

# Hardwood Manufacturers Association

March 2013

## *Make Your Move: 2013-2014*

Alan Beaulieu  
ITR Economics™



# 2012 Forecast Results

2

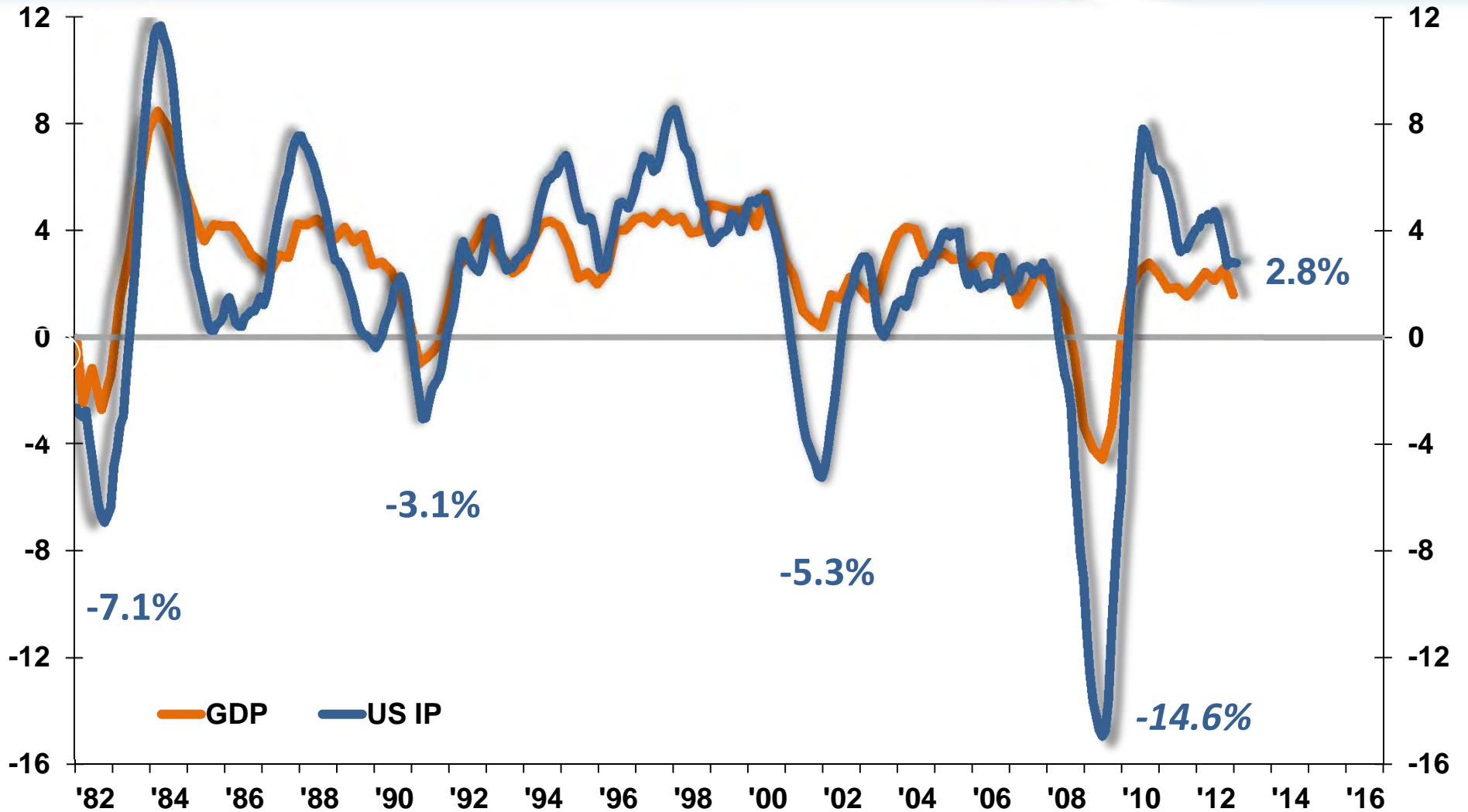
	Duration	Forecast	Actuals	
GDP	12	\$13.593 Trillion	\$13.648	0.4%
US Ind. Prod.	31	97.2 (12MMA)	97.2	0.0%
EU Ind. Prod.	12	100.4 (12MMA)	98.8	-1.6%
CA Ind. Prod.	8	96.7	96.7*	0.0%
Retail Sales	30	\$2.186 Trillion	\$2.131	-2.5%
Housing	6	743 Ths Units	780	5.0%
Employment	33	143.9 Million	142.5	-1.0%
CPI	9	2.8%	2.1%	

\* End of year 12-month index estimate



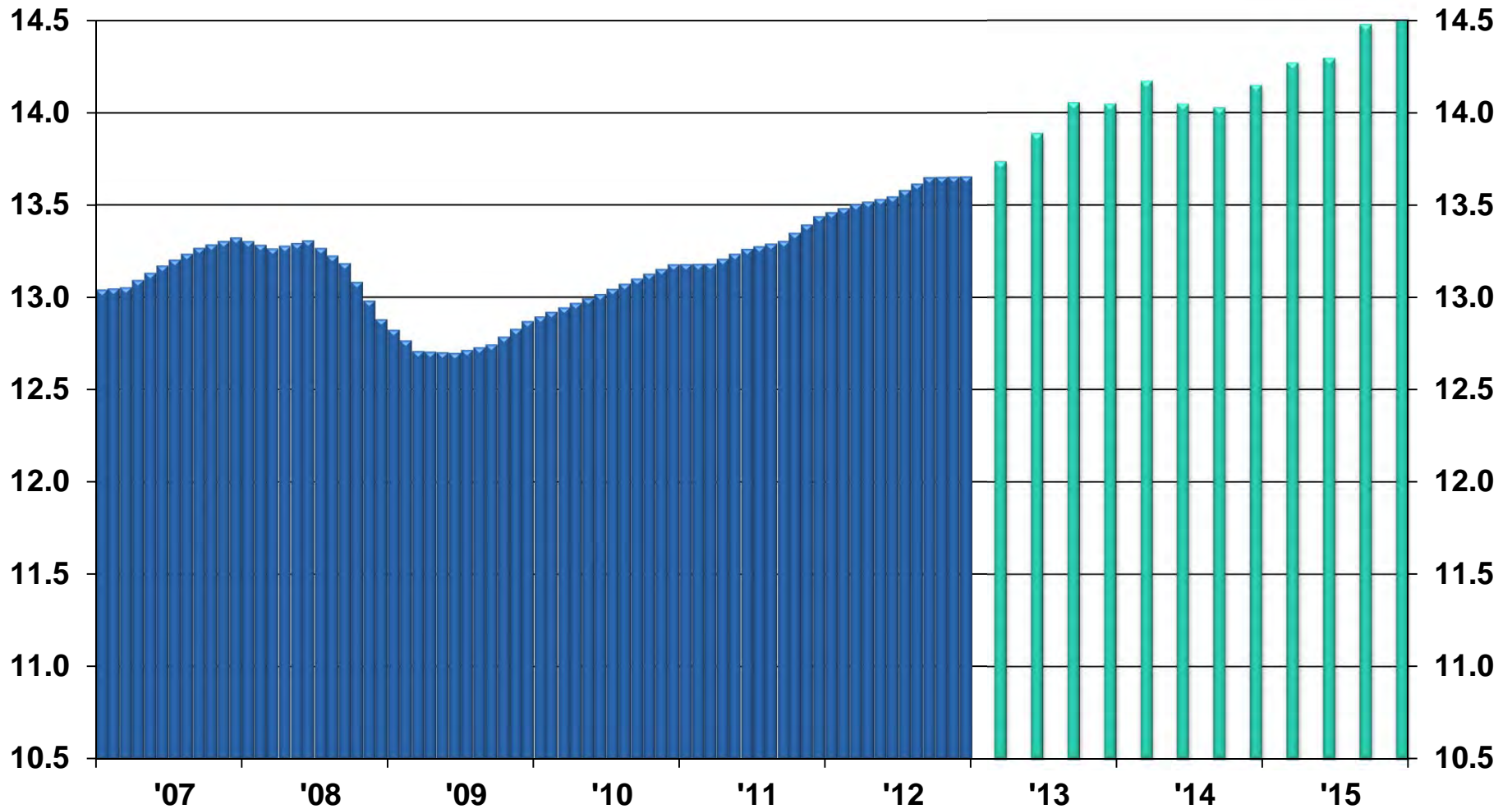
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# US Industrial Production to Gross Domestic Product



Year-over-year  
Quarter to Quarter  
(3/12)

# Real Gross Domestic Product



Trillions of \$



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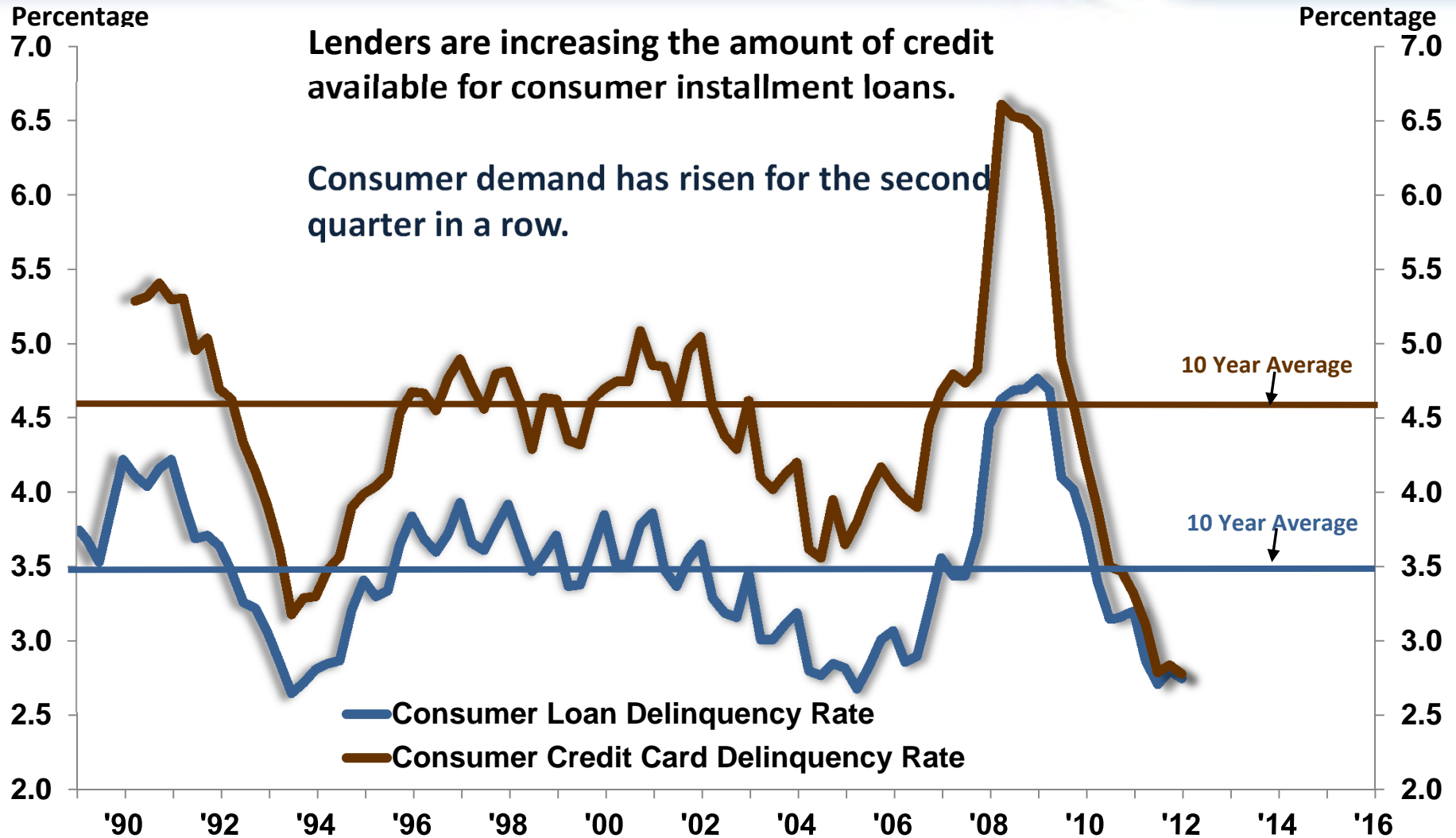
# Recovery

5

- **Leading indicators pointing up**
- **Liquidity is not an issue**
- **Exports are up**
- **Stimulative monetary policy**
- **Employment rising (companies right-sized)**
- **Banks are lending**
- **Retail Sales**
- **Construction spending is improving**

