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# V I E W P O I N T

## THE ECONOMY

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### Better-than-Expected GDP Growth in 1Q

The U.S. economy advanced at a 3.2% rate in 1Q19 -- up from the 2.2% rate of 4Q18 and well ahead of expectations. Drilling deeper, the quarter featured below-trend personal consumption expenditure spending (more on that later) but solid growth in cap-ex, exports, government spending and inventory building. Residential investment declined once again. Looking ahead, we anticipate that positive trends in several segments will keep the economy on a steady, though somewhat slower, growth path for the next three or four quarters.

### Recent Results

Taking a closer look at the all-important personal consumption expenditure category, growth in 1Q19 fell to 1.2%, from 2.5% in 4Q18. The slowdown reflected a modest decline in durable-goods spending, which typically is seen in 1Q, and a sharper pullback in spending on nondurable goods, perhaps reflecting the impact of the lengthy government shutdown. Consumer spending on services was in line with recent trends.

Capital investment increased, boosted by an 8.6% increase in spending on intellectual property products. Net exports rose, reflecting strength in export goods but also weakness in spending on imports (which detracts from GDP). Elsewhere, housing declined 2.8% (the fifth consecutive negative reading for this segment of the economy and the seventh in the past six quarters). Government spending rose 2.4% -- higher than the recent trend and reflecting aggressive spending on defense as well as at the state and local level. Pricing pressures eased a bit; ex food and energy, the price index for personal consumer expenditures rose 1.3%, down from 1.8% in 4Q.

### The Argus Outlook

Since the current economic expansion began in the fourth quarter of 2009, the economy has now grown for 38 quarters in a row. In the post-World War II era, the U.S. has experienced 10 periods of economic growth; these expansions have averaged 20 quarters, or five years. The longest expansion was 39 quarters; the shortest was five. Recently, expansions have been more durable. The six expansions since 1960 have averaged 27 months. Based on the historical record, the current expansion is poised to become the longest ever. As we have frequently said, expansions don't die of old age, but rather from problems that emerge as they evolve.

Looking ahead into the balance of 2019, we are forecasting continued growth, as we think the positives in the economy can outweigh the negatives; but we do expect the growth rate to slow as the year goes on. For the year 2019, we forecast that overall growth will average in the 2.7% range, down from the 3.0% average in 2018. At the 2.7% pace of growth for 2019 and our forecast growth rate of 1.7% for 2020, we anticipate only one more (at most) Federal Reserve rate hike over the next two years. These forecasts are based on our assumptions for macroeconomic factors such as the employment environment, commodity prices, the dollar and interest rates, as well as assumptions about fiscal policy.

Our estimates are a bit above the Federal Reserve's recently published economic projections for 2019-2021.

*(continued on next page)*

The Fed forecasts that the central tendencies for economic growth by year are:

* 2019: 2.1%, with a range of 1.9%-2.2%
* 2020: 1.9%, with a range of 1.8%-2.0%
* 2021: 1.8%, with a range of 1.7%-2.0%.

The Fed's longer-run GDP forecast for the U.S. economy is 1.9%.

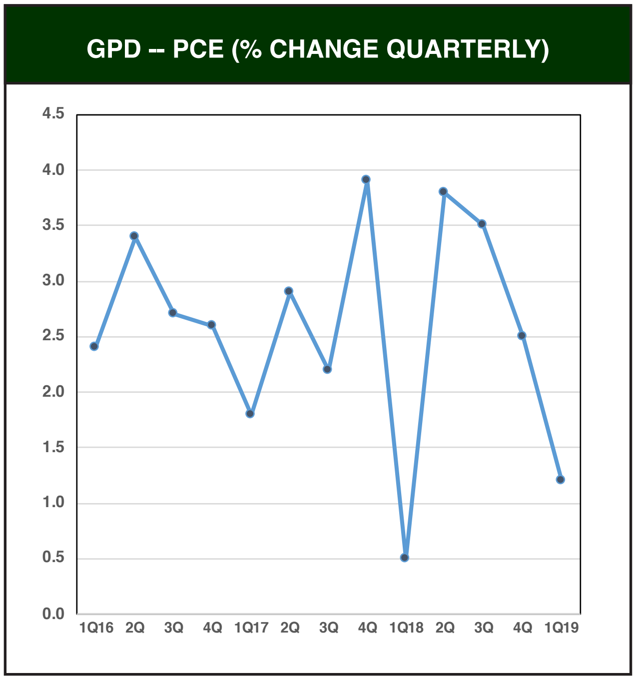
### Risk of Recession: Low

We note that neither our current estimates nor the Fed's forecasts call for a recession in the U.S. through 2020. We believe that key forward-looking indicators (jobless claims, housing starts, the yield curve, and new orders from purchasing managers) are positive enough to keep the economy on a growth track over the next few quarters, despite the unpredictable impacts of the stock market, weather events, and other non-economic shocks such as geopolitical threats.

