Aim/R 2011 Conference
"See The Future Before Your Competition Does"

Presented by

ITR®

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October 2011

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The U.S. economy remains almost comatose. The current slump already ranks as the longest period of sustained weakness since the Great Depression. Once-in-a-lifetime dislocations will take years to work out.

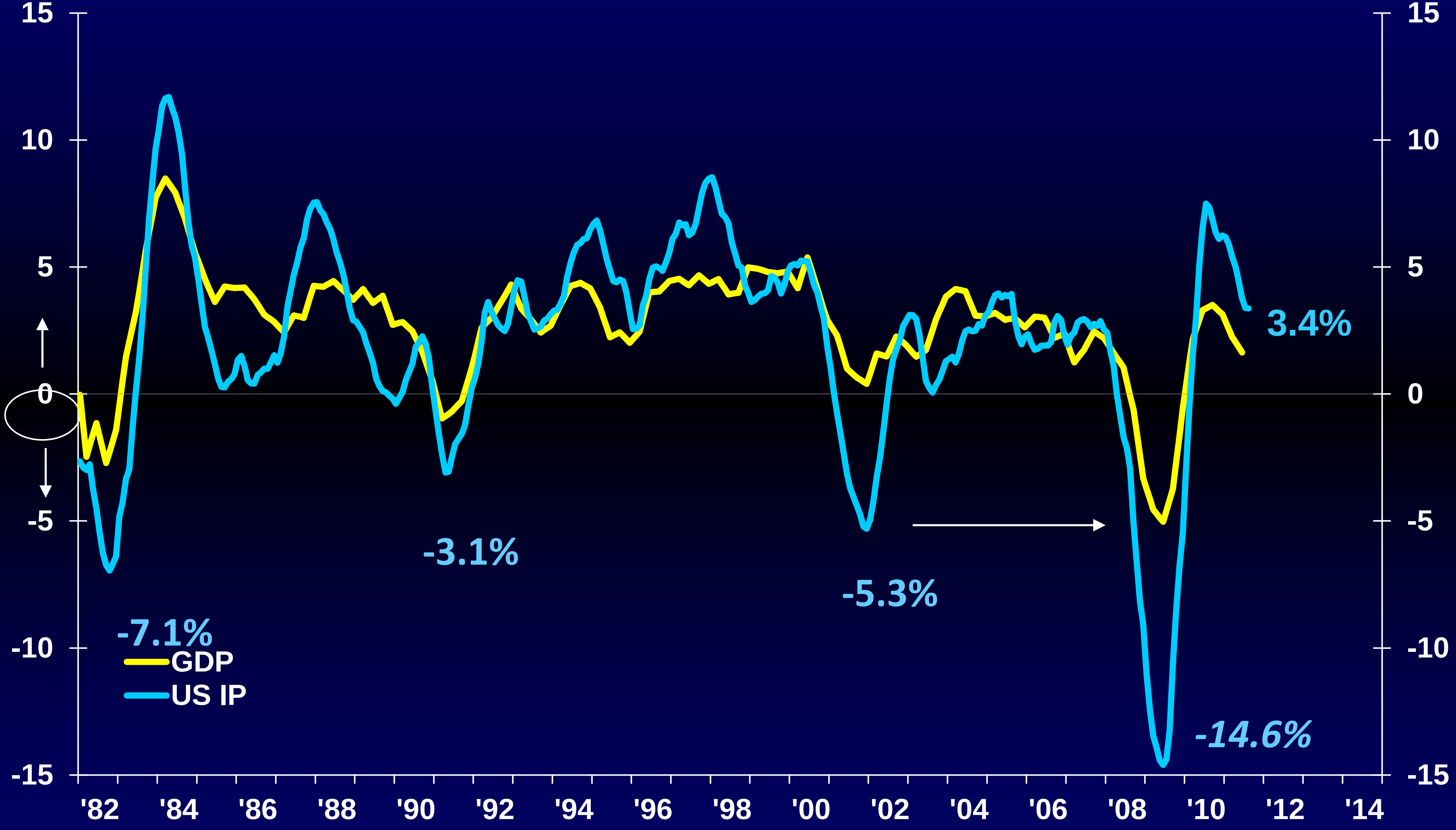
Among them: the job drought, the debt hangover, the defense-industry contraction, the banking collapse, the real estate depression, the health-care cost explosion and the runaway federal deficit.

TIME

September 1992

US Industrial Production to Gross Domestic Product

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



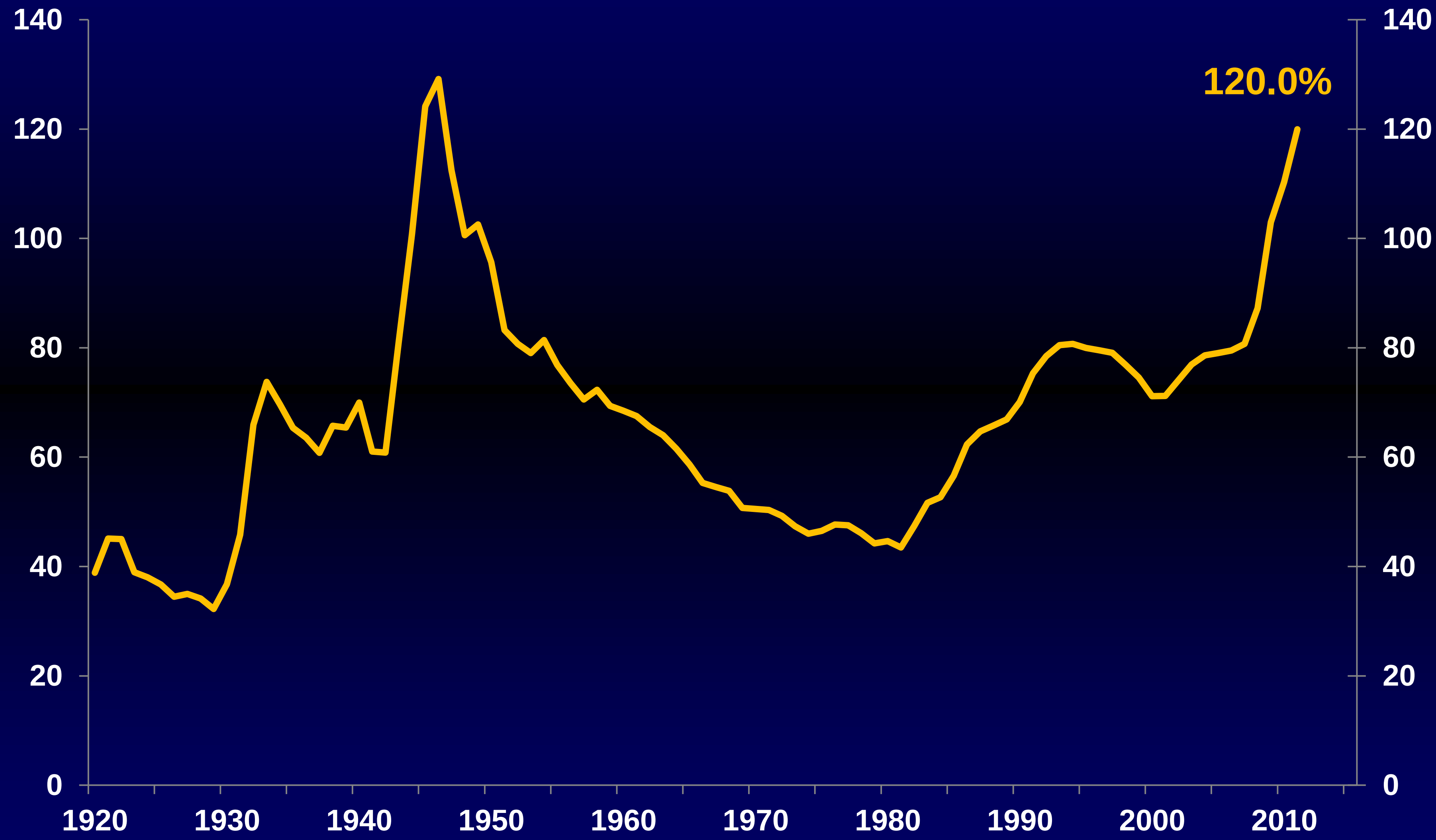
Recovery

- Leading indicators pointing up
- Liquidity is not an issue
- Exports are up
- Stimulative monetary policy
- Employment rising (companies right-sized)
- Banks are lending
- Normal seasonal rise in Retail Sales
- $447 bils stimulus program

Recession in 2012

- Europe's financial troubles *might*…
- China's housing/inflation bubble *could*…
- International banking crisis *becomes*…
- Oil prices *could* break through $120 …
- USD *could* lose all credibility causing…

Total U.S. Public Debt
(% of GDP)

