

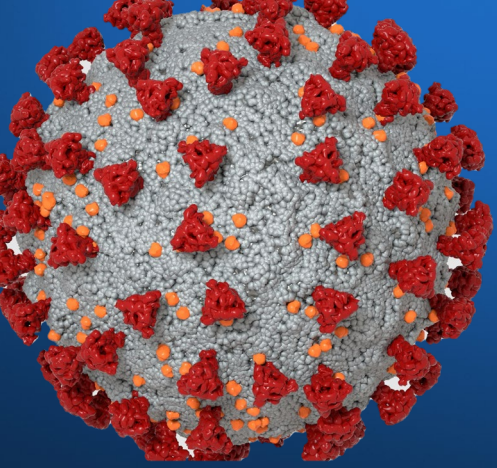
# COVID-19



## ECONOMIC GUIDANCE DURING UNCERTAIN TIMES

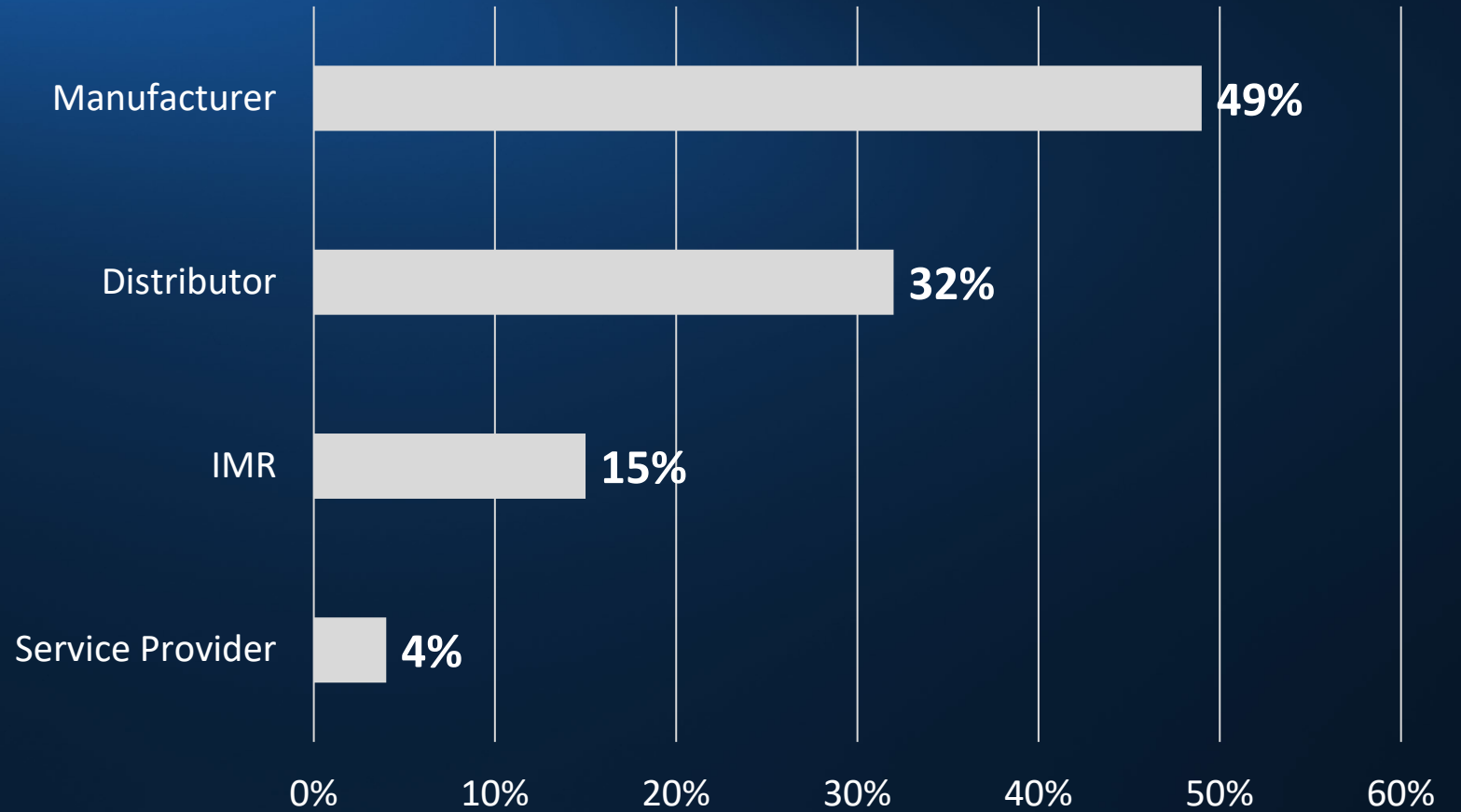
Speaker – Alan Beaulieu

A Webinar Hosted by ISA

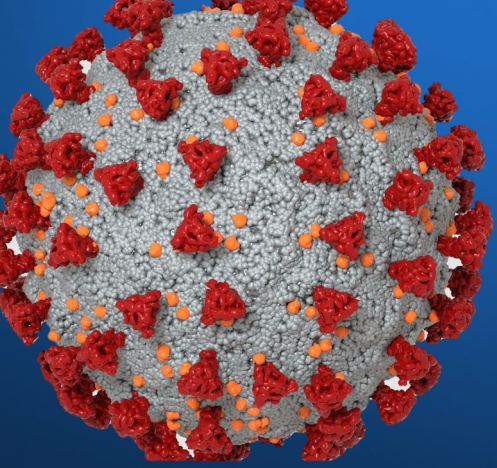


# COVID-19 Survey Responses

By Member Type

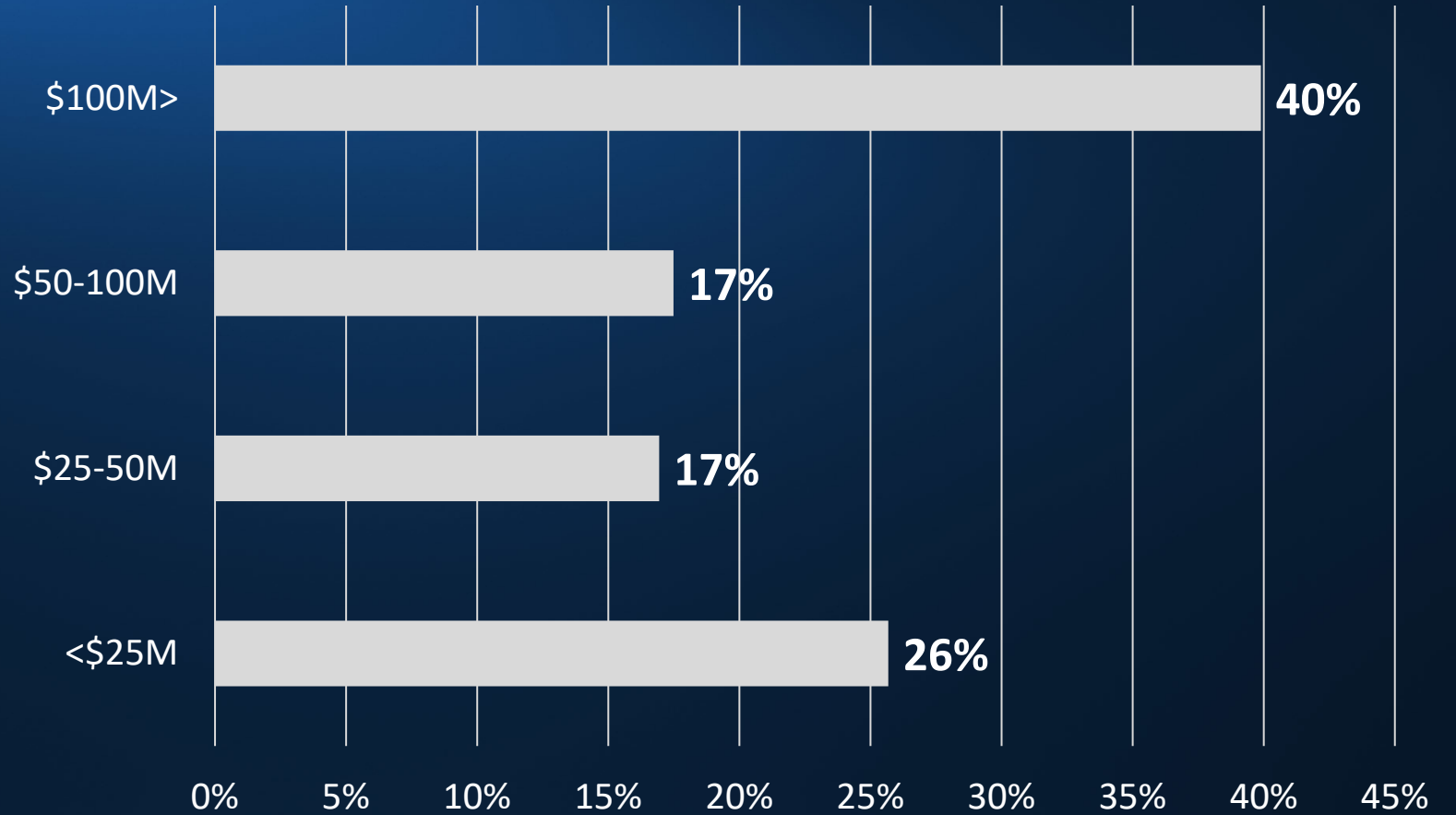


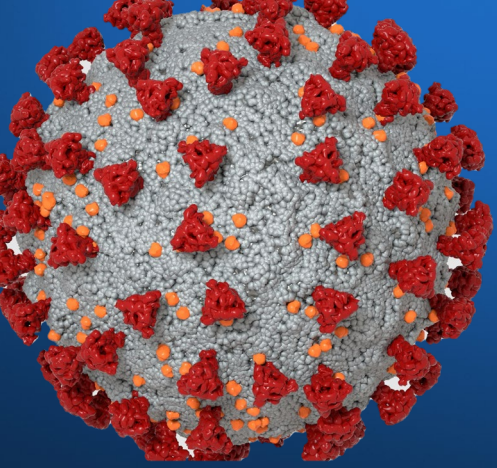




# COVID-19 Survey Responses

By Revenue Size

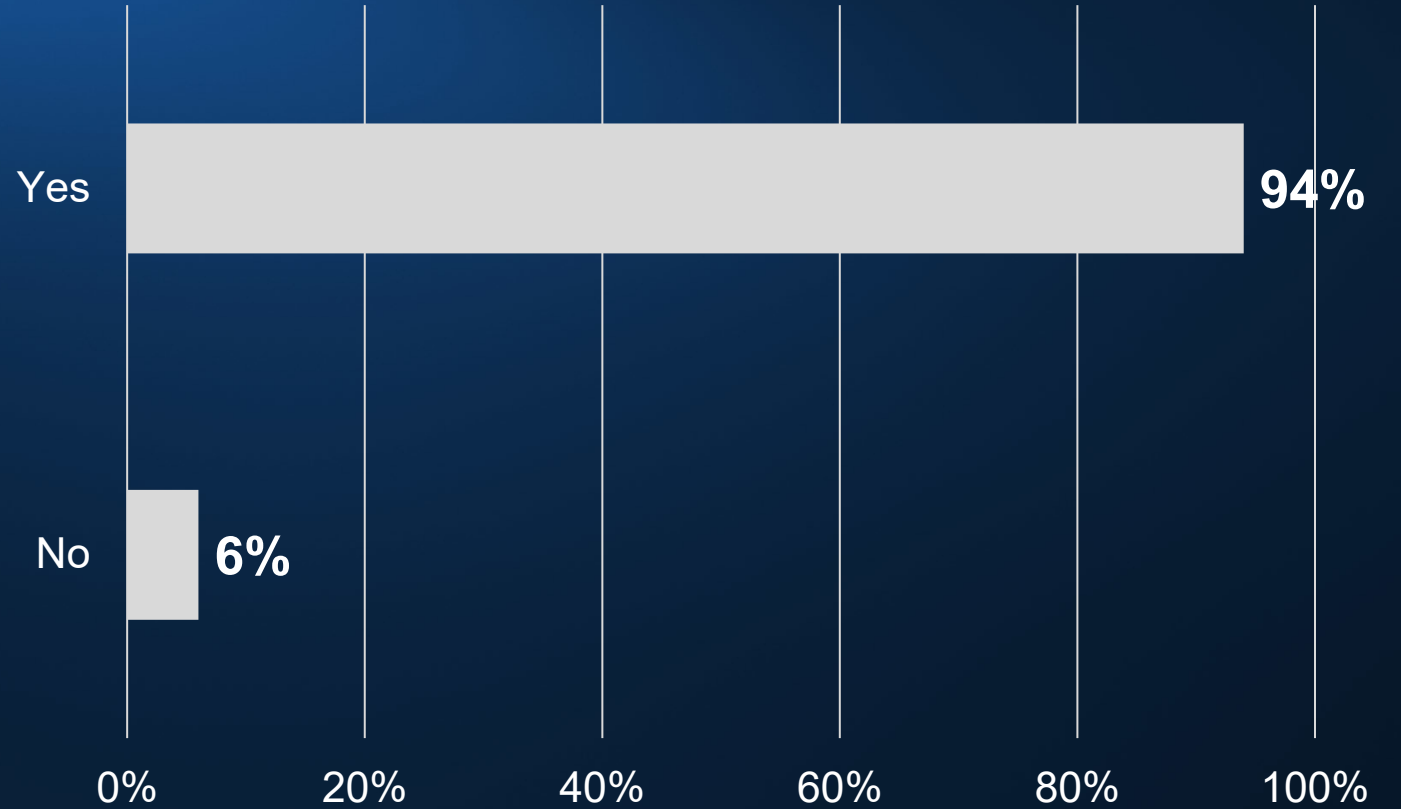


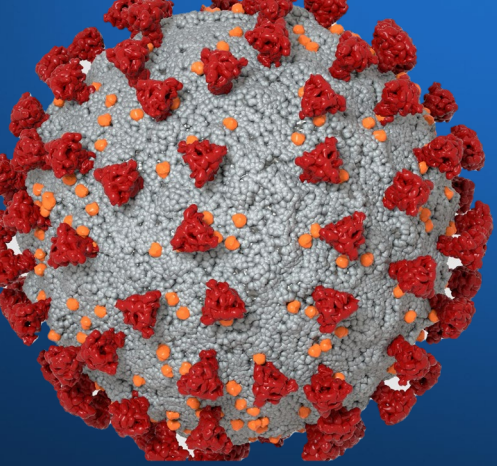


# COVID-19

## Survey Responses

Essential  
business?

