MEP National Network

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JUNE 2024

Reports
ITR Economics

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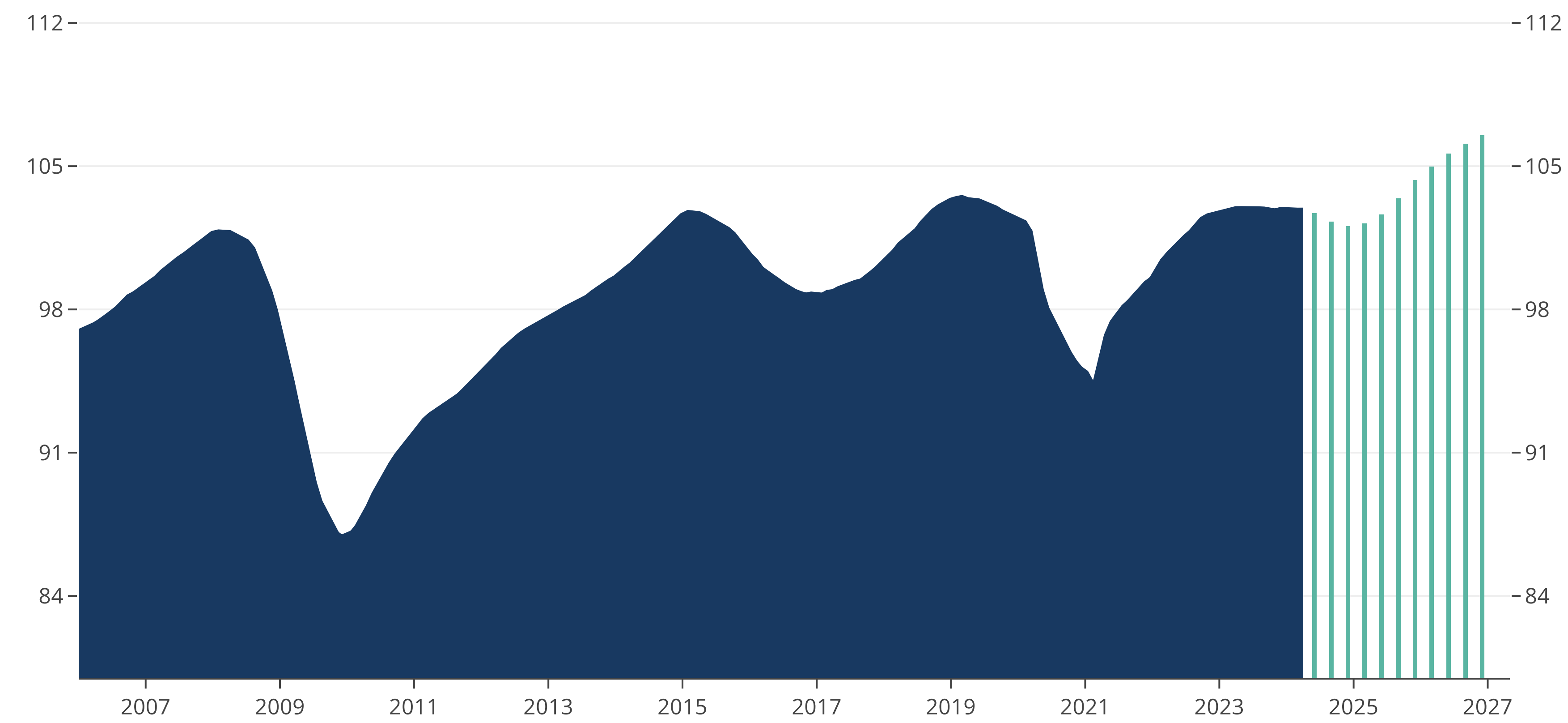
Economic Overview

Economic prospects have taken a positive turn, and we have adjusted many of our forecasts upward. On net, the economic evidence indicates that a plateau in 2024 is more likely than the previously forecasted mild recession for B2B spending and industrial activity, though this plateau may have a slight downward bias. Consumer- and services-heavy US Real GDP and US Total Retail Sales will slow in growth in 2024. Leading indicators signal a stronger year for the US macroeconomy come 2025.

US Industrial Production Index

Annual Average (12MMA)



Stimulating Factors and How to Harness These Trends

1) Nearshoring and onshoring: While semiconductor and chip manufacturing dominate the news on onshoring efforts, manufacturers across the economy are moving supply chains closer to home at an accelerated pace post-COVID. Producing closer to home can improve agility, protection of intellectual property, and environmental compliance. Look for opportunities to gain market share from this trend of de-globalization; however, be aware that higher costs are a likely side effect. Margin-improvement is a must to sustain profitability in the coming years.

2) Government spending: Federal government spending has increased considerably from 2020 onward. Knock-on effects to the private sector have shifted over the course of this business cycle in a milder direction. While the longer-term impacts remain to be seen, the near-term impacts are higher manufacturing and nonresidential construction activity than we would have otherwise seen. Consider targeting markets with exposure to government investments, either directly or indirectly.

3) Corporate cash balances are elevated: Many businesses were able to pass along costs during the inflationary burst following the pandemic and were therefore able to build up cash holdings. This cash buffer makes the 2022-23 jump in interest rates less of an issue for some. If you are flush with cash, put it to use with a focus on reducing your dependency on labor, embracing new technology to improve efficiency, and prepping for an environment of higher inflation in the years ahead. Consider new products or markets to expand into over the longer term to buck some of the headwinds we see coming in the 2030s.

4) Resilient consumers: The tight labor market has kept upside pressure on wages. As a result, US Real Personal Incomes are rising, allowing consumers to continue spending at a pace exceeding inflation. Like in the business world, outcomes are divergent. Look for ways to cater to consumers with more discretionary spending. Lower-income consumers are feeling the pinch of inflation and high interest rates more acutely.

Planning for Challenges Ahead

With large amounts of government spending, inflation is likely to be “sticky.” Persistent inflation poses financial planning challenges and could increase the difficulty of passing along price increases. A further consequence of inflation is its impact on Federal Reserve policy; a rate cut is still on the table for later this year, but slow progress on inflation increases the risk of higher-for-longer rates. A delayed lowering of rates could prolong economic pain for industries most sensitive to rates. Additionally, while the tight labor market will likely be a boon for consumers in the coming years, it will constrain opportunities for growth if your business is unable to staff up to meet demand. To that end, efficiency gains in your business—whether through implementation of AI, automation, or process improvements—will allow you to remain competitive. These challenges are not insurmountable; advanced planning can you help manage risks and get a step ahead of your competition. Remember to zoom out from the day-to-day to reflect on your competitive advantages and your longer-term strategy.

Terminology and Methodology

Data Trends: Moving Averages and Totals

Quarterly Average *(Three-Month Moving Average, or 3MMA)*
The average of the latest three months of data, updated every month. In the example, $57.79 is the quarterly average for the three months ending in March 2021 (i.e., the average for January, February, and March 2021).

Example: Monthly US Crude Oil Spot Prices averaged $57.79 in the first quarter of 2021, a 26.3% increase from the first quarter of 2020.

Quarterly Total *(Three-Month Moving Total, or 3MMT)*
The total of the latest three months of data, updated every month. In the example, $257.8 billion is the quarterly total for the three months ending in February 2021 (i.e., the total for December 2020, January 2021, and February 2021).

Example: Quarterly US Capital Goods New Orders totaled $257.8 billion in February 2021.

Annual Average *(12-Month Moving Average, or 12MMA)*
The average of the latest 12 months of data, updated every month. In the example, 119.0 million is the annual average for February 2021 (i.e., the average for the 12-month period from March 2020 through February 2021).

Example: US Private Sector Employment averaged 119.0 million workers during the 12 months through February 2021, down 7.5% from one year earlier.

