EDITORIAL

Why next year may not be as good

The optimist in us wants to believe that 2013 will be a breakout year, the one we've been waiting for since 2009 when the economy first began to climb out of the recession. We keep waiting, but instead of a robust recovery, we have gotten modest GDP growth that has not put a significant dent in the unemployment rate.

There are several positive signs in the economy, most notably the stabilization of housing prices, which has buoyed the banking industry. The Federal Reserve has done everything possible to see to the rebound in housing prices, deploying various easing policies that have helped set lending rates at very attractive levels. But the only factor that will drive growth is hiring, and most companies remain cautious about adding jobs.

The main reason for the caution is government malfeasance. All his rhetoric aside, President Obama has been an uninspiring economic leader, and his failure to grapple with the right-sizing government entitlements, in blatant display this month on the "fiscal cliff" talks, does a remarkable amount of damage to business confidence. Blame the Republicans too, especially for their intransigence on taxes, but the net result of stalemate sends shivers into the economy.

We expect plenty of surprises in 2013, but here are a few other reasons for a less-than-bubbly economy in 2013:

• Tax increases will put a damper on consumer spending and hiring. As of this writing, it's not clear whom will be taxed, but it's obvious that taxes will go up for more than the so-called rich.

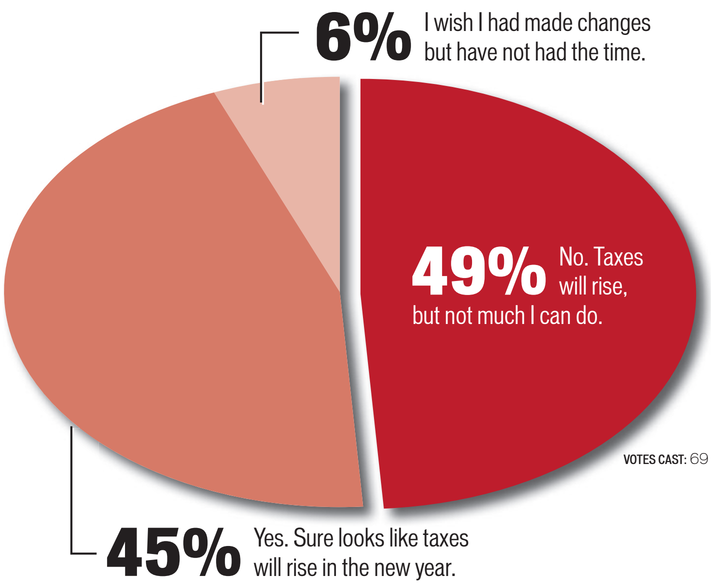
• Housing has stabilized, but will not expand greatly. One reason is the credit market has changed radically since the housing collapse. Both new regulations and banks' wariness about credit worthiness will keep housing creeping forward slowly. And the economy needs more jobs so more people can afford homes.

• Europe's economy will continue to contract. Austerity will sink in further, and many American companies also will feel it.

• 2012 was the year of postponed reckoning. In 2013 will be a reality-check year. Washington will begin to reckon in earnest with government promises that reach far beyond the nation's capacity to pay for them. This necessary process of government deleveraging will impact the economy this year and for years to come.

BUSINESS PULSE

THE QUESTION: Are you adjusting your portfolio due to tax changes?



NEXT WEEK'S QUESTION: Is your business expecting better results in 2013?
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BUSINESS VIEW

No housing-led recovery? No wonder

Edward A. Hjerpe III
President & CEO, The Federal Home Loan Bank of Boston

Regardless of one's political views, it is undeniable that the creation, purchase, and sales of housing have direct effects on the health of our economy. This is the very reason the Federal Home Loan Bank system was created by Congress in 1932 to supply reliable low-cost funding for housing in every business cycle, regardless of the economic or political environment. Housing must be a substantial part of economic recovery, but uncertainty in the mortgage market is inhibiting housing's full potential to be an important stabilizing force in our economy.

More than four years have passed since Fannie Mae and Freddie Mac were put into conservatorship. This was supposed to be an interim move, a "time out" according to then Treasury Secretary Henry Paulson, needed to stabilize the GSEs while their futures were determined. The problem is that we still don't know what the future of the secondary mortgage market will look like.

Further, until the Bureau of Consumer Financial Protection defines what a qualified mortgage, or QM, is, and bank regulators outline what constitutes a qualified residential mortgage, or QRM, mortgage originators will default to elevated underwriting standards, constraining refinancing and new originations. Other unknowns, like the effects of the recently deferred Basel III capital requirements for mortgages, and the future tax-deductibility of mortgage interest, undercut the potential impact housing could have on a lasting economic recovery.

As a consequence, this inaction has led to uncertainty and indecision — the enemies of growth.

A recent study sponsored by the Federal Home Loan Bank of Boston concludes that the creation or preservation of housing has a catalytic, multiplier effect on the regional economies in which it is built. There is the immediate creation of jobs, from architects to carpenters and electricians. Building materials are purchased, such as lumber, concrete, and, yes, even kitchen sinks. And local businesses benefit as workers on the projects spend their hard-earned money in their communities. Later, the housing created boosts local and state revenues when it comes onto the tax rolls.

Recent reports of increased housing starts and improving home prices indicate that the housing market is beginning to recover, but it is nowhere near prerecession levels. We still have 10.8 million homeowners who are underwater with their mortgages, and 1.8 million families in the process of foreclosure. These factors will continue to be a drag on our economy until they are resolved and critical policies regarding the future of housing are finalized.

FEEDBACK

Not too early to teach social entrepreneurship

Karen Mariscal & Helen Rosenfeld
One Hen Inc.

While politicians have been expounding on the importance of education and job creation to the future of our country, volunteers in Boston have actually been doing something about it. Associates and managers at Ernst & Young, one of the world's biggest accounting firms, have been taking time out of their busy days to teach students in two Boston middle schools how to start a business. Using the One Hen curriculum, enrichment curriculum that teaches children about personal financial literacy and how they can become socially responsible entrepreneurs, they have been helping students improve their math skills and learn to give back to their communities.

Helping children to differentiate between what they need and what they want so early in their lives provides them with strong building blocks to enable their actions as wise consumers.

With children developing lifelong spending and saving habits between the ages of 8 and 12, programs like One Hen support their development into savvier consumers by virtue of their hands-on experience starting a business. Students have the opportunity to take risks, manage results and learn from the outcomes.

Joe Markley, a local volunteer with Ernst & Young, says that if we can start teaching kids early about being financially responsible and give them the tools to turn a good idea into a business, we can eventually grow our small businesses in the area, and give the kids more opportunities to excel.

Not only are students learning from business leaders, young people are also being incentivized to stay in school. One recent survey showed that 81 percent of high school dropouts said they would have chosen otherwise, if their education had felt more relevant to real life. Entrepreneurship education has been shown to do just that.

Karen Mariscal is an attorney with White and Williams and a volunteer with One Hen Inc., a nonprofit that provides educators with resources to teach entrepreneurship. **Helen Rosenfeld** is the executive director of One Hen.