






















## Industry Snapshots

Arrow denotes 12-month moving total/average direction.

	RETAIL SALES	
	WHOLESALE TRADE	
	AUTO PRODUCTION	
	MANUFACTURING	
	ROTARY RIG	
	CAPITAL GOODS	
	NONRESIDENTIAL CONSTRUCTION	
	RESIDENTIAL CONSTRUCTION	

 Steep Rise
  Mild Rise
  Flat
  Mild Decline
  Steep Decline

## Macroeconomic Outlook

As 2023 comes to a close, the US economy is showing signs of slowing. Our analysis indicates that for many of the markets we track, decline will characterize 2024. Over the past several quarters, general macroeconomic decline has been foreshadowed by a variety of leading indicators, from corporate profits and available cash on the business side to credit card delinquencies and savings rates on the consumer side.

The severity of decline will vary across markets. Markets that are more sensitive to interest rate changes will likely contract more severely. Some examples are US Total Manufacturing Production, US Wholesale Trade, and US Metalworking Machinery New Orders, which are already in Phase D, Recession. Less discretionary markets, such as food and medical supplies, are likely to fare relatively better during 2024. Other markets likely to avoid sustained contraction, or avoid contraction altogether, are e-commerce and renewables, as well as markets benefiting from government investment, such as infrastructure construction.

At its December meeting, the Federal Reserve opted to keep interest rates at the current level and, further, indicated potential for multiple rate cuts in 2024. US Industrial Production is already contracting, and the rate cuts would likely arrive too late to prevent contraction in US GDP. However, a swift return to neutral monetary policy will likely aid in keeping the recession relatively mild and from extending too far into 2025. Other factors likely to contribute to the mild nature of the recession include reshoring initiatives and businesses' elevated cash buffers relative to the pre-pandemic era. Additionally, we are already seeing signs of green shoots in the housing market, which typically leads the broader economy by roughly one year. Together, these signals help inform our outlook for a US Industrial Production recession low to form around the end of 2024.

*"Markets that are more sensitive to interest rate changes will likely contract more severely."*

There are still steps you can take to ease the stress of recession. Check in more frequently on your cash buffer. Is it sufficient to keep the business going if a supplier falters or customers pull back? You can also use this opportunity to gain market share, either through acquisitions or by attracting business away from struggling competitors. Finally, lead with confidence. Like all recessions, this one will be temporary, and the US remains a competitive place to do business.

## Make Your Move

We expect inflation and borrowing costs will remain higher than they were in the 2010s. Have a plan to protect your margins and do not expect cheap money.

## Investor Update

The S&P 500 broke above 4,500 to close out November, a 12.0% gain over the prior 12 months. Tech and tech-like companies accounted for a considerable portion of the gains, both within the last month and over the last year. Moving forward, the ITR Optimizer™ signals a relatively balanced market that is benefiting from the tailwind of easing inflation but hurting from an overall defensive macroeconomic environment.

## ITR Economics Long-Term View

# 2023

SLOWING GROWTH
















# 2024


RECESSION

# 2025

GROWTH

## Leading Indicator Snapshot

	1Q2024	2Q2024	3Q2024
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

- General ascent in the ITR Leading Indicator™ stalled in November, suggesting the upcoming recovery could be choppy and sluggish for the industrial sector.
- The US ISM PMI (Purchasing Managers Index) monthly rate-of-change rose in November. The historic relationship between the Index and US Industrial Production would suggest that Industrial Production could begin recovering as early as 2Q24. However, our analysis of the PMI components in conjunction with the preponderance of economic evidence, including a still-inverted yield curve, suggests industrial activity will decline through 2024.
- The US Total Industry Capacity Utilization Rate ticked up in November, but the overall trend for the Utilization Rate is still negative. The overarching trend in the Rate 1/12 suggests US Industrial Production 12/12 decline into at least mid-2024, in line with the forecast.

