

Pressure Sensitive Tape Council

“Make Your Move”

Presented by

ITR[®]

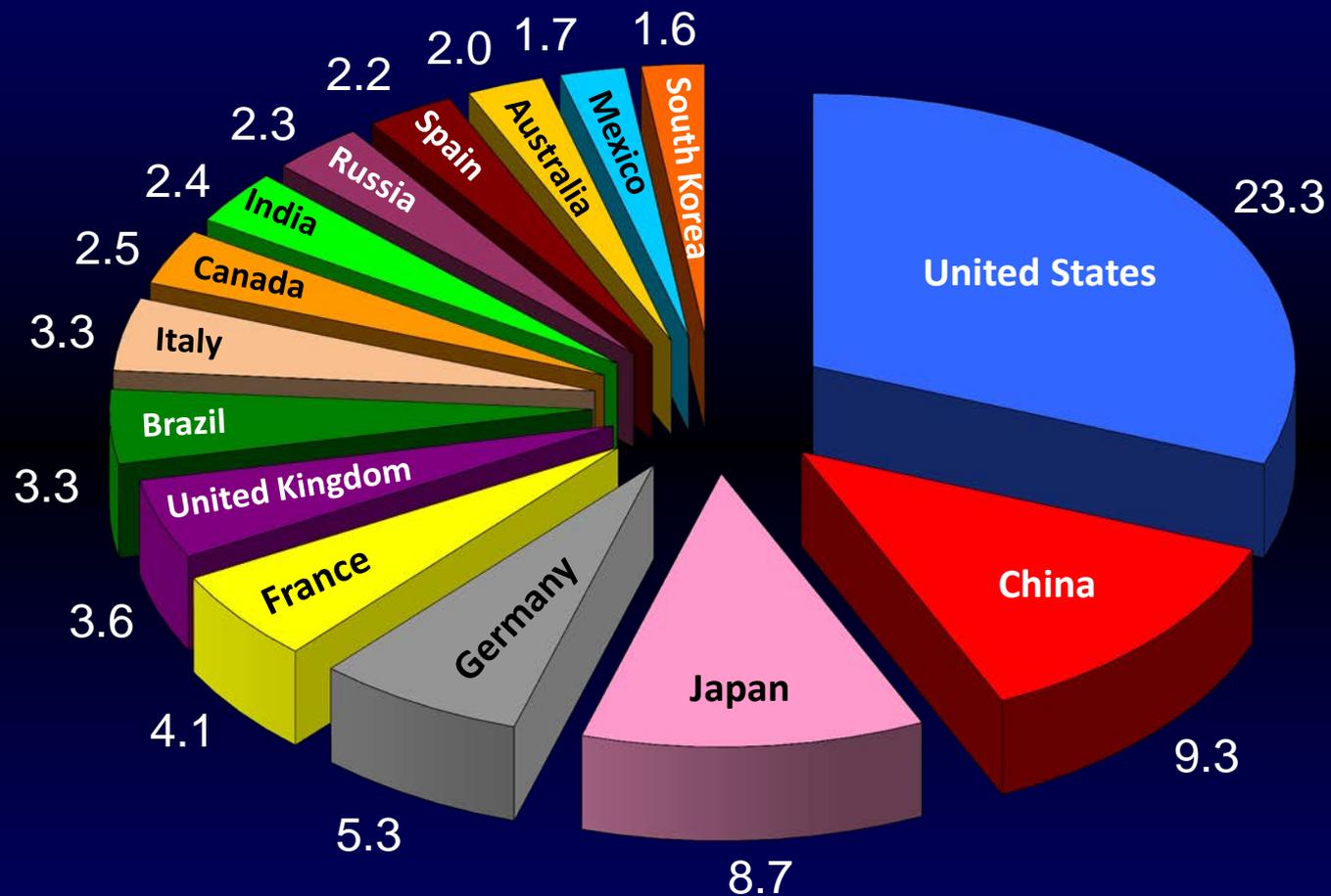
Brian Beaulieu

May 2012

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www.itreconomics.com

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



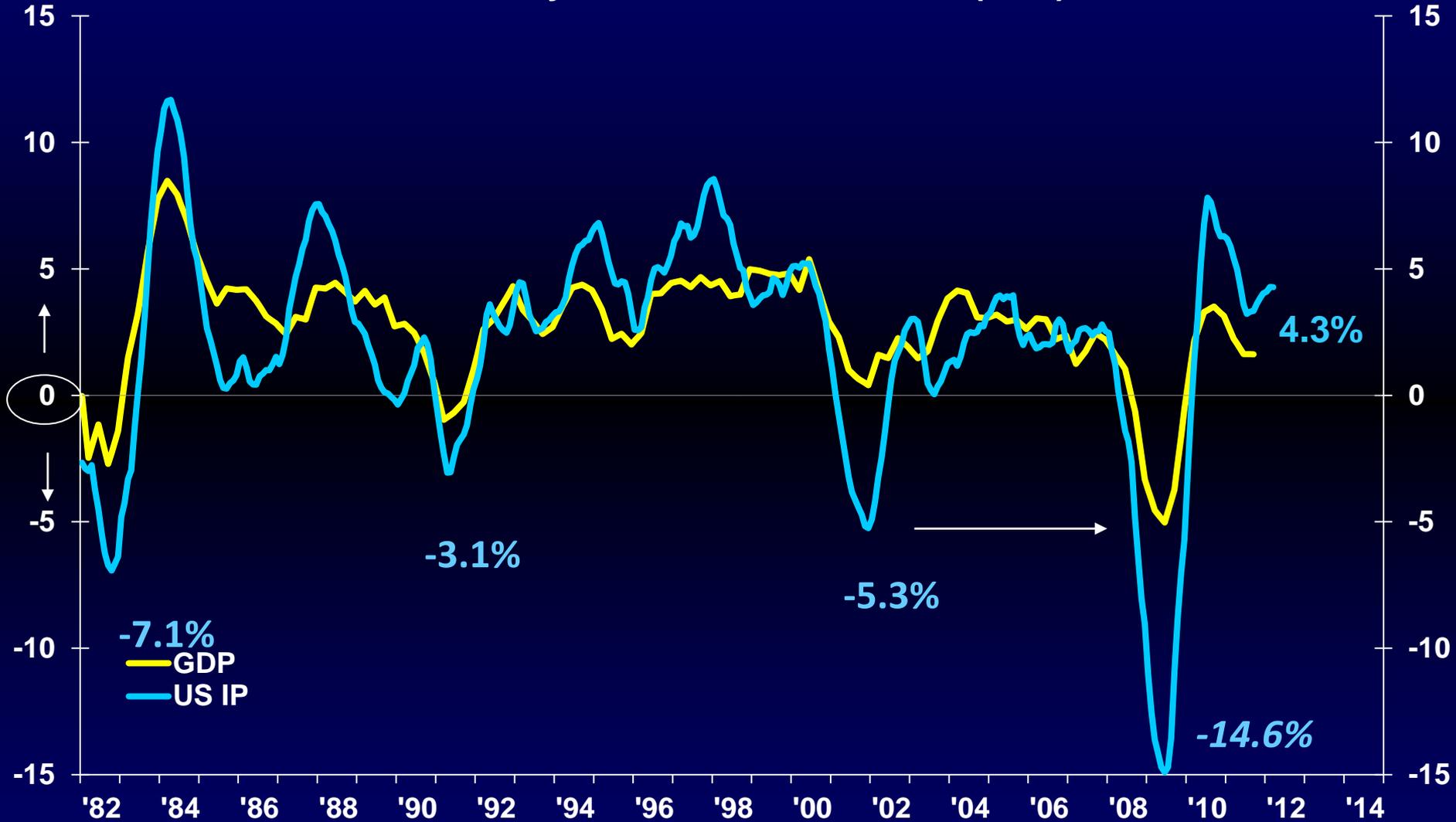
The U.S. economy remains almost comatose. The current slump already ranks as the longest period of sustained weakness since the Great Depression. Once-in-a-lifetime dislocations will take years to work out.

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

September 1992

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



US/Global Recovery

- Leading indicators pointing up
- Liquidity is not an issue
- Stimulative monetary policy
- Employment rising (companies right-sized)
- Banks are lending
- Retail Sales are rising
- Construction is improving
- Deficit spending continues

Recession in 2012?

- Europe's financial troubles *might*...
- China's housing/inflation bubble *could*...
- Oil prices *could* break through \$120 ...
- USD *could* lose all credibility causing...
- High unemployment

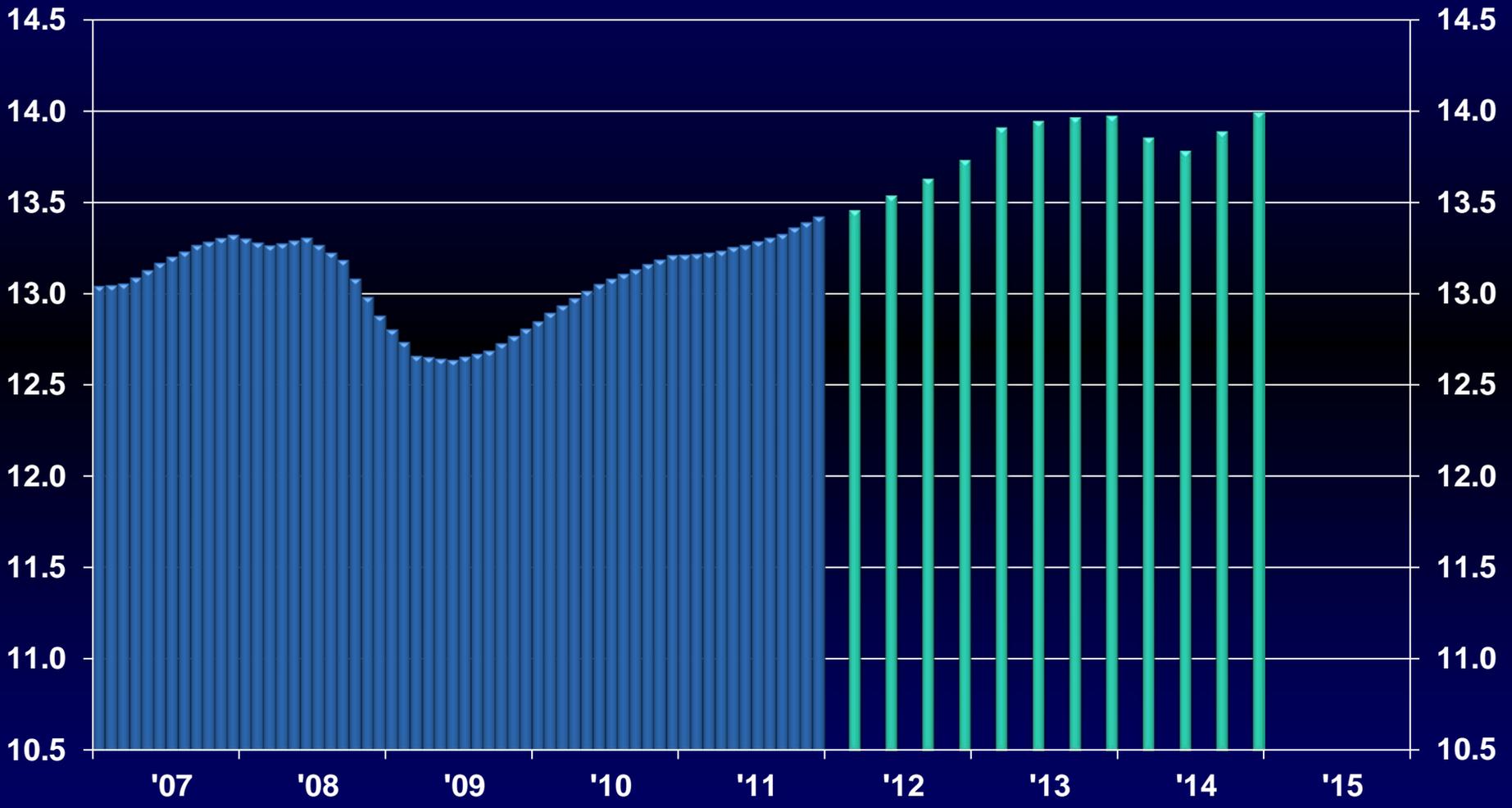
Results for 2011

	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 (0.1%)
CA IP	3/10	96.6 * 4.1%	96.0 (0.6%)
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%

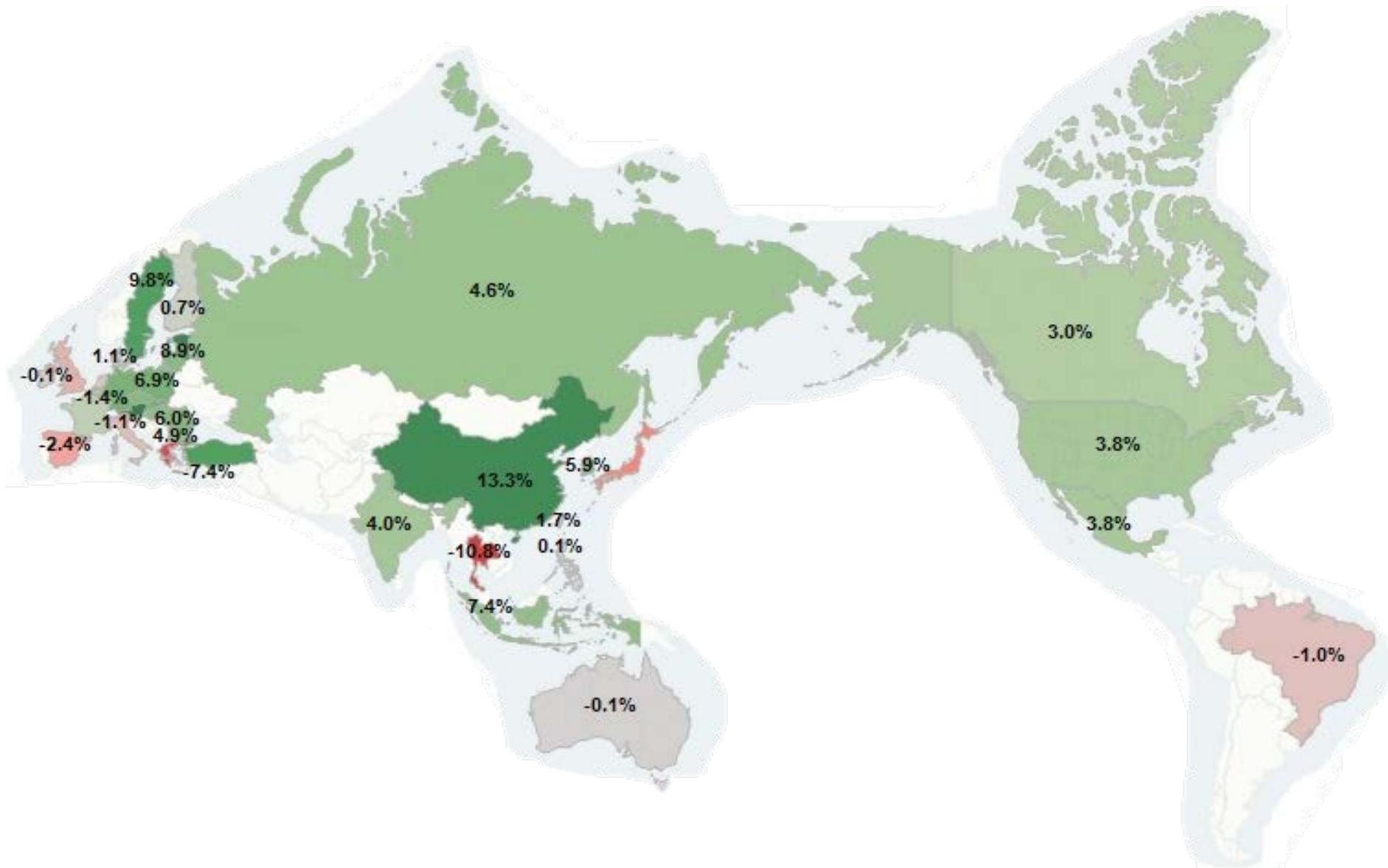
* End of year 12-month index estimate



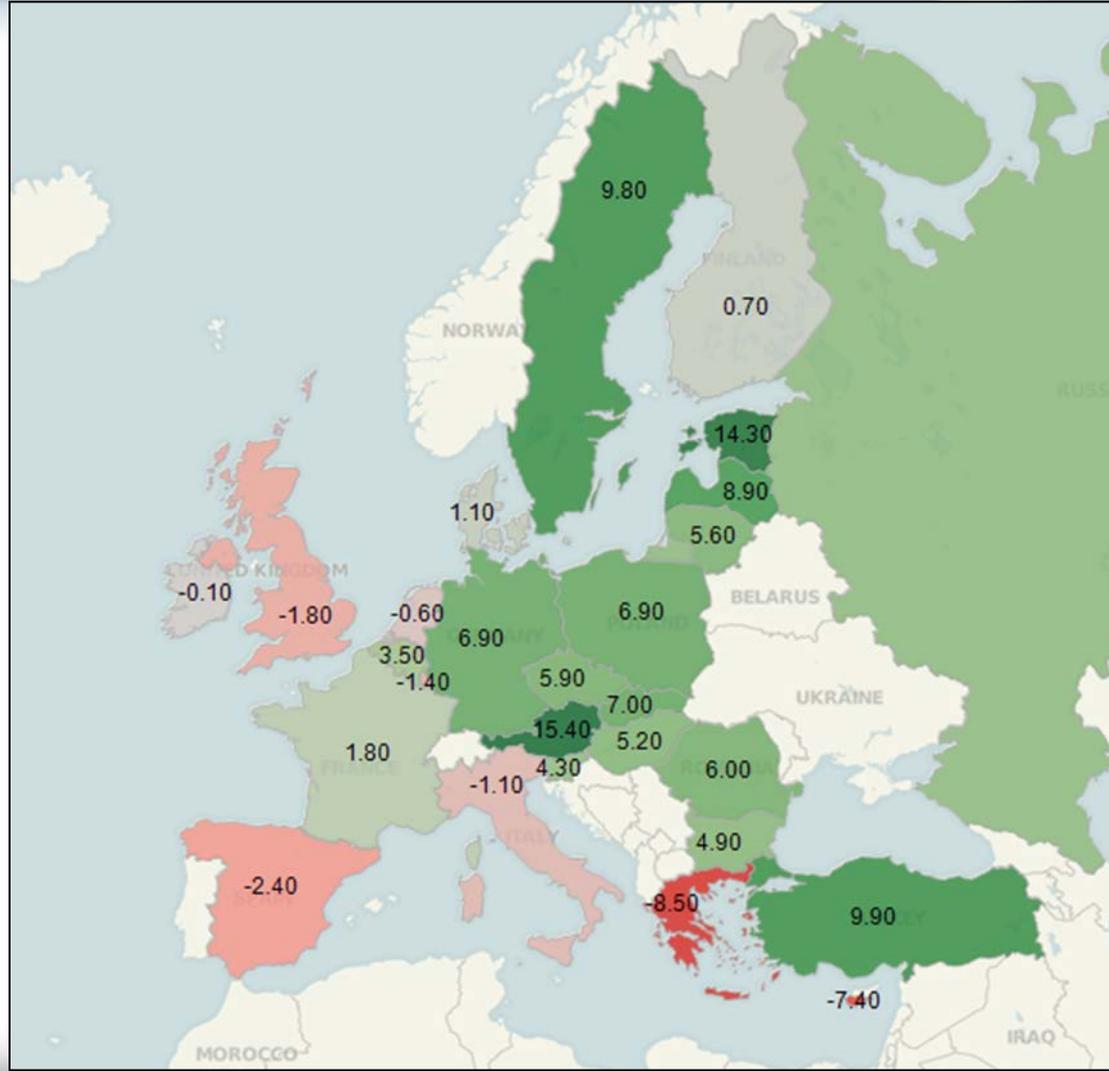
Real Gross Domestic Product 3-Month Moving Average



