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**THE ECONOMY IN 2011**

**The Creeping Economy Moves Ahead**

**Steel Founders Society of America**

**Chicago, Illinois**

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# THE GREAT RECESSION

- “RUNS” on Financial Institutions Led to:
  - Financial Crisis
  - Disfunctional Credit Markets
  - Disproportionate Impact on Investment
    - Fixed Capital and Inventories: 82%
    - Personal Consumption: 18%
- The “Bailout” Worked by:
  - Supplying Cash to Everyone Who Wanted It
  - Providing Time for Financial Institutions to Recover
- Cost to Taxpayers is Much Lower Than Expected
  - Investors Still Have the Cash
  - Institutions Are Paying Back the Government
- NOTE: There is No Chance of a Double Dip
  - China Doesn’t have “Runs” or recessions

# THE CREEPING RECOVERY

- PRIMARY DAMAGE IS BEING REPAIRED BUT THE IMPACT IS STILL BEING FELT
- CAPITAL INVESTMENT IS STILL SUB-PAR BY ANY STANDARD
- INVENTORY LEVELS ARE STILL EXTREMELY LOW
- MOST OTHER RECOVERY PHENOMENA ARE BECOMING INCREASINGLY NOTICEABLE

# THE CREEPING RECOVERY

- BOND MARKET RECOVERY
  - Record Net New Bond Issuance
  - Increased Corporate Capital Availability
- STOCK MARKET RECOVERY
  - Bolsters Financial Institution Holdings
  - Speeds Payback to Resolve “Bailout”
  - Capital Gains Taxes Increase Government Revenue
- BANKING SYSTEM IMPROVEMENT
  - Increased Business Loans Most Noticeable
  - Activity Up All Along the Line

# **FINANCIAL DEVELOPMENTS FAVORING DURABLE GOODS MARKETS**

- **Re-opening of Floor Plan Financing for Vehicle and Equipment Dealerships Allows for Restoration of Dealer Inventories**
- **Re-opening of Financing and Leasing Based on Specific Equipment as Collateral Builds End-User Demand**
- **EFFECTED MARKETS**
  - **Autos and Light Trucks**
  - **Heavy Trucks, Trailers and Containers**
  - **Railroad Cars and Locomotives**
  - **Commercial Aircraft**
  - **Construction Equipment**
  - **Off Highway Equipment Generally**
    - **Mining**
    - **Lumbering**
    - **Material Handling**
  - **Agricultural Equipment**

# MORE INDICATORS OF THE CREEPING RECOVERY

- BOOM FOR FAST DELIVERY SHIPPING INDUTRY
  - Compensates for Low inventories at all levels:
  - Industrial, Commercial and Retail
- CORPORATE RECAPITALIZATION
  - Record Corporate Cash
- INCREASE IN MERGERS AND ACQUISITIONS
  - Existing Facilities are Selling Well Below Replacement Cost
  - Better Alternative Than Investment in New Facilities
- REMEDIAL REPAIR AND MAINTENANCE

# OTHER INDICATORS OF CREEPING RECOVERY

- INCREASES IN:
  - Interest Rates
  - Advertizing
  - Travel
  - Hotel, Motel, Resort Occupancy
  - Freight/Transportation
  - State and Local Revenue
  - Research and Development
  - Business Planning

# BUSINESS PLANNING

- **Whirlpool** – New plant in Tennessee
- **Caterpillar** – Major investments in at least six plants in the U.S.
- **Harley-Davidson** – Plant and product makeover
- **New GM** – Re-opening plants; Upgrading former Saturn engine plant.
- **Ford** – Re-opening plants on a systematic basis
- **INTEL** – New operating plans and investments in Major, large scale manufacturing plants
- **GE** – Moving back to basics, i.e. manufacturing



