

History provides clues to economic recovery



Jerry Merola

*One man's
predictions for
the balance of 2011
and beyond.*

I've always wondered about fortunetellers. The mere concept of predicting one's future seems a trifle over-the-top if you ask me. I live a life of facts and figures, often generating conclusions that have been entirely based upon a string of previous occurrences.

So it would be somewhat unusual for someone like me to go out on a limb with a set of predictions for our respective economic well-being. In this case, however, the road ahead looks pretty clear, barring of course the uncertainty that war and political unrest can unleash on society. Here are my assessments of the year ahead.

THE GENERAL ECONOMY

There's little question in the minds of financial analysts that the U.S. has now officially passed the "trough" or bottom of our current recessionary period. In fact, I'm not sure that we're even in a recession anymore. Continued growth in factory orders, bolstering sales of consumer durable goods, monthly declines in unemployment, and a rising consumer perception of their general financial stability all lay claim to an economic engine that's gaining momentum.

The trouble is, not everyone is feeling the return to greatness. The southeast in West Coast corridors is still digging out from an economy and job market that went into standstill mode, while the Rust Belt continues to struggle to regain its prominence as the country's manufacturing epicenter. But there is some good news out there.

For starters, the banking industry has stabilized, with many of the smaller players consumed (at the request of the FDIC) by the more established and better-capitalized organizations.

The federal government is coming

up a winner as well, achieving unprecedented investment returns on its "mayday" loans to General Motors, Chrysler, and AIG. Even the real estate markets are stabilizing now that price points have moved in line with purchasers' risk tolerances.

So what happens next? Well, if history repeats itself, the U.S. will begin what may prove to be a seven to 10-year run of measurable growth. Could this really be possible? A quick review of the recessions of 1973 and 1991 reveal similar paths to our 2009 recessionary period.

You may ask why I haven't considered the 2002 recession in this discussion. The 2002 event has proven to be more of a minor economic disturbance than a bonafide recession; in fact, half of the nation never realized that the country's financial metrics had gone negative.

Given the severity of our most recent recession and the damage done to both the commercial and consumer sectors of our society, it's very likely that the "climb out" will be relatively long but the resulting prosperity will be assured.

How long will it take for consumers to feel good about the world around them? Probably another year. By mid 2012, unemployment should be comfortably below nine percent and the real estate bubble will have begun to heal.

There will even be unexpected changes in global strategies that will bolster America's employment and infrastructure. The devastating earthquake and tsunami that leveled sections

of North Japan may prove to shift production of goods into the U.S.

Nissan Motor Corp. and Toyota Motor Co., the two largest manufacturers of automobiles in Japan, are already looking to shift as many as one million units of annual production to the U.S. in an effort to allow Japanese resources to be dedicated to rebuilding the country. Increased manufacturing means new American jobs and new jobs translate into greater spending power for the American consumer.

REAL ESTATE: OUR MAJOR WEALTH ASSET

Most folks agree that the dream of American home ownership got a bit over-subscribed in the last decade. The access to easy financing caused remarkable growth trends in many markets throughout the country, which in turn led to the wholesale growth of both construction and related trades.

In a seven-year period, the average value of an American home appreciated at a rate far above any historical barometer ever achieved. To some, real estate was capable of eclipsing the stock market as a method to build short-term wealth.

As we stand today, most of us look at real estate in a completely different way. For some, the devaluation of real estate has resulted in a paper loss, a reduction of perceived wealth.

For others, however, the decline in real estate values has inflicted personal damage and financial hardship, from which there is no easy remedy. For these Americans, the climb toward prosperity will be much longer, as the burden of debt will remain well into the next decade.

For the average American, the stability of the "wealth asset" will go a long way toward personal economic recovery. This is beginning to occur in many markets now that the lending community has begun to loosen its hold on the money supply.

In addition, the gap between true value and perceived value has begun to close, with buyers and sellers acknowl-



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edging the new normal in housing prices. As the job market returns, the savior in this whole process will be the next generation of newly-minted adults, each of which will possess a strong desire for housing and a reasonable ability to pay for it.

My prediction is that America's real estate conundrum will resolve itself in much the same way as the 1991 recession did. Commercial real estate rents will continue to fall to the point where manufacturers and retailers can make a solid business case for expansion.

Residential real estate will follow a similar path, with values falling to a point at which consumers can afford to purchase properties and homes within the confines of more restrictive underwriting guidelines. Even the construction industry will benefit, as the now-employed consumer will begin to improve their properties once again and seek more luxuries within their lifestyle.

AND NOW, THE BAD NEWS

So everything seems to be moving along according to plan. Except for the curve balls. Political unrest in various parts of the world, stressed natural resources, troubling levels of national debt, and erosion of the middle class all have the potential to throw the ship off course. In the past four years, the U.S. has gone to war with at least four different countries and amassed an unprecedented volume of debt doing it.

With more than a trillion dollars in I-owe-you's, the burden on American consumers in future years will be daunting. Somehow our society needs to find a way to live within our means, and take a stand on preserving the country's fortunes for future generations.

We also need to solve our insatiable desire for consumption and use of natural resources, as an escalation of living costs will hamper economic recovery. And finally, everyone needs to be contributing to the cause, most notably as taxpayers. Between corporate tax loopholes and tax breaks for the wealthy, the middle class is picking up a larger share of the pie than it can reasonably support.

My prediction? We'll get through these issues as well. There are already signs of reform within state governments and a clearer expectation by consumers that unnecessary spending is no longer in fashion. We'll balance our budget by trimming the fat, and we'll establish technologies to reduce our dependence on natural resources. I'm excited about the next ten years, as our society has the potential to remake itself, keeping in mind the lessons of our recent past. This time around, let's be sure to stay on solid ground. ▲

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