



There is no question that we are in the midst of a global recession. Last year was spoiled largely by wrenching changes in the economy and increased volatility in the financial services sector. Both of which contributed to a world-wide recession, the collapse of energy prices, credit market disruptions and substantial financial institution failures. The most obvious questions now are: how deep will it be? how will we recover? and when can we expect some relief? During the Fourth Quarter 2008, Brown Realty Advisors attended several economic forecasting events. The goal of this newsletter is to provide our clients with a valuable tool by giving you a brief perspective on the national, state, and local economies. Sources include The Georgia State University – Economic Forecasting Center (November 2008 Report) and The University of Georgia’s Terry College of Business 2009 Economic Outlook.

The following are notes and highlights of presentations made in the fourth quarter of 2008 on the economy, including projections and observations. All remarks and statistics are attributed to the individual speakers and their research teams. Presentations included in this newsletter include the following:

Bank of North Georgia Economic Forecast	December 2, 2008	Albert Neimi, Jr.	Page 2
Georgia Economic Outlook – 2009	December 3, 2008	Steve Forbes	Page 4
Georgia Economic Outlook – 2009	December 3, 2008	Robert Sumichrast	Page 5
Economic Forecasting Center – 4th Quarter Report	November 19, 2008	Rajeev Dhawan	Page 8

BANK OF NORTH GEORGIA ECONOMIC FORECAST - DECEMBER 2, 2008

Albert W. Neimi, Jr. – Dr. Neimi is the Dean of the Edwin L. Cox School of Business at Southern Methodist University and holds the Tolleson Chair in Business Leadership. Previously he served as Dean of the Terry College of Business at the University of Georgia. He has served on the boards of Titanium Metals Corporation, Stonehill College, TXU Dallas and Bank of Texas, N.A. His areas of expertise are economic growth, economic forecasting, and American business history.



Recession – While the Wall Street Journal announced that the recession began in December of 2007, this was in fact the downturn of the job market. He believes the recession, as marked by a national downturn in growth, began in July of 2008. He projects it will last 18 to 24 months making it the worst recession since the Great Depression.

Unemployment – The current unemployment rate of 6.5 percent will certainly climb above 8 percent. He expects unemployment to rise to 9 percent if there is an auto bailout and into double digits if there is no bailout.

Auto Bailout – With the bailout impending, Dr. Neimi feels the bailout will not solve the problems facing the auto industry. The U.S. auto makers are tied down by the Unions and are paying wages that are 50 percent higher than foreign competitors. As a result, foreign companies are expanding while Detroit is contracting.

Stock Market – This is the most volatile stock market since the 1930’s. Based upon historical recessions, the market typically hits bottom about 6 months before the end of the recession. As such, he recommends waiting until after June of 2009 before reinvesting in stocks but cautions that anything can happen in the next year to change the timing.

Credit – The economy is totally dependent upon the availability of credit. The Government borrows, business borrows, and consumers borrow, however, when credit tightens, the economy slows as evidenced by today’s market.

Recovery – He predicts a relatively slow recovery. Real growth will be about 3 percent between 2010 and 2015 and see slower than average growth after 2015.

Consumer Spending – Consumer spending makes up 70 percent of the economy. There are three primary components of consumer spending – housing, transportation, and retail. Housing is obviously down, auto sales are 15 percent of what it was, and the only major retailer that has positive growth is Wal-Mart.

Black Friday retail spending had mixed signals. Over 173 million consumers went shopping which was up 17 percent from 2007. An average of \$373 was spent per customer, up 7 percent. The net was a 2 percent increase in shopping from the previous year for the same Holiday weekend.

Population Growth – Population growth drives growth in spending which drives economic growth. The United States, however, is expected to gain 5 million people in the next 20 years. 60 percent of this growth will take place in five states – Texas, Florida, California, Georgia and North Carolina. Georgia will grow twice as fast as the national average.

Income – The Median Income hit its peak in 1999 and has been declining ever since. This is the longest negative stretch in income since 1776. The Median Income in the U.S. is now \$32,000.

Change in U.S. Economy – Thirty years ago the manufacturing sector was 35 percent of our economy. It has now dropped to 11 percent. This is a result of our heavy outsourcing to Asia. Our major employers are now Retailers – Wal-Mart, McDonald's or Starbucks. Losing our manufacturing base has placed the U.S. in a dangerous position.