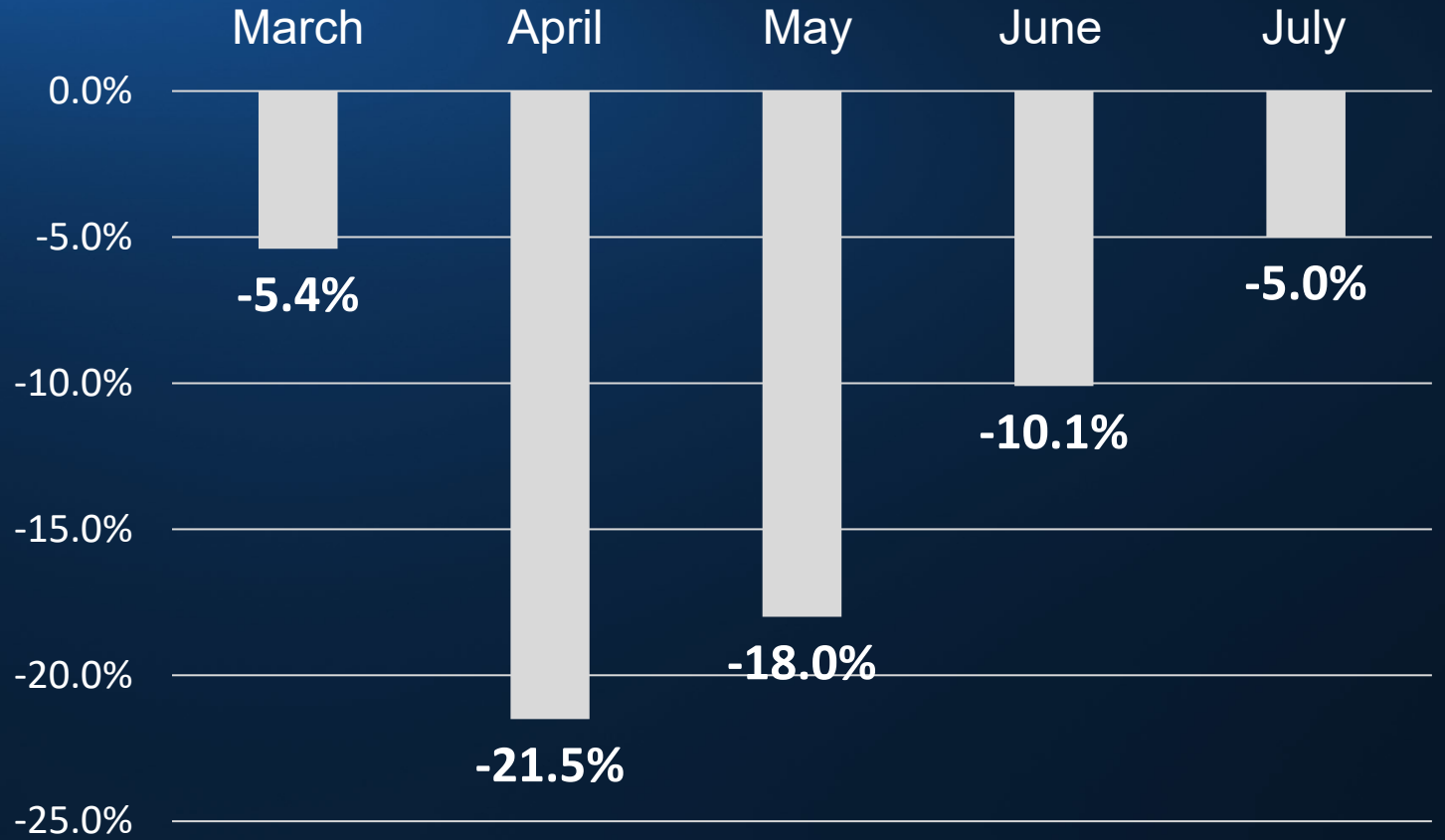


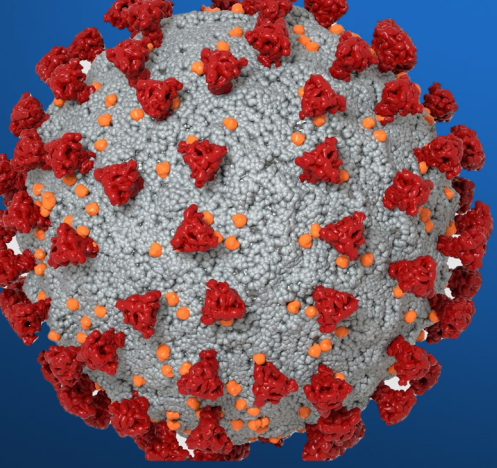


# COVID-19 Survey Responses

## Sentiment Expected revenue by month

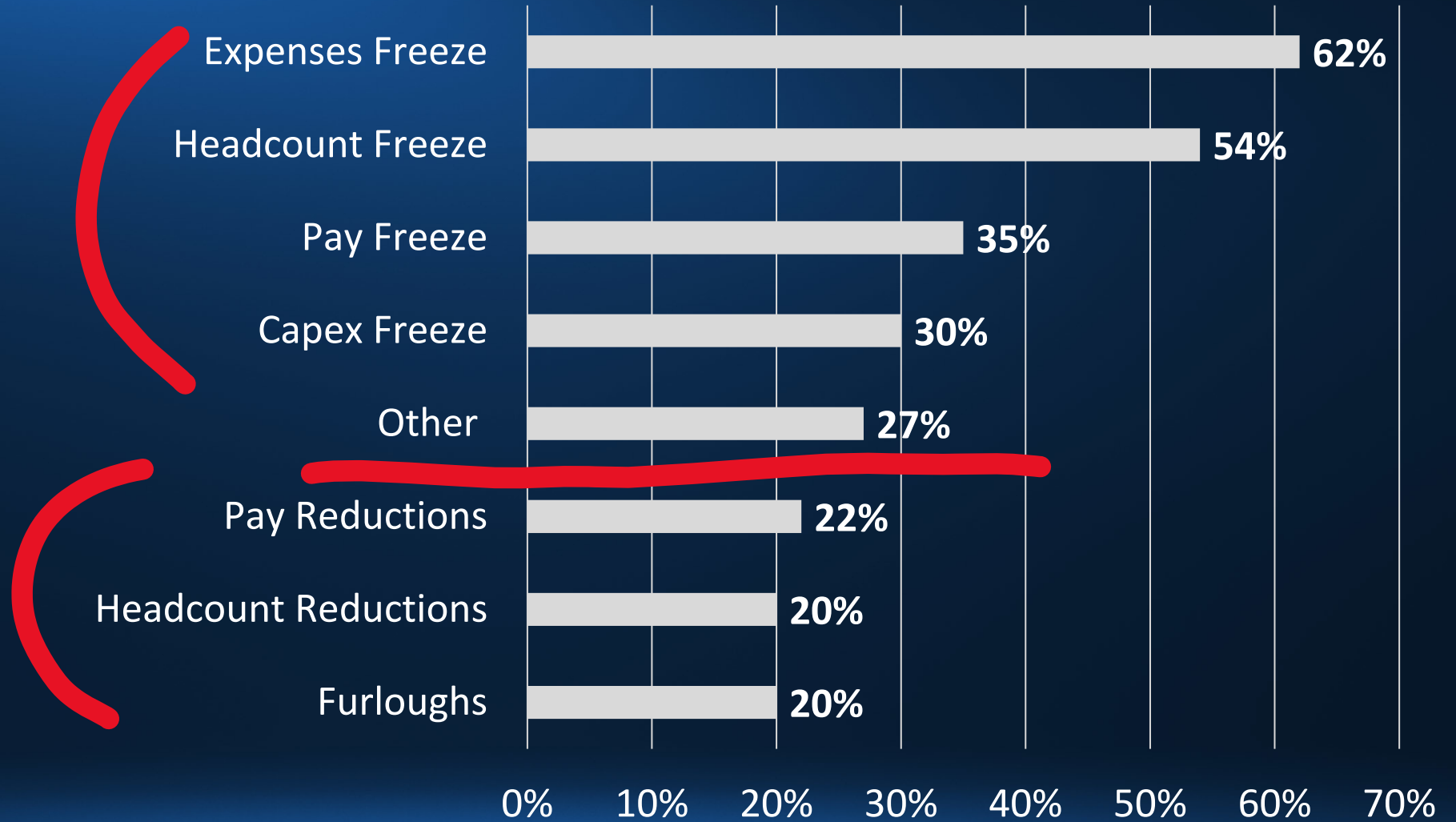
(current month vs prior year month)



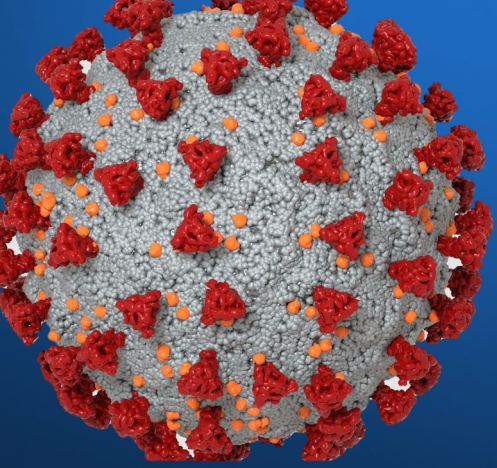


# COVID-19 Survey Responses

Methods being  
used for cost  
control





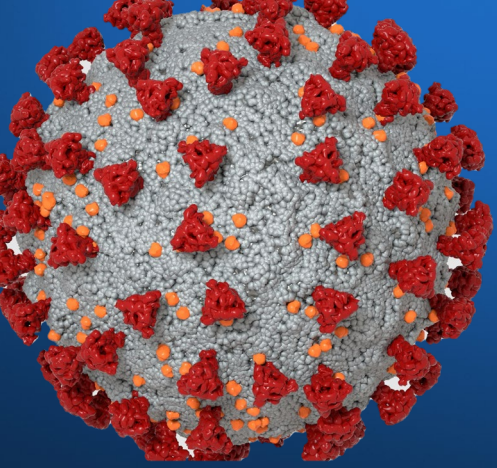


# COVID-19

## Survey Responses

Other methods  
being used for  
cost control

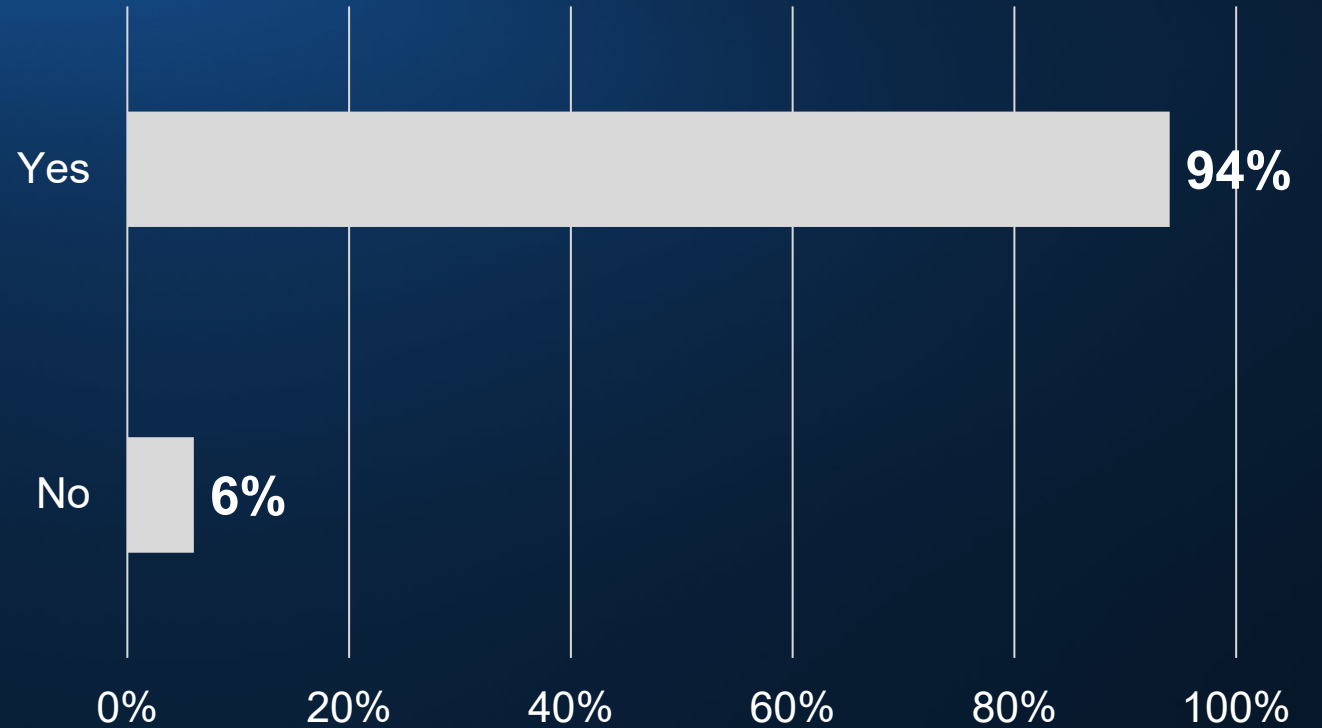
- ✓ Delayed Inventory Purchases
- ✓ Inventory Reductions>Returns
- ✓ 2 Week Shutdown in Manufacturing
- ✓ 401K Match - Hold or Elimination
- ✓ Eliminated Overtime
- ✓ Rotate Staff in 2 Weeks Shifts (Avoiding Layoffs)
- ✓ Federal Pay Roll Protection Loan (PPP)
- ✓ Budget Reductions



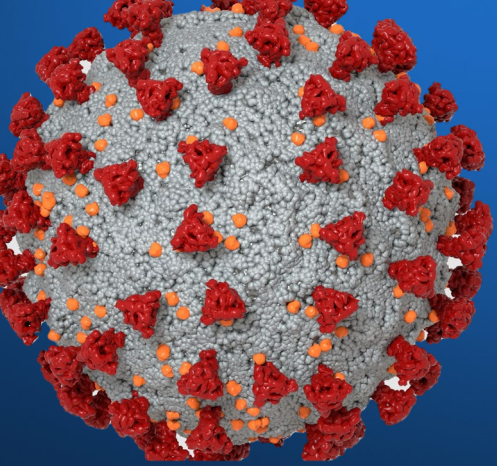
# COVID-19

## Survey Responses

Staff now having  
to work remotely?



