The Conference Board Economic Forecast for the U.S. Economy
February 14, 2018

Market volatility adds note of caution to a strong 2018 outlook

Volatility has returned to the economy with a vengeance. The major downward correction in US and global equity markets during the beginning of the month demonstrates that while the fundamentals of the US economy remain strong, there are no guarantees. 2017 reflected a harmonic convergence of many positive factors. The US, Euro Area and China saw synchronized strong growth performance. Major central banks kept their powder dry as low inflation prevailed. Businesses and consumers stayed chipper, especially after expectations for tax cuts in the US were realized. It was a year that featured remarkably little bad economic news.

So, why have bears come out of hibernation? It comes down to the realization that an economy, which will grow by as much as 2.9 percent in 2018, is likely to see wage growth and higher producer prices, which both signal firming inflation. The Federal Reserve may therefore have to boost rates four rather than three times in 2018. Rising interest rates on government bonds reflect not only the activities of the Fed, but also increased government borrowing as a result of the new tax plan. This could feed into both corporate and mortgage rates, possibly muting both business and residential investment.

Market jitters though do not signal that an economic slowdown is imminent. Consumers can cheer higher wages and lower income tax burdens. Businesses face robust global demand and the tax plan will lower costs for investment in hard assets. 2018 should be another strong year for the domestic and global economy. Volatility though reminds business leaders that expansions are not immortal. With fewer workers on the sideline, increased investment must yield productivity growth or else the economy will slow with the risk of recession rising.

The U.S. Economic Forecast

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

	2017		2018				2019		2017	2018	2019
	III Q*	IV Q	I Q	II Q	III Q	IV Q	first half	second half	ANNUAL	ANNUAL	ANNUAL
Real GDP	3.2	2.6	3.3	3.0	2.7	2.6	2.4	2.4	2.3	2.9	2.5
Real Consumer Spending	2.2	3.8	2.8	3.0	2.8	2.7	2.6	2.6	2.7	3.0	2.7
Residential Investment	-4.7	11.7	2.8	2.7	2.6	2.5	2.5	2.5	1.7	2.7	2.5
Real Capital Spending	4.7	6.8	5.3	6.2	5.5	5.4	5.2	5.0	4.7	5.8	5.3
Exports	2.1	6.9	3.9	4.2	4.1	4.1	4.1	4.0	3.4	4.3	4.1

* Actual data