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DOW **-124.80** NASDAQ **-45.48** S&P 500 **-14.42**
 13,074.75 **-0.95%** 3,068.09 **-1.46%** 1,398.96 **-1.02%**

The Trading Deck

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Economy stabilizing, top forecasters say

Sweet, Smith of Moody's Analytics say it's still lackluster growth

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By Rex Nutting, MarketWatch

WASHINGTON (MarketWatch) — Top forecasters are breathing just a little easier now that the economy is showing signs of stabilizing, following a few months of iffy growth.

Recent data show the economy has improved, but "the pace of growth is still fairly lackluster," said Aaron Smith, a senior economist for Moody's Analytics, who, along with his colleague Ryan Sweet, won the October Forecaster of the Month contest. It's the third award for the team from Moody's, which was formerly known as Economy.com.

[Read more on their website.](#)



Ryan Sweet (left), Aaron Smith
 SENIOR ECONOMISTS,
 MOODY'S ANALYTICS

	FORECAST	ACTUAL*
ISM	54.7%	54.4%
NONFARM PAYROLLS	5,000	-95,000
TRADE GAP	-\$43.4 bln	-\$46.3 bln
RETAIL SALES	0.4%	0.6%
HOUSING STARTS	574,000	610,000
INDUSTRIAL PRODUCTION	0.3%	-0.2%
CONSUMER PRICE INDEX	0.2%	0.1%
DURABLE-GOODS ORDERS	3.5%	3.3%
NEW HOME SALES	308,000	307,000
CONSUMER CONFIDENCE	50	50.2

* Subject to revision

Nonfarm payrolls and business surveys show that "businesses of all sizes are becoming more active," said Sweet, adding that growth is "less than spectacular."

They see the economy growing in the 2% range through the end of the year. It may not be going gang-busters, but the economy has clearly regained some momentum, they said.

Most encouragingly, the services side of the economy is finally showing some strength. "We are seeing the hand off" take place from manufacturing to services, said Smith.

Sweet and Smith support the Federal Reserve's new program of buying bonds, known as quantitative easing. "The Fed will have to put the economy on its shoulders," Sweet said.

"QE won't solve all the economy's problems," he said, but "it's better to err on the side of providing too much stimulus"

because it'll be fairly straight-forward to reverse policy if it's not needed.

"We have to make sure we can get over the hump," Sweet said.

Fiscal policy is still uncertain, Smith said, but the election reduced some of that uncertainty for businesses. They assume that all the tax cuts will be extended for everyone, and that extended unemployment benefits will expire for about 2 million people.

Smith and Sweet say their forecasts for the high-frequency data are the result of true teamwork. Smith tends to be more optimistic, while Sweet is the more cautious one. They also take advantage of the company's large group of economists, led by founder Mark Zandi.

"We bounce our forecasts off" the other economists, Sweet said. It helps to have access to specialists in regional economies or in individual sectors of the economy, such as housing, labor markets, or retail.

To win the October contest over 44 other forecasters, Smith and Sweet came from behind with the contest's most accurate forecasts on the last two indicators of the month: new-home sales and durable-goods orders. They also had among the most accurate forecasts on the ISM index, the consumer price index and the consumer confidence index.

The runners up in the October contest were Stephen Gallagher and Brian Jones of Société Générale, Maury Harris's team at UBS Securities, James O'Sullivan at MF Global, and Ed McKelvey of Goldman Sachs.

The median forecasts that MarketWatch publishes each week in the Economic Calendar come from the forecasts of the 10 economists who've scored the highest in our contest over the past 12 months, as well as the forecasts of the most recent winner. [See our Economic Calendar and Forecast page.](#)

Over the past year, the top economists are, in order: Spencer Staples of EconAlpha, Ethan Harris's team at Bank of America's Merrill Lynch, Michelle Girard of RBS Securities, O'Sullivan of MF Global, Peter D'Antonio of Citigroup, Brian Bethune and Nigel Gault at IHS Global Insight, David Wyss of Standard & Poor's, Harris's team at UBS, Lou Crandall of Wrightson ICAP, and Sweet and Smith at Moody's Analytics. ■

Rex Nutting is Washington bureau chief of MarketWatch.

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By Matt Tucker, CFA

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