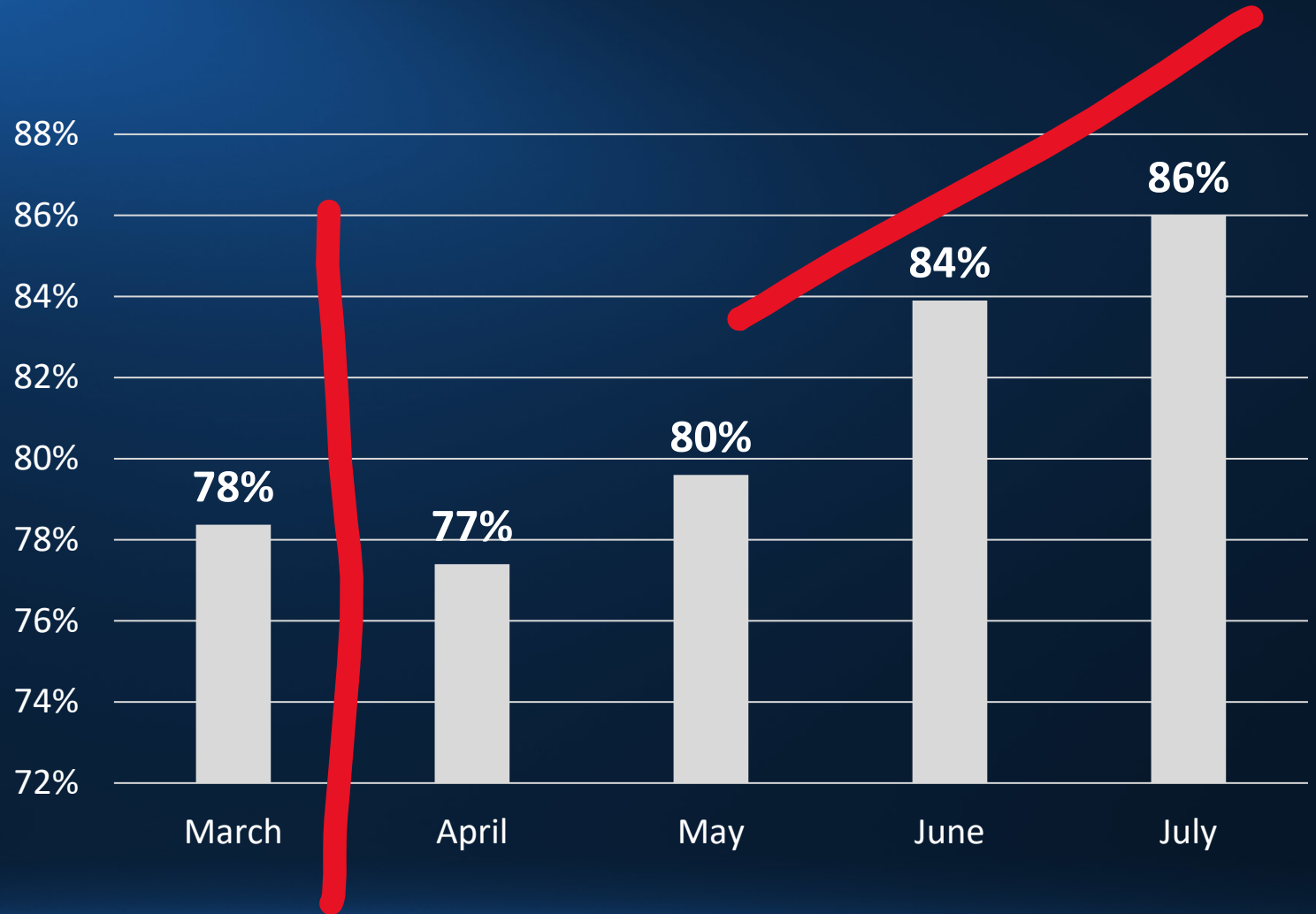


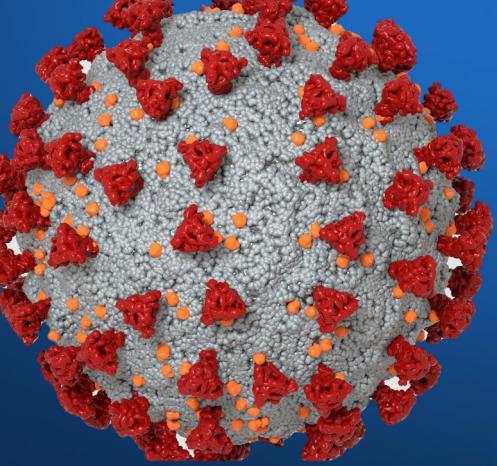


# COVID-19

## Survey Responses

Sentiment  
Effectiveness of  
teams having to  
work  
remotely

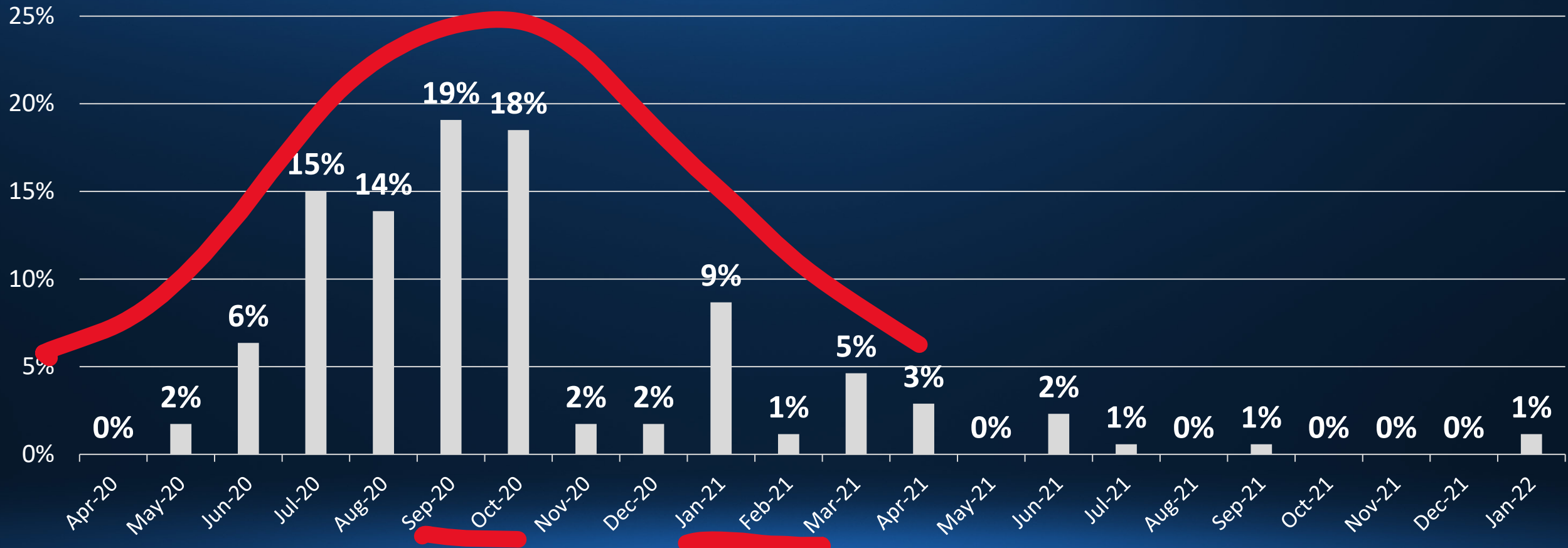




# COVID-19

## Survey Responses

Sentiment: When we will be back to normal run rates?





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# ***Economic Guidance During Uncertain Times***

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**Alan Beaulieu, PhD**  
President





# Outcomes Vary Widely

## Coronavirus (COVID-19)

Global Deaths:

**166,126**

Global Fatality Rate:

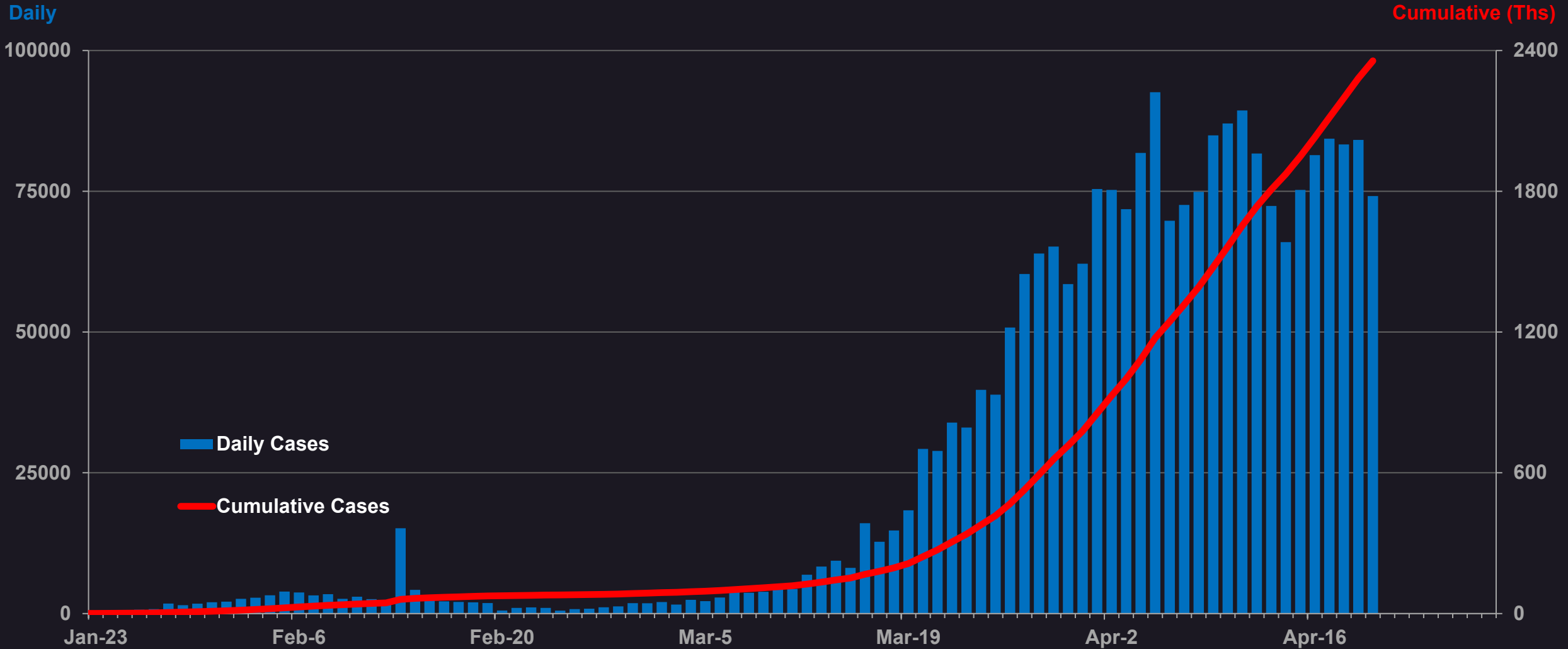
**6.9%**

	Deaths	Fatality Rate
United States	40,565	5.3%
Italy	23,660	13.2%
Spain	20,852	10.4%
France	19,718	12.9%
United Kingdom	16,060	13.4%
Belgium	5828	14.6%
Iran	5209	6.2%
Germany	4642	3.2%
China	4632	5.6%
Netherlands	3751	11.2%
Brazil	2484	6.3%
Turkey	2017	2.3%



