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## **NABE Panel Sees Prolonged Recession November 2008**

*The November 2008 NABE Outlook presents the consensus of macroeconomic forecasts made by a panel of 50 professional forecasters. (See last page for listing.) The survey, covering the outlook for 2008 and 2009, was taken Oct. 28-Nov. 7. 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. **William Strauss**, Federal Reserve Bank of Chicago; **Richard DeKaser**, National City Bank; **Parul Jain**, Macrofin Analytics; 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](http://www.nabe.com) for survey responses. May be reprinted in whole or in part with credit given to NABE.*

SUMMARY: "Business economists became decidedly more negative on the economic outlook for the next several quarters as a result of the intensification of credit market stresses and evidence of spillover to the real economy," said **NABE President Chris Varvares, president, Macroeconomic Advisers**. "Following a small contraction in the third quarter of this year, the NABE forecasters expect real GDP to decline at a 2.6% rate in the fourth quarter, implying growth of just 0.2% in 2008. With the recession continuing into 2009, GDP growth next year is expected to be a meager 0.7%. This would be the slowest growth over a two-year period since the early 1980s. The unemployment rate is forecast to rise to 7.5% by the end of next year. Inflation is expected to moderate, as economic slack builds and as oil prices are forecast to remain relatively contained."

### **Highlights**

- **The NABE panel dramatically trimmed growth expectations for both the remainder of this year and 2009.** On a Q4/Q4 basis, real GDP is now predicted to increase just 0.2% in 2008, a full percentage point below the October forecast. The group predicts that GDP will fall at a 2.6% rate in the final quarter of this year and will decline again in the first quarter of next year, at a 1.3% pace. Expectations for GDP growth in 2009 were reduced sharply to just 0.7% from 2.2% last month.
- **A dimmer outlook for consumer spending accounted for most of the downward revisions to the overall economic outlook**, reflecting a worse outlook for household wealth and income. For example, the projected value for the **S&P 500 index at the end of 2009 was lowered 17%** compared with the last survey. Home price expectations (see below) were also lowered. In addition, the NABE panel's expectation for significantly greater and more prolonged job losses (more below) suggests significantly weaker growth of labor income than was expected in October.
- In view of the slew of negative economic reports, **96% of the NABE panelists believe that a recession has begun. Half of the panel estimates that the recession started in the fourth quarter of 2007 or in the first quarter of 2008;** however, more than one-third believes that the recession began in the third quarter of 2008. **Nearly three-fourths of the respondents think the recession could persist beyond the first quarter of 2009.**

- **Just over 60% of the NABE respondents expect that the depth of the recession should be relatively contained, with a peak-to-trough decline in real GDP of less than 1.5%, with the balance expecting a harsher contraction. Moreover, the recession is expected to reach much of the global economy. A majority of the NABE panelists expect that the U.K. (82%), the Eurozone (82%), Japan (74%), Canada (58%), and Mexico (54%) either already are in, or will soon slip into, recession. However, China and India are expected to skirt an outright contraction, though a deceleration appears likely.**
- **The jobless rate is expected to rise to 7.5% by year-end, 2009**—up markedly from October’s forecast of a peak of 6.2%. Job losses are expected to persist through the third quarter of 2009, though the NABE panel expects the losses to diminish steadily as the year unfolds.
- **Lower inflation is predicted to coincide with increased economic slack.** On a Q4/Q4 basis, the core PCE index is now expected to increase just 1.8% during 2009, 0.2 percentage-point less than the last survey. The “all-items” consumer price index is forecast to rise 1.9% for 2009, 0.4 percentage point lower than October’s estimate.
- **The median forecast of the NABE panel is for no further rate cuts from the Federal Reserve, with the federal funds rate holding steady at 1% until a modest rate hike in the fourth quarter of 2009. However, one-quarter of survey respondents expect more rate reductions.** Long-term interest rate expectations were only slightly reduced, with the 10-Year Treasury note forecast to end 2009 at 4.15%, just 20 basis points below October’s prediction. In contrast, the year-end 2009 fed funds target forecast has been slashed by 175 basis points.
- **The auto industry is projected to remain under severe pressure. Auto sales forecasts have been cut to 13.4 million units this year from the prior 14.0 million estimate. Sales in 2009 are forecast to slide to just 12.5 million instead of rising modestly to 14.2 million units.**
- **Housing starts for 2009 were marked down, with 870 thousand units expected to break ground next year.** Previously, the panel expected a bottom of 980 thousand units in 2008, with a modest improvement next year. Home prices were also marked down with a decline of 3.5% in 2009 expected, following a 6.0% drop in 2008.
- **The good news is that NABE panelists see housing demand leveling off fairly soon.** When asked to identify the bottom in home sales, the panel is evenly split between the current quarter and the next two quarters. Thus, the general expectation is that home sales should trough by mid-2009, as should housing starts. **This outlook for sales remains sufficiently weak that 48% of panelists were hesitant to call a bottom on home prices before the middle of 2009.** With new home inventories running at 10-months’ supply, it appears that home prices will bear the brunt of adjustment in equilibrating demand and supply.
- **Foreign trade is still expected to provide a lifeline to the otherwise weak economy.** The overall trade gap (balance of payments basis) is now slated to be just \$555 billion in 2009, well below the \$680-billion deficit predicted for 2008.
- **The median forecast of the federal deficit soared, due to the weakening economy, portions of the Emergency Economic Stabilization Act, and rising expectations for further stimulus. The shortfall is now expected to hit \$765 billion during fiscal year 2009.**

