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No Double Dip Recession—Why Worry?

By **Harlan Green** / Special to CASA

GOLDMAN SACHS CHIEF ECONOMIST JAN HATZIUS has joined the chorus that says 2013 should be a good year for growth, in spite of the so-called 'fiscal headwinds' of a gridlocked Congress and White House.

Why? Because both domestic and worldwide demand is picking up. U.S. exports have risen some 50 percent just since the end of the recession, while employment was given a boost with the December unemployment report that showed an additional 335,000 jobs were created in 2012 than originally prognosticated.

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And real estate in 2013 may finally be rid of the drag from foreclosure sales. Calculated Risk has put up an interesting report by FNC, a real estate research firm, which says foreclosure prices have bottomed out over several months.

FNC's report shows that foreclosure price discounts, which compare a foreclosed home's estimated market value to its final sales price, have dropped to pre-mortgage crisis levels at about 12.2 percent in Q4 2012. At the height of the mortgage crisis in 2008 and 2009, foreclosed homes were typically sold at more than 25 percent below their estimated market value. Additionally, the report indicates that the typical size of foreclosed homes is also approaching pre-crisis levels.

Calculated Risk also reports on the four economic indicators used by the National Bureau of Economic Research (NBER) that determine business cycle troughs and peaks. So far just two—real GDP and personal income less transfer payments have reached their pre-recession levels. Industrial production and employment have yet to reach their previous peaks.

This tells us there is still unused potential, among other things. For instance, real GDP returned to the pre-recession peak in Q4 2011, and hit new post-recession highs for four consecutive quarters until dipping slightly in Q4 2012. But Q4 may be revised up from new data on increased exports and higher inventory levels released after the preliminary Q4 estimate. It will be followed by two revisions as more complete information is available to the Commerce Department's Bureau of Economic Research.

A note about consumer confidence is in order here. Deficit hawks and austerity advocates want to continue to shrink government, their rationale being that businesses will hire more workers and expand if only they had confidence in future growth. But business confidence is really based on whether the demand for their goods and services is increasing or decreasing, not on what governments might or might not do.

And stronger demand depends in part on whether consumers feel better about their finances, among other things. Confidence levels have been rising, as jobs and housing values have increased, but are nowhere near pre-recession levels. Let us see whether personal income, one of the four business cycle indicators, continues to improve.

Harlan Green has been the 11-year Editor-Publisher of PopularEconomics.com, a weekly syndicated financial wire service. He writes a Popular Economics Weekly Blog. He is an economic forecaster and teacher of real estate finance with 30-years experience as a banker and mortgage broker.