

NABE Economic Policy Survey®

National Association For Business Economics

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NABE Panel: Financial Issues Still Dominate Amid Rising Concern Over Energy and Inflation August 2008

The NABE Economic Policy Survey presents the consensus of a panel of 278 members of the National Association for Business Economics. Conducted semiannually, this survey was taken Jul. 25-Aug. 11, 2008. May be reprinted in whole or in part with credit given to NABE. View the survey results, including complete tabulations, online at www.nabe.com. This is one of three surveys conducted by NABE. The other two are the NABE Outlook and the NABE Industry Survey. Catherine L. Mann, Brandeis University; Douglas Duncan, Fannie Mae; Richard A. Brown, FDIC; and Richard Wobbekind, University of Colorado, conducted the analysis for this report.

“While NABE members continue to express near-term concerns over the state of the financial system, we are seeing a shifting of their focus to energy prices and inflation.” says **Ellen Hughes-Cromwick, NABE President and Chief Economist, Ford Motor Company**. “Policy responses to the credit crisis received a mixed grade. Most members regard the July housing bill as a ‘bailout’ of borrowers and lenders that may not do much to improve recovery of the housing market. While large majorities support the Federal Reserve’s special liquidity facilities and the idea that the Treasury should support the government-sponsored housing enterprises (GSEs), they express concerns about future risk-taking.”

Survey Highlights

The state of the financial system—subprime credit default, excessive debt, and the “credit crunch” — remained the number-one concern of NABE members polled in the survey. These three indicators of system stress were cited by 46% of respondents, down from the 52% in March 2008. Rising substantially in the ranking of short-term risks were energy prices and inflation, at 16% and 15%, respectively; returning these concerns to the forefront after two years of a more benign environment. Defense and terrorism, which represented the second-highest source of concern a year ago, were mentioned by only three percent in this survey.

Short-Term Risks to the U.S. Economy

(Percent of survey panelists responding)

| | Survey Month | | | | |
|-------------------------------------|--------------|----------|----------|----------|----------|
| | Aug 2006 | Mar 2007 | Aug 2007 | Mar 2008 | Aug 2008 |
| Combined subprime default & debt* | na | na | 32 | 52 | 26 |
| *Effects of subprime loan defaults | na | na | 18 | 34 | 19 |
| *Excessive household/corporate debt | 5 | 13 | 14 | 18 | 7 |
| Credit crunch | na | na | na | na | 20 |
| Energy prices | 29 | 9 | 13 | 5 | 16 |
| Inflation | 12 | 4 | 6 | 10 | 15 |
| Govt spending/ deficit | 2 | 5 | 3 | 2 | 6 |
| Current account deficit | 11 | 12 | 8 | 3 | 4 |
| Defense/terrorism | 34 | 35 | 20 | 9 | 3 |
| Employment issues | 1 | 7 | 5 | 6 | 2 |

The most serious long-term challenge facing the U.S. economy is the federal deficit and government spending, cited by 24% of respondents, but energy was mentioned by 17% of the respondents. An aging population and education both were seen as important issues at 18% each. These responses appear to signal a shift in long-term economic concerns, with the federal deficit, energy prices, and inflation all showing percentage increases over previous months. The enactment of the federal stimulus package in February and the rise in commodity prices through July appear to explain at least part of this shift.

Longer-Term Challenges to the U.S. Economy

(Percent of survey panelists responding)

| | Survey Date | | | | |
|--|-------------|----------|----------|----------|----------|
| | Aug 2006 | Mar 2007 | Aug 2007 | Mar 2008 | Aug 2008 |
| Federal deficit and government spending | 23 | 19 | 13 | 13 | 24 |
| Growth of elderly population, inc. rising health care costs and dependency ratio | na | na | na | na | 18 |
| <i>*Health care</i> | 16 | 25 | 24 | 22 | na |
| <i>*Growth elderly population/dependency ratio</i> | 17 | 23 | 21 | 20 | na |
| Education system | 21 | 15 | 17 | 19 | 18 |
| Energy issues | 13 | 8 | 9 | 9 | 17 |
| Competitiveness | 4 | 4 | 6 | 6 | 5 |
| Rising inflation | na | na | 2 | 4 | 6 |

The top two U.S. economic strengths—flexible labor markets and productivity—remained the same as the March survey, accounting for a stable 70% share of responses. The third most cited strength—deep capital markets—has dropped by half over the past two years, indicating some early recognition by the NABE panel of difficulties to come.

