



## A CRISIS OF CONFIDENCE

by Mark Schniepp

### Can the economy be saved ?

The economy is struggling, business and consumer confidence has been trashed, and everyone is talking about another recession as if it's a foregone conclusion.

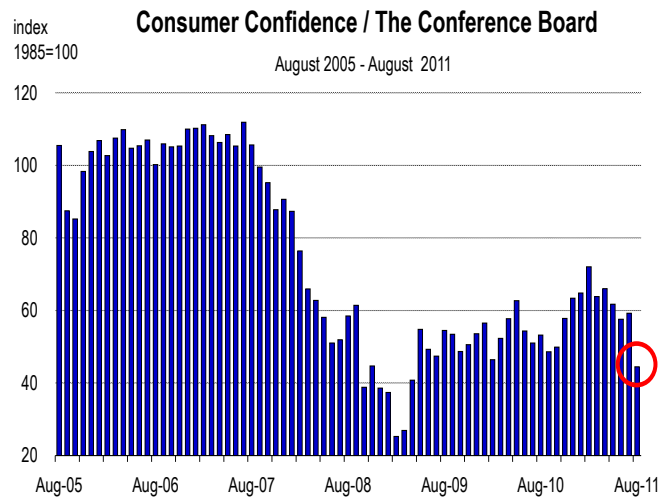
Businesses in the private sector have stopped hiring; they appear frozen in place. Households are spending more tentatively; they are saving more and unwinding debt. Bankers are re-evaluating whether it makes sense to continue easing credit standards. The declines in the stock market and widening credit spreads suggest investors are also losing faith.

The fundamental problems that have soured business and consumer sentiment include the never-ending foreclosure crisis, a glut of empty office and retail space, the lack of demand for new homes, and looming state and local government deficits.

The risk of a new economic downturn is as high as it has been since the Great Recession ended more than two years ago. A string of unfortunate shocks leading to a crisis of confidence are to blame.

Surging gasoline and food prices and the fallout from the Japanese earthquake impacted the economy badly in the spring. This past summer, the debt-ceiling drama, a revived European debt crisis, and the S&P downgrade have been especially alarming. Confidence, already fragile after the nightmare of the Great Recession and the heated policy debates in Washington, has collapsed.

Although a summer full of negative shocks has had its impact on consumer confidence, other recent confidence measurements have showed a slight uptick. Confidence will improve when the pace of the U.S. recovery finally begins to strengthen, although it increasingly appears that this will be delayed until 2012 at the earliest.

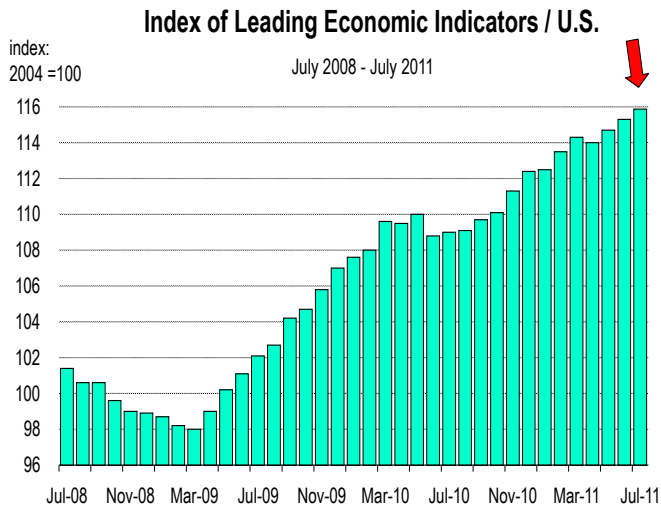


### Good News

The economy continues to create jobs, although there are not enough yet to lift confidence among unemployed and underemployed workers.

Consumers started the third quarter (July and August) on a positive note with an increase in personal income and spending along with a decline in savings. Growth in spending was strong particularly for durable goods and services. Retail stores reported relatively strong back-to-school sales.

The index of leading indicators continued to rise through July of this year, giving no indication that the economy was on the verge of recession. And though the August reading will no doubt be gloomy, the index normally declines for a number months before a recession has gripped the economy. The leading indicators index would have to turn on a dime in August and September if a recession was eminent anytime soon.



### Obama Jobs Proposal

The economy maybe one shock away from falling into recession again. However, it has survived so many shocks this year and it's resilience has so far survived all the tests. What policies are put into practice from Washington for the remainder of 2011 may have positive effects on restoring confidence. They could go the other way as well.

This past week, the President presented a plan to create an estimated 1.9 million jobs in the U.S. economy in 2012. The plan includes tax cuts and government spending increases, extensions of the employee tax holiday, payments to states for hiring teachers, extending unemployment insurance benefits, and creating infrastructure projects that would employ thousands of construction workers.

We will be watching closely how Congress responds to the President's jobs proposal and whether it restores confidence and keeps the economy from sliding back into recession between now and early 2012. In the current political environment, it is less than likely that most of the president's plan will pass Congress. But it will make for an interesting debate for the rest of this year. So stay tuned !

## Upcoming Forecast Conference

**September 29, 2011**  
**Santa Barbara County**

The Conference will provide an updated outlook for the National and Local economies, and how the Commercial Real Estate environment is recovering in Santa Barbara.

**Economic Speakers: Peter Rupert and Mark Schniepp**

**Radius Group Speakers: Paul Gamberdella, Brad Frohling, Steve Golis**

**There are a very limited number of admissions for this event.**

**Please register early at:**  
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