United States Economic Forecast

4th Quarter 2017

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Contents

Introduction

Focusing on trends

Looks are deceptive, especially when it comes to the American economy. Underneath the excitement of volatile monthly data releases is a steady engine of economic growth. Job creation has slowed a little since 2014 and 2015, when we saw an average of more than 200,000 per month.[1]

BUT the current rate is still over 150,000, and that's impressive considering that demographics requires about 50,000 to 110,000 new jobs per month to keep pace with population growth.[2]

The continued job creation points to an important lesson for consumers of economic data: There is a lot of noise in the monthly and quarterly releases that drive the market. For example, real GDP growth has gone from just 1.2 percent in the first quarter of 2017 to 3.1 and 3.3 percent in the second and third quarters. One percent might appear to be low enough to generate worries about the economy slowing. And so it did. Some economics journalists, for example, led their reportage about first-quarter GDP by expressing concern about the disconnect between the quarter's slow growth and high levels of consumer optimism.[3] Three months later, new data seemed to resolve the concern; the tone actually moved toward giddiness about growth prospects.[4] Together, average growth during the two quarters was a moderate 2.1 percent. That's perhaps not so dramatic, but a better indicator of the actual economy over the first half of the year.

Instead of paying attention to month-to-month (or even quarter-to-quarter) movements in indicators, the Deloitte forecast looks more carefully at *trends*. We've seen little change in those trends over the past year. That's why, in our baseline scenario, US GDP growth is set to grow in the 2.0–2.5 percent range in the next couple of years, with growth then slowing to below 2 percent as labor markets finally hit their limits.

Steady and moderate growth is even more impressive when compared to the policymaking world, where words such as *steady* and *moderate* can often seem in short supply.[5] In fact, over the past year, actual economic policy changes have been minor, especially compared to the rhetoric around them. *Potential* policy changes are, of course, far larger, although it's possible to overestimate them. While tax policy—under discussion as we write this[6]—may have a very large impact on some taxpayers, the impact on growth is likely to be modest regardless of the specifics.

An infrastructure spending program could have a large immediate impact on growth (as would a significant tax cut). We include both of these in our more optimistic scenario. This is a temporary, demand-side impact, however, and will dissipate as the economy reaches and passes full employment. With the economy so close to full employment now, even the demand-side impact of these policies may be less dramatic than their proponents hope. And the supply-side impact is also likely to be modest, as the impact of tax rates on investment appears to be smaller than some supporters of tax reform believe.[7]

Scenarios

Our scenarios are designed to demonstrate the different paths down which the administration's policies and congressional action might take the American economy. Foreign risks have not dissipated, and we've incorporated them into the scenarios.

But for now, we view the greatest uncertainty in the American economy to be that generated within the nation's borders.

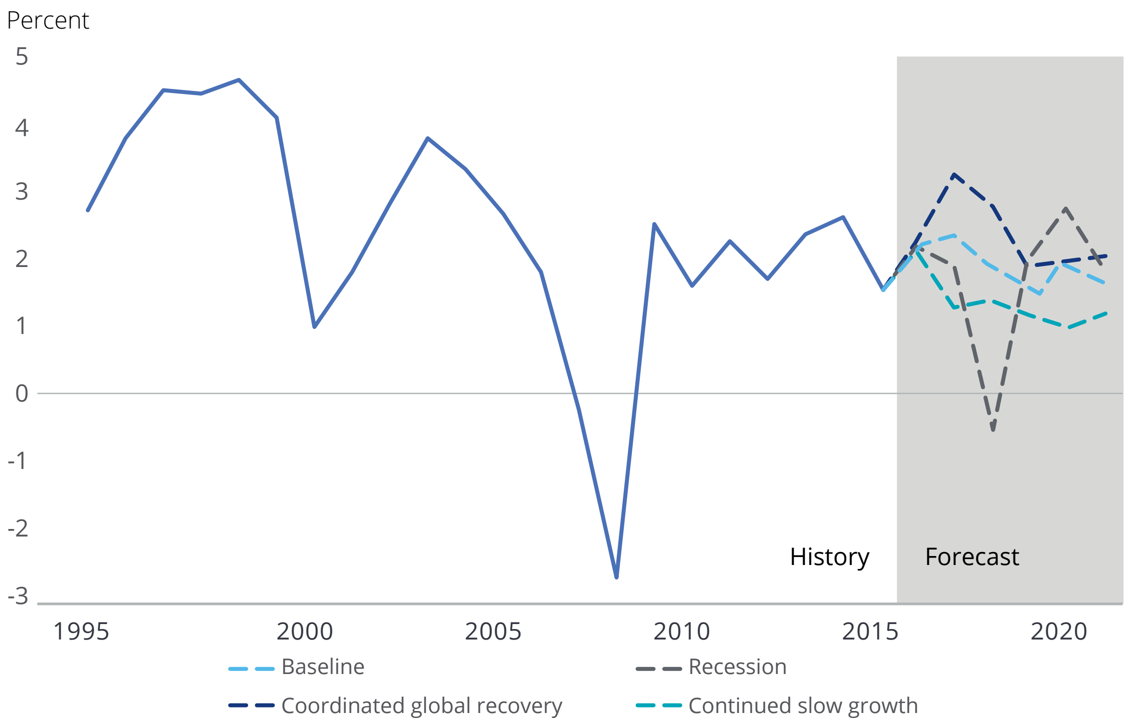
The baseline (55 percent probability): Consumer spending continues to grow, and businesses add capacity in response. A pickup in foreign growth helps to tamp down the dollar and increase demand for US exports, adding to demand. With the economy near full employment, the faster GDP growth creates some inflationary pressures. A small increase in trade restrictions adds to business costs in the medium term, but this is offset by lower regulatory costs. Annual growth is in the 2 percent range but gradually falls below that level as the economy reaches capacity and slow labor force growth becomes a constraining factor.

Recession (5 percent): Policy mistakes and risky financial market decisions in the United States, Europe, and China trigger a global financial crisis. The Fed and the European Central Bank act to ease financial conditions, and the financial system recovers relatively rapidly. GDP falls in the last quarter of 2017 and recovers after 2018.

Slower growth (30 percent): Fiscal year 2018 begins with congressional inaction on the budget and debt ceiling. The resulting issues dampen growth in the first two quarters of the year, and the financial system's response limits growth beyond the short term. Meanwhile, the administration places significant restrictions on US imports, raising costs and disrupting supply chains. Businesses hold back on investments to restructure their supply chains because of uncertainty about future policy. GDP growth falls to less than 1.5 percent over the forecast period, and the unemployment rate rises to about 6 percent.

Successful policy takeoff (10 percent): The administration takes only symbolic action on trade. Congress compromises on appropriations and passes a large rise in the debt ceiling. With financial and supply chain disruptions off the table, businesses focus on tax cuts that are designed to increase investment spending and the opportunities available from an effective infrastructure plan. Growth remains above 2 percent for the next five years.

Figure 1. Real GDP growth



Source: Deloitte analysis.

