



# ECONOMIC FORECAST 2010: READY FOR A REBOUND?

BY PHILLIP M. PERRY

Fair, with gradually clearing skies. That's the forecast for the 2010 economy from one business observer. And after the stormiest year in anyone's memory, who can deny that a dose of even partial sunshine sounds pretty good? Maybe 2009 was tough, but as a business survivor, you can congratulate yourself on your hardiness and take steps to capitalize on a rebound. "The weak have given up and the biggest have been humbled," says Bob Phibbs, a retail consultant based in Coxsackie, New York ([www.retaildoc.com](http://www.retaildoc.com)). "It's a new game for everyone."

## ECONOMY EXITS RECESSION

The best news is that some key economic data now signal a broad move to positive territory. “The recession has ended and we are looking at a modest recovery in 2010,” says Sophia Koropecy, managing director of industry economics at Moody’s Economy.com, a research firm based in West Chester, Pennsylvania.

Economic health depends largely on trends in the Gross Domestic Product (GDP), the yearly total of all goods and services produced in the United States. GDP for 2010 is expected to rise at a modest 2.0 percent, according to Economy.com. That figure represents a rebound from the 2.5 percent decline expected when figures for 2009 are finally tallied. To put these numbers in context, the annual GDP increase for an economy in average growth mode is 2.5 percent.

While the GDP number for 2009 was pretty miserable, Koropecy notes that the economy actually enjoyed 3.0 percent growth in the last six months of the year. “The rebound has been entirely due to the federal stimulus money,” she says, citing a number of programs such as aid to state and local governments, first-time homeowner tax credits, “cash for clunkers,” a decrease in payroll tax deductions and the extension of unemployment benefits. “All these programs have kept a floor under the economy and spurred some consumer spending.”

Indeed, the federal programs have been so important that Koropecy says there is a real risk of a return of recessionary trends if the programs are allowed to expire. “That possibility could be forestalled by extensions of a number of these programs—and we believe that will very likely occur.”

Federal stimulus money should support a strengthening economy in the first half of 2010. As for the second half, Koropecy expects further economic strengthening from a rebound in the private sector.

## SHOPPERS HOLD BACK

Retailers are rightly concerned with low consumer confidence levels. “Most measures of consumer confidence are still very low,” says Scott Hoyt, senior director of consumer economics at Economy.com. No secret why: stubbornly high unemployment and a moribund housing market are key de-motivators.

Unemployment, now hovering around 10 percent, is expected to increase. “We expect unemployment to peak at 10.3 percent by the middle of 2010 and will end next year no lower than about 10 percent,” Koropecy says. “Peak-to-trough employment will decline by about 8.5 million, by mid-to late 2010. We do not expect a recovery in employment un-

til 2013. Because of this, the industries most dependent on consumer spending, such as retailers, will be the ones that recover the latest.”

Although layoffs are moderating significantly, it will take awhile for consumers to get back on board. “At least through the first half of the year, consumers will be asking ‘Where will the money come from to spend?’” Hoyt says. “People are still paying down their debt and there are no capital gains to realize. Interest rates are low and dividends are not increasing.”

While that’s enough to put a significant drag on things, there is rosier news in the housing area. “Housing prices

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are expected to keep falling for another few quarters, but the market in terms of construction and sales is close to bottoming out,” Koropecy says. “Sales have inched up in large measure because of improved affordability and the sales of foreclosed homes at deep discounts.”

## BUSINESS REMAINS CAUTIOUS

Burned by the rapid expansion and subsequent crash of the past few years, retailers remain cautious of the future and careful about taking on risk. “I think everyone feels they are battling back, but the war is still on,” says Walter Simson, principal of Vantor LLC, a New York-based management consultancy ([www.vantorllc.com](http://www.vantorllc.com)).

For retailers large and small, credit remains a key problem. “People are breathing sighs of relief that banking seems to be stabilized, but not enough credit is yet being given to small- and medium-sized enterprises,” Simson says. Those businesses were often dependent on smaller finance firms that have been closed or merged with other companies, disrupting established credit channels. And there is a new focus on quality in loan portfolios. “Some things that banks used to let slide are now large areas of concern,” Simson says. “A lot of this stems from regulatory pressures.”

Even credit card financing is problematic. “Many small businesses fund their operations on their credit cards and that can pose problems as fees are increasing,” says Marilyn J. Holt, a Seattle-based management consultant. “Even a small increase can have serious impact on your bottom

line. So you either have to raise your prices or accept smaller profit margins.”

