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## **The models don't work - The 2009 stimulus will**

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Watching the Obama stimulus unfold and the credit markets continue to ease will be in the media's headlines for January 2009. However, these headlines will continue to compete with contraction trends such as job losses, housing price declines, bankruptcy filings, and volatility in the securities markets. The economists are reaching a consensus that the econometric models which have been used for forecasting economic trends require revamping, not just a few tweaks. Initially, sidebars and commentaries from lesser known economists were alluding to merits of models based on the old economy and the choking on the new contraction. The choking sounds were a steady flow of reforecasting, an increasing disparity in expectations, and uncertainty and volatility in the markets. It's not over.

Resilience of the American economy, the power of fiscal and monetary policy and the willingness of the federal government to spend through this mess is all we need to ease the contraction and start the recovery. President-elect Obama has a goal of 3.0 million, jobs up from 2.5 million jobs, to be created from new stimulus spending of \$800 billion or so. Infrastructure improvements at state and local levels are a priority. Governor Patrick has prepared a prioritized list of improvements and other expenditures which will be responsive to the government spending stimulus package. Clean energy initiatives are also a national priority and already a state priority and program with appropriations. The Commonwealth should benefit evenly if not disproportionately from the federal stimulus packages. Because by most measures the housing market in Boston has outperformed much of the nation, these markets have lost less and have less to gain from housing initiatives. However, local markets should stabilize as efforts to refinance and work out single-family foreclosures continue to cascade through the economy.

The commercial real estate industry has asked the federal government to include commercial mortgages in the \$200 billion Term Asset-Backed Securities Loan Facility program which is intended to increase liquidity in the consumer credit and small business lending. Because of the credit crunch and further portfolio dynamics in the real estate capital markets, the commercial real estate industry anticipates a crisis in the commercial mortgage markets in 2009 as short-term debt refinancing demand compounds already chronic shortages in development financing. Of course financing new developments finances construction jobs as well. The timing and relevance of this request from commercial real estate is very good and a federal response could avert the crisis as well as contribute to the recovery.

Job watching will still be the critical task for the commercial real estate industry. However, watching the flow of stimulus spending will be important as well. Re-tooling the models for forecasting is

important to all.

On-the-job training during this recession for the Fed's Bernanke and Treasury's Paulsen has been painful for all. At the risk of being optimistic, the Fed and Treasury are ready for 2009.

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