Industry Snapshots

Arrow denotes 12-month moving total/average direction.

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

Steep Rise | Mild Rise | Flat | Mild Decline | Steep Decline

Macroeconomic Outlook

US Real Gross Domestic Product (GDP) returned to record-high territory, expanding by 0.64% from the second to third quarter after posting mild contraction for the first two quarters of 2022. GDP's third-quarter rise stemmed from multiple components. Consumer spending expanded on net, with rise in spending on services offsetting decline in spending on goods. The trade deficit, which had been generally growing since mid-2020, shrank in the third quarter, and government expenditures and investments rose. Private investment, which includes investment in intellectual property and construction, declined. Generally speaking, GDP has been relatively flat this year, and we expect this flatness to persist in the coming quarters.

The Federal Reserve lifted rates in early November for a total increase of 375 basis points year to date. Rising interest rates have the potential to hinder consumer spending, capex, and other investments. However, rising interest rates' adverse impacts are not often immediate; the risk is greater to our longer-term GDP outlook than to the 2023 outlook. For your business, understand that higher borrowing costs are not necessarily reason to halt investments. Given the tight labor market, investments that will help limit your dependence on labor will likely prove worthwhile, as will those that improve your efficiencies.

The Federal Reserve's actions are also spurring rise in mortgage rates. 30-Year Fixed Mortgage Rates have surpassed 7%, a level not seen in just over 20 years. US New Homes Median Sales Prices, at $470 thousand as of September, are just below the July record high. Taken together, these affordability constraints are softening demand in the residential construction market. Single-Unit Housing Starts, below year-ago levels, are contracting and likely to trend below 2021 levels next year. Multi-Unit Housing Starts are faring better. Multi-Unit Starts will mildly decline during the first half of 2023, but the market will remain generally strong as affordability issues keep some consumers from entering the Single-Unit market. While trends will vary by region, you will likely find relatively greater opportunity in the Multi-Unit market next year.

"For your business, understand that higher borrowing costs are not necessarily reason to halt investments."

We will not see a pricing crash in housing – very tight inventories and low homeowner vacancy rates will keep prices elevated – but we are beginning to see pricing corrections in areas that posted rapid housing price increases throughout the pandemic. Affordability constraints, however, will linger. If your business is related to residential construction, understand that the booming housing market of 2021 is shifting. Make sure you account for this while planning for your business.

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Make Your Move

To avoid "profitless prosperity," your business will need to make gains in efficiency and labor productivity. Look to improve your company's processes where possible.

Investor Update

The S&P 500 Stock Prices Index ended October within approximately 2% of the month-end August level but down 18.8% year to date. Investors have responded to the volatility by reducing their portfolio allocations to stocks.

ITR Economics Long-Term View

2022	2023	2024
SLOWING GROWTH	SLOWING GROWTH	GROWTH

Leading Indicator Snapshot

	4Q2022	1Q2023	2Q2023
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 lower in October, signaling that the US industrial sector is likely to remain on the back side of the business cycle through at least the first half of 2023.
- General decline signals from the US Total Industry Capacity Utilization Rate and the US ISM PMI (Purchasing Managers Index) rates-of-change also suggest the industrial sector will be on the back side of the business cycle through at least the first half of 2023.
- The ITR Retail Sales Leading Indicator™ moved lower in October, suggesting that waning momentum in US Total Retail Sales will likely persist in the coming quarters.

