IHS ECONOMICS

The US Economic Outlook

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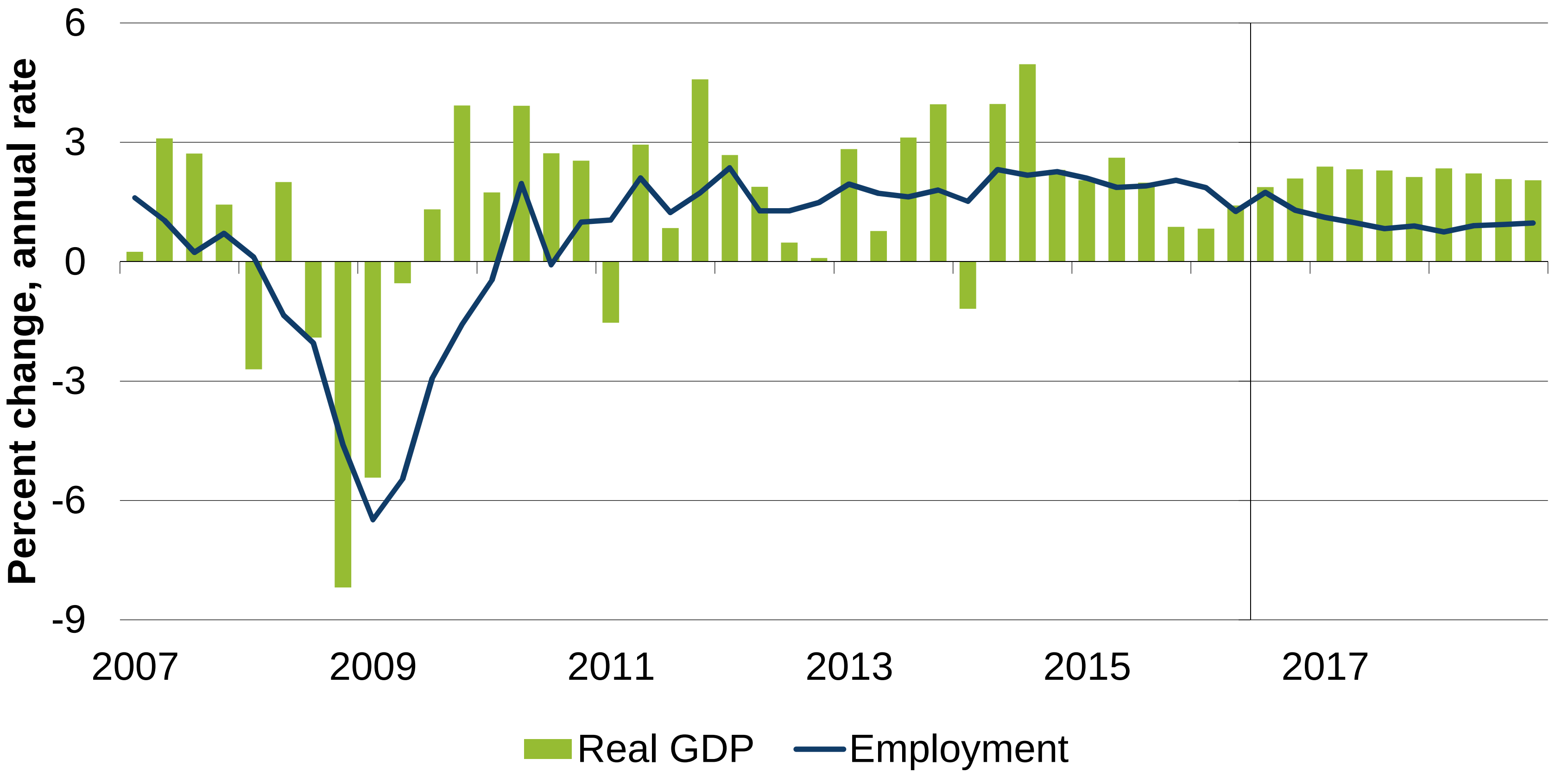
The US economy on a 2% growth path

- 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

Real GDP and payroll employment



Source: IHS

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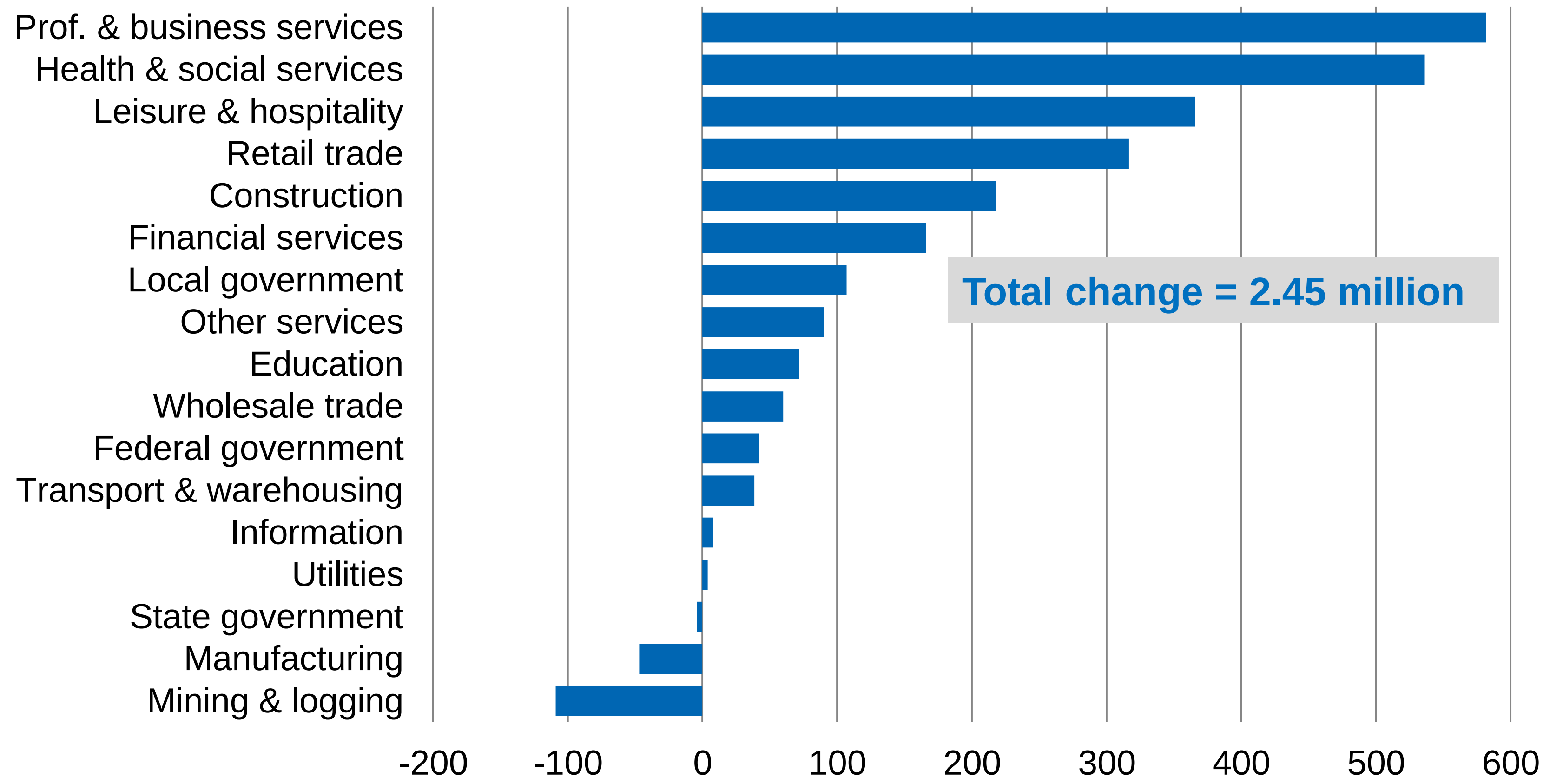
Services recorded the largest employment increases during the 12 months ended September 2016

