

# NABE Outlook

## **NABE Panel: Recession Is Over, but a Muted Recovery to Follow**

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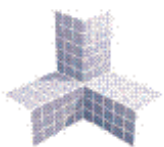
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*The October 2009 NABE Outlook presents the consensus macroeconomic forecast of a panel of 44 professional forecasters. (See last page for listing.) The survey, covering the outlook for 2009 and 2010, was taken Sep. 2-Sep. 24. The NABE Outlook originated in 1965 and is one of three surveys conducted by NABE; the others are the NABE Industry Conditions Survey and the NABE Economic Policy Survey. Founded in 1959, the National Association for Business Economics is the professional association for those who use economics in their work. NABE has 2,300 members and 31 chapters nationwide. **William Strauss**, Federal Reserve Bank of Chicago; **Richard DeKaser**, Woodley Park Research; **Parul Jain**, MacroFin Analytics; and **Charles Steindel**, Federal Reserve Bank of New York, conducted the analysis for this report. The views expressed in this report are those of the analysts and do not necessarily represent the views of their affiliated companies or institutions. Visit [www.nabe.com](http://www.nabe.com) for survey responses. This report may be reprinted in whole or in part with a proper citation to NABE.*

**SUMMARY:** "The Great Recession is over," according to NABE's latest survey. "The survey found that the vast majority of business economists believe that the recession has ended but that the economic recovery is likely to be more moderate than those typically experienced following steep declines. The NABE panel upgraded the economic outlook for the next several quarters, compared with the previous survey," said NABE President-elect Lynn Reaser, chief economist at Point Loma Nazarene University. "Following a sharp 6.4 percent (annual rate) contraction in the first quarter of this year and another 0.7 percent drop in the second quarter, NABE forecasters expect real GDP to rise at an above trend 2.9 percent rate in the second half. The more-than-three-year downturn in the housing market is very close to coming to an end, with substantial growth (from a low base) expected for next year. According to the survey, the key areas of concern involve the large increases in federal debt and unemployment rates that are expected to remain very high through next year. The unemployment rate is forecast to rise to 10 percent in the first quarter of next year and edge down to 9.5 percent by the end of 2010. Inflation is expected to remain contained throughout 2010. The good news is that this deep and long recession appears to be over, and with improving credit markets, the U.S. economy can return to solid growth next year without worry about rising inflation."



## Highlights

- **The NABE forecast panel declares the Great Recession of 2008-09 to be over.** More than 80 percent of respondents believe that an expansion has begun. Still, the toll of the recession has been severe, with real GDP declining 3.8 percent from its peak— a post-World War II record.
- **Looking ahead, NABE forecasters have marked up the economic outlook slightly** and predicted moderate growth through the end of 2010. Real GDP is expected to advance at a 2.9 percent pace over the second half of this year and at a 3 percent pace next year.
- **Slow growth of household sector spending is expected to be a drag on the economy,** as the lagged effects of past wealth losses and modest employment gains restrain consumer spending growth. Personal consumption expenditures, which are expected to turn up in the second half of this year, grow a sub par 1.6 percent next year. However, in contrast to views of some that the saving rate is set to rise dramatically over the next few years, slightly more than one-half of the panel believes the saving rate will average between 3 and 5 percent through 2012; another 40 percent believe it will average between 5 and 7 percent; no respondents think it will be above 7.0 percent. The saving rate is thus expected to exceed the 2 percent average of the past four years but be well below the 9 percent average experienced during the decades of the 1970s and 1980s.
- **Sales of light vehicles are expected to remain weak.** After hitting a 40-year low of 10.3 million vehicles in 2009, next year's projected sales of 12 million vehicles will present continuing difficulties for the automotive industry.
- **The nascent housing recovery will gather momentum** and deliver robust growth in 2010, albeit from a depressed level. Housing starts will rise 38 percent and residential investment will increase 8 percent; thus, 2010 will be the first year since 2005 that the housing sector will contribute to overall growth. After bottoming out this year, house prices are slated for a modest gain of 2 percent in 2010 (with two-thirds of respondents believing that house prices will reach a bottom in 2009). Respondents do not believe that high home prices or lack of affordability will be problems for the housing recovery. Concerns about the housing recovery center on worries about jobs and reduced access to credit.
- **Business investment will contribute to the economic rebound.** First, the massive inventory liquidation of 2008-2009 is expected to hit bottom during the second half of this year, with restocking slated for 2010. Second, business spending on equipment and software will be buoyed by a combination of higher operating rates and corporate profits.
- **Corporate profits will show strong improvement.** Respondents expect an increase of 11 percent in 2010, characteristic of the early stages of an economic recovery. Related to the profit recovery, the S&P 500 Index also will show strength; respondents expect the index to climb 7.5 percent next year. The stock market rebound is a point of strong agreement among panelists, with all the forecasters predicting a gain in 2010.
- **The dollar will soften further this year and remain weak into 2010.** While the trade deficit has improved over the past several years, the weak dollar will not reduce the trade deficit further as the relatively stronger U.S. economic rebound elevates import demand. In fact, the NABE panel expects a modest deterioration in the trade balance next year.

