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## Finding the Positives in Economic and Housing Conditions in 2012

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<sup>[1]</sup>While 2011 was clearly a challenging year, there is a lot to be positive about looking ahead. Economically, while buffeted by natural disasters and fiscal policy indecisiveness at home and a European sovereign debt crisis abroad, the U.S. economy was able to stave off economic stagnation in 2011 and is likely to continue to do so in 2012.

Housing statistics and the duration of the housing downturn to date indicate that 2012 may be the year we begin to turn the corner. In the summer of 2011, economic concerns peaked as the economy appeared to be on the brink of stagnation. Since the recession officially ended, this was a nadir for the economy as consumer confidence Data as of November 2011 plummeted, concern about a double-dip recession resurfaced, and fiscal policy indecisiveness reached its zenith. In the second half of the year, and heading into 2012, most major economic statistics are exhibiting an encouraging level of stability and positive, but weak, trends. Though the pace of growth is slow, it is to be expected in an economic recovery caused by a financial crisis.

Households are paying off their debts and at the same time accessing credit more easily. Surprisingly, households also added Home Equity Lines of Credit in the third quarter for the first time since the financial crisis began, which is a positive sign of access to liquidity that softens the impact of income shocks. A quarterly survey by the New York Federal Reserve Bank<sup>1</sup> shows that total household debt continues to decline, but at a slowing pace. During 2012, households will need to find their equilibrium between household debt levels and consumption.

Consumer sentiment rebounded strongly in the latter part of 2011, posting a six-month high in December. While still low compared to pre-recession levels, this figure indicates an improving belief in the strength of the economy in 2012.

The labor market seems to be ever so slowly clawing its way toward recovery. In December, jobless claims were at their lowest level since 2008. The unemployment rate is proving stubbornly persistent and gains are often due to declines in the number of people participating in the labor force. The consensus is that unemployment will remain high in 2012 and that it will take a number of years to reduce the level significantly. Nonetheless, there has been consistent private sector job creation in the latter half of 2011. We can expect the persistence of unemployment to be a particularly contentious issue in the 2012 election year.

Housing is an industry with long business cycles. Typical regional housing recessions have taken anywhere from three to five years to find their bottom. The national housing recession has behaved similarly in that it has bounced along a bottom for the past two years. While

prices are declining again to new lows, affordability is rising dramatically due to a combination of house price deflation along with rock-bottom mortgage interest rates. Adjusting for inflation, this has been a "lost decade for housing as prices are the same as at the beginning of the millennium.

The time is right in 2012 for prices to begin growing again and housing affordability will put a floor under any further significant declines in 2012. The spring and summer buying season in 2012 will be watched very closely for positive signs of demand.

Most housing statistics basically moved sideways in the latter part of 2011. Builder sentiment is improving ever so slowly, but remains at very low levels. Housing starts are also increasing, driven mostly by multifamily starts. Even single-family housing starts began increasing at the end of 2011. Both single family starts and permits rose at an annualized pace of 15 percent over the six months ending in November 2011. Existing home sales also started to trend upward at the end of 2011, and were 12 percent higher in November 2011 compared to January 2011.

Putting all of these statistics together indicates there is a very long way to go and that the housing market is likely to sustain these trends in 2012. While we cannot say with a high degree of certainty what 2012 has in store for us, indications based on the latter part of 2011 are that both the broad economy and the housing market are moving toward positive growth in 2012. However, some impediments do exist including slower global economic growth, a recession in Europe, and fiscal and political uncertainty in the U.S. Taking these facts and trends together, we are bullish on the prospect of improving economic performance in 2012 from 2011.

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