The US Economic Outlook

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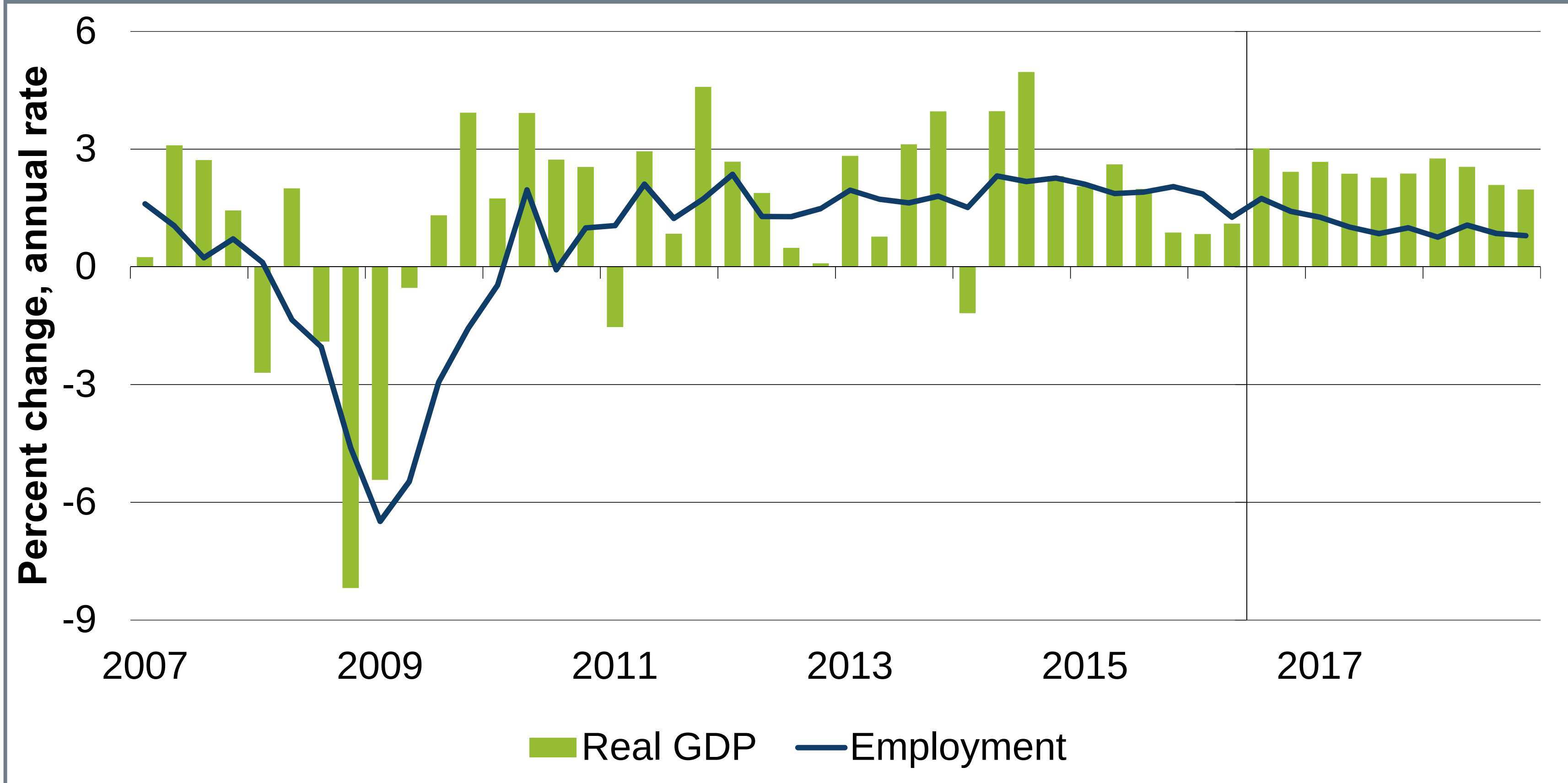
After disappointing growth in the first half of 2016, real GDP will accelerate

- Real GDP increased at a 1.1% annual rate in the second quarter, as 2.4% growth in final sales was offset by an inventory correction.
- Economic growth will pick up to a 2.5-3.0% annual rate in the third quarter, as business fixed investment revives.
- Consumer spending will drive the expansion forward, supported by growth in employment, real incomes, and household net worth.
- Housing construction will continue to recover in response to pent-up demand from young adults and improved credit availability.
- Net exports will be a drag on economic growth through 2018, as a strong dollar impairs US competitiveness.
- The Federal Reserve will be cautious in raising interest rates; the next increase is expected in December.

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

Real GDP and payroll employment



Source: IHS

US economic growth by sector

Real GDP and its components

Percent change, annual rate	16Q1	16Q2	16Q3	16Q4	17Q1
Real GDP	0.8	1.1	3.0	2.4	2.7
Consumption	1.6	4.4	3.4	2.6	2.1
Residential investment	7.8	-7.7	-2.9	6.6	9.6
Business fixed investment	-3.4	-0.9	5.0	4.1	4.5
Federal government	-1.5	-0.3	2.9	2.0	0.8
State & local government	3.5	-2.2	1.1	1.9	1.6
Exports	-0.7	1.2	1.2	1.8	3.2
Imports	-0.6	0.3	1.7	5.4	4.9

US economic growth by sector

Real GDP and its components

Percent change	2015	2016	2017	2018
Real GDP	2.6	1.5	2.4	2.4
Consumption	3.2	2.8	2.6	2.5
Residential investment	11.7	4.9	6.7	6.3
Business fixed investment	2.1	-0.2	4.0	4.4
Federal government	0.0	0.9	0.9	-1.3
State & local government	2.9	1.2	0.9	0.9
Exports	0.1	-0.4	2.8	4.2
Imports	4.6	0.9	4.7	5.4

Other key US indicators

Key indicators

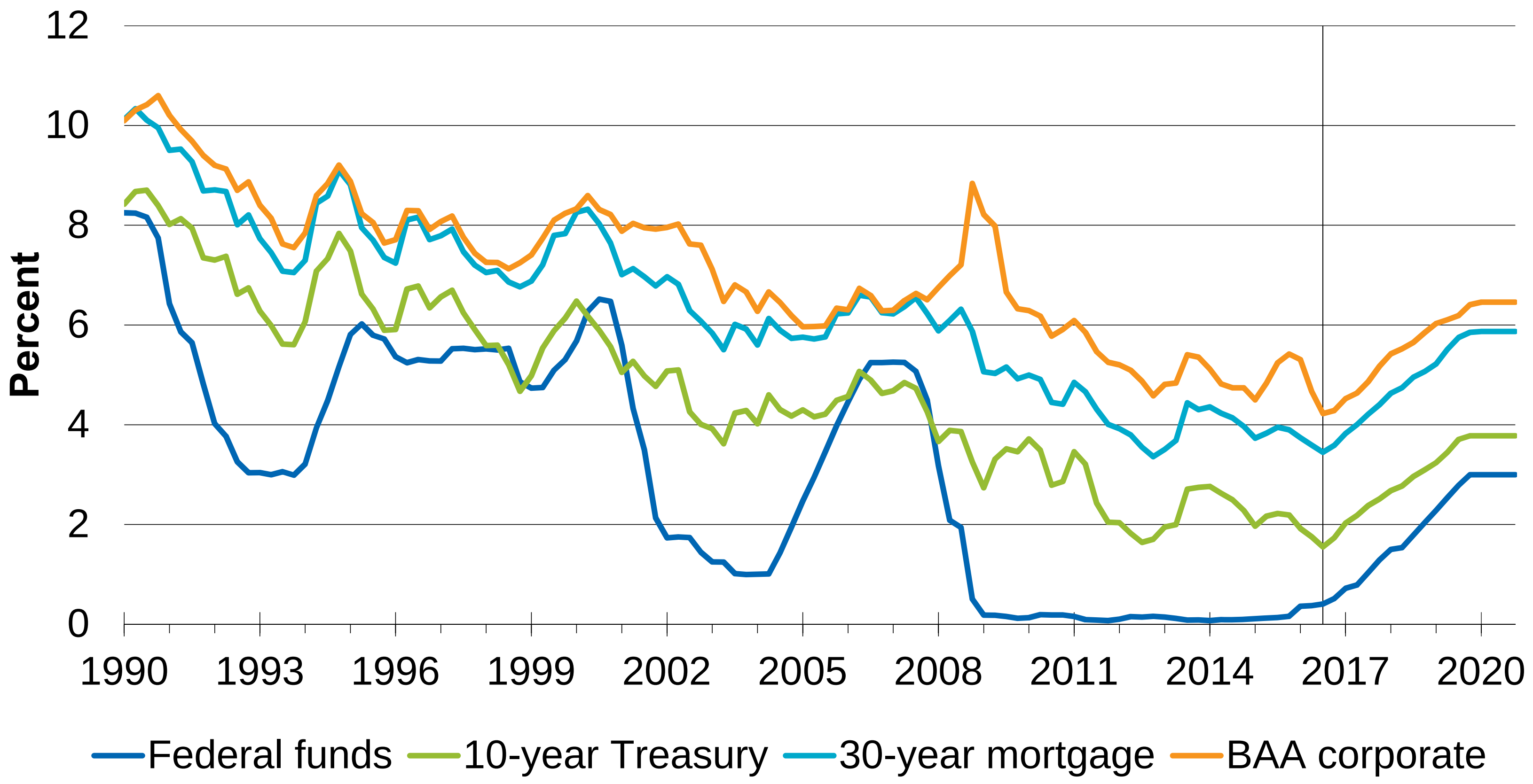
Percent change, annual rate	16Q1	16Q2	16Q3	16Q4	17Q1
Industrial production	-1.7	-0.8	2.6	-0.6	0.3
Payroll employment	1.9	1.3	1.7	1.4	1.3
Light-vehicle sales (Millions)	17.2	17.1	17.5	17.6	17.5
Housing starts (Millions)	1.15	1.16	1.19	1.21	1.26
Consumer Price Index	-0.3	2.5	1.5	3.4	1.9
Core CPI	2.7	2.1	1.8	2.4	2.2
Brent crude oil price (USD/barrel)	34	46	46	48	48
Federal funds rate (%)	0.4	0.4	0.4	0.5	0.7
10-year Treasury yield (%)	1.9	1.8	1.6	1.7	2.0

Other key US indicators

Key indicators				
Percent change	**2015**	**2016**	**2017**	**2018**
Industrial production	0.3	-0.9	1.4	3.1
Payroll employment	2.1	1.7	1.2	0.9
Light-vehicle sales (Millions)	17.4	17.4	17.7	17.7
Housing starts (Millions)	1.11	1.18	1.34	1.48
Consumer Price Index	0.1	1.3	2.3	2.1
Core CPI	1.8	2.2	2.1	2.0
Brent crude oil price (USD/barrel)	53	43	52	57
Federal funds rate (%)	0.1	0.4	1.0	1.7
10-year Treasury yield (%)	2.1	1.7	2.3	2.9

