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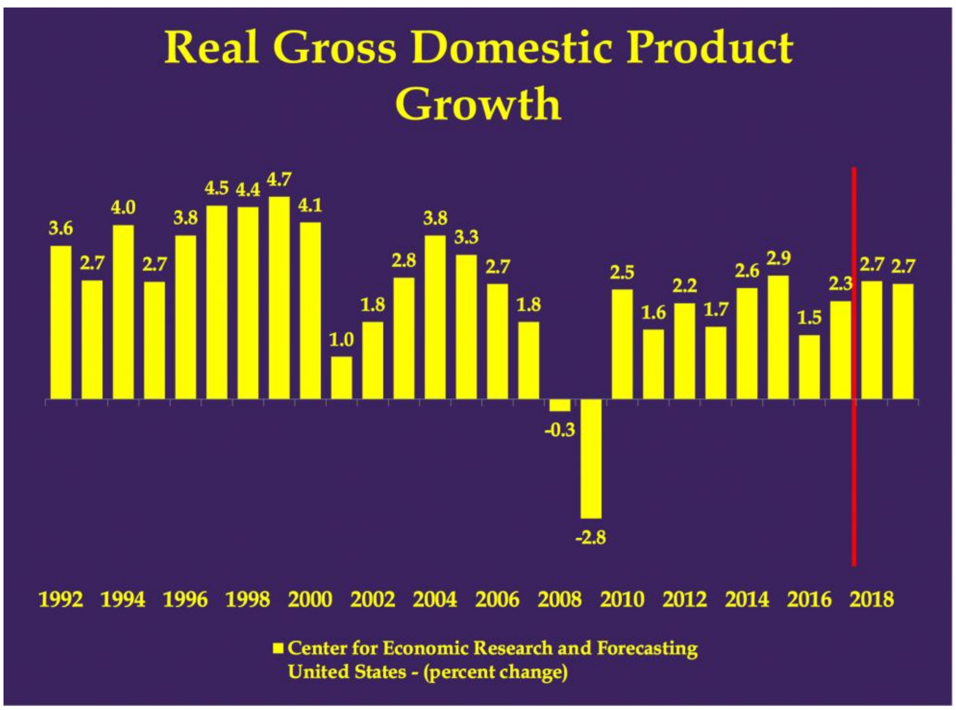
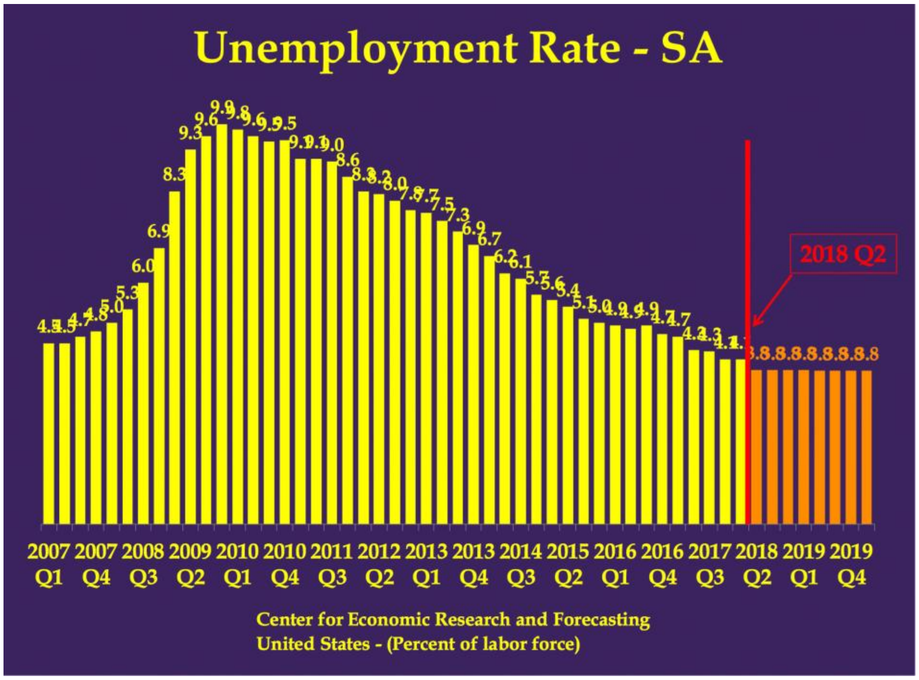
The dominant story in the current forecast publication continues to be tax reform. Following implementation of major reforms to the corporate tax system, the March 2018 forecast marked a significant upward revision to our economic outlook for the nation. The December forecast of 2.1 percent average growth over 4 quarters was revised upward to 2.6 percent. For a thorough discussion of tax reform and its implications, we invite you to revisit the 2018 Q1 U.S. Forecast essay.

