

# April 2021



**Trends Report**

ITR Economics

## Executive Summary

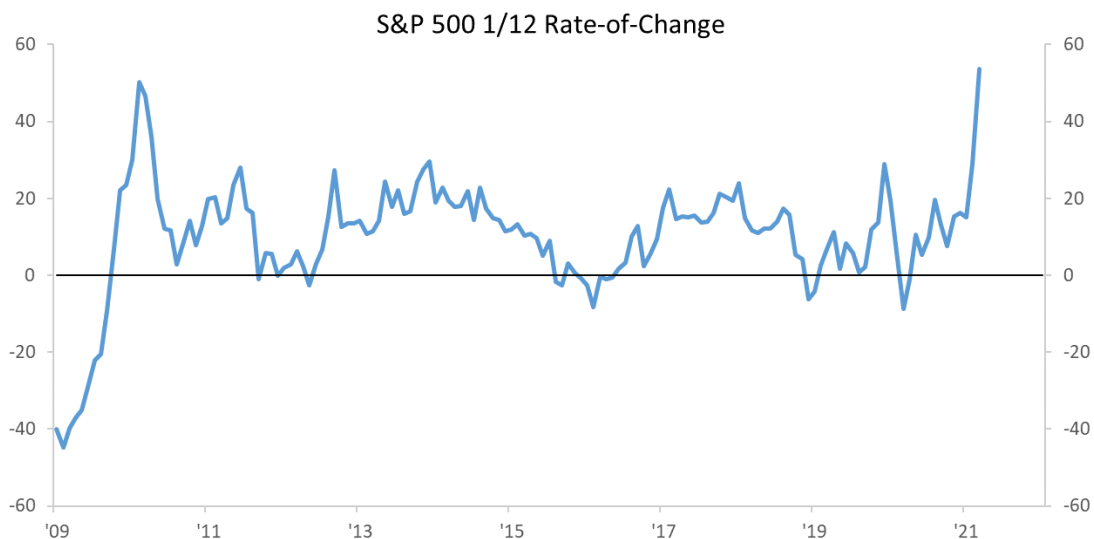
BY: BRIAN BEAULIEU

### *Post-COVID Economic Recovery Builds as Washington Weighs Big Spending*

The economic recovery continues to lift some segments more than others, largely because of the grossly uneven impact of COVID. However, make no mistake about it: the economic recovery is spreading to more and more segments of the economy, and the ascent will continue through 2021 and 2022. The recovery is sufficiently broad based to mean that even those markets currently being left behind will experience rise as more and more vaccinations are administered and we get closer to herd immunity. Leading indicators support this contention, including the S&P 500 and residential construction, as well as the more “coincident” indicators such as Nondefense Capital Goods New Orders and Employment. These trends are the economic realities with which we must contend if our businesses are to be positioned to satisfy market demand.

Against this backdrop is a seeming political urgency to pass the American Jobs Plan, raise corporate income taxes, and increase the deficit. We are in one of those periods when it is reasonably obvious to us that the body politic is being reactionary (dealing with perceptions from a year ago). This is an example of why we frequently state that governments are reactionary, that political actions sometimes make more sense from the perspective of the rearview mirror, and that they are fraught with unintended consequences as a result.

### THE LEADERS



### S&P 500:

The S&P 500 is in a supercharged ascent. The 1/12 rate-of-change shows that the Index for March came in 53.7% above the year-earlier level, which was the market’s COVID low. The percentage increase is the best in just under 85 years. Here are some take-aways from the current status:

