

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 rose in the fourth quarter, coming in 3.1% above the year-ago level and exceeding our expectations. After extensive analysis, we still expect relatively flat GDP this year, but now with a slight upward bias rather than a tilt toward decline.

Despite this change to the GDP outlook, our recessionary forecast for the industrial sector, which many of our clients track more closely with, is unchanged. Within Industrial Production, US Total Manufacturing Production is generally declining, US Mining Production is generally slowing in its ascent, and US Electric and Gas Utilities Production is relatively flat. Signals for the industrial sector – such as nearshoring initiatives, signs of a potential pivot by the Federal Reserve, and significant government investment in nonresidential construction via the CHIPS and Science Act and bipartisan infrastructure package – suggest that forecasted decline this year will be relatively mild.

The single-unit housing market, which leads the macroeconomy and industrial sector by roughly one year, is recovering. Despite rise in US Single-Unit Housing Starts, overall home prices are unlikely to fall meaningfully given the demand and low vacancy rates.

At this point, many businesses should be looking toward industrial sector recovery and rise in 2025. We anticipate little to no weakening in the overall labor market this business cycle given the aforementioned nearshoring initiatives as well as lingering effects from mass retirements and other workforce exits stemming from COVID impacts. Therefore, investing in your workforce efficiency, whether through cross-training key employees, implementing automation, or launching other training initiatives, is likely to pay dividends given rising labor costs.

“At this point, many businesses should be looking toward industrial sector recovery and rise in 2025.”

Other considerations for recovery and rise include the pace at which your industry will return to record highs. Some industries, such as defense, medical equipment, and food production, will fare relatively better this cycle, requiring the businesses involved in them to be better prepared for growth than those in more interest-rate-sensitive industries, such as construction machinery or automotive. Regardless of your position in the macroeconomy, look to build and maintain your cash buffer. Cash is king at this stage of the business cycle, and it will be useful both to stem any decline you may face and as you prepare for the business cycle upturn expected in 2025.

Make Your Move

Although we anticipate a mild recession for the US industrial sector in 2024, ensure you are tracking your specific markets, as they may trend differently during the downturn. Also, keep in mind that news headlines may focus on economic metrics that may not move in tandem with your business. GDP numbers, for example, do not always reflect the cyclical movements of industrial businesses.

Investor Update

The S&P 500 rose by 1.6% in January. Rise in corporate cash holdings is generating confidence in the markets and could mean that more stock buybacks and dividend issuances are on the horizon. However, evidence for where the market is headed is mixed. Ensure your investment portfolio is well diversified, as opposing economic forces could mean elevated volatility in the near term.



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

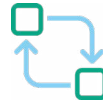
- The ITR Leading Indicator™ rose in January, though it has been vacillating around the same level for several months. Prior sharp decline in the Indicator, the sluggishness of the subsequent ascent, and the likelihood of lagged effects from quantitative tightening support our expectation for mild decline in industrial activity this year.
- The ITR Retail Sales Leading Indicator™ moved higher in January. This supports our expectation that US Total Retail Sales growth will pick up in late 2024/early 2025. Meanwhile, tight lending conditions and rising credit delinquency rates support our expectation for slowing Retail Sales growth in the near term.
- The US ISM PMI (Purchasing Managers Index) monthly rate-of-change moved higher in January and has been generally rising for the past several months. On its own, this would suggest that we could see an earlier-than-forecasted low in US Industrial Production. However, a collection of indicators would be needed to confirm such a trend, and general downward movement in the monthly US Total Industry Capacity Utilization Rate supports our forecast for industrial sector decline in 2024. Stay tuned for further updates as the indicators realign later this year.

Industry Analysis



RETAIL SALES

- US Total Retail Sales in the 12 months through January were 2.8% above the year-ago level; growth is slowing
- Expect growth—albeit slowing growth—in the quarters ahead, as the consumer is relatively healthy despite headwinds
- Consumers in higher income and wealth brackets are showing strength; target opportunities accordingly



WHOLESALE TRADE

- US Total Wholesale Trade during 2023 was 1.6% below the 2022 total
- Our expectation for continued decline in annual Wholesale Trade through this year is based in part on slowing consumer activity, as evidenced by slowing growth within US Total Retail Sales
- Wholesale Trade, a dollar-denominated series, will also ease given the effects of deflation in US Producer Prices



AUTO PRODUCTION

- Annual North America Light Vehicle Production in 2023 was 9.9% above the 2022 level; growth is generally slowing
- We expect mild decline this year, as indicated by trends in industry capacity utilization paired with currently tight financing conditions and affordability constraints
- Growth is slowing for EV Retail Sales, but the last three months of Retail Sales still came in 30.9% above the year-ago level



