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Economic Update

**Presented by ITR Economics
Economist & Senior
Consulting Speaker
Lauren Saidel-Baker, CFA**

	Duration	Accuracy
US GDP	15	97.8%
US Ind. Production	14	99.8%
Europe Ind. Production	17	99.7%
Canada Ind. Production	15	95.7%
China Ind. Production	13	99.5%
Retail Sales	14	99.9%
Housing - Single Family	14	88.9%
Employment-Private Sector	13	99.9%

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

Macroeconomic Signals for 2024

- Slower Global Growth
- Decline in some industries in 2024
- Leading Indicators Lift

Uncertainty Drivers

- Uncertainty re: interest rate decline
- Wage Inflation Pressuring Margins
- Consumer stress in some areas

Highlights

- There Are Opportunities Out There
- Plan for macro rise in 2025

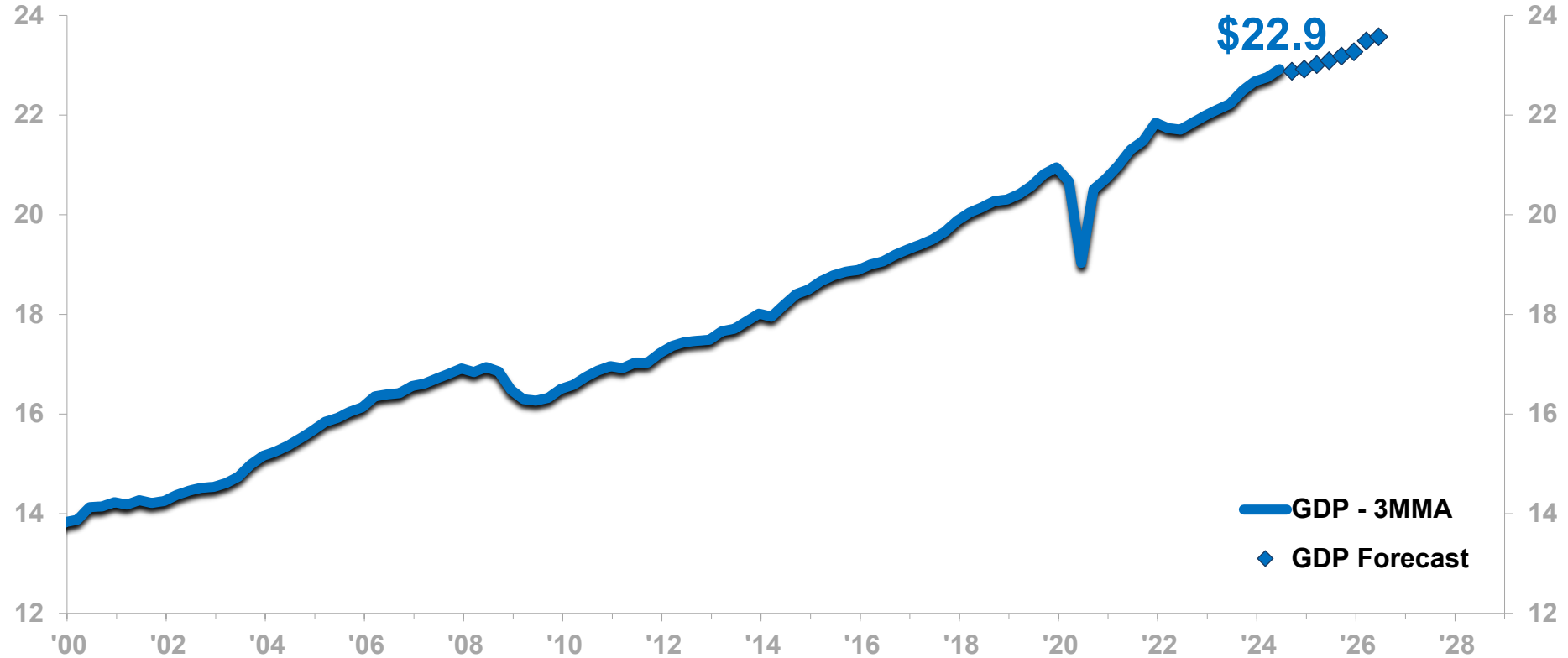


Expect a Slower Growth Year in 2024

Source: BEA

US Real Gross Domestic Product

Quarterly Data Trends: Trillions of Chained 2017 Dollars





Global Partners

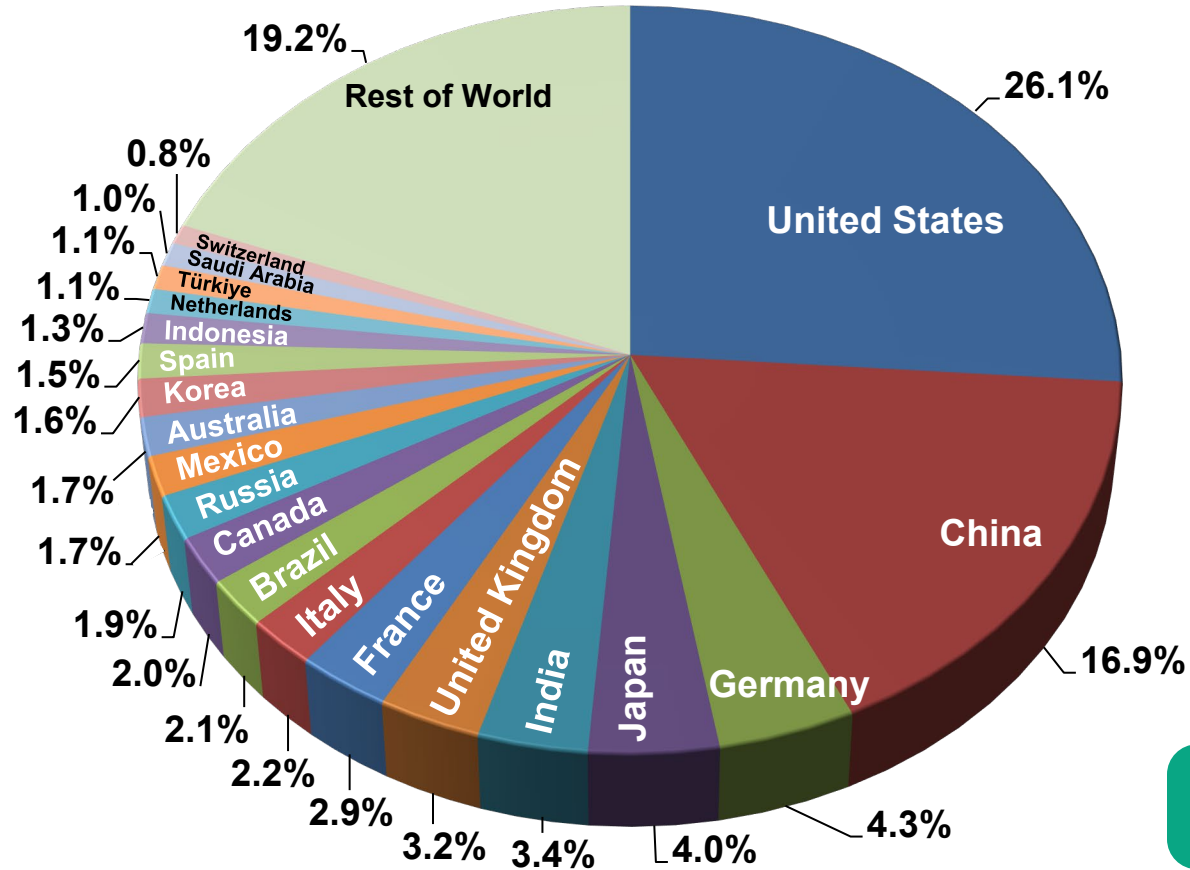


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Percent of World GDP by Country

Source: IMF, *ROW: 64% are
IMF Estimated Figures



*Total World GDP:
\$104.7 Trillion US \$

Highly Correlated; Strongest Growth in Mexico

Sources: FRB, Statistics Canada, Mexico National Institute of Statistics and Geography