The current forecast is a continuation of the same storyline. The economic outlook for the nation continues to be strong relative to the pre-tax-reform environment. The current annual GDP growth forecasts bear this out. We expect growth of the U.S. economy to average 2.7 percent in both 2018 and 2019, better than all but one year since the Great Recession and especially noteworthy given the particularly anemic growth of the recent past.

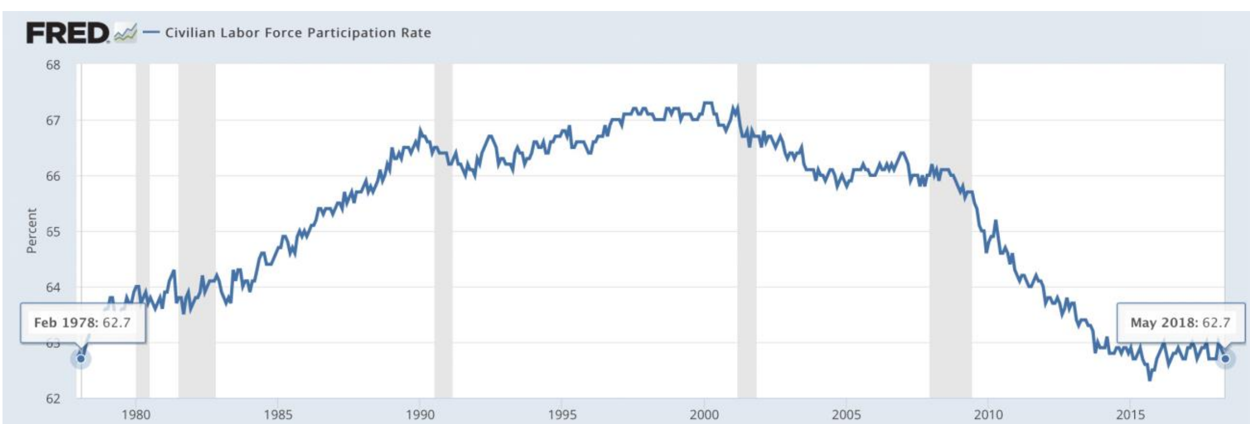


Interestingly, this represents strong growth relative to the post-recession / pre-tax-reform average but still fairly weak growth relative to the post-World War II historic average. Tax reform is a large net positive for the U.S. economy but does not completely overcome policies which continue to constrain economic activity, policies which are outlined in the nearby U.S. Highlights essay.

In comparison to the economic growth numbers, jobs numbers have been absolutely eye-popping. The unemployment rate recently fell to a 20-year low of 3.8 percent, and the current forecast calls for this rate to hold for the foreseeable future.



