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NABE Outlook: Worst of Credit Crunch and Housing to End, but Economy Still Sluggish

May 2008

*The May 2008 NABE Outlook presents the consensus of macroeconomic forecasts made by a panel of 52 professional forecasters. (See last page for listing.) The survey, covering the outlook for 2008 and 2009, was taken Apr. 17-May 1. The NABE Outlook originated in 1965 and is one of three taken by NABE; the others are the NABE Industry Conditions Survey and the NABE Economic Policy Survey. Founded in 1959, the National Association for Business Economics is the professional association for people who use economics in their work. NABE has more than 2,300 members and 41 chapters nationwide. **Lynn Reaser**, Bank of America; **Robert Fry**, DuPont; and **Charles Steindel**, Federal Reserve Bank of New York, conducted the analysis for this report. The views expressed in this report are those of the analysts and do not necessarily represent the views of their affiliated companies or institutions. Visit www.nabe.com for survey responses. May be reprinted in whole or in part with credit given to NABE.*

SUMMARY: “Although housing and credit markets will gradually loosen their grip, U.S. economic growth is expected to only slowly return to health,” said **Ellen Hughes-Cromwick**, NABE president and chief economist at Ford Motor Company. “While our panel anticipates an improvement in credit markets and a bottoming out in housing this year, the forecasters have marked down their estimates of growth for both 2008 and 2009.”

Highlights

- **The NABE panel continues to expect little economic growth in the first half of 2008 and has cut its expectations for the second half.** The economists surveyed look for real GDP to grow at a meager 0.4% annual rate in the second quarter, after two straight quarters of output expanding at a 0.6% pace.
- **The panel is still fairly evenly split on whether the current weak episode will be put on the books as a recession. A total of 56% believes that a recession has already begun or will develop in 2008,** compared with 45% in the February survey. Whatever its name, **the panel expects only modest near-term improvement. The current forecast shows real GDP growing at an annualized rate averaging just 2.1% in the second half of 2008,** down substantially from February’s call for growth of 2.8% during that period. **The outlook for 2009 was also marked down slightly,** with the group seeing growth of 2.7% over the course of next year, compared with 2.9% in the last report.
- **Respondents cut their estimates for consumer and capital spending in 2008 and 2009, but boosted net exports.** The outlook for housing starts was little changed, with starts expected to total 990 thousand units in 2008 and 1.12 million in 2009, compared with projections of 1.00 million for 2008 and 1.15 million for 2009 in the February survey. **The OFHEO index of housing prices is expected to drop 4.8% in 2008, and edge down 0.3% in 2009,** a bit below the forecasts in the last survey.

- **The trade deficit is expected to narrow further both this year and next. Forecasts for real import growth have been reduced, and those for real exports have been increased.** The panel expects exports to continue to grow in importance for the U. S. economy, with their share of real GDP rising to 13% in 2008 versus their 12.2% share in 2007.
- **While the dollar's recovery path has been marked down, the greenback is projected to gradually strengthen this year and next.** The euro is seen to be worth \$1.50 at the end of 2008 and \$1.40 at the end of 2009, compared with its recent April peak of \$1.60.
- **Increases in projections for unemployment and the federal budget deficit have accompanied the downgrades in expectations for GDP.** The panel sees the unemployment rate averaging 5.3% in 2008 and 5.6% in 2009; the previous call was for the jobless rate to average 5.2% in both years. The federal deficit is now expected to reach almost \$400 billion in fiscal 2008 before receding moderately to \$328 billion in fiscal 2009 (still double the 2007 figure).
- **The panel generally raised its forecasts for both headline inflation and core inflation, particularly for 2008.** The Consumer Price Index is expected to rise 3.1% (on a fourth-quarter-to-fourth-quarter basis) in 2008 compared with the 2.5% projected in February. The index is expected to rise 2.3% over the course of 2009, the same as in the last survey. A higher path for oil prices accounts for much of the higher path for the CPI; the dollar price for a barrel of oil is expected to be \$98 in December 2008 and \$92 in December 2009. These are well below current market quotes, but much higher than the figures of \$84 and \$80 seen for these months in the February survey. **The forecasters expect "core" inflation (as measured by the fourth-quarter-to-fourth-quarter rise in the personal consumption expenditures price index excluding food and energy) to be 2.1% in 2008 and 2.0% in 2009,** slightly above the 2.0% and 1.9% seen for those years in the last survey, and just above, or right at the top, of the Federal Reserve's perceived comfort zone of 1.0% to 2.0% for underlying inflation.
- **The consensus of the economists surveyed is that the Federal Reserve will hold its federal funds rate target at 2.00% this year before raising it to 3.00% by the end of 2009. Long-term interest rates are projected to move higher both this year and next from their recent lows.** The yield on 10-year Treasury notes is seen ending 2008 at 4.00% before rising to 4.50% by the end of 2009. **The panel continues to expect that the stock market will recover, with the S&P index rising to 1495 by the end of 2008 and to 1575 in 2009.**