#### Other Issues

- Credit conditions continue to be tenuous. **Despite the hefty liquidity injections by the Fed and the Treasury, the majority of NABE panelists believe that tight credit conditions will continue,** with 30% expecting a further tightening of credit standards and terms for consumers and businesses in the first half of 2009. Only a slim 20% of panelists expressed optimism that credit conditions in the near term will become easier than seen at present. Roughly half the panelists see risk spreads (e.g. BAA-10-Year Treasury yields) narrowing moderately (25-75 basis points) from current highly elevated levels through mid-2009, with about one-fifth of the panel expecting a sharper narrowing. However, spreads are expected to narrow more dramatically by year-end 2009, with nearly 60% of the panel expecting spreads to narrow by 75 basis points or more by then.
- **The efficacy of the various programs initiated by the Federal Reserve, Treasury, and FDIC to support financial markets is a hotly debated topic. NABE panelists believe that of all the different measures introduced thus far, Treasury injections of bank capital and Fed support of the commercial paper market should most positively impact GDP growth in 2009.** However, just over 40% of the panelists believe that

Treasury purchase of mortgage-related assets would have meaningful positive impact on growth. **Additionally, while some measures should certainly help shore up investor confidence and spur inter-bank lending, the direct GDP dividend from other of these programs, such as the Term Auction Facility and increase in FDIC insurance limits, is likely to be marginal.**