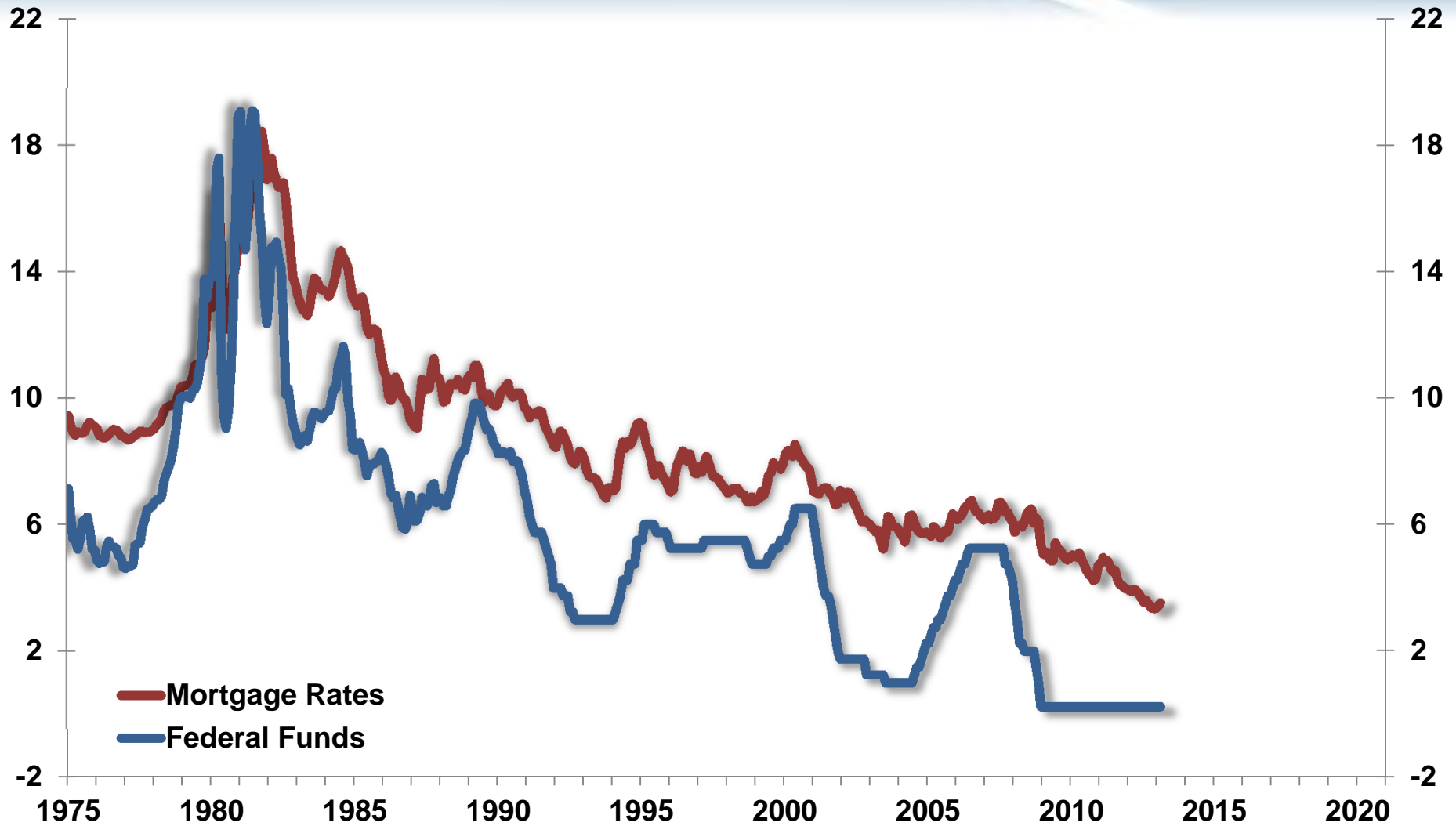


# Delinquency Rates on Consumer Loans



# Mortgage Rates to Federal Funds

7



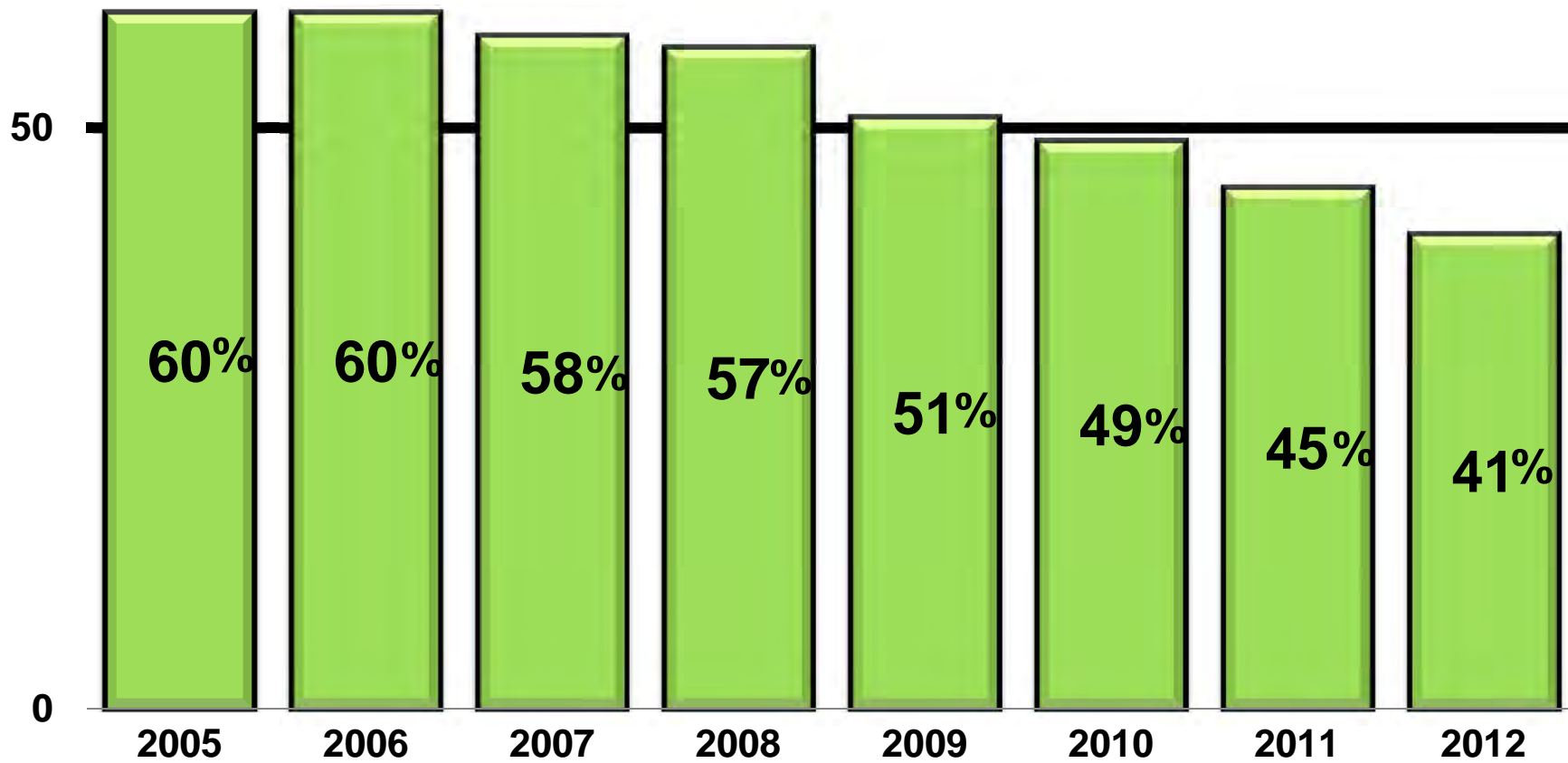
Raw Data



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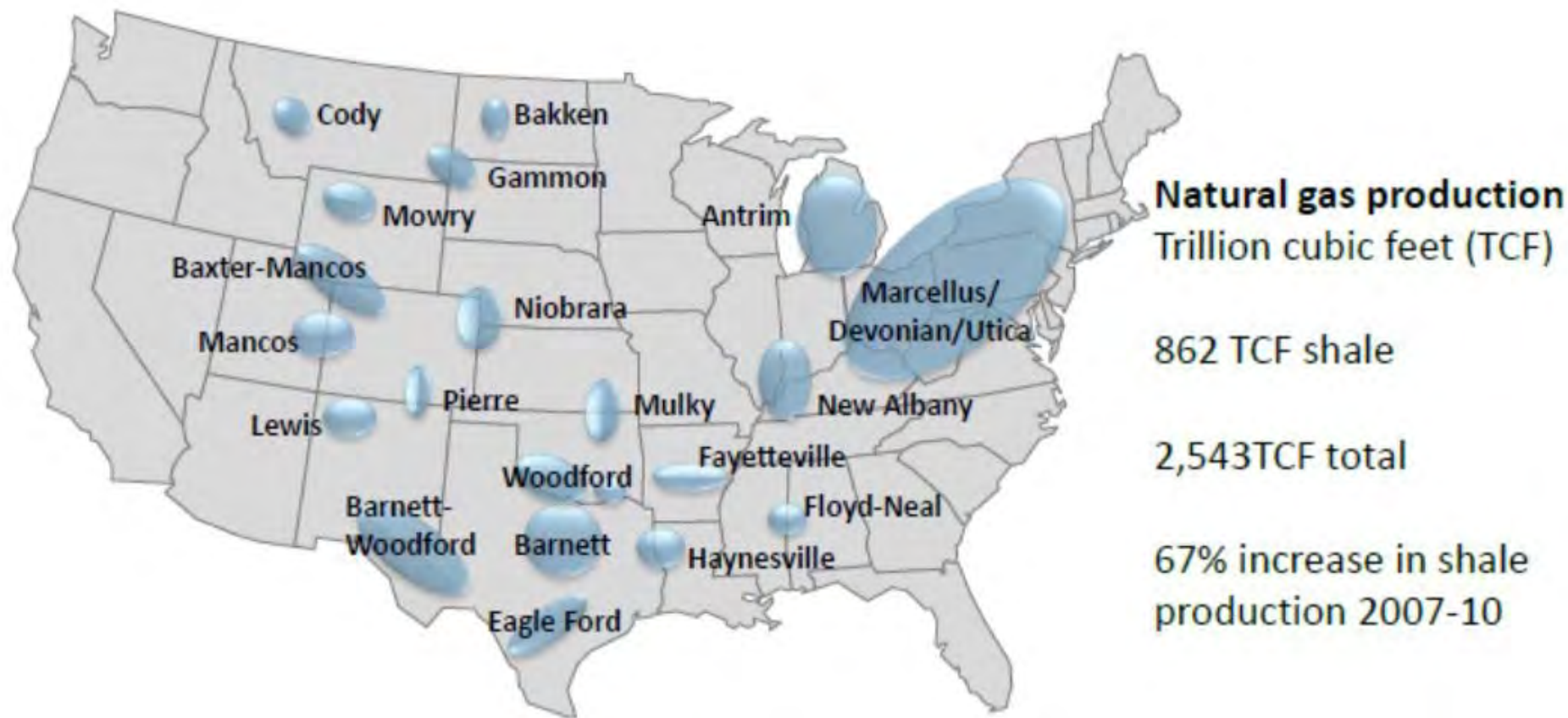
# U.S. Dependence on Foreign Oil Declining

## Net imports as a share of domestic consumption

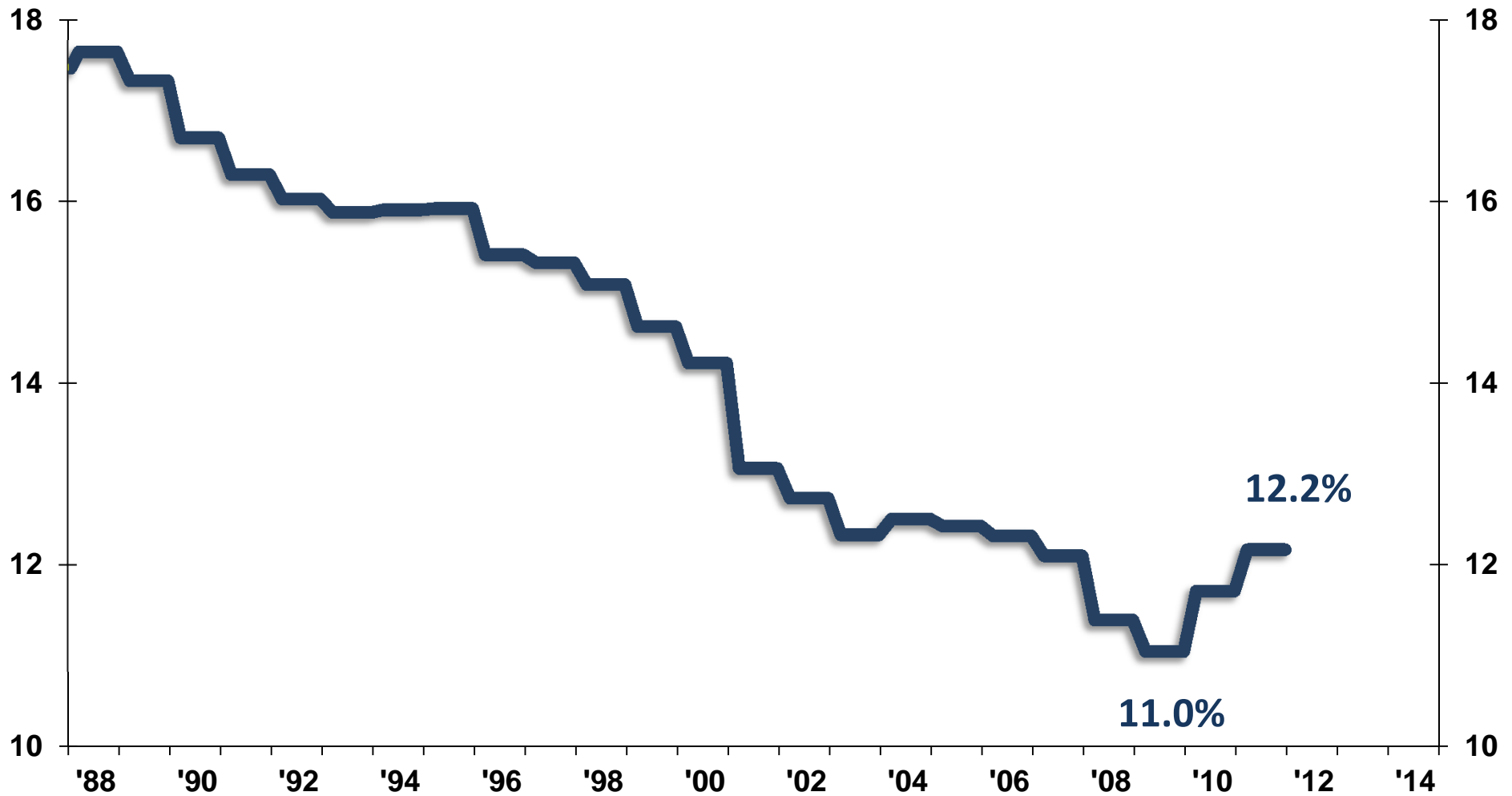




# One (or many) bright spot(s): the shale 'gale'



# US Manufacturing as a % of GDP (Value Added)



3MMA



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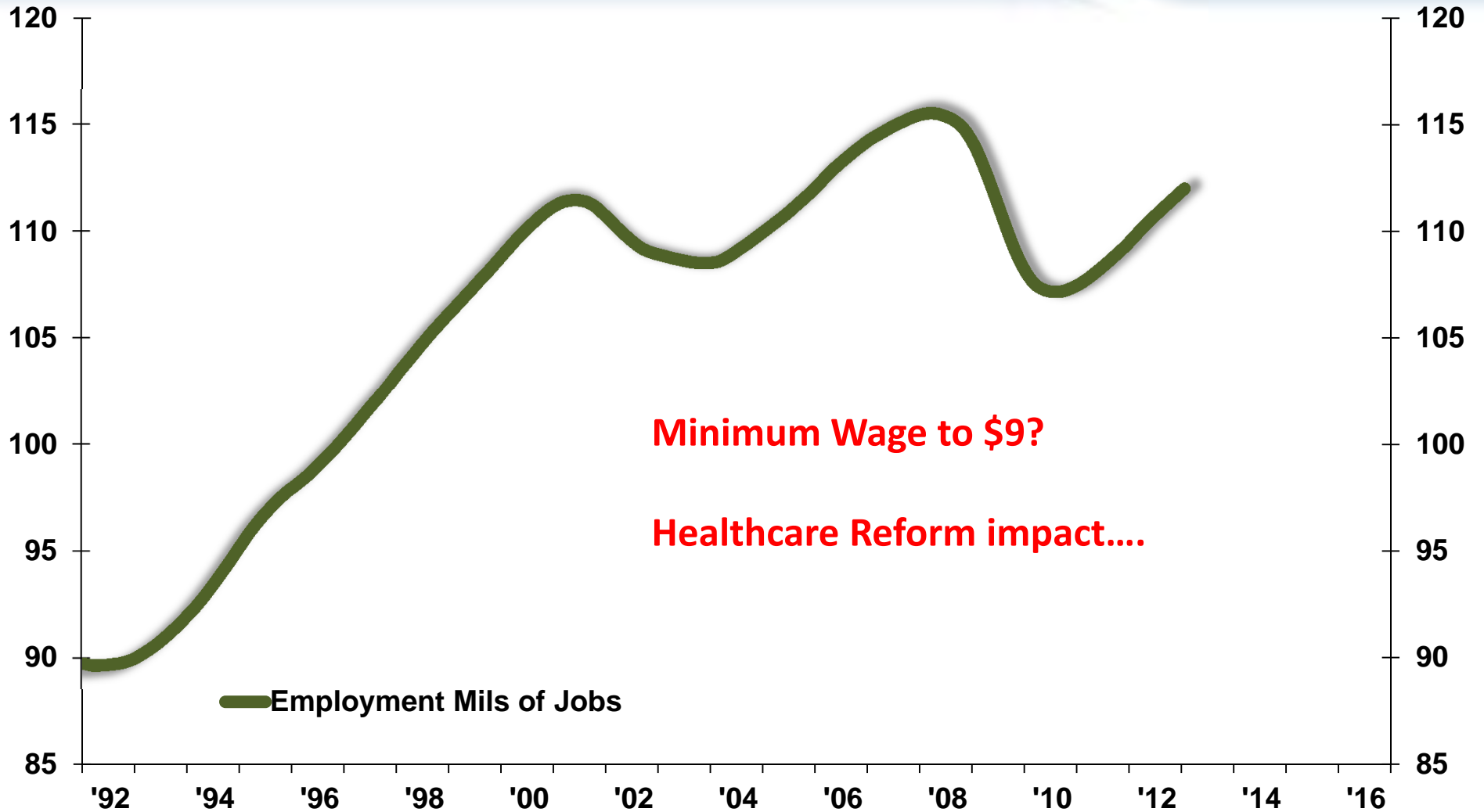
# Areas of Concern

11

- Europe's financial troubles ...
- China ...
- Massive legislative changes...
- Oil prices *could* break through \$120 ...
- Fiscal Cliff...
- Tax Hikes...
- Massive deficit and growing nat'l debt

