



## The U.S. Economic Outlook

*Presented by:*

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IHS Global Insight

Sun Valley, Idaho  
September 20, 2010



## A Subdued U.S. Economic Expansion



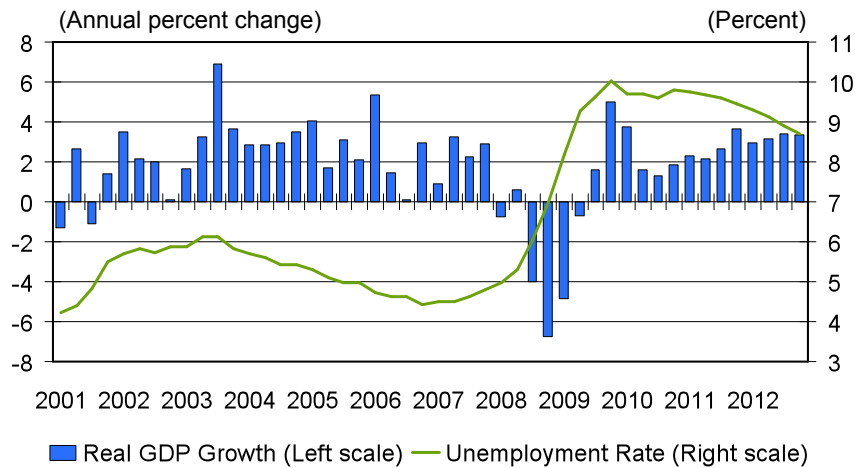
- U.S. economic growth has slowed as support from the inventory cycle and fiscal stimulus has diminished
- Consumer caution and business hiring restraint are reinforcing each other
- Homebuilding will gradually recover; commercial construction has further to fall in 2011
- Exports and business equipment investment will lead growth
- Inflation is a long way off; deflation is the immediate threat

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## The U.S. Economic Expansion Proceeds at a Slower Pace

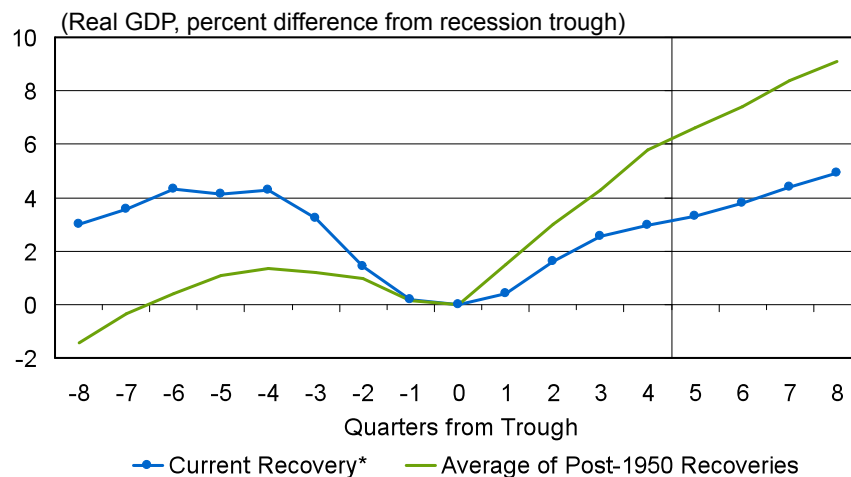


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## Deeper Recession, Slower Recovery: Comparison with Previous Cycles



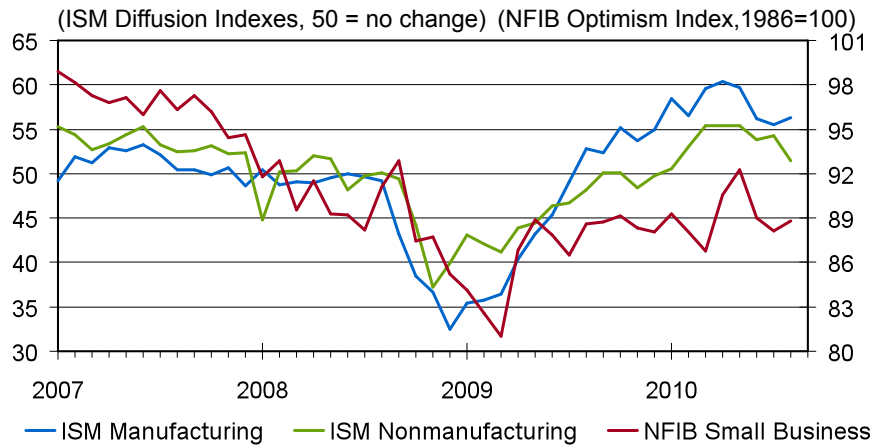
\* Assumes 2009 Q2 trough

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## ISM Indicators Still Signal Growth; Small Business Lagging Behind