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

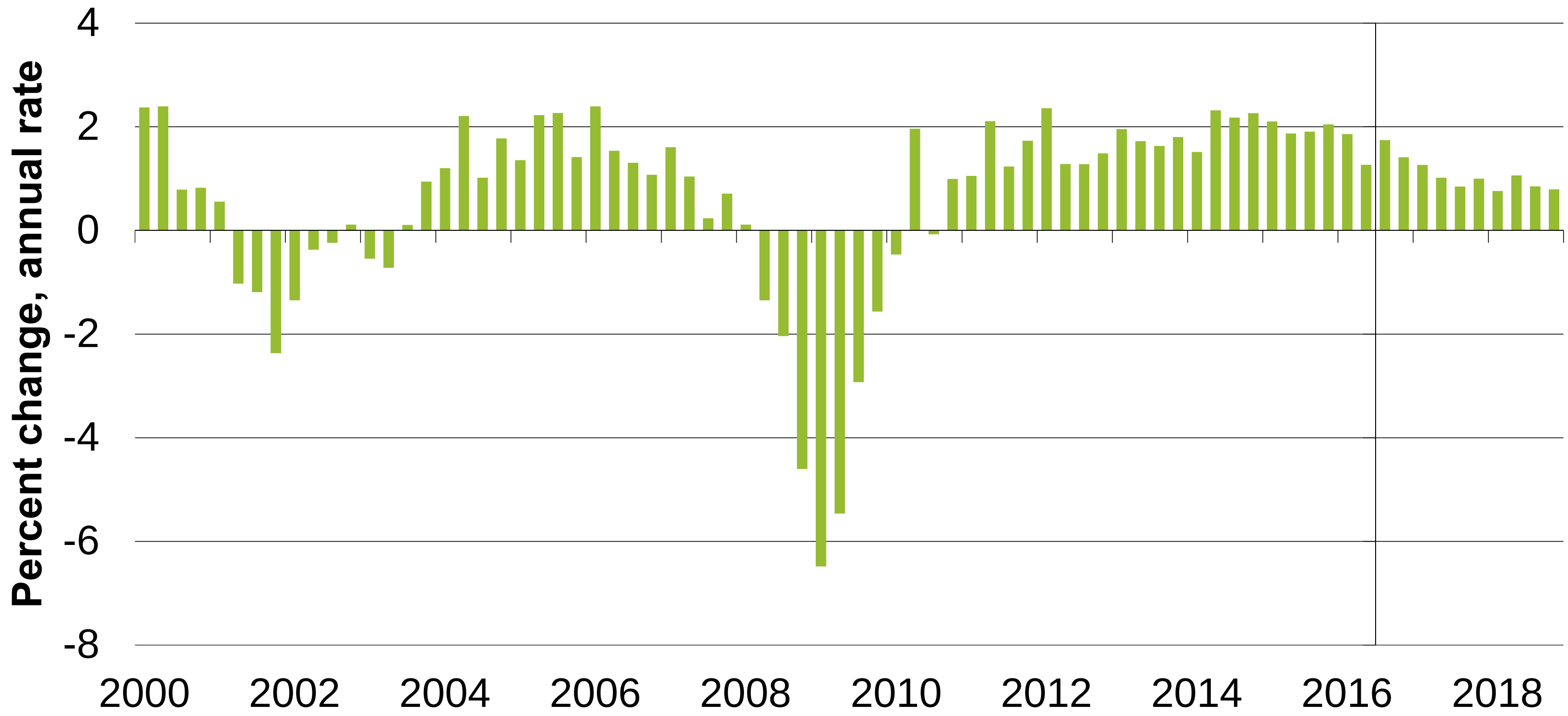
Interest rates



Source: IHS

Slower job growth is expected now that the unemployment rate is below 5%

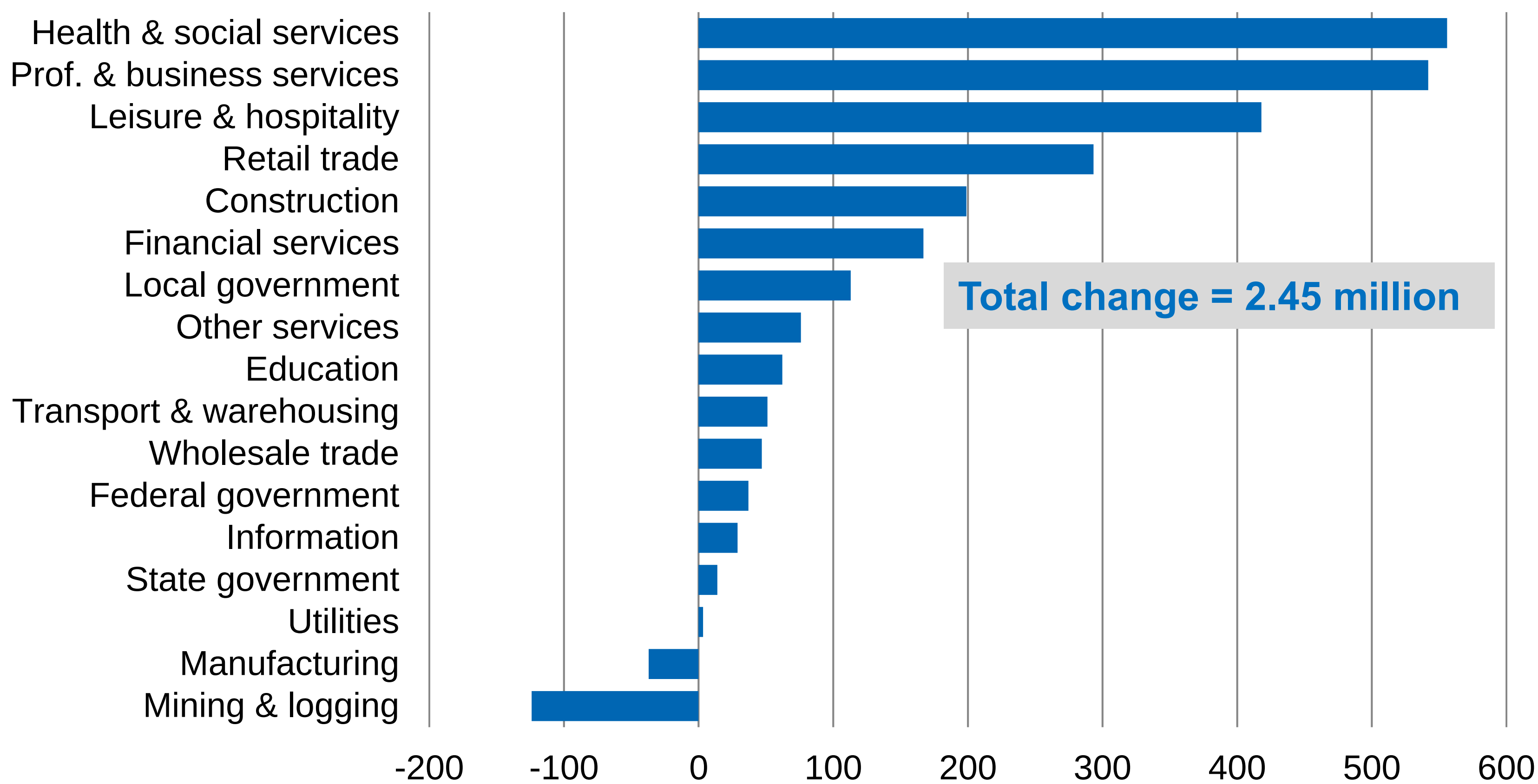
Payroll employment



Source: IHS

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

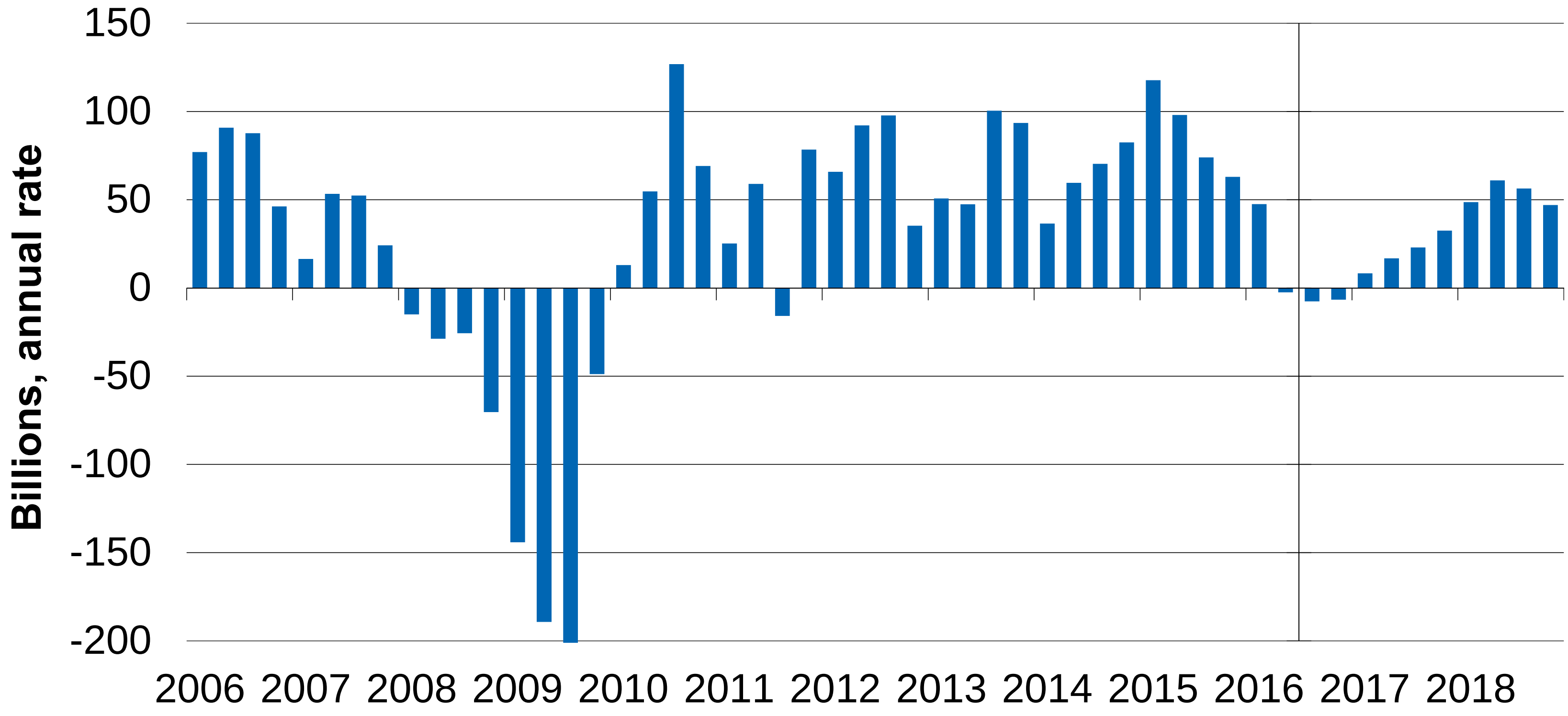
Change in payroll employment, thousands



Source: IHS

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

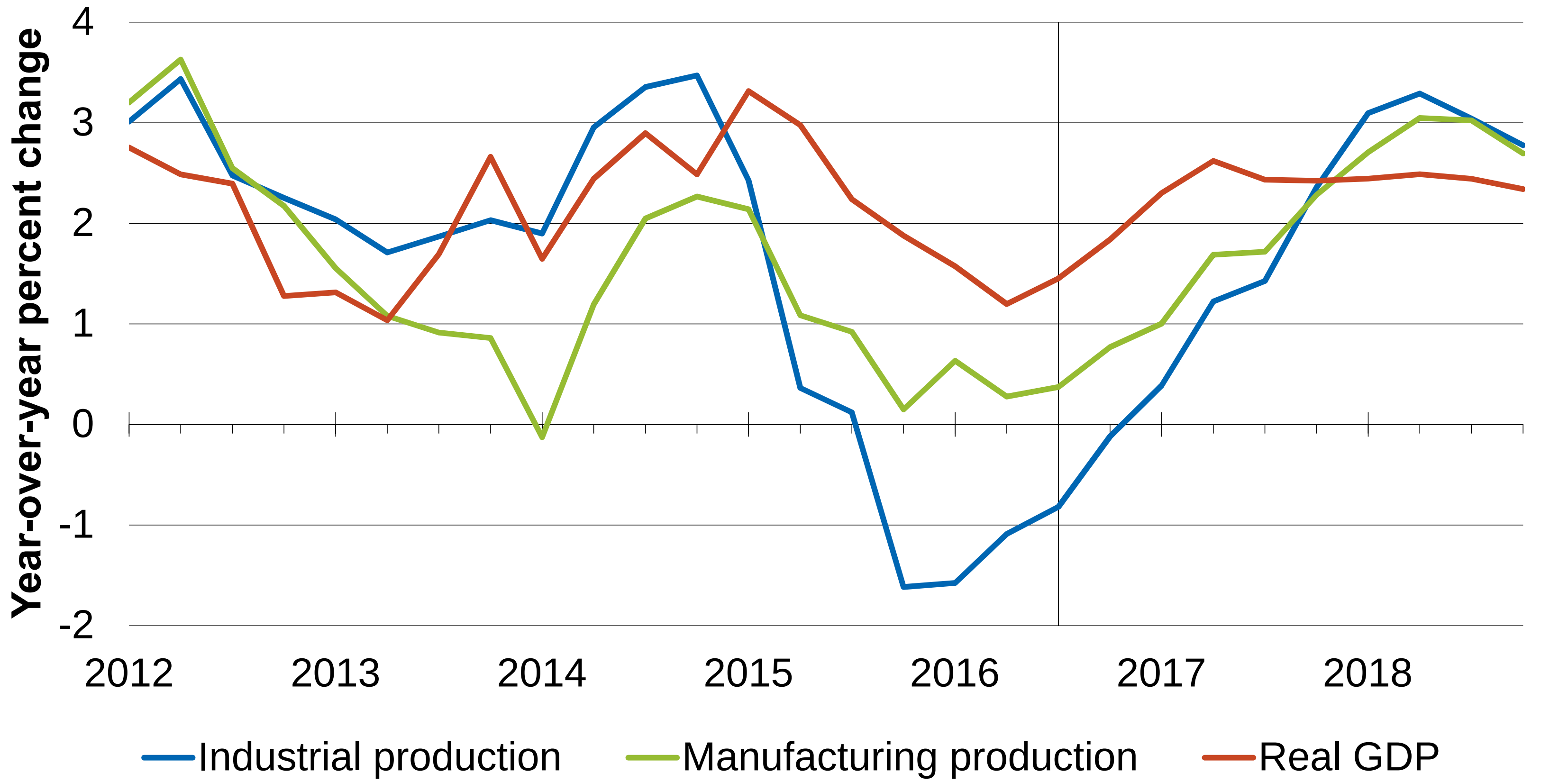
Change in nonfarm inventories, 2009 dollars



