

Guidance in Uncertain Times – Annual Economic Forecast

Alex Chausovsky, Senior Analyst, ITR Economics

Uncertainty and volatility are the prevailing challenges that business leaders confront today. The critical questions facing the business community are “what will be the overall health and vibrancy of the US and global economies going forward?” and “how can I be profitable and make critical strategic decisions in the face of such economic volatility?” Sifting through the often-conflicting maze of economic information, ITR Economics Senior Analyst Alex Chausovsky provides a timely snapshot of the economy today, where it is headed over the next three years and what it means to your business. The session at the MCAA Industry Forum on April 25, 2017 provided ITR’s views of what to expect this year and beyond, covering such topics as industry trends, business to business activity, interest rates, oil prices, inflation, exchange rates and emerging economies.

The Bottom Line: There will be growth in 2017 and 2017 with a mild recession in 2019 and recovery on the back end.

Mr. Chausovsky reminded the MCAA audience that we have had a prolonged period of steady GDP growth which was slowing down in 2015 and 2016. However, since the 3rd quarter of 2016, we have been in a period of accelerating growth. ITR anticipates a 3.7% growth in GDP in 2017—above anything that we have seen recently. He answered the obvious question—does the change in administration have anything to do with that? Since it takes 6-9 months to effect policy and another 12-18 months for it to have an effect on the ground, any policy changes that the Trump administration might make will be seen in 2019, not this year.

The biggest drag on US Industrial Production has been oil. However, Industrial Production and Consumer spending are now rising leading to the forecast of 3.7 growth in 2017.

Chausovsky detailed the ITR methodology using 3/12 and 12/12 Rates of Change (ROC) and 3 Month Moving Totals or Averages (MMT or MMA) which allows you to look around the corner to see what might be coming. You want to look for the point at which the 3/12 is above the 12/12 (the last quarter above the last year) and that is the point at which you want to start to invest in your business. While that might happen while the economy is still in recession, that is when you know it is moving upward.

He also encouraged the MCAA members to find a leading indicator that is appropriate for your business and align with that reality to predict the next period. ITR does that work for companies.

Other key points made were that the global economy is heating up. Non-Defense Capital Goods (the primary Business-to-Business arena) were in decline most of 2016 but the 3/12 ROC is up 4.6% which bodes well. There has been a persistent negative pricing environment for the past 12-18 months and commodities have been beaten down over the past two years. When copper prices are UP, that is a key indicator of inflation and rising inflation is part of the forecast market trend. ITR encourages MCAA members to raise prices or their margins will be squeezed at the same time wages are being inflated. Currently wage growth is back to pre-recession levels. Thus, going forward, we will have a different environment from 2016—inflation.

Oil is an oversupplied market. OPEC is going down, shale is going up and shale has been a game changer. The ability to turn on the spigot in weeks is completely new. Faster turn-on and greater production through horizontal drilling—to create multiple horizontal wells from existing vertical wells are key to growth. There is no fundamental reason why oil prices will rise and there is no impetus from inventories.

Chausovsky presented these takeaways for the MCAA audience:

- Budget for continued economic growth through 2018
- Be willing to take risks—be in it to win it
- Consider opportunistic business and capital acquisitions
- Add new products – new ventures in the business cycle
- Make sure training and retention programs are top-notch
- Budget for higher wages and input costs and raise prices to cover inflation

Senior Analyst at ITR Economics, Alex Chausovsky is a highly experienced market researcher and analyst with significant expertise in subjects that include macroeconomics, machinery production, electric motors and controls, mechanical and fluid power products and industrial energy efficiency. He is currently responsible for providing reliable industry and company forecasts, presentations and economic consulting services to small businesses, trade associations, and Fortune 500 companies across a spectrum of industries. Prior to joining ITR, he was with IHS where he served as Research Director and Senior Principal Analyst for 8 years. His research has been featured in major industry trade publications and magazines, including NPR and the Wall Street Journal, and he is an experienced presenter and speaker, having given many keynote presentations at leading industry conferences. He holds a BBA in International Business from the University of Texas at Austin and an MBA from Texas State University and is a fluent Russian speaker.