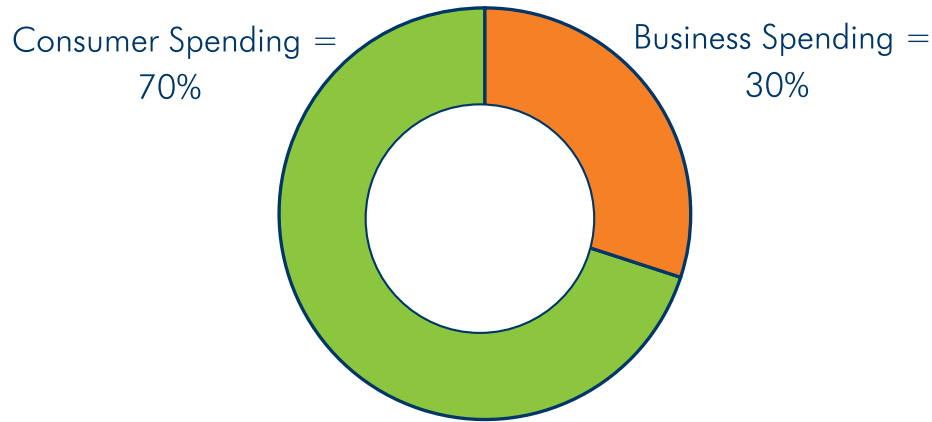


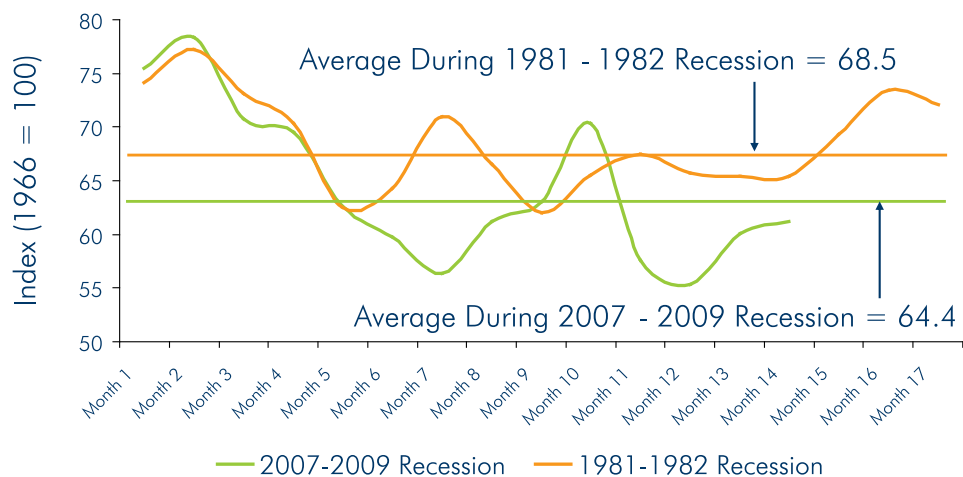
SECTORS OF GROSS DOMESTIC PRODUCT United States 2008



Source: Center for Regional Analysis at George Mason University; February 2009.

The national economy entered recession in December 2007, according to the National Bureau of Economic Research. It is clear that consumers have lost confidence in the near-term prospects for economic growth, as job losses continue and various economic metrics remain gloomy. Why is consumer confidence important? Because consumer spending represents approximately 70% of U.S. gross domestic product (GDP). Consumer sentiment is critical to economic success because people do not spend freely on goods and services if they cannot foresee brighter times ahead, and in particular if they are concerned about their employment situation. Less consumer spending reflects lower demand for goods and services, which translates into more layoffs. In short, consumers – and their frame of mind – drive the economy and thus decisions about real estate.

CONSUMER SENTIMENT United States 2007-2009 and 1981-1982 Recessions



Source: University of Michigan, Federal Reserve Bank of St. Louis; February 2009.

The indicator of consumer sentiment that we report on in our quarterly publications is the University of Michigan's Surveys of Consumers index. The current recession already has lasted 14 months, and produced an average index reading of 64.4. The trough, so far, was 55.3 in November 2008. How does the current trend compare to the trend from the 1981-1982 recession – the recent contraction that is most similar in depth and breadth to the current downturn? The 1981-1982 recession began in July 1981 and lasted for 16 more months. The index produced an average reading of 68.5 during the course of that recession, and hit a low of 62.0 during that period.

The economy will show signs of life when consumers have the confidence to spend, which is not yet happening in the current recession. When the American consumer regains the confidence to spend, broader economic growth will resume, and stronger demand for commercial real estate will return. It will happen – but with the unemployment rate continuing to rise, consumers are likely to keep their optimism in check until at least mid-2009.

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