



ARMADA

Now What? Expectations for 2022 and Beyond

**SPSA – Vail
Chris Kuehl - Armada**

September 2022



Recession? – What Are the Ingredients?

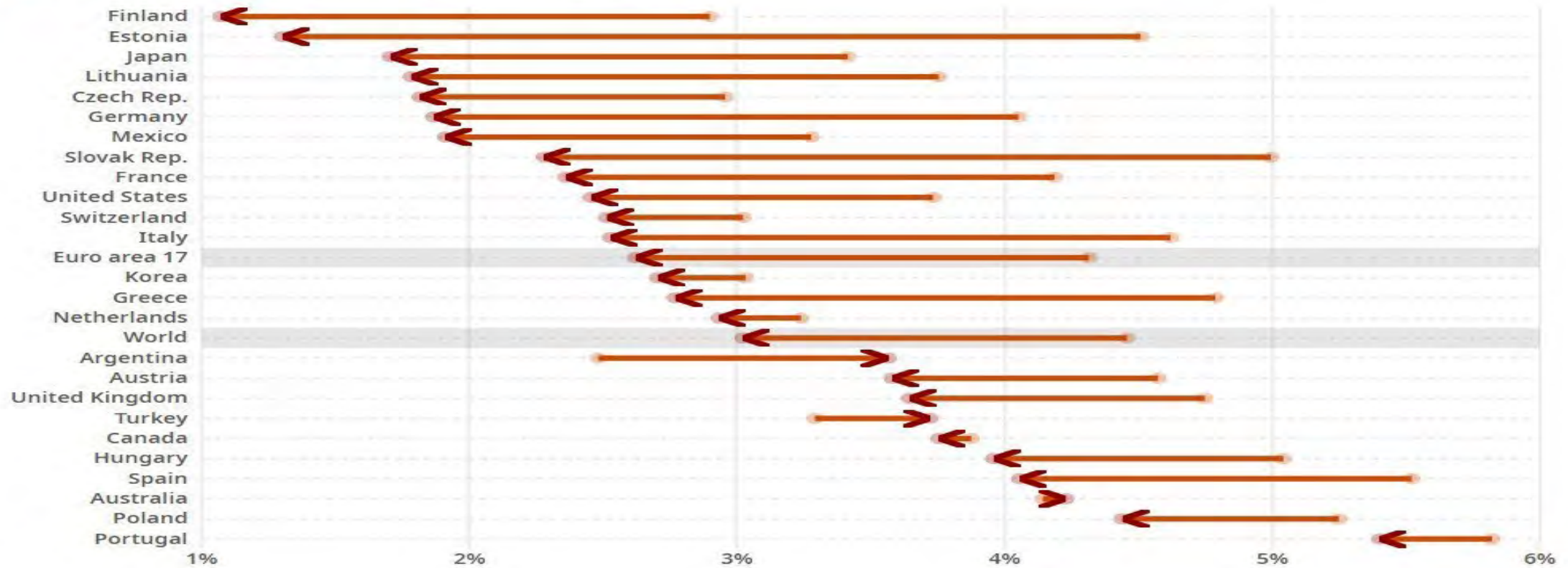
- **Central banks starting to coalesce around the possibility as they raise rates higher and higher. Latest Fed statements are not encouraging.**
 - High inflation numbers that provoke higher interest rates designed to cool demand. The major problem is that demand is not really the issue due to supply chain distortions.
 - Central banks acknowledge their limited ability to impact inflation with rate hikes as the core cause of the rise is still supply chain and energy prices. The impact of the stimulus efforts was significant in 2020 and early 2021 but much less so now.
 - Q1 and Q2 were both in negative territory but Atlanta Fed is still predicting a tiny growth number for Q3 – 0.3% (down from 0.5%). A larger consensus look from economists is around 1.1%
 - Key determinant is usually the jobless rate and it is still close to historic lows – 3.7%. Quit rate is still very high. Big layoff announcements still not common. Labor shortage situations have distorted normal layoff patterns however.
 - Strong dollar has affected exports and that contributes to slowdown as well.
 - Many indicators are not trending as negative right now but all are weaker than they were even a month or two ago.

We are Not Alone (Unfortunately)

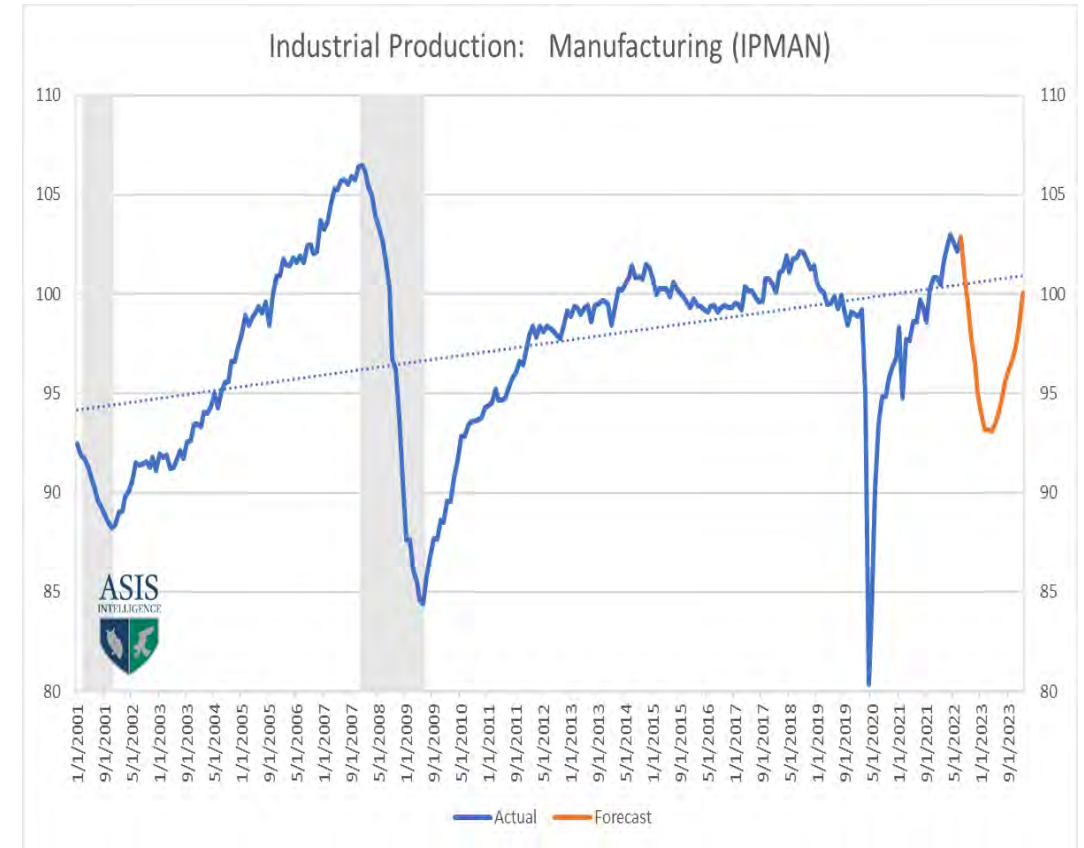
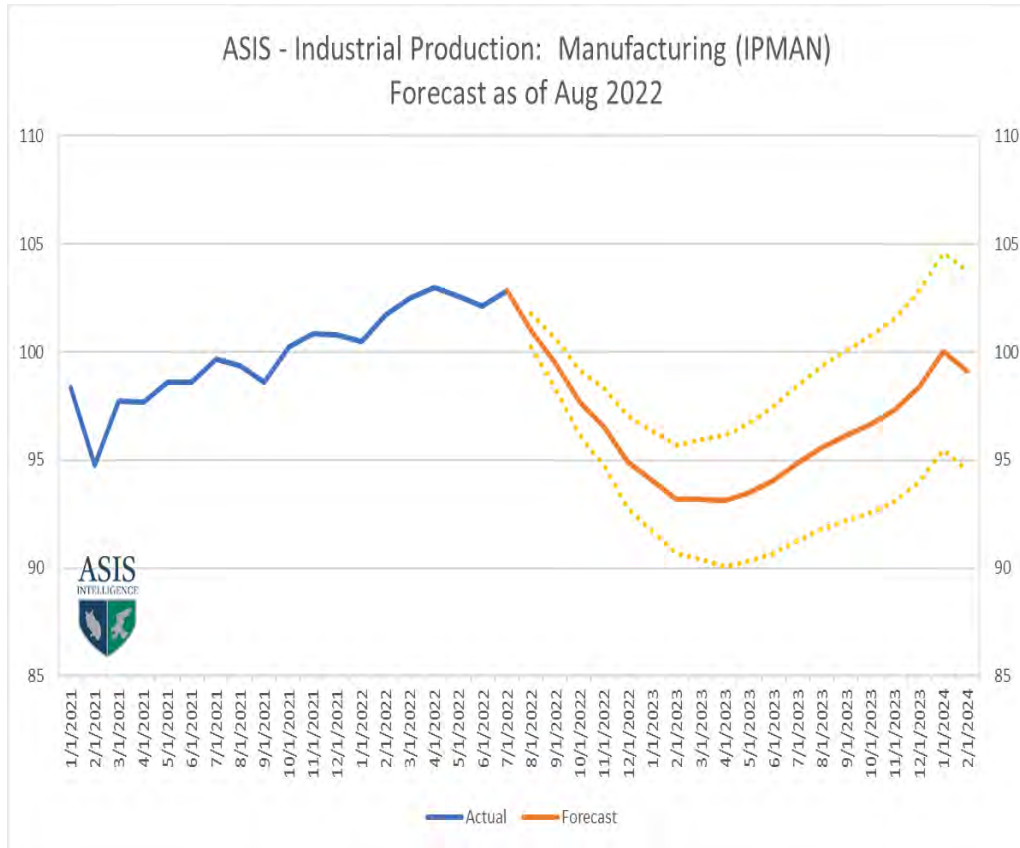
Annual GDP growth projections for 2022