Annual Total *(12-Month Moving Total, or 12MMT)*
The total of the latest 12 months of data, updated every month. In the example, $5.849 trillion is the annual total for February 2021 (i.e., the total for the 12-month period from March 2020 through February 2021).

Example: US Wholesale Trade totaled $5.849 trillion during the 12 months through February 2021.

Growth Rates

Monthly Growth Rate *(1/12 Rate-of-Change)*
The percentage change between a given month and the same month one year earlier. In the example, 79.3% is the monthly growth rate for March 2021.

Example: Monthly US Copper Futures Prices were at $4.00 per pound in March 2021, 79.3% above the March 2020 level of $2.29.

Quarterly Growth Rate *(3/12 Rate-of-Change)*
The percentage change between a three-month period and the same three-month period from one year earlier. In the example, 26.3% is the quarterly growth rate for March 2021.

Example: US Crude Oil Spot Prices averaged $57.79 in the first quarter of 2021, a 26.3% increase from the first quarter of 2020.

Annual Growth Rate *(12/12 Rate-of-Change)*
The percentage change between a 12-month period and the same 12-month period from one year earlier. In the example, -7.5% is the annual growth rate for February 2021; that is, US Private Sector Employment during March 2020 through February 2021 came in 7.5% below Employment from March 2019 through February 2020.

Example: US Private Sector Employment averaged 119.0 million workers during the 12 months through February 2021, down 7.5% from one year earlier.

Business Cycle Phases

Recovery (A)

The annual growth rate (12/12) is rising, but the rate of growth is still negative. We denote this phase with blue (for improving).

Accelerating Growth (B)

The annual growth rate (12/12) is rising, and the rate of growth is positive. We denote this phase with green (for go).

Slowing Growth (C)

The annual growth rate (12/12) is positive, but the rate of growth is declining. We denote this phase with yellow (for caution).

Recession (D)

The annual growth rate (12/12) is declining, and the rate of growth is negative. We denote this phase with red (for warning).

IMEC Markets Dashboard

		Current		Annual Growth Rate Forecast (12/12), Year-End*		
Page Number	Indicator	Growth Rate**	Phase	2024**	2025**	2026**
4	US Industrial Production Index	-0.1%	D	-0.8%	2.2%	2.1%
5	US Nondefense Capital Goods New Orders (excluding aircraft)	1.1%	C	-0.6%	3.4%	2.4%
6	US Machinery New Orders	0.4%	C	-0.3%	5.0%	4.4%
7	US Food Production Index	-2.4%	D	-0.2%	1.7%	1.5%
8	US Medical Equipment and Supplies Production Index	1.4%	C	1.9%	-0.5%	1.9%

**Coloring denotes the business cycle phase at year-end. For example, if a value in the 2021 column is colored blue, the corresponding indicator is forecasted to be in Phase A, Recovery, at year-end 2021. Green denotes Phase B, yellow Phase C, and red Phase D.*

***Annual growth rate (12/12) except where otherwise noted.*

Recovery (A) Accelerating Growth (B) Slowing Growth (C) Recession (D)

Consulting

Customized Report / June 2024

US Industrial Production Index

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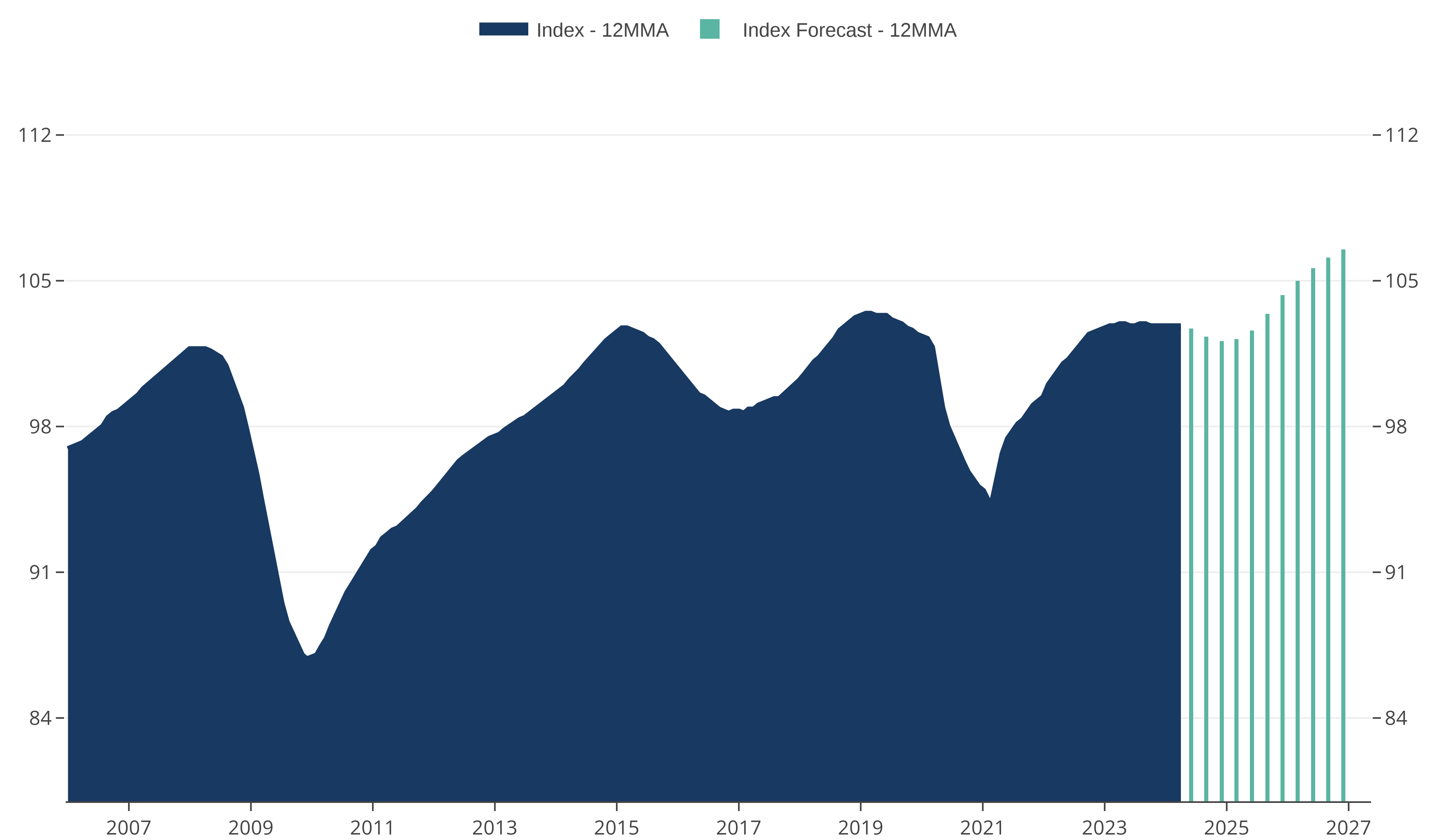
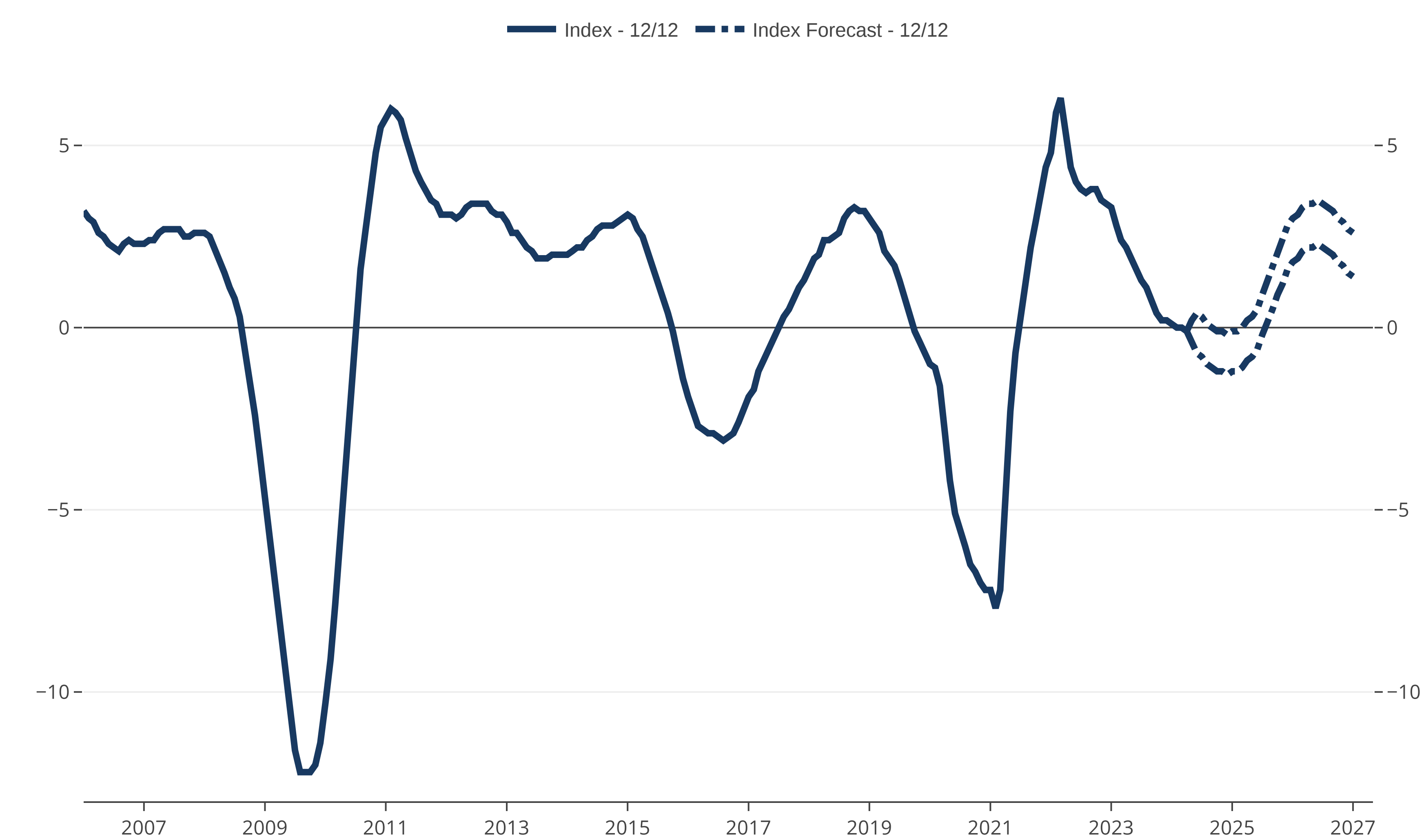
Forecast Lifted; Disparate Trends Underscore Need to Know Your End Markets' Trends