Source: IHS

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

Industrial production and real GDP



Source: IHS

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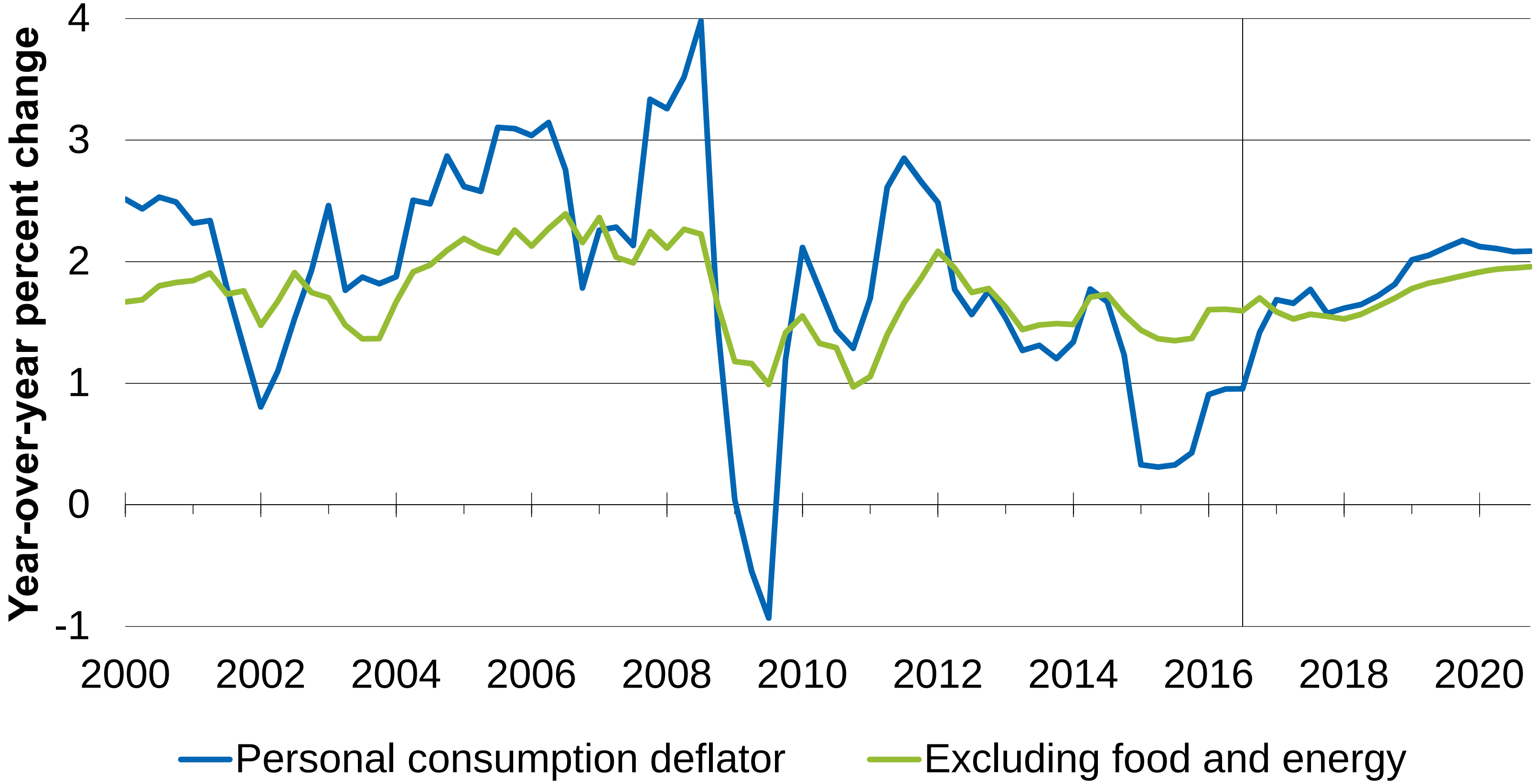
US manufacturing production growth

Industrial production				
Percent change	**2015**	**2016**	**2017**	**2018**
All manufacturing	1.1	0.5	1.7	2.9
Motor vehicles & parts	6.1	4.1	-3.2	-0.7
Computers & electronics	2.8	2.3	2.8	4.9
Electrical equip. & appliances	0.8	0.9	1.7	2.7
Machinery	-1.6	-2.9	0.9	3.9
Textiles	-0.2	4.2	-1.5	-2.0
Furniture	3.5	0.4	1.4	2.5
Chemicals	2.3	1.0	2.3	3.9

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

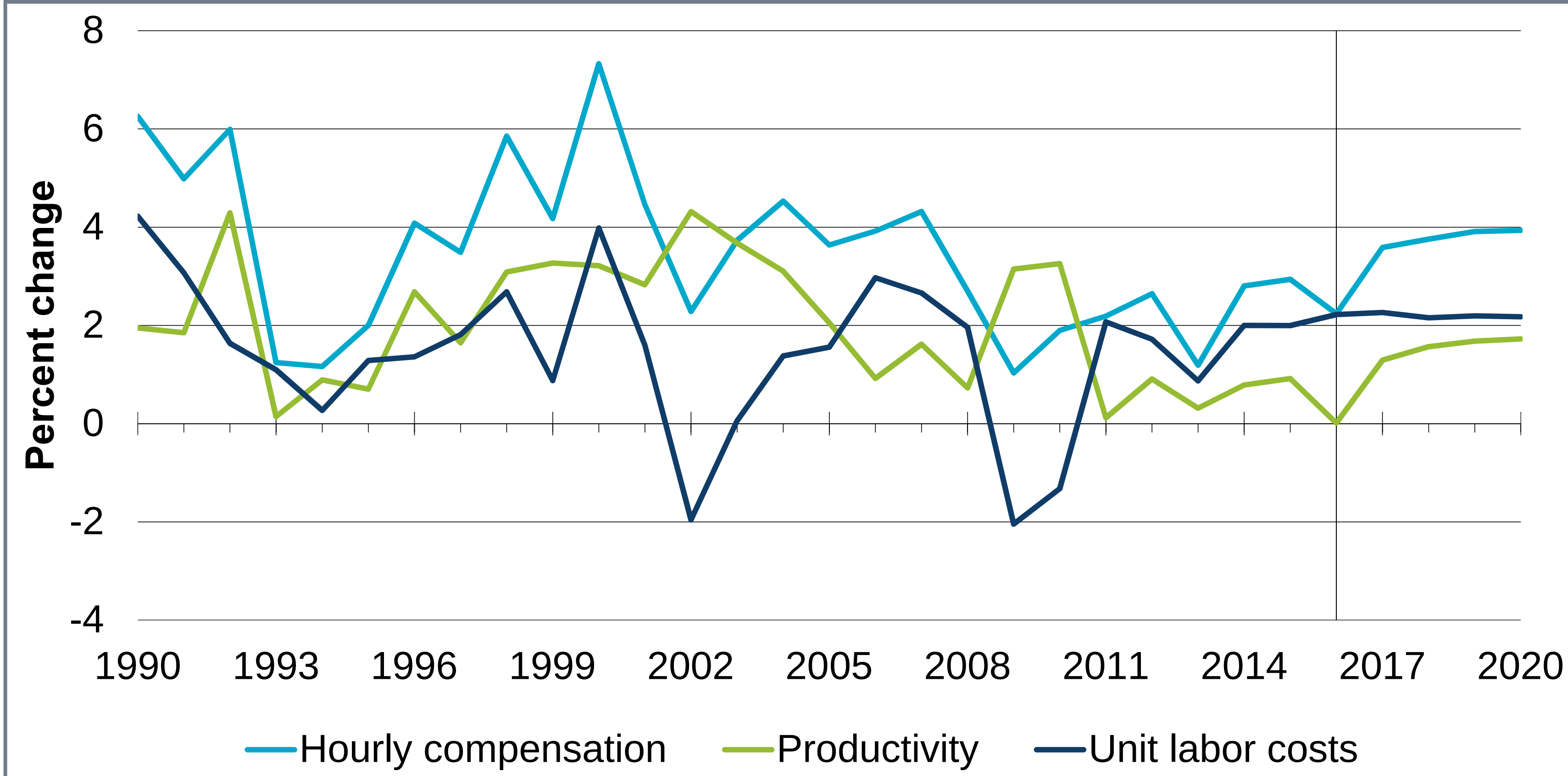
Personal consumption deflators



Source: IHS

Both labor compensation and productivity growth will pick up as labor markets tighten

Private nonfarm sector



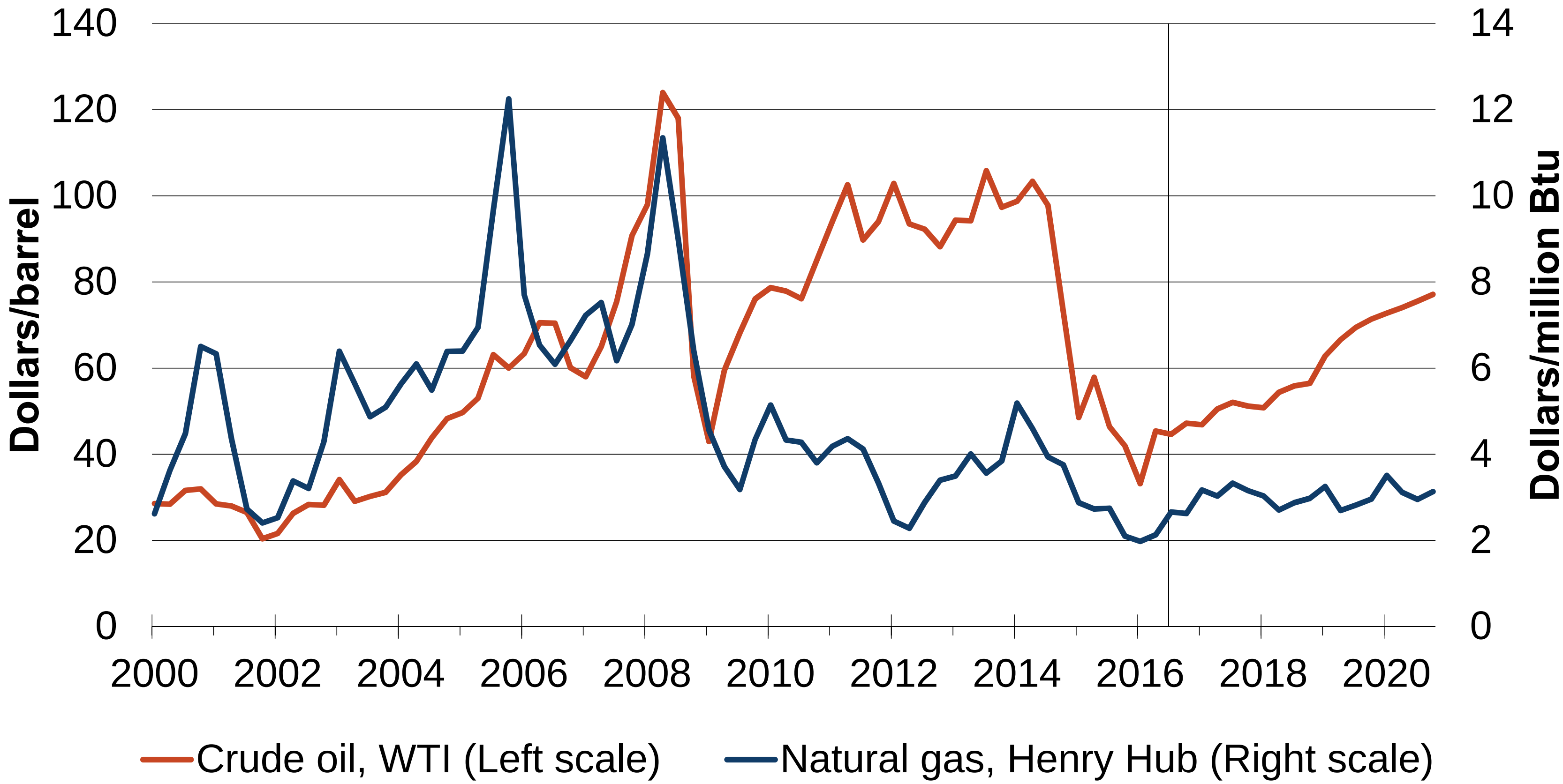
Source: IHS

The global crude oil market returns to balance

- After significant surpluses in 2015 and the first half of 2016, the global oil market is returning to balance.
- Yet, no significant drawdown of stocks is expected in 2017-18.
- Our oil price forecast has been revised downward, reflecting higher projections of crude oil production in Russia, Kazakhstan, North Sea, and Gulf-5 (Saudi Arabia, Iran, Iraq, UAE, and Kuwait).
- The price of Dated Brent is projected to average USD43 per barrel in 2016, USD52 in 2017, and USD57 in 2018.
- The US onshore oil industry is proving skillful at adapting to lower prices—cutting costs and achieving efficiencies.
- While US crude oil output is now declining, it remains on track to begin rising again in early 2017.

