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The Conference Board Economic Forecast for the U.S. Economy
March 8, 2017

After a brief pause in Q1, US economy back to slow growth trend by Spring

US economic growth was downgraded in the first quarter from 2.2 percent (annualized) to only 1.6 percent, but mainly due to one-offs. The data suggests weaker than expected consumer and government construction spending along with a drop in exports of capital goods, resulting in a surge in the trade deficit. Nominal core retail sales were solid in January and yet inflation adjusted total consumer spending declined by 0.3 percent, on the back of weather related weakness in utilities, softer car sales, and an unusual spike in inflation. Even a return to trend real spending increases for February and March won't be enough to offset these January results. Continued relatively strong job and wage growth in an already tight labor market, improving housing market, and the wealth effect of recent stock market gains (and potential personal income tax cuts later this year) all suggest consumer sentiment and spending will remain solid. But while the good news is consumer demand may be reverting to trend, the bad news is business spending remains on a weak trend, despite a solid gain in business sentiment. Core capital goods orders (a proxy for business spending on equipment) weren't favorable in January, posting 0.1 percent decline. The expected corporate tax reform might not pass the Congress before the end of the year, leaving little scope for a meaningful increase in business spending on investment thus lowering our second half 2017 forecast. Finally, while investment in physical capital is and likely will remain weak, investment in human capital remains robust. With demand for labor showing little signs of abating (except the Federal hiring freeze) and with little excess labor supply, the unemployment rate will stay low or go still lower, driving wages and inflation higher. These trends taken together with a potential of fiscal stimulus (tax and regulation cuts along with infrastructure spending) could jolt activity and have an even bigger impact on inflation. That implies conditions are ripe for hikes in short-term interest rates, as indicated by latest Federal Reserve hawkish comments, and the upwelling of market sentiment that hikes are coming sooner rather than later.

The U.S. Economic Forecast

THE CONFERENCE BOARD ECONOMIC OUTLOOK, 2017-2018
Percentage Change, Seasonally Adjusted Annual Rates
(except where noted)

	2016	2017		2018		2016	2017	2018
	IV Q*	I Q	Q2 - Q4	first half	second half	ANNUAL	ANNUAL	ANNUAL
Real GDP	1.9	1.6	2.3	2.5	2.1	1.6	2.1	2.4
Real Consumer Spending	3.0	1.6	2.5	2.5	2.3	2.7	2.5	2.5
Residential Investment	9.6	7.5	5.2	4.0	3.5	4.9	4.5	4.3
Real Capital Spending	1.3	5.0	3.6	4.1	2.6	-0.5	3.0	3.6
Exports	-4.0	5.0	1.8	1.6	1.5	0.4	2.4	1.7

* Actual data