World Countries Industrial Production Year-Over-Year Growth Rates %



Western Europe Industrial Production

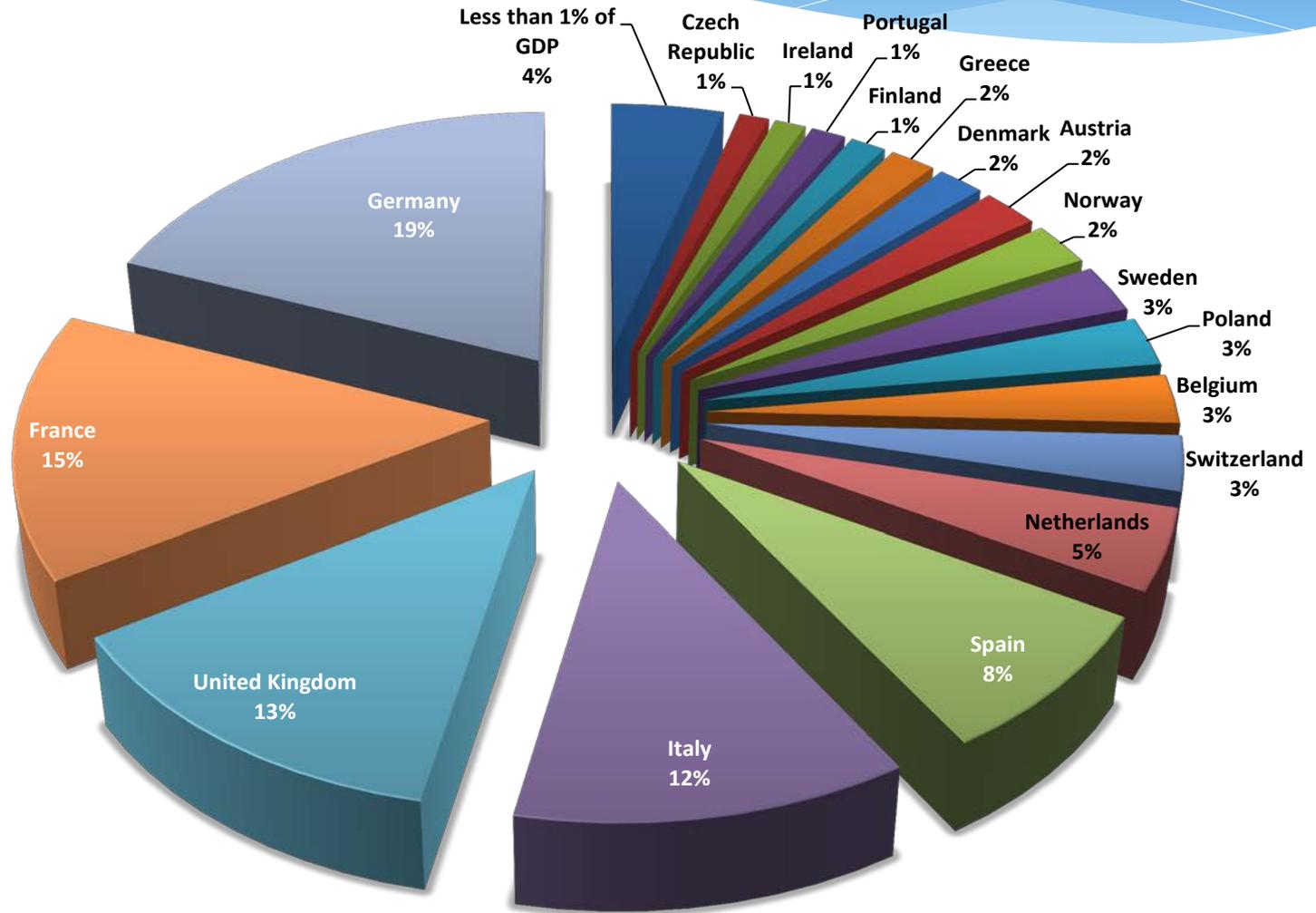


Year-Over-Year Growth Rates %



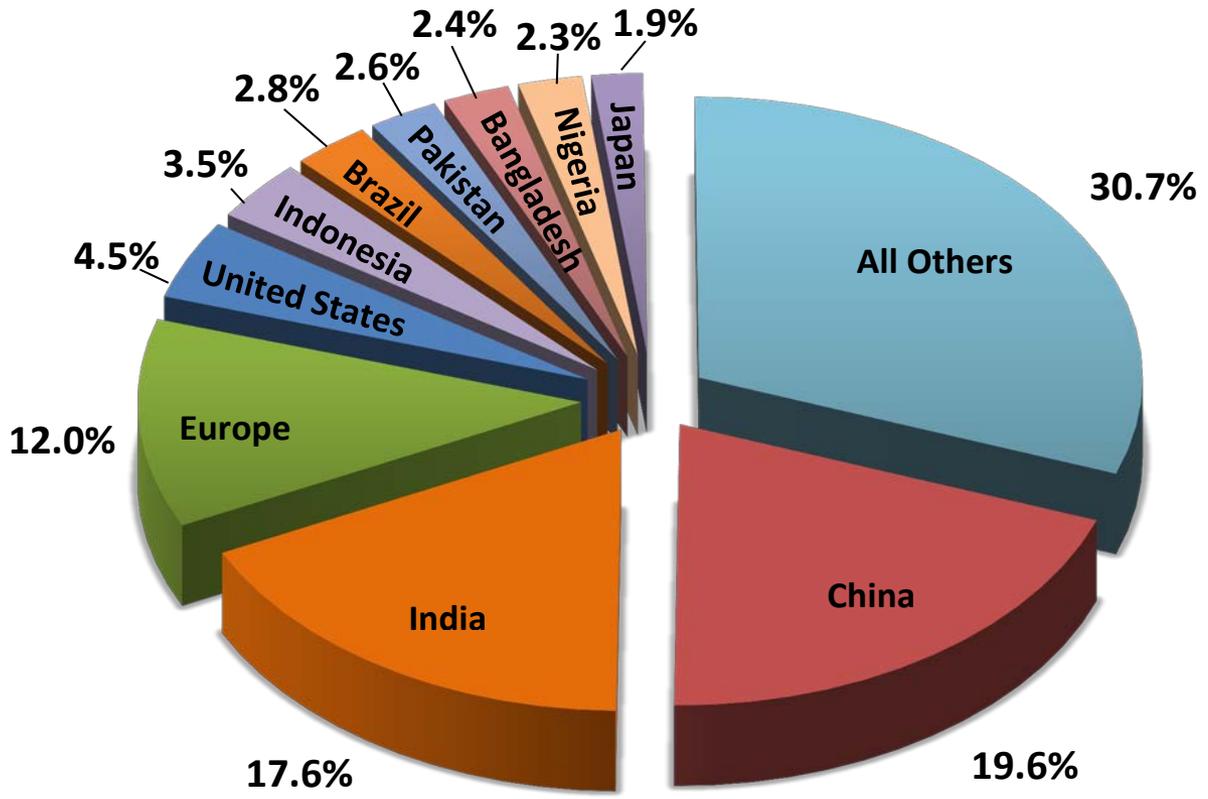
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Select EU Countries Percent of EU GDP





Percentage of 2011 World Population



Source :International Monetary Fund

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

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

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

12/12 Rate-of-Change

$$= \frac{\text{December 2011 12MMT}}{\text{December 2010 12MMT}} \times 100 - 100$$

$$= \frac{20.3}{18.0} \times 100 - 100 = 12.7\%$$

Phase 2 – Accumulate the Inputs

Sales

Indicator

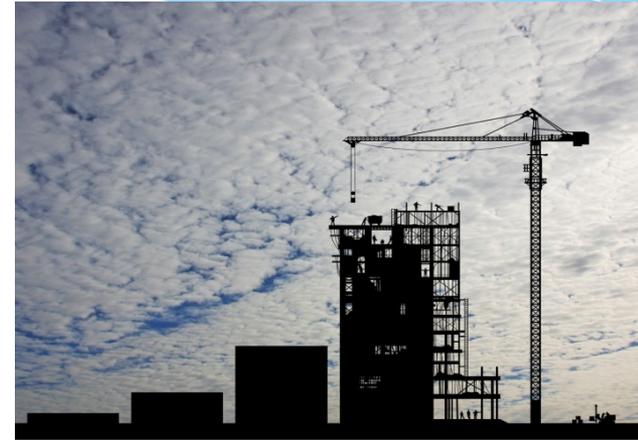


Phase 3 – Generate the Quantitative Forecast

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

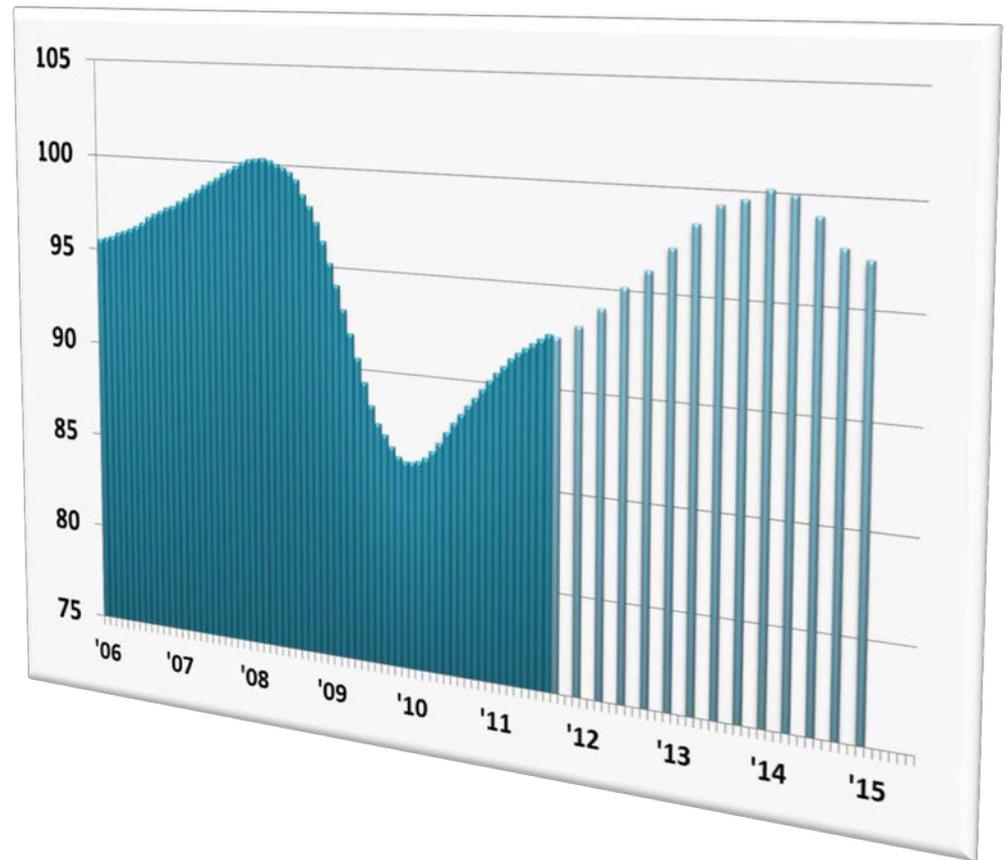
1. Check the process flow for possible future bottlenecks
2. Continue to build inventory
3. Increase prices

