

The Kensho Group

GLOBAL

The Light In the Tunnel

Yet again, the global economy seems to be stepping back from the brink. A sovereign debt crisis in Greece was seemingly averted after an E.U. plan provided backstop funding for the country. To the relief of observers, Greece just successfully sold 5 billion euros worth of seven-year bonds.

Despite the apparent resolution of Greece's debt crisis, the situation casts light on the potential fragility of the euro. While the U.S. dollar is only put at risk by the United States, the euro can be put in peril by any one of the 16 different European countries that use the currency. It creates an environment of mutually assured economic destruction. If any one country is in trouble, it is in the best interest of the other 15 to intervene. Yet, the continental currency is still very much in its infancy and such a theory has just started to be tested.

While mutually assured destruction could give the euro stability, smaller countries looking to grow quickly could take advantage of the de-facto guarantee and over borrow. The moral hazard is high and at stake is the economy of 315 million Europeans.

As reserve bankers around the world reconsider maintaining reserves in U.S. dollars, the events in Europe have likely solidified the dollar's standing until the euro has a longer track record. While the U.S. debt is large, the government's credit record is sterling. The United States has not missed a bond payment since the Civil War.

"Over the last few years we've seen so many cards thrown into the air. We are at last seeing some of them land, forming an image of what the future looks like," says Tony McKinnon, president of MRINetwork.

The hypothetical futures for the United States floated over the last two years have included a second great depression, massive inflation, 15 percent unemployment, a nationalized banking system, the decline of the U.S. dollar, socialized medicine, and the end of American style consumerism.

"While the playing field has changed, what we are seeing seems to be markedly less dramatic than what was predicted by some as little as six months ago," notes McKinnon.

The personal savings rate, a statistic that is distinctively low in the United States compared to other developed countries, rose to as high as 5 percent in early 2009 causing fear that consumer spending, by far the largest slice of the American economy, would be permanently reduced. Since then, savings has fallen to just 3.1 percent in February. The long-term effect of Americans not saving money remains a concern. However, in the current climate this is good news.

Revisions to 2009's Q4 GDP show that the economy grew at an annualized rate of 5.2 percent during the quarter. However, this was thought of as an anomaly because of the impact of inventory reductions and restocking. Projections from economists for growth in the coming years is in the 2 to 3 percent range, still short of recent historical averages, but better than estimates we heard six months ago of as low as 1 percent.

"There is a lot of pent-up everything right now, from consumer spending, to hiring, to business investment," continues

Recent MRINetwork® Analysis

Amid a dismal job market, Larry Breault, president of recruiting firm TopGrading Solutions in Port St. Lucie, sees two distinct categories of workers.

"Educated workers are thriving, or at least surviving, while uneducated workers are struggling", Breault says.

Larry Breault  
TopGrading Solutions, Port St. Lucie, FL  
As quoted in the Palm Beach Post, March 26, 2010

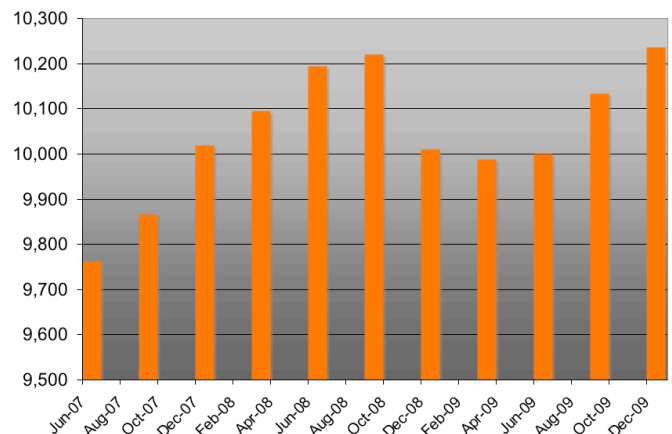
McKinnon. "A few months of noticeable job growth could take the cork out of the bottle and spur employers who have resisted putting their hiring plans in gear."

Leading indicators of job growth—like the hiring of temporary staff—have been on the rise for nearly half a year and the growth of permanent jobs is beginning.

"Right now, a lot of employers are taking their time when hiring, exploring more candidates than normal, requiring more interviews, and the result is that when an offer is at last made, top candidates have already been hired," says McKinnon. "But as we start to see broader, across-the-board headcount increases—likely before the end of the year—this trend will subside. Greater expediency will be needed for companies to secure top talent."

While on the way down, as spending decreased, more jobs were lost, decreasing spending further. Fortunately, this cycle also works in reverse.

U.S. Personal Consumption Expenditures (in billions)



## BRAZIL

### After a Long Journey, a Fast Turnaround

Less than 50 years after U.S. independence, Brazil won its own independence from Portugal in 1825. But sovereignty didn't immediately prove as successful and resulted in a revolving door of dictatorships and military regimes until a republic was formed in the 1980s. Economic turmoil was constant, churning away through nearly 175 years of history with periods of recession, depression and inflation. In 1994 though, led by Brazilian Finance Minister, Fernando Henrique Cardoso, Plano Real (Royal Plan) was introduced.