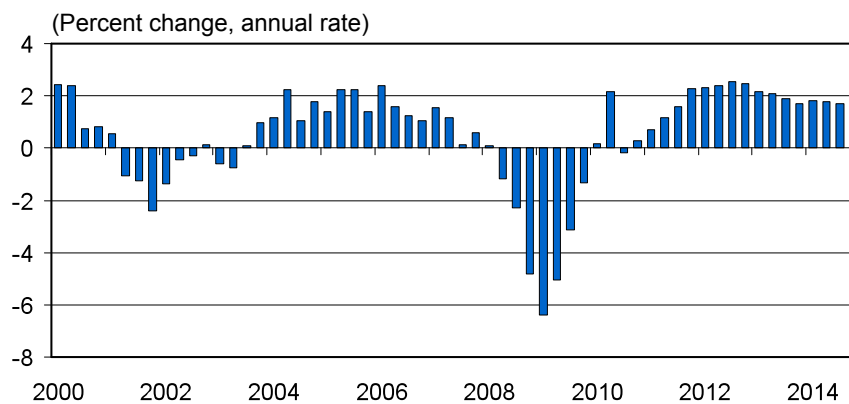


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## U.S. Employment Will Slowly Recover, Reaching its 2007 Peak in Late 2013

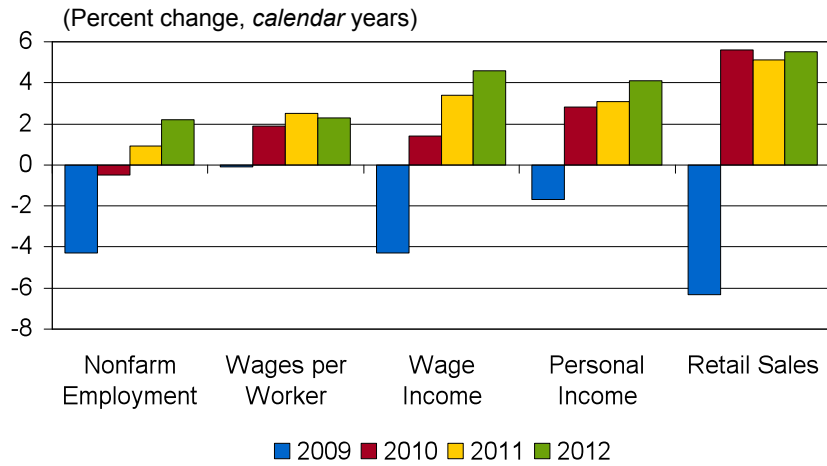


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## Forces Driving State Revenues Begin to Improve

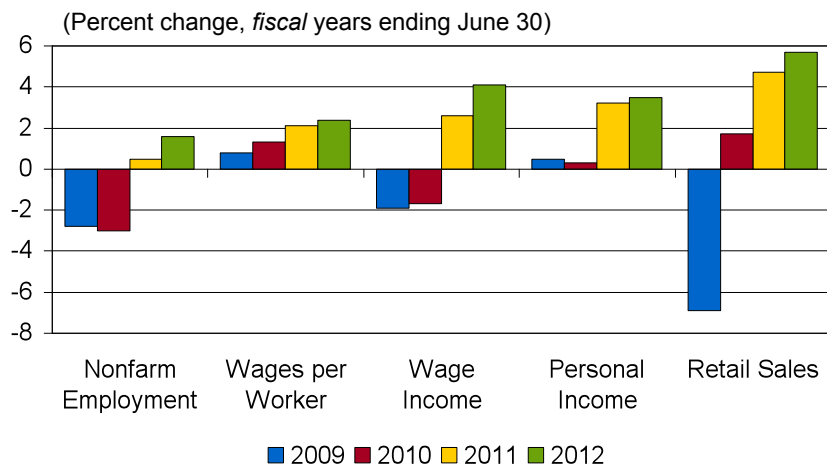


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## Forces Driving State Revenues Begin to Improve

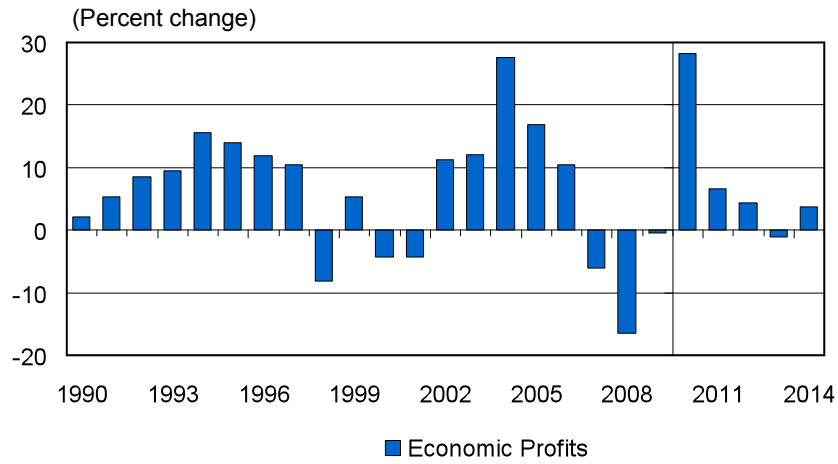


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## After a Strong Rebound in 2010, Corporate Profits Growth Will Subside

