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# The US Economic Outlook

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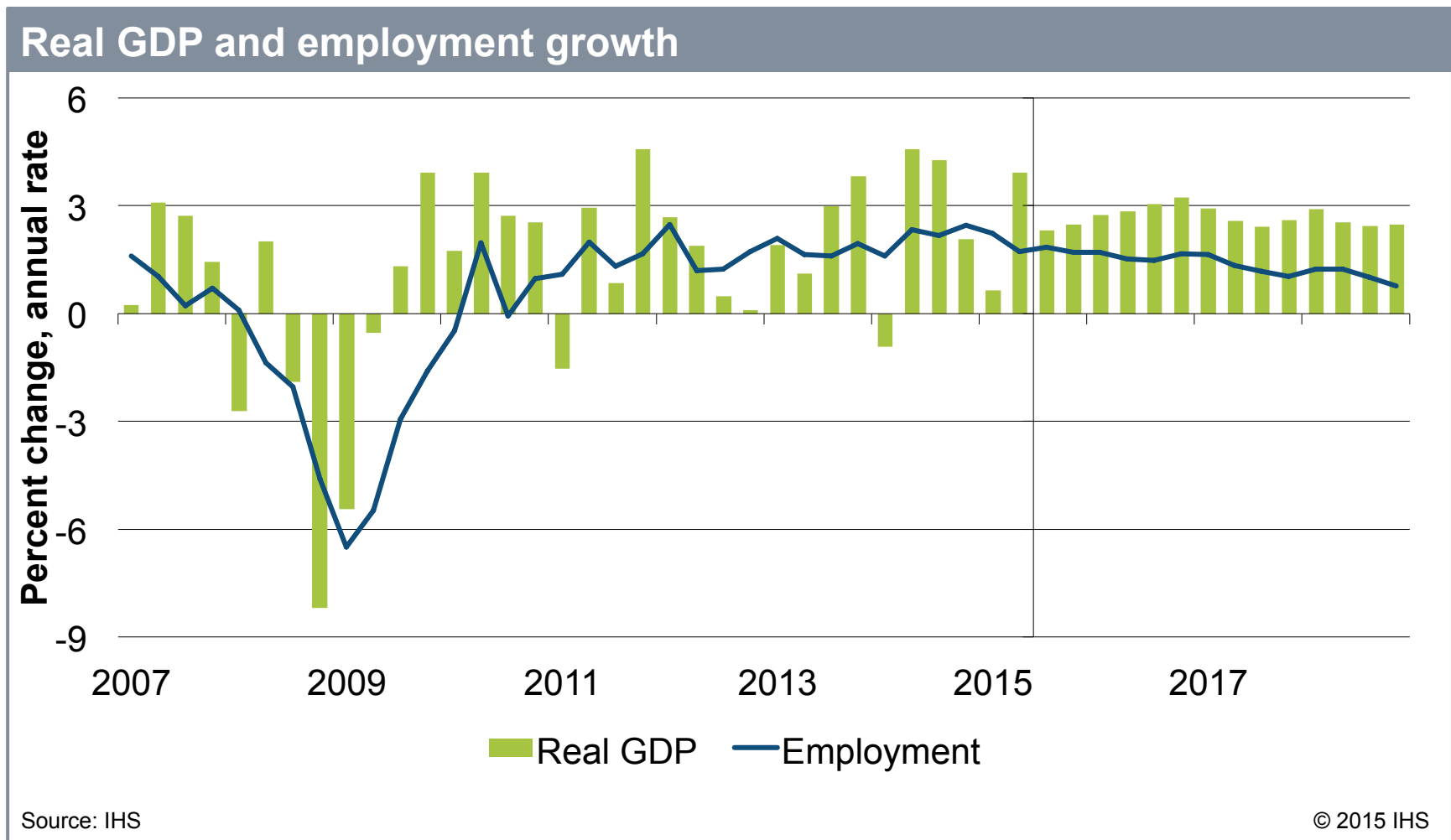
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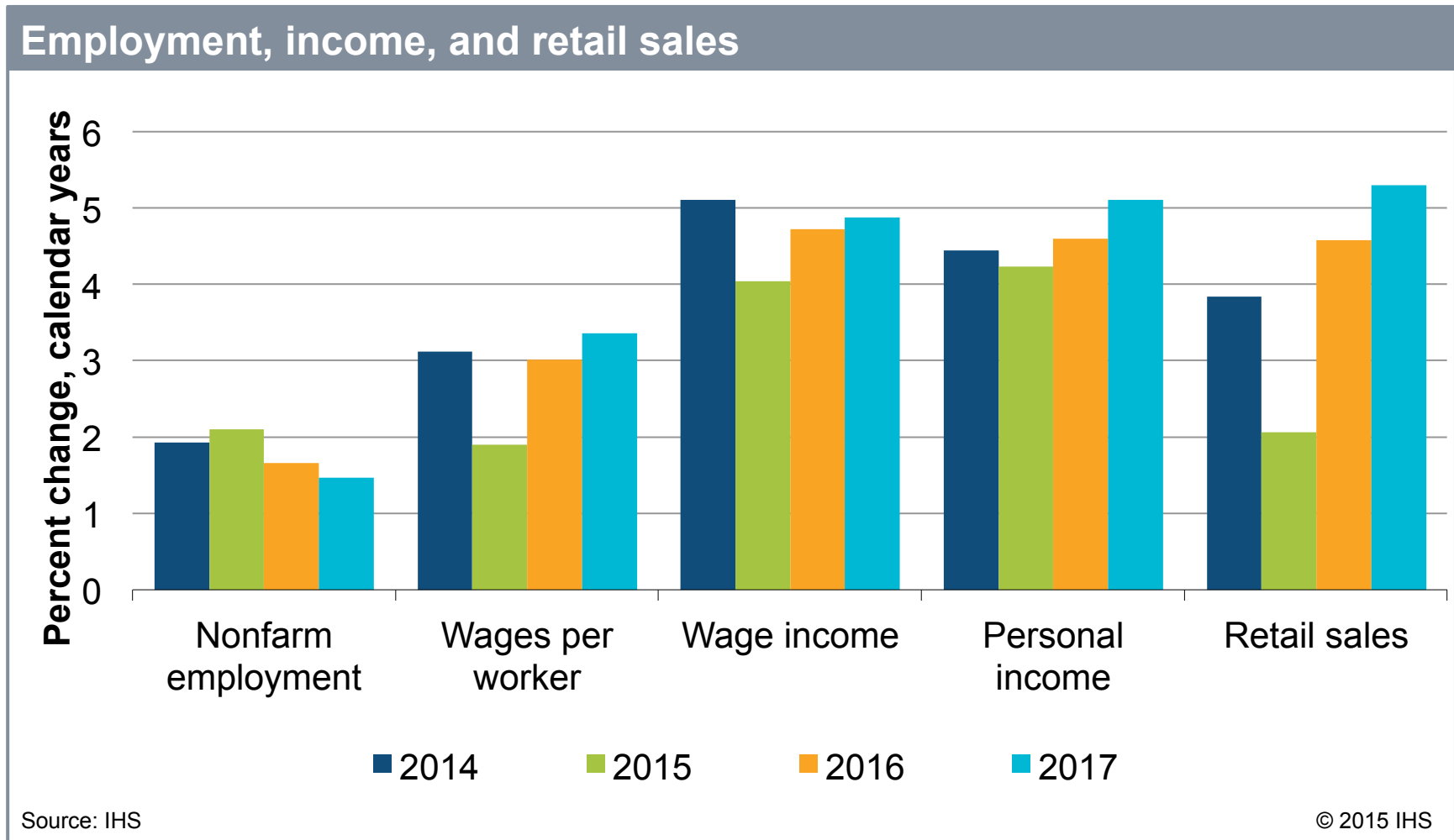
## The US economy can weather the recent turbulence in global financial and commodity markets

- Final sales to domestic purchasers are growing at a robust pace.
- A slowdown in inventory accumulation will restrain near-term real GDP and industrial production growth.
- Consumer spending is supported by solid gains in employment, real disposable income, and housing asset values.
- Housing markets will steadily recover in response to rising employment, easing credit standards, and pent-up demand.
- Business investment in equipment, software, and commercial structures will post strong growth.
- Foreign trade will be a drag on US economic growth through 2017.

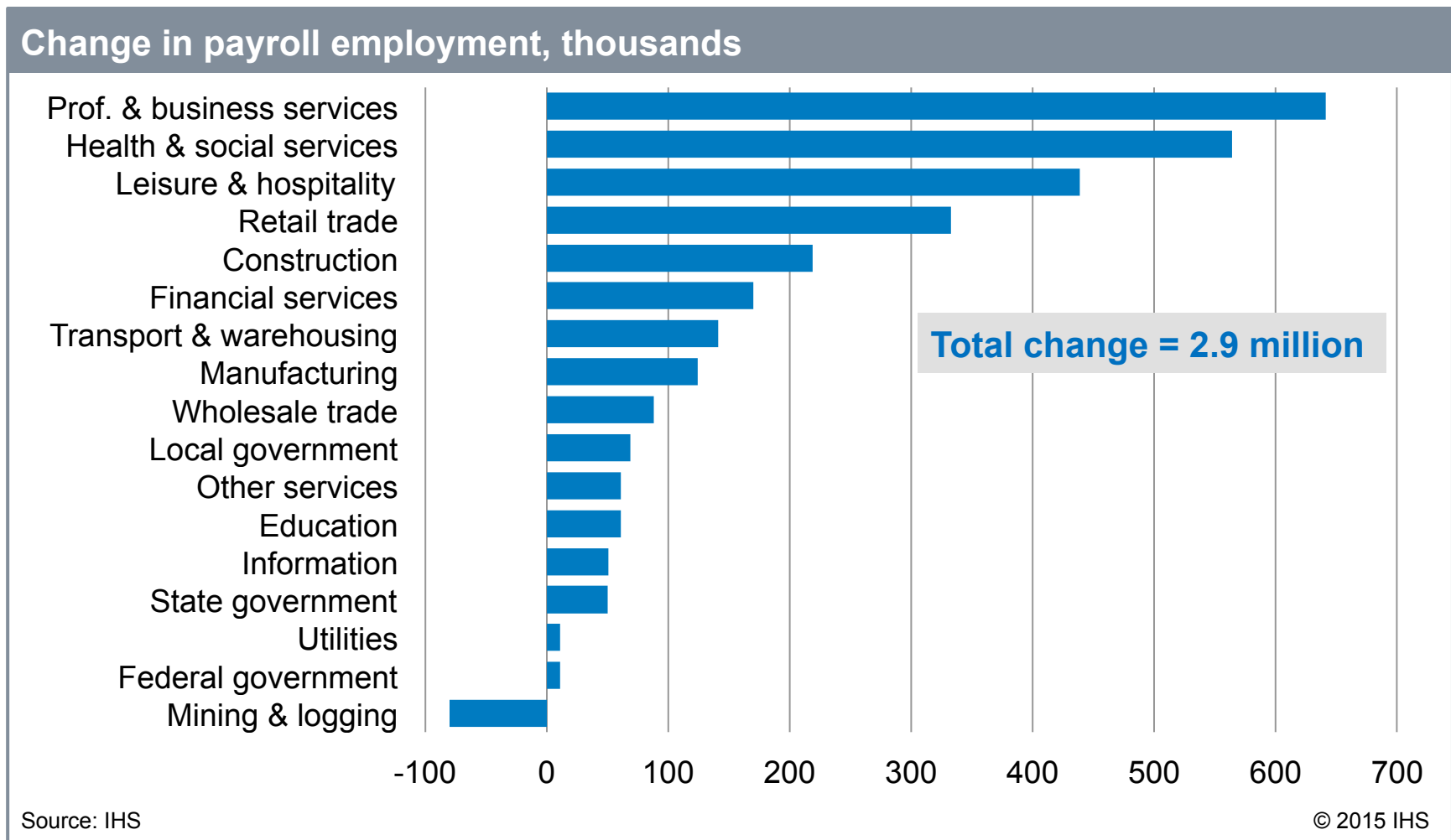
# Employment growth has been steadier than real GDP growth during the current expansion



