

The Conference Board Economic Forecast for the U.S. Economy July 11, 2018

US Economy Continues to Fly High Amidst Rising Trade Tensions

The US economy has been soaring so far in 2018 thanks in part to stimulus measures, both tax cuts and increased government spending. GDP is projected to have increased by 4.2 percent in the second quarter and we raised our outlook for 2018 and 2019 to an average of 3.1 percent growth. Thanks to a strong labor market, consumers remain confident and continue to spend. So long as business and consumer confidence remain robust, the economy should continue to run on all cylinders.

A more tumultuous trade policy environment though threatens to throw the current expansion off course. The US is presently embroiled in trade conflicts with its NAFTA partners, the European Union, and China. In response to new tariffs issued by the US, all have issued sets of retaliatory tariffs.

The conflict with China could have the most far reaching implications and may widen in two dimensions. First, the scale of tariffs imposed by each side could increase. Second, the US could raise restrictions on Chinese investment in the US to compel the Chinese government to reduce restrictions on US investment in China.

The short-term impact of a widening trade conflict for the US economy seems small. The US is a large market, whose exports account for less than 15 percent of GDP, and therefore will experience smaller growth effects than many of its more export reliant trading partners.

By 2019 though, with the effects of fiscal stimulus waning, a widening of trade conflicts could place the current recovery in jeopardy especially if tariffs spread to the critical auto sector. Inflation could pick up generally, as it already has for products like washing machines and could lead the Fed to raise interest rates more quickly. Firms may be hesitant to invest in the short term without knowing how supply chains may need to be restructured. Prolonged and deepening trade conflict could lead to slower growth and increased recession risk in 2019.

The U.S. Economic Forecast

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

	2017		I Q*	2018				2019		2017	2018	2019
	first half	second half		II Q	III Q	IV Q	first half	second half	ANNUAL	ANNUAL	ANNUAL	
Real GDP	2.1	3.0	2.0	4.2	3.6	3.5	2.9	2.5	2.3	3.1	3.1	
Real Consumer Spending	2.6	3.1	0.9	3.5	2.7	2.7	2.6	2.6	2.8	2.6	2.7	
Residential Investment	1.9	4.0	-1.1	0.0	2.6	2.5	2.5	2.5	1.8	1.4	2.4	
Real Capital Spending	6.9	5.7	10.4	4.4	4.7	5.0	4.9	4.6	4.7	6.6	4.8	
Exports	5.4	4.5	3.6	8.0	4.1	4.1	4.0	4.0	3.4	5.0	4.3	

* Actual data