

United States Economic Forecast

Volume 1 Issue 2

March 2014



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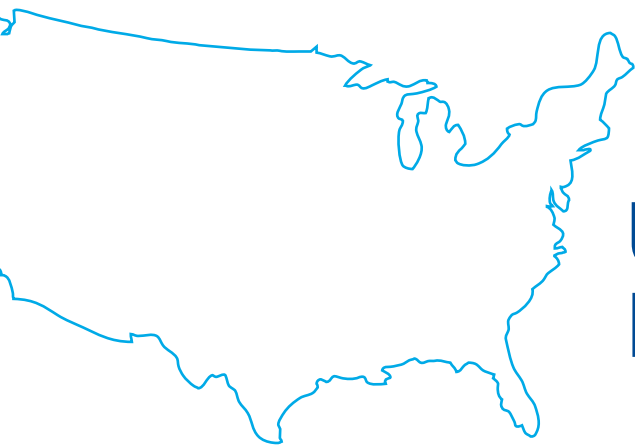
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United States Economic Forecast



MONTHLY economic data led observers on something of a roller-coaster ride over the last few months. By the end of December, an accumulation of positive data suggested to analysts that economic growth might be accelerating. By early February, commentators (many of whom were optimistic in December) saw the newest data points as indications of a slowdown. Other observers blamed the weather for the soft economic data. Nevertheless, the end-of-year optimism seems to have disappeared.

Solid evidence that weather can have a significant impact on economic indicators is slim. The more likely explanation is that the end of 2013 data represented the upper band

of fluctuation for monthly indicators in a moderately growing economy, and the weaker data in early 2014 represented the lower band of fluctuation for these indicators. Underlying growth has been a steady 2.0 percent during this period.

Washington provided some positive news, at least compared to the past. The risks posed by a lack of Congressional action have faded. That's good news, even if it is the healing of a self-inflicted wound.

Key foreign economies have remained in the same fragile-but-positive position for the past six months. Europe and China are still finding their way out of their respective sets of problems. Although the chance of a serious

financial crisis seems to be fading, it's not gone. The Deloitte economic forecast includes a low-probability scenario in which another financial crisis generates a recession in the United States—but the probability is only 5 percent.

The economy's underlying growth hasn't changed much, yet. We're still moving along at an unsatisfactory growth rate of about 2.0 percent per year. But chances are quite high that we will see stronger growth sometime in the next year and a half.

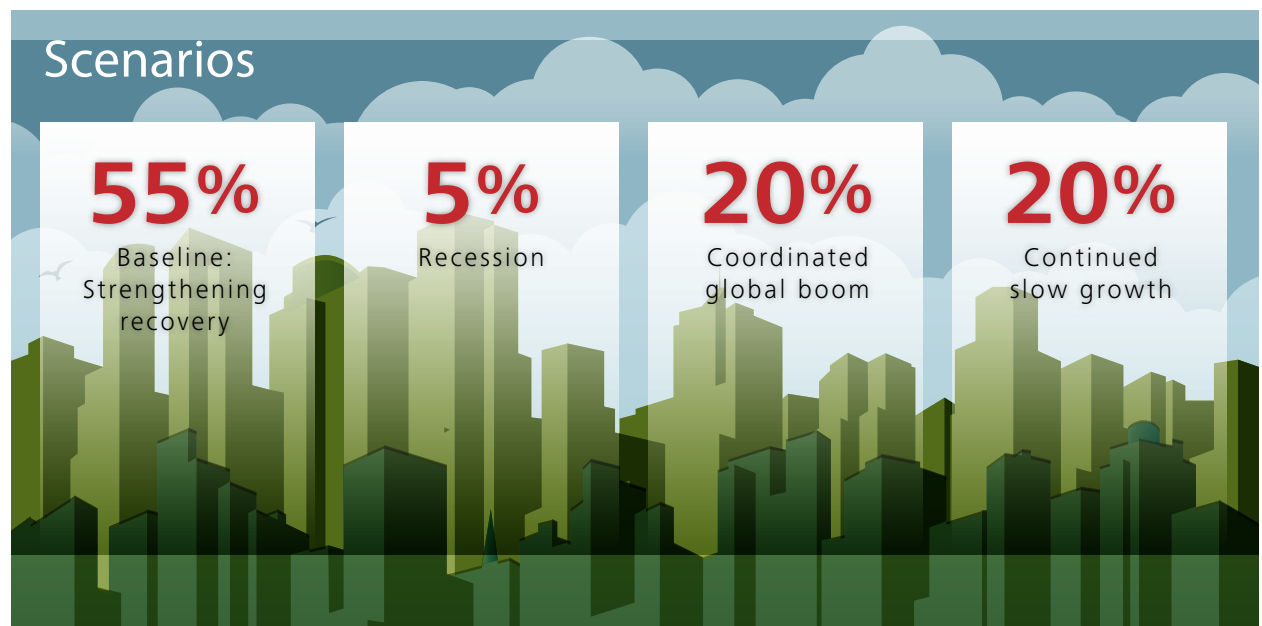
Scenarios

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

The baseline (55 percent): We believe the most likely outcome for the economy is a burst of mildly faster growth as risks from abroad and at home fade away. Continued improvement in the labor market and growing demand from abroad convinces business leaders that

the economy is really improving. Business investment then joins, adding to demand. While hiring picks up and the unemployment rate continues to fall, a large amount of slack prevents rising demand from being translated into higher prices. With inflation tame, the Fed is able to continue along the path of gradually reducing the amount of its monthly asset purchases (quantitative easing), and by late 2015, begin raising interest rates.

Recession (5 percent): Euro problems flare up, and Europe goes back into recession. One or more countries are forced to exit the euro, leaving questions about the valuation of euro assets. Unfortunately, those questions spread to several US financial institutions that found themselves long on euro assets at the wrong time. The result is a global financial panic. China's own financial bubble finally catches up with the country, adding to the panic. Chinese and East Asian growth sputter. Capital flows into the United States to avoid risk in Europe and Asia, and the 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, but the impact of low demand, a troubled financial system, and the resulting hit to confidence keep the economy



growing slowly. An eventual recovery leads to relatively fast growth several years from now.

Continuing slow growth (20 percent):

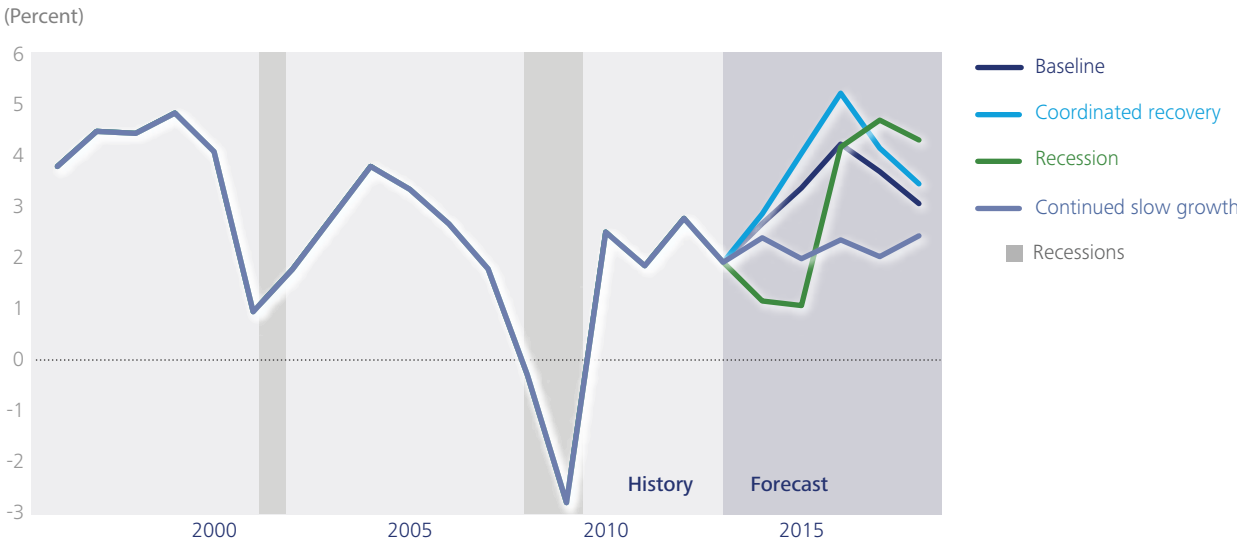
Weak economic conditions abroad, incomplete fixes to the financial system, and a mismatch between labor needs and the skills of the labor force leave the US economy growing at 2 percent for the next few years. Government spending continues to grow much more slowly than the overall economy, and foreign conditions do not improve. As the long-term unemployed become essentially unemployable, the labor force participation rate remains low, and yet, wages start 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 taper earlier than expected and raise interest rates as inflation starts to rise.

