Is Economists' Gloom Marking the Start of the Recovery?

With the announcement from the Commerce Department that the sale of new homes in August fell by 2.3 percent compared to July, the Los Angeles Times took on a decidedly gloomy tone, concluding, "Sales of newly built homes in the U.S. appear to be stuck at the bottom." The report noted that the August numbers translated into an annual rate of 295,000 sales, which is close to the low of 278,000 recorded in August last year, and down from the 1.3 million new homes sold in 2005.

Missing was any attention, however, to two important pieces of the economic housing puzzle in that report. First, the trend for new home sales has been flat for the last 16 months, and the 162,000 newly-built homes presently on the market represent a supply of six months and two weeks. A healthy housing market usually has a six months' supply of new homes. Translation: The housing market in new homes has hit a bottom, and the supply/demand ratio is almost back to normal.

The latest from the Case-Shiller Index shows the same thing, with prices of single-family homes rising 0.9 percent in August following an increase of 1.2 percent in June, and 17 out of 20 cities surveyed showing monthly increases as well. Despite the improvement, David Blitzer, the chairman of S&P's index committee, remained skeptical:

> This is still a seasonal period of stronger demand for houses, so monthly increases are expected. While we have seen *four consecutive months* of generally increasing prices, we do know that we are still far from a sustained recovery. [Emphasis added.]

Also skeptical of any recovery is David Brooks, writing in an op-ed for the *New York Times*: "Various economists say it will be at least another three years before we see serious job growth. Others say European banks are teetering — if not now, then early next year."

Brooks riffs on the current collection of negatives, noting, "There is a lack of consumer demand, the credit crunch, the continuing slide in housing prices, the freeze in business investment, the still hefty consumer debt levels and the skills mismatch — not to mention regulatory burdens, the business class's utter lack of confidence in the White House, the looming implosion of entitlement costs, the public's lack of confidence in institutions across the board."

Walter Russell Mead, professor at Bard College, thinks Brooks may be too optimistic, titling his latest blog "Panic?" and noting that 1) Chinese stocks fell almost 5 percent last week; 2) European banks are facing huge losses over the imminent Greek default; 3) The Fed is worried; and 4) some U.S. banks "are looking shaky again." He gloomily complained,

> That large corporations are sitting on cash hoards or buying back stock rather than making new investments is bad news; that consumers are cutting down debt and doing what they can to increase their savings is…bad news now. And it seems clear that two years of frantic efforts in Washington have failed to breathe new life into the nation's housing market…
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> The global economy is now in the catastrophe zone…
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> The ground under the foundations is washing away; the wind threatens to rip off the roof, and cracks are appearing in load-bearing walls.

All of which portends a bottom, especially when one looks at what is happening in the real world:

> • The ASA Staffing Index Weekly Report shows that during the week of September 12-18, temporary and contract employment rose 2.23 percent, pushing their index to 90 (the baseline of 100 was set in June of 2006). ASA noted, "This is the first time the index has reached 90 this year [and] with the exception of the typical dip experienced during the July 4 holiday period, [the] weekly index data show that staffing employment has been edging upward since February.
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> • The Chicago Fed Midwest Manufacturing Index (CFMMI) increased 0.6 percent in August, to a seasonally-adjusted level of 85 (2007 = 100), with regional output increasing 7.6 percent from last August, and national output increasing by 4.2 percent over that period. Regional machinery output in August was up 12.8 percent from a year ago, automotive output increased 10.3 percent, and regional steel output was up 17.1 percent. The CFMMI's August increase was the fourth in a row, and, except for April, has increased in every month since last August. And the August index of 85 was the highest level in almost three years, since October 2008.
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> • The Prime Advantage Group Outlook survey of 528 top professionals representing more than 25 different mid-size manufacturers revealed that "most of these companies are counting on continued economic growth for the rest of 2011, holding on to the confidence that was displayed in the last semi-annual projection done…in February." As announced by CEO Louise O'Sullivan, "We're pleased to see solid growth projections for our Members in key areas such as revenue, employment, and capital expenditures."
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> • As noted elsewhere earlier this week, the shipping of materials used in industrial production by rail grew to the highest level since October 2008, with Union Pacific enjoying its strongest weekly volume so far this year. Orders for industrial cutting tools are growing by 20 percent at the country's largest supplier; new unemployment claims have been steadily decreasing; and the leading, coincident and lagging economic indicators published by the Conference Board are all positive.

With all due respect to the mainstream economists who spend an inordinate amount of time in their classrooms and cubicles, when one looks at the real economy where real people are doing real work, there is reason for optimism. Perhaps excessive gloom is a contrary economic indicator.