

The Kensho Group

UNITED STATES

Black Friday in a Red Year

"Anyway, we continue to live in interesting times," said Paul Krugman in an unusually understated conclusion to a recent *New York Times* column.

While Americans gorged on turkey and U.S. retailers crossed their fingers for a black Black Friday, a financial crisis was developing on the other side of the world. Years of overbuilding—and borrowing—by the investment arm of Dubai have left the emirate at least \$59 billion and up to \$90 billion in debt. After a massive building boom, however, office buildings remain unleased and luxury hotels unoccupied.

The day before the four-day U.S. Thanksgiving holiday, Dubai notified creditors that it would not be able to make one-time payments on some of its debt. The risk of an all-out sovereign default is considered to be a tail event—something within the realm of possibility, but still highly unlikely. Yet, other events like the Madoff fraud, a frozen commercial paper market and the collapse of Lehman Brothers could all have been given a similar label.

While the cause of this crisis is different, the potential fallout is similar to the restrictive credit that resulted after defaults by Russia in 2000 and Argentina in 1990. In those years though, the global economy was growing. Yet today, it is only just seeing the first flashes of recovery. And even those flashes can be fleeting. The third quarter U.S. GDP growth was revised downward from 3.4 to 2.8 percent in late November, mostly as result of revisions to personal consumption.

The long weekend in the U.S. paired with the Eid-UI-Adha holiday closing most Middle Eastern markets, however, dampened the effect of the crisis and allowed investors to take a longer look at the events before reacting. When markets opened afterwards, mass sell-offs never materialized and some international markets even posted modest gains.

"Crashes go in just one direction. Recoveries are more of a bumpy road with fits and starts all along the way," says Tony McKinnon, president of MRINetwork. "These sorts of events are going to continue to arise as the global economy reacts to the literally trillions of dollars of paper money that vanished over the last few years. As long as such events remain isolated, they should have a limited effect on the labor force outside the nations where they occur. In the U.S., economic growth should outweigh the impact of credit issues a world away, no matter how small that world has become."

U.S. non-farm business hourly productivity increased in the third quarter at a rate of 9.5 percent, after rising 6.9 percent in the second quarter. Between the two quarters, the growth is the highest average for any two-quarter period since 1961.

"These levels of productivity increases are unsustainable—in a good way. Such rapid growth is almost without exception the precursor to both hiring and wage increases," notes McKinnon. "Traditionally, the end of the year is a slow time for hiring, but once we hit the New Year we will see companies, for the first time since the beginning of the recession,

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Compared with " 'We don't know when we want to hire. Our hiring projections right now are frozen,' we are hearing more conversations of 'You know, second quarter of next year, we should be adding. Third quarter, we should be doing this,' " Moss said.

"There are more of those conversations than we've heard since this mess started."

Bobbi Moss, Govig and Associates
As quoted in the Arizona Republic
November 20, 2009

increasing head counts across the board to keep pace with demand."

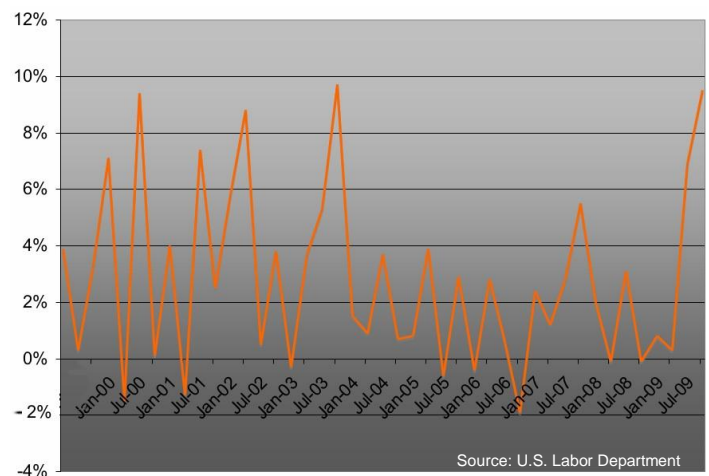
In the last weeks of November, initial unemployment claims saw sharp drops, falling by as much as 7 percent in the week ending November 21.

"Dubai should cause employers to take a second look at their cash flow situation and make sure they have access to capital to survive a re-tightening of credit," notes McKinnon. "But data about productivity—and the growing GDP—shows that there are real, bottom line reasons for firms to be adding to their workforce.

"At more than a few points over the last two years we've teetered on the edge, but in today's world even a \$59 billion default doesn't seem enough to send us over."

Anyway, we continue to live in interesting times.

U.S. Business Hourly Productivity Rate of Change



FRANCE

Country Emerges From Recession

After World War II, France began instituting a variety of social safety nets that have grown over the years. Today, these include unemployment benefits that continue to pay out for up to two years while labor laws dictate short work weeks, generous vacations and disallow "at will" employment.

