

IHS ECONOMICS

The US Economic Outlook

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The US economy on a 2% growth path

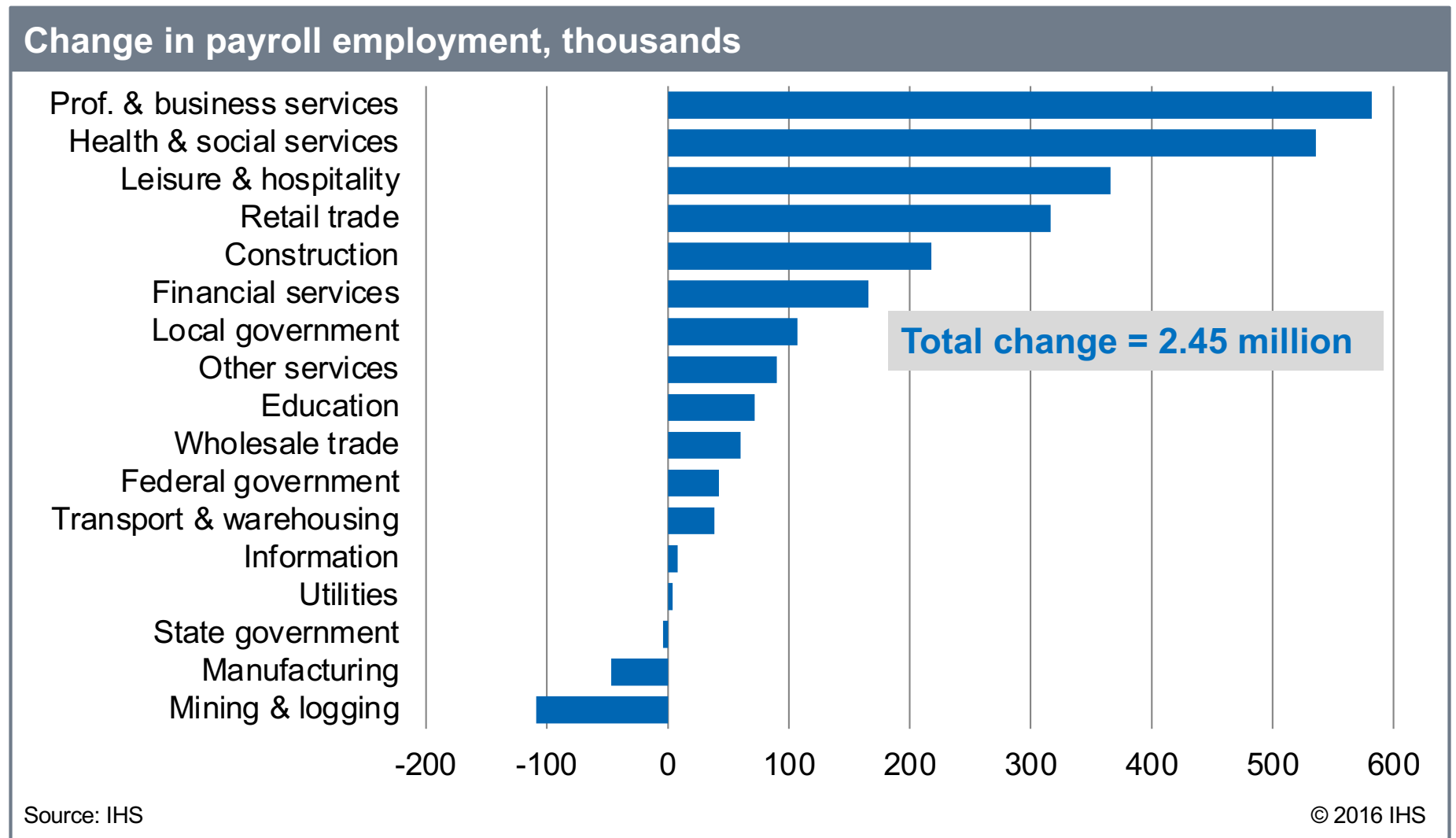
- A more balanced US expansion is emerging in late 2016.
- Consumer spending is decelerating as growth in employment, real incomes, and household net worth moderates.
- Rising domestic demand, a recovery in commodity prices, and low financing costs will support an uneven recovery in capital spending.
- The inventory correction will continue into 2017, restraining near-term growth in industrial production.
- Net exports will be a drag on economic growth through 2019, as a strong dollar impairs US competitiveness.
- The Federal Reserve will cautiously raise interest rates as labor markets tighten and core inflation approaches the 2% target.

Real GDP growth will pick up, but job growth will slow

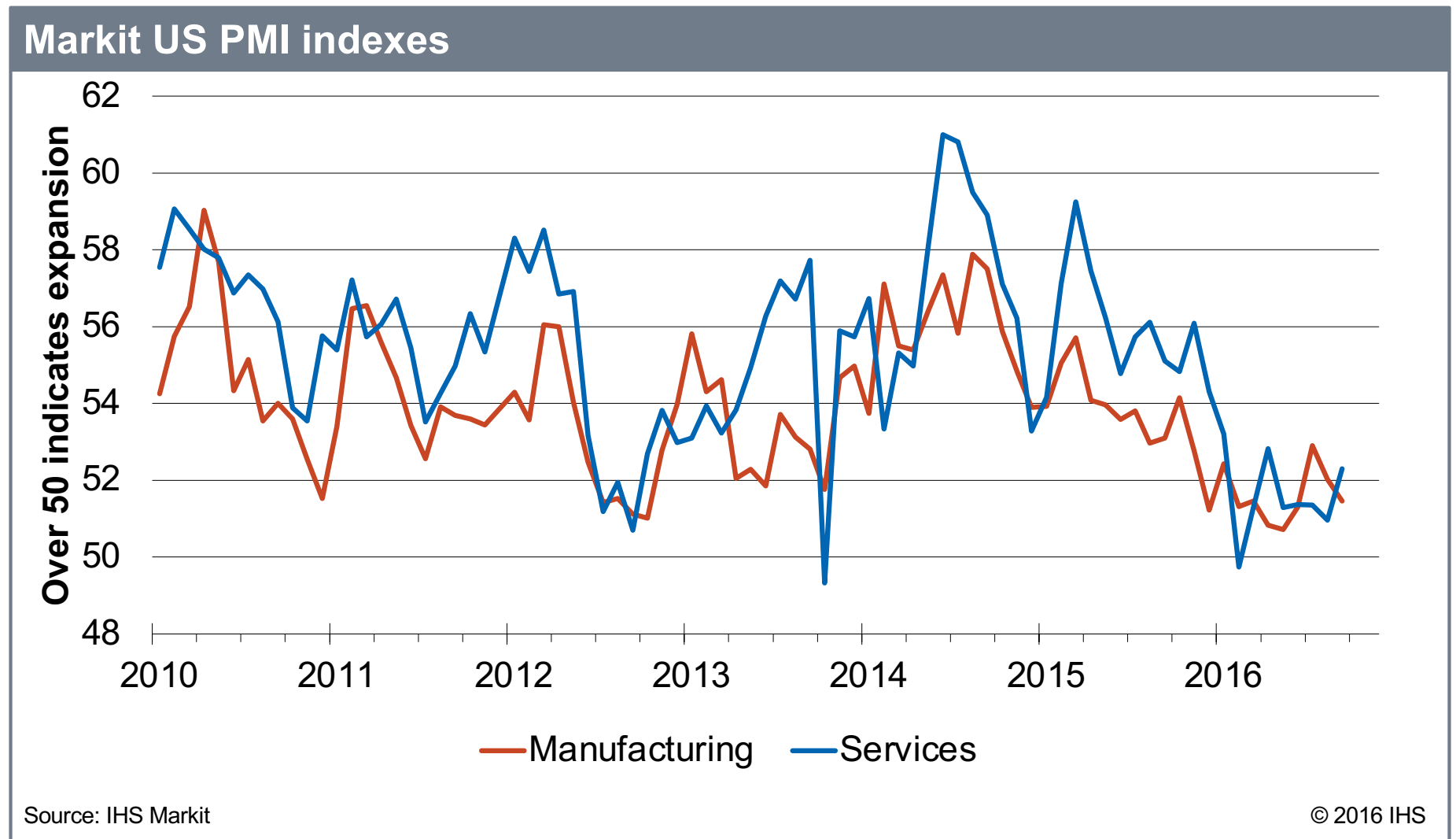




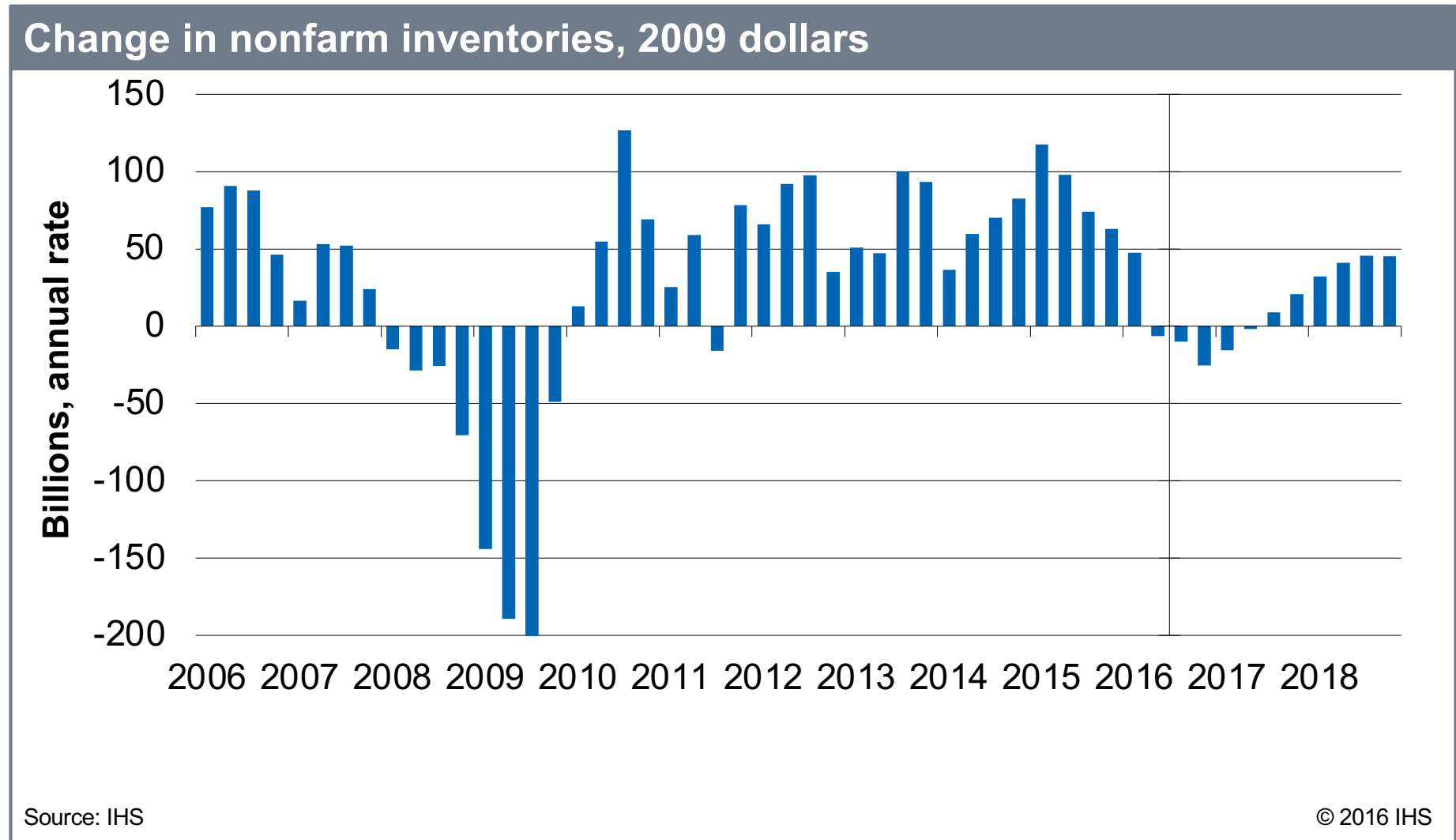
Services recorded the largest employment increases during the 12 months ended September 2016