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Industry Analysis

RETAIL SALES

- Annual US Total Retail Sales came in 11.7% above the year-ago level in September
- Consumer credit delinquencies are low, a testament to stable consumer financials
- Disinflation in Consumer Prices will help ease some of the pricing pressures on consumers

WHOLESALE TRADE

- US Total Wholesale Trade came in at $8.1 trillion in the 12 months through September, 20.2% above the same period one year ago
- Declining prices of commodities such as steel will put downward pressure on dollar-denominated Wholesale Trade
- Cooling in the macroeconomy will also contribute to slowing growth in Wholesale Trade

AUTO PRODUCTION

- Annual North America Light Vehicle Production tentatively transitioned to accelerating growth in September, coming in 3.0% above the year-ago level
- Accelerating growth will persist into the middle of 2023; slowing growth will take hold for the second half of that year
- Delivery times for semiconductor chips are shrinking, boding well for Production

MANUFACTURING

- US Total Manufacturing Production in the 12 months through October was 4.0% above the same period one year ago
- Annual Production is projected to expand during 2023
- However, a sustained inversion in the 10-year to 3-month Treasury yield curve could pose a risk to Production in the longer term

ROTARY RIG

- The US Rotary Rig Count was at 768 units in October
- While rising, the Rig Count remains well below the 2018 peak
- US Drilled But Uncompleted Well Inventory is at its lowest in the 13-year data history; elevated oil prices suggest a higher likelihood of completion for some of these wells

CAPITAL GOODS NEW ORDERS

- Annual US Nondefense Capital Goods New Orders (excluding aircraft) came in 10.2% above the year-ago level in September
- New Orders are poised to reach further record highs throughout 2023 but will do so at a slowing pace of rise
- Rising interest rates may deter capex spending, a potential risk to New Orders rise

TOTAL NONRESIDENTIAL CONSTRUCTION

- Annual US Total Nonresidential Construction came in 2.8% above the year-ago level in September
- Expect growth in Construction in the coming quarters as supply chain challenges ease
- US Construction Materials and Components Producer Prices have retreated very mildly in recent months from August's record high

TOTAL RESIDENTIAL CONSTRUCTION

- US Total Residential Construction, which is dollar-denominated, is rising at a slowing pace
- High mortgage rates and elevated home prices are contributing to US Single-Unit Housing Starts – measured in units rather than dollars – falling below year-ago levels
- US Multi-Unit Housing Starts are faring better, as vacancies are low and affordability constraints are keeping would-be homebuyers in the rental market

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A Closer Look: The US Economy

Post-Midterms Economic Outlook

BY: CONNOR LOKAR

What you need to know: We pay attention to policy, not party, and are closely watching the Federal Reserve

With the US midterm elections behind us – pending a runoff election in Georgia for the final US Senate seat – we have fielded a number of questions on what economic impacts we see in the aftermath. The short answer: not much has changed in our view. That's not to say we do not pay attention to political shifts, because we certainly do, but it requires a nuanced approach.

Before we get started, I will reiterate that ITR is a nonpartisan, nonpolitical outfit, and we do not play the preference game when it comes to political party. Our historical analysis has shown that this is the prudent approach. Perhaps the most reliable economic insight through the lens of politics is that both sides, when in charge of things, are guilty of rampant deficit spending, a disheartening tendency that factors into our glum outlook for the end of this decade. Other than that, we have not found much by way of consistent economic trends by party.

Policy, however, can make for a more interesting discussion. The results of the midterms indicate a slight Republican majority in the House and either a 50-50 split or one-seat Democratic majority for the Senate. The split chambers will likely yield a slowdown in legislative change relative to the last couple of years. A Republican-held House is less likely to sign off on major pieces of legislation and could set us up for relative gridlock compared to 2021 and 2022, years that included several large pieces of legislation and spending.

Views on gridlock are mixed. Some of our clients have benefited or will benefit from spending associated with previously passed legislation such as the American Rescue Plan, the infrastructure bill, and CHIPS Act; they may be dismayed by the prospect of a probable slowdown in new government spending in those areas.

On the other hand, well-intentioned government policy can and often does come with unintended consequences, so a slowdown in new legislation is not always a bad thing. A gridlocked political environment could reduce the probability of large policy-based splashes in what will already be somewhat turbulent economic waters in 2023 as the US and global economies decelerate.