Annual Average (12MMA)



Annual Growth Rate (12/12)



Current Phase

Phase D Recession

Current Indicator Amplitude

- April 2024 Annual Growth Rate (12/12): -0.1%
- April 2024 Annual Average (12MMA), 2017=100: 102.8

Industry Outlook

Year	*Annual Growth Rate*
2024	-0.8%
2025	2.2%
2026	2.1%

Outlook & Supporting Evidence

- We upward revised the US Industrial Production Index forecast by 3.0%-3.6% due in part to government spending boosting domestic activity, elevated corporate profits and cash holdings, and upside pressures stemming from the high-tech portion of Production. We now expect a plateau with a slight downward bias this year, as opposed to a mild declining trend. We still anticipate rise in 2025 and 2026.
- While headline Production is plateauing, there is significant deviation between individual markets. Tight monetary policy remains an impediment to the interest-rate-sensitive components within the industrial sector, such as Machinery Production, which is down 3.8% from the year-ago level. Some markets are still experiencing a correction from the post-COVID spike. Other tech-related markets are rising; US Computer and Electronic Products Production is up 4.0%. A rate cut could come later this year, but the effects are lagged and any changes to interest rates will likely impact 2025 and onward.
- While the economy still faces headwinds, the recovering housing market and rising leading indicators paint a more positive picture for next year. To avoid falling behind, prepare for the approaching rising trend in 2025 and 2026. Efforts to improve supply chain resiliency by onshoring will support this upcoming rise. A tight labor market and rising real income will encourage consumer spending, which will flow through to B2B markets.

US Nondefense Capital Goods New Orders (excluding aircraft)