Year on year, %

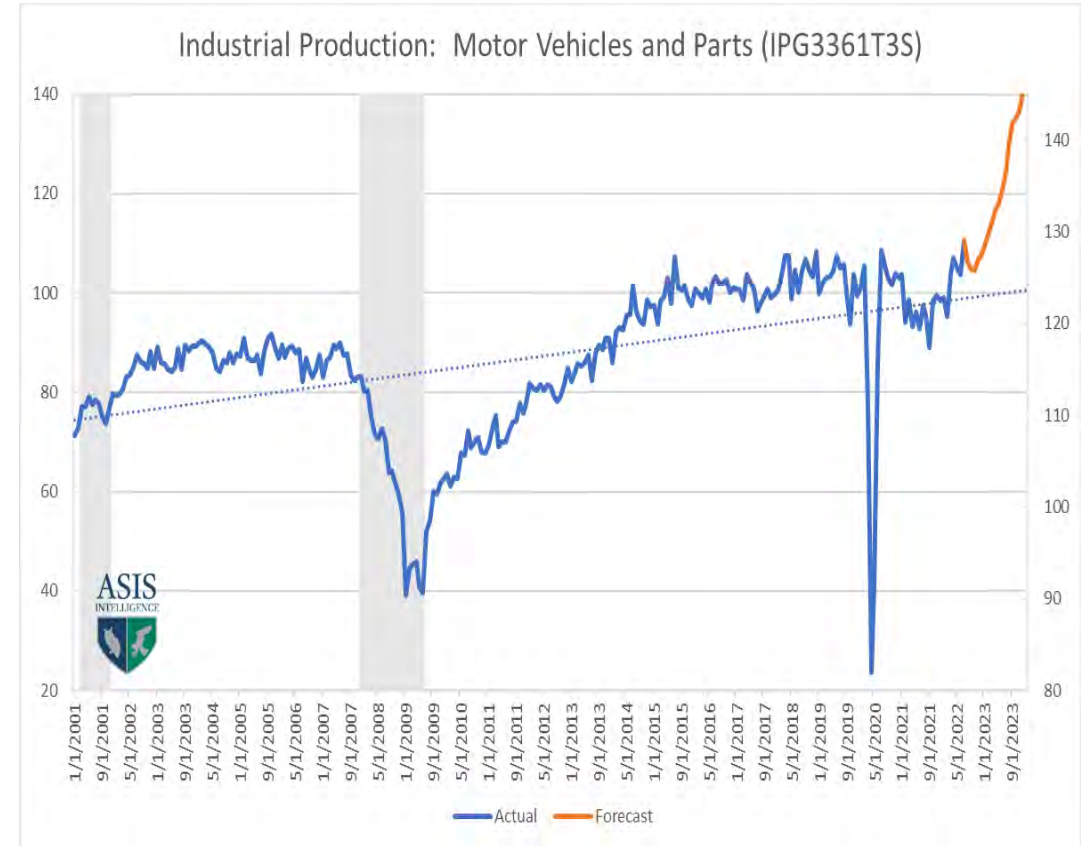
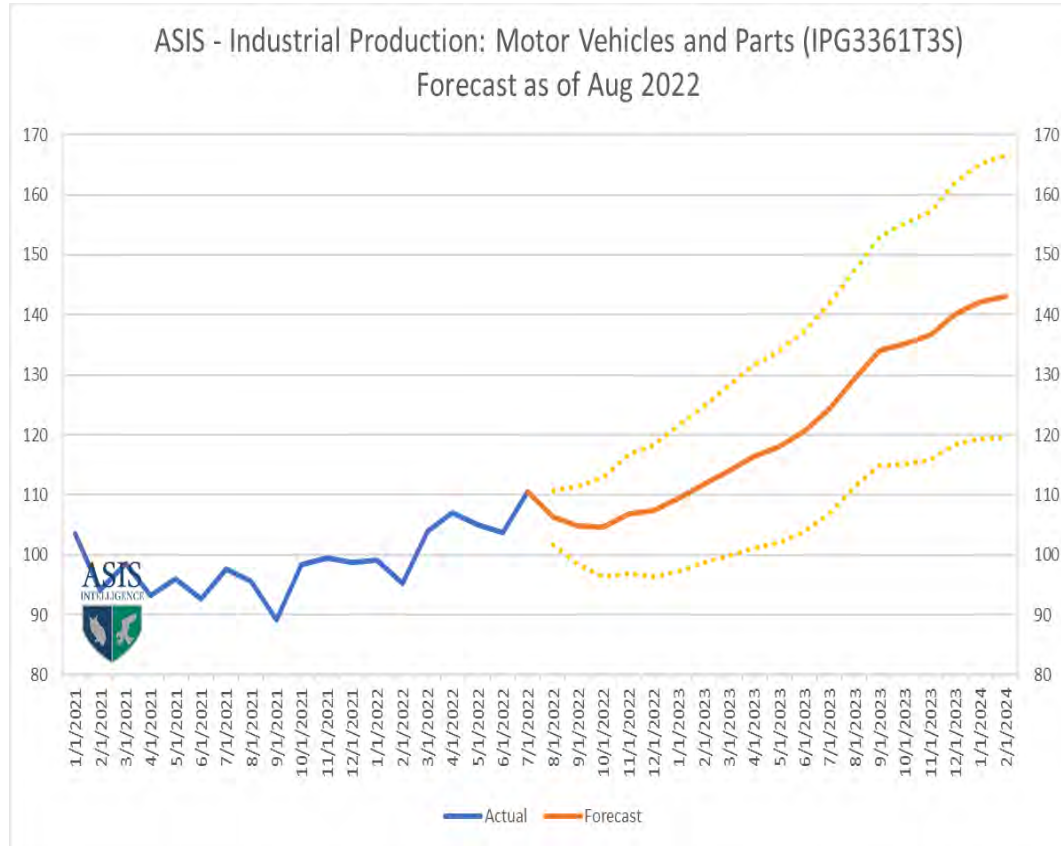
● December 2021 projection ● June 2022 projection

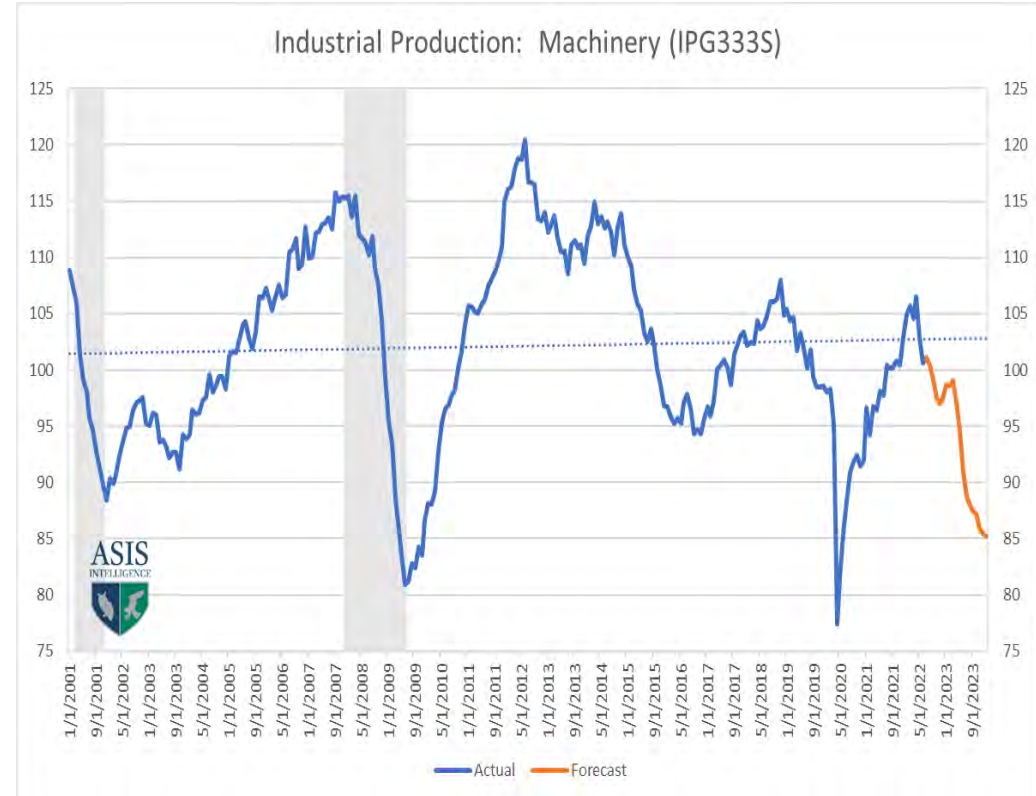
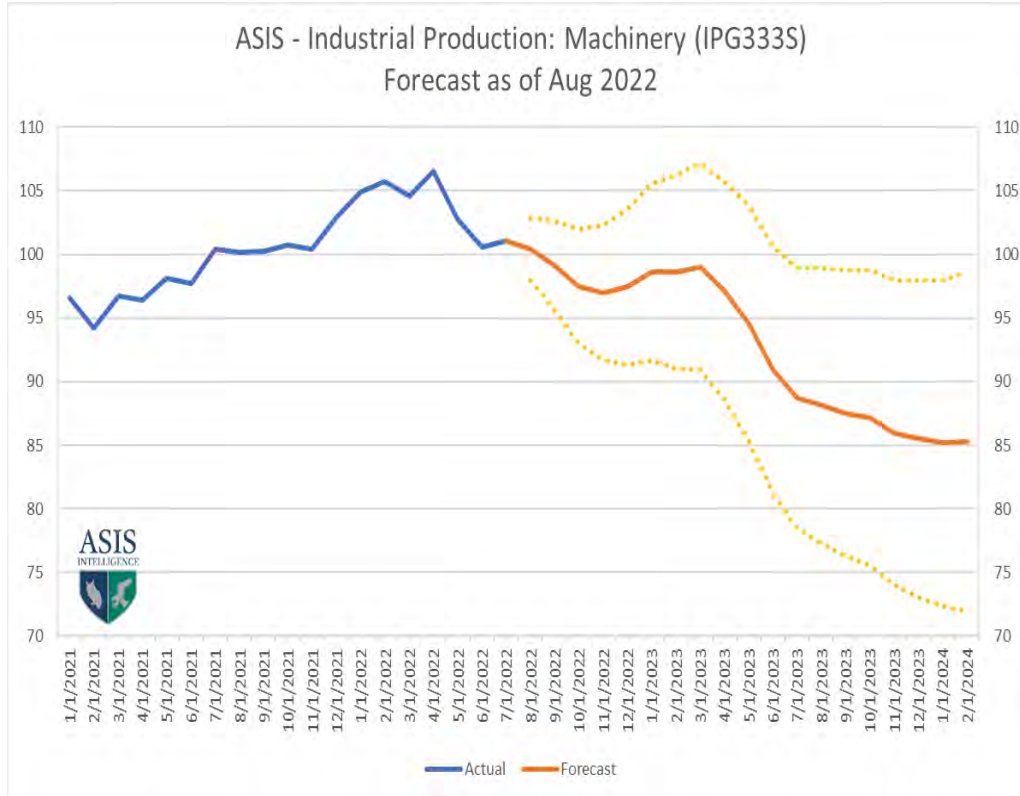


