






















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

US Real Gross Domestic Product (GDP) rose in the third quarter of 2023. Quarter-to-quarter rise was stronger than expected; however, one driver of rise was an increase in non-farm inventories, which could lead to softening demand for manufacturers and distributors ahead.

Many economic headwinds – including a still inverted US Treasury yield curve, high interest rates, declining corporate profits, rising credit card delinquencies, and declining inflation-adjusted consumer savings balances – suggest GDP will undergo mild contraction in 2024. We expect two nonconsecutive quarters of GDP decline during 2024.

Other segments of the economy are impacted differently by headwinds; your business may trend closer with a specific segment rather than GDP. Many of our clients trend in line with the following segments.

- **Manufacturing:** Annual US Total Manufacturing Production is declining and below year-ago levels. Distributors, particularly those of durable goods, are facing unfavorable sales-to-inventory ratios. As businesses work through their backlogs, excess inventories will put downside pressure on Production demand. Also, Production is historically interest-rate sensitive, so elevated rates are likely to put downward pressure on Production. We expect decline to extend into the end of 2024.

- **Retail Sales:** There is evidence that economic pressures are financially straining consumers. While we expect some mild loosening in the labor market, demographic trends suggest upward pressure on wages will be stronger than in many previous recessions. Accordingly, we expect a mild cutback in spending in 2024 rather than steep decline. Discretionary markets are likely to be impacted more than nondiscretionary markets.

- **Construction:** There are green shoots in the residential construction sector. Single-Unit Housing Starts are rising on an annual basis and rise in permitting activity bodes well for future rise. Vacancy rates remain low, signaling underlying demand for housing. While the lack of affordability will remain a limiting factor, most evidence supports our outlook for Single-Unit Housing Starts' mild rise through at least 2024. US Private Nonresidential Construction is rising but will soon transition to a slowing growth trend. The impacts of elevated interest rates and tightening credit conditions will manifest in decline starting around the second half of 2024.

We expect two nonconsecutive quarters of decline in GDP

Know the interest rate sensitivities of your business and your end markets. Reach out to us if you need help. Markets and businesses more sensitive to interest rates will likely face a greater pullback in demand in 2024 than less sensitive markets. While higher borrowing costs may be intimidating, consider that investments that reduce your dependency on labor or improve operational efficiency may still be worthwhile.

Make Your Move

Reassess your cash position more frequently as we head into a mild macroeconomic recession. Additionally, develop a tiered set of cuts or capital investments you will undertake if you fail to or exceed certain financial thresholds.

Investor Update

The S&P 500 declined further in October – a third consecutive month of decline – as investors sought safe havens such as gold, which surged above \$2,000 per ounce. However, uncertainty is very high, with our analysis indicating that bear and bull cases are nearly equally plausible. Zooming out, in the long run, current market conditions tend to reward the patient investor who holds through the jitters instead of attempting to time the market.

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

- The US ISM PMI (Purchasing Managers Index) monthly rate-of-change moved lower in October. General rise – with the exception of October's tick down – in the indicator suggests an earlier cyclical low for the industrial sector than we are forecasting. However, our overall analysis of PMI components signals that decline is probable for industrial activity in the quarters ahead. The ITR Leading Indicator™ and US OECD Leading Indicator are telling a similar story, with the sustained inversion of the Treasury yield curve signaling that industrial sector decline remains likely to extend into around the end of 2024.
- The ITR Retail Sales Leading Indicator™ has bounced around in recent months, but the overarching trend is indicative of consumer weakness ahead. This suggests that the US Total Retail Sales rate-of-change will decline into at least late 2024, in line with our outlook. We expect deteriorating consumer finances and a tight lending market to contribute to muted retail sector performance for the coming quarters.
- A general declining trend in the US Total Industry Capacity Utilization Rate signals probable cyclical decline for US Industrial Production through at least the first quarter of 2024.

Industry Analysis



RETAIL SALES

- US Total Retail Sales in the 12 months through October totaled \$8.278 trillion, 3.6% higher than one year ago
- Consumer finances are showing signs of weakening; the share of credit card users making minimum payments is rising, while inflation-adjusted consumer savings are declining
- We expect this weakening in finances will contribute to lower Retail Sales results in 2024 than in 2023



AUTO PRODUCTION

- North America Light Vehicle Production in the 12 months through September came in 11.2% above the year-ago level; Production growth is slowing
- Used car prices continue to decline but remain well above pre-pandemic levels; however, declining prices suggest more alignment between supply and demand
- Automotive strikes have largely resolved at time of this writing, though we continue to monitor the lagging effects of work stoppages



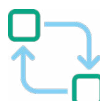
ROTARY RIG

- The US Rotary Rig Count is declining; the three months through October came in 17.1% below the year-ago level
- Oil Prices are generally declining, falling below \$80 per barrel in early November
- While Prices are declining, Oil and Gas Extraction Production is at a record-high level and rising; although, ITR Checking Points™ suggest slowing growth is likely in the coming quarters



