



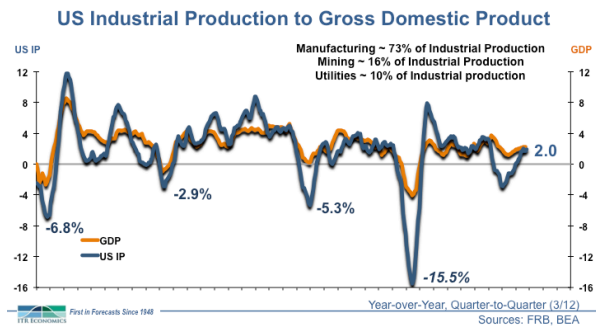
MEASUREMENT, CONTROL & AUTOMATION ASSOCIATION

Navigating the Crest – The Economic Outlook from ITR Economics – November 2017

Currently, the economy is in an accelerating growth cycle. That means that economic forces are a tailwind—your business should be growing. The next six months represent your best opportunity to take on risk and be aggressive. By this time next year, the tailwinds will become headwinds. The economy will transition to the back side of the business cycle. ITR Senior Analyst, Alex Chausovsky, addressed “Navigating the Crest” in his semi-annual MCAA economic forecast in late November 2017 and reviewed the macroeconomic landscape—including the key vertical markets served by MCAA members and their product lines.

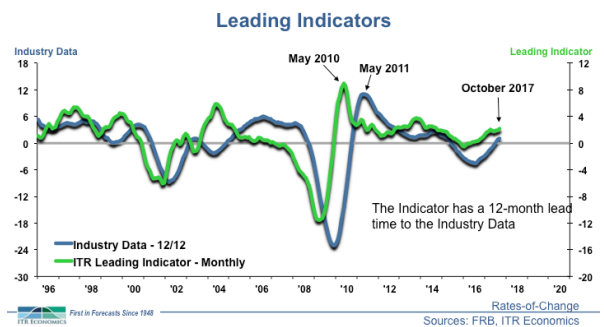
ITR presents two economic outlooks to the MCAA community each year and in April 2017 (at the Association’s Industry Forum in Atlanta, GA) he forecast a good year for 2017—that prediction has come to pass. Even the weather events (hurricanes in Houston, Florida Puerto Rico) have not dampened the robust economic climate. The ITR economist urged MCAA members to keep the vision of a cresting wave in their mind: right now we have accelerating growth as the wave builds. In mid-2018 we will hit the crest and in the latter one or two quarters of next year we will start to go down the backside of the wave into a slight downturn in 2019.

Chausovsky noted that because our economy is so large, it takes a long time for any outside force to change its course (like tax changes). We have been in an expansion mode for nearly a decade. Despite a small dip in 2016, we are continuing expansion and should until we hit a small dip in 2019—it will in no way compare to the recession of 2008-09. In the forecast, he foretells of a deceleration of growth, not a recession.



Looking at the performance last year, Industrial Production was down but, because it is made up of three components, the reason is not because manufacturing was down. Composing 73% of the Industrial Production Index, manufacturing was—and is—doing well and never declined in 2016. Instead, mining (16% of Industrial Production) and Utilities (10%) put the downward pressure on the index last year.

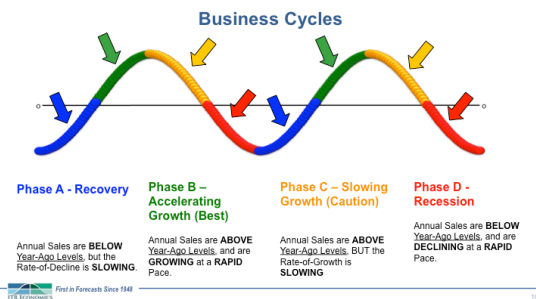
Chausovsky stressed to the MCAA members that studying business performance numbers using a rate of change approach (comparing the recent quarter to the same quarter a year ago and comparing this year-to-date to the same period 12 months ago—known as 3/12 and 12/12) can show a company that even though they are showing growth in sales, their rate of change may be slowing down and portends changes in the future. When the quarterly performance is below the annual performance (i.e. the 3/12 is below the 12/12), you will be facing further decline. Conversely, a quarterly result above the annual harkens an improvement. This approach gives one to two quarters of notice that your business cycle is about to change. This statistical technique was explained in an MCAA webinar earlier this year which is available from the Association.



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There are management actions that can be taken during each business phase. In Phase B (Accelerating Growth which we are currently in) managers are urged to ensure that quality control keeps pace with the volume of business and that they invest in workforce development—hiring, training and retention of their key personnel. A whole different set of actions will be required when we turn into Phase C (Slowing Growth) when managers must apply their resources to the industries and markets that will be the best return for their investment or attention.

Mr. Chausovsky reviewed a number of the markets important to MCAA members and left the audience with these specific action items:



- Budget for continued economic expansion through 2018
- Take risks—invest in your business over the next two quarters
- Hire sales people to grow as the economy accelerates
- Add products and services to buck the business cycle decline
- Retain your key talent
- Budget for higher wages and input costs—raise prices!

Members of the Association are able to download the full recorded version. Visit the [Members Only](#) portal on the website and select “Presentations and Recordings/Webinar Recordings” to select the Navigating the Crest Economic Forecast recording.

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. At ITR Economics, he is currently responsible for providing reliable industry and company forecasts, presentations and economic consulting services to small business, trade associations (including MCAA) and Fortune 500 companies across a spectrum of industries. He holds a BBA in International Business from the University of Texas at Austin and an MBA from Texas State University. He will present another forecast for the MCAA audience at the Association’s Industry Forum April 24 in Houston, TX.



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