The Conference Board Economic Forecast for the U.S. Economy
May 10, 2019

Consumer spending will pull the US economy through in 2019, but cannot prevent greater business challenges

The US economy started 2019 with a strong 3.2 percent first quarter growth figure. This result was driven by falling import purchases and faster firm inventory build, while consumer spending and investment slowed. The labor market remains strong, and with job growth showing no signs of slowdown yet and wages continuing to grow rapidly, consumers should respond by a quick recovery in spending. Businesses face more challenging conditions. The combination of low to moderate inflation growth and faster labor cost increases are squeezing profits.

April's jobs report showed that the unemployment rate had fallen to its lowest rate since the 1960s while employment growth has continued to average more than 200,000 jobs per month so far this year. Wage acceleration remains near its fastest growth rates since the end of the Great Recession despite a recent pause. A combination of job security and larger pay packets will lift purchasing power. Lower interest rates could also boost home and car purchases, two sectors that have struggled recently.

Firms are struggling to pass higher labor costs on to consumers. The Federal Reserve's preferred inflation gauge fell further below two percent in March. For now, the bank is waiting to see if strong labor markets and economic growth do lead to a pick up in inflation. If not, a rate cut by the end of the year is possible. For businesses, lower rates are welcome because they help finance both consumption and investment activity. A lack of firm pricing power, along with high labor costs, are reducing profit margins. However, faster productivity growth according to the most recent estimates illustrates that firms may be getting a return from increased spending on new software and research and development programs. If these productivity gains can be sustained, a profit slowdown may be averted.

Global demand conditions may also impede earnings growth. The Conference Board forecasts that global GDP growth will slow from 3.1 in 2018 to 2.8 percent in 2019, despite somewhat better recent growth figures in the US, China, and Europe. Some policy risks such as Brexit and trade conflict between the US and China may continue to rattle markets but the impact on economic growth remains unclear. More importantly, without a pickup in global productivity growth, demographic constraints will limit the pace of future economic expansion.

Even with continued expansion ahead, companies will find 2019 a more challenging year than 2018.

The U.S. Economic Forecast

THE CONFERENCE BOARD ECONOMIC OUTLOOK, 2018-2019
Percentage change, seasonally adjusted annual rates

	2018		2019				2018	2019	2020
	first half*	second half*	I Q*	II Q	III Q	IV Q	ANNUAL	ANNUAL	ANNUAL
Real GDP	3.2	2.8	3.2	2.2	2.3	2.2	2.9	2.7	2.1
Real Consumer Spending	2.2	3.0	1.2	2.9	2.7	2.6	2.6	2.5	2.5
Residential Investment	-2.4	-4.1	-2.8	1.1	1.1	1.3	-0.3	-1.7	1.5
Real Capital Spending	10.1	4.0	2.7	6.1	6.0	5.4	6.9	4.8	5.2
Exports	6.4	-1.6	3.7	3.4	3.5	3.7	4.0	2.5	3.7

* Actual data