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Survey: Recovery to stay sluggish into 2011

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WASHINGTON — The pillars of Americans' financial security — jobs and home values — will stay shaky well into 2011, according to an Associated Press survey of leading economists.

The findings of the new AP Economy Survey, released Monday, point to an economic recovery that will move slowly and fitfully this year and next. As a result, the Federal Reserve will be forced to keep interest rates near zero until at least the final quarter of this year, three-fourths of the economists said.

Among the first survey's key findings:

■ The unemployment rate will stay stubbornly high the next two years. It will inch down to 9.3 percent by the end of this year and to 8.4 percent by the end of 2011. The rate has been 9.7 percent since January. When the recession started in December 2007, unemployment was 5 percent.

■ Home prices will remain almost flat for the next two years, even after plunging an average 30 percent nationally since their peak in 2006. The economists forecast no rise this year and a 2.3 percent gain next year.

■ The economy will grow 3 percent this year, which is less than usual during the early phase of a recovery and the reason unemployment will stay high. It takes growth of 5 percent for a year to lower the jobless rate by 1 percent, economists say.

The economy began growing again last summer, 18 months after the recession started. To keep the recovery on track, the soonest the Federal Reserve will begin raising short-term interest rates is the fourth quarter, 34 of the 44 economists surveyed told the AP.

Those continued low rates will help stimulate home sales.

Economists think sales of previously occupied homes, the biggest chunk of the market, will tick up to 5.4 million this year and to 5.9 million in 2011. That would mark continued improvement from the low of 4.9 million in 2008 and be in line with sales in a healthy economy.

But there's a catch. Sales are forecast to rise in part because of another anticipated wave of foreclosures. That will keep prices from rising — and consumers from spending freely. Surging home equity spurred spending during the housing boom of the last decade.

By keeping interest rates at record lows, the Fed intends to encourage people and companies to spend more and invigorate the recovery. But anxiety over unemployment, and a reluctance or inability to borrow, will also restrain consumer spending, economists say.