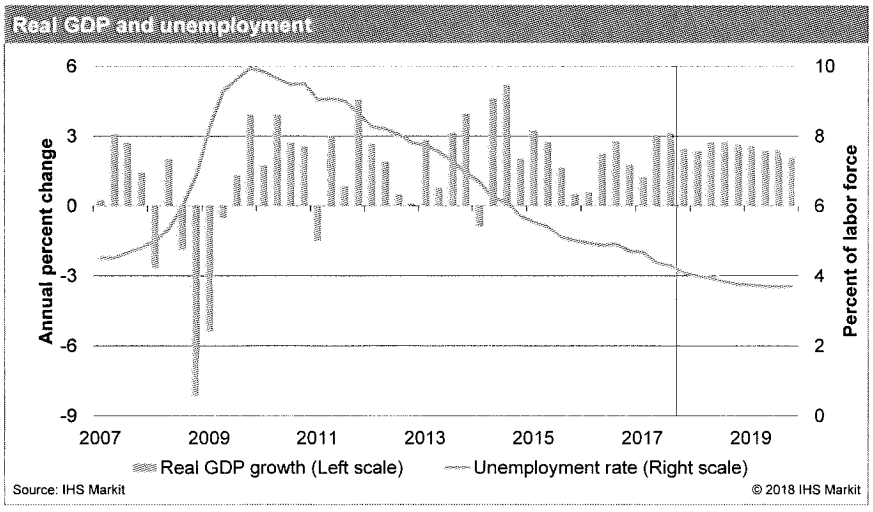
The US economic expansion will continue with solid real GDP growth in late 2017 and 2018



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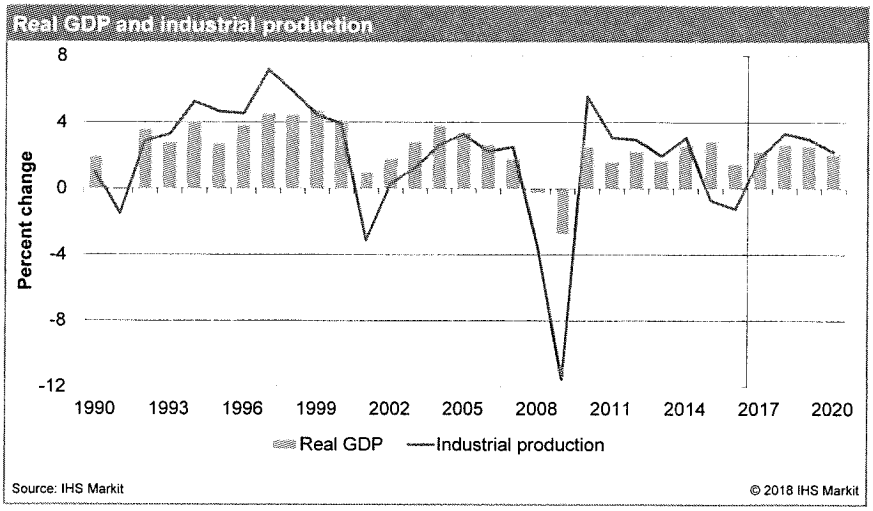
US industrial production growth is reviving as capital spending and exports accelerate



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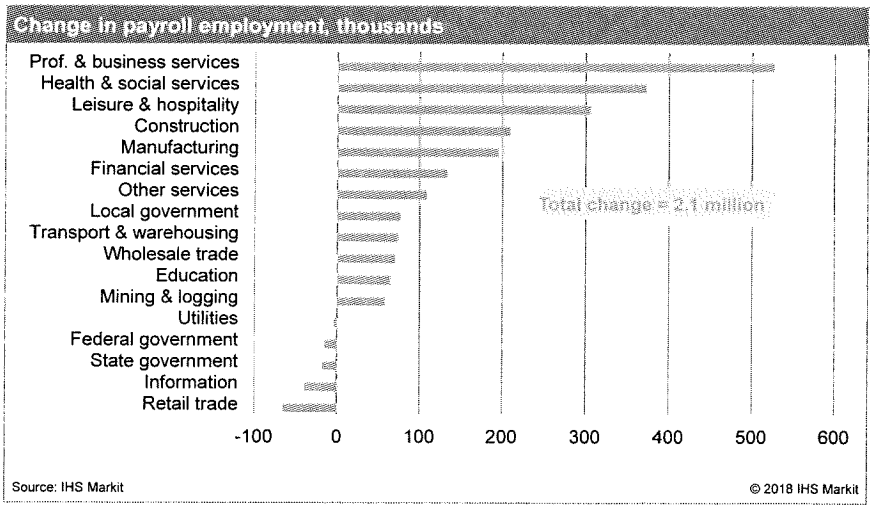
Services, manufacturing, and construction led job growth in the 12 months ended December 2017



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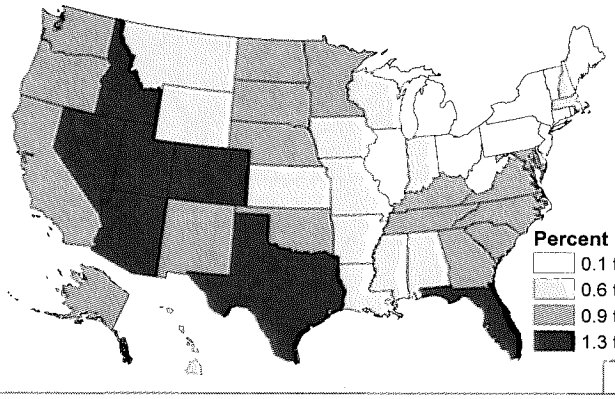
Western states will lead in employment growth

