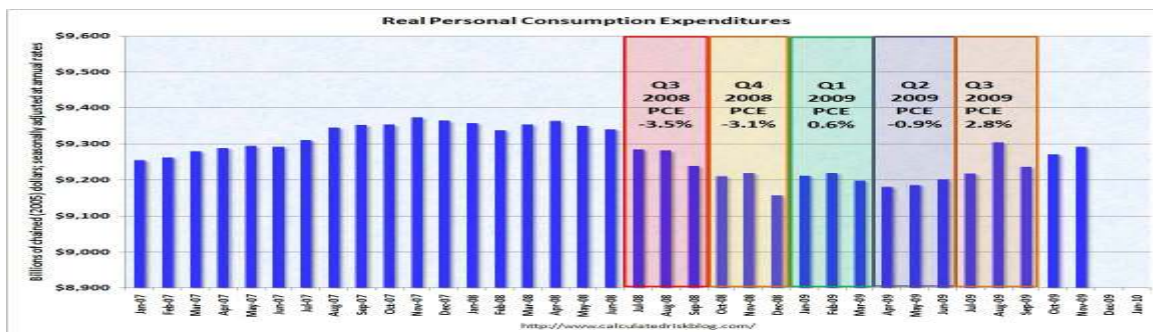


Popular Economics Weekly 2010—Year of the Optimists?

You would think an economic recovery is assured with the \$trillions in stimulus spending, and a Federal Reserve determined to hold down rates until the unemployment rate drops substantially. But there are pessimists who still want to believe that government is the problem, and so any government stimulus spending is only a short term fix, as we have said in past columns.

But there is no question we will see a better 2010. Existing home sales, pending home sales, personal consumption (i.e., consumer spending), and incomes all showed substantial growth in November. Stocks are also rallying because of a surge in corporate profits, a sign that we could see substantial job growth next year, as well.

Let's start with the number that best measures the health of consumers—personal consumption expenditures—which the Fed also uses to measure real inflation. It rose 0.5 percent in November and looks to increase 1.7 percent in Q4; less than the 2.8 percent increase of Q3, but still an increase, while real price inflation is still flat, averaging around 1.5 percent.

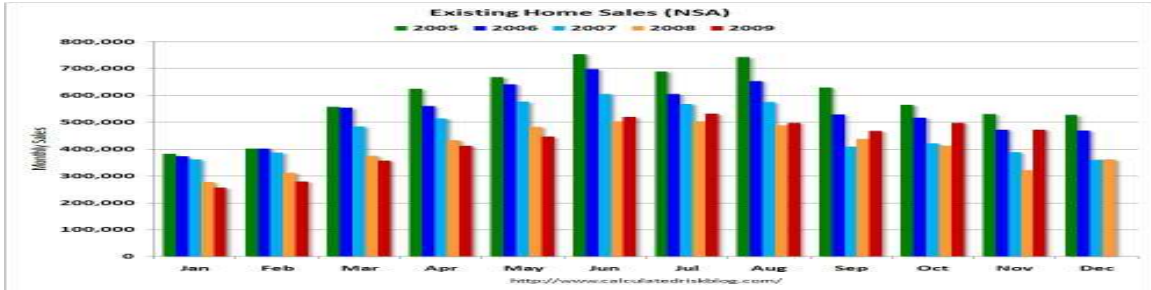


This is while the personal savings rate holds at 4.7 percent of disposable income, a sign that incomes are growing again. In fact, wages and salaries rose 0.3 percent in November, pushing personal incomes to an annual rate of \$12.2 trillion, the biggest gain since May.

It also shouldn't be a surprise that home sales are surging. A homeowner's survey done by Robert Shiller of the S&P Case-Shiller Home Price Index some months ago said that they expected home prices to rise 11 percent annually in coming years. Home owners now watch housing markets carefully, he concluded, and buyers obviously believe real estate values are on the rebound.

This is probably why existing home sales increased a whopping 7.4 percent in November, across all parts of the country, and are 44.1 percent higher than the 4.54 million-unit pace in November 2008. Current sales remain at the highest level since

February 2007 when they hit 6.55 million. This is while total housing inventory at the end of November declined 1.3 percent to 3.52 million existing homes available for sale, which represents a 6.5-month supply at the current sales pace, down from an 7.0-month supply in October.



But there is a warning in this data. Much of it comes from the home buyers' tax credit, which initially expired in December, but now has been extended until June 2010. And a large percentage is distressed sales, which has hurt new-home sales that have been essentially flat for the last 6 months. Therefore the 'Distressing Gap' between existing and new-home sales discussed by Calculated Risk. Combined new and existing home sales peaked at more than 8 million units in 2006, but only existing home sales have risen substantially this year.

