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

Q1 Pullback Does Not Detract from Strong 2018 Outlook

2018 has started with a small slowdown in consumption and investment numbers, and our GDP forecast for the first quarter has been revised downward from 3.3 to 2.6 percent. But this pullback doesn't detract from a strong 2018 outlook. First quarter growth has been disappointing in recent years due to unexplained seasonal factors. The business environment for this year and next still looks bright, especially because the labor market created more than 200,000 jobs per month over the past six months.

Consumers are happy but spent less than expected in the first quarter. Durable goods sales have softened since the end of 2017. Nevertheless, shoppers still seem ready to open their wallets later in the year, as consumer confidence remains high and pay packets are getting a bit fatter thanks to individual tax cuts.

Wage growth is a boon to consumers but a concern for equity markets. With labor markets tight and continuing to produce jobs at a rapid clip, wage growth could increase and support more consumer spending, but at the same time cause firm profit margins to shrink.

Capital spending momentum has paused but may continue. After rapid growth through most of 2017, recent data on shipments of capital goods suggest last year's pick up may have halted in the first quarter. However, business confidence remains high and new tax incentives make it likely equipment investment will pick back up later in 2018.

Passage of a bipartisan budget deal authorizing 300 billion dollars in new federal spending will boost demand and employment—and increased demand will mean faster growth, especially in 2019 when the bulk of this spending will occur. More government borrowing though will drive interest rate for firms and homeowners higher, diminishing investment appetites for both.

Finally, the President's recent announcement that he intends to impose steel and aluminum tariffs on some trading partners could harm industries that use steel, like the auto industry. Retaliatory tariffs from other nations would harm other US industries as well. The possibility of further US action, especially on Chinese imports, increases the risk that supply chains will be disrupted. In this uncertain policy environment, updating contingency plans will be key for protecting profits.

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	second half	first half	second half	ANNUAL	ANNUAL	ANNUAL
Real GDP	3.2	2.5	2.6	3.4	3.4	2.9	2.5	2.3	3.0	3.0
Real Consumer Spending	2.2	3.8	2.2	2.9	2.7	2.6	2.6	2.7	2.8	2.7
Residential Investment	-4.7	13.1	2.8	2.7	2.6	2.5	2.5	1.8	2.9	2.5
Real Capital Spending	4.7	6.6	4.3	5.9	5.4	4.9	4.7	4.7	5.4	5.1
Exports	2.1	7.1	3.9	4.2	4.1	4.1	4.0	3.4	4.3	4.1

* Actual data