Phase C

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

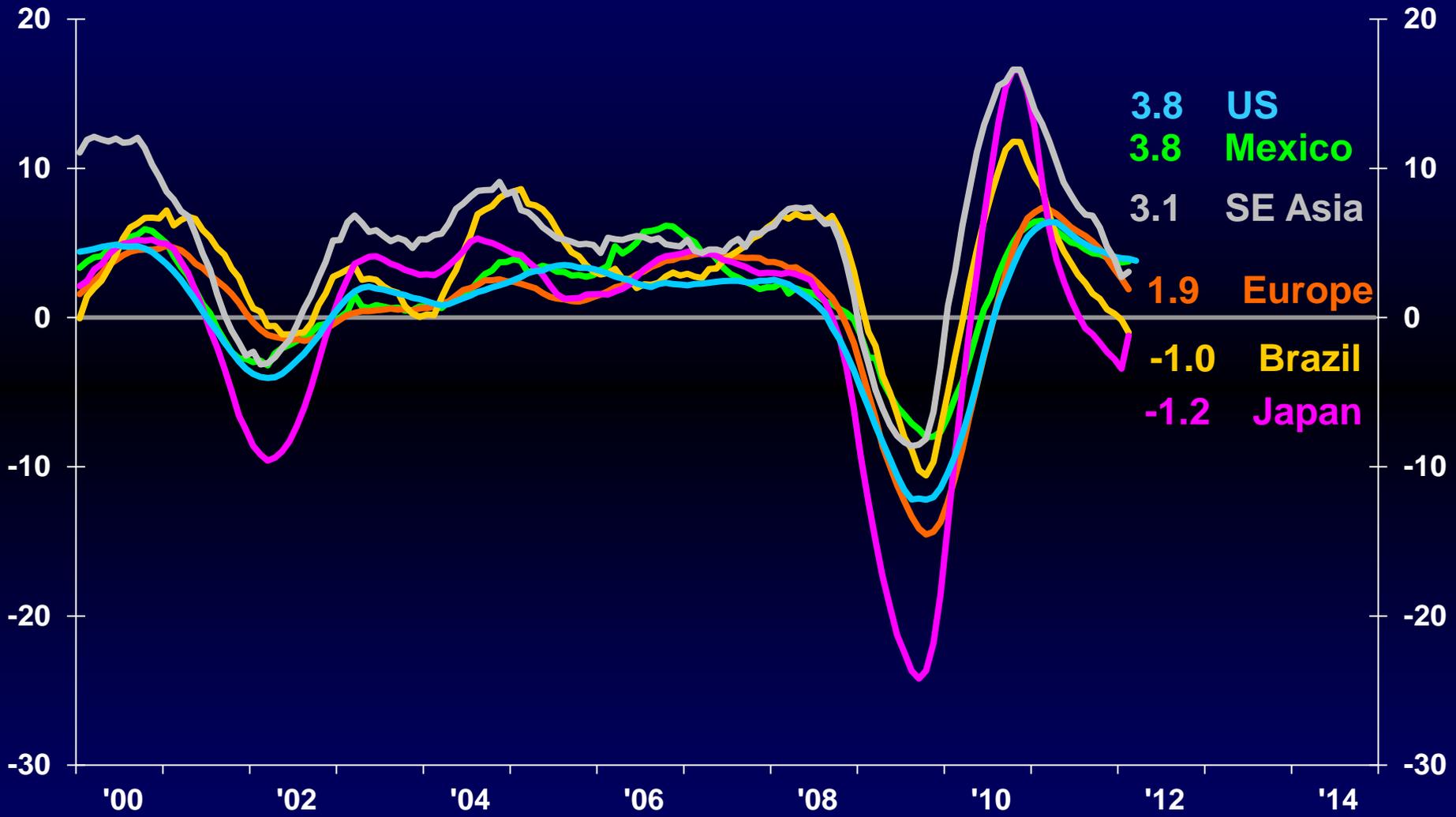
Phase D

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

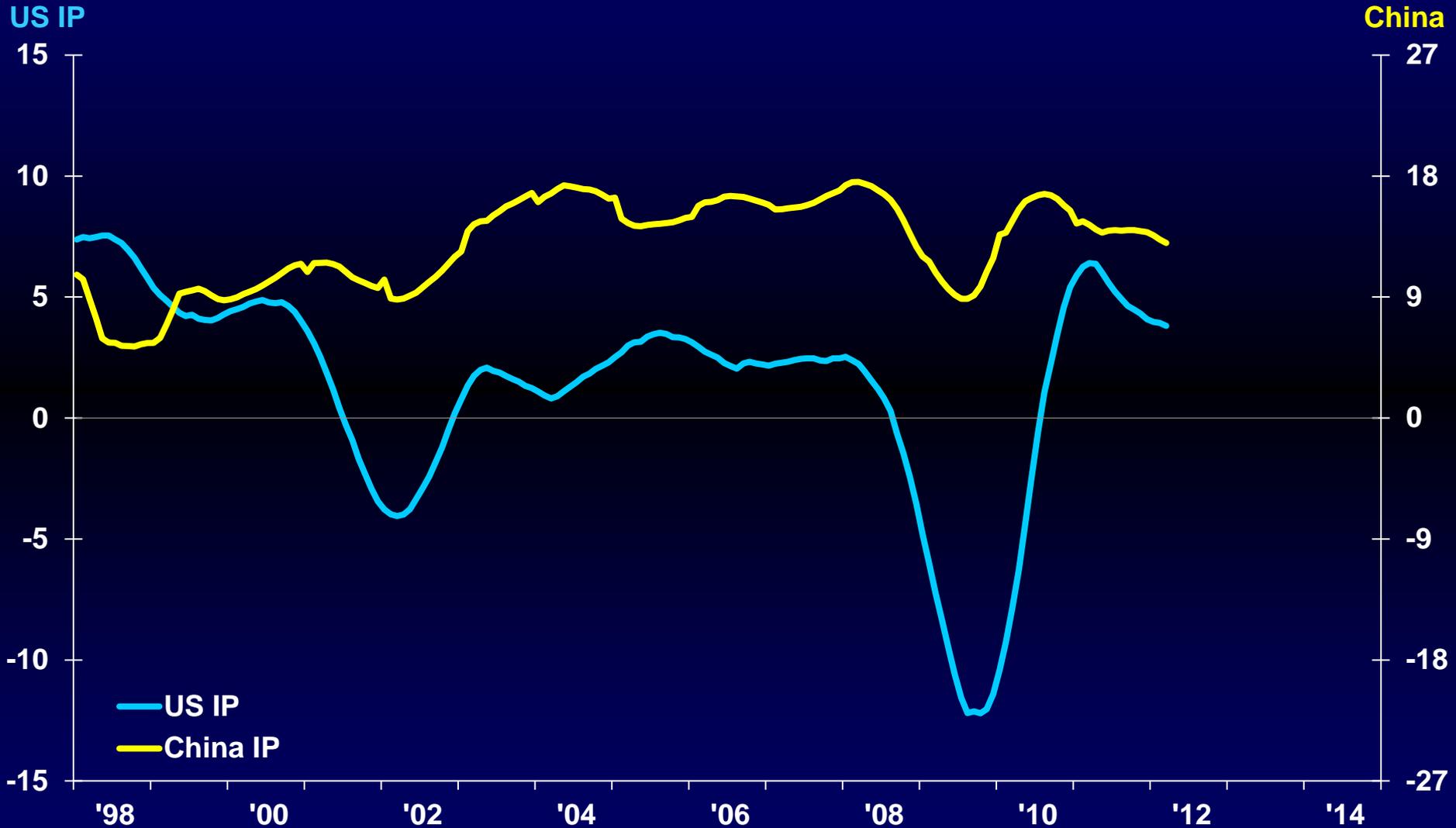


Global Industrial Production Indices

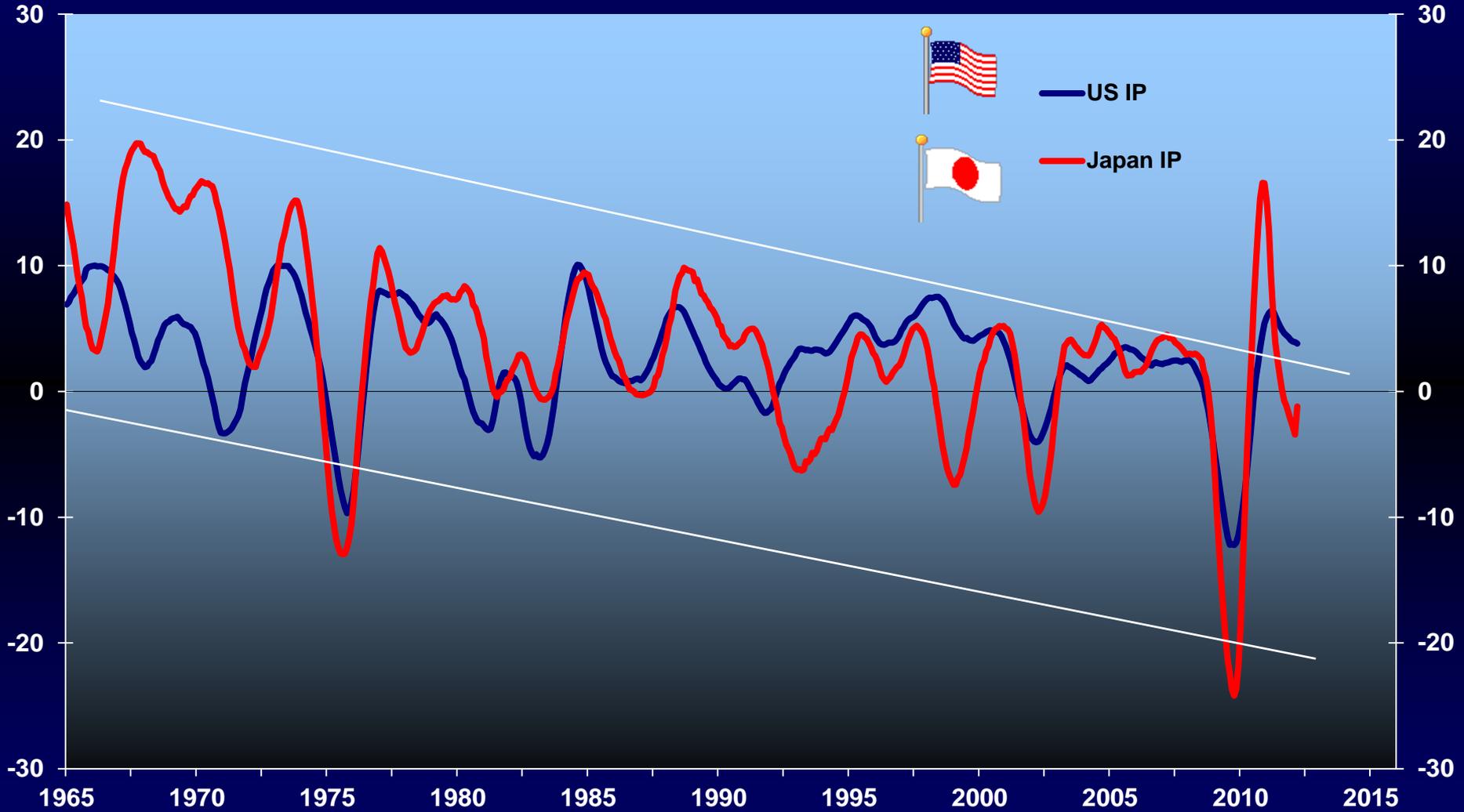
12/12 Rates-of-Change



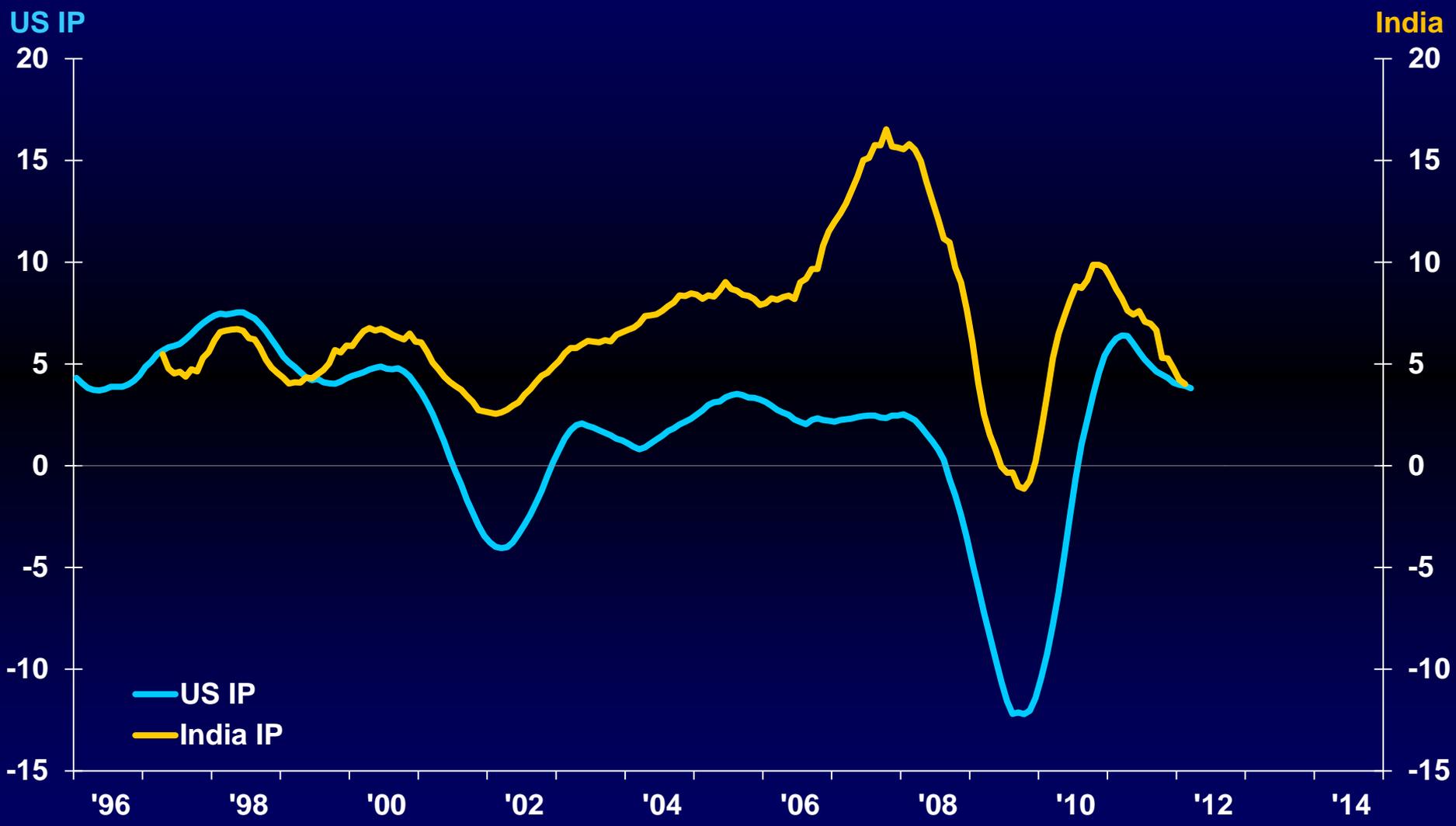
US Industrial Production to China Industrial Production 12/12 Rates-of-Change



US Industrial Production to Japan Industrial Production 12/12 Rates-of-Change

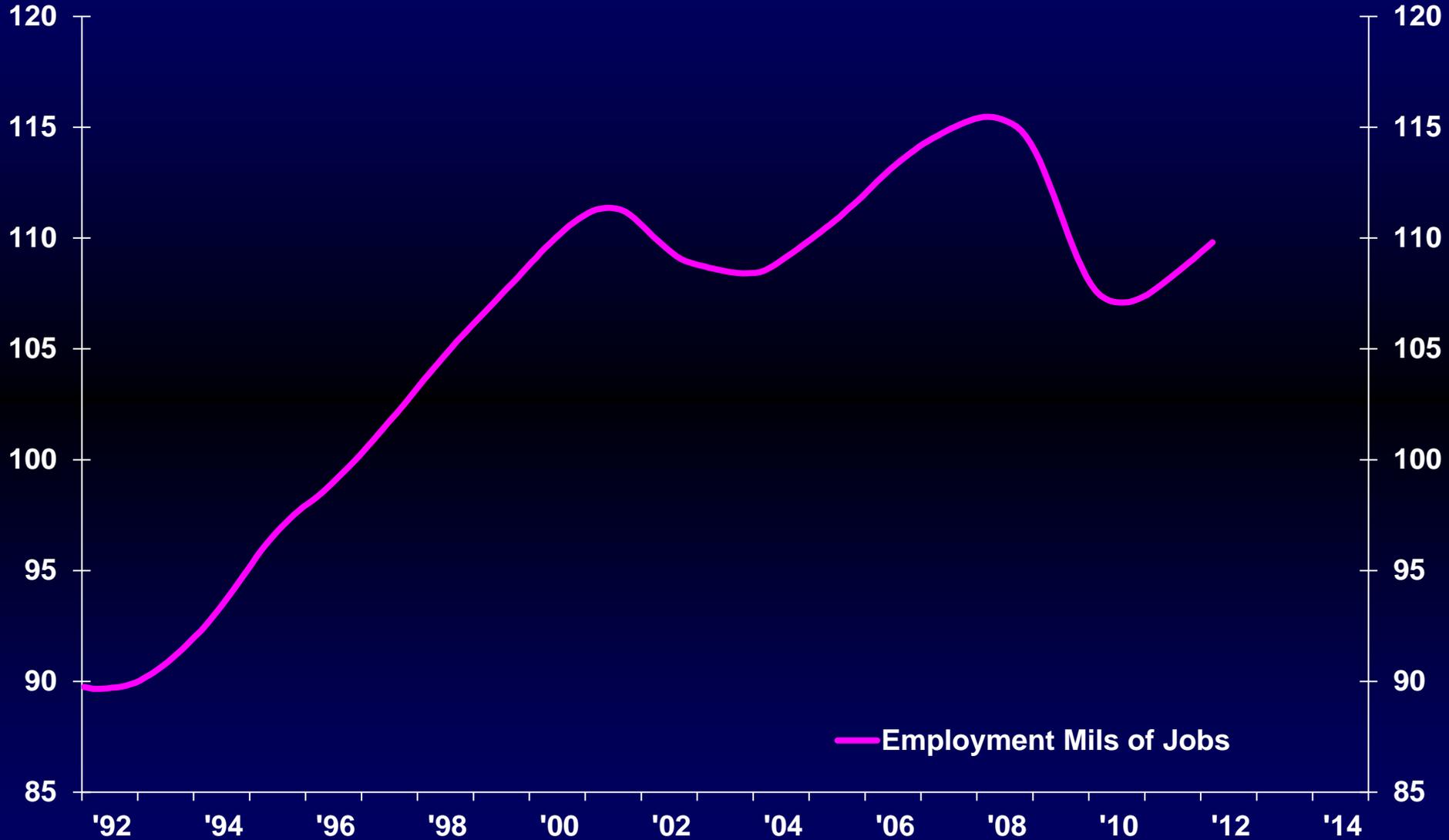


US Industrial Production to India Industrial Production 12/12 Rates-of-Change



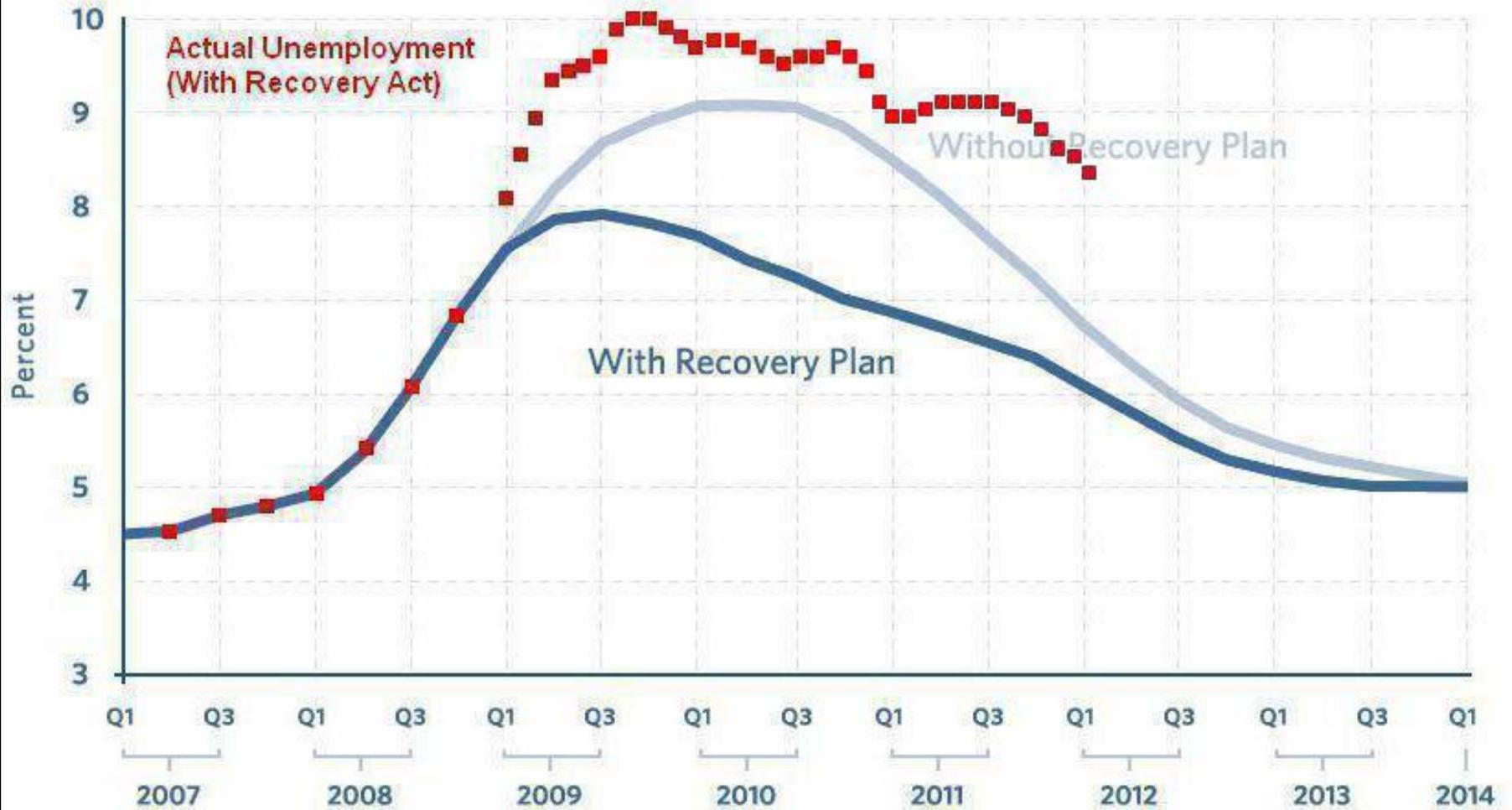


Employment – Private Sector Annual Data Trend

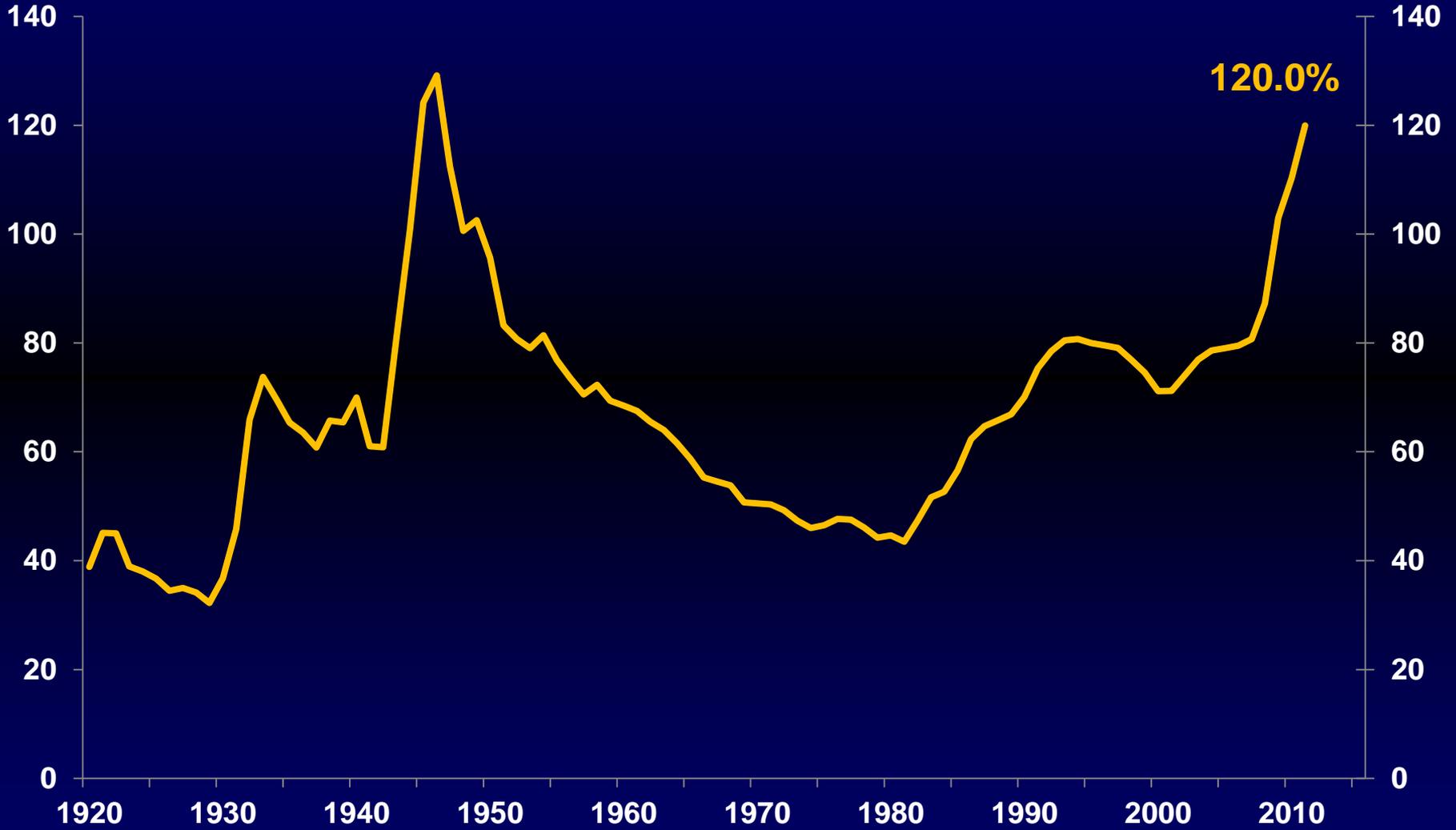


— Employment Mils of Jobs

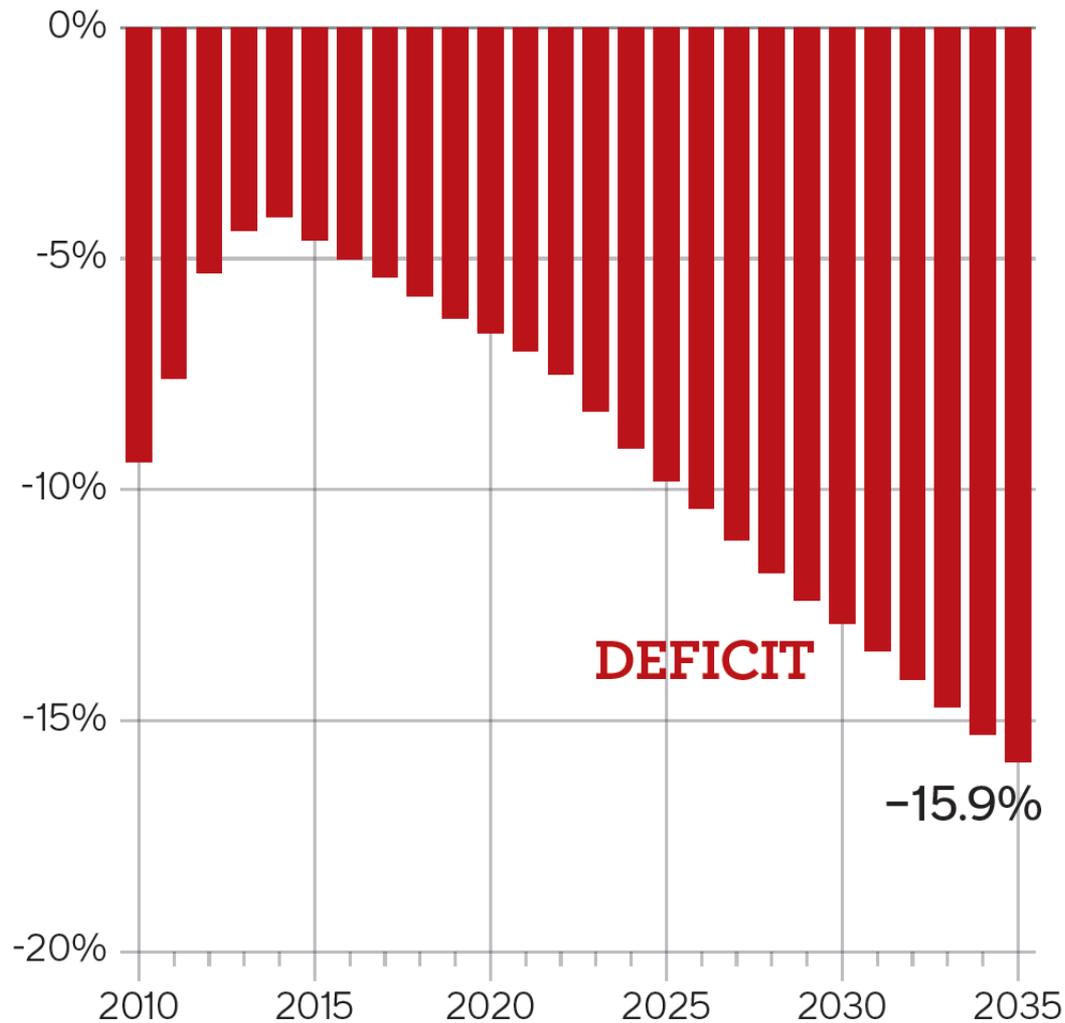
Unemployment Rate With and Without the Recovery Plan



