

UCLAAnderson
FORECAST



The Future Isn't What It Used to Be.

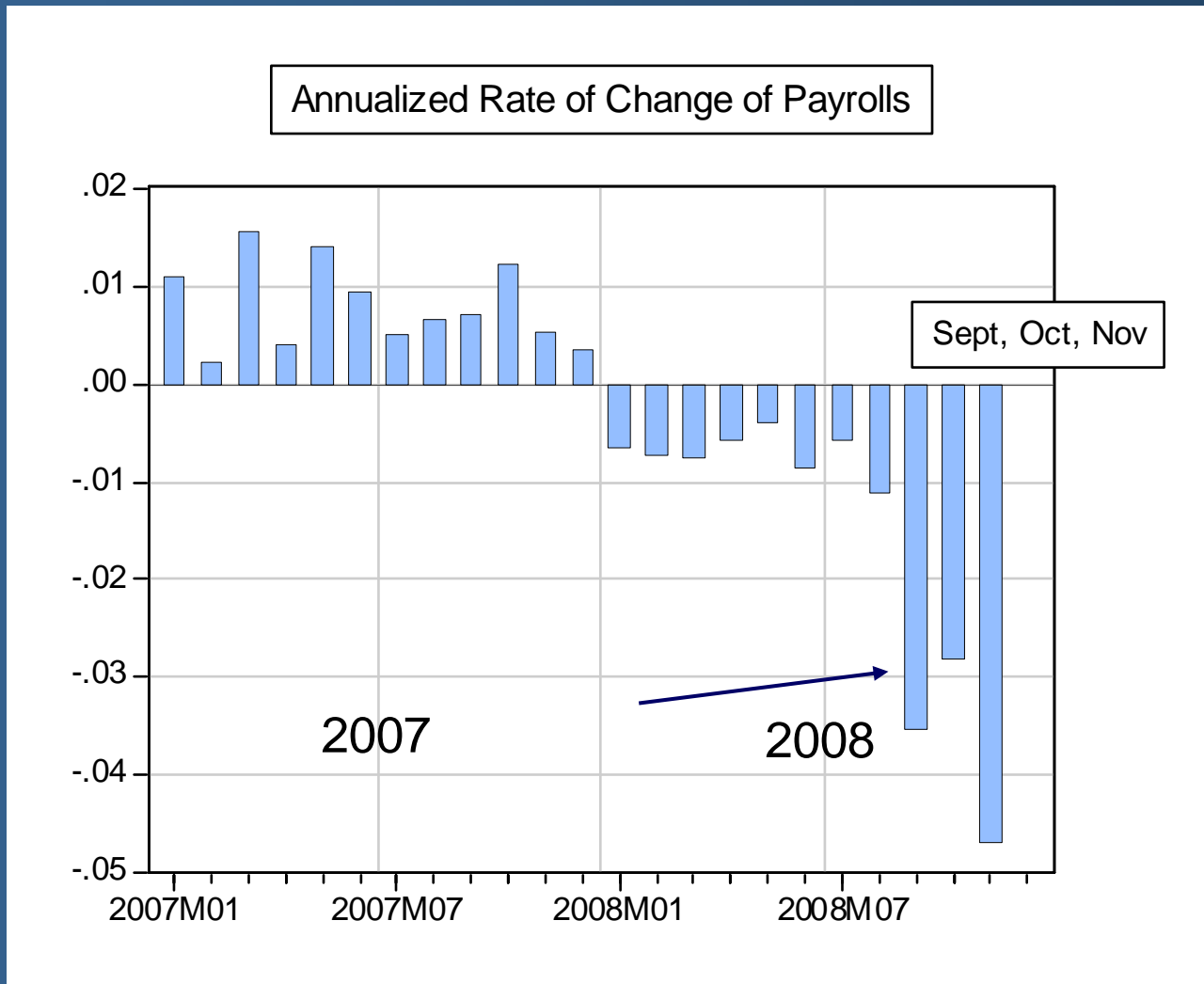
EDWARD E. LEAMER
Professor of Management, Economics and Statistics

The Path of this Recession

- ◆ Very Mild in the First Half of 2008
- ◆ Really *WEIRD* in the Second Half of 2008



