

IN THE SPOTLIGHT

Auto Industry Outlook for 2021

The most recent three months of North America light vehicle production were 8.0% below last year. Production cratered earlier this year, grinding to a halt in April, which posted a contraction of 99.2% relative to April 2019. However, monthly production subsequently rose through August, coming in 5.2% below August 2019. While a recovery trend is expected imminently, a significant pick-up in production isn't expected until mid-2021.

A slow recovery is expected given the overhang of high delinquency rates stemming from previously issued long-term and subprime loans. However, favorable trends are developing in monthly US light vehicle retail sales, which were up 6.1% compared to September 2019. September was the first month with year-over-year growth since the shutdowns began in March. Upward momentum in retail sales, coupled with low interest rates and a decrease in light vehicle month-end inventory days' supply is a good sign that production is fast approaching a business cycle low and subsequent rising trend.

Based on trends, used cars may currently be in higher demand than new cars, as monthly retail sales at used car dealers rose between 16% and 19% above year-ago levels in June, July, and August. Use this time of lower production activity to ensure your business has enough of what it needs – labor, equipment, physical space, and competitive product offerings – to take advantage of industry growth next year. However, take care not to overextend capacity increases, as annual average production will likely be below the pre-pandemic level through at least 2021.

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READERS' FORUM

I understand that the outlook is for US industrial production to end 2021 in an accelerating growth trend. Why is the economy expected to bounce back so quickly?

Expectations are that 2021 activity will come in above 2020, for both the overall US economy and the industrial sector. For one thing, the shutdowns brought many industries to a crawl this year, rendering a favorable year-over-year comparison for next year and, essentially, a lower bar for success. For another, this recession was not born of poor economic fundamentals but rather a pandemic, and consumers and businesses are eager to return to pre-shutdown activity. Third, the government's massive stimulus has made a noticeable difference, mitigating some of the effects of the shutdowns and enabling a faster recovery than would otherwise be expected.

These factors suggest that a full recovery will take less time than what followed the Great Recession. However, it's expected that many industries – and overall US industrial production – will stay below pre-pandemic levels through at least 2021, despite expected accelerating growth trends by the end of next year.

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A Closer Look: The US Economy

What you need to know: Companies positively correlated with the economy should prepare for ongoing recovery through 2021

A recent headline stated that the global recovery was "slowing from a bounce to a grind" and that the economy was now going to have to "slog" along. There is no doubt that there was a bounce in the US economy in May, June, and July. It is the use of "grind" and "slog" that is the issue, as these words suggest an environment in which businesses and individuals can expect minimal gains and a difficult work life as we go forward. The reality is that the rate of rise could not have continued at the May-to-July pace. A deceleration in the rate of rise was expected and should not be misconstrued as a grind or a slog.

A quick look at key economic factors will guide your planning for the rest of this year and into 2021. Businesses for the most part should plan on more gains ahead – and on making the concurrent allocation of resources needed to achieve that plan – as the recovery continues. Planning for a grind or for slogging it out will leave your business with insufficient resources to meet future demand, and it may give your competitors the edge they have been looking for.

Employment: The rebound in the economy has returned 11.9 million people to work in the five months since the April trough (private sector employment). The rate of rise is significantly steeper than anything we have seen in the post-WWII period.

Disposable Personal Income (total after-tax income received by people in the US): Disposable Personal Income (DPI) surged in April as stimulus checks reached Americans. The amount of DPI has moved lower from an incredibly high April peak of \$17.259 trillion as the economy began to normalize. The August DPI of \$15.503 trillion remains above the pre-COVID-19 level. There is concern that the lack of government transfer payments will result in a decline in DPI, which will in turn inhibit economic growth as retail sales are curtailed. The swift increase in jobs suggests that consumers will continue to spend and, rather than facing a problem, we are in fact witnessing a normalization in the amount of income which will allow for ongoing economic recovery.

Job Openings: Headlines and conversations can make it sound like there are no jobs to be had in the US. The opposite is true, as many businesses cannot hire enough people to satisfy the demands they are facing.

