United States Economic Forecast

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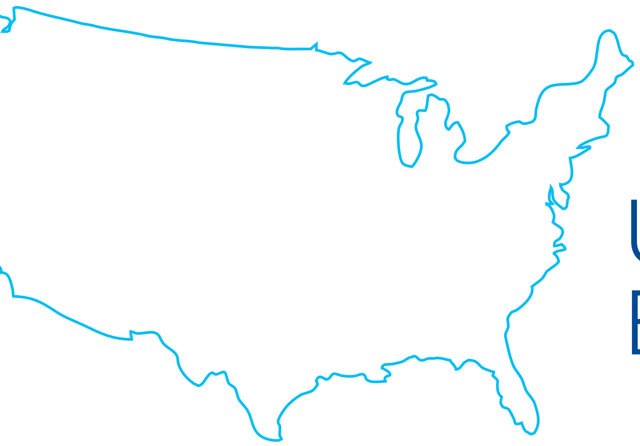
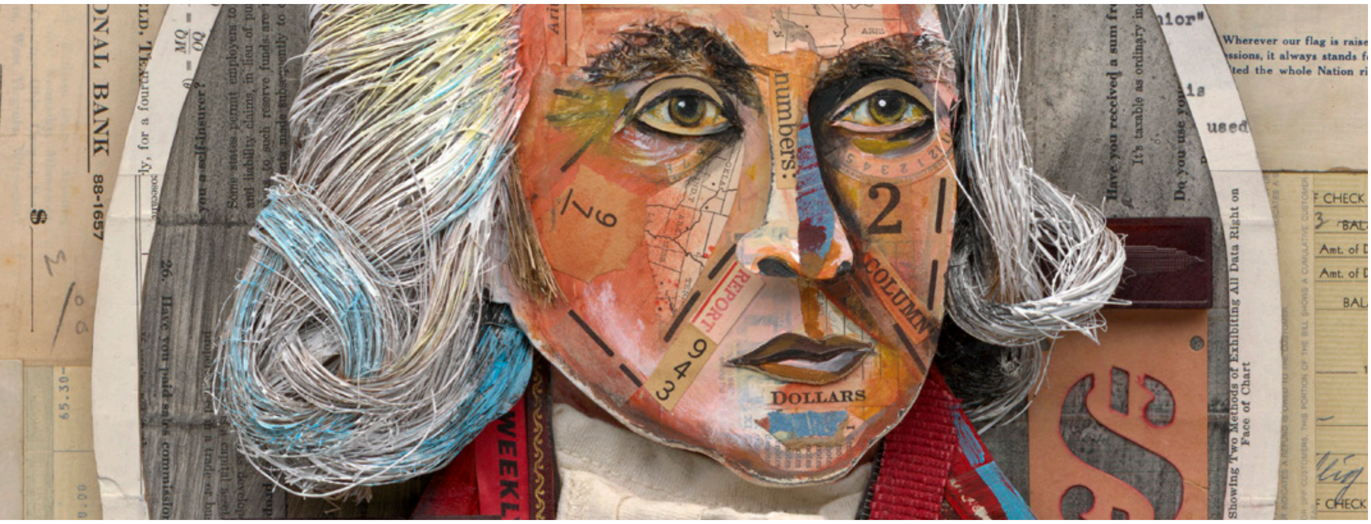
Contents



United States Economic Forecast



THINGS are looking pretty good for the US economy. Short-run indicators suggest reasonably strong consumer growth and non-energy business investment spending. Job growth has continued to be fast enough to pull down unemployment, inflation remains a non-problem, and the federal government appears to be poised to be a helpful presence for the economy in 2016. The recent federal budget agreement included a modest increase in spending, and while this may not do much to fix the country's long-run budget problems (which are mainly the result of an aging population and expensive health care), that spending increase will likely translate into a small boost to economic growth next year.

> Things are looking pretty good for the US economy.

The economy may need that boost, if only to counter ongoing weakness from abroad. Cold shocks seem to hit Europe and China in alternate quarters, and the global economy staggered from the reemergence of the Greek crises in the spring, to the Chinese stock market crash in the summer, to Europe's refugee and terrorism crises in the fall.

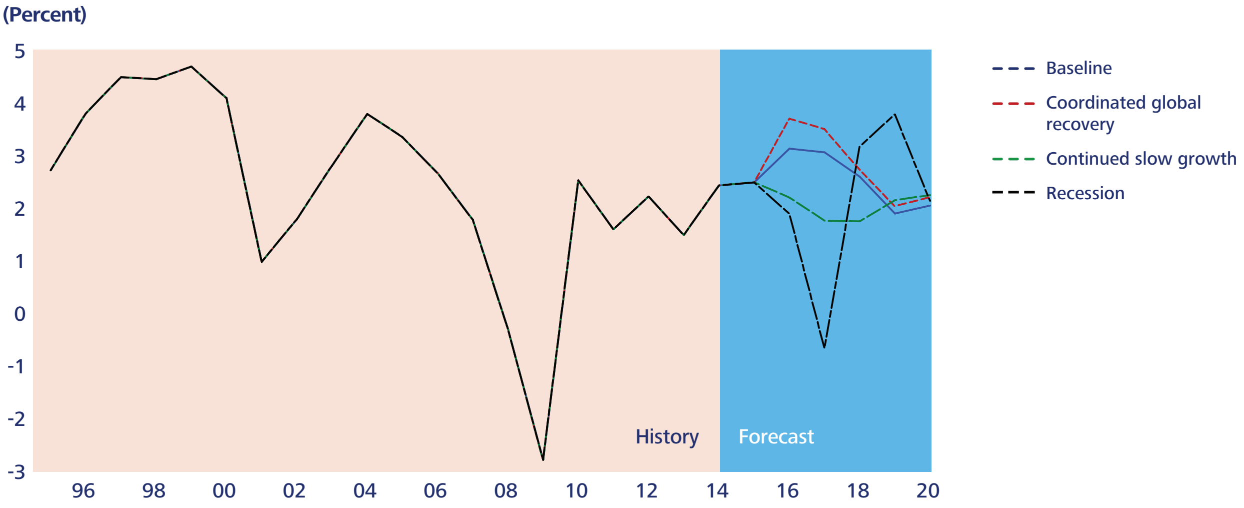
The latest news from China has been relatively positive—with an emphasis on *relatively*. China's challenges still look pretty big, and the country's ability to switch to consumer-led growth is unproven. Meanwhile, while the Fed is talking about raising interest rates, the ECB is thinking about more quantitative easing. That's an indication of overall weakness in Europe, a weakness that the slipping euro seems unable to solve.

And so we return to the old story for the US economy. Since 2010, whenever it has looked as though the US economy is poised for stronger growth, something turns up to spoil the party. From the Greek crisis (and the tentative approach to solving it) to the continuing US government budget problems to China's serial asset bubbles (first in property, then in stocks), outside events have, in succession, held back US growth.

Joined to that is the slowdown in productivity growth. US productivity growth fell off in the mid-2000s, and—despite many hopeful predictions (including ours)—there are few signs of it picking up again. If productivity growth continues to lag, economic progress will likely remain painfully slow.

We therefore continue to see asymmetric risks to the US economy. The probability of slow growth is higher (25 percent) than that of fast growth (15 percent), while chances of a recession remain small. Even if China or Europe (or perhaps even both) fall into a recession, the US economy can continue to grow—albeit more slowly. If, however, there is an accompanying financial shock, the impact could be severe. In the baseline, we've always assumed that Europe and China both find their economic footing. We still hope that's the case. But the main risk to the US economy is that it's not. (See figure 1.)

Figure 1. Real GDP growth



Source: Deloitte/Oxford Economics.

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DELOITTE OIL PRICE FORECAST

The oil price forecast underlying our economic forecast is provided by Deloitte MarketPoint LLC (DMP). DMP uses a proprietary fundamental economic model of the global oil market that simultaneously simulates global market competition and supply-demand equilibrium across the crude and refined products supply chain.

