# Executive Summary: United States and California

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**United States**

Monetary Policy and International Trade continue to be a drag on an otherwise improved economic outlook for the nation.

The U.S. economy has entered a new phase of higher economic growth resulting from corporate tax reform. We are currently forecasting growth of 2.9 percent for 2018 and 2019, a full 70 basis points higher than 2017's growth rate and 130 basis points higher than 2016. Extraordinary monetary policies initiated during the financial crisis are holding the economy back. Growth would be even higher had the Federal Reserve begun to normalize monetary policy earlier in the recovery (was advocated for normalization beginning in 2012).
The country's Trade War is having a significant negative impact on the U.S. economy. The current forecast represents a slight downward revision from the September forecast, a difference of about 10 basis points in each of the next two quarters, owing to the impacts of International Trade.

Despite our concerns about monetary policy and international trade, the current CERF forecast is actually optimistic relative to consensus. This is an entirely new and uncomfortable position for the CERF team. It is likely that we assign greater value to corporate tax reform than the consensus.

**California**

California has surprised us with economic strength. Revised data, released November of 2018, provide a different picture of California GDP growth than the previous release, driven by upward revisions to the state's manufacturing, technology, and professional & business services sectors.

While the state's economic slowdown between 2015 and 2016 looks even more dramatic following these revisions, California's economy looks to have performed substantially better in each of the last 4 quarters than previously thought.

California's growth premium has not converged to zero like we thought was imminent when we computed our previous three forecasts. However, in looking at both the GDP data as well as the jobs data, we see that since 2015, California's growth premium has clearly shrunk.

The current forecast calls for economic growth of 3.4 percent in 2018 followed by 3.3 percent in 2019. These numbers compare favorably to the forecast of 2.9 percent growth for the United States in each of these years.