# UCLA Anderson: Economy situation doesn't meet definition of 'true' recession

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In its first quarterly report of 2008, released March 11, the UCLA Anderson Forecast remains confident that the national economy was not in a recession through January 2008 and continues to forecast weak growth but no official recession in 2008.

As in their recent forecasts, UCLA Anderson Forecast economists shed a negative light on the real estate sector, with problems there continuing to be a drag on the economy as a whole, particularly as the home mortgage crisis becomes a credit crisis.

In California, the economic outlook continues to mirror that of the nation, despite questions by some regarding the possibility of a state recession in the absence of a national recession. The Anderson Forecast concludes that California is too closely tied to the nation for such an occurrence, and the outlook appears much the same — slow growth as the fallout from the real estate sector slowly works its way out of the economy.

## The national forecast

In his national report, UCLA Anderson Forecast director Edward Leamer holds to his belief that the U.S. economy is not in a recession and that there is no recession to be feared in the immediate future, while admitting that there is a tenuous aspect to forecast.

"Our no-recession forecast remains nervously intact. We see a lot of problems in the first half of 2008, as housing remains a drag on GDP growth and weakness in personal consumption contributes as well," he writes. "We expect one quarter of negative GDP growth. The Fed continues to dish out good news for Wall Street with ever lower interest rates. The labor market is sluggish and unemployment elevates to 5.5 percent by the end of 2008. But the housing drag on GDP dissipates in the second half of the year and a normal economy returns in 2009."

According to Leamer, the recession risk is rooted in the insolvency problems that lending institutions currently face.

"But until I see evidence of a decline in spending by consumers and businesses because of credit problems," he writes, "I am going to believe that this is just another symptom of 'recession depression.' Main Street is doing well, even as Wall Street suffers."

In an accompanying piece, UCLA Anderson Forecast senior economist David Shulman says that the U.S. economy has "become enveloped in an ever widening and deepening credit recession, as distinguished from an economic recession, that is working to constrict borrowing to all but the most credit worthy borrowers."

In "The Credit Recession," Shulman notes that lenders, once fearful of not making loans, are now fearful of making them, as credit losses multiply. Credit losses in the system are now in excess of $150 billion, on the way to $400 billion. The credit recession has wide-ranging implications in many areas, from high-yield bonds to home mortgages. The turmoil in the debt markets has been accompanied by a drop in stock prices.

Ultimately, Shulman describes the current economy as "a perfect storm consisting of the worst credit crunch in decades, falling house prices and

$100 oil. If history and global experience is any guide, the hangover from the mid-decade credit boom could last for quite some time."

## The California forecast

UCLA Anderson Forecast economists Ryan Ratcliff and Jerry Nickelsburg look back at the California economy since World War II and come to two conclusions. First, the U.S. and California economies move together — there has never been a recession in California without a national recession. Second, the California recessions have twice been amplified and extended by long-lasting structural adjustments — the Southern California aerospace contraction in 1990 and the Northern California tech bust in 2001. The recession-only downturns have been sharp-but-short contractions driven by temporary job losses in manufacturing and construction. These recessions typically last less than a year, but both the aerospace and the tech adjustments took more than half-a-dozen years to complete.

Today's economy fits neither of these patterns; our economy is in "uncharted waters," they say. There are some negative signs, such as job loss in real estate-related sectors, but it is unlikely that these sectors can create enough job loss to generate the 2 to 3 percent declines in non-farm payroll employment that have characterized past recessions.

The forecast is for a very weak California economy in 2008. The "double-whammy" of construction and financial activities job loss will continue to drag at the economy.

"The current state of the California economy and our forecast fall short of the weakness in previous historical episodes that we've chosen to label recessions," Ratcliff and Nickelsburg write. "Based on comparing the current economy to past recession episodes, we once again conclude that real estate weakness will remain a significant drag on the economy, leaving us treading water in 2008 — but not slipping under the waves into recession."

The UCLA Anderson Forecast is one of the most widely watched and often-cited economic outlooks for California and the nation and was unique in predicting both the seriousness of the early-1990s downturn in California and the strength of the state's rebound since 1993. More recently, the Forecast was credited as the first major U.S. economic forecasting group to declare the recession of 2001. For more information, visit the UCLA Anderson Forecast on the Web at www.uclaforecast.com .

Source: UCLA