Plano Real sought to at last control inflation, stabilize exchange rates and increase foreign capital in the Brazilian bond markets. The plan worked with stunning success and Cardoso was elected to the first of two presidential terms. When he peacefully passed on the presidency to Luis Inácio Lula da Silva in 2002, not only was the economy at last stabilized but so too, it would seem, was the political system.

In 2003, an economist from Goldman Sachs, Jim O'Neill, issued a report that looked at Brazil, Russia, India and China—four countries with developing economies, more than a quarter of the land on the globe and nearly 40 percent of the world's population. The report called them the BRIC countries and said that by 2050, they could be the four leading economies of the world.

As for Brazil, it is already the 8<sup>th</sup> largest economy by nominal GDP (it was 10<sup>th</sup> when the BRIC report first came out). Comprising the bulk of the South American continent, Brazil is a hulking country with a population nearing 190 million people, large natural resource reserves and a \$1.5 trillion GDP.

Compared to many developing nations, Brazil has a surprisingly closed economy, with exports accounting for only 10 percent of its GDP and more than 70 percent of the economy is in the services sector.

"Brazil is developing quickly and is becoming an increasingly popular location for external investment," says Marcelo Machado, managing director of Brasil Group, an MRINetwork office in São Paulo. "Industries like oil and gas continue to expand, tapping vast natural resources, but high-tech and pharmaceutical firms are also taking advantage of the location and local talent."

For pharmaceutical firms, Brazil's tropical rainforests and the Amazon River offer incredibly rich research opportunities. It is said that more than a quarter of modern pharmaceuticals originally came from rainforests, yet less than 1 percent of plants in the rainforests have been tested thus far for potential applications.

While industrial production accounts for only 20 percent of Brazil's economy, there are no standout industries. Instead, the country has a broad base of companies, both domestic and international, ranging from petrochemicals, to aerospace, to consumer goods and computers.

While the economic turnaround in Brazil seems nothing if not sudden, evidence continues to mount that the economy at last has a strong and diverse base. Despite large international interest in investing in the country and speculative tendencies, regulators have been successful in fine-tuning growth and minimizing inflation.

"This is a special moment to be in Brazil. It is a great time and place to be starting a company and plenty of firms are taking advantage of the opportunities," says Machado. "With both high-quality local talent and strong domestic markets to sell to, Brazil has become a leading Latin American country to launch or grow a business."

More important than a strong economy though, Brazil is eagerly waiting to host the FIFA World Cup 2014, which will take place in 12 cities throughout Brazil. The World Cup will give Brazil a chance to show off the country on the world stage, a country reinvented more than once since it last hosted the games in 1950.

## NORTH CAROLINA

### First in Flight, Among Other Disciplines

The most famous research ever to be conducted in North Carolina involved canvas being stretched over spruce timbers and flown on the banks over Kitty Hawk by the Wright Brothers. Today, the heart of North Carolina's research community is a bit further inland in a region known as the research triangle, but the questions being answered there are as cutting edge today as flight was 110 years ago.

The triangle is defined as the region between Durham, Chapel Hill, Raleigh and their respective universities. In the center of the three cities is the 7,000-acre Research Triangle Park, which was founded more than 50 years ago. Today, it is home to over 40,000 research jobs at 170 different high-tech and bio-medical companies and research organizations.

For what was once a largely agricultural southern state, North Carolina has solidly reinvented itself over the last half-century. In the 1970's, when Research Triangle Park was just starting, North Carolina's per capita income averaged 20 percent below the nation as a whole. Today, it averages just 5 percent below the national average, and the metro areas around the research triangle clock in above the U.S. average.

Charlotte, North Carolina's largest city, though removed from the research triangle by a few hundred miles, has found its own success with financial services. The home of Bank of America and Wachovia (which was purchased by Wells Fargo in 2009) banks have redefined the city's landscape in recent years both literally and economically. Outside of New York, Charlotte has

become the largest financial services hub in the United States.

"North Carolina didn't seem to feel the brunt of the recession," says John Leach, managing partner of Management Recruiters of Raleigh. "Folks in real estate, construction and the mortgage business felt the pain, but it didn't flow over to the rest of the economy in the same way it did elsewhere in the country."

Unemployment in the state recently rose to 11.2 percent, but state officials are attributing much of the rise to market reentrants—discouraged unemployed people who are returning to the job search.

"During the holidays, it did start to look a little bleak at the malls with notably smaller-than-normal crowds. They've now filled back up as people look for deals," notes Leach. "Some retailers are downright busy."

With much of North Carolina's prosperity tied to pharmaceuticals and medical devices—such firms are one of the largest blocks of companies in the research triangle—passage of healthcare reform presents a bright bit of news. The legislation removes much of the mystery surrounding the near future of the industry and allows executives to better project the future conditions of their business and move forward product development that will take place in North Carolina.

"One hundred years ago, our biggest exports were cotton and tobacco, two products whose demand can easily wane. Today, we specialize in money and ideas, and as the country emerges from recession both will be in the highest of demand," says Leach.