Industry Snapshots

Arrow denotes 12-month moving total/average direction.

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

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

Macroeconomic Outlook

The economy is proving to be relatively resilient to headwinds, though some cracks are forming. US Real GDP grew in the first quarter of the year, but growth is slowing. Annual average US Industrial Production is slightly below year-ago levels, and we anticipate that it will trend flat with a downward bias into the end of this year. Be aware that some segments of the industrial sector will be hurt by new tariffs while others will benefit.

Inflation, as measured by US Consumer Prices, is generally easing, though it has been stubbornly persistent in recent quarters. In May, inflation came in at 3.3%, down a tenth of a percentage point from its April reading. Inflation has oscillated just above 3.0% for most of the last year. We expect inflation to ease – but with price levels continuing to climb – into the middle of 2025. Should inflation be stickier than anticipated in the coming months, the expected interest rate cut by the Federal Reserve later this year may be in question.

Consumer metrics are somewhat mixed. Credit card debt per household as a percentage of median annual earnings is rising, but it is still below the pre-COVID 10-year average. The savings rate is falling and was 3.6% in April, far below the pre-COVID 10-year average of 6.2%. Still, real personal incomes are rising, albeit at a below-average pace. Consumer spending is also rising, likely bolstered by credit card activity. Consumers' inclination to continue spending in the face of rising household debt could be the result of a relatively tight labor market. Taken together, these datapoints paint a picture of a consumer increasingly under strain but not at the breaking point.

US Single-Unit Housing Starts, a bellwether for the macroeconomy, are accelerating in growth, though affordability constraints will likely push Housing Starts into slowing growth territory in the near term. Alternatively, US Private Nonresidential Construction has begun to slow in growth, led by prior slowing growth in the residential sector, which leads Nonresidential Construction by two years. If your business is exposed to the construction sector, keep these disparate trends and lead times in mind.

> *"Now is the time to assess your labor or business needs ahead of expected macroeconomic rise in 2025."*

Business-to-business spending is rising mildly but will plateau with a downward bias into the end of this year. The high-interest-rate environment is dragging on spending for many business sectors, though high-tech components present an area of opportunity. Determine how your business aligns with the high-tech sector and plan for opportunities accordingly.

Now is the time to assess your labor or business needs ahead of expected macroeconomic rise in 2025. Determine which goods and services will perform best in an accelerating growth environment and develop a gameplan to showcase them.

Make Your Move

As we inch closer to 2025, an expected period of growth, think about which products and services will perform best in a mild-to-moderate macroeconomic growth environment. Between now and 2025, develop a plan to highlight these products and services and then pinpoint the appropriate time to roll them out.

Investor Update

The stock market shrugged off its losses in April, ending May at a record high. Gains in real wages and government spending are helping support the market and the economy. However, be aware the quarterly growth rate for the S&P 500 is beginning to tentatively edge downward, a downside threat to monitor as investors moving into the back half of 2024.

ITR Economics Long-Term View

2024	2025	2026
RETAIL GROWTH; INDUSTRIAL FLAT	GROWTH	SLOWING GROWTH

Leading Indicator Snapshot

	3Q2024	4Q2024	1Q2025
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

- Rise across a number of our key leading indicators supports our forecast for economic growth in 2025 to be more robust than in 2024.
- The strength of leading indicator rise is weak in some cases, lending support to our forecast for 2025 rise to be milder than in the stimulus-induced growth period of 2021-22, for example.
- The ITR Retail Sales Leading Indicator™ rose in May. Consumers continue to increase their spending, as rising incomes amid a tight labor market support higher spending levels.
- Notable downside threats to the economy include sustained high interest rates, a still-inverted yield curve, and inflation-adjusted consumer savings running below the long-term trend. The knock-on effects of government spending are an upside threat.

Industry Analysis

RETAIL SALES

- US Total Retail Sales in the 12 months through May were 3.3% above the year-ago level
- Consumers are showing some signs of strain through falling savings
- Expect contraction in retail spending to be avoided this cycle, primarily due to middle-to-upper-income consumers; lower-income consumers are likely feeling more pain from ongoing inflation and high interest rates

WHOLESALE TRADE

- US Total Wholesale Trade in the 12 months through April was 0.6% below the year-ago level and is in a recovery trend
- The durable goods component is accelerating in growth
- The nondurable goods component remains below year-ago levels, primarily due to its petroleum and chemicals components

