

















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

Consumers are proving rather resilient to economic headwinds and they drive much of the macroeconomy. Despite elevated Consumer Prices – up about 20% since the start of the pandemic – and high borrowing costs, consumers are buying a record volume of both goods and services. While real incomes are rising, declining inflation-adjusted savings suggest that some of this spending is being funded by lower savings. However, it is important to note that our analysis suggests that lower-income consumers, as their checking and savings account balances have been generally declining for two decades, are feeling more pressure relative to consumers in higher income brackets. Depending on your customer base, this could have a large impact on your marketing strategies.

We expect quarterly US Real GDP to generally rise at a slowing pace in 2024, with the potential for one quarter of decline. The services sector of GDP will rise throughout this time, though the rate of growth will slow. The relative strength of the services sector of GDP further highlights consumer resiliency in 2024.

Consumer strength is also evident in US Single-Unit Housing Starts, which are rising despite still-elevated mortgage rates. We expect general rise in Starts this year and next year; however, Starts rise will be muted due to persistent affordability constraints. Regional trends are also diverging – much of the recent growth in single-family permitting trends is due to states in the South and West regions of the US. If you operate in the Northeast or Midwest, your business may not be seeing the same level of growth as overall US Housing Starts.

Unlike the consumer and services sectors, the manufacturing sector is declining on an annual basis and existing capacity is being used at a lower rate. Given tight credit conditions and high borrowing costs, some businesses may choose to forgo or delay capex in 2024. We expect many manufacturing markets to undergo contraction in 2024 if they are not already. In general, the decline will be mild, due in part to the excess amount of cash manufacturing firms are holding this cycle and onshoring initiatives. Markets that are the target of government spending initiatives or that provide consumer staples may be more insulated from downward pressures.

“The relative strength of the services sector of GDP further highlights consumer resiliency in 2024.”

Ensure you are aware of your end-market demographics and buying habits. If you cater directly to consumers, your sales may differ depending on your customers’ relative income levels or regional trends. If possible, keep an extra cash buffer to help you mitigate the current high interest rates, and, with wage pressures likely to persist, cut back on discretionary spending where possible.

Lead with optimism. The FOMC is messaging potential rate cuts this year, and as discernable impacts on the macroeconomy typically lag, we expect many of the impacts of these potential cuts to materialize in 2025.

Make Your Move

Carefully evaluate whether pursuing acquisitions may be right for your business. It may seem counterintuitive to pursue acquisitions given the current tight financial conditions, but less competition and lower valuations during downturns make this time of the business cycle the ideal time to snag a deal. Look for opportunities to branch into tangential markets with higher growth potential or those that will strengthen your product and service offerings in your current market.

Investor Update

The S&P 500 posted a stronger-than-normal 6.8% gain year-to-date through February. Low volatility expectations and rising corporate profits suggest this could be a good time to be invested in the market. The potential for the Fed to delay rate cuts presents a downside risk, however.

ITR Economics Long-Term View

2024

RECESSION

2025

GROWTH

2026

SLOWING GROWTH

Leading Indicator Snapshot

| | 2Q2024 | 3Q2024 | 4Q2024 |
|---|--------|--------|--------|
| 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

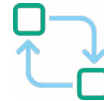
- The ITR Leading Indicator™ rose in February, which is likely due to consumer resilience, especially for consumers in the middle-to-upper-income bracket. Despite this upward momentum, we continue to anticipate an imminent and mild decline in the US Industrial sector, which recently ticked down on an annual basis and is nearing Phase D, Recession.
- The US ISM PMI (Purchasing Managers Index) monthly rate-of-change ticked down in February, but this is normal volatility in the indicator and the overall trend remains positive and generally rising.
- The US Total Industry Capacity Utilization Rate monthly rate-of-change ticked up in February, though it has been vacillating around the same level for several months. The overall trend is generally flat, likely due to the varying severity of contraction across industrial markets.