Industrial Production - Manufacturing



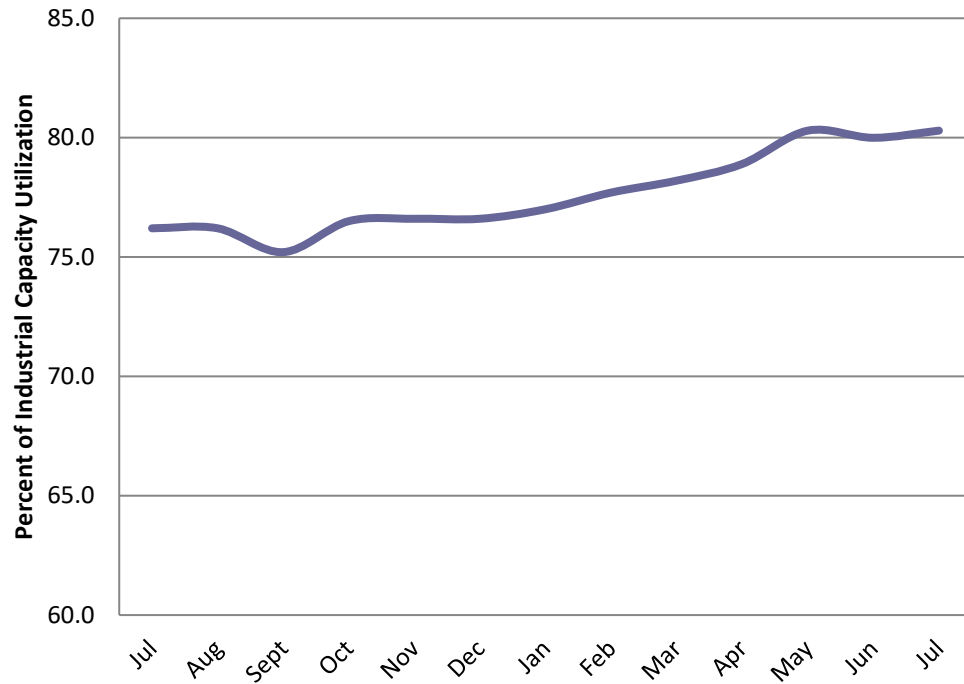
Automotive Sector



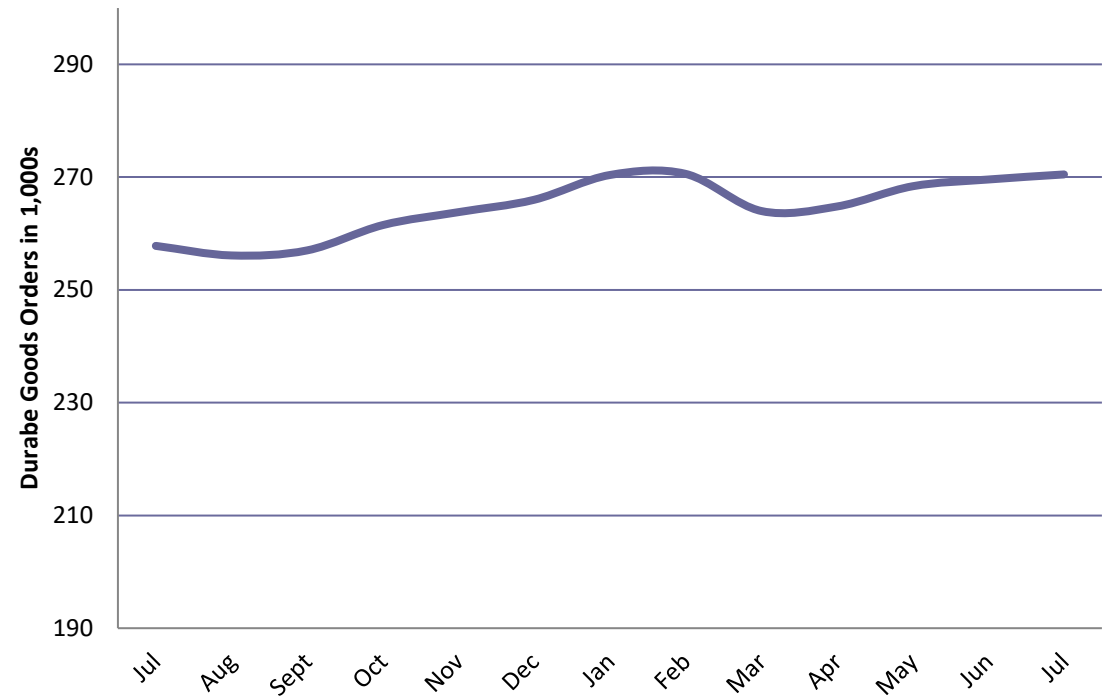


Still Showing Growth in Industrial Sector

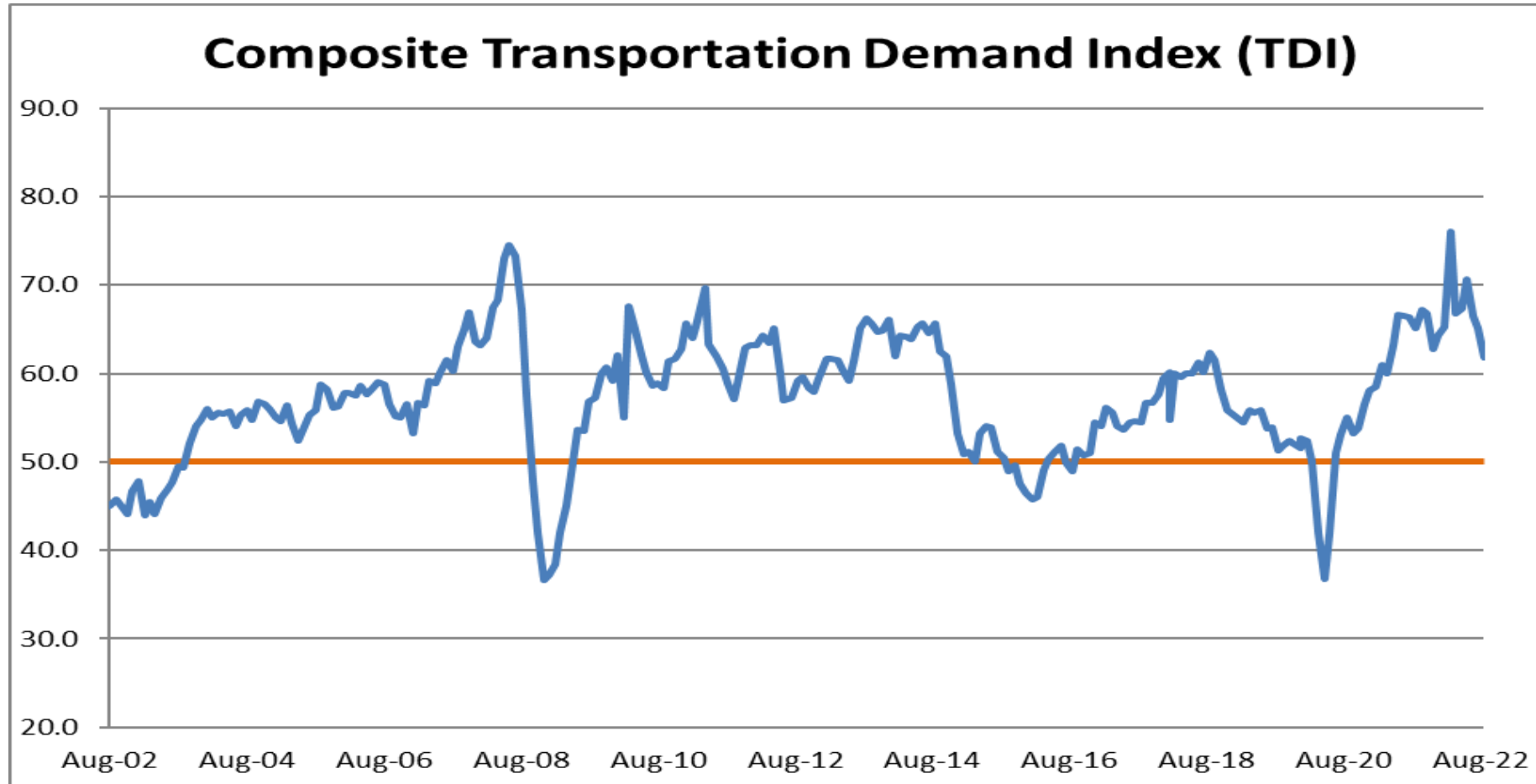
Industrial Capacity Utilization (%)