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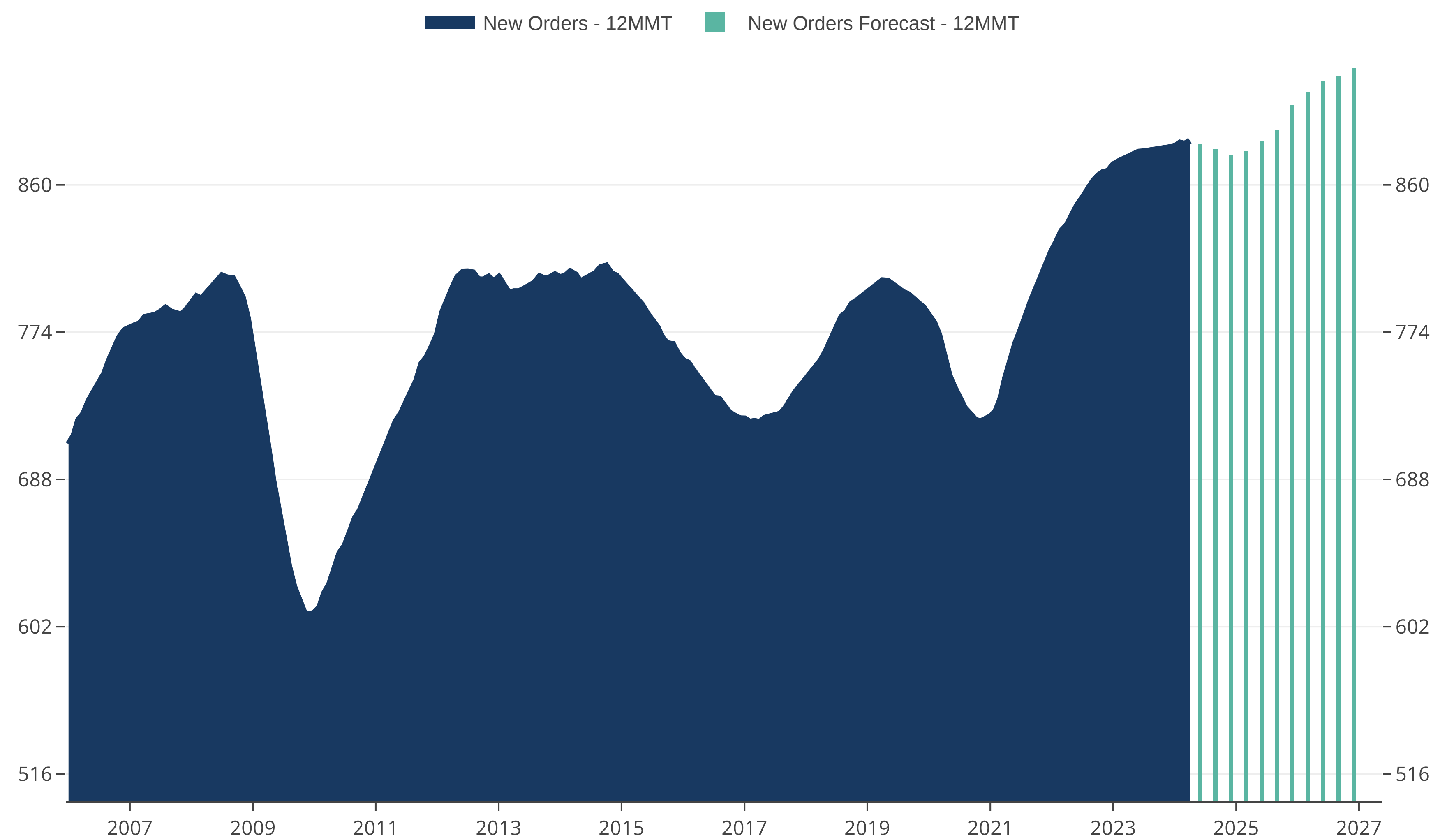
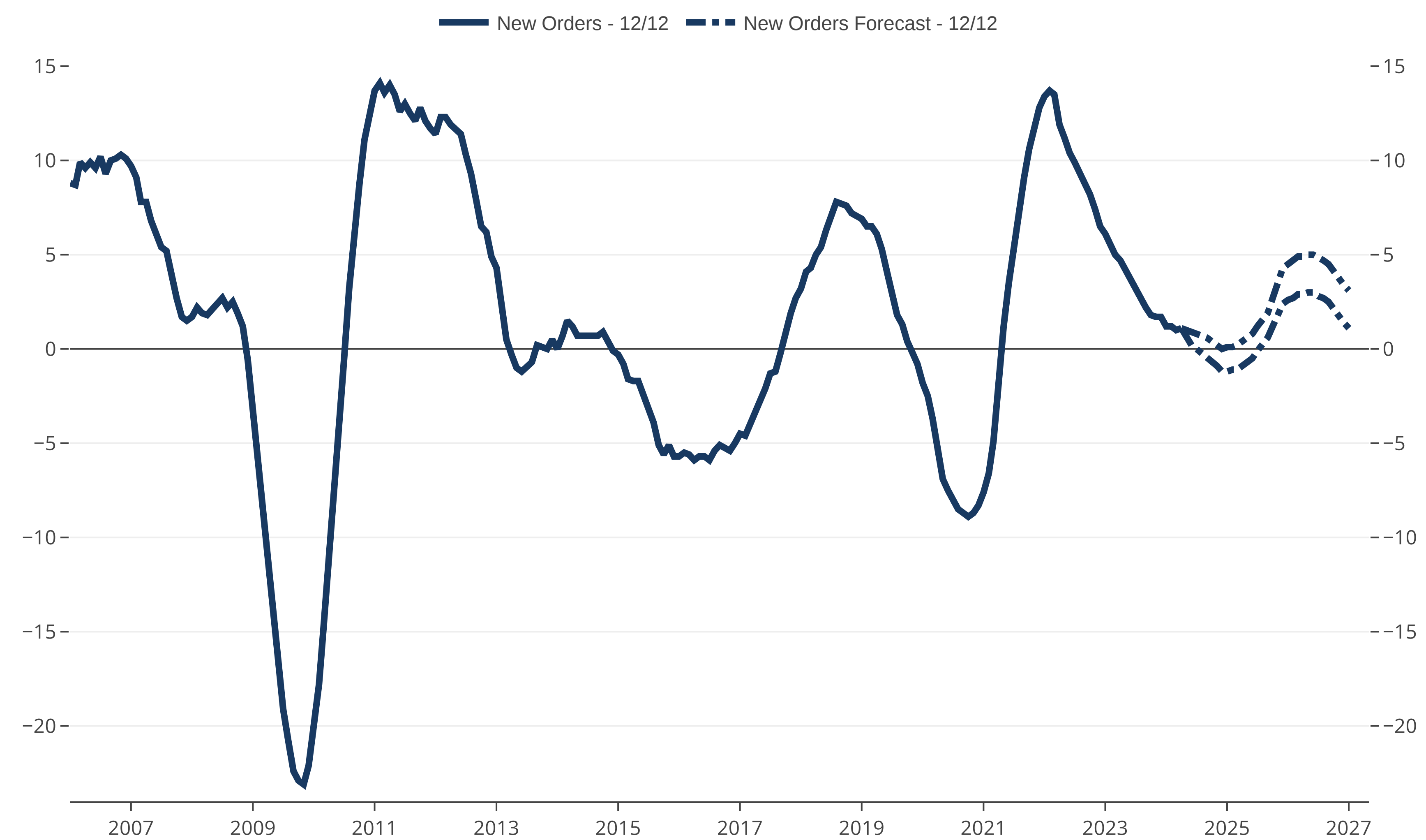
Forecast Upgraded; Annual New Orders to Plateau With a Downward Bias This Year, Rise in 2025-26

Annual Total (12MMT)



Annual Growth Rate (12/12)



Current Phase

Phase C
Slowing Growth

Current Indicator Amplitude

- April 2024 Annual Growth Rate (12/12): 1.1%
- April 2024 Annual Total (12MMT), Billions of USD: $885.8

Industry Outlook

Year	Annual Growth Rate
2024	-0.6%
2025	3.4%
2026	2.4%

Outlook & Supporting Evidence

- We revised the forecast for US Nondefense Capital Goods New Orders (excluding aircraft) upward by 3.9%, 3.5%, and 4.4% for 2024, 2025, and 2026, respectively. A forecast revision was necessary, largely due to sticky inflation affecting this dollar-denominated series and tech-related sectors outperforming expectations.
- Annual New Orders will plateau with a downward bias this year alongside ongoing weakness in some manufacturing segments and the aforementioned strength in tech-related components. Elevated interest rates and declining utilization of existing industrial capacity signal potentially lower capex, but elevated corporate cash holdings and government spending are helping buck downside pressure.
- Annual New Orders will rise in 2025 and 2026 as relatively strong consumers spur additional growth in the economy, leading to a stronger business-to-business spending environment.
- The tight labor market will likely persist throughout this decade, which may drive more business to automation solutions in the coming years. Look for ways to offset your own exposure to labor costs. While we anticipate a rising economy ahead, there is risk of having rising sales without a related rise in profits if you do not take steps to protect and improve your margins.