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Sectors

Consumer spending

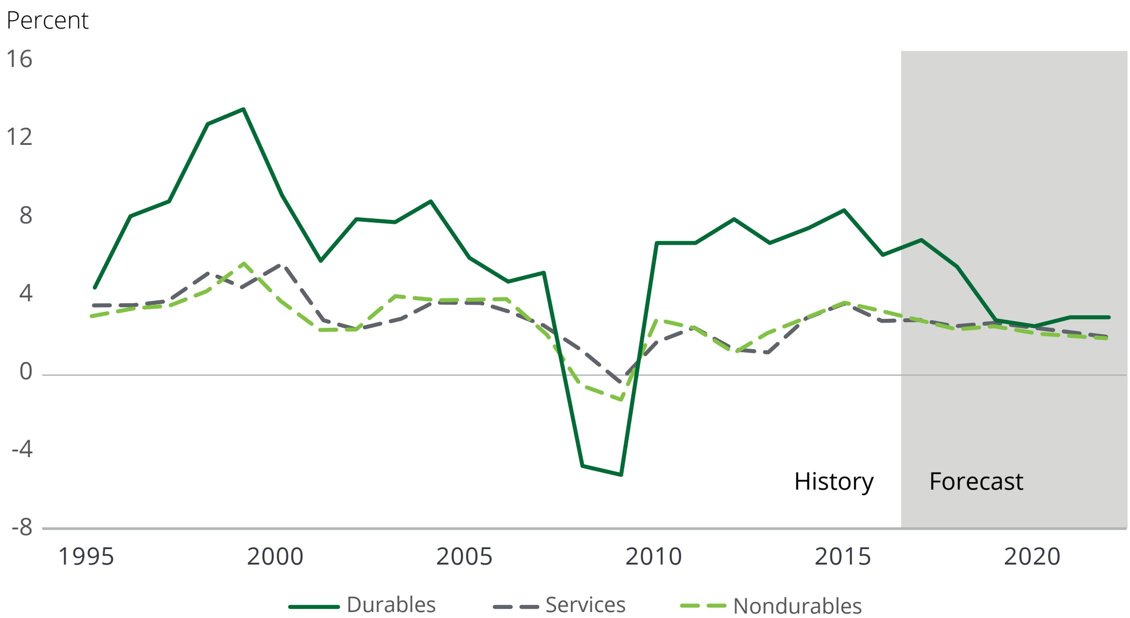
The household sector has provided an underpinning of steady growth for the US economy over the past few years. Even while business investment was weak, exports faced substantial headwinds, and housing stalled, consumer spending grew steadily. But that's not surprising, since job growth has been quite strong. Even with relatively low wage growth, those jobs have helped put money in consumers' pockets. That has enabled households to continue to increase their spending. The continued steady (if modest) growth in house prices has helped, too, since houses are the main form of wealth for most households.

The November 2016 election did not change those fundamentals, and that's the main reason consumer confidence has remained strong. In fact, consumers exhibited willingness to spend even as real disposable personal income took a temporary dip in late 2016. As long as job growth holds up and house prices keep rising, it's unlikely that consumer confidence will fall significantly—even if the news from Washington sends mixed signals about the policymaking process.

The medium term presents a different picture. Many US consumers spent the 1990s and '00s trying to maintain spending even as incomes stagnated. 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 challenge, as many Baby Boomers face imminent retirement with inadequate savings[8]). That may constrain spending and keep savings elevated.

Although American households generally face fewer obstacles in their pursuit of the good life than

Figure 2. Consumer spending growth



Source: Deloitte analysis.

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just a few years ago, growing income inequality poses a significant challenge for the sector's long-run health. For more about inequality, see *Income inequality in the United States: What do we know and what does it mean?*,[9] Deloitte's most recent examination of the issue.

CONSUMER NEWS

Consumer spending has continued to grow about 0.2–0.3 percent per month. Confidence has remained at remarkably high levels, likely reflecting the state of the labor market. Despite job growth, however, real disposable personal income was flat in the summer and early fall, and so consumers drew down savings. At 3.1 percent, the savings rate is quite low.

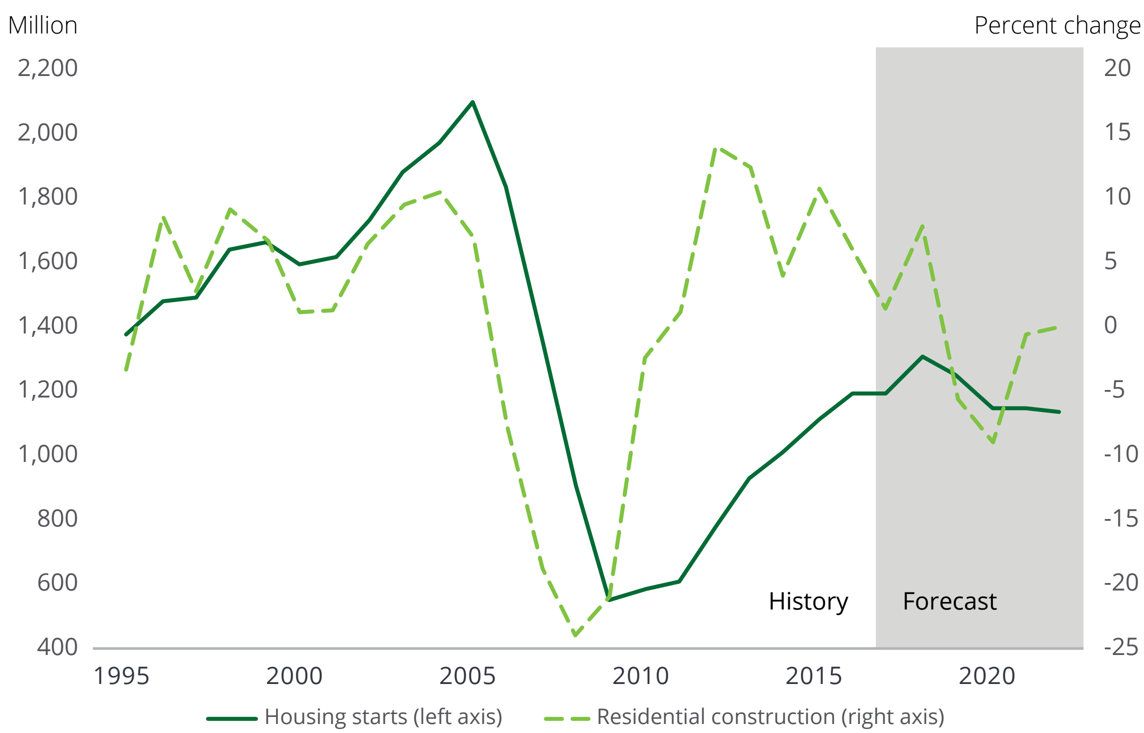
Headline retail sales dropped slightly in August, then jumped 1.9 percent in September. This may have reflected Hurricane Harvey's impact on Houston. With the flooding destroying thousands of cars and people apparently starting purchasing replacements very quickly, sales at auto dealers in September were up a huge 4.6 percent. October retail sales grew at a slower pace, but sales data suggests that consumers are ready to buy, meaning that measured consumer spending may pick up, particularly with low inflation continuing.

Housing

Every year, thousands of young Americans abandon the nest, happy to leave home and start their own households. But more than usual stayed put after 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 continues to recover, they will likely do exactly that—as previous generations have.

This means some positive fundamentals for housing construction in the short run. Since 2008, the United States has been building fewer new housing

Figure 3. Housing



Source: Deloitte analysis.

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units than the population would normally require; in fact, housing construction was hit so hard that the oversupply turned into an undersupply. But the hole is shallower than you might think. Several factors offset each other: If household size returns to levels of the mid-2000s, we would need an additional 3.2 million units; 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 three-quarters of the pent-up demand for housing units.

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 persists, we may conclude that it is related to young buyers' growing reluctance to settle in existing single-family units.

While economic growth and job creation may point to strong house sales, higher interest rates may moderate any potential housing boom. Higher inflation and a strong Fed response may drive up mortgage rates more quickly than businesses in the housing sector would like.

HOUSING NEWS

Housing permits were 2.4 percent above their year-ago level in October. Single-family permits are up 9.1 percent during the year, while multifamily permits are down 7.9 percent. The share of single-family permits has been growing for some months, though at about 1.3 million, permits are still below the level required to make up for the many years of low housing growth.

Contract interest rates have held steady at about 4.0 percent since March. That's despite the Fed raising short-term rates and starting to let its holdings of housing securities start to run down, and is a good sign that lenders are willing to make mortgages even without the Fed backstopping a large share of the market.

House prices continue to rise: In August, the Case-Shiller national index was 6.1 percent above the previous year's level.

Business investment

Many may blame political uncertainty for lagging investment in 2015 and '16, but there are other, more fundamental reasons for the weakness in this area. The sudden decline of oil prices in late 2014 shut off domestic oil and gas exploration—a move that, it turned out, reduced use of capital goods. And the dollar's appreciation in 2015 and '16 made American companies less competitive.

You might think that the current gyrations of politics and their meaning for economic policy are particularly important for business investment. But—like consumers—business decision-makers mainly pay attention to fundamentals such as demand for the product and the cost of capital. Even a relatively radical tax reform would not likely translate into a very large change in the cost of capital, which also depends on overall financing costs, depreciation rates, and the expected cost of capital structures and equipment in the future.[10] If consumers spend, eventually businesses will hit capacity constraints and invest. And if consumers aren't spending, and there is too much capacity, even what appear to be radical changes in the tax regime are likely to have only a small impact on short-run investment behavior.

