



**The Conference Board Economic Forecast for the U.S. Economy  
October 14, 2009**

**How much volatility at the bottom of the cycle?**

The U.S. economy continues to look better than expected in the short term, but we have only just begun to emerge from the cycle's trough and there is still a long way to go. The Conference Board October forecast for the U.S. economy shows GDP will continue to increase at 3.1 percent in Q4 (annualized), on top of the projected 3.3 percent increase for Q3 (the Bureau of Economic Analysis will release its actual Q3 estimate on October 30). Though these are not sharp improvements, given the depth of the recession, these are clear indications that we are in a recovery mode. That said, shifts in the drivers of growth raise questions concerning the recovery's solidity. Third quarter recovery was driven by an improvement in consumer expenditure (2.5 percent), notably through the U.S. government's "cash for clunkers" car sales subsidy program, and by a moderate easing in inventory rundowns (-\$125 billion, compared to -\$160 billion in Q2). Further easing in Q4 (we forecast only -\$25 billion in inventory change) will add significantly to GDP growth, but consumer spending will fall flat during the holiday season, and exports will recover more slowly than in the current quarter. Capital expenditure will remain very moderate: A return to moderate investment in equipment and software will be offset by continuing declines in investments in commercial real estate. The first quarter of 2010 will see continued weak conditions and no help from the current inventory effect, pushing Q1 growth down to only 1.1 percent. Growth will improve only moderately, to around 2 percent by the middle of 2010, due to a relatively high savings rate (between 4.5 and 5 percent of disposable income), slow growth in real consumer spending (less than 1 percent), and a moderate improvement in investment and trade. We forecast the overall U.S. trade deficit will deteriorate slightly in 2010, to \$363 billion compared to \$350 billion in 2009.

**The U.S. Economic Forecast**

	II Q*	2009 III Q	IV Q	I Q	2010 II Q	III Q	2008 ANNUAL	2009 ANNUAL	2010 ANNUAL
Real GDP	-0.7	3.3	3.1	1.1	1.9	1.9	0.4	-2.5	2.0
Real Consumer Spending	-0.9	2.5	-0.2	0.0	0.8	0.9	-0.2	-0.7	0.5
Housing Starts Mil. Units	0.54	0.60	0.68	0.73	0.77	0.84	0.90	0.59	0.82
Real Capital Spending	-9.6	-2.6	3.6	1.5	5.2	6.7	1.6	-17.5	2.4
Net Exports Bil. '00\$	-330.4	-329.4	-352.9	-366.3	-368.0	-364.7	-494.3	-349.8	-363.4
* actual value									

Source: The Conference Board