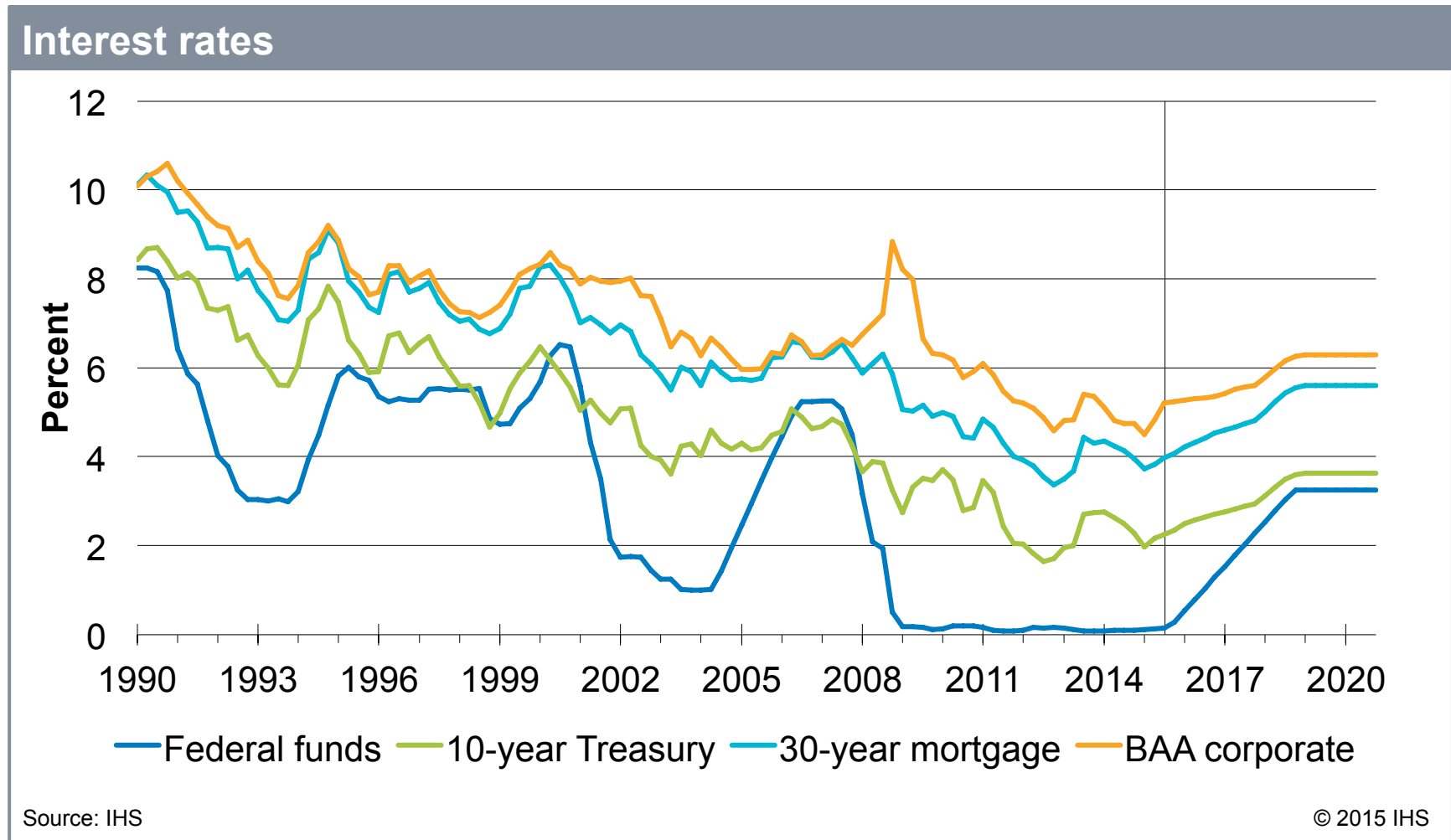
# Forces driving state government revenues



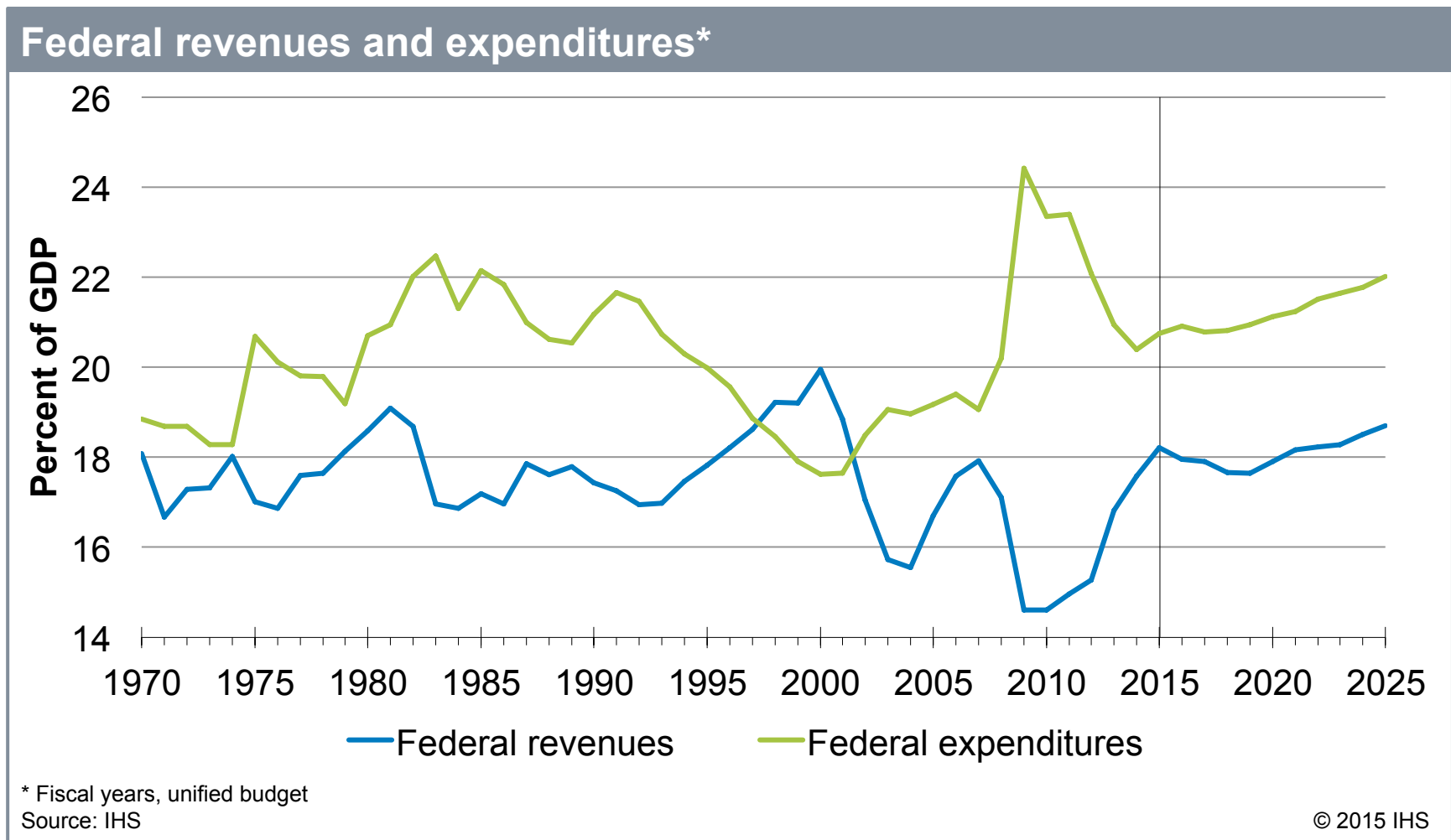
# Services recorded the largest employment increases during the 12 months ended August 2015



