NAHAD 2023

39TH ANNUAL MEETING & CONVENTION

April 29 – May 3

ATLANTIS PARADISE ISLAND

Paradise Island, Bahamas

THE ASSOCIATION FOR HOSE AND ACCESSORIES DISTRIBUTION

Gauging the Risks Going Forward 2023 - 2024

Presented by ITR Economics Economist and Speaker Patrick Luce

ITR ECONOMICS
First In Forecasts Worldwide

2022 Forecast Results

ITR ECONOMICS

	Duration	Accuracy
US GDP	18	98.9%
US Ind. Production	18	98.9%
Europe Ind. Production	23	99.6%
Canada Ind. Production	24	99.5%
China Ind. Production	16	98.5%
Retail Sales	13	98.0%
Housing - Single Family	17	84.8%
Employment-Private Sector	13	98.7%

ITR Economics provides the best economic intelligence to reduce risk and drive practical and profitable business decisions.

A Powerful Management Tool • Rates-of-Change

ITR ECONOMICS

	Raw	3MMT	3/12	12MMT	12/12
Apr-21	5.971				
May-21	5.781				
Jun-21	5.681	17.4			
Jul-21	6.121	17.6			
Aug-21	5.872	17.7			
Sep-21	5.965	18.0			
Oct-21	6.089	17.9			
Nov-21	6.164	18.2			
Dec-21	6.253	18.5			
Jan-22	6.399	18.8			
Feb-22	5.917	18.6			
Mar-22	5.864	18.2		72.1	
Apr-22	7.240	19.0		73.3	
May-22	6.711	19.8		74.3	
Jun-22	6.958	20.9	19.9%	75.6	
Jul-22	7.274	20.9	19.1%	76.7	
Aug-22	6.473	20.7	17.2%	77.3	
Sep-22	7.013	20.8	15.6%	78.4	19.1%
Oct-22	6.839	20.3	13.4%	79.1	18.4%
Nov-22	6.787	20.6	13.3%	79.7	17.8%
Dec-22	6.635	20.3	9.5%	80.1	16.2%
Jan-23	6.601	20.0	6.4%	80.3	14.8%
Feb-23	6.230	19.5	4.8%	80.6	13.6%
Mar-23	5.940	18.8	3.3%	80.7	12.0%

3/12

Based on data from a consecutive 3-month period compared to one year earlier.

Anticipates shifts in business cycle trends.

12/12

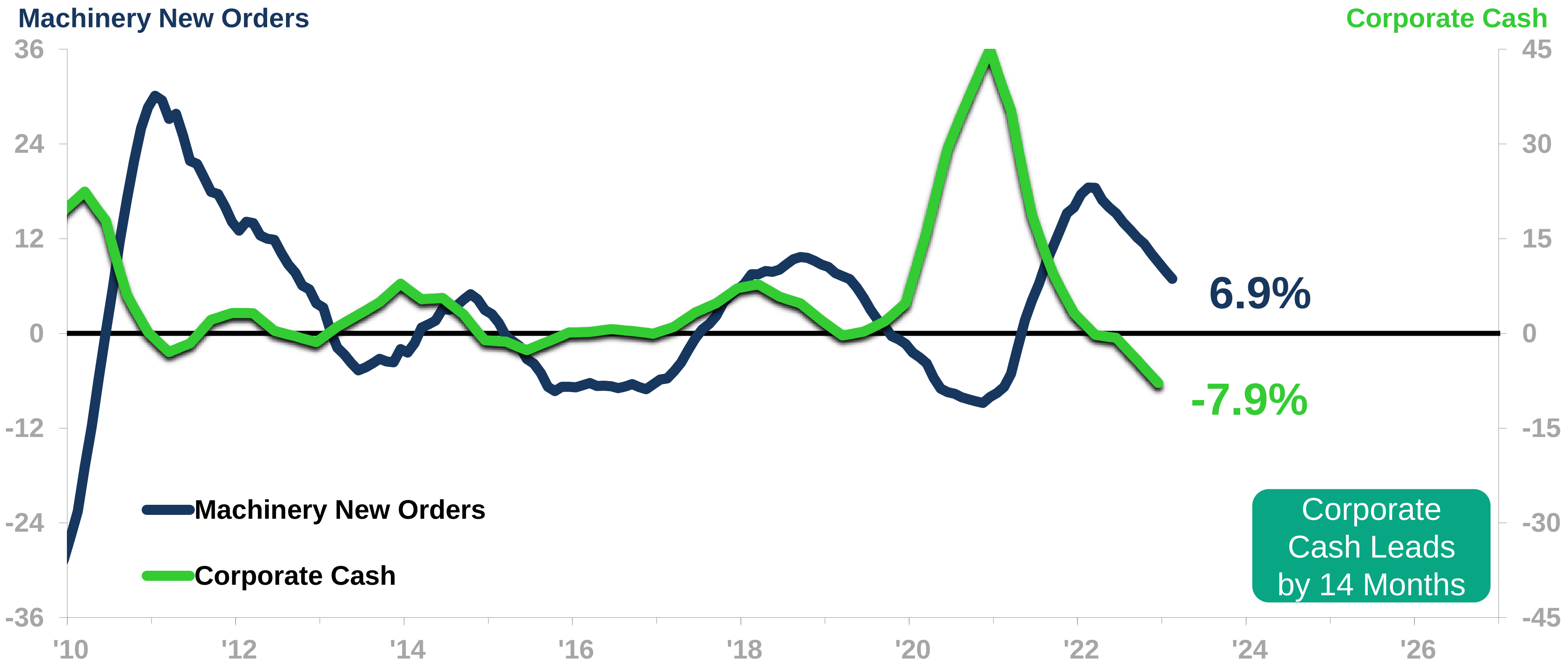
Based on data from a consecutive 12-month period compared to one year earlier.

Defines the business cycle.

Source: US Census Bureau

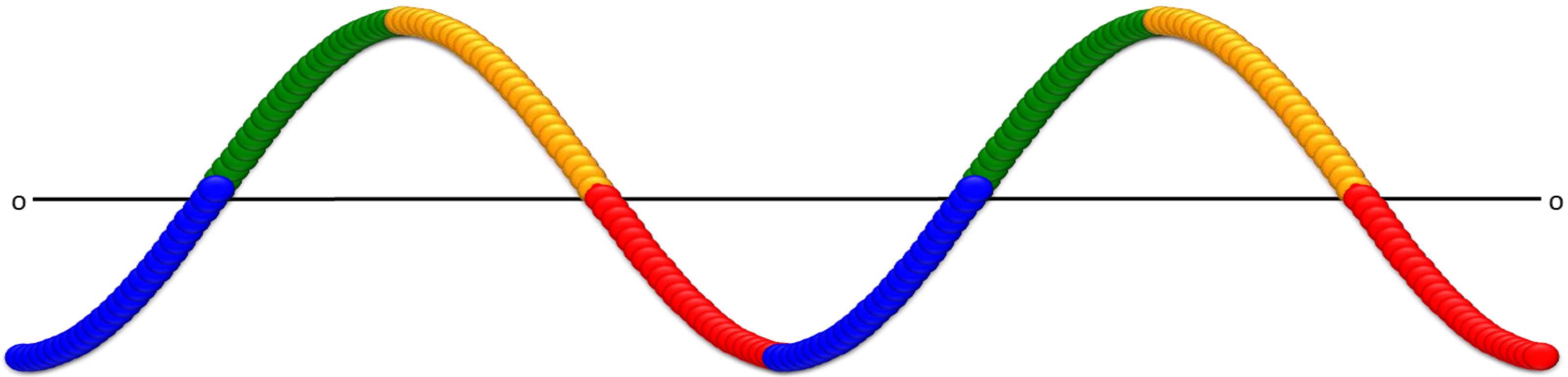
US Machinery New Orders to Total Corporate Cash for the US Manufacturing Industry

12/12 Rates-of-Change



Business Cycle Phases

ITR ECONOMICS



A
RECOVERY

Annual Sales are **BELOW** Year-Ago Levels, but the Rate-of-Decline is **SLOWING**

B
ACCELERATING GROWTH

Annual Sales are **ABOVE** Year-Ago Levels and are **GROWING** at a **RAPID** Pace.

C
SLOWING GROWTH

Annual Sales are **ABOVE** Year-Ago Levels, BUT the Rate-of-Growth is **SLOWING**

D
RECESSION

Annual Sales are **BELOW** Year-Ago Levels and are **DECLINING** at a **RAPID** Pace.

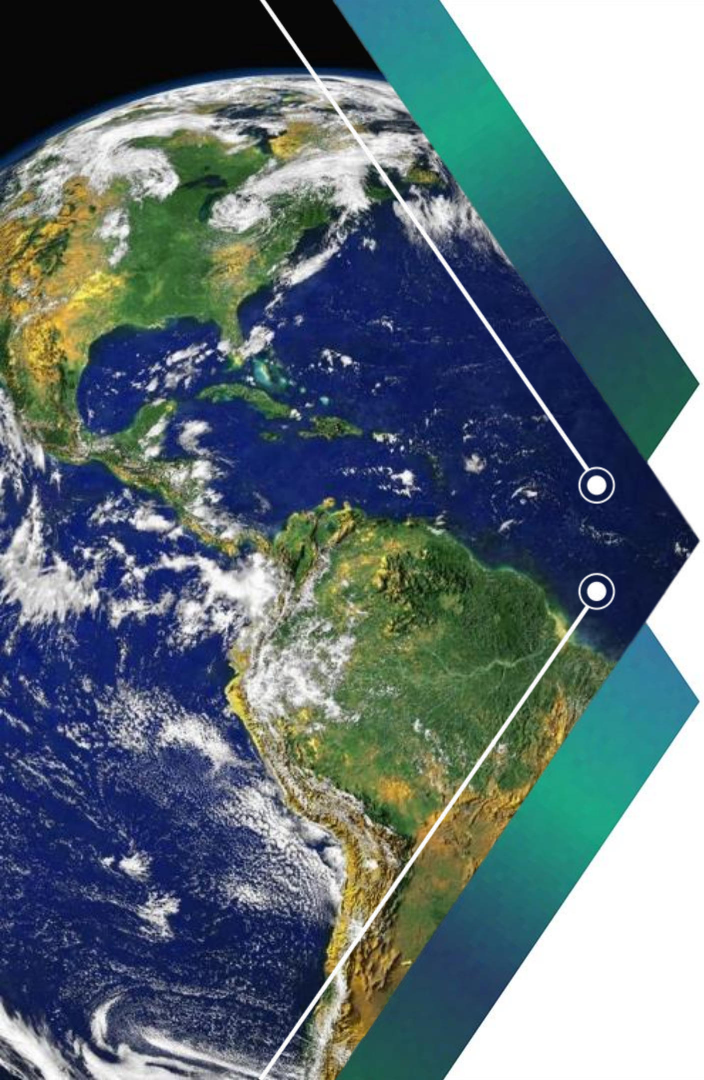
Phase C

Phase C – Decelerating Growth

1. Know if your markets are headed for a soft landing or a hard landing
2. Cash is king, beware of unwarranted optimism
3. Stay on top of aging receivables
4. Revisit capital expenditure plans

8. Go entrepreneurial and/or counter-cyclical
9. Evaluate your vendors for financial strength; if needed look for additional vendors as a safety net
10. If the cycle looks recessionary, cross-train key people to prepare for workforce attrition/reduction

Evaluate your vendors for financial strength; if needed look for additional vendors as a safety net



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Global Outlook

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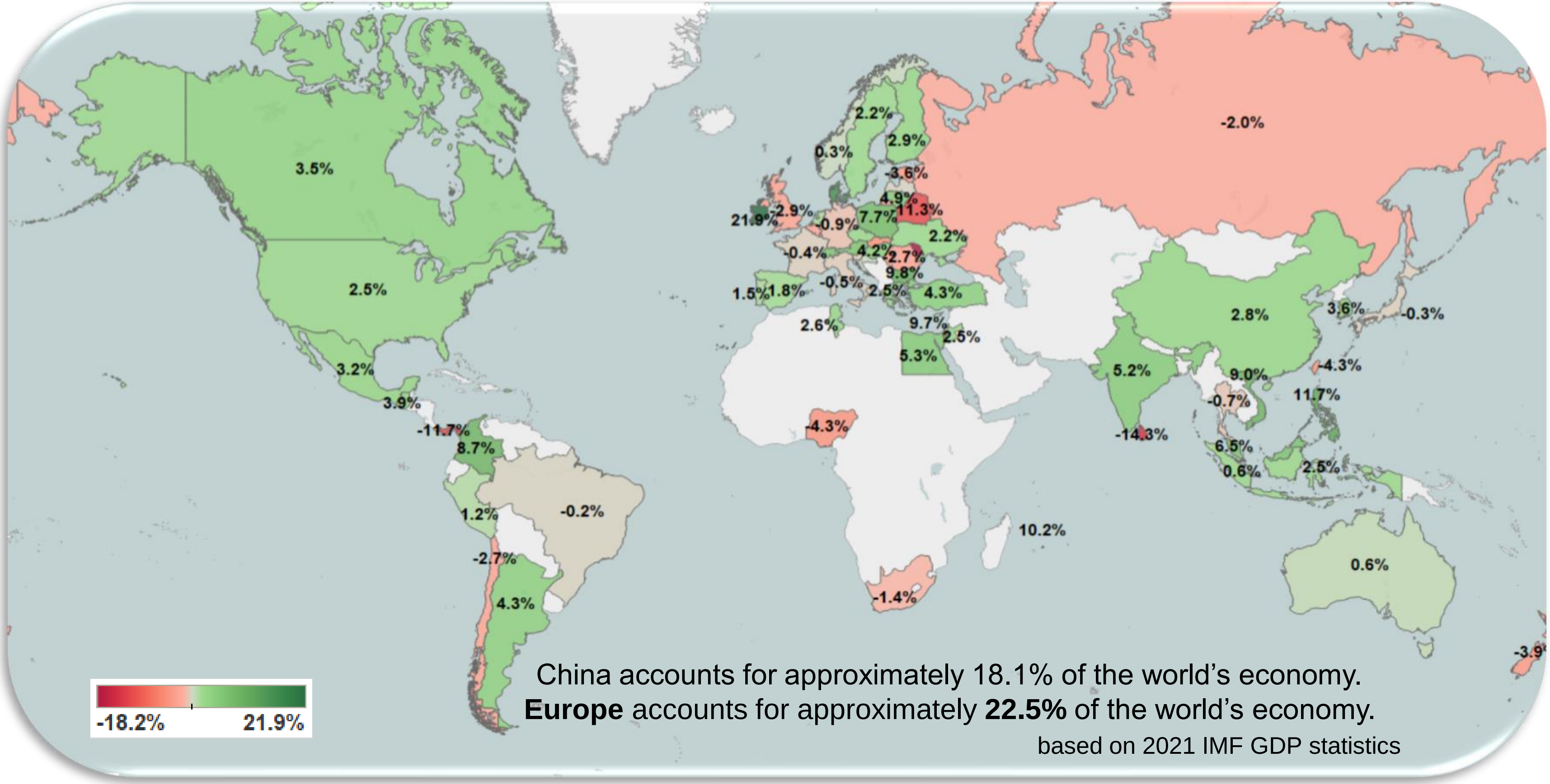
World Countries Industrial Production

Sources: FRB, Statistics Canada, Eurostat, China NBS, Macrobond

Year-over-Year Growth Rates, Percent

ITR ECONOMICS



China accounts for approximately 18.1% of the world's economy.
Europe accounts for approximately **22.5%** of the world's economy.

