The ITR Advisor

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Industry Snapshots

Arrow denotes 12-month moving total/average direction.

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

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

Macroeconomic Outlook

US Real Gross Domestic Product (GDP) posted a record high in the second quarter; the recovery from the pandemic-induced recession in the first half of 2020 is complete. We expect GDP will rise into at least the first half of 2022, but at a slower pace.

Annual US Industrial Production is accelerating in its ascent. Second-quarter US Nondefense Capital Goods New Orders (excluding aircraft) were up 22.8% from the same quarter one year ago, the fastest pace of growth in nearly 37 years. This reflects that businesses have the means and confidence to invest in capital goods. Retail spending is also strong, with US Total Retail Sales up 14.0% year over year, the highest growth rate in the 73-year data history.

Both consumers and producers have plenty of cash on hand to drive recovery and rise for the US economy. US Corporate Cash was at record levels as of the first quarter (the latest available data). Quarterly US Disposable Personal Income is below year-ago levels but above the 2019 average by 7.1%. Businesses and consumers, flush with cash, will propel the economy to new heights as they spend these excess funds.

> *"2022 will be a good year, but the pace of growth will moderate"*

However, leading indicator movements signal that the economy will grow at a slower pace in 2022 than 2021. Several macroeconomic leading indicators – including the ITR Leading Indicator™, US ISM PMI (Purchasing Managers Index), US OECD Leading Indicator, and US Total Industry Capacity Utilization Rate – have reached tentative business cycle peaks and are now pointing to a first-half-of-2022 transition to slowing growth for the US industrial sector. Spiking inflation, some choppiness in the stock market thus far in August, and Federal Reserve discussions surrounding interest rate hikes further reinforce this probability.

The resurgence of COVID-19 cases poses a downside risk to our macroeconomic outlook. While more than 50% of Americans are now fully vaccinated, increasing case numbers and hospitalizations could deter spending on in-person experiences and once again incentivize saving as uncertainty about economic recovery lingers. Tailwinds from fiscal stimulus programs such as the expanded and advanced child tax credit payments pose an upside risk to our outlook heading into 2022.

We urge our clients to avoid thinking the high macroeconomic growth rates of 2021 are here to stay; 2022 will be a good year, but the pace of growth will moderate. Look to outperform the cycle by introducing new products or services.

Make Your Move

Utilize today's low interest rates to combat rising wages; a tight labor market will be a defining feature of the US economy in the coming years.

Investor Update

Declining rate-of-change signatures for the S&P 500 and the ITR Equity Optimizer™ signal's early-August switch from aggressive to defensive are warning signs for the market. We believe there is a likelihood of at least an S&P 500 correction later this year; if that occurs do not be surprised and know that we are not surprised.

ITR Economics Long-Term View

2021	2022	2023
RECOVERY AND RISE	GROWTH	GROWTH

Leading Indicator Snapshot

	3Q2021	4Q2021	1Q2022
ITR Leading Indicator™	Rise	Rise	Rise
ITR Retail Sales Leading Indicator™	Rise	Rise	Rise
US OECD Leading Indicator	Rise	Rise	Decline
US ISM PMI (Purchasing Managers Index)	Rise	Rise	Rise
US Total Industry Capacity Utilization Rate	Rise	Rise	N/A

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

- A myriad of leading indicators – including, but not limited to, four of the five indicators in this table – have ticked down, tentatively suggesting a business cycle peak for US Industrial Production early next year, in line with our forecast.
- Recent stumbles in the US stock market and in the daily data for prices of commodities such as copper and oil reinforce our expectation that US Industrial Production will be characterized primarily by slowing growth next year.
- The ITR Retail Sales Leading Indicator™ is still rising, signaling US Total Retail Sales strength will extend through at least early next year.

Industry Analysis

RETAIL SALES

- Annual US Total Retail Sales were 14.0% above the year-ago level in July
- Retail Sales rise will persist into at least the second half of 2022
- Consumer strength will continue to drive Retail Sales to new record highs

WHOLESALE TRADE

- US Total Wholesale Trade in the 12 months through June was 9.9% above the year-ago level
- Wholesale Trade will rise into at least the second half of 2022
- Decline in macroeconomic leading indicators and commodity price rates-of-change suggest slowing growth next year for Wholesale Trade

AUTO PRODUCTION

- Annual North America Light Vehicle Production in June was virtually flat relative to the May level as manufacturers grappled with persistent semiconductor shortages and scarcity of other inputs
- Manufacturers are staggering factory closures to spread shortage impacts across vehicle models
- Annual Production will vacillate around 14 million units in at least the coming quarters

