U.S. economy: Light at the end of the tunnel

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(PhysOrg.com) -- Sure, the U.S. economy is struggling, but the end to the "growth recession" may be in sight, say University of Michigan economists.

"The American economy has been getting pummeled by the one-two punch of soaring oil prices and the collapse of the housing bubble, but a stubbornly resilient economy has failed to produce the two quarters of declining output that have become the focus of the media's recession watch," said Saul Hymans, U-M professor emeritus of economics.

"Even if we are not in the midst of a classical recession, the recent experience certainly qualifies as a growth recession—sustained subpar growth accompanied by job losses and rising unemployment."

In their annual summer forecast of the U.S. economy, Hymans and colleagues Joan Crary, Stanley Sedo and Janet Wolfe say that three factors have helped our economy stave off a full-blown recession: strong and timely action by the Federal Reserve to prevent financial collapse, temporary tax breaks for households and businesses, and strong demand for our products abroad.

While the U-M economists see essentially no growth for the second half of 2008, they predict annualized increases in national output growth (as measured by real Gross Domestic Product) of 2.6 percent in the first half of 2009, 3.3 percent in the second half and 3.6 percent during 2010.

This translates into an increase of 900,000 payroll jobs during 2009 and

2.6 million jobs during 2010, after a loss of 700,000 jobs this year. Even so, the unemployment rate will increase next year to an average of 6.3 percent, but will fall to 5.6 percent by the end of 2010, they say.

"The labor market has weakened considerably this year," Hymans said. "Although we've experienced seven straight months of job losses totaling 463,000 since last December, the 2001 recession was twice as bad (in the corresponding seven months). In fact, every recession dating back to 1953 produced considerably more severe job loss than we've just experienced."

Along with the creation of 3.5 million jobs, rising GDP and slowing consumer price inflation over the next two years, the U.S. economy will show some signs of improvement in the housing market, oil prices and vehicle sales.

Home prices, down nearly 19 percent this year, will decline by more than 4 percent next year before stabilizing in 2010, Hymans and colleagues say.

"Regardless of the price measure used, changes in home prices from the same period a year earlier have rarely been negative and never as hugely negative as those now being reported, at least since the 1960s," Hymans said.

Sales of existing single-family homes will drop to 4.22 million units this year, down from 4.96 million last year. Next year, sales drop even further to 4.08 million, before increasing to 4.23 million in 2010. Housing starts will number less than 1 million both this year and next, down from more than 2 million just three years ago. In 2010, housing starts are forecast to rise to 1.28 million units.

The U-M forecast also calls for oil prices to remain around the $120-perbarrel level through 2010, down from $140-$145 earlier this summer.

"The corresponding drop in the price of gasoline isn't sufficient to reverse the shift in the vehicle market toward more fuel-efficient cars or to curtail the push for alternative energy sources and additional exploration," Hymans said. "Some stability in the price of oil, however, should begin to relieve some of the pressure on consumer prices that has resulted from the sharp run-up in oil."

Overall, sales of light vehicles will drop from 16.1 million units in 2007 to 14.1 million in 2008—the lowest total since 1993. They are expected to hold steady at 14.2 million units next year and improve to 14.9 million in 2010.

The U-M forecast is based on the Michigan Quarterly Econometric Model of the U.S. Economy and compiled by the U-M Research Seminar in Quantitative Economics.

Provided by University of Michigan