The Conference Board Economic Forecast for the U.S. Economy
December 12, 2018

Gap Between Consumer and Business Outlook Widens

Entering 2019, consumers see a stronger economy than do businesses. Both believe the economy has plenty of room to run. Executives though, perceive a riskier environment defined by cost pressures and higher interest rates. Investment appetites will likely slacken in the new year. However, elevated confidence and tight labor market conditions will power robust consumer demand. Expect 2018 to close with 2.7 percent GDP growth in the fourth quarter followed by a gradual slowdown to 2.2 percent quarterly growth by the end of 2019 and into 2020. This pace of slowdown is in line with our long-term projections.

The Federal Reserve will be a critical actor. Recent statements by Chair Powell suggesting that he might raise interest rates more slowly temporarily arrested a recent equity market swoon. However, with the unemployment rate at 3.7 percent for the first time since the 1960s, and wage growth accelerating, core inflation measures are likely to rise above the bank's two percent target by the end of next year. Therefore, a rate increase in December and three more in 2019 is still the most likely outcome.

As consumers are enjoying post-recession highs in wage growth, retail sales numbers not surprisingly point to hearty holiday season spending. But rising interest rates, somewhat slower employment growth, and the fading effects of 2018 income tax cuts will make financing big ticket purchases harder, slowing consumption gradually in 2019.

The effect of higher interest rates is especially pronounced in the housing market. New construction activity has slackened due to higher mortgage rates. Fast rising prices particularly in high demand markets, combined with tax law changes that reduce homebuying incentives, are also hampering new sales.

Business investment activity may slow as well in 2019 due to higher interest rates. Both domestic new orders and imports of capital goods have retreated from a faster trend. Weaker global demand and trade policy uncertainty also serve to modestly lower business confidence even as domestic demand remains strong. Firms that maintain healthy investment levels though, especially in research and development, can help workers become more productive. This can reduce labor costs leading to larger profits in a tight labor market.

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The U.S. Economic Forecast

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

	2018			2019			2018	2019	2020
	first half*	III Q*	IV Q	I Q	II Q	second half	ANNUAL	ANNUAL	ANNUAL
Real GDP	3.2	3.5	2.7	2.9	2.6	2.3	2.9	2.9	2.2
Real Consumer Spending	2.2	3.6	3.1	2.8	2.7	2.6	2.7	3.0	2.4
Residential Investment	-2.4	-2.6	0.0	0.5	0.7	1.0	0.1	0.0	1.4
Real Capital Spending	10.1	2.5	4.7	4.8	4.7	4.5	6.9	4.7	4.6
Exports	6.4	-4.4	4.1	3.8	3.6	3.7	4.2	3.1	3.7

* Actual data