



# Disaster in slow motion?

by Andrew Brod



## A Brod View

Andrew Brod is the director of the University of North Carolina at Greensboro's Office of Business and Economic Research. You can reach him at (336) 334-4867 or [AndrewBrod@uncg.edu](mailto:AndrewBrod@uncg.edu). An archive of Dr. Brod's columns is available at [www.uncg.edu/bae/ober](http://www.uncg.edu/bae/ober).

Watching the U.S. housing market's slide over the last couple of years has been like watching a large ship sink into the ocean. It's been slow and excruciating, and it's hard to know how to stop it. But at least an isolated ship sinking out at sea affects nothing around it. The housing slump is taking other industries down with it.

The big question mark for the economy has been whether the financial shenanigans that first inflated and then deflated the housing bubble would spill over into the rest of the financial sector. For many months it looked like the credit crisis would leave banks largely unscathed, and wreak havoc mostly on the less-regulated invest-

ment banks and hedge funds that started this mess. It appeared that the crisis would be a phenomenon primarily of Wall Street rather than Main Street. But more and more, the effects are being felt throughout the banking system.

The Federal Deposit Insurance Corporation, which insures deposits in commercial banks, reports that the number of banks at risk has increased sharply this year. In 2006 there were only 50 "problem institutions," but there were 117 in just the first half of this year. The assets of at-risk banks have risen from \$8 billion in 2006 to \$78 billion so far in 2008. (Even so, that represents well less than one percent of the assets of all

FDIC institutions.)

Not surprisingly, a riskier environment for banks has led to a tightening of credit standards and a reduction in the supply of credit, which is bad news for anyone selling durable goods like furniture. Sure enough, the Federal Reserve Board's quarterly survey of loan officers indicated that in the second quarter of this year, 81 percent of domestic banks tightened lending standards on loans for commercial real estate.

But the tightening wasn't limited to real estate. Over 60 percent reported tightening standards for other commercial loans to businesses.

The Fed's survey results for commercial loans were similar to those from the first quarter, in which significant tightening took place as well. But the new wrinkle in the second quarter was the sharp increase in banks tightening standards for consumer loans. In the first quarter, only 30 percent of banks reported tightening standards for credit-card loans. In the second quarter, 67 percent tightened standards.

The survey also found that 36 percent of domestic banks were less willing to make consumer installment loans than they were three months earlier. Only two percent reported being more willing.

The jump in these figures for consumer loans suggests that the credit crunch is still expanding. First it was real estate, then com-

Given the wreckage throughout the national economy, the biggest surprise is that it's yet to slide into recession.

## STOP! You've Found The Answer

Now With **Free Built-in Website Development!**  
IT'S THE BEST WINDOWS POINT OF SALE SOFTWARE



- Point of Sale Order Entry
- Automatic Inventory Reduction
- Automatic Purchase Orders
- Special Orders
- Lay-A-Ways
- Customer Service
- Customer History
- Installment Finance Module
- Real Time Multi-Store Integration
- Mailing List
- Automatic Price Tags and Bar Code
- Automatic Delivery Routes & Mapping
- Warehouse Row, Bin & Level Tracking
- Integrated Accounting including: Accounts Payable, Payroll, General Ledger, Banking
- Computer Sales & Networking
- **New QuickBooks Accounting Option**
- Integrated Credit Card Processing
- Since 1991

"Custom Design Software is the easiest furniture store software package in the industry!"

Point-and Click is all you do... the software automatically anticipates every retail need."

-Jerry Katz  
President

[JerryK@CustomDesignSoftware.net](mailto:JerryK@CustomDesignSoftware.net)  
[www.CustomDesignSoftware.net](http://www.CustomDesignSoftware.net)