TOTAL NONRESIDENTIAL CONSTRUCTION

- US Total Nonresidential Construction in the 12 months through September totaled \$1.047 trillion, 17.0% higher than the year-ago level
- Given the lagging nature of Nonresidential Construction, a transition to slowing growth, in accordance with prior macroeconomic trends, is expected to occur in the near term
- Infrastructure projects and other investments spurred by public grants and subsidies will likely be areas of relative opportunity in the coming year



WHOLESALE TRADE

- Annual US Total Wholesale Trade came in 0.2% below the year-ago level in September
- Tougher lending conditions are likely to adversely impact Wholesale Trade moving forward – particularly within categories with big-ticket items that rely on financing, as higher interest rates and tighter credit disincentivize borrowing
- Leading indicators suggest Wholesale Trade decline will extend into 2024



MANUFACTURING

- US Total Manufacturing Production came in 0.6% below the year-ago level in October
- Annual Production is declining; US Industrial Production, currently buoyed by mining production, is likely to follow suit in the near term
- Nearshoring and onshoring will cushion the decline, contributing to the mild nature of this recession in Manufacturing Production



CAPITAL GOODS NEW ORDERS

- Annual US Nondefense Capital Goods New Orders came in 2.2% above the year-ago level in September
- Backlogs are beginning to decline as input materials become more readily available; however, availability will vary depending on your business' position in the supply chain
- Annual US Defense Capital Goods New Orders were 14.7% above the year-ago level in September; increased geopolitical tension may translate to increased defense spending



TOTAL RESIDENTIAL CONSTRUCTION

- US Total Residential Construction in the 12 months through September came in 6.4% below the year-ago level; Construction is declining
- Quarterly US Single-Unit Housing Starts have moved above year-ago levels in recent months, a green shoot for both the housing market and eventually, given typical lead times, the broader macroeconomy
- Mortgage rates remain above 7%, creating "golden handcuffs" for many homeowners; this is contributing to the limited supply of housing

A Closer Look: The US Economy

Consumers

ALAN BEAULIEU

Consumers will be spending less in 2024, and your business needs to be ready

What consumers are doing

Consumers are spending, which is great news for the economy and wholly consistent with our forecast of more near-term growth in the US economy, as measured by GDP. US Retail Sales during the 12 months through October totaled a record-high \$8.278 trillion, 3.6% above the year-earlier figure. Retail Sales on a deflated basis are also at a record high, though the pace of growth (1.1%) is well below the pre-COVID 10-year average of 3.6%.

Spending is doing well in most areas of the retail sector, but not all. For instance, annual US Building Materials and Supplies Dealers Retail Sales are in decline and currently 2.2% below this time last year. In general, retail markets are in slowing growth trends.

Retail Sales	Annual Growth Rate	Phase	Annual Trend (12-Month Moving Total)
Excluding Gasoline and Autos	5.2%	Slowing Growth	\$6.034 Trillion
Warehouse Clubs	4.8%	Slowing Growth	\$633.1 Billion
Walmart Revenue	7.3%	Slowing Growth	\$630.8 Billion
Amazon Revenue	10.3%	Slowing Growth	\$554.0 Billion

The theme of slowing growth is common but not ubiquitous. In addition to the decline in US Building Materials and Supplies Dealers Retail Sales noted above, there is currently accelerating growth in US Health and Personal Care Stores Retail Sales, which are growing at an annual rate of 7.1% and at a record-high \$426.4 billion.

How are they doing

Consumers are doing well, but not great. They are doing well enough to keep the economy expanding through the near term. **US Real Personal Income (excluding current transfer receipts)** is accelerating and at a record-high level; annual Income is up 1.1% from one year ago. The downside is that quarterly income growth is slowing, and the pre-COVID 10-year average is 2.6%. Today's growth rate is tepid by historical standards and suggests a less-than-bullish spending environment.

Annual average **US Outstanding Consumer Credit Per Capita** is at a record high \$18,429 and rising, which sounds ominous. The credit card delinquency rate, at 2.58%, is at its highest in 38 months, which is not the desired direction for delinquencies. The good news is that 2.58% compares well to the pre-COVID 10-year average of 2.80%. Consumers are not in trouble, yet, and they are able to handle the debt. However, the **US Share of Consumer Credit Card Accounts Making the Minimum Payment** has risen to 9.21%, which is the highest in three-plus years and higher than the pre-COVID five-year average. The minimum payment trend is indicating that spending in that segment of the credit card population is likely to slow down.

Nonbusiness (consumer) bankruptcies are on the rise. There were 416,574 bankruptcies in the 12 months through September, a 12.4% increase from one year earlier. Bankruptcies are accelerating. The good news is that the rate of rise in annual bankruptcies is milder than normal, and the February 2020 pre-COVID annual total was a significantly higher 752,168 bankruptcies. The rise in bankruptcies is definitely something to be aware of, but thus far it is not a threat to the economy.

