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AP Analysis: US Economy Entering Sluggish Recovery

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Now that the Great Recession appears over, the economy looks to be entering a Rocky Recovery, in which much of the nation will continue to struggle well into 2010.

The Associated Press' monthly analysis of economic stress in more than 3,100 U.S. counties found the economy little changed in October compared with September. Some states saw slight improvement or stabilization, thanks to steadying foreclosure and bankruptcy rates. But the gains may be brief. Unemployment remains high, and the housing market is still weak.

"We're not out of the woods," said Susan Wachter, a professor of real estate and finance at the University of Pennsylvania.

The AP's Economic Stress Index calculates a score from 1 to 100 based on a county's unemployment, foreclosure and bankruptcy rates. Under a rough rule of thumb, a county is considered stressed when its score exceeds 11.

Nationwide, the average county's Stress score remained unchanged at 10.1 in October, matching September's figure. It was 10.3 in August. A year earlier, in October 2008, the average score was a much lower 6.9.

About 37 percent of the nation's 3,141 counties were deemed stressed, roughly the same proportion as the previous month.

Nevada, where the real estate collapse struck especially hard, again had the highest statewide Stress score in October, at 21.09, though it declined from 21.95 in September.

Michigan, battered by auto industry troubles, was second-highest, with a score of 17.36, followed by California (16.48), Florida (15.4) and Arizona (14.37). All four states have suffered severe housing downturns.

North Dakota was again the least-stressed state with a score of 3.89. It was followed by South Dakota (5.14), Nebraska (5.51), Vermont (6.43) and Montana (6.64).

Statewide foreclosure rates dipped even in some hard-hit states such as California, Georgia and Nevada. The housing market's deterioration appears to have bottomed, aided by

government supports such as a homebuyer tax credit and the Obama administration's foreclosure prevention plan, Wachter said.

But two risks could hamper the housing industry's recovery next year: Rising unemployment and defaults on payment-option adjustable-rate mortgages. Job losses have become a leading cause of foreclosures.

And because super-low interest rates are propping up real estate, an eventual rise in rates could cause another housing downturn, Wachter said.

Three Nevada counties — Lyon, Clark and Nye — again led the nation in foreclosures in October, with rates ranging from 7.1 percent to 8.5 percent.

Nevada suffered the biggest year-to-year gain in foreclosures. And it continued to lead the nation with a 7.2 percent foreclosure rate. But new state legislation allowing for mediation before banks can seize a property may slow Nevada's foreclosure pace.

Some counties with high foreclosure rates — such as Osceola in Florida, San Joaquin in California and Henry in Georgia — saw month-to-month declines in October. Those areas had been among the first to be hit by the housing bust, and the worst may be over.

But the slower pace of foreclosures may also result from a backlog in servicing foreclosures and pressures on lenders to keep further foreclosures off their books and to mediate loans, said Rick Sharga of RealtyTrac, which provides foreclosure data for the AP Stress Index.

There's typically a 60-to-90-day lag between a job loss and a foreclosure action. The means the effect of job losses on foreclosures likely won't be fully felt until well into next year, he said.

"We're probably experiencing some artificial delays that are keeping the numbers flat," Sharga said.

Counties with the biggest deterioration in Stress scores over the past month rely on seasonal tourism: Worcester County, Md., home to Ocean City; Cape May, N.J.; and Dare County, N.C., part of the Outer Banks. These areas normally see unemployment rise once the summer tourist season ends.

Three of the five most-stressed counties with populations over 25,000 were in California: Imperial (33.44), Merced (23.7) and Yuba (23.45). Rounding out the top 5 were Yuma County, Ariz. (25.37) and Lyon County, Nev. (24.07).

The government reported good news Friday, saying the unemployment rate declined in November to 10 percent from 10.2 percent in October. Still, the rate remains more than double what it was in December 2007, when the recession began.

Economists said the November jobless report could signal a turnaround in the labor market. But they still expect a tepid recovery. Unemployment is expected to resume rising until

around the middle of next year, before employers ramp up hiring enough to start pushing the jobless rate down.

Still, some parts of the country will see improvement ahead of the national rebound. Areas that are faring relatively well include Boston, Raleigh, Kansas City, Minneapolis, Denver and San Diego. They benefit from a mix of tech, health care and government jobs.

"There are signs that recovery is on the way nationally ... but it's not playing itself out uniformly," said Sean Snaith, an economist at the University of Central Florida. "Some areas are going to be slower than others."

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