U.S. Economic Strengths

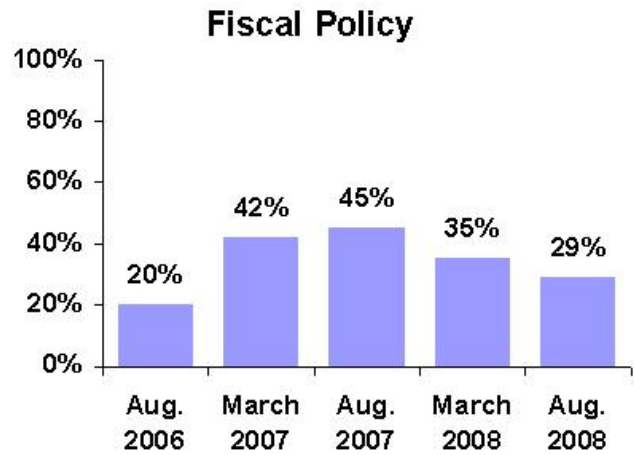
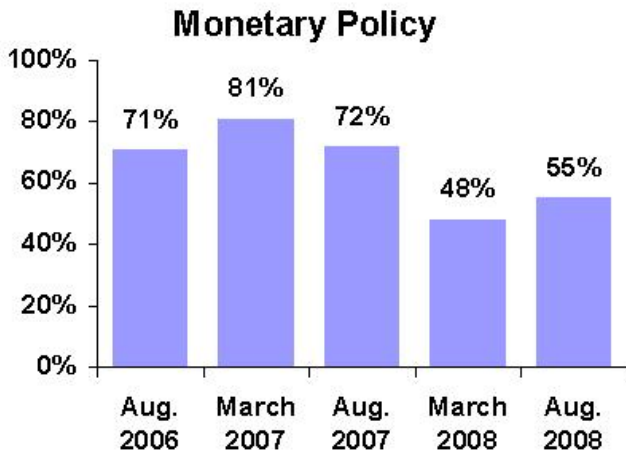
(Percent of survey panelists responding)

| | Survey Date | | | | |
|--------------------------------|-------------|----------|----------|----------|----------|
| | Aug 2006 | Mar 2007 | Aug 2007 | Mar 2008 | Aug 2008 |
| Flexible labor markets/economy | 39 | 28 | 39 | 53 | 47 |
| Productivity/technology | 27 | 27 | 24 | 25 | 23 |
| Deep capital markets | 18 | 17 | 15 | 10 | 9 |

A majority of NABE members indicated support with the direction of monetary policy, but uncertainty about what the next steps would be. The percent of respondents judging monetary policy to be “about right” increased to 55% from 48% in March, while those calling policy “too stimulative” was about the same at 35%. Some 47% of those surveyed expect short-term interest rates to increase over the next six months, with exactly the same percentage anticipating no change. Of those forecasting a rate increase, the majority expected a rise of between 26 and 50 basis points.

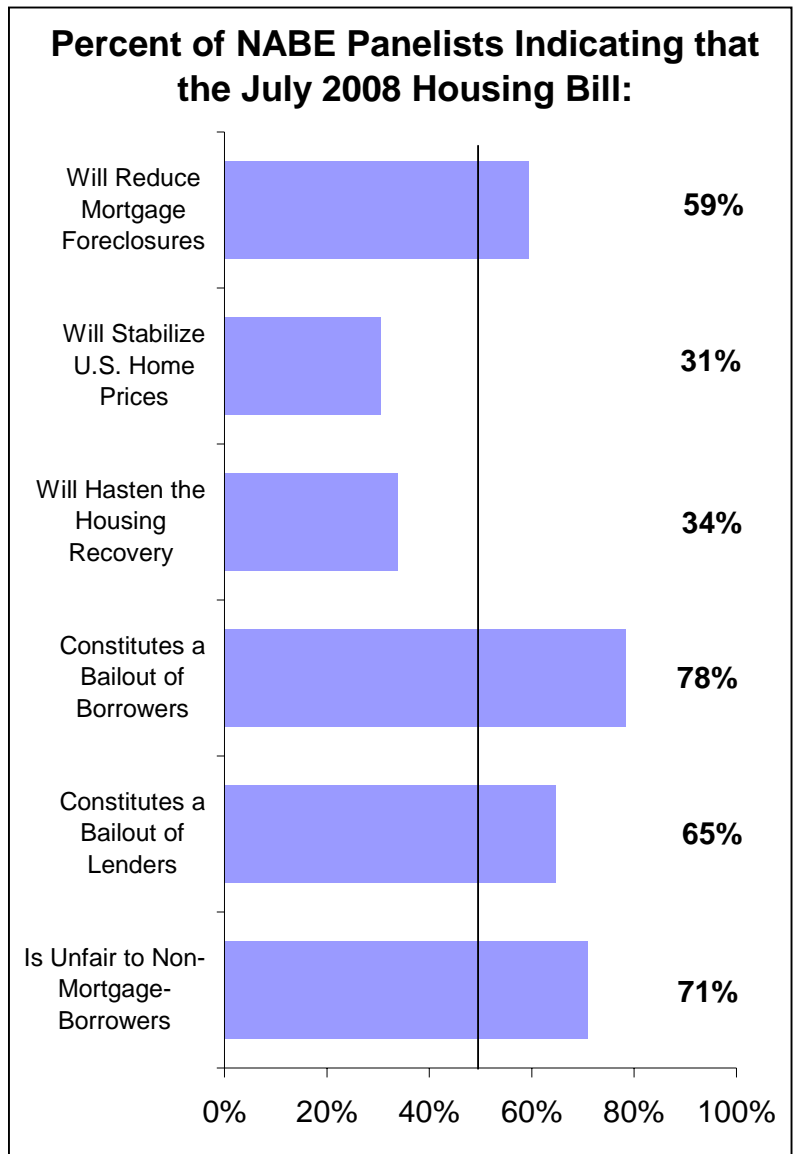
Respondents continue to be far less supportive of current and anticipated fiscal policy. Almost 47% felt that the recent fiscal stimulus package was not worth the impact it had on the worsening of the federal deficit, while only 27% opined that it was effective in keeping the United States out of recession. A resounding 73% stated that another stimulus package is not necessary, while only 25% thought it would help. While 62% would prefer to see a “more restrictive” policy over the next two years, almost 60% expect to see a more stimulative fiscal policy over that period.

