

Business Forecasting Roundtable

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U.S. Economic Update

Gary Santoni, Professor Emeritus

The Crash in Stock Prices

1. Fundamental Price = Expected Annual Earnings / Discount Rate
2. $\% \Delta \text{ Price} = \% \Delta \text{Expected Earnings} - \% \Delta \text{Discount Rate}$

Date	S&P500	S&P Expected Earnings	AAA Bond rate
7/2007	1550	83.7	5.74
10/2008	850	48.2	5.64

- $\% \Delta \text{ Actual Price} = -45\%$
- $\% \Delta \text{ Fundamental Price} = -42\% - (-1.6\%) = -40.4\%$

U.S. Economy in 2008

	2007 Avg.	TIME SERIES FORECAST 2008					CONSENSUS	
		Q 1	Q 2	Q 3	Q 4	2008 Avg.	Round Table	Blue Chip
Real GDP Growth	2.5	2.8 0.9	5.1 2.8	4.8 -0.3	3.6 (2.0)	4.1 (1.4)	3.1	2.4
Inflation	2.6	2.4 2.6	1.8 1.1	1.5 4.2	2.2 (4.0)	2.0 (3.0)	2.7	2.2
Unempl. Rate	4.6	5.1 4.9	5.2 5.3	5.2 6.0	5.3 (6.5)	5.2 (5.7)	4.9	5.0
10-year T-Bond	4.6	4.8 3.7	4.8 3.9	4.8 3.9	4.8 (3.8)	4.8 (3.8)	4.7	4.7

U.S. Economy in 2009

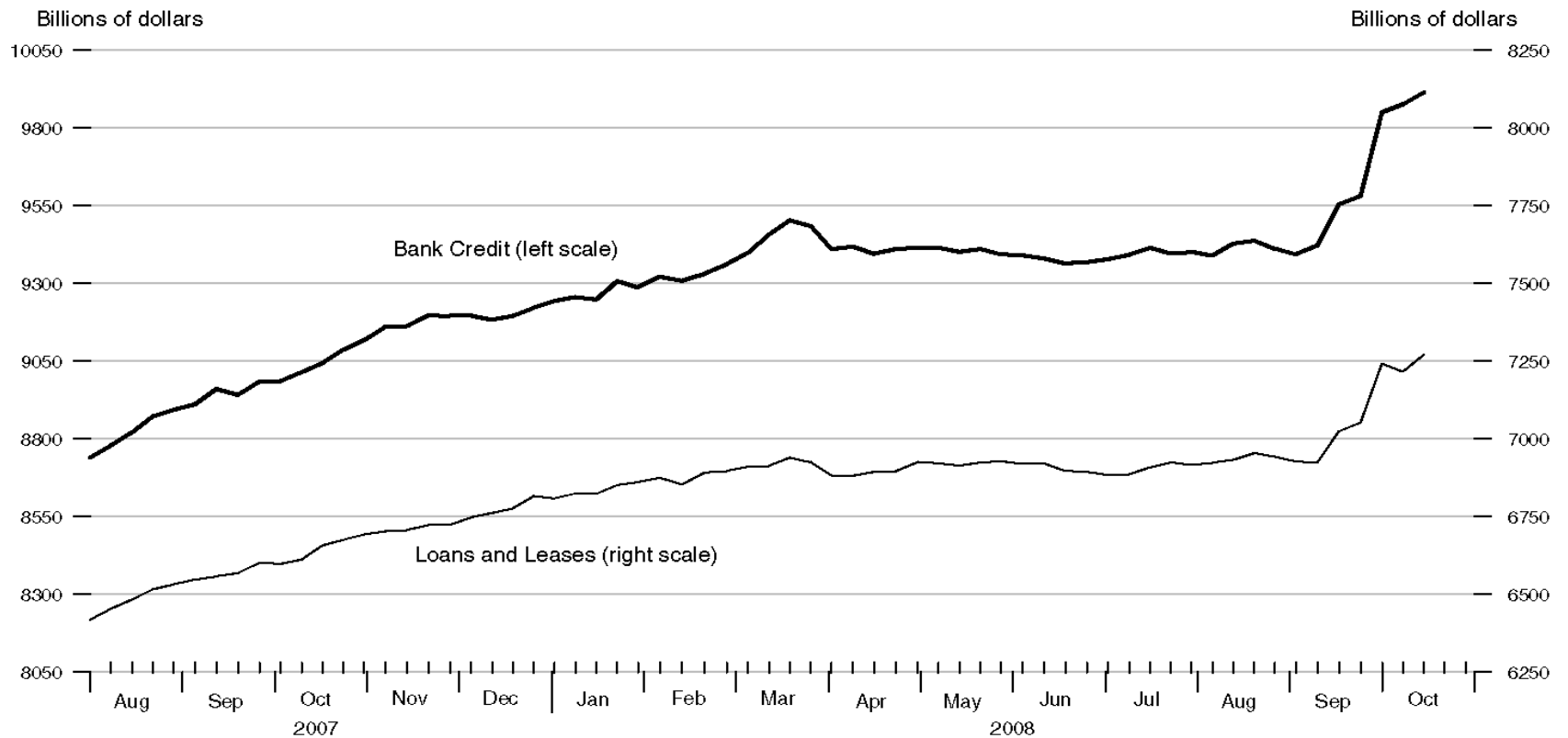
	2008 Avg.	TIME SERIES FORECAST 2009					CONSENSUS	
		Q 1	Q 2	Q 3	Q 4	2009 Avg.	Round Table	Blue Chip
Real GDP Growth	1.4	2.2	2.5	5.6	3.5	3.5		1.4
Inflation	3.0	3.4	3.3	4.4	3.9	3.8		2.0
Unempl. Rate	5.7	6.9	7.0	6.8	6.7	6.9		6.9
10-year T-Bond	3.8	3.9	4.0	4.0	4.0	4.0		3.9

