

The Economic Outlook

March 2009

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Will April Showers Bring May Flowers?

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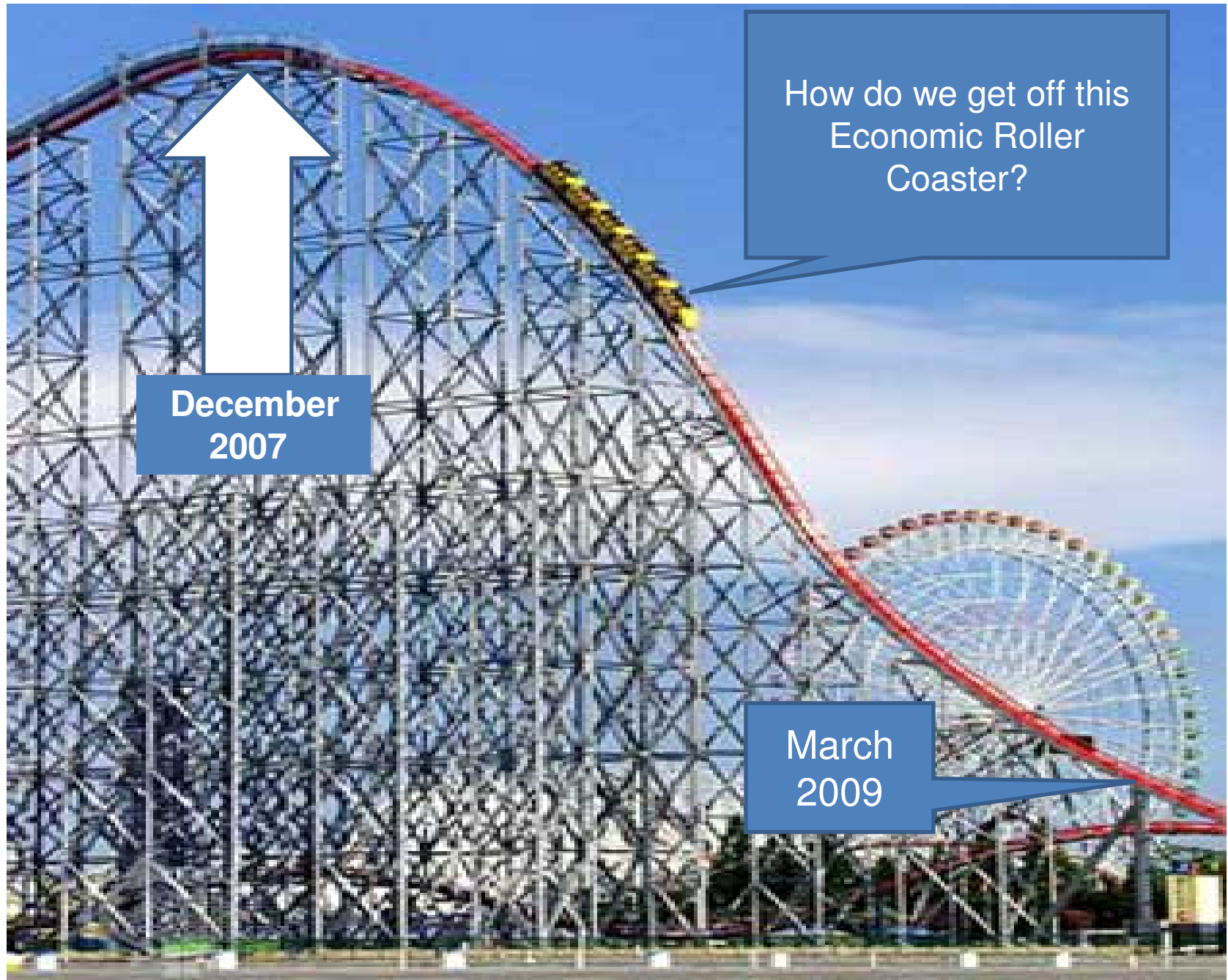


Will April Showers Bring
May Flowers?

Well, maybe in 2010.



Bruce Yandle
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December
2007

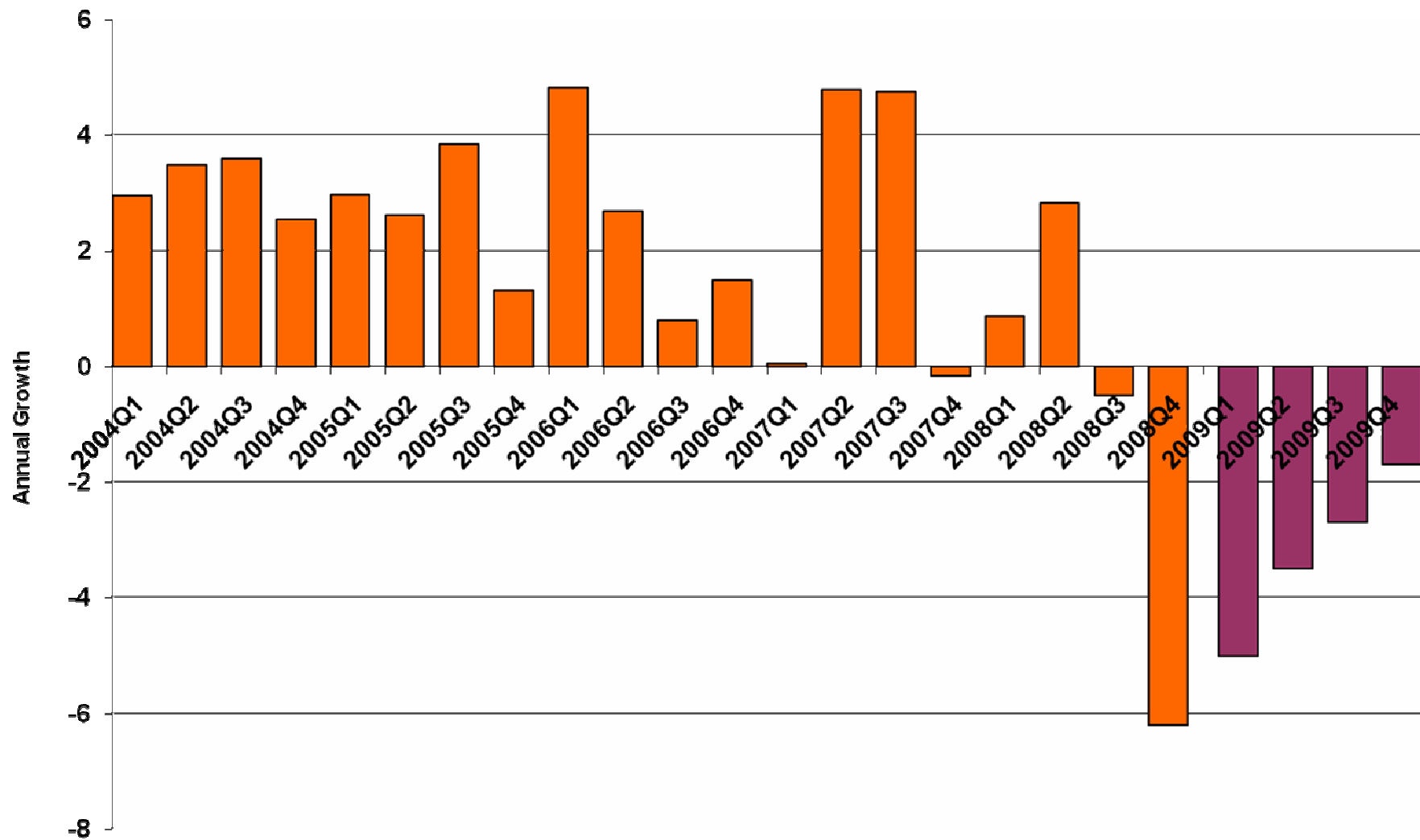
How do we get off this
Economic Roller
Coaster?

