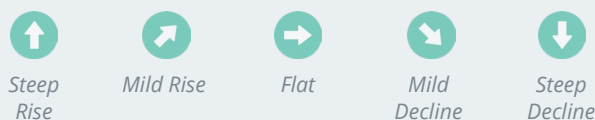
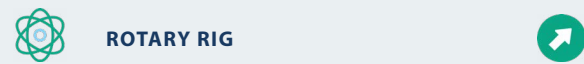
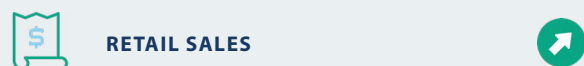


Industry Snapshots

Arrow denotes 12-month moving total/average direction.



Macroeconomic Outlook

The US economy, measured by US Real Gross Domestic Product (GDP), has been on the back side of the business cycle since the second half of 2021. Many markets across the economy are slowing in growth or declining. The industrial sector, business-to-business spending, and US Total Retail Sales are either at or near record highs but are slowing in their pace of rise. Macroeconomic fundamentals, including the sustained inversion of the Treasury yield curve, elevated interest rates, and consumer and business financials, signal that these sectors of the economy will decline, to varying degrees, in 2024.

The nonresidential construction sector typically lags the overall macroeconomy, as it takes time for needs to be determined, funding to be allocated, and projects to be planned and started. Therefore, nonresidential construction is still rising at an accelerating rate. This trend will not last indefinitely, and mild decline is expected to begin in the latter half of 2024.

Slowing growth in the US macroeconomy is easing the pressure on supply chains. In May, the Global Supply Chain Pressure Index reached its lowest level in over 14 years – 17 months after its December 2021 record high. While this does not mean that all supply chain challenges are resolved, generally improving conditions will allow businesses to meet customer demand more effectively.

“The industrial sector, business-to-business spending, and US Total Retail Sales are either at or near record highs but are slowing in their pace of rise.”

Pricing will be impacted by the loosening supply chain. To account for this, as well as actions by the Federal Reserve and sharp decline in some commodity prices, we revised our expectations for US Producer Prices. Expect deflation in Producer Prices during much of 2024. However, do not expect Producer Prices to return to pre-pandemic levels during this period. Despite the overall easing in Producer Prices, labor costs are likely to face upside pressure from the tight labor market.

Make sure you are monitoring your own input costs as supply chain constraints continue to ease and macroeconomic growth wanes. Before locking in long-term pricing contracts, make sure that your input prices are really at the bottom of the cycle. Pricing trends will vary by market. For example, markets for luxury goods and specialized materials, which tend to have a higher degree of industry consolidation than others, may be more insulated from this decline. In general, however, pricing pressures will be less of a contributor to your top-line growth in 2024. Focus on communicating your competitive advantages to clients to help maximize your margins during this time.

Make Your Move

If you make emotional, knee-jerk asset allocations based on fear of missing out during big upswings and fear of the unknown during big downswings, you are likely to underperform.

Investor Update

S&P 500 ascent persisted in June. All but 0.6 percentage points of the market's 16.5% gain over the last 12 months occurred during the first six months of 2023. Most of the rise in the market over the last 12 months is attributable to 2023 gains in Tech and related sectors. Our analysis of peer cases of yield curve inversions suggests we are rapidly approaching the top of the 2023 stock market rising trend, with significant downside pressure to follow.

ITR Economics Long-Term View

2023

SLOWING GROWTH

2024

RECESSION

2025

GROWTH

Leading Indicator Snapshot

	3Q2023	4Q2023	1Q2024
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

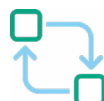
- The ITR Leading Indicator™ rose for the fourth consecutive month in June. The Indicator suggests we could see an uptick in US Industrial Production growth rates later this year. However, there are signals that decline is not yet over for the Indicator and, given tight monetary conditions, general decline will likely be the overall trend for the US industrial sector in 2024.
- Ongoing decline in the US Total Industry Capacity Utilization rate-of-change points to cyclical decline in US Industrial Production through at least the end of this year.
- The ITR Retail Sales Leading Indicator™ declined further in June, suggesting that the US Total Retail Sales annual rate-of-change will continue declining in the coming quarters.

