

San Diego Daily Transcript

Established 1886

THE BUSINESS DAILY

75¢ Per Copy

January 20, 2010

Economist: Metrics point to brighter 2010

By REBECCA GO, The Daily Transcript

The U.S. economy can look forward to a better year ahead, building momentum for an even stronger 2011, a Bank of America economist said Wednesday, citing improvements in key economic indicators and the ever-spending consumer.

“The S&P, the (stock) markets are forward-looking indicators, and I think they got it right,” said Joseph Quinlan, managing director and chief market strategist of U.S. Trust, Bank of America’s (NYSE: BAC) private wealth management arm. “The markets were telling you in the third quarter and fourth quarter of last year that the recovery was coming.”

Quinlan pointed to a number of positive signs in his talk at a **Commercial Real Estate Women** luncheon at the La Jolla Sheraton.

The unemployment situation is somewhat improved, considering job loss has slowed to a trickle.

While the national unemployment rate is above 10 percent, the percentage of unemployed among skilled laborers -- those with college degrees -- is closer to 5 percent.

Meet the consumers who are still opening their wallets, Quinlan said. Thanks to them, rising revenues and corporate cost-cutting efforts, U.S. companies are going to see strong earnings growth this year.

Job creation will begin in April or May. Inventories will be rebuilt. Capital expenditures, particularly in the areas of information technology and infrastructure, will increase in the second half of this year as well.

Exports -- an important area for California -- also look strong and will be further fueled by the weak U.S. dollar, Quinlan added.

“This is probably one of the first (presentations), that I’ve heard, that has presented a positive outlook,” said John Kocmur, president of local commercial real estate and property management company Janez Group. “Not rosy by any means, but it’s not going to get any worse and it will start getting better, which is very good.”

Admittedly, the economy will still feel like it’s only muddling along, at least until the middle of the year, Quinlan told approximately 100 luncheon attendees: the real estate market will continue to drag on growth, and the average consumer remains burdened with debt.

“From now until the first quarter of 2011, it’s going to be a swath,” Quinlan said. “It’s not going to be a V-shaped recovery. ... I think the key point is, sequentially, things are getting much better, not only year over year.”

The commercial real estate industry, however, is not even halfway through its correction, Quinlan said, looking ahead to 2012 or 2013 before the industry can start afresh.

Property values are starting to close in on a bottom, though, he agreed, and the distressed assets have lured private equity investors off the sidelines.

Quinlan added that the mass foreclosures feared by the industry are unlikely; banks will, as one attendee put it, “pretend and extend” until the market improves or when the banks feel ready to absorb the losses.

At least in the commercial real estate downturn, banks have a better idea how to price the assets on their balance sheets and how to prepare for impending losses, Quinlan said.

He said he also is keeping his eye on a few other trends: he sees a risk of protectionism as unemployment remains above the “politically sensitive figure of 10 percent” and as public opinion subsequently seeks out a scapegoat.

He worries about anti-business sentiment building as some decry large executive bonuses.

He sees the Federal Reserve raising interest rates in the fourth quarter; Quinlan will worry more about the economy if the Fed fails to do so by next year.

Quinlan also is watching China and its foreign exchange policy. Although he thinks it's highly unlikely that China will stop buying U.S. bonds, China's future actions could affect the price of U.S. debt and the cost of funds to consumers and businesses.

He added that he is wary of 30-year U.S. Treasuries as the United States looks to fund its deficit and prefers corporate grade bonds and shorter-term bonds.

To protect against the weakening dollar, he prefers Treasury Inflation-Protected Securities, or TIPS, and agriculture assets, citing the need to feed an expanding global population.

— The Transcript's *Kevin Sue contributed to this report.*

Send your comments to Rebecca.Go@sddt.com