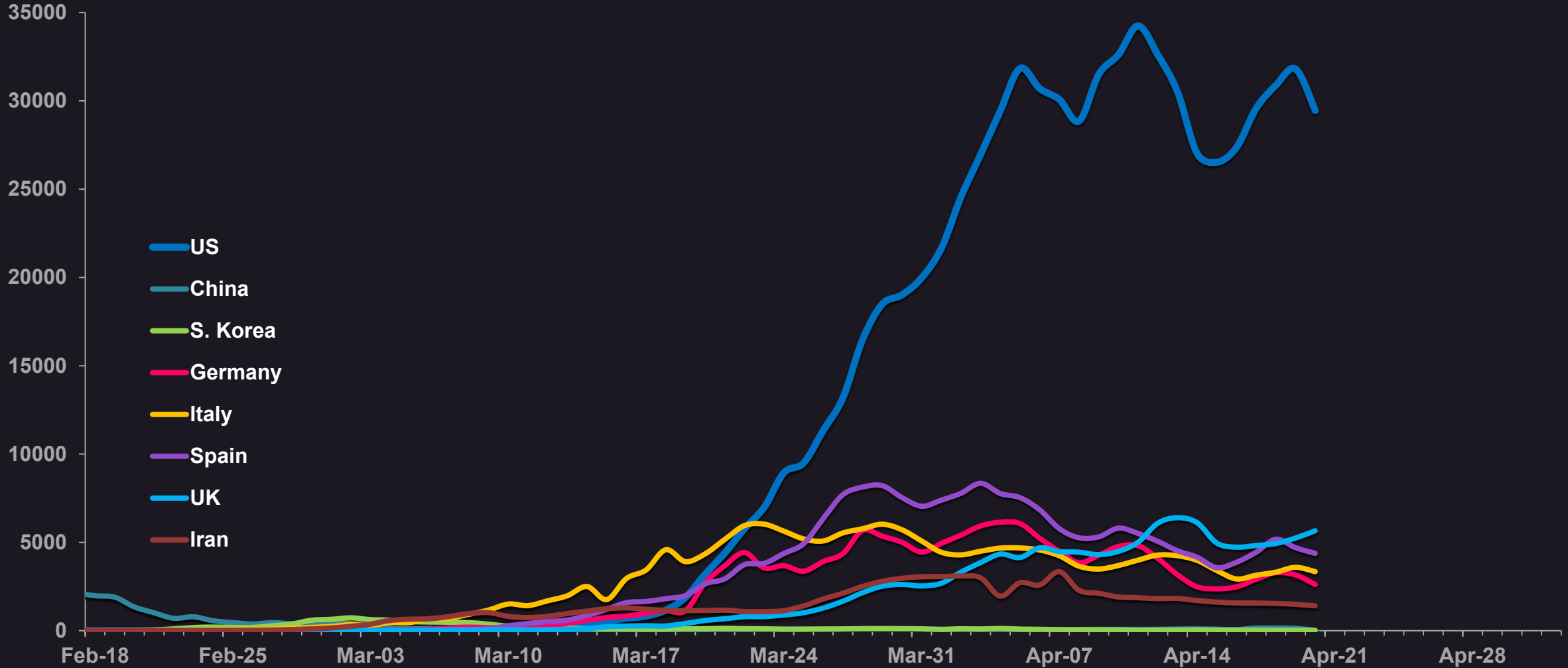
# The Global Perspective

## COVID-19, World Daily Cases per Day vs. Cumulative Cases



# Encouraging Trends

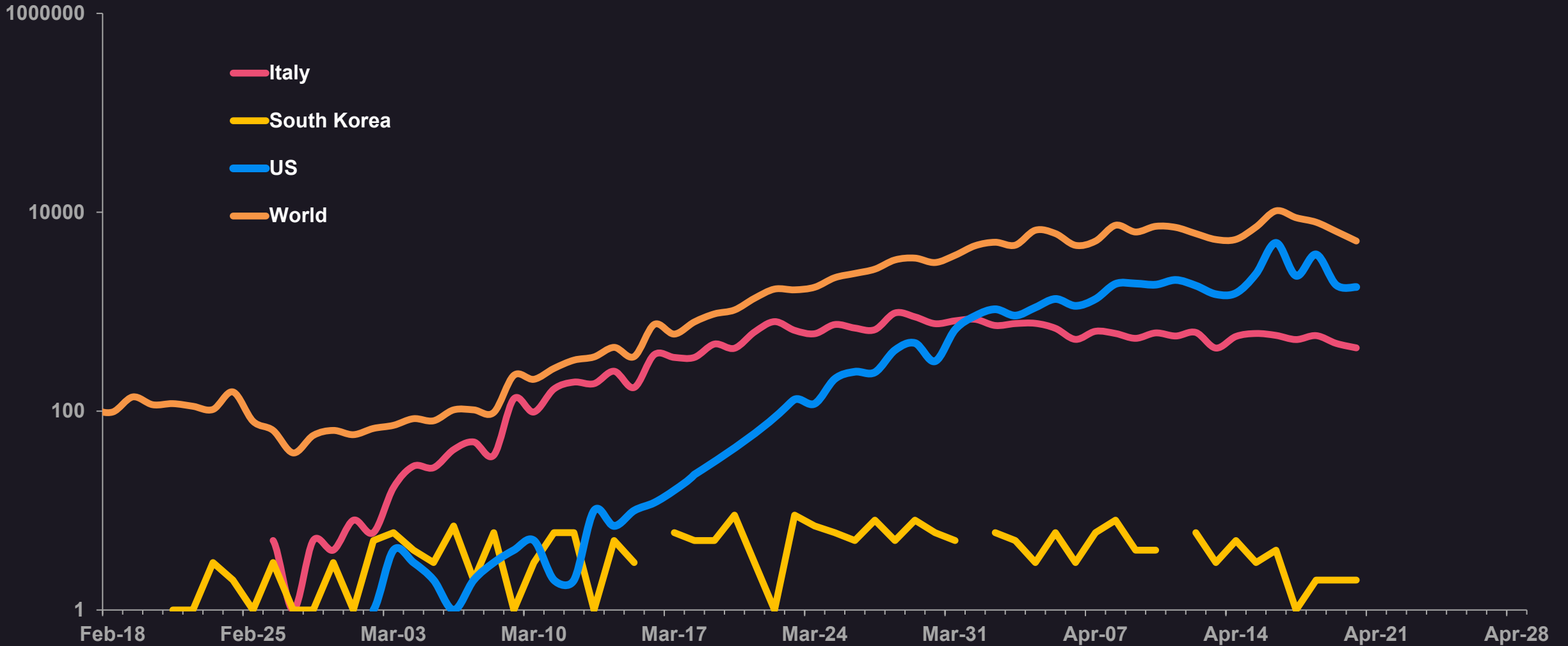
## Daily New Confirmed Cases of COVID-19 (3-day rolling average)





# Signs of a Plateau

## Daily New Confirmed Deaths due to COVID-19



# Federal Reserve Takes Action

## March 12

- Fed announced pumping **\$1.5 trils** into short-term lending markets

## March 15

- Cut interest rates by 100bps to 0% - 0.25%
- Lowered the primary credit rate to 0.25% and lengthened term of loans to 90 days
- Cut reserve requirements to zero
- Announced at least \$700 billion of asset purchases:
  - \$500 billion of treasuries and \$200 billion of MBS
- Announced coordinated efforts with BoC, BoJ, BoE, ECB, and SNB to lower the rate and extend the term on existing dollar swap arrangements

## March 16

- Announced the launch of commercial paper funding facility

## March 18

- Announced reopening of primary dealer credit facility

## March 23

- Created new and extensive lending facilities

## The CARES Act

**BTW: A normal yield curve is back in place**



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# *Oil*

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**ITR ECONOMICS**

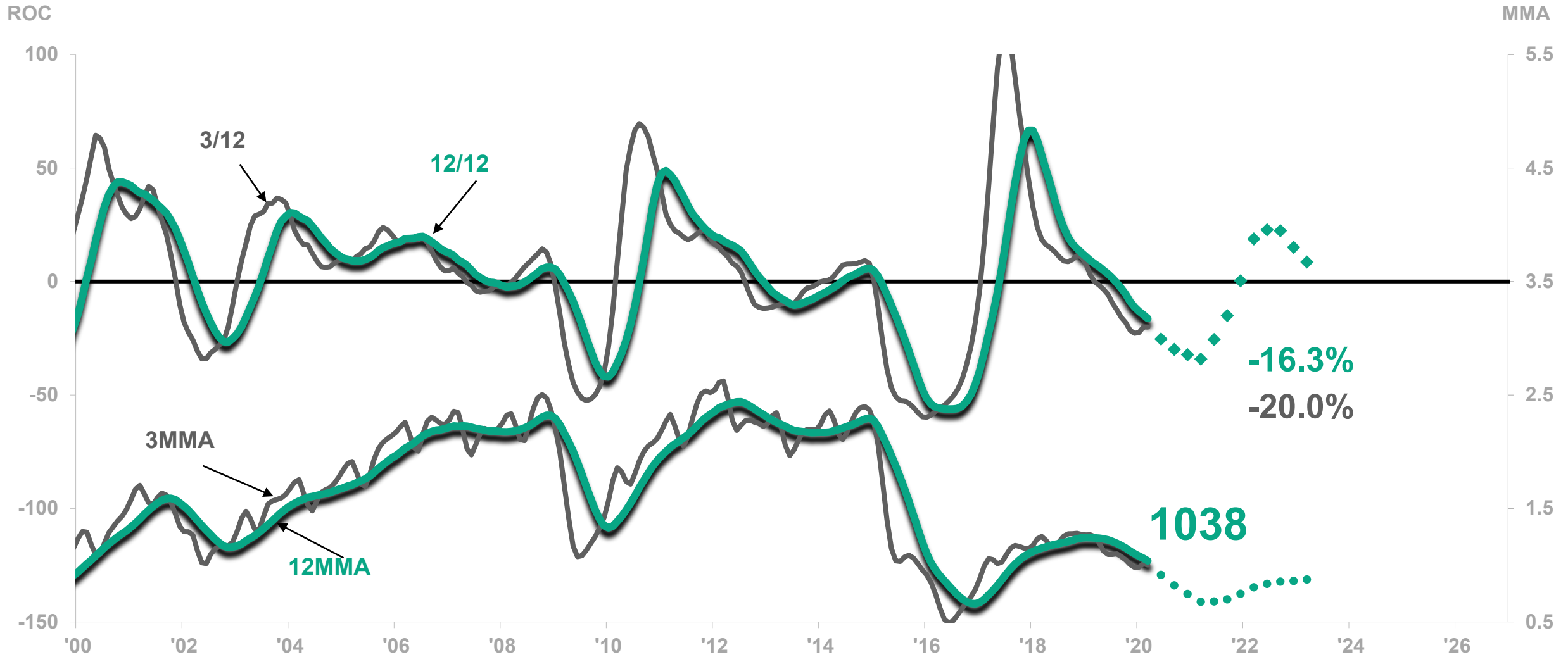
First In Forecasts Worldwide





# 12/12 and 12MMA Low Around Mid 2021

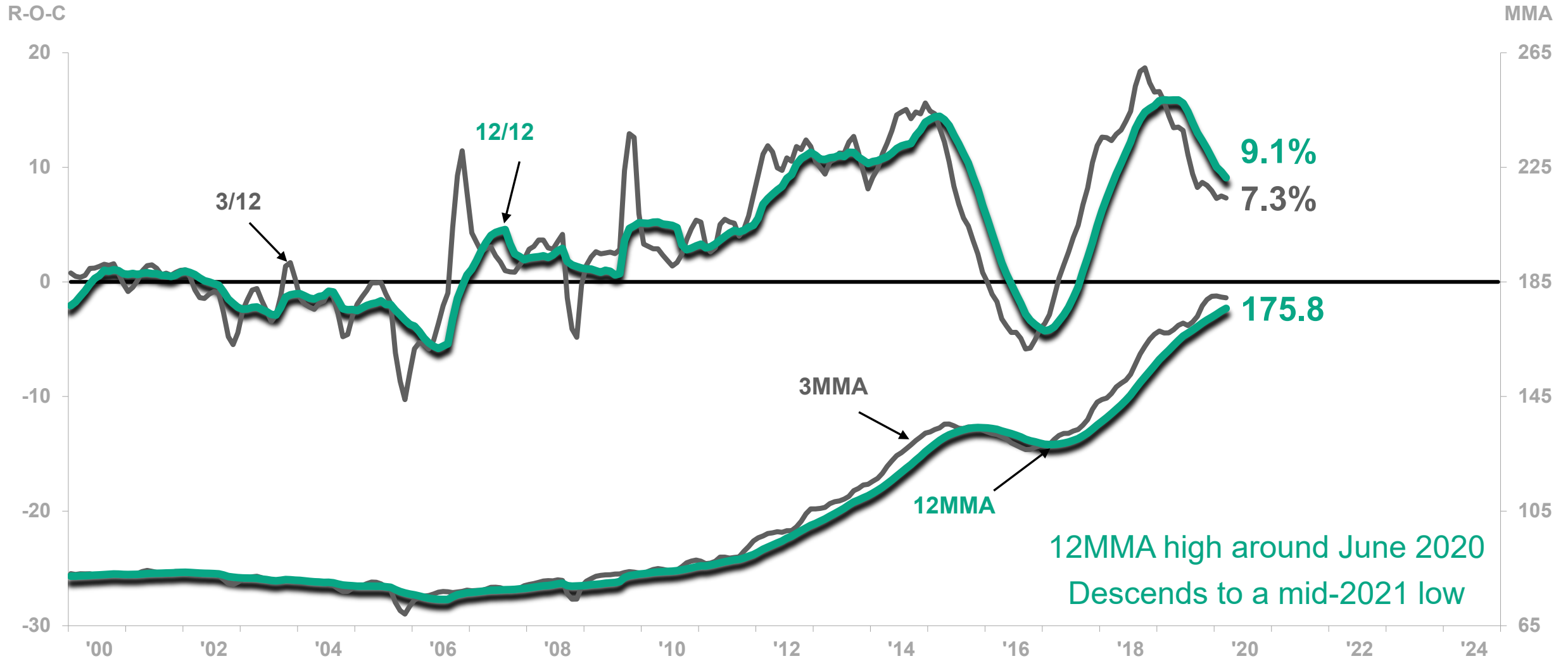
## North American Rotary Rig Count



Thousands of Units  
Source: Baker Hughes

# More Oil & Gas Coming Out of the Ground

## Oil & Gas Extraction Production



2012 = 100  
Source: FRB



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# *Macroeconomic*

**c**

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# *Trends*

ITR ECONOMICS

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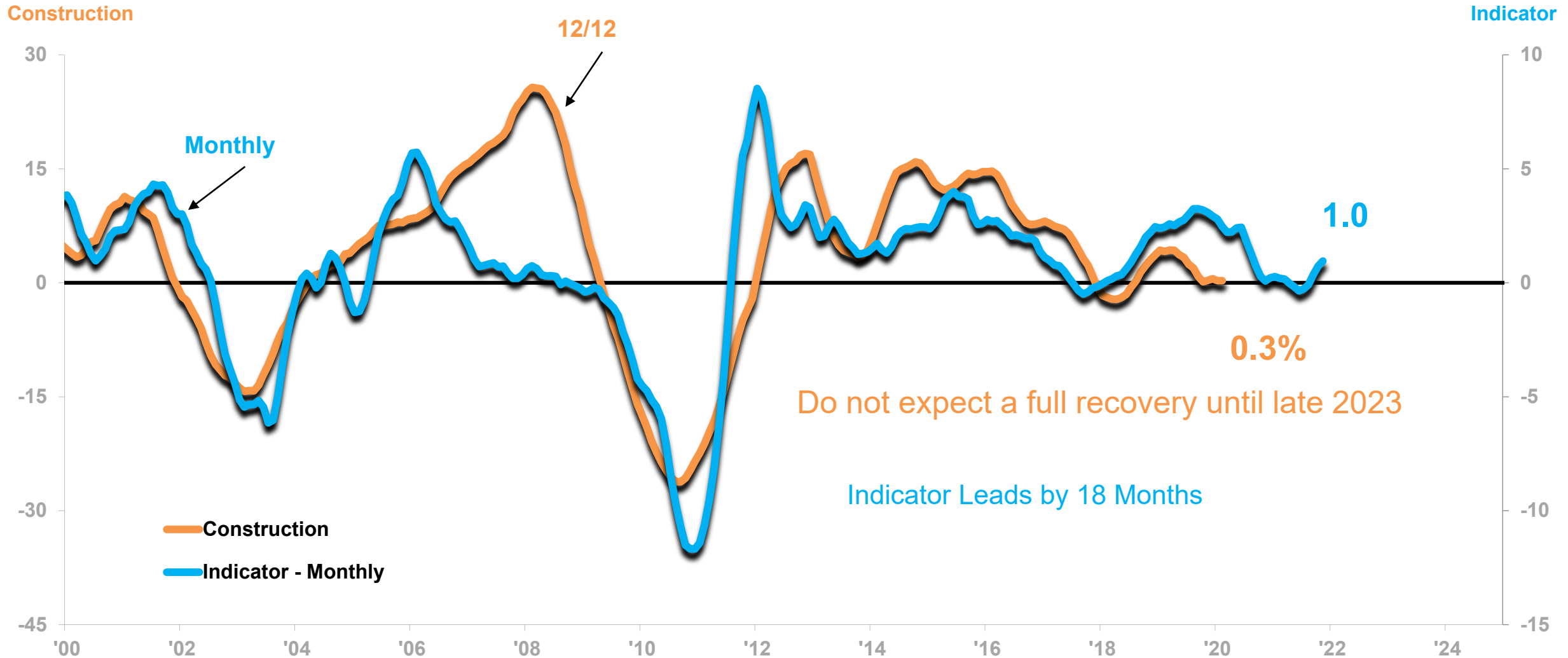
# U.S. Economic Leading Indicators