based on 2021 IMF GDP statistics

China is Weakening

Sources: China National Bureau of Statistics, FRB

China Industrial Production Index to US Industrial Production Index

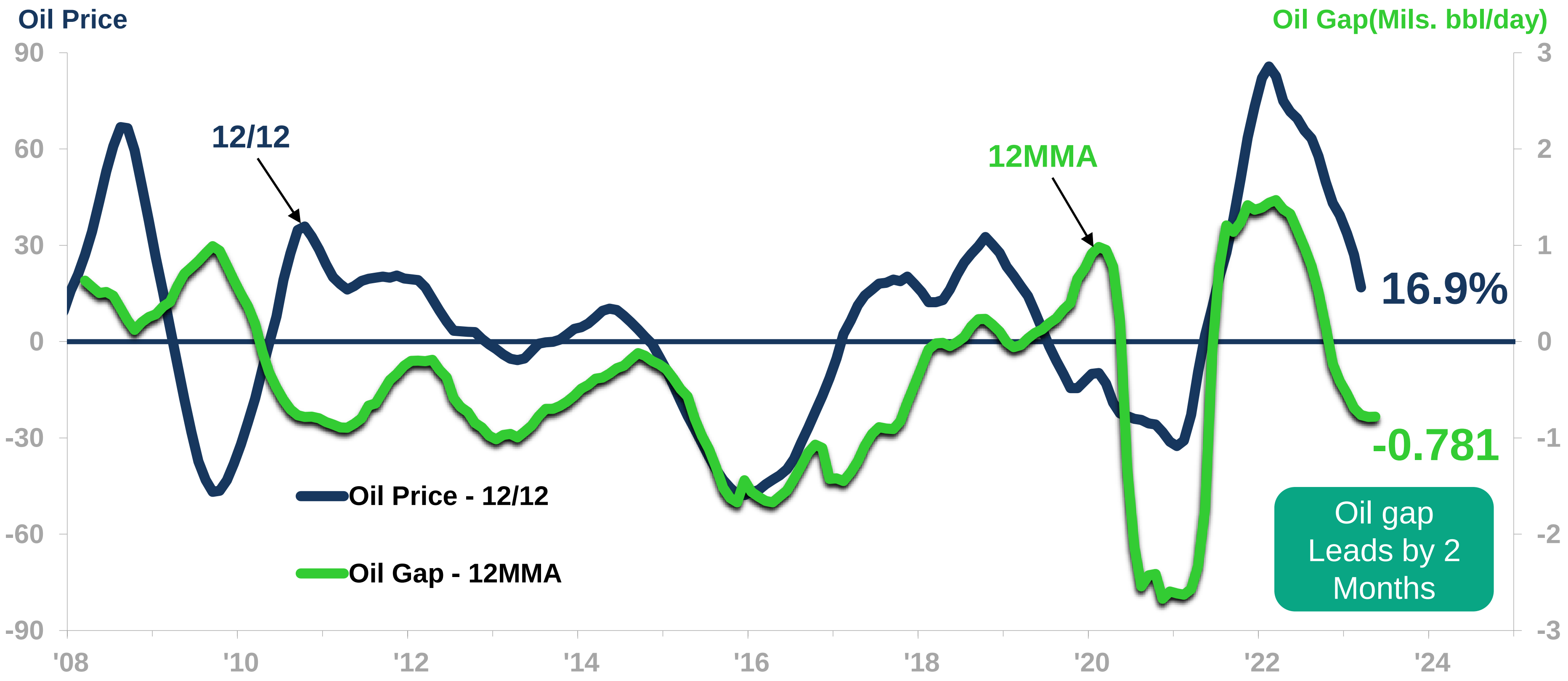
3/12 Rates-of-Change

OPEC Cuts Expected to Eat Away Some Excess Supply

Sources: EIA, OPEC

US Crude Oil Spot Prices to World Oil Gap

12/12 R-O-C to Annual Trend

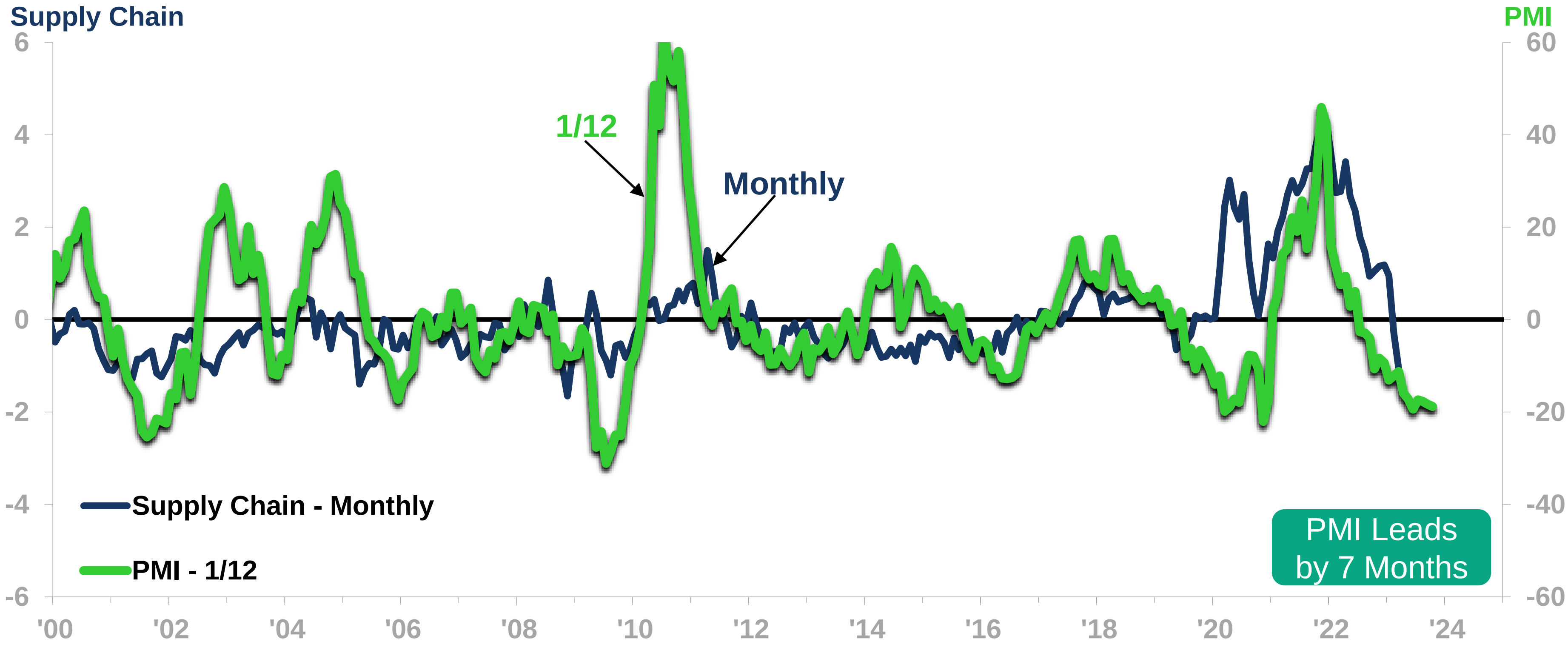


Slowing Economic Growth Means Less Supply Chain Pressure

Sources:
FRBNY, ISM

Global Supply Chain Pressure Index to US Purchasing Managers Index

Pressure Index, Raw to PMI 1/12 Rate-of-Change



Global Summary

ITR ECONOMICS

- China is becoming more of a problem going forward with mounting risks
- Russia is a hollowed-out version of its former self
- Nationalism is the long-term play

Next Steps

- Nationalism brings new business opportunities Develop a strategy to capitalize on the trend
- Lessen your reliance on China in the coming years

The US Economy

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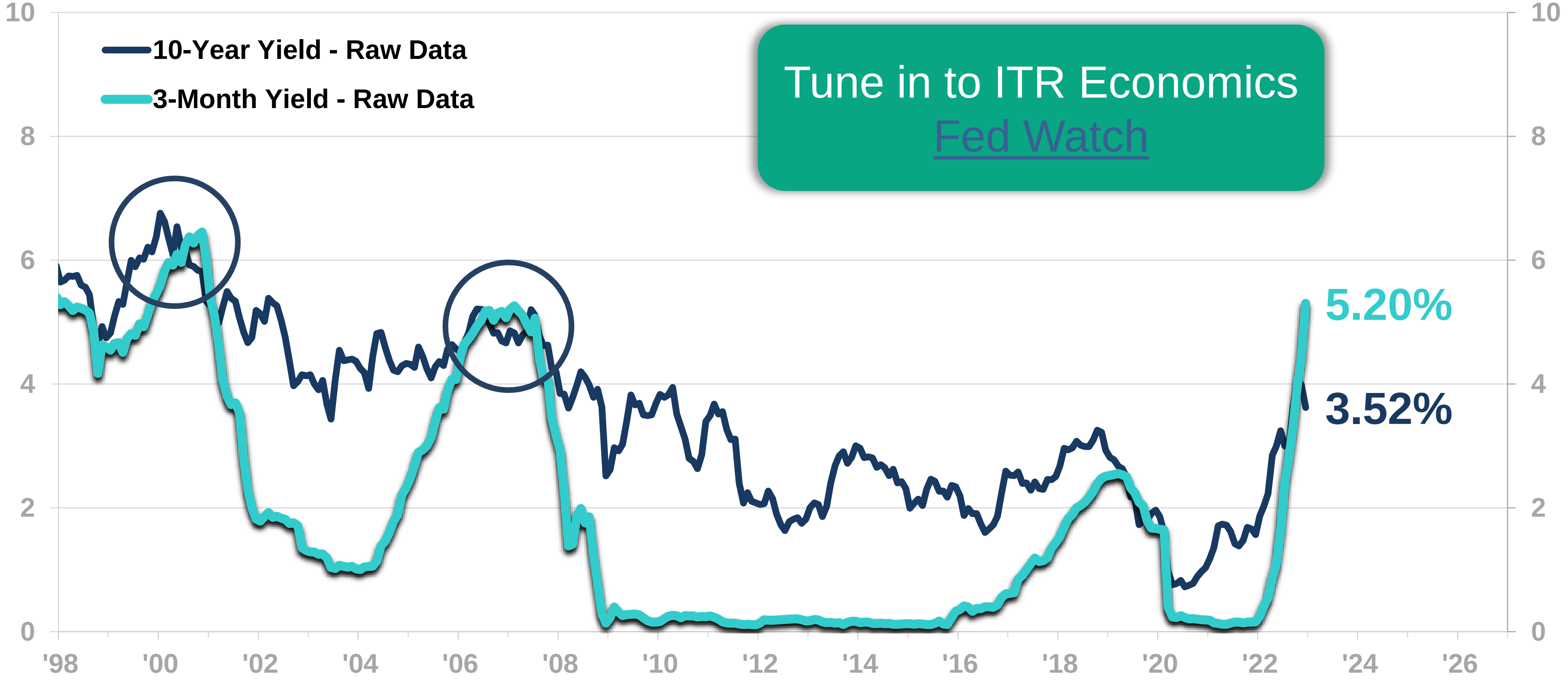
First In Forecasts Worldwide

Inverse Yield Curve in Place: Business Cycle Decline Ahead

Source: US Treasury Dept.

US Government Long-Term Bond Yields to US 3-Month Treasury Bond Yield

Raw Data: Percent



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Decelerating Rise Through Sep 2023

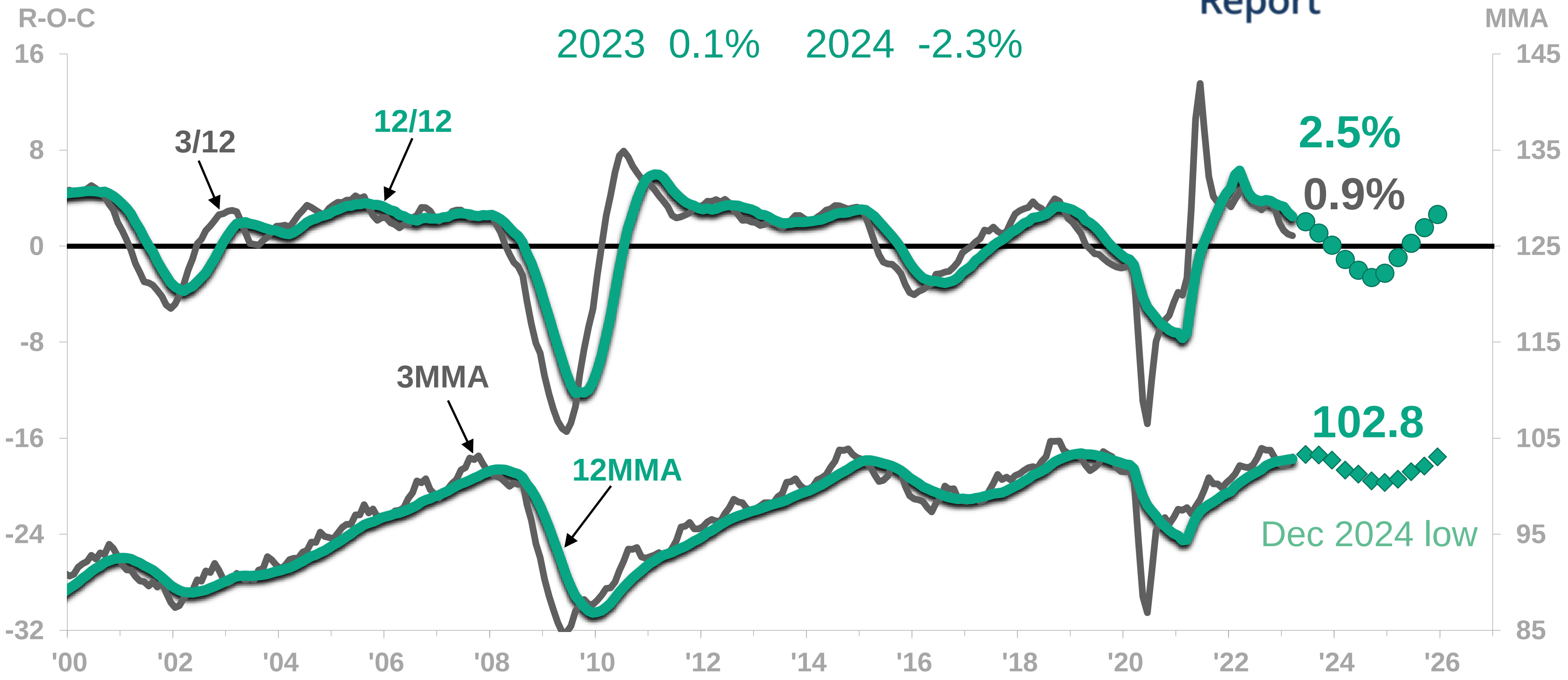
Source: FRB

US Industrial Production Index

2017 = 100

as seen in ITR Economics' Trends Report

ITR ECONOMICS

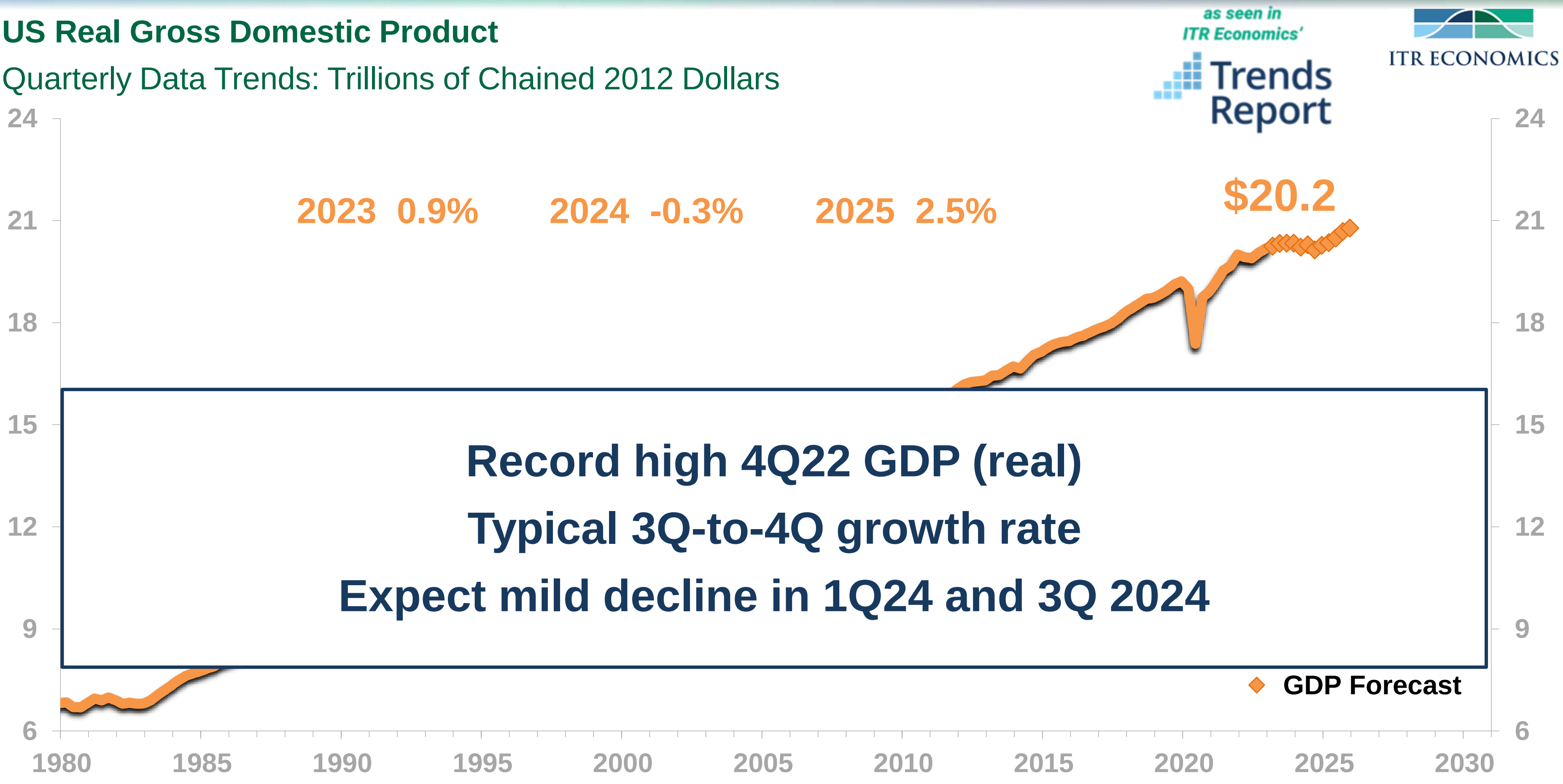


Expect an Essentially Flat 2024

Source: BEA

US Real Gross Domestic Product

Quarterly Data Trends: Trillions of Chained 2012 Dollars



Record high 4Q22 GDP (real)

