Align Resources for the Rise Ahead

Connor Lokar, Economist, ITR Economics

2024 Forecast Results

	Duration	Accuracy
US GDP	12	98.6%
US Ind. Production	19	96.5%
Europe Ind. Production	20	99.1%
Canada Ind. Production (Nov 2024)	10	99.5%
China Ind. Production	25	96.3%
Retail Sales	26	95.6%
Housing - Single Family	11	99.7%
Employment-Private Sector	11	99.7%

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

A Powerful Management Tool • Rates-of-Change

	Raw	3MMT	3/12	12MMT	12/12
Feb-23	6.251				
Mar-23	5.972				
Apr-23	6.964	19.2			
May-23	6.305	19.2			
Jun-23	6.870	20.1			
Jul-23	6.789	20.0			
Aug-23	6.238	19.9			
Sep-23	6.960	20.0			
Oct-23	6.740	19.9			
Nov-23	6.985	20.7			
Dec-23	6.658	20.4			
Jan-24	6.487	20.1		79.2	
Feb-24	6.310	19.5		79.3	
Mar-24	6.299	19.1		79.6	
Apr-24	6.658	19.3	0.4%	79.3	
May-24	6.763	19.7	2.5%	79.8	
Jun-24	6.982	20.4	1.3%	79.9	
Jul-24	6.580	20.3	1.8%	79.7	0.1%
Aug-24	6.797	20.4	2.3%	80.2	1.1%
Sep-24	6.879	20.3	1.3%	80.1	1.1%
Oct-24	6.738	20.4	2.4%	80.1	1.3%
Nov-24	7.263	20.9	0.9%	80.4	1.4%
Dec-24	6.603	20.6	1.1%	80.4	1.3%
Jan-25	6.892	20.8	3.1%	80.8	2.0%

3/12

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

Anticipates shifts in business cycle trends.

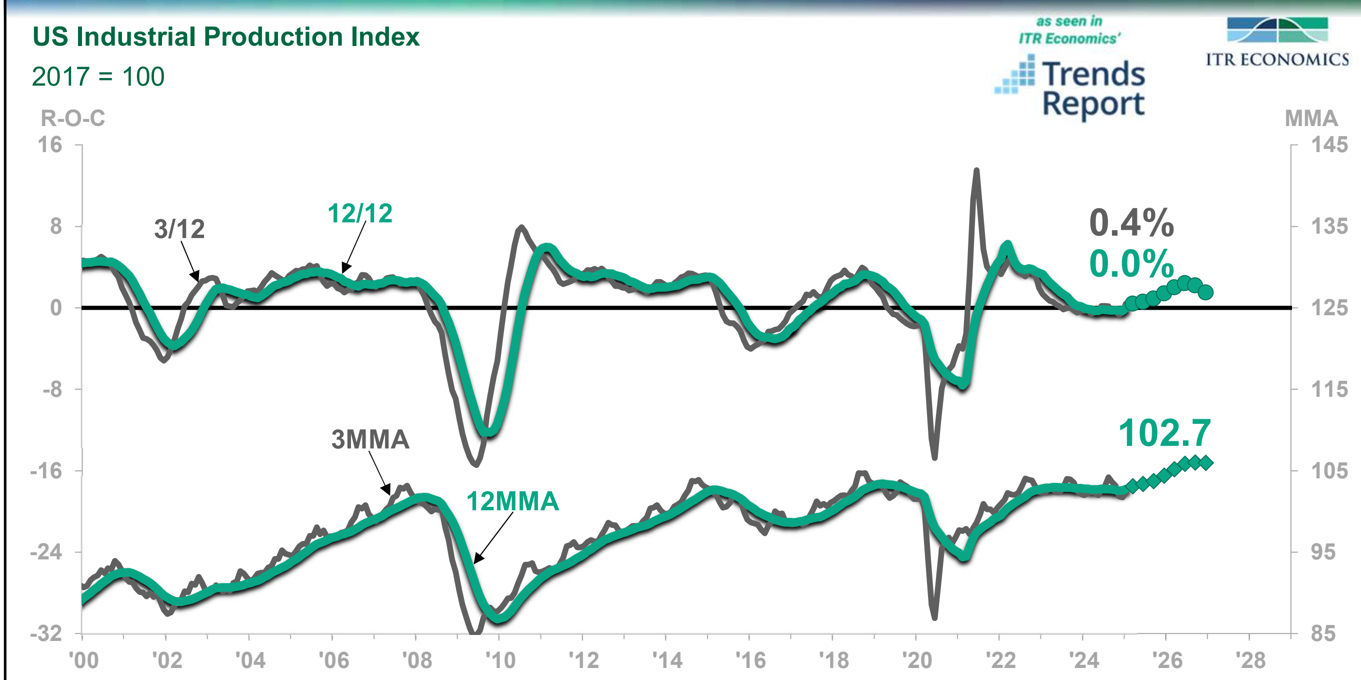
12/12

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

Defines the business cycle.

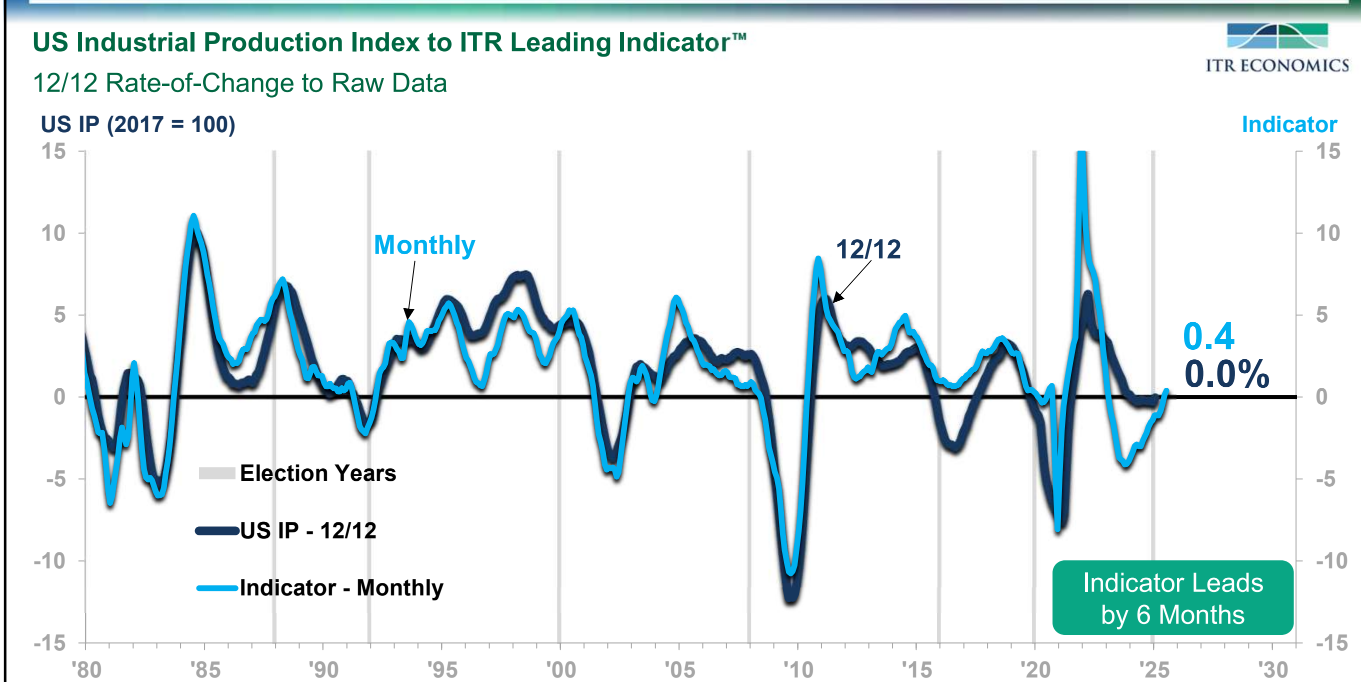
Planning for Growth in 2025 & 2026

Source: FRB



Except for COVID, Leading Indicators Pointed the Way

Sources: FRB, ITR Economics



This Means You Will Likely Be Busier

Source: FRB

US Fabricated Metal Products Production Index to US Industrial Production Index

12/12 Rates-of-Change

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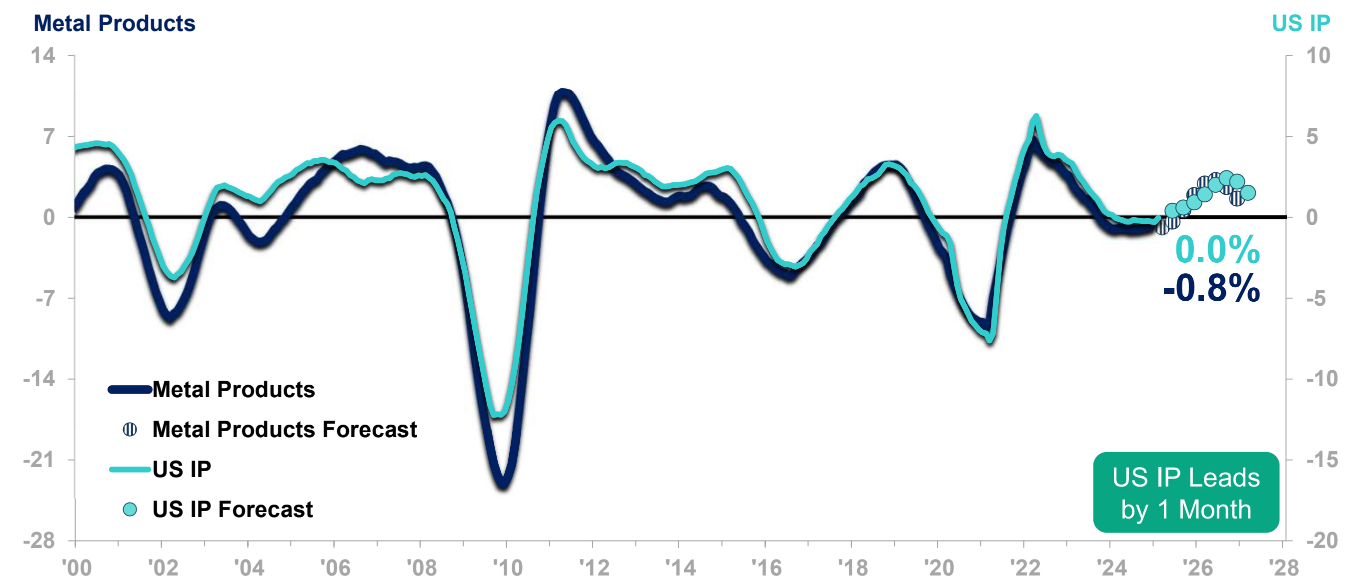

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Global Forces

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Production in Key Economies:

Sources: Japan METI, Statistics Canada, Eurostat, ITR Economics, India Central Statistics Office, Mexico National Institute of Statistics and Geography

International Industrial Production Indexes

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	12/12	Phase	3/12	Phase	12MM Notes
Japan	-2.3%	A	-0.8%	A	Declining
Canada	0.3%	C	-0.1%	A	Rising
Europe	-2.4%	A	-1.2%	D	Declining
Rest of Asia	0.6%	C	1.0%	B	Stalling
South America	-0.4%	A	1.9%	C	Rising
India	4.3%	B	3.9%	B	Rising
Mexico	0.2%	C	-2.0%	D	Declining