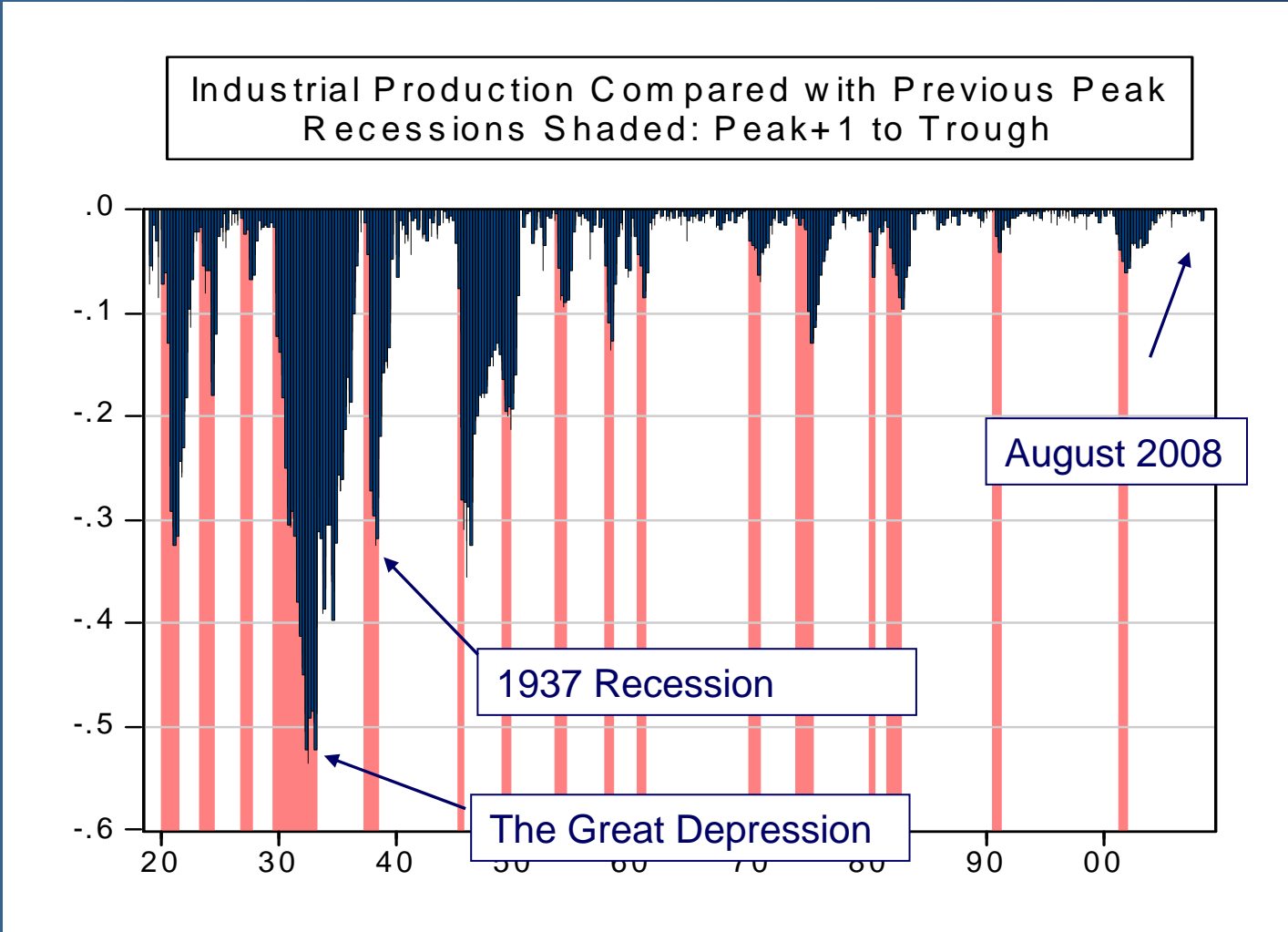
Jobs Nosedived in September



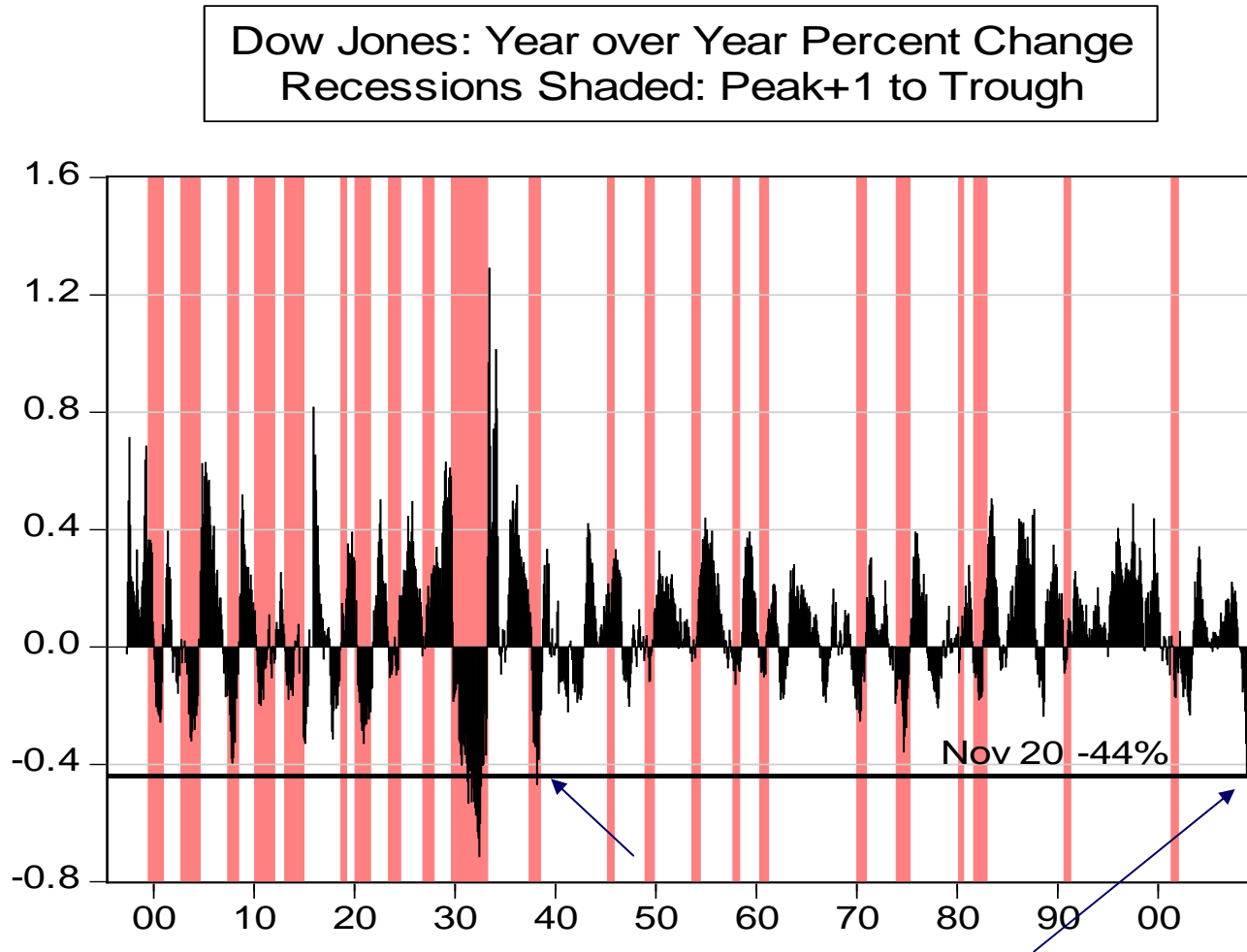
What Was This Year's Scariest Halloween Outfit?



Get Real Mr. Paulson



Paulson Panic on Wall Street



Panic on Wall Street and Main Street

- ◆ Drop in Equity Values Like the Great Depression
- ◆ Retail and wholesale prices dropping a record rates, especially energy
- ◆ Treasury yields fall to all-time lows for all maturities
- ◆ Risk Spreads increase to all-time highs
- ◆ Record drops in sales of cars and homes, from already very low levels.
- ◆ Record job losses in retail and hospitality.

