

## 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 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-month 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, increasing head counts across the board to keep pace with demand."

### GTR 2009 Closing Thought...

As we near the end of what is best described as a "tough" year, let's not rest on the negative, but focus on the positive about the future! As we press forward, take a moment and be encouraged that greater days await us!

*"The best preparation for tomorrow is to do today's work superbly well."*  
William Osler

Merry Christmas & Happy New Year!

Mike Ellis, President  
GTR

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