DMP's latest Spring 2015 Reference Case Forecast is now reflected in the Deloitte baseline US economic forecast. DMP expects the Brent price to rise gradually over the next few years until it reaches a new steady range of $75–85/bbl through 2025. This new equilibrium price is approximately $20/bbl lower than the steady state in previous forecasts, because it reflects two new circumstances in the marketplace:

- Prior to the "shale revolution," there was a scarcity premium of roughly $10–20/bbl in place. With the newfound abundance of tight oil in the United States and potentially other areas around the globe, that scarcity premium has been nearly eliminated. This scarcity premium could quickly return if major changes to the market— tightened oil-production regulations or geopolitical issues, for example—create or threaten supply disruptions.
- Producers in US tight oil plays continue to improve their margins through technological innovation. While their margins will be lower in the new equilibrium-price environment, they should still be able to operate profitably.

For more information, please contact Deloitte Marketpoint (www.deloittemarketpoint.com).

Scenarios

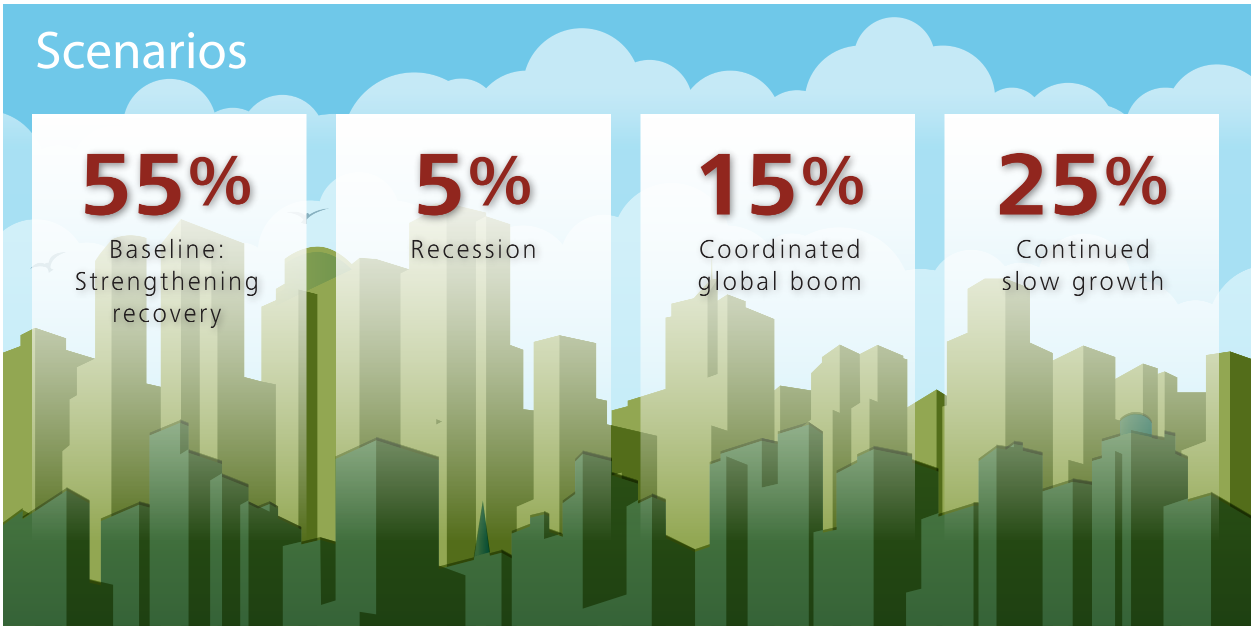
There are plenty of reasons why actual economic growth might be better or worse than Deloitte's forecasted baseline. Our forecast, therefore, includes four different scenarios to illustrate possible future paths of the US economy. Deloitte's economic forecasting team places subjective probabilities on each of the four scenarios.

The baseline (55 percent probability): The most likely outcome for the economy is a burst of mildly faster growth as risks from abroad and at home subside. Continued improvement in the labor market and growing demand from abroad increase demands on US producers, and the continued low cost of capital and low oil prices add to the pressure to build capacity. Growing business investment cements the recovery and, as hiring picks up, the labor force participation rate of younger cohorts will begin to rise. The large amount of slack will prevent rising demand from translating into inflation, despite relatively accommodative Fed policy.

Recession (5 percent): China's economy finally reflects financial problems that have been evident for several years. Volatility in Europe increases, and so does market valuation of the riskiness of euro assets, adding to the panic. This then affects several US financial institutions that find themselves long on euro- and China-related assets at the wrong time. The result is a global financial panic. East Asian growth sputters while Europe plunges back into recession. Capital flows into the United States to avoid risk in Europe and Asia, and the US dollar appreciates. The combination of low foreign demand and financial panic throws the US economy into recession. Timely Fed action offsets the financial crisis after several months, leading to relatively fast growth during the recovery.

Continued slow growth (25 percent): Weak economic conditions abroad, incomplete fixes to the financial system, and a mismatch between labor needs and the skills of the labor force slow US economic growth to 2 percent for the foreseeable future. As the long-term unemployed become essentially unemployable, the labor force participation rate remains low and wages begin to rise. The hoped-for improvement in competitiveness from domestic energy production proves to be less impressive than expected. Incipient signs of inflation cause the Fed to raise interest rates to prevent inflation from getting out of hand.

Coordinated global boom (15 percent): Terrorism and refugee problems prove to be only minor obstacles for European economies, and the continent starts recovering quickly. Emerging markets also pick up momentum as financial problems are resolved in China, and India and Brazil start to adopt more reforms. Capital flows out of the United States and into Europe and the developing world, which causes the dollar to depreciate, further enhancing US exports. Lower energy prices in the United States make the country even more competitive. At home, the resolution of budget issues at both the federal and state levels allows more money to flow into infrastructure investment, creating short-term demand and long-term productivity growth.



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Sectors

Consumers

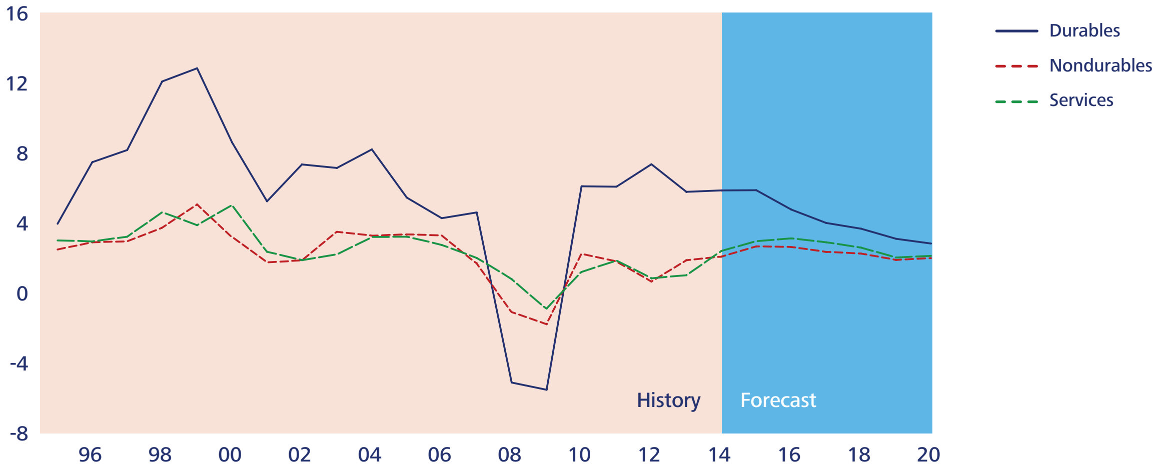
Ah, the US consumer—longtime supporter of the global economy, and still surprisingly resilient. Of course, consumers can't spend money they don't have, and their incomes largely depend on having jobs. Job growth has picked up, but wage growth remains low. US consumers have started sending a message to the rest of the world: They cannot continue to play Atlas, holding the global economy on their shoulders as they did in the 2000s. Our forecast expects the US savings rate to settle in at about 5.0 percent. That is consistent with consumers' behavior in the 1990s.

