

**The Economic Recovery:
College of Business and Economics Faculty Source Guide**

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The following Lehigh University College of Business and Economics faculty members can offer expertise regarding the economic recession and the road to recovery:

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MARKETING IN RECESSION: The key is reducing brand proliferation

K. Sivakumar, Arthur Tauck Chair of marketing and international marketing and logistics: "Generally, there is a premium for quality in packaged goods in their ability to command higher prices. That premium may become less in times of recession. One way to tackle this for companies is by cutting costs through reducing brand proliferation to limit choices, but offer a competitive price for a limited number of choices." He cites cereal manufacturers as an example. Siva also suggests that companies move some of the advertising budget to sales promotion budget to get over the short term recession and resume advertising budgets when economy returns to normalcy.

BRAND LOYALTY: Generic brands are gaining traction

Beth Gallant, visiting lecturer: "As sales trend down, you try to quickly react to the marketplace using price or promotion to lure the consumers to your brand—and promotion or temporary price reductions are the fastest tools you have. Regardless, you will definitely see house or generic brands gain in this type of economic time. That's why brand managers are trying to quickly innovate or push forward new product ideas to differentiate from the house brand. The business issue here is it is hard to lobby for internal funds for a new product project when sales and profits are falling. That is why many companies come out of these types of downturns worse off; they see a vicious cycle of cut funding, no innovation, lost consumers to other, more generic brands—and, ultimately, no reason to get them back.

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REAL ESTATE: Existing home sales continue to plunge. Why?

Stephen Thode, director of Lehigh's Murray H. Goodman Center for Real Estate Studies: "The weakness in existing homes sales is a reflection of three things. First, the generally weak state of the economy has prospective buyers, uncertain about their employment status and so forth, staying on the sidelines. Second, a general view that the residential real estate market will continue to see declining prices—understand that we haven't seen the bottom yet—also keeps prospective buyers on the sidelines. And third, there are expectations that the Obama administration may offer some kinds of relief to homeowners, particularly those in default or foreclosure." As a result, Thode believes some lenders may be giving delinquent borrowers some forbearance right now in the expectation that some sort of financial relief may be forthcoming—which would be reflected in the number of new foreclosures.

A DEEPENING RECESSION: Bad indicators show the U.S. is a long way from "normal"

Anthony O'Brien, professor of economics at Lehigh University: It is pretty clear that this is the worst recession since 1982, but can it get worse than that? We know that the collapse of the financial system is easily the worst since the early 1930s—though the impact on real GDP and employment are hard to gauge because the federal government has already implemented policies that would, in normal circumstances, be considered highly expansionary. That said, there are clearly some worrisome indicators that point towards a longer and deeper recession than even what we experienced during 1981-1982: The speed of the decline in spending, output, and employment during the fourth quarter indicates that many households and firms have already decided that the recession is likely to be very severe and are acting accordingly. And the unemployment rate may actually be worse than it appears; the U6 measure, which includes discouraged workers and people who are working part time but who would prefer to work full time, is 13.5%. That number is easily the highest on record, but the records extend back only to January 1994, so we don't know how this measure performed in 1981-1982. Regardless, it proves the labor market is extremely weak and that it doesn't look good for any early revival in consumer spending."

BUSINESS EDUCATION: Environment Can Be Friendly to Job Seekers

Paul Brown, dean of Lehigh's College of Business and Economics: "If there's one certainty, it's that the economy will eventually rebound and Wall Street will recover. And while we may end up seeing unemployment hit 7% and more companies institute hiring freezes, the job market still offers numerous opportunities for those willing to explore their career options diligently and in earnest. This holds true for our students, who are uniquely prepared to confront the economic downturn head-on. Business education has evolved, and today's students are more entrepreneurial in their mindset. They also tend to be more collaborative, well-rounded and willing to step outside their comfort zones—all qualities that employers will come to rely on as the dynamics of the business workplace continue to change."

THE SUPPLY CHAIN: Fuel Costs and Transportation Inefficiencies

Joel Sutherland, managing director, Center for Value Chain Research: "With the loss of so much value in the stock market, consumers are buying less. This is creating excess capacity and inefficiencies in transportation, warehousing and distribution. And while fuel costs have recently decreased, rising costs still are a concern because they have a huge impact on the supply chain. Transportation costs already represent some 60% of total logistics costs, which, in turn, are 10% of overall GDP. Trucking companies have been going out of business at record rates, airlines have been reducing flights, and shippers have been switching to low cost modes such as rail. These drivers are transforming the economic picture both here in the Lehigh Valley and nationwide."