Nonfarm employment, annual percent change, 2018-22



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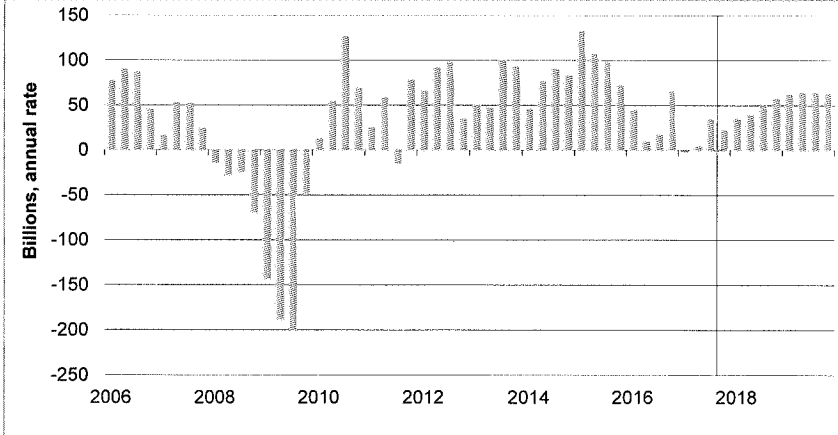
Inventory investment will return to normal in 2018

Change in nonfarm inventories, 2009 dollars



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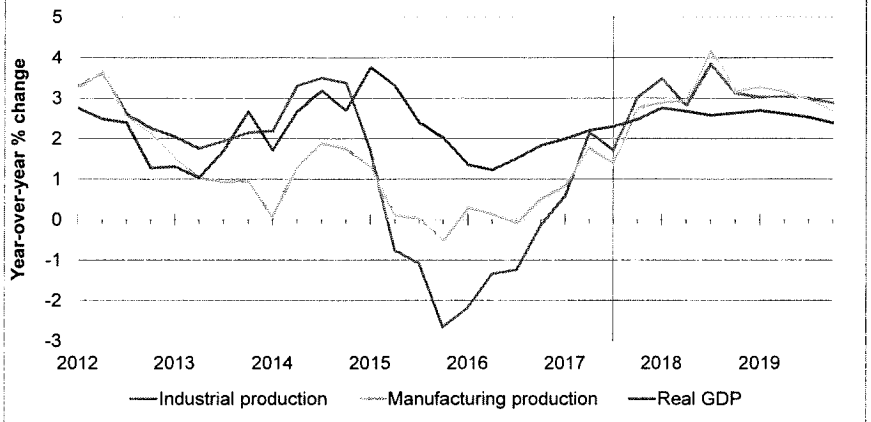
Industrial production is recovering as global demand strengthens and inventory investment resumes

Industrial production and real GDP



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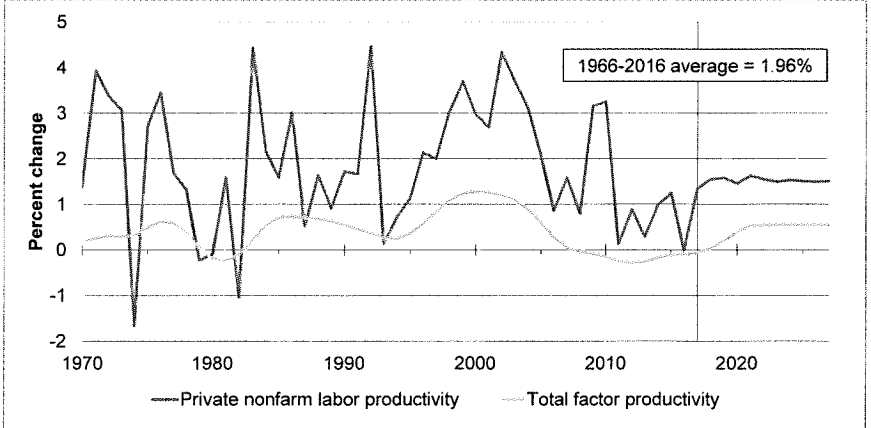
Labor productivity is reviving; gains in total factor productivity will follow

Productivity



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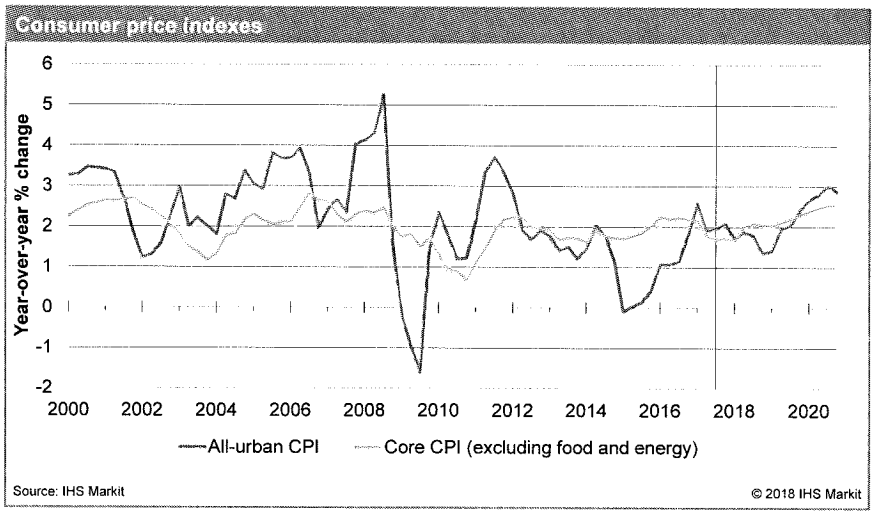
Core consumer price inflation is fluctuating around 2%



