

SIOR 2009 FALL WORLD CONFERENCE GENERAL SESSION EXECUTIVE SUMMARY

Saturday General Session: The Roadmap to Recovery



Featuring: Marci Rossell, PhD

Since 1970 there have been 60 financial crises world-wide. They all follow the same pattern of collapse → containment → resolution. Economists believe that the recovery to this most recent financial crisis is underway. The economy has grown 3.5%, and even if you still subtract the stimulus money, there was an overall growth of 1.2%. However, because of this crisis, the nature of banking is fundamentally changed.

Typical sources of funds were not depositors, but rather “uninsured funds.” Banks took short-term liquid funds and used them for long-term illiquid purposes. When the short-term funds dried up, so did the banks. In the old order, if you were a big financial institution, then you were connected to the Federal Reserve and considered “too big to fail.” The old order was shocked to see Lehman Bros. crumble and since the rules suddenly changed, Wall Street collapsed. Normal banking activity should be similar to how the banks operated in the mid-1990s.

Although we may have turned the corner, jobs are the last sector to make a comeback after a recession. With the last several recessions, recoveries have been jobless recoveries. Unemployment continues to go up because unemployment insurance lasts for, on average, 6 months. So, those receiving benefits are not particularly motivated to take the first job that comes along. Therefore, you can't look to unemployment figures to judge economic recovery. You need to look at things like the price of oil. If oil prices are on the rise, then global demand is growing and signaling that production is on the rise.

Hopeful signs of an economic recovery include:

- The U.S. savings rate – it has increased from 0% of income to about 6% of income. Although this may dampen GDP growth, it is the key to living standards going forward. Savers put money in the bank, thus strengthening banks.
- The balance of median home prices with income. Two years ago median home prices were \$212,000, while the median income was only \$55,000. This is out of balance since that income can really only support a mortgage of about \$165,000. Today, the median price of a home is \$170,000 becoming more in balance with that \$55,000 income. And, the price of homes is not likely going up anytime soon.
- It appears that the level of U.S. exports is increasing. With the fall of the dollar, we are now much more competitive and as the rest of the world creates middle class societies, they will look to buy US goods.

These three signs should start to create growth and more jobs over the next eighteen months.