Industry Analysis



RETAIL SALES

- US Total Retail Sales in the 12 months through February were 2.7% above the year-ago level; annual growth is generally slowing
- Housing Starts typically lead Retail Sales activity, as consumer demand and wealth are tied to their homes
- As such, consumer strength and preference can vary by region given recent migration patterns; be mindful of how your local operations are faring compared to the national trends



WHOLESALE TRADE

- US Total Wholesale Trade in the 12 months through January was 1.9% below the year-ago level
- Additional decline is expected in the near term and is predicated on the softening manufacturing sector, which is also in recession
- Disinflation trends are further contributing to downside pressure on Wholesale Trade



AUTO PRODUCTION

- Annual North America Light Vehicle Production in January was 9.6% above the year-ago level
- Despite Production in January rising an abnormally strong 22.7% from December, the overall rate of growth is slowing
- Annual Production will generally plateau in the near term despite tight financing conditions due in part to historically lower inventories and strong retail sales in this sector



MANUFACTURING

- US Total Manufacturing Production in the 12 months through February was 0.6% below the year-ago level
- Annual Production is likely to mildly decline in the near term due in part to interest rate pressures limiting capex
- Resilient middle-to-upper-income consumers will help mitigate some declining trends



ROTARY RIG

- The average US Rotary Rig Count for the three months ending in February was 622, 19.1% below the year-ago level
- Despite Rig Count decline, US Oil and Gas Extraction Production is up 7.5% from the prior year
- Inventory trends suggest that the Rig Count could enter a recovery phase during the second half of 2024



CAPITAL GOODS NEW ORDERS

- US Nondefense Capital Goods New Orders (excluding aircraft) in the 12 months through January ticked down but were 1.2% above the year-ago level
- Annual US Defense Capital Goods New Orders declined in January but were 6.6% above the year-ago level
- Business confidence is relatively weak, which supports our expectation for mild decline in New Orders in the near term



TOTAL NONRESIDENTIAL CONSTRUCTION

- Annual US Total Nonresidential Construction in January was 20.1% above the year-ago level; growth is accelerating
- Government infrastructure funding may keep Construction elevated in the coming quarters despite lower-than-average business confidence
- Expect the lagging effects of high interest rates to have a greater impact on Construction as the year progresses



TOTAL RESIDENTIAL CONSTRUCTION

- US Total Residential Construction in the 12 months through January was 5.1% below the year-ago level, totaling \$876.8 billion; annual Construction is rising
- The easing of affordability constraints will support further rise for Construction
- Should interest rates remain elevated for longer than expected, it would pose a risk to Construction's anticipated recovery

A Closer Look: The US Economy

What Not to Do in 2024

GRACE SCHATZ

What you need to know: Some economic segments are faltering, but the decline will be mild. Avoid common pitfalls that could prevent your business from capturing its full potential.

Businesses rely on ITR Economics to advise about where the economy is headed and identify what they should do to drive profits. Most of our advice revolves around actions that businesses should take to stay ahead of the curve. Here, I will focus on three things that businesses should not do in the face of probable economic adversity this year. I also feature some questions to consider with your team that may help you climb out of these traps if you find that you have fallen into one.

Trap 1: Assuming that your core business will remain your core business forever

It is easy to identify your company based on the product you sell. My challenge to you is to think instead about how you add value to your customers. When you focus on the value you are adding, you will be more in tune with what your customers need. The reality is that customer needs change over time and your business should be proactively looking for ways to stay relevant and useful. Market disruptions that meaningfully change the competitive landscape normally come from a new idea or technology.

Consider: Are your products or services still relevant to the needs of your customers today? How are you requesting and receiving feedback from your clients? How quickly is your company able to incorporate a new idea, and could the timeline be condensed? Is your team receptive to change and continuous improvement?

Trap 2: Falling behind when it comes to efficiency or user experience

Investments are carefully planned by most businesses and can be some of the first budget items to get cut during a downturn. I understand the logic behind saving cash for a rainy day when you see storm clouds on the horizon. However, we live in a world where ongoing investment in technology is required just to retain existing market share. Market share is one thing that businesses cannot afford to lose, especially during periods of market decline.

