

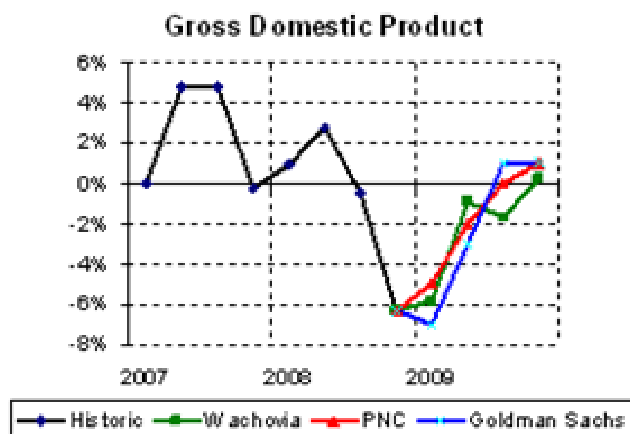
## The Pump Has Been Primed

Many economists expect gross domestic product, the broadest measure of goods and services produced in the economy, to bounce back by the end of this year, meaning, in effect, that the recession will have ended. The following graph illustrates historic GDP (the black line) and the most recent forecasts from economists at three large banks (the red, blue and green lines). How might this scenario unfold?

Mark Zandi, chief economist at Moody's Economy.com, penned a recent article explaining that consumer spending is the key. According to Zandi, "Household cash flow is receiving a boost from a number of temporary factors, including lower energy bills and higher Social Security payments due to an outsized cost-of-living increase driven by last year's record-high energy prices. Tax cuts in the fiscal stimulus and lower mortgage payments from rising mortgage refinancings are just now lifting cash flow... The lift to household cash flow is expected to peak in May at an estimated \$53 billion. Social Security recipients will receive a one-time benefit as part of the fiscal stimulus, and tax refunds should be large... For all of 2009, the extraordinary lift will approach an estimated \$400 billion."

There is reason to think that households will actually spend a good chunk of this windfall. Zandi notes that savings rates are approaching 10 percent, meaning that the hit to spending from the negative wealth effect and credit crunch may already have occurred. If the savings rate is back near historic norms, households may resume spending at a rate consistent with their incomes.

How will we know if this scenario is playing out? If households loosen their purse strings, businesses will follow suit, and job losses should begin to abate by midsummer (although they are likely to continue at a diminishing pace into next year).



Source: BEA, Goldman Sachs, PNC, Wachovia, Grubb & Ellis