

Vision Council Executive Summit

“Seeing The Future First”

Presented by

ITR[®]

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January 2012

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www.itreconomics.com

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.

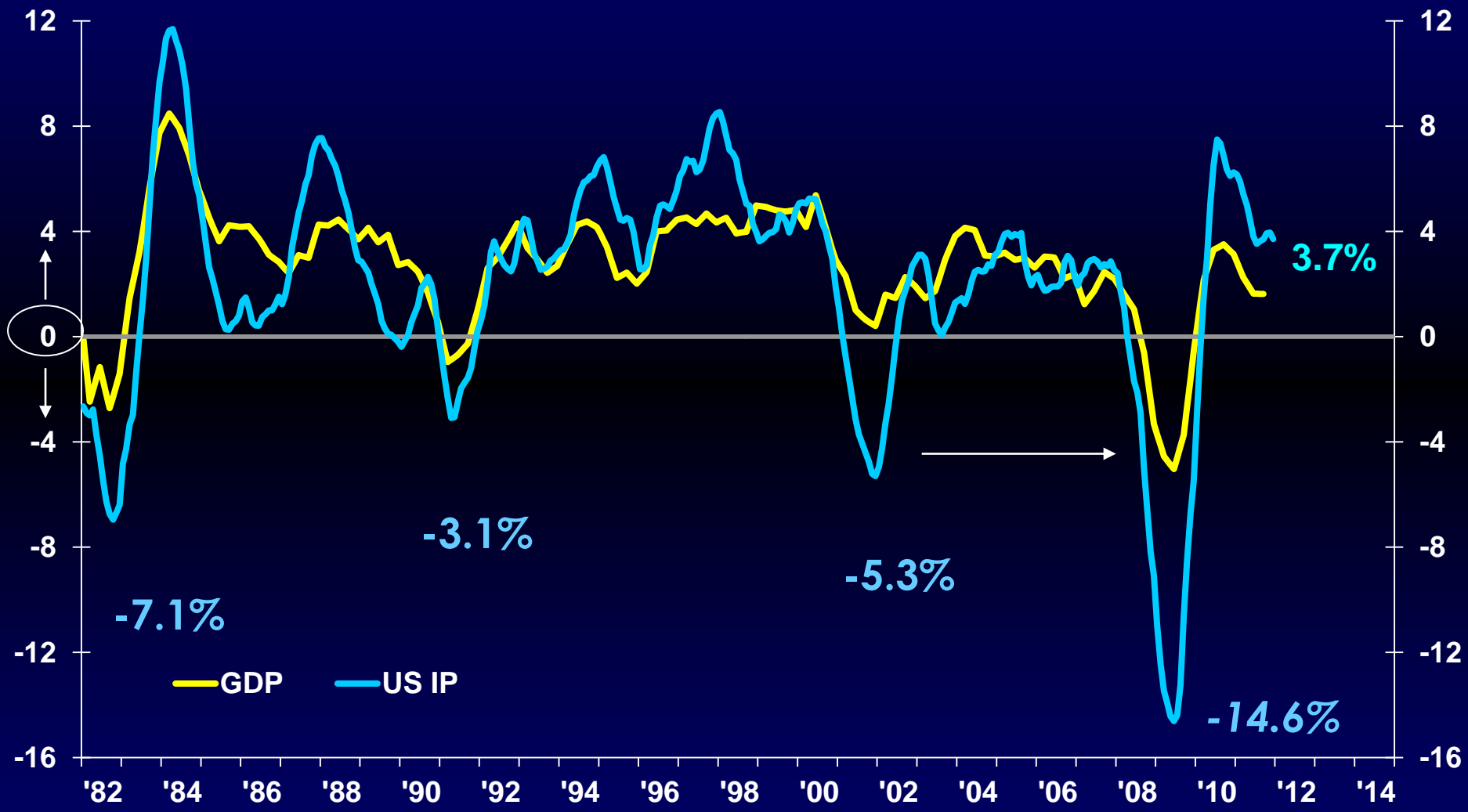
Among them: the job drought, the debt hangover, the defense-industry contraction, the banking collapse, the real estate depression, the health-care cost explosion and the runaway federal deficit.

TIME

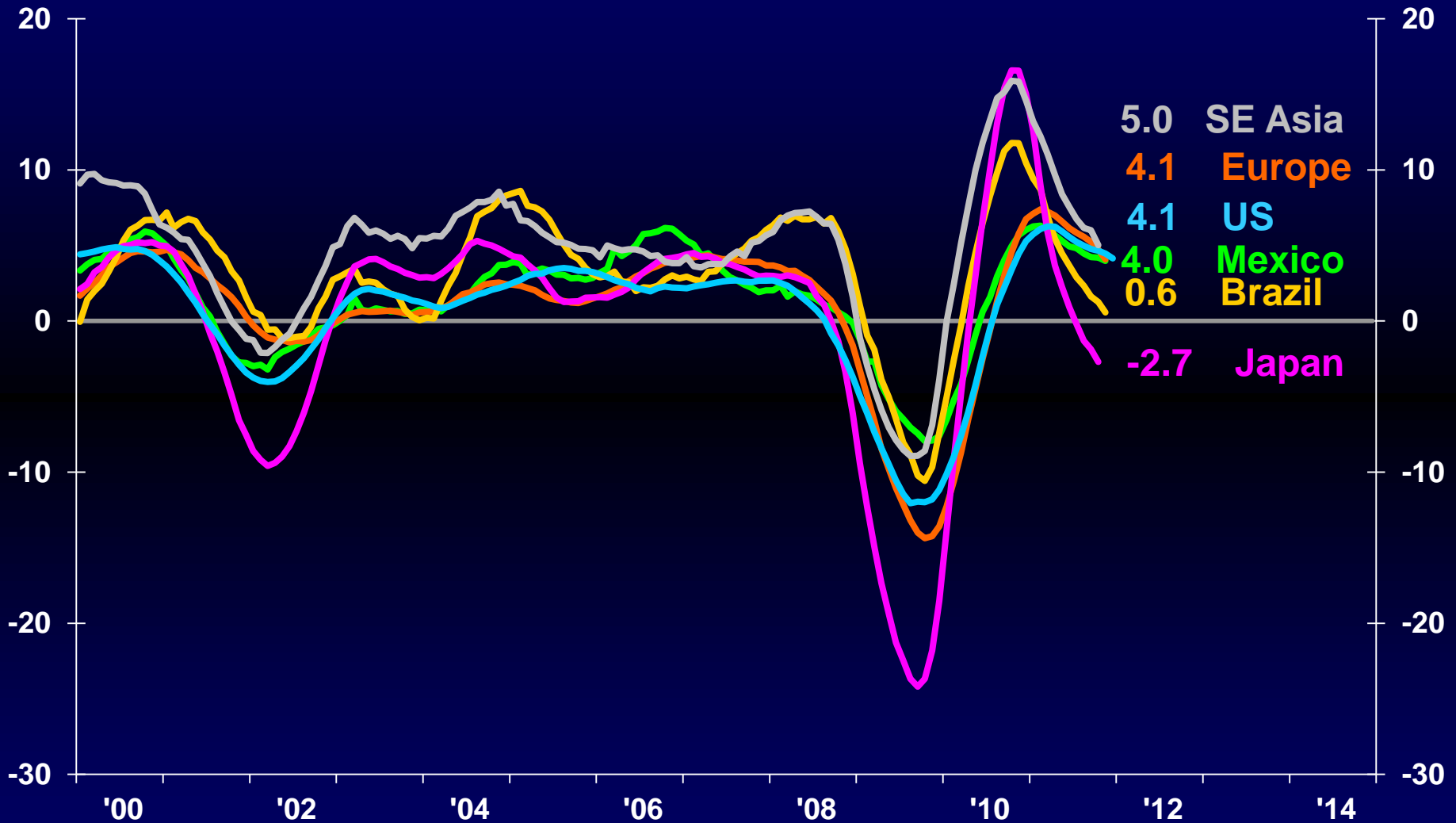
Results for 2011

	F Date	Forecast	Actual
GDP	6/10	\$13.525	\$13.332 (-1.4%)
US IP	1/11	93.1 (12MMA)	93.8 (0.8%)
EU IP	1/11	101.1 (12MMA)	101.2 (Nov)
Retail Sales	6/10	\$2.116 Trillion	\$2.106 (-0.5%)
Housing	7/10	579 Ths Units	607 (4.8%)
Employment	4/10	141.1 million	139.9 (-0.9%)
CPI	7/10	2.9%	3.2%

US Industrial Production to Gross Domestic Product Year-over-year Quarter to Quarter (3/12)



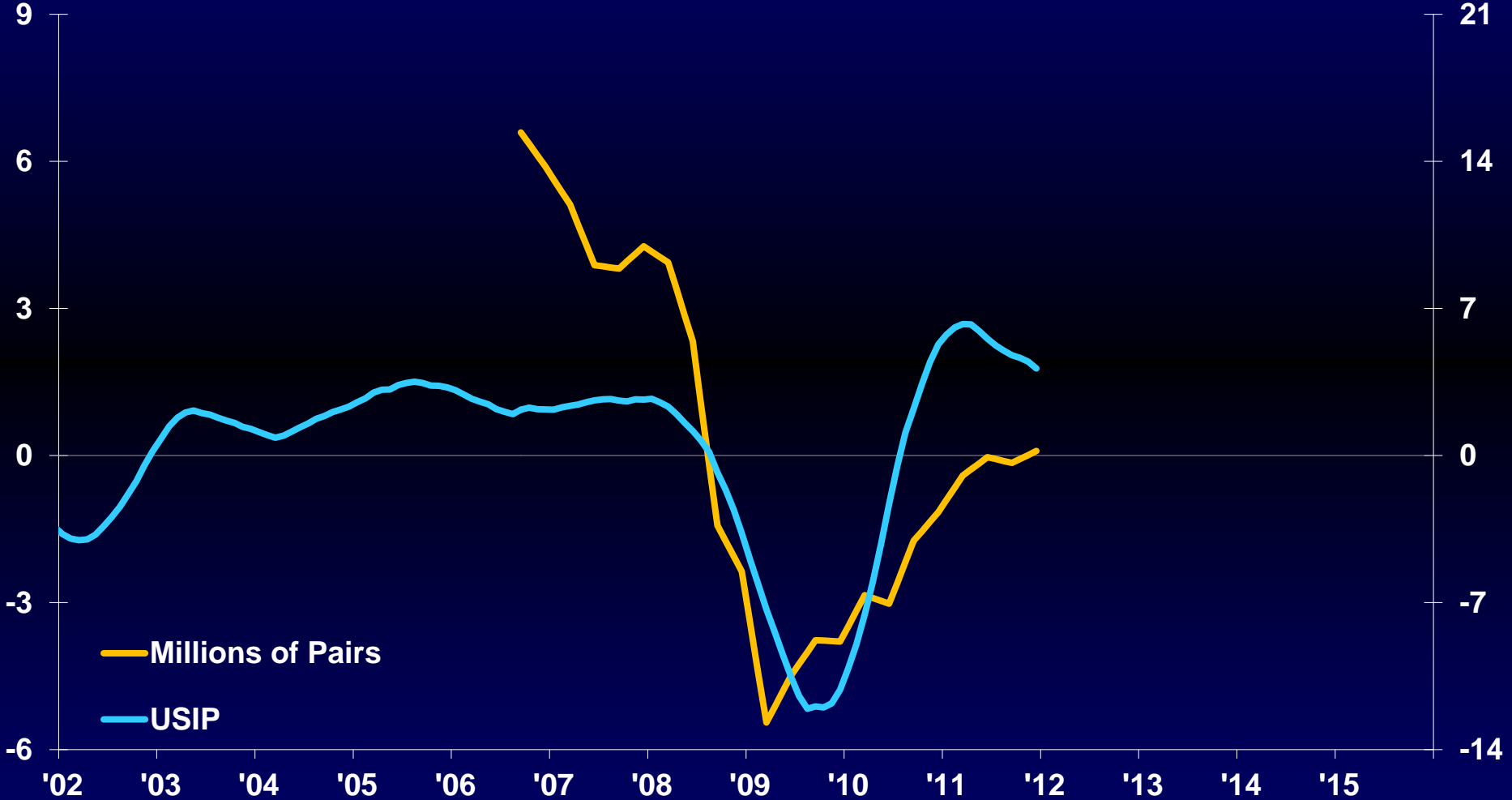
Global Industrial Production Indices 12/12 Rates-of-Change



Vision Council to US Industrial Production 12/12 Rates-of-Change

Millions of Pairs

USIP



Phase 1 – Data Preparation

	Raw	3MMT	3/12	12MMT	12/12
Jan-10	1.4				
Feb-10	1.5				
Mar-10	1.5	4.4			
Apr-10	1.4	4.4			
May-10	1.5	4.4			
Jun-10	1.3	4.2			
Jul-10	1.3	4.2			
Aug-10	1.6	4.3			
Sep-10	1.6	4.6			
Oct-10	1.5	4.8			
Nov-10	1.7	4.8			
Dec-10	1.6	4.8		18.0	
Jan-11	1.7	4.9		18.3	
Feb-11	1.7	4.9		18.5	
Mar-11	1.7	5.0	14.1%	18.6	
Apr-11	1.6	5.0	13.6%	18.8	
May-11	1.7	5.0	13.2%	19.0	
Jun-11	1.5	4.9	15.1%	19.2	
Jul-11	1.5	4.7	13.5%	19.4	
Aug-11	1.9	4.9	14.1%	19.6	
Sep-11	1.7	5.1	11.3%	19.8	
Oct-11	1.7	5.3	11.5%	20.0	
Nov-11	1.9	5.3	10.1%	20.1	
Dec-11	1.7	5.3	10.5%	20.3	12.7%

3/12 Rate-of-Change

$$= \frac{\text{December 2011 3MMT}}{\text{December 2010 3MMT}} \times 100 - 100$$

$$= \frac{5.3}{4.8} \times 100 - 100 = 10.5\%$$

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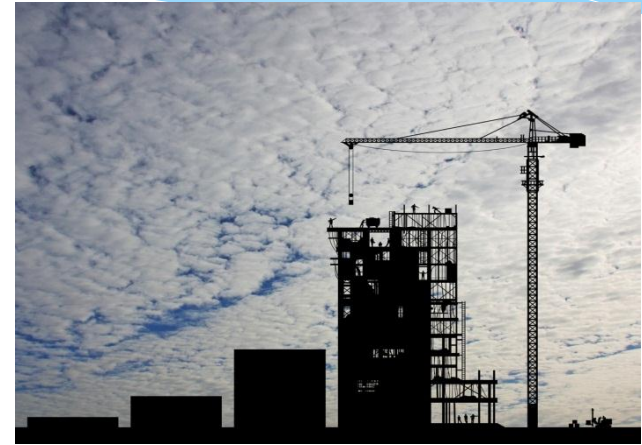
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Phase 3 – Generate the Quantitative Forecast

Internal Trends



Leading Economic Indicators



ITR Long Term Business Cycle Theory



News and Market Observations



Output - Deliverables

Applicable Advice



Accurate Forecasts

Phase Management Objectives™

Phase A

1. Start to phase out marginal opportunities
2. Begin advertising and sales promotions
3. Implement training programs

Phase B

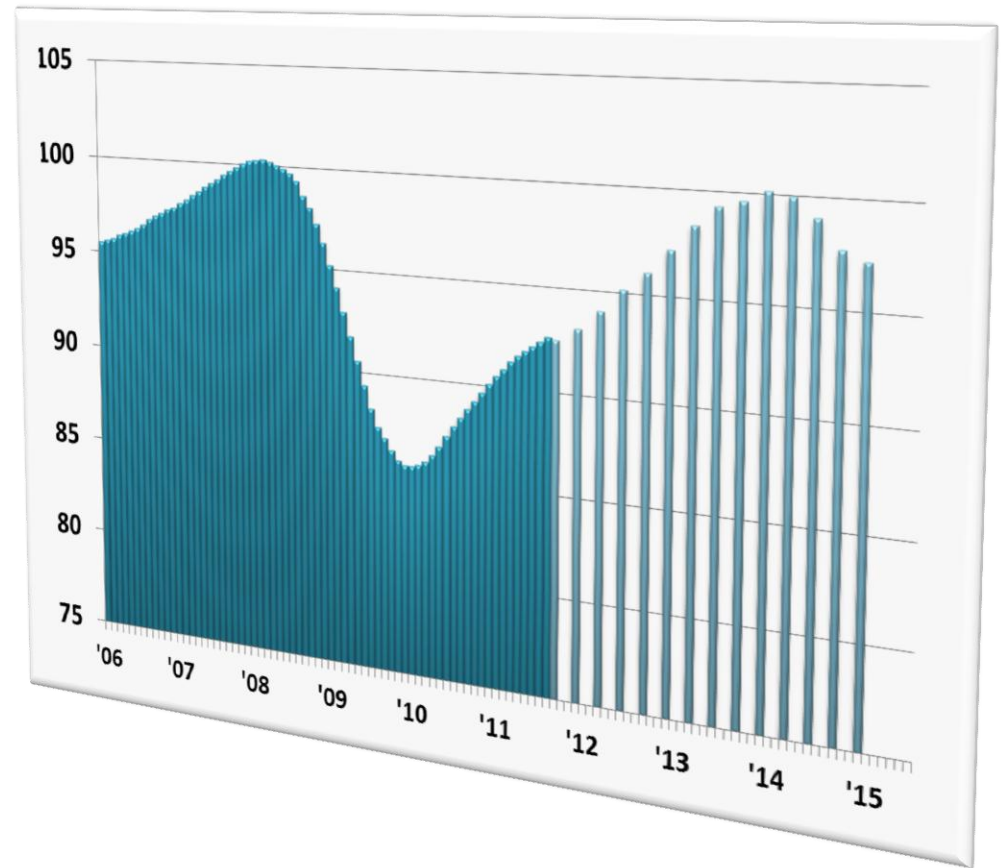
1. Check the process flow for possible future bottlenecks
2. Continue to build inventory
3. Increase prices

