Industry Snapshots

Arrow denotes 12-month moving total/average direction.

RETAIL SALES	Mild Rise
WHOLESALE TRADE	Flat
AUTO PRODUCTION	Flat
MANUFACTURING	Flat
ROTARY RIG	Steep Decline
CAPITAL GOODS	Flat
NONRESIDENTIAL CONSTRUCTION	Mild Rise
RESIDENTIAL CONSTRUCTION	Mild Rise

Steep Rise · Mild Rise · Flat · Mild Decline · Steep Decline

Macroeconomic Outlook

The economy is in a liminal period: not doom and gloom, but not overtly positive. On the one hand, consumer prices are softening, most key leading economic indicators are generally rising, and consumers continue to spend more (both in dollars and volume). However, the industrial sector is tepid, general rise in leading indicators has been very mild (with some notable stumbles such as the latest data point for the US ISM PMI), and nascent signs of weakness in the housing market are popping up.

Good news for those hoping for a Federal Reserve rate cut came in the form of easing inflation in July; inflation edged lower to 2.9%, its lowest reading since early 2021. This, coupled with somewhat softening jobs numbers, may give the Fed the ammunition it needs to cut the federal funds rate late this year. This would ultimately be good news for interest-rate-sensitive industries, such as machinery and housing. However, keep in mind that interest rates generally have a significant lead time to industries and the economy, so relief is unlikely to be immediate.

On the producer side, the US Producer Price Index (PPI) in July was 1.8% above the year-ago level. We anticipate that overall Producer Prices will plateau in the near term and then rise in 2025-26 as the macroeconomy rebounds from sluggishness.

> *"Do not be discouraged by mixed signals."*

US Industrial Production is virtually flat, with accelerating growth in segments like computers and electronics offsetting declines in more traditional manufacturing markets like fabricated metals and machinery. Business-to-business spending ticked down in recent months. For firms in the industrial space, there is no such thing as one-size-fits-all advice; knowing your industry's trend now and in the future is key in this cycle especially, with its pushes and pulls, to effective business planning.

US Single-Unit Housing Starts are declining on a quarterly basis. Further weakness is probable, as suggested by decline in our ITR Single-Unit Housing Starts Leading Indicator™. Mortgage rates remain elevated compared to recent history, which may nudge prospective homebuyers to wait for a rate cut to purchase homes. US Multi-Unit Housing Starts are coming in below year-ago levels on an annual basis as rents ease and low-to-middle-income earners face greater exposure to elevated interest rates and prices than higher-income earners do.

Do not be discouraged by the mixed signals. Take initiative in pinpointing your position. Look to sectors expected to be strong in the next year, such as industries like electrical equipment that benefit from electrification trends, or essentials that benefit from aging demographics, like health care. Then determine how you can leverage your business to meet these needs.

Make Your Move

Avoid making long-term decisions based on short-term events in the stock market. The stock market can be unpredictable, so focus on more solid indicators for your business. Because some segments of the economy are likely to go into recession while others experience a soft landing, determine where your market lies and how you can better position yourself competitively.

Investor Update

The S&P 500 rose in July, but there was an 8.5% decline from July 16 to August 5. The latest jobs report surprised Wall Street but was in line with our macro forecasts. The body of economic leading indicator evidence suggests recession for some segments and a soft landing for others.

ITR Economics Long-Term View

2024	2025	2026
RETAIL GROWTH; INDUSTRIAL FLAT	GROWTH	SLOWING GROWTH

Leading Indicator Snapshot

	3Q2024	4Q2024	1Q2025
ITR Leading Indicator™	● (green)	● (green)	● (green)
ITR Retail Sales Leading Indicator™	● (green)	● (green)	● (green)
US OECD Leading Indicator	● (green)	● (green)	● (green)
US ISM PMI (Purchasing Managers Index)	● (green)	● (green)	● (green)
US Total Industry Capacity Utilization Rate	● (green)	● (green)	● (gray)

● (green) *Denotes that the indicator signals cyclical rise for the economy in the given quarter.*
● (red) *Denotes that the indicator signals cyclical decline for the economy in the given quarter.*
● (gray) *N/A*

KEY TAKEAWAYS

- We continue to expect upward macroeconomic momentum in 2025, as most leading indicators are pointing upward for this period. A few others, however, are sending mixed messages on the trajectory of the macroeconomy for later that year.
- Mild rise in the ITR Leading Indicator™ signals that businesses that align closely with US Industrial Production should see a mild upturn in growth rates moving into next year.
- The US ISM PMI (Purchasing Managers Index) monthly rate-of-change is in a nascent downward trend after exhibiting fairly consistent rise since late 2022. Should this weakness continue, it would pose a downside pressure to the industrial sector in the second half of 2025 based on its median lead time of roughly one year.

