

IHS Forum

US Economic Outlook

Will Private-Sector Dynamism Carry the US Economy Through Fiscal Headwinds?

21 May 2013 • Amsterdam





Chair: **Nariman Behraves**, Chief Economist, IHS

14:15 – 14:45 Christopher Probyn, Chief Economist, State Street Global Advisors

14:45 – 15:15 Sara Johnson, Senior Research Director, Global Economics, IHS

15:15 – 15:45 Questions & Answers

15:45 Adjournment



Participants

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Will Private-Sector Dynamism Carry the US Economy Through Fiscal Headwinds?

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Sara Johnson, Senior Research Director, Global Economics, IHS

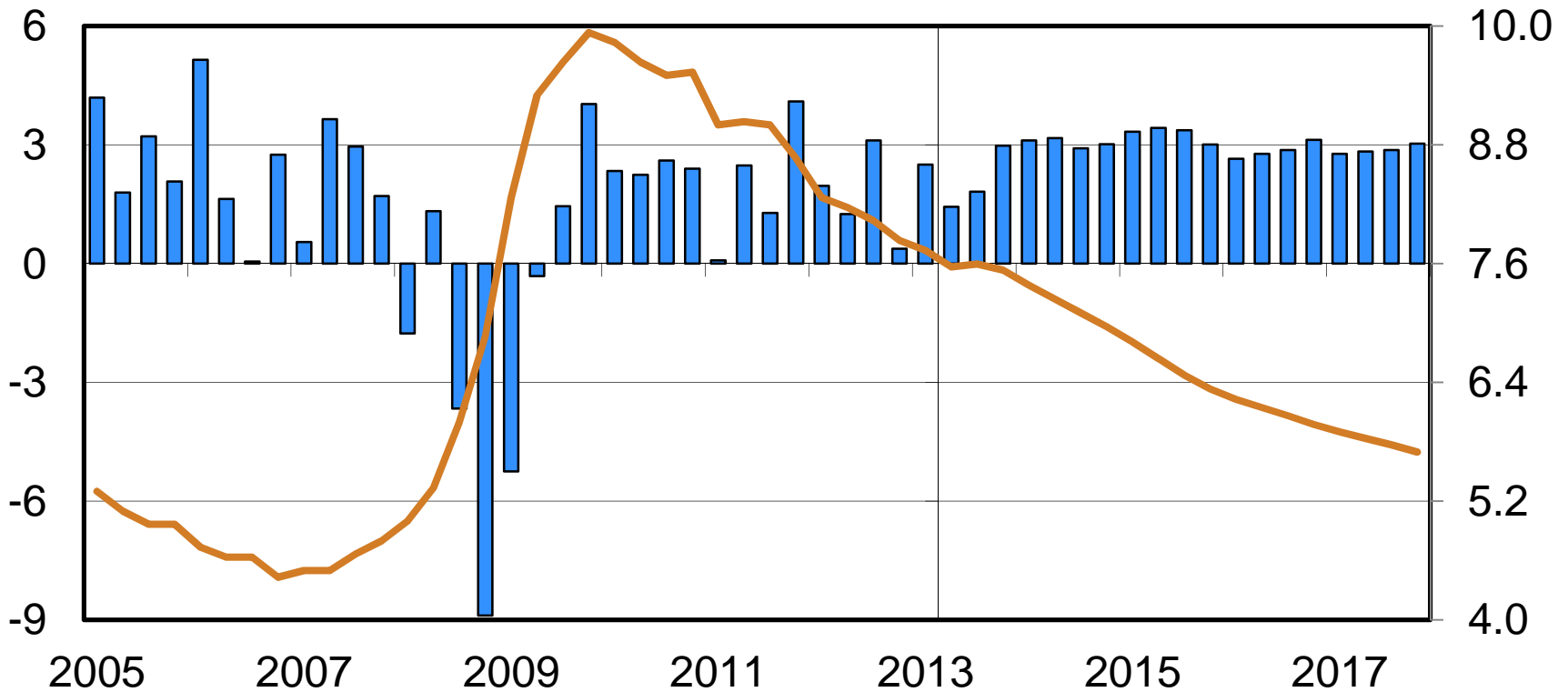




The US economy continues its uneven expansion

- The economy's fundamentals are improving, but fiscal policy headwinds will restrain near-term growth.
- Consumers will cautiously increase spending in response to gains in asset values, employment, and income.
- Housing markets will continue their resurgence, and business investment will remain a driving force in US economic growth.
- The US energy boom is creating jobs, investment, and a competitive advantage.
- Net exports will support US growth beginning in 2015.
- Real GDP growth is projected to pick up from 1.8% this year to 2.8% in 2014 and a high of 3.2% in 2015.

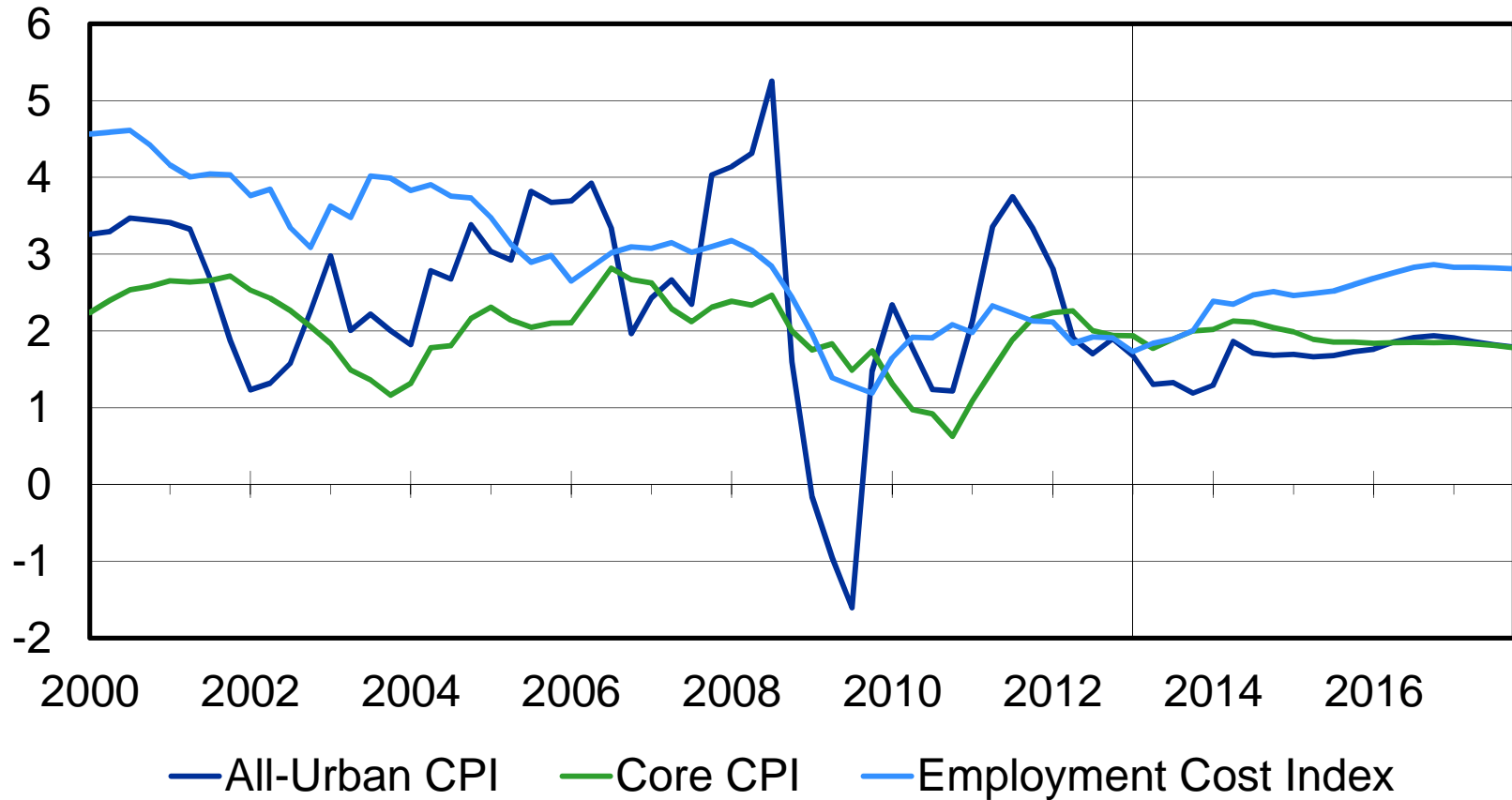
US real GDP growth and the unemployment rate



