

Economic Outlook

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I. The U.S. Economy: Where have we been?

The looming recession of 2008

A. Sub-prime lending crisis, mortgage crisis, credit crisis, and Fed policy from 2004-06

B. Oil prices in 2008

II. The U.S. Economy: Where are we going?

Severe recession:

Much like 1981-82

Growth in the absence of the
federal government stimulus bill

A. Positives

1. Much of the world economy is still growing (China and India). In 2007, US grew about 2.0%. 2008 grew about **1.1%**.
2. US Monetary policy is aggressive ($FF \approx 0.25$)
3. US Fiscal policy is aggressive
4. Effect of the stimulus package

B. Negatives

1. Bank lending tightness during 2009
(capital needs; risk aversion)
2. Stock market plunge and stagnation
3. Business fixed investment was still strong
in 2008 (except 4th qtr.); not in 2009
4. Dollar strengthening due to "safe-haven"
effect will hurt net exports

C. More Detail

$$\text{Real GDP} = C + I + G + (X-IM)$$

	2008Q3	2008Q4	E2009H1
Consumption	-3.1%	-4.3%	-2.5%
Investment	-1.9%	-20.8%	-15%
Government	5.8%	1.6%	5.0%
Net Exports	1.13%*	0.5%*	0%*
Real GDP	-0.3	-6.2%	-3.5%

D. Going Forward: Real GDP

2009: **-1.5%** growth

2010: 1.5% growth

2011: 3-4% growth



Thank you for your attention