MANUFACTURING

- US Total Manufacturing Production in the 12 months through January was 0.7% below the year-ago level
- Manufacturing sectors are faring differently; the durable sector is slowing in growth while annual nondurables are below year-ago levels
- Utilize this period of mild decline in Production to prepare for the next rising trend



ROTARY RIG

- The quarterly average US Rotary Rig Count in January mildly declined to 621 rigs, 20.0% below the same period one year ago
- Most respondents of the fourth-quarter Dallas Federal Reserve Energy Survey indicated 2024 capital spending would be similar—slightly lower, slightly higher, or about the same—to 2023
- Demand from abroad amid geopolitical supply chain disruptions may pose an upside risk to our Rig Count expectations



CAPITAL GOODS NEW ORDERS

- US Nondefense Capital Goods New Orders (excluding aircraft) in the 12 months through December were 1.7% above the year-ago level; growth is slowing
- Elevated US Domestic Corporate Cash Holdings are likely propping up business-to-business spending
- Annual US Defense Capital Goods New Orders ticked down in December but are still 9.1% above the year-ago level



TOTAL NONRESIDENTIAL CONSTRUCTION

- Annual US Total Nonresidential Construction in December was 19.8% above the year-ago level
- We expect rise in annual Construction through most of this year before prior interest rate increases and slowing growth in key core segments of the economy exert downward pressure on spending
- Decline in annual Construction is expected to be relatively mild due in part to reshoring efforts and infrastructure spending



TOTAL RESIDENTIAL CONSTRUCTION

- US Total Residential Construction rose to \$875.3 billion in December but is still 5.6% below the year-ago level
- Robust growth in single-family permits illustrates that some consumers are strong enough to afford newly built homes
- US Multi-Unit Housing Starts are struggling; in the 12 months through January Starts came in 16.4% below the year-ago level, due in part to investor hesitancy given high interest rates

A Closer Look: The US Economy A Picture of Consumer Resiliency

LAUREN SAIDEL-BAKER

What you need to know: GDP and Industrial Production trends are diverging as a resilient consumer supports slowing growth – rather than outright contraction – in GDP.

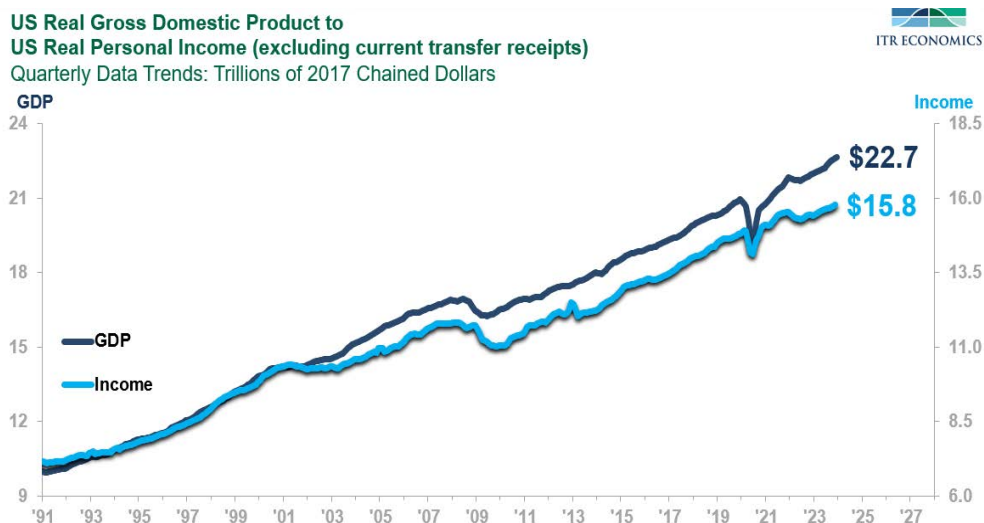
Bolstered by a strong labor market and the echoes of pandemic-era stimulus, the US consumer has exhibited remarkable strength over recent years. Now, as the effects of economic stimulus fade and the impact of monetary tightening mounts, that strength is waning. Still, several recent data releases illustrate just how resilient the US consumer is.

Many frothy headlines have centered on the recent deterioration in consumer debt metrics, such as a record-high level of debt or rise in debt as a share of income. However, what really matters is the consumer's ability to service that debt, and this ability is largely intact. Most measures of consumer finances are still normalizing following the one-off impact of stimulus payments, so while these metrics are directionally weakening, they are weakening from an abnormally strong starting point. For example, US Credit Card Debt in September (the latest data available) accounted for 14.2% of Median Annual Earnings. This is up from the recent stimulus-induced low of 11.8% but in line with the pre-pandemic 10-year average of 14.9%. This weakening – while something to watch – is largely a trend of normalization.