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



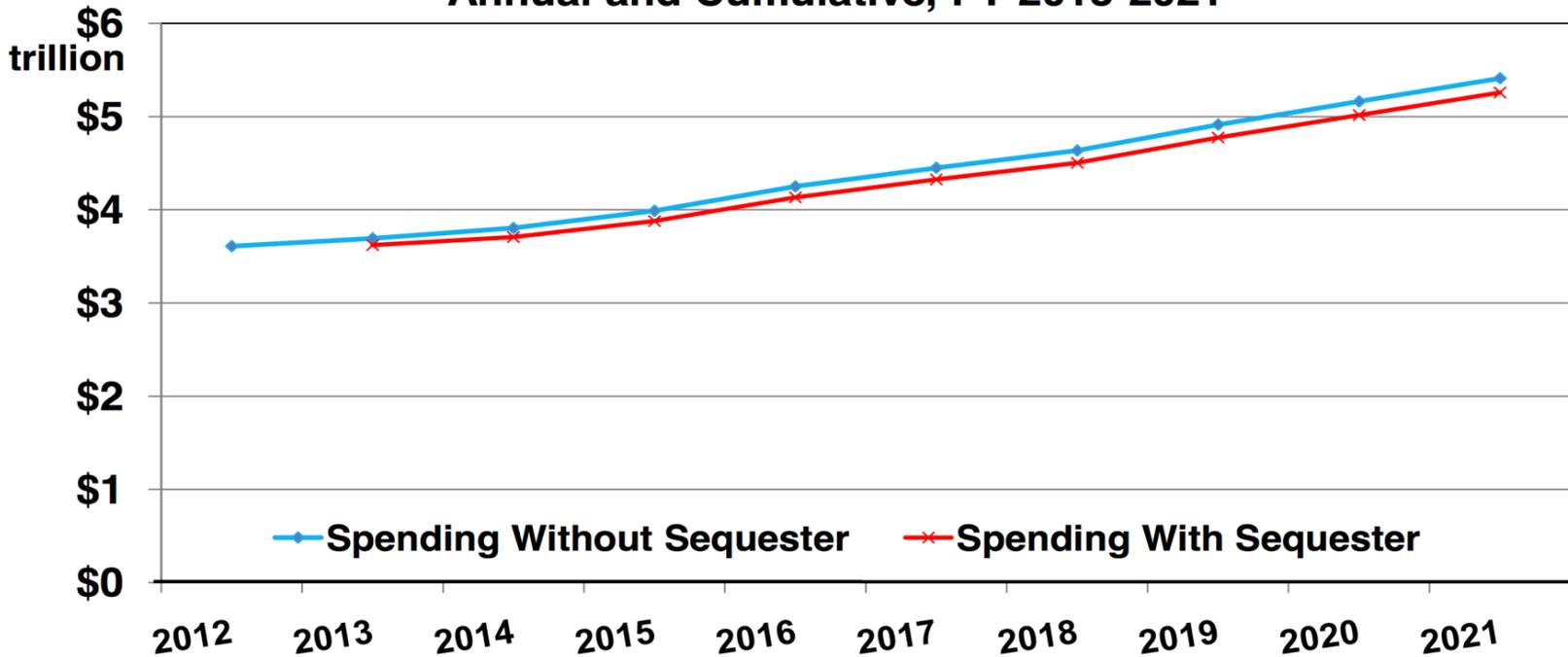
Surplus/Deficit as a Percentage of GDP



Sources: Current projections: Heritage Foundation calculations based on data from Congressional Budget Office, Alternative Fiscal Scenario. Heritage Plan: Calculations by the Center for Data Analysis, The Heritage Foundation, based on baseline data in the current projections, data provided by the Peter G. Peterson Foundation, and CDA policy models.

Federal Spending Without & With Sequester Cuts

Annual and Cumulative, FY 2013-2021



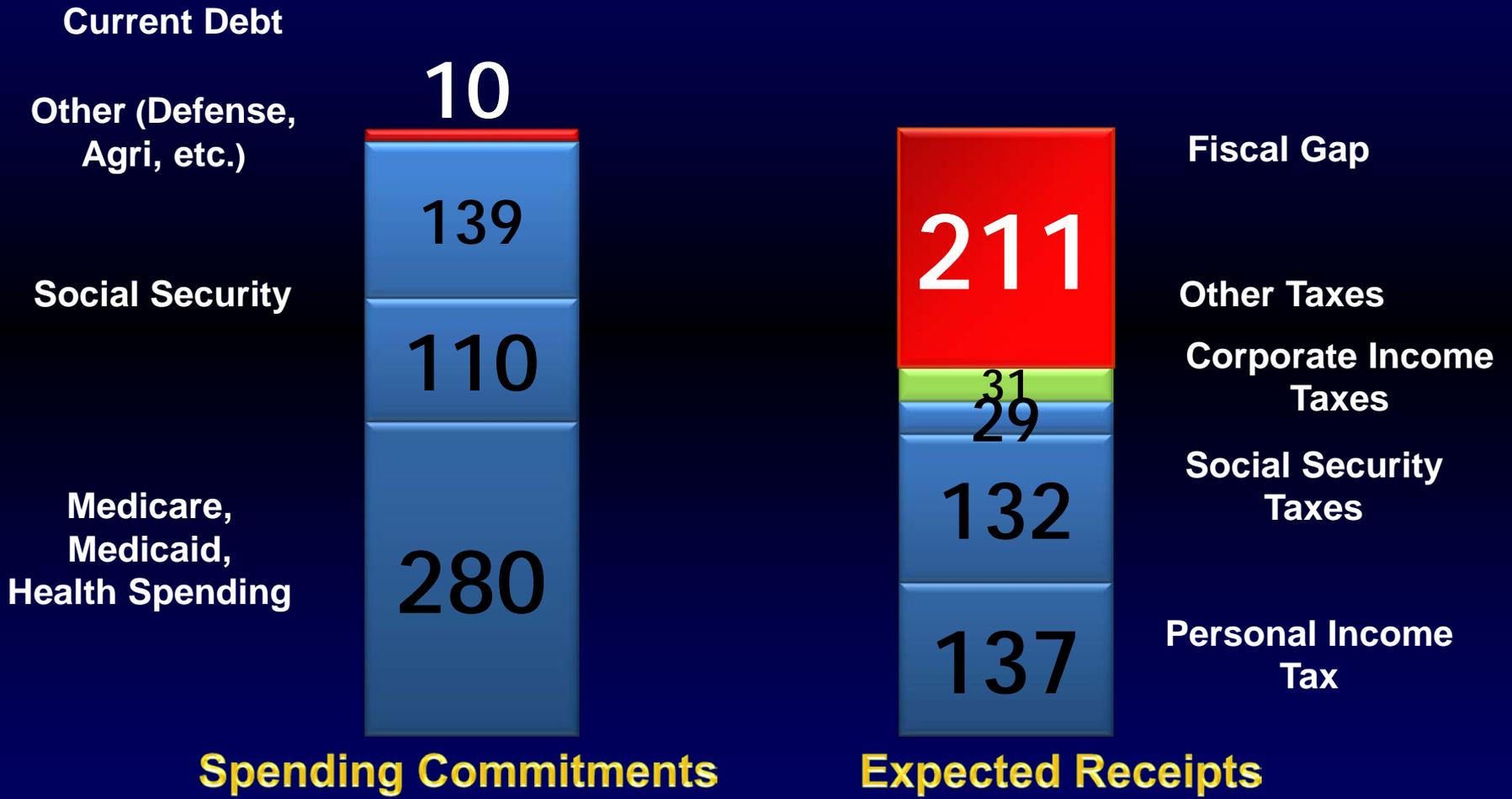
Spending Increase Between 2013-2021		
	Without	With
Defense	20%	18%
Nondefense Discretionary	14%	12%
Medicare	62%	62%
Other Mandatory	51%	51%
Net Interest	152%	136%



Source: Congressional Budget Office

Produced by: Veronique de Rugy, Mercatus Center at George Mason University

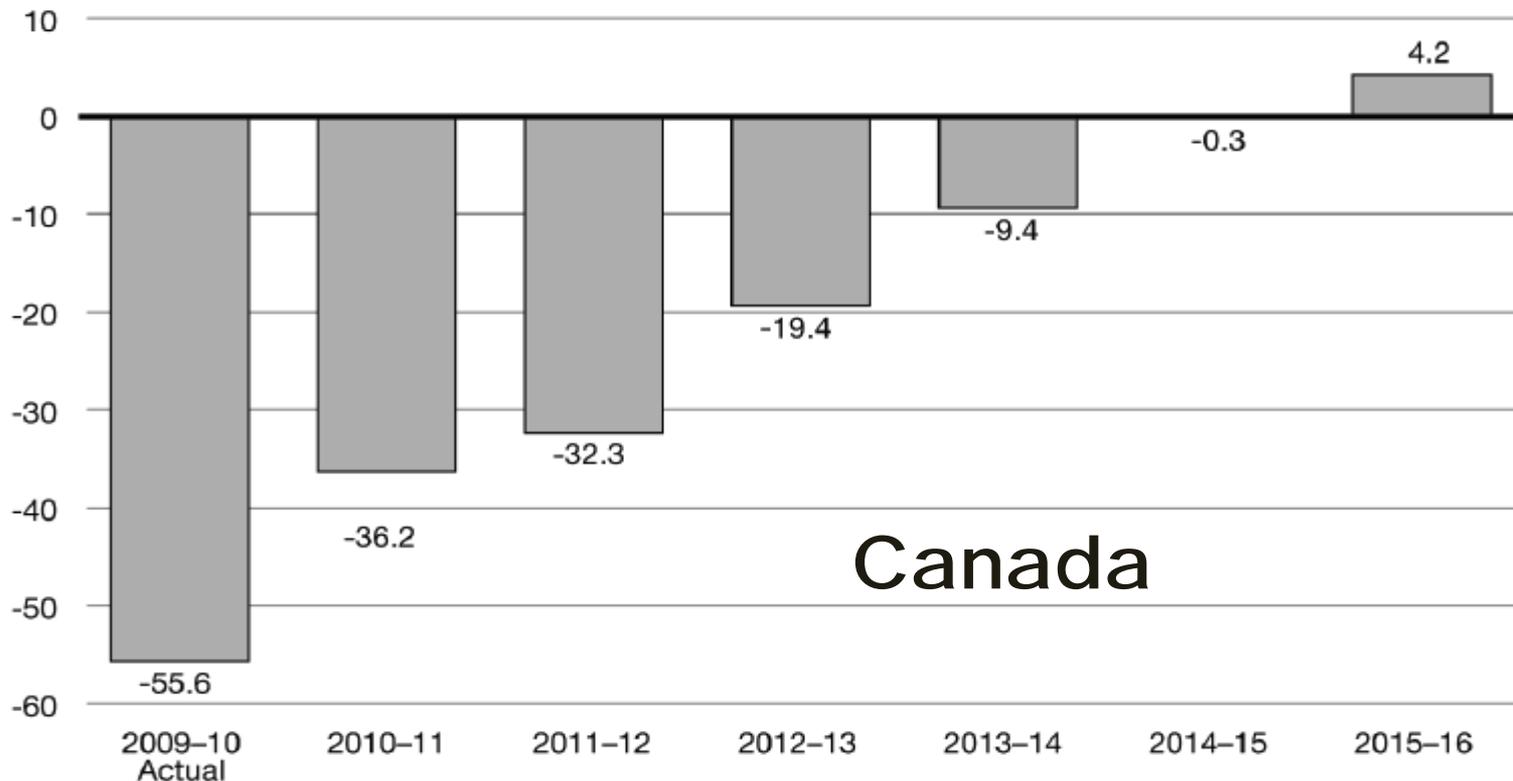
US Fiscal Gap Trillions, USD (to 2085)



Rapid decline in deficits

Return to Budgetary Balance

billions of dollars



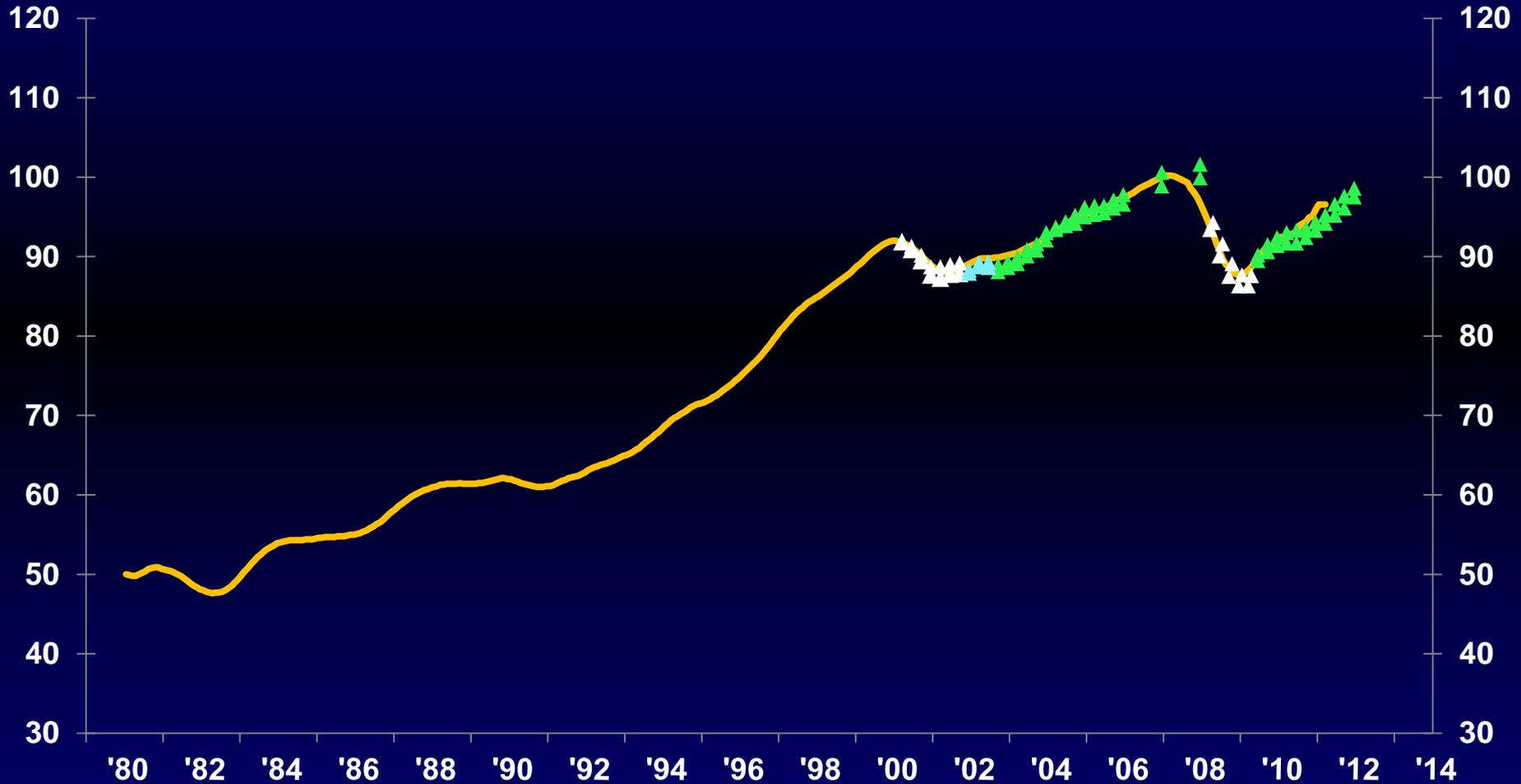
Canada

Source: Department of Finance.

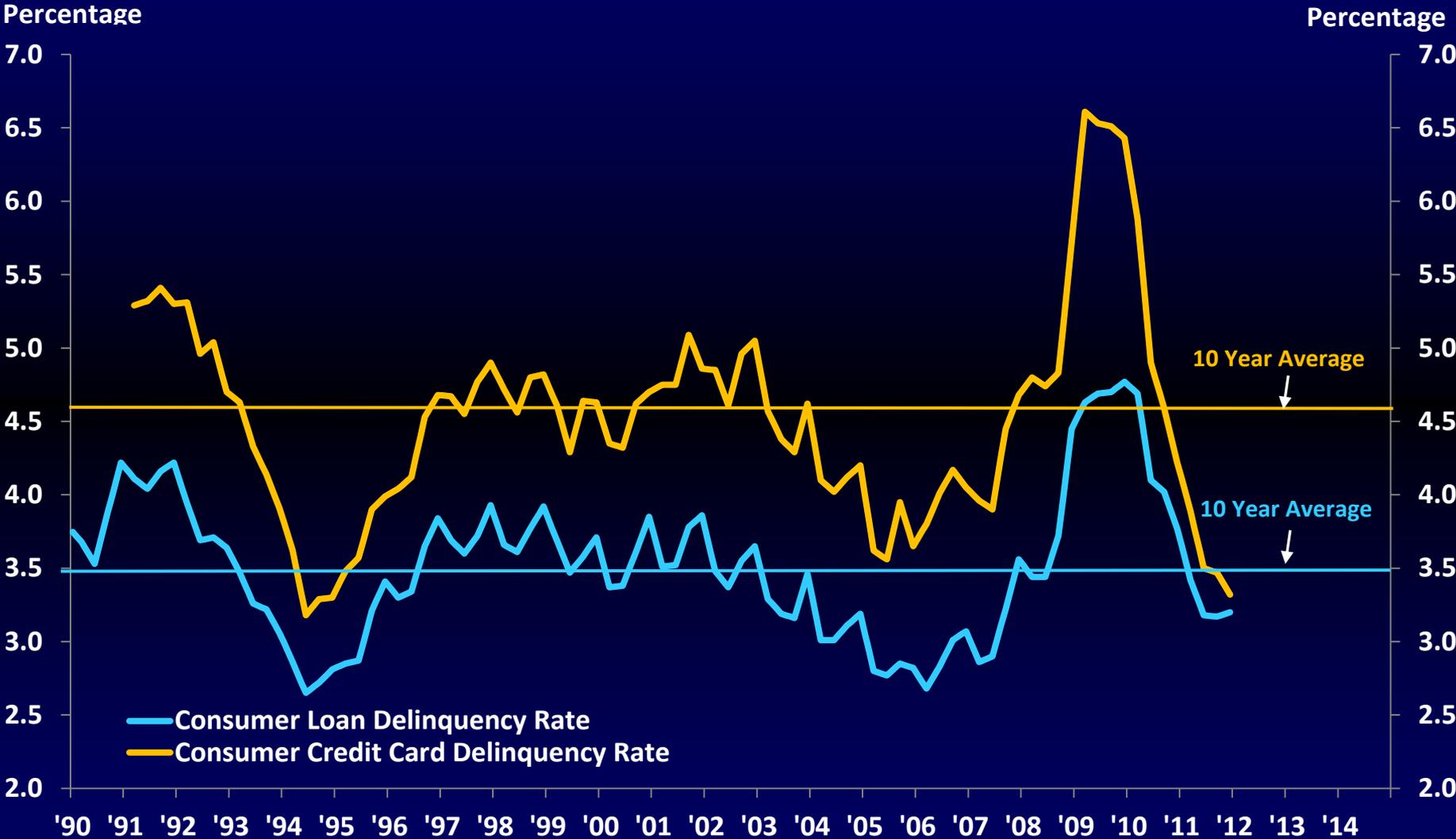
This chart from Budget 2011 has been updated to reflect the revised budgetary balance after accounting for all adjustments and new measures in this budget. The Strategic and Operating Review will support the return to balanced budgets by 2014-15.