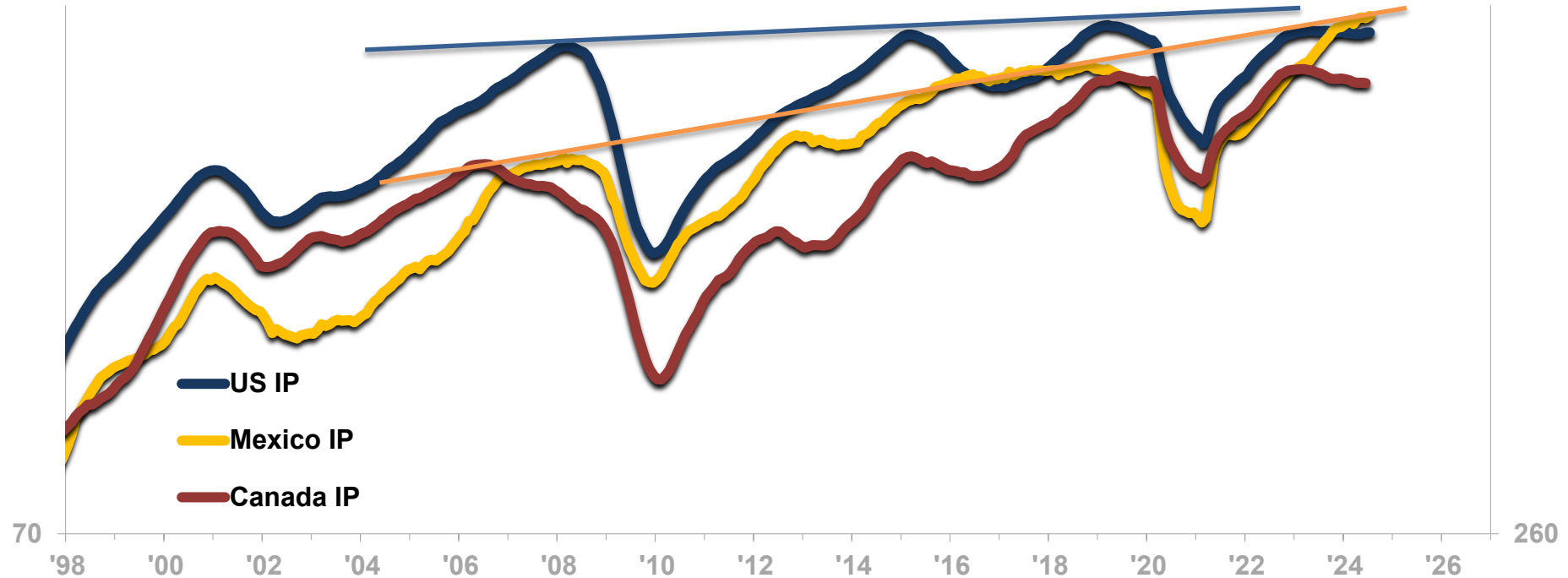


US Industrial Production Index to Canada Industrial Production to Mexico Industrial Production Index

Annual Data Trends

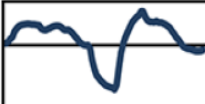

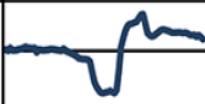

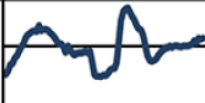

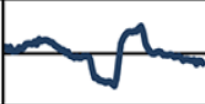

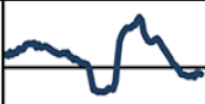

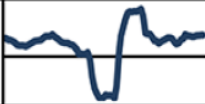

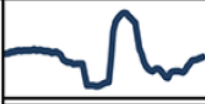

US IP (2017 = 100),
Mexico IP (2018 = 100)

Canada IP (Bil. 2017 CAD)



The Global Economy At-a-Glance

Source: ITR Economics Trends Report™

	Historical 12/12	Historical 12MMA	Current 12/12	2024	2025	2026
Canada Industrial Production			-0.9	-0.4	3.3	2.9
Mexico Industrial Production Index			2.6	0.4	0.4	0.7
Brazil Manufacturing and Mining Industrial Production Index			1.5	1.7	-2.2	2.7
Western Europe Industrial Production Index			-2.2	-1.0	2.1	0.8
Eastern Europe Industrial Production Index			-1.6	0.8	2.9	1.6
India Industrial Production Index			6.0	3.5	5.3	3.3
China Industrial Production Index			5.7	5.9	3.4	4.5

Note: Forecast color represents what Phase the market will be in at the end of the year. Ukraine data has been removed from Eastern Europe Industrial Production as it is unavailable due to the war. We have added Hungary Industrial Production data to the series.

A Marked Slowdown in Growth in China Over Time

Sources: China National Bureau of Statistics, FRB

China Industrial Production Index to US Industrial Production Index

3/12 Rates-of-Change



Consumer Price Indexes

1/12 Rates-of-Change

Country	1/12	Phase
US	2.5%	C
Canada	2.5%	C
Mexico	5.6%	B
Brazil	4.2%	C
Colombia	6.1%	C
Argentina	236.7%	B
Europe	2.8%	C



Canada, Mexico, and Europe

Sources: Statistics Canada, Mexico National Institute of Statistics and Geography, Eurostat

	12/12	Phase	3/12	Phase	12MM Notes
Canada Foundries	-10.0%	A	-12.0%	A	Lowest in 13 years
Mexico Fabricated Metal	-1.2%	D	-2.0%	A	Declining
Europe Iron Casting	-10.5%	D	-14.1%	A	Declining
Canada Aerospace	1.1%	C	-0.2%	A	Rising
Mexico Aerospace	0.9%	B	12.3%	C	Rising
Mexico Construction Machinery	-0.2%	A	-5.0%	A	Declining
Canada Agriculture, Construction & Mining Machinery	-4.0%	D	-15.2%	D	Declining