US crude oil prices and natural gas prices

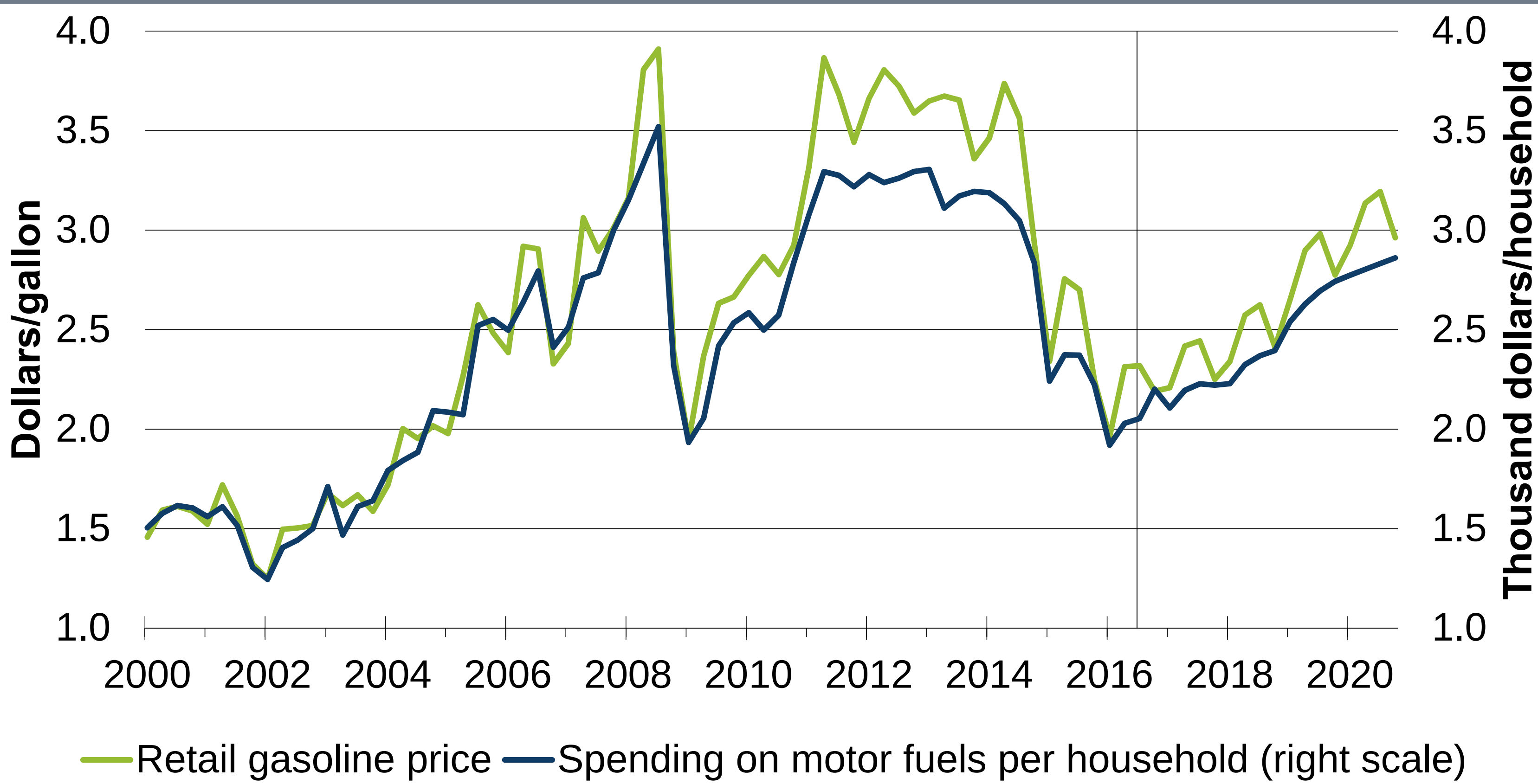
Crude oil and natural gas prices



Source: IHS Energy

Lower gasoline prices have brought substantial savings for US households over the past two years

Retail gasoline price and annualized spending on motor fuels



Source: IHS

Forces affecting consumer spending

Positive forces

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

Negative forces

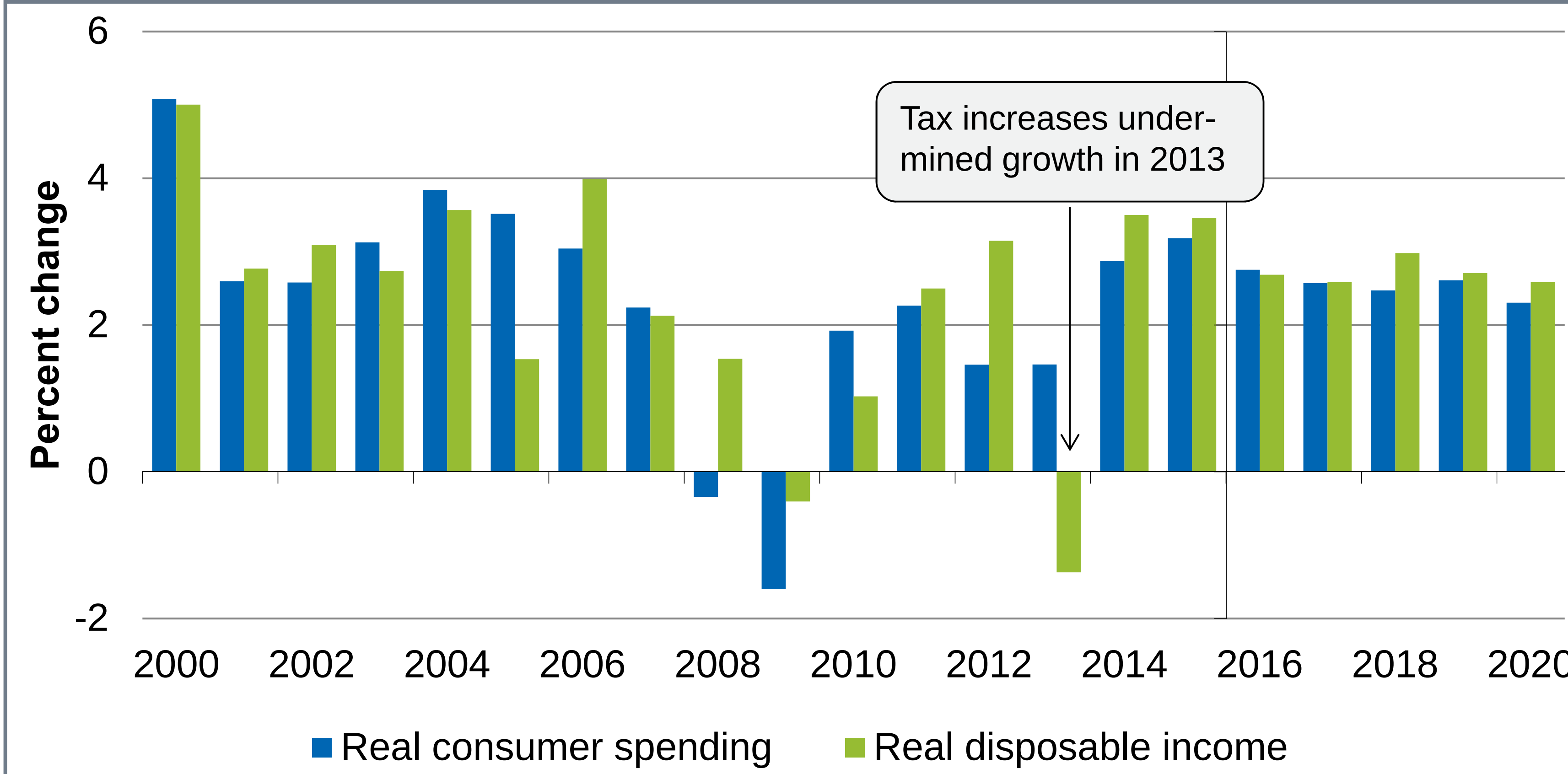
- Sluggish wage gains
- High student debt burdens
- Precautionary saving

The consumer market environment remains favorable

Consumer market indicators				
Percent change	**2015**	**2016**	**2017**	**2018**
Real consumption	3.2	2.8	2.6	2.5
Real disposable income	3.5	2.7	2.6	3.0
Real household net worth	3.2	5.4	2.8	2.6
Payroll employment	2.1	1.7	1.2	0.9
Real wage rate	1.9	1.4	1.1	1.2
Consumption price deflator	0.3	1.1	1.7	1.7
Light-vehicle sales (Millions)	17.4	17.4	17.7	17.7
Single-family home sales (Millions)	4.78	5.13	5.44	5.62

Consumer spending will be supported by solid growth in real disposable income

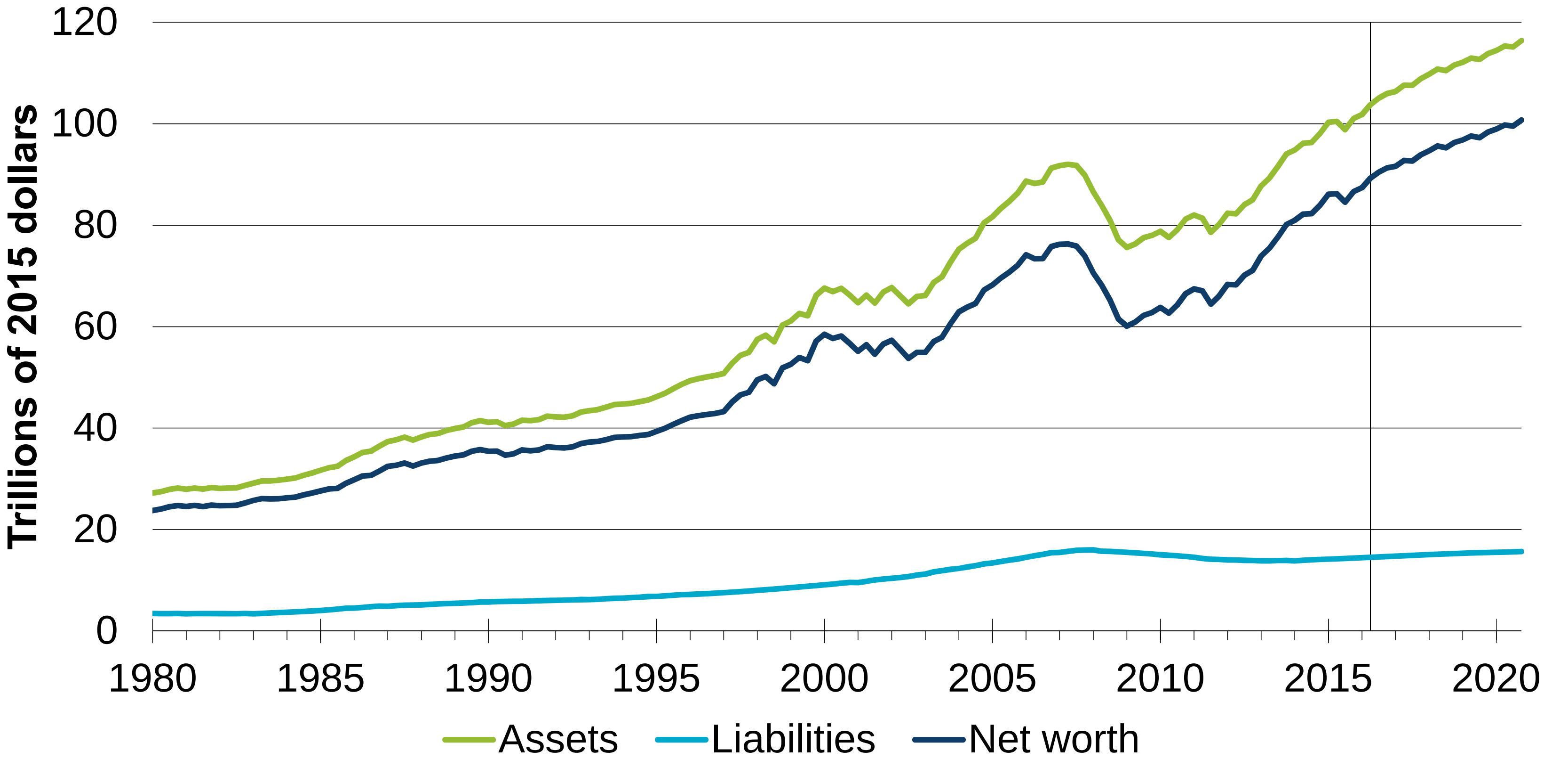
Real consumer spending and disposable income



