



'Recession clearly very close'

Colorado economist, known for her pessimism, accuracy, predicts rebound by end of 2008

By David Milstead, Rocky Mountain News

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Colorado and the national economy will show growth again by the end of next year, but first there'll be a recession, which may already have begun.

Those are the primary predictions of economist Tucker Hart Adams, who made them Tuesday as part of her 30th - and final - economic forecast.

"A recession is clearly very close, if we're not already in the beginning stages of one," Adams said.

Adams, who plans to retire next year as chief economist for U.S. Bank's Rocky Mountain Region, has developed a reputation for pessimistic forecasts. Worried about the overextended consumer and unsustainable house-price gains, she's been calling a recession since the fall of 2005.

The economy kept going a little longer than she thought. Her prediction of 2.1 percent growth in 2007 for the nation's gross domestic product was a more pessimistic view than 49 of 50 economists contributing to the Blue Chip consensus forecast when she made it last September.

Now, she notes, the consensus forecast is 2 percent growth, with 34 of 50 economists more pessimistic than the 2.1 percent number she's sticking to.

"It would be really tacky for me to say, 'I told you so,'" she said archly to a roomful of U.S. Bank customers. "But the year has developed very much like I said it would. Let me just say, 'Remember where you heard it first.' "

Adams predicts 0.5 percent growth in GDP for 2008. That number is low enough to include several months of economic contraction. She puts odds of a mild recession vs. a serious one at 50-50.

"With any luck, by the end of 2008, the worst will be behind us," she said.

Recessions are identified, after they have concluded, by the National Bureau of Economic Research. They need not be two consecutive quarters of negative growth. Instead, a recession occurs when the economy goes from a peak to a trough, as measured by several economic indicators.

The data that bothered Adams before continue trouble her:

Home-sales numbers, whether it be pricing, days on the market, or home starts, are almost universally bad.

A minority of consumers with credit-card balances are paying them each month: "We're rolling the balance over at those wonderful 18 percent to 19 percent rates."

And while the sustained growth in home prices means consumers have "more assets than they've ever had," the proportion of after-tax income used for housing and auto payments is at a record level, she said.

What's different in Colorado? Not much, she said.

On the positive side, Grand Junction and other Western Slope communities are "a whole different world," thanks to natural-gas drilling activity. And eastern Colorado agricultural communities, where corn is king, are booming, thanks to ethanol. And Colorado Springs is benefiting from increased defense spending.

True to form, she points out employment will drop once drilling is done and fewer people are needed simply to operate the wells, and calls current ethanol efforts "hysteria" that are "not a long-term solution to the energy problem."

The bulk of the state's population, she notes, lives in the Denver.

"We have the same overextended consumer as anywhere else," Adams said. "In fact, since we have a younger, more indebted population, we probably have more."

While she doesn't think Denver's housing troubles "will be as bad as long" as previous busts, "I think we'd be foolish to delude ourselves and think there aren't going to be any more problems because we're different from everywhere else."

Adams' forecast of 0.5 percent Colorado employment growth means 11,500 new jobs, well below recent gains of 40,000 to 50,000 jobs a year. That strikes other local economists as, well, too pessimistic.

"There is the expectation that employment growth will be a little lighter in 2008 than it is in 2007, but I don't know if I would necessarily go down to the level she has," said Patty Silverstein of Development Research Partners. "There certainly are concerns, though, with what's going on with the residential housing markets and the dampening effects that may have on employment growth in the region."

Jeff Thredgold, the Salt Lake City-based economist for Vectra Bank, said, "There's no reason not to look to 40,000 to 50,000 jobs, as it has been for the last couple of years."

Thredgold, who has just published a book called *EconAmerica: Why the American Economy is Alive and Well*, said he expects 1 percent to 2 percent GDP growth nationally.

"The judge and jury of everything to me is the stock market," Thredgold said. "The fact you had all this terrible news, and the stock market was still up, it really shows the resilience of the economy."

Predictions more accurate as Colorado recovered

Tucker Hart Adams' worst predictive performance in the past six years came, ironically, when she didn't predict a Colorado recession. The state's 2002 and 2003 troubles - occurring while the national economy was already in a recovery mode - threw Adams and other Colorado forecasters for a loop. To examine Adams' recent track record, the *Rocky Mountain News* went back to 2002 and looked at four key indicators - national growth in gross domestic product, unemployment rate, Colorado job growth and Colorado per capita personal income growth.

Her worst prediction was for 5.8 percent growth in 2002 in Colorado's per-capita personal income growth.

It actually shrank by 0.5 percent, a difference of a whopping 6.3 percentage points. Her forecast for 2.9 percent Colorado job growth in 2002 was off by 4.8 percentage points after it actually shrank by 1.9 percent.

That period also saw big misses by the University of Colorado's Leeds School of Business forecast, compiled by Richard Wobbekind, based on the input of dozens of economists and business leaders.

As time went by and Colorado recovered, Adams' predictions got better year after year.

None of her 2006 projections were more than four-tenths of a percentage point off, with her forecast of 6.2 percent national GDP growth close to the 6.1 percent actual number.

Adams' forecast for 2007 is similarly close, based on her estimates for how the year will turn out. But a possible imminent downturn bears watching: Her forecast of 5.3 percent GDP growth is already well above the estimated 4.5 percent growth this year.

Finance Editor David Milstead can be reached at milstead@RockyMountainNews.com or 303-954-2648.