US Economic Outlook

How long will the ride last?

December 2014

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US Economic Overview
Executive Summary - economic growth accelerates a notch from 2.2% in 2014 to 2.7% in 2015.

- Adverse demographics is now an issue
  - Labor force growth
  - Mismatches between available jobs and available people
  - Household formation

- Gasoline price dividend gets partially absorbed by poorer international trade conditions

- Fiscal policy to remain in “benign neglect” at least through 2016 election; additional defense spending possible

- Fed to take action in mid-2015, but the anticipation will be worse than the impact
Since emerging from the recession, the US economy has downshifted. Will it find that next gear?

Real GDP growth

Where’s the growth?

• Federal budget deficit reduction
• Consumer retrenchment
  • Higher taxes
  • Debt repayment
  • Poor wage growth
• Fizzled housing recovery
• Business investment rebound did not fully offset the downturn
Is the labor market getting tight enough to drive wage pressures?

Job creation and the unemployment rate

Source: IHS

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Growth in the labor force has downshifted.

Before the recession: 1.5 million / year pace

After the recession: 0.4 million / year pace

Source: IHS
We’re aging, and entering cohorts with lower participation rates.
Only the services areas are materially adding jobs.

Employment before and after the recession (millions)

- Change during recession *
- Change since end of recession *

*=Recession period: December 2007 through June 2009
Source: IHS

Losses from recession: 7.4 million
Changes since recession end: 9.1 million
Recent job creation is skewed toward lower-income occupations

Recent job growth and average weekly earnings

- **Overall average weekly earnings**
- 1,600
- $1,400
- $1,200
- $1,000
- $800
- $600
- $400
- $200
- $0

- **# of new jobs over past 12 months (bars, 000s, left axis)**
- **Average weekly earnings (squares, right axis)**
Here’s what the Fed is looking at to identify inflation.

Personal consumption price deflators (change versus year-ago)

Fed 2% threshold

Source: IHS
Monetary policy status quo maintained through mid-2015, although long-term rates will rise as expansion gathers steam.

Interest rate outlook

Source: IHS

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Energy and the Economy
Savings at the pump have added to consumers’ wallets.

Per-household spending on gasoline (annual rates)
Contributions from unconventional energy sources will continue to add to US GDP.
An Economist’s wishes for 2015
Santa wish list for 2015 – Just one: *Improve productivity!*

- Education, education and education
- Infrastructure investment
- Technology investment – improve internet speed, cost and security
- Remove impediments to labor force participation
- Reduce risk of doing business
- Increase economic awareness
Thank you!
Current account deficit steadies around 2.4% of GDP.

Source: IHS
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US growth will slow in q4, and into 2015, but a gradual acceleration is expected thereafter.

Source: IHS
Looking forward, we will still be counting on consumer spending to drive the bulk of economic growth.

Contributions to real GDP growth

Source: IHS