US Machinery New Orders

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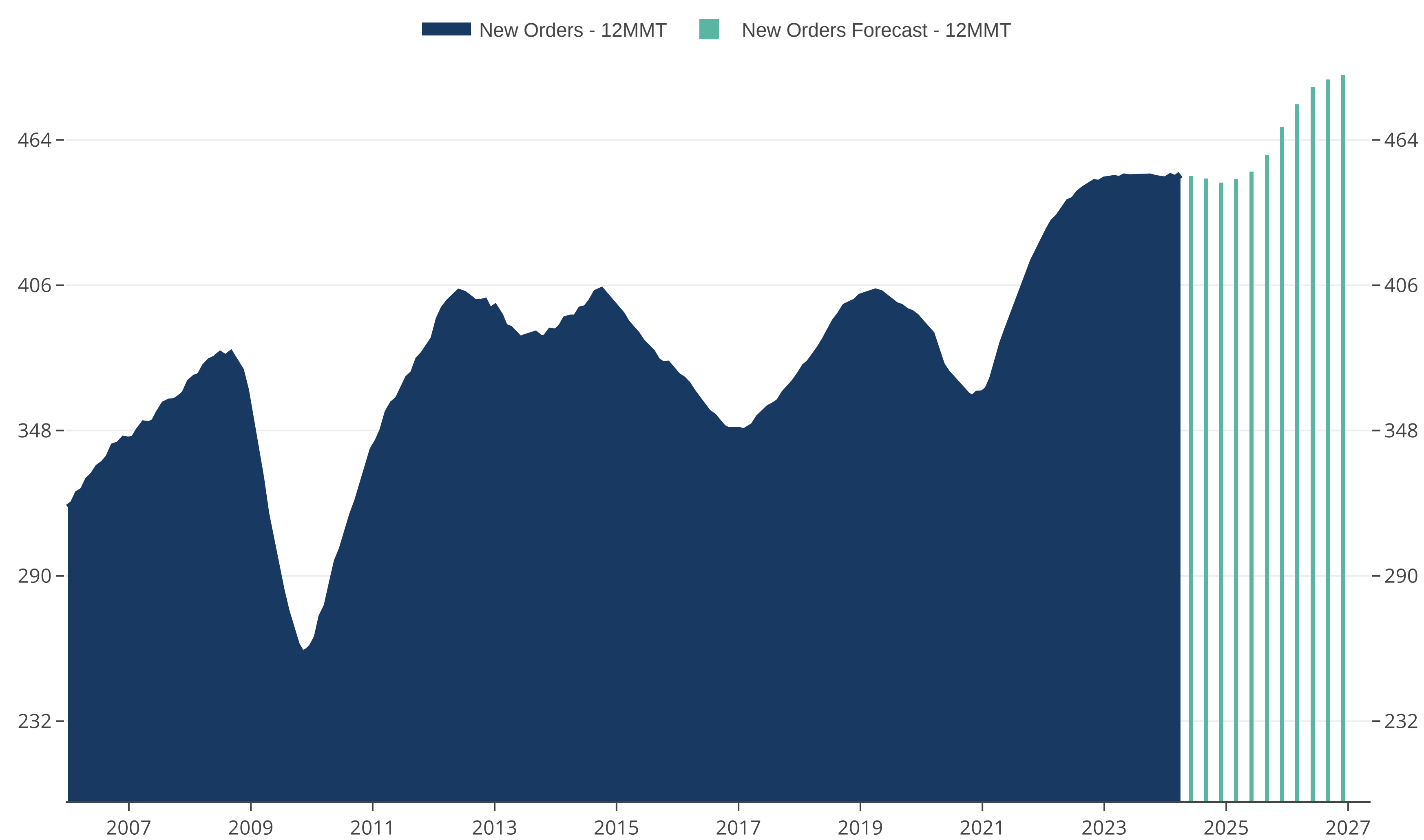
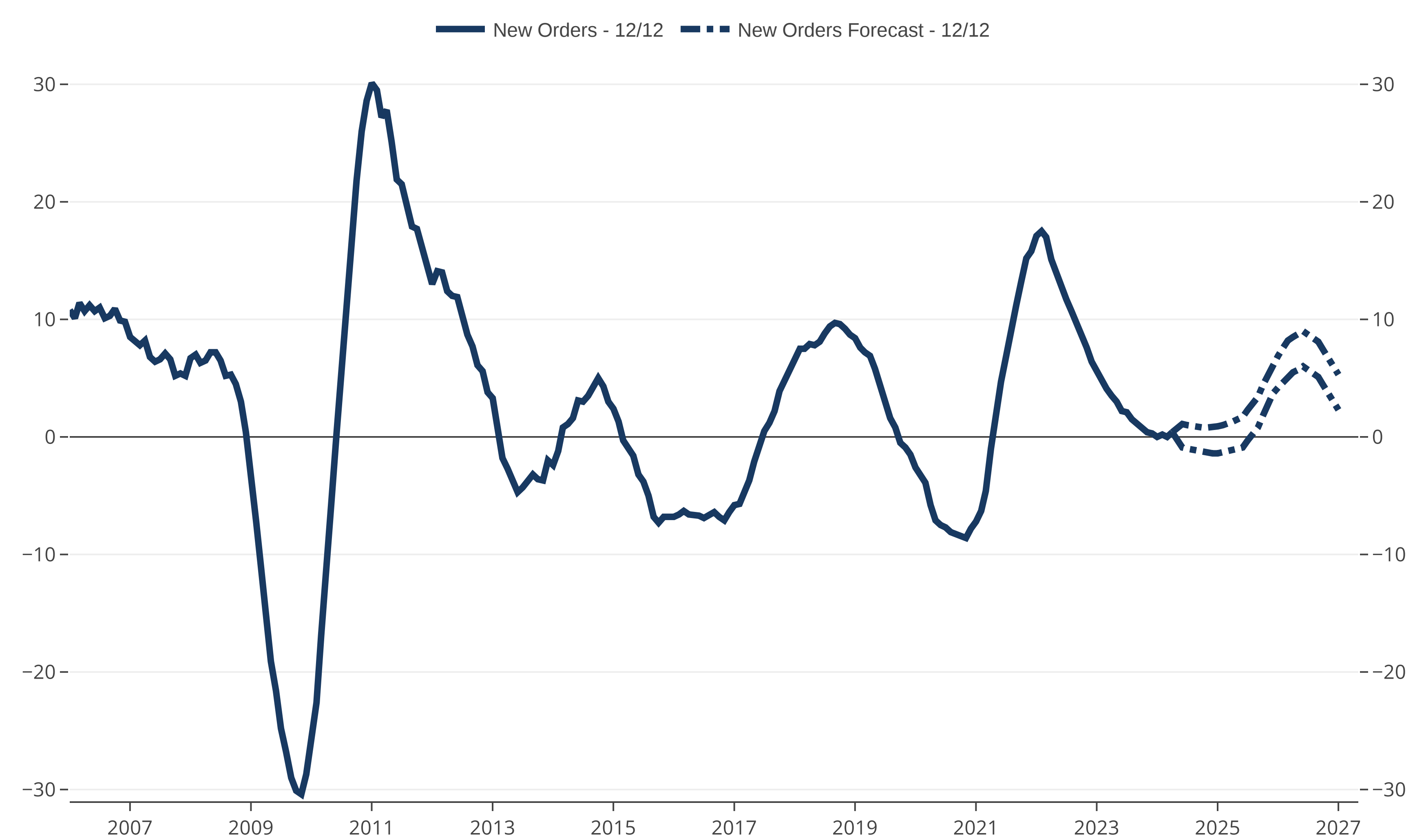
Forecast Upgraded; Start Prepping for 2025-26 Rising Trend to Avoid Falling Behind the Curve

Annual Total (12MMT)



Annual Growth Rate (12/12)



Current Phase

Phase C
Slowing Growth

Current Indicator Amplitude

- April 2024 Annual Growth Rate (12/12): 0.4%
- April 2024 Annual Total (12MMT), Billions of USD: $450.2

