How will we know when we've hit bottom?

By Alan Zibel, Christopher Leonard and Tim Paradis
THE ASSOCIATED PRESS

When will this wretched economy bottom out?

The recession is already in its 15th month, making it longer than all but two downturns since World War II. For now, everything seems to be getting worse.

The Associated Press examined three markets — housing, jobs and stocks — and asked experts where things stand and how to know when they've hit bottom.

None of them expects it to come anytime soon.

Housing

■ How bad is it?: The median price of a home sold in the United States fell to $170,300 in January, down 26 percent from a year and a half earlier, according to the National Association of Realtors.

But that figure masks the complexity of the market. Price drops have been far steeper around Phoenix and Las Vegas, where new homes sprouted everywhere during the housing boom, than, say, in Detroit.

And even within a single metro area, price declines vary sharply. Faraway suburbs, where many buyers stretched to qualify for mortgages, have been hit harder than city centers.

■ How much worse could it get?: The Federal Reserve estimates home prices could fall 18 to 29 percent more by the end of 2010. Declines will probably be less severe in cities with healthier economies.

■ Where's the bottom?: Susan Wachter, a professor of real estate at the University of Pennsylvania, is watching the backlog of unsold homes. At January's sales pace, it would take about 9½ months to rid the market of all those properties. A more normal pace would be six months.

Jobs

■ How bad is it?: The U.S. unemployment rate hit 8.1 percent in February, a 25-year peak. The nation has lost 4.4 million jobs since the recession began in late 2007.

The job cuts began early last year, as the housing and construction industries slowed down. The collapse of the financial industry in the fall battered white-collar workers. Soon, layoffs spread across industries and income levels.

■ How much worse could it get? The darkest days for the job market are almost certainly still ahead. With spending weak and credit markets stalled, experts think the economy will probably shed a total of 2.4 million jobs this year. That would mean an unemployment rate above 9 percent.

That would easily surpass the 2001 and 1990-91 recessions but trail the 10.8 percent rate of December 1982.

■ Where's the bottom?: Economist Sophia Koropeckyj, a managing director at Moody's Economy.com, is keeping an eye out for two signs — an inching up in companies hiring temporary workers and a rise in the number of hours worked by those who have managed to keep their part-time and full-time jobs.

When business conditions improve, employers hire temporary workers first, she said, and a pickup in permanent hiring wouldn't be far behind. Koropeckyj estimated that could come in mid-2010.

Stocks

■ How bad is it?: The Dow Jones industrial average and the Standard & Poor's 500 index have lost more than half their value since the stock market peaked in October 2007. It's the worst bear market since the aftermath of the crash of 1929, when the Dow plunged 89 percent and the S&P 500 index tumbled 86 percent.

■ How much worse could it get? Analysts generally think Wall Street has endured the worst of the bear market. But many of those same analysts never thought the market would fall this far.

■ When will the bottom come?: Investors will be looking for turnarounds in housing, lending and employment, plus signs that consumer spending has picked up. But most of all, traders are waiting for a sudden spasm of selling known as capitulation. That wrings fearful investors out of the market, and as they rush out, bargain-hunters rush in.

Many market experts say the bottom could come in the second or third quarter of this year. And the recovery could be as breathtaking as the fall: Since 1932, the S&P 500 has gained an average of 46 percent in the year after stocks hit a bottom.