A RECOVERY B ACCELERATING GROWTH C SLOWING GROWTH D RECESSION

EU Has Significantly Underperformed the US This Cycle

Sources: Eurostat, FRB

EU Industrial Production Index to US Industrial Production Index

12/12 Rates-of-Change

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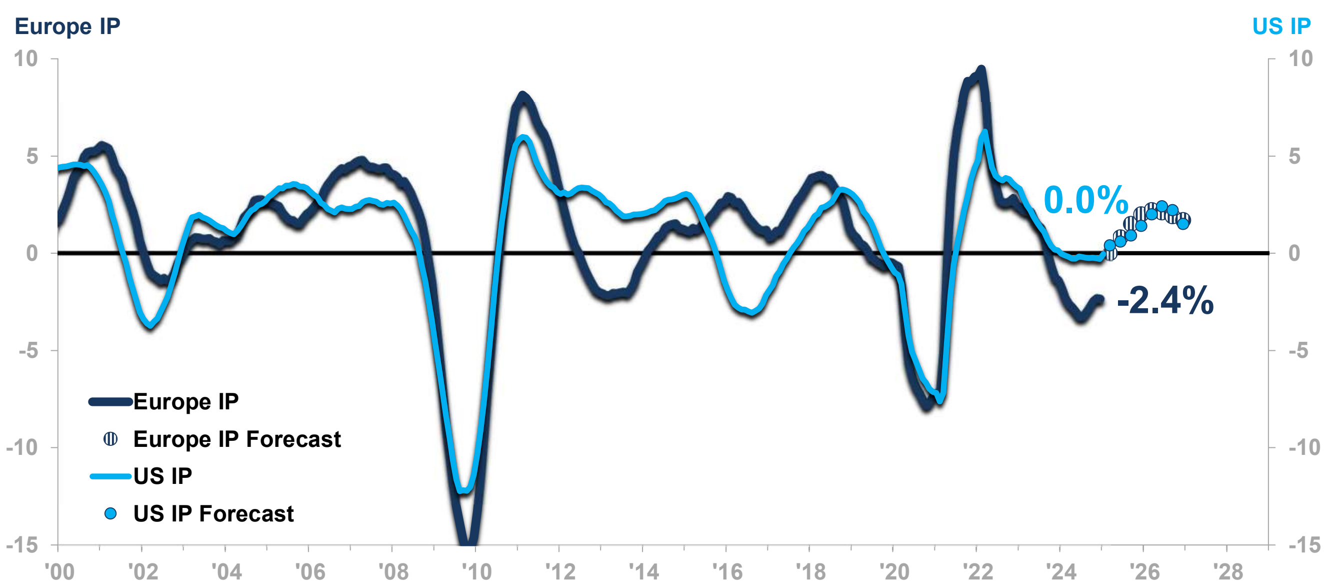
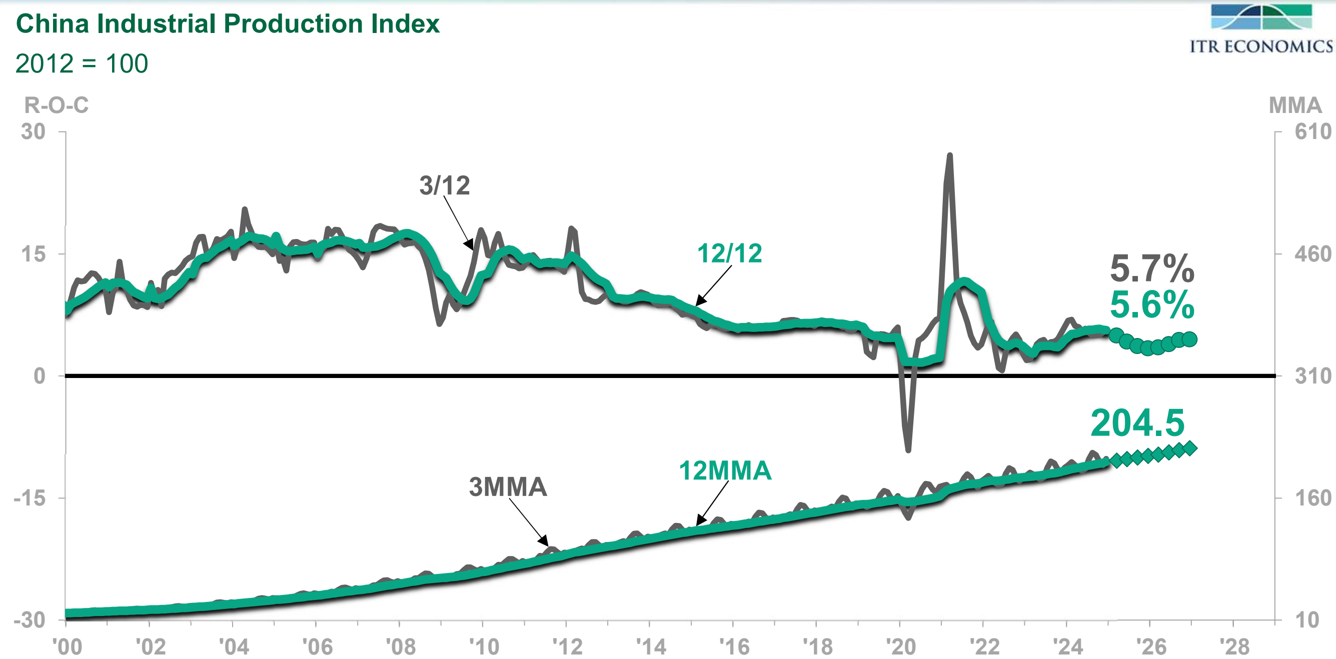


China's Long Term Growth Rate is Falling

Source: China National Bureau of Statistics



Not a Picture of Thriving Economy

Sources: China Railway Corporation, National Railway Administration, China National Bureau of Statistics

China Market Breakdown

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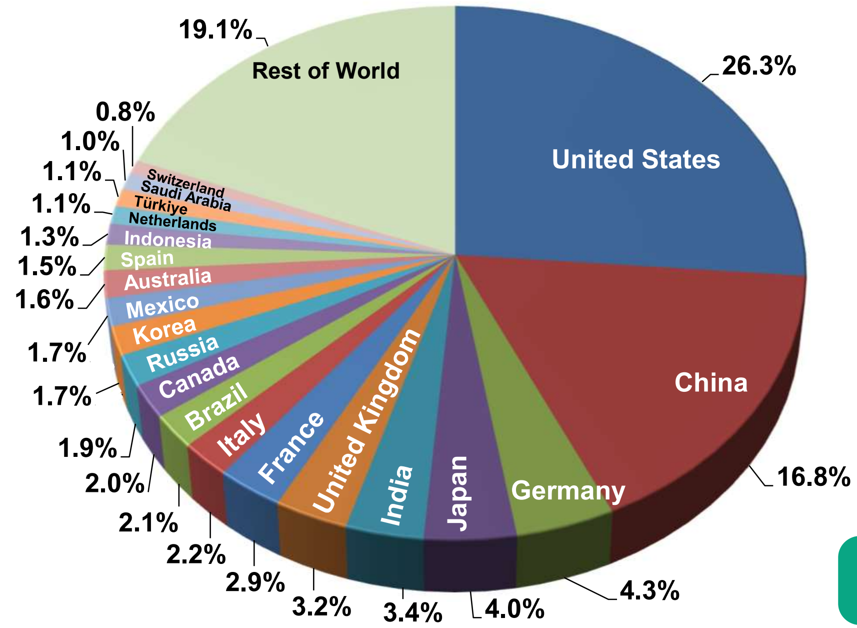
	12/12	Phase	3/12	Phase	12MM Notes
Rail Freight	-1.6%	A	1.9%	B	Tentative Rise
Power Generation	5.4%	C	2.8%	C	Rising
Nonresidential Construction	-13.6%	D	-19.5%	D	Decline
Residential Construction	-6.5%	D	-12.6%	D	Decline
Cement Production	-11.1%	A	-7.3%	A	Decline
Steel Production	-1.9%	A	6.1%	B	Tentative Rise

Percent of World GDP by Country

Source: IMF, **ROW: 34% are IMF Estimated Figures*

ITR ECONOMICS



*Total World GDP:
$105.6 Trillion US $

Global Summary

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- China is facing significant economic challenges compounded by demographic decline.
- Risks associated with financial ties to China are rising.
- USA is the #1 destination of foreign direct investment.

Next Steps

- Nationalism brings opportunities for shorter supply chains.
- It also brings inflation and potentially diminished export opportunities.

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Inflation & Interest Rates

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Some Costs Are Down, But Power & Labor Are Not

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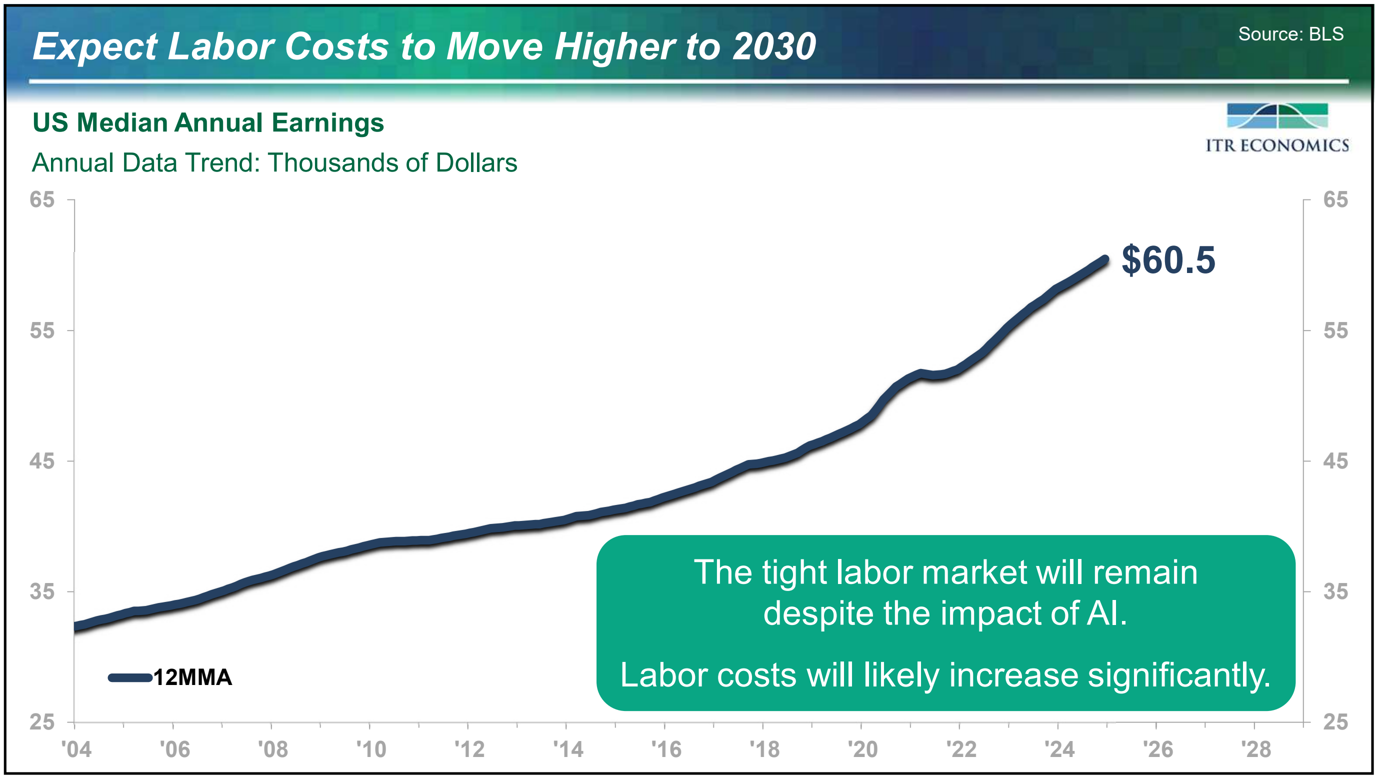
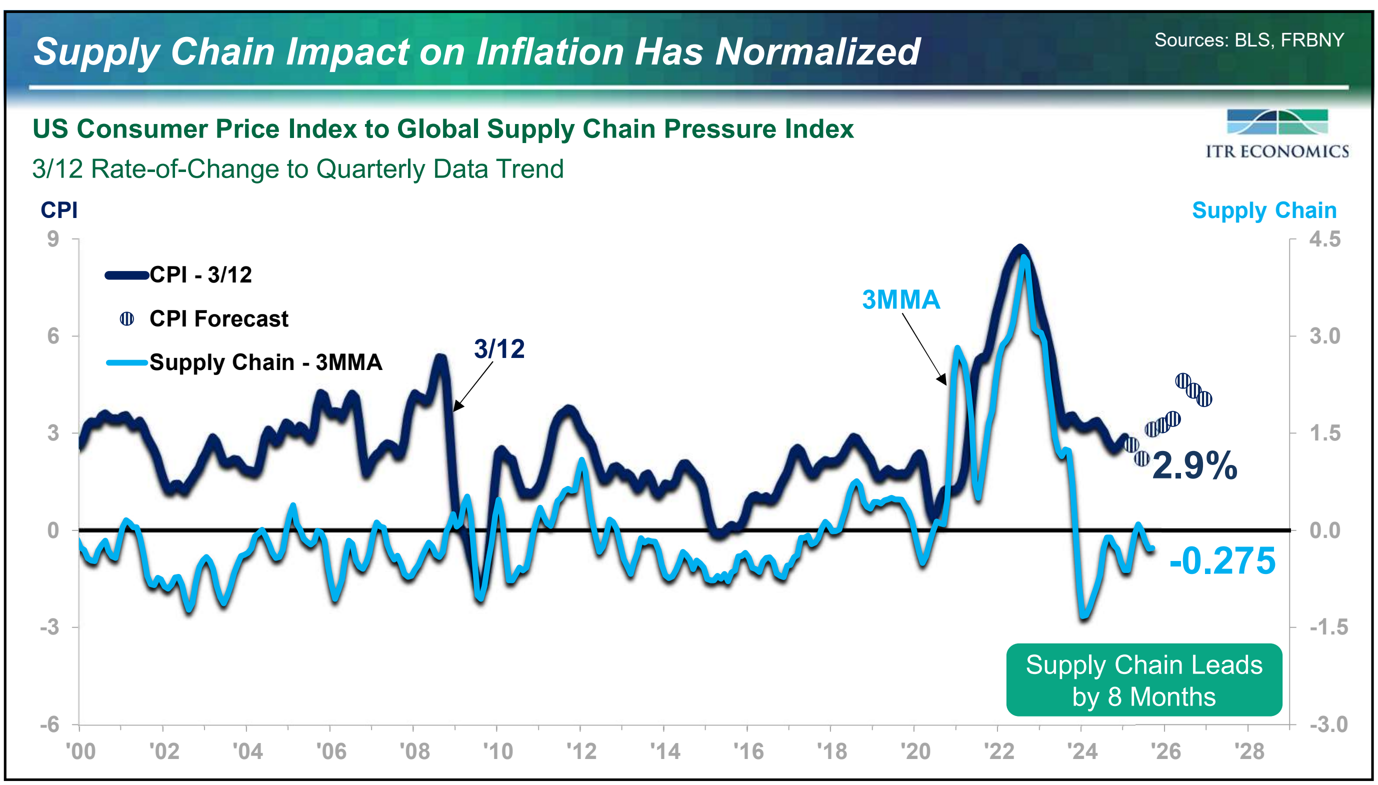
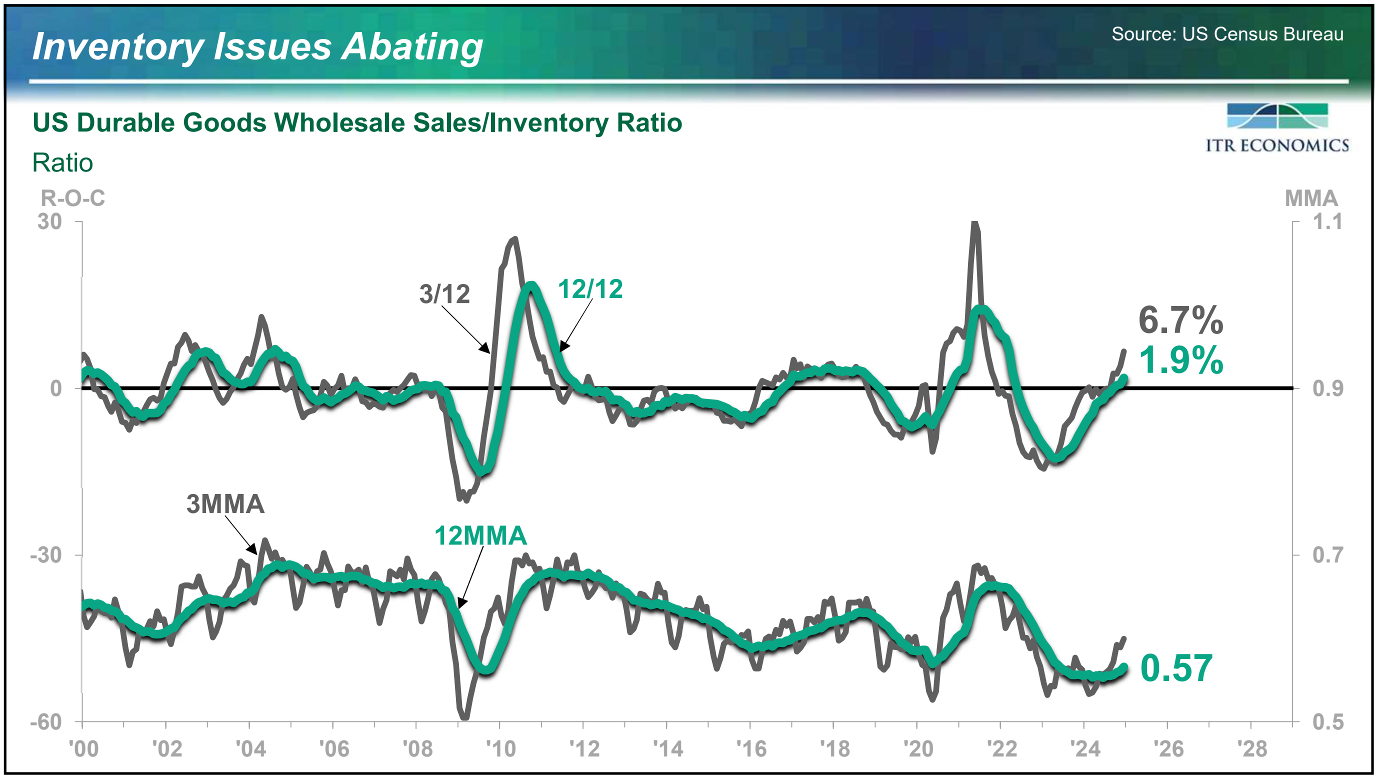
Sources: BLS, EIA