## Industry Analysis



### RETAIL SALES

- Annual US Total Retail Sales totaled \$8.398 trillion, up 3.4% from one year ago
- Cumulative impacts of prior high inflation and weakening consumer financials will contribute to mild Retail Sales decline in 2024
- A reduction in inflation in 2024 and a tight labor market will set Retail Sales up for rise in 2025



### AUTO PRODUCTION

- The UAW strikes resulted in a weaker than normal October for North America Light Vehicle Production
- While the strikes have since ended, impacts may still ripple through the data in the coming months
- Production will face downward pressure in 2024 given high borrowing costs and tight lending standards



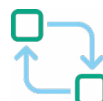
### ROTARY RIG

- The quarterly US Rotary Rig Count declined to 18.9% below the year-ago level in November
- The Rig Count is declining while US Oil and Gas Extraction Production reaches record highs, due in part to the increased efficiencies of new wells
- The Rig Count is likely to decline further during at least the first half of 2024, as demand for oil and gas, and therefore rigs, will be more muted during this time



### TOTAL NONRESIDENTIAL CONSTRUCTION

- Annual US Total Nonresidential Construction in October was 18.1% above the year-ago level
- Tailwinds of prior rise in the economy will propel annual Construction spending into the first half of 2024
- Subsequent decline is likely, given cumulative downward pressure stemming from declining corporate profits, high interest rates, and tighter credit standards



### WHOLESALE TRADE

- Annual US Total Wholesale Trade was 0.8% below the year-ago level in October
- Wholesale sales to inventory ratios signal that on net, distributors of durable goods are facing higher excess inventories than those of nondurable goods
- Both categories of Wholesale Trade are likely to decline in 2024 given waning economic momentum



### MANUFACTURING

- Annual US Total Manufacturing Production was 0.7% below the year-ago level in November
- Manufacturing Production will decline further in 2024 as demand from consumers and businesses eases
- Expect Durable Goods Manufacturing to outperform Nondurable Goods Manufacturing during the recession



### CAPITAL GOODS NEW ORDERS

- US Nondefense Capital Goods New Orders (excluding aircraft) were 1.8% above the year-ago level in October
- A near-term peak in annual New Orders is likely, given declining Corporate Profits and macroeconomic uncertainty
- Expected deflation in Producer Prices will also contribute to decline in dollar-denominated New Orders



### TOTAL RESIDENTIAL CONSTRUCTION

- Annual US Total Residential Construction in October was 6.6% below the year-ago level
- Green shoots in permitting trends and housing starts suggest rise is likely on the horizon
- Affordability remains a constraint, though we are likely to see some easing in mortgage rates if the Fed cuts rates in 2024

## A Closer Look: The US Economy

### Recession Status – Loading...

CONNOR LOKAR

*What you need to know: Despite growing hopes for a soft landing, recessionary GDP conditions are about to start*

As 2023 wraps up, there still seems to be quite a bit of debate on whether a recession is going to show up this cycle or not, with the soft-landing chorus seemingly growing louder. To be clear: a recession will occur in 2024 for most coincident or lagging segments of the economy, and contraction may have already begun for some markets.

The latest Real Gross Domestic Product (GDP) data has been one of the most notable sources of both confusion and potentially misguided optimism. This data portrayed a very comfortable rate of growth for the economy, even mildly exceeding ITR Economics' projections for GDP through the third quarter of 2023. As we detailed in prior blog posts, the GDP datapoint looks rosy on the surface, but further examination reveals that cracks are forming beneath. Given that not many people have looked into the details of the GDP data, the skepticism regarding a recession in 2024 is understandable, and these are the voices fueling the soft-landing chorus.

The following text is extracted from the "A Closer Look: The US Economy" section of the December 2022 issue of the ITR Advisor™:

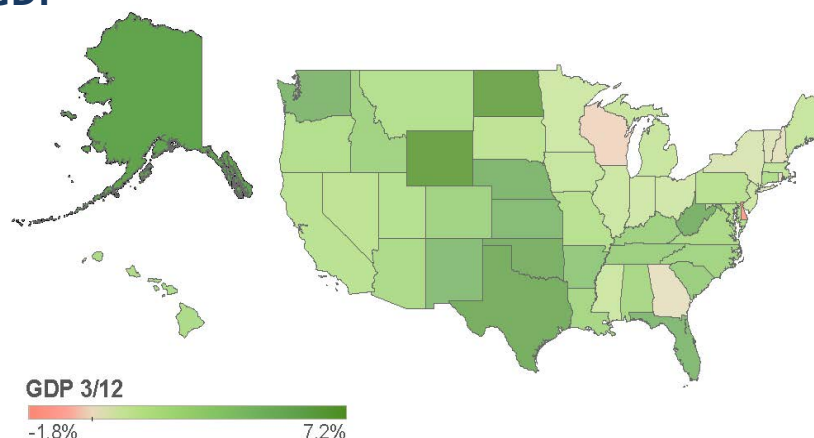
"We have been warning clients and readers that a sustained inversion in the 10-year to 3-month Treasury yield curve would trigger a revision to our macroeconomic outlook. That time has come. Here we will discuss the revised outlook for US Real GDP and, most importantly, what it means for you. It is important to note that an inverted yield curve does not mean immediate recession for the US economy. Instead, it is a signal that there is an 88% chance that a recession is coming, with most recessions beginning three to five quarters after the inversion appears. Our analysis suggests that the Federal Reserve's aggressive rise in interest rates has largely resulted in pulling the recession that we had anticipated for 2026 into 2024."

