






















Industry Snapshots

Arrow denotes 12-month moving total/average direction.

| | | |
|---|------------------------------------|---|
|  | RETAIL SALES |  |
|  | WHOLESALE TRADE |  |
|  | AUTO PRODUCTION |  |
|  | MANUFACTURING |  |
|  | ROTARY RIG |  |
|  | CAPITAL GOODS |  |
|  | NONRESIDENTIAL CONSTRUCTION |  |
|  | RESIDENTIAL CONSTRUCTION |  |

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

Macroeconomic Outlook

The US economy is recovering. Both the consumer sector and the industrial sector are rising. US Total Retail Sales are at a record high. Per newly revised US Census Bureau data, US Nondefense Capital Goods New Orders, a measure of business-to-business activity, reached a record high in March. First-quarter US Real Gross Domestic Product (GDP) came in 0.4% above the year-ago level.

With the recent inflation numbers, rising prices are likely top of mind for many business owners. Context is very important regarding the most recent Consumer Price Index and Producer Price Index news. Both producer and consumer price inflation reached lows in April of 2020; today's inflation numbers are based on a comparison to that time – when the pandemic lockdowns were at their peak and inflation was unusually low. This is contributing to the high inflation numbers – 9.5% for Producer Prices and 4.2% for Consumer Prices – cited in headlines. In these unusual situations, it can be more helpful to view price increases on a month-to-month basis. From this perspective, US Producer Prices in April were a relatively normal 0.47% above the March level.

“Prices are rising as cooped-up consumers take the newly available opportunity to venture from their locales”

On the consumer side, April Prices were 0.82% above the March level, the strongest March-to-April reading since 2006. Robust increases in consumer prices are largely related to travel and transportation; used car and truck prices, airfares, and lodging rates posted the largest increases. These prices are rising as cooped-up consumers take the newly available opportunity to venture from their locales, in many cases with few restrictions.

Aside from the broader consumer and producer indexes, prices are also elevated for many commodities. Prices for raw materials such as steel, copper, lumber, and aluminum are well above their respective pre-pandemic levels. Commodity prices are rising for a multitude of reasons. The overall theme is that record-high levels of retail sales and business-to-business activity are fostering strong demand while supply-side producers are struggling due to everything from COVID-19 outbreaks to forest fires. This is putting the squeeze on availability and driving up prices. The supply-and-demand imbalance will likely self-correct, but that process will take time, and mid-2020-level prices will not be the result. Pass through cost increases to your customers. Reduce your advertising spending or, to avoid competing on price alone, promote your competitive advantages.

Make Your Move

Inflation will be higher this year than in 2020. Have price escalators in place to maintain and build your margins through 2021.

Investor Update

Some increased volatility in month-to-month changes is not abnormal at this point in the S&P 500 rising trend. Strong ascent in leading indicators and ongoing Federal Reserve action suggest the current rising trend is not over.

ITR Economics Long-Term View

2021

RECOVERY AND RISE

2022

GROWTH

2023

GROWTH

Leading Indicator Snapshot

| | 2Q2021 | 3Q2021 | 4Q2021 |
|---|--------|--------|--------|
| ITR Leading Indicator™ | ● | ● | ● |
| ITR Retail Sales Leading Indicator™ | ● | ● | ● |
| The Conference Board's US 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

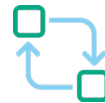
- The US ISM PMI has been generally rising for 12 months, indicating business cycle rise for the US industrial sector into at least early 2022.
- Ongoing rise in the US Total Industry Capacity Utilization Rate suggests that businesses are ramping up production, which bodes well for the US macroeconomy through 2021.
- The ITR Retail Sales Leading Indicator™ is rising, suggesting that Phase B, Accelerating Growth, in the US retail sector will persist through 2021.

Industry Analysis



RETAIL SALES

- We lifted the forecast to account for the \$1.9 trillion American Rescue Plan Act of 2021
- Annual US Total Retail Sales will generally rise through the next six quarters, with the growth rate peaking late this year
- In addition to stimulus spending, elevated savings rates and recovering Employment bode well for rising Retail Sales in the coming quarters



WHOLESALE TRADE

- Monthly US Total Wholesale Trade posted the highest February-to-March rate of growth in the 30-year history of the dataset
- We expect annual Wholesale Trade to rise through the coming quarters
- The US Business Confidence Index is rising off a mid-2020 low, and annual US Total Retail Sales are at a record high – these factors bode well for rising Wholesale Trade this year



AUTO PRODUCTION

- The North America Light Vehicle Production annual rate-of-change ticked up in March
- A strong consumer and historically low interest rates will buoy demand for vehicles this year
- The semiconductor chip shortage poses a downside risk; Production may not be able to keep pace with demand