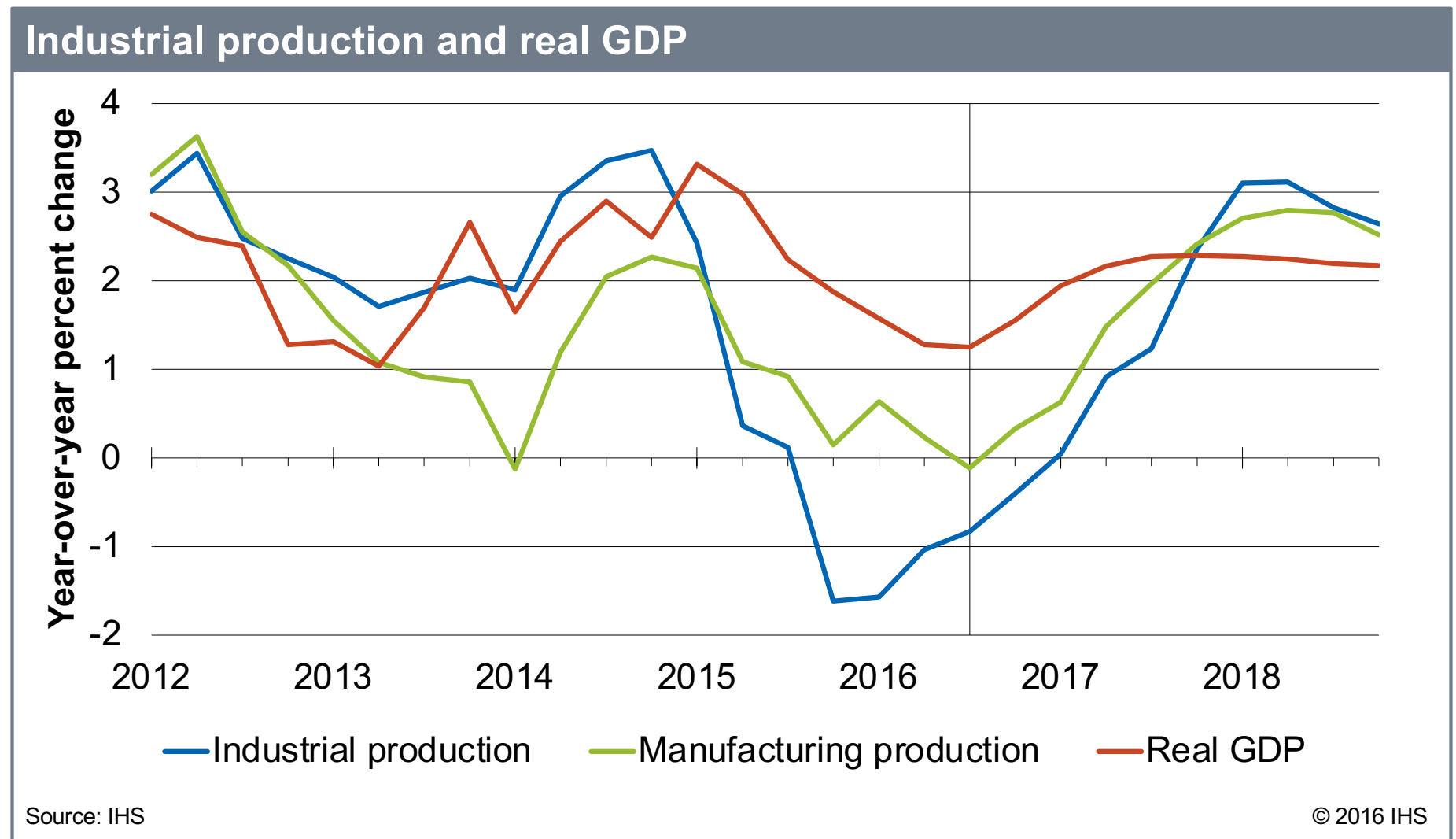
Markit PMI indexes signal modest US growth



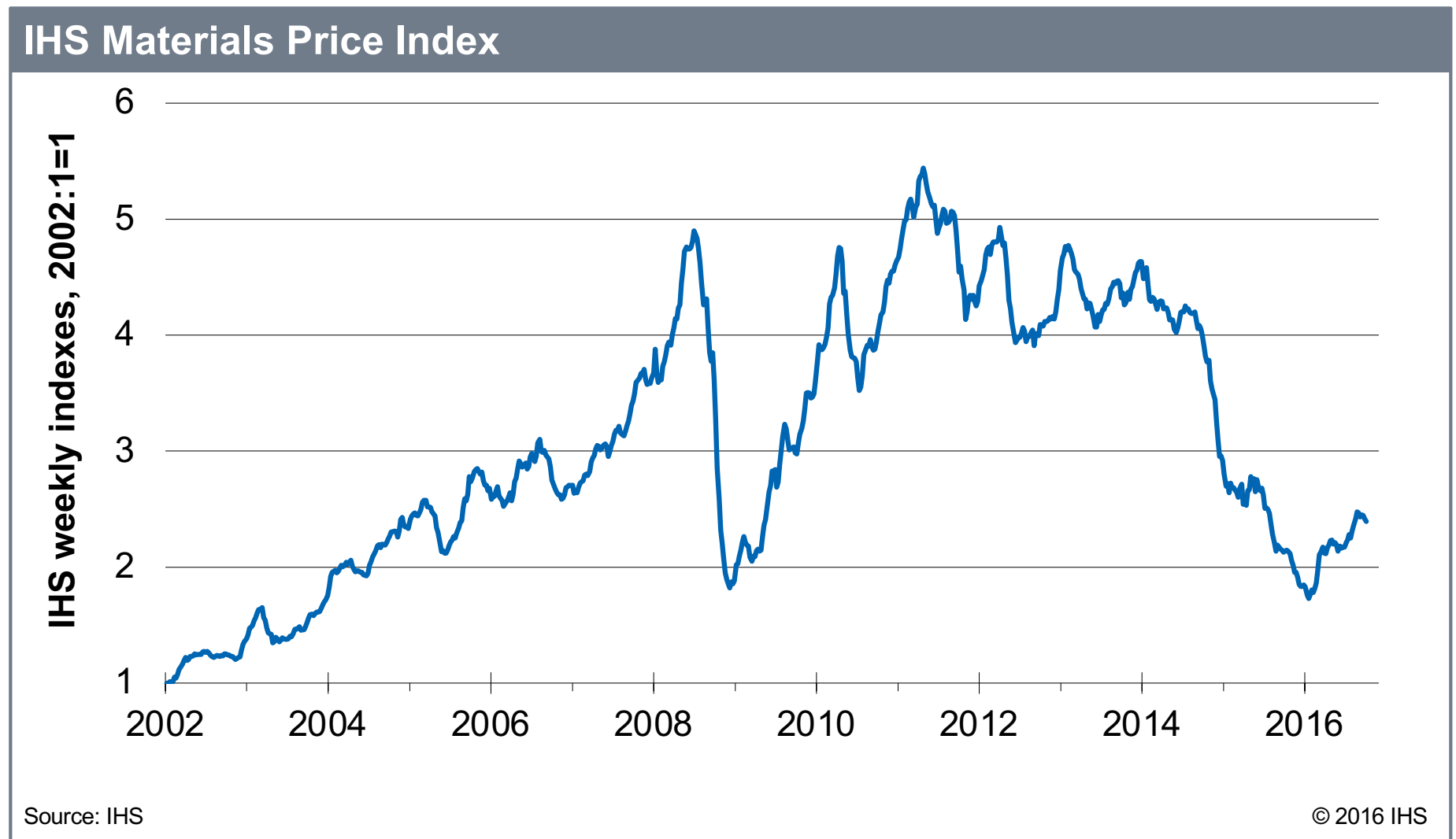
After excess accumulation from mid-2013 through 2015, an inventory correction is under way