US households face some obstacles in their pursuit of the good life. Aside from the need to recover from the debt they took on in the 2000s, and continuing low wage growth, there is the problem of growing income and wealth inequality. (For a brief inequality discussion, see Ira Kalish's *Deloitte Review* article "Mind the gap".[1]) Recent presidential debates—and the commentary around them—suggest that inequality will be a focus of policy in the future.

Many US consumers spent the 1990s and 2000s trying to keep up their spending when incomes were stagnant. After all, excitable pundits kept assuring them that the technology transforming their lives would soon—any day now—make them all wealthy. But now they are wiser (and older, which is another problem, as Baby Boomers face imminent retirement with inadequate savings). As long as a large share of the gains from technology and other economic improvements flows to a relatively small number of households, overall US consumer spending is likely to remain relatively restrained.

Figure 2. Consumer spending growth

(Percent)



Source: Deloitte/Oxford Economics.

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Consumer news

Real consumer expenditures slowed 0.1 percent in September and October. Real personal income rose at an average rate of over 0.3 percent, so the saving rate rose to 5.6 percent by October. (See figure 2.)

Retail sales were flat in the three months ending in October. Sales at motor-vehicles and parts dealers were up, reflecting very strong auto sales (18 million at an annual rate in October). Much of the weakness in non-auto sales was the result of a large sales decline at gasoline stations, reflecting an 18 percent drop in the price of gasoline over those three months.

Consumer confidence has remained high though flat over the past few months. Both The Conference Board and University of Michigan measures registered very satisfactory levels in October.

Housing

Every year, untold thousands of young Americans abandon the nest, happy to leave home and start their own households. But more than usual stayed put during the recession: The number of households didn't grow nearly enough to account for all the newly minted young adults. We expect those young adults would prefer to live on their own and create new households; as the economy recovers, they will surely do exactly that, as previous generations have.

This means some positive fundamentals for housing construction in the short run. For about seven years, since 2008, the United States has been building fewer new housing units than the population would normally require; in fact, housing construction was hit so hard that the oversupply turned into an undersupply, so there's a hole that needs to be filled. But the hole isn't as large as you might think. Several factors offset each other:

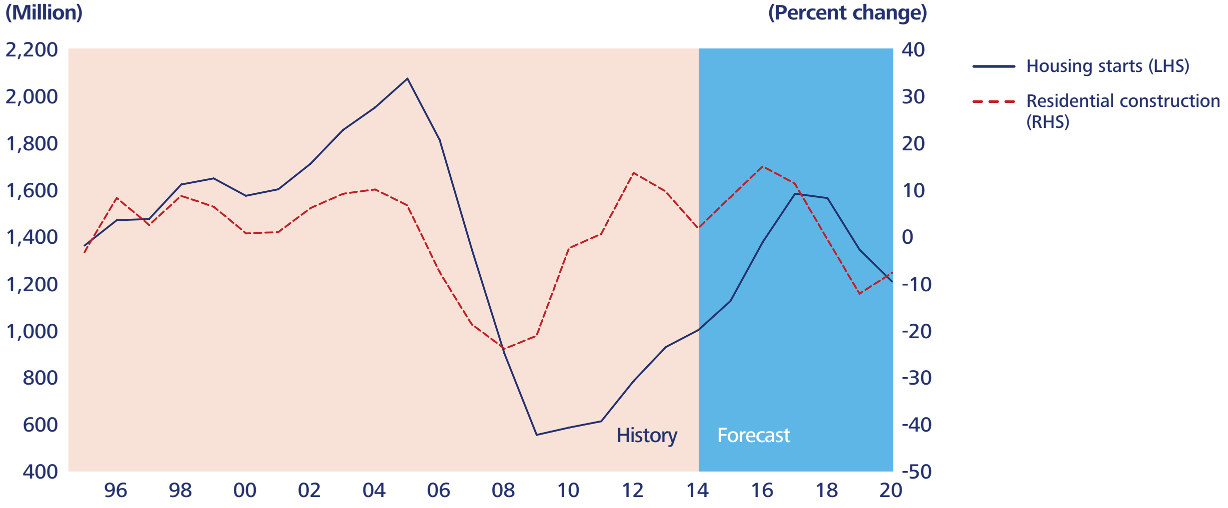
1. If household size returns to mid-2000s levels, we would need an additional 3.2 million units.

2. On the other hand, household vacancy rates are much higher than normal. Vacancy returning to normal would make available an additional 2.5 million units—which would fill 78 percent of the pent-up demand for housing units.

3. But are the existing vacant houses in the right place or condition, or are they the right type, for that pent-up demand? The future of housing may look very different than in the past. Growth in new housing construction has been concentrated in multifamily units. If that continues, we may find it is related to young buyers' growing reluctance to settle in existing single-family units.

In developing our housing forecast, we assumed that the demand for housing (in the form of a falling size of the average household) picks up in 2016, vacancy rates gradually drop, and household depreciation begins falling after new renters and buyers remove about 2.5 million housing units from the nation's housing stock. Slowing population growth suggests that we will have a short-lived housing boom in which starts hit the 1.5–1.6 million level, followed by a period of contraction until starts reach the level of long-run demand. We estimate this to be just 1.2 million units in the medium term. Housing will likely contribute to growth in 2016 but subtract from growth by 2018 as the pent-up demand goes away. In the long run, the slowing population suggests that housing will not be a growth sector (although specific segments, such as old-age housing, might well be very strong).

Figure 3. Housing



Source: Deloitte/Oxford Economics.

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Tight housing credit may be a key culprit in keeping individual purchases of single-family houses low, although there are some signs that credit is loosening. Young adults also seem to be showing a preference for living in urban rather than suburban communities. There may be some significant changes from the post–World War II model of single-family home ownership in store.

Housing news

Housing permits have been falling after reaching a high of 1.3 million in June; they were just 1.16 million in October. The share of multiunit dwelling authorized fell a bit but remains at about the same level as before the financial crisis, while single-family permits have been growing slowly and hit an annual rate above 700,000 in October for the first time since January 2008.

Contract interest rates for conventional mortgages remained at just about 3.9 percent through October. Rates remain low (although not quite as low as in late 2012 and early 2013). The Case-Shiller house price index has been up in every month this year since January. As of August, house prices were up 4.9 percent over the previous year's level. (See figure 3.)

Business investment

There has been a lot of sad talk about the impact of political uncertainty on business decisions since the end of the recession. In fact, relative to GDP, business investment has been one of this recovery's better-performing sectors. With strong profit growth, however, businesses might have been expected to invest even more. Many businesses are likely still waiting for assurance that they will have customers; once those customers return, there may be more reason to ramp up investment. Watch what businesses do, not what they say.

Other, more concrete factors are also weighing down investment. The rising dollar is not only making US companies less competitive—it's cutting earnings valued in dollars and therefore reducing margins for US multinationals. And China's slowing is exposing global excess capacity in many industries. In our baseline scenario, these factors fall away as global growth picks up. In the "Continued slow growth" scenario, they become important factors in keeping the US economy growing at current, unsatisfactory rates.

The fall in oil prices is a complicating factor in this positive outlook. Oil and gas extraction accounted for 6 percent of all nonresidential fixed investment in 2013. That's a hefty amount (considerably larger than the sector's value-added share), so shutting down new US oil exploration will have an immediate impact on investment. However, the big drop in the price of oil will surely eventually affect the 94 percent of business investment that is unrelated to oil and gas extraction.

Business investment news

Real business fixed investment rose a moderate 3.2 percent at an annual rate in the third quarter (according to the first GDP release). Equipment investment jumped 5.4 percent, led by a 15 percent rise in information processing equipment. Nonresidential structures fell 2.7 percent, however, and investment in intellectual property products rose at a relatively slow 3.9 percent rate.