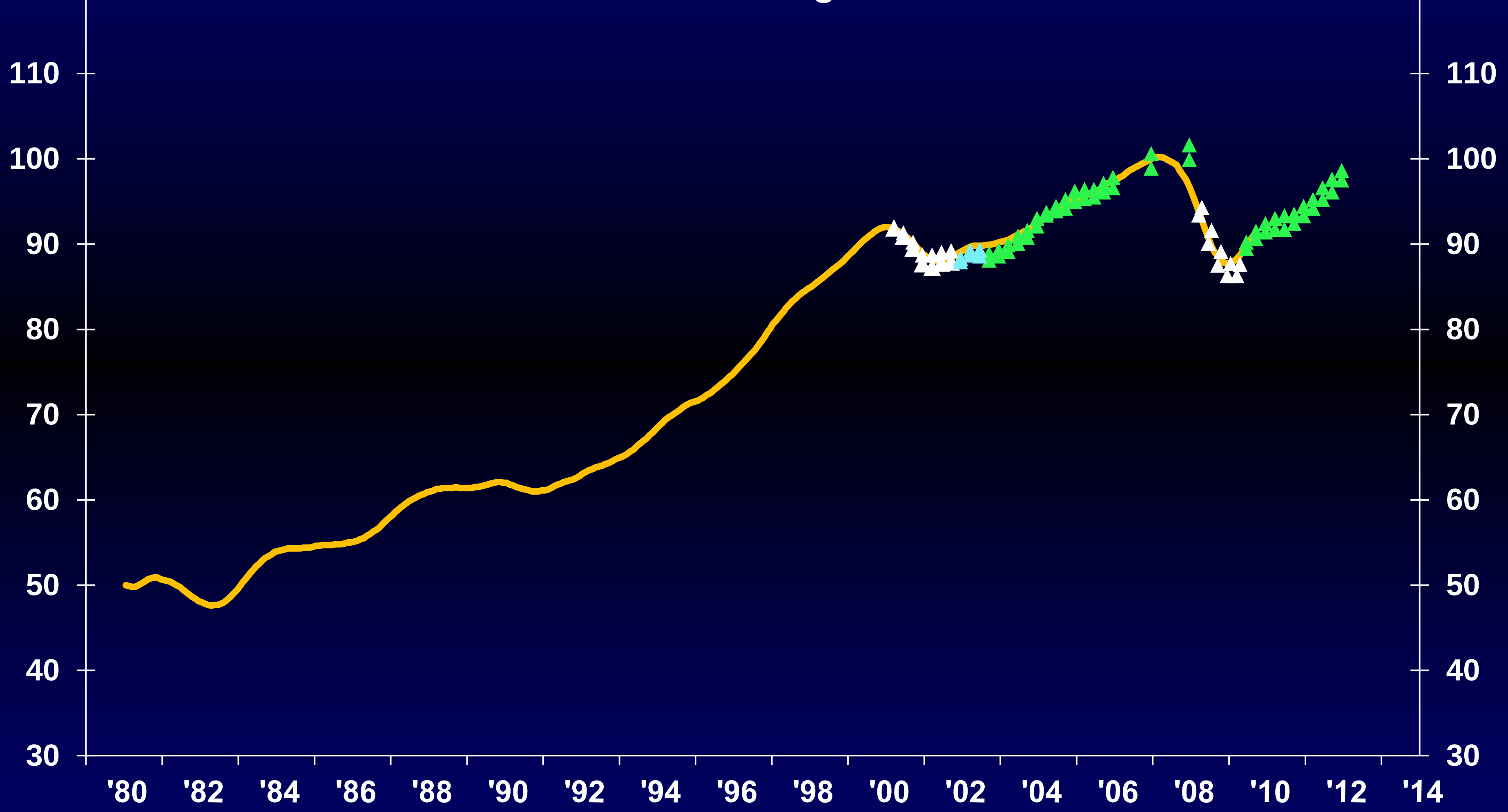


US Industrial Production Index

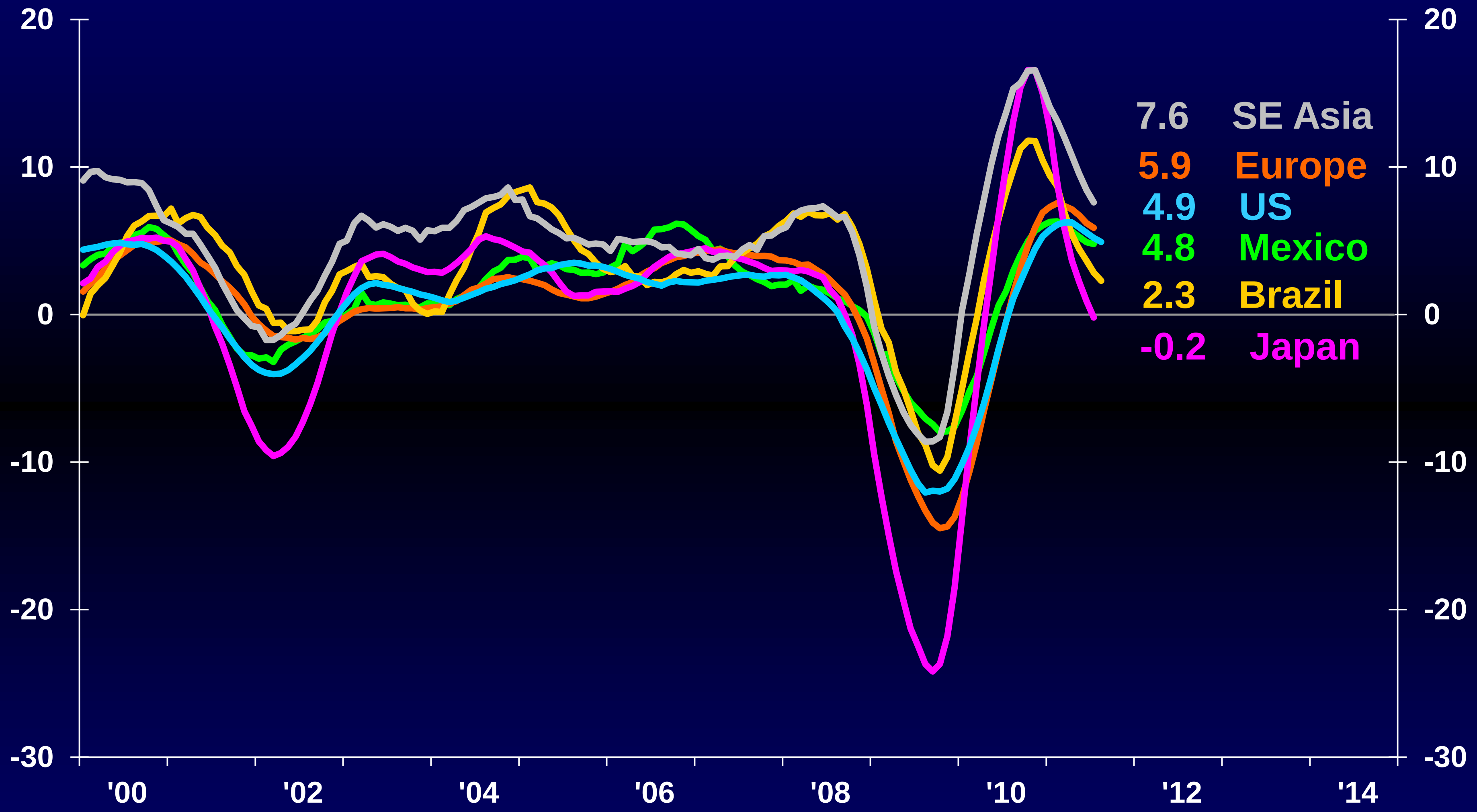
2007 = 100

Forecast Through December 2012

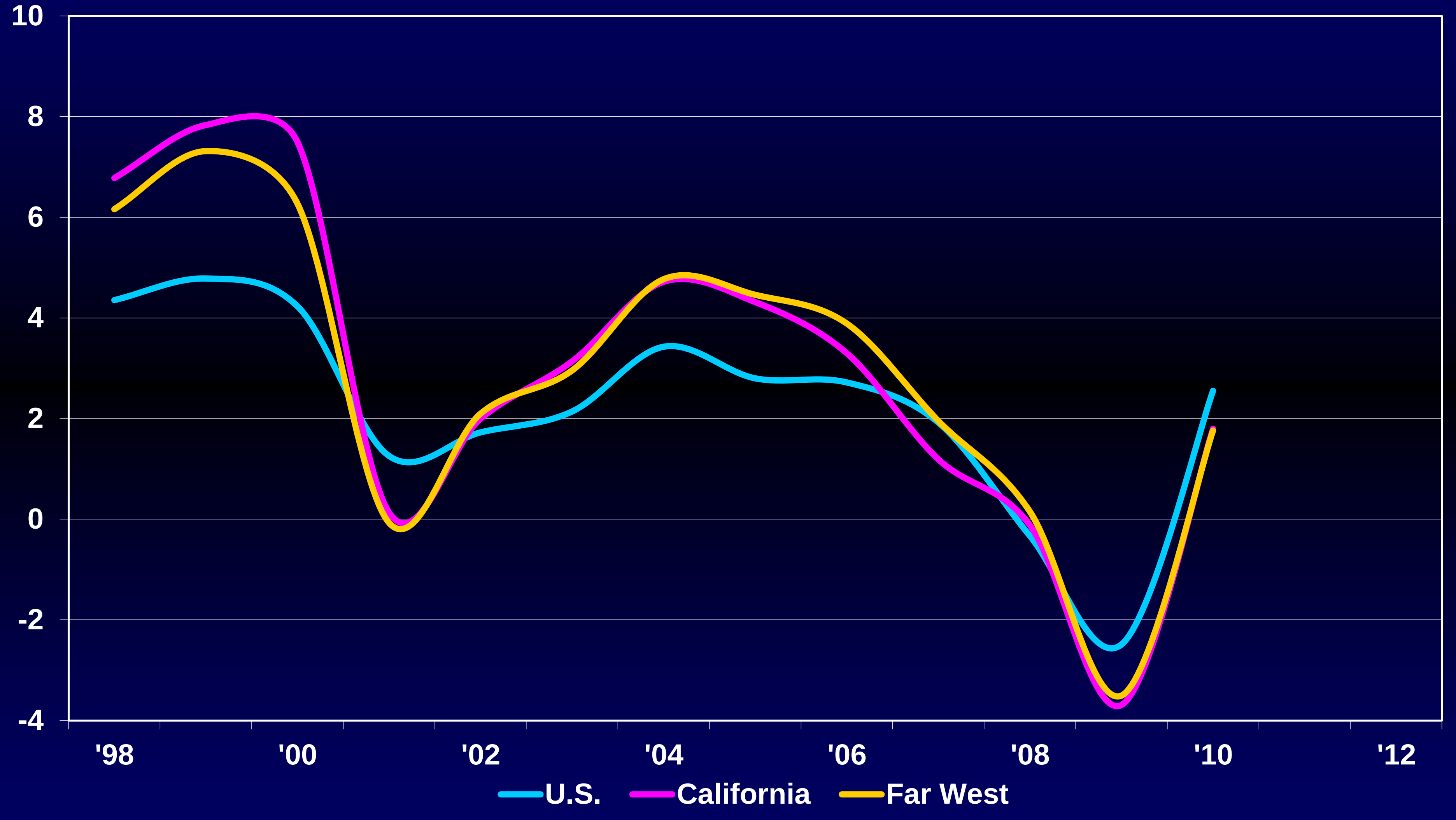
Annual Average Index



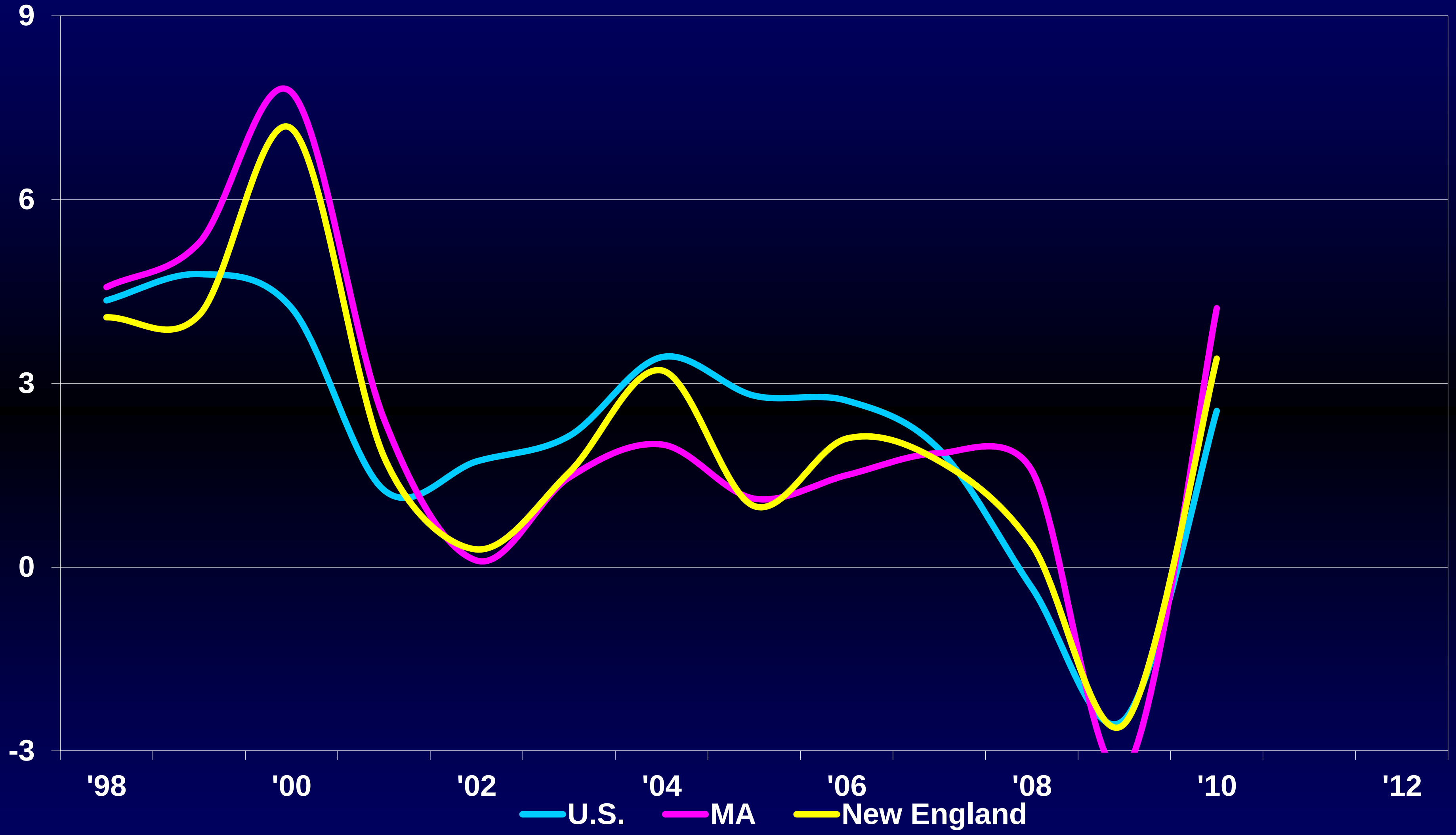
Global Industrial Production Indices
12/12 Rates-of-Change



US, California & the Far West Annual GSP Growth Rate



US, Massachusetts & New England Annual GSP Growth Rate



Example: Revenue 12MMT

Monthly

Sept	10		12MMT = 17.54	
Oct	10			
Nov	10	3MMT = 4.63		
Dec	10			
Jan	11			
Feb	11	3MMT = 5.14		
Mar	11			
Apr	11			
May	11	3MMT = 4.98		
June	11			
July	11	3MMT = 4.22		
Aug	11	3MMT = 3.95	12MMT = 18.70	
Sept	11	3MMT = 4.24	12MMT = 18.97	8.2%

RATE-OF-CHANGE

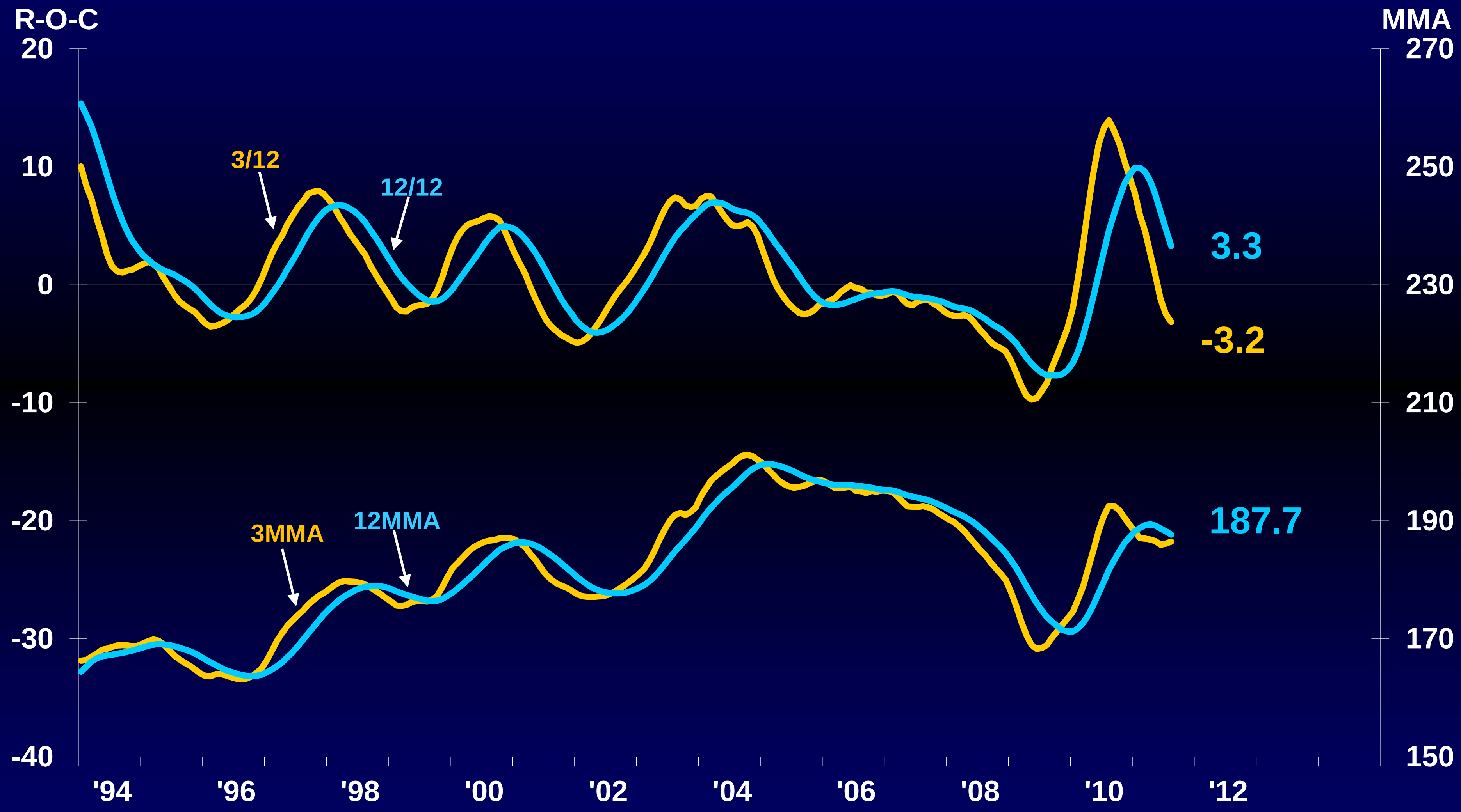
ACTUAL MONTHLY DATA AS OF 9/11
ACTUAL MONTHLY DATA AS OF 9/10 = 1/12

3-MOS MOVING TOTAL (3MMT) AS OF 9/11
3-MOS MOVING TOTAL (3MMT) AS OF 9/10 = 3/12

ANNUAL MOVING TOTAL (12MMT) AS OF 9/11
ANNUAL MOVING TOTAL (12MMT) AS OF 9/10 = 12/12

Retail Sales Excluding Autos to Building Materials & Supplies Dealers
12/12 Rates-of-Change

Hardware Production
N3325, 2002=100



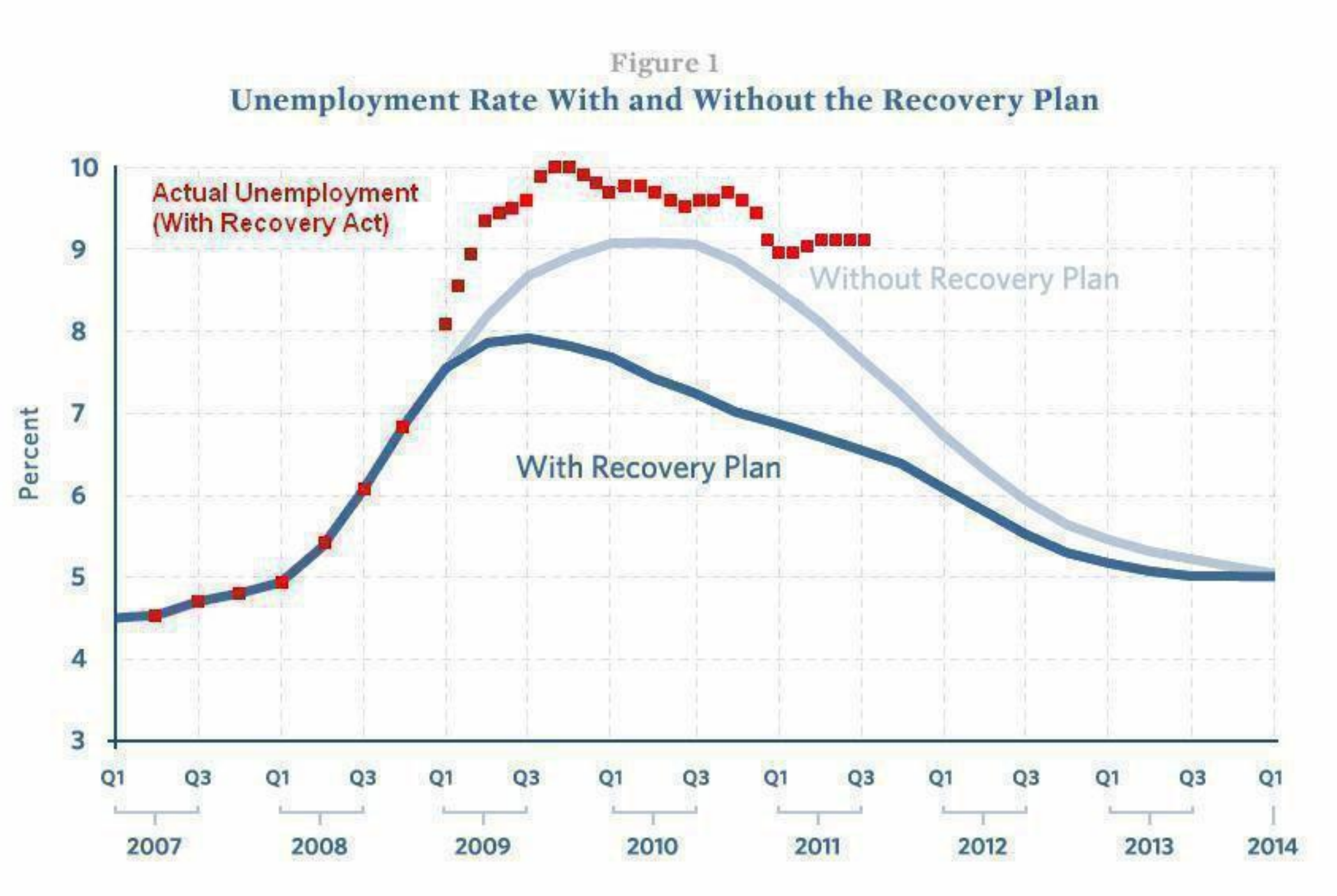
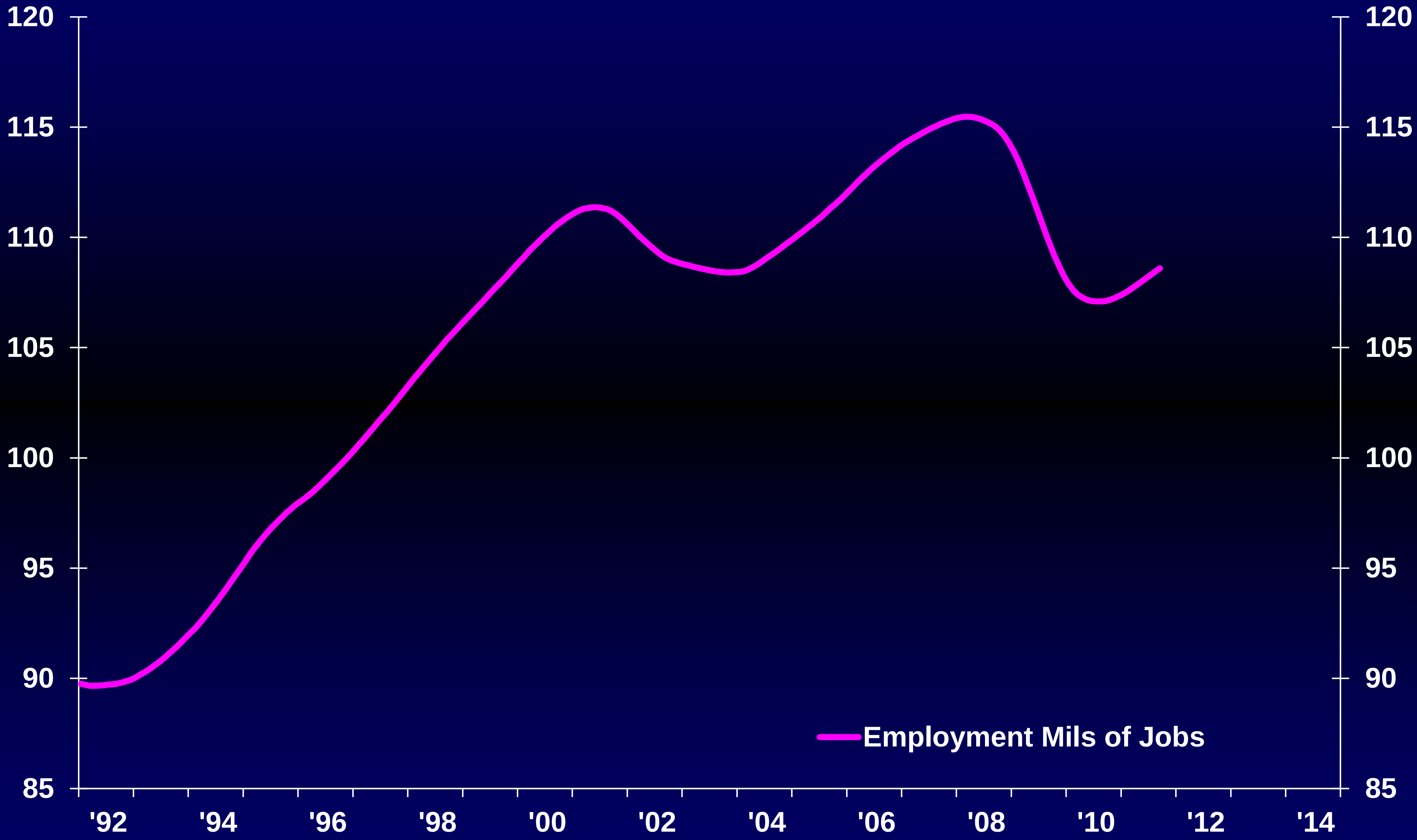


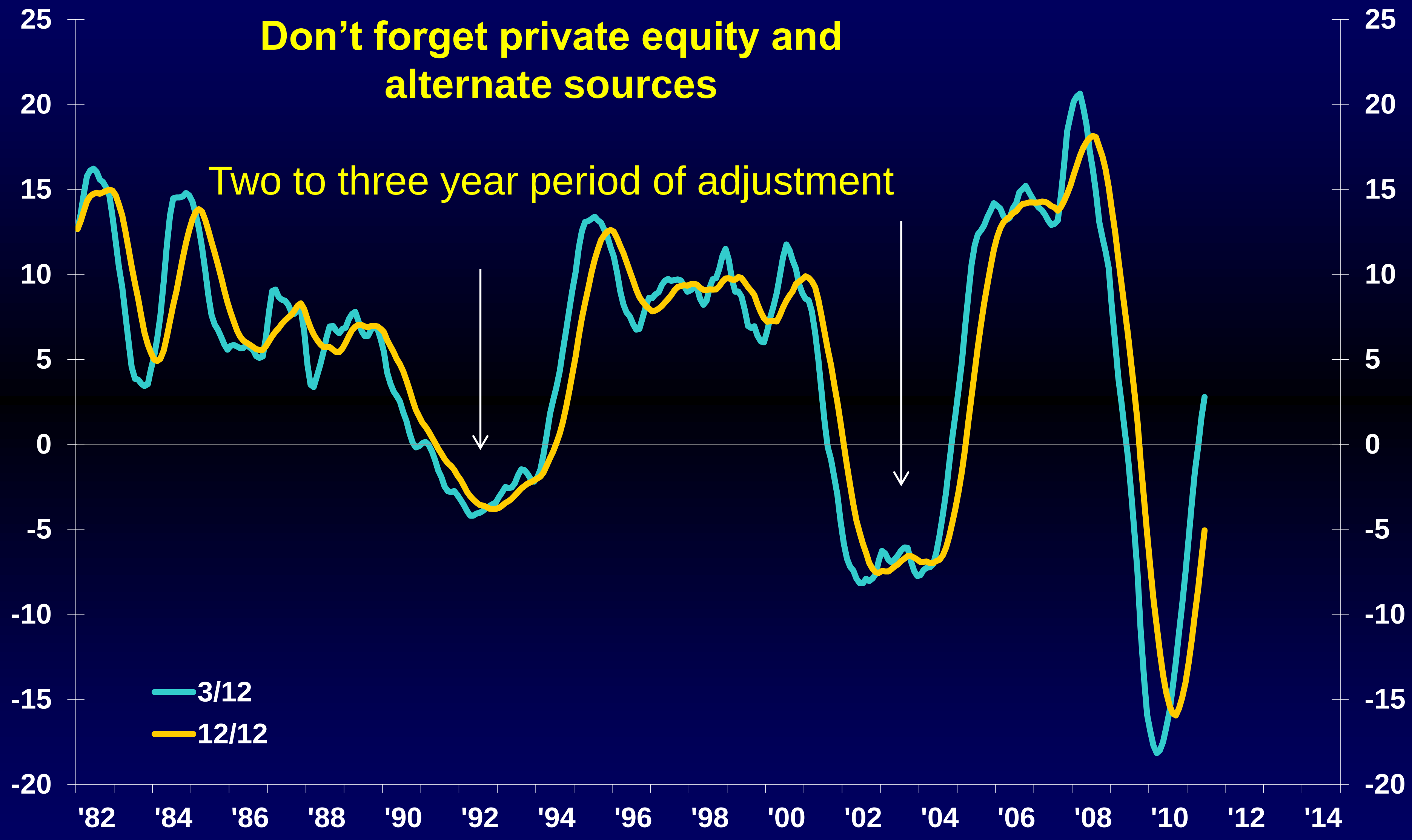
Figure 1
Unemployment Rate With and Without the Recovery Plan
Actual Unemployment
(With Recovery Act)
Without Recovery Plan
With Recovery Plan
Percent
10
9
8
7
6
5
4
3
Q1 Q3 Q1 Q3 Q1 Q3 Q1 Q3 Q1 Q3 Q1 Q3 Q1 Q3 Q1
2007 2008 2009 2010 2011 2012 2013 2014