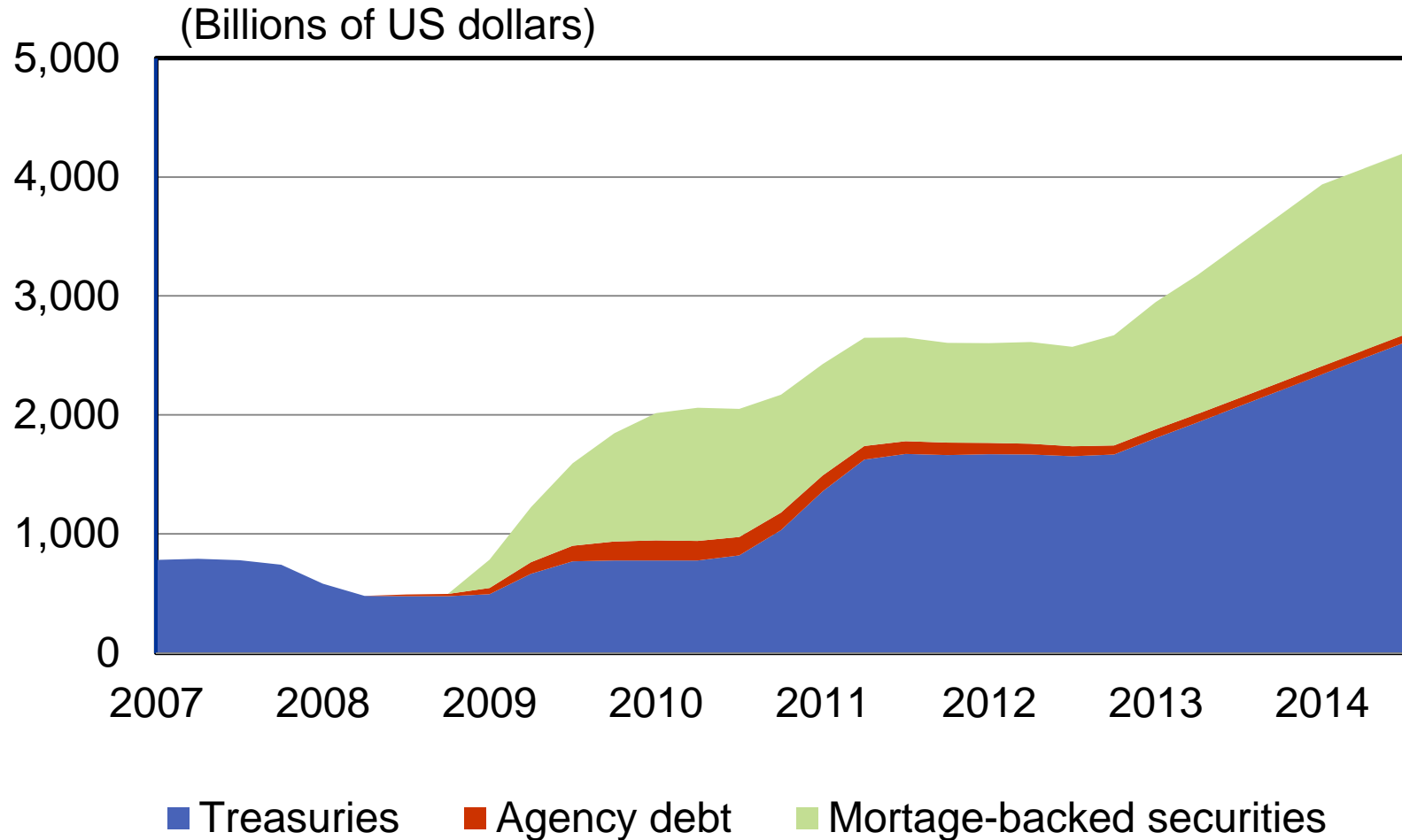
■ Real GDP growth (Left scale, annual percent change)
— Unemployment rate (Right scale, percent)

Consumer price inflation will remain subdued

(Year-over-year percent change)



Quantitative easing will expand Federal Reserve asset holdings to \$4.2 trillion in 2014



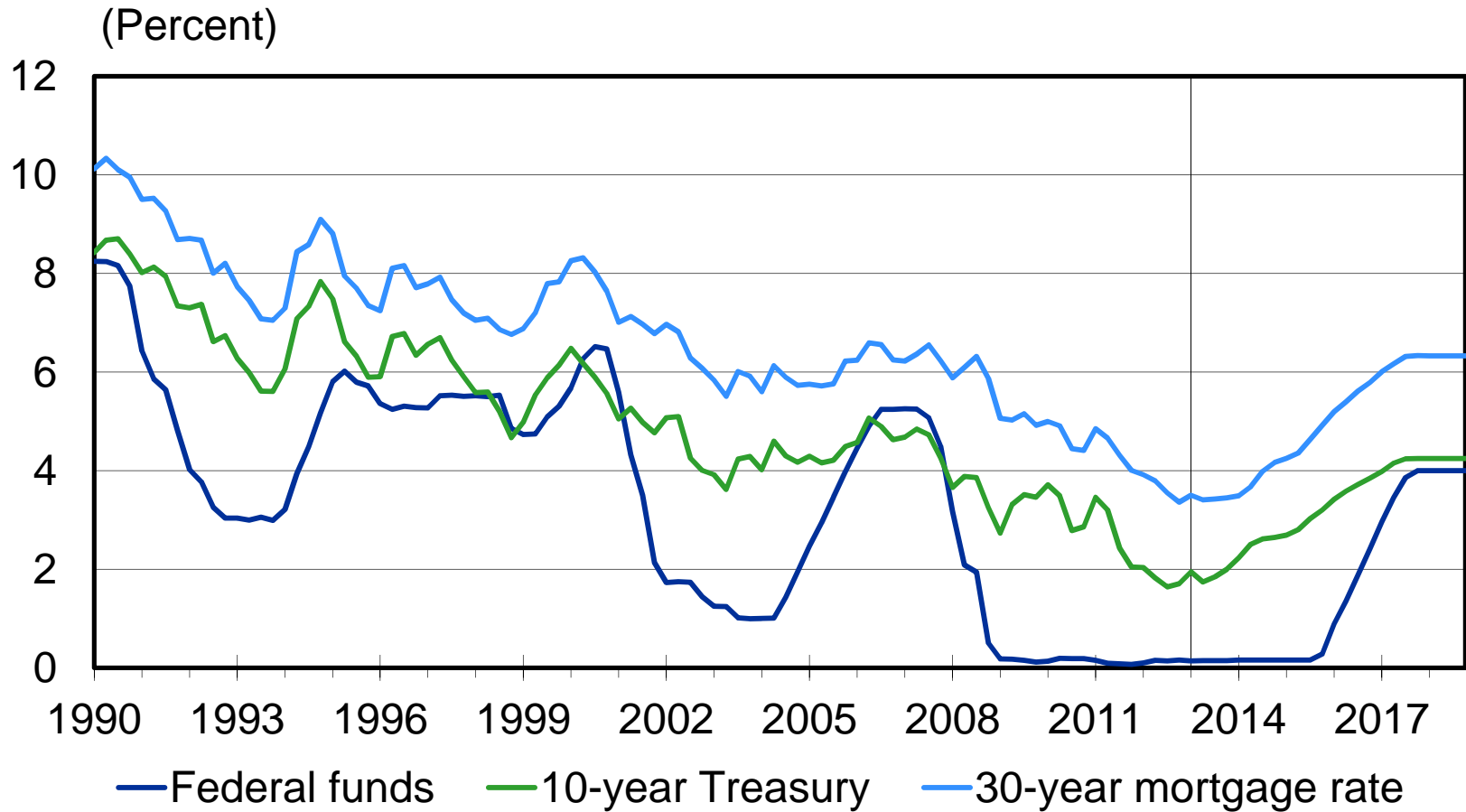
The expected timeline for the Federal Reserve's withdrawal of monetary stimulus



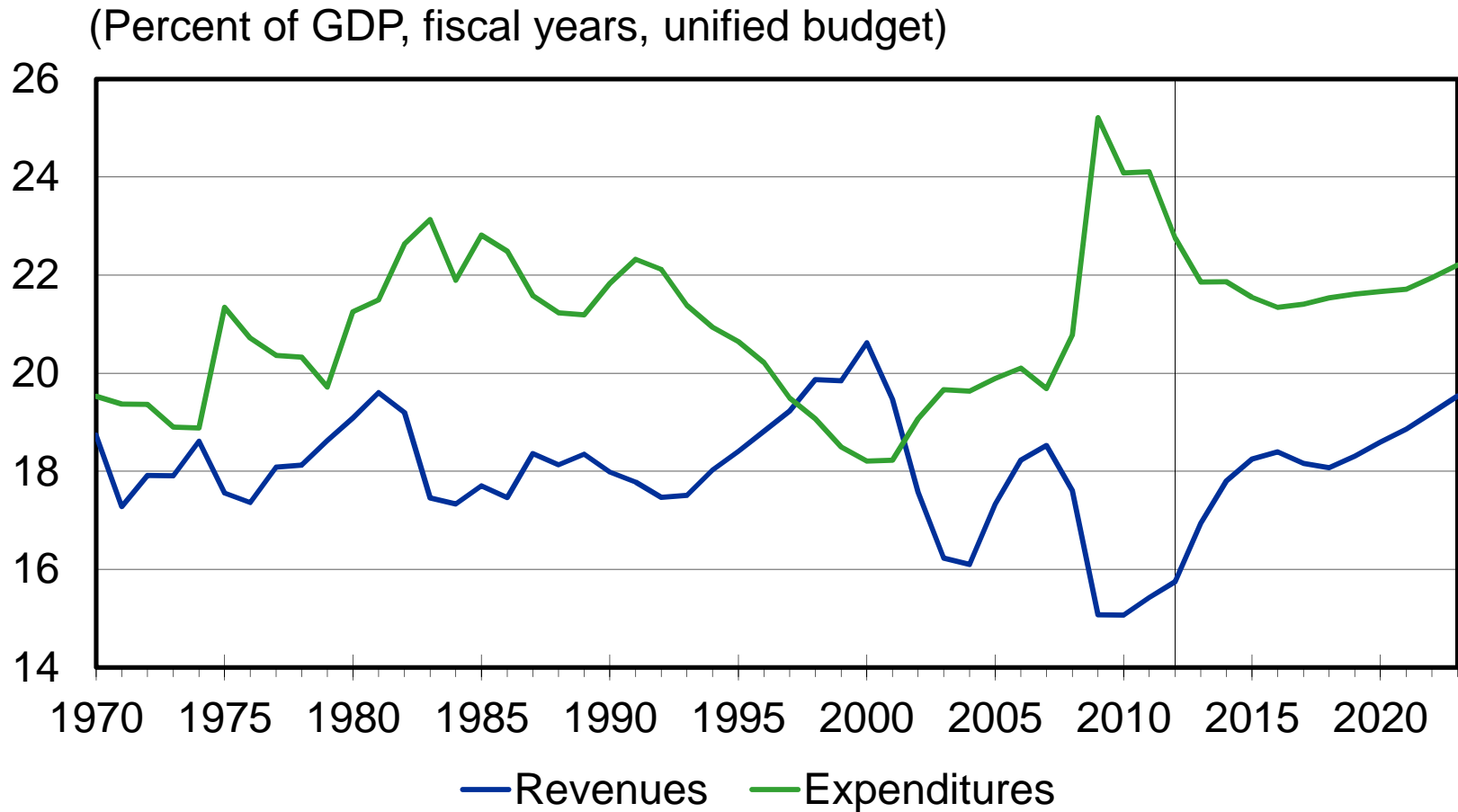
1. Stop purchases of mortgage-backed securities	March 2014
2. Stop Treasury bond purchases and stop reinvesting maturing securities	September 2014
3. Modify forward guidance for federal funds rate and begin reserve-draining operations	September 2015
4. Begin raising target federal funds rate	December 2015
5. Begin sales of agency securities from the System Open Market Account	June 2016
6. Eliminate excess reserves	Mid-2020



