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NEWS RELEASE

Feb. 18, 2010

EDITOR'S NOTE: ATTENTION BUSINESS, ASSIGNMENT EDITORS

Y2K+10: A New Decade Unfolds

New Advance & Rutgers Report Assesses Depth of Economic Downturn, Future Issues Determining Pace and Strength of Economic Recovery

NEW BRUNSWICK, N.J. – With the start of the new decade, now is not only the time to look back and assess the depth of the economic downturn that encompassed the decade that just ended, but also to look forward and examine the issues that will determine the pace and strength of the economic recovery, according to the new issue of the *Advance & Rutgers Report*, [Y2K+10: A New Decade Unfolds](#).

The report, authored by James W. Hughes, dean of Rutgers' Edward J. Bloustein School of Planning and Public Policy, and Joseph J. Seneca, university professor and an economist at the Bloustein School, and sponsored by leading real estate owner and developer Advance Realty, contrasts the stark differences between the beginning of the first decade of the 21st century – which opened on the heels of unprecedented job growth and economic expansion – and its end, which followed the worst economic decline since the Great Depression.

“The Great Recession of 2007-2009 included the largest annual job loss for the country since the U.S. Bureau of Labor Statistics began record keeping in 1939,” said Hughes. “It also marked the lowest housing production since record keeping began in 1959 and the highest annual (to date) federal budget deficit (FY2009) since the nation’s founding.” The decade itself was the first since the 1930s to have ended with fewer private-sector jobs than when it started, and also included the three worst private-sector job loss years – 2009, 2008, and 2001 – ever recorded in the nation’s history.

“The best news, perhaps,” the authors said, “is that 2009 is finally history.”

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However, “The Great Stabilization” took over by the end of 2009, and Gross Domestic Product began to grow again. It became apparent that while employment continued to decline, the decline was occurring at a much slower pace. Thus, at the start of 2010 the nation is now anticipating economic recovery rather than staring at economic Armageddon.

“In the real estate industry, there is certainly a renewed sense of optimism about improving market conditions today over one year ago,” stated Peter Coccoziello, CEO of Advance Realty. “However, ongoing strain to the capital markets continues to pose significant challenges to the industry and economic recovery overall; an area of risk that has the potential to get worse before it gets better as billions of dollars worth of commercial real estate loans scheduled to mature over the next few years come due with limited to no options for refinancing.”

Hughes and Seneca caution that the shape of the recovery will be determined by how the nation meets the challenges facing consumers, the housing market, commercial real estate, small business, and changes in federal monetary and fiscal policy. “The path of the anticipated economic recovery, or its economic ‘calligraphy,’” commented Seneca, “could take many forms based on the historical evidence. One precedent would be a ‘V-shaped’ recovery, since deep recessions have typically been followed by strong and robust employment rebounds.” He noted a second precedent is that recessions caused by deep financial crises have produced weak recoveries for an extended period, thus suggesting that there will be an “L-shaped” recovery.

The authors note that since the recent recession was a complex amalgam of both a deep recession and a financial crisis, this could lead to a third outcome, namely, a “Reverse Square Root” recovery. In this case, a sharp decline would be followed by a sharp rebound, only to level out before full recovery is achieved. In the final, worse case scenario, if the policy choices made are insufficient or mistimed, the initial rebound from recession could relapse into a second downturn, as a “W-shaped” recovery or a “double-dip” recession.

The Great Stabilization was the result of the federal fiscal stimulus and expansionary monetary policy; however, both will fade as 2010 progresses. In order to retain this stability and have the economy grow from there, say Hughes and Seneca, there will need to be a step-up in private consumer spending, investment and/or net exports. But, with respect to the consumer, American households became overextended during the early part of the decade, with personal

consumption far outstripping personal savings. During the last three years, consumer retrenchment has characterized the nation and the key question – Will households return to their previous spendthrift ways or remain frugal? – remains to be answered. A permanently reduced level of consumer spending will have profound effects on the future of the housing, retail and commercial real estate markets.

The authors conclude that the lessons learned and changes made from the Great Recession of 2007-2009 pale in comparison, so far, to those of the 1929-1933 Great Depression. The recent deep recession will continue to impose painful human, social and economic costs for several years. The system has been *rescued* for now by extraordinary monetary and fiscal interventions, but it has not yet been *reformed*. As the recovery progresses, the herculean challenges will be to achieve effective reforms of the financial markets, restore business confidence, work through the lingering housing and commercial real estate malaise, and restore robust private-sector employment growth.

During the next decade – already termed the “Great Reckoning” – the vast federal fiscal stimuli that prevented financial collapse will need to be paid for. Hughes and Seneca note that learning from the harsh economic lessons of the past decade and acting quickly – and wisely – on these lessons are the greatest policy challenges for the coming year.

Advance & Rutgers Report is published by the Bloustein School, with support from Advance Realty. Y2K+10: A New Decade Unfolds is available at <http://www.policy.rutgers.edu/reports/> and at <http://www.advancerealtygroup.com>.

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