Phase C

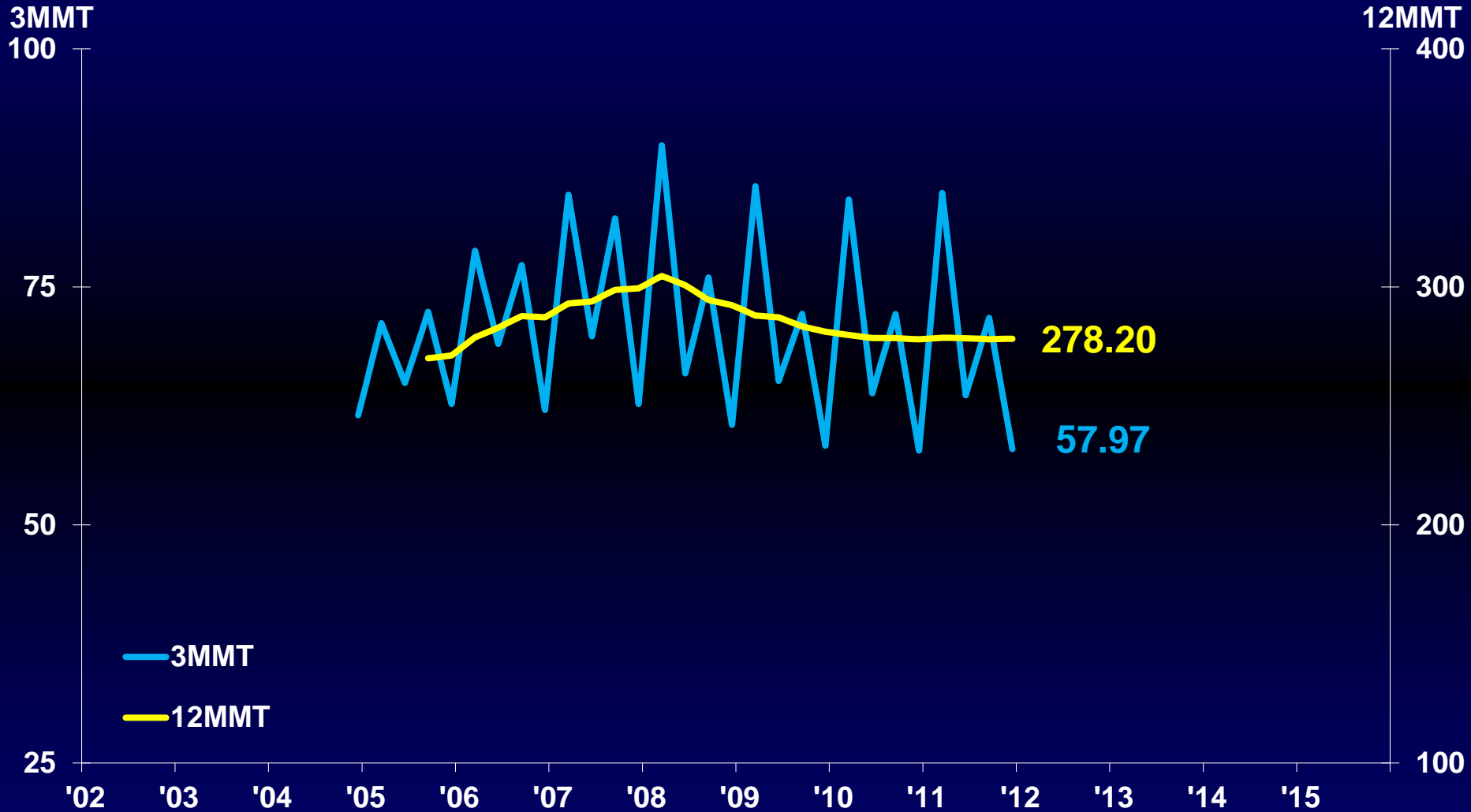
1. Begin missionary efforts into new markets
2. Weed out inferior products (lose the losers)
3. Increase the requirements for capital expenditures

Phase D

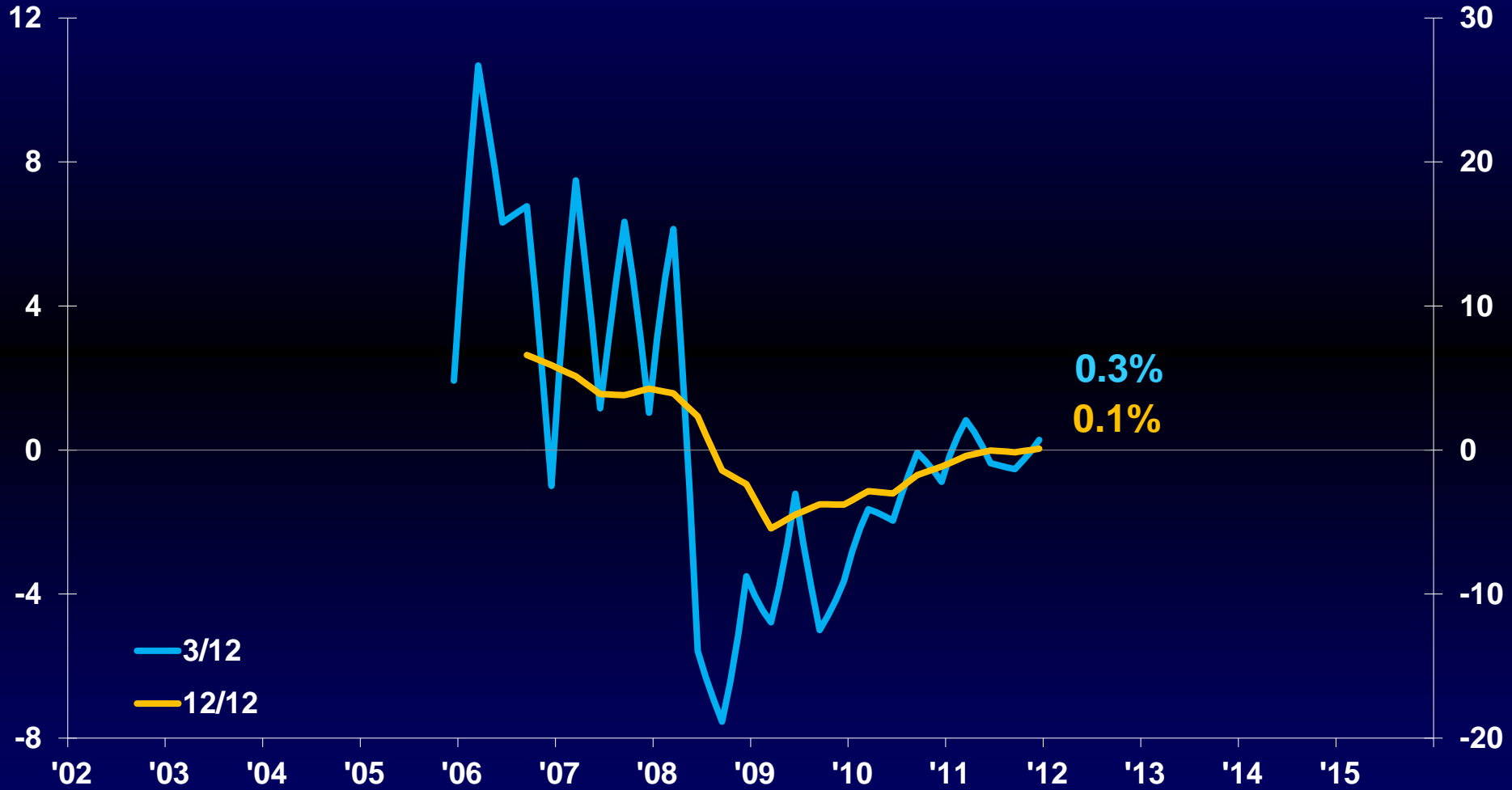
1. Reduce advertising - be very selective
2. Tighten credit policies - increase scrutiny
3. Make acquisitions - use pessimism to your advantage



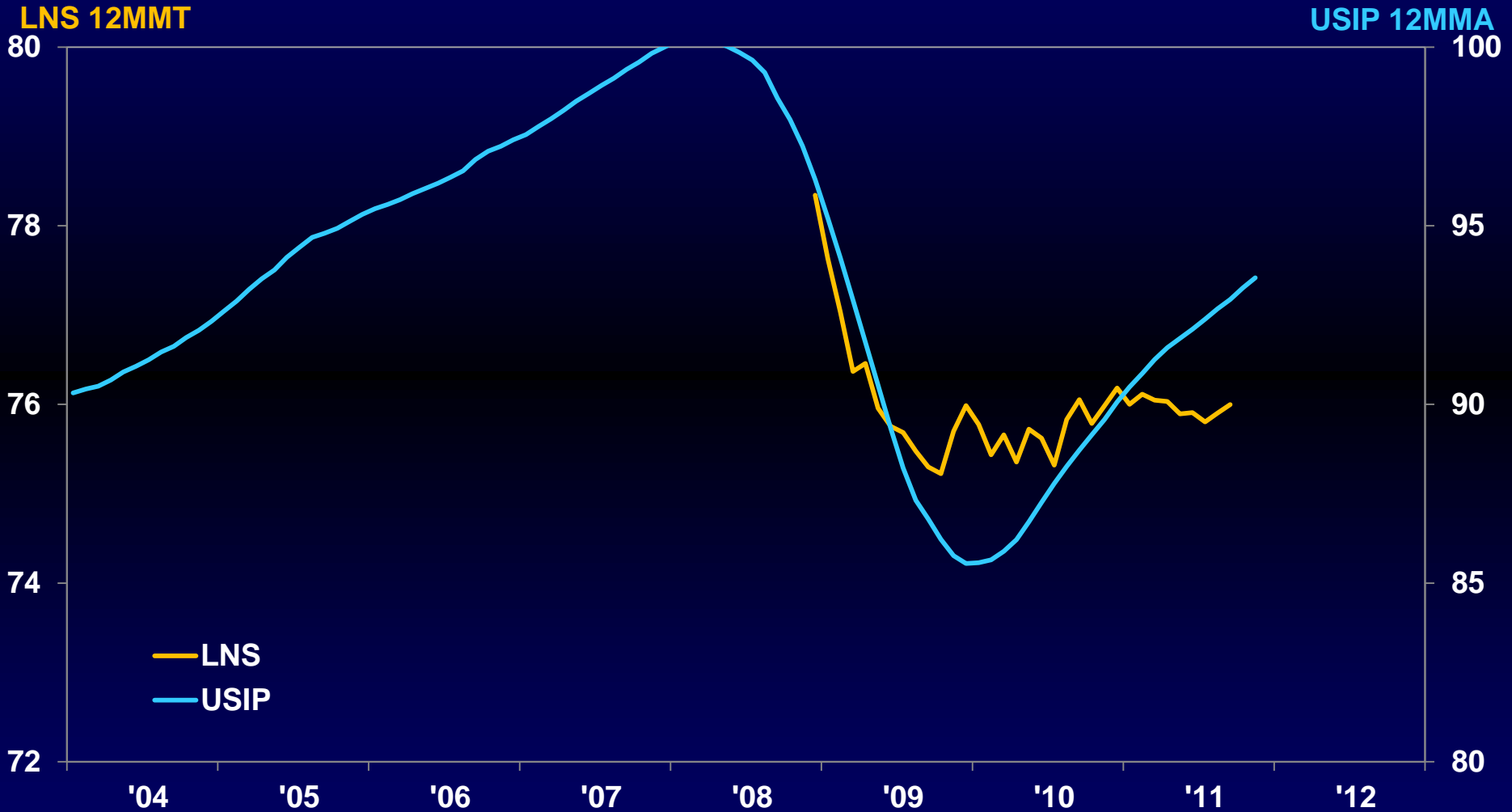
Vision Council Data Trends, Millions of Pairs



