READERS' FORUM

What markets do you expect to grow in 2019 as the economy loses steam?

While the economists that IEWC consults with expect business-cycle decline through much of the industrial sector in 2019, certain markets will likely trend positively. US civilian aircraft equipment production and US medical equipment and supplies production, which have contracted in recent quarters, are recovering and are likely to expand in 2019. Nonresidential construction, which typically lags the industrial economy, will likely also grow throughout this year. Although the macroeconomic business cycle is turning downward, firms in the civilian aircraft equipment, medical equipment, and nonresidential construction sectors should lead with optimism and invest with the expectation of growth in 2019.

IN THE SPOTLIGHT

Capital Expenditures Beginning to Slow

Although the US industrial economy is in the late stages of an accelerating growth trend, capital expenditures have slowed in their pace of growth in recent months. Leading indicators including the Small Business Optimism Index, the US total industry capacity utilization rate, the US Purchasing Managers Index New Orders Component, and US copper futures prices suggest that further cyclical decline is likely for business-to-business activity during the next few quarters. Economists expect business-to-business activity to rise through the first half of 2019 at a slowing pace before declining into early next year.

As capital expenditures wane this year, customers may become increasingly price sensitive relative to 2018 as they attempt to stretch their dollar to make the most out of their investments. Communicate the value of your products and services to dissuade customers from switching to competitors with lower prices. Demonstrate why your offerings are "need-to-have" rather than "nice-to-have." It will also become more advantageous to start pushing your own lower-cost offerings to avoid losing particularly price-sensitive clients. Focus on maintaining your market share during the back side of the business cycle to maintain cash flow and better position your company to invest for the growth trend expected in 2020.

INDUSTRY SNAPSHOTS

Arrows indicate 12-month moving total/average direction

Retail Sales

- Ended 2018 up 5.0% from 2017
- Will rise throughout this year
- Conference Board's US Consumer Confidence Index signals business-cycle decline is likely through majority of 2019

Rotary Rig

- Count up 16.3% from year-ago
- Rig Count rising at a diminishing rate
- Both oil rotary rig count (up 18.7%) and the US natural gas rotary rig count (up 8.8%) rising at slowing rates

Wholesale Trade

- Up 7.9% on year-over-year
- Wholesale trade of durable and non-durable goods growth is slowing
- Sector unlikely to enter recession during this cycle, but pace of growth will be slow compared to 2018

Capital Goods

- Non-defense capital goods new orders up 6.6% year-over-year
- Business-to-business activity to decline during latter half of 2019
- Defense capital goods new orders up 19.7%
- New orders in defense sector will end 2019 just above the 2018 level

Auto Production

- N. America light vehicle production down 0.4% from year ago
- Light vehicle production recovering, unlikely to rise above current level
- N. America heavy duty truck production up 24.3%, but likely to contract in the latter half of 2019

Nonresidential Construction

- Nonresidential construction up 4.4% from year ago
- Much of nonresidential sector will expand in 2019
- Warehouse buildings construction an area of opportunity and will likely remain one throughout 2019

Manufacturing

- Total manufacturing production rose 2.7% in 2018 from 2017
- Production growing at an accelerating pace, to transition to slowing growth trend early 2019
- Activity will decline through much of the manufacturing sector this year

Residential construction

- Residential construction up 4.3% from one year ago
- Construction growth is slowing
- Single-unit housing starts and multi-unit housing starts to decline during the first half of 2019
- Non-residential sector will likely offer more growth opportunities

Is an Infrastructure Bill the Magic Pill?

What you need to know: *Both federal infrastructure spending and state and local infrastructure spending are showing slowing rates of growth on a quarterly basis.*

Both federal infrastructure spending as well as state and local infrastructure spending are showing slowing rates of growth on a quarterly basis. A slowing in the rate of spending means there will still be work for contractors and demand for materials.

The economists that IEWC consults with are often asked if a major infrastructure bill out of Washington would change their forecast for 2019 and 2020. The short answer is no -- it would not.

First of all, the plan floated in 2017 was not well received by either party, and right now the country is without significant legislation to fund new infrastructure spending in the US.

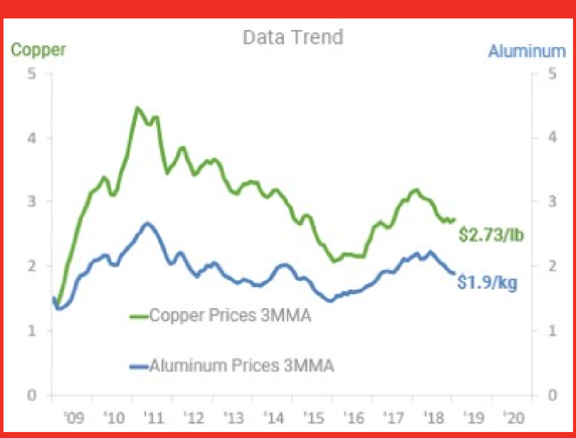
There are two things to consider regarding any bill that might surface on this subject. One is the enormous amount of time that elapses between passing legislation, funding it, and then funding specific projects. There is really no such thing as a "shovel ready" project because each project must be evaluated and weighted. A federal bill in 2019 would not likely result in much money being disbursed until well into 2020.

