Your Company Logo Here

Industry Snapshots

Arrow denotes 12-month moving total/average direction.

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

Steep Rise | Mild Rise | Flat | Mild Decline | Steep Decline

Macroeconomic Outlook

Annual US Industrial Production declined further in November. Decline will persist into mid-2020. Subsequent rise will extend into mid-2022 before decline characterizes the remainder of 2022.

US Mining Production, one of the three segments of the US industrial sector, is growing. Annual average Mining Production was up 8.3% compared to the same time last year, but growth is slowing. Conversely, US Manufacturing Production and US Electric and Gas Utilities Production – the other two segments of the US industrial sector – are declining.

> *"If Light Vehicle Production is an end market for you, evaluate your current capacity in light of our expectations and ensure your business is right-sized."*

If you do business in the automotive sector or monitor it to gauge consumer health, you should be aware we recently downgraded our outlook for North America Light Vehicle Production. We expect decline in annual total Light Vehicle Production will persist into late 2020; annual Production will bottom out at about 15.9 million vehicles. Mild rise will then take hold and last through much of 2021. However, even at the height of that cycle, annual Production will come in at less than 1% above the current 16.3 million vehicles. Total Production will be approximately 7.9% lower during 2022 than 2021. If Light Vehicle Production is an end market for you, evaluate your current capacity in light of our expectations and ensure your business is right-sized.

In contrast, optimistic signals abound in the US new housing market, another barometer of consumer wellbeing. The US Real Estate Sector ETF ended 2019 up 28.8% from the 2018 level, illustrating a robust rise in investor expectations for the sector. This is borne out in the new housing market leading indicators we track. The National Association of Home Builders Housing Market Index (most recent three months up 27.6% versus the same three months one year ago) and US Housing Permits (up 13.2%) are both growing at double-digit rates. The new housing market is generally a leading indicator to the US economy; take its bullish signals to mean that now is the time to prepare your firm for business cycle rise in the US economy during the second half of this year and into 2021.

Your Company Logo Here

Make Your Move

Approach downsizing with caution in 2020. Our forecasts for many industrial markets suggest you'll need the capacity by 2021, when US Industrial Production activity sets record highs.

Investor Update

The S&P 500 rose further in December. The underpinnings of a future bear market are forming. However, our analysis of market inputs suggests the current stock market trend bodes well for 2020.

ITR Economics Long-Term View

2020
STRENGTHENING SECOND HALF

2021
MILD GROWTH

2022
SECOND HALF DECLINE

Your Company Logo Here

Industry Analysis

RETAIL SALES

- Annual Retail Sales were up 3.1% compared to the same time last year
- Growth in Retail Sales will generally slow into late this year
- Expect Retail Sales to accelerate through much of 2021

WHOLESALE TRADE

- Annual Total Wholesale Trade will be relatively flat into mid-2020
- Wholesale Trade of Durable Goods spending will rise starting in the near term and persisting into the first half of 2022
- Wholesale Trade of Nondurable Goods spending will be mostly flat into mid-2020

AUTO PRODUCTION

- Annual North America Light Vehicle Production was down 3.3% from a year ago
- Production activity will decline into late 2020
- Activity will then rise through much of 2021 before declining through at least 2022

MANUFACTURING

- Annual Total Manufacturing Production is declining and virtually even with the year-ago level
- Production will decline further into mid- 2020
- Our analysis of leading indicators suggests upward momentum in the Production annual rate-of-change in the latter part of 2020

ROTARY RIG

- The Rotary Rig Count averaged 821 rigs during the fourth quarter, down 23.5% from the fourth quarter of 2018
- Both the US Natural Gas Rig Count and the US Oil Rig Count are declining on a quarterly basis
- Growth is slowing in both US Natural Gas Production and US Crude Oil Production

CAPITAL GOODS NEW ORDERS

- Annual Nondefense Capital Goods New Orders are declining
- Nondefense Capital Goods New Orders spending will decline through mid-2020 before rising into mid-2022
- Annual Defense Capital Goods New Orders ticked down in November
- Defense Capital Goods New Orders spending will generally rise during 2020

TOTAL NONRESIDENTIAL CONSTRUCTION

- Annual Nonresidential Construction growth is generally slowing
- Annual Public Nonresidential Construction spending, up 6.6% from the year-ago level, is accelerating
- Conversely, annual Private Nonresidential Construction spending, down 0.2% year over year, is declining