An inventory correction is holding back near-term industrial production growth

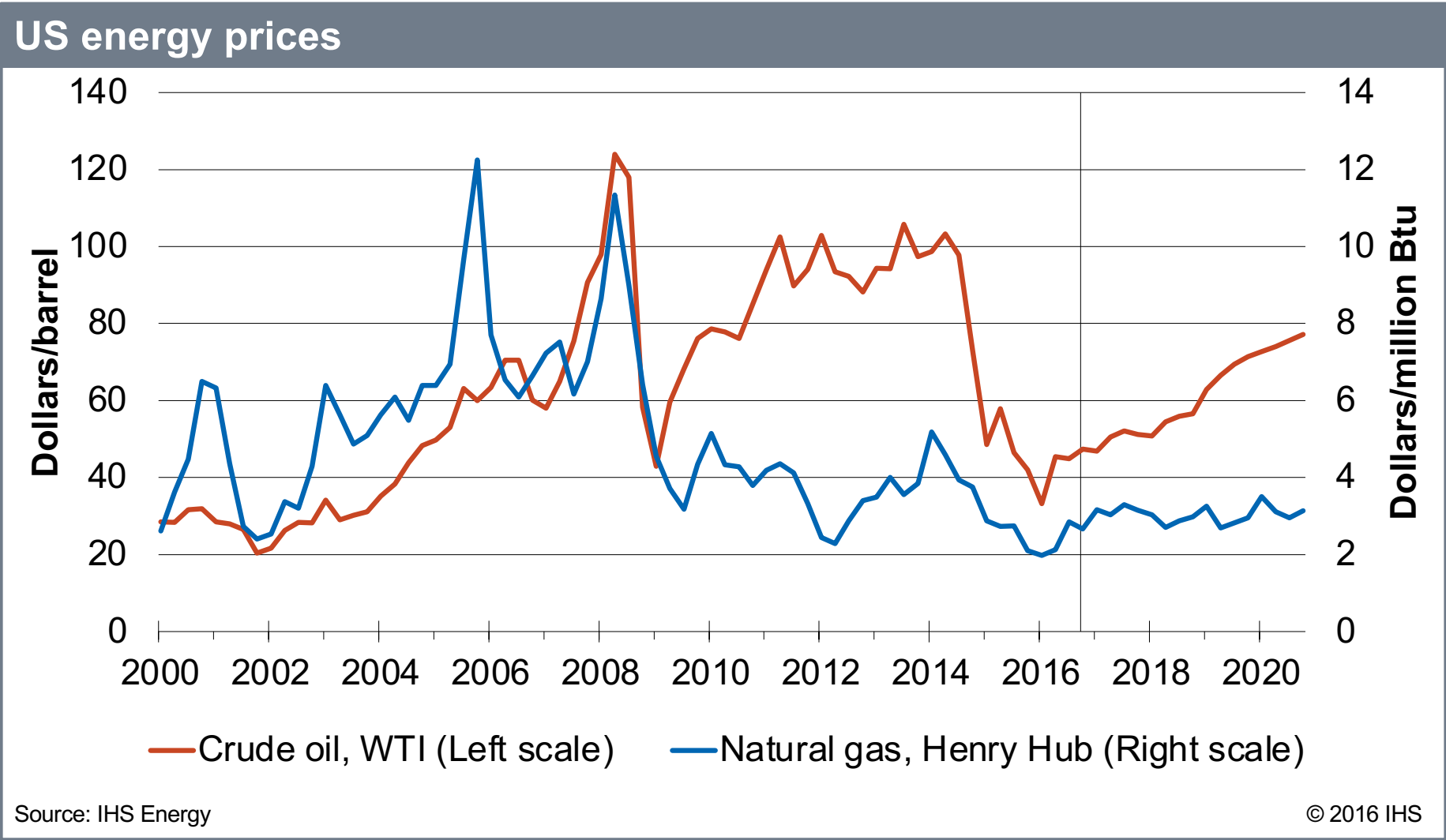


Industrial materials prices are beginning to recover

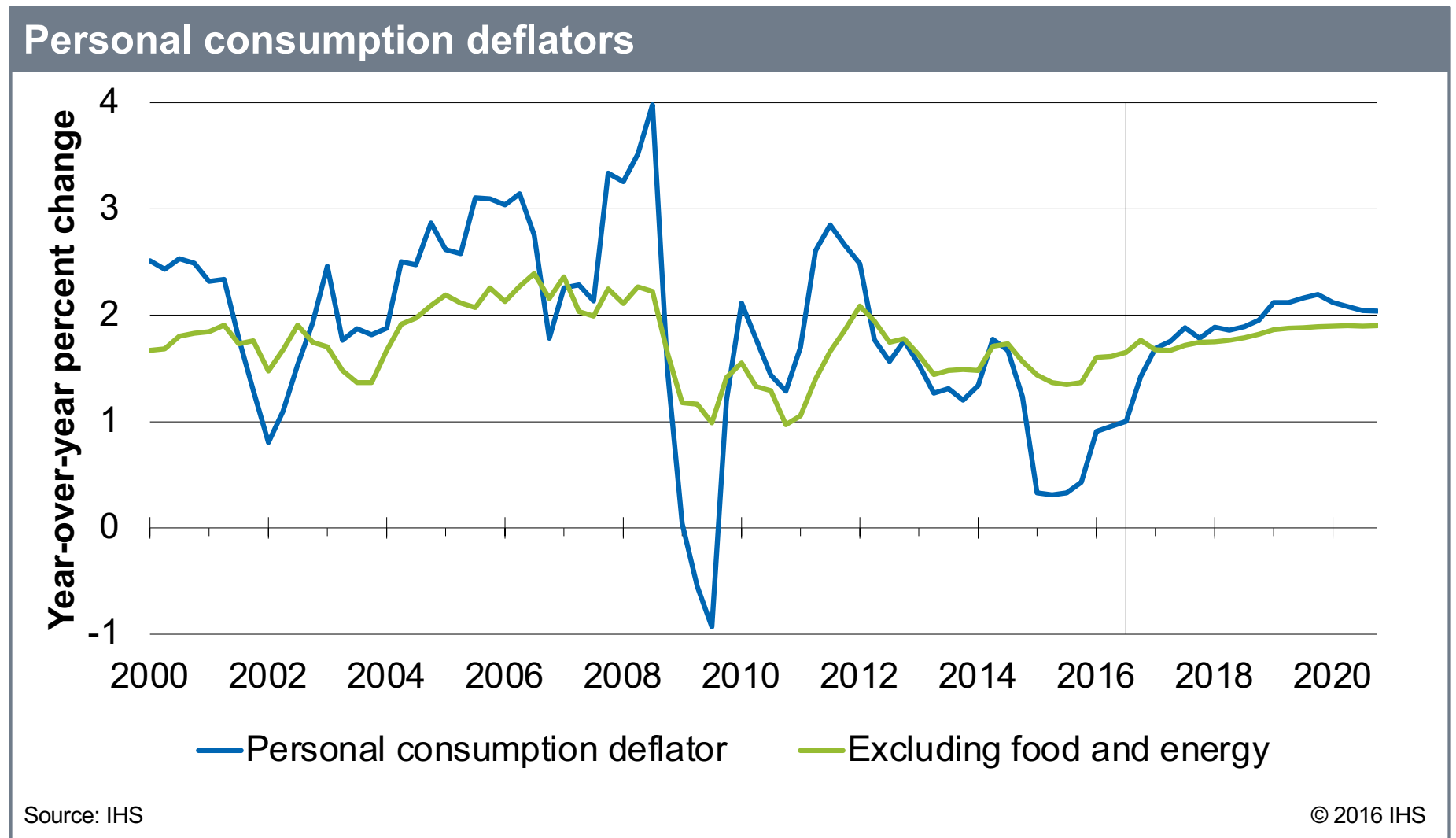




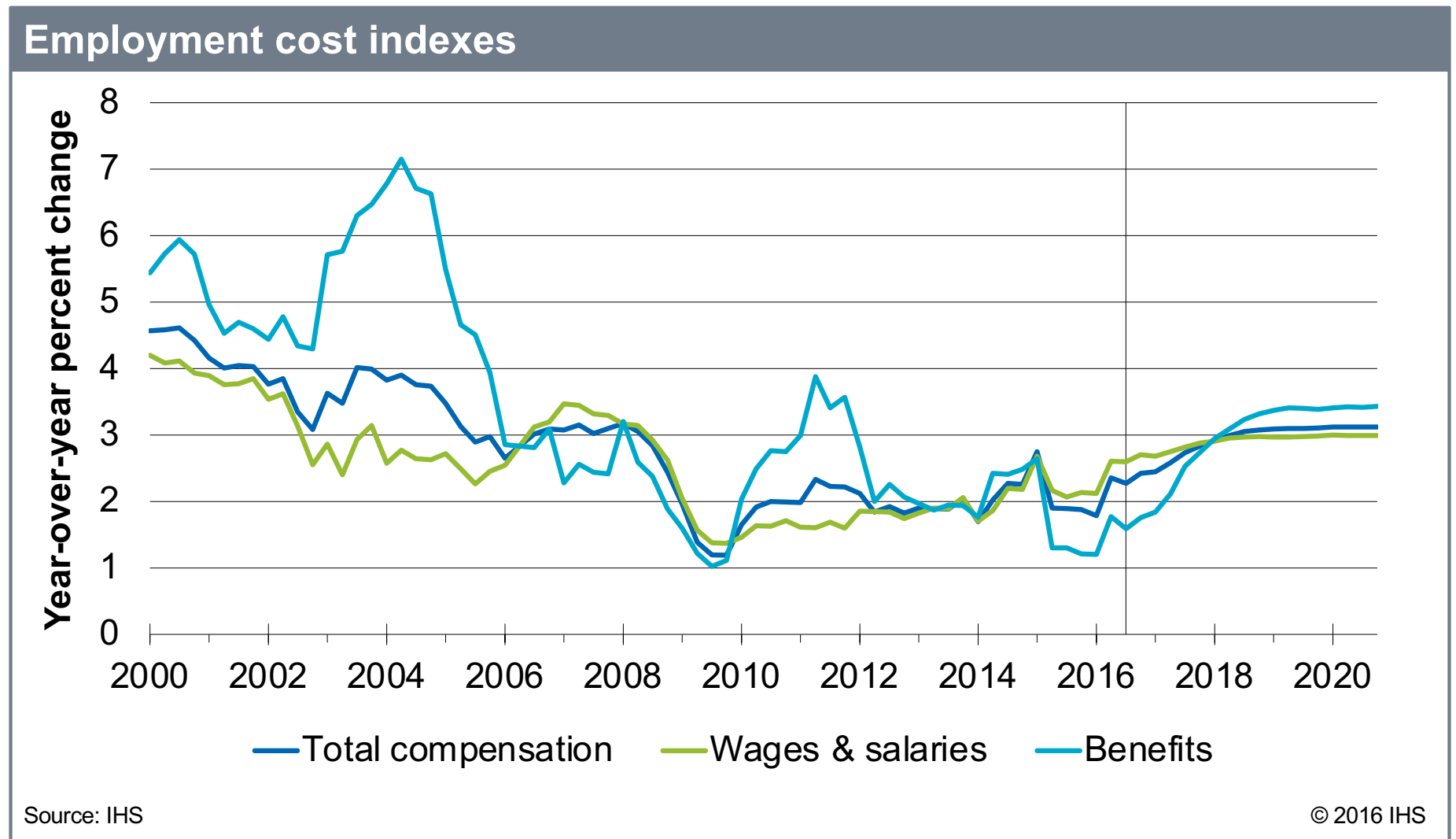
US crude oil and natural gas prices on different paths



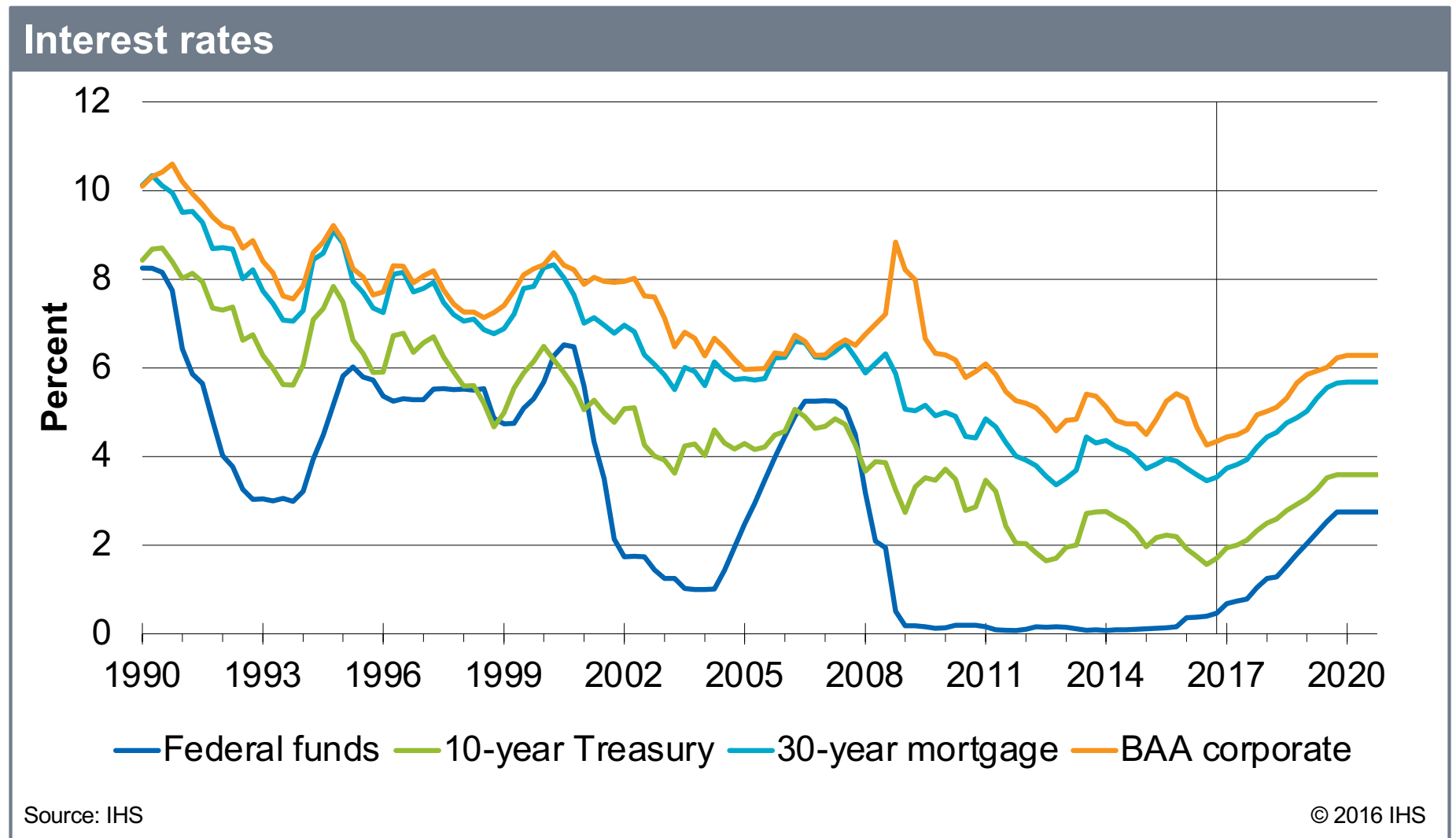
Consumer price inflation will pick up in response to a recovery in commodity prices



