

## Expert tells Economic Club of Memphis recession should end in summer 2009

### Economist: Key to recovery is consumer confidence

By David Flaum

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The recession won't end until August or September of 2009 -- and that depends on restored consumer and business confidence, one economic expert told the [Economic Club of Memphis](#) Thursday.

And the regional outlook isn't much brighter, others said.

The key to limiting this recession to 22 or 23 months -- more than twice the post-World War II average length of 10 months -- is restoring confidence, said Bruce Scherr, chairman and chief executive officer of [Informa Economics Inc.](#) in Memphis.

"There's lots of medicine out there," he said. "It hasn't hit all the organs yet."

Consumers, who account for about 70 percent of gross domestic product, and businesses, which contribute 14 percent, are frozen in place, Scherr said.

"The consumer is in terrible mental shape," although 93 percent of workers have jobs, prices are under control and wages are rising, he said.

"You have no confidence in the future," Scherr said.

He said he hopes President-elect Barack Obama and Congress will restore that confidence.

"If they don't, you can extend my recession," he said.

Service businesses, which provide a large chunk of the jobs around Memphis, have led the downturn in the area, Michael Pakko, economist with the [Federal Reserve Bank of St. Louis](#), told more than 100 club members at the Holiday Inn at [University of Memphis](#).

From October 2007 to October 2008, there was a loss of jobs in virtually every service area - especially transportation, trade and utilities, which employ 27 percent of the work force, Pakko said.

Nevertheless, "The recession has not, to this point, been as severe (in the Mid-South) as in other parts of the country," Pakko said.

One reason: Home prices didn't spike here the way they did in many other places, Pakko said.

While home building permits and housing starts have fallen sharply in the past year, commercial and industrial construction has held steady, Pakko said, much of it because projects in the pipeline when the economy turned down are being completed.

Overall, though, the economy in the region -- West Tennessee, North Mississippi and northeastern Arkansas -- slowed considerably this fall, he said.

Rising unemployment and weak growth will characterize the first half of Memphis' economic year in 2009, said Dr. John Gnuschke, director of the [Sparks Bureau of Business and Economic Research](#) at U of M.

"We'll have to get more economic bad news before we get any good news," he said.

Gnuschke expects the area jobless rate to hit 10 percent by midyear, and twice that among African-Americans.

Improvement should begin around midyear when the effect of federal economic stimulus plans begin to kick in and banks become more willing than they are now to lend money.

"Our recovery pattern will mirror the national recovery pattern," Gnuschke said. "We need a strong national economy in order for Memphis to prosper."

### **National economic forecasts For 2009**

*Bruce Scherr, chairman and CEO, Informa Economics Inc.:*

Recession recedes: August or September.

Gross domestic product: Down 2.1 percent.

Unemployment rate: Peaks at about 8 percent in third quarter.

Long-term outlook: Two to five years of slow growth.

*Federal Reserve Open Market Committee:*

Gross domestic product: Down 0.2 to 1.1 percent.

Unemployment rate: 7.1 to 7.6 percent at year's end.

Inflation: 1 to 2 percent.

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