

January 2021



Trends Report

ITR Economics

Executive Summary

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Post COVID-19, Changing Economic Trends Require a Changing Approach to Prosperity

ECONOMIC OVERVIEW

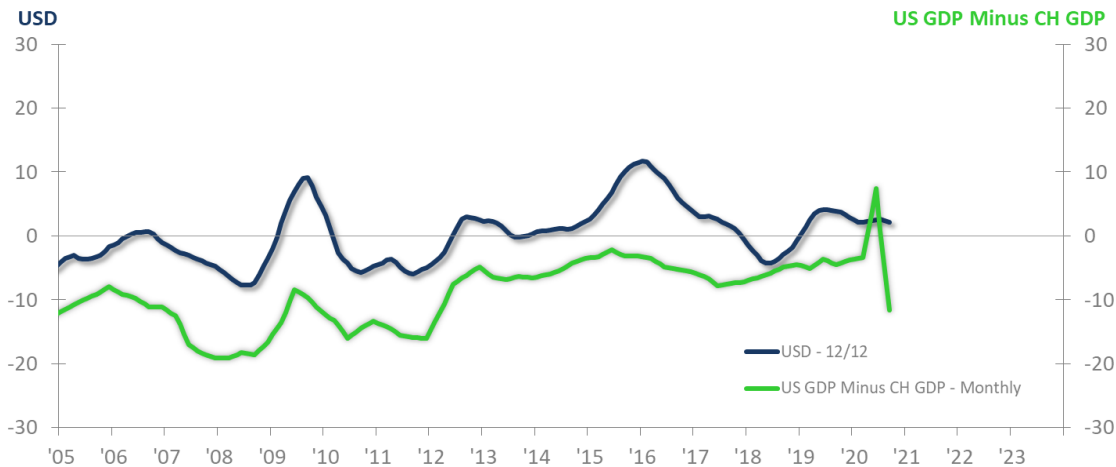
The state of the economy is positive. The leading indicators are signaling additional rise is ahead. There are naturally concerns regarding COVID-19 and the political changes ahead. Regarding the former, we are encouraged by the distribution of the vaccines thus far and by what we are reading about the effectiveness of at least two of them with regard to variant strains. In terms of the body politic, it is evident that the control of the Senate is not going to result in an unaligned government but rather an alignment of government in terms of one political party. We discussed this alternative during our webinar in December and stand by that earlier analysis. Business leaders will find a way to overcome regulations and increased taxes. We will closely monitor the tax situation and programs with an eye toward determining probable or possible economic impact. As yet, there is no evidence that we need to change our macroeconomic outlook. It is wise to keep in mind that any and all change in this realm will take time and we will all have time to analyze and best position ourselves. There was strife in our nation's capital on January 6, 2021, as rioters stormed the Capitol. We are putting our thoughts together on this, but initially it seems to us that the ramifications are much more political than they are economic. We will advise if our thinking changes.

VALUE OF THE US DOLLAR

Cyclical indications are pointing to a weakening US Dollar (USD) in general through 2021 into 2022. This trend tends to have a negative connotation with folks because we are not fond of seeing “weakening” and “US” in the same sentence. For analysis purposes, it is neither good nor bad. It is important to keep in mind that the direction of the exchange rate is frequently a function of *what has already occurred*, not what is occurring today. The weakening USD (or a strengthening USD for that matter) is not cause for changing our outlook for 2021 and 2022. The relationship to a change in the exchange rate trend and the future course of GDP, Industrial Production, and Retail Sales is not there. Rather, as the charts below illustrate, it is the historical trends of certain economic functions that create the circumstances that relate to a change in cyclical direction for the exchange rate.

We examined numerous data points, and the one below may strike a positive logic chord with some people. The heavy green line on the chart is the difference between the US GDP growth rate and that of China. A negative value shows that China is growing faster than the US. A declining trend below zero means the delta is expanding. A rising trend below zero means the gap is narrowing. Recently, China recovered sooner and initially more sharply than the US. The green line reflects this. It also signifies (with a shorter lead time of only three months) that the USD’s recent tendency toward weakness is likely to continue.

US Dollar Broad Real Trade Weighted Exchange Rate Index to US Gross Domestic Product (3/12) Minus China Gross Domestic Product (3/12)

