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# THIS MONTH

IN CONSTRUCTION SUPPLY

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Greg Brooks, editor | 303 845 4880 | [Greg@cs24.us](mailto:Greg@cs24.us)

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# THIS MONTH

## IN CONSTRUCTION SUPPLY

### THE MORE THINGS CHANGE...



**By Greg Brooks.** Yep, that really is what it looks like: a 13-story apartment building lying on its side. In China. No earthquake, no Photoshop.

Here's what happened: The design called for a slab foundation on concrete pilings, but the pilings were hollow (no point wasting concrete) and there was no rebar to tie the two together (hey, steel's expensive).

Once the building was up, the next step was to dig a 14-foot-deep underground garage right next to it. But the only handy place to put the dirt was next to the building on the opposite side. When a hard rain undermined the

soil in the hole, pressure from the 3,000-ton dirt pile on the other side snapped the pilings and pushed the building over.

One of the arguments for imminent Chinese domination is that they graduate [over twice as many engineers](#) per year as we do. Who should worry more: Americans or the people living in the building next door?

Still, Americans are worried. Six out of ten say we're headed in the [wrong direction](#) even though the numbers say otherwise. After a 2.2% gain in 3Q 2009, GDP rose 5.7% in the fourth quarter. The unemployment rate fell from 10.0% to 9.7% in January, and more important, the monthly trend is clearly improving (see chart, p. 6).

Foreclosures in 2009 (total properties with filings) were 2,824,674 vs. 2,230,438 in 2009. That's a 21% gain versus 81% from 2007-8 and 79% from 2006-7. Since July, month-over-month filings have risen just once.

Nevertheless, people think the recovery isn't coming fast enough or we're headed for a double dip, or we'll never fully recover.

It's possible that they're right; only hindsight will tell. But with both

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optimists and pessimists claiming to be the only realists in the room, it made me curious: Has there been another recession in which Americans were equally convinced that we were screwed, blued, and tattooed forever?

Until now, the most severe downturn since World War II occurred in 1981-2. Everyone's heard of "stagflation." In 1980, unemployment averaged 7.2% and GDP fell 0.3%, but inflation averaged 13.6%.

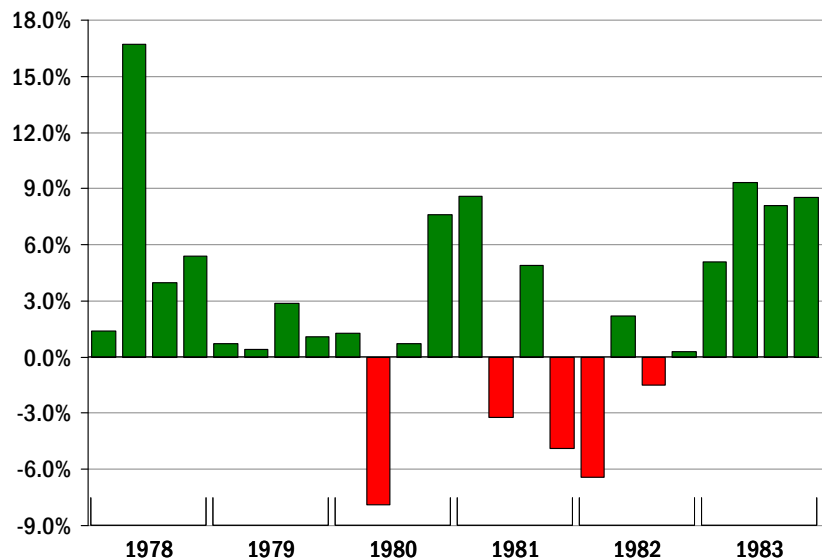
Then as now, the problem was unprecedented. Economists were pretty sure they could kill inflation by raising interest rates to a point that would, in effect, induce a recession. They just didn't know whether they'd be able to resuscitate the patient afterwards.

By Dec. 1980, the prime rate was a record 21.5% and the economy tanked as planned. Inflation had fallen to single digits by mid-1981 and a [23% tax cut](#) was enacted in August to jumpstart the recovery. Instead, GDP fell 4.9% in 4Q 1981, then 6.4% 1Q 1982.

The panic was on. "Politicians, businessmen, and economists...have a few haunting fears that this economic decline could spiral out of control, leading to a breakdown in the economic system," warned *Time* magazine. "The world economy is balanced on a knife-edge and could easily plunge into another era of international economic disintegration."

