

# March 2021



**Trends Report**

ITR Economics

# Executive Summary

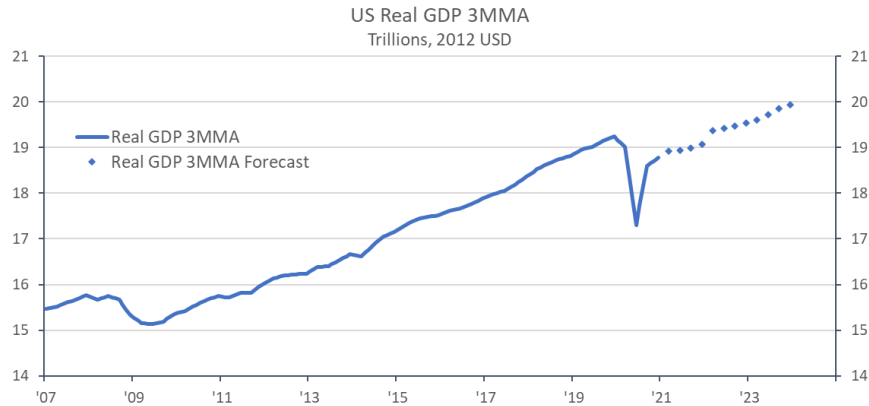
BY: BRIAN BEAULIEU

## The US Economy, Employment, and a Word on Stimulus

### GENERAL ECONOMY

We are maintaining our outlook for ongoing economic recovery through 2021 as well as extended rise in 2022 and 2023 (see the chart below). Regarding the next three to four quarters, ascent is indicated by rise in the ITR Leading Indicator™, ITR Retail Sales Leading Indicator™, and ITR Financial Leading Indicator™. Additionally, the latest monthly and weekly retail sales data shows the consumer is spending their after-tax income. Personal savings went up in late 2020, suggesting that the consumer in general has the wherewithal to keep spending. Passage of the latest version of the stimulus bill would likely add to the retail sales trend and further increase personal savings.

We are not inclined to alter the slope of the rising trend even though passage of additional stimulus appears likely in the coming days/weeks. One reason is that the Federal Reserve Bank of New York’s Weekly Economic Index is showing some weakness, which suggests to us that we should maintain our projection of slower-than-average ascent in GDP through mid-2021.



Our extended outlook suggests that the threat of a 2000–2001 magnitude downturn in the business cycle is probable, at least in part because of the current efforts to stimulate the economy and the resulting imbalances/bubbles. We anticipate that the business cycle decline will not be minor and that it could begin in 2025 or 2026.

### FORECAST RESULTS FROM MARCH – APRIL 2020

The COVID pandemic has been an ongoing threat to the economy for the past year. The pandemic obviously threw a curve ball at everyone, including ITR Economics. Our pre-pandemic forecasts had to be scrapped and replaced based on updated analysis as soon as possible. The pandemic became very real in the US in March. The table below shows how our forecasts of key economic measures fared. From our perspective, the keys to the analysis were a) perceiving the pandemic as a natural disaster and therefore what was occurring in the economy was not a function of “a broken economy” such as we experienced in 2008–2009, and b) drawing upon our extensive data history and experience to anticipate what a rebound from the natural disaster could look like. The headline items shown below are the same ones we show every year.

December 2020 Results				
Series	Data Was Through	Date of Forecast	Accuracy	Forecast Duration From Date Generated
US Real GDP	December, 2019	March 20, 2020	98.4%	9 months
US Industrial Production	February, 2020	March 25, 2020	96.5%	9 months
Europe Industrial Production	January, 2020	March 25, 2020	98.7%	9 months
Canada Industrial Production	December, 2019	March 25, 2020	94.9%	9 months
China Industrial Production	February, 2020	March 29, 2020	92.8%	9 months
US Retail Sales	January, 2020	March 21, 2020	98.7%	9 months
US Single-Family Housing Starts	January, 2020	March 26, 2020	99.6%	9 months
US Employment	February, 2020	March 28, 2020	93.7%	9 months

The poorest results were for China Industrial Production and US Employment. Both outperformed our expectations.

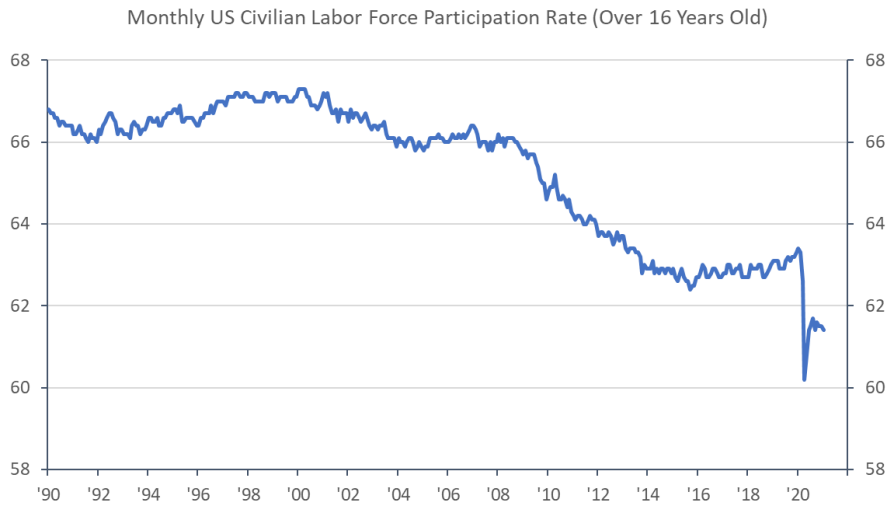
Our current COVID concerns center around the variants now appearing in the US, with the UK strain most prominent at this time. We are monitoring the trends carefully as well as news regarding vaccine efficacy, etc. We will alter the outlook for 2021 and beyond if warranted. At this time, we do not perceive a need to change from our slower-than-average projected rate of recovery through the first three quarters of 2021.

