

What's in store for the nation in 2010

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2009 has been relegated to the history books, and most of us are glad the year is finally in the rearview mirror.



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In many ways, 2009 was the most significant year in decades, with the worst economic conditions since the Great Depression, financial scandals and

Ponzi schemes of historic proportions.

We've had the most uncertainty about what's on the horizon since the terrorist attacks of 9/11. In light of what we've just endured, we're all wondering what the future holds, particularly in 2010.

Will 2010 be up, down or something in between?

My nature is to want to share an upbeat outlook for 2010. However, a real-world forecast is to be cautiously optimistic that the fragile recovery will continue, absent

any further shocks to our financial system.

Consumer spending drives everything

The modest economic improvement widely reported during the last half of 2009 is the result of businesses simply restocking depleted inventories to low levels, which is good news but not great news.

Consumers' current shopping behavior is a better gauge of what they are thinking and what may lie ahead. Media reports (and my own informal observations and interviews with store managers) indicate shoppers are typically buying only the advertised loss leaders and then leaving the stores.

News accounts of the "stare down" between seasonal shoppers and retailers highlight that consumers are keeping a tight fist on their wallets and that retailers soon will be forced to liquidate their merchandise (and profits) at 50 percent to 70 percent off.

That scenario means retailers would start 2010 in a

further weakened condition.

I think consumer spending will continue to be restrained in 2010 because of the increased personal savings rate (an eventual benefit that lowers consumer spending in the short term); unplanned new car payments in the household budget resulting from the federal Cash for Clunkers program; high unemployment (the unemployed spend little and have little to spend); and credit that's either not available at any price or only at unfavorable interest rates and terms.

The credit-starved economy

Credit is available for large corporations now (as shown by the financing required for the corporate acquisitions now in the news) but will most likely continue to be tight for small- and mid-size businesses in 2010.

Banks say they have money to lend, but the qualifying bar is set so high few will be able to meet it. This economic barrier persists despite the

availability of Small Business Administration loan guarantees and the president repeatedly summoning banking CEO's to the White House to urge them to begin lending again.

If longer-term loans remain unavailable, small- and medium-size businesses will turn to financing their need for operating cash with credit cards.

This option is fraught with danger because lending institutions are rapidly changing card terms, raising interest rates to usurious levels, requiring most new cards to have variable interest rates (that helped get us into this mess in the first place) and lowering credit limits in advance of new federal laws going into effect in February.

The threat of hyperinflation

Finally, a rapid recovery would create hyperinflation for several reasons. Inventories are so low any increase in demand would quickly eliminate shelf stock and drive up

prices as buyers compete for remaining store inventory.

Manufacturers have laid off so many workers they no longer have the staff to meet increased orders in the near term, which would drive up prices for available inventory.

Meanwhile, some sectors of the economy are awash in stimulus money and could support paying higher prices, which would remove market restraints and drive up prices. So a rapid increase in demand must be avoided, and the Federal Reserve will adjust its monetary policy (by raising interest rates) to try to prevent this from happening.

In Part 2, I'll share what I think my national forecast means for our local economy. In the meantime, what do you think the future holds? Tell me at results@bgaccelerators.com. I'll look forward to hearing from you.

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