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If there is a single conviction that underlies all of the work that we do at the Center for Economic Research & Forecasting, it's this: "*Policy Matters*."

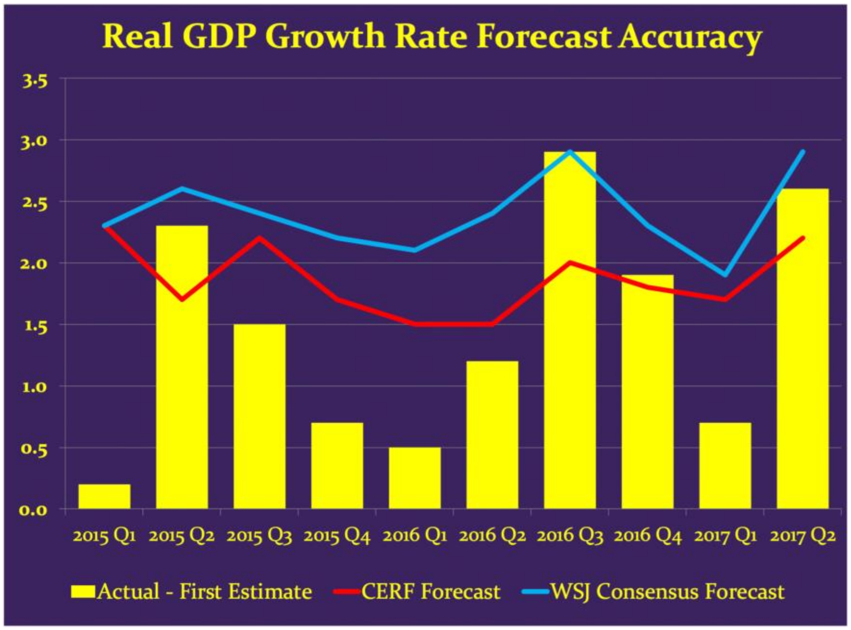
The poor performance of the U.S. economy over the past 9 years has not been an accident, it's not the predictable result of the financial crisis, and it can't be explained simply by demographic changes that are beyond our control. The fact that the economy is growing at approximately 2 percent a year rather than the post-war average of 3.5 percent is the result of policies that act to constrain productive economic activity. Those constraints not only reduce the growth of the economy, they limit economic opportunity and upward mobility for individuals within the economy.

Policy matters, and in our current situation only fundamental changes to the policies which drive poor economic activity can hope to lift the prospect of growth for our country.

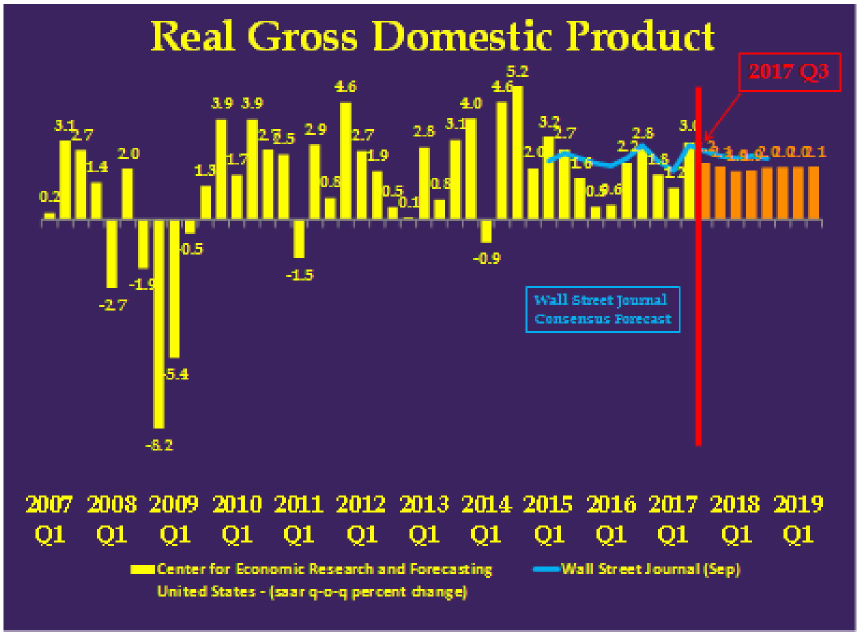
The number and breadth of fundamental changes that our current economic situation requires is daunting: fundamental changes to monetary policy, including an end to the Fed's interest on reserves policy, the unwinding of more than 4 trillion dollars of assets on Fed balance sheets, and a return to a normal interest rate regime in the neighborhood of 3 percent; fundamental reform of the regulatory environment in which the private sector operates, including major reductions in the barriers to business creation and expansion and a transition away from the Affordable Care Act in the direction of a market-oriented system; fundamental corporate tax reform that goes beyond modest rate reductions and addresses the major competitive disadvantages that the current system creates for American companies relative to their foreign counterparts.