# MAJOR INVESTMENT PROJECTS ARE STILL NOT VISIBLE

- EXCEPTIONS THAT PROVE THE RULE:
  - Oil and Gas Exploration and Production,  
e.g., Natural Gas from Fractured Shale
  - Electric Power
    - Natural Gas
    - Coal
    - Nuclear
    - Photo Electric
    - Solar Collector
  - Semiconductors
    - New Plants for New Chips
- HALLELUJA, Non-residential Construction Has Just Kicked in
  - Finance Has Re-opened
  - Inquiries at Architectural Firms Are Up
  - Construction Employment Has Finally Turned Up

# CONSUMER MARKETS

## LIGHT VEHICLES

- Sales are finally moving, with conservative marketing and both credit company and bank finance

	<u>Unit Sales (Millions)</u>	<u>Percent Change</u>
2009	10.4	
2010	11.6	+11.5
2011	13.2	+13.8

# THE AUTOMOTIVE MODEL MIX PUZZLE

	Sales, February Year-to-Date		
	<u>2011</u>	<u>2010</u>	<u>Percent Change</u>
Cars	863,096	749,248	+15.2
Trucks	<u>943,510</u>	<u>725,731</u>	<u>+30.0</u>
Total	1,806,606	1,474,979	+22.5

Q: Why are trucks outselling cars in the face of rising gasoline prices?

A: Demand for gasoline is DERIVED from demand for motor vehicles. Its price is not a major buying influence. Demand for personal transportation is at the top of consumers' wish list.

# THE OUTLOOK FOR ELECTRIC VEHICLES IS BLEAK

- AUTOMAKERS WILL BE:
  - Selling Inferior Products
  - At Premium Prices
- THEY WILL BE FACING LIQUID FUEL VEHICLES WITH NEW AND IMPROVED FEATURES
  - Additional Gear Ratios
  - Direct Fuel Injection
  - “Stop – Start” or Micro-hybrid Technology

# CONSUMER MARKETS

## HOUSING

Lenders are moving to clean up the foreclosure mess. Markets are open.

	<u>Housing Starts</u>	<u>Percent Change</u>
2009	554,000	
2010	590,000	+6.5
2011	675,000	+14.4

## STEEL INDUSTRY

Stabilized, waiting for the big push in investment

	<u>Shipments (Millions of Tons)</u>	<u>Percent Change</u>
2009	59.3	
2010	83.4	+40.6
2011	90.0	+7.9



# JOBS

- RECOVERY HIRING PRACTICES
  - Primary Operations
    - Increase overtime of existing work force
    - If business continues to improve, hire part time workers
    - Then move to increase the permanent work
      - Force and reduce temporary workers and overtime
  - Add to Support Functions as Business Expands
    - Purchasing
    - Information Technology
    - Sales Force, Marketing, Advertising
    - Warehousing, Inventory Management
    - Accounting and Finance
    - Human Resources, Training
    - Engineering, R & D, Planning, etc, etc, etc



# GLOBALIZATION

## WORLD TRADE INCREASING DRAMATICALLY

- SIGN OF THE TIMES:
  - 141 New Panamax Container Ships on Order,
  - Up from 60 last year
- EMERGING ECONOMIES NOW DOMINATE INDUSTRIAL COMMODITY MARKETS
  - PERSPECTIVE:

### Estimated Steel Production in 2010 (million tonnes)

United States	81
China	630

- Chinese Steel Production is Nearly Eight times the U.S. Production Rate

# GLOBALIZATION

- CHINA NOW DOMINATES THE MARKETS FOR  
THREE KEY STEEL INGREDIANTS
  - IRON ORE
  - COKING COAL
  - STEEL SCRAP

# OUR CONGRESSIONAL COMEDY

- LAST YEAR, DEFICIT SPENDING WAS OUR SALVATION
  - Stimulus Programs
  - Cash for Clunkers
  - Subsidies for “Alternative” Energy
- THIS YEAR, IT’S OUR RUIN
  - DEFICIT REDUCTION
  - Rein in Spending
  - Rework Taxes