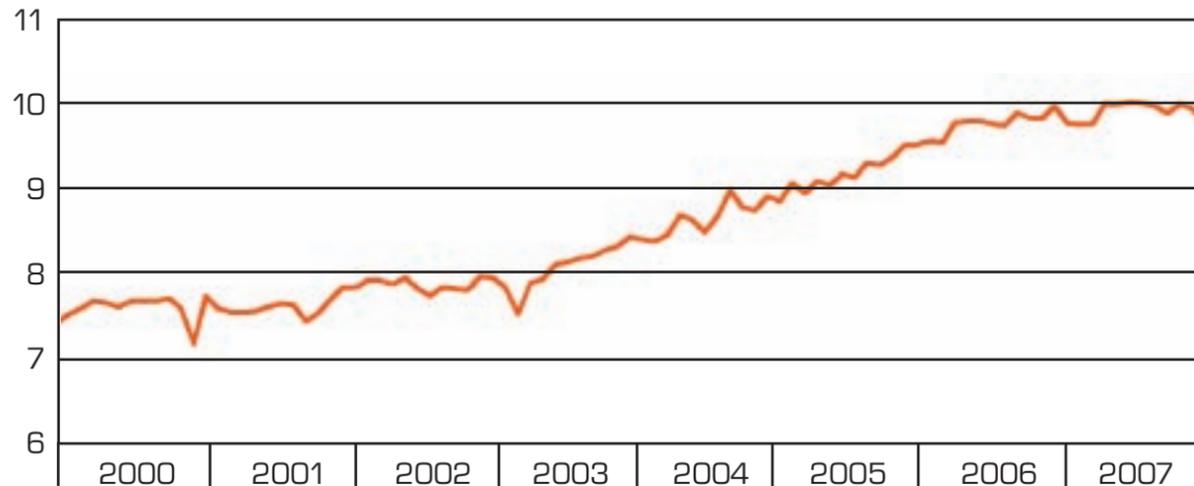


VISIT ME IN  
**Las Vegas:** Bldg. B 16<sup>th</sup> floor  
**High Point:** M12 - IHFC  
**OR CALL**  
**800.884.0806**

For Your  
Free Demo

## Retail Sales: Furniture & Home Furnishings Stores

Billions of dollars, seasonally adjusted, not corrected for inflation



Source: Census Bureau

mercial loans, and now consumer loans. The effects are being felt throughout industries that sell goods on credit. Consumer spending on durable goods (corrected for inflation) fell at an annual rate of 4.3 percent in the first quarter of this year, followed by another drop of 2.5 percent in the second quarter.



Of course, the durable-goods industry of greatest interest to readers of this publication is the home furnishings industry. And the news is bleak. According to preliminary data for August, retail sales by furniture and home-furnishings stores were 8.3 percent lower than in August 2007. In fact, every month since last December has seen furniture retail sales that were lower than a year earlier. Annual sales didn't decline in the 2001 recession, but it's nearly a certainty that they'll decline this year. And none of these figures is corrected for inflation, which means that they actually understate the weakness in furniture sales.

Given the wreckage throughout the national economy, the biggest surprise is that it's yet to

slide into recession. After shrinking in the fourth quarter of last year, the economy has actually grown this year, though just barely. Few analysts expect a change during the rest of the year.

What else can we expect for the future? Most of the loan officers surveyed by the Federal Reserve expect further tightening of credit standards, so the credit crunch isn't over yet. But there are some encouraging signs.

Mortgage rates have fallen after rising a bit in recent months. Measures of housing affordability are rising after falling steadily even while home prices were falling. Home sales appear to be leveling off. This ship will eventually right itself, but it's going to be a slow process. 

Mortgage rates have fallen after rising a bit in recent months. Measures of housing affordability are rising after falling steadily even while home prices were falling. Home sales appear to be leveling off. This ship will eventually right itself, but it's going to be a slow process.

## Discount FREIGHT Program

<http://www.afslogistics.com/nhfamembers.asp>

Contact AFS Logistics at (866) 533-2111 ext.451 for details.

**ATTN: NHFA MEMBERS**

**SAVE ON**  
LTL "Less Than Truckload"  
**COMMON CARRIER SHIPMENTS**



Roadway Express  
Fed Ex Freight East  
Fed Ex Freight West  
Southeastern Freight Lines

- The Freight Program provides NHFA members with one national carrier and three regional carriers.
- In addition to providing competitive pricing, each carrier has an assigned contact that is familiar with NHFA and the Freight Program.
- No fees or contracts. You must be a NHFA Member and you have to call and sign up to participate.
- AFS also offers Freight Bill Audit and Payment. Your freight bills will be audited weekly for billing errors and overcharges. How close are you looking at your freight bills?

AFS Logistics Inc. • 330 Marshall, Suite 400 • Shreveport, Louisiana 71101