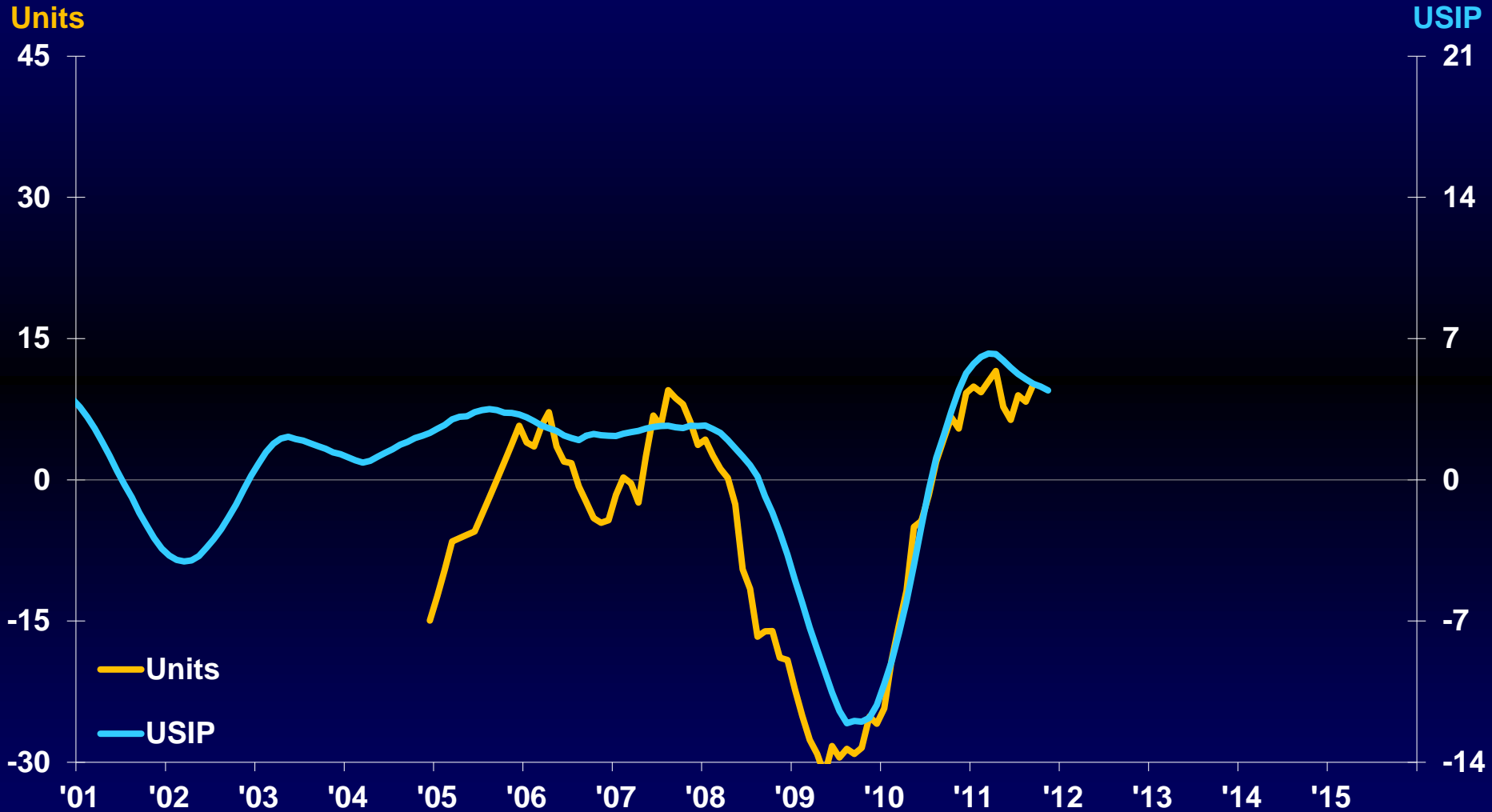
Vision Council Rates-of-Change



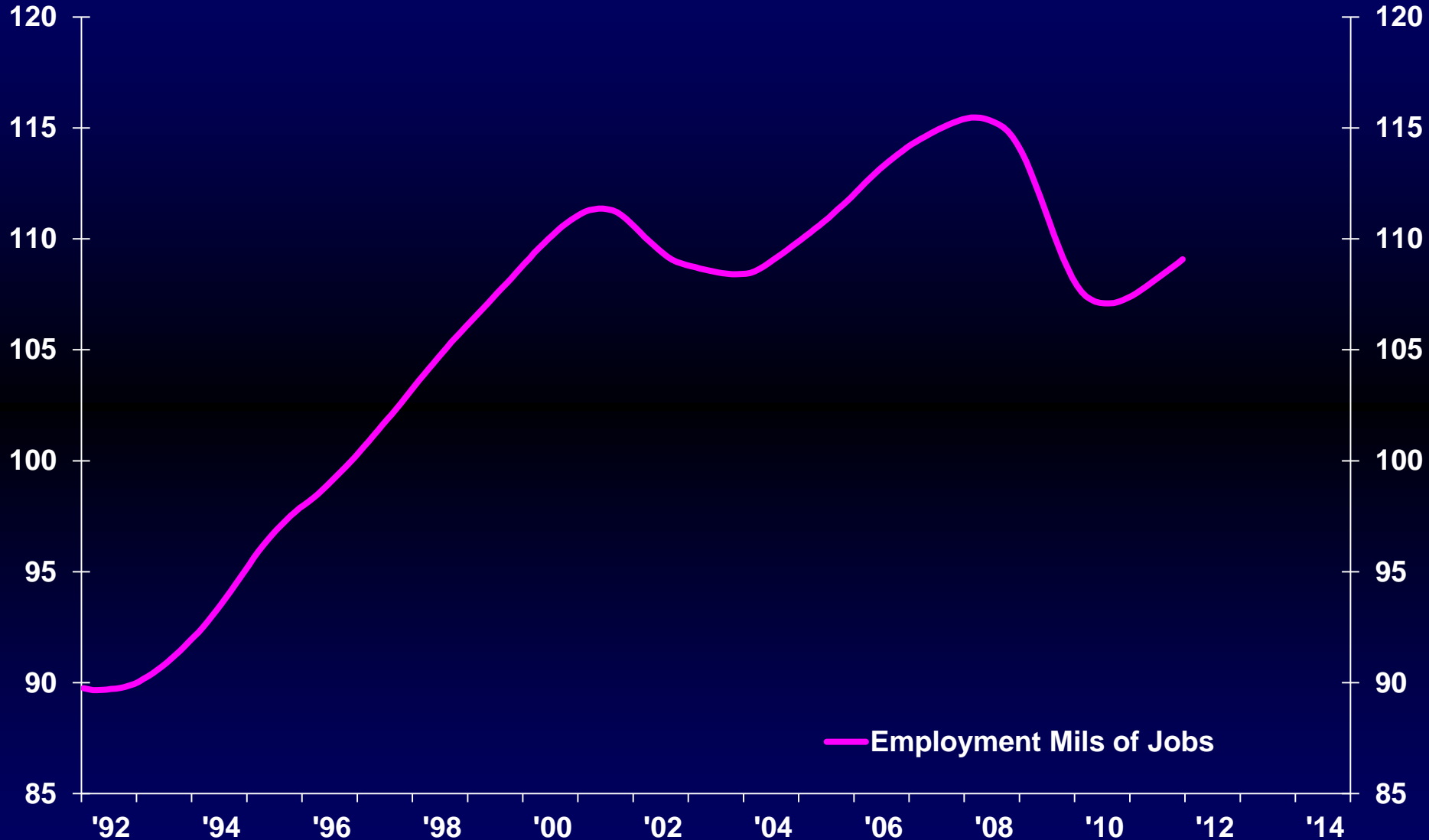
Vision Council LNS to US Industrial Production Index Data Trends



Vision Council LPT Edger to US Industrial Production 12/12 Rates-of-Change



Employment – Private Sector Annual Data Trend

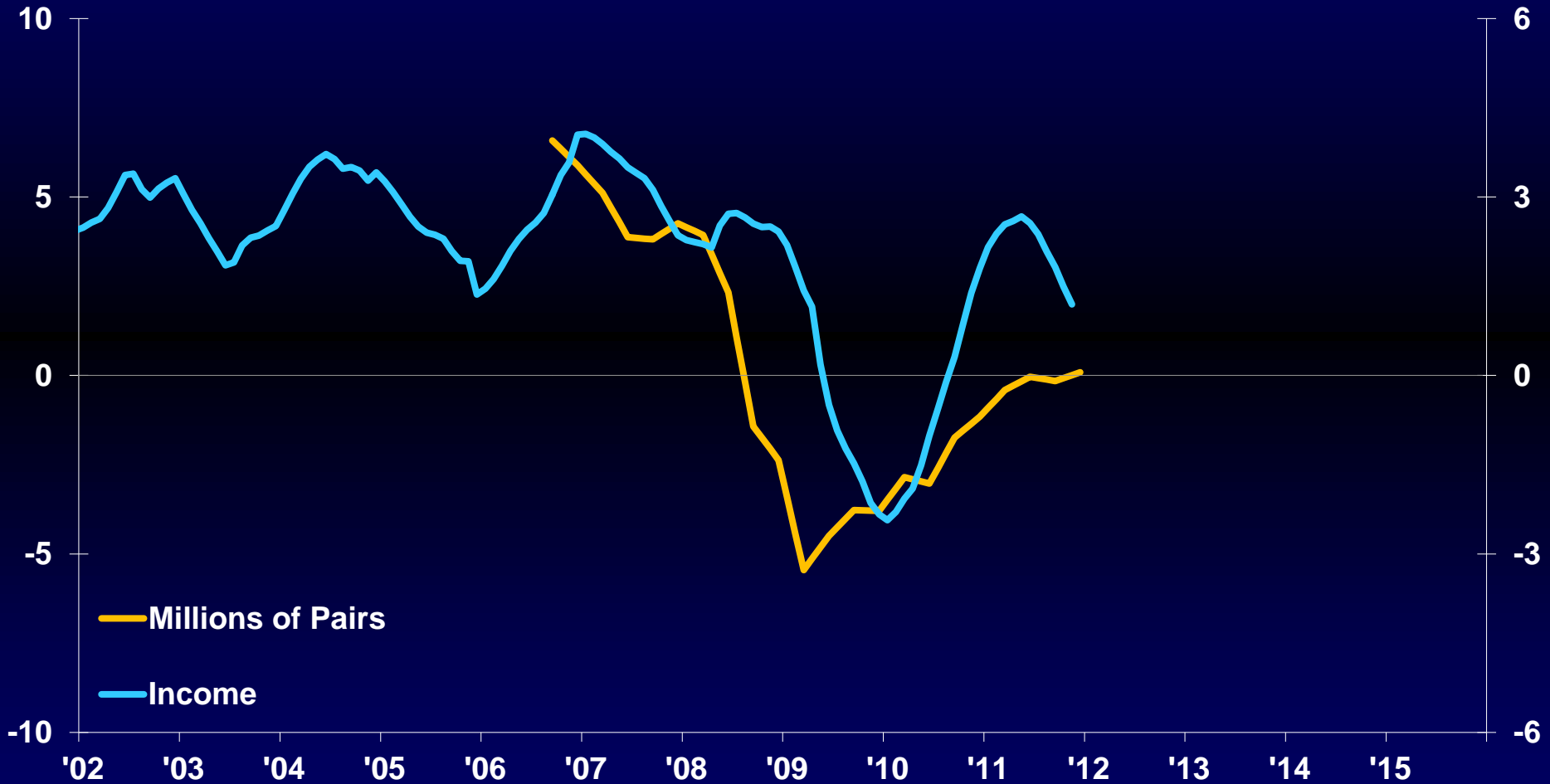


— Employment Mils of Jobs

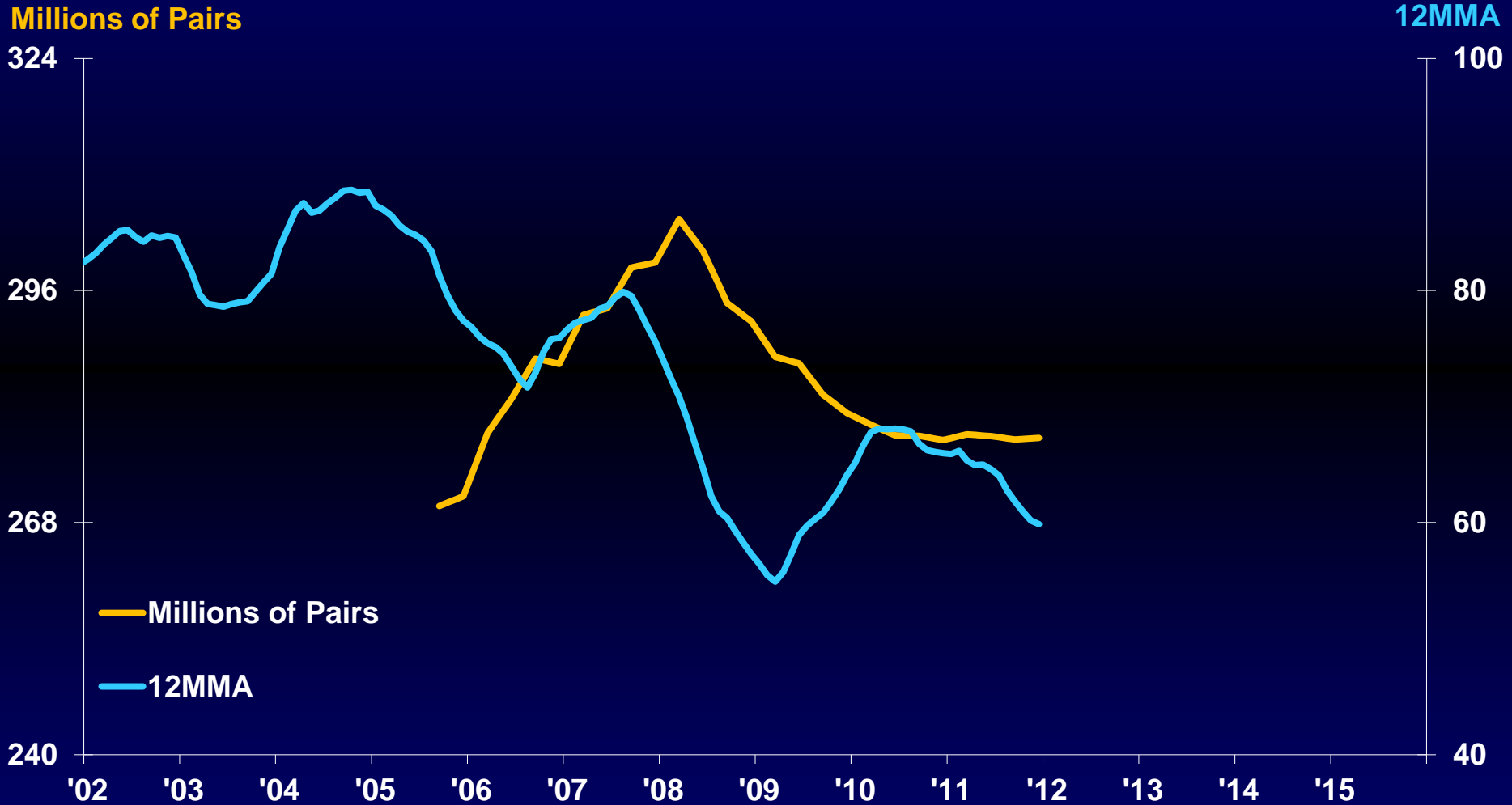
Vision Council to Disposable Personal Income 12/12 Rates-of-Change

Millions of Pairs

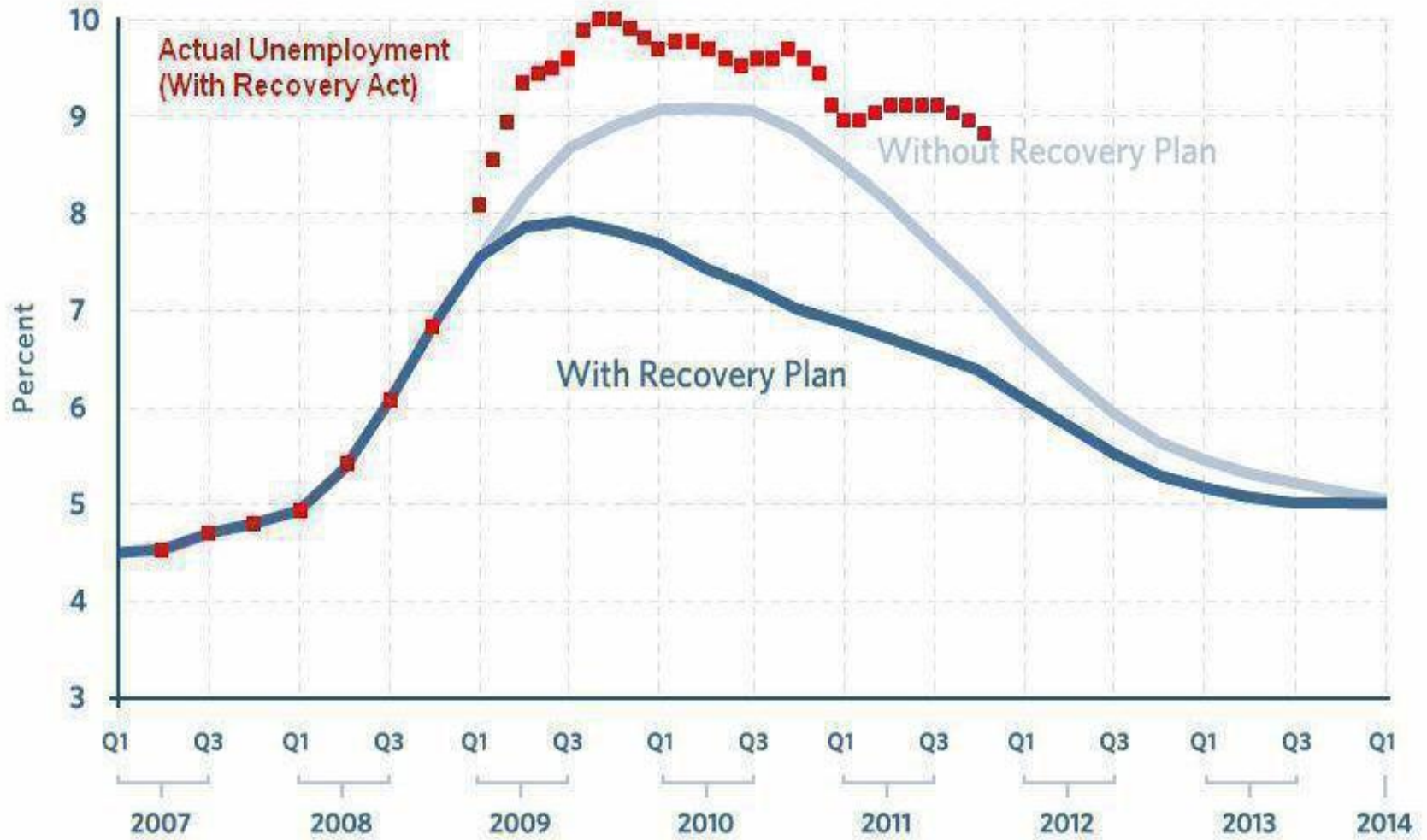
Income



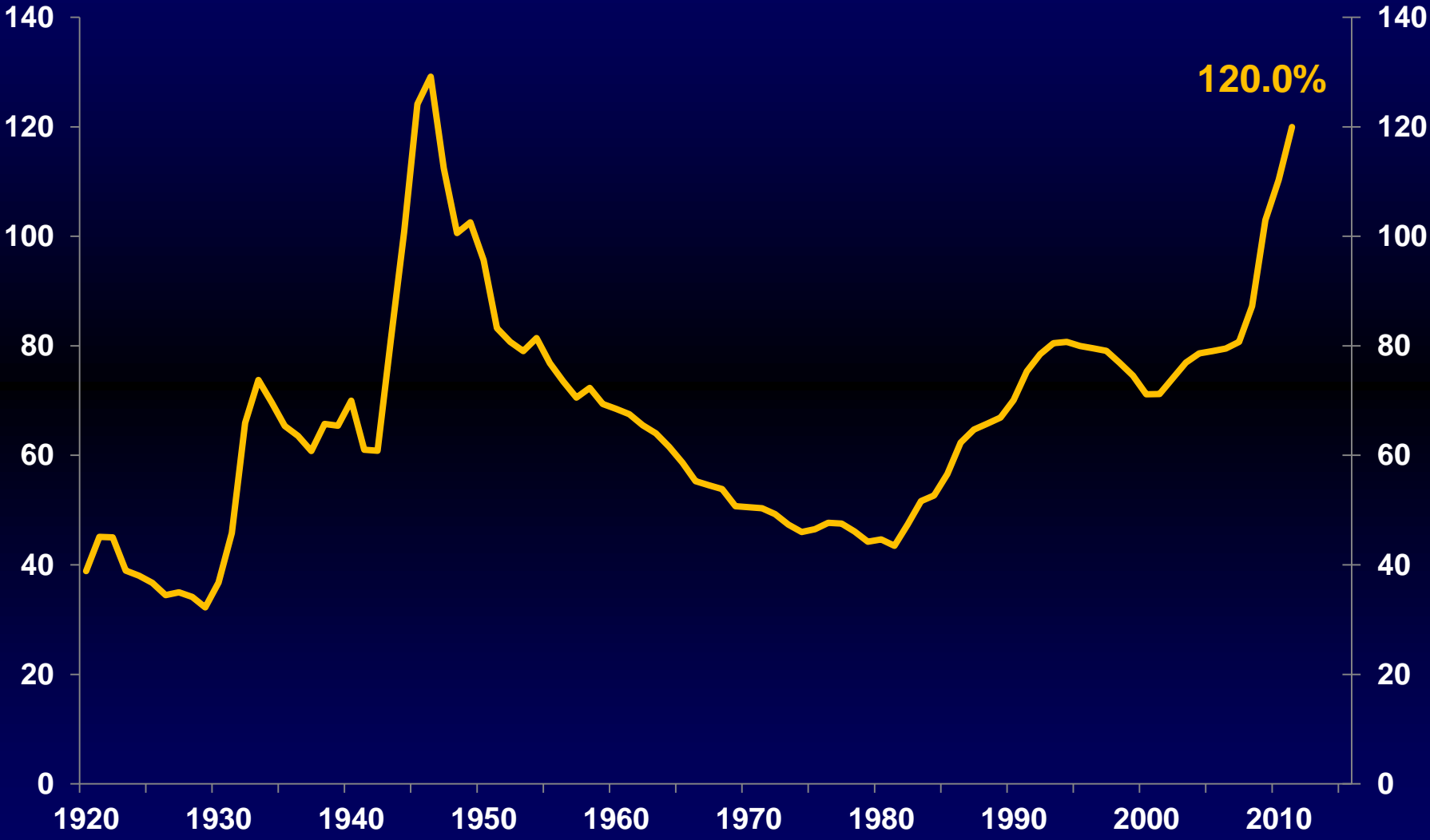
Vision Council to Consumer Expectations 12MMT to 12MMA Data Trends