Policy matters, and we don't believe that the Trump Administration or the Republican-led legislature has the political skill or courage to tackle necessary reforms.

For this reason, our forecast of economic activity has been and continues to be pessimistic relative to history and relative to the broader economic consensus. In addition to being well below the post-war average, for each of the last nine quarters, the CERF forecast of U.S. GDP growth has been substantially lower than the Wall Street Journal consensus forecast. Yet it seems that we haven't been pessimistic enough. In six of the last ten quarters, actual GDP growth has come in well below our forecast—on average, 0.5 points lower for the entire period. By comparison, the Wall Street Journal consensus forecast has been a full 1.0 percentage point too high.



The current forecast is little changed from previous quarters. GDP growth is predicted to average 2.0 over the forecast horizon. Non-farm job growth is predicted to average just 1.3 percent. Both forecasts underscore an economy that is fundamentally weak and likely could not absorb a significant external shock, such as a major geo-political crisis, without falling in to recession.



As before, the risk to our forecast is decidedly negative. In addition to potential external shocks to the economy, the balance of internal shocks (policy shocks, in particular) is weighted to the negative. In our estimation, the probability of fundamental policy changes which would have a positive impact on job creation and total economic output is low and diminishing with each passing month of the new Administration. The probability of fundamental changes that could have a negative impact is increasing, if slightly.

We invite readers to revisit the [2016 Q4 forecast] publication, where we developed a matrix of policy initiatives, which we continue to track closely. A significant change in one of these policy areas would require that we reconsider the basic assumptions underlying the most recent forecast. If one of these policies changes, our forecast is likely to be wrong. Significant regulatory and corporate tax reforms represent a potential positive shock to the economy. Trade protectionism, mass deportation or significant limitations on legal immigration, and a massive debt-fueled federal infrastructure program represent potential negative shocks.

	Impact on GDP	Original Prob. Estimate	Current Prob. Estimate
Corporate Tax Reform	increase	moderate	low
Regulatory Reform	large increase	moderate	low
Trade Protectionism	large decrease	low	moderate
Deportations & Immig. Restrictions	decrease	low	no change
Infrastructure Spending	small decrease	high	no change

