

Economic Policy Survey

NABE Panel:

A Mixed Scorecard for Economic, Financial System Remedies

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The NABE Economic Policy Survey presents the consensus of a panel of 252 members of the National Association for Business Economics. Conducted semiannually, this survey was taken Feb. 3-17, 2009. May be reprinted in whole or in part with credit given to NABE. View the survey results, including complete tabulations, online at www.nabe.com. This is one of three surveys conducted by NABE. The other two are the NABE Outlook and the NABE Industry Survey. **Douglas Duncan**, Fannie Mae; **Richard Brown**, FDIC; **Michael Fratantoni**, Washington Mutual; and **Robert Fry**, DuPont, conducted the analysis for this report.

Amid a wave of federal policy initiatives aimed at stabilizing the U.S. financial system and mitigating economic fallout from the financial crisis, NABE members were mixed in their assessment of the progress made to this point, and skeptical regarding the potential impact of many current and proposed policy measures. "There appears to be a growing consensus that monetary policy is at least headed in the right direction," says NABE President **Chris Varvares**, president of Macroeconomic Advisers, LLC, "but we see a cautious assessment as to how much of an impact it is having on credit flows and economic activity. If anything, our respondents appear to be even less convinced of the near-term effectiveness of fiscal policy in turning the economy around."

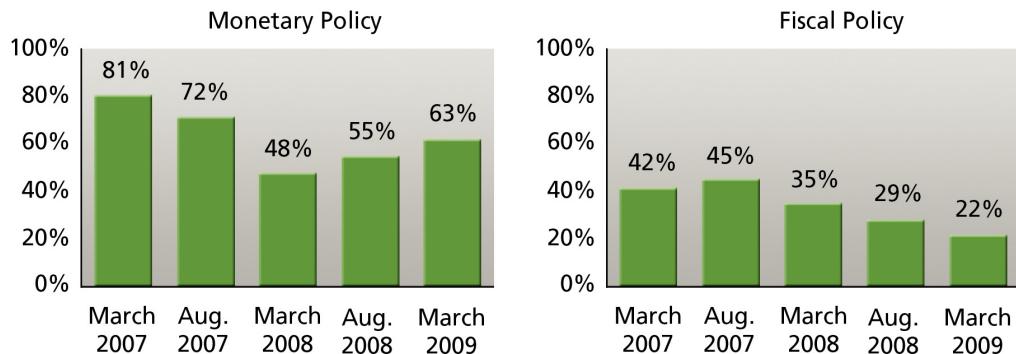
Monetary Policy

NABE panelists tend to support current monetary policy but anticipate the need to adjust this policy down the road. Almost 63% judged monetary policy "about right" in this Survey, compared to 55% in August 2008, while a shrinking proportion (23%) viewed policy as "too stimulative." Respondents see low or negative inflation in calendar 2009, with some 37% expecting core CPI to fall for the first time in over 50 years. However, almost 63% see core CPI rising to more than 2.5% within two-to-five years, signaling the possibility of an abrupt transition for monetary policy during that timeframe.

Large majorities expect the Federal Reserve to purchase long-term Treasury securities (75%) and broaden the types of securities it lends against (89%) in order to lower interest rates and credit spreads. In each case a majority expects the policy to be successful. However, respondents gave a mixed grade to the special liquidity vehicles the Fed has already



Percent of NABE Panelists Who Consider Current Policy to be "About Right":



put in place. While a majority (54%) indicated that these programs were successful or very successful in preventing the collapse of the U.S. and global financial system, majorities also rated the programs as ineffective or nearly ineffective in making credit available to households (71%) and businesses (61%) and in limiting the effects of the crisis on the U.S. economy (51%).

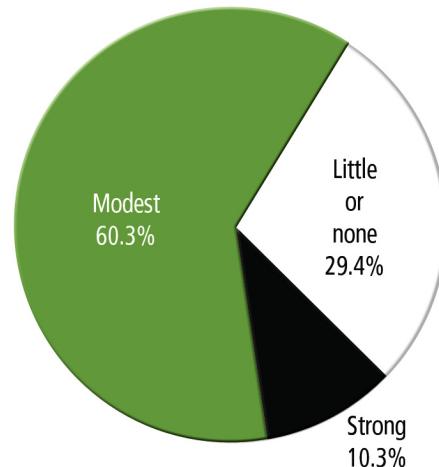
Fiscal Policy

Business economists are broadly divided regarding the current posture of fiscal policy with roughly a third viewing it as too stimulative and another third seeing it as too restrictive, but only 22% characterizing it as "about right." When asked to look ahead at the next two years, the division became even wider, with 48% desiring a more stimulative posture and 41% supporting a more restrictive policy. Irrespective of the respondents' views of what should be the posture, 83% felt fiscal policy would be more stimulative over the next two years.