# Interest rates will rise from exceptionally low levels

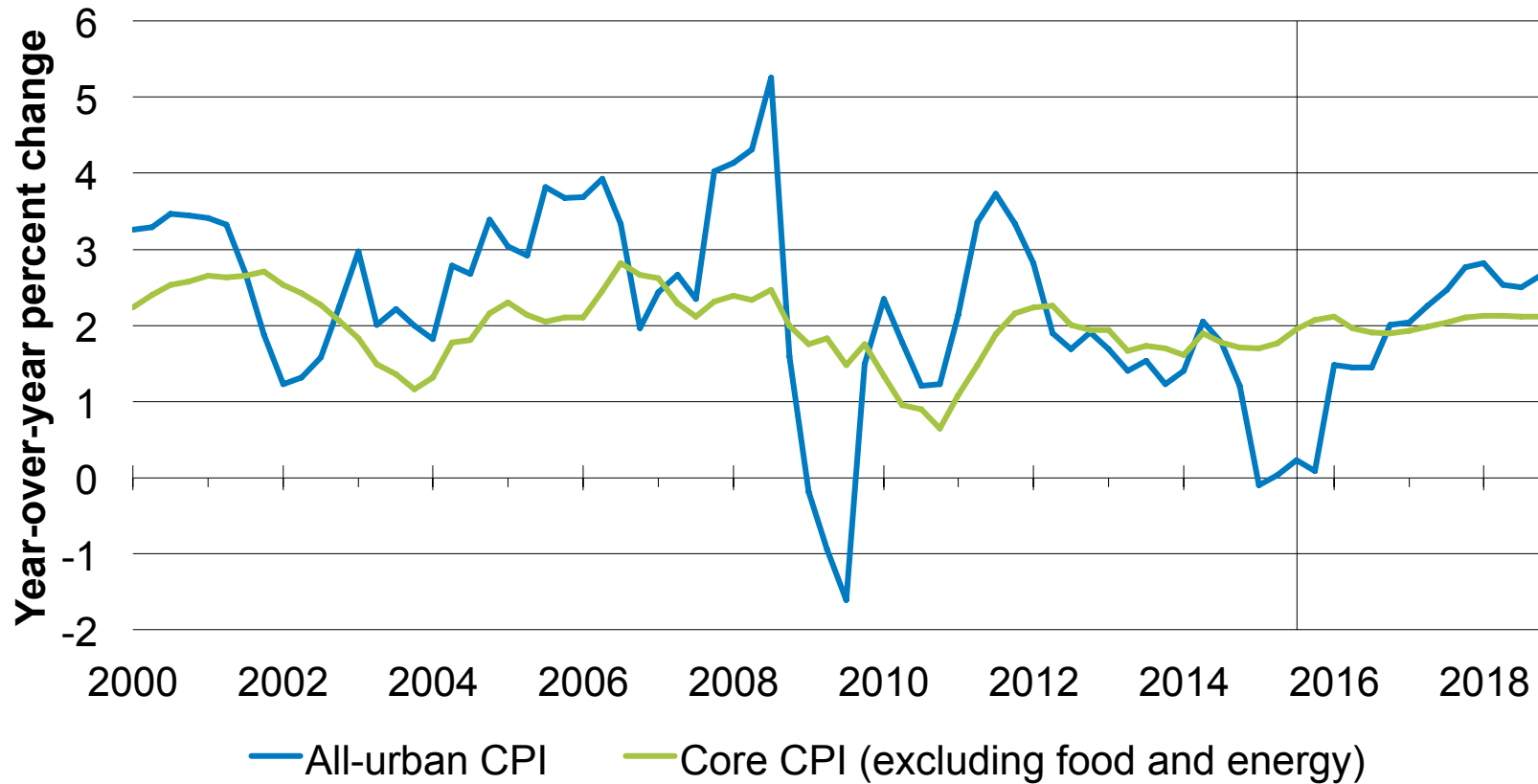


# The gap between federal expenditures and revenues is unlikely to close



# Consumer price inflation reflects volatility in commodity prices; core inflation will stay near 2%

## Inflation rates

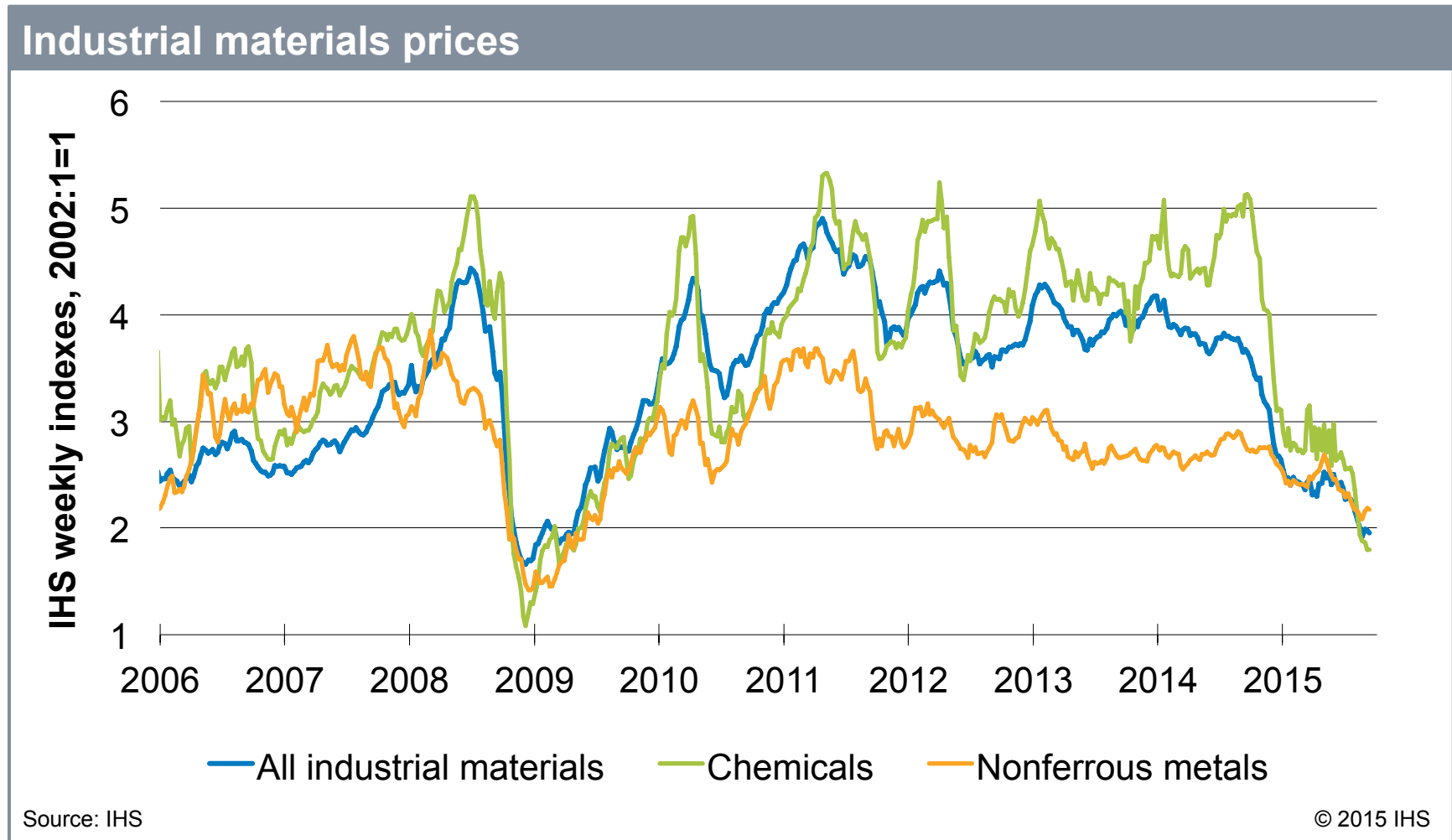


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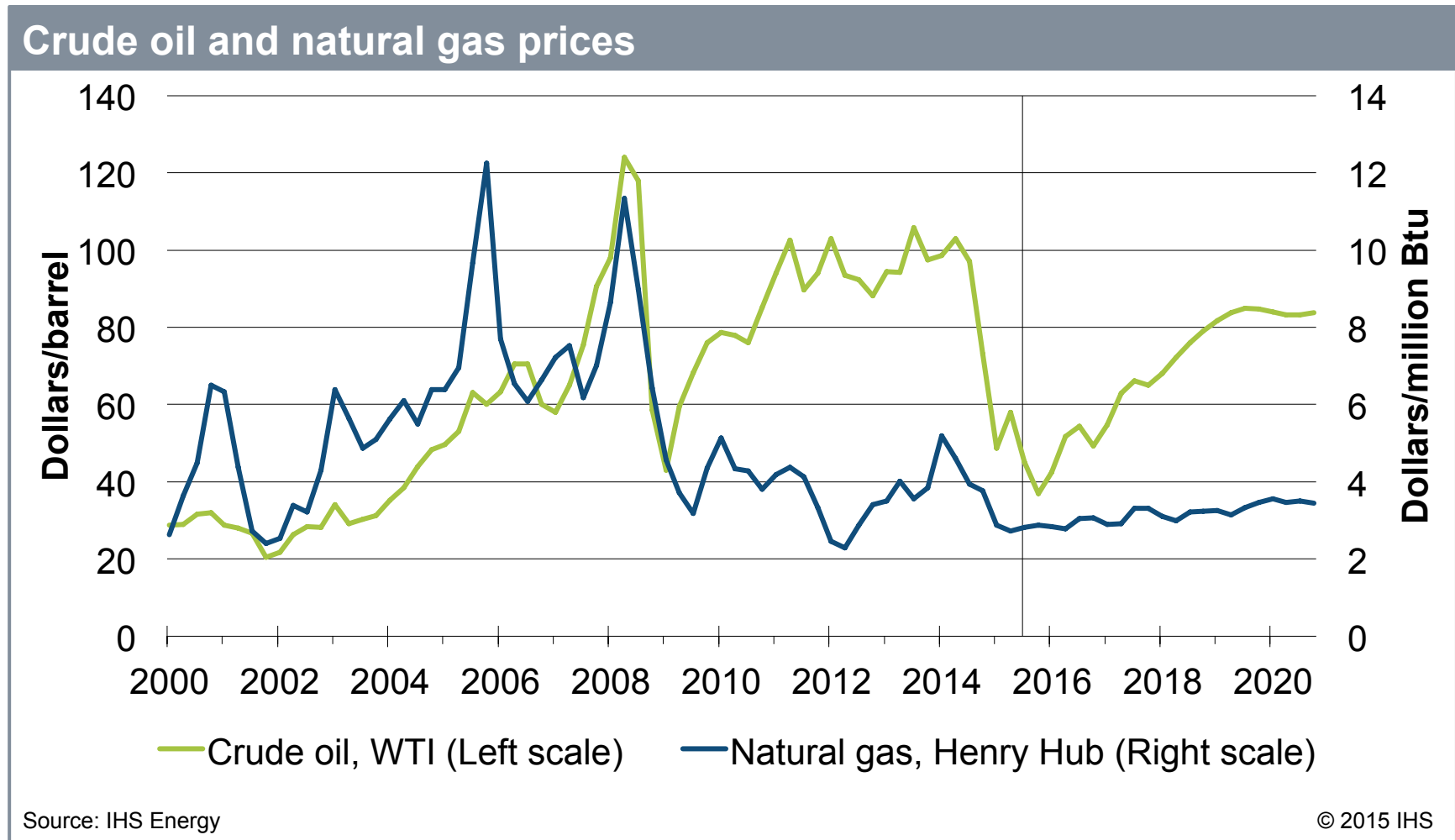
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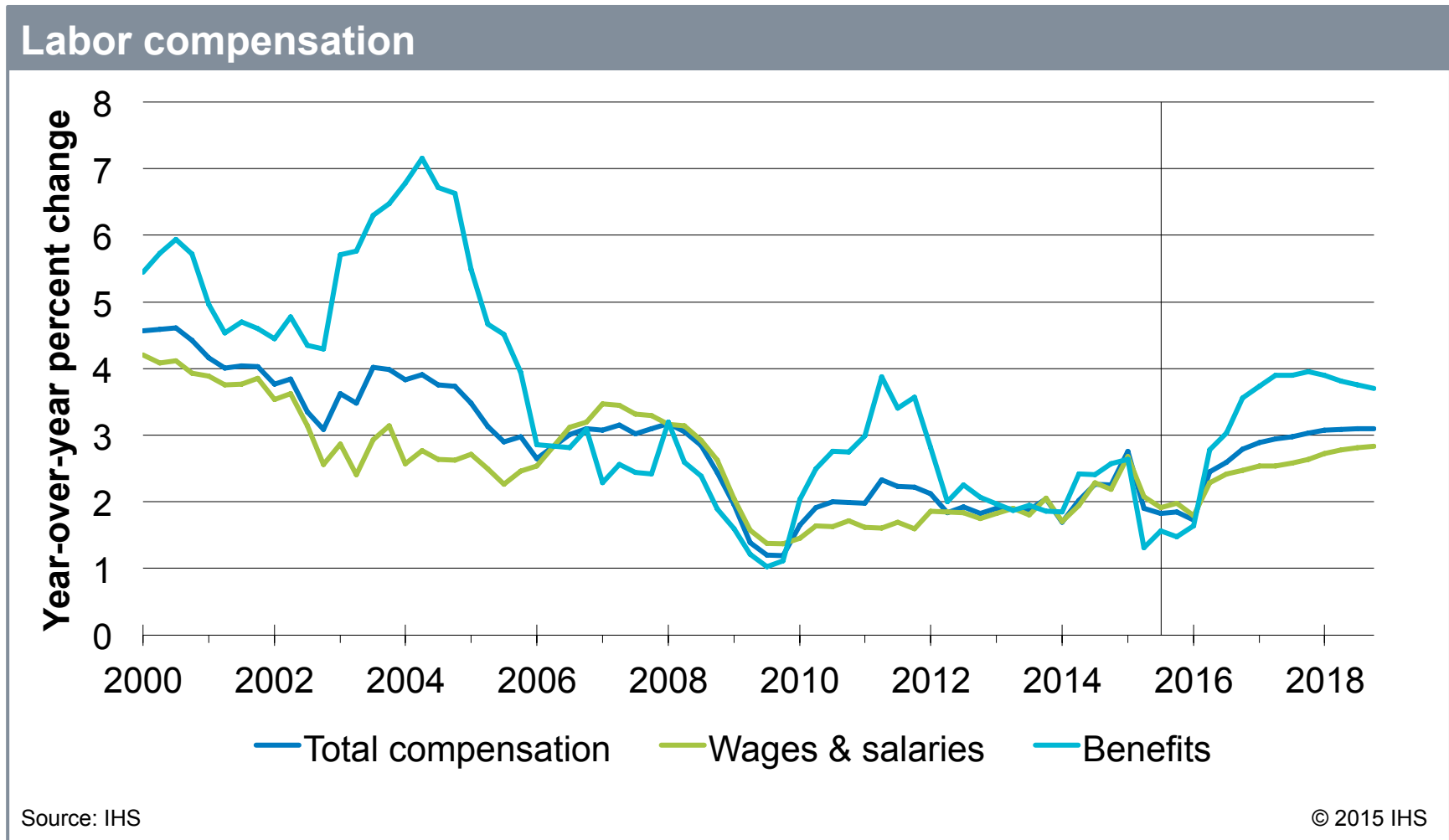
# Industrial materials prices are at six-year lows



# US crude oil prices and natural gas prices



# Worker compensation will accelerate as labor markets tighten and the Affordable Care Act is implemented



## US economic growth by sector

### Real GDP and its components

<b>Percent change</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Real GDP	2.4	2.5	2.8	2.8
Consumption	2.7	3.1	3.2	3.1
Residential investment	1.8	8.7	9.4	8.9
Business fixed investment	6.2	3.9	6.3	4.7
Federal government	-2.4	-0.3	0.2	0.1
State & local government	0.6	1.2	0.9	1.3
Exports	3.4	1.7	3.7	4.4
Imports	3.8	5.7	5.5	5.8

## Forces affecting consumer spending

### Positive forces

- Low energy prices
- Employment growth
- Rising disposable income
- High household net worth

