Momentum building in economy, top forecaster says
O'Sullivan wins MarketWatch contest for recording seventh time

By Rex Nutting, MarketWatch

WASHINGTON (MarketWatch) - The U.S. economic recovery won't be derailed by financial turmoil in Europe or by high debt levels here at home, says Jim O'Sullivan, chief economist for MF Global.

The U.S. economy is strengthening month by month. "Growth is coming in better than expected," O'Sullivan said. "Consistent with enough upward momentum to more or offset the impact of the turmoil in Europe."

O'Sullivan is the winner of MarketWatch's Forecaster of the Month award for April. He's been in the winner's circle seven times now, putting him in a tie with Stephen Stanley for most victories in the six-year history of the contest. The first six awards came when he worked for UBS Securities under chief economist Maury Harris.

O'Sullivan won the award this past month for having the most accurate forecasts among all 48 forecasters on 10 key indicators released in April. His forecasts for two indicators -- retail sales and the consumer price index -- were the most accurate. On four others, his forecasts were among the 10 most accurate.

His bottom-line forecast for the economy has barely changed since he left UBS and joined MF Global last November. O'Sullivan said, "We remain optimistic," meaning the pluses and minuses for the economy, "we believe the pluses will continue to dominate."

Despite the headwinds from budget constraints at state and local governments, the reluctance of banks to lend and the lingering weakness in commercial real estate, "the odds are heavily stacked for solid growth," he said. He sees the economy growing at 3.5% to 4% annually, stronger than the tepid recoveries following the 1991 and 2001 recessions, but underperforming the 6% recoveries in the 1960s, 1970s and 1980s.

The April employment report was "highly encouraging," he said. The recovery "has led to a clear-cut pickup in employment and an even stronger pickup in hours worked." His forecast calls for payrolls to grow by 175,000 to 200,000 per month in the second half of the year. The unemployment rate would drift down from 9.9% to 9.4% by the fourth quarter and 8.7% in late 2011.

If payrolls do grow that fast, the Federal Reserve will probably raise its short-term interest rate target in September, he said, noting that the Federal Open Market Committee will see four more payroll reports by then. "Perceptions could change rapidly."

"The Fed has to start normalizing rates, to take back the extreme stimulus," he said. Even so, monetary policy will remain stimulative for some time.

O'Sullivan worked at two big Wall Street firms -- UBS and J.P. Morgan -- before joining MF Global last year.

MF Global already does big brokerage business in the futures markets, and is aggressively expanding into other financial markets, such as cash markets, fixed income, equities and foreign exchange under new CEO Jon Corzine, the former governor, senator and Goldman Sachs chairman. O'Sullivan thinks institutional investors are eager to shift their business away from the big Wall Street firms to some of the top-notch smaller firms.

The runners-up in the April contest were Michelle Girard's team at RBS Securities, Nigel Gaul and Brian Bethune of IHS Global Insight, Lou Crandall of Wrightson ICAP, and Stephen Stanley of Pierpont Securities.

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 forecast of the most recent winner. See our complete economic calendar and consensus forecasts.

Over the past year, the top economists are, in order: Nigel Gaul and Brian Bethune of IHS Global Insight, the team at RBS Securities now led by Michele Girard and formerly run by Stephen Stanley; Maury Harris' team at UBS; Spencer Staples of Econoguide; Aaron Smith and Ryan Sweet of Moody's Economy.com; Peter D'Antonio of CitiGroup; Ethan Harris' team at Bank of America Merrill Lynch; David Wyss and Beth Ann Bonvoisin of Standard & Poor's; Lou Crandall of Wrightson ICAP; and John Silvia's team at Wells Fargo Securities.

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