

Prospering in a stagnant economy

Opportunities abound for the agile

Last month, the Federal Reserve increased interest rates to their highest point in five years. And — in response to national inflation concerns — it left the door open to another increase, perhaps as early as next month.

There is increasing evidence of a softening of the U.S. economy on a national basis. It grew approximately 2.5 percent from April to June and could grow close to 3 percent from July to September, analysts say. That would mark a considerable slowdown from the first quarter's 5.6 percent pace.

In June, weakness in construction and retailing tempered overall employment gains. In June, jobs in the financial, educational, health, government and manufacturing sectors increased. But weakness in construction and retailing tempered overall employment growth.

In addition, oil prices have hit more than \$75 a barrel this year, and gasoline prices have exceeded \$3 a gallon in some cities.

To understand the local impact and potential opportunities that will exist with a stagnant economy, *Smart Business* interviewed Berger Singerman's Steven Garellek, a lawyer recognized for his understanding of local business conditions.

So how is the economy in South Florida?

There is ample evidence that South Florida is beginning to see softening in some sectors of the economy. The real estate market has shown definite signs of cooling off from the torrid pace of recent years. And higher plane and fuel costs will likely challenge our tourism sector, which is one of the bellwethers of our economy. However, the diversity of our economy, the attraction to international investors, and the strength of the health care sector make for a still-vibrant economy.

Are you bullish on prospects for the region in the near term?

Well, I am definitely bullish in the long



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term. South Florida has so much going for it. But shorter term, I expect that we will be impacted by slowdowns in other geographic areas that have historically contributed to the vibrancy of our region. The continued challenges of legacy costs for manufacturers in the Midwest and the impact of high energy costs on New England will undoubtedly have a spillover impact on our economy.

Does that suggest that executives should start throttling back their growth plans?

Hardly. What my colleagues and I are seeing is that some executives have begun adjusting their sails so they can prosper even in a stagnant economy.

Adjustments being made by the agile differ by sector of the economy. For instance, some of the more sophisticated real estate investors have already reduced their risk exposure to the current market and are building liquidity to take advantage of buying opportunities they see developing in the next six to 12 months.

Conversely, we see no slowdown in investment in developing health care solutions to prolong the quality of life. In fact, we see investment in this area

growing as a result of the major universities in the area and Scripps Institute collaborating to make South Florida into an important medical and biotechnology research center.

Each sector of the local economy will continue to have its own dynamics, even through a downturn.

Are you suggesting that being creatively opportunistic will be one of the keys to being successful?

For sure. Let me give you an example. In Florida, property owners face significant challenges with respect to the cost and availability of property insurance. While this has stymied some real estate investors and has even contributed to softening real estate prices in some segments of the real estate market, we are working with others who have developed creative solutions to this challenge. The market always rewards those who find creative ways to meet the needs of our ever-growing population.

What final words of advice on this subject would you give to a business executive?

Carpe diem: Seize the day. In every downturn, there are owners and managers who benefit greatly by shifting their strategy to take advantage of the changed circumstances, while at the same time others are spending much of their time bemoaning the downturn. Barring a major recession, which I just don't think is likely, agile executives have an opportunity to prosper even during a downturn.

Now is the moment to set aside some quality time to work with your management team and key external advisers to think through the opportunities likely to be available for those who are prepared to move quickly, but thoughtfully, as the economy softens.

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