To fire an employee, French employers must go through a series of hurdles to document and notify the employee before giving them between one and three months notice according to their status. If rules are not followed, employers leave themselves open to civil suits, which rarely end in their favor. Even in the case of laying off employees for economic reasons, advanced authorization from the government is often needed, making reacting to change slow for companies.

While understandably popular, labor rules leave little flexibility for employers when managing their workforce and cause separations to be long, tedious and expensive affairs. Despite public support for the protections, before the recession hit, President Nicolas Sarkozy moved to pull back some restrictions in an effort to help reduce one of the traditionally highest unemployment rates in Western Europe.

"While on an individual level, a strong social safety net is beneficial, from an economic perspective such restrictive rules make it more difficult for French companies to quickly react to changes in their workforce needs," says Jean-Baptiste Sassolas, managing director of MRI Worldwide, France.

Recently, moves toward reform have been stymied as the French government focuses on emerging from the recession, which seems to be taking place as the French GDP began to rise by 0.3 percent in the second quarter, ahead of the euro area in general.

"There has been a general resistance to hiring across sectors over the last year but with notable exceptions," says Sassolas. "Banks and insurers have mostly stopped expanding, except a few firms that are actually taking the risk to create jobs and expand in some areas where they believe there is now market share to be gained."

France also continues to make strides in the green energy space, which has been the focus of many of the stimulus dollars spent over the last year. The construction industry has also been given a boost as old, inefficient buildings are retrofitted to use less heating and electricity.

"We have noticed though, that even with companies that are hiring, candidates are remaining very selective. Frequently, employers are having to work much harder to prove themselves to candidates before they make any move at all," says Sassolas.

While the march towards looser labor restrictions is clearly delayed, changes are also still clearly on the horizon. With a majority of middle and top-level managers set to retire by the year 2015 in some industries, the employees filling those jobs will be stepping into a less competitive job market, but a more competitive workforce.

MAINE

Developing Both New and Old Resources

In 1607, a group of over 100 Englishmen sailed up the Kennebec River, found a wooded point on the west side in modern day Maine and chose to establish Popham Colony, only the second colony in America. Three days later, they started building a ship.

During the intervening 400 years, more than 5,000 ships large and small have been built on the banks of the Kennebec River and thousands more across the state. Today, Bath Iron Works (BIW) is one of the world's most renowned shipbuilders, having built literally hundreds if not thousands of ships. Nonetheless, it is also one of only a few remaining shipbuilders in Maine.

Over the years Maine has lost a number of industries. First, it was the textiles industry that moved south to be closer to cotton production. Then, during the transition from wood to iron, many more shipbuilders failed and that industry too mostly moved south. More recently, the American wood products industry has switched from the East to the West Coast where lumber can more easily be shipped to Asia for processing.

"There are a lot of places where people claim they would sacrifice to live, but Maine is one of the few where it really plays out in the numbers," says Pete Smith, managing director of Executive Search Group, an MRINetwork office in Scarborough, Maine. Average salaries in Maine are as much as \$18,000 a year less than their neighbors to the south in New Hampshire and Massachusetts. "Most jobs in the state revolve around smaller, local companies, often resulting in lower paying jobs."

While the northern part of the state is more blue-collar, the south has more white-collar professionals, though for many, their jobs are not in Maine but in New Hampshire or Boston.

"For young people, there aren't a lot of opportunities to get entry-level jobs in Maine and most college graduates quickly leave the state after getting their diplomas," notes Smith. "Many industries are contracting at about the same rate of attrition. While it means they have experienced people, that workforce is aging."

Looking for new industries to replace the old, Maine has recently started to capitalize on one of the state's most renewable resources: wind. With the help of federal stimulus dollars—in addition to private investment—hundreds of millions of dollars are being invested in wind farms across the state and off its coast.

But new industry isn't Maine's only hope.

The University of Maine's Advanced Structures and Composites Center has gone back to the wood products industry and is taking a new look at the possibilities. Among them, researchers recently developed a method to create a plastic polymer from a byproduct of the paper pulping process that could replace current corn or petroleum-based products. Such advancement offers Maine the potential to create new jobs that are uniquely suited for the state.

"The recession has hurt the state, there's no denying that," says Smith. One report says that incomes are off by an average of 12 percent across the state since the beginning of the recession. "But people in Maine are tough. In other places people might go hungry or go cold. Here we fend for ourselves a bit more, go out to chop our own wood, plant some vegetables, or shoot a deer."

Whether it's new green energy or wooden soda bottles, after 400 years, Mainers have proven they will find a way to muscle through just about anything.