Coordinated global boom (20 percent):

Europe begins to successfully restructure

and starts recovering at a fast rate. 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, 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. Growth attracts workers back into the labor market, preventing inflation from picking up and allowing the Fed some room to continue to gradually remove quantitative easing without seeing interest rates rise.

Figure 1. Real GDP growth

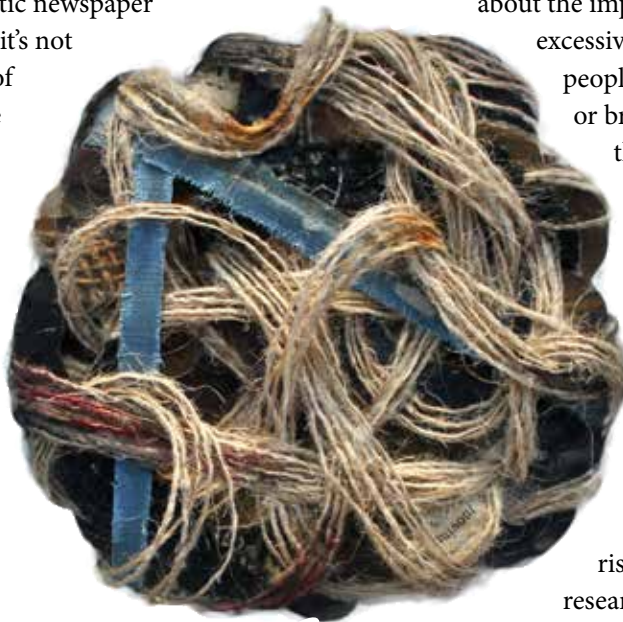


Graphic: Deloitte University Press | DUPress.com

What's been happening?

WEATHER. Lots of weather. The eastern half of the United States experienced snow and cold weather as the dreaded “polar vortex” pushed the jet stream south. This meant that the weather was worse than average; despite dramatic newspaper pictures, however, it’s not really that far out of normal experience for most of these areas. (Although some areas did experience really unusual weather events—our friends in Atlanta would certainly say so.)

Weather is a useful scapegoat for poor economic performance. But weather may have less to do with the weak data than some analysts claim. The reported data are seasonally adjusted, of course, which means that snow in January is partially “discounted” in the seasonally adjusted data. It’s only the unusual snow (or rain, or cold) that might affect economic indicators. Interpreting weather effects for



the United States is also complicated by the fact that the country is very large, and poor weather in one region is often offset by better-than-average weather in other regions. And sometimes, analysts say contradictory things

about the impact of weather. Does excessive precipitation keep people out of shopping malls, or bring them in because they want to get out of the house? Does unusually cold weather reduce industrial production because some factories operate less efficiently, and is that enough to offset the increased production of utilities and mining as demand for energy rises? There is very little research on the impact of weather on economic indicators, and it’s a good idea to remain skeptical of weather explanations.

Slow patches of data occur when economic growth is only moderate, and the best interpretation of the current data is that it is simply a slow patch. The fundamentals of the US economy have not changed. If anything,

Weather is a useful scapegoat for poor economic performance. But weather may have less to do with the weak data than some analysts claim.

the past few months have seen some important improvements. Most importantly, the debt ceiling and federal budget are no longer a source of potential crisis. The decision of the Republican House leadership to permit a vote on a “clean” debt ceiling bill was an important step in Congress’ march away from brinksmanship on this issue. The new Chair of the Federal Reserve, Janet Yellen, testified for the first time to Congress, and financial markets were satisfied with her approach. The transfer of power over monetary policy has been smooth, so the Fed has also become a smaller source of risk. Those positives will start to show up in the data.

Financial markets experienced some excitement when the Fed’s “tapering” led to investors adjusting portfolios out of emerging markets. The US stock market caught some of the excitement, even though money was moving into the developed world, including the United States. However, the potential impact of the problems in India and Brazil on the

United States is not large. And indeed, by the middle of February, US stock markets started to grow again.

The imbalances in the Eurozone don’t seem as troublesome as they did last year. Although Eurozone growth remains low, interest spreads have come down, and there are some signs of improvement in the southern tier countries. The probability of a euro crisis seems to be lessening—although it’s not yet zero.

China’s lack of transparency makes it hard to be confident that the country’s financial fragility is fading. Recent events have raised questions about the potential for problems in the financial system. The government is attempting to slow the growth of the shadow banking system, and it certainly has the authority to resolve any financial crisis. While a Chinese financial crisis would probably not affect the global financial system, it could lead to a slowdown in Chinese growth. This, in turn, could have global ramifications.

Sectors

Consumers

Ah, the US consumer—long-time supporter of the global economy, and still surprisingly resilient. Of course, consumers can't spend money they don't have, and their incomes are largely dependent on having jobs. As the US economy picks up its pace, and as jobs and incomes grow, consumer spending will respond. Just don't expect US consumers to play Atlas, holding the global economy on their shoulders like they did in the 2000s. The Deloitte forecast expects the US saving rate to remain between 4.5 and 5.0 percent, a good bit higher than in the previous decade.

US households actually face some pretty daunting obstacles in their pursuit of the good life. The biggest of these is growing inequality. For more about this, see the *Deloitte Review* article "Mind the gap" by Ira Kalish. Many US consumers spent the 1990s and the 2000s trying to keep up their spending when

incomes were stagnant. After all, they kept being assured that technology was transforming the US economy and should be transforming their lives. But now they are wiser (and older, which is another problem as retirements loom without sufficient savings). As long as a large share of the gains from technology and other economic improvements flow to a relatively small number of households, overall US consumer spending is likely to remain relatively restrained.

Consumer news

Real personal consumption continued to grow at reasonably strong rates through December. Incomes didn't keep up, and the personal saving rate fell to 3.9 percent by December. January retail sales fell 0.4 percent. While some of that was because of a fall in auto sales, the weakness was seen by many other types of retailers.

Figure 2. Consumer spending growth

(Percent)