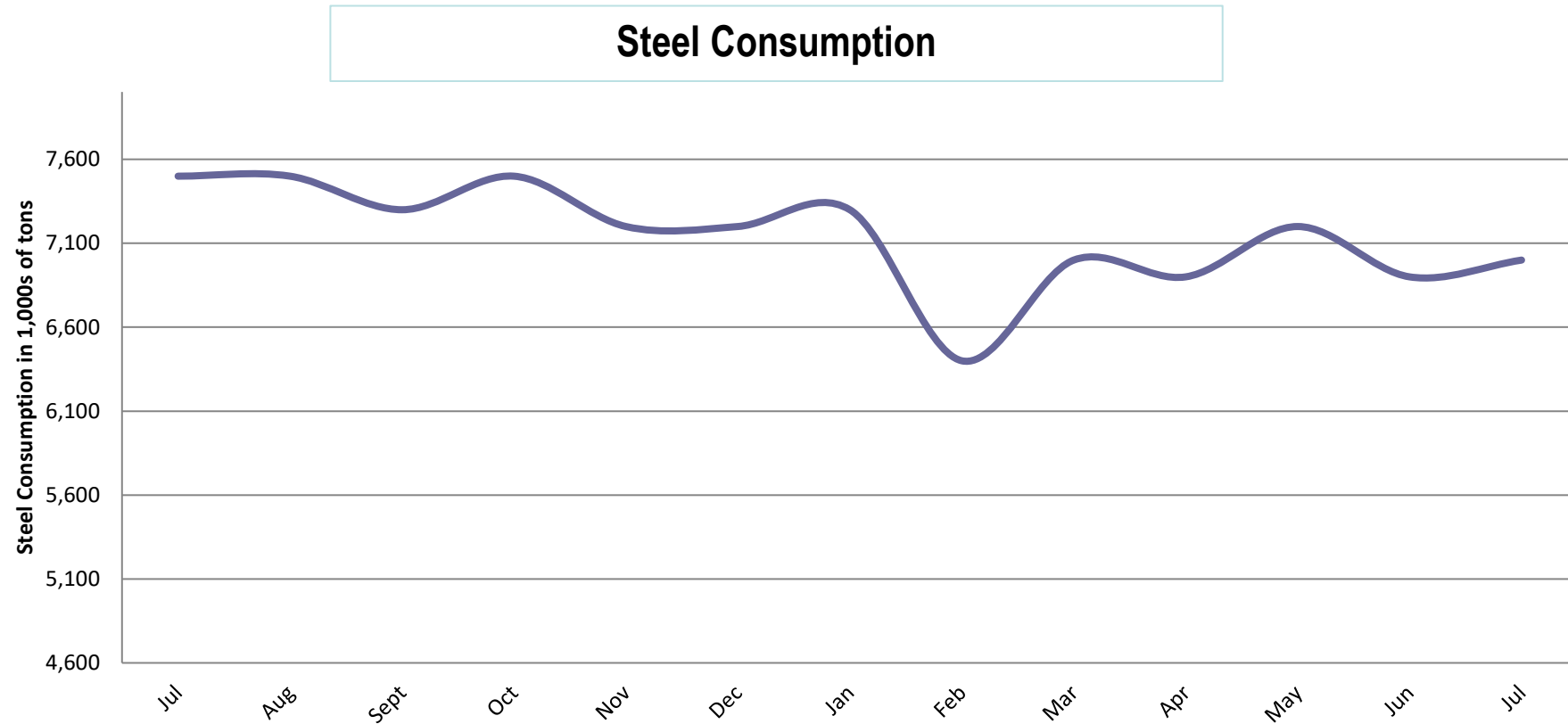
Durable Goods (in 1,000s)



Transportation Index



Fairly Stable Consumption Despite High Prices



Latest CPI Still Hot, Directionally Improving Fast Enough?

- The headline inflation figure is 8.3%, core inflation came in at 6.3%.
- Demand destruction showing up in many of the figures, and energy improved but historically high.
- The CPI came in at 8.3% but the Fed’s target rate is 2%. Even if we just look at core CPI, it was still well above the target rate at 6.3% (up from 5.9% last month).

Table A. Percent changes in CPI for All Urban Consumers (CPI-U): U.S. city average

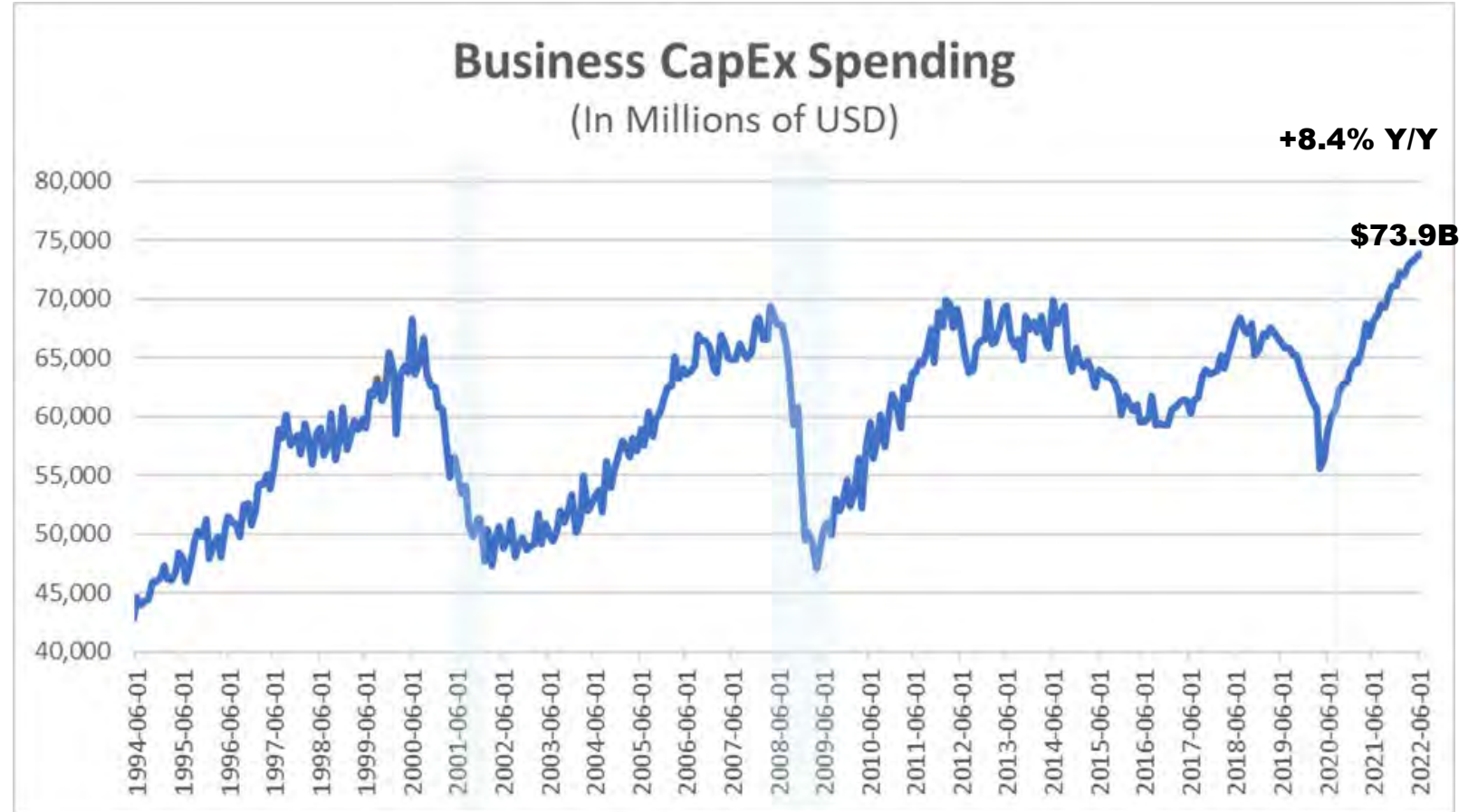
	Seasonally adjusted changes from preceding month			Un-adjusted 12-mos. ended Jul. 2022
	Jan. 2022	Jun. 2022	Jul. 2022	
All items	0.6	1.3	0.0	8.5
Food	0.9	1.0	1.1	10.9
Food at home	1.0	1.0	1.3	13.1
Food away from home	0.7	0.9	0.7	7.6
Energy	0.9	7.5	-4.6	32.9
Energy commodities	-0.6	10.4	-7.6	44.9
Gasoline (all types)	-0.8	11.2	-7.7	44.0
Fuel oil	9.5	-1.2	-11.0	75.6
Energy services	2.9	3.5	0.1	18.8
Electricity	4.2	1.7	1.6	15.2
Utility (piped) gas service	-0.5	8.2	-3.6	30.5
All items less food and energy	0.6	0.7	0.3	5.9
Commodities less food and energy commodities	1.0	0.8	0.2	7.0
New vehicles	0.0	0.7	0.6	10.4
Used cars and trucks	1.5	1.6	-0.4	6.6
Apparel	1.1	0.8	-0.1	5.1
Medical care commodities	0.9	0.4	0.6	3.7
Services less energy services	0.4	0.7	0.4	5.5
Shelter	0.3	0.6	0.5	5.7
Transportation services	1.0	2.1	-0.5	9.2
Medical care services	0.6	0.7	0.4	5.1

Sticky and Flexible Price Consumer Price Index



Demand: US Corporate Investment Stays Near Records

- CapEx spending remained strong through the end of June and corporate investment was not yet showing signs of deceleration but surveys of corporate CEO's have indicated slowing of spending in the second half of the year.
- **US Private investment driving:**
 - Manufacturing (automation and robotics)
 - Construction of all types
 - Wholesale Trade (building inventories)



Demand: Global Manufacturing Activity Decelerating

- 10 markets are now in contraction across the global manufacturing sector and all but three were decelerating month-over-month.
- In the services sector, which can account for as much as 70% of US GDP, the US fell sharply into contraction based.
- Europe is collectively planning a 15% reduction in energy consumption to get ready to weather tough winter conditions. First cuts typically come from heavy industry which is energy intensive. That could pull global manufacturing demand lower.

