

NABE Outlook

NABE Panel: Recovery Soon to Lose “Jobless” Label

Embargoed until: Monday, November 23, 2009 12:00 AM EST

For further information contact:

Technical | **Lynn Reaser** 619-849-2690 | **Richard DeKaser** 202-306-9814

Media | **Melissa Golding** 571-236-2820

*The November 2009 NABE Outlook presents the consensus of macroeconomic forecasts made by a panel of 48 professional forecasters. (See last page for listing.) The survey, covering the outlook for 2009 and 2010, was taken October 24-November 5. 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. **Richard DeKaser**, Woodley Park Research; **Parul Jain**, MacroFin Analytics; **Charles Steindel**, Federal Reserve Bank of New York; and **William Strauss**, Federal Reserve Bank of Chicago, 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 for survey responses. This report may be reprinted in whole or in part with a proper citation to NABE.*

SUMMARY: Reaffirming last month's call that the Great Recession is over, NABE panelists have marked up their predictions for economic growth in 2010 and expect performance to exceed its long-term trend. "While the recovery has been jobless so far, that should soon change. Within the next few months, companies should be adding instead of cutting jobs," said NABE President **Lynn Reaser**, chief economist at Point Loma Nazarene University. Panelists predict a relatively sluggish consumer upturn but look for a sizable housing rebound, low inflation, and further rise in stock prices. Importantly, panelists are mostly (though not entirely) optimistic that the Federal Reserve's policies will not lead to higher inflation. At the same time, NABE panelists are "extremely" concerned about high federal deficits over the next five years.



Highlights

- **After declaring in October that the Great Recession of 2008-2009 was over, the NABE forecast panel is now boosting its expectations for growth.** The fourth quarter of 2009 is now slated for a 3.0 percent pace of real GDP growth and 2010 is predicted to experience a gain of 3.2 percent over its four quarters. For the two years combined, growth is expected to be one-half of a percentage point above the forecast made in October. Economic growth is projected to slightly exceed its trend pace—which NABE panelists estimate at 2.7 percent—over the next five quarters. Real GDP growth should also be enough to recover losses from the recession and return output to an all-time high by the end of 2010.
- **The household sector is still expected to lag behind the overall economy.** Past wealth losses, and initially stagnant employment conditions, are predicted to result in lackluster consumer spending gains over the coming year. After vehicle sales hit a 40-year low of 10.2 million vehicles in 2009 (estimated), next year's projected sales of 11.6 million vehicles, though showing a respectable year-on-year gain, will present continuing challenges for the automotive industry. NABE panelists also expect to see a persistently elevated sense of thrift. The personal saving rate is expected to average 4.0 percent in 2010 (identical to the rate over the first nine months of this year, but no longer propped up by federal stimulus injections to income). This will be the highest rate since 1998.
- **The recovery will not remain "jobless" for long. With more than 7.3 million jobs lost since December 2007,** NABE panelists believe the end of net employment losses is near, with modest declines during the fourth quarter followed by a "bottom" in the first quarter of 2010 and gains thereafter. Still, given the severity of employment losses during the past two years, most panelists (61 percent) do not expect a complete recovery of the previously lost jobs until 2012. Additionally, the unemployment rate is predicted to remain stubbornly high, averaging 9.6 percent in the final quarter of next year. When asked to rank "concerns" over the next five-year period, panelists ranked high unemployment second only to the federal deficit.
- **The nascent housing recovery will be uninterrupted and will gather momentum.** After a steep and extended four-year decline, housing starts and residential investment will rise sharply in 2010. Housing starts will increase 36 percent and residential investment will grow 9 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. When asked what factors were driving the housing rebound, panelists identified low house prices and interest rates as the two most important determinants. The first-time homebuyer federal tax credit was also seen as important, though less so than affordability. Other factors, including household incomes, confidence levels, and demographics were seen as unimportant, thus far.
- **Business investment will be an engine of growth driving the economic recovery.** First, the massive inventory liquidation of 2008-2009 is expected to hit bottom during 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. Business spending on structures, however, will continue to decline, albeit at a slower pace than during the free fall of 2009.
- **Corporate profits will post a solid 12.4 percent gain in 2010,** about average for the first year of an economic recovery. The stock market also will show strength; respondents expect the S&P 500 Index to climb 9.5 percent next year. While opinions differ on the magnitude of the stock market rebound (median gain of 9 percent; standard deviation of 9 percent), all of the forecasters are looking for a gain in 2010.

