

## U.S. Economic Outlook

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Consensus Revenue Estimating Conference  
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## The U.S. Recovery: Uneven and Subpar, But Gathering Momentum at the End of 2010

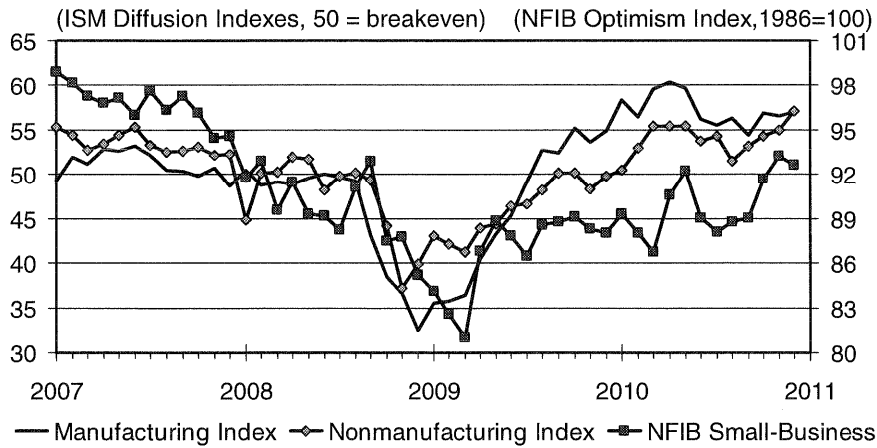
- Recession “over”, but GDP only now regaining previous peak (should happen in Q4 2010)
- Growth boost from original fiscal stimulus is fading, but there’s a second stimulus from the tax package
- Recent data has been more upbeat, suggesting final sales – not just inventories - now reviving
- But headwinds are still blowing from consumer and business caution due to the hangover from the financial boom and bust
- We don’t expect more from the Fed beyond QE2 (and we don’t think QE2 had much impact)
- It’s still too early to tighten fiscal policy – but a deficit-reduction plan is badly needed



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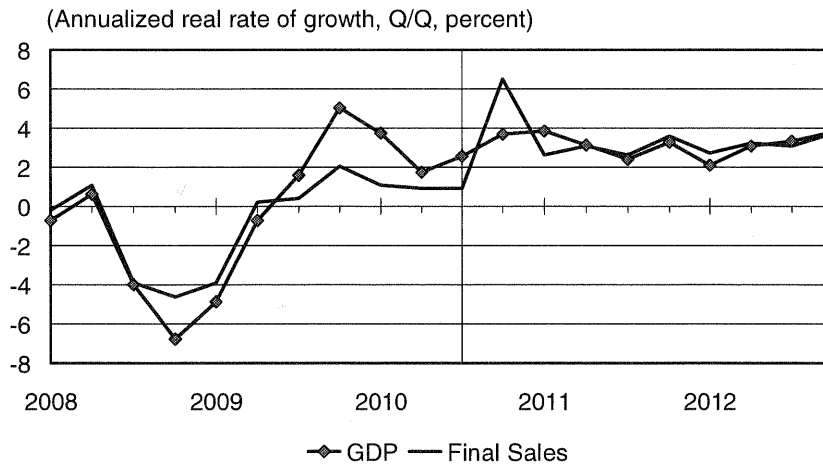
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## ISM Indicators Show Growth: Key Small Business Indicator Improving At Last



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## Inventory Cycle Support For Growth Has Peaked, But Final Sales Growth Will Pick Up



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## U.S. Economic Growth by Sector

(Percent change unless otherwise noted)

	2009	2010	2011	2012
<b>Real GDP</b>	-2.6	2.9	3.2	2.9
<b>Final Sales</b>	-2.1	1.4	3.2	3.1
<b>Consumption</b>	-1.2	1.8	3.2	2.5
<b>Light Vehicle Sales (Millions)</b>	10.4	11.5	13.1	14.9
<b>Residential Investment</b>	-22.9	-3.2	2.7	27.3
<b>Housing Starts (Millions)</b>	0.55	0.59	0.69	1.09
<b>Business Fixed Investment</b>	-17.1	5.2	8.6	7.5
<b>Federal Government</b>	5.7	4.9	0.5	-3.8
<b>State and Local Government</b>	-0.9	-1.2	0.1	0.0
<b>Exports</b>	-9.5	11.9	8.7	8.3
<b>Imports</b>	-13.8	12.8	7.2	5.2



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## Other Key Indicators

(Percent unless otherwise noted)