Unemployment Rate With and Without the Recovery Plan



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

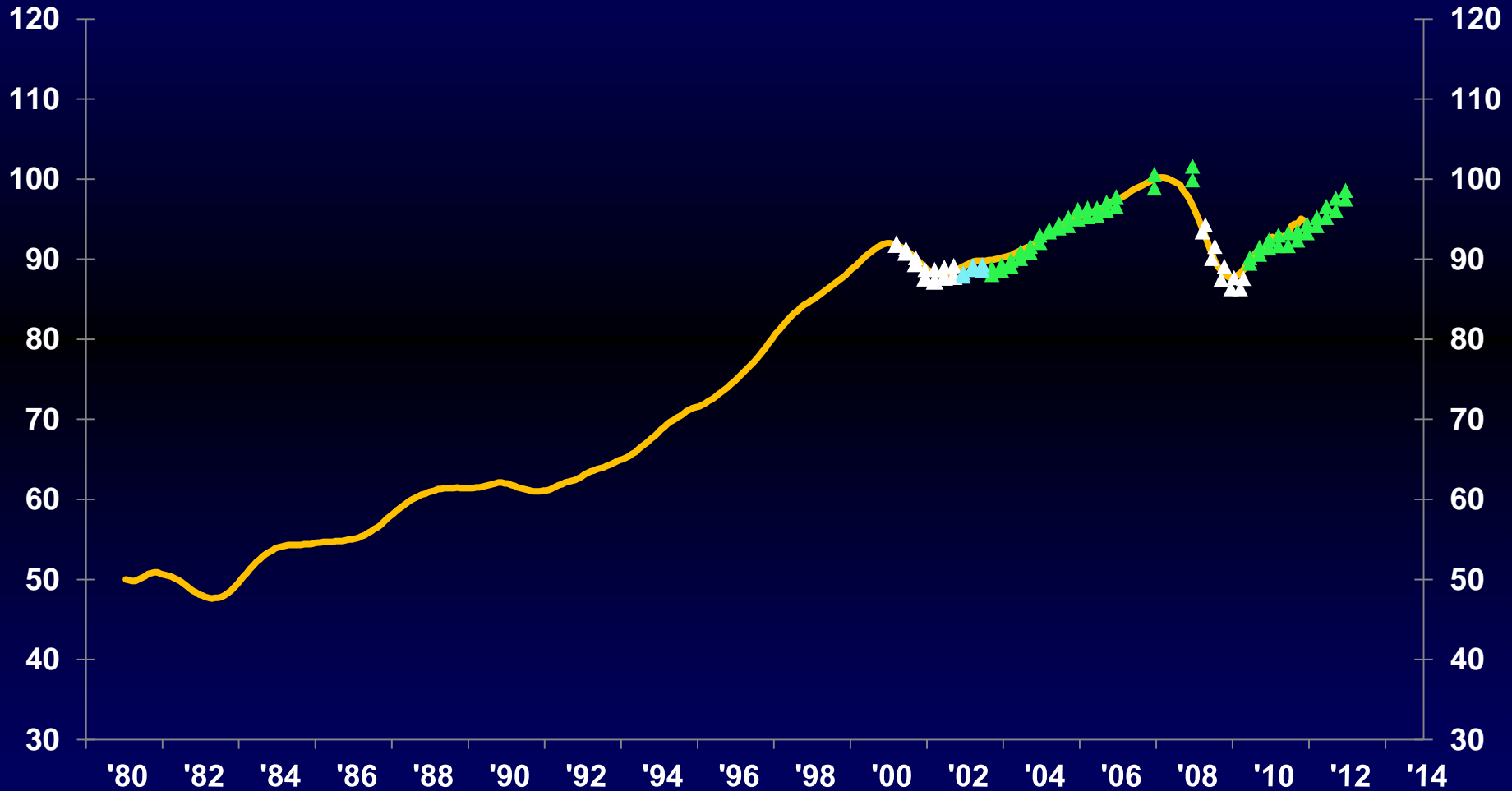


US Industrial Production Index

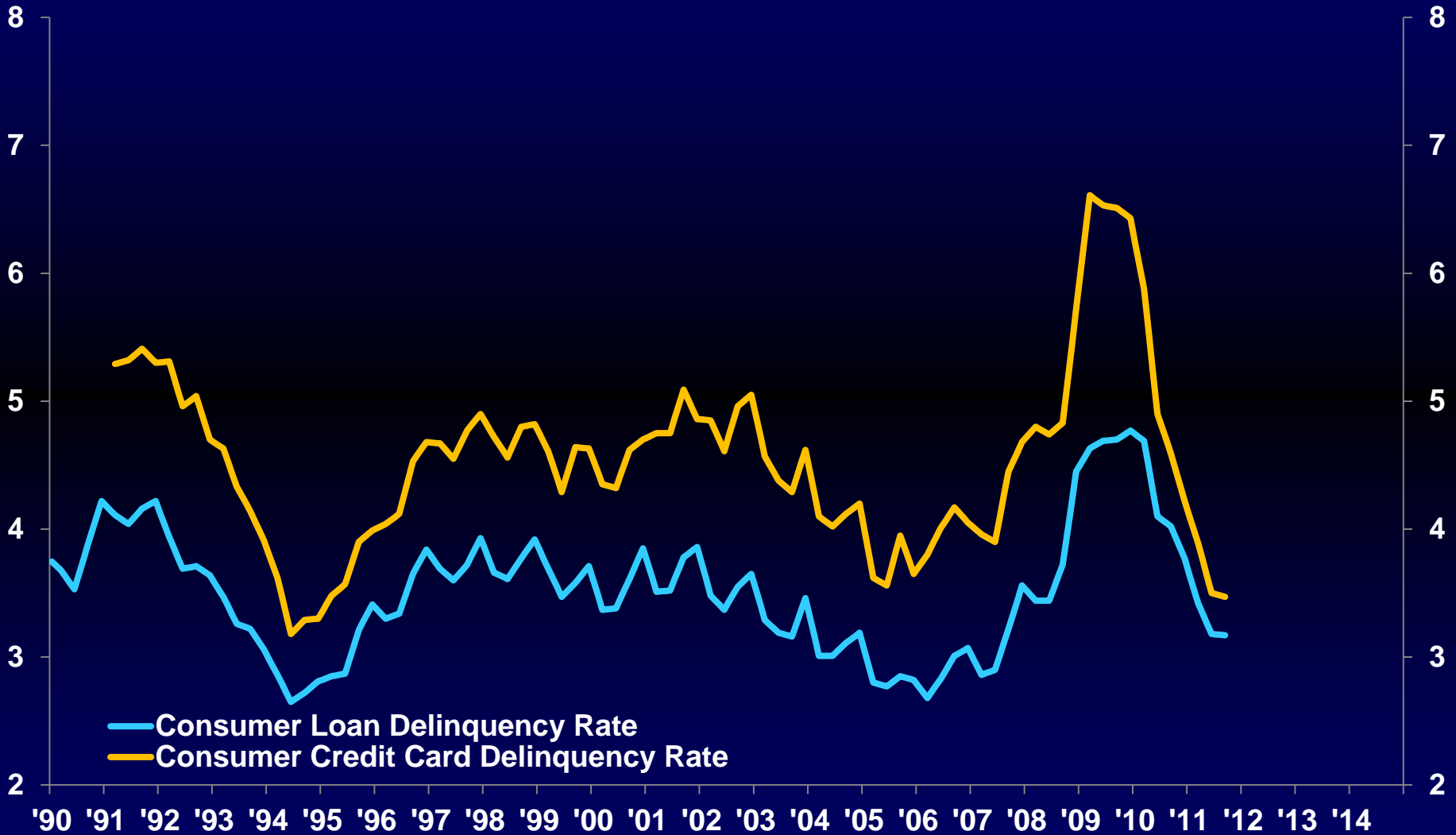
2007 = 100

Forecast Through December 2012

Annual Average Index

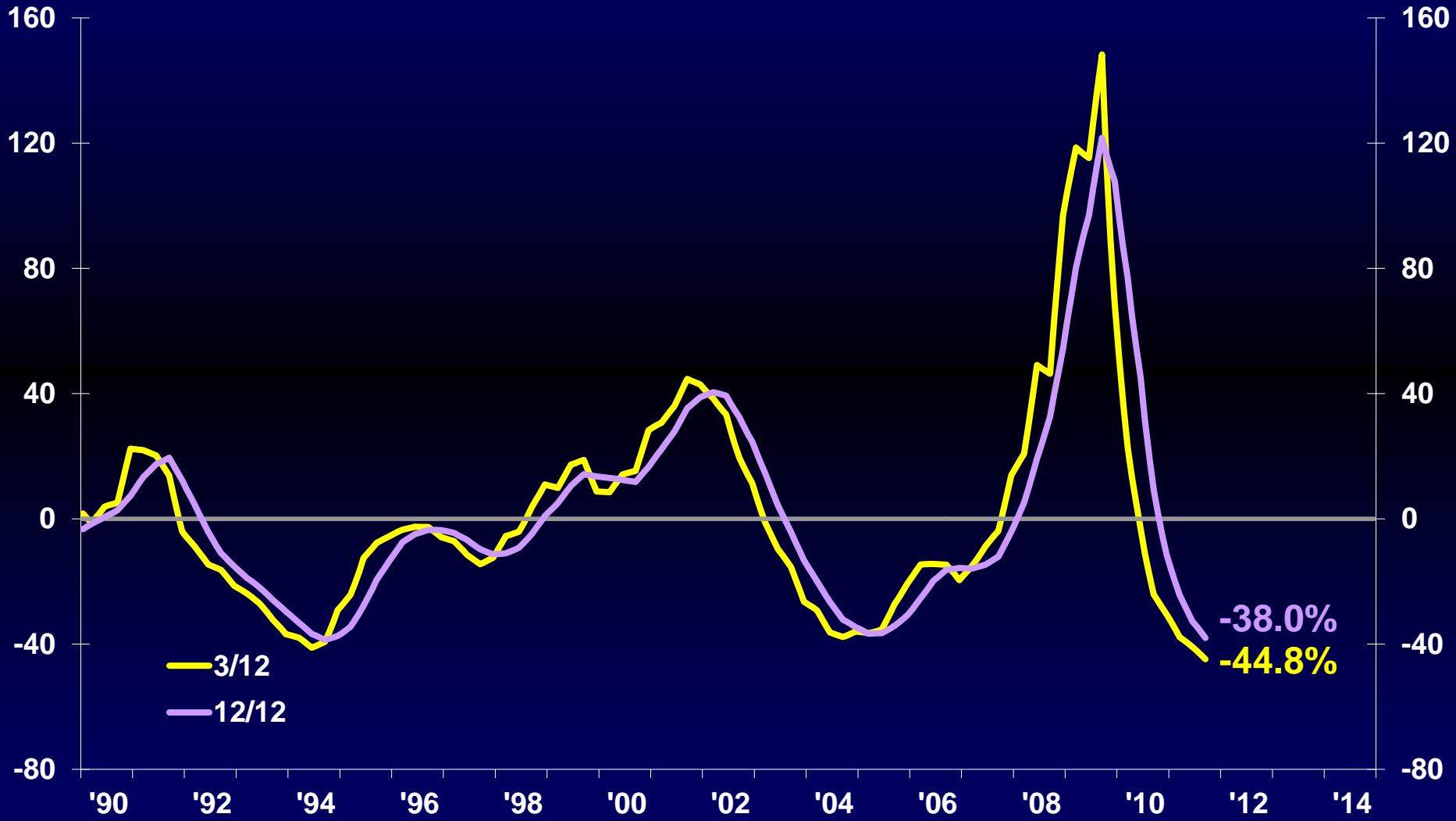


Delinquency Rates on Consumer Loans 3MMA Data Trends

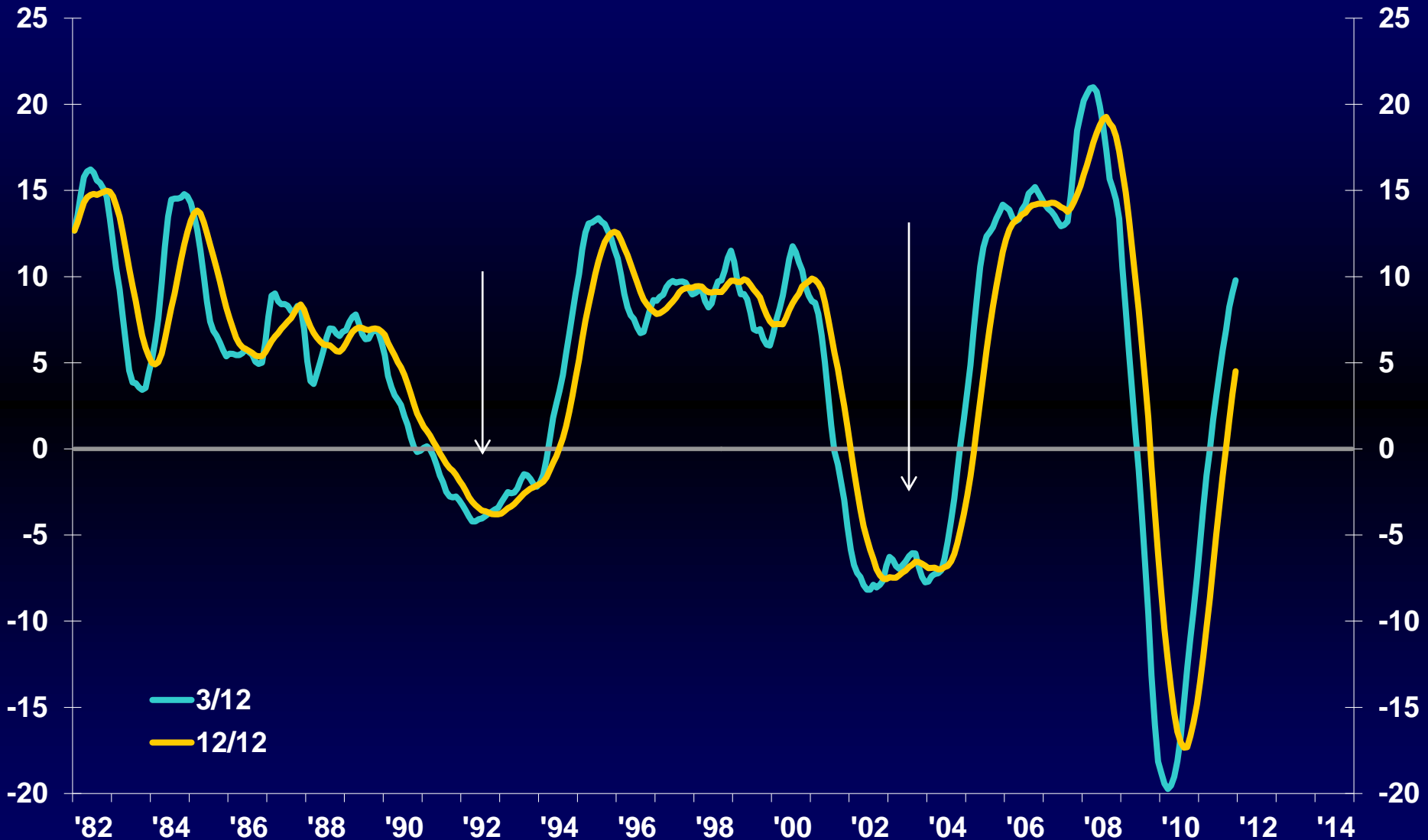


Delinquency Rates for C&I Loans

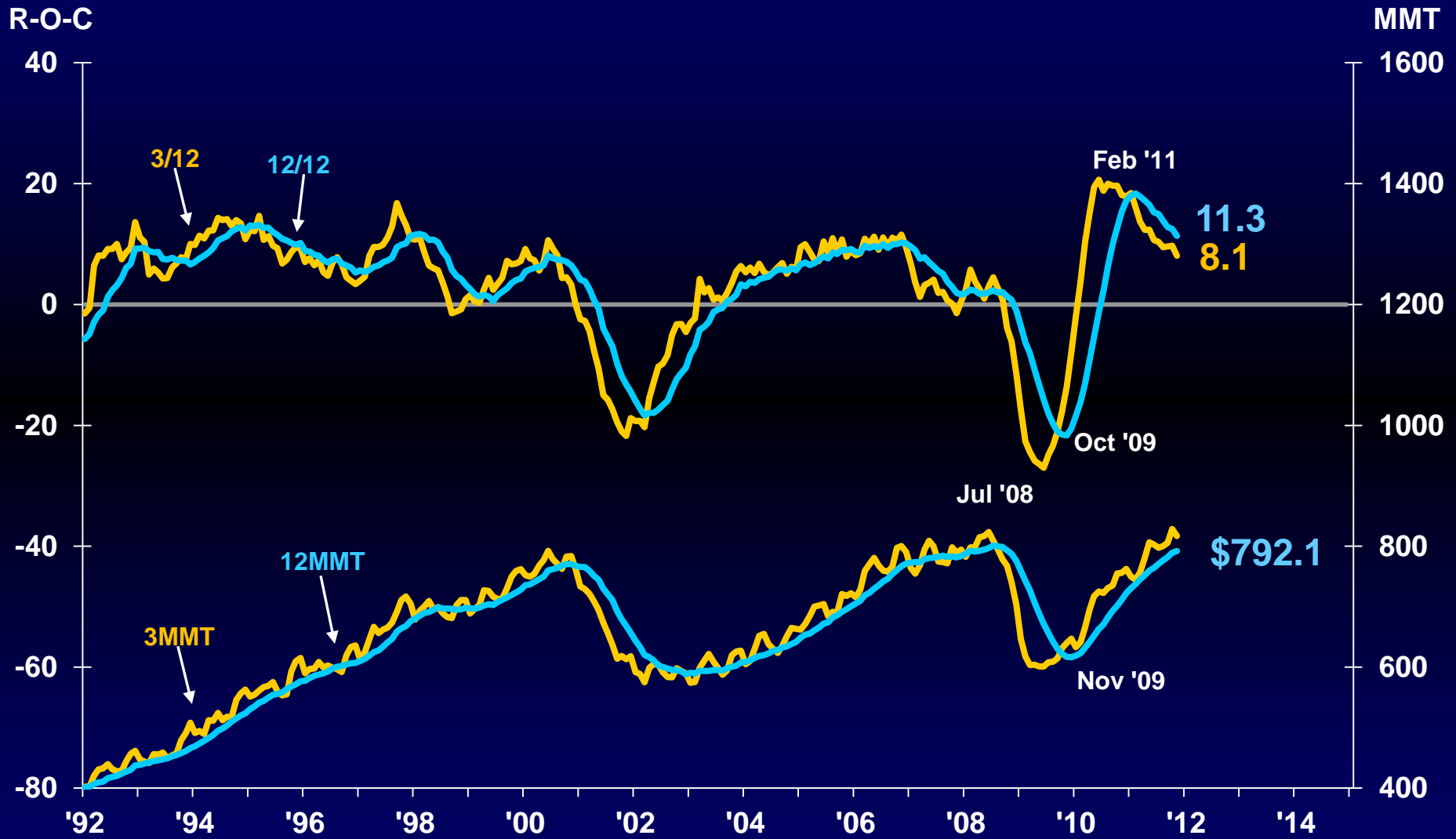
3/12 & 12/12 Rates-of-Change



Commercial & Industrial Loans at Commercial Banks Rates-of-Change