Wages and benefits will accelerate as the US labor market tightens



Interest rates will gradually rise as the Federal Reserve normalizes monetary policy



Forces affecting consumer spending

Positive forces

- Employment growth
- Mild inflation
- Rising disposable income
- Rising asset values
- Low interest rates

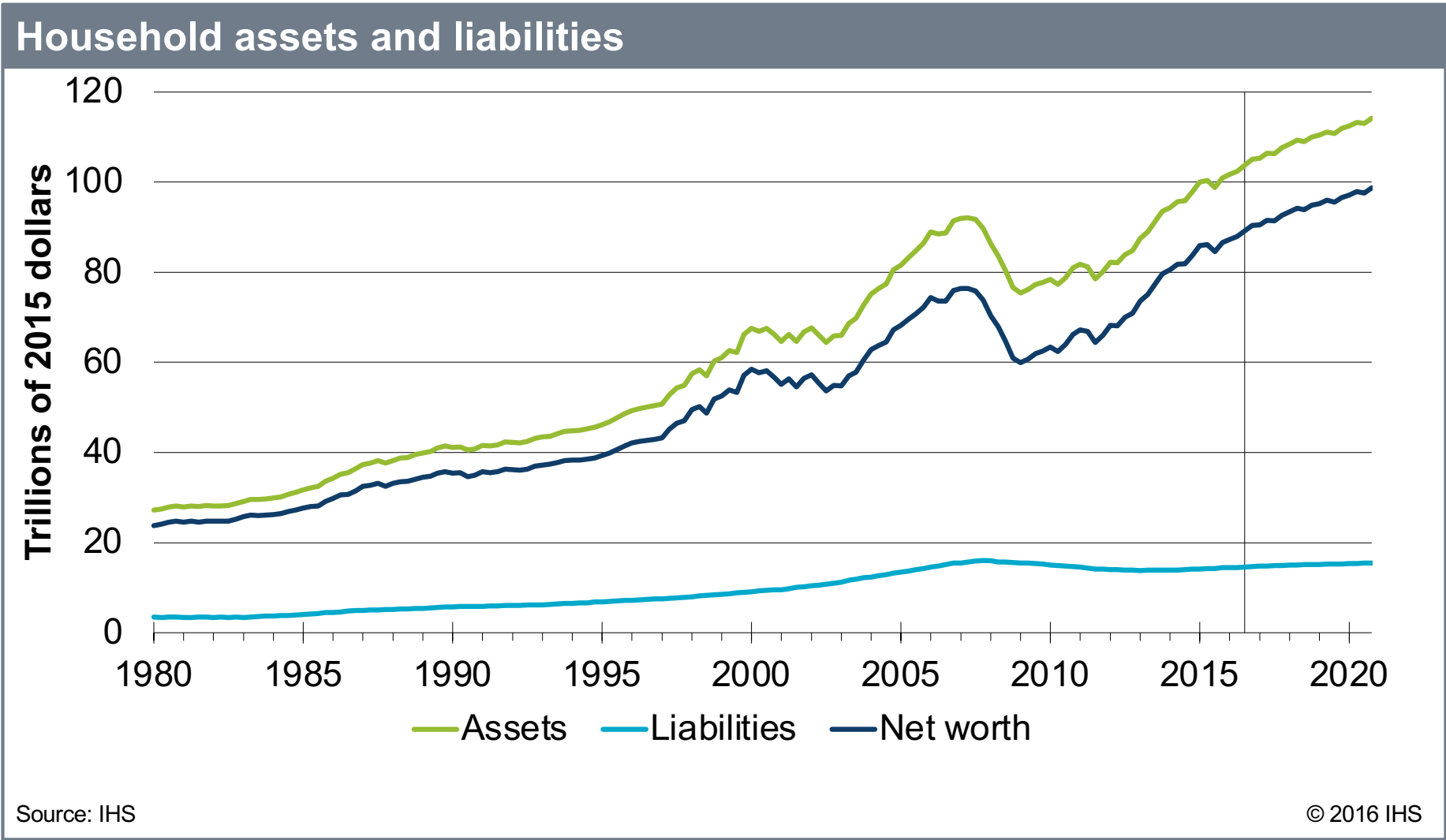


Negative forces

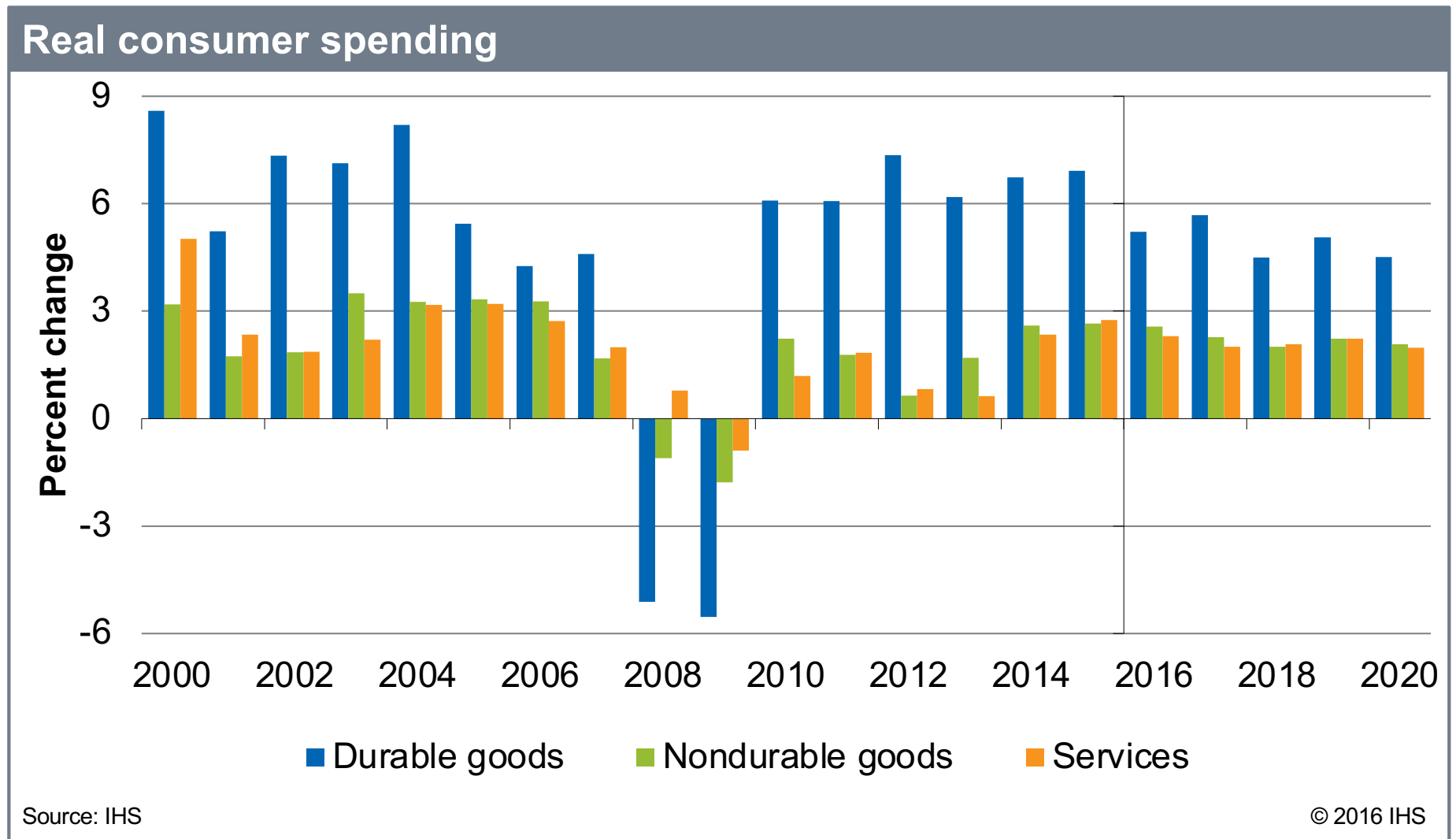
- Sluggish wage gains
- High student debt burdens
- Precautionary saving



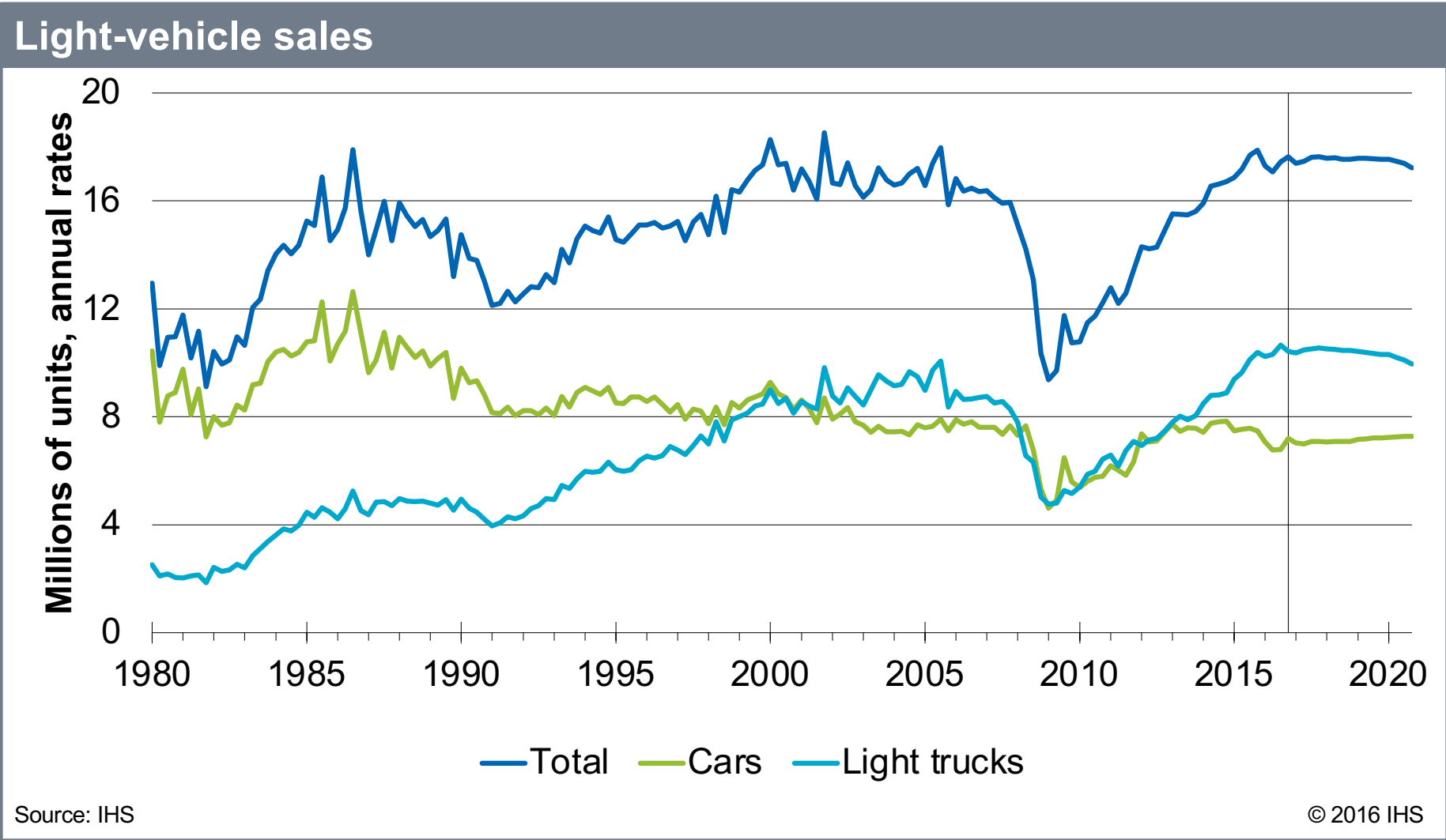
Real household net worth has reached a new high