The Problem Remains Falling Home Prices



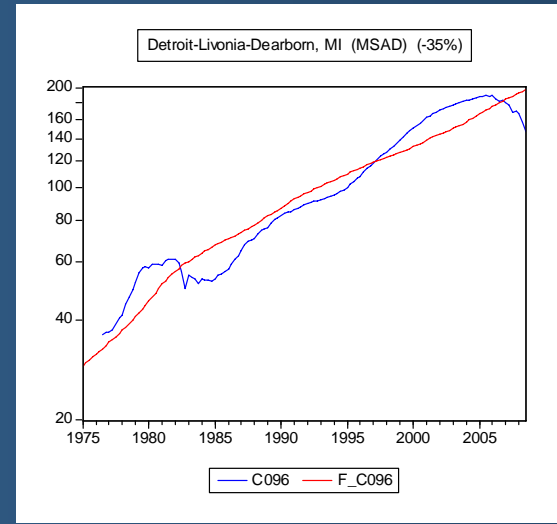
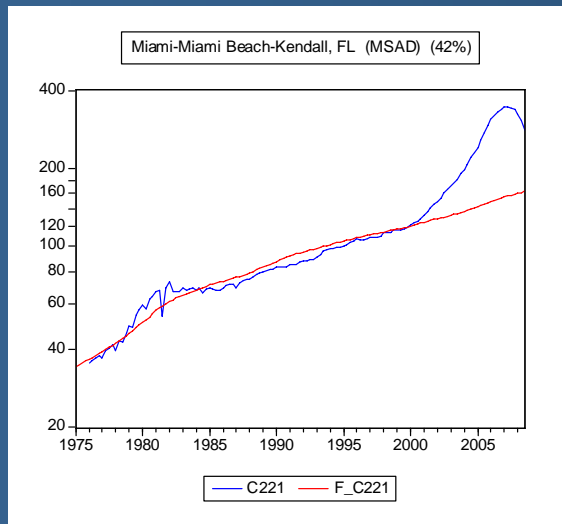
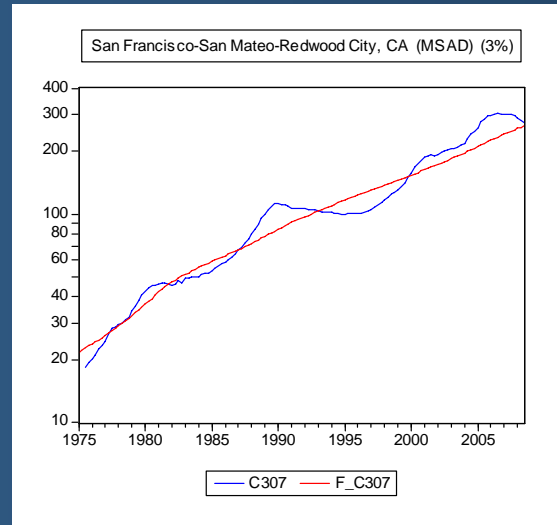
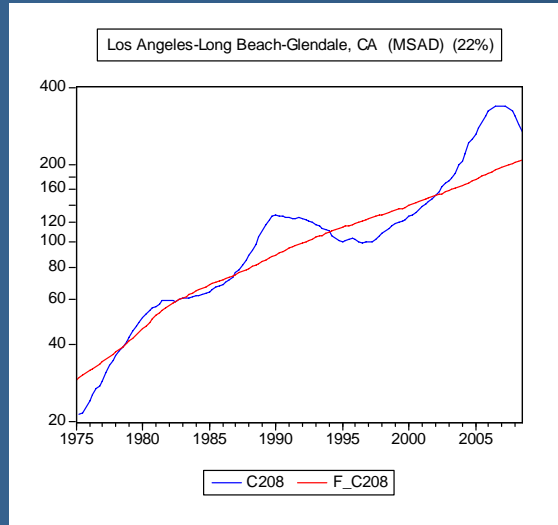
Acquisition by Bank of America

Bank of America Corporation announced it has agreed to acquire Merrill Lynch & Co., Inc. in a \$50 billion all-stock transaction.



[▶ Read Full Press Release](#)

Home Prices Are Almost Back to Normal in Many Cities



Six scenarios: Build your own forecast (2B is ours)