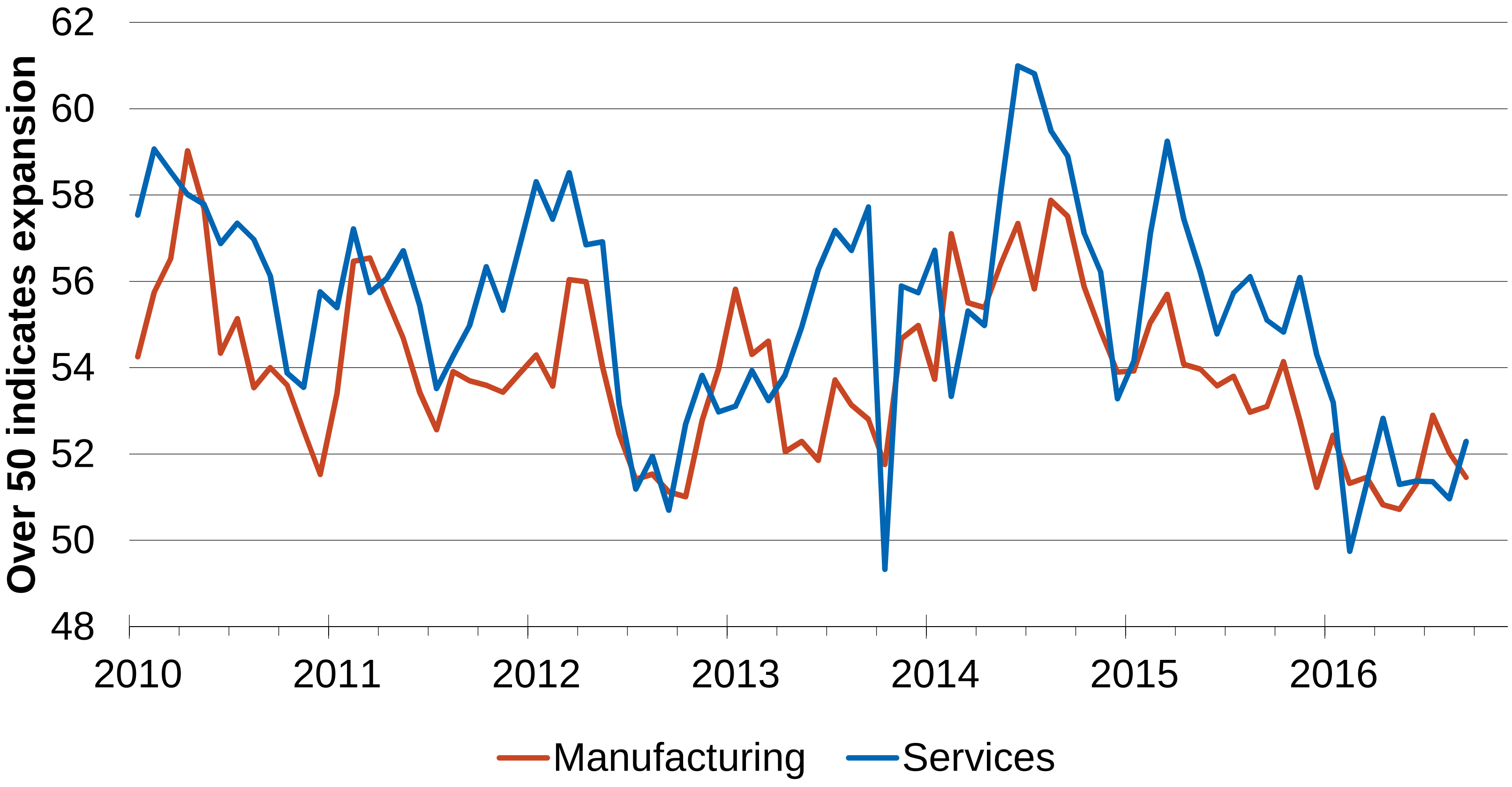
Change in payroll employment, thousands



Source: IHS

Markit PMI indexes signal modest US growth

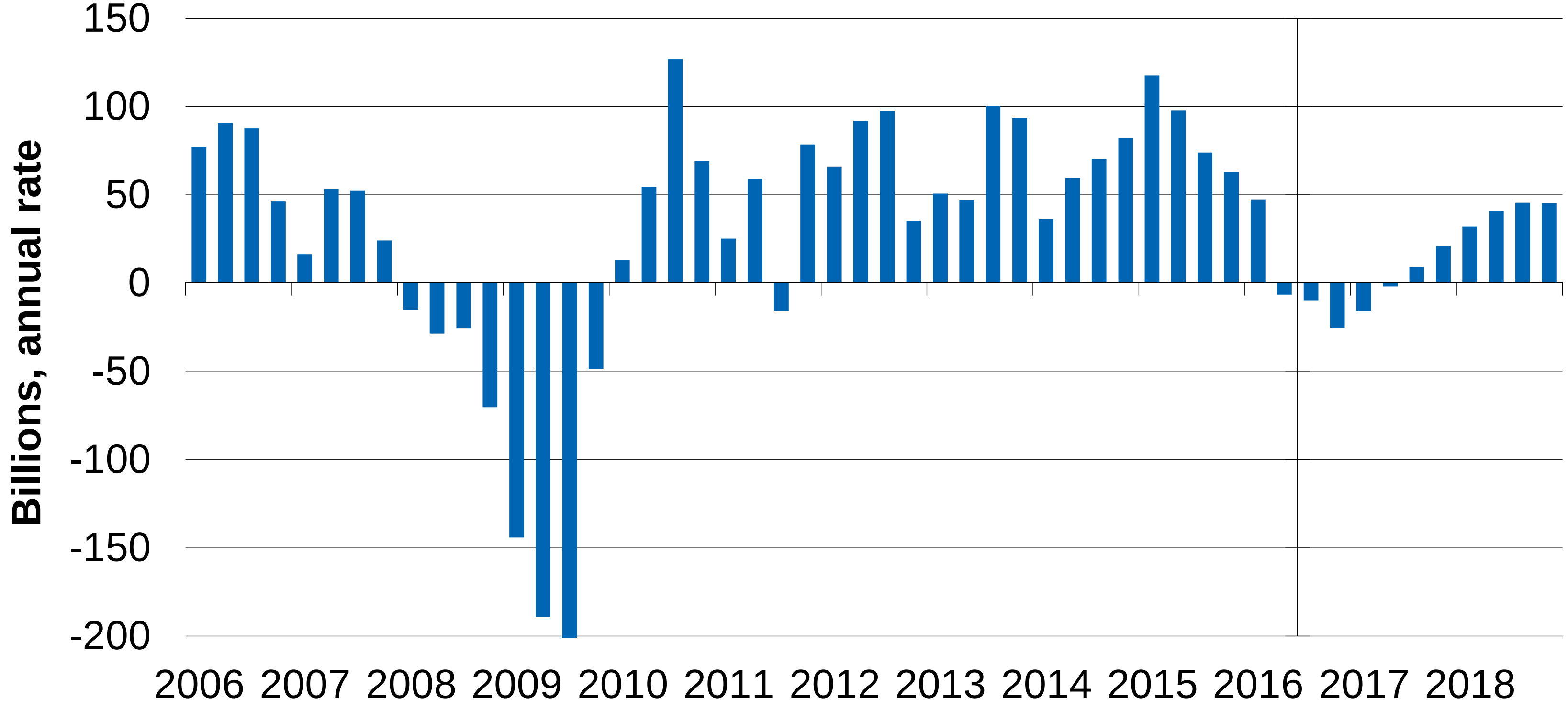
Markit US PMI indexes



Source: IHS Markit

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

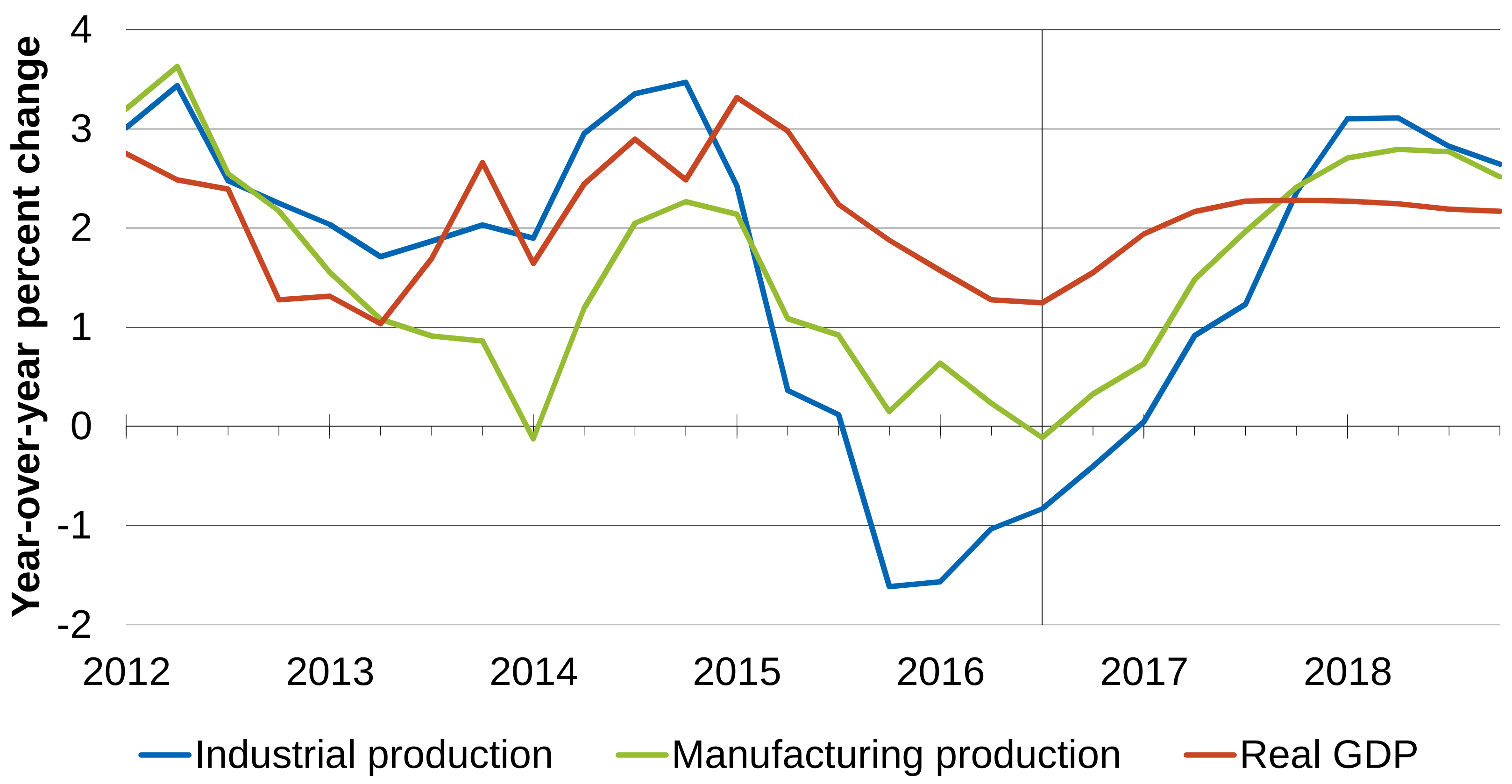
Change in nonfarm inventories, 2009 dollars