Indicator	12/12	Phase	3/12	Phase
Truck Transportation PPI	-0.7%	A	0.9%	C
Construction Workers Earnings	4.5%	C	4.2%	B
Crude Oil (WTI)	-0.8%	D	-3.5%	A
Copper & Brass PPI	7.9%	B	12.8%	B
Electric Power	2.5%	C	1.3%	C
Iron & Steel PPI	-8.7%	D	-10.2%	D
Wholesale Trade – Durables, Wages	3.3%	B	3.9%	B
Transportation Employment Cost Index	5.2%	C	4.3%	C

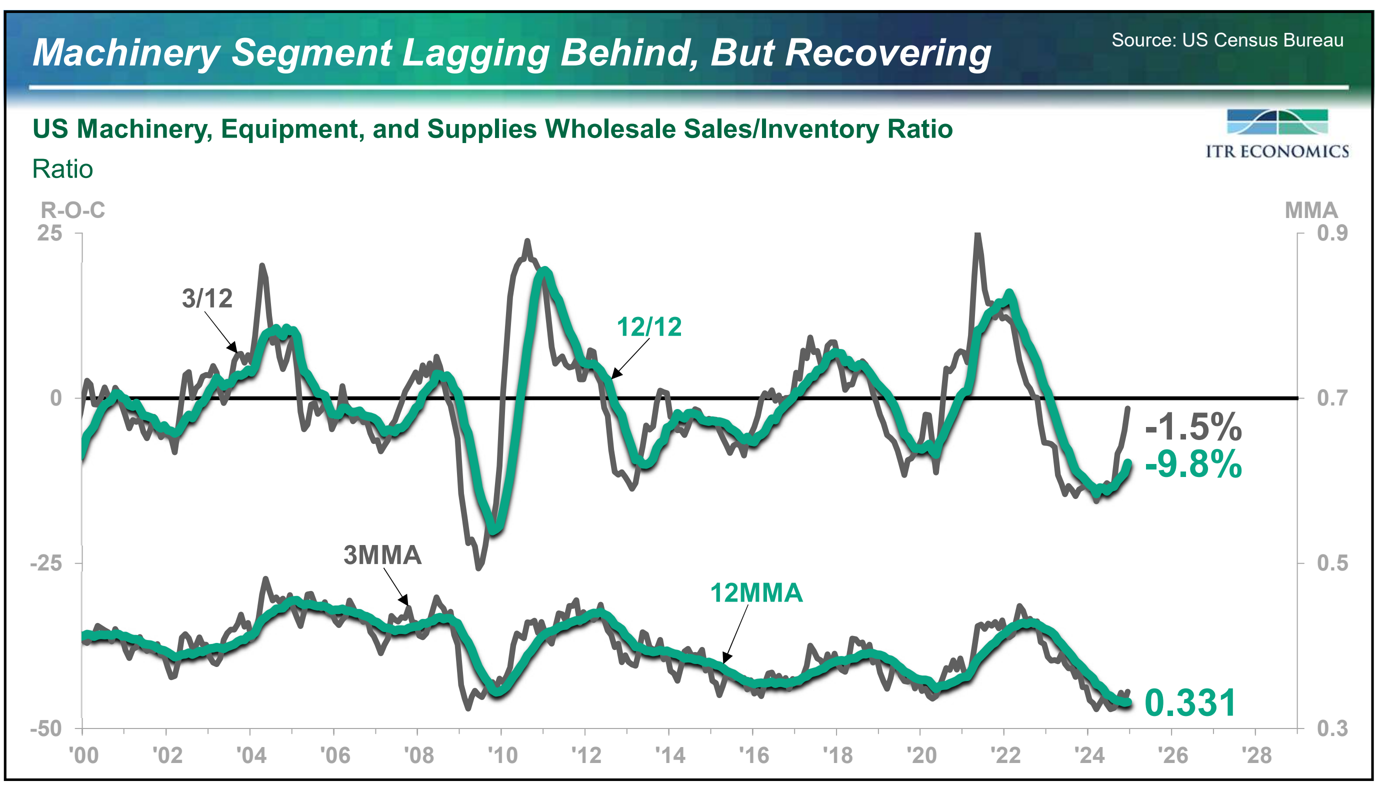
A RECOVERY B ACCELERATING GROWTH C SLOWING GROWTH D RECESSION


Expect Labor Costs to Move Higher to 2030
Source: BLS
US Median Annual Earnings
Annual Data Trend: Thousands of Dollars
ITR ECONOMICS
$60.5
12MMA
The tight labor market will remain despite the impact of AI.
Labor costs will likely increase significantly.
65
55
45
35
25
'04
'06
'08
'10
'12
'14
'16
'18
'20
'22
'24
'26
'28


Supply Chain Impact on Inflation Has Normalized
Sources: BLS, FRBNY
US Consumer Price Index to Global Supply Chain Pressure Index
3/12 Rate-of-Change to Quarterly Data Trend
ITR ECONOMICS
CPI
Supply Chain
CPI - 3/12
CPI Forecast
Supply Chain - 3MMA
3/12
3MMA
2.9%
-0.275
Supply Chain Leads by 8 Months
9
6
3
0
-3
-6
4.5
3.0
1.5
0.0
-1.5
-3.0
'00
'02
'04
'06
'08
'10
'12
'14
'16
'18
'20
'22
'24
'26
'28



Inventory Issues Abating
Source: US Census Bureau
US Durable Goods Wholesale Sales/Inventory Ratio
ITR ECONOMICS
Ratio
R-O-C
MMA
30
0
-30
-60
1.1
0.9
0.7
0.5
3/12
12/12
3MMA
12MMA
6.7%
1.9%
0.57
'00
'02
'04
'06
'08
'10
'12
'14
'16
'18
'20
'22
'24
'26
'28



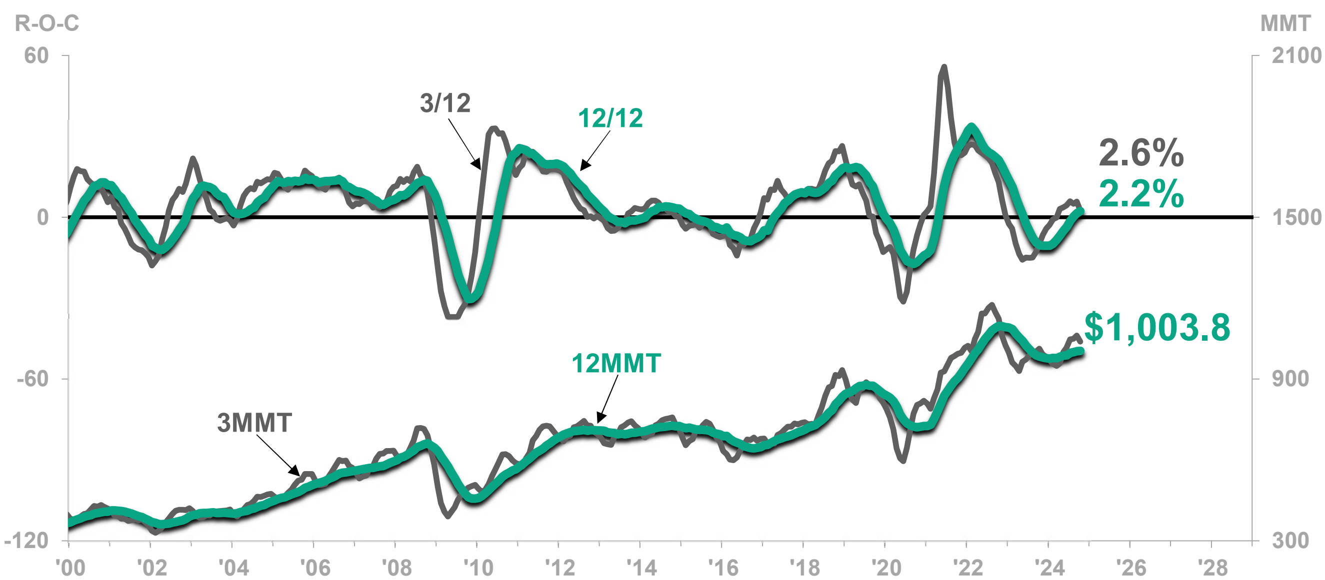
Machinery Segment Lagging Behind, But Recovering
Source: US Census Bureau
US Machinery, Equipment, and Supplies Wholesale Sales/Inventory Ratio
ITR ECONOMICS
Ratio
R-O-C
MMA
25
0
-25
-50
0.9
0.7
0.5
0.3
3/12
12/12
3MMA
12MMA
-1.5%
-9.8%
0.331
'00
'02
'04
'06
'08
'10
'12
'14
'16
'18
'20
'22
'24
'26
'28