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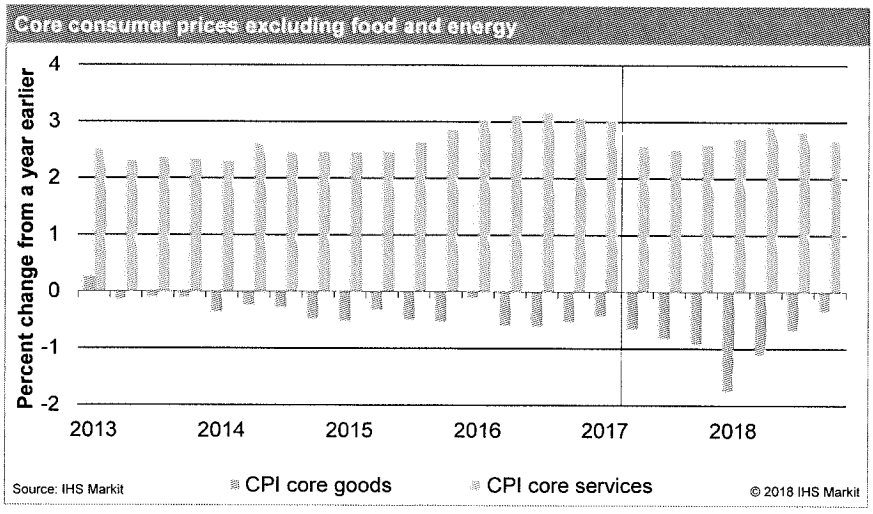
Goods prices expected to turn positive in 2019 but remain outpaced by services



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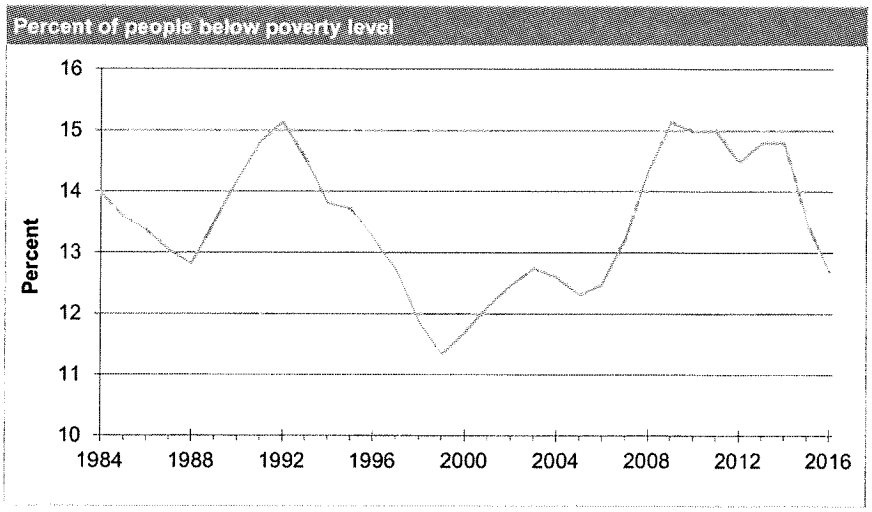
Poverty rate pushed lower in 2015 and 2016



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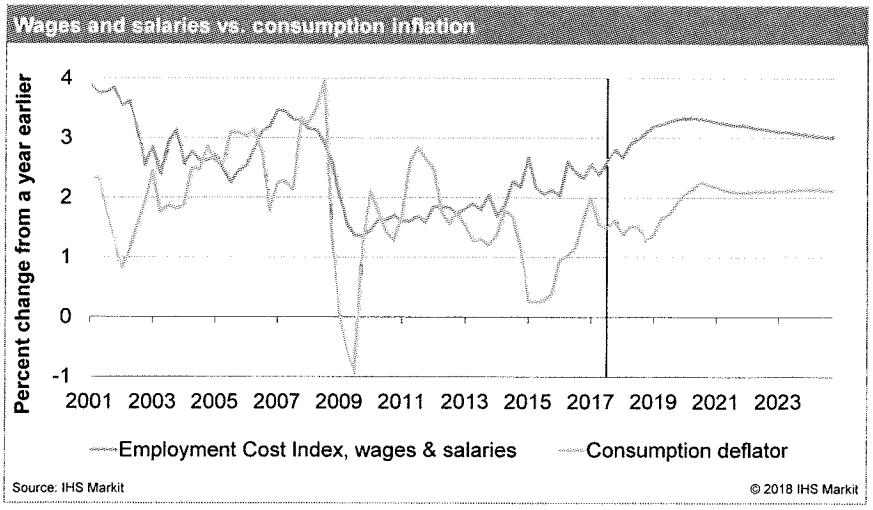
Wage gains will continue to outpace inflation



