

## **The Conference Board Economic Forecast for the U.S. Economy January 9, 2019**

### **Stock Market Turbulence Reflects Weaker Environment for Profits**

Financial markets enter the new year facing increased volatility. The Conference Board projects that growth will slow from 2.9 percent in the second half of 2018 to 2.2 by the second half of 2019. Businesses should prepare for a more challenging profits environment, but should also recognize that this slowdown does not imply that a recession is on the horizon. The economy is still likely to enjoy above trend growth, with strength coming from consumer spending and labor markets.

The labor market continues to support consumer spending growth. Unemployment rates remain below 4 percent. Key measures of wage growth improved during 2018 and accelerated more rapidly in the past 6 months. Consumer confidence measures remain high even though shoppers are less certain that conditions can keep improving. Higher interest rates may lead to a slowdown in consumption growth later in the year, especially for big ticket items. For businesses, robust demand growth should bolster confidence in an increasingly challenging environment, though faster wage growth and more difficulty attracting talent can impair profitability.

During the final quarter of 2018, stock prices fell by 14 percent. Volatility throughout last year was greater than in 2017 which had featured steady and steep increases in market valuations. This, together with concerns about slower global growth, has dragged business confidence measures down. Federal Reserve rate hikes are a concern as higher interest rates mean a rise in firm operating costs. The Fed though may provide relief by raising rates only twice this year, so long as inflation stays near target levels.

Continued trade tensions with China and the ongoing partial government shutdown are also contributing to increased business uncertainty entering the new year. While higher costs and more uncertainty will reduce business profitability, 2019 can still be a good though not spectacular year for firm performance. Even with less favorable economic conditions, businesses should continue making investments that will help boost firm productivity and earnings, helping them to weather future headwinds.

**The U.S. Economic Forecast**

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

	first half	2018		2019			2017	2018	2019	2020
		III Q*	IV Q	I Q	II Q	second half	ANNUAL	ANNUAL	ANNUAL	ANNUAL
Real GDP	3.2	3.4	2.5	2.8	2.5	2.2	2.2	2.9	2.7	2.2
Real Consumer Spending	2.2	3.5	3.2	2.7	2.6	2.4	2.5	2.7	2.9	2.4
Residential Investment	-2.4	-3.5	0.0	0.5	0.7	1.0	3.3	0.0	-0.1	1.4
Real Capital Spending	10.1	2.5	4.0	4.6	4.5	4.2	5.3	6.8	4.4	4.5
Exports	6.4	-4.9	4.1	3.8	3.6	3.7	3.0	4.1	3.0	3.7

\* Actual data