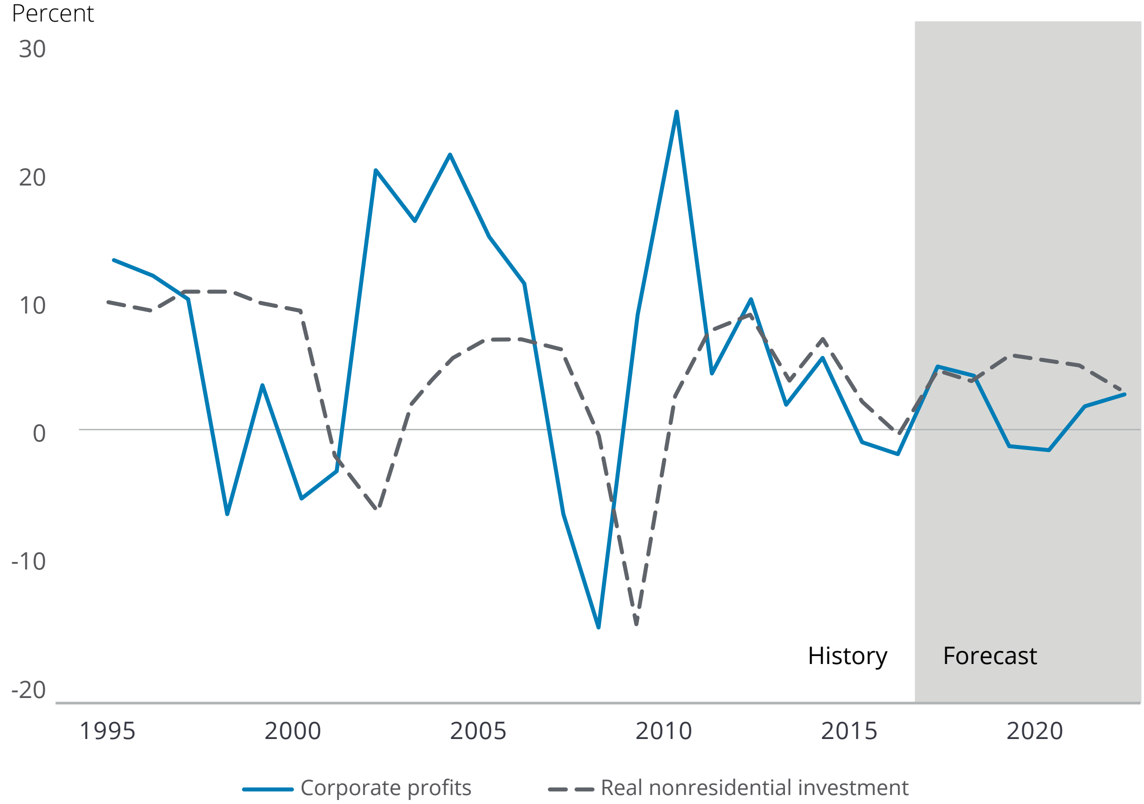
However, some CEOs may face a painful medium-term problem: deciding whether their businesses need to rebuild their supply chains. Industries such as automobile production have developed intricate networks across North America and reaching into Asia and Europe, based on the longstanding assumption that materials and parts can be moved across borders with little cost or disruption. These capital-intensive industries are likely to want to postpone easily delayed investments in these networks until the administration's trade policy becomes clearer.

BUSINESS INVESTMENT NEWS

Real business fixed investment rose 3.9 percent in the third quarter (according to the first GDP release). That's the sector's third consecutive month of good news. Investment in structures fell, but equipment investment more than offset the decline. Intellectual property investment rose 4.3 percent.

Nondefense capital goods shipments—an effective high-frequency indicator of equipment

Figure 4. Business sector



Source: Deloitte analysis.

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spending—are up in four of the last five months. Less aircraft, capital goods shipments have risen every month since February, an unusually long streak for this volatile series.

Private nonresidential construction activity declined from June through September but rose 0.9 percent in October. Commercial construction continued to fall in October, but manufacturing construction was up 1.3 percent and office construction jumped 4.4 percent.

Yields on corporate bonds have been steady over the past few months. The spread for high-yield bonds fell about 20 basis points from August to October. Corporate profits after taxes fell 10.0 percent at an annual rate in the first quarter and are up 3.7 percent over the previous year's level. Profits remain at close to a record share of national income.

Foreign trade

Over the past few decades, business—especially manufacturing—has taken advantage of generally open borders and cheap transportation to cut costs and improve global efficiency. The result is a complex matrix of production that makes the traditional measures of imports and exports somewhat misleading. For example, in 2007, 37 percent of Mexico's exports to the United States consisted of intermediate inputs purchased from . . . the United States.[11]

Recent events appear to be placing this global manufacturing system at risk. The United Kingdom's increasingly tenuous post-Brexit position in the European manufacturing ecosystem, along with the suggestion that the United States might cancel or renegotiate its position in the North American Free Trade Agreement, may slow the growth of this system or even cause it to unwind.

In the short run, uncertainty about border-crossing costs may reduce investment spending. Businesses may be reluctant to put capital in place when facing the possibility of a sudden shift in costs.

A significant change in border-crossing costs—as would occur if the United States withdrew from NAFTA—would likely reduce the value of capital investment put in place to take advantage of global goods flows. Essentially, the global capital stock would depreciate more quickly than our normal measures would suggest. In practical terms, some US plants and equipment would go idle without the ability to access foreign intermediate products.

With this loss of productive capacity would come the need to replace it with plants and equipment that would be profitable at the higher border cost. We might expect gross investment to increase once the outline of a new global trading system becomes apparent.

In the longer term, a significant reduction in globalization will result in higher costs. That's a simple conclusion to be drawn from the fact that globalization was largely driven by businesses trying to cut costs. How those extra costs are distributed depends a great deal on economic policy. For example, central banks can attempt to fight the impact of lower globalization on prices (with a resulting period of high unemployment) or to accommodate it (allowing inflation to pick up).

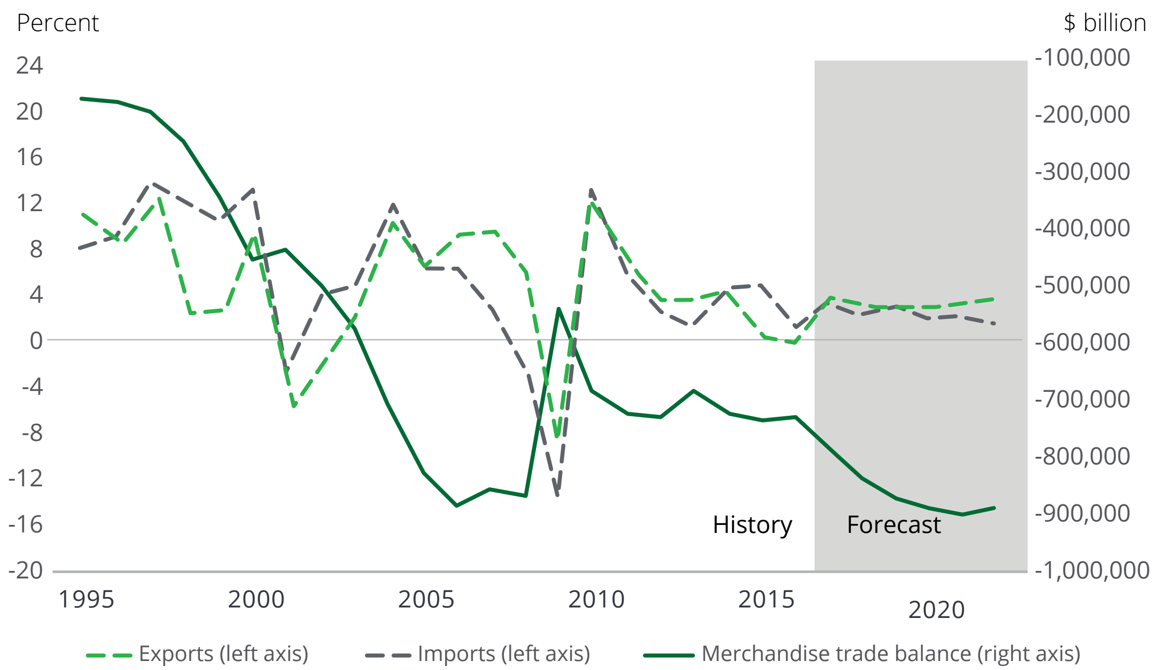
The current account is determined by global financial flows, not trade costs. Any potential reduction in the current account deficit is likely to be largely offset by a reduction in American competitiveness through higher costs in the United States, lower costs abroad, and a higher dollar. The forecast assumes that the direct impact of trade policy on the current account deficit is nil.

