

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

The US macroeconomy, as measured by the industrial sector, retail sales, and business-to-business spending, is slowing in its pace of growth. We anticipate decline in these segments, to varying degrees, in 2024.

While some leading indicators have mildly risen, our overall analysis suggests that due to a number of economic headwinds, this rise is not a harbinger of earlier-than-anticipated recovery for the US macroeconomy. Some of these headwinds include:

- The US Treasury yield curve remains inverted, a signal from the bond market that the Federal Reserve has raised interest rates above a healthy level.
- The inflation-adjusted US M2 Money Supply is declining. Historical precedence suggests it is unlikely that we will see sustained rise in the macroeconomy while there is less cash in the economy to spend on goods and services.
- Banks are tightening their loan lending criteria for both businesses and consumers while interest rates are high.
- US Total Retail Sales (adjusted for inflation) are plateauing, consumer savings rates are trending lower than the historical average, and savings balances are not keeping pace with inflation.
- US Domestic Corporate Profits (with capital consumption adjustments) are elevated relative to pre-pandemic levels but are declining.

“While the evidence overwhelmingly points to macroeconomic weakness ahead, we anticipate the recession will be mild and not a Great Recession-like scenario.”

While the evidence overwhelmingly points to macroeconomic weakness ahead, we anticipate the recession will be mild and not a Great Recession-like scenario. Look for opportunities for your business during this period.

The US remains a strong global contender in the industrial sector, particularly due to onshoring and reshoring as companies attempt to mitigate exposure to any major global supply chain disruptions. Whether you are sourcing domestically to shore up your supply chain or producing domestically and attracting new customers, ensure that you are capitalizing on this trend in a way that is right for your business.

In June, the Federal Reserve held the federal funds overnight rate constant after 10 consecutive meetings with rate increases (500 basis points, or 5 percentage points, total). However, the body signaled that there could be more increases to come. We are watching the Fed’s actions closely, as additional rate hikes could pose a risk to both the length and magnitude of the anticipated recession, thereby threatening the expected economic recovery in 2025.

Make Your Move

While we are anticipating a mild recession for the US macroeconomy and industrial sector, make sure you are tracking your specific markets and identifying their likely trajectories, as they may trend differently from the overall economy during the upcoming downturn.

Investor Update

The S&P 500 was little-changed in May, ending the month up a slim 0.2% from April. The 8.9% ascent in the S&P 500 over the first five months of the year is attributable to three sectors: Tech (up 32.7%), Communications (up 30.4%), and Consumer Discretionary (up 18.1%), driven by massive year-to-date returns among big names like Nvidia, Meta, and Tesla, respectively. The other eight sectors were either down for the year or little-changed.

ITR Economics Long-Term View

2023

SLOWING GROWTH

2024

RECESSION

2025

GROWTH

Leading Indicator Snapshot

	3Q2023	4Q2023	1Q2024
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

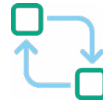
- The ITR Leading Indicator™ moved upward in May. We are monitoring this mild ascent, but numerous headwinds for the economy, as well as a sustained inversion of the Treasury yield curve, suggest that this movement is unlikely to be signaling an earlier-than-anticipated recovery for the US industrial sector.
- The US ISM PMI (Purchasing Managers Index) rate-of-change has been relatively flat in recent months, and the 12-month lead time to the US industrial sector suggests that downside pressures will persist through late 2023 and into 2024.
- The ITR Retail Sales Leading Indicator™ declined further in May, suggesting that growth rate decline for US Total Retail Sales will persist into early 2024. The economic evidence suggests that the US consumer sector will enter a mild recession this cycle.

Industry Analysis



RETAIL SALES

- US Total Retail Sales in the 12 months through May came in at \$8.183 trillion, 6.4% above the year-ago level
- Rise is likely to persist into late 2023; subsequent decline will occur during 2024
- The various retail segments will not bear the recession equally; consumer staples will likely fare better than markets that benefited from stimulus-induced spending in recent years



WHOLESALE TRADE

- Annual US Total Wholesale Trade came in at \$8.002 trillion in April, virtually flat with the February peak
- Wholesale Trade was still 7.7% above the year-ago level, bolstered by record-high Durable Goods Personal Consumption Expenditures
- Higher interest rates and tightening credit terms will likely dampen demand for goods as consumers respond to such factors by pulling back on spending



AUTO PRODUCTION

- Annual North America Light Vehicle Production totaled 14.7 million units in April
- US Light Vehicle Month-End Inventory Days Supply is up 27.8% from last year, suggesting that automakers are making headway in fulfilling pent-up demand
- Production is likely to face downside pressure in the coming quarters as producers catch up with demand and buyers contend with high interest rates