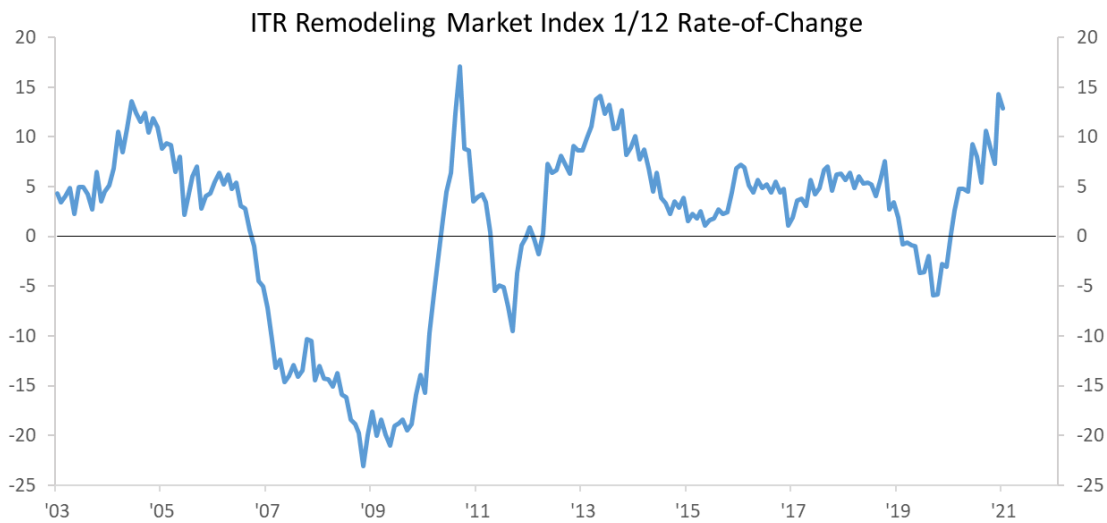
1. The year-over-year ascent is superior to coming out of the Great Recession
2. It is no wonder the market bears are starting to make the rounds
3. The Optimizer Leading Indicator™ suggests more rise is ahead this month
4. ITR’s analysis of the money supply and general economy supports the expectation of additional general rise beyond April
5. The current year-over-year gain is likely a peak, barring an improbable 12.7% increase in the Index for April
6. A 1/12 peak does not mean an end to the current rising trend is imminent, but you should also be prepared for potential “off” months in our future

**TOTAL RESIDENTIAL CONSTRUCTION:**

Strong cyclical ascent is occurring for Total Residential Construction.

This is a broad measure of activity covering houses, town houses, apartments, condominiums, new builds, additions, alterations, and conversions. This is an aspect of the economy that clearly benefited from the government’s efforts to keep the economy going through the pandemic. Total Residential Construction is up 24.0% over the last three months compared to one year earlier; this is the best year-over-year increase in 28 1/2 years. The data trend (12MMT) is the highest since the record-high levels posted prior to the great bubble crash of 2007–2010. The magnitude of recovery can understandably make some people anxious about the future; however, low interest rates, *high* Disposable Personal Income, and loose monetary policy will keep this market heading higher.

We have a new leading indicator to announce! It is the ITR Remodeling Market Index™. We developed it in response to a void in the marketplace for insight into this market. You will see from the chart that the Market Index is bullishly signaling additional gains in the remodeling market. High prices and skilled labor shortages need to be overcome if you are going to reap all the spoils of this rising trend.



**THE “COINCIDENTS”**

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.

**NONDEFENSE CAPITAL GOODS NEW ORDERS:**

Nondefense Capital Goods New Orders (excluding aircraft) achieved a record high.

Record high in this instance means a level of New Orders better than anything experienced in the last 52 years. Business confidence is up, cash is flowing, consumers are buying, and businesses are responding. The internal rate-of-change signals are positive. The leading indicators are positive. Additional record highs are ahead. Know how this trend ties in with your business to gauge how impactful this cyclical ascent is going to be for you, and then plan your resources accordingly. “Automate, automate, automate” is a consistent refrain around here at this point of the business cycle, especially given the difficulty in finding skilled labor. Results are on track with the forecast presented within the Trends Report™.

**EMPLOYMENT:**

Putting people back to work is an understandable and laudable priority. The private sector is doing that as COVID conditions permit.

1,120,000 jobs were added in the private sector in March 2021.

13,400,000 jobs have been added back since April 2020.