Taxation – The United States is the most taxed nation in the world. As a result of Federal, State, local, sales, inheritance, and corporate taxes, Americans pay over 50 percent of their earnings to taxes. In 2007, the top 1 percent paid 47 percent of government taxes; the top 10 percent paid 71 percent of the taxes, the top 50 percent paid 97 percent of the taxes and 40 percent paid no government taxes at all. The United States cannot compete with a 47 percent corporate tax rate. Ultimately, he believes that higher taxes will impact the bottom income earners the most.

Government – The current system of government is broken. Presidents should be limited to one six year term which would enable them to focus more on the job and less on re-election.

“The budget should be balanced, the Treasury should be refilled, public debt should be reduced, the arrogance of officialdom should be tempered and controlled, and the assistance to foreign lands should be curtailed lest Rome become bankrupt. People must again learn to work, instead of living on public assistance.”
- Cicero, 55 BC

GEORGIA ECONOMIC OUTLOOK 2009 - DECEMBER 3, 2008

Steve Forbes – Steve Forbes currently serves as Editor-in-Chief of the business magazine Forbes and is President and CEO of its publisher, Forbes, Inc. He was a Republican candidate for the President of the United States in both 1996 and 2000. He ran on a platform of a flat income tax, free trade and health savings accounts. He is currently on the board of FreedomWorks, a conservative non-profit advocacy group based in Washington, D.C., that supports reducing the size of



government and lowering taxes.

Historical Growth – From the 1980's to 2007, the United States experienced tremendous growth. Over 70 million people moved into the middle class. However, a series of mistakes led to today's crises.

- In 2004, the Federal Reserve attempted to bolster the economy by printing more money and keeping the interest rates low. As a result of flooding the market with money, oil and steel prices rose. As the U.S. dollar got into trouble, the world quickly followed.
- The new money was invested into the housing market as lending standards were lowered creating the bubble.
- Freddie Mac and Fannie Mae generated over \$1 Trillion in subprime loans in what was essentially accounting fraud.
- These loans were then securitized and sold to investors leading to the current world crisis.

Mark-to-Market – This policy of revaluing financial instruments based upon the current market value does not work in a market that isn't stable. In an unstable market, no one wants to buy mortgage-related securities, which drives their value down under the mark-to-market regulations. As balance sheets start to show insolvency, the downward spiral shuts down lending to these companies. They then lose all liquidity needed to keep the company operating. This leads to further panic selling, even when they know the underlying business of the company is fine. The end result is a stock price near zero and possible bankruptcy or government takeover.

Uptick Rule – In July, 2007, the SEC repealed this rule that prevents short-selling. As a result, the market has experienced major fluctuations as short-selling is now at record levels. Re-establishing the uptick rule will help restore confidence in the stock market stability.

How to Recover – The key to recovery is a strong and stable dollar. We must suspend Mark-to-Market and restore the Uptick Rule. He calls for Freddie Mac and Fannie Mae to guarantee interest rates of 4.5 percent to get the market moving again.



The University of Georgia

GEORGIA ECONOMIC OUTLOOK 2009 - DECEMBER 3, 2008

Robert T. Sumichrast – Dr. Sumichrast is Dean of the Terry College of Business at the University of Georgia. In conjunction with the Selig Center for Economic Growth, Dr. Sumichrast directs the Terry College of Business production of the annual assessment of the economic market in Georgia. Prior to joining UGA in 2007, he was the Dean of Louisiana State University's College of Business. Dr. Sumichrast is active in the Institute for Operations and Management Sciences and has served as a past President. He is also a Fellow in the American Inventory and Control Society.



Georgia Economy – The Georgia economic situation is dire. The recession will batter the Georgia economy well into 2009, with unemployment rising into 2010. In 2007, Georgia skirted close to a recession. Then gas prices soared, the housing market slide accelerated and the drought dragged on. In early August, the credit markets seized up. The result has been job losses in nearly every sector. While the state's economy might eke out a 1 percent growth this year, it will decline sharply next year. Sumichrast believes the first quarter and second quarter of 2009 will be dreadful.