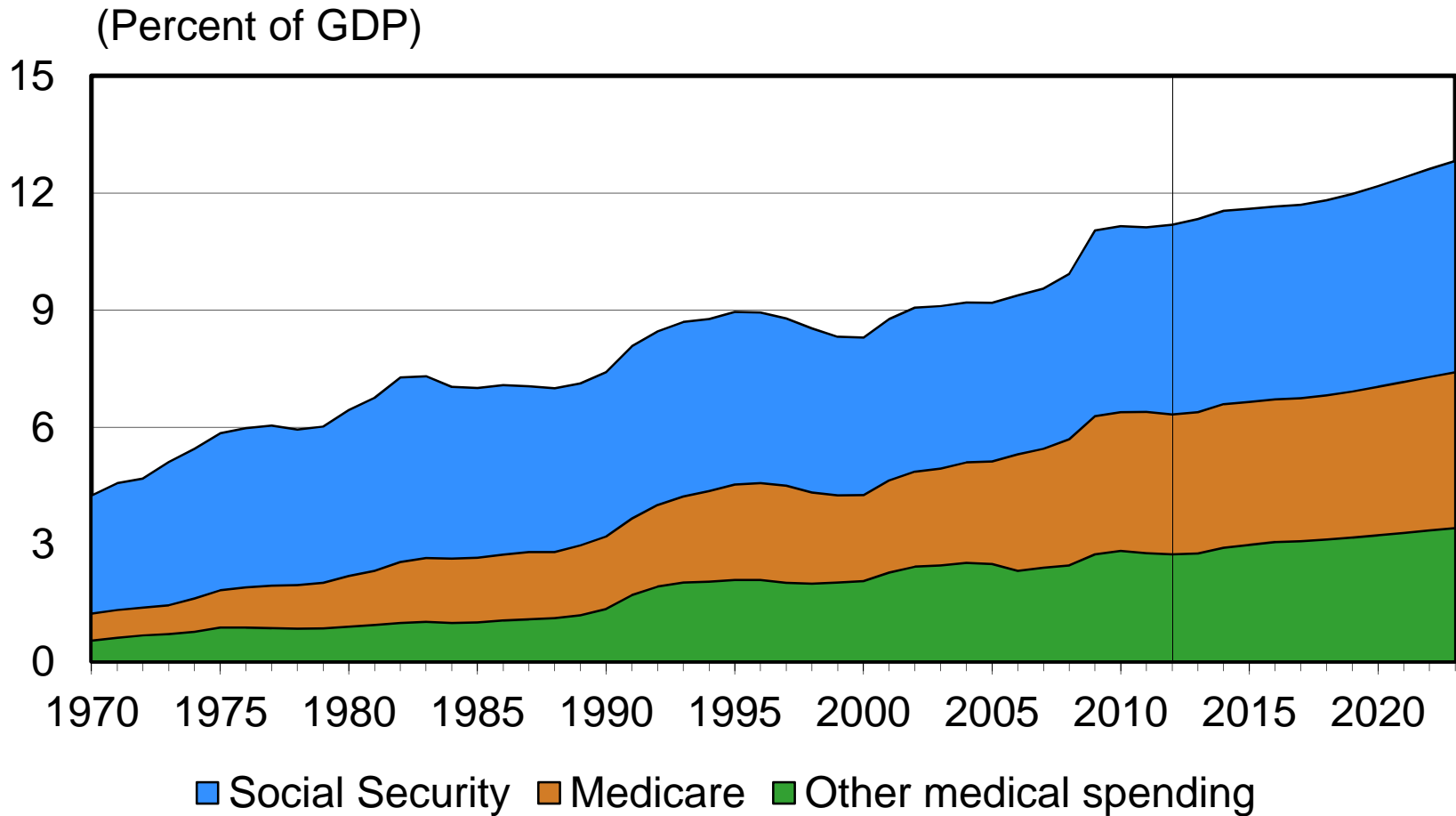
Interest rates will rise from today's low levels



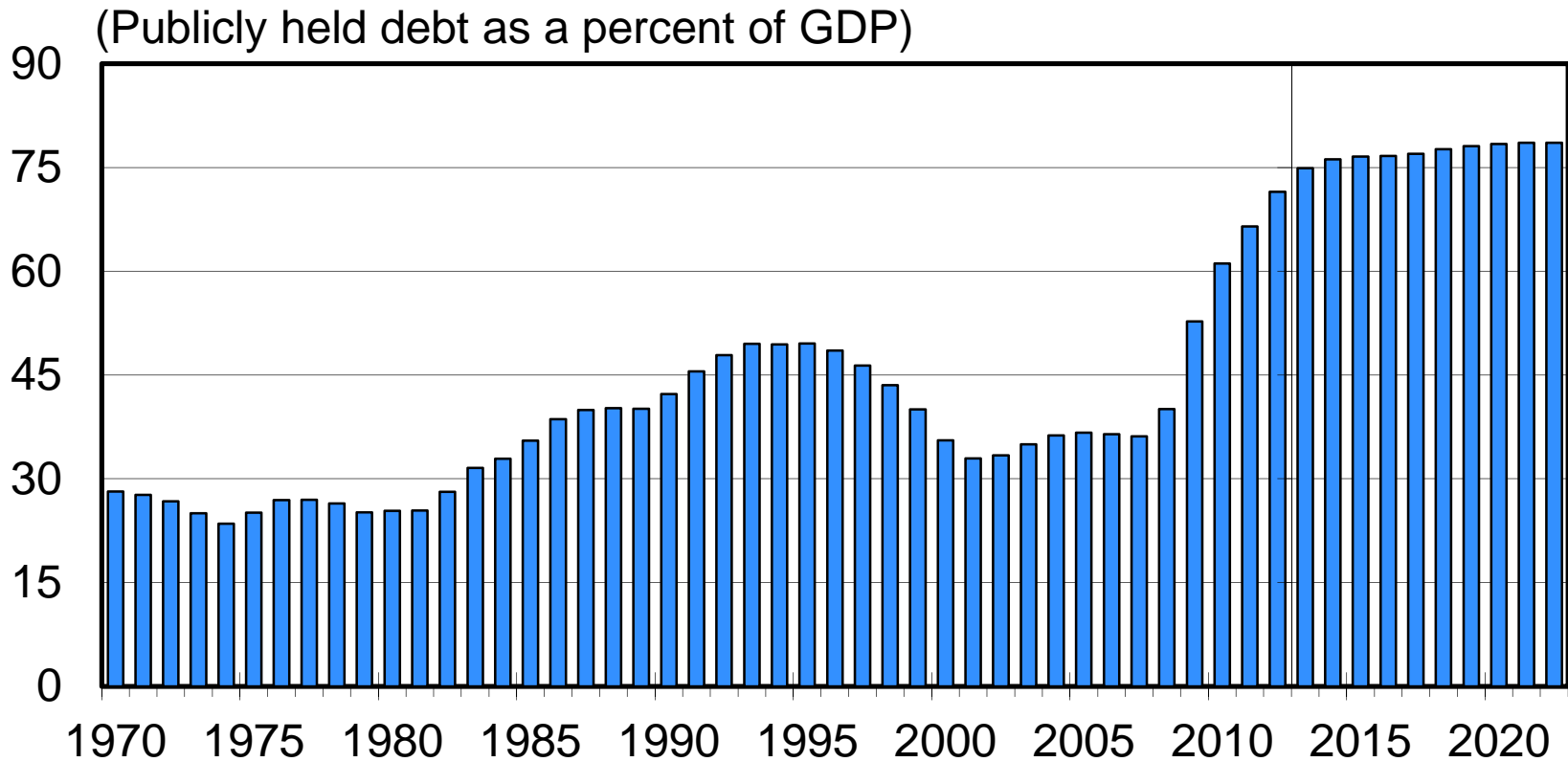
US federal budget gap: Action expected on both sides of the ledger



Government spending on healthcare and Social Security will continue to rise



US federal government debt is expected to stabilize near 80% of GDP



US economic growth by sector

(Percent change)

	2012	2013	2014	2015
Real GDP	2.2	1.8	2.8	3.2
Consumption	1.9	2.1	2.5	2.5
Residential investment	12.1	14.9	18.3	20.9
Business fixed investment	8.0	4.8	6.8	6.7
Federal government	-2.2	-5.5	0.7	-1.6
State & local government	-1.4	-1.0	0.0	0.7
Exports	3.4	2.0	5.0	5.6
Imports	2.4	1.9	5.5	4.2

Consumer finances are looking more favorable

Positive forces

- Pent-up demand
- Rising employment
- Rising asset prices
- Easing credit conditions