Industry Analysis



RETAIL SALES

- US Total Retail Sales in the 12 months through June totaled \$8.2 billion, up 5.7% from last year
- Consumers are relying more on credit to fund purchases than this time last year; quarterly Total Household Credit Card Debt rose 17.2% in the first quarter of 2023
- Leading indicators suggest Retail Sales will peak around the end of this year; decline will follow in 2024



WHOLESALE TRADE

- Annual US Total Wholesale Trade came to \$8.0 trillion in May, declining from a February peak
- The ITR Checking Points™ system suggests decline will persist in the coming quarters
- Waning demand and downward momentum in commodity prices will contribute to a hard landing for Wholesale Trade this cycle



AUTO PRODUCTION

- Annual North America Light Vehicle Production totaled 15.0 million in May, up 14.6% from the year-ago level
- Supply chains are improving, which is contributing to current Production rise
- However, high interest rates and a softening macroeconomy are likely to negatively impact demand; Production decline is likely in 2024



MANUFACTURING

- US Total Manufacturing Production in the 12 months through June was up 0.8% from the year-ago level
- Global Supply Chain Pressure Index trends and slowing macroeconomic demand indicate that manufacturing is likely to stay on the back side of the business cycle in the near term
- Expect mild decline in Production to persist into at least 2024



ROTARY RIG

- The US Rotary Rig Count averaged 759 in the 12 months through May, up 31.3% from the year-ago level
- The US Oil and Gas Extraction Utilization Rate came to 99.6% in June
- As we move further along the back side of the business cycle, weakening industrial demand is generating downside pressure on the Rig Count



CAPITAL GOODS NEW ORDERS

- Annual US Nondefense Capital Goods New Orders (excluding aircraft) were up 4.2% from one year ago
- Declining Domestic Corporate Profits and elevated interest rates are likely to hinder some business-to-business spending
- Deflation in Producer Prices will be an additional downside pressure on dollar-denominated New Orders into 2024



TOTAL NONRESIDENTIAL CONSTRUCTION

- Annual US Total Nonresidential Construction in the 12 months through May totaled \$979.6 billion, up 13.4% from last year
- Banks are tightening their lending standards for commercial real estate, which will put downward pressure on future Construction projects
- We expect Construction spending to decline in 2024



TOTAL RESIDENTIAL CONSTRUCTION

- Annual US Total Residential Construction came in at \$890.3 billion in May, declining from a late-2022 peak
- Low vacancy rates, along with record-high employment and income levels, suggest pent-up demand
- Spending decline in Residential Construction is likely to extend into 2024

A Closer Look: The US Economy The Manufacturing Recession Is Here

ERIC POST

What you need to know: Extra caution is warranted if you are tied to a durable goods segment that is interest-rate sensitive

The press and the Federal Reserve continue to debate whether the economy is likely to enter a recession this cycle or enjoy the proverbial “soft landing” scenario. (Our data-driven forecasting methodology indicates that the US economy will indeed enter a recession.) Obscured by this “will it or won’t it” recession debate is a fact that is, in our view, underreported: Manufacturing activity is already declining and will likely continue to decline into 2024.

Annual average US Total Manufacturing Production in June was down 0.2% from the November 2022 level. Further, our ITR Leading Indicator™, the US ISM PMI (Purchasing Managers Index), and other leading indicators signal decline will likely persist in at least the coming quarters. What do manufacturers and manufacturing-adjacent firms need to know?

WEAK ORDERS, SUPPLY CHAIN LOOSENING, AND WEAKNESS IN DURABLES SIGNAL PRICE AND VOLUME STRUGGLES

Annual US Total Manufacturing New Orders ticked down slightly in April and May, coming off a record-high March. Coupled with the supply chain loosening indicated by the Federal Reserve’s Global Supply Chain Pressure Index, this means that both volume and pricing will be under duress in the coming quarters. The pain is most acute on the durables side of the manufacturing industry. The annual average US Durable Goods Wholesale Sales-to-Inventory Ratio is at a record low, with data history back to 1993. Nondurables, on the other hand, offer a relative respite, with an annual average sales-to-inventory ratio right around the five-year average.

KNOW YOUR INDUSTRY’S SENSITIVITY TO INTEREST RATES

Affordability challenges are a huge part of this cycle’s recessionary trajectory. Price levels and activity surged with COVID-related fiscal and monetary largesse. Now, the industries that benefited most from those trends have the greatest risk of pullback this cycle as the Fed raises rates and credit markets tighten. In many manufacturing markets, that pullback is already happening. Consider the data:

- Historical data shows that manufacturing markets like metals, fabricated metals, machinery, and petroleum/coal products—most of which are durable goods, where it is sometimes possible to postpone or forgo purchase when interest rates are high—tend to be very interest-rate sensitive.
- Chemicals, food, and paper—notably all nondurable items—tend to be less interest-rate sensitive.
- Transportation equipment and plastics fall somewhere in between.