Georgia Unemployment – The official Georgia jobless rate is currently 7 percent up from 4.4 percent in the fall of 2007. The

state has shed about 61,000 jobs in the past 12 months. The unemployment rate will average 8.4 percent next year and crest at 9 percent in 2010.

Turnaround – He says the turnaround is not far off. Credit markets are thawing, the housing market must be near a bottom, oil prices have plunged and inflation has abated. Meanwhile, the Federal Reserve has slashed short-term interest rates, the government has poured money into the financial markets and the incoming administration is expected to spend huge amounts of money on infrastructure projects. The cycle of wealth destruction will end soon. The combination of positive forces and a reduction in headwinds will revive consumer spending in 2009. He said, “*For those with cash or access to capital, there is opportunity in thinking ahead. As counterintuitive as it sounds, this is a good time to start or expand a business.*”

GDP – Inflation-adjusted U.S. GDP growth will turn up in the second quarter of 2009. 4Q2008 and 1Q2009 will show modest declines of 0.2 to 0.3 percent, ending the debate about whether or not the economy is in a recession. Expected growth in 2Q2009 and 3Q2009 is about 1.5 to 2.0 percent annualized rate and accelerate to higher than 2.5 percent growth in the 4Q2009. On an annual basis, the GDP of 2009 will only expand by 1.0 percent which will be smallest gain since 2001.

Recovery – In terms of real GDP, the economic recovery will be complete by the end of the second quarter of 2009. However, it will take several quarters for the labor market to replace the over one million jobs lost. Moreover, home prices will not begin to recover until sometime in 2010.

National Outlook

Components of Recovery – The expectations that growth will resume in the second quarter of 2009 depends on several positive developments.

- Credit markets will not tighten any further
- Sales of both new and existing homes will climb early in 2009
- U.S. export growth will continue to exceed import growth by a wide margin
- Businesses’ spending for new equipment will continue to grow slowly
- Federal fiscal policy will provide powerful economic stimulus
- Net hiring will resume in the second quarter
- Crude oil and gas prices will remain at roughly the same levels as in the second half of 2008
- Deceleration in inflation should reassure the bond markets and the Federal Reserve
- There is still a substantial (30%) risk of a deeper and more prolonged downturn

Negative Impacts in 2009 – There will be some powerful headwinds in the near future.

- Spending on nonresidential construction will decrease in 2009
- Home price depreciation will continue in many markets
- Spending by many state and local governments will drop sharply
- Credit will not loosen substantially
- Weaker growth of our major trading partners will hurt exports
- Government efforts to protect at-risk industries may have unintended consequences; prolonging the recession or reducing the potential for growth

Forecasting Risks – The downside risks to the economic forecast outweigh the upside risks 3 to 1. The major downside risk is that the series of financial shocks to the economic system that began in mid - 2007, will intensify in 2009.

Housing – The prolonged free fall in single-family homebuilding is nearly over. Spending on new single-family residential construction will begin to rise again in 2Q2009 and the number of single-family home starts will increase 8 percent year over year. However, the existing home prices will continue to decline through 1Q2010. Home price depreciation will be concentrated in the most overbuilt states, including Florida in the southeast. The ongoing recession in apartment and condo construction will intensify, offsetting much of the stimulus from the single-family subsector. Overall, residential construction will add to the GDP growth in 2009, especially in states where housing markets were not overbuilt or over speculative.

Accessibility of Mortgages – In late 2009 and 2010, mortgages and new money for home construction should be somewhat easier to obtain. Credit conditions will ease due to renewed appreciation of home values in most markets.

Nonresidential Construction – The recession in nonresidential construction will intensify in 2009, primarily because of the constraint in the availability in financing and the low demand for new space. The steepest drops will be in manufacturing, office and retail subsectors.

Consumer Spending – After retrenching in the second half of 2008, consumer spending is forecast to turn around in the first half of 2009. However, the gain in spending will be less than 1 percent over 2008. This is the smallest gain since 1991. Consumer spending will increase 1.5 percent in services as compared to 0.5 percent in goods. Among services the fastest growth will be in transportation, personal business services, medical care and telecommunications. Among goods, the strongest growth will be in computers, software, and ophthalmic and orthopedic goods.

