

Research: U.S. economy will continue slow road to recovery

March 19 2010

(PhysOrg.com) -- After surging in the last quarter of 2009, the U.S. economy will continue to recover at a fairly steady moderate pace this year before picking up a bit more next year, say University of Michigan economists.

"Although plenty of potential pitfalls remain, the U.S. [economy](#) appears to be advancing on the road to recovery," said U-M economist Joan Crary. "Last summer, we passed an important milestone—the turnaround in output—and signs suggest that renewed job growth is on the horizon. Inflation is subdued. We have made progress toward righting the housing and financial markets, but neither is back to business as usual."

In their annual spring forecast update of the U.S. economy, Crary and colleagues Daniil Manaenkov and Stanley Sedo predict [economic output](#) growth (as measured by real [Gross Domestic Product](#)) of 2.5 percent during this year and 2.8 percent in 2011. This follows a 0.1 percent growth rate in 2009, although GDP registered a robust gain of 5.9 in the fourth quarter of last year—fueled largely by a slowdown in businesses' inventory depletion.

Increased consumer spending this year and next, a rise in business capital spending later this year and an upsurge in residential building in 2011 will help drive the moderate but steadily growing U.S. economy, they say.

Housing starts (both single- and multi-family) will recover to 710,000

units this year and 1.16 million next year—double the 554,000 units started in 2009, but still well below the peak of 2.07 million in 2005. Existing home sales will continue to improve at a modest rate, from 4.57 million units last year to 4.67 million this year and 4.8 million in 2011.

"Programs geared toward reworking mortgages to prevent foreclosures have not been as broad-reaching as many had hoped. Foreclosures remain high," Crary said. "However, the Federal Reserve's program to buy mortgage-backed securities has helped keep mortgage rates low, and last year's first-time home-buyer credit stimulated sales in advance of the original November deadline.

"After a brief breather when these programs end, we expect home sales to continue to improve, accompanied by a further recovery in home building."

On the job front, the forecast calls for employment gains of nearly 800,000 jobs during 2010 and 2.5 million during 2011, although hiring will be sluggish during the first half of this year. Unemployment, which averaged 9.3 percent in 2009, is expected to average 9.5 percent this year and 9.1 percent next year.

"From December 2007 to February 2010, the U.S. economy jettisoned 8.4 million jobs, but there is heightened focus in Washington on job creation and the plight of the unemployed," Crary said. "The economy now appears poised to generate job growth."

Crary and colleagues say that with the recovery proceeding slowly and little threat of inflation—core inflation should remain below 2 percent through next year—they expect the Fed to wait until early next year before nudging interest rates higher, from a current 0.25 percent federal funds rate to 2 percent by the spring of 2012.

Conventional mortgage rates are expected to remain fairly flat between 5 percent and 5.4 percent through the end of next year. Treasury bill rates will stay within a few basis points of the fed funds rate this year, increasing to 1.4 percent by late 2011, while 10-year Treasury notes will stay around the current 3.7 percent rate through next year.

Sales of light vehicles are another indicator of a stabilizing U.S. economy, the U-M [economists](#) say. Although vehicle sales totaled just 10.3 million units last year, in spite of the Cash for Clunkers program and lower gas prices, sales are expected to rebound to 11.6 million in 2010 and 12.7 million in 2011.

Finally, the price of oil, which dropped from about \$124 a barrel in mid-2008 to \$43 a barrel in early 2009, will continue to creep upward at about 7 percent a year, reaching about \$87 a barrel by the end of next year.

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

Citation: Research: U.S. economy will continue slow road to recovery (2010, March 19) retrieved 30 April 2024 from <https://phys.org/news/2010-03-economy-road-recovery.html>

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