In many cases, credit card companies are lowering credit limits and beefing up bills with surprise charges. “If you use credit cards in your business, watch your bills for new fees and look for changes in payment due dates,” Holt says. “Card companies can slip them back and that can spark big increases in interest rates.”

#### LOOKING AHEAD

As we go into the first few months of 2010, watch for trends in consumer and business confidence. Both measures will be key factors in the pace of rebound.

“Consumers are still quite skittish,” Koropecykj says. “The real risk to the rebound is from the labor market. A lot of people have been unemployed a long time and that creates a big weight on the economy. Also, the longer people are out of work, the tougher it is to get reabsorbed into the market. Their skills deteriorate and employers are hesitant to hire people who have been without work for a long time.

“For their part, businesses are no longer cutting back on equipment and software purchases, but they are not expanding either,” she adds. “They have already begun to reduce the rate at which they lay off workers, but they will not start hiring people until they see the economy has already embarked on a recovery. That should start to be apparent sometime in 2010.”

#### POSITION FOR PROFIT

So how can you position yourself for the rebound? Keep an eagle eye on your stockpile of merchandise, for starters. “Watch your inventory levels as you always should,” says Jim Dion, president of Dionco Inc., a Chicago-based retail consulting firm. “Be cautious with your levels, but don’t create a self-fulfilling prophecy by buying too little. Retailers went into the Christmas season lean and that was smart. But then the question becomes, how will they treat the spring of 2010? That will be the real question.”

Second, take a fresh look at your market and introduce new programs that excite the customer. “More than ever, the tightening up of consumers and businesses have caused everyone to look at value,” says Shep Hyken, a St. Louis-based management consultant. “What we need to do more than anything is break out of the commodity trap. Be a partner to your

customers and be more concerned with their success than making a quick dollar in a transaction.”

Take steps to become more visible, Hyken adds. That can mean providing content customers don’t have to buy. “Keep asking yourself, ‘What can I give away to get noticed?’ That may be a newsletter with helpful tips or a Web-based seminar with audio.”

In the next two or three months we will be getting a more solid feel for how 2010 will shape up. “I think we’ll know by no later than March the trajectory of the recovery,” Dion says. And his forecast? “I think people will be surprised by how fast the recovery comes in 2010.” Why? “Three words: ‘Pent-up demand.’” ✱

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#### RENT-TO-OWN AND THE 2010 ECONOMY

“I think the rent-to-own industry has held up very well, particularly compared to high-end retailers,” says Reed Allton, executive vice president at Dallas-based Texas Capital Bank, one of rent-to-own’s primary money lenders. Allton keeps a close eye on the financial aspects of the industry. “The founders of the bank have a lot of knowledge about the rent-to-own business and we’ve been actively lending to RTO since the bank started 10 years ago,” Allton says. “We probably have close to 50 different rental dealers that we work with.

“This is a good time for the industry,” Allton continues. “Credit card issuers are reducing limits on their services and finance companies and banks that purchase retail installment contracts are much less active now. That creates opportunity for rent-to-own.”

As for the economy as a whole, Allton says, “Well, this is just a guess, but I think the economy is going to continue to be very soft. Technically, we may be out of a recession in 2010, but I think it’s going to be a slow recovery. Until the home-building business improves, real estate values start to firm up and unemployment comes down, conditions will remain soft.”

Allton acknowledges that, good economy or bad, “it’s very difficult to find start-up financing for rent-to-own. Most banks shy away from the business entirely. A few businesses have found success getting SBA loans. The best way [to start up or expand a rent-to-own business] is to have your own cash equity, but that takes \$250,000–\$500,000 cash, which most people don’t have.” For those eager to start up or expand a rent-to-own business, Allton recommends considering franchise opportunities and/or finding a lender who knows the industry. “When a dealer outgrows his local bank and is looking for a bigger line of credit,” Allton says, “hopefully, we’re able to step in and fill that need.”

While betting on 2010’s economic recovery is a bit of a gamble, Allton feels that rent-to-own will continue to carve out a piece of the market. “I’m a big fan of the rent-to-own transaction,” Allton concludes. “Unlike a sub-prime mortgage, rent-to-own is very easy to understand. It’s flexible and easy to manage. It fits the lifestyle of many consumers—and rent-to-own never resulted in a foreclosure or a bankruptcy.” —NF