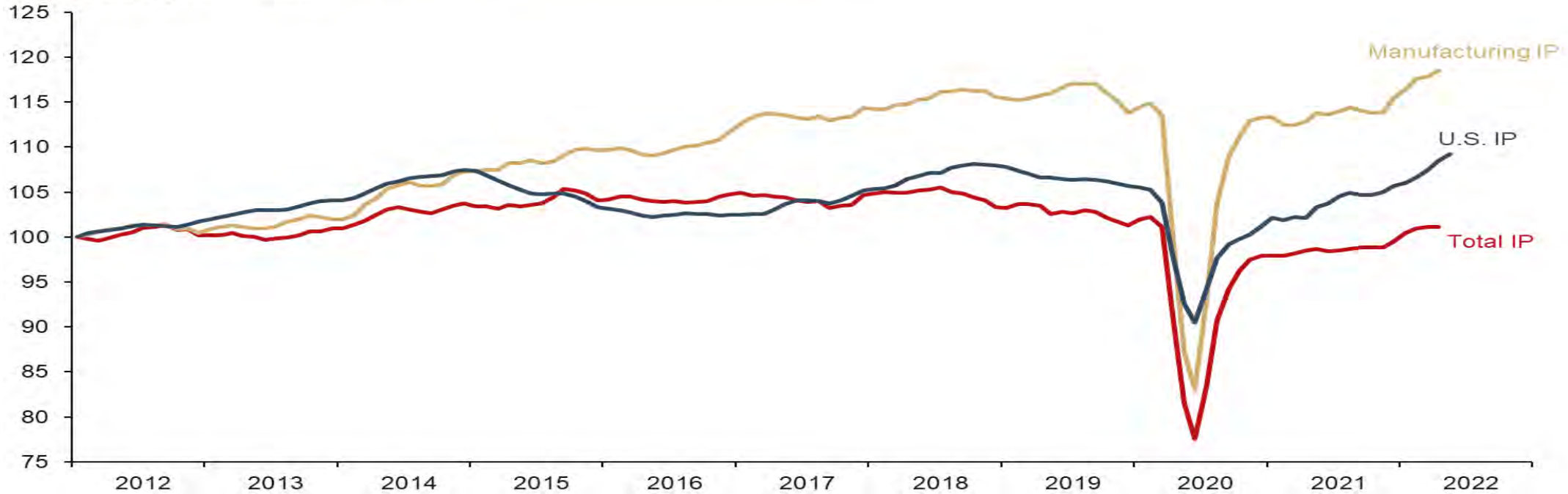
Country	Current Month	Latest Month Manuf. PMI	Prior Month Manuf. PMI	M/M Change	Current Month	Latest Month Services PMI	Prior Month Services PMI	M/M Change
Global PMI	July	51.1	52.2	-1.1	June	53.9	51.9	2.0
Eurozone PMI	July	49.8	52.1	-2.3	July	51.2	53.0	-1.8
US	July	52.2	52.7	-0.5	July	47.3	52.7	-5.4
China	July	50.4	51.7	-1.3	July	55.5	54.5	1.0
Canada	July	52.5	54.6	-2.1				
Mexico	July	48.5	52.2	-3.7				
Japan	July	52.1	52.7	-0.6	July	50.3	54.0	-3.7
Germany	July	49.3	52.0	-2.7	July	49.7	52.4	-2.7
South Korea	July	49.8	51.3	-1.5				
UK	July	52.1	52.8	-0.7	July	52.6	54.3	-1.7
France	July	49.5	51.4	-1.9	July	53.2	53.9	-0.7
India	July	56.4	53.9	2.5	July	55.5	59.2	-3.7
Italy	July	48.5	50.9	-2.4	July	48.4	51.6	-3.2
Taiwan	July	44.6	49.8	-5.2				
Brazil	July	54.0	54.1	-0.1	July	55.8	60.8	-5.0
Spain	July	48.7	52.6	-3.9	July	53.8	54.0	-0.2
Russia	July	50.3	50.9	-0.6	July	54.7	51.7	3.0
Netherlands	July	54.5	55.9	-1.4				
Ireland	July	51.8	53.1	-1.3	June	55.6	60.2	-4.6
Greece	July	49.1	51.1	-2.0				
Poland	July	42.1	44.4	-2.3				
ASEAN	July	52.2	52.0	0.2				
Vietnam	July	51.2	54.0	-2.8				
Philippines	July	50.8	53.8	-3.0				
Australia	July	55.7	56.2	-0.5	July	50.9	52.6	-1.7
Switzerland	July	58.0	59.1	-1.1				
Hong Kong	July	52.3	52.4	-0.1				
Singapore	July	58.0	57.5	0.5				

Sources: S&P Global, Caixin, JP Morgan, Jibun Bank, Nevi, BME, CIPS

Mexican Manufacturing Starts Recovery

Chart 2
Industrial Production Ticks Down; Manufacturing Inches Up

Index, January 2012 = 100*



*Seasonally adjusted, three-month moving average.

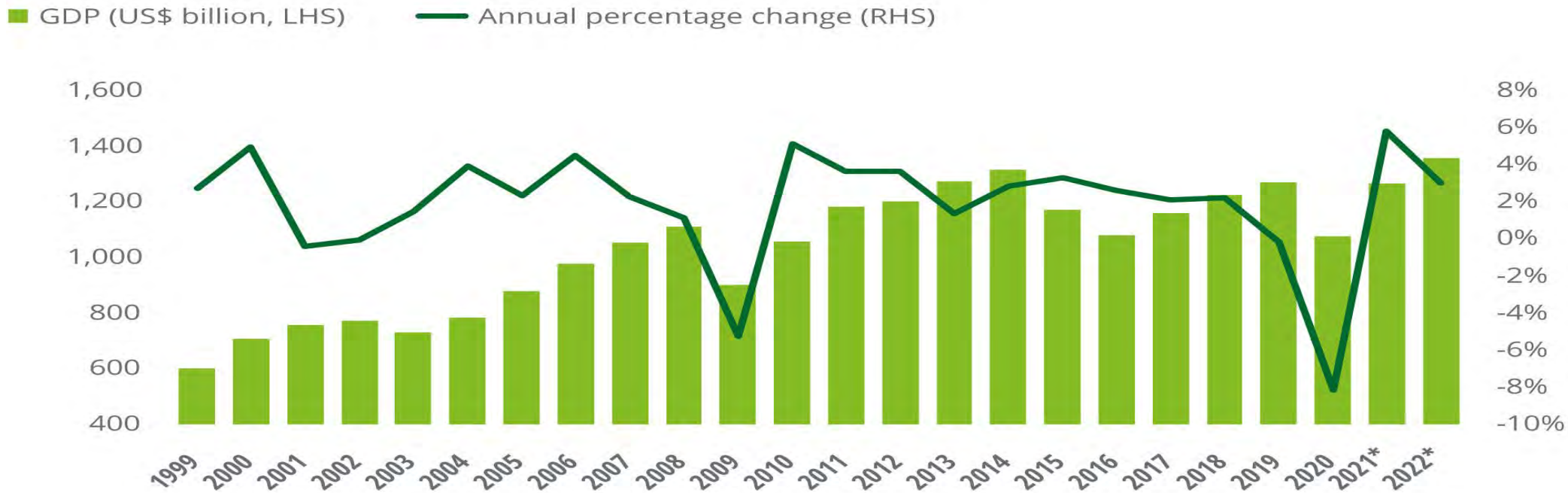
NOTES: Total and manufacturing IP refer to Mexico. U.S. IP refers to total industrial production in the United States. Mexico data are through April 2022. U.S. data are through May 2022.

SOURCES: Instituto Nacional de Estadística y Geografía (National Institute of Statistics and Geography); Federal Reserve Board.

Reasonable Recovery – Still Tied to US

FIGURE 2

Mexico's GDP is expected to return to its 2019 levels in 2022



Note: * Estimates for 2021 and 2022 are from D.Econosignal.

Sources: IMF; INEGI.