Nondefense capital goods shipments—the best high-frequency measure of equipment spending—are still below the January peak. Shipments fell in two of the three months ending in October.

Private nonresidential construction fell in September by 0.7 percent and was up a scant 0.2 percent over the prior three months. Construction of most major types of nonresidential buildings—office, commercial, and manufacturing—has slowed.

Interest rates remained stable, although risk spreads on corporate bonds widened a bit over the three months ending in October. Stock prices picked up in October after falling because of late-summer fears of contagion from China. The cost of capital remains quite low, and profits are still at near-record levels of national income. (See figure 4.)

Foreign trade

The United States has long had a voracious appetite for foreign goods, and that's unlikely to change anytime soon. In our baseline forecast, imports accelerate along with GDP growth.

However, exports look to prove a pleasant surprise. Not in the near term, as the dollar is up quite a bit recently—over 15 percent in the past year and a half—a consequence of global investors' continued desire to hold safe US assets. This is certainly making the job of

Figure 4. Business sector

Source: Deloitte/Oxford Economics.
Graphic: Deloitte University Press | DUPress.com

US exporters more difficult. But the dollar rise also contributes to the possibility of US export growth in the future: Once foreign risks recede, capital will flow out of the United States, and the dollar will fall. The possibility of a depreciating dollar is welcome because it could help improve US competitiveness and put capital where it does the most good globally in the long run.

On top of the dollar, a variety of improvements in US fundamentals, ranging from the United States' lead in technology to cheap natural gas, will contribute to making US manufacturing more competitive with foreign goods.

Our baseline forecast assumes that both China and Europe overcome their problems and resume growing. That growth represents opportunity for US firms.

Foreign trade news

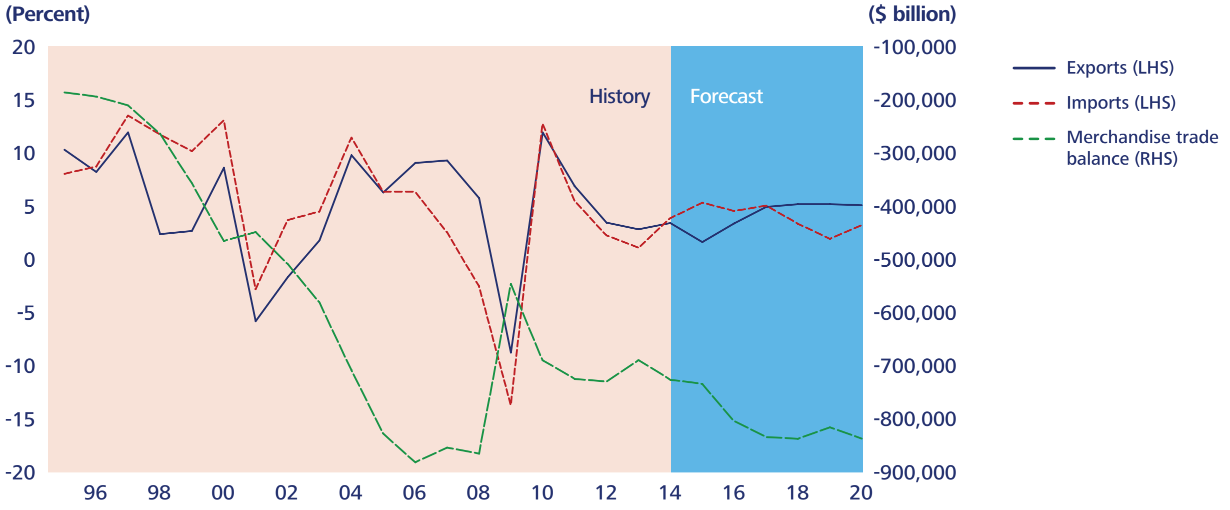
US goods exports rose in September from August, although they were down slightly over three months. Services exports are growing at about 0.7 percent per month. Imports fell in September and were down 2.4 percent over three months, partially reflecting the fall in commodity prices, and despite a substantial increase in petroleum imports.

The trade-weighted dollar has been stable. The Canadian dollar is now at CAD 1.30 per USD, around the highest level in 10 years. The euro appears to have stabilized at about USD 1.10 after the most recent Greek agreement, but this is quite low. The yen has depreciated to about JPY 120 to the dollar, boosting Japanese exports.

European industrial production fell in August and September, contributing to concerns that Europe's economy is once again stalling. The weakness is particularly apparent in Germany, while industrial production in Italy and Spain, after falling in August, picked up in September. Increased uncertainty over the Greek debt, as well as the refugee crisis and terrorism, is likely weighing on economic activity in Europe. (See figure 5.)

China reported real GDP growth of 6.9 percent over the previous year—a surprisingly strong number that did not stop debate over whether the country's economy is truly slowing. Some analysts point to signs of strength in China's consumer and service sectors, suggesting a long-awaited adjustment to becoming a consumer-driven economy. Others point to indications that official Chinese figures may be too high. China's future remains a large risk for the global economy.

Figure 5. International trade



Source: Deloitte/Oxford Economics.

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Government

Government spending on goods and services has been stagnant, and we expect little change in the next few years. That's actually an improvement from the 2010–13 period, when government spending provided a large drag on economic growth. In 2016, we will actually see a modest contribution of federal spending to GDP. That's the result of the budget agreement, which allowed for raising caps on both defense and nondefense purchases. However, pressures from entitlement spending will keep the lid on future increases in federal government demand.

State and local governments are no longer cutting spending. They are getting some good revenue news from rising house prices and growing employment, but pesky pension liabilities continue to restrain state and local spending. The Congressional Budget Office estimates that there is a shortfall of $2–3 trillion in state and local pension funding. The need to fund these liabilities will likely keep the lid on state and local spending growth.

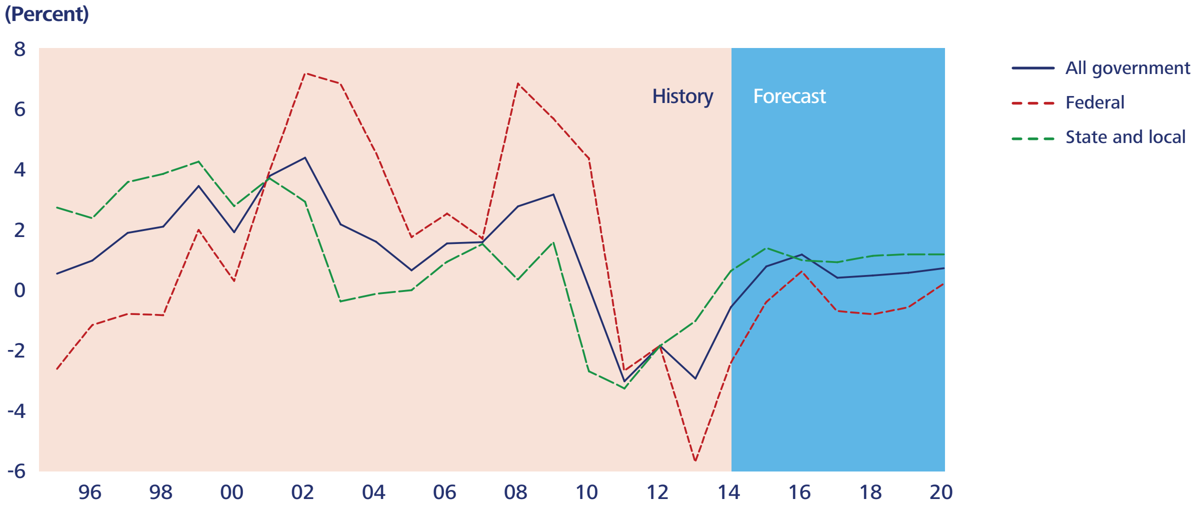
Government news

The final result for FY 2015 showed a federal deficit of $439 billion, $44 billion less than FY 2014. Outlays rose 5.3 percent, but revenues were up 7.6 percent. In the first month of the new fiscal year, revenues fell while outlays were up, partly the result of a timing issue that pushed some payments from November into October.

