

The Conference Board Economic Forecast for the U.S. Economy October 11, 2017

2017 Momentum Will Help Support Robust 2018 Growth

With US economic growth expected to hit 2.2 percent for 2017 including 2.5 percent during the second half of the year, there is ample momentum to support a 2.4 percent growth projection in 2018. Maintaining this altitude though is not guaranteed. The external environment is likely to be less supportive for US exports in 2018 as key trading partners like the Euro Area and China could experience modest slowdowns in growth. As baby boomers retire, the US economy faces stiff demographic headwinds. Domestic consumption and investment will act as the primary growth drivers next year.

Consumption remains on course for 2.7 percent growth in 2017, matching its 2016 performance. Maintaining quite the same rate of growth in 2018 will be hard. New car sales rebounded quickly in September, following a sharp hurricane related drop in August. Auto sales have slowed during 2017 as purchases delayed during and after 2017 have become less of a factor. Retail sales have slowed from faster growth rates, while consumer confidence has fallen back a bit from elevated levels. The Conference Board anticipates that consumption will grow by 2.4 percent in 2018. One possible upside comes from the labor market. While wage growth has paused in 2017, if the economy keeps producing 175,000 jobs per month and unemployment rates remain at or below 4.4%, the laws of supply and demand could accelerate wage growth in 2018.

The dollar's depreciation through most of 2017 reflected strength in key trading partner economies; most notably the Euro Area and China, rather than weakness at home. US exports rose steadily as they became more competitive. The recent appreciation of the dollar during the past month suggests that in 2018, the external environment will not be quite as supportive for the US economy as mature market growth is likely to slow somewhat from 2017 figures. The Federal Reserve is also likely to raise rates once in December and several times in 2018, moves which will act to strengthen the dollar.

Growth in 2018 will largely rest on domestic factors, particularly business confidence measures which provide guidance about future investment intentions for firms. Current signals suggest that faster capital equipment growth can continue into 2018. The Conference Board's CEO Confidence indicator has fallen during the past two quarters, but remains well above levels suggesting economic expansion, while the ISM Purchasing Manager's Index for manufacturing reached its highest level in September in more than a decade. Continued equity market gains suggest businesses believe profits will rise, providing additional incentive for investment, especially for the largest domestic firms.

Stronger US economic performance from 2017 will carry over to 2018, with the domestic rather than external environment serving as the most important factor.

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	3.1	2.6	2.4	2.2	2.1	1.5	2.2	2.4
Real Consumer Spending	1.9	3.3	2.6	2.4	2.2	2.2	2.7	2.7	2.4
Residential Investment	11.1	-7.3	-5.0	2.5	2.2	2.1	5.5	1.1	0.7
Real Capital Spending	7.1	6.7	3.3	4.2	4.1	4.1	-0.6	4.4	4.2
Exports	7.3	3.5	4.0	4.0	3.9	3.8	-0.3	3.4	3.9

* Actual data