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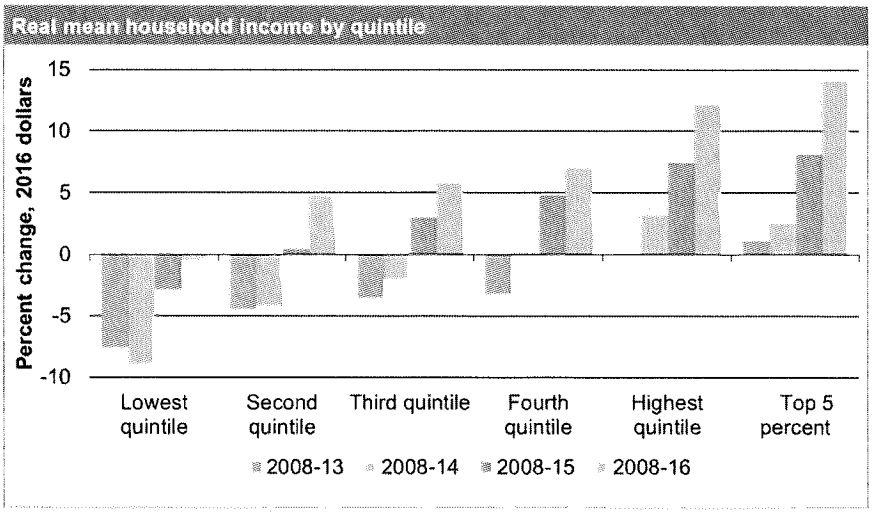
Incomes pushed past prerecession levels for most households in 2015-2016



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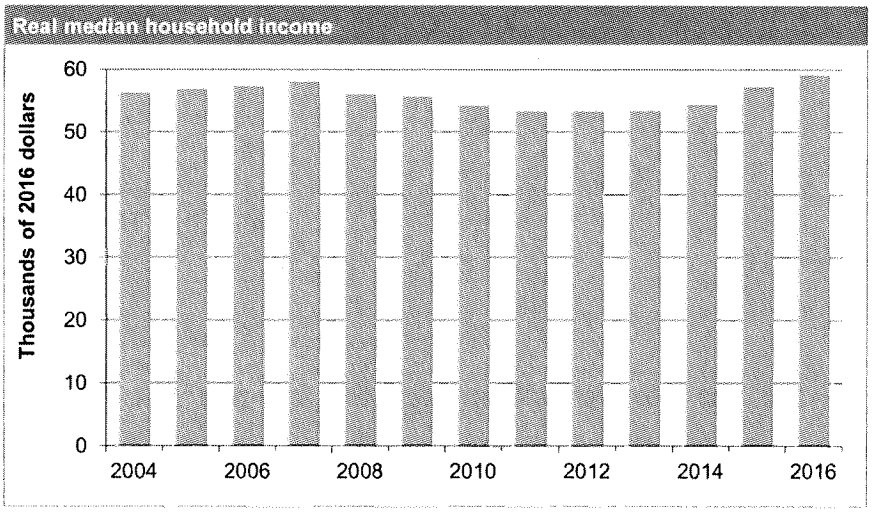
Real median household income made strides in last two years



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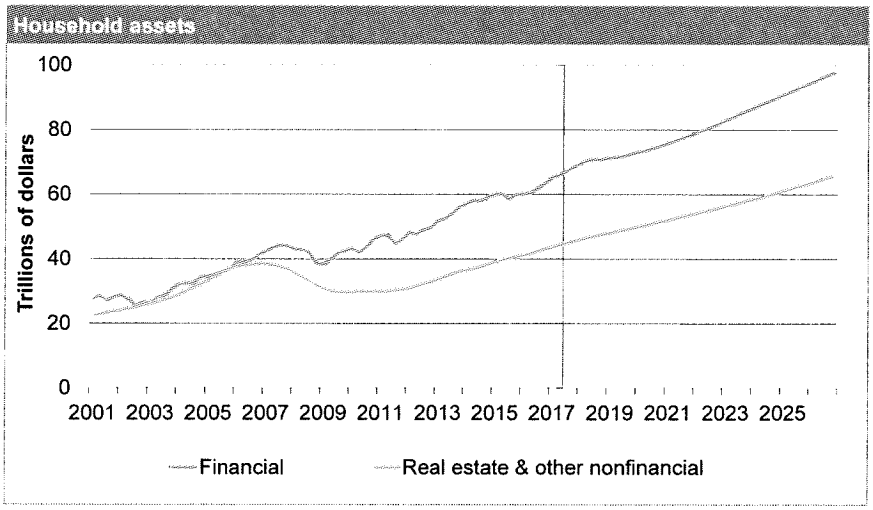
Household financial and real estate assets are rising



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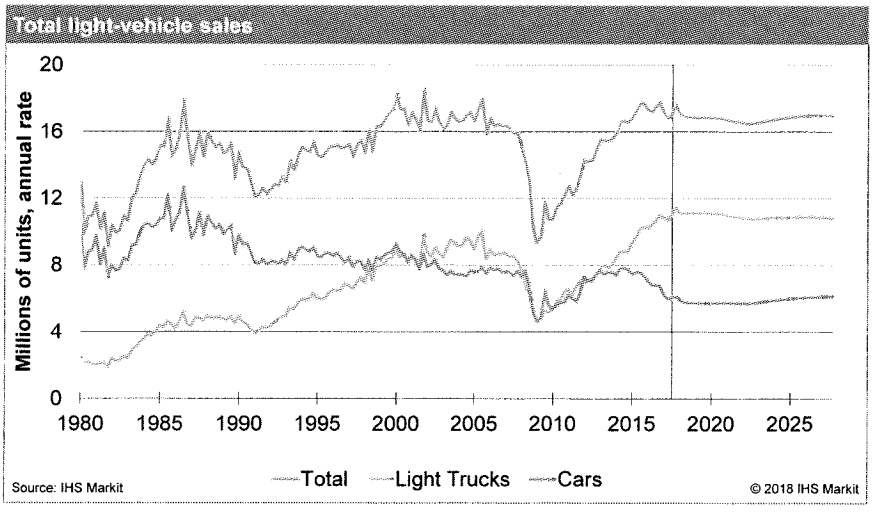
US light-vehicle sales have reached their peak; light trucks will continue to outsell cars



