The National Economic Estimating Conference met on December 10, 2019, and adopted the IHS Markit baseline forecast. The near-term outlook has been revised since the last forecast adopted in July 2019. While many aspects of the economy remain strong in the current year, a few areas (mostly related to construction, fixed investment in structures, existing residential sales and net exports) are beginning to display slowing growth. Thereafter, the Outlook is largely unchanged from July; however, in several key respects, it has more detectable weakening over the 2021 through 2023 calendar years—with mixed results over the entire forecast.

Near-term recession risks appear to be contained. Solid growth in employment, strong gains in household sector wealth, and solid, albeit diminishing, growth in real income support strong consumer spending, the driving force of the US economy. Equity markets, one of the key drivers of household wealth, are pushing to record highs, aided by news that the US and China are working to resolve trade issues and helped by the Fed’s decision to cut its policy rate again in late October. The Bipartisan Budget Acts of 2018 and 2019 and favorable financial conditions continue to exert positive pressure in the current year. Moving beyond calendar 2020, the combined effects of the slowing growth in the rest of the world, the continuing drag from tariffs and the trade war, decelerating inventory accumulation and the approach to capacity constraints increasingly offset the gains.

Relative to the July forecast, the December forecast has higher growth rates in Fiscal Years 2019-20 and 2020-21 for real GDP, nonfarm jobs, corporate profits and consumer spending. Conversely, housing starts, gross private domestic investment and trade show greater volatility than expected in July. Personal income growth softens to approximately 4% in fiscal years 2019-20 and 2020-21, a half of a percentage point slower than expected in July (a result of decelerating growth in household wealth arising from flattening equity value and house-price appreciation) but then grows at an average of 4.6% for the rest of the forecast horizon.

The unemployment rate reaches a cycle low of 3.5% (slightly lower than expected in July) in FY 2019-20 and FY 2020-21, driven by modestly above-trend real GDP growth early in the period. The forecast shows a long-term unemployment rate of 4.4% through FY 2028-29, slightly below the July forecast. Strong employment gains in the recent past have been driven by above trend growth in private output; however, softening growth in current production and a dearth of qualified workers appear to be contributing to a material slowing in employment gains. Employment grows only 1.4% in FY 2019-20 and decelerates to 0.1% in FY 2023-24, before settling in at 0.5% for the rest of the forecast horizon. During this period, private-sector output markedly slows. Exerting an outside influence, labor force growth
slows as population growth slows, reflecting the secular decline driven by the population’s aging. The good news is that labor productivity growth finally firmed to 1.2% over 2016 to 2018 calendar year period and will likely continue accelerating over the next five years.

The December forecast continues to incorporate the latest information on tariffs, including earlier tariffs on solar panels and metals, a 25% tariff on 44% of goods imported from China, a 15% tariff on most of the rest of imports from China and all of China’s retaliatory tariffs on roughly $100 billion of annual US exports to China. To the extent that they materialize, tariffs act like a tax increase, weakening the purchasing power of households and creating greater business uncertainty.

Real GDP growth was a solid 2.0% in the second quarter and 2.1% in the third quarter of 2019, despite issues with Boeing continuing to hold GDP levels down. Real GDP is expected to grow only 1.6% in the fourth quarter of 2019 and 2.1% over FY 2019-20 and FY 2020-21, before slipping to a below-trend pace. Contributing to the material slowing in GDP growth are braking global growth, a lower boost to domestic spending from rising stock prices and fiscal stimulus, the effects of new tariffs, a strengthening dollar, slowing inventory accumulation, and the approach to capacity constraints. Over the long run, real GDP grows slightly faster than anticipated in July, reverting to 2.2% annual growth.

The national housing market has been rebounding from the recent slump. Housing starts were higher than expected with 1.28 million units on an annualized basis in the 3rd quarter of 2019. The South region, which includes Florida and the West region, accounted for virtually all of the pickup. Housing starts have been flat in the Northeast over the past two years and inching down in the Midwest.

The outlook for corporate profits is stronger relative to the July forecast. Book profits will likely grow faster than projected in the July forecast from FY 2019-20 to FY 2026-27. Also stronger than expected in July, economic corporate profits are expected to grow by 2.0% in Fiscal Year 2019-20 and accelerate to 5.4% in FY 2024-25. The strength in recent corporate profits is also due to repatriated earnings by US multinationals that have accumulated to nearly $1 trillion since the passage of the Tax Cuts and Jobs Act of 2017.

One final update is worth mentioning. Heightened concerns over the downside risks to US growth from tariffs and slower foreign growth moved the Federal Reserve in October to cut the federal funds rate for a third time in 2019, setting its benchmark rate now in a range of 1.5 percent to 1.75 percent.