



Economic Outlook— Annual Meeting Sneak Peek

By Brian Beaulieu, CEO at ITR Economics

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There seems to be a greater than normal amount of conflicting views prevalent in the news about where the U.S. economy is heading. Some say a recession is imminent. Some say the stock market is about to come crashing down. Others, such as ITR Economics, look at the data and conclude that economic performance is unusually uneven, but outright recession is not probable based on the leading indicators. Perhaps the conflicting views stem from the fact that we are in the midst of a particularly nasty presidential election; there is a lot of rhetoric and misinformation floating around. However, it is also true that the conflicting views, in some cases, stem from looking at different indicators and inputting different meanings or weighting to the different indicators. The latter is why many people don't like economics and don't trust the purveyors of the dismal science.

ITR Economics tries to get around some of these difficulties in several different ways. One way is by showing our forecasting track record so you can gauge for yourself whether or not we seem to have our fingers on the economy's pulse. We admit when we are wrong and when we are not seeing clear evidence from the economic indicators. We also use a system of leading indicators versus using one or two key indicators to assess where the economy is going. A system of leading indicators is going to be more useful in the long run, because there is inevitably divergence of trends among the leading indicators because it is not uncommon to have the economy running on something less than all eight cylinders. For this business cycle, the oil and gas industry's depression had a significant impact on entire swaths of the economy.

Our system of leading indicators shows the preponderance of the input is pointing toward improving business cycle conditions in the latter half of 2016 followed by additional rise in 2017. The leading indicators pointing toward better days include: the ITR Leading Indicator, the ISM's Purchasing Managers Index for Manufacturing, the ISM's Non-Manufacturing Purchasing Managers Index, housing starts, home sales, disposable personal income and the rising trends in retail sales and employment. Downward signals are coming from the conference board's U.S. leading indicator, heavy duty truck production and corporate profits. The U.S. leading indicator is not reliable for macroeconomic change, as we pointed out in our book, "Make Your Move." Heavy duty truck production is sometimes tied in to macroeconomic change, but also sometimes tied in to EPA regulatory changes that alter an entire cycle. Aggregate corporate profit data is only available through the first quarter of 2016, so that data is now old. We will have one or two

additional quarters of data by the time we get to the October PMPA annual meeting at Hilton Head Island, South Carolina. We expect the data will be mildly positive at best because of pricing issues faced by many companies. We will talk about those issues at Hilton Head.

The depression in energy production and prices negatively impacted numerous precision machined parts companies, as did the more general slowdown in non-defense capital goods new orders. The good news on the energy front is inventories in the U.S. are coming down. Production is down and demand is up. That sets the stage for price rise and some of that has already occurred. We see the same demand and supply rebalancing playing out globally, but to a lesser degree than in the U.S. Expect the global trend to follow after the U.S. trend as the global economy gets stronger next year. Higher oil and natural gas prices, combined with technological improvements and the need to generate cash, are factors in establishing a floor to the downturn in the oil and gas industry and eventually fueling a recovery trend for 2017 and 2018.

The extended outlook for precision machined parts manufacturing in the U.S. is positive. The U.S. is the home to more and more manufacturing, and our competitive position is improving. We live in a global economy, but don't be afraid to be primarily focused on expanding U.S. and North American opportunities to balance risk with growth. We still anticipate some business cycle issues around 2019, but they don't look to be major. Your planning emphasis should be on growth and making sure you have enough skilled people, sufficient working capital to fund the growth and the right equipment to meet tomorrow's quality and capacity demands.

Brian is one of the speakers at PMPA's Annual Meeting this fall at The Westin Hilton Head Island Resort and Spa in South Carolina (October 21-25). This is a great opportunity for senior management and company owners to connect and learn from one another by actively participating in this conference. The combination of networking events and strategic level business sessions will provide the take-home value that you have come to expect from our national meetings.

Visit the PMPA Annual Meeting website at pmpa.org for more details and registration. If you have any questions about this meeting, please contact Renee Merker, PMPA communications and events planner, at 440-526-0300 or email rmerker@pmpa.org.