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Think positive

Posted on [January 23, 2017](#) by [Thomas G E Smart](#)



ECIA president and chief executive officer, John Denslinger, explains what can be deduced from the current market indicators and asks what a Trump presidency will mean for the future.

Looking ahead at the year to come, it's important to get to grips with two key leading indicators: the purchasing managers index and gross domestic product.

Passives and semiconductor shipments have actually been tracked against PMI since 2004 by Custer Consulting. This comparison has consistently shown strong correlation between global PMI and component shipments. According to Markit Analytics, global PMI turned positive at mid-year and assuming PMI is a bellwether of component shipments at least six to nine months out, the positive trend suggests solid global growth through most of 2017.

Focusing specifically on US PMI, the story is almost the same. The Institute of Supply Management shows the uptick in US PMI started three months ago. That being the case, the US lags the global trend by one quarter. Perhaps the conclusion here is to expect a slower start to 2017, but continuous growth nonetheless.

A resilient industry

In the seven years following the recession of 2008 to 09, US GDP averaged a meager 2.3 per cent. It remains the slowest post-recession recovery period on record with under-employment astonishingly high. Unfortunately, our professional politicians have tended to diminish expectations of strong economic growth by suggesting this is 'the new normal' rather than addressing real economic stagnation.

The reason GDP is so important is that electronic component growth trends follow the rate of GDP growth closely. In the post recovery period, the North



American electronic component industry grew slightly better than three per cent. Considering prices have fallen throughout, it's definitely a testament to the resilience of our industry.

Currently, the 2017 forecast for US GDP is around 2.3 per cent or less. Similarly, global GDP, according to latest figures from the International Monetary Fund, is projected at 3.4 per cent in 2017, up 0.3 per cent from 2016. Under ordinary circumstances then, it seems reasonable to project 2017 global electronic component growth to be around four per cent, with the US a little less, assuming a slower out-of-the gate start.

Election boost

Of course, any discussion of the forthcoming year must also take into account the impact of the unexpected, Brexit-like, US presidential election.

Might there actually be an immediate upside? Prior to the election, US PMI suggested optimism. Now we see small business optimism go off the charts. This is important because small businesses are the primary job creator in the US and perhaps central to renewed growth.

The reasons for their optimism were listed as infrastructure investment, corporate and individual tax relief and expanded energy resource development. There were also high hopes for a business approach to government decision making, with a removal of job limiting regulatory barriers and trade reform.

If President-elect Trump is able to move the GDP needle just one point, we could see electronic component industry growth in the four to 4.5 per cent range. Wouldn't that be awesome!

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