Recession: When it's over, what's left?

by Andrew Brod

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. An archive of Dr. Brod's columns is available at www.uncg.edu/bae/ober.

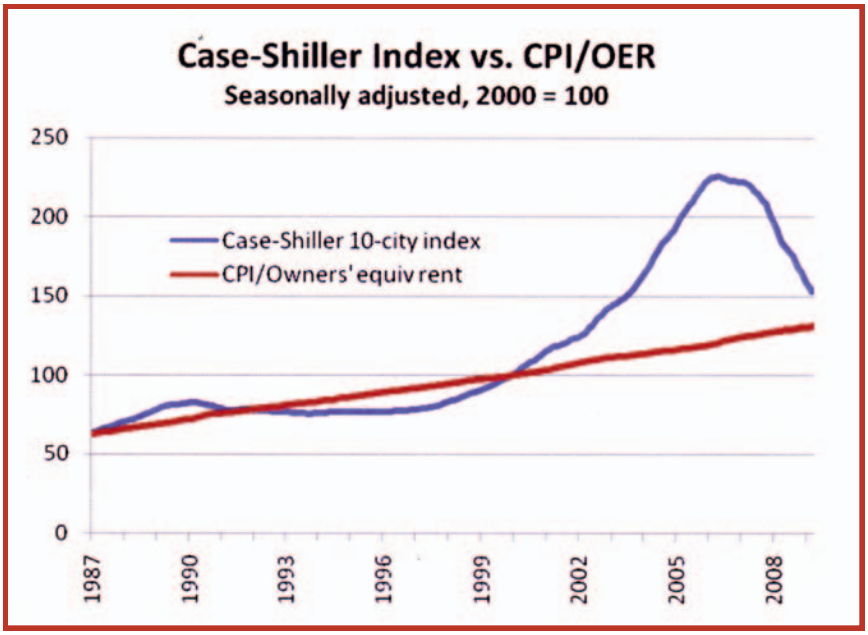
The thing about recessions is that they always end, and the end of the current recession is at hand. Whether that'll happen next month or the month after, the worst of the recession appears to be over. So let's take this opportunity to survey the wreckage in the home-furnishings industry since the recession began back in December 2007. (*All of the data cited in this column is seasonally adjusted.*)

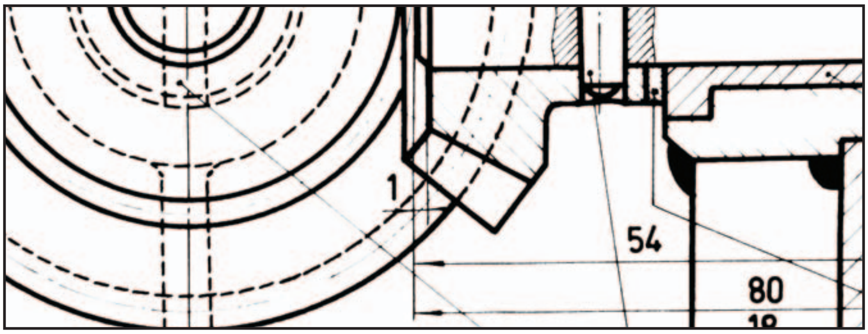
Retail

Total retail sales took a nosedive during this recession, and that's saying something. It's one of the few economic indicators to be tracked in nominal terms, which is to say it's not corrected for inflation.

As a result, it's unusual for retail sales overall to fall for an extended period of time. During the 2001 recession, retail sales were up and down but ended up 3.7 percent. In contrast, total retail sales have fallen over 10 percent in the current recession, with virtually all of that coming in the last few months of 2008. Sales were relatively flat until the financial crisis hit last fall, and that's when the nosedive occurred, as illustrated in accompanying diagram. Since December, total retail sales have bounced around with no apparent trend.

What happened in home furnishings was a bit different, and also worse. Because of the traditional association with home purchases, the decline in furniture sales started back when the housing crisis gained momentum. Retail furniture sales peaked over two years ago, in January 2007, and sales have dropped steadily since then. Since the peak, sales by home furnishings retailers nationwide have fallen a whopping 21 percent, with more than 16 percent of that coming since the start of the recession.





Home sales and construction

In January 2006, housing starts took place at an annual rate of 2.3 million units. In July 2005, new single-family homes sold at a rate of 1.4 million units per year. Since these two indicators hit their peaks, their paths have been steep and downhill.

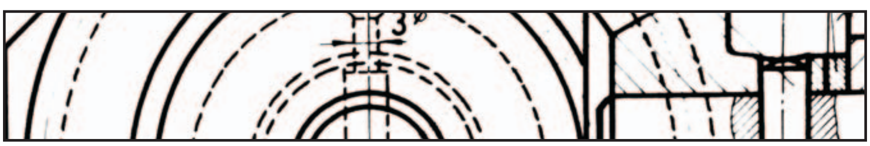
As of April's data, housing starts are off an amazing 80 percent and new-home sales are down an equally amazing 75 percent. The recession merely accelerated the decline. Of the 80 percent drop in housing starts, 54 percent of that has come since December 2007. It's possible that we're close to the bottom in the housing sector, but there's little evidence as yet.