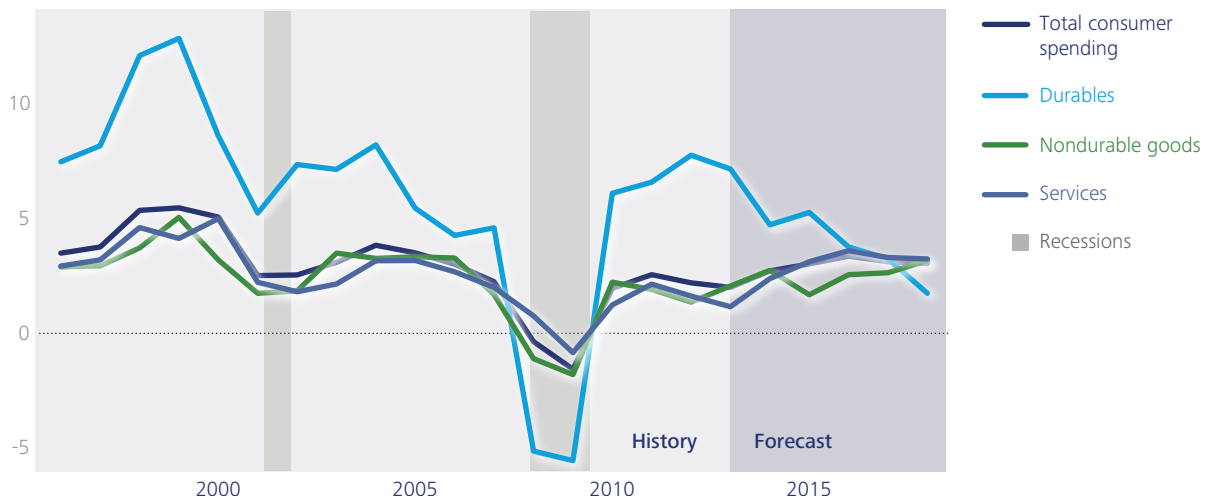
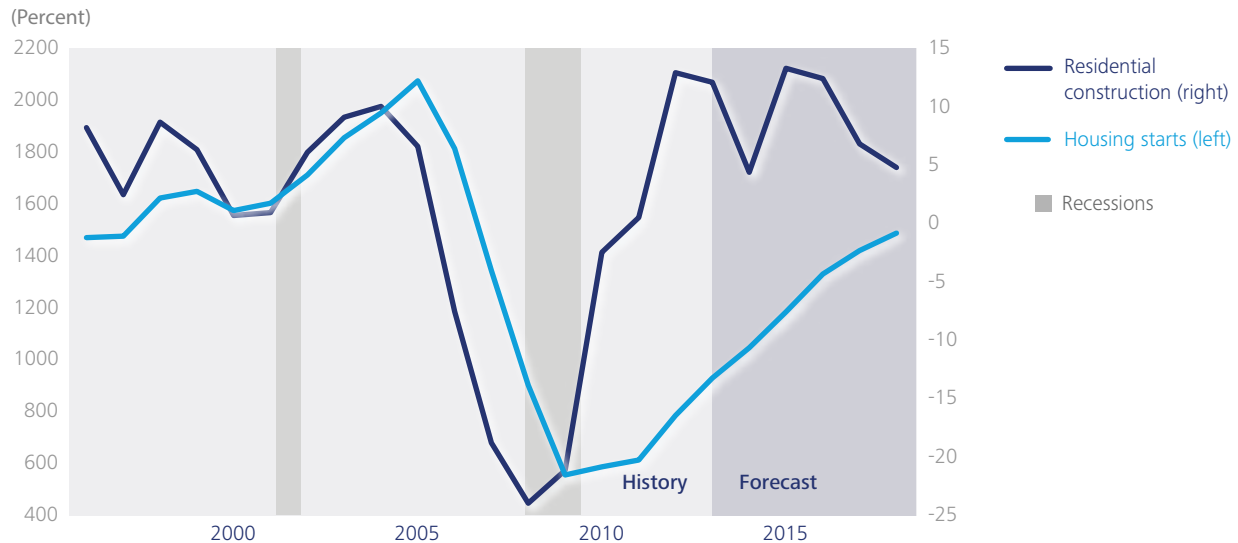


Figure 3. Housing


Graphic: Deloitte University Press | DUPress.com

Employment growth fell off. After averaging 200,000 per month for several months, December and January saw a drop to the 100,000 level. Some observers chose to attribute this to weather. But employment weakness showed up in industries such as health care and financial services that wouldn't normally be strongly affected—while construction gained 48,000 jobs in the bad-weather month of January.

Consumer confidence has picked up since the government funding crisis in October. Consumers are not only saying that they are more confident, they are showing it by borrowing more. Household debt in the United States increased by \$241 billion in the fourth quarter of 2013—the biggest increase since the third quarter of 2007.

Housing

It happens every year. Young people become old enough to leave home and start their own households. But it stopped happening during the recession. The number of households didn't grow nearly enough to account for all the newly minted young adults. Those young adults would prefer to live on

their own and create new households; as the economy recovers, they will do exactly that.

This means the fundamentals are excellent for residential construction. The United States hasn't been building as many new housing units as the population would normally require for about seven years, since 2008. In fact, housing construction was hit so hard that the oversupply turned into an undersupply, so there's a big hole that needs to be filled. We're not returning to 2005, when housing construction powered the economy almost on its own, but this sector will likely be a contributor to growth for a while.

Housing news

Housing starts fell substantially in January after reaching a post-crisis high of 1.048 million in December. While cold weather and snow in the eastern part of the United States probably contributed to the decline, housing permits peaked in October. Permits are a good indicator of future starts, and they remain flat or falling. This suggests that recovery in the housing market will take some time, regardless of the weather. The forecast now shows sluggish housing construction in 2014, which

reflects the soft market at the end of 2013 and beginning of 2014. We expect housing construction activity to begin to grow again this spring, but much of this growth will show in the annual average growth rate from 2014 to 2015.

The 30-year conventional mortgage rate has been fluctuating between 4.2 percent and 4.5 percent for several months. That's substantially above the 3.5 percent level prevalent in markets until the middle of 2014, but it is still quite low.

House prices stopped rising in recent months. While there is no indication that house prices might start falling, level house prices may help to moderate any growth in this sector in the near term.

Business investment

There's a lot of sad talk about the impact of uncertainty on business decisions. See, for example, the NFIB's study of small business attitudes. The press release for the study makes the claim that "New study finds economic and political uncertainty impediments to small-business growth" (although the actual study doesn't seem to support this).¹ So you might

not realize that actual business spending in equipment and software has been the healthiest sector of the economy since the recovery started. If business equipment purchases have been growing slowly, it's because there isn't much reason to invest when spending in other sectors is growing so slowly. Many businesses are still waiting for assurance that they will have customers. Once those customers return, there will be even more reason to ramp up investment. Watch what businesses do, not what they say.

Business investment news

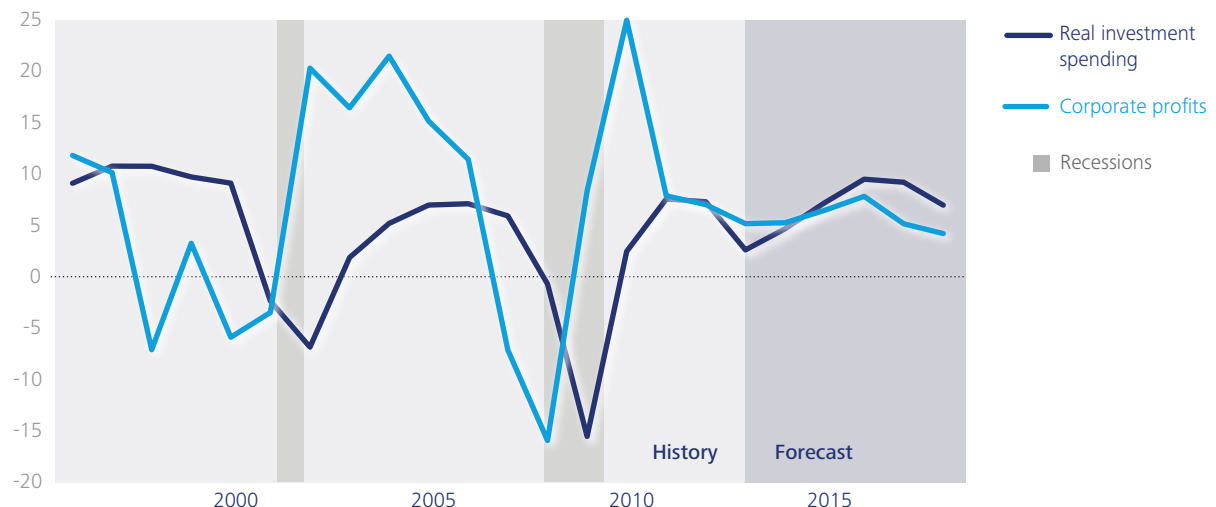
Nondefense capital goods shipments—the best high-frequency measure of equipment spending—grew in November and December. These goods will have been either invested or exported. Either result is very positive for the economy.

Interest rates have stabilized, but the stock market has been volatile. The cost of capital remains quite low, and businesses continue to sit on a large pile of cash.

Private nonresidential construction grew for most of 2013, but the most recent data shows a decline.

Figure 4. Business sector

(Percent)



Graphic: Deloitte University Press | DUPress.com

Foreign trade

The United States has long had a voracious appetite for foreign goods, and that's not going to stop. Imports will grow at about twice the rate of GDP over the next few years, and they will accelerate along with GDP growth.

