THE WALL STREET JOURNAL.

U.S. ECONOMY

January 15, 2015

WSJ Survey: Economists See 2015 GDP Growth at 3%

Potential Deflation, Falling Unemployment, June Rate Increases Among Predictions

By KATHLEEN MADIGAN

Falling oil prices will be a boon to the domestic economy at least through the first half of the year, but the price drop also means the U.S. will flirt briefly with deflation, according to The Wall Street Journal's latest survey of economic forecasters.

The roster of 66 economists—not all of whom answered every question—is on average slightly more upbeat about the 2015 economy. Inflation-adjusted gross domestic product is forecast to grow 3% across the four quarters of 2015, better than the 2.6% rate estimated for 2014. Wages are expected to pick up as the labor market tightens.

The biggest economic lift will come from the prolonged drop in oil prices that began in June. Almost all respondents said cheap oil will lift GDP growth "slightly" or "considerably." Fewer than 7% of economists thought oil would have no impact or be a detriment.

"The plunge in energy prices provides big dividends to consumers and businesses," said **Bernard Baumohl of the Economic Outlook Group.**

Starting with this survey, the Journal has expanded the number of economists surveyed to more than 70 from about 50 in previous years. The survey will now capture more opinions from economists in academia and nonfinancial firms. The larger roster is also more geographically diverse.

If gasoline prices stay near $2 a gallon for 2015, the economy will see a net savings of $750 per household, or just over $90 billion in savings across 124 million U.S. households, said Jim Miel of ACT Research.

"The fall in oil prices represents a backdoor boost to takehome pay, the likes of which affect the masses, not just a few," said Diane Swonk of Mesirow Financial.

Although the forecasters on average expect growth to hover around 3% in each of this year's four quarters, the lift from cheap oil is expected to ebb later because most of oil's decline has already occurred. The economists on average see U.S. oil prices edging up over the course of the year, ending 2015 at $63.03 per barrel. The U.S. benchmark has traded below $50 a barrel in recent days after falling from a peak of $107.26 last June.

Cheaper oil also means that inflation—as measured by the consumer-price index—will turn into deflation temporarily, many economists say. The average of the forecasts sees the CPI up only 0.5% in the 12 months ended in June, and one-quarter of respondents expects the percentage change to be negative, with the headline CPI declining as much as 1%.

Deflation will be short-lived, however, as oil prices head north and other prices in the core index—which excludes food and energy—continue to increase, said Tom Porcelli of RBC Capital Markets.

Stronger economic growth will tighten the U.S. labor market further. The average forecast expects the jobless rate to hit 5.2% by December from 5.6% in December 2014, and a sizable 15% of respondents expect the rate to be below 5% by year's end.

Tighter labor markets should mean bigger pay raises for most workers. The yearly growth in average hourly earnings slowed to 1.7% in December 2014, but is projected to stand at 2.2% in June 2015 and 2.6% in December, according to the survey. If so, 2015 would see the fastest wage growth since 2008.

Although the economists generally are more upbeat about the economic outlook and labor-market improvement, as a group they have not altered much their expectations about the timing of the Federal Reserve's policy shift. When asked when the Fed will raise its policy rate, the most frequent answer remains June 2015.

Overseas troubles remain the biggest downside risk seen by most economists. A large share of the forecasters specifically cited problems in Europe as a negative that could hurt U.S. growth. Those problems range from Greece’s exit from the eurozone to the eurozone falling back into recession.

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