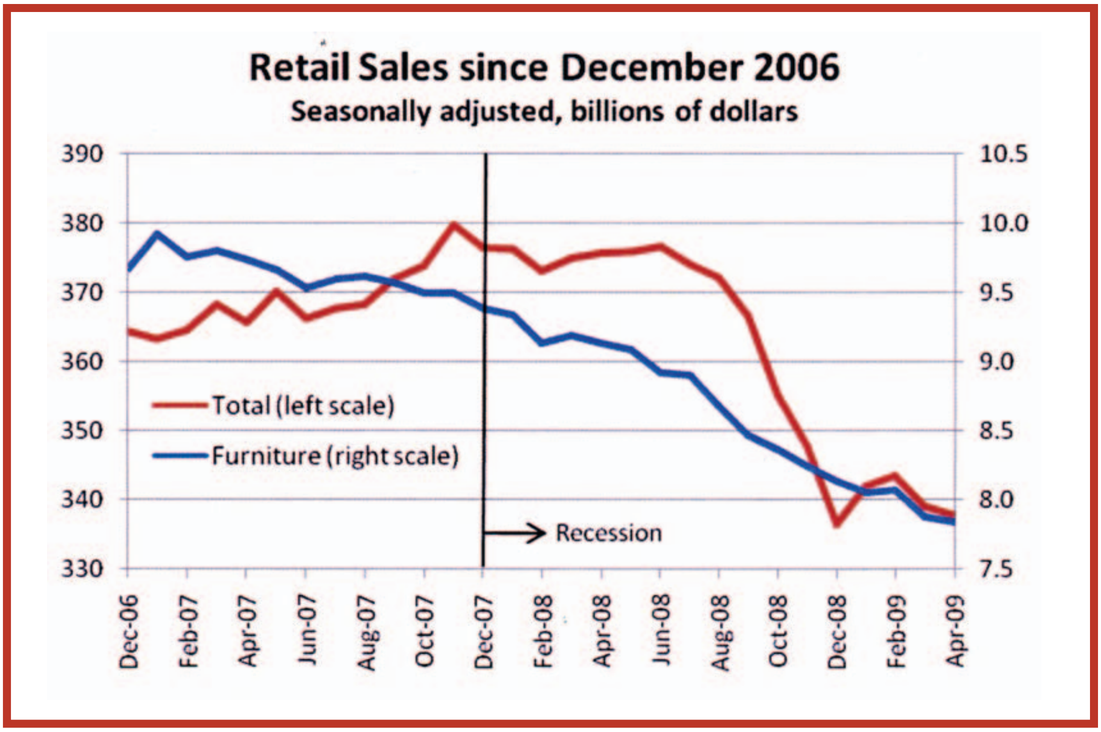
Fortunately, the housing sector is slowly realigning itself, though the correction has been painful. One indication of this is the relationship between housing prices and the Consumer Price Index for owners' equivalent rent (OER).

As seen in the diagram, the price index for OER tracked changes in housing prices for years, but the link between the two was severed in the housing boom. That link is being reestablished now, as the Case-Shiller home-price index has fallen more than 32 percent since its peak in May 2005, and 24 percent since the recession began. The remaining gap in the diagram suggests that home prices may continue to drop, but the worst appears to be behind us.

Manufacturing

Between January 1990 and April of this year, the economy has been in recession for a total of 32 months (and counting) and in expansion for 200 months. During those 200 months of growth, manufacturing employment fell 13.2 percent and furniture manufacturing fell only 2.5 percent. Clearly, furniture manufacturing has done relatively well during expansions. Unfortunately, it's a very different story during recessions. Job losses due to recession generally hit harder in manufacturing than in





Just keep repeating, *we're near the bottom, we're near the bottom.*

non-manufacturing industries. This recession has been no exception. While overall employment has fallen more than 4 percent, manufacturing employment has dropped 12 percent. In furniture, however, it's much worse. The number of furniture-manufacturing jobs has fallen 22 percent.

Prior to the current recession, furniture manufacturing, like many manufacturing industries, shed jobs while steadily increasing production. For the most part, jobs haven't been exported to other countries so much as replaced by labor-saving technologies here at home (this is much less true for case goods). From 1990 to late 2005, the industrial-production index for furniture manufacturing rose 38 percent (which was much less than in such industries as computers and chemicals).

After furniture production hit its peak in September 2005, it fell gradually and then picked up steam. The index has now "given back" its gains and is now 31 percent below its peak. Most of that drop, 26 percent of it, has come since the recession started. Furniture production is now as low as it was in late 1990.

Clearly, the wreckage is severe, both from the recession and the underlying housing trends that were part of it. Just keep repeating, we're near the bottom, we're near the bottom. NHFA