However, exports look to prove a pleasant surprise. There are two reasons why US exporters will be happy:

- A variety of improvements, ranging from the United States' lead in technology to cheap natural gas, will help make US manufacturing more competitive with foreign goods.
- As risks abroad recede, investors are going to be looking outside the United States for higher returns. That's not a bad thing for the United States since we, after all, account for a lot of those investors. To get higher returns in places like Europe and Asia, investors will be selling dollar assets—and the exchange rate of the dollar will decline. A lower dollar is just fine if it helps improve US competitiveness and puts capital where it does the most good globally, so the

possibility of a depreciating dollar is to be welcomed.

Foreign trade news

US exports fell in December. Exports of petroleum products continued to grow, but exports of non-petroleum goods fell for the first time in five months.

Imports of petroleum products ticked up, while imports of non-petroleum goods fell.

The trade-weighted dollar has been fluctuating within a narrow (1–2 percent) range over the past few months. There has been little change in the incentives to export and/or import.

Economic news from Europe continues to be mixed, which is better than the uniformly bad news earlier this year. Japan appears to be recovering, and the Chinese economy is growing at a decent annual rate of about 7.5 percent.

Government

Government spending on goods and services has been stagnant, and the Deloitte forecast doesn't see much change in the next few years. At the federal level, it is hard to

Figure 5. International trade

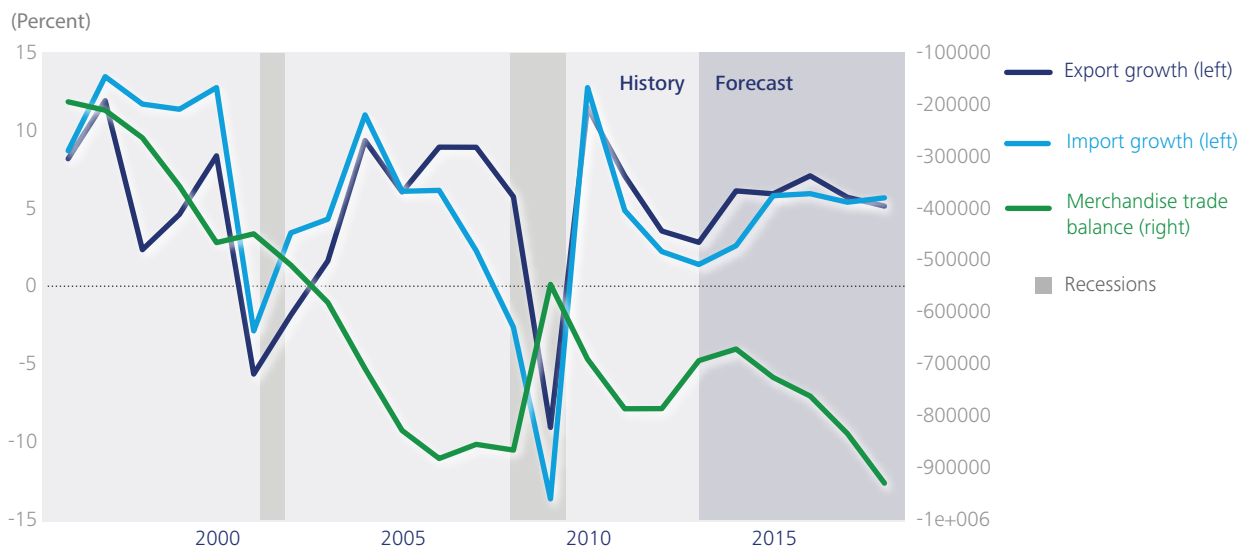
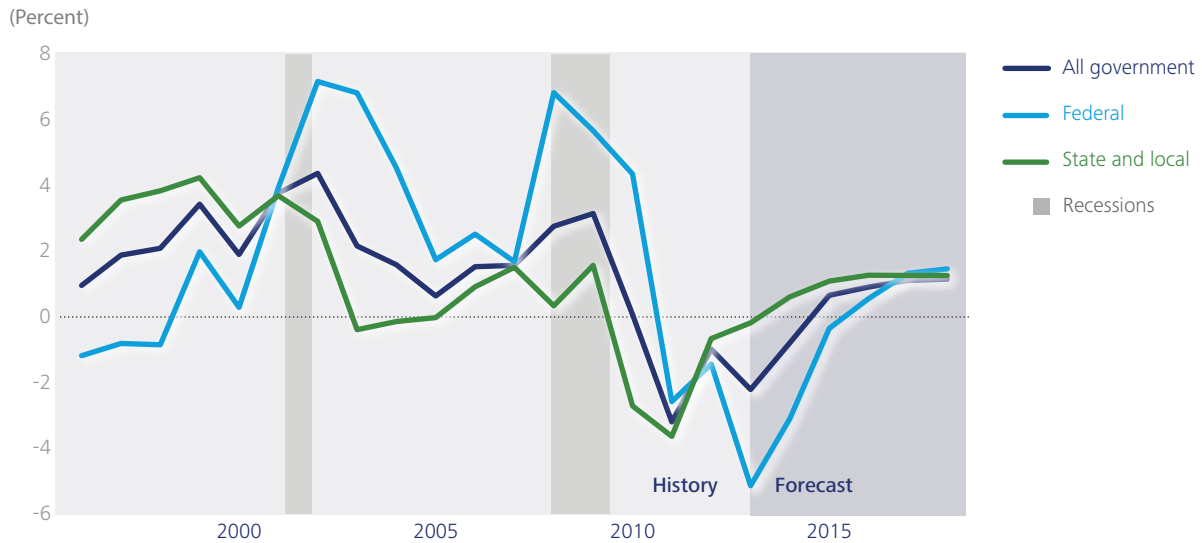


Figure 6. Government purchases

Graphic: Deloitte University Press | DUPress.com

see Congress and the president agreeing on significant new spending over the next five years. The recent budget agreement adds \$44 billion to federal spending in 2014. This is a small but welcome increase from the point of view of supporting economic demand. It would directly add about 0.2 percentage points to the Deloitte growth forecast, although some of the spending increase will be offset by the increased fees included in the plan. The Deloitte forecast was locked before the plan was announced.

The good news for state and local governments is that they likely won't have to keep cutting spending. State and local governments are getting some good news from rising house prices and growing employment. Tax collections are up, and that will remove some of the pressure on their budgets.

But those pesky pension liabilities continue to restrain state and local spending. The Congressional Budget Office estimates that there is a shortfall in state and local pension funding of \$2–3 trillion.² The need to fund these liabilities is likely to keep the lid on state and local spending growth.

Government news

In the three months to January, federal receipts rose \$61 billion, and outlays fell \$20 billion. This led to a net budget improvement of over \$80 billion compared to the same three months in 2013.

Government employment continued to fall. Federal and local government contributed to the decline, while state employment was flat.

The Congressional Budget Office (CBO) issued a new budget forecast. The CBO now expects deficits of \$514 billion in FY 2014—\$46 billion lower than the previous forecast—and \$478 billion in 2015—\$100 billion higher than the previous forecast. The CBO forecasts budget deficits to hit a low of 2.9 percent of GDP in 2015 and then begin to trend upward relative to GDP.

The CBO's recent semi-annual forecast contained an updated estimate of the impact of the Affordable Care Act (ACA) on the labor market. Misleading press reporting led to much discussion of “the loss of two million jobs.” This was a misreading of the report, which focused on workers' decisions to participate in the labor market, and it specifically mentioned that ACA's impact on employer decisions to

hire workers would be “slight.” CBO estimates that total hours worked will be 1.5–2.0 percent lower when the ACA is fully implemented, as some people now employed only to obtain health insurance choose to leave the labor market, and other low-income workers choose to reduce hours to remain eligible for the health insurance subsidy. CBO (and the Deloitte economics team) continues to expect that the ACA’s impact on the overall economy will be modest—and at least as likely to be positive as negative.

Labor markets

If the US economy is going to produce more goods and services, it will need more workers. As long as the labor market is out of balance, the currently moderate wage growth will eventually encourage firms to increase capacity by hiring workers. However, employment growth is more likely to occur in industries such as health care and recreation services than in manufacturing. Accelerating production will carry with it an eventual acceleration in employment—and even a mild acceleration in wages.

But a great many people have been out of work for a long time—long enough that their basic work skills may be eroded. When the labor market tightens up, will those people be employable? Once the employment-to-population ratio (rather than the unemployment rate) starts increasing and labor markets begin to tighten, the ultimate damage of the 2007–2009 recession will become measurable.