Percent of NABE Panelists Who Consider Current Policy to be “About Right”:



NABE members expressed a rather dim view of the July 2008 housing bill that provides up to \$300 billion to refinance distressed mortgage borrowers with government-backed loans. Large majorities consider the bill a bailout of borrowers (78%) and/or lenders (65%), while 71% consider it “unfair” to non-mortgage-borrowers. While a majority (59%) agrees the bill will help reduce the number of mortgage foreclosures, only 34% feel it will help hasten the housing recovery, and only 31% say that it will help to stabilize U.S. home prices.

More positive opinions were expressed about the special liquidity facilities introduced by the Federal Reserve over the past year and the prospect for Treasury assistance to the government-sponsored housing enterprises (GSEs); but, moral hazard concerns were raised. Some 83% of respondents rated the Fed’s liquidity program as either moderately or highly effective. At the same time, an overwhelming 88% said that they were at least somewhat concerned that these measures will promote future risk-taking by financial companies, and 93% advocated more stringent financial regulation as a result. With regard to possible Treasury support of the GSEs, fully 75% agreed that these institutions are “too important to fail,” and only 20% felt that any such assistance would necessarily amount to nationalization.



The most popular explanation for the near-doubling of oil prices in the year ending in June was growing demand in emerging markets, a factor cited as the first or second most important cause by 74% of respondents. Other important causal factors include short-term oil supply problems (ranked first or second by 41%), the declining value of the dollar against other major currencies (also 41%), and long-term scarcity of oil (30%). Some 38% of NABE members felt that speculative purchases had pushed oil prices “significantly” above fundamental value, while another 29% felt these purchases had pushed prices only “slightly” higher. Emerging market demand was also cited by 51% of respondents as the first or second most important factor pushing corn prices higher over the past year, although an even larger fraction (75%) pointed to ethanol production.

On the international front, NABE members expressed mixed views about the depreciation of the dollar and its implications for inflation and the trade balance, but had stronger views about individual currencies. Respondents were about evenly split between those who feel that the dollar is currently too depreciated for optimal economic performance (42%) and those who feel that the dollar is properly valued for maximum economic performance (43%); however a higher share (58%) feel that the dollar is too depreciated for optimal long-run economic performance. Panelists appeared to accept the potential for imported inflation, with 39% expressing the view that the tradeoff between export growth and inflation risks resulting from dollar depreciation as “appropriate.” Only 20% see further dollar depreciation as necessary to keep the trade deficit on a narrowing trend; the plurality (38%) think that structural issues such as household spending and imported oil must change to fundamentally change the magnitude of the trade deficit. Some 62% feel that the dollar needs to appreciate against the euro, while small pluralities feel that it needs to appreciate against the yen (35%) and depreciate against the Chinese renminbi (48%). Compared to July 23rd values, survey participants signaled expectations that the dollar would depreciate against the Canadian dollar and the Chinese renminbi by year-end, while it would appreciate against the euro and remain stable versus the yen.

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