






















## 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>	
	<i>Steep Rise</i>	
	<i>Mild Rise</i>	
	<i>Flat</i>	
	<i>Mild Decline</i>	
	<i>Steep Decline</i>	

## Macroeconomic Outlook

The inverted US Treasury Yield curve is not having the same adverse impacts on markets as is typical for several reasons, including high levels of government spending and consumer resilience. We have recently revised multiple key outlooks, outlined below.

**US Industrial Production:** Corporate cash and corporate profits are trending higher than anticipated at this stage of the business cycle, and government spending has caused sooner-than-anticipated rise in certain markets, distorting the natural business cycle. We now expect US Industrial Production to trend relatively flat with a downward bias in 2024 instead of mild contraction. However, there will be variation between markets. Machinery Production, for example, is contracting as existing capacity is used less. On the other hand, Computer and Electronics Production and Defense Production, both of which are rising at an accelerating pace, are benefiting from government spending and demand generated from geopolitical conflicts.

**US Total Retail Sales:** We lifted our outlook for US Total Retail Sales and now anticipate general rise through at least 2025. This is due in part to the tight labor market putting upward pressure on wages, helping the consumer weather economic headwinds more than would typically be normal during a period of contraction in Industrial Production. While we no longer anticipate mild contraction in Retail Sales this year, we expect the rate of growth to slow throughout this year, partly due to easing inflationary pressures. The US macroeconomy is largely driven by consumer spending; even if your business is not directly consumer-facing, you may still indirectly feel some positive impacts from the resilient consumer.

**Consumer and Producer Prices:** Prices are being boosted partly by stronger-than-expected commodity prices. However, high interest rates and contraction in the money supply are applying downward pressure. On net, we expect Producer Prices to trend relatively flat this year and then rise in 2025 as the economy picks up speed. We lifted our outlook for US Consumer Prices due in part to stickiness stemming from housing and services. As Consumer Prices tend to be stickier than Producer Prices, partly because they are not as closely tied to commodities prices, we still expect Consumer Prices to rise this year and next. Both Consumer and Producer Price inflation, the year-over-year rate of change for Prices, will remain well below the inflation levels of the COVID-19 era.

*"We lifted our outlook for US Total Retail Sales and now anticipate general rise through at least 2025."*

It is important to track a variety of indicators related to your vertical markets this cycle, as there will be large variations between markets. Know that high interest rates are not necessarily a reason to halt investments. Investments that improve efficiencies or reduce labor dependence will help your business during the growing and likely labor-constrained period of 2025 and 2026.

## Make Your Move

There is a divergence of trends within the industrial economy. Know which of your markets will grow and which will contract so you can plan accordingly and be prepared for an expanding economy in 2025.

## Investor Update

The S&P 500 declined sharply in April but regained most of its losses in the early days of May. Our system of leading indicators supports our forecast for a stronger economy in 2025, which bodes well for the market this year.

## ITR Economics Long-Term View

2024

RECESSION

2025

GROWTH

2026

SLOWING GROWTH

## Leading Indicator Snapshot

	2Q2024	3Q2024	4Q2024
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™ 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.

## Industry Analysis



### RETAIL SALES

- US Total Retail Sales in the 12 months through April were 3.3% above the year-ago level; the rate of growth is slowing
- Disinflation in the coming quarters is contributing to the slowing growth in US Total Retail Sales, as it is a dollar-denominated series
- However, a strong labor market and a generally well-positioned consumer will keep US Total Retail Sales from contracting in the coming months



### AUTO PRODUCTION

- Annual North America Light Vehicle Production in March was 8.0% above the year-ago level and the rate of growth is slowing
- Slowing growth will persist in the near term; pent-up demand from consumers and the relative strength of consumers will keep Production from overt contraction this year
- However, rising delinquency rates illustrate that there are some less robust days ahead and support the slowing growth trajectory



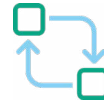
### ROTARY RIG

- The average US Rotary Rig Count for the three months through April was 621, 17.6% below the same period one year ago
- Recent upward movement in annual US Crude Oil Spot Prices may signal near-term upward pressure on the Rotary Rig Count
- However, softening in the US industrial sector will limit upward movement