One unusual feature of the current recovery is the decline in the number of government workers. Government jobs were once thought of as recession-proof, but that’s not the case anymore. There isn’t a lot of desire for increased government spending. As a result, government employment is likely to grow slowly at best in the next few years, which may constrain job growth.

Labor market news

Initial claims have mostly stayed within a band with an upper limit of about 360,000 and a lower limit of 325,000. This is consistent with moderate growth in employment.

Payroll employment stumbled a bit. Job growth fell from a previous average of about 200,000 per month to about 100,000 per

Figure 7. Labor markets

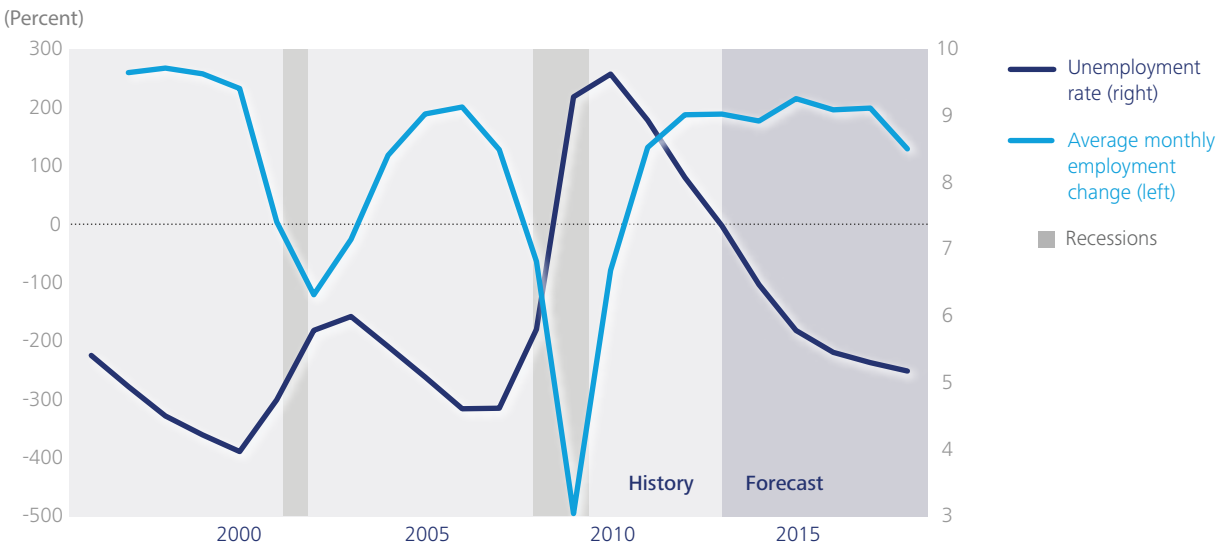
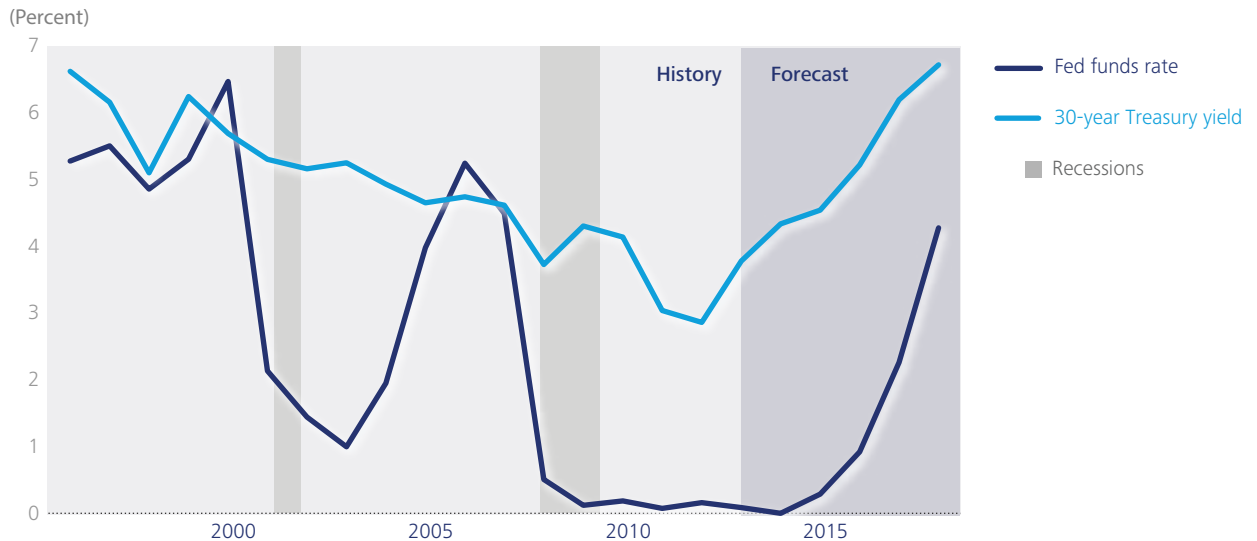


Figure 8. Financial markets

Graphic: Deloitte University Press | DUPress.com

month in December and January. This was disappointing, although consistent with economic growth of about 2.0 percent.

The unemployment rate continued to fall. The employment-to-population ratio rose slightly, but it remained very low, indicating that there are a substantial number of potential workers who are still waiting for a better job market before they enter the labor force.

The CBO released a report, which estimates that a rise in the minimum wage would cost about 500,000 jobs. This would raise the unemployment rate by about 0.3 percentage points.

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 Deloitte forecast sees interest rates headed up—maybe not this week, and maybe not this month. The forecast shows the

economy regaining its health by late 2014, however, and a healthy economy will mean that lending will be once again become costly. The forecast moves interest rates back to “normal” interest rate levels as economic growth accelerates. That's not a bad thing—unless returning to normal is bad.

Of course, some investors will be caught short. Those are the people who think 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 welcome return to normal.

But the most sophisticated observers of financial markets know the most important thing about interest rates—they will fluctuate. This is the sector that is most likely to surprise us.

Financial market news

The Fed's tapering activities had an impact on emerging markets in January. Investors apparently decided that it was time to rebalance portfolios back toward the United States (although US interest rates didn't actually

rise). The resulting volatility took markets by surprise, and US equity markets experienced a correction of 4–5 percent by early February. Markets quickly regained most of the lost ground in the next two weeks.

Janet Yellen took over the reins of the Federal Reserve from Ben Bernanke. Financial markets reacted positively to her first appearance before Congress on February 14. She will continue current Fed policy, including slowing “tapering” or reducing Fed long-term asset purchases and holding interest rates low until the labor market has clearly recovered from the financial crisis and recession of 2008–2009.

Prices

Remember those folks who were convinced that the Fed’s actions in 2009 would create runaway inflation? They might rather you didn’t. Prices have been the most boring part of forecasting for the past five 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—is so slack. Workers don’t have leverage to obtain higher wages when prices go up, and businesses don’t have

pricing power to cover higher costs. Instead, shocks from higher energy or food prices have just dissipated into the ether rather than being translated into sustained, higher inflation.

That means that inflation will remain tame at least until the economy reaches full employment. With a labor surplus of 10–12 million people, that will take a while, even in our forecast. So don’t hold your breath waiting for the return of the 1970s. Bell bottoms, disco, and high inflation are all safely in our past (for now).