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Clicks outpacing the bricks

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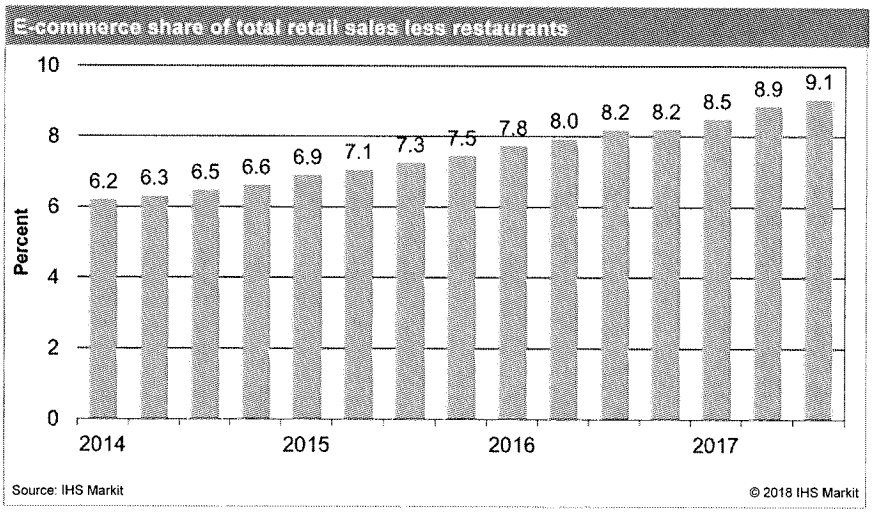
E-commerce share of retail trade pushed further up in the third quarter



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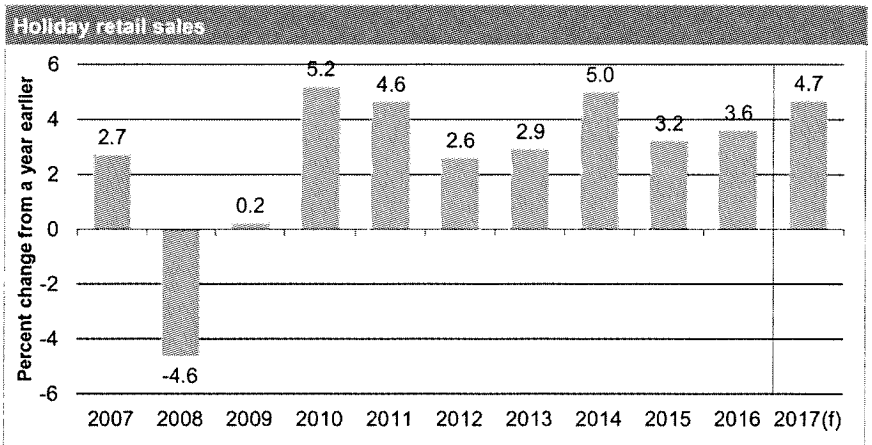
Holiday retail sales growth maintains solid pace



Notes: NSA November and December total retail sales less auto dealerships, gasoline, and food services

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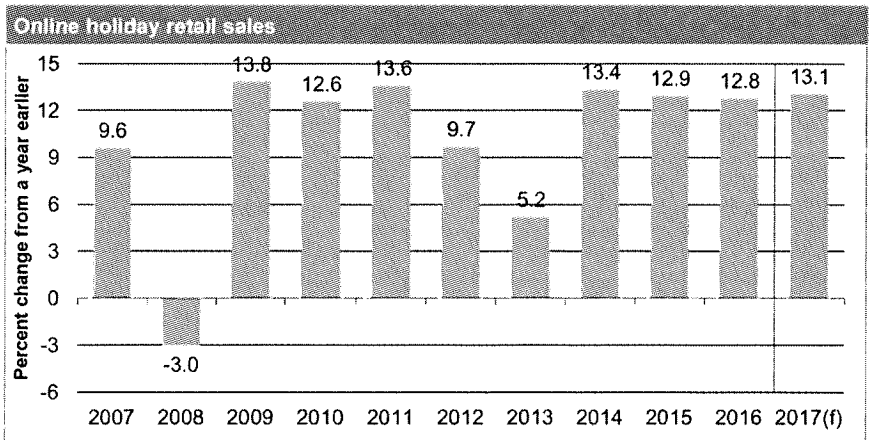
Online holiday retail sales growth to maintain brisk pace



Notes: NSA November and December total retail sales less auto dealerships, gasoline, and food services