Source: IHS

Real household net worth has reached a new high

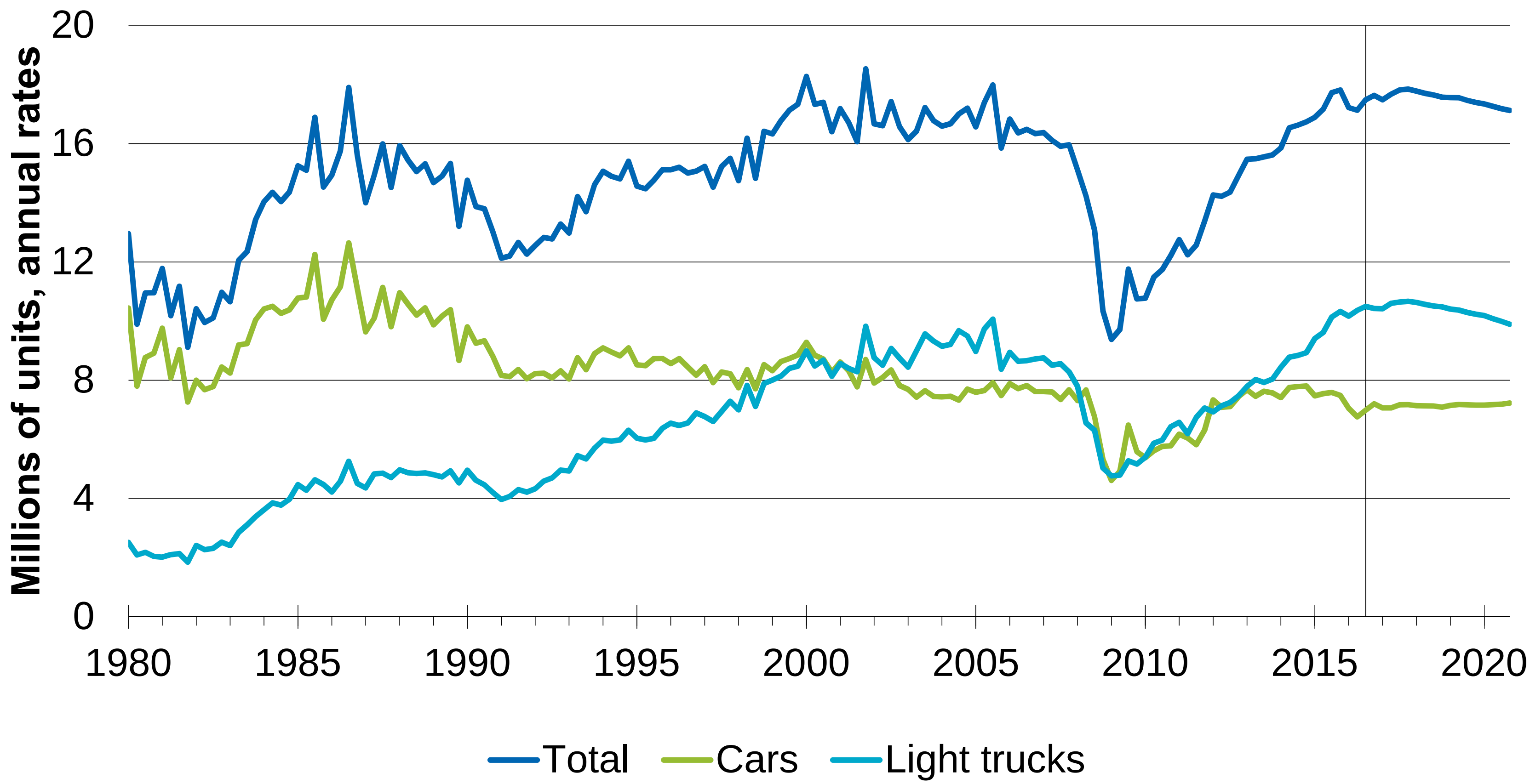
Household assets and liabilities



Source: IHS

US light-vehicle sales are near their peak

Light-vehicle sales



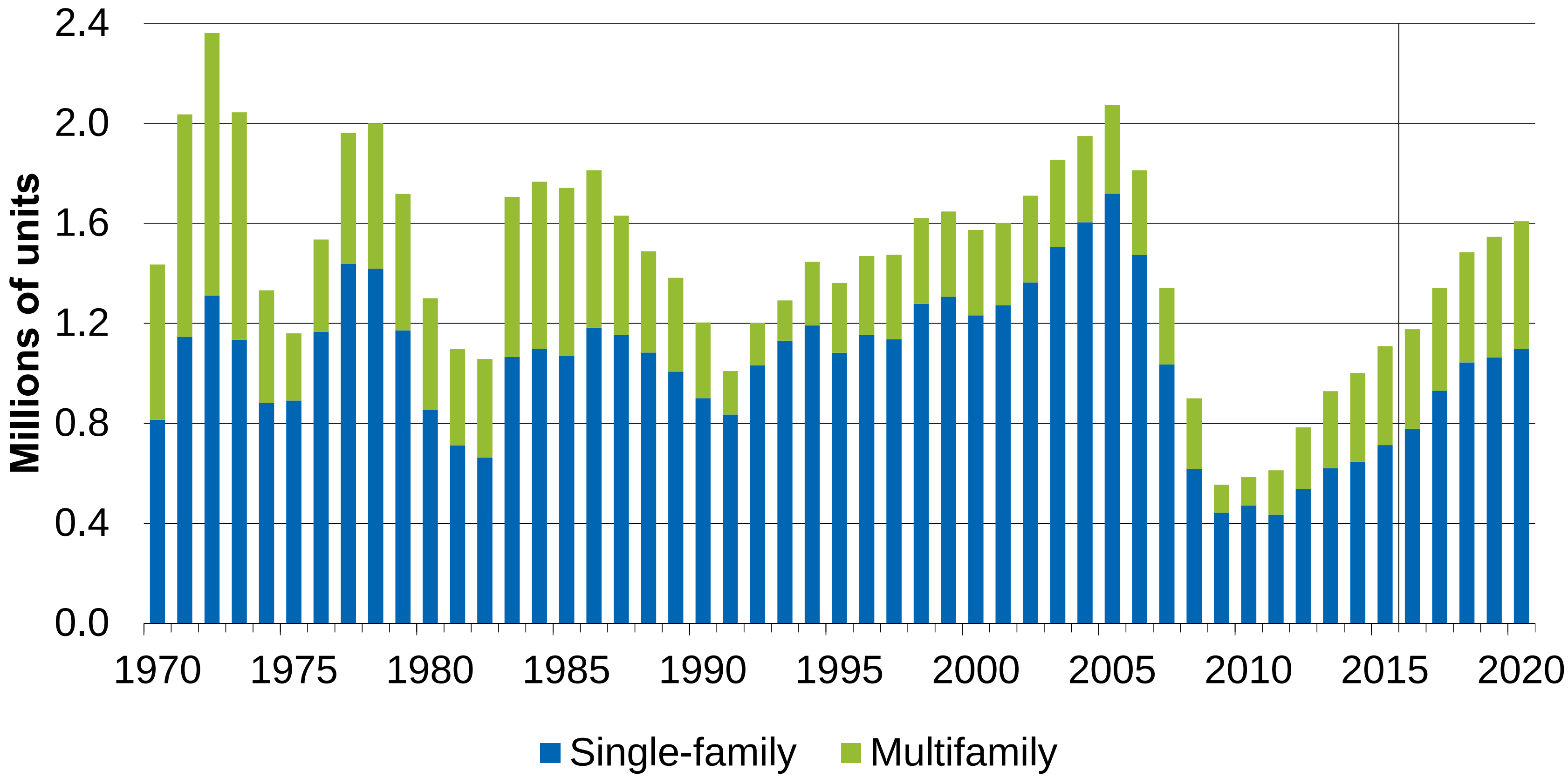
Source: IHS

Housing markets will continue to recover

- Sustained growth in jobs and incomes is boosting housing demand.
- Credit availability is improving for homebuyers.
- 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.
- Multifamily units will account for 30% of housing starts.

Housing starts will continue to recover in response to employment and income growth