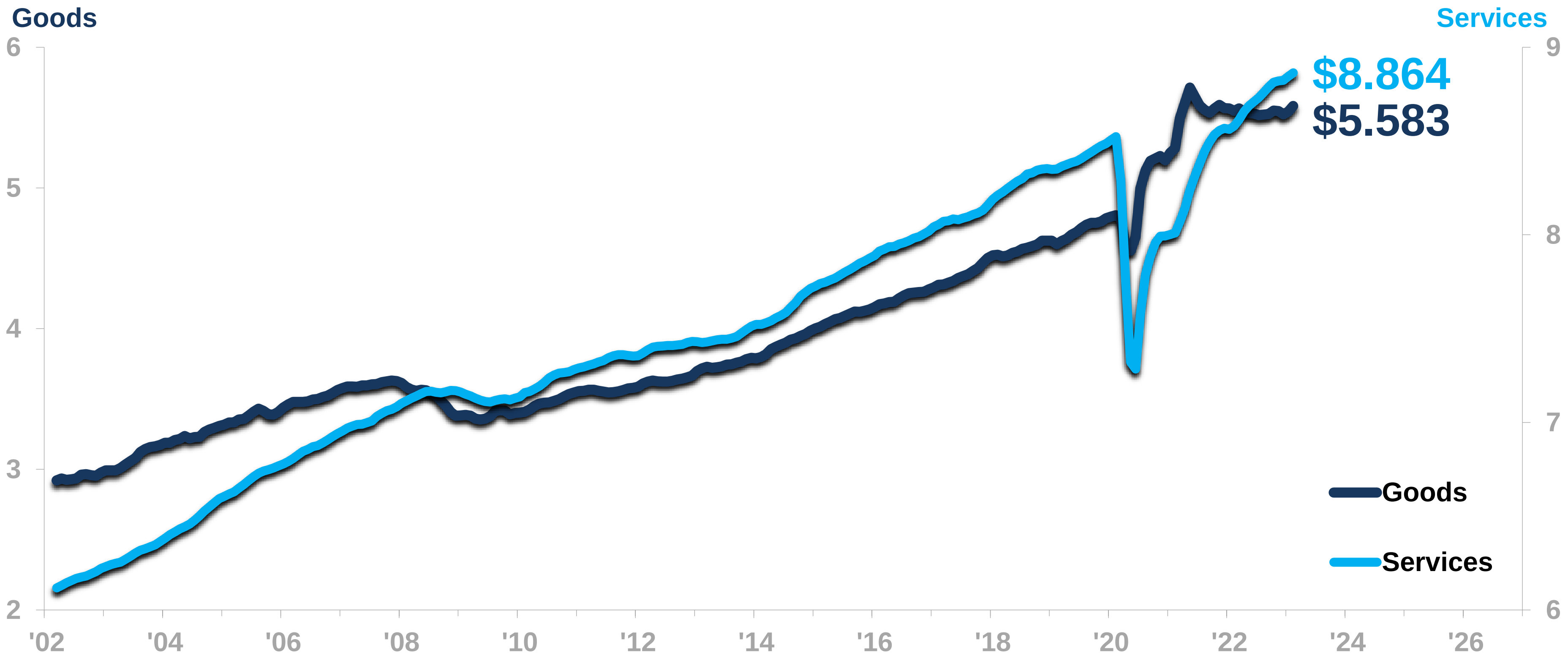
Typical 3Q-to-4Q growth rate

Expect mild decline in 1Q24 and 3Q 2024

Spending on Services is Driving the Growth

Source: BEA

US Goods Personal Consumption Expenditures (deflated) to
US Services Personal Consumption Expenditures (deflated)
Quarterly Data Trends: Trillions of Dollars

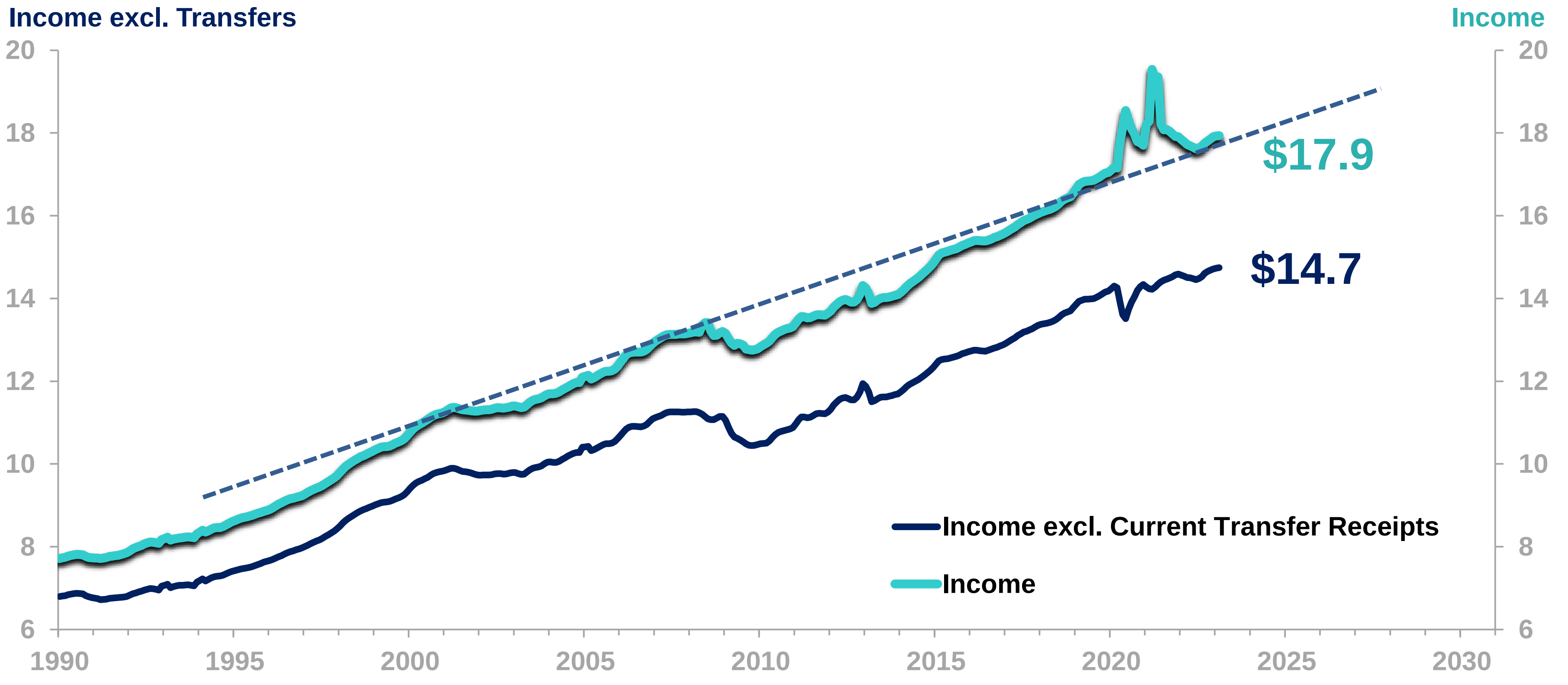


Inflation Adjusted Wages Are Rising Heading Into 2023

Source: BEA

US Real Personal Income (excluding current transfer receipts) to US Real Personal Income

Quarterly Data Trends in Trillions of Chained 2012 Dollars



Overall Debt Load is Manageable, and Credit Card Debt is Minimal

Sources: FRB New York, US Census Bureau, BLS

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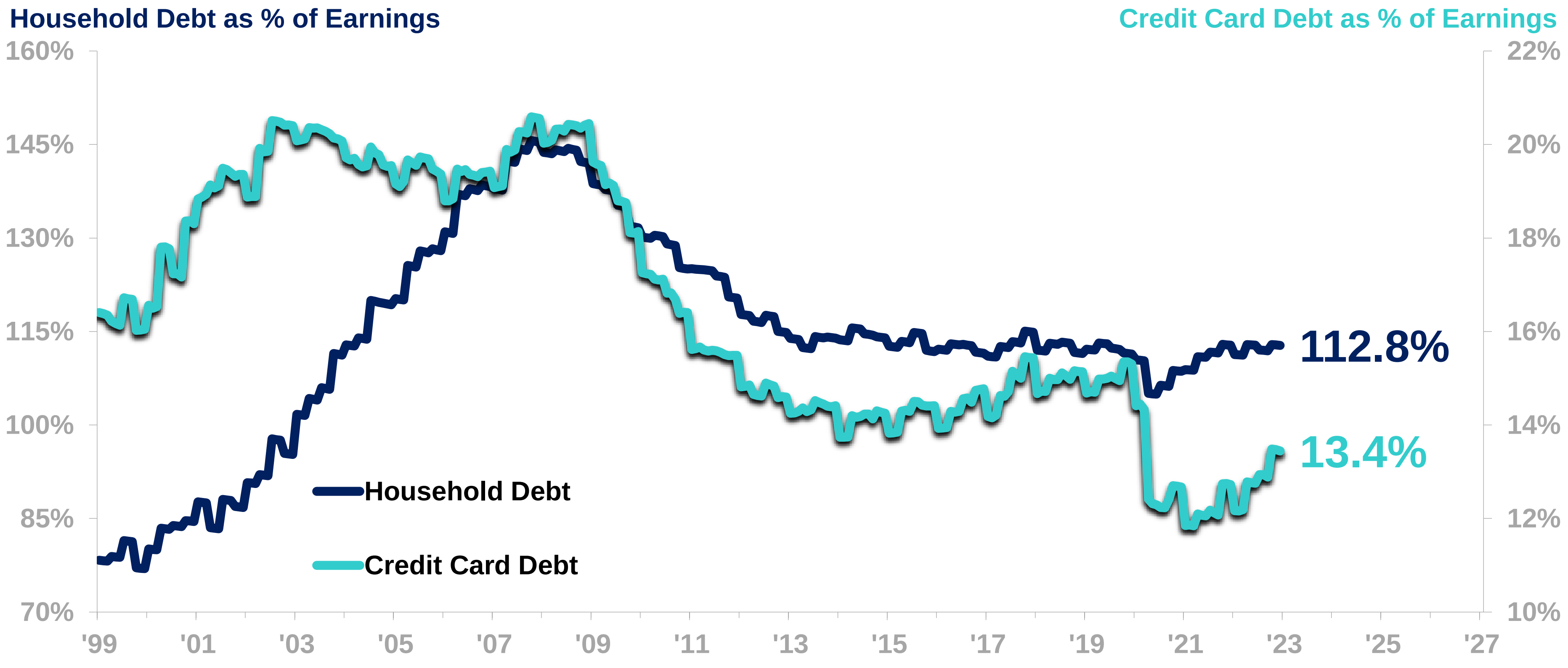
US Household Debt per Capita as a % of US Median Annual Earnings to US Credit Card Debt per Household as a % of US Median Annual Earnings

Raw Data, Percent



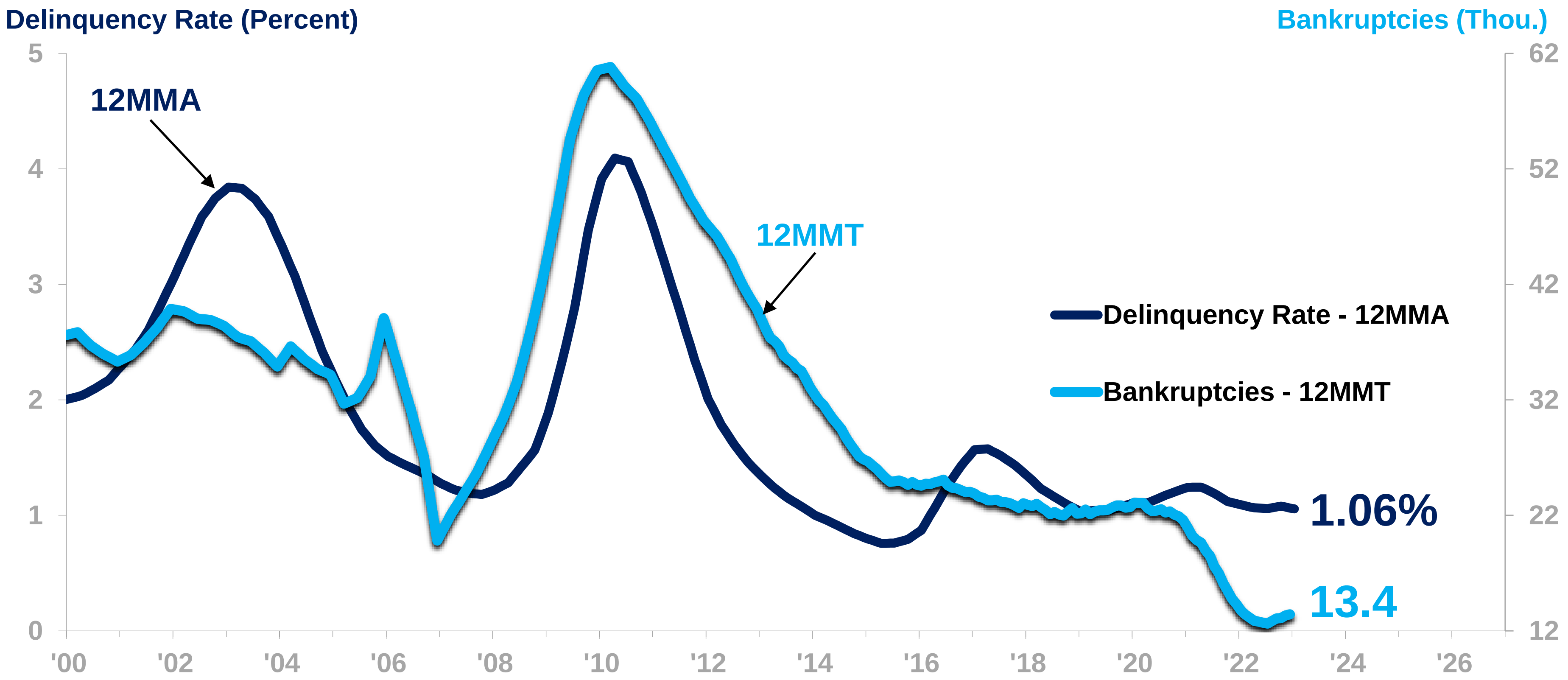
Business Financial Health Looks Good

Sources: FRB, US Courts

US Commercial and Industrial Loan Delinquency Rate to US Business Bankruptcies

Annual Data Trends

ITR ECONOMICS

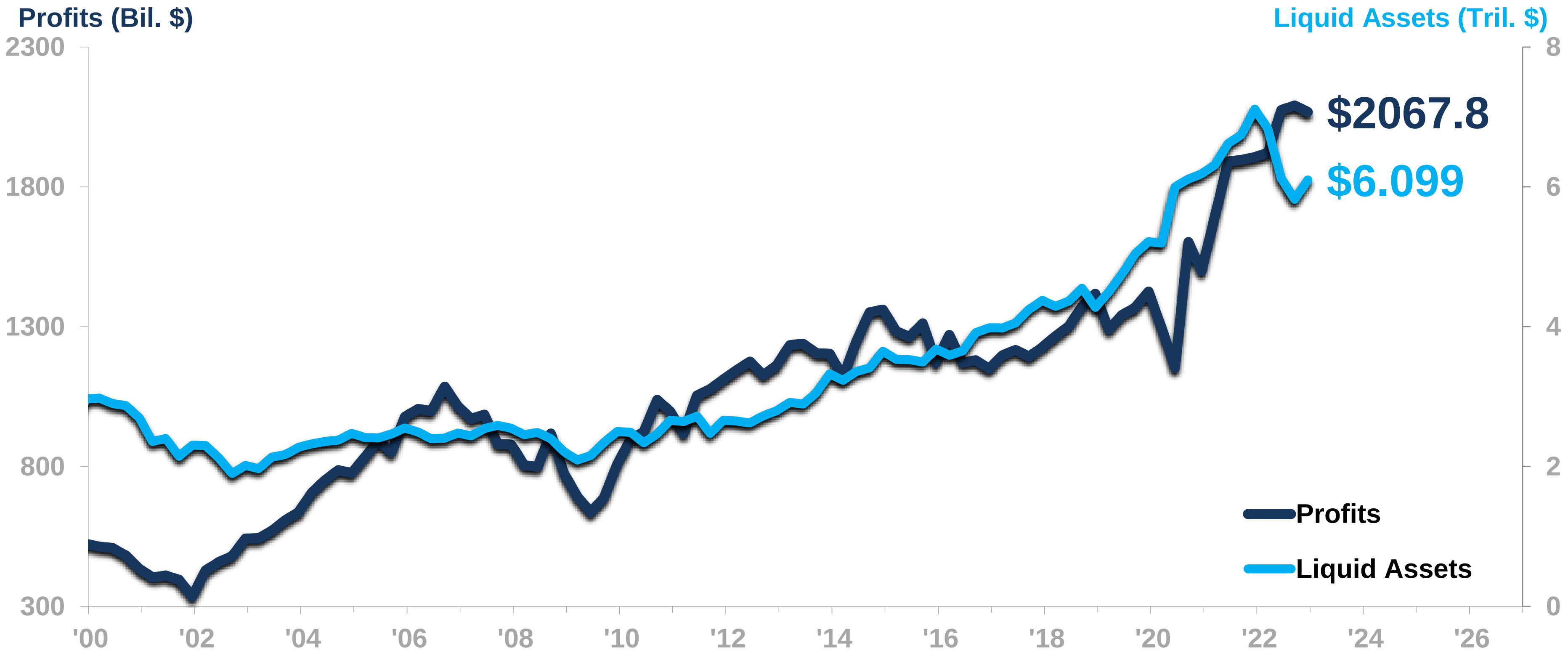


Healthy Business Finances Showing Signs of Normalization

Sources: BEA, FRB

US Domestic Nonfinancial Industries Corporate Profits (with capital consumption adjustments) to US Nonfinancial Corporate Business Liquid Assets