low represents 0-25%, moderate is 25-50%, high is >50%

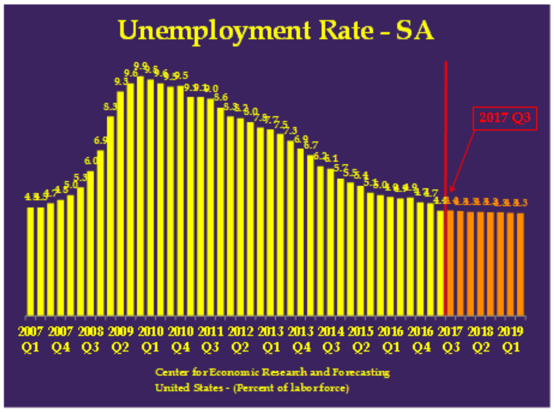
We continue to believe that major regulatory and corporate tax reform hold tremendous promise for the economy's growth outlook. With the legislature's refusal to wield the full power of the Congressional Review Act to rollback the regulatory excesses of recent Administrations and with the window for using the Budget Reconciliation process set to close shortly, we see little reason for optimism. Having witnessed the Republican legislature's failure to pass even modest reforms to the Affordable Care Act (ACA) or any other significant regulatory reforms, we don't see a credible path forward for major corporate tax reform. While the tax system is broken, it is not nearly the flaming wreckage of the ACA's private insurance exchanges. The ACA can not survive as written. If it is not possible to reform healthcare under this circumstance, we doubt it's possible to reform anything of substance.

The probability of fundamental policy changes which could further hurt job creation and economic growth has increased slightly. President Trump clearly does not possess a core commitment to free trade. The most recent manifestation is his threat to withdraw from the U.S.-Korea Free Trade Agreement. Withdrawal would negatively impact economic activity at home. Any significant restrictions on trade, which result from the hardball re-negotiation of NAFTA, will have an even bigger negative impact.

The President's most recent proposal for an overhaul of the immigration system is a mixed bag. The move to a skills-based system of entry would be a rationalization of immigration policy, yet cutting the number of visas by half is truly worrisome. On net, the effect of these two reforms would likely be negative for the economic outlook. Fortunately, this particular reform effort seems to have stalled.

In the absence of a significant change in one of these policy areas, the forecast remains for slow growth and diminished economic opportunity over the forecast horizon. Our most earnest hope is that we're not still being too optimistic.

Forecast charts are included on the next page.


Unemployment Rate - SA
2017 Q3
2007 Q1 2007 Q4 2008 Q3 2009 Q2 2010 Q1 2010 Q4 2011 Q3 2012 Q2 2013 Q1 2013 Q4 2014 Q3 2015 Q2 2016 Q1 2016 Q4 2017 Q3 2018 Q2 2019 Q1
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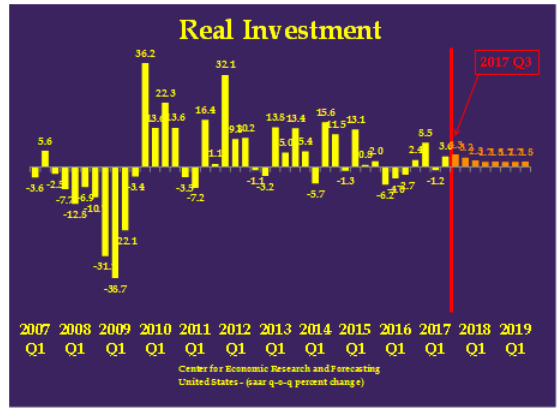
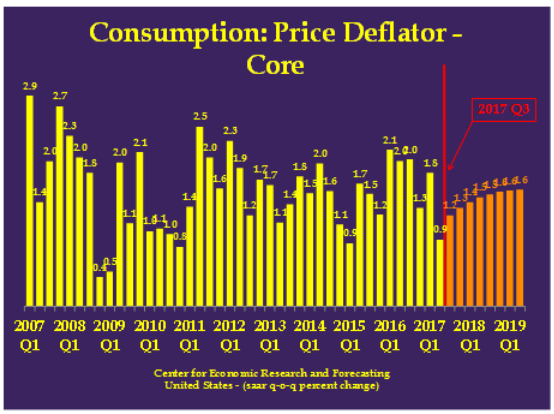
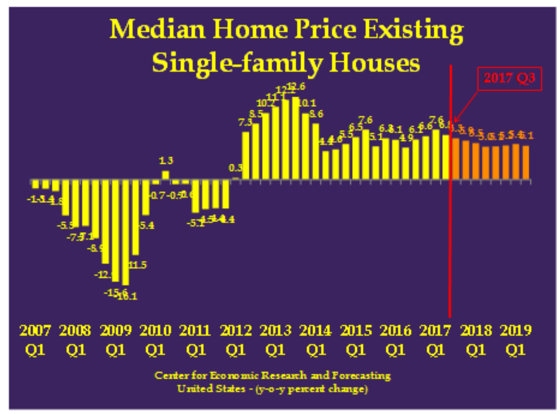
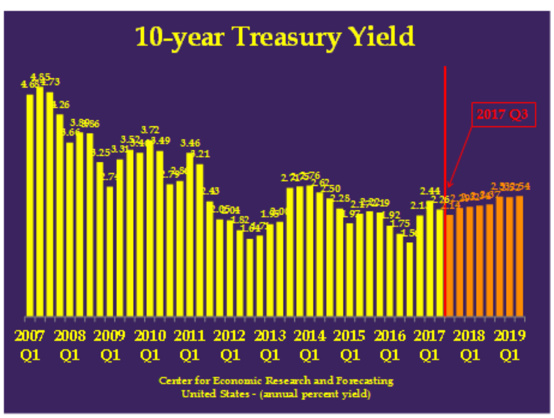
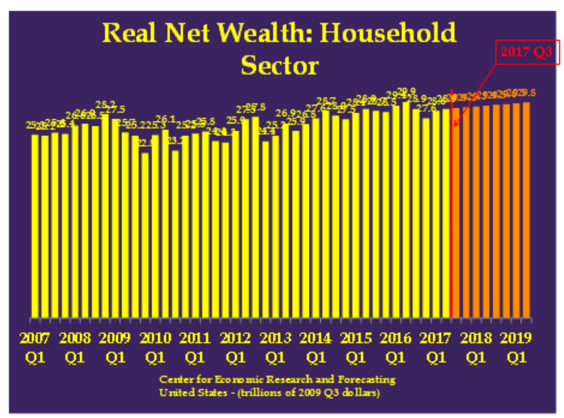
United States - (Percent of labor force)