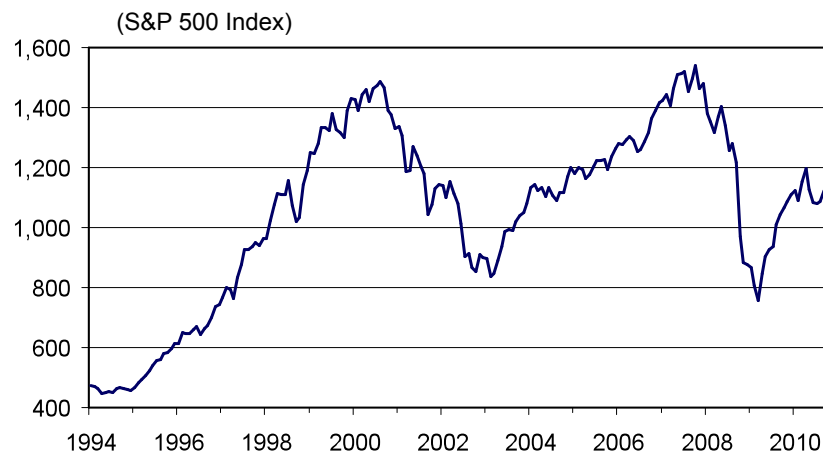


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## The Stock Market's Lost Decade



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## Cross-Currents Affecting Consumer Finances and Spending



### Positive Forces

- Upturn in Employment
- Real Income Growth
- Stock Market Recovery
- Low Interest Rates

### Negative Forces

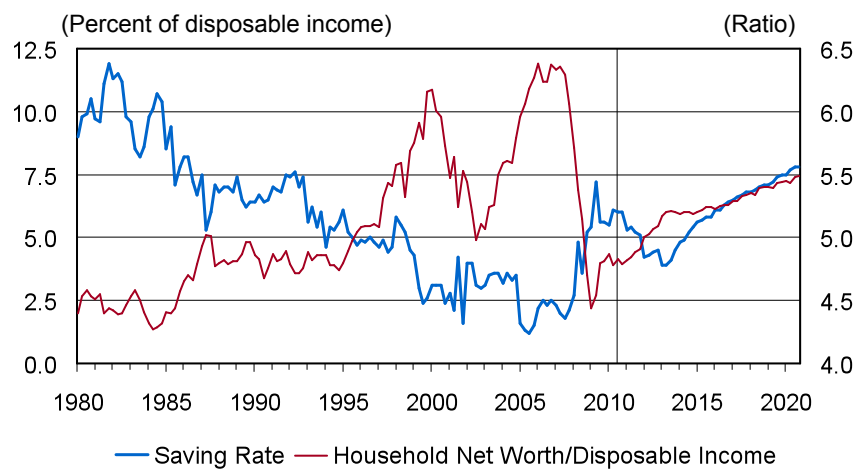
- High Unemployment
- Reduced Wealth
- Tight Credit
- High Debt Burdens

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## The Drop in Household Net Worth Led to a Rise in the Saving Rate

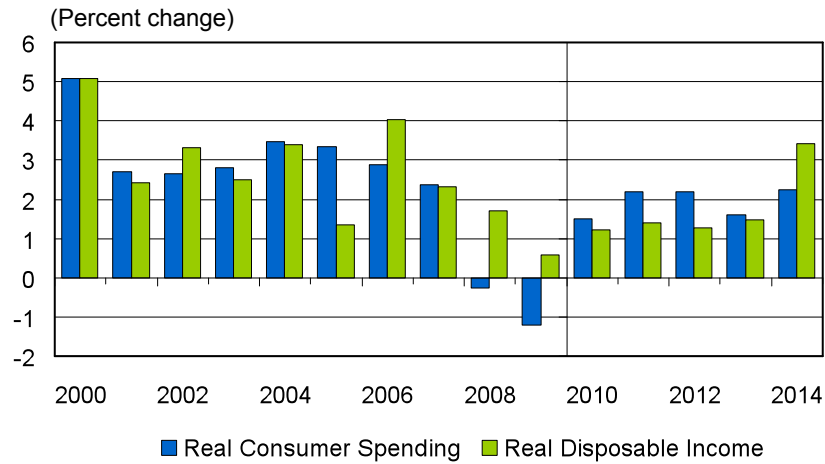


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## Consumer Spending Is Restrained by Weak Disposable Income Growth

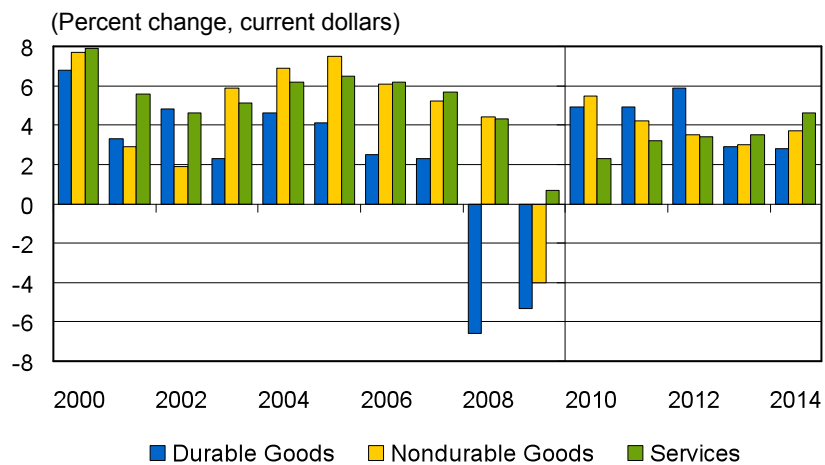


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## Nominal Consumer Spending Is Rising, Boosting Sales Tax Receipts