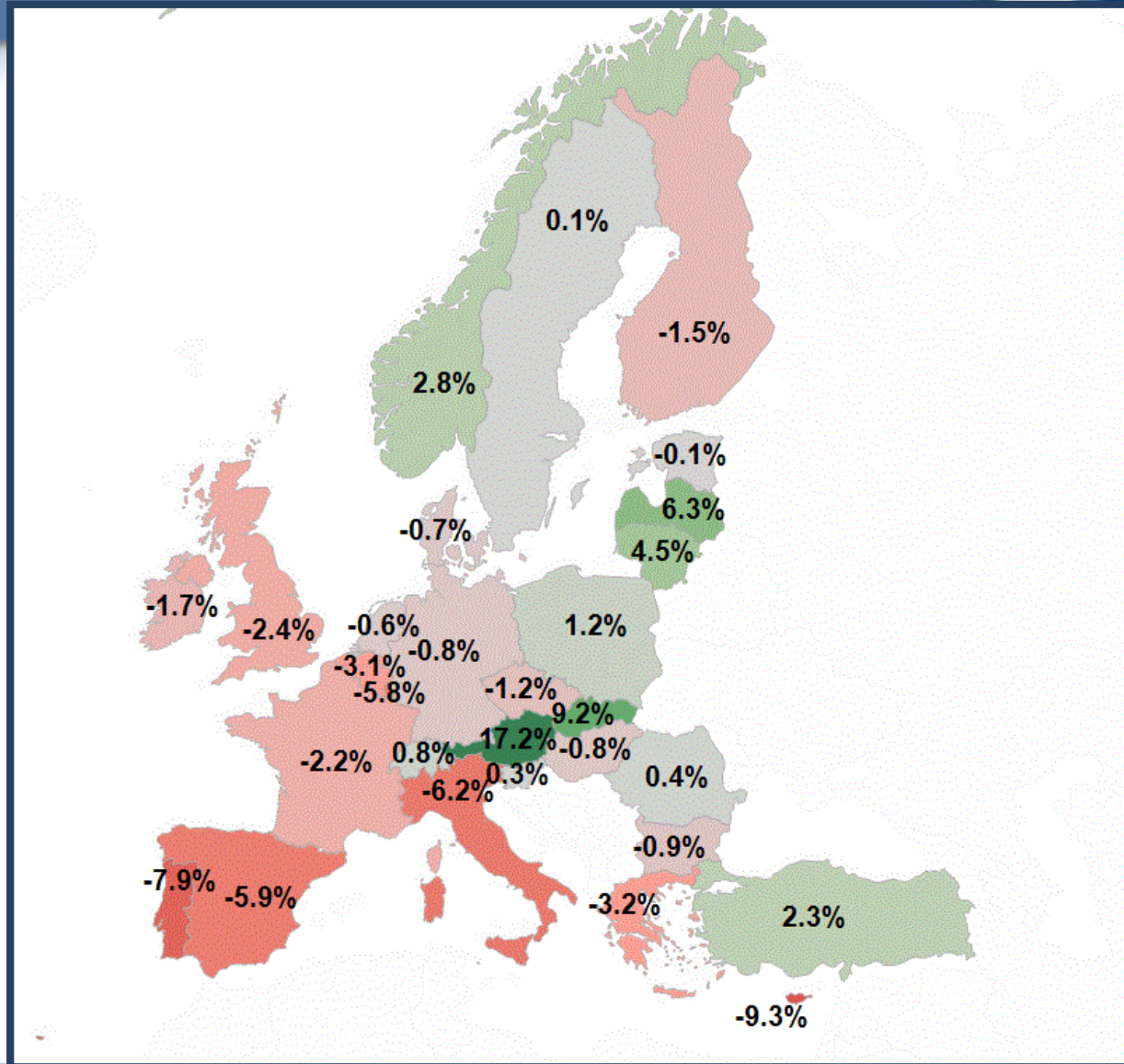


# Employment – Private Sector



# Western Europe Industrial Production

13

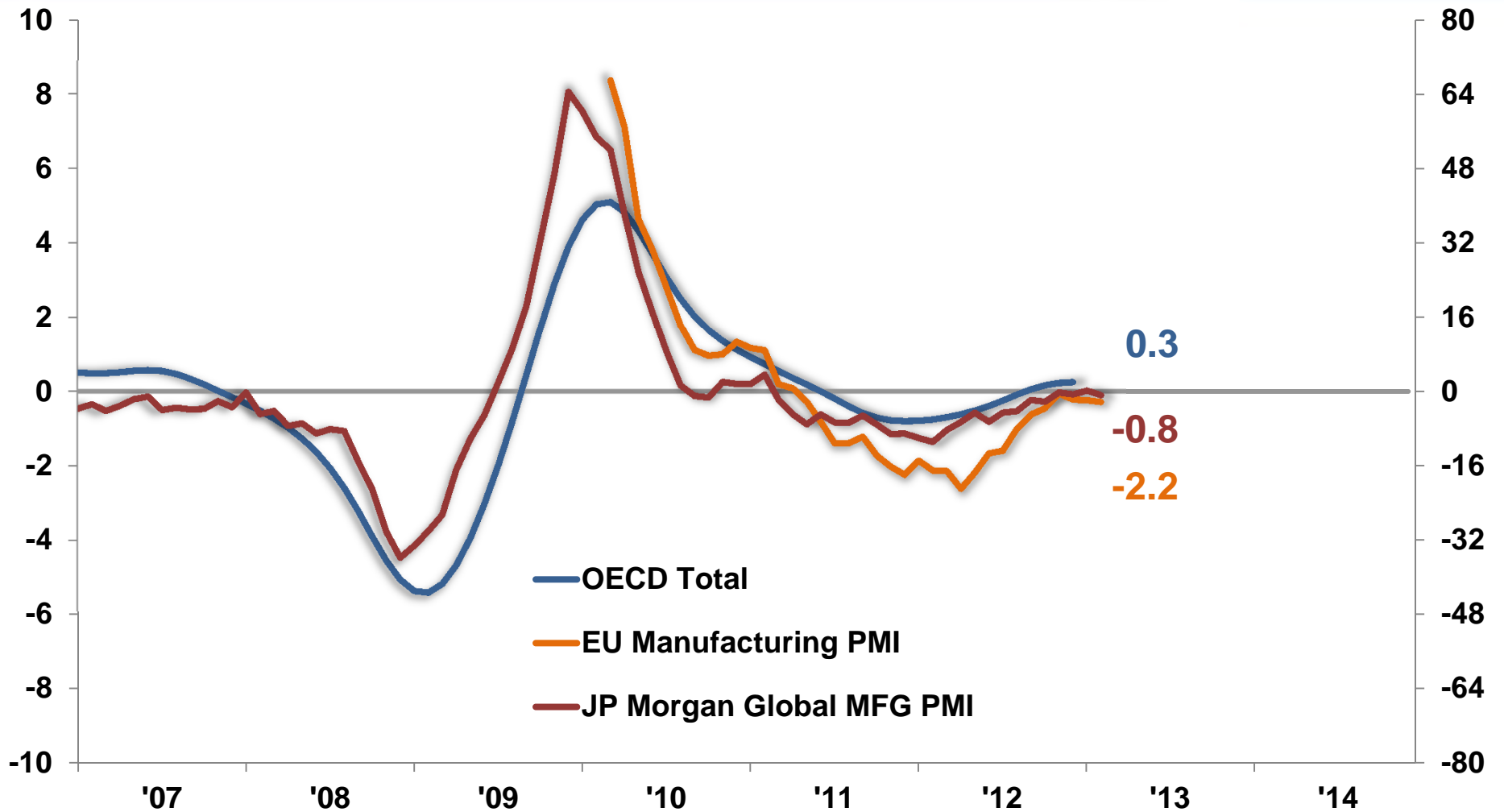


Year-Over-Year  
Growth Rates %



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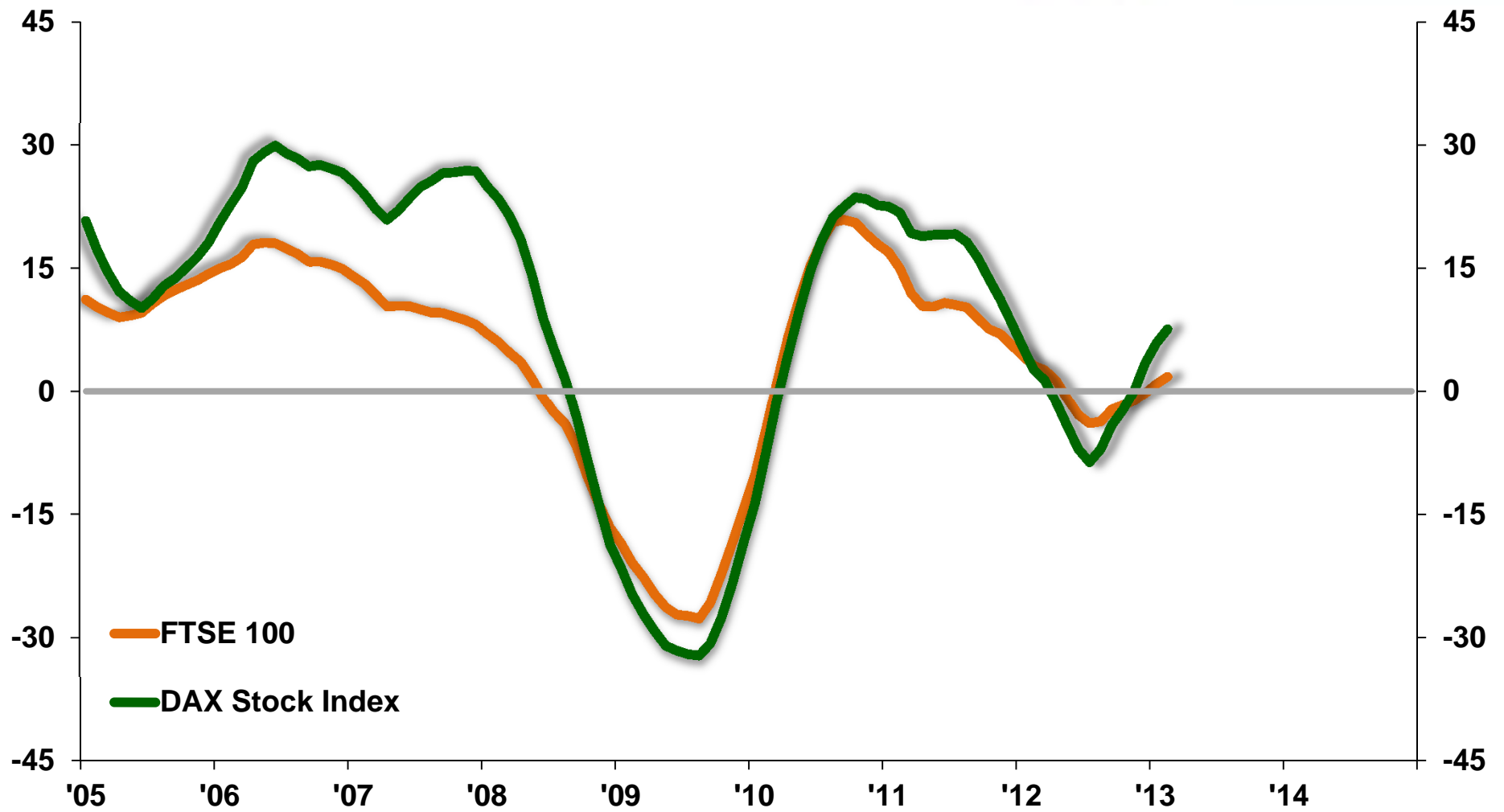
# Global Leading Indicators



1/12 Rates-of-Change



# FTSE 100 and DAX Stock Index

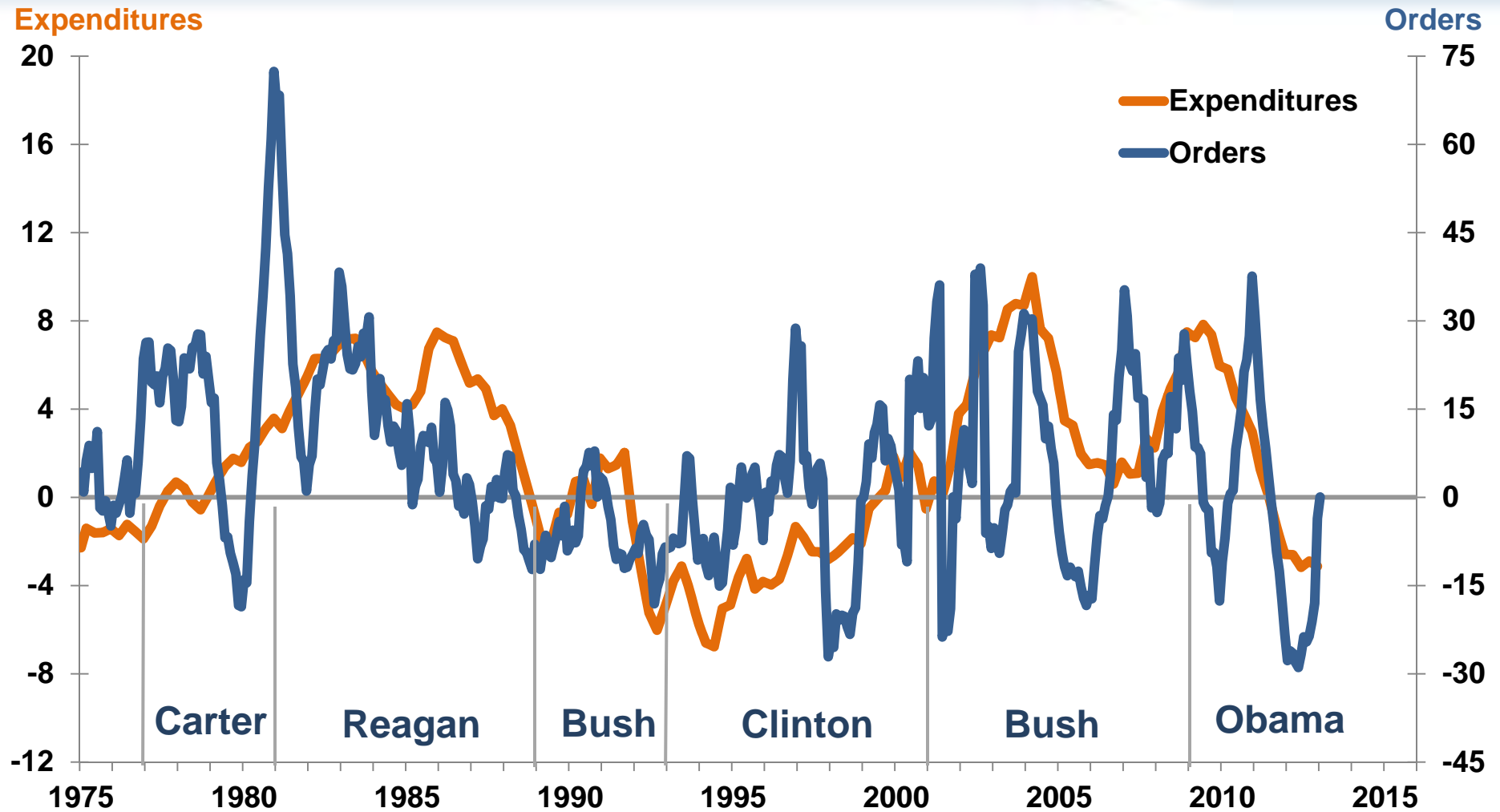


Annual Year-over-Year Comparison



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# National Defense Expenditures to Defense Capital Goods N.O.





BLUR

THE COLLECTOR'S SPENDING  
TRUCKS.COM

LOOK OUT! WE'RE  
ALL GONNA DIE!!!

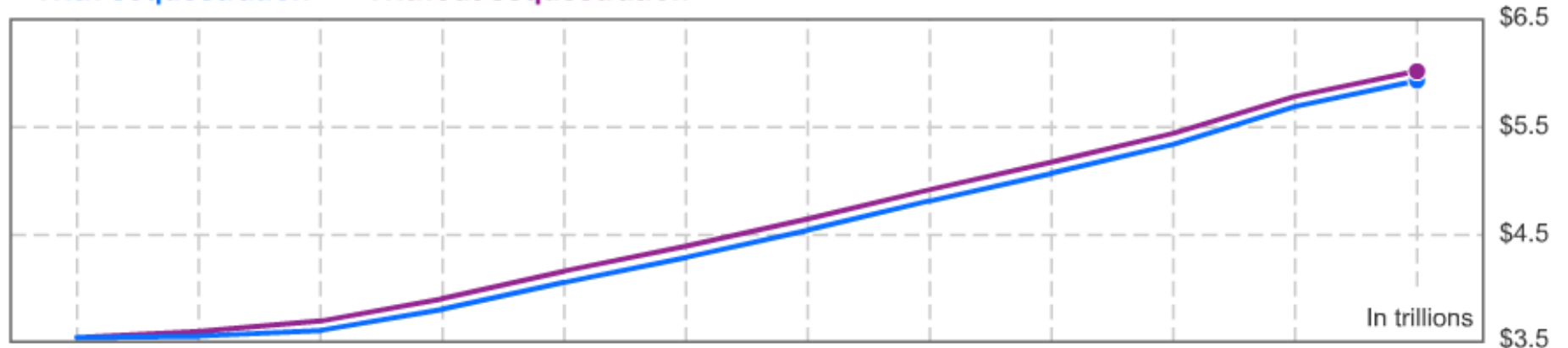


# Sequestration

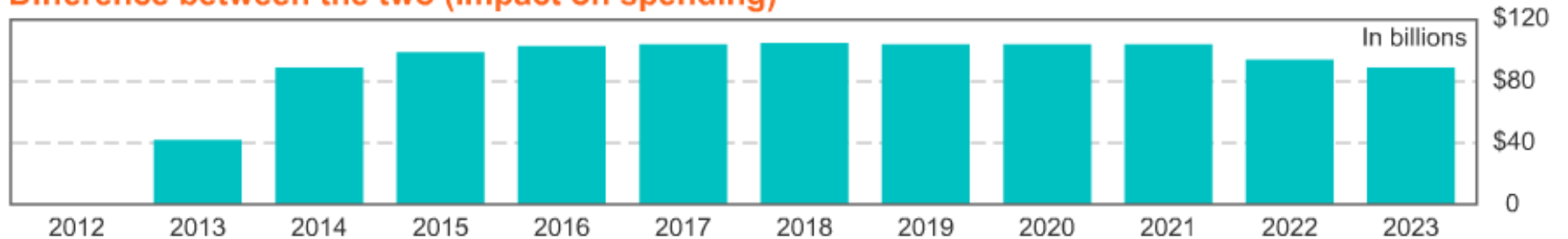
## Projected total federal spending

Bloomberg

● With sequestration ● Without sequestration

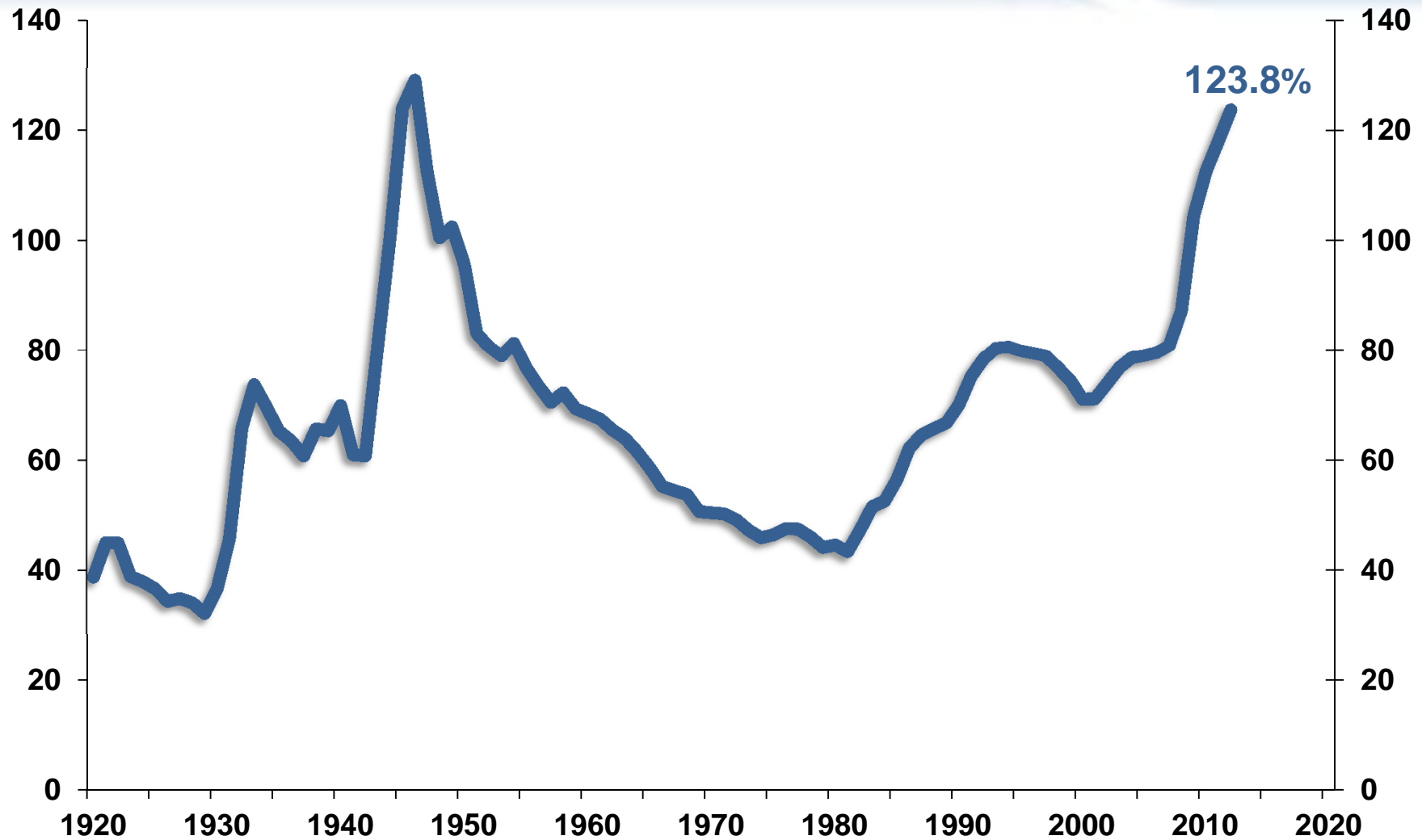


## Difference between the two (impact on spending)



Source: John Taylor

# Total U.S. Public Debt

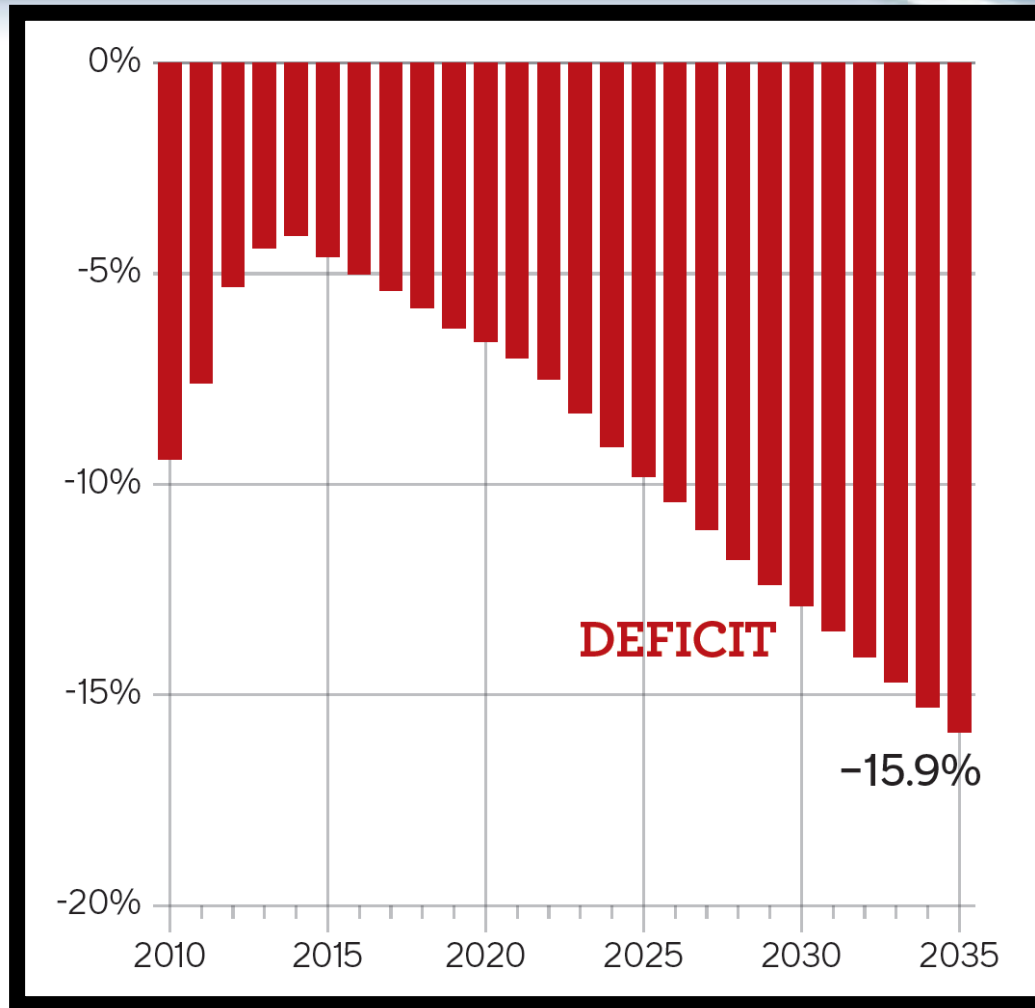


(% of GDP)



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# Surplus/Deficit as a Percentage of GDP



**Sources:** Current projections: Heritage Foundation calculations based on data from Congressional Budget Office, Alternative Fiscal Scenario. Heritage Plan: Calculations by the Center for Data Analysis, The Heritage Foundation, based on baseline data in the current projections, data provided by the Peter G. Peterson Foundation, and CDA policy models.