Quarterly Data Trends

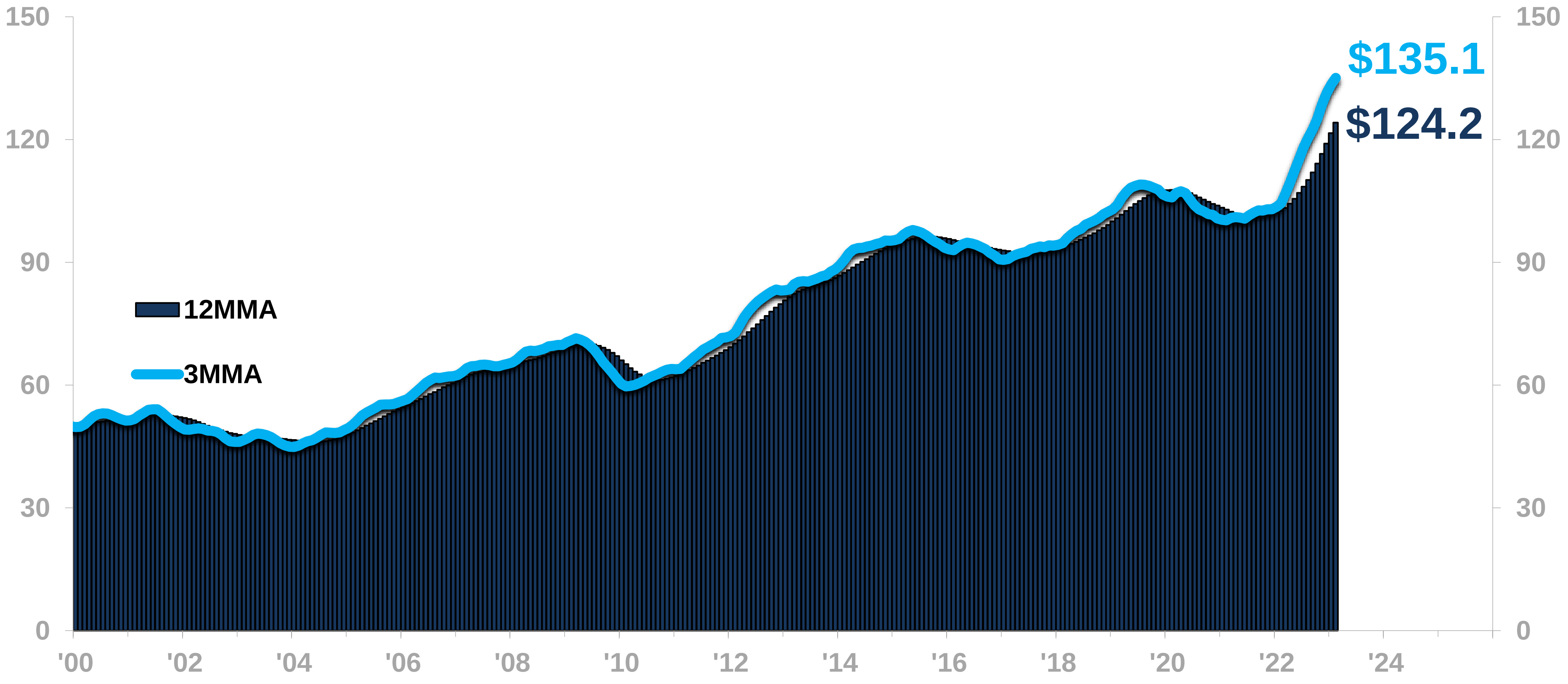


Inventories Are Building

Source: US Census Bureau

US Machinery, Equipment, and Supplies Wholesale Inventories

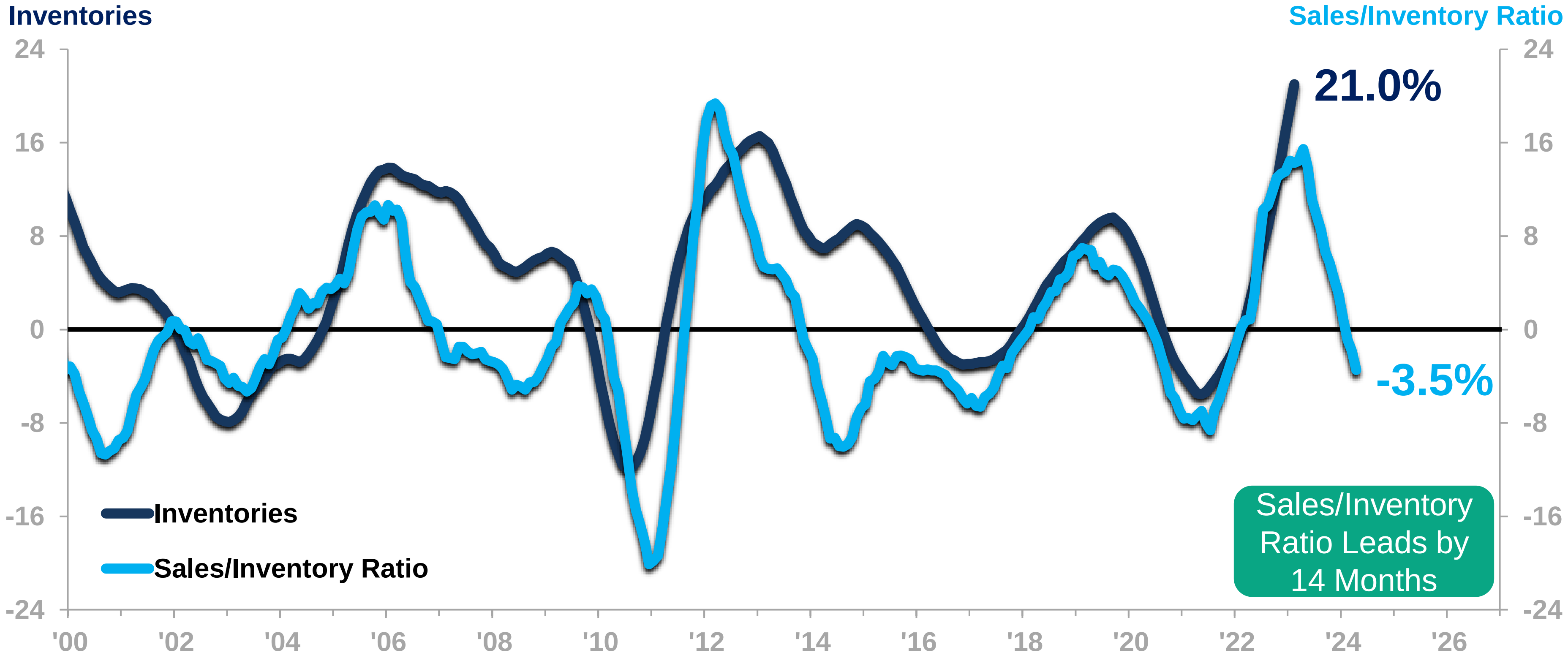
Data Trends: Billions of Dollars



A Sign That Inventory Growth Will Wane

Source: US Census Bureau

US Machinery, Equipment, and Supplies Wholesale Inventories to
US Machinery, Equipment, and Supplies Wholesale Sales/Inventory Ratio
12/12 Rates-of-Change



Expect Decline From Late 2023 Through 2024

Source: US Census Bureau

US Nondefense Capital Goods New Orders (excluding aircraft)

Billions of Dollars

as seen in ITR Economics' Trends Report

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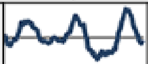
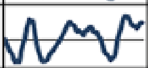
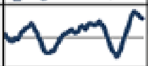
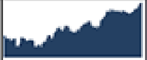
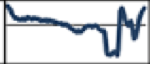
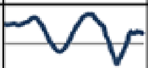
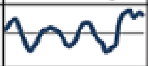
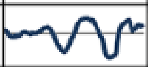
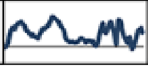
Some markets will be more insulated from the upcoming downturn than others. Make sure you are tracking your individual markets as well as overall New Orders.

The Manufacturing Economy-At-A-Glance

Source: ITR Economics Trends Report™

	12/12	12MMT/A	12/12	2023	2024	2025	Highlights
US Metalworking Machinery New Orders			-2.3	-5.6	-3.2	9.3	The automotive sector is contributing upward pressure, but industry leading indicators suggest further 12/12 decline.
US Machinery New Orders			6.9	2.3	-5.5	6.9	Trends in Corporate Cash and interest rates suggest downward pressure on New Orders will persist through 2024.
US Construction Machinery New Orders			17.5	-6.5	-11.5	15.3	Infrastructure spending may provide opportunities, but the economic tide suggests downward pressure will prevail.
US Electrical Equipment New Orders			11.2	0.1	-2.0	5.4	Weakness in the residential construction sector will contribute to cyclical decline for New Orders.
US Computers & Electronics New Orders			4.4	2.0	-1.5	4.1	The New Orders 12MMT will rise into late this year. New Orders decline in 2024 will be mild.
US Defense Capital Goods New Orders			11.0	5.7	0.5	8.9	The New Orders 12MMT will trend above current levels through at least 2025 given global tensions.
North America Light Vehicle Production			13.3	10.7	-7.4	10.4	The 12MMT will rise through 2023. Production may be choppy due to uneven input availability.
US Oil & Gas Extraction Production			5.9	3.5	-1.3	3.9	Oil inventory levels have returned to their typical range. Production will slow in growth for the remainder of the year.
US Mining Production (excluding oil & gas)			-1.8	-4.4	-4.0	3.1	We lowered the forecast to account for a data revision. Our expectation for a late-2024 low is unchanged.
US Chemicals & Chemical Products Production			1.5	-0.7	-1.9	2.8	The Organic and Inorganic segments are trending differently. Overall Production will trend relatively flat this year.
US Civilian Aircraft Equipment Production			6.1	4.0	-0.6	10.7	Boeing restarted deliveries of the 787 Dreamliner. Macro trends will contribute to mild Production contraction in 2024.
US Medical Equipment & Supplies Production			7.5	1.2	-0.9	3.5	We expect a Production 12MMA peak in the middle of this year. Subsequent decline will be mild given nearshoring initiatives.
US Heavy-Duty Truck Production			12.7	-5.4	-4.6	6.0	We lowered the forecast. We expect the 12MMA will peak around mid-2023 and then decline through early 2025.
US Food Production			1.2	0.6	1.6	1.4	Production is trending differently than the macroeconomy and will likely avoid sustained decline this cycle.

Reshoring & FDI, Top 10 by Industry

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Source: Reshoring Initiative®

Rank	Industry	No. of Companies 2022 Projected	2021	2019 (Pre-Pandemic)
1	Chemicals	324	326	121
2	Elec. Equip., Appliances, & Components	224	213	56
3	Transportation Equipment	212	187	165
4	Computer & Electronic Products	182	223	124
5	Medical Equipment & Supplies	93	185	17
6	Plastic & Rubber Products	88	n/a*	n/a*
7	Primary Metal Products	58	71	48
8	Fabricated Metal Products	52	86	71
9	Castings/Foundries	36	n/a*	n/a*
10	Hobbies (subset of Miscellaneous	22	n/a*	n/a*

*data not available as was not previously in the top 10

US Macroeconomic Trends Summary

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Inverse Yield Curve is signaling decline for 2024

The consumer balance sheet is strong.

Sales expressed in units will trend lower than nominal $ sales.

Next Steps

- **Weakness likely becomes apparent 2H23**
- **Budget for reduced inventory turns**
- **Hold on to your A & B level talent**

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Government Influences

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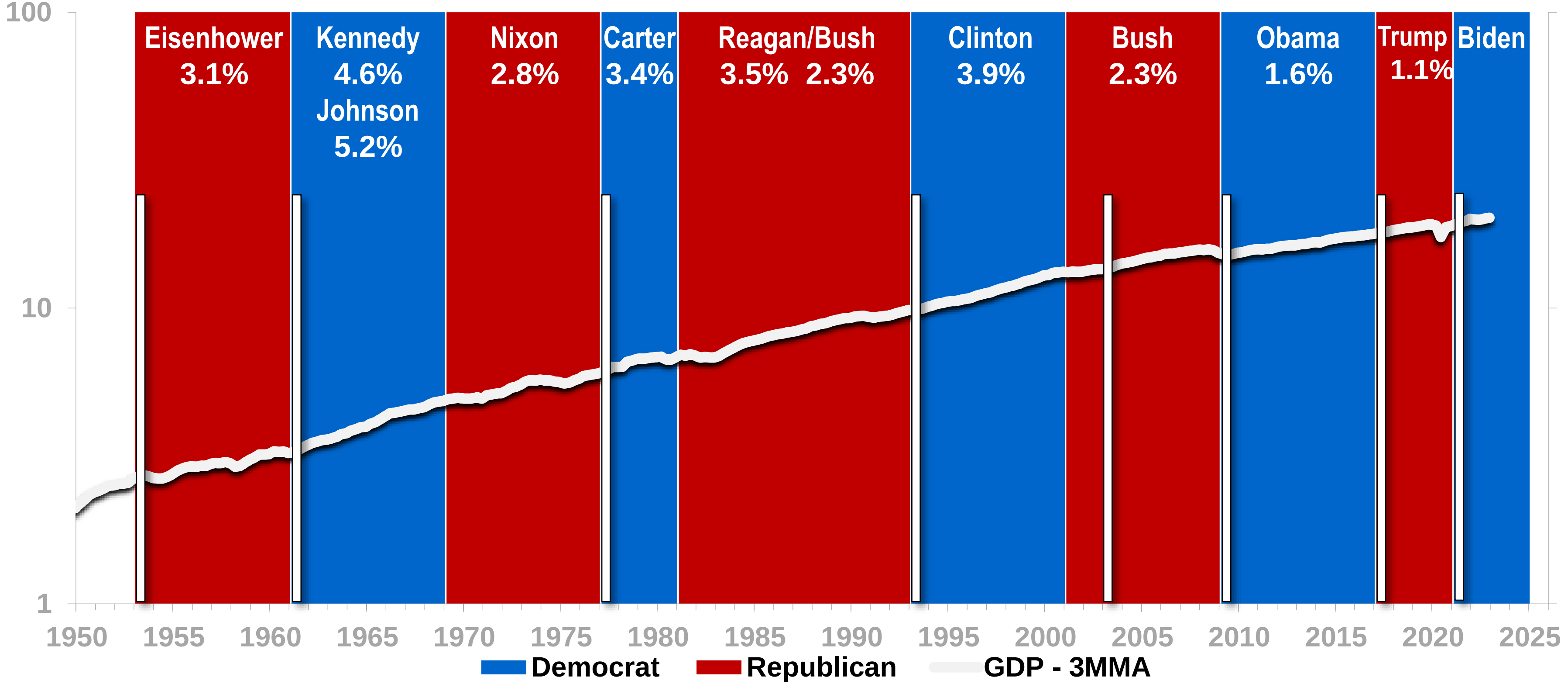
Party Affiliation is Not a Determinant in Economic Growth

Source: BEA

US Real Gross Domestic Product

Quarterly Data Trends: Trillions of Chained 2012 Dollars



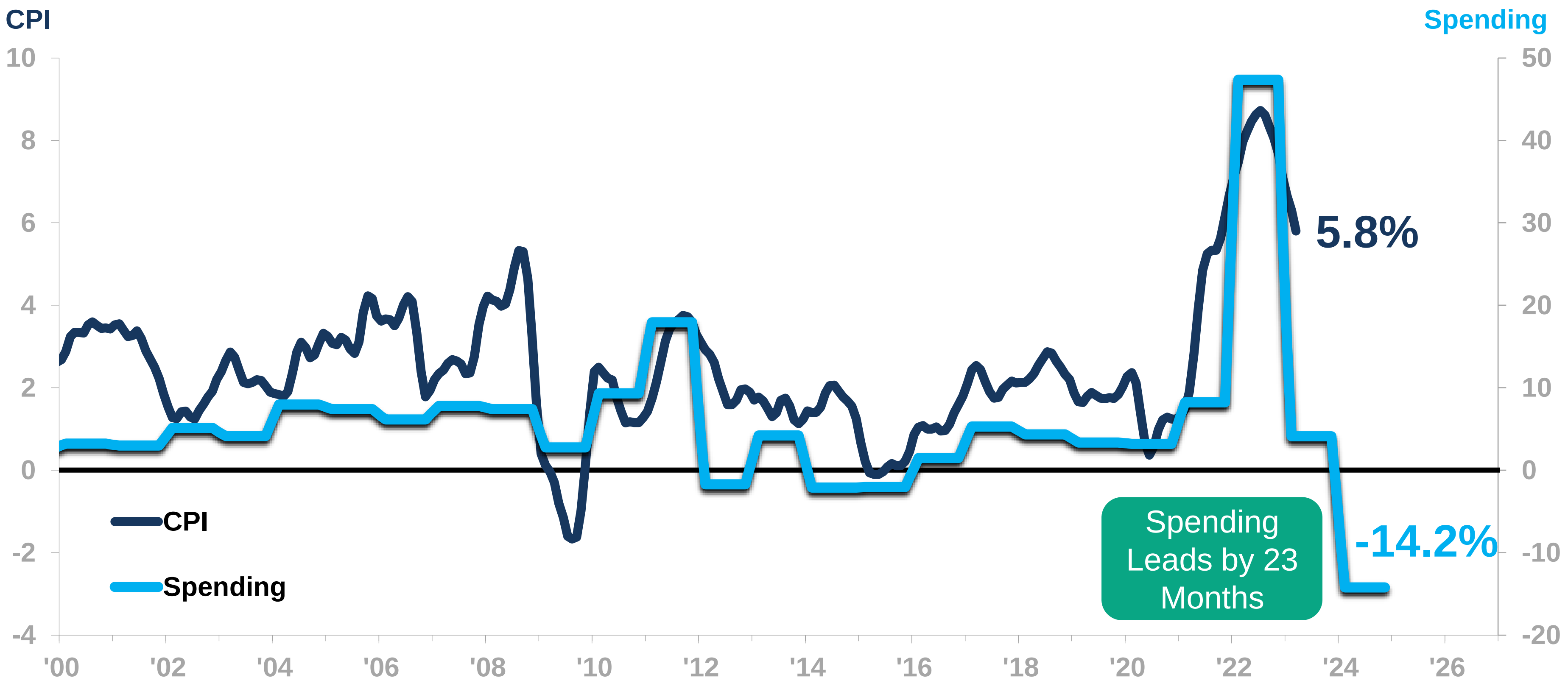
Government Deficit Spending Drives Inflation