- **Inflation will remain low** due to a constellation of factors. Most importantly, substantial labor market slack will mute gains in labor compensation. In its typical lagging fashion, the jobless rate is expected to fall only slightly to 9.5 percent by the end of 2010. This will restrain compensation growth (in the nonfarm sector) to merely 1.0 percent this year and 2.2 percent, in 2010— the lowest two-year showing on record. Over 2010, labor productivity will advance 2.5 percent, more than offsetting the modest compensation increase and resulting in falling unit labor costs. The NABE panel expects the core PCE deflator— the preferred inflation measure of the Federal Reserve— to rise just 1.5 percent in 2010, just a tick above the 1.4 percent rate that is expected in 2009.
- Given the tranquility of inflation, **the NABE panel forecasts the federal funds rate to remain in its current range— 0 to 0.25 percent— until late next spring**, after which a gradual rise in the target rate is expected. This important benchmark will remain low— at just 1.0 percent— as 2010 draws to a close. Longer-term interest rates will rise more appreciably, as future policy rate hikes are priced in. Specifically, the 10-year Treasury note is expected to yield 3.7 percent by the end of this year and 4.3 percent at the end of 2010. There is universal agreement among the panel that 10-year Treasury rates will rise next year.

## Other Issues

- **Financial markets will take some time to return to “normal”.** About 21 percent of the panelists believe that financial markets will improve to the point that they no longer hinder economic growth at some point in the second half of 2009. Another 21 percent expect this will occur in the first half of 2010. The majority predict a longer wait, with 29 percent expecting markets to return to normal in the second half of 2010 and the remaining 29 percent suggesting that this will not occur until the 2011 to 2013 timeframe.
- **Employment will not recap losses until 2012 or beyond.** Less than 8 percent of panelists expect to regain the lost jobs before 2012. Fifty-four percent expect to see the loss fully reversed by 2012, while 33 percent project it will take until 2013. (The remaining 5 percent believe it will take even longer.) The extended period needed to fully reverse the job losses implies continuing labor market slack: 32 percent of panelists peg the natural rate of unemployment between 5.1 percent and 5.5 percent, with 22 percent siding with a lower range of 4.6 percent to 5.0 percent and another 24 percent placing this rate between 5.6 and 6.0 percent. The overall dispersion of responses implies a natural rate of unemployment of roughly 5.3 percent, suggesting that the deep recession has not significantly raised the natural rate of unemployment. In turn, the sluggish rebound in employment points to the unemployment rate remaining above its natural rate for the first part of the next decade.
- When asked about their views on issues facing the economy, **respondents expressed the greatest concerns over the federal debt and the lingering high level of unemployment.** Rising protectionism, weak consumer spending, and rising food and energy prices were also of significant concern to respondents. Respondents were less worried about the sustainability of growth in emerging markets, the availability of skilled workers, deflation, and weak home construction. Additionally, while 81 percent of panelists are content with the communications by the Federal Reserve Board about its quantitative easing strategy, the 19 percent who disagreed strongly believe that the Fed should specify the conditions that would alter its policy stance.