# Phase 1 – Data Preparation

	Raw	3MMT	3/12	12MMT	12/12
Jan-10	1.4				
Feb-10	1.5				
Mar-10	1.5	4.4			
Apr-10	1.4	4.4			
May-10	1.5	4.4			
Jun-10	1.3	4.2			
Jul-10	1.3	4.2			
Aug-10	1.6	4.3			
Sep-10	1.6	4.6			
Oct-10	1.5	4.8			
Nov-10	1.7	4.8			
Dec-10	1.6	4.8		18.0	
Jan-11	1.7	4.9		18.3	
Feb-11	1.7	4.9		18.5	
Mar-11	1.7	5.0	14.1%	18.6	
Apr-11	1.6	5.0	13.6%	18.8	
May-11	1.7	5.0	13.2%	19.0	
Jun-11	1.5	4.9	15.1%	19.2	
Jul-11	1.5	4.7	13.5%	19.4	
Aug-11	1.9	4.9	14.1%	19.6	
Sep-11	1.7	5.1	11.3%	19.8	
Oct-11	1.7	5.3	11.5%	20.0	
Nov-11	1.9	5.3	10.1%	20.1	
Dec-11	1.7	5.3	10.5%	20.3	12.7%

## 3/12 Rate-of-Change

$$= \frac{\text{December 2011 3MMT}}{\text{December 2010 3MMT}} \times 100 - 100$$

$$= \frac{5.3}{4.8} \times 100 - 100 = 10.5\%$$

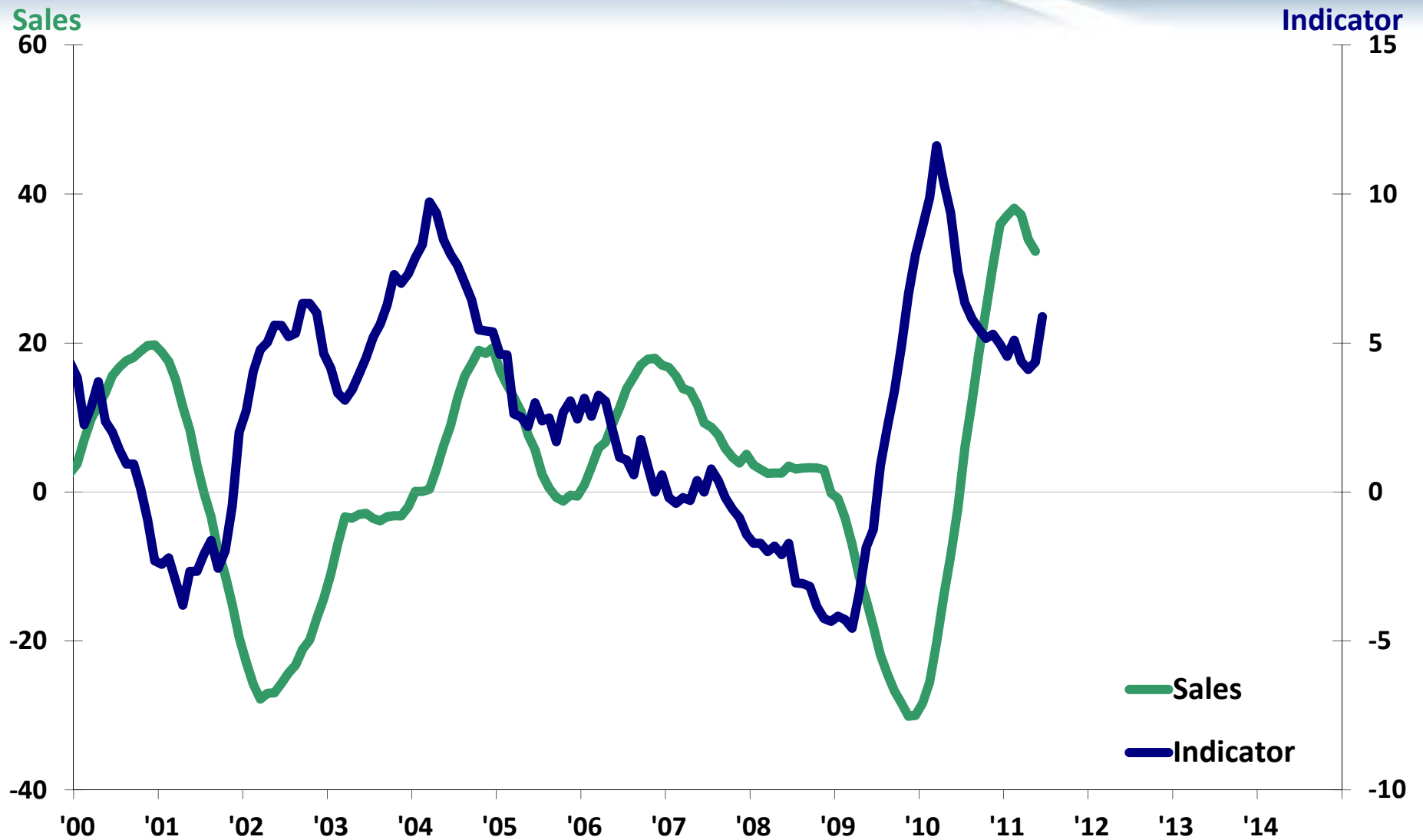
## 12/12 Rate-of-Change

$$= \frac{\text{December 2011 12MMT}}{\text{December 2010 12MMT}} \times 100 - 100$$

$$= \frac{20.3}{18.0} \times 100 - 100 = 12.7\%$$



# Phase 2 – Accumulate the Inputs



# Phase 3 – Generate the Quantitative Forecast

## Internal Trends



## Leading Economic Indicators



## ITR Long Term Business Cycle Theory

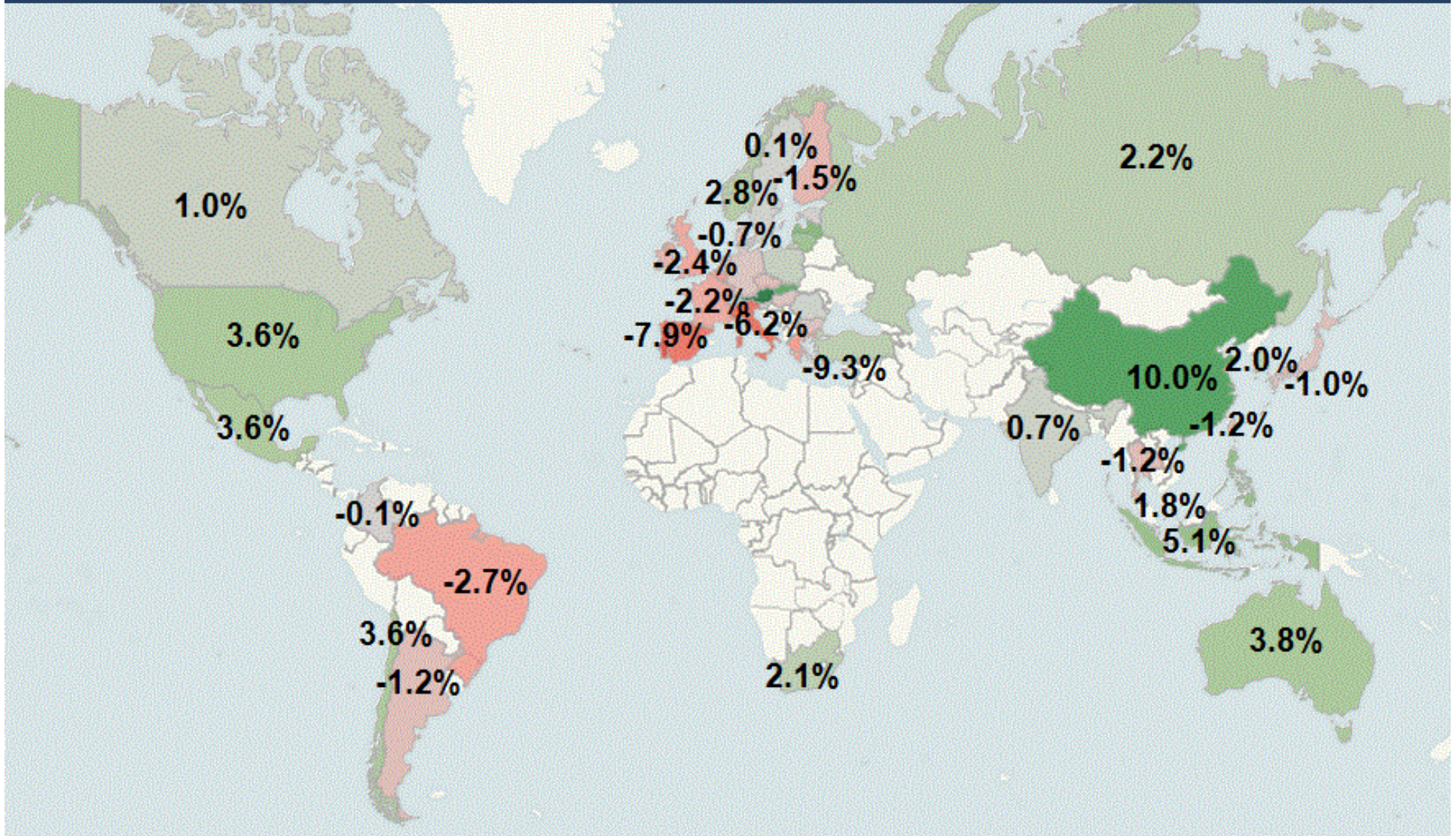


## News and Market Observations





# World Countries Industrial Production



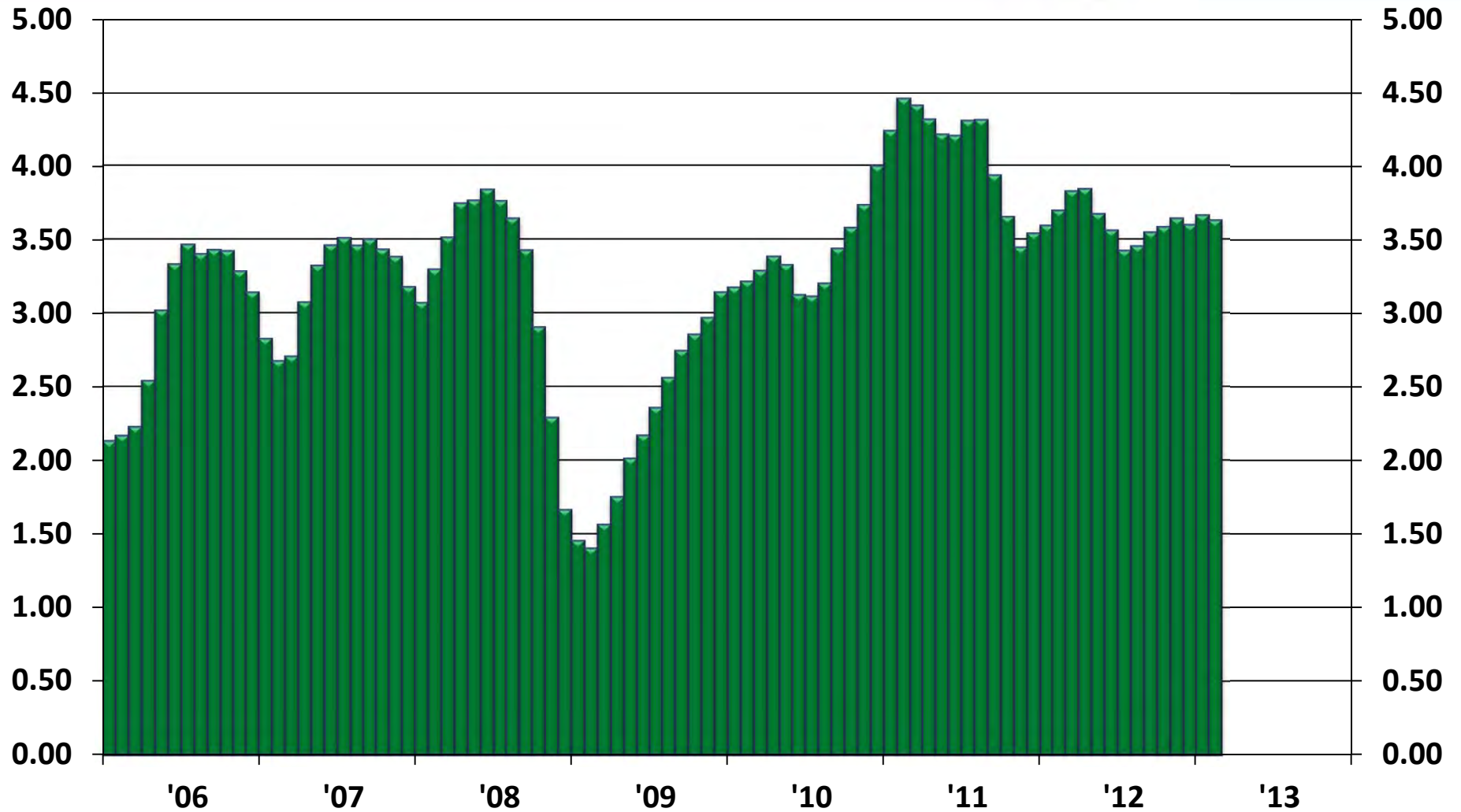
Year-Over-Year Growth Rates %



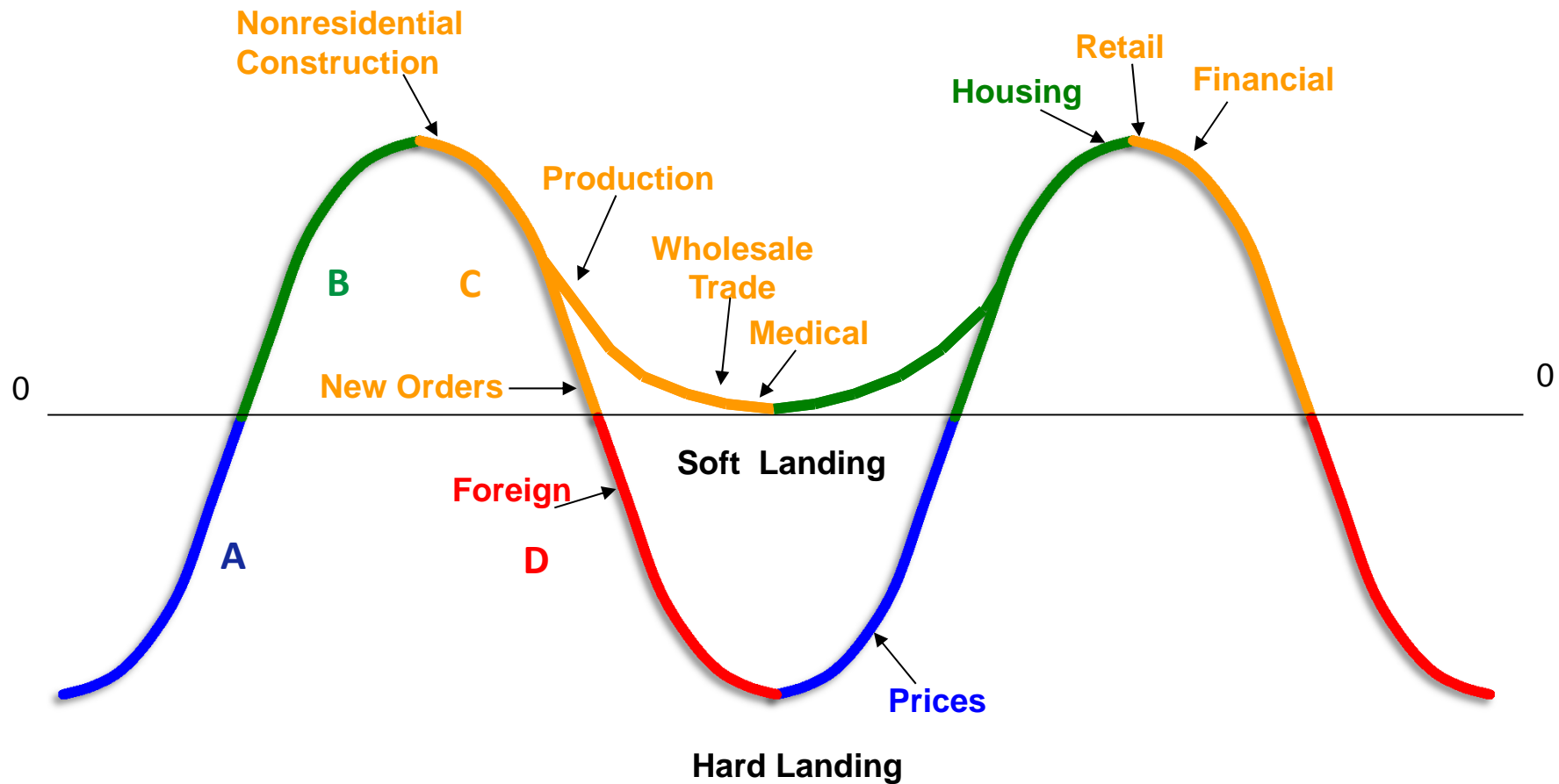
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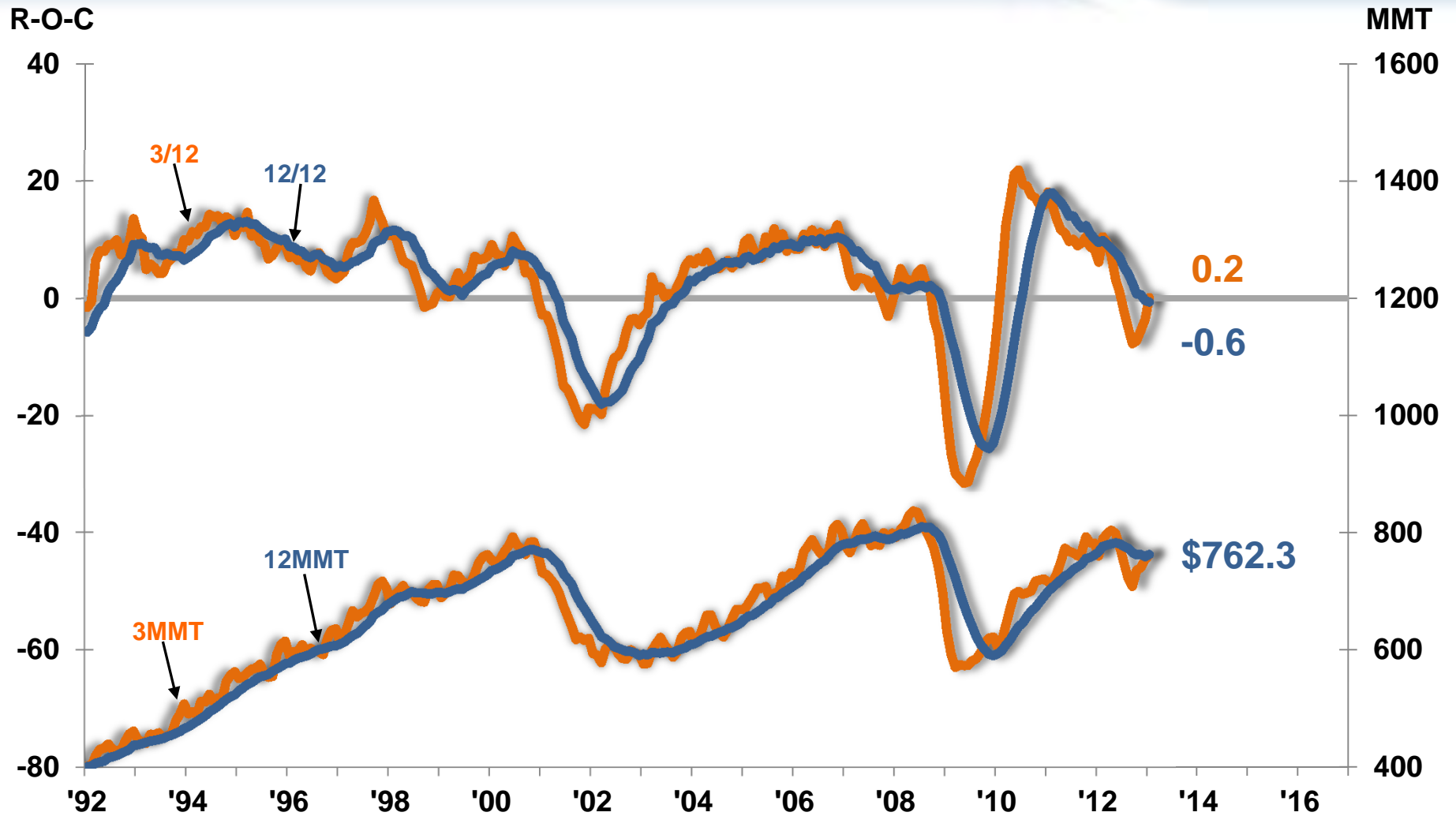
# Copper Price Trend