MANUFACTURING

- Annual US Total Manufacturing Production was 3.0% above the year-ago level in July
- Leading indicators point to a transition to a slowing growth trend in the first half of next year
- Supply chain constraints continue to hamper Production, as port movements slow

ROTARY RIG

- The US Rotary Rig Count averaged 467 in the three months through July
- US Crude Oil Spot Prices rose slightly in July, averaging $72.49; however, Prices have fallen in recent weeks to below $65
- At 11.4 million barrels per day in the most recent week, US Crude Oil Production is slowly returning but still nearly 2 million barrels shy of the pre-pandemic peak

CAPITAL GOODS NEW ORDERS

- US Nondefense Capital Goods New Orders in the 12 months through June were 11.0% above the year-ago level
- The US Business Confidence Index rate-of-change is moving lower, signaling slowing growth for New Orders next year is probable
- Annual US Defense Capital Goods New Orders are below year-ago levels

TOTAL NONRESIDENTIAL CONSTRUCTION

- US Total Nonresidential Construction in the 12 months through June was 7.3% below the year-ago level
- ITR Checking Points™ suggest a transition to a business cycle rising trend will occur in the near term, thanks – in part – to inflationary pressures
- Sectors which benefited the most from pandemic-related shifts, such as data centers and warehouses, have the most near-term upside potential in terms of nonresidential construction

TOTAL RESIDENTIAL CONSTRUCTION

- Annual US Total Residential Construction was 20.6% above the year-ago level in June
- We are beginning to see cyclical decline in key housing leading indicators, such as the National Association of Home Builders Housing Market Index
- Construction will rise into the second half of 2022, though at a slowing pace

A Closer Look: The US Economy

Infrastructure Bill Carries Potential Rewards, Consequences

BY: LAUREN SAIDEL-BAKER

What you need to know: The massive investment would benefit some but could exact a steep cost

This month, a proposed US infrastructure bill passed the Senate and will now move on to the House. While a final version is yet to be negotiated, our analysis of the initial infrastructure plan reveals good news for some in the coming years, but it also heightens our concerns regarding unsustainable deficit spending, a cornerstone of our forecast for a depression beginning around 2030.

If passed, this bill would represent the largest domestic infrastructure investment in more than a decade. However, even this $1.0 trillion total comes as a compromise from President Biden's earlier proposal of $2.7 trillion. The bill would fund roughly $550 billion in new infrastructure investment and allocate $450 billion to existing programs.

The transportation sector is the biggest winner in this bill, with $110 billion allocated to roads and bridges, $66 billion to rail, and $39 billion to public transit. Two other key beneficiaries are the utilities sector ($73 billion for power infrastructure, $55 billion for drinking water, $50 billion for water storage) and the communications sector ($65 billion for broadband).

However, this investment comes at a cost. The nonpartisan Congressional Budget Office estimates that the plan will add $256 billion to the deficit over 10 years. That deficit spending will only add to the already-expanding federal debt, over which ITR Economics has long expressed concern. The public debt burden is a critical component of our forecast for a depression beginning around 2030. While higher debt levels are currently relatively sustainable due to historically low interest rates, this trend will not persist in the future. As higher interest rates characterize the second half of the decade, federal debt will only become more expensive.

It has been advertised that improved infrastructure will yield positive externalities for US businesses. Road and bridge improvements are arguably needed across the country and will benefit private industry through better transport. These investments should come as an attractive prospect for firms currently facing high transport costs and related supply chain woes. The $17 billion intended for ports and waterways, for example, may be enticing to firms whose products are presently subject to delays at our nation's ports.

We at ITR Economics are closely following developments on the infrastructure bill, but we expect only limited upside risk to our near-term forecasts, as even so-called "shovel ready" projects include lead times of months or more.

Additionally, even these eye-popping investment totals will not necessarily crowd out existing macroeconomic trends. The $55 billion allocated for water improvements, for example, appears sizable when compared to a $44.3 billion 12-month moving total for US Public Water and Sewer Facilities Construction. Yet it must be noted that the infrastructure bill spreads the investment across a decade, and our forecast for Water and Sewer Construction already calls for growth in 2022 and 2023, based partially on higher demand stemming from new housing construction.
It will likely be at least several months before the bill is finalized, and even then there will be ample time to analyze and plan for its impacts before they take effect. Until then, we recommend you keep watch, but pay closer attention to your business's rates-of-change and the leading economic indicators.

