

## I. ECONOMIC FORECAST

### October 2009

This edition of the National Economic Review and Forecast contains excerpts from Nigel Gault, *U.S. Economy: Current Situation: Forecast Flash*, Global Insight, October 2009. This publication summarizes Global Insight's baseline national forecast that OEA incorporates into the Oregon economic and revenue models. Editorial comments written by OEA staff are enclosed in [ ]. In addition, Table N.1 provides a quick look at the annual rates. Table N.2 provides a look at the forecast change from the last forecast. Graph N.1 provides a graphic U.S. history and forecast.

### A. National Economic Review and Forecast

#### Forecast Flash

#### Growth Is Back – Jobs Are Not

A recovery is under way in GDP, but as yet without the strength or duration necessary to turn the labor market around. Recent indicators have been a bit more mixed than in previous months: there have been setbacks for existing home sales and capital goods orders and shipments, while the ISM manufacturing index has edged lower. But they do not undermine the view that the recession trough was in June.

**Forecast Profile: Still a Mild “W” Shape.** Our forecast is little changed this month. We expect 3.6% growth in the third quarter, followed by 2.6% in the fourth, with a major boost from the turn in the inventory cycle as cuts gradually give way to increases (by the New Year). Looking into 2010, we expect the credit-constrained recovery to prove a subpar one, and that growth will ease back to a 1.8% pace in the first half of 2010, after the inventory swing runs its course. But this is a mild W-shaped growth profile, not a double-dip downturn.

**Growth, But No Jobs.** The recovery in output continues to be unaccompanied by a recovery in jobs. Job cuts remained severe at 263,000 in September, and the workweek shrank. As a result, the third quarter will be another huge one for productivity, expected to rise 6.3% after the 6.6% increase in the second quarter. This is good news for corporate bottom lines, but bad news for household incomes. We cannot imagine that such gains can continue, and expect that firms will have to re-hire sooner after this recession than after the 2001 one. But we still do not expect to see private employment turn decisively higher until the second half of 2010.

**Consumers Returned in the Third Quarter.** We estimate that “cash for clunkers” helped spur consumer spending to a 2.9% growth rate in the third quarter. But even excluding new vehicles, spending rose 1.8%, after declining 0.8% in the second quarter, helped by a strong increase in many retail sales categories during August. Nevertheless, we remain skeptical about the future strength of consumer spending, given that debt

burdens are still high, wealth is depleted, credit is tight, and incomes are being squeezed by the still deteriorating labor market.

**An Inventory Cycle in Housing, Too.** Much better affordability and the first-time homebuyers' tax credit have boosted single-family home sales. We do expect some payback after the credit expires at the end of November (and even if the credit is extended, its impact will fade). Our forecast of home sales therefore remains cautious, but the key reason to expect housing starts to climb in 2010 is that at present production levels, the backlog of unsold homes is being worked off very quickly. Production (i.e., single-family housing starts) will need to increase in order to prevent inventories from falling too low.

**Business Spending: A Mixed Bag.** Capital goods orders have edged lower in the past couple of months, but not sufficiently to overturn a gradual improving trend. We expect business equipment spending to rise 7.3% in the third quarter, with the gains concentrated in high tech and in vehicles. But nonresidential construction is still declining and we do not see a bottom until the second half of 2010.

**Foreign Trade Flows Bouncing Back Sharply.** Incoming evidence points to a sharp rebound in world trade during the third quarter, and we expect both U.S. exports and imports to jump at roughly a 20% annualized rate. Trade will be a drag on U.S. GDP growth in the second half of the year, as the turn in the inventory cycle pulls imports up faster than exports.

**Inflation Threat Not Immediate.** Recent inflation indications continue to show core inflation very quiet, despite rising commodity prices. Wage inflation in the private sector has almost disappeared. We continue to expect no change in interest rates from the Fed until the third quarter of 2010.

—Excerpted from Nigel Gault, *U.S. Economy: Current Situation: Forecast Flash*, Global Insight, Oct 2009

**Figure N.1\***

	Quarterly				Annual				
	2Q 09	3Q 09	4Q 09	1Q 10	2008	2009	2010	2011	2012
Real GDP (Percent change)	-0.7	3.5	2.6	1.8	0.4	-2.5	2.1	2.9	3.7
Federal Funds Rate (Percent)	0.18	0.16	0.13	0.13	1.93	0.16	0.24	1.70	3.34
Ten-Year Treasury Yield (Percent)	3.31	3.52	3.37	3.43	3.67	3.23	3.51	3.88	4.46
Oil Prices, WTI (Dollars/barrel)	60	68	70	65	100	60	67	77	83
Consumer Price Index (Percent change)	-0.9	-1.5	1.1	1.7	3.8	-0.4	1.4	2.2	2.0
Housing Starts (Millions)	0.54	0.60	0.68	0.76	0.90	0.59	0.87	1.30	1.58
Consumer Sentiment (Univ. of Michigan)	68	68	67	70	64	65	73	75	77
Unemployment Rate (Percent)	9.3	9.6	9.9	10.1	5.8	9.2	9.9	9.4	8.6

\* Figure N.1 was taken from Nigel Gault, *U.S. Economy: Current Situation: Forecast Flash*, Global Insight, July 2009.