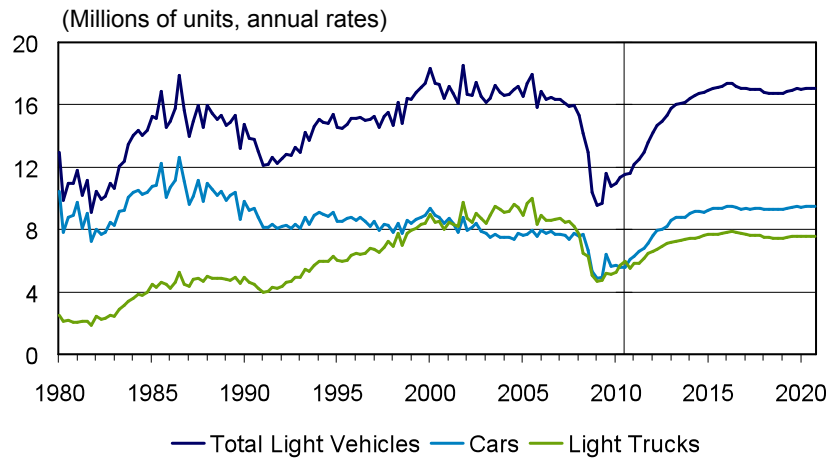


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## Light Vehicle Sales Are Recovering, with Cars Overtaking Light Trucks



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## Uneven Recovery in Housing Markets



- The recession led to a drop-off in household formation
- Home affordability has greatly improved, boosting demand
- But the expiration of the second homebuyers' tax credit has caused a temporary setback in home sales and prices
- High mortgage foreclosure rates are adding to excess supply
- Job growth is critical to a sustained housing recovery

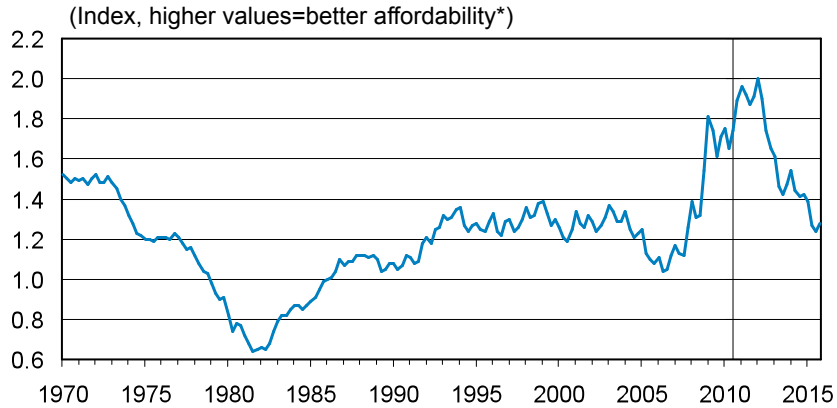
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## Housing Affordability Is Helped by Low Home Prices and Mortgage Rates



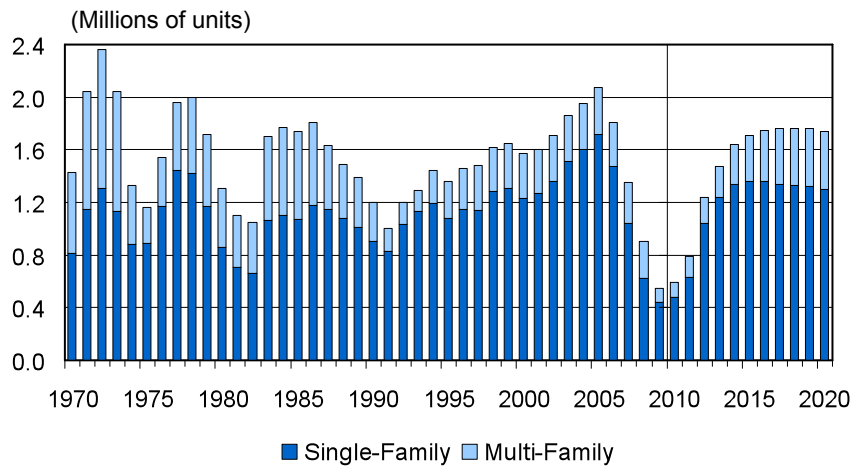
\* A value of 1.0 indicates a household earning the median income can afford a median-priced single-family home.

