CELEBRATING 55 YEARS
nerej

# Pendulum swing or paradigm shift in the U.S. economy?

April 08, 2009 - Appraisal & Consulting

Several economic changes are occurring sooner than previously thought, in both the stock market and the economy, given the huge effort that has been made lately by the U.S. Government. As many of the financial commentators/pundits would say, there are a bunch of "game changers" out there. Even the most bearish believe that, while recent good news may only be a bear market bounce, we are getting closer to the end of the bear market. A few of the key changes are:

*President Obama has changed his rhetoric from seemingly negative on business to understanding that the stock market affects everyone.

*Citibank, Bank of America and smaller banks are actually showing profits in the first quarter, despite the fact that they are not counting all of their potential losses yet.

*There is less bad news on homebuilding. For the first time housing starts were up more than expected.

*Although there are mostly foreclosures, there has been active purchasing and even competition for housing.

*The stock market has been up a majority of days over the last several weeks, making March a good month.

*There are fewer announcements of bad news.

And there should be game changers. After all, the Fed is pumping trillions into the initial bail out (TARP), the stimulus package, and now the second bail out, a private/public partnership to purchase toxic assets from banks (TALF).

What does it mean for real estate? Do we go back to "normal?" Despite all the potential, I don't' believe there will be any quick term bounce in real estate. The economy will be relatively slow to respond, and most believe it will not actually rebound until late 2010. In the meantime, there will be more unemployment, less spending, more saving, fewer job creations, more foreclosures and refinancing problems.

The amount of time this takes could have some profound impacts. There may be some cultural or paradigm shifts, which, given enough time, may become part of the "new economy". For example, some fear we are currently saving what money we have, and spending less. Thus, we are not fueling the economy with consumer spending which comprises over 70% of gross domestics product. It may be that if we continue this trend long enough, we simply won't spend as much money in the future, as we did in the heydays. Coupled with this, the baby boomer generation is entering retirement, but with less money than planned. As they get older, they have fewer needs for "stuff" and will tend to spend less on products, and perhaps more on travel and health care. Thus, our economy could become less consumer driven.

As a result, some economists are hoping for a change in our economy from spending back to manufacturing. They believe that if we build more things for export, and rely less on consumption within the U.S. economy of imports, we would change to a healthier balance within the gross domestic product. If this is true, these would be significant changes for our shopping centers and malls. Conversely, we could be improving our industrial base and needing more space in those areas.

As for office and housing, these will be more dependent on what happens in our new economy. People will migrate towards where the jobs are. But with tightened credit, more savings, perhaps news housing will be smaller. Offices may be more transient with every improving "off-site" communications. The list goes on.

All of this has been written about in the past, and the pendulum has typically swung back to the old way. Maybe this time, there will be more of a paradigm shift, or at least a different pendulum path.

Daniel Calano, CRE, is managing partner and principal at Prospectus, Inc., Cambridge, Mass.