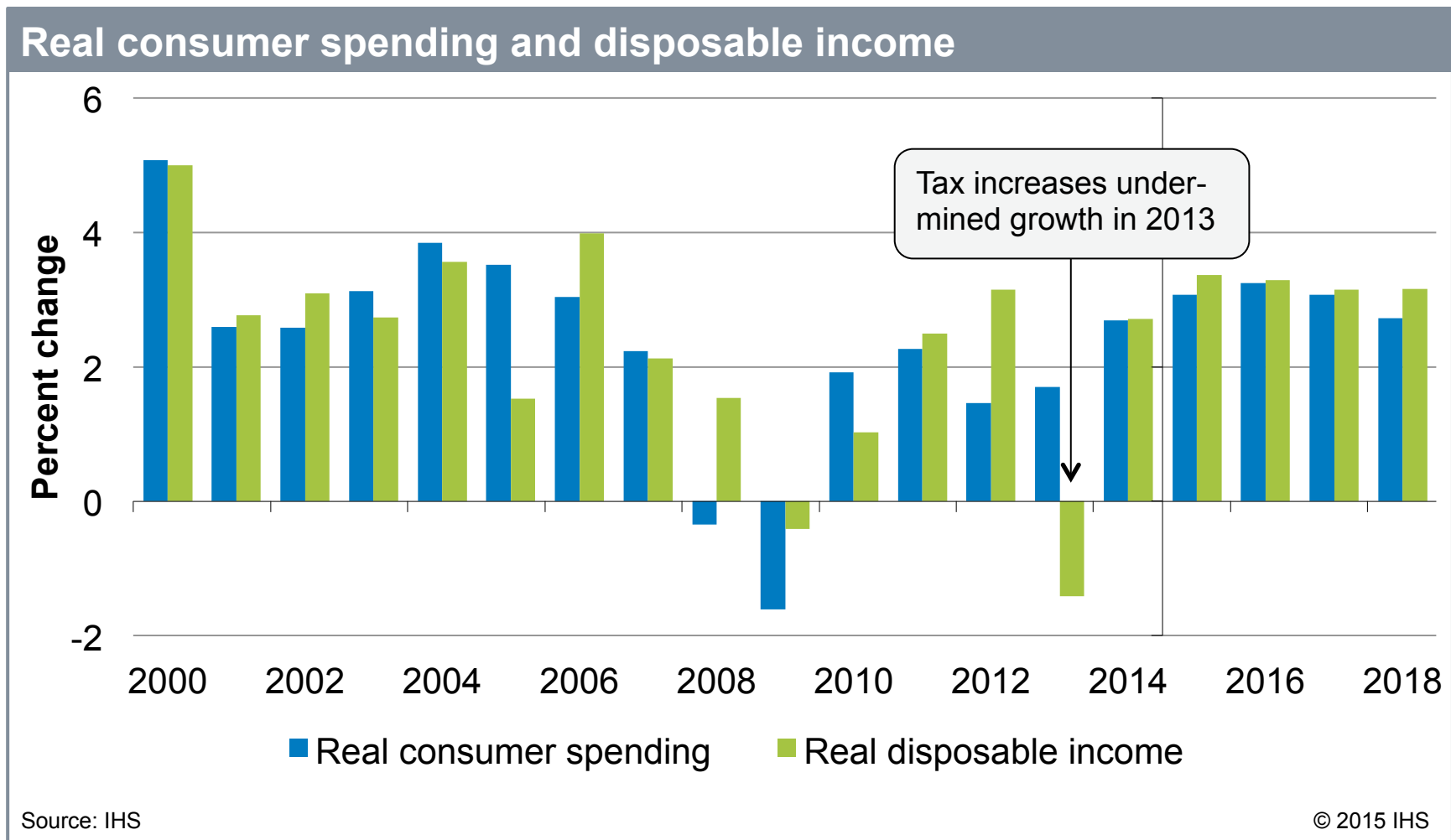


### Negative forces

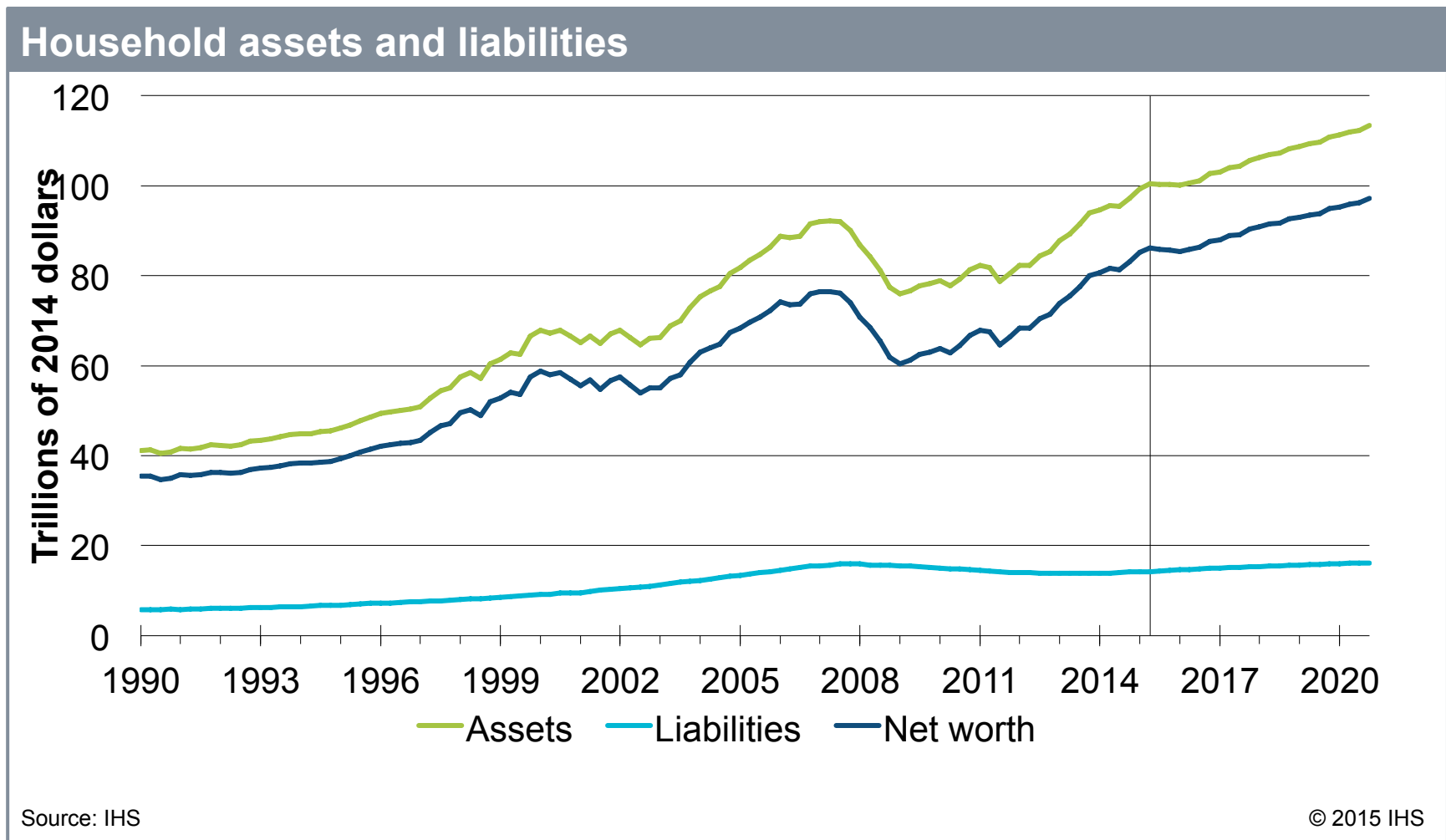
- Weak wage growth
- Rising student debt
- Delayed homeownership



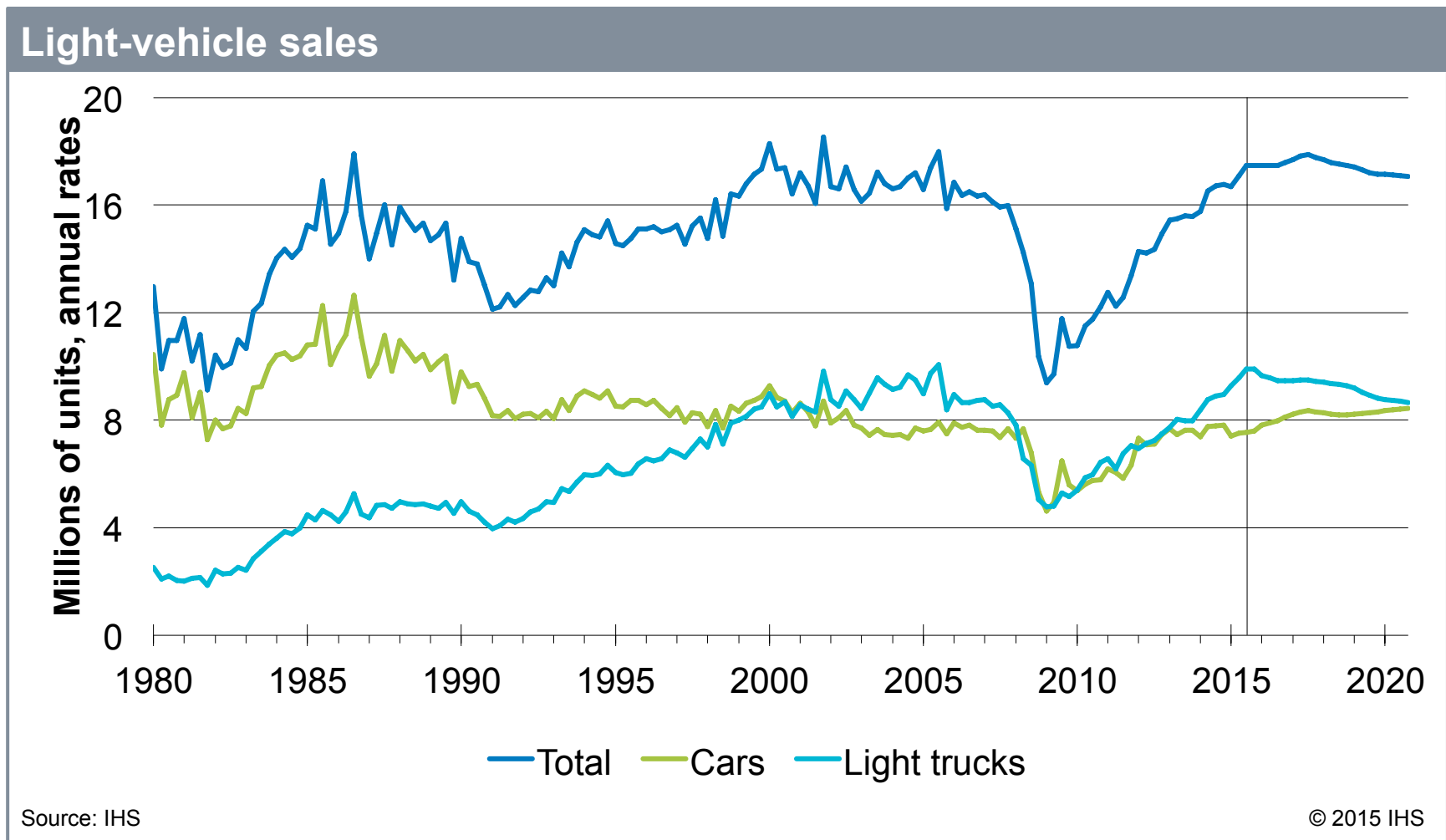
# Consumer spending growth depends on disposable income growth, which is strengthening in 2015



