

Anderson Forecast: U.S. economy stalled, employment 'horrible,' but no new recession

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In its third quarterly report of 2011, the UCLA Anderson Forecast's outlook for the nation's economy is "far worse" than it was just three months ago.

Considering the weak, revised data for the first half of the year, the [forecast](#) calls for average [gross domestic product](#) growth of just 0.9 percent on average for the five quarters — this year's four and the first quarter of 2012.

However, Forecast economists remain steadfast in their assertion that the U.S. is not currently in a recession, nor is there a recession in the forecast through 2013.

In California, the Forecast sees a tale of two states, as coastal California enjoys a recovery rooted in exports, innovation and knowledge communities, while inland areas continue to suffer from a glut of housing and a contraction in government spending.

The national forecast

In his report on the national economy, UCLA Anderson Forecast senior economist David Shulman revisits the concept of "stall speed," a view he first examined in September 2007, and again in September 2008. Stall speed involves an economy growing so slowly that any modest shock can trigger a full-blown recession. But there is no recession in the forecast.

"Simply put, the three sectors that would normally put the economy into recession are already depressed — housing, consumer durables and inventories," Shulman says. "Even if housing starts drop to new lows, this sector of the economy has shriveled so much that it would only have a modest impact on economic activity ... It is one thing for housing starts to decline from an annual pace of 2 million units to 1 million and quite another for starts to decline from 600,000 units to 300,000 units.

"If we are to have a new recession, it would have to come from a collapse in exports, a generalized decline in consumer spending with a resultant decline in business investment. All plausible, but we are not forecasting that eventuality."

The forecast calls for economic growth to gradually rebound in mid-2012, with the economy advancing at a modest 2.5 to 3 percent rate. Modest gains in exports, consumption, and equipment and software investment will drive the growth. Employment growth will become more meaningful, with gains averaging about 150,000 jobs per month and the unemployment rate falling to a still high 8.6 percent by the end of 2013.

On the employment front, Shulman writes, "Recession or not, the employment situation remains horrible. Job growth has stalled, and we forecast that the unemployment rate will soon rise to 9.5 percent. Thus, even by the end of 2013, we will not be back to the unemployment levels of late 2007."

In a companion piece to the U.S. forecast, UCLA Anderson Forecast director Edward Leamer delves more deeply into the concept of stall speed as it relates to the national economy.

In the essay titled "No Recession Alarm, But Not Much Hope for the Unemployed," Leamer says that the U.S. has experienced "stall" conditions in the wake of prior recessions but that such conditions do not

necessarily foretell a subsequent recession. Leamer's focus remains on the job market, where 46 percent of the more than 11.5 million jobs lost came in manufacturing and construction. The other two significant job-loss sectors are retail trade (11 percent of the total) and business services (14 percent).

"Given the evidence to date, the chance of a recession with declining GDP and declining employment levels remains low. Don't worry about that," Leamer concludes. "Do worry about the complete absence of anything to offset the U.S. frugal consumer, and the consequent sluggish growth, which is likely to fall short of even the normal level of 3 percent per year. Include Europe in your prayers, and hope for robust final demand to come from somewhere outside the United States and give us healthy U.S. exports."

The California forecast

In the California report, senior economist Jerry Nickelsburg examines what he refers to as a "bifurcated" state, one in which the coastal regions continue to grow out of the depths of the [recession](#) while the inland regions suffer from economic "doldrums."

It had been hoped that the recovery in the U.S. and the proximate fortunes of coastal California would pull inland California into a belated recovery. But in a report titled "California: Bifurcated and Buffeted," Nickelsburg writes, "Now that the U.S. [economy](#) has stalled, the differential between coastal California and inland California has begun to widen, and the specter of long-term economic stagnation in inland California has reared a not very pretty head."

Taken as a whole, the current forecast for California calls for slow growth until the end of 2012. Nickelsburg said the most likely scenario for the state will be a slow build over the next 12 months, followed by an

incipient recovery period.

The California forecast sees virtually no growth in employment, with employment growth of 0.7 percent and 2.1 percent expected in 2012 and 2013, respectively. Payrolls will grow more rapidly at 1.1 percent, 0.6 percent and 2.0 percent for the forecast years through 2013, and the unemployment rate will hover around 12 percent for the rest of this year and will average 11 percent through 2013.

Provided by University of California Los Angeles

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