Sources: BLS, White House Office of Management and Budget

US Consumer Price Index to US Total Government Spending

3/12 Rates-of-Change

ITR ECONOMICS



Infrastructure Bill Spending Summary

Source: H.R.3684 – Infrastructure Investment and Jobs act

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$284 Billion New Transportation Spending

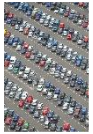

$110 billion for roads and bridges


$66 billion for railroads


$39 billion for public transit


$25 billion for airports


$17 billion for ports


$15 billion for electric vehicles


$11 billion for road safety


$1 billion for reconnecting communities

$264 Billion New Utilities Spending

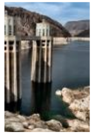

$65 billion for power infrastructure


$65 billion for broadband


$55 billion for water infrastructure


$50 billion for resilience


$21 billion for pollution remediation


$8 billion for Western water infrastructure

**$550 Billion of new spending to occur over the next five years*

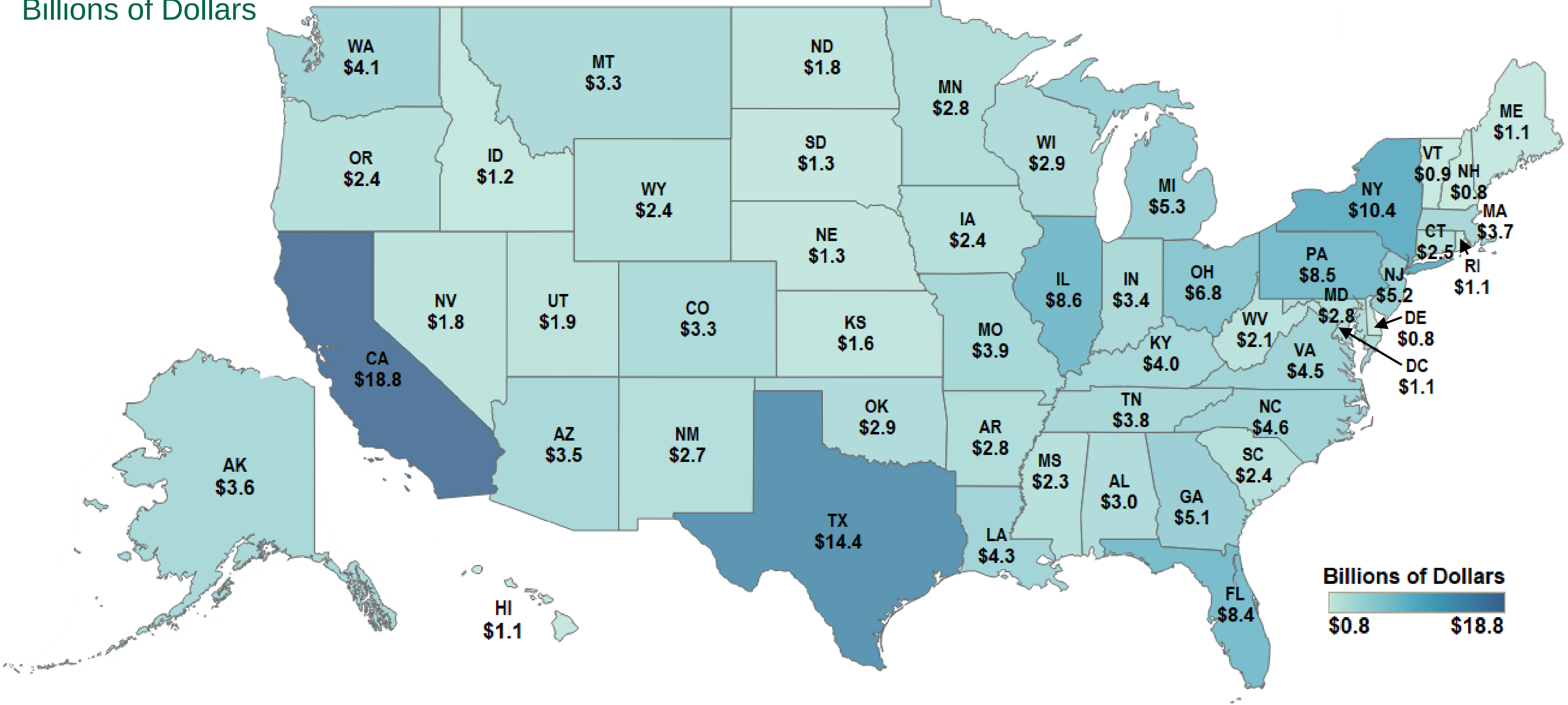
https://d2d.gsa.gov/report/bipartisan-infrastructure-law-bil-maps-dashboard

Bipartisan Infrastructure Law (BIL) Spending by State

Source: US Government D2D GSA

Total Announced US Infrastructure Bill Funding as of March 17, 2023

Billions of Dollars



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Government Summary

- Don't expect politics to provide a political solution to our issues
- Deficit spending is not the purview of any one party
- The increased probability of a GDP recession amps up the probability of a bear market

Next Steps

Gain market share because of your competitive advantages

Opportunities from the Infrastructure Bill are being announced, find the ones that fit your business

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The 2030s

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1. Demographics
2. Health Care Costs
3. Entitlements
4. Inflation
5. US National Debt

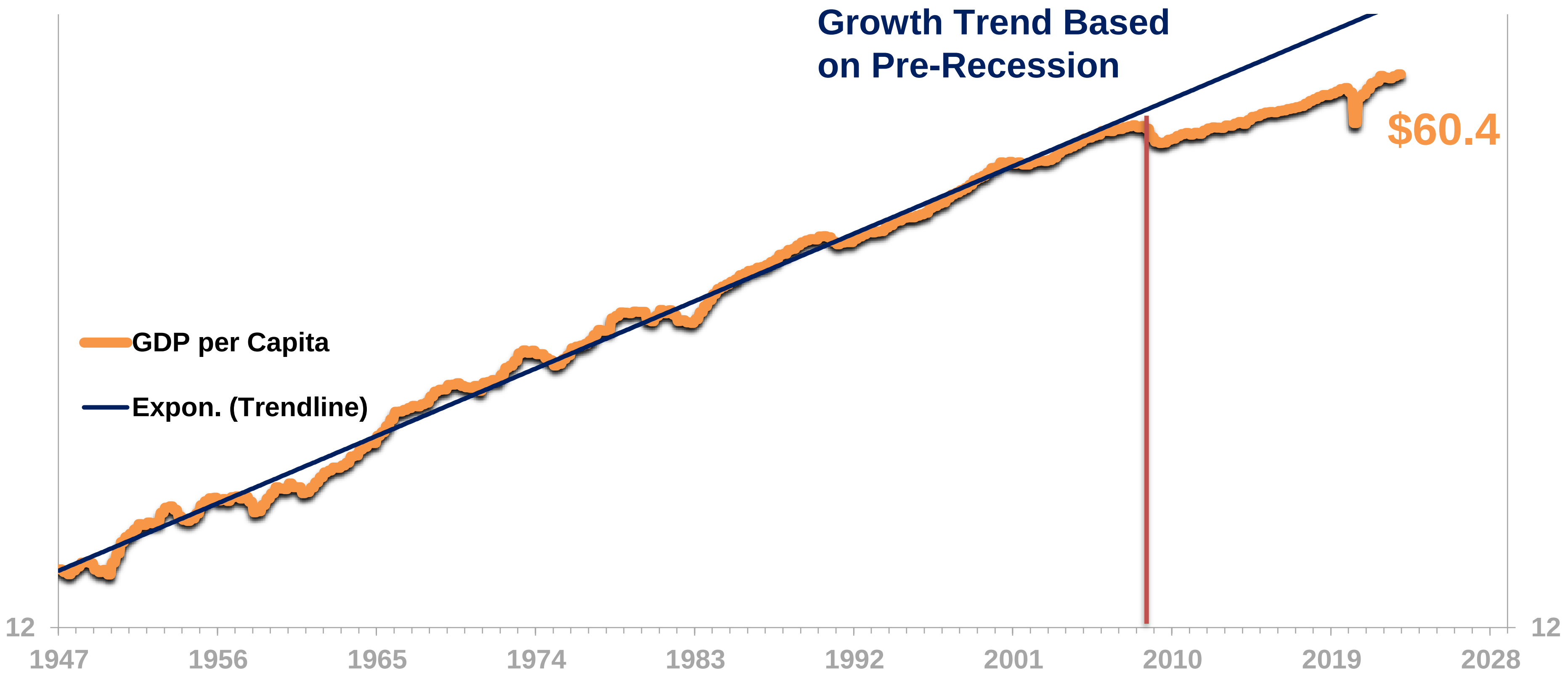
2030 Update

A Noticeable Inflection Point

Source: BEA

US Real Gross Domestic Product per Capita

Thousands of Chained 2012 Dollars



Projected Percent of Total Population in 2030

Source: US Census Bureau

Percent

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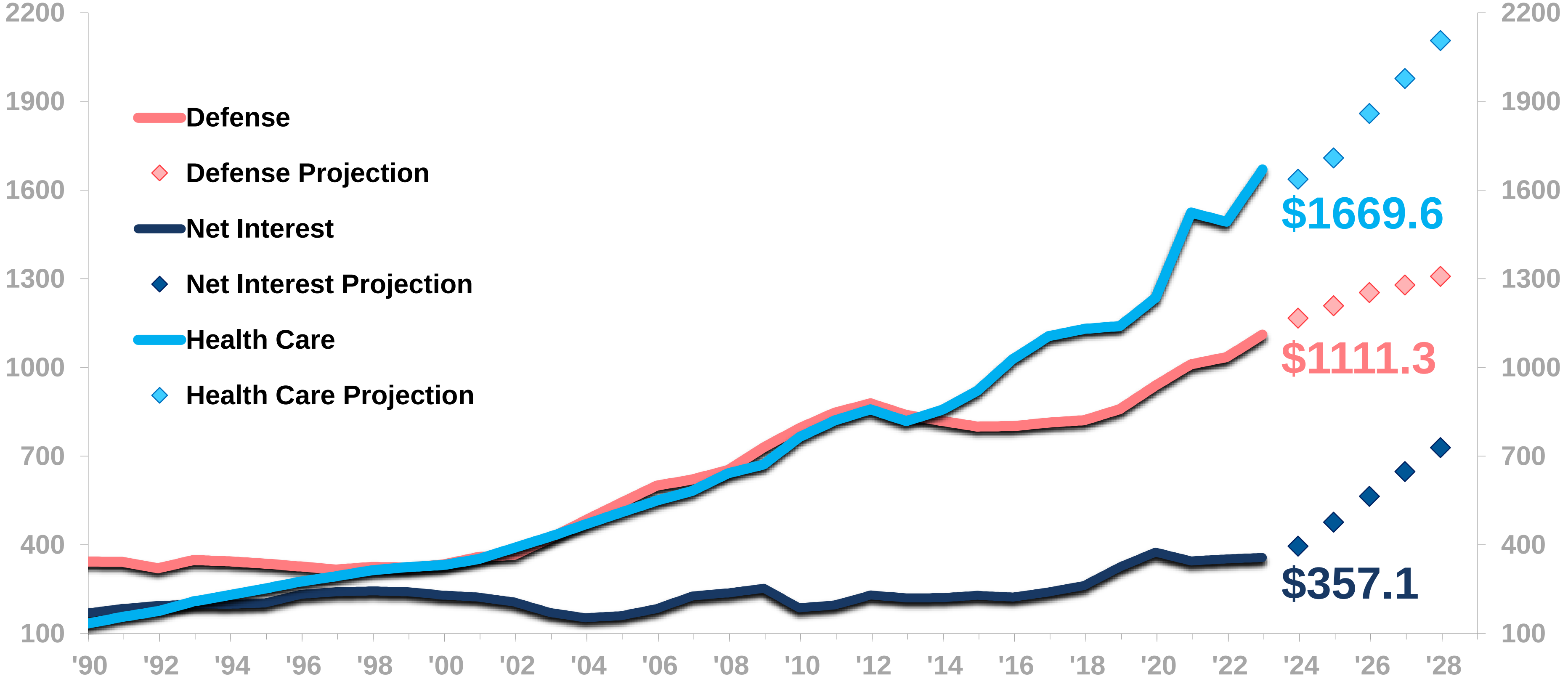
Age Group	United States	China	India	France	United Kingdom	Germany	Brazil	Russia	Mexico	Japan	Canada
65+	18.1	14.1	6.8	21.4	19.1	23.3	10.5	17.2	8.0	29.2	20.5
40-64	30.5	35.7	26.3	31.1	31.8	35.1	31.1	35.2	27.5	33.4	32.7
20-39	26.9	28.3	33.4	23.4	26.5	23.3	31.2	25.4	31.9	20.5	25.8
< 20	24.4	21.9	33.5	24.1	22.7	18.3	27.2	22.3	32.6	16.8	21.0
Total (mn)	339.7	1413.1	1399.2	68.5	68.1	84.2	218.7	141.7	129.9	123.7	38.5

Sources: White House Office of Management and Budget, usgovernmentspending.com

US Federal Government Spending on Health Care, Defense, and Net Interest

Annual Data Trends in Billions of Dollars



The 2030s Summary

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- Switch to wealth preservation circa 2030 - 2032
- Safety over magnitude of return will be a virtue
- Be ready to switch back into an aggressive posture circa 2036

Next Steps

Long-terms to maturity will yield the greatest capital appreciation. Can you take the beta?