AUTO PRODUCTION

- Annual North America Light Vehicle Production in April was 8.7% above the year-ago level
- Many prospective car buyers may opt for used vehicles given the high cost of new cars; we expect growth in the near term, followed by a plateau with a downward bias into mid-2025
- It is likely that a portion of consumers are avoiding car purchases at this time given financing costs

MANUFACTURING

- US Total Manufacturing Production in the 12 months through May was 0.5% below the year-ago level
- Our ITR Leading Indicator™ is rising, signaling that the downturn will be relatively mild and that 2025 is likely to be a stronger year than 2024
- The high-tech portion of industrial activity—which includes communications equipment, computers, and semiconductors—is growing at a double-digit clip

ROTARY RIG

- The average Rotary Rig Count for the three months through May fell to 615, 17.4% below the same period one year ago
- US Oil and Gas Extraction Production is rising but slowing in growth
- Oil prices above the cost of extraction will keep output rising, but expect a conservative approach from drillers given the softening economic backdrop

CAPITAL GOODS NEW ORDERS

- US Nondefense Capital Goods New Orders (excluding aircraft) in the 12 months through April ticked up and were 1.1% above the year-ago level, though the overall trend is one of slowing growth
- Business-to-business spending will plateau with a downward bias this year
- US Defense Capital Goods New Orders in the 12 months through April were 5.0% below the year-ago level and have tentatively entered recession

TOTAL NONRESIDENTIAL CONSTRUCTION

- Annual US Total Nonresidential Construction in April was 19.3% above the year-ago level; growth is slowing
- Prior trends in corporate profits and overall economic activity—both leading indicators to Construction—signal the further slowing of growth on the horizon for Construction
- Any changes in monetary policy this year will have a long, lagged impact on Construction

TOTAL RESIDENTIAL CONSTRUCTION

- Annual US Total Residential Construction rose in April but was 1.1% below the year-ago level; Construction is in recovery
- Starts activity for single family homes (up 13.9% year over year) is trending in the opposite direction of multi-family homes (down 30.1%)
- The tight housing market indicates a need for more construction in the longer run

A Closer Look: The US Economy

Inflation and the Pricing Cascade (Prices, Prices, Prices!)

JENNA ALLEN

What you need to know: Finished producer prices will trend relatively flat in 2024 before rising through 2026. Pay attention to price trends upstream from your business and act now to combat longer-term inflationary pressures and margin squeeze.

Pricing has been a consistent focal point for businesses and consumers since COVID-19, and the associated supply chain bottlenecks and economic stimulus led to a jump in price levels. With mixed sentiments around inflation in the news and a vast range of pricing metrics to follow, it can be hard to decode where prices are going in the coming years and determine how are they going to impact your business. Here are some things we want you to know.

THE PRICING CASCADE

Pricing trends move like a cascade through the supply chain, and we can generally expect inflation to vary across the stages of production. Commodity prices filter into the price of unprocessed and processed intermediate goods, which then feed into the finished goods prices paid by producers. Prices tend to be stickier as you move further downstream. Downstream prices also bake in more and more labor costs. Ongoing labor shortages suggest starker cost differences between the stages of production than in the prior decade.

COMMODITY PRICES

Commodity prices are generally trending lower than they did during the tight supply constraints of recent years. However, certain commodity prices are edging upward. In May, oil prices were up by 11.9% compared to the year-ago level, and copper prices were up by 26.5%. Supply concerns given robust demand are driving copper prices upward, especially given copper's critical role in the EV and energy markets.

Renewable energy and electrification trends suggest we can expect more strain on the electric grid in coming years. Increasing adoption of AI, while potentially relieving some labor challenges, will also require more energy – indicating a potential for higher electricity costs in the future.

INTERMEDIATE AND FINISHED GOODS PRICES

Prices for both unprocessed and processed intermediate goods have generally declined over the past two years. Rate-of-change rise suggests intermediate prices are headed toward recovery.

Conversely, US Producer Prices for finished goods, though slowing in their rate of ascent, are rising. We expect Producer Prices to plateau this year at a level about 26% above the pre-COVID price point. Producer Prices will then rise further in 2025 and 2026. We expect another surge of inflation through the remainder of the decade, driven by debt-funded fiscal policies, tight labor conditions, and higher energy prices.

Indicator	Quarterly Growth Rate*	Phase
The Pricing Cascade		
Intermediate Unprocessed Goods	-4.3%	Recovery
Intermediate Processed Goods	-2.4%	Recovery
PPI for Finished Goods	2.1%	Accelerating Growth
Key Commodities Prices		
Aluminum	8.1%	Accelerating Growth
Iron & Steel	-9.1%	Recession
Crude Oil	10.0%	Accelerating Growth
Copper	13.3%	Accelerating Growth
Electric Power	3.4%	Slowing Growth

* The quarterly growth rate is equal to the average of the most recent three months of data compared to the same three months one year prior.