March
2009

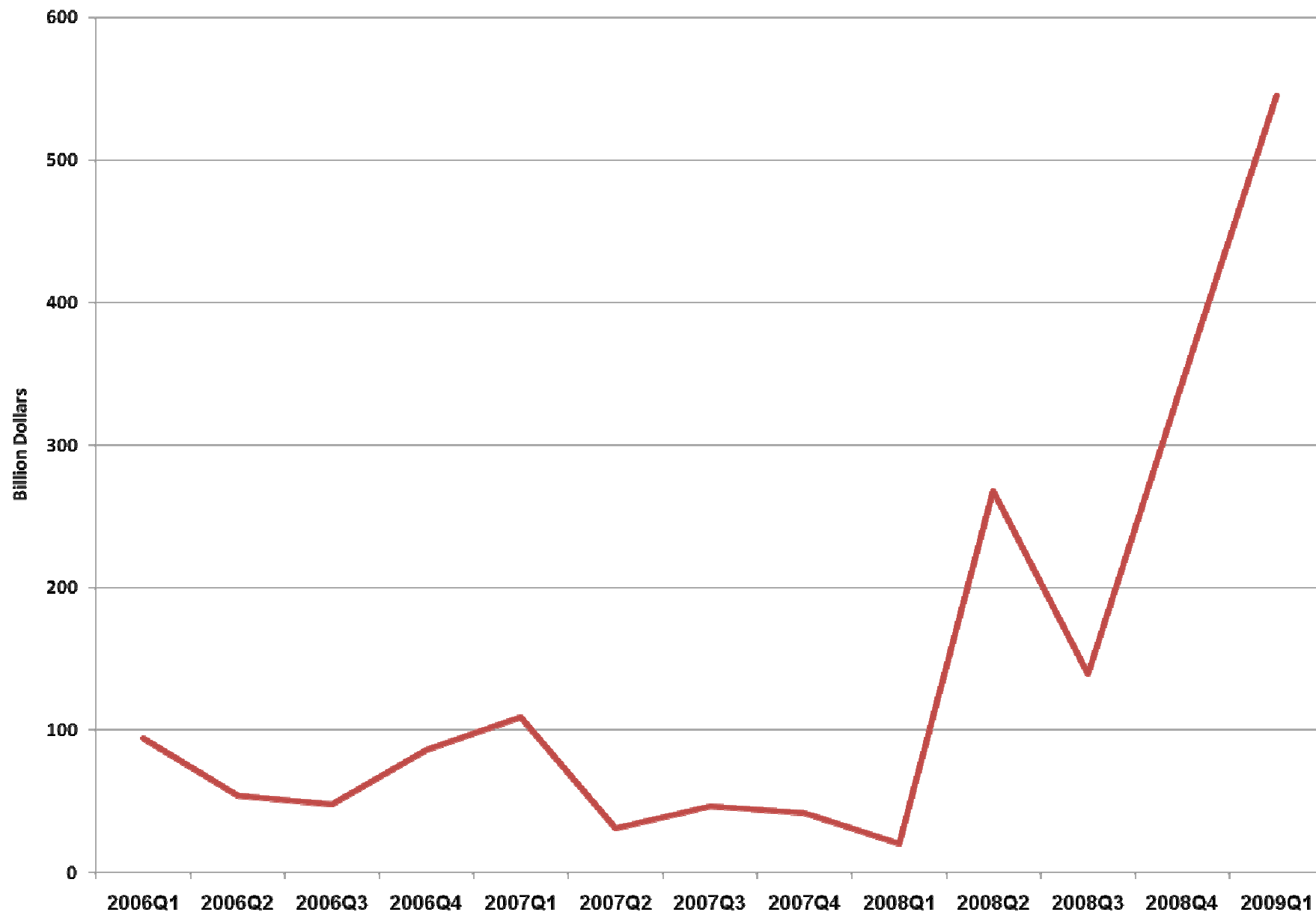


Forecast	GDP Forecasts: 2008-2009	
	February 28, 2009	
Blue Chip (Sept.)	1.8%	1.5%
CBO (Sept.)	0.9%	1.8%
World Bank (Sept.)	1.1%	1.9%
IMF (Oct.)	1.6%	0.1%
Economist.com (Nov.)	1.4%	-0.2%
Economy.com (Nov.)	1.4%	0.0%
Wachovia (Nov.)	1.3%	-1.0%
Economist.com (Dec.)	1.2%	-1.7%
Wachovia (Jan.)	1.2%	-2.3%
Economy.com (Feb.)	1.2%	-1.7%
Economist.com (Feb.)	1.2%	-2.0
CBO (Feb.)	1.2%	-2.2

