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Economists Call for Bernanke to Stay, Say Recession Is Over

By **PHIL IZZO**

Economists are nearly unanimous that Ben Bernanke should be reappointed to another term as Federal Reserve chairman, and they said there is a 71% chance that President Barack Obama will ask him to

Fed Gets High Marks for Handling Crisis

3:15

WSJ's Phil Izzo and Kelly Evans discuss results of the latest survey of economists, which indicates many think the recession may be ending. Plus, will Bernanke be seen as the hero of this recession after all?

Charts and Full Results

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- **Complete Coverage:** Forecasting Survey

Meanwhile, the majority of the economists The Wall Street Journal surveyed during the past few days said the recession that began in December 2007 is now over. Battling the downturn defined most of Mr. Bernanke's term, which began in early 2006 and expires in January, and economists say his handling of the crisis has earned him four more years as Fed chief.

"He deserves a lot of credit for stabilizing the financial markets," said Joseph Carson of AllianceBernstein. "Confidence in recovery would be damaged if he was not reappointed."

The Journal surveyed 52 economists; 47 responded.

After months of uncertainty, economists are finally seeing a break in the clouds. Forecasts were revised upward for every period, with 27 economists saying the recession had ended and 11 seeing a trough this month or next. Gross domestic product in the third quarter is now expected to show 2.4% growth at a seasonally adjusted annual rate amid signs of life in the manufacturing sector, partly spurred by inventory adjustments and strong demand for the "cash for clunkers" car-rebate program.

A better-than-expected employment report for July, where employers cut 247,000 jobs and the jobless rate fell for the first time in 15 months, suggests the worst is over. The unemployment rate is still expected to rise to 9.9% by December, but economists forecast that the economy will shed far fewer jobs over the next 12 months than they had forecast last month.

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Real Time Economics

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Many of the economists said there is little to be gained by changing the Fed chairman, especially considering the massive task at hand for the central bank as the economy emerges from the recession.

"Continuity is critical as we emerge from this crisis. Otherwise we could slip back in again," said Diane Swonk of Mesirow Financial. "Bernanke is the best suited to undo what has been done when the time comes."

The Fed has taken unprecedented steps in an effort to avoid another Great Depression, and its exit strategy remains a key question. Some hints may emerge as the central bank's August policy meeting comes to an end Wednesday. The Fed's key policy-making tool, the federal-funds rate, isn't likely to change at this meeting or any time soon.

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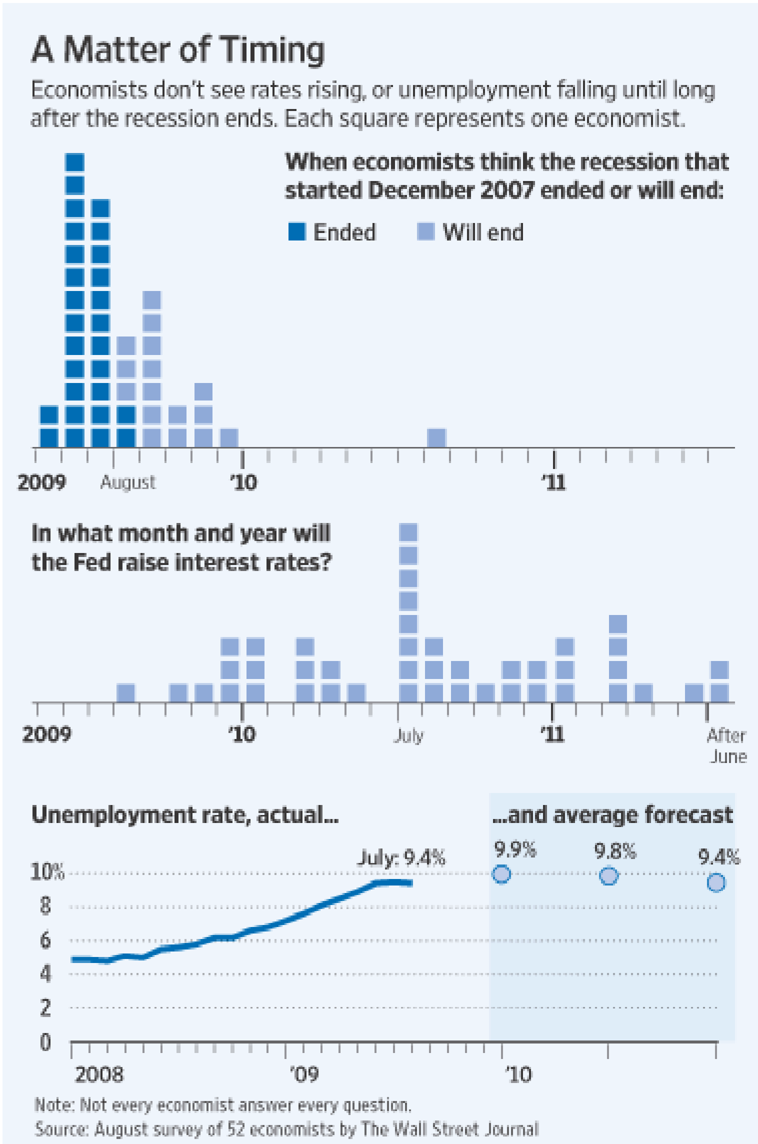

Only six economists expect the Fed to raise the federal-funds rate, now between 0% and 0.25%, this year. Most expect an increase at some point in 2010, but more than a quarter of respondents don't see the rate moving until 2011 or later.

"The exit strategy will be very, very slow and cautious," said John Silvia of Wells Fargo. "The Fed will unwind the balance sheet before they raise the fed funds rates."

The Fed's balance sheet -- the total value of all its loans and securities holdings -- had more than doubled during the course of the crisis to more than $2 trillion, as lending facilities expanded in an effort to unfreeze credit markets. But as markets get back to normal, demand already has begun to wane, and the balance sheet has started to shrink. Now the composition of the balance sheet has begun to shift to Treasurys, mortgage-backed securities and agency debt as the Fed moves through a $1.75 trillion program announced in March to bring down long-term interest rates.

The Fed is deciding at this week's meeting whether to let that program run its course and how best to communicate its intentions to markets.

About the Survey

The Wall Street Journal surveys a group of 53 economists throughout the year. Broad surveys on more than 10 major economic indicators are conducted every month. Once a year, economists are ranked on how well their forecasts have fared. For prior installments of the surveys, see: **WSJ.com/Economist** .

Whatever the Fed decides, the economists expressed some confidence that the central bank will be dealing with how to manage a recovery, not another recession. They expect GDP growth to remain above 2% at an annualized rate through the first half of next year, and they put the chances at just 20% of a "double-dip" second downturn before 2010.

But some said a recovery could make Mr. Bernanke's road to reappointment more rocky. "Once it is perceived that the economy is on its way to recovery, it gives Obama the opportunity to put in his own person," Mr. Silvia said. "It could be like Great Britain at the end of World War II. 'Thank you for all the hard work, Mr. Churchill, but we're going to bring someone else in to handle the next phase.'" Former president George W. Bush appointed Mr. Bernanke to succeed the departing Alan Greenspan. Presidents appoint Fed chiefs to four-year terms, and there are no term limits. Mr. Bernanke's term expires Jan. 31.

Though the economists were overwhelmingly supportive of Mr. Bernanke, they don't think his tenure was without mistakes. A slow initial response to the credit squeeze and the decision to let Lehman Brothers fail were cited as the biggest errors.

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