May 2021

Trends Report

ITR Economics

Executive Summary

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Durability of Ascent: 3 Reasons Why It Matters

1. How much you are willing to invest in your company via capital equipment and people is often a function of how long the upward run will be.

2. How much credit you are willing to extend to customers and potential customers will be limited if you think the rising trend will soon end.

3. This could be a great time to make an acquisition, assuming the economy supports the risk – which a longer rising trend tends to do.

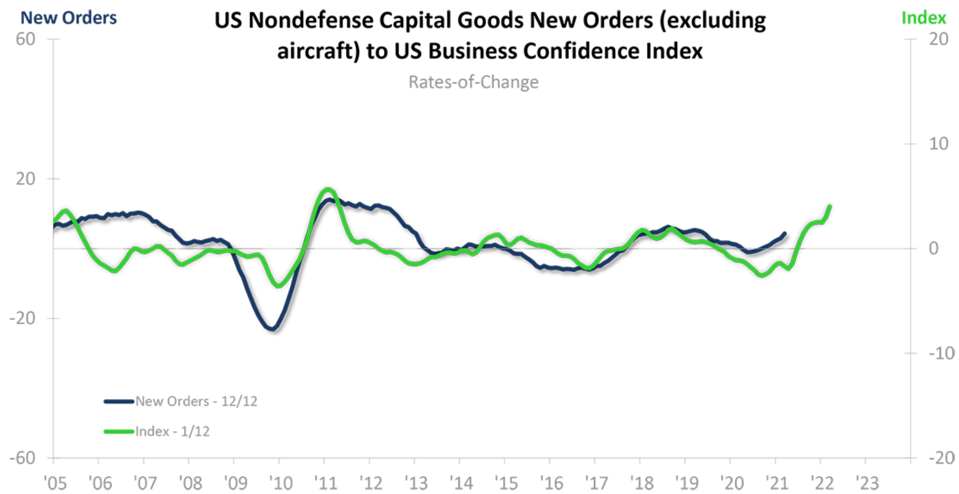
Below are three trends that empirically indicate that the rising trend for the US economy is going to endure. Our forecast has GDP and US Total Industrial Production rising through 2023. These trends support that outlook; however, there is another fifth element. Market societies such as ours, left to their own devices, will rise until either a) distortions and imbalances build up which inhibit growth, or b) some externality circumvents the normal propensity for rise (as COVID did). We do not see any looming distortions or imbalances developing within the next three years that would end the current ascent. That includes our analysis of tax and spending changes; however, that doesn't mean the rate of rise can't be changed by these factors.

TREND #1: PERSONAL SAVINGS

A sign of just how much money has been created and put in the hands of consumers is illustrated by the chart below. Consumers have not been able and/or did not desire to spend all the money that came their way during the past year. The influx of cash created a situation wherein the consumer is holding $4.842 trillion in excess savings relative to right before the pandemic. Note that the pre-pandemic level itself was elevated relative to prior to the Great Recession. We see an economy that is poised to benefit from roughly 5.1 times the level of savings compared to pre-COVID. That is a lot of latent economic purchasing power waiting to be deployed; the excess amount alone equates to 25.4% of GDP! It is sitting there. Already in the hands of the consumer. It is hard to not be upbeat about our consumer-driven economy over the next several years with that stockpile of cash in hand.

TREND #2: CAPITAL GOODS NEW ORDERS

The above showed that the consumer is poised to keep Retail Sales on an upward trek. The next trend shows that business-to-business activity is in line with the lead provided by the consumer. The Nondefense Capital Goods New Orders trend is in ascent. Capital Goods New Orders for the last 12 months are up 4.3% from one year ago. Year-over-year comparisons can be skewed by the weaknesses of 1Q and 2Q20, so it is noteworthy that not only are the percentages rising, but the dollars are at record highs. More ascent is coming. One indication of that probability is the ascending trend for Business Confidence, which leads New Orders by 12 months. The Business Confidence Index 1/12 status is similar to that of the New Order's 12/12, exaggerated by what was going on a year ago, but the actual data is nonetheless running at a) a level higher than pre-COVID, and b) the highest level since December 1983.