MANUFACTURING

- US Total Manufacturing Production in the 12 months through May was up 1.1% from one year ago; annual Production ticked down in May relative to the April level
- Demand decreases associated with today's high interest rates and general weakness in the macroeconomy will likely drive decline in Production
- Decline in Corporate Profits also signals decline for Production



ROTARY RIG

- The US Rotary Rig Count averaged 759 in the 12 months through May
- In early June, Saudi Arabia announced an additional voluntary production cut of one million barrels per day
- Saudi production cuts are not likely to lead to an increase in the US Rotary Rig Count as producers aim to keep prices from falling



CAPITAL GOODS NEW ORDERS

- Annual US Nondefense Capital Goods New Orders (excluding aircraft) were up 4.7% in April
- Our analysis suggests that annual New Orders will reach a peak in the near term
- Slowing consumer activity, waning business confidence, and tighter credit conditions are expected to contribute to New Orders decline this year



TOTAL NONRESIDENTIAL CONSTRUCTION

- Annual US Total Nonresidential Construction came in at \$945.0 billion in April, up 14.3% from the year-ago level
- The ITR Checking Points™ system portends further growth rate rise in the coming months
- Higher interest rates are likely to impact new construction projects; however, given this sector's extended lag time relative to the macroeconomy, the impact will likely manifest in the coming years rather than in the near term



TOTAL RESIDENTIAL CONSTRUCTION

- Annual US Total Residential Construction came in at \$886.7 billion in April, up 3.9% from last year; however, annual Construction is declining
- Housing affordability challenges will contribute to Construction decline in the near term
- Low vacancy rates suggest that the supply of existing homes is tight; be prepared for new construction to return in the coming years

A Closer Look: The US Economy

Commercial Real Estate

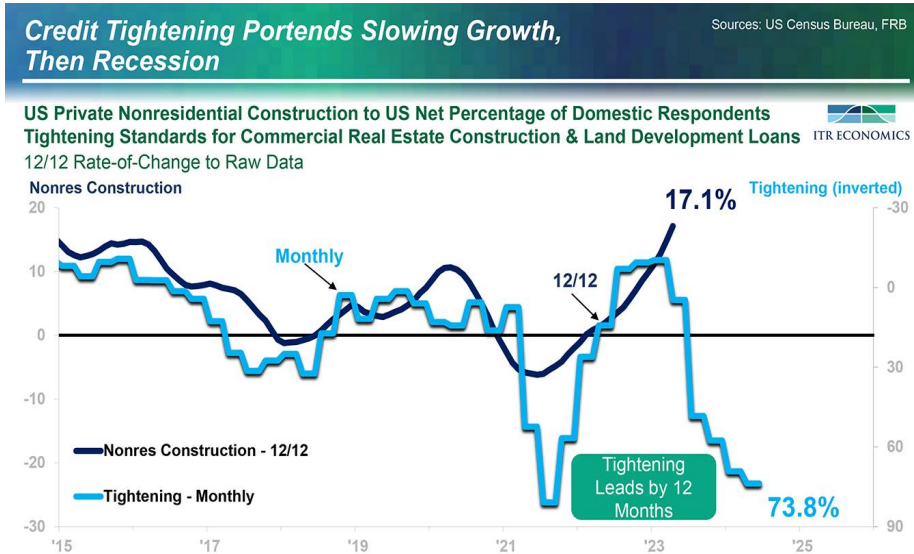
CONNOR LOKAR

What you need to know: Nascent issues in commercial real estate lending portend a more challenging nonresidential construction market landscape in 2024 and likely 2025

Cracks are beginning to form in the commercial real estate space. As mentioned in our April ITR Advisor™, we were monitoring the eventual impact that the fallout of both interest rate tightening from the Federal Reserve and the associated regional banking issues would have on commercial real estate. Now with the benefit of a couple more months of data that reflect those issues, it appears our concerns are coming to fruition, if only in their infancy.

Much of commercial real estate lending is held and occurs at the smaller regional bank level, which is where the majority of banking stress has shown up to this point. Though the situation seems to have stabilized, the carry-on effects are likely to linger. Our concern is that lending standards will continue to tighten, complicating new project activity later this year and in 2024. A higher rate environment may also be problematic for necessary refinancing in the next 12–18 months.

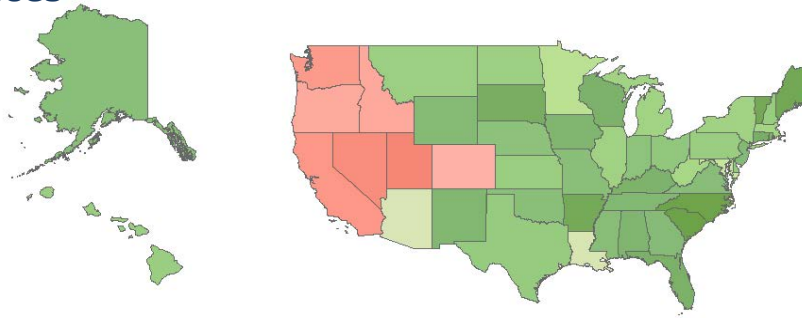
Overall Private Nonresidential Construction, on a rate-of-change basis, is very close to the peak of the business cycle, and most clients we consult with in that space are living that reality. They are adding to their backlogs and book orders, but that positivity appears poised to throttle down as 2023 wears on and further still in 2024.