- **The dollar will weaken further in 2010** vis-à-vis a trade-weighted basket of foreign currencies, though it will stabilize against the euro. When asked to judge the present foreign exchange value of the dollar, 44 percent of survey respondents said it was undervalued on a “fundamental” basis. Only 20 percent believed the greenback to be fundamentally overvalued. Regarding the risks related to a falling dollar, just 4 percent of NABE panelists expressed “extreme” concern over a five-year horizon, whereas 19 percent expressed “none.” In addition, fully 87 percent of survey respondents indicated that they expect the dollar to be the major reserve currency in 2015.
- Despite the weak currency, **the nominal trade deficit is expected to widen** as the terms of trade deteriorate (i.e., import prices rise relative to export prices). Prices aside, the deficit will only widen slightly on a constant dollar basis and remain steady in relation to real GDP. In other words, **foreign trade will be neutral with respect to overall growth in 2010**. Both exports and imports will grow briskly, signaling that economic activity will be expanding worldwide and that impediments to the financing of foreign trade will dissipate.
- Government spending will advance at a modest 2 percent pace in 2010 in the face of fiscal stress at the state and local levels. **When asked about the appropriateness of further federal stimulus during this fiscal year, panelists were divided in their opinions.** A slight plurality (45 percent) felt that *less* stimulus would be appropriate; 41 percent believed that budgeted levels of fiscal stimulus were appropriate; and 15 percent believed *more* stimulus would be appropriate. Regarding deficit risks to the economy over the intermediate term, opinions were more united: a solid majority (55 percent) expressed “extreme concern” about the federal deficit over the next five years.
- **Inflation will remain low**, mostly because substantial labor market slack and further productivity gains will reduce labor costs. Compensation (in the nonfarm sector) is expected to climb just 2.3 percent next year while labor productivity advances 2.8 percent. That means unit labor costs will decline in 2010, on top of an already large decline in 2009. Together, the two-year period is expected to show the sharpest decline in unit labor costs on record. **The NABE panel expects the core PCE deflator** (consumer prices excluding food and energy, the preferred inflation measure of the Federal Reserve) **to rise just 1.5 percent in 2010**, following an identical gain in 2009.
- **Regarding inflation risks, opinions are divided, but mostly optimistic.** A majority (52 percent) of NABE panelists indicated that the Federal Reserve’s quantitative easing *would not* result in higher inflation in the future. Still, nearly a quarter of respondents (23 percent) expressed concern that it *would* result in higher inflation and 25 percent were uncertain. Separately, when asked for their concerns about “higher inflation” over the next five-year period, 44 percent expressed low levels of concern. Thirty percent expressed high levels of concern.
- Given the tranquility of inflation at least in the near-term, **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—just 1.0 percent—as 2010 draws to a close. Longer-term interest rates will also rise, albeit less appreciably, as future policy rate hikes are increasingly priced in. Specifically, **the 10-year Treasury note is slated for a yield of about 4.2 percent by the end of 2010**, somewhat more than one-half percentage point above the current level. Not a single forecaster expects this yield to decline next year.