Deloitte Insights | deloitte.com/insights

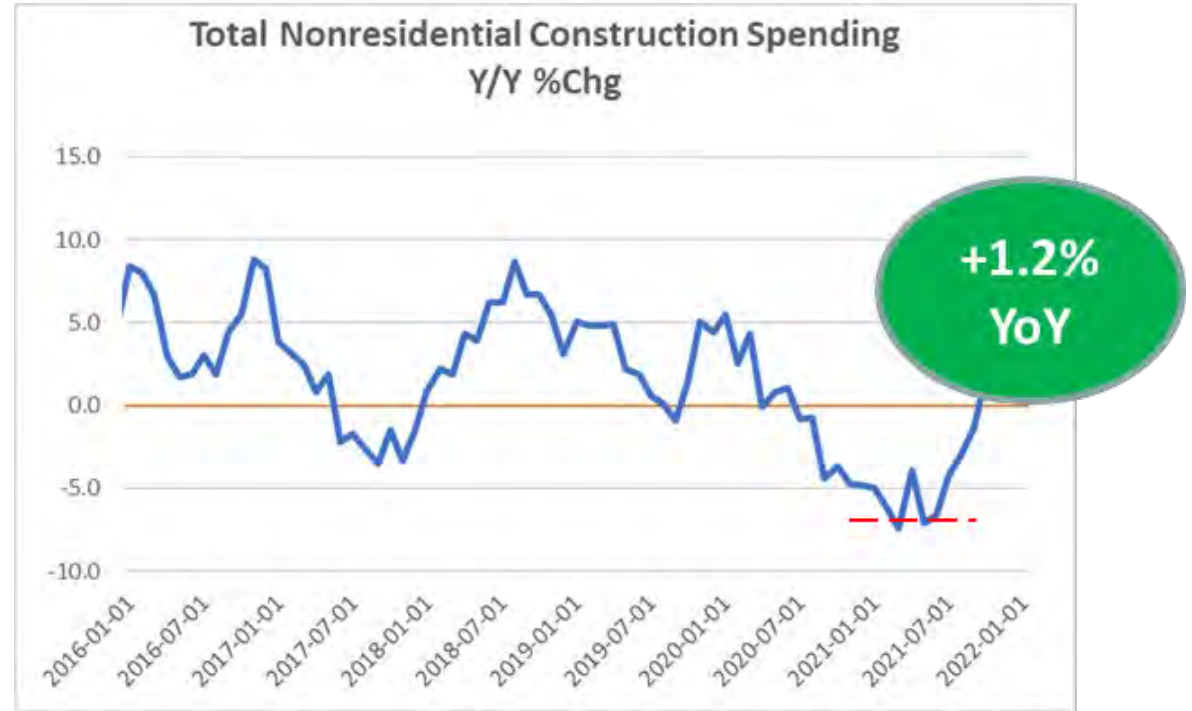
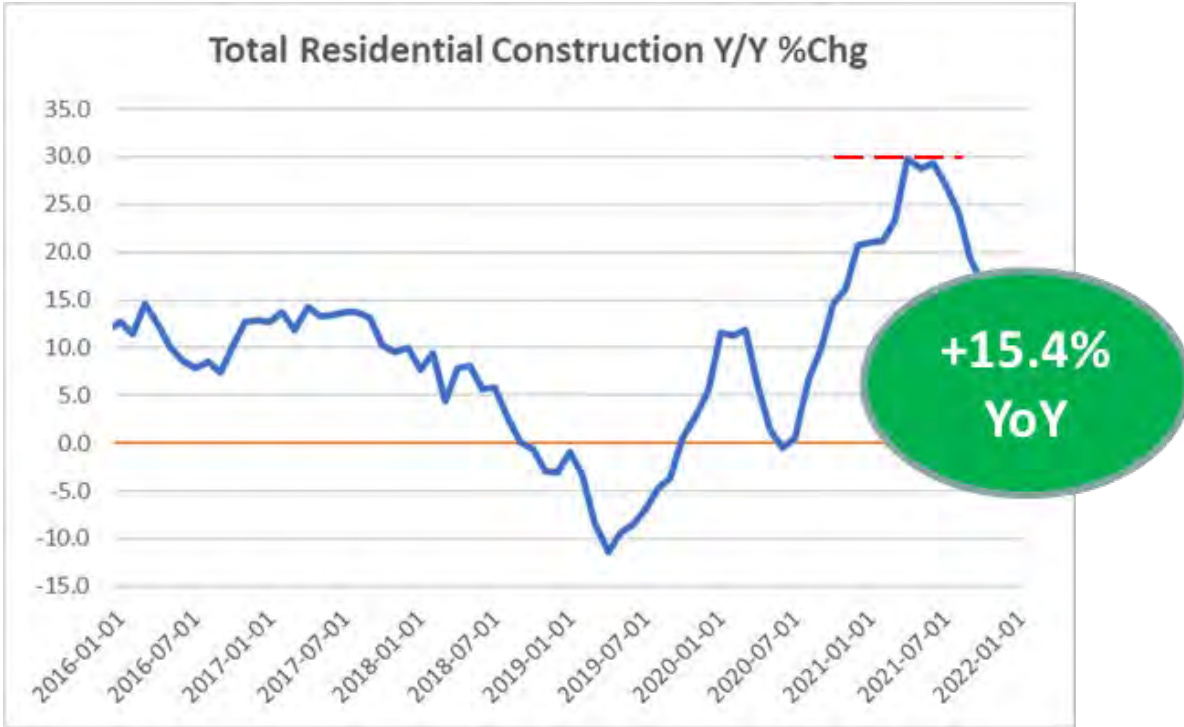
Inventory to Sales Ratios Show Where Opportunity and Risk Is Highest



- There are two sections in the chart at right.
 - Automotive, retail, and merchant wholesalers are still understocked relative to 2019 levels. Only manufacturing, at a macro level, is now above 2019 levels. The second section shows microsectors and where the weakest inventory levels are
 - Discretionary sectors will face the toughest pressures in the second half of the year. Consumer staples will continue to reload inventories

Inventory to Sales Ratio (ISR) Analysis				
	Sector	May 2019 ISR	May 2022 ISR	ISR Percent Above/Below 2019 Levels
	Total Business	1.42	1.30	-8.5%
1	Automotive	2.33	0.53	-77.4%
2	Retail	1.48	1.20	-18.9%
3	Merchant Wholesalers	1.35	1.26	-6.7%
4	Manufacturing	1.43	1.47	2.8%
1	Chemical Wholesalers	1.25	1.07	-14.4%
2	Machinery Wholesalers (ie. John Deere, Vermeer)	2.77	2.44	-11.9%
3	Apparel Stores	2.46	2.18	-11.4%
4	Paper Wholesalers (ie. National Paper)	1.11	1.03	-7.2%
5	Alcohol Wholesale Distributors	1.33	1.25	-6.0%
6	Durable Goods Wholesalers	1.72	1.64	-4.7%
7	Drugs Wholesalers	1.10	1.07	-2.7%
8	Food and Beverage Stores	0.80	0.78	-2.5%
9	Lumber and Construction Material Wholesalers	1.64	1.60	-2.4%
10	Household Appliances Wholesalers	1.15	1.15	0.0%
11	Building Material Stores (ie. Home Depot)	1.87	1.89	1.1%
12	Department Stores (ie. Nordstrom's)	2.06	2.13	3.4%
13	Furniture Stores	1.59	1.65	3.8%
14	Commerical Equipment Wholesalers	1.15	1.21	5.2%
15	Furniture Wholesalers	1.79	1.92	7.3%
16	Grocery Wholesalers	0.71	0.78	9.9%
17	Computer Wholesale Distributors	0.79	0.87	10.1%
18	General Merchandise (ie. Walmart)	1.38	1.58	14.5%
19	Hardware, Plumbing, Heating Wholesalers	2.05	2.53	23.4%

Good News: Construction Still Showing Solid Performance...



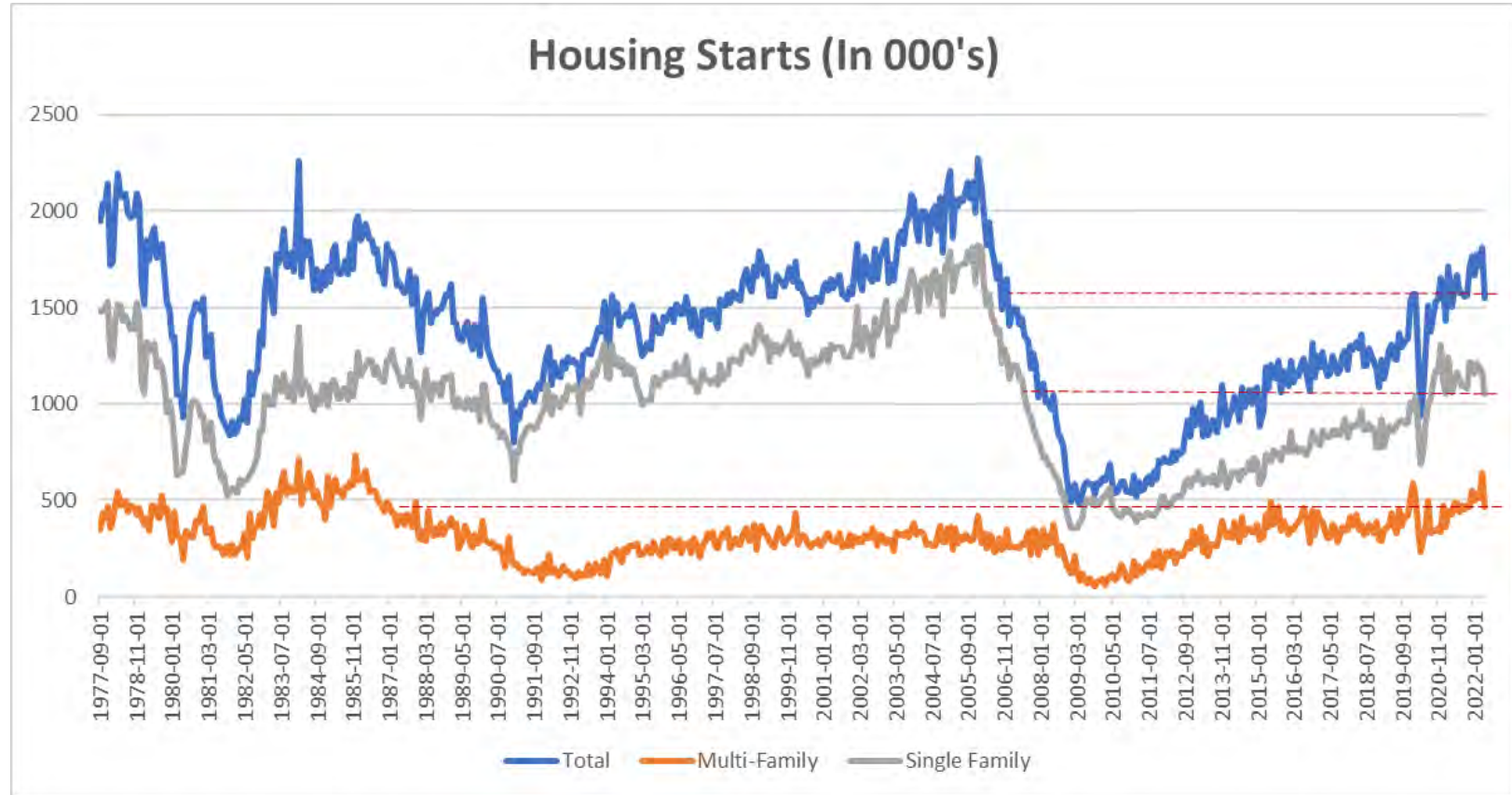
Private Annualized Spending
 2019: \$550B
 2022: \$932B (June)

Private Annualized Spending
 2019: \$815B
 2022: \$829 (June)

Spending (in dollars) far exceeded levels in 2021.