Tariffs Are a Supply Chain & Inflation Variable to Watch

Source: USITC

US Value of Imports Subject to Tariffs

Billions of Dollars

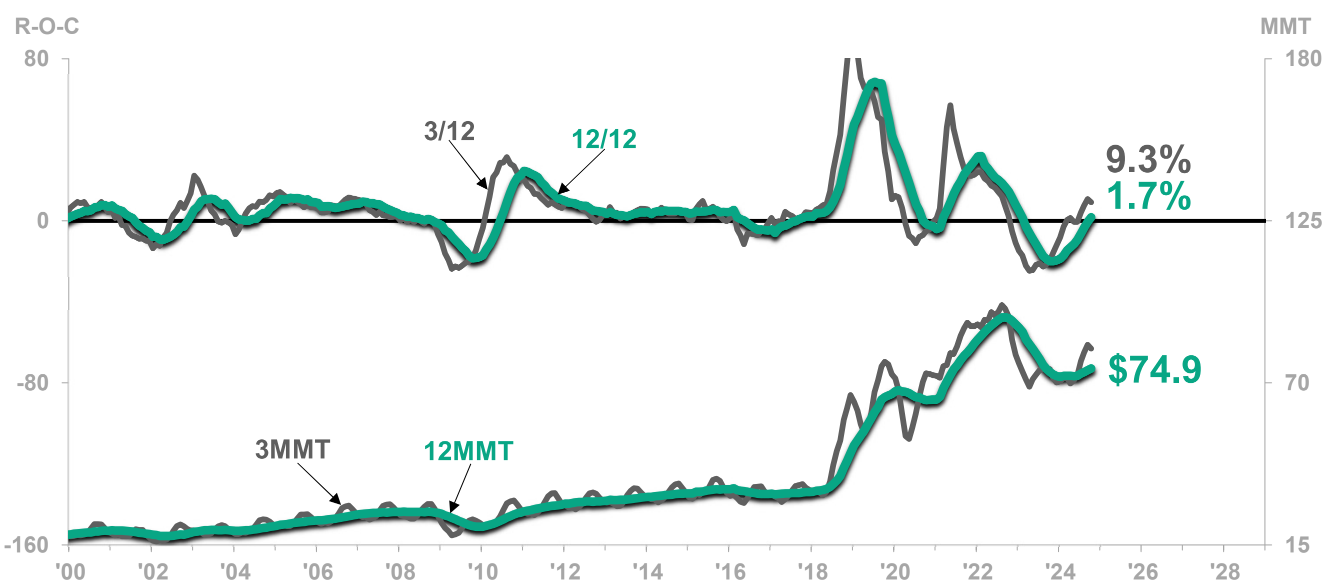


Moving Back Into Phase B

Source: USITC

US Value of Tariffs Collected on Imported Goods

Billions of Dollars

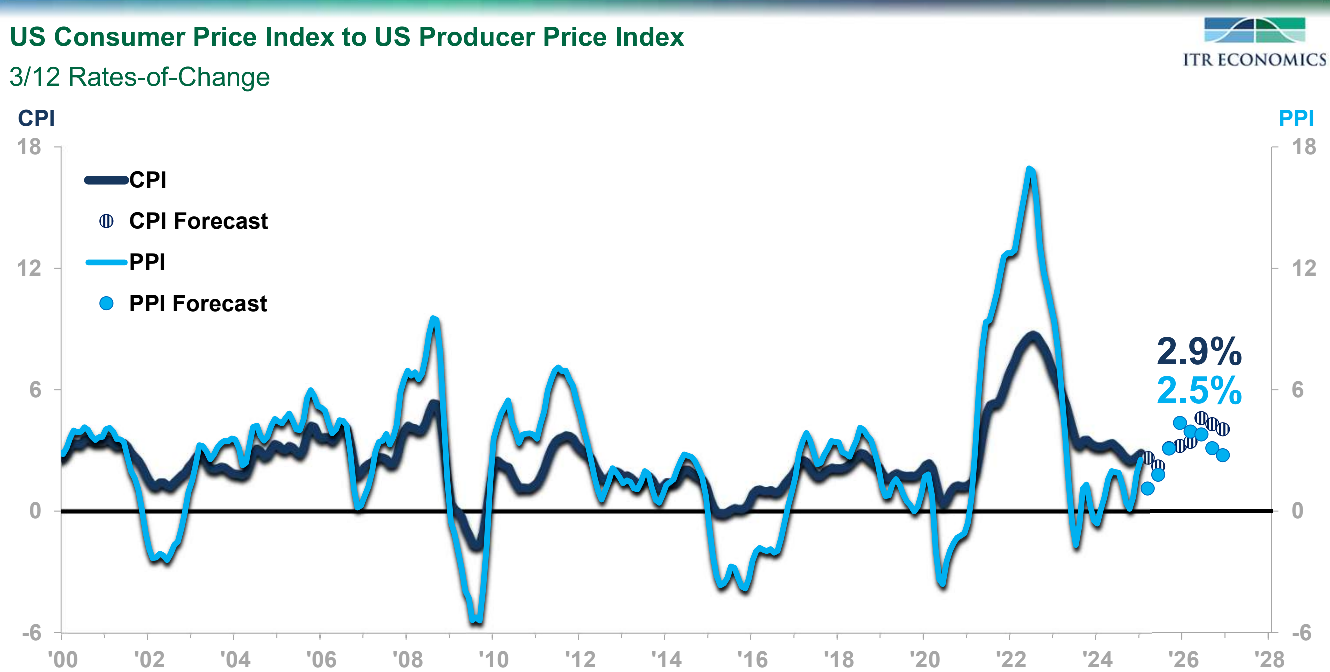


Disinflation in the Short Term

Source: BLS

US Consumer Price Index to US Producer Price Index

3/12 Rates-of-Change

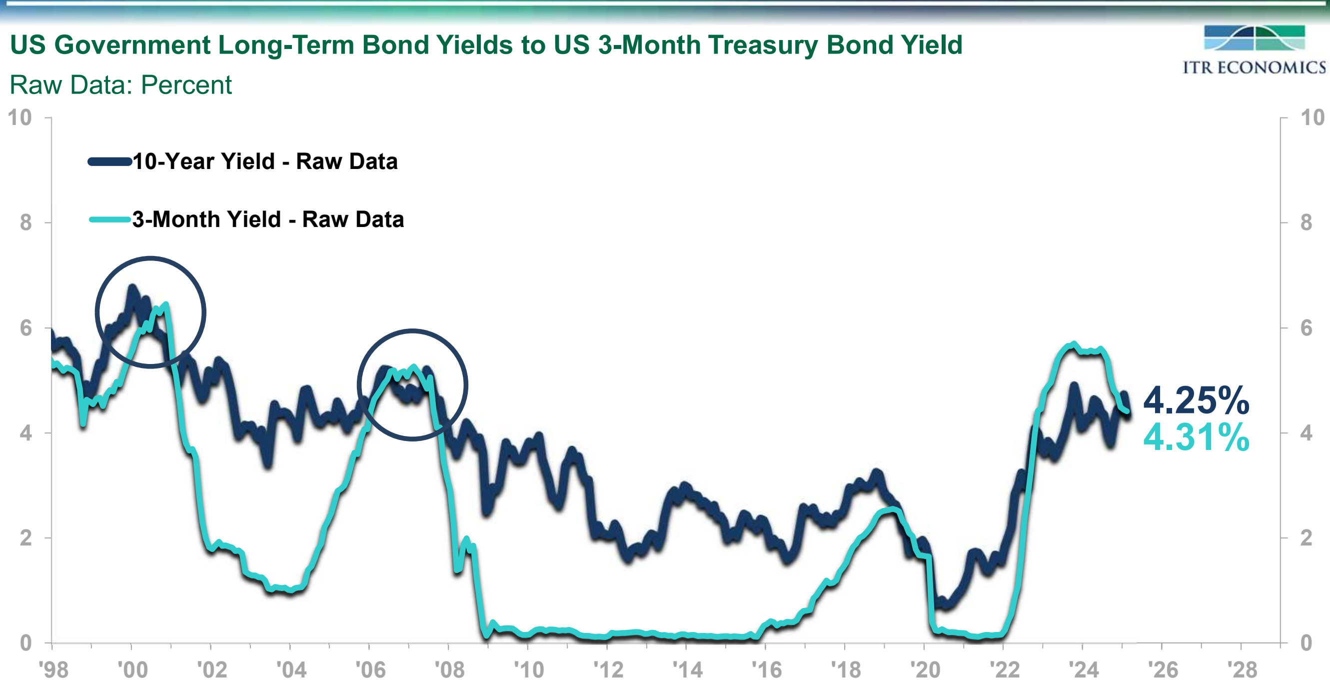


Long-Term Yields Up Despite Rate Cuts

Source: US Treasury Dept.

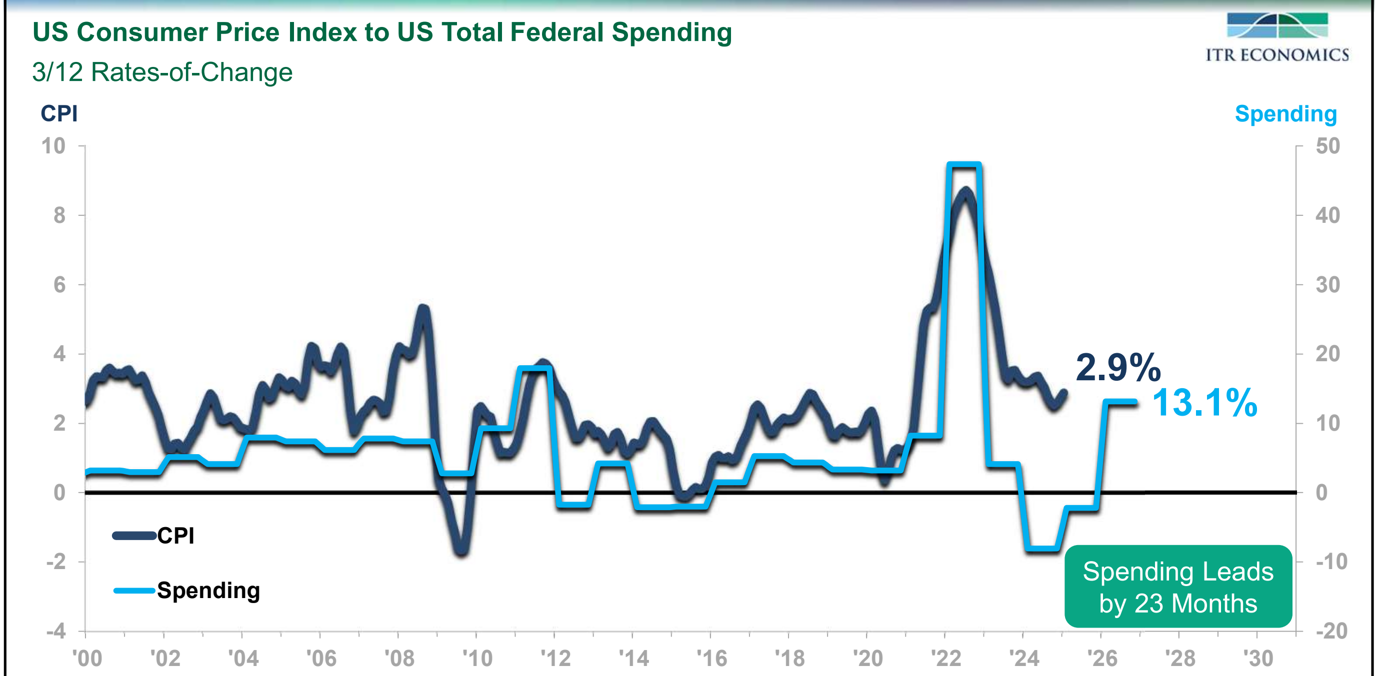
US Government Long-Term Bond Yields to US 3-Month Treasury Bond Yield

Raw Data: Percent



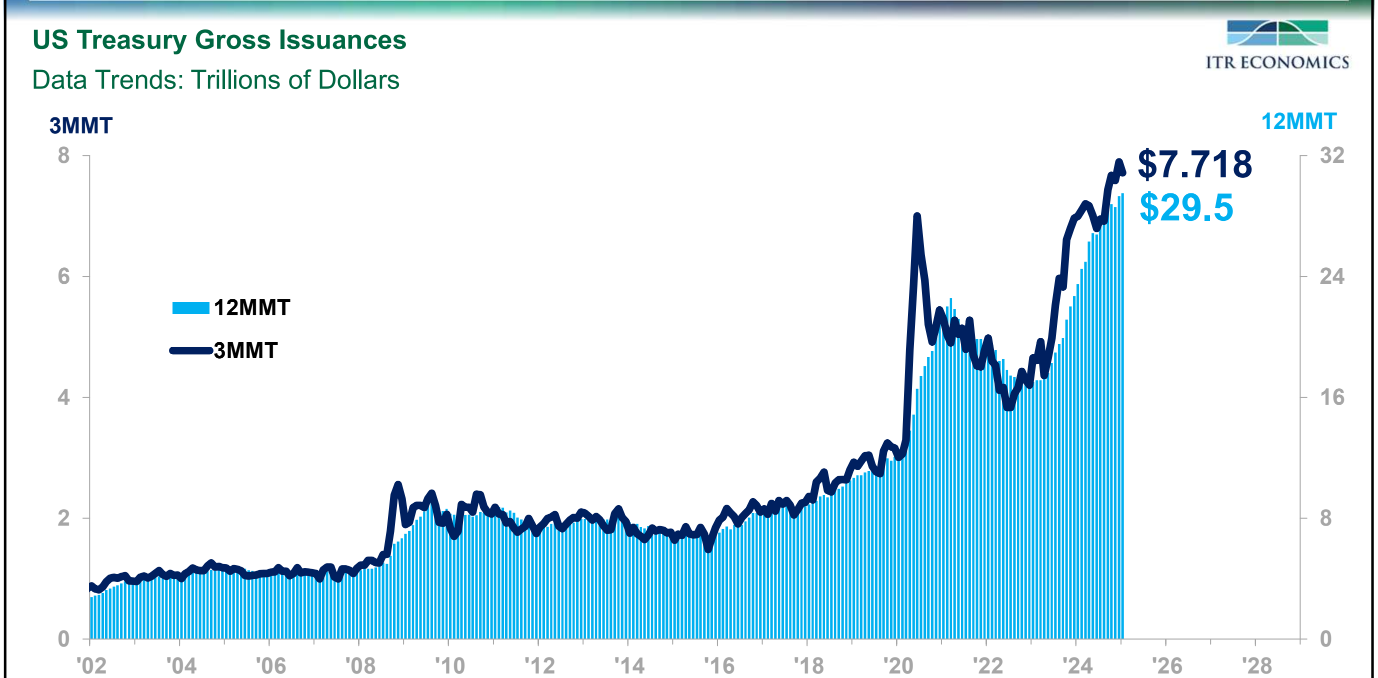
Government Spending Sows Seeds of Future Inflation

Sources: BLS, White House OMB



The Next Round of Inflation is Already Forming

Source: SIFMA



Inflation Summary

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- Meaningful interest rate decline is not probable for 2025.
- Lock in fixed rates for 5–7 years if you are going to use leverage.
- Use the next 12–18 months to develop a prolonged inflation strategy.