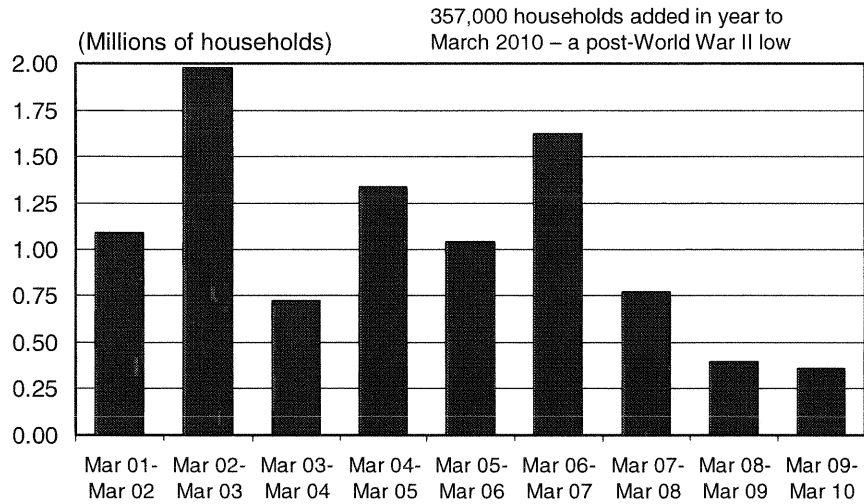
	2009	2010	2011	2012
<b>Industrial Production (% growth)</b>	-9.3	5.6	3.8	3.4
<b>Employment (% growth)</b>	-4.3	-0.5	1.4	2.0
<b>Unemployment Rate</b>	9.3	9.7	9.3	8.7
<b>CPI Inflation</b>	-0.3	1.7	1.6	1.9
<b>Oil Prices (WTI, US\$/bbl)</b>	62	79	88	95
<b>Core PCE Price Inflation</b>	1.5	1.3	1.1	1.5
<b>Federal Funds Rate</b>	0.16	0.18	0.17	1.28
<b>10-year Government Bond Yield</b>	3.26	3.21	3.28	3.53
<b>Dollar (Major Currencies, 2005=1)</b>	0.93	0.90	0.88	0.88



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## Housing Demand Shortfall: Household Formation Has Plunged

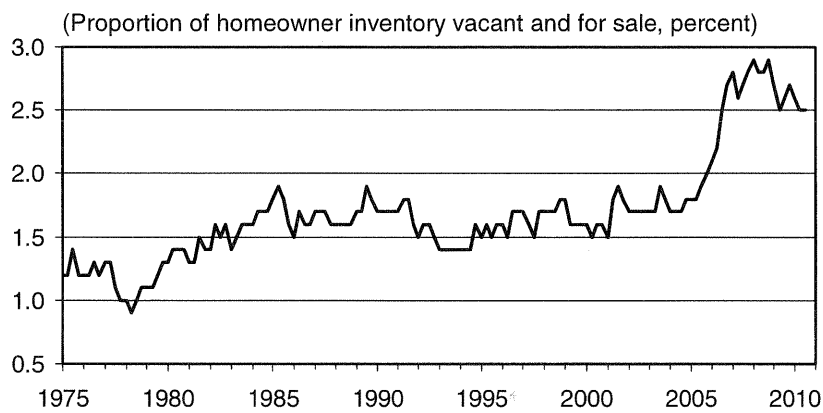


Source: Census Bureau



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## Housing Supply Excess



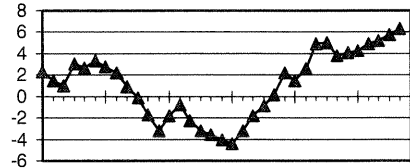
Source: Census Bureau



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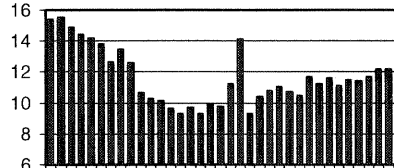
## Consumer Indicators Improving

Retail Sales ex-Autos and Gasoline\*



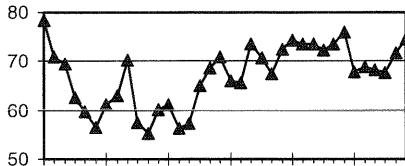
Jan-08 Jul-08 Jan-09 Jul-09 Jan-10 Jul-10

Light Vehicle Sales\*\*



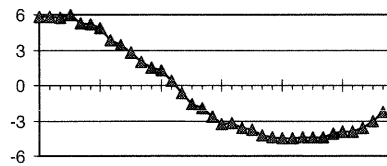
Jan-08 Jul-08 Jan-09 Jul-09 Jan-10 Jul-10