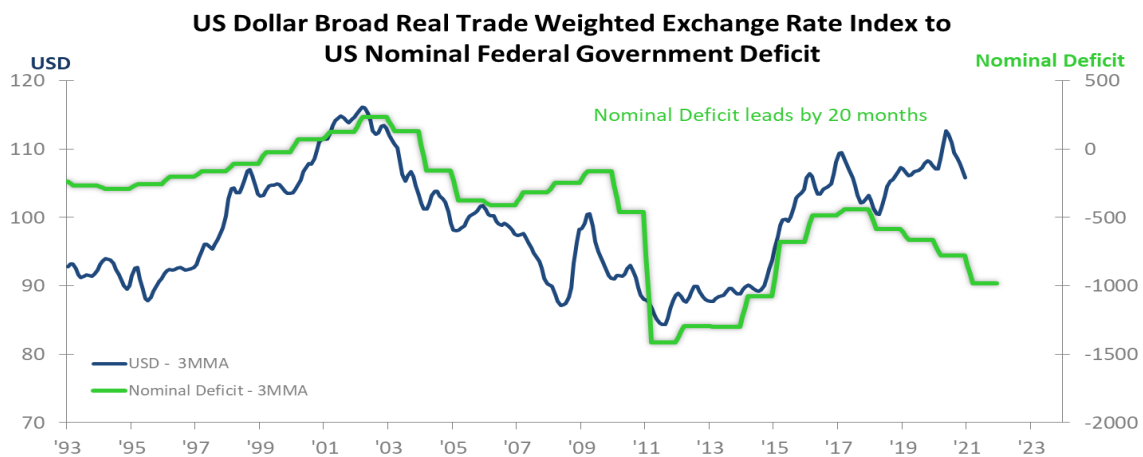


Depending on the firm’s positioning, exchange rate changes can help (or hurt) a business, such as in international purchasing, international selling, and cash flows. Three takeaways from the cyclical probability of a weakening USD are:

1. There will be a tendency for future inflation (that part of economic dogma is real but overstated)
2. The ability of US firms to export will improve as the global recovery increases demand and the USD weakens (barring increased trade friction)
3. The currencies of our major trading partners will generally strengthen while the USD weakens

THE SECULAR TREND POTENTIAL

We spoke to the cyclical trend in the USD exchange rate in the above material. There is the potential that the weakening trend may be longer-term in duration (but not linearly so). The chart below shows that the USD tends to weaken as federal deficit spending increases (note that the deficit spending scale on the right is inverted so deficit spending is reflected as a declining trend in the green line).



The USD trend probabilities mean that firms that are impacted by the value of the Dollar should plan for a different future in this regard compared to the trend that prevailed from 2012 through 2020. Changing your approach/perspective is fundamental to your prosperity.

US Computers & Electronics New Orders

Billions of Dollars, NSA

HIGHLIGHTS

- We revised the New Orders 12MMT forecast upward through 2022 and extended it through 2023
- Stronger-than-anticipated consumer and business-to-business trends underpin the upward revision
- The 12MMT will generally rise through at least 2023

FORECAST

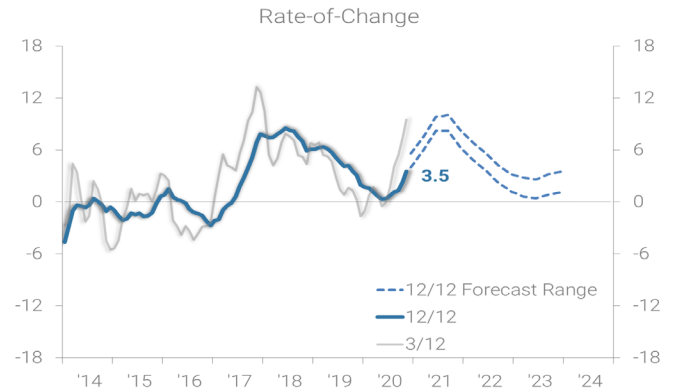
	12/12	12MMT
2021:	7.2%	\$319.3
2022:	2.2%	\$326.4
2023:	2.3%	\$333.9

OVERVIEW

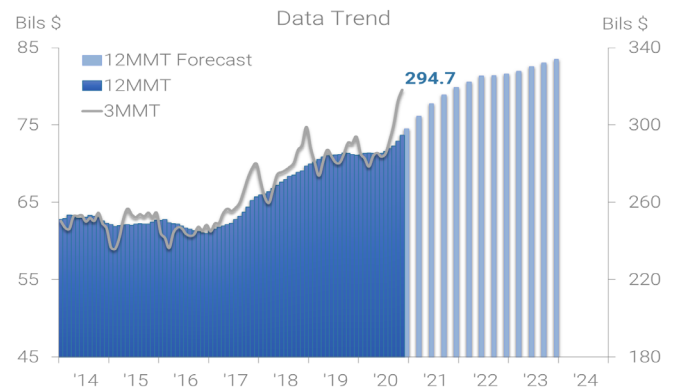
With data through November, US Computers and Electronics New Orders have exceeded our expectations. The consumer has continued to turn to electronics to facilitate work and entertainment at home while businesses have simultaneously invested in remote work equipment, making this market a relative “winner” during the pandemic. The single-family housing market, business-to-business spending, and overall retail sales trends point to stronger-than-anticipated spending on the part of both consumers and businesses. We raised our New Orders 12MMT expectations upward for 2021 and 2022 by 8.3% and 5.5%, respectively.

New Orders growth will accelerate into the latter half of 2021. New Orders will then slow in their ascent into mid-2023. The possibility of a lull in New Orders spending as the vaccine rollout is completed – and consumers and businesses potentially focus on other priorities, having already invested heavily in this market – poses a downside risk to the forecast during the second half of 2021. Stimulus dollars mitigate this risk.

RATE-OF-CHANGE



DATA TREND



LINKS

[Ask an Analyst](#)

[Data Methodology](#)



ITR MANAGEMENT OBJECTIVE

An online presence is increasingly essential. Ensure your online platforms are competitive in 2021 to maintain and gain market share.