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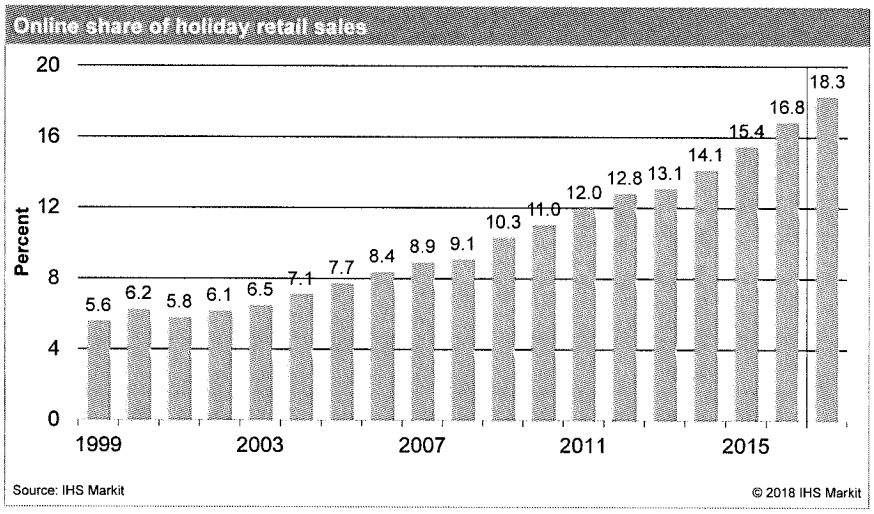
Online share of holiday retail sales



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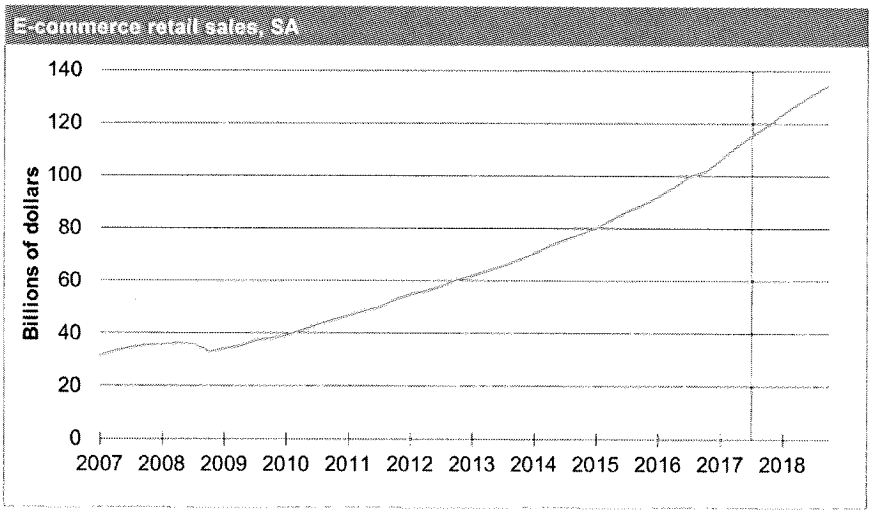
Retail sales: e-commerce retail



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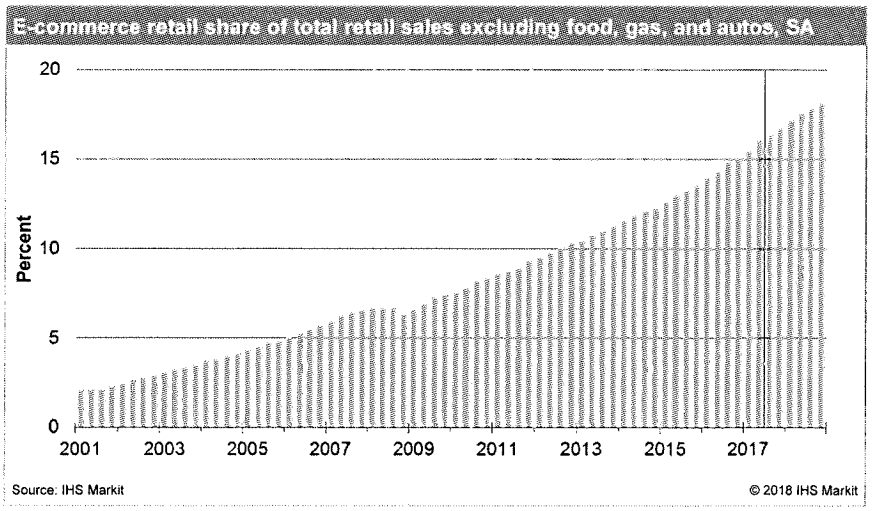
E-commerce retail share expanding



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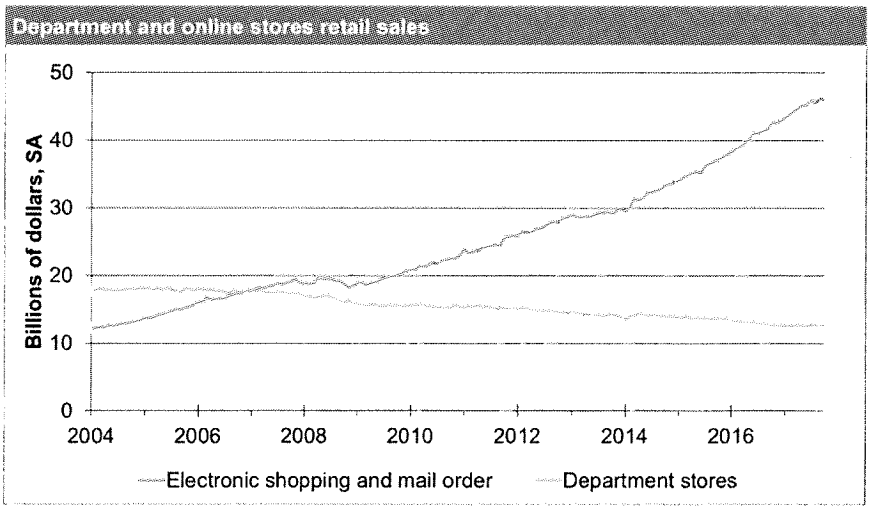
Clicks outpacing the bricks



