

Experts point out weak links in economy

Speakers expect growth to apply brakes next year

By David Flaum

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When Bruce Scherr drives by the Starbucks on Poplar near Interstate 240 each day, he sees the world economy in action.

Fifteen to 20 drivers wait in line, burning \$3.25 a gallon gasoline as they wait to buy \$4.50 lattes.

"Our extensive wealth is being used to fuel the extraordinary growth of other countries using that money to build their infrastructure," Scherr, chairman and chief executive officer of Informa Economics of Memphis, told members of the Economic Club of Memphis Thursday.

Both he and Michael Pakko, research officer and economist for the Federal Reserve Bank of St. Louis, painted pictures of an economic growth slowdown next year and in 2009.

"We have globalized business," Scherr said.

Growth in China, India and Latin America will be robust next year, he said.

"The weakest link in the block is us," Scherr said, showing a slide that include Informa's forecast of a 1.9 percent increase in the nation's gross domestic product next year. "We're in for a soft landing (not a recession).

"Employment numbers are not declining. Maybe most of the people (losing jobs) in the housing sectors are not part of the numbers," Scherr said, referring to the large numbers of undocumented aliens believed to work in construction jobs who aren't officially counted in the ranks of the working or the jobless.

The national economy is "highly vulnerable to any accidents" -- unexpected events -- Scherr said.

One reason: Informa projects consumer spending to grow 2.1 percent next year and 2.4 percent in 2009. When that figure is less than 2.5 percent "the economy is on shaky ground," Scherr said.

The ground under the housing market, the big concern for most economists these days, won't be stable for a while either, he said.

"It will take one to three years to work out of this bubble that has been burst," Scherr said.

Memphis is not at the center of that blast, Pakko said.

From 2001 to 2006, home prices rose 4 to 6 percent a year in the area and "that really hasn't changed much," he said.

Although area home prices dropped 0.3 percent in the last quarter, they're still 3.4 percent higher than a year ago, Pakko said.

While residential building permits are down 21.8 percent through October from 2006 levels -- 28.5 percent for single family homes, the overall number is below the 24.5 percent national average, he said.

Memphis also depends less on the slowing manufacturing sector than other cities, Pakko said. Trade, transportation and utilities account for 27 percent of metro area jobs.

While manufacturing employment has dropped 2 percent this year, education and healthcare, up 4 percent and leisure and hospitality, ahead 5 percent, has more than made up for that, Pakko said.

While the Fed doesn't make local forecasts, Pakko said after the session that national trends will be reflected in the Memphis area.

"The overall slowdown will affect transportation and distribution," also major job sources, he said.

"Services don't show as much volatility over business cycles and manufacturing and goods production," Pakko said. "They buffer us against sharper downturns."

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