

Three Years of Growth Ahead, Says Economist Brian Beaulieu

By Paul Diamond, Senior Correspondent

(August, 2010) The next three years will bring a broad-based recovery in consumer and business-to-business markets, says Vistage speaker and economist Brian Beaulieu of the Institute for Trend Research.

At a North Carolina Vistage All-City Event in late July, Beaulieu gave an updated forecast based on leading economic indicators. His overarching message to business owners was clear: The recession is over, and the fog of post-recession uncertainty is clearing to show three years of growth ahead.

“It’s time to start investing in your businesses again,” Beaulieu said.

According to Beaulieu, here’s what the near future holds: The current recovery —best described as tepid— will continue into 2011. Growth accelerates in 2012 and simmers to a halt in the second half of 2013 when a new, but mild, recession begins.

Regarding the potential for a double-dip, or an imminent reversal of the slow recovery, Beaulieu stated emphatically: “We’re well aware of what’s going on in the credit and commercial real estate markets, and neither of those are likely to bring about a double-dip recession. We know what’s going on with the debt crisis in Europe and we don’t think that will bring us down. We will be in growth mode through the end of 2012. That’s what the empirical data is telling us.”

One problem many businesses will face, said Beaulieu, is being unprepared for the year-over-year increases that we’ll experience through mid-2013. Many businesses, he said, are reluctant to commit to the action they need to take now to prepare for growth.

Actionable business advice to prepare for growth

To best prepare your business for growth over the next three years, Beaulieu suggests companies take the following actions:

- Ensure that your supply chain and worker skill sets are ready for growth.
- Add new members to your sales force.
- “Borrow as much as you can now, in long-term loans at fixed rates.” Beaulieu implores, “Go into debt now!” Use that debt to buy wealth-creating assets such as other companies,

capital equipment, business efficiency gains or other investments that lead to year-over-year creation of wealth.

- Seek out customers in (or involved with) these growth industries: food production, medical services, plastics, information technology, durable goods, tourism, temporary staffing and automobiles.
- Start selling to customers in countries positioned for solid growth such as Brazil, India, Canada, Australia and Indonesia.
- Start selling to these growth demographics: Hispanics in the U.S. and Muslims in Europe (a recent San Diego University study anticipates that in only 12 years, Muslims will comprise 25 percent of the European population). Or find customers who are serving these markets, as their businesses will likely grow.
- Find new markets for your goods and services prior to 2012.
- Make sure you have a system in place to measure your company's activity and key indicators.
- Rethink your compensation plans. Only give raises to top performers. For all other employees offer paid training so they can become more valuable to your organization.
- Improve that amorphous thing known as company culture. The culture of your business determines the behavior of your employees and ultimately how successful and enjoyable your business becomes.
- Invest in customer research. Know your customers well so you can give them exactly what they want, not what you think they want.
- State your competitive advantages not in soft terms such as "great customer service" or "highest quality" but in quantifiable numbers. These numbers prove your competitive advantage and identify in real terms why someone wants to do business with you.
- In 2013-14 raise your prices. It might be better to do two small price increases than one large one.

Actionable investment advice

Beaulieu recommends the following investments decisions to take advantage of current opportunities and avoid impending pitfalls:

- Now is a great time to buy a house for three reasons: interest rates are at historic lows, home values have bottomed out, and the U.S. population is expected to grow by 140 million people in the next 40 years (those people will need places to live). When buying real estate, Beaulieu suggests the old adage: location, location, location. Buy houses on mountain-tops or with a great view, in urban areas near public transit and shopping, or on the waterfront. These are places where demand will out-place supply.
- Get out of corporate bonds or don't own too many of them. Bond funds will lose money over the next 30 years as inflation rises.
- Buy dividend-yielding stocks of companies in foreign countries (they often pay higher dividends than U.S. companies). Consider investing in companies such as Canada, Brazil, Australia and New Zealand. These countries are positioned for solid growth and their currency is likely to rise against ours.
- If you're within 10 years of retiring, put your money in good municipal bonds (in states/cities that don't have financial troubles) and in Treasury Inflation-Protected Securities (TIPS).
- If you're looking to sell your business, these years are expected to be business-cycle peaks in which you could get top dollar in a sale: 2012 to mid-2013, 2017-18, and 2028-29.

- By 2028-29 you want to be retired or have already sold your business. According to Beaulieu, in 2030 we enter a new great depression that may last as long as 10 years. This is not destiny, say Beaulieu, it's just the path were on if our country continues to do what it's been doing in terms of policies and spending.

Economic outlook

Here's a brief summary of Beaulieu's key economic projections:

Credit and lending: Banks will continue to be tight with lending, but credit will begin to flow again in early 2012. In the meantime there is \$1-2 trillion sitting on the sidelines in venture and private equity firms. This money is available for businesses with credible plans.

Unemployment rate: By 2014 we'll be down to 7.5 to 8 percent unemployment rate. For politicians it means they will want to spend more. From a business perspective it means that one growth industry in the U.S. will be in servicing the needs of unemployed people.

Inflation: In the long term, high inflation will be inevitable for several reasons: The cost of goods coming from China will soon rise, the cost of power and labor will go up steadily in the U.S., and lastly the U.S. government wants to inflate its way out of debt in the future.

Interest rates: Interest rates are at all-time lows, and they are likely to stay low for the next 6-12 months. But they will steadily go up until they peak around 2035.

Housing market: The housing correction is over. We're at the bottom, but still we're in for a painfully slow recovery in home values. By 2023—yes, 13 years from now—we'll see home values fully recovered, or reaching new peaks.

Commercial real-estate crisis: The commercial real estate market will reach its low point in mid-2011, right around the time when 600 billion dollars in commercial real estate loans need be refinanced. With many properties now worth less than their loans, this spells a new round of losses for banks. "The commercial real estate situation," says Beaulieu, "will not turn into another financial crisis because banks, in anticipation, have put away \$1.1 trillion in excess reserves. The financial system has the money to handle the commercial real-estate problems. As an investment, Beaulieu advises against buying commercial real estate as it will likely go down for another year before it bottoms out.

Government spending: Politicians will spend money as fast as they can think to take care of the short issues at the cost of creating larger long-term problems.

Growth industries: The following will be growth industries in the U.S. over the next three years: Plastics, IT, durable goods, tourism, temporary staffing and automobiles. Long-term growth industries include food production and serving the expanding U.S. Hispanic population.

Contracting industries: Defense department and state and local government spending will contract in the years ahead.

Energy costs: Oil will be back at \$120 a barrel in 2-3 years, and the costs of all energy will likely rise as the U.S. creates a cap-and-trade emissions policy.

Editor's note: What do you think of Beaulieu's predictions? Will his suggestions impact the way you do business?