### TOTAL NONRESIDENTIAL CONSTRUCTION

- Annual US Total Nonresidential Construction in March was 19.6% above the year-ago level and the rate of growth is slowing
- Further slowing growth is on the horizon as the spending of government infrastructure funds wanes and construction naturally moves along the back side of the business cycle
- Elevated interest rates present an additional downside pressure for the longer term



### WHOLESALE TRADE

- US Total Wholesale Trade in the 12 months through March was 1.7% below the year-ago level
- A general plateau in the near term is likely given a contracting industrial sector counterbalanced by elevated retail sales activity
- Disinflation trends this year will further impact the plateau, as US Total Wholesale Trade is a dollar-denominated series



### MANUFACTURING

- US Total Manufacturing Production in the 12 months through April was 0.5% below the year-ago level
- Manufacturing overall will contract slightly in 2024 before a more robust 2025
- Rise in the US ISM Purchasing Managers Index, a leading indicator for Production, signals upside momentum is building and supports our expectation for growth in 2025



### CAPITAL GOODS NEW ORDERS

- US Nondefense Capital Goods New Orders (excluding aircraft) in the 12 months through March were 1.0% above the year-ago level; growth is slowing
- US Defense Capital Goods New Orders in the 12 months through March declined but were 4.2% above the year-ago level
- Proposed White House plans for defense aid abroad are a potential upside factor for US Defense Capital Goods New Orders



### TOTAL RESIDENTIAL CONSTRUCTION

- Annual US Total Residential Construction in March rose but was 3.1% below the year-ago level
- US Private Multi-Family Residential Construction in the 12 months through March was 15.9% above the year-ago level, though growth is slowing
- Strong middle-to-upper-income consumers will drive demand in the housing market in the coming quarters

## A Closer Look: The US Economy Is Mexico Still Hot?

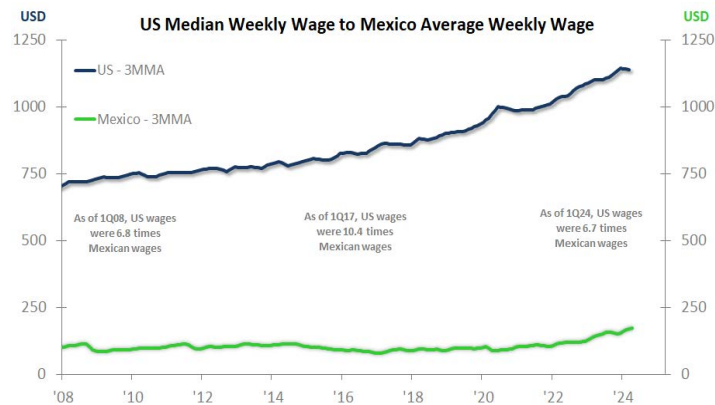
JACKIE GREENE

*What you need to know: Mexico is an attractive manufacturing location for US firms struggling with high labor costs and scarcity*

With its proximity to the US and relatively less expensive labor, Mexico has long been considered a go-to spot for manufacturing. But the question stands: Is Mexico still the hot place to be? Based on economic factors, the answer is yes.

### Wages:

US Median Wages in the first quarter were \$1139, compared to Mexico's exchange-rate-adjusted average weekly wage of \$169.84. Since the cost of labor is both one of the primary drivers of inflation and an ongoing pain point for many US-based manufacturers, the US wage coming in 6.7 times higher than Mexican wages suggests a real cost benefit. It is worth noting that wages are rising at a faster pace in Mexico, up 19.5% from the prior year, compared to the relatively more modest rate of rise in the US of 3.5%. A substantial chunk of this increase in Mexican wages is due to the 7.8% appreciation of the peso relative to the dollar from the first quarter of 2023 to the first quarter of 2024. Expect upward pressure on wages to persist for both nations and seek automation and efficiencies to help mitigate the impact.



### Inflation:

Inflation within Mexico's economy is being blamed for the upward pressure on wages. And, indeed, Mexico's inflation is registering at 4.4% compared to the US' 3.4%. This does help explain some of the higher growth rates in Mexican wages, and inflation is likely to stay a little higher in Mexico for the next few months. However, Mexico's inflation rate has been aligning even closer with the US' as the economies become increasingly intertwined. Expect Mexico's inflation to generally ease through the remainder of 2024 and increase in 2025, in alignment with our expectations for US inflation.