Special Questions

- **The panelists cited weakness in housing as the factor most responsible for the current slump/recession** in the U.S. economy, followed closely by the credit crunch and high food, energy, and commodity prices. The panelists attributed much less blame to negative media reports and uncertainty about economic policy under the next Administration.
- **Any downturn is expected to be short,** with nearly three-quarters of those projecting a recession calling for it to end in either the second or third quarter of 2008. Only one respondent expects the recession to last beyond the first quarter of 2009. **The shallowness of any expected recession is also indicated by the fact that the median forecast shows no quarters of negative real GDP growth.**

- One reason that the downturn is expected to be short is that **over 60% of the panelists expect credit availability for consumers and businesses to improve in the second half of 2008**. Fewer than 14% expect credit availability to worsen. In response to a question about the efficacy of the Fed's recent liquidity actions, half the respondents said that the actions will have a minimal impact on growth this year but have successfully averted a devastating financial crisis. About 40% said that the actions will work to boost real growth by at least one-fourth of a percentage point over the course of 2008. Regardless of their assessment of the impact on growth, more than 20% of the economics panel thinks the actions will ultimately foster excessive risk-taking and will work to keep inflation well above the Fed's comfort zone of 2% through 2010.
- **The panelists were divided about how much of the tax rebates now being issued will be spent** by U.S. household by the end of 2008. A small plurality (35%) of respondents believes that households will spend 26-50% of the tax rebates, but a quarter of respondents believes they will spend 25% or less, and 31% believe they will spend 51-75% of the rebates.
- **A slight majority (54%) of respondents remains optimistic that rising food, energy, and commodity prices will not raise core inflation** (as measured by the December/December change in the Personal Consumption Expenditures price index excluding food and energy) by more than 0.5 percentage point. A slightly larger majority (64%) believes that the dollar's decline will not cause an increase in core inflation of that magnitude.
- **The median forecaster believes that home sales (new and existing combined) will bottom out this year**, although the economists are roughly equally divided as to whether the low point will be reached in the second, third, or fourth quarters.

Table 1
NABE Outlook
Comparative Surveys
(Median Forecast Reported)