When we debuted our 2024 GDP recession forecast a year ago, with the sustained (and still ongoing) yield curve inversion as a primary leading indicator, we identified 2024 as the likely time frame for the pain to arrive en masse based on yield curve inversions' typical leading relationship to the macroeconomy. Given normal lead times, a recession beginning in GDP any earlier than late 2023 would have been atypical.

Other datasets (such as US Industrial Production) that are less subject to statistical noise and revisions than GDP reveal that we are much closer to recession than the general headline consensus may indicate. Annual US Industrial Production has been declining since September, and annual Production through November was up a very thin 0.2% from the November 2022 level – on track with our forecast. Expect mild recessionary conditions to persist through 2024 for Industrial Production. Other datasets reinforce this conclusion. Retail Sales are decelerating. Capital equipment orders are slowing and beginning to flatten. US Manufacturing Production is already in recession, as many manufacturers are curtailing production to avoid exacerbating excess inventory issues in the physical goods side of the economy.

None of this is to say all hope is lost, as the recession we anticipate for 2024 will be mild. Rather, it is to ensure that readers are properly prepared for the future. 2023 was the calm before the storm. Discomfort will increase in 2024. Continue to prepare your business for a more challenging year overall, but also focus on how you can leverage the upcoming economic lull to your advantage as you build and prepare for better days ahead in 2025 and 2026.

## State-by-State: GDP



- Year-over-year Real GDP contracted in just two states – Wisconsin and Delaware – while the remainder of state GDPs grew in the second quarter.
- Some regional differences were notable. The highest growth rates were weighted toward states in the southwest and southeast, while northeastern states were generally below the average.
- We anticipate two non-consecutive quarters of decline for overall US Real GDP in 2024, given weakening consumer and business financial metrics.
- States with stronger demographic and labor market trends are likely to fare better than the average in the coming quarters.

## Readers' Forum

### What can I do to leverage the upcoming downturn and prepare for growth in 2025 and 2026?

Jenna Allen, Economist at ITR Economics™, answers:

While 2024 will be a tougher year, some management decisions can soften the blow and prepare you for the rise ahead. Firstly, make strategic cuts to your costs and maximize cash flow. Look to cut low-hanging fruit with limited impact on business function and employee retention. Consider options like downsizing space, cutting less profitable products, or tightening collection on aging receivables.

Labor will remain tight in the coming decade, so consider alternatives to layoffs, such as rotating work schedules, reducing overtime, or renegotiating labor agreements.

With ongoing conflict in the Middle East, re-evaluate and adjust your supply chain to limit risks. Pay attention to pricing this cycle. We expect deflation in overall Producer Prices in 2024, but some commodities, particularly oil and natural gas, could rise, especially if the conflict in the Middle East is prolonged or escalates.

Lastly, make sure to track trends for your specific end markets and verticals. There may be some pockets of opportunity for expansion into tangential markets during the downturn. Assuming you have ample buffer in your balance sheet, Phase D, Recession, can be an excellent time to get a good deal on an acquisition.

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

### Are You Worried About the Next Great Depression? Find Out How You Can Personally Prepare in Our December Executive Series Webinar!



ITR ECONOMICS  
EXECUTIVE SERIES WEBINAR  
**MAKING THE 2030s OUTLOOK MORE PERSONAL**  
DEC. 12, 2023 | 2:30 P.M. ET

For more than 70 years, ITR Economics has guided businesses to prosperity with our unmatched reputation for accurate forecasts and insight into ever-changing market conditions. But this webinar is all about you, as we highlight how individuals of all generations can personally prepare for the upcoming 2030s Great Depression.

Tune in to our last webinar of the year with this special 90-minute Virtual Keynote presentation from ITR Economics CEO and Chief Economist Brian Beaulieu and President Alan Beaulieu. Gain a better understanding of what the future holds for you and your family in our webinar, "Making the 2030s Outlook More Personal." The recording is available now!

**PURCHASE WEBINAR**