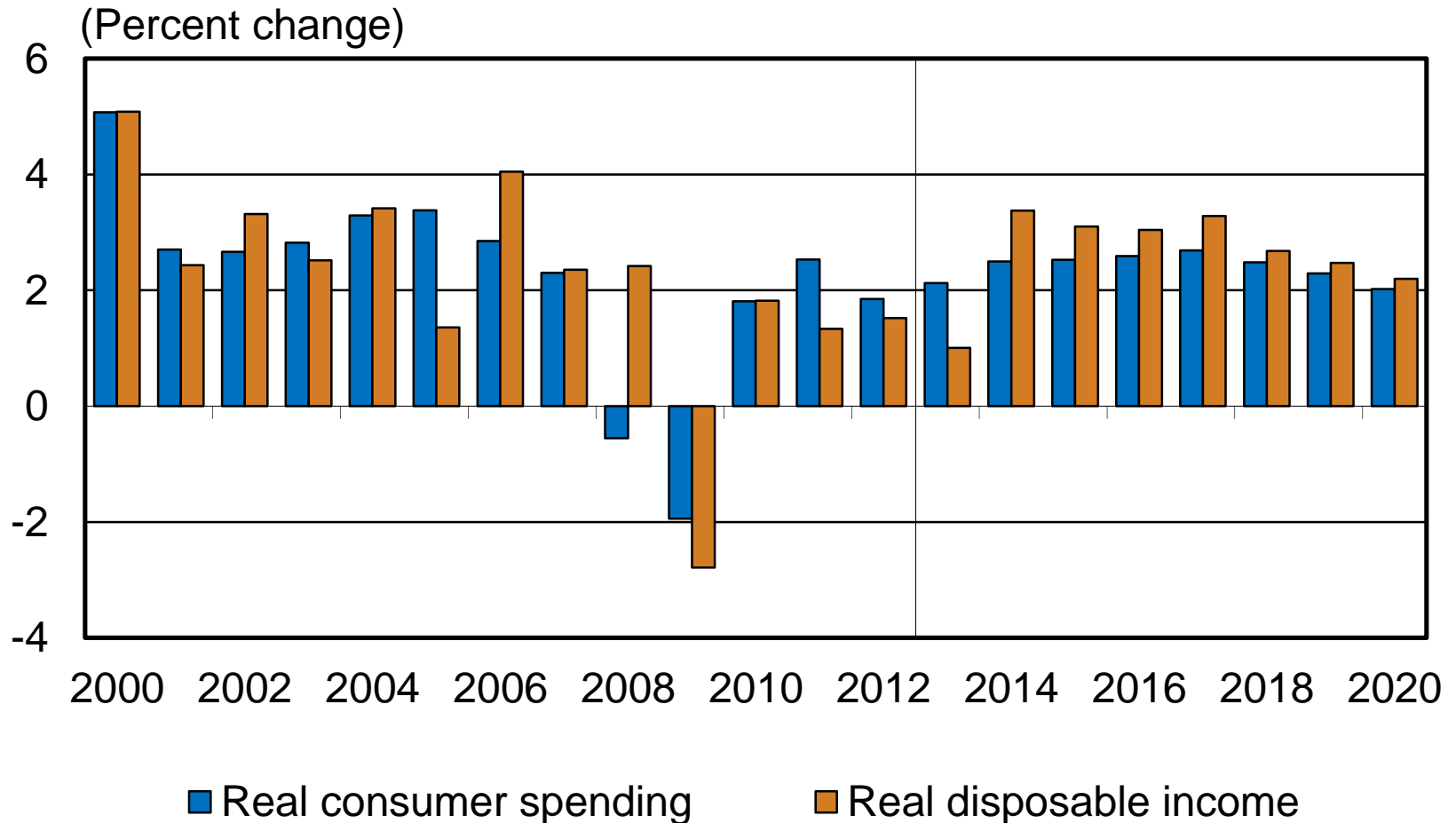


Negative forces

- Tax increases
- High debt burdens
- Weak real wage gains



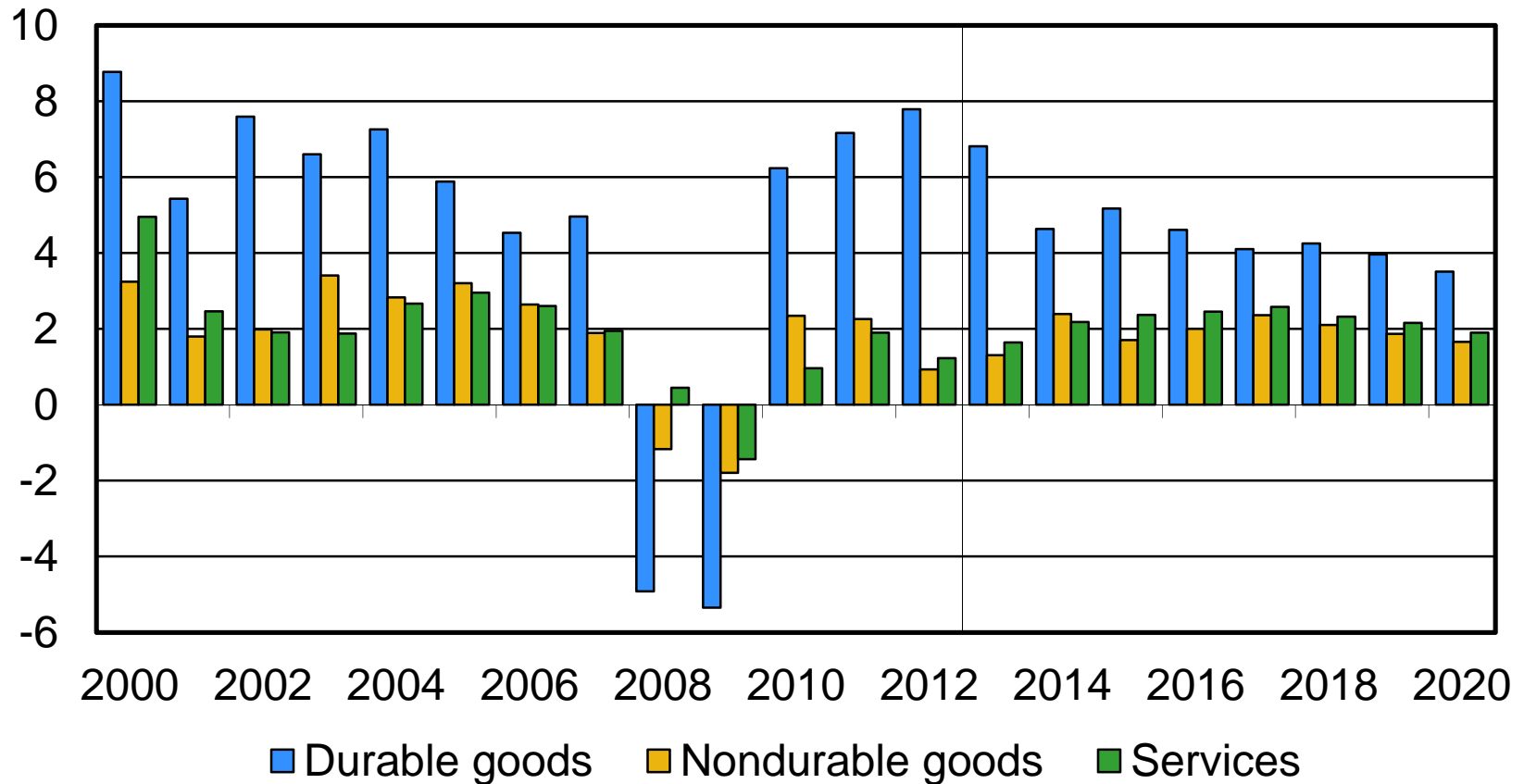
Consumer spending growth depends on disposable income gains, which will strengthen in 2014



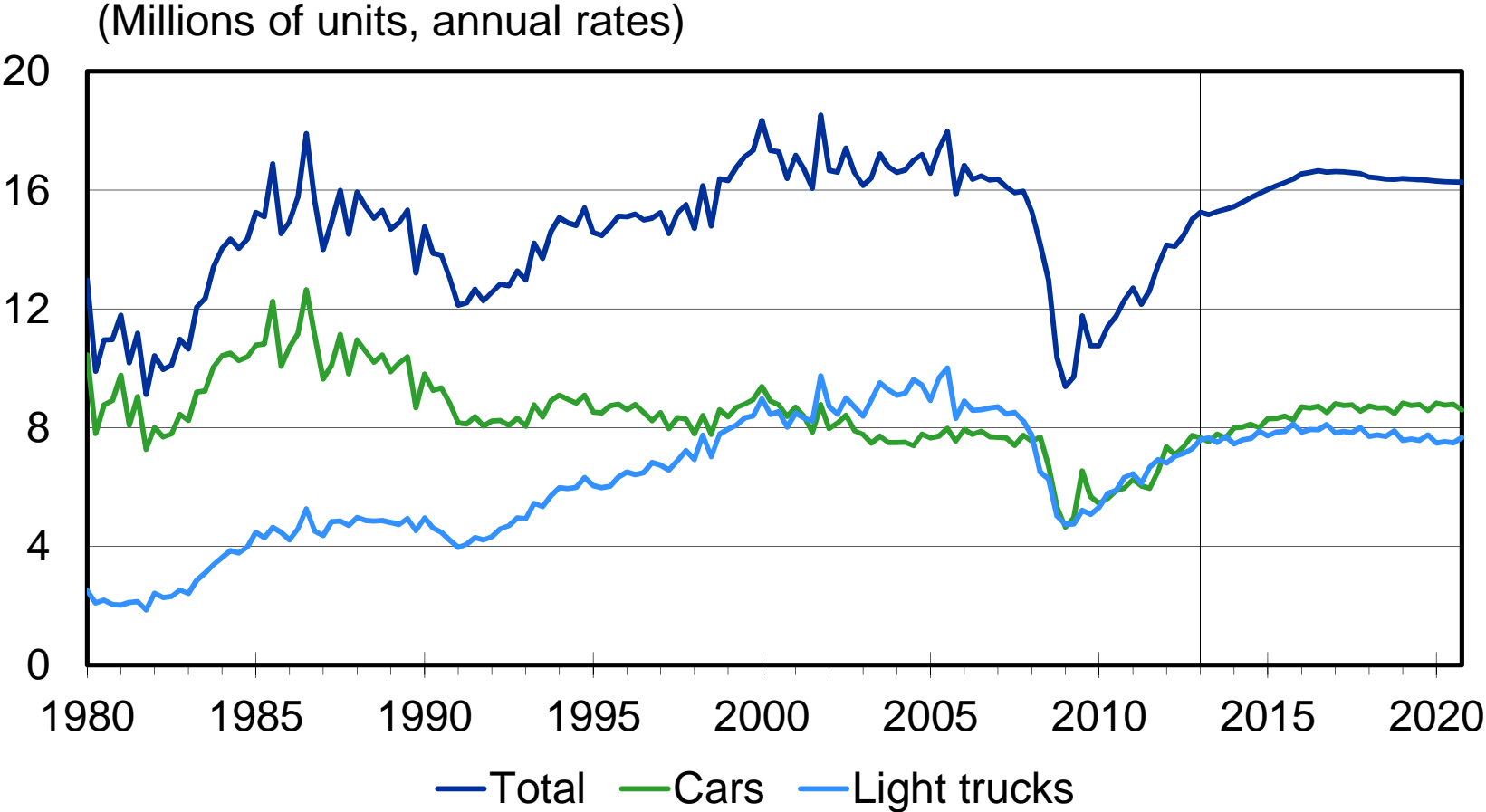
Pent-up demand for durable goods will support growth in consumer spending



(Percent change, chained 2005 dollars)