The budget deal has taken fighting about the budget—and the debt ceiling—off the table until after the 2016 election. (Some members of Congress are threatening to undo the deal over non-budget issues such as funding Planned Parenthood and admitting Syrian refugees into the United States.) The agreement allows for a $50 billion rise in spending in FY 2016, which makes it likely that federal spending will contribute positively to GDP growth over the next year. (See figure 6.)

State and local government finances have recovered from the recession's devastating effects: Job growth and rising house prices are finally making budget officers happier (or at least a little less nervous). Long-term finances for some states and local governments remain precarious, however, and the need to fund pension liabilities will likely keep the lid on state and local spending growth.

Figure 6. Government sector



Source: Deloitte/Oxford Economics.

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Labor markets

If the US economy is going to produce more goods and services, it will need more workers, and the currently moderate wage growth is encouraging firms to increase capacity by hiring workers. However, many potential workers remain out of the labor force: They left in 2009, when the labor market was terrible, and conditions apparently are still not good enough to entice them to return. Accelerating production will carry with it an eventual acceleration in demand for workers, along with a welcome mild acceleration in wages. That should help to bring people back into the labor force.

But a great many people have been out of work for a long time—long enough that their basic work skills may be eroding. When the labor market tightens, will those people be employable? Deloitte's forecast team remains optimistic that improvements in the labor market will eventually prove attractive to potential workers, and labor force participation will pick up.

DELOITTE LABOR FORCE PROJECTIONS

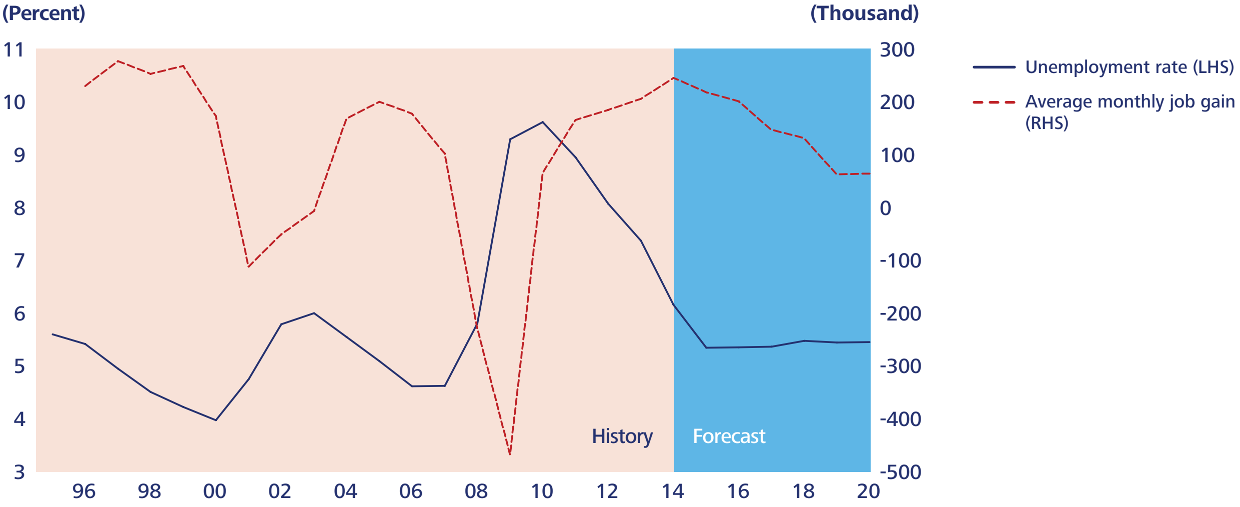
In the near term, the overall labor force participation rate will be affected by two offsetting trends. The aging of the population—and in particular, early Baby Boom cohorts reaching retirement age in the next five years—will push down the participation rate. However, the poor labor market has driven down participation rates for younger cohorts, and the economic improvement in the forecast will almost certainly entice many people in these middle-aged and, especially, younger cohorts to return to the labor market.

The labor force projection in this forecast assumes the following:

- Labor force participation rates for over-60s will remain at current levels.
- Labor force participation rates for under-30s will return to their 1997–2000 average.

See Daniel Bachman's [The potential for labor force participation] for a detailed description of this forecast.[2]

Figure 7. Labor markets



Source: Deloitte/Oxford Economics.

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Labor market news

Monthly initial claims for unemployment insurance are holding steady, in the 270,000 range. Job openings have leveled off but, at around 3.5 million, are considerably below the 2006 peak of around 4.4 million. Quits (voluntary separations) have stalled at about 2.7 million this year, below the 2007 peak of 3.0 million.

Payroll employment growth dipped to an average rate of 145,000 in August and September but jumped to 271,000 in October. The unemployment rate continued falling and in October was just 5.0 percent. Unfortunately, the participation rate remains stuck at around 62.5 percent, considerably lower than the average rate before the financial crisis. (See figure 7.)

Financial markets

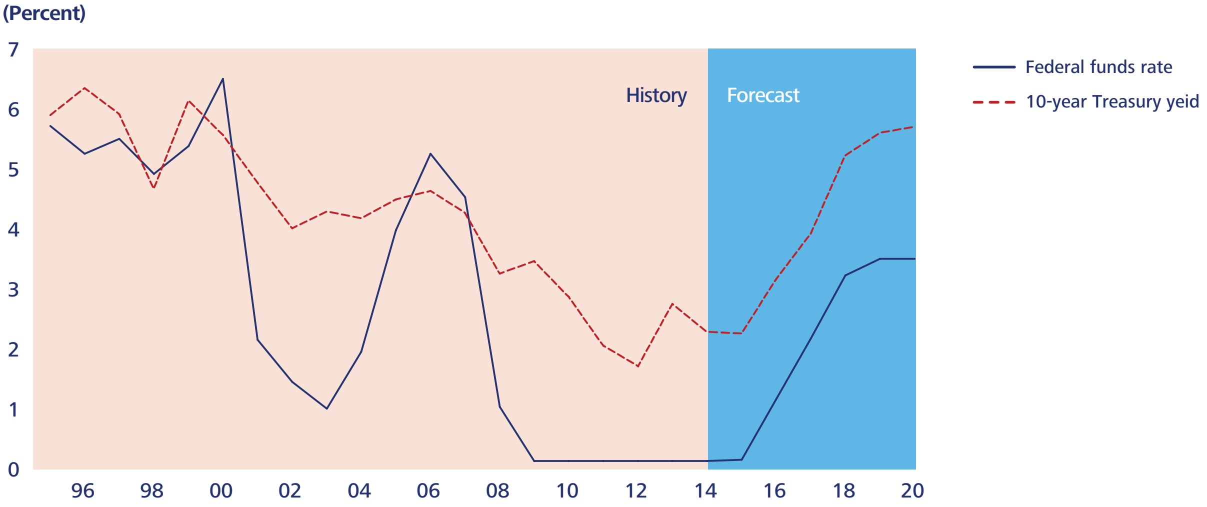
Interest rates are among the most difficult economic variables to forecast because movements depend on news—and if we knew it, it wouldn't be news. The Deloitte interest-rate forecast is designed to show a path for interest rates consistent with the forecast for the real economy. But the potential risk for different interest-rate movements is higher here than in other parts of our forecast.

The forecast sees both long- and short-term interest rates headed up—maybe not this week, or this month, but sometime in the future. The forecast shows the economy accelerating next year, and a healthy economy will mean that lending will once again become costly. The forecast moves interest rates back to "normal" levels as economic growth accelerates. That's not a bad thing—unless returning to normal is bad.

