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No U.S. Recovery Until Mid-2009
An analysis by Euler Hermes

The U.S. economy is in the midst of a recession, the effects of which will continue to plague businesses and consumers well into the next year, according to economic analysis from the US subsidiary of the world's leading credit insurer. As a result, significant increases in business bankruptcies are forecast for 2008 and 2009.

"Current economic conditions are decidedly negative and we expect them to remain so into 2009", said Dan North, Chief Economist for Euler Hermes in the U.S. "Both retail sales and wages are shrinking on a real, year-over-year basis; home foreclosures and delinquencies are at record highs; housing prices continue to plummet, and job losses and unemployment are on the rise."

North said that several of the forces which have caused the U.S. economy to go into recession are still in place: the lagged effect of high energy prices, an imploding housing market, and tight credit conditions. To that end, Euler Hermes expects the business environment to remain negative for several quarters.

Business insolvencies on the rise

Additionally, Euler Hermes expects to see insolvencies continue to rise into 2009. *"Business bankruptcies, including liquidations, have risen 40% in the past four quarters compared to the previous four", said North. "Business conditions have been difficult for several quarters, resulting in cumulative operating losses which are pushing an increasing number of firms toward bankruptcy."* One leading indicator of future business bankruptcies is the Federal Reserve's quarterly survey of bank lending officers, with the most recent survey showing *"a record high percentage of bankers widening spreads and tightening lending conditions on commercial and industrial loans, a likely harbinger of increasing bankruptcies,"* North confirmed.

Back to 'fair value' house prices

Despite the current economic woes, North said there is a positive side to the U.S. economy. *"Housing affordability is skyrocketing, and house prices may have reached a 'fair value' compared to the greatly inflated prices seen during the housing bubble",* he explained. *"Also, the Federal Reserve's aggressive loosening of monetary policy in 2007 and 2008 is likely to lift the economy out of this downturn in 2009."*

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