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Surging Unemployment in the US

Unemployment at 10% to Depress Consumer Spending, Survey Shows

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June 10 (Bloomberg) — Surging unemployment in the U.S. will delay a recovery in consumer spending and mute the rebound when it does materialize, according to a Bloomberg News survey.

The jobless rate will climb to 10 percent by the end of 2009, 1.6 percentage points higher than projected at the start of the year, according to the median forecast of 62 economists surveyed from June 1 to June 8. Household purchases will drop this year more than previously estimated.

Fewer jobs, lower home values, limited credit and shrinking retirement funds will prompt Americans to save, blunting the Obama administration's stimulus efforts. Still, government infrastructure projects, smaller stockpiles and stabilization in residential construction will help the economy start growing in the second half of this year.

"Consumer spending will come back grudgingly, slowly," said John Lonski, chief economist at Moody's Capital Markets Group in New York. "The unemployment rate should continue to rise and remain stubbornly high." Lonski forecast the jobless rate will reach 10.2 percent in early 2010, higher than he previously estimated.

Personal spending, which accounts for 70 percent of the economy, will fall at a 0.6 percent annual pace in the current quarter and rise at an average 1.1 percent pace in the last six months of the year, down from last month's projections. For all of 2009, purchases will drop 0.7 percent, the worst performance since 1974.

Spending 'Muted'

"Consumer spending does look to be more muted in this recovery than typically after a deep recession," said Dean Maki, chief U.S. economist at Barclays Capital Inc. in New York. "We would attribute that to the negative wealth effects from housing and stock market declines. There will only be a modest rebound in the next couple of quarters."

The world's largest economy will contract at a 2 percent pace this quarter, before growing 0.5 percent in the July-to- September period and 1.9 percent in the final three months of the year, according to the survey. For all of 2009, the economy will contract 2.7 percent, the biggest drop in the post-World War II era.

The jobless rate will average 9.2 percent in 2009, higher than the 8.9 percent worst-case scenario the government used in tests to determine whether a deteriorating economy would require the 19 largest banks to boost capital. The results last month showed 10 of those firms needed more funds. Unemployment climbed to 9.4 percent in May, the government reported last week.

The survey also showed unemployment will average 9.8 percent in 2010, compared with the 10.3 percent the government used in its stress test.

Stress Tests

The weakening in the labor market is one reason the panel overseeing the financial bailout yesterday said regulators should repeat the tests.

Restructuring efforts in the auto industry mean more job losses are on the way. AutoNation Inc., the largest U.S. new- vehicle retailer, plans to close seven showrooms, while Visteon Corp., the former parts-making unit of Ford Motor Co., and chassis manufacturer Metaldyne Corp. have joined General Motors Corp. and Chrysler LLC in declaring bankruptcy.

“Businesses have been very aggressive in cutting costs relative to declines in output,” said Robert Mellman, an economist at JPMorgan Chase & Co. in New York. “It could be because of financial difficulties and uncertainties about access to capital and unwillingness to borrow.”

Stimulus Plan

Already, the economy has lost 6 million jobs since the recession began in December 2007, the most of any slump since the Great Depression. That’s nearly double the 3.5 million jobs President Obama seeks to save or create with the $787 billion recovery plan passed in February.

The president last week announced 10 projects, including improvements in parks, highways and veteran medical facilities, intended to save or create more than 600,000 jobs over three months in an effort to stem the damage. “We have a long way to go on our road to recovery but we are going the right way,” Obama said in a statement.

The jump in government spending will cause the budget deficit to swell to 12 percent of gross domestic product this fiscal year, the highest since monthly records began in 1968, according to the survey median.

Still, government efforts to thaw credit are starting to pay off, making it easier for companies to borrow.

“Capital markets have largely healed,” General Electric Co. Chief Executive Officer Jeffrey Immelt said at a conference yesterday. “As a company you have to invest now. You have to invest when things are darkest.” Still, the economic recovery will be slower than that following the 1982 recession, he added.

A subdued expansion means Federal Reserve policy makers will hold the benchmark interest rate near zero until the second half of 2010, according to the survey median.

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