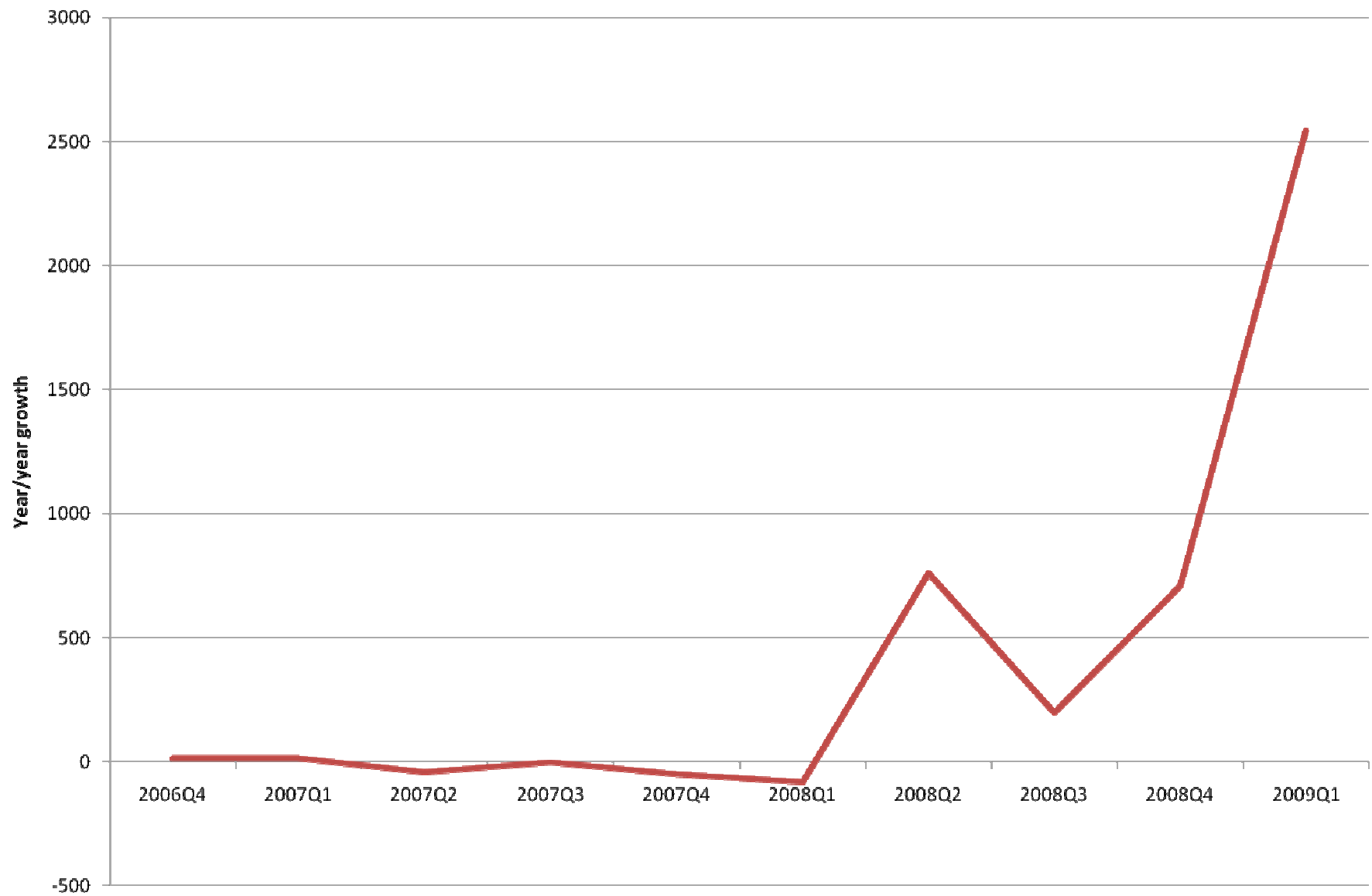
Real GDP Growth, 2004-2008



U.S. Personal Savings, Annual Level



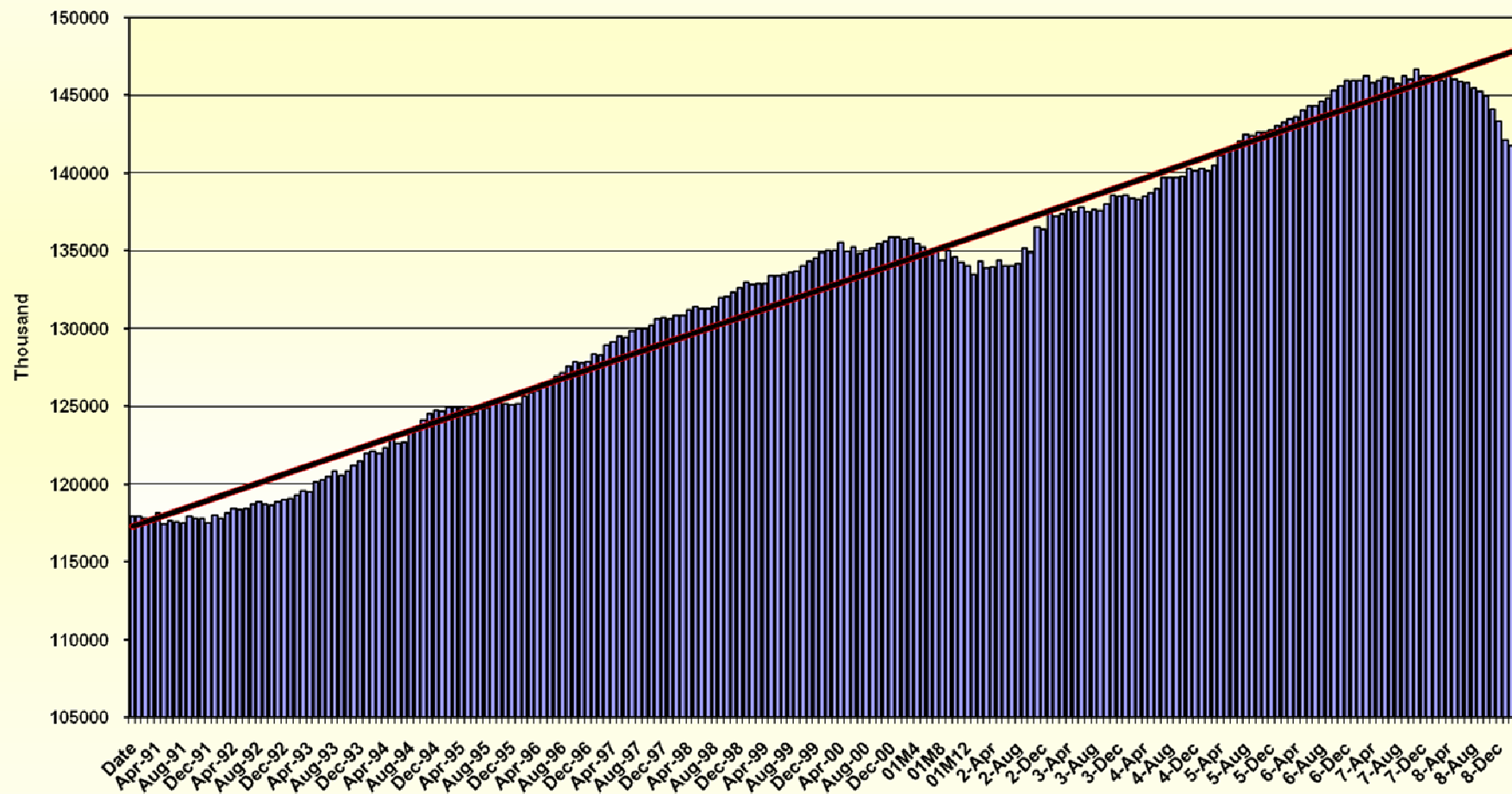
U.S. Personal Savings, Year/Year Growth



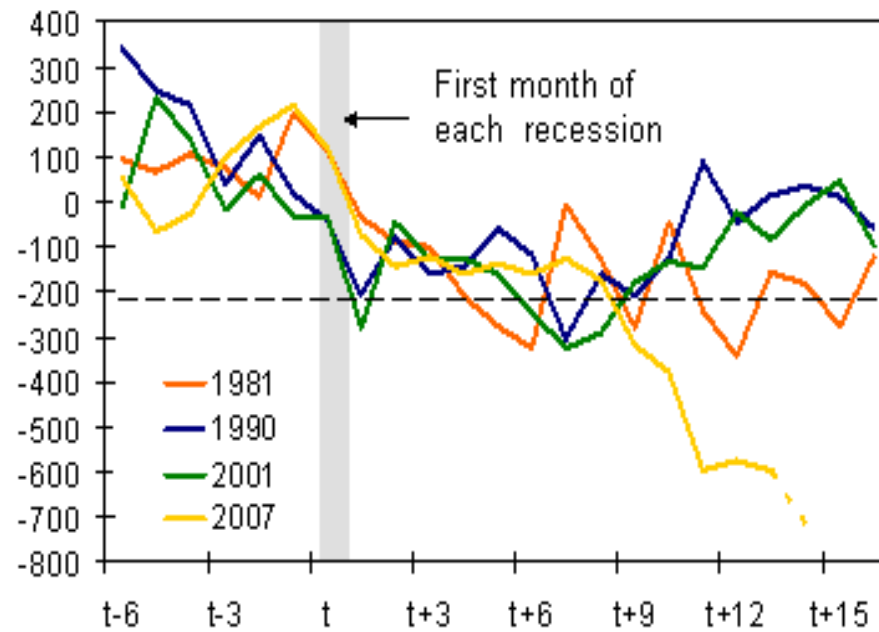
Business Cycle Reference Dates & Duration

Peak	Trough	Contraction
April 1960	Feb. 1961	10 months
Dec. 1969	Nov. 1970	11
Nov. 1973	March 1975	16
Jan. 1980	July 1980	6
July 1981	Nov. 1982	16
July 1990	March 1991	8
March 2001	Nov. 2001	8
Dec. 2007	?	15 and going
1854-2001 (32)		17
1945-2001 (10)		10

Total Employed, 16 and Over, Seasonally Adjusted
Household Survey, with Trend
1/1991 - 2/2009



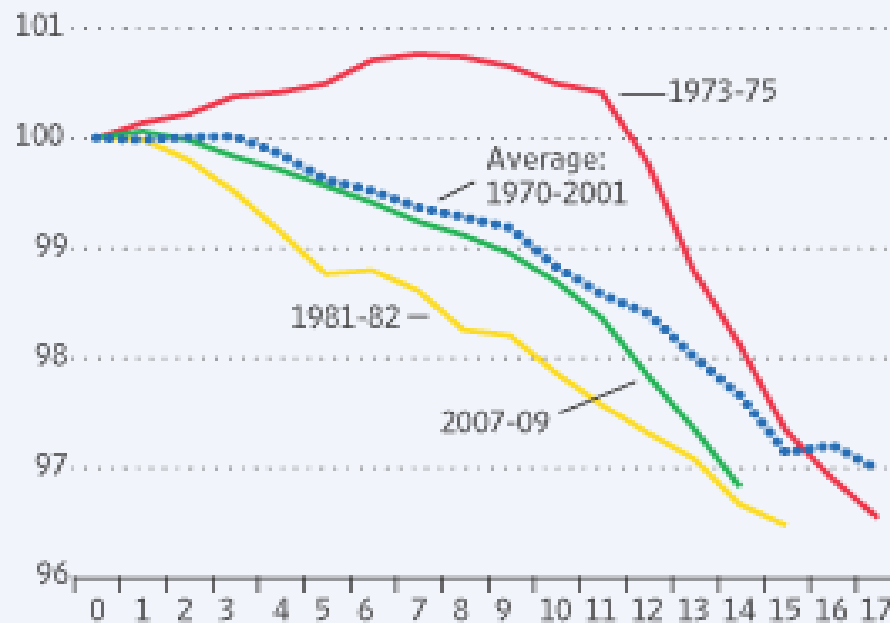
The Bottom Falls Out of the Labor Market
Nonfarm payrolls, change, ths



Economy.com. March 5, 2009

Comparing Recessions

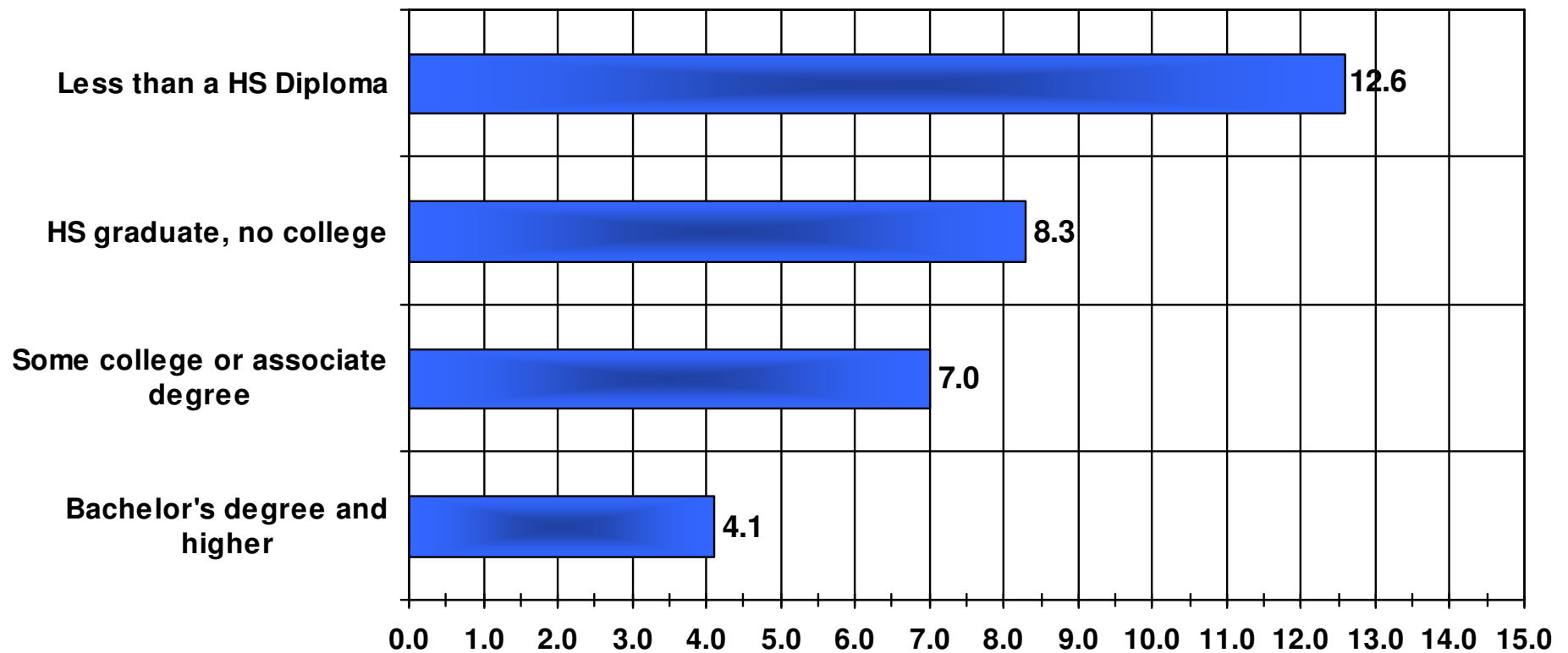
Employment losses across the length of economic downturns (measured in months), since 1970