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



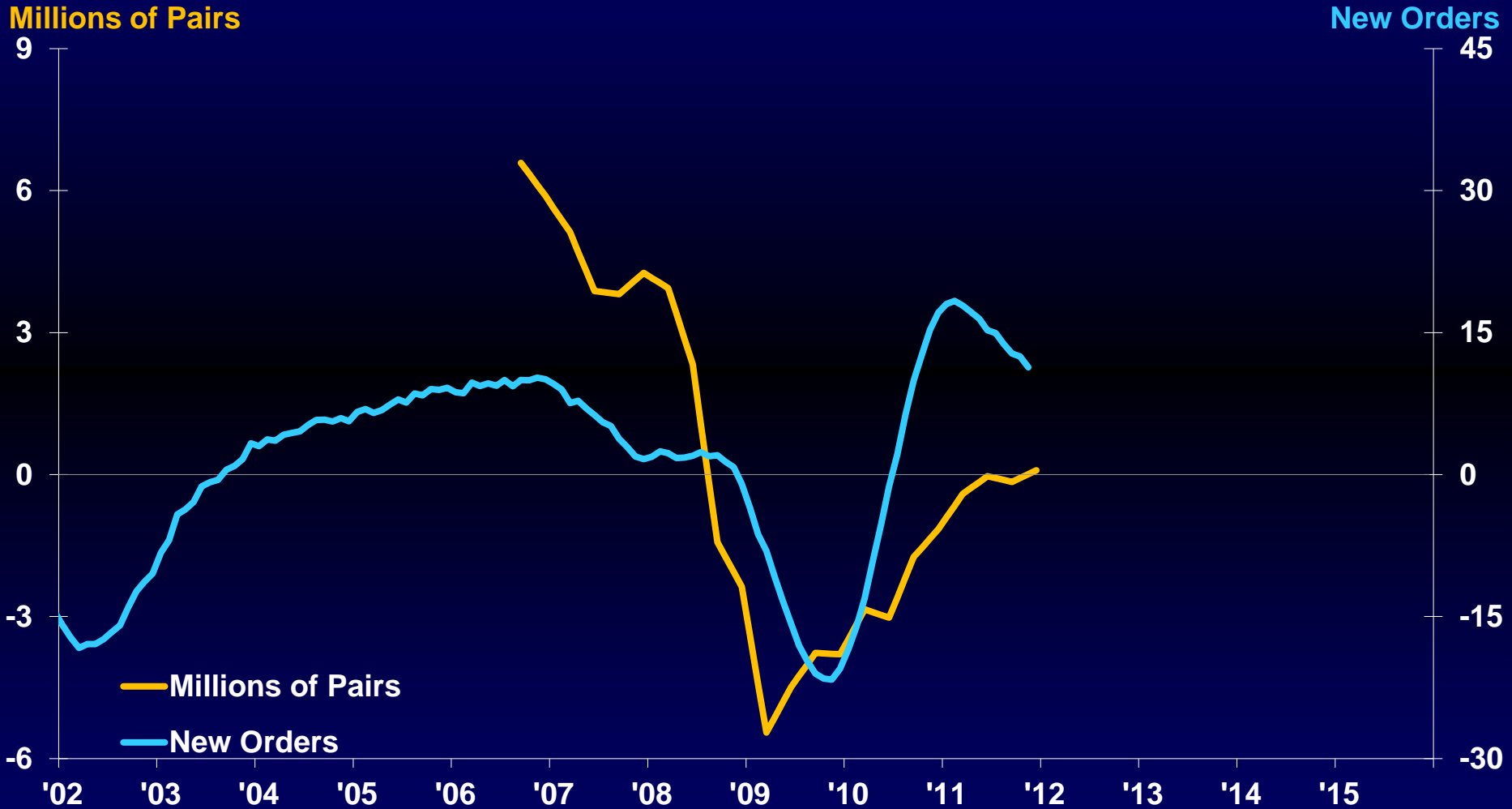
11.3
8.1

\$792.1

Ratio of Inventories to New Orders Raw Data



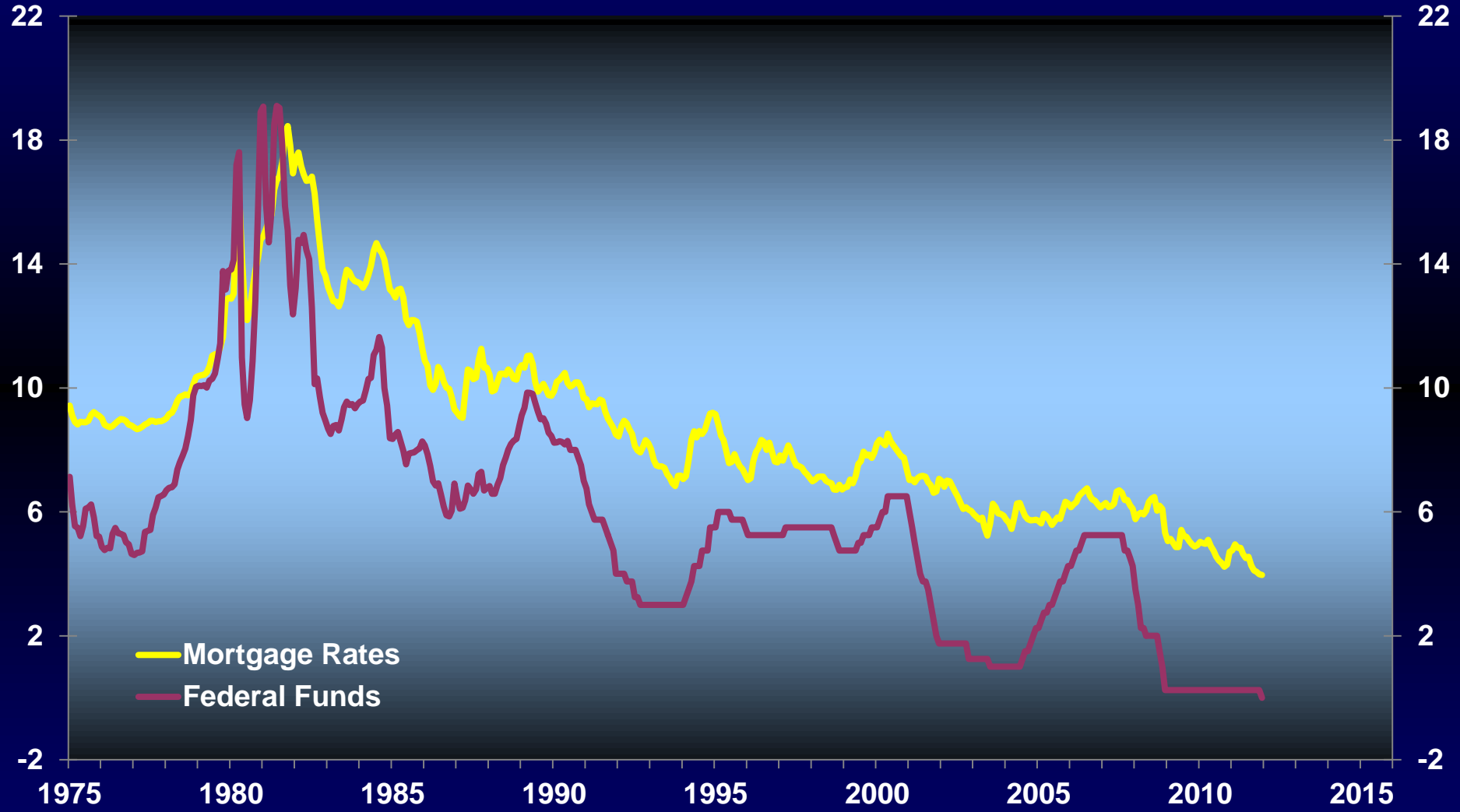
Vision Council to Nondefense Capital Goods New Orders 12/12 Rates-of-Change



M2 Money Supply Trillions of 82\$



Mortgage Rates to Federal Funds Raw Data

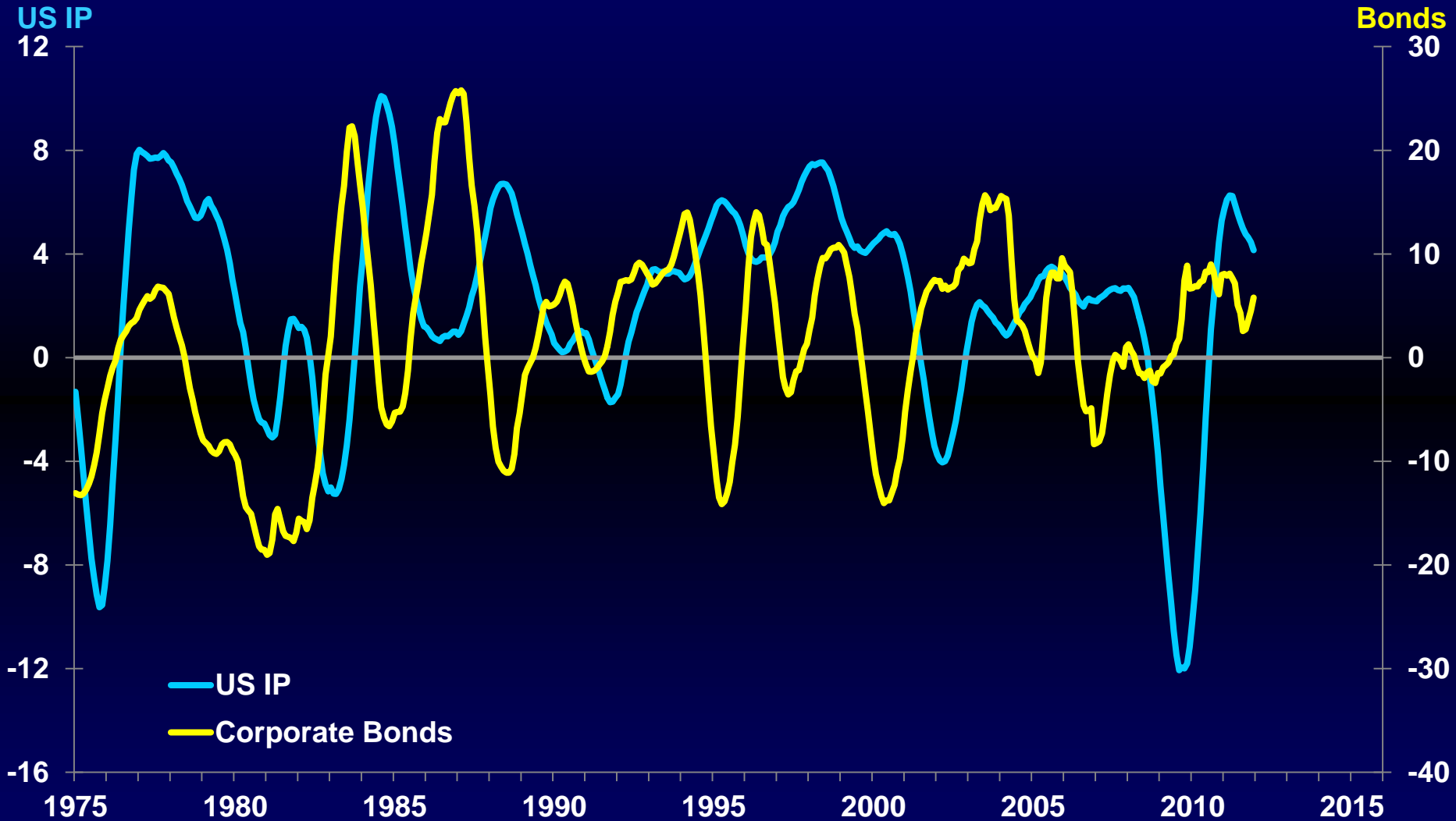


Short-Term Interest Rates to US Gov't Long-Term Bond Yields

Raw Data Trends



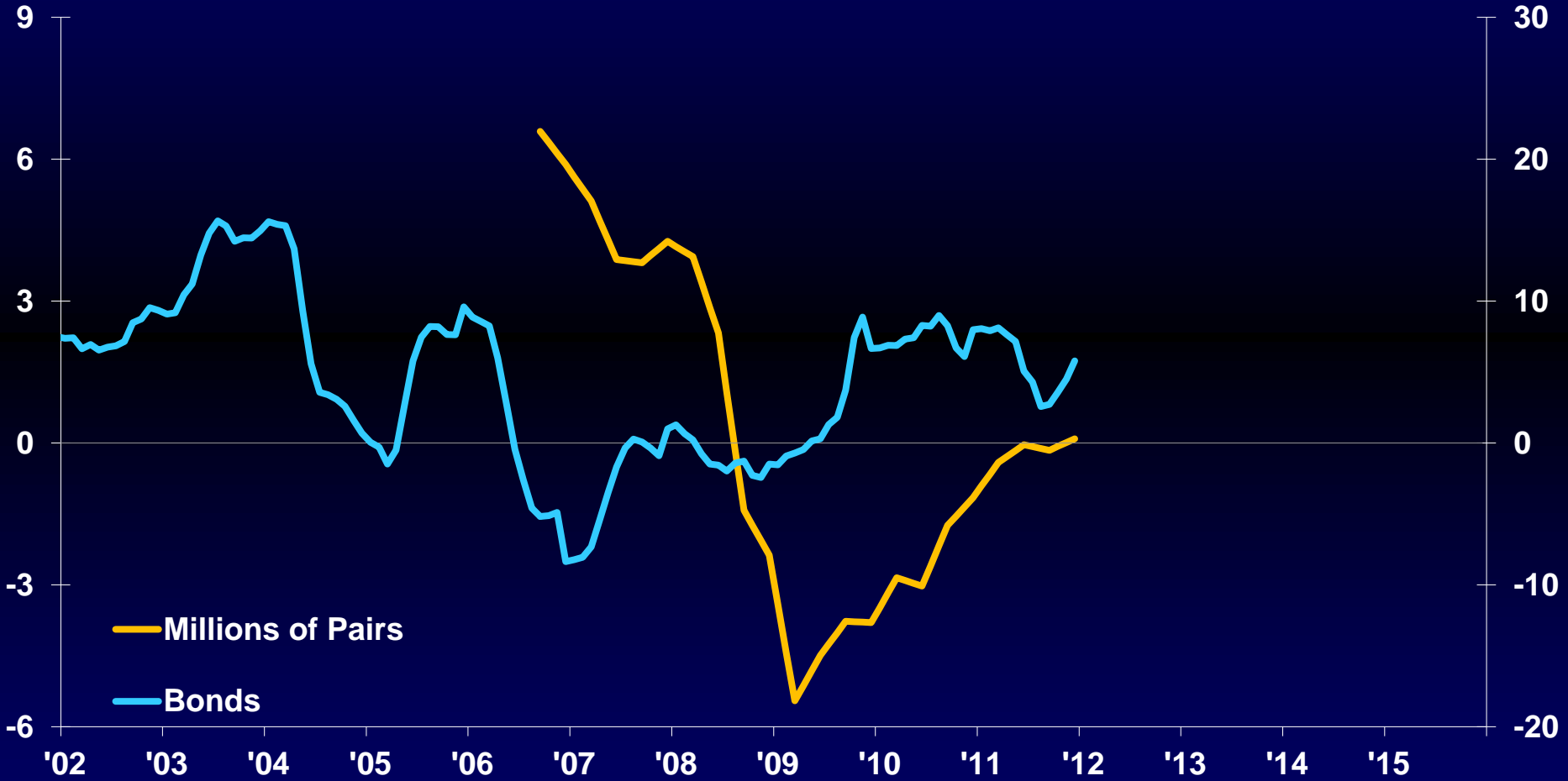
US Industrial Production to Corporate Bond Prices 12/12 Rates-of-Change