# Real household net worth reached a new high in the second quarter of 2015

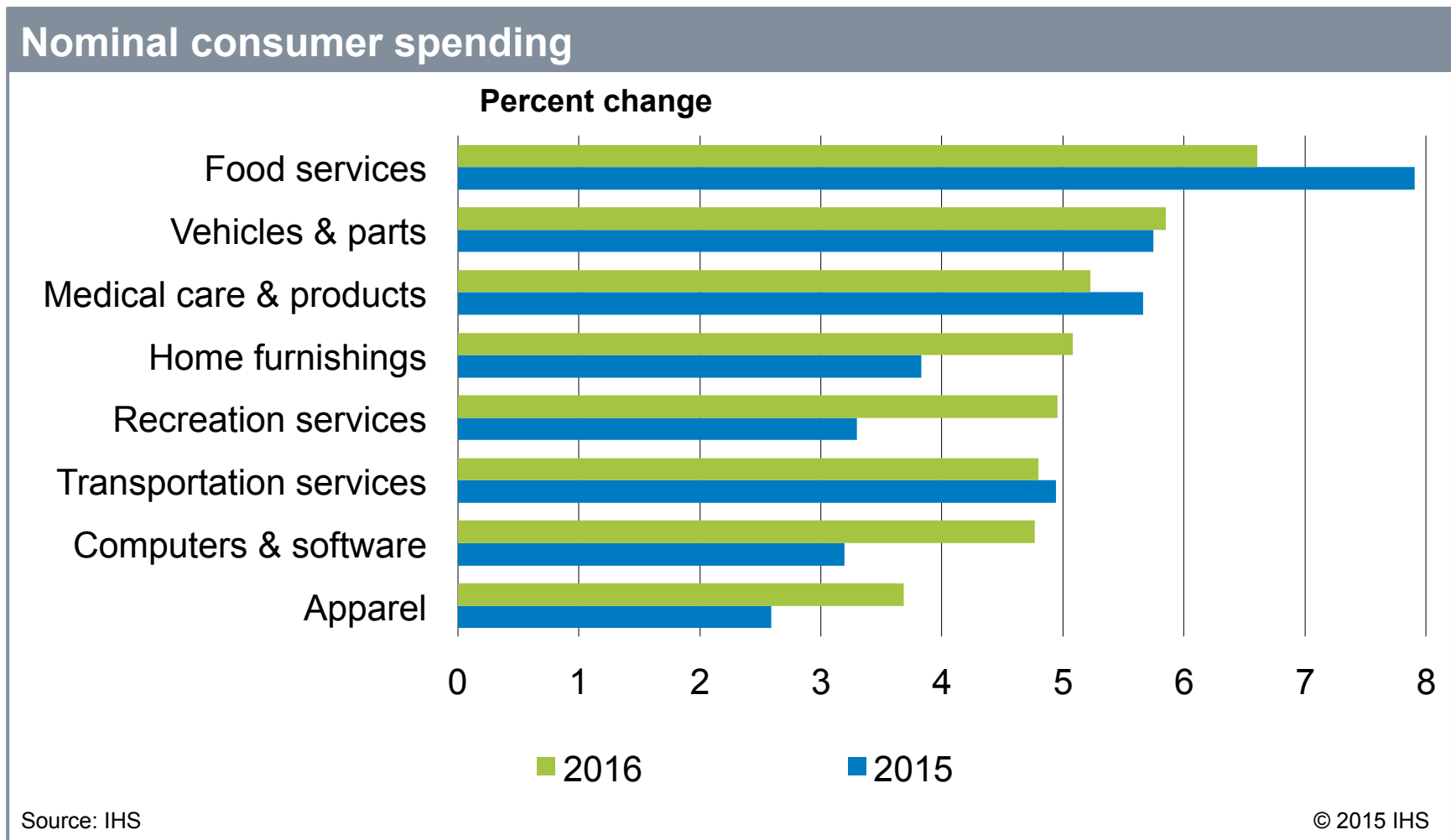


# The recovery in light-vehicle sales nears completion; low gasoline prices boost demand for light trucks





# The consumer spending expansion is broadening



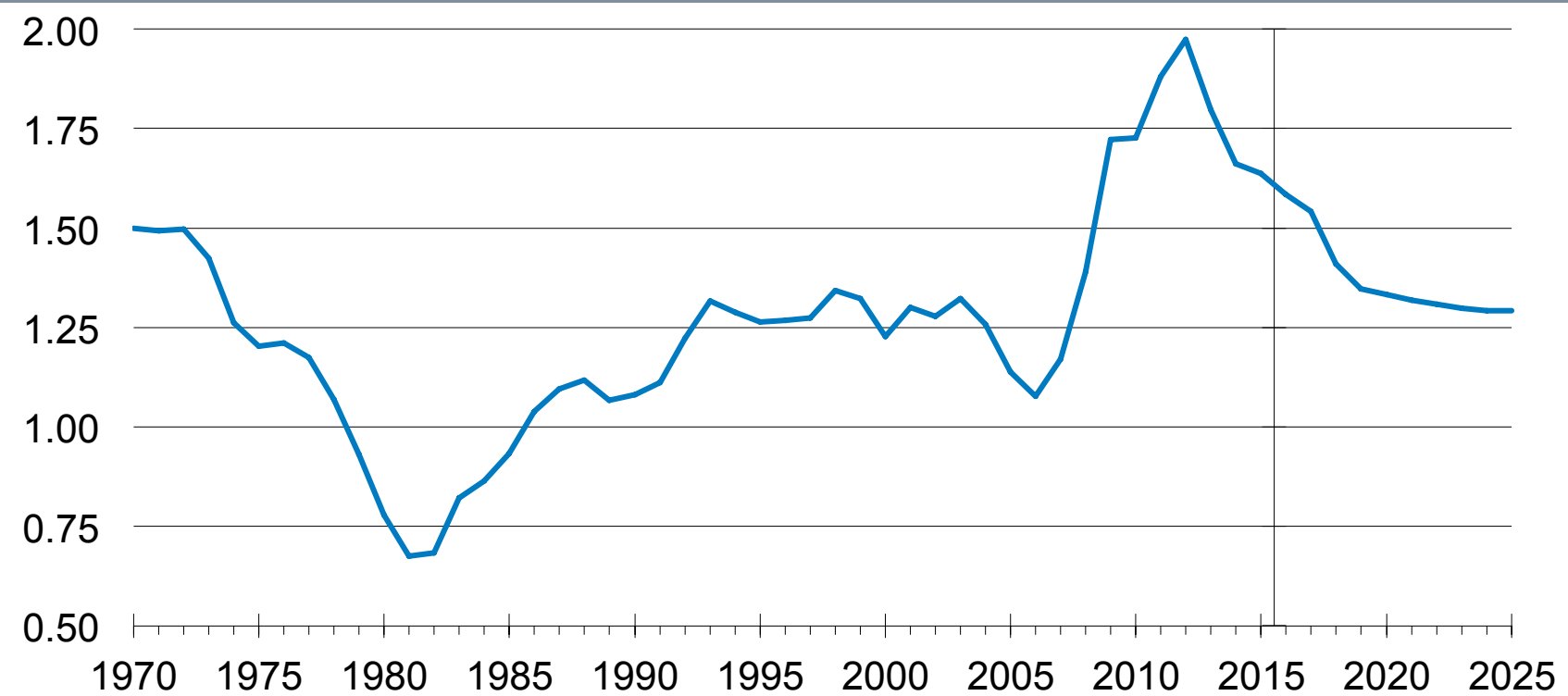
## The recovery in housing markets will strengthen

- Sustained job growth will support increases in housing demand.
- Credit availability is improving for home buyers and builders.
- Multifamily units will account for about one-third of housing starts.
- Young adults have postponed homeownership, resulting in pent-up demand.
- Sales to first-time buyers are rising rapidly.
- Baby boomers are starting to downsize.



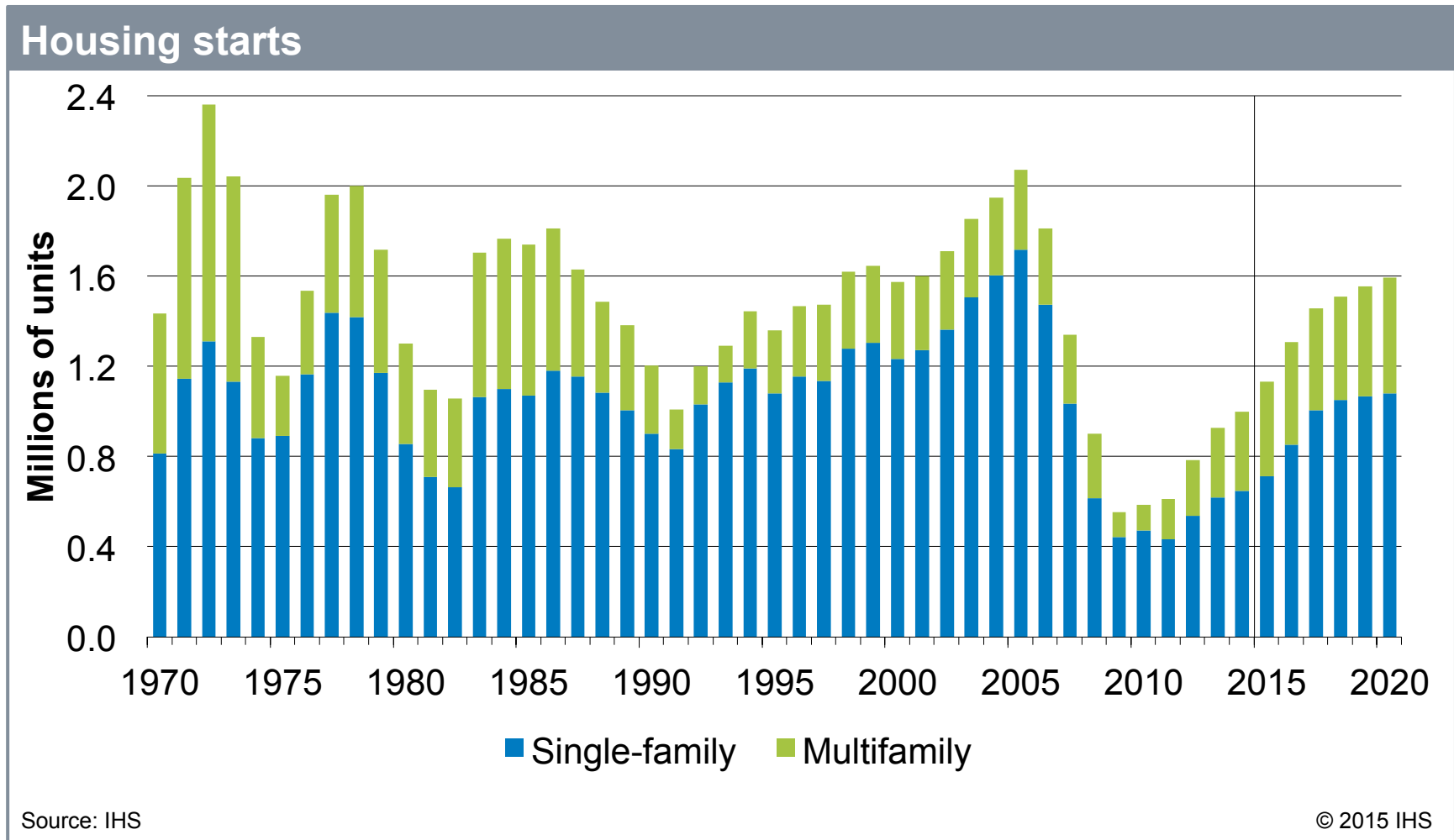
# Housing affordability is deteriorating as home prices and mortgage rates rise

Housing affordability index\*

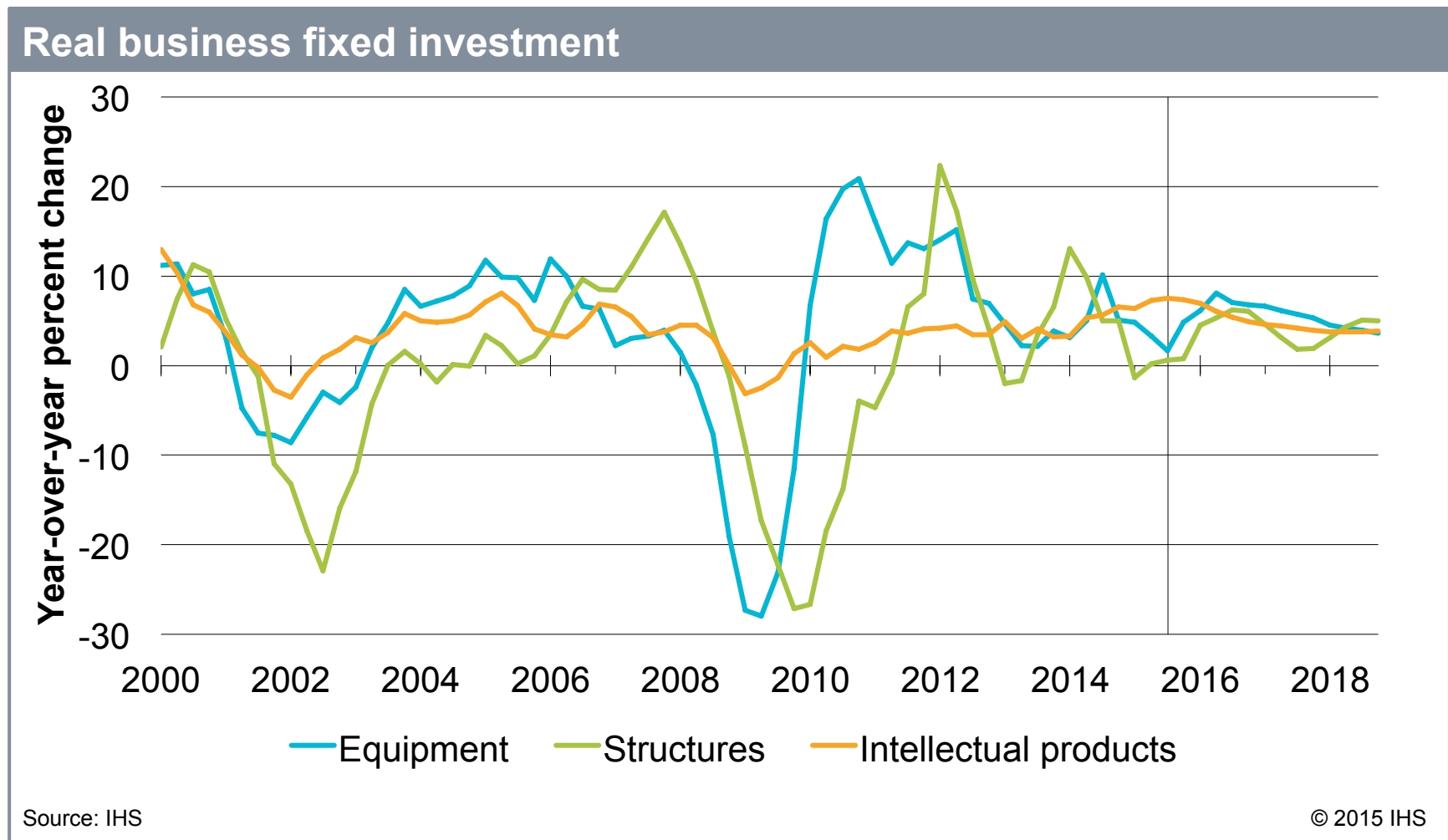


\* A value of 1.00 indicates a household earning the median income can afford a median-priced single-family home.  
 Source: IHS