US Industrial Production Index

2007 = 100
Forecast Through December 2012
Annual Average Index

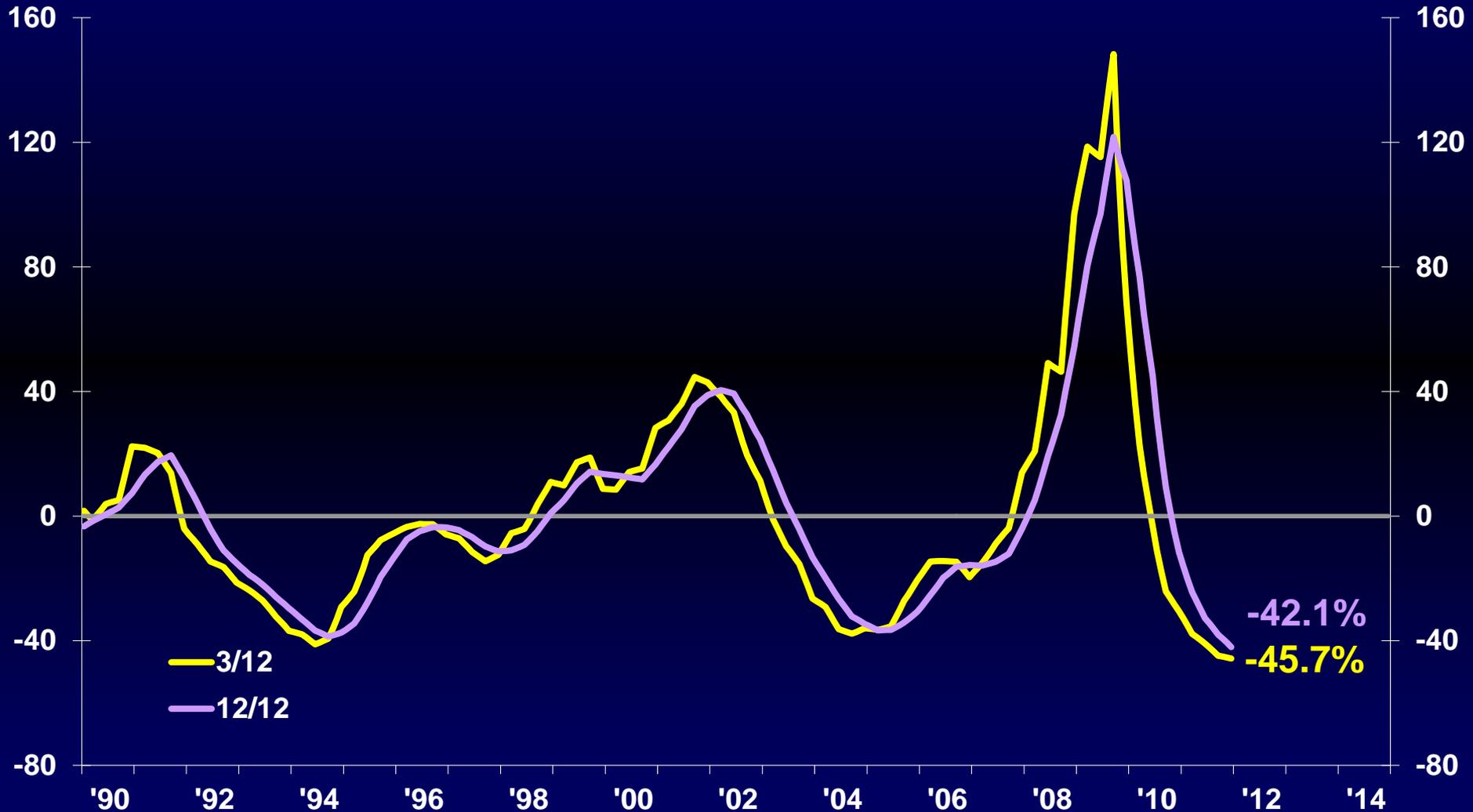


Delinquency Rates on Consumer Loans 3MMA Data Trends

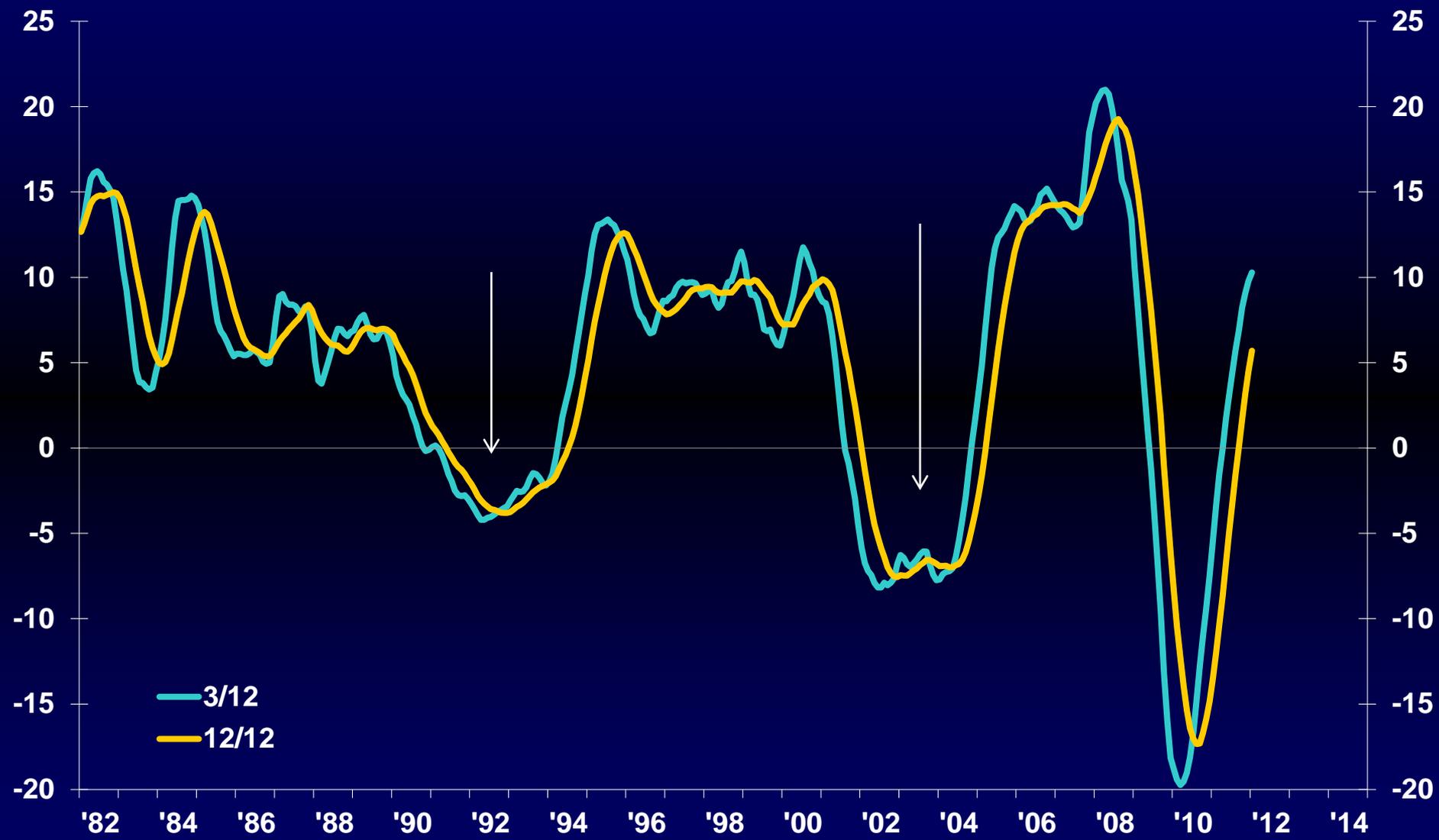


Delinquency Rates for C&I Loans

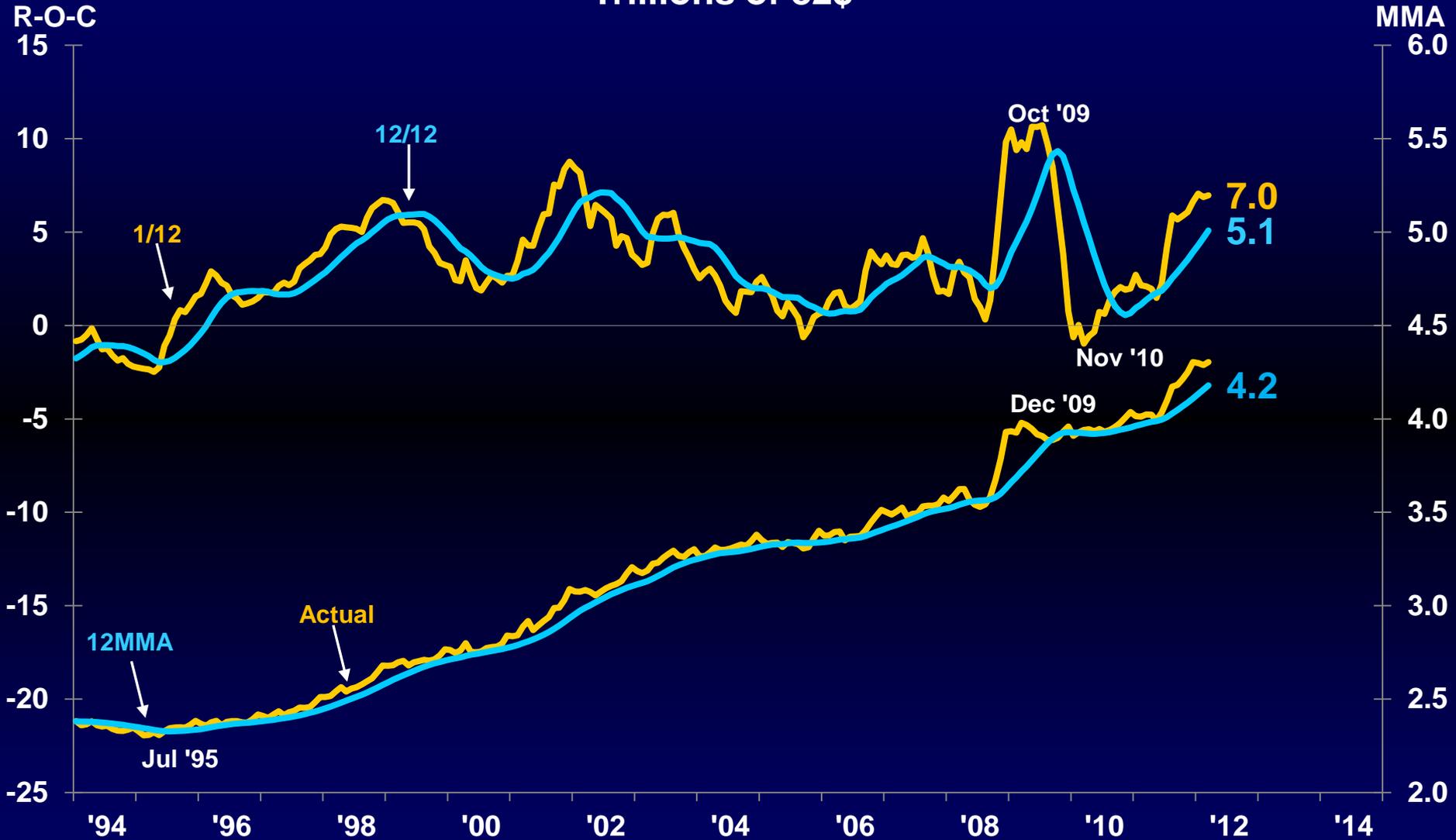
3/12 & 12/12 Rates-of-Change



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



M2 Money Supply Trillions of 82\$



Mortgage Rates to Federal Funds Raw Data

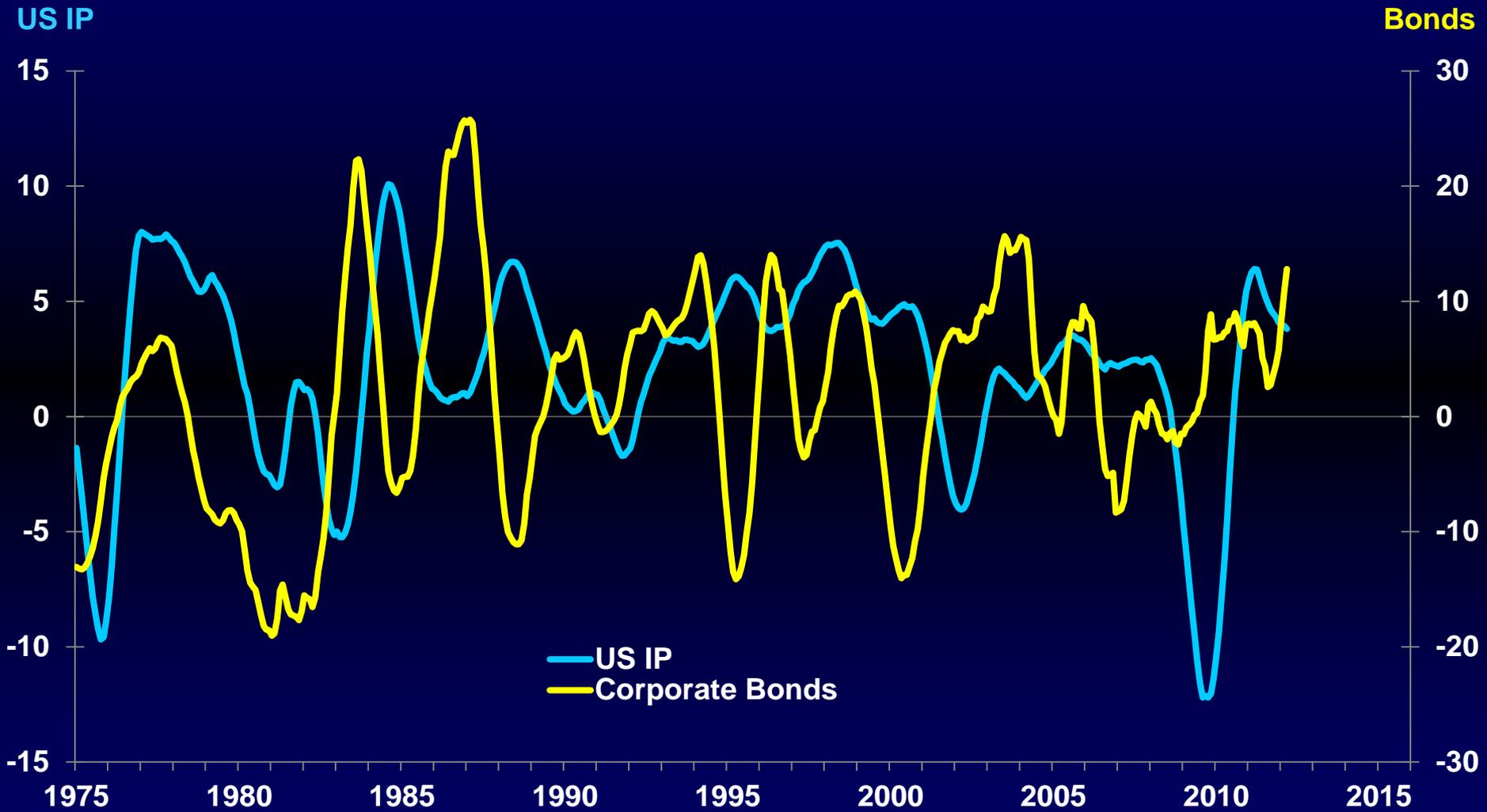


Short-Term Interest Rates to US Gov't Long-Term Bond Yields

Raw Data Trends