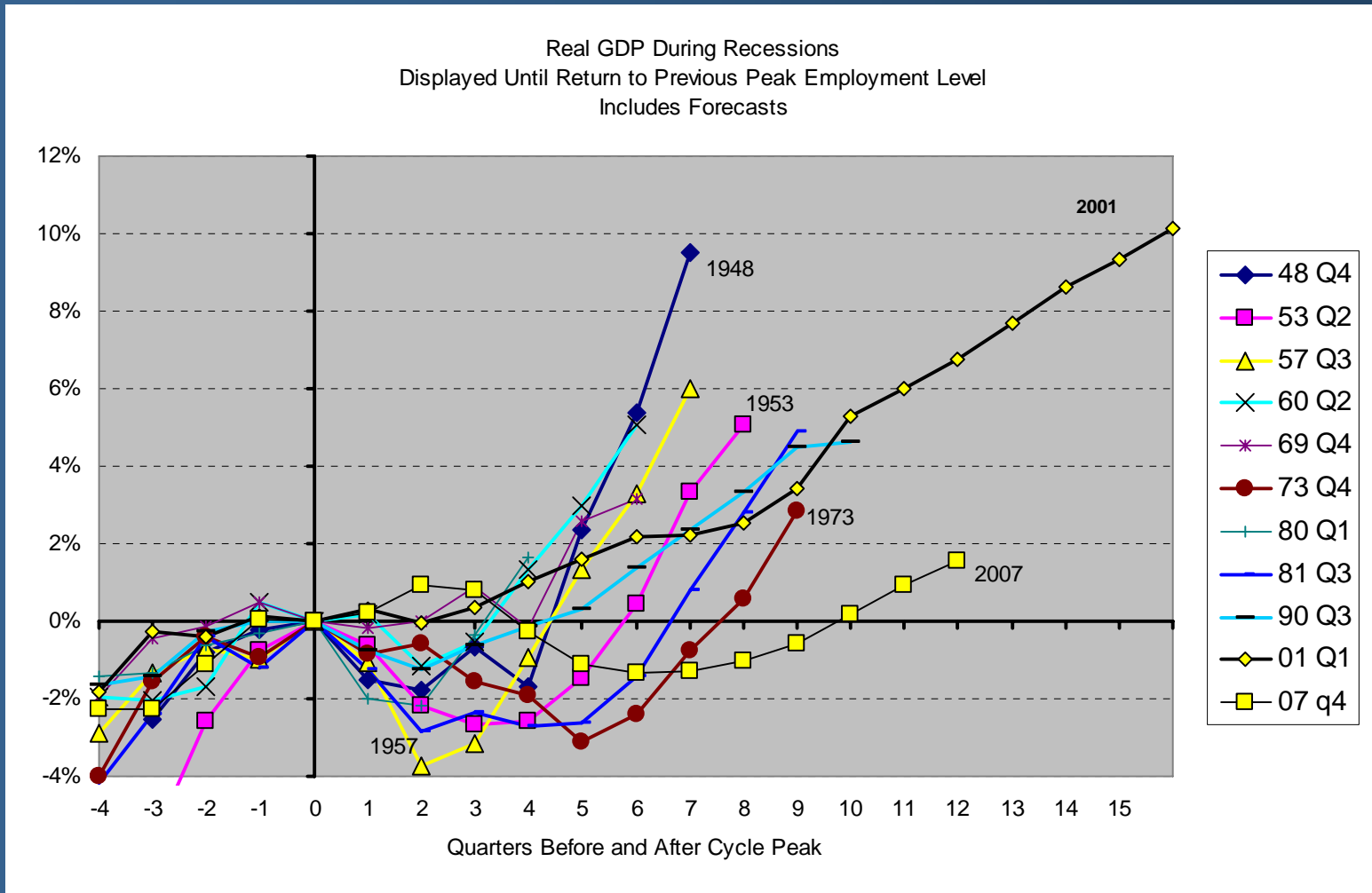
◆ The Nature of the Slowdown

- 1. Recession just begun. A typical V-shaped recession with a rapid recovery and back to normal in 2009.
- 2. An extended “serial” adjustment. After two years of problems in housing beginning in 2005 we will move on to deal with problems in consumer durables. The serial not-parallel nature of the adjustment makes it less severe but more long-lasting.
- 3. Wall Street famine. The deepest and longest downturn since the Great Depression as the banking sector desperate to repair troubled balance sheets terminates business and consumer lending just as it terminated mortgage originations in 2007.

◆ After the Slowdown

- A. Back to normal with GDP growth at 3% and employment growth at 2%
- B. The future isn't what it used to be. An extended period of sluggish growth as overspent, heavily in debt consumers finally tighten their belts and start saving for retirement, amidst growing reluctance by foreign lenders to fund a life style we cannot afford and the realization that home prices aren't coming back any time soon.

GDP Forecast Compared with Past Recessions



It's Always Darkest Before the Dawn