Source: IHS

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

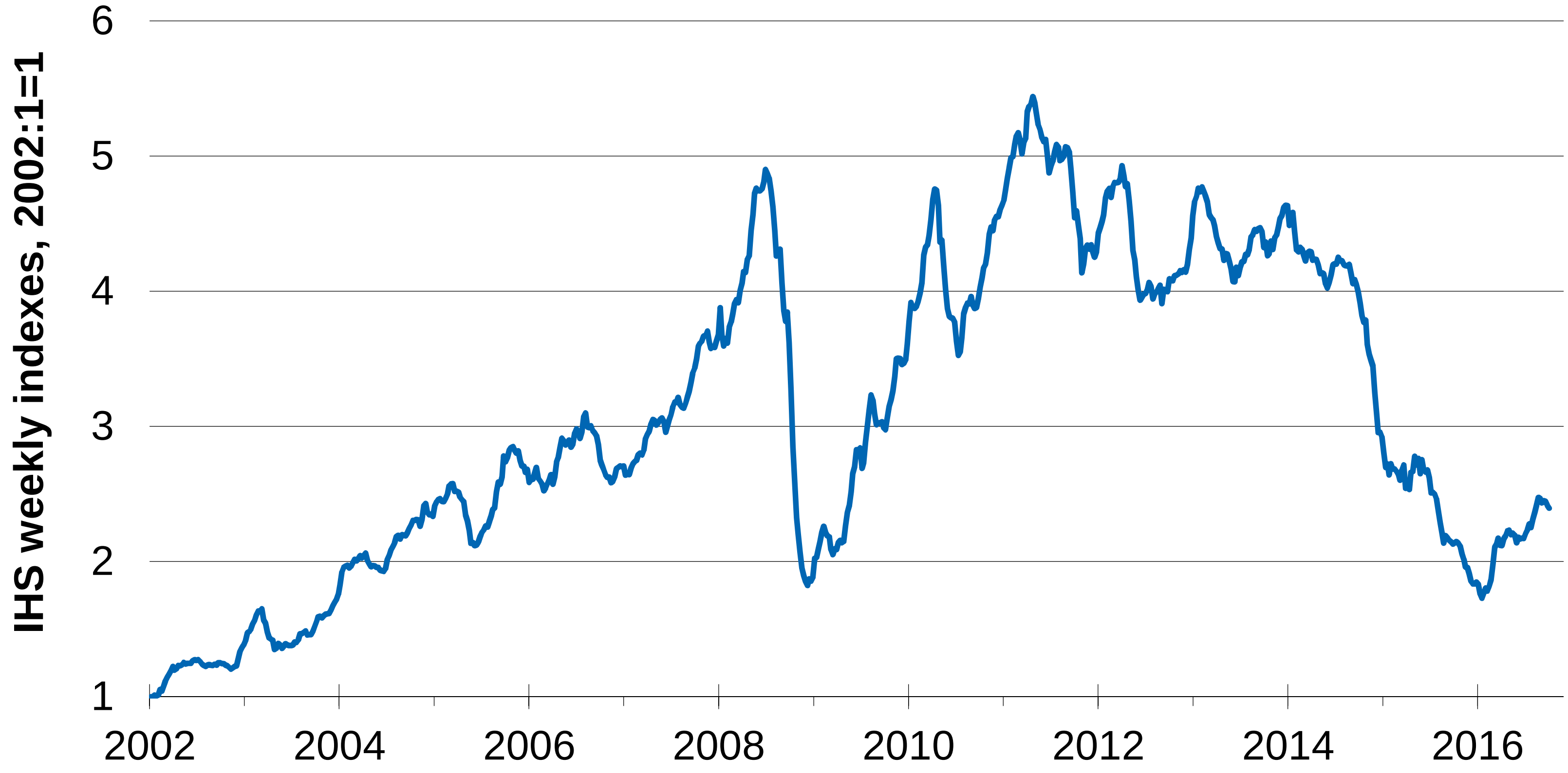
Industrial production and real GDP



Source: IHS

Industrial materials prices are beginning to recover

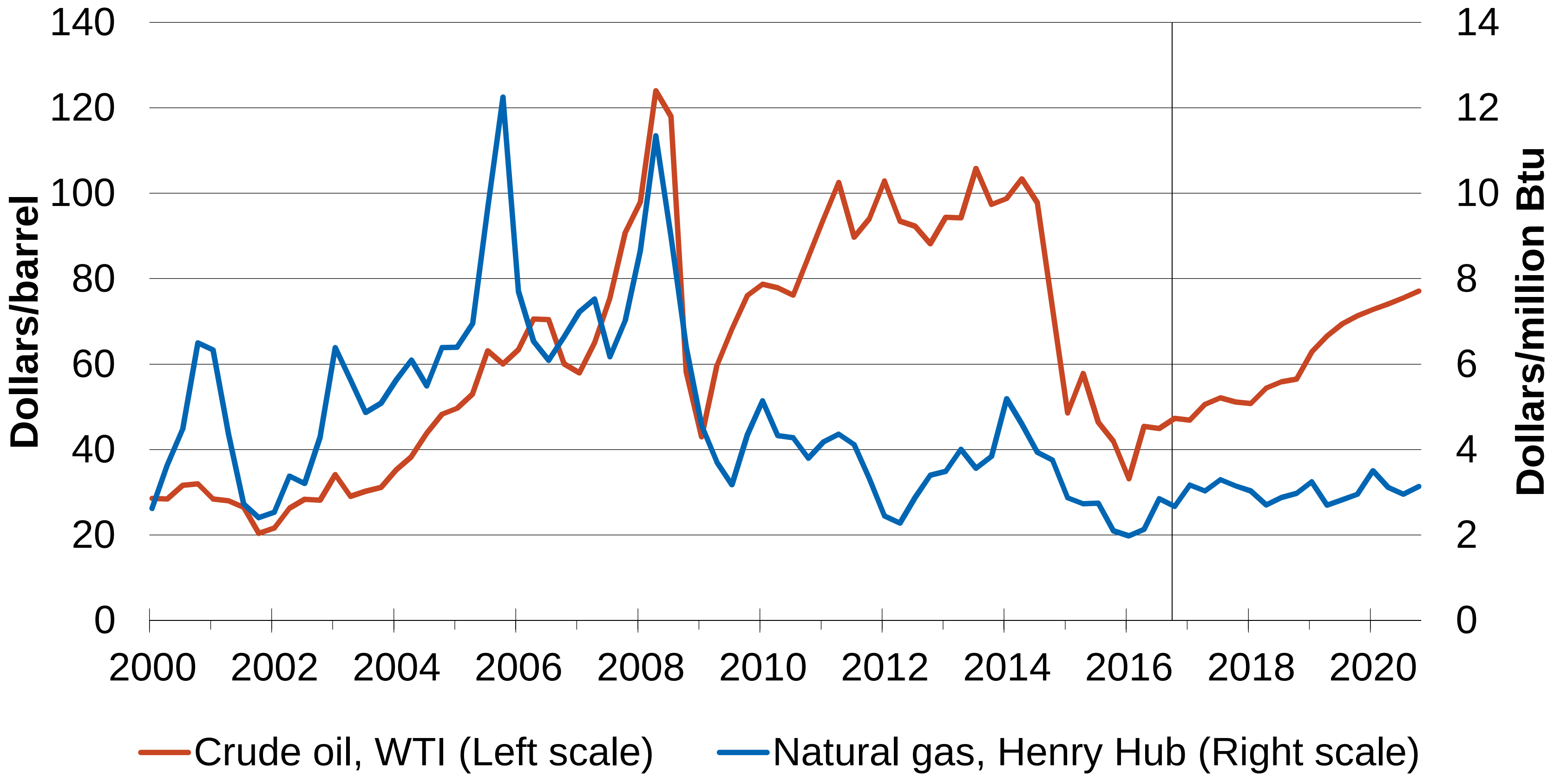
IHS Materials Price Index



Source: IHS

US crude oil and natural gas prices on different paths

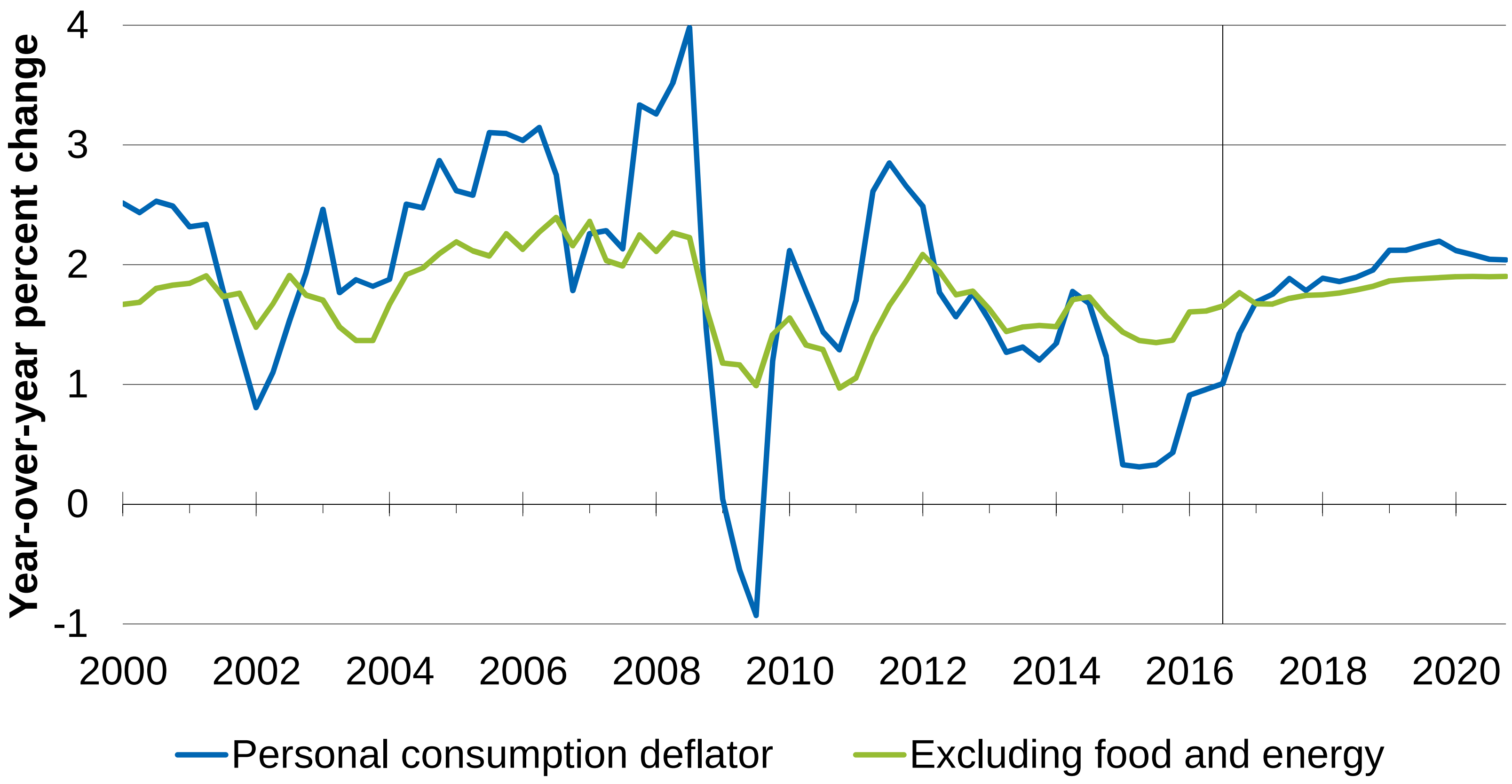
US energy prices



Source: IHS Energy

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

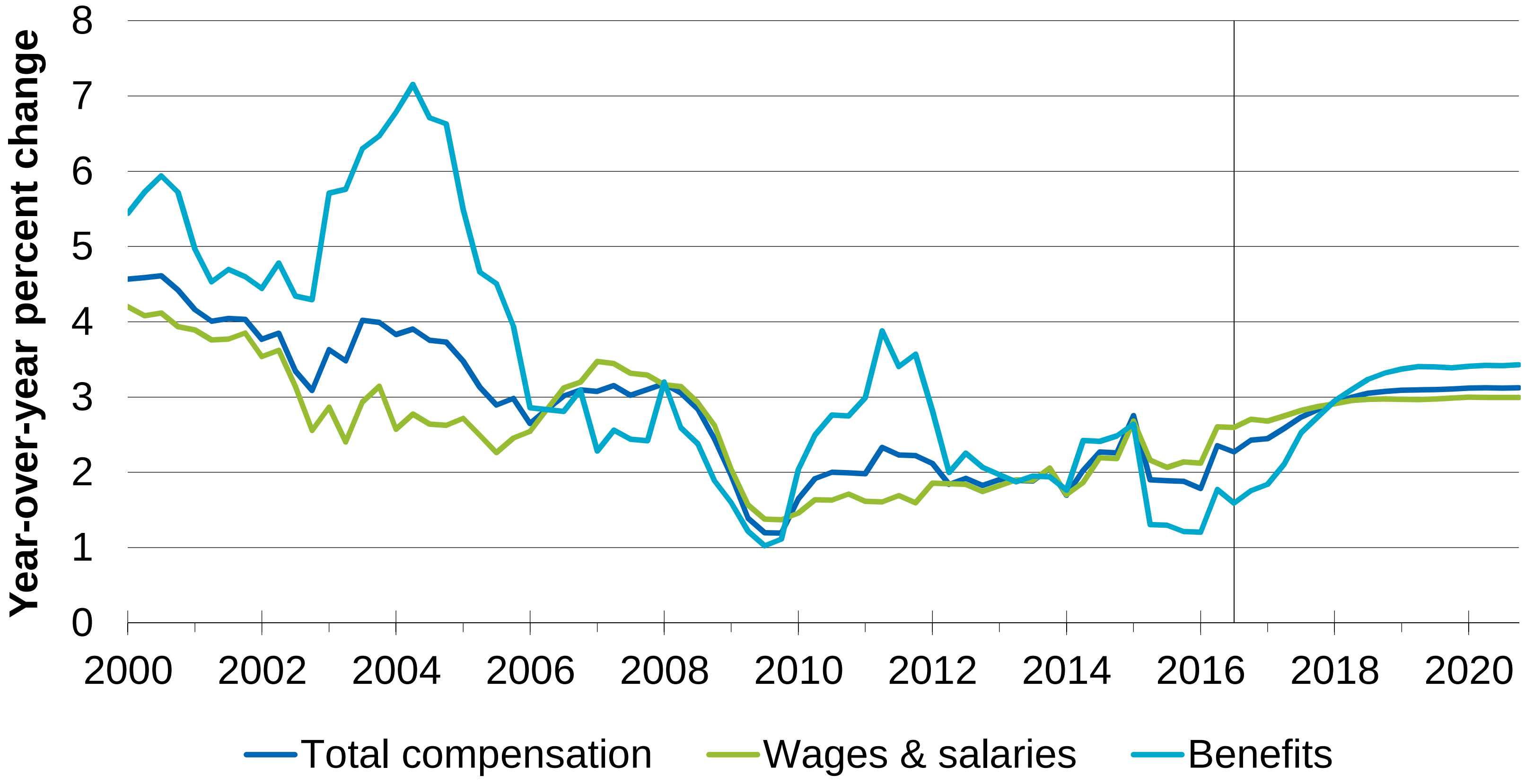
Personal consumption deflators



Source: IHS