Next Steps

- Stay with us via our weekly Fed Watch YouTube free broadcasts.
- youtube.com/@ITREconomics

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The US Economy

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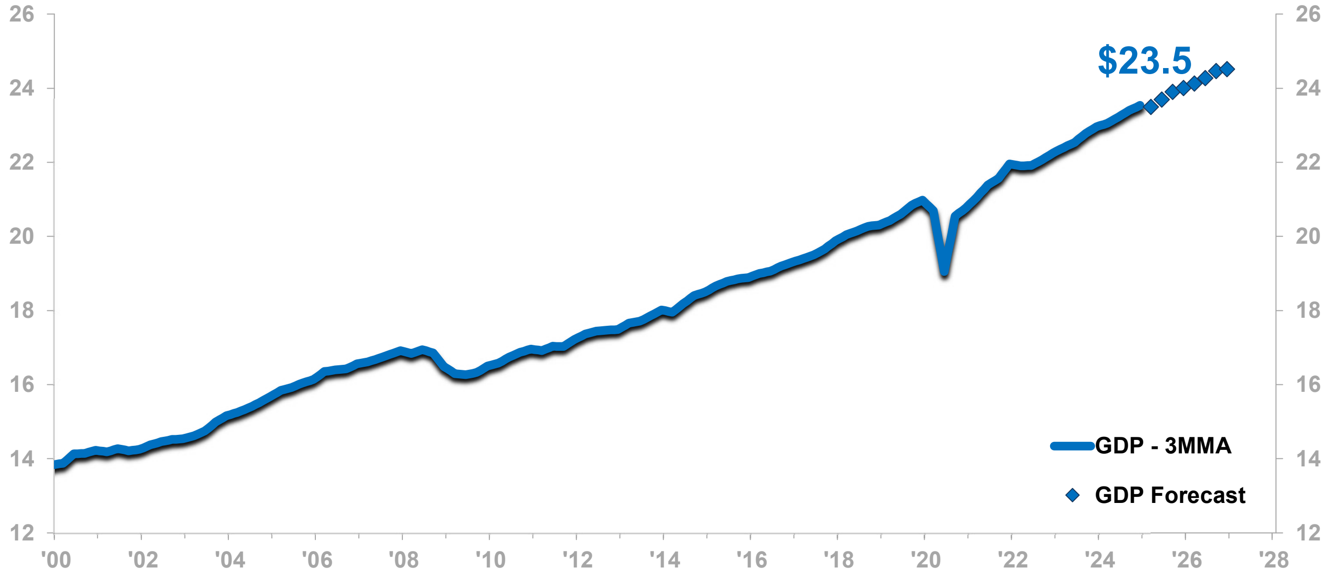
Growth Expected to Characterize 2025 & 2026

Source: BEA

US Real Gross Domestic Product

Quarterly Data Trend: Trillions of Chained 2017 Dollars

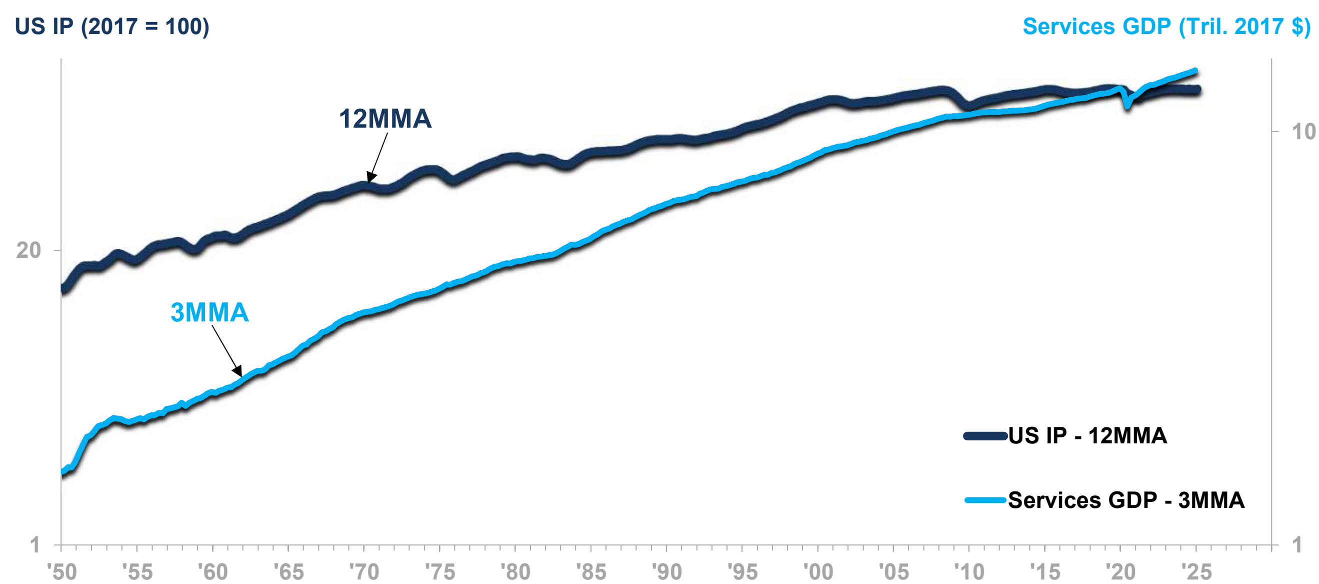


A Tale of Two Economies

Sources: FRB, BEA

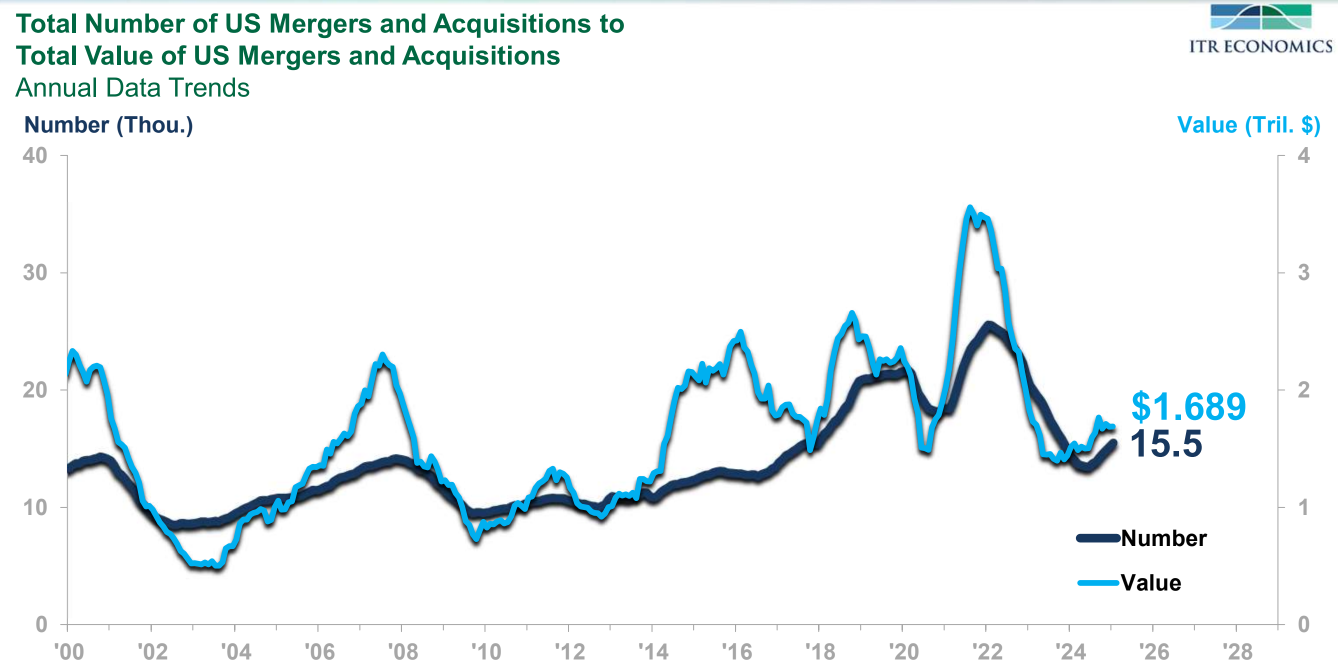
US Industrial Production Index to US Services GDP

Data Trends



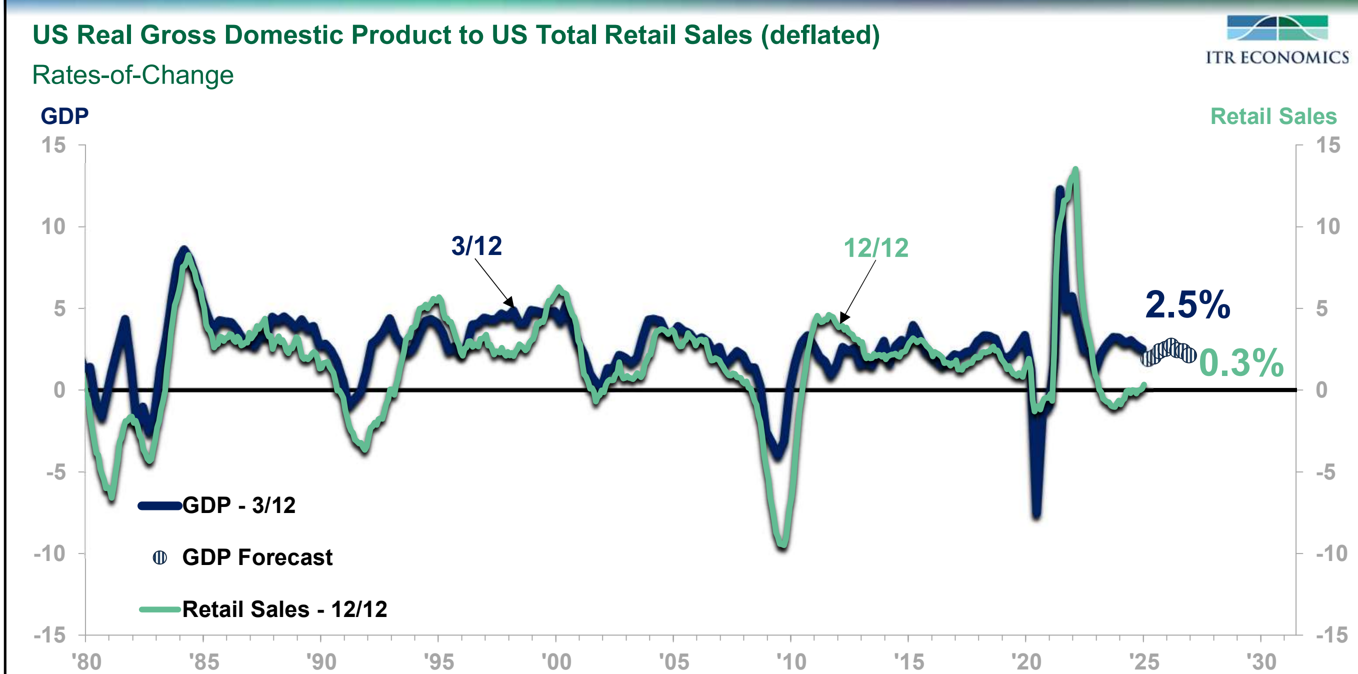
Starting to See an Uptick in M&A

Source: IMAA



Inflation Adjusted Retail Trend Rising Again

Sources: BEA, US Census Bureau

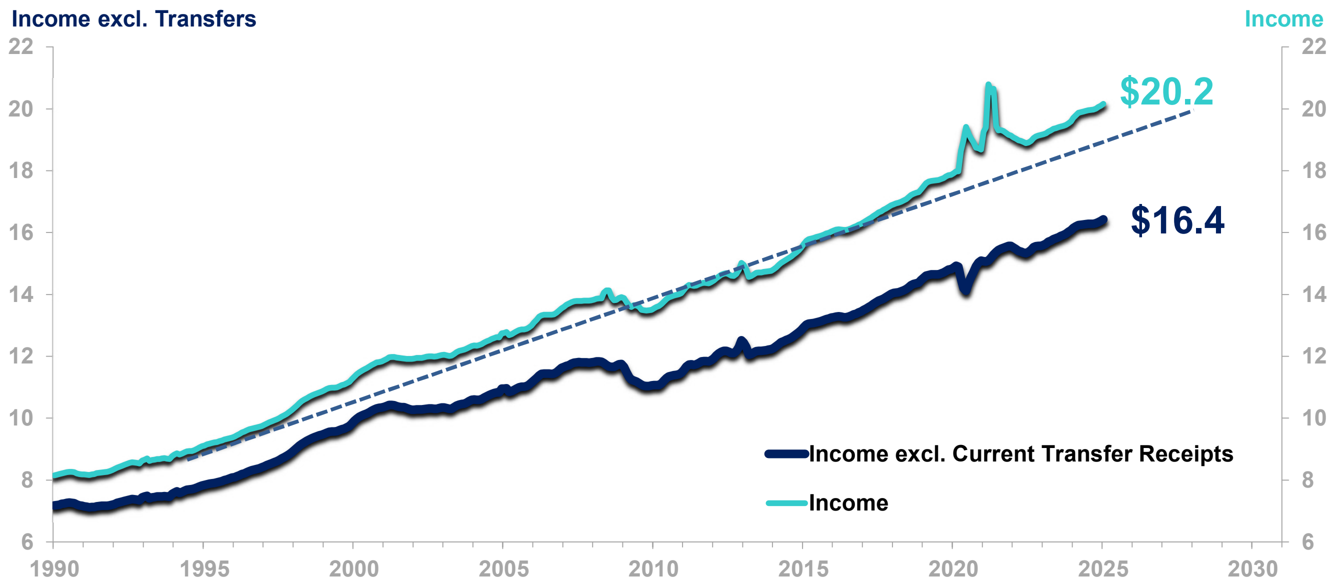


Good News: Inflation-Adjusted Wages Are Rising

Source: BEA

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

Quarterly Data Trends: Trillions of Chained 2017 Dollars



US Macroeconomic Trends Summary

- **Real incomes are rising but discretionary income is getting squeezed.**
- **Expect the pressure of making choices to ease until inflation comes back in earnest.**
- **Expect the second half of 2025 to be stronger than the first half of the year.**

Next Steps

- **Competitive advantages must be compelling.**
- **Set more aggressive goals for the next several years.**
- **Gaining market share through 2029 will set you up well for the 2030s.**

