

# 'Knock on Wood'

## It's Not Exactly Business as Usual in the Valley, but There's No Panic, Either

Ken Albano weighs in below.

By GEORGE O'BRIEN

'Survival mode.' That's a term being seen and heard with increasing frequency these days as the media covers the ongoing economic downturn and how individuals, families, businesses, and municipalities are responding to life within it.

This phrase and others like it may accurately depict the current picture within some areas of the country, and even some parts of the Bay State, said Ken Albano — putting the accent on 'may' — but they're a bit overblown for the Pioneer Valley, where, it seems, most companies seem intent on doing more than merely surviving.

"A lot of people are saying, 'knock on wood, I'm doing OK,'" said Albano, a business law specialist with the Springfield-based firm Bacon and Wilson, who spoke about life for his clients, as well as for his law firm. "They're just not saying it very loud because they'd prefer to fly under the radar screen and not say they're doing OK, in case something happens."

Others used different words and phrases to convey essentially the same thing — that the economic downturn (there still appears to be some debate over whether this is officially a recession) has business owners cautious and wary about what might happen. But no one is yet drawing up comparisons to 1991, the height of the last deep recession, when the phones simply stopped ringing at many companies.

It's not exactly business as usual in this region, by most accounts, and there are some definite signs that times are tough. Indeed, the demise of low-cost carrier Skybus earlier this month brought the downturn home to



Staff Photo

*Ken Albano, a partner at Bacon Wilson, says his law firm, like most businesses, is responding to the economic conditions with caution and "smart spending."*

the Valley and, specifically, to Westover Metropolitan Airport in Chicopee, with an exclamation point. Meanwhile, there are real concerns about the residential real-estate market and its fate. There is talk of large-scale cut-backs across the Commonwealth as state and municipal officials grapple with budget deficits and declining tax revenues, and most all businesses have been touched in some way by high gas prices and sky-high diesel fuel prices.

But many of those asked to give a quarter-pole analysis of 2008 and the state of the local economy were sounding mostly optimistic tones. Here are some observations:

- Laura Stevens, president of the regional offices of Keller Williams Realty, said that, contrary to popular opinion, houses

are moving — if they're priced right, that is. "The problem we have is that a lot of people simply don't want to believe that their house has lost 10% of its value since last year, and they're stubborn," she said, referring to the average drop in the Valley, by most estimates, that she believes represents a market correction that was overdue. Stevens remains optimistic that sellers will come to grips with reality and that, likewise, buyers will realize that there is no real advantage to waiting, two prerequisites for reducing a bloated inventory that is keeping prices lower. The question is, when?

- Arlene Putnam, general manager of the Eastfield Mall in Springfield, said most retailers there enjoyed a fairly strong February — "why, no one is real-

ly sure." Despite mostly gloom-and-doom headlines and sound bites locally and nationally, she expects this sector to hold its own amid a general decline in consumer confidence and capitalize on those economic-stimulus checks that people will be getting later this year.

- Kenneth Boutin, senior vice president and senior credit officer at Holyoke-based PeoplesBank, wasn't projecting a strong first quarter for commercial lending activity last fall, but to his surprise the numbers are solid, with business owners in many sectors making investments in new equipment and facilities. Some industry groups are doing better than others, he acknowledged — hospitality is struggling somewhat, for example — but most are exercising caution, not hunkering down.

- Joe Ascoti, president of Reliable Temps in Agawam, said that, thus far, he's seeing little evidence of companies cutting back or delaying planned hiring. He admits, though, that the picture is seriously clouded by the much-bigger story — ongoing struggles in many sectors to find enough good help. This is evidence, he said, that shortages in labor that many have projected for years down the road — when smaller generations are going to be asked, unrealistically, to fill the huge void left by retiring Baby Boomers — are already here.

In this issue, *BusinessWest* takes an in-depth look at the economy as the second quarter of '08 begins, and the issues that will determine what happens short- and long-term.

