

The Conference Board Economic Forecast for the U.S. Economy December 13, 2017

Progress on tax measures, along with continued strength from business and consumer confidence, will lead economy to near 3 percent growth in 2018

The US economy continues to fire on all cylinders with consumption, business investment, and external trade all showing strength entering 2018. Growth should exceed a 3 percent annual rate for a third consecutive quarter to close the year and the US economy should grow by 2.8 percent in 2018. So long as business and consumer confidence remain strong, the US economy should enjoy its best two-year stretch in more than a decade.

The likely enactment of tax reform measures will help keep these confidence indicators at elevated levels. Businesses will see tax burdens fall starting in 2019 under the Senate's plan, but they will be able to fully expense investments starting a year earlier. Moving investments forward where possible -- into 2018 -- allows businesses to reduce profits next year under higher tax rates and to begin earning more under lower rates in 2019. We therefore expect investment in equipment and software to continue rising in 2018.

Consumers may benefit from lower individual tax rates as well. But higher income consumers with lower propensity to consume will see the greatest gains. With the consumer confidence index at its highest level since 2000 and the unemployment rate at 4.1 percent, spending growth should remain robust through the holiday season and into next year.

Because the tax plan creates expectations for faster economic growth in 2018 and more than a trillion dollars in new debt over the next ten years -- both factors feeding into higher inflation expectations-- the Federal Reserve is likely to raise rates once in December and four more times next year. Over time, higher interest rates will contain the growth impact of the new legislation and will also mean a stronger dollar. The trade balance is therefore likely to become less favorable next year, though growth in key trading partner economies like the Euro Area and China will stay near 2017 levels, helping to sustain exports.

Overall, expect 2018 to be a year where both growth and profits are plentiful. At the same time substantive risks, both economic and geopolitical keep hanging over this outlook.

The U.S. Economic Forecast

THE CONFERENCE BOARD ECONOMIC OUTLOOK, 2017-2018 Percentage change, seasonally adjusted annual rates

	2017				2018		2017	2018	2019
	I Q*	II Q*	III Q*	IV Q	First Half	Second Half	ANNUAL	ANNUAL	ANNUAL
Real GDP	1.2	3.1	3.3	3.3	2.6	2.4	2.3	2.8	2.2
Real Consumer Spending	1.9	3.3	2.3	3.0	2.5	2.5	2.7	2.6	2.4
Residential Investment	11.1	-7.3	-5.1	3.0	2.5	2.2	1.1	0.9	2.2
Real Capital Spending	7.1	6.7	4.7	8.0	5.9	5.4	4.8	6.1	4.9
Exports	7.3	3.5	2.2	3.8	3.7	3.6	3.2	3.5	3.6

* Actual data