Employment – Private Sector
Annual Data Trend

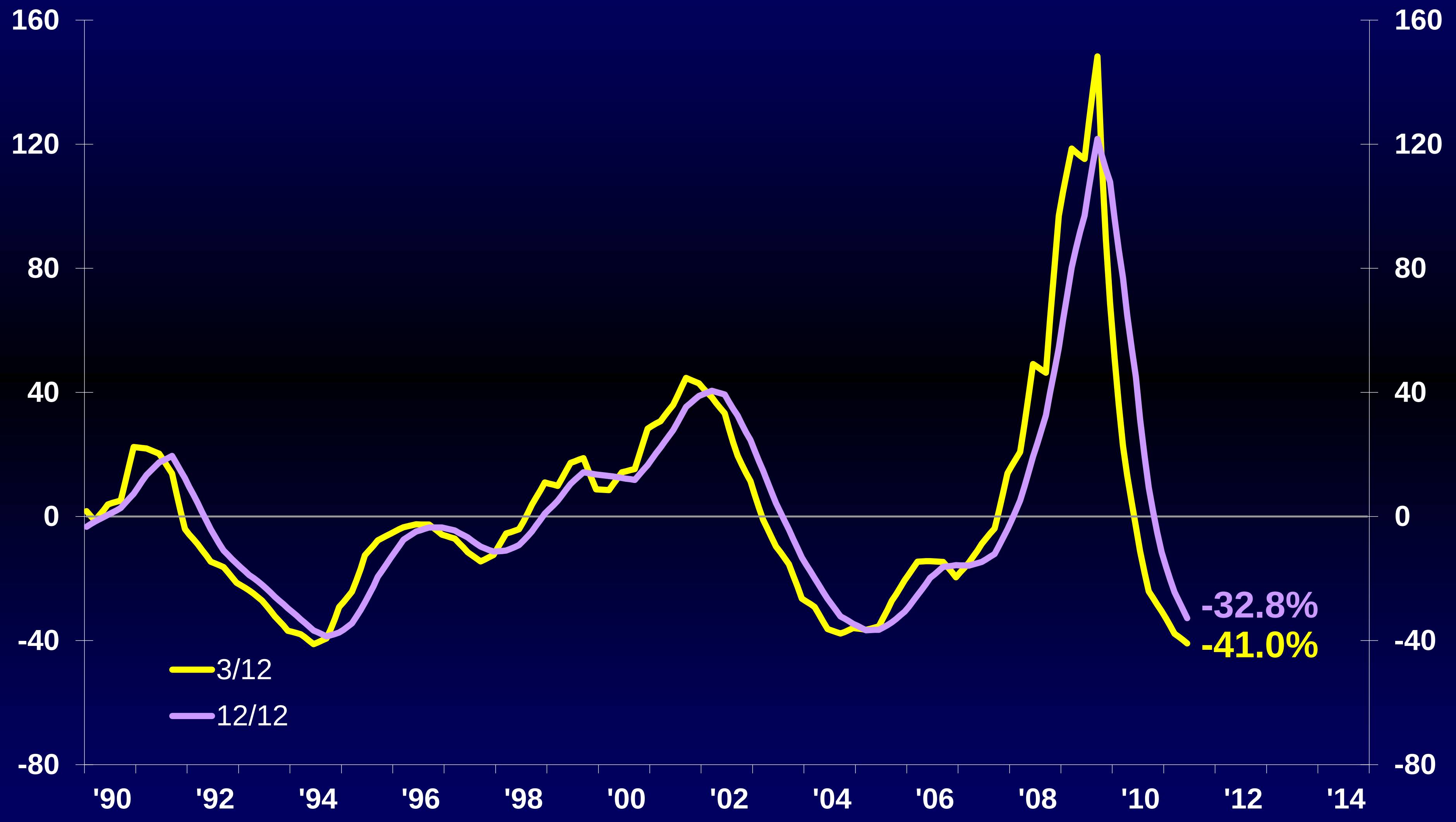


Commercial & Industrial Loans at Commercial Banks

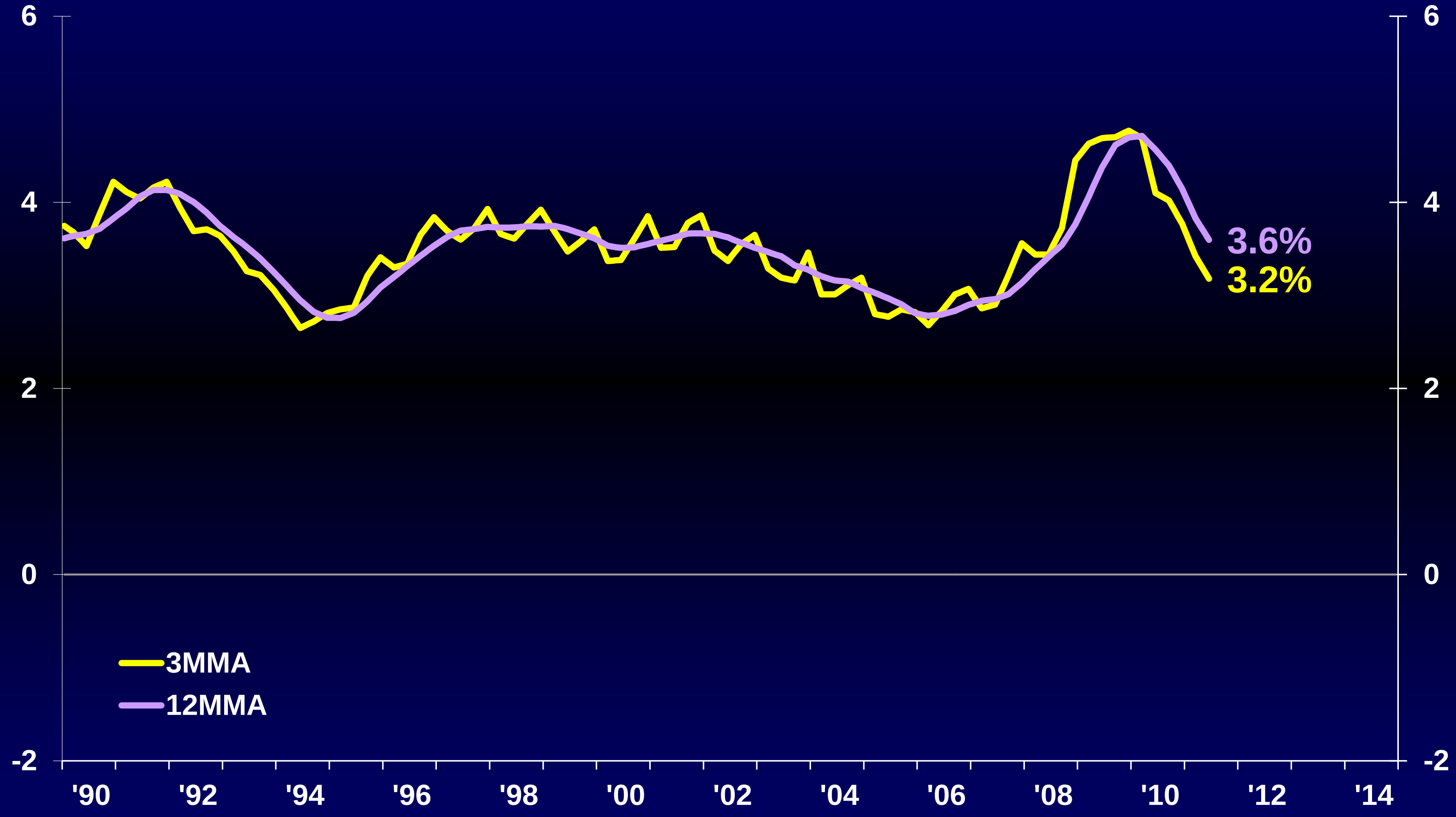
Rates-of-Change



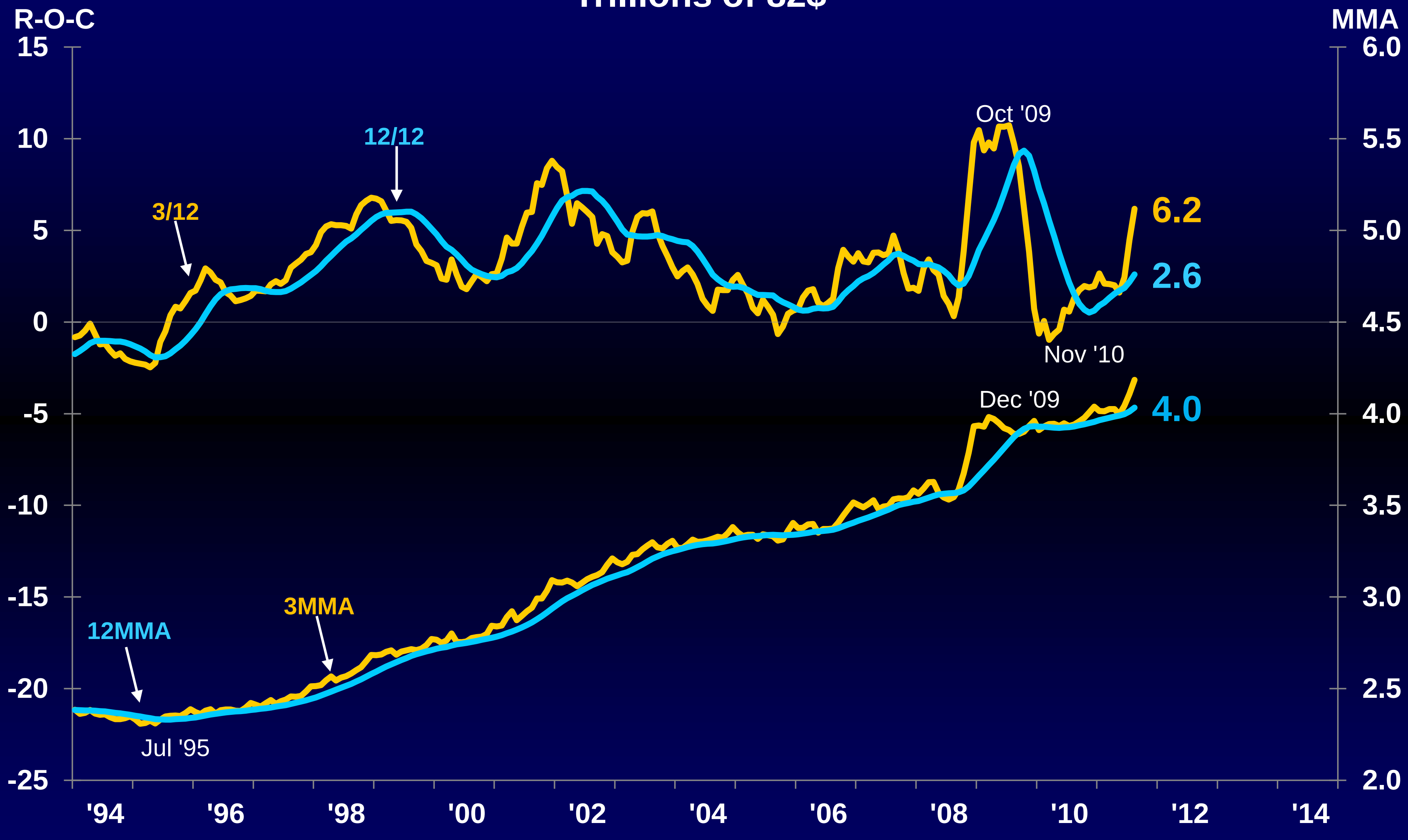
Delinquency Rates for C&I Loans
3/12 & 12/12 Rates-of-Change



Consumer Loan Delinquency Rates
3MMA and 12MMA



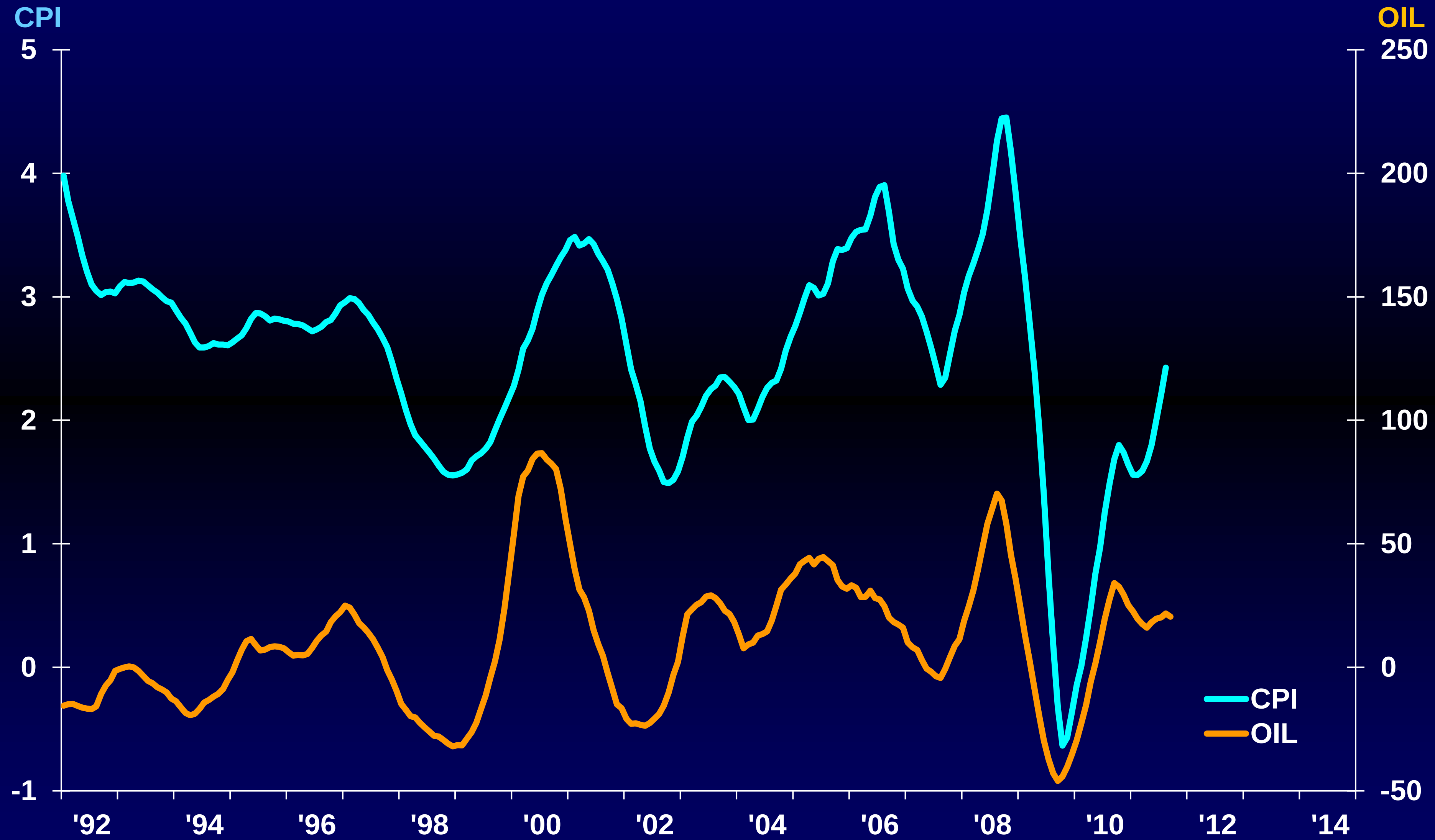
M2 Money Supply
Trillions of 82$



Copper Futures Prices
Cents per Pound

Consumer Price Index to Crude Oil Futures Prices

12/12 Rates-of-Change

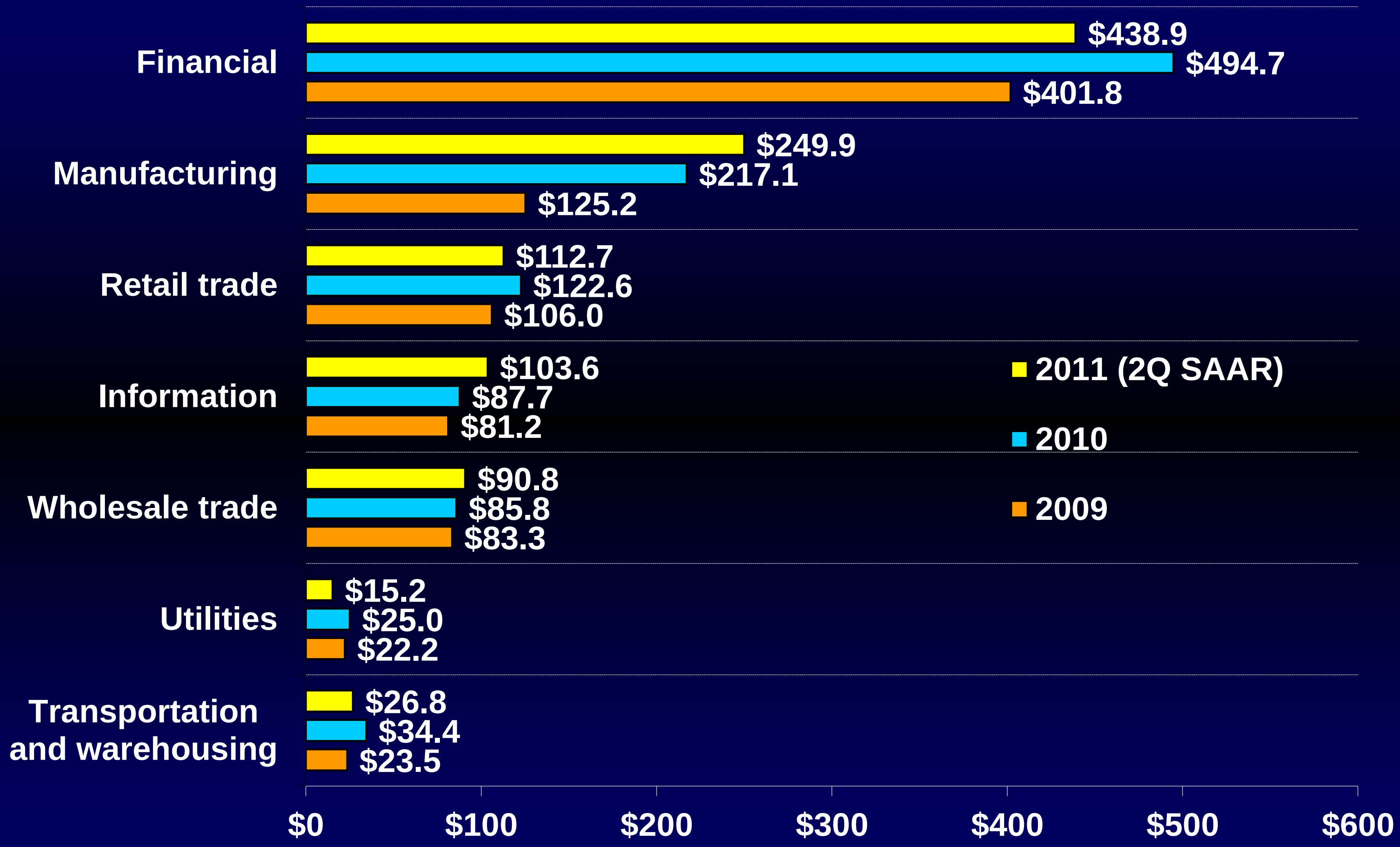


Mortgage Rates to Federal Funds
Raw Data

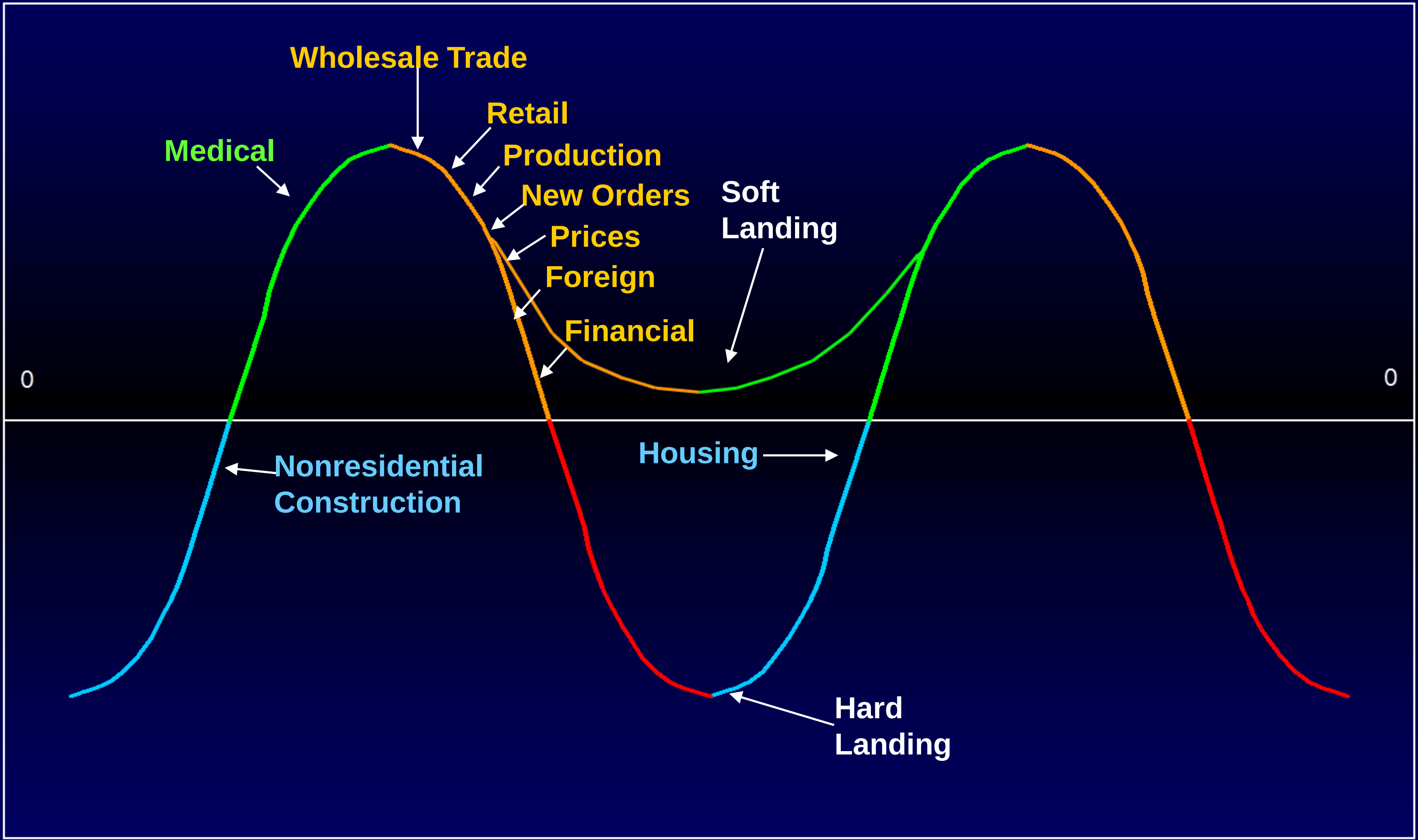
Managing Inflationary Pressures

- Phase B… raise prices (as justified)
- Consider real cost of living vs. nominal CPI
- Highlight quality, content, service ~ competitive advantage
- Borrow now – fixed as long as possible
  - Inflation favors debtors
  - Purchase land/property – leasing rises with inflation
  - Build in efficiencies for long-term cost savings
- Lower fixed costs ~ increase variable costs for increased flexibility
- Re-assess domestic sources (inflation will be imported)
- Rigorous cost controls – hire the best accountant/CFO
- R & D ~ substitute products and materials
- Move liquid assets off shore
- Hire now and/or lock in labor rates
- Select price indices that magnify inflation negotiating with customers
- Select price indices that minimize inflation negotiating with vendors
  - Get Vendors to agree to longer-term price commitments
- Sell overseas