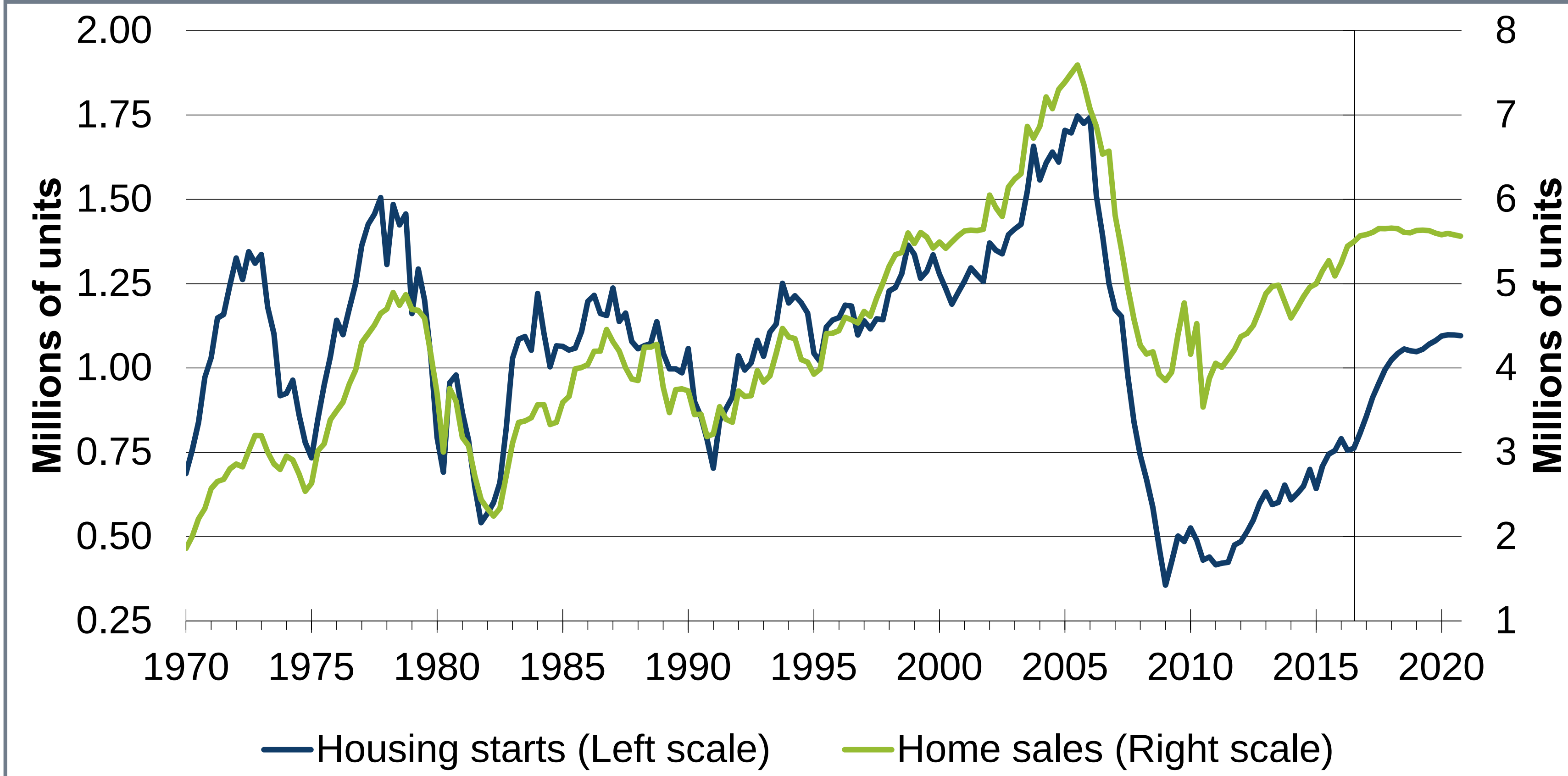
Housing starts



Source: IHS

Single-family home sales and construction are not expected to regain 2005 peaks

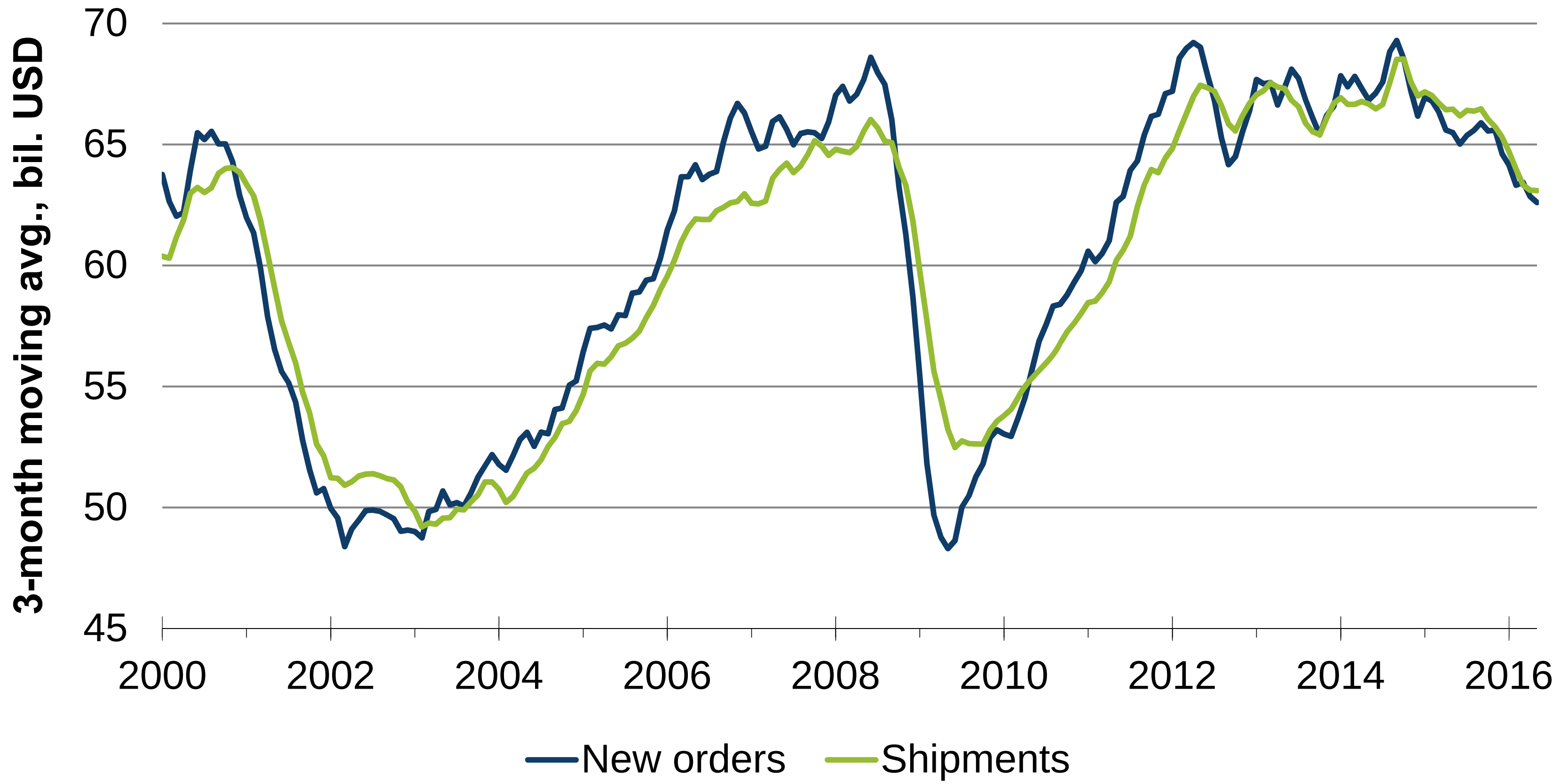
Single-family housing starts and sales



Source: IHS

Core capital goods orders and shipments remain weak

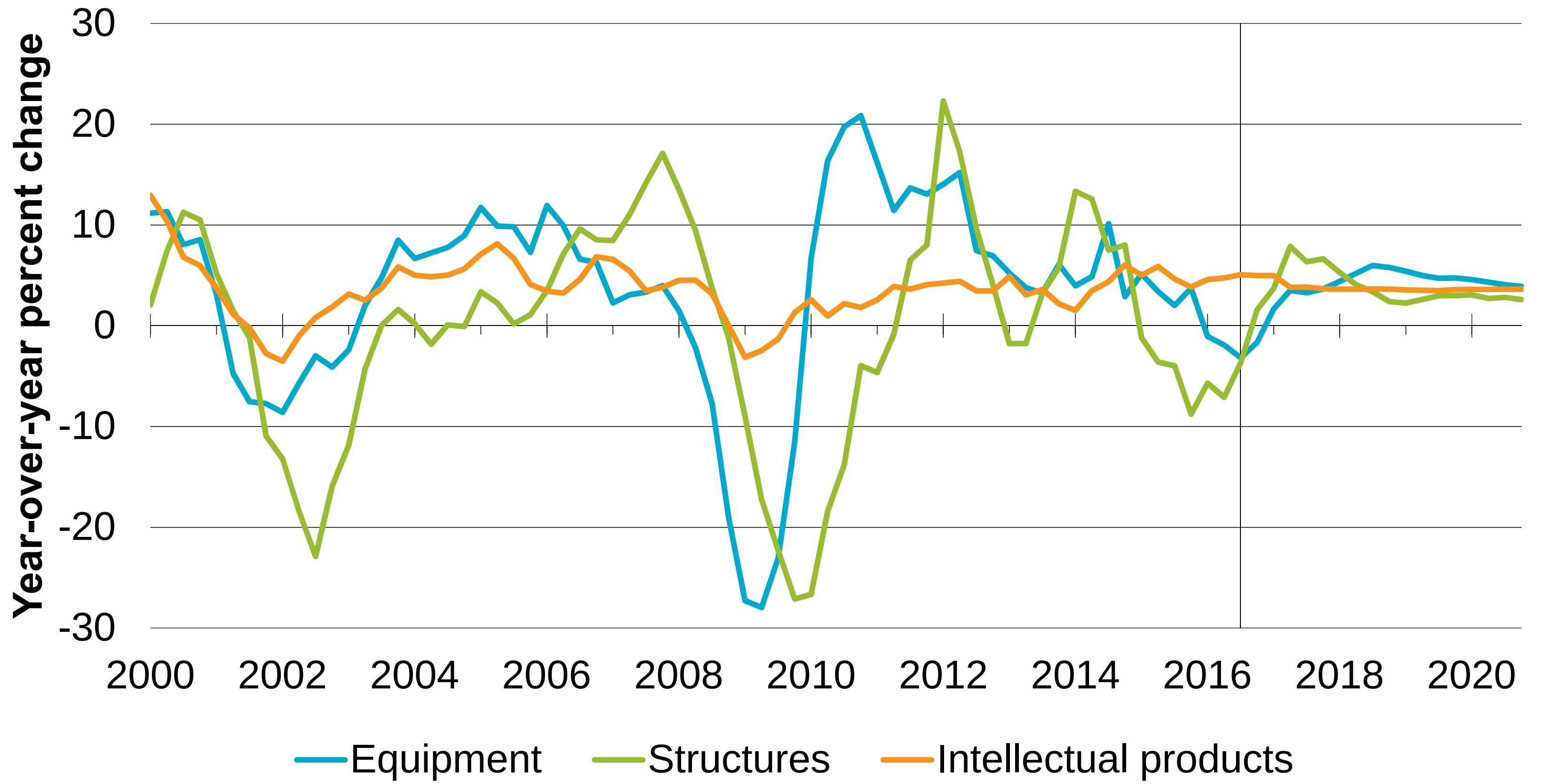
Nondefense capital goods excluding aircraft



Source: IHS

Capital spending growth has been held back by the decline in energy-related investment

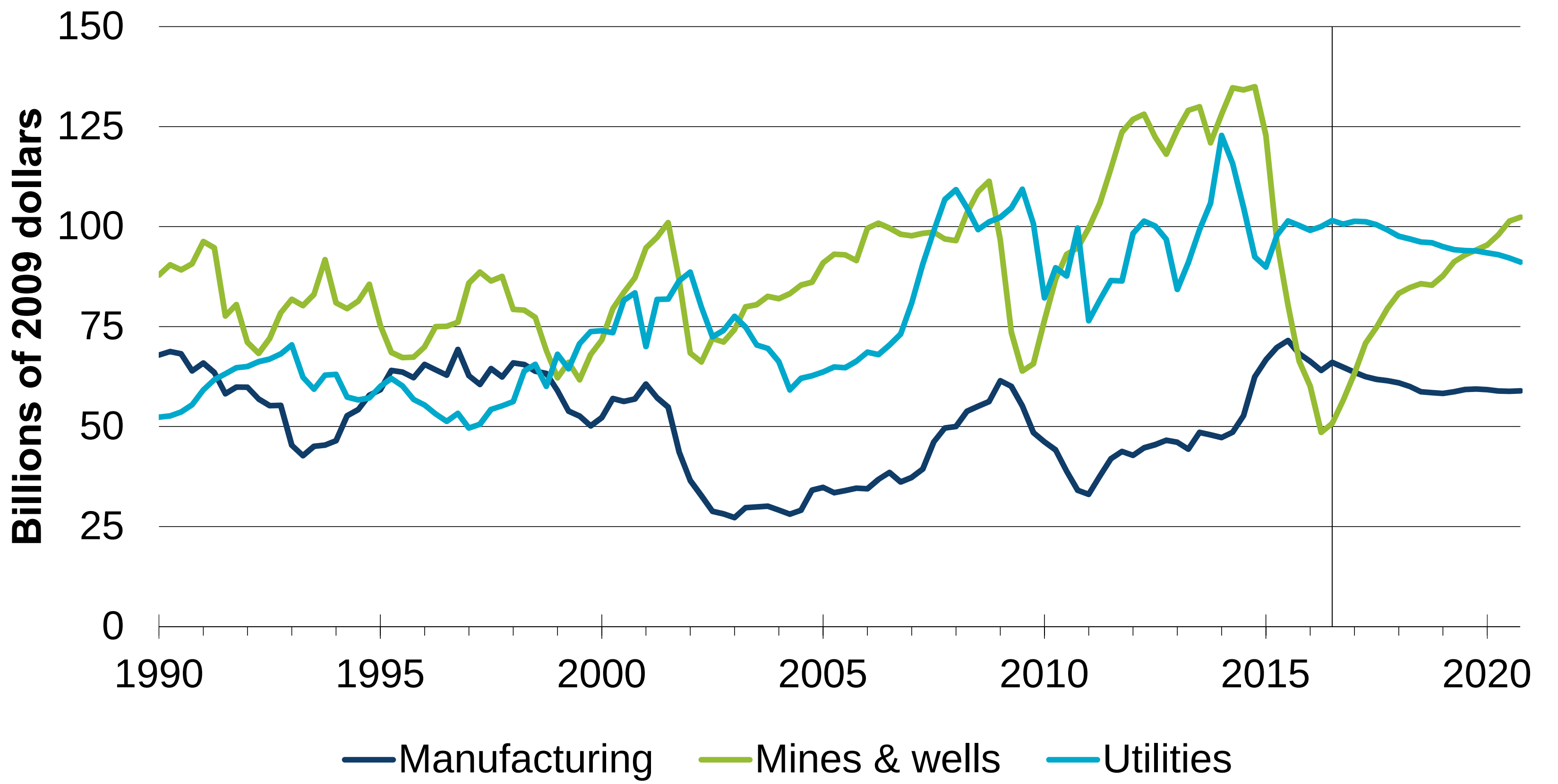
Real business fixed investment



Source: IHS

Investment in manufacturing structures has peaked, while investment in mines and wells has bottomed out

