



The Daily Dish

August 27th Edition

DOUGLAS HOLTZ-EAKIN | AUGUST 27, 2014

Good Morning,

At 10 AM today, the Congressional Budget Office (CBO) will [release](#) a budget update that could frame the fiscal debate leading into midterm elections. The report will include both deficit and economic projections. Previously the CBO had projected a deficit of \$722 billion in fiscal year 2014, much higher than the White House's \$583 billion estimate.

The Nuclear Regulatory Commission (NRC) voted to [lift the ban](#) on issuing nuclear plant licenses. Though no new licenses were issued yesterday, the NRC's vote lifts the 2-year moratorium, opening the door for new facilities and those waiting for action from the commission.

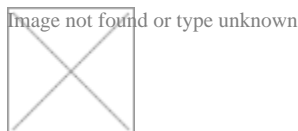
A group of five Medicare [beneficiaries will sue](#) the Obama Administration for delaying their appeals. The suit alleges the administration waited more than the statutory 90-day limit. The Center for Medicare Advocacy, who filed the suit, says that they hope to fix the system for "the Plaintiffs and the thousands of beneficiaries in similar circumstances who are struggling to pay health care bills, or going without needed care while stuck in bureaucratic limbo."

Eakinomics: The Housing Non-Recovery

A key piece of economic news was yesterday's [Case-Shiller Home Price Indices](#) which showed a nationwide deceleration in the rate of home price appreciation. The national average is now rising at a rate of 6.2 percent over the past 12 months. The release generated some hand-wringing about the possibility that the housing recovery might stall, something that has clearly happened in [Phoenix](#) and other metropolitan areas.

But the reality is that housing has never really recovered, which is best displayed by the [chart](#) below, courtesy of AAF housing guru [Andy Winkler](#). The best bottom-line indicator of housing market vitality is the willingness of builders to start new houses. In a typical U.S. experience (the green line), housing starts dip below the pre-recession peak and then quickly rise above the previous peak before the recovery ultimately weakens. Housing is, thus, a key part of the recovery mechanism.

In the Great Recession, the recovery has barely (at best) happened, and there has been no boom. There are lots of candidate explanations for this: demographics, [poor and over-regulation](#), a series of ineffective administration [policies](#) that ultimately are interfering with the natural recovery mechanism, and — most important — the poor quality of the economic recovery in general.



Indeed, one can roughly divide economic forecasts into two camps: those that are housing bulls and thus believe it will drive the U.S. to more rapid growth in the latter half of 2014 and 2015 and those (like me) who believe that housing is structurally damaged and will recover only as fast the the rest of the economy generates the jobs and income growth that have thus far been missing. Since the traditional transmission mechanism for easy Fed policy is having low rates to stimulate housing, the latter group is also typically pessimistic about the Fed's efforts to date and less concerned about pace of normalizing monetary policy.

Alas, yesterday's other news was that [new orders](#) for durable goods jumped a shocking 22.6 percent from June to July — seemingly good news. Unfortunately, the top line was driven by one-time orders for Boeing aircraft. Stripping out the volatile aircraft orders and focusing on non-defense capital goods — core orders that indicate business capital expenditures — showed a decline of 0.5 percent. It was the 2nd decline in the past 3 months. The housing sector will not lead the economy. A weaker globe characterized by geopolitical tensions makes it unlikely exports will drive growth. Governments are not spending at rates suggesting strong growth. And households will spend only so fast as their incomes are growing. That leaves business investment as the key indicator of an upshift in growth, something that seemingly remains to materialize.

What We're Reading

Some HealthCare.gov contractors see contract values rise –report– Three firms involved in the troubled Obamacare website HealthCare.gov have seen their contract values exceed initial estimates by more than a quarter-billion dollars, including the lead IT contractor at the time of the site's botched rollout, government data shows. ([Reuters](#))

TV commercials will be quieter under new FCC rules— The days of television commercials being startlingly louder than the shows people are watching could soon be coming to an end. ([The Hill](#))