Real Investment
2017 Q3
2007 Q1 2008 Q1 2009 Q1 2010 Q1 2011 Q1 2012 Q1 2013 Q1 2014 Q1 2015 Q1 2016 Q1 2017 Q1 2018 Q1 2019 Q1
Center for Economic Research and Forecasting
United States - (saar q-o-q percent change)


Consumption: Price Deflator - Core
2017 Q3
2007 Q1 2008 Q1 2009 Q1 2010 Q1 2011 Q1 2012 Q1 2013 Q1 2014 Q1 2015 Q1 2016 Q1 2017 Q1 2018 Q1 2019 Q1
Center for Economic Research and Forecasting
United States - (saar q-o-q percent change)


Median Home Price Existing Single-family Houses
2017 Q3
2007 Q1 2008 Q1 2009 Q1 2010 Q1 2011 Q1 2012 Q1 2013 Q1 2014 Q1 2015 Q1 2016 Q1 2017 Q1 2018 Q1 2019 Q1
Center for Economic Research and Forecasting
United States - (y-o-y percent change)


10-year Treasury Yield
2017 Q3
2007 Q1 2008 Q1 2009 Q1 2010 Q1 2011 Q1 2012 Q1 2013 Q1 2014 Q1 2015 Q1 2016 Q1 2017 Q1 2018 Q1 2019 Q1
Center for Economic Research and Forecasting
United States - (annual percent yield)


Real Net Wealth: Household Sector
2017 Q3
2007 Q1 2008 Q1 2009 Q1 2010 Q1 2011 Q1 2012 Q1 2013 Q1 2014 Q1 2015 Q1 2016 Q1 2017 Q1 2018 Q1 2019 Q1
Center for Economic Research and Forecasting
United States - (trillions of 2009 Q3 dollars)