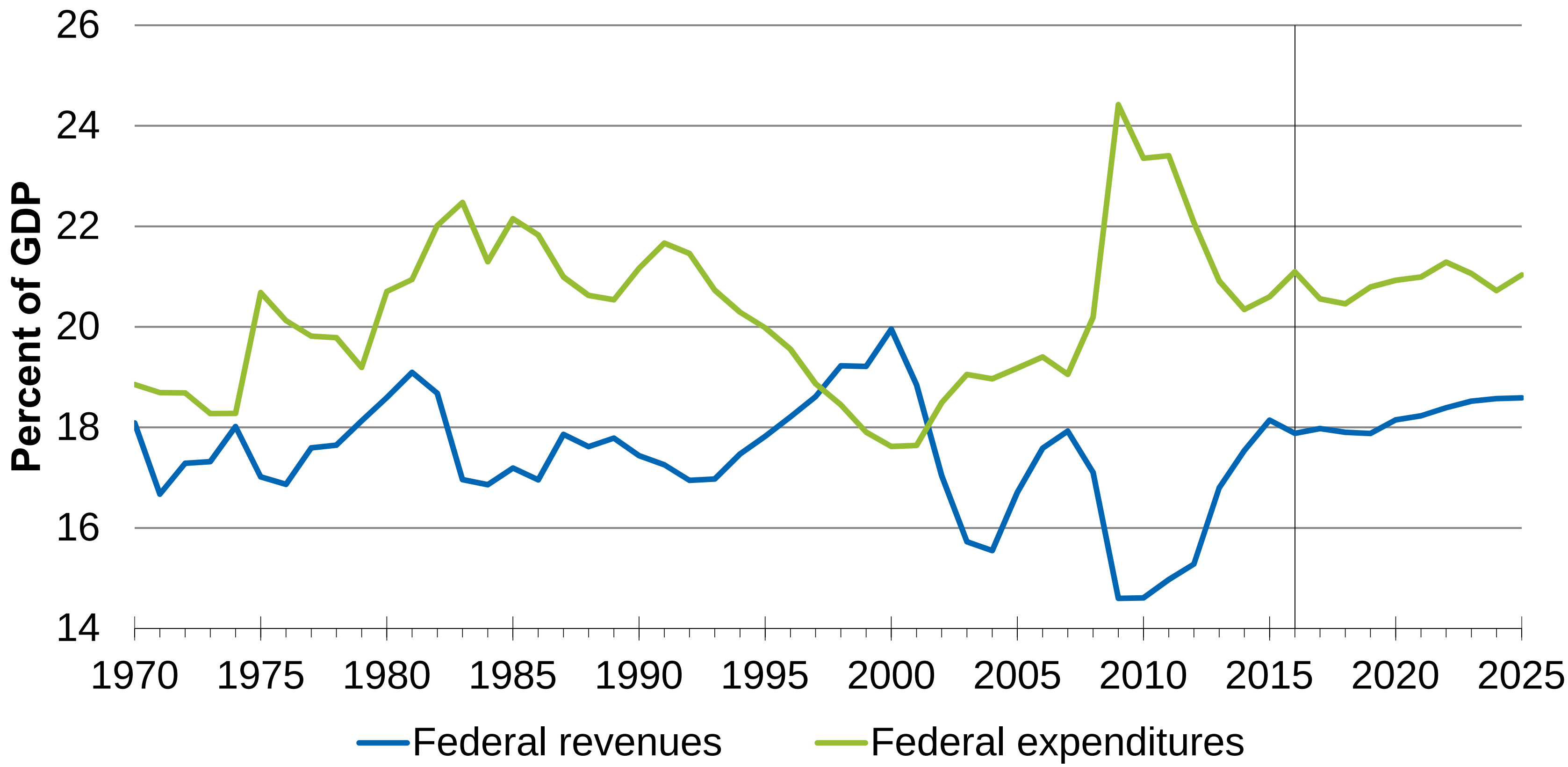
Investment in structures



Source: IHS

Federal expenditures will continue to exceed revenues

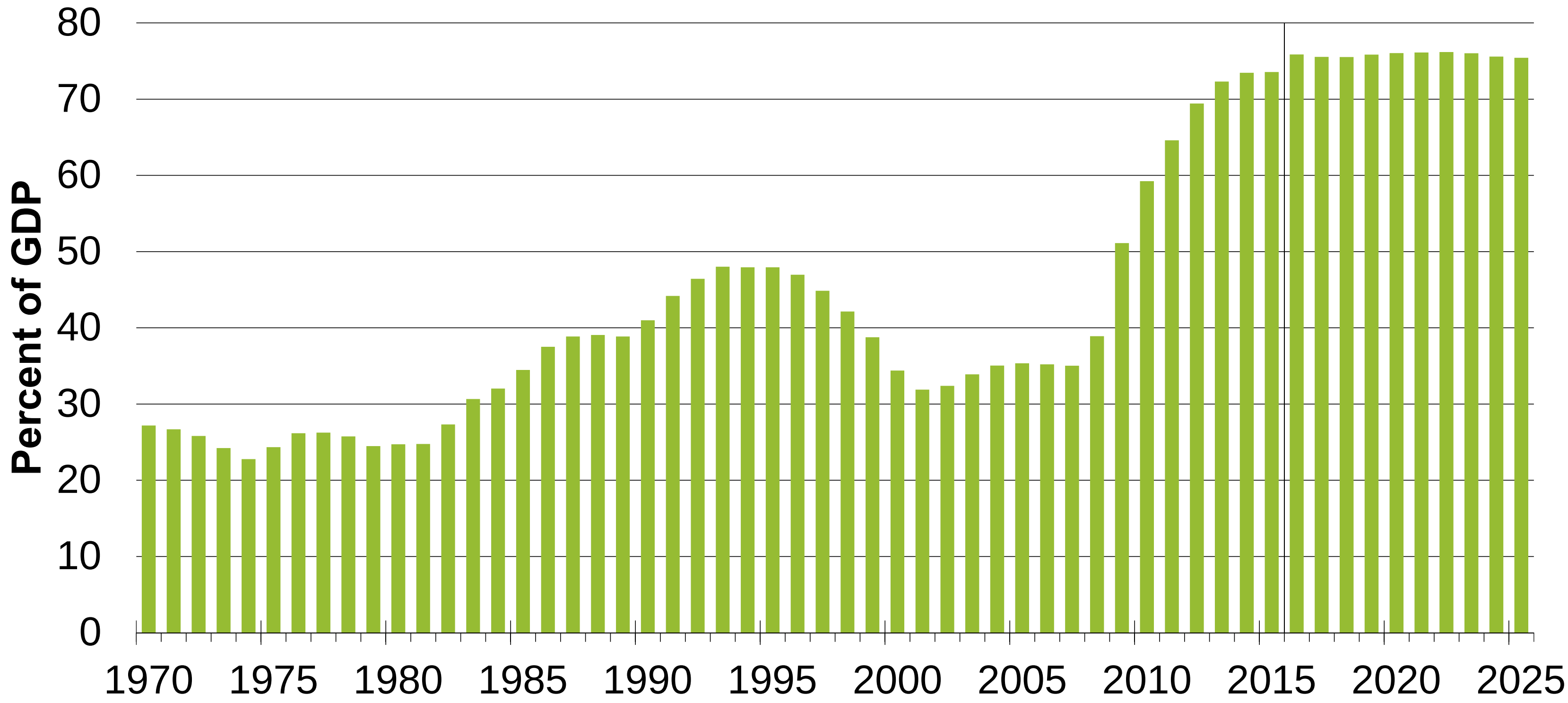
Federal revenues and expenditures*



* Fiscal years, unified budget
Source: IHS

Federal government debt remains high relative to GDP

Publicly held federal debt



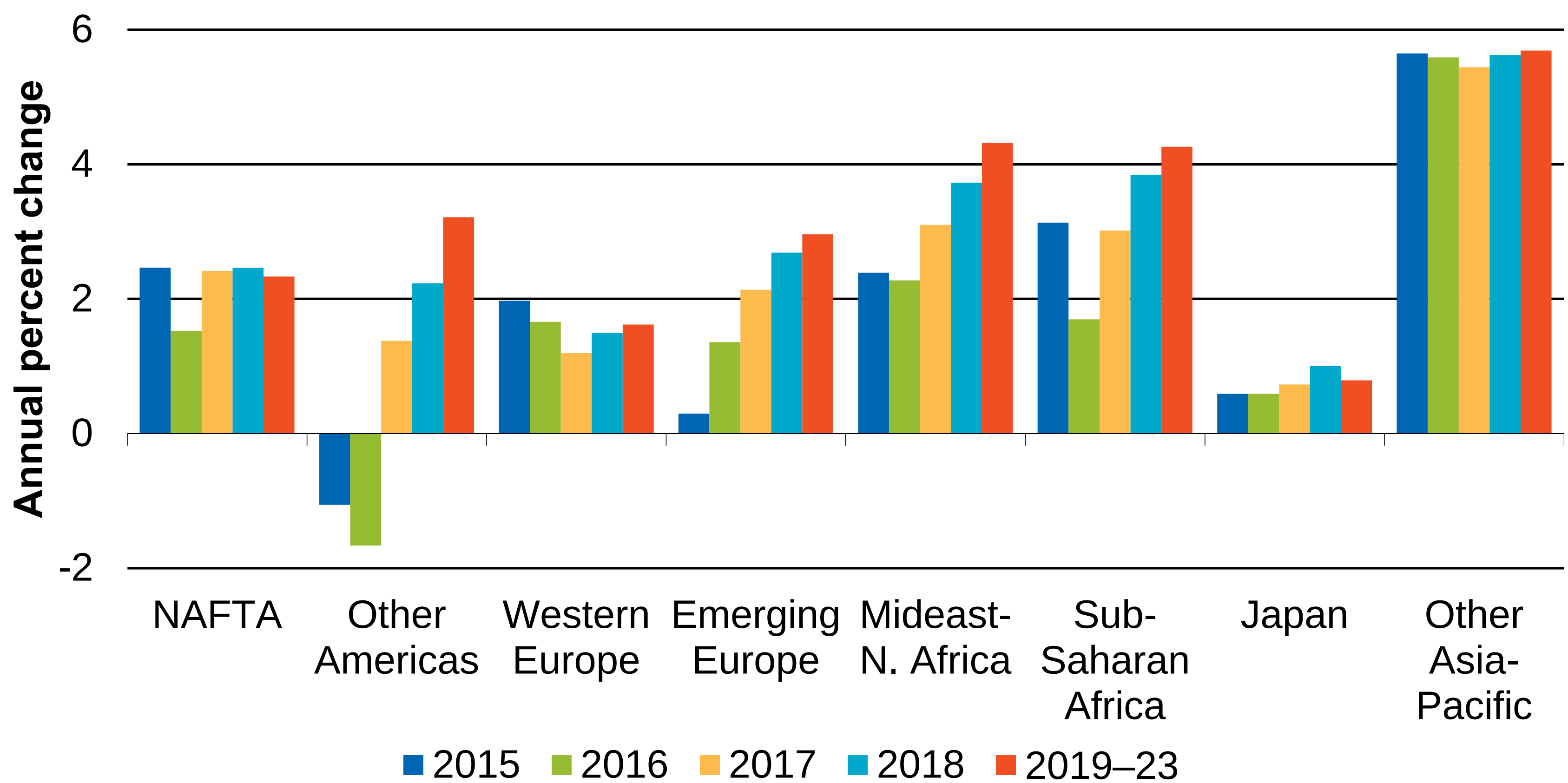
Source: IHS

Global economic growth remains subdued

- Global growth will remain below 3% in 2017, as slowdowns in Europe and China offset accelerations in the US and emerging markets.
- Eurozone growth is projected to slow from 1.6% this year to 1.3% in 2017, reflecting increased political instability and banking problems.
- China's economic growth will slow further in the year ahead because of imbalances in credit, housing, and industrial markets.
- If sustained, the rallies in global financial markets will ease pressures on emerging markets.
- After deep recessions, Russia and Brazil are stabilizing.