Indicator	Trend	Comments	Lead Time (mos)
ITR Consumer Activity Leading Indicator	Rise	Potential April 2019 low <u>expected to hold</u>	14
ITR Financial Leading Indicator	Decline	August 2019 low; <b>lost the low</b>	14
JPMorgan Global PMI	Rise	Feb 2020 1/12 r-o-c low	12
OECD Leading Indicator	Rise	August 2019 1/12 low; but weakened in Mar	10
G7 Leading Indicator	Rise	August 2019 low; but weakened in Mar	10
Purchasing Managers Index (PMI)	Rise	September 2019 1/12 low holding thru March	9
ITR Leading Indicator	Rise	October 2019 low <u>looks likely to hold</u>	8
Wilshire Total Market Cap	Rise	Feb 2019 3/12 low holding through Mar	8
US Leading Indicator	Rise	Dec 2019 1/12 low <b>likely will lose the low</b>	8
Single-Family Housing Starts	Rise	12/12 Aug 2019 low <u>expected to hold</u>	8
Total Industry Capacity Utilization	Rise	Jan 2020 low threatened <b>assume we lose the low</b>	6
US Exports, Goods – World	Rise	Jun 2019 3/12 low viability is threatened	4

Sources: ITR Economics, Institute for Supply Management, OECD, Yahoo Finance, The Conference Board, US Census Bureau, FRB

# Expect the 12MMA to Decline Until Late 2021

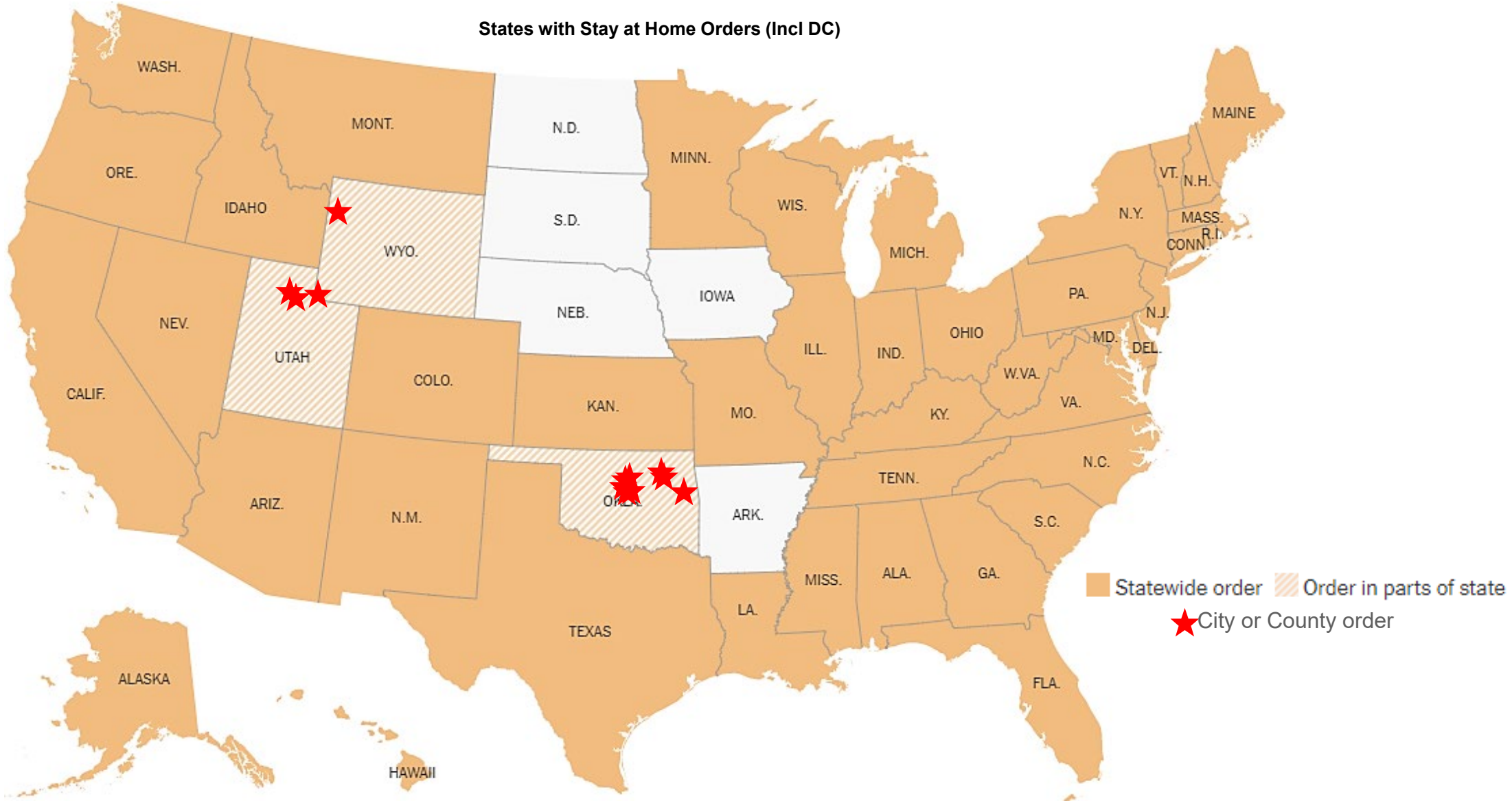
## US Private Nonresidential Construction to ITR Leading Indicator™



Rates-of-Change

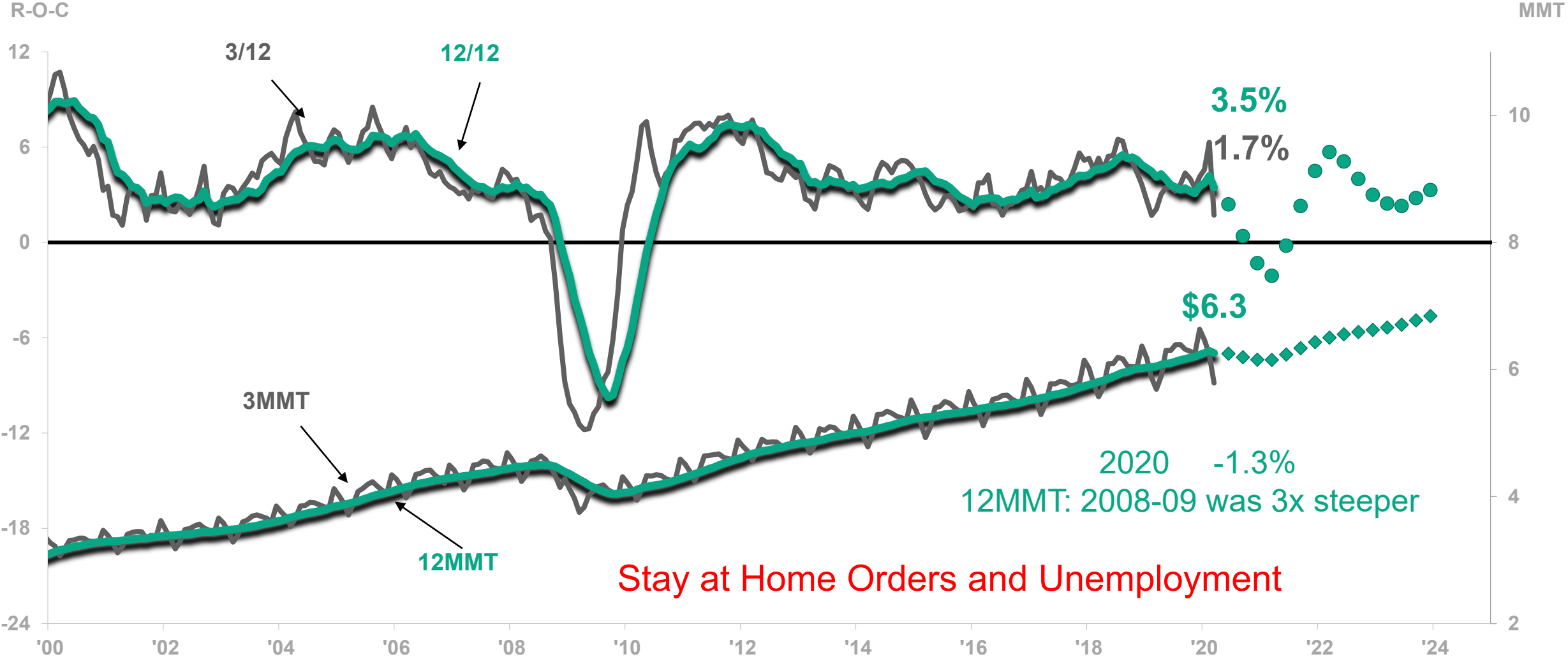
Sources: US Census Bureau, ITR Economics

# Unprecedented Response in 46 States



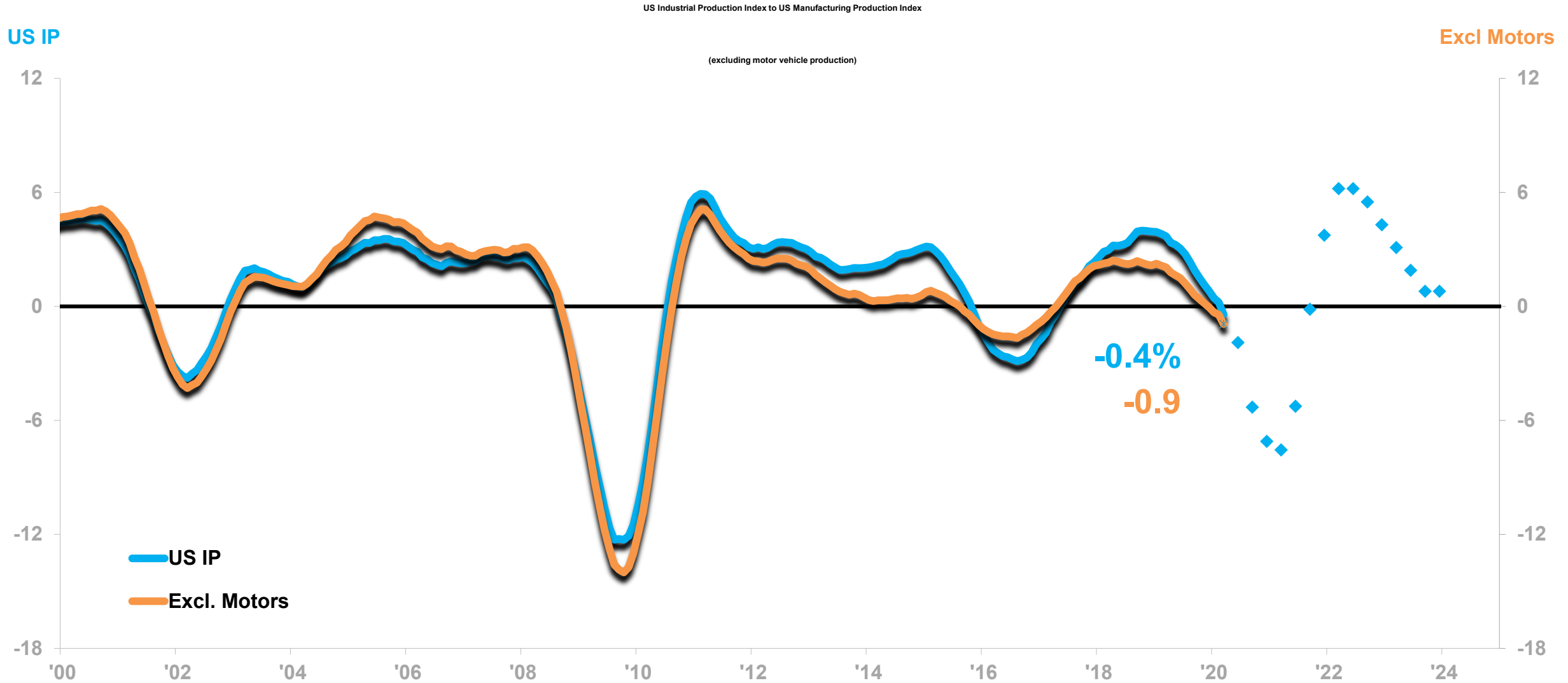
# Problems Will Extend Until Late 2020/Early 2021

