

The Conference Board Economic Forecast for the U.S. Economy August 9, 2017

Improved Global Conditions and Investment Pickup Signal Faster Growth Ahead

GDP grew by 2.6 percent in the second quarter, after a rocky first quarter featuring just 1.2 percent growth. A combination of rising investment growth, an improved external demand environment, and plenty of firepower coming from consumer spending suggests that the economy can grow by 2.6 percent for the rest of 2017 and by 2.4 percent in 2018, which is above the current trend.

Business investment gained momentum last quarter, growing at a 5.2 percent annual rate echoing stronger first quarter growth. This brings investment growth in line with higher levels of business confidence that have prevailed since the end of 2016. A large portion of investment growth occurred in the energy sector which may make it difficult to sustain over the next few quarters unless oil prices continue to show an upside. Still, equipment spending was an important source of strength, which signals upward momentum for industrial production over the next few quarters.

Consumer spending is also continuing to make large positive contributions to GDP growth thanks to rapid employment growth and high levels of consumer confidence. Further increases in spending may be on the horizon if tight labor markets induce new acceleration in wages. For now though, wage and price inflation are contained, meaning that the Federal Reserve is likely to raise interest rates only once more in 2017. Capital costs are therefore unlikely to rise quickly which will help perpetuate the current upward moment in investment.

Finally, improved global conditions are also helping US economic performance in 2017, especially through exports and improved investment opportunities. The Conference Board's Global Leading Economic Index suggests that emerging economies are also picking up some speed. The Euro Area has been growing above a 2 percent rate, its fastest pace time since 2011. For the first time since the Great Recession, the US faces an external environment where all major global economies are performing well. Should these conditions persist, along with a weaker dollar, demand for exports and a healthy profit environment for MNCs will be sustained.

The U.S. Economic Forecast

THE CONFERENCE BOARD ECONOMIC OUTLOOK, 2017-2018

Percentage change, seasonally adjusted annual rates

	2017				2018		2016	2017	2018
	I Q*	II Q*	III Q	IV Q	first half	second half	ANNUAL	ANNUAL	ANNUAL
Real GDP	1.2	2.6	2.7	2.5	2.3	2.2	1.5	2.1	2.4
Real Consumer Spending	1.9	2.8	2.4	2.5	2.2	2.2	2.7	2.6	2.3
Residential Investment	11.1	-6.8	5.0	5.0	4.0	3.0	5.5	2.7	3.4
Real Capital Spending	7.1	5.2	3.4	4.2	3.9	3.9	-0.6	4.1	3.9
Exports	7.3	4.1	4.0	4.0	2.8	2.6	-0.3	3.5	3.2

* Actual data