U.S. Economic Recovery
Slow Getting Started

by Patrick M. Barkey

The deepest recession in several generations is finally over, but the hangover remains. Growth has begun slowly in the national economy, with a very modest uptick in housing and industrial output providing the spark. Expansion will be helped by exports and the weak dollar, but will be held in check by weak consumer spending and tighter credit. Stronger growth is not foreseen until 2011, and until then the economy remains in a fragile state.

Top Ten Economic Predictions for 2010 (Courtesy of IHS Global Insight, Inc.)

1. The U.S. recovery will get out of the gate slowly, with growth in real GDP stuck in the 2.0 to 2.5 percent range for much of 2010.
2. Europe and Japan will rebound more slowly than the United States, especially eastern Europe, Ireland, Spain, and Iceland, which may continue to contract through part of the year. Growth in the European Union will be around 0.8 percent in 2010.
3. Most emerging markets – especially in Asia – will outpace the developed economies. Non-Japan Asia will be at the forefront, with growth of 7.1 percent in GDP, with Latin American and Middle East economies also enjoying faster growth.
4. Interest rates in all of the major economies will remain very low.
5. Fiscal stimulus will begin to ease. Estimates are that $561 billion of the $787 billion stimulus package passed in spring 2009 will be expended during the first two calendar years.
6. Commodity price increases will ease. The slow pace of worldwide recovery will deflate some of the speculative pressure that has helped increase commodity prices, with oil prices expected to fall back to the $65/barrel range by the spring.
7. Inflation will (mostly) not be a problem, with high unemployment rates and excess capacity reducing the price-setting power of workers and companies. Inflation will only be an issue in Asian economies and a few other countries that tie their currencies to the dollar.
8. After improving for a while, global imbalances will worsen again. The trade deficit, which plunged by $450 billion in 2009, will widen again by $90 billion in 2010 as export-led economies like Germany and China once again increase exports to the United States.
9. While the dollar may strengthen a little, it is on a downward glide path. The dollar will be mixed against the euro and the yen, but will weaken significantly against emerging market currencies.
10. The risk of a growth slowdown – a "W" recovery – remains uncomfortably high. There is a one-in-five chance of a double-dip downturn, possibly triggered by premature tightening of fiscal and/or monetary policies, a retrenchment of consumer spending, or by new surprises in financial markets.

Table 1
Economic Trends for the U.S. Economy, 2004-2013
Actual and Projected as of December 2009

	Actual					Projected				
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Real GDP (chained $), percent change	3.6	3.1	2.7	2.1	0.4	-2.5	2.2	2.9	3.8	3.1
Inflation (CPI-U), percent change	2.7	3.4	3.2	2.9	3.8	-0.3	1.7	2.0	1.9	1.9
Interest Rates										
90-day T-bills, percent	1.4	3.1	4.7	4.4	1.4	0.1	0.5	2.1	3.4	3.7
Morgage rates (30 years), percent	5.8	5.9	6.4	6.3	6.0	5.0	5.1	5.5	6.1	6.4
Housing starts, millions	1.95	2.07	1.81	1.34	0.90	0.56	0.81	1.24	1.59	1.71
Unemployment rate, percent	5.5	5.1	4.6	4.6	5.8	9.3	10.2	9.6	8.6	7.7
Oil, West Texas Intermediate ($/barrel)	41.47	56.56	66.12	72.18	99.76	61.98	68.25	77.17	83.16	87.02

Source: IHS Global Insight Inc.