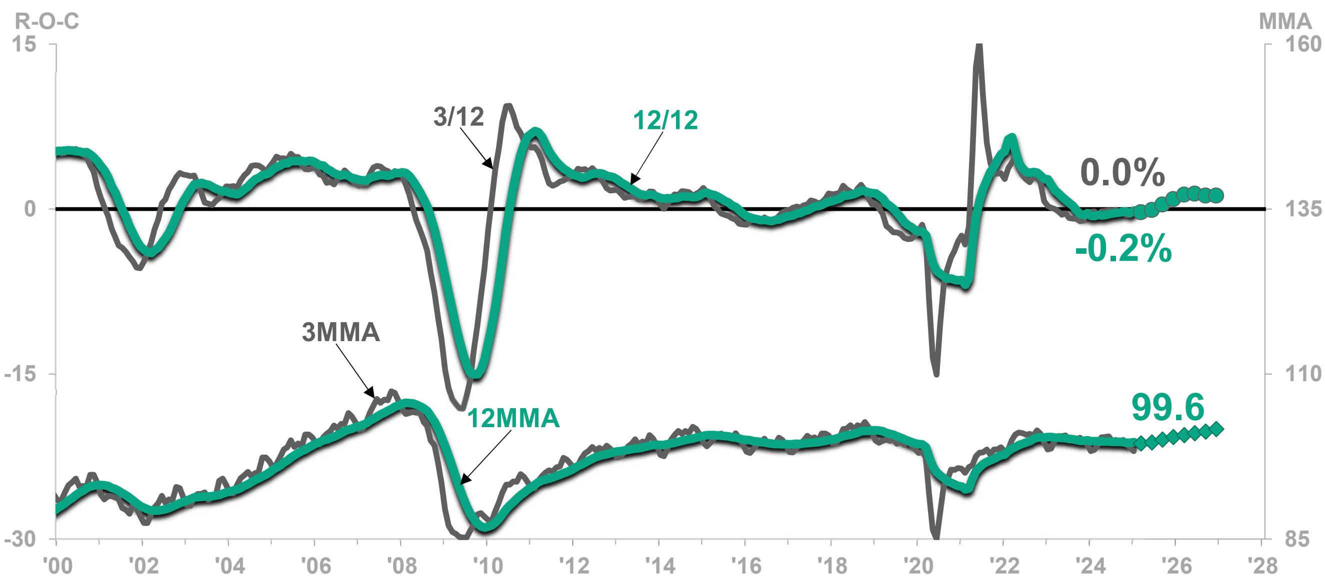
Manufacturing

Plan on Rising US Manufacturing Volume in 2025

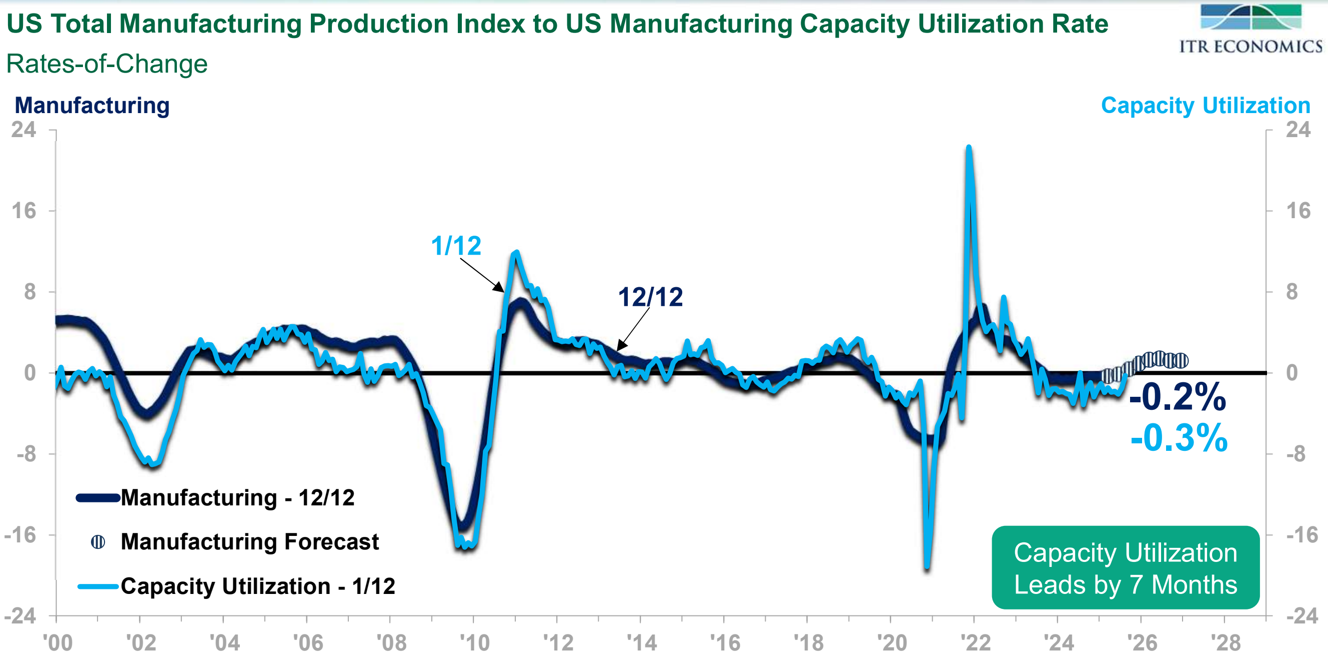
Source: FRB

US Total Manufacturing Production Index

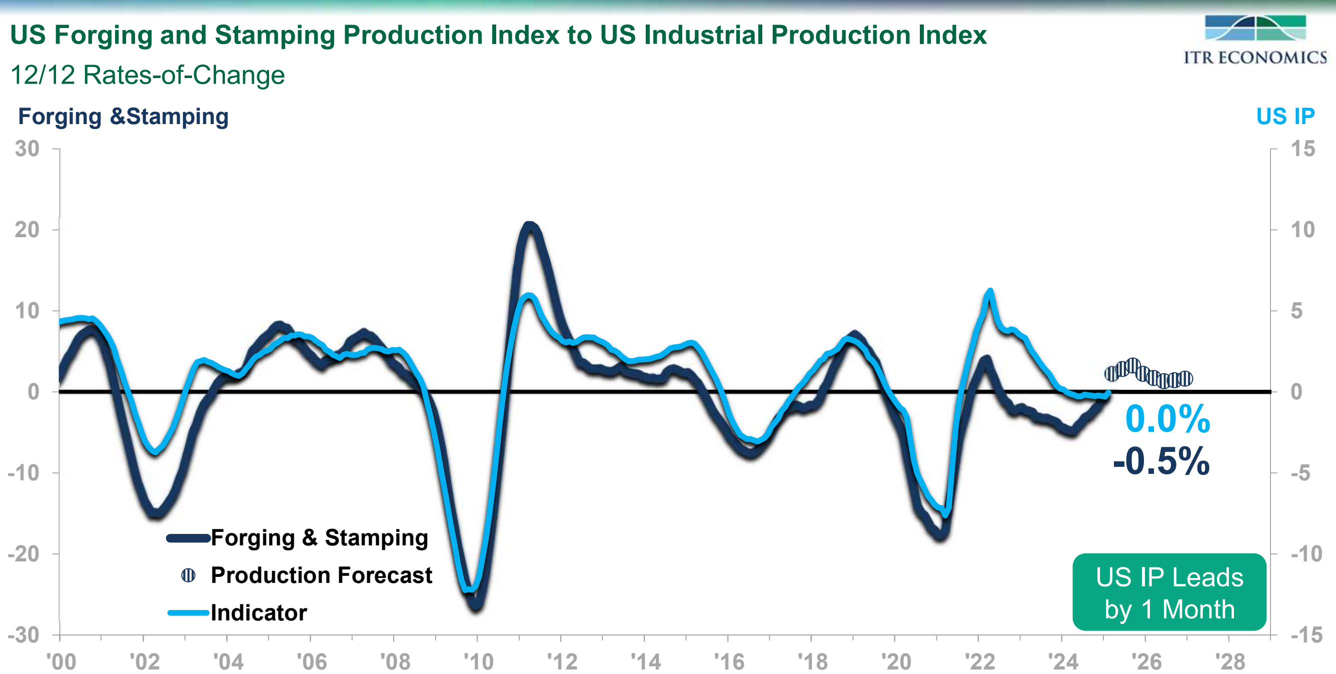
2017 = 100



Capacity Utilization Rates in Rate-of-Change Recovery



Forging & Stamping Production Recovering

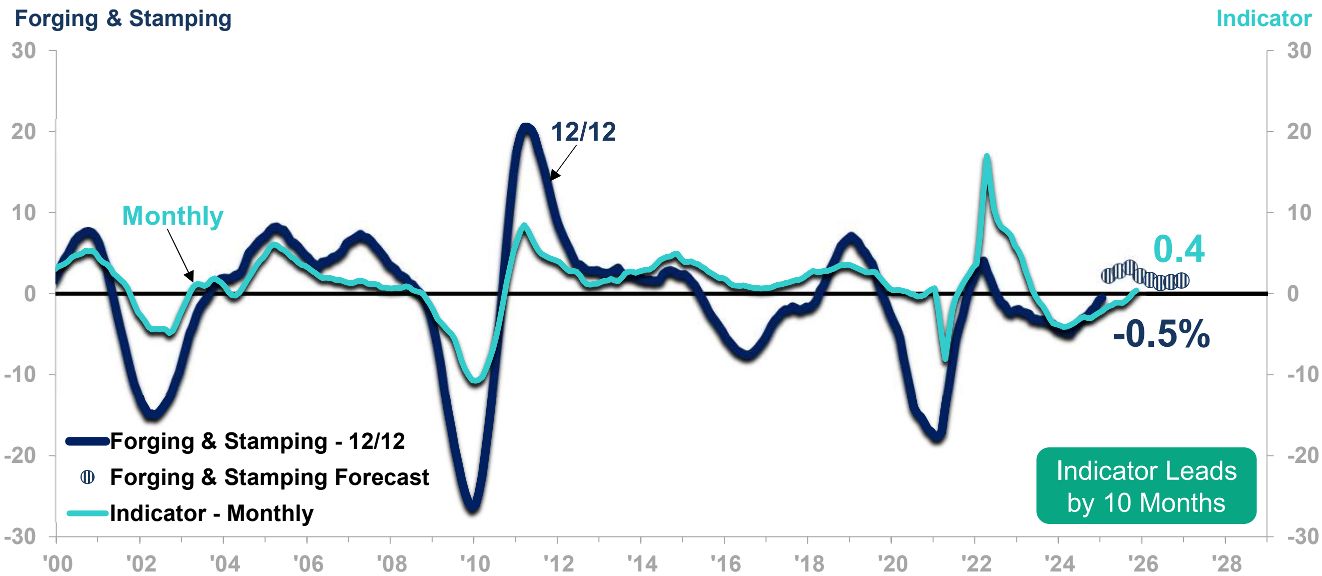


ITR Leading Indicator Says Better Days Ahead

Sources: FRB, ITR Economics

US Forging and Stamping Production Index to ITR Leading Indicator™

12/12 Rate-of-Change to Raw Data

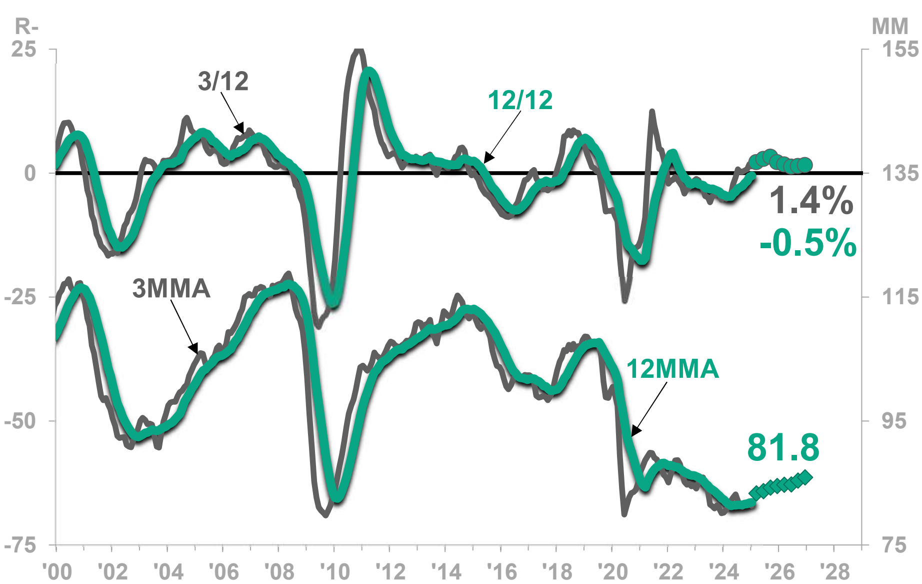


Are You Ready To Do More In 2025?