updated through
10/30/08

U.S. Financial Data

Bank Loans and Credit

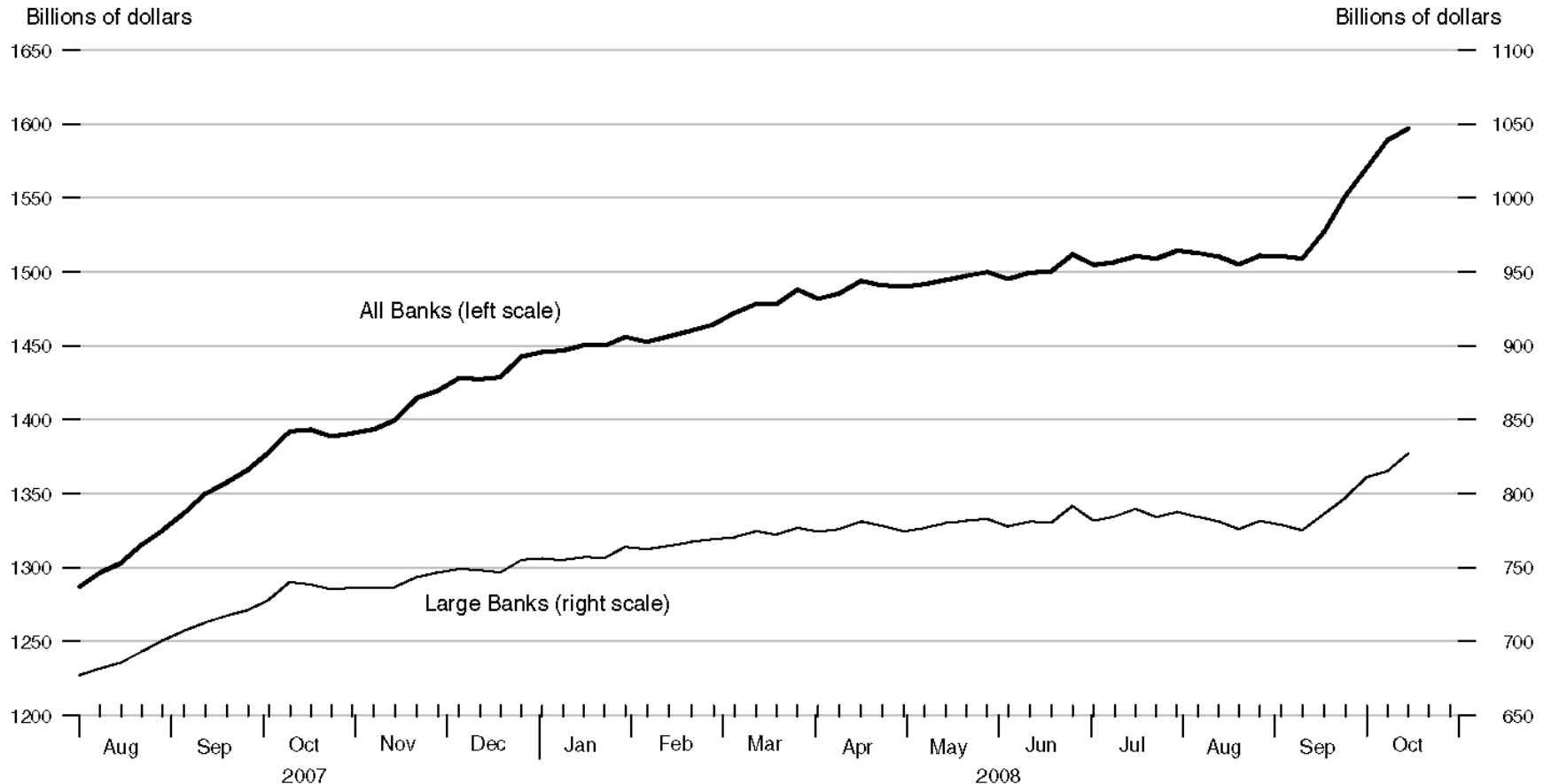
All Commercial Banks in the United States, Seasonally Adjusted



Research Division, Federal Reserve Bank of St. Louis

Commercial and Industrial Loans

Seasonally Adjusted



Recent developments in the financial sector resulted in an unusually large increase in commercial bank assets and liabilities in September and October 2008. For more information, please see the notes to the Oct. 10, 2008, H.8 release at <http://www.federalreserve.gov/releases/h8/20081010/>.

