MID-IOWA BUSINESS

Economic forecast — Three out of four ain’t bad

Prior to writing this year’s economic forecast I reviewed my thoughts for 2011 to see if they were accurate enough to warrant another prediction:

• Barring a serious default in Europe, I predicted a slow, steady recovery continuing throughout 2011 with unemployment remaining stubbornly high (check).

• I expected local and state governments to trim spending, but was skeptical of any meaningful results at the federal level (right on).

• Businesses were anticipated to remain cautious in their spending, as the memories of painful layoffs and the fears associated with getting close to the financial ledge were still fresh (not bad).

• A fundamental change in consumption was predicted as the Great Recession bred a new generation of savers (still open for debate).

OK, so at least three out of four.

Overall, global growth is expected to slow in 2012. Germany is likely already in recession and a series of defaults in Europe still remains a strong possibility. China and other emerging economies are trying to slow their growth rates.


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So exports will probably not provide as strong of a tailwind during 2012. Long term, however, shipments to growing economies present a huge opportunity. Also, many companies are now questioning the “invoice cost is everything” philosophy that led to outsourcing and some are bringing work back home. This is especially true for products with high variation and those for which quick response is critical.

Companies will continue to play it safe, especially when it comes to adding employees. Temporary hires will be the norm for non-skilled jobs. Capital investments will require an attractive, low-risk return on investment. The majority will be geared towards productivity improvements (again stunting hiring) rather than expansion unless the company’s products□services own a clear competitive advantage. Well-founded fears of future inflation may tend to discourage expansion investments since future dollars earned will be worth less than invested dollars.

Inventories are approaching pre-recession highs, suggesting little additional opportunity for a boost here. Overall, I expect the contribution from businesses in 2012 to remain neutral with 2011.

Government spending is always anyone’s guess since actions are driven by politics rather than logic. A possible reaction to a series of European defaults would be the realization by our own Congress that the road for kicking the can down is not infinitely long. Timing is impossible to predict, but I believe that government spending will decrease long term.

Now for the other wildcard: consumers. Last year, I saw an increase in the personal savings rate as proof that a fundamental shift away from consumption was occurring. So how to explain the fact that the savings rate has been steadily falling again from a post-recession high of 5.8 percent in June 2010 to 3.5 percent in September 2011□

I suspect the drop in the savings rate reflects the impact of extended months of 9 percent unemployment and 17 percent underemployment. A national car fleet averaging over nine years old is no doubt driving replacement purchases.

With the exception of college debt, personal balance sheets continue to improve. But with roughly 3.5 million homes still in danger of foreclosure, a rebound in the housing industry is still at least a year away. Bottom line: I don’t expect a lot of help from consumers in 2012.

Overall, the economic pie will continue to grow over the next decade, but at roughly two-thirds the rate of that experienced during our credit addiction of the past 25 to 30 years.

Iowa will fare better than most states due to the strong agriculture economy and the fact that we have less excess to work off (e.g., our foreclosure rate is less than one-third the national average and one-tenth that of Nevada).

So what does all this mean to you□

• Jobs are precious. Earn your keep daily with customers and employers.

• Expect less help from the government. Plan your business and retirement accordingly.

• Education, interpersonal and financial management skills will impact future success (and that of your children) like never before. Make education a priority with your children and never stop learning yourself.

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