Of course, some investors may be caught short. These are the people convinced that interest rates will remain low forever. Some of those will even be so-called sophisticated investors, so plenty of worried headlines will appear when interest rates go up. Don't be fooled by what is just a (yes) welcome return to normal.

But the most sophisticated observers of financial markets understand the most important thing about interest rates: They fluctuate. This is the sector that is most likely to surprise us.

Figure 8. Financial markets



Source: Deloitte/Oxford Economics.

Graphic: Deloitte University Press | DUPress.com

This forecast expects the Fed to start raising the funds rate at the Federal Open Market Committee (FOMC) meeting scheduled for December 2015. Our baseline forecast then assumes that the Fed will continue to raise the rate by 25 basis points at every other meeting until the funds rate reaches 3.50 percent. This rate corresponds to the current views of the FOMC, as most FOMC members are projecting the funds rate to be 3.25 or 3.50 percent in the long run.

Financial market news

The Fed kept the funds rate target at between 0 percent and 0.25 percent through the October meeting. Several Fed speakers, including Chairman Janet Yellen, signaled that they would like to raise rates in December. The financial turmoil of the late summer appears to have dissipated, giving the Fed more room to tighten. Longer-term rates fell about 10 basis points in the August to October period and, at 2.1 percent, are very low. Risk spreads have been rising: The Baa minus Aaa spread was 139 basis points in July, up from 115 basis points in August and 90 basis points in March. (See figure 8.)

Stock prices bounced back in October after falling over 7 percent in August and September. For the year, stock prices remain almost unchanged.

Prices

Remember those folks who were convinced that the Fed's actions in 2009 would spark runaway inflation? Likely, they'd rather you didn't. Prices have been the most boring part of forecasting for the past six years, and there is no reason to think that's going to change.

Inflation is hard to come by when the labor market—which accounts for two-thirds of all costs in the US economy—has been so slack. Workers haven't had leverage to obtain higher wages when prices go up, and businesses lack the pricing power to cover higher costs. Instead, shocks from higher energy or food prices have dissipated into the ether rather than being translated into sustained, higher inflation.

That means that inflation will likely remain tame at least until the economy reaches full employment. Although employment growth in the past couple of years has whittled away at the potential employment surplus, it's still pretty large—and bigger than the unemployment rate indicates. So don't hold your breath waiting for the return of the 1970s. Bell bottoms, disco, and high inflation are likely all safely in our past (for now).

Price news

The overall CPI is up 1.9 percent over the previous year, close to the Fed's target. Core CPI has been growing more slowly, as gasoline prices fell a bit in September and October.

The final demand producer price index has fallen every month in 2015—as good an example as any of the lack of inflation.

Hourly earnings are starting to accelerate slightly. They were up an average of 0.3 percent per month in the three months ending in October, compared to 0.2 percent in the three months ending in July. Compensation for private industry workers was up 0.6 percent in Q3, a relatively moderate amount. Compensation is rising modestly for most occupations.

Figure 9. Prices

Source: Deloitte/Oxford Economics.

Graphic: Deloitte University Press | DUPress.com

Endnotes

1. Ira Kalish, "Mind the gap: What business needs to know about income inequality," *Deloitte Review* 9, Deloitte University Press, January 1, 2011, http://dupress.com/articles/mind-the-gap-why-businesses-should-care-about-income-inequality/.
2. Daniel Bachman, "The potential for labor force participation," *Behind the Numbers*, Deloitte University Press, July 23, 2014, http://dupress.com/articles/potential-labor-force-participation/.

Appendix

Deloitte economic forecast

Table 1. Deloitte US forecast: Baseline

Percent change, year over year unless otherwise noted.

	History					Forecast					
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
JPY 120											
Real GDP	2.5	1.6	2.2	1.5	2.4	2.5	3.1	3.1	2.6	1.9	2
Real consumer spending	1.9	2.3	1.5	1.7	2.7	3.2	3.2	2.9	2.6	2.1	2.2
Real consumer spending, durable goods	6.1	6.1	7.4	5.8	5.9	5.9	4.8	4.0	3.7	3.1	2.8
Real consumer spending, nondurable goods	2.2	1.8	0.6	1.9	2.1	2.7	2.6	2.3	2.2	1.9	2.0
Real consumer spending, services	1.2	1.8	0.8	1.0	2.4	3.0	3.1	2.9	2.6	2.0	2.1
Real investment in private housing	-2.5	0.6	13.5	9.5	1.8	8.4	14.9	11.2	-0.6	-12.2	-7.7
Real fixed business investment	2.5	7.7	9.0	3.0	6.2	3.2	5.9	5.9	4.6	3.8	3.7
Real inventory accumulation	58.0	38.0	55.0	61.0	68.0	91.0	56.0	54.0	44.0	31.0	32.0
Real exports of goods and services	11.9	6.9	3.4	2.8	3.4	1.6	3.3	4.9	5.2	5.2	5.1
Real imports of goods and services	12.7	5.5	2.2	1.1	3.8	5.3	4.5	5.0	3.3	1.9	3.2
Real government consumption and investment	0.1	-3.0	-1.9	-3.0	-0.6	0.8	1.2	0.4	0.5	0.6	0.7
Real federal government consumption and investment	4.3	-2.7	-1.9	-5.7	-2.4	-0.4	0.6	-0.7	-0.8	-0.6	0.2
Real state and local government consumption and investment	-2.7	-3.3	-1.9	-1.0	0.6	1.4	1.0	0.9	1.1	1.2	1.2
Prices											
Consumer price index	1.6	3.1	2.1	1.5	1.6	0.1	1.5	1.8	2.0	2	2.2
Chained price index for personal consumption expenditures	1.7	2.5	1.9	1.4	1.4	0.3	1.8	1.8	2.0	1.8	1.9
Chained GDP price index	1.2	2.1	1.8	1.6	1.6	0.9	1.6	2.0	1.9	1.9	2.0
Employment cost index	1.9	2	1.9	1.9	2.1	2.1	2.1	2.5	2.1	2	2.3
Labor markets											
Average monthly change in employment	65	165	184	205	245	217	200	146	131	62	64
Unemployment rate (percent)	9.6	8.9	8.1	7.4	6.2	5.3	5.3	5.4	5.5	5.4	5.4
Employment to population (percent)	58.5	58.4	58.6	58.6	59	59.3	59.8	60.2	60.3	60.1	59.9
Income and wealth											
Real disposable personal income	1.0	2.5	3.2	-1.4	2.7	3.2	2.6	2.8	2.5	2.5	1.8
Net household wealth ($ trillion)	63	64	70	79	83	87	87	96	102	110	116
Personal saving rate (percent of disposable income)	5.6	6.0	7.6	4.8	4.8	4.8	4.3	4.2	4.2	4.6	4.3
After-tax corporate profits with corporate profits with inventory valuation and capital consumption adjustments	25.0	4.0	10.0	2.0	1.7	-1.1	2	3.2	4.5	0.2	2.5
Housing											
Housing starts (thousands)	586	612	784	928	1,001	1,125	1,377	1,583	1,564	1,343	1,208
Stock of owner-occupied homes (millions)	132	132	133	133	134	135	136	137	138	139	140
Interest rate on 30-year fixed rate mortgages (percent)	4.69	4.46	3.66	3.98	4.17	3.87	4.5	5.53	6.75	7.51	7.68
Foreign trade											
Current account balance, share of GDP (percent)	-3	-3	-2.8	-2.3	-2.2	-2.6	-2.6	-2.7	-2.7	-2.6	-2.6
Merchandise trade balance ($ billion)	-691	-725	-730	-690	-727	-735	-805	-835	-838	-816	-838
Relative unit labor costs (Index, 2008=100)	96.5	85.8	83.3	80.8	81.6	84.6	88.0	87.4	85.4	83.8	81.4
Financial											
Federal funds rate (percent)	0.13	0.13	0.13	0.13	0.13	0.15	1.16	2.17	3.22	3.5	3.5
Yield on 10-year Treasury note (percent)	2.86	2.05	1.71	2.75	2.28	2.25	3.16	3.91	5.22	5.6	5.7
Government											
Federal budget balance, unified basis (share of GDP, percent)	-8.9	-8.5	-7.3	-4.3	-2.9	-2.6	-2.7	-2.7	-3.0	-3.1	-3.4

Sources: Historical data: US government agencies and Oxford Economics. Forecast: Deloitte, using the Oxford Global Economic Model.