FOREIGN TRADE NEWS

US exports rose four of the five months to September. Imports declined slowly from May to August but then rose 1.0 percent in September. The trade balance now stands at about $64 billion on a monthly basis.

The dollar has been depreciating in 2017. The Canadian dollar is now at USD .78 and the euro up to USD 1.19. The Mexican peso continues to fluctuate depending on news from the NAFTA renegotiations,

Figure 5. International trade



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and was 18.52 per dollar in November. This was part of the reason that the trade-weighted dollar rose in October after falling in the previous four months.

The Chinese economy is recording satisfactory growth, though many observers remain concerned about the country's financial system and continuing infrastructure investment. Some analysts focus on signs of strength in China's consumer and service sectors, suggesting a long-awaited shift to becoming a consumer-driven economy. Others point to now-familiar indications that official Chinese figures may be implausibly high.[12] The country's future remains a large question mark for the global economy.

Europe has shown some signs of growth. Euro-area GDP grew 0.6 percent in the third quarter of 2017, the fourth consecutive quarter of above half-percent growth. However, negotiations over the continuation of aid to Greece remain a potential source of uncertainty for the Eurozone.

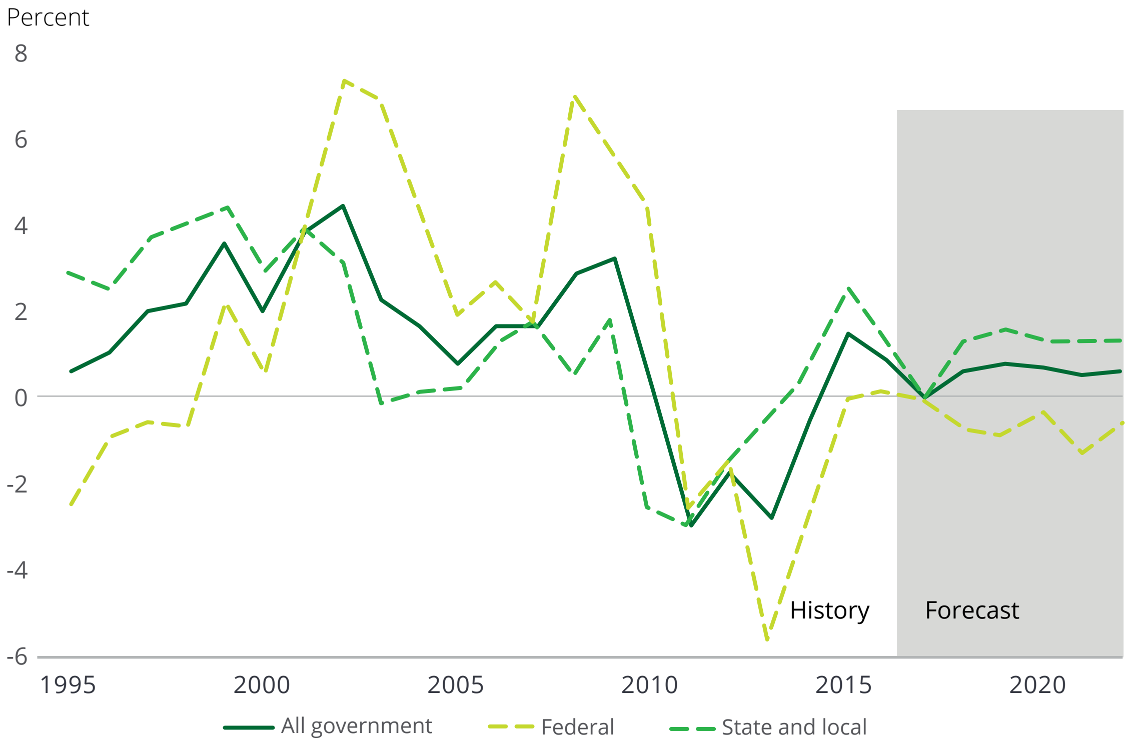
Government

The US government budget is now a source of substantial uncertainty. The tax reform proposals that passed Congress in late November and must undergo conference reconciliation include a sizable tax cut for corporations and dramatic changes to the current tax code. These changes could have a large impact on some taxpayers but would likely have little effect on investment behavior. The demand-side impact of the tax cuts would be quite large, though, and could induce the Fed to raise interest rates faster than in Deloitte's baseline assumption.

In addition, Congress will have to pass funding for FY 2018 and a hike in the debt ceiling by March. The inability of Congress and the administration to make headway on unrelated issues that were supposed to be resolved as part of the agreement to fund the government in September, and the short time frame for discussion, point to the possibility of another government shutdown.

We expect the most likely outcome, embedded in the baseline scenario, to be a continuation of current

Figure 6. Government sector



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policy. We no longer include either significant tax changes or any additional infrastructure spending in the baseline, although we have included such policy changes in the *successful policy takeoff* scenario. The *slower growth* scenario assumes that congressional difficulties in raising the debt ceiling and funding the government will contribute to slower growth in the first half of 2018.

After years of belt-tightening, most state and local governments are no longer actively cutting spending. However, many state budgets remain constrained by the need to meet large unfunded pension obligations,[13] so state and local spending growth will likely remain low over this forecast's five-year horizon.

GOVERNMENT NEWS

The federal deficit for FY 2017 came in $80 billion higher than it was last year. Receipts were up 1 percent, while outlays were up 3 percent. Both grew more slowly than GDP in FY 2017.

Government employment has held steady over the recent past. Federal employment didn't change significantly in June and July. State and local employment grew 0.1 percent in August, the result of a 0.3 percent rise in education employment.

Labor markets

If the American economy is to effectively produce more goods and services, it will need more workers, and many potential employees still remain out of the labor force: They left in 2009, when the labor market was terrible. But they have started to return. The labor force participation rate for prime-age workers has been rising since the middle of 2015 as younger people return to the labor force—and older people remain in it for longer. The acceleration in production will likely carry with it a continued acceleration in demand for labor, along with a welcome mild rise in wages. That should help bring even more people back into the labor force.

But a great many people are still on the sidelines and have been out of work for a long time—long enough that their basic work skills may be eroding. Are those people still employable? So far, the answer has been "yes," as job growth continues to be strong without pushing up wages. Deloitte's forecast team remains optimistic that improvements in the labor market will continue to prove attractive to potential workers, and labor force participation is likely to continue to improve accordingly.

Despite this, demographics are slowing the growth of the population in prime labor force age. As Boomers age, lagging demographic growth will help slow the potential growth of the economy. That's why we foresee growth below 2.0 percent by 2021—even with an optimistic view about productivity, it's expected that slow labor force growth will eventually be felt in lower economic growth.