Wages and benefits will accelerate as the US labor market tightens

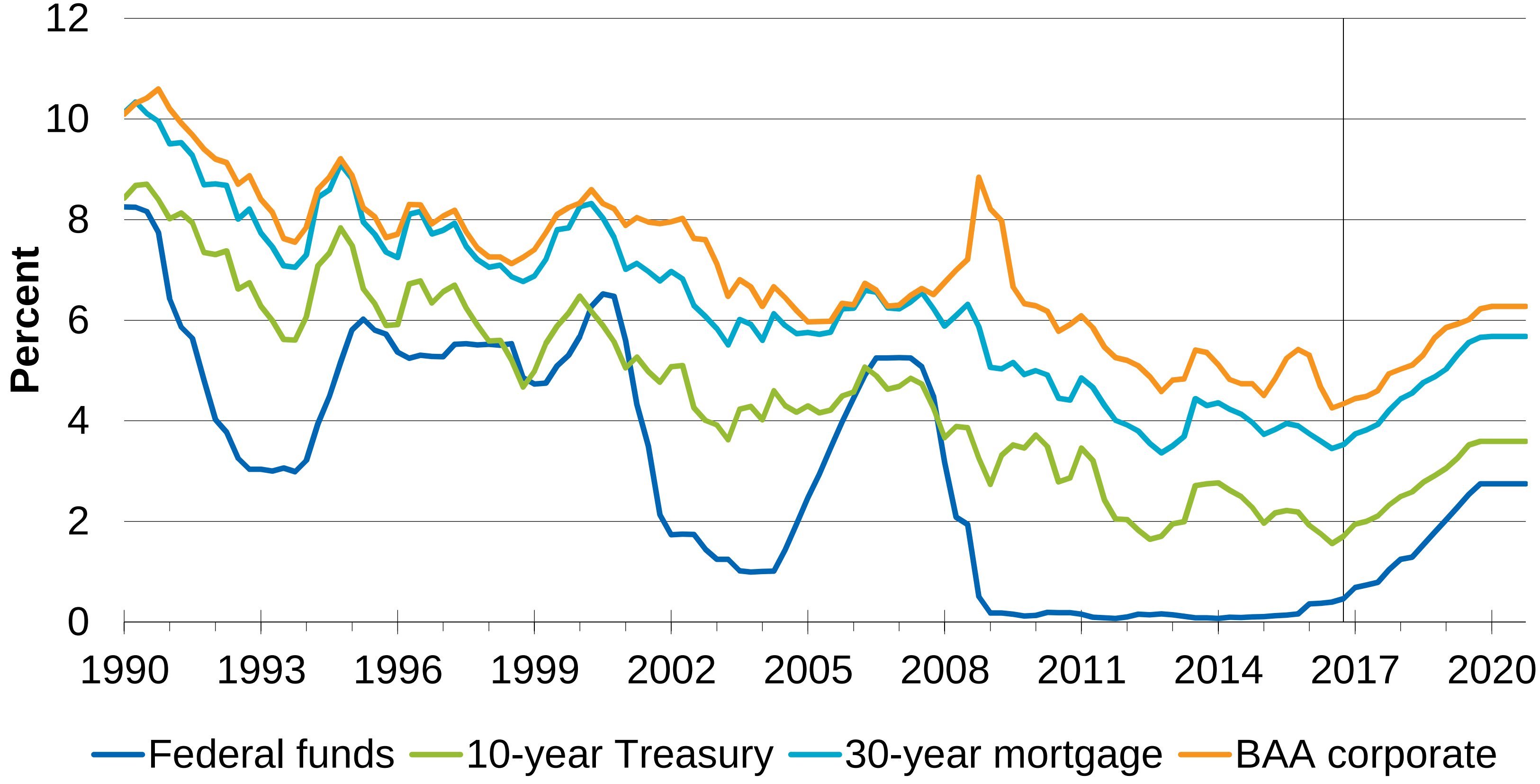
Employment cost indexes



Source: IHS

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

Interest rates



Source: IHS

Forces affecting consumer spending

Positive forces

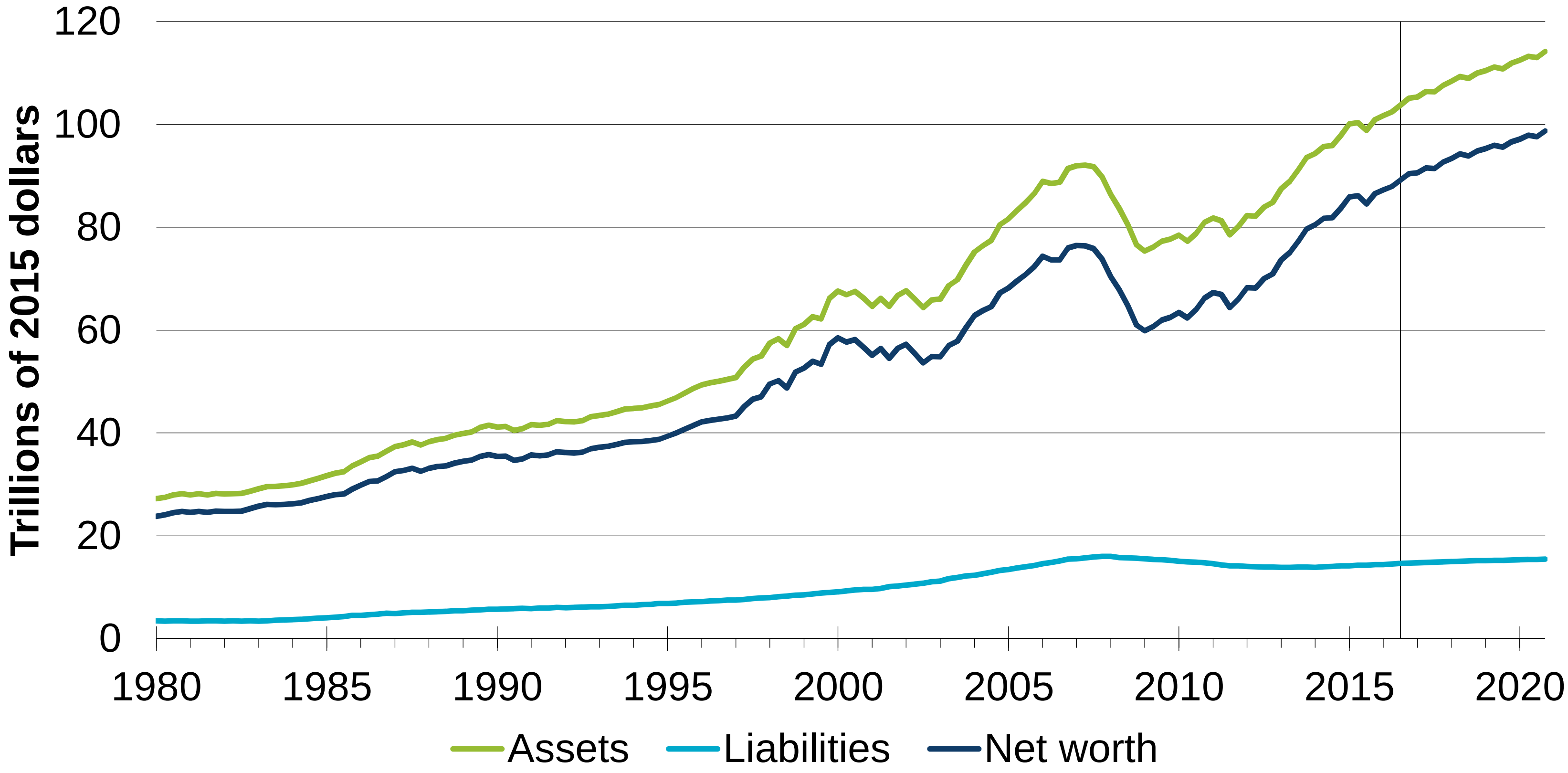
- Employment growth
- Mild inflation
- Rising disposable income
- Rising asset values
- Low interest rates

Negative forces

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

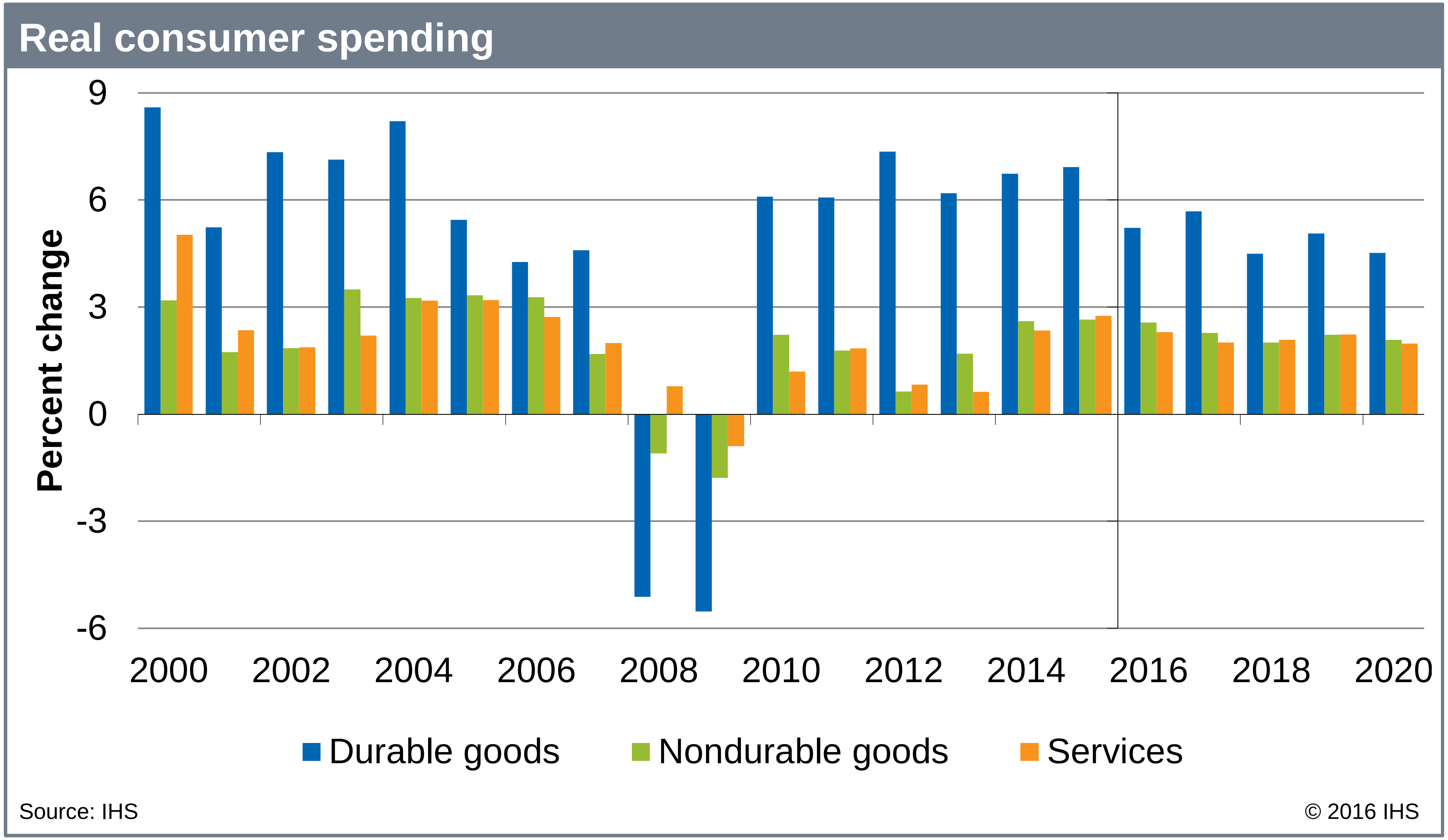
Real household net worth has reached a new high