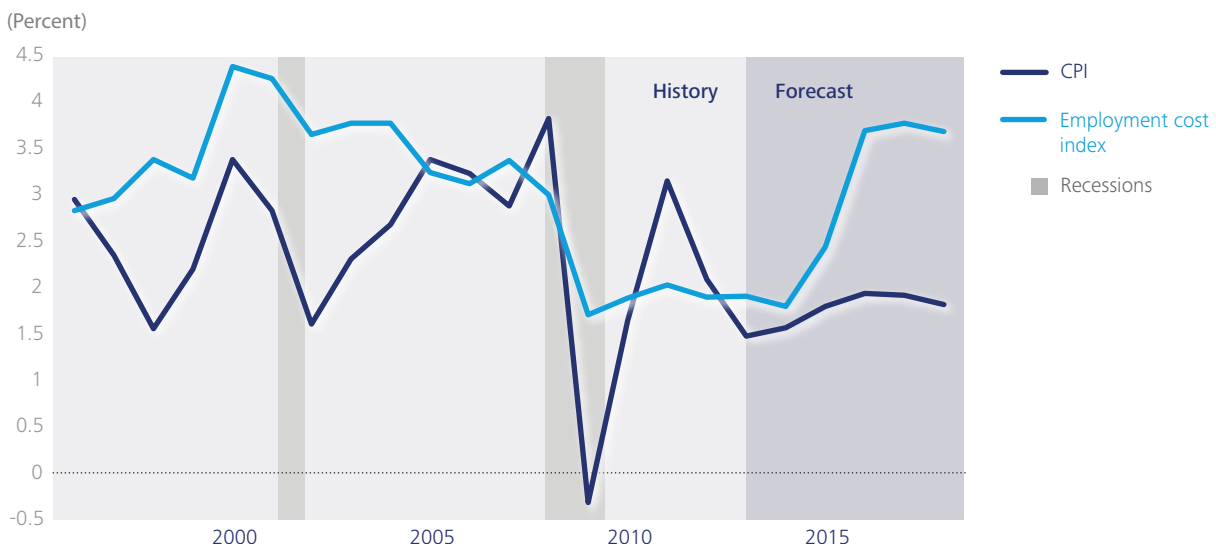
Price news

Consumer prices have been growing below 0.2 percent per month, quite a bit below the Fed’s target.

The Bureau of Labor Statistics (BLS) introduced a new producer price index methodology. The new headline index (“Final Demand PPI”) includes goods, services, and construction, while the previous headline PPI (“Finished Goods”) was more narrowly focused. The PPI shows that inflation is well under control.

Productivity rose substantially in the third quarter, and unit labor costs fell 1.6 percent.

Figure 9. Prices



Endnotes

1. "Growth: External impediments," NFIB National Small Business Poll, Volume 11, Issue 1, 2011.
2. "The underfunding of state and local pension plans," Congressional Budget Office, May 2011.

Appendix

Deloitte economic forecast

Table 1. Deloitte US Forecast: Baseline

Percent change, year-over-year unless otherwise noted.

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
GDP Components											
Real GDP	-0.3	-2.8	2.5	1.8	2.8	1.9	2.6	3.4	4.2	3.7	3.1
Real consumer spending	-0.4	-1.6	2.0	2.5	2.2	2.0	2.7	3.0	3.4	3.1	3.0
Real consumer spending, durable goods	-5.1	-5.5	6.1	6.6	7.7	7.1	4.8	5.2	3.7	3.2	1.7
Real consumer spending, nondurable goods	-1.1	-1.8	2.2	1.9	1.4	2.1	2.7	1.7	2.5	2.6	3.2
Real consumer spending, services	0.8	-0.8	1.2	2.1	1.6	1.2	2.4	3.1	3.6	3.3	3.2
Real investment in private housing	-24.0	-21.2	-2.5	0.5	12.9	12.0	4.3	13.3	12.4	6.8	4.8
Real fixed business investment	-0.7	-15.6	2.5	7.6	7.3	2.6	4.2	7.2	9.5	9.2	7.0
Real inventory accumulation	-34	-148	58	34	58	85	59	62	76	73	54
Real exports of goods and services	5.7	-9.1	11.5	7.1	3.5	2.8	6.0	5.9	7.1	5.7	5.1
Real imports of goods and services	-2.6	-13.7	12.8	4.9	2.2	1.4	2.4	5.9	5.9	5.4	5.7
Real government consumption and investment	2.8	3.1	0.1	-3.2	-1.0	-2.2	-0.8	0.7	0.9	1.1	1.1
Real Federal government consumption and investment	6.8	5.7	4.3	-2.6	-1.4	-5.1	-3.1	-0.4	0.6	1.3	1.5
Real state and local government consumption and investment	0.3	1.6	-2.7	-3.6	-0.7	-0.2	0.6	1.1	1.3	1.3	1.3
Prices											
Consumer price index	3.8	-0.3	1.6	3.1	2.1	1.5	1.6	1.8	1.9	1.9	1.8
Chained price index for personal consumption expenditures	3.1	-0.1	1.7	2.4	1.8	1.1	1.6	2.0	1.9	1.8	1.7
Chained GDP price index	2.0	0.8	1.2	2.0	1.7	1.5	1.0	1.7	1.9	1.8	1.7
Employment cost index	3.0	1.7	1.9	2.0	1.9	1.9	1.8	2.4	3.7	3.8	3.7
Labor markets											
Average monthly change in employment	-63.8	-495.8	-79.0	131.4	187.5	188.6	172.2	215.9	196.3	199.2	129.1
Unemployment rate (percent)	5.8	9.3	9.6	8.9	8.1	7.3	6.5	5.8	5.5	5.3	5.2
Employment to population (percent)	62.2	59.3	58.5	58.4	58.6	58.6	59.0	59.5	60.0	60.4	60.5
Income and wealth											
Real disposable personal income	1.5	-0.5	1.1	2.4	2.0	0.7	1.7	2.7	4.0	3.9	3.0
Net household wealth (\$ trillions)	57.3	59.0	63.5	64.9	70.9	81.6	90.0	97.2	105.2	112.7	121.1
Personal saving rate (percent of disposable income)	5.0	6.1	5.6	5.7	5.6	4.5	3.6	3.4	4.1	4.9	4.9
After-tax corporate profits with corporate profits with inventory valuation and capital consumption adjustments	-16.0	8.4	25.0	7.9	7.0	5.2	4.8	6.3	7.8	5.1	4.1
Housing											
Housing starts (thousands)	900	554	586	612	783	928	1044	1183	1329	1419	1486
Stock of owner occupied homes (millions)	130	131	132	132	132	133	133	134	135	136	138
Interest rate on 30 year fixed rate mortgages (percent)	6.0	5.0	4.7	4.5	3.7	4.0	4.5	4.6	5.1	6.2	7.2
Foreign trade											
Current account balance, share of GDP (percent)	-4.6	-2.6	-3.0	-2.9	-2.7	-2.2	-1.5	-1.5	-1.4	-1.4	-1.6
Merchandise trade balance (\$ billions)	-865.9	-546.6	-690.6	-786.2	-786.0	-693.6	-670.9	-727.1	-763.7	-836.8	-932.2
Relative unit labor costs (Index, 2008=100)	100	103	95	89	86	83	83	81	78	76	74
Financial											
Federal funds rate (percent)	1.9	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.6	1.7	3.5
Yield on 30-year treasury bond (percent)	4.3	4.0	4.3	3.9	2.9	3.4	4.1	4.4	4.9	5.9	6.6
Government											
Federal budget balance, unified basis (\$ billions, fiscal years)	-455	-1416	-1294	-1297	-1089	-680	-575	-552	-498	-474	-447
State and local budget balance (\$ billions, NIPA basis)	-165	-272	-237	-213	-253	-220	-175	-130	-121	-125	-130

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

Table 2. Deloitte US Forecast: Recession

Percent change, year-over-year unless otherwise noted.

