

Surviving and Thriving

“ No Congress of the United States ever assembled, on surveying the state of the Union, has met a more pleasing prospect than that which appears at the present time. In the domestic field there is tranquility and contentment... and the highest record of years of prosperity.”

US President Coolidge 4th December 1928, the year before the beginning of the worst recession in US history.



At the beginning of 2007, future prospects for Ireland appeared bright. Both the Irish Central Bank and ERSI (Economic and Social Research Institute) were predicting an economic growth rate of about 4 percent for 2008 (1).

As the year progressed, however, it became clear these rosy forecasts were no longer tenable. Accordingly, the estimates were revised downwards at every subsequent quarterly bulletin.

By spring 2008, both organisations had reduced their growth forecasts below 2 percent and the rate of fall of the estimates strongly suggests that all the remaining predictions for 2008 will be worse than the previous ones.

In April, Goodbody Stockbrokers revised their estimate of economic growth in Ireland in 2008 down to 1.1 percent and in May the Ulster Bank predicted annual growth would be only 0.5 percent (2). This is in stark contrast to the growth of 5.3 percent in 2007.

There are a lot of reasons for thinking that the situation will get much worse before it gets better. Firstly, there is the Irish housing market. A report issued by the International Monetary Fund at the end of March 2008 stated that houses in Ireland in 2007 were 30 percent overvalued.

The report listed Ireland among a group of 4 countries especially vulnerable to a correction in prices. This is hardly a surprise: house prices in Ireland have more than doubled relative

to earnings in recent years. Although prices have fallen by 10 percent or more since the middle of 2007, there is still a long way to go before the affordability of housing returns to the levels of the early 90s (3).

Since 2000, a high percentage of new houses were built for speculative reasons. They were built without any reference to demand, but in the expectation of profit. Demand and price were continually talked up by the endless repeating of the myth that everyone ‘had to get onto the property ladder’.

The same irrationality which had fuelled the US stock market prior to the crash of 1929 prevailed. People borrowed money recklessly, financial institutions fanned the flames by offering deposit free mortgages at very appealing rates, and the government refrained from intervention because it was happy to rake in the revenues from house construction and sales. But it was always going to end in tears. Everyone just hoped it would be on someone else’s watch.

To fuel the huge rise in the price of houses, the level of private borrowing rose from 82 percent of disposable incomes in 2001 to over 160 percent in 2006. In a report in March 2007, Davy