**Table 1**  
**NABE Outlook**  
Comparative Surveys  
*(Median Forecast Reported)*

	Actual	Forecasts					
		2007	2008			2009	
			May 08 Survey	Oct 08 Survey	Nov 08 Survey	Oct 08 Survey	Nov 08 Survey
Real Gross Domestic Product, % change, Q4/Q4	2.3	1.2	1.2	0.2	2.2	0.7	
Real Gross Domestic Product, % change, annual average	2.0	1.4	1.8	1.4	1.6	-0.2	
Personal Consumption Expenditures, % change	2.8	1.5	1.0	0.5	1.2	-0.2	
Nonresidential Structures, % change	12.7	2.8	9.7	11.1	-1.0	-3.1	
Nonresidential Equipment and Software, % change	1.7	1.7	0.6	-1.1	1.4	-3.1	
Residential Investment, % change	-17.9	-20.4	-20.1	-20.8	-4.7	-9.1	
Change in Business Inventories, billions of chained 2000\$	-2.5	1.6	-27.3	-33.1	4.1	-14.4	
Net Exports, billions of chained 2000\$	-546.5	-473.0	-390.8	-383.0	-346.4	-323.0	
Exports, % change	8.4	7.8	9.0	8.5	5.9	4.1	
Imports, % change	2.2	1.4	-1.5	-2.2	1.9	-0.4	
Government Consumption Expenditures & Gross Investment, % change	2.1	2.1	2.3	2.9	1.7	2.0	
Implicit GDP Deflator, % change	2.7	2.3	2.3	2.4	2.2	2.1	
Trade Balance Goods & Services, BoP basis, \$ billions	-700.3	-675.0	-680.5	-680.0	-609.0	-555.0	
Foreign Exchange Rate, US\$ per Euro, December average	1.46	1.50	1.42	1.29	1.36	1.25	
Trade-Weighted Value of the US\$, FRB Broad Index, December average	99.3	95.0	99.0	103.5	99.0	104.2	
Consumer Price Index, % change, annual average	2.9	3.6	4.4	4.2	2.6	1.8	
Consumer Price Index, % change, Q4/Q4	4.0	3.1	4.2	3.4	2.3	1.9	
Personal Consumption Expenditures (PCE) Price Index less food & energy, % change, Q4/Q4	2.2	2.1	2.3	2.3	2.0	1.8	
Nonfarm Employment, average monthly change, thousands	91	-100	-71	-95	24	-52	
Nonfarm Business Compensation Per Hour, % change	4.1	3.9	3.9	3.8	3.6	3.4	
Nonfarm Business Output Per Hour, % change	1.4	1.8	2.6	2.4	1.9	1.5	
Federal Funds Target, % year-end	4.25	2.00	2.00	1.00	2.75	1.30	
10-Year Treasury Note Yield, % year-end	4.04	4.00	3.80	3.80	4.35	4.15	
Federal Deficit, FY, unified, \$ billions	-162	-396	-410	-455	-482	-765	
Corporate Profits After Tax, % change	2.2	0.4	-5.9	-6.8	4.4	0.1	
Civilian Unemployment Rate, % annual average	4.6	5.3	5.6	5.7	6.4	7.3	
Industrial Production, % change	1.7	0.8	0.1	-0.9	1.0	-1.7	
Light Vehicle Sales, millions of units	16.1	15.3	14.0	13.4	14.2	12.5	
Housing Starts, millions of units	1.4	0.99	0.98	0.95	1.00	0.87	
Home Prices, FHFA, % change, Q4/Q4	0.8	-4.8	-5.5	-6.0	-2.1	-3.5	
Oil Prices, \$ per barrel, December average	92	98	95	70	92	74	
S&P 500 Index, year-end	1468	1495	1305	1004	1450	1200	

na=not available; historical data from Haver Analytics (11/10/08); forecasts from NABE

### Quarterly Forecasts

	<u>GDP</u>		<u>Unemployment Rate</u>		<u>Nonfarm Employment</u>		<u>PCE Price Index, ex Food &amp; Energy</u>	
	<u>% change, annual rate</u>		<u>%</u>		<u>in thousands, average monthly change</u>		<u>% change, annual rate</u>	
<u>Survey:</u>	<u>10/08</u>	<u>11/08</u>	<u>10/08</u>	<u>11/08</u>	<u>10/08</u>	<u>11/08</u>	<u>10/08</u>	<u>11/08</u>
Q4-08	0.1	-2.6	6.2	6.5	-90	-185	2.2	2.1
Q1-09	1.3	-1.3	6.3	6.9	-42	-150	2.2	1.8
Q2-09	2.3	0.5	6.4	7.3	-5	-100	2.0	1.8
Q3-09	2.7	2.0	6.3	7.5	50	-34	2.0	1.9
Q4-09	3.0	2.4	6.2	7.5	73	50	2.0	1.8

	<u>Fed Funds Target</u>		<u>10-Year Treasury Note Yield</u>	
	<u>% quarter-end</u>		<u>% quarter-end</u>	
<u>Survey:</u>	<u>10/08</u>	<u>11/08</u>	<u>10/08</u>	<u>11/08</u>
Q4-08	2.00	1.00	3.82	3.80
Q1-09	2.00	1.00	3.95	3.85
Q2-09	2.25	1.00	4.10	3.96
Q3-09	2.50	1.00	4.25	4.03
Q4-09	3.00	1.25	4.38	4.20

