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Economists See Downside Risks, Recession Odds Receding in U.S., WSJ Survey Says

Forecasts for Growth, Unemployment Little Changed Since Last Month

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The clouds hanging over economists' outlook for the year ahead have cleared.

A handful of immediate economic risks faded in recent weeks: Congress lifted the debt ceiling. The stock market rallied out of a slump. And after two weak months of employment growth, October marked the best month for job growth so far this year.

Last month, nearly three-quarters of economists in a Wall Street Journal survey said the economy likely would underperform and raised their estimates of the possibility that the U.S. would face a recession.

This month, less than half see downside risks to their economic forecasts and estimates of recession risk fell.

"With the dust now settling, we see the economy in better shape than was the case just two months ago," **said Bernard Baumohl, chief global economist at the Economic Outlook Group,** a forecasting firm. "The pace of hiring has accelerated and both consumers and businesses are ramping up spending."

This shift in economist sentiment underscores why key Federal Reserve policy makers have expressed confidence the economy will be strong enough by next month to allow the first interest-rate increase in nearly a decade.

The last few months were a dicey time for forecasters. Generally, economic shifts occur quite slowly, but collapsing financial markets or surprising legislative outcomes can deliver abrupt jolts.

Most economists had expected at least some disruption from a congressional impasse over funding the government and raising the U.S. borrowing limit, a repeated stumbling block for Congress. This was ultimately resolved when House Speaker John Boehner (R., Ohio) announced his resignation and pledged to "clean the barn up" by passing difficult bills. That included a measure suspending the debt ceiling until after the election and put in place a two-year plan for the government's budget.

The resolution of the debt ceiling and the budget "relaxes corporate angst on D.C. politics," said Rajeev Dhawan, director of the Economic Forecasting Center at Georgia State University. That should pave the way for greater investment spending, he said.

While the risk of an abrupt collapse has faded, few economists saw reason to mark up their forecasts. Expectations for economic growth were little changed from last month's survey, with the current quarter expected again to clock in at 2.7% before tapering slightly to 2.6% in 2016 and 2.5% in 2017. The unemployment rate is predicted to make only slow progress, too, falling to 4.7% by the end of next year and 4.6% at the end of 2017. Both those forecasts are unchanged from a month ago. The unemployment rate for October was 5%. This month's survey of 63 economists, not all of whom answered every question, was conducted from Friday to Tuesday.

The key risks looming are international, rather than domestic, according to the economists. Asked to name the biggest risk to the economy, 71% of respondents pointed to international factors, including the danger of slower global growth or deterioration in China.

The likelihood that the Fed will raise interest rates in December—92% of those surveyed expect an increase that month—has strengthened the dollar to its highest level in almost 13 years.

“The strong dollar is our Achilles’ heel, especially for manufacturing,” said Diane Swonk, chief economist at Mesirow Financial.

Barring an international surprise, however, forecasters are optimistic that the six-and-a-half-year-old economic expansion will continue to plod along.

Recessions in the past have been triggered by oil prices spiking to new highs or rapid interest-rate increases, said Lynn Reaser, an economist at Point Loma Nazarene University. But oil prices are less than half what they were last summer, and the Fed has promised to raise rates only slowly.

“History warns that three straight months of a rising jobless rate will prompt markets to take notice of a material risk of recession,” said John Lonski, chief capital markets economist at Moody’s Analytics, referring to the pattern of the unemployment rate beginning to rise in the months before a recession hits.

But the jobless rate declined in October to the lowest level since April 2008. “Expansions don’t just die of old age and we’re not really bumping up against constraints” that typically lead to recession, said Constance Hunter, chief economist at the accounting and professional services firm KPMG.

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