### House Money

Stevens told *BusinessWest* that, in response to one reporter's

question a few months ago, she said that “if there was a recession, her company was choosing not to participate in it.”

That was her way of saying that Keller Williams is having a solid start to '08 and that, overall, the local housing market is not as depressed as many other areas of the country, nor is the picture as bad as most would believe.

She used the word “stable,” and went so far as to say that a long, bleak winter may have as much to do with the current conditions as any downturn in the economy, and that the picture will improve when the weather does.

“We’ve been ignoring the headlines and advising our clients to essentially do the same,” she said. “We tell them that if they put a reasonable price on their house, someone will buy it. I can sell anyone’s house in a day — you just have to price it right.”

It appears that not enough people in the Valley are heeding such advice, because the local housing market has declined to the point where firms such as Bacon Wilson, which handle large volumes of real estate closings, are certainly feeling an impact on the bottom line.

Albano said this is part of a broad trickle-down effect from a slow housing market that he and most others believe is perhaps the most important factor impacting the fate of the local economy short- and long-term. That’s because this trickle-down impacts businesses ranging from law firms to homebuilders to retailers, and it’s real, based on what he’s seen and heard anecdotally.

“It all starts with the real estate market, and right now, it’s slow,” he said, adding that he can qualify matters more easily than he can quantify them. “There were times during the boom three or four years ago when a deal would come in the door and you’d have to order a title exam from the local title examiner. The feedback you’d get was, ‘maybe

next week at the earliest.’ That’s not happening now; people are sitting around waiting for the phone to ring because people aren’t buying and selling homes.

“I represent a few local developers who opted to get into the over-55-development concept,” he continued. “It still is a great concept ... but for people to move into one of these complexes, they need to sell their house; there’s a big backlog of inventory at these over-55 developments because people have signed up to move in but they can’t until they close on their existing home.”

While he insists he’s a “glass-half-full person,” and sees plenty of positive signs regarding the economy, Albano says the residential market is the key, and there are real questions about when it will rebound. “I’m glad I’m not a mortgage broker right now, and I’m glad I’m not a Realtor.”

Stevens is a Realtor, and she expressed some cautious optimism that the market will improve, but included a number of caveats. Specifically, she said some attitudes will have to change if the big picture is to brighten considerably.

Elaborating, she said that both buyers and sellers should think through their strategic outlook and not respond to headlines, perceptions, or their what neighbor might be thinking or doing. For sellers, she said, most expectations on price are not realistic, and this is contributing to high inventory: “if a house is priced right, it will sell; if it’s not, it won’t.” As for buyers, if they wait to pull the trigger due to reasonable expectations that prices will go still lower, they will only see any benefit offset by rising interest rates.

When or how much they’ll rise is anyone’s guess, she continued, but logic dictates that they can’t go much, if any, lower. “Once the economy stabilizes, rates will rise, and buyers will be sorry.”

Overall, Stevens said sellers are only hurting matters by rushing to sell now, amid fears that

conditions will only worsen. Such actions will simply turn those fears into reality, she explained, because a glut of homes with ‘for sale’ signs keeps prices down, while giving buyers more reason to hesitate, which just deepens the cycle.

“More people are trying to sell because they fear what’s coming — sellers are the ones panicking the market,” she said, noting that her firm currently has about 130 listings, when it normally would have roughly 90. “If they would just stay put, the inventory would go down, buyers wouldn’t have so much to choose from, and they’d bid against each other on houses.”

### Banking on It

While the residential housing market bears watching, so too does the commercial-lending realm; when conditions worsen, some business owners will put off expansion plans or investments in new equipment and facilities until they feel more confident about the future.

But thus far in '08, there has been little such hesitancy, said Boutin, who admits to being more than little surprised by the numbers recorded by the PeoplesBank commercial-lending department thus far this year.

