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News Release

Comment on Q4 GDP

US Economy Starts to Slow Entering 2019, but Headwinds Ease

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Today, the U.S. Bureau of Economic Analysis reported 2.6 percent annualized growth in real Gross Domestic Product for the fourth quarter of 2018.

These numbers represent a slowdown from the 3.8 percent average growth during the middle of last year. However, they also illustrate that the economy was still enjoying solid growth at the end of last year despite headwinds from slowing global growth, fears of tighter monetary policy, trade policy uncertainty, and a partial government shutdown. Since the beginning of 2019, the business environment has improved with many of these headwinds easing. During 2019, growth is likely to slow down towards the economy's long-term 2.0 percent trend as support from fiscal policy is reduced, but more gradually than anticipated at the beginning of the year.

The Federal Reserve has signaled that it will postpone further interest rate hikes until signs of rising inflation emerge and cease balance sheet normalization activities towards the end of this year. Stock price gains since the announcement of these policy shifts illustrate that if they are executed, business confidence is likely to rise. Firms facing lower capital costs may invest more. If inflation accelerates though, the Federal Reserve could start raising rates again, dimming business investment appetites and consumer spending.

With interest rates staying at moderate levels, business investment was robust in the last quarter with strong growth in intellectual properties products spending throughout 2018 illustrating the commitment of firms to boosting their own productivity. Residential investment growth, though, declined throughout 2019 and is likely to stay weak as rapid price increases have reduced home affordability. If prices come into alignment with what buyers can afford by the end of the year, 2020 could be a better year for homebuilders.

Fourth quarter consumption growth was solid, though the government shutdown may be more of a drag on consumption this quarter. Employment growth remains strong and labor markets continue to tighten, helping to support more rapid wage growth. A recent recovery in consumer confidence bodes well for spending growth during the rest of the year.

While the US economy in 2019 is likely to grow at a slower pace than it did during the middle of 2018, due to both the expiration of fiscal measures and slower global growth, Federal Reserve policy will play a key role in shaping the scale of this slowdown. If the bank delivers on its policy shift while keeping inflation under control, the growth slowdown from 2018 to 2019 will be less dramatic.

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