\$ per pound, 3MMA

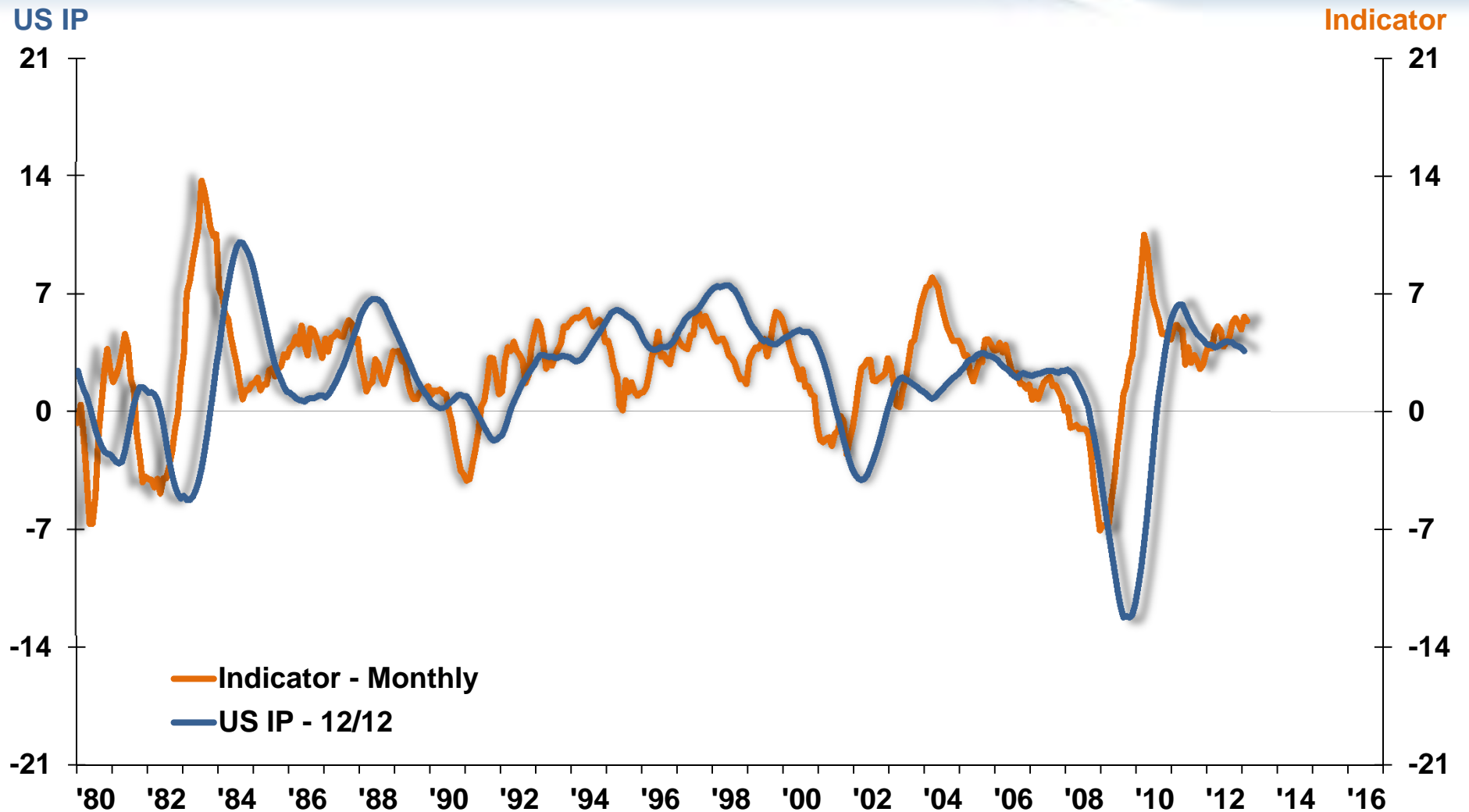


# Nondefense Capital Goods New Orders w/o Aircraft



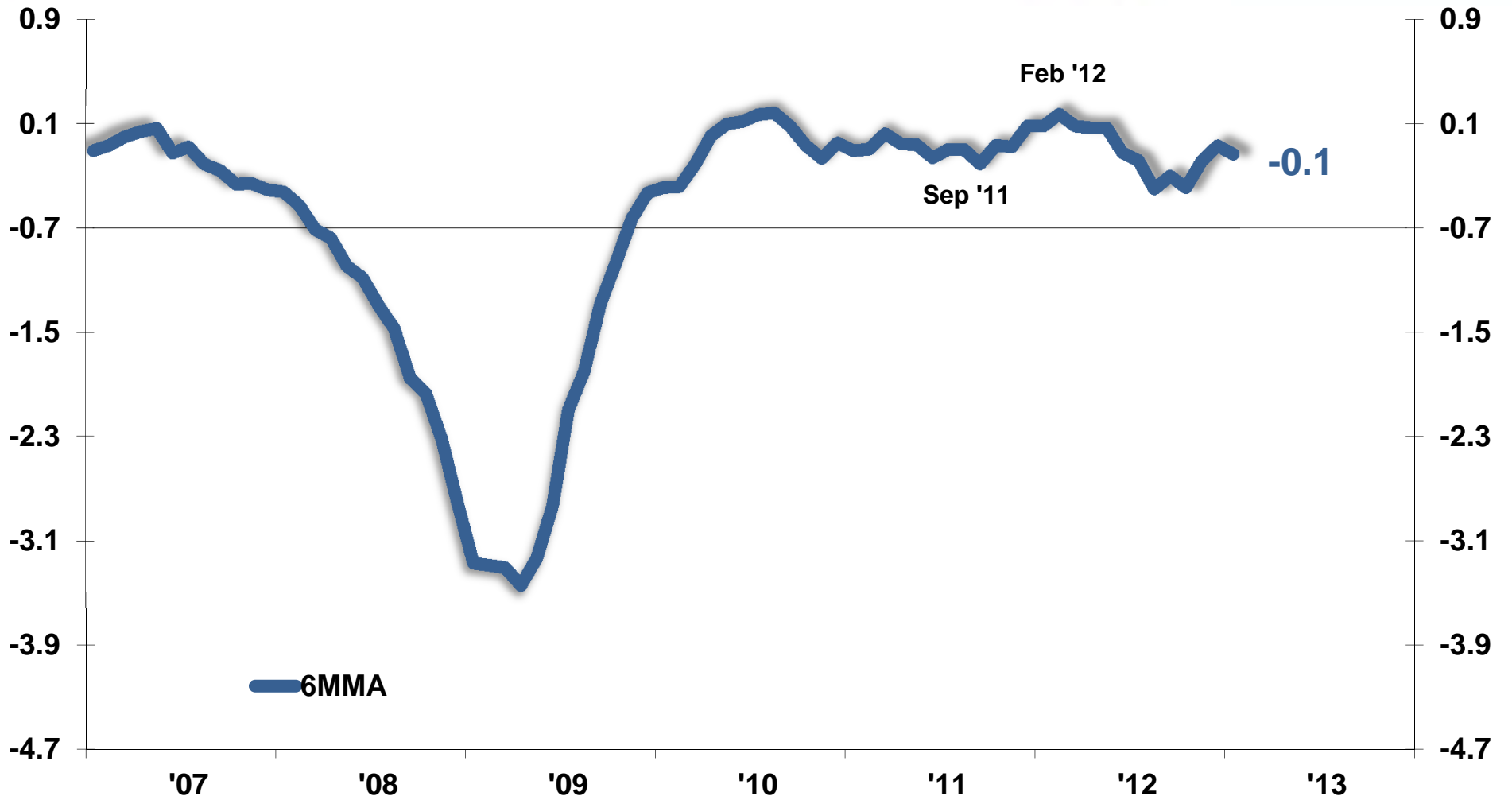
Billions of \$

# US Industrial Production to ITR Leading Indicator



USIP - 12/12  
Indicator - Monthly

# Chicago Fed National Activity Index

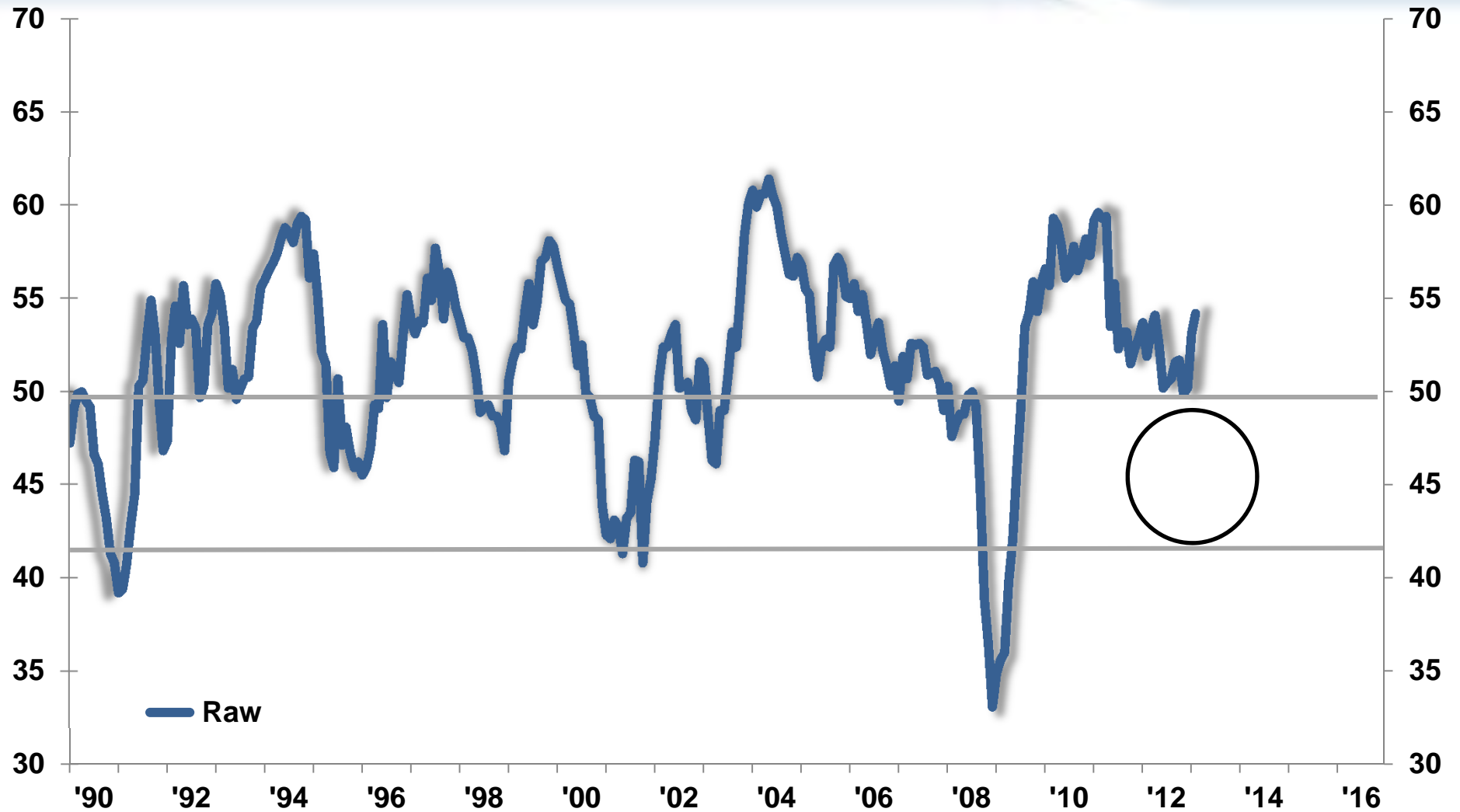


6 Month Moving Average



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# Purchasing Managers Index

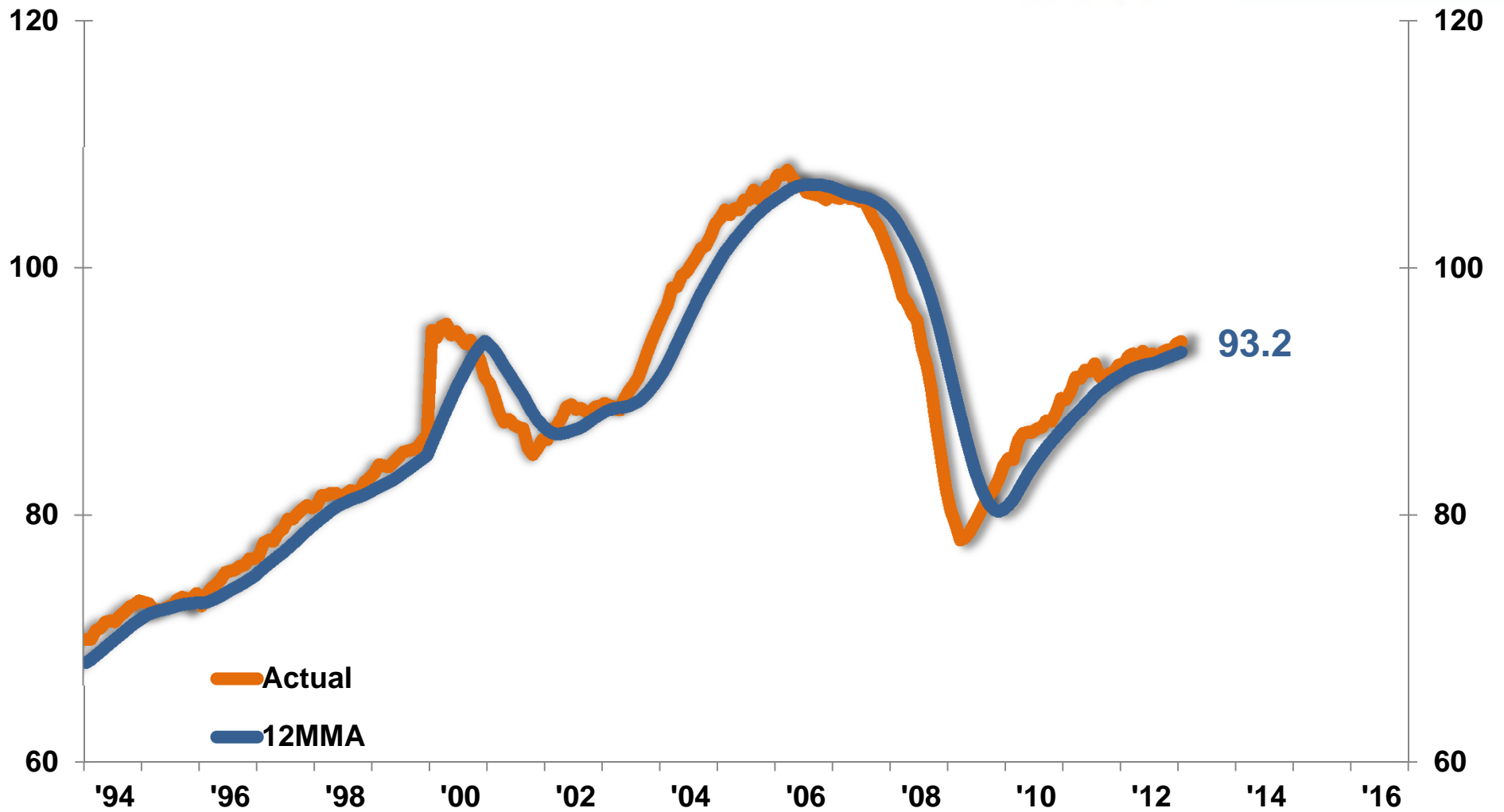


Raw Data

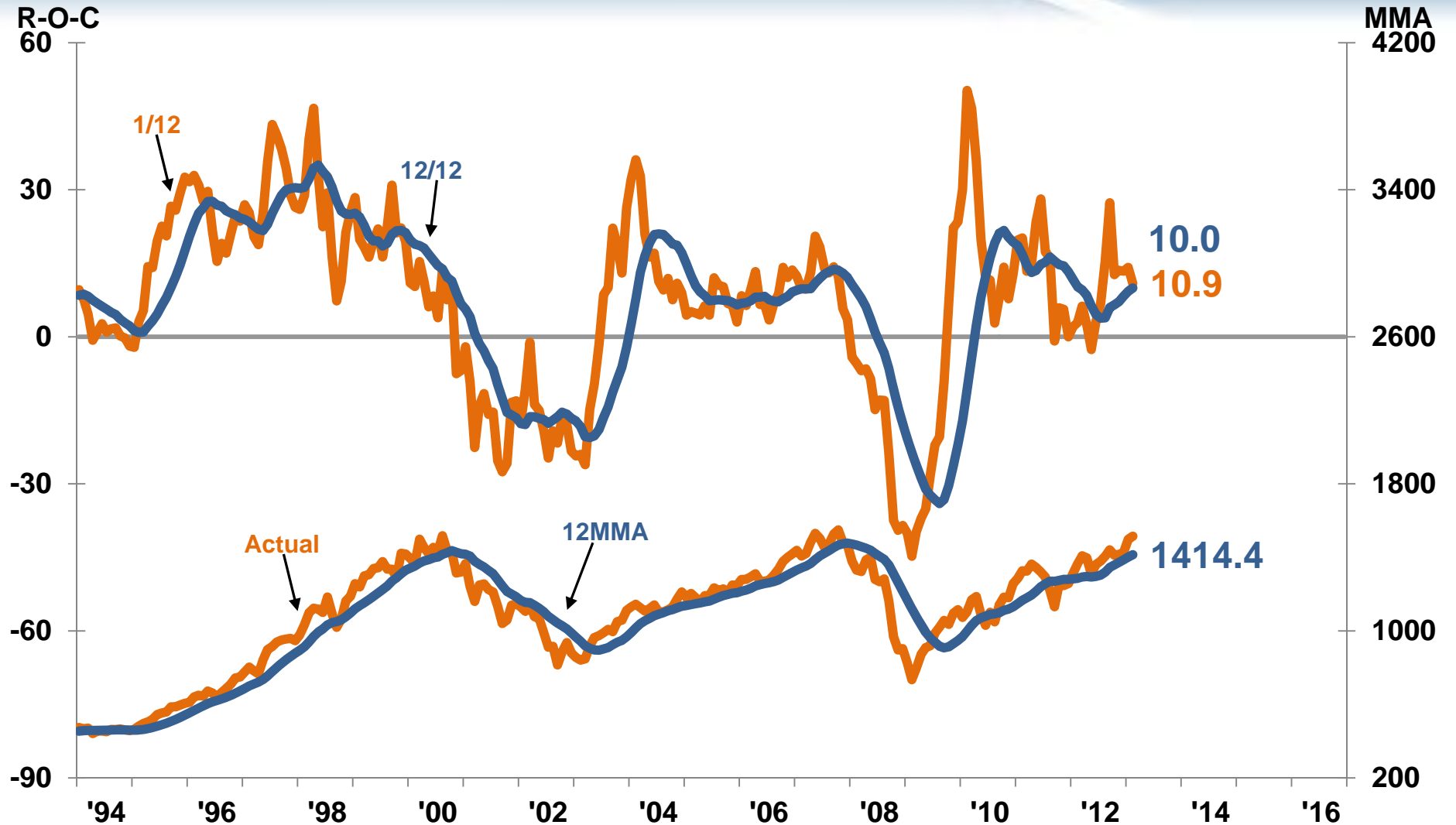


