The US Economic Outlook

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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• Interest rates will rise significantly over the next three years as monetary accommodation is withdrawn.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

Real GDP and unemployment rate

Percent change

<table>
<thead>
<tr>
<th>Component</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP</td>
<td>2.4</td>
<td>3.1</td>
<td>2.7</td>
<td>2.7</td>
</tr>
<tr>
<td>Consumption</td>
<td>2.5</td>
<td>3.4</td>
<td>3.0</td>
<td>2.9</td>
</tr>
<tr>
<td>Residential investment</td>
<td>1.6</td>
<td>11.1</td>
<td>11.3</td>
<td>7.9</td>
</tr>
<tr>
<td>Business fixed investment</td>
<td>6.3</td>
<td>4.8</td>
<td>5.4</td>
<td>5.6</td>
</tr>
<tr>
<td>Federal government</td>
<td>-2.0</td>
<td>-0.3</td>
<td>-0.4</td>
<td>-0.7</td>
</tr>
<tr>
<td>State &amp; local government</td>
<td>0.9</td>
<td>1.2</td>
<td>0.9</td>
<td>1.0</td>
</tr>
<tr>
<td>Exports</td>
<td>3.2</td>
<td>3.9</td>
<td>3.3</td>
<td>3.8</td>
</tr>
<tr>
<td>Imports</td>
<td>3.8</td>
<td>5.3</td>
<td>5.6</td>
<td>5.3</td>
</tr>
</tbody>
</table>
Other key US indicators

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

Interest rates will rise from exceptionally low levels

---Federal funds ---10-year Treasury ---30-year mortgage ---BAA corporate
US employment growth will decelerate

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

![Graph showing crude oil and natural gas prices over time](image-url)

**Crude oil and natural gas prices**

- Crude oil, WTI (Left scale)
- Natural gas, Henry Hub (Right scale)

*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

<table>
<thead>
<tr>
<th>Consumer market indicators</th>
<th>Percent change</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real consumption</td>
<td></td>
<td>2.5</td>
<td>3.4</td>
<td>3.0</td>
<td>2.9</td>
</tr>
<tr>
<td>Real disposable income</td>
<td></td>
<td>2.4</td>
<td>3.3</td>
<td>2.8</td>
<td>3.6</td>
</tr>
<tr>
<td>Real household net worth</td>
<td></td>
<td>6.9</td>
<td>4.8</td>
<td>1.9</td>
<td>2.3</td>
</tr>
<tr>
<td>Payroll employment</td>
<td></td>
<td>1.8</td>
<td>2.0</td>
<td>1.8</td>
<td>1.2</td>
</tr>
<tr>
<td>Real wage rate</td>
<td></td>
<td>0.7</td>
<td>2.4</td>
<td>1.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Consumption price deflator</td>
<td></td>
<td>1.3</td>
<td>0.5</td>
<td>1.6</td>
<td>2.0</td>
</tr>
<tr>
<td>Light-vehicle sales (Millions)</td>
<td></td>
<td>16.4</td>
<td>16.9</td>
<td>17.2</td>
<td>17.5</td>
</tr>
<tr>
<td>Single-family home sales (Millions)</td>
<td></td>
<td>4.77</td>
<td>5.29</td>
<td>5.68</td>
<td>5.63</td>
</tr>
</tbody>
</table>
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.

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

Millions of units

2.5
2.0
1.5
1.0
0.5

2003 2005 2007 2009 2011 2013 2015 2017

Index, 1991Q1 = 100

--- Housing starts (Left scale) --- FHFA house price index* (Right scale)

* Purchase-only index

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

Housing starts and formation

Millions

2.1
1.8
1.5
1.2
1.0
0.8
0.6
0.4
0.2
0.0


--- Housing starts --- Household 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
The gap between federal expenditures and revenues has narrowed but will not close

Government spending on Social Security and healthcare will increase as the population ages
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.
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%.
Appendix I
# US industrial production growth