US total private job openings are recovering and have reached 5.78 million as of August. This is down 12.1% from the 6.575 million job openings reported in August of last year. However, it represents a sharp turnaround relative to the 33.6% decline between April 2019 and April 2020, during the depth of the shutdowns. Further, it is only 2.3% below the average of the five prior August job openings figures. US employers are looking for qualified labor in many industries. Retail, restaurants, and hospitality are not at the top of that list, but companies in the following industry segments are feeling pain in terms of meeting current demand and in terms of meeting the anticipated needs of 2021:

- **Construction:** There are 264,000 job openings in this sector. Although openings are still running below year-ago levels, leading indicators for the single-family and remodeling sides of this industry are surging, and the August job openings number is 4.5% above the average of the five previous August readings (252,600).
- **Manufacturing:** Manufacturers have 460,000 jobs waiting to be filled. This is 3.4% above the August 2019 level and also 13.7% above the average of the five prior August figures (404,400). Job openings are rising in this key segment of the economy, with good jobs for qualified individuals. That manufacturing activity posted the strongest second-to-third-quarter increase in the 49-year data history. Analysis indicates that manufacturing, and the demand for labor, will continue to move higher at a normal pace through the rest of this year and 2021.
- **Distribution:** Wholesalers and distributors have openings for 177,000 individuals, which is virtually even with the August 2019 reading and the average of the same month in the prior five years. Companies in this industry are back to where they were before the pandemic in terms of needing labor and having to work harder to keep the employees they have.

Companies positively correlated to the economy should prepare for an ongoing recovery through the rest of this year and in 2021. Set your sights above "grind" and "slog" in your planning so you will be ready for the business that is coming your way.

INDUSTRY SNAPSHOTS

Arrows indicate 12-month moving total/average direction

Retail Sales ↗

- \$1.63 trillion in Q3, up 3.6% from 3Q19
- Retail sales likely to start trending up first half of 2021
- Inflationary pressures likely to raise total spending in 2021 & beyond

Rotary Rig ↓

- 3rd qtr avg'd 254; count remains very depressed
- Oil prices stagnated, ending Sept @ \$40.22/barrel
- Count shows signs of rise; persistent rise expected through mid-2021, but count likely below pre-pandemic level through mid-2021

Wholesale Trade ↓

- 3-months through Aug was 4.2% below the same months in 2019
- Segments tied to construction or tech are outperforming the whole
- Annual wholesale trade likely to decline early next year before rising trend takes over

Capital Goods ↓

- Census Bureau's treatment of canceled aircraft orders distorted economic trends for US nondefense capital goods (excluding aircraft)
- Annual nondefense capital goods new orders may decline into end of 2020, followed by rise through 2021

Auto Production ↗

- N. America light vehicle production in Jun, Jul, & Aug 8.0% below 1-yr ago
- Monthly US light vehicle retail sales above yr-ago level 1st time since Feb
- Expect production to reach near-term low, with subsequent rise through mid-2021; production likely below pre-pandemic level during that time

Nonresidential Construction ↗

- US nonresidential construction through Aug equal to yr-ago level
- Construction starts, architecture inquiries & architectural billings indices suggest decline in construction spending through 2021
- Decreased tax revenue likely to hinder public construction spending

Manufacturing ↓

- US Total Mfg. Prod. Index quarterly avg rising; 6.5% below previous yr
- US mfg. capacity utilization flat in Sept, suggesting non-linear recovery
- Leading indicators suggest 2021 may see business cycle rise for manufacturing production

Residential construction ↗

- US total residential construction through Aug 4.5% above prior yr
- 3rd qtr US single-unit housing starts 15.2% over prior yr; multi-unit starts 0.8% below 2019
- Single-unit housing starts likely to outperform other sectors

Copper Prices

Copper averaged \$3.20 per pound in November 2020, up 20.7% from the same period one year ago. Prices have risen during the last eight months.