Source: John Cogan, Hoover Institution, based on Bureau of Labor Statistics data

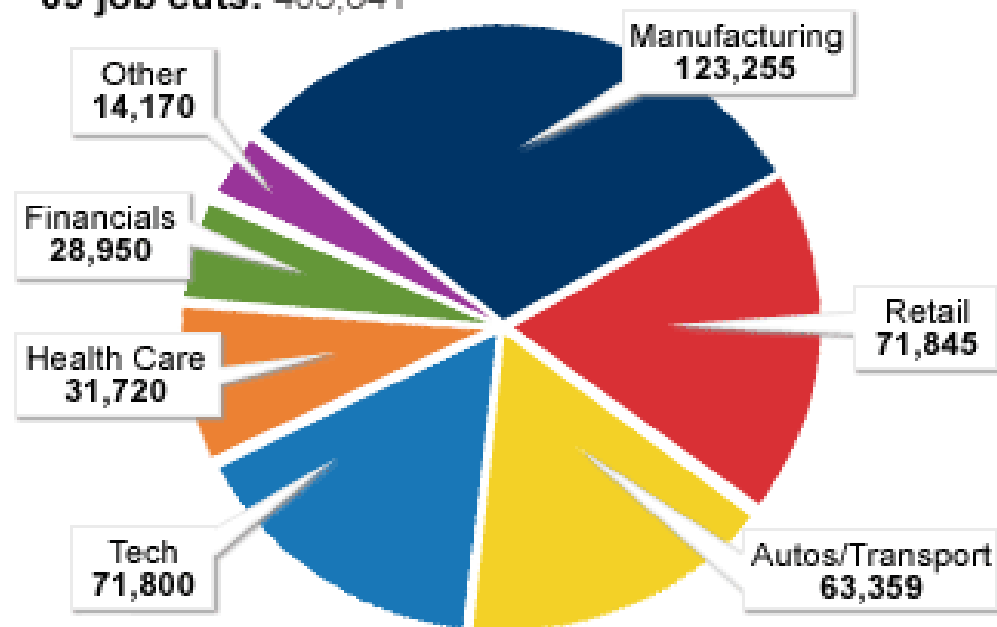
The Obama Economy Cont'd. Wall Street Journal, March 6, 2009, A 14.

US Unemployment Rate by Educational Attainment 2/2009



Source: Bureau of Labor Statistics

'09 job cuts: 405,641



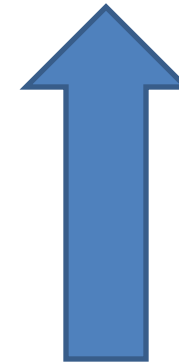
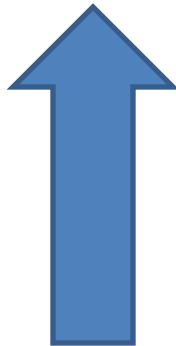
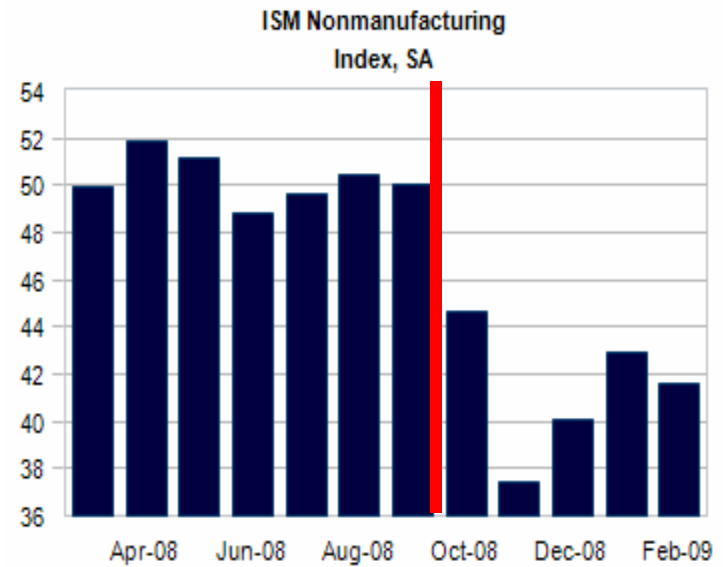
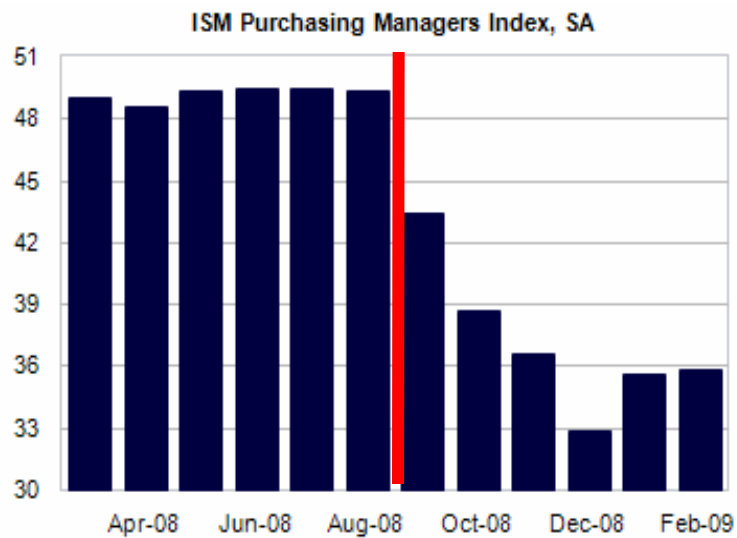
SOURCE: COMPANY 10K FILINGS

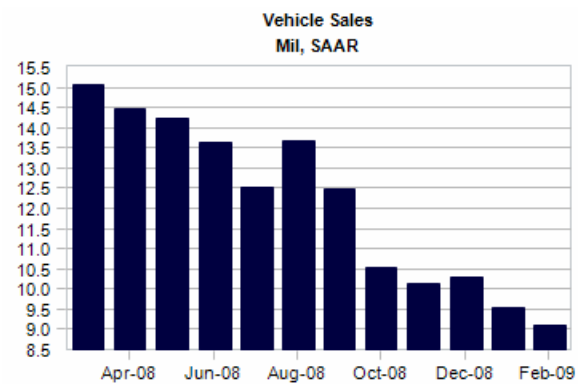
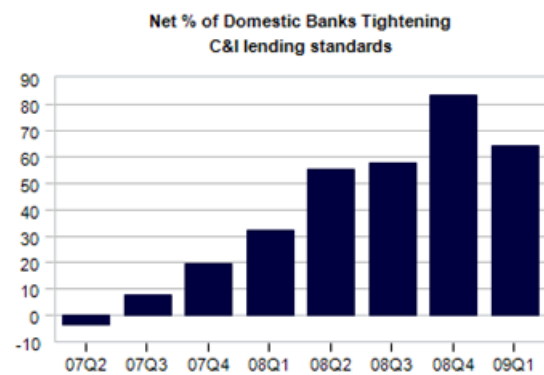
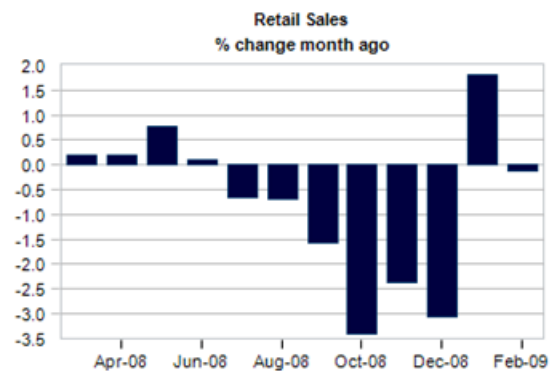
Getting the Economic Engine Started