Industry Analysis

RETAIL SALES

- US Total Retail Sales in the 12 months through July were 3.3% above the year-ago level
- More interest-rate-sensitive segments, such as building materials stores (down 3.1% year over year), are a weak spot for retail; non-store retail (up 9.6% year over year) is a strength
- Expect relatively steady growth in the coming quarters

WHOLESALE TRADE

- US Total Wholesale Trade in the 12 months through June was 0.1% above the year-ago level
- US Total Wholesale Trade, a dollar-denominated series, will likely feel some upward pressure from rising producer prices next year
- Rise in the ITR Leading Indicator™ supports further rise for Wholesale Trade

AUTO PRODUCTION

- Annual North America Light Vehicle Production in June was 4.7% above the year-ago level, but the annual trend is beginning to decline
- Customers are showing significant movement toward hybrids and plug-in hybrids (retail sales are up 27.1% in the most recent three months versus one year ago) while EV retail sales decline
- Expect Production decline in the coming quarters

MANUFACTURING

- Annual US Total Manufacturing Production in July was 0.3% below the year-ago level and is in a tentative recovery trend
- Prior rise in corporate cash suggests higher manufacturing activity next year; the latest US ISM PMI data is a downside threat
- If you can, seek opportunities to take advantage of trends in electrification and high tech as industrial activity in these areas accelerates

ROTARY RIG

- The average US Rotary Rig Count in the three months through July fell to 592 rigs, 14.9% below the same period last year
- The US Oil and Gas Extraction Capacity Utilization Rate is relatively high at 97.3%; operators keep US Oil and Gas Extraction Production rising by tapping into already drilled wells and running existing wells aggressively
- The mildness of the industrial sector recession will pad Rig Count decline

CAPITAL GOODS NEW ORDERS

- Annual US Nondefense Capital Goods New Orders (excluding aircraft) in June moved lower but were 0.5% above the year-ago level
- Be aware that capital goods related to computers and electronics are rising while more machinery-focused capital goods decline
- Annual US Defense Capital Goods New Orders in June were 6.2% below the year-ago level

TOTAL NONRESIDENTIAL CONSTRUCTION

- US Total Nonresidential Construction in the 12 months through June was 12.3% above the year-ago level and is slowing in growth
- Prior tightening in lending standards for commercial real estate loans will likely exert downward pressure on new construction
- Decline is likely in the near term

TOTAL RESIDENTIAL CONSTRUCTION

- Annual US Total Residential Construction in June was 3.2% above the year-ago level and is in a tentative accelerating growth trend
- Nascent decline in US Single-Unit Housing Starts signals the upside potential for Construction may be limited
- The multi-unit sector continues to weaken as lower-to-middle-income earners contend with economic strain

A Closer Look: The US Economy

An Objective Look at the Consumer

MICHELLE KOSCES

What you need to know: While the mixed signals of the economic data can be frustrating, focus on knowing your markets and positioning your business for longer-term economic growth.

The stock market dip in late July and early August unleashed pessimism, resurrecting concerns about a recession. The market was rumbling about the US consumer – with pandemic-era savings spent and cumulative inflation cutting into purchasing power, can consumers keep spending at record levels? While the market dip quickly reversed course, illustrating the perils of overreacting to daily stock market movements, just how strong consumers are remains in question.

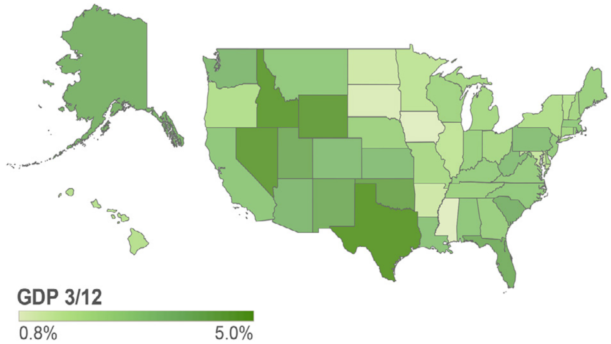
There is a lot of economic data out there to digest, and context and framing can influence the takeaway. It is easy to make factual statements that sound like the sky is falling when the whole picture suggests a less dramatic conclusion. Let's look at consumer data through two lenses: the optimistic and the pessimistic. Are you considering all the evidence in your business planning, or just the side you naturally gravitate toward?

