THE BUSINESS JOURNAL
Publisher
Douglas W. Copeland, Jr.
Editorial
Editor
Mark Sutter
Executive Editor
Justin Catanoso
Associate Editor
Lloyd Whittington
Design Editor
Dale Edwards
Reporters
Matt Evans
Bertrand M. Gutierrez
Steve Ivey
Michelle Cater Rash
Laura Youngs
Washington Bureau
Kent Hoover
Research Director
Stephanie Nickell
Advertising
Director of Advertising
Timothy C. Harris
Advertising Promotions Coordinator
Grace Johnston
Advertising Account Managers
Laura Cicerone Busse
Bill Ingram
Deborah Swider
Administration
Business Manager/Circulation
Pat Fromen
Business Assistant
Donna Takase
Circulation Assistant
Pat Epley
Circulation Sales
Gary Marschall
Production
Production Director
Debbie Forrest O'Connor

Greensboro Office
100 S. Elm St., Suite 400
Greensboro, NC 27401
Phone: (336) 271-6539
Toll-free: (800) 723-2977
News fax: (336) 370-2899
Advertising fax: (336) 370-2900
General fax: (336) 574-3607
Winston-Salem Office
305 W. Fourth St. Suite 2B
Winston-Salem, NC 27101
Phone: (336) 725-1163
Fax: (336) 725-1154
triad.bizjournals.com

The Business Journal is a publication of **American City Business Journals Inc.**
120 West Morehead Street, Charlotte, NC 28202
Ray Shaw, Chairman

Reprints
Scoop ReprintSource
(800) 767-3263, ext. 307

NORTH CAROLINA
Press Association

COMMENTARY

"We may have a problem with our cash flow. Our debt flow is going great, though."

Delayed recession might make '09 interesting for N.C.

It's official. Earlier this month the National Bureau of Economic Research (NBER), the non-government think tank that is the authoritative voice on the U.S. business cycle, announced that the economy had been in recession for a year.

VIEWPOINT
ANDREW BROD

Before the financial crisis put things in frightening focus this fall, it appeared that the recession might be a shallow one. Production measures like gross domestic product were essentially flat through June 2008.

But when gauged by employment measures, a different picture of the economy emerged. Payroll employment fell steadily throughout 2008, including a harrowing drop of 533,000 jobs in November. Throughout 2006 and 2007 the unemployment rate hovered between 4.4 percent and 4.7 percent, but starting in late 2008 the rate moved upward until it reached 6.7 percent in November. In making its determination, the NBER placed great weight on these employment indicators.

So the defining feature of this recession is falling employment. On that basis, let's look at how the recession is progressing in North Carolina relative to the national economy.

National employment (seasonally adjusted) peaked in December 2007 and has fallen 1.4 percent through November of this year. North Carolina's peak occurred a month later, in January 2008, and through November state employment fell 2 percent.

That's marginally better than our experience during the 2001 recession. By the end of that recession, national employment had fallen 1.2 percent from its peak, and it fell a total of 2 percent before the job market started recovering. North Carolina employment dropped more sharply, falling 2.4 percent by the end of the recession and a total of 4.6 percent before employment finally started increasing again. And it took 10 months longer in North Carolina than nationwide for employment to rise back to its pre-recession peak.

But the curious thing about the current recession is that until the November data came out, it looked like North Carolina was doing relatively well. In a couple of months this year, payroll employment actually rose slightly, and our cumulative decline was less than the national figure.

But November was a really bad month. State payrolls fell 1.1 percent in that month alone, which is huge, and much larger than the national percent decline. The number of unemployed people in the state shot up 11 percent in one month and the unemployment rate jumped to 7.9 percent. We haven't seen a monthly unemployment rate that high in 25 years.

It appears that the recession is hitting North Carolina a bit later than the national economy. The already hard-hit manufacturing sector helps explain this as the most vulnerable manufacturing jobs are no longer around to be lost. The data bear this out: Manufacturing employment has fallen less in 2008 than during the 2001 recession.