Durable goods lead growth in real consumer spending



US light-vehicle sales are near their peak

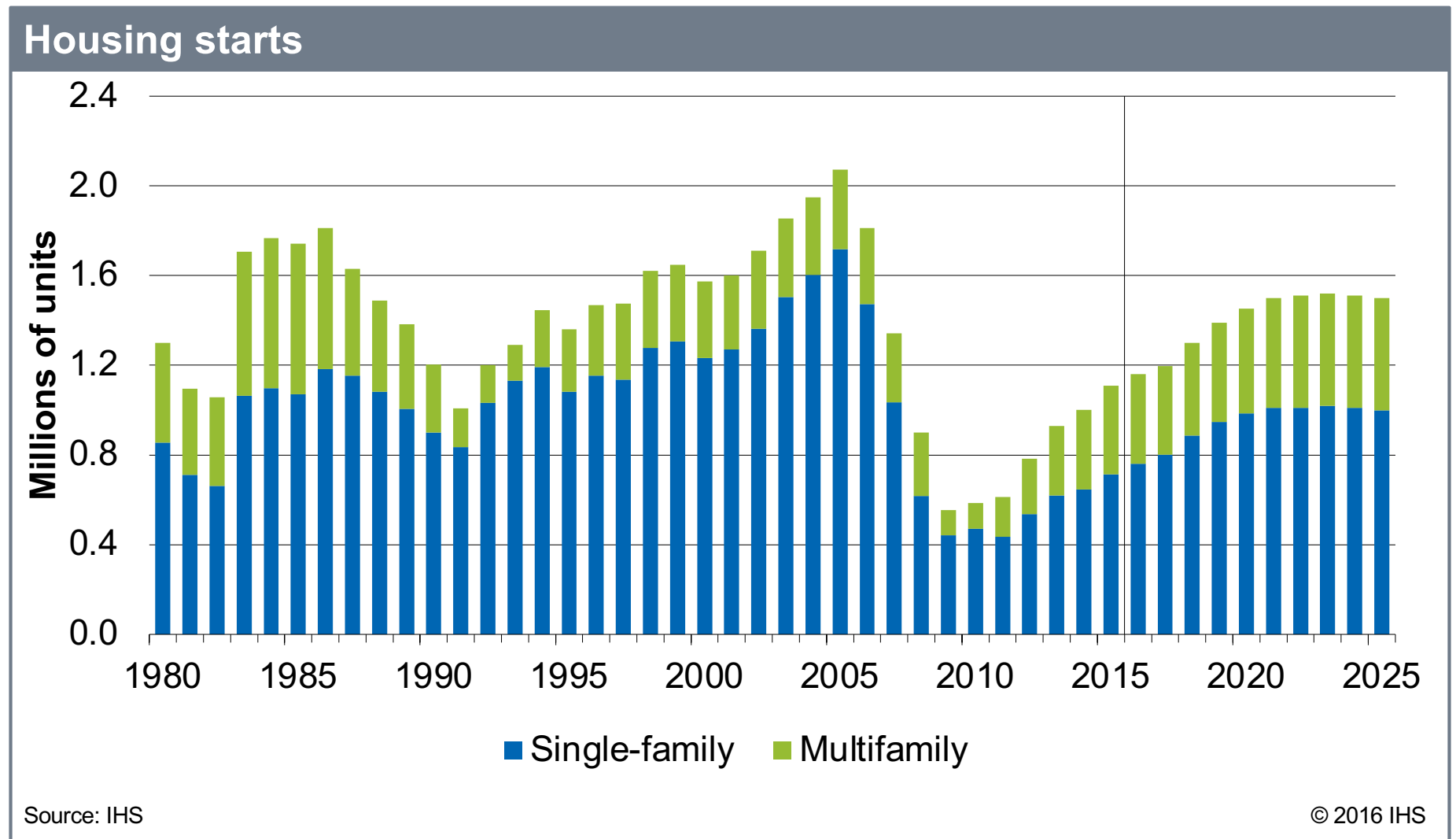


Housing markets will continue to recover

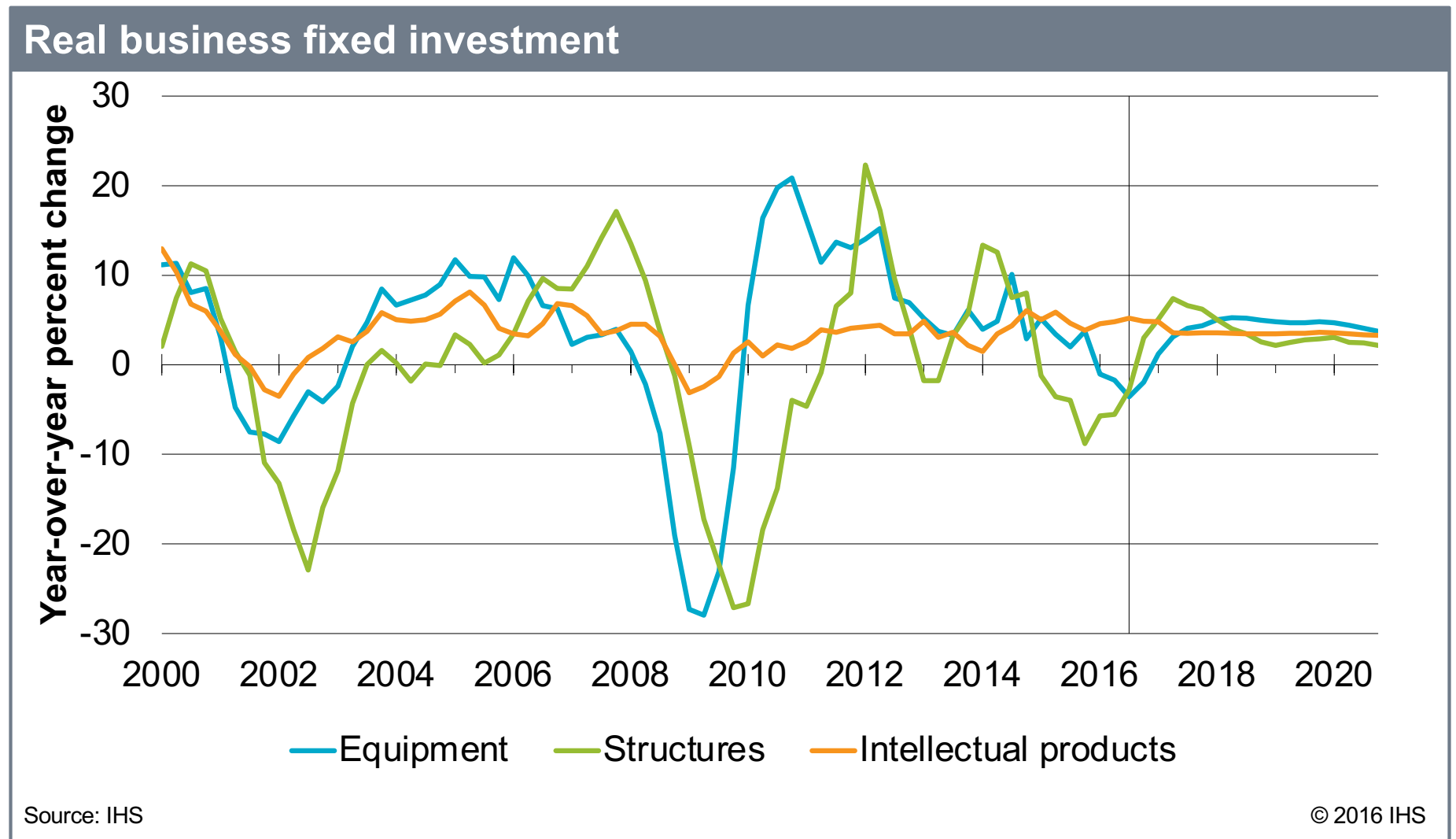
- Housing demand is supported by low mortgage rates and sustained growth in employment and real incomes.
- Supply is constrained by shortages of labor and developed lots.
- As demand outpaces supply, home prices and rents are rising.
- With new households choosing to rent rather than own, the US homeownership rate has fallen to a 51-year low.
- Lean inventories of unsold homes, low rental vacancy rates, and rising prices will encourage builders to step up construction activity.



