

NABE Outlook

Below-Trend Recovery Continues, Hindered by Policy Uncertainty

Embargoed until: Monday, November 21, 2011, 12:01 AM ET

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*The November 2011 NABE Outlook presents the consensus of macroeconomic forecasts from a panel of 49 professional forecasters. (See last page for listing.) The survey, covering the outlook for 2011 and 2012, was conducted October 20-November 2. 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 2,400 members and 32 chapters nationwide. **Richard DeKaser**, The Parthenon Group; **Cecilia Hermansson**, Swedbank; **Patrick Newport**, IHS Global Insight; **Sean Snaith**, University of Central Florida; **William Strauss**, Federal Reserve Bank of Chicago; **Richard Wobbekind**, University of Colorado; and **Clare Zempel**, Zempel Strategic 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. This report may be reprinted in whole or in part with a proper citation to NABE.*

Summary: “Economists responding to the latest NABE Outlook Survey expect moderate economic growth through 2012, with little likelihood of another recession or an outbreak of inflation,” said NABE Outlook Survey Chair **Shawn DuBravac**, chief economist at the Consumer Electronics Association. “The median forecast of respondents is for inflation-adjusted gross domestic product—real GDP—to grow at 2.5 percent in the final quarter of 2011 and 2.4 percent for the year in 2012. Despite a relatively subdued outlook, the panel estimates that the odds of a second recession remain low. Respondents expect consumer spending to grow below trend in 2012, the unemployment rate is expected to decline only marginally over the next year, and the consensus view of the panel is that monetary policy will remain accommodative. There are several bright spots in the outlook. Business spending remains a strong positive and housing starts are expected to continue to rise from the bottom seen in 2010. Corporate profits and stock prices are predicted to strengthen. But the panel remains concerned about debt-related issues in Europe.”



Highlights

- **The NABE Outlook panel predicts moderate real GDP growth through year-end 2012.** A 2.5 percent pace is expected during the fourth quarter of 2011, followed by a 2.4 percent growth rate in 2012, with GDP in the second half of 2012 slightly stronger than in the first half. The NABE panel perceives uncertainty regarding future economic policies as a major impediment to stronger economic performance, with poor confidence, ongoing balance sheet restructuring, and a tepid housing market also tempering a robust economic recovery.
- **The odds of a second recession are low.** Only two of 42 forecasters predicted a decline in real GDP over the near-term. As a group, the panelists saw a recession as the least likely scenario. Forecast confidence has improved, but remains low. Seventy-two percent of panelists characterized their forecasts as “somewhat” or “much” more uncertain than usual. That figure is down from the 86 percent that held this view in the September survey.
- **The NABE Outlook panel expects employment will improve, albeit very slowly.** Monthly job gains are expected to rise steadily over the forecast horizon, from an average of 100,000 during the fourth quarter of 2011 to 130,000 by the end of next year. The jobless rate will decline from 9.1 percent to 8.9 percent in 2012, but despite a majority view of modest labor market improvement, NABE economists still identified “excessive unemployment” as their single greatest concern going forward.
- **Growth in consumer spending is expected to remain below trend.** Consumer spending is forecast to increase 2.1 percent this year—the same consumer spending forecast as reported in the September survey. The NABE Outlook Survey panel expects consumer spending to grow 2.1 percent in 2012. While still positive, this is well below the historical norm of 2.8 percent and suggests a tepid recovery. Light vehicle sales are anticipated to grow at a modest pace from 12.6 million units this year to 13.3 million in 2012. Personal savings is not expected to impede consumer spending, with only 22 percent of the panelists anticipating a higher personal savings rate.
- **Housing starts are expected to increase 10 percent in 2012.** The economists participating in the survey expect housing starts to reach 600,000 units in 2011, just slightly above the 2010 total and a small upward revision from the September Outlook Survey forecast. The housing starts forecast for 2012 was revised downward slightly from the September estimate of 700,000 units to 660,000 units. The projection for home prices in 2011 was lowered slightly from a projected decline in the Federal Housing Finance Agency (FHFA) index of 2 percent (Q4/Q4) in the September survey to a decline of 2.5 percent in the November survey. Home prices in 2012 are expected to increase slightly less than 1 percent.
- **Business spending remains a bright spot in the forecast.** NABE’s Outlook panel continues to forecast solid if not spectacular growth in spending on business equipment and software in both 2011 (up 10.5 percent) and 2012 (an additional increase of 8 percent). The forecast for real spending on nonresidential structures improved from that reported in the September survey. Panelists now envisage spending on structures to increase 4.6 percent in 2011 and 4.5 percent next year. Industrial production is expected to increase 4 percent in 2011 and 3.3 percent in 2012. This moderate growth in industrial output will contribute to the growth of business spending. Twenty-four percent of respondents report the need of businesses to upgrade, replace, or expand plant, equipment, and software, and this will be a major factor in providing support for the economic recovery over the next two years.
- **Respondents are slightly less optimistic about real export growth and remain concerned about the European debt crisis.** Respondents lowered their 2011 and 2012 real export growth projections to 6.8 percent and 6.1 percent, respectively (from 7.8 percent and 7.9 percent, respectively, in the September survey). Projections for real import growth were also a tad weaker at 5.1 percent and 4.3 percent in 2011 and 2012 (compared with 5.3 percent

