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## ***NABE Panel: Recession to End in Second Half of '09; Above-trend Growth in 2010*** **February 23, 2009**

*The February 2009 NABE Outlook presents the consensus of macroeconomic forecasts made by a panel of 47 professional forecasters. (See last page for listing.) The survey, covering the outlook for 2009 and 2010, was taken Jan. 29-Feb 12. 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 31 chapters nationwide. **William Strauss**, Federal Reserve Bank of Chicago; **Richard DeKaser**, Woodley Park Research; **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: "The steady drumbeat of weak economic and financial market data has made business economists decidedly more pessimistic on the economic outlook for the next several quarters. Credit conditions remain tight and declines in equity markets and home values, combined with significant job losses, are causing consumers to rein in discretionary spending. While a few reports offer some glimmer of hope, a meaningful recovery is not expected to take hold until next year. Further pronounced weakening in housing and deteriorating labor markets underscore the risks for 2009," said **NABE President Chris Varvares**, president, Macroeconomic Advisers. "Following a sharp 5.0% (annual rate) contraction in the first quarter of this year and another 1.7% drop in the second quarter, NABE forecasters expect real GDP to rise at a sub-par 1.6% rate in the second half. This leaves a decline of 0.9% in 2009, on the heels of a 0.2% decline in 2008. The unemployment rate is forecast to rise to 9.0% by year-end and inflation is expected to moderate, as economic slack builds and as oil prices are forecast to remain relatively depressed. The good news is that economic activity is expected to turn up in the second half of the year and 2010 is expected to see modestly above-trend growth of 3.1%."

### **Highlights**

- **The NABE panel is expecting the recession to continue through mid-year 2009, with large declines in real GDP during each of this year's first two quarters. Cumulatively, the cyclical downturn will rival that of 1973-75.** In the current downturn real GDP is predicted to decline 2.8%, slightly less than the 3.1% during the early '70s. This represents a significant markdown of the November forecast, when 60% of survey participants expected a decline of 1.5%, or less.
- **Economic weakness will be dominated by a retrenchment in consumer spending** reflecting large employment and wealth losses. Job losses are expected to persist throughout 2009, though steadily diminishing over the course of the year; average monthly payroll losses of 421,000 during the first half of the year will taper to 114,000 during the second half. The jobless rate will peak at 9.0% by the end of the year. House prices are predicted to decline 5% during 2009, though the S&P 500 index is expected to rise a solid 8% by December 31, 2009.

- **Business investment will experience an exaggerated cyclical decline characteristic of economic downturns**, as excess capacity and falling profits depress capital spending. Corporate profits are forecast to decline 9.2% after an already large 8.4% drop (estimated) in 2008. Following strong gains during 2008, labor productivity is expected to rise an additional 1.8% in 2009--extraordinary for an economic downturn and suggestive of a strong underlying trend of productivity growth.
- **Real government spending is expected to advance a robust 2.8% in an otherwise grim 2009**, largely because of the fiscal stimulus legislation. The federal budget deficit, not surprisingly, will explode. Following a deficit of \$455 billion for fiscal-year 2008, this year's shortfall is predicted to hit \$1.5 trillion. Even the most optimistic forecasters (i.e. the top decile) are expecting the deficit to more than double (to \$955 billion) this year. A modest drop is seen for 2010, although the deficit is still expected to total \$1.1 trillion.
- **The consumer price index is projected to decline 0.8% in 2009, as already large commodity price declines pass through to consumer prices.** Deflation is not expected to persist, however. The CPI is slated for a 1.9% rebound in 2010 and core inflation is predicted to remain positive throughout the forecast horizon. After rising just below a 1% rate in the first half of 2009, for example, the core PCE price index is expected to rise roughly 1.5% in 2010.
- **With inflationary pressures quiescent and economic slack persistent, the Federal Reserve is predicted to keep its overnight rate at its current level all year long.** Nonetheless, a series of rate hikes is expected to commence during the first quarter of 2010 as the Fed starts to pull back its monetary accommodation. The federal funds rate is expected to end next year at 1.5%. Survey panelists broadly agreed that long-term interest rates will rise over the forecast period. Only five of forty-six panelists expect the 10-year Treasury yield to fall during 2009, and just one forecaster expects a decline in 2010.
- **The auto industry is projected to remain under severe pressure.** Auto sales forecasts have been cut to 10.9 million units this year from an already weak 12.5 million estimate in November's survey. Sales in 2010 are forecast to rise to just 13.1 million.
- **Housing starts for 2009 were marked down**, with 630 thousand units expected to break ground, compared to 870 thousand units projected in the November survey. Home prices, as measured by FHFA (Federal Housing Finance Agency), are expected to decline 5.3% in 2009, following a 7.5% drop in 2008, but rise 2% in 2010. **The good news is that NABE panelists see housing demand stabilizing fairly soon.** When asked to identify the bottom in home sales, the panel was optimistic that home sales should trough by mid-2009, as should housing starts, with the latter rising to 900 thousand units in 2010.
- **Despite falling exports, foreign trade is still expected to provide a boost to an otherwise weak economy this year.** The overall trade gap (balance of payments basis) is now slated to be just \$510 billion in 2009 and \$530 billion in 2010, well below the \$677-billion deficit seen in 2008. The trade-weighted dollar is expected to remain relatively strong this year before losing some of its gains in 2010.

