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Catching a Falling Knife or Managing a Hockey Stick?

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The TMA kicked off the 2008/2009 Breakfast Forum program year on September 19 with a macroeconomic panel discussion called "Catching a Falling Knife or Managing a Hockey Stick? Assessment & Forecast of the Economy, Capital Markets, Politics and Corporate Restructurings for the Rest of 2008 and Entering 2009."

After a summer of capital market and economic turmoil with gas at $4 per gallon, gold around $1,000 per ounce, dropping home values, and absolute chaos in the mortgage market, this macroeconomic discussion could not have been more timely. In fact, the week before this forum presentation, Lehman Brothers filed what is the largest Chapter 11 proceeding in U.S. history and AIG was saved from a similarly complex mega-Chapter 11 filing with a bailout by the federal government. The stage truly was set for a "lively" roundtable discussion.

The panel included Dr. Donald Haider, professor at Northwestern University Kellogg School of Management, former Chicago Republican mayoral candidate, current vice chairman of the Illinois McCain Finance Committee, and Ford administration insider; Ken Tallering, senior managing director of the Industrial Opportunity Fund, a private equity firm serving underperforming companies; James Paulson, the chief investment strategist and economist for Wells Capital Management; and Gail MarksJarvis, the lead economic columnist for the *Chicago Tribune*. "Our own" professor James Shein of Northwestern University Kellogg School of Management and former president of TMA served as the panel's moderator.

It is noteworthy that the panel discussion occurred before JPMorganChase's takeover of Washington Mutual Bank, the proposed takeover of Wachovia by Citigroup, and the $700 billion federal bailout of, effectively, the U.S. banking system. Anyone attending this event certainly walked away with a great analysis of the topics being discussed and of course, a few nuggets of interesting insights.

Despite being a staunch Republican, Professor Haider remained nonpartisan. He talked about the federal budget and the transition to a new administration by describing the incoming administration as 400 new managers/team members who had never worked with one another, coming to Washington, and having to immediately come together to bring a complete federal budget to Congress. Haider's punch line was that no one should expect this new team/administration to initially be as effective or efficient as the current working team/administration. He led us to the expectation that the impact to the federal budget in the first year will, on a practical basis, be minimal, regardless of which candidate wins the election.

Haider also noted that there would be a significant impact on the economy due to continued difficulties in the ability of various state and local governments to address serious economic and financial concerns. His thought was that the tightening purse strings in local areas would have an enormous impact on the overall economy, causing any recovery to drag. Haider suggested a second stimulus package might be effective in speeding an overall economic recovery.

Ken Tallering was asked whether American manufacturing was dead. Tallering responded that manufacturing was far from dead and was, in fact, reaching a balance. He suggested that because employees' rights and working conditions were improving overseas, this reality would increase the cost of foreign goods, thereby bolstering American manufacturing. In his discussion of the economy, Tallering described the reality of the credit crunch using an anecdote. He said that only a few years ago one could go to five banks and obtain loans from each entity. However, in today's market, borrowers likely now must approach 35 different banks in order to find those same deals.

The two economists on the panel, Paulson and MarksJarvis, had two very different and conflicting points of view on the economy and market issues. MarksJarvis strongly felt that the economy would be in an extended recession filled with economic turbulence due to commodity inflation, the consumer and home debt problem, and the ensuing credit crunch. She maintained that consumers were having difficult times obtaining credit–and those were people with solid credit ratings and a 750 FICO score.

On the other hand, Paulson felt that the slowed growth would be offset by an increased savings rate, lowered debt among consumers and the deleveraging of America. Despite MarksJarvis' claim regarding the consumer credit crunch, Paulson noted that the number of bank loans were at their highest point all year and the number was continuing to grow, albeit at a slower pace. Paulson said that the growing number of loans included real estate loans.

While MarksJarvis and Paulson had differing points of view, it is possible that both were correct. Paulson seemed to gloss over the current problems and turbulence and focused on his long term expectation that the consumer will de-leverage and the savings rate will increase. However, he focused only on "long term," approximately 10 years down the road, and downplayed the current economic turmoil. MarksJarvis, on the other hand, focused her points on the current problems and their impact on growth, the consumer and the overall economy.

Shein did a great job keeping the panel on target and on topic! Thank you to all of our panelists for a wonderful, lively discussion of the many issues currently in the front of virtually all of our members' minds.