

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

Uncertainty pervades the headlines, from bank failures to the debt ceiling debate to the ultimate trajectory of Federal Reserve interest rates. Where is the economy now, and where is it headed? As always, we look at what the data suggests:

- Consumer spending: US Total Retail Sales in the 12 months through April came in at 7.1% above the year-ago level, but growth is slowing. Consumer loan delinquency rates are around the five-year pre-COVID average and well-below pre-Great Recession levels, but they have risen sharply in recent quarters.
- Manufacturing: Both US Manufacturing Production and US Nondefense Capital Goods New Orders are above year-ago levels, though the annual trends have begun to stagnate in recent months. Supply chain pressures are easing, allowing manufacturers to work through backlogs. However, looser supply chains may also indicate waning demand. Keep your inventories lean.
- Pricing: Some commodity prices – after rising in prior months following China’s reopening – have begun to decline again; we are also seeing mild decline in quarterly US Producer Prices and easing inflation in US Consumer Prices.

“While recession is quickly approaching, there are still actions your business can take to be prepared for the upcoming downturn.”

We are anticipating a mild recession next year as consumers continue to tighten their belts, credit conditions deteriorate, and industrial sector backlogs dry up. The timing and severity of recession will likely vary by sector. Businesses that boomed due to stimulus- and shutdown-induced activity are likely already feeling pain, and that pain is likely to persist in the upcoming recession. Other industries, such as food, healthcare, medical, and defense, will likely fare relatively better, given the shift toward consumer staples and, for defense, elevated geopolitical tensions.

While recession is quickly approaching, there are still actions your business can take to be prepared for the upcoming downturn.

- Look to build a cash buffer for your business. Cash has a variety of uses in a recession, from insulating your business against elevated borrowing costs to serving as a stopgap should orders slow and backlog diminish.
- If you are able, look to shift your product mix toward lower-cost alternatives; if not, ensure you are actively communicating why your products or services are worth the higher price.
- While your employees will likely experience elevated uncertainty given news of layoffs and the like, look to assuage their fears – transparency can be an effective strategy during times of uncertainty.

Finally, lead with confidence. We expect that the upcoming contraction will be more akin to the mild recessions of the early 1990s or early 2000s than the Great Recession.

Make Your Move

Ensure you have adequate access to liquidity, as credit will likely tighten heading into the upcoming recession.

Investor Update

The market looks overvalued for a variety of reasons, including the future impacts of high interest rates, the dispute over the debt ceiling, and the potential for more credit tightening. We believe the market is at an elevated risk of a pullback.

ITR Economics Long-Term View

2023

SLOWING GROWTH

2024

RECESSION

2025

GROWTH

Leading Indicator Snapshot

	2Q2023	3Q2023	4Q2023
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 indicators are either generally declining (US Total Industry Capacity Utilization Rate rate-of-change) or have flattened of late (ITR Leading Indicator™ and US ISM PMI rate-of-change) at negative amplitudes; this is consistent with our forecast for decline in the US industrial sector, which will develop in the second half of 2023.
- Ongoing decline in the ITR Retail Sales Leading Indicator™ suggests that the consumer sector of the US economy will face mounting headwinds moving into 2024.
- The US OECD Leading Indicator rate-of-change rose for a fifth consecutive month in April, but the strength of the rise has been anemic to date. We are monitoring this indicator closely to see if the rise picks up – which could suggest an upside risk to our outlook – or if the rate-of-change simply flatlines or reverses direction. Ongoing decline in the raw monthly data suggests that the weak rise in the rate-of-change is not yet indicative of a recovery for the general economy.

Industry Analysis



RETAIL SALES

- US Total Retail Sales in the 12 months through April were at \$8.2 trillion, up 7.1% from the same period last year
- Decline in inflation-adjusted savings levels, decline in the ITR Retail Sales Leading Indicator™, and elevated long-term interest rates point to softer consumer spending ahead
- We expect mild rise in Retail Sales this year relative to 2022, followed by mild decline moving into 2024



AUTO PRODUCTION

- Annual North America Light Vehicle Production totaled 14.6 million units in March, the highest in nearly three years
- Supply chain improvement is allowing Production to catch up with pent-up demand, but growing economic uncertainty and high interest rates will deter some consumers from purchasing vehicles
- Production will transition to the back side of the business cycle later this year as a result