**Table 1 Comparative Surveys** Median Forecast Reported

	Actual	Forecasts				
	2008	2009			2010	
		Feb 09 Survey	May 09 Survey	Oct 09 Survey	May 09 Survey	Oct 09 Survey
Real Gross Domestic Product, % change, Q4/Q4	-1.9	-0.9	-1.2	-0.5	2.7	3.0
Real Gross Domestic Product, % change, annual average	0.4	-1.9	-2.8	-2.5	2.0	2.6
Personal Consumption Expenditures, % change	-0.2	-1.3	-0.4	-0.8	2.1	1.6
Nonresidential Structures, % change	10.3	-6.3	-18.0	-18.0	-5.1	-4.9
Nonresidential Equipment and Software, % change	-2.6	-12.2	-19.8	-18.1	-0.3	2.4
Residential Investment, % change	-22.9	-16.0	-21.9	-21.2	5.1	8.3
Change in Business Inventories, billions of chained 2000\$	-25.9	-42.2	-65.3	-97.3	10.0	10.5
Net Exports, billions of chained 2000\$	-494.3	-339.3	-321.0	-347.2	-345.2	-361.8
Exports, % change	5.4	-5.1	-13.6	-12.0	2.0	5.1
Imports, % change	-3.2	-6.0	-13.9	-15.9	3.9	4.4
Government Consumption Expenditures & Gross Investment, % change	3.1	2.8	1.3	2.0	2.5	2.0
Implicit GDP Deflator, % change	2.1	1.0	1.6	1.3	1.3	1.3
Trade Balance Goods & Services, BoP basis, \$ billions	-695.9	-510.0	-473.5	-427.7	-525.0	-475.7
Foreign Exchange Rate, US\$ per Euro, December average	1.35	1.29	1.33	1.44	1.34	1.44
Trade-Weighted Value of the US\$, FRB Broad Index, December average	108.5	110.0	109.2	102.1	106.5	101.0
Consumer Price Index, % change, annual average	3.8	-0.8	-0.7	-0.4	1.7	1.8
Consumer Price Index, % change, Q4/Q4	1.5	0.5	0.4	1.0	1.8	1.8
Personal Consumption Expenditures (PCE) Price Index less food & energy, % change, Q4/Q4	2.0	1.1	1.4	1.4	1.5	1.5
Nonfarm Employment, average monthly change, thousands	-257	-245	-370	-365	105	107
Nonfarm Business Compensation Per Hour, % change	2.8	3.4	3.3	1.0	2.9	2.2
Nonfarm Business Output Per Hour, % change	1.8	1.8	1.7	2.6	2.3	2.5
Federal Funds Target, % year-end	0.125	0.125	0.125	0.125	1.00	1.00
10-Year Treasury Note Yield, % year-end	2.25	3.09	3.25	3.68	3.80	4.30
Federal Deficit, FY, unified, \$ billions	-459	-1,500	-1675	-1573	-1384	-1300
Corporate Profits After Tax, % change*	-11.5	-9.2	-16.3	-8.0	7.1	11.2
Civilian Unemployment Rate, % annual average	5.8	8.4	9.1	9.2	9.6	9.8
Industrial Production, % change	-2.2	-7.1	-10.8	-10.3	2.1	3.4
Light Vehicle Sales, millions of units	13.2	10.9	10.0	10.3	11.9	12.0
Housing Starts, millions of units	0.91	0.63	0.56	0.58	0.84	0.80
Home Prices, FHFA, % change, Q4/Q4	-4.0	-5.3	-6.0	-3.4	1.0	2.0
Oil Prices, \$ per barrel, December average	41	46	57	70	65	75
S&P 500 Index, December 31	903	975	975	1098	1090	1180

Historical data from Haver Analytics (10/5/09); forecasts from NABE

## Quarterly Forecasts

Survey:	GDP % change, annual rate		Unemployment Rate %		Nonfarm Employment in thousands, average monthly change		PCE Price Index, ex Food & Energy % change, annual rate	
	5/09	10/09	5/09	10/09	5/09	10/09	5/09	10/09
Q3-09	0.7	3.4	9.5	9.6	-250	-256	1.2	1.4
Q4-09	1.8	2.4	9.8	10.0	-100	-103	1.0	1.1
Q1-10	2.2	2.5	9.8	10.0	38	12	1.2	1.3
Q2-10	2.7	2.9	9.6	9.9	94	98	1.4	1.4
Q3-10	3.0	3.0	9.5	9.7	130	138	1.6	1.7
Q4-10	3.0	3.0	9.3	9.5	166	195	1.6	1.6

Survey:	Fed Funds Target % quarter-end		10-Year Treasury Note Yield % quarter-end	
	5/09	10/09	5/09	10/09
Q3-09	0.125	0.125	3.22	3.31
Q4-09	0.125	0.125	3.30	3.70
Q1-10	0.128	0.125	3.50	3.80
Q2-10	0.250	0.163	3.58	4.00
Q3-10	0.750	0.500	3.65	4.20
Q4-10	1.250	1.000	3.80	4.30

