

UCLA Anderson Forecast predicts 'very sluggish growth' accompanied by high unemployment

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In its third quarterly report of 2010, the UCLA Anderson Forecast predicts "very sluggish growth" for the foreseeable future as the U.S. economy continues to recover from the recession. As for the California economy, the state is looking at a difficult period ahead as it attempts to regenerate not only the 1.3 million jobs lost during the recession but also create additional jobs needed for new entrants into the job market over the past two-and-a-half years.

The National Forecast

In a report titled "The Uncertain Economy," UCLA Anderson Forecast senior economist David Shulman offers two explanations for the ailing national economy. The first is the "balance-sheet hypothesis" put forth by the Forecast nearly two years ago, which is analogous to the work done by economists Carmen Reinhart of the University of Maryland and Kenneth Rogoff of Harvard University. These economists noted that recoveries from the bursting of debt-fueled financial bubbles are invariably slow and are associated with high unemployment rates and rising government debt. Given that, Shulman suggests that a quick recovery is not likely.

Shulman also writes that, "the recovery from the balance-sheet recession is being exacerbated by an extraordinary increase in policy uncertainty, which is amplifying the usual economic uncertainties associated with

recessions." Simply put, he believes that the nation's businesses are unsure of the implications of their investments — whether new hires or new computers — given the uncertainty surrounding tax, environmental, energy, financial, labor and health care policies.

"At present," Shulman said, "business firms can only make the wildest guesses as to what corporate and individual taxes will be next year, and, for that matter, three years from now what the cost of health care will be, whether or not there will be a revived cap-and-trade policy with respect to [carbon emissions](#) or whether the Environmental Protection Agency will step in with regulations of their own absent a statute, and whether it will be easier or more difficult to hedge risks with financial derivatives."

Given these factors, the Forecast expects very sluggish growth accompanied by high unemployment.

"As time passes," Shulman said, "the economy will naturally heal and the policy uncertainties will resolve themselves to allow growth to return to a 3 percent path, causing unemployment to begin a long-awaited downward trajectory. We forecast that these more ebullient trends will become noticeable by 2012."

The Forecast predicts the national unemployment rate will be 9.7 percent by year's end and 9.5 percent in 2011.

The California Forecast

Considering the California economy, UCLA Anderson Forecast senior economist Jerry Nickelsburg writes that "all the evidence suggests that California is ever so slowly coming out of the recession ... but slow growth means that while the groundwork for faster growth is being put down, there is not a lot or perceptible change."

The Forecast implies that the weak growth will continue in the absence of any imminent changes in consumer or business behavior. According to the report, the very slow growth period will remain until next year. The recovery from the recession will be driven by education, health care, exports and technology and, to a lesser extent, growth in the battered residential construction sector.

On an annual basis, the expectation is that California employment will contract by -0.7 percent in 2010 and that once employment growth returns in 2011, employment will begin to grow faster than the labor force, at a 1.9 percent rate, and the unemployment rate will begin to fall.

Real personal income growth is forecast to be 0.6 percent in 2010, 2.2 percent in 2011, and 4.1 percent in 2012. The unemployment rate — currently at its high point of 12.6 percent — is expected to fall slowly through the balance of 2010 and average 12.2 percent for the year. The [unemployment rate](#) won't fall below double digits until 2012.

More information: uclaforecast.com/

Provided by University of California Los Angeles

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