Industry Outlook

Year	*Annual Growth Rate*
2024	-0.3%
2025	5.0%
2026	4.4%

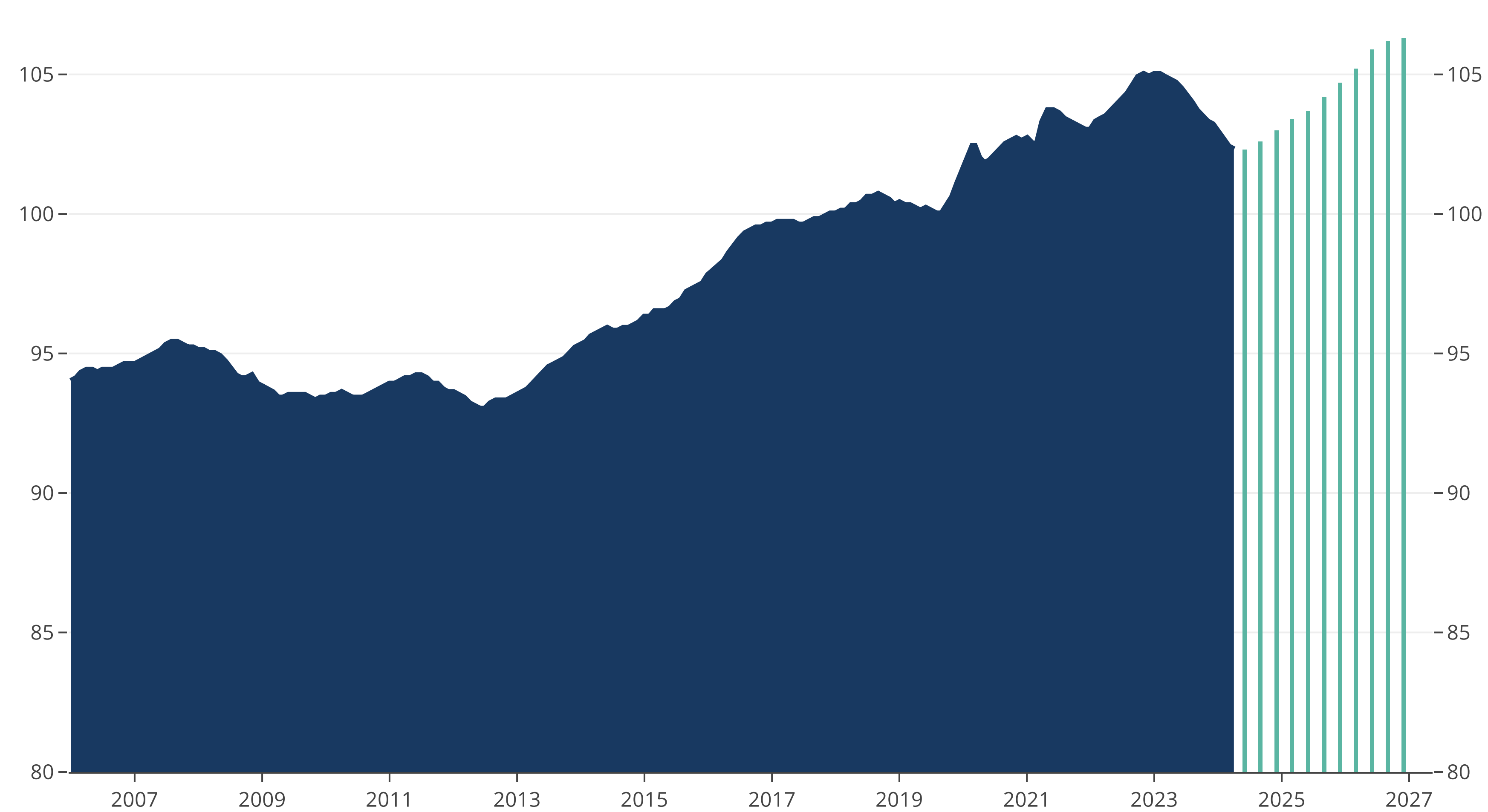
Outlook & Supporting Evidence

- We revised the forecast for US Machinery New Orders upward by 2.7%, 3.0%, and 5.9% for 2024, 2025, and 2026, respectively. This revision is in conjunction with an upward revision to our industrial and B2B expectations, as outlined on the preceding two pages.
- Annual New Orders will plateau with a mild downward bias for the remainder of this year. Any decline is expected to be mild due in part to sticky inflation, nearshoring trends, a resilient consumer, and higher-than-typical levels of corporate cash in the manufacturing sector, which could serve as a buoy for spending on new machinery.
- If you are in one of the markets feeling a sharper downturn this cycle, lead with confidence knowing the leading indicators are signaling that 2025 will be a better year. Be conservative for the remainder of this year, but avoid cutbacks that could hinder your ability to take advantage of the next rising trend. Keep in mind the time and money it takes to rehire or bring capacity back online.

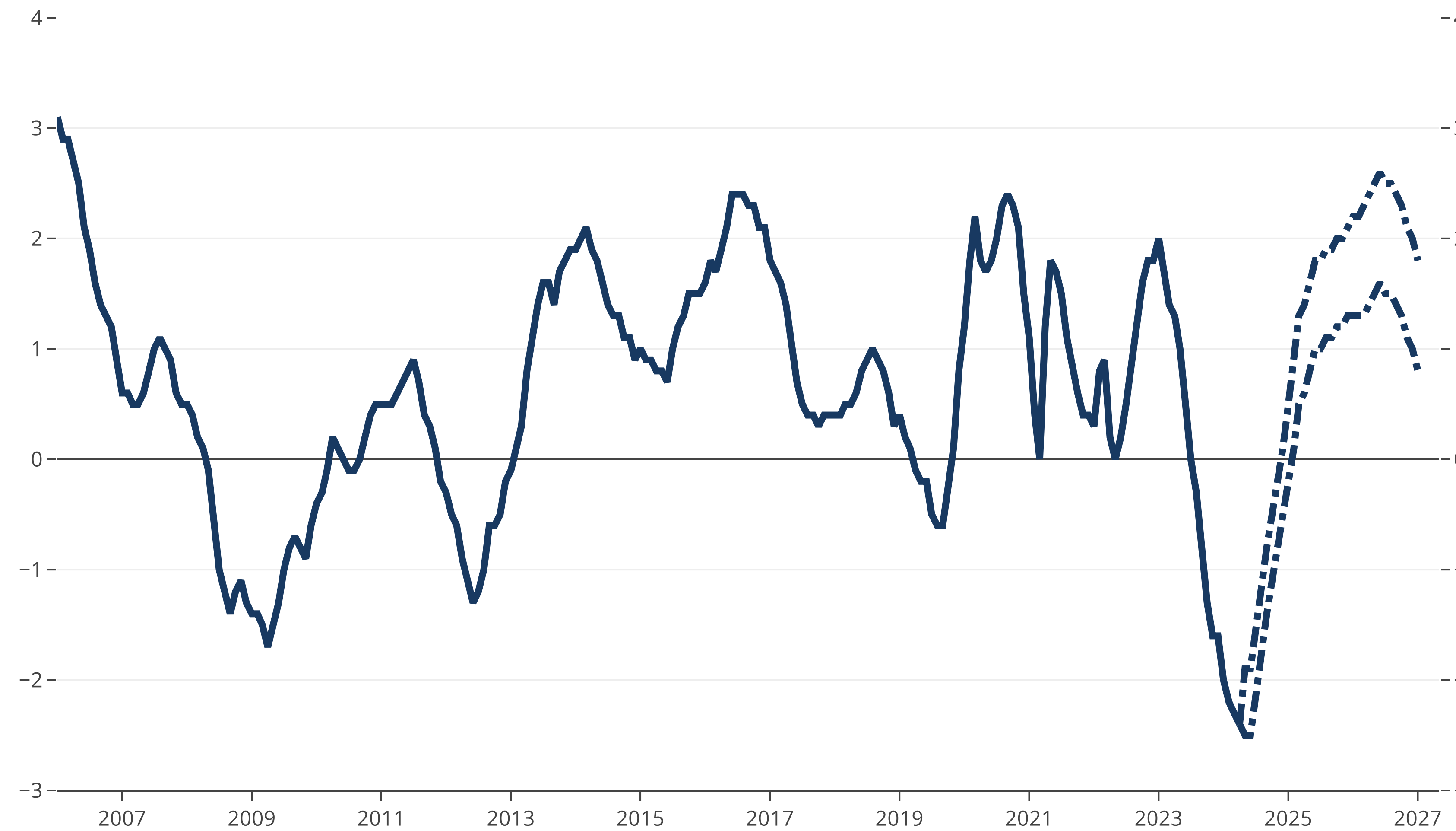
US Food Production Index

Annual Production Will Soon Reach a Low, Then Rise Through 2026 to Support a Growing Population

Annual Average (12MMA)



Annual Growth Rate (12/12)



Current Phase

Phase D Recession

Current Indicator Amplitude

- April 2024 Annual Growth Rate (12/12): -2.4%
- April 2024 Annual Average (12MMA), 2017=100: 102.3

Industry Outlook

Year	*Annual Growth Rate*
2024	-0.2%
2025	1.7%
2026	1.5%

Outlook & Supporting Evidence

- US Food Production in the 12 months through April came in 2.4% below the year-ago level. Annual Production decline has been longer and more severe than is typical, but there are tentative signs of an upcoming turnaround. Rise in the US Grocery and Related Products Wholesale Sales-to-Inventory Ratio, which leads Production by about one year, is signaling a near-term transition to Phase A, Recovery, in Production, as do trends in the US Food, Beverage, and Tobacco Capacity Utilization Rate.
- Components within Production are performing differently, such as the grain and oilseed component, which has already begun to accelerate in growth and is now 2.4% above the year-ago level. Bread, Pasta, and Tortilla Production is following suit. Combined, these components are nearly 20% of Production. Most other components, such as animal slaughtering, dairy, and fruits and vegetables, are still in Phase D, Recession, but are likely to transition to recovery in the near term.
- The long-term trajectory of Production is healthy amid a growing population, though growth tends to be relatively low given the maturity of this industry.