We are projecting the following US Real GDP fourth-quarter-to-fourth-quarter changes through 2023:

- 2021: +1.3%
- 2022: +2.5%
- 2023: +2.0%

**A WORD ABOUT THE PROPOSED CHANGE TO THE STIMULUS AND FUTURE UNINTENDED CONSEQUENCES**

The labor participation rates are generally rising across the board from their 2Q20 COVID lows, albeit in a non-linear manner. The general trend is encouraging in terms of the direction of the economy in 2021.



Using January 2021 data compared to one year ago, the labor participation rate for those with a bachelor’s degree and higher, aged 25 and over, is 1.5 percentage points below the pre-COVID level (72.3% versus 73.8% pre-COVID). For those high school grads with no college, the labor participation rate is 3.4 percentage points below the pre-COVID level (54.7% versus 58.1% pre-COVID). If we make some reasonable assumptions about types of jobs and pay levels between these two groups, targeting relief to the lower income strata, as some in the Senate have proposed, likely offers the best “bang for the buck” while decreasing the magnitude of unintended consequences in the future. In terms of avoiding future economic distortion, the more targeted approach makes sense.

## US Computers & Electronics New Orders

Billions of Dollars, NSA

### HIGHLIGHTS

- The New Orders 12MMT in January was up 5.4% from the year-ago level
- 12MMT rise will extend through the end of 2023
- Semiconductor shortages pose a downside risk to our outlook

### FORECAST

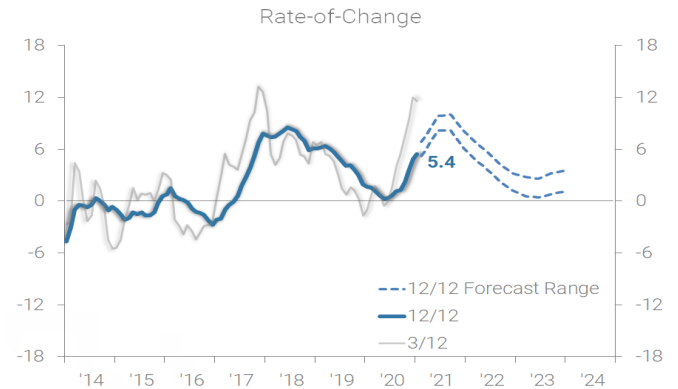
	12/12	12MMT
2021:	7.2%	\$319.3
2022:	2.2%	\$326.4
2023:	2.3%	\$333.9

### OVERVIEW

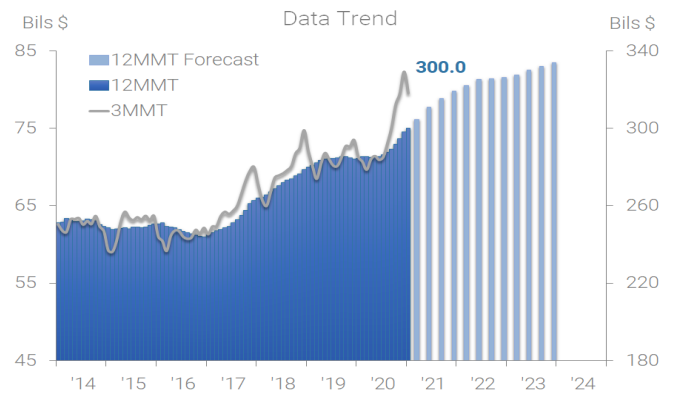
US Computers and Electronics New Orders in the 12 months through January were 5.4% above the same 12 months one year ago. The New Orders 12MMT will rise through at least the end of 2023. New Orders will end 2023 about 11.3% above the current level.

Though not a component of New Orders, semiconductors are nonetheless greatly impacting this market. Booms in electronics sales stemmed from shut-in consumers' attempts to bring entertainment into their homes during the pandemic and from the push to facilitate remote work and remote schooling. This led to unprecedented demand for semiconductor computer chips. Consumer electronics companies including Microsoft, Sony, and Apple have cited chip shortages as impacting their ability to produce end products. These shortages will pose a downside risk to our New Orders outlook until semiconductor producers can increase capacity.

### RATE-OF-CHANGE



### DATA TREND



### LINKS

[Ask an Analyst](#)

[Data Methodology](#)



### ITR MANAGEMENT OBJECTIVE

Ensure you have the right price escalators in place to space out price increases for your clients.