Asia-Pacific (excluding Japan) will achieve the fastest growth in real GDP

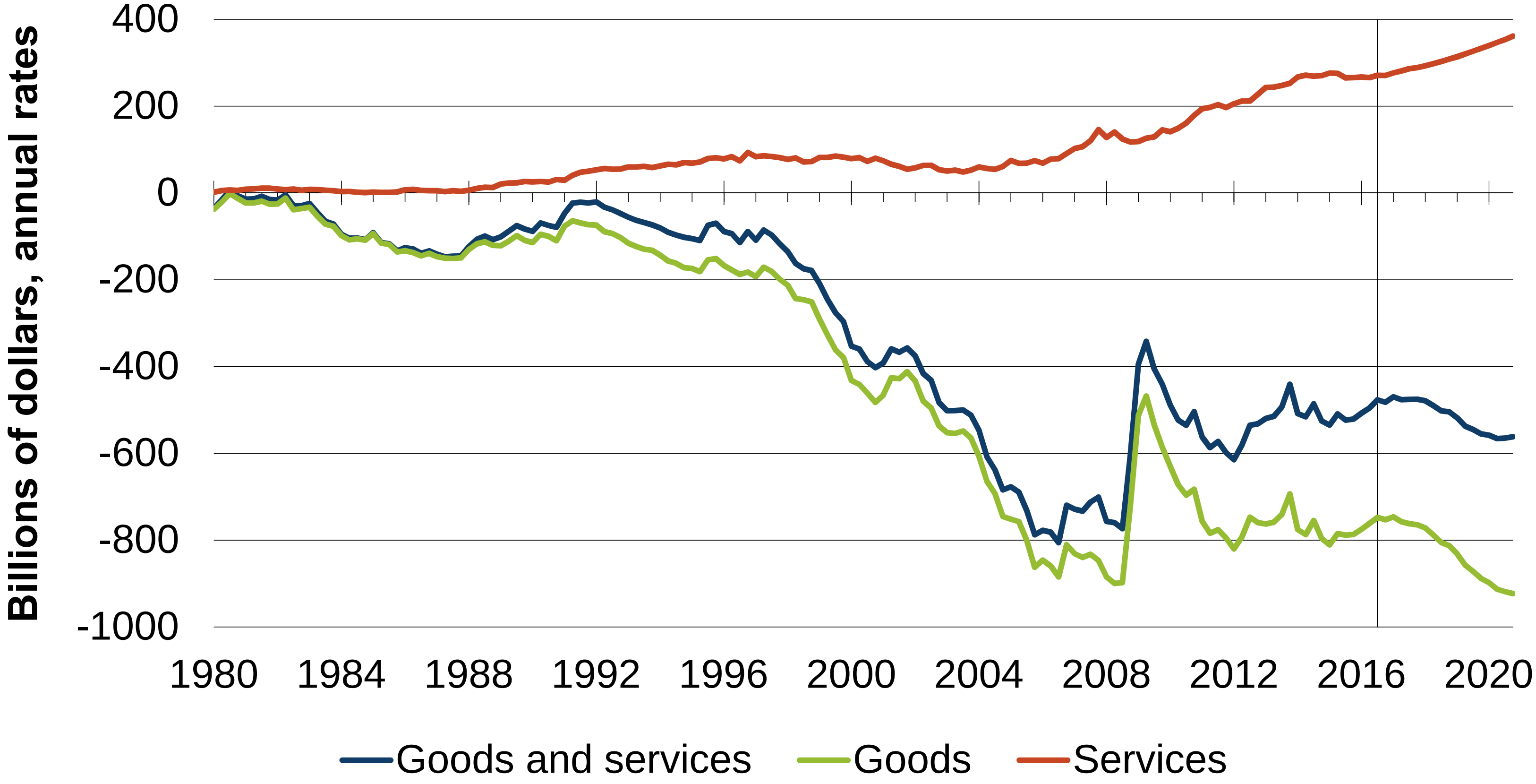
Real GDP



Source: IHS

Surpluses in services trade partially offset US deficits in merchandise trade

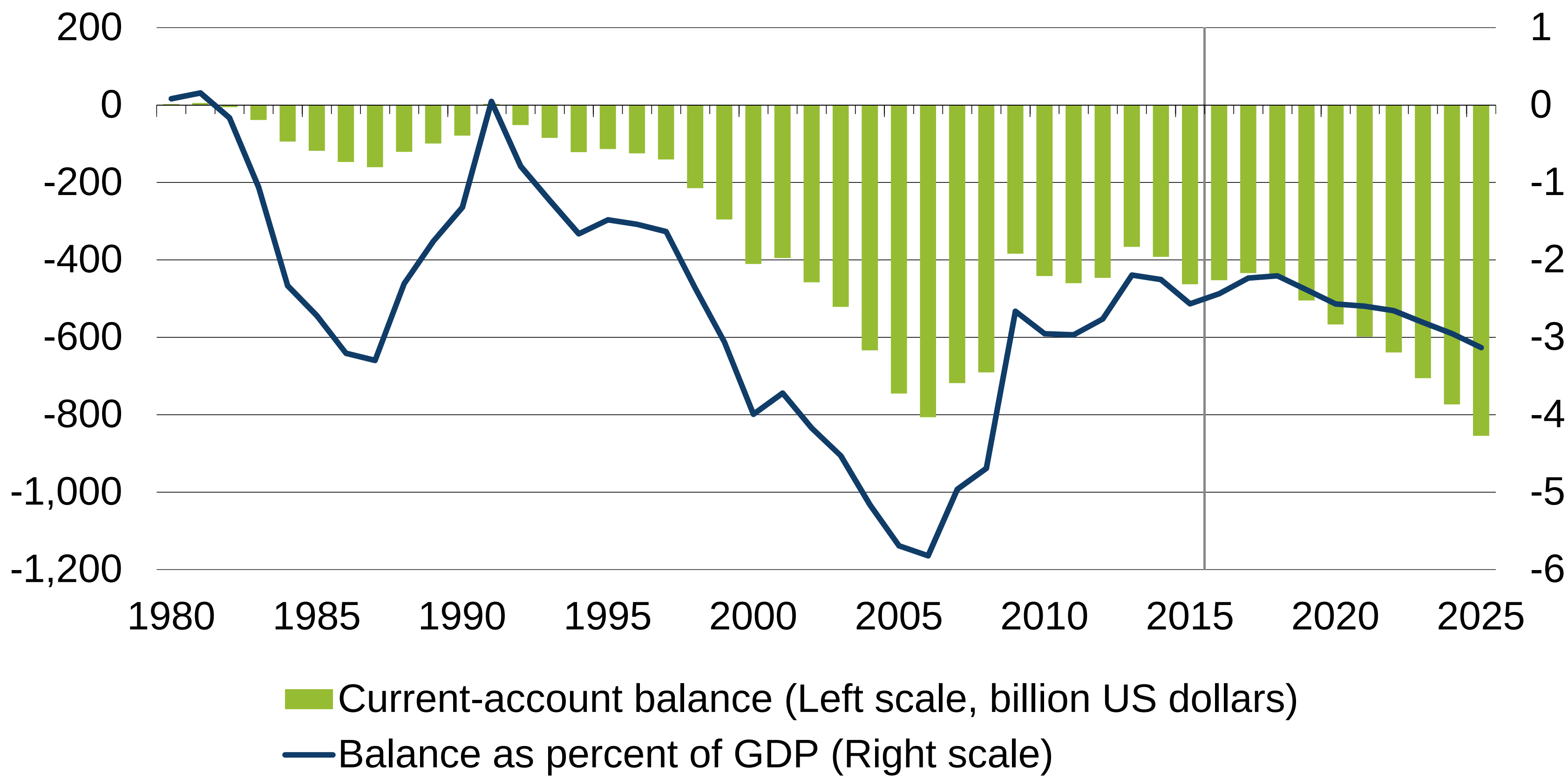
US net exports, NIPA



Source: IHS

The US current account will remain in deficit

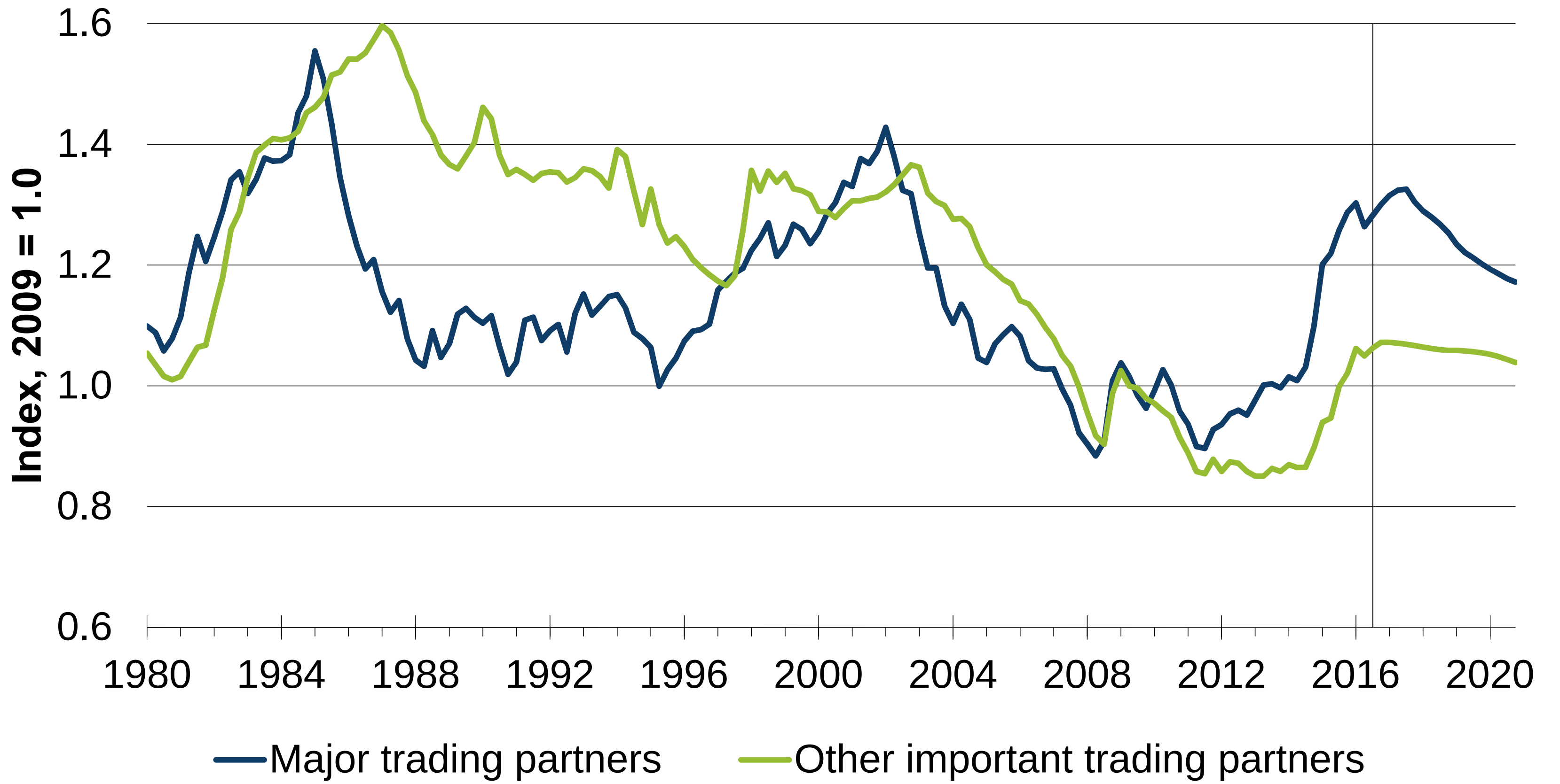
Current-account balance



Source: IHS

A widening US trade deficit will contribute to a retreat in the dollar's real exchange value in 2017–20

Real trade-weighted dollar index



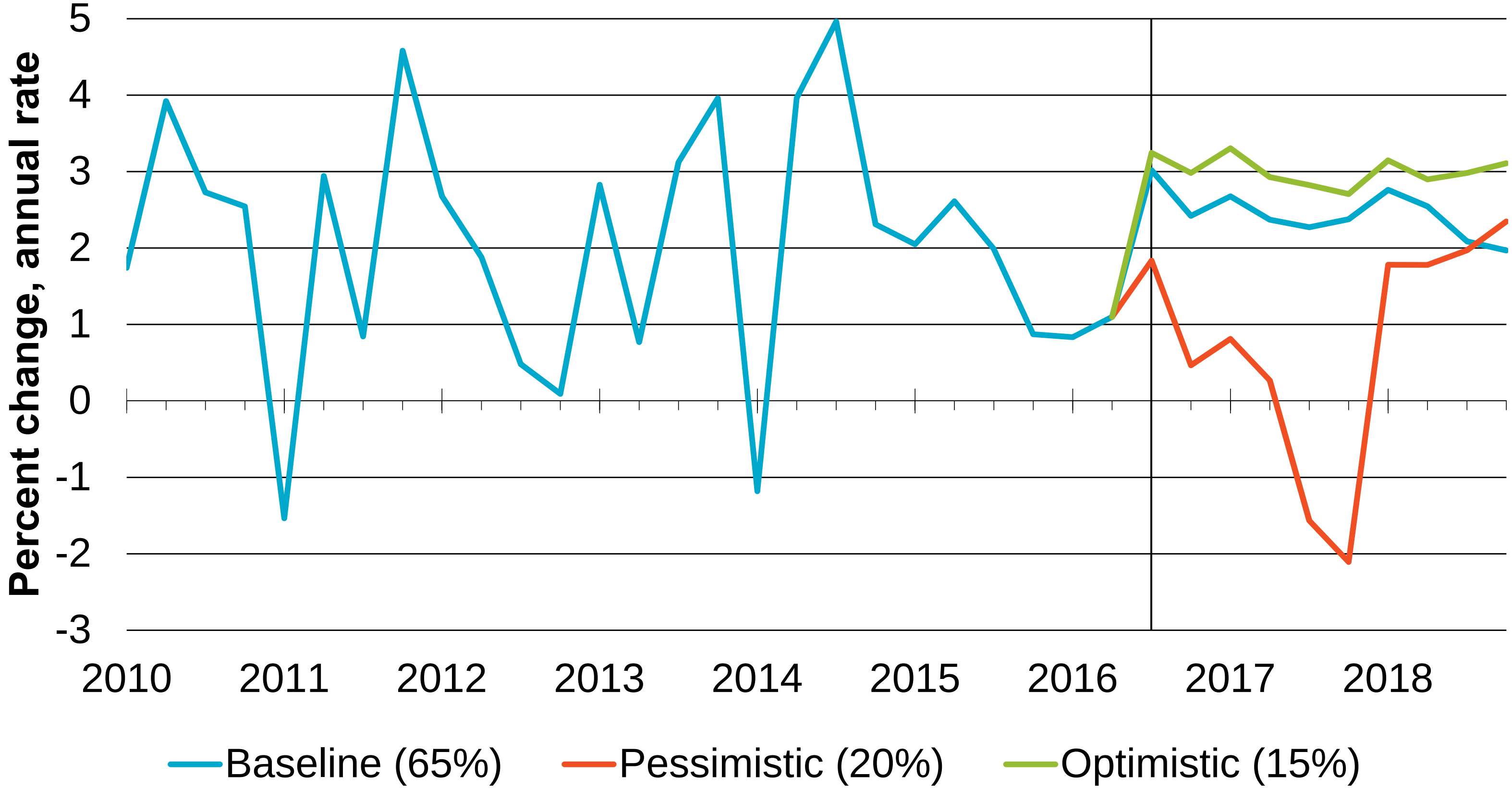
Source: IHS

Risks to the US forecast

Scenario	Characteristics
Recession induced by US and global political risks (Probability = 20%)	• US and global political risks hurt business confidence, restraining investment and productivity growth. • A stock market plunge and rising unemployment lead to downturns in consumer spending and housing markets. • The US suffers a recession in the second half of 2017.
Productivity picks up (Probability = 15%)	• Productivity accelerates, raising potential GDP growth. • Stronger global growth and a weaker dollar help exports. • An improving business outlook and favorable financing environment boost capital spending and homebuilding.
Baseline forecast (Probability = 65%)	• The Fed gradually raises interest rates through 2019. • Consumer spending growth continues; capital spending rebounds from its recent setback. • Housing starts rise, but do not regain their 2005 peak. • Global economic growth picks up moderately in 2017–18.

Real GDP growth in alternative scenarios

Real GDP



Source: IHS

Bottom line for the US economy

- After slowing from 2.6% in 2015 to 1.5% this year, real GDP growth is projected to pick up to 2.4% in both 2017 and 2018.
- Consumer spending will be supported by solid gains in employment, real disposable income, and household net worth.
- Pent-up demand will fuel further recovery in housing markets.
- 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 3.0% by the end of 2019.

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