

The Conference Board Economic Forecast for the U.S. Economy August 14, 2019

Despite increased trade risks, growth to remain slightly above 2 percent by year end

In the past month news about the US economy was a mixed bag. On the one hand, it is clearly slowing, the rest of the world is slowing even more, the US-China trade dispute and other geopolitical news are all raising the fears of a looming recession. On the other hand, consumers are feeling confident and continue to spend more, and government spending has been accelerating in recent quarters, both supporting still solid overall economic growth.

The US economy slowed from about three percent during most of 2018 to about two percent now. Much of the slowing is a result of business spending on equipment and structures, and from weaker exports. The slowing of economic activity is leading to slower employment growth, which is also constrained by recruiting difficulties in an historical tight labor market.

But with almost no growth in the working-age population, even more modest employment growth is enough to tighten the labor market. U6 -the broad measure of labor market slack in the US, reached 7.0 percent, the lowest rate since 2000, and one of the lowest ever.

As a result of slower economic and revenue growth and accelerating labor cost growth, corporate profits have been squeezed in recent years. The share of corporate profits in the non-financial business sector has been dropping rapidly as the share of wages and salaries has been rising.

The change in direction of the Federal Reserve from raising to lowering interest rates led to a very large drop in long-term interest rates in recent months. Housing and other interest rate sensitive industries will be stimulated. This, together with solid consumer spending and rapid growth in government spending should keep the economy growing at about two percent rate in the coming quarters. However, the recent escalation of the US-China trade dispute and other geopolitical uncertainties increase the risk of a sharper slowdown than the base scenario.

The U.S. Economic Forecast

THE CONFERENCE BOARD ECONOMIC OUTLOOK, 2018-2019-2020

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	3.0	2.0	3.1	2.1	2.0	2.0	2.9	2.3	2.0
Real Consumer Spending	2.8	2.5	1.1	4.3	2.7	2.6	3.0	2.5	2.6
Residential Investment	-4.5	-4.3	-1.1	-1.5	1.1	1.3	-1.5	-2.0	1.3
Real Capital Spending	8.3	3.5	4.4	-0.6	4.5	4.4	6.4	3.5	4.1
Exports	3.3	-2.4	4.2	-5.2	-1.0	-1.0	3.0	-0.3	0.3

* Actual data