

## Industry Snapshots

Arrow denotes 12-month moving total/average direction.

	<b>RETAIL SALES</b>	
	<b>WHOLESALE TRADE</b>	
	<b>AUTO PRODUCTION</b>	
	<b>MANUFACTURING</b>	
	<b>ROTARY RIG</b>	
	<b>CAPITAL GOODS</b>	
	<b>NONRESIDENTIAL CONSTRUCTION</b>	
	<b>RESIDENTIAL CONSTRUCTION</b>	

Steep Rise
 Mild Rise
 Flat
 Mild Decline
 Steep Decline

## Macroeconomic Outlook

The majority of leading indicators that we track – including the ITR Leading Indicator™, the US ISM PMI (Purchasing Managers Index), and the US Total Industry Capacity Utilization Rate – signal that many sectors of the US economy will continue to trend on the back side of the business cycle. These sectors include US Industrial Production, US Total Retail Sales, and US business-to-business (B2B) spending. Our analysis of the inverted 10-year to 3-month Treasury yield curve, which reaches further out, suggests that these sectors will reach cyclical lows around late 2024. The magnitude of the cyclical downturn will differ by sector, but it will be generally mild relative to historical trends.

Rising interest rates, alongside economic uncertainty, are hindering some firms' capex investments. This will contribute to ongoing slowing growth and eventual contraction in B2B spending. We expect annual US Nondefense Capital Goods New Orders (excluding aircraft), a measure of B2B spending, to peak in mid-2023 and then decline – approximately 5% altogether – through the end of 2024.

Annual US Total Manufacturing Production, which accounts for almost 80% of US Industrial Production, has edged downward in two of the last three months, and we expect decline to be the overarching trend into the latter half of 2024. By contrast, overall Industrial Production, which is benefiting from mining activity, is hovering around record-high levels. Annual Industrial Production will peak in the latter half of this year and then decline – about 2.7% in all – into the end of 2024. Industrial sector decline will be cushioned by elevated backlogs and near-term reshoring trends.

We expect annual US Total Retail Sales to peak around the end of this year, then decline, about 1% or less, into the latter half of 2024. Consumer financials are stable, with credit delinquencies below the 2019 level and US Real Personal Income (excluding current transfer receipts) at record highs. However, savings are not keeping pace with inflation; we are monitoring this downside risk to the outlook.

*“Rising interest rates, alongside economic uncertainty, are hindering some firms' capex investments.”*

Our outlook for relatively mild macroeconomic, industrial, and retail sales downturns in 2024 assumes that the inversion of the yield curve will not extend beyond this year. Recent comments by Federal Reserve Chair Jerome Powell suggest that the Fed could maintain a hawkish stance for longer than originally expected, which could jeopardize that assumption. If so, the economy would face higher hurdles, which could result in more severe or longer-lasting downturns than we are currently forecasting. We are closely monitoring the Fed's actions and the potential risks to our forecasts.

## Make Your Move

Despite higher interest rates, investments that reduce your business's dependence on labor or increase its efficiencies should still be considered when thinking about the longer term. Determine which investments are likely to yield the highest returns.

## Investor Update

Seven of the eleven ITR Optimizer Leading Indicator™ components are positive or rising, a data-driven reason to be invested in the market at this juncture. However, avoid adopting an overly aggressive posture, given ongoing volatility and decline, as well as negativity in the remaining four components of the Optimizer Leading Indicator.

## ITR Economics Long-Term View

**2023**

SLOWING GROWTH

**2024**

RECESSION

**2025**

GROWTH

## Leading Indicator Snapshot

	2Q2023	3Q2023	4Q2023
ITR Leading Indicator™	●	●	●
ITR Retail Sales Leading Indicator™	●	●	●
US OECD Leading Indicator	●	●	●
US ISM PMI (Purchasing Managers Index)	●	●	●
US Total Industry Capacity Utilization Rate	●	●	●

● Denotes that the indicator signals cyclical rise for the economy in the given quarter.

● Denotes that the indicator signals cyclical decline for the economy in the given quarter.

● N/A

### KEY TAKEAWAYS

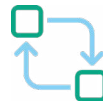
- The ITR Leading Indicator™ moved lower in February, signaling ongoing business cycle decline for the US industrial economy into at least late 2023.
- The US Total Industry Capacity Utilization Rate also signals that US Industrial Production will be on the back side of the business cycle into at least late 2023.
- The US OECD Leading Indicator monthly rate-of-change has tentatively moved higher but has not yet exhibited a statistically significant trend reversal. The rate-of-change decline through November 2022 suggests that the US Industrial Production growth rate will decline into at least the second half of next year, in line with our outlook.
- Downward movement in the ITR Retail Sales Leading Indicator™ corroborates our expectation for further growth rate decline for US Total Retail Sales.