Source: FRB

US Forging and Stamping Production Index

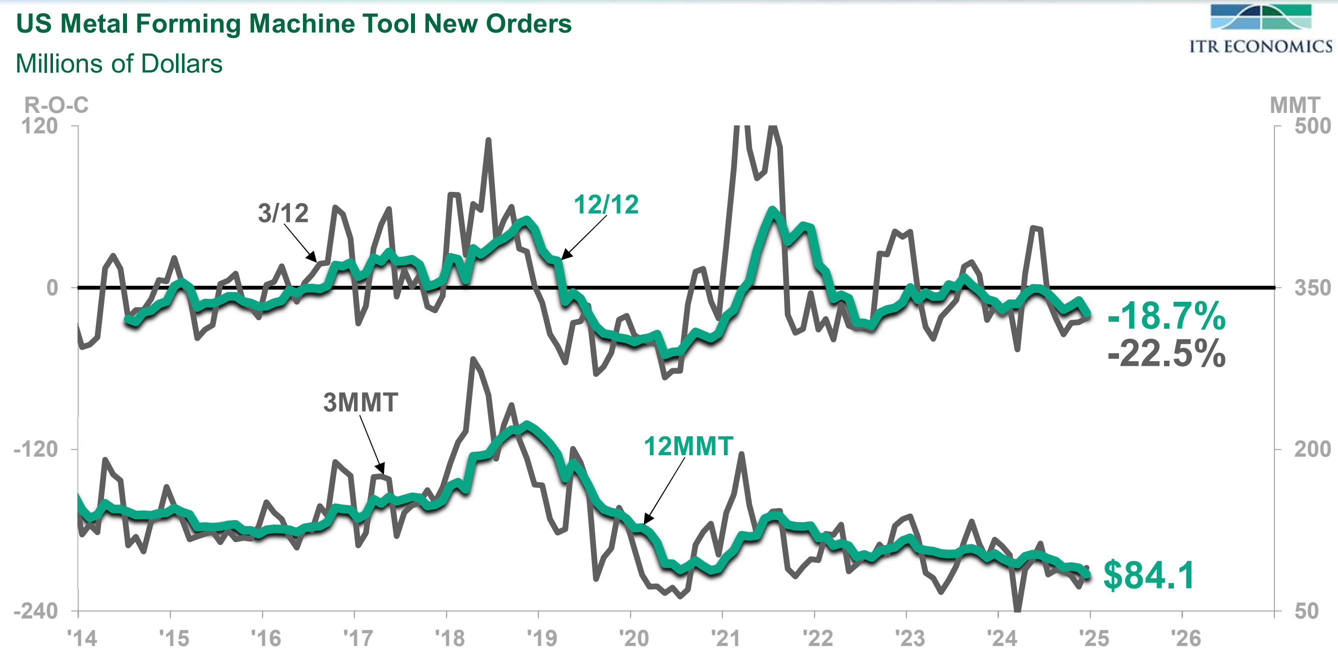
2017 = 100



NAICS 3321 This industry comprises establishments primarily engaged in one or more of the following: (1) manufacturing forgings from purchased metals; (2) manufacturing metal custom roll forming products; (3) manufacturing metal stamped and spun products (except automotive, cans, coins); and (4) manufacturing powder metallurgy products.

Metal Forming Trend Still Declining, For Now

Source: AMT



US Industry Segments

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Sources: FRB, US Census Bureau

	12/12	Phase	3/12	Phase	12MM Notes
Manufacturing (excl. Motor Vehicles)	-0.1%	A	0.4%	B	Declining
Aerospace Products & Parts	-2.8%	D	-8.7%	A	Mid 2024 peak
Chemicals Production	2.3%	B	4.9%	B	Rising, nearing a peak
Pharmaceuticals	4.7%	B	5.5%	C	Rising
Fabricated Metals	-0.8%	D	-1.0%	A	Declining
Computer & Electronics New Orders	2.8%	C	2.2%	C	Rising
Rubber & Plastics	-1.8%	D	-3.7%	A	Declining
Electrical Equipment	1.1%	B	1.9%	C	Declining
Paper & Products	1.6%	B	0.7%	C	Declining

A RECOVERY B ACCELERATING GROWTH C SLOWING GROWTH D RECESSION

Production Indexes

Sources: FRB, US Census Bureau

US Industry

Rates-of-Change

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	12/12	Phase	3/12	Phase
Aerospace Parts and Products	-2.8%	D	-8.7%	A
Automotive	-15.8%	A	-20.9%	D
Hardware	-3.7%	A	-4.1%	D
Major Appliances	-0.7%	A	-0.3%	D
Consumer Durable Goods	-2.1%	D	-5.3%	D
Computer & Electronics New Orders	2.8%	C	2.2%	C

A RECOVERY B ACCELERATING GROWTH C SLOWING GROWTH D RECESSION

Expect Mild Rise Through 2025 – Should Help Appliances

Source: US Census Bureau

US Single Unit Housing Starts

Millions of Units

as seen in ITR Economics' Trends Report

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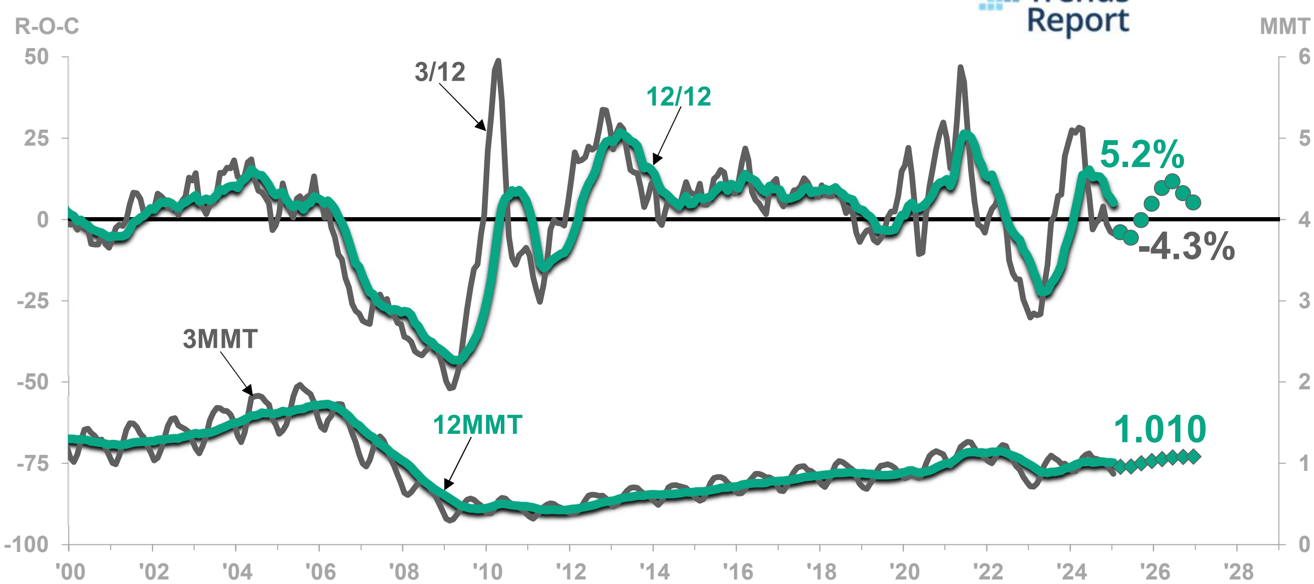
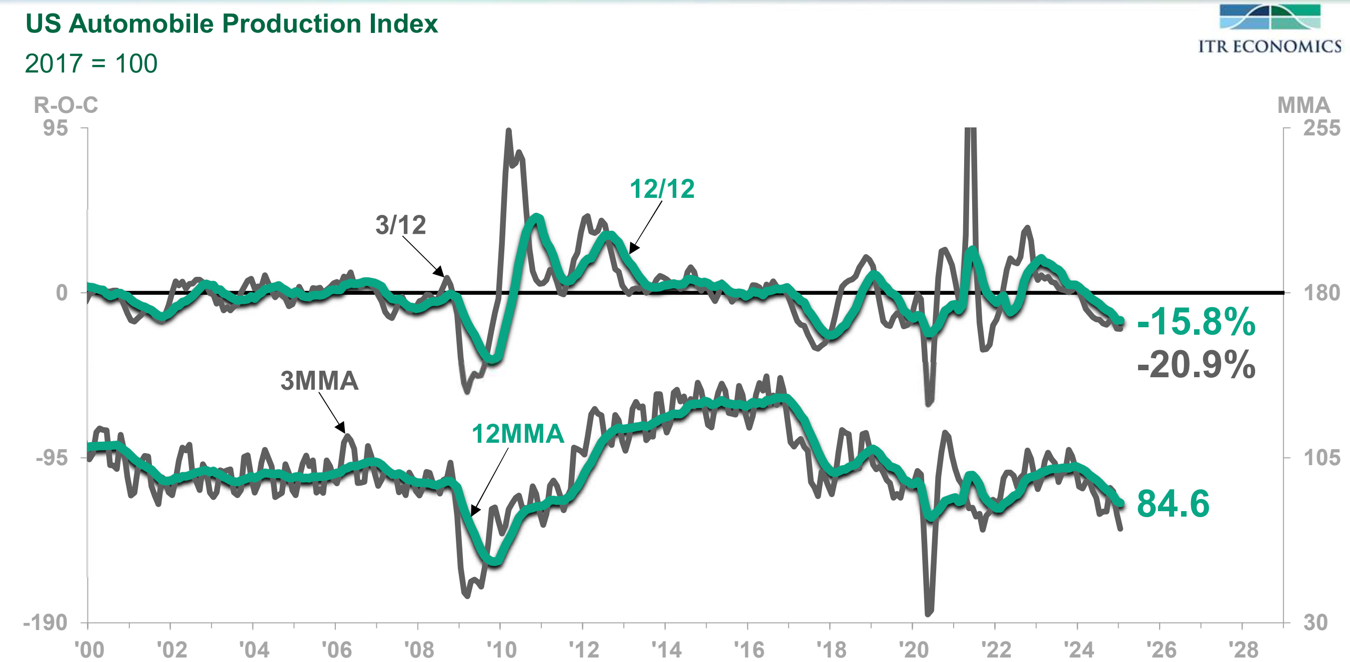


US Auto Production Declining; Hybrids Showing Promise

Sources: FRB, WardsAuto



US Auto Production Declining; Hybrids Showing Promise

Sources: FRB, WardsAuto

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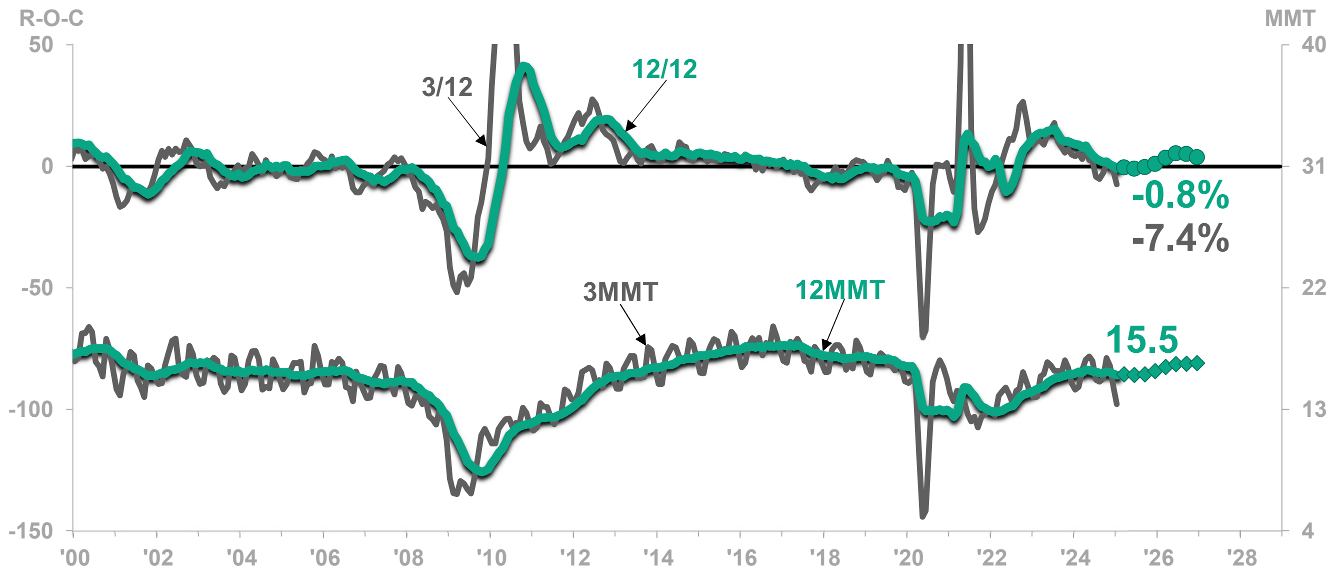
Unit Sales	3MMT Units Jan 2025	Market Share Jan '25	Jan '24	Jan '23
Internal Combustion	3,091,864	77.7%	81.0%	86.7%
Hybrid	542,453	13.6%	10.8%	6.9%
Electric	343,166	8.6%	8.1%	6.4%

Expect It To Take Longer For Auto To Improve

Source: WardsAuto

North America Light Vehicle Production

Millions of Units



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People

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2025-26 Growth Will Place Upward Pressure on Openings

Source: BLS

US Job Openings by Industry

Annual Data Trends: Thousands

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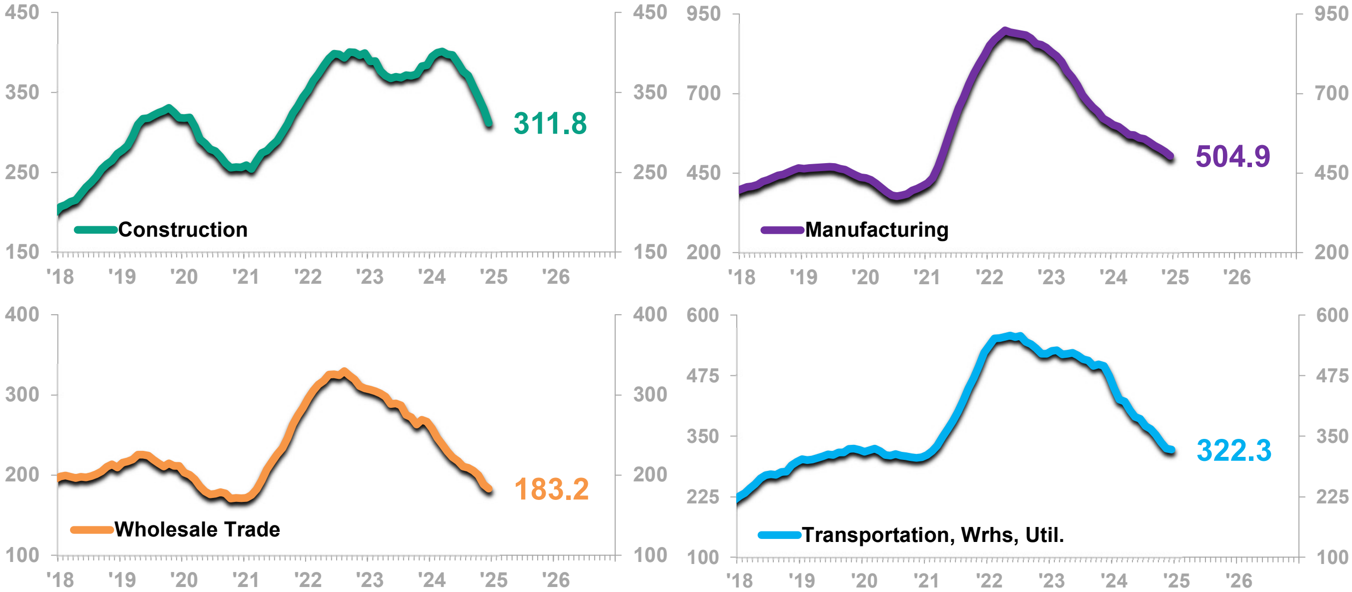