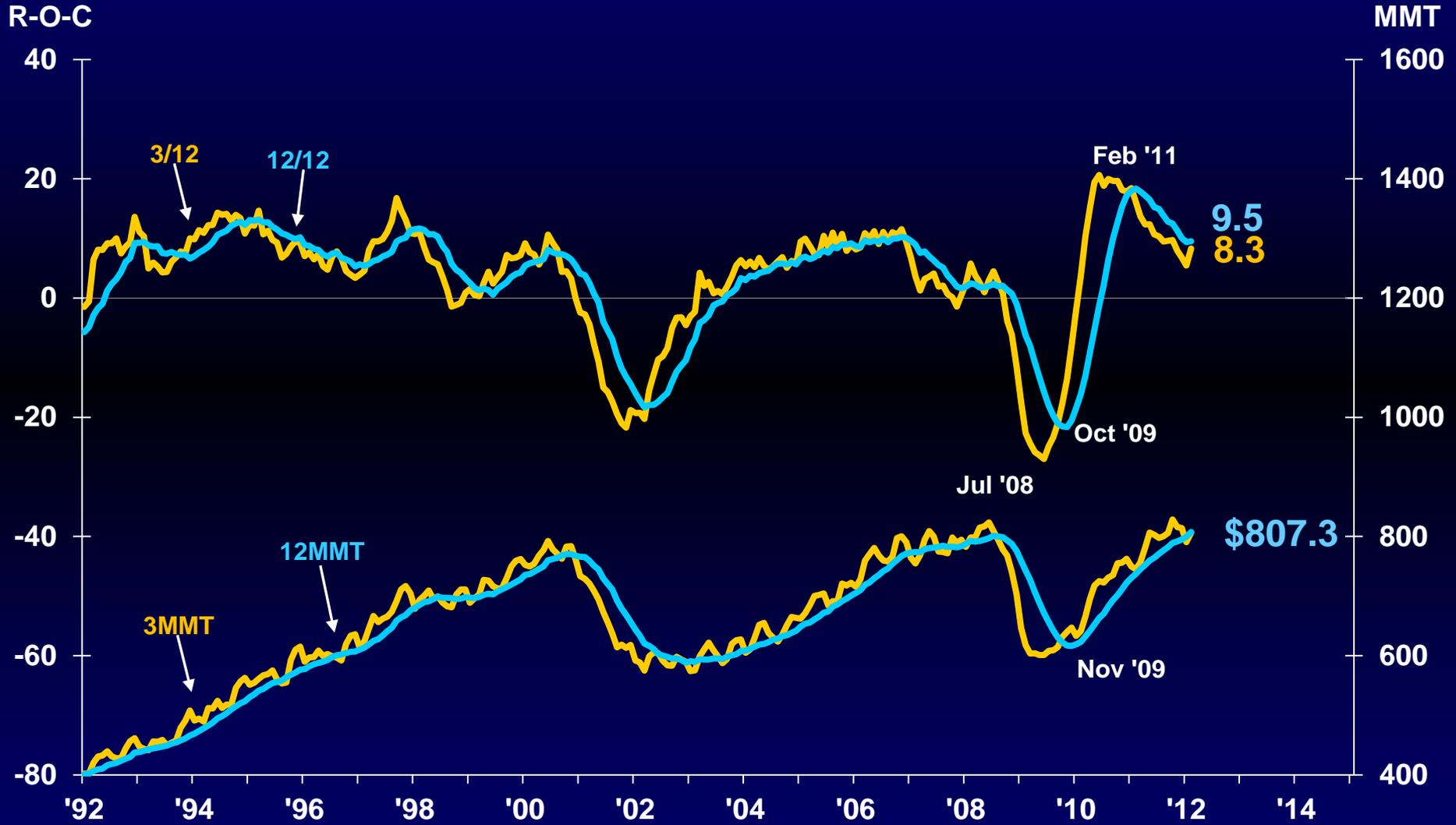


US Industrial Production to Corporate Bond Prices 12/12 Rates-of-Change

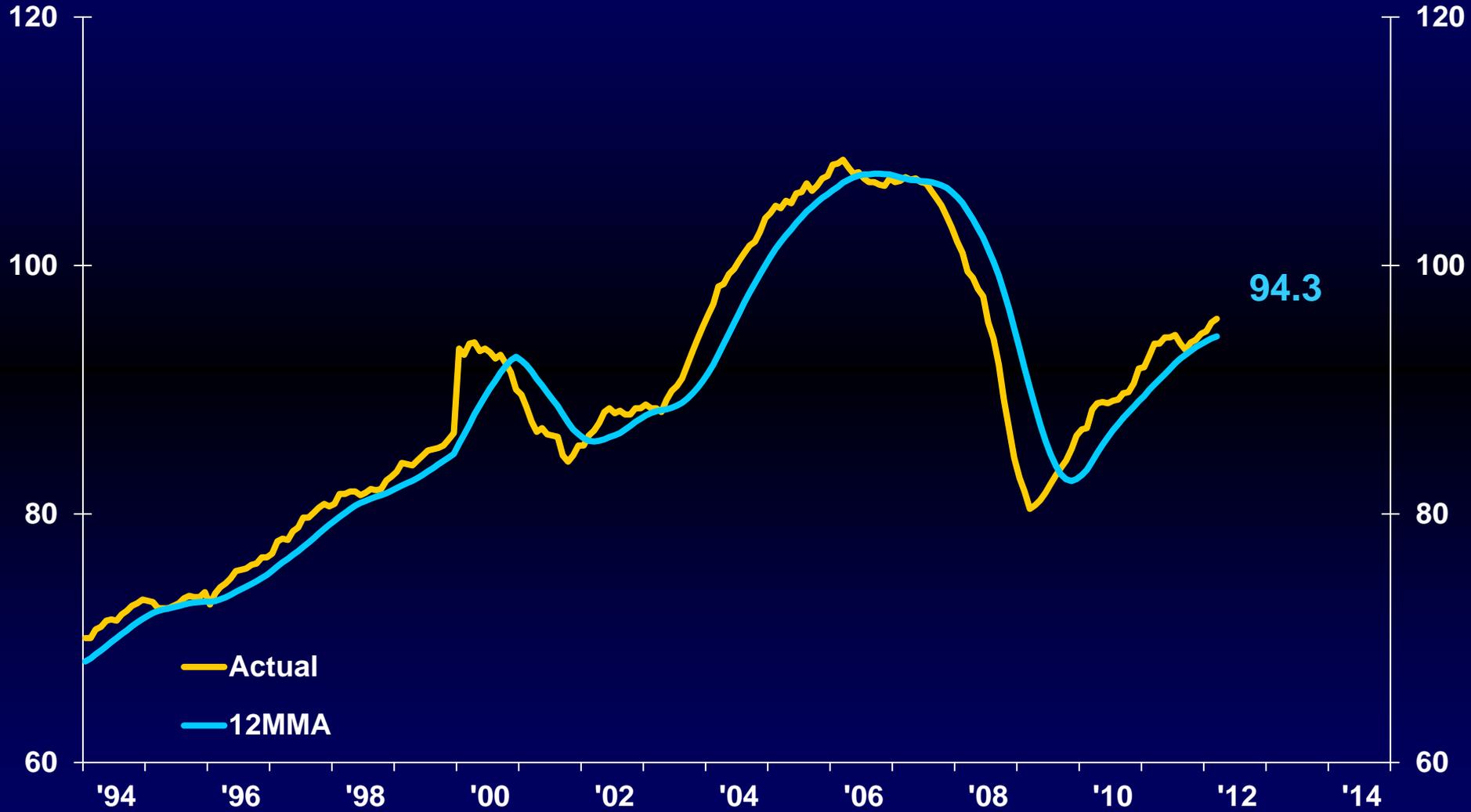


— US IP
— Corporate Bonds

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



US Leading Indicator Actual and 12MMA Data Trends



94.3

Actual
12MMA



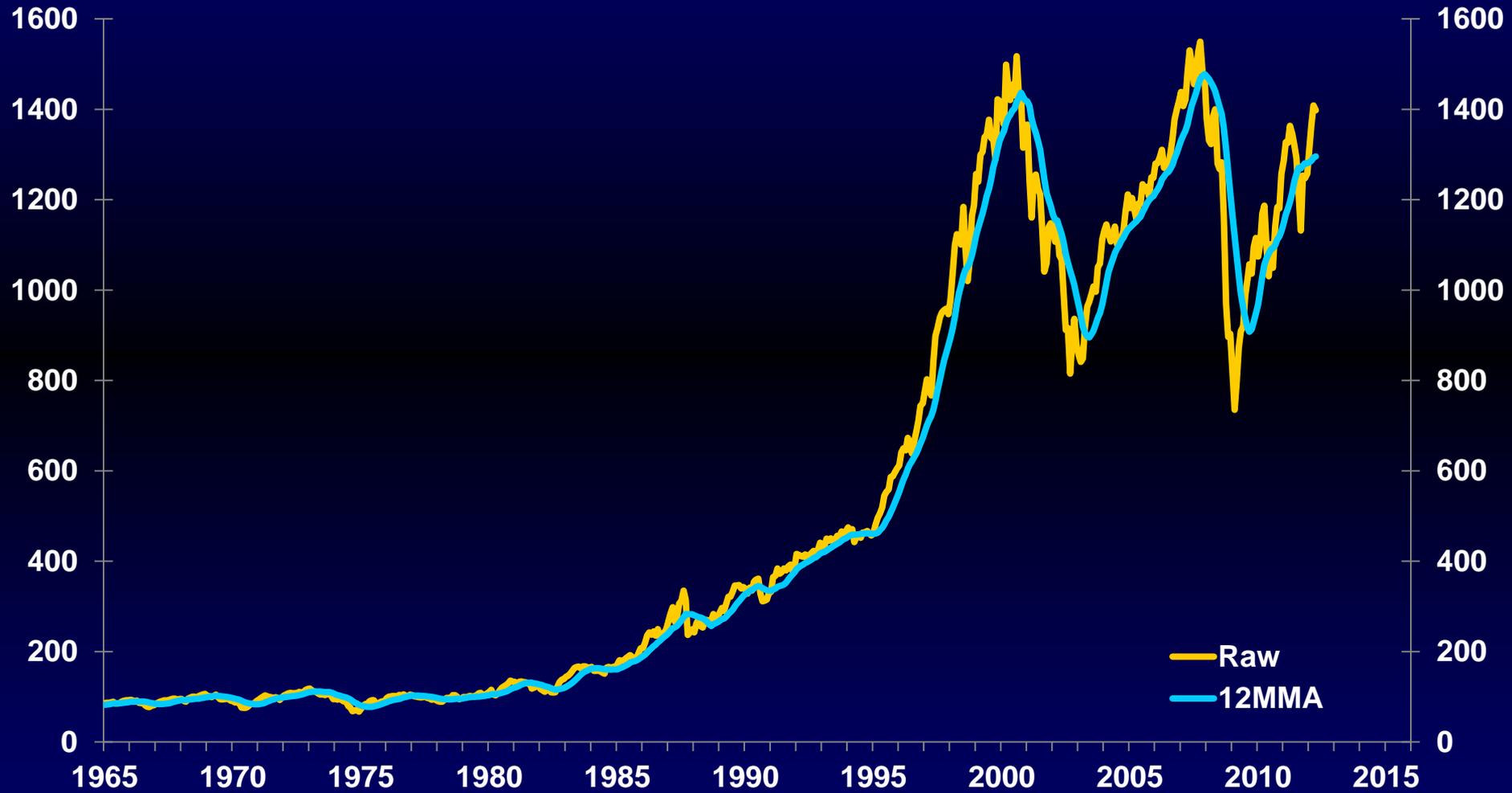
Purchasing Managers Index Raw Data



Raw



Stock Prices Index Data Trends



Retail Sales Excluding Automobiles

Trillions of 82-84\$

40

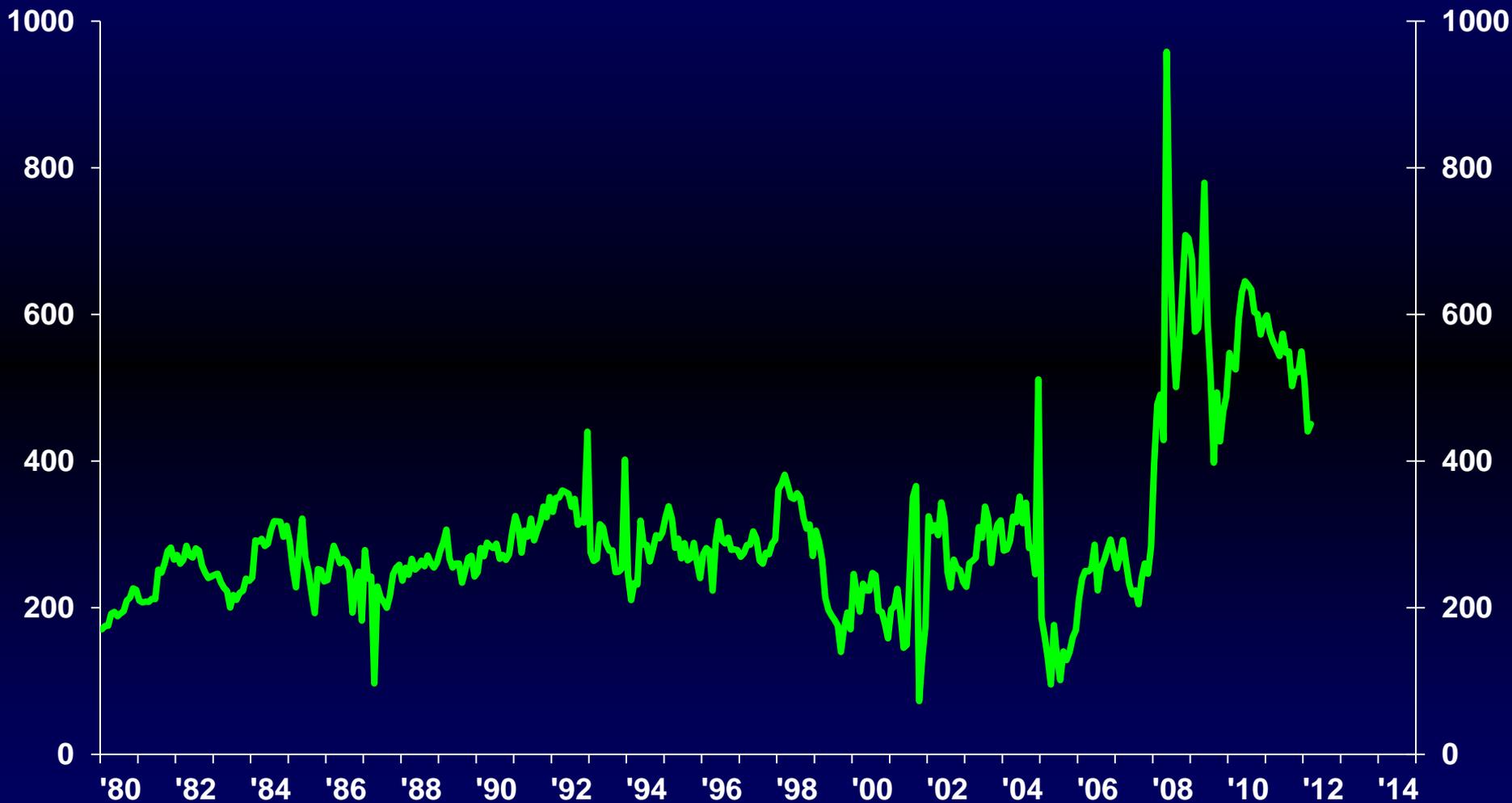


\$2.123

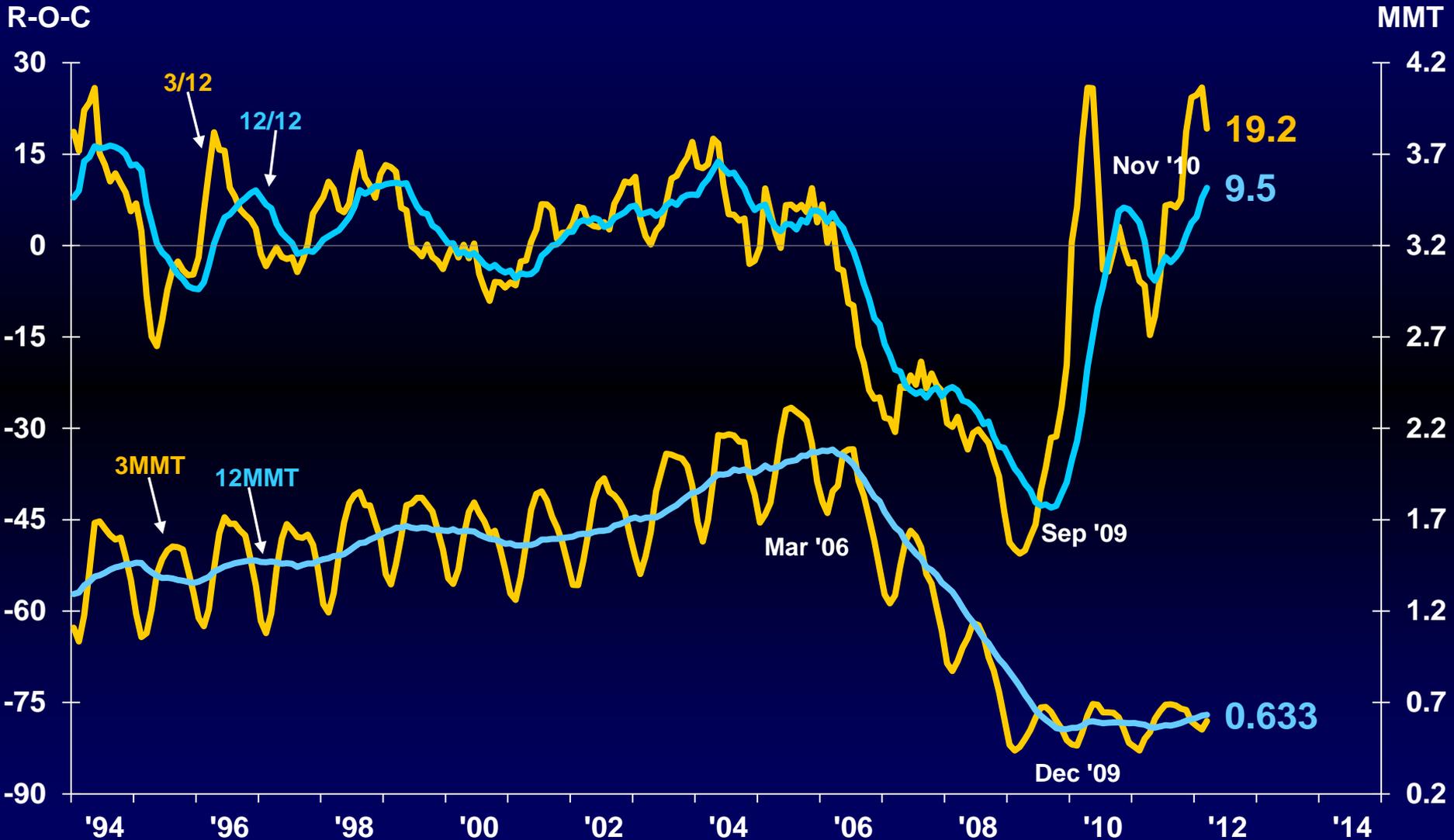
Personal Savings

