Executive Economic Bulletin

FORECAST FLASH

THE PORT AUTHORITY OF NY & NJ

2012 Quarter 1

2012: A Brighter Outlook!

The year 2011 has ended with more positive news about the recovery of the national economy. Real GDP in the fourth quarter grew by 3 percent and the unemployment rate has moved lower. Consumers expanded their purchases and confidence of households and businesses seemed to be improving. The positive trends have continued into 2012: Payroll employment growth has been above 200,000 per month for several months, new claims for unemployment are trending down, and even the housing market has seen some improvements in the pace of sales of existing homes.

The recent positive news create some optimism for 2012 and beyond, represented in our economic forecasts as shown in the table below.

Economic Forecasts				
National	***2012***	***2013***	***2014***	***2015***
Real GDP [%]	2.3	2.6	3.4	3.4
Unemployment Rate [%]	8.4	7.6	6.4	5.7
CPI-U [%]	1.9	2.1	2.1	2.1
Regional				
Real GRP [%]	1.8	2.1	3.1	3.3
Employment Growth [%]	0.8	1.3	2.0	1.6
Employment [000s]	8,038	8,145	8,306	8,437
Source: Oxford Economics Macroeconomic Model run by Planning Department Staff				

As of February 2012, we forecast real GDP growth for the national economy at 2.3% for the year. Growth is then expected to accelerate to above 3 percent by 2014. The increase in economic output will generate demand for workers and lower the unemployment rate accordingly. Our current estimates predict that unemployment might fall below 6 percent in 2015. In the baseline scenario, inflation will remain muted as excess capacity will mitigate any upward pressure in consumer prices.

The regional economy is forecast to lag behind the pace of the national economy in 2012 and 2013 but then catch up by 2015. Part of the reason is the difference in the industry structure of the regional economy and its mature demand for goods and services. The discrepancy between growth in NY and NJ counties will remain as employment in the NJ half of the PA region will not reach pre-recession levels until 2016 while NY counties see an employment recovery several years earlier.

There is a potential upside to this forecast as accumulated corporate profits and an improved outlook could trigger a broad pick-up in investment spending. Additionally, there remains some pent-up demand in housing, due to a slowdown of household formation, and in vehicle sales. At some point, especially when the labor market improves further, households will break up and form new units, or currently unemployed young workers will move out, creating more demand for properties and rental units. Automobiles are on average one year older than before the recession and will have to be replaced at some point.

On the downside, a further deterioration of the Eurozone crisis and a potential exit by one country could significantly affect the United States. Domestic economic policy mistakes, such as too much austerity too soon, could derail the fragile economic recovery that is underway. While the payroll tax credit and extension to unemployment benefits have been extended, major spending cuts and changes to the tax code are in store for early 2013. Without policy action, the reversal of the Bush tax cuts and spending cuts resulting from the Debt Commission agreement will adversely affect real GDP growth. But long-term concerns also remain over the sustainability of funding budget deficits of $1 trillion annually.

In addition, crude oil prices have been rising and we could see a replay of 2011. Modest increases will likely not affect the economy too much but a spike in crude prices due to political conflicts in the Middle East could have large adverse impacts, threatening the recovery in the US and PA region.

We have run an energy price scenario in which we assume that energy prices increase by 25% for the rest of 2012 and then fall back to the level they were at in late 2011. If these prices increases materialize – and we already have seen a significant increase – real GDP growth in 2012 and 2013 will be up to 0.3 percent lower in each year. National payroll employment in that case will likely be more than 400,000 jobs lower than in our baseline.

We will continue to monitor global, national, and regional conditions and update you on new developments in our second quarter Forecast Flash.

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