

Outlook for economy improves as Fed goes all-in: UCLA forecast

December 8 2010, By Hilary Rehder

In its fourth quarterly report of 2010, the UCLA Anderson Forecast predicts "modest growth and distressingly high unemployment" for most of 2011, with an acceleration of growth late next year that will gradually lower the unemployment rate.

The California [forecast](#) looks similar, with slow growth expected until the end of next year. Los Angeles County projections appear slightly more optimistic, as 2010's high unemployment rates begin to gradually descend early next year.

All three forecasts are brighter for 2012, as the economies grow more rapidly and unemployment rates continue to drop.

The National forecast

In a report titled "Risky Business," UCLA Anderson Forecast senior economist David Shulman discusses the Federal Reserve's plan to "expand its balance sheet" by \$600 billion over the next eight months through the purchase of intermediate-term bonds in an effort to lower long-term interest rates and thereby stimulate consumption and investment.

Shulman believes this policy will be "modestly helpful," noting that recent economic data have been encouraging. As a result, the Forecast has revised upward both its real gross domestic product (GDP) and inflation forecasts. But there is a "but."

"Unfortunately, even with jobs gains averaging 150,000 a month in 2011 and 200,000 a month in 2012," Shulman writes, "unemployment will remain above 9 percent through the third quarter of 2012."

In his conclusion, Shulman writes that the [economy](#) is healing, slowly, and predicts more rapid growth late next year. The Forecast report indicates that inflation will rise faster than the Fed expects, leading to a tightening of monetary policy in early 2012. The Forecast also predicts that real GDP will grow at a 2 percent-plus annual rate through the third quarter of 2011, then ramp up to an approximately 3 percent rate. As for inflation, the Forecast says it will be "at or above" the Fed's informal 2 percent target by late next year.

In a companion piece to the national report, UCLA Anderson Forecast director Edward Leamer delves into national employment issues in an essay titled "What's the Matter with the U.S. Job Market?"

Leamer argues that the national job markets have certain structural problems that have created a mismatch between what employers are looking for and what unemployed workers have to offer. These structural issues include the loss of manufacturing jobs to a variety of "competitors," both technological (robots and microprocessors) and human (foreign workers and recent immigrants willing to work for less), and the housing crisis that continues to jeopardize the construction sector.

Unlike in previous recessions, Leamer says, workers today are not easily returning to the jobs they lost, and as a result, the economy must find a way to create jobs for millions of workers whose skills are more suitable to manufacturing and construction.

The California forecast

Senior economist Jerry Nickelsburg's forecast for California, titled "Laying the Groundwork for California's Economic Recovery," continues themes that began in September: almost imperceptibly slow growth until the end of next year, "with only the first indication of changes in consumer and business expectations revealing themselves in the contemporaneous data."

"In the absence of an external driver to induce faster growth," he writes, "this is the most likely scenario for this phase of the recovery."

Put bluntly, California must re-employ 1.3 million workers just to get back to pre-recession levels and must also find jobs for all the new entrants to the work force in the past two-and-a-half years.

The Forecast's expectations for 2011 include a 1.6 percent growth in employment, with the majority of growth coming in the latter part of the year. By the end of 2011, employment in California will be growing faster than the U.S. average. Employment growth is expected to speed up in 2012 as the recovery takes hold, and real personal income growth is forecast to be 1.6 percent in 2011 and 3.6 percent in 2012.

In a report on Los Angeles County titled "Waiting to Send Out the Ships," economist Julia Thornton Snider writes, "the near-term forecast for Los Angeles is of continued weakness in the fourth quarter, followed by a gradual reinvigoration of the recovery. Unemployment will stay high through the end of this year before gradually descending in early 2011."

Snider says that real personal income and real taxable sales have sputtered along with the rest of the economy but should also improve next year, hitting 1.9 percent and 1.4 percent growth rates, respectively. For 2012, an acceleration of the recovery is forecasted as job gains spread from sector to sector and nonresidential construction revives.

The UCLA Anderson Forecast is one of the most widely watched and often-cited economic outlooks for California and the nation and was unique in predicting both the seriousness of the early-1990s downturn in California and the strength of the state's rebound since 1993. More recently, the Anderson Forecast was credited as the first major U.S. economic forecasting group to declare the recession of 2001.

Provided by University of California Los Angeles

Citation: Outlook for economy improves as Fed goes all-in: UCLA forecast (2010, December 8) retrieved 26 April 2024 from

<https://phys.org/news/2010-12-outlook-economy-fed-all-in-ucla.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.