

## **Business Bullet ~ Business & Economic Predictions for 2009**

At the start of every new year, as a business woman, I have always looked at the subject matter of economics as confusing, intimidating and boring. But then, as a business woman, I need to keep a close eye on economic, financial and political events, so that I can determine how they will be affecting me, both personally and professionally. The last few weeks, there have been many who have begun sharing their predictions for 2009, from psychics to economists to major business magazines. So, as a small business person, we share the common bond of trying to whittle these down to palatable, manageable meals. This is a good opportunity for me to share my thoughts with you, and it's okay if you disagree. This is simply my take.

Back in October, I joined the rest of the 59% of Americans who began to sincerely believe another 1930s-style depression may be very likely. Interesting polls show that 55% respondents to a CNN poll expressed that the dismal science of the falling economy would feel the effect, while in a separate poll for Conde Nast Portfolio showed that people working in the financial business were even gloomier with 77% of them felt their industry was in a state of crisis, with 50% of them expressing that the economy was becoming the worse they had experienced in their entire careers. And, so I joined these statistics, as did Joe the Plumber, feeling a bit queasy as the year was coming to an end.

And I feel that the consensus of opinion of most professional economic forecasters who predict a moderate recession that will last until the middle of 2009, is overly optimistic. I am, by nature, an optimistic person, but I do recognize that there are several parallels with the 1930s that still worry me, even if the sage Jim Cramer says that another Great Depression is now 'off the table.' We should definitely pay much attention to the continuing threat of international contagion. The September financial earthquake spread quickly beyond our borders to such places as Iceland and Ireland, leaving much damage. We are still seeing the aftereffects in South America, European countries like Hungary, and South Korea, just to name a few. The parallel there? The collapse of the Viennese bank Creditanstalt in the spring of 1931 left a wave of instability that culminated in the decline of the gold standard, and we feel such fragility in the international monetary system today. Another big financial collapse in Europe or Asia could well generate more carnage on Wall Street. Even if this doesn't happen, as economic weakness spreads around the world, American exports suffer.

Similarly to the 1930s, once the recent collapse in commodity prices makes its way through the system, a real danger of deflation could emerge, significant enough to greatly slow a recovery. The threat of oil prices increasing again as OPEC scrambles to rein in production, always exists. Consumer price inflation fell while unemployment rose, and wages and prices will be trimmed in many parts of the economy, which will all add to the incipient deflation.

The federal funds interest rate reached a reduction to 1 percent, which means it can't be cut much farther. That means that other, more drastic means of stimulating demand have to be used, such as introducing a tax cut and financing it by printing money. The very prospect of this could well spark a run on the dollar, which would force the authorities to reverse course.

OK, now that I am depressing you, let's talk a few specifics and see if we can find a positive somewhere:

**New President Obama ~** He has been admired for the role model he projects. Which means, of course, that it will be humanly Impossible for him to live up to it. But, we do have hopes that he will continue to surround himself with others who are strong and who will provide him thought-provoking contrasting ideas and solutions, giving him alternative solutions. And we hope he picks the right ones.

**Government Stimulus ~** The \$700 billion TARP (Troubled Asset Relief Program) has joined trillions of dollars of other economic stimulus and financial market support programs viewed as necessary. While much of this money will ultimately be returned to the taxpayer (we hope), a good share will ultimately burden the future generations with a higher level of national debt.

**The Big 3 ~** I have no doubt that General Motors, Chrysler and Ford will likely be permanent fixtures in the nation's capital, hands frequently extended for bailout funds from the more supportive Obama Administration. While, yes, they probably will begin to trim costs, automotive parts suppliers and sales distribution network members will cross their collective fingers for such continuing financial support. Another key to the nature of the Obama Administration is the potential of their liberal support for the United Auto Workers. With the average wage as 68% higher than the average U.S. manufacturing worker, will they continue to fudge on prior suggestions of wage givebacks? Probably.

(Continued on next page)

**The War Zones** ~ The Middle East continues to be a hot bed of revolt. The volatile region around the Gaza Strip involving Israel and Hamas will no doubt mean more loss of life and human misery to come. This was is not new, just a continuation of the centuries old enemies in this volatile region. The revolutionary road in Iran is likely to change as oil revenue plunges. I fear that more war will continue as 2009 continues.

**The American Economy** ~ The worst American economy in decades will remain in place in coming months. The deleveraging of the enormous financial 'house of cards' built up in recent years has been extremely painful, and more pain is coming. But, modest U.S. economic growth will return, most likely later in the year. The spirit of the average American is not easily broken, and we are a spoiled, pampered lot, who will follow up the worst Holiday shopping season in the last decade with an upswing in spending. We can't help ourselves. Hopefully, the stores and malls will rise from these ghostly appearances to achieve reasonable sales again. And tapped out consumers will look to advocates in Congress for protection as they attempt to increase their credit card spending and keep their mortgages.

**Look to 2009 with these expectations:**

- Further mass layoffs, to where the unemployment rate could reach the double digits.
- Workers will need to be creative about job opportunities, looking to their more entrepreneurial faces.
- Young people will spur the growth of graduate school applications, taking shelter in the walls of higher education.
- A large increase in the number of outsourcing contracts. A mix of large, midsize and small businesses will look to use the cost-saving measure of outsourcing in an uncertain economy.

Many thanks to John Cassidy, Jeff Thredgold, Matthew Bandyk, and the staff of Business Week for their insights.

