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August 3, 2009

Obama Aides See Signs of Recovery but Say It Will Be Slow

By [EDMUND L. ANDREWS](#)

WASHINGTON — [President Obama](#)'s top economic advisers gave upbeat assessments of the American economy on Sunday, predicting an imminent start to a recovery, but a slow and arduous one compared with previous rebounds.

"Six months ago, when the president took office, we were talking about whether [recession](#) would become depression," [Lawrence H. Summers](#), Mr. Obama's top economic adviser, said on "Face the Nation" on [CBS](#).

"Today we are talking about when recession is going to end."

Still, he cautioned that "the economy is not going to be back to normal for quite some time. Our problems weren't made in a month or a year, and they're not going to be fixed in a month or a year."

But behind even that cautious appraisal lies a huge guess about a supremely important unknown: How will American consumers react to the staggering losses in their personal wealth over the last two years?

American households have lost about \$14 trillion in wealth, more than their collective earnings from all sources of income last year.

Never before have American families absorbed that kind of blow to their wealth, and the timing could not have been worse. It comes after years during which Americans had almost stopped saving and just before the vast population of baby boomers reaches retirement age.

Economic forecasters now assume that consumers will be digging out of their holes for the next several years, saving much more and spending much less of their incomes than in recent decades. Already, the savings rate has risen sharply in this recession, from nearly zero to 5.2 percent of income, the highest level since 1998,

according to the Commerce Department

A further rise in savings would have big implications for an economic recovery. The more consumers save, the less they spend, which in turn means slower economic growth. Since consumer spending accounts for about 70 percent of American economic activity, the aftershocks of the downturn could be formidable.

Even so, forecasters admit they have little idea what to expect. Will Americans revert to the meager savings rates of the mid-1990s, or to the much higher rates of the 1970s and 1980s? Will the new frugality be temporary, or will it amount to a generational shift like the caution that gripped Americans after the Depression?

“Predicting consumer behavior over the next year or two is beyond hazardous,” said Alan Blinder, a professor of economics at Princeton. “There is nothing in the historical record like the boom and bust in house prices that we’ve just experienced.”

The political implications are momentous. With Mr. Obama’s poll ratings down measurably in the last month, the White House was quick to highlight estimates released Friday showing that the economy shrank by only 1 percent in the three months that ended in June — a much smaller decline than the 6.4 percent plunge in the previous quarter.

Those estimates seem to have emboldened Mr. Obama’s economic advisers, providing a basis for their claim that the danger of a financial collapse has all but disappeared. But they acknowledged that consumer and business confidence was still weak and that a second dip remained possible.

The [Treasury](#) secretary, [Timothy F. Geithner](#), appearing Sunday on “This Week With [George Stephanopoulos](#)” on ABC, reeled off a list of hopeful indicators, including an 11 percent jump in home sales in June and a 1.5 percent reduction in jobless claims.

“There are signs that the recession is easing,” he said. But he cautioned that “we have a ways to go” and that “we need to make Americans more confident about the future.”

An agonizingly slow recovery could sap President Obama’s popularity and political strength. It could also feed

even bigger budget deficits, reducing his ability to finance goals like [health care reform](#).

White House officials say they fully expect consumers to pull back modestly on their spending but they add that rising exports and business investment could make up the difference.

“I’ve never counted on consumers going back to their profligate ways,” [Christina D. Romer](#), who heads the [White House Council of Economic Advisers](#), said in an interview on Friday. “My feeling is that people will be saving more, that the trade deficit will be lower and business investment will be higher.”

She went on: “I think that’s a good thing, and the president thinks that’s a good thing. You’re getting rid of the bubble-and-bust economy.”

Many private economists are less certain. Forecasters have long relied on a rough rule to predict the so-called wealth effect, which holds that every dollar of lost wealth prompts consumers to reduce their spending by 3 to 5 cents.

But some analysts caution that the wealth shock is different this time. It is not just the magnitude of the loss, they say. It is also that the loss comes largely from collapsing home values, while previous shocks have resulted from declining stock prices.

That contrast is significant, because if many or most people thought of the wealth in the homes as permanent, and as a big part of their retirement nest eggs, they might cut back their spending much more than if their loss had come from a potentially short-term plunge in stock prices.

Moreover, the decline in home values has prompted banks to cut back sharply on the amount homeowners can borrow against their houses, curtailing a significant source of consumer spending.

On the other hand, it is possible that many owners viewed their houses as homes and did not plan to cash in on them at retirement. If that turns out to be the case, people might not worry much about their home’s market value and the wealth shock might turn out to be modest.

“We don’t have any historical experience with the household sector taking this kind of a hit,” said Robert

Barbera, chief economist at ITG, an investment advisory firm. “No one knows what a normal savings rate is.”

Analysts say the most recent jump in savings rates was probably just a temporary blip, as consumers received [Social Security](#) rebate checks and saved much of the extra cash.

If people are trying to rebuild their old nest eggs, economists said, Americans may feel compelled to increase their savings well above current rates.

Many forecasters currently assume that the savings rate will peak around 7 or 8 percent, but others predict it will climb to 10 percent or higher. That would mark a return to the savings rates of 7 to 10 percent that prevailed from the end of World War II through the end of the 1980s.

Each percentage point is meaningful. If the savings rate hits 10 percent, officials at the Federal Reserve suspect that the recovery next year will be even weaker than expected. “The consumer would be a big retardant to the recovery,” said Mr. Blinder, the Princeton professor.

At this point, Fed and White House officials say they can only guess about what is to come for the economy.

“That is exactly the question we’re all grappling with,” Ms. Romer said. “We’re in uncharted territory.”

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