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Forecasters See Upside Risks to Their Economic Outlooks at Highest in More Than Two Years

WSJ survey: average forecast for 2.4% GDP growth in 2017, 2.5% growth in 2018

By **JOSH ZUMBRUN** Jan. 12, 2017

The election of Donald Trump has economic forecasters thinking hard about something that hasn't been a problem for a while: upside risks.

Each month, The Wall Street Journal's survey of academic, financial and business economists asks for estimates of gross domestic product, inflation, unemployment and a range of other key economic indicators. Forecasters are also asked to assess whether the risk to their forecast is to the upside or the downside. In other words, what's more likely: that growth overperforms or disappoints?

In the most recent survey, 64% of respondents said the risk was to the upside, the highest in over two years, and a reversal from the mood of recent years, which was focused on potential risks from a global economic slowdown.

"Policy changes, if done right, could boost growth substantially," said Stephen Stanley,chief economist of Amherst Pierpont Securities.

On that list of potentially growth-expanding policy changes, most forecasters would include: business-friendly regulatory changes, tax cuts for businesses and consumers, and major spending on U.S. infrastructure.
The key caveat is that phrase "if done right."

"There is a good chance Congress will greatly dilute or delay Trump's fiscal stimulus program and disappoint Wall Street and Main Street," said **Bernard Baumohl, chief global economist of the Economic Outlook Group.**

It is hardly unusual for new presidents to have lofty goals, but to confront challenges implementing their policies. This can owe to their own missteps or to factors largely beyond their control in Congress, to the global economy, or even to aging U.S. demographics.

In anticipation of Mr. Trump's presidency, economic forecasts have already risen. The average forecast is for GDP growth of 2.4% in 2017 and 2.5% in 2018. That is a 0.2 percentage point increase for 2017 and 0.5 percentage point for 2018.

Forecasts also call for slightly higher inflation and interest rates over the next two years, and a somewhat lower unemployment rate by the end of 2018. The odds of a recession over the next year have declined for six months in a row and are now 16% from as high as 22% last summer, according to survey respondents.

"A possible boost from a less onerous regulatory environment could increase GDP, but there is nearly equal downside risk in potential trade wars and geopolitical factors," said Constance Hunter, chief economist of KPMG.

Why assess risks like this? Sometimes, forecasters will be focused on a specific risk. For example, in recent years, Europe's debt crisis has repeatedly flared up. European bond yields have climbed and the continent's banks have come under pressure. In most circumstances, one wouldn't expect a few tough quarters for European banks to have a big effect on the U.S. economy, unless they blow up into a crisis. Thus a banking crisis that might materialize but probably won't would be an example of a downside risk.

Outside the world of forecasting, it is unusual to contemplate upside risks. For most purposes, it is a welcome surprise to have more growth than expected rather than less. But they are called risks for a reason, and being too pessimistic about what will happen can have consequences, too.

With the unemployment rate already low—so low that many believe the U.S. is near a state of full employment—a major bout of government spending and tax cuts could cause the economy to overheat. Inflation could stir, concerns about financial bubbles could grow, and Federal Reserve Chairwoman Janet Yellen could raise interest rates sharply in response.

"Janet Yellen has already put the Congress on notice that fiscal stimulus at full employment could require a response from the Fed," said Scott Anderson, chief economist of Bank of the West.

The Journal surveyed 67 economists from Jan. 6 to Jan. 10, though not every economist answered every question.

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