The second thing to consider is the actual funding. Where would the money come from? There are a few choices, two of which would impact consumers and business in the near term. One option is to raise gasoline taxes or income taxes. The other option is increased federal borrowing, which pushes the cost (less interest payments) into the future.

Copper & Aluminum Prices

US copper futures prices during the three months ending in January averaged $2.73 per pound, down 13.9% from the same period one year ago. After generally declining through the majority of 2018, prices have been relatively flat in recent months. Slowing growth in China industrial production, with slowing growth in US industrial production expected in the near term, will keep prices from rising much above their current level in the near term.

US aluminum futures prices during the three months through January averaged $1.90 per kilogram, down 12.5% from the year-ago level. Leading indicators including the US Purchasing Managers Index and the Wilshire Total Market Cap are signaling that further downward pressure on prices is likely. Delay purchases where possible ahead of decline expected in the near term.

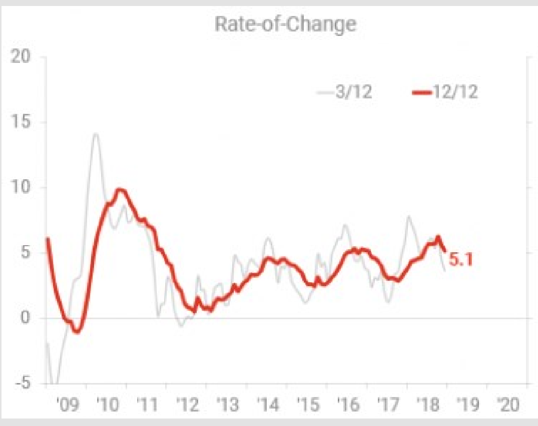


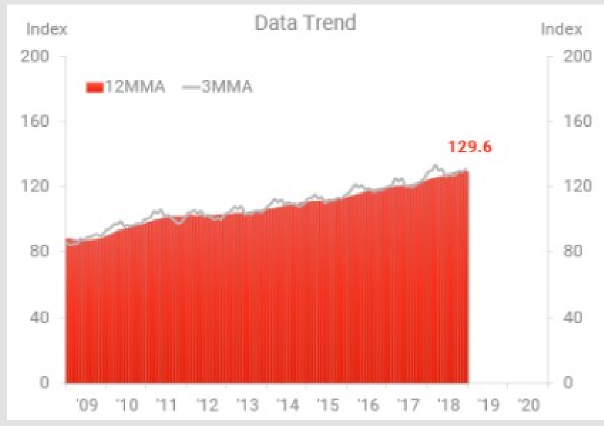
GLOBAL DEEP-DIVE

India Industrial Production

India industrial production ended 2018 5.1% above the 2017 level. Production is rising at a slowing pace in India, as in much of the global economy. Slowing growth in India manufacturing production (up 5.4% year over year) is contributing to slowing the pace of growth for industrial production. Leading indicators are signaling that the pace of growth for India industrial production will slow further through the majority of this year. Industrial production typically avoids recession, so despite the slowing pace of growth, we expect expansion to persist throughout this year.

Although a recession in India industrial production is unlikely, the current downturn in the business cycle still poses a risk to businesses. During this time, firms should revisit their capital expenditure plans. While you may need to invest in expanding your capacity to take advantage of growth, do so with the expectation that recent growth rates are unlikely to persist. As growth slows, market your competitive advantages, such as price or quality, to stand out from other firms.





Global Economic Outlook

	12-month Moving Avg	Chg. Over Prev. 12 Months	2019 YTD	2020 Projected	2021 Projected
Canada Industrial Production		2.7	0.5	0.2	2.8
Mexico Industrial Production Index		0.3	-0.4	2.4	0.6
Brazil Manufacturing and Mining Industrial Production Index		1.1	-1.0	2.8	0.7
Western Europe Industrial Production Index		1.3	-1.3	1.4	1.0
Eastern Europe Industrial Production Index		4.1	-1.3	4.3	3.2
India Industrial Production Index		5.1	3.3	5.5	4.5
China Industrial Production Index		6.2	5.2	6.1	5.9

Note: Forecast color represents market projection at end of year.
Accelerating growth Recovery Slowing growth Recession