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# Recession? Nah, many say

**Tuesday's market drop was expected and isn't a sign of a downturn, economists say.**

By MOLLY HENNESSY-FISKE and LISA GIRION
*Times Staff Writers*

WASHINGTON — The dreaded R-word — recession — is back in play, contributing to Tuesday's stock market plunge.

But is recession a real possibility?

Many analysts say recession is unlikely this year, that Tuesday's market sell-off was long anticipated and would be short-lived as the economy rebounds from a housing slump. Also helping the economy are renewed consumer and business spending, a strong but not overheated labor market and possible intervention by the Federal Reserve, analysts say.

"The economy is percolating along pretty well except for the housing sector," said Edward Leamer, director of the UCLA Anderson Forecast, adding, "We don't see anything in the data that we monitor that suggests the economy is having any real trouble."

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Stanford University economist John Taylor said that Tuesday's stock market drop might restore some volatility to what has been an unusually stable stock market, but that it was not a reflection of economic troubles.

"If you look at the overall economy, both U.S. and global, you see continued growth," Taylor said.

Former Federal Reserve Chairman Alan Greenspan brought the R-word back Monday, suggesting a recession could come by year's end. And recent data, including a surprisingly weak durable-goods report Tuesday, suggest the economy has not rebounded as strongly as some analysts had expected.

Nouriel Roubini, chairman of

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# Market drop not a sign of the dreaded R-word, economists say

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Roubini Global Economics in New York and a professor of economics at New York University, had predicted a recession to begin in the first or second quarter of this year and said Tuesday's market downturn provided more evidence of impending trouble. The government today is also expected to sharply lower its estimate for growth in last year's fourth quarter, down to 2.5% from 3.5% last month.

"We have lousy economic news," said Roubini, a former White House and Treasury Department economist. "It's just the beginning of much worse things to come."

With the recovery now 5 years old — long in the tooth by most economic standards — such warnings are not easily dismissed. But other analysts drew a distinction Tuesday between the slow growth they're seeing and conditions that could tip the economy into recession.

"Recession is becoming in my opinion a rather rare event, because the government has learned to manage the economy better," said Keitaro Matsuda, senior economist at Union Bank of California in San Francisco.

Matsuda said he didn't see the economy slipping into negative growth "any time soon."

"We don't see that happening in our forecast," said Kenneth Beauchemin, U.S. economist with Global Insight in Lexington, Mass. "Productivity growth has slowed down, but it hasn't been terrible and we expect it to pick up again. And there's still some slack in labor markets."

Beauchemin said that although unemployment remained a low 4.6% nationally, employers had been posting openings more slowly.

And Tuesday's data showed signs that the housing slump might be ending. The National Assn. of Realtors reported that sales of previously owned homes rose 3% since January, the largest gain in two years.

Beauchemin expects growth to post a "decent" 3% this year.

A recent decline in interest rates, helped by Tuesday's sharp bond market rally, raises another possibility: that the Fed might come to the slowing economy's rescue and cut rates. Concerns about possible blowups in the sub-prime mortgage market also could encourage the Fed to cut rates after pausing last summer in its two-year campaign of raising interest rates to fight inflation.

"There's going to be more and more talk about the economy being weak and the prospects for the Fed lowering interest rates," said Ed Yardeni, president of Yardeni Research in New York.

Yardeni said recession talk "has been brewing" among analysts this year, and Greenspan simply brought it to the fore, catching markets by surprise. Yardeni expects the government to report today that fourth-quarter growth fell to 2% but said it would rebound to 3% by year's end as consumers continue to spend, making a recession "not possible" this year.

Consumer confidence rose to a 5½-year high this month, with the Conference Board's index up to 112.5 from 110.2 in January.

"My view is, so far the economy continues to demonstrate that it's remarkably resilient," Yardeni said.

Although the Commerce Department reported Tuesday that new orders for durable goods fell by 7.8% in January after a December gain of 2.8%, Yardeni called the data "volatile" — not enough to stake a recession on.

Businesses have been dialing back spending, attempting to sell existing inventories, said Bernard Baumohl, managing director of Economic Outlook Group in Princeton Junction, N.J.

"That is not necessarily an indication that the economy is in trouble," Baumohl said.

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