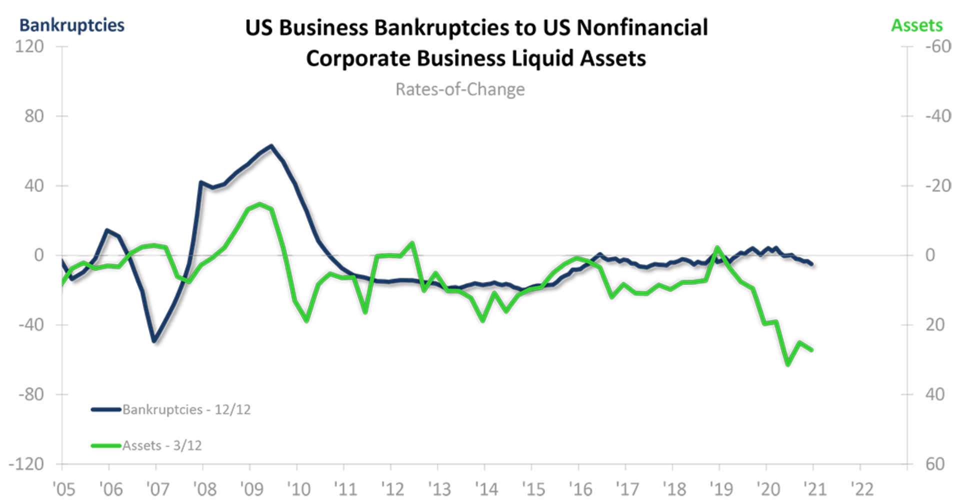


The lead time on capital goods ordered through the rest of this year will likely be stretching out based on these trends. Have the confidence to make your move and maximize your company's upside potential in the current period of rise.

TREND #3: BUSINESS BANKRUPTCIES

The third chart shows that the incidence of Business Bankruptcies is trending below year-earlier levels. We initially wondered if this was owing to some distortion in normal processes. Indeed, this seems to be partially the case. However, the chart shows that normal economic pressures are in place and are keeping the bankruptcies trend heading in a downward direction. This does not mean that we are free of poor credit risks in the economy; there always some. The relationship to the level of US Nonfinancial Corporate Business Liquid Assets (improving strongly) means there is a lowered systemic risk of bankruptcies in the marketplace.

Go ahead and extend credit to potential or current customers, assuming you have done your usual due diligence on their microeconomic creditworthiness.



CONCLUSION:

The US economy is poised to grow, with no obvious barriers to enduring ascent coming from the consumer status or the business-to-business side of the economy. This is clearly a time in the cycle when calculated risks are warranted. To be sure, we have not forgotten about inflation, deficits, higher interest rates, and an overvalued stock market. But those are future problems that are not expected to stand in the way of rise through 2023.

US Computers & Electronics New Orders

Billions of Dollars, NSA

HIGHLIGHTS

- The New Orders 3MMT in March was 8.9% above March of 2020
- The 12MMT will end 2023 almost 10% above the current level
- New Orders will rise at a slowing rate next year

FORECAST

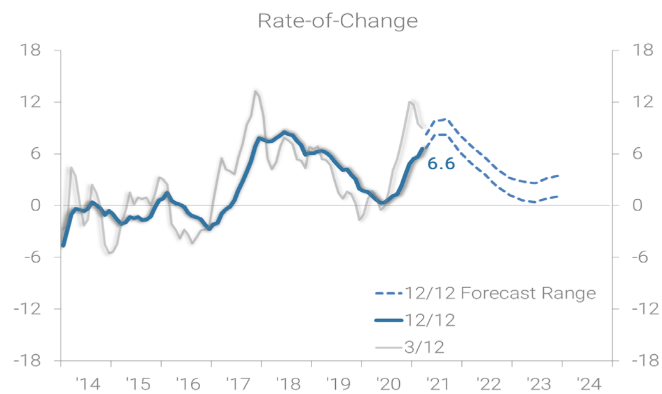
	12/12	12MMT
2021:	7.2%	$319.3
2022:	2.2%	$326.4
2023:	2.3%	$333.9

OVERVIEW

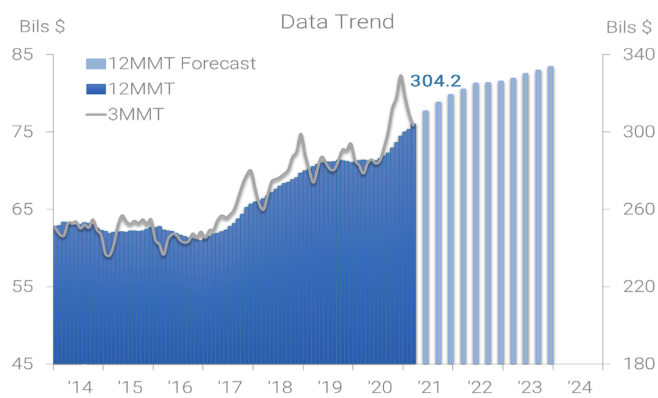
US Computers and Electronics New Orders in the first quarter totaled $75.9 billion, coming in 8.9% above the first quarter of 2020. This industry has benefited from the COVID-19 pandemic; the 12MMT is at a 12-year high. The 12MMT will rise further, ascending through at least 2023 and ending that year 9.7% above the current level.

In March, the quarterly Electronic Computers Producer Price Index posted an increase from the previous quarter for only the second time in the 20-year data history. Part of this increase was likely due to the semiconductor shortage driving up prices. The Index is indicating that the New Orders 12/12 will rise into the third quarter of this year. Expect the rate of growth in New Orders to slow in the second half of this year and taper further throughout 2022.

RATE-OF-CHANGE



DATA TREND



LINKS

Ask an Analyst

Data Methodology

B
ACCELERATING GROWTH

ITR MANAGEMENT OBJECTIVE

Evaluate your capacity needs in light of New Orders rising nearly 10% by the end of 2023.