Capitalize on the stocks that offer the best potential to leverage the technology technologies

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Inflation and Interest Rates

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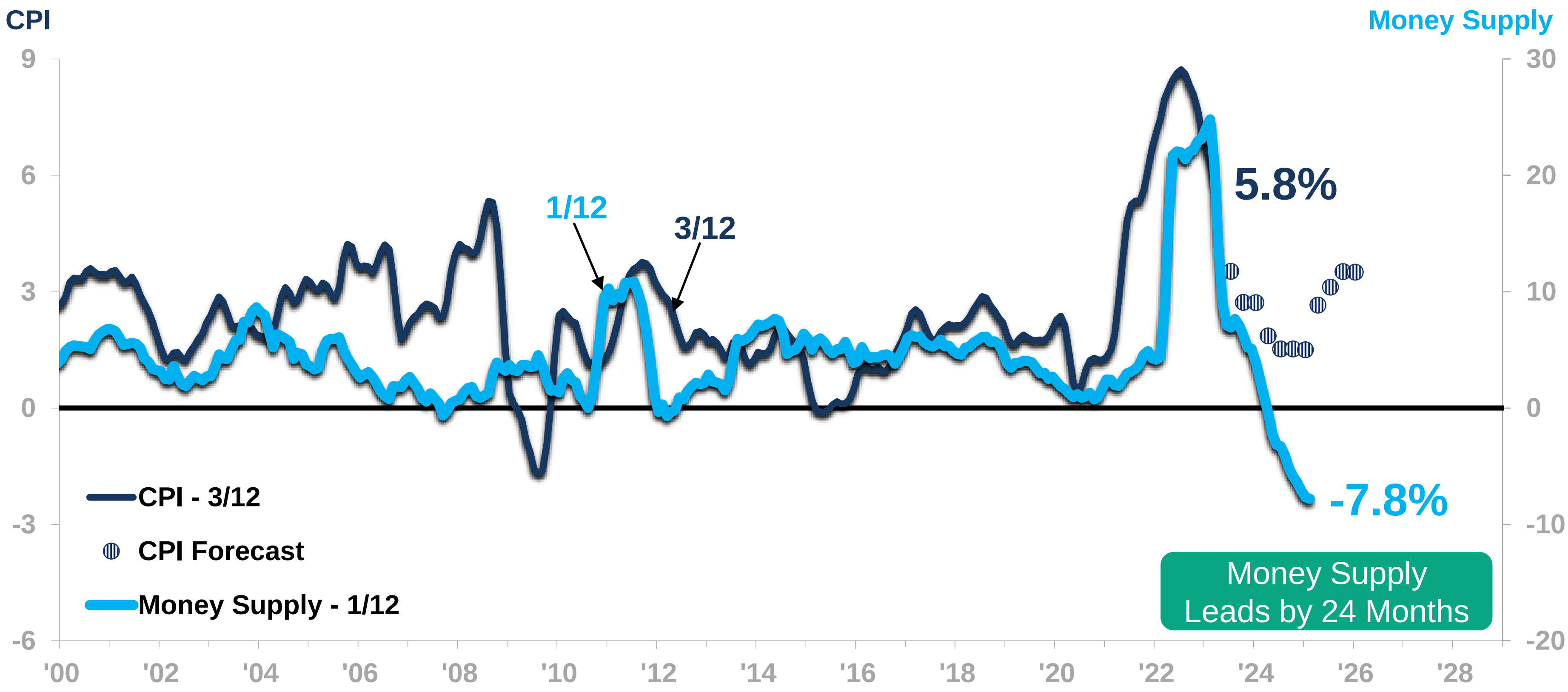
It Takes TIME For Monetary Policy to Bite

Source: BLS, FRB

US Consumer Price Index to US M2 Money Supply (deflated)

Rates-of-Change



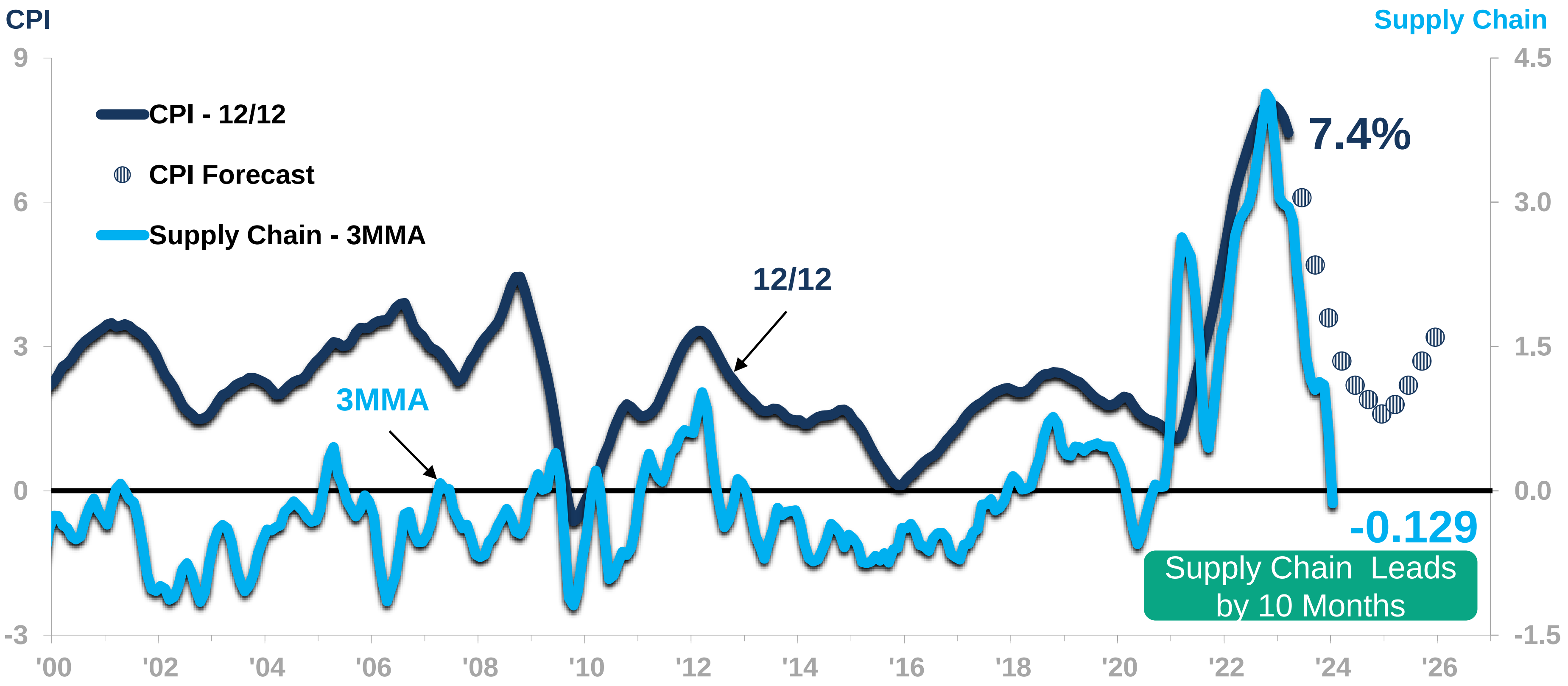
Money Supply
Leads by 24 Months

Easing Supply Chain Pressures Foreshadow Easing Inflation

Sources: BLS, FRBNY

US Consumer Price Index to Global Supply Chain Pressure Index

12/12 R-O-C to Quarterly Data Trend

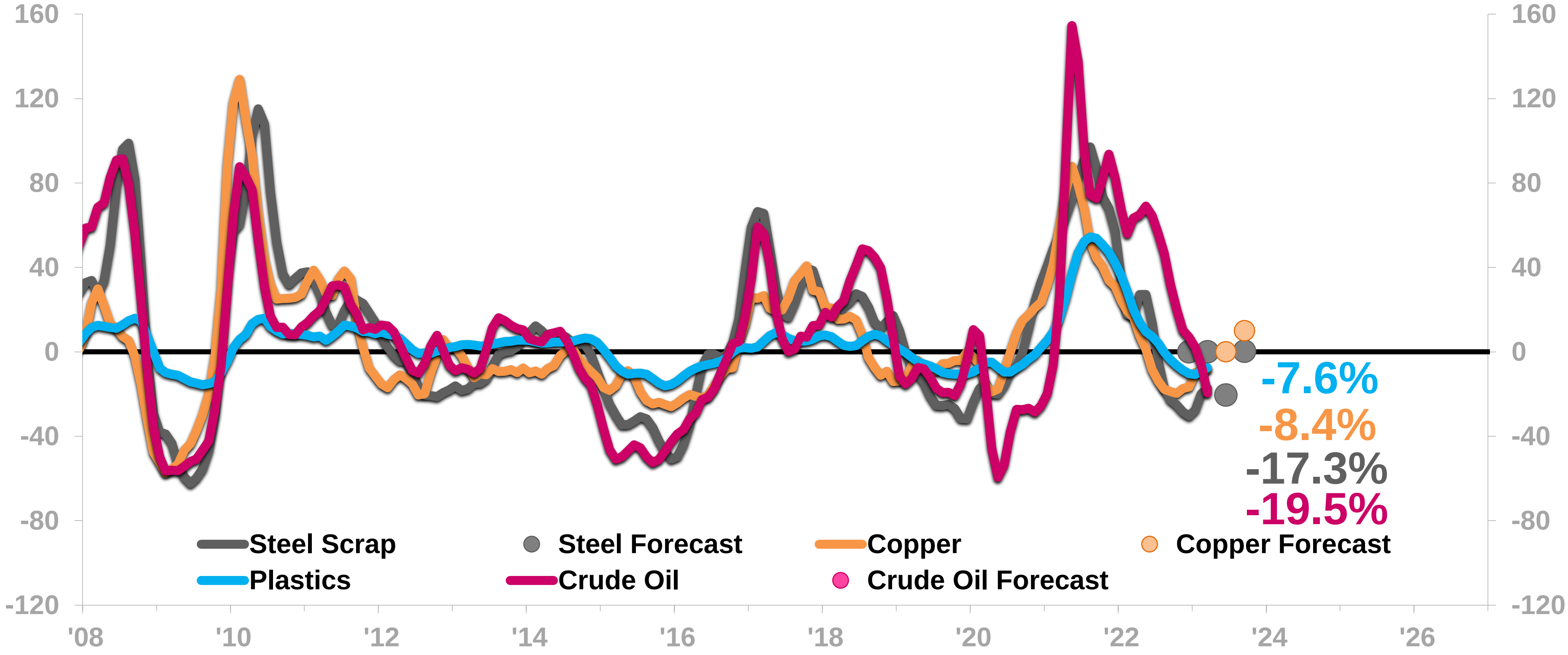


Many Commodities Exhibiting Deflation

Sources: EIA, WSJ, BLS

Commodity Prices for Crude Oil and Copper to US Producer Price Indexes for Plastic Resins & Materials and Steel Scrap

3/12 Rates-of-Change



Pricing Pressures Vary Widely

Source: BLS

US Producer Price Indexes

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	12/12	Phase	3/12	Phase
Producer Prices	11.5%	C	6.1%	C
Rubber	11.9%	C	7.3%	C
Material Handling	12.8%	C	10.4%	C
Warehousing	16.1%	B	16.7%	B
Chemicals	6.5%	C	-4.4%	D
Construction	11.1%	C	2.9%	C
Construction Machinery	11.4%	B	12.0%	C
Electronic Components	3.7%	C	2.0%	C
Freight Trucking	13.1%	C	4.1%	C
Fabricated Steel Plate	8.6%	C	0.0%	D
Lumber	-17.3%	D	-37.6%	D
Construction Sand	11.2%	B	12.1%	B
Consumer Food	12.9%	C	8.8%	C

Inflation Summary

- Inflation is decreasing
- Fed should stop raising interest rates; will likely stop 2Q23
- Banks tightening credit

Next Steps

- Budget understanding that wage inflation will abate for 2023 & 2024
- Tout your competitive advantages to protect margins

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Construction

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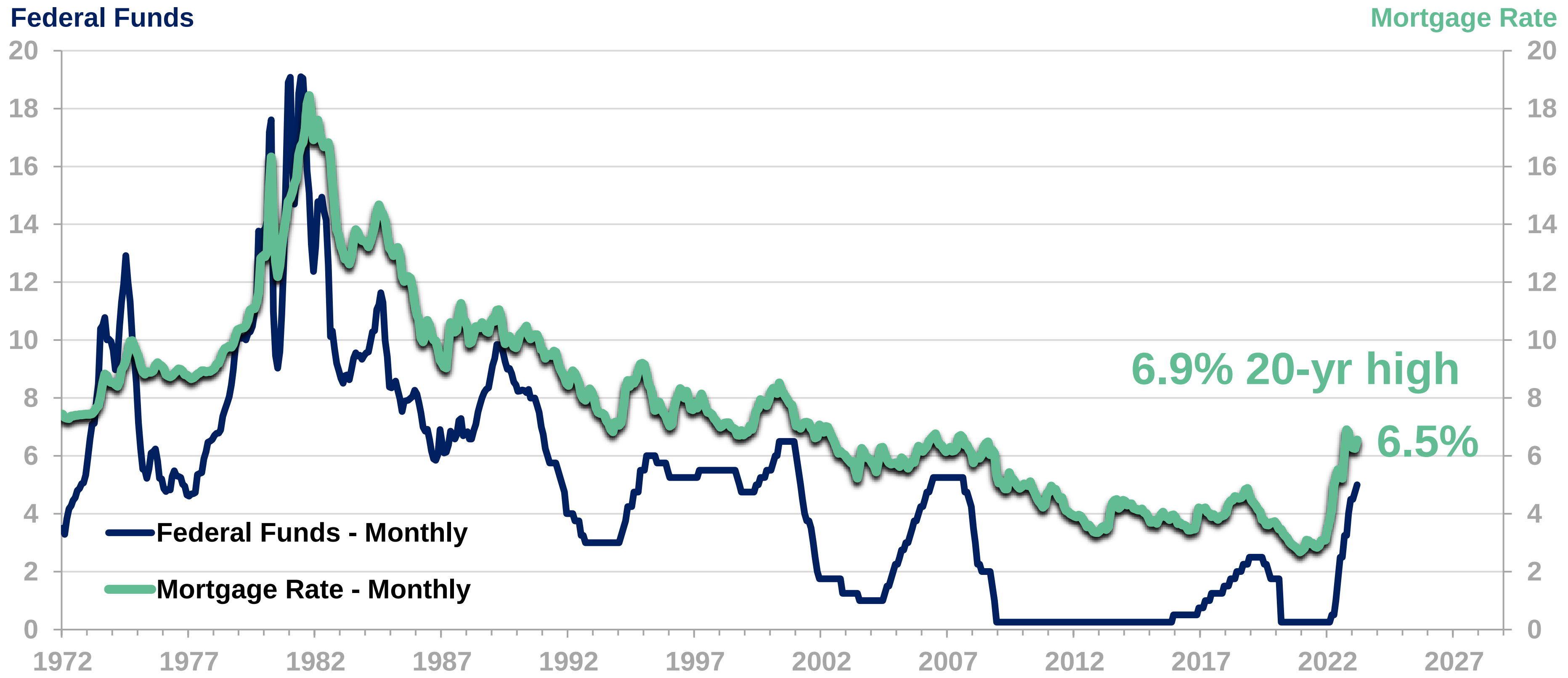
Faster-Than-Normal Ascent in Mortgage Rates