Table 1 Comparative Surveys Median Forecast Reported

| | Actual | Forecasts | | | | |
|--|--------|------------------|------------------|------------------|------------------|------------------|
| | 2008 | 2009 | | | 2010 | |
| | | May 09 Survey | Oct 09 Survey | Nov 09 Survey | Oct 09 Survey | Nov 09 Survey |
| Real Gross Domestic Product, % change, Q4/Q4 | -1.9 | -1.2 | -0.5 | -0.2 | 3.0 | 3.2 |
| Real Gross Domestic Product, % change, annual average | 0.4 | -2.8 | -2.5 | -2.4 | 2.6 | 2.9 |
| Personal Consumption Expenditures, % change | -0.2 | -0.4 | -0.8 | -0.6 | 1.6 | 2.0 |
| Nonresidential Structures, % change | 10.3 | -18.0 | -18.0 | -18.3 | -4.9 | -7.3 |
| Nonresidential Equipment and Software, % change | -2.6 | -19.8 | -18.1 | -17.5 | 2.4 | 4.2 |
| Residential Investment, % change | -22.9 | -21.9 | -21.2 | -19.8 | 8.3 | 9.0 |
| Change in Business Inventories, billions of chained 2000\$ | -25.9 | -65.3 | -97.3 | -115.3 | 10.5 | 10.0 |
| Net Exports, billions of chained 2000\$ | -494.3 | -321.0 | -347.2 | -355.9 | -361.8 | -369.3 |
| Exports, % change | 5.4 | -13.6 | -12.0 | -10.8 | 5.1 | 6.5 |
| Imports, % change | -3.2 | -13.9 | -15.9 | -14.8 | 4.4 | 5.6 |
| Government Consumption Expenditures & Gross Investment, % change | 3.1 | 1.3 | 2.0 | 2.0 | 2.0 | 2.1 |
| Implicit GDP Deflator, % change | 2.1 | 1.6 | 1.3 | 1.3 | 1.3 | 1.4 |
| Trade Balance Goods & Services, BoP basis, \$ billions | -695.9 | -473.5 | -427.7 | -412.0 | -475.7 | -480.0 |
| Foreign Exchange Rate, US\$ per Euro, December average | 1.35 | 1.33 | 1.44 | 1.48 | 1.44 | 1.47 |
| Trade-Weighted Value of the US\$, FRB Broad Index, December average | 108.5 | 109.2 | 102.1 | 101.4 | 101.0 | 100.0 |
| Consumer Price Index, % change, annual average | 3.8 | -0.7 | -0.4 | -0.3 | 1.8 | 1.8 |
| Consumer Price Index, % change, Q4/Q4 | 1.5 | 0.4 | 1.0 | 1.2 | 1.8 | 1.5 |
| Personal Consumption Expenditures (PCE) Price Index less food & energy, % change, Q4/Q4 | 2.0 | 1.4 | 1.4 | 1.5 | 1.5 | 1.5 |
| Nonfarm Employment, average monthly change, thousands | -257 | -370 | -365 | -376 | 107 | 112 |
| Nonfarm Business Compensation Per Hour, % change | 2.8 | 3.3 | 1.0 | 0.5 | 2.2 | 2.3 |
| Nonfarm Business Output Per Hour, % change | 1.8 | 1.7 | 2.6 | 2.7 | 2.5 | 2.8 |
| 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 | 3.25 | 3.68 | 3.50 | 4.30 | 4.15 |
| Federal Deficit, FY, unified, \$ billions | -459 | -1675 | -1573 | -1417 | -1300 | -1314 |
| Corporate Profits After Tax, % change* | -11.5 | -16.3 | -8.0 | -7.9 | 11.2 | 12.4 |
| Civilian Unemployment Rate, % annual average | 5.8 | 9.1 | 9.2 | 9.2 | 9.8 | 9.8 |
| Industrial Production, % change | -2.2 | -10.8 | -10.3 | -9.8 | 3.4 | 4.1 |
| Light Vehicle Sales, millions of units | 13.2 | 10.0 | 10.3 | 10.2 | 12.0 | 11.6 |
| Housing Starts, millions of units | 0.91 | 0.56 | 0.58 | 0.58 | 0.80 | 0.79 |
| Home Prices, FHFA, % change, Q4/Q4 | -4.0 | -6.0 | -3.4 | -3.4 | 2.0 | 2.0 |
| Oil Prices, \$ per barrel, December average | 41 | 57 | 70 | 76 | 75 | 80 |
| S&P 500 Index, December 31 | 903 | 975 | 1098 | 1095 | 1180 | 1199 |

