Matthew Fienup
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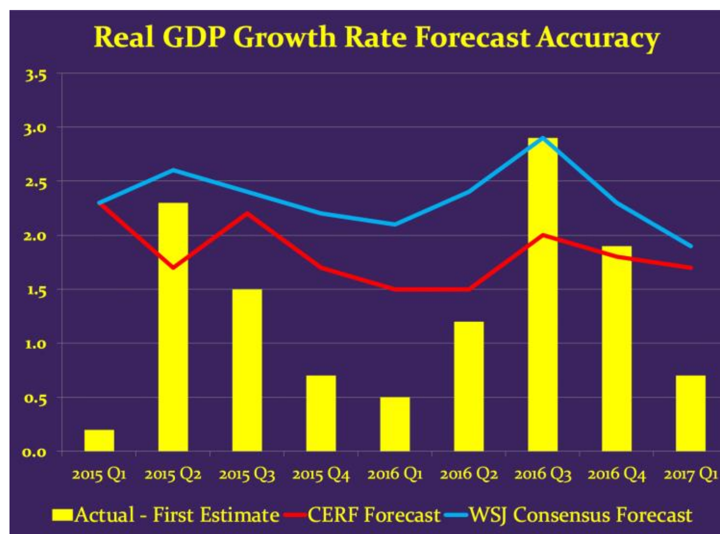
Even as forecasters, there are some predictions that you hate to get right. Consider CERF's predictions of September 2016 and January 2017, respectively:

> *Either Trump or Hillary will be president, but which one is president doesn't matter for our forecast, because neither has a program that will generate the promised growth.*
>
> *Bill Watkins, September 2016*

> *We assume that Donald Trump will not succeed in changing many of the policies which are primary drivers of the country's poor economic performance.*
>
> *Matthew Fienup, January 2017*

At the time of these statements, we were nearly alone in the sentiment. Shortly after November's presidential election, consensus economic forecasts were revised upward. Some of the most well known forecasting houses looked optimistically on the Trump administration and predicted that infrastructure spending, healthcare and corporate tax reform, and a broad rollback of regulation would drive increased economic growth.

We would love to learn that we were wrong and that the optimists had it right. But the truth is that since 2015 Q1, if we have made any mistake it has most often been the case that our forecast has been too optimistic. These days, it seems you can't be pessimistic enough.