Consider: Are you making the investments required now to reduce labor needs in the not-so-distant future? Have you invested in protecting your business against cybersecurity threats? Is your website up to date? Are potential customers able to find you easily when they search online?

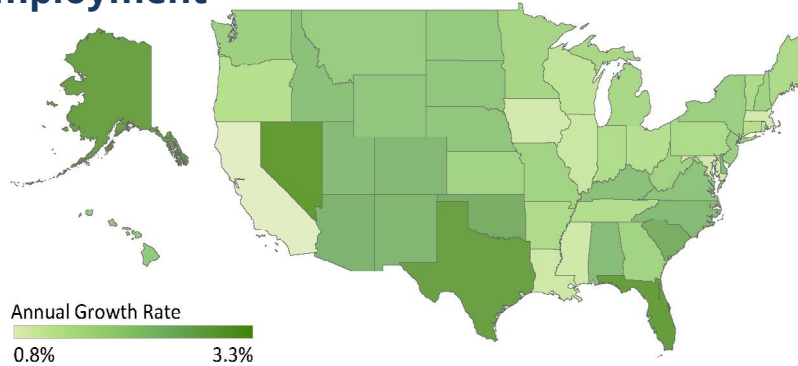
Trap 3: Giving in to the whims of the market without a fight

Most businesses will be swimming against the current this year. That does not mean that you have to accept a mild decline in the market as a reality for your business. Too many times, we see businesses writing off a year that will be characterized by decline and just looking forward to the growth periods for times when the economic tide will rise to lift them. Do not assume that the future is set in stone for your business just because the leading indicators suggest that growth will be more difficult to achieve.

Consider: Can you grow your market share? Can you develop strategic partnerships with complementary businesses to add perceived value to your customers? Can you drive your existing customers toward products with higher profit margins?

The next time you meet with your leadership team, consider whether you are falling into any of these traps. The impact might not be immediately visible, but it is important to pivot now to set your business up for the best possible success during the economic growth in 2025–2026.

State-by-State: Employment



- US Private Sector Employment in the 12 months through February was 2.0% above the year-ago level; Employment is growing at a slowing rate.
- Employment is growing fastest in states with positive demographic trends, like Florida and Texas.
- Employment growth is weaker in areas more heavily weighted to tech and biotech jobs; California, Massachusetts, and Washington, D.C., are the bottom three in terms of jobs growth.
- We expect the overall labor market will remain tight over the coming year; layoffs are not elevated relative to the longer-term average, and an overall aging workforce will continue to put pressure on the labor market.

Readers' Forum

What is going on with the commercial real estate market? Should I be worried about potential bank failures?

Jenna Allen, Economist at ITR Economics™, answers:

The rise of remote and hybrid work is causing unrest in the commercial real estate (CRE) market. Office vacancy rates are currently at or near a record high and the situation could worsen, as many office leases signed before the pandemic are set to expire in 2024 or 2025. Bank exposure may vary by region given varying demographic trends and office-use preferences. For example, banks with CRE exposure in the South may fare better than those in the Northeast.

The potential for developers to avoid defaults is uncertain. What we do know is that the vast majority of the top 20 largest banks have less than 20% of their assets in CRE (according to S&P Global). Most of the banks with heavy CRE exposure are relatively small banks (less than \$6 billion in assets), although investors are expressing concerns over two medium-sized banks with greater than 50% in CRE – Flagstar Bank NA and Valley National Bancorp. The upside is that regulators have learned from past banking crises and are requiring more capital to cushion the risk. US delinquency rates on CRE loans are rising, but at just under 1%; we are not seeing a crisis just yet. We will continue to provide updates as the situation evolves.

Please send questions to: questions@itreconomics.com

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



Businesses should now be preparing for what is to come in the 2030s – but where do you begin? The upcoming depression will be unlike anything business leaders have seen before, which is why ITR Economics is here to help!

Introducing our new 10-year forecast, Financial Resilience – Your Blueprint to the 2030s. With this new service, you will work closely with ITR Economics' Executive Team 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!

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