Consumer Sentiment\*\*\*



Jan-08 Jul-08 Jan-09 Jul-09 Jan-10 Jul-10

Consumer Credit Growth\*



Jan-08 Jul-08 Jan-09 Jul-09 Jan-10 Jul-10

\*YY % change; \*\*Millions, annualized, SA; \*\*\*Reuters/Michigan Index

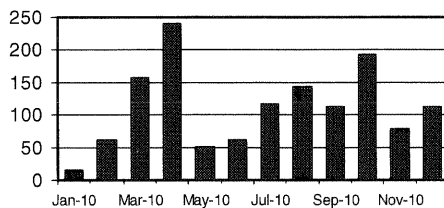


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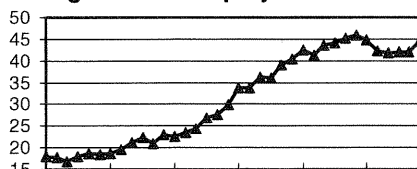
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## Employment Is Turning, But Not Rapidly

Private Payroll Employment\*

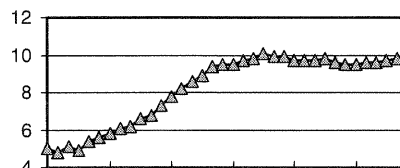


Long-Term Unemployed Share\*\*\*



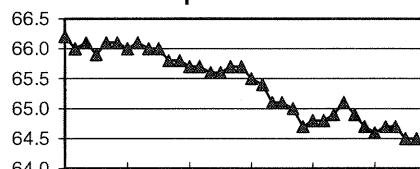
Jan-08 Jul-08 Jan-09 Jul-09 Jan-10 Jul-10

Unemployment Rate\*\*



Jan-08 Jul-08 Jan-09 Jul-09 Jan-10 Jul-10

Participation Rate\*\*



Jan-08 Jul-08 Jan-09 Jul-09 Jan-10 Jul-10

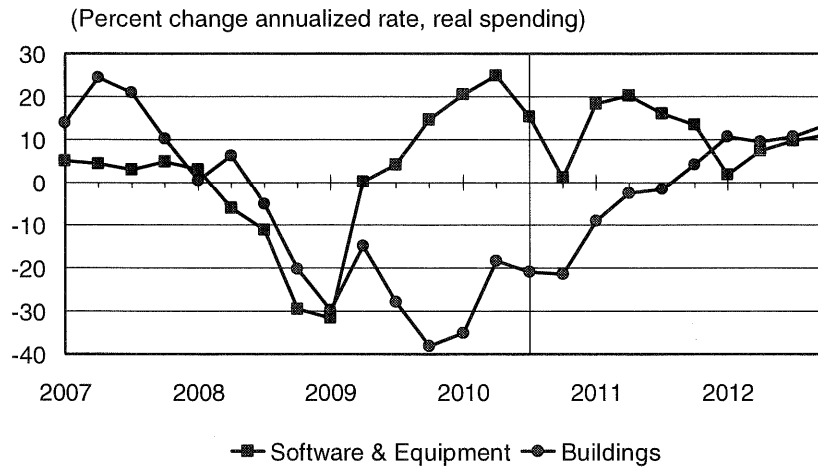
\*Thousands, monthly change, SA; \*\*Percent; \*\*\*Percent unemployed 27 weeks or more, SA



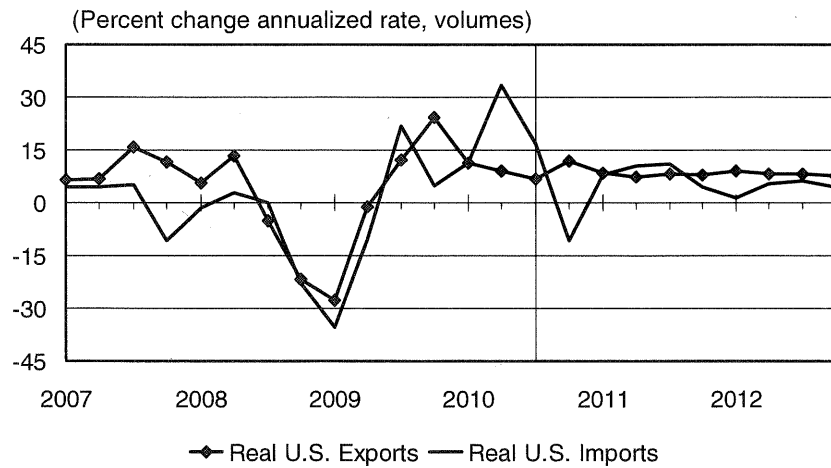
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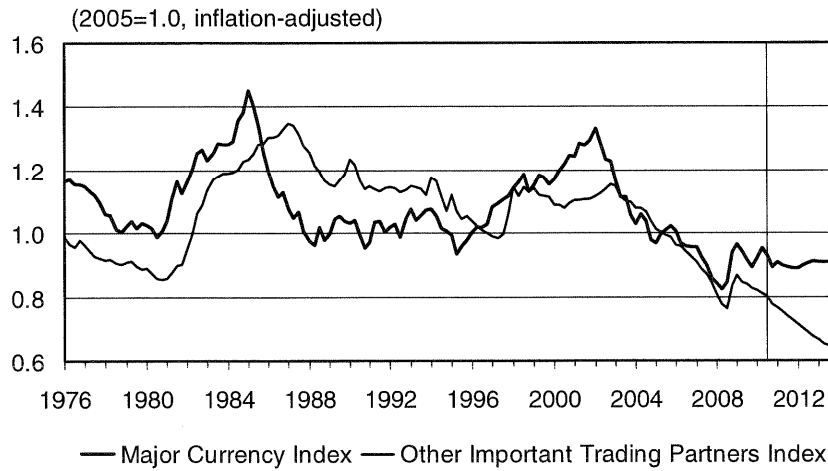
## Business Capital Spending Cycle: Construction Lags