Consumer Debt - One factor behind the drop in consumer spending is the decline in household's net worth that began in 1Q2007. In total, \$5 trillion, or 9 percent, of households' nominal net worth has disappeared. The household debt service ratio (debt payments divided by after tax income) was at an all-time high of 14 percent in 2006-08. The household savings rate will begin to rise from 0.9 percent in 2008 but may take a decade to return to the 1990's savings rate of 5 percent.

Labor Markets – Total nonfarm employment will decline by 0.2 percent in 2009 but net hiring will resume in 2Q2009. Since the GDP will grow slowly, the pickup in job growth will be very gradual. Unemployment will continue to rise, topping out at 8 percent in 4Q2009. Wages will rise by about 2.5 percent.

Corporate Profits – After-tax corporate profits are expected to rise by 1 to 2 percent at best in 2009.

International Trade – U.S. exports will continue to expand in 2009, but the rate of growth will be moderate due to slower economic growth in the developing world, unfolding recessions in several developed countries and a slight appreciation of the U.S. dollar. U.S. exports will increase more than seven times faster than imports in 2009.



Inflation – Consumer price inflation will increase by 2.5 percent in 2009 compared to 4.5 percent in 2008.

Oil Market – If there are no significant interruptions in supply, oil prices will range from \$90 to \$125 per barrel. However, further oil price shocks remain as one of the major threats to economic growth.

Georgia Outlook – Georgia's 2009 GDP is forecast to increase 1.2 percent, which is less than the 2.1 percent advance in GDP in 2008. The state's employment will decline by 0.1 percent in 2009 in line with the nationwide figures. However, Georgia's

nominal personal income will expand by 4.2 percent in 2009, which equals 1.7 percent growth on an inflation-adjusted basis.

Georgia's Population and Job Growth – Fueled by in-migration from other states, Georgia's population will grow 1.8 percent, a pace that is double the national average. A major boon to the economy will come from the number of large relocation and expansion projects planned for the state. A total of 321 economic development projects were announced in 2008 which will result in over 19,000 jobs and \$3.3 billion in investment. Major impact announcements include the Kia plant (2,500 jobs), Kumho Tire (450 jobs), Sewon Precision (700 jobs), Glovis (600 jobs), and Mobis (600 jobs).

Georgia Job Growth

BRAC - Georgia also will realize a major economic boost from the round of base closing and realignments that were finalized. The net gain to the state will be 4,300 military and civilian jobs. The biggest winner was Fort Benning in Columbus with a proposed gain of 10,000 jobs.

Georgia Ports – Georgia's ports are flourishing. The Port of Savannah attracts container volume faster than any other port in the U.S. and traffic volumes remain well ahead of projections.

Georgia Airlines – Atlanta ranks as the top U.S. airport in both landings and passengers. While air passenger volume is well above its 2000 peak level, spending on air travel will account for a smaller proportion of the economy. The main reason is that the nominal fare paid per mile has not increased very much while the costs of other goods and services rose significantly. Vigorous competition will continue to limit pricing power. Although Delta's salary structure and headcount will be lower in 2009, the company is more efficient and has better long-term survival prospects.

Services Producing Industries – These industries will lead the economic upturn. In particular, service businesses that provide necessities, such as health services, will do well. Other areas of strength include repair services and services that allow firms to be responsive and flexible in a changing environment, such as staffing and temporary agencies.

Goods Producing Industries – Georgia has lost over 140,000 jobs in goods producing industries since 1999. This downward spiral will intensify in 2009. Construction employment will decrease 4.8 percent and manufacturing employment will drop by 4.2 percent. On the positive side, food product manufacturing, Georgia's largest manufacturing industry, will expand in terms of output and employment.

Specific Markets – The 28-county Atlanta MSA will lose 2,600 jobs, a decrease of 0.1 percent. Also projected to see job losses are Albany (down 1 percent), Athens (a 0.1 percent decrease), and Macon (down 0.9 percent). Markets with positive employment growth include Augusta (up 0.7 percent), Columbus (up 1,300 jobs or 1.1 percent), and Savannah (up 2,100 jobs or 1.3 percent).

