THE CONFERENCE BOARD

The Conference Board Economic Forecast for the U.S. Economy
November 14, 2018

Tightening Federal Reserve Monetary Policy Will Slow but not halt Growth in 2019

Higher interest rates, and the intention of the Federal Reserve to keep raising them into 2019, will create a more challenging environment for business next year. On the demand side, the fundamentals remain strong. The current 3.7% unemployment rate is at its lowest point since the 1960s. This tighter labor market helped average wages and salaries to increase by more than three percent during the past year. Favorable labor market conditions are supporting both elevated consumer confidence and spending growth.

From a business perspective though, higher labor costs mean lower profits. Rising wages also place upward pressure on inflation, forcing the Federal Reserve to raise interest rates faster to keep inflation near its two percent target. Capital costs for businesses are increasing. Fiscal stimulus measures, both tax cuts and increased government spending, helped support growth in 2018 but are also stretching the capital and labor resources of the economy and will provide less support to growth in 2019 as their effects taper off during the year.

Recent equity market volatility, and the fall of key business confidence measures to levels signaling a slower pace of growth, demonstrate that firms will face a more uncertain business environment in 2019 relative to 2018. GDP growth is likely to fall from a high of above four percent growth during the second quarter of 2018, to 2.2 percent by the end of 2019, near its long-term trend.

The challenges presented by current business conditions preview well, the conditions firms will face over the medium term. An aging population means slower labor force growth, especially among workers in jobs not requiring college degrees who are retiring in large numbers. To compensate, firms will have to help workers become more productive through well-chosen investments and improved business practice. Between 2019 and 2028, the US economy is likely to average 2.1 percent annual growth, a figure that can be reached only if businesses overcome demographic headwinds by finding innovative ways of boosting labor productivity.

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THE CONFERENCE BOARD ECONOMIC OUTLOOK, 2017-2019
Percentage change, seasonally adjusted annual rates

	2018				2019			2017	2018	2019
	I Q*	II Q*	III Q*	IV Q	I Q	II Q	second half	ANNUAL	ANNUAL	ANNUAL
Real GDP	2.2	4.2	3.5	2.8	3.2	2.8	2.4	2.2	2.9	3.0
Real Consumer Spending	0.5	3.8	4.0	2.9	2.7	2.6	2.5	2.5	2.7	2.9
Residential Investment	-3.4	-1.4	-4.0	2.0	2.0	2.0	2.0	3.3	0.1	1.0
Real Capital Spending	11.5	8.7	0.8	5.8	5.6	5.4	5.1	5.3	6.7	5.1
Exports	3.6	9.3	-3.5	4.1	4.0	4.0	3.9	3.0	4.3	3.4

* Actual data