

## 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

Many segments of the US economy are on the back side of the business cycle – including the industrial sector, business-to-business spending, and retail sales – and downside pressures are increasing. Despite mixed signals from a few leading indicators, our overall analysis for these segments, to varying degrees, is decline for 2024.

Not all businesses will feel the impacts from the upcoming downturn equally, and some will avoid contraction altogether. However, if your business typically trends closely with the overall industrial sector or is heavily sensitive to interest rates, it is likely that contraction is ahead for you in 2024, if it has not already started. If your business is not contracting, look to build up your backlog as much as possible to keep work flowing during the upcoming economic downturn, but keep in mind that orders will run a higher risk of being cancelled during this time.

The labor market will remain tight in the coming years. Do not lose focus on retaining your high performers during the upcoming downturn – make sure your wages remain competitive in both your industry and geographic region. If you are considering making any large reductions to your workforce, know that we expect general macroeconomic rise in 2025. Consider how busy you are likely to be in 2025 and weigh the costs of hiring and training new employees in this decision.

*“The labor market will remain tight in the coming years.”*

The residential construction sector typically leads the US economy and has transitioned to a tentative recovery trend. Despite affordability constraints presenting a headwind to the recovery, tight inventories and demand will support the recovery. If your business trends closely with the residential construction sector, particularly single-family homes, prepare for upcoming rise, though it will be milder than the 2020-21 buildup. Evaluate supply chain risks now and invest in your business, as demand is going to increase.

## Make Your Move

In addition to communicating your competitive advantages to your customers, now is a good time to consider any competitive disadvantages your business may have and what you can do to address or overcome them.

## Investor Update

The S&P 500 declined 1.8% over the course of August; this was a normal month-to-month movement that erased a small amount of the double-digit gain year to date. Looking forward, our ITR Optimizer Leading Indicator™ ticked down in September. So far, the downward movement is nascent and not sharp enough to trigger a defensive reading.

## ITR Economics Long-Term View

2023

SLOWING GROWTH

2024

RECESSION

2025

GROWTH

## Leading Indicator Snapshot

|   | 4Q2023 | 1Q2024 | 2Q2024 |
|---|--------|--------|--------|
| 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

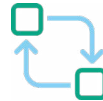
- Both the ITR Leading Indicator™ and the US OECD Leading Indicator rose mildly in August. We still expect cyclical decline in US Industrial Production into at least late 2024, especially considering the yield curve is still inverted and the Federal Reserve has signaled that further rate hikes are possible.
- The ITR Retail Sales Leading Indicator™ ticked down in August but is trending above June. More data is needed to determine whether June can be considered a tentative low. We still expect general decline in the US Total Retail Sales 12/12 rate-of-change for at least the next year.
- The US Total Industry Capacity Utilization Rate 1/12 rose slightly in August, but the upward movement may be regular volatility. A general descending trend in this leading indicator suggests that the US industrial sector will remain on the back side of the business cycle into at least the first quarter of 2024.

## Industry Analysis



### RETAIL SALES

- US Total Retail Sales in the 12 months through August totaled \$8.232 trillion, up 4.5% from one year ago
- Annual growth rate decline for Retail Sales is likely to persist during the next four quarters
- A mild downturn is likely, given eroding but better-than-Great-Recession consumer finances



### WHOLESALE TRADE

- Annual US Wholesale Trade in July totaled \$7.915 trillion, up 2.4% from one year ago
- Signals from leading indicators such as US Surface Trade With Canada and Mexico suggest further business cycle decline ahead
- Quarterly Wholesale Trade is down 4.2% from the prior year, and decline in annual Wholesale Trade is likely to extend into next year



### AUTO PRODUCTION

- North America Light Vehicle Production in the 12 months through July was 15.4% above last year
- UAW workers began a strike in mid-September; the impact of walkouts will depend on the strike's duration, but based on the current trajectory, the disruption is likely to be relatively mild
- Production will decline mildly next year