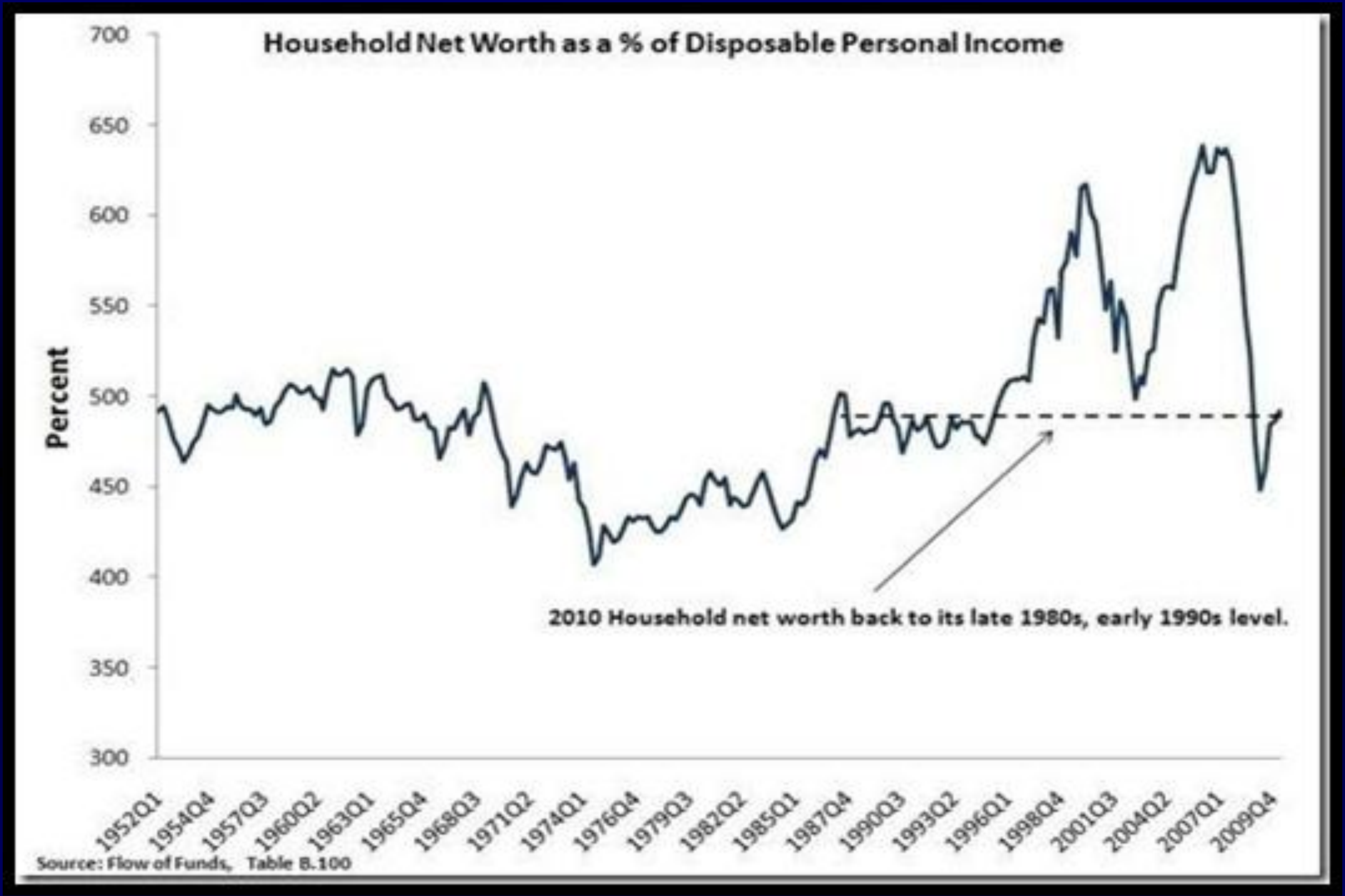
Corporate Profits – 2nd Quarter
Billions of $



Trends 10

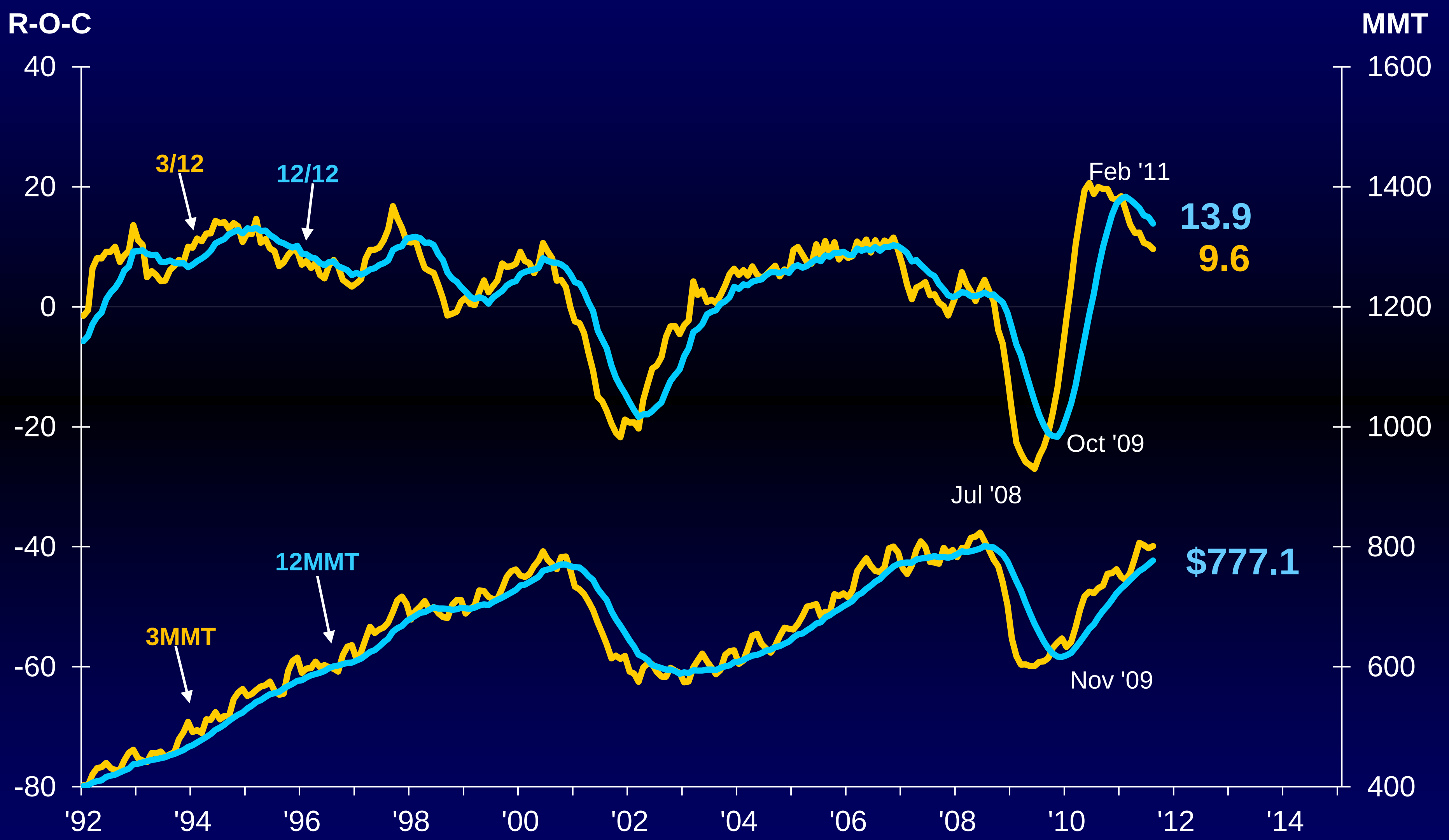


Wholesale Trade
Retail
Medical
Production
New Orders
Soft
Landing
Prices
Foreign
Financial
0
0
Housing
Nonresidential
Construction
Hard
Landing