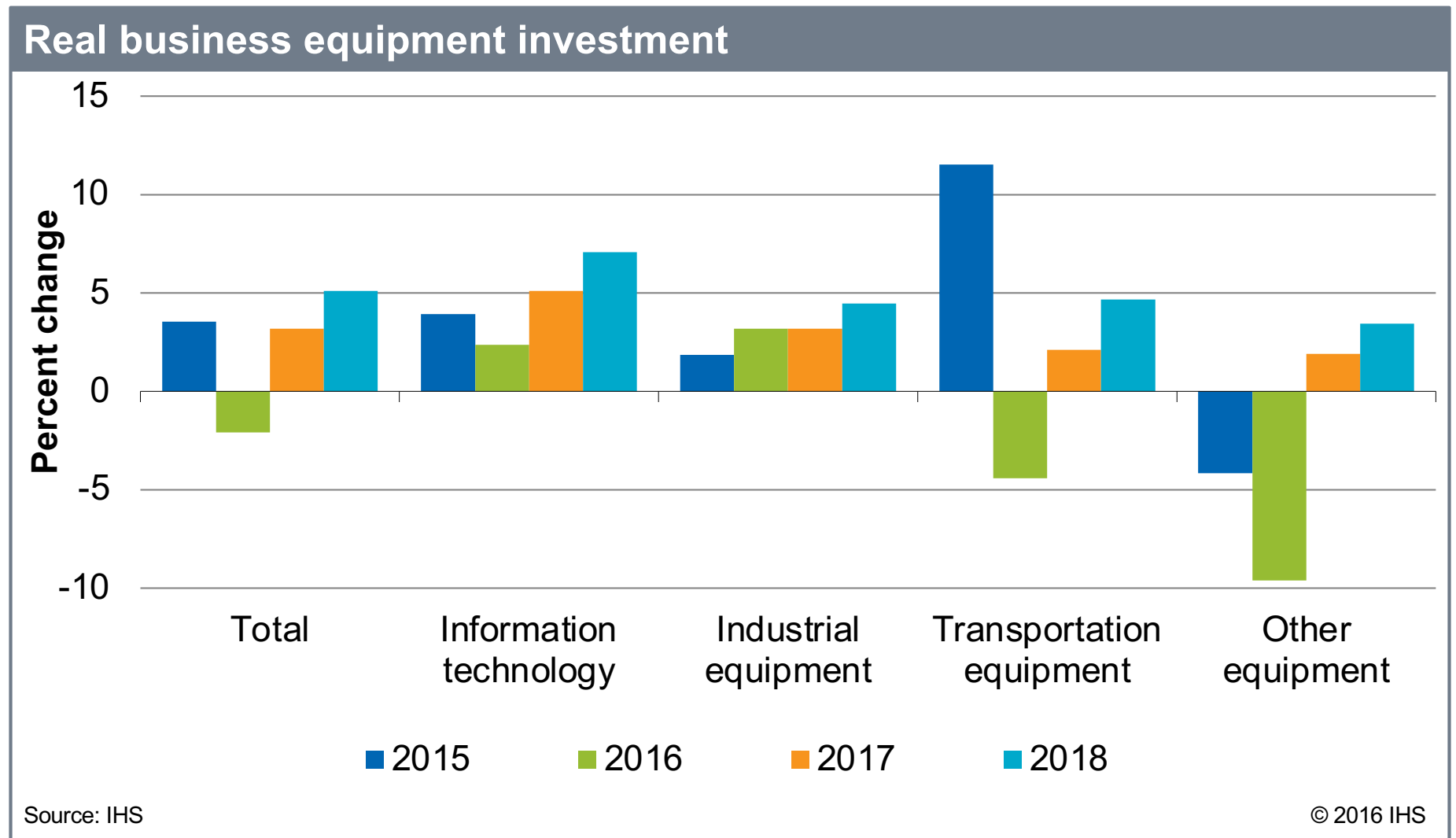
A protracted recovery in US housing starts since the financial crisis



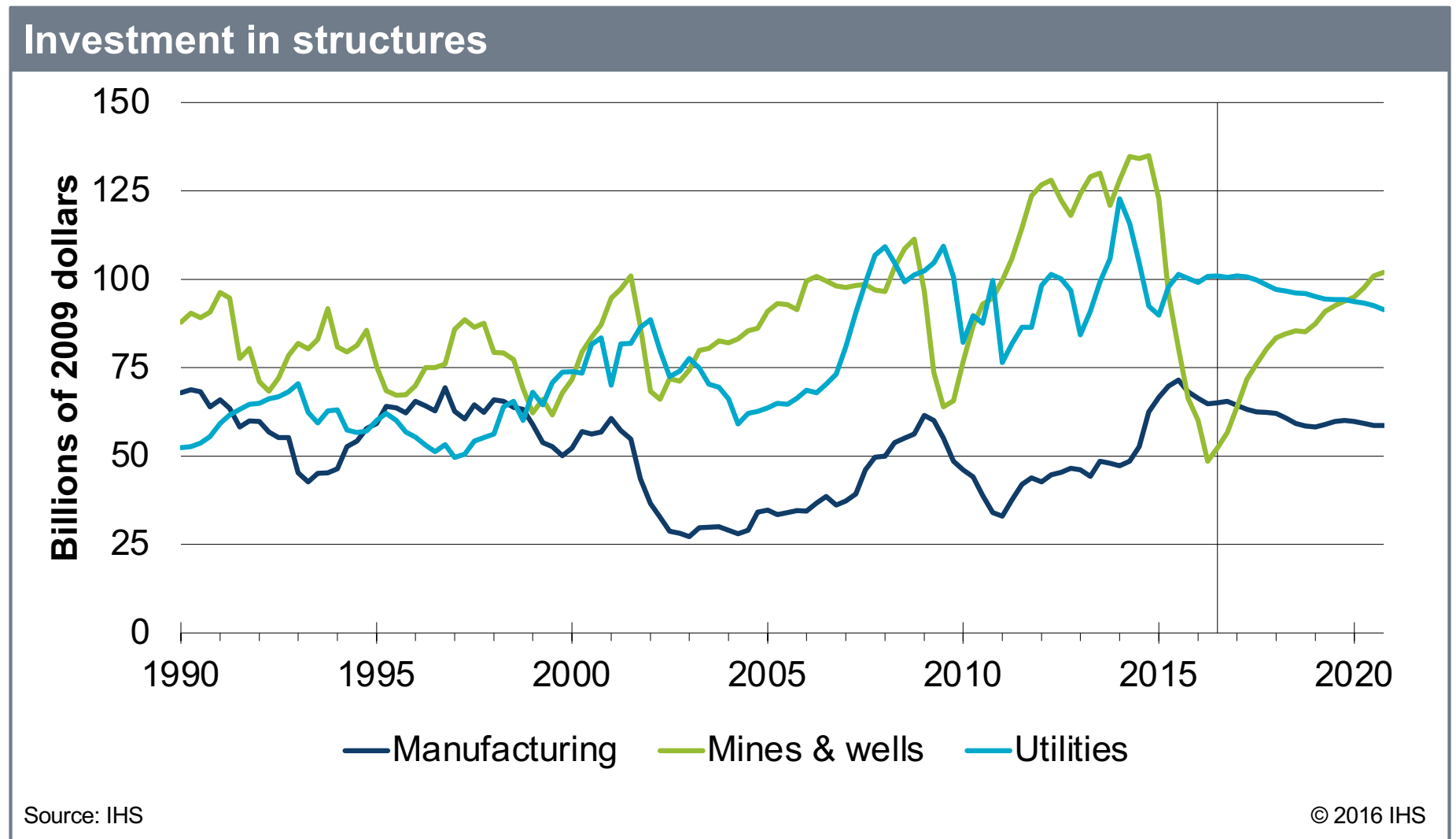
An upturn in energy-related investment will contribute to stronger growth in capital spending



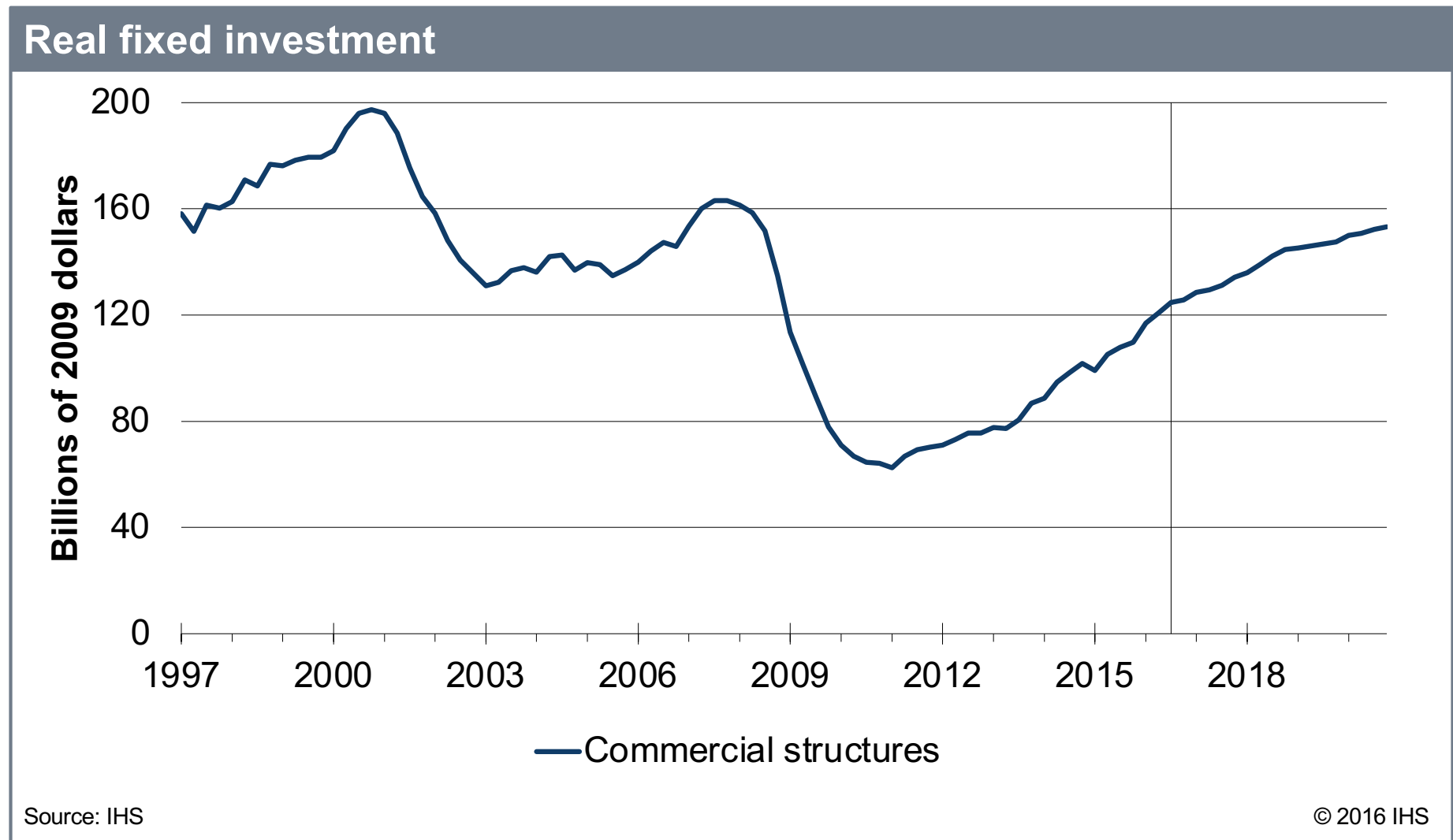
Growth in real business equipment investment will be led by information technology