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## Housing Starts Will Gradually Revive



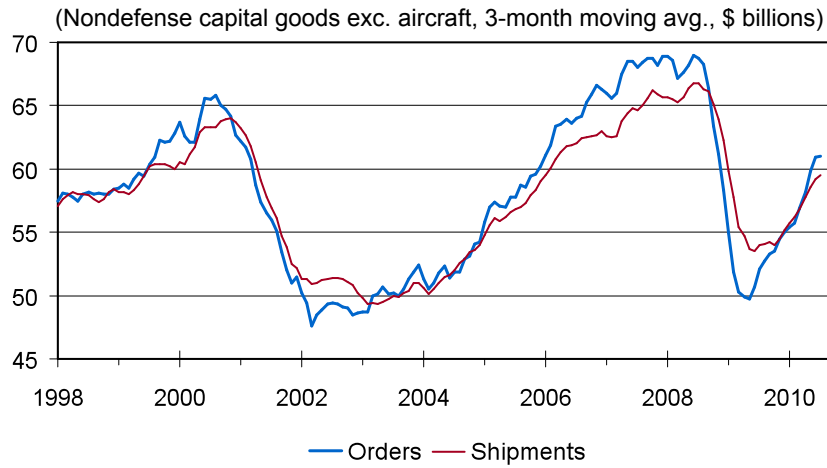
■ Single-Family ■ Multi-Family

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## Business Equipment Orders and Shipments Are Recovering

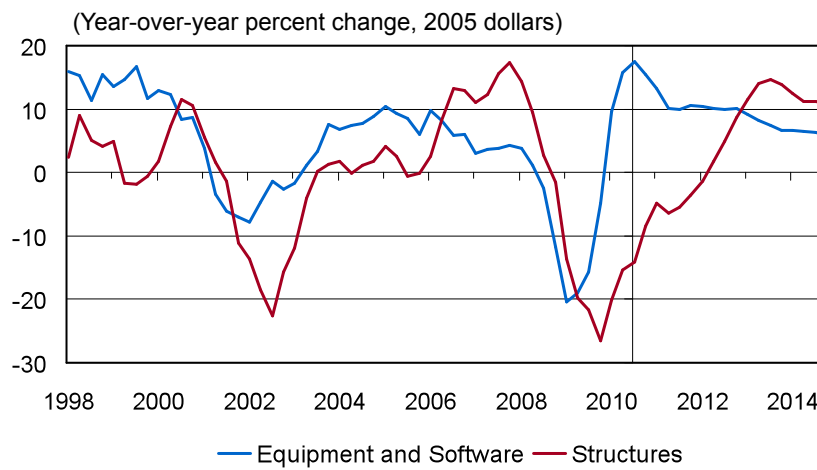


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## Business Investment Cycles: Equipment Leads, Structures Lag

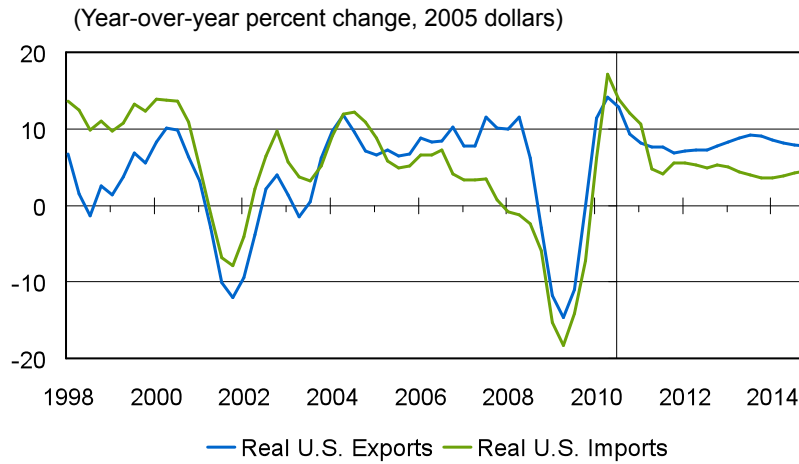


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## Real Export and Import Growth Reflect Business Cycle and Exchange Rates

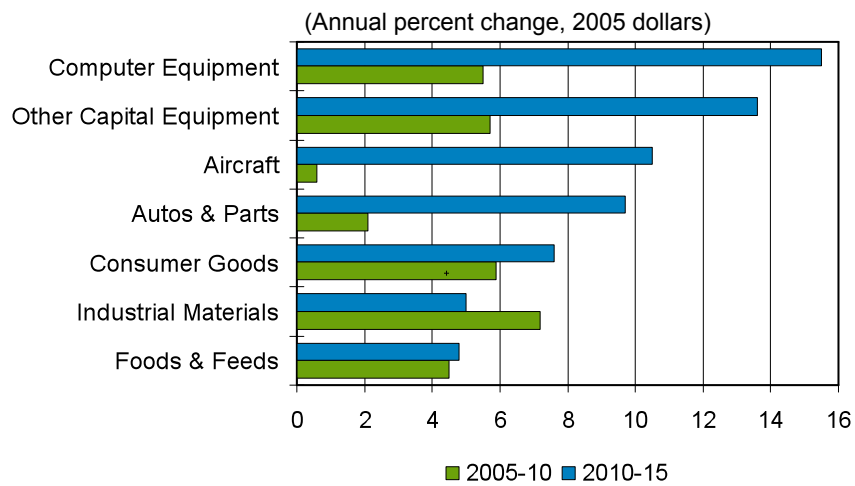


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## Capital Goods Lead Export Growth

