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Survey Shows Rocky Road to Economic Recovery

By [PHIL IZZO](#)

The worst recession since the Great Depression has left a scorched landscape that will weigh on the labor market and the broader economy for years to come, according to economists in the latest Wall Street Journal forecasting survey.

The 48 surveyed economists, not all of whom answer every question, expect the economy to bounce back from four quarters of contraction with 3.1% growth in gross domestic product at a seasonally adjusted annual rate in the just-ended third quarter. Expansion is seen continuing through the first half of 2010, though at a slower rate. But the massive downturn has left an open wound in the labor market that will take years to heal. On average, the economists don't expect unemployment to fall under 6% until 2013; unemployment in September hit 9.8%

"Never before has business shed so many workers so fast, so many people failed to find work who are looking for work, and so many dropped out of the labor force as in the current circumstance," said Allen Sinai at Decision Economics.

Growth may have returned, but it has yet to bring jobs with it.

The tough road for the labor market was underscored by Thursday's report on weekly applications for unemployment insurance. The Labor Department reported that initial claims for unemployment insurance fell 33,000 to 521,000 in the week ended Oct. 3rd. The number of people collecting unemployment insurance also fell, but remained above 6 million. The decrease in continuing claims likely reflects people exhausting their unemployment benefits after several months of looking for work in vain. "We expect the improvement to remain a very slow one, and therefore for the household sector to be contending with a weak labor market for quite some time," wrote Joshua Shapiro, chief U.S. economist with research firm MFR Inc. , in a note to clients.

On average the economists expect the unemployment rate to peak at 10.2% next February. But even once the employment situation stops getting worse, economists expect recovery to come slowly. It took just 14 months for the unemployment rate to rise from 5.8% to its current level. On average, the economists say it will take nearly four years for the rate to drop below 6% again.

In the meantime, the unemployed will be loath to spend or borrow. They are less likely to move and are more likely to default on mortgages and loans.

"The recovery in employment will be slow," said Diane Swonk at Mesirow Financial. "It could take until 2014-15 before we see a 5% handle on unemployment again, which is forever in politics."

Indeed, persistently high unemployment could prove to be a political hot potato not only for the 2010 midterm elections

for Congress but even the 2012 presidential election. Lawmakers are already considering new measures to boost hiring, such as a tax incentive for employers, but in the wake of the \$787 billion stimulus, additional government spending has become politically charged.

While nine of the 46 economists who answered a question on the subject supported tax cuts for employers and seven backed tax incentives for hiring, nearly a third of the respondents said that the government shouldn't do anything. Just four said that the government should boost spending.

"It's time to let the business cycle take over," said Stephen Stanley of RBS.

The existing stimulus has raised concerns about the deficit, with almost three-quarters of the respondents saying that taxes will have to be raised on Americans making less than \$250,000 at some point over the next six years.

The situation also is complicated for the Federal Reserve, which has to decide how to pull back from its extraordinary interventions in the market and when to raise interest rates from their current level between 0% and 0.25%.

The economists don't expect the central bank to raise rates at all until sometime around August 2010 amid continued high unemployment. Most economists say the Fed can wait as too little inflation remains a bigger risk than too much, at least over the next year or two.

There also is concern that the economy will deteriorate as the government and the Fed begin to unwind stimulative measures. The housing bust was the key driver of the downturn, and economists said higher mortgage rates and a withdrawal of Fed support for the mortgage-backed securities market are two of the three biggest potential destabilizing influences on a nascent recovery on the sector. Rising unemployment rates were the third. Some economists are worried that the economy will take another leg down some time over the next twelve months, leading to a so-called "double-dip recession."

"A double-dip recession would be lethal," said Nicholas S. Perna of Perna Associates.

—Conor Dougherty contributed to this article.

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