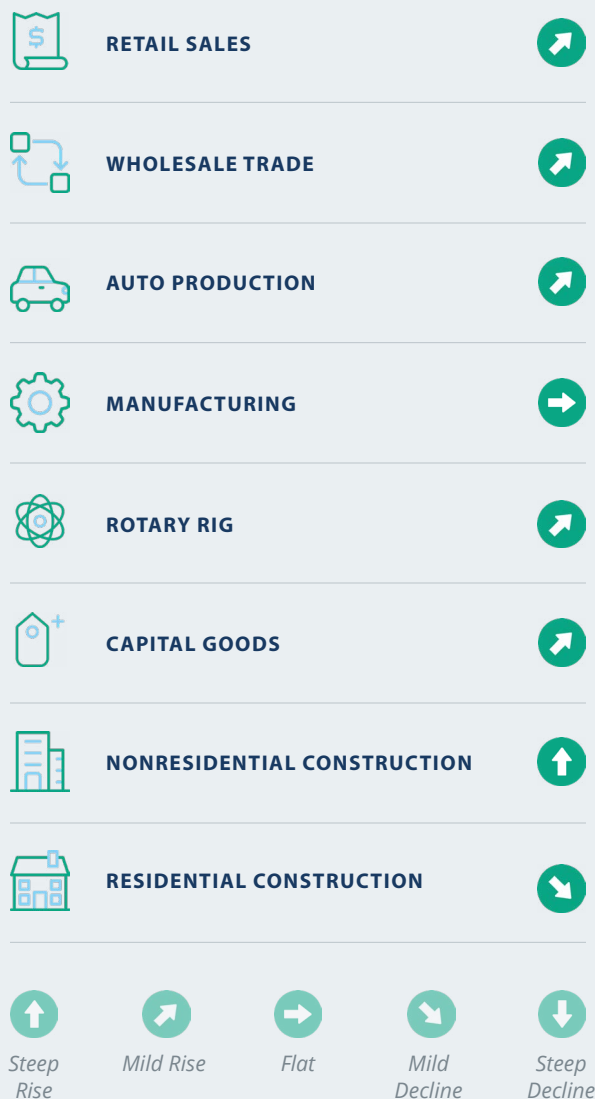


Industry Snapshots

Arrow denotes 12-month moving total/average direction.



Macroeconomic Outlook

Waning growth has been the predominant trend for the US macroeconomy, as measured by US Real Gross Domestic Product (GDP), since the latter half of 2021. We anticipate that softening will persist, culminating in mild contraction during parts of 2024. The industrial sector will contract slightly earlier, reaching a peak in the latter half of this year. We expect the macroeconomic recession to be mild due to a variety of factors; these include manufacturers working through backlogs, nearshoring and reshoring initiatives strengthening supply chains, and relatively solid consumer balance sheets buttressing macroeconomic demand.

US Single-Unit Housing Starts, which lead the macroeconomy by three to four quarters, are currently declining. Housing Starts are expected to start a recovery around the middle of this year. Despite the ongoing recession in Housing Starts, home prices have remained relatively resilient. As of January (the latest available data), quarterly US Home Prices had declined from the mid-2022 peak but were still elevated relative to the year-ago level. Many homeowners have been put in “golden handcuffs”; having purchased or refinanced at the low mortgage rates of the 2010s through 2021, they are not finding it financially prudent to buy new homes at the current high rates.

Recent headlines have cast doubt on whether the US dollar will remain the world’s reserve currency. The data, however, suggests that the dollar remains the preeminent currency for international payments. While we at ITR Economics have some concerns about the ability of the US government to pay its debts and interest payments come the 2030s, this is true for many of the world’s governments. The US dollar remains strong against other currencies, suggesting that faith in the currency is solid. Furthermore, entrepreneurs remain willing to invest in businesses in the US. US Business Applications in the 12 months through January came in more than 100,000 higher than the previous record high, which was set right before the pandemic. This suggests confidence in the long-term stability of the US economy. As your business planning shifts to include more long-term strategic initiatives, remember the US is, and will be, an advantageous place to do business.

“The US dollar remains strong against other currencies, suggesting that faith in the currency is solid.”

We continue to monitor risks to our outlooks that stem from potential Federal Reserve action. While it seems likely that the Fed will increase interest rates by roughly 25 more basis points, as anticipated, the body may keep rates too high for too long; restrictive monetary policy will place further downward pressure on macroeconomic demand. Additional hikes, or other factors that could contribute to keeping the yield curve inverted beyond the end of this year, pose a downside risk to the macroeconomic outlook.

Make Your Move

Mixed signals suggest your investment portfolio should be well-diversified. The data suggests that now is not the time to go all in on very defensive positions (e.g., cash) or to take highly aggressive positions.

Investor Update

Contrasting datapoints abound at this juncture of the business cycle. The labor market remains robust, consumer fundamentals are strong, and the Federal Reserve is nearing the end of its rate hikes. However, the Silicon Valley Bank and Signature Bank failures – coupled with the economic damage still to come from the Fed's rate hikes – signal caution regarding potentially turbulent seas ahead.

