The US forecast:
Where’s the party?
William McChesney Martin, Fed Chairman, 1950-1971

“The Fed’s job is to take away the punch bowl just as the party gets going”

But somebody forgot to spike the punch.
The key to understanding forecasts is thinking in probabilities.

Source: Deloitte/Oxford Economics
Four alternatives

1. **The baseline**: Growth will remain at the 2.5% level before slowing to below 2.0% by 2018. **55%**

2. **Slower growth**: Headwinds start pushing unemployment up. Growth remains below 2.0% **25%**

3. **Recession**: Chance of a financial shock in Europe or China. How do we know banks aren’t exposed to risk? How do they know? **5%**

4. **Coordinated global boom**: Europe and China are on their way to fixing their problems. So is the U.S. **15%**
Consumer fundamentals—still going strong
Households are in better shape than they’ve been in a long time.

The household debt burden is at its lowest point ever.
Households are saving more, and aggregate assets are growing.

![Graph of Personal saving rate (Percent)](source: BEA/Haver Analytics)

![Graph of Household net worth (US Dollars per person)](source: Federal Reserve and Census/Haver Analytics)
Inequality remains a problem.

Share of total income earned by people in the top 1% of the income distribution

Source: The world wealth and income database

Productivity and compensation
1970Q1 = 1

Real output per hour
Real compensation per hour

Source: BLS/Haver Analytics
Near term indicators look positive.

Consumers have plenty of savings, wages are growing—and confidence is high.

Source: BEA/haver Analytics

Wage growth and saving rate
Year ago percent change and percent of disposable income

Source: Conference Board and University of Michigan/Haver Analytics
Trends in retailing
Retail sales are growing more slowly than total consumption

Part of the decline is because people are putting a smaller share of their spending budget into automobiles.
The declining importance of autos.

Auto sales look like a declining industry—even before new mobility methods.
Most store types are losing share of disposable income.

The big winners:

• food service and drinking places
• nonstore retailers
• health and personal care.
The top products sold by nonstore retailers (2012 Economic Census).

1. Drugs, health, beauty aides (27% of sales)
2. New and used computers (9%)
3. Household fuels, etc. (8%)
4. Women’s, juniors, and misses wear (5%)
5. Groceries and other food (4%)
Electronic sales are growing—including sales through traditional retailers.

E-commerce share of total retail sales

Percent

Source: Census/Haver Analytics
Traditional bricks and mortar companies are only beginning the move to e-commerce.

Electronic share of total sales, 2014

- Total retail trade
- Sporting goods, hobby, book and
- Motor vehicles and parts dealers
- Miscellaneous store retailers
- Clothing and clothing accessories
- Electronics and appliance stores
- Furniture and home furnishings
- Health and personal care stores
- Food and beverage stores
- General merchandise stores
- Gasoline Stations
- Building materials and garden

Nonstore retailers: 54%
Forecast for total retail sales.

Retail sales forecast
USD trillions, quarterly rate

Source: Deloitte calculations

95% confidence limits

Average annual growth rate
2016q2-2021q4

Disposable personal income
Retail sales

0.0 1.0 2.0 3.0 4.0
Forecast for E-commerce retail sales.

Retail E-commerce sales forecast
USD billions, quarterly rate

Average annual growth rate of 20%.

Source: Deloitte calculations
Slow growth in traditional retail sales.

<table>
<thead>
<tr>
<th>Metric</th>
<th>Average annual growth rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disposable Personal Income</td>
<td>3.7%</td>
</tr>
<tr>
<td>Retail sales</td>
<td>3.0%</td>
</tr>
<tr>
<td>E-commerce sales</td>
<td>20.5%</td>
</tr>
<tr>
<td>Retail sales less e-commerce</td>
<td>0.6%</td>
</tr>
</tbody>
</table>

Implies electronic sales will grow to 19% of total retail sales by 2021.
The Deloitte economics team welcomes your questions!