In the chart above we see a couple of things; the first is that, at 73.8%, the overwhelming majority of lending respondents indicate that they are tightening standards for commercial real estate construction and land development. While not quite the percentage at the bottom of the COVID tightening (80.9% of respondents), it is still cause for concern, as the extremely abrupt tightening and subsequent loosening of standards that occurred in 2020–21 still resulted in a brief nonresidential construction recession. The second observation is the 12-month lead time from lending standards to actual construction outcomes. This means that the additional tightening in recent months, which is probable to continue, will carry a hangover effect well into 2024. In addition, that tightening realistically has not been felt in the marketplace at this point. Despite what are likely still robust current market conditions, this is cause for those whose businesses rely on this space to heed caution.

As far as actual lending is concerned, and not just the standards for lending, we see concerning signs there as well. The dollar value of Commercial Real Estate Loans by Commercial Banks declined month-to-month in March and then again further and more rapidly in April, the most recent data available. Those versed in ITR Economics methodology know that two months do not quite represent a trend, and two months may not sound like much, but we have not seen commercial real estate lending decline for two consecutive months since 2012, when the lending crunch ultimately bottomed out following the Great Recession. Commercial real estate lending has essentially been rising, unabated, for over a decade. It is improbable that lending improved in May, and this could be the start of something at least slightly ominous. This is a situation we will be monitoring closely as we go forward, and the signals, so far, seem to support our expectation that Nonresidential Construction growth will be interrupted by a mild recession in 2024 and into 2025.

State-by-State: Prices



- The majority of US state home prices are on the rise, particularly in the southeastern portion of the US. Quarterly South Carolina, North Carolina, and Florida Housing Prices are up 9.5%, 9.4%, and 7.9%, respectively. Relatively low tax rates and pro-business practices in these states have been driving migration over the past few years. Rising demand is contributing to rising home prices.
- Home prices are declining year over year in seven US states, all in the West region, including Washington, Oregon, California, Idaho, Nevada, Utah, and Colorado. Residential construction spending is declining in each of these states amid a recent wave of layoffs in the tech industry, which affected housing demand in the tech hubs. Additionally, housing affordability has been a long-standing concern in these states.
- Low vacancy rates suggest that the supply of existing homes is tight. Be prepared for demand for new construction to return in the coming years as affordability further improves and consumers gradually build up to making bigger down payments. This will likely put upside pressure on US home prices in the long run.

Readers' Forum

At the halfway point of 2023, where does the US economy stand?

Sara Aybar, Economist at ITR Economics™, answers:

By almost all accounts, the US macroeconomy is poised for decline. Several metrics support this expectation. US Real Gross Domestic Product (GDP) is in a general trend of slowing growth, and inflation-adjusted US Total Retail Sales are sluggish, coming in just 0.6% higher than last year at this point. Manufacturing over the last three months is running 0.6% below the year-ago level. And, perhaps most telling, there is the sustained inversion of the Treasury yield curve, which is unlikely to return to normal status until the Federal Reserve changes course on interest rates.

With recession on the horizon, consider the following actions:

- Assess your cash needs and allocate resources to the higher-margin parts of your business.
- Determine your business's level of sensitivity to the interest rate environment; this will help you gauge the challenges ahead.
- The recession will not impact all segments of the US economy equally; use ITR Economics as a resource as you determine which of your markets are likely to bear the brunt of the downturn.

Please send questions to: questions@itreconomics.com

ITR Economics July Virtual Keynote Event Sponsored by ButcherJoseph & Co. and FocusCFO!



Thank you to the sponsors of our upcoming Virtual Keynote event – ButcherJoseph & Co. and FocusCFO! ButcherJoseph & Co. has long been a partner of ITR Economics, specializing in helping businesses with their succession plans using their unique objective-driven approach. FocusCFO, one of our newest partners, helps empower business leaders to improve their organization's cash flow, reduce risk, and increase their efficiency.

ITR Economics CEO Brian Beaulieu and President Alan Beaulieu will be presenting their upcoming Executive Series Webinar, "2030s Great Depression Update," live on Thursday, July 27, at 2:30 P.M. ET. This is the perfect time for attendees to get the latest information on ITR Economics' outlook for the coming Great Depression, as well as ask questions to help you and your business thrive this decade and during the 2030s!

Those with an Insider™ membership will be receiving an exclusive discount code for this special presentation.

With the 2030s closer than you think, you will not want to miss out on these expert insights next month!

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