

# *ECONOMIC FORECAST FOR 2009*

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*We are in a Recession that is fairly widespread throughout various sectors and the world*

- Decline in GDP in the U.S. began in July
  - The decline is projected to continue through, at least, Q1, 2009.
  - We are projecting a negative GDP for Q1, 2009.
- Leading the decline is residential spending down 43% since peak, and consumptive spending in durables down 14.1%, and 6.4% in non-durables.

## *Forecast Re: End of the Recession*

-- Historical Analysis of Length and Depth of Recessions

Period	Months	GDP Decline
4/57-4/58	8	-3.75%
4/60-2/61	10	-1.64%(E)
12/69-11/70	11	-0.64%
11/73-5/75	16	4.90%
1/80-7/80	6	-2.18%(E)
7/81-11/82	16	-2.97%
7/90-3/91	8	-1.26%
3/01-11/01	8	0.17%
Average:	10 months	-2.18%

***Based upon the July 2008 recession start, according to historical precedents, the end of the recession should be between May-November 2009***

*If GDP is negative for Q1, 2, and 3 of 2009, a Depression is a real possibility.*

- “This is going to be one of the worst economic downturns since the Great Depression” – Joseph Stiglitz, 2001 Nobel Laureate, April 25, 2008.
- Depression is any economic decline where real GDP declines by  $>10\%$
- August 1929 to March 1933:  $-33\%$
- May 1937 to June 1939:  $-18.2\%$

## *How will we know that the Recession has ended?*

- 1. Libor- minus the 3 Mo. T-Bill Spread shrinks to less than 1% (it is now at 3%). This would show that banks have regained confidence in each other.*
- 2. Real Estate inventory shrinks to 6 months or less (it is now at 10 months, with the largest year-to-year price drop ever recorded in October 2008).*
- 3. Initial Job Claims drop below 400,000 (they are now at 450-500,000 per month and growing)*

# *Inflation Forecast*

U. of Michigan Expectations are for 3.4% in 2009, and 3.0 % for the next 5 years.

Our forecast is for lower inflation in 2009, closer to 2.% because of the deflation in commodity prices.

## **HOWEVER**

\*Under President Obama there are likely to be major government spending programs coming to bailout the domestic economy.

**Over the next 5 years, there will be huge revenue shortfalls to pay for these programs as well as for the War and business bailouts all of which portend increases in taxes, interest rates, and, potentially, in the costs in goods and services.**

## *Forecast for Retail Sales*

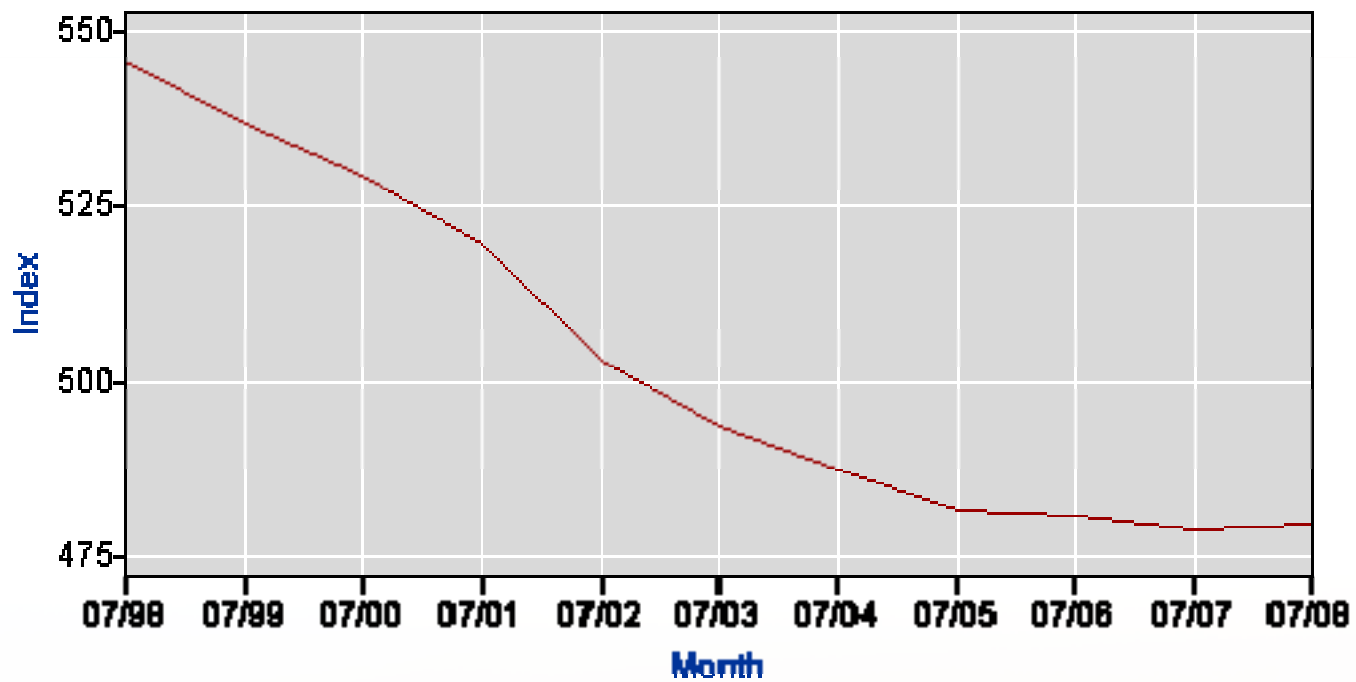
Recovery will be slow due to the Double Whammy of slow wage growth and rising unemployment.