### Other Issues

- **The efficacy of the \$787 billion fiscal stimulus package signed into law is a hotly debated topic. Although there is general agreement among NABE panelists that the fiscal stimulus will aid GDP growth in 2009, the growth impact of such actions called forth somewhat guarded responses.** For 2009, 43% of the panelists expect that the fiscal impact on real GDP growth will be 0.5% or less, but 38% project that the government's programs could boost growth by 0.6% to 1.0%. The impact is expected to last into 2010, yet the panelists are evenly divided on whether real GDP growth will receive a 0.5%, 1.0% or 1.5% boost from the fiscal package.
- **If the growth dynamics play out as expected by NABE panelists, then the economy should step up to exceed its potential growth rate by 2010.** When quizzed separately about estimates of potential GDP growth for the U.S. economy, panelists gave varied responses; 30% of panelists pegged potential GDP growth in the 2.25% to 2.50% range, with 49% responding higher than the range and 17% lower. The overall distribution of responses suggests a potential GDP growth rate of about 2.5%. Note that the median expectation is that the US economy will grow at a below-trend rate until the first quarter of 2010.

- Regionally, the auto-dependent **Great Lakes economy is viewed as being the U.S. region most vulnerable to higher unemployment**, followed closely by the Far West. While moderate risks are seen for the Mid-Atlantic, Southeast, and New England regions, the Southwest, Rocky Mountains, and agriculturally dependent Plains states are seen as less vulnerable
- Notwithstanding the dour U.S. outlook for 2009, **NABE panelists foresee the United States as the leader in shaking off the recession shroud**. When quizzed about the countries that would emerge first from the recession, 34% of the responses favored the United States, followed by China at 28% and Canada at 13%. Less than 4% regarded the UK and the Eurozone as leaders.

