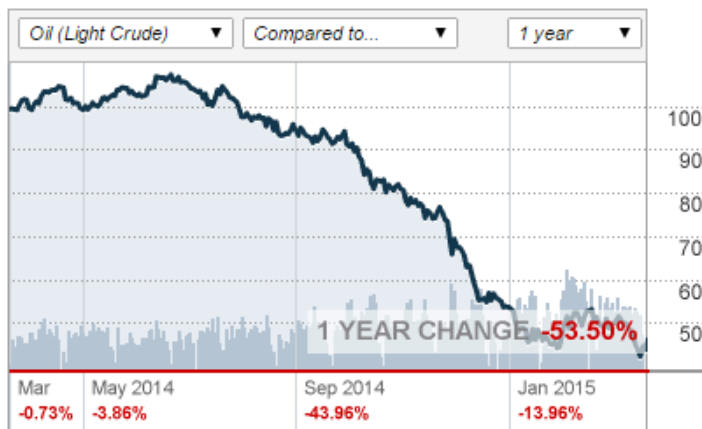


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Every time oil prices tick up, you can be sure someone will tell us that prices are headed toward \$200 a barrel or beyond, and they will stay above \$200 forever. Either these people are incapable of embarrassment, or P.T. Barnum was right when he said "There's a sucker born every minute."



We saw this earlier in the year when prices bumped up. We'll probably see it again with the current uptick. The fact is, as the charts above show, source CNN Money, oil prices have fallen dramatically, and it appears that they unlikely to increase significantly anytime soon. This is all good.

Lower oil prices are the reason that our forecast remains optimistic, even though we've revised short-term growth down a bit. When we started revising our forecast to reflect falling oil prices last Fall, we used \$60 a barrel as a best case scenario. Well, we blew right through that, and as I write this, CNN says that oil is at \$47.04 a barrel.

Our forecast is for another quarter of relatively slow GDP growth, but then we expect to see GDP growth rise to about a 3 percent annual growth rate in the quarters that follow. The short-term GDP weakness is a result of declining oil-industry investment and soft productivity gains. Both of these issues are discussed more completely in our US Economy essay.

Jobs will do better than GDP. We expect to see jobs grow at rates well above those that have prevailed throughout the anemic recovery. We expect to see some quarters where 300,000 jobs are created monthly. Individual months may even see significantly more new jobs created.

Unemployment rates are very difficult to forecast, as they reflect the interaction of job creation and labor force participation. That said, we expect that the unemployment rate will stabilize near the current rate, as people who had left the workforce (so called discouraged workers) return as the job market improves. Even with fast job growth, there is a lot of available capacity in our workforce. Of course, some employers will have trouble finding experienced or well-trained applicants for high-demand positions.

This forecast is an improvement over last year's. We are particularly happy to see the pickup in job creation. Others have endlessly pointed out that there are massive concentrations of wealth in our society, and that wealth is hardly distributed evenly. We believe, though, that a job for those who want one is more important than consumption equality. We have been distressed at the weak job creation that has characterized our recovery.

Still, the United States economy suffers from many of the same issues that have plagued it throughout the recovery. It is the case that low oil prices can offset a multitude of really bad economic policies. In particular, American businesses are held back by an onerous regulatory environment that is becoming more onerous almost every day.

We'd love to see what the United States economy could do if it were to enjoy the twin benefits of low oil prices and rationalization of the regulatory environment.