TOTAL RESIDENTIAL CONSTRUCTION

- Annual Total Residential Construction ticked up in recent months
- Construction spending will generally rise into early 2022
- The growth rate for Single-Unit Housing Starts will outpace that of Multi-Unit Housing Starts starting around mid-2020

Leading Indicator Snapshot

	1Q2020	2Q2020	3Q2020
ITR Leading Indicator™	🔴	🔴	⚪
ITR Retail Sales Leading Indicator™	🔴	🔴	🔴
The Conference Board's US 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

- Overall decline and volatility in the monthly ITR Retail Sales Leading Indicator™ throughout 2019 suggests cyclical decline for Retail Sales into late 2020
- The ITR Leading Indicator™ and the Conference Board's US Leading Indicator are signaling cyclical decline for Industrial Production into at least mid-2020
- The US ISM PMI (Purchasing Managers Index) monthly rate-of-change has been generally rising since late 2019 and suggests that Industrial Production will reach a cyclical low in mid-2020

A Closer Look: Foreign Policy

Making Sense of the Phase One Trade Deal

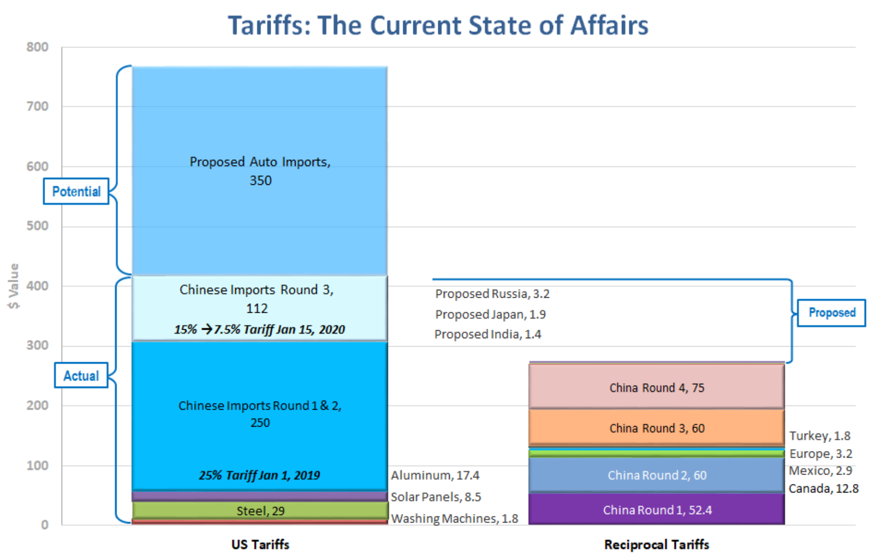
BY: ALEX CHAUSOVSKY

What you need to know: The Phase One Trade Deal is largely a symbolic gesture that allows both sides to claim victory in the ongoing trade war.

To better understand the impact of the Phase One Trade Deal the US signed with China Jan. 15, we need to assess its various components. A fact sheet published by the Office of the US Trade Representative (USTR) states that the deal requires “structural reforms and other changes to China’s economic and trade regime in the areas of intellectual property, technology transfer, agriculture, financial services, and foreign exchange [i.e. currency].” The trade deal also includes a commitment by China to “make substantial additional purchases of US goods and services in the coming years” and “establishes a dispute resolution system that ensures prompt and effective implementation and enforcement.” Some key highlights of the deal include:

- China committed to boost imports of US goods by $200 billion over two years, including increased purchases of manufacturing products and agricultural products.
- China agreed to stronger legal protections for intellectual property and to not force or pressure foreign companies to transfer proprietary technology in exchange for access to Chinese markets.
- In return, the Trump administration dropped plans to impose tariffs on $160 billion worth of Chinese goods and agreed to cut tariffs from 15% to 7.5% on another approximately $112 billion worth of Chinese goods.