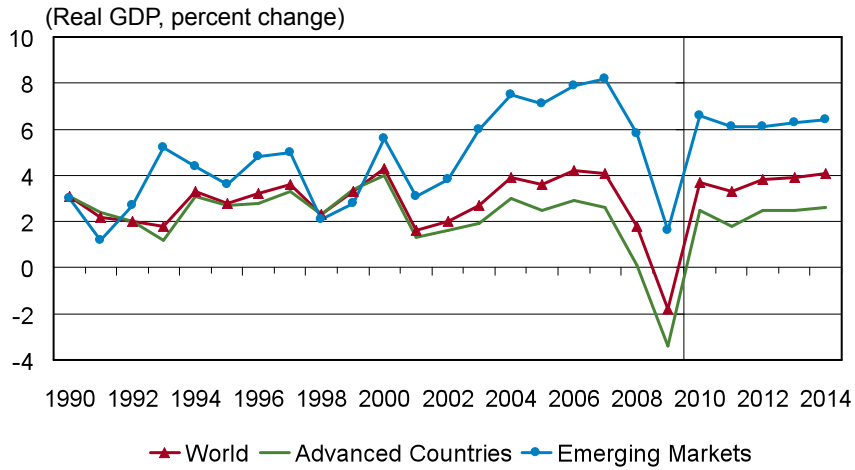


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## A Two-Speed Global Economic Recovery, Led by Emerging Markets

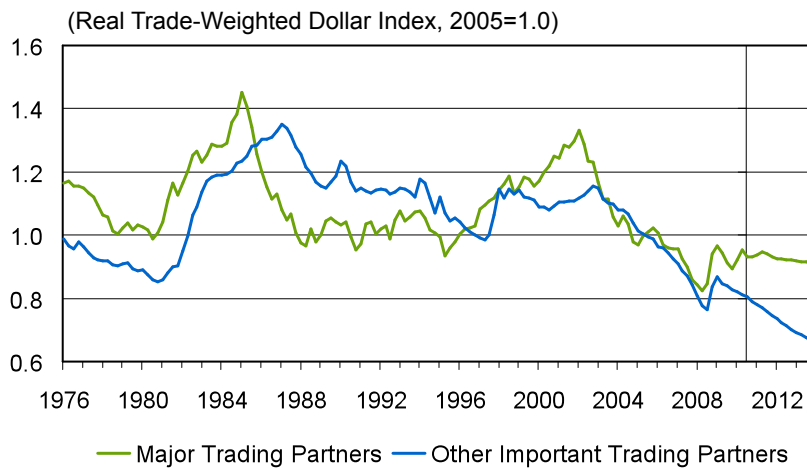


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## The Dollar Will Depreciate Against Emerging Markets' Currencies

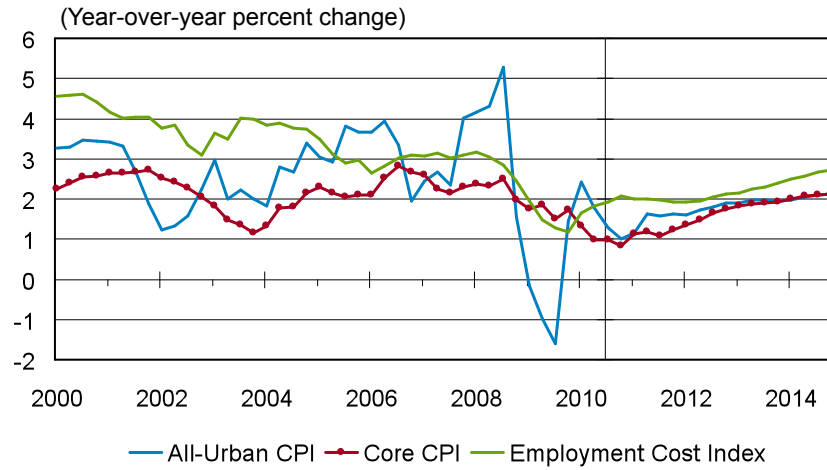


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## A Mild Outlook for Inflation

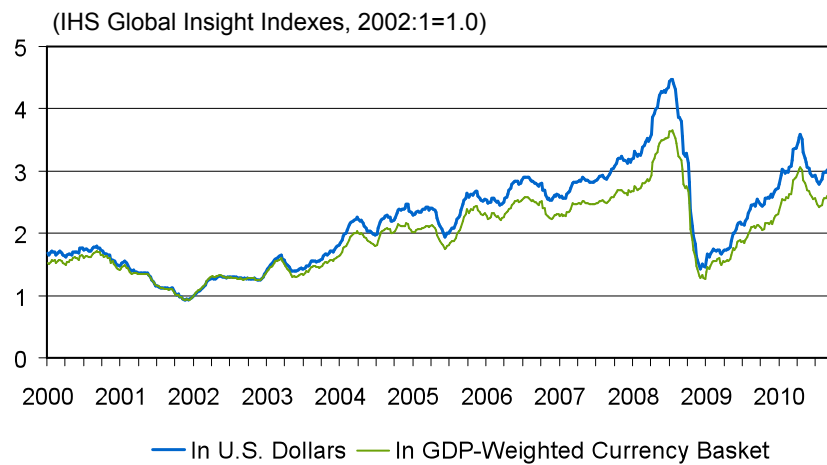


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## Industrial Materials Prices Are Undergoing a Mild Correction