	Actual	Forecasts				
	2007	2008			2009	
		<u>Nov 07</u>	<u>Feb 08</u>	<u>May 08</u>	<u>Feb 08</u>	<u>May 08</u>
		<u>Survey</u>	<u>Survey</u>	<u>Survey</u>	<u>Survey</u>	<u>Survey</u>
Real Gross Domestic Product, % change, Q4/Q4	2.5	2.6	1.8	1.2	2.9	2.7
Real Gross Domestic Product, % change, annual average	2.2	2.5	1.8	1.4	2.7	2.3
Personal Consumption Expenditures, % change	2.9	2.3	1.8	1.5	2.4	2.0
Nonresidential Structures, % change	12.9	na	7.5	2.8	2.4	0.9
Nonresidential Equipment and Software, % change	1.3	na	3.0	1.7	4.4	3.2
Residential Investment, % change	-17.0	-16.3	-18.2	-20.4	0.6	0.4
Change in Business Inventories, billions of chained 2000\$	4.5	19.4	7.4	1.6	25.6	14.0
Net Exports, billions of chained 2000\$	-555.6	-532.0	-499.7	-473.0	-475.0	-440.6
Exports, % change	8.1	8.1	7.3	7.8	7.2	7.4
Imports, % change	1.9	3.8	2.0	1.4	4.0	3.3
Government Consumption Expenditures & Gross Investment, % change	2.0	2.2	2.3	2.1	1.6	1.8
Implicit GDP Deflator, % change	2.7	2.1	2.2	2.3	2.2	2.3
Trade Balance Goods & Services, BoP basis, \$ billions	-708.5	na	-685.0	-675.0	-659.9	-624.9
Foreign Exchange Rate, US\$ per Euro, December average	1.46	na	1.44	1.50	1.39	1.40
Trade-Weighted Value of the US\$, FRB Broad Index, December average	99.3	na	97.2	95.0	98.4	95.1
Consumer Price Index, % change, annual average	2.9	2.5	3.0	3.6	2.3	2.4
Consumer Price Index, % change, Q4/Q4	4.0	2.3	2.5	3.1	2.3	2.3
Personal Consumption Expenditures (PCE) Price Index less food & energy, % change, Q4/Q4	2.1	1.9	2.0	2.1	1.9	2.0
Nonfarm Employment, average monthly change, thousands	91	na	65	-100	121	91
Nonfarm Business Compensation Per Hour, % change	4.9	4.0	3.9	3.9	4.0	3.8
Nonfarm Business Output Per Hour, % change	1.8	1.9	1.9	1.8	2.0	2.0
Federal Funds Target, % year-end*	4.25	4.50	2.50	2.00	3.50	3.00
10-Year Treasury Note Yield, % year-end**	4.04	4.90	4.01	4.00	4.50	4.50
Federal Deficit, FY, unified, \$ billions	-162	-215	-375	-396	-321	-328
Corporate Profits After Tax, % change	4.3	4.7	1.5	0.4	5.7	6.5
Civilian Unemployment Rate, % annual average	4.6	4.9	5.2	5.3	5.2	5.6
Industrial Production, % change	1.7	2.2	1.3	0.8	2.5	2.3
Light Vehicle Sales, millions of units	16.1	16.0	15.7	15.3	16.2	15.7
Housing Starts, millions of units	1.36	1.20	1.00	0.99	1.15	1.12
Home Prices, OFHEO, % change, Q4/Q4	0.8	na	-4.0	-4.8	0.1	-0.3
Oil Prices, \$ per barrel, December average	92	75	84	98	80	92
S&P 500 Index, year-end	1,468	1,643	1,500	1495	1,600	1,575

na=not available; historical data from Haver Analytics (5/7/08); forecasts from NABE

**December average effective rate for Nov 07 surveys*

***December average for the Nov 07 surveys*

Quarterly Forecasts

	<u>GDP</u>		<u>Unemployment Rate</u>		<u>Nonfarm Employment</u>		<u>PCE Price Index, ex Food & Energy</u>	
	<u>% change, annual rate</u>		<u>% quarterly average</u>		<u>in thousands, average monthly change</u>		<u>% change, annual rate</u>	
<u>Survey:</u>	<u>2/08</u>	<u>5/08</u>	<u>2/08</u>	<u>5/08</u>	<u>2/08</u>	<u>5/08</u>	<u>2/08</u>	<u>5/08</u>
Q1-08	0.4	0.6	5.0	4.9	na	-77	2.2	2.2
Q2-08	1.0	0.4	5.2	5.2	na	-33	2.0	2.2
Q3-08	2.8	2.2	5.3	5.4	na	0	2.0	2.3
Q4-08	2.8	2.0	5.3	5.5	na	51	2.0	2.2
Q1-09	2.5	2.4	5.3	5.5	na	67	2.0	2.2
Q2-09	2.8	2.7	5.2	5.5	na	95	2.0	2.1
Q3-09	2.9	2.8	5.1	5.5	na	106	2.0	2.2
Q4-09	2.9	2.8	5.1	5.4	na	125	2.0	2.2

