THE CONFERENCE BOARD

News Release

Comment on Q1 GDP

A Strong Beginning for 2019 Obscures Signs that Economy is Settling into Slower Growth Path

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Today, the U.S. Bureau of Economic Analysis reported 3.2 percent annualized growth in real Gross Domestic Product for the first quarter of 2019.

While this headline number is only a modest slowdown from the 3.8 percent pace of growth that prevailed during the middle of last year, the stronger than expected estimate is primarily the result of temporary contributions from inventories, trade, and government spending that are unlikely to be sustained during the year. Private inventory build remained rapid in the first quarter, a trend unlikely to continue in a slowing sales environment. The trade deficit shrank as import growth ebbed, but this result is unlikely to repeat given the strength of the US dollar. Support from increased government spending will fade towards the end of 2019. Durable goods spending was particularly weak, illustrating recent turbulence in manufacturing.

Based on the slowing trend in consumption and non-residential investment growth, the US economy is expected to grow at 2.5 percent in the next quarter, and 2.3 percent in the second half of 2019, according to The Conference Board's latest forecast. Still, fundamental factors are likely to keep growth above its two percent long-term trend for the time being. A shift in Federal Reserve monetary policy will keep interest rates low, as long as inflation stays under control. Low rates may support a stagnant housing market and help the currently weak growth environment for durable goods purchases. With unemployment low and wage growth continuing to accelerate, domestic spending will grow at a solid pace.

While overall GDP growth remains fairly solid, profits are set to come under pressure this year. Firms face higher payroll costs due to tight labor markets which are cutting margins due to a lack of ability to pass those costs onto consumers. External profits may also decline due to uncertain economic momentum in Europe and China. To protect earnings as costs rise, it is critical that firms boost productivity by continuing to increase investments in software and research and development. These categories have enjoyed rapid growth since the beginning of 2018 and will play a key role in helping firms harness new technologies.

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