A solid majority (60.3%) of respondents feel the recently passed stimulus package will have a modest impact in shortening the recession. Panelists were asked to consider nine of the elements of the stimulus package and rank their effectiveness. The three ranked as most effective were infrastructure of a physical nature (roads, bridges, etc), unemployment benefits expansion, and personal tax-rate cuts. The three expected to be least effective were, in order, social spending (endowment for the arts, public housing, etc.), income transfers (earned income tax credit), and lump-sum tax rebates.

Asked to rank the priorities among the alternative kinds of infrastructure spending irrespective of the stimulus package, transportation related investments (roads, bridges, airports) were the clear priority of respondents. Panelists placed significantly lower priority on infrastructure spending on energy, information technology, and education facilities in that order.

Projected Impact of the 2009 Fiscal Stimulus Package on Shorting the U.S. Recession:

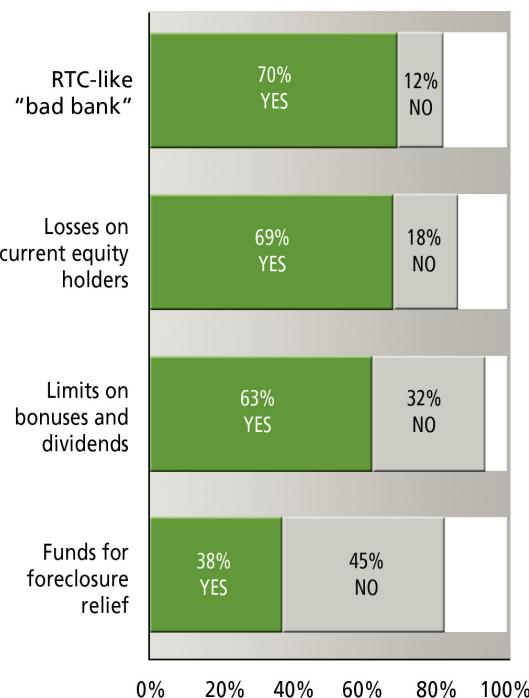


Managing Financial Market Turmoil

NABE panelists see clear distinctions between policy actions that would primarily benefit the financial system and those that would have an impact on the housing market and the real economy. While almost 64% thought that TARP-funded purchases of toxic assets would have the greatest beneficial impact on restoring the flow of credit, nearly 60% thought that TARP-funded foreclosure relief measures would have the greatest positive effect on the housing market. However, only 38% of respondents thought that TARP funds should be used for foreclosure relief. Some 70% of respondents thought that the government should establish an RTC-like "bad bank" to hold non-performing assets from financial institutions, but large majorities thought that acceptance of TARP funds should be contingent upon losses for current equity holders of institutions participating in the TARP (69%) as well as limits on executive bonuses and stock dividends (63%).

Panelists indicated that the government could successfully nationalize a single bank without nationalizing the entire banking system (80%), and could successfully re-privatize the banking system post-nationalization (87%). However, only 44% of respondents thought that such a move would restore the flow of credit, while only 31% thought that doing so would speed an economic recovery. With respect to the housing GSEs, similar to prior surveys, 42% of NABE panelists thought that the best long-run solution was to privatize these institutions.

**Percent of NABE Panelists Indicating
that the TARP Rescue Should Include:**



Blank area: "Unsure" or no response.

International and Currency Policy

More NABE panelists believe the value of the U.S. dollar is too strong for optimal short- and long-run economic performance than believe it is too weak but expect to see the dollar appreciating against most currencies over the short run. Half of the respondents said that the recent rebound in the dollar is largely irrelevant to macroeconomic performance; a third thought that the dollar rebound improves prospects for economic growth by attracting foreign capital and keeping interest rates low. Fewer than 15 percent of respondents thought that the rebound in the dollar would worsen the U.S. recession.

Slightly more than half of respondents believe that the dollar will resume its decline against the euro when the current global financial crisis and recession end. Another quarter believe that the dollar will stabilize to near current levels. Fewer than 18 percent believe that the dollar will continue to appreciate versus the euro.

More panelists (30%) believe the dollar is too strong for optimal short-run economic performance than believe it is too weak (12%). In the August 2008 survey, panelists were evenly divided. Panelists also believe by a 37 percent to 24 percent margin that the dollar is too strong for optimal long-run economic performance. That's a big switch from the August 2008 survey, when 58 percent thought the dollar was too depreciated for optimal long-run economic performance.

Only three percent of respondents believes that the dollar has depreciated enough since 2002 so that the U.S. trade deficit will be eliminated without further dollar depreciation. Another 44 percent believes that the U.S. trade deficit will narrow further, but won't be completely eliminated. But 47 percent of respondents believes that the U.S. trade deficit will stop narrowing or will even widen if the dollar stabilizes near its current level. Still, a plurality of panelists believes that in the short run the dollar will appreciate versus the euro, the Japanese yen, the Canadian dollar, and the Mexican peso, but that it will depreciate versus the Chinese yuan.

