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Some economists say rate cut might soften blow

By JOHN GITTELSOHN and ANDREW GALVIN

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What does the Federal Reserve rate cut mean to Orange County's economy? Here's what several local economists had to say about the move:

Esmael Adibi, director of the A. Gary Anderson Center for Economic Research at Chapman University, said the Federal Reserve move comes too late for Orange County's economy, which is headed for inevitable recession.

Q: What's the economic impact?

Adibi: We're still going to have a recession, but this is going to help a little. What the Fed is trying to do is ease the pain.

Q: What do you think the impact will be on Orange County?

Adibi: We disproportionately enjoyed higher housing prices and the wealth effect. Now it's the opposite. It doesn't solve the problem of the housing market. The reason is two groups of people who bought are going to still have problems refinancing: People with 100 percent financing whose homes went down in value and people who don't have the income to justify their mortgage because they were stated income loans – liar loans. Unfortunately, there's a large number of them locally and nationwide.

Economist **Chris Thornberg**, a principal of Beacon Economics in Los Angeles, says the Fed needed to move to avert a depression.

Q: Why did the Fed lower interest rates now?

Thornberg: They were going to do this any way. ... You saw desperate panic on Wall Street because some of the markets were falling, particularly in Asia. It was nothing more than a panic.

Q: How will the move affect the economy?

Thornberg: There's not much he can do about consumer spending, not much he can do about the real estate market. He was handed a nasty deck of cards. But what turns a recession into a depression? A meltdown in financial markets. That's where (Ben) Bernanke is working. You have to maintain the ability of the system to keep businesses liquid enough.

Q: What does this mean for the Average Joe?

Thornberg: The good old Average Joe is going to have to curtail his spending. The fact is, we've been living in a dream world with housing prices going up 20 percent a year, which is unsustainable. Can Bernanke help the Average Joe? It can stop us going into a depression, which would mean unemployment of 14 percent instead of 7 or 8 percent. It means it won't turn into something worse.

Peter Navarro, a professor at the UC Irvine Merage School of Business, said the rate cut is "like pushing on a string."

Q: Were you surprised?

Navarro: A little because it was so big. A typical cut is 25 basis points. When they want to make a point, they go for 50 basis points. This was an exclamation point. I don't think it's going to work.

Q: Why not?

Navarro: The problem with monetary policy is it's a lot better with slowing the economy down than speeding it up. The phrase we use is it's like "pushing on a string." I think Bernanke is in an ugly box he can't get out of. It was constructed by his predecessor Greenspan, with easy money, and by the Bush tax cuts. My view is we're in a mess because we've surrendered our manufacturing might to the rest of the world, especially China.

Q: What's the solution?

Navarro: We need policies to restore our manufacturing might and to promote fair trade around the world. That's the long run. In the short run, it's going to be tough.

Anil Puri, dean of the School of Business and Economics at Cal State Fullerton, says the banking sector should benefit, although it's difficult to predict the move's economic impact.

Q: What do you make of today's rate cut?

Puri: The Federal Reserve Bank has rolled the dice hoping that they can shore up consumer confidence and investor confidence because that seems to be the biggest issue right now as markets are tumbling. Obviously the economy is sliding toward a recession. This news by itself, and the fiscal stimulus that they're going to put together, how much difference that will make, it's hard to tell, because these things take time.

Q: Who does this help?

Puri: The first beneficiary is the banking sector. They get to borrow now at a much lower rate and long rates are

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going to take some time before they start coming down. They make money on the difference. Then it will start affecting other industries that depend on credit and the consumers of course because it's going to lower interest rates all the way around.

Contact the writer: Jgittelsohn@ocregister.com or 714-796-7969.