## Industry Analysis



### RETAIL SALES

- US Total Retail Sales in the 12 months through January were at \$8.160 trillion, 8.6% higher than the same period one year ago
- Annual Retail Sales will rise into the end of this year and then decline into the latter half of 2024
- Consumers have been prioritizing consuming over saving, which suggests the decline will be mild



### WHOLESALE TRADE

- Annual US Total Wholesale Trade in January was up 15.2% from the prior year
- A number of metrics point to waning momentum: US Imports of Goods From the World have retreated from record-high levels, and US Surface Trade With Canada and Mexico is displaying weak seasonal trends
- Downside pressure on Wholesale Trade is likely to persist in the coming quarters as the US industrial and consumer sectors cool



### AUTO PRODUCTION

- North America Light Vehicle Production in the 12 months through January was 11.8% above the year-ago level
- Annual Production will rise into late 2023 and then decline in 2024
- Production is gaining momentum as input availability improves



### MANUFACTURING

- Annual US Total Manufacturing Production is declining but as of February was still up 2.2% from the prior year
- The ITR Leading Indicator™ and the US ISM PMI (Purchasing Managers Index) suggest that cyclical decline will persist in the coming quarters
- Challenges in finding workers will incentivize firms to replace human labor with machines where possible, cushioning Production decline



### ROTARY RIG

- The annual US Rotary Rig Count averaged 746 in February, up 45.1% year over year
- Recent decline in US Crude Oil Spot Prices is likely putting further downside pressure on the Rig Count
- The Biden administration approved a drilling project in Alaska but extended Arctic protections; therefore, the project's approval is unlikely to significantly bolster activity



### CAPITAL GOODS NEW ORDERS

- Annual US Nondefense Capital Goods New Orders (excluding aircraft) were up 7.8% in January
- Annual New Orders will begin declining in the latter half of this year
- Waning macroeconomic data and elevated interest rates are likely to deter some capex spending, particularly financed purchases



### TOTAL NONRESIDENTIAL CONSTRUCTION

- US Total Nonresidential Construction in the 12 months through January came in at \$898.1 billion, up 9.1% year over year
- US Public Construction activity typically lags the overall macroeconomy by about a year
- 2022's economic growth will likely translate to Public Construction growth in 2023



### TOTAL RESIDENTIAL CONSTRUCTION

- US Total Residential Construction in the 12 months through January came to \$906.1 billion, up 11.4% from last year
- We expect Construction to decline into the middle of 2024
- Evidence indicates that homes that sold in January spent more time on the market than homes that sold in January 2022, which suggests that affordability headwinds are likely to hinder activity in the near term

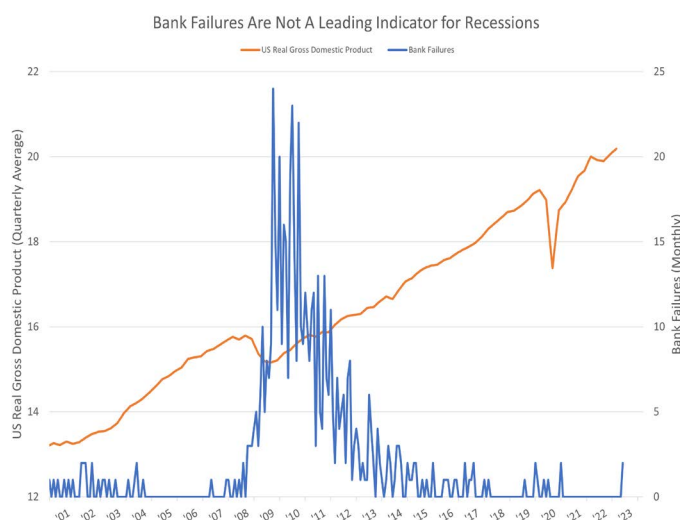
## A Closer Look: The US Economy Lessons Learned From March's Bank Failures

GRACE SCHATZ

*What you need to know: The recent failures do not indicate systemic issues, but business leaders should exercise vigilance*

Poor planning and exposure to assets that became high risk during this business cycle have driven two bank failures (as of this writing) in March. Such failures are alarming, but they are not necessarily an indication of systemic issues that will spill over to other segments of the economy.

According to the FDIC, there have been 565 bank failures in the US since October 2000. Most of those occurred during the Great Recession. Annual average US Domestic Financial Industries Corporate Profits peaked in mid-2006 and did not return to those peak levels until mid-2012. More than 78% of the bank failures in the 22+ years of recorded data for such took place during this six-year period. With history showing such a strong association between bank failures and the Great Recession, it is no wonder that people are afraid.

