North American Building Material Distribution Association

Trends ▪ Education ▪ Leadership ▪ Networking

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Industry Snapshots

Arrow denotes 12-month moving total/average direction.

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

Steep Rise · *Mild Rise* · *Flat* · *Mild Decline* · *Steep Decline*

Macroeconomic Outlook

The US economy has exhibited rapid rise in 2021. What beckons for 2022? Growth will persist, but at a slowing pace. Of the three major industrial segments, US Electric and Gas Utilities Production and US Total Manufacturing Production are projected to reach peak growth rates early in 2022, with slowing growth to follow; expect the transition to occur slightly later in the year for US Total Mining Production. Though we expect overall US Industrial Production will avoid recession during the upcoming period of business cycle decline, most companies should be prepared to contend with slowing macroeconomic growth for the year ahead.

Inflation is at multi-decade highs and top of mind for many consumers and businesses. While it will likely remain relatively elevated in the near term, we can expect upward pressure on inflation to generally abate during 2022 as business conditions normalize for suppliers and macroeconomic demand cools. The near term will likely prove an opportune time to pass along further price increases to your customers, before slowing growth sets in and inflation cools.

Although inflation is set to moderate in 2022, that does not mean a return to the pre-pandemic norm. The tightness of the labor market – also an oft-cited concern of our client base – and the unintended consequences of stimulus mean we will likely face more elevated inflation, generally speaking, in the coming years than in the 2010s. You will need to change your mindset: regular, more substantial (relative to the 2010s) price raises will be the norm, though not to the extent seen in 2021. Wages will need to follow suit.

> *"Although inflation is set to moderate in 2022, that does not mean a return to the pre-pandemic norm."*

We are still tracking the COVID numbers every day. Since late November, the spread of the new omicron variant and the associated potential for renewed restrictions have been among the issues confronting the business world. Early indications suggest omicron brings high transmissibility but a lower fatality threat. We think it's likely that some regulations regarding masking, etc., will be intensified in some parts of the US, but ad hoc closures of businesses akin to those of 2020 are unlikely. Nevertheless, the potential for broad-based government intervention related to omicron poses the primary downside risk to our forecasts.

In addition to the COVID trends, we are also closely monitoring retail sales trends and consumer health. A strong consumer sector has driven a large part of the economic growth in 2021. US Total Retail Sales for the three months through November were up 16.2% from the same period one year ago. While inflation has contributed to some of this rise, most is attributable to increasing activity rather than rising prices. However, leading indicators rebut the assumption that demand will rise at the same pace going forward. Plan instead for Retail Sales growth to slow through at least 2022, which will contribute to slowing growth in industrial sector activity during that time.

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Make Your Move

Leading indicator movements support our outlook for slowing macroeconomic growth in 2022. Know your markets, as many industries will avoid contraction this business cycle, and contraction will be mild for most others.

Investor Update

The mild October-to-November dip in the S&P 500 was within normal parameters. Be prepared for more volatility in the coming months as the market digests the likelihood of slowing macroeconomic growth in 2022, but take comfort in knowing that the strength of the consumer means this is not 2007–08 all over again.

ITR Economics Long-Term View

2021	2022	2023
RECOVERY AND RISE	GROWTH	GROWTH

Leading Indicator Snapshot

	1Q2022	2Q2022	3Q2022
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 majority of the key leading indicators we track signal an early-2022 business cycle peak for US Industrial Production, as forecasted.
- Four of the five leading indicators shown here signal slowing rise is probable for industrial sector activity in 2Q22.
- Ascent in the ITR Retail Sales Leading Indicator™ illustrates the overall strong health of the consumer, consistent with our no-recession expectation for the US economy this business cycle.

Industry Analysis

RETAIL SALES

- US Total Retail Sales during the 12 months through November came in at $7.3 trillion, up 18.1% from the same period one year ago
- Retail Sales growth will slow in 2022, as wages are not keeping pace with inflation and consumers may need to tap savings or take on debt
- Third-quarter US Credit Card Delinquency Rates were near all-time lows; the consumer is in a strong financial position

WHOLESALE TRADE

- US Wholesale Trade during the 12 months through October came in at $6.9 trillion, up 18.5% from last year
- The strong consumer will drive Wholesale Trade to further record heights, but the rate of growth will diminish imminently
- Easing inflation will contribute to slowing growth in Wholesale Trade next year

AUTO PRODUCTION

- Annual North America Light Vehicle Production declined further in October due to supply shortages
- Annual Production decline will persist into 2022, but we expect supply chain issues will diminish in severity as the year progresses, translating to rise for Production by mid-2022
- Consumer demand for vehicles is robust and will drive Production as supply hurdles are cleared

MANUFACTURING

- Annual US Total Manufacturing Production was up 6.2% from the year-ago level in November
- The majority of manufacturing segments will undergo either slowing growth or mild recessions at the bottom of this business cycle
- For the overall manufacturing sector, expect a 2022 characterized primarily by slowing growth

