

Economists: Slow recovery on tap

McLEAN, Va. – July 27, 2009 – The beginning of an economic recovery appears to be just a few months away but unemployment will continue to rise past 10 percent into next year, say economists surveyed by USA Today.

The results lend support to growing forecasts for a sluggish and jobless start to the recovery. The jobless rate will peak at 10.2 percent, according to the median estimate of the 49 economists surveyed July 16-22. That's up nearly a half-percentage point from the previous survey in April. The nation's unemployment rate hit 9.5 percent in June, a 26-year high.

About half of those surveyed said unemployment will peak in the first half of next year, while 16 percent said jobless rolls will swell into the latter part of 2010. The Federal Reserve forecasts unemployment peaking late this year at 9.8 percent to 10.1 percent.

The economy is expected to grow again during the second half of this year, and slightly more robustly than the April survey projected. Yet, the median growth-rate estimate of 2 percent for the fourth quarter is weak by historical standards.

"I think (the recovery) is going to be anemic," says Allen Sinai, chief economist at Decision Economics. He cites debt-laden consumers as the main obstacle.

"Households have to save a lot to fix their balance sheets before they can spend more," he adds. "I don't think consumers have the wherewithal to buy a lot of cars and a lot of houses."

Another factor slowing the turnaround is still-tight credit markets that will limit business expansion, UBS chief economist Maury Harris says.

Overall, 63 percent of the economists say the recovery will be slow and gradual. Those surveyed expect businesses to continue to cut spending until early next year. As a result, Sinai says, unemployment will continue to rise.

There are some bright spots.

Two-thirds of economists say existing-home sales have hit bottom. Consumer spending has stabilized. And CEO confidence shot up in the second quarter, the Conference Board said recently. Such signals are prompting 37 percent of economists to predict a moderate or fast recovery.

Bill Cheney, chief economist at MFC Global Investment, says the housing and automobile markets plunged so sharply that "both have the potential to generate some quite large percentage increases." Consumers could be moved to open their wallets because of rising values on the stock market, he says.

Chris Rupkey, chief financial economist at Bank of Tokyo-Mitsubishi, is also fairly bullish, expecting unemployment to top out at 9.7 percent this year.

"I think the key to a turnaround is that job losses stop quicker than people are expecting," he says.

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