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Economists See a Rebound in September

By PHIL IZZO

Economists in the latest Wall Street Journal forecasting survey expect the recession to end in September, though most say it won't be until the second half of 2010 that the economy recovers enough to bring down unemployment.

Gross domestic product was predicted to contract in the first and second quarters of this year by 5.0% and 1.8%, respectively, on a seasonally adjusted annualized rate. A return to growth -- a modest 0.4% -- isn't expected until the third quarter. In the fourth quarter of 2008, the most recent period for which data are available, the economy contracted 6.3%.

"The end of the decline isn't the beginning of the recovery," said David Resler of Nomura Securities Inc. "It's like a boxing match. Even if you win the fight, it's not going to feel as good when you get out of the ring as when you went in."

Indeed, economists' prospects for the labor market remain bleak. Just 12% of the economists expect the unemployment rate to fall some time this year. More than a third of respondents expect the jobless rate to peak in the first half of 2010, while about half don't see unemployment declining until the second half of 2010. By December of this year, the economists on average expect the unemployment rate to reach 9.5%, up from the 8.5% reported for March. They do see the rate of decline slowing, forecasting 2.6 million job losses in the next 12 months, compared with the 4.8 million jobs lost in the previous period.

The economists' forecasts indicate that the peak in the unemployment rate is likely to coincide with the midterm elections -- possibly bad news for Democrats. Even if the economy is growing, Americans still will be feeling the effects of the recession and could blame the incumbent. For example, when George H.W. Bush lost the presidency in 1992, the economy had been out of a recession for more than a year, but the unemployment rate didn't peak until June, and there was slow growth through the election.

Even when the economy stops shedding jobs, the unemployment rate is likely to remain elevated for some time. "The unemployment rate isn't going to recover, because you have to get back everything you lost and then some," said Joseph Lavorgna of Deutsche Bank Securities Inc. He estimated that the economy would have to grow an average of about 4% for six years to get back to the sub-5% unemployment rates seen in 2007.

Despite the grim news for jobs, economists are seeing more signs of a recovery in the broader economy this year. On average, the 53 economists surveyed expect the recession to end in September, compared with the October forecast last month. It marked the first time since the recession began that the economists didn't push the date of recovery further into the future. The survey was conducted April 3-6, before the release of trade data this week that led some forecasters to revise upward their outlook for the first quarter.

Several factors are raising hopes, chief among them businesses' sharp cuts in production and inventory late last year. The economy may be reaching a point where even meeting subsistence demand requires an increase in output. Empty shelves need to be restocked, even if at lower levels than before.

The economy also is set to get the benefits of monetary and fiscal policy, as the stimulus begins to hit and Treasury and Federal Reserve programs to prop up the financial sector ramp up. Nine out of 10 economists surveyed expect help from the Term Asset-Backed Securities Loan Facility, which is aimed at boosting consumer and small-business loans. Meanwhile, 72% of respondents say the Treasury's plan to purchase toxic assets will help the economy.

The combination of an explicit Treasury plan and signals that the economy has stopped its free-fall boosted the opinions of policy makers. Fed Chairman Ben Bernanke continued to fare best, with an average grade of 76 out of 100. President Barack Obama and Treasury Secretary Timothy Geithner are less popular, but their average grades are no longer in failing territory. A majority of economists gave them both grades in a range of 'C' or better.

Meanwhile, asked to name the biggest risk to their forecasts, economists singled out problems in the credit markets. "Once the virtuous cycle starts, the chief headwind will be credit availability," said Kurt Karl of Swiss Re. The possibilities of a failure of a major financial institution and persistent reluctance of consumers to spend, both related to the credit markets, were tied for second place in the list of concerns.

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