## US Total Retail Sales



Stay at Home Orders and Unemployment

# Downward Cyclical Pressure Until Late 2020/Early 2021

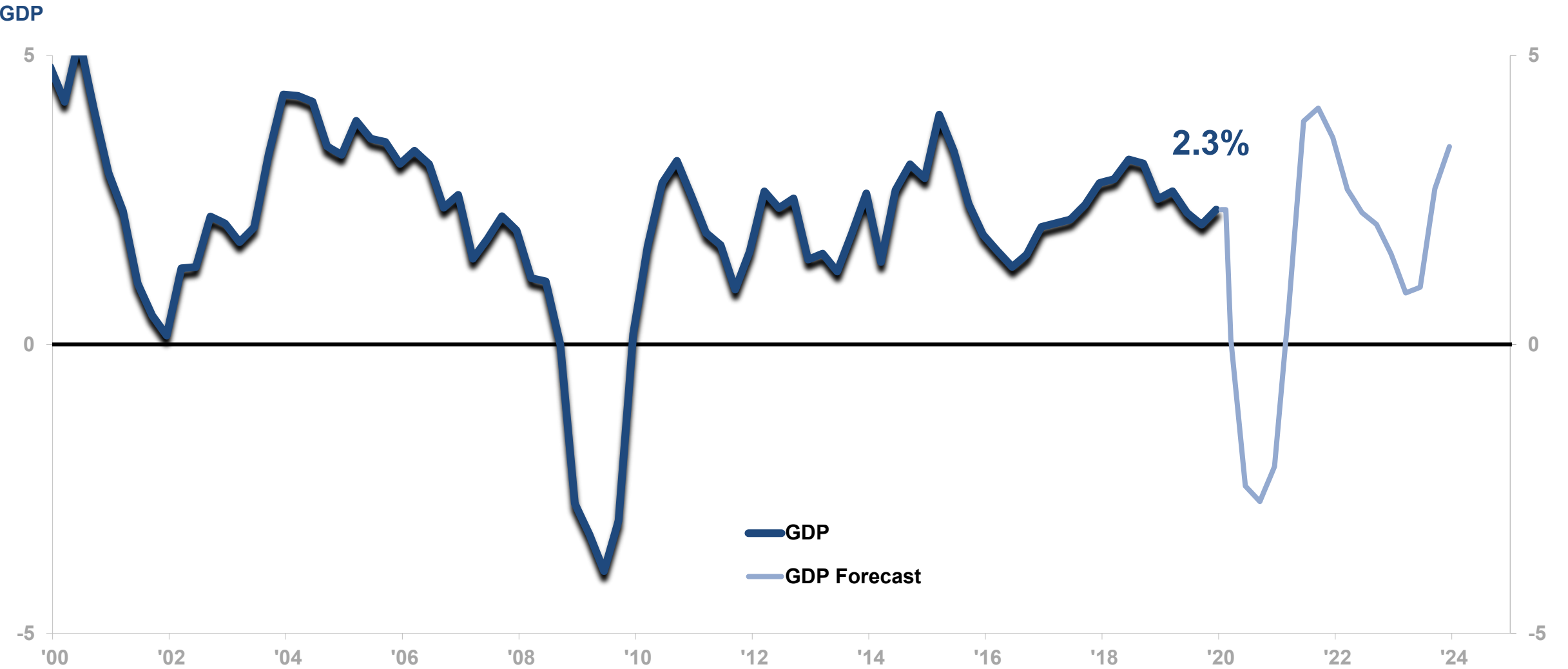


12/12 Rates-of-Change  
Source: FRB



# Expect a Volatile Recovery

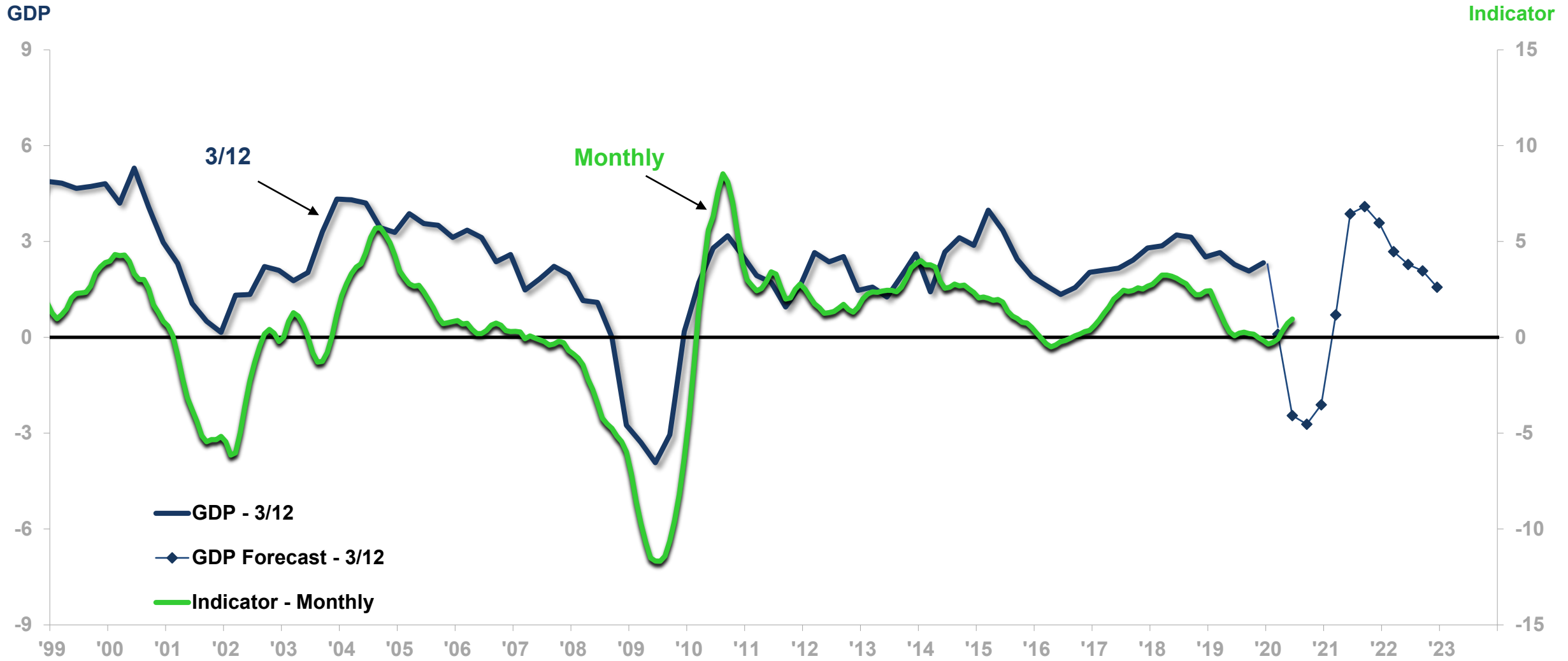
## US Real Gross Domestic Product



3/12 Rates-of-Change  
Source: US Bureau of Economic Analysis

# An Important Leading Indicator to Monitor

## US Real Gross Domestic Product to ITR Leading Indicator™

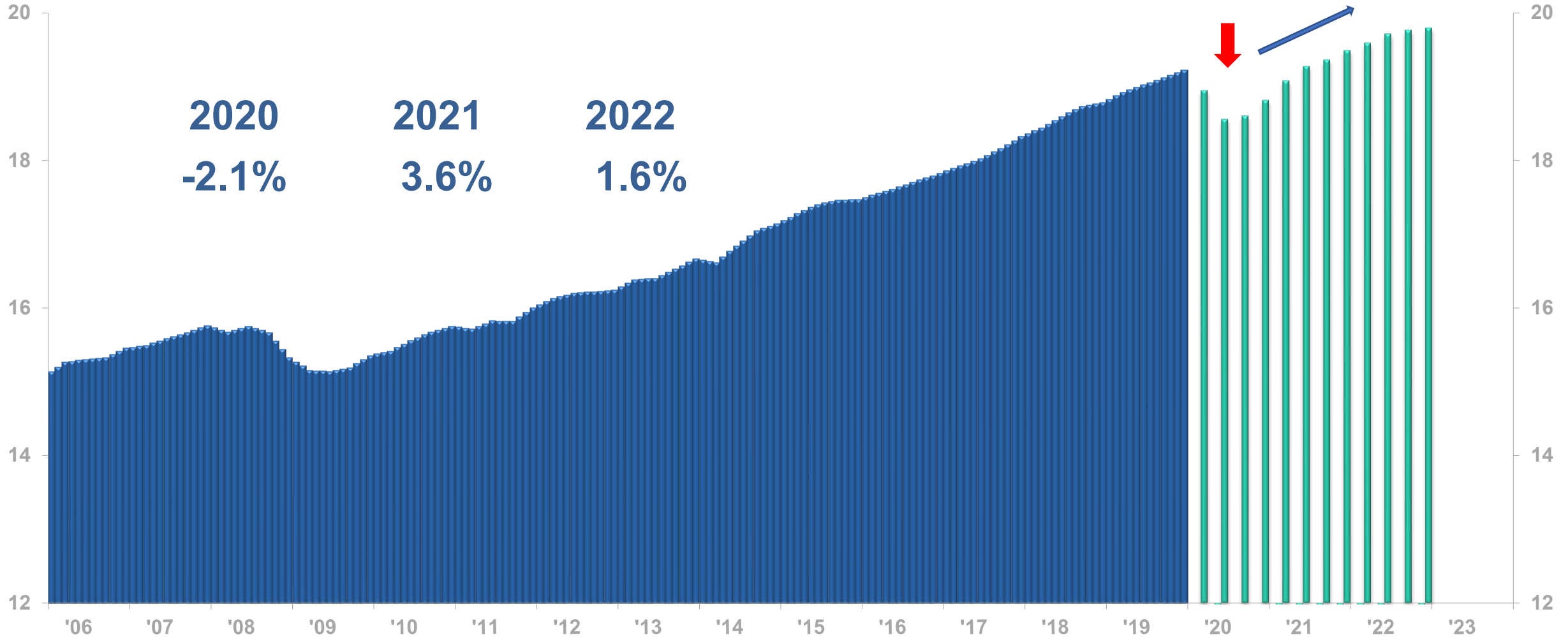


Rates-of-Change

Sources: Bureau of Economic Analysis, ITR Economics

# Recession in First and Second Quarters of 2020

US Gross Domestic Product, SAAR, Chained 2012 \$