Household assets and liabilities



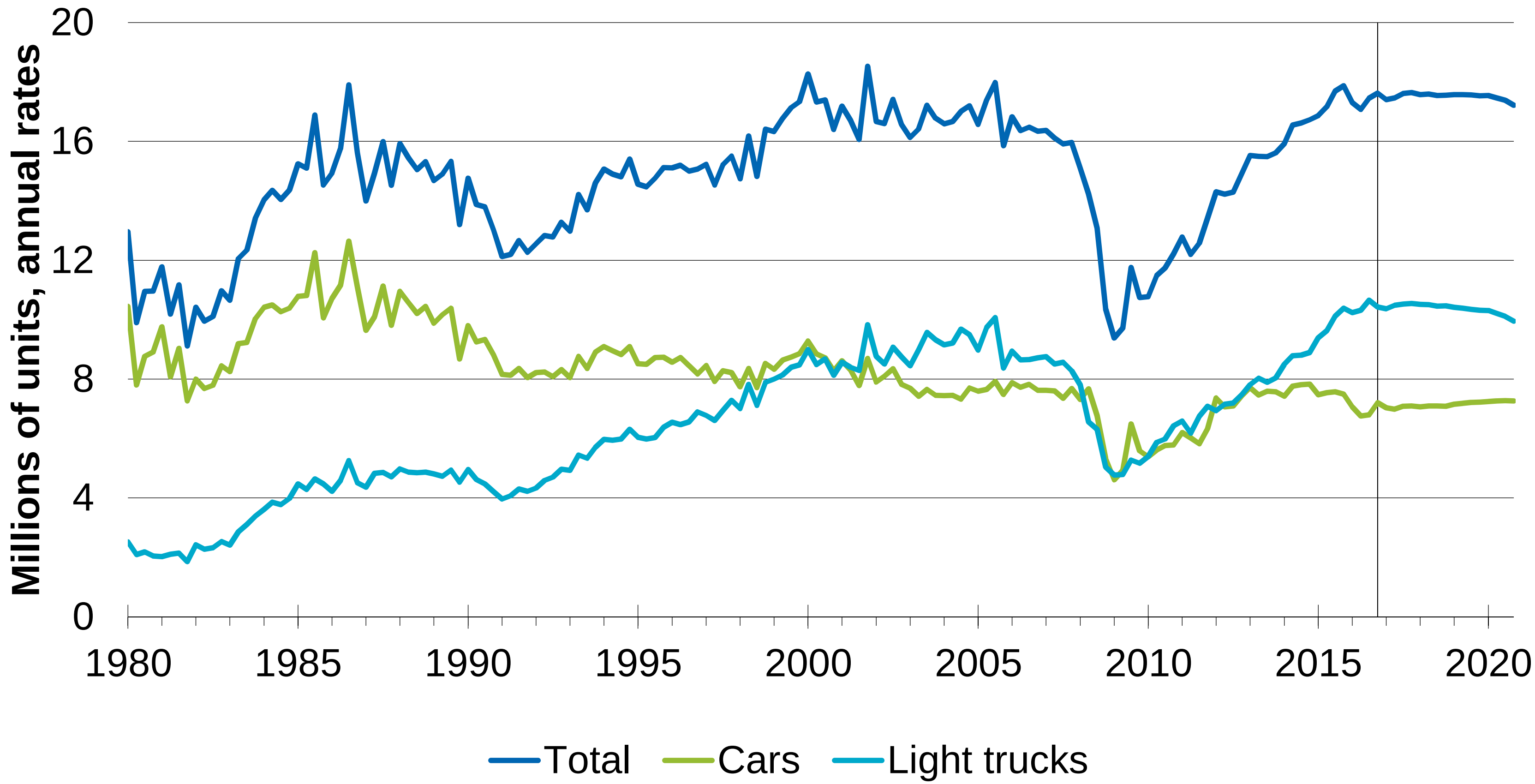
Source: IHS

Durable goods lead growth in real consumer spending



US light-vehicle sales are near their peak

Light-vehicle sales



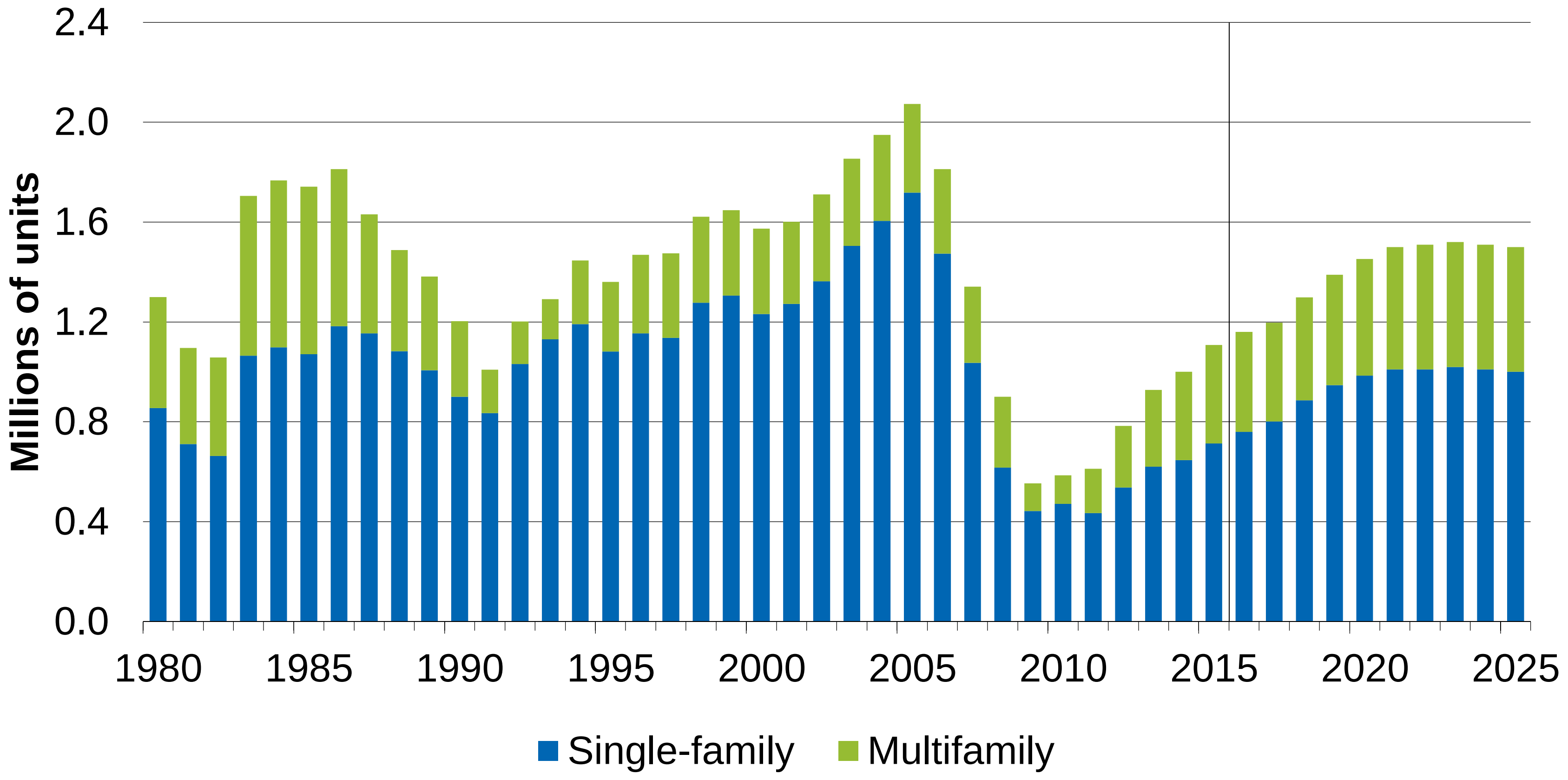
Source: IHS

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

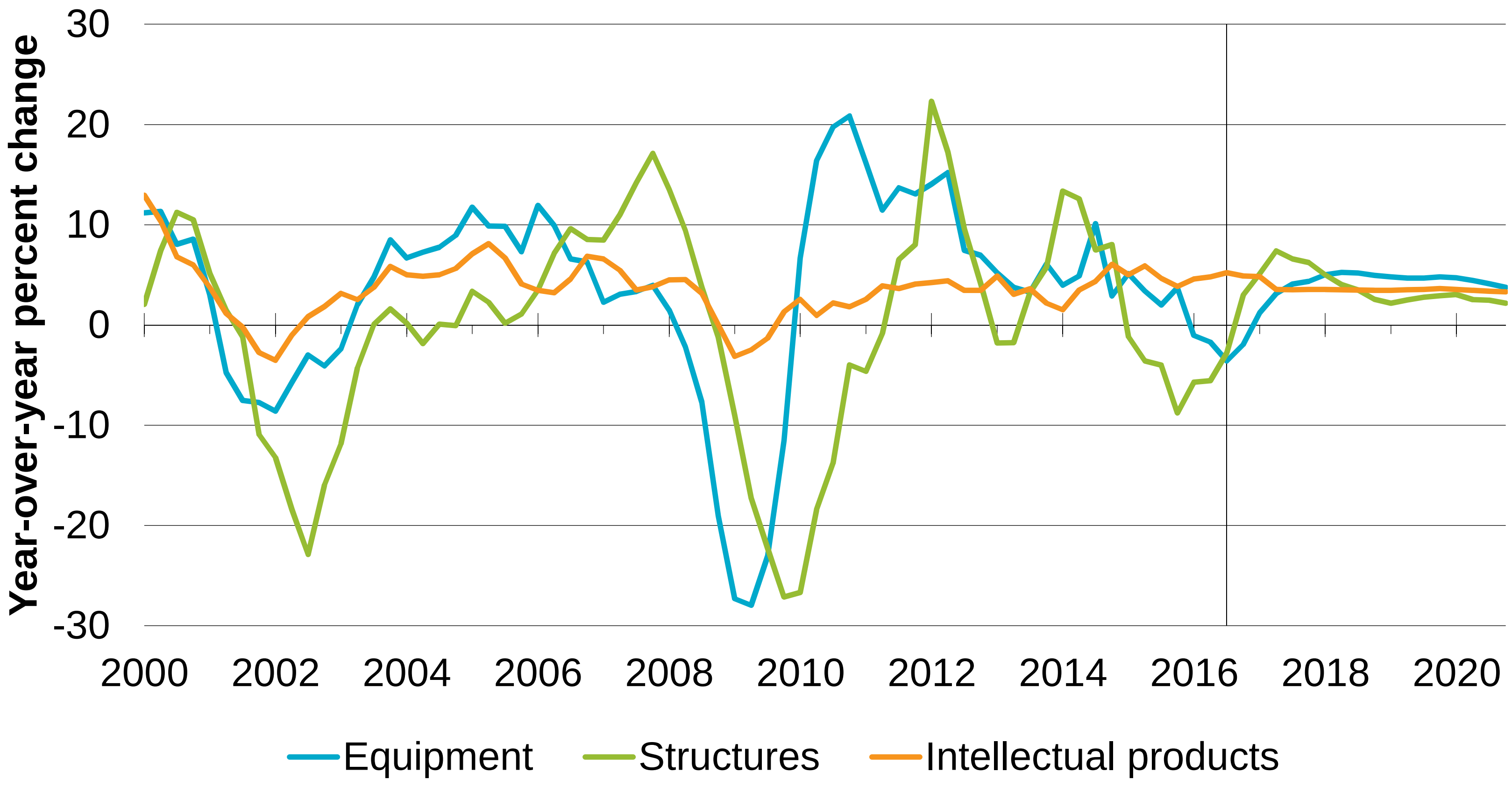
Housing starts



Source: IHS

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