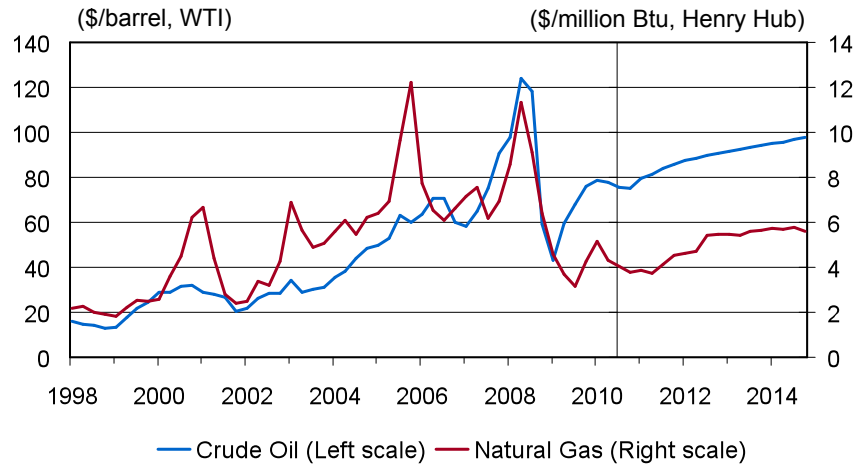


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## Crude Oil and Natural Gas Prices Have Diverged

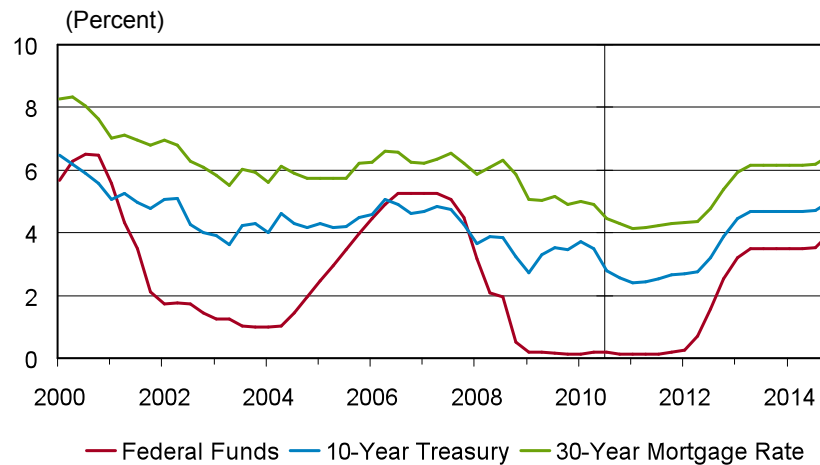


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## Interest Rates Will Stay Low Through 2011 with More Quantitative Easing

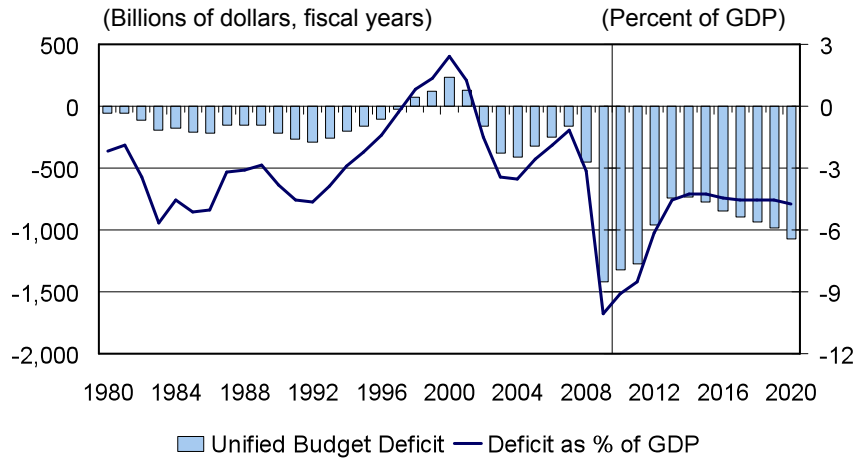


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## A Chronic Federal Budget Deficit

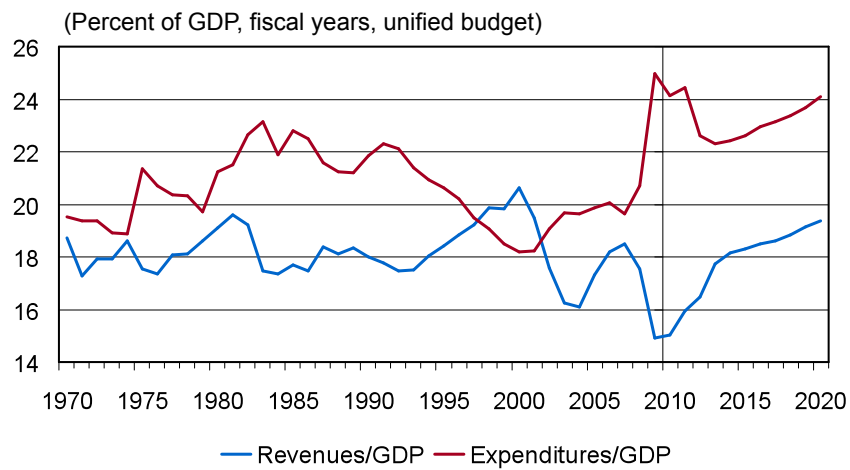


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## Economic Growth Will Narrow, Not Close, the Federal Budget Gap