WAGE INFLATION

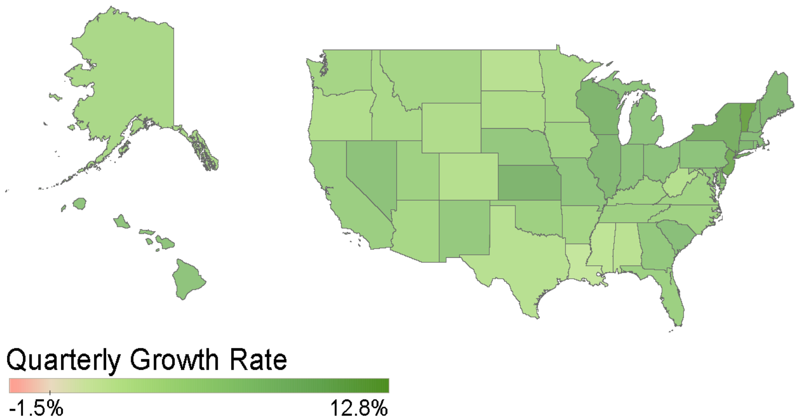
Labor shortages are impacting all of North America. Compared to pre-pandemic levels, manufacturing, trucking, and construction wages are up by 19% to 22%. To remain competitive, businesses may need to offer higher wages.

While slowing economic growth and declining job openings signal a softening labor market, any margin relief from slower rise in labor costs is likely to be brief, as current demographic trends suggest that labor will remain a challenge for years to come. This, along with the general inflationary pressures mentioned above, means that margins could be under strain for the remainder of the 2020s.

WHAT TO DO AS A BUSINESS

Look to track the relevant prices upstream from your business to stay ahead of trends coming your way. Current and forthcoming rise in certain commodity prices could be a pain point depending on where your business is in the supply chain. Your best bet for tackling margin pressures may be to optimize your operations, potentially recruiting the help of AI or other technologies along the way. If your business is energy-intensive, consider adopting more efficient processes to circumvent high energy costs.

State-by-State: Prices



- US Home Prices rose by 6.8% from the first quarter of 2023 to the first quarter of 2024.
- Prices rose the fastest largely in the greater Northeast, with all six New England states in the top 15 in terms of quarterly growth rate. New York, New Jersey, and Delaware were each in the top five, and all three grew at a double-digit pace.
- The greater Northeast's service-sector-intensive economy and limits on available land for development could be helping boost Prices in the region.
- Alabama, Mississippi, and Louisiana saw the weakest rise in home values, each growing between 2.2% and 3.2%. Washington DC was the only region covered in this map to experience Home Prices decline over this period.

Readers' Forum

With the European Central Bank cutting rates recently, what are the implications for future Fed decisions?

Haley Sienkiewicz, Economist at ITR Economics™, answers:

The European Central Bank cut their interest rate by 25 basis points in June, its first cut in some time. The Federal Reserve, on the other hand, opted to leave rates unchanged in June, citing the "solid pace" of economic expansion and "strong" job market. The difference in these policy actions is partially a result of differing economic conditions. Simply put, the EU has to worry more about economic growth than the US does, and the US is more concerned about inflation. While we think the Fed will eventually cut rates, those different economic conditions mean that a Fed rate cut will not likely occur until late this year, with the possibility of slippage into 2025.

One key difference between the US and Europe is the strength of their respective economies and labor markets. Fourth quarter 2023 EU Real GDP was flat compared to one year ago, whereas the first quarter US Real GDP came in 2.9% above one year earlier. Unemployment in the EU (a seasonally adjusted 6.4% in April) was significantly higher than the US' reading of 4.0% in May. While the structural differences between the two economies normally result in higher EU unemployment, the EU central bank is likely more worried about supporting the labor market right now than the Fed is.

Inflation targets for both the ECB and the Fed are the same: 2.0%. Consumer inflation in the EU in April was 2.6% year over year, with inflation in the US running higher in May, at 3.3%. While the US is not far off from its 2.0% target, progress has been slow of late. Inflation in the Euro Area, on the other hand, has been trending downward more consistently, giving the ECB confidence that their 2.0% is not far off, a confidence that the Fed is lacking at this time.

Please send questions to: questions@itreconomics.com