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For 2010, little improvement seen in job market

U.S. economy to grow too slowly to create many jobs, forecasters say

By Rex Nutting, MarketWatch

WASHINGTON (MarketWatch) -- The U.S. economy is limping -- not sprinting -- out of the Great Recession of 2008 and 2009.

While the economy is likely to grow at a steady but unspectacular 3% pace in 2010, the prospects for significant job growth are dim and the unemployment rate could still be in the 10% neighborhood at this time next year, economists say.

Growth of 3% would be far slower than is usual after a steep recession (the economy grew nearly 10% in the year following the 1958 recession), but it would be slightly stronger than the 2.8% average of the past 20 years.

Above-trend growth "never felt so bad," wrote economists at JP Morgan Chase. "Growth will not be boomy. And growth will not go far in returning the economy to healthy levels of activity."

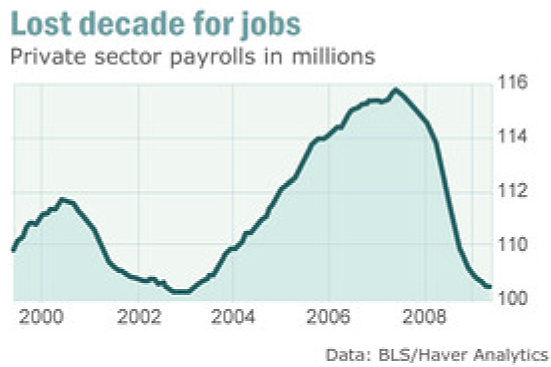
Still, it's expected that the economy will begin to create some jobs again in 2010, after two years of month-after-month declines that -- including anticipated downward revisions -- total a loss of more 8 million jobs.

According to the median forecast of economists surveyed by Blue Chip Economics, about 1.1 million nonfarm payroll jobs will be created next year. The consensus expects the unemployment rate to be 9.9% a year from now.

Three-percent growth "won't generate enough job growth to do much more than keep unemployment from rising further," wrote Tim Duy, an economics professor at the University of Oregon. Read more on Duy's Fed Watch blog.

Remember, the adult population grows by about 2 million a year, which means the economy needs to create about 1.3 million jobs every year to satisfy all those who want to work. The economy needs to grow at a pretty fast clip to create those jobs, because productivity improvements mean that we can produce about 2% more each year with the same level of employment.

It could take years to bring the unemployment rate down to 5% or 6%.



Working-class squeeze

The recession battered workers. The credit squeeze, the implosion of the housing bubble, weak demand at home and abroad, and the relentless imperative to cut costs and preserve margins have put more than 15 million people on the unemployment lines. The official jobless rate has jumped from 4.4% to 10%, while more than 9 million Americans have been limited to part-time work even though they want to work full time.

Typically, after such a steep recession, job growth would snap back quickly as firms ramp up production to meet the desires that were repressed during the downturn.

This time, however, the lingering impact of the financial crisis will mean less consumption, less investment, and less hiring than normal.

Banks and households both have more debt than they desire, so they won't be lending and borrowing as usual.

Economists at Goldman Sachs figure the unemployment rate won't peak until the middle of 2011 and will drop back to 10.5% by the end of 2011. That's at least two more years of remarkably high unemployment.

Other observers have a more optimistic view. Economists at Société Générale envision a "virtuous cycle" in which stabilization in the job market leads to stronger-than-expected consumer spending, which leads to more investment and hiring, which in turn leads to higher incomes and spending, and so on.

In addition to laying people off, companies have also pared back the hours of their remaining workers.

As sales recover, many companies will lengthen the work week, rather than take on new employees. Restoring the average workweek to 33.8 hours would be equivalent to hiring 2 million new workers. There are a lot of underused resources in the typical company.

Structural faults

In addition to those lingering cyclical impediments, there are deep structural faults in the economy that will likely take years to reverse.

The recession has been hard on the working class, but that's nothing new. In the decade that's just ending, the private sector has actually lost about 2.3 million jobs, the first decade with negative employment growth since the 1930s. Output has risen 15% over that period, but pay has been stagnant.

For most Americans, the 2000s were a lost decade.

Many of the jobs created earlier in the decade were fueled by the twin housing and credit bubbles. The economy got very good at building beachfront condos and McMansions, at selling consumers poorly made useless things on credit, and at financing it all.

But the economy was based on gossamer. Capital was badly misdirected by market forces and by government policies.

Economist Duy says the main question that policy-makers should be asking now is: "Why did the U.S. economy yield such horrible employment performance this decade?"

As part of the stimulus, the Obama administration has emphasized building basic infrastructure and expanding the nation's capacity to develop and produce cleaner energy. However, green jobs won't fill the gap.

Chronic unemployment is devastating to the nation's long-term potential. It erodes both morale and skills. Already, the U.S. economy is failing to provide work opportunities for young people, who may suffer a lifelong financial handicap from their slow start on their careers.

Unemployment for young people is a crisis, with joblessness at a record 27% for teens and 16% for young adults. The reality is much worse than that, because only about one-third of teens are in the workforce, down from about 50% a decade ago. The labor-force participation rate for young adults has fallen to 72% from 77%.

In addition to 4 million who are counted as unemployed, another 3 million teens and young adults have simply given up on getting a job.

Economist David Levy of the Jerome Levy Forecasting Center figures unemployment will average 8% for the decade ahead. Investors, he said, are "dangerously unprepared for what lies ahead during the 2010s."

He sees high unemployment, weak investment, deflation, debt crises, protectionism and political unrest around the globe. Adds Levy: "There are more 100-year storms to come."

Rex Nutting is Washington bureau chief of MarketWatch.