Credit was effectively frozen by prohibitive interest rates, and bankruptcies rose to the highest level since the Great Depression. Unemployment marched steadily toward double digits. Banks and S&Ls failed at a record pace as risky loans made in the

Quarterly change in GDP, 1978-83. Source: Bureau of Economic Analysis



wake of deregulation in 1980 went south.

Social Security was projected to go bankrupt within a decade, Japan was killing us with cheap imports, and Americans were up in arms over illegal immigrants, "mainly Mexicans," said *Time*, "competing against U.S. citizens for jobs."

So where was the government? Gridlocked as always.

Democrats controlled the House and Republicans held the Senate. Then as now, one side pushed for stimulus while the other pushed for tax cuts.

Just like today, what did get done was so compromised, it hardly resembled anyone's agenda. A year after the '81 tax cuts, President Reagan signed the [largest peacetime tax increase](#) in history. After proposing a constitutional amendment requiring a

(Continued on page 6)

## MARKETTRACKER

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[Economy.com starts and home prices.](#) National starts by quarter through 2012, home price projections through 2011 for the top 100 U.S. metro markets.

[Brookings Institution Metro Monitor](#) (1Q 2009 and 2Q 2009). Unemployment, gross metropolitan product, and home prices for 100 MSAs

[Case-Shiller Index.](#) Seasonally-adjusted home price trends for the 20 major metro markets tracked by Case-Shiller

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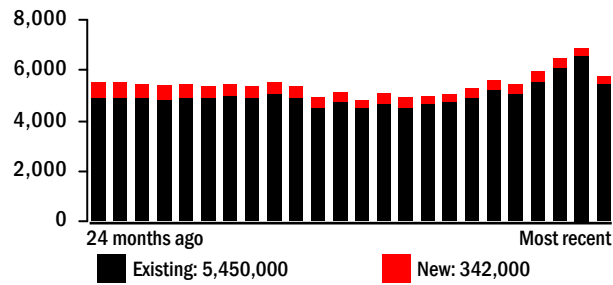


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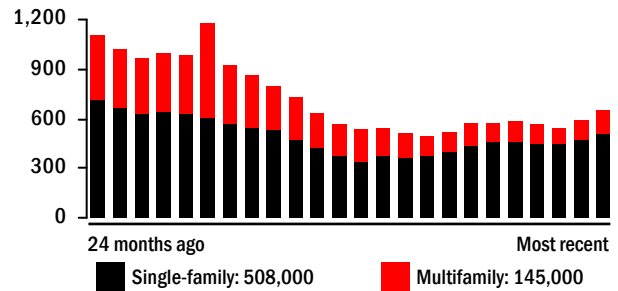
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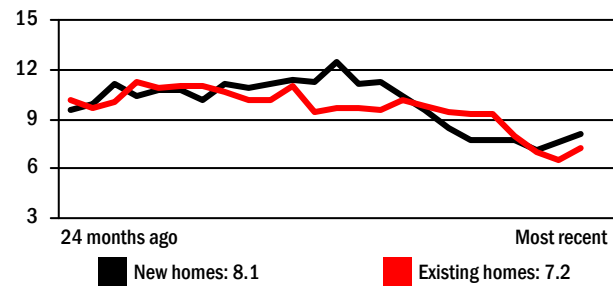
**ANNUALIZED HOME SALES (000)**