Vision Council to Corporate Bond Prices 12/12 Rates-of-Change

Millions of Pairs

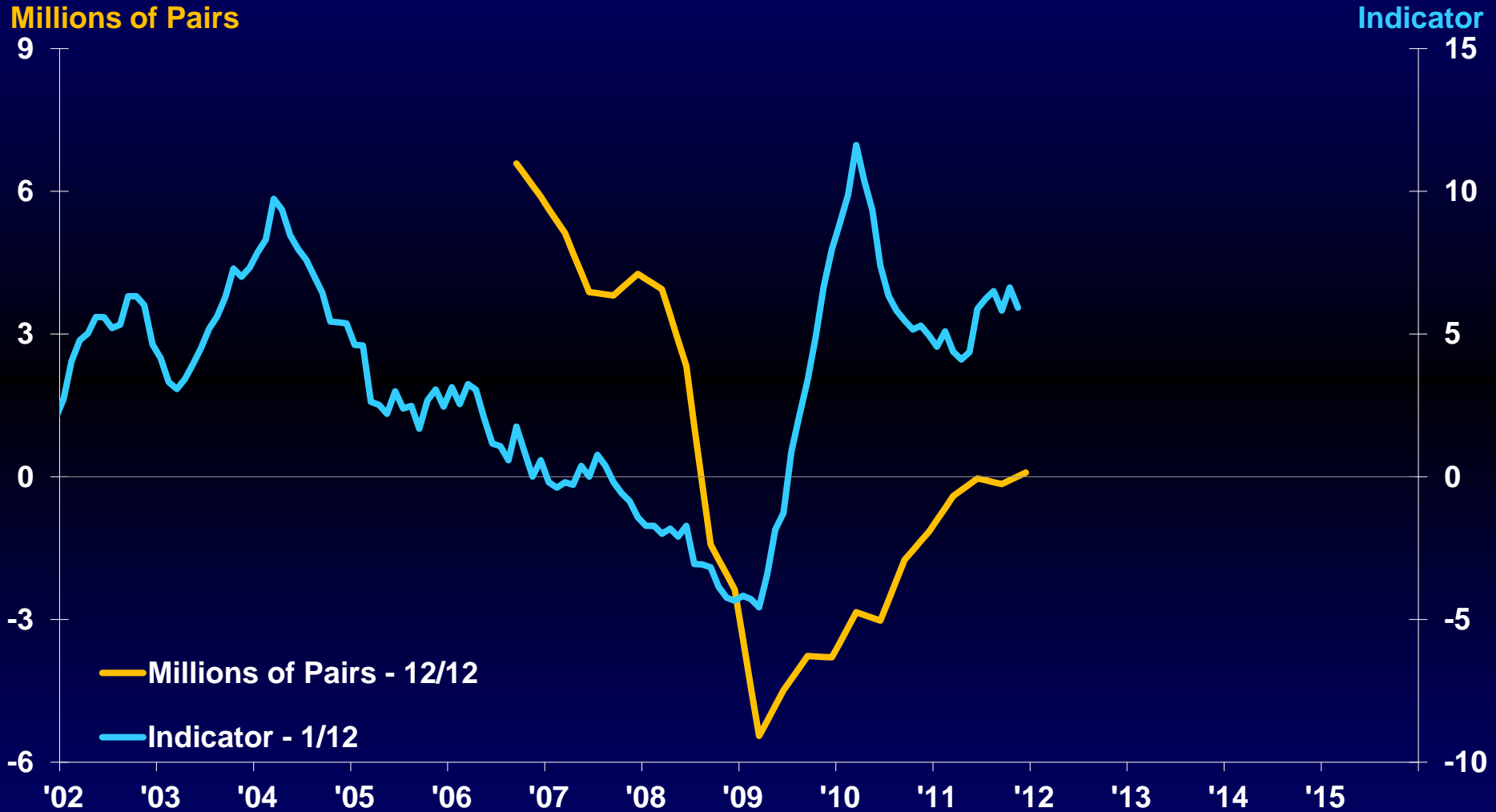
Bonds



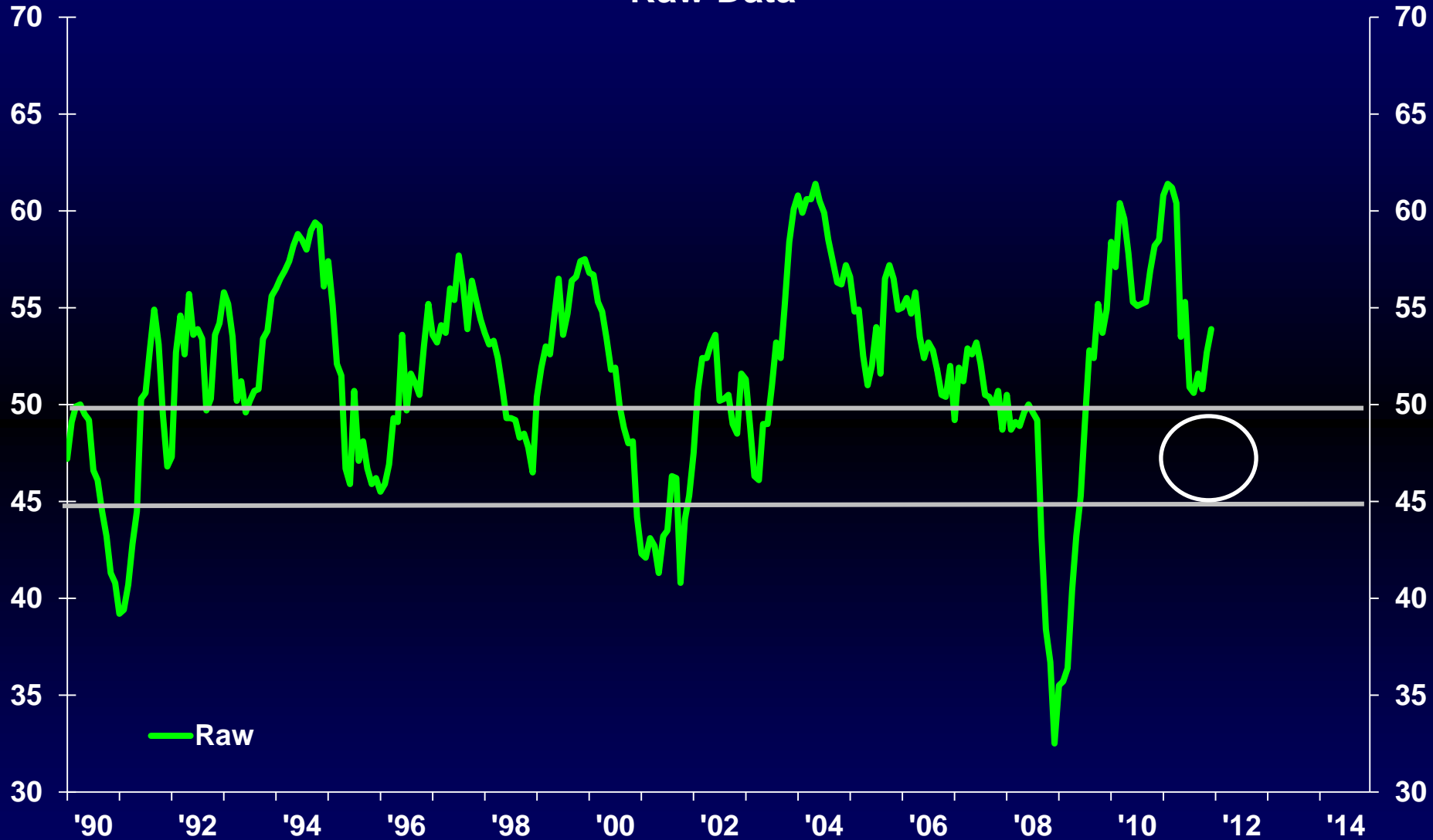
US Leading Indicator 1996 = 100



Vision Council to US Leading Indicator Rates-of-Change



Purchasing Managers Index Raw Data



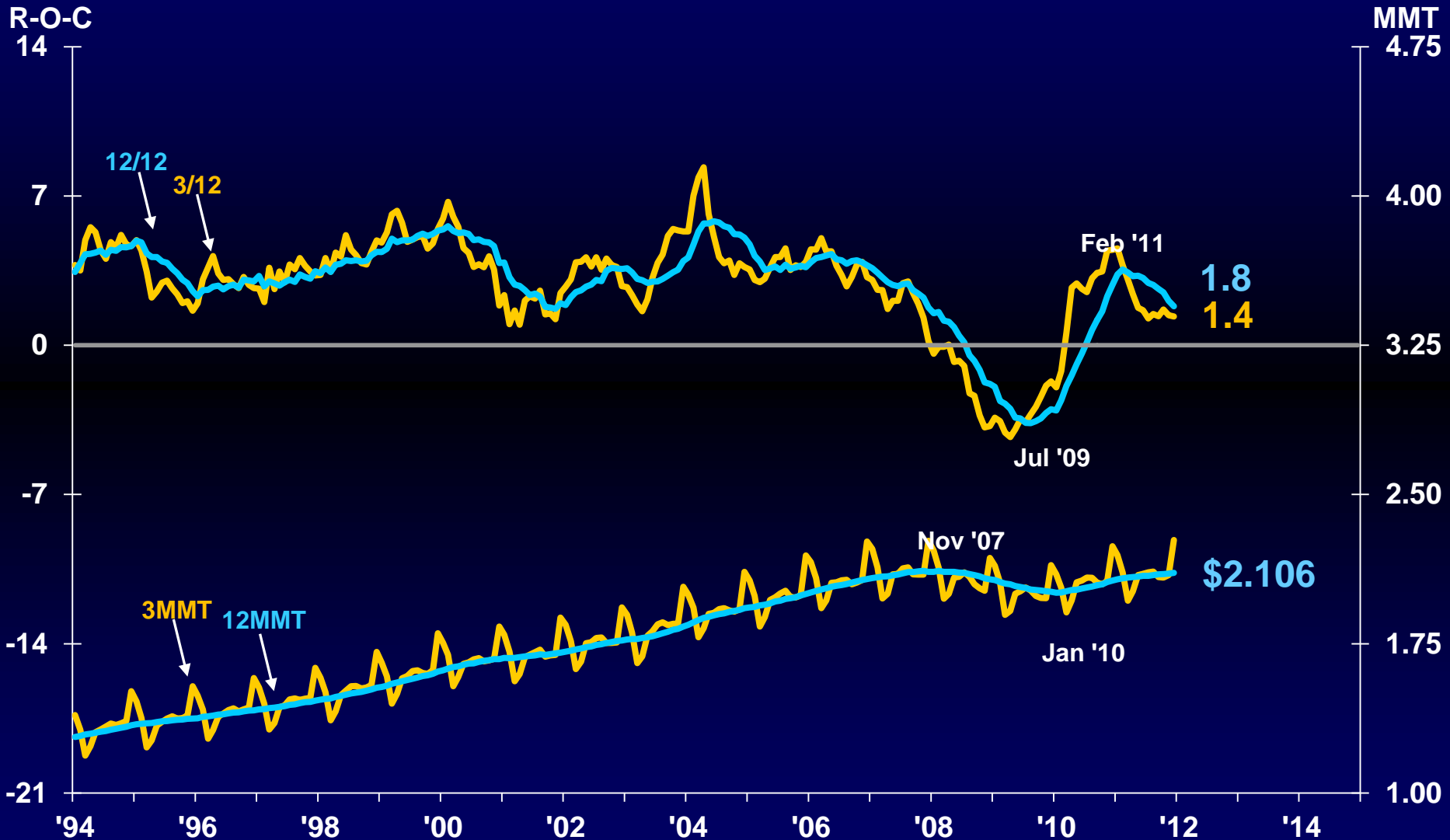
Vision Council to Purchasing Managers Index 12/12 Rates-of-Change to PMI Raw



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



Retail Sales Excluding Automobiles Trillions of 82-84\$



Vision Council to Retail Sales Excluding Autos 12/12 Rates-of-Change



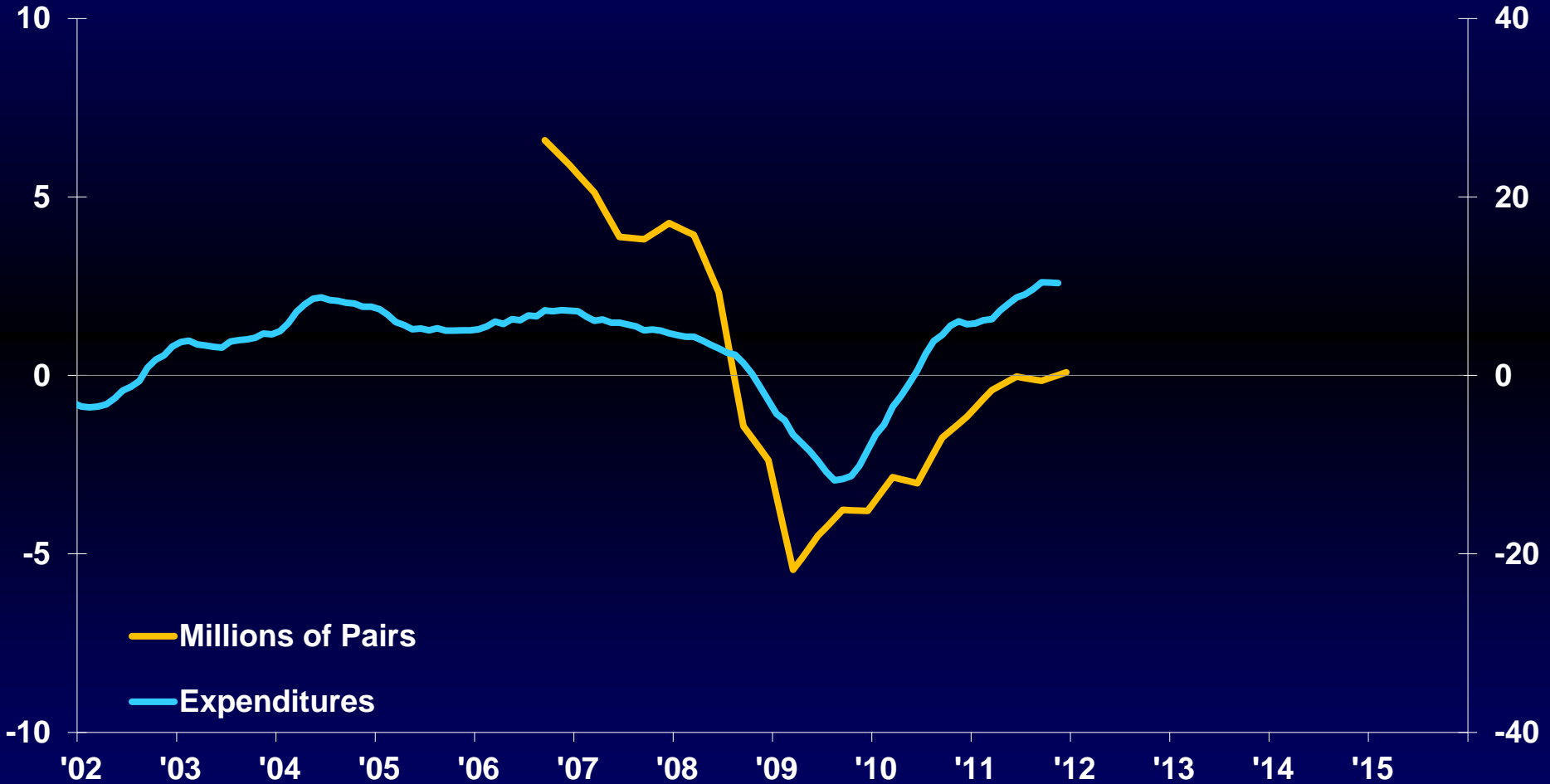
Vision Council to Eyeglass Expenditures 12/12 Rates-of-Change