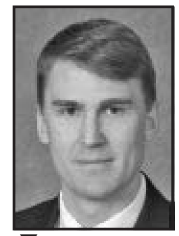
The recession's delay is even more pronounced in the Triad region, where employment increased for most of this year. According to seasonally adjusted figures compiled by my colleague, Don Jud, Triad employment didn't peak until August and fell only 0.2 percent through October (we're still waiting for the November data). Since the beginning of the national recession, employment in the Triad is actually up 0.8 percent. During the 2001 recession, Triad employment fell 3.2 percent.

Will the delayed onset of the recession in North Carolina and the Triad mean a shorter downturn here? Or will our recovery from the recession be delayed as well? Stay tuned for 2009: It could be a wild ride.

ANDREW BROD *is director of UNCG's Center for Business and Economic Research and a member of The Business Journal's Editorial Board of Contributors. Reach him at (336)334-4867 or AndrewBrod@uncg.edu. An archive of Brod's columns is available at http://cber.uncg.edu.*

Ponzi scheme a painful reminder, but so was Enron

The last couple of months have brought back to our attention two lessons that should have been learned long ago: "Don't invest in what you don't understand" and "If it seems too good to be true, it probably is."



GUEST COLUMN
ANDREW HAILE

Most recently, the Ponzi scheme engineered by Bernie Madoff shows that even sophisticated businesspeople can lose sight of these principles when they are enjoying healthy investment returns. Madoff was arrested Dec. 12 for running what might be the largest fraud in Wall Street history — investor losses as high as $50 billion.

One of the many notable aspects of this case is that Madoff did not prey on the weak. His primary investors were high-wealth individuals, hedge funds and institutional investors, all of whom the securities laws presume to be able to take care of themselves. Presumptions aside, these investors were enticed to invest in Madoff's funds.

This was because of the funds' high returns, reported to be 12 percent to 15 percent annually for decades running. Unfortunately, few, if any, of the investors questioned the legitimacy of Madoff's purported strategy for making these returns. Madoff called it the "Split-strike Conversion" strategy. Maybe a corollary to the "Don't invest in what you don't understand" principle should be: "If the name of the investment strategy means absolutely nothing, that's probably what you'll end up with if you invest."

Similarly, the meltdown of Fannie Mae, Freddie Mac and major commercial and investment banks reinforces the lesson from the Madoff scandal. Even the so-called "masters of the universe" can lose sight of investing fundamentals if they are seeing favorable returns. In the post-mortems taking place over the now-cold bodies of Bear Sterns, Lehman Brothers, Fannie and Freddie, we have learned that many of the decision makers at these organizations had no real understanding of the quality (or lack of quality) of the mortgage-based securities they held.

Instead, they put blind faith in the ratings given to the securities by various rating agencies. The comfort that "expert" rating agencies had vetted the securities combined with the high returns from what are now being called "toxic assets," lulled executives at these formerly venerable institutions into complacency. Fortunes, reputations and jobs have been lost as a result.

The response to these events includes calls for additional regulation. At least with respect to the Madoff scandal, however, the mea culpas from Securities and Exchange Commission chief Christopher Cox indicate that the SEC had the necessary authority to detect the scandal years ago. Commentators and politicians will doubtlessly debate the need for more regulatory authority.

But, there's an even more effective preventative to these situations. It's the very thing that finally broke the Enron scandal: asking fundamental questions.

In March 2001, Bethany McLean, a reporter for *Fortune Magazine* wrote an article asking simply: "How exactly does Enron make its money?" Once the question was asked, it became clear that not only was there no easy answer, there was no answer at all. If Madoff investors had asked questions, they might still have their money. If Wall Street bankers had asked questions, they might have realized the shoddiness of the mortgage-backed securities they were holding.

The Enron-era scandals were only seven years ago. But memories are short. Every few years, it seems, we forget these hard-learned lessons. Lately, there's been no shortage of reminders.

ANDREW HAILE *is an assistant professor at Elon University School of Law. He can be reached at ahaile@elon.edu.*