

Business trends for the new year

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5 things to watch for in 2008

If this year is anything like 2007, buckle your seat belt.

The legacies of the past year will weigh on business in 2008, as the financial sector tries to heal from the mortgage meltdown. The automotive industry will try to pull out of its slide, and energy will be on everyone's minds, as gasoline for your car and power for your home continue to cost more.

But there's also plenty of growth potential in Northeast Ohio -- from billions of dollars in new downtown development to growing investments in biotech, device, service and health-care companies.

Here's a list of five things to keep your eye on this year.

1 The mortgage fallout

The mortgage mess that erupted in August translated into a nasty 2007 -- and 2008 could be just as bad for many banks locally and nationally.



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This area's two largest banks, National City Corp. and KeyCorp, have dominated with announcements of financial troubles and job cuts. During the last part of 2007, National City cut about 10.5 percent of its work force, or 3,400 jobs, most of them in mortgage operations. Key in December eliminated 1,040 positions (300 of them open jobs).

Each bank employs about 6,000 people in Greater Cleveland. Only a fraction of each company's cuts have been local, totaling about 230 jobs for Key and a few hundred for National City.

The banking industry was hammered last summer as Wall Street investors, fearing risks, abruptly stopped buying many mortgages nationwide. Banks consequently were left selling mortgages for less than expected -- or holding ones they couldn't sell and declaring losses for the lower value of the loans.

As consumers struggle to make mortgage payments, banks are getting slugged with those losses. That means it's likely National City and Key could cut more jobs this year.

"It's our expectation that there is going to be more," said banking analyst Gerard Cassidy of RBC Capital Markets in Portland, Maine. "The industry is currently confronting what we envision to be a much weaker economy in 2008."

-- *Teresa Dixon Murray*

2 Downtown deals

Commercial development downtown might be a more uplifting antidote to the gut-cramping struggles of Cleveland's residential market this year. Between ambitious mixed-use projects aimed at revitalizing pockets of the center city and a game of musical chairs played by some of the city's biggest and most desirable office tenants, downtown could see changes around its edges and along its skyline this year.



Joshua Gunter

The first building in developer Scott Wolstein's \$400 million project to revamp the Flats' east bank could rise this year. Hungry marquee office tenants have been sniffing seriously around the project, pitting Wolstein against fellow developers including Bob Stark, Forest City Enterprises, John Ferchill and the Richard E. Jacobs Group.

Winners could emerge in that competition this year, as key players such as global manufacturer Eaton Corp. and accounting giant Ernst & Young, with leases soon to expire, settle on new digs. Those deals might bring downtown at least one new top-shelf office building, with potential for another building or a major corporate office campus.

None of the handful of tenants shopping for space has made a formal announcement, but plenty of behind-the-scenes dealing took place during 2007.

Depending on how the office deals shake out, 2008 might see progress on Stark's sweeping plans to turn Warehouse District parking lots into a mixed-use neighborhood. Stark hopes to secure a large office tenant to anchor the first block of his \$1 billion-plus project.

And, of course, look for some hefty requests for public money as developers seek help turning their sketches into structures.

-- Michelle Jarboe

3 Ailing automotive

Here's the good news: In 2008, Ford Motor Co. and General Motors should look better than they did last year.



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Now for the bad: Neither company is in good shape yet.

The key issue for automakers this year will be the overall health of the market, coming out of the weakest year for U.S. auto sales since 1998. Early predictions are that 2008 could be even worse.

For almost every month of last year, Ford reported abominable numbers thanks to its decision to slash money-losing sales of cars to rental companies. With that bleeding now over, Ford could see year-over-year sales improve in 2008.

Its performance still hinges on the radical restructuring of its lineup and Ford's ability to wean itself from reliance on trucks and sport utility vehicles.

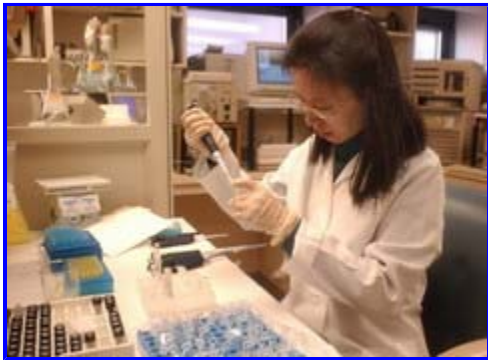
Sales at Chrysler, which has pledged to cut money-losing fleet sales this year, could look like Ford's from 2007.

Analysts are more bullish on GM, though the company continues to lose market share to Toyota and Honda. Late last year, the company launched its redesigned Malibu sedan, offering a challenge to the best-selling Toyota Camry and the No. 2 Honda Accord. And GM expects to bring several fuel-saving hybrid SUVs and pickups to the market.

-- Robert Schoenberger

4 Biomedical money

Northeast Ohio continues to emerge as a Midwest hot spot for investing in biomedical technology. Look for more medical jobs -- and wealth -- to spring up here in the future, experts say.



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Consider last year: Twenty-two medical device, biotech and health-care services and information companies in this region attracted \$212 million in investment by Sept. 30. That's more than \$8 out of every \$10 invested in health care in this state during that period.

Numbers aren't in for the entire year, but Northeast Ohio bioscience company developer BioEnterprise, which tracks quarterly health-care venture investment in the Midwest, sees a continuing boom.

Arteriocyte Inc., a Cleveland developer of stem-cell therapies, picked up \$10 million from a private investment firm in October. A month later, probiotics company Ganedan Biotech Inc., in Mayfield Heights, landed \$12 million.

And, on average, two venture capital firms have opened offices in Northeast Ohio in each of the last several years.

"If we're going to open an office in a particular geography, there really has to be a critical mass of activity," said Tom Melzer, managing director and co-founder of RiverVest Venture Partners, a St. Louis-based firm that opened a Cleveland office Wednesday. "There definitely is that going on in Northeast Ohio," Melzer said.

-- Mary Vanac

5 Energy reform

The future of wind turbines and solar arrays here might still be up in the air.



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But Ohio has grabbed the attention of European solar and wind companies looking for U.S. digs -- and smaller manufacturers are clamoring to get into the growing fields. Could that color the region's future green? It depends on how a public policy debate over requiring green power generation plays out, experts say.

In recent months, foreign solar companies have talked to the state about setting up here and scouting Ohio for suppliers. And the list of Ohio companies betting on the multibillion-dollar global renewable energy market keeps growing. Hearings on Gov. Ted Strickland's bill -- to require the state's utilities to generate a portion of their power with green technologies -- resume Wednesday. The bill has been approved by the Ohio Senate but is making slow progress through committee hearings in the House.

As for the other energy story of 2008, it can be summed up in one word: Cost.

The electric utilities insist that rates will rise in 2009, whether companies remain regulated or are allowed to base rates on wholesale markets. And FirstEnergy Corp. has a request pending before the Public Utilities Commission of Ohio to hike distribution rates -- the part of the rate that pays for the system that carries power to customers. Dominion East Ohio Gas Co. also has a request pending before PUCO to increase delivery rates.

Throw in rising gas prices, and you might want to make a New Year's resolution to save your pennies.

-- *John Funk*

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