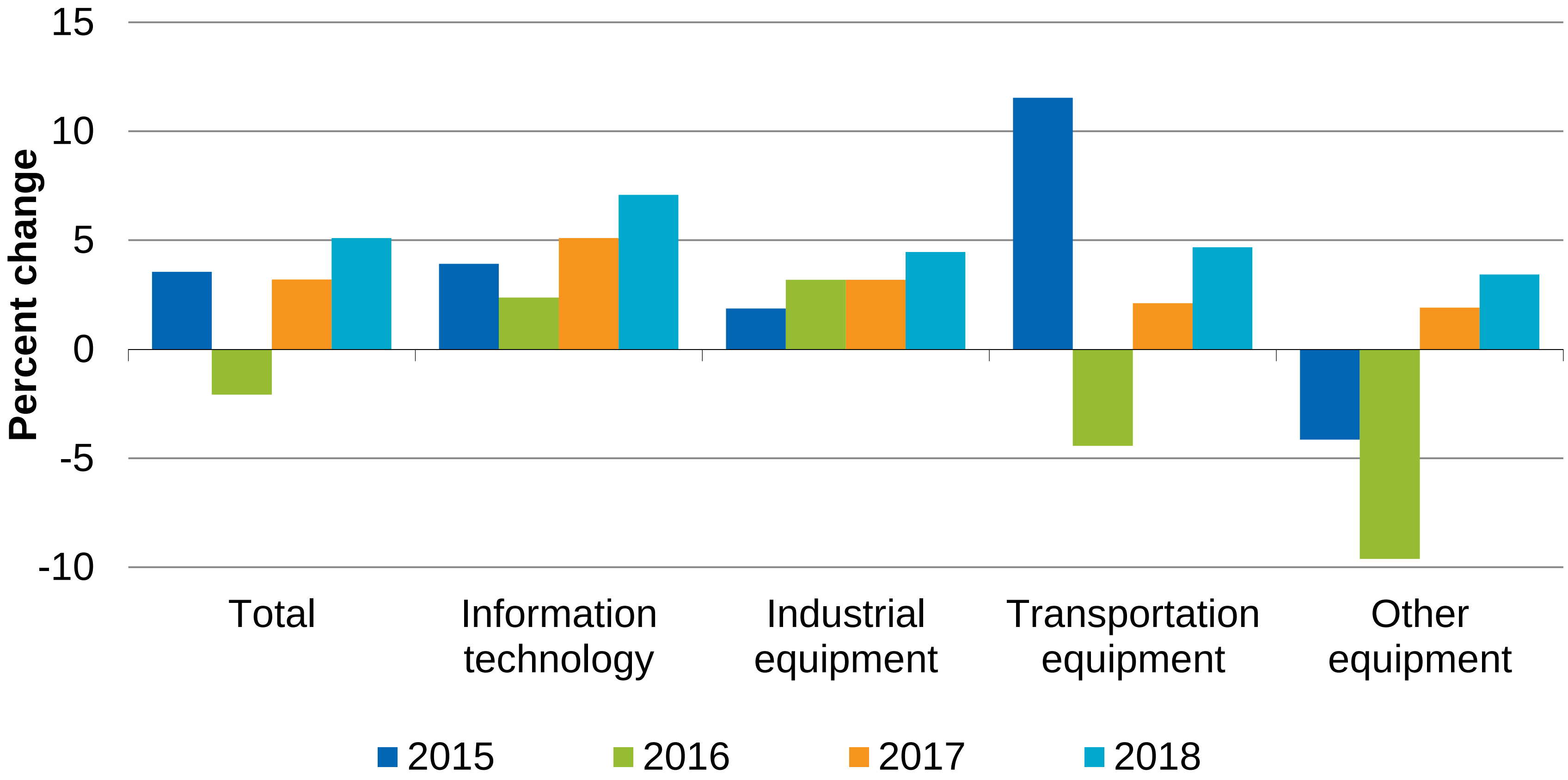
Real business fixed investment



Source: IHS

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

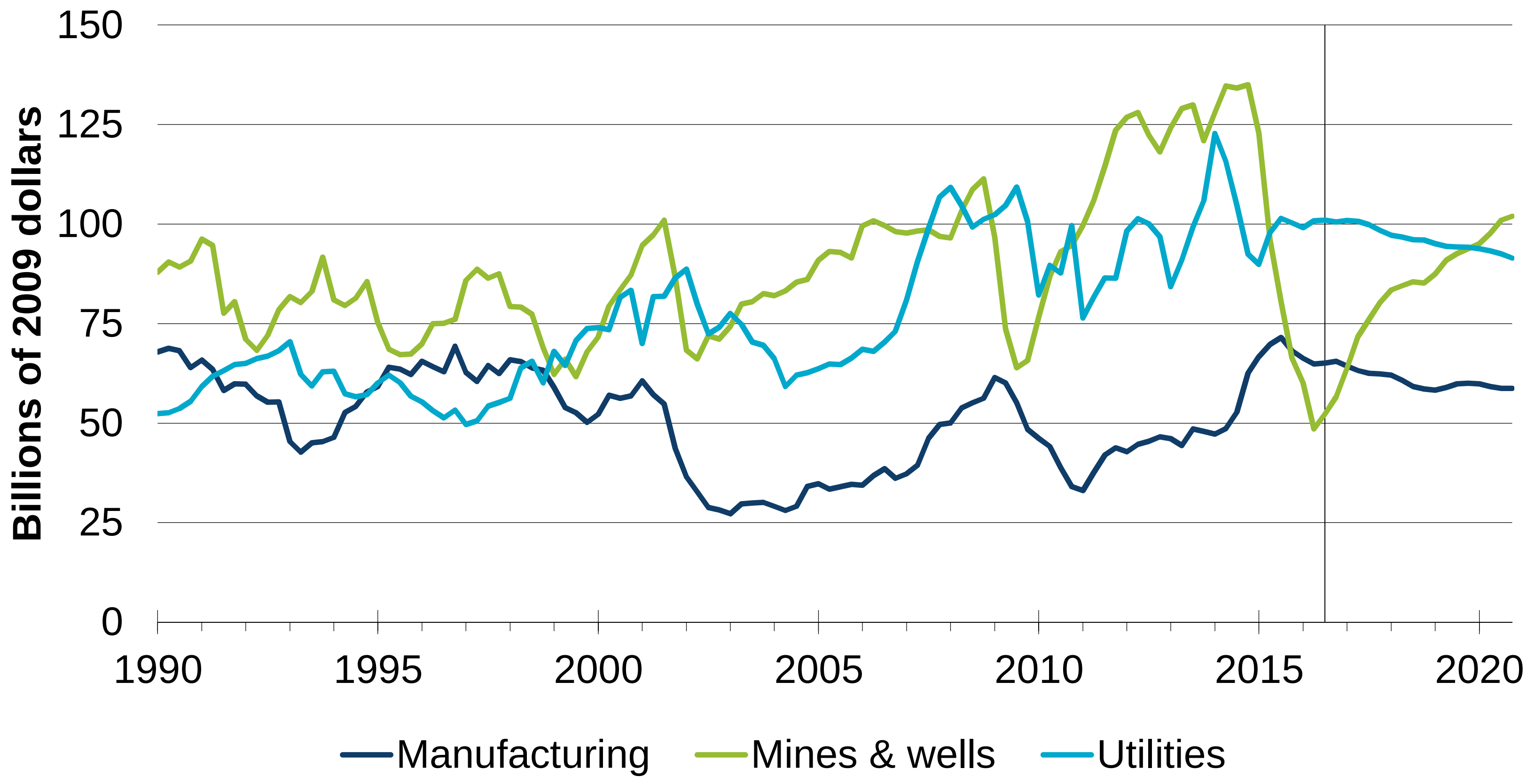
Real business equipment investment



Source: IHS

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

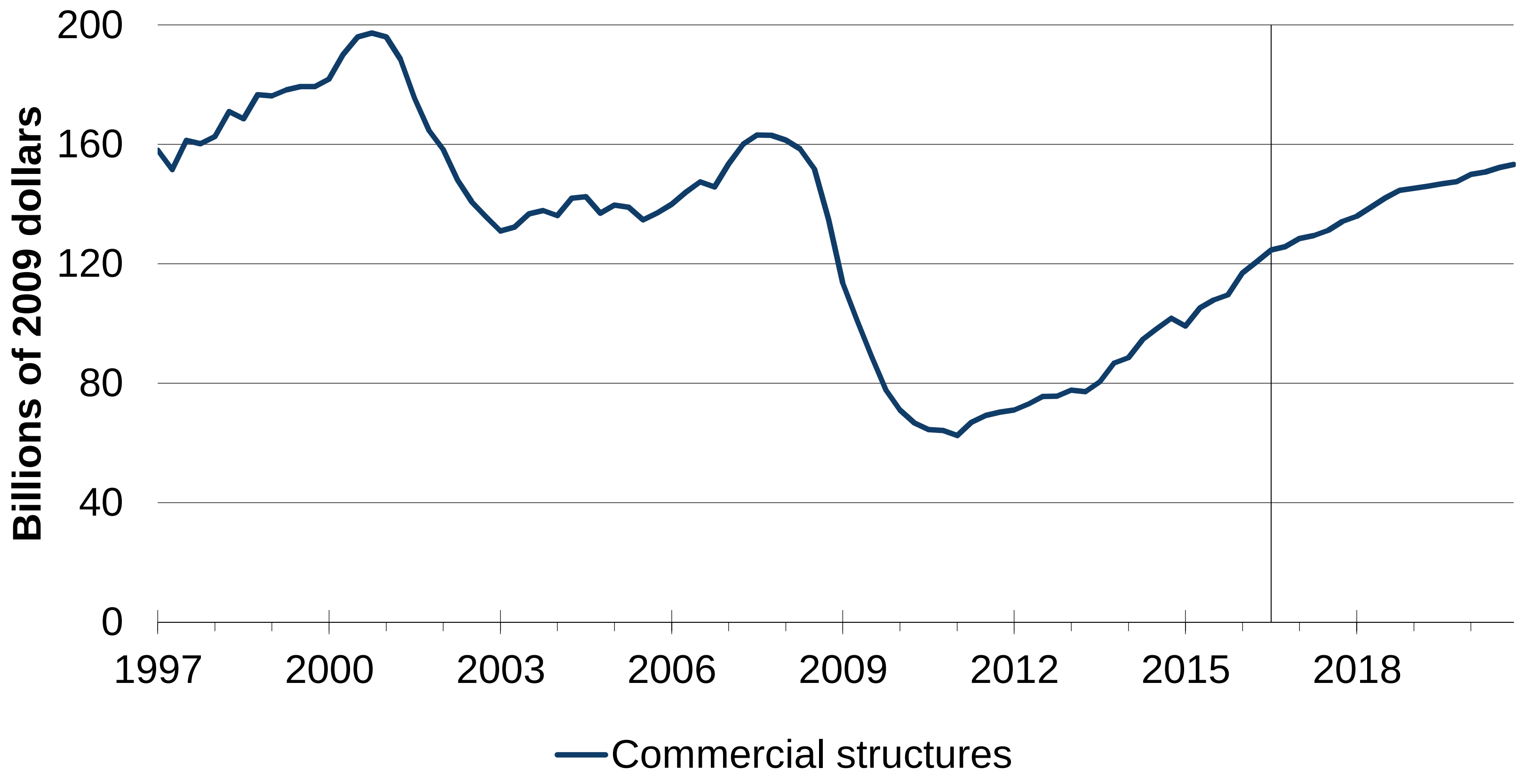
Investment in structures



Source: IHS

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

Real fixed investment



Source: IHS

