



This copy is for your personal, noncommercial use only. You can order presentation-ready copies for distribution to your colleagues, clients or customers [here](#) or use the "Reprints" tool that appears next to any article. Visit www.nytreprints.com for samples and additional information. [Order a reprint of this article now.](#)

July 29, 2010

Economists Expect Slower Growth in Second Half

By MOTOKO RICH

Two steps forward, one step back.

That describes the current thinking about a year into the putative economic recovery.

On Friday, the government will release its report on the nation's output for the second quarter, showing how much, if at all, the economy downshifted as the summer began.

Many economists — concerned about the sluggish pace of job creation, dwindling housing activity and decelerating retail sales — say that slowdown is continuing this summer and have recently downgraded their expectations for the second half of the year.

“Practically every Street economist took a knife to Q2 and Q3 **G.D.P.** growth,” David A. Rosenberg, chief economist for Gluskin Sheff, wrote last week in a note to clients, referring to Wall Street forecasts for gross domestic product. For the second-quarter results to be released Friday, economists project a modest annualized gain of 2.6 percent, down from 2.7 percent in the first quarter and 5.6 percent in the final quarter of last year.

Though some people started the year hoping for stronger results, economists say that the slow pace of

growth should have been expected.

“So far, the recovery is remarkably normal for a postfinancial-crisis recovery,” said Kenneth S. Rogoff, a professor at Harvard and co-author, with Carmen M. Reinhart, of “This Time Is Different,” an economic history of financial crises.

“It doesn’t mean that we should cheer that it’s been so grim,” added Mr. Rogoff, who is a former chief economist of the [International Monetary Fund](#). “But on the other hand, it’s not necessarily a reason to panic.”

Even shares in companies that are more ebullient, like [Delta Air Lines](#) and [Amazon.com](#), have been driven down by nervous investors when executives announced plans to increase capacity or hire aggressively.

Perhaps [Ben S. Bernanke](#), chairman of the [Federal Reserve](#), put it best this month when he described the outlook for the United States economy as “unusually uncertain.”

The news in recent weeks has been rather bleak. A crucial index of consumer confidence, which was rising strongly earlier this year, dropped for the second month in a row in July, while sales of existing homes have fallen for two consecutive months. Employers are adding fewer jobs than they were just a few months ago, and banks are lending less to companies than they were a year earlier, even after relatively good second quarter-corporate profits.

Earlier this year, expectations were much higher. The National Association of Home Builders, for example, forecast that buyers would sign contracts for 467,000 new homes this year; now it is projecting that they will buy just 375,000 homes — down almost 20 percent.

“We just thought that overall, the economy would have been doing better than it’s been doing,” said Bernard Markstein, senior economist with the home builders.

At the start of the year, manufacturing seemed to be staging a comeback as companies replenished

inventories that fell very low during the **recession**. Many economists assumed that once products were back on shelves, consumers would start buying enough to deplete warehouse inventories. Now, consumer demand appears not quite strong enough.

Many companies that have reported impressive results this earnings season, including bellwethers like **United Parcel Service** and **3M**, indicated that their sales swelled mostly outside the United States.

As a result, companies are still not hiring nearly as many people in the United States as policy makers — and the unemployed — want. The unemployment rate, at 9.5 percent, is not far off the peak of 10.1 percent, and 6.75 million people have been out of work for more than six months.

Part of the slowdown stems from the expiration of stimulus measures like the home buyer tax credit and the **cash for clunkers** program to bolster auto sales. But it is also perhaps the inevitable aftermath of a protracted era of credit-driven excess, buoyed by inflated housing prices.

Earlier this year, some economists projected stronger growth rates in part because they were looking at recessions in the early 1990s and the early 1980s. The problem with such analogies is that the latest recession was precipitated by a financial crash rather than more cyclical boom-and-bust factors.

Many Wall Street economists and investors have “been too willing to see this as a normal cyclical event distorted by some crazy things going on in housing,” said Ian Shepherdson, chief United States economist at High Frequency Economics, “whereas this was almost entirely driven by what was going on in the financial markets and houses.”

Consumers who used their skyrocketing home values to borrow ever larger sums of money to feed further spending are now paying off that debt, which hampers their spending. That process is “very slow and painful,” said Joshua Shapiro, chief United States economist at MFR Inc. “There is not that much that can be done about it, as much as politicians would love to find some silver bullet.”

In fact, politicians are debating quite ferociously whether more needs to be done to usher the economy along. The fiercest arguments are over whether to inject further stimulus spending into the economy

and whether to let the tax cuts for the wealthy enacted under President **George W. Bush** expire at the end of the year.

There are those who argue that the current slowdown is just a hiccup, caused in part by tremors in Europe and concerns about a hard landing in China.

“We were hit by these shocks,” said Bernard Baumohl, chief global economist at the Economic Outlook Group. “But as we get additional evidence that the European economies are able to withstand the debt crisis and as banks are showing they have stronger capital and Chinese policy makers are successfully able to avoid any sharp downturn, that will be reflected in higher confidence among U.S. businesses and consumers.”

On the ground, slow growth has spawned a cautious mood that is feeding — you have it — slow growth.

“A lot of people are looking at things with the glass half empty,” said Douglas C. Yearley Jr., chief executive of **Toll Brothers**, the home builder. “And they’re temporarily on the sidelines.”

Companies, meanwhile, are not yet ready to capitalize on good news. Although 3M, which makes things as diverse as Post-it Notes and screen coatings for iPads, announced strong earnings growth in the second quarter, its chief executive, George W. Buckley, told analysts that he expected a slowdown in the second half and that “hiring will likely be low.”

At U.P.S., the company’s familiar brown trucks delivered an average of 153,000 more packages a day in the United States during the second quarter than in the comparable period a year earlier.

But the company, which has about 18,000 fewer people in package sorting centers and on driving routes in the United States than at its peak two years ago, said it was not yet hiring in great numbers. “The bottom line is that the growth in the U.S. just isn’t quite there in terms of generating jobs right now,” said Norman Black, a U.P.S. spokesman.

Industrial companies may wait to hire until early next year, after they have maximized productivity

gains among current workers. “Traditionally, when you come out of a down cycle, there’s normally a fairly high reluctance to hire,” said Scott R. Davis of [Morgan Stanley](#). “Investors and boards of directors don’t want to see them hire people until business is 100 percent back.”

Some businesses are desperate to hire but just do not see the demand to justify it. Dan Cutillo, the owner of a string of pizza delivery shops near Toledo, said penny-pinching customers are not ordering as much. At one of his stores, he said, the staff is now half the size it was a year ago.

“I should be doing larger sales,” Mr. Cutillo added. “I should be hiring more people.”



More in Economy (20 of 27 articles)

OPEN

I.M.F. Judges Fiscal Reform as Uncertain

[Read More »](#)