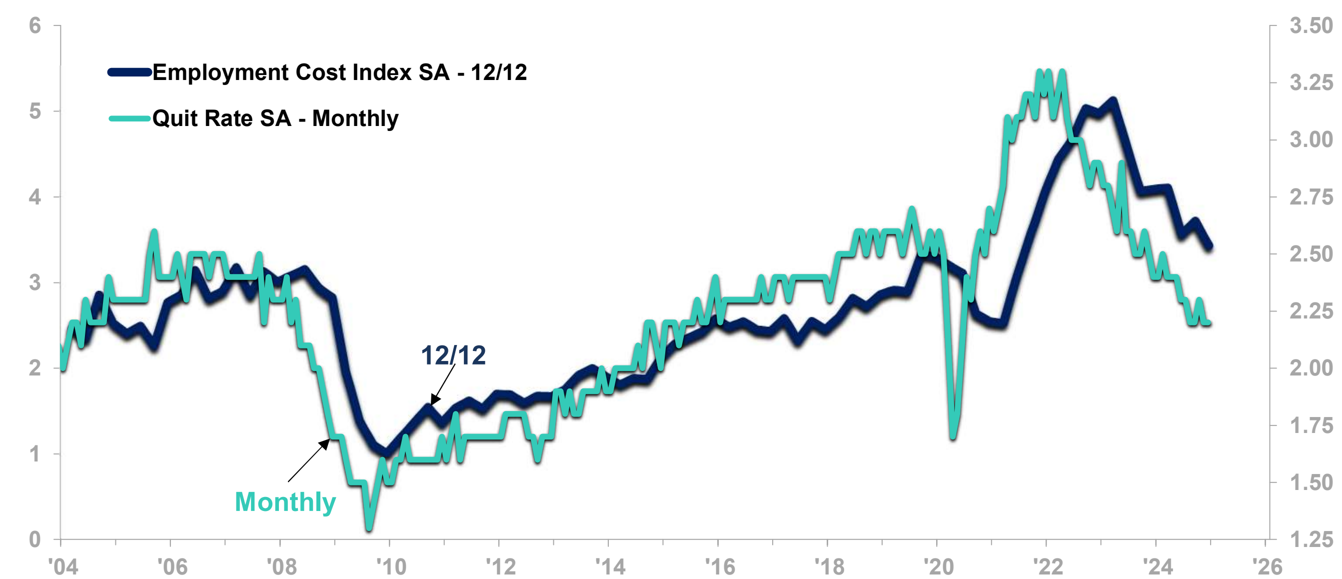
An Easing in the Quit Rate Will Moderate Employment Costs

Source: BLS

US Employment Cost Index to US Quit Rate

Index: 12/12 Rate-of-Change, Quit Rate: Percent

ITR ECONOMICS

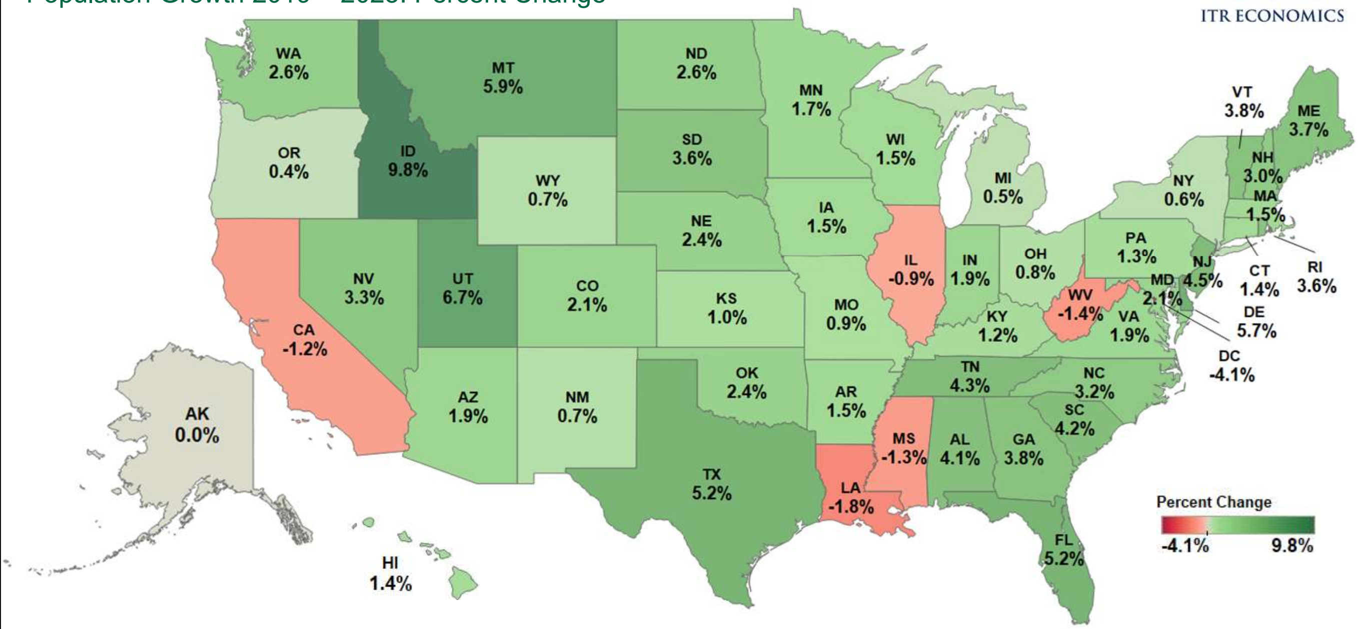


Be Geographically Specific: Population Growth 2019 to 2023

Source:
US Census Bureau

Population Growth 2019 – 2023: Percent Change

ITR ECONOMICS



Causal Factors & Outlook Are Unchanged

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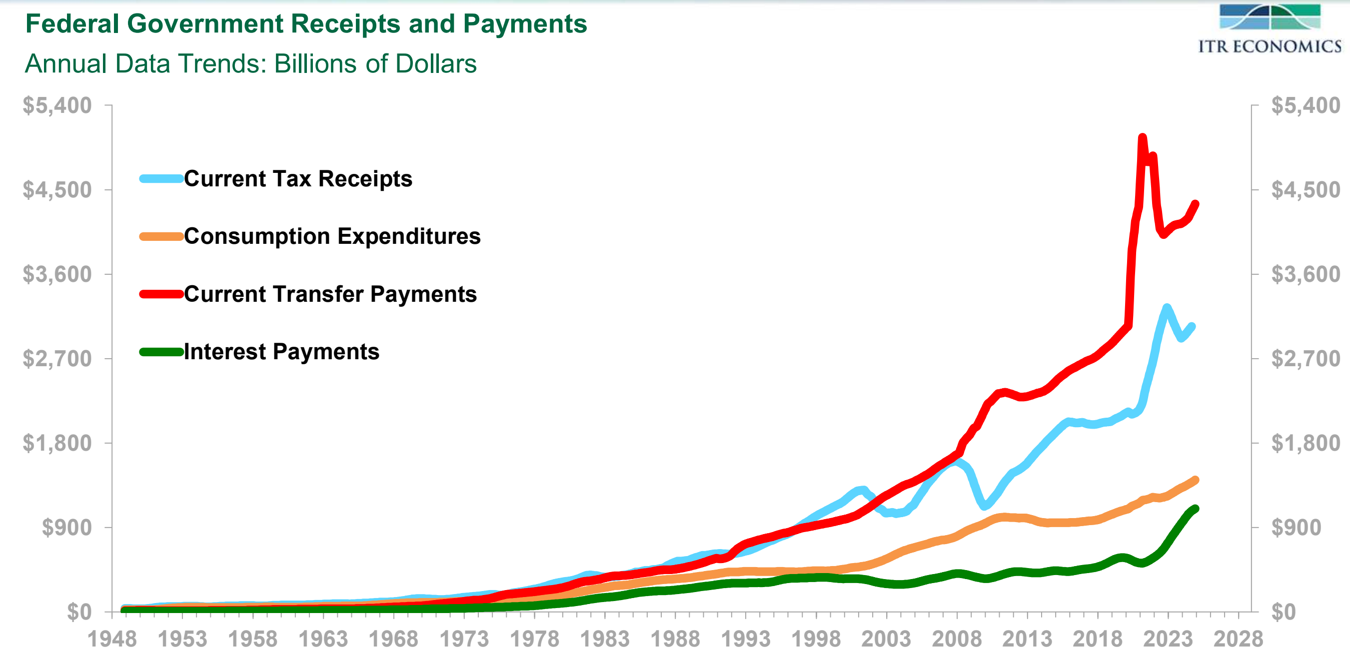
1. Demographics
2. Health Care Costs
3. Entitlements
4. Inflation
5. US National Debt

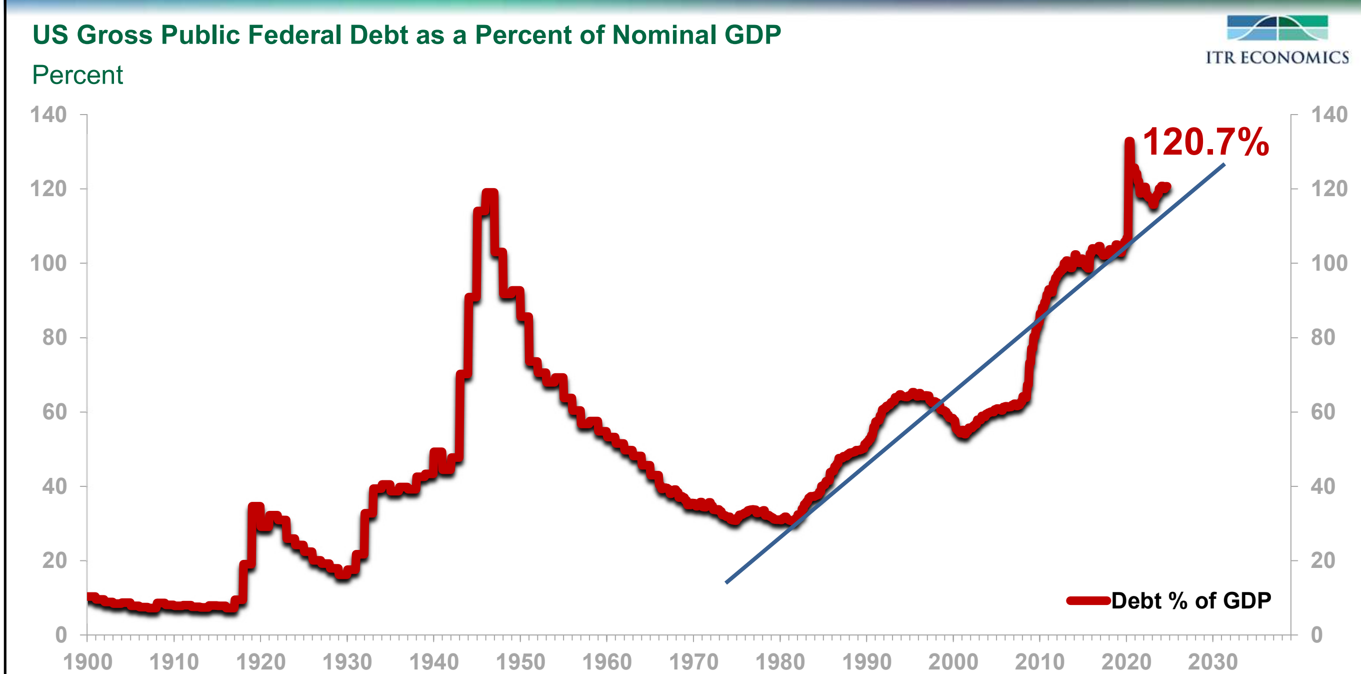
Problems Ahead

Source: BEA



Deficit Spending Expected to Continue to Ramp Up

Source: BEA



People Summary

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- **Tight labor situation not likely to change.**
- **Seek efficiency gains. AI can help, but it is only one tool.**
- **Escalating cost of labor is a reality to plan for.**

Next Steps

- **Train and invest in the productivity of your people.**
- **There is no reservoir of people heading your way. Work at keeping those you have.**

Looking Ahead

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- Do not expect meaningful interest rate change in 2025.
- Wages, rents, power, and nationalism will lead to higher prices.
- Build out an inflation strategy.

- Margin pressures mean having an effective cost management and inflation savvy plans imperative.
- Be USA-centric in your thinking regarding the future.

- Digitize and use AI.
- Maximize competitive advantages.
- Think about expanding the asset classes you are invested in and plan to pivot hard in 2028 – 2032.

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Any questions?

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