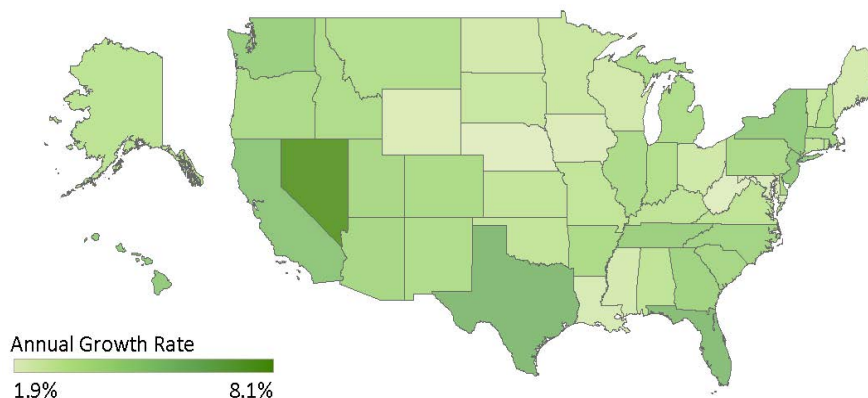


However, when we dig a little deeper, we see that bank failures happen with some regularity, at low volumes, during periods of economic growth. For example, there were 22 bank failures in the five-year period from 2001 through 2005. That was a time of nearly uninterrupted economic rise, with growth of 13.4%. It is important to remember that banks, much like other businesses, are susceptible to the consequences of poor decision-making and bad management; such consequences can include failure in any economic environment.

So, what can you do to keep your business in a strong position?

1. Assess the health of the institutions you bank with and minimize your exposure to risk. We often recommend that our clients assess the financial position of their vendors to avoid calamity; this should also apply to your banking relationships. Diversification is key, as it minimizes risk. Keep in mind that the issues that caused these bank failures are not likely systemic, given consumers' strong financial position relative to the Great Recession scenario mentioned above.
2. Determine your business' sensitivity to interest rate changes. By many measures, interest rates are trending at their highest levels in over a decade. Changes in interest rates rarely have an immediate effect on end-use markets or businesses. If your business has been negatively impacted by interest rate rise in the past, the risk stemming from this current rise is likely still in the future. Our analysis suggests that the primary impact will occur in 2024 for businesses that typically move in time with the overall economy. The sooner you can determine this, the better. You may have the opportunity to shift your focus to end-use markets that will present less risk next year, or to implement plans to right-size your company and maintain profitability during the upcoming period of economic decline.
3. Lead with optimism despite the negativity in the news. Many businesses are growing alongside the overall economy as we move further into 2023. This month's headlines around the bank failures are just one example of the type of news that can foster fear among your employees, causing them to make assumptions about the position of your business. To the extent that you are able, communicate the reality of the business conditions you are experiencing and let your workforce know what they can do in their individual roles to help mitigate risk.

## State-by-State: Employment



- US Private Sector Employment averaged 131.1 million workers in the 12 months through February, 4.5% higher than the year-ago level.
- The weakest Employment gains were concentrated in the Central region of the US, while the strongest gains were in the West and Southeast regions of the country.
- These regional differences are likely attributable to demographic shifts; increased populations create more economic development and, therefore, more jobs.
- We expect annual Employment to rise into the middle of next year.

## Readers' Forum

### What is going on with these bank failures? Should I be worried about another Great Recession?

John Olson, Economist at ITR Economics™, answers:

Bank woes have dominated the headlines of late. Silicon Valley Bank, Signature Bank, Credit Suisse, and First Republic Bank have all struggled to varying degrees. Silicon Valley Bank and Signature Bank were taken over by the FDIC. First Republic Bank and Credit Suisse were bailed out, by larger banks and the central bank of Switzerland, respectively.

Silicon Valley and Signature's balance sheets had a uniqueness to their makeup that contributed to those banks' failures. Because of that uniqueness, we do not expect those failures to touch off a domino effect for other banks. Meanwhile, the FDIC, Treasury Department, and US Federal Reserve have opted to make depositors whole, even those whose deposits exceeded the traditional limit of \$250,000.

As a result of these steps, our outlook for 2023–2024 is unchanged. We still expect a mild recession for the US macroeconomy next year. Ensure that you perform due diligence on any deposit institutions you aim to do business with.

Please send questions to: [questions@itreconomics.com](mailto:questions@itreconomics.com)

### Don't Miss Our March Executive Series Webinar!



*This is the last chance to reserve your spot at our upcoming Virtual Keynote event on Thursday, March 23! Join ITR Economics CEO Brian Beaulieu and ITR Economist Kyle Stevens for our Executive Series Webinar, "Economic Storm Watch." In case you miss the live event, a recording will be available to purchase in the ITR Economics onDemand store in the days following the presentation.*

*This webinar will provide viewers with an update on the various threats, opportunities, and risks to our forecasts for 2023-2025. Are there any factors that could make the upcoming recession last beyond 2024? Could the lessons learned during this recession be applied to the upcoming Great Depression of the 2030s? Make sure your business is prepared for what is ahead with this special virtual keynote event.*

*Insider™ members – don't forget to apply your exclusive promo code at checkout to save \$25 on your purchase of this webinar!*

**RESERVE YOUR SPOT**