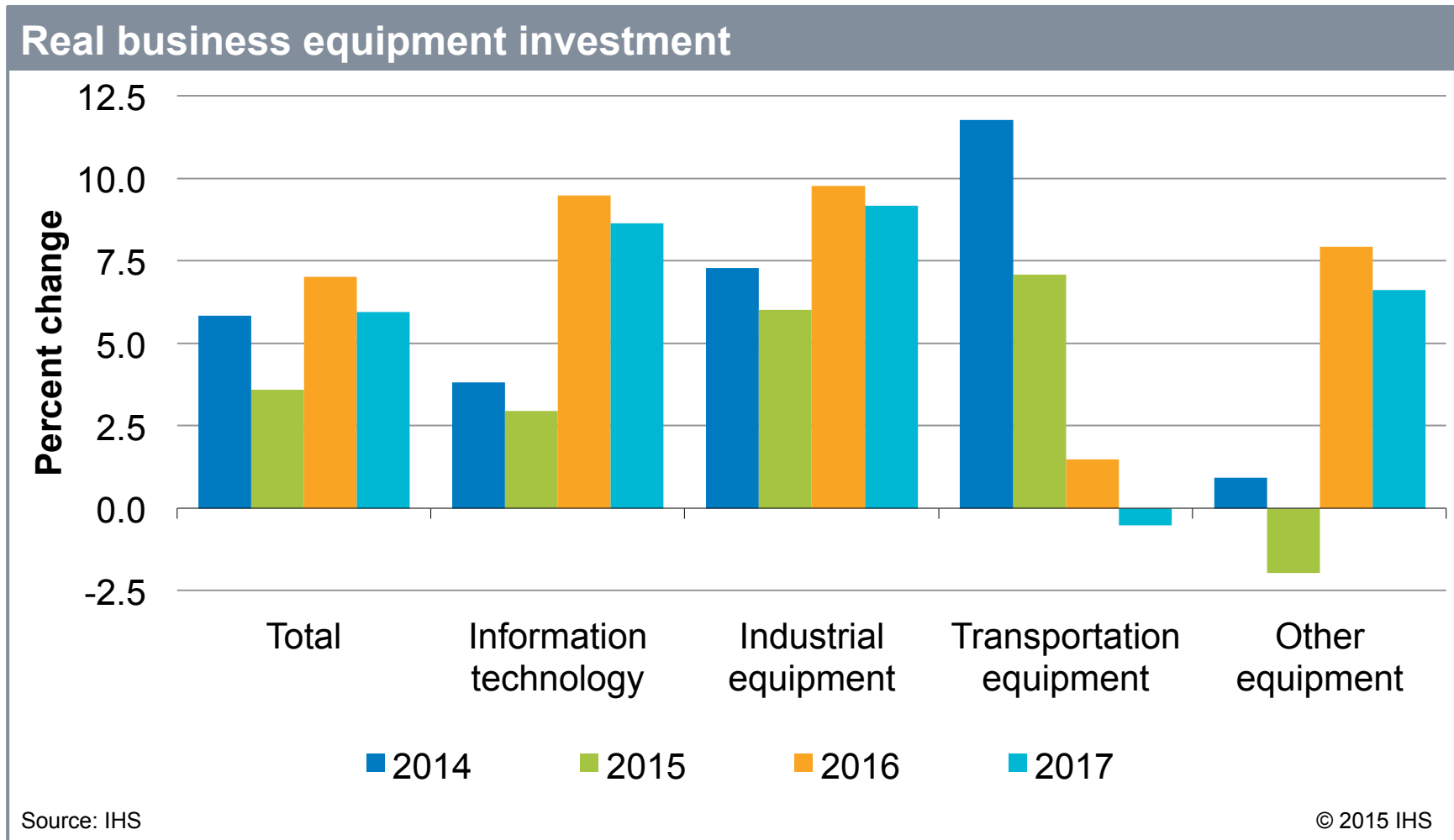
# Housing starts will continue to recover in response to employment and income gains



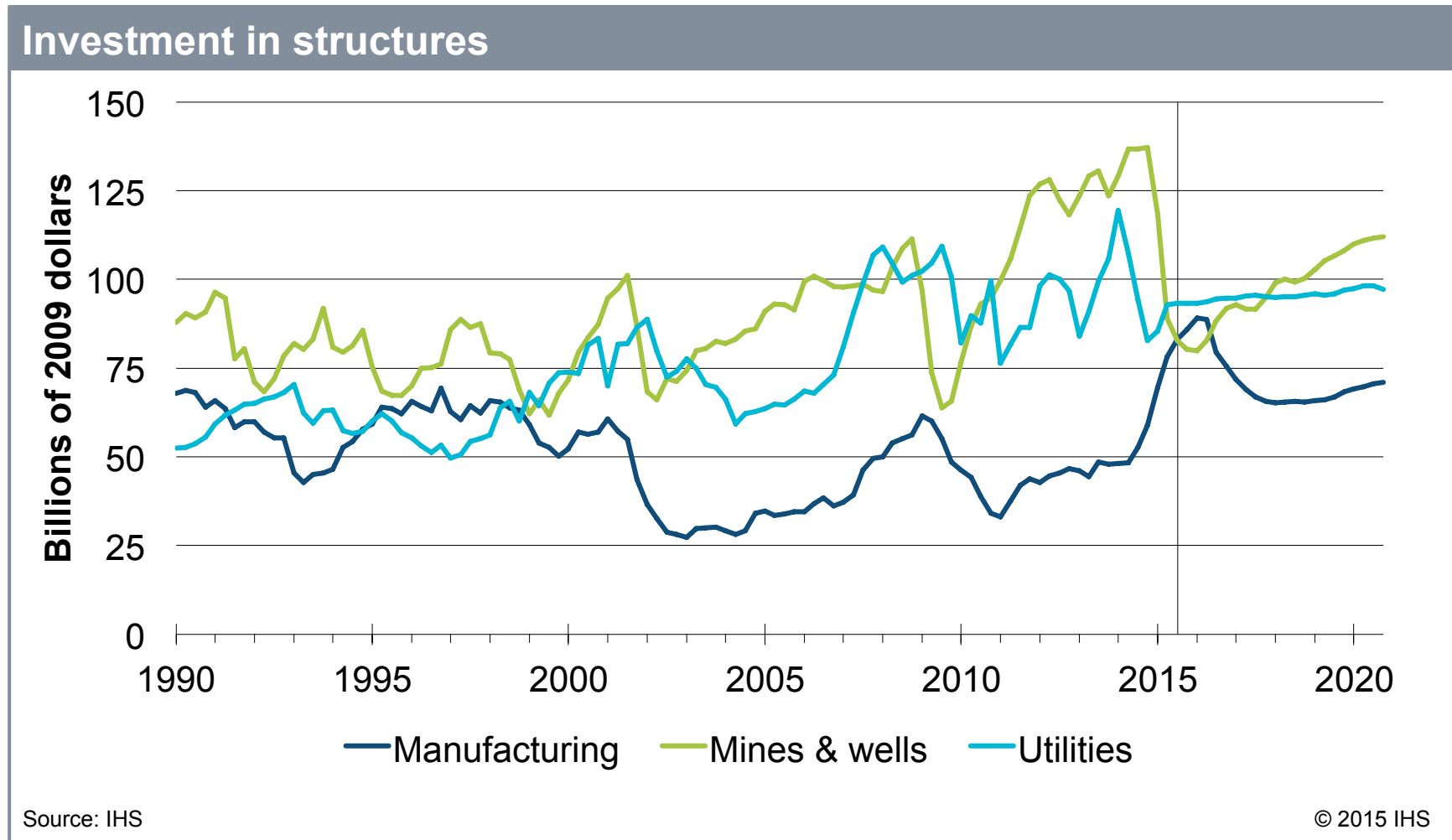
# Business fixed investment growth is held back by the plunge in spending on drilling structures



# Shifting growth in real business equipment investment



# Real private investment in energy-related structures has plummeted in 2015



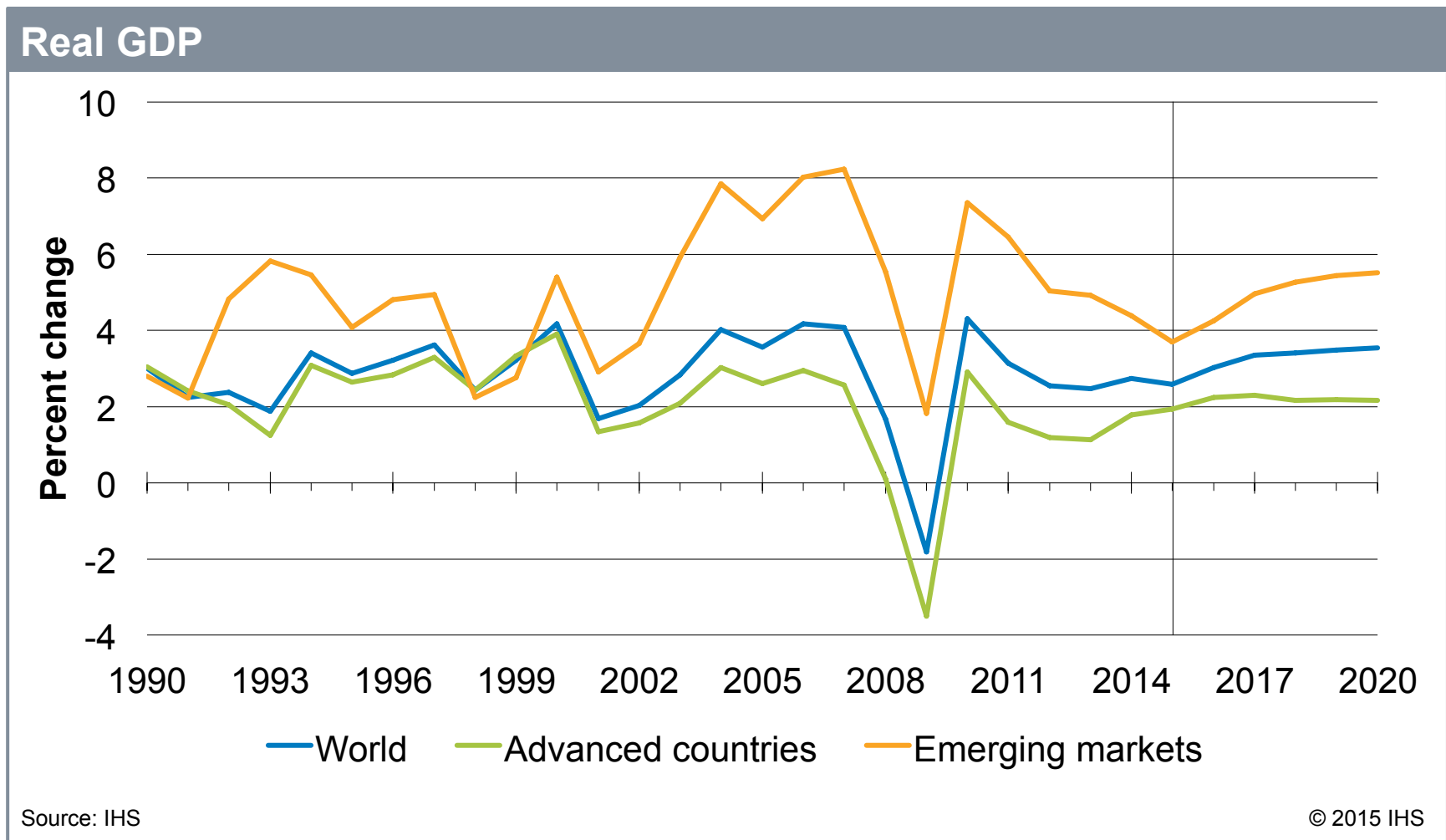
## A gradual acceleration in the global economy

- World real GDP growth will pick up from 2.6% in 2015 to 3.0% in 2016.
- The plunge in materials prices is restraining growth in the commodity-exporting countries of the Americas, Africa, and Asia-Pacific.
- Growth in the Eurozone and Japan will improve slightly, aided by monetary stimulus, currency depreciation, and pent-up demand.
- China's economic growth is slowed by imbalances in credit, equity, housing, and industrial markets.
- Prospects for emerging markets depend on structural reforms that raise productivity and allocate capital more efficiently.

