Urban Land Institute

“Outlook for 2009-2011”

November 2009

Presented By:
Institute for Trend Research
Brian Beaulieu

brian@ecotrends.org   www.ecotrends.org
US Industrial Production to Gross Domestic Product
3/12 Rates-of-Change

GDP
US IP
Global Industrial Production Indices

12/12 Rates-of-Change

-8.0 - Mexico
-8.9 - SE Asia
-10.3 - Brazil
-10.2 - US
-14.2 - Europe

-24.1 Japan
2008 Exports from Minnesota to World

- 334 Computers & Electronic Prod.: 29.4%
- 333 Machinery Manufactures: 21.3%
- 336 Transportation Equipment: 15.3%
- 339 Misc. Manufactures: 11.2%
- 325 Chemical Manufactures: 11.0%
- 311 Processed Foods: 7.4%
- All Others: 5.2%

All others: 10.2%
Unemployment Rates

<table>
<thead>
<tr>
<th>Year</th>
<th>US</th>
<th>Minnesota</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>4</td>
<td>3</td>
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<tr>
<td>2002</td>
<td>5</td>
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<td>2004</td>
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<td>2006</td>
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<td>6</td>
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<td>2008</td>
<td>8</td>
<td>7</td>
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<tr>
<td>2010</td>
<td></td>
<td></td>
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<tr>
<td>2012</td>
<td></td>
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</tbody>
</table>
Figure 1
Unemployment Rate With and Without the Recovery Plan

Misjudging the severity of this recession...
US Industrial Production Index
Forecast Through December 2011
Annual Average Index

Debt
Interest Rates
Unemployment
Inflation
Credit Crunch
International scope
Elections
Oil
Home Prices

Source: ITR’s EcoTrends® Monthly Economic Report
Housing Starts
Millions of Units

Source: ITR’s EcoTrends®
Monthly Economic Report
Building Permits
12/12 Rates-of-Change

U.S.

Minnesota

Institute for Trend Research
Minnesota Building Permits
Thousands of Units

R-O-C

MMT

-100 -80 -60 -40 -20 0 20 40 60 80 100

-5 0 5 10 15 20 25 30 35 40 45 50 55 60

'97 '98 '99 '00 '01 '02 '03 '04 '05 '06 '07 '08 '09 '10 '11 '12

8.698
-27.7
-20.5

12MMT
3MMT
3/12
12/12
12MOT

Institute for Trend Research
Minneapolis Building Permits
Thousands of Units
US to Minneapolis/St. Paul Area Median Home Sale Prices
Annual Data Trends

US Median Price

Minneapolis Median Price

$188.1

$180.5
Housing Starts to Multi-Family Residential Construction
12/12 Rates-of-Change

Starts

Construction

-60
-48
-36
-24
-12
0
12
24
36
48

'94 '96 '98 '00 '02 '04 '06 '08 '10

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Architecture Billings Index
12/12 Rates-of-Change

"Estimated Quarterly Revenue for Employer Firms"
Multi-Retail Buildings Construction
Private, Billions of $
Four Phases

Expansion

Bankrupt

Phase A  Phase B  Phase C  Phase D
Phase Management Objectives™:

Phase Late C - Warning:

1. Begin work force reductions
2. Set budget reduction goals by department
3. Avoid long-term purchase commitments late in the price cycle
4. Concentrate on cash and balance sheet
5. Reduce advertising & inventories
6. De-emphasize commodity/services in anticipation of diminishing margins
7. Weed out inferior products (lose the losers)
8. Encourage distributors to decrease inventory
Phase Management Objectives™:

**Phase Late C - Warning:**

9. Identify and overcome any competitive disadvantages
10. Make sure you and the management team are not in denial
11. Cross train key people
12. Watch Accounts Receivable aging
13. Increase the requirements for justification of capital expenditures
14. Evaluate vendors for strength (don’t get caught honoring their warranties with no one to accept returned goods).
15. Manage the backlog through pricing and delivery, try to fill the funnel
Phase Management Objectives™:

Phase Early D - Recession:

1. Continue force reduction
2. Reduce advertising – be very selective
3. Continue to avoid long-term purchase commitments
4. Review all lease agreements
5. Increase the requirements for justification of capital equipment
6. Eliminate all overtime
7. Reduce overhead labor
8. Combine departments with like capabilities and reduce management
9. Select targets of opportunity where price will get the business
10. Tighten credit policies – increase scrutiny
11. Look for opportunistic purchases
12. Grab market share as your competitor dies
Phase Management Objectives™:

**Phase Late D – Recession**

1. Prepare training programs
2. Negotiate union contracts if possible
3. Develop advertising & marketing programs
4. Enter or renegotiate long-term leases
5. Look for additional vendors
6. Capital expenditures & acquisitions considered in light of market-by-market potential
7. Make acquisitions – use pessimism to your advantage
8. People will be scared – lead with optimism and “can do” attitude

**Early A - Early Recovery**
Phase Management Objectives™:

Phase Late A - Recovery:

1. Positive leadership modeling (culture turns into 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 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
The Eco 8

Current Cycle

Nonresidential Construction

Foreign Prices

Production

New Orders

Leading Cycle

Sales

Financial

Housing

Source: ITR’s EcoTrends® Monthly Economic Report
Inflation – US and the Midwest

![Graph showing inflation in US and Midwest from 1996 to 2010. The graph indicates a general increase in inflation, with sharp peaks and troughs over the years. The Midwest shows a trend similar to the US, with a notable decline around 2008.]
M2 Money Supply
Trillions of 82$
U.S. Composite Leading Indicator
1996 = 100

Source: ITR’s EcoTrends®
Monthly Economic Report
Purchasing Managers Index
ISM

Source: ITR’s EcoTrends®
Monthly Economic Report
US Industrial Production to Corporate Bond Prices

12/12 Rates-of-Change

Source: ITR’s EcoTrends® Monthly Economic Report
Stock Prices Index
S&P 500, 1941 – 43 = 10

Source: ITR’s EcoTrends®
Monthly Economic Report
Federal Express Stock Price
Rates-of-Change
Retail Sales Excluding Automobiles
Trillions of 82-84$

Source: ITR’s EcoTrends®
Monthly Economic Report
Higher Education Expenditures to Retail Sales excluding Autos

12/12 Rates-of-Change

Education

Sales

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Fed. Government Cash Account to US Industrial Production Index

Data Trends

Index

Cash


-1100 -900 -700 -500 -300 -100 0 100 300 500

-75 -50 -25 0 25 50 75 100 125

Index - Annual Average
Cash - Bils. Of $ Monthly
President Obama’s 10-Year Deficit Projections
Billions of Dollars

Based on 3.4% growth in 2010 and 6.2% in 2012
CBO estimates $1 Trillion a year

$170 billion annual cost for Iraq war

Source: A New Era of Responsibility, Table S-1, budget.gov
Assuming just a 50 basis point per annum increase in the federal government’s cost of borrowing money and using Congressional Budget Office (CBO) estimates for the other variables, the government’s debt service as a percent of total budget outlays will grow to approximately:

- 13.0% in 2009
- 25.5% in 2012
- 34.1% in 2015

Either … tremendous amount of fiscal responsibility and dramatically cut spending, or our **taxes** are going to be going up significantly …

The fiscal strain that lies ahead is going to be tremendous.

The impact on the **stock market** from rising taxes is depressing the further out one goes from the next two years.

*EcoTrends® May 2009 issue*
Unemployment Rate to Consumer Price Index
Data Trends to Rates-of-Change

CPIUA
UNEMP


CPIUA 12/12
UNEMP 12MMA
Find a way to do business in the “counter-cyclical” or largely unaffected areas:

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

Winning Demographics

USA ~ 300 Million grows to 400 – 500 Million
India
Indonesia
Australia

Negative Demographics

China
Europe
Japan
Russia

Source: United Nations
GDP, Bils of US $, Current Prices
Percent of World GDP

- 23.1%
- 6.8%
- 6.1%
- 4.8%
- 4.5%
- 3.9%
- 2.9%
- 2.7%
- 2.7%
- 2.5%
- 2.0%
- 1.8%
- 1.7%
- 2.0%