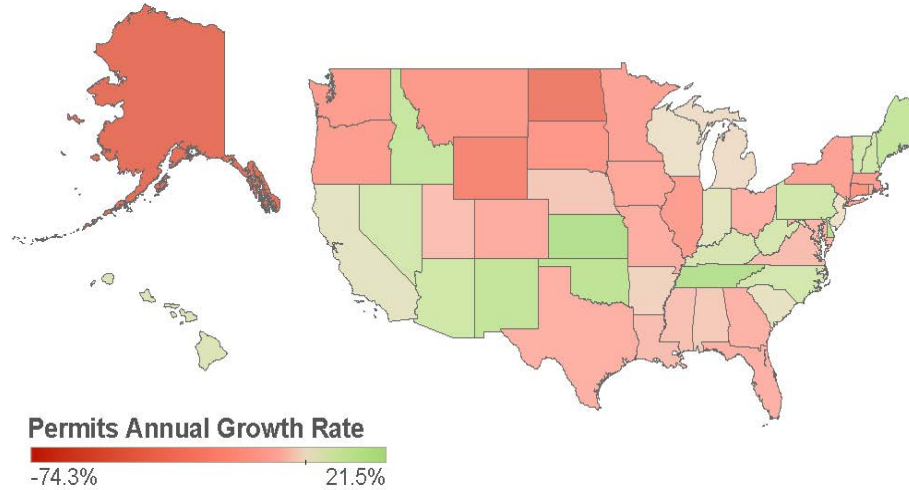
### Manufacturing:

Mexican annual Manufacturing Production is contracting off a November 2023 record high. However, this is not the end of Mexico's manufacturing might. Within the US, we are seeing a divergence of trends within the manufacturing space this business cycle, with the tech and material handling sectors typically faring better than more mature manufacturing sectors like general machinery. A divergence in trends is also occurring within Mexico's manufacturing industry. For example, light vehicle production – though weakening – is up 12.7% year-over-year, while the machinery industry is in a mild recessionary trend. The good news is that we are already seeing tentative signs of recovery emerging in overall manufacturing, more so than in the US total manufacturing market. In 2023, Mexico became the top exporter to the US, and the US industrial economy is projected to resume expanding in 2025. This suggests that there will be increased demand for goods to flow out of Mexico.

### Risks:

No foreign investment is without risk and Mexico is no exception. Security, rule of law, intellectual property, and a bias toward state-owned enterprises are some notable risks to the business climate in Mexico. It is up to each business to weigh the risks and assess their business costs. While Mexico has come off our list of countries to provide an investment safe harbor in the 2030s depression, that does not mean it is off the list of opportunities to consider for your manufacturing business to prosper. As you face increased costs and constraints in the US through the rest of the decade, consider if Mexico can provide you with a lower-cost production center or an alternative to potential manufacturing sites in Asia.

## State-by-State: Permits



- Annual US Housing Permits in March totaled 1.467 million, 4.5% below the year-ago level.
- Single-Unit construction is likely to outpace Multi-Unit construction in the coming quarters.
- Regional permitting trends are mixed. More sparsely populated states tended towards the lower end of Permits growth, with Alaska, North Dakota, and Wyoming making up the three most negative growth rates.
- The majority of states are either in Phase A, Recovery, or Phase B, Accelerating Growth, though growth rate rise in some states stalled in the most recent month.

## Readers' Forum

### I have seen numerous headlines about layoffs recently. What does this mean for the labor market?

Haley Sienkiewicz, Economist at ITR Economics™, answers:

While big companies like Tesla, Apple, and Google announced layoffs in recent months, these headlines are not necessarily indicative of a larger trend in the labor market. For these companies specifically, the uptick in layoff announcements could be the fallout of overhiring during the era of low interest rates and high private investment in tech.

On a broader scale, tightness, rather than trouble, in the labor market is evident in jobs numbers. Annual US Nonfarm Payrolls continue to rise above pre-COVID levels, albeit at a slowing pace. While the rise in Employment fell below analyst expectations for April, a lower reading following strong numbers in February and March is typical. You may see headlines about a slight rise in the unemployment rate in recent months. Fear not, as the Unemployment Rate sits at 3.8% as of March, below its 10-year average of 4.8%, and can be attributed in part to a rising labor force rather than layoffs.

The preponderance of evidence suggests labor market tightness is likely to persist given demographic trends, despite a select few headlines.

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

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