	<u>Fed Funds Target</u>		<u>10-Year Treasury Note Yield</u>	
	<u>% quarter-end</u>		<u>% quarter-end</u>	
<u>Survey:</u>	<u>2/08</u>	<u>5/08</u>	<u>2/08</u>	<u>5/08</u>
Q1-08	2.75	2.25	3.70	3.45
Q2-08	2.50	2.00	3.76	3.75
Q3-08	2.50	2.00	3.90	3.90
Q4-08	2.50	2.00	4.10	4.00
Q1-09	2.75	2.25	4.22	4.20
Q2-09	3.00	2.50	4.30	4.25
Q3-09	3.25	2.75	4.50	4.40
Q4-09	3.50	3.00	4.60	4.50

Table 2
NABE Outlook
 May 2008
 Distribution of Selected Responses

Annual Forecasts

	2008 Forecast			2009 Forecast		
	<u>Median</u>	<u>Five Lowest</u>	<u>Five Highest</u>	<u>Median</u>	<u>Five Lowest</u>	<u>Five Highest</u>
Real Gross Domestic Product, % change, Q4/Q4	1.2	-0.2	2.6	2.7	1.6	3.8
Consumer Price Index, % change, Q4/Q4	3.1	1.7	4.3	2.3	1.5	3.5
Personal Consumption Expenditures (PCE) Price Index less food & energy, % change, Q4/Q4	2.1	1.6	3.5	2.0	1.6	3.6
Civilian Unemployment Rate, % annual average	5.3	5.0	5.5	5.6	4.7	6.1
Federal Funds Target, % year-end	2.00	1.63	2.60	3.00	1.75	4.55
10-Year Treasury Note Yield, % year-end	4.00	3.10	4.73	4.50	3.64	5.50
Foreign Exchange Rate, US\$ per Euro, December average	1.50	1.25	1.59	1.40	1.09	1.58
Housing Starts, millions of units	.099	0.88	1.11	1.12	0.91	1.36
Home Prices, OFHEO, % change, Q4/Q4	-4.8	-7.4	-3.0	-0.3	-4.9	3.3
Oil Prices, \$ per barrel, December average	98	75	113	92	59	108
S&P 500 Index, year-end	1,495	1,326	1,600	1,575	1,141	1,699

Quarterly Forecasts

	Real Gross Domestic Product, % change, Q4/Q4			Civilian Unemployment Rate % annual average			Nonfarm Employment in thousands, average monthly change		
	<u>Median</u>	<u>Five Lowest</u>	<u>Five Highest</u>	<u>Median</u>	<u>Five Lowest</u>	<u>Five Highest</u>	<u>Median</u>	<u>Five Lowest</u>	<u>Five Highest</u>
Q1-08	0.6	-0.4	1.8	4.9	4.9	4.9	-77	-77	-77
Q2-08	0.4	-1.6	2.2	5.2	5.0	5.4	-33	-87	36
Q3-08	2.2	-0.6	4.7	5.4	5.0	5.7	0	-67	94
Q4-08	2.0	0.1	3.7	5.5	4.9	6.0	51	-58	140
Q1-09	2.4	-0.1	3.7	5.5	4.8	6.1	67	-35	159
Q2-09	2.7	0.2	3.8	5.5	4.7	6.1	95	-40	205
Q3-09	2.8	1.3	4.5	5.5	4.7	6.1	106	-10	216
Q4-09	2.8	1.3	4.1	5.4	4.6	6.1	125	-11	244

