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Forecasters Lower Economic Outlook Amid Congressional Gridlock

By Josh Zumbrun

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Early optimism that President Donald Trump would be able to revitalize the U.S. economy is fading as Congress struggles to pass major legislation.

Forecasters in The Wall Street Journal's monthly survey of economists marked down their outlooks for growth, inflation and interest rates this month, a partial reversal of a postelection bump.

"I think the probability of at least a temporary government shutdown over government funding this year is almost a 50/50 proposition," said Scott Anderson, chief economist of Bank of the West. "Congress appears more divided and less likely to compromise than ever."

An agreement has yet to emerge over how to pass a GOP health-care bill to replace President Barack Obama's signature law. Senate Majority Leader Mitch McConnell postponed the Senate's usual August recess by two weeks, to give senators more time to hash out agreements on health, government funding and other issues.

This wasn't the outcome many forecasters had expected after the election. The prospect of Republicans controlling the White House and both chambers of Congress led many to conclude that fiscal policy could provide a swift boost to the growth outlook, if a substantial tax overhaul and Mr. Trump's proposed infrastructure package were quickly implemented.

"We expect this Congress will ultimately pass a far more modest fiscal policy, one that will disappoint business leaders, investors, and consumers," said **Bernard Baumohl of the Economic Outlook Group.**

Forecasters assess whether they think the economy is more likely to outperform or underperform their forecasts. The number of economists seeing those risks to the downside climbed to 57% in this month's survey,

the highest since before the election. That's up from 51% last month and 37% just two months ago.

The survey of 63 business, financial and academic economists was conducted from July 7 to July 11. Not every economist answered every question.

Growth forecasts for the last three quarters of 2017 are all down from May. Forecasts for growth in 2018 were unchanged at 2.4%, but the average forecast for 2019 dropped to 1.9%, the first time the year's outlook has dipped under 2%. Economists also slightly downgraded their forecasts for housing starts over the next year.

To be clear, most are lowering their expectations, but think a major mishap is likely to be avoided. They assigned 1-in-5 odds the U.S. government might shut down due to Congress's failure to reach a funding agreement. The odds of a recession were pegged at just 15%, little changed from last month and down 22% from a year ago.

Another difficult vote looming before Congress is the U.S. debt ceiling. The nation hit its borrowing limit in March and has been relying on temporary budget maneuvers to fund the government. Such maneuvers will likely be exhausted in the fall.

"One would hope we don't get to the brink again but the fact that we are worried is ridiculous," said Diane Swonk, president of DS Economics.

On average, respondents placed the odds of the U.S. defaulting on its debt due to a debt ceiling mishap at just 4%.

"Politics and geopolitics are the key risks and are unpredictable," said Steven Szakaly, chief economist of the National Automobile Dealers Association.

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