US Medical Equipment and Supplies Production Index

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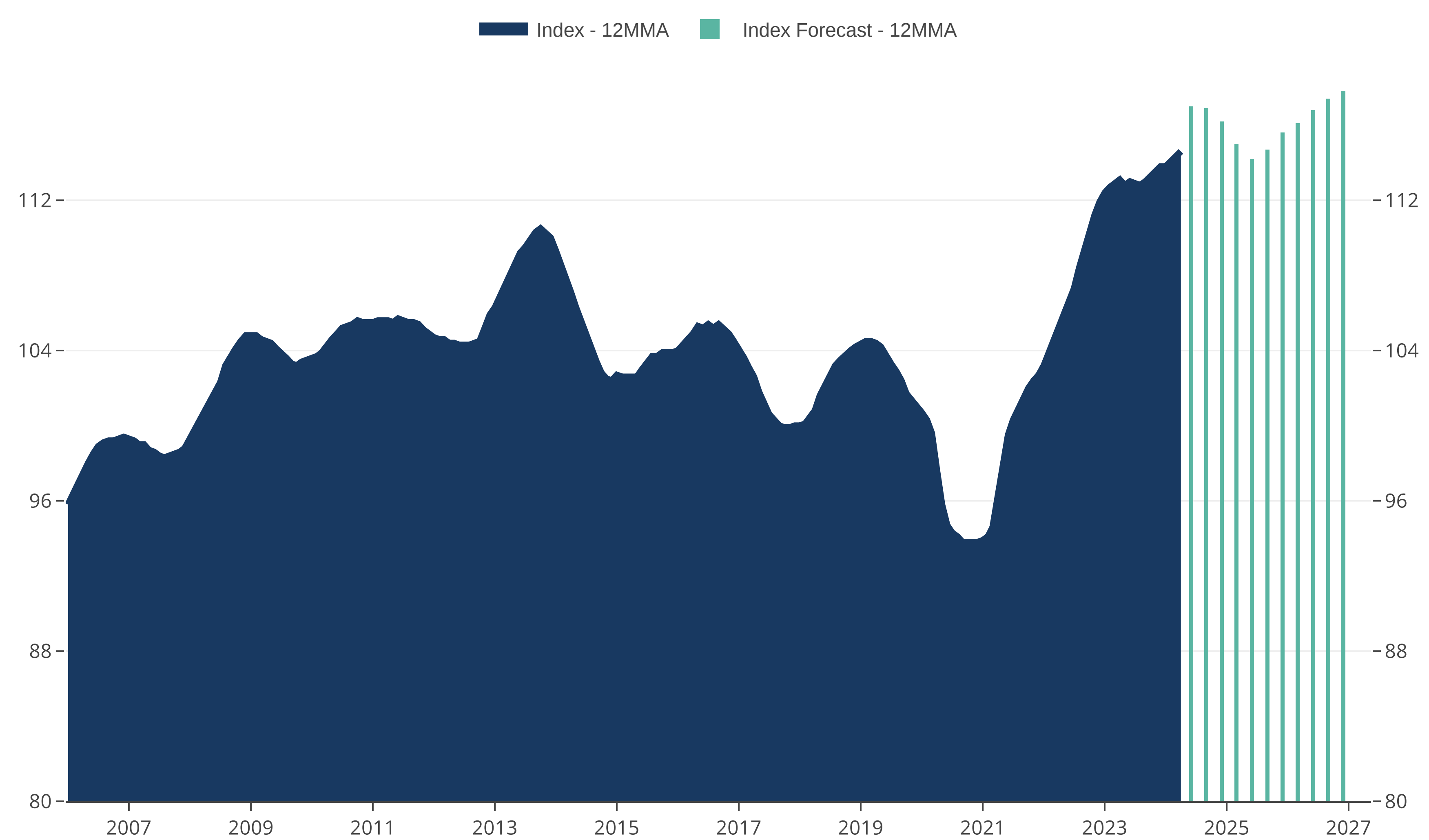
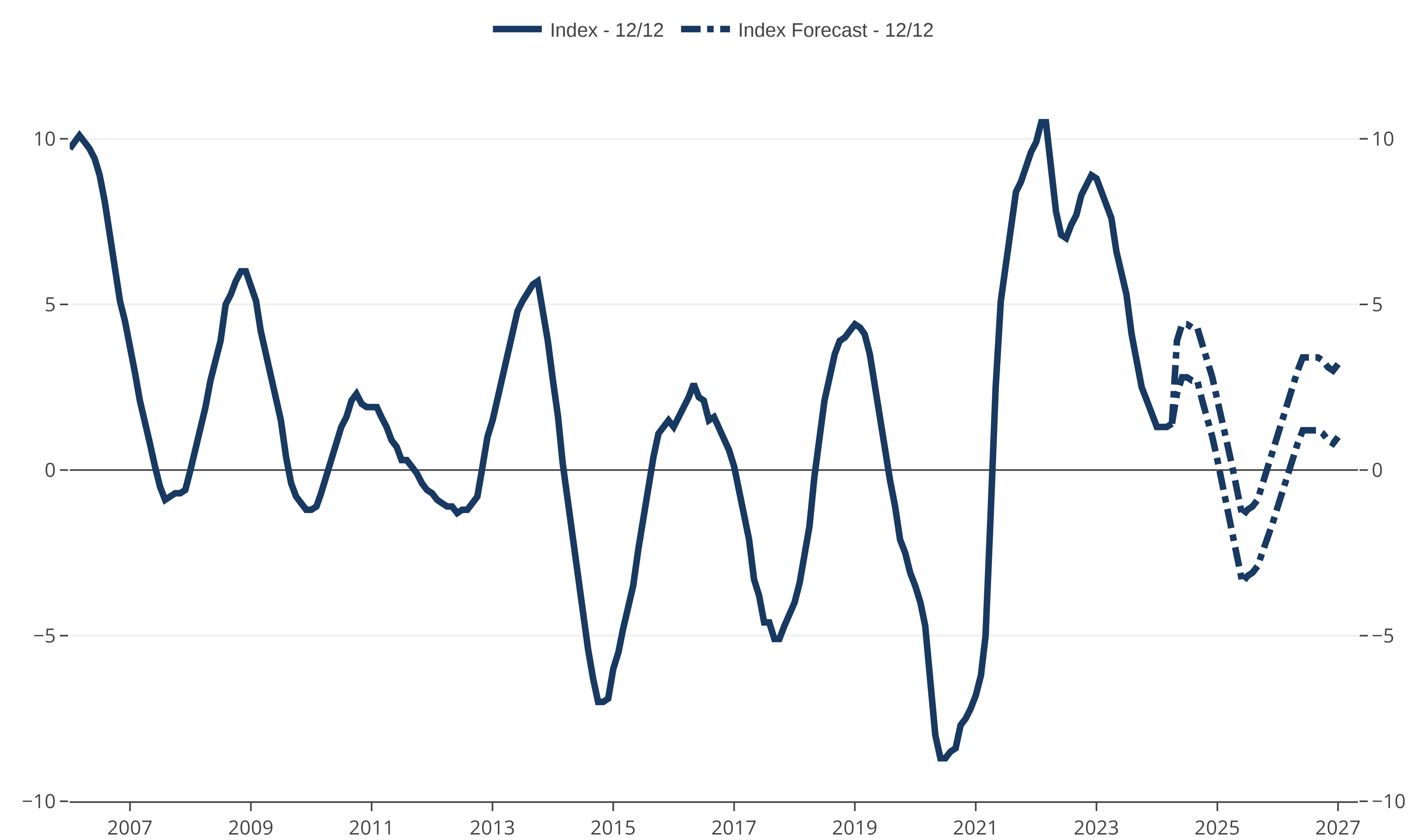
Mild Decline Upcoming for Production; Long-Term Trajectory Is Strong From Onshoring and Demographics