### MANUFACTURING

- US Total Manufacturing Production in the 12 months through August was 0.2% above last year; quarterly Production is below last year
- Consumer staples such as food or medical may be areas of relative opportunity in the coming business cycle
- Expect downward pressure on Manufacturing Production throughout 2024



### ROTARY RIG

- The US Rotary Rig Count in the three months through August was 669 rigs, 11.2% lower than last year
- The Rig Count is declining despite daily WTI oil prices surpassing \$90 per barrel for the first time since 2022
- Oil producers have remained measured in their response to high prices – in contrast with other boom-and-bust cycles



### CAPITAL GOODS NEW ORDERS

- US Nondefense Capital Goods New Orders (excluding aircraft) in the 12 months through July were 3.2% above the year-ago level
- US Defense Capital Goods New Orders were 19.3% above the year-ago level over that time
- The defense industry will likely fare relatively better than other sectors next year, given elevated geopolitical tensions and the war in Ukraine



### TOTAL NONRESIDENTIAL CONSTRUCTION

- US Total Nonresidential Construction in the 12 months through July surpassed \$1 trillion, a record high
- Nascent movements in the quarterly growth rate suggest upcoming Phase C, Slowing Growth, for Construction
- Public infrastructure projects may be areas of opportunity during the coming downturn, given funding from the Bipartisan Infrastructure Law



### TOTAL RESIDENTIAL CONSTRUCTION

- US Total Residential Construction was 3.8% below the year-ago level in July
- Nascent growth rate rise in US Single-Unit Housing Starts is a green shoot for this sector, and for the broader economy, which lags Single-Unit Housing Starts by roughly one year
- Affordability constraints remain, with weekly mortgage rates remaining above 7%

## A Closer Look: The US Economy

### The Potential for Further Interest Rate Rise Requires Effective Planning

GRACE SCHATZ

*What you need to know: Be ready for post-downturn rise, whether it arrives at the outset of 2025 or a bit later*

The Federal Reserve is signaling that it will raise rates further to quell high inflation and ease labor market tightness. For most companies that trend with the overall economy, persistent rise in interest rates is unlikely to alter the 2024 outlook significantly, but it may serve to delay the start of the next rising trend further into 2025 than previously anticipated. With budget season upon us, it is important to ensure that your plans for your own business next year account for this increasing likelihood. Consider working with your team to answer the following questions:

#### 1. IS YOUR BUSINESS SENSITIVE TO INTEREST RATE CHANGES?

Do not assume that higher rates will necessarily have a negative impact on your business. Some segments of the economy, such as new home construction, are particularly sensitive, while other segments, such as food production, have historically been unmoved by interest rate changes. Did demand for your products increase significantly when interest rates fell? This may be a sign of sensitivity. Is your sales team reporting project delays or lower activity due to difficulty getting bank funding? That could also be a sign that your business is sensitive to interest rate changes.

#### 2. WHAT BENCHMARKS FOR INFLATION BEST REPRESENT PRICES IN YOUR INDUSTRY?

The Federal Reserve Board uses an inflation benchmark that is far removed from the reality of price changes that most businesses experience. It will be important to track and anticipate price changes specific to your industry in 2024 because prices are likely to decline in many categories following the unusual price rise of the last three years. Your budget should account for the possibility of both lower prices (particularly if you are upstream in the supply chain) and a consumer preference for lower-cost products or services, which could result in such offerings becoming a larger driver of business volume in 2024.

#### 3. WHAT PLANS ARE YOU PUTTING IN PLACE TO CAPITALIZE ON ECONOMIC GROWTH FOLLOWING THE 2024 DECLINE?

Even if the subsequent economic rise is delayed, it will be necessary to use 2024 as an opportunity to strategically plan for it. Identify your business' disadvantages relative to your competition and invest time and effort next year to overcome them. Anything you can do to fortify your competitive position in advance of rise in 2025 will help your business make the most of this next opportunity to capture market share.