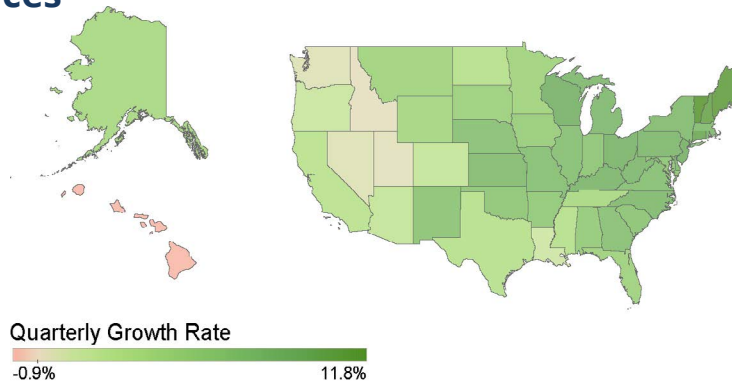
On an ongoing basis, a very strong labor market is feeding consumer strength. There are currently 1.4 open jobs for each unemployed worker, more than double the pre-COVID 10-year average of 0.6 jobs. With companies continuing to compete for qualified talent, wage growth is elevated and outpacing consumer price inflation. This inflation-adjusted rise in personal income translates to an increased capacity for spending. Because roughly two-thirds of GDP is driven by consumer spending, the ongoing rise in real income is supporting real GDP growth. Fourth-quarter real GDP came in above our expectations, due in part to this resiliency.

The US consumer is the engine driving macroeconomic growth but is not immune to the affordability headwinds associated with high prices and elevated interest rates. This susceptibility will impact the pace of economic growth. In 2024, we expect GDP to generally plateau, with a slight upward bias; growth will trend below the long-term rate. As the economic cycle turns downward, consumers will inevitably feel the pinch. Some will likely become more price-conscious or make downward substitutions in quality, perhaps choosing a store brand over a brand-name product. However, the consumer remains well-positioned to weather this downturn, removing the risk of a Great Recession-style event.

Ultimately, business leaders must discern which macroeconomic indicators correlate to their industry. For those who serve the consumer – and therefore have a closer relationship with GDP – the 2024 softening will manifest as a general plateau. However, firms with an industrial or manufacturing bent should be prepared for mild decline this year in US Industrial Production and US Manufacturing Production. In any case, identify and follow your specific leading indicators and lead with optimism – this period of economic softening will be relatively mild, and renewed growth opportunities will follow in 2025 and beyond.



State-by-State: Prices



- US Housing Prices in the 12 months through November were 5.0% above the year-ago level; the rate of rise in annual Housing Prices is slowing.
- Housing Prices are rising fastest in regions where housing is less available; Prices are rising fastest in the Northeast and Midwest and more slowly in the West.
- Only Hawaii and Washington, DC, are posting year-over-year decline in Housing Prices.
- We expect US Single-Unit Housing Starts will generally rise this year, but rise in Prices remains a likely outcome given the general shortage of housing in the US.

Readers' Forum

How is government spending impacting the economy? What can we expect in the coming years?

Jenna Allen, Economist at ITR Economics™, answers:

The Bipartisan Infrastructure Law contributed to some of the lift in recent GDP results, while the CHIPS and Science Act is driving a boost in the manufacturing construction industry. Infrastructure spending was significantly higher in the second half of 2023 than in any other six-month period since the bill was passed. The current pace of spending cannot be sustained if the funding is to last through 2026, so we may not see the same boost to GDP that we saw in 4Q23 again. But with \$800 billion left to spend through 2026, we could continue to see some upside in industries related to transportation, energy, water, and environmental management.

In addition to boosting manufacturing construction, the CHIPS and Science Act could positively impact the materials, mining, and tangential technology sectors in the coming years. Once factories are completed, expect an uptick in demand for manufacturing labor, putting additional pressure on the already tight labor market.

We will continue to monitor these programs and provide updates in case changes to either of them impact our outlook. If you need help evaluating the impact on your business, feel free to reach out to us.

Please send questions to: questions@itreconomics.com

New 10-Year Forecast Available: Financial Resilience – Your Blueprint to the 2030s



We continue to receive numerous questions about our 2030s outlook on a daily basis. With only a few years now to prepare for the forecasted depression, now is the perfect time to develop a company blueprint to help you capitalize on the opportunities in the 2020s and position your business for success in the 2030s.

Introducing our new 10-year forecast, Financial Resilience – Your Blueprint to the 2030s. With this new service, you will work closely with ITR Economics CEO Brian Beaulieu, President Alan Beaulieu, or Vice President of Economics Jackie Greene to build a custom roadmap for your business through the depression. This will help answer questions relating to what this depression looks like for your company, whether to consider selling your business, as well as how to navigate the coming challenges and opportunities ahead.

Contact us today to see how your business could benefit from our new 10-year forecast!

CONTACT US