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NABE Outlook: Worst of Credit Crunch and Housing to End, but Economy Still Sluggish

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"Although housing and credit markets will gradually loosen their grip, U.S. economic growth is expected to only slowly return to health," said Ellen Hughes-Cromwick, NABE president and chief economist at Ford Motor Company. "While our panel anticipates an improvement in credit markets and a bottoming out in housing this year, the forecasters have marked down their estimates of growth for both 2008 and 2009."

Highlights

The NABE panel continues to expect little economic growth in the first half of 2008 and has cut its expectations for the second half. The economists surveyed look for real GDP to grow at a meager 0.4% annual rate in the second quarter, after two straight quarters of output expanding at a 0.6% pace.

• The panel is still fairly evenly split on whether the current weak episode will be put on the books as a recession. A total of 56% believes that a recession has already begun or will develop in 2008, compared with 45% in the February survey. Whatever its name, the panel expects only modest near-term improvement. The current forecast shows real GDP growing at an annualized rate averaging just 2.1% in the second half of 2008, down substantially from February's call for growth of 2.8% during that period. The outlook for 2009 was also marked down slightly, with the group seeing growth of 2.7% over the course of next year, compared with 2.9% in the last report.

• Respondents cut their estimates for consumer and capital spending in 2008 and 2009, but boosted net exports. The outlook for housing starts was little changed, with starts expected to total 990 thousand units in 2008 and 1.12 million in 2009, compared with projections of 1.00 million for 2008 and 1.15 million for 2009 in the February survey. The OFHEO index of housing prices is expected to drop 4.8% in 2008, and edge down 0.3% in 2009, a bit below the forecasts in the last survey.

• The trade deficit is expected to narrow further both this year and next. Forecasts for real import growth have been reduced, and those for real exports have been increased. The panel expects exports to continue to grow in importance for the U. S. economy, with their share of real GDP rising to 13% in 2008 versus their 12.2% share in 2007.

• While the dollar's recovery path has been marked down, the greenback is projected to gradually strengthen this year and next. The euro is seen to be worth $1.50 at the end of 2008 and $1.40 at the end of 2009, compared with its recent April peak of $1.60.

• Increases in projections for unemployment and the federal budget deficit have accompanied the downgrades in expectations for GDP. The panel sees the unemployment rate averaging 5.3% in 2008 and 5.6% in 2009; the previous call was for the jobless rate to average 5.2% in both years. The federal deficit is now expected to reach almost $400 billion in fiscal 2008 before receding moderately to $328 billion in fiscal 2009 (still double the 2007 figure).

• The panel generally raised its forecasts for both headline inflation and core inflation, particularly for 2008. The Consumer Price Index is expected to rise 3.1% (on a fourth-quarter-to-fourth-quarter basis) in 2008 compared with the 2.5% projected in February.

The index is expected to rise 2.3% over the course of 2009, the same as in the last survey. A higher path for oil prices accounts for much of the higher path for the CPI; the dollar price for a barrel of oil is expected to be $98 in December 2008 and $92 in December 2009. These are well below current market quotes, but much higher than the figures of $84 and $80 seen for these months in the February survey. The forecasters expect "core" inflation (as measured by the fourth-quarter-to-fourth-quarter rise in the personal consumption expenditures price index excluding food and energy) to be 2.1% in 2008 and 2.0% in 2009, slightly above the 2.0% and 1.9% seen for those years in the last survey, and just above, or right at the top, of the Federal Reserve's perceived comfort zone of 1.0% to 2.0% for underlying inflation.

• The consensus of the economists surveyed is that the Federal Reserve will hold its federal funds rate target at 2.00% this year before raising it to 3.00% by the end of 2009. Long-term interest rates are projected to move higher both this year and next from their recent lows. The yield on 10-year Treasury notes is seen ending 2008 at 4.00% before rising to 4.50% by the end of 2009. The panel continues to expect that the stock market will recover, with the S&P index rising to 1495 by the end of 2008 and to 1575 in 2009.

The May 2008 NABE Outlook presents the consensus of macroeconomic forecasts made by a panel of 52 professional forecasters. The survey, covering the outlook for 2008 and 2009, was taken April 17-May 1. For more information, go to www.nabe.com.