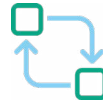
ROTARY RIG

- The US Rotary Rig Count averaged 758 rigs in the 12 months through April, up 36.3% from last year as growth slows
- Oil price trends suggest that Rig Count growth will continue to slow into at least late 2023
- OPEC+ announced oil production cuts in April, which could leave room for US producers to take market share



TOTAL NONRESIDENTIAL CONSTRUCTION

- Annual US Total Nonresidential Construction was at \$922.8 billion in March, up 11.8% from last year
- Trends in US Commercial and Industrial Sector Architecture Billings suggest that Construction growth will begin to slow in late 2023
- Given the typical lead time, growth will generally slow in 2024 – with decline developing late in the year – as the softening macroeconomy of 2023 hinders Construction



WHOLESALE TRADE

- Annual US Total Wholesale Trade has flattened in recent months but is up 9.7% from one year ago
- The annual average inventory-to-sales ratio for wholesalers is rising at the fastest pace in more than 13 years; be careful of excess inventory piling up
- Trends in the US ISM PMI (Purchasing Managers Index) and the ITR Leading Indicator™ point to further growth rate decline for Wholesale Trade in the coming quarters



MANUFACTURING

- US Total Manufacturing Production in the 12 months through April is flattening, though up 1.4% from one year earlier
- Elevated interest rates and softening demand for goods will generate headwinds for Production this year and into 2024
- As a result, decline for annual Production is likely to develop during the second half of the year



CAPITAL GOODS NEW ORDERS

- Annual US Nondefense Capital Goods New Orders were up 4.8% in March; growth is slowing
- Elevated borrowing costs, coupled with weakening economic data and declining business confidence, portend further deceleration and then mild decline in the quarters ahead
- This industrial sector recession will be notably milder than the Great Recession thanks to reshoring activity, solid (though deteriorating) consumer fundamentals, and other factors



TOTAL RESIDENTIAL CONSTRUCTION

- Annual US Total Residential Construction was at \$892.7 billion in March; Construction is declining from a November 2022 peak
- Affordability challenges are likely to weigh on Residential Construction in the coming quarters
- Tight housing inventories suggest that the housing market will avoid a Great Recession scenario this cycle

A Closer Look: The US Economy

Green Shoots in the Housing Market

ALAN BEAULIEU

What you need to know: Activity in the housing market bodes well for housing starts late this year and into 2024, and for macroeconomic recovery in 2025

US New Homes Sold are recovering, potentially signaling a new rising trend in US Single-Family Housing Starts late this year. A rising trend in Single-Family Housing Starts in 2024 would be a strong signal for the late 2024/early 2025 macroeconomic recovery that ITR Economics is forecasting.

GOING DEEPER

1. Quarterly New Homes Sold are recovering.
2. The seasonal rising trend is, thus far, about average.
3. ITR Checking Points™ signal that the tentative February 2023 low in the annual rate-of-change may hold.
4. Verification of the sustainability of the annual rate-of-change low is a month or more away; look for a confirmed low to signal the anticipated broader improvement in the housing industry.

Improvement can also be seen in US Existing Home Sales, a dataset published by the National Association of Realtors. So far, the strength of rise in quarterly Existing Home Sales is about average. The quarterly rate-of-change has established a tentative low, but the annual rate-of-change remains in decline.

SUPPORTING CAST

US Single-Family Housing Permits

- o The seasonal rising trend in Permits to date is stronger than the post-2000 norm.
- o The quarterly rate-of-change is in a nascent rising trend.

US Existing Single-Family Home Inventory

- o Monthly Existing Single-Family Home Inventory (dataset published by the National Association of Realtors), is at nearly half the pre-COVID five-year average.
- o Low inventory and improving sales should encourage builders.

US New Homes for Sale

- o The first-quarter drop in New Homes for Sale was steeper than normal, and the quarterly rate-of-change is also moving lower.
- o A continuation of the declining trend will spur builders to action, given the encouraging input from New Homes Sold.