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and 4.7 percent in September). Respondents currently expect real net exports to be more negative than they did in September. Forecasters expect net exports to narrow from -\$421.1 billion (chained 2005 \$) in 2010 to a projected -\$415.4 billion in 2011 (compared to -\$403.5 billion in September's survey) to -\$408.4 billion in 2012 (compared to -\$387.8 billion in September). Respondents anticipate the foreign exchange value of the dollar to be about the same in December 2012 as in December 2011. The NABE Outlook panel currently projects the foreign exchange value of the U.S. dollar to be 96.5 in December 2012. That is slightly above the projected exchange value forecast in the September Outlook Survey. Not much change is expected in the euro, although its projected December 2012 value is now 1.37 U.S. \$ per euro (compared to 1.40 US \$ per euro reported in the September survey). Asked whether Italy and Spain will face a "limited default" similar to Greece's in the next 12 months, respondents were divided but leaning slightly to the view that a default was unlikely. Panelists were asked how concerned they were about 16 topics. Next to excessive unemployment, panelists were most worried about the European sovereign debt crisis.

- **NABE panelists have made modest revisions to their inflation forecasts.** Projections for the Consumer Price Index in 2011 have risen to 3.4 percent (Q4/Q4) in the November survey from the 3.1 percent in the September survey. The surge in inflation is expected to be transitory, as the panelists have held steady in their expectations for the deceleration of CPI inflation to 2.0 percent for 2012. Panelists have also raised slightly their outlook for "core" personal consumption expenditures (PCE) inflation for 2011 and 2012 (Q4/Q4), with prices (excluding the volatile food and energy sectors) anticipated to rise 1.9 percent in 2011 and 1.8 percent in 2012. Estimates for core PCE inflation in both years have been revised upward by 0.1 percent from the September survey.
- **The NABE Outlook panel has trimmed its federal deficit projections for 2012.** As the supercommittee continues to meet behind closed doors, NABE panelists have slightly raised federal budget deficit projections for 2011 from \$1.28 trillion to \$1.30 trillion while slightly lowering their projections for the federal budget deficit in 2012 from \$1.11 trillion to \$1.06 trillion.
- **Survey respondents continue to expect monetary policy to remain persistently accommodative.** The panel expects the federal funds rate to remain at current levels through the end of next year, in line with Federal Reserve guidance. Twenty-one percent of respondents report accommodative monetary policy as a major factor supporting the economic recovery over the next two years and 45% view further balance sheet expansion—QE3—as "likely" or "very likely."
- **Profits and stock prices are predicted to strengthen.** Despite the weak economic outlook, corporate profits are expected to rise 7 percent this year and 6 percent in 2012. Forecasters have become somewhat more optimistic about the stock market. The S&P 500 Index is expected to advance in 2011's final weeks and reach 1380 in December 2012.

