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Brian Beaulieu: Get Ready for Good Times

Brian Beaulieu says we need to be prepared—for strong economic growth and good times, at least for the next few years.

Although the world is "really messy" at the moment, he said, "We don't need to worry about the downside until 2019."

Beaulieu, an economist with ITR Economics, laid out the positives—and a few negatives—November 18 at ULI Minnesota's 10th Annual Economic Outlook presentation.

"There are a lot of things going on that are right in our economy," Beaulieu said, including:

- The real Gross Domestic Product is in good shape and will continue to grow. His prediction is for a somewhat more rapid rate of growth over the next three years.
- It's unlikely that there would be a recession during the next 10 years, although there may be a dip here and there—particularly after the 2016 election. Beaulieu said that, judging from history, there's a 67 percent probability that the economy won't be as good in the year following a presidential election as it was the year before.
- Unemployment rates are down, which is a positive but also a problem as businesses have difficulty filling skilled jobs. "You've run out of people to hire," he said. That means businesses filling jobs by "stealing" from other businesses, which can be detrimental on both sides of that equation.
- Consumers are in "fantastic shape"—and that, he said, is what really matters. "They're out there spending money."
- Home prices are going to be rising until about 2030. Minnesota's home prices are almost back to what they were in 2006, before the housing crash.
- The United States' dependence on foreign oil has dropped, from 60.4 percent in 2005 to 26.9 percent in 2014. The proposed Keystone pipeline is a non-starter, he said, "We don't need it."

Minnesota is, in most ways, will perform better than other states for at least the next three years, Beaulieu said. "This is a great place to be." The state's education numbers are high, unemployment is low and the income is above the national average. Although construction industry employment in the state is 1.4 percentage points below where it was in 2014, he said he isn't concerned about this number: "I think it's going to be short-lived and shallow."

Finding opportunities in a strong economy

Businesses need to prepare for a strong economy just as they would need to prepare for a weak economy, Beaulieu said, otherwise they risk being left behind. For the current and near future economy, that means businesses must:

- Recruit, train and re-train employees in order to have the staff they need.
- Spend money on marketing and advertising their products.

- Become more capital-intensive.
- Hire talent that will help lead their company into new markets.
- Expand credit offerings.
- Budget for the rise ahead.
- Reduce price sensitivity.

Beaulieu also recommended other actions to get the most out of today's economy, while also moving into a stronger position when the economy becomes weaker:

- Don't be afraid of the stock market, he said, "I'm more confident this year than last." Although there may be a correction, it won't take the stock market into a bear mode.
- Housing starts may drop in 2018, but should bounce back up in 2019. Beaulieu said he sees ongoing growth for multiunit housing.
- Businesses that provide goods or services should be prepared to raise prices, Beaulieu said. "If not, labor will be eating your profits."
- Learn to use technology to reduce your need for labor. Large companies are investing in technology, but small-to-medium-sized companies create more jobs than the large companies, yet are less likely to find ways to use technology instead of adding staff. "You need to invest in technology to get through the skills gap," he said.

The rest of the world

The United States, which accounts for 22.5 percent of the world economy, is in particularly strong position right now, Beaulieu said, but that is not true of the second-largest economy. China, which accounts for 13.4 percent of the world economy, is in recession—"Their economy is a mess"— but may be helped both by stronger economies in the United States and Europe and by its own government "lever-pulling" to affect short-term changes.

- Japan's GDP has been down for two consecutive quarters and the nation is struggling to put together a rising trend, but Japan is doing something right, Beaulieu said.
- Germany is strong now, but the influx of Syrian refugees will be very expensive, Beaulieu said, and in eight to 13 years, "Germany won't be able to bail out the rest of Europe."
- Brazil is "as big as they're going to grow."
- "Stay away from Russia," he warned.
- Manufacturing is leaving Canada and moving to other countries, some to the United States but quite a bit to Mexico, he said.
- Australia and Switzerland are safe havens for investing; Beaulieu is currently taking Canada off his list of safe havens because of the new prime minister, Justin Trudeau, "who wants to go into deficit spending."
- Mexico is "a very exciting place to invest." He encouraged taking advantage of investment opportunities in Mexico, Central America and Chile.

The United States runs a trade deficit with most of the rest of the world; "exports are not a huge part of our economy," Beaulieu said. "Europe needs us more than we need Europe." He said the U.S. economy can continue to grow while China is struggling.

Beaulieu said the recent terrorist attacks in Paris are not likely to have a large long-term effect on the French economy or the economies of other countries. "We have short-term memories," he said. "Consumers are going to spend."

Interest rates rising

Beaulieu said the Federal Reserve is indicating that interest rates are going to rise, and soon, although he thinks it's unnecessary. "Inflation now is at 0.2 percent, which means there is no inflation," he said. There will be inflation of 2 or 3 percent over the next few years, he said, but nothing particularly onerous.

In the housing markets, Beaulieu said, initially higher interest rates will spur people to buy so they can get ahead of what they expect will be even higher rates in the future. Then, he said, they may stop buying for a while until they adjust to the idea of higher rates. "Higher rates are not a death knell for the industry," he said, recalling a few decades ago when mortgage rates were as high as 17 and 18 percent—and yet, people still bought housing.

Understanding Millennials

Forty-nine percent of the workforce will be Millennials (those born between about 1980 and the early 2000s) by 2020, Beaulieu said. And Millennials "are just different." For one thing, he said, they tend to change jobs about every three years. "If we don't figure out a way to retain them once we employ them, we are going to be hurting," he said. (By 2036, he said, the majority of Baby Boomers will have passed on.)

He said Millennials come to work believing in a work-life balance in a way their forebears didn't. They want flexibility, they want freedom, and they want to feel connected. "They don't want to come into the office—especially an office out in the suburbs somewhere," he said.

"This is a huge, huge economic issue we're going to have to deal with."

After 2030

The economic drivers that could move to a depression beyond 2030 are:

- Inflation.
- Increases in health-care costs and federal entitlement programs.
- The U.S. national debt.
- Demographics. Most of the growth in the United States is through immigration, Beaulieu said. "If we stop it, we will be in trouble. Immigration is good, not bad."

For more information: **view the presentation here.**