

Experts' forecast sees no recession

Downturn doesn't mirror past, UCLA panelists say

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UCLA's Anderson Forecast, which previously has been ahead of the curve in forecasting the downturn of the California housing market and the resulting decline in the economy, predicted yesterday that the state and nation would not fall into a recession.

“The data don't yet add up to a recession, and there is nothing to challenge the basic story of sluggishness that we have had for two years. Don't worry, be happy,” said Edward Leamer, director of the forecast, the state's best-known economic report.

Leamer and two fellow economists on the University of California Los Angeles panel – Ryan Ratcliff and Jerry Nickelsburg – say the economy does not match the models of previous recessions, when huge factory layoffs led to downturns.

Because the current situation does not match what happened in the past, they say, the state and nation probably will dodge a recession.

The UCLA economists have little company in their optimism.

A growing number of voices – including former Treasury Secretary Larry Summers, billionaire investor Warren Buffett and the economists of such firms as Goldman Sachs, Wells Fargo, Morgan Stanley, Merrill Lynch and Northern Trust – say the nation already has entered a recession or is about to enter one.

“The debate should no longer be about whether there is or is not a recession, only about how deep it will be,” said Nigel Gault, chief economist with Global Insight Analysis.

Many economists also believe the state is likely in a recession.

“When the data is ready for the first quarter, I believe it will show that we've been in a very bread-and-butter, plain-vanilla recession,” said Stephen Levy at the Center for the Continuing Study of the California Economy near Stanford University.

Nevertheless, Leamer of UCLA said consumer spending would keep the economy out of a recession.

“Until I see evidence of a decline in spending by consumers and businesses because of credit problems, I am going to believe that this is just another symptom of recession depression,” he said.

Leamer jokingly defined “recession depression” as a “psychological disorder” in which people are unjustifiably depressed about the threat of recession.

The relatively rosy tone of yesterday's Anderson Forecast is a marked change for the panel, which was one of the first economic groups to recognize the dangers of the housing bubble.

When real estate prices were soaring to their height in spring 2005, economist Christopher Thornberg predicted that prices would soon fizzle, resulting in a recession before President Bush leaves office in January 2009.

Thornberg left the forecast a year later. Since then, the forecast has moved away from recession talk, predicting a slowdown but not a recession, which is defined by the National Bureau of Economic Research as “a significant decline in economic activity spread across the economy, lasting more than a few months.”

Using that definition, Leamer said that his “no-recession forecast remains nervously intact.”

The economists at the Anderson Forecast came to their conclusion after examining the state's 10 recessions since World War II. Each one consisted of a massive loss of manufacturing jobs followed by a quick rebound.

There have been a couple of exceptions, most notably in 1990 and 2001, when weakness in manufacturing spilled over to other economic sectors. The UCLA economists doubt that manufacturing will dip enough to create a recession this time.

“Even with the job losses in construction and finance, it has not been big enough to create a precipitous job loss,” said UCLA economist Ratcliff.

Thornberg, who founded Beacon Economics in Los Angeles after leaving UCLA, said that while he understands the forecast's rationale, he disagrees with the conclusion.

“They're right that this is unlike previous recessions. But so was the recession of 2001. That doesn't mean it didn't happen,” Thornberg said. “This one's going to be pretty nasty and definitely worse than 2001. That was really half a recession. It only affected the business side of the economy and not consumers. But consumers aren't being left out of this one.”

Thornberg said the economy is backing into a recession. In a typical recession, he said, huge layoffs put a crimp on spending that affects things such as housing prices.

This time, he said, the collapse of housing and the tightening of credit have led to spending cutbacks that lead to job losses.

In the past two months, the nation lost 85,000 payroll jobs, the first two-month job loss since 2003. Unemployment nationwide remained unchanged at 4.8 percent last month. But that's largely because 100,000 workers dropped out of the job market and are no longer counted.

If disaffected workers were included among the unemployed, the jobless rate would be about 7 percent, said Peter Morici, an economist with the University of Maryland.

One member of the Anderson Forecast raised a caveat about the no-recession prognosis. Senior economist David

Shulman said there is one area of the economy that is going into recession: credit.

“Where lenders were once fearful of not making a loan, they are now fearful of making loans as credit losses multiply,” Shulman said.

Shulman said that with the growing constriction on credit, it would not take much to put the economy into recession.

“Indeed, if history and global experience is any guide, the hangover from the mid-decade credit boom could last for quite some time,” he said. “And to paraphrase a recent movie, there could be blood.”