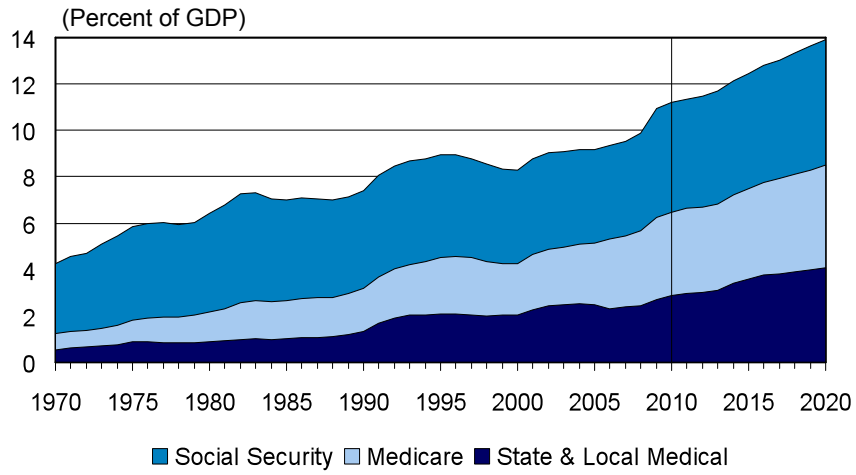


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## Rising Government Spending on Social Security and Health Care

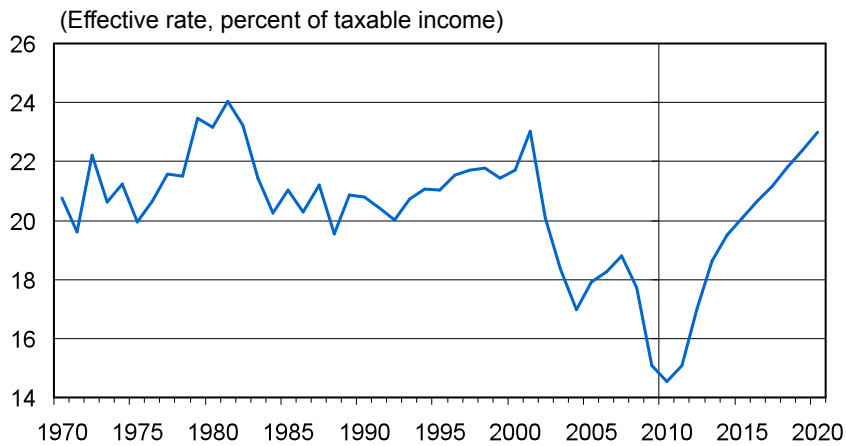


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## Federal Personal Income Tax Rates Will Rise for Everyone



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## Risks to the U.S. Forecast



### Downside Risks

- Financial market instability returns, credit remains tight, and the housing recession drags on
- Businesses are reluctant to hire or invest
- Consumers retrench after another setback in asset values

### Upside Risks

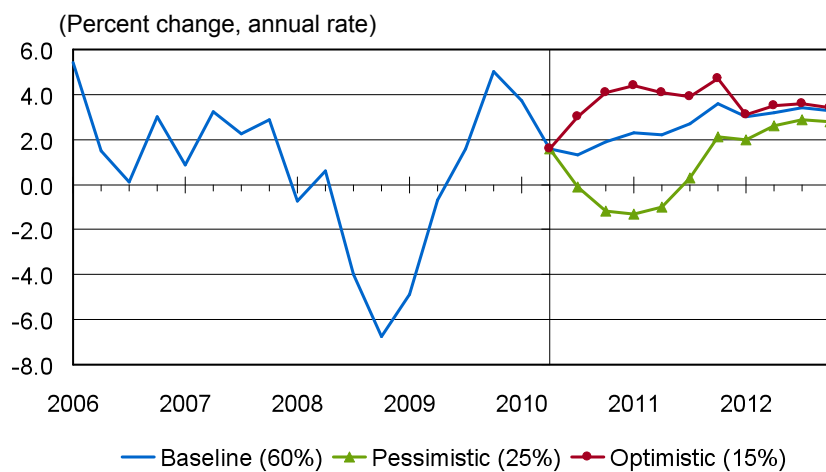
- Credit channels function smoothly, supporting investment
- Rapid technological progress boosts real income growth
- Robust growth in many emerging markets fuels exports

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## U.S. Real GDP Growth in Alternative Scenarios



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## Bottom Line



- Economic recoveries in the aftermath of a financial crisis are usually slow, and this one is no exception
- Households will spend cautiously as they rebuild their savings
- Business equipment investment, exports, consumer durables, and home-building will drive the expansion
- Excess capacity will keep wage and price inflation subdued
- The federal government needs an “exit strategy” from deficit spending or financial markets will eventually impose one
- The risk of a double-dip recession is 25%

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## Thank You!

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