Housing Sector Showing Segments of Weakness

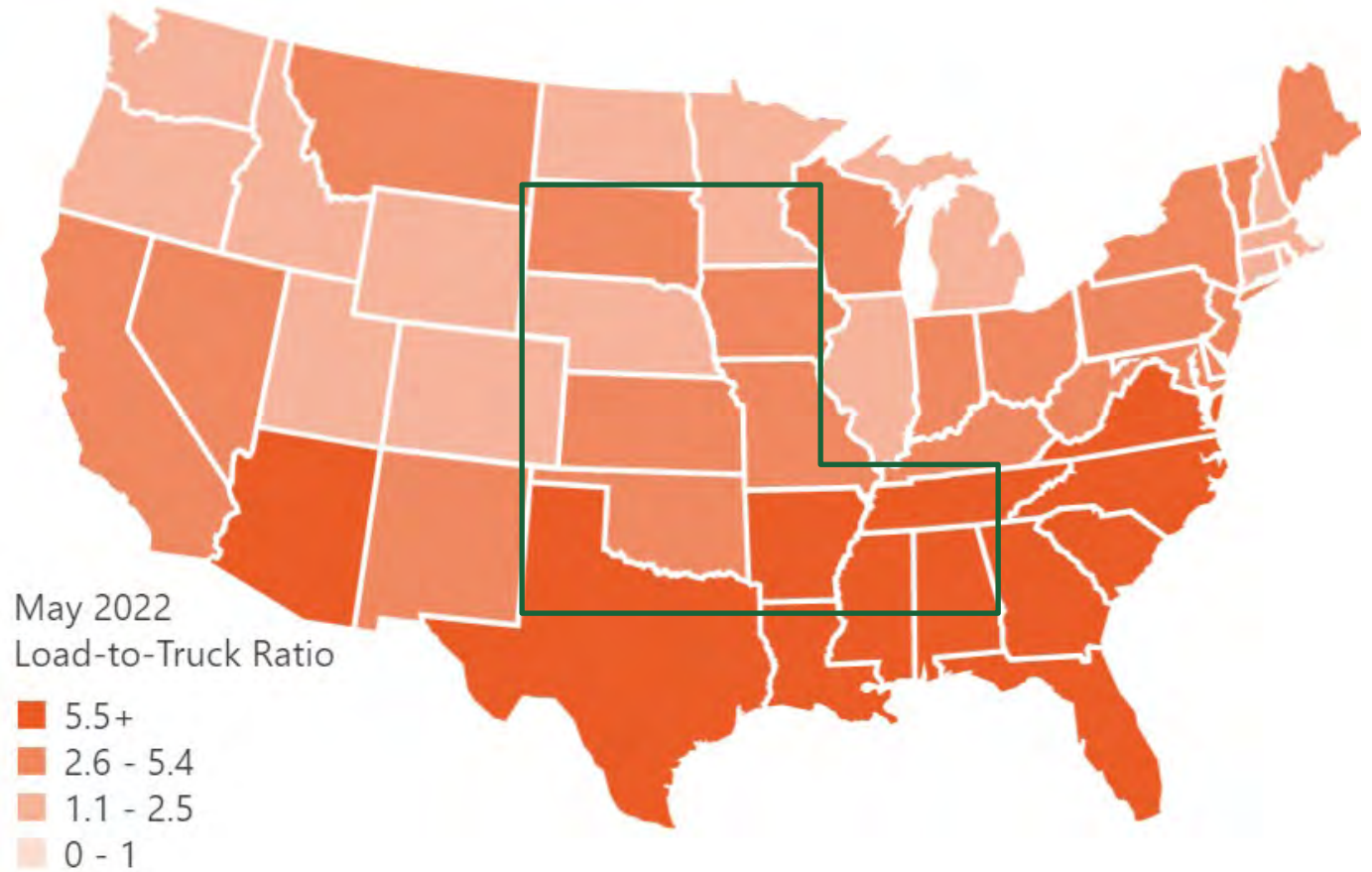
- Multi-family starts arguably the strongest since the 1980's.
- Mortgage applications are down 18% Y/Y and refinance applications are down 80%.
- The MBA average home purchase price was \$460,000 in March, it has fallen to \$415,000. 25% of households that could afford the median-priced home could not afford it today.
- Zillow reported 15% of homes that went under contract in June had purchase agreements that failed. Inventories are rising.



Every newly constructed home requires 7 full truckloads of fixtures and the housing market can account for as much as 11-16% of GDP in any given year.

Good News: Reshoring

- **68% of Global supply chain managers rethinking entire supply chain**
- **“Friend Shoring” the big trend**
- **Have to fight water and electricity problems west and south, tax issues north and northeast, and distribution problems and cost southeast.**
- **The Midwest is prime, energy, lower cost of living, water access, distribution**



Shift to more Reshoring and Nearshoring? \$1 trillion to be invested in expanding manufacturing capacity in the US.

Value of Construction Put in Place - Seasonally Adjusted Annual Rate
(Millions of dollars. Details may not add to totals due to rounding.)

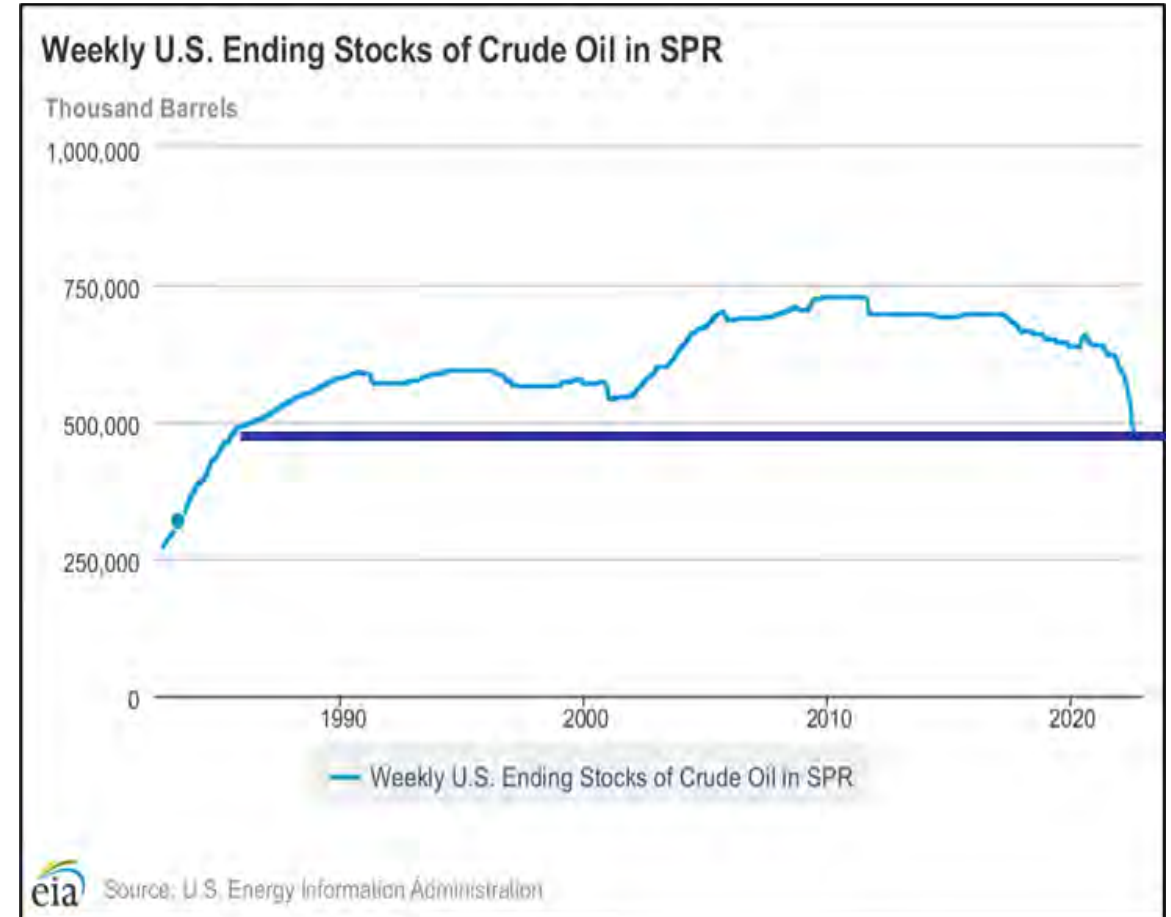
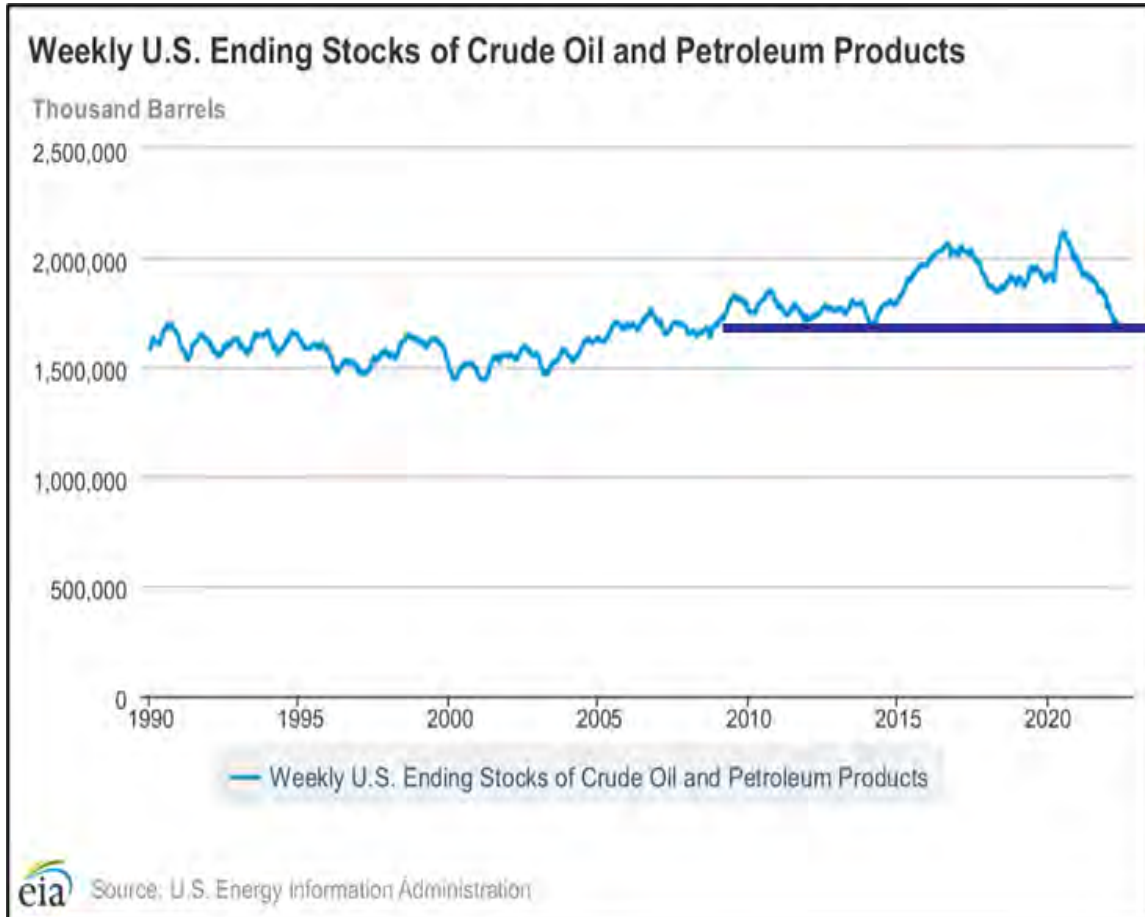
Type of Construction:	Jun 2022 ^p	May 2022 ^r	Apr 2022 ^r	Mar 2022	Feb 2022	Jun 2021	Percent change Jun 2022 from -	
							May 2022	Jun 2021
Total Construction	1,762,317	1,781,909	1,780,890	1,768,168	1,753,123	1,627,985	-1.1	8.3
Residential	932,911	948,318	940,598	929,023	912,047	808,662	-1.6	15.4
Nonresidential	829,406	833,591	840,292	839,145	841,077	819,324	-0.5	1.2
Manufacturing	92,966	92,990	92,881	90,823	91,664	77,274	0.0	20.3
Water supply	21,526	20,113	20,055	19,502	19,444	19,170	7.0	12.3
Conservation and development	9,007	8,776	9,011	9,346	8,170	8,091	2.6	11.3
Commercial	102,918	103,435	104,262	104,265	104,434	93,143	-0.5	10.5
Sewage and waste disposal	30,579	30,424	30,619	29,915	29,085	28,615	0.5	6.9
Health care	50,082	50,254	51,063	51,026	50,611	47,975	-0.3	4.4
Amusement and recreation	26,296	26,116	26,488	25,993	26,249	25,269	0.7	4.1
Religious	2,777	2,856	2,679	2,879	2,869	2,793	-2.8	-0.6
Highway and street	98,026	100,829	103,301	100,971	102,413	98,923	-2.8	-0.9
Office	85,492	85,354	85,214	84,343	84,608	86,634	0.2	-1.3
Educational	95,488	95,995	97,600	97,783	98,546	96,755	-0.5	-1.3
Communication	23,913	23,666	23,561	23,633	23,826	24,802	1.0	-3.6
Transportation	54,918	55,484	54,598	54,515	54,895	57,034	-1.0	-3.7
Public safety	11,178	11,183	10,705	10,973	10,291	11,952	0.0	-6.5
Lodging	16,757	16,813	16,781	16,203	16,582	18,089	-0.3	-7.4
Power	107,484	109,303	111,473	116,976	117,391	122,804	-1.7	-12.5