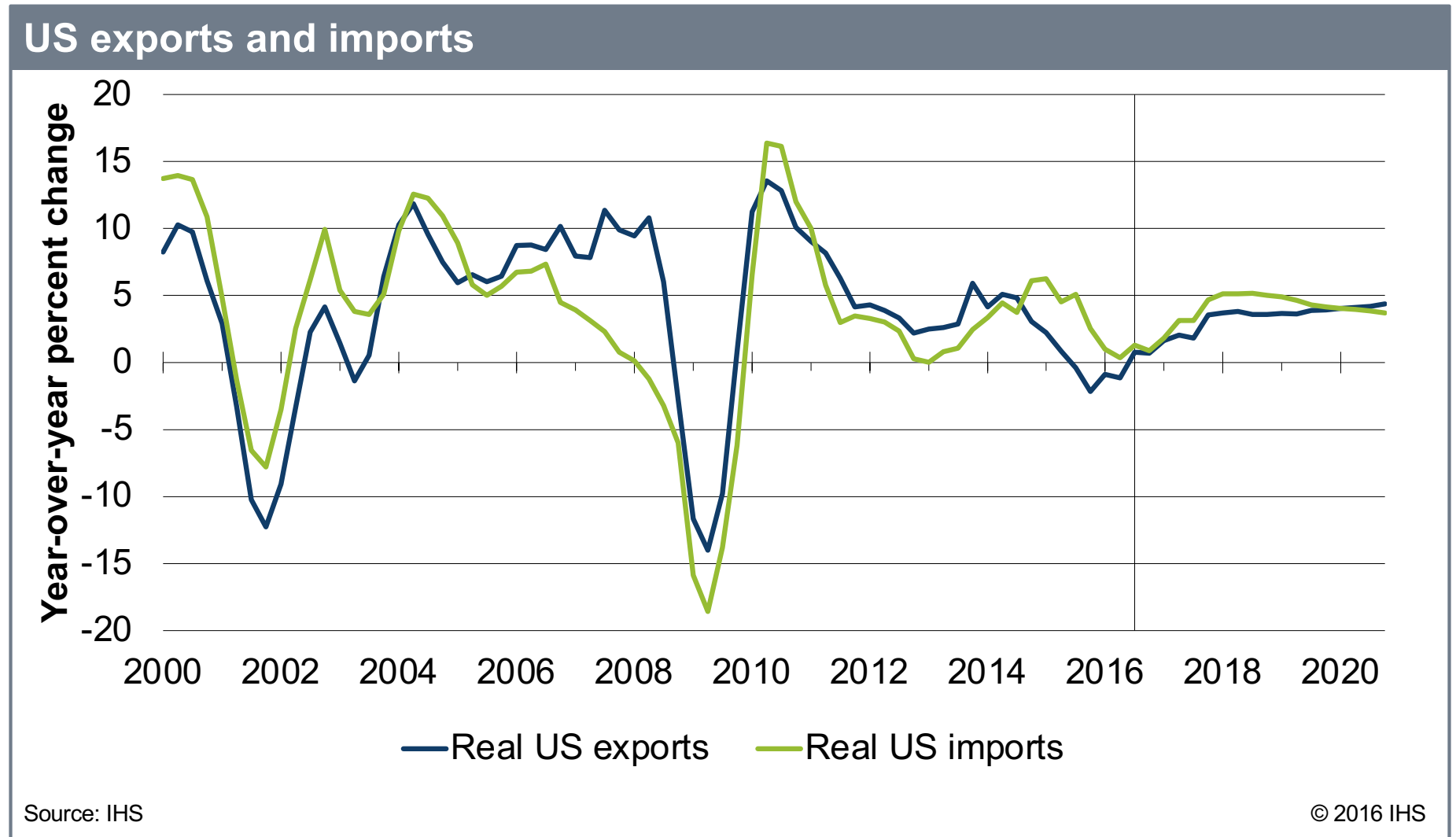
Investment in manufacturing structures will retreat, while investment in mines and wells will rebound



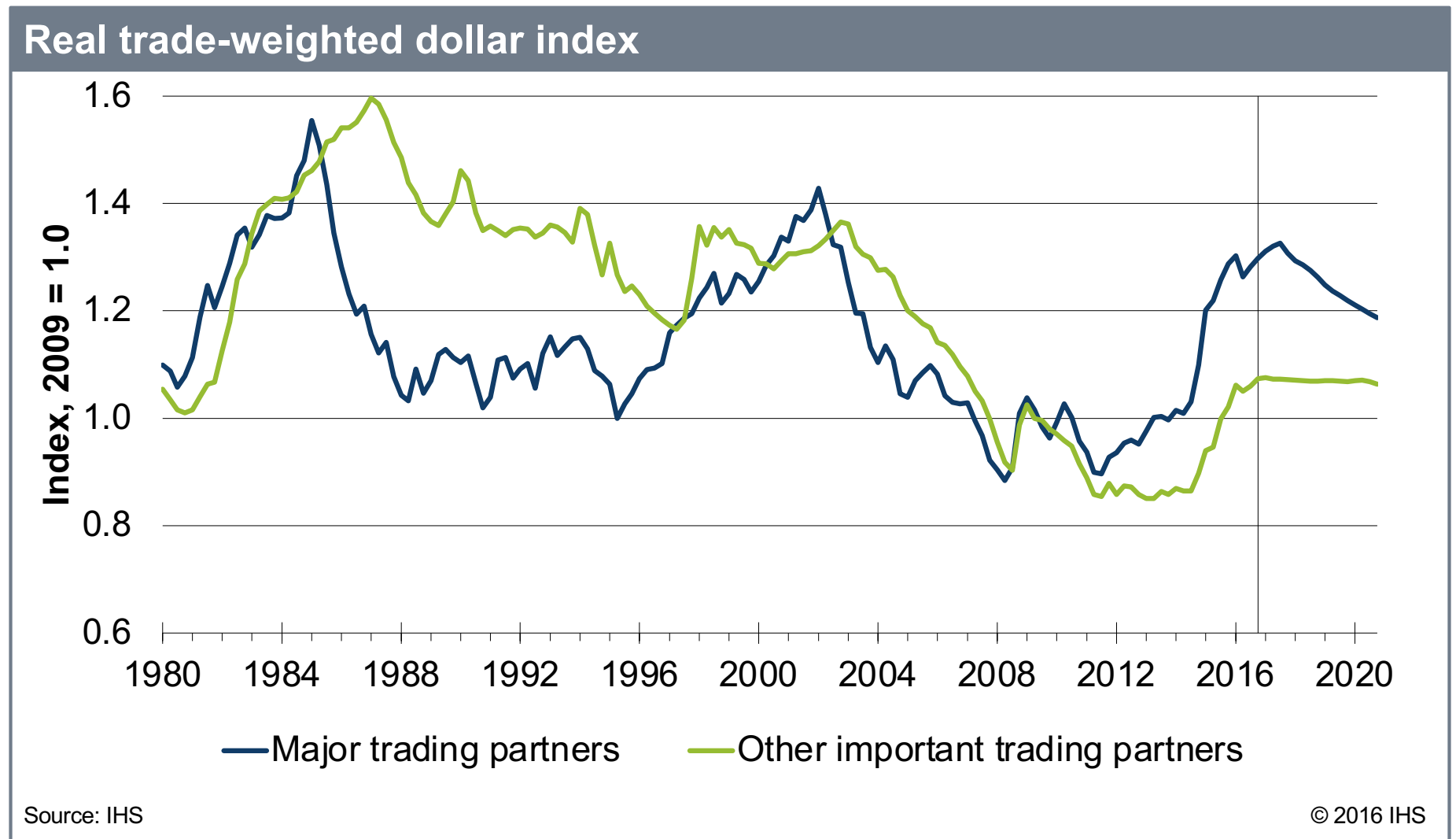
Investment in commercial structures is recovering from its 2008-10 collapse



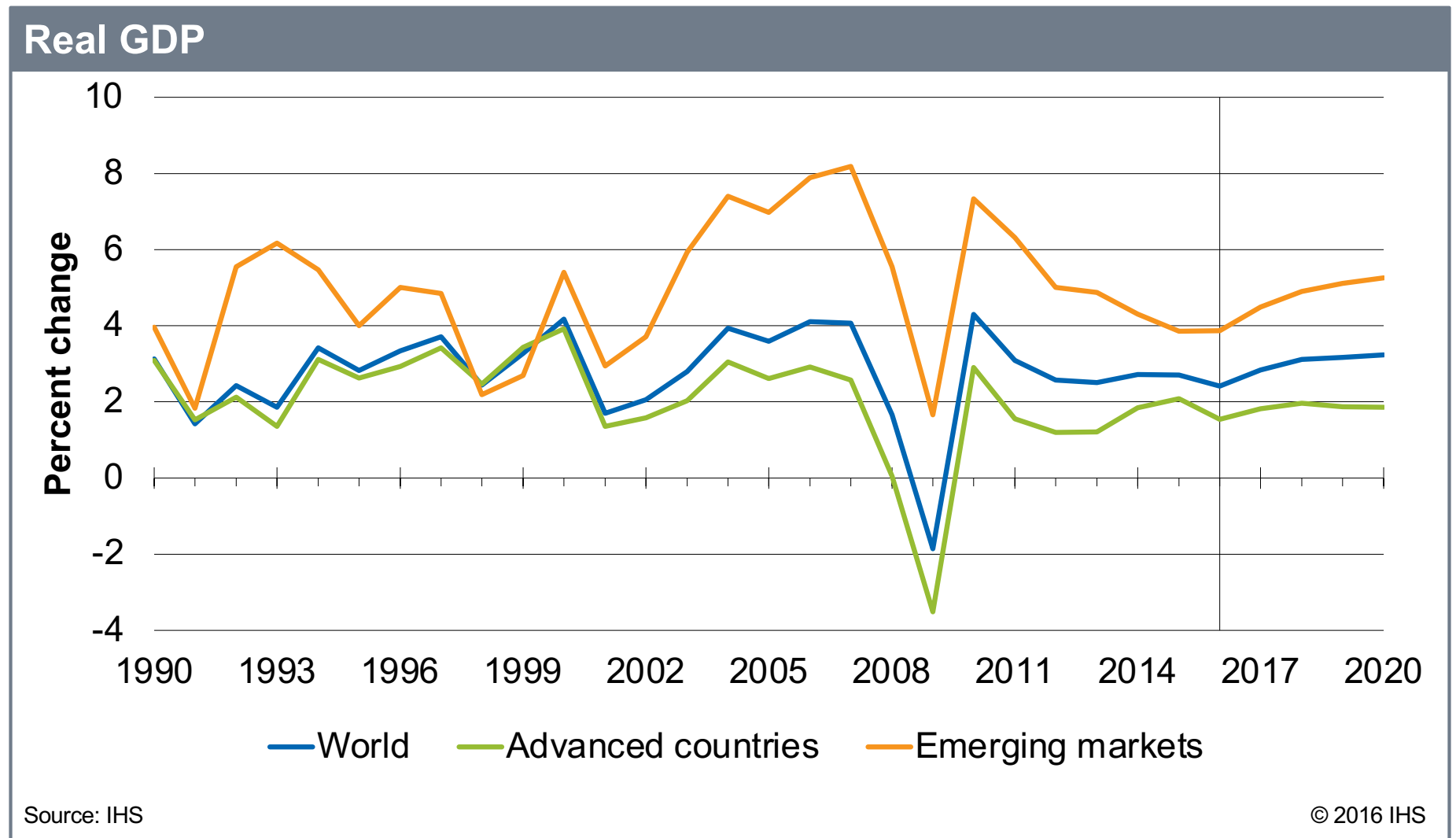
US real import growth is outpacing real export growth, as a strong dollar has hurt global competitiveness



