The macroeconomic indicators for the US economy are mixed. US Industrial Production is growing at a slowing rate, as is US GDP. The sluggish trends in manufacturing and mining will hinder robust growth in the overall economy into early 2016. US Nondefense Capital Goods New Orders, a proxy for business-to-business activity, is below the year-ago level. We attribute much of the decline to contraction within US Machinery New Orders. In particular, US Mining Machinery New Orders for the 12 months through August are down 34.3% from this time last year. These negative trends, coupled with the lower Capacity Utilization Rates for Manufacturing and Mining, will constrain momentum within the US for the next two quarters.

However, there are reasons for confidence for 2016 as there are some positive signs for our macro outlook. The majority of US Total Retail Sales sectors are positive. A strong consumer sector will carry the economy while other key segments wane. US Housing Starts are on the rise and US Retail Sales for Automobiles are strong. These indicators help confirm our expectations of overall consumer strength and signal that the consumer is willing to buy big ticket items. Developing market trends in Auto Production will also aid resurgence in manufacturing for the overall US economy in early 2016. The Utilities segment of Industrial Production bumped up along with an increase in capacity utilization. The recent surge is the first since August of last year and is a good sign in the midst of a predominantly slowing economy.

As of September, the Fed decided not to raise interest rates. Much of this is due to the lack of inflation. Inflation will likely remain relatively low for the next few quarters. Upward movement in commodity prices will likely precede rising inflation trends. The most recent Bureau of Labor Statistics employment data reported 142,000 new non-farm jobs added for September and revised previous estimates for July and August downward by 59,000 jobs. This may also confirm the Federal Reserve’s rationale to postpone an interest rate hike.

Although production is decelerating in the US economy, there are no signs of recession. This trend will persist into the early parts of next year. However, mid-2016 will offer favorable economic conditions to facilitate robust growth within the US. This is a good time to use the low raw material input and low financing costs to optimize your production process to meet accelerating macroeconomic conditions next year.

**MAKE YOUR MOVE™**

Make opportunistic purchases and acquisitions while prices, interest rates, and valuations are low in anticipation of the macroeconomic acceleration in 2016.
Retail Sales
Annual Total Retail Sales (deflated) are 2.4% higher than one year ago. This represents slightly slower growth, though most components of retail sales are showing signs of growth (exceptions are Jewelry and Gas Stations). Expect stronger growth in 2016.

Wholesale Trade
Total Wholesale Trade in August is down 0.9% on a year-over-year basis. Farm Product Raw Materials and Petroleum and Petroleum Products are dragging down the total. However, areas related to consumer activity such as Furniture and Home Furnishings are expanding.

Manufacturing
Annual growth in Manufacturing slowed to 2.8%. Most manufacturing components will end 2015 higher than 2014. Exceptions are contraction in new orders for Industrial Machinery, Electrical Equipment, Defense Capital Goods, and Mining Excluding Oil and Gas.

Interest Rates
Long-Term Bond Yields fell 15 basis points in September and have vacillated in October. A poor jobs report and stock market jitters sent money back into bonds and other fixed assets. However, economic upturn in 2016 will raise rates over the next year.

Medical
Growth in Medical Equipment and Supplies Production is slowing and will persist into early 2016 before accelerating. Hospitals are a bright spot, showing accelerating growth in Personal Consumption Expenditures, Revenues, and Construction.

Capital Goods New Orders
This measure of business-to-business activity is falling into recession. Machinery New Orders (47% of total Capital Goods New Orders) are down 4.4% on a year-over-year basis. We expect New Orders to rise in 2016.

Employment
Employment job growth slowed to an average of 139,000 jobs per month for August and September, just over half the 247,000 jobs the economy averaged over the previous 18 months. Expect employment to grow at a slower rate into mid-2016.

Office Buildings
Office Building Construction totaled $44.9 billion for the 12 months ending in August, up 27.4% from one year ago. Office vacancy rates are declining and rents are rising. Expect the growth rate to peak in the fourth quarter of this year before the rate of growth slows in 2016.
Building market share through strategic acquisitions and mergers is a time honored technique for growing a business. However, as with any business strategy the timing of these moves is critical. Optimizing strategic business acquisitions for current and future business cycle conditions is a key consideration in maximizing the value of the deal. Buy low; sell high. As we approach the bottom of the current cycle you need to be asking yourself if the time is right to buy out rivals, to make an acquisition vertically along your value-chain, or to break into new geographic or product markets with a carefully thought out merger.

So far, October has seen a number of high profile mergers and acquisitions including Dell Inc's $67 billion merger with EMC Corp and the "beerhemoth" $106 billion takeover of SABMiller by AB InBev. If completed, the new brewery giant will mark the third-largest merger in history. According to Bloomberg, the third quarter of 2015 was the busiest on record for M&A transactions with mergers and acquisitions for the quarter exceeding $1 trillion. The surge in M&A activity is not just a US phenomenon. The value of acquisitions involving Korean firms between January and September rose to $86.4 billion, a 17% rise from a year earlier.

There are two major drivers for the rise in M&A activity; slowing economic growth and a drop in valuations. US Industrial Production rose just 1.1% in the third quarter of 2015 compared to the same time last year. As a proxy for valuations the Dow Jones Industrial Average ended September 4.4% lower than September 2014. The S&P 500 declined 2.6% over the same period.

We project a soft landing for US Industrial Production and stronger growth in 2016. A business cycle with a soft landing is one where slowing growth will be replaced by accelerating growth without experiencing a contraction. Nevertheless, some markets and companies are experiencing contraction and others will in the near future. Determining the optimal timing and price of a takeover should always start with an in-depth market and company analysis. The best time to buy out a competitor or business partner is before sales accelerate. The price of acquiring a company will be significantly higher if the target company is growing or is aware of the pending growth on which your acquisition strategy is based. Even when a soft landing is in the cards, you can execute opportunistic M&A projects at the bottom of the market to avoid overpaying when the market is doing well.

Analyze your current sales and use leading indicators to provide insights into your 2016 performance. Determine the current business cycle phase of your industry and that of your potential acquisition targets if your growth strategy is built on new verticals. This will require careful analysis of indicators for your own business and, if possible, for your acquisition target. Keep this insight closely held to keep the target or potential rival buyers from bidding up the acquisition price; it might be helpful to use a trusted third-party to collect and analyze the inputs. Look for distressed industries with strong outlooks in 2016. Mining and oil & gas are good examples of industries mired in contraction in 2015 but with better prospects for 2016. Export-driven manufacturing firms and manufacturing firms facing increased domestic competition due to a strong dollar are also attractive takeover targets.
Are you (or how are you) accounting for the charter expiration of the Export-Import Bank, which helps finance US manufacturing exports, in your modeling? There have been a number of companies such as Boeing and GE announcing the closure of US based operations and sending them overseas because of this.

**Jon Murphy, an economist at ITR Economics answered:**

Regarding the Export-Import Bank, we do not expect that its closure will have a major effect on the US economy. The Bank supported about 2% of exports. Likely, the effects of a strong dollar and transportation costs will play more into any decisions of firms to relocate any given operation. We feel confident the failure to recharter the bank will not affect our forecast going forward.