“We’re ahead of the pace for the past few years,” he said, attributing this to, among other things, several strong sectors, including health care and education, as well as a manufacturing base that is considerably smaller than it was years ago, but still has many strong players that have flourished in niche markets.

“This market doesn’t see as the highs or the lows that other areas, like Boston, do,” he said, referring to the Valley’s traditional performance during economic declines and upswings. “We’re ‘steady Eddie.’”

Donna Bliznak, vice president of Commercial Loans at PeoplesBank, told *BusinessWest* that there isn’t much, if any, speculative borrowing at present, but companies are responding to

what they need in terms of growth strategies. She cited one manufacturer that secured \$1 million for new equipment and another that borrowed \$2 million to invest in new technology. “There’s been a steady stream of business coming in the door.”

Mary Meehan, another vice president of commercial loans at PeoplesBank, said the commercial real-estate market remains fairly steady, with many clients and potential clients looking for investment opportunities.

Still, all three bankers noted that it’s early in '08, and many business owners are still analyzing year-end accounting statements. The next few months will provide a good barometer of overall business confidence, said Bliznak, adding that some sectors are more vulnerable to worsening conditions than others.

One sector that would certainly appear to be in harm’s way is retail, and some components of this industry, especially restaurants, hotels, and other hospitality-related businesses, are being impacted as consumers tighten their belts.

Putnam acknowledged that seemingly non-stop gloom-and-doom coverage of the scene nationally tends to wear down consumers — “those headlines scare people” — but she is optimistic that the worse may be over, and some first-quarter numbers support her positive feelings.

Indeed, while most retailers did not enjoy a good holiday season and that trend continued into '08, there was, at least at Eastfield Mall, a noticeable bounce in February.

“Many of our stores reported increases over last year’s numbers,” said Putnam, adding that some imaginative steps, such as a ‘summer in February’ program staged during school vacation week, succeeded in bringing people to the mall.

“And if you can get them to the mall, they will spend money in the stores and eat lunch here,” she said, adding that confidence among consumers remains gener-

ally high locally, and it should remain that way unless the situation changes for the worse in dramatic fashion.

And she doesn't believe it will. A veteran of several economic cycles, Putnam said that, generally, when people start talking about definitely being in a recession (as many economists are with regard to the current conditions), the nation is already on its way out of recession.

"I think we've hit that magic point, and there's no place to go but up," she said, expressing confidence that a presidential election, which generally helps boost an economy, coupled with those economic-stimulus checks, should brighten the picture for retailers within a few months,

and certainly by back-to-school sales time.

What the jobs picture will look like by then is anyone's guess, said Ascoti, who admitted that he is having a hard time making complete sense of what's going on now. In general, he said, businesses are not showing signs of cutting back or putting off hiring, and are proceeding as they would during better times.

But there is a problem, he continued, noting that businesses in many sectors continue to struggle in their search for qualified help. Many are turning to companies like Reliable Temps for help, he continued, which helps explain a strong Q4 in '07 and a good start to '08 for the firm.

"Companies are wanting us to

find them good, quality people they can hire, and to me, that's not indicative of a recession," he said. "All of our seasonal people are starting to pick up, and our phones are ringing; we're seeing a lot of people looking for work."

But it leads to questions for the long term. "People were projecting that, down the road, there would be real shortages of people for many different jobs because the Boomers would be retiring and there wouldn't be enough members of the younger generations willing to go into those fields," he said. "Well, it's starting to happen now."

Summing things up, Albano said Bacon Wilson is responding to the current downtown as most responsible businesses would —

with caution and what he called "smart spending."

This strategic approach applies to everything from additional hiring to marketing to charitable giving, such as sponsorship of benefit golf tournaments. "We're going to be prudent and spend when and how it makes sense to do so."

That's all most companies are doing for now, he said, displaying that 'glass-half-full' mentality. "I talk to a lot of people in business, and, for the most part, they are doing OK."

Knock on wood.❖

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