US light-vehicle sales will rise through 2016



Housing markets are rebounding

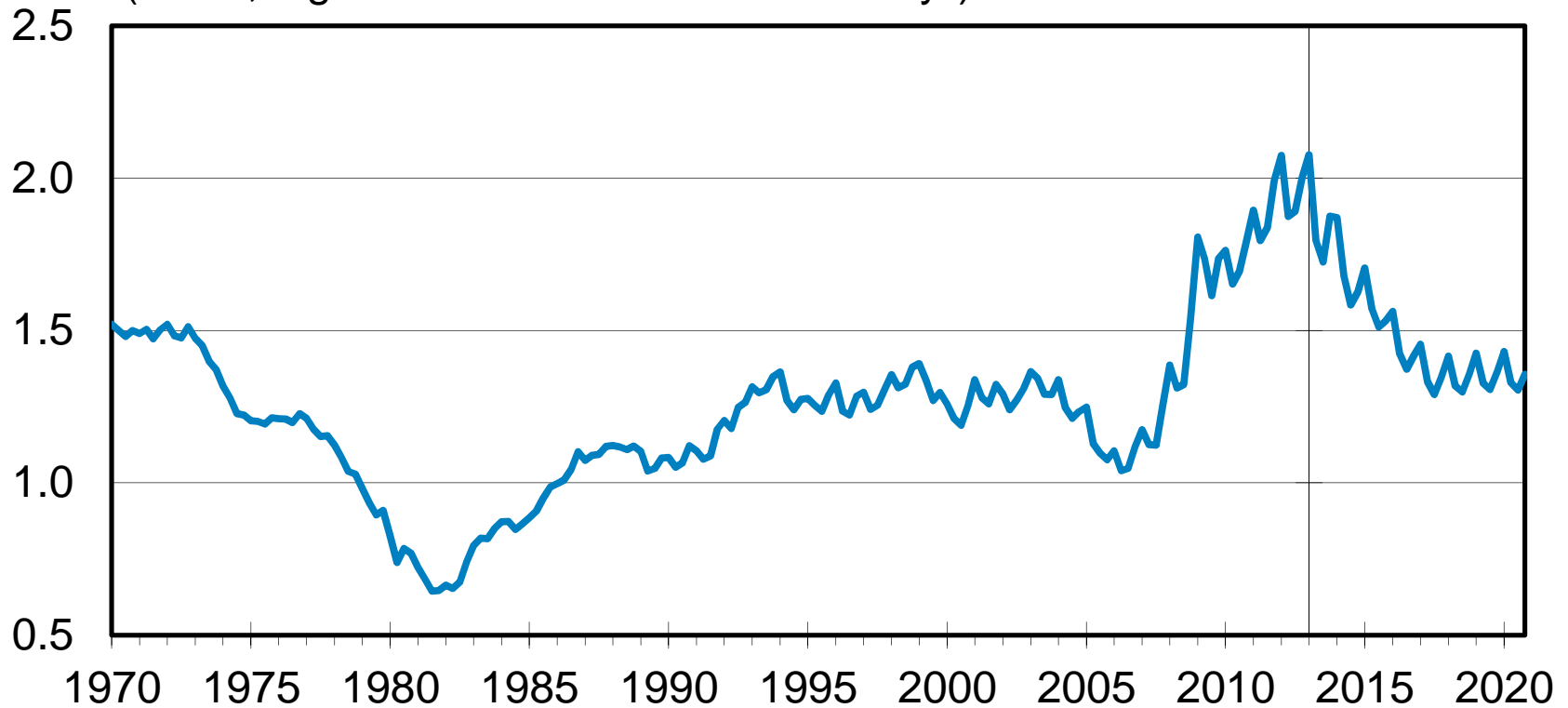
- Job growth is sparking a recovery in household formation.
- Record housing affordability is boosting demand.
- Despite some easing, credit standards remain relatively strict.
- Multifamily housing led the upturn; single-family housing has followed.
- Baby boomers are downsizing.
- Young adults are delaying homeownership.



Affordability is near a record high but will deteriorate as home prices and mortgage rates rise

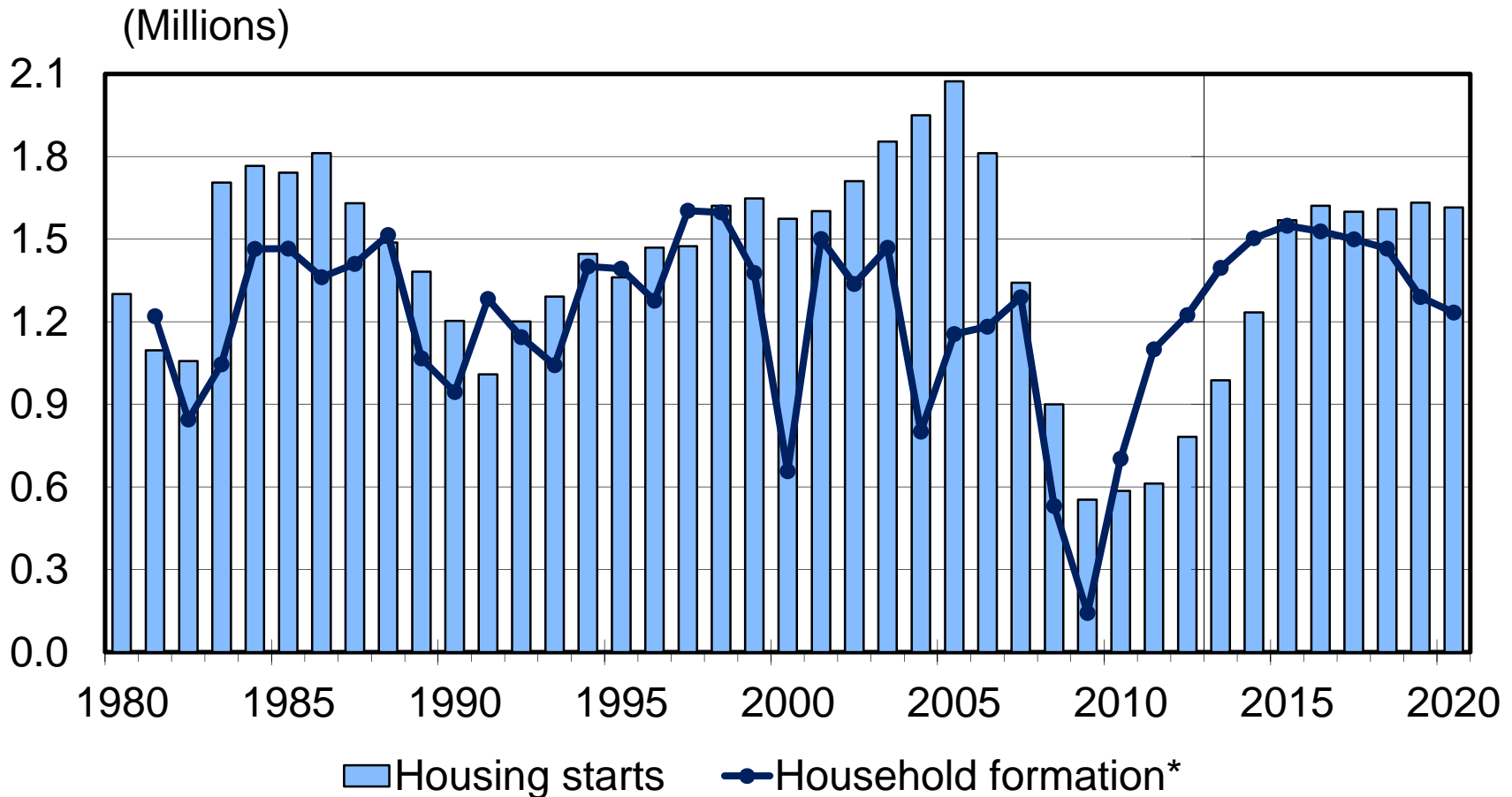


(Index, higher values = better affordability*)



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

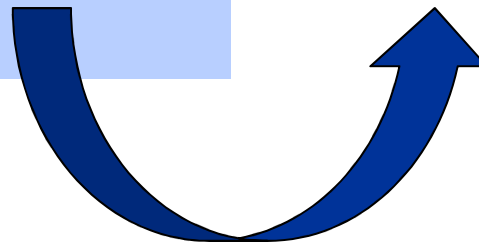
A recovery in US household formation will support a surge in homebuilding in 2013-15



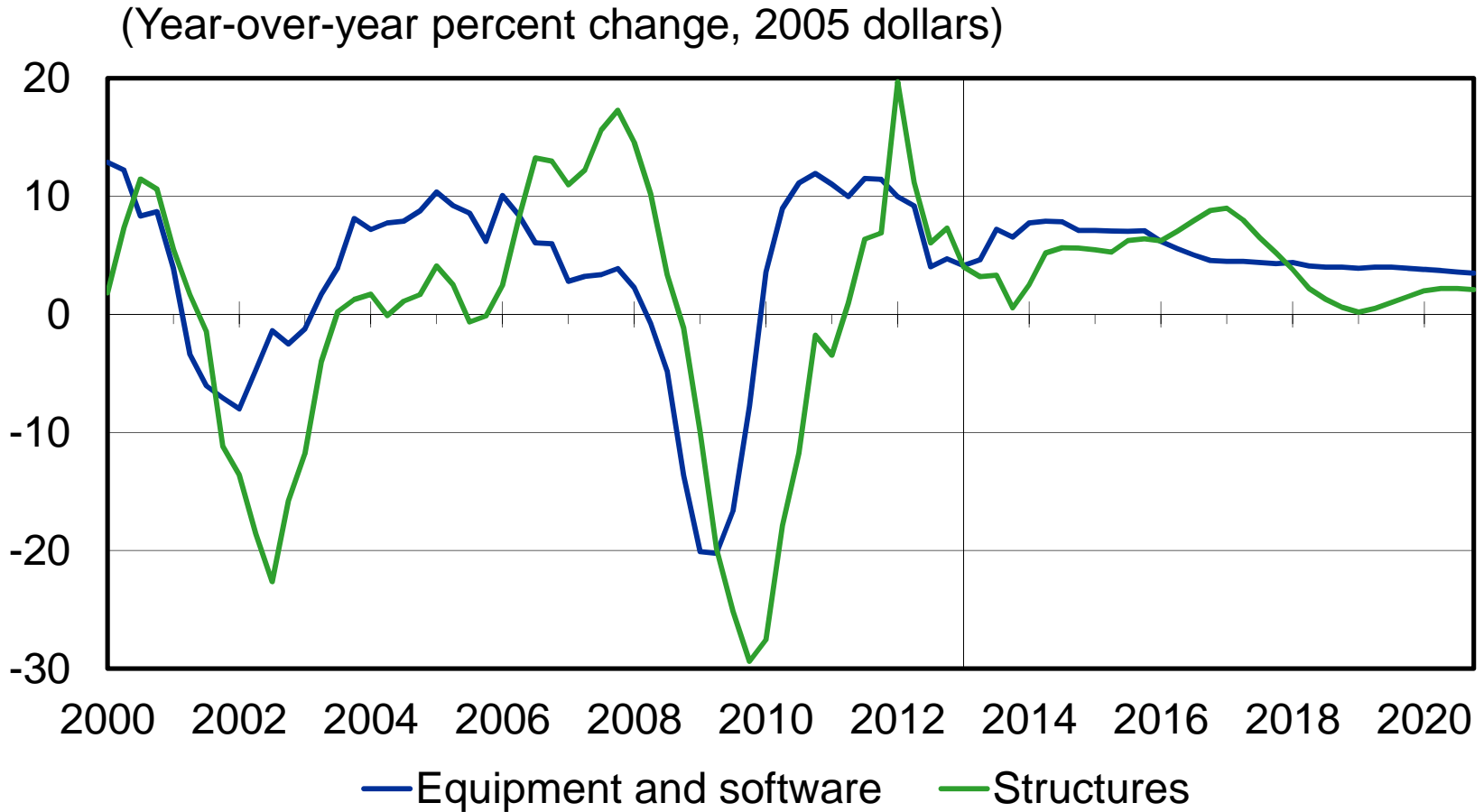
* The introduction of new population controls led to a discontinuity in household data in 2011. This chart shows the previous estimate of household formation for 2011.

