Depression? Looks like we ducked a bullet

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THE BANK OF holland

The Fed says economy is finally leveling out; local analysts are showing more optimism

As we packed away the Christmas ornaments in January, Americans worried the economy could slide into a modern-day Great Depression.

Fear gripped the nation, sales tumbled, factory orders froze and a tsunami of layoffs washed over the country. Visions of bread lines and hopeless workers edged into the national psyche.

But it appears we ducked that bullet.

Now what?

The Federal Reserve announced last week the worst is over. Once falling off a cliff, economic activity now is leveling out, the Fed said.

"Leveling out" is hardly the definition of a robust recovery. But not getting worse (read Depression) is the first step toward getting better (read Good Times).

Recovery will be slow, the Fed cautioned, but its tone was definitely more upbeat than June when it could only muster enough confidence to say the economy was getting worse at a slower pace.

People at one point "were talking about Great Depression II. Now, it's just the Great Recession, and we are coming out of it," said John Koczara, portfolio manager with Ambs Investment Counsel of Grand Rapids Township.

In fact, "we're seeing predictions the GDP (gross domestic product) will be in positive territory in the third and fourth quarter by as much as 4 percent,' he said, though a pickup in employment will take longer.

At the Fifth Third Asset Management's Grand Rapids office, portfolio manager Mirko Mikelic thinks the Fed got it right.

"It looks like we are coming close to a bottom," he said.

"It will be weak for a while longer, but not a depression — just an extended recession," he said, tossing a compliment to the central bank's rescue mission."

"The Fed basically saved the global financial system," Mikelic said.

Local bankers say they see the improvement already.

"October to February was truly a scary time, but I think we are through the crisis," said Rich Lievense, CEO of Lake Michigan Financial Corp. which owns The Bank of Holland and The Bank of Northern Michigan.

"In West Michigan, we are seeing folks looking at significantly better prospects than three months ago,"

he said. "I'm starting to sense optimism."

Long-suffering auto suppliers are one of those pockets of optimism he sees.

"Suppliers are seeing work transferred into their shops from other places going out of business," he said. With leaner operations, they once again are enjoying a profit margin.



"We talked to one supplier who said they are getting pressure to close a location, but they were not inclined

to do that because they think the order demand will be unprecedented" once auto sales recover, he said.

Incidentally, the same afternoon, Ford Motor Co. announced it was boosting its production schedule by 10,000 cars after the Cash for Clunkers program ignited sales.

Home sales also are starting to stabilize, he noted, another important ingredient to recovery.

"There's still plenty to worry about," Lievense cautioned. But "we have to get over the mindset the world is going to end in five minutes."

That is the key to what happens after the economy levels off. Regaining optimism is job one before investing and hiring resumes.

But, for now, the Fed says the stage is at least set for recovery.

Craig Thomas, PNC Bank senior economist, says Americans will unpack the ornaments this Christmas with more cheerful hearts than last year just on the improvements so far.

Their 401(k)s are more valuable than six months ago, home sales are improving, inventories are down and industrial orders are waking up.

"We started the year not knowing what the heck will happen," Thomas said. "But we'll hit this holiday season in a better mood."