**Table 2**  
**NABE Outlook**  
 Nov 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	0.2	-0.4	1.3	0.7	-0.5	2.9
Consumer Price Index, % change, Q4/Q4	3.4	1.7	5.1	1.9	0.2	3.5
Personal Consumption Expenditures (PCE) Price Index less food & energy, % change, Q4/Q4	2.3	1.1	3.2	1.8	0.7	2.9
Civilian Unemployment Rate, % annual average	5.7	5.6	6.3	7.3	6.2	7.9
Federal Funds Target, % year-end	1.00	0.50	1.48	1.30	0.50	3.10
10-Year Treasury Note Yield, % year-end	3.80	3.31	4.05	4.15	3.23	5.03
Foreign Exchange Rate, US\$ per Euro, December average	1.29	1.19	1.49	1.25	1.08	1.43
Housing Starts, millions of units	0.95	0.84	1.00	0.87	0.68	1.20
Home Prices, FHFA, % change, Q4/Q4	-6.0	-10.2	-2.0	-3.5	-8.6	2.2
Oil Prices, \$ per barrel, December average	70	58	104	74	51	103
S&P 500 Index, year-end	1004	725	1158	1200	858	1378

**Quarterly Forecasts**

	Real Gross Domestic Product, % change, annual rate			Civilian Unemployment Rate %			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>
Q4-08	-2.6	-4.0	-0.3	6.5	6.3	6.7	-185	-240	-91
Q1-09	-1.3	-3.0	1.2	6.9	6.4	7.4	-150	-283	6
Q2-09	0.5	-1.4	2.5	7.3	6.4	7.8	-100	-270	60
Q3-09	2.0	0.1	3.2	7.5	6.1	8.1	-34	-177	126
Q4-09	2.4	0.9	4.1	7.5	5.9	8.3	50	-108	175

	Personal Consumption Expenditures Price Index (PCE) less food & energy % change, annual rate			Fed Funds Target % quarter-end			10-Year T-Note Yield % quarter-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>
Q4-08	2.1	0.5	2.7	1.00	0.50	1.18	3.80	3.45	4.05
Q1-09	1.8	0.6	2.6	1.00	0.50	1.20	3.85	3.22	4.22
Q2-09	1.8	0.8	2.6	1.00	0.50	1.90	3.96	3.27	4.42
Q3-09	1.9	0.8	2.6	1.00	0.50	2.55	4.03	3.25	4.63
Q4-09	1.8	0.6	2.9	1.25	0.50	3.20	4.20	3.20	4.87

*Five highest and five lowest are the response averages*

**With their permission, NABE panelists who responded to the Nov 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  
Jonathan Oxborrow / Don Johnson, Caterpillar Inc.  
Will Shearin, Chrysler  
Kathleen Stephansen / Jill Brown, Credit Suisse First Boston  
Robert Fry, DuPont  
Jim Meil, Eaton Corporation  
Susan M. Sterne, Economic Analysis Associates, Inc.  
Douglas Lee, Economics from Washington  
Douglas Duncan, Fannie Mae  
Michael Paslawskyj, FDIC  
Brian S. Wesbury / Robert Stein, First Trust Advisors, L.P.  
Ellen Hughes-Cromwick / Emily Kolinski Morris, Ford Motor Company  
Rajeev Dhawan, Georgia State University  
McCarthy & Werling, Inforum, University of Maryland  
John Pope, Investment Economics  
Richard Rippe, ISI Group  
Sandy Batten / Robert Mellman, JPMorgan  
Jim Glassman, JPMorganChase  
Jack Kleinhenz, Kleinhenz and Associates  
Chris Varvares, Macroeconomic Advisers  
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  
William Dunkelberg, National Federation of Independent Business  
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 & Poor's  
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Kurt Karl, Swiss Re  
Bart Van Ark / Ken Goldstein, 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  
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John Silvia, Wachovia Corp  
Scott Anderson, Wells Fargo & Co.  
Jay Woodworth, Woodworth Holdings, Ltd.