The Daily Dish

The Economic Outlook for 2018

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Eakinomics: The Economic Outlook for 2018

Get ready. Every discussion of the quality of economic performance in 2018 will be colored by the impact of the Tax Cuts and Jobs Act (TCJA) just passed by Congress. Assessing that impact will simultaneously require some view of what the economy would look like without the tax cut (a job that will be faced in short order by the Congressional Budget Office, Office of Management and Budget, Federal Reserve, and others). If, say, top-line growth in Gross Domestic Product (GDP) turns out to be 3.1 percent in 2018, it matters enormously if you thought growth would be 3.0 percent in the absence of TCJA versus if you thought growth would be 2.3 percent.

With that in mind, it is interesting to take a look at yesterday's Bureau of Economic Analysis (BEA) release on GDP and its components. The BEA showed growth in GDP at a 3.2 percent in the third quarter of 2017. This was the second consecutive quarter above 3.0 percent (Q2 was 3.1 percent) — a fact that has been much ballyhooed by Administration officials. But much of the Q3 bump was due to inventory accumulation — usually relatively transitory — that inflated the growth by 0.7 percentage points. And stepping back, GDP grew at a 2.3 percent rate year-over-year (i.e., between Q3 2016 and Q3 2017). That is virtually identical to the 2.4 percent rate over the previous 3 years (Q3 2014 to Q3 2016).

A similar story emerges when one looks at particular components of overall spending. Household spending grew at 2.6 percent, down a bit from the 3.2 percent rate from the previous 3 years. Fixed investment (structures, houses, equipment, software, etc.) was 3.8 percent versus 3.6 percent. Exports grew a bit faster (2.2 percent versus 1.8 percent), while imports grew a bit slower (3.2 percent versus 3.4 percent). And government spending growth was flat over the past year compared to 0.6 percent growth the previous three years.

My basic takeaway is that the economy looks a lot like it has looked for years — and that is not good news. There is some modest suggestion of an acceleration during the course of 2017 — getting the fourth quarter data will be very informative on this front — especially in the international sector. (This makes sense in light of the increasing strength of the global economy.) As we turn the page to 2018, there is no reason to presume that there would be an automatic uptick in the basic rate of growth. If one emerges, it would make perfect sense to attribute it to changes in the policy environment.