Sector Performances -

Sector	Direction	Performance
Construction	Moderate decrease	Worse than most
Manufacturing	Moderate decrease	Worse than most
Transportation	Slight increase	Average
Public Utilities	Slight increase	Average
Information	Moderate decrease	Worse than most
Financial Markets	Sharp decrease	Worse than most
Retail Trade	Flat	Below average
Services	Moderate increase	Better than most
Hospitality	Moderate increase	Worse than most
Life Sciences	Large increase	Much better than others
Agriculture	Large decrease	Worse than others



ECONOMIC FORECASTING CENTER - NOVEMBER 19, 2008

Rajeev Dhawan – Dr. Dhawan is Director of the Economic Forecast-Center at Georgia State University’s J. Mack Robinson College of Busi- The center is one of the few university-based forecasting centers provid-comprehensive analysis of the national economy on a quarterly basis. He has received eral awards for his forecasting accuracy, including the “Most Accurate GDP Forecast” Bloomberg News in 2005. He has also been named among Georgia Trend magazines Most Influential Georgians” for three consecutive years and he serves as an advisor to numerous publicly held companies and several state and local government agencies.



in g
ness.
ing a
sev -
by the
“100

Recession – “This recession is much more severe than projected in our August report. we have lost a million jobs and I expect we will lose two million more within the next months.” He said, “This is not a recession that is going to be deep, but it is going to be long.”

So far
1 2

Modern Recessions – “Each recession is unique but what’s different between the modern recessions and those that occurred in the 70’s, 80’s and even 90’s is the negative impact on corporate jobs.” Unlike earlier recessions, the corporate job loss rate is 5.6 percent or about one-third of the total jobs lost.

Turn in the Economy – Rajeev states that although the growth will techni-cally turn positive in the third quarter of 2009, the economy will still experi-ence a large number of job losses in the second half of next year. From mid-2009 to mid-2010 the economy will only grow 1 percent. It will improve slightly to 1.9 percent in the second half of 2010 but it will be 2011 before the economy experiences a proper recovery.

Georgia State University Economic Forecasting National Outlook by Rajeev Dhawan			
Indicator	2008	2009	2010
Unemployment Rate	5.7%	7.6%	8.3%
Real GDP	1.3%	-1.3%	1.2%
Consumer Spending	0.4%	-1.1%	1.0%
Vehicle Sales (millions)	13.3	11.2	13.5
Oil	\$100	\$54.2	\$66.7
Inflation	4.2%	0.6%	2.0%
10 Year Bond	3.8%	4.0%	4.6%
Business Fixed Investment	2.8%	-7.1%	-1.2%
Housing Starts (millions of units)	0.934	0.684	0.928
Effective Mortgage Rates	6.1%	6.1%	6.5%



Treasury Department Measures – The unprecedented steps taken by the Fed and the Treasury together have held off the possibility of a 1930’s-style depression. Coordinated rate cuts among the world’s central banks and banking “bailout” packages have stopped the financial sector from going into a total tailspin.

Consumer Spending – The combination of ongoing job losses, the dramatic fall in stock and home prices and the volatility in the credit market has had the effect of halting consumer spending. The decrease in consumption is the culprit for the subpar growth performance in the current forecast. That is why the Treasury’s bailout will morph into help for consumers. Consumption growth is projected to decline by 1.1 percent in 2009 and then grow weakly by 1 percent in 2010.

Vehicle Sales – Vehicle sales will drop from 13.3 million in 2008 to only 11.2 million in 2009. A modest recovery to 13.5 million units is expected for 2010.

Oil Prices – After averaging \$100 per barrel in 2008, oil prices will average only \$54 per barrel in 2009 and then rise to \$67 per barrel in 2010.

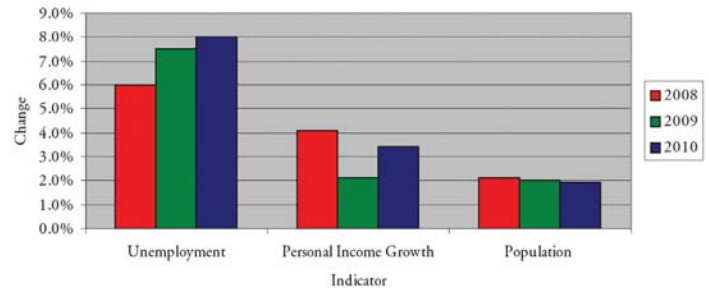
Inflation – For 2008, the inflation rate will average 4.2 percent. It is expected to moderate sharply to 0.6 percent in 2009 and then increase to 2.1% in 2010.