Billions of \$, Annual Data Trend
SAAR

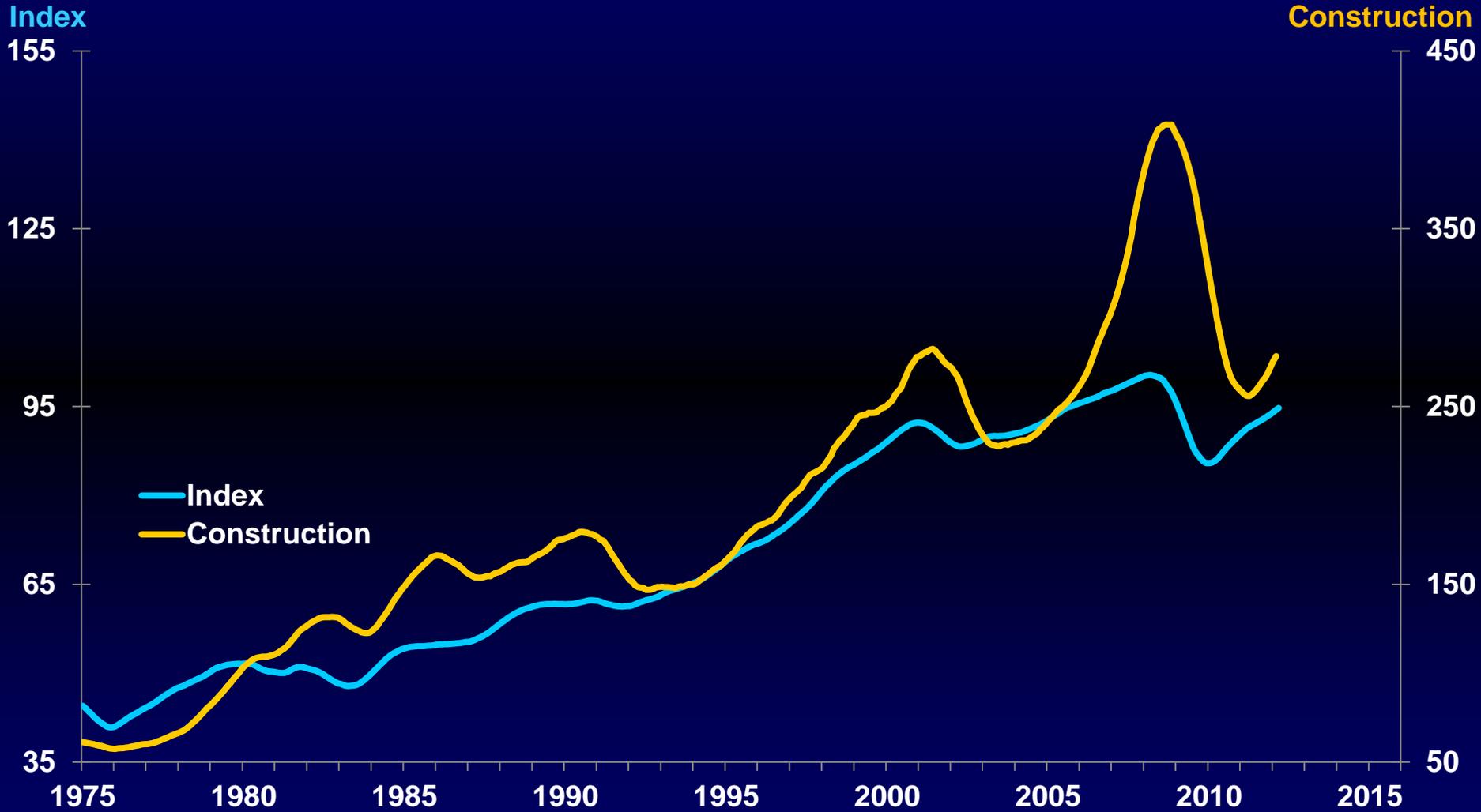
41



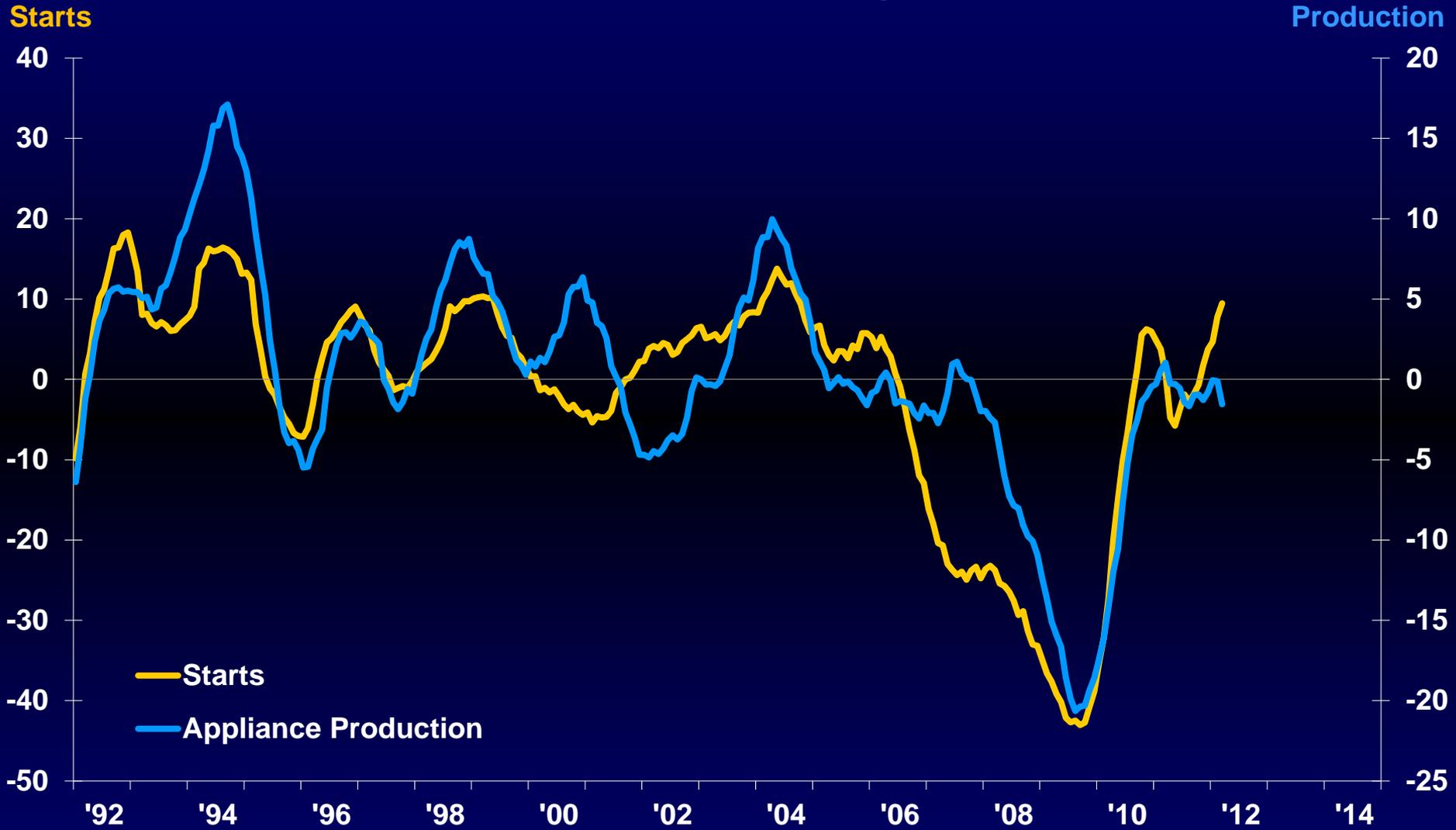
Housing Starts Millions of Units



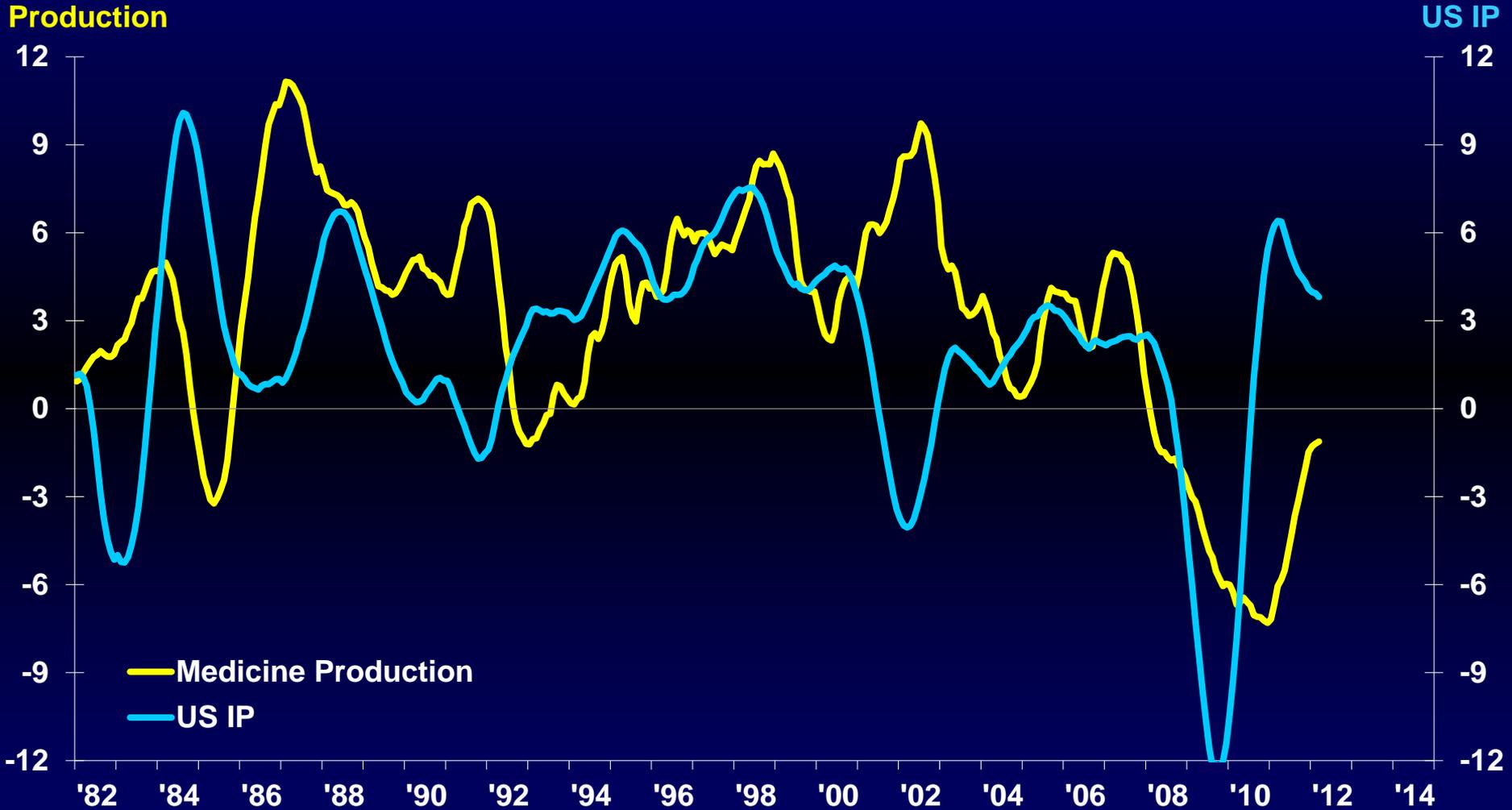
US Industrial Production to Non-Residential Construction Data Trends



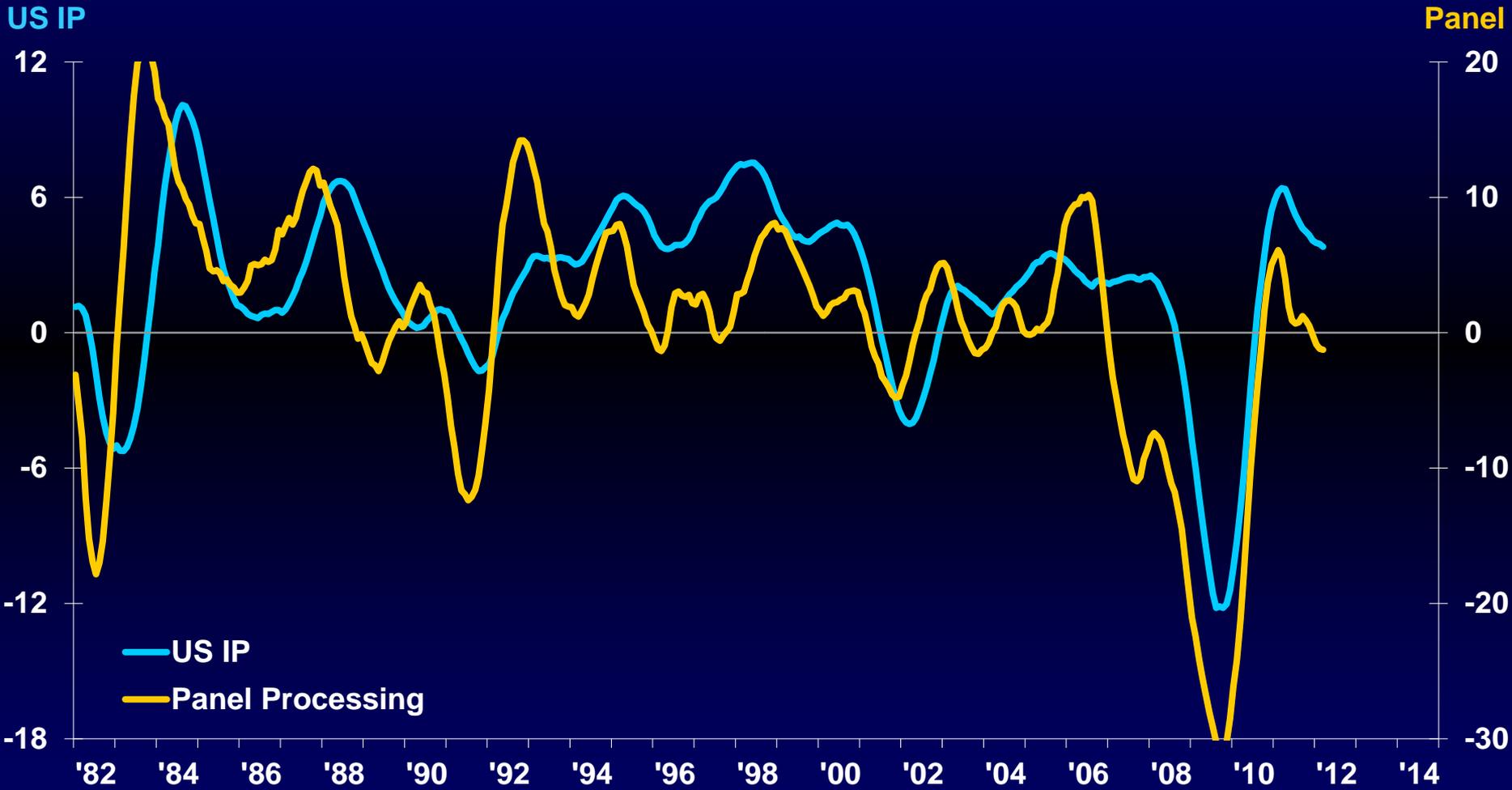
Housing Starts to Appliance Market Production 12/12 Rate of Change



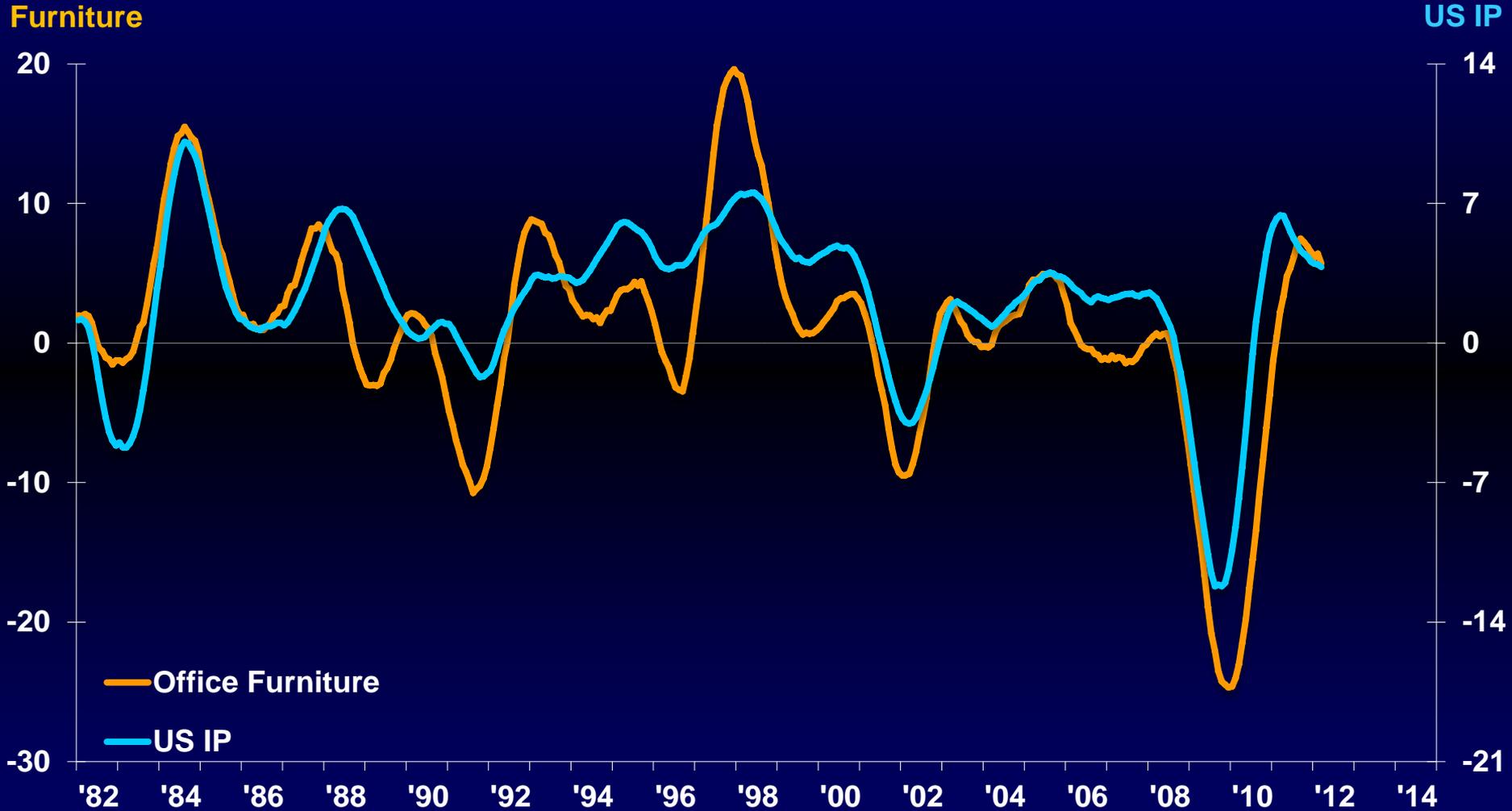
US Industrial Production to Pharmaceutical & Medical Production 12/12 Rates-of-Change



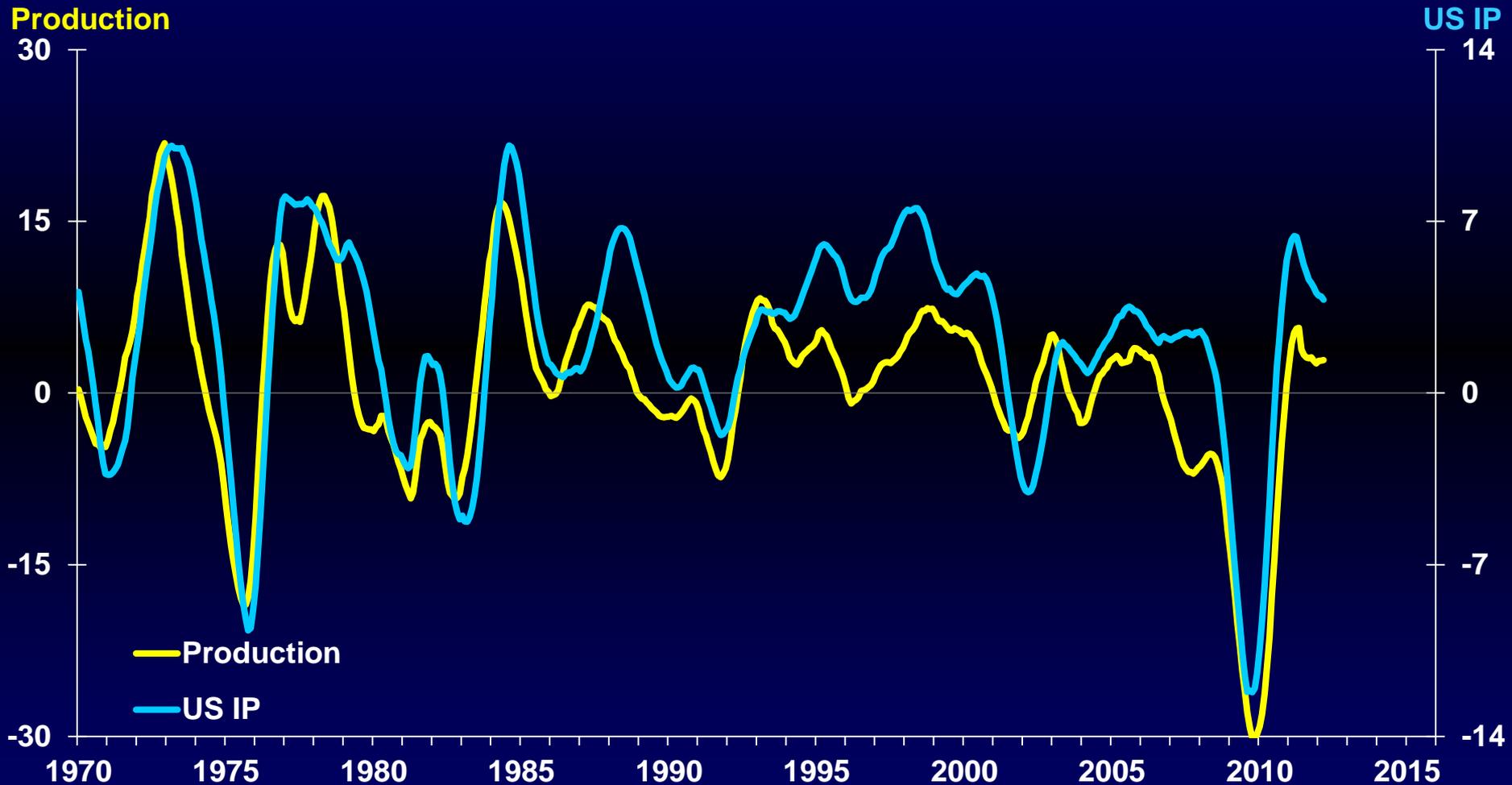
US Industrial Production to Panel Processing 12/12 Rates-of-Change