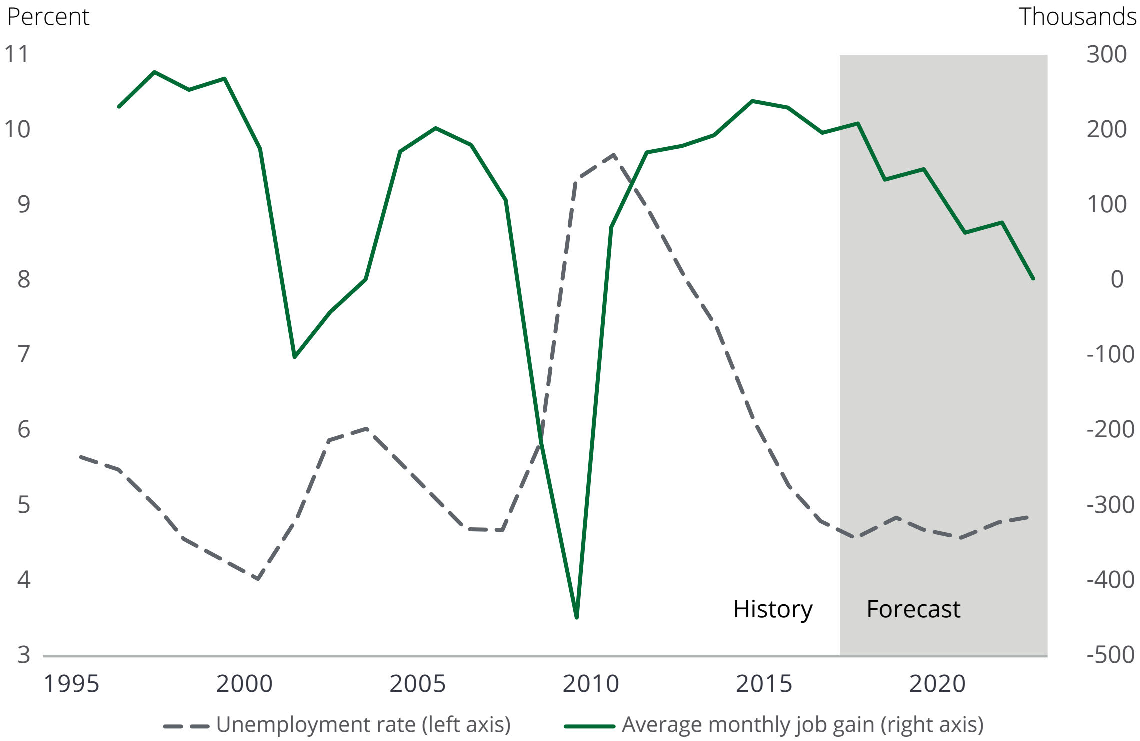
Significant immigration restrictions and/or deportation might have a marginal impact on the labor force. According to the Pew Research Center, undocumented immigrants make up about 5 percent of the total American labor force.[14] Removal of all such workers would clearly have a significant impact on the labor force and on the economy—but such a dramatic change is unlikely to happen. Any removal of undocumented workers, however, could create labor shortages in certain industries (such as agriculture, in which some 17 percent of workers are unauthorized, and construction, in which an estimated 13 percent of workers are unauthorized).[15] But that would likely have little significant impact at the aggregate level.

LABOR MARKET NEWS

Initial claims for unemployment insurance rose in September largely because of the hurricanes in Texas and Florida but fell in August back to a weekly average of 233,000. That's very low, especially considering that the US labor force and total employment continue to grow over time. Job openings remained at about 6.1 million through September. Quits (voluntary separations) have remained at about 3.1 million. The large number of voluntary quits suggests that labor demand remains strong.

Payroll employment rose just 38,000 in September—also attributable to hurricanes Harvey and Irma—but bounced back to 244,000 in October and 228,000 in November. The underlying rate of job growth is over twice as much as would be required by the growth of the labor force, although slower than the rate recorded during 2014–15.

Figure 7. Labor market



Source: Deloitte analysis.

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Financial markets

Interest rates are among the most difficult economic variables to forecast because movements depend on news—and if we knew it ahead of time, it wouldn't be news. The Deloitte interest rate forecast is designed to show a path for 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 Fed currently is assuming that the economy is near full employment and would therefore likely react to the adoption of a tax package with large tax cuts. The Senate version in late November assumed a revenue decline of over $200 billion, or about 1 percent of GDP. For that reason, the *successful policy growth* scenario assumes an aggressive Fed reaction.

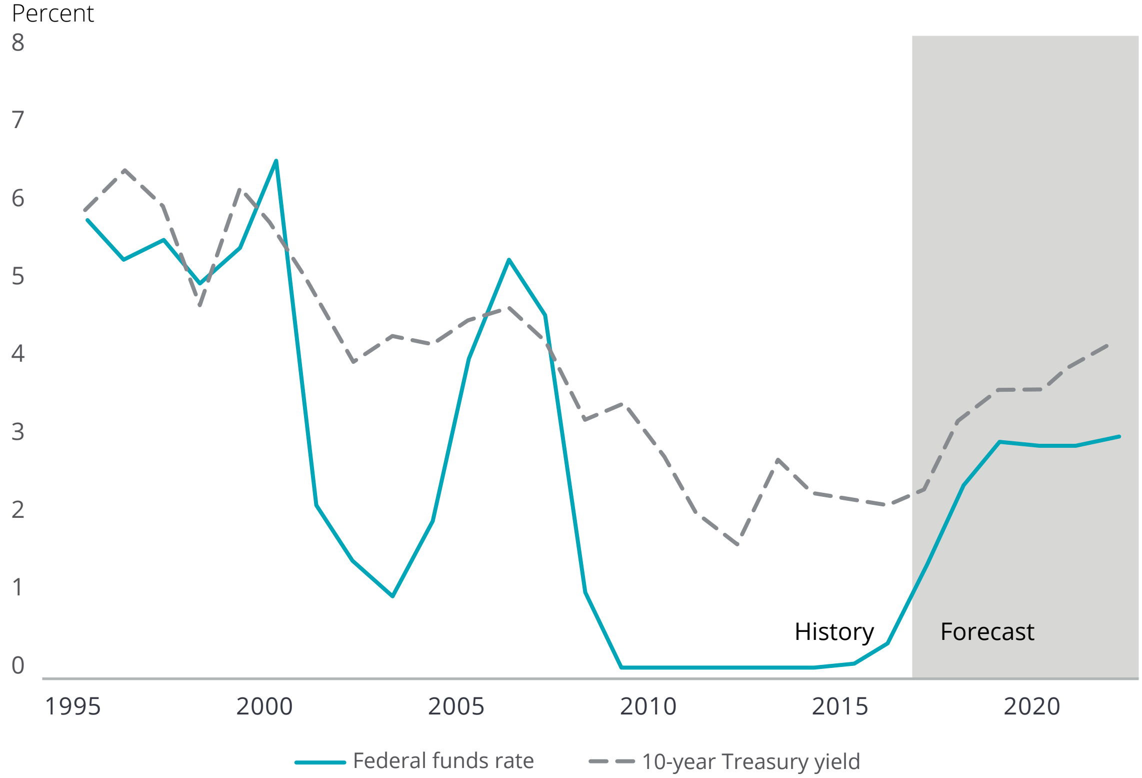
Long-term interest rates will likely move up as the economy returns to full employment and some inflationary pressures appear.

FINANCIAL MARKET NEWS

Jerome Powell, the administration's nominee for Fed chair, will likely continue the current approach to monetary policy. We expect the Fed to continue to hike short-term interest rates at every second or third Federal Open Market Committee meeting, and continue to let its inventory of short-term assets shrink at a slow rate.

Long-term bond yields were relatively stable in the summer and fall. This means that the term spread is slowly falling, as the Fed raises short-term rates. AAA corporate bonds fell to a spread of 60 basis points over treasuries (down from 80 basis points in February). The junk-bond spread fell from 200 basis points in August to 171 basis points in October.

Figure 8. Financial markets



Source: Deloitte analysis.

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Stock prices continued to rise. There is considerable debate about whether stocks are overpriced, since P/E ratios are high.[26]

Prices

It's been a long time since inflation has posed a problem for American policymakers. The US economy has functioned below potential since 2008, and even before then there were a few signs of significant inflation. With so much slack, neither workers nor businesses have had the ability to raise prices much.

