The Conference Board Economic Forecast for the U.S. Economy
June 12, 2019

Weaker US Economic Data Point to Slower Growth and a Possible Rate Cut in 2019

The US Economy encountered turbulence in May. Renewed trade tensions with Mexico and China have given businesses further pause in setting future investment plans. Even before these events, spending on capital equipment and business confidence had slowed. Growth for the rest of the year should settle right around its long-term two-percent trend. At the same time, low inflation provides the Federal Reserve with room to cut rates in order to boost both prices and growth. Increased uncertainty points to slowing economic growth, not rising recession risks. As the expansion is projected to continue, labor market conditions will continue to tighten while signs of increased productivity will support future growth.

On the business side, activity and confidence have clearly retreated in recent months. New orders of capital equipment are growing at their slowest pace since the beginning of 2017. The Institute for Supply Management's Report on Business shows manufacturing confidence reaching its lowest level since 2016. New tariffs imposed on China as a result of failed trade negotiations could create more disruptions in supply chains and more business uncertainty. Business investment growth in physical assets is likely to be much slower in 2019 than it was in 2018.

In contrast, demand factors present a more encouraging picture. Labor markets remain strong with unemployment at its lowest rate since the 1960s. While employment growth has started to slow, labor markets will remain tight. Wages continue to grow at an elevated pace and may even accelerate during the year. Correspondingly, consumer confidence has stayed at historically high levels. These factors should keep consumer spending growth at a healthy level.

So far, higher labor costs have not led to price increases. The Federal Reserve's preferred measure of inflation remains well below its two percent target. Market anticipation of weaker growth and lower short terms rates have caused the yield curve to become inverted. A rate cut at the end of this year seems increasingly likely.

For financial firms, a rate cut would be welcome news, as their profitability is greatly reduced when yield curves are inverted. However, monetary policy shifts alone will not resolve a challenging business environment for companies outside the financial sector. Rising labor costs, reduced pricing power, and falling overall growth combine to make profit growth harder to come by. One promising sign for firms though is a recent acceleration in labor productivity growth. Should this trend continue, increasing labor productivity will support earnings growth.

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The U.S. Economic Forecast

THE CONFERENCE BOARD ECONOMIC OUTLOOK, 2018-2020
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	3.1	1.8	2.1	2.1	2.9	2.6	2.0
Real Consumer Spending	2.2	3.0	1.3	2.6	2.7	2.6	2.6	2.4	2.5
Residential Investment	-2.4	-4.1	-3.5	1.1	1.1	1.3	-0.3	-1.9	1.5
Real Capital Spending	10.1	4.0	2.3	4.9	5.0	4.8	6.9	4.3	4.9
Exports	6.4	-1.6	4.8	3.4	3.5	3.7	4.0	2.8	3.7

* Actual data