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# US Leading Indicator



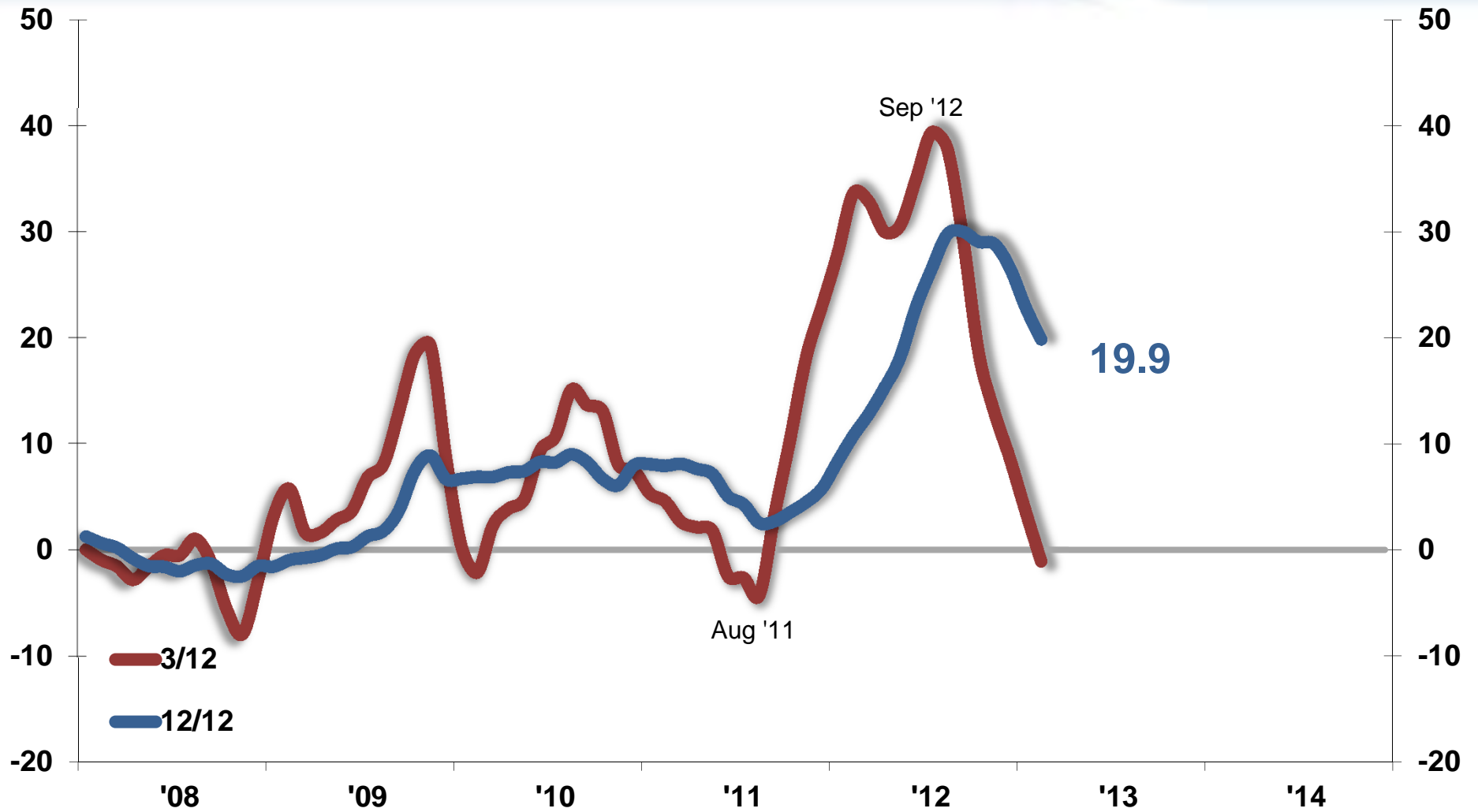
# Stock Prices Index



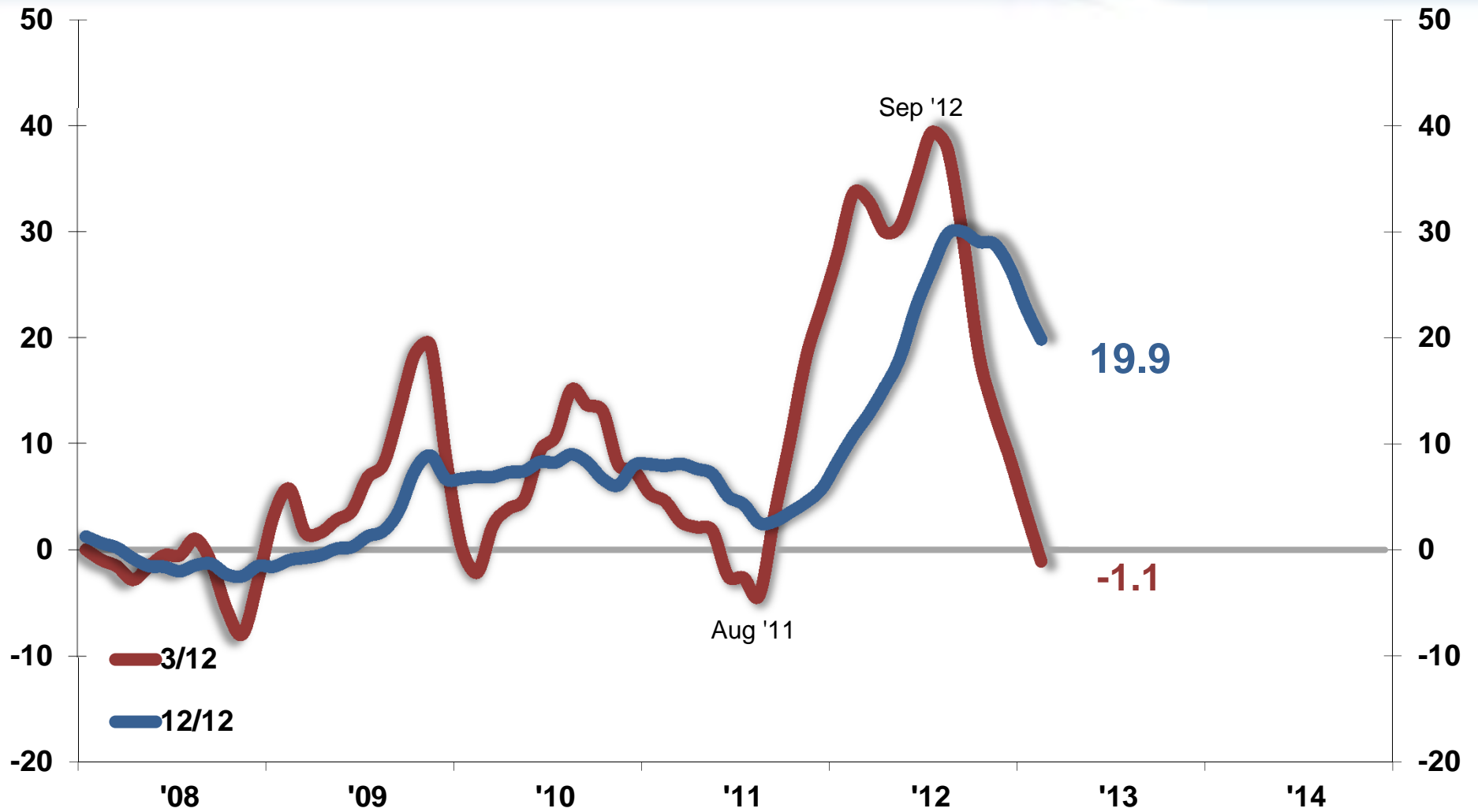
S&P 500, 1941-43 = 10



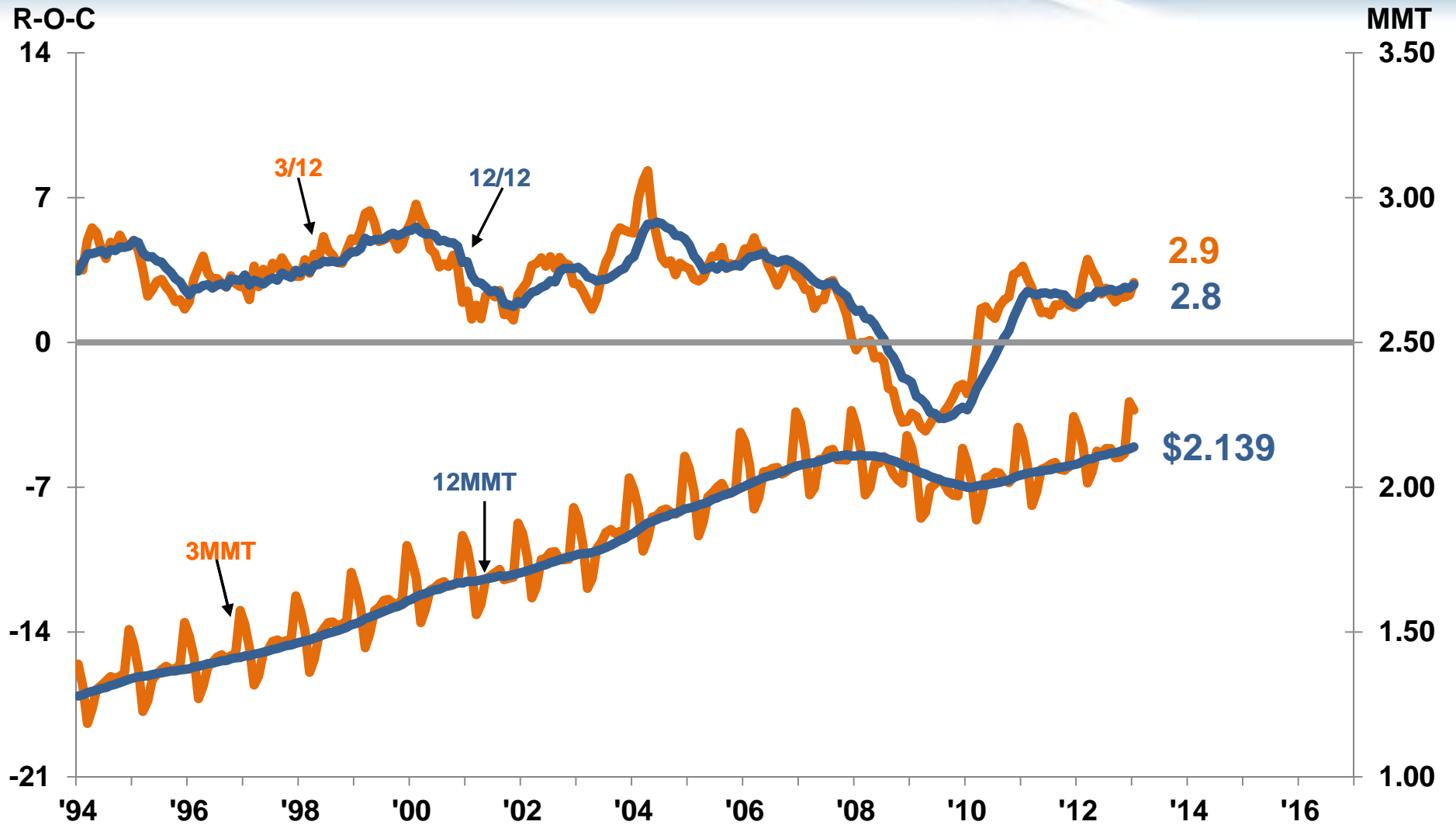
# Corporate Bond Prices



# Corporate Bond Prices

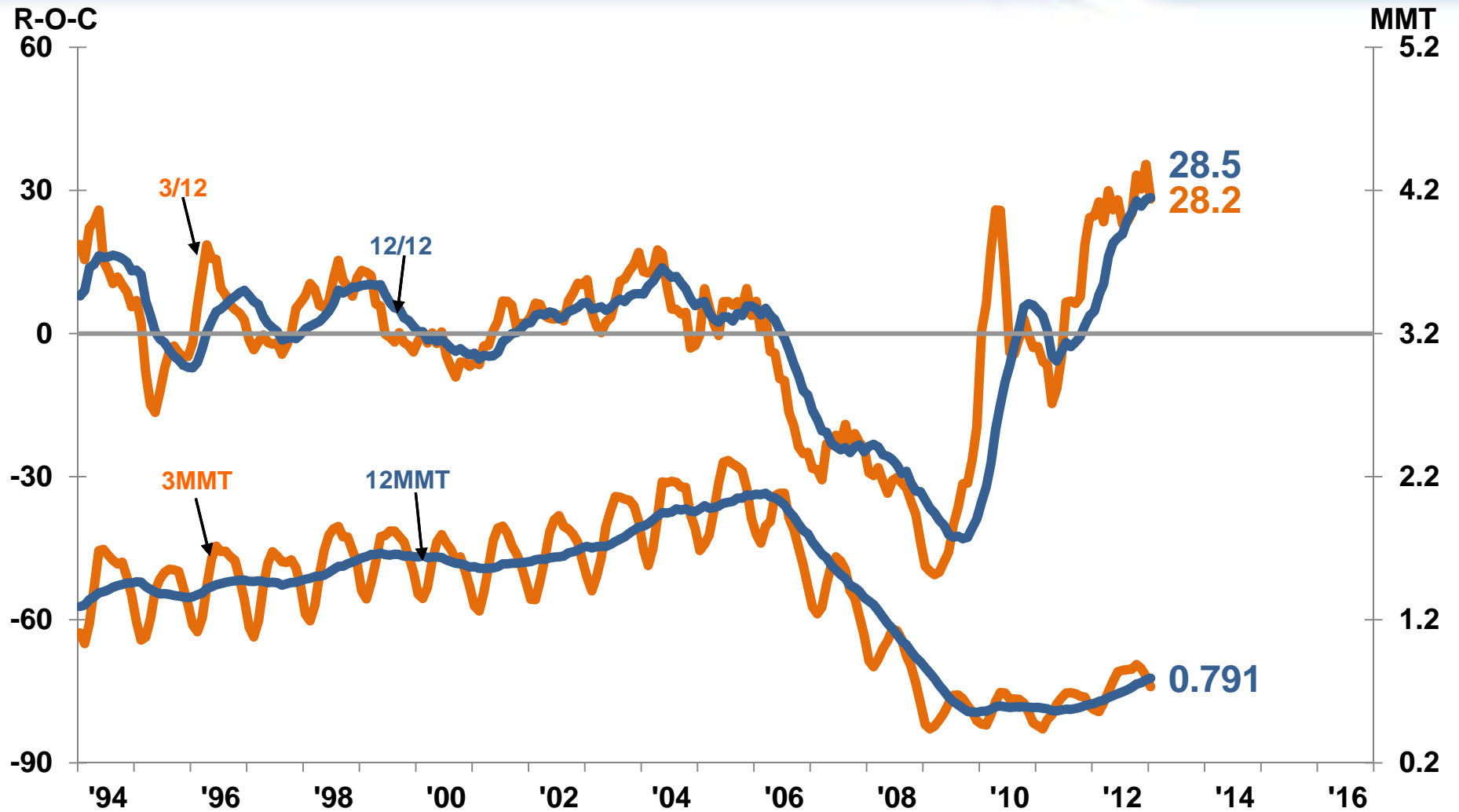


# Retail Sales Excluding Automobiles



Trillions of 82-84\$

# Housing Starts

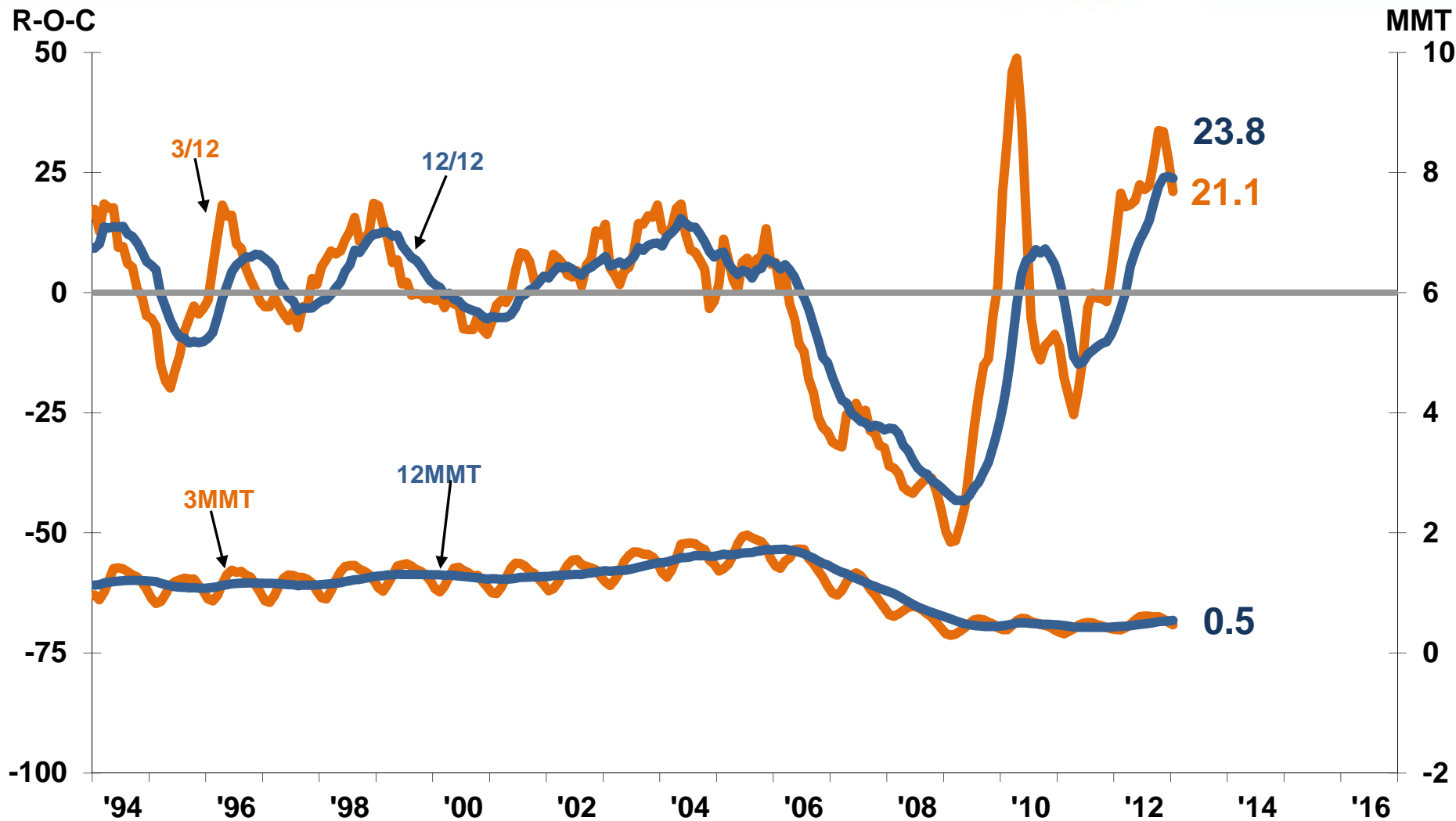


Millions of Units

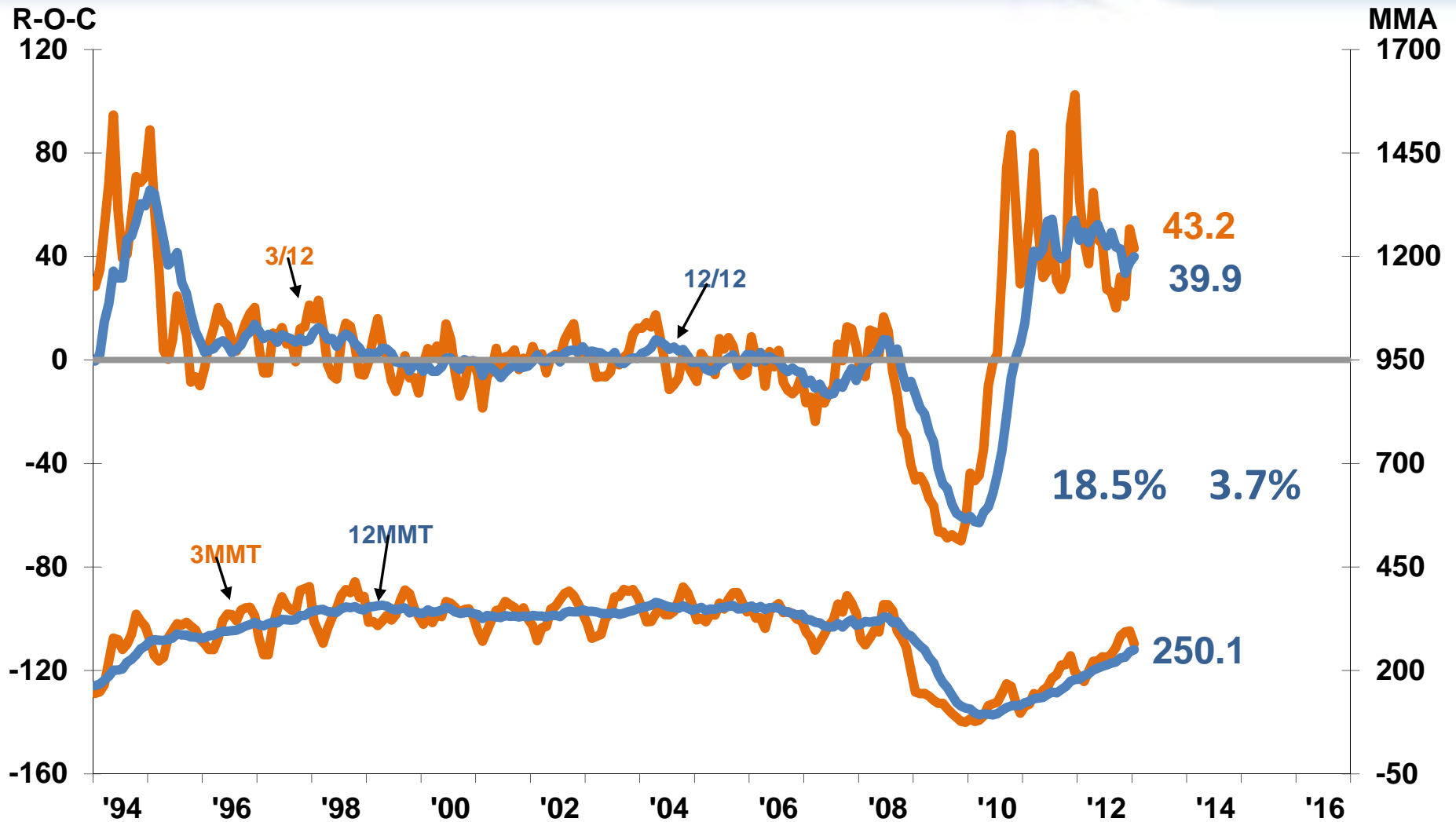


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# Single Unit Housing Series