There were 5,393,000 fewer people employed at the end of March than was true in March 2020. We think that ongoing rise in the economy, coupled with the strong cash position of consumers in general, and a medical recovery from COVID will combine to mean that millions of these people will be able to go back to work over the course of 2021 and 2022. This is one of the reasons why we have GDP (adjusted for inflation) completely recovered and exhibiting actual growth in 2022. Getting these people back to work will largely happen given current trends and time. It is our opinion that we will likely find ourselves near “full employment” again by the end of 2022 or during 2023. Before that happens, we will likely experience a shortage of skilled labor in many segments over the course of 2021 and 2022. It is hard for us to understand how massive federal spending is going to alter this timeline. We can see where it will eventually increase the demand for labor while doing relatively little to alleviate supply-side issues. That translates into higher costs for labor. That needs to be built into your strategic planning.

The American Jobs Plan is going to be expensive. The Administration says the Plan will be paid for by increasing corporate taxes. Consistent with prior Administrations, fuzzy math is involved, because the spending and revenue timelines are not the same when coming up with the “deficit neutral” analysis. That suggests higher deficits ahead, therefore a weakening dollar over an extended period, and ultimately more inflation and higher interest rates than would otherwise be the case. More on the Plan and its potential ramifications once we see what actually gets through Congress.

# US Computers & Electronics New Orders

Billions of Dollars, NSA

### HIGHLIGHTS

- The New Orders 12MMT in February was 5.7% above the year-ago level
- ITR Checking Point™ evidence suggests an upcoming transition to Phase C
- 12MMT rise will extend through at least year-end 2023

### FORECAST

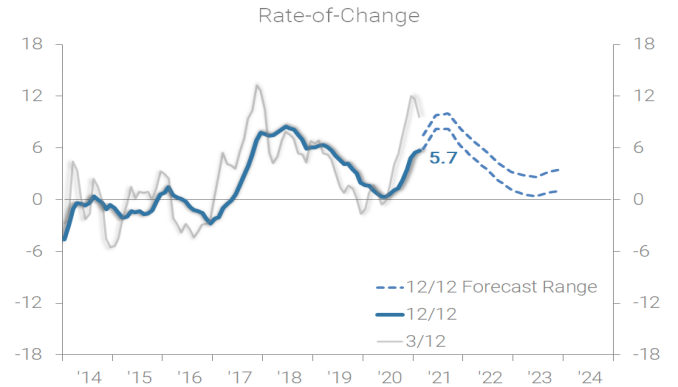
	12/12	12MMT
2021:	7.2%	\$319.3
2022:	2.2%	\$326.4
2023:	2.3%	\$333.9

### OVERVIEW

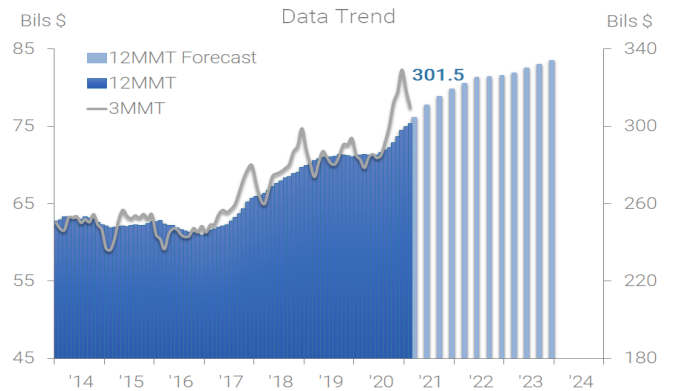
The US Computers and Electronics New Orders 3MMT in February was 9.6% above the year-ago level. The New Orders 3/12 rate-of-change is declining off a December 2020 peak, as anticipated by our unchanged forecast. This ITR Checking Point™ suggests a transition to Phase C, Slowing Growth, within the next one to two quarters, given normal lead times. Despite the upcoming Phase C trend, New Orders are expected to avoid recession through at least 2023, with 12MMT rise extending through at least the end of that year.

The US Computers and Electronics Capacity Utilization Rate was 2.8 percentage points below the year-ago level in February. Some of this negativity is a result of the recent severe winter weather, which impacted production capabilities. However, if Utilization does not improve with the better weather, it could be problematic; persistently low Utilization would pose a downside risk to our outlook for New Orders.

### RATE-OF-CHANGE



### DATA TREND



### LINKS

[Ask an Analyst](#)

[Data Methodology](#)



### ITR MANAGEMENT OBJECTIVE

With New Orders expected to rise through 2023, ensure your quality control systems can keep pace with increasing volume.