ECONOMISTS PREDICT:

Paul Davidson
@Pdavidsonusat
USA TODAY

The U.S. economy is expected to strengthen next year, in part because of the government stimulus proposed at by President-elect Donald Trump, but job growth is likely to slow as the recovery approaches its eighth anniversary, according to a recent survey of economists.

The economy is projected to grow at a 2.3% annual rate in 2017, up from an estimated 1.6% this year, according to the average forecast of 53 economists surveyed by Blue Chip Economic Indicators. That's modestly above the tepid 2.1% average that has prevailed since the Great Recession ended in June 2009.

The big wild card: the Trump effect. Quick congressional passage and implementation of his plan to sharply increase infrastructure and defense spending and slash taxes could mean faster growth. But Trump's threats to slap big tariffs on China and Mexico risk trade wars that could roil the economy.

"There's a significant downside risk from trade," says Richard Moody, chief economist of Regions Financial.

Average monthly job growth is projected to slow to 160,000 from 180,000 so far this year and 229,000 in 2015, according to the economists' average estimate. That's largely because the low, 4.6% unemployment rate is providing employers a smaller pool of available workers, says Mark Zandi, chief economist of Moody's Analytics.

Also, the tandem of solid job gains and a sluggish economy has resulted in anemic increases in productivity, or output per worker hour. Both Zandi and Moody expect businesses to invest in more labor-saving technology next year to bolster productivity, but that likely would curtail hiring.

Yet the tight labor market should juice wage increases as employers bid up to attract workers, Zandi says.

He predicts average annual earnings growth — which was 2.5% in November — will reach 3% to 3.5% by the end of 2017.

The higher pay, he says, should draw more discouraged workers back into the labor force, keeping the unemployment rate — which many economists say now represents full employment — roughly flat next year.

Consumers, meanwhile, are poised to underpin economic growth again as a result of those fatter paychecks, steady job gains, record housing and stock prices, reduced debt and still-cheap gasoline.

The economists surveyed by Blue Chip expect consumption to increase a solid 2.5%, in line with gains in 2016.

"Consumer spending is still going to be the main driver," Moody says.

The difference next year is that business investment is likely to rise and contribute to the economy after falling 0.6% this year. Business capital spending and stockpiling were hammered by myriad factors in the first half of the year, including low oil prices, China's economic slowdown, volatile markets and a strong dollar that hurt exports.

But oil prices have doubled since bottoming out early this year, coaxing producers to revive shuttered wells and order steel pipes and other materials from U.S. factories. The greenback had leveled off until a recent rally, bolstering exports. China's economy has stabilized. The Dow is on the cusp of 20,000. And U.S. companies are replenishing inventories that shrank well below normal levels, partly because paltry sales in the energy sector left little reason to bulk up.

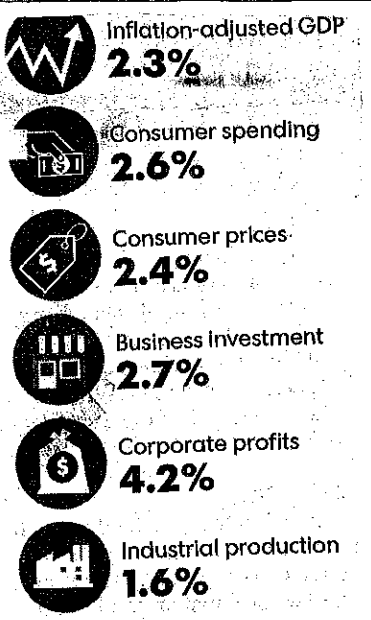
"All of the headwinds are blowing less hard," Zandi says.

The economists surveyed expect business investment to increase 2.7% next year. Michael Englund, chief economist of Action Economics, says Trump's stimulus, combined with his plan to reduce regulations and cut taxes for U.S. companies, already has buoyed business confidence, and that alone could spur more capital spending. Meanwhile, he says, Trump can begin to ease regulations for energy and other firms through executive action to further increase corporate profits and investment.

"Businesses have been gun shy" until now, he says. He expects all those effects to increase growth by two-tenths of a percentage point.

Zandi forecasts a similar bump based on his belief that some increased military spending and tax cuts for households could take effect by the second half of next year. He expects the economy to grow a healthy 2.8% in 2017.

But Moody, who forecasts 2.1% growth, hasn't factored any of those positive Trump effects into his forecast, adding it's not clear how much Congress will approve and how long negotiations will drag out. All those developments are likely to temper the economy's gains.



SOURCE Survey of 53 economists by Blue Chip Economic Indicators in early December
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