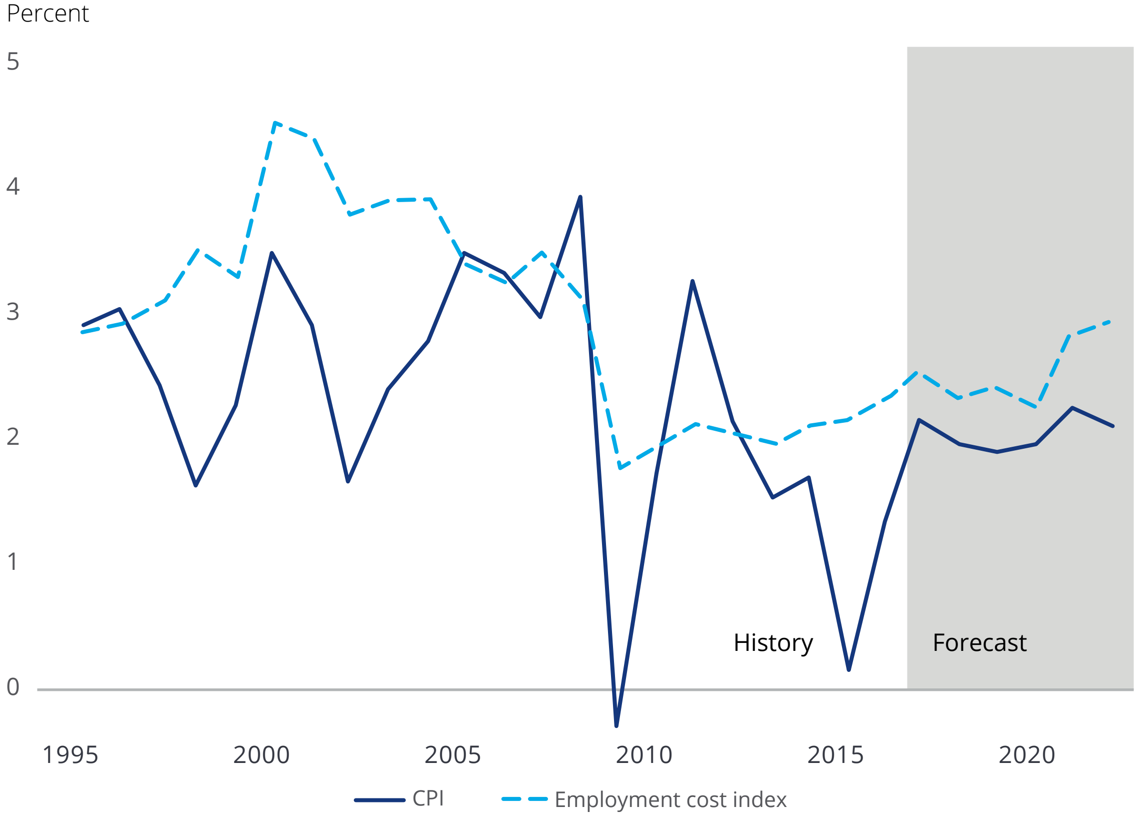
Some observers believe that the economy is approaching full employment,[17] although the Deloitte forecast suggests the labor market still retains some slack. Thus, the fiscal stimulus of infrastructure spending might create some shortages in both labor and product markets and, as a result, some inflation. A return to 1970s-style inflation is unlikely, but it would not be surprising in those circumstances to see the core CPI running as high as 3.0 percent—or perhaps even a little higher. The forecast expects timely Fed action to prevent inflation from rising too much, but the price (of course) is higher interest rates.

PRICE NEWS

The overall CPI was up 2.0 percent in the year ended in October. Core CPI was up 1.8 percent Inflationary pressures in the pipeline remain mild. But there is some risk that inflation could break out of the healthy 2.0 percent range if a large fiscal stimulus is applied with the economy relatively close to full employment.

The hourly wage was flat in October. Some measures of pay, such as the employment cost index, are beginning to show signs of acceleration. If that continues, it may well indicate that the economy is nearing full employment, and that policymakers may need to begin to lean against economic growth.

Figure 9. Prices



Source: Deloitte analysis.

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Appendix

Table 1. Baseline

	History						Forecast					
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
GDP and components												
Real GDP	1.6	2.2	1.7	2.6	2.9	1.5	2.3	2.4	1.9	1.6	2.0	1.7
Real consumer spending	2.3	1.5	1.5	2.9	3.6	2.7	2.7	2.2	2.0	1.8	1.7	1.5
Real consumer spending, durable goods	6.1	7.4	6.2	6.9	7.8	5.5	6.3	5.0	2.2	2.0	2.4	2.4
Real consumer spending, nondurable goods	1.8	0.6	1.7	2.5	3.1	2.8	2.2	1.8	1.9	1.6	1.5	1.4
Real consumer spending, services	1.8	0.8	0.6	2.4	3.2	2.3	2.3	1.9	2.1	1.8	1.6	1.4
Real investment in private housing	0.6	13.5	11.9	3.5	10.2	5.5	1.0	7.2	-5.4	-9.5	-1.1	-0.5
Real fixed business investment	7.7	9.0	3.5	6.9	2.3	-0.6	4.4	3.9	5.6	5.3	4.8	3.0
Real inventory accumulation	38	55	79	68	101	33	18	19	23	23	31	27
Real exports of goods and services	6.9	3.4	3.5	4.3	0.4	-0.3	3.2	3.2	2.7	2.5	3.1	3.4
Real imports of goods and services	5.5	2.2	1.1	4.5	5.0	1.3	3.2	2.4	2.9	2.1	2.1	1.4
Real government consumption and investment	-3.0	-1.9	-2.9	-0.7	1.4	0.8	-0.1	0.5	0.7	0.6	0.4	0.5
Real federal government consumption and investment	-2.7	-1.9	-5.8	-2.4	-0.1	0.1	-0.2	-0.8	-1.0	-0.5	-1.4	-0.8
Real state and local government consumption and investment	-3.3	-1.9	-0.8	0.5	2.3	1.2	-0.1	1.2	1.5	1.2	1.2	1.2
Prices												
Consumer Price Index	3.1	2.1	1.5	1.6	0.1	1.3	2.1	1.9	1.8	1.9	2.2	2.1
Chained price index for personal consumption expenditures	2.5	1.9	1.3	1.5	0.3	1.2	1.6	1.7	1.8	1.7	2.1	2.0
Chained GDP price index	2.1	1.8	1.6	1.8	1.1	1.3	1.8	2.1	2.3	2.1	2.1	2.2
Employment cost index	2.0	1.9	1.9	2.1	2.1	2.2	2.5	2.3	2.3	2.2	2.8	2.9
Labor markets												
Average monthly change in employment	167	177	199	237	228	194	217	145	160	78	89	0
Unemployment rate (percent)	8.9	8.1	7.4	6.2	5.3	4.8	4.4	4.7	4.5	4.5	4.8	4.9
Employment to population (percent)	58.4	58.6	58.6	59.0	59.3	59.7	60.2	60.5	60.7	60.7	60.4	60.0
Income and wealth												
Real disposable personal income	2.5	3.2	-1.4	3.6	4.2	1.4	1.5	2.0	1.9	1.9	2.1	1.8
Net household wealth ($ trillions)	63	69	79	84	87	92	103	110	112	116	126	136
Personal saving rate (percentage of disposable income)	6.0	7.6	5.0	5.7	6.1	4.9	3.6	3.5	3.5	3.7	4.2	4.5
After-tax corporate profits with inventory valuation and capital consumption adjustments	4.0	10.0	1.7	5.3	-1.1	-2.1	4.9	4.2	-1.6	-1.7	1.7	2.7
Housing												
Housing starts (thousands)	612	784	928	1,001	1,107	1,177	1,185	1,300	1,243	1,137	1,136	1,127
Stock of owner-occupied homes (millions)	132	133	133	134	135	136	137	137	138	139	140	141
Interest rate on 30-year fixed-rate mortgages (percent)	4.46	3.66	3.98	4.17	3.85	3.65	4.02	4.55	5.24	5.51	5.82	6.30
Foreign trade												
Current account balance, share of GDP (percent)	-2.9	-2.6	-2.1	-2.1	-2.4	-2.4	-2.5	-2.6	-2.7	-2.8	-2.6	-2.3
Merchandise trade balance ($ billions)	-725	-730	-690	-727	-737	-735	-778	-834	-867	-885	-896	-883
Relative unit labor costs (Index, 2008=100)	86.2	85.1	83.7	87.3	97.2	99.6	99.5	98.1	97.4	96.3	95.4	94.1
Financial												
Federal funds rate (percent)	0.13	0.13	0.13	0.13	0.17	0.42	1.31	2.38	2.94	2.88	2.92	2.97
Yield on 10-year Treasury note (percent)	2.05	1.71	2.75	2.28	2.19	2.13	2.37	3.31	3.57	3.59	3.93	4.19
Government												
Federal budget balance, unified basis (share of GDP, percent)	-8.5	-7.3	-4.3	-2.9	-2.6	-2.9	-3.5	-3.4	-3.2	-3.1	-3.2	-3.4