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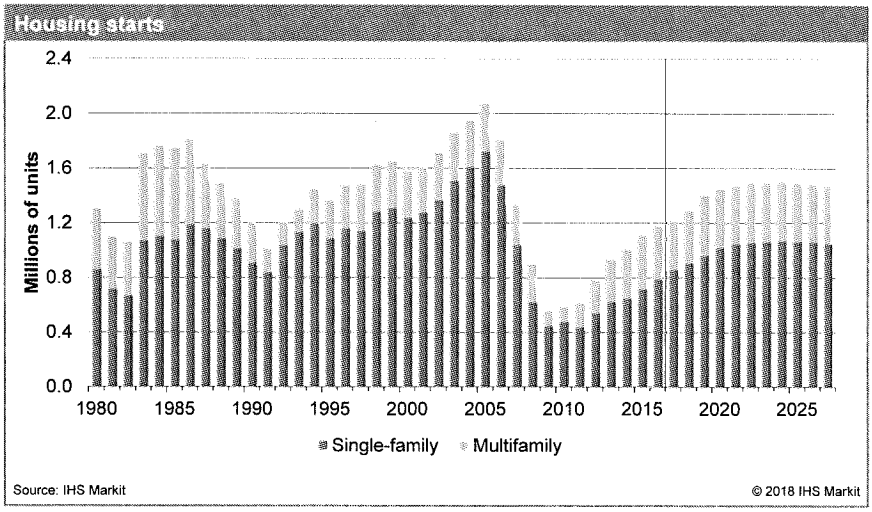
US housing starts continue their slow recovery



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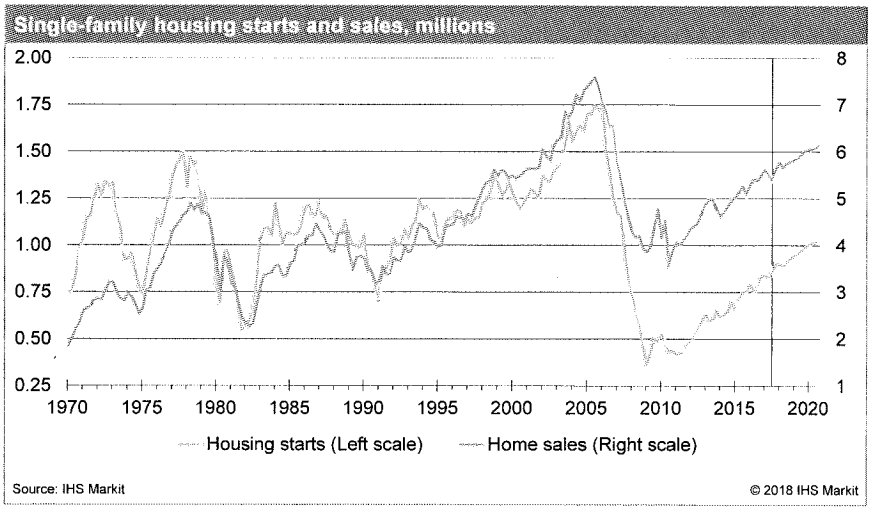
Single-family home sales and construction are not expected to regain their 2005 peaks



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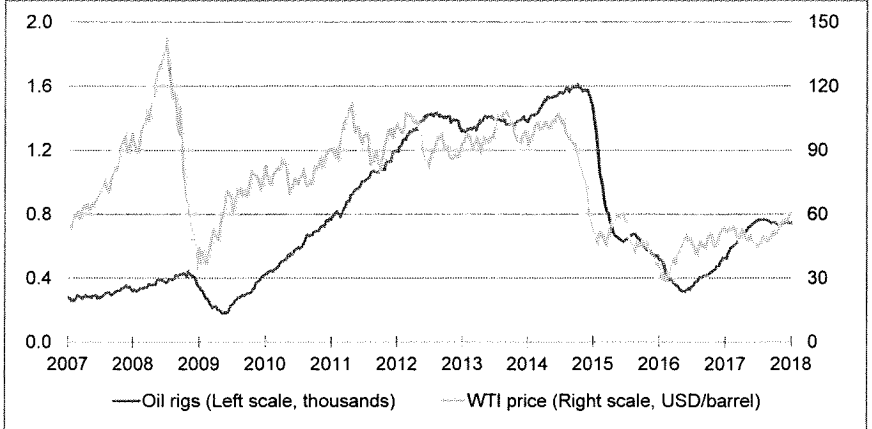
US oil drilling follows crude oil prices

Weekly oil rig count and West Texas Intermediate crude oil price



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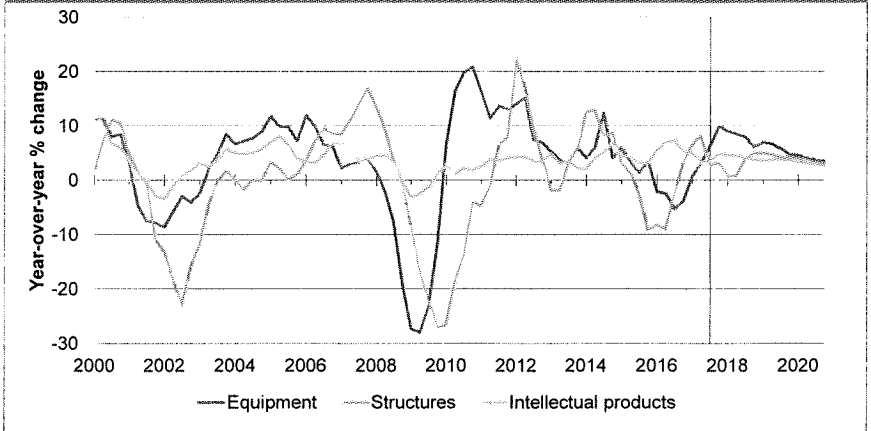
Near-term growth in real capital spending is led by equipment

