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## **The year is half over and most folks can't wait for it to be gone... things will be better in 2010**

July 01, 2009 - Northern New England

Over Father's Day weekend we did see some sun. When the rainy weather comes, and stays, it reminds us that tourism is a big piece of our state's economy. The motorcycle races went off OK, but the crowds were subdued, probably equal measure to the economy and the weather.

On one hand, the economy seems to be better than many pundits had forecast as recently as January. On the other hand, if you are one of the un/underemployed, it is worse than the forecast. The year is half over and most folks can't wait for it to be gone. Consensus is that things will be better in 2010 and more so in 2011. The current concerns are the rising debt associated with the Federal stimulus and expanding social programs. On the state level, a budget is being assembled with bailing wire and bubble gum. It ain't pretty but they will post a number and then tweak it over the next 24 months. Department of Revenue Administration (DRA) adjusted their revenue projections upward by \$75 million. That's good news, right? Of course there are several new taxes and tweaks to existing ones. If the economy gets back in the groove and corporate earnings rebound, then businesses will be able to pay more taxes, but if the economy is not expanding the tax burden will choke new employment and the rehiring of laid off workers.

There are so many facets to the economic picture that is extremely difficult to grasp it all and come up with a definite projection. To quote Jeff Thredgold of TEA, "A return to US economic growth clearly does not suggest that problems with housing, commercial real estate, sick investment portfolios and wobbly financial markets are behind us. But it IS a step in the right direction!"

While the stimulus spending seems to be having the desired effect of keeping a bottom under the economy (i.e., unemployment topping out about 10%), the cost will be a deficit four times the biggest ever recorded (which was last year!). All this deficit spending achieved by printing money and selling more US treasuries will uncork the inflation genie. It is hoped that the Fed, the Administration and the markets can coordinate a timely replacement of that cork, but this is a very tricky proposition. Were there alternatives? Not really. We were looking into a very deep abyss. We have stepped back from the edge, but we need to be sure we don't lunge sideways and drop into free fall. Hence, one influential group of economists sees big inflation pressures after 2010 resulting from the massive budget deficits and aggressive monetary policies. But other, equally qualified economists, see a Japanese style deflation/stagflation in our future, derived from soft ongoing residential and commercial real estate values, continued high unemployment due to a jobless recovery and global recession.

For the first time since World War II, the United States, Japan and Europe are in recession simultaneously, in the US every SMSA in the country had flat or negative GDP growth last quarter. China has just passed Germany as the number 3 economy by size. Rising oil and energy prices are a concern, too. However, as Thredgold points out, significant increases in stock markets around

the globe suggest the worst is behind us. There is a pattern here. Good news and bad news at the same time. The tea leaves have not yet settled out to the point where a confident prognostication manifests itself. But this is due to conflicting data. (New housing starts are up! No. Well maybe ...)

Here in New Hampshire we will get through the state and delayed municipal budget processes. We will be paying more taxes and fees but hopefully they are not so onerous that they dampen a recovery. Once again we think it will be the end of the year before the pieces come into focus. We are beginning to see more commercial foreclosures and new appraisals substantially lower than the values of 2006 and 2007. But there is a cautious sense that we will weather this category 5 storm and things will be OK coming out the other side. Enjoy your summer.

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