

Has the US Recession Hit Bottom Yet?

Editor's Note: What do you think?

WASHINGTON (Reuters) – A severe U.S. recession will bottom out this year, but any recovery will be weak due to anemic markets and shrunken consumer wealth, the Organization for Economic Cooperation and Development said on Wednesday. "In this environment, a considerable degree of economic slack, especially in the labor market, is likely to persist ... bringing inflation to very low rates," the Paris-based OECD said in a twice-yearly report on global economic conditions.

It estimated that U.S. national output will contract 2.8 percent in 2009 but grow 0.9 percent in 2010.

The OECD urged the Obama administration to push ahead with plans for public-private partnerships to remove toxic assets from banks' balance sheets, adding that, if necessary, the Federal Reserve should expand the scale of its quantitative easing measures that include buying longer-term U.S. Treasury securities.

It warned that consumer spending was unlikely to rebound because labor markets remain strained, housing and stock wealth has been drained and credit conditions still are tight.

On a positive note, the OECD said a lengthy deterioration in U.S. housing markets "may be approaching an end." In particular, it said the supply of unsold homes was declining relative to demand, a precondition for recovery.

The OECD noted a major downside risk was that financial markets remain fragile, with mortgage credit in tight supply and banks still under considerable stress.

"Restoration of trust in financial intermediaries and markets is vital for a sustained and strong economic recovery to occur," it said.

In Canada, the OECD said the economy was likely to remain in recession through the third quarter and then begin a mild recovery. It forecast gross domestic product there will shrink 2.6 percent in 2009 and then grow 0.7 percent in 2010.

One advantage that Canada has is that its banks' balance sheets remained relatively healthy and remained profitable in contrast to many other countries.

"Reasons for their strength include a more conservative lending and borrowing culture, less opportunity for regulatory arbitrage and a more conventional mortgage market with fewer subprime loans and little securitization," the OECD noted.

In Latin America, the OECD said economic activity was rebounding in Brazil after a slowing in growth during the first quarter and said retail sales had been specially

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resilient.

"Domestic demand is poised to gather strength in the second half of 2009 on the heels of ongoing policy easing," the OECD said.

While an "uncertain" global economy poses risks for Brazil and other emerging-market countries, the group said that if Brazilian authorities maintain abundant liquidity in coming months, the country may be poised for a stronger-than-expected rebound from about the middle of this year.

It estimated Brazil's real GDP will shrink 0.8 percent in 2009, but then grow 4 percent in 2010.

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