THE CONFERENCE BOARD
Trusted Insights for Business Worldwide

The Conference Board Economic Forecast for the U.S. Economy
June 13, 2018

US Outlook Strengthens as Domestic Risks Recede

Over the last month, The Conference Board's optimistic outlook for 2018 has consolidated with growth expected to exceed 3 percent during the second half of the year. Measures of consumer and business confidence, along with retail sales and key business investment indicators have all strengthened according to their most recent readings. While equity markets remain volatile, they have returned to levels of the beginning of the year. Uncertainty around trade policy still could cause businesses to delay investments as the US continues exchanging tariff volleys with major trading partners. Weakening momentum in Europe and emerging markets could also dampen demand for US goods. But, for now, internal US dynamics clearly trump external ones. Most notably, the labor market continues to create jobs at a rapid clip helping to drive the unemployment rate down to 3.8 percent, the lowest rate since the 1960s.

These tightening labor market conditions, and the possibility of further wage acceleration, explain why inflation trends, and the Federal Reserve's response to them, will play a critical role in shaping economic conditions this year and next. Higher wages, particularly in occupations experiencing acute labor shortages, like truck drivers, can quickly feed into higher prices. Major inflation measures have firmed in recent months. They are now above or approaching the Federal Reserve's two percent target. Rising oil prices also place upward pressure on production costs for other goods. Greater price transparency because of the growth of e-commerce mutes the effects of some inflation producing factors. Still, so long as the economy stays strong, the Federal Reserve is likely to maintain a faster interest rate normalization path. Expect two or three further rate increases this year.

Higher Federal Reserve rates mean increased capital costs which eventually reduce investment appetites for US firms. In addition, higher rates encourage capital to come into the US and the dollar to strengthen. The result in some emerging markets could be higher inflation rates and greater difficulty financing sovereign debt denominated in foreign currency. Increased efforts to curtail inflation in the US therefore could be the greatest source of near term downside risk for the US and global economy.

The U.S. Economic Forecast

THE CONFERENCE BOARD ECONOMIC OUTLOOK, 2017-2019
Percentage change, seasonally adjusted annual rates

	2017		2018				2019		2017	2018	2019
	first half	second half	I Q*	II Q	III Q	IV Q	first half	second half	ANNUAL	ANNUAL	ANNUAL
Real GDP	2.1	3.0	2.2	3.3	3.5	3.5	2.9	2.5	2.3	2.9	3.0
Real Consumer Spending	2.6	3.1	1.0	3.2	2.7	2.7	2.6	2.6	2.8	2.6	2.7
Residential Investment	1.9	4.0	-2.0	0.0	2.6	2.5	2.5	2.5	1.8	1.2	2.4
Real Capital Spending	6.9	5.7	9.2	5.9	5.0	5.0	4.9	4.6	4.7	6.6	5.0
Exports	5.4	4.5	4.2	4.1	4.1	4.1	4.0	4.0	3.4	4.4	4.0

* Actual data