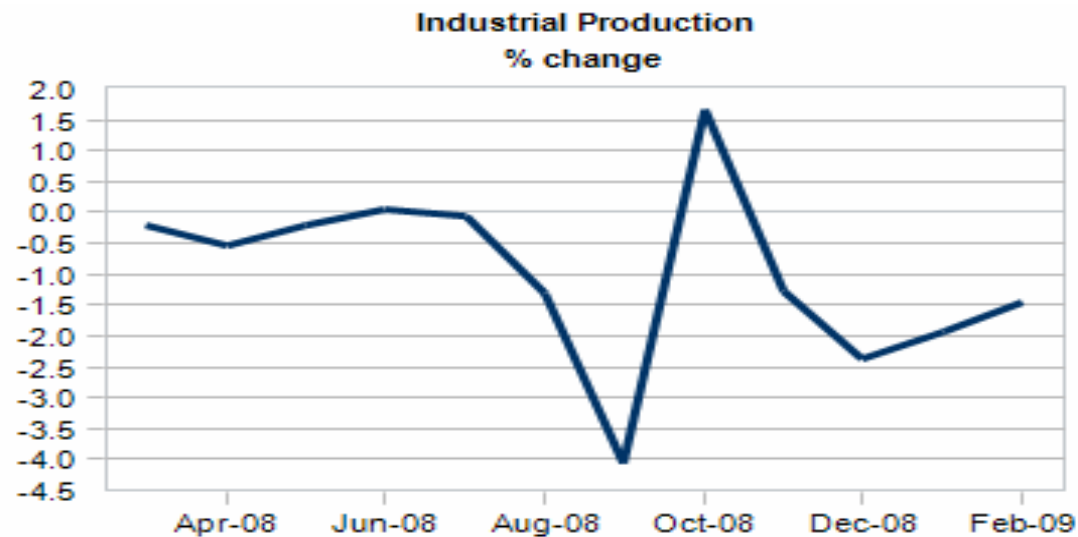
- 1. Monetary Policy**
- 2. Fiscal Policy**
- 3. Industrial Policy**
- 4. Market Forces**



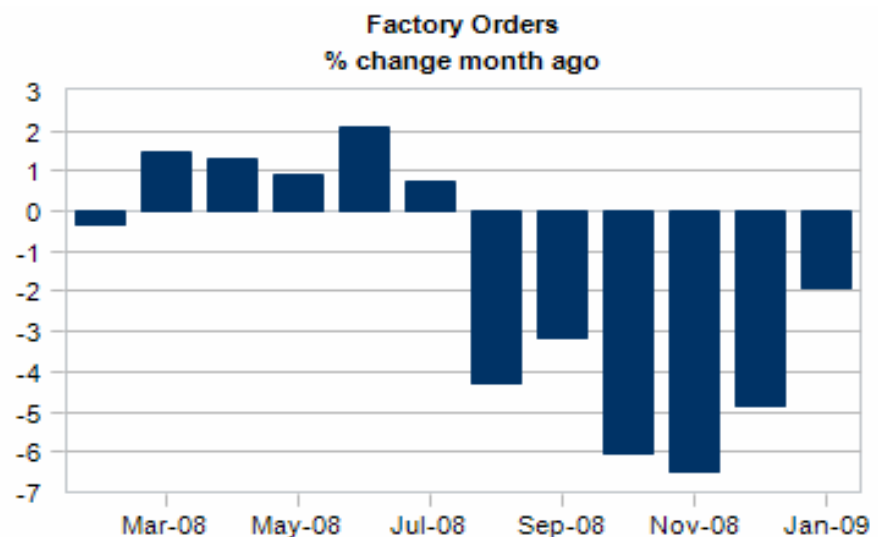
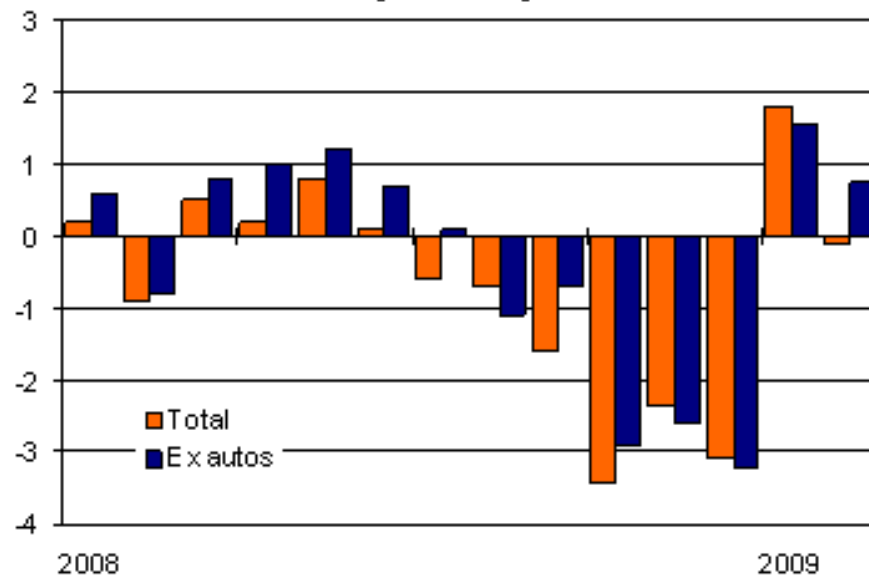
Two Key U.S. Economic Indicators