Forces driving business fixed investment

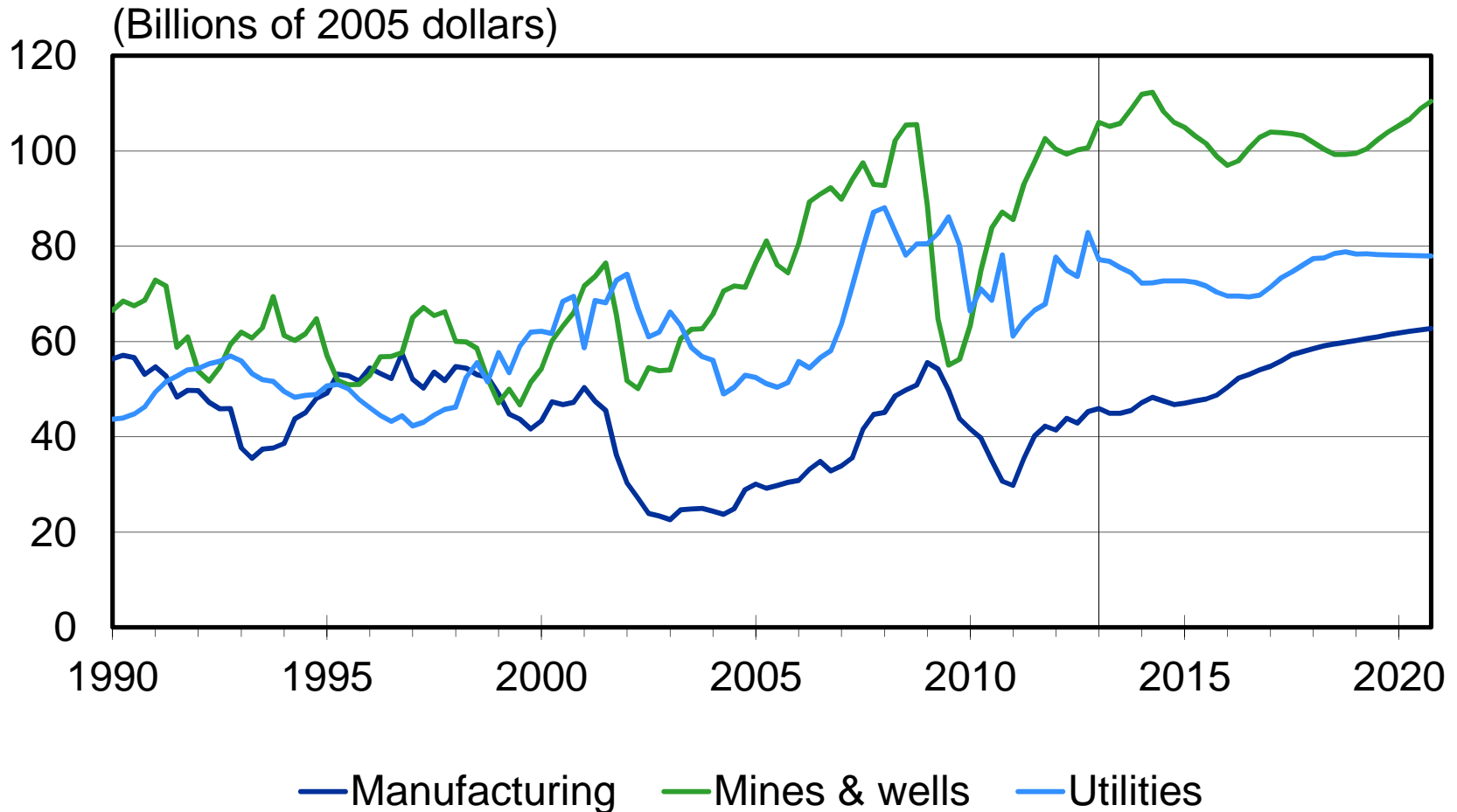
- Expected market growth
- Cost of capital
- Technological advances
- Efficiency gains
- Corporate profits



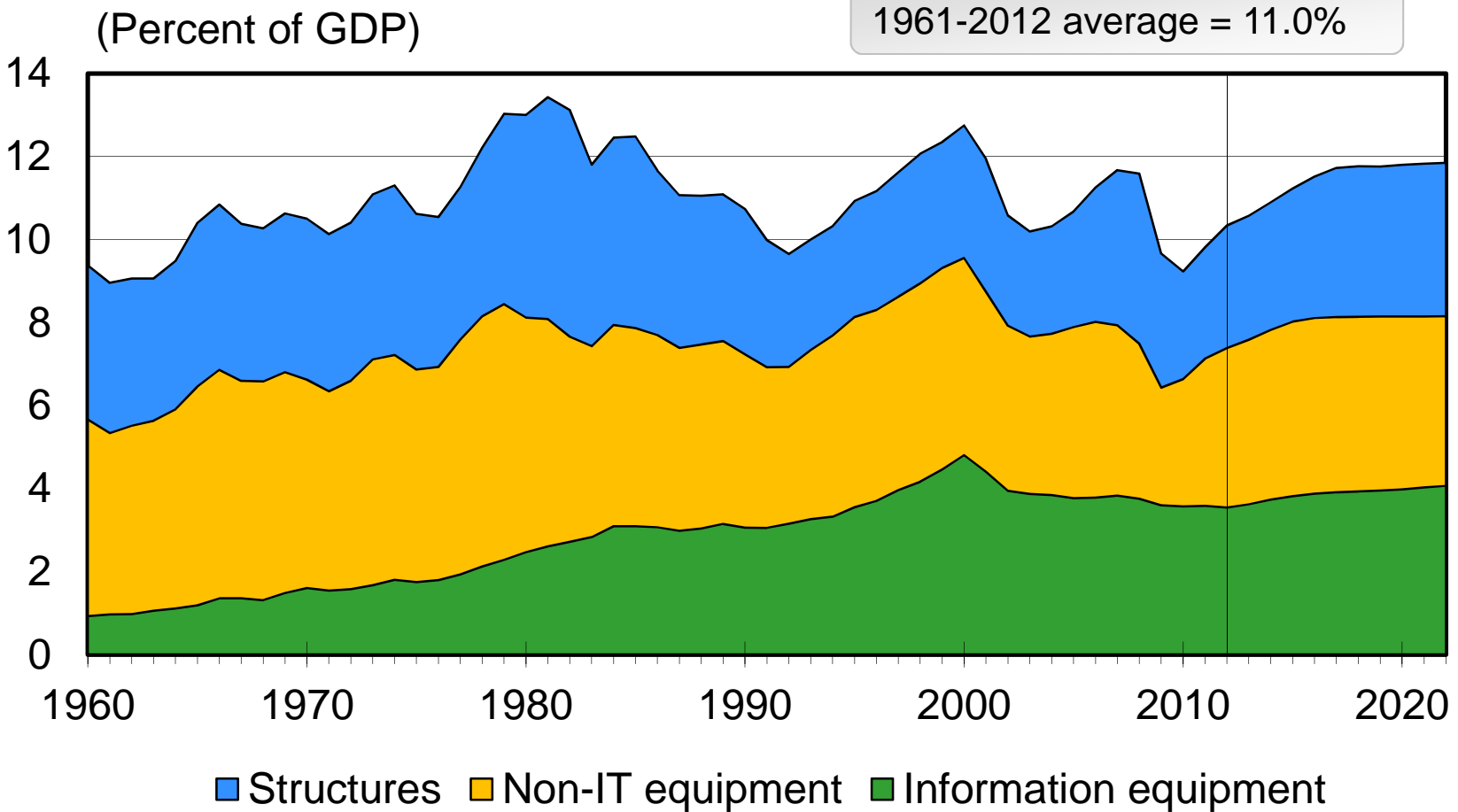
Business fixed investment continues to advance