Table 1 Comparative Surveys Median Forecast Reported

	Actual	Forecasts				
	2010	2011			2012	
		May 11 Survey	Sept 11 Survey	Nov 11 Survey	Sept 11 Survey	Nov 11 Survey
Real Gross Domestic Product, % change, Q4/Q4	3.1	3.1	1.5	1.7	2.7	2.4
Real Gross Domestic Product, % change, annual average	3.0	2.8	1.7	1.8	2.3	2.4
Personal Consumption Expenditures, % change	2.0	2.8	2.1	2.2	2.1	2.1
Nonresidential Structures, % change	-15.8	-2.8	1.0	4.6	3.0	4.5
Nonresidential Equipment and Software, % change	14.6	11.9	9.2	10.5	7.7	8.0
Residential Investment, % change	-4.3	0.9	-1.6	-1.7	5.8	4.3
Change in Business Inventories, billions of chained 2005\$	58.8	52.3	47.0	31.8	50.0	37.2
Net Exports, billions of chained 2005\$	-421.8	-403.6	-403.5	-415.4	-387.8	-408.4
Exports, % change	11.3	7.8	7.8	6.8	7.9	6.1
Imports, % change	12.5	5.4	5.3	5.1	4.7	4.3
Government Consumption Expenditures & Gross Investment, % change	0.7	-0.3	-1.9	-1.9	-0.5	-0.4
Implicit GDP Deflator, % change	1.2	1.6	2.0	2.2	1.8	2.0
Trade Balance Goods & Services, BoP basis, \$ billions	-500.0	-545.0	-523.0	-496.8	-496.5	-488.6
Foreign Exchange Rate, US\$ per Euro, December average	1.32	1.40	1.42	1.37	1.40	1.37
Trade-Weighted Value of the US\$, FRB Broad Index, December average	99.8	96.2	95.0	96.9	95.4	96.5
Consumer Price Index, % change, annual average	1.7	2.8	3.0	3.2	2.1	2.2
Consumer Price Index, % change, Q4/Q4	1.2	2.8	3.1	3.4	2.0	2.0
Personal Consumption Expenditures (PCE) Price Index less food & energy, % change, Q4/Q4	1.0	1.6	1.8	1.9	1.7	1.8
Nonfarm Employment, average monthly change, thousands	78	190	124	115	162	127
Nonfarm Business Compensation Per Hour, % change	2.1	2.3	2.3	2.5	2.5	2.8
Nonfarm Business Output Per Hour, % change	4.1	1.9	1.0	1.0	1.8	1.9
Federal Funds Target, % year-end	0.125	0.125	0.125	0.125	0.125	0.125
10-Year Treasury Note Yield, % year-end	3.30	3.90	2.73	2.20	3.37	2.70
Federal Deficit, FY, unified, \$ billions	-1293	-1435	-1276	-1299	-1110	-1057
Corporate Profits After Tax, % change*	19.0	8.5	7.3	7.0	6.8	6.0
Civilian Unemployment Rate, % annual average	9.6	8.7	9.0	9.0	8.7	8.9
Industrial Production, % change	5.3	5.0	3.8	4.0	3.3	3.3
Light Vehicle Sales, millions of units	11.6	13.2	12.6	12.6	13.3	13.3
Housing Starts, millions of units	0.59	0.61	0.59	0.60	0.70	0.66
Home Prices, FHFA, % change, Q4/Q4	-1.6	-1.5	-2.0	-2.5	1.0	0.9
Oil Prices, \$ per barrel, December average	89.0	105.0	90.0	92.0	94.0	94.8
S&P 500 Index, December 31	1258	1390	1250	1294	1350	1380

Historical data from Haver Analytics (11/17/11); 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	
	9/11	11/11	9/11	11/11	9/11	11/11	9/11	11/11
Q1-11	0.4 ^a	0.4 ^a	8.9 ^a	8.9 ^a	166.0 ^a	166.0 ^a	1.6 ^a	1.6 ^a
Q2-11	1.3 ^a	1.3 ^a	9.1 ^a	9.1 ^a	97.0 ^a	97.0 ^a	2.3 ^a	2.3 ^a
Q3-11	2.5 ^a	2.5 ^a	9.1 ^a	9.1 ^a	130.0 ^a	130.0 ^a	2.1 ^a	2.1 ^a
Q4-11	2.3	2.5	9.0	9.0	127.2	100.0	1.7	1.8
Q1-12	2.3	2.2	8.9	9.0	135.0	117.0	1.7	1.7
Q2-12	2.6	2.3	8.8	8.9	162.0	125.0	1.7	1.8
Q3-12	2.7	2.5	8.6	8.8	166.0	125.0	1.8	1.8
Q4-12	2.9	2.8	8.5	8.7	175.0	133.0	1.8	1.9