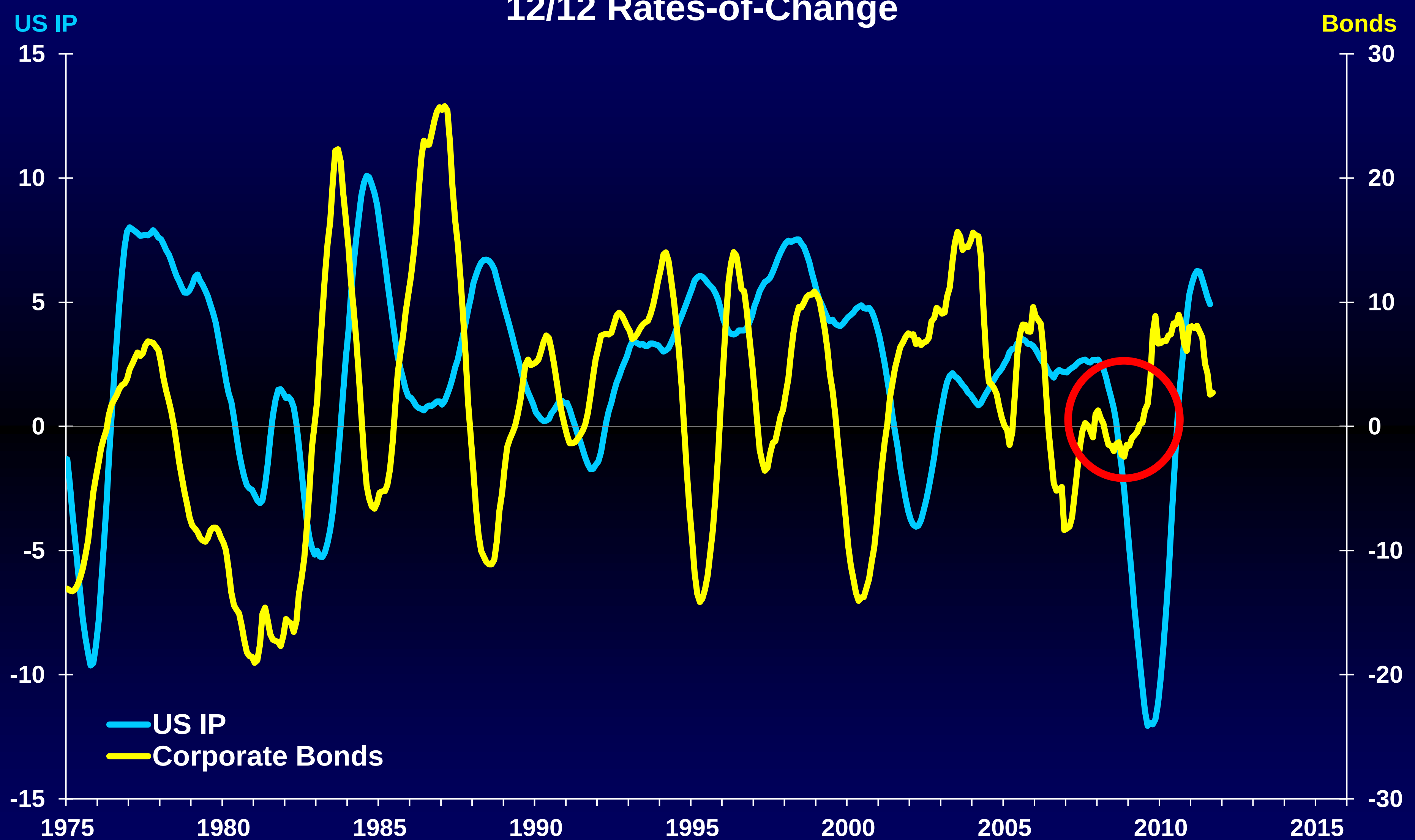


Source: Flow of Funds, Table B.100

Nondefense Capital Goods New Orders w/o Aircraft
Billions of $

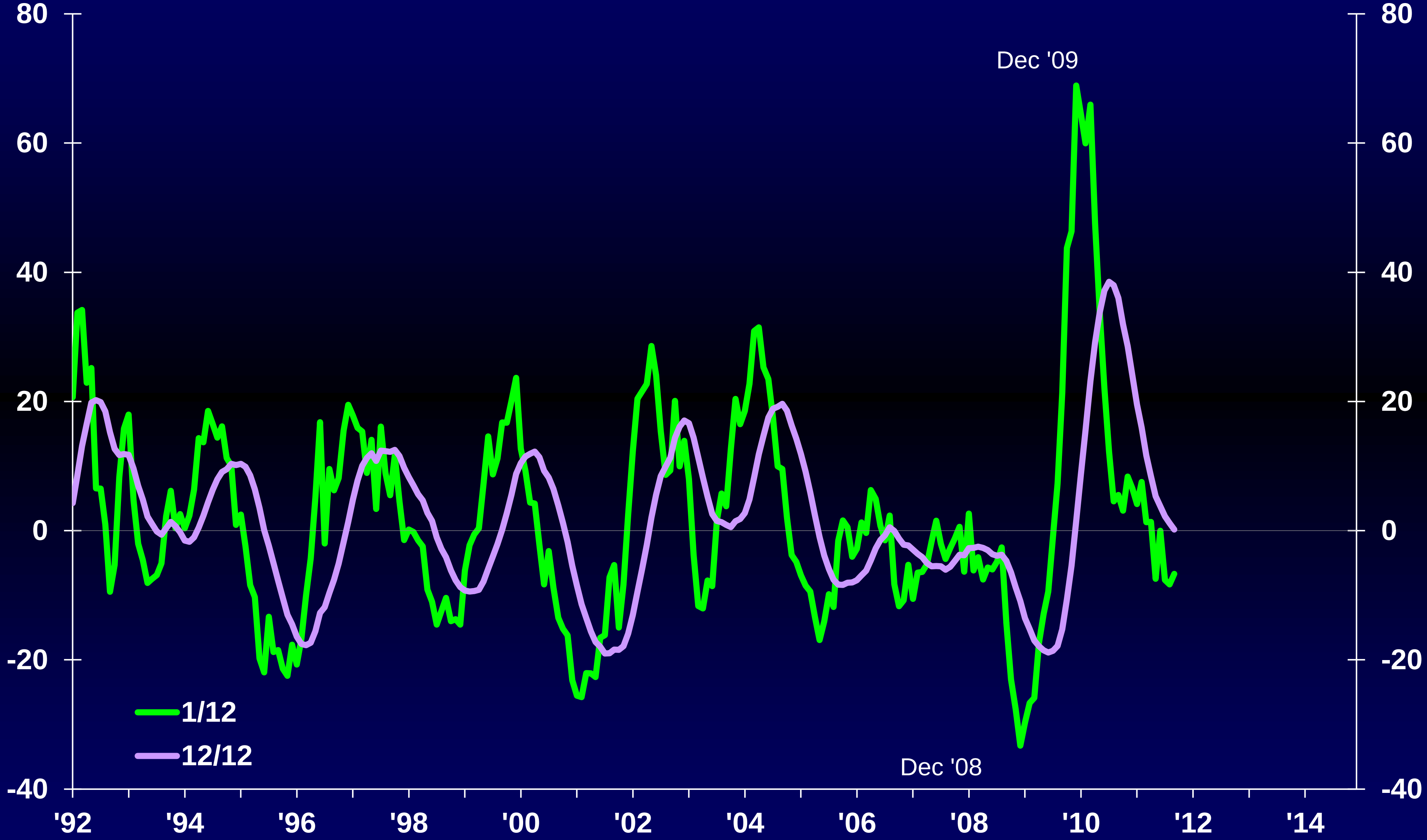


US Industrial Production to Corporate Bond Prices
12/12 Rates-of-Change

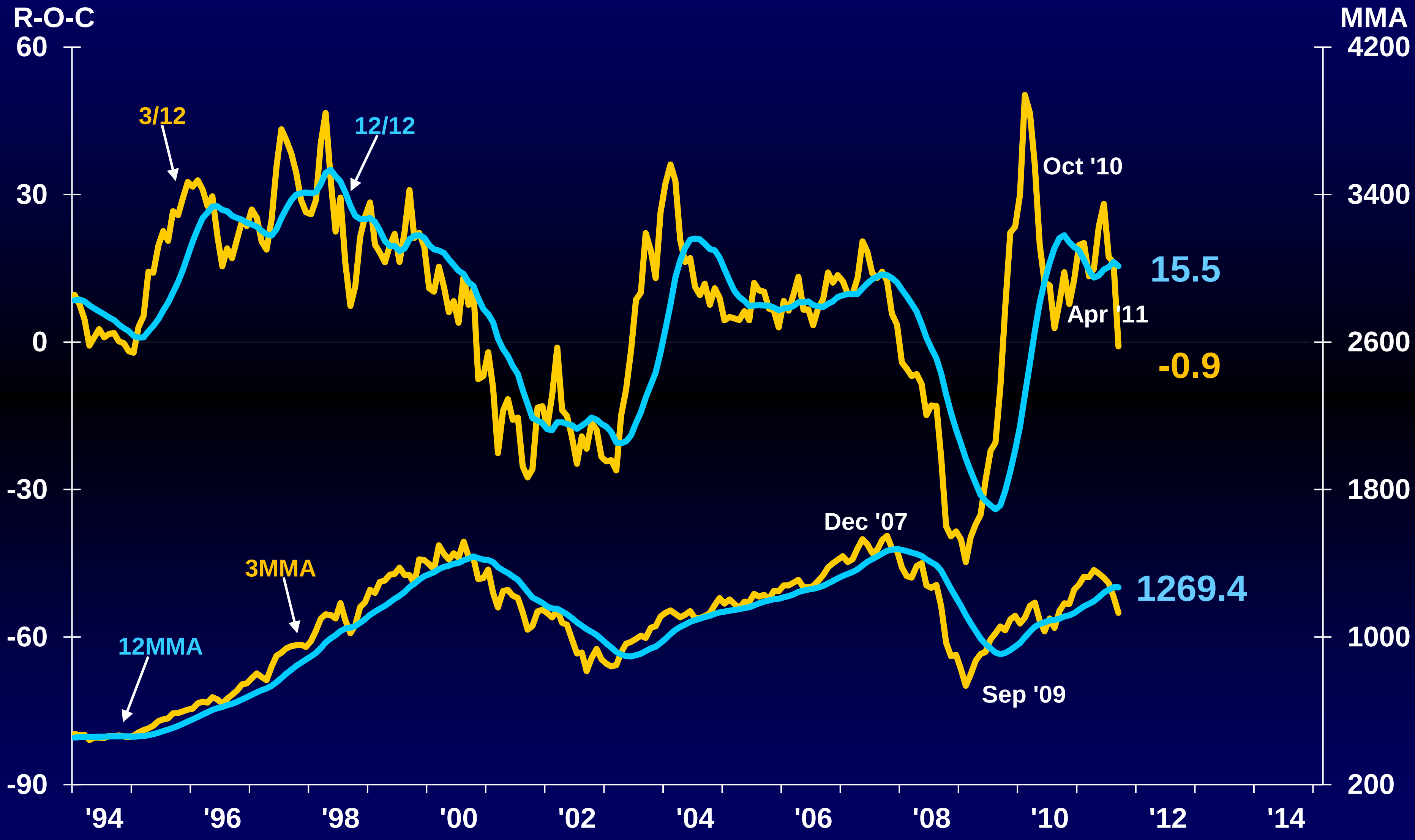


US Leading Indicator
1996 = 100

Purchasing Managers Index
ISM

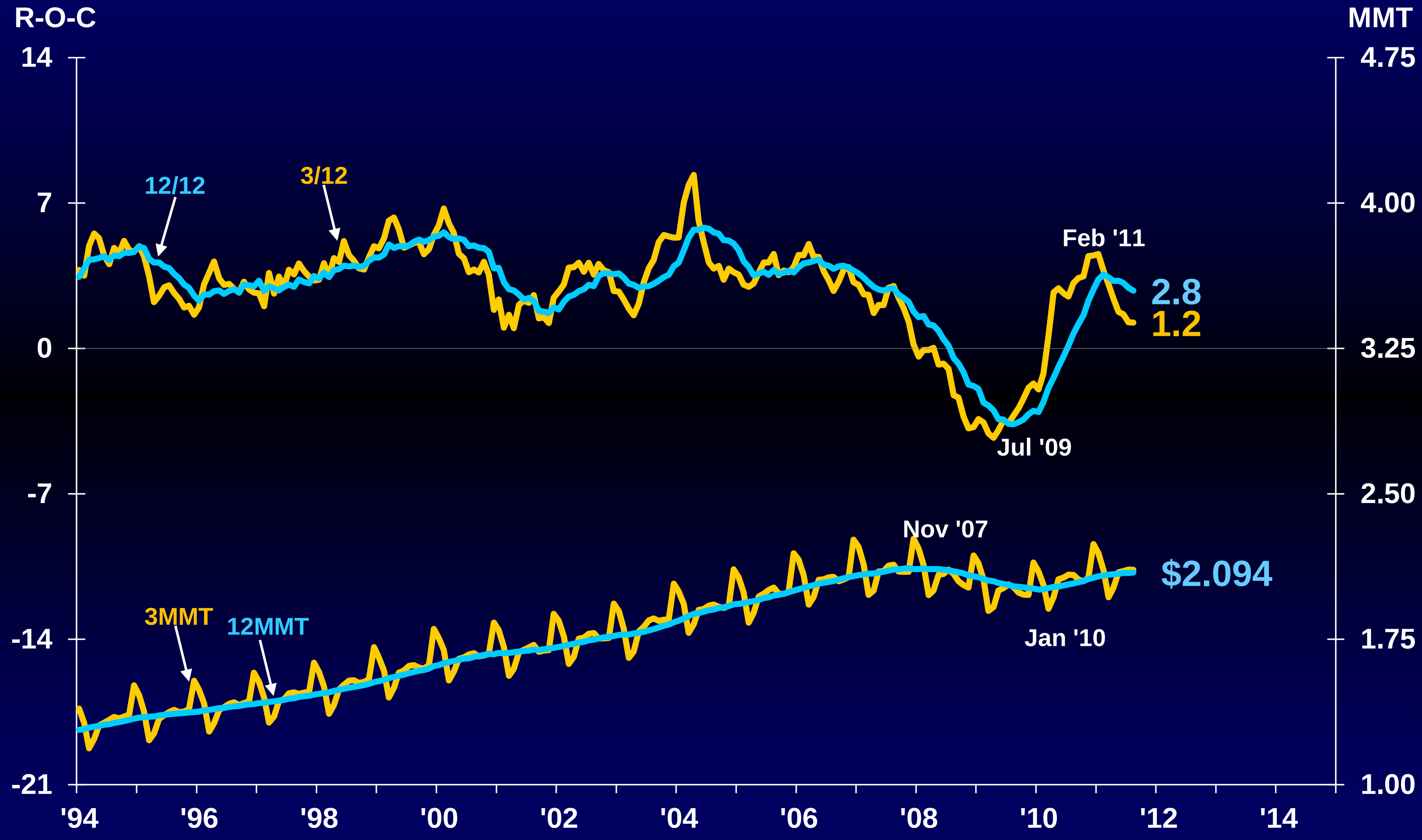


Stock Prices Index
S&P 500, 1941-43 = 10



Retail Sales Excluding Automobiles

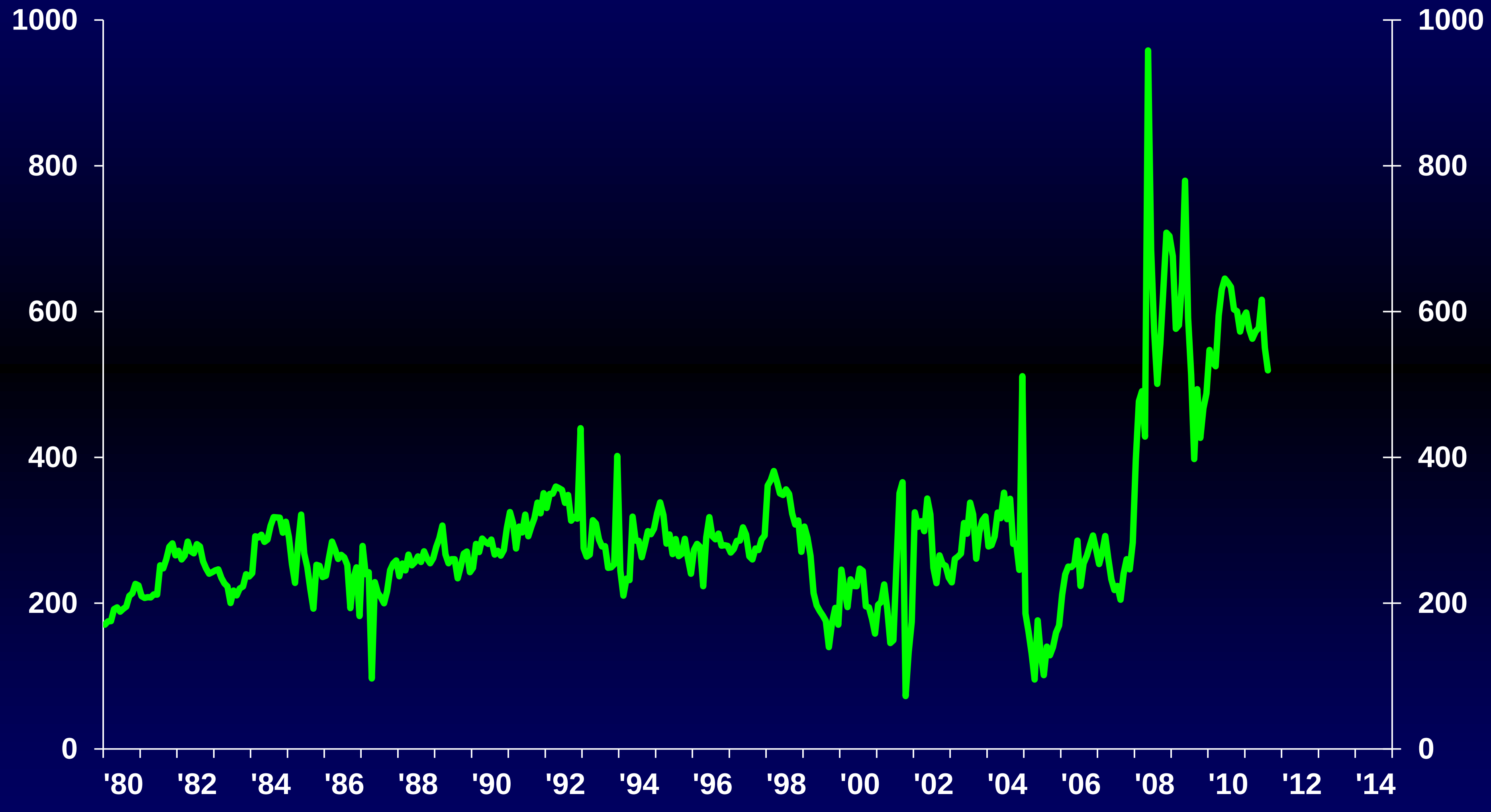
Trillions of 82-84$



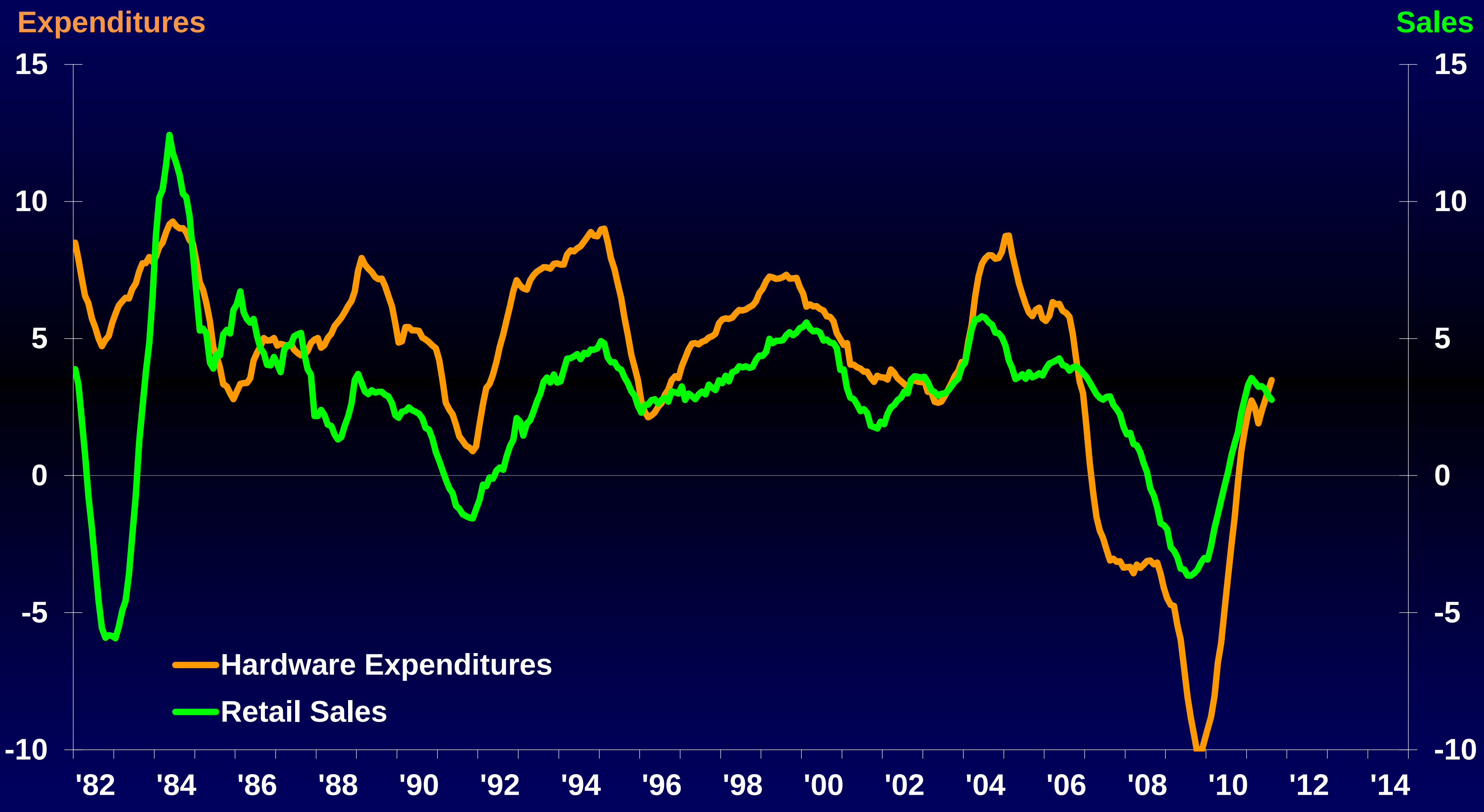
Personal Savings

Billions of $, Annual Data Trend

SAAR



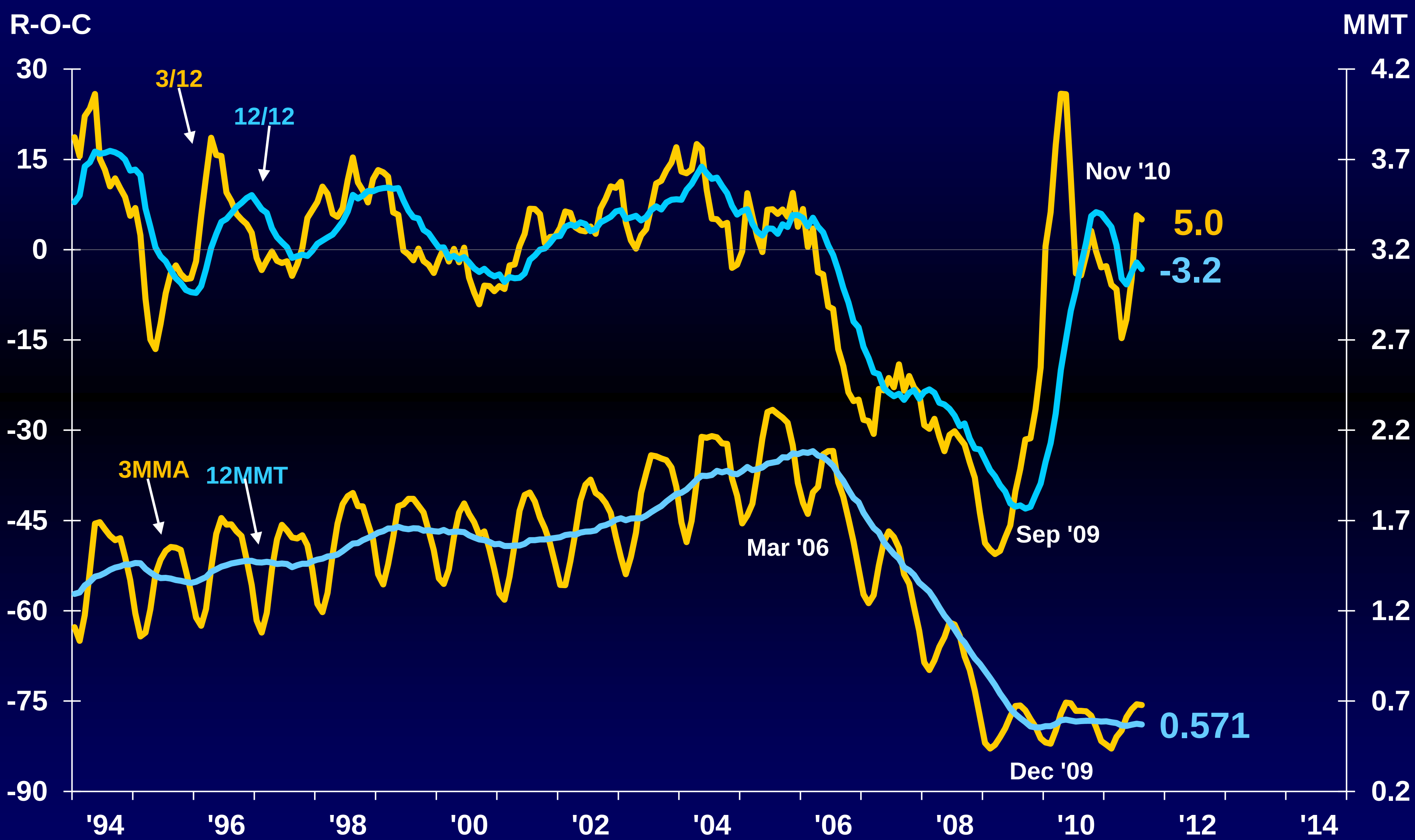
Tools, Hardware & Supplies Expenditures to Retail Sales Excluding Autos
12/12 Rates-of-Change



Hand Tools Expenditures to Building Materials, Garden Equip., and Supplies Stores