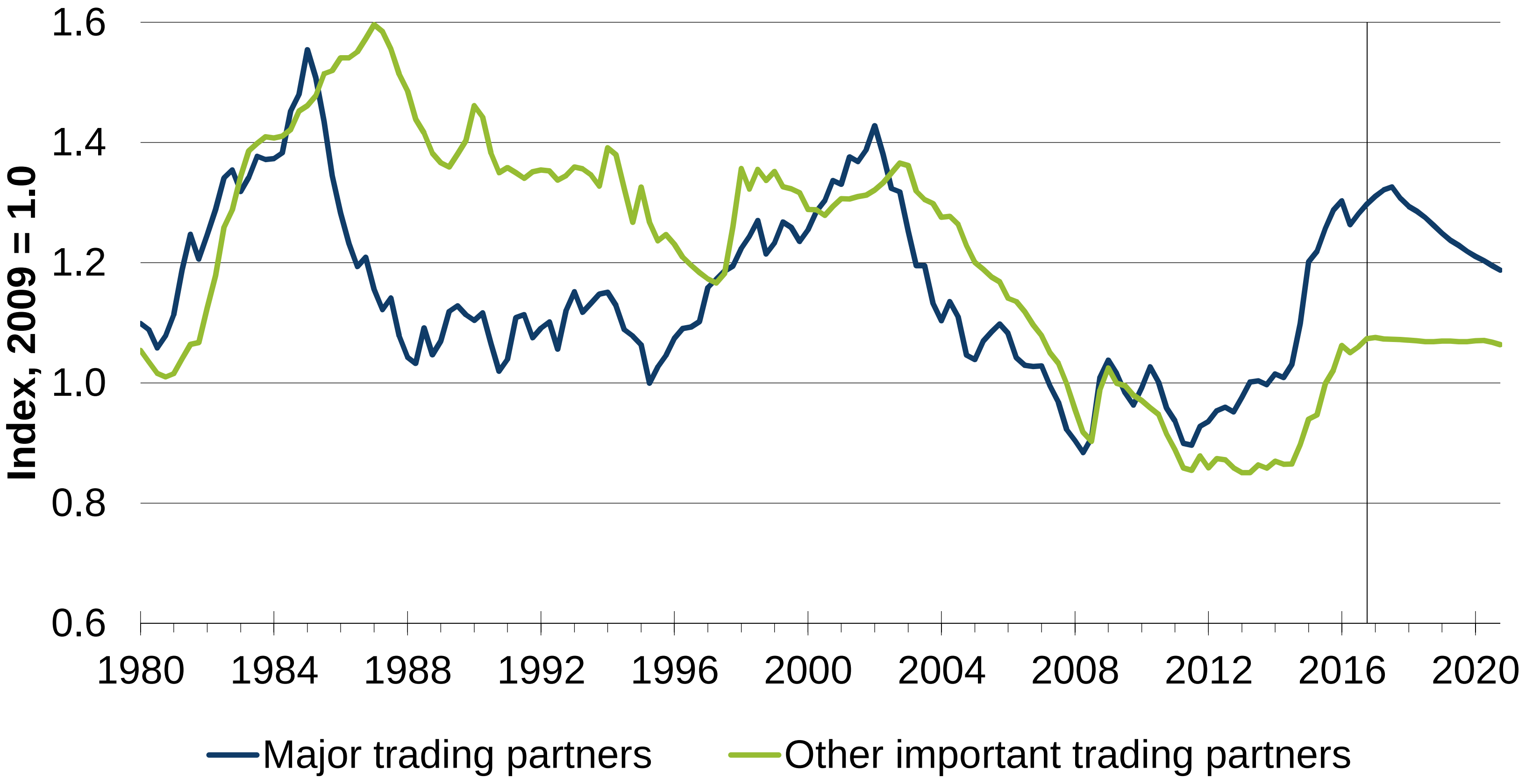
US real import growth is outpacing real export growth, as a strong dollar has hurt global competitiveness

US exports and imports

Source: IHS

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

Real trade-weighted dollar index



Source: IHS

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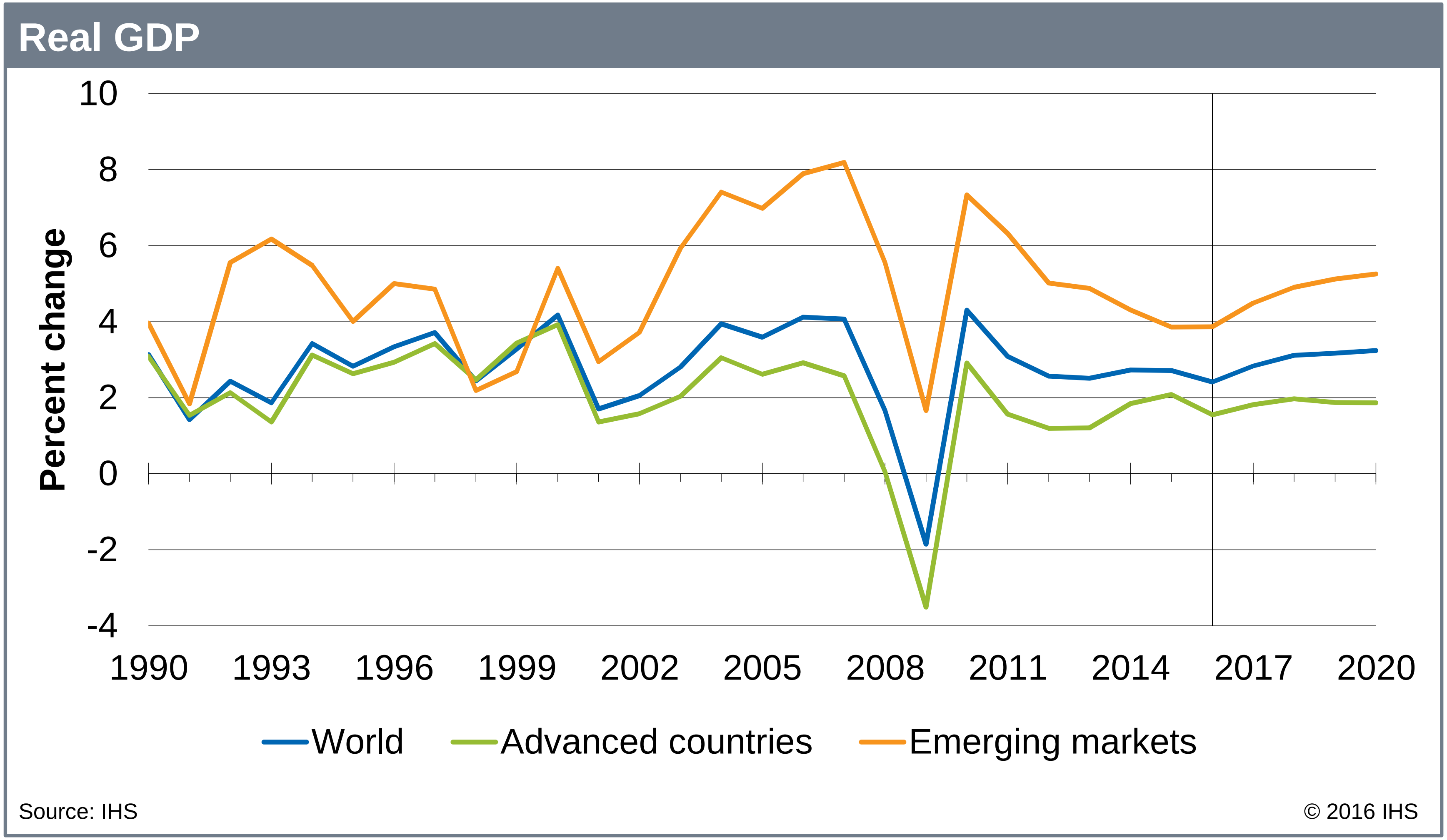
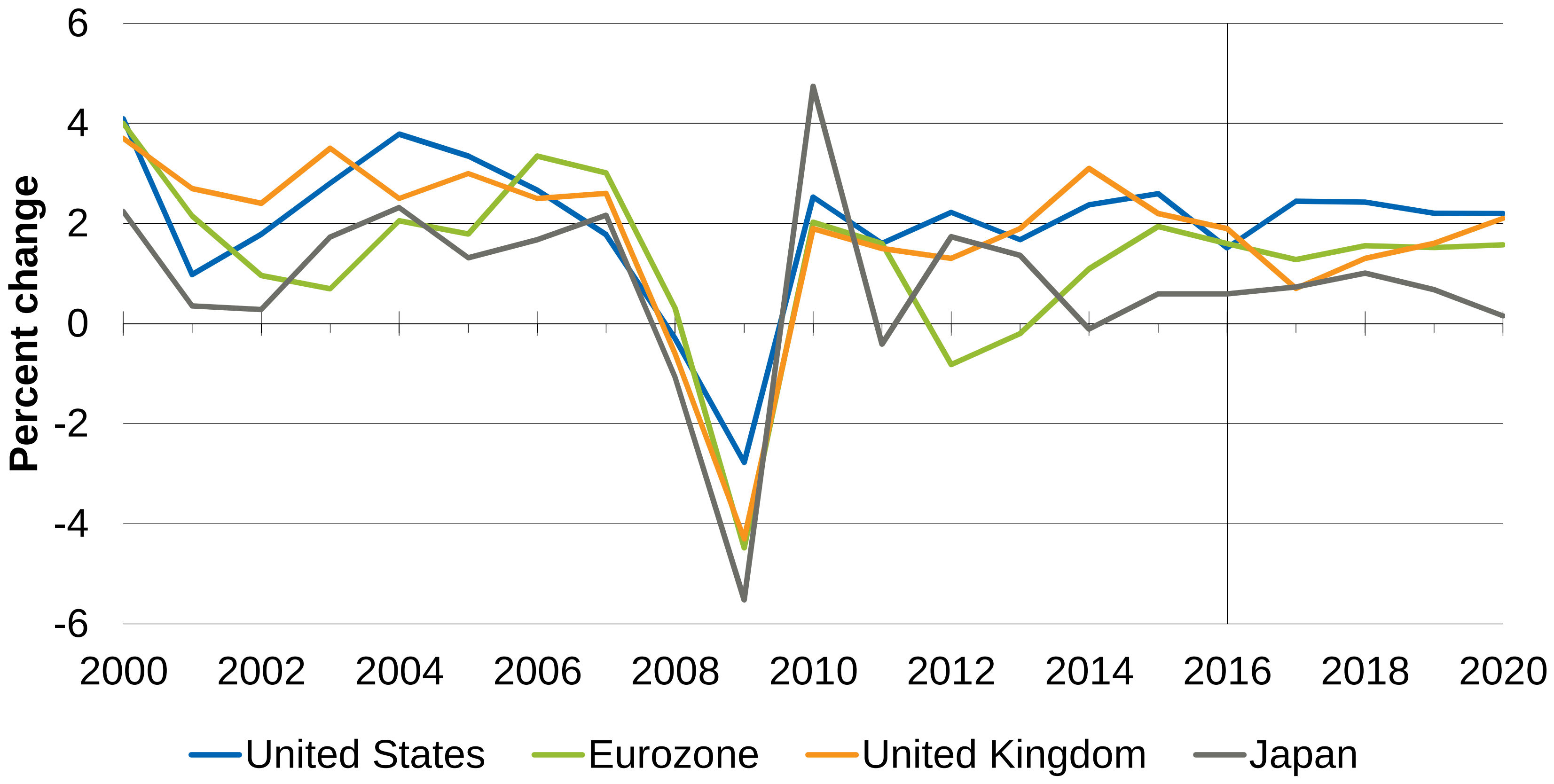
Emerging markets will lead a pickup in global growth