BUYING EQUITY STAKES IN BANKS: Recapitalizing is a good idea

Anthony O'Brien, professor of economics at Lehigh University: "Presumably, this would take the form of buying newly-issued preferred shares that would be sold (or exchanged for common and then sold) once the crisis has passed. Recapitalizing banks in this way is a good idea. It has become increasingly clear that simply buying mortgages and mortgage-backed securities—the original point of TARP—will be insufficient to restore the willingness and ability of banks to extend credit, including credit to each other longer than overnight." O'Brien argues that providing banks with additional capital should be coupled with removing the limit on FDIC deposit insurance so that banks do not suffer deposit withdrawals that will limit their access to this cheap source of funds.

VOLATILITY IN EMERGING MARKETS: Brazil's "Curse of Liquidity"

Geraldo Vasconcellos, professor of finance and economics: "For years, Brazil was the best performing market in the world in terms of returns. But that has rapidly changed since this summer, and we can expect an ongoing period of volatility in the future. It's a curse of liquidity: Brazil has lost about 50 percent of its market capitalization, nearly 15 percent in the past one week alone. Investors, especially in the US, are seeking liquidity and looking to cash out their holdings in a few of the most obvious places--the large and high-performing emerging markets. And considering that Brazil has essentially no capital controls in place, it will continue to be a prime target for those looking to cash their holdings immediately."

SUB-PRIME MORTGAGES: How the bailout should proceed

Stephen Thode, director of Lehigh's Murray H. Goodman Center for Real Estate Studies: "We should revisit the concept of the Resolution Trust Corporation, one designed specifically for sub-prime mortgages properties. If such a plan were enacted, residential property values would quickly adjust, the 'bottom' of the market would be found, and residential property values would subsequently begin to rebound ... The subprime mortgage experiment failed not because homeownership by less creditworthy borrowers is always a bad thing, but because the huge increase in demand it created drove housing prices to ridiculously high levels - levels that were clearly not sustainable."

MARK-TO-MARKET ACCOUNTING: Suspension may lead to egregious behavior

Parveen Gupta, chair of Lehigh University's Department of Accounting: "The ability to suspend mark-to-market accounting is an ill-informed decision that will have significant consequences on Fair Value Accounting. This level of congressional intervention espouses egregious behavior and is tantamount to a 'bait-and-switch'; because the financial problems are too complicated, Capitol Hill is inclined to conveniently ignore them by moving away from the practices outlined in Statement 157." Gupta is the former chair of the Professionalism and Ethics Committee of the American Accounting Association and has also served as senior Sarbanes-Oxley Advisor to the Institute of Management Accountants.

WELLS FARGO & WACHOVIA: A better deal for shareholders and taxpayers

Matthew Melone, professor of law and business at Lehigh University: "Wells Fargo is arguing that language in the recent bailout legislation provides Wachovia cover for terminating its discussions with Citigroup. Complicating matters is the fact that, under the Wells Fargo deal, certain officers of Wachovia are entitled to termination benefits that would not otherwise be triggered under the Citigroup deal. Despite this fact, the Wells Fargo deal is clearly better for Wachovia shareholders – one of the few deals in recent memory where shareholders benefit from a deal that clearly favors top executives. And from a policy standpoint, the deal is also advantageous for taxpayers as FDIC participation is absent in the Wells Fargo deal."

INVESTMENTS: Is now the time for socially-responsible investing?

David Myers, director of Lehigh University's Financial Services Laboratory: "While confidence in the markets suffers a blow, investors may be more inclined to give socially-responsible investing a closer look. There are two conflicting pressures that will emerge as the equity markets suffer. The first is that it is easier to be good when you are wealthy and that, as wealth decreases, people may be less charitable. The alternative is, perhaps, is more likely given the current state of affairs. If returns shrink, people will look for a way to differentiate among their choices and, under this scenario, responsible investing provides similar returns with a warm glow. Sustainability is a long term value idea."

A SEVERE RECESSION: Another Great Depression not in the cards

Anthony O'Brien, professor of economics at Lehigh University: "Current financial problems will most likely result in a recession—possibly a relatively severe one—but are unlikely to result in anything like the Great Depression. As Americans, we tend to forget just how bad the Great Depression was: Real GDP fell by 25 percent and the unemployment rate rose to 25 percent. We are very unlikely to see anything like that again, especially because the Federal Reserve and Treasury will take whatever measures are necessary to keep the banking system from ever collapsing again."