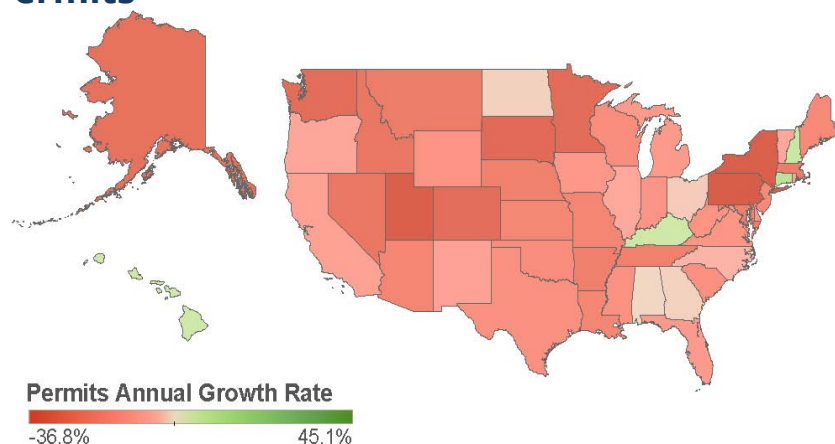
#### 4. WILL YOU NEED TO HIRE DURING 2024 TO SUPPORT ECONOMIC GROWTH EXPECTED IN 2025?

Carefully consider whether you have the right team to navigate the price-conscious consumer environment in 2024 and drive business growth in 2025. Determine if your business will need to expand to handle higher volumes in the second half of this decade and if you will need to hire people in 2024 to start ramping up to those goals. If the Federal Reserve is successful in loosening labor market conditions, you may have more success in hiring than you have had recently.

#### 5. HOW CAN YOU BEST COMMUNICATE YOUR PLANS AND STRATEGY TO YOUR TEAM?

Your employees may be following the news and watching the Federal Reserve's actions with worry. Alleviate some of their anxiety by sharing your plans for navigating next year's mild economic contraction. Help them shift their focus toward positioning the business for success in 2025. This will not only sharpen your ability to drive the organization forward but may also help reduce turnover.

## State-by-State: Permits



- US Housing Unit Building Permits in the 12 months through July were 16.6% below the year-ago level; ITR Checking Points™ suggest a near-term transition to Phase A, Recovery.
- Only the District of Columbia and four states – Connecticut, New Hampshire, Kentucky, and Hawaii – had Permits above the year-ago level in the 12 months through July.
- States that had a large influx of people during the beginning of widespread remote work are now seeing the sharpest contraction in Permits – Utah, Washington, Alaska, Colorado, Minnesota, and Nevada.
- Affordability constraints and low vacancy rates are opposing forces in the housing market at this time, with mortgages still above 7%, while vacancy rates remain below 1%.

## Readers' Forum

### Where does ITR Economics see the consumer sector headed during the business cycle downturn this year and in 2024?

Sara Aybar, Economist at ITR Economics™, answers:

Annual US Total Retail Sales in August were up 4.5% from one year ago. We expect Retail Sales to contract late this year and in 2024. However, we expect the decline to be relatively mild for Retail Sales on account of the underlying stability of the consumer. The overall debt load is manageable; US Household Debt per Capita is holding relatively steady and, though rising, US Consumer Credit Card Debt Per Household is still well below the levels that preceded the Great Recession. Furthermore, Real Personal Income (excluding current transfer receipts) is at a record high. We are watching debt loads carefully and will continue to monitor the situation.

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

### Are You Actively Planning Your 2024 Budget?

**Consulting**  
ITR Economics

Leading indicator analysis,  
actionable guidance, and  
personalized communications  
with our expert economists

BACKED BY OUR 94.7% FORECAST ACCURACY

*If you are building your budget for the coming year, are you asking yourself these questions?*

- Do I know how my business will perform in 2024?
- Is my data accurate?
- Are my business goals realistic?

*If you need help answering any of these questions during budget season, talk to us about our [Executive Vantage Point™ \(EVP\)](#) consulting programs! Business leaders just like you are using our EVPs to see both the positive and negative risks to their company, as well as see upcoming trends before any of their competitors.*

*Gain an edge over the competition and plan your 2024 budget with unparalleled accuracy!*

**CONTACT US**