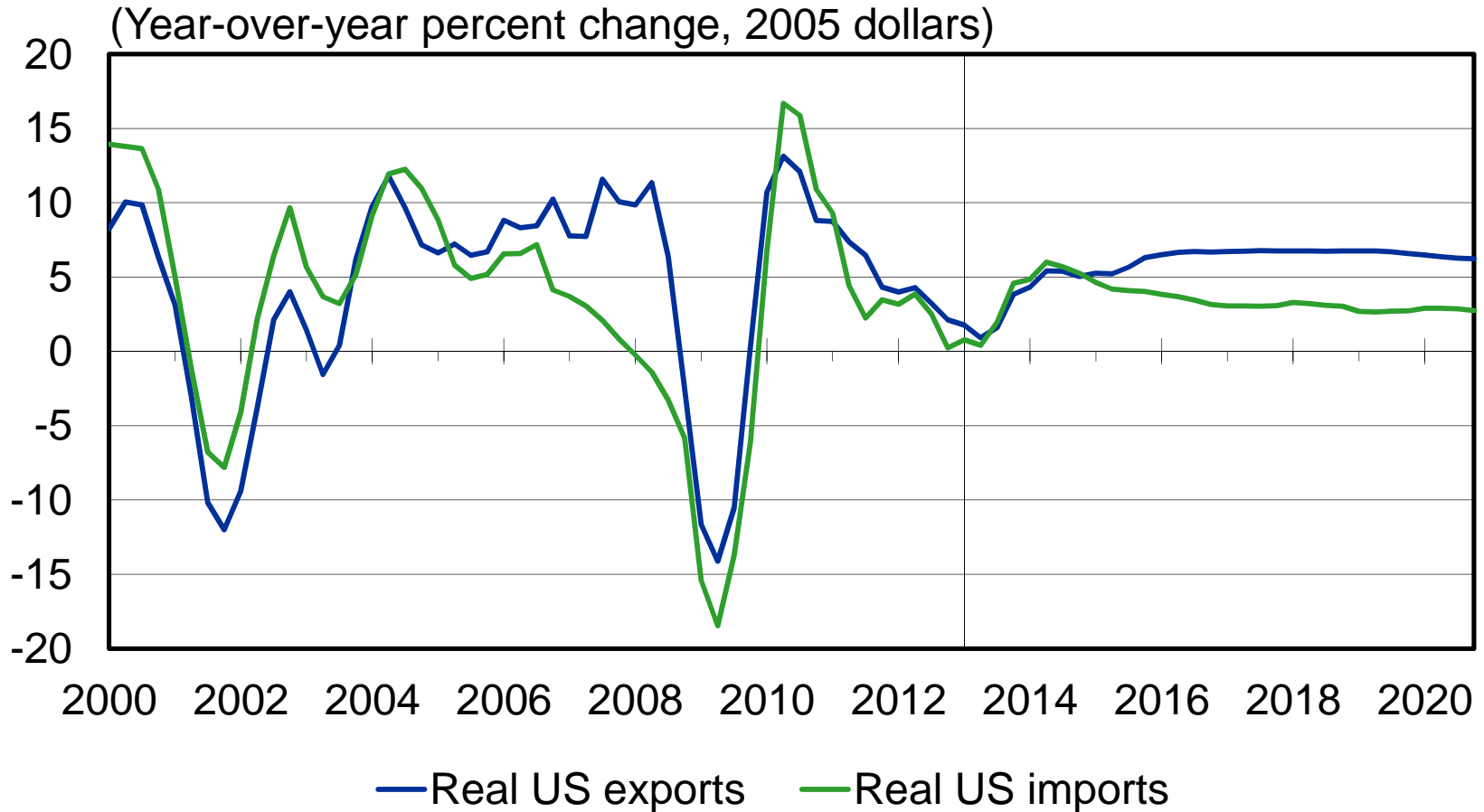
Real private investment in industrial structures is led by energy projects



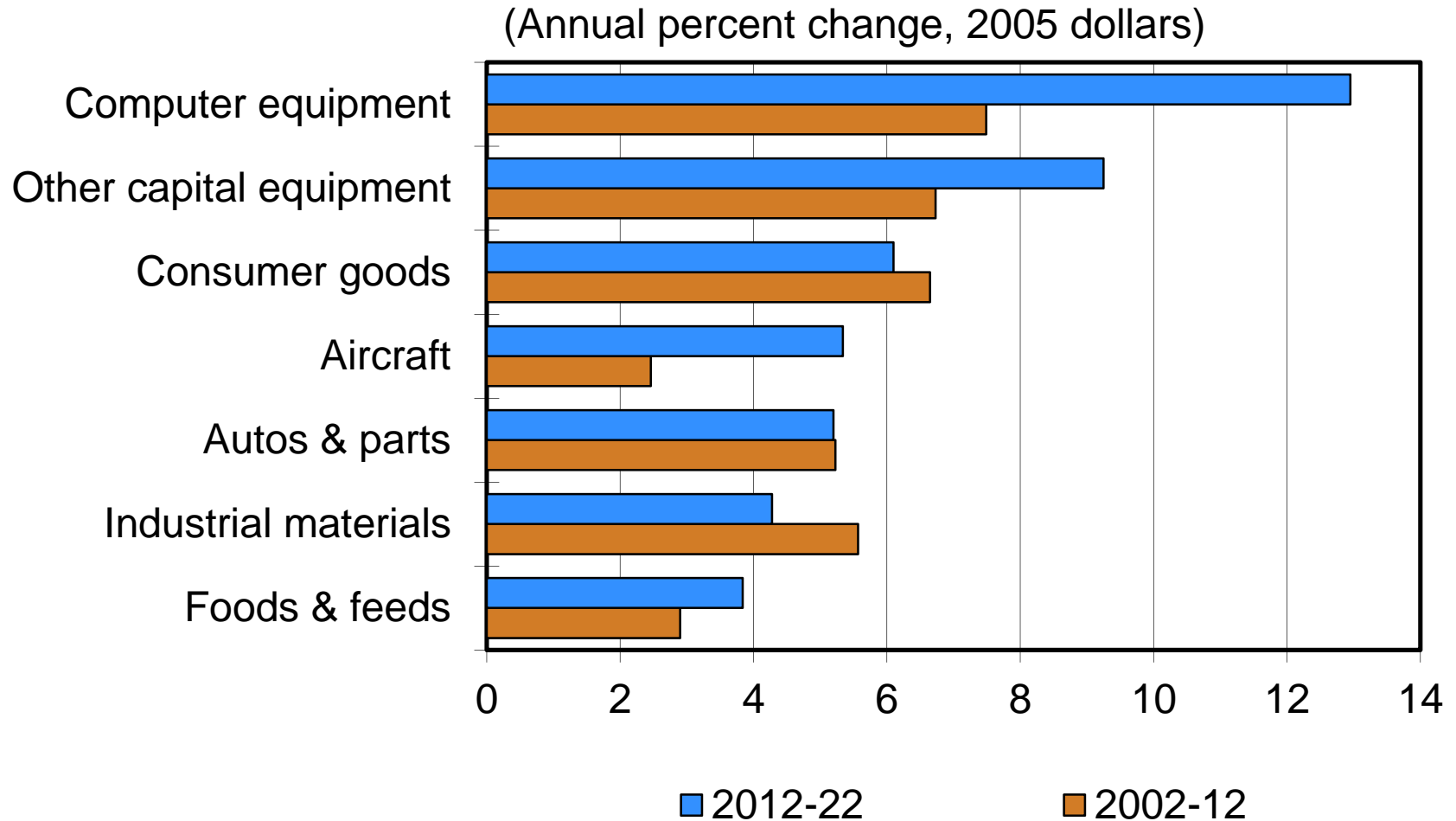
Business fixed investment's share of GDP is recovering from its 2010 cyclical low



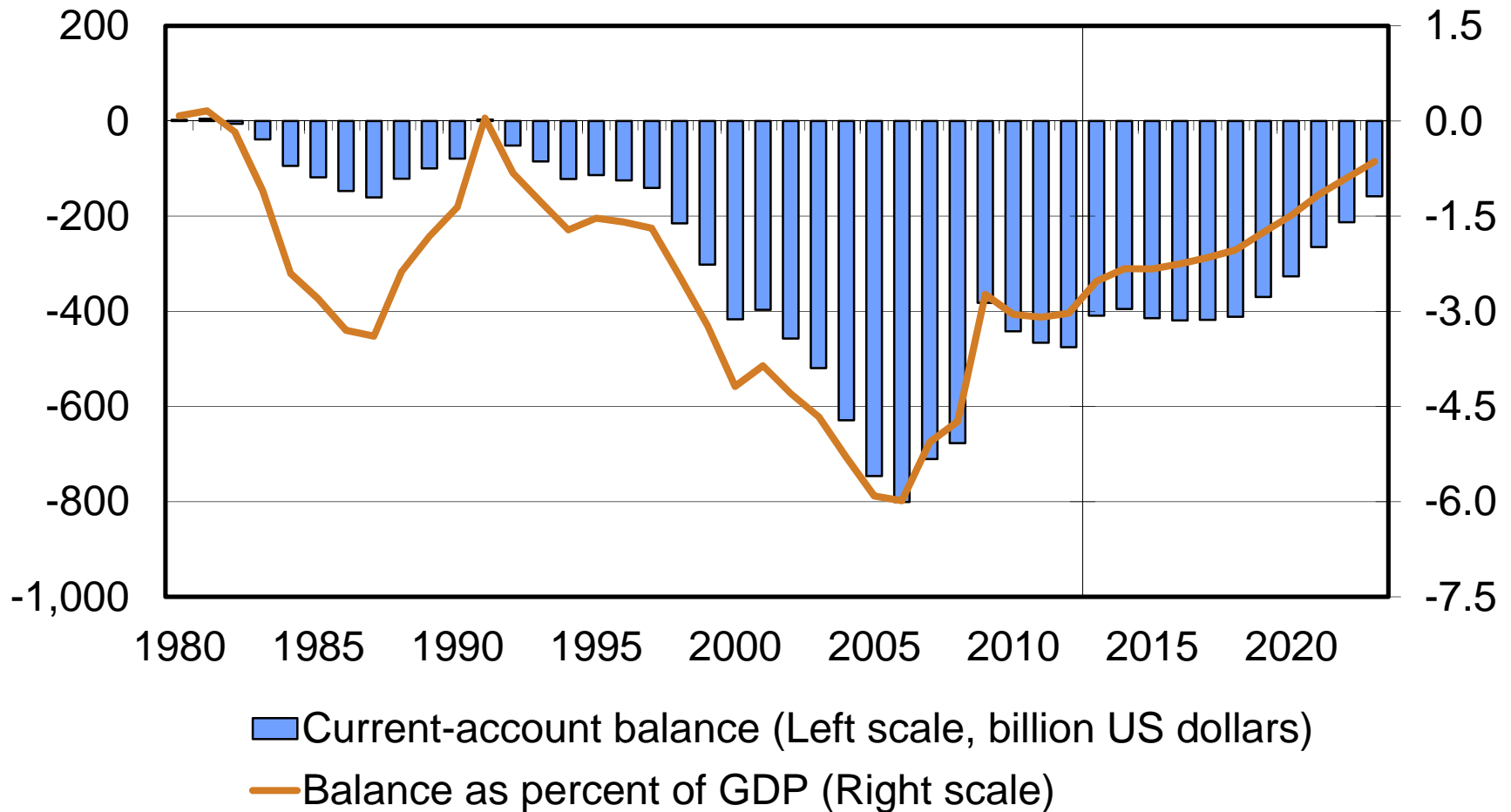
Export will begin to outpace import growth in 2015



