

Viewpoint

One of a series of opinion columns by bankruptcy professionals

Economic Rebound No Sure Thing In 2010, Experts Say

By Michele Drayton

Most turnaround professionals predict a hard slog toward economic recovery in 2010 as businesses weighed down by debt hit rough patches and credit markets shun them.

Nearly half (49%) of the respondents to the Turnaround Management Association's distressed industries forecast think durable improvement in the economy is unlikely until at least the second half of 2010. About three out of 10 think the worst is over, but nearly 20% suggest the economy has yet to hit rock bottom.

Three out of four respondents think the commercial real estate industry will fare the worst in 2010 as debt matures and lenders remain reluctant to refinance.

"While respondents overwhelmingly picked commercial real estate as a major problem for 2010, the causes cited were economic conditions and debt levels, not oversupply," said James B. Shein, chair of the TMA Trend Watch Committee and professor of management and strategy at the Kellogg School of Management at Northwestern University in Evanston, Ill. "If it were oversupply, it would take a lot longer to fix. At least that suggests that problems in commercial real estate will not be long term."

Retail again garnered the second highest proportion of responses, 35%, down from 52% last year. Automotive, at the top of last year's predictions list for most troubled industries, slipped to third (31%) during a year in which the federal government brokered restructurings of two of the big three auto makers, General Motors and Chrysler.

"Continued high levels of unemployment and related weakness in the housing sector will continue to impact retailers," said Arthur T. Perkins Jr., TMA's immediate past chairman and co-head of Deloitte Financial Advisory Services' Western Region Reorganization Services practice in San Francisco. "Consumer products manufacturers, including auto manufacturers, will continue to be impacted as the drought in consumer spending works its way up the supply chain."

Technology, considered a winner in the 2009 stock market, appealed to nearly 30% of respondents as the industry most likely to improve in 2010, and energy and health care ranked nearly as high. Commercial banks, which ranked third among industries most likely to improve in 2009, slid to fourth place among those surveyed in this month's poll.

"If the economy comes around and business owners continue to invest in business and look for increases in productivity, they clearly move toward technology," said

Tom Pabst, chief operating officer of the Great American Group, a disposition and valuation firm in Deerfield, Ill.

Nearly all (92%) said economic conditions pose the greatest threat to struggling industries, and the most hard pressed will contend with too much debt compounded by lack of access to capital, according to 78% and 52% of respondents, respectively.

"Overleveraged balance sheets are one of the primary causes of industry problems," said William K. Lenhart, a partner with BDO Consulting in New York. "In 2009, many lenders were more willing to extend and amend terms so borrowers were not in default. It is unclear if these companies took this opportunity to improve operations, reduce expenses and sell off underperforming assets to reduce debt."

"The economy needs to improve so these companies can increase their top lines," Lenhart said. "If not, then it becomes a question of how long lenders will delay declaring defaults."

Industries likely to fare better in 2010 will do so mainly because of increased demand for products and services (59%) and an improved economy (52%). "Even for those industries we think will improve, our members are saying that they also will have trouble gaining access to capital," Shein said.

If the economy recovers without sufficient job creation, most respondents suggest the unemployment rate could be lowered through tax incentives designated for hiring, retraining, capital spending and technology investment. To a lesser degree, respondents think targeted stimulus spending on measures such as public-works projects, youth work programs and repatriating manufacturing jobs could help absorb at least some of the millions of out-of-work Americans.

"Until people are back to work, the economic foundation that the consumer provides remains highly unstable," said TMA Chairman Patrick Lagrange, a managing director with Carl Marks Advisory Group LLC in New York. "As such, we have to be careful not to become overly optimistic about signs of recovery."

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