## Table 2 Distribution of Selected Responses

### Annual Forecasts

	2009 Forecast			2010 Forecast		
	Median	Five Lowest	Five Highest	Median	Five Lowest	Five Highest
Real Gross Domestic Product, % change, Q4/Q4	-0.5	-1.8	0.8	3.0	1.1	4.4
Consumer Price Index, % change, Q4/Q4	1.0	-0.1	2.0	1.8	0.8	3.3
Personal Consumption Expenditures (PCE) Price Index less food & energy, % change, Q4/Q4	1.4	0.2	1.9	1.5	0.4	2.4
Civilian Unemployment Rate, % annual average	9.2	8.9	9.4	9.8	8.3	10.3
Federal Funds Target, % year-end	0.125	0.125	0.400	1.000	0.128	2.650
10-Year Treasury Note Yield, % year-end	3.68	3.31	4.17	4.30	3.70	5.14
Foreign Exchange Rate, US\$ per Euro, Dec. average	1.44	1.33	1.52	1.44	1.27	1.59
Housing Starts, millions of units	0.58	0.53	0.96	0.80	0.68	1.28
Home Prices, FHFA, % change, Q4/Q4	-3.4	-8.7	1.9	2.0	-5.1	6.2
Oil Prices, \$ per barrel, December average	70	59	79	75	60	92
S&P 500 Index, December 31	1098	990	1204	1180	1056	1455

### Quarterly Forecasts

	Real Gross Domestic Product, % change, annual rate			Civilian Unemployment Rate %			Nonfarm Employment in thousands, average monthly change		
	Median	Five Lowest	Five Highest	Median	Five Lowest	Five Highest	Median	Five Lowest	Five Highest
Q3-09	3.4	0.5	5.0	9.6	9.6	9.6	-256	-456	-256
Q4-09	2.4	-0.4	4.7	10.0	9.1	10.2	-103	-312	116
Q1-10	2.5	1.0	4.6	10.0	9.2	10.5	12	-190	230
Q2-10	2.9	1.3	4.4	9.9	8.7	10.5	98	-134	239
Q3-10	3.0	0.9	4.7	9.7	8.2	10.3	138	-86	267
Q4-10	3.0	1.5	5.0	9.5	7.8	10.2	195	51	304

	Personal Consumption Expenditures Price Index (PCE) less food & energy % quarter-end			Fed Funds Target % change, annual rate			10-Year T-Note Yield % quarter-end		
	Median	Five Lowest	Five Highest	Median	Five Lowest	Five Highest	Median	Five Lowest	Five Highest
Q3-09	1.4	0.5	2.2	0.125	0.125	0.125	3.31	3.31	3.31
Q4-09	1.1	0.3	2.1	0.125	0.125	0.380	3.70	3.41	4.17
Q1-10	1.3	0.2	2.3	0.125	0.125	0.783	3.80	3.31	4.42
Q2-10	1.4	0.4	2.4	0.163	0.125	1.425	4.00	3.40	4.75
Q3-10	1.7	0.4	2.5	0.500	0.125	2.000	4.20	3.56	4.90
Q4-10	1.6	0.3	2.6	1.000	0.125	2.650	4.30	3.71	5.15

Five highest and five lowest are the response averages

**With their permission, NABE panelists who responded to the October 2009 NABE Outlook survey are:**

Michael R. Englund, Action Economics, LLC

Thomas Kevin Swift, American Chemistry Council

Richard Yamarone, Argus Research Corp.

James W. Kleckley, Bureau of Business Research, East Carolina University

Esmael Adibi, Chapman University

Jan Reid, Coast Economic Consulting

Robert Fry, DuPont

Jim Meil, Eaton Corporation

Susan M. Sterne, Economic Analysis Associates, Inc.

Douglas Duncan, Fannie Mae

Michael Paslawskyj, Federal Deposit Insurance Corporation

Brian S. Wesbury / Robert Stein, First Trust Advisors, LP

Ellen Hughes-Cromwick / Emily Kolinski Morris, Ford Motor Company

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Gary Ciminero, GLC Financial Economics

J. Paul Horne, Independent Market Economist

John Pope, Investment Economics

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Jim Glassman, JPMorganChase

Brian R. Horrigan, Loomis, Sayles, & Co, LP

Chris Varvares, Macroeconomic Advisers

Parul Jain, MacroFin Analytics

Diane C. Swonk, Mesirow Financial

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Stephen Gallagher, Societe Generale

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