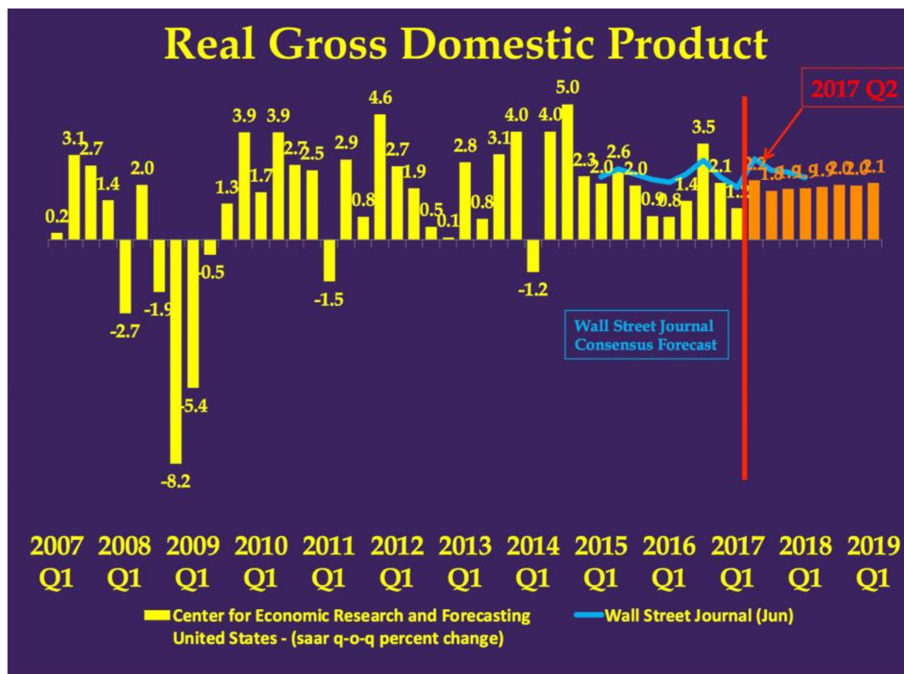


The dominant story in this quarter's U.S. forecast publication is not that our outlook has been revised one way or another. In fact, there is little change from the previous quarter's publication. The dominant story is that the consensus among forecasters has moved decisively in our direction.

As a recent [Wall Street Journal headline]() notes, the GOP's proposed changes "are no match for the status quo." Republican's boldest reform proposals are on "political life support." UCLA Anderson's most recent forecast notes that Trump's stalled plans will slow job growth relative to earlier forecasts. Whether you look to the Wall Street Journal or to the National Association of Business Economists, consensus forecasts have been revised downward.

We hate to say, I told you so.

We also caution our readers that despite a narrowing gap, the CERF outlook is *still* below consensus.



The current United State forecast publication calls for sustained slow growth for the entire forecast horizon. The forecast is almost indistinguishable from the previous publication and calls for economic growth averaging less than 2 percent over the next 8 quarters. This is well below the post-WWII average of 3.5 percent. Non-farm job growth is predicted to proceed at an average rate of less than 1.4 percent over the forecast horizon. This is above the post recession average of 1.0 percent but still well below the post-war average of 2.0 percent.

The risks to the forecast are weighted decidedly to the negative.

As discussed at some length in the nearby U.S. Economy essay, U.S. Monetary Policy is among the most significant internal risks to the U.S. economy. The Federal Reserve has doubled- and tripled-down on an extraordinary policy experiment which was initiated during the darkest days of the financial crisis. In addition to being extraordinary, the experiment involves an extremely restrictive monetary policy which is driving trillions of dollars away from productive economic activity. To be clear, what we crave is not more accommodative or expansionary policies from the Fed. What we crave is a return to normalcy, transparency, and predictability.

Beyond monetary policy, there are a number of other policy areas which could create either a positive or a negative risk to the forecast. We invite readers to review the 2016 Q4 publication for a detailed description of that policy matrix and its implications. A significant change in one of the policy areas that we identify would require an adjustment to our forecast.

We continue to carefully watch the new regime in Washington for signs of movement in the areas of corporate tax policy, healthcare, international trade, immigration, and infrastructure spending. In the 2017 Q1 forecast publication, we noted that the probability of positive changes in the areas of corporate tax policy and healthcare, specifically, is decreasing. We believe that the probability has decreased further since then.

We also continue to look for signs of a major reduction in government regulation over the private sector. There has been an important signal in this area in recent weeks. Unfortunately, it does not bode well for the economy.

In May, Senate Republicans attempted to use the Congressional Review Act (CRA) to repeal an Obama-era rule governing methane emissions. The CRA allows Congress to review any regulation that originates within the executive branch using an expedited procedure that cannot be filibustered. Along with the vote on Methane regulation (which ultimately failed), the Republican leadership announced that it plans to take a very narrow view of the CRA and in fact will no longer apply it to regulations passed by previous administrations. This flies in the face of the explicit language of the Act, which provides broad regulatory oversight to the Legislature. Republicans' refusal to interpret the act broadly and to challenge the growth-hampering policies of previous administrations confirms our long-standing suspicion that little is likely to change in Washington.

The next opportunity for change may only arrive if Democrats ride a wave to legislative power in 2018's mid-term elections. Unfortunately, given the preview that California's state legislature just provided, we fear what those changes might mean for the forecast.

Forecast charts are included on the next page.

Forecast Charts