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

	Actual	Forecasts				
		2008	2009			
		May 08 Survey	Oct 08 Survey	Nov 08 Survey	Feb 09 Survey	Feb 09 Survey
Real Gross Domestic Product, % change, Q4/Q4	-0.2	2.7	2.2	0.7	-0.9	3.1
Real Gross Domestic Product, % change, annual average	1.3	2.3	1.6	-0.2	-1.9	2.4
Personal Consumption Expenditures, % change	0.3	2.0	1.2	-0.2	-1.3	2.2
Nonresidential Structures, % change	11.8	0.9	-1.0	-3.1	-6.3	-4.8
Nonresidential Equipment and Software, % change	-2.9	3.2	1.4	-3.1	-12.2	1.5
Residential Investment, % change	-20.8	0.4	-4.7	-9.1	-16.0	6.4
Change in Business Inventories, billions of chained 2000\$	-21.0	14.0	4.1	-14.4	-42.2	20.0
Net Exports, billions of chained 2000\$	-388.2	-440.6	-346.4	-323.0	-339.3	-363.3
Exports, % change	6.5	7.4	5.9	4.1	-5.1	3.3
Imports, % change	-3.3	3.3	1.9	-0.4	-6.0	4.4
Government Consumption Expenditures & Gross Investment, % change	2.9	1.8	1.7	2.0	2.8	2.2
Implicit GDP Deflator, % change	2.1	2.3	2.2	2.1	1.0	1.2
Trade Balance Goods & Services, BoP basis, \$ billions	-677.1	-624.9	-609.0	-555.0	-510.0	-530.0
Foreign Exchange Rate, US\$ per Euro, December average	1.35	1.40	1.36	1.25	1.29	1.31
Trade-Weighted Value of the US\$, FRB Broad Index, December average	108.5	95.1	99.0	104.2	110.0	109.0
Consumer Price Index, % change, annual average	3.8	2.4	2.6	1.8	-0.8	1.9
Consumer Price Index, % change, Q4/Q4	1.5	2.3	2.3	1.9	0.5	2.0
Personal Consumption Expenditures (PCE) Price Index less food & energy, % change, Q4/Q4	1.8	2.0	2.0	1.8	1.1	1.5
Nonfarm Employment, average monthly change, thousands	-248	91	24	-52	-245	105
Nonfarm Business Compensation Per Hour, % change	3.4	3.8	3.6	3.4	3.4	2.8
Nonfarm Business Output Per Hour, % change	2.8	2.0	1.9	1.5	1.8	2.3
Federal Funds Target, % year-end	0.125	3.00	2.75	1.30	0.125	1.500
10-Year Treasury Note Yield, % year-end	2.25	4.50	4.35	4.15	3.09	3.78
Federal Deficit, FY, unified, \$ billions	-455	-328	-482	-765	-1,500	-1,078
Corporate Profits After Tax, % change*	-8.4	6.5	4.4	0.1	-9.2	7.3
Civilian Unemployment Rate, % annual average	5.8	5.6	6.4	7.3	8.4	8.8
Industrial Production, % change	-1.8	2.3	1.0	-1.7	-7.1	2.5
Light Vehicle Sales, millions of units	13.2	15.7	14.2	12.5	10.9	13.1
Housing Starts, millions of units	0.90	1.12	1.00	0.87	0.63	0.90
Home Prices, FHFA, % change, Q4/Q4*	-7.5	-0.3	-2.1	-3.5	-5.3	2.0
Oil Prices, \$ per barrel, December average	41	92	92	74	46.	57
S&P 500 Index, December 31	903	1575	1450	1200	975	1118

\*2008 forecast; historical data from Haver Analytics (2/13/09); forecasts from NABE

**Quarterly Forecasts**

	<b><u>GDP</u></b>		<b><u>Unemployment Rate</u></b>		<b><u>Nonfarm Employment</u></b>		<b><u>PCE Price Index, ex Food &amp; Energy</u></b>	
	<b><u>% change, annual rate</u></b>		<b><u>%</u></b>		<b><u>in thousands, average monthly change</u></b>		<b><u>% change, annual rate</u></b>	
<b><u>Survey:</u></b>	<b><u>11/08</u></b>	<b><u>2/09</u></b>	<b><u>11/08</u></b>	<b><u>2/09</u></b>	<b><u>11/08</u></b>	<b><u>2/09</u></b>	<b><u>11/08</u></b>	<b><u>2/09</u></b>
Q1-09	-1.3	-5.0	6.9	7.8	-150	-532	1.8	0.6
Q2-09	0.5	-1.7	7.3	8.4	-100	-315	1.8	1.0
Q3-09	2.0	1.0	7.5	8.7	-34	-133	1.9	1.0
Q4-09	2.4	2.1	7.5	9.0	50	-51	1.8	1.2
Q1-10	na	2.5	na	9.0	na	32	na	1.4
Q2-10	na	3.0	na	8.8	na	100	na	1.5
Q3-10	na	3.3	na	8.7	na	131	na	1.6
Q4-10	na	3.1	na	8.6	na	175	na	1.5

	<b><u>Fed Funds Target</u></b>		<b><u>10-Year Treasury Note Yield</u></b>	
	<b><u>% quarter-end</u></b>		<b><u>% quarter-end</u></b>	
<b><u>Survey:</u></b>	<b><u>11/08</u></b>	<b><u>2/09</u></b>	<b><u>11/08</u></b>	<b><u>2/09</u></b>
Q1-09	1.00	0.125	3.85	2.68
Q2-09	1.00	0.125	3.96	2.83
Q3-09	1.00	0.125	4.03	3.00
Q4-09	1.25	0.125	4.20	3.13
Q1-10	na	0.500	na	3.30
Q2-10	na	0.750	na	3.44
Q3-10	na	1.000	na	3.62
Q4-10	na	1.500	na	3.75