ROTARY RIG

- The US Rotary Rig Count averaged 535 units in the three months through November, up 89.6% from the same period one year ago
- Though down in recent weeks, oil prices are still well above the cost of extraction; this will incentivize exploration and drilling, boding well for the Rig Count
- World Oil Demand is still outpacing supply, which will encourage exploration activity in 2022

CAPITAL GOODS NEW ORDERS

- US Nondefense Capital Goods New Orders (excluding aircraft) in the 12 months through October totaled $897.3 billion, up 14.6% from the same period one year ago
- The US Business Confidence Index signals an imminent transition to slowing growth for New Orders
- Be aware of the potential for canceled orders on the back side of the business cycle; ensure your cancellation policies protect your bottom line

TOTAL NONRESIDENTIAL CONSTRUCTION

- Annual US Total Nonresidential Construction has flattened in recent months
- When adjusted for inflation, Construction is declining, but the robust macroeconomic recovery in 2021 bodes well for Construction in 2022 given typical lead times
- The federal infrastructure bill bodes well for longer-term spending in areas such as water/wastewater and roads, but it will take time for projects to commence and funds to flow

TOTAL RESIDENTIAL CONSTRUCTION

- Annual US Total Residential Construction was up 23.3% in October, tentatively transitioning to a slowing growth trend
- Business cycle decline in US Housing Unit Building Permits and US New Homes Sold signals momentum will continue to diminish for Construction
- Very low inventories of existing homes and still-low interest rates will help moderate the downward business cycle momentum in this sector

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A Closer Look: The US Economy

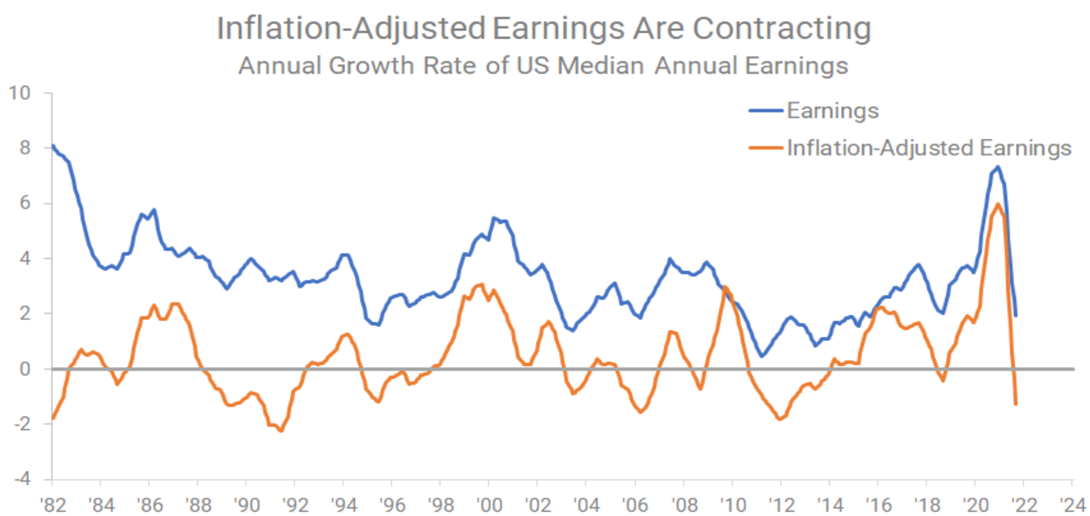
Consumers Contend With Inflation Squeeze

BY: GRACE SCHATZ

What you need to know: With consumer purchasing power diminished, employers will face pressure to raise wages

Consumer purchasing power was elevated in the early days of the pandemic, but the tables have turned. Supply chain issues and stimulus have driven prices higher while employers have been unable or unwilling to raise wages at the same pace. The pressure will be on for employers in 2022 as employees continue to shop the job market for better wages and benefits.

US Median Annual Earnings are up 137.8% over the last 30 years. Accounting for the impact of inflation, the increase is 18.8% (an average of 0.6% per year). As of late, however, wages are not keeping up with inflation. Over the last 12 months, median-earning workers lost 1.3% of their purchasing power (orange line on chart) relative to the same 12 months one year earlier. The recent quarterly data shows even more acute decline. We expect annual consumer prices to accelerate further into mid-2022, which will put pressure on employers to raise wages at an accelerating rate throughout 2022.



Consider the following in your planning as you look forward to 2022:

- As long as consumer prices continue to rise faster than wages, business will be under pressure to pay their employees more. Prepare for higher labor costs and review your compensation packages regularly. Ensure that your pay and benefits are sufficient for both retaining your existing employees and attracting new talent. If your business trends with the overall economy, there will likely be growth opportunities over at least the next three years, provided you have the capacity to take on the work.

-If your business is heavily dependent on retail spending, be aware that consumers may be able to buy less relative to their earnings than in 2021. Today, Retail Sales are at a record high even when adjusted for inflation. Though the pandemic wrought changes in the types of goods and services demanded by consumers, they have been willing and able to spend. However, inflation is eroding consumer spending power and, consequently, may impact the quantities and types of products demanded from your business in 2022.

