



**The Conference Board Economic Forecast for the U.S. Economy
May 15, 2013**

Fiscal tightening should drag U.S. growth lower in the remainder of 2013

The U.S. economy grew at a 2.5% pace in the first quarter, but we continue to expect fiscal tightening via the sequester spending cuts to slow growth in the remainder of this year. The combined fiscal drag from the increased payroll tax rate and sequester spending cuts total \$225 billion for this year, which offsets all the positive wealth effect created by the rise in equity prices and appreciation in home prices over the past year. The private sector of the economy has proven to be resilient in the face of the contraction and headwinds from the public sector of the economy. However, the drag from the spending cuts combined with sustained weak business investment makes it difficult to sustain strong GDP or employment growth. Consequently, we anticipate that economic activity decelerates sharply in Q2, struggling to register an annualized 0.8% growth rate. Economic growth only picks up moderately in the second half of 2013, as the headwinds from the sequester continue to restrain activity, despite the ongoing revival in the housing and auto sectors. These two very interest-rate sensitive sectors are benefitting greatly from the Federal Reserve's aggressive quantitative easing asset purchases. The still anemic labor market signals that the Federal Reserve will continue its current pace of asset purchases, despite growing speculation of when they will start to wind down the purchases.

The U.S. Economic Forecast

THE CONFERENCE BOARD'S ECONOMIC OUTLOOK, 2012-2013
Percentage Change, Seasonally Adjusted Annual Rates
(except where noted)

| | I Q* | 2013 II Q | III Q | IV Q | 2014 I Q | 2012 ANNUAL | 2013 ANNUAL |
|---------------------------|--------|--------------|--------|--------|-------------|----------------|----------------|
| Real GDP | 2.5 | 0.8 | 1.6 | 2.1 | 2.6 | 2.2 | 1.6 |
| Real Consumer Spending | 3.2 | 1.9 | 2.1 | 2.0 | 2.5 | 1.9 | 2.2 |
| Housing Starts Mil. Units | 0.97 | 1.07 | 1.09 | 1.10 | 1.17 | 0.78 | 1.06 |
| Real Capital Spending | 2.1 | 5.0 | 6.2 | 8.1 | 7.6 | 8.0 | 5.1 |
| Net Exports Bil. '00\$ | -400.8 | -405.6 | -410.0 | -422.1 | -427.9 | -400.7 | -409.6 |
| * actual value | | | | | | | |