Real business fixed investment



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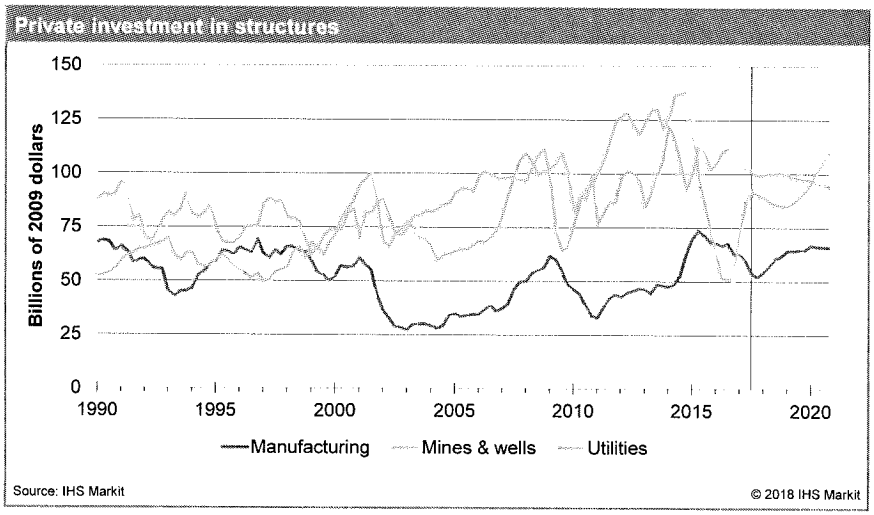
Different investment cycles in industrial structures



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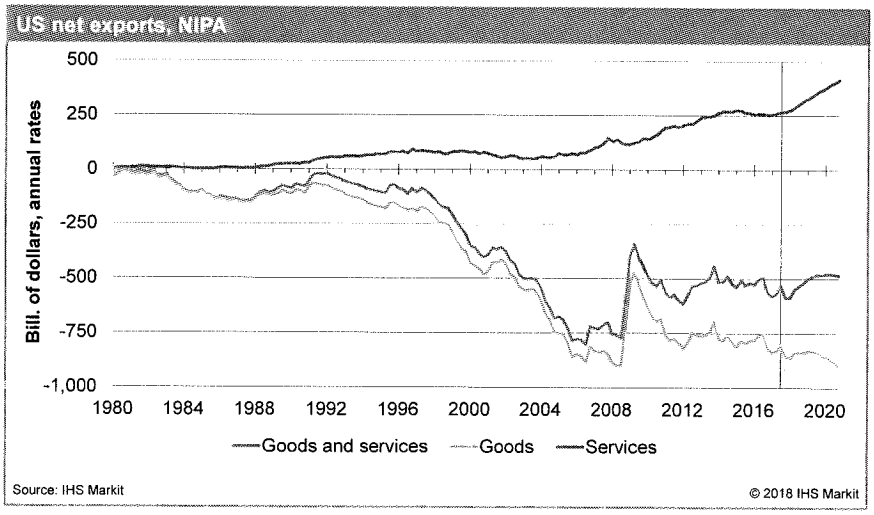
The US surplus in services trade partially offsets the deficit in merchandise trade



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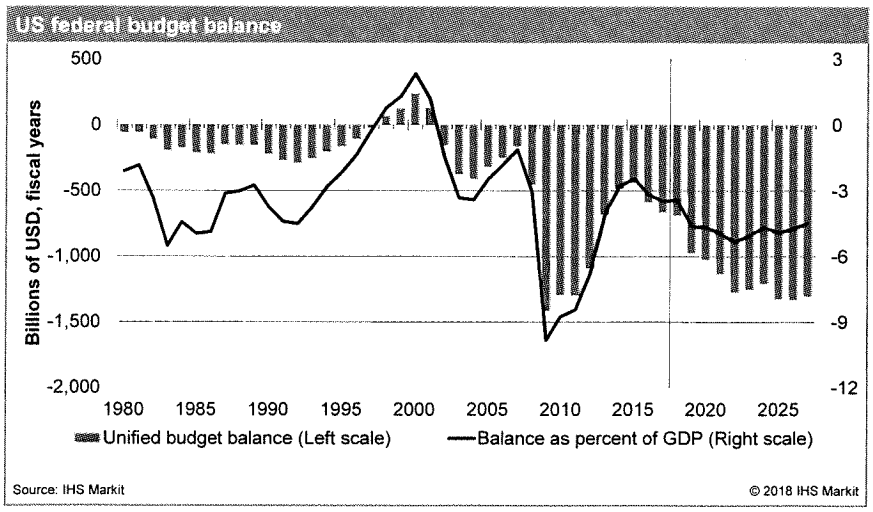
US federal budget deficits will increase after fiscal 2018



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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%.

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