Research Division, Federal Reserve Bank of St. Louis

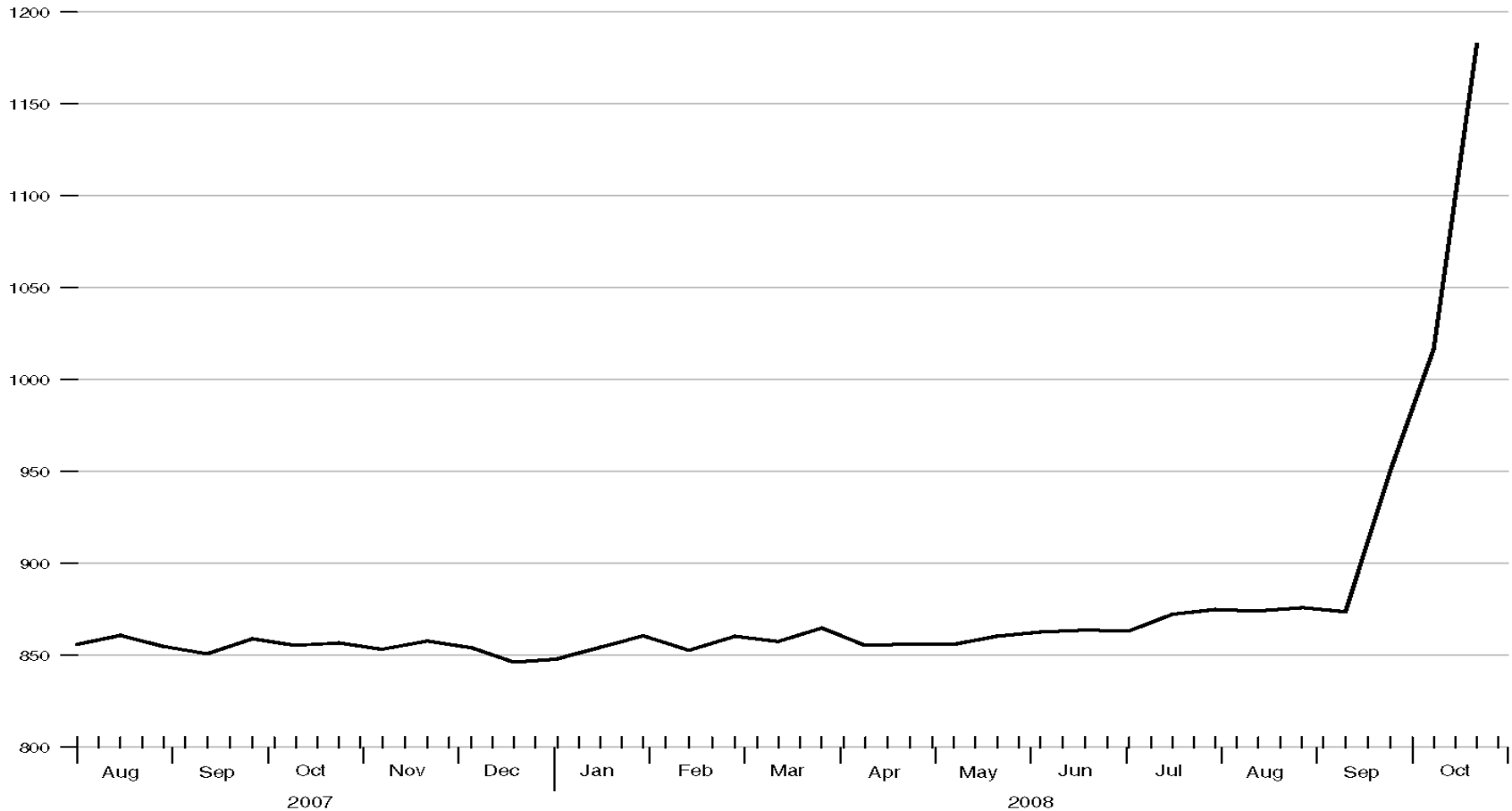
updated through
10/30/08

U.S. Financial Data

Adjusted Monetary Base

Averages of Daily Figures, Seasonally Adjusted

Billions of dollars



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