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

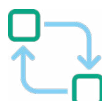
- The ITR Retail Sales Leading Indicator™ moved lower in March, suggesting further rate-of-change decline for US Total Retail Sales in the coming months.
- General decline in the US Total Industry Capacity Utilization Rate monthly rate-of-change signals that ongoing cyclical decline in US Industrial Production will likely persist through at least the third quarter of 2023, in line with our industrial sector outlook.
- The US ISM PMI (Purchasing Managers Index) monthly rate-of-change is declining. Persistent decline in the Index rate-of-change supports our expectation for the US industrial sector to move along the back side of the business cycle through at least late 2023.

Industry Analysis



RETAIL SALES

- US Total Retail Sales in the 12 months through March totaled \$8.225 trillion, 7.6% above the same period one year ago
- Adjusted for inflation, Retail Sales have trended relatively flat for much of 2022 and the beginning of 2023
- Expect dollar-denominated annual Retail Sales to rise into late 2023, then mildly decline into the latter half of 2024



WHOLESALE TRADE

- Annual US Total Wholesale Trade was 12.0% above the year-ago level in February
- Decline in the housing market portends contraction ahead for Wholesale Trade
- US Consumer Durable Goods Unfilled Orders have retreated from record highs but are still elevated. Backlogs may help cushion Wholesale Trade decline in the near term



AUTO PRODUCTION

- Annual North America Light Vehicle Production was 13.3% above the year-ago level in February
- As of early 2023, the Global Supply Chain Pressure Index indicates that supply chain constraints are easing
- However, input availability is still uneven in the auto industry, which could result in choppiness for annual Production; we expect rise into late 2023 and then decline in 2024



MANUFACTURING

- US Total Manufacturing Production in the 12 months through March was up 1.8% from the same period one year ago
- Declining US Total Corporate Cash for the US Manufacturing Industry, in combination with higher borrowing costs, is likely to disincentivize business investment
- These headwinds will hinder Production activity into 2024



ROTARY RIG

- The annual US Rotary Rig Count averaged 753 rigs in March, up 40.8% from one year ago
- Crude Oil Inventories at Cushing, Okla., are rising; this represents a shift from the abnormally low Inventories of 2022
- Rising Inventories and lower prices point to decline in the Rig Count in the coming quarters



CAPITAL GOODS NEW ORDERS

- Annual US Nondefense Capital Goods New Orders were 7.1% above the year-ago level in February
- The US ISM PMI (Purchasing Managers Index) and the US Business Confidence Index signal downward cyclical pressure on New Orders into at least late this year
- New Orders decline is probable in 2024 as the US economy undergoes a relatively mild recession



TOTAL NONRESIDENTIAL CONSTRUCTION

- Annual US Total Nonresidential Construction totaled \$909.5 billion in February, up 10.3% from one year ago
- Elevated interest rates are likely to hinder some Construction investment during 2024
- Trends in the US Commercial and Industrial Sector Architecture Billings Index and the ITR Leading Indicator™ suggest that a transition to a slowing growth trend is approaching



TOTAL RESIDENTIAL CONSTRUCTION

- Annual US Total Residential Construction, which is dollar-denominated, was up 9.6% in February; however, quarterly Construction is declining
- The ITR Checking Points™ system suggests that decline is likely ahead for annual Construction
- We expect decline to be part of a larger correction to post-COVID-19 stimulus spending trends

A Closer Look: The US Economy

What is up with the Fed?

JACKIE GREENE

What you need to know: Scrutinize your bank, get close to your banker, and keep a wary eye on commercial real estate

On April 12, the Federal Reserve released the minutes of the March 21–22 FOMC meeting. One main takeaway from the minutes is that the Fed now thinks the US economy is heading for a recession by the end of 2023 instead of a soft landing.

The Fed has commented that the threat of recession is increased due to the recent bank failures. We at ITR Economics had already been anticipating that US Industrial Production would tip into recession later this year and that GDP would contract for two quarters in 2024. However, the bank failures that occurred earlier this year were not the tipping point in our analysis. Our analysis indicates that those failures were the result of bad investments and not indicative of systemic issues across the banking sector. Still, we are watching the banking sector closely. Expect banks to tighten their credit and lending practices, which will make liquidity less available. This is not going to help the economy expand during the next two years, but it is also not a surprising trend to us given that we were already anticipating recession during this cycle.

What you should do:

1. Investigate your bank just like you would a supplier. Do your due diligence on your bank so you can feel confident that it has made smart investments.
2. Be on good terms with your banker. With tighter lending practices likely ahead, ensure your banking relationship is solid. This is something you should always maintain, as it is best to be on good terms before you need to borrow money.

Even with its assessment that the risk of a recession has increased, we would not be surprised if the Fed increased rates once more this year.