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

Table 2. Coordinated global recovery

	History						Forecast					
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
GDP and components												
Real GDP	1.6	2.2	1.7	2.6	2.9	1.5	2.3	3.3	2.9	1.9	2.0	2.1
Real consumer spending	2.3	1.5	1.5	2.9	3.6	2.7	2.7	2.9	3.0	2.4	1.7	1.7
Real consumer spending, durable goods	6.1	7.4	6.2	6.9	7.8	5.5	6.3	5.2	2.8	2.5	2.6	2.7
Real consumer spending, nondurable goods	1.8	0.6	1.7	2.5	3.1	2.8	2.2	2.5	3.0	2.3	1.5	1.6
Real consumer spending, services	1.8	0.8	0.6	2.4	3.2	2.3	2.3	2.7	3.1	2.4	1.6	1.5
Real investment in private housing	0.6	13.5	11.9	3.5	10.2	5.5	1.0	6.7	-6.3	-9.1	-0.6	0.5
Real fixed business investment	7.7	9.0	3.5	6.9	2.3	-0.6	4.5	5.7	7.1	6.8	4.4	3.8
Real inventory accumulation	38	55	79	68	101	33	18	35	45	35	34	35
Real exports of goods and services	6.9	3.4	3.5	4.3	0.4	-0.3	3.4	4.7	2.9	2.8	4.4	5.0
Real imports of goods and services	5.5	2.2	1.1	4.5	5.0	1.3	3.3	4.2	3.9	2.0	2.5	2.3
Real government consumption and investment	-3.0	-1.9	-2.9	-0.7	1.4	0.8	-0.1	1.9	1.9	-1.4	0.3	0.6
Real federal government consumption and investment	-2.7	-1.9	-5.8	-2.4	-0.1	0.1	-0.2	-0.8	-1.0	-0.5	-1.4	-0.8
Real state and local government consumption and investment	-3.3	-1.9	-0.8	0.5	2.3	1.2	-0.1	3.3	3.4	-1.8	0.9	1.2
Prices												
Consumer Price Index	3.1	2.1	1.5	1.6	0.1	1.3	2.1	2.6	2.7	2.6	2.7	2.6
Chained price index for personal consumption expenditures	2.5	1.9	1.3	1.5	0.3	1.2	1.6	2.4	2.7	2.4	2.6	2.5
Chained GDP price index	2.1	1.8	1.6	1.8	1.1	1.3	1.8	2.8	2.9	2.9	2.9	2.9
Employment cost index	2.0	1.9	1.9	2.1	2.1	2.2	2.5	2.7	4.0	3.5	3.5	3.5
Labor markets												
Average monthly change in employment	167	177	199	237	228	194	223	224	208	76	82	31
Unemployment rate (percent)	8.9	8.1	7.4	6.2	5.3	4.8	4.4	4.4	3.7	3.8	4.2	4.7
Employment to population (percent)	58.4	58.6	58.6	59.0	59.3	59.7	60.2	60.8	61.3	61.3	61.1	60.7
Income and wealth												
Real disposable personal income	2.5	3.2	-1.4	3.6	4.2	1.4	1.5	2.4	3.1	2.3	2.1	2.1
Net household wealth ($ trillions)	63	69	79	84	87	92	103	111	114	117	127	141
Personal saving rate (percent of disposable income)	6.0	7.6	5.0	5.7	6.1	4.9	3.7	3.2	3.4	3.4	3.9	4.4
After-tax corporate profits with inventory valuation and capital consumption adjustments	4.0	10.0	1.7	5.3	-1.1	-2.1	5.1	10.0	-1.2	-3.0	1.8	4.8
Housing												
Housing starts (thousands)	612	784	928	1,001	1,107	1,177	1,186	1,293	1,226	1,126	1,130	1,132
Stock of owner-occupied homes (millions)	132	133	133	134	135	136	137	137	138	139	140	141
Interest rate on 30-year fixed-rate mortgages (percent)	4.46	3.66	3.98	4.17	3.85	3.65	4.02	5.09	6.66	7.28	7.46	7.59
Foreign trade												
Current account balance, share of GDP (percent)	-2.9	-2.6	-2.1	-2.1	-2.4	-2.4	-2.4	-2.5	-2.9	-3.0	-2.7	-2.4
Merchandise trade balance ($ billions)	-725	-730	-690	-727	-737	-735	-776	-857	-924	-932	-914	-876
Relative unit labor costs (Index, 2008=100)	86.2	85.1	83.7	87.3	97.2	99.6	99.5	98.5	98.2	97.9	97.7	96.5
Financial												
Federal funds rate (percent)	0.13	0.13	0.13	0.13	0.17	0.42	1.33	3.77	4.89	4.82	4.62	4.59
Yield on 10-year Treasury note (percent)	2.05	1.71	2.75	2.28	2.19	2.13	2.38	4.35	5.15	5.36	5.35	5.29
Government												
Federal budget balance, unified basis (share of GDP, percent)	-8.5	-7.3	-4.3	-2.9	-2.6	-2.9	-3.5	-3.6	-4.0	-3.9	-3.9	-4.0

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

Table 3. Recession

	History						Forecast					
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
GDP and components												
Real GDP	1.6	2.2	1.7	2.6	2.9	1.5	2.3	1.9	-0.5	2.0	2.8	1.9
Real consumer spending	2.3	1.5	1.5	2.9	3.6	2.7	2.7	1.9	0.7	1.4	2.4	1.8
Real consumer spending, durable goods	6.1	7.4	6.2	6.9	7.8	5.5	6.3	5.0	1.8	1.2	2.7	2.9
Real consumer spending, nondurable goods	1.8	0.6	1.7	2.5	3.1	2.8	2.2	1.5	0.5	1.3	2.3	1.8
Real consumer spending, services	1.8	0.8	0.6	2.4	3.2	2.3	2.3	1.7	0.7	1.4	2.4	1.7
Real investment in private housing	0.6	13.5	11.9	3.5	10.2	5.5	1.0	6.6	-8.6	-8.4	1.4	-1.5
Real fixed business investment	7.7	9.0	3.5	6.9	2.3	-0.6	4.4	2.1	-2.0	7.8	8.1	3.2
Real inventory accumulation	38	55	79	68	101	33	18	16	-26	16	47	33
Real exports of goods and services	6.9	3.4	3.5	4.3	0.4	-0.3	3.2	2.0	-2.6	5.7	3.2	3.7
Real imports of goods and services	5.5	2.2	1.1	4.5	5.0	1.3	3.2	1.9	-0.1	3.9	4.4	1.6
Real government consumption and investment	-3.0	-1.9	-2.9	-0.7	1.4	0.8	-0.1	0.5	0.7	0.6	0.4	0.5
Real federal government consumption and investment	-2.7	-1.9	-5.8	-2.4	-0.1	0.1	-0.2	-0.8	-1.0	-0.5	-1.4	-0.8
Real state and local government consumption and investment	-3.3	-1.9	-0.8	0.5	2.3	1.2	-0.1	1.2	1.5	1.3	1.2	1.2
Prices												
Consumer Price Index	3.1	2.1	1.5	1.6	0.1	1.3	2.1	1.1	0.4	1.5	1.4	2.1
Chained price index for personal consumption expenditures	2.5	1.9	1.3	1.5	0.3	1.2	1.6	1.0	0.2	1.4	1.2	2.0
Chained GDP price index	2.1	1.8	1.6	1.8	1.1	1.3	1.8	1.8	0.9	1.5	1.8	2.1
Employment cost index	2.0	1.9	1.9	2.1	2.1	2.2	2.5	2.1	-0.1	0.4	2.6	2.9
Labor markets												
Average monthly change in employment	167	177	199	237	228	194	217	65	40	170	129	24
Unemployment rate (percent)	8.9	8.1	7.4	6.2	5.3	4.8	4.4	4.9	6.0	5.5	5.2	5.1
Employment to population (percent)	58.4	58.6	58.6	59.0	59.3	59.7	60.2	60.4	59.9	59.9	60.0	59.8
Income and wealth												
Real disposable personal income	2.5	3.2	-1.4	3.6	4.2	1.4	1.5	2.4	1.2	1.1	2.8	1.8
Net household wealth ($ trillions)	63	69	79	84	87	92	104	96	103	113	123	131
Personal saving rate (percentage of disposable income)	6.0	7.6	5.0	5.7	6.1	4.9	3.6	4.1	4.5	4.3	4.7	4.7
After-tax corporate profits with inventory valuation and capital consumption adjustments	4.0	10.0	1.7	5.3	-1.1	-2.1	4.9	0.1	-9.5	6.6	3.5	2.6
Housing												
Housing starts (thousands)	612	784	928	1,001	1,107	1,177	1,186	1,293	1,196	1,107	1,133	1,113
Stock of owner-occupied homes (millions)	132	133	133	134	135	136	137	137	138	139	140	141
Interest rate on 30-year fixed-rate mortgages (percent)	4.46	3.66	3.98	4.17	3.85	3.65	3.99	4.34	3.71	3.83	4.45	5.33
Foreign trade												
Current account balance, share of GDP (percent)	-2.9	-2.6	-2.1	-2.1	-2.4	-2.4	-2.5	-2.5	-3.0	-2.7	-2.5	-2.0
Merchandise trade balance ($ billions)	-725	-730	-690	-727	-737	-735	-778	-820	-871	-857	-903	-888
Relative unit labor costs (Index, 2008=100)	86.2	85.1	83.7	87.3	97.2	99.6	99.5	99.6	99.9	96.8	99.5	98.9
Financial												
Federal funds rate (percent)	0.13	0.13	0.13	0.13	0.17	0.42	1.31	1.31	1.21	1.33	1.67	2.21
Yield on 10-year Treasury note (percent)	2.05	1.71	2.75	2.28	2.19	2.13	2.21	2.59	1.72	2.10	2.75	3.35
Government												
Federal budget balance, unified basis (share of GDP, percent)	-8.5	-7.3	-4.3	-2.9	-2.6	-2.9	-3.5	-3.4	-3.8	-4.0	-3.5	-3.5