- Inflationary pressures are likely to be less severe in 2022. While the upward pressure on wages is likely to remain throughout the year, prices for goods will rise more slowly starting in 2022. This could give consumers some relief from the recent decline in their spending power.

Despite the recent erosion of purchasing power, it is important to note that inflation-adjusted earnings are just 6.2% below the record-high level, and prior elevated savings rates – as well as current low debt levels and delinquency rates – signal solid financial footing for the consumer. Keep this perspective in mind as you plan. Mild year-over-year decline in the value of the earned dollar should not overly detract from the bigger picture of healthy consumer finances and a propensity to spend, which will likely contribute to rising economic activity next year.

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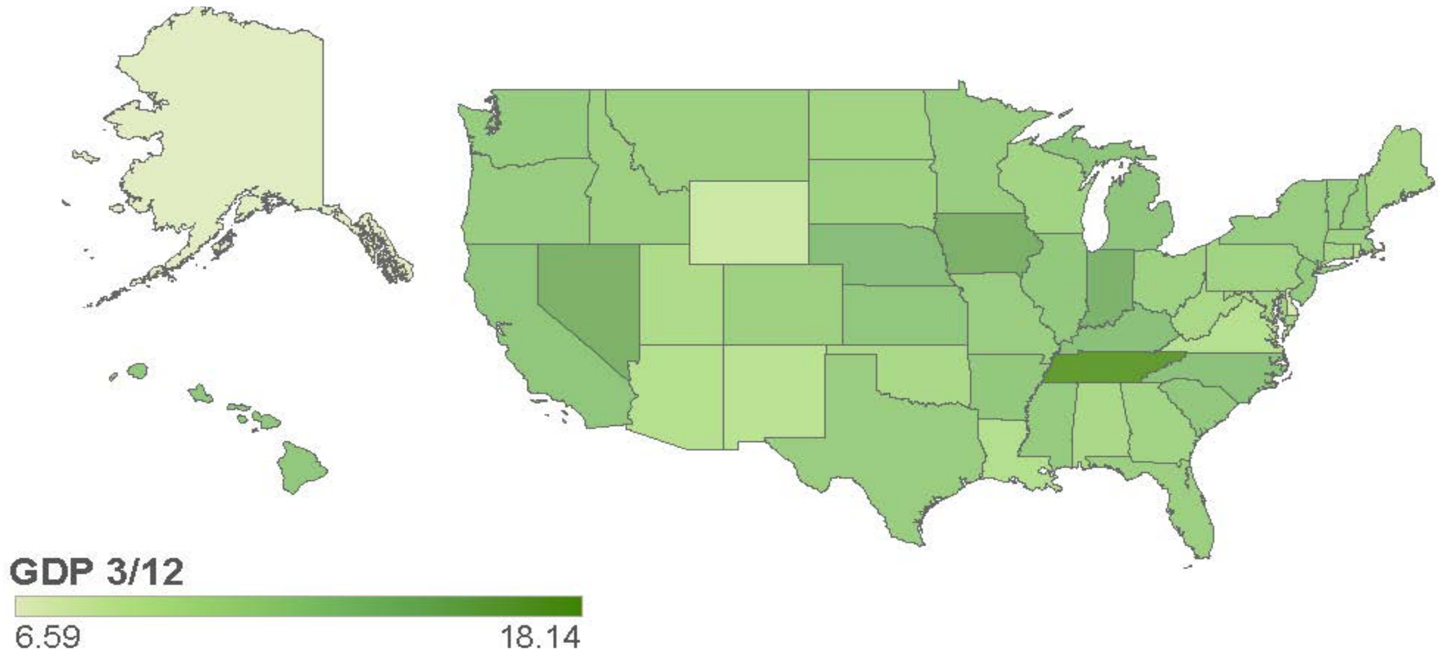
State-by-State: GDP



- US Real Gross Domestic Product (GDP) transitioned to a slowing growth trend in the third quarter of 2021. The drop in the growth rate, from 12.2% in the second quarter to 4.9% in the third quarter, may seem alarming at first glance but, in context, is not cause for concern. The second quarter's 12.2% was a reflection of growth relative to the second quarter of 2020, which was the low point for economic activity amid the full brunt of the COVID-19-related shutdowns.
- Similarly, with data available through June, all 50 states are individually exhibiting accelerating GDP growth – and the majority are posting double-digit rates of growth – but we expect third-quarter data, when it becomes available, will show slowing growth for most if not all.
- We expect slowing growth will characterize US Real GDP and most state-level GDPs in 2022.

Reader's Forum

What does ITR expect for inflation in 2022?

Sara Aybar, Economist at ITR Economics™, answers:

Our clients have expressed a lot of concern about inflation. The high inflation we are experiencing today can be unnerving, but the economic evidence shows we can expect both consumer and producer inflation to begin easing in 2022. Our system of leading indicators is signaling that demand-side pressures will begin to soften next year. Meanwhile, firms are building out capacity, and we expect the supply chain logjam will loosen incrementally as 2022 progresses. Demand that is less robust plus supply that is more accommodative will lead to pricing pressures that are more moderate.

Please send questions to: questions@itreconomics.com