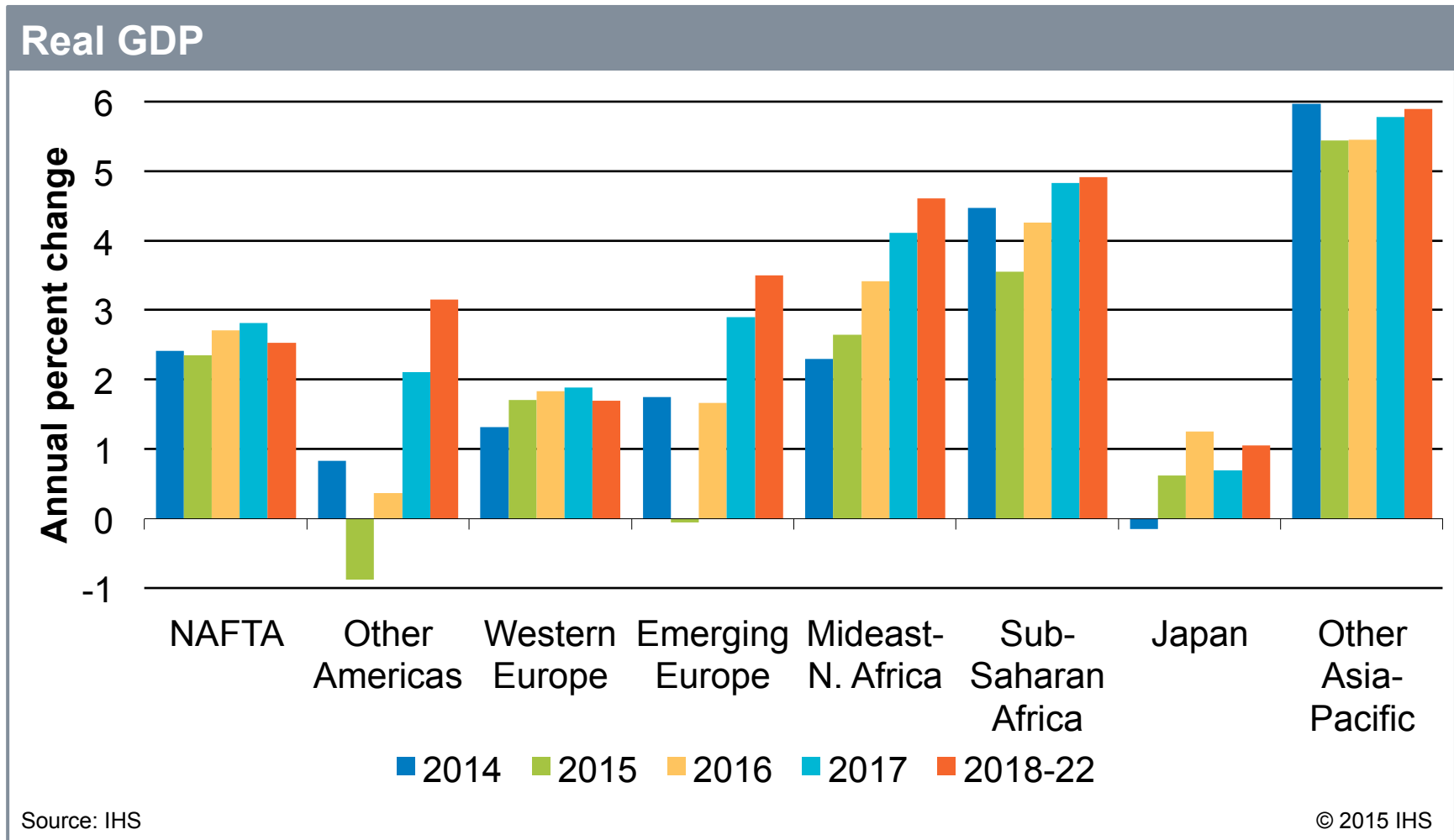




# Real GDP growth of emerging markets has slowed in 2011–15, holding back global growth



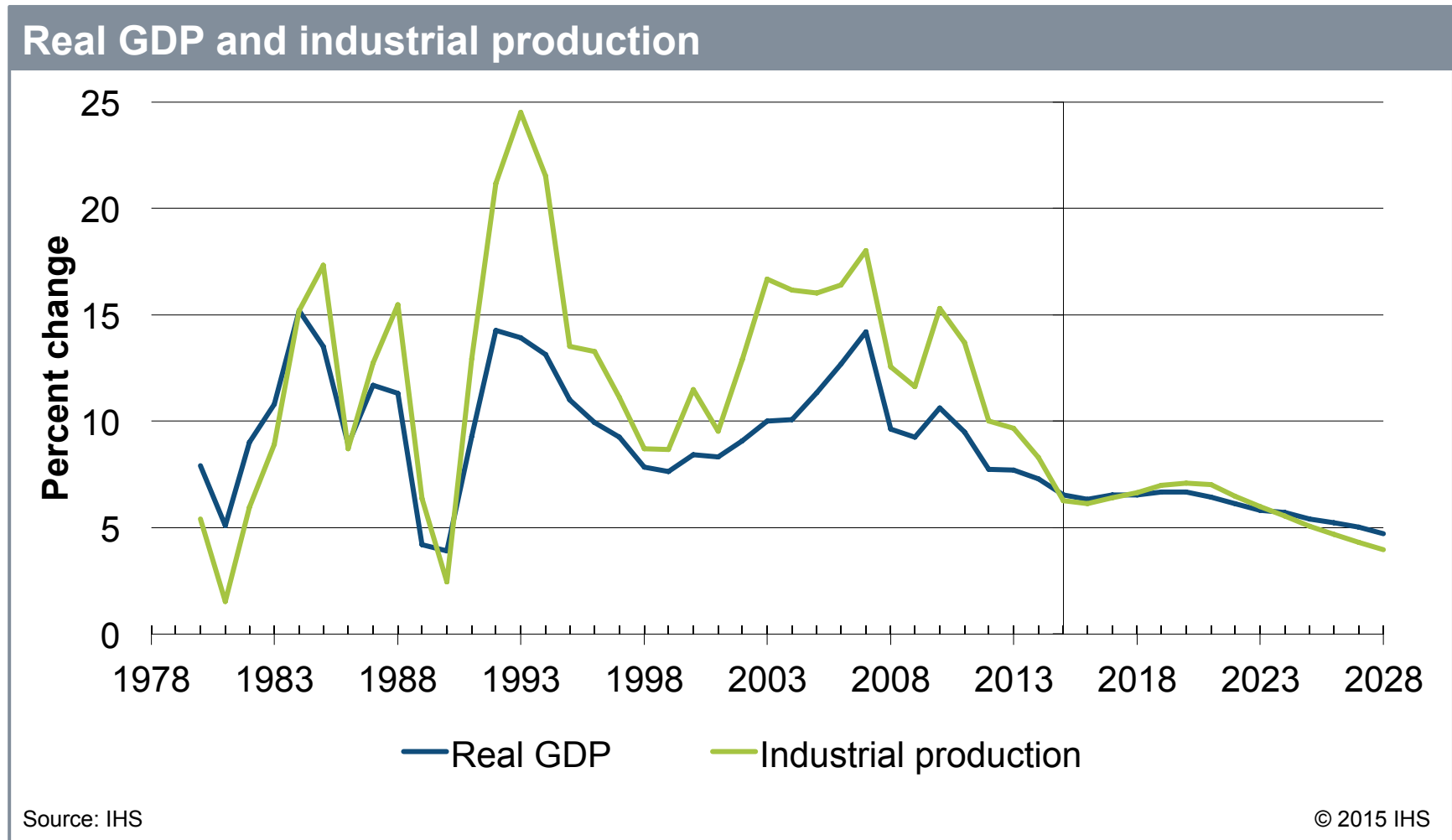
# Asia-Pacific (excluding Japan) will achieve the fastest growth in real GDP



## China's economic slowdown

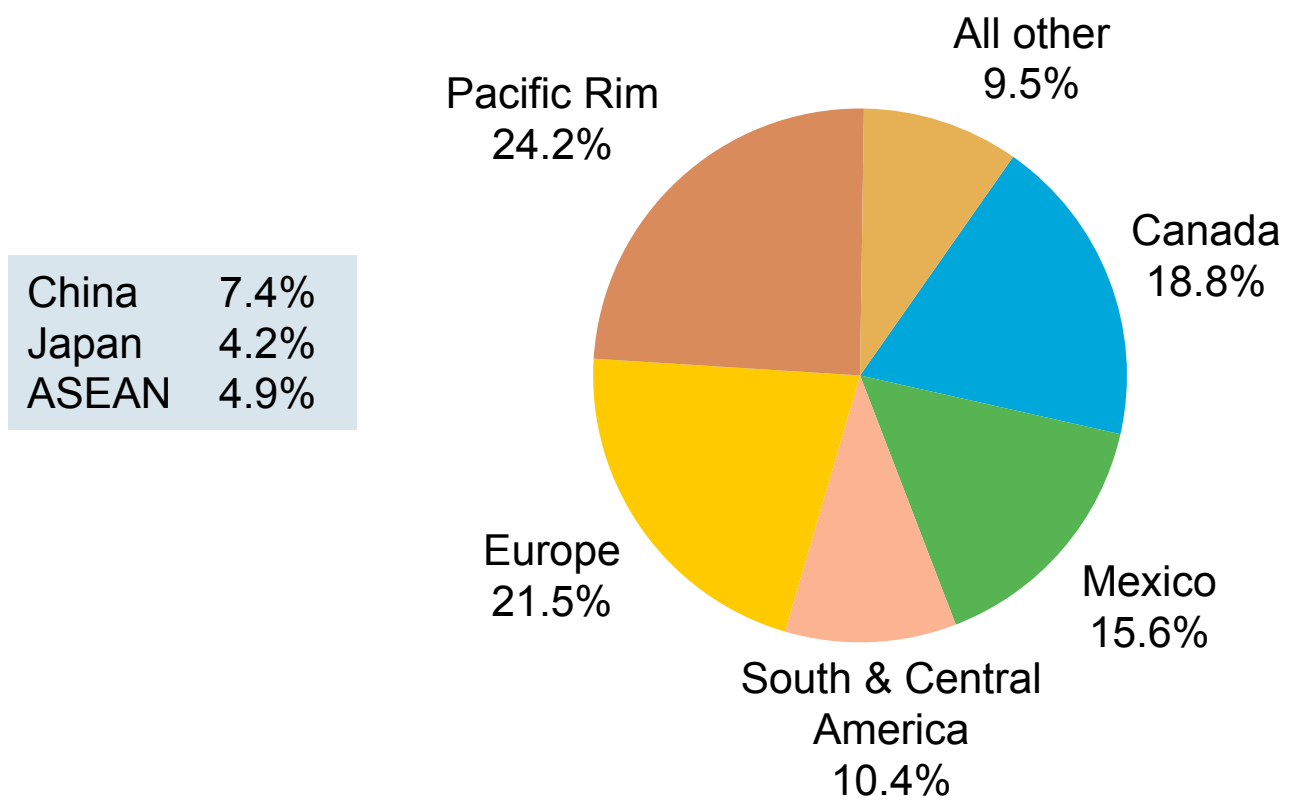
- China's slowdown is most evident in mining, heavy manufacturing, and utilities; services and light manufacturing are proving more resilient.
- Economic growth should settle near 6.5% over the next few years, as fixed investment gains subside.
- China's exchange-rate policy adjustment will lead to more volatility but is unlikely to be the start of a "weak renminbi" policy.
- The rise and fall of China's stock market is having limited effects on consumer spending or business investment.
- Home sales are picking up, although high inventories will continue to dampen construction activity.
- Vast excess industrial capacity, financed by an explosion of debt, is the biggest threat to China's growth prospects.

# China's economic growth will downshift in the long run



# Destinations of US goods exports in 2015

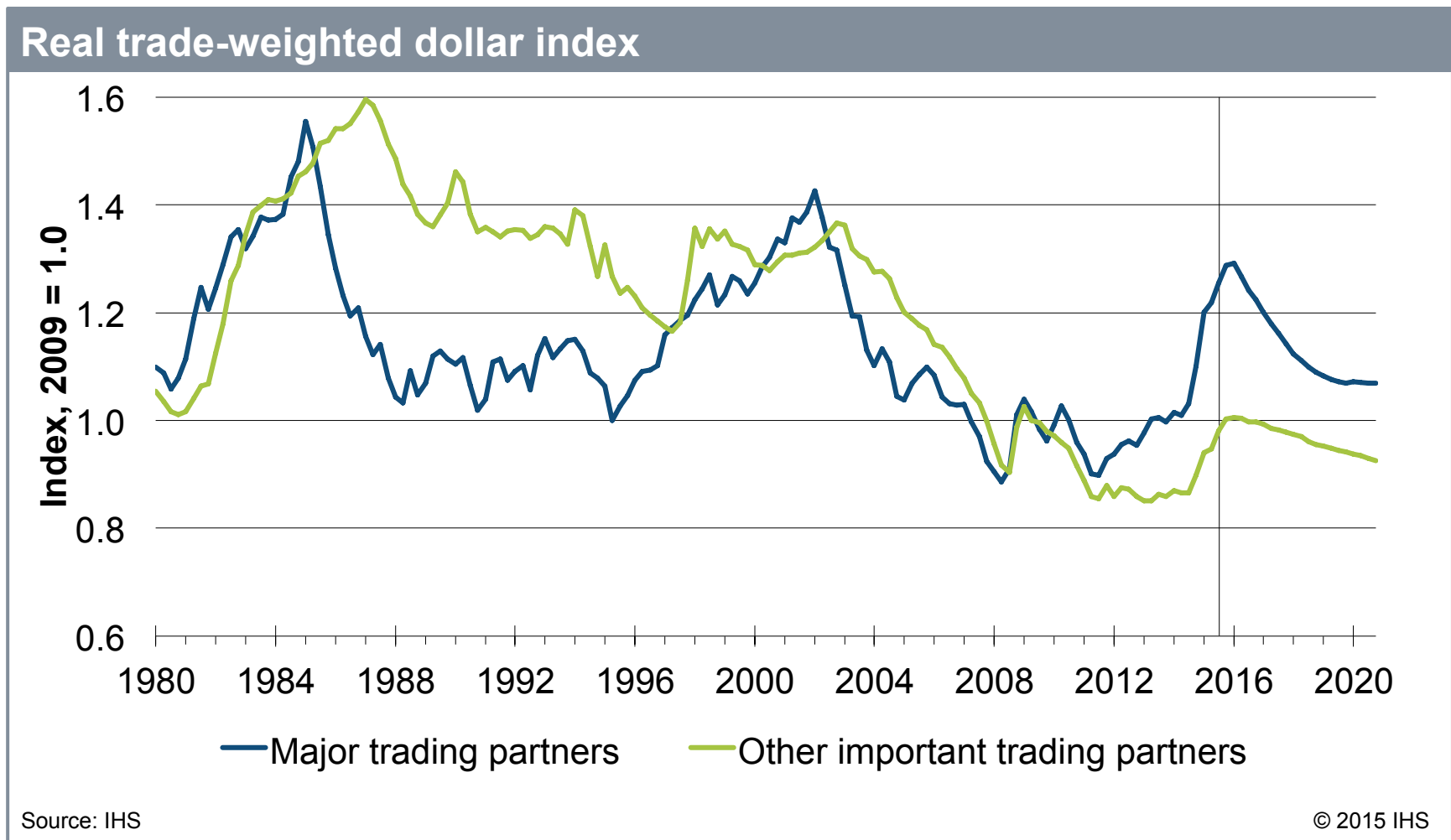
Percent of total goods exports, January-July 2015