The policy ITR is most concerned with right now is the Federal Reserve's monetary policy. We have had an inversion in the 10-year to 3-month Treasury yield curve for multiple weeks now; statistical significance is approaching for that particular bond market signal. Our leading economic indicators continue to support our outlook for ongoing albeit slowing rise in the US economy next year, but the monetary policy variable will likely have much more to say about what happens with the US economy in the next two years than the midterm election results will.

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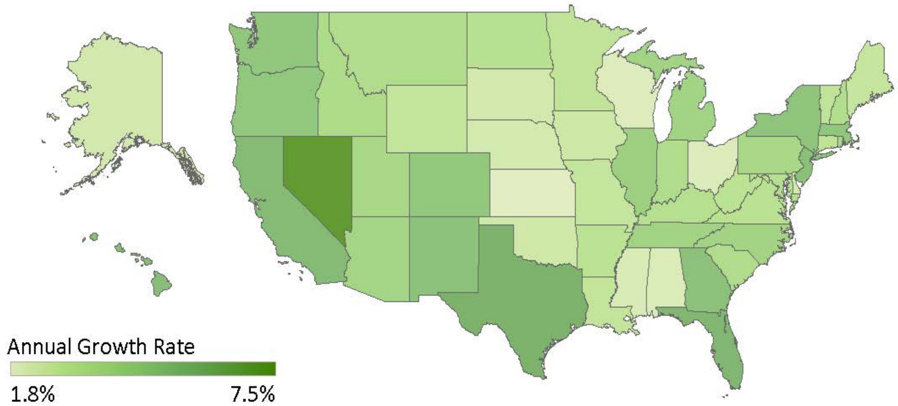
State-by-State: Employment



- US Nonfarm Employment in the 12 months through October averaged 151.2 million workers, up 4.3% from the year-ago level.
- Employment is tending to grow fastest in regions with strong demographic trends or larger tourism industries; Texas, Florida, Nevada, and Hawaii were among the top five states for Employment growth rates.
- In contrast, midwestern and central-region states such as Ohio, Kansas, and Wisconsin have posted some of the weakest Employment growth trends.
- We anticipate the labor market will remain tight in the coming quarters; job openings outnumber job seekers by roughly two to one according to the Bureau of Labor Statistics' latest figures.

Readers' Forum

We're having a hard time finding a sufficient number of qualified employees to grow our business. Do you expect this problem to continue? What can we do about it?

Sara Aybar, Economist at ITR Economics™, answers:

Many businesses, particularly in the manufacturing and construction industries, are feeling the impact of low unemployment on their hiring processes. Annual US Total Manufacturing Job Openings are at more than double the 10-year average, with 810 thousand openings in September, and annual US Total Construction Job Openings were at a record 390 thousand in September. We expect the labor market to remain tight in 2023, which will make finding qualified employees even more challenging next year.

It will be increasingly important to reevaluate your employee compensation packages. Make sure your wages, monetary benefits, and nonmonetary benefits are sufficiently competitive to both attract workers and retain your current labor force. By investing in training programs for 2023, as the economy continues to trend on the back side of the business cycle, you will improve the efficiency of your existing workforce while making your employees feel valued.

Finally, firms should research automation and how it can make their existing employees more productive. Consider investing in labor-saving technologies to keep your labor costs manageable.

Please send questions to: questions@itreconomics.com

Executive Series Webinar with Brian and Alan Beaulieu

The rise in inflation has been top of mind for many consumers and businesses. Even though commodity prices are currently deflating and consumer inflation is coming down, how long will they stay down? Tune in to our special Executive Series Webinar, "Disinflation – Re-inflation – the US Dollar," as we define disinflation, relate the current inflation outlook to ITR Economics' 2030 outlook, and help you prepare your business for the challenges ahead.

Join ITR CEO and Chief Economist Brian Beaulieu and ITR President Alan Beaulieu on Thursday, December 15, 2022, at 2:30 p.m. ET for a 90-minute live virtual keynote from ITR Studio A. Insider™ members can get an exclusive discount on the webinar by using the promo code INSIDER25 at check out. Claim your spot today; you won't want to miss it!

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