Historical data from Haver Analytics (11/09/09); 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 | |
|---------|---------------------------------|-------|------------------------|-------|---|-------|---|-------|
| | 10/09 | 11/09 | 10/09 | 11/09 | 10/09 | 11/09 | 10/09 | 11/09 |
| Q1-09 | -6.4 | -6.4 | 8.1 | 8.1 | -691 | -691 | 1.1 | 1.1 |
| Q2-09 | -0.7 | -0.7 | 9.3 | 9.3 | -428 | -428 | 2.0 | 2.0 |
| Q3-09 | 3.4 | 3.5 | 9.6 | 9.6 | -256 | -256 | 1.4 | 1.4 |
| Q4-09 | 2.4 | 3.0 | 10.0 | 10.0 | -103 | -141 | 1.1 | 1.4 |
| Q1-10 | 2.5 | 3.0 | 10.0 | 10.0 | 12 | 0 | 1.3 | 1.4 |
| Q2-10 | 2.9 | 3.1 | 9.9 | 10.0 | 98 | 115 | 1.4 | 1.4 |
| Q3-10 | 3.0 | 3.2 | 9.7 | 9.8 | 138 | 151 | 1.7 | 1.6 |
| Q4-10 | 3.0 | 3.3 | 9.5 | 9.6 | 195 | 200 | 1.6 | 1.7 |

| Survey: | Fed Funds Target % quarter-end | | 10-Year Treasury Note Yield % quarter-end | |
|---------|-----------------------------------|-------|--|-------|
| | 10/09 | 11/09 | 10/09 | 11/09 |
| Q1-09 | 0.125 | 0.125 | 2.71 | 2.71 |
| Q2-09 | 0.125 | 0.125 | 3.53 | 3.53 |
| Q3-09 | 0.125 | 0.125 | 3.31 | 3.31 |
| Q4-09 | 0.125 | 0.125 | 3.70 | 3.50 |
| Q1-10 | 0.125 | 0.125 | 3.80 | 3.65 |
| Q2-10 | 0.163 | 0.225 | 4.00 | 3.78 |
| Q3-10 | 0.500 | 0.500 | 4.20 | 4.00 |
| Q4-10 | 1.000 | 1.000 | 4.30 | 4.18 |

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 | -0.2 | -2.3 | 1.0 | 3.2 | 0.9 | 4.5 |
| Consumer Price Index, % change, Q4/Q4 | 1.2 | -0.1 | 2.4 | 1.5 | 0.6 | 3.2 |
| Personal Consumption Expenditures (PCE) Price Index less food & energy, % change, Q4/Q4 | 1.5 | 0.0 | 2.0 | 1.5 | -0.4 | 2.9 |
| Civilian Unemployment Rate, % annual average | 9.2 | 9.0 | 9.5 | 9.8 | 8.4 | 10.5 |
| Federal Funds Target, % year-end | 0.125 | 0.100 | 0.220 | 1.000 | 0.175 | 2.450 |
| 10-Year Treasury Note Yield, % year-end | 3.50 | 3.27 | 3.81 | 4.15 | 3.68 | 4.97 |
| Foreign Exchange Rate, US\$ per Euro, December average | 1.48 | 1.38 | 1.54 | 1.47 | 1.22 | 1.63 |
| Housing Starts, millions of units | 0.58 | 0.56 | 0.69 | 0.79 | 0.63 | 1.02 |
| Home Prices, FHFA, % change, Q4/Q4 | -3.4 | -7.8 | 2.5 | 2.0 | -5.0 | 5.0 |
| Oil Prices, \$ per barrel, December average | 76 | 61 | 83 | 80 | 62 | 95 |
| S&P 500 Index, December 31 | 1095 | 1015 | 1216 | 1199 | 1080 | 1436 |

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 |
| Q2-09 | -0.7 | -0.7 | -0.7 | 9.3 | 9.2 | 9.3 | -428 | -428 | -428 |
| Q3-09 | 3.5 | 1.8 | 3.6 | 9.6 | 9.6 | 9.6 | -256 | -256 | -244 |
| Q4-09 | 3.0 | 0.1 | 4.4 | 10.0 | 9.5 | 10.2 | -141 | -257 | 44 |
| Q1-10 | 3.0 | 0.3 | 4.8 | 10.0 | 9.2 | 10.5 | 0 | -228 | 220 |
| Q2-10 | 3.1 | 1.3 | 4.8 | 10.0 | 8.9 | 10.5 | 115 | -162 | 270 |
| Q3-10 | 3.2 | 1.8 | 4.5 | 9.8 | 8.4 | 10.5 | 151 | -117 | 309 |
| Q4-10 | 3.3 | 1.7 | 4.9 | 9.6 | 7.9 | 10.4 | 200 | -78 | 388 |

