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Main Street right; forecasters wrong.

Why is it so tough to admit we were wrong? That question surely crosses the minds of everyone who has spent a few years—or decades—collecting bruises in the investment world. Having spent the decades, collected the bruises . . . and been wrong a few times, here's Outlook's answer: "It's fear, mostly: which is what's behind all kinds of mistakes." For those in the business of predicting the economic or market future (heaven help them!) it's surely fear of lost prestige, of lost clients, even of lost self-confidence.

Such deep thoughts have been rattling around Outlook's mind, lately, as we've noticed the steady flow of experts quietly dropping their "Recession Will Get Us!" forecasts of the last year or two. Those pessimists' forecasts were not silly . . . just wrong, because their models seldom if ever looked at "the whole picture" of Main Street USA, instead focusing on one thing (rising interest rates) which was a guaranteed "Main Street Killer", they thought. Rising rates are no such thing, because there's much, much more to Main Street than how much high interest rates might weaken it.

Let's glance at one of those "much more" items.

8. De-stocking cycle. "The S&P 500's days sales of inventory (DSI) are now down 15% YoY in June, representing the biggest drawdown in inventories in our data history since 1997. The DSI is now at the lowest level since January 2018, suggesting we are likely near a trough in the inventory cycle."

Chart 7: The current inventory de-stocking cycle has been the sharpest in recent history
S&P 500 days sales of inventory YoY (1997-6/24)

Source: BofA Global Research, FactSet

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As Outlook has noted once or twice, "cycles" are the fabric of life in the economy as a whole, and in most of Main Street's businesses. If we're going to understand either, we must keep all those cycles in mind. This picture shows us the "inventory cycle." We can see how business inventories (of everything under the sun) constantly rise and fall. Normal human behavior makes them rise and fall, as people buy more when times are good and buy less when they're bad . . . or when people are worried that they're turning bad. And businesses mostly feel they absolutely must make as much as their customers want to buy when everything's rosy; so they always have too much inventory when the dark clouds appear.

That red circle at the far right is today: the sharpest, deepest inventory shrinkage in 30 years, taking Main Street as a whole. The other red circles show us what happens when the shrinking is over. "Boom!" describes it, pretty much. Buyers come flooding back to find Main Street's businesses short of products to sell them. So Main Street Business throws the gears from "Reverse" to "Full Speed Ahead" . . . and up goes a lot of things: from products on the shelves to factory utilization to jobs to retail sales and industrial production. In other words, economic growth accelerates, no longer hobbled by Main Street's production cuts.

The unusual thing about this red circle is that "Recession!" never happened. Main Street had the strength to withstand rising interest rates, softer sales, inventory shrinkage, and a host of other burdens. And now every expert who hung onto his "Recession Will Get Us!" predictions, these past 18 months, is thinking "Hmm. It's getting pretty obvious I was mistaken. Gonna have to untangle myself gracefully."

Understandably, they mostly do that the easiest way: by simply changing their tunes and ignoring what they said in the past. And that strategy does work. It works not because people forget those wrong forecasts . . . but because people mostly forgive them, knowing how tough the crystal ball business is, and hoping their favorite forecasters will just get on the with the job, and better luck next time. At Outlook we're glad to forgive a couple of our favorite forecasters—though it helps that we never believed them in the first place, this time. When they said "Recession Will Get Us!", we said, "Nope. Not this Main Street; not this time."

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