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Fed's Snead: It's 'Groundhog Day' for U.S. economy in 2012

Denver Business Journal by Heather Draper, Reporter

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If it sounds like we've been here before with the economy, it's because we have.

So says Mark Snead, branch executive and economist for the **Federal Reserve Bank of Kansas City**'s Denver Branch.

"It's like that cinematic classic ... Groundhog Day," Snead told the audience Wednesday at the 19th annual VectraBank Colorado annual economic forecast breakfast. "We've been here before."

In other words, expect more slow, steady economic growth in 2012.

Since the Great Recession officially ended in 2009, the U.S. has averaged about 2.5 percent GDP (gross domestic product) growth a year, he said. For 2012, the Fed is forecasting 2 percent to 2.5 percent growth.

Snead said the U.S. didn't get the "bounce" it normally gets when it comes out of a recession, which has meant a slow recovery process.

"We need the surge. We had no surge," he said.

Snead believes the Fed's aggressive monetary policy actions since 2008 saved the U.S. economy from falling off a cliff.

“I don’t think there’s anyway in the world we would have maintained a fairly steady growth rate without those interventions,” he said.

Snead forecasts the nation’s tepid economic growth will probably continue through 2015.

“There’s no way real Fed spending will increase through 2015, so that will act as a drag on GDP growth,” he said. “State and local governments are still trimming payrolls, so spending will remain soft.”

The same holds true for metro Denver, which will see small gains in job growth and a slight drop in the unemployment rate in 2012, said Patty Silverstein, president of Littleton-based Development Research Partners.

She forecast Denver’s unemployment rate in 2012 will average 8.1 percent, on a non-seasonally adjusted basis, compared with a national rate of 8.6 percent.

Metro Denver retail will get only a 1.3 percent lift this year, as consumers remain frugal, Silverstein said.

“We’re moving forward; we’re spending more money,” Silverstein said. “But inflation is taking more of a bite out of our spending.”

Existing home sales in the metro area will rise by about 1.5 percent this year — about the same rate that they did in 2011, Silverstein said. The median home price in Denver, which rose 1 percent in 2011, will increase by 3 percent in 2012, she said.

The only segment in the construction industry in metro Denver that will likely see good growth in 2012 will be multifamily housing, Silverstein said.

The best areas for job growth in Colorado in 2012 will be in the clean-tech, health care, energy and aerospace sectors, she said.

Globally, market volatility will continue, the European debt crisis will get worse and emerging markets will continue to grow, but sporadically, said George Feiger, CEO of San Francisco-based Contango Capital Advisors.

“We’ve seen four years of incredible volatility,” Feiger said. “You’ll continue to be seeing that for the next few years.”

Because the U.S. is “drowning in debt,” it will see “very little real economic growth” in coming years, he said. The euro zone is in recession and is experiencing an “exploding government debt crisis.”

Germany holds the key to economic recovery in Europe, but it will have to sacrifice its own economic success to buoy some of the struggling nations in the euro zone, Feiger said.

“While the Germans went to night school and increased their productivity, the Greeks went to the beach and drank ouzo,” Feiger said. “And they borrowed money from the government to buy the ouzo.”

The future for emerging markets is more promising, he said, but rampant corruption, China’s excessive export dependence and inadequate infrastructure investment in places like India, Indonesia, Brazil and Turkey will create “bumps in the road” in those markets.

“The U.S. is the least bad place to be for the next few years,” Feiger said.

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