International Council of Shopping Centers

ICSC ReTel Conference Call Summary of Event

U.S. Economic and Industry Outlook: Commercial Real Estate Faces the Credit Crisis and Liquidity Trap
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Summary:

The U.S. economy is 13 months into its recession and ICSC Research continues to expect that the business cycle bottom or trough of the cycle will be reached by very late spring or summer (it is likely to the be the longest recession since the Great Depression). That expectation, however, is hinged on a return to more normal functioning credit and lending markets. ICSC Research expects fourth-quarter real GDP growth will tumble (those data will be reported on January 30) and the first-quarter will contract by 4.5%. Real GDP also is expected to remain depressed through the third quarter 2009.

The just completed 2008 holiday season was the worst in at least 30 years, based on ICSC's comparable store tally of chain store sales, with the November-December performance off 2.3% on a year-over-year basis. In 2007, same-store sales grew by 2.1% for the comparable period.

The 2008 trends tell a story of the recession's impact on consumer spending. During 2008, non-discretionary (or essential) consumer spending decidedly and historically shifted toward its highest overall share of personal consumption. There are at least three reasons for this: (1) rising gasoline prices early in the year (but that has since reversed) and with it high energy expenditures as a share of the total budget, (2) weakening big ticket purchases (initially housing-related and then motor vehicles as well) and (3) the recession has slashed discretionary spending on restaurants to apparel.

Motor vehicle demand is viewed as a microcosm of the problem—tight credit, a big-ticket or discretionary purchase and a deferrable purchase. It is argued that this sector is important as a signpost of the business cycle recovery, as well as of the consumer recovery. Although there is no indication that motor vehicle demand has bottomed yet, ICSC's leading indicator of motor vehicle spending has turned up decisively.

How does the U.S. address its recession? Two policy perspectives—the "liquidity trap" and the credit crunch—are the most common paradigms to think about the problem. As some Noble-prize winners argue, the U.S. economy is now stuck in a liquidity trap, which requires big fiscal spending to provide that lift to the economy. Alternatively, financial history might question that as the "solution," since fiscal stimulus will not work without correcting the underlying problem—the credit crunch. This credit crunch paradigm suggests that bank recapitalization is the primary path to restore economic growth.

The U.S. shopping center industry—which grew to 100,000 centers in 2008—has been opening centers at a slower rate for the last few years. But still, the shorter-term industry performance metrics all reflect the impact of the 2008 recession. As a consequence of the recession, store closings are higher and openings are lower.

Although there are a few "brighter" spots for the economy—real average weekly earnings and the home demand contraction is beginning to moderate modestly—the recession is forecast to linger through mid year with an assumption that the financial crisis lessens over the first half of 2009. Unfortunately, even at that, the retail real estate industry—which tends to lag the business cycle—is not likely to see its bottom for at least another 1½ years.