The Economic Outlook
March 2009

Bruce Yandle
Adjunct Distinguished Professor of Economics
Will April Showers Bring May Flowers?

Bruce Yandle
yandle@clemson.edu
Will April Showers Bring May Flowers?

Well, maybe in 2010.

Bruce Yandle
yandle@clemson.edu
How do we get off this Economic Roller Coaster?
## GDP Forecasts: 2008-2009

**February 28, 2009**

<table>
<thead>
<tr>
<th>Forecast</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blue Chip (Sept.)</td>
<td>1.8%</td>
<td>1.5%</td>
</tr>
<tr>
<td>CBO (Sept.)</td>
<td>0.9%</td>
<td>1.8%</td>
</tr>
<tr>
<td>World Bank (Sept.)</td>
<td>1.1%</td>
<td>1.9%</td>
</tr>
<tr>
<td>IMF (Oct.)</td>
<td>1.6%</td>
<td>0.1%</td>
</tr>
<tr>
<td>Economist.com (Nov.)</td>
<td>1.4%</td>
<td>-0.2%</td>
</tr>
<tr>
<td>Economy.com (Nov.)</td>
<td>1.4%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Wachovia (Nov.)</td>
<td>1.3%</td>
<td>-1.0%</td>
</tr>
<tr>
<td>Economist.com (Dec.)</td>
<td>1.2%</td>
<td>-1.7%</td>
</tr>
<tr>
<td>Wachovia (Jan.)</td>
<td>1.2%</td>
<td>-2.3%</td>
</tr>
<tr>
<td>Economy.com (Feb.)</td>
<td>1.2%</td>
<td>-1.7%</td>
</tr>
<tr>
<td>Economist.com (Feb.)</td>
<td>1.2%</td>
<td>-2.0</td>
</tr>
<tr>
<td>CBO (Feb.)</td>
<td>1.2%</td>
<td>-2.2</td>
</tr>
</tbody>
</table>
# Business Cycle Reference Dates & Duration

<table>
<thead>
<tr>
<th>Peak</th>
<th>Trough</th>
<th>Contraction</th>
</tr>
</thead>
<tbody>
<tr>
<td>April 1960</td>
<td>Feb. 1961</td>
<td>10 months</td>
</tr>
<tr>
<td>Nov. 1973</td>
<td>March 1975</td>
<td>16</td>
</tr>
<tr>
<td>Jan. 1980</td>
<td>July 1980</td>
<td>6</td>
</tr>
<tr>
<td>July 1981</td>
<td>Nov. 1982</td>
<td>16</td>
</tr>
<tr>
<td>July 1990</td>
<td>March 1991</td>
<td>8</td>
</tr>
<tr>
<td>March 2001</td>
<td>Nov. 2001</td>
<td>8</td>
</tr>
<tr>
<td>Dec. 2007</td>
<td>?</td>
<td>15 and going</td>
</tr>
<tr>
<td>1854-2001 (32)</td>
<td></td>
<td>17</td>
</tr>
<tr>
<td>1945-2001 (10)</td>
<td></td>
<td>10</td>
</tr>
</tbody>
</table>

National Bureau of Economic Research, March 4, 2009
The Bottom Falls Out of the Labor Market
Nonfarm payrolls, change, ths

First month of each recession

Economy.com. March 5, 2009
US Unemployment Rate by Educational Attainment

2/2009

- Less than a HS Diploma: 12.6%
- HS graduate, no college: 8.3%
- Some college or associate degree: 7.0%
- Bachelor's degree and higher: 4.1%

Source: Bureau of Labor Statistics
'09 job cuts: 405,641

- Manufacturing: 123,255
- Autos/Transport: 63,359
- Retail: 71,845
- Tech: 71,800
- Health Care: 31,720
- Financials: 28,950
- Other: 14,170

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

ISM Purchasing Managers Index, SA

ISM Nonmanufacturing Index, SA
Are consumers starting to shop again?

*U.S. retail sales, monthly % change*
(271 industries, over 1-month span)
Housing & the Imprint
House Prices Correct Most on the Coasts
Case-Shiller HPI, expected peak-to-trough decline

U.S. = -36.2%

Sources: Fiserv Lending Solutions, FHFA, Moody's Economy.com
Foreclosures Are Highly Concentrated...
New foreclosures, %

Source: MBA
U.S. = 1.01

0.29 to 0.72
0.72 to 1.01
1.01 to 2.59

Economy.com, March 5, 2009
U.S. Recession Contagion

Unemployment rates by state, seasonally adjusted, March 2008
(U.S. rate = 5.1 percent)

Unemployment rates by state, seasonally adjusted, January 2009
(U.S. rate = 7.6 percent)
The world tumbles into recession

GDP, % change

- World
- South America
- North America
- Eastern Europe
- Western Europe
- Japan
- Asia ex. Japan

Economy.com, March 4, 2009
Next wave of US mortgage defaults

Amount ($bn)

Unsecuritised ARMs (estimated)
Option ARM
Subprime
Alt-A
Prime
Agency

Estimated cumulative reset amount ($bn)

Source: Credit Suisse
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.

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%.

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.
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%.