**TABLE N. 1**  
**U.S. Forecast Summary 2007-2016 (Oct 2009 U.S. Forecast, Global Insight)**

	Quarterly				Annual								
	2009:3	2009:4	2010:1	2010:2	2007	2008	2009	2010	2011	2012	2013	2014	2015
GDP (Bil of 2005 \$) Chain Weight	13,015	13,098	13,155	13,254	13,312	12,985	13,258	13,648	14,148	14,564	14,949	15,327	15,707
% Ch	3.6	2.6	1.8	2.1	0.4	(2.5)	2.1	2.9	3.7	2.9	2.6	2.5	2.5
Personal Income (Bil of \$)	11,959	12,022	12,127	11,894.1	12,238.8	11,976.4	12,310.0	12,801.3	13,468.9	14,192.7	14,949.4	15,710.9	16,483.3
% Ch	(0.4)	2.1	3.6	5.6	2.9	(2.1)	2.8	4.0	5.2	5.4	5.3	5.1	4.9
Nonagricultural Employment (Millions)	131.2	130.6	130.4	137.6	137.0	131.9	131.0	133.5	136.8	139.6	141.7	143.2	144.5
% Ch	(2.8)	(1.8)	(0.6)	1.1	(0.4)	(3.8)	(0.7)	1.9	2.5	2.1	1.4	1.1	0.9
Unemployment Rate	9.6	9.9	10.1	4.6	5.8	9.2	9.9	9.4	8.6	7.9	7.6	7.3	7.1
% Ch	16.8	11.4	7.3	0.4	25.4	58.7	7.9	(5.7)	(8.9)	(7.1)	(4.3)	(3.7)	(3.7)
Industrial Production Index (2002=100)	97.5	99.0	100.1	111.3	108.8	98.0	101.0	104.7	109.8	113.6	117.2	120.4	123.8
% Ch	4.8	6.4	4.6	1.5	(2.2)	(10.0)	3.1	3.7	4.9	3.4	3.2	2.8	2.8
Corporate Profits (Bil of \$)	1,487.9	1,517.4	1,547.6	1,774.4	1,462.8	1,397.2	1,560.8	1,775.3	1,839.4	1,880.9	1,841.0	1,829.2	1,837.4
% Ch	53.3	8.2	8.2	(2.7)	(17.6)	(4.5)	11.7	13.7	3.6	2.3	(2.1)	(0.6)	0.4
Money Supply (M2) (Bil of \$)	8,310	8,423	8,527	7,405	8,020	8,423	8,896	9,457	9,934	10,380	10,824	11,308	11,862
% Ch	(1.1)	5.6	5.0	5.9	8.3	5.0	5.6	6.3	5.1	4.5	4.3	4.5	4.9
Prime Rate	3.25	3.25	3.25	8.05	5.09	3.25	3.33	4.70	6.34	6.55	7.59	7.75	7.75
% Ch	0.0	0.0	0.0	1.2	(36.8)	(36.1)	2.5	41.0	35.1	3.3	15.9	2.1	(0.0)
Consumer Price Index (1982-84=100)	215.2	216.4	216.2	207.3	215.2	214.4	217.4	222.2	226.8	231.1	235.5	240.0	244.8
% Ch	3.6	2.1	(0.3)	2.9	3.8	(0.4)	1.4	2.2	2.0	1.9	1.9	1.9	2.0
Federal Budget (unified) (Bil of \$, Fed FY)	(403.5)	(402.9)	(461.9)	(187.9)	(680.5)	(1,560.2)	(1,303.4)	(973.4)	(826.7)	(652.5)	(709.9)	(763.6)	(791.3)
Current Account Balance (Bil of \$)	(459.0)	(527.9)	(543.0)	(726.6)	(706.1)	(450.0)	(543.9)	(618.7)	(685.2)	(671.6)	(652.3)	(632.2)	(618.4)
% Ch	82.00	75.03	11.89	(9.6)	(2.8)	(36.3)	20.9	13.8	10.7	(2.0)	(2.9)	(3.1)	(2.2)
Population (Millions)	308.22	308.98	309.73	302.10	304.87	307.84	310.86	313.87	316.90	319.97	323.07	326.19	329.33
% Ch	1.0	1.0	1.0	1.0	0.9	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