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

Table 4. Slower growth

	History						Forecast					
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
GDP and components												
Real GDP	1.6	2.2	1.7	2.6	2.9	1.5	2.2	1.3	1.4	1.2	1.0	1.2
Real consumer spending	2.3	1.5	1.5	2.9	3.6	2.7	2.6	1.3	1.7	1.4	1.1	1.2
Real consumer spending, durable goods	6.1	7.4	6.2	6.9	7.8	5.5	6.3	4.8	1.8	1.7	1.9	1.5
Real consumer spending, nondurable goods	1.8	0.6	1.7	2.5	3.1	2.8	2.1	0.8	1.7	1.3	1.0	1.2
Real consumer spending, services	1.8	0.8	0.6	2.4	3.2	2.3	2.2	1.0	1.8	1.5	1.1	1.1
Real investment in private housing	0.6	13.5	11.9	3.5	10.2	5.5	1.9	6.9	-11.3	-19.2	-13.0	-13.1
Real fixed business investment	7.7	9.0	3.5	6.9	2.3	-0.6	4.2	0.0	6.0	6.5	5.2	4.6
Real inventory accumulation	38	55	79	68	101	33	18	-1	8	15	11	11
Real exports of goods and services	6.9	3.4	3.5	4.3	0.4	-0.3	3.1	0.9	1.7	2.5	2.9	3.0
Real imports of goods and services	5.5	2.2	1.1	4.5	5.0	1.3	3.0	-0.1	2.8	2.1	3.1	2.1
Real government consumption and investment	-3.0	-1.9	-2.9	-0.7	1.4	0.8	-0.1	0.5	0.7	0.6	0.4	0.5
Real federal government consumption and investment	-2.7	-1.9	-5.8	-2.4	-0.1	0.1	-0.2	-0.8	-1.0	-0.5	-1.4	-0.8
Real state and local government consumption and investment	-3.3	-1.9	-0.8	0.5	2.3	1.2	-0.1	1.2	1.5	1.2	1.2	1.1
Prices												
Consumer Price Index	3.1	2.1	1.5	1.6	0.1	1.3	2.1	1.9	1.6	1.1	2.0	1.7
Chained price index for personal consumption expenditures	2.5	1.9	1.3	1.5	0.3	1.2	1.6	1.7	1.6	0.9	1.9	1.6
Chained GDP price index	2.1	1.8	1.6	1.8	1.1	1.3	1.8	2.1	2.0	1.3	0.9	1.1
Employment cost index	2.0	1.9	1.9	2.1	2.1	2.2	2.5	2.0	1.8	1.7	1.4	1.3
Labor markets												
Average monthly change in employment	167	177	199	237	228	194	210	61	98	36	49	-5
Unemployment rate (percent)	8.9	8.1	7.4	6.2	5.3	4.8	4.4	5.2	5.5	5.7	6.0	6.1
Employment to population (percent)	58.4	58.6	58.6	59.0	59.3	59.7	60.2	60.2	60.0	59.8	59.3	58.9
Income and wealth												
Real disposable personal income	2.5	3.2	-1.4	3.6	4.2	1.4	1.5	1.6	1.4	1.8	1.0	1.0
Net household wealth ($ trillions)	63	69	79	84	87	92	103	110	113	118	125	134
Personal saving rate (percentage of disposable income)	6.0	7.6	5.0	5.7	6.1	4.9	3.7	4.0	3.7	4.1	4.0	4.0
After tax corporate profits with inventory valuation and capital consumption adjustments	4.0	10.0	1.7	5.3	-1.1	-2.1	4.7	0.5	0.5	-3.3	-1.8	1.5
Housing												
Housing starts (thousands)	612	784	928	1,001	1,107	1,177	1,196	1,307	1,173	958	841	729
Stock of owner-occupied homes (millions)	132	133	133	134	135	136	137	137	138	139	140	140
Interest rate on 30-year fixed-rate mortgages (percent)	4.46	3.66	3.98	4.17	3.85	3.65	4.01	4.09	4.49	4.65	4.90	5.16
Foreign trade												
Current account balance, share of GDP (percent)	-2.9	-2.6	-2.1	-2.1	-2.4	-2.4	-2.4	-2.6	-2.9	-3.0	-3.0	-2.9
Merchandise trade balance ($ billions)	-725	-730	-690	-727	-737	-735	-777	-832	-882	-905	-949	-971
Relative unit labor costs (Index, 2008=100)	86.2	85.1	83.7	87.3	97.2	99.6	99.5	98.4	97.0	95.4	93.8	91.6
Financial												
Federal funds rate (percent)	0.13	0.13	0.13	0.13	0.17	0.42	1.27	1.45	1.70	0.89	1.05	1.01
Yield on 10-year Treasury note (percent)	2.05	1.71	2.75	2.28	2.19	2.13	2.36	2.52	3.15	2.81	3.27	3.25
Government												
Federal budget balance, unified basis (share of GDP, percent)	-8.5	-7.3	-4.3	-2.9	-2.6	-2.9	-3.5	-3.6	-3.7	-3.7	-4.0	-4.4

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

ENDNOTES

1. Unless otherwise noted, all data supplied by Haver Analytics, which compiles statistics from the US Bureau of Labor Statistics, the Bureau of Economic Analysis, and other databases.
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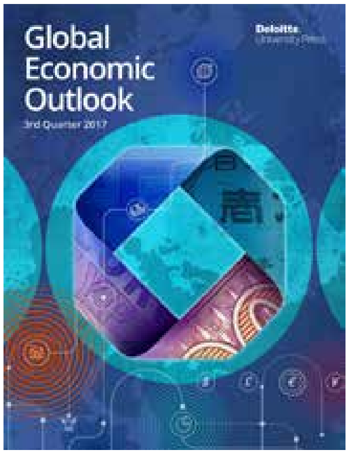
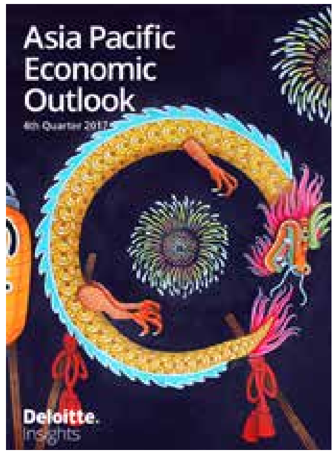
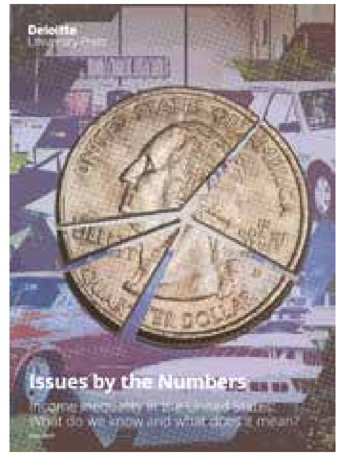
ADDITIONAL RESOURCES







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