



A DISAPPOINTING 2011 SO FAR

by Mark Schniepp

First half of 2011 was unimpressive

Economic growth and job creation during the first half of 2011 has been anemic. The subject of last month's newsletter was the soft patch that the economy slipped into during the Spring. It turns out the entire first 6 months of 2011 showed very little economic traction and that has given rise to more predictions of a double dip recession in the coming months. GDP growth during the 2nd quarter came in at 1.3 percent, and the first quarter's growth was revised downward to less than 1.0 percent.

The economic recovery has slowed considerably, and there are many reasons for it. The biggest consequence of the slowdown is the lack of job growth which has stifled income growth and therefore consumer spending. The unemployment rate is still sky high in the nation (9.2%) and in California (12.1%).

Consumer spending has weakened, confidence has declined, and manufacturing growth has slumped. The private sector is creating less than half the number of jobs it did in February, March, and April. The unemployment rate is rising marginally again.



Los Angeles Times, July 30, 2011, front page

A host of issues the economy has endured this year

Here is the list of reasons that have impacted economic growth in 2011, especially the creation of jobs and consumer confidence which fell to a 3 year low in June:

- Harsh Winter Weather (January and February)
- Soaring Gasoline Prices due to Middle East Volatility (February to present)
- Supply Chain Interruptions caused by the Japanese Earthquake (March through May)
- European Debt Concerns (last several months)
- Threat of a U.S. Federal Government Default or Credit Rating Downgrade (May through now)

Everyone agrees that the lack of resolution regarding the federal debt ceiling has hurt the economy. The uncertainty of how the financial markets will react to the prospect of default including the effect on short term interest rates affects business decisions.

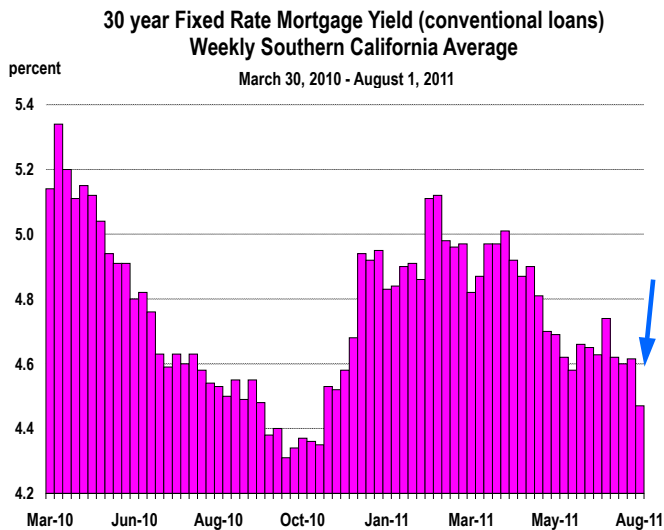
The debt limit will be raised and more expenditure cuts will be made as part of the current debate, and this will forestall any calamity to the financial markets this month. But up to now, some damage has been done because the uncertainty has directly impacted the willingness of businesses to hire and that has produced the largest drag on the economy this year.

Our outlook remains steady: economic growth ultimately revives

Firms are extremely profitable right now. The stock market has weathered the dubious economic climate remarkably well this year. Earnings are still strong. It is still true that firms will need to hire workers to expand production to maintain their profitable ways. The delay in hiring will not persist much longer.

Job growth, income growth, and spending ultimately picks up during the second half of the year. The July jobs report—due out this Friday—is likely to show that between 80,000 and 100,000 jobs were created last month, a strong improvement over May and June.

If you are already planning for 2012, factor in a forecast of 3.5 to 4.0 percent for Real GDP growth. For 2011, we would be lucky to see 3.0 percent realized after such a weak first half. Interest rates are going to remain at current levels until higher rates of economic growth solidify.



In view of the debt limit agreement by Congress, the conventional fixed mortgage rate has now fallen to its lowest level of the year.

Housing

Housing continues to frustrate everyone. Foreclosures which have dropped off have done so because lenders have delayed and extended the lengthy process in the wake of Foreclosure-gate. However, homeowners have also slowly improved their debt to income ratios, strengthening their ability to make mortgage payments. The time for a housing revival should be here by now. However, it is still impacted by general economic uncertainty and slow job growth. A commencement of job creation in the labor market is what is needed to produce more action in the housing market.

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Foreclosure wave looks as though it's crested

Data show fewer bad home loans

By Julie Schmit
USA TODAY

Fewer U.S. home loans are going delinquent and new problem loans have hit three-year lows, possible signs that a five-year wave of foreclosures is starting to recede.

USA Today, June 3-5, 2011, front page

With interest rates at very low levels and with home prices having declined to very low levels during this cycle, housing affordability has improved to the best levels in 10 years. Buyers are still waiting to insure that values will not fall again. Because the inventory of unsold homes is very low, prices are unlikely to move downward any further. The best time to buy a home maybe now.

Upcoming Forecast Conferences

**September 8, 2011
Ventura County
Registration is \$125**

**September 29, 2011
Santa Barbara County
There are a very limited
number of admissions**

**Register as soon as possible
Pre-September registration is \$99
September 1 through 27 is \$125**

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