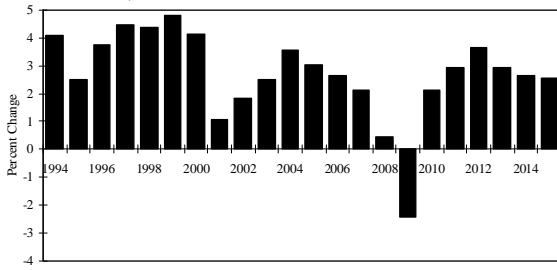
**TABLE N. 2**  
**U.S. Forecast Change - (Current Forecast Oct 2009 vs. Last Forecast Jul 2008)**

	Quarterly			Annual									
	2009:3	2009:4	2010:1	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
GDP (Bil of 2005 \$) Chain Weight	13,015	13,098	13,155	13,254	13,312	12,985	13,258	13,648	14,148	14,564	14,949	15,327	15,707
% Change From Last Forecast	1.6	2.0	2.1	2.0	1.2	1.2	1.8	1.7	1.6	1.5	1.5	1.3	0.9
Personal Income (Bil of \$)	11,959	12,022	12,127	11,894.1	12,238.8	11,976.4	12,310.0	12,801.3	13,468.9	14,192.7	14,949.4	15,710.9	16,483.3
% Change From Last Forecast	(1.0)	(0.9)	(0.7)	2.0	1.1	(1.1)	(0.5)	(0.6)	(0.6)	(0.6)	(0.6)	(0.7)	(1.0)
Nonagricultural Employment (Millions)	131.2	130.6	130.4	137.6	137.0	131.9	131.0	133.5	136.8	139.6	141.7	143.2	144.5
% Change From Last Forecast	(0.2)	(0.3)	(0.4)	0.0	0.0	(0.1)	(0.4)	(0.0)	0.1	0.1	0.2	0.2	0.0
Unemployment Rate	9.6	9.9	10.1	4.6	5.8	9.2	9.9	9.4	8.6	7.9	7.6	7.3	7.1
% Change From Last Forecast	(1.5)	(1.6)	(1.5)	0.0	0.0	(0.9)	(2.7)	(3.4)	(2.3)	(1.8)	(1.7)	(1.2)	0.7
Industrial Production Index (2002=100)	97.5	99.0	100.1	111.3	108.8	98.0	101.0	104.7	109.8	113.6	117.2	120.4	123.8
% Change From Last Forecast	0.3	1.2	1.9	0.0	0.0	0.4	1.9	1.5	1.2	0.9	1.2	1.1	0.9
Corporate Profits (Bil of \$)	1,487.9	1,517.4	1,547.6	1,774.4	1,462.8	1,397.2	1,560.8	1,775.3	1,839.4	1,880.9	1,841.0	1,829.2	1,837.4
% Change From Last Forecast	1.2	1.8	0.3	(5.9)	(8.4)	(1.3)	(2.9)	(5.6)	(5.9)	(4.7)	(5.1)	(7.4)	(9.3)
Money Supply (M2) (Bil of \$)	8,310	8,423	8,527	7,405	8,020	8,423	8,896	9,457	9,934	10,380	10,824	11,308	11,862
% Change From Last Forecast	(1.3)	(1.1)	(1.1)	0.3	0.4	(1.1)	(0.8)	(0.5)	(0.5)	(0.4)	(0.3)	(0.5)	(0.7)
Prime Rate	3.25	3.25	3.25	8.05	5.09	3.25	3.33	4.70	6.34	6.55	7.59	7.75	7.75
% Change From Last Forecast	0.0	0.0	0.0	0.0	0.0	0.0	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Consumer Price Index (1982-84=100)	215.2	216.4	216.2	207.3	215.2	214.4	217.4	222.2	226.8	231.1	235.5	240.0	244.8
% Change From Last Forecast	0.5	0.5	0.1	0.0	0.0	0.3	(0.1)	(0.3)	(0.4)	(0.7)	(0.9)	(1.1)	(1.3)
Federal Budget (unified) (Bil of \$, Fed FY)	(403.5)	(402.9)	(461.9)	(187.9)	(680.5)	(1,560.2)	(1,303.4)	(973.4)	(826.7)	(652.5)	(709.9)	(763.6)	(791.3)
Current Account Balance (Bil of \$)	(459.0)	(527.9)	(543.0)	(726.6)	(706.1)	(450.0)	(543.9)	(618.7)	(685.2)	(671.6)	(652.3)	(632.2)	(618.4)
% Change From Last Forecast	(9.1)	(9.5)	(14.0)	0.0	0.0	(5.9)	(14.9)	(9.7)	(7.7)	(8.4)	(9.2)	(9.7)	(10.4)
Population (Millions)	308.2	309.0	309.7	302.10	304.87	307.84	310.86	313.87	316.90	319.97	323.07	326.19	329.33
% Change From Last Forecast	(0.2)	(0.2)	(0.2)	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)

