



## U.S. economy 'going haywire'

**As crises span markets, fears grow across nation**

By George Avalos  
Staff Writer

Article Last Updated: 07/16/2008 11:44:22 AM PDT

The housing crisis. A bank failure. Oil shocks. The credit crunch. A job slump. The mortgage meltdown. Feeble auto sales. The stock market slide. A sour economic outlook was delivered to Congress on Tuesday.

"Everything seems to be going haywire and nobody knows what to make of it," said Jon Haveman, a partner with Beacon Economics, which tracks regional economies in California.

Rightly or wrongly, all of the downbeat economic trends add up to a lot of fear and loathing on Main Street and Wall Street alike.

"We're in a terrible state of uncertainty," said Eugene Miller, chairman of Miller Starr Regalia, a real estate law firm with offices in Walnut Creek. "People have little confidence in the future. Right now, we are in the deer-in-the-headlights phase of the economic cycle."

On Tuesday, top national leaders put the economy front and center. President Bush said his moves to stabilize struggling mortgage finance companies Fannie Mae and Freddie Mac, and to lift the ban on offshore oil drilling, would bolster American homeowners and motorists. Federal Reserve Chairman Ben Bernanke said economic growth is imperiled by rising inflation and energy prices, tight credit and a fallen housing market.

The move by federal regulators to seize IndyMac Bank, which was engulfed by the housing collapse, has only intensified the uncertainty. Some IndyMac customers clashed at some branches Tuesday while waiting to withdraw their money. The images of customers racing to withdraw deposits has rattled consumers, economists said.

"It brings back memories of the Depression with people standing in line trying to get money out of the bank," Miller said.

And even a steep sell-off in oil prices Tuesday that left futures 4.4 percent lower and beneath \$139 a barrel was greeted with foreboding.

"Oil prices fell not because people are conserving, but because the global economy is grinding to a halt," said economist Peter Morici, a professor with the University of Maryland's School of Business. "Reduced economic activity means reduced demand for energy."

Some economists say much of the fear about the economy is misplaced. Brian Wesbury, chief economist with First Trust Advisors, said the economy is considerably stronger than conventional wisdom might suggest.

"The level of fear is outrageously high," Wesbury said. "We have endless worrying. I have never seen the negativity we have now with so little to back it up. But the idea that we are headed back to the 1970s or the 1930s, those are far-fetched scenarios."

Marsha Cabral, a Fremont-based residential agent with RE Realty Experts, blames bad publicity for some of the problems.

"The news media is not doing the housing industry a lot of good," Cabral said. "Houses are selling. But

Advertisement

Advertisement banner for Inside Bay Area. It features the Inside Bay Area logo on the left, the phone number **(800) 755-7323** in large text on the right, and the text **Subscribe today!** with the URL [www.insidebayarea.com/services](http://www.insidebayarea.com/services) below it. On the right side of the banner, there is a screenshot of the Inside Bay Area website interface, showing a search bar, navigation menu, and a 'Latest News' section with a photo of people walking.

Print Powered By FormatDynamics™



buyers are more cautious than they should be."

The housing slump will last a bit longer, said Carole Rodoni, a Bay Area real estate consultant who heads up Bamboo Consulting. Rodoni said she believes the housing decline began in 2005, and the end of the downturn could be in sight.

"We're probably in the fifth or sixth inning of a nine-inning game," Rodoni said.

However, before the situation improves, more bank failures could occur, Haveman warned.

"There is a lot yet to come," Haveman said. "We are by no means at the bottom."

In his remarks to Congress, Fed boss Bernanke offered some downbeat assessments of the economy.

"The economy has continued to expand, but at a subdued pace," Bernanke said in a prepared release. "In the housing sector, activity continues to weaken. Inflation has remained high."

The situation, he said, poses "significant challenges" for Fed policymakers as they try to chart the best course for keeping the economy growing, while making sure inflation doesn't dangerously flare up. All the economy's problems — including slumping home values, which threaten to make people feel less wealthy and less inclined to spend in the months ahead — represent "significant downside risks" to economic growth.

Over the rest of this year, the economy will grow "appreciably below its trend rate" mostly because of continued weakness in housing markets, high energy prices and tight credit conditions, Bernanke said.

President Bush tried to strike an encouraging note: "The bottom line is this: We're going through a tough time," but "I believe we will come through this challenge stronger than ever before."

The U.S. economy was robust enough to withstand multiple calamities in recent years and is likely to extend its expansion, Wesbury said.

"We have had 9/11, the wars, Katrina, the housing market, we have all that stuff and the economy continues to grow," he said. "The economy is more resilient than the pessimists have thought."

**Reach George Avalos at 925-977-8477 or [gavalos@bayareanewsgroup.com](mailto:gavalos@bayareanewsgroup.com) .**

Advertisement

**(800) 755-7323**

**Subscribe today!**  
[www.insidebayarea.com/services](http://www.insidebayarea.com/services)

Print Powered By FormatDynamics™