	Glass Half Full	Glass Half Empty
Inflation	Inflation eased to 2.9% in July, increasing the likelihood that the Fed will lower interest rates.	The Price level has increased 22.4% from December 2019, cutting into purchasing power.
Income	US Real (inflation-adjusted) Personal Incomes are up 1.9% from one year ago. Income is outstripping inflation.	US Real Personal Incomes are trending below their pre-pandemic trajectory.
Employment	Employment is at a record high, the unemployment rate is low, and job openings outnumber the number of unemployed people.	Employment growth is slowing, the unemployment rate is rising, and second quarter job openings were 14.9% below the second quarter of 2023.
Savings	Savings Balances have largely normalized. The savings rate has declined because consumers can and are spending.	Consumers spent their pandemic-era savings. Savings Balances (adjusted for inflation) have plateaued for the last year and are trending below their prior trajectory.
Debt and Delinquency	Household debt relative to earnings is declining slightly. The real estate delinquency rate (1.7%) is less than half its long-term average, and the credit card delinquency rate (3.2%) is 50 basis points below its long-term average.	"Bad" consumer debt, such as auto loans and credit cards, are increasingly delinquent, and these delinquencies lag interest rates, so they will likely continue to rise even if the Fed cuts rates.
Nest Egg	Many have seen their nest egg grow. Roughly 86 million homeowners are benefiting from rising home values and roughly three-quarters of homeowners have locked-in mortgage rates below 5%. Vacancy and delinquency rates are near record lows. The stock market has risen about 70% from year-end 2019.	Housing affordability is hovering around the lowest level in decades. Those with the "golden handcuffs" of locked-in low rates are less likely to move, freezing up the existing housing market, a leading macroeconomic indicator.
Conclusion	Consumers are resilient. A tight labor market and easing inflation are resulting in rising real incomes. Some Americans saw their nest egg grow with higher home and stock market values in recent years. Consumer finances have weakened somewhat but remain in a fundamentally strong position.	Inflation set back consumers, especially hurting those in lower income brackets. There are cracks forming in some financial metrics, suggesting a weakening consumer. If you have exposure to consumer markets, especially to the lower-income consumer, you may have some rocky quarters ahead before things get better.

The news cycle amplifies fears and can cloud your outlook for the future. We encourage you to adopt an objective approach to managing your business and personal finances that considers the full glass of economic information. That full glass of economic information indicates that key segments of the economy – such as those highly sensitive to interest rates or low-income consumers – are experiencing weakness and that GDP growth is likely to slow for the remainder of this year. However, many segments will experience soft landings in this cycle. In addition, the evidence strongly suggests we will avoid a 2008-style crash this cycle. The next few quarters will give you time to prepare for the next rising trend and to focus your energy on your long-term vision for your company. A slowdown is not a time for inaction – it is a time when a different set of priorities can take precedence. Use this time to make changes that will pay dividends in the future.

Some things we are encouraging our clients to do:
- Sharpen competitive advantages.
- Improve efficiency to bolster margins.
- Train up staff.
- Manage morale with a transparent vision for the future.
- Get new equipment or systems online.
- Harness emerging technology such as AI or blockchain.
- Make sure you are well-protected from online security threats.
- Plan for increasing energy competition (and likely prices) in the coming years.
- Plan for a new normal when it comes to inflation and interest rates – we do not expect a return to the 2010s.
- Revisit your plan for the 2030s, during which time we foresee more serious economic challenges. What can you do to make your business recession-resistant?

State-by-State: GDP



- US Real Gross Domestic Product in the second quarter came in 3.1% above the year-ago level.
- Broadly, states in the South and West regions – which are generally economically benefiting from positive net migration – had the fastest pace of growth in the first quarter (latest available data), with Texas, Idaho, Nevada, Wyoming, and Oklahoma making up the five highest growth rates.
- Conversely, the Central and Deep South regions have shown the lowest growth rates, with Iowa, South Dakota, and Mississippi having quarterly growth rates at or below 1%.
- We anticipate general GDP rise this year given relative resilience on the part of consumers, along with nearshoring efforts and government spending, but growth is likely to slow appreciably in the second half of the year.

Readers' Forum

Is the housing market taking a turn in favor of buyers after the past few years of unaffordability and tight supply?

Haley Sienkiewicz, Economist at ITR Economics™, answers:

Housing market prices are behaving quite differently right now depending on where one looks. The median sale price of existing single-family homes, as measured by the National Association of Relators, increased 4.9% in June 2024 compared to June 2023. Meanwhile, the US Census Bureau reports that prices of new single-family homes declined over the same period.

Relief for homebuyers is evident in early signs of abatement in mortgage rates, which have declined from a peak of 7.62% in October 2023 to an average of just below 7% thus far in 2024. Expected rate cuts by the Federal Reserve this year would put mortgage rates on a path of further decline, which could make mortgages increasingly affordable for prospective homebuyers in the coming quarters, all else equal. Be aware, however, that structural challenges (namely, the limited supply of workers contributing to wage inflation and government spending also contributing to inflation) make it difficult for the Fed to cut rates much in this cycle, so plan for some relief, though not significant relief, in rates ahead.

Increasing inventory in housing supply is another bright spot for prospective homebuyers who may enter the market as mortgage rates decline. The inventory of existing homes reached a nearly four-year high in June. The relief, however, is only relative: This inventory is still only 59% of its long-term average, and the decline in housing starts suggests that supply-side issues will still be with us for some time.

We certainly have not rounded the corner on housing affordability, but signs are pointing to a turn. Even so, do not expect affordability to suddenly improve drastically given the factors likely to keep rates somewhat elevated and inventories somewhat lean.

Please send questions to: questions@itreconomics.com