Table 2. Coordinated global recovery

Percent change, year over year unless otherwise noted.

	History					Forecast					
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
GDP and components											
Real GDP	2.5	1.6	2.2	1.5	2.4	2.5	3.7	3.5	2.7	2.0	2.2
Real consumer spending	1.9	2.3	1.5	1.7	2.7	3.2	3.6	3.1	2.7	2.3	2.0
Real consumer spending, durable goods	6.1	6.1	7.4	5.8	5.9	5.9	4.9	4.3	3.8	3.0	2.8
Real consumer spending, nondurable goods	2.2	1.8	0.6	1.9	2.1	2.7	3.1	2.5	2.3	2.1	1.8
Real consumer spending, services	1.2	1.8	0.8	1.0	2.4	3.0	3.6	3.1	2.7	2.2	1.9
Real investment in private housing	-2.5	0.6	13.5	9.5	1.8	8.4	15.4	11.8	-0.8	-12.3	-7.9
Real fixed business investment	2.5	7.7	9.0	3.0	6.2	3.2	9.7	10.2	5.7	5.2	4.8
Real inventory accumulation	58.0	38.0	55.0	61.0	68.0	91.0	65.0	66.0	51.0	35	37
Real exports of goods and services	11.9	6.9	3.4	2.8	3.4	1.6	3.5	5.1	5.2	5.2	5.2
Real imports of goods and services	12.7	5.5	2.2	1.1	3.8	5.3	6.5	7.2	3.6	3.2	2.8
Real government consumption and investment	0.1	-3.0	-1.9	-3.0	-0.6	0.8	1.2	0.4	0.5	0.6	0.7
Real federal government consumption and investment	4.3	-2.7	-1.9	-5.7	-2.4	-0.4	0.6	-0.7	-0.8	-0.6	0.2
Real state and local government consumption and investment	-2.7	-3.3	-1.9	-1.0	0.6	1.4	1.0	0.9	1.1	1.2	1.2
Prices											
Consumer price index	1.6	3.1	2.1	1.5	1.6	0.1	1.1	1.7	2.0	1.9	2.2
Chained price index for personal consumption expenditures	1.7	2.5	1.9	1.4	1.4	0.3	1.5	1.7	2.1	1.6	1.9
Chained GDP price index	1.2	2.1	1.8	1.6	1.6	0.9	1.1	1.9	1.9	1.8	2.0
Employment cost index	1.9	2.0	1.9	1.9	2.1	2.1	2.2	2.4	2.3	1.9	2.4
Labor markets											
Average monthly change in employment	65	165	184	205	245	217	231	183	141	65	39
Unemployment rate (percent)	9.6	8.9	8.1	7.4	6.2	5.3	5.2	5.0	4.9	4.9	5.0
Employment to population (percent)	58.5	58.4	58.6	58.6	59	59.3	59.9	60.4	60.7	60.5	60.2
Income and wealth											
Real disposable personal income	1.0	2.5	3.2	-1.4	2.7	3.2	2.9	2.9	2.6	2.3	1.8
Net household wealth ($ trillion)	63	64	70	79	83	87	87	96	103	110	118
Personal saving rate (percent of disposable income)	5.6	6.0	7.6	4.8	4.8	4.8	4.2	4.1	4.0	4.1	4.0
After-tax corporate profits with corporate profits with inventory valuation and capital consumption adjustments	25.0	4.0	10.0	2.0	1.7	-1.1	2.6	4.3	3.2	1.9	4.0
Housing											
Housing starts (thousands)	586	612	784	928	1,001	1,125	1,382	1,597	1,574	1,350	1,212
Stock of owner-occupied homes (millions)	132	132	133	133	134	135	136	137	138	139	140
Interest rate on 30-year fixed rate mortgages (percent)	4.69	4.46	3.66	3.98	4.17	3.87	4.49	5.51	6.72	7.48	7.64
Foreign trade											
Current account balance, share of GDP (percent)	-3.0	-3.0	-2.8	-2.3	-2.2	-2.6	-2.9	-3.3	-3.3	-3.5	-3.4
Merchandise trade balance ($ billion)	-691	-725	-730	-690	-727	-735	-852	-948	-972	-992	-1,003
Relative unit labor costs (Index, 2008=100)	96.5	85.8	83.3	80.8	81.6	84.6	87.7	87.0	85.1	83.3	80.8
Financial											
Federal funds rate (percent)	0.13	0.13	0.13	0.13	0.13	0.15	1.16	2.17	3.22	3.5	3.5
Yield on 10-year Treasury note (percent)	2.86	2.05	1.71	2.75	2.28	2.25	3.15	3.9	5.2	5.57	5.67
Government											
Federal budget balance, unified basis (share of GDP, percent)	-8.9	-8.5	-7.3	-4.3	-2.9	-2.6	-2.6	-2.5	-2.6	-2.8	-3.0

Sources: Historical data: US government agencies and Oxford Economics. Forecast: Deloitte, using the Oxford Global Economic Model.

Table 3. Continued slow growth

Percent change, year over year unless otherwise noted.

	History					Forecast					
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
GDP and components											
Real GDP	2.5	1.6	2.2	1.5	2.4	2.5	1.9	-0.7	3.2	3.8	2.1
Real consumer spending	1.9	2.3	1.5	1.7	2.7	3.2	2.5	-0.4	2.4	3.3	2.2
Real consumer spending, durable goods	6.1	6.1	7.4	5.8	5.9	5.9	4.3	1.6	4.0	3.2	2.7
Real consumer spending, nondurable goods	2.2	1.8	0.6	1.9	2.1	2.7	1.8	-1.2	1.9	3.2	2.0
Real consumer spending, services	1.2	1.8	0.8	1.0	2.4	3.0	2.4	-0.5	2.3	3.3	2.2
Real investment in private housing	-2.5	0.6	13.5	9.5	1.8	8.4	3.1	-0.9	20.2	-5.5	-10.9
Real fixed business investment	2.5	7.7	9.0	3.0	6.2	3.2	6.6	1.4	7.1	10.3	5.9
Real inventory accumulation	58.0	38.0	55.0	61.0	68.0	91.0	43.0	-30.0	28.0	62.0	45.0
Real exports of goods and services	11.9	6.9	3.4	2.8	3.4	1.6	-1.3	-5.7	13.2	11.6	5.4
Real imports of goods and services	12.7	5.5	2.2	1.1	3.8	5.3	3.2	-3.4	15.0	9.4	3.5
Real government consumption and investment	0.1	-3.0	-1.9	-3.0	-0.6	0.8	1.2	0.4	0.5	0.6	0.7
Real federal government consumption and investment	4.3	-2.7	-1.9	-5.7	-2.4	-0.4	0.6	-0.7	-0.8	-0.6	0.2
Real state and local government consumption and investment	-2.7	-3.3	-1.9	-1.0	0.6	1.4	1.0	0.9	1.1	1.2	1.2
Prices											
Consumer price index	1.6	3.1	2.1	1.5	1.6	0.1	0.6	-0.8	2.1	2.6	0.9
Chained price index for personal consumption expenditures	1.7	2.5	1.9	1.4	1.4	0.3	1.0	-0.8	2.1	2.4	0.6
Chained GDP price index	1.2	2.1	1.8	1.6	1.6	0.9	1.0	1.1	1.0	1.0	1.0
Employment cost index	1.9	2.0	1.9	1.9	2.1	2.1	1.9	-0.9	-0.9	3.2	2.7
Labor markets											
Average monthly change in employment	65	165	184	205	245	218	13	102	280	122	54
Unemployment rate (percent)	9.6	8.9	8.1	7.4	6.2	5.3	6	7.3	6.4	5.2	5.1
Employment to population (percent)	58.5	58.4	58.6	58.6	59	59.3	59.4	58.9	59.6	59.9	59.7
Income and wealth											
Real disposable personal income	1.0	2.5	3.2	-1.4	2.7	3.2	2.8	1.9	0.5	2.0	2.0
Net household wealth ($ trillion)	63	64	70	79	83	87	47	91	107	122	123
Personal saving rate (percent of disposable income)	5.6	6.0	7.6	4.8	4.8	4.8	4.9	6.9	5.3	4.2	4.1
After-tax corporate profits with corporate profits with inventory valuation and capital consumption adjustments	25.0	4.0	10.0	2.0	1.7	-1.0	-5.7	-9.3	15.2	2.2	2.5
Housing											
Housing starts (thousands)	586	612	784	928	1,001	1,125	1,233	1,266	1,512	1,397	1,213
Stock of owner-occupied homes (millions)	132	132	133	133	134	135	136	136	138	139	140
Interest rate on 30-year fixed rate mortgages (percent)	4.69	4.46	3.66	3.98	4.17	3.87	4.31	3.12	3.89	5.25	6.79
Foreign trade											
Current account balance, share of GDP (percent)	-3.0	-3.0	-2.8	-2.3	-2.2	-2.6	-2.8	-2.4	-2.2	-2.1	-1.2
Merchandise trade balance ($ billion)	-691	-725	-730	-690	-727	-735	-853	-745	-851	-995	-1,043
Relative unit labor costs (Index, 2008=100)	96.5	85.8	83.3	80.8	81.6	84.5	90.0	91.1	91.7	91.7	86.9
Financial											
Federal funds rate (percent)	0.13	0.13	0.13	0.13	0.13	0.15	0.25	0.5	1.66	2.66	3.5
Yield on 10-year Treasury note (percent)	2.86	2.05	1.71	2.75	2.28	2.25	1.09	0.68	2.24	3.81	5.26
Government											
Federal budget balance, unified basis (share of GDP, percent)	-8.9	-8.5	-7.3	-4.3	-2.9	-2.6	-2.8	-3.7	-4.0	-3.7	-3.8