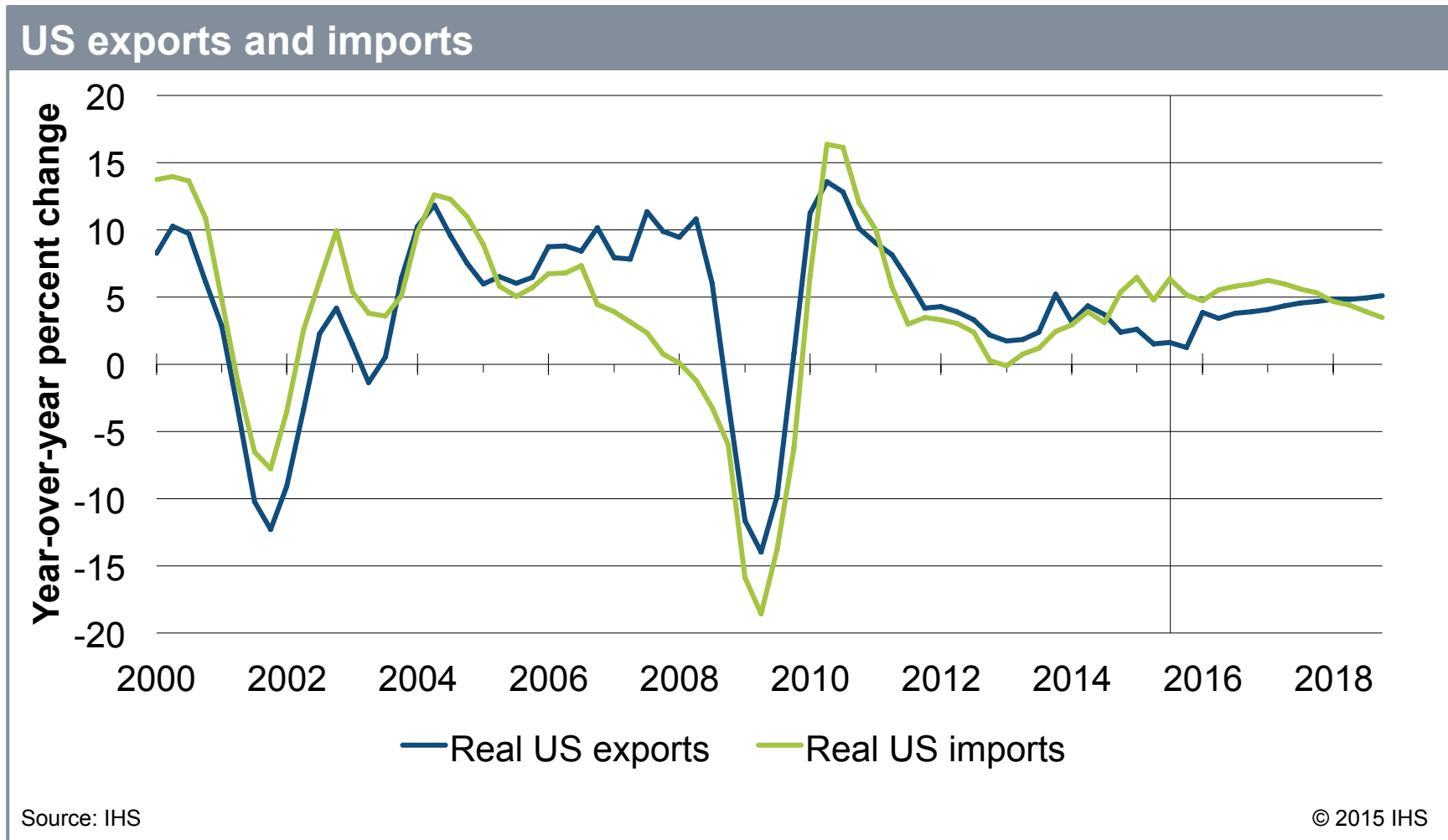
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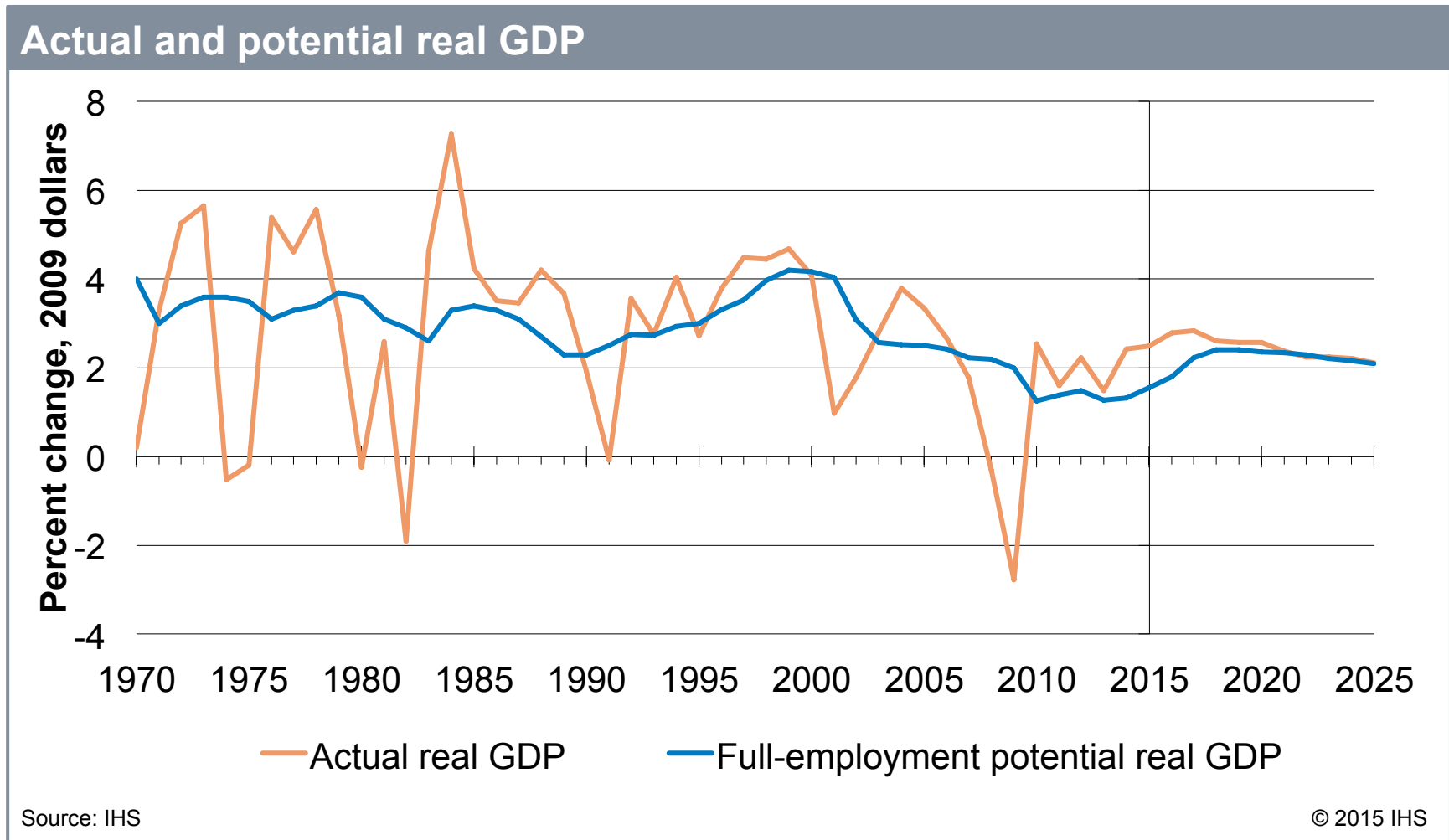
# The dollar's real exchange value is appreciating, reaching a 12-year high against major currencies



# Import growth will outpace export growth in 2015–17

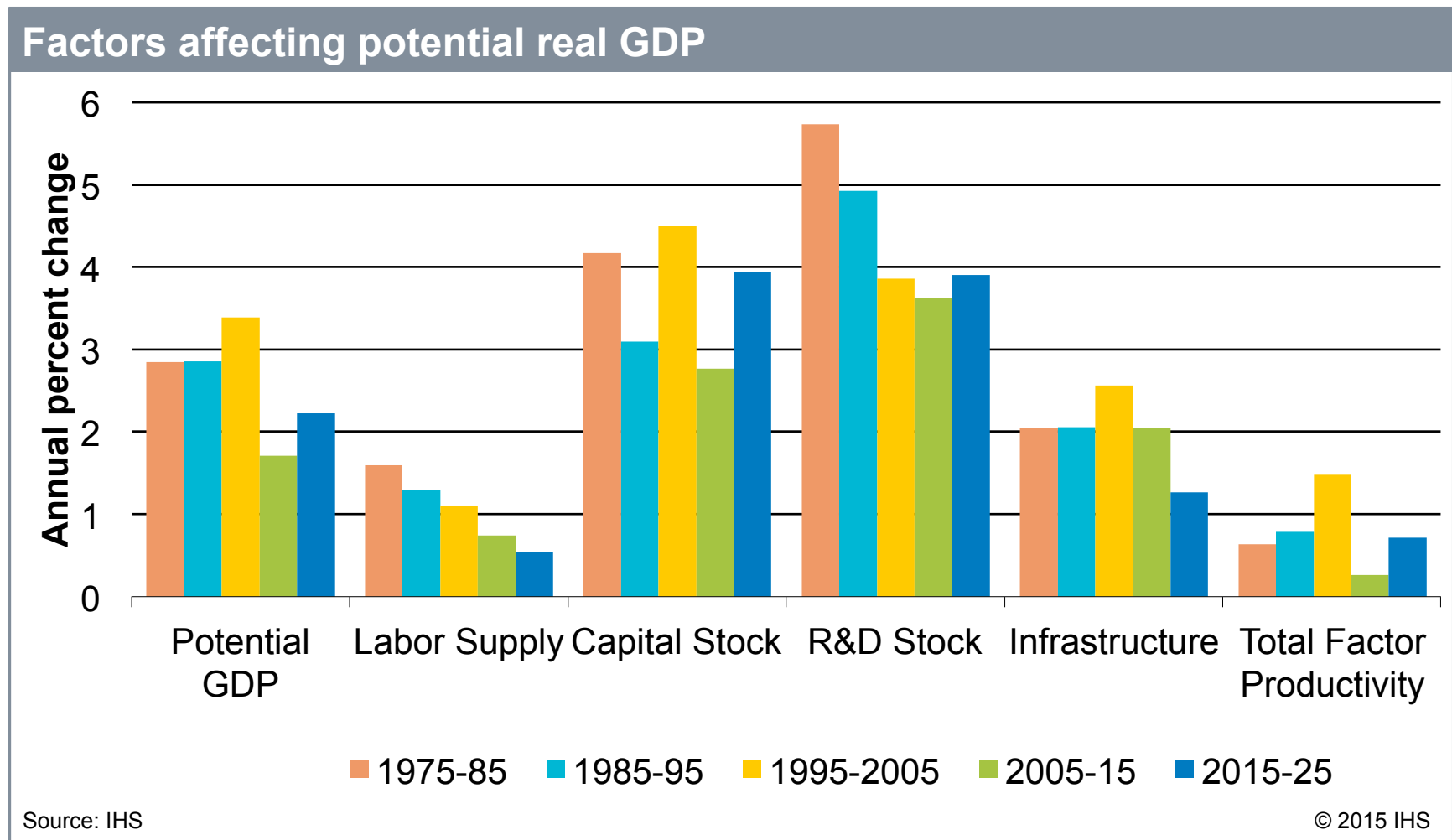


# Potential real GDP growth has slowed since the early 2000s, reflecting weak productivity gains





# Growth in US potential real GDP and its components



## Bottom line for the US economy

- Consumer spending will be supported by gains in employment, real disposable income, and household wealth.
- Homebuilding will rise as credit availability improves and demand from young adults strengthens.
- Net exports will be a drag on US economic growth through late 2017, largely due to the dollar's appreciation.
- Real business fixed investment will post solid gains, led by information technology equipment and commercial structures.
- The Federal Reserve will likely begin to raise the federal funds rate in December; it will reach an equilibrium at 3.25% in late 2018.
- Core inflation will stay mild.

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