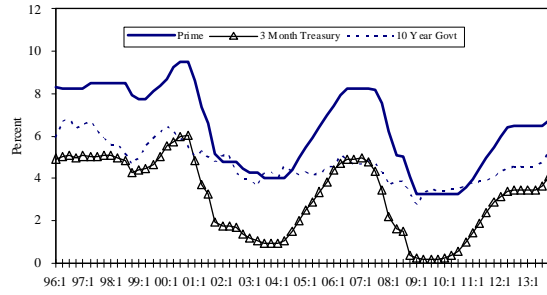
# Graph N. 1

## U.S. ECONOMIC HISTORY AND FORECAST

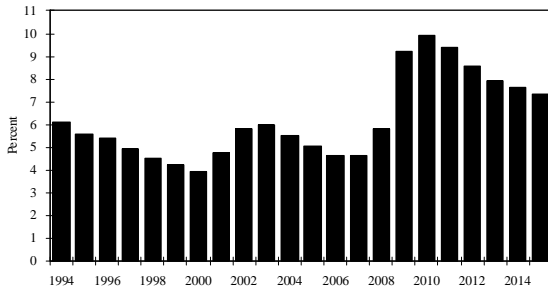
**REAL GDP, PERCENT CHANGE**  
2005 DOLLARS, CHAIN WEIGHTED



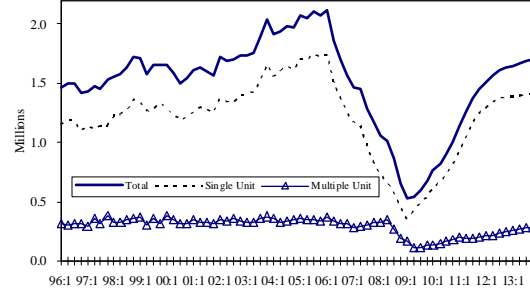
**INTEREST RATES**



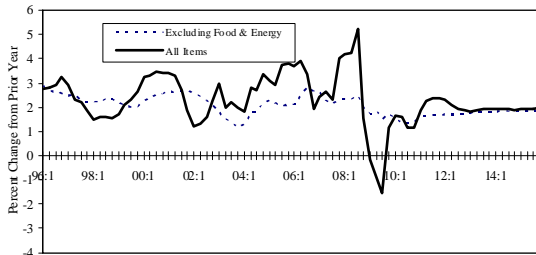
**UNEMPLOYMENT RATE**



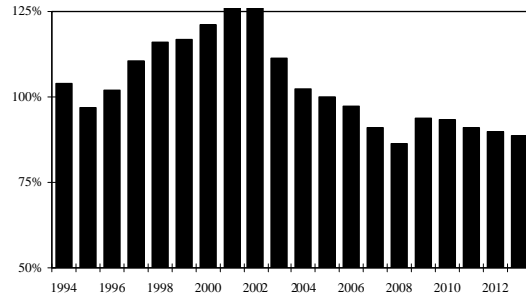
**HOUSING STARTS**



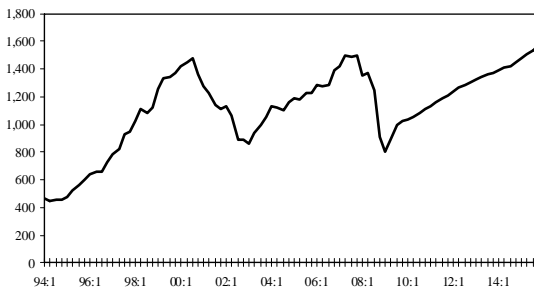
**CONSUMER PRICE INDEX**  
ALL ITEMS VS. ALL ITEMS LESS FOOD & ENERGY



**REAL EXCHANGE RATE**



**STANDARD & POOR'S 500 INDEX**



**CONSUMER CONFIDENCE & SPENDING**

