

The Conference Board Economic Forecast for the U.S. Economy February 13, 2019

More Dovish Monetary Policy May Restore Business Confidence

By the end of January, businesses breathed a sigh of relief after a turbulent month featuring the longest government shutdown in US history. In addition, the Federal Reserve statement at the end of January signaled to many that the bank may not raise interest rates at all during 2019, which helped stock markets recover lost ground and eased fears of recession.

Still, the economy is likely to slow during 2019 back towards its medium-term two percent trend. The effect of fiscal stimulus measures will fade during 2019. Global growth prospects in mature economies, especially in the Euro Area and China, are slowing. Furthermore, more rapid wage acceleration domestically could reduce firm profitability. Expect the economy to slow to 2.2 percent growth by the second half of this year compared to more than three percent during the first three quarters of 2018.

While the government shutdown lasted five weeks, it ended before doing lasting damage to the US economy. With 800,000 federal workers spending more than a month furloughed or working without pay, 0.3 percent of GDP growth was likely lost across the final quarter of 2018 and first quarter of 2019. These losses were centered in discretionary consumption categories because workers faced cash shortfalls which may not be recovered later. Businesses too were disrupted as they were unable to avail themselves of government services.

Currently, the Federal Reserve views the risk of inflation accelerating as muted. But a pickup in inflation measures is a distinct possibility as the US economy continues to perform well, particularly labor markets. If wages continue to rise, supporting consumer demand and placing pressure on prices, the Fed may increase rates during the second half of this year. Businesses therefore must watch wage and inflation data warily to see if the Fed may reconsider its policy shift.

The U.S. Economic Forecast

THE CONFERENCE BOARD ECONOMIC OUTLOOK, 2018-2019
Percentage change, seasonally adjusted annual rates

	first half	2018		2019			2018	2019	2020
		III Q*	IV Q	I Q	II Q	second half	ANNUAL	ANNUAL	ANNUAL
Real GDP	3.2	3.4	2.4	2.6	2.5	2.2	2.9	2.7	2.2
Real Consumer Spending	2.2	3.5	3.1	2.5	2.6	2.4	2.7	2.8	2.4
Residential Investment	-2.4	-3.5	0.0	0.5	0.7	1.0	0.0	-0.1	1.4
Real Capital Spending	10.1	2.5	4.0	4.1	4.5	4.9	6.8	4.4	4.8
Exports	6.4	-4.9	4.1	3.8	3.6	3.7	4.1	3.0	3.7

* Actual data