Survey: Only slight economic gains

Second recession, deflation unlikely

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WASHINGTON — The new Congress that begins in January will confront an economy and a job market that will improve only slightly next year, according to an Associated Press survey of leading economists that found them gloomier than they were three months ago.

Unemployment will dip only a bit from the current 9.6 percent to a still-high 9 percent at the end of 2011, in their view. In fact, some economists now think unemployment won't drop to a historically normal 5.5 percent to 6 percent until at least 2018 — several years later than previously envisioned.

The latest quarterly AP survey shows economists are pushing back their estimates of when key barometers of health — hiring, spending, economic growth — will signal strength.

"When you look to 2011, the words to describe the economy are glum, lousy, subpar," said Rajeev Dhawan, director of Georgia State University's Economic Forecasting Center.

In the previous survey in July, the economists had predicted unemployment of 8.7 percent at the end of next year. In the survey before that, they foresaw 8.4 percent.

Voter frustration over unemployment is threatening to cost Democrats their control of the House, and maybe the Senate, in the midterm elections Tuesday. The new Congress appears unlikely to approve more spending to try to invigorate the economy and the job market. And the Federal Reserve is running out of options.

Yet the economists the AP surveyed still expect the economy to sidestep some threats that had raised concerns in recent months. They dismiss the likelihood of a second recession, for instance, and they think the risk of deflation is remote. Deflation is a prolonged drop in prices and wages, which can make people unwilling to spend.

Fed Chairman Ben Bernanke has expressed concern about deflation — one reason the Fed will probably announce Wednesday that it will buy Treasury bonds to try to push down interest rates on loans. Lower rates might spur more borrowing and spending and help raise prices.

The economists are sharply split over whether the Fed should do that. And they overwhelmingly oppose another round of government stimulus spending. They see the economy making steady gains, just more slowly than they expected earlier this year.

The AP survey collected the views of 43 leading private, corporate and academic economists on a range of indicators, including employment, consumer spending and inflation. Among their forecasts:

■ The economy will expand just 2.7 percent next year, scarcely more than the tepid 2.6 percent predicted for 2010. Under an economic rule of thumb, growth would have to average about 5 percent for a whole year to lower the unemployment rate by 1 percentage point.

■ Consumers will boost their spending 2.5 percent in 2011, slightly better than the increase economists envision for this year. But spending would have to rise roughly twice that fast to deliver enough economic punch to lower unemployment. Three months ago, the economists were more optimistic about 2011: They predicted consumers would boost their spending 3 percent.

■ Inflation will equal just 1.7 percent next year. That's slightly more than the 1.2 percent predicted for this year, and it's about the minimum level of inflation the Fed thinks a healthy economy needs.

■ Americans will keep rebuilding their savings, leaving less money for spending. They are expected to save 5.4 percent of disposable income next year. That's only slightly less than the 5.7 percent savings rate predicted for 2010 and still far above the sub-1 percent savings rate that preceded the financial crisis.

What to do about the sluggish economy is the subject of dispute. Two-thirds of the economists surveyed say Congress should refrain from more stimulus spending. Some worry that such aid wouldn't be targeted effectively. Others say the extra spending would take too long to lift the economy.

An overarching concern is that more government spending would widen the budget gap, which hit a near-record $1.3 trillion for the just-completed budget year. That meant the government had to borrow 37 cents of every dollar it spent. The administration is projecting the deficit for the next budget year will reach $1.4 trillion. Over the next decade, it foresees $8.47 trillion.

Even the Fed's expected move to buy more government bonds sharply divides the economists. Half agree that such purchases, if they further reduce loan rates, would help nudge Americans to spend more, encourage more hiring and help boost the economy.

But the other half counter that further lowering interest rates would provide little benefit.

seen in 2011