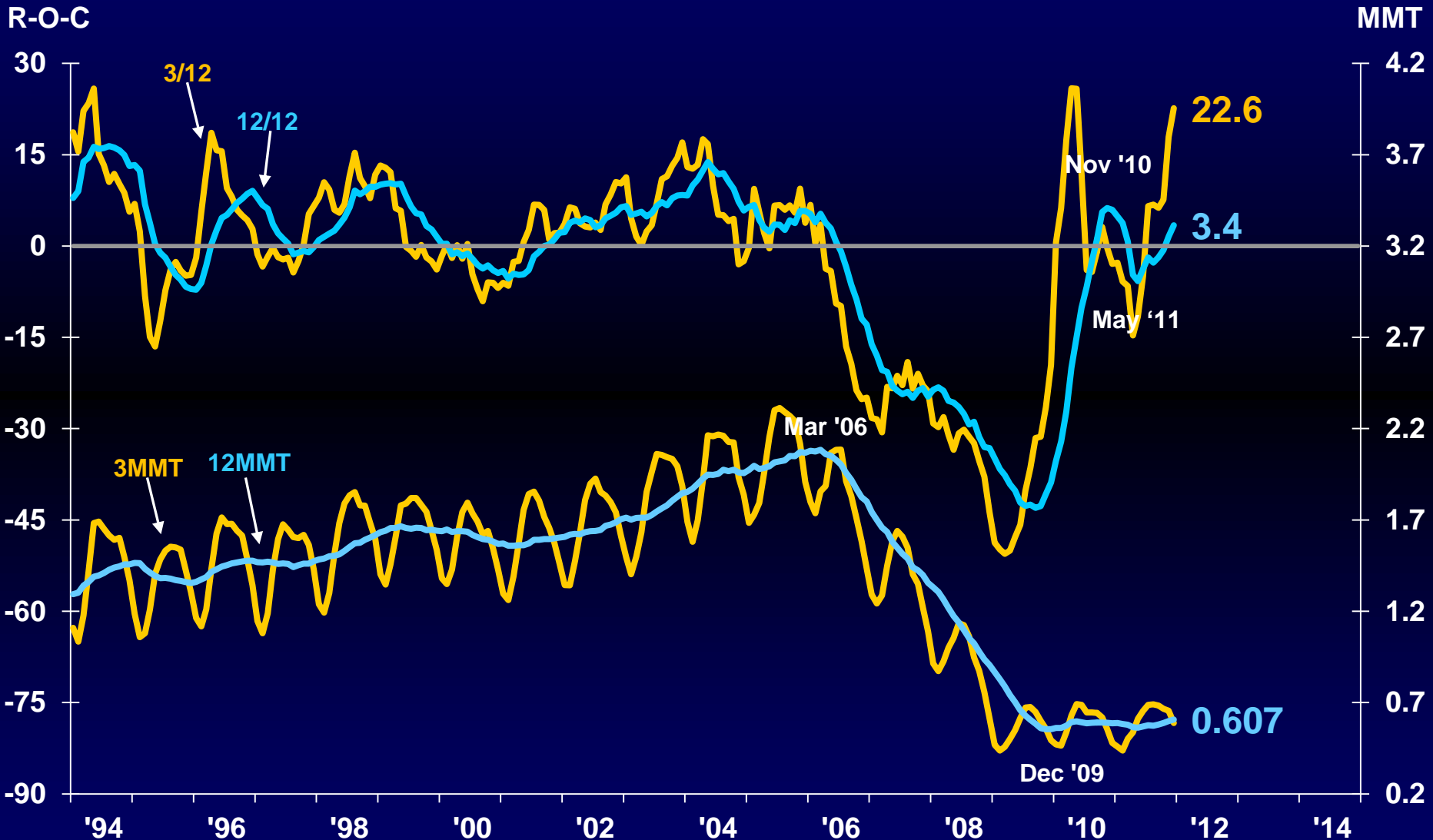
Vision Council to PCE Jewelry and Watches 12/12 Rates-of-Change to Jewelry 1/12

Millions of Pairs

Expenditures



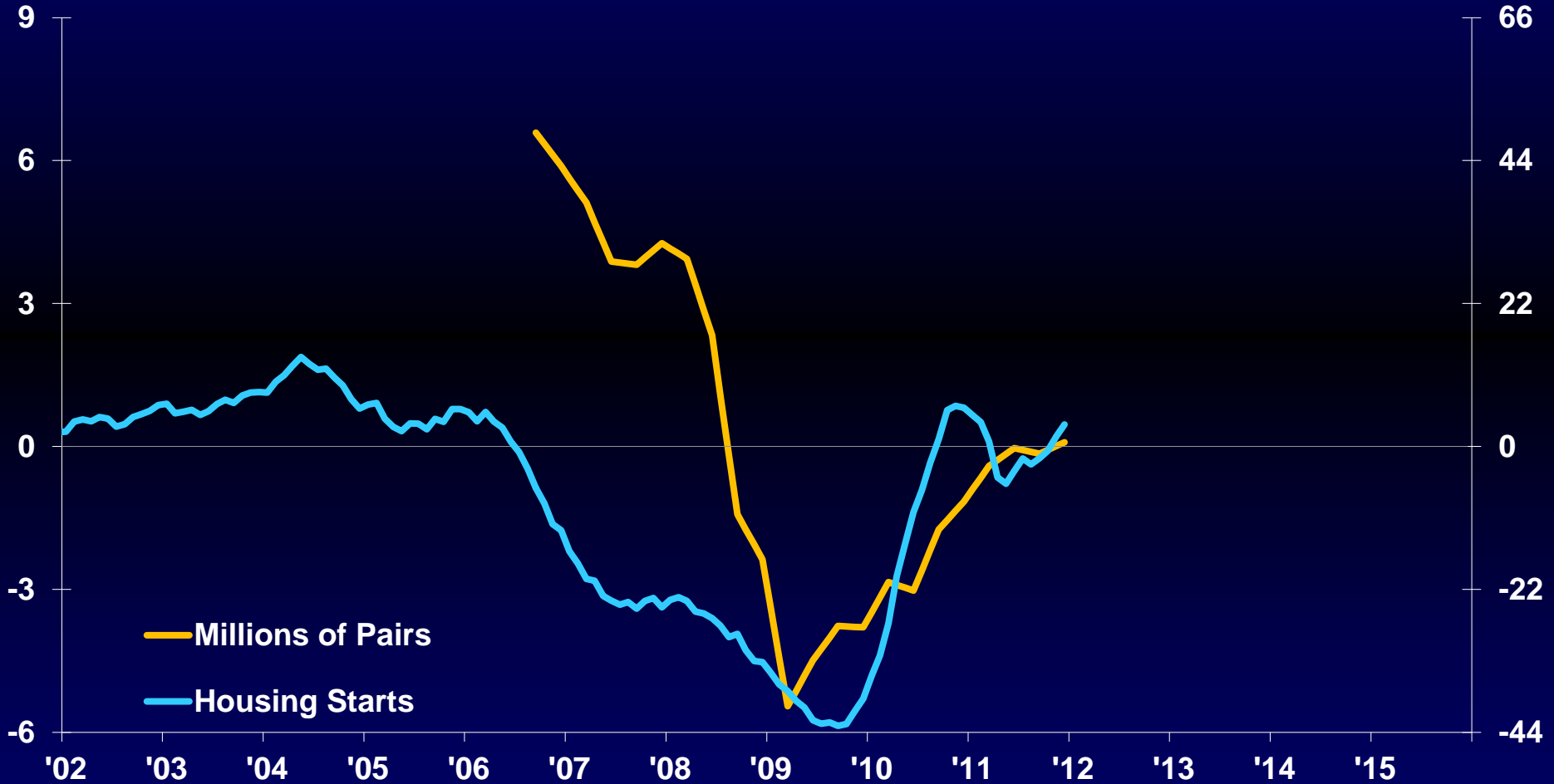
Housing Starts Millions of Units



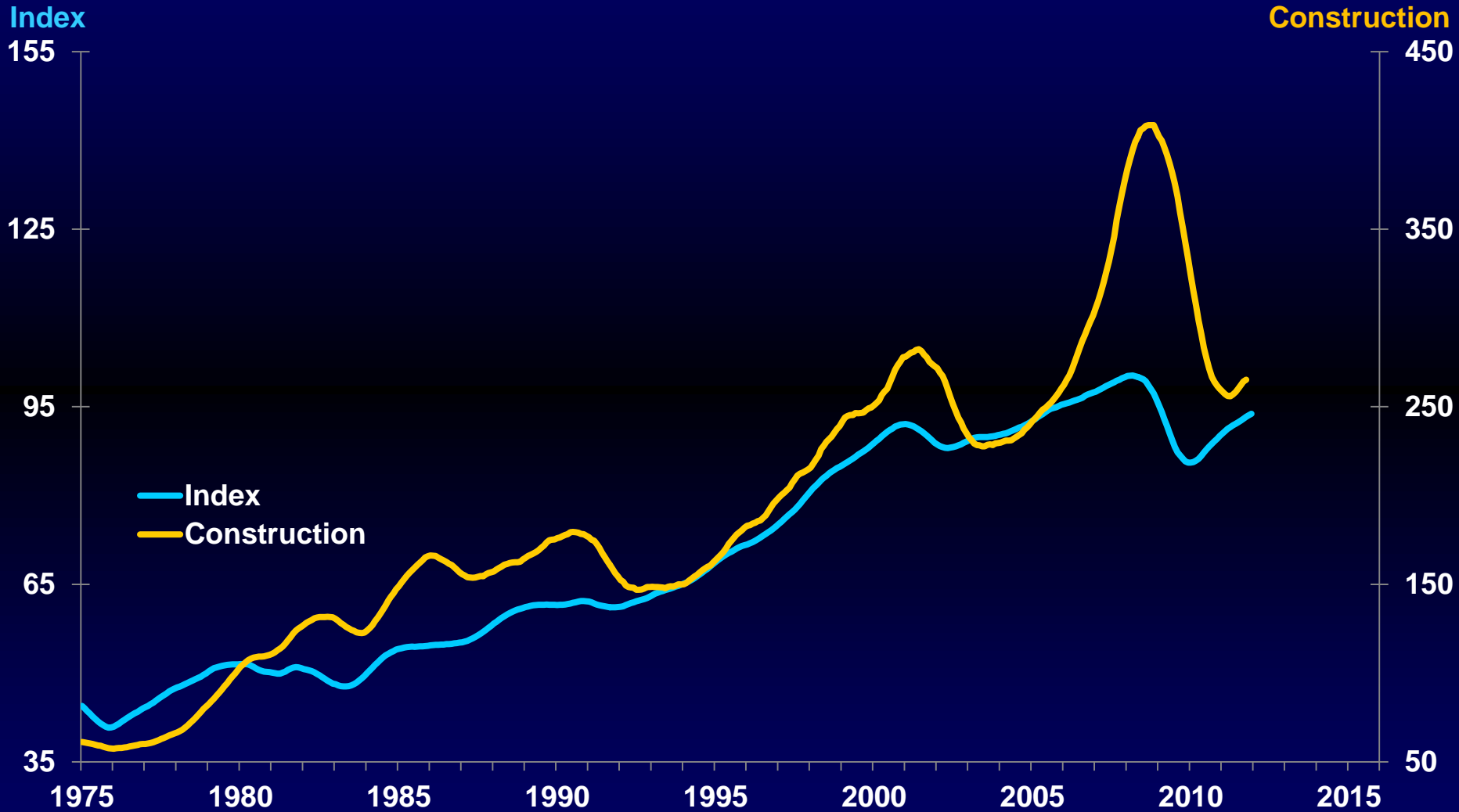
Vision Council to Housing Starts 12/12 Rates-of-Change

Millions of Pairs

Housing



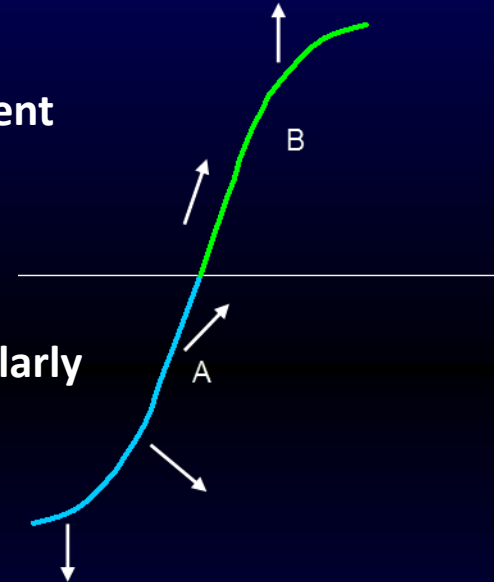
US Industrial Production to Non-Residential Construction Data Trends



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

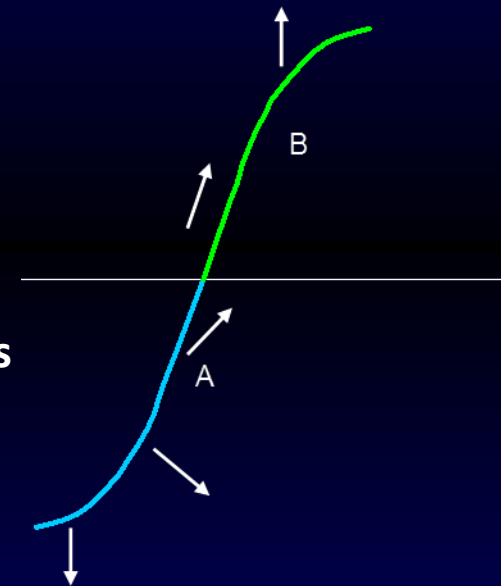


Phase Management Objectives™:

Phase Late A – Recovery

Part 2

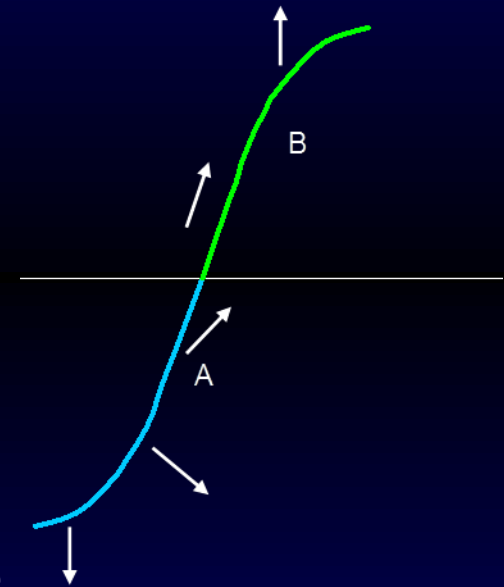
11. Start to phase out marginal opportunities
12. Add sales staff
13. Build inventories (consider lead time and turn rate)
14. Introduce new product lines
15. Determine capital equipment needs and place orders
16. Begin advertising and sales promotions
17. Hire "top" people
18. Implement plans for facilities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



Phase Management Objectives™:

Phase Early B – Growth

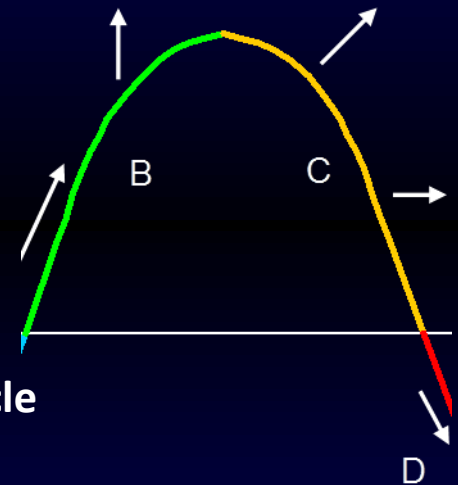
1. Accelerate training
2. Check the process flow for possible future bottlenecks
3. Continue to build inventory
4. Increase prices
5. Consider outside manufacturing sources if internal pressures becoming tight
6. Find the answer to “What next?”
7. Open distribution centers
8. Use improved cash flow to 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

