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President's message: Highlights of Economic Forecast breakfast

January 31, 2008 - Owners Developers & Managers

WOW, the first month of 2008 has flown by. Our first membership meeting was very well attended. We recognized 14 chapter past presidents and three of them were regional vice presidents, I appreciate their support. We inducted two ARM and one CPM.

John Bitner was our speaker for our Economic Forecast breakfast. Below are bullet points from his speech. I think no matter what happens with the economy the most important thing is how we react to what actual occurs.

Fixed Income

The economy is in the mature phase of its expansion. All the slack that developed during the last recession has been adsorbed. The unemployment rate is low and the rate of industrial capacity utilization is high. This means the economy is in a speed zone. If the economy exceeds the speed limit, inflationary pressures will build and the Federal Reserve Bank will be forced to raise interest rates. We estimate the speak limit for annual real gross domestic product growth to be 2.5%

Equities

As we enter 2008, it is clear the credit market conditions remain difficult and the Fed will have to ease again. The problem is not a lack of liquidity or that rates are too high, but rather uncertainty about asset valuation has caused extreme risk aversion in lending, increasing the odds of a credit contraction and recession. In the end however, we expect a string global economy, decent personal income growth and the lagged effects of continued Fed easing to keep the U.S. Out of recession.

Stocks present a mixed picture with earnings growth and credit conditions negative, but valuation and subdued expectations positive. Assuming nothing worse than a mild recession, we expect the market to grind higher into 2008, albeit with continued volatility. The latter half of the year has the potential to be very good, as earning growth against very weak comparisons will by then have re-accelerated.

The Economy

The economy has entered the part of the expansion cycle where imbalances tend to develop. The current imbalance in the residential real estate market has led to a crisis of confidence in the credit markets. As a result, we are experiencing a decline in home prices and sales. High-energy prices and the weak real estate market are weighing on consumers spending and causing a sharp deceleration in real economic growth from the third quarter's robust pace of 4.9%

Whether the economy experiences a recession or a late cycle slowdown will be determined by the

consumers' spending. Employment exerts a great deal of influence on consumer spending. Therefore, we believe that as long as the labor market remains fairly strong, wage and employment gains will be able to offset enough of the drag on consumer spending to produce a real GDP growth of 1.5% during the first half of 2008

During the second half of the year, we expect the rate of real economic growth to re-accelerate toward the economy's potential long-term growth rate 2.5%. The catalysts for economic growth could be the lagged effect of the Fed's lower interest rates, stable energy prices, global economic growth and some progress in clearing the inventory of unsold homes.

The economy is in a very treacherous phase of its expansion. With real economic growth slowing to between 1% to 1.5% the possibility of recession is elevated. Although we believe the economy will avoid slipping into a recession, we remain cautious and assess the probability of a recession at 40%. We are carefully monitoring the strength of the employment market as well as the impact of lower real estate prices on consumers spending for any indication of an increased possibility of a recession.

I look forward to our next meeting on February 8th at Loon Mountain. This meeting is all about networking and meeting friends. An interesting dynamic about networking is you never know who you are going to meet and what opportunities present them now or in the future. Let's go skiing.

Over the next quarter we will have six seminars and four education courses. Check our website for more details.

I look forward to meeting you at a chapter event.

Winder Nordblom is the 2008 president of the Boston chapter of IREM

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