

Slow recovery will pick up despite that recession 'feeling'

November 19 2010, By Bernie DeGroat

While the nation's economy will gain some momentum in the second half of next year, it will take until 2012 before unemployment finally begins to subside, say economists at the University of Michigan.

After losing more than 8 million payroll [jobs](#) from the end of 2007 to the end of 2009—the highest two-year job loss in more than 50 years—the U.S. economy will have gained 900,000 jobs by the end of this year before adding another 1.5 million jobs during 2011 and 2.4 million jobs during 2012.

The [unemployment](#) rate, which will average 9.7 percent this year and 9.6 percent in 2011, will finally start edging downward to average 9.3 percent in 2012 and dip below 9 percent by the beginning of 2013, they say.

"Employment did begin to edge higher at the start of this year, but new jobs have still been hard to come by," said U-M economist Joan Crary. "Nevertheless, the labor market has begun to stabilize and employment is expected to increase in every quarter of the forecast period. However, with output growth forecast to remain sluggish, employment stays below its 2008 peak through the end of 2012."

In their annual forecast of the U.S. economy, Crary and colleagues Daniil Manaenkov and Stanley Sedo say the current economic recovery has gotten off to an uneven start and that we should expect no quick fix.

"Many of the impediments to more rapid growth will eventually work themselves out, but that will take time," Crary said. "For now, the economy continues to struggle with the impact on consumer spending of both poor job prospects and ongoing debt reduction, the belt-tightening within state and local units of government and the aftermath of the housing collapse, including the large number of mortgages that are at risk of or already in default, as well as the oversupply of unsold homes.

"The impact of the fiscal stimulus on economic activity is dwindling, and any stimulus from the Fed's second stage of quantitative easing will take time to develop."

The U-M economists expect the sluggish pace of economic recovery to continue in the short term before picking up in the second half of next year and accelerating in 2012.

After falling 2.6 percent last year, economic output growth (as measured by real Gross Domestic Product) will average 2.7 percent this year, 2.1 percent next year (after a slow start) and 2.9 percent in 2012.

In addition to modest growth in GDP and employment over the next two years, Crary and colleagues predict that housing starts will improve over the forecast horizon. Total housing starts (both singles and multi-units) increased by 50,000 this year to 605,000 units and will rise to 807,000 next year and 1.13 million in 2012.

Sales of existing homes, which fell 300,000 to a low of 4.27 million units this year, will grow to 4.37 million next year and to 4.78 million in 2012. Home prices, however, will remain low, declining 2.6 percent in 2011 before slightly rising 1.2 percent the year after.

According to the forecast, sales of light vehicles will continue to rise from a 40-year low of 10.4 million units last year to 11.5 million this

year, 12.7 million next year and 14.8 million the year after.

Finally, the U-M [economists](#) say that both inflation and interest rates will remain fairly steady at low levels over the next two years. Despite rising oil prices (expected to reach \$87 a barrel by early 2013), consumer price inflation is projected to stay below 2 percent.

Conventional mortgage rates will remain flat at 4.3 percent over the next two years, while the three-month Treasury bill rate will range from 0.1 to 0.2 percent and the 10-year Treasury note will hover around 2.5 percent until the end of 2012.

"We expect the Fed to wait until 2012 before it starts gradually reducing the size of its balance sheet, and as long as a year beyond that until it begins to increase short-term interest rates," Crary said.

In all, Crary and colleagues say that although America's Great Recession technically ended more than a year ago, the tepid pace of economic activity has left Americans highly dissatisfied with current economic conditions.

"Historically, recoveries after financial crises have been less vigorous for a number of reasons," Crary said. "It takes time to restore a fully functioning financial system, especially while many economic players are deleveraging. In addition, imbalances in the housing market had to be corrected and that has proven to be a very intractable problem.

"In light of the recent midterm elections, the fiscal policy outlook is particularly uncertain. We assume that the Bush-era tax cuts will be extended since allowing them to expire would have a wrenching effect on an already-fragile economy. There also appears to be little appetite for any further broad fiscal stimulus.

"It now looks as though any economic policy push will have to come from the Federal Reserve."

Provided by University of Michigan

Citation: Slow recovery will pick up despite that recession 'feeling' (2010, November 19)
retrieved 10 April 2024 from <https://phys.org/news/2010-11-recovery-recession.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.