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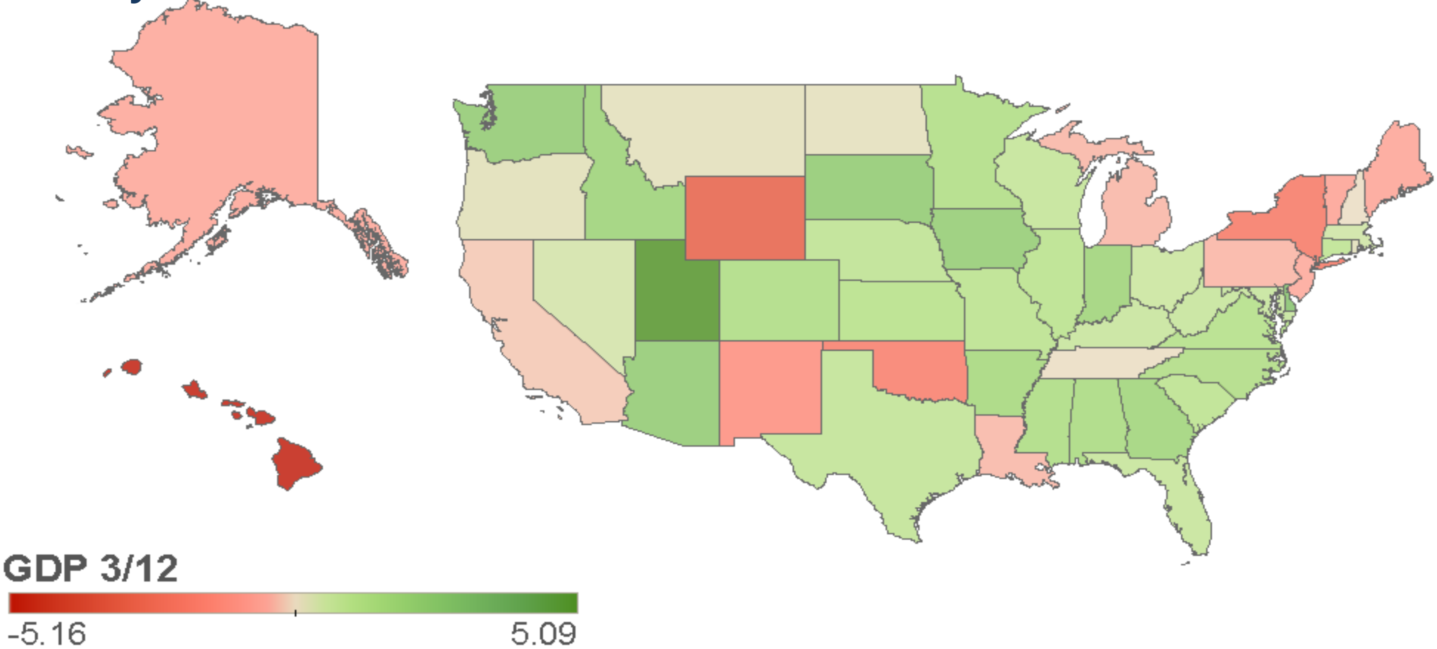
State-by-State: GDP



- US Real Gross Domestic Product (GDP) reached a record high in June, marking a full recovery from the COVID-19 induced shutdowns of 2020.
- The Southeast region posted the highest first-quarter GDP growth rate (latest data available, equal-weighted average), at 1.1%, followed by the Central (0.8%) and West (0.7%) regions.
- The Northeast (-0.3%) and Southwest (-0.2%) remain below year-ago levels but are recovering.
- A myriad of leading indicators signal that overall US GDP is approaching a transition to a slowing growth trend. Ensure you consider regional trends, as they may deviate from the national trends.

Reader's Forum

Please send questions to: questions@itreconomics.com

Are you concerned about the multi-family housing construction market in light of the eviction moratorium's upcoming expiration?

Lauren Stockli, Economist at ITR Economics™, answers:

We don't think it's likely that the moratorium expiration – currently slated for early October in most of the country – will significantly impact our outlook for near-term acceleration in US Multi-Unit Housing Starts, followed by slowing growth in much of 2022. Each region and state will be different depending on its housing needs, but, nationally, quarterly US Multi-Family Permit authorizations are up 18.9% from one year ago. This bodes well for Starts for at least the next one to two quarters. Furthermore, US For-Rent Inventory is below the five-year average, so a potential moratorium expiration is likely to occur at a time when inventories are relatively tight.

One study – "U.S. Eviction Filing Patterns in 2020" by Hepburn et al. – estimated that there were roughly 1.55 million fewer evictions than normal in 2020. These evictions could be looming as we approach the end of the moratorium. However, the impacts of stimulus, rising employment, low household credit card debt and delinquency rates, and elevated disposable income indicate a strong consumer and suggest no major drop-off for multi-family housing construction, especially given across-the-board tightness in the housing market.