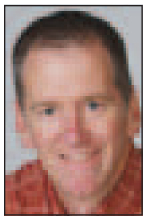
Economic trends that could impact 2013 — and beyond

I started to write my annual economic forecast for 2013, but two things caused me to step back and instead focus on long-term trends.



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First, I found myself writing about many of the same issues I did a year ago, except with a greater degree of uncertainty. What will happen within the Euro zone during 2013 is anyone's guess, and the result of the "fiscal cliff" negotiations will have unknown effects.

Second, trying to predict the future is folly. Investors are constantly advised to think long-term. That's sound advice for business managers, too.

So here are some major economic trends that have been influencing the economy and that I believe will continue to influence it in the foreseeable future.

Overall global growth stabilized during the latter part of 2012 and is slowly picking up. Looking forward, exports should provide a somewhat stronger tailwind with emerging nations playing an ever-larger role.

The big unknown is still Europe. Greece (and I suspect a handful of other southern European countries) simply cannot compete. Just as high schools are separated by enrollment size in athletics to level the playing field, Greece ultimately needs to leave the EU and requires a unique currency that it can control in order to compete. The $64,000 question is when that will occur and what impact it will have on other euro member nations that struggle to compete.

An even bigger issue moving forward is how our own ballooning federal debt will be managed. The recent focus has been on avoiding the "fiscal cliff," the expiration of the Bush tax cuts and implementation of automatic spending cuts the could cause another recession.

The cliff pales, however, with the consequences of not reining in the federal deficit. Sacrifice will be required, both in terms of revenue generation and spending cuts. That's a tall order for a dysfunctional Congress.

Consumers also are changing, especially the targeted demographic of young adults. Generation Y plays by its own set of values, and they are not consumption-driven.

Take the housing industry, for example. While housing began pulling itself off the floor during the latter half of 2012, don't expect a rapid return to "normal" housing starts. Family household formation basically has stalled since the recession. Who can blame young adults for not rushing to form families as colleges consistently turn out more degrees than job openings can support, and the average graduate leaves with $27,000 in debt?

But it goes beyond that. According to a September 2012 article in The Atlantic, this is a demographic that values access over ownership. Downloading music and movies instead of purchasing manufactured CDs and DVDs is just the tip of the iceberg.

Many Millennials in large cities, armed with smart phone technology that makes new things possible daily, are joining car-sharing clubs in droves. When they do purchase, they tend to buy small, practical vehicles. In short, with the exception of their smart phones and associated apps, this is not a group interested in keeping up with the Joneses. When one considers that the housing and auto industries historically make up 15 to 20 percent of GDP, that's a big deal.

Is it any wonder companies continue to play it safe? Temporary hires, low-risk capital investments and historically low inventory-to-sales ratios will remain commonplace. Without resolution to debt issues at home and in Europe, managers won't bet the farm.

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