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Metro Atlanta's economic fate tied to real estate

Rise in unemployment lines up with collapse in new home construction

By MICHAEL E. KANELL

The Atlanta Journal-Constitution
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As new home sales go, so goes hiring in metro Atlanta. It's a link that's all too clear to Cameron Smith. Smith sold houses on Atlanta's south side, earning a pretty good living until she was laid off last month.

"I made it through five rounds of layoffs," she said Tuesday while waiting at a Labor Department office to file for unemployment benefits.

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Bob Andres/bandres@ajc.com

A development in Marietta features homes priced around \$1 million that have been slow to sell. Some of the houses are unfinished and there are many empty lots. New home sales in Atlanta are unlikely to pick up until the recession eases.

Smith thinks she can go about six months without work while she looks for a job in logistics management. The Labor Department says roughly three job seekers vie for each opening.

A lot has been going sour economy-wise, but in Atlanta perhaps the most painful drag on hiring has been the housing market.

And if history is any guide, the continuing slide of new home sales is a signal that the recession is far from over and the job market is going to keep worsening for a while.

The good news?

Since World War II, no recession has lasted longer than 16 months. That's a mark the current downturn could pass this spring.

"If you take the historical data to interpret the current situation — and history is all you have — that would suggest that we are in a very deep recession that has yet to find a way to turn around," said economist Michael Reksulak of Georgia Southern University.

The consensus view among economists is that unemployment will worsen this year and level off in 2010. Predictions vary about housing, but in the 10 previous recessions since World War II, new home sales started to ebb before the economy overall turned down. But sales bottomed out and began to pick up a few months before the broader economy was in recovery.

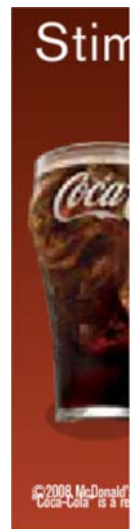
So far, new home sales have shown no sign of a turnaround.

"We are already one year into recession and we haven't seen that inflection point that would give us hope that we are coming toward the end of the recession," Reksulak said.

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It's not that new [home sales](#) alone cause economic recovery and heated-up hiring. But real estate activity is one clue used by the National Bureau of Economic Research — the semi-official arbiter of recessions — in dating the start and end of recessions.

And real estate is a crucial part of the economy, especially in Atlanta.

When building slows, there are layoffs from roofers to brokers and attorneys to air conditioning installers. When building booms, the ripples run in the other direction. In metro Atlanta, the boom in residential real estate crested in mid-2006. The job market continued to grow for about a year longer.

The national economy — and Atlanta with it — slipped into recession toward the end of 2007.

Although Atlanta has some critical growth engines, no one sector dominates economic growth.

Yet more than most regions, where geography or regulation limits building, housing in metro Atlanta looms large.

For more than a decade, metro Atlanta either led the nation or was among the leaders in new home construction.

Even after more than a year of real estate decline, construction in metro Atlanta in 2008 accounted for 128,289 jobs — 5.5 percent of the total, according to the Labor Department. More than 106,133 people worked in finance and insurance, many of them professionals who depend on real estate in various forms. Included in that group are real estate jobs — roughly 35,000 in metro Atlanta.

How many jobs disappeared when new [home sales](#) evaporated?

While those numbers are hard to pin down, the slump in Atlanta housing does line up with the deteriorating job market.

From November 2007 to November 2008, metro Atlanta lost 67,800 jobs.

When the housing bubble burst, optimists at first noted that the unemployment rate was only rising modestly and argued that housing's woes would not drag the economy into the ditch. But it now gets much of the blame.

The unemployment rate in metro Atlanta climbed from 4.1 percent in November 2007 to 7 percent a year later.

Economists now expect the jobless rate to rise through most of this year — a view shared even among those who think the economy will bottom out and start expanding by autumn.

Unemployment generally doesn't hit a peak until after the recession is over, said Mark Vitner, senior economist with Wachovia Corp. "New [home sales](#) are somewhere between a leading and coincident [or concurrent] indicator, while the unemployment rate is a lagging indicator."

It is natural for a rise in new [home sales](#) to be one of the signs that things are getting better, said Rajeev Dhawan, director of the Economic Forecasting Center at Georgia State University.

"When you reach the end of the bad times, people are starting to get jobs. At the point that people are getting jobs, they are in the mood to buy homes."

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Economic data needs to stop being tied to NEW home sales. New developments need to finish the neighborhoods they started and cease operations. Folks need to start buying the glut of existing homes. The days of selling your piece of junk home up North for wads of cash and then moving South for the good life and a new McMansion are OVER.

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