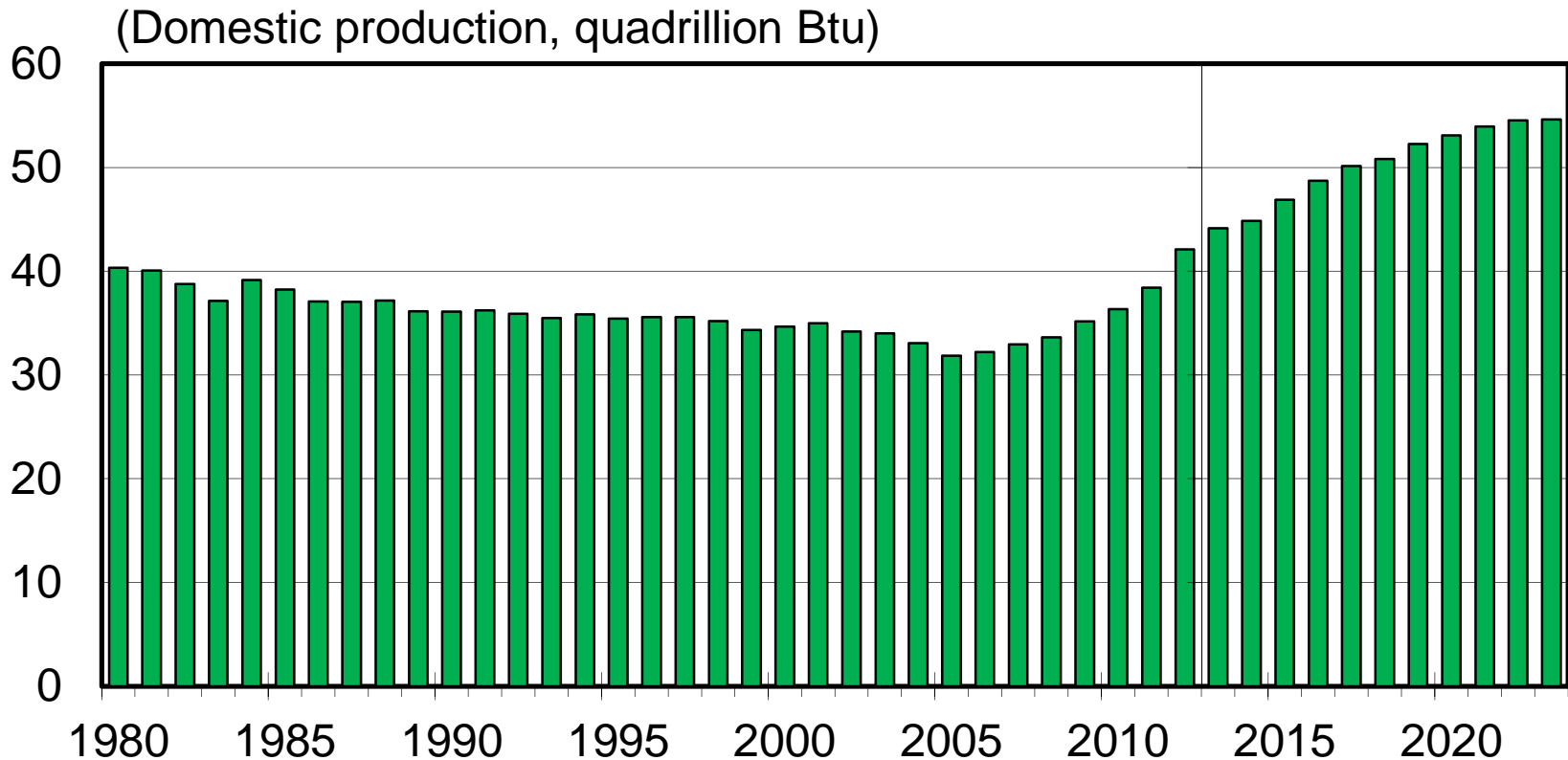
Capital goods lead growth in real merchandise exports



The current-account deficit will eventually narrow as US competitiveness improves



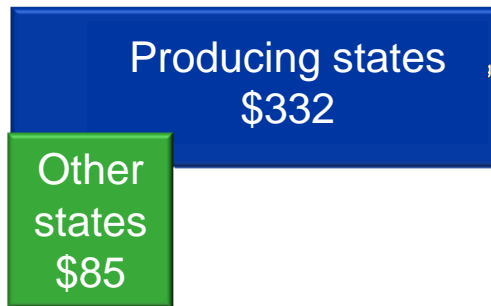
US oil and gas production climbed 32% from 2005 to 2012 and will increase another 30% by 2022



Impact of unconventional oil and gas on the US economy in 2020

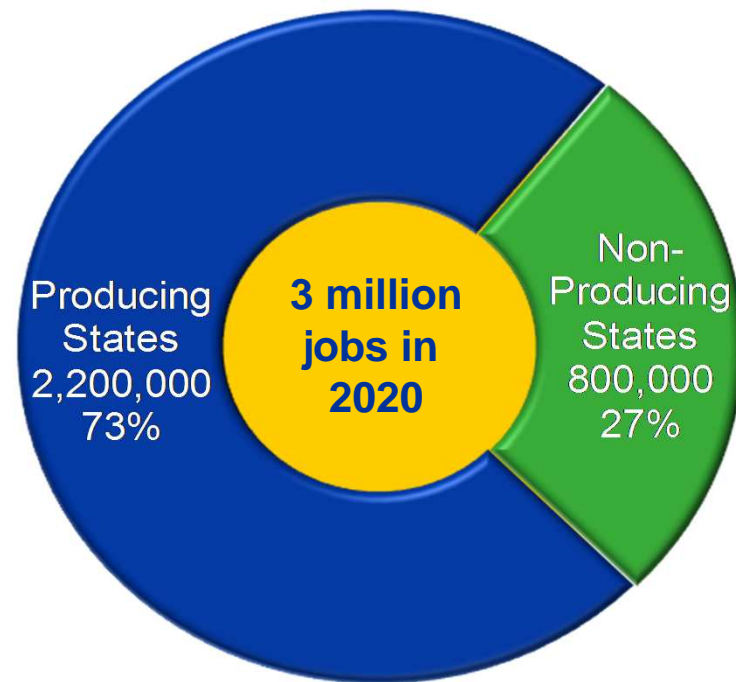


...adding \$416 billion to US GDP in 2020...

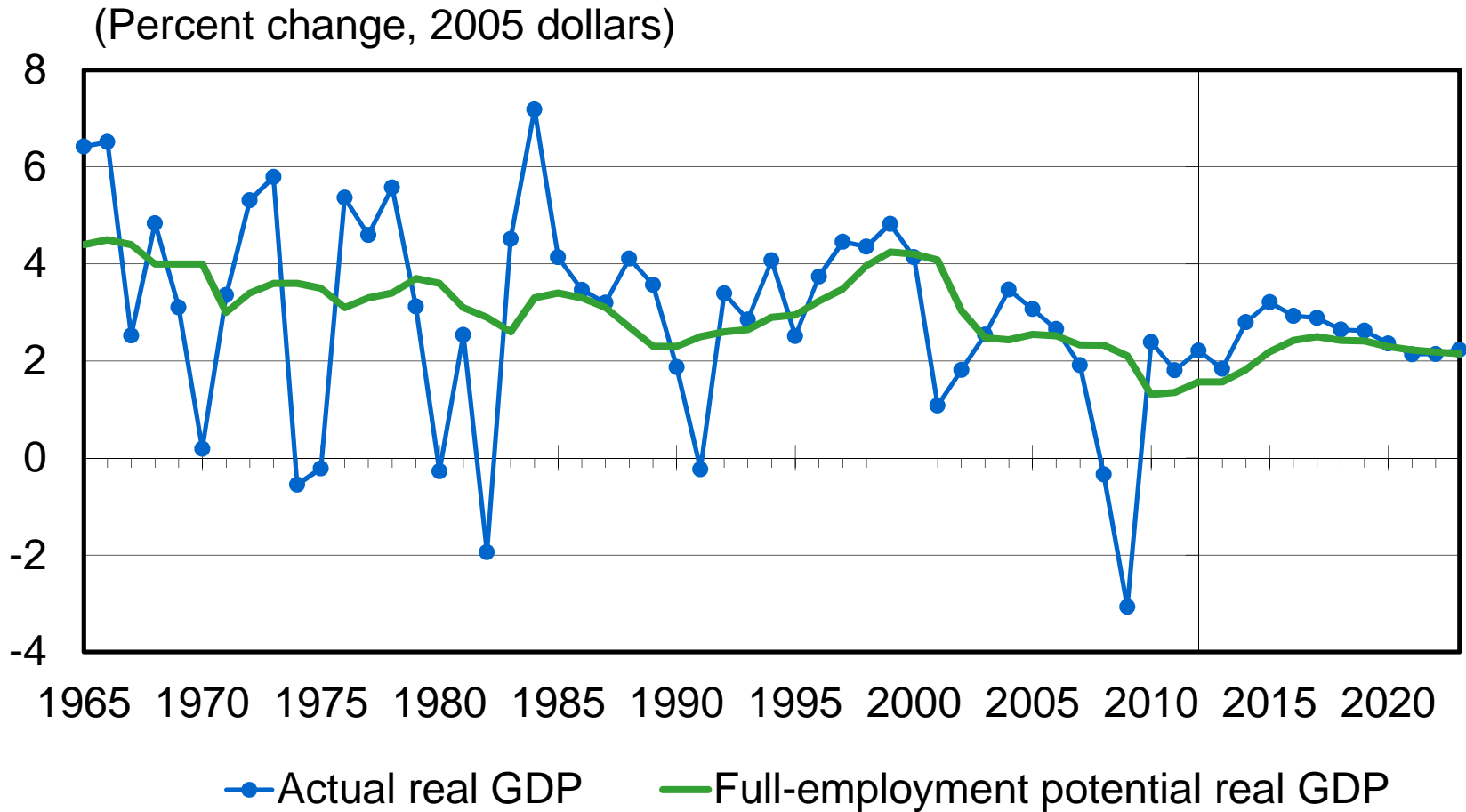


(billions of 2012 dollars)

...supporting 3 million jobs



Potential real GDP growth has diminished since 2000; some improvement is expected in 2014-17



Bottom line for the US economy

- The most likely outcome is moderate economic growth.
- Federal policy actions will reduce real GDP growth by a percentage point in 2013.
- Real GDP growth will pick up in 2014 and 2015, led by strengthening housing markets, durables consumption, and business investment.
- Growth will taper off later in the decade as interest rates rise and recoveries in housing and automotive markets end.
- Exports will become a critical driver of US growth after 2015.
- The global environment and domestic fiscal policies are the main sources of risk for the US economy.

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Thank you!

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