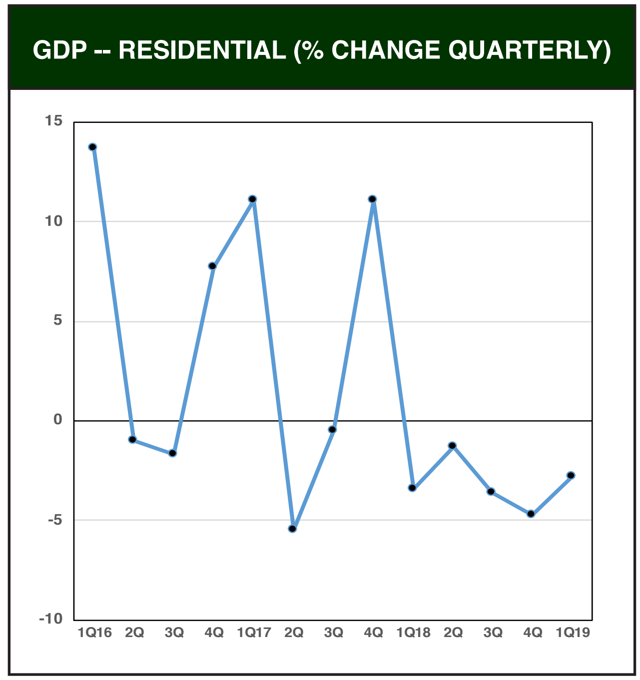
Our interest-rate forecasts now call for the Fed hike interest rates one more time in 2019 and 2020. We expect longer-term rates to rise modestly as the Federal Reserve reduces its balance sheet, which is bloated from the days of Quantitative Easing, and as global investors leave the U.S. Treasury market once Brexit is resolved and Europe again begins to grow.

Other risks to growth include volatile oil and commodity prices that could spike higher on geopolitical developments; a weaker-than-expected recovery in China; additional economic trouble in Italy and Europe; a dollar that continues to rise and limits export growth; an unexpected sharp stumble in the housing market, which has weakened a bit in recent months; a bear market in stocks; or deflationary conditions, such as Venezuela is currently facing.

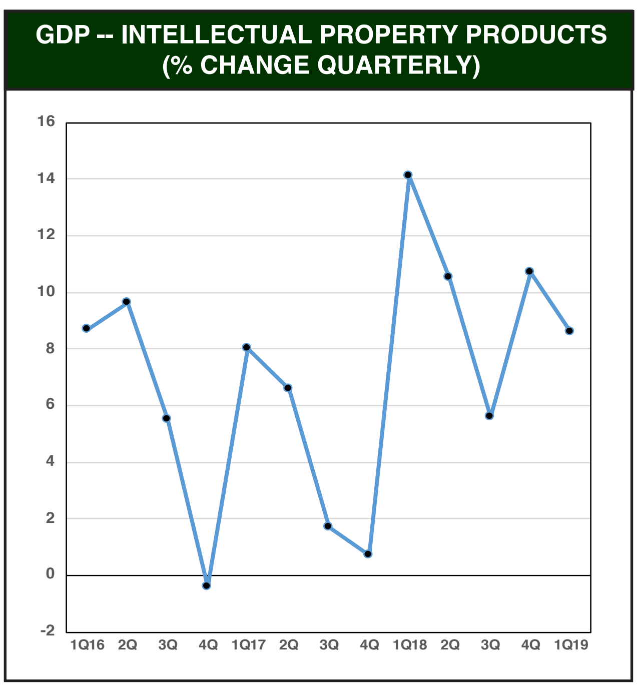
John Eade, President,
Argus Research



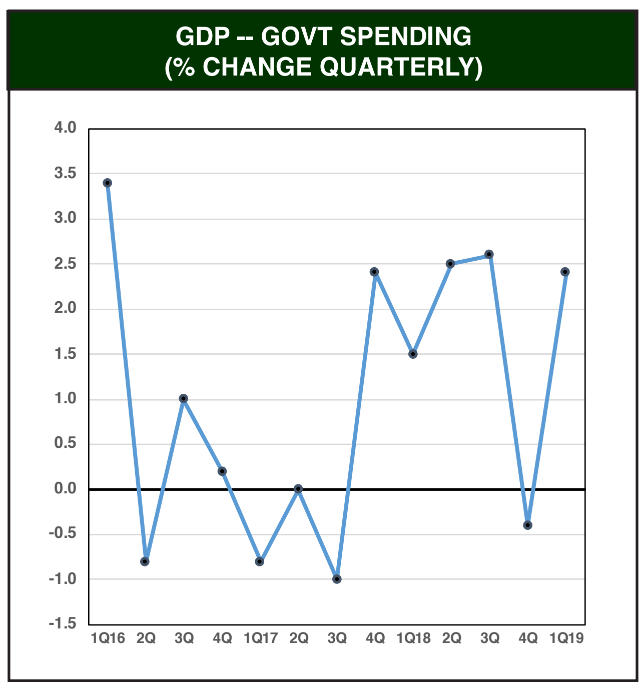

The growth rate for the all-important Personal Consumption Expenditure category declined from 2.5% in 4Q to 1.2% in 1Q, as spending on durable and nondurable goods stalled.




Capital Investment into Residential Construction has declined in seven of the past eight quarters.




Capital Investment into Intellectual Property Products has risen sharply in the past several quarters.




Government Spending has also turned positive, helping to support GDP growth.