

Unstable Equilibrium

Dr. Tucker Hart Adams' 2007 U.S. Economic Outlook

Dr. Adams spoke to the Evergreen Area Chamber of Commerce in January, 2007 and presented the group with three concerns.

1. The country has been in an expansion since 2001 that has looked like a recovery, with the exception that during the first part of the recovery we continued to lose jobs. Job growth, however has begun again, but wages and salaries have not grown despite a growth in production and showing of strong profits. The profits are not being passed through to the employee.
2. Debt on a national scale is of concern as always, however at this time it is coupled with the deficit in World Trade which is at 6% - 7%, meaning that we are taking in more goods than we exporting to other countries.
3. Consumer debt is the third area that Dr. Adams sees as an indicator of things to come. Though wages are not increasing, spending continues to increase at record levels. An estimated 15% of after tax money is being spent and the number of "pay day" loans has increased.

The Housing Market manifests the symptoms of an on-coming recession, in that the growth in the number of households is not keeping pace with the number of new houses being built. Speculation has been high and as a result prices are beginning to decline.

Complicating the Housing Market is the "Real Estate Mortgage Frenzy" that has produced a countless number of "exotic" mortgages helping buyers purchase houses that are over their ability to pay. 30% of mortgages nationwide were of an "exotic" nature over the past twelve months, while 70% of mortgages in Florida were labeled "exotic".

We have lost site of certain basic truths:

- 1. We as consumers and as a nation can't spend more money than we make.**
- 2. Bank loans do have to be paid back at some point.**
- 3. Supply does actually govern pricing.**

Dr. Adams sees the signs of a recession, that will begin somewhere towards the end of 2007, in the following evidence. Growth in Gross Domestic Product is half of what it should be, consumer spending over the holidays was disappointing, the housing bubble is deflating, 70% of US companies that have what is called "junk-debt". In other words they do not have assets to offset the debt and OPEC continues to keep oil prices on the incline by slowing production.

Reasons for the Recession

- Nearly half of our publicly held debt is in the hands of foreign investors. If foreign investors choose to invest their money outside the United States, our dollar will be weakened further.
- Rising energy costs are forcing consumers to spend their money on fuel rather than in other areas.
- Homeowners are using the inflated value of their homes as spending capital, spending their equity as fast as it accumulates, then increasing their consumer debt when their equity is used up.

Dr. Adams sees a 75% probability that we will go into a recession at the end of 2007, but only a 40% chance of a "hard landing" similar to the one in 1975. As short term interest rates drop, unemployment will go to 5%, and long term interest rates may rise. As a result consumer spending will decrease and force a recession. She expects Colorado to go the way of the nation, although our job rate continues a slow rate of growth rather than dropping off, and we have wisely slowed our building sooner than other "fast growth" areas.

Some Good News

- Job growth is continuing to increase.
- The rate of unemployment is low.
- There are many companies looking for new workers.
- Hiring projections for Metro-Denver are good.
- Consumer spending has remained steady, so far.
- Interest rates have remained low.

To read the complete US Bank 2007 Economic Forecast go to www.coloradoeconomy.com.