<table>
<thead>
<tr>
<th>Industrial production</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>All manufacturing</td>
<td>3.9</td>
<td>4.3</td>
<td>3.8</td>
<td>2.9</td>
</tr>
<tr>
<td>Motor vehicles &amp; parts</td>
<td>8.1</td>
<td>7.5</td>
<td>2.8</td>
<td>0.6</td>
</tr>
<tr>
<td>Computers &amp; electronics</td>
<td>4.7</td>
<td>7.1</td>
<td>10.1</td>
<td>7.9</td>
</tr>
<tr>
<td>Electrical equip. &amp; appliances</td>
<td>3.2</td>
<td>3.2</td>
<td>4.9</td>
<td>3.8</td>
</tr>
<tr>
<td>Machinery</td>
<td>6.9</td>
<td>3.3</td>
<td>2.4</td>
<td>4.1</td>
</tr>
<tr>
<td>Textiles</td>
<td>1.7</td>
<td>1.8</td>
<td>-1.1</td>
<td>-2.0</td>
</tr>
<tr>
<td>Furniture</td>
<td>6.7</td>
<td>6.2</td>
<td>4.6</td>
<td>2.6</td>
</tr>
<tr>
<td>Chemicals</td>
<td>2.3</td>
<td>4.9</td>
<td>3.3</td>
<td>4.7</td>
</tr>
</tbody>
</table>

# US real construction growth by sector

<table>
<thead>
<tr>
<th>Real investment in structures</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total construction</td>
<td>4.6</td>
<td>4.9</td>
<td>7.9</td>
<td>8.5</td>
</tr>
<tr>
<td>Residential</td>
<td>1.5</td>
<td>11.2</td>
<td>11.4</td>
<td>7.9</td>
</tr>
<tr>
<td>Commercial</td>
<td>12.4</td>
<td>11.1</td>
<td>16.2</td>
<td>12.8</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>12.2</td>
<td>9.7</td>
<td>-10.2</td>
<td>4.3</td>
</tr>
<tr>
<td>Mines &amp; wells</td>
<td>8.2</td>
<td>-15.2</td>
<td>-2.2</td>
<td>11.6</td>
</tr>
<tr>
<td>Healthcare</td>
<td>-8.7</td>
<td>9.9</td>
<td>12.2</td>
<td>10.9</td>
</tr>
<tr>
<td>Public utilities</td>
<td>10.9</td>
<td>-7.8</td>
<td>-1.6</td>
<td>3.8</td>
</tr>
<tr>
<td>Highways &amp; streets</td>
<td>0.7</td>
<td>2.4</td>
<td>0.6</td>
<td>1.1</td>
</tr>
<tr>
<td>Public education</td>
<td>0.1</td>
<td>4.4</td>
<td>2.0</td>
<td>2.4</td>
</tr>
</tbody>
</table>
Asia-Pacific (excluding Japan) and Sub-Saharan Africa will achieve the fastest growth in real GDP

Appendix II – Income distribution
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

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

Real median household income

Percent change, 2006-2013

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

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American household median income has stagnated.

 Thousands of 2013 dollars

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

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Poverty rate finally dipped in 2013.

Population living below the poverty line

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

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Wages are growing faster than consumption, bolstering spending growth.

Food matters more than gasoline.
## Pump price relief: Food for thought

### Spending and living conditions by income quintile (2013)

<table>
<thead>
<tr>
<th>Income Quintile</th>
<th>Income per Household</th>
<th>People per Household</th>
<th>Vehicles per Household</th>
<th>Percent share of total spending</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lowest 20%</td>
<td>&lt;$18k</td>
<td>1.7</td>
<td>0.9</td>
<td>11.2  5.1  5.5</td>
</tr>
<tr>
<td>Second 20%</td>
<td>$18k - $36k</td>
<td>2.2</td>
<td>1.4</td>
<td>9.9   4.8  5.7</td>
</tr>
<tr>
<td>Third 20%</td>
<td>$37k - $58k</td>
<td>2.5</td>
<td>1.9</td>
<td>8.5   5.0  6.2</td>
</tr>
<tr>
<td>Fourth 20%</td>
<td>$59k - $95k</td>
<td>2.8</td>
<td>2.3</td>
<td>7.6   5.4  5.6</td>
</tr>
<tr>
<td>Highest 20%</td>
<td>$96k+</td>
<td>3.2</td>
<td>2.8</td>
<td>6.1   5.2  4.1</td>
</tr>
</tbody>
</table>


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