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Economists See Growth In 2010, But Clouds Loom

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A year ago, Jeff Thredgold stood in front of hundreds of Denver businesspeople and said that the recession probably would end in the fourth quarter of 2009.

He was wrong.

“The consensus view of forecasting economists six months ago was that the global economy, which has been in its first recession since just after World War II, would probably stay there until the first quarter, maybe the second quarter, of next year,” said Thredgold, corporate economist for Vectra Bank Colorado, on Wednesday. “Like most forecasts, it was wrong. The global economy has already returned to growth. It came back stronger than expected, it came back sooner than expected, led — no surprise — by Asia.”

Thredgold made his 2010 forecast at Vectra’s 17th annual Economic Forecast Breakfast, held at the Denver Center for the Performing Arts’ Donald R. Seawell Ballroom on Wednesday.

Patricia Silverstein, present of Development Research Partners in Littleton, and George Feiger, CEO of Contango Capital Advisors, also spoke at the event.

The National Bureau of Economic Research, the official arbiter of recessions in the United States, likely will announce by mid-2010 that the U.S. recession — which began in December 2007 — ended during the summer of 2009, Thredgold said.

Colorado lost 90,000 jobs between November 2008 and November 2009, according to the Colorado Department of Labor and Employment. But by mid-2010, it will be experiencing month-to-month gains in employment, Thredgold said.

“Colorado, in my view, will move out of its own recession, as will most of its neighbors, by the latter part of 2010,” Thredgold said.

But there’s a big black cloud on the horizon: debt.

Not just federal government borrowing, although that debt — currently a little more than $12 trillion — is a big and growing problem.

As of June 2009, domestic nonfinancial debt — that’s debt held by the government, households and companies, excluding companies in the financial industry such as banks, stockbrokers and insurers — totaled $34.3 trillion, Feiger said. That’s more than double the United States’ annual gross domestic product, which is currently around $14 trillion.

Beginning in 2012, large amounts of corporate debt taken on during the lending-boom years — 2006 and 2007 — will begin to mature, he said. But companies won’t find it easy or cheap to roll over, because the assets used as collateral are no longer worth as much.

“Essentially, we have to roll $2 trillion of junk debt,” Feiger said. “You cannot roll this debt on the original terms. There’s going to be a lot of distress in the bond markets for the next few years.”

For companies that don’t need to borrow, this won’t matter, Feiger said.

“Companies with strong balance sheets are going to take advantage of growth all over the world,” he said. “You’ve got to distinguish in your investing between companies with strong balance sheets and companies that have to borrow a lot. If you have to borrow a lot, you’ve got a lot of problems.”

Mortgage rates likely will rise over the next six to 12 months, as well, Thredgold said.

“One of the things that has kept mortgage rates low is that the Federal Reserve has been buying about 80 percent of all the mortgage-backed securities being issued,” he said. “They’ve been buying direct Treasury debt and debt issued by Fannie Mae, Freddie Mac and Ginnie Mae in an effort to keep mortgage rates low, as perhaps the easiest way to help stabilize housing markets in this country. They’ve also suggested that this program will end in February.”

Silverstein said that the Denver metro area should experience a stronger economy in 2010 than it did in 2009.

“I’ll be the first to admit that last year at this time, I stood here and said ‘no, no, it won’t be that bad,” said Silverstein, who is also the chief economist for the Metro Denver Economic Development Corp.

The Denver metro area should experience economic growth in 2010, although the unemployment rate will continue to rise, to an estimated 8.2 percent in 2010 from an estimated 7.3 percent in 2009, Silverstein said.

That’s partly because people who have dropped out of the labor force during the recession are likely to re-enter it once hiring opportunities improve.

Meanwhile, Colorado personal income will grow in 2010, after dropping in 2009, according to Silverstein's forecast. Metro Denver existing home sales, which dropped to 42,070 in 2009, likely will rise to 45,900 in 2010 — a definite improvement, although still well below the 54,012 homes sold in 2004. Foreclosures likely will stabilize at slightly below 2009 levels, while median Denver home prices will rise slightly, to $222,500 in 2010 from an estimated $217,100 in 2009, she said.

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Companies: Vectra Bank Colorado, Denver Center for the Performing Arts, Development Research Partners, Contango Capital Advisors, National Bureau of Economic Research, Colorado Department of Labor and Employment, Metro Denver Economic Development Corp., Federal Reserve, Fannie Mae, Freddie Mac, Ginnie Mae

People: Patricia Silverstein, Jeff Thredgold, George Feiger