the Uncertain Economy

Presented by the CEOs of Growing Businesses (CGB)

PROTECTING YOUR BUSINESS AND WEALTH THROUGH THE COMING BUSINESS CYCLES

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Godfrey Kahn, S.C.

Sikich

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BizTimes Media
2018 Preliminary Forecast Results
If you heard ITR around two years prior…

<table>
<thead>
<tr>
<th></th>
<th>Duration</th>
<th>Accuracy</th>
</tr>
</thead>
<tbody>
<tr>
<td>US GDP</td>
<td>24</td>
<td>99.9%</td>
</tr>
<tr>
<td>US Ind. Production</td>
<td>34</td>
<td>99.4%</td>
</tr>
<tr>
<td>Europe Ind. Production</td>
<td>24</td>
<td>99.2%</td>
</tr>
<tr>
<td>Canada Ind. Production</td>
<td>27</td>
<td>97.1%</td>
</tr>
<tr>
<td>China Ind. Production</td>
<td>30</td>
<td>99.9%</td>
</tr>
<tr>
<td>Retail Sales</td>
<td>28</td>
<td>99.6%</td>
</tr>
<tr>
<td>Housing (Single Family Units)</td>
<td>26</td>
<td>99.2%</td>
</tr>
<tr>
<td>Employment (Private Sector)</td>
<td>30</td>
<td>99.4%</td>
</tr>
</tbody>
</table>

ITR Economics provides the best economic intelligence to reduce risk and drive practical and profitable business decisions.
US Economy Stalls in 2019 and Into 2020

US Real Gross Domestic Product

- GDP - 3MMA Before Data Revision
- Sep '15 Forecast
- GDP - 3MMA
- June '18 Forecast

Source: BEA
US and Wisconsin GDP Growth Rate

Source: BEA
Manufacturing: A Growing Part of America

US Industrial Production Index to US Total Manufacturing Production Index

Source: FRB
Manage the Business Cycles to Maximize Profits

US Industrial Production to Gross Domestic Product

Sources: FRB, BEA

Year-over-Year, Quarter-to-Quarter (3/12)
Lower Taxes Likely to Provide a Temporary Boost

US Top Marginal Individual Tax Rates to Real GDP Growth Rate

Sources: Tax Foundation, BEA
Not All Freed Up Money Went to Capex

US Corporate Tax Rate and Gross Business Investment

Corporate Tax Rate %
Gross Business Investment (% of GDP)
Linear (Gross Business Investment (% of GDP))

Sources: Tax Policy Center, FRED

Atlanta Federal Reserve Survey
W.S. Survey
Hard Data

Percent

'60 '64 '68 '72 '76 '80 '84 '88 '92 '96 '00 '04 '08 '12 '16

ITR Economics
First in Forecasts Since 1948

0% 10% 20% 30% 40% 50% 60% 70%
Global Issues

- Business Cycle
- Tariffs
Percent of 2017 World GDP by Country

*Total 2017 World GDP: $79.865 Trillion US$

United States: 24.3%
China: 15.0%
Japan: 6.1%
Rest of World: 19.4%

Source: IMF, *67% are IMF Estimated Figures*
Trade Stress Becomes Acute on the Downside of the Cycle

World Industrial Production Index to G7 Leading Indicator

Sources: CPB Netherlands Bureau For Economic Policy Analysis, OECD
Brands That Have or Will Be Increasing Prices Due to Tariffs

- TOYOTA
- WHIRLPOOL
- COCA-COLA
- WINNEBAGO
- MILLER COORS
- SAMUEL ADAMS
- CAMPBELL SOUP
- LG ELECTRONICS
- GENERAL MOTORS
- KLEENEX & HUGGIES
- POLARIS INDUSTRIES
- NEWELL BRANDS (Crock-pot, Rubbermaid, Yankee Candle, & Sharpie)

“I can't just go to the shareholders and say, 'You're just going to have to accept my profit's going to be $40 million less. It doesn't work that way…’”

- Gavin Hattersley, CEO MillerCoors

Source: Business Insider, “These popular brands say Trump's tariffs will force them to raise prices”
ITR’s Leading Indicator™ Says Problems Ahead

US Industrial Production to ITR Leading Indicator™

Reported in *ITR Trends Report – ITR Advisor*

Sources: FRB, ITR Economics
Leading Indicator System as a Powerful Tool

US Industrial Production Index to Leading Indicators

Sources: FRB, OECD, ISM, Yahoo Finance, IHS Markit
Copper is Signaling a Slowdown in Spending

US Copper Futures Prices to US Nondefense Capital Goods New Orders (excluding aircraft)

Sources: WSJ, Census Bureau
Back to the USA

Financial Markets
Perilous Height Is Not the Issue

S&P500 Stock Prices Index

Source: Wall Street Journal
Analysis of the CAPE Ratios

January 1900 – January 2019

KEY:
Purple Line: CAPE Ratio
Green Line: Median
Yellow Line: 90th Percentile
Red Line: 95th Percentile

Invest Above 95P - Red Line
5 Year Annualized Return:
Average = 2.30%
Median = 1.35%

Invest Above 90P - Yellow Line
5 Year Annualized Return:
Average = 3.06%
Median = 2.31%

Invest Below Median - Green Line
5 Year Annualized Return:
Average = 12.99%
Median = 12.92%

Invest Below 90P - Yellow Line
5 Year Annualized Return:
Average = 11.28%
Median = 11.37%

Source: Robert Shiller – Yale University
Analysis prepared by : Baird Family Wealth Group January 2019
All Except for Steel

Commodity Prices

Source: WSJ, London Metal Exchange, BLS

3/12 Rates-of-Change

-22.8% Zinc
-14.8% Alum
14.5% Steel
-12.6% Copper

All Others Copper & Steel
US Mortgage Rate Will Be Heading Higher

US 30-Year Mortgage Rate

Source: Wall Street Journal
State Population Growth Rates

Source: US Census Bureau

Percent Change from Population Estimates 2010 to 2018
## Retail Sales Ultimately Drive Filling, Packing, Stacking, Moving, Shipping, etc.