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
GDP Components											
Real GDP	-0.3	-2.8	2.5	1.8	2.8	1.9	1.2	1.1	4.2	4.7	4.3
Real consumer spending	-0.4	-1.6	2.0	2.5	2.2	2.0	1.4	0.9	2.9	3.6	3.8
Real consumer spending, durable goods	-5.1	-5.5	6.1	6.6	7.7	7.1	4.6	3.8	2.6	3.9	2.1
Real consumer spending, nondurable goods	-1.1	-1.8	2.2	1.9	1.4	2.1	1.3	-0.6	2.1	3.1	4.0
Real consumer spending, services	0.8	-0.8	1.2	2.1	1.6	1.2	1.0	0.9	3.2	3.8	4.0
Real investment in private housing	-24.0	-21.2	-2.5	0.5	12.9	12.0	0.8	8.5	17.9	11.9	5.0
Real fixed business investment	-0.7	-15.6	2.5	7.6	7.3	2.6	0.7	-1.0	9.1	13.5	12.3
Real inventory accumulation	-33.7	-147.6	58.2	33.6	57.6	85.4	42.1	14.5	60.1	83.9	79.9
Real exports of goods and services	5.7	-9.1	11.5	7.1	3.5	2.8	3.2	6.8	9.3	6.4	5.6
Real imports of goods and services	-2.6	-13.7	12.8	4.9	2.2	1.4	-0.4	3.5	8.0	7.0	6.3
Real government consumption and investment	2.8	3.1	0.1	-3.2	-1.0	-2.2	-0.8	0.7	0.9	1.1	1.2
Real Federal government consumption and investment	6.8	5.7	4.3	-2.6	-1.4	-5.1	-3.1	-0.4	0.6	1.3	1.5
Real state and local government consumption and investment	0.3	1.6	-2.7	-3.6	-0.7	-0.2	0.6	1.1	1.3	1.3	1.3
Prices											
Consumer price Index	3.8	-0.3	1.6	3.1	2.1	1.5	1.6	1.4	1.0	1.0	1.0
Chained price index for personal consumption expenditures	3.1	-0.1	1.7	2.4	1.8	1.1	1.6	1.6	1.0	0.9	0.9
Chained GDP price index	2.0	0.8	1.2	2.0	1.7	1.5	1.0	1.5	1.0	0.9	0.8
Employment cost index	3.0	1.7	1.9	2.0	1.9	1.9	1.5	0.9	2.3	2.9	3.4
Labor markets											
Average monthly change in employment	-64	-496	-79	131	187	189	104	84	184	255	205
Unemployment rate (percent)	5.8	9.3	9.6	8.9	8.1	7.3	7.1	7.4	7.0	6.2	5.5
Employment to population (percent)	62.2	59.3	58.5	58.4	58.6	58.6	58.6	58.5	58.9	59.6	60.1
Income and wealth											
Real disposable personal income	1.5	-0.5	1.1	2.4	2.0	0.7	1.2	1.6	3.9	4.2	3.6
Net household wealth (\$ trillions)	57.3	59.0	63.5	64.9	70.9	81.6	77.2	88.1	98.0	111.3	113.9
Personal saving rate (percent of disposable income)	5.0	6.1	5.6	5.7	5.6	4.5	4.3	5.0	6.0	6.6	6.5
After-tax corporate profits with corporate profits with inventory valuation and capital consumption adjustments	-16.0	8.4	25.0	7.9	7.0	5.2	-0.4	2.3	10.7	8.5	4.5
Housing											
Housing starts (thousands)	900	554	586	612	783	928	1009	1095	1291	1444	1516
Stock of owner occupied homes (millions)	130	131	132	132	132	133	133	134	135	136	138
Interest rate on 30 year fixed rate mortgages (percent)	6.0	5.0	4.7	4.5	3.7	4.0	4.6	4.2	3.9	3.9	5.2
Foreign trade											
Current account balance, share of GDP (percent)	-4.6	-2.6	-3.0	-2.9	-2.7	-2.2	-1.4	-0.9	-0.9	-1.4	-0.6
Merchandise trade balance (\$ billions)	-865.9	-546.6	-690.6	-786.2	-786.0	-693.6	-665.0	-616.4	-624.8	-744.4	-921.2
Relative unit labor costs (Index, 2008=100)	100	103	95	89	86	83	83	81	77	75	72
Financial											
Federal funds rate (percent)	1.9	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.2	2.5
Yield on 30-year treasury bond (percent)	4.3	4.0	4.3	3.9	2.9	3.4	4.0	3.8	3.4	3.5	4.3
Government											
Federal budget balance, unified basis (\$ billions, fiscal years)	-455	-1416	-1294	-1297	-1089	-680	-605	-699	-661	-579	-470
State and local budget balance (\$ billions, NIPA basis)	-165	-272	-237	-213	-253	-220	-200	-192	-183	-165	-149

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

Table 3. Deloitte US Forecast: Continuing slow growth

Percent change, year-over-year unless otherwise noted.

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
GDP Components											
Real GDP	-0.3	-2.8	2.5	1.8	2.8	1.9	2.4	2.0	2.4	2.0	2.4
Real consumer spending	-0.4	-1.6	2.0	2.5	2.2	2.0	2.5	1.9	1.9	1.7	2.3
Real consumer spending, durable goods	-5.1	-5.5	6.1	6.6	7.7	7.1	4.3	3.9	2.0	1.6	0.5
Real consumer spending, nondurable goods	-1.1	-1.8	2.2	1.9	1.4	2.1	2.5	0.6	1.0	1.1	2.5
Real consumer spending, services	0.8	-0.8	1.2	2.1	1.6	1.2	2.2	2.0	2.1	1.9	2.6
Real investment in private housing	-24.0	-21.2	-2.5	0.5	12.9	12.0	3.3	8.3	9.2	6.2	5.7
Real fixed business investment	-0.7	-15.6	2.5	7.6	7.3	2.6	4.2	3.4	3.7	4.1	5.5
Real inventory accumulation	-33.7	-147.6	58.2	33.6	57.6	85.4	60.9	38.3	37.4	31.5	31.1
Real exports of goods and services	5.7	-9.1	11.5	7.1	3.5	2.8	5.3	4.5	5.7	4.6	4.2
Real imports of goods and services	-2.6	-13.7	12.8	4.9	2.2	1.4	2.1	3.6	4.0	4.2	5.3
Real government consumption and investment	2.8	3.1	0.1	-3.2	-1.0	-2.2	-0.8	0.7	0.9	1.1	1.2
Real Federal government consumption and investment	6.8	5.7	4.3	-2.6	-1.4	-5.1	-3.1	-0.4	0.6	1.3	1.5
Real state and local government consumption and investment	0.3	1.6	-2.7	-3.6	-0.7	-0.2	0.6	1.1	1.3	1.3	1.3
Prices											
Consumer price Index	3.8	-0.3	1.6	3.1	2.1	1.5	1.8	2.1	1.9	1.7	1.9
Chained price index for personal consumption expenditures	3.1	-0.1	1.7	2.4	1.8	1.1	1.8	2.3	2.0	1.8	2.0
Chained GDP price index	2.0	0.8	1.2	2.0	1.7	1.5	1.3	2.1	2.0	1.8	1.7
Employment cost index	3.0	1.7	1.9	2.0	1.9	1.9	1.8	2.4	3.0	2.7	3.0
Labor markets											
Average monthly change in employment	-64	-496	-79	131	187	189	166	148	96	106	96
Unemployment rate (percent)	5.8	9.3	9.6	8.9	8.1	7.3	6.6	6.4	6.3	6.0	5.9
Employment to population (percent)	62.2	59.3	58.5	58.4	58.6	58.6	58.9	59.1	59.1	59.1	59.0
Income and wealth											
Real disposable personal income	1.5	-0.5	1.1	2.4	2.0	0.7	1.5	2.2	2.9	2.5	2.2
Net household wealth (\$ trillions)	57.3	59.0	63.5	64.9	70.9	81.6	85.4	86.3	89.4	93.1	98.9
Personal saving rate (percent of disposable income)	5.0	6.1	5.6	5.7	5.6	4.5	3.6	4.0	5.0	5.8	5.7
After-tax corporate profits with corporate profits with inventory valuation and capital consumption adjustments	-16.0	8.4	25.0	7.9	7.0	5.2	5.0	1.8	3.4	3.0	6.4
Housing											
Housing starts (thousands)	900	554	586	612	783	928	1034	1120	1223	1299	1373
Stock of owner occupied homes (millions)	130	131	132	132	132	133	133	134	135	136	137
Interest rate on 30 year fixed rate mortgages (percent)	6.0	5.0	4.7	4.5	3.7	4.0	4.9	6.0	6.8	7.8	8.7
Foreign trade											
Current account balance, share of GDP (percent)	-4.6	-2.6	-3.0	-2.9	-2.7	-2.2	-1.4	-1.3	-1.1	-1.3	-1.7
Merchandise trade balance (\$ billions)	-865.9	-546.6	-690.6	-786.2	-786.0	-693.6	-677.9	-708.4	-709.3	-754.9	-853.6
Relative unit labor costs (Index, 2008=100)	100	103	95	89	86	83	83	82	79	77	75
Financial											
Federal funds rate (percent)	1.9	0.2	0.2	0.1	0.1	0.1	0.7	1.5	2.2	3.1	4.9
Yield on 30-year treasury bond (percent)	4.3	4.0	4.3	3.9	2.9	3.4	4.5	5.7	6.6	7.5	8.1
Government											
Federal budget balance, unified basis (\$ billions, fiscal years)	-455	-1416	-1294	-1297	-1089	-680	-579	-622	-664	-698	-727
State and local budget balance (\$ billions, NIPA basis)	-165	-272	-237	-213	-253	-220	-178	-162	-180	-201	-214

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

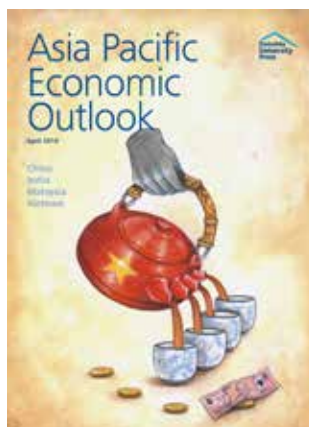
Table 4. Deloitte US Forecast: Coordinated global boom

Percent change, year-over-year unless otherwise noted.