Sources: Historical data: US government agencies and Oxford Economics. Forecast: Deloitte, using the Oxford Global Economic Model.

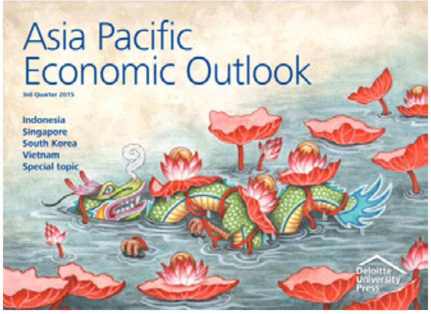
Table 4. Recession

Percent change, year over year unless otherwise noted.

	History					Forecast					
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
GDP and components											
Real GDP	2.5	1.6	2.2	1.5	2.4	2.5	2.2	1.8	1.8	2.2	2.3
Real consumer spending	1.9	2.3	1.5	1.7	2.7	3.2	2.0	1.7	1.8	2.4	2.1
Real consumer spending, durable goods	6.1	6.1	7.4	5.8	5.9	5.9	4.4	3.2	2.8	2.9	2.8
Real consumer spending, nondurable goods	2.2	1.8	0.6	1.9	2.1	2.7	1.3	1.0	1.4	2.2	1.9
Real consumer spending, services	1.2	1.8	0.8	1.0	2.4	3.0	1.9	1.6	1.8	2.3	2.0
Real investment in private housing	-2.5	0.6	13.5	9.5	1.8	8.4	13.9	9.2	-1.6	-11.1	-6.7
Real fixed business investment	2.5	7.7	9.0	3.0	6.2	3.2	2.9	2.3	2.4	3.8	4.4
Real inventory accumulation	58.0	38.0	55.0	61.0	68.0	91.0	42.0	25.0	19.0	26.0	35.0
Real exports of goods and services	11.9	6.9	3.4	2.8	3.4	1.6	2.4	3.3	4.0	4.2	4.1
Real imports of goods and services	12.7	5.5	2.2	1.1	3.8	5.3	1.3	2.6	2.3	1.6	1.7
Real government consumption and investment	0.1	-3.0	-1.9	-3.0	-0.6	0.8	1.2	0.4	0.5	0.6	0.7
Real federal government consumption and investment	4.3	-2.7	-1.9	-5.7	-2.4	-0.4	0.6	-0.7	-0.8	-0.6	0.2
Real state and local government consumption and investment	-2.7	-3.3	-1.9	-1.0	0.6	1.4	1.0	0.9	1.1	1.2	1.2
Prices											
Consumer price index	1.6	3.1	2.1	1.5	1.6	0.1	1.3	2.0	2.1	2.4	2.7
Chained price index for personal consumption expenditures	1.7	2.5	1.9	1.4	1.4	0.3	1.7	2.0	2.1	2.2	2.4
Chained GDP price index	1.2	2.1	1.8	1.6	1.6	0.9	1.6	2.3	2.2	2.2	2.2
Employment cost index	1.9	2	1.9	1.9	2.1	2.1	2.0	2.0	2.0	2.3	3.1
Labor markets											
Average monthly change in employment	65	165	184	205	245	218	114	79	67	74	90
Unemployment rate (percent)	9.6	8.9	8.1	7.4	6.2	5.3	5.0	5.1	5.2	5.3	5.3
Employment to population (percent)	58.5	58.4	58.6	58.6	59	59.3	59.5	59.5	59.3	59.1	58.9
Income and wealth											
Real disposable personal income	1.0	2.5	3.2	-1.4	2.7	3.2	2.0	1.9	1.9	2.5	2.0
Net household wealth ($ trillion)	63	64	70	79	83	87	85	91	96	103	111
Personal saving rate (percent of disposable income)	5.6	6.0	7.6	4.8	4.8	4.8	4.8	5.0	5.1	5.3	5.3
After-tax corporate profits with corporate profits with inventory valuation and capital consumption adjustments	25.0	4.0	10.0	2.0	1.7	-1.0	-1.8	1.1	3.5	3.1	1.9
Housing											
Housing starts (thousands)	586	612	784	928	1,001	1,125	1,364	1,540	1,506	1,310	1,191
Stock of owner-occupied homes (millions)	132	132	133	133	134	135	136	137	138	139	140
Interest rate on 30-year fixed rate mortgages (percent)	4.69	4.46	3.66	3.98	4.17	3.87	4.66	5.89	7.14	7.56	7.66
Foreign trade											
Current account balance, share of GDP (percent)	-3.0	-3.0	-2.8	-2.3	-2.2	-2.6	-2.2	-2.1	-2.0	-1.9	-1.9
Merchandise trade balance ($ billios)	-691	-725	-730	-690	-727	-735	-734	-727	-720	-715	-726
Relative unit labor costs (Index, 2008=100)	96.5	85.8	83.3	80.8	81.6	84.5	87.9	88.1	86.4	85.3	84
Financial											
Federal funds rate (percent)	0.13	0.13	0.13	0.13	0.13	0.15	1.35	2.89	3.5	3.51	3.5
Yield on 10-year Treasury note (percent)	2.86	2.05	1.71	2.75	2.28	2.25	3.39	4.19	5.42	5.57	5.72
Government											
Federal budget balance, unified basis (share of GDP, percent)	-8.9	-8.5	-7.3	-4.3	-2.9	-2.6	-2.7	-3.0	-3.4	-3.6	-3.8

Sources: Historical data: US government agencies and Oxford Economics. Forecast: Deloitte, using the Oxford Global Economic Model.

Additional resources



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