Sources: WSJ, Freddie Mac

US Federal Funds Target Rate to US 30-Year Conventional Mortgage Rate

Raw Data Trends, Percent

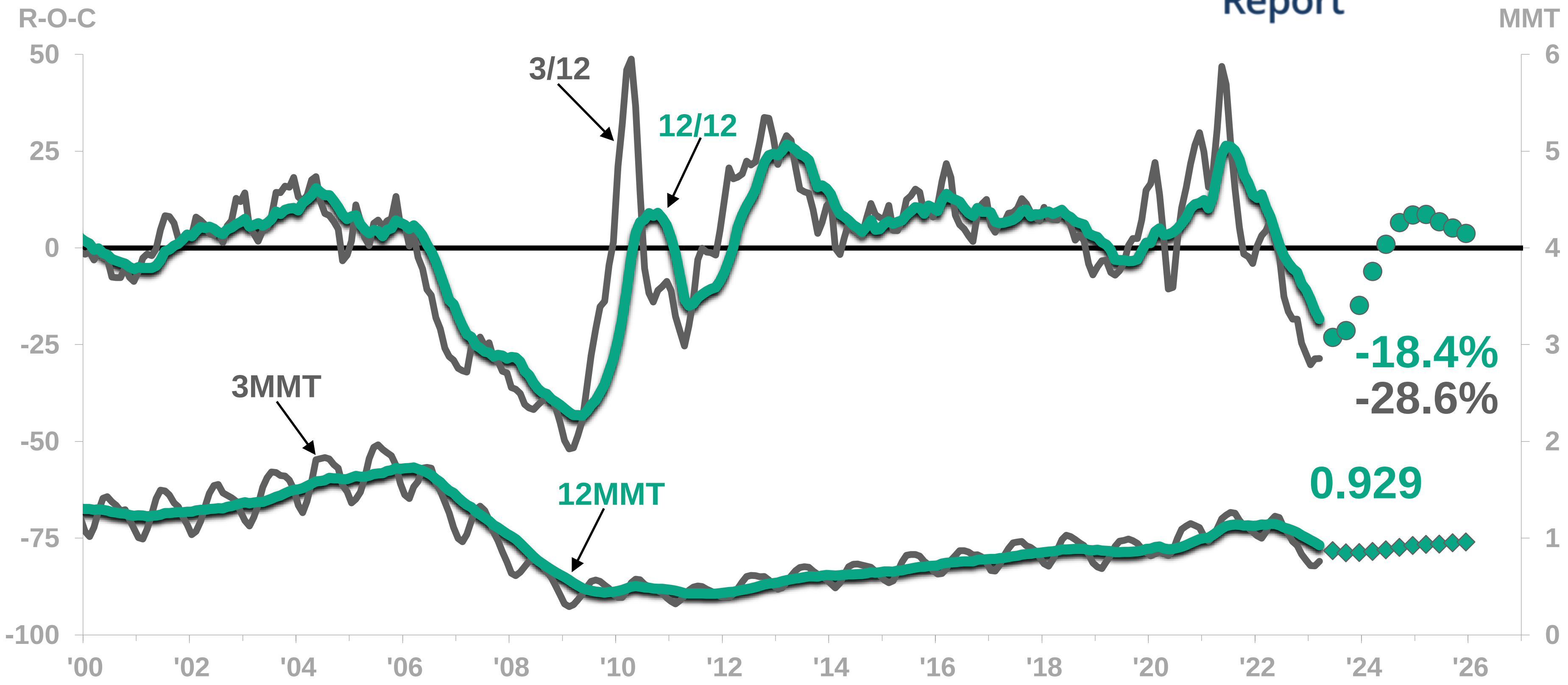


Our View: Not Great But Not the Great Recession Either

Source: US Census Bureau

US Single Unit Housing Starts

Millions of Units



US Single-Family Housing Unit Permits by State

Source: US Census Bureau

12/12 Rates-of-Change

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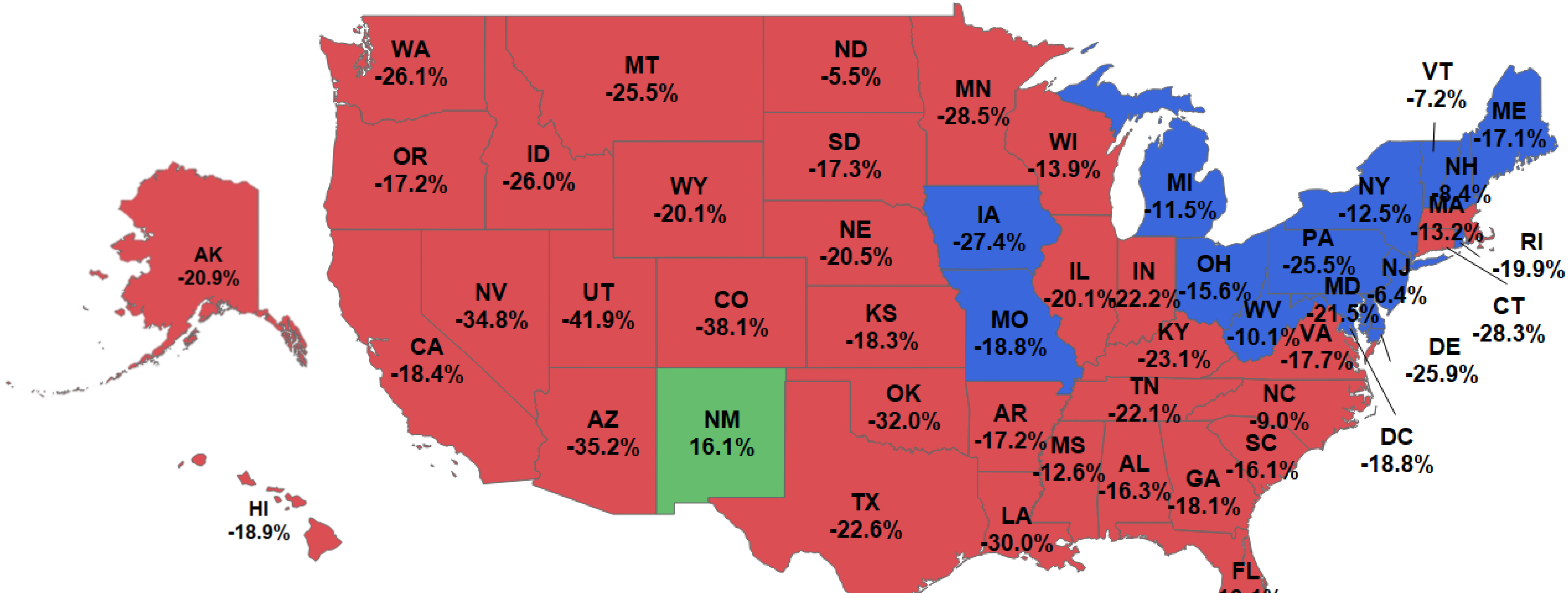

US Multi-Family Housing Permits by State

Source: US Census Bureau

12/12 Rates-of-Change

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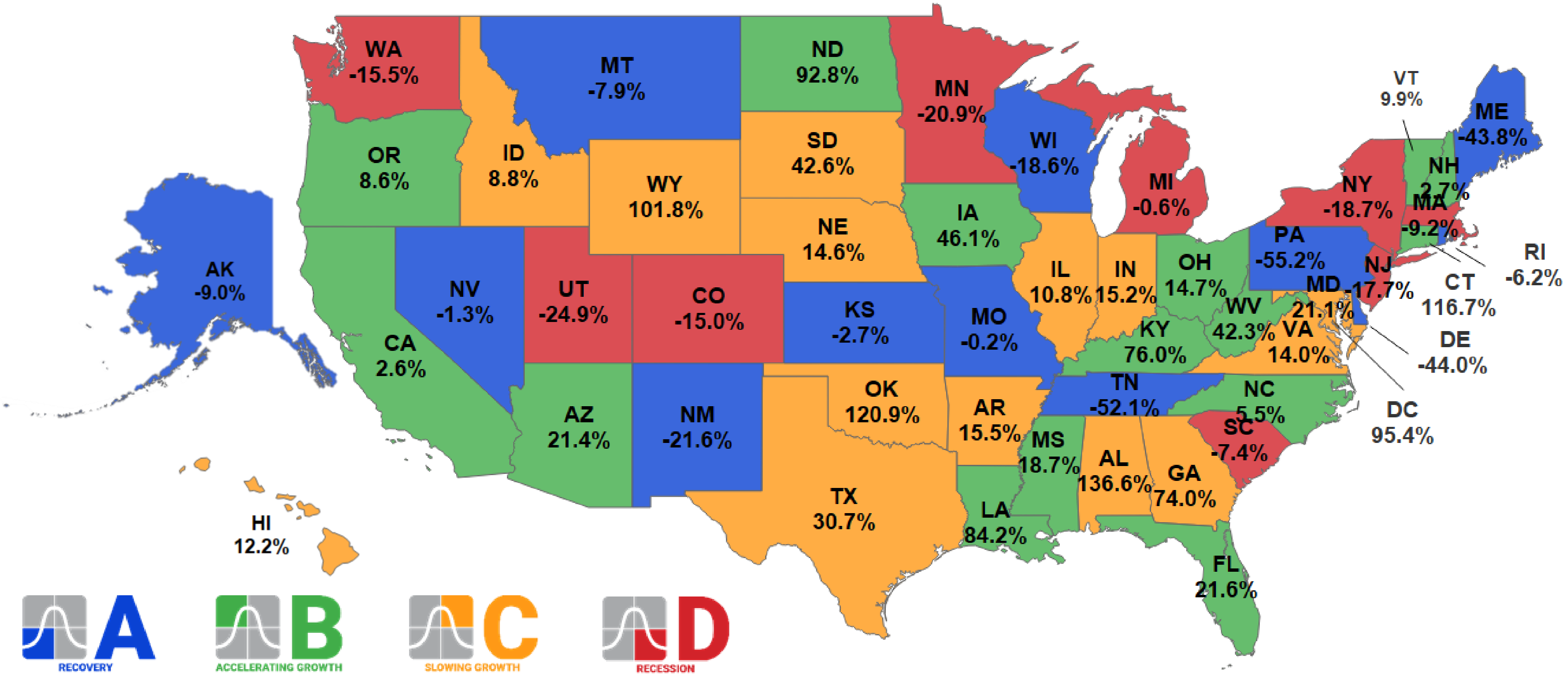

Housing Leads – Nonresidential Lags

Source: US Census Bureau

US Private Nonresidential Construction to US Single-Unit Housing Starts

12/12 Rates-of-Change

as seen in ITR Economics' Trends Report

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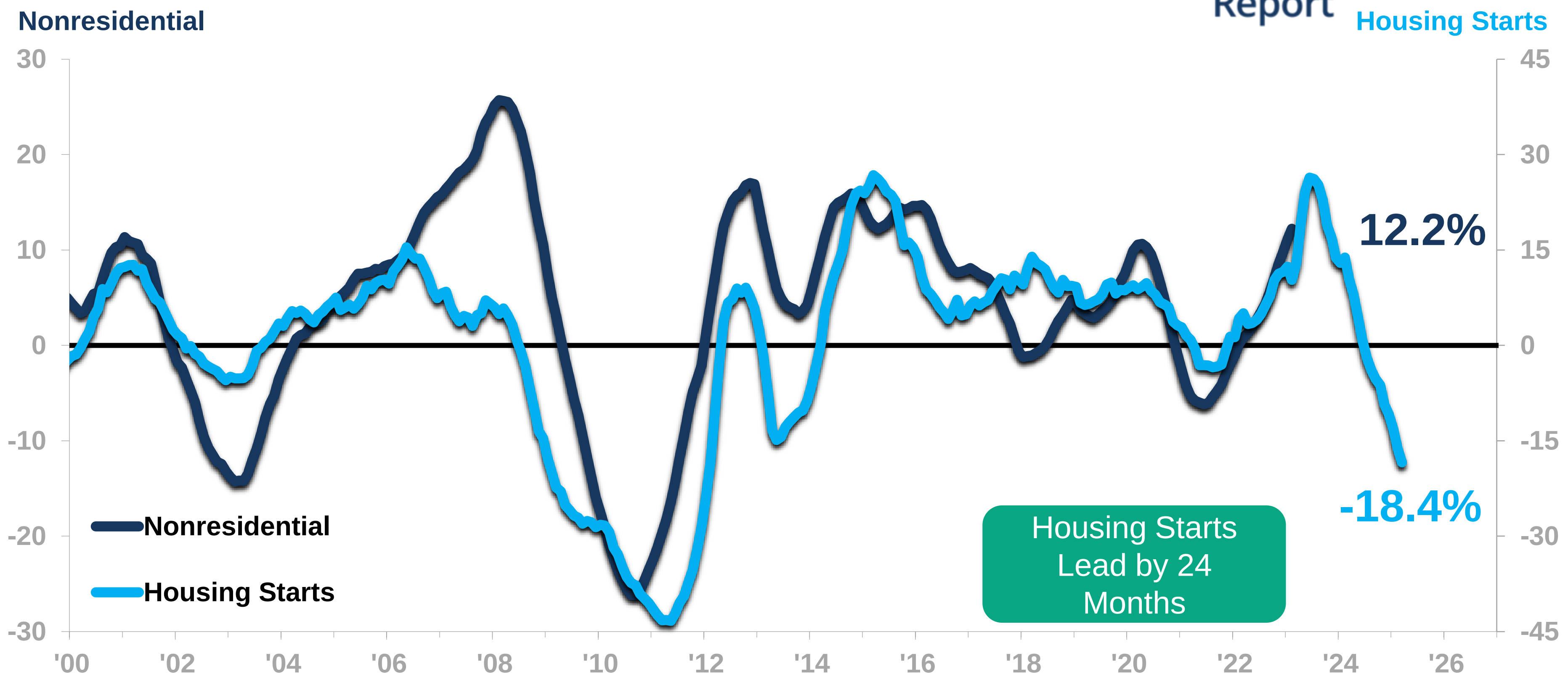

The US Construction Economy At-a-Glance

Source: ITR Economics Trends Report™

The US Construction Economy At-a-Glance

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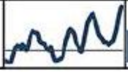
	12/12	12MMT	Current 12/12	2023	2024	2025	Highlights
US Single-Unit Housing Starts			-16.3	-14.8	8.6	3.8	Existing home sales ticked up in February. We anticipate Starts will transition to Phase A, Recovery, around the middle of this year.
US Multi-Unit Housing Starts			12.7	-5.8	2.8	7.7	Starts are trending above the forecast range. We still expect Starts to enter Phase D, Recession, this year.
US Private Office Construction			2.4	10.0	-0.6	0.3	We raised the forecast. The Construction 12MMT will rise into 2024 and then plateau through the remainder of that year.
US Total Education Construction			1.8	6.8	2.5	-4.2	The Construction 12MMT will rise through year-end 2024, following previous trends in the industrial and housing sectors.
US Total Hospital Construction			8.2	6.2	-3.0	1.1	We revised the forecast. The Construction 12MMT will rise through year-end 2023, then decline through mid-2025.
US Private Manufacturing Construction			39.7	25.5	-4.1	0.6	We revised the forecast. We expect Construction will transition to Phase C, Slowing Growth, in the latter half of the year.
US Private Multi-Tenant Retail Construction			35.7	6.1	-7.8	6.5	Tight real estate in the retail sector bodes well for Construction, but Construction growth will slow this year.
US Private Warehouse Construction			24.7	8.8	-1.5	-0.4	Construction is on the cusp of Phase C, Slowing Growth. Expect growth throughout 2023.
US Public Water & Sewer Facilities Construction			16.7	4.9	1.9	4.6	Construction was up 16.7% from the year-ago level in January; the Water component is outpacing the Sewer component.


Phase A: Recovery


Phase B: Accelerating Growth


Phase C: Slowing Growth


Phase D: Recession

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People & Wages

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State Population Growth 2018 to 2022

Source: US Census Bureau

Population Growth 2018 – 2022, Percent Change

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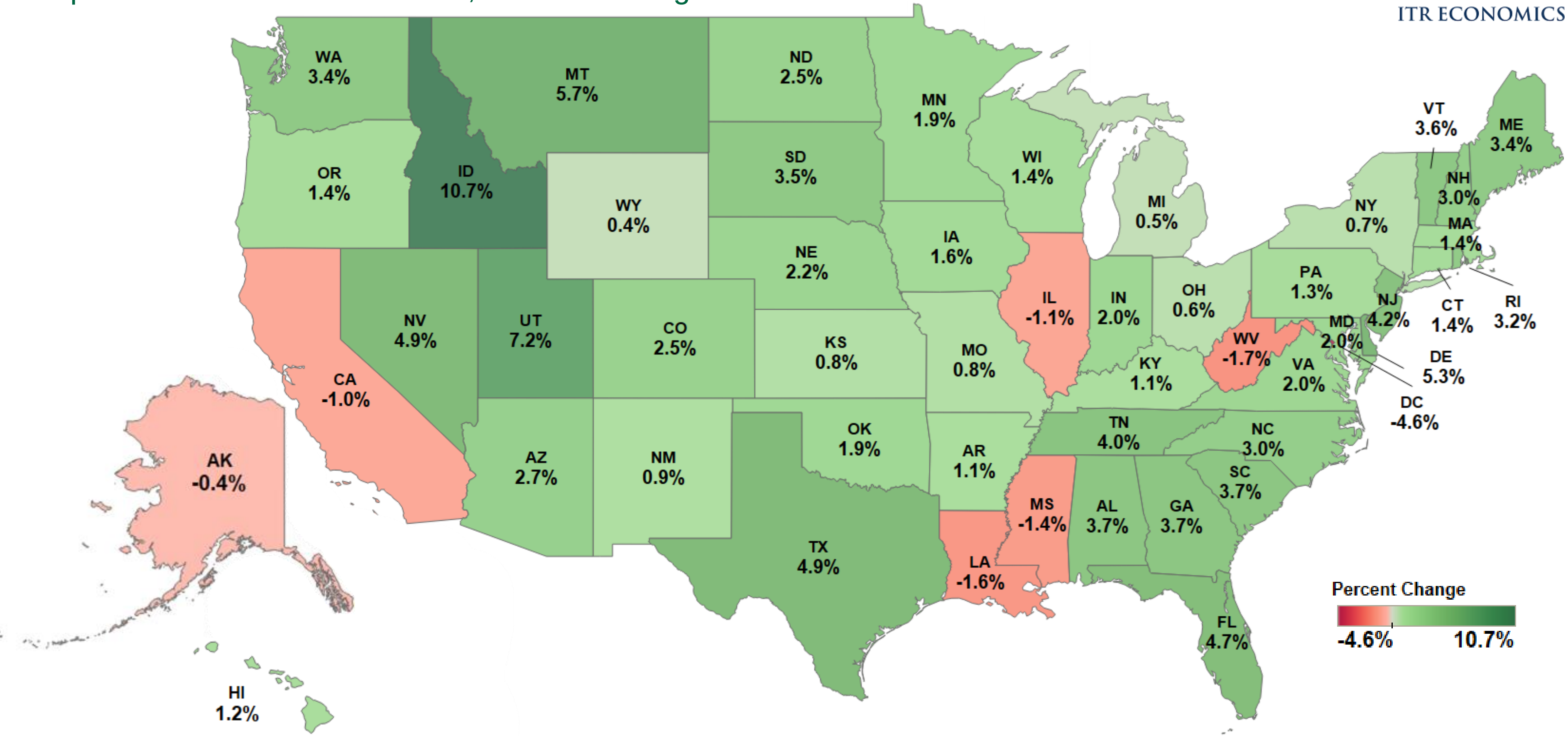

Job Openings Are High But Decreasing

Source: BLS

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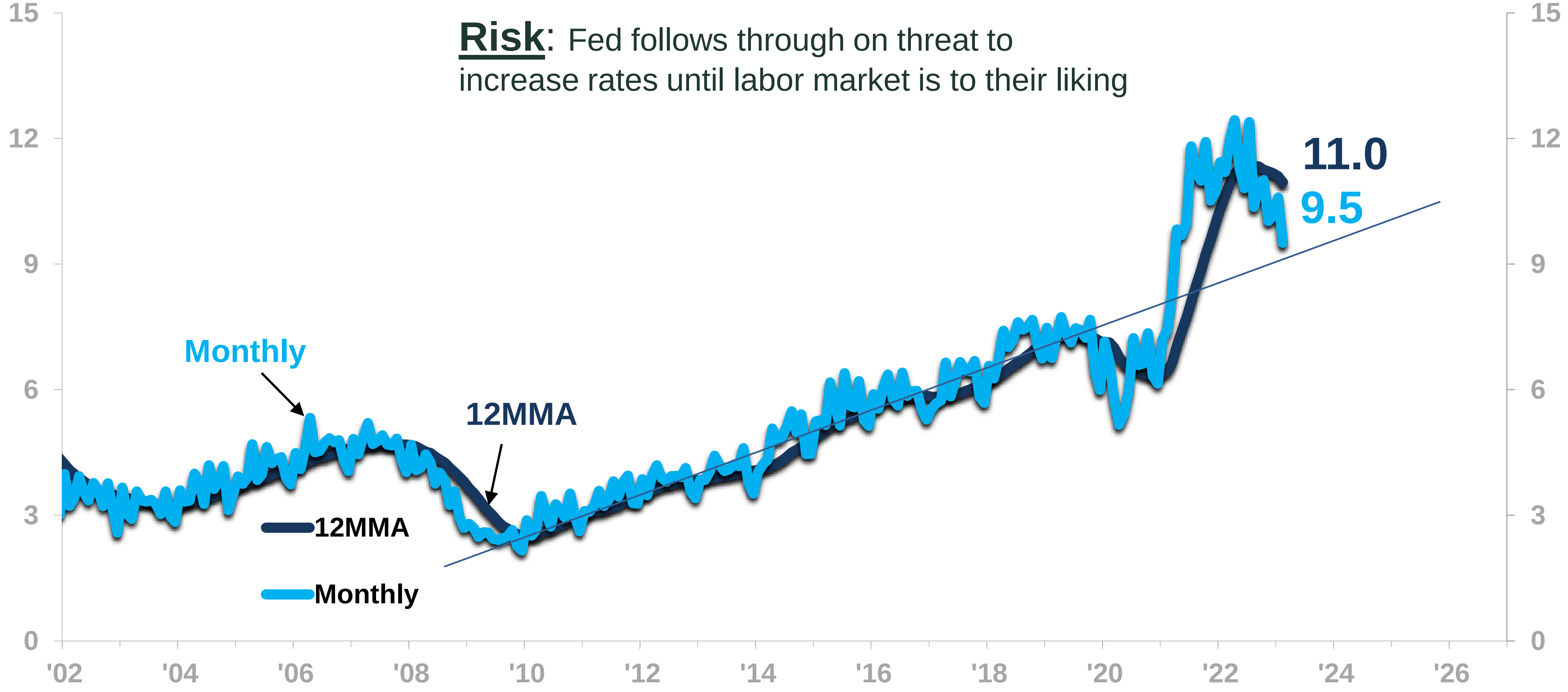
US Total Nonfarm Job Openings