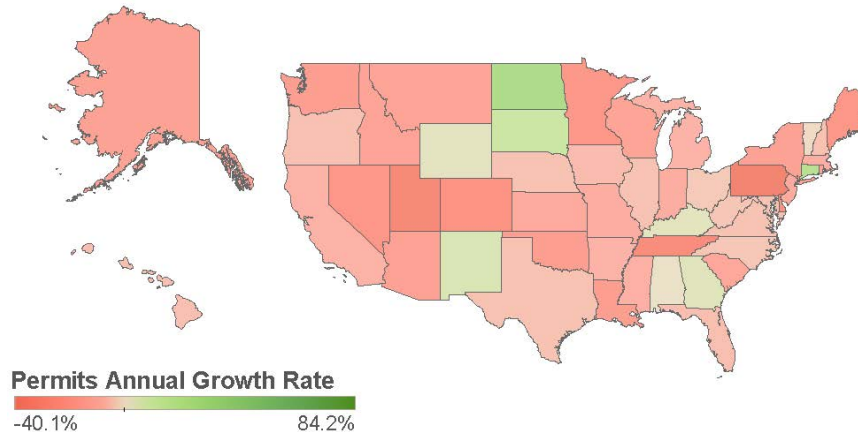
US Pending Home Sales Index

- o The Pending Home Sales Index, published by the National Association for Realtors, posted the third-best fourth-to-first-quarter rise on record.
- o The quarterly rate-of-change is in a rising trend off a probable low.
- o More rise is expected in the Pending Home Sales Index, which should boost new construction activity.
- o First-quarter rise was uneven across the country; the South posted a steeper-than-normal rise, the West posted a steep-but-still-normal rise, the Midwest's rise was barely normal, and the Northeast had a milder-than-normal ascent.

BOTTOM LINE

The housing market is showing early signs of recovery. A continuation of the positive trends discussed above, such as Permits and Pending Home Sales, bodes well for the housing industry in 2023-24 and therefore the general economy in 2025.

State-by-State: Permits



- US Housing Permits in the 12 months through March were 11.5% below the year-ago level.
- Annual Permits are above year-ago levels for eight states and Washington, DC. Most of these relative winners are in the Great Plains (Wyoming, North Dakota, and South Dakota) or the Southeast (Kentucky, Alabama, and Georgia).
- Half of the states are seeing annual Permits decline at double-digit rates. While these states are spread out across the country, there is a greater frequency of double-digit rates of decline in the West and Mid-Atlantic regions and a lesser frequency in the South and Central regions.
- We expect the housing construction market, as measured by annual US Housing Starts, to reach a low point around the end of this year, with recovery slated for 2024.

Readers' Forum

What is going on with the debt ceiling, and what are the economic implications?

Sara Aybar, Economist at ITR Economics™, answers:

The debt limit is the amount that the US Treasury can borrow to pay the bills that are already due based on prior policy decisions made by both political parties. While lifting the debt ceiling neither authorizes nor limits future spending per se, the relative gravity of a potential default is a natural bargaining chip for politicians. Congress has increased the debt ceiling on 78 occasions since 1960. Republicans in Congress, who currently control the House of Representatives, are asking for spending cuts in exchange for raising the debt ceiling. In turn, the Democrat-controlled White House and Senate are requesting closures of tax loopholes. As of this writing, a compromise has not been reached.

If the politicians are unable to come to agreement, the US will default on the national debt, and economic uncertainty will rise. It is possible that the Federal Reserve could monetize the debt to avoid default, potentially buying Congress some time, but the economy would eventually pay the price. Consequences of a default could include continued rise in interest rates, tax increases, and spending cuts. Overall, a default would raise the risk of a deeper or longer-lasting economic recession than the 2023–24 downturn we are currently forecasting.

Please send questions to: questions@itreconomics.com

2030s Great Depression Update With Brian and Alan Beaulieu Coming Soon!



ITR Economics CEO Brian Beaulieu and President Alan Beaulieu have been forecasting an upcoming Great Depression for the 2030s since the release of their book, "Prosperity in the Age of Decline," back in 2014. As part of our continued coverage of this significant event, Brian and Alan Beaulieu will be providing an update to their 2030s Great Depression outlook with the latest data and insights.

Mark your calendars for Thursday, July 27, at 2:30 P.M. ET for a special 90-minute Virtual Keynote event live from ITR Economics Studio A. During their "2030s Great Depression Update" webinar, Brian and Alan will answer the biggest questions surrounding the upcoming Great Depression and help make sure you and your business are prepared for the decade to come.

Insider™ members will be receiving an exclusive discount code for this summer presentation.

Don't miss out on these essential insights!

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