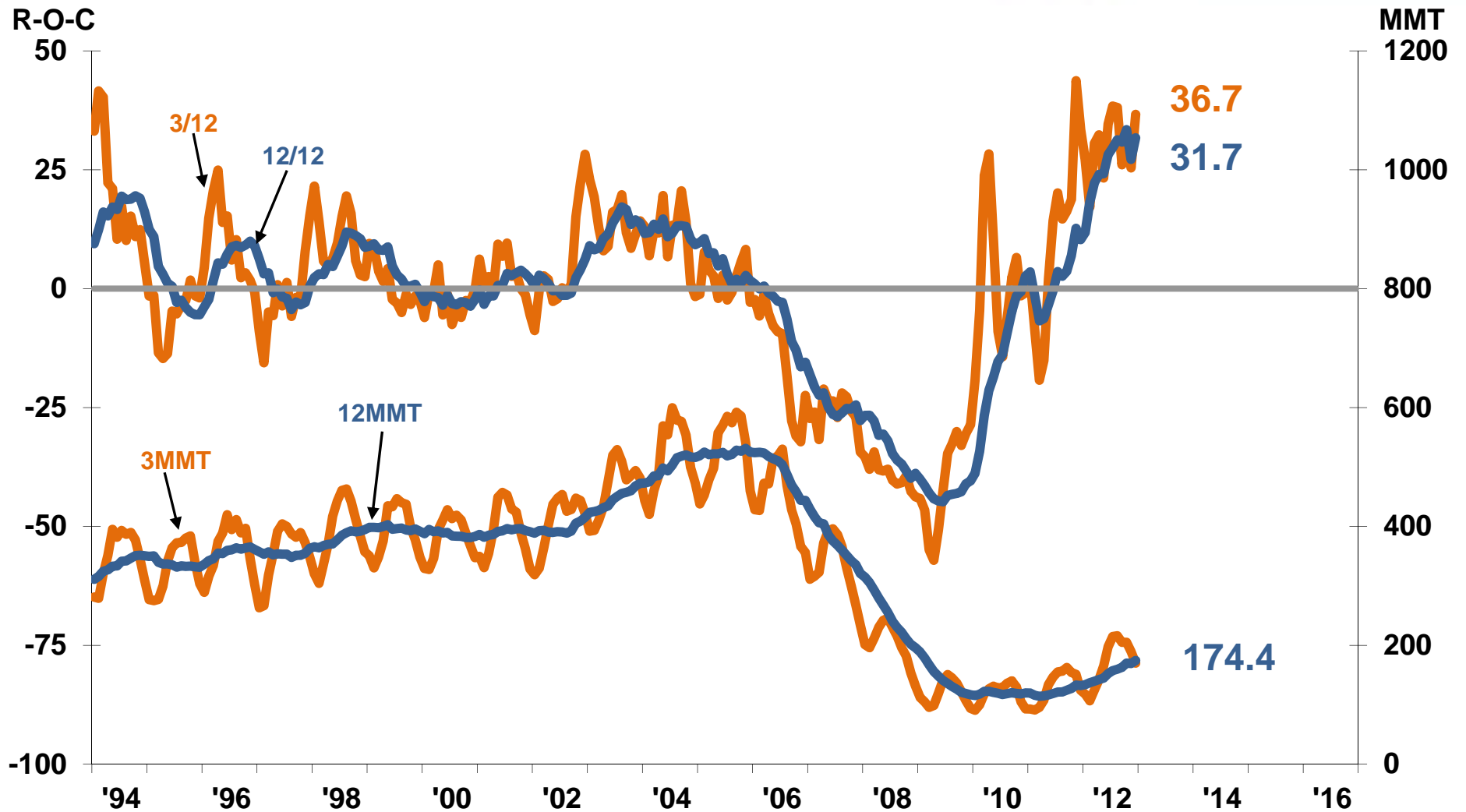


# Multi Unit Housing Starts



Thousands of Units

# West Housing Starts

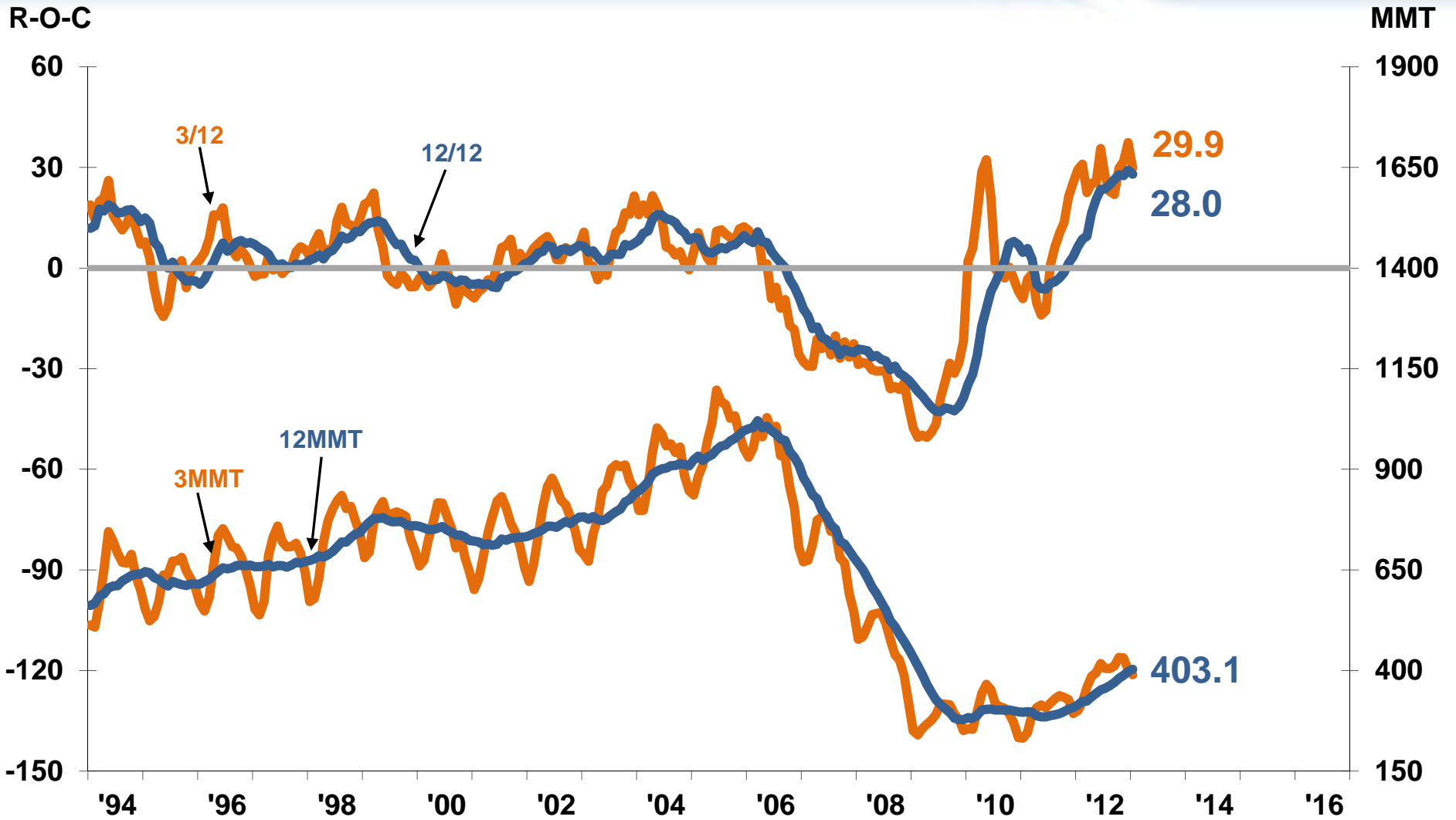


Thousands of Units



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# South Housing Starts



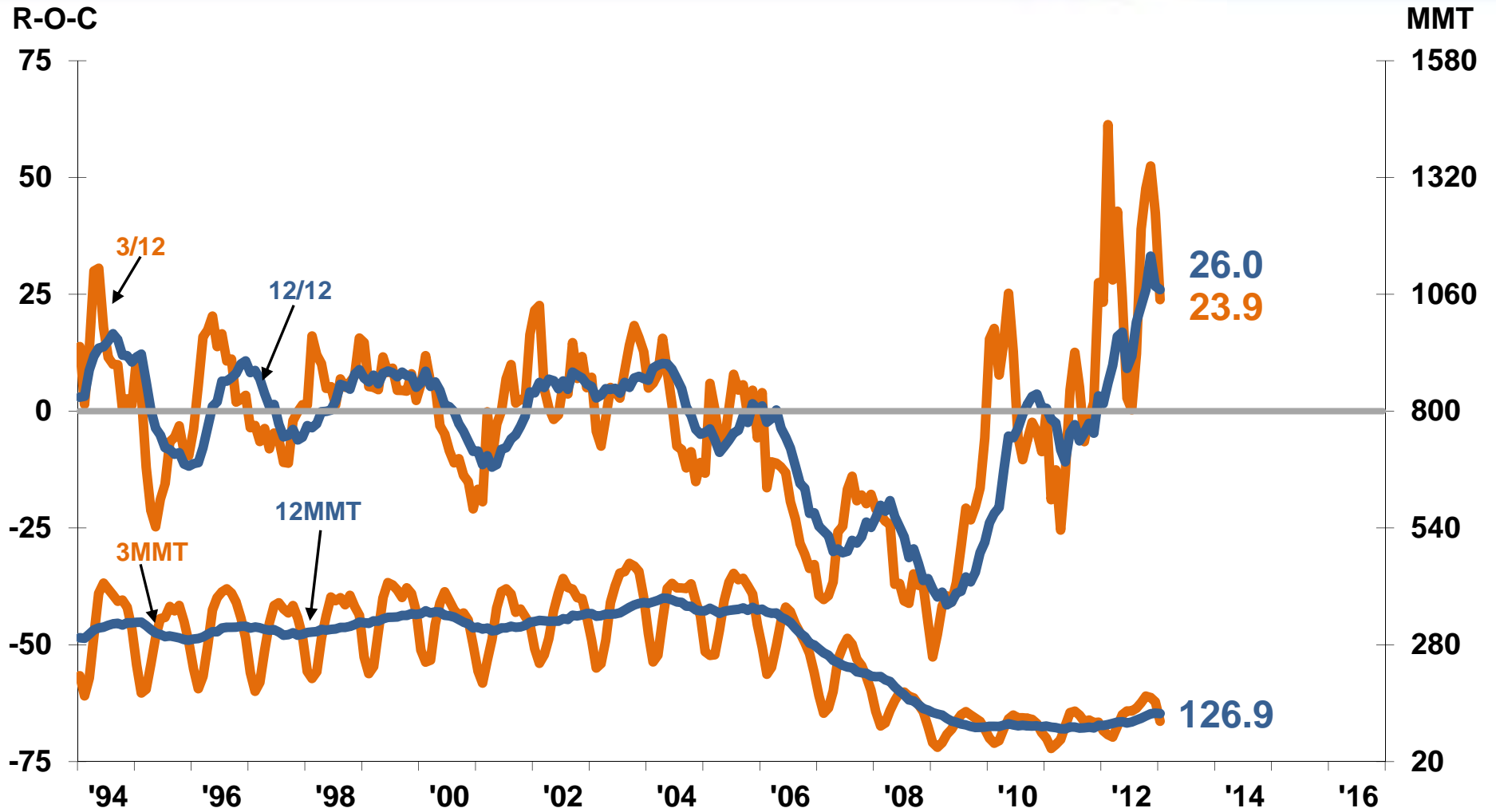
Thousands of Units N.S.A.



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# Midwest Housing Starts

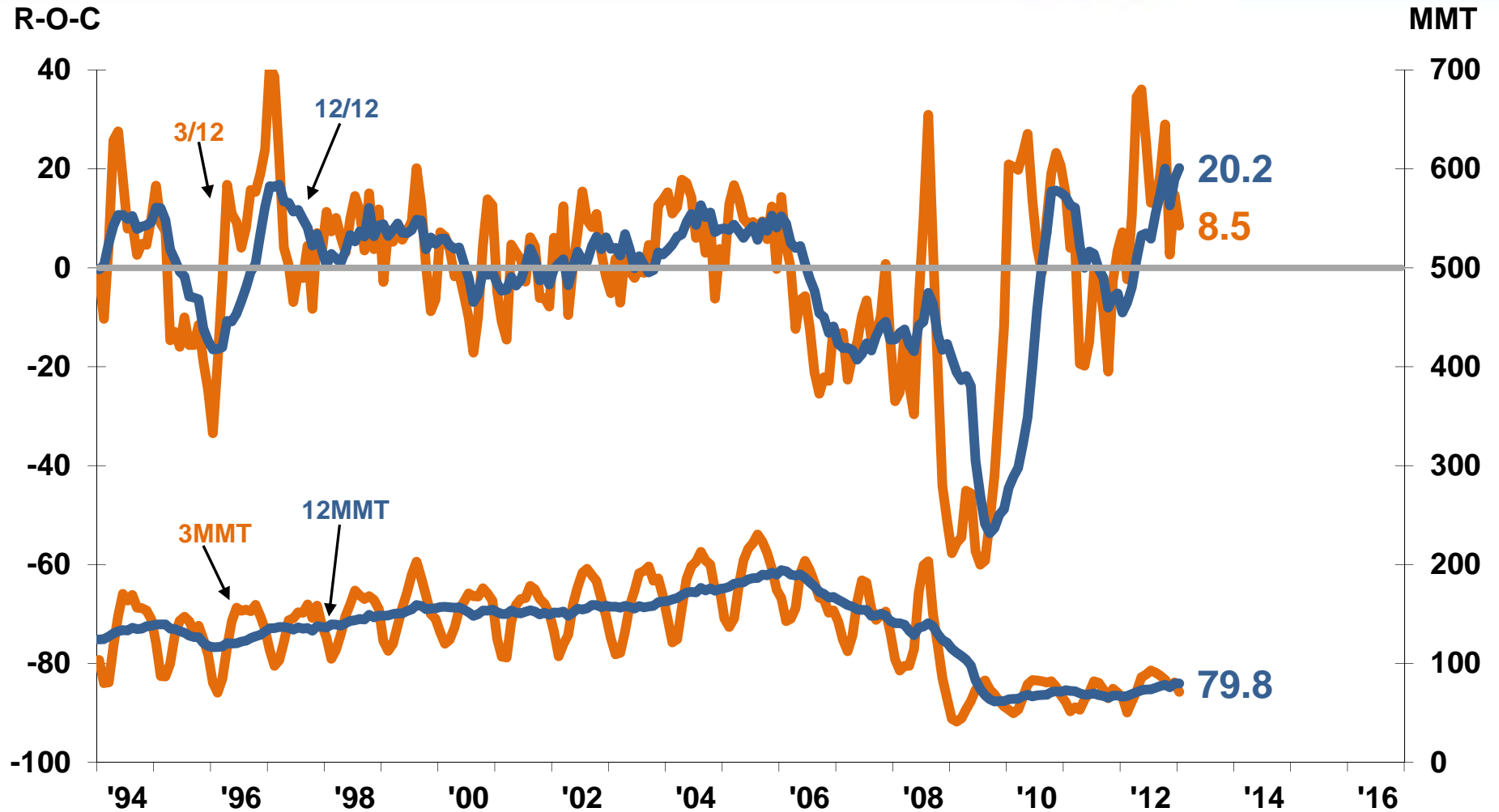


Thousands of Units



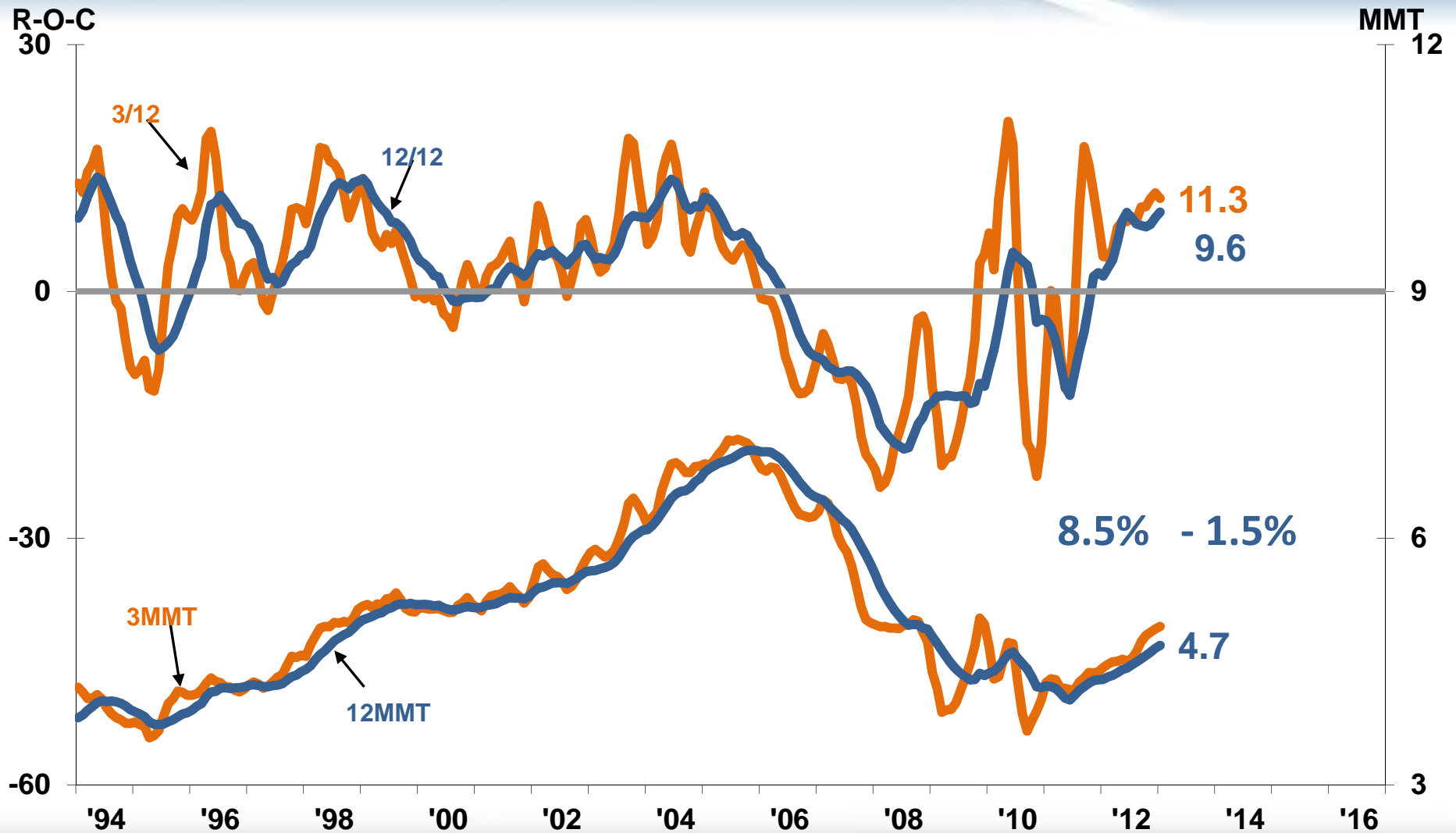
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# Northeast Housing Starts