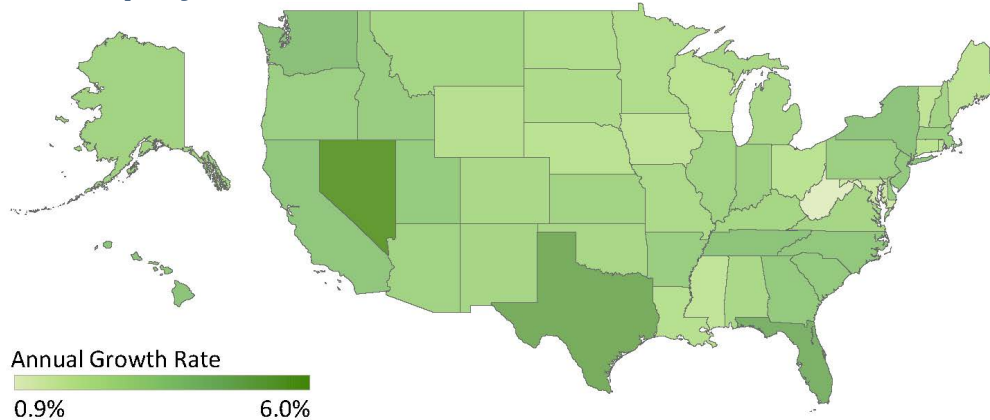
Another fact that has been underplayed in the press is that interest rates have a very long lead time to the economy; that is, it takes a long time (around two years) for interest rate changes to be fully reflected in the economy. The effects of the interest rate hikes of 2022, therefore, will not fully show up until 2024.

MANUFACTURING RECESSIONS, INVERTED YIELD CURVES, AND MACROECONOMIC RECESSIONS GO TOGETHER

There have been eight prior recessions in manufacturing activity in the data history, which goes back to the early 1970s. Seven of the eight manufacturing recessions are associated with yield curve inversions and macroeconomic recessions. The exception is the 2015-16 oil and gas driven recession, which coincided with low interest rates and inflationary pressures that kept consumer spending relatively strong and GDP out of recession. We do not enjoy those same advantages today.

The data signals that a macroeconomic recession is highly probable. Media chatter of a soft landing should not keep you from preparing for a mild 2024 recession.

State-by-State: Employment



- Annual US Total Nonfarm Employment was at a record-high 154.6 million employees in June, 3.2% above the year-ago level. However, the rate of growth is slowing.
- Six of the ten states with the highest employment annual growth rates are states with large year-over-year population increases, including Nevada (6.0%), Texas (4.9%), Florida (4.7%), Tennessee (3.7%), North Carolina (3.5%), and South Carolina (3.4%).
- Other states with high employment growth rates have high tourism, including California (3.6%) and Hawaii (3.7%).

Readers' Forum

With ITR Economics' forecast for recession in 2024, do you expect the labor market to remain tight?

Sara Aybar, Economist at ITR Economics™, answers:

The upcoming macroeconomic recession will reduce some demand for workers. We anticipate that this will manifest in the second half of 2024 and in 2025, as employment trends lag those of the overall economy. Trends in US Total Nonfarm Job Openings suggest that businesses have begun to pull back on hiring, a signal for further slowing growth in employment. However, we expect that the labor market will remain relatively tight during the downturn due to US demographic trends, particularly the aging population. Be mindful of cutting your workforce during this time; doing so could set you up for labor constraints during your next growth opportunity.

Please send questions to: questions@itreconomics.com

Can't See it Live? Watch the Recording of Our July Executive Series Webinar Coming Soon!



Will you be unable to attend our Executive Series Webinar, "2030s Great Depression Update," with ITR Economics CEO Brian Beaulieu and President Alan Beaulieu on July 27? Don't worry! A recording of this presentation will be provided with the purchase of this Virtual Keynote event!

ITR Economics has been forecasting a second Great Depression for the 2030s since Brian and Alan's book, "Prosperity in the Age of Decline," was published back in 2014. We have remained experts on the subject and continue to provide insight into the severity of this coming depression, along with essential advice as to how to prepare for and navigate through the 2030s.

PURCHASE WEBINAR