# Listen Up

## You really have to pay close attention to what the experts are "saying" to understand where the economy is headed in the coming months.

**BY CHARLIE HALL**

**"I know you think you understand what you thought I said, but I'm not sure you realize that what you heard is not what I mean."**

My recent economic outlook talks have been mostly optimistic, with few red flags going into next year. Consumer spending accounts for about 69 percent of the gross domestic product (GDP) and the household sector fundamentals remain sound. Job growth has remained strong (not quite as robust as in the last two years, but that's to be expected as labor market slack is taken up).

The Conference Board's Consumer Confidence Index has broken out of its recent range and is back to pre-recession levels. While consumers don't spend "confidence" (they spend dollars), surveys show that people are more optimistic about current job availability. Spending on consumer durables softened in late summer and anecdotal reports suggest further weakness this fall. Big-ticket purchases are sensitive to expectations. Election-year uncertainty may be a restraining factor.

However, spending is normally lumpy, bunching up and slowing down around a longer-term trend. Spending numbers through August suggest a softer quarter than was anticipated earlier. More importantly, the trend appears likely to carry through to the fourth quarter (that's simply the way the monthly-to-quarterly arithmetic works). That doesn't mean that we are in danger of falling into a recession, but it does imply an adjustment to expectations.

Other GDP components also have appeared mixed. Business fixed investment was revised higher in the third estimate for third quarter, but that largely reflected strength in intellectual property products. Spending on structures and equipment continued to weaken. Shipments of capital goods were weak in the first two months of the third quarter, but orders have been improving (that's a good thing). The contraction in energy exploration has ended. While I don't anticipate a sharp rebound in oil and gas well drilling, an end of the decline should be enough (that is, energy is no longer a subtraction from GDP growth) to provide a small boost.

Putting the components together suggests that GDP growth next year is likely to be in the 2.0 to 2.5 percent range, lower than the 3+ percent expectations of earlier this year. The outlook for the fourth quarter this year has come down as well, to about a 1.5 to 2.0 percent annual rate. That's not terrible, but it is consistent with a lower trend rate of growth in the near term (slower labor force growth combined with a sluggish rate of productivity growth).

### RISING INTEREST IN INTEREST RATES

The other main economic news going into December is whether or not the Federal Reserve will raise interest rates again. At every Fed policy meeting, senior Fed officials (the five governors and 12 district bank presidents) submit forecasts of growth, unemployment and inflation. They also submit their expectations of the appropriate year-end level of the federal funds target for each of the next few years (now out to 2019).

Simply put, the Fed can afford to wait awhile longer. But the interesting outcome from the Fed's September meeting was in the Summary of Economic Projections. Slower labor force growth (as the job market approaches its long-term equilibrium) combined with a slower trend in productivity growth means that potential GDP growth will be a lot slower (about 2 percent) than what we grew up with (around 3.5 percent). That's simply demographics (two forces propelled GDP growth in the last four decades of the 1900s: the arrival of the baby-boomers and increased female labor force participation).

The service economy is accelerating as it enters the fall. The latest report on the service sector was booming, with the Institute for Supply Management (ISM) non-manufacturing index showing the largest single month increase in the nearly twenty-year history of the report. The September reading of 57.1 is also the highest reading of 2016, and the 80th consecutive month of expansion. The rise from the service sector was broad-based, with 14 of the 18 industries reporting expansion, while just four reported contraction.

Mirroring the headline index, both the new orders and business activity indexes surged in September. This bodes well for the coming months, as companies move to fill the new orders. The employment index also jumped in September, rising 6.5 points to 57.2, the highest reading in 2016.

## HITTING THE EMPLOYMENT TARGET

While employment has been a weak spot in the manufacturing sector, the much larger service sector has shown continued expansion, in-line with the 200,000+ monthly nonfarm jobs growth seen over the past year. And while the pace of jobs growth may slow modestly as the labor market tightens, employment gains look set to put continued downward pressure on the unemployment rate.

No matter how you cut it, the labor market looks very close to the Fed's "full employment" target. On the inflation front, the prices paid index moved higher to 54.0 in September from a reading of 51.8 in August. Rising costs for coffee, chicken and dairy more than offset declining prices for beef and butter.

As a whole, the ISM report shows a November rate hike would be justified, though the "non-political" Fed is likely to avoid making a move so close to the election. Barring a large surprise to the downside in employment or inflation data, neither of which looks likely, December should finally see the next step in making monetary policy slightly less loose.

Given the tone of their comments after the last meeting, they set the stage for such an interest rate increase. But I am reminded about the infamous words of Alan Greenspan: "I know you think you understand what you thought I said, but I'm not sure you realize that what you heard is not what I mean."

Spoken like a true economist, huh? ■

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the three to five situations that are more common miscommunication issues, it is easier to fix them. They could be internal or external. By identifying them then training everyone involved to better communicate you will reduce miscommunication. Again this may not be as sexy as spending time on a new marketing approach but it will help make the business healthier.

4) *Your product.* Growers always want to produce the best plant possible and often there is little time spent on adding or developing new products and new growing techniques. Again, by identifying a few key products to focus on and assigning one to different team members you should come up with some improvement. If you tackle just one product a week you will have over 50 checked off the list in a year. This could result in tremendous returns in both efficiencies and customer experience.

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5) *Your people.* I don't want to imply people are a boring part of your business. People are your greatest assets. However, there are questions and areas of attention that often are not addressed. When is the last time you asked your key people where they would like to be in three years? The good ones will leave if there are not the right opportunities. Or have you proactively done a competitive analysis on compensations programs? While addressing these issues is not always fun, it is important. By making these types of things top of mind on a regular basis you will make sure to stay on course and you will have less people damage control.

For those that find focusing on the "boring" not boring, great keep on it — you will like the results. However, if you are not 100 percent happy with the success and profitability of your business, customer experience and team satisfaction, then spending a few hours a week focusing on these things, you can see dramatic results. ■

***Mark Richardson, CR, is an author, columnist and business growth strategist. He authored the best-selling book, "How Fit is Your Business," as well as his latest book, "Fit to Grow." Both books are available at www.amazon.com.***