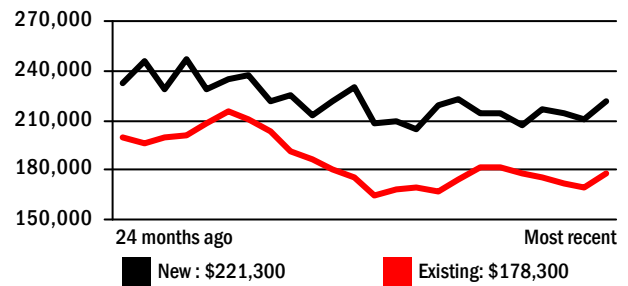
**ANNUALIZED BUILDING PERMITS (000)**



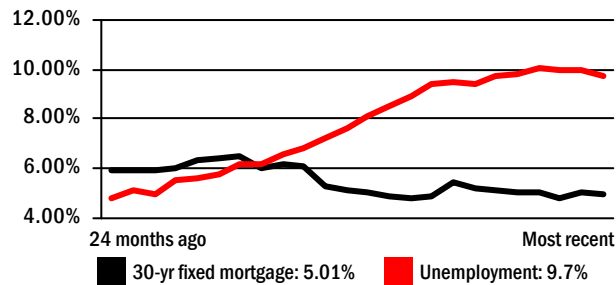
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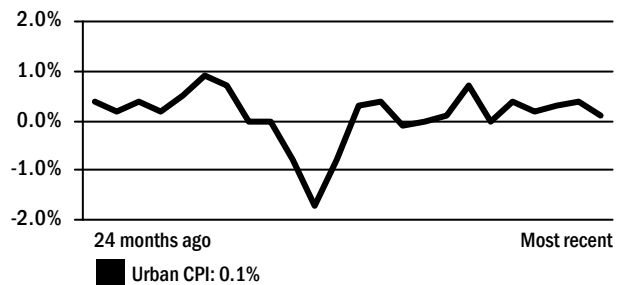
**MEDIAN HOME PRICES**



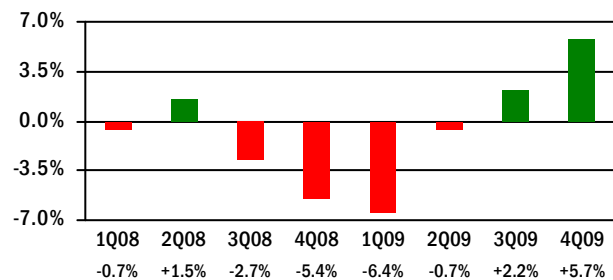
**MORTGAGE & UNEMPLOYMENT RATES**



**INFLATION RATE**



**GDP CHANGE VS. PREVIOUS QUARTER**



[Download current spreadsheet at CS24.us](http://CS24.us)

Sources: U.S. Census Bureau, National Association of Realtors, Freddie Mac, U.S. Bureau of Economic Analysis, U.S. Department of Labor. Data compiled by



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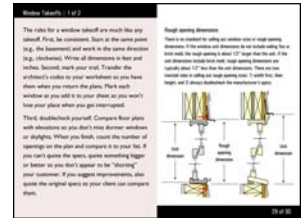
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balanced federal budget, he proposed (and ultimately won) a record deficit budget in 1983. Senate Majority Leader Howard Baker was appalled. “The ultimate tragedy would be if this country, teetering now on the brink of national bankruptcy, slipped over the edge.”

By Sept. 1982, the prime rate was down to 13.5% but unemployment rose to double digits – and would stay there for ten months. The stock market was rising but manufacturers were cutting back production. *Time* compared the conflicting signals to “a schizoid traffic light flashing green, amber, and red all at once.”

Just one thing was certain: “With rare unanimity, economists warn that the upturn, whenever it comes, will be painfully slow and gradual.”

Five months later, *Time*’s headline read, “Here Comes the Recovery!”

What happened? After reaching two million in 1978, housing starts fell by half in the downturn. During the three years from 1980 through 1982, we built 3.4 million units. But household growth was around 4.8 million.

By Dec. 1982 – with unemployment at 10.8% for the second straight month – “delighted home buyers (were) trooping into real estate offices,” gushed *Time*. “A year ago, mortgages cost a forbidding 18%. Now they average less than 14% across the U.S.”

Obviously everything is relative.

Housing starts rose from 1.06 million to 1.7 million in 1983, and as housing recovered, it created jobs that boosted the rest of the economy. In Jan. ‘83 economists said we’d be lucky to see 1.5% GDP growth for the year. GDP grew 4.5%, then another 7.2% in 1984.

Every expert will tell you this recession is totally different than any previous recession and they are absolutely right. 1981-2 was, too.

Comparing then versus now, the numbers are a mixed bag. The foreclosure rate was far lower: 0.52% in 1982 vs. 2.21% in 2009. But homes were far less affordable, too. The median after-tax mortgage payment in ‘82 was 31.8% of median income vs. 19.6% today – and remained higher throughout the 80s boom. The unemployment rate was a full percentage point higher and didn’t fall below 7% until late 1986.

Those who predict a double-dip recession or a painfully slow and gradual recovery may turn out to be 100% right. But what do you think they’d have said in 1982 if you suggested the housing market would recover with 14% mortgages and nearly 11% unemployment?

The only thing we know for sure right now is that anyone who says they know what will happen doesn’t. ☺



Greg Brooks, editor of THISMONTH, is a 41-year veteran of the construction supply business with 20 years’ experience in the field. Brooks is a former editor of *ProSales*, a steering committee member at the Harvard Joint Center for Housing Studies, and author of *Scope of the LBM Industry*, published by the National Lumber & Building Material Dealers Association.

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Monthly job gains and losses (000), Dec 2007 - Jan 2010. Source: Bureau of Labor Statistics