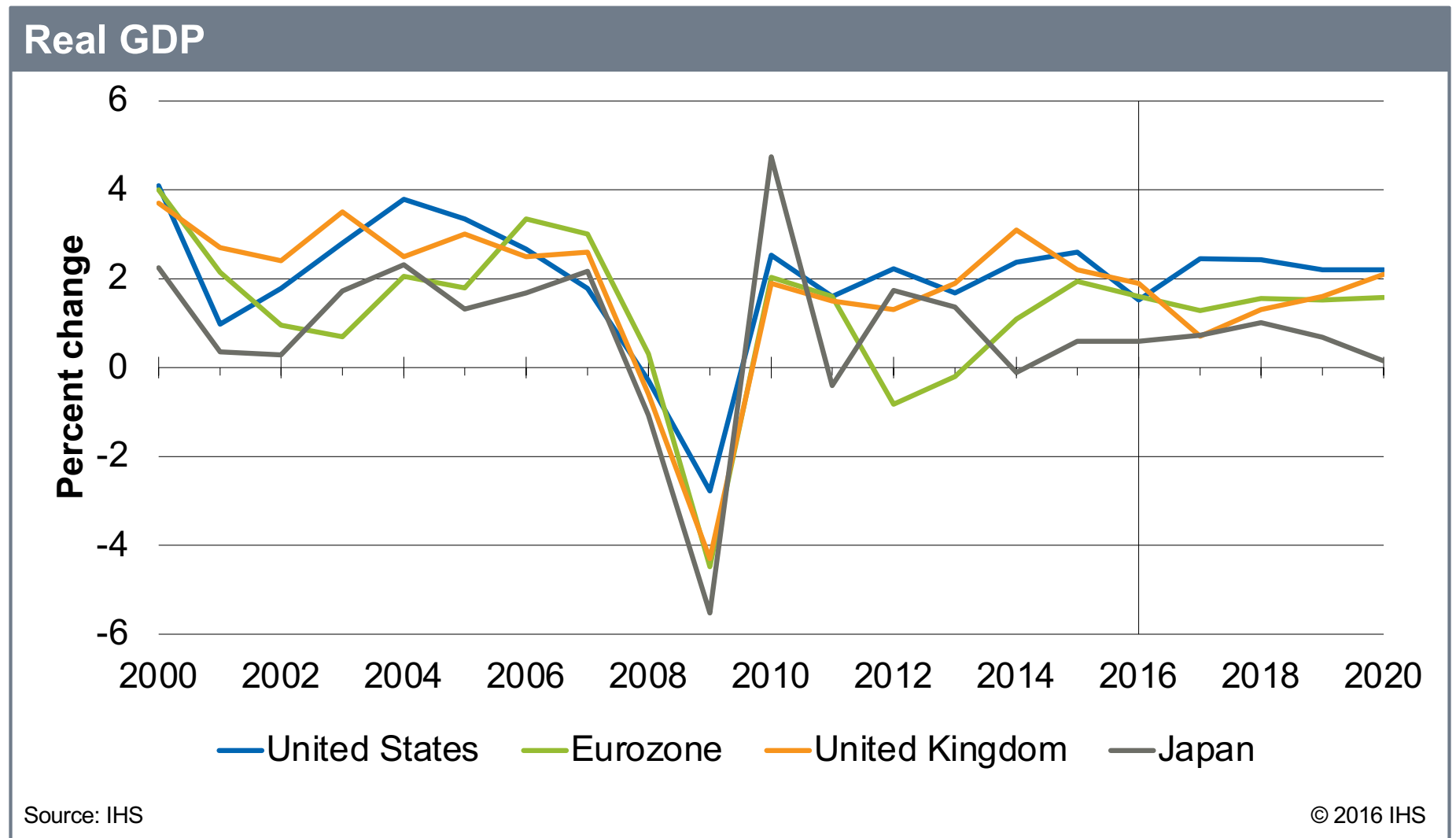
The dollar's real exchange value will strengthen further against European currencies in 2017



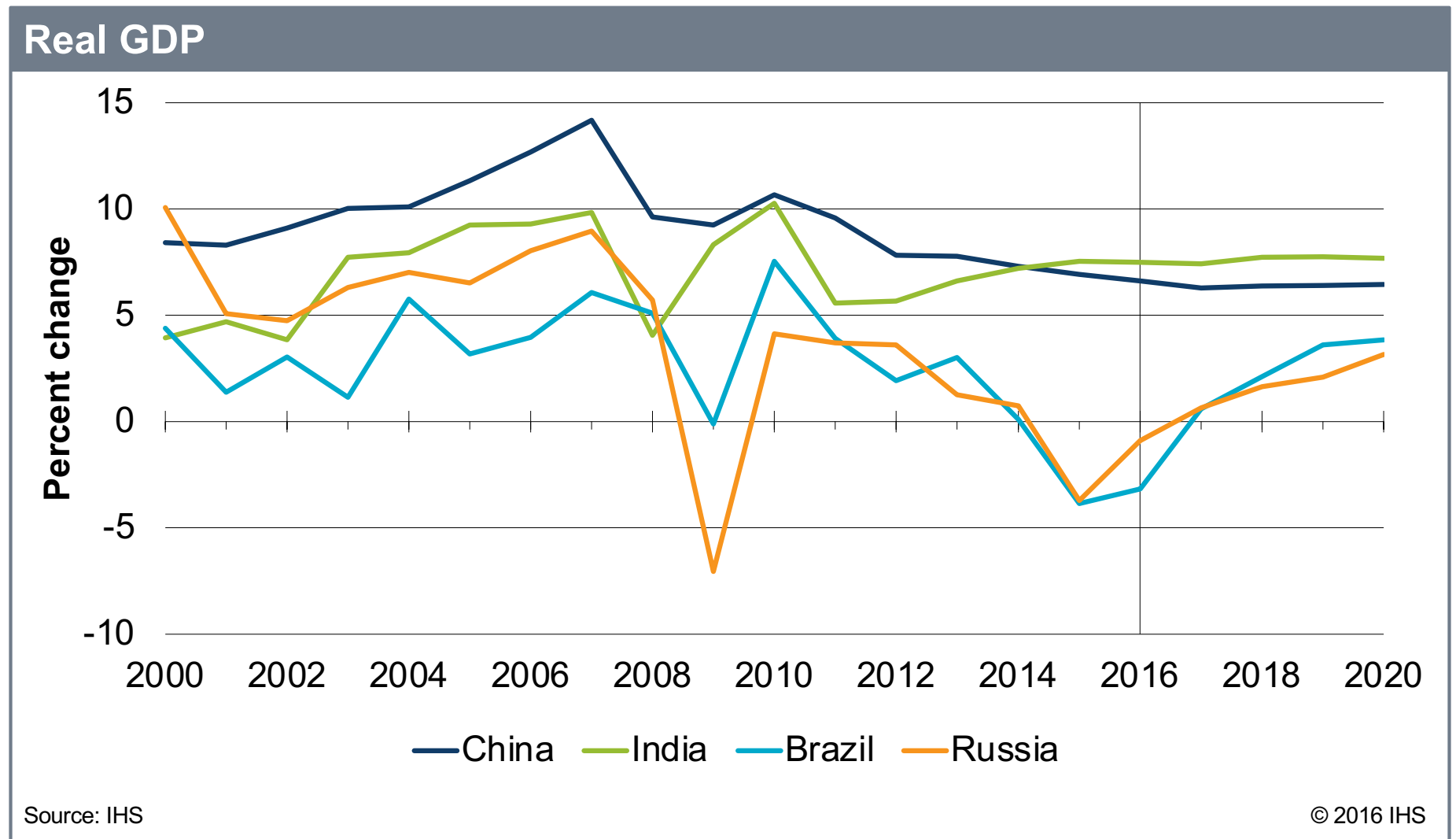
Emerging markets will lead a pickup in global growth



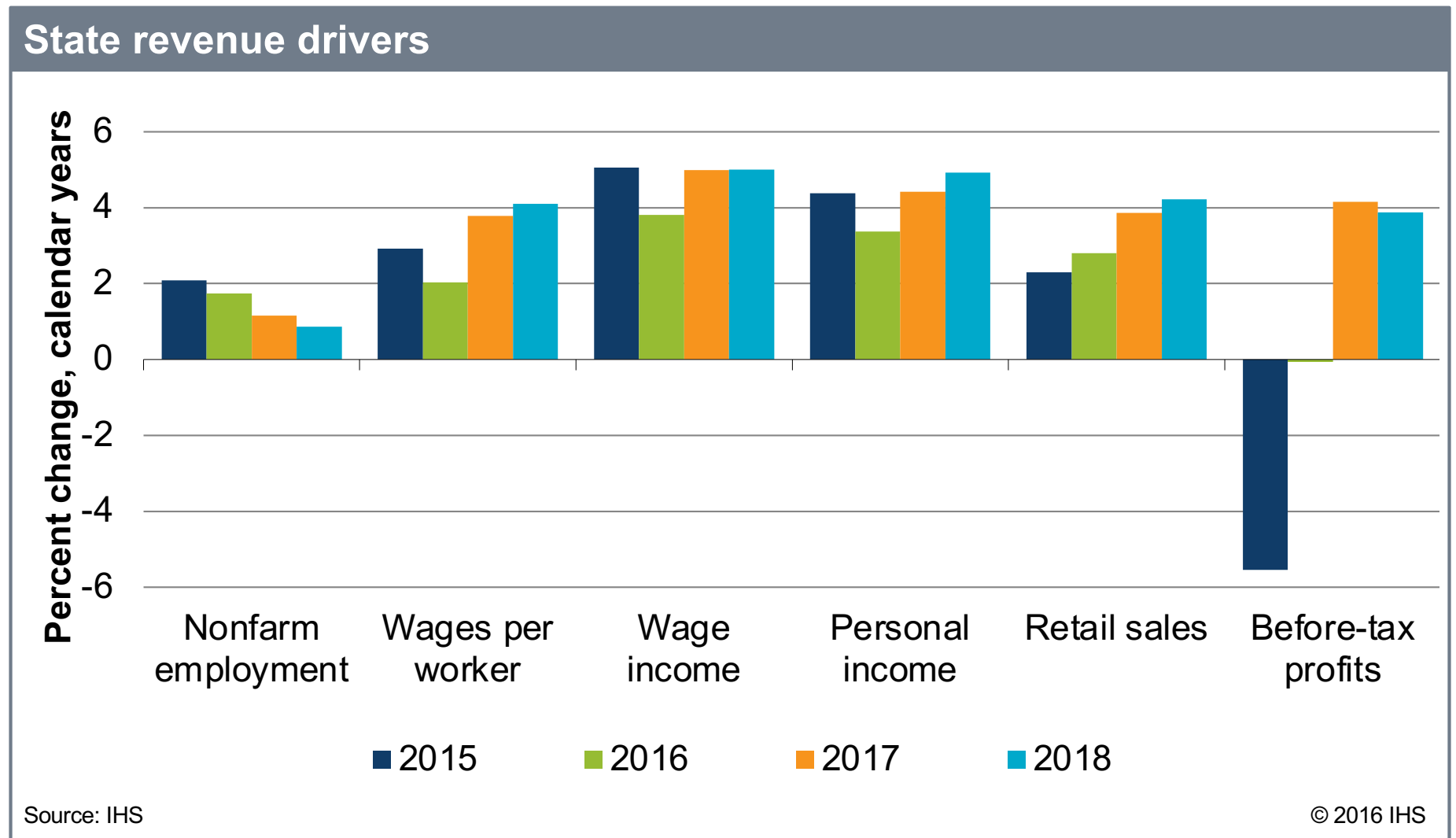
Real GDP growth in key advanced economies



Real GDP growth in key emerging markets: Recessions in Russia and Brazil are abating



Forces driving state government revenues



Bottom line for the US economy

- After slowing from 2.6% in 2015 to 1.4% this year, real GDP growth is projected to pick up to 2.2% in both 2017 and 2018.
- Consumer spending will be supported by solid gains in employment, real disposable income, and household net worth.
- Real business fixed investment will recover, led by gains in information technology and commercial structures.
- Foreign trade will remain a drag on real GDP growth, due to a strong dollar and weak expansions in major export markets.
- Core consumer price inflation will average close to 2%.
- The Federal Reserve will gradually raise the federal funds rate to an equilibrium level of 2.75% by the end of 2019.

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