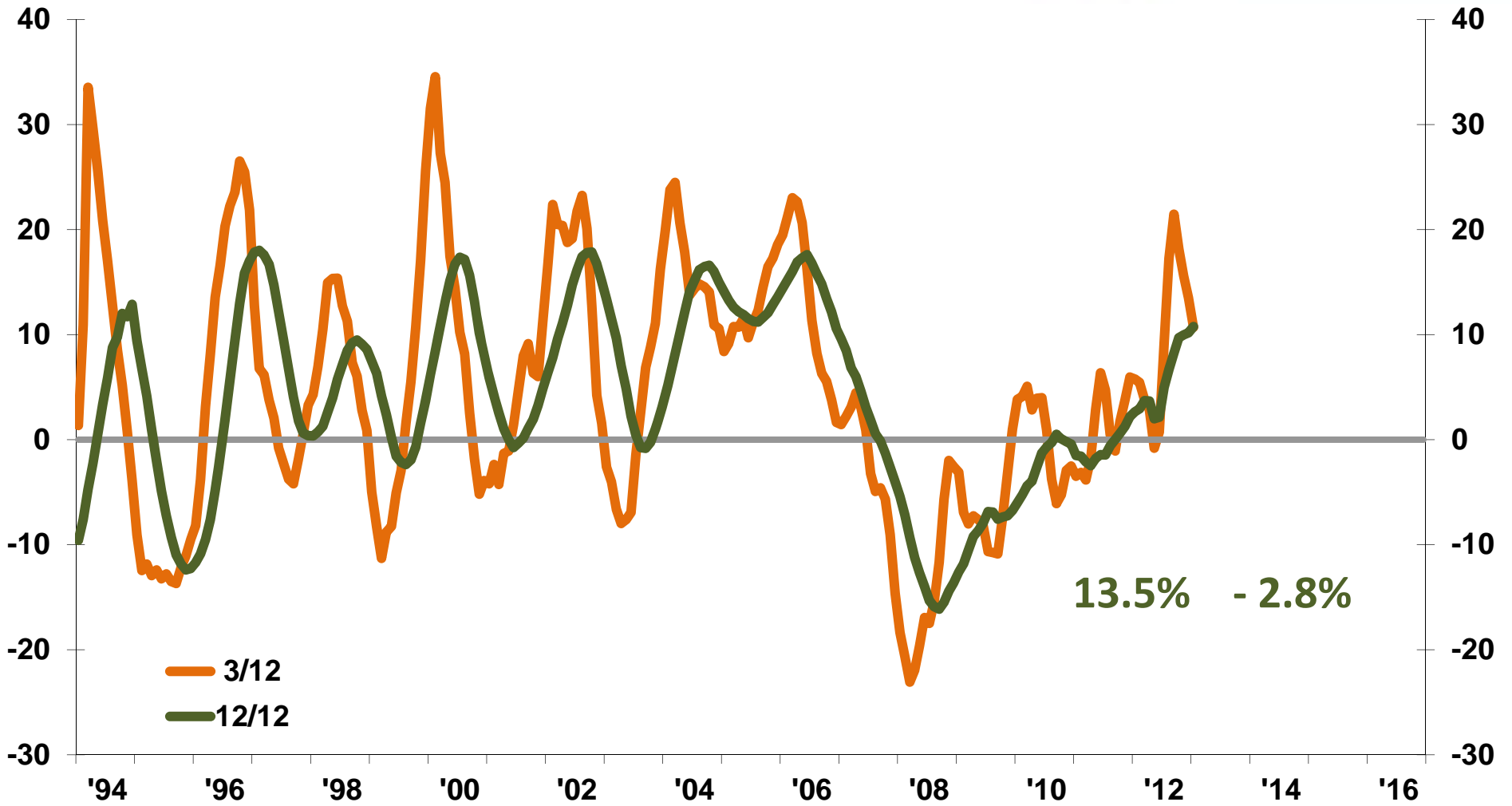
Thousands of Units N.S.A.

# Existing Home Sales



Millions Units

# Home Improvement Construction Spending

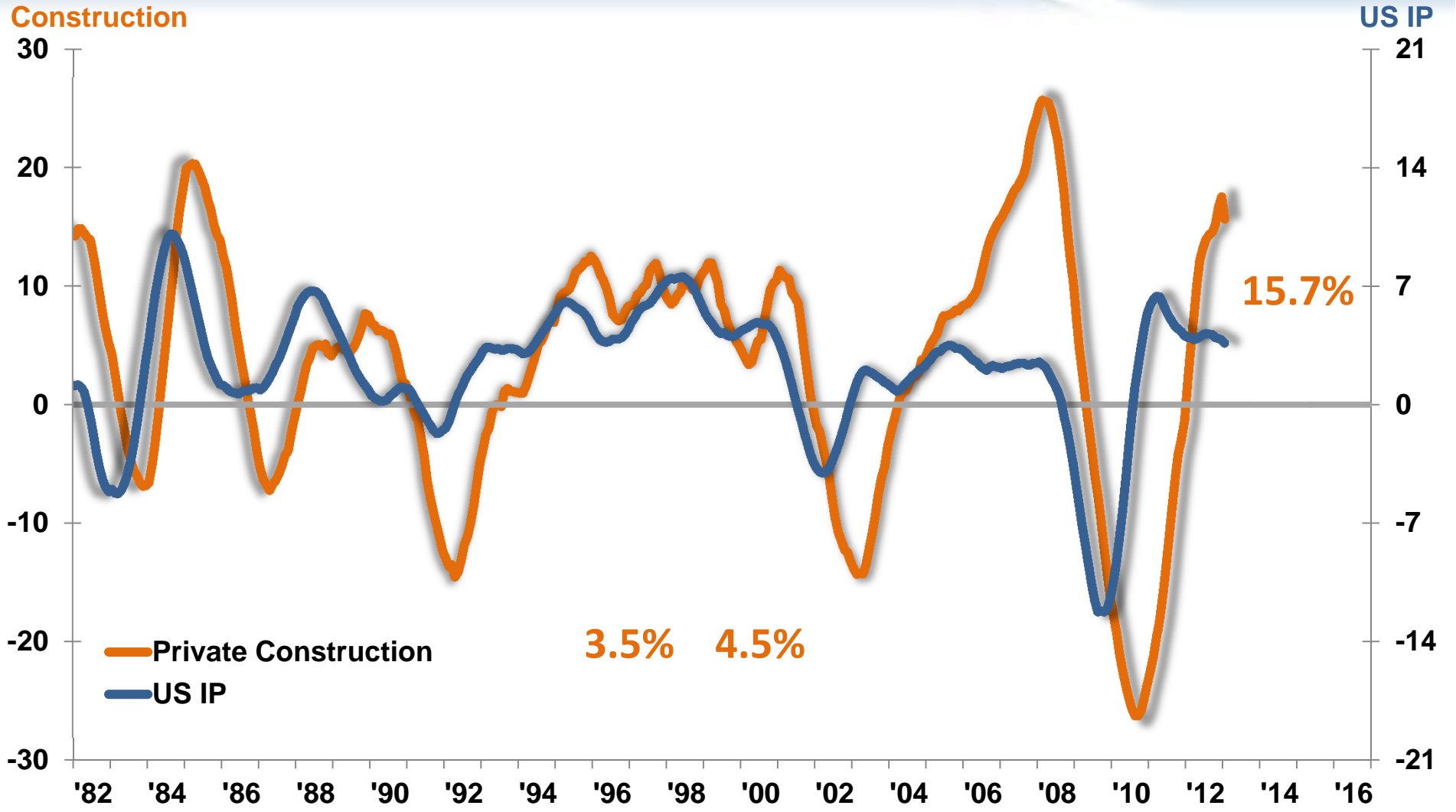


Billions of \$



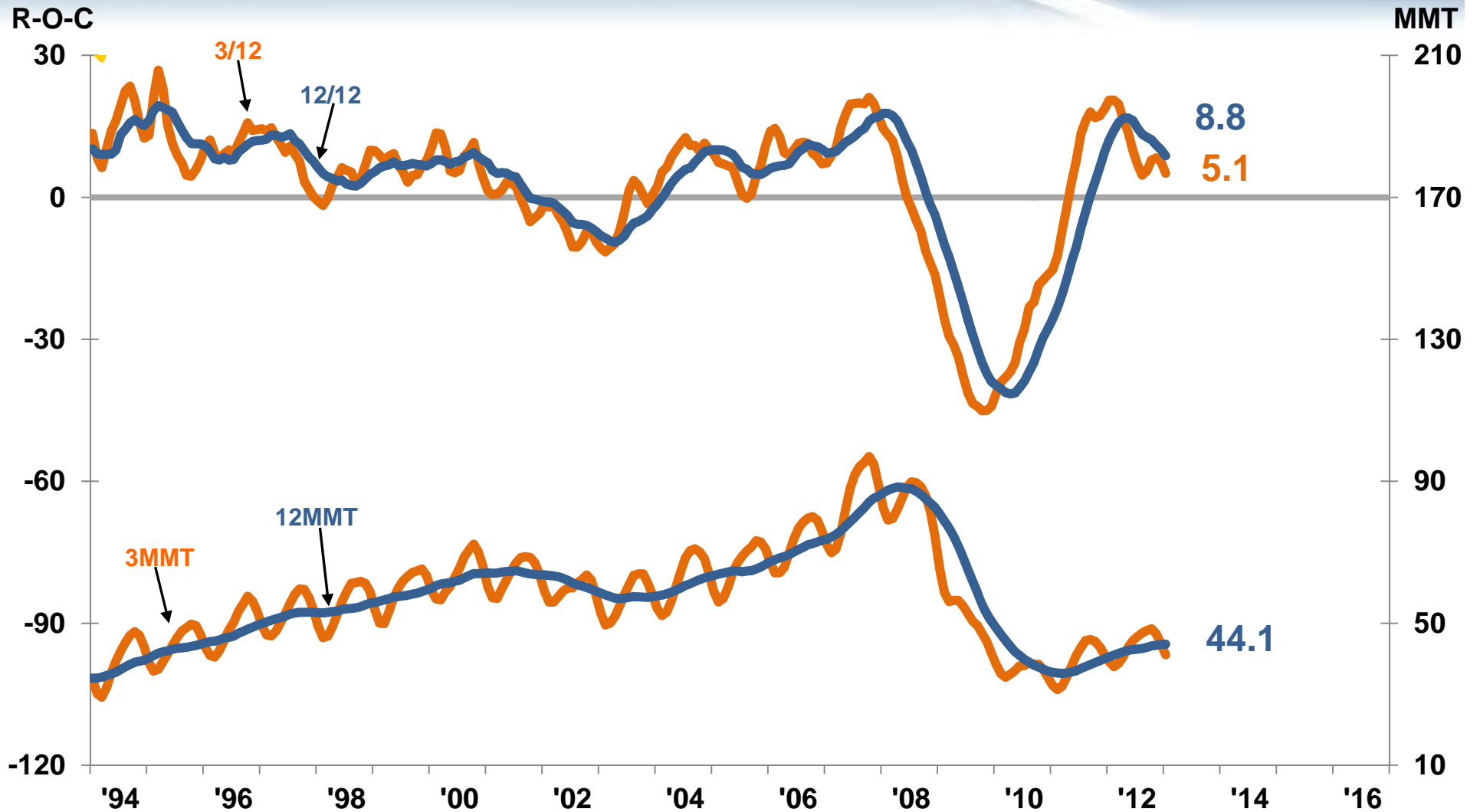
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# US Industrial Production to Private Non-Residential Construction



12/12 Rates-of-Change

# Commercial Buildings Construction



Billions of \$



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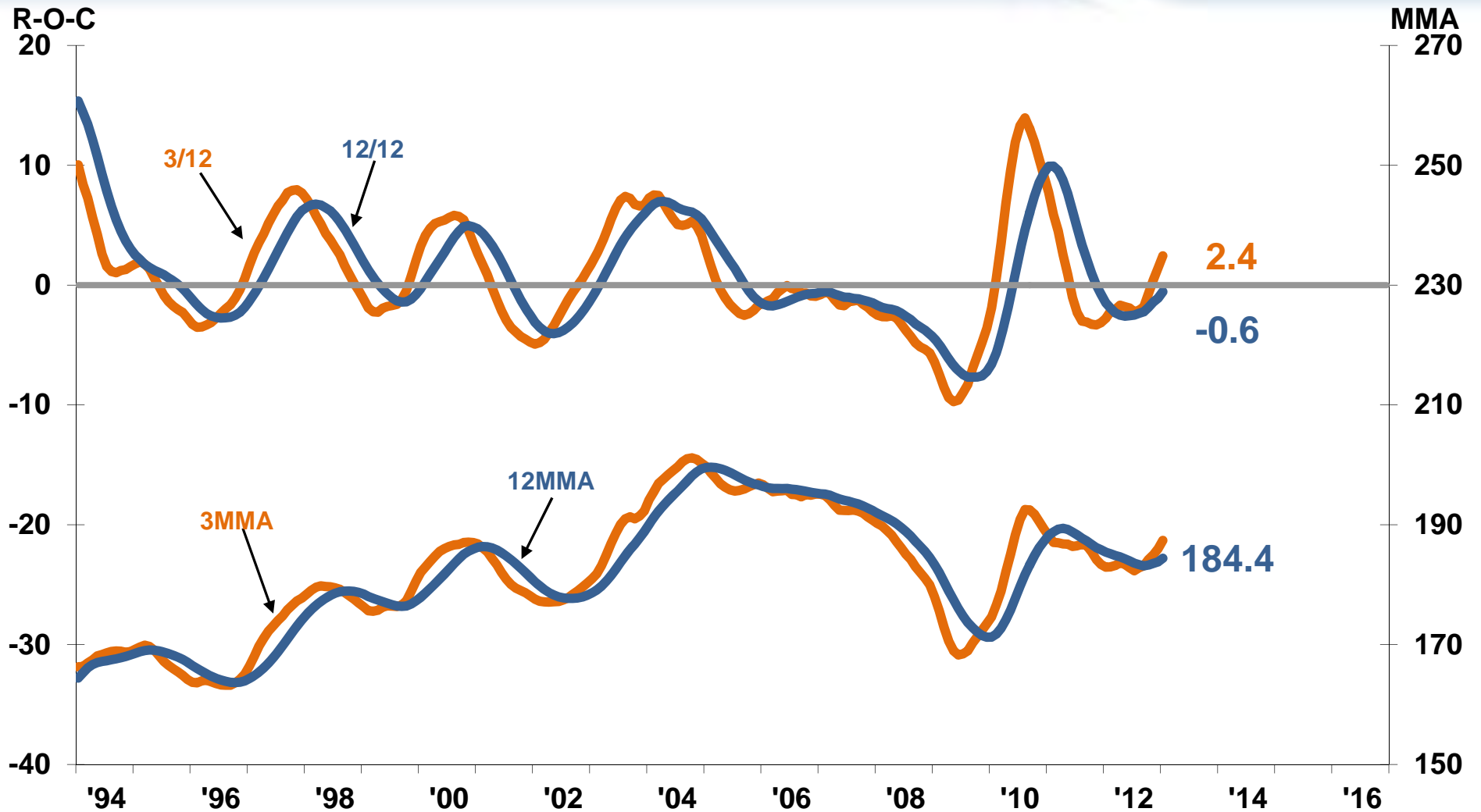


# Construction Put-in-Place

<b>Multi Retail</b>	<b>12.8%</b>	<b>C</b>	<b>\$15.4b</b>	<b>Mild decline</b>
<b>Multi Residential</b>	<b>39.9%</b>	<b>B</b>	<b>250.1 u</b>	<b>Rising</b>
<b>Healthcare</b>	<b>1.6%</b>	<b>C</b>	<b>\$40.5b</b>	<b>Mild decline</b>
<b>Total Educational</b>	<b>- 0.1%</b>	<b>D</b>	<b>\$84.6b</b>	<b>Decline</b>
<b>Private Dining</b>	<b>38.3%</b>	<b>B</b>	<b>\$2.3b</b>	<b>Rising</b>
<b>Stores/Restaurant</b>	<b>12.7%</b>	<b>B</b>	<b>\$15.3b</b>	<b>Rising</b>
<b>Private Lodging</b>	<b>24.0%</b>	<b>C</b>	<b>\$11.1b</b>	<b>Rising</b>
<b>Add/Imp</b>	<b>- 4.7%</b>	<b>A</b>	<b>\$17.8b</b>	<b>Mild decline</b>



# Hardwood Lumber Producer Price Index



# Phase Management Objectives™

49

## Preparing for 2013-2014

1. Positive leadership modeling (culture turns to behavior)
2. Add Sales Staff and Hire Top People
3. Training programs
4. Lock in costs
5. Invest in customer market research (know what they value)
6. Judiciously expand credit
7. Check distributions systems for readiness to accommodate increased activity
8. Review and uncover competitive advantages
9. Improve efficiencies with investment in technology and software
10. Spend \$ on new products, marketing, advertising
11. Work on “what’s next”



- ❖ **ITR Leading Indicator**
- ❖ **Chicago Fed National Activity Index**
- ❖ **US Leading Indicator**
- ❖ **Purchasing Managers Index**
- ❖ **Retail Sales**
- ❖ **Employment**
- ❖ **Nondefense Capital Goods New Orders**

Available from ITR via *ITR Trends Report*,  
the *ITR Advisor*, or on the web



**“It is always the adventurers who do great things,  
not the sovereigns of great empires”**  
-Charles De Montesquieu



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- Consists of Current Events, Brief Industry Segments, Snap Shot Indicators, Readers' Questions, Fed Notes, ITR Opportunity Index, and more
- Delivered Monthly

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**With your contact information**

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## THE ITR ADVISOR

February 2012 Volume 19

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**Make Your Move**

There is no change to our outlook for 2012 and 2013. The next 18 months will provide an opportunity for entrepreneurial-minded leaders to mitigate the 2014 recession.

### Housing Signals

It is no secret that housing starts are still only a third of what they were pre-recession. But when viewed as a leading indicator, the housing market is pointing up, providing a positive sign for business in 2012.

Those familiar with ITR know that we are all about taking the guesswork out of planning by focusing on the tried and true economic signals in front of us. The housing market is one of those reliable indicators. Through the early days of the recession, the housing market was one of the most overtly negative indicators, suggesting the downturn in the overall economy would be neither brief nor mild. On the backside of the recession, housing remained weak, only temporarily boosted by the 2009 to 2010 homebuyer's tax credit. Accordingly we told our clients that the recovery in the US economy would not be strong by historical standards and that garnering new business would require an aggressive and proactive approach.

The economic tides have shifted once again. Over the past three months, foreclosure filings have fallen 8.6% and new starts are up 23.8% over last year, making for some of the most positive numbers we have seen out of the housing market in years. With a 5 to 8 month lead time to most other industries, housing starts are pointing to a stronger economy ahead.

Why are we seeing an improvement in housing? The reason is a robust demand for new apartments. As bad as the single-family market has been, the multi-family market is seeing stronger demand, scarce supply, and a 54.1% annual increase in new construction to fill the gap. Typically, a large number of the new households are young adults, moving away from home or college as they attain jobs. The US employment trend has been improving, and as a result, apartment demand is higher. Rents have been stable or rising in most metro areas, and apartment vacancy rates are falling.

It is time to adapt our mindsets. The housing market will not return to full steam on apartment construction alone since multi-family typically accounts for less than one-third of the residential market. However, with the majority of the US economy already in a recovery and the housing market no longer being the dead-weight anchor dragging along, you can plan with confidence for an improving economic environment in 2012.

**Inside this issue:**

Current Events	2
Opportunity Index	3
Industry Segments	3
Snap Shot Indicators	4
Reader's Question	4
Fed Notes	4

### 2011 Housing Starts



Multi-Family	54.1%
Single-Family	8.6%

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