**Table 2**  
**NABE Outlook**  
 February 2009  
 Distribution of Selected Responses

**Annual Forecasts**

	2009 Forecast			2010 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	-0.9	-2.7	1.7	3.1	1.1	4.3
Consumer Price Index, % change, Q4/Q4	0.5	-1.0	2.4	2.0	0.3	3.1
Personal Consumption Expenditures (PCE) Price Index less food & energy, % change, Q4/Q4	1.1	-0.9	2.1	1.5	-0.1	2.7
Civilian Unemployment Rate, % annual average	8.4	7.3	9.0	8.8	6.3	10.0
Federal Funds Target, % year-end	0.125	0.080	1.150	1.500	0.125	3.050
10-Year Treasury Note Yield, % year-end	3.09	2.18	4.06	3.78	2.69	5.10
Foreign Exchange Rate, US\$ per Euro, December average	1.29	1.16	1.41	1.31	1.11	1.42
Housing Starts, millions of units	0.63	0.52	1.06	0.90	0.59	1.31
Home Prices, FHFA, % change, Q4/Q4	-5.3	-10.1	1.4	2.0	-2.8	5.0
Oil Prices, \$ per barrel, December average	46.5	37.0	60.4	57.3	38.0	78.0
S&P 500 Index, December 31	975	833	1194	1118	926	1399

**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>
Q1-09	-5.0	-6.6	-2.1	7.8	7.3	8.0	-532	-662	-310
Q2-09	-1.7	-3.8	1.9	8.4	7.5	8.9	-315	-602	-134
Q3-09	1.0	-1.8	3.3	8.7	7.2	9.4	-133	-489	96
Q4-09	2.1	-0.4	4.2	9.0	7.1	9.7	-51	-356	170
Q1-10	2.5	1.1	3.9	9.0	6.9	9.9	32	-257	214
Q2-10	3.0	0.9	4.3	8.8	6.6	10.0	100	-65	255
Q3-10	3.3	1.0	4.5	8.7	6.4	10.0	131	-42	303
Q4-10	3.1	1.0	4.8	8.6	6.1	10.0	175	-20	349

	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>
Q1-09	0.6	-0.1	1.8	0.125	0.100	0.275	2.68	2.10	3.05
Q2-09	1.0	-0.2	2.1	0.125	0.100	0.550	2.83	2.02	3.80
Q3-09	1.0	-0.3	2.5	0.125	0.100	0.866	3.00	2.12	3.76
Q4-09	1.2	-0.1	2.4	0.125	0.100	1.190	3.13	2.21	4.04
Q1-10	1.4	0.1	2.5	0.500	0.125	1.700	3.30	2.45	4.22
Q2-10	1.5	0.1	2.7	0.750	0.125	2.400	3.44	2.45	4.70
Q3-10	1.6	0.1	2.9	1.000	0.125	3.000	3.62	2.68	4.89
Q4-10	1.5	-0.1	2.9	1.500	0.125	3.700	3.75	2.74	5.15

*Five highest and five lowest are the response averages*

**With their permission, NABE panelists who responded to the February 2009 NABE Outlook survey are:**

Michael R. Englund, Action Economics, LLC  
Thomas Kevin Swift, American Chemistry Council  
Lynn Reaser, Bank of America  
James W. Kleckley, Bureau of Business Research, East Carolina University  
Esmael Adibi, Chapman University  
Jan Reid, Coast Economic Consulting  
Bart Van Ark / Ken Goldstein, The Conference Board  
Robert Fry, DuPont  
Jim Meil, Eaton Corporation  
Susan M. Sterne, Economic Analysis Associates, Inc.  
Douglas Lee, Economics from Washington  
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  
Gary Ciminero, GLC Financial Economics  
John Herrman, Herrman Forecasting LLC  
Margaret McCarthy & Jeffrey 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  
Brian R. Horrigan, Loomis, Sayles, & Co, LP  
Chris Varvares, Macroeconomic Advisers  
David Rosenberg, Merrill Lynch  
Diane C. Swonk, Mesirov Financial  
Mark Zandi, Moody's Economy.com, Inc.  
Richard Berner & David Greenlaw, Morgan Stanley  
Joel L. Naroff, Naroff Economic Advisors  
William Dunkelberg, National Federation of Independent Business  
David Resler, Nomura Securities International, Inc.  
J. F. Smith, Parsec Financial  
David W. Berson, The PMI Group  
Stuart Hoffman, PNC Financial Services Group  
Stephen Gallagher, Societe Generale  
Jon David Vasché, State of California  
Kurt Karl, Swiss Re  
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.  
Richard J. DeKaser, Woodley Park Research  
Jay Woodworth, Woodworth Holdings, Ltd.

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