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Our History



ITR ECONOMICS

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In our January 2006 EcoTrends issue (today called the Trends Report), ITR Economics was in print forecasting the coming 2008 downturn.

EcoTrends™ ♦ January 2006 Issue ♦ ITR

Executive Summary – Preparing & Daring

The economy is doing quite well overall despite some potential trend-benders such as restrictive monetary policy, diminishing growth in Disposable Personal Income, and some rather interesting gyrations in commodity prices (including energy).

There are ample signs of a slowing in the economy's rate of growth for 2006 and this has been part of our forecast since we put it together the middle of 2003. Our outlook calls for a reinvigorated economy for 2007. There are some leading indicator trends to this effect (e.g., Housing Starts) and a respite from interest rate increases would certainly help the cause.

We think the general economic trend is going to stay positive into 2008, as illustrated by the chart. That will prove to be the easy part of the forecast horizon despite numerous "positive problems" that will develop. Examples of these "positive problems" include raw or intermediate material allocations because of bottlenecks (generally resulting from linear thinking in a cyclical economy), and manpower needs at a time when cost and quality are presenting issues. Prepare for these upside issues before they steal from your bottom line.

Our extended outlook is for a recession around the end of this decade. As you can see from the chart, we expect 2009 and 2010 to be down years for the economy. Weakness in the business cycle is likely to begin in the second half of 2008 for new orders and production, sooner for leading indicators such as housing and the Purchasing Managers Index. We think the downturn will last until about mid 2010. The 1981-83 general economic recession and 2000-01 industrial contraction are relevant precedents for the projected duration and magnitude of the forthcoming decline. At 18 to 24 months, the projected length of decline would be equal to, or slightly longer than, the longest-normal occurrence. The projected magnitude of decline in US Industrial Production from top to bottom, at -4.9% to -5.4%, would make the recession slightly more severe than 2000-01 but not as bad as the early 1980s downturn.

Road Signs to the anticipated decline will include a sharper rising trend in long-term interest rates, definite problems in the housing market (in housing starts, existing home sales, and sustained regional price declines), and international trade issues being increasingly politicized. The unenviable management task at this juncture is to figure out how to spend money to make money on the upside of the business cycle into 2008, and also be planning how you can recession-proof revenues and/or profits, and be in a position to prosper through the adverse macroeconomic period ahead. Be daring in your preparing for the downturn. It is going to take more than business-as-usual to keep you on the right side of this curve.



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What does our forecast say today?

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