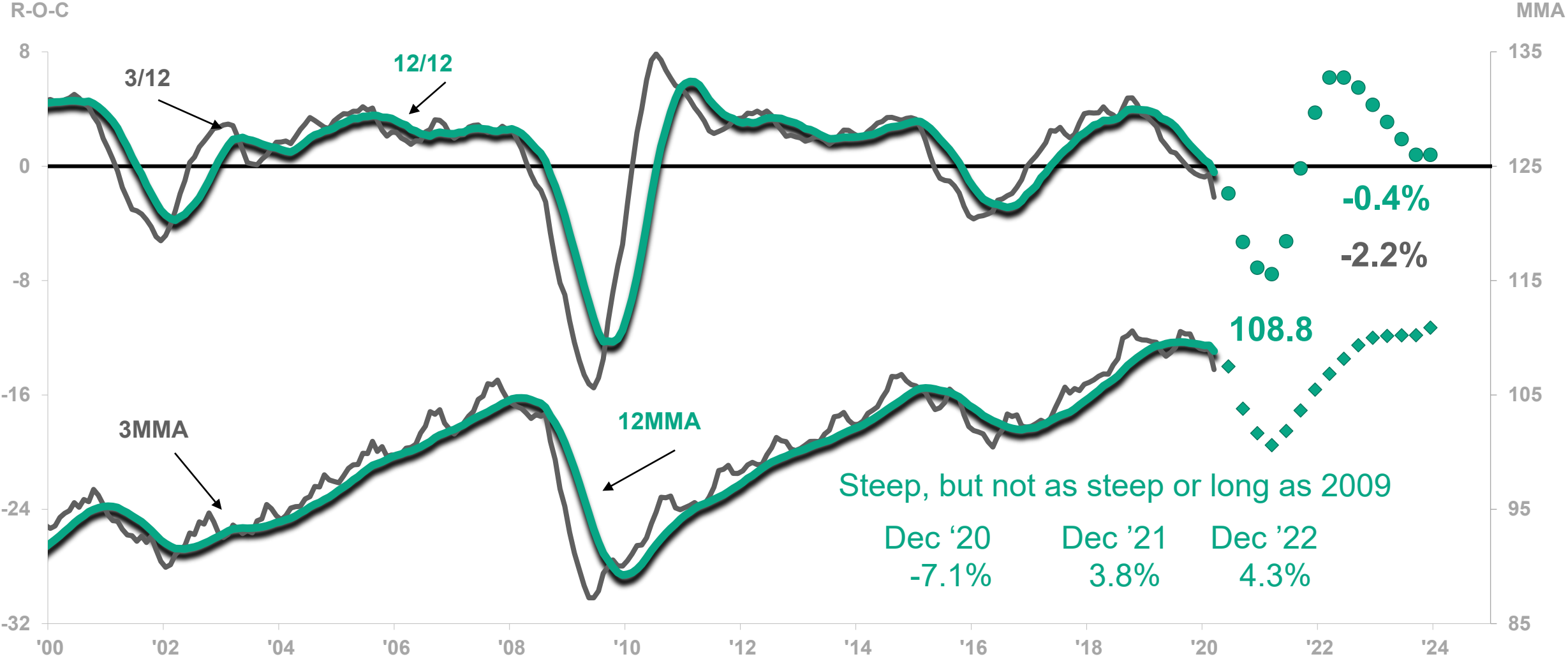


3-Month Moving Average

Source: BEA

# 12/12 and 12MMA Lows in 1Q21

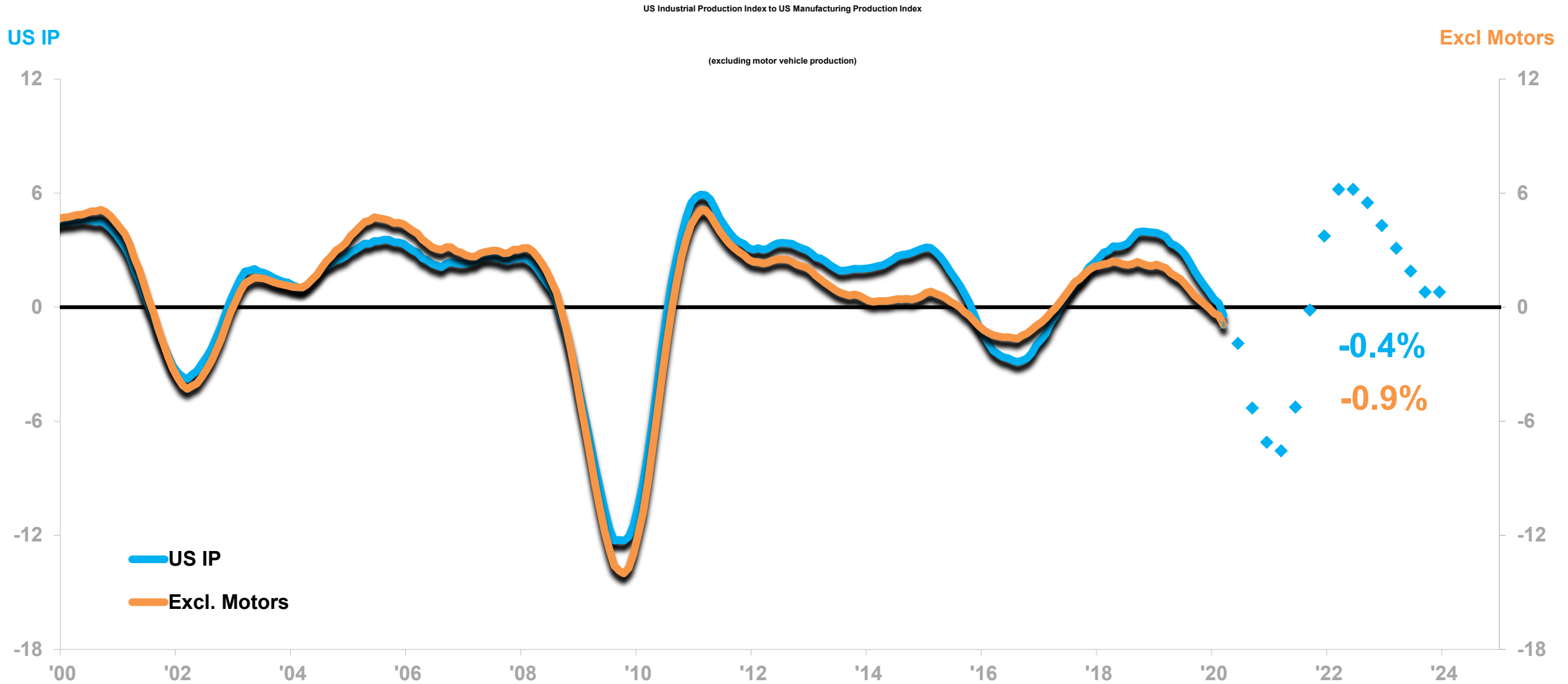
## US Industrial Production Index



2012 = 100

Source: FRB

# Downward Cyclical Pressure Until Late 2020/Early 2021

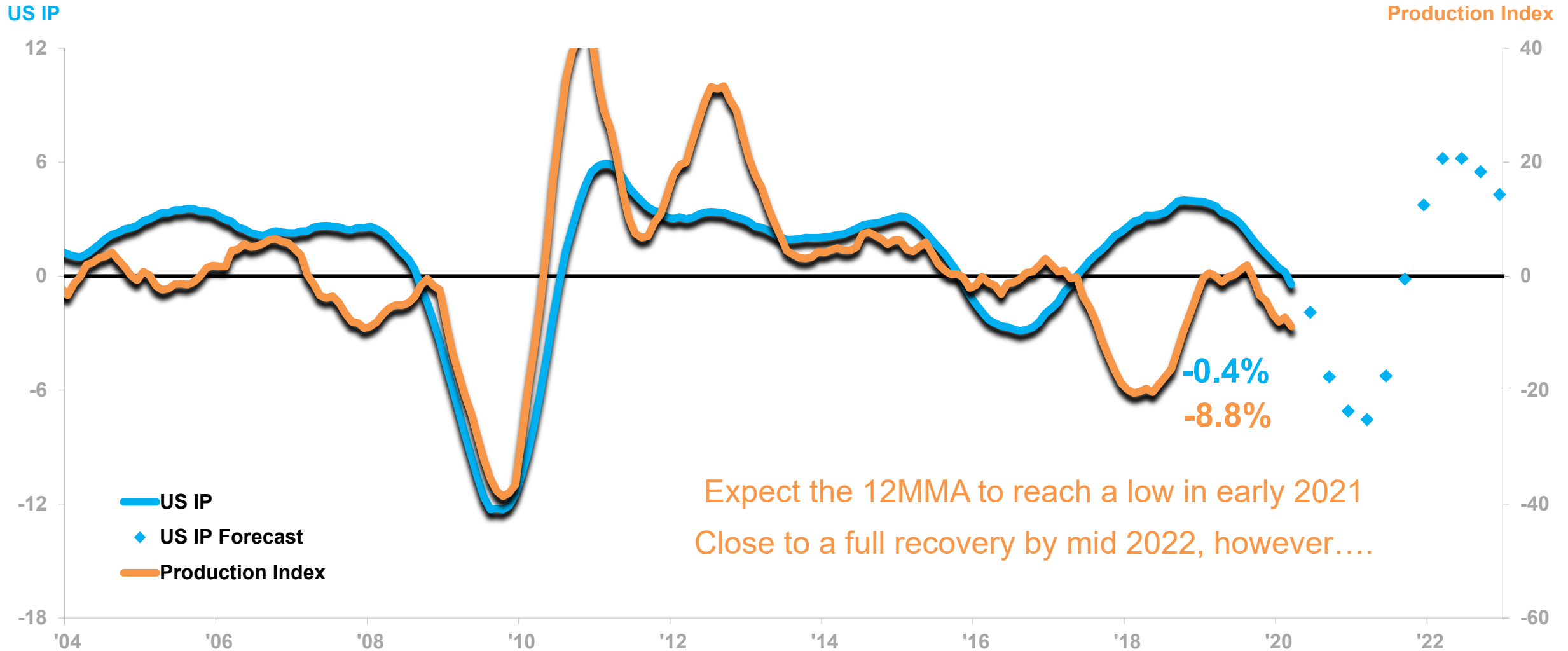


12/12 Rates-of-Change  
Source: FRB



# Expect a 12/12 Low in Late 2020

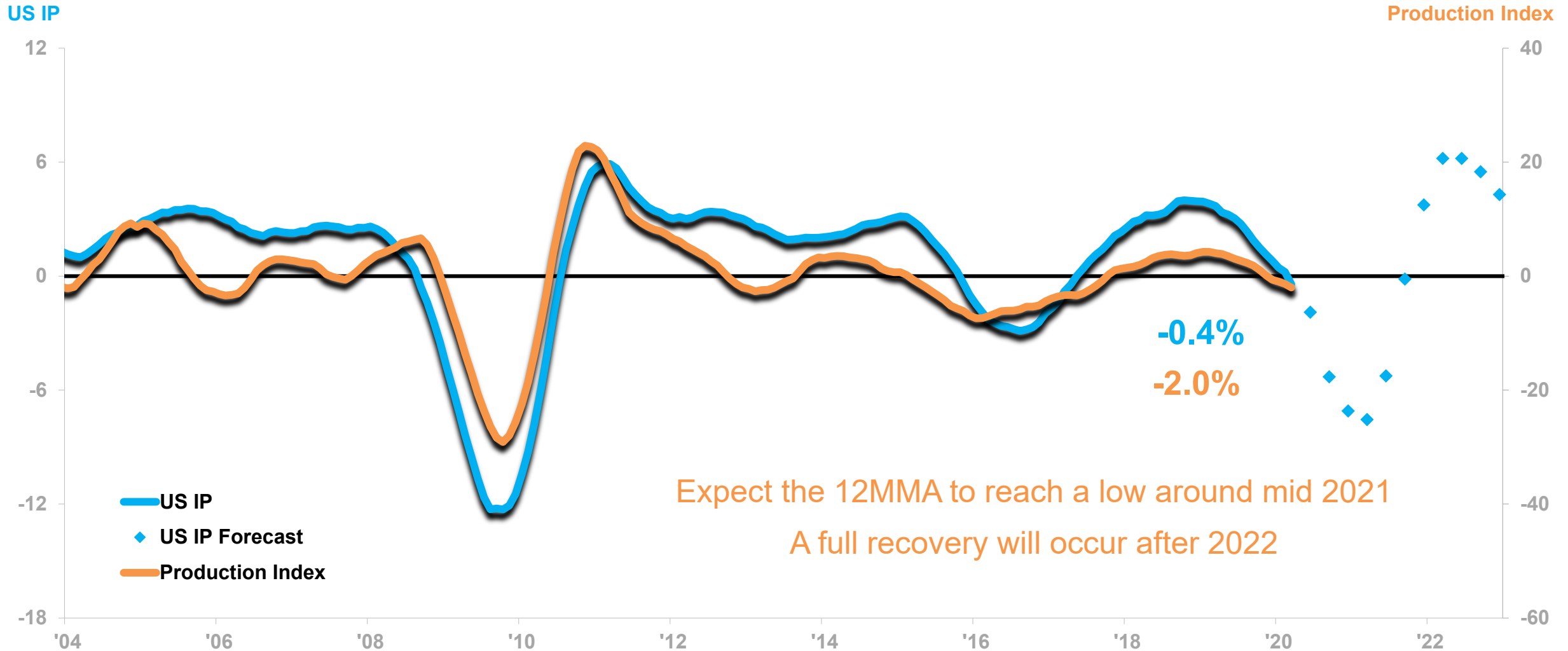
## US Industrial Production Index to US Automobile Production Index



Expect the 12MMA to reach a low in early 2021  
Close to a full recovery by mid 2022, however....