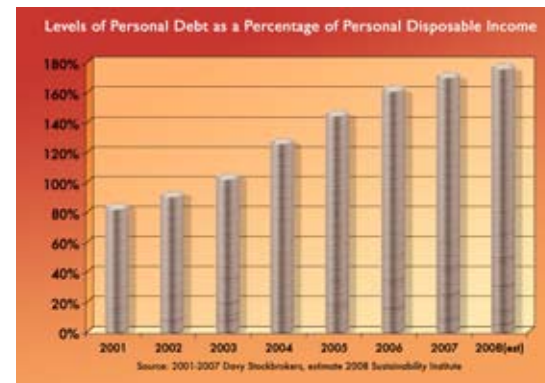


Table 1

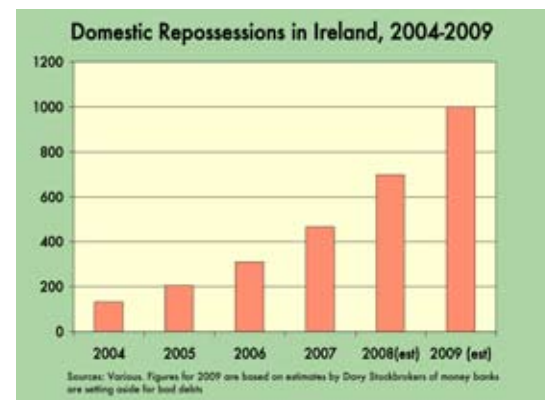


Table 2

ving in Economic Recession

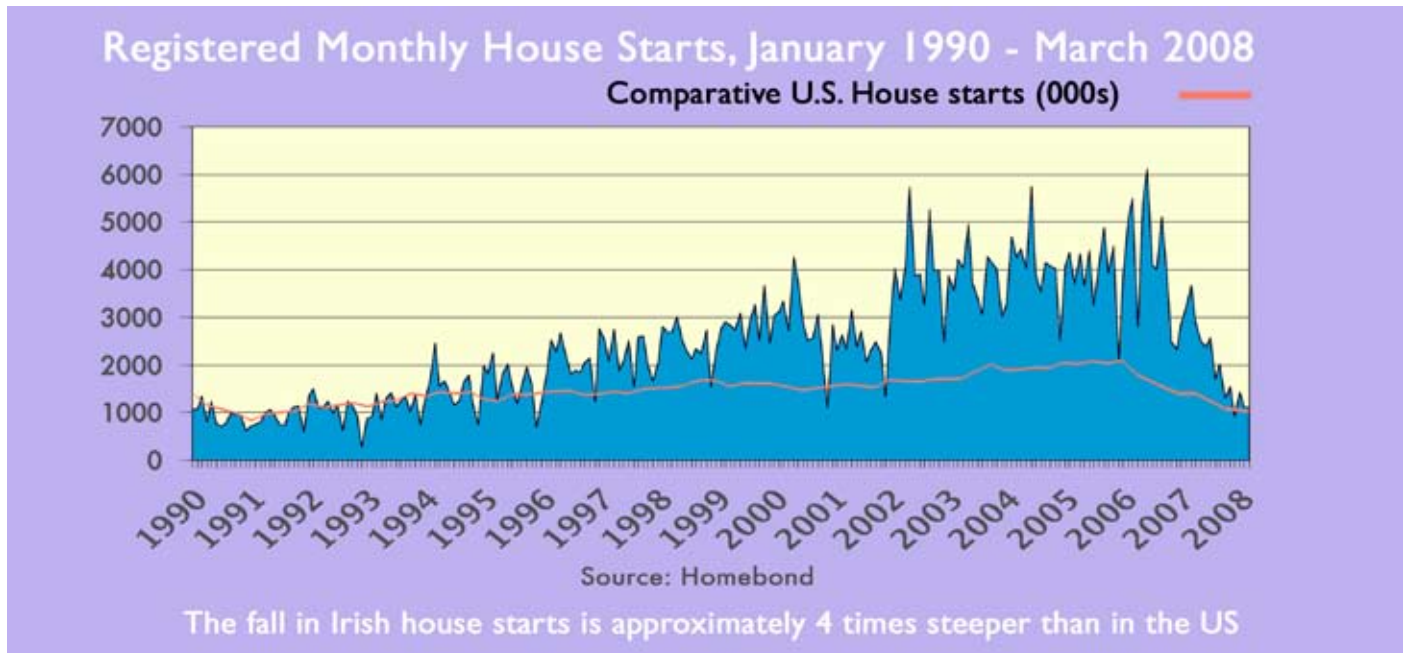


Table 3

Stockbrokers forecast that the level of personal debt would reach 170 percent by the end of the year, the highest level in the Euro zone, and higher than in either Britain or the US. Mortgages account for the lions share of all personal debt (Table 1).

Although Ireland still has a relatively high level of personal saving, this is now falling rapidly as savings are eaten into in order to finance unsustainable lifestyles.

By 2007, the property roulette wheel had begun to grind to a halt. The massive surplus of property – now close to 300,000 dwellings and almost one sixth of the total housing stock - meant that developers were no longer selling so quickly. As a result they were forced to drop their prices in order to relieve their own burgeoning credit.

Holding back on sales in order to artificially create scarcity in the market simply wasn't an option, though this strategy had been used to great success in the past.

Meanwhile, the potential buyers were starting to get nervous and question the wisdom of borrowing many multiples of their annual income.

Media reports of the collapse of the Northern Rock Building Society in the UK, and of the accelerating fall in house prices in the US, added to the feeling of insecurity. Stories of

mortgage defaulters and the growing number of house repossessions began to circulate in the press.

In the Dáil, Fine Gael housing spokesperson Terence Flanagan expressed concern about the increase of repossessions and criticised the “*unscrupulous practices of sub-prime lenders*”.

The total number of repossessions in Ireland per annum, although still very small, more than tripled between 2004 and 2007 and all indications are it will increase further in 2008 (Table 2). Repossessions are very bad news. They mean that all other avenues have been explored by the lending institution, and that they have all failed.

Once developers realised that there was nothing to be gained from building more houses, plans for the construction of yet more estates were quickly abandoned. This slowdown in construction activity was visible as early as May 2007, in the falling number of new house registrations with Homebond (Table 3).

There was something of a panic in the sector during the autumn of 2007, as developers hastened to finish off all their partly constructed houses in an attempt to get them onto the market and sold. This flurry of activity explains why house completions for 2007 only fell to 78000 from the 2006 peak of 93800, and not lower. However, it still represented a year on year fall of

almost 17 percent in domestic house completions.