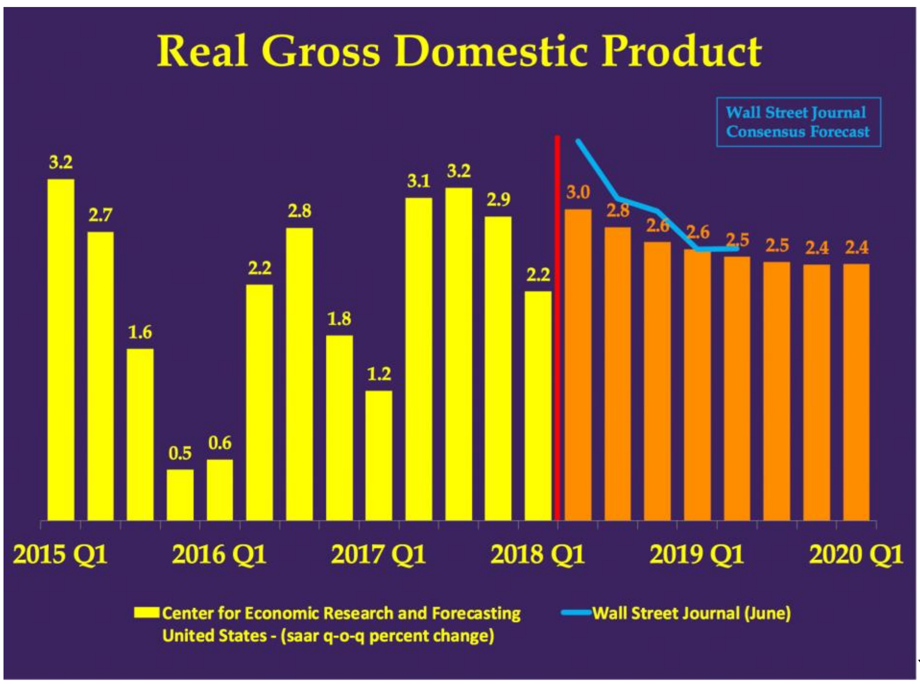
In light of the unemployment number, we caution readers, as we have done repeatedly in recent quarters: the unemployment rate is a flawed measure of labor market strength. In fact, we reject the notion that the economy has achieved so-called "full employment." The civilian Labor Force Participation Rate measures the actual capacity of the country's workforce, and it currently stands at a low not seen since 1978. The reality is that crisis-era economic policies which continue to dis-incentivize work nearly a decade after the Financial Crisis have driven millions of working age Americans out of productive economic activity. The impact of these disincentives to work is so strong that it has undone the tremendous labor force participation gains of the 80s and 90s, when record numbers of women and minorities entered the workforce.



It is with a certain degree of cynicism that we note that even the politicians who now champion today's low unemployment rate understand how flawed that particular measure of jobs really is. We remember a time during the previous Presidential administration when every new jobs number was accompanied by the stern admonition, "Look at the labor force participation rate!"

That is to say, throughout President Obama's tenure, Republicans were very accustomed to focusing on how many people were NOT in the workforce. We find it to be deeply revealing that Republicans no longer mention the labor force participation.

So let us now be the ones to issue the admonition. "Don't forget the participation rate!" The economy can not return to robust economic growth as long as vast amounts of human capital remain on the sidelines of the economy.



Despite our stronger economic outlook for the nation, our current forecast is still pessimistic relative to the "consensus," at least for the next few quarters. The CERF forecast calls for economic growth over the remainder of 2018 that is on average more than 3-tenths of a percentage point lower than the Wall Street Journal consensus. Beginning in 2019, that difference vanishes, likely owing to the additional weight that we place on the benefits of corporate tax reform.

United States			
Gross Domestic Product (Real SAAR Growth)			
Quarter	CERF Forecast	WSJ Forecast	Actual - 1st Est.
2016 Q1	1.5	2.1	0.5
2016 Q2	1.5	2.4	1.2
2016 Q3	2.0	2.9	2.9
2016 Q4	1.8	2.3	1.9
2017 Q1	1.7	1.9	0.7
2017 Q2	2.2	2.9	2.6
2017 Q3	2.2	2.7	3.0
2017 Q4	2.5	2.8	2.6
2018 Q1	2.5	2.5	2.3
2018 Q2	3.0	3.6	-
2018 Q3	2.8	3.0	-
2018 Q4	2.6	2.9	-
2019 Q1	2.6	2.6	-
2019 Q2	2.5	2.6	-
Average	2.0	2.5	2.0
Average Bias	0.0	0.5	-
Sources: US Bureau of Economic Analysis, Wall Street Journal, NABE, and CERF			

The Wall Street Journal consensus forecast has been, on average, one half percentage point higher than the CERF forecast since the start of 2016. That consensus has also been, on average, one half percentage point too optimistic. For the second consecutive quarter, CERF's average forecast bias since the beginning of 2016 is 0.0.

Risks to the forecast vary with the length of the time horizon. Over the next 2 quarters, the risk is fairly balanced. During this period, we view timing issues as the primary risk, rather than actual changes to the level of economic activity. Actual first estimates of GDP growth could come in above or below our forecast, as the timing of consumption decisions changes but the average level of consumption over time remains fairly constant. Beyond the next couple of quarters, the risk to the forecast is weighted heavily to the downside. As discussed in detail in the previous forecast publication, Trump seems intent on initiating a trade warm along many fronts. Imposition of aluminum and steel tariffs on Canada and the EU are just the most recent examples. These measures harm U.S. producers now. And the effect will get stronger with time.

Forecast Charts