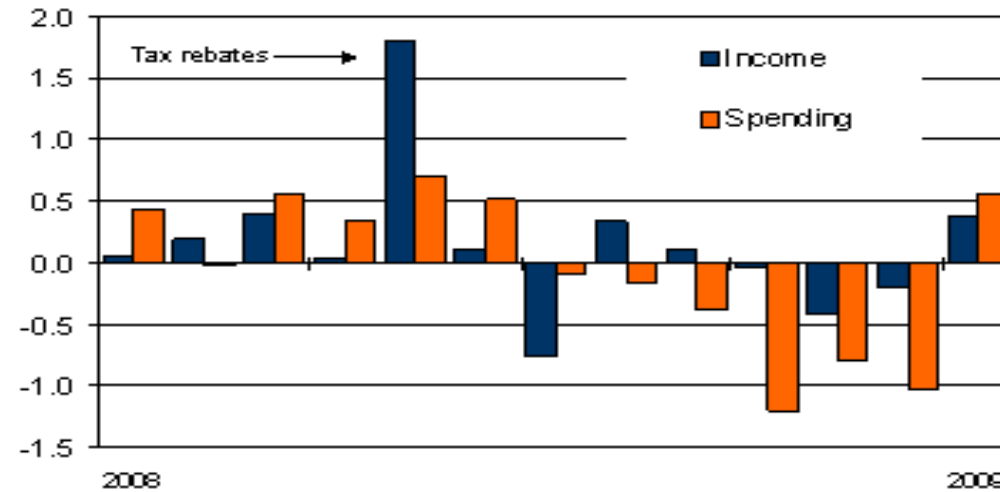




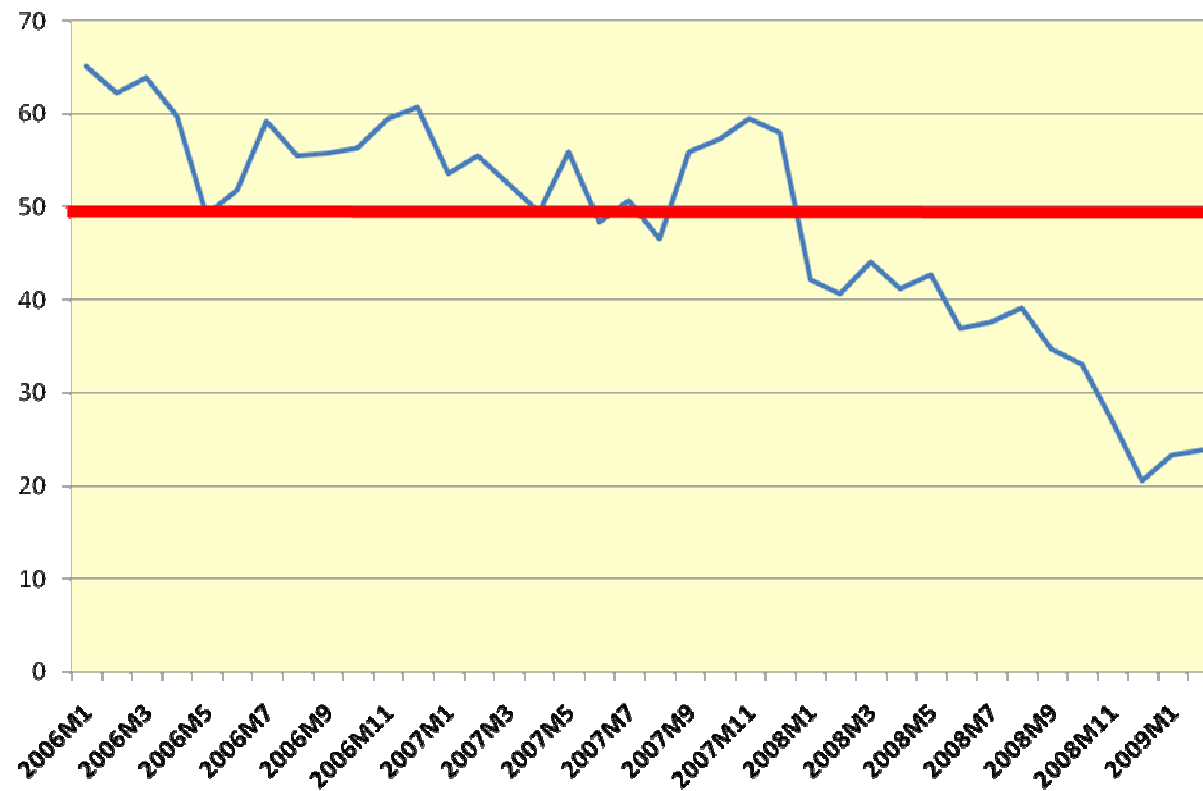
Are consumers starting to shop again?
U.S. retail sales, monthly % change



Growth in Nominal Income & Spending, 2008- January 2009.

