

Commentary by John Tuccillo
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What If They Gave a Party... and No One Came?

It's not just housing any more. Increasingly, the economic news is turning better. Consumer confidence is up, the stock market is rallying and interest rates are still low (even though they are now rising), thanks to Mr. Greenspan's caution. The tax cut of 2003 will become effective in the latter part of the year and help consumer spending. The long awaited recovery appears to be finally here and most analysts think that the second half will show solid growth. But (as they say in the infomercials), wait, there's more! If this is a recovery, why have we lost almost three-quarters of a million jobs since January 2003?

The answer lies in three events of the 1990s and it's not a pretty one. The legacy of the technology boom (besides a general distrust of business and the ravaging of retirement savings) is a marked increase in productivity. Because of technology, we can produce more with less. This has turned out to be the new Achilles heel of the economy. If we can produce more with less, the economy can actually grow without creating jobs. That is precisely what this recovery is all about. It was true during the boom of the 1990s as well, but we masked it with the hundreds and thousands of start up businesses that absorbed labor. Now, growth will kick in, but unemployment will stay stubbornly high. This will be as dissatisfying a recovery as you may ever see.

Secondly, we've exported many jobs that would now be filling up with increased growth. NAFTA sent the jobs to Mexico, and as Mexican wage rates rose, the jobs left to go to Asia. Next time you're in a store that sells consumer goods, look at the labels. A large percentage of these goods are made in China. When you buy them, you may be helping the stockholders of American companies who have invested there, but you're not helping to create jobs here.

Finally, the stock market bubble created more "lifers", baby boomers whose nest eggs were wiped out and who were forced to postpone their retirement dates. By staying in the labor market longer than they otherwise would, they block jobs for younger workers and keep labor costs higher than they might otherwise be. This discourages employers from expanding payrolls, and makes the redundancies caused by productivity growth even more acute.

During this past economic slump, I've often been asked which industries were doing well. Obviously, with the war on terrorism and Iraq, the government and the military are thriving. Those aside, there are three classes of industry where this economy is succeeding. The first is what might be called advanced services, which include health care and education. Both of these continue to thrive and, as the population ages, the former will do especially well. The second type of business that is doing well is consumer services, including distribution and entertainment. While these flow with the ups and downs of the economy, they are generally good most of the time.

The third type of industry doing well is advanced and complex technology. While most of our consumer goods are now manufactured abroad, the machinery to make them comes from the United States. We lead the world in biotechnology, systems development and computer technology. This comes from the business growth that occurred in the 1990s, when ideas became real and entrepreneurship flourished.

If you consider these three classes of industry, certain facts stand out. First, most of the jobs created by these industries are low paying. In education and health care, there is a wide gap between the pay for skilled positions and that for all others. A similar gap exists in the technology sector. In consumer services, most jobs are just a bit above minimum wage. Second, these industries do not create a lot of jobs. And as self-checking spreads from supermarkets to other retail outlets, the job creation potential of consumer services will be even less.

What does all this mean for the real estate sector? It is not good news. As this recovery proceeds, employment gains will occur in relatively low wage industries. With interest rates sure to continue their rise, the capacity of consumers to afford home ownership will diminish as will home sales. It is extremely important for real estate professionals to keep a close eye on their local job markets. The progress (or lack thereof) in job creation and the quality of the jobs created in your market area will determine the course of your business. By watching it carefully, you can be ahead of the economy and take the steps you need to take to be successful in what will surely be a declining market.