Data Trends: Millions of Job Openings

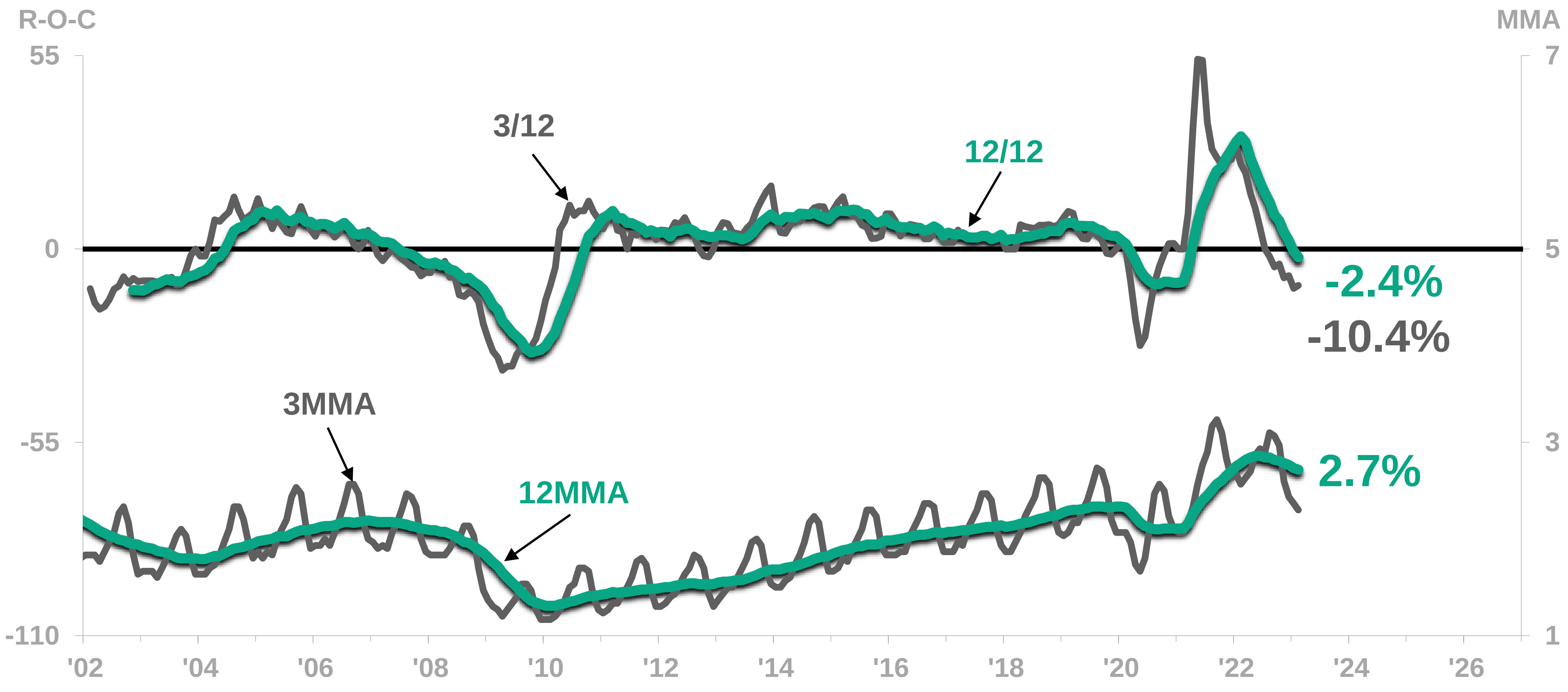


Quit Rate is Coming Down: Expect That Trend to Continue

Source: BLS

US Nonfarm Quit Rate

Percent



Wage Growth Has Likely Peaked For This Business Cycle

Source: Federal Reserve Bank of Atlanta

US Full-Time Wage Growth

Percent

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People Summary

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- Weakening economic conditions means employees become more likely to stay.
- Tightness in the labor market is a longer-term trend so don’t overreact in 2023-2024.
- Higher income levels likely to feel less of the “pain” of 2024.

Next Steps

- There are going to be some layoffs in 2024
- Tougher times increases employee “stickiness”

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Financial Markets

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Expect a Mild Decline in 2023

Source: FRB

US Government Long-Term Bond Yields

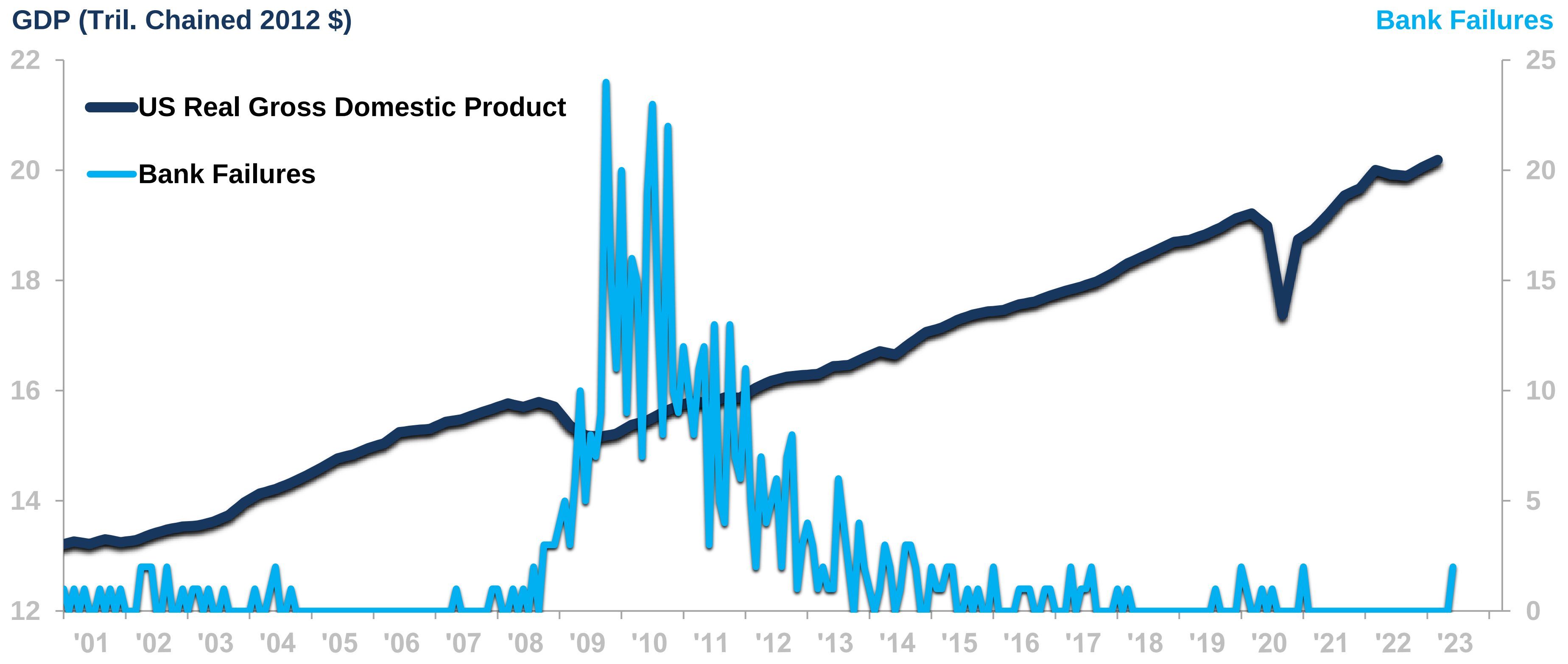
Raw Data, Percent

Bank Failures Are Not a Leading Indicator for Recessions

Sources: BEA, FDIC

US Real Gross Domestic Product to Bank Failures

Monthly Data



Stock Market Adversity is an Economic Risk

Sources: WSJ, Harvard US Leading Indicator of Remodeling Activity

US S&P 500 Stock Prices Index to Harvard US Leading Indicator of Remodeling Activity

Raw Data

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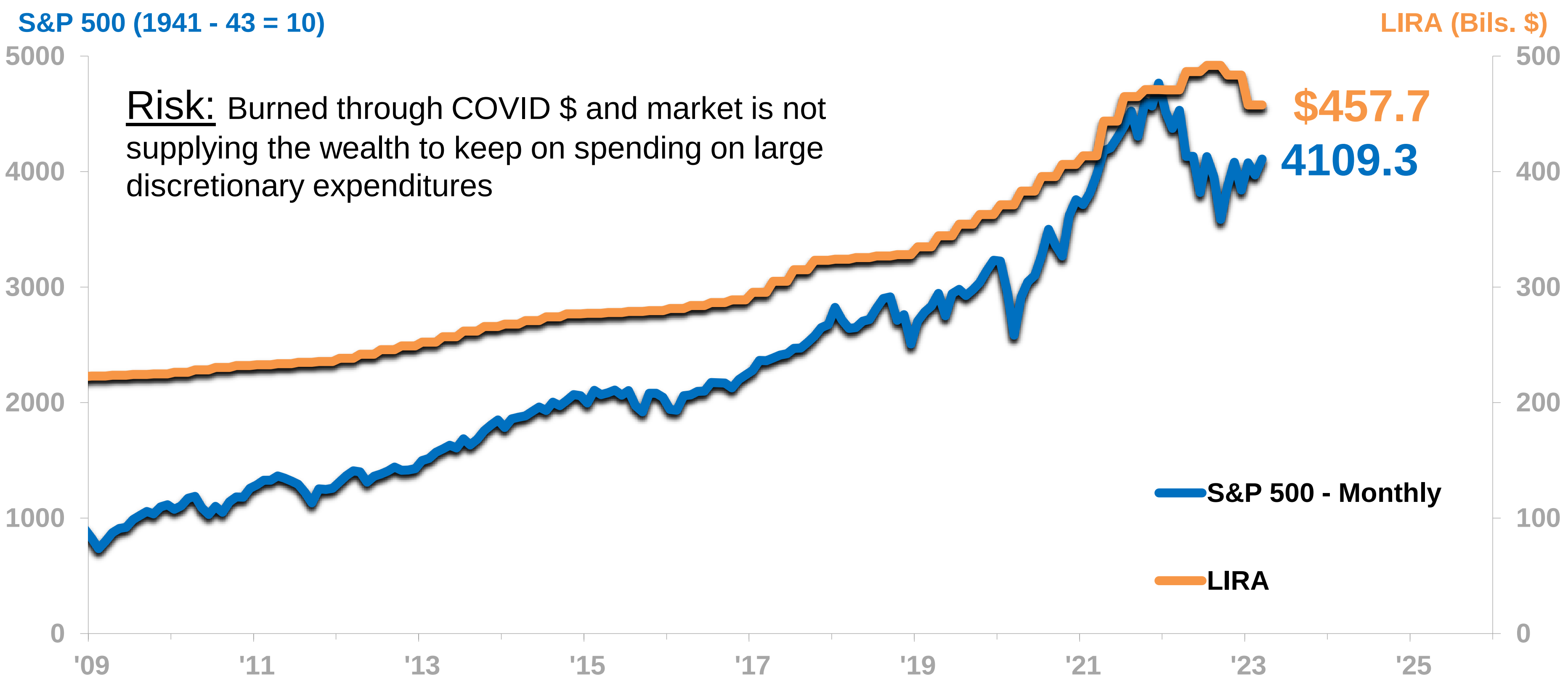
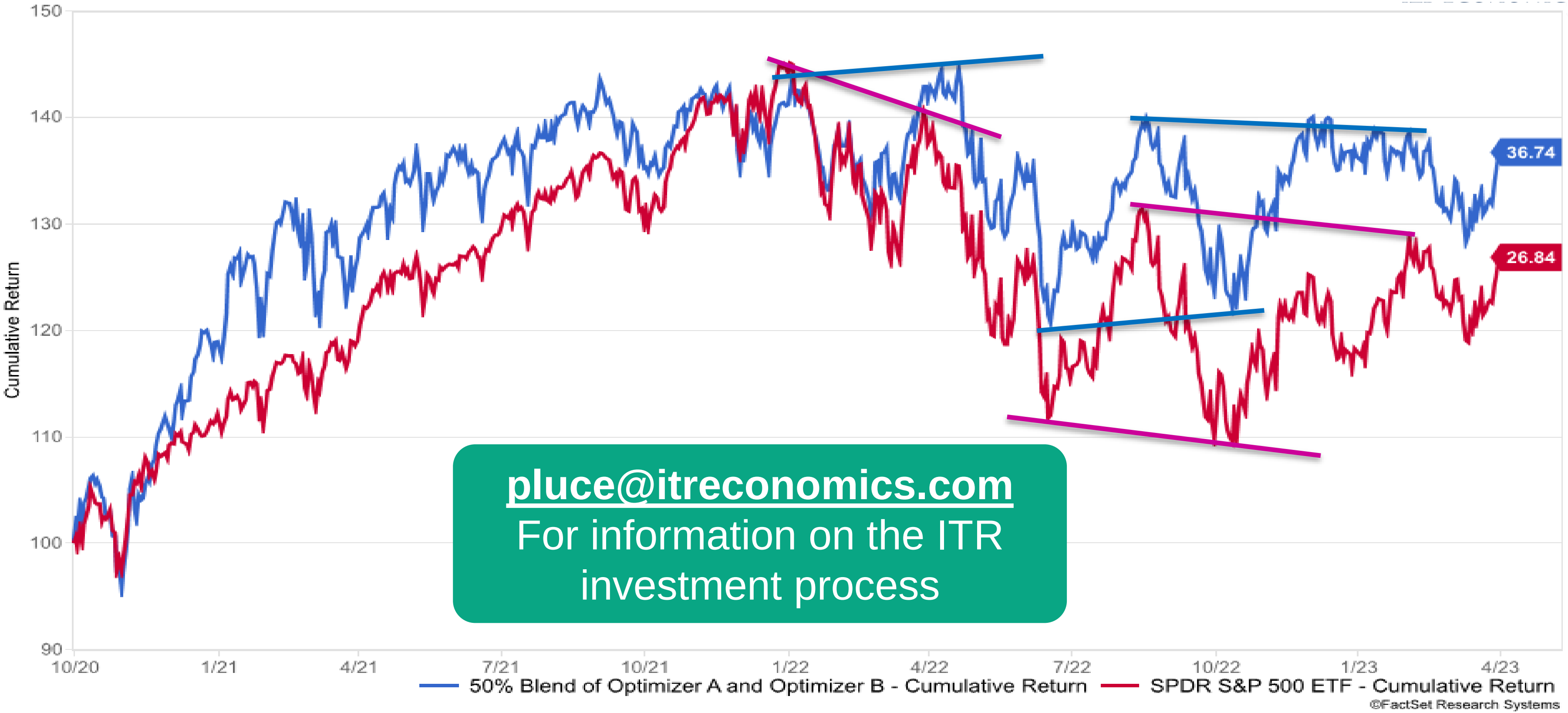


50/50 Blend Optimizer (50% A, 50% B)
Oct 1, 2020 through March 31, 2023

50/50 Blend Optimizer is made up of 50% Optimizer A, and 50% Optimizer B



pluce@itreconomics.com

For information on the ITR investment process

Looking Ahead

- Disinflation and deflation will characterize 2023 and 2024 with an attendant easing of wage inflation.
- The Fed's actions gave rise to an inverse yield curve. Join us for Fed Watch to keep track of how this unfolds.

- Expect a recession to begin in 2023 and most of 2024.
- We expect the recession to be mild but that will not be true of every market.
- Maximize competitive advantages to protect margins.

- Assess cash needs; credit conditions are tightening.
- Interest rates are likely to come down before they go further upward.
- Think about expanding the asset classes you are invested in and how you invest in securities.

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Any questions?

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