Where are they going

Consumers are going to be spending less in 2024. Business-to-consumer readers should plan on lower levels of consumer spending across a broad swath of markets. Interest rates will take a toll on some borrowers and thus impact spending. In addition, a reduction in the money supply will pull Retail Sales lower, with the end result being a mild recession in Retail Sales in 2024.

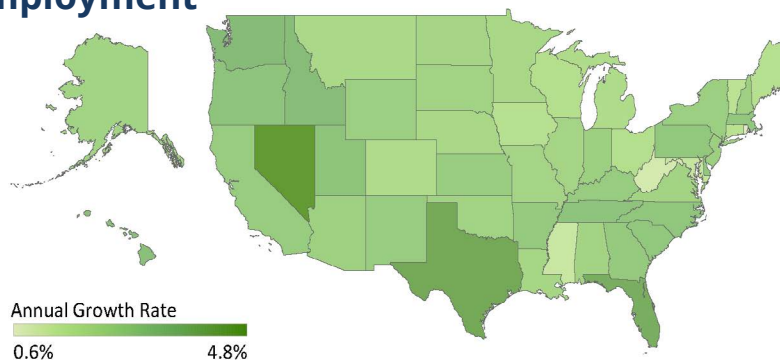
The M2 Money Supply (deflated) monthly growth rate reached a tentative low earlier this year, which suggests that the Retail Sales annual growth rate will decline until around September 2024. Our forecast for Retail Sales next year is consistent with this input. Expect late-2024 annual growth rate and annual data trend lows for Retail Sales.

Why it matters

The relationship between Retail Sales and GDP is well understood. Consumerism is key to our economy, and Retail Sales make a good proxy for overall consumerism. A decline in Retail Sales in 2024 signals downside pressure on Real GDP in 2024. Our forecast is for Real GDP to end 2024 0.4% below the 2023 level.

It also matters to those that produce, distribute, and sell consumer durable and nondurable goods. A broad-based decline in consumer spending in 2024 will have a chilling impact on most businesses that participate in this segment of the economy. Now is the time to determine how your firm will be impacted by the decline in Retail Sales, including an analysis of cash needs and inventory requirements.

State-by-State: Employment



- US Total Nonfarm Employment in the 12 months through October averaged 155.7 million employees, 2.6% higher than the year-ago level; however, growth is slowing.
- Employment trends continue to favor states with positive demographic shifts; states in the West and Southeast make up 9 of the top 10 highest annual growth rates for Employment.
- While the annual average has retreated from the June 2022 record high, quit rates are elevated relative to the 10-year average – the labor market remains strong.
- Additionally, job openings continue to significantly exceed unemployed persons, a sign of a strong labor market; while we expect some softening resulting from the upcoming downturn in 2024, labor availability will remain relatively tight.

Readers' Forum

What is going on with home prices? Where does ITR Economics see the US housing market going in the coming years?

Jenna Allen, Economist at ITR Economics™, answers:

The 30-Year Fixed Mortgage Rate was at 7.44% as of mid-November. Elevated rates are still keeping many would-be homebuyers out of the market, but we are seeing some signs of improvement. September's US New Homes Median Sales Price of \$418,800 marked a 12.3% decrease from the September 2022 Price. Prices of existing homes are generally trending flat, while prices of multi-family homes are rising modestly. When we factor in rates, prices, and incomes, we find that the average mortgage payment comprised 47% of median monthly income in the second quarter of 2023, down from the fourth-quarter-2022 figure of 56%. Although 47% is high relative to 2010s figures, it is a step in the right direction.

Furthermore, US Single-Unit Housing Starts are rising – a positive sign that new supply is coming for this market – and we anticipate that mild Starts rise will continue through at least year-end 2024. Unless there are dramatic declines in long-term interest rates, it is unlikely that home prices will rise significantly in the near term.

Also, keep in mind that the US single-family housing sector typically leads the US industrial economy by around three to four quarters. Rise in Starts is a good sign that the impending US industrial sector recession will resolve in 2025.

Please send questions to: questions@itreconomics.com

The 2030s Great Depression Is Closer Than You Think! Make Sure You Are Personally Prepared for What Is To Come



For years now, ITR Economics' business-minded economists have helped hundreds of clients prepare their respective companies for the Great Depression of the 2030s. But what about individuals, their friends, and their families? In our December Executive Series Webinar, ITR Economics CEO Brian Beaulieu and President Alan Beaulieu will help you and your loved ones fully prepare for the coming depression.

Join us on Tuesday, December 12, at 2:30 p.m. ET for a 90-minute Virtual Keynote presentation from the ITR Economics Executive team. We will be highlighting money-making opportunities, investment strategies, advice for younger generations, as well as answering your questions about the economic depression! Get a better understanding of what the future holds with our upcoming webinar, "Making the 2030s Outlook More Personal," live from ITR Studio A next month!

[PURCHASE WEBINAR](#)