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# Gloom Grips Consumers, and It May Be Home Prices

By BINYAMIN APPELBAUM

ORLANDO, Fla. — Ernest Markey lost his stone-cutting business in 2009. He then sold his home for half a million dollars less than its value at the peak of the housing bubble and moved with his wife, Marie, to a smaller home in a less affluent suburb. They gave up two new cars and bought one. Used.

The Markeys have since patched together a semblance of their old life, opening a new stone-cutting shop. But they do not expect that they will ever recover financially from the loss of equity in their old home.

“For two years I kept thinking that things would get better,” Mr. Markey, 51, said as he stood in his empty store on a recent weekday. “Now I think the future doesn’t look so good.”

The United States has a confidence problem: a nation long defined by irrational exuberance has turned gloomy about tomorrow. Consumers are holding back, businesses are suffering and the economy is barely growing.

There are good reasons for gloom — incomes have declined, many people cannot find jobs, few trust the government to make things better — but as Federal Reserve chairman, Ben S. Bernanke, noted earlier this year, those problems are not sufficient to explain the depth of the funk.

That has led a growing number of economists to argue that the collapse of housing prices, a defining feature of this downturn, is also a critical and underappreciated impediment to recovery. Americans have lost a vast amount of wealth, and they have lost faith in housing as an investment. They lack money, and they lack the confidence that they will have more money tomorrow.

Many say they believe that the bust has permanently changed their financial trajectory.

“People don’t expect their home to regain value, and that’s really led to a change in consumer attitudes about the economy that we’ve just never seen before,” said Richard Curtin, a professor of economics at the University of Michigan who directs its Survey of Consumers. The latest data from the survey, released Friday by Thomson Reuters, shows that expectations for economic growth have fallen to the lowest level since May 1980.

In Orlando, a city that trades in upbeat fantasies, the housing crash has been particularly painful. The total value of area homes has fallen below the total mortgage debt on those homes, according to the real estate analytics firm CoreLogic. In the parlance of the real estate world, Orlando is underwater, a distinction matched by Las Vegas.

“I don’t know that it’s going to get better. We just have to get used to it,” said Sherry DeWeese, whose home in Ocoee, a northwestern suburb of Orlando, is worth less than she paid for it 13 years ago — and about a third of its value at the peak of the market. “It was nothing to buy whatever we wanted. Now we just think about what we really need.”

Economists have only recently devoted serious study to how a decline in housing prices affects consumer spending, not least because this is the first decline in the average price of an American home since [the Great Depression](#). A 2007 review of existing research by the Congressional Budget Office reported that people reduce spending by \$20 to \$70 a year for every \$1,000 decline in the value of their home.

This “wealth effect” is significantly larger for changes in home equity than in the value of other

investments, such as stocks, apparently because people regard changes in housing prices as more likely to endure.

A recent paper by Karl E. Case, an economics professor at Wellesley College, and two co-authors estimated the decline in home prices from 2005 to 2009 caused consumer spending to be \$240 billion lower in 2010 than it otherwise would have been. That figure is equal to about 1.7 percent of annual economic activity, enough to be the difference between the mediocre recent growth and healthy growth. And it does not include all the other effects of the housing crash, including the low level of new home construction, that are also weighing on the economy.

Roy Pugsley, who owns a pool supply store in Winter Garden, another suburb here, said that he made 2,500 fewer sales during the first eight months of 2011 compared with the same period in 2007. That translates to one less person walking through the doors to buy chemicals or toys or spare parts in each hour that the store is open.

Mr. Pugsley said business actually increased in the early days of the [recession](#); customers had told him they were spending more time at home. But now people buy only what they need for maintenance. “People realized that it wasn’t going to get any better, and they stopped spending on their pools, too,” he said.

At Milcarsky’s Appliance Center in the adjacent town of Longwood, business now comes from people remodeling their own homes rather than builders, and customers are picking cheaper models, said Doug Morey, a sales manager.

“People who might have bought that” — he taps a stove with chunky burners, designed to look like it belongs in a restaurant kitchen — “are double-thinking it. Everyone has had to cut back.”

That means Milcarsky’s has cut back too. The company, which employed 26 people three years ago, now has about a dozen workers, and they are making less in salary and commissions.

“I might like to think that I’m middle class, but I’m not. I’m not anymore,” said Rae-Anne Crotty, a customer service manager at the store. She now shops for groceries at discount stores, she said, and buys gifts for her children at Christmas but not on their birthdays.

It remains the prevailing view of economic policy makers that economic activity will eventually return to the same trajectory as before the recession. Mr. Bernanke and others have said that they see no evidence of any permanent change in the economy. Previous bouts of economic pessimism, as in the early 1980s and early 1990s, went away once growth picked up.

But many people in the Orlando area do not share this confidence, at least not when it comes to their own prospects. Instead, like the Markeys, they are settling into lives of less prosperity.

The couple moved to Orlando 12 years ago from central Massachusetts in search of opportunities. The business Mr. Markey created, Stone Giant, grew to include two factories and 60 employees, and it installed granite countertops in up to 15 new kitchens every day.

His new company, Winter Park Granite, now installs two kitchens on the average day. He has eight employees but cannot afford health insurance for them or himself. The family income last year was less than a third of the \$175,000 that he and his wife made in 2007, their last good year.

And he sees little room for growth. He has stopped spending money on advertising.

“We’re never going to get that big again,” he said. “I was someone employing people and taking people to the good life. Now I’m just trying to survive.”



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