Real GDP growth in key advanced economies

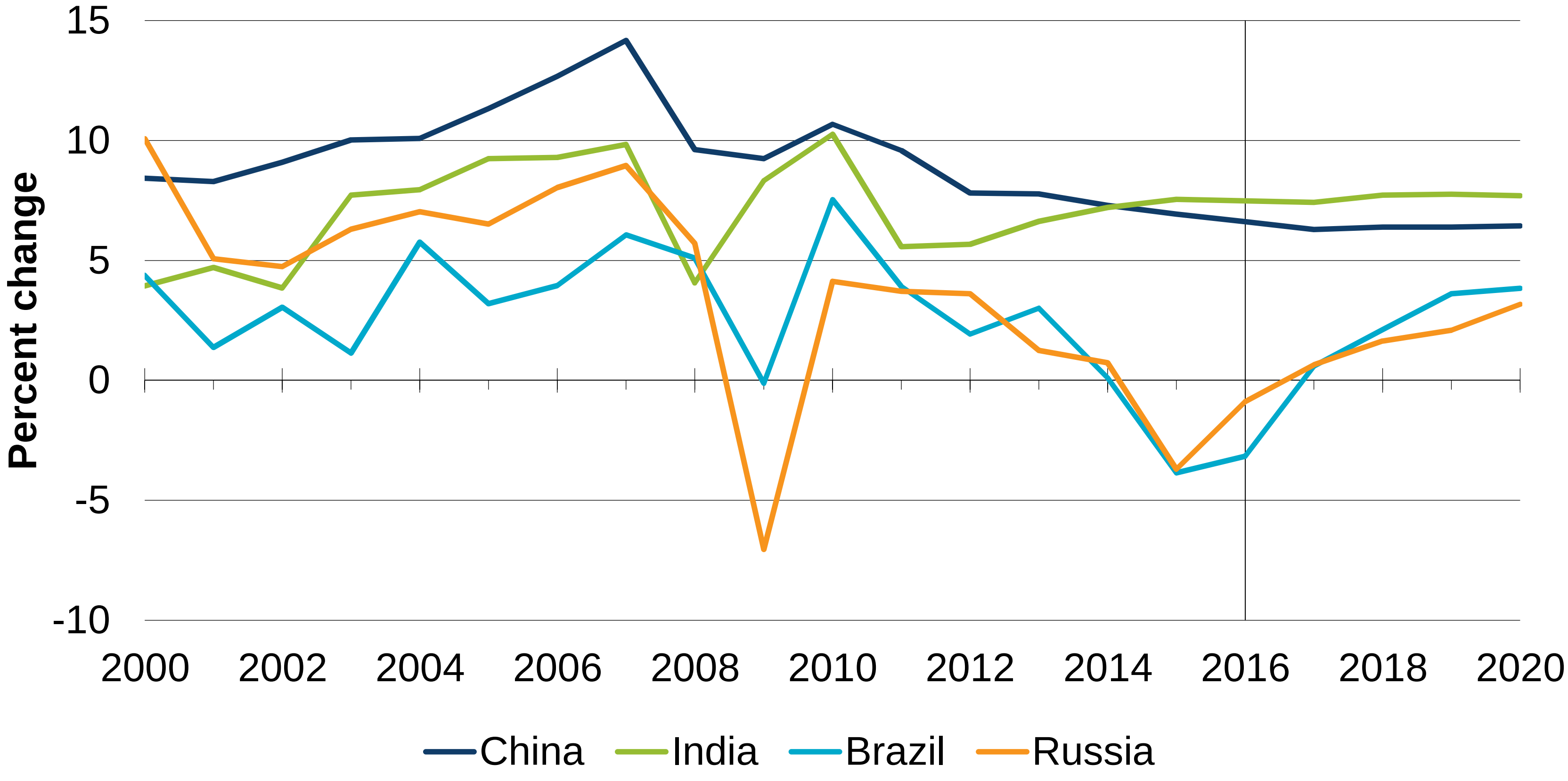
Real GDP



Source: IHS

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

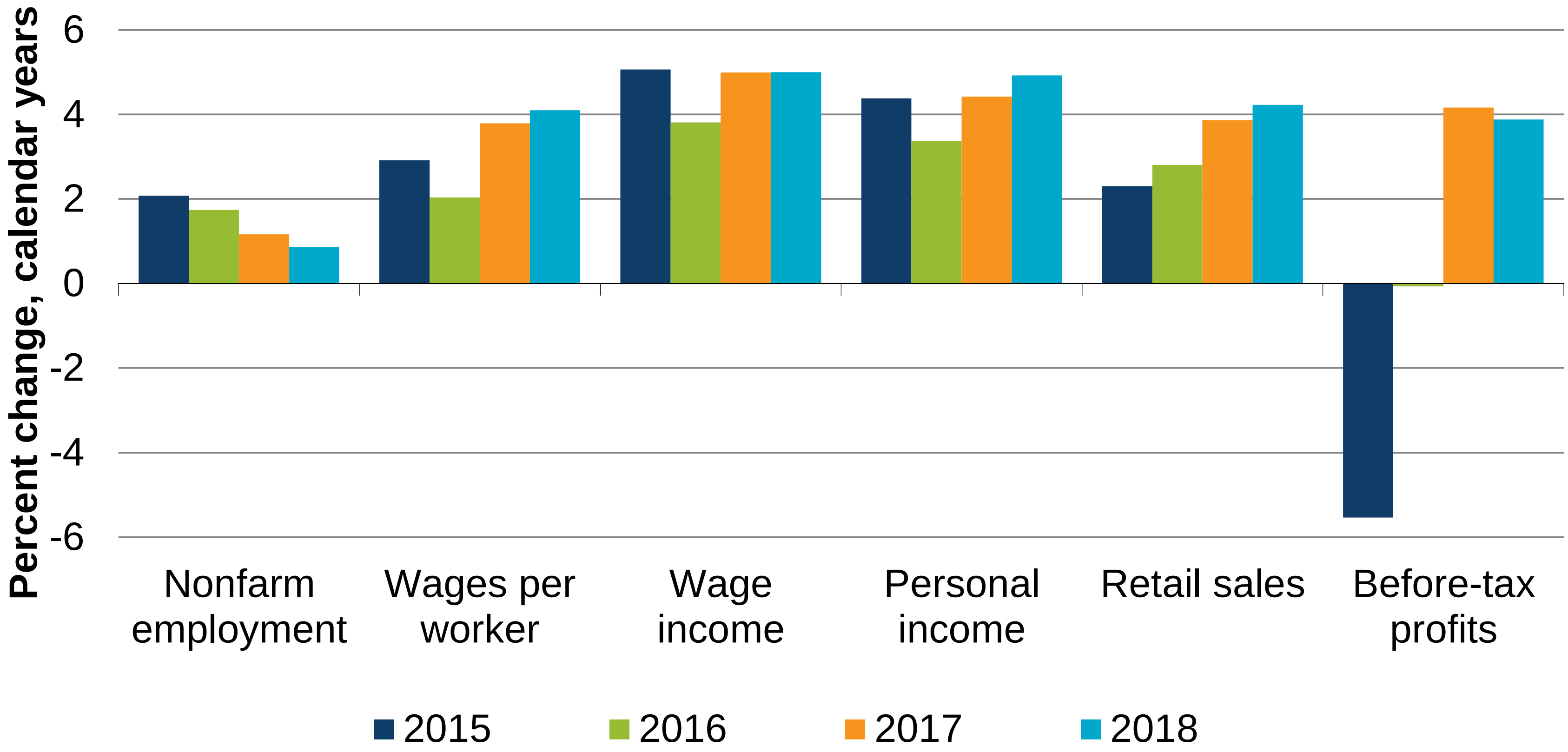
Real GDP



Source: IHS

Forces driving state government revenues

State revenue drivers



Source: IHS

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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