Georgia’s Forecast – Georgia’s economic picture has gone from bad to worse as job losses mount, bankruptcy rates increase and home prices continue to depreciate. The prognosis for 2009 is just as bleak as weak corporate spending brings a flood of layoffs before giving way to a tepid recovery in 2010.

Job Losses – So far this year, Georgia has lost almost 41,100 jobs and we are expected to lose another 34,000 jobs in the next quarter. As a result, 2008 will show a net loss of 75,100 jobs and another 72,000 jobs in 2009. In total, from second quarter 2008 through 2009, we will have lost 4 percent of our employment.

Georgia Recovery – Given the expectations of a recession in the U.S. and increasing numbers of job losses and bankruptcy filings in Georgia, combined with the closing of the GM plant and the merger of two of the state’s largest employers, Delta (with Northwest) and Wachovia (with Wells Fargo), we expect significant layoffs in the state. As for recovery, Georgia will have to wait for 2011 when job growth finally turns positive.

GSU 2009 Georgia Indicators



Georgia State University Economic Forecasting State and Local Forecast by Rajeev Dhawan			
	2008	2009	2010
Unemployment Rate			
Georgia	6.0%	7.5%	8.0%
Atlanta	5.9%	7.4%	7.9%
Personal Income Growth			
Georgia	4.1%	2.1%	3.4%
Atlanta	4.6%	2.0%	3.5%
Population			
Georgia	2.1%	2.0%	1.9%

Georgia State University Economic Forecasting Housing Data			
	2008	2009	2010
Georgia Housing Starts (1000's)	35.4	28.0	47.1
Single Family (1000's)	26.7	21.5	39.9
Multifamily (1000's)	8.7	6.5	7.2
Atlanta Housing Permit Activity	-54.0%	-13.5%	2.7%
Single Family	-57.3%	-9.2%	2.3%
Multifamily	-46.5%	-21.1%	3.3%

Georgia Unemployment – the Georgia unemployment rate will increase from its projected 6 percent rate in 2008 to 7.5 percent in 2009 and further to 8 percent in 2010. However, the Georgia unemployment rate will be less than the national average.

Georgia Income Levels – The Nominal Personal Income in Georgia increased 6.1 percent in 2007. However, income gains will drop to 4.4 percent in

2008 and then to 2.1 percent in 2009. A 3 to 4 percent increase is expected in 2010 as the economy recovers.

Unemployment Woes – There are already three unemployed Americans for each job opening. About 189,000 people have exhausted unemployment benefits without finding jobs and more than 1 million more will get their final unemployment check in the fourth quarter of 2008.

Atlanta Unemployment – Metro Atlanta which accounts for about two-thirds of the state’s jobs, will account for the majority of this year’s job losses, about 45,600 jobs.

Impacted Sectors – Among the hardest hit are jobs near the core of the economy’s troubles: the real estate slump and the financial crisis. Moreover, the global slowdown is undercutting manufacturing while declining tax revenues are forcing government cuts. The only growing category is that of education and health services. “We are running on just one single cylinder.”

Housing Permits – Atlanta’s total housing permits will plummet in 2008 by 54 percent after a decline of 34.6 percent in 2007. Permits will again decrease by 13.5 percent in 2009 before recovering mildly in 2010 by 2.7 percent. The increase will be tied to a 2.3 percent increase in single family filings and a 3.3 percent increase in multifamily permit filings.

Credit – “Less credit means less investment, which means less income tomorrow. Everything starts with the grease that makes the economy work: credit.”

Next Steps – First the banks have to capitalize so they can absorb the charge-offs they will be taking in the coming quarters on both bad Collateralized Debt Obligations and consumer loans. While doing so, the banks will be reluctant to expand their balance sheets. The outstanding consumer paper is now 40 percent below its peak.

Patience – “What we need now are patience and faith in the working of free market principles (or what is left of them after TARP – the bailout)”