| | Personal Consumption Expenditures Price Index (PCE) less food & energy % change, annual rate | | | Fed Funds Target % quarter-end | | | 10-Year T-Note Yield % quarter-end | | |
|-------|--|-------------|--------------|--------------------------------|-------------|--------------|------------------------------------|-------------|--------------|
| | Median | Five Lowest | Five Highest | Median | Five Lowest | Five Highest | Median | Five Lowest | Five Highest |
| Q2-09 | 2.0 | 1.8 | 2.0 | 0.125 | 0.125 | 0.325 | 3.53 | 3.46 | 3.53 |
| Q3-09 | 1.4 | 0.7 | 2.6 | 0.125 | 0.125 | 0.325 | 3.31 | 3.31 | 3.31 |
| Q4-09 | 1.4 | 0.5 | 3.1 | 0.125 | 0.099 | 0.405 | 3.50 | 3.27 | 3.86 |
| Q1-10 | 1.4 | 0.1 | 2.3 | 0.125 | 0.124 | 0.582 | 3.65 | 3.34 | 4.25 |
| Q2-10 | 1.4 | -0.5 | 2.6 | 0.225 | 0.124 | 0.950 | 3.78 | 3.36 | 4.62 |
| Q3-10 | 1.6 | -0.7 | 3.4 | 0.500 | 0.124 | 1.600 | 4.00 | 3.51 | 4.81 |
| Q4-10 | 1.7 | -0.9 | 3.4 | 1.000 | 0.125 | 2.350 | 4.18 | 3.67 | 4.97 |

Five highest and five lowest are the response averages

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

Michael R. Englund, Action Economics, LLC

Thomas Kevin Swift, American Chemistry Council

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

Justin Garosi, California Legislative Analyst's Office

Jonathan Oxborrow, Caterpillar Inc.

Bill Watkins / Dan Hamilton, Center for Economic Research and Forecasting, California Lutheran University

Constantine G. Soras, CGS Economic Consulting, Inc

Esmael Adibi, Chapman University

Jan Reid, Coast Economic Consulting

Robert Fry, DuPont

Jim Meil, Eaton Corporation

Douglas Lee, Economics from Washington

Susan M. Sterne, Economic Analysis Associates, Inc.

Anne Ramstetter Wenzel, Econosystems

Doug Duncan, Fannie Mae

Michael Paslawskyj, Federal Deposit Insurance Corporation

Brian S. Wesbury / Robert Stein, First Trust Advisors

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

Rajeev Dhawan, Georgia State University

Gary Ciminero, GLC Financial Economics

J. Paul Horne, Independent Market Economist

Margaret McCarthy / Jeffrey Werling, Inforum, Univ. of Maryland

John Pope, Investment Economics

Richard Rippe, ISI Group

Bill Cheney, John Hancock Financial Services

Sandy Batten / Robert Mellman, JP Morgan

Continued on next page

Continued from previous page

Jim Glassman, JPMorganChase

Jack Kleinhenz, Kleinhenz and Associates

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

Chris Varvares, Macroeconomic Advisers

Parul Jain, MacroFin Analytics

Diane C. Swonk, Mesirow Financial

Albert E. DePrince, Middle Tennessee State University

Mark Zandi, Moody's Economy.com

Richard Berner / David Greenlaw, Morgan Stanley

Joel L. Naroff, Naroff Economic Advisors

William Dunkelberg, National Federation of Independent Business

J F Smith, Parsec Financial

Lynn Reaser, Point Loma Nazarene University

Stephen Gallagher, Societe Generale

David Wyss, Standard & Poor's

Kurt Karl, Swiss Re

Jeff Thredgold, Thredgold Economic Associates

Sean M Snaith, University of Central Florida

Charles Devlin, University of Pittsburgh Medical Center

John Silvia, Wells Fargo

Richard J. DeKaser, Woodley Park Research

Jay Woodworth, Woodworth Holdings, Ltd.