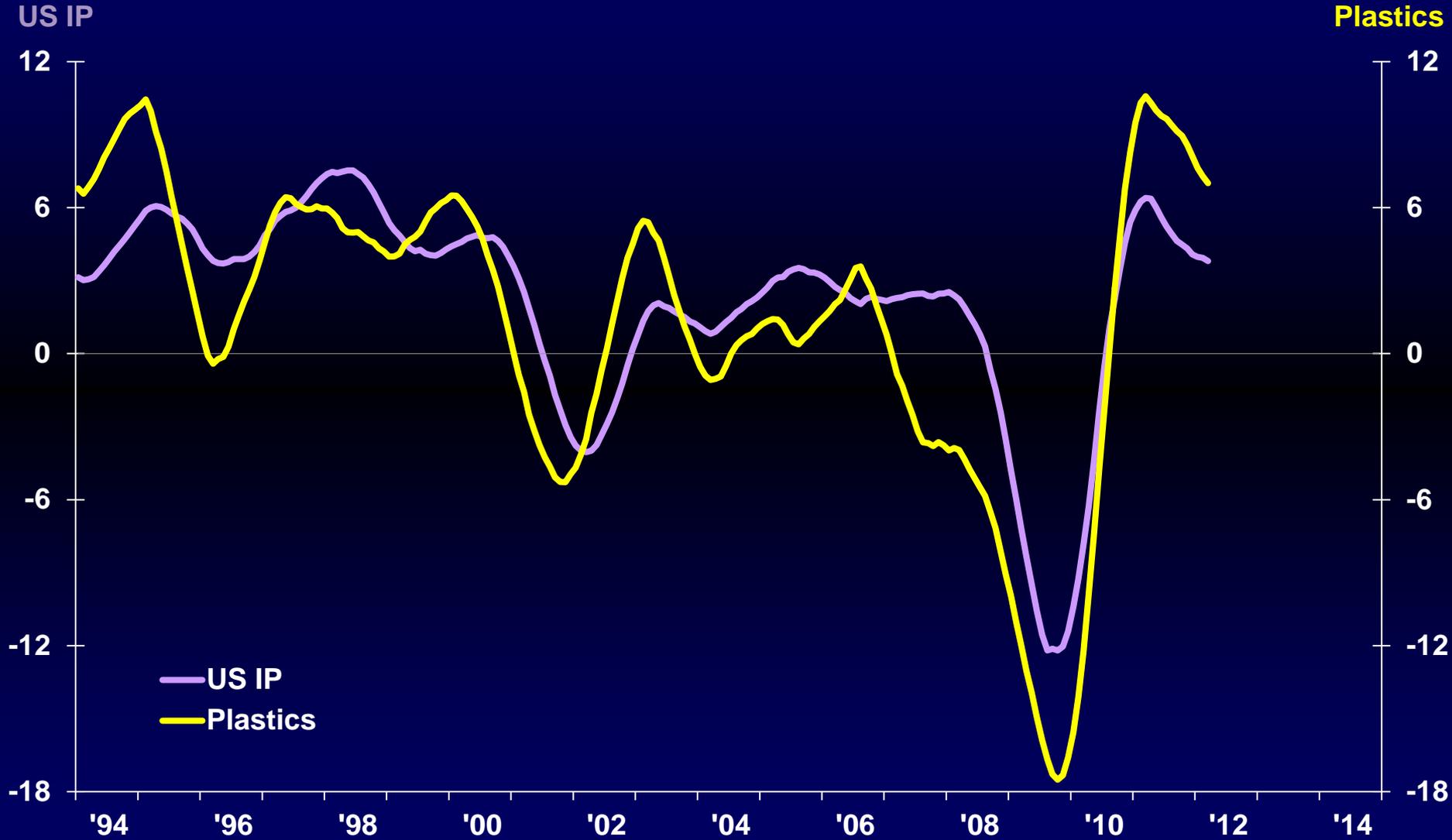
US Industrial Production to Office & Other Furniture Production 12/12 Rates-of-Change



US Industrial Production to Household, Institutional Furniture and Kitchen Cabinets Production Index 12/12 Rates-of-Change



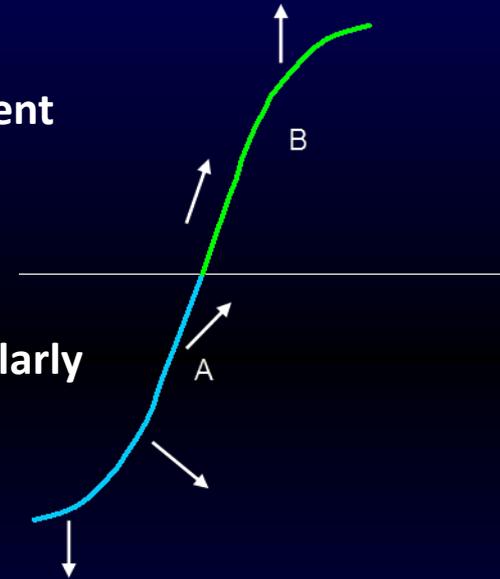
US Industrial Production to Plastics Products Production 12/12 Rates-of-Change



Phase Management Objectives™:

2012-2013 – 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

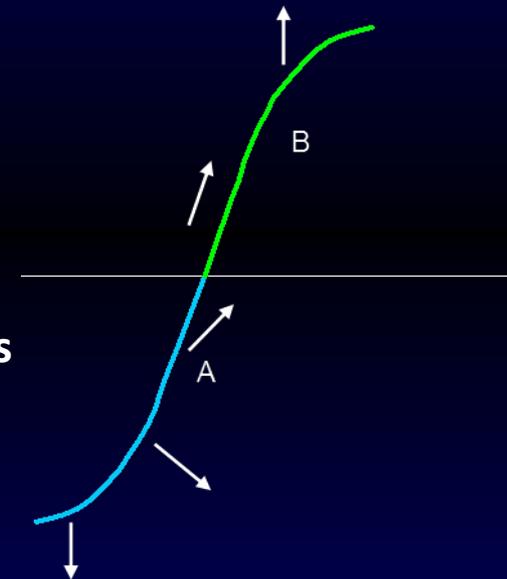


Phase Management Objectives™:

Phase Late A – Recovery

Part 2

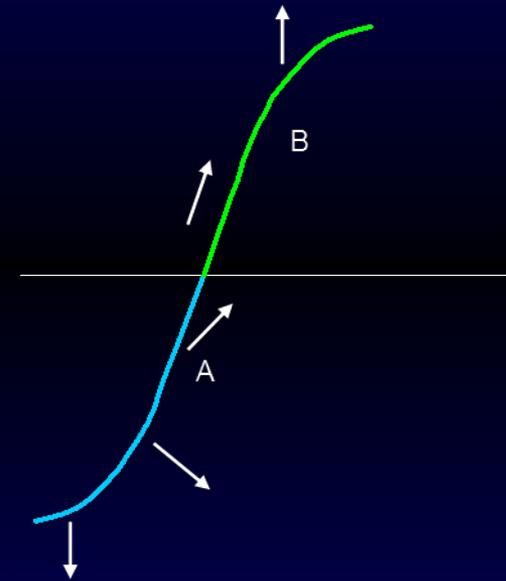
11. Start to phase out marginal opportunities
12. Add sales staff
13. Build inventories (consider lead time and turn rate)
14. Introduce new product lines
15. Determine capital equipment needs and place orders
16. Begin advertising and sales promotions
17. Hire "top" people
18. Implement plans for facilities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



Phase Management Objectives™:

Phase Early B – Growth

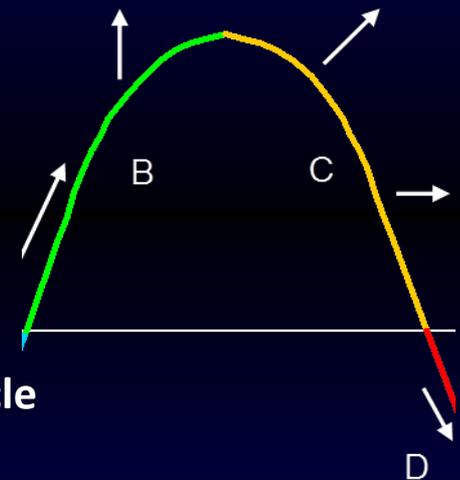
1. Accelerate training
2. Check the process flow for possible future bottlenecks
3. Continue to build inventory
4. Increase prices
5. Consider outside manufacturing sources if internal pressures becoming tight
6. Find the answer to “What next?”
7. Open distribution centers
8. Use improved cash flow to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

Find a way to do business in the “counter-cyclical” or largely unaffected areas:

- ★ Energy
- ★ Green
- ★ Water
- ★ Canada/Exports
- ★ Higher Education
- ★ Health Care Practices
- ★ Food
- ★ Pets
- ★ Funeral Services
- ★ Alcohol
- ★ Security
- ★ Legal Services (Diversified)

Demographics

Winning Demographics

USA ~ 300 million grows to 400 – 500 million

India

Indonesia

Australia

Canada

Mexico

Brazil

Negative Demographics

China

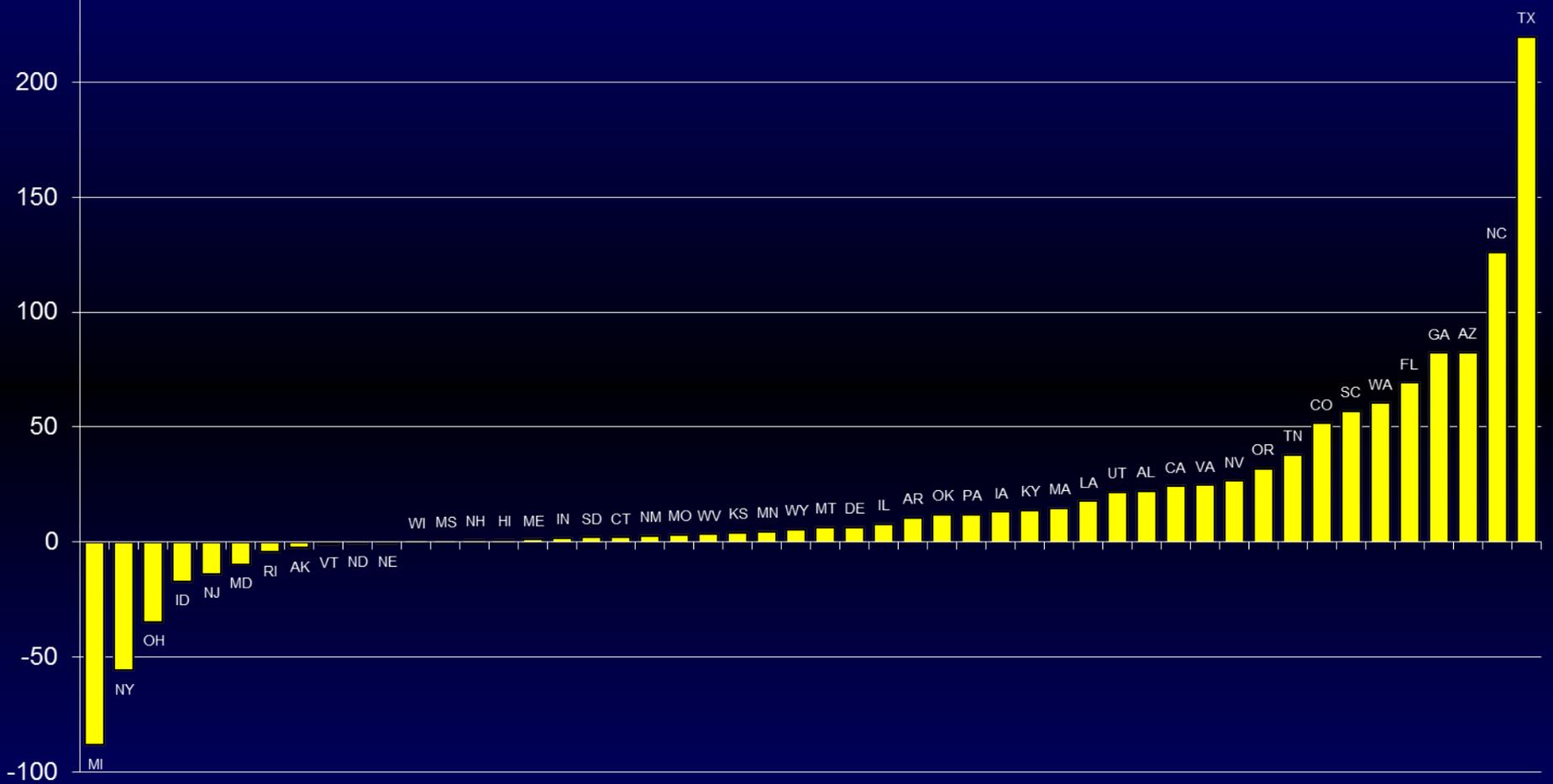
Europe

Japan

Russia (13% want to leave)

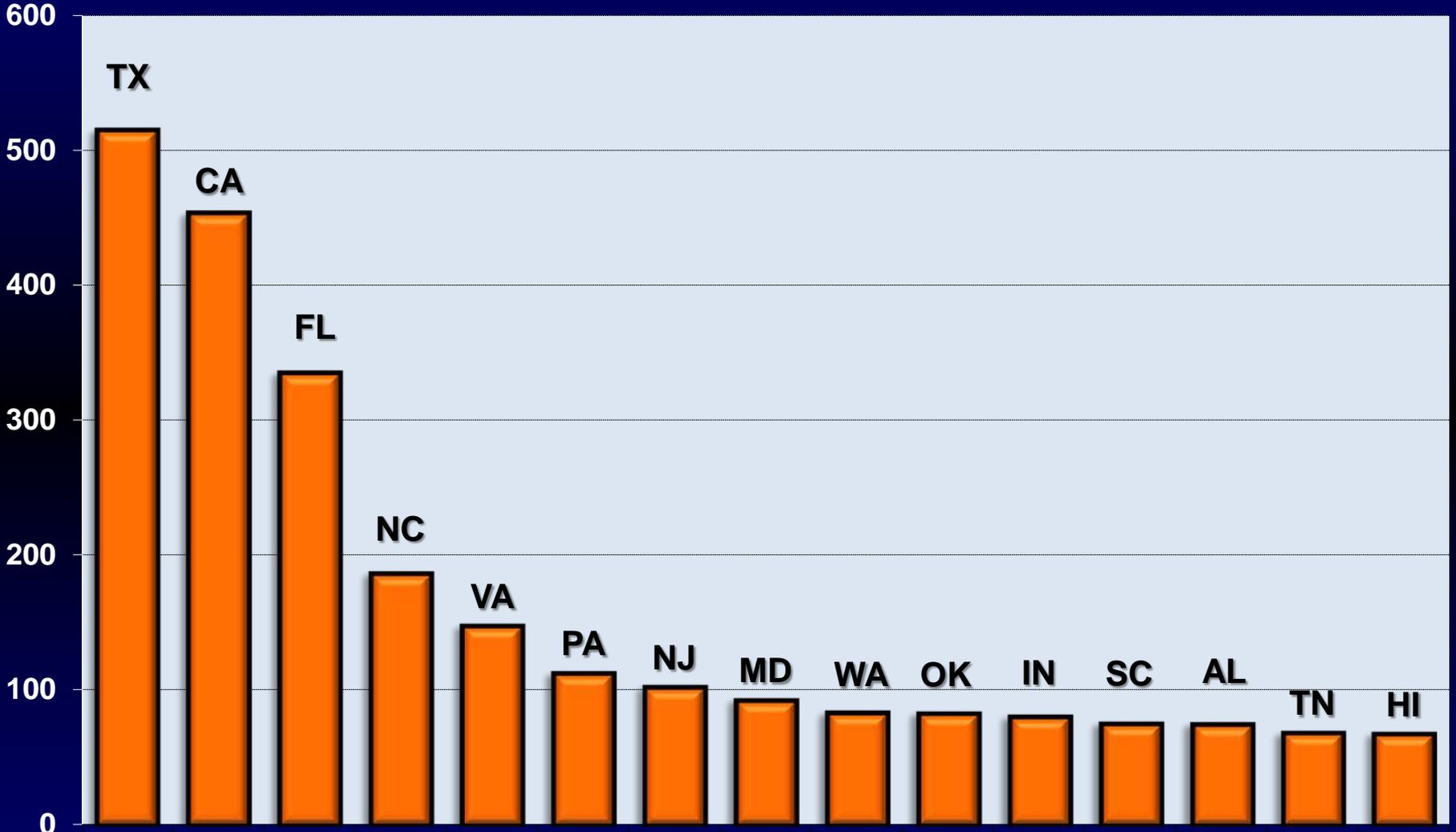
Net Migration

Thousands



Net Migration – Top 15

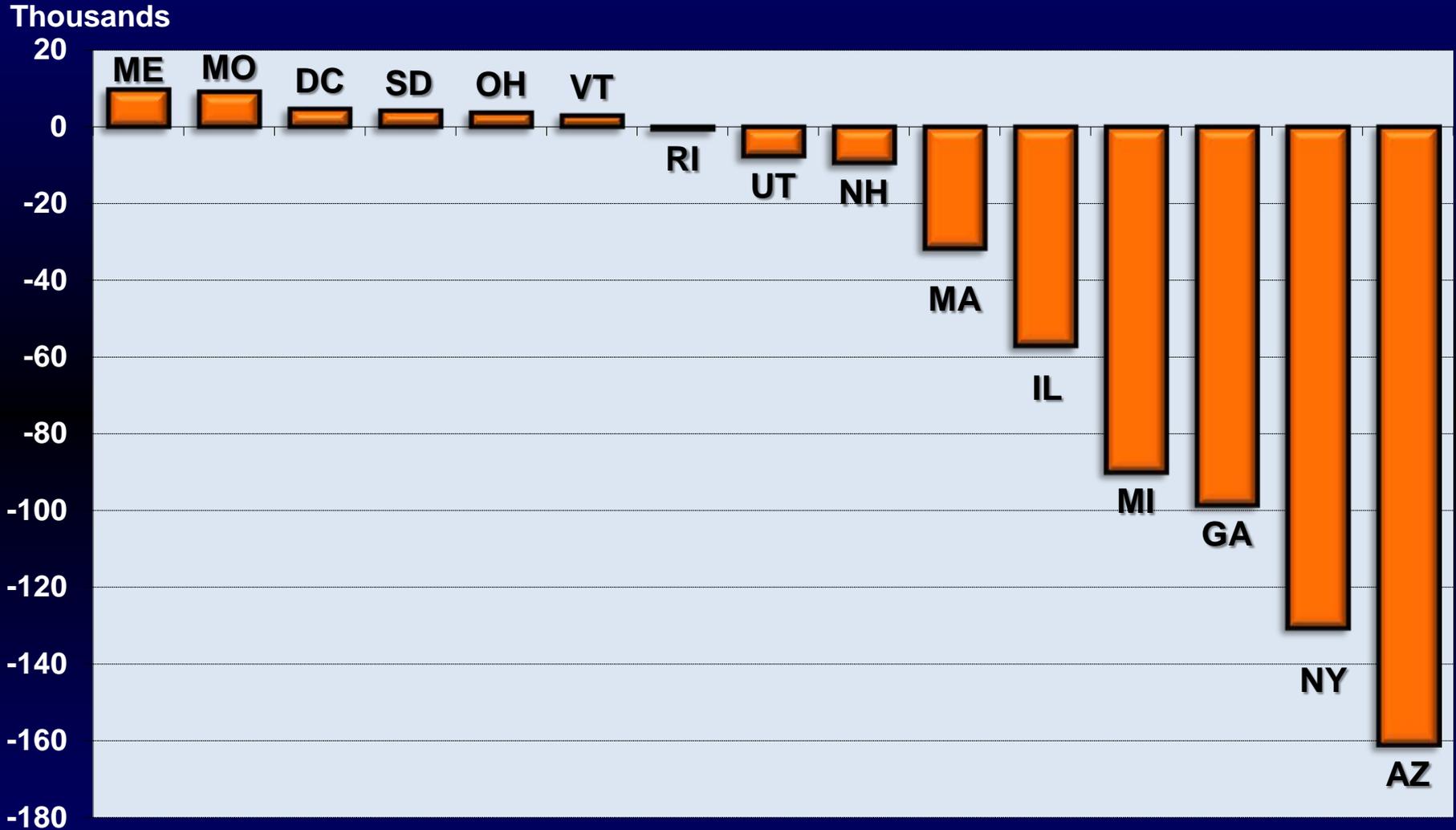
Thousands



US Census Bureau, American Community Survey, 2010



Net Migration – Bottom 15



US Census Bureau, American Community Survey, 2010



7 Must Watch Items

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

Available from ITR via *ITR Trends Report*,
the *ITR Advisor*, or on the web

The Road Ahead

(actual results may vary...stay tuned!)

2011	Slower rate of recovery
2012	Ongoing recovery
2013	Flattens out; recession begins
2014	Recession
2015	Growth
2016	Growth
2017	Growth

Execution

Complimentary Copy of the ITR Advisor

- Concise 4 Page Report
- Excellent Economic “Snap Shot”
- Consists of Current Events, Brief Industry Segments, Snap Shot Indicators, Readers' Questions, Fed Notes, ITR Opportunity Index, and more
- Delivered Monthly

Email:
kimberly@ITReconomics.com

Subject: “PSTC - Brian is Cool”

With your contact information

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THE ITR ADVISOR

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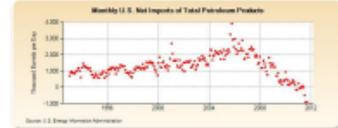
Make Your Move

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.



Source: U.S. Energy Information Administration

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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