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Trump's Budget Sets High Expectations for Economic Growth

While many forecasters see a slowing economy, the White House expects deregulation, tax-code changes will keep expansion humming

By Kate Davidson March 9, 2019 9:02 a.m. ET

The White House's budget proposal assumes the U.S. economy will keep expanding as briskly as it did last year, when a tax cut and government spending increase boosted growth, according to a preview of the materials to be released Monday. The fiscal year 2020 budget projects much stronger growth than many independent forecasters, who see the economy slowing this year as the effects of those fiscal stimulus measures wane. But the Trump administration, which hit its forecasts for 2018, expects that deregulation and changes to the tax code will keep the expansion humming again this year.

The White House forecasts the economy will grow about 3% annually over the next decade, though it expects a bigger near-term boost, with output rising 3.2% this year before declining to 3.1% in 2020, 3.0% in 2021 and 2.8% in 2026, according to projections viewed by The Wall Street Journal.

The economy grew 3.1% in the fourth quarter from a year earlier, its highest rate in nearly four years and in line with the projection made in President Trump's budget proposal last year.

"Basically, the modeling that we did [for] last year nailed last year," said Kevin Hassett, the chairman of the White House Council of Economic Advisers. "So we think those models are still the best indicator of what should happen going forward."

Strong consumer spending and robust business investment in 2018 helped the economy notch one of its best years of the decadelong expansion, thanks to the $1.5 trillion tax cut and a healthy job market. A two-year deal to boost government spending by nearly $300 billion also lifted growth last year.

Many private economists see those effects starting to fade in 2019.

J.P. Morgan economists expect 1.8% growth this year. High Frequency Economics said Thursday it expects growth of 2.4% this year.
Andy Laperriere, a policy analyst at Cornerstone Macro, said it is possible growth could continue at the same pace in 2019—the firm projects 2.8% growth this year—but he is doubtful it can be sustained well into the next decade.

"There's a defense for arguing that they've done something to increase the potential of the economy, but it's the scale that is hard to reconcile," he said.

Mr. Hassett noted that alternative forecasts are based on different assumptions than the president's budget, which projects what would happen if the administration's policy proposals become law. Without such changes, the economy would grow at a rate of about 2% this year, he said.

The administration expects the changes to the tax code enacted in 2017, including lower rates for corporations and changes to business tax rules, will continue to fuel higher growth by encouraging businesses to build capacity over the next several years, Mr. Hassett said.

After that, increased capacity will lead to higher output, he said, boosting growth in the second half of the administration's 10-year forecast.

Mr. Hassett disagreed with analysts' assessment that the tax cut merely provided the economy with a temporary boost. "That's a really, really silly thing to say, given the literature," he said.

The White House expects its deregulation efforts to fuel much of the growth this year.

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Mr. Hassett said labor-force participation, which finished 2018 higher than the year before for the first time since the recession, will also contribute to growth thanks to policies aimed at bringing more people into the workforce.

“The labor-force participation story has turned much faster than even we thought possible a year ago, so we’re much more optimistic about it,” he said.

Those factors would help offset steep spending cuts in the president’s budget proposal that could weigh on growth in 2020.

Russell Vought, the acting director of the administration’s Office of Management and Budget, said last month the president’s proposal would adhere to earlier spending caps enacted in 2011. Under those caps, discretionary spending—the part of the budget Congress can adjust each year—would be $125 billion lower in fiscal 2020, a 10% reduction from 2019.

The proposed spending cuts are unlikely to advance in the Democratic-controlled House or in the GOP-controlled Senate, where Republicans would need Democratic votes to pass a new budget deal or spending bills.
Compared with its forecast last year, the administration expects slightly higher inflation and interest rates over the next few years. The forecast assumes the 10-year Treasury yield will average 3.4% this year, before rising to 3.8% at the beginning of the next decade. And it projects the consumer-price index will rise 2.1% in 2019, and 2.3% in 2020.

Administration officials last year said their policies would encourage people to work more and businesses to invest more, and would ultimately raise the economy’s potential growth rate—the fastest pace it can expand without fueling excessive inflation or financial instability.
Economic activity accelerated in the beginning of 2018, as consumer spending picked up and business investment surged, and inflation pressures remained muted despite a pickup in wage growth. But the momentum moderated throughout the year amid trade disputes, turbulent financial markets, slowing global growth and a partial government shutdown late in the year.

Hiring growth essentially stalled in February, the Labor Department said Friday.
The Fed, after raising interest rates four times last year, has signaled it would hold off on further rate increases as it assessed how the market volatility and global slowdown might affect the U.S. economy.
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