Survey:	Fed Funds Target % quarter-end		10-Year Treasury Note Yield % quarter-end	
	9/11	11/11	9/11	11/11
Q1-11	0.125 ^a	0.125 ^a	3.47 ^a	3.47 ^a
Q2-11	0.125 ^a	0.125 ^a	3.18 ^a	3.18 ^a
Q3-11	0.125 ^a	0.125 ^a	1.92 ^a	1.92 ^a
Q4-11	0.125	0.125	2.73	2.20
Q1-12	0.125	0.125	2.90	2.30
Q2-12	0.125	0.125	3.00	2.46
Q3-12	0.125	0.125	3.19	2.50
Q4-12	0.125	0.125	3.37	2.70

a = actual

Table 2 Distribution of Selected Responses**Annual Forecasts**

	2011 Forecast			2012 Forecast		
	Median	Five Lowest	Five Highest	Median	Five Lowest	Five Highest
Real Gross Domestic Product, % change, Q4/Q4	1.7	1.2	2.0	2.4	0.9	3.8
Consumer Price Index, % change, Q4/Q4	3.4	1.3	3.9	2.0	0.7	3.9
Personal Consumption Expenditures (PCE) Price Index less food & energy, % change, Q4/Q4	1.9	1.4	2.3	1.8	0.9	2.8
Civilian Unemployment Rate, % annual average	9.0	9.0	9.1	8.9	8.1	9.5
Federal Funds Target, % year-end	0.125	0.103	0.126	0.125	0.103	0.341
10-Year Treasury Note Yield, % year-end	2.73	2.15	3.53	2.70	2.18	4.03
Foreign Exchange Rate, US\$ per Euro, December average	1.37	1.22	1.43	1.37	1.11	1.47
Housing Starts, millions of units	0.60	0.57	0.74	0.66	0.60	0.96
Home Prices, FHFA, % change, Q4/Q4	-2.5	-6.2	1.8	0.9	-3.6	4.8
Oil Prices, \$ per barrel, December average	92.0	78.7	97.0	94.8	79.6	110.6
S&P 500 Index, December 31	1294.4	1178.0	1391.2	1380.0	1202.6	1604.8

Quarterly Forecasts

	Real Gross Domestic Product, % change, annual rate			Civilian Unemployment Rate (Average) %			Nonfarm Employment in thousands, average monthly change		
	Median	Five Lowest	Five Highest	Median	Five Lowest	Five Highest	Median	Five Lowest	Five Highest
Q1-11	0.4 ^a	—	—	8.9 ^a	—	—	166.0 ^a	—	—
Q2-11	1.3 ^a	—	—	9.1 ^a	—	—	97.0 ^a	—	—
Q3-11	2.5 ^a	—	—	9.1 ^a	—	—	130.0 ^a	—	—
Q4-11	2.5	0.9	4.0	9.0	8.9	9.2	100.0	14.2	188.2
Q1-12	2.2	0.3	3.3	9.0	8.7	9.4	117.0	21.8	217.8
Q2-12	2.3	0.6	3.7	8.9	8.5	9.5	125.0	27.4	233.4
Q3-12	2.5	1.0	3.9	8.8	8.3	9.5	125.0	44.9	243.4
Q4-12	2.8	1.0	4.4	8.7	8.0	9.5	133.0	60.2	257.2

	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
Q1-11	1.6 ^a	—	—	0.125 ^a	—	—	3.47 ^a	—	—
Q2-11	2.3 ^a	—	—	0.125 ^a	—	—	3.18 ^a	—	—
Q3-11	2.1 ^a	—	—	0.125 ^a	—	—	1.92 ^a	—	—
Q4-11	1.8	0.4	2.8	0.125	0.103	0.126	2.20	1.91	2.76
Q1-12	1.7	0.8	2.6	0.125	0.103	0.201	2.30	1.90	3.16
Q2-12	1.8	0.7	2.9	0.125	0.103	0.201	2.46	1.92	3.42
Q3-12	1.8	0.9	2.9	0.125	0.103	0.266	2.50	2.08	3.66
Q4-12	1.9	0.9	2.9	0.125	0.103	0.341	2.70	2.18	4.03

Five highest and five lowest are the response averages
a = actual

With their permission, NABE panelists who responded to the November 2011 NABE Outlook survey are:

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