# Expect an Early 2021 12/12 Low

## US Industrial Production Index to US Primary Metals Production Index

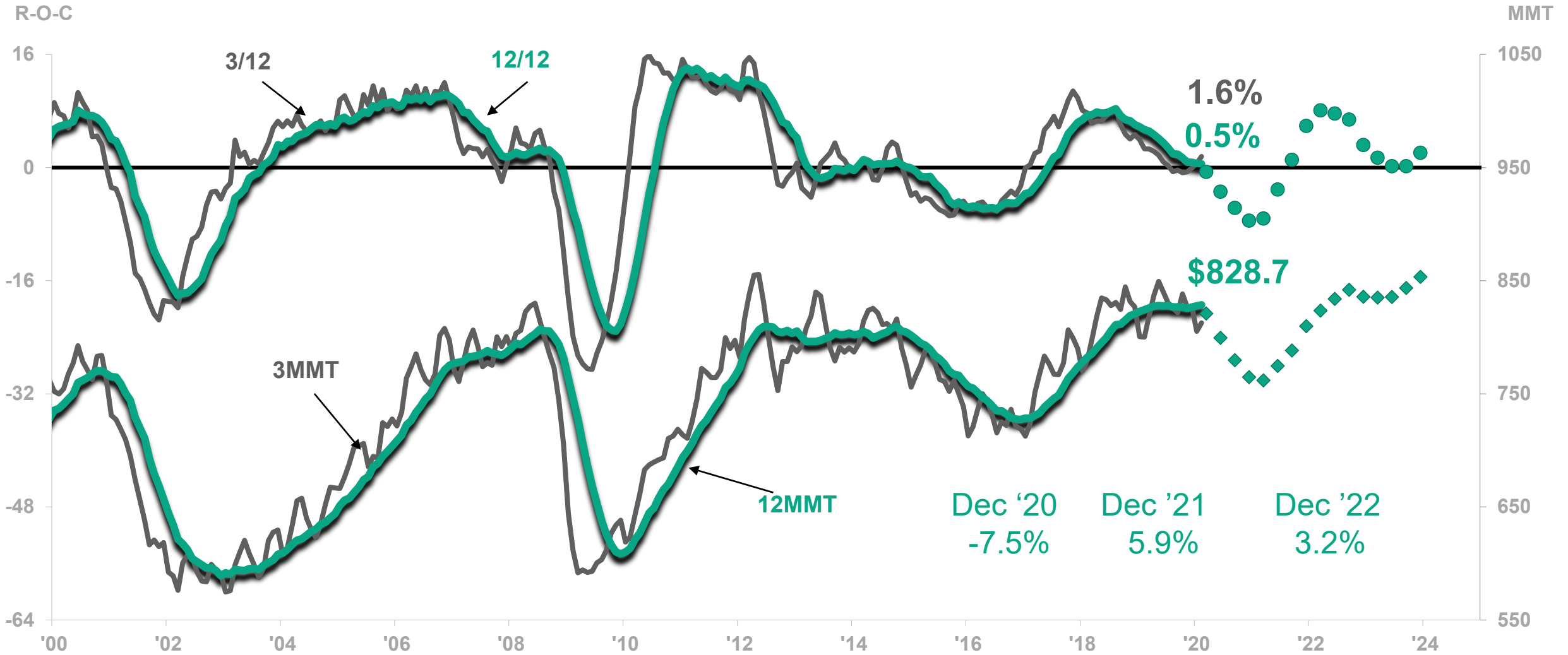


12/12 Rates-of-Change

Source: FRB

# Projecting 1Q21 12/12 and 12MMT Lows

## US Nondefense Capital Goods New Orders (excluding aircraft)

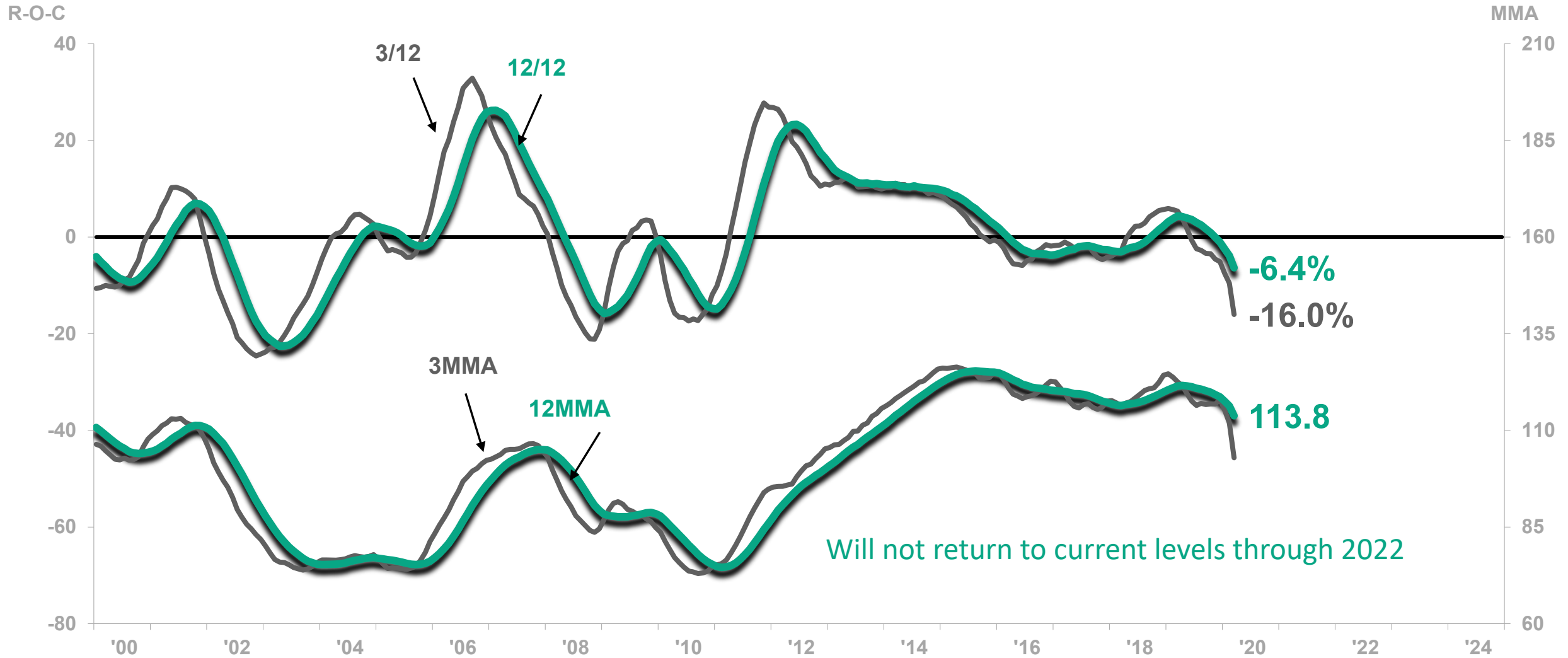


Billions of Dollars

Source: US Census Bureau

# Expect 12MMA decline Well Into 2H21

## US Civilian Aircraft Equipment Production



2012 = 100

Source: FRB



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# *Financial Markets*



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# Bear Markets Occur Even When Retail Sales Are Rising

## US Stock Prices Index to US Total Retail Sales



Data Trend

Source: Wall Street Journal, US Census Bureau

# Searching for the Bottom

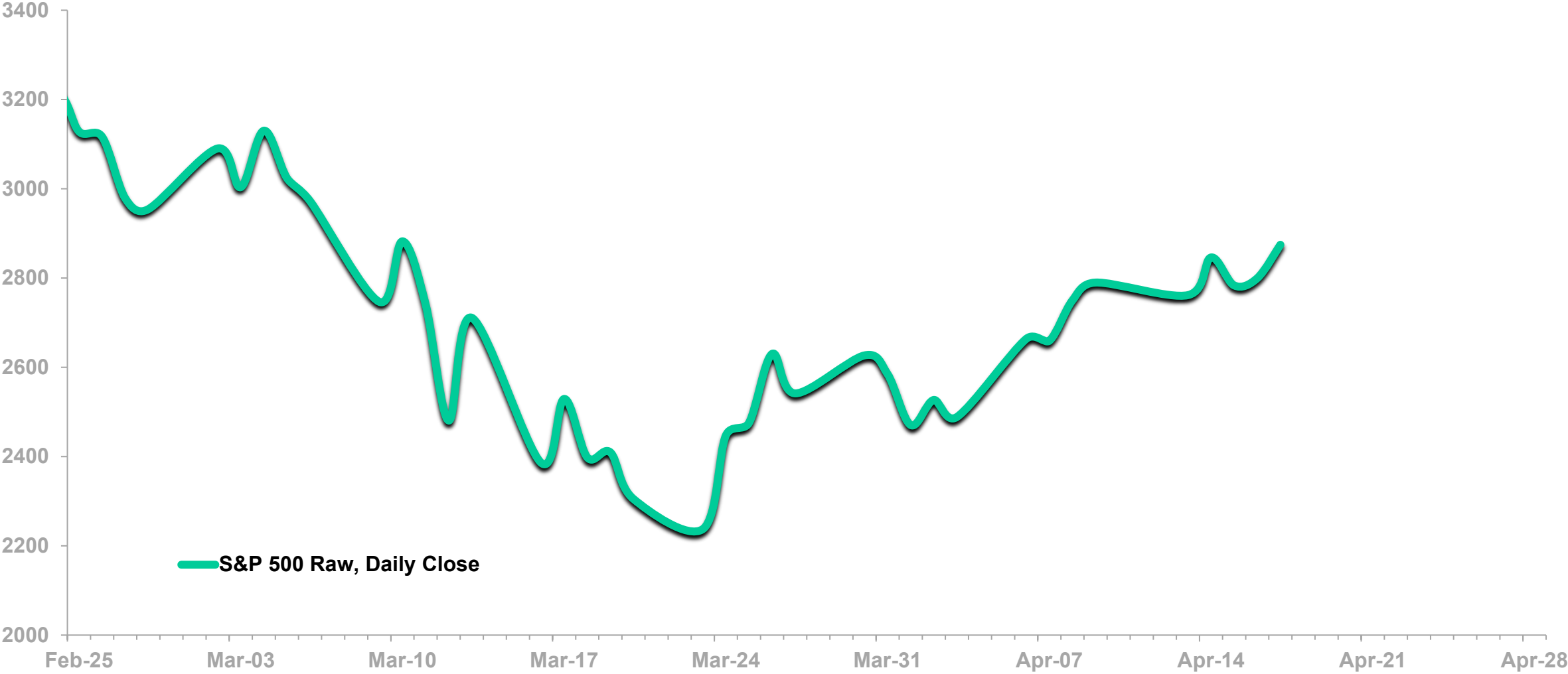
## S&P500 Stock Prices Index



**April 17, 2020 close 5874.56**

— Raw

# US Stock Prices Index



Daily Close  
Source: S&P Dow Jones Indices

# In the Aftermath of the 7 Pertinent Precedents:

- 1. Market rebounds for a duration of 11 to 26 months or slightly longer**
- 2. Market rebounds 56.5% to 85.5%**
- 3. Length of rebound not a determining factor in magnitude of the rise**
- 4. Median gain all cases is 60.8%**



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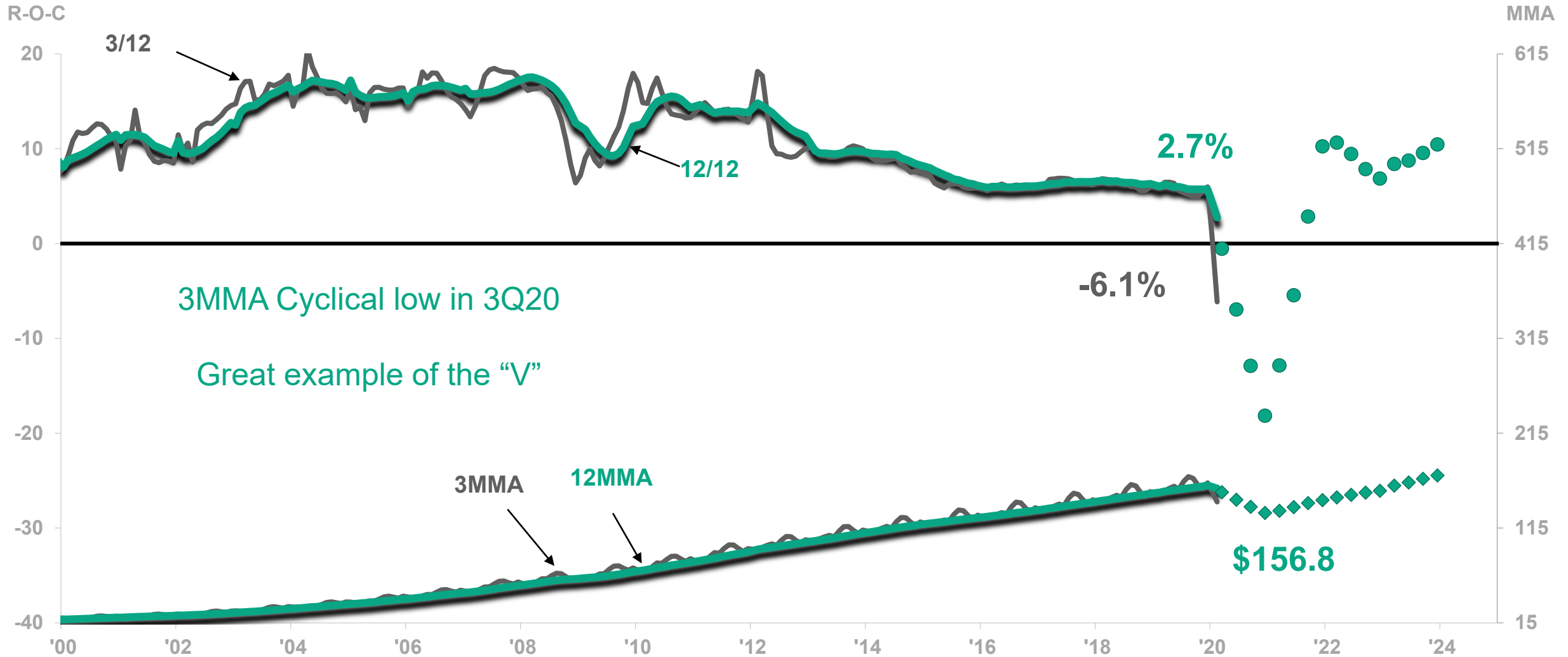


# China: Supply Chain Concerns

- Average resumption of production – 85% to 95%
  - Wuhan and Hubei province are open – no travel restrictions
  - Supply chain issues have been reversed – China needs raw materials from EU, US.
  - Demand issues are a bigger issue in China
  - China is experiencing pent up consumer demand
- 
- There is considerable concern in general because the Chinese economy is already debt heavy. We think that is more of a longer-term threat associated with the 2030 forecast.
- 
- China's PMI has rebounded sharply
- 
- Was all this caused by China as a power play or stock market grab?

# 12MMA Low Around Year-End 2020

## China Industrial Production Index

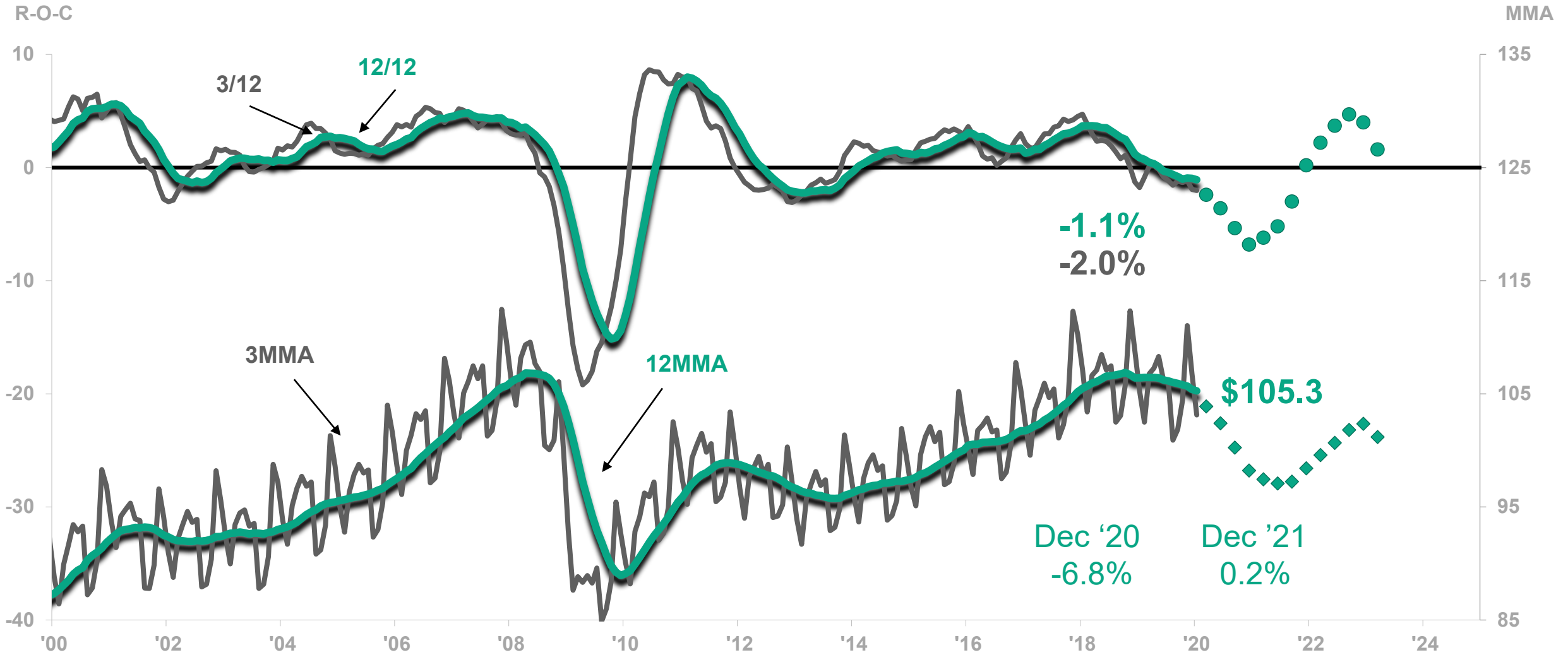


2012 = 100

Source: CEIC

# Cyclical Decline Until Aprox Mid 2021

## European Union Industrial Production Index



2015 = 100

Source: Eurostat



# THE CHANNEL

Alan's Coming Back!

September 29, 2020



# THE CHANNEL

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