

## News Release

### Comment on Q3 GDP

#### **US Economy Maintains Rapid Pace of Growth, but Future Headwinds Are Strengthening** **Brian Schaitkin, Senior Economist, The Conference Board**

Today, the U.S. Bureau of Economic Analysis reported 3.5 percent annualized growth in real Gross Domestic Product for the third quarter of 2018.

A confluence of fiscal stimulus measures and elevated business and consumer confidence have helped the US economy enjoy an extended period of well-above trend growth. In 2019 however, headwinds from Federal Reserve policy, the fading influence of stimulus measures, and a weaker external environment will drag growth back towards its longer-term trend.

Robust consumption growth continues to lead the current strong growth period. Labor market fundamentals remain very strong with unemployment at its lowest levels since the 1960s, wage growth accelerating gradually especially among blue collar workers, and consumer confidence high and rising. However, the Federal Reserve is continuing to tighten monetary policy to combat upward inflationary pressure leading to increased financing costs for households.

Higher mortgage rates, along with labor shortages in construction and elevated costs for materials, are already causing residential investment to slide this year. Business investment growth decelerated in the third quarter, though intellectual property products maintain a very strong growth trend. While business confidence measures suggest positive private investment growth to continue, some of these indicators have retreated as concerns about higher capital costs have grown. With the Federal Reserve likely to raise rates three or four more times before the end of 2019, higher interest rates will create a slower growing and riskier business environment, as illustrated by recent stock price declines, entering 2019.

Increased federal spending levels agreed to by Congress earlier this year are starting to take hold and should provide additional support to growth through the middle of 2019. Towards the end of 2019 though, spending growth will return to normal levels as will growth contributions from tax cut measures.

The US economy is enjoying an especially strong period of growth at present, but such growth cannot be sustained in 2019. As the economy slows back towards its long-term trend next year, businesses should prepare for a more challenging profits environment ahead.

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