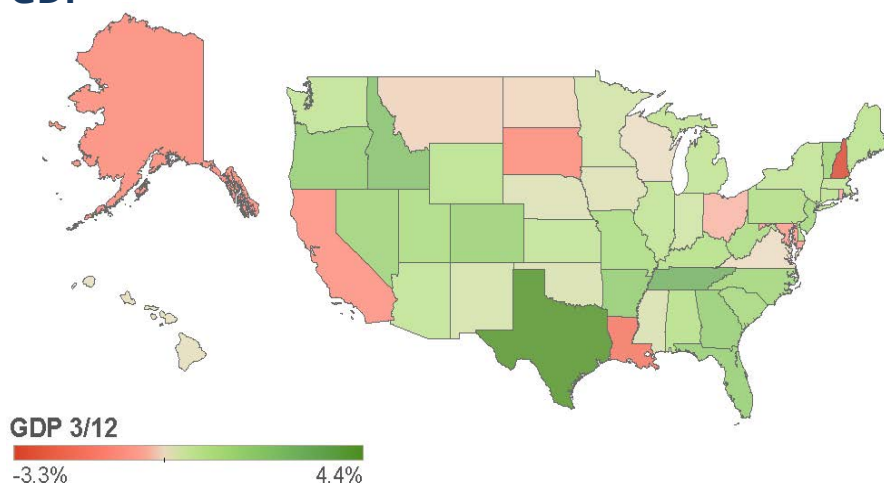
Another key development regarding the Fed is that it is planning to bring down its balance sheet into the middle of 2025. The commentary about the balance sheet is more concerning than the commentary about recession later this year. If the Fed does reduce its balance sheet into the middle of 2025, the anticipated economic recovery in 2025 will be more difficult to achieve. The Fed could still change its position regarding this course of action, but we will be watching closely, because this variable has the potential to impact our forecast for general economic recovery in 2025. Stay tuned.

COMMERCIAL REAL ESTATE

Another item to be watching, but not something directly from the Fed meeting minutes, is the wave of commercial real estate debt that needs refinancing in 2023 and 2024. Most of the commercial real estate debt is held by small regional banks, and, as we noted above, such banks will likely further tighten their lending practices. There is a looming threat that when the refinancings need to happen, money may not be as readily available for the borrowers. This poses a risk to the commercial real estate market for the next few years, and it is putting real estate prices under pressure.

While this will be a pain point, do not forget that it also indicates opportunity, as the situation will turn around. Start looking for good prices in late 2023 and in 2024. Make sure economic diversity and demographics are solid in your target region, and you may be able to pick up a sound investment at a good price.

State-by-State: GDP



- US Real Gross Domestic Product in the fourth quarter of 2022 (the latest data available) was 0.9% above the year-ago level.
- Fourth-quarter GDP was above year-ago levels for 39 states and Washington, DC, and came in below year-ago levels for the remaining 11 states.
- Texas led the states in GDP growth, up 4.4% year-over-year, likely due in part to increased oil drilling activity.
- On average, states in the Southeast and Southwest had the strongest year-over-year growth, while states in the Northeast and Midwest increased the most modestly.

Readers' Forum

Where does ITR Economics see the US housing market going in 2023 and 2024?

Sara Aybar, Economist at ITR Economics™, answers:

The US housing sector is experiencing a correction following the post-COVID stimulus highs. Annual US Single-Unit Housing Starts are down 18.4% year over year, and home prices are down 3.0% since the mid-2022 high. However, these declines will not last.

We are seeing some early signs of easing in the affordability constraints that have driven much of the weakness in Housing Starts. 30-Year Fixed Mortgage Rates, which rose for most of 2022, retreated from a November 2022 high of 7.08% and have remained in the 6%-7% range through early April. The current declining trend in home prices will also alleviate some pressure on the market. Additionally, inflation-adjusted incomes are rising – US Real Personal Income (excluding current transfer receipts) is at a record high – and consumers are in a relatively stable financial position.

While affordability headwinds are unlikely to dissipate completely, we expect the Federal Reserve to shift to a more accommodative policy later this year. Given these factors, as well as low home inventories and vacancy rates, we anticipate recovery in Housing Starts will materialize by the end of 2023, with rise in 2024.

Please send questions to: questions@itreconomics.com

Register Now for a 2030s Great Depression Webinar With Brian and Alan Beaulieu



Initially discussed in their 2014 book "Prosperity in the Age of Decline," ITR Economics CEO Brian Beaulieu and President Alan Beaulieu have been forecasting a second Great Depression to begin in the 2030s. As we get ever closer to the next decade, what are our latest thoughts on the coming depression? Will any markets or sectors fare better than the overall economy in the 2030s?

Join us on Thursday, July 27, at 2:30 P.M. ET for a 90-minute Virtual Keynote event live from ITR Studio A, as Brian and Alan Beaulieu provide their "2030s Great Depression Update." Insider™ members will be receiving an exclusive discount code for this special presentation.

Make sure you and your business are ready for the next Great Depression by registering today for this upcoming Executive Series Webinar. You won't want to miss it!

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