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There are two aspects to our United States Economic Forecast. The more important aspect is qualitative. Significant fundamental weaknesses remain in the United States economy. This is the key result of our forecast. While economic growth is likely to be positive in the third quarter, we forecast negative growth in the fourth quarter and in 2010. This is due to a variety of factors that we discuss below.

Our forecast is pessimistic relative to consensus for fourth quarter 2009 and later. The Wall Street Journal's September 2009 consensus of 55 forecasters has an entirely different path for United States GDP. We display the numbers here:

United States Economic Growth Rates: CERF vs. Consensus

2009 Quarter 1 - 2010 quarter 4

2009	Qtr 1	Qtr 2	Qtr 3	Qtr 4
CERF	-5.8	-1.0	0.6	-3.4
WSJ	-5.8	-1.0	3.0	2.5
2010	Qtr 1	Qtr 2	Qtr 3	Qtr 4
CERF	-2.9	-1.7	-1.5	-1.1
WSJ	2.6	2.9	n/a	n/a

Units: seasonally-adjusted annualized growth rates
CERF: Center for Economic Research & Forecasting, CLU
WSJ: Wall Street Journal September 2009 Survey of 55 forecasters

We have been pessimistic relative to consensus before. In November of 2008, we forecasted four percent declines in year-on-year job growth for mid-2009. Few other forecasters took such a position at that time. Now that we have actual data from July and August of this year, we see that the year-over-year percent change in jobs for August was a contraction of 4.4 percent, while the July measure was 4.3 percent.

We do not take our current pessimism lightly. We would prefer that the economy do better than our forecast. However, many fundamental weaknesses remain. At the same time, much of this forecast is more optimistic than our prior June forecast.

The Details

Despite negative GDP growth from 2008 quarter 3 to 2009 quarter 2 we expect economic growth in quarter 3. This is also the consensus view. Much of that growth is due to government programs and policies that temporarily boosted spending. One example is *Cash For Clunkers*. However, this program has ended, and it will not apparently be re-instated. Our quarter 3 forecast reflects the spending associated with the various programs like *Cash for Clunkers*.

Government expenditures, very strong in quarter 2, will continue to be strong in quarter 3. To illustrate the impact of second quarter Government expenditures, we calculate that GDP growth excluding government and trade was a decline of 4.7 percent, indicating much more weakness in the second quarter economy than the overall GDP measure. Government expenditures cannot continue at the very rapid pace they have been. At some point spending has to slow to levels that are sustainable with available revenues.

Once the data for quarter 3 are in, we will see that the quarter 2 and 3 economy will have been driven by cash-for-clunkers, unsustainable government spending, and other temporary programs or policies. These programs and policies have artificially indicated strength in the economy.

There are many negative factors that influence our forecast beginning in quarter 4. A partial list includes:

- We forecast a weak Holiday shopping season
- Ongoing job losses and high unemployment rates
- Our Tourism outlook for the first half of 2010 is weak
- Households will continue to rebuild their balance sheets
- Ongoing residential foreclosures
- Increasing commercial foreclosures
- Massive levels of Bank Charge-offs that appear to be growing yet larger

- Ongoing year-on-year housing price decreases
- New Residential Building permits that continue to fall year-on-year
- New Commercial Building values that continue to fall year-on-year
- Weak business sector investment