MANUFACTURING

- US Total Manufacturing Production is rising
- Quarterly Production was up 6.7% from the same time period one year ago – expect annual Production to generally rise through the coming quarters
- Trends in the US ISM PMI (Purchasing Managers Index) and the ITR Leading Indicator™ suggest that Production business cycle rise will persist through at least year-end 2021



ROTARY RIG

- The US Rotary Rig Count during the 12 months through April averaged 327, down 61.1% from one year ago
- The Rotary Rig Count is in the early stages of a recovery trend
- Rising oil and gas prices in recent months may increase investor confidence and lead to additional active rigs this year



CAPITAL GOODS NEW ORDERS

- US Nondefense Capital Goods New Orders (excluding aircraft) during the 12 months through March totaled \$816.8 billion, up 3.9% from one year ago
- General rise in New Orders is expected to extend through at least the end of this year
- Consider taking advantage of low interest rates now, as business-to-business activity is expected to rise into at least the middle of 2022



TOTAL NONRESIDENTIAL CONSTRUCTION

- US Total Nonresidential Construction during the three months through March was down 7.0% from the same three months one year ago
- Construction typically lags the US industrial sector by about one year; expect annual Construction to decline through at least the end of this year
- US Materials and Components for Construction Producer Prices were up 8.2% in the first quarter relative to the first quarter of 2020



TOTAL RESIDENTIAL CONSTRUCTION

- US Total Residential Construction during the 12 months through March was up 13.8% from one year ago; expect annual Construction to generally rise in at least the near term
- Quarterly US Multi-Unit Housing Permits are rising sharply, up 19.9% from one year ago
- First-quarter US Single-Unit Permits were up 25.6% compared to the first quarter of 2020; low inventories and relatively low interest rates continue to place upside pressure on this market

A Closer Look: The US Economy

Strategic Planning During Periods of Economic Expansion

BY: ALEX CHAUSOVSKY

What you need to know: The industrial economy will surpass pre-pandemic levels by the second quarter of 2022

The US Industrial Production Index, our benchmark for the domestic industrial economy, transitioned to business cycle rise with March data. ITR Economics predicted this transition with our March 2020 forecast, and our clients have been able to leverage our outlook to great effect over the past year. The April Production data indicates that the economy is continuing to gain momentum.

If your company's performance tracks well with the industrial economy, you've likely already felt the acceleration in your business for at least several months. As you look to the rest of 2021 and beyond, you should increasingly utilize our longer-term outlook for your planning purposes if you want to stay "ahead of the curve."

Our forecast for US Industrial Production, which calls for a business cycle peak in early 2022, has the 12-month moving average for the Index exceeding pre-pandemic (February 2020) levels by the second quarter of next year. The outlook also predicts that expansion in the industrial economy will persist through at least 2023, despite the mid-2022 onset of a cyclical slowdown.

As you develop medium- and long-term strategic plans for capitalizing on this period of economic expansion, you should ask yourself the following important questions to ensure you make the most of the trend:

DO I HAVE THE CASH TO CLIMB THIS HILL?

Ramping up in response to rising market demand requires access to and deployment of capital, and that's just to keep up with improving business prospects. You also need to invest for the future growth of your company, as the recent business cycle low point presents an excellent opportunity to do so. If you don't have a lot of cash on hand, consider leveraging the low-interest-rate environment – use someone else's money to position your business to take full advantage of business cycle rise over the next four quarters.

WHAT DO I WISH I HAD DONE DIFFERENTLY IN 2010?

When contemplating various investment opportunities, think back to the Great Recession of 2008–09. Do you wish you had hired more people, bought that additional piece of equipment or machinery, invested in more capacity at your plant, or pulled the trigger on an acquisition?

WHERE ARE THE BOTTLENECKS?

Supply chain constraints are impacting many businesses and, based on our conversations with many of our clients, are likely to persist into next year. As you plan for the rest of 2021 and beyond, you must work proactively to overcome any obstacles that may limit your upside potential. These limiting factors could include people, materials, components, inventory levels, logistics constraints, and many others. Think back to the last business cycle peak in late 2018 and recall what challenges your business faced at that time. Then, take concrete steps to get ahead of those problems now, so that you can outperform your competitors and gain market share during the upcoming multi-year period of economic expansion.

