Oil Prices and Other Downside Risks

Michael Mussa updates his latest economic forecast with a review of new information about downside risks to the global economy.

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Steve Weisman: Earlier in April, Michael Mussa projected pretty solid global economic growth but suggested there were some downside risks. This is Steve Weisman in mid-April at the Peterson Institute with Mike to talk to us a little bit further about what the downside risks are turning out to be. Mike, what are the major risks to growth today?

Michael Mussa: Oil prices have moved up another five-six percent from where we were in late March, and I think that is going to make things somewhat slower over the next three to six months or so. Also, the numbers for the first quarter in the U.S. in the housing sector and a couple other sectors have come in a little weaker than anticipated. So I would probably, if I were redoing the global forecast, write things down by a tenth of a percent or conceivably two tenths, but I think one tenth at this stage. We will need to see how the oil price issue develops.

Steve Weisman: Any other sense you get though from the U.S. economy on the latest indicators about how healthy the recovery is? And more specifically what are your other concerns?

Michael Mussa: Well, labor market has been doing quite well until today, when we had a bump up in the initial unemployment claims.

Steve Weisman: Today April 14th.

Michael Mussa: Right. That's a pretty volatile number. So we need to say if the claims are going to go back above 400 thousand again, that is a sign some of the improvement we have recently seen in the labor market in terms of the unemployment rate coming down to nine percent or a little less may be behind us for awhile unless the economy has another growth spurt.

Steve Weisman: You have been almost an outlier in the last year or two on some of your projections, projecting a more robust recovery than some others. But as we head into the annual meeting, where are you now in the spectrum?

Michael Mussa: Based on the April forecast and what has come out of forecast panels, I'm a little above the average for forecasters for the U.S. economy. There are some forecasts on the fourth quarter or fourth quarter basis that are as high as four and half percent or have been; others as low as two percent. And on that number, I was at three point eight. So it was above the median but still well within the boundaries.

Steve Weisman: Another major development in the U.S., of course, is that there was a bipartisan agreement to keep the government going through the rest of the fiscal year. We're still headed for a possible confrontation over the raising of the debt limit and the further confrontation on the budget for the following fiscal year. What signals did the recent agreement send to markets, and do you derive any hope from these developments?

Michael Mussa: The markets on the whole reacted positively, given the fears that they might not be able to reach an agreement. But the debt ceiling is substantially more important and may be more difficult. You had to reach agreement on the annual appropriations -- otherwise you couldn't run parts of the government. The debt ceiling: It's not clear other than raising the ceiling what else you need to do so it's kind of free form disagreement.

Steve Weisman: Right, but there's a sense that one gets that people all around the world are looking to see if the United States can solve its long-term debt problems. What do you think they are seeing now as a result of these dueling presentations from the Republican side and also Obama's speech this week?

Michael Mussa: Relative to where we were a few months ago, the talk on all sides has moved in the direction of larger and earlier deficit reduction. So that should be on the whole reassuring. The disagreements, though, have not been removed over how much should be on the spending side, how much should be on the tax side and how rapidly it should be done. But President Obama was certainly talking about more aggressive deficit reduction yesterday than he was at the State of the Union Speech a couple months ago.

Steve Weisman: Mike, thanks very much.