### US Retail Sales

<table>
<thead>
<tr>
<th>Category</th>
<th>12/12 Rates-of-Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Light Vehicle Sales</td>
<td>0.8</td>
</tr>
<tr>
<td>Automotive Parts Stores</td>
<td>1.1</td>
</tr>
<tr>
<td>General Merchandise Stores</td>
<td>3.2</td>
</tr>
<tr>
<td>Grocery Stores</td>
<td>3.4</td>
</tr>
<tr>
<td>Bldg Materials, Garden, Supplies</td>
<td>3.5</td>
</tr>
<tr>
<td>Health and Personal Care Stores</td>
<td>3.6</td>
</tr>
<tr>
<td>Beer, Wine &amp; Alcoholic Beverage</td>
<td>4.7</td>
</tr>
<tr>
<td>Clothing Stores</td>
<td>4.8</td>
</tr>
<tr>
<td>Furniture Stores</td>
<td>7.1</td>
</tr>
<tr>
<td>Jewelry Stores</td>
<td>7.5</td>
</tr>
<tr>
<td>Online Retailers</td>
<td>10.6</td>
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</tbody>
</table>

12/12 Rates-of-Change

Source: US Census Bureau
Searching for a Recession

US Search Interest for "Recession" on Google to US Retail Sales

Retail Sales

3/12

Search Interest

3/12

12/12

Rates-of-Change (Search Interest has a 16 month lead time)

Sources: Google, US Census Bureau
Decline for WI Single-Family Housing Building Permits

Source: Census Bureau

Thousands of Units

-1.6%
-5.7%

First in Forecasts Since 1948
Multi-Family on the Rise in WI

Wisconsin Multi-Family Housing Unit Building Permits

Source: Census Bureau
First in Forecasts Since 1948

Milwaukee Housing Unit Building Permits

Milwaukee-Waukesha-West Allis, MSA

Source: US Census Bureau

Thousands of Units
Milwaukee to Wisconsin Housing Price Index

*Milwaukee-Waukesha-West Allis, MSA*

Source: Federal Housing Finance Agency

Annual Data Trend, 1991 = 100
First in Forecasts Since 1948

ITR’s Leading Indicator Says Cyclical Rise in 2019

US Private Nonresidential Construction to ITR Leading Indicator

ITRLI Leads by 20 months

Sources: US Census Bureau, ITR Economics
US to Wisconsin Unemployment Rates

Dec 2018
US 3.9%
WI 3.0%

Source: BLS
County Unemployment Rates

- Milwaukee
- Ozaukee
- Washington
- Waukesha

Source: BLS
In Search of More and More Labor

US Private Sector Employment

Private Sector Employment Growth: 1.9% B
Job Openings: 6.6 million (13.5% B)

Source: BLS

Annual Data Trend

First in Forecasts Since 1948
Wisconsin to County Average Annual Wages

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<thead>
<tr>
<th>Year</th>
<th>Milwaukee</th>
<th>Wisconsin</th>
<th>Washington</th>
<th>Waukesha</th>
<th>Ozaukee</th>
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<tr>
<td>2004</td>
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<td>4.1%</td>
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<tr>
<td>2005</td>
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<td>2006</td>
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<td>2007</td>
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<td>2008</td>
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<td>2009</td>
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<td>2011</td>
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<td>2019</td>
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<td>2020</td>
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<td>2021</td>
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<td>2022</td>
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<td>2.4%</td>
<td>2.6%</td>
<td>1.4%</td>
</tr>
</tbody>
</table>

Source: BLS
Cyclical Rise in Prices Indicated

Consumer Price Index for Health Insurance

Source: Bureau of Labor Statistics

2005 = 100

MMA

R-O-C

-24 -16 -8 0 8 16

'08 '09 '10 '11 '12 '13 '14 '15 '16 '17 '18 '19 '20

1/12 12/12 12MMA

'08 '09 '10 '11 '12 '13 '14 '15 '16 '17 '18 '19 '20

-24 -16 -8 0 8 16

MMA

2005 = 100

Source: Bureau of Labor Statistics

First in Forecasts Since 1948

ITR Economics
Automation/Robots Do Not Hurt Mfg Employment

RIA Shipments to US Total Manufacturing Employment

Sources: Robotics Industries Association, Bureau of Labor Statistics

Mfg Employment  2.0% B   12.7m Highest in 11 yrs
Mfg Job Openings 19.3% B    493,000 Near Record High
Mfg Hourly Wage                    $27.36 Near Record High
Rising as Expected


Source: Bureau of Economic Analysis, US Census Bureau
The Long View

Prosperity in the Age of Decline

1. Demographics
2. Health Care Costs
3. Entitlements
4. Inflation
5. US National Debt
A Model for the Future

US Industrial Production Index

12MMA
3MMA

Great Depression
Roaring 20s (3 recessions)

Source: FRB
Issues Government Will and Won’t Tackle

US Federal Government Receipts and Payments

- Current Tax Receipts
- Consumption Expenditures
- Current Transfer Payments
- Interest Payments

Source: BEA

Billions of Dollars

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