- Some projects that were put on hold will start once commodity prices and availability of those products improves (timed for Q1/Q2)
- Some concern about the Inflation Reduction Act and manufacturing. Some companies are already having to war game the differences between a 15% minimum tax and where they produce products.

Putin Able to Outlast Global Efforts to Offset Sanctions? US Still Depleting SPR at the Rate of 1M BPD and Exporting Record Volumes.

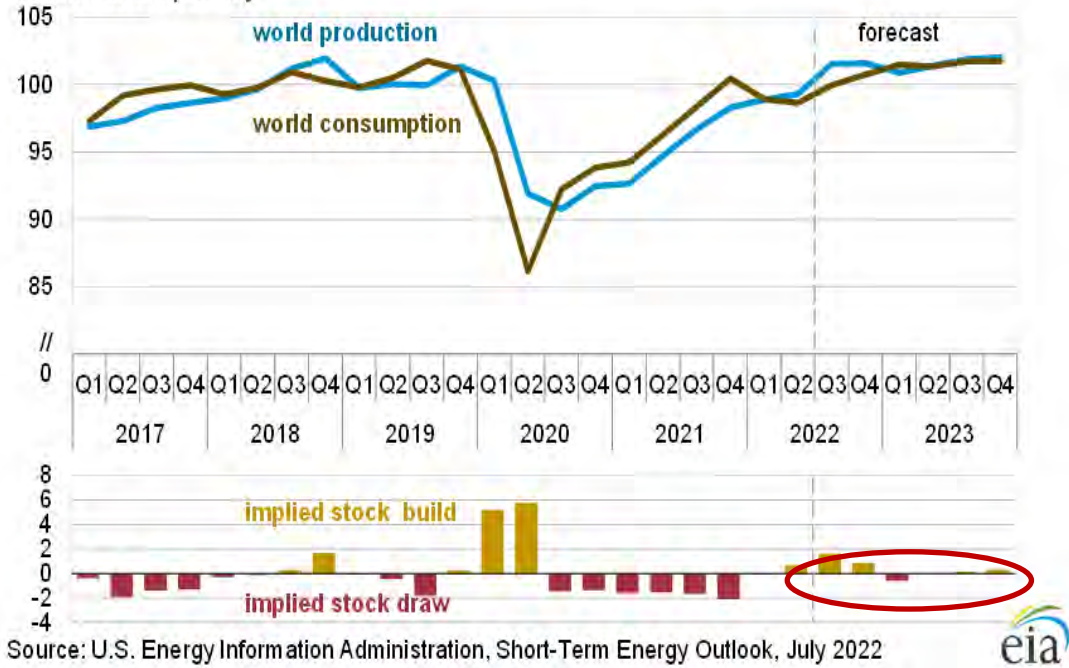


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EIA Is Still “All Over the Place” On It’s Outlook

World liquid fuels production and consumption balance
million barrels per day



Crude forecast:

• 2021	\$68.21
• 2022	\$98.79
• 2023	\$89.75

Gasoline forecast:

• 2021	\$3.02
• 2022	\$4.05
• 2023	\$3.57

Diesel forecast:

• 2021	\$3.29
• 2022	\$4.73
• 2023	\$4.07

- US production will hit an all-time high next year of 13M barrels per day
- But, with commuter traffic cut off, consumption is 20M B/D currently
- The 7M BPD gap must be closed by someone else, Canada can fill 1.5M
- **The US will start rebuilding the SPR in 2023 and 2024**

Area	Last Count	Count	Change from Prior Count	Date of Prior Count	Change from Last Year	Date of Last Year's Count
U.S.	05 Aug 2022	764	-3	29 July 2022	+273	06 Aug 2021
Canada	05 Aug 2022	203	-1	29 July 2022	+47	06 Aug 2021
International	July 2022	833	+9	June 2022	+82	July 2021

1,023 in 2019

Import Demand: the US Dollar Continues to Gain Strength, Importing Will Continue to be Robust

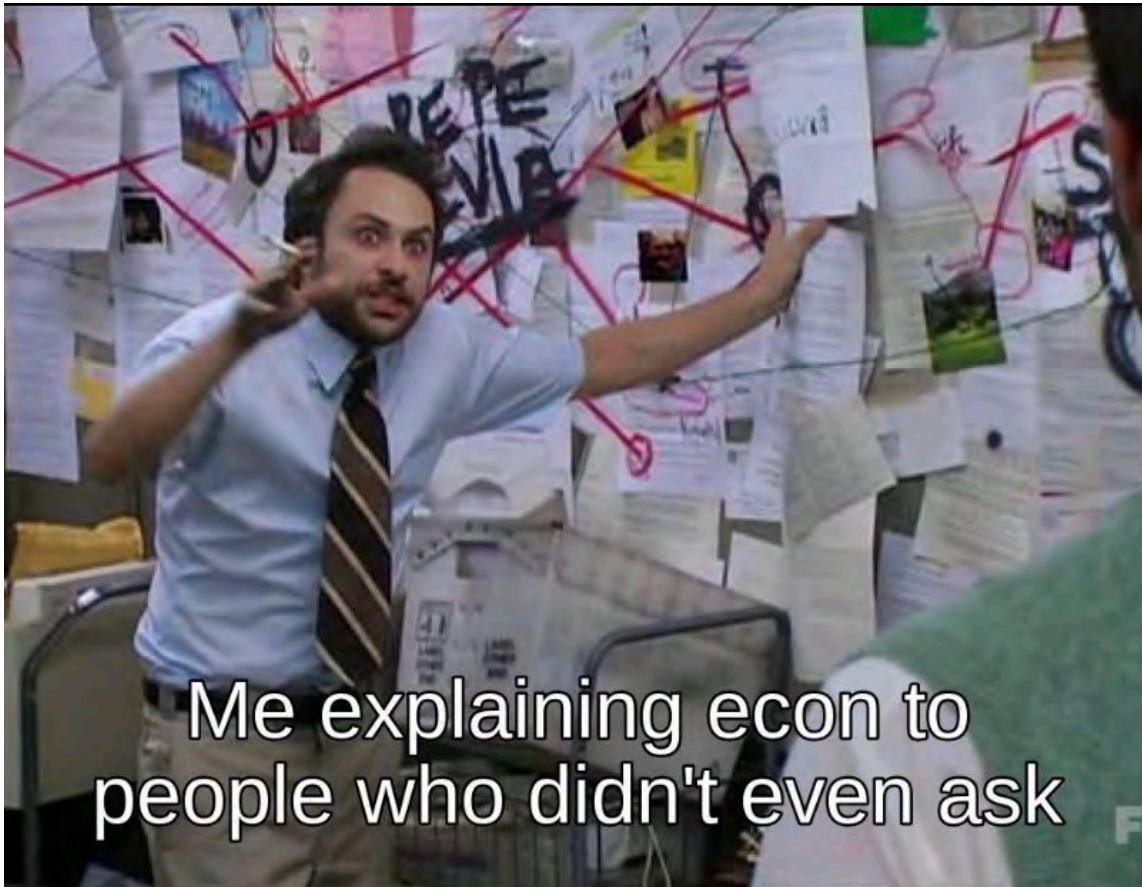
- Risk: the developing world can't afford to purchase food, energy, etc. Anything denominated in dollars.
- Even Europe is struggling.
- This could eventually become a headwind, but for now it remains a tailwind for US importers.



Good News: Savings are Still Strong



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