Annual Average (12MMA)



Annual Growth Rate (12/12)



Current Phase

Phase C
Slowing Growth

Current Indicator Amplitude

- April 2024 Annual Growth Rate (12/12): 1.4%
- April 2024 Annual Average (12MMA), 2017=100: 114.6

Industry Outlook

Year	*Annual Growth Rate*
2024	1.9%
2025	-0.5%
2026	1.9%

Outlook & Supporting Evidence

- Annual US Medical Equipment and Supplies Production will rise in the near term, but will soon transition to mild decline, extending into mid-2025.
- Hard landings are typical for the medical equipment and supplies market, but market conditions shifted significantly following the pandemic, and we expect the market share gains made in recent years are likely to be kept or improved upon. As a result, we expect decline to be mild this cycle. Recently increased tariffs on some Chinese medical products (including syringes and needles, certain respirators and face masks, and rubber gloves) pose an opportunity for domestic producers to gain share.
- The combination of onshoring and an aging demographic bodes well for the long-term trajectory of Production. Production will reach record highs in the near term and then again in 2026.

US Leading Indicators

Indicator	Direction		
	2Q24	3Q24	4Q24
ITR LEADING INDICATOR™	🟢	🟢	N/A
ITR RETAIL SALES LEADING INDICATOR™	🔴	🟢	🟢
US OECD LEADING INDICATOR	🟢	🟢	🟢
US ISM PMI (PURCHASING MANAGERS INDEX)	🟢	🟢	🟢
US TOTAL CAPACITY UTILIZATION RATE	🔴	🔴	N/A

Green denotes that the indicator signals cyclical rise for the economy in the given quarter. Red denotes the opposite.

What It Means for the US Economy

- The ITR Retail Sales Leading Indicator fell slightly in April, though it is generally trending upward. This upward movement is consistent with our outlook for US Total Retail Sales, which we expect to avoid decline this cycle given strong middle-to-upper-income consumers.

- The ITR Leading Indicator™ rose in April. Ongoing rise in the Indicator suggests some upward momentum is possible for US Industrial Production into at least the second half of 2024. Elevated corporate cash, corporate profits, and government deficit spending are helping to keep contraction in US Industrial Production very mild in the meantime.

- The US Total Industry Capacity Utilization Rate is trending relatively flat, but it fell slightly in April. It has yet to reach a definitive, cyclical low point, which supports our expectation that US Industrial Production has yet to reach a cyclical low.

While leading indicators are flashing green, downside pressures will linger into late this year for many industrial and manufacturing markets. Use the current slower period to prepare for a stronger 2025, with a focus on improving margins and reducing dependence on labor. Given the diverging trends across end markets, look for ways to tap into the strong high-tech markets or those benefiting from onshoring and government spending.

Market Definitions

US Industrial Production Index

Index of total industrial production in the United States; includes manufacturing, mining, and utilities. Source: Federal Reserve Board (FRB). Index, 2017 = 100, not seasonally adjusted (NSA).

US Machinery New Orders

New orders for machinery in the United States. Industries in the machinery manufacturing subsector create end products that utilize mechanical force, for example, the application of gears and levers, to perform work. Some important processes for the manufacture of machinery are forging, stamping, bending, forming, and machining, which are used to shape individual pieces of metal. Processes such as welding and assembling are used to join separate parts together. Although these processes are similar to those used in metal fabricating establishments, machinery manufacturing is different because it typically employs multiple metal forming processes in manufacturing the various parts of the machine. Moreover, complex assembly operations are an inherent part of the production process. NAICS Code: 333. Source: US Census Bureau. Measured in billions of dollars, not seasonally adjusted (NSA).

US Medical Equipment and Supplies Production Index

Medical equipment and supplies manufacturing index for the United States. Examples of products made by these establishments are surgical and medical instruments, surgical appliances and supplies, dental equipment and supplies, orthodontic goods, ophthalmic goods, dentures, and orthodontic appliances. Source: Federal Reserve Board. NAICS Code: 3391. Index, 2017 = 100, not seasonally adjusted (NSA).

US Nondefense Capital Goods New Orders (excluding aircraft)

New orders for nondefense capital goods, excluding aircraft, in the United States. Includes farm machinery and equipment, construction machinery, mining machinery, nondefense small arms and ordnance, industrial machinery, commercial and service industry equipment, other general purpose machinery, photographic equipment, metalworking machinery, turbine and generator manufacturing, power transmission equipment, pumps and compressors, material handling equipment, electronic computers, computer storage devices and peripheral equipment, communications equipment, nondefense search and navigation equipment, electrometrical equipment, electrical equipment, heavy duty truck manufacturing, railroad rolling stock, nondefense ship and boat building, office and institutional furniture, and medical equipment and supplies. Source: US Census Bureau. Measured in billions of dollars, not seasonally adjusted (NSA).

US Food Production Index

Industries in the US Food Manufacturing subsector transform livestock and agricultural products into products for intermediate or final consumption. The industry groups are distinguished by the raw materials (generally of animal or vegetable origin) processed into food products. The food products manufactured in these establishments are typically sold to wholesalers or retailers for distribution to consumers. Source: Federal Reserve Board. NAICS Code: 311. Index, 2017 = 100, not seasonally adjusted (NSA).

Management Objectives™

Phase A

Recovery

- Scrupulously evaluate the supply chain
- Model positive leadership (culture turns to behavior)
- Start to phase out marginal opportunities (products, processes, people); repair margins
- Perform due diligence on customers and extend credit
- Be on good terms with a banker; you will need the cash more now than in any other phase
- Invest in customer market research; know what they value and market/price accordingly
- Hire key people and implement company-wide training programs ahead of Phase B
- Allocate additional resources to sales and marketing
- Invest in system/process efficiencies
- Make opportunistic capital and business acquisitions; use pessimism to your advantage

Phase B

Accelerating Growth

- Ensure quality control keeps pace with increasing volume
- Invest in workforce development: hiring, training, retention
- Ensure you have the right price escalator; space out price increases
- Maximize your profit margins through differentiation; stand out from the crowd and set yourself apart
- Use improved cash flow to strategically position the business to beat the business cycle
- Expand credit to customers
- Improve corporate governance (rent a CFO; establish a board of advisors or board of directors)
- Communicate competitive advantages; build the brand
- Query users for what they want and what is important to them
- Sell the business in a climate of maximum goodwill

Phase C

Slowing Growth

- Know if your markets are headed for a soft landing or a hard landing
- Cash is king; beware of unwarranted optimism
- Stay on top of aging receivables
- Revisit capital expenditure plans
- Lose the losers: if established business segments are not profitable during this phase, eliminate them
- Use competitive pricing to manage your backlog through the coming slowdown
- Avoid committing yourself to long-term expenses at the top of the price cycle, but lock in revenue
- Go entrepreneurial and/or counter-cyclical
- Evaluate your vendors for financial strength; if needed, look for additional vendors as a safety net
- If the cycle looks recessionary, cross-train key people to prepare for workforce attrition/reduction

Phase D

Recession

- Implement aggressive cost-cutting measures
- Offer alternative products with a lower cost basis
- Perform due diligence on acquisitions while valuations are falling
- Reduce advertising as consumers become more price conscious
- Enter or renegotiate long-term leases
- Negotiate labor contracts
- Consider capital equipment needs for the next cycle
- Tighten credit policies
- Develop programs for advertising, training, and marketing to implement in Phase A
- Lead with optimism, remembering that Phase D is temporary