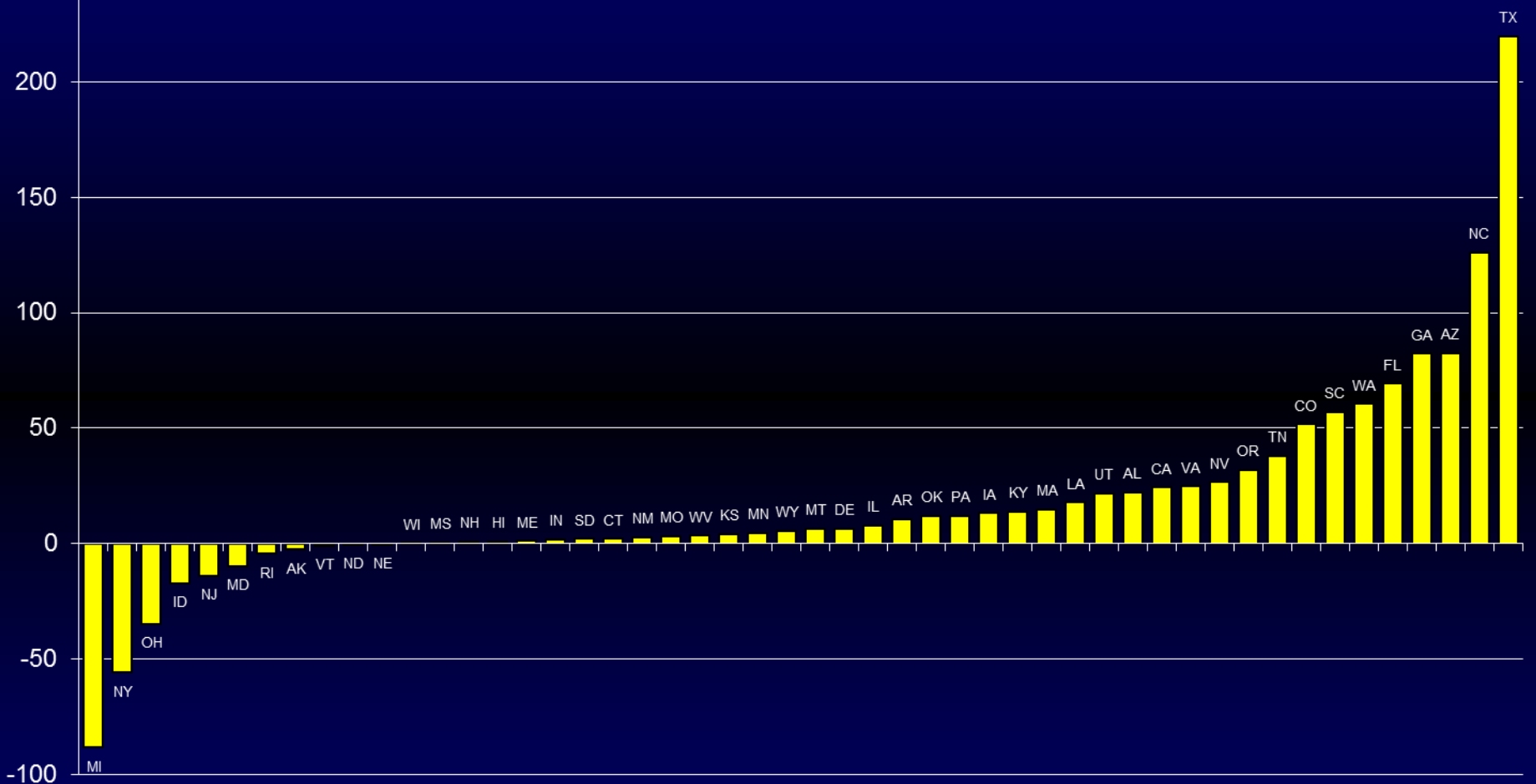


Managing Inflationary Pressures

- 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

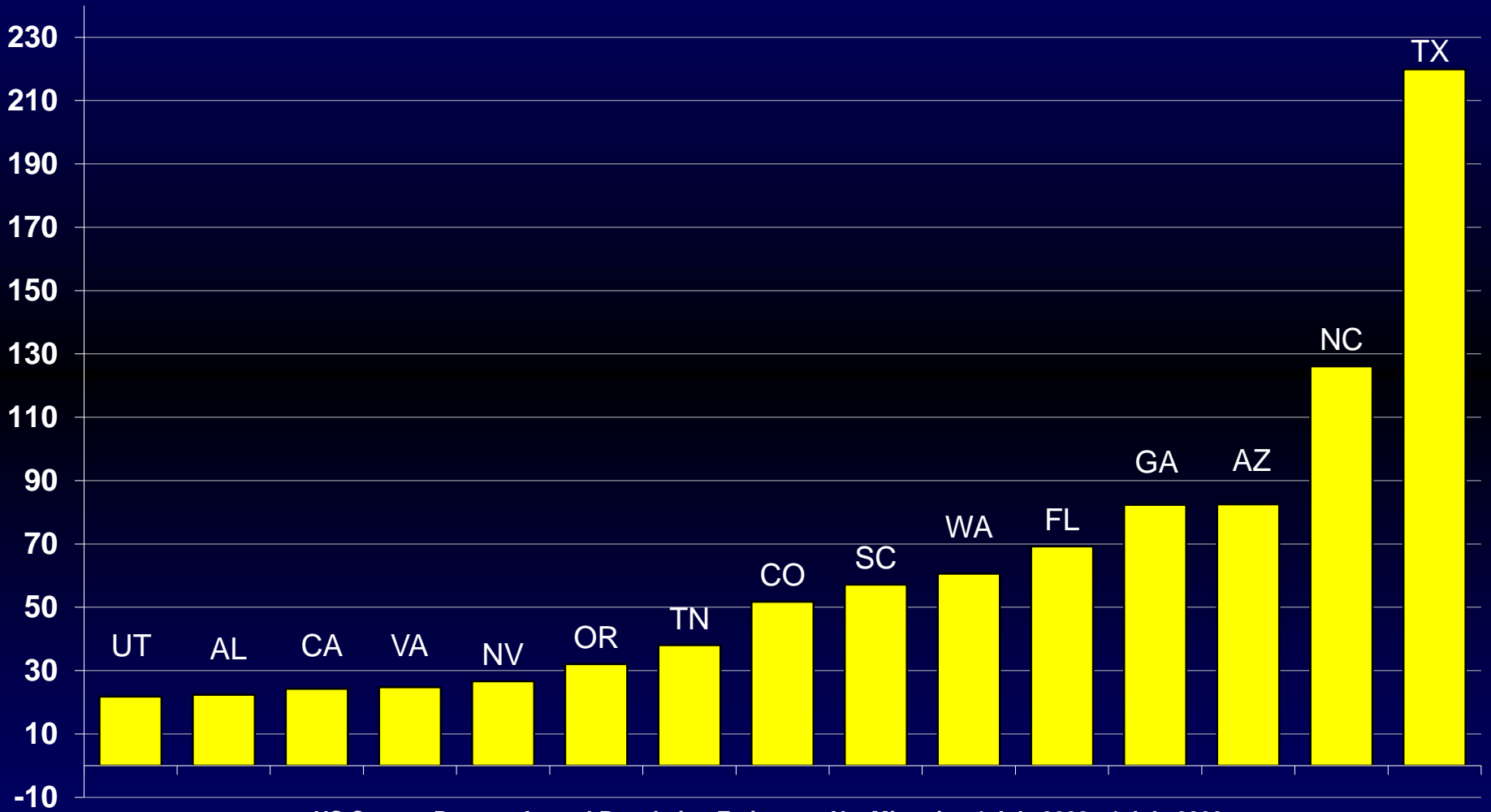
Net Migration

Thousands



Net Migration – Top 15

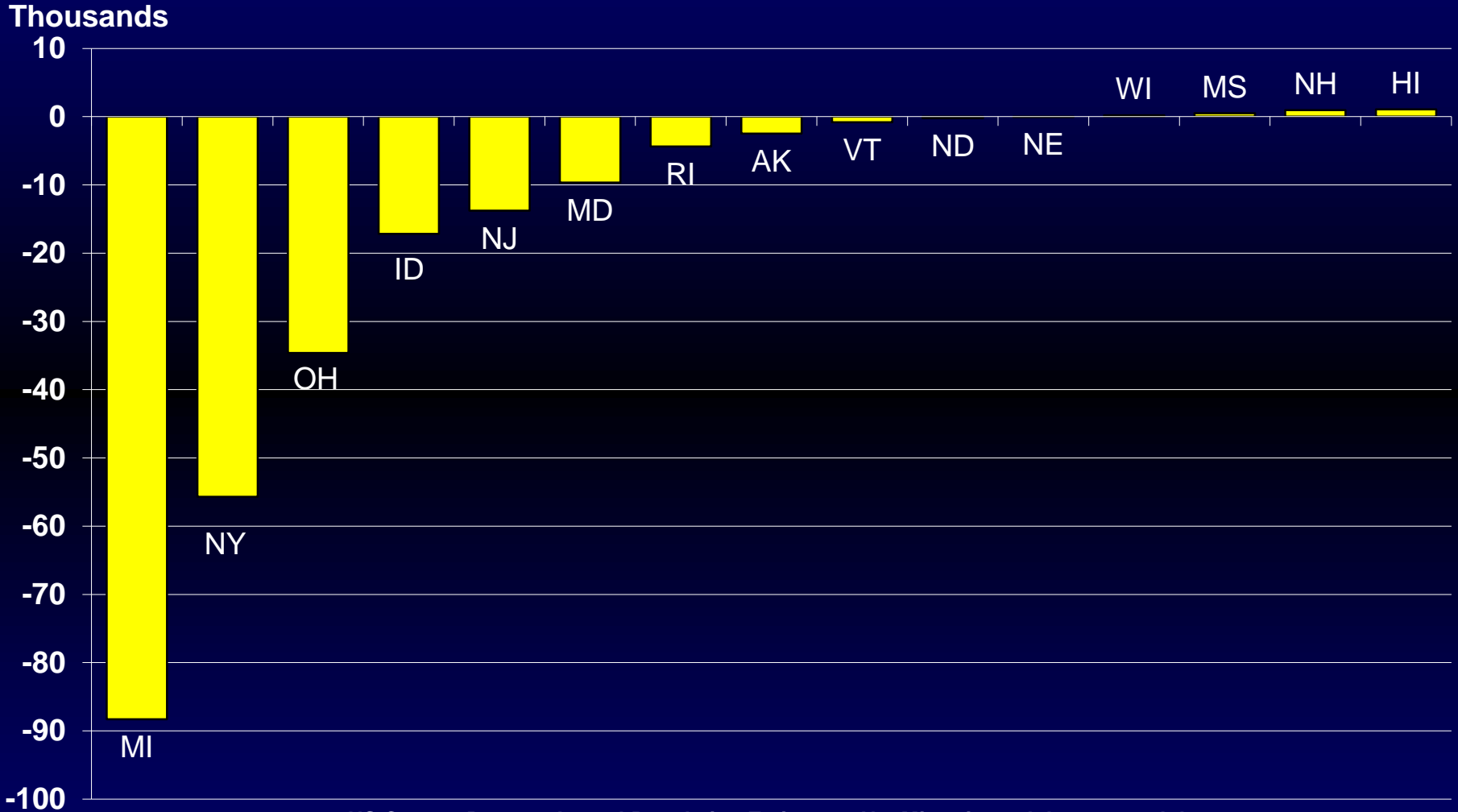
Thousands



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



Net Migration – Bottom 15



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



Demographics

Winning Demographics

USA ~ 300 million grows to 400 – 500 million

India

Indonesia

Australia

Canada

Mexico

Brazil

Negative Demographics

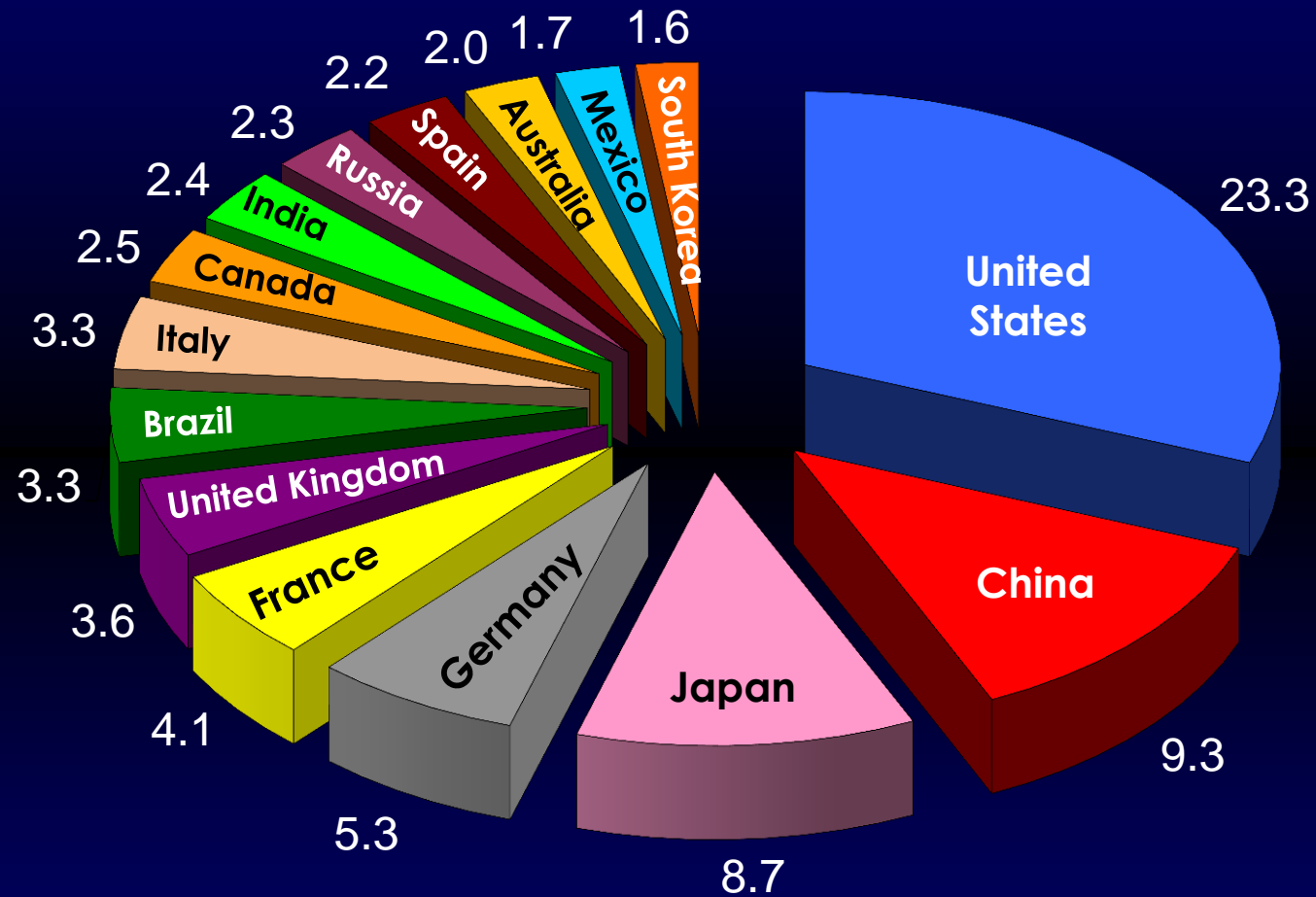
China

Europe

Japan

Russia (13% want to leave)

World GDP, Bils of US \$, Current Prices Percent of World GDP



7 Must Watch Items

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

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THE ITR ADVISOR

December 2011 Volume 17

PUBLISHED MONTHLY BY THE INSTITUTE FOR TREND RESEARCH • WWW.ITRECONOMICS.COM



Make Your Move

2012 will bring its challenges, but growth opportunities will be there. Budget for tackling increasing opportunities in the coming year.

Oil & Gas: Fueling Opportunities in 2012

Amid the gloomy news of financial crisis in Europe and ever increasing political strife at home, it is ITR's view that we should take the time to focus on one of the most positive economic developments over the past year: oil and gas.

As 2011 comes to a close, the US is going to be a net exporter of petroleum products for the first time in 62 years. The positive trade balance in petroleum products is a mix of local production increases, weak domestic demand, and rapidly growing emerging market demand. Now, to be honest, the US still imports a lot of crude (2.2 million barrels a day), and because oil is a globally traded commodity, price shocks abroad will still affect our gasoline prices at home. However, new drilling throughout the Midwest and Appalachian areas of the US has started to tilt the scales of production, and emerging markets are buying our excess production, particularly of refined gasoline and diesel fuel.



The US overtook Russia in 2009 to become the largest producer of natural gas in the world and still holds that title. Oil production is on the rise too; Oil Rig Counts in the US are at an all-time high of 1,077. This is a 53% increase over just one year ago. Together, the investments in oil and gas in the US are creating economic prosperity in pockets of the US and are playing a large part in boosting the high rankings of certain states in ITR's Opportunity Index (p. 3).

For those who are concerned about the environmental costs of this new trend, consider this: the exploration and drilling of new natural gas reserves has lowered the price of gas substantially, making it a viable competitor with coal for US base load electricity production. Gas is a cleaner burning fuel and is widely considered by environmentalists to be a necessary bridge fuel in a transition away from a CO₂ dependent economy.

Markets that should be positively impacted by the oil and gas trends in 2012 include power facilities construction, petro-based chemicals production, rig parts and other oil and gas related manufacturing, transportation, and various financial and construction markets in areas near new drilling activity. Take charge of 2012 and go after opportunities in oil and gas.

1

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