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
GDP Components											
Real GDP	-0.3	-2.8	2.5	1.8	2.8	1.9	2.9	4.1	5.2	4.2	3.5
Real consumer spending	-0.4	-1.6	2.0	2.5	2.2	2.0	2.9	3.6	4.2	3.4	3.4
Real consumer spending, durable goods	-5.1	-5.5	6.1	6.6	7.7	7.1	4.9	5.4	3.7	2.9	1.7
Real consumer spending, nondurable goods	-1.1	-1.8	2.2	1.9	1.4	2.1	2.9	2.3	3.5	3.0	3.6
Real consumer spending, services	0.8	-0.8	1.2	2.1	1.6	1.2	2.6	3.7	4.5	3.7	3.7
Real investment in private housing	-24.0	-21.2	-2.5	0.5	12.9	12.0	4.8	14.1	12.7	4.7	4.5
Real fixed business investment	-0.7	-15.6	2.5	7.6	7.3	2.6	4.9	8.8	12.2	10.3	7.0
Real inventory accumulation	-33.7	-147.6	58.2	33.6	57.6	85.4	66.4	73.2	97.1	87.3	65.8
Real exports of goods and services	5.7	-9.1	11.5	7.1	3.5	2.8	6.4	6.6	7.9	6.4	5.8
Real imports of goods and services	-2.6	-13.7	12.8	4.9	2.2	1.4	3.0	6.8	6.9	5.1	5.9
Real government consumption and investment	2.8	3.1	0.1	-3.2	-1.0	-2.2	-0.6	1.1	1.4	1.6	1.7
Real Federal government consumption and investment	6.8	5.7	4.3	-2.6	-1.4	-5.1	-2.7	0.3	1.2	2.0	2.2
Real state and local government consumption and investment	0.3	1.6	-2.7	-3.6	-0.7	-0.2	0.7	1.5	1.7	1.7	1.7
Prices											
Consumer price Index	3.8	-0.3	1.6	3.1	2.1	1.5	1.5	1.7	1.9	2.0	2.0
Chained price index for personal consumption expenditures	3.1	-0.1	1.7	2.4	1.8	1.1	1.6	1.9	1.8	1.9	1.9
Chained GDP price index	2.0	0.8	1.2	2.0	1.7	1.5	1.0	1.5	1.7	1.8	2.0
Employment cost index	3.0	1.7	1.9	2.0	1.9	1.9	1.8	2.5	3.8	4.1	4.1
Labor markets											
Average monthly change in employment	-64	-496	-79	131	187	189	186	250	252	231	155
Unemployment rate (percent)	5.8	9.3	9.6	8.9	8.1	7.3	6.8	6.6	6.1	5.6	5.4
Employment to population (percent)	62.2	59.3	58.5	58.4	58.6	58.6	59.0	59.8	60.5	61.1	61.4
Income and wealth											
Real disposable personal income	1.5	-0.5	1.1	2.4	2.0	0.7	2.0	3.3	4.6	4.1	3.2
Net household wealth (\$ trillions)	57.3	59.0	63.5	64.9	70.9	81.6	90.4	98.6	104.7	111.1	117.6
Personal saving rate (percent of disposable income)	5.0	6.1	5.6	5.7	5.6	4.5	3.7	3.6	4.1	4.8	4.7
After-tax corporate profits with corporate profits with inventory valuation and capital consumption adjustments	-16.0	8.4	25.0	7.9	7.0	5.2	6.0	8.1	9.8	5.0	4.6
Housing											
Housing starts (thousands)	900	554	586	612	783	928	1049	1196	1348	1411	1474
Stock of owner occupied homes (millions)	130	131	132	132	132	133	133	134	135	136	138
Interest rate on 30 year fixed rate mortgages (percent)	6.0	5.0	4.7	4.5	3.7	4.0	4.4	4.5	5.4	7.1	8.3
Foreign trade											
Current account balance, share of GDP (percent)	-4.6	-2.6	-3.0	-2.9	-2.7	-2.2	-1.5	-1.7	-1.5	-1.4	-1.7
Merchandise trade balance (\$ billions)	-865.9	-546.6	-690.6	-786.2	-786.0	-693.6	-675.0	-747.3	-802.8	-864.4	-956.2
Relative unit labor costs (Index, 2008=100)	100	103	95	89	86	83	82	81	78	76	74
Financial											
Federal funds rate (percent)	1.9	0.2	0.2	0.1	0.1	0.1	0.1	0.0	1.0	2.6	4.7
Yield on 30-year treasury bond (percent)	4.3	4.0	4.3	3.9	2.9	3.4	4.1	4.4	5.2	6.8	7.7
Government											
Federal budget balance, unified basis (\$ billions, fiscal years)	-455	-1416	-1294	-1297	-1089	-680	-578	-560	-493	-442	-407
State and local budget balance (\$ billions, NIPA basis)	-165	-272	-237	-213	-253	-220	-176	-130	-109	-108	-108

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

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About the authors

Author

Dr. Daniel Bachman is a senior manager for US macroeconomics at Deloitte Services LP.

Contributors

Dr. Ira Kalish is chief global economist for Deloitte Touche Tomatsu Limited.

Dr. Patricia Buckley is director of economic policy and analysis for Deloitte Services LP.

Dr. Rumki Majumdar is a macroeconomist and a manager at Deloitte Research, Deloitte Services LP.

Contact information

Global Economics Team

Ryan Alvanos
Deloitte Research
Deloitte Services LP
USA
Tel: +1.617.437.3009
E-mail: ralvanos@deloitte.com

Dr. Daniel Bachman
Deloitte Research
Deloitte Services LP
USA
Tel: +1.202.220.2053
E-mail: dbachman@deloitte.com

Dr. Ira Kalish
Deloitte Touche Tohmatsu Limited
USA
Tel: +1.213.688.4765
E-mail: ikalish@deloitte.com

Dr. Patricia Buckley
Deloitte Research
Deloitte Services LP
USA
Tel: +1.517.814.6508
E-mail: pbuckley@deloitte.com

Dr. Rumki Majumdar
Deloitte Research
Deloitte Services LP
India
Tel: +1 615 209 4090
E-mail: rmajumdar@deloitte.com

US Industry Leaders

Banking & Securities and Financial Services

Robert Contri
Deloitte LLP
Tel: +1.212.436.2043
E-mail: rcontri@deloitte.com

Consumer & Industrial Products

Craig Giffi
Deloitte LLP
Tel: +1.216.830.6604
E-mail: cgiffi@deloitte.com

Life Sciences & Health Care

Bill Copeland
Deloitte Consulting LLP
Tel: +1.215.446.3440
E-mail: bcopeland@deloitte.com

Power & Utilities and Energy & Resources

John McCue
Deloitte LLP
Tel: +216 830 6606
E-mail: jmcue@deloitte.com

Public Sector (Federal)

Robin Lineberger
Deloitte Consulting LLP
Tel: +1.517.882.7100
E-mail: rlineberger@deloitte.com

Public Sector (State)

Jessica Blume
Deloitte LLP
Tel: +1.813.273.8320
E-mail: jblume@deloitte.com

Telecommunications, Media & Technology

Eric Openshaw
Deloitte LLP
Tel: +1.714.913.1370
E-mail: eopenshaw@deloitte.com



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