12/12 Rates-of-Change

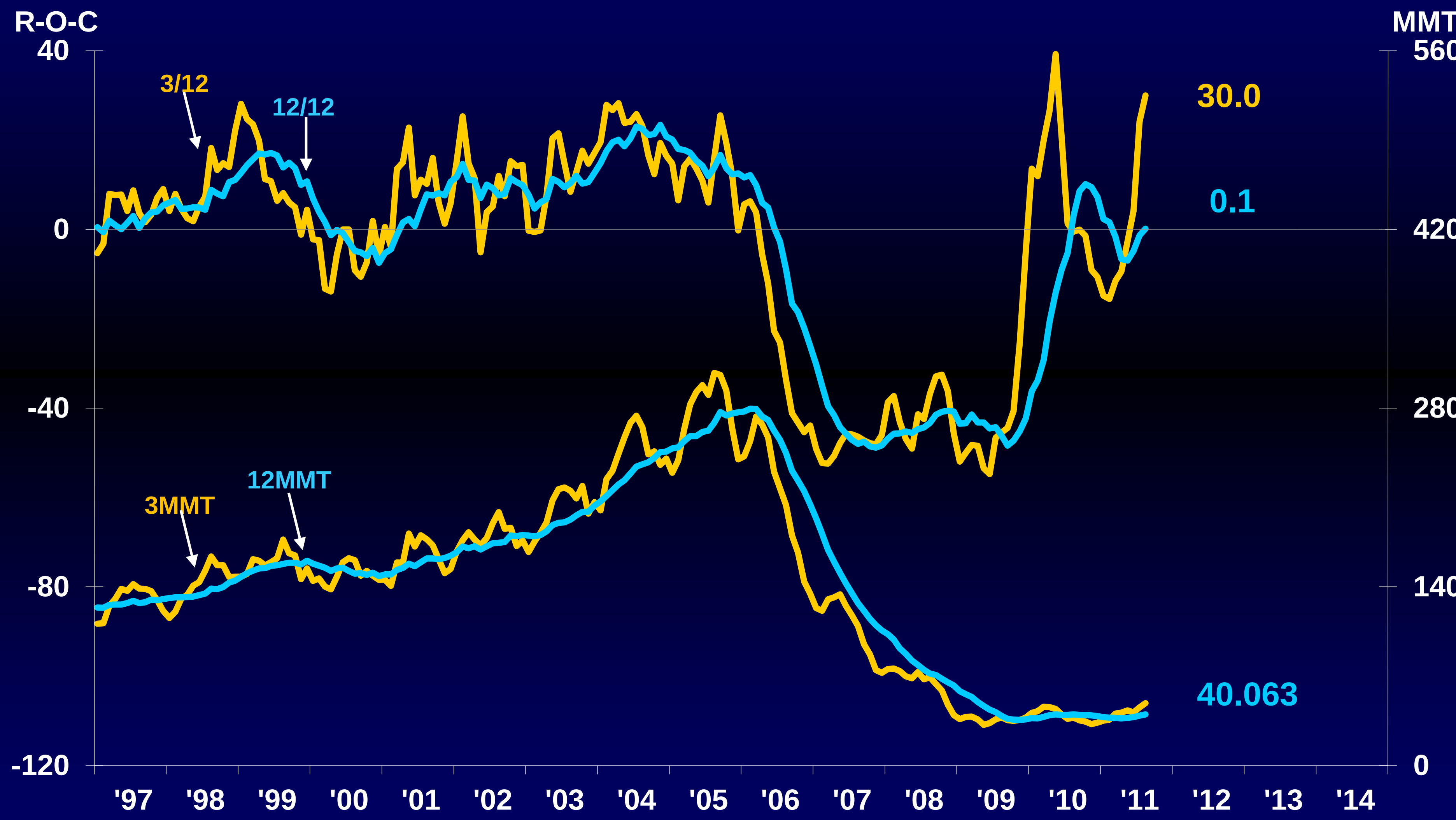
Housing Starts
Millions of Units



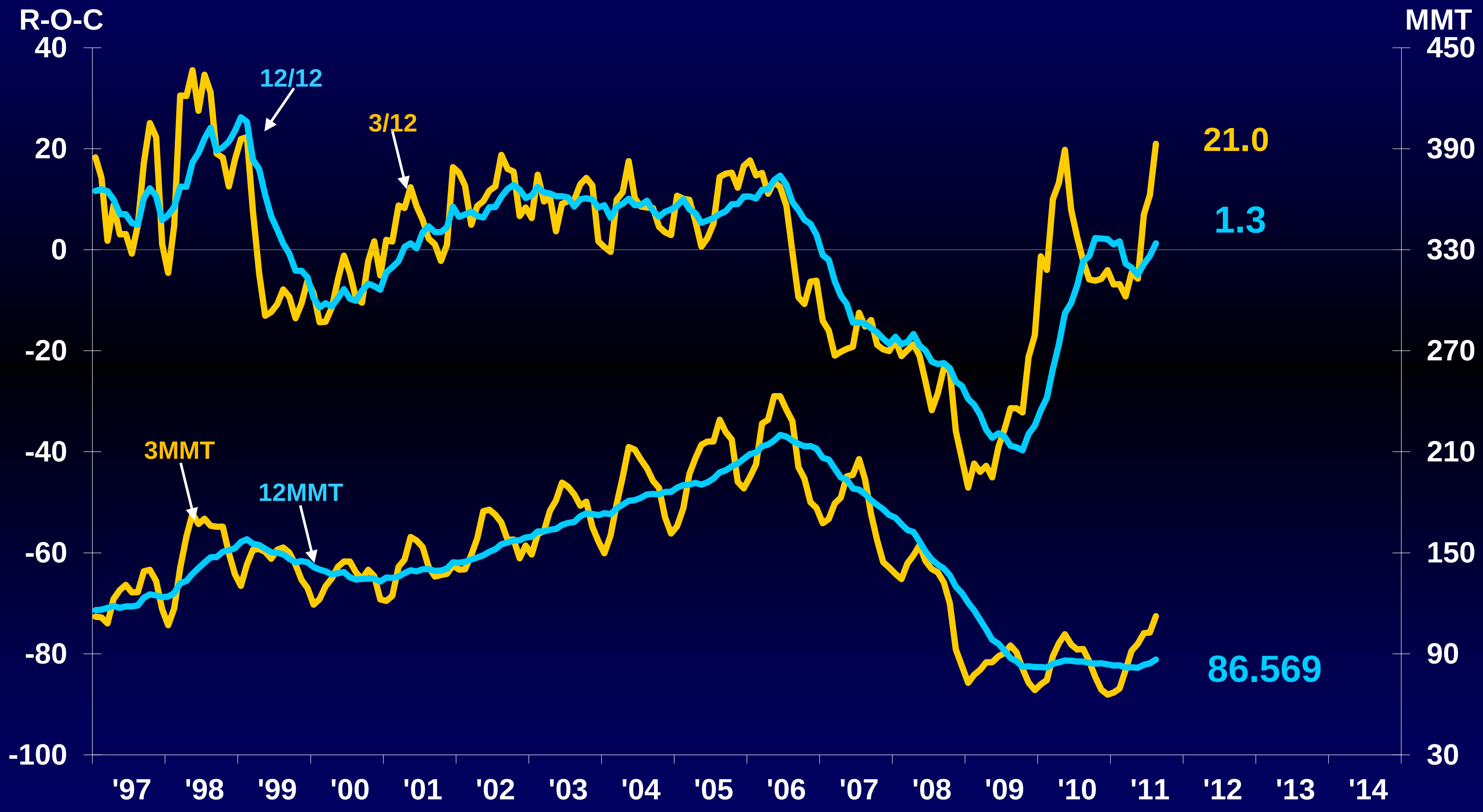
Housing Analysis

West	2.4%	B	Mild Rise
Northeast	0.7%	B	Flat
South	- 4.5%	A	Mild Rise
Midwest	- 5.2%	A	Flat
Multi Family	40.0%	B	Flat
New Homes Sold	-16.2%	A	Flat
Existing Home Sales	- 8.5%	A	Mild Rise

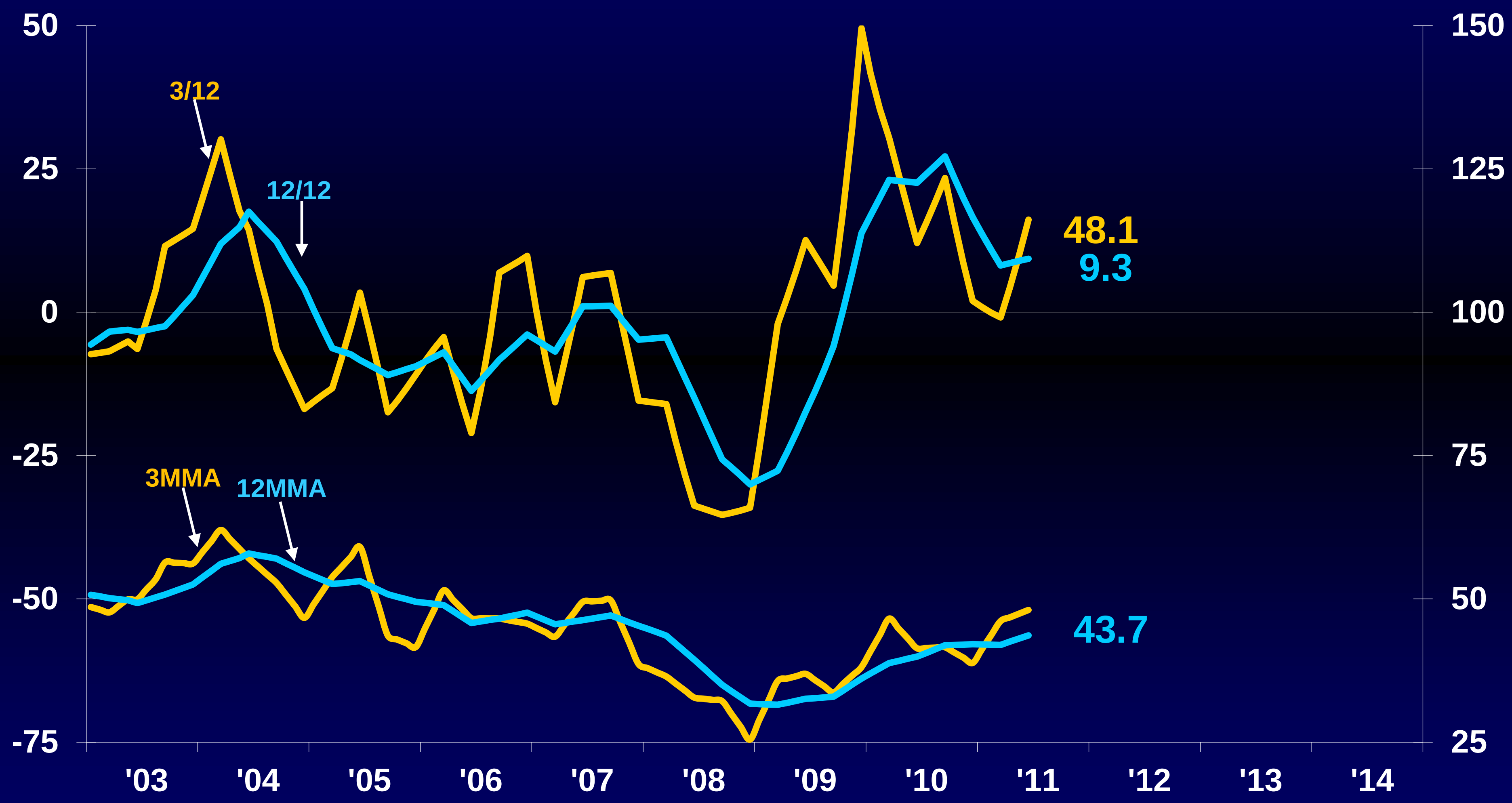
Florida Building Permits
Thousands of Units



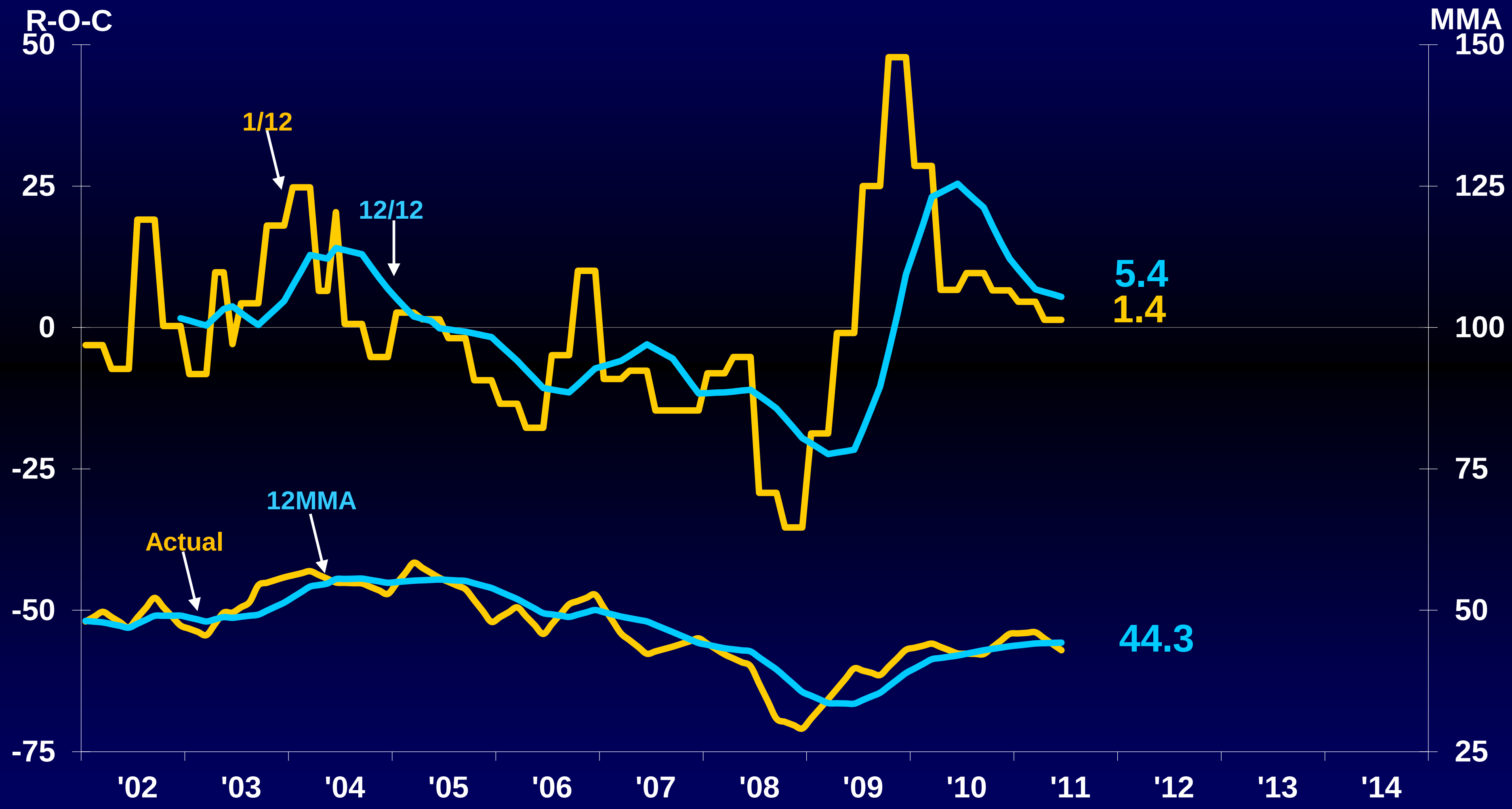
Texas Building Permits
Thousands of Units