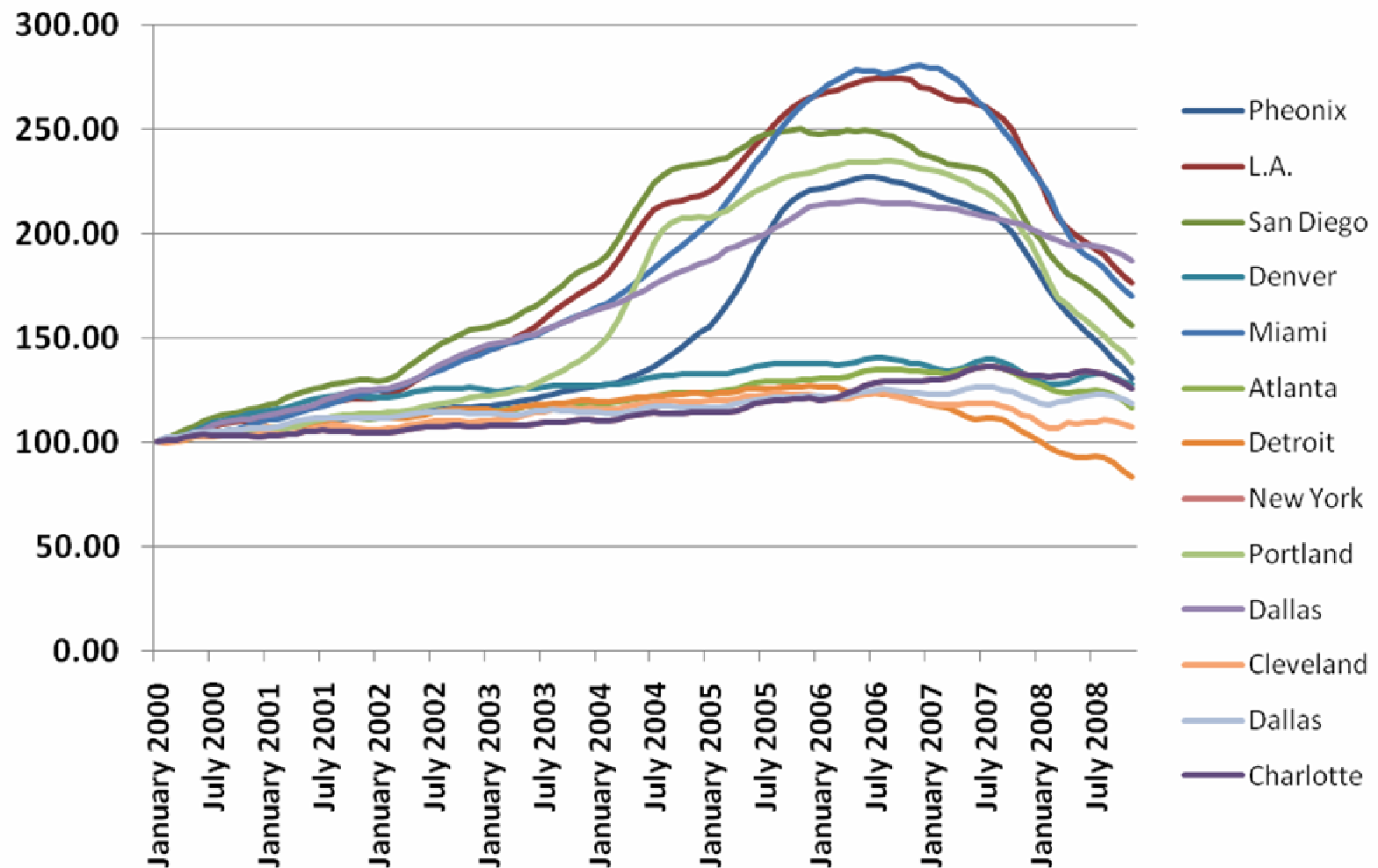


**Diffusion Index: 1/2006-2/2009
(271 industries, over 1-month span)**



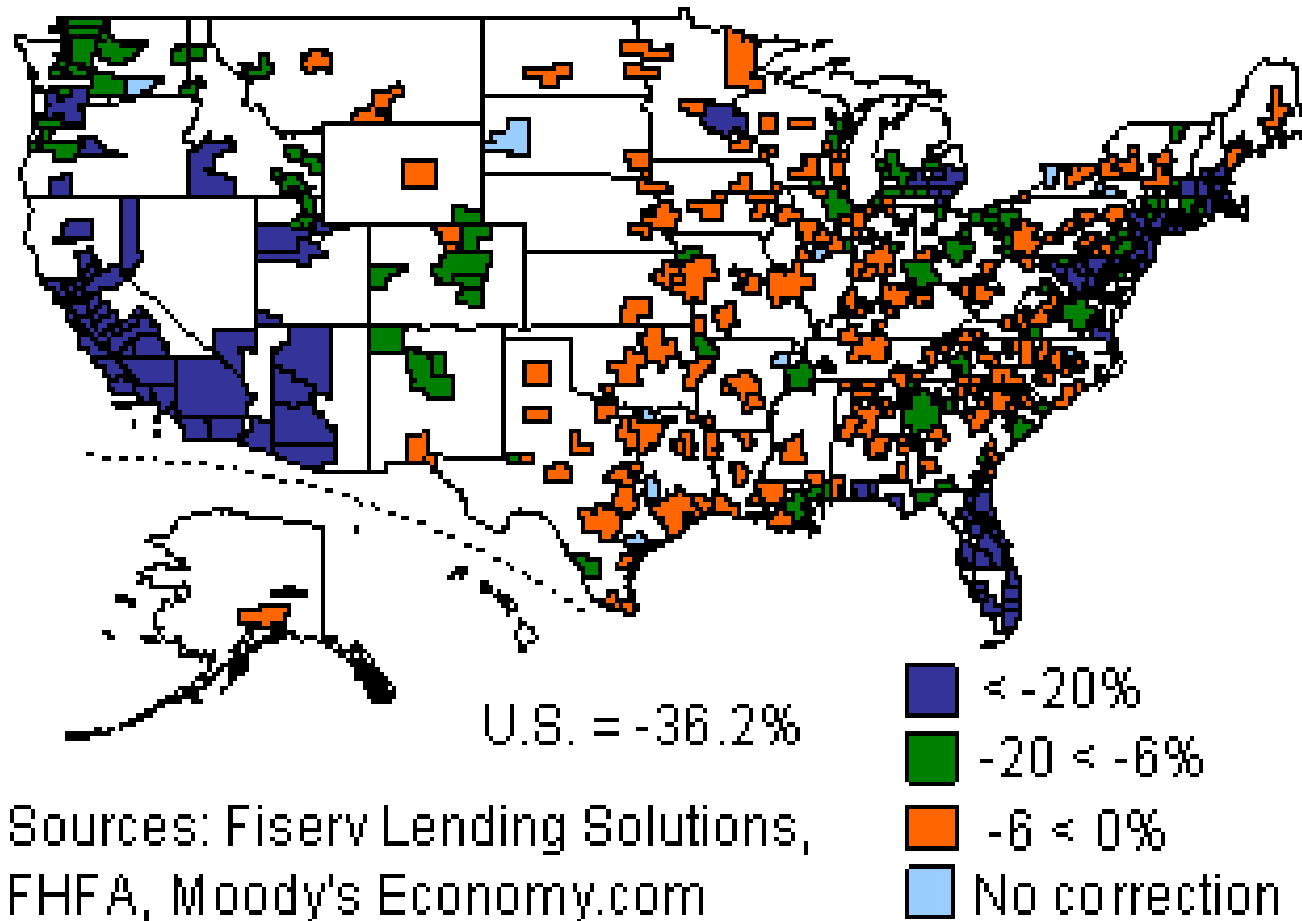
Housing & the Imprint

S&P Shiller Housing Index, January 2000 - November 2008

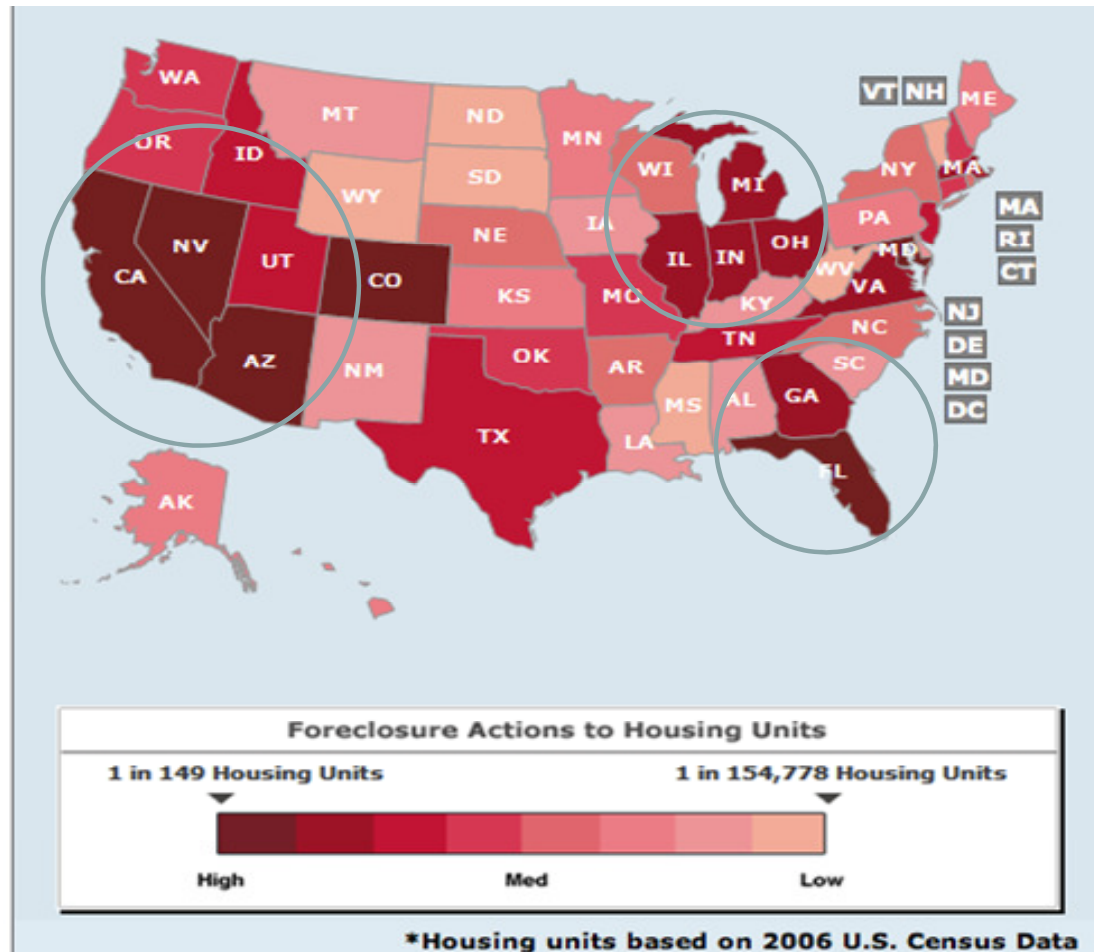


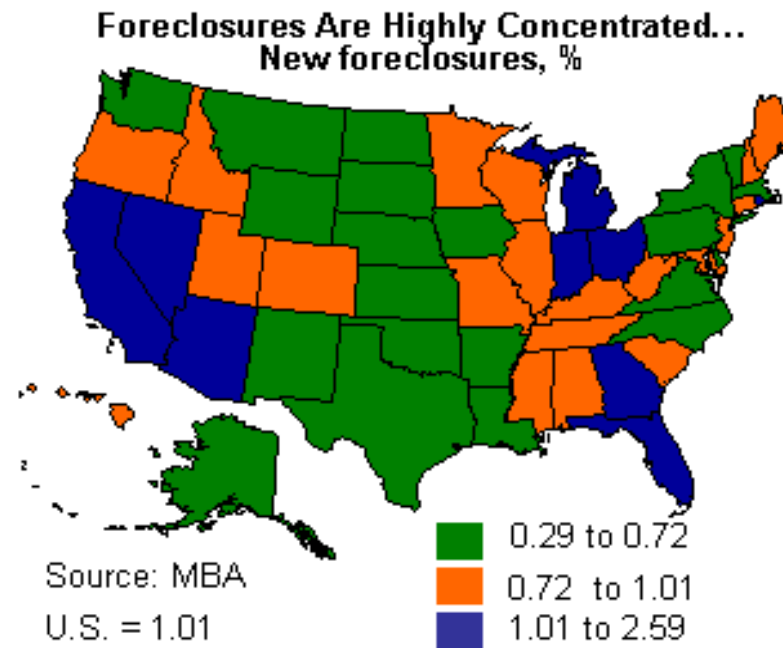
House Prices Correct Most on the Coasts

Case-Shiller HPI, expected peak-to-trough decline



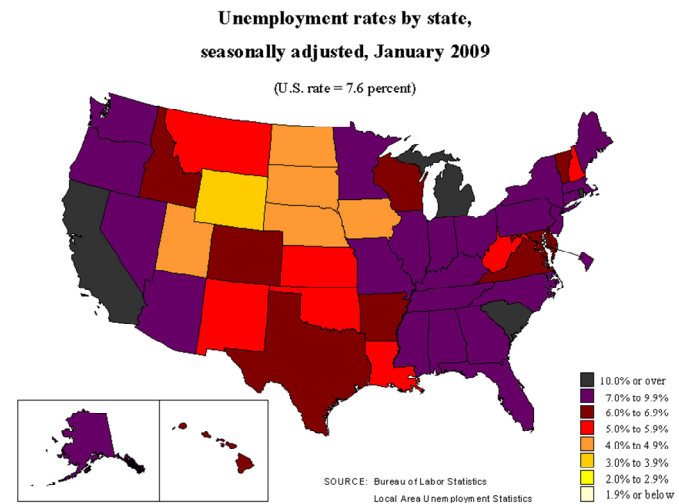
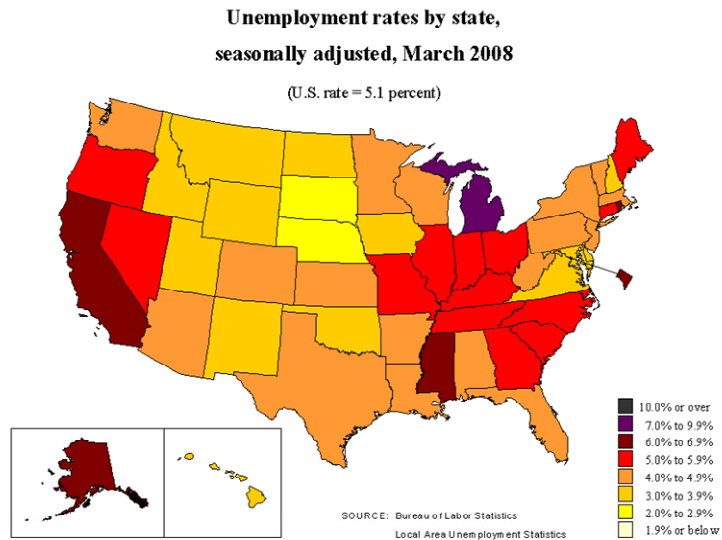
Mortgage Default Rate, April 2008