The really bad news came in early January 2008, when Homebond revealed that new house registrations for December totalled less than 1000 and were at a 12 year low. The next three months were no better. In March 2008, new house registrations were 80 percent down on 2006.

The predicted number of house completions in 2008 is now in the 35000-50000 range, a drop of at least 45 percent on 2006 figures. In 2009, it will be half that. The boom is well and truly over.

A visit into any builders' providers quickly confirms this. The atmosphere is reminiscent of a funeral home. A few employees stand around in hope that a customer might appear. Phone call enquires are dealt with quickly and efficiently, whereas a year ago you were lucky if the phone was even answered.

In 2007, there were about 280,000 people employed in the construction sector, out of a total labour force of 2,200,000. The total construction industry is worth nearly €40 billion per annum and about two thirds of all activity is in house construction. At least half the construction workforce is employed in the residential sector.

Given that residential construction activity is now at only a fraction of



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the level of twelve months ago, tens of thousands of layoffs are inevitable.

The contraction in the construction sector is expected to cause the amount of money in circulation to drop by about 5 percent. This will reduce turnover in other sectors, creating additional unemployment and credit problems, which in turn will cause the economy to tighten further. Eventually, a new level will be found and things will stabilise, but that is a long way off. Indirectly, many people will be affected.

The problem is compounded further by the fact both the US and UK economies are in trouble. The UK economy has been shaken by the Northern Bank incident and the growing evidence that many other financial institutions are overstretched. The complete withdrawal of 100 percent mortgages by all the UK mortgage providers only confirms they are extremely worried about the rising level of default. Meanwhile, the IMF predicts the UK economy will grow by only 1.6 percent in 2008.

In recent times the Pound has fallen to record lows against the Euro and this is extremely bad news for Irish companies exporting to Britain and for businesses in the hospitality sector which rely on visitors from across the water. Over half of all overseas visitors to Ireland come from Britain and they bring an estimated €2 billion into the country. Exports to Britain are currently worth €16 Billion per annum. The situation in the US is probably

even worse. The US economy is expected to grow by only about 0.5 percent in 2008 and some analysts have suggested it is already in recession. The US dollar has fallen by almost 25 percent against the Euro since mid 2005, with the majority of the fall in the last twelve months.

Export trade to the US from Ireland is currently worth €15 Billion per annum. There are further negative implications for the Irish economy as many US companies have significant production bases in Ireland and these are vulnerable to the downturn in the US.

Although both the Central Bank and ESRI have forecast an improvement in the fortunes of the Irish economy in 2009, it is hard to identify the basis on which this optimistic prediction is made.

The Sustainability Institute believes Ireland will follow the US and Britain into recession in 2009 and is by no means alone in this assessment. Even the arch conservative IMF has warned that the odds are 4 to 1 of a 'full blown global recession' (4).

Economic trends over time follow very definite boom and bust cycles, and while the timing, duration, severity of such cycles is not easily predictable, there are some very definite indicators that herald a recession.

High up on this list would be the aforementioned levels of debt and the sustained period of speculation which has forced the price of housing way beyond its true worth. Other warning signs could include exchange rate imbalances, disruption to key global supply chains through wars or other major international crises, increasing budgetary deficit, rising inflation and interest rates, growing levels of unemployment, and increases in the price of energy and essential foodstuffs. At the present time almost all of these indicators are present. Ireland could go from boom to bust in just a few years.

“In one generation, we had converted from an economy based on savings and hard work, to a debt driven economy, where people spent whatever was needed to support what was perceived as a ‘deserved’ life style, whether they could afford it or not”

The Second Great Depression 2007-2020 Warren Brussee, 2005 Ch 2: The Debt Bubble

Thriving in a Recession

There are a number of things which can make a recession more survivable. At household level, one of the most important things is to reduce financial exposure. In particular, debts on credit cards which involve paying high interest rates should be eliminated at the first opportunity. Larger, longer-term debts such as mortgages are harder to deal with but if there are any serious doubts about ones ability to continue, this is the time to get out.

Selling and downsizing should be viewed as a positive survival strategy. It doesn't matter what the neighbours think. In some cases it may be better to walk away from the mortgage altogether and let the bank repossess. This is especially true of younger people who may have heeded poor advice to 'get



on the property ladder' and now find themselves stretched to breaking point. In the US, there are now companies which specialise in helping people walk away from their unsustainable mortgages.

