Economic Forecast: Growth to Continue at Moderate Pace

The U.S. economic outlook continues to show modest improvement, but while the manufacturing recovery is on track, caution flags remain for the overall economy.

The **Manufacturers Alliance/MAPI Quarterly Economic Forecast** predicts that inflation-adjusted gross domestic product (GDP) will expand by 2.7 percent in 2011 and by 2.9 percent in 2012. The 2011 forecast represents a downgrade over the previously estimated 3.2 percent growth, while the 2012 forecast is down slightly from the 3 percent growth anticipated in the February 2011 quarterly report. By supplying major assumptions for the economy and running simulations through the IHS Global Insight Macroeconomic Model, the Alliance generates unique macroeconomic and industry forecasts.

“The economy is continuing to grow at a moderate pace with consumer durable goods, business equipment, and exports leading the way,” said Daniel J. Meckstroth, Ph.D., Manufacturers Alliance/MAPI Chief Economist. “Rising oil prices and government austerity at all levels, however, give pause to any excessive optimism.”

Manufacturing production will outpace the overall economy and is expected to show 6.2 percent growth in 2011 and 4.2 percent growth in 2012. Manufacturing is expected to see a hiring increase with the sector forecast to add 288,000 jobs in 2011 and 374,000 jobs in 2012.

“The manufacturing recovery is solid but it has only regained half of its losses since the depths of the recession in 2007, when it fell 20 percent at its trough,” Meckstroth said. “On the positive side there is some employment growth, a need to replace and repair business equipment, and the falling dollar makes the United States competitive in supplying equipment to emerging countries for infrastructure projects.

“On the downside, federal, state and local government spending has shifted into a restraint mode, and high oil and commodity prices pose a risk,” he added. “The situation in the Middle East remains fluid and, while fears may have eased of late, there is no timeline to the endgame because of the volatile political climate.”

Production in non-high-tech industries is expected to increase by 5.1 percent in

2011 and by 3.9 percent in 2012. High-tech manufacturing production, which accounts for approximately 10 percent of all manufacturing, is anticipated to improve at a much higher rate, with impressive 15 percent growth in 2011 followed by 12.3 percent growth in 2012.

The forecast for inflation-adjusted investment in equipment and software is for 12.5 percent growth in 2011 and 11.3 percent growth in 2012. Capital equipment spending in high-tech sectors will also rise. Inflation-adjusted expenditures for information processing equipment are anticipated to increase by 9.7 percent in 2011 before decelerating to 7.1 percent in 2012.

MAPI expects industrial equipment expenditures to advance by a healthy 18.5 percent in 2011 and by 13.9 percent in 2012. The outlook for spending on transportation equipment is for 17.4 percent growth in 2011 and for a robust 32.3 percent advance in 2012. Spending on non-residential structures will decline in 2011 before improving in 2012. This GDP expenditure category is expected to fall by 1.6 percent in 2011, before rebounding to 1.5 percent growth in 2012.

Exports and imports will both see gains. Inflation-adjusted exports are anticipated to improve by 7 percent in 2011 and by 8.5 percent in 2012. Imports are expected to grow by 4.9 percent in 2011 and by 5.6 percent in 2012. MAPI forecasts overall unemployment to remain high but show some improvement, averaging 8.8 percent in 2011 and 8.3 percent in 2012.

The price per barrel of imported crude oil is expected to average $102.30 per barrel in 2011 and $106.10 per barrel in 2012. These figures are up substantially from $88.30 and $92, respectively, from MAPI's February forecast.

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