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U.S. Expansion Expected to Continue Through 2020 - WSJ Survey

Economists see healthy labor market, less chance of a recession in presidential election year

By Harriet Torry

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The U.S. expansion, now in its 11th year, will continue through the 2020 presidential election with a healthy labor market backing it up, economists say.

The panel of 57 economists who participated in The Wall Street Journal's December economic survey offered a relatively optimistic outlook for 2020 growth, albeit at a slower pace than in 2019.

On average, they expect U.S. economic growth to slow slightly in 2020, to a year-over-year rate of 1.8% in the fourth quarter from an estimated 2.2% in 2019. They also see lower odds of a recession over the next year than they did in the prior two months.

Forecasters expect the labor market to remain strong with employers continuing to add jobs. They expect monthly job growth of around 157,000 in the first half of the year, and about 104,000 a month in the second half of 2020.

The survey found that economists expect the unemployment rate to rise slightly from 3.5% in December 2019 to 3.7% in December 2020.

They also see more Americans joining the workforce, with the labor-force participation rate rising slightly to 63.5% on average at the end of 2020 and 63.6% at the end of 2021. The rate, which accounts for workers who are employed or actively seeking employment, was 63.2% in November.

Economists said their disappointments for the 2019 economy were mostly related to business investment and uncertainty surrounding trade policy.

"Business investment collapsed in 2019 as the combination of weaker global growth, persistent trade tensions, lingering policy uncertainty and subdued corporate profitability restrained activity," said Gregory Daco, an economist at Oxford Economics.

The biggest positive for the economy in 2019 was the strength of U.S. consumers, the survey found, who were buoyed by the strong labor market. Economists also cited the Federal Reserve's three rate cuts as helpful to the housing and financial markets.

Economists expect the Fed to remain on the sidelines during the 2020 election year. The central bank last lowered rates to a range between 1.5% and 1.75% in October—and this month signaled no appetite to raise them soon.

Economists in the survey see the benchmark federal-funds rate hovering at around 1.5% through 2020—and only rising above the current target range in June 2022. That's a big change from six months ago, when economists saw the fed-funds rate at around 2% through 2020 and 2021.

"The economy is well balanced between employment and inflation, so there's no need for the Fed to act in 2020, especially given this politically charged presidential election year," said **Bernard Baumohl, chief global economist at The Economic Outlook Group.**

Fed officials lifted rates four times in 2018 and a year ago expected to continue raising them this year. Fed Chairman Jerome Powell and his colleagues scrapped those plans early in 2019 amid weak inflation and a stock-market swoon.

When asked to grade Mr. Powell's performance as Fed chair, most economists, 63.8%, gave him a B. Seventeen percent assigned him an A grade and 14.9% gave him a C.

"Quick pivot on rate cuts this past year proved prescient," said Scott Anderson, an economist at Bank of the West, who gave Mr. Powell an A.

Just 2.1% gave him a D or an F. Economists who assigned Mr. Powell low grades generally cited his policy U-turn in early 2019 as the reason.

Matthew Fienup and Dan Hamilton, economists at California Lutheran University, gave Mr. Powell an F, saying that under his chairmanship, “financial markets completely dominate U.S. monetary policy.”

As 2019 comes to a close, there are signs of stabilization in the manufacturing sector and on the trade front.
Economists this month saw an average probability of 25.9% of a recession in the next 12 months, down from 30.2% in November and 34.2% in October.

Just over a third of economists expect the next recession will come in 2021. One-fifth expect it in 2020, and 22.9% expect it to come in 2022.

The Wall Street Journal surveyed academic and business economists from Dec. 12-16, although not every economist answered every question.

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