

The Conference Board Economic Forecast for the U.S. Economy January 10, 2018

A Happy New Year for the US Economy

A happy new year seems in store for the US Economy. Consumer and business spending are closing 2017 on a high note, pushing growth above 3 percent for the final three quarters of 2017. Tax cuts passed by Congress will provide an additional boost to the domestic economy this year. We project GDP to rise by 2.9 percent in 2018 compared to 2.3 percent for 2017.

For consumers, lower tax bills should vault already strong spending numbers even higher. History indicates that consumers will spend much, though not all, additional money they take home. The increase in disposable income though will be partially offset by falling home prices due to changes in the mortgage interest deduction. Repatriation of business profits will raise dividend payments, some of which will also end up as consumption. Expect spending to grow by an additional 0.3 percent because of these measures.

For businesses, the tax plan delivers not only lower rates, but also the chance to immediately deduct investment spending from corporate tax payments for the next five years. For companies seeking to build structures like data centers, drilling rigs, and warehouses, the cost of financing these projects will fall dramatically. Higher profitability will also provide more resources for companies to invest, provided rising wage costs don't run out of hand.

The strength of the global economy, especially in key trading partner economies like the Euro Area and China, provide further support to the US economy and help to keep the US dollar relatively weak, boosting exports. However, it is unclear whether sufficient spare capital and labor are available to meet burgeoning demand. Undertaking fiscal stimulus during strong economic times may overburden capacity, and trigger faster inflation. So far, the Federal Reserve plans to continue raising rates at a modest pace, perhaps three times next year. But these plans could change if inflation surges, slowing both investment activity and growth.

Despite such risks down the road, for now, US businesses enjoy the strongest economic environment since the mid-2000s.

The U.S. Economic Forecast

THE CONFERENCE BOARD ECONOMIC OUTLOOK, 2017-2018

Percentage change, seasonally adjusted annual rates

	2017		I Q	2018			2017	2018	2019
	III Q*	IV Q		II Q	III Q	IV Q	ANNUAL	ANNUAL	ANNUAL
Real GDP	3.2	3.2	2.7	3.0	2.8	2.8	2.3	2.9	2.5
Real Consumer Spending	2.2	3.3	2.6	2.9	2.7	2.7	2.7	2.8	2.6
Residential Investment	-4.7	4.0	2.5	2.4	2.3	2.2	1.3	1.1	2.2
Real Capital Spending	4.7	10.1	5.6	5.6	5.6	5.6	4.9	6.4	5.3
Exports	2.1	3.8	3.7	3.7	3.6	3.6	3.2	3.5	3.6

* Actual data