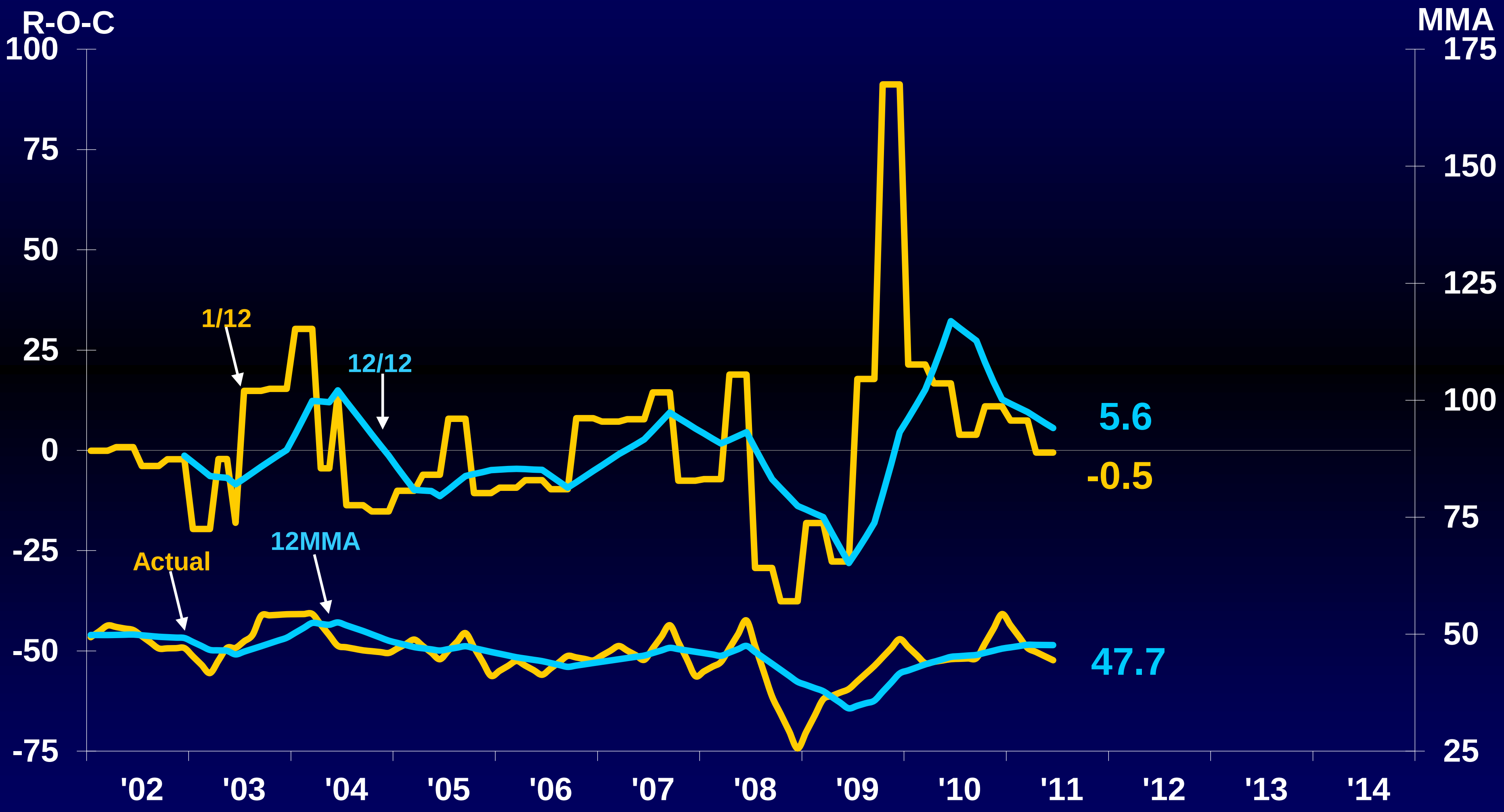
Northeast Remodeling Market Index



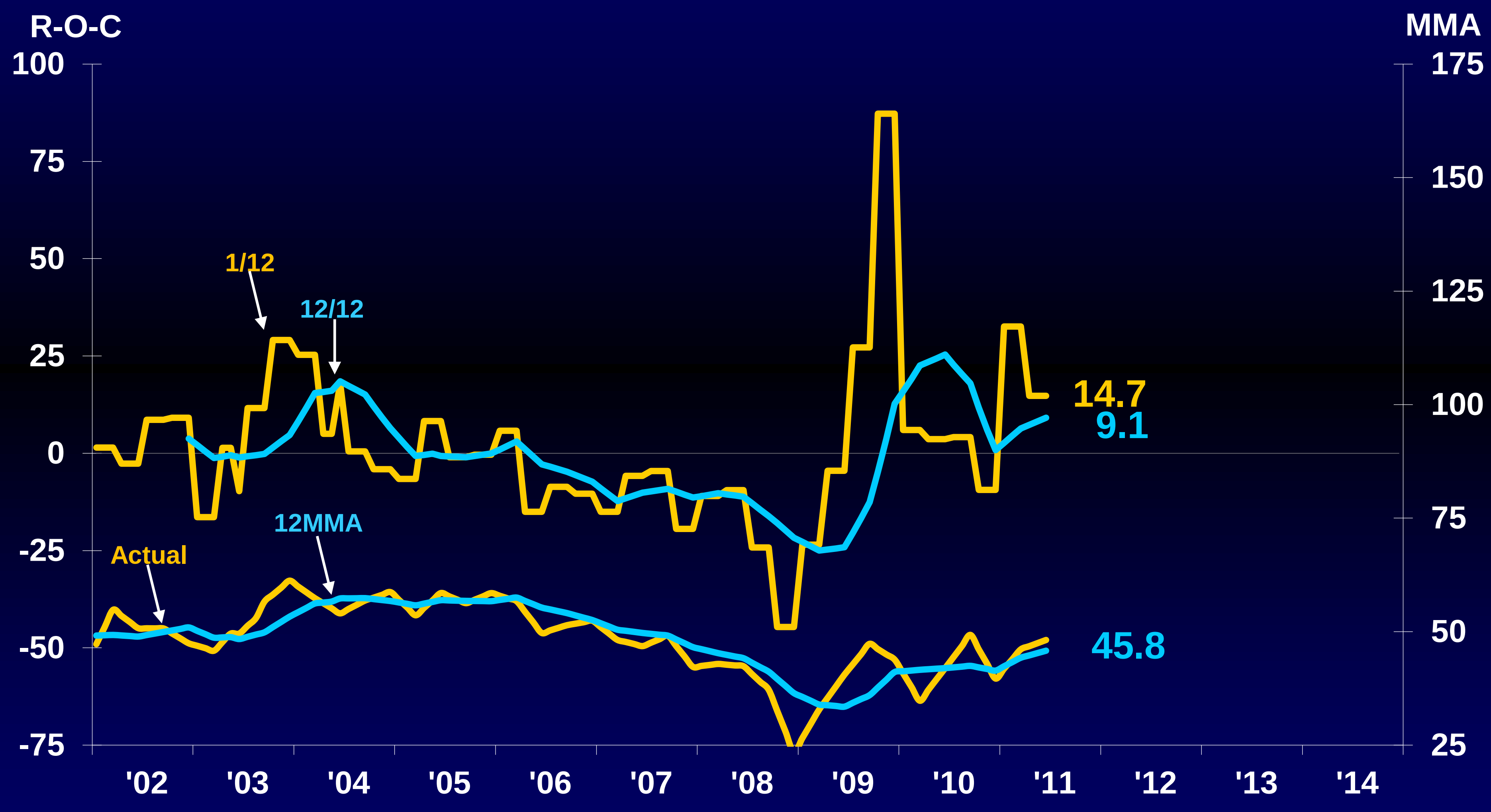
South Remodeling Market Index



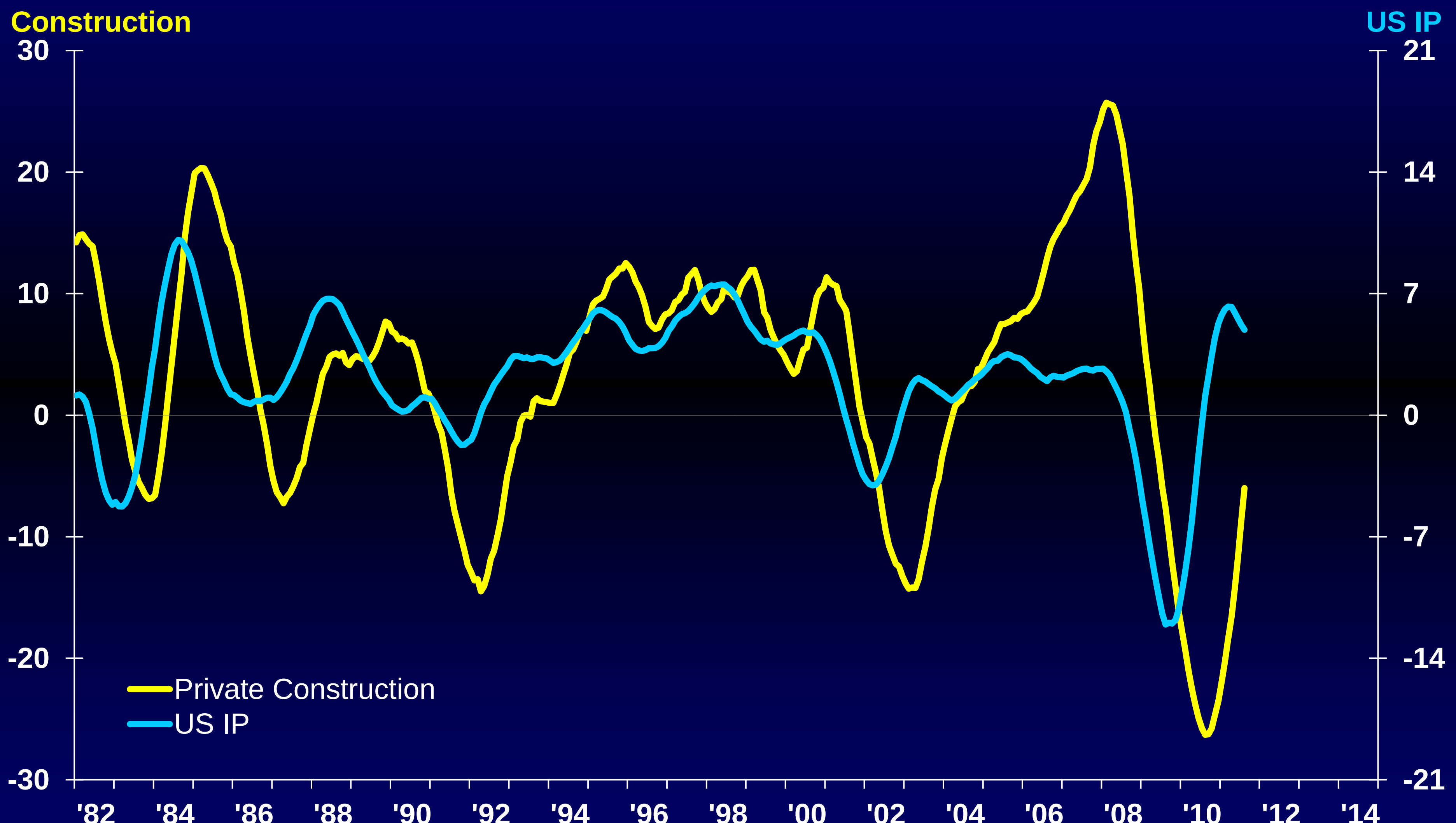
Midwest Remodeling Market Index



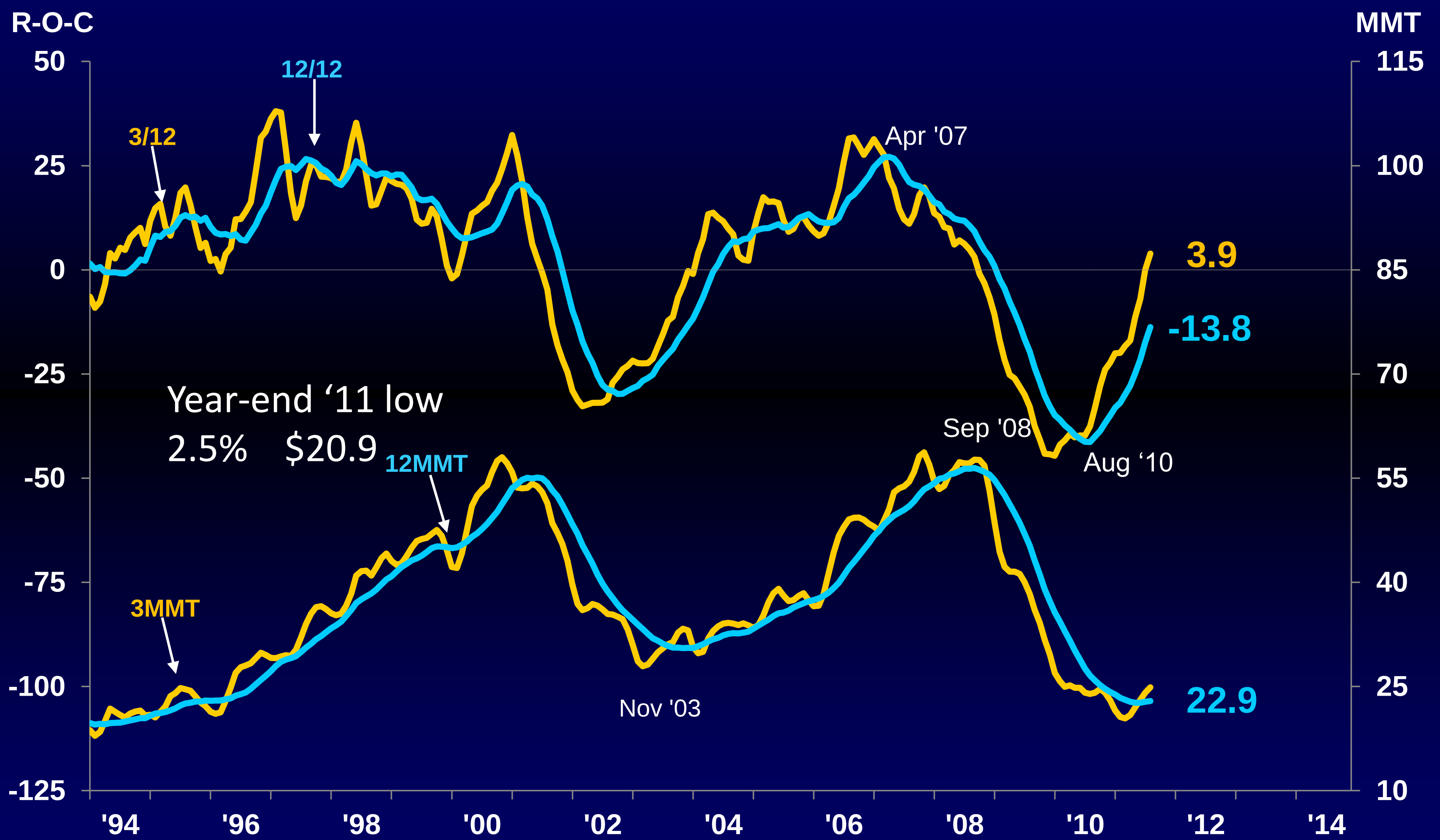
West Remodeling Market Index



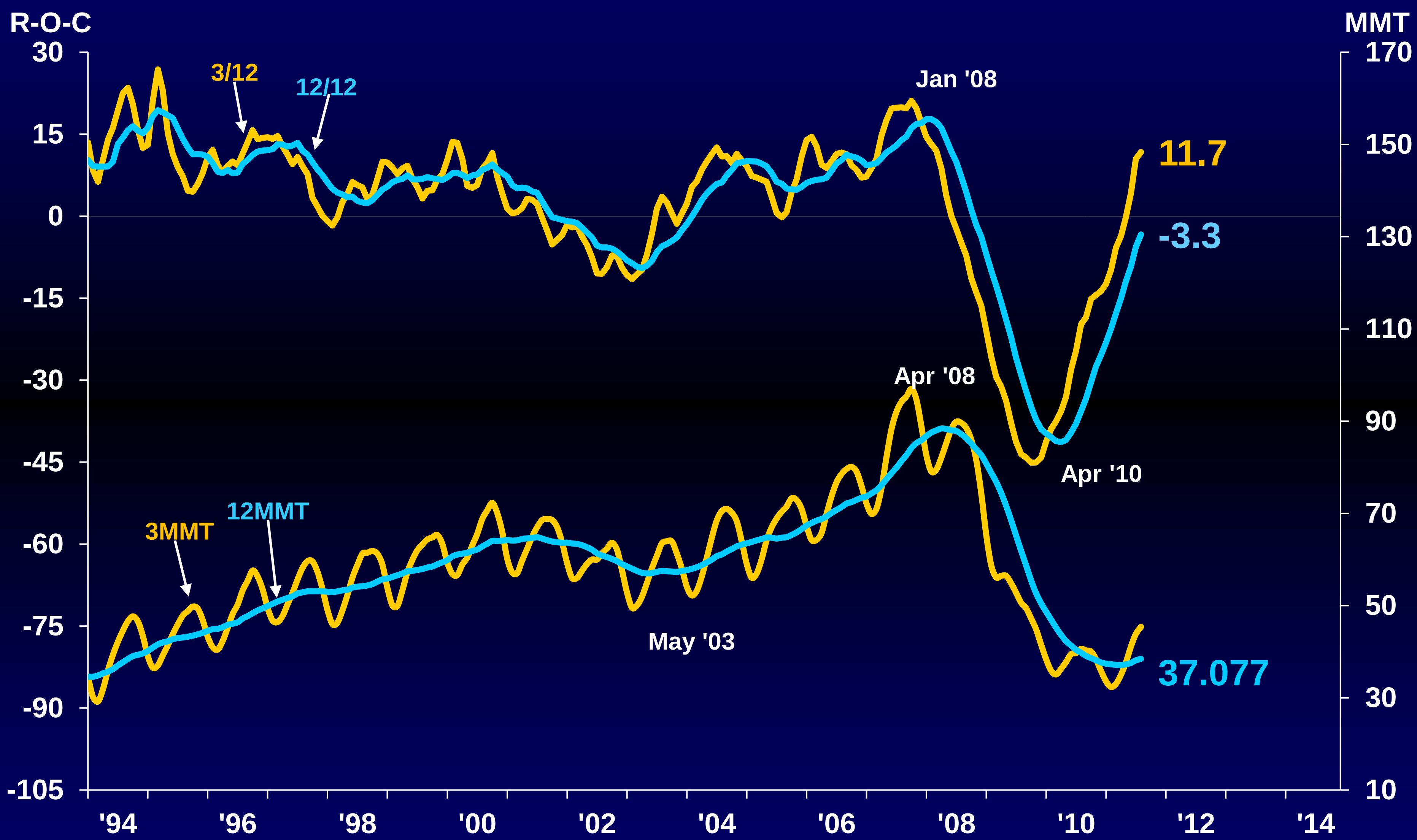
US Industrial Production to Private Non-Residential Construction
12/12 Rates of Change



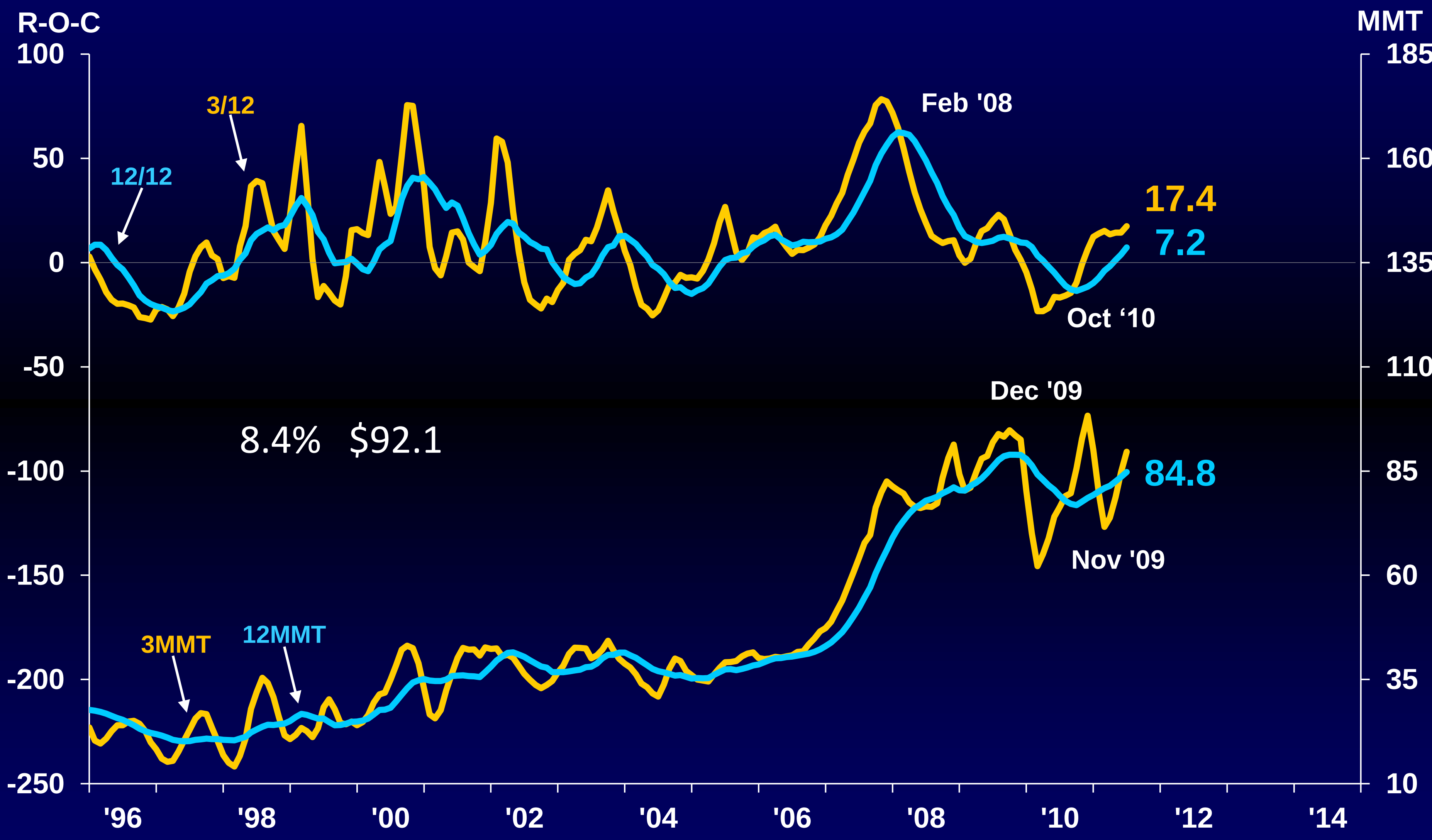
Office Buildings Construction
Billions of $



