of employment in January 2008 to December 2010, 7.7 million jobs were lost in the United States, and by the end of 2011 only 1.8 million jobs had been recouped—not far ahead of the rate of population growth. Additionally, real wage growth was negative for the past two years, further underscoring the challenges for growth in U.S. consumer spending.

The U.S. economy is projected to grow by 2.1 percent in 2012 and by 2.4 percent in 2013. Continuing weakness in the housing sector and the labor market, combined with the deleveraging process, is expected to keep the recovery slow. With domestic factors paramount in the U.S. economic picture, only a modest improvement in the unemployment rate (to 8.2 percent) is expected, a level already reached in March 2012. The output gap will persist, which will keep core inflation in check for the foreseeable future while monetary policy is expected to continue to be accommodating.

Downside risks remain significant. Many tax provisions, including the cuts introduced during the previous presidency, are scheduled to expire in 2013. Should the political difficulties and gridlock in the United States persist until then, failure to renegotiate these as well as the scheduled automated spending cuts may contribute negatively to economic growth. The European sovereign debt crisis is the main foreign influence, primarily through the effects of the possible negative scenario on business confidence and investment in the United States. The housing sector will remain the key element in the recovery, where action on mortgage refinancing, broadly supportive of consumers, could help clear the existing overhang of foreclosures and underwater mortgages and kick-start the much-needed growth in that sector.

Japan

Japan's troubled economy achieved 4.4 percent growth in 2010, the fastest among major advanced nations that year, and its best showing in a generation. Unfortunately, Japan's success was cut short in 2011 by the Great East Japan earthquake. On top of the widespread devastation caused by the earthquake itself, tsunami and fires multiplied the damage, and the consequent long-term radioactive sore at the Fukushima nuclear plant may yet prove to be the most damaging blow of all. Considering the magnitude of these disasters, the Japanese economy proved very resilient, contracting by only 0.7 percent in 2011. Real GDP fell 7.9 percent in the first quarter, 1.2 percent in the second and then rebounded 7.6 percent in the third quarter, stronger than anticipated. Floods in Thailand in the fourth quarter presented additional shocks to the Japanese economy, bringing down the last quarter's results to 0.1 percent, and the average growth for 2011 to negative 0.7 percent (all rates annualized).

Trade was the key influence on Japan's GDP in 2011. The 3.1-percentage point contribution by exports to real GDP in 2010 vanished in 2011, and the drag from imports decelerated somewhat from 1.4 percentage points to 0.8 percentage point as imports grew just 5.8 percent in real terms. The resulting impact from net exports on GDP growth was negative 0.8 percentage point.

Private consumption rose 0.1 percent in 2011 and contributed 0.1 percent to GDP growth. A 0.4-percentage point increase in government consumption (which grew 2.0 percent in real terms) was offset by a decrease of 0.5 percentage point in private inventories and a fall of 0.2 percentage point in public investment (which decreased 3.6 percent