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UCLA holds line on forecast: No recession

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The forecasters at UCLA are sticking to their "no recession" predictions.

Despite worries on Wall Street and troubling unemployment numbers, the quarterly UCLA Anderson Forecast, to be released today, says the U.S. and California economies will continue to weaken but not to the point of recession.

UCLA's reasoning, in a nutshell: The housing market and mortgage lending industry, as weak as they are, are simply too small in relation to the overall economy to cause a recession.

But the forecasters acknowledge that circumstances could change, especially if tumultuous financial markets dry up credit or the decline in "the wealth effect," caused by falling home values, contributes to a dive in consumer spending.

"There are rumblings in the retail trade sector that are of concern to me," economist Ryan Ratcliff, one of the authors of the forecast, said in an interview Monday.

His colleague Edward Leamer, the forecast's director, wrote that his "no-recession forecast remains nervously intact."

Though the economy is obviously slowing, he said a recession traditionally occurs within a year of the start of a slowdown in housing. This time, though, housing has been slumping for two years and there's still no recession – a sign the nation could squeak by, he said.

Other public and private economists disagree. The fact that the U.S. recession hasn't begun yet means nothing, said former Anderson forecaster Chris Thornberg, now a private consultant. It takes time for the housing market to cause a

recession, he told an audience in Sacramento last week.

"A housing bubble is like a slow-moving train wreck," Thornberg said at a meeting of the Appraisal Institute's Sacramento Sierra Chapter. Thornberg, the head of Beacon Economics in Los Angeles, said California is already in a recession; the nation is heading into one.

Among the signs of a possible recession: a drop in national payroll jobs of 63,000 last month and continuing declines in the stock market. Sacramento-area unemployment, at 6.4 percent, is the highest it's been in 11 years. Statewide unemployment is 5.9 percent, or nearly one percentage point higher than a year ago.

In a report released Monday, Chapman University in Orange County said its quarterly index of California consumer confidence fell to its lowest level since the index was launched in 2002.

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