Commercial Buildings Construction
Billions of $

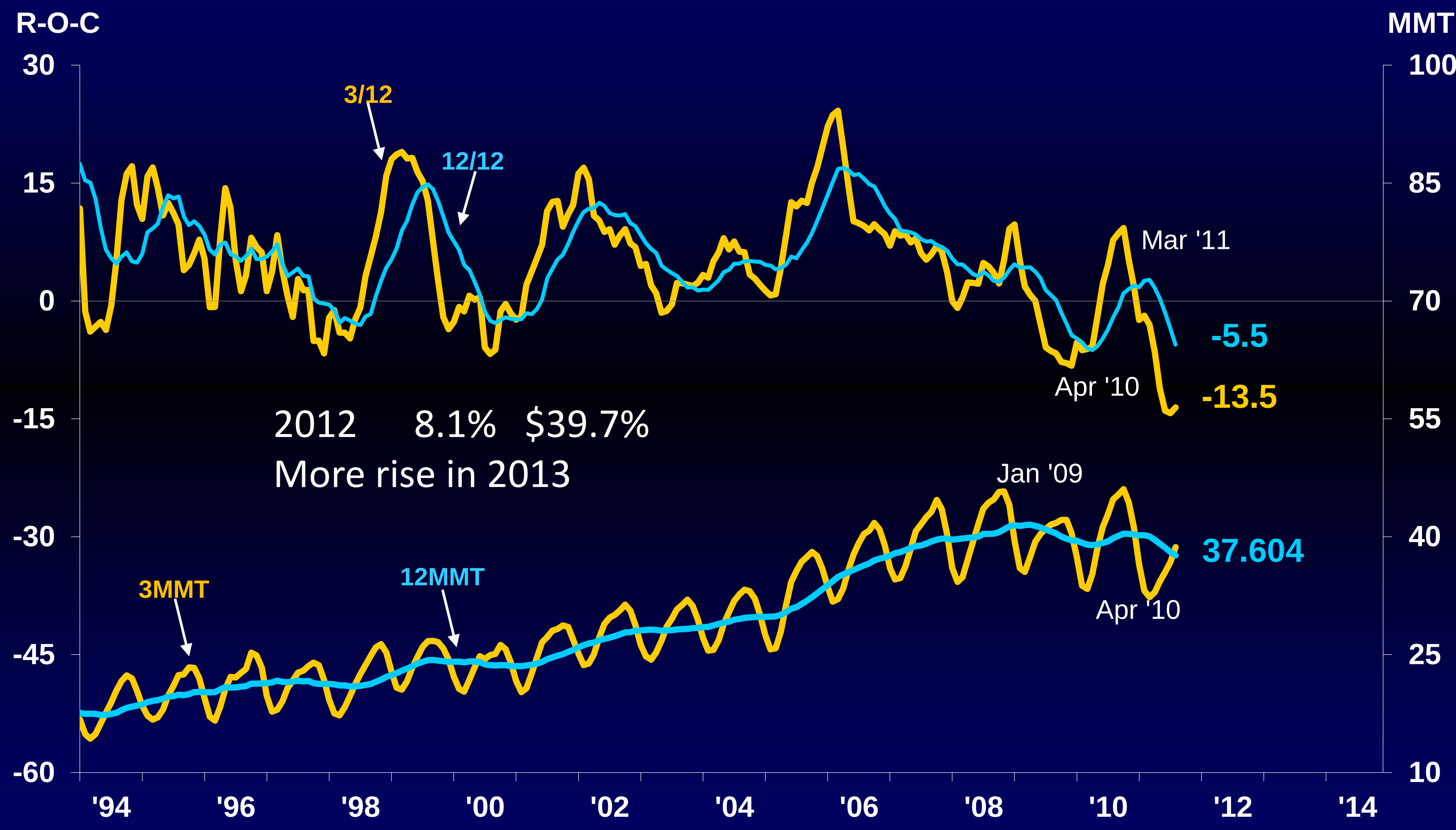


Power Construction
Billions of $

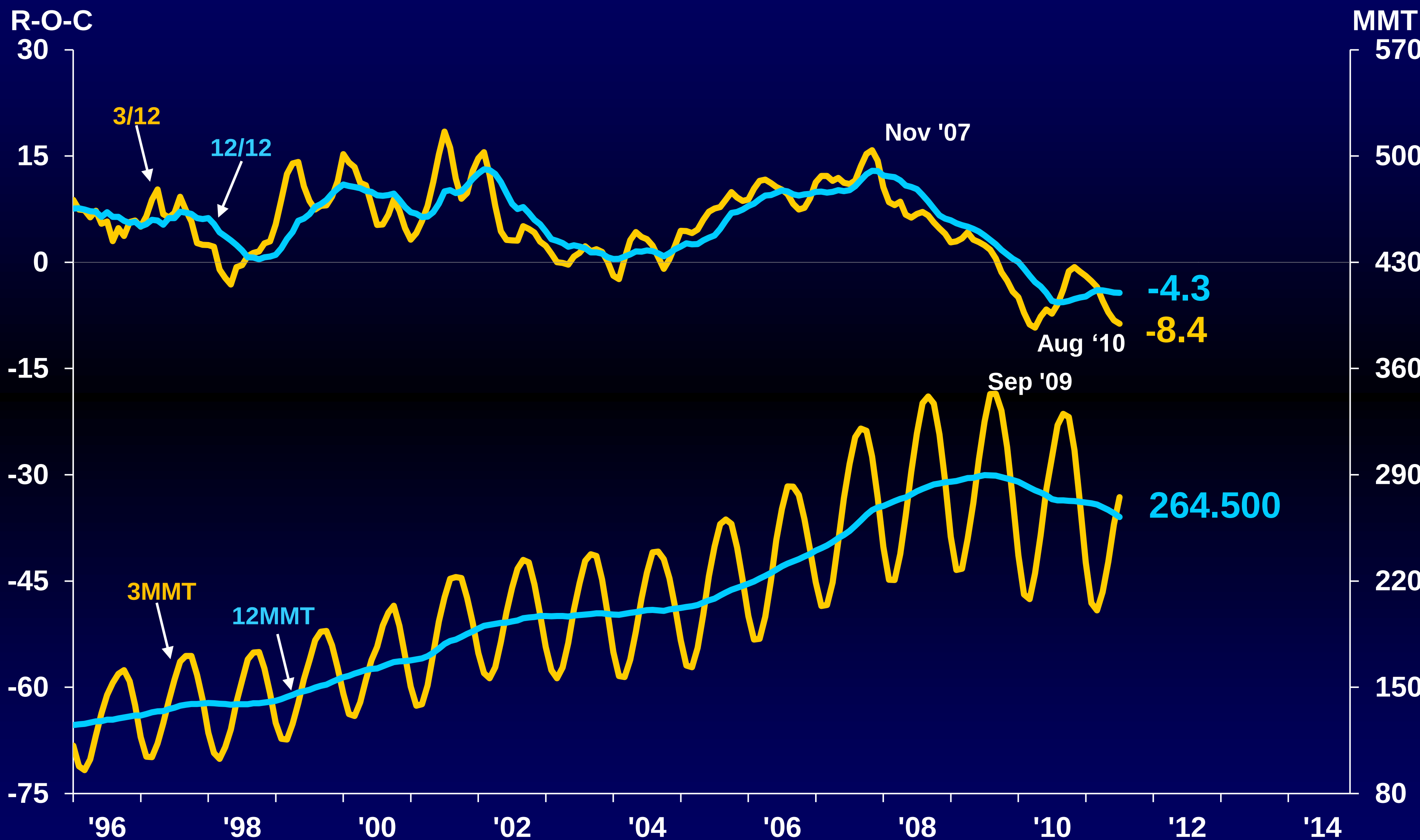


Hospital Buildings Construction
Billions of $

Sewer & Water Facilities Construction
Public, Billions of $



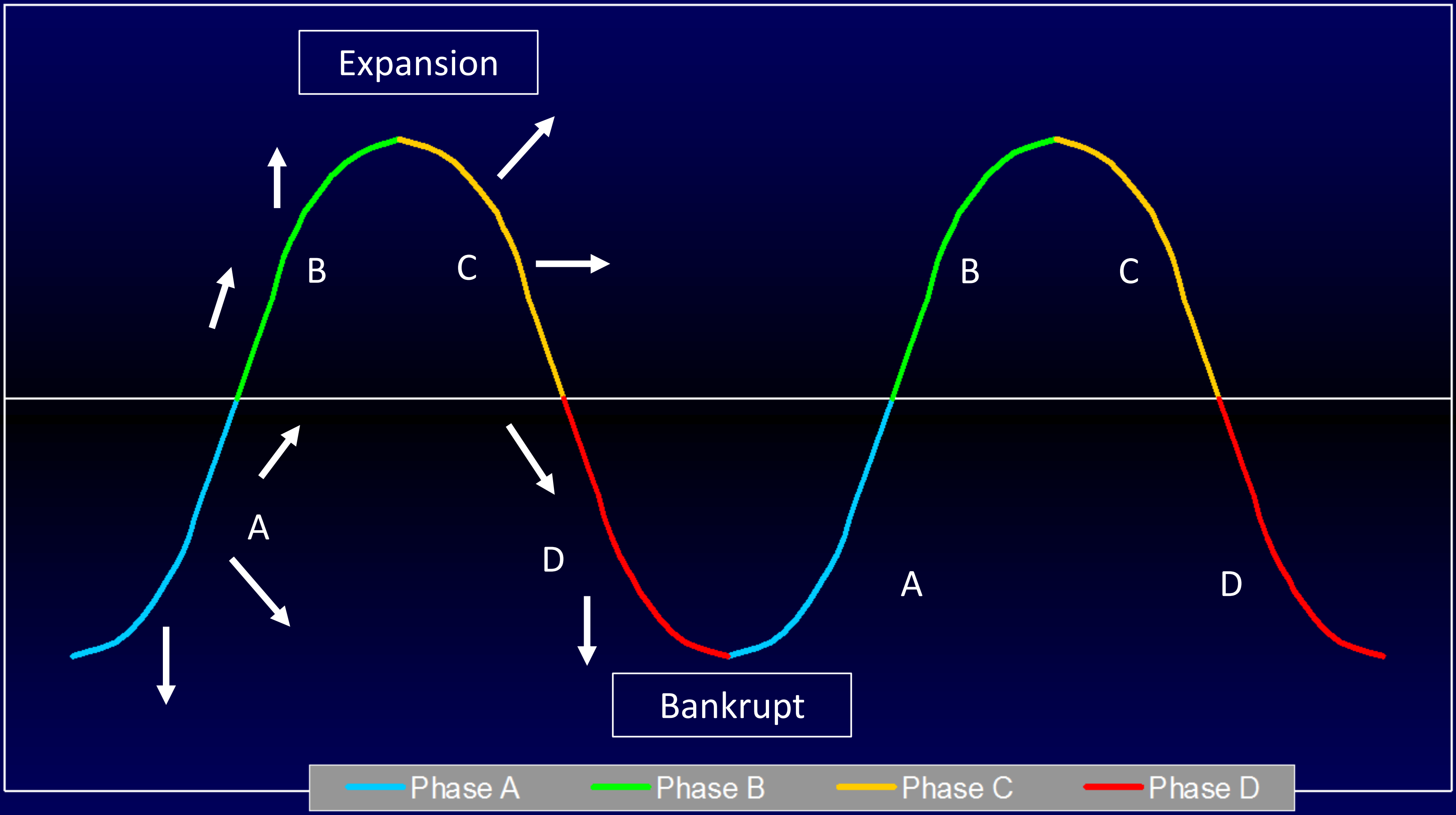
Total State & Local Government Construction
Billions of $



Construction Segments to Consider

Total Public Construction	D	- 3.9% declining
Total Federal Gov't Const	C	0.6% declining
Public Healthcare	B	9.7% rising
Private Healthcare	A	- 3.7% rising 3 months
Private Education Build	A	- 6.4% rising, barely
Manufacturing Buildings	A	-27.7% rising 1 month
Private Lodging	A	-37.7% declining
Religious Buildings	D	-17.5% declining
Malls	A	- 6.1% rising 5 months
Transportation	D	- 3.0% declining

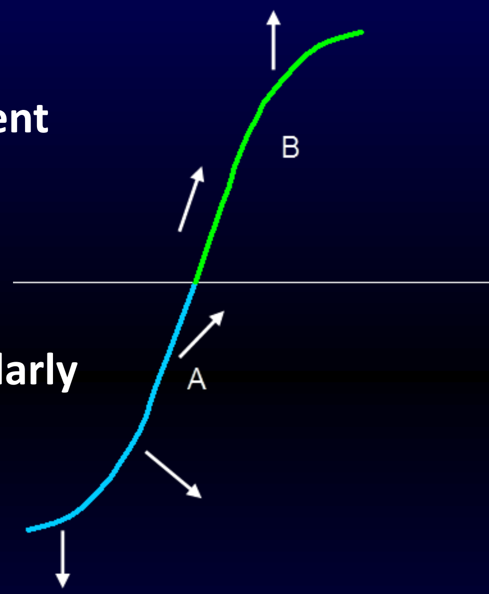
Four Phases



Phase Management Objectives™:

Phase Late A – Recovery

1. Positive leadership modeling (culture turns to behavior)
2. Establish goals: tactical goals which lead to strategic achievement
3. Develop a system for measurement and accountability re:#2
4. Align compensation plans with #2 and #3
5. Be keenly aware of the BE (Break Even) point and check it regularly
6. Judiciously expand credit
7. Check distributions systems for readiness to accommodate increased activity
8. Review and uncover competitive advantages
9. Invest in customer market research (know what they value)
10. Improve efficiencies with investment in technology and software

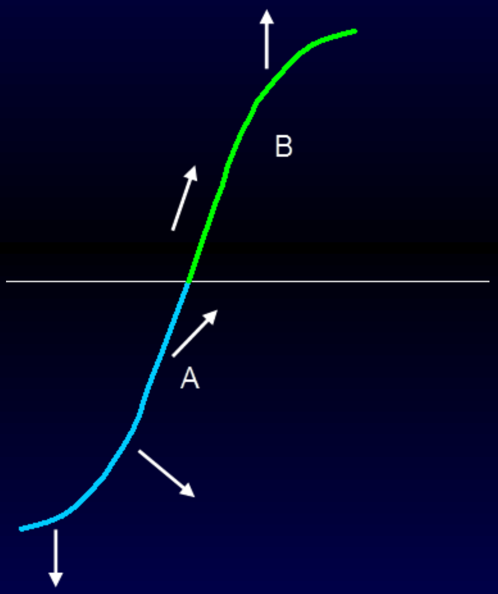


Phase Management Objectives™:

Phase Late A – Recovery

Part 2

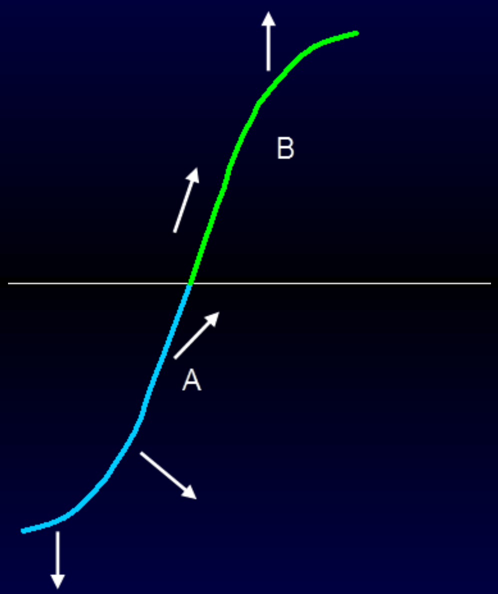
11. Start to phase out marginal opportunities
12. Add sales staff
13. Build inventories (consider lead time and turn rate)
14. Introduce new product lines
15. Determine capital equipment needs and place orders
16. Begin advertising and sales promotions
17. Hire "top" people
18. Implement plans for facilities expansion
19. Implement training programs



Phase Management Objectives™:

Phase Early B – Growth

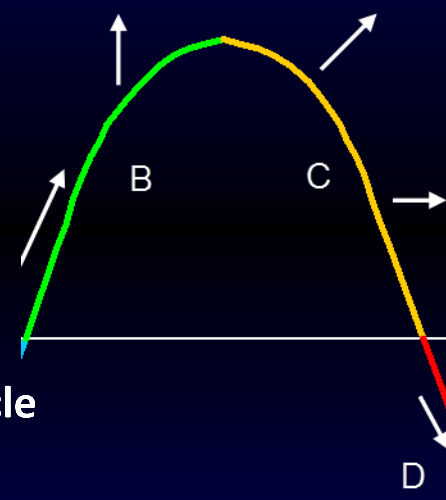
1. Strengthen customer service efforts
2. Check the process flow for possible future bottlenecks
3. Continue to build inventory
4. Increase prices
5. Consider outside manufacturing sources if internal pressures becoming tight
6. Find the answer to "What next?"
7. Open distribution centers
8. Use improved cash flow to improve corporate governance
9. Use cash to create new competitive advantages
10. Watch your debt-to-equity ratio and ROI
11. Maintain/pursue quality: don't let complacency set in



Phase Management Objectives™:

Phase Late B Early C – Prosperity

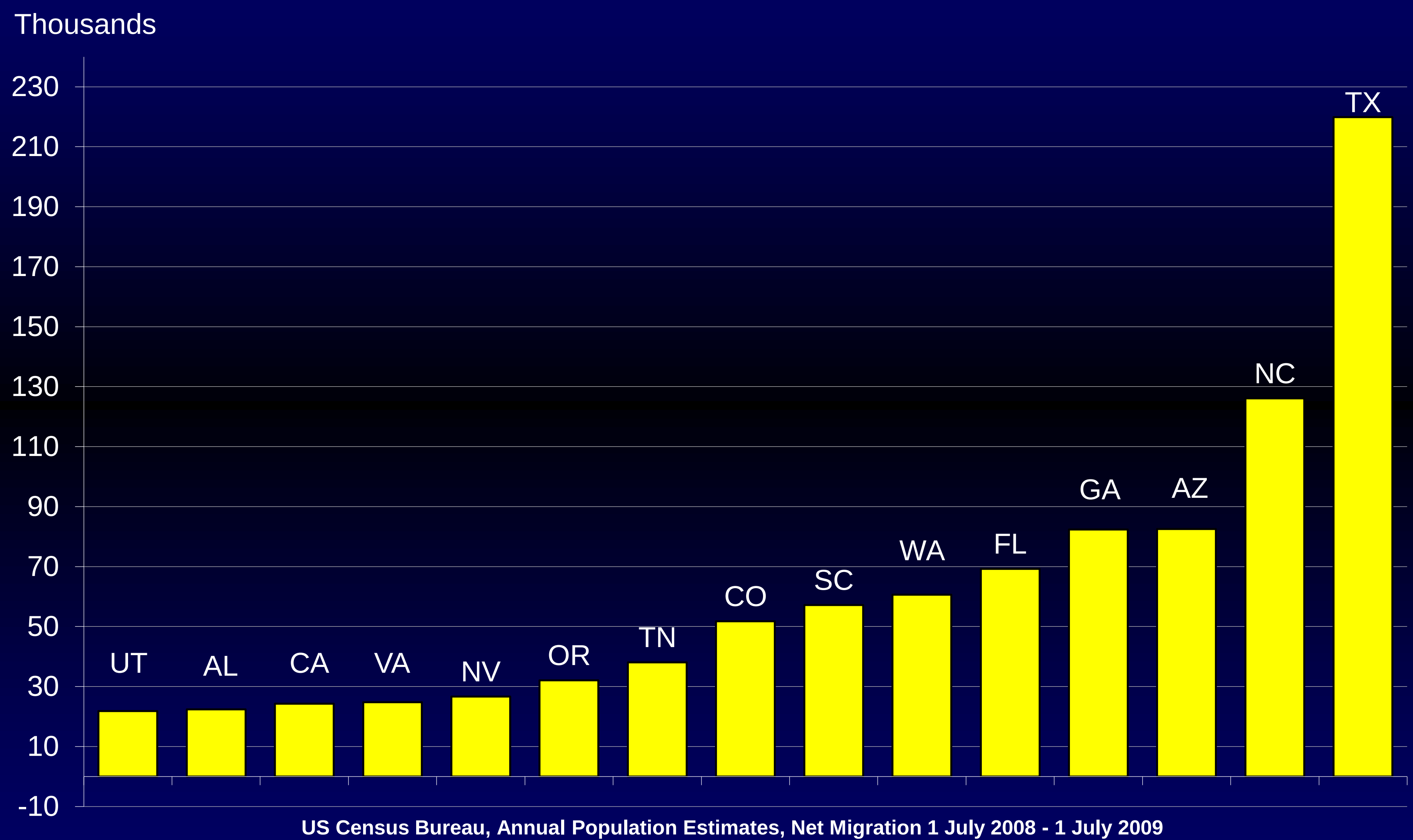
1. Stay in stock on A items, be careful with C items
2. Consider selling the business in a climate of maximum “goodwill”
3. Penetrate new selected accounts
4. Develop plan for lower activity in traditional, mature markets
5. Freeze all expansion plans (unless related to “what is next”)
6. Spin off undesirable operations
7. Consider taking on subcontract work if the backside of the cycle looks recessionary
8. Stay realistic – beware of linear budgets
9. Begin missionary efforts into new markets
10. Communicate competitive advantages to maintain margins



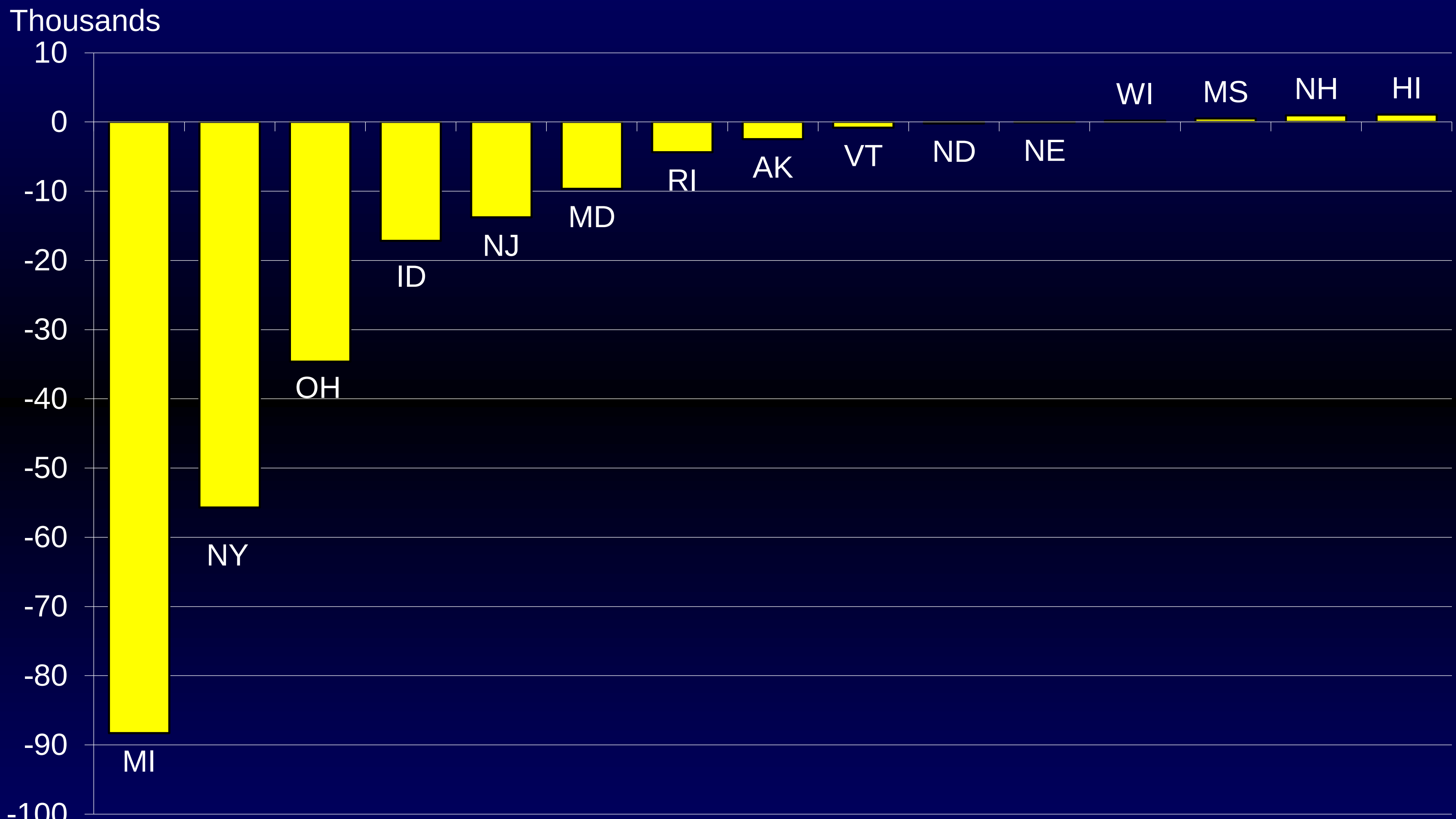
Find a way to business in the "counter-cyclical" or largely unaffected areas:

- ★ Energy
- ★ Green
- ★ Water
- ★ Canada/Exports
- ★ Higher Education
- ★ Health Care Practices
- ★ Food
- ★ Pets
- ★ Funeral Services
- ★ Alcohol
- ★ Security
- ★ Legal Services (Diversified)

Net Migration – Top 15



Net Migration – Bottom 15



US Census Bureau, Annual Population Estimates, Net Migration 1 July 2008 - 1 July 2009

7 Must Watch Items

- Money Supply
- Corporate Bonds Rate-of-Change
- US Leading Indicator
- Purchasing Managers Index
- Retail Sales
- Employment
- Nondefense Capital Goods New Orders

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the *ITR Advisor*, or on the web

The Road Ahead

(actual results may vary…stay tuned!)

2011	Slower rate of recovery
2012	Ongoing recovery
2013	Flattens out; recession begins
2014	Recession
2015	Growth
2016	Growth
2017	Growth

Opportunity

To learn how incorporating economic data into your planning process can increase your profitability, please contact

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603-796-2500

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