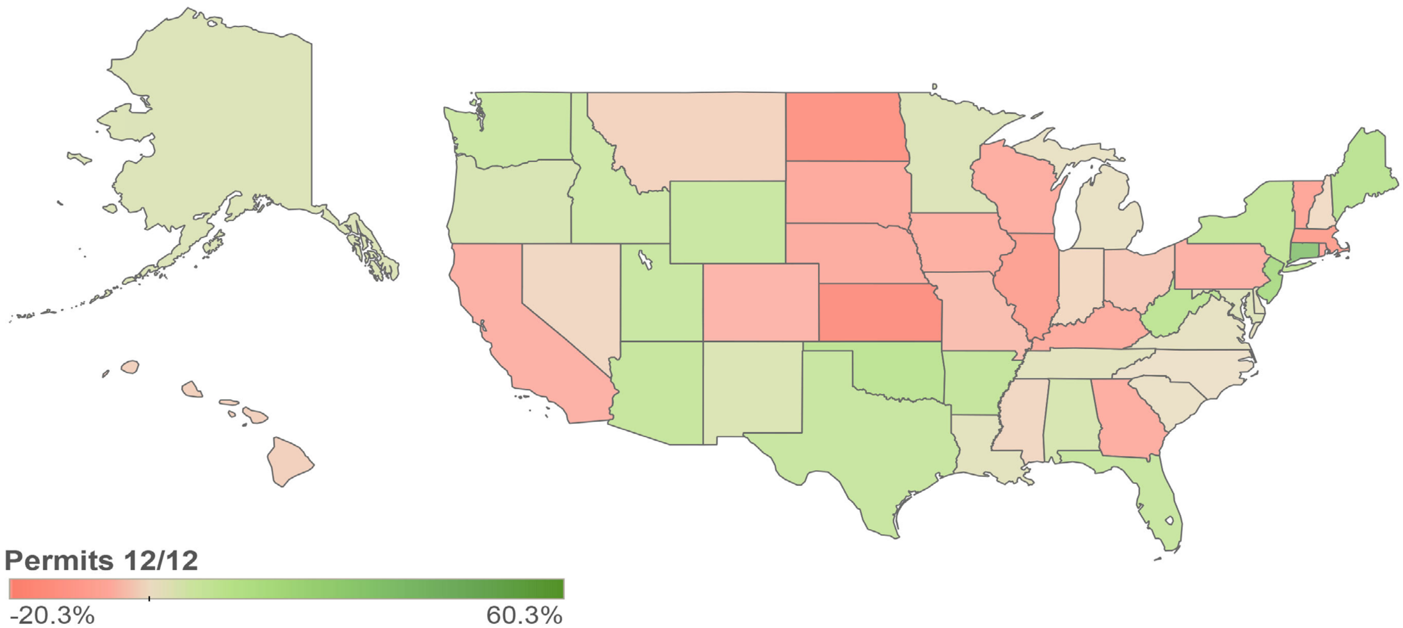
The Phase One Trade Deal is largely a symbolic gesture that allows both sides to claim victory in the ongoing trade war. This is especially evident when we consider the existing tariffs that remain in place, both on the US side and in China. The chart below presents the current tariff environment.



At ITR Economics, we know that the true measure of any trade development is in the way it impacts your business. As has been the case for the last two years, some companies will benefit from tariffs, some are likely to see little impact, and some will be affected in a negative manner. The same holds true for the Phase One deal. Your job as a leader and decisionmaker is to assess the latest changes in your market environment and pursue any newly identified opportunities. You may also need to take defensive action if the changes represent a threat. Both outcomes are only possible if you can cut through the noise and get to the facts that matter, as presented in ITR’s latest forecasts and analysis of leading indicator evidence. ITR Economics is here to help: keep following our analysis, and we’ll help you stay on the path of making the right strategic decisions at the right time.

Your Company Logo Here

State-by-State: Permits



- US Housing Unit Building Permits are accelerating; the most recent 12 months of Permits were up 2.4% from the same 12 months last year
- Multi-Unit Housing Permits, up 6.9% year over year, are outpacing Single-Unit Housing Permits, down 2.1% from the year-ago level
- State-level Permits were below the year-ago level in much of the Midwest and Northeast regions
- Currently, Permits in the Pacific Northwest and South Central regions offer generally higher growth rates than in the US as a whole

Reader's Forum

What does impeachment and possible removal of President Trump mean for the economy?

Eric Post, Senior Economist at ITR Economics™, answers:

Regarding the former, we can look to President Clinton's 1998 impeachment, followed by his acquittal in the Senate, as a possible comparison. During the two years following President Clinton's impeachment, US Real GDP grew around 4–5% annually. This suggests that if the Senate does not convict President Trump, his December impeachment would be unlikely to materially impact the economy.

If the Senate removes President Trump from office, we could see some changes in confidence or sentiment indexes as people process the uncertainty. It is difficult to speculate on what the magnitude of those changes might be, and our research shows consumer confidence is an unreliable leading indicator of economic activity. We suggest instead that you watch our system of leading indicators to inform your planning.

Please send questions to: questions@itreconomics.com