

Dairy Keeper News & Information Notice

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13430 Wood Road, Bath, Michigan 48808

DETROIT -- Falling home prices and turmoil in the banking system are pushing the U.S. economy dangerously close to recession, a new University of Michigan forecast says.

U-M economists Saul Hymans, Joan Crary and Janet Wolfe predicted Tuesday the economy will shrink in the current quarter by 1.5 percent and show no growth in the second quarter of the year.

"The economy is clearly in a fragile condition," said Hymans, professor emeritus of economics.

"Whether or not economic conditions turn out to be weak enough for a recession to be declared, there can be little doubt that the economy is now and will feel subpar, at least in the near term."

The forecast has a rosier view later in the year. It predicts the economy will recover in the second half of 2007 as the housing market starts to recover and auto sales stabilize.

Gross domestic product should grow by 2.5 percent in those six months and pick up momentum in 2009 when the U-M forecasts a 2.9 percent growth in GDP.

"Some of the second-quarter improvement is undoubtedly due to the tax-rebate checks that come through in May and June, but the fiscal stimulus has much larger effects in the second half of the year," Hymans said.

Meanwhile, economists are focused on whether the country is slipping into recession. A recession is defined as having two consecutive quarters of declines in gross domestic product.

But some say conditions are so weak now many consumers feel like they are in a downturn.

That's particularly true in Michigan, which has suffered through seven straight years of job losses.

The forecast and an auto sales forecast released Tuesday by J.D. Power and Associates portend even harder times ahead for the state's auto-dependent economy.

U.S. auto sales are expected to fall by one million cars and trucks this year, from 16.1 million vehicles last year, to 15.1 million this year, according to the U-M forecast.

J.D. Power said it expects vehicle sales to drop even further, to 14.95 million cars and trucks this year. That would be the lowest sales since 1994. "Unfortunately, the current economic environment is fraught with uncertainty and risk, with the financial crisis, worsening oil prices and weak housing and stock markets steadily impacting other sectors of the economy," said Bob Schnorbus, J.D. Power's chief economist.

Housing starts will total just 981,000 this year, down from more than 2 million just three years ago, according to the U-M forecast.

The U-M economists predict housing starts will jump to 1.14 million units next year.

But they say auto sales will remain flat next year at 15.1 million vehicles