

Ake's Take: Let the Good Times Roll - For at Least Two More Years

GDP is high, and unemployment is low. Manufacturing is booming, and wages are rising. So, everyone is joyous, correct? Of course not, you are starting to see articles claiming that, if things are this good, a recession must be coming soon.

So, it is time to again consider what the truck equipment markets indicate about the timing of the next recession. In March 2016 I warned that, based on historical correlations, the decline in Class 8 builds foretold a recession beginning in 2016Q4. This did not happen due to the following factors:

- The Class 8 truck market ended up suffering a correction, but not a crash. Typically, when sales start to slide, they keep plunging. Fortunately, this time, they bottomed out in 2017Q1 and began a steady recovery which continues today. It is important to note that the FTR models in mid-2016 showed the truck market correcting but not crashing. That's why our forecasts were much more accurate than all those other ones that predicted a crash.

- GDP for 2016Q4 and 2017Q1 were 1.8% and 1.2%, respectively. While not a recession, the "economic plane" did dip close to the ground before pulling out of the dive.

- Although the economy had failed to cycle much since 2010, the Class 8 market continued to cycle through the period. The substantial difference being that truck demand didn't cycle as much as in the past (a good thing), which is the difference between having GDP quarters of 1.8% and 1.2% growth versus a recession.

The U.S. economy has been expanding for over eight and a half years, the third longest period since World War II. However, this recovery has been characterized by its slow, plodding growth and muted cycles.

The Good News: The economy is finally experiencing significant growth again.

The Bad News: The economy is finally experiencing significant growth again.

If we cycle way up, eventually the economy overheats and cycles down causing a recession. That said, it is even more difficult to predict the timing of the next recession under the current unusual environment. If the Trump administration's economic initiatives work, then giddyap, we are going to ride this wave for a while. If this upcycle is the result of the restoration of normal economic fluctuations or if the trade strategies fail, we are quickly approaching an economic peak.

This may be a return to the "old normal." I believe that the slow, abnormal economic growth of the past several years was the result of restrictive government policies and businesses being too cautious and fearful after the Great Recession. President Trump has loosened those restrictions, and business and consumer confidence is soaring for whatever reasons. This may be just a huge economic reset that took over eight years to accomplish after the crash.

What Do the Equipment Markets Indicate Now?

It is important to watch the truck and trailer markets, because they are leading indicators of the general economy. Class 8 sales is one of the key economic leading indicators tracked by the economists at General Motors.

The Good News: The equipment markets and the economy appear to be back in sync.

The Bad News: The equipment markets and the economy appear to be back in sync.

As previously mentioned, the equipment markets continued to cycle even though the economy did not change much. However, now the economy is vibrant, and it is pushing equipment sales to near record levels (if you factor out the Class 8 pre-buy of 2006). This is good in that it shows the economy is healthy and getting back to performing “normally.” It is bad in that the equipment market, driven higher and hotter, will probably experience a perilous drop before and during the next economic downcycle. This type of drop is inherent in our industry and cannot be avoided.

Because of the significant impact of a recession on truck and trailer demand, FTR cannot put a recession factor in the forecast. For example, if we forecast a recession for 2020, it would drive our equipment forecast way down that year. If the recession occurs in 2021, however, then the forecast for both those years would be highly inaccurate. So, the assumption for the forecasts is for no recession, even as the possibility increases due to the length of this recovery and the surging economy. If the “master” economists cannot predict the timing of the next recession – then neither can we.

When Is the Next Danger Zone?

Based on history, which doesn't always repeat, and forecasts, which can be inaccurate in the long-term, when do the equipment markets indicate a recession could begin?

If truck/trailer production peaks around June 2019 (the current forecast), and recessions occur 13-18 months after that (based on history), the “danger zone” would be July-December 2020, which is as good as anyone’s forecast right now.

The Good News: Unless there is an economic or geopolitical shock (much can happen in between), we don’t have to worry about a recession for the next two years.

The Bad News: If the economy accelerates the next two years, the eventual downturn is going to hurt.
So, let the good times roll - for now.

FTR