The largest drop in consumptive spending since 1980 (Q2) occurred in October 2008

The big drop in business and consumer spending is attributable, at least in part, to the tight/difficult credit policies of banks.

Pricing pressures will continue until, at least, the end of 2009, especially in the non-durable and housing/home related areas.

# Consumer Price Index Department Store Inventory Price Index



# *Forecast for Auto Sector*

**The July 2 Auto Sales Report signaled major troubles ahead for all auto makers:**

**Ford: -28%**

**Toyota: -21%**

**GM: - 18%**

**The survival of U.S. auto industry seems predicated on a government bailout strategy.**

**Many economists view the demise of the auto sector, coupled with a continued troubled housing and financial sector, as the tipping point into a deep recession, even depression.**

# *Forecast for Housing Sector*

## Historical Analysis of Housing Sector Declines

Cycle	Investments Peaks	Thru	Starts Peak	Thru	% Investment \$ Change	Investment As % of GDP	% Decline In Starts
1	1973:1	1975:1	1/73	2/75	-39%	-2.1%	-63%
2	1978:3	1982:3	12/77	8/81	-49%	-2.0%	-61%
3	1986:4	1991:1	2/84	1/91	-30%	-2.1%	-65%
Average:	41 months				39.3%	-2.1%	-63%
4	2006:1	2008:3			-8%	-.7%	-34%

## *Housing Sector Forecast*

- **End of residential downturn should be between June 2009 and May 2010**
- **With a 43% decline in residential investment already having occurred through Q3 2008, another 20% decline would be normal on a historical basis**

# *Forecast for Unemployment*

## **Baseline Unemployment Data:**

**2006:4 = 4.8%; 2008:2 = 5.7%; 2008:3 = 6.0%**

- **The basis for unemployment trends forecasts are largely investment based. The data suggests that the down cycle in investments will last until late 2009, and that housing start activity will not resume until the 2<sup>nd</sup> quarter of 2010.**
- **The data also suggests that unemployment will increase to between 6.7-7.2% by year end 2008 based upon an increase of .2%-.3% for each month that investment is delayed, and to 8-8.4% by mid to late 2009.**

## *Forecast for California*

- **Population Growth continues to drive growth (36m in 2005, projected to 40.1m by 2015, 44m by 2025).**
- **Decline in State's credit rating, drop in tax revenues, rising infrastructure and social needs (poverty, education, housing), place significant pressures on State and make tax increases inevitable.**
- **Even though almost 2/3 of business feel doing business in California is harder than in other states, the employment picture is not as negative with more than 3/4 of businesses stating that they will add or keep number of jobs the same in 2009 over 2008.**

# *PenberaParis Economic Forecast Summary for 2009*

	<b>2008</b>		<b>2009</b>			
	<b>Q3</b>	<b>Q4</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>FY</b>
<b>GDP</b>	<b>1.5</b>	<b>.2</b>	<b>-.1</b>	<b>2.0</b>	<b>2.2</b>	<b>1.7</b>
<b>CPI</b>	<b>-1.5</b>	<b>1.0</b>	<b>1.5</b>	<b>2.5</b>	<b>2.5</b>	<b>2.5</b>
<b>Unemployment</b>	<b>6.5</b>	<b>6.9</b>	<b>7.3</b>	<b>8.0</b>	<b>8.2</b>	<b>8.0</b>
<b>Consumer Spending</b>		<b>-.8</b>				<b>1.5</b>
<b>Government Spending</b>		<b>5.8</b>				<b>8.5</b>