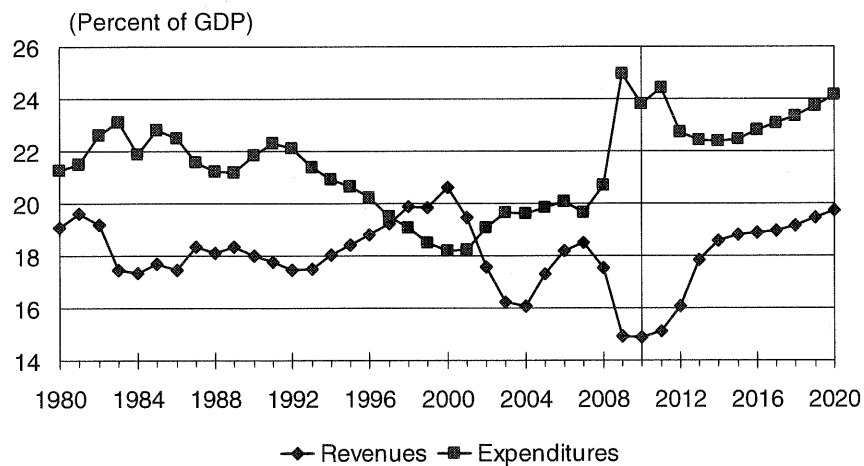
## Export Growth Should Outpace Import Growth



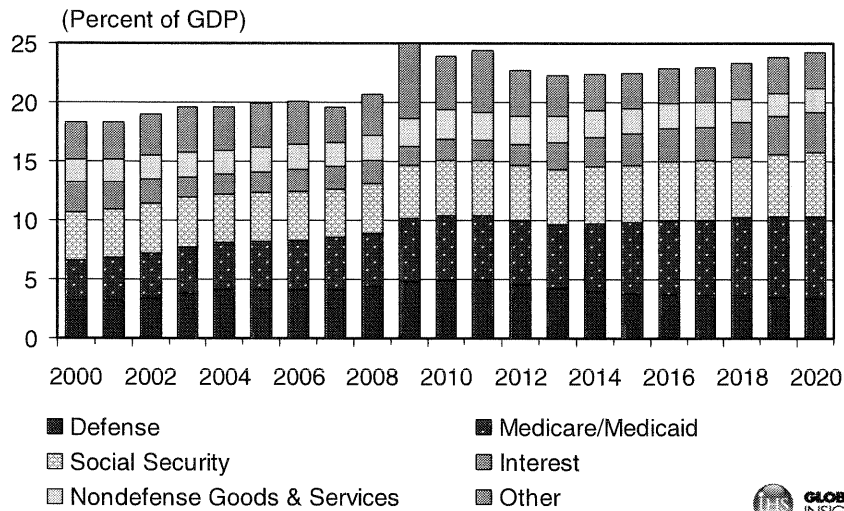
## The U.S. Dollar: Secular Weakness Against Emerging-Market Currencies



## The Federal Budget Gap



## Entitlements and Interest Make It Hard to Cut Federal Spending



## Implications

- Deep recession, slow recovery
- Recovery now broadening but not yet to housing
- The tax package improves 2011 growth prospects
- Inflation to stay low but not to turn into deflation
- We don't expect a QE3 from the Fed
- A federal deficit reduction plan is needed
- The question is not whether taxes will rise but when and how
- Key Risks:
  - Housing
  - Debt – Eurozone, US S&Ls, US federal govt



**Thank you!**

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