People who have not become ensnared in the mortgage process should stay out at all costs. There is a myth being perpetuated that it is still cheaper to buy than rent. This is a complete fallacy. It presumes rents will remain high indefinitely and implies that people renting will stay in rented accommodation forever.

The most likely scenario is that rents are going to fall by 20-40 percent in the next few years. Renting allows for the option of 'wait and see', and does not preclude buying at any stage in the future if conditions become more favourable.

As in New York in the volatile days of the summer of 1929, the sense of impending disaster tends to engender the most irrational behaviour. Assisted greatly by a pocket full of credit cards, consumers may indulge in a final frenzy of spending: the purchase of more disposable goods; exotic foreign holidays; and meals in expensive restaurants washed down with plenty of alcohol - as if to 'prove' they were unaffected by the rising plague of debt all around them.

These impulses should be strongly resisted! Instead, if there is any spare cash around it can be invested in gaining useful 'post crash' survival skills such as building skills, growing food, and vehicle maintenance.

Spare cash could also be spent on kitting out the household with proper bicycles (not the rubbish sold in the likes of Aldi which have no mudguards) and spare parts, durable footwear and clothing, and a good collection of hand tools and reference books. People with sufficient space in their gardens for food production should erect a small greenhouse for starting off early season vegetables and extending the growing season.

Others might consider experimenting with home made solar panels of the type featured in the workshops run by the Sustainability Institute. A good strong shed - possibly built from recycled materials - is useful for storing the fruits of ones labours in the garden.

If space permits, other useful infrastructure could include a small office (to create an option of working from home) and extra living accommodation for members of the extended family who might need caring for. Low cost structures of under 25m² can be built without planning permission within the cartilage of existing houses. While exemption is contingent on the building not being used for living accommodation, who is going to be worried about that in a recession!!

Another good investment which makes sense even in healthy economic times, is to make one's home more energy efficient through good draught-proofing and upgrading the existing insulation.

If more land is available, hens are strongly recommended. Hens convert wastes into food. They require housing at night, so there needs to be some infrastructure in place. Any other spare ground should be planted in trees for future fuel supply, or in fruit trees or cob nuts. Fast maturing varieties of walnut and chestnut may be considered in favourable locations.

Community Strategies

On a community level, the establishment of community gardens and allotments is a huge must. Every single town should aim to have places set aside for the growing of food.

The 1926 Allotments Act gives local councils almost unlimited powers to create allotments "for cultivation by an individual for the production of vegetables mainly for consumption by himself and his family".

Given that local authorities have zoned thousands of hectares of land for 'development' which is no longer needed, this seems a good time to phone the local council and request to be put on their 'allotment waiting list'. The list won't exist of course, but the council will be obliged to start one. Get friends and family to follow suit.

In a real economic crisis, the worst thing communities can do is to try to maintain the unsustainable 'everyone for himself' philosophy which underpins the so called free market economy.

The growing of food has traditionally been a communal and community based activity. The pooling of land

resources and skills allows for some degree of specialisation, more effective crop rotations, and increases options for research and experimentation with new crops.

Another very useful resource, which communities should strive to establish, is a place where training and workshops can take place.

Currently, there is a growing range of really excellent workshops being offered across Ireland, but in a recession workshops need to be locally based not at the other end of the country. On a small scale, the infrastructure to run successful workshops is surprisingly simple: good classroom facilities (basically a large room with electricity supply) plus an outbuilding large enough for hosting hands-on activities.

At a pinch outdoor workshops can be held in marquees, other large tented structures or in the open air. Existing community centres, schools and colleges are also potential training venues.

A third stand of infrastructure especially valuable in a recession is a local community transport system. Other than the distorted perception that public transportation systems are somehow *inferior* to mass car ownership, there are few impediments to communities setting up their own shuttle minibus services. In a recession, such psychological barriers will soon go. Flexibility in working hours would contribute to the viability of public transport.

Undoubtedly, there are many more things both individuals and communities can do in times of economic difficulty. Fortunately, in hard times there seems to be an instinctive reaction that pulls communities together, though the opposite can happen too in unfavourable circumstances.

There is also great ingenuity in people, once they are focussed on the rather more pressing issue of survival rather than the day to day trivia of TV, fashion, commercial sport, or what the neighbours are doing. Indeed the neighbours might be more interested in working out some car sharing arrangement or going in on a dozen hens.

Andy Wilson

1 ESRI Economic Commentary Q1 2007, Central Bank Annual Report 2006,
2 Irish Times 2nd May 2008.
3&4 IMF World Economic Outlook 2008