	Personal Consumption Expenditures Price Index (PCE) less food & energy % change Q4/Q4			Fed Funds Target % year-end			10-Year T-Note Yield % year-end		
	<u>Median</u>	<u>Five Lowest</u>	<u>Five Highest</u>	<u>Median</u>	<u>Five Lowest</u>	<u>Five Highest</u>	<u>Median</u>	<u>Five Lowest</u>	<u>Five Highest</u>
Q1-08	2.2	1.6	2.8	5.26	5.26	5.26	4.56	4.56	4.56
Q2-08	2.2	0.8	3.3	2.00	1.68	2.07	3.75	3.22	4.04
Q3-08	2.3	1.5	3.4	2.00	1.55	2.10	3.90	3.12	4.32
Q4-08	2.2	1.4	3.0	2.00	1.55	2.60	4.00	3.07	4.65
Q1-09	2.2	1.1	2.8	2.25	1.55	3.20	4.20	3.31	4.93
Q2-09	2.1	1.3	2.8	2.50	1.60	3.85	4.25	3.49	5.11
Q3-09	2.2	1.1	3.1	2.75	1.75	4.25	4.40	3.70	5.26
Q4-09	2.2	1.2	2.9	3.00	1.75	4.50	4.50	3.8	5.5

Five highest and five lowest are the response averages

With their permission, NABE panelists who responded to the May 2008 NABE Outlook survey are:

Michael R. Englund, Action Economics, LLC
Thomas Kevin Swift, American Chemistry Council
Esmael Adibi, Anderson Center for Economic Research
Richard Yamarone, Argus Research Corporation
Lynn Reaser, Bank of America
Sandy Batten, Bear Stearns
James W. Kleckley, Bureau of Business Research, East Carolina University
Business Economics, Caterpillar Inc.
Jan Reid, Coast Economic Consulting
Kathleen Stephansen, Credit Suisse First Boston
Will Shearin, DaimlerChrysler Corp.
Robert Fry, DuPont
Jim Meil, Eaton Corporation
Susan M. Sterne, Economic Analysis Associates, Inc.
Douglas Lee, Economics from Washington
Gene Huang, FedEx
Brian S. Wesbury / Robert Stein, First Trust Advisors, L.P.
Ellen Hughes-Cromwick/Emily Kolinski Morris, Ford Motor Company
Rajeev Dhawan, Georgia State University
Michael Paslawskyj, Independent Consultant
McCarthy & Werling, Inforum, University of Maryland
John Pope, Investment Economics
Richard Rippe, ISI Group
Bill Cheney, John Hancock Financial Services
Jim Glassman, JPMorganChase
Jack Kleinhenz, Kleinhenz and Associates
Brian R. Horrigan, Loomis Sayles & Co, LP
Diane C. Swonk, Mesirow Financial
Albert E. DePrince, Middle Tennessee State University
Mark Zandi, Moody's Economy.com, Inc.
Richard Berner & David Greenlaw, Morgan Stanley
Joel L. Naroff, Naroff Economic Advisors
Richard J. DeKaser, National City Corporation
David Resler, Nomura Securities International, Inc.
J. F. Smith, Parsec Financial
Stuart Hoffman, PNC Financial Services Group
Gary Ciminero, Rhode Island House Policy Office
Stephen Gallagher, Societe Generale
David Wyss, Standard & Poors
Lyle E. Gramley, Stanford Washington Research Group
John David Vasché, State of California
Gregory Miller, SunTrust Bank
Kurt Karl, Swiss Re
Gail Foster (Bart Van Ark), The Conference Board
Jeff Thredgold, Thredgold Economic Associates
Martin Regalia, U.S. Chamber of Commerce
Sean M. Snaith, University of Central Florida
Charles Devlin, University of Pittsburgh Medical Center
Constantine G. Soras, Verizon
John Silvia, Wachovia Corp
Scott Anderson, Wells Fargo & Co.
Jay Woodworth, Woodworth Holdings, Ltd.