

Experts see recession lingering on

By Randi F. Marshall

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Economist James Parrott (Newsday Photo / Bruce Gilbert)

By some accounts, the economic recovery is on its way, with glimmers of hope here and there, upward movement in the stock market and some positive news in retail sales.

Not so fast.

There are still sectors of the economy that haven't felt the full brunt of the recession yet, including commercial real estate and unemployment. Beyond that, experts say, it will take time to repair the damage that has already occurred before any strong recovery can begin.

This recession has tentacles that have reached into nearly every consumer's pocket and affected every business owner's business plan. And it's tough for even the most prescient of economic forecasters to predict where the national and regional economies are headed over the coming months.

Nonetheless, a group of eight regional economists who gathered for a roundtable at Newsday's request agreed that the economy likely will deteriorate through the end of this year and begin to recover in 2010. Any real growth may not begin until 2011 or 2012, some said.

“I don’t think anyone doubts that things are going to get worse before they get better,” said Manhattan-based Brookings Institution senior fellow Carol O’Cleireacain.

By the time it’s over, Long Island and New York City could lose a combined 400,000 jobs, economists predict. Home prices could fall by 30 percent to 35 percent. And the economy likely will fundamentally change, affecting wages, jobs, home sales and consumer spending.

Some said they hoped federal stimulus efforts will propel a recovery. Others point to local positives: Wages on Long Island are still up, though barely, and some employers are hiring.

“If you cut back too much, you won’t be prepared for the rebound,” said Mary Cristafulli, chief talent officer for Clearvision, a Hauppauge eyeglass wholesale distributor that is hiring for eight spots.

Fear may stall growth

But what makes this recession different from many others is a fear factor of sorts that may act as a brake on growth.

“I think we’re in this vicious cycle where people have pulled back because they’re a lot less wealthy, they’re a lot less confident, they lost jobs and they’re scared,” said Mark Zandi, chief economist at Moody’s Economy.com in West Chester, Pa.

What’s more, commercial vacancies, construction and development still have corrections to make, and in those sectors it’s likely there are more losses and bad debt to deal with too, experts said.

Then, they hope, the credit markets for consumers and businesses will loosen a bit.

“The wild card is how quickly credit comes back,” said Jonathan Miller, who heads Miller Samuel, a Manhattan appraiser. “That determines everything else.”

The good news is that in some areas of the country, the residential real estate market is slowly finding its bottom. On Long Island, some look to stronger sales in the coming months.

Hope springs eternal

“I’m hoping the spring will bring us a little bit of fresh air and fresh customers,” said Huntington real estate broker Katy Anastasio, who heads Anastasio Associates.

It’s likely that home foreclosures haven’t reached their peak yet, especially if job losses propel homeowners who have gotten help back into trouble, said Joan LaFemina of the Community Development Corp. of Long Island.

Median home prices on the Island have fallen about 20 percent from their 2006 and 2007 highs, but they're not in the trough yet, experts say. There's a sign too many homes still aren't selling: It would take nearly 17 months to sell all of the inventory in Suffolk County at the current pace of sales and nearly 14 months in Nassau County, according to an analysis of Multiple Listing Service data. From 1999 to 2005, when housing was doing well, that figure ranged from four to seven months.

Jason Bram, an economist at the Federal Reserve Bank of New York, noted that in the early 1990s, home prices in the region didn't gain ground until three years after the economic recession ended. When prices do rise, it will probably be at a 3 percent to 5 percent clip, at most, said Dorothy Herman, who heads Prudential Douglas Elliman.

"You're not going to get rich overnight, which a lot of people did on Long Island," she said. "It became people's norm. Now it's about different expectations."

Job market is big question

There are still plenty of other question marks, led most significantly by the job market. Gary Huth, the region's State Labor Department market analyst based in Hicksville, said he expects total job losses for Long Island to remain under 40,000, though Long Island Association chief economist Pearl Kamer puts the number as high as 50,000. In New York City, estimates range from 270,000 to more than 350,000.

Job cuts are showing up in nearly every industry, except, perhaps, for health care, said Martin Kohli, economist with the U.S. Bureau of Labor Statistics' regional office in Manhattan. The hardest hit are also the highest-paying: financial services, professional and business services, and information, said Ronnie Lowenstein of the city's Independent Budget Office.

But Herb Morrow, area director for the Melville staffing firm Adecco, said he has seen recent signs of improvement and hopes for the start of a turnaround by year end.

Even if that happens, changing consumer spending, credit availability and business growth may shape a different economy in the future. Consumer spending may never again account for 70 percent of the economy, Kamer said. New industries may replace those that are shrinking. Compensation may never be as high.

That may strengthen the overall economy in the long term, Fiscal Policy Institute chief economist James Parrott said. But in the interim it creates uncertainty. So even as economists hope for a recovery that's under way by this time next year, they aren't sure what it will look like.

"We're rocking on a very unsteady set of currents," said O'Cleireacain. "We just don't know."