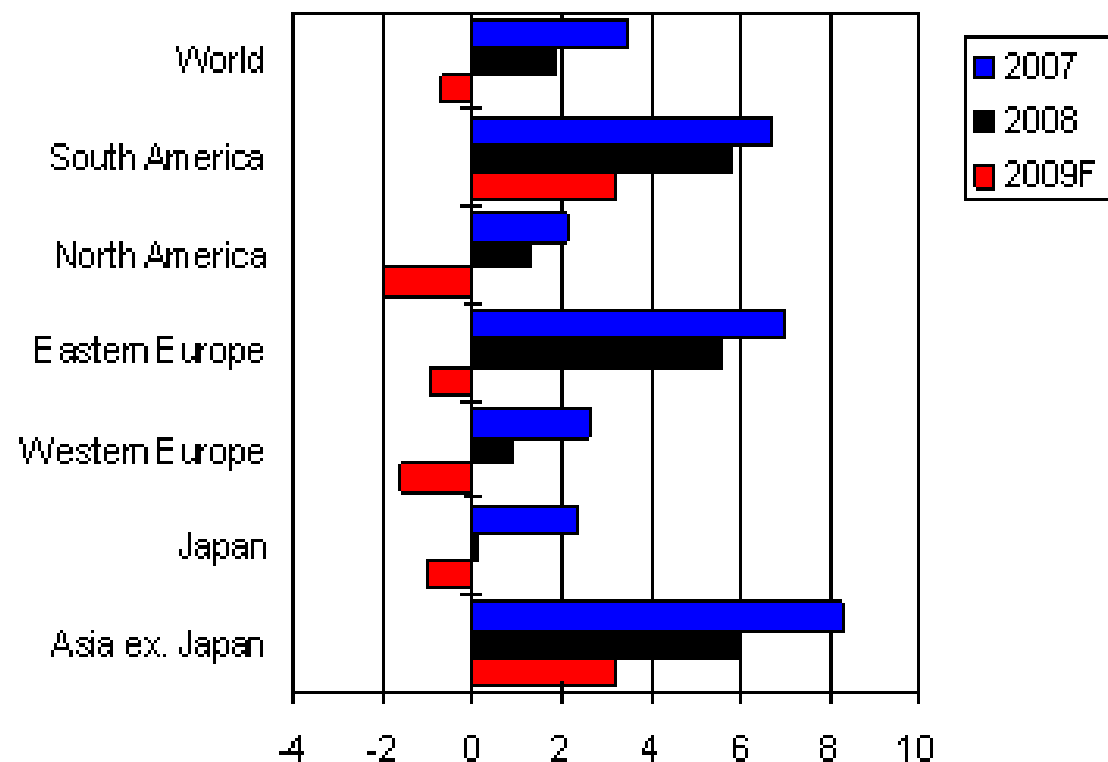
Economy.com, March 5,
2009

U.S. Recession Contagion



The world tumbles into recession

GDP, % change



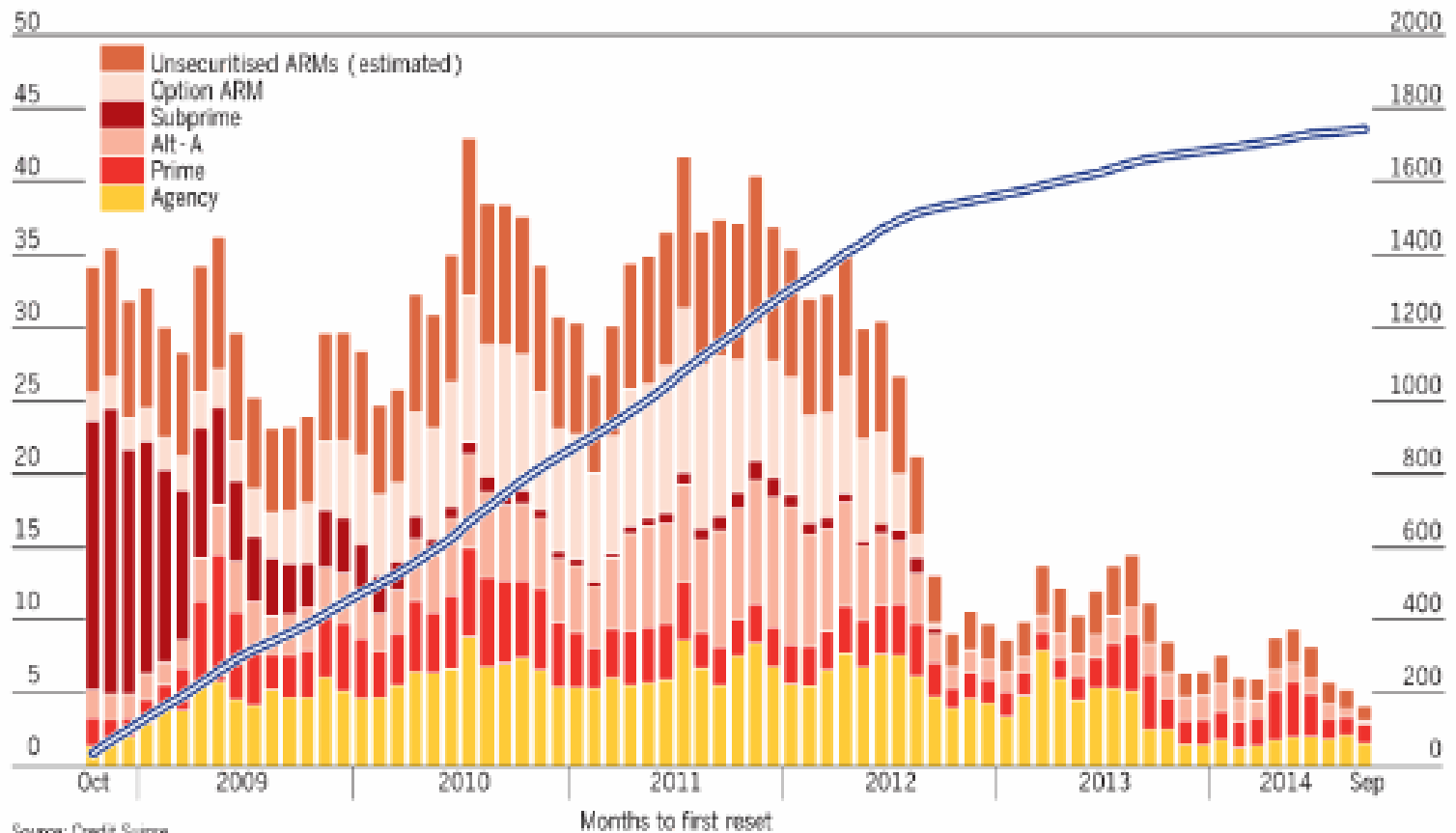
Economy.com, March 4, 2009



Next wave of US mortgage defaults

Amount (\$bn)

Estimated cumulative reset amount (\$bn)



Source: Credit Suisse

Next Three Months?

1. The Obama Administration hits the ground running. A major stimulus package is passed, giving immediate cuts in withholding. A massive public works program is approved, but that will take time to have an effect. Meanwhile recessionary forces are still taking their toll. Unemployment rises to 8.0%. Industrial production growth stays negative, as does real GDP growth. The Dow Jones reaches 9600.

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2. Bailout interest rate cuts weaken the dollar even more, and crude oil rises to \$60 a barrel. The Dow sinks to 8500 and interest rates on 30-year, fixed rate mortgages rise to 5%. More failing banks get merged with the big guys. Unemployment hits 8.2%.

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3. The bailouts and monetary policy work wonders. Apparently just the right amount of reflation grabs hold. Housing prices begin to stabilize. Employment growth resumes. The unemployment rate settles in at 7.5% in March. Oil prices fall to \$30 a barrel. The Dow nudges toward 11000.

0

Next Three Months?

1. **The Great Recession is finally saying “uncle.” April showers may indeed bring May flowers. By June 2009, industrial production will be growing again, 1Q2009 GDP growth will be negative, but not as bad as 4Q2008. Auto sales will be up slightly, and housing markets will be showing signs of life. Labor markets will be weak, with unemployment rising to 9.0%. But sensing brighter prospects, the Dow-Jones Industrial Average will have broken through 8000.**
2. **The economy seems to be locked into a zero growth situation with little indication of positive life in housing, autos, or retailing. Deflationary forces continue to play through the economy, with commodity prices and total personal income falling. Industrial production growth remains negative, and 1Q2009 GDP growth is weaker than 4Q2008’s minus 6.2%. Following the guidance of the real economy, the Dow Jones remains in a 6000-7000 point trading range. Unemployment breaks through the 10% barrier.**
3. **Early June data bring positive news that the Obama Administration’s efforts to stabilize and stimulate the economy are paying off. While 1Q2009 GDP growth was as weak as 4Q2008 growth, other monthly data show significant positive moves. Industrial production, the ISM indicators, and even employment data turn positive. Bank lending is growing again, and building permits for home construction are positive. The Dow Jones signals positive growth for the last half of 2009 by breaking through 8500. With all the positive news comes one piece of worrisome data. CPI inflation rises to 3.5%.**