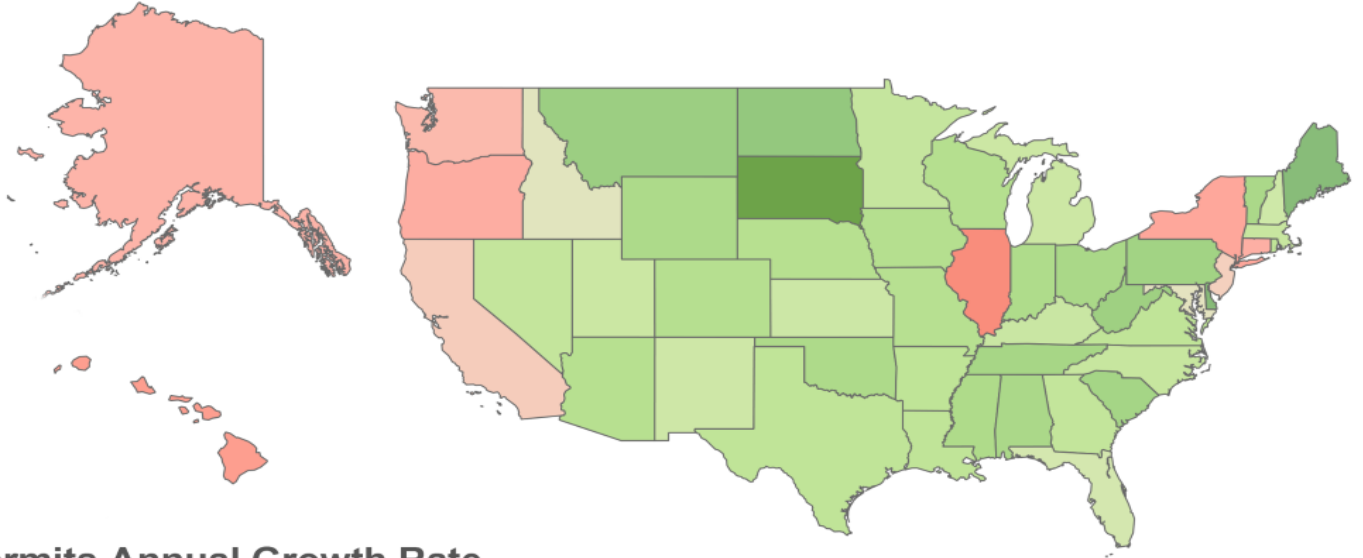
WHAT DO I NEED TO WATCH OUT FOR?

If you track well with the US industrial economy, your business will likely see accelerating growth soon, if it hasn't already. When it happens, you must avoid straight-line forecasting; instead, use your rates-of-change and leading indicators to spot the next business cycle peak and start planning accordingly. You must also ensure that your quality control keeps pace with increasing volume. This is the best part of the business cycle, but it has its own set of challenges for you to overcome.

In 2022, growth will likely begin to slow for your business. This will require you to adjust your decisions and your actions. This transition is a natural part of the business cycle, so don't blame your sales and marketing teams; make sure they have the proper tools and mindset to adapt to the cyclical changes ahead. As growth slows, stay on top of aging receivables. Revisit your capital expenditure plans and decide whether they still make sense in a slowing growth environment.

Answering the above questions will have a beneficial impact on your company's performance not only in 2021 but also in the years ahead. We recognize that every industry and every business is unique, and each requires a tailored approach to strategic decision-making. We are here to discuss your company's specific needs as you plan for the upcoming period of expansion, so please engage with us so we can help you make the most of this opportunity. Onward and upward!

State-by-State: Permits



Permits Annual Growth Rate
 -21.8% 56.0%

- US Housing Unit Building Permits in the first quarter were 23.6% above the first quarter of 2020. First-quarter US Single-Unit Housing Permits were 25.6% above the year-ago level, while US Multi-Unit Housing Permits were up 19.2% in the same time period.
- During the 12-month period ending in March, annual US Single-Unit Housing Permits surpassed one million for the first time since late 2007.
- Only nine states had annual Permits come in below year-ago levels. Five of those – the majority – are on the Pacific Ocean. The tri-state area of New York, New Jersey, and Connecticut also posted year-over-year contraction for Permits.

Reader’s Forum

With so much fiscal and monetary stimulus in 2020 and 2021, I’m worried interest rates will rise and hurt my business’s ability to make capital investments. What can I do to preserve my ability to make these large investments?

John Olson, Economic Analyst at ITR Economics™, answers:

Excellent question! The simple answer, of course, is to make these purchases sooner rather than later. Our outlooks for both short-term interest rates and US Government Long-Term Bond Yields call for mild rise through at least the end of this year. Monthly US Conventional 30-Year Mortgage Rates are generally rising off a tentative December low. When taken at face value, it is easy to assume from this data that you’ve missed your chance to make capital purchases at low interest rates.

In this case, however, it is important to consider the context of the interest rate rise. In mid-2019, Government Bond Yields were in excess of 2%; we anticipate Yields will trend below that level through the rest of 2021. Short-term interest rates, too, will trend well below pre-pandemic levels. With historical context, it is clear that interest rates are still low, allowing time to plan and make any large investments that may require financing.

Please send questions to: questions@itreconomics.com



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With an ITR Economics presentation, you get:

- Analysis backed by our unparalleled forecast accuracy
- Actionable guidance based on our unique methodology
- Insights tailored to your business

To combat Zoom fatigue, we want to provide these values in person! Our team is excited to travel and deliver the economic guidance you need at your next company-wide event, trade association meeting, or planning session. Our schedules are filling up fast - book an ITR Economics Speaker today!

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