



Pivot Fast or Hit the Wall

Many recent client conversations spoke to a common dilemma. Conditions going into this next recession are very different than companies faced in past recessions.

Demand has been artificially robust for 18 months in the construction and industrial markets that many of these clients operate in.

- Builder/contractor backlog indicator is 9 months
- New home construction backlog is near a two-decade high
- Plant capacity utilization is at a 14 year high
- Lead times on common building materials and components range from 36 to more than 52 weeks

No one wants to get ahead of the downturn at the risk of leaving money on the table. However, while operating largely as casual observers for the time being, our clients see all the signs that a brick wall is ahead. They are starting to get concerned, and they should.

- Probability of 2023 recession is 96%
- 21% decline in single family starts
- Trucking industry layoffs are accelerating
- Mortgage rates have doubled, and applications hit a 25-year low
- For the first time in two years, the PMI indicates economic contraction

Coming from such strong business activity, the impact of the coming downturn is likely to be felt in businesses faster and harder. This will require business leaders to pivot quickly from topline oriented strategies to a more defensive position to protect profits.

How will these companies achieve the quick pivot and do so at the right time? They will have already considered and defined the needed strategies and tactics. To determine the best time to pull these plans off the shelf, they are monitoring non-traditional metrics. Examples include more frequent, smaller customer orders, spikes in order cancellations, a decline in recent order volume, and a lengthening sales cycle.

All of these metrics speak to a more cautious approach to the future being adopted by customers. These leading indicators suggest that left unchanged, your business will hit a wall soon.

