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Recovery Projection and Actionable Business Advice

We should see the economic recovery begin around October 2009, says economist Brian Beaulieu of the Institute for Trend Research. Beaulieu offered this cautiously optimistic forecast during a recent Webinar presentation to Vistage members. The information Beaulieu conveyed was geared to help executives make the right business decisions based on a clear view of the future. Vistage members, armed with a reliable economic forecast and actionable advice, will be able to pull ahead of those businesses that recognize the recovery too late.

Economic Projections

Based on the movement of leading economic indicators:

- The recovery will begin around October 2009, and will be so mild that most Main Street businesses won't trust that it's a true recovery until we are three to six months into it.
- 2010 should show a tepid, mild recovery, while the pace picks up in 2011-12.
- U.S. housing markets will reach a low in late 2009 when prices flatten. Home values may begin to rise again in 2011.
- Disinflation (a decrease in the rate of inflation) or deflation is likely to continue into 2010, while inflation returns in 2011-2012.
- Unemployment will peak in early 2010 above 9 percent nationally. Job growth should begin around September 2010.
- Credit conditions will improve somewhat in 2010, when we should see renewed lending at low interest rates.
- Commodity prices will go up in late 2010 and into 2011 when industrial production will have recovered to half its 2007 levels.

Actionable Advice to Business Owners

Beaulieu recommends that business owners take the following actions:

- The beginning of 2010 will be a golden time to expand your operation. New and used equipment will be inexpensive, real estate will be inexpensive, interest rates will be low. Start planning your expansion now.
- Borrow as much money as possible in 2010, as conditions may not be as favorable in the years to follow.
- If you lease business space, renegotiate your contract as vacancy rates go up later this year.
- Hire some of the exceptional talent that will be available through 2010
- Cease activities that don't create profit, such as seminars, services or other things that lose money for your company

- Eliminate products that aren't profitable. Get rid of that which doesn't advance the growth of your company.
- Ramp up your marketing and advertising.
- If you need to reduce your workforce, do it now.
- Find clients in these resilient sectors: energy, "green," hotel/motel, water, healthcare, funeral services, alcohol, security, legal services, food distribution, water purification/distribution, electricity, natural gas distribution, education (community colleges in particular), pet products, and leisure.
- Look for clients or ways to sell your product in western Canada, Brazil and Australia. These countries are positioned for strong future growth. Russia and China are not positioned for near-term growth.
- Review your competitive advantage. Define it and tout it.
- Lead with optimism. Be the chief cheerleader.
- Communicate your company's future clearly.
- Don't just maintain the status quo.
- Take risks and be courageous.
- Celebrate victories, even small ones, with your people. Treat your best employees well or they will defect during the recovery.
- Monitor your cash position religiously. Take all necessary actions to maintain a positive cash flow.
- Learn to compute your company's "12/12 rate of change" so you can project where your revenues are going.

Actionable Market Advice

There's no huge stock market rebound on the other side of this downturn, only a long, slow climb out. In fact, Beaulieu projects the stock market will take 15 years or more to recover the territory that we lost.

- People should put money into specific equities, in contrast to a broad index fund that moves with overall market – unless you are in your 30's or younger.
- People within 10 years of retirement should go for safe fixed income investments, perhaps setting up bond ladders.
- In the post-2010 world, avoid bond funds as they will be under long-term negative pressure.
- Consider using inflation hedges such as real estate and alternative investments like commodities.
- Pay your taxes now because they are only going to be going higher in the future.

Housing Market

There's more negative housing activity to come, says Beaulieu.

- Housing prices will continue to decline, reaching a bottom in late 2009.

- Take advantage of low mortgage rates while we have them.
- Even though housing prices have a little more to fall, now through the end of 2009 is a once-in-a-lifetime opportunity to buy a house. Rarely do low interest rates align with low prices and the promise of a modest recovery two years off. There will not be a better time to buy real estate in our lives. Look for areas with strong demographics suited to an aging population.
- Home prices will begin to rise slightly in late 2010

Foreign Markets

- Canada, Australia and Brazil are best positioned for growth for years to come.
- China is no longer the low-cost manufacturer that it's been for the past decade. Factories are shutting down or moving to nearby countries with lower labor costs. Look for increased civil unrest and more frequent recessions in China.

As a final thought, Beaulieu reminds us: "It took only two years to crumble to where we are today, but it will take us many more years to get back to that peak. It was a bubble and you don't recreate a bubble quickly, nor do we want to."

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