China is becoming more of a problem going forward with mounting risks



Europe in recovery in 2025



Nationalism is the long-term play

Next Steps

- **Nationalism brings opportunities for shorter supply chains and new business**



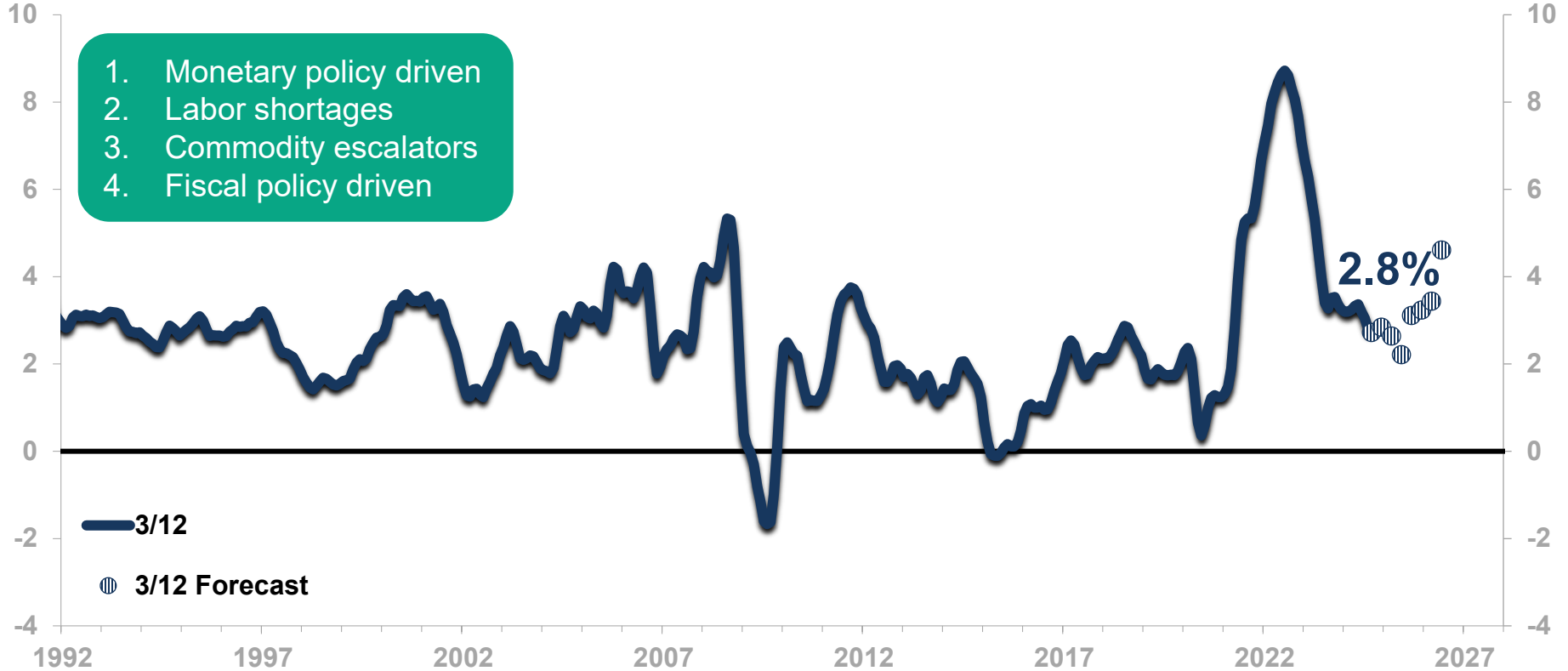
Inflation & Interest Rates

Disinflation Through 2024

Sources: BLS

US Consumer Price Index

3/12 Rates-of-Change



The Next Round of Inflation is Already Forming

Source: SIFMA

US Treasury Gross Issuances

Data Trends: Trillions of Dollars



Profit Margin Pressures: Battle Back With Competitive Advantages

Sources: LME, BLS, EIA, Investing.com

Indicator	12/12	Phase	3/12	Phase
Aluminum Prices	2.8%	B	11.5%	C
Iron & Steel	-5.7%	A	-10.4%	D
Crude Oil	2.3%	B	4.6%	C
Diesel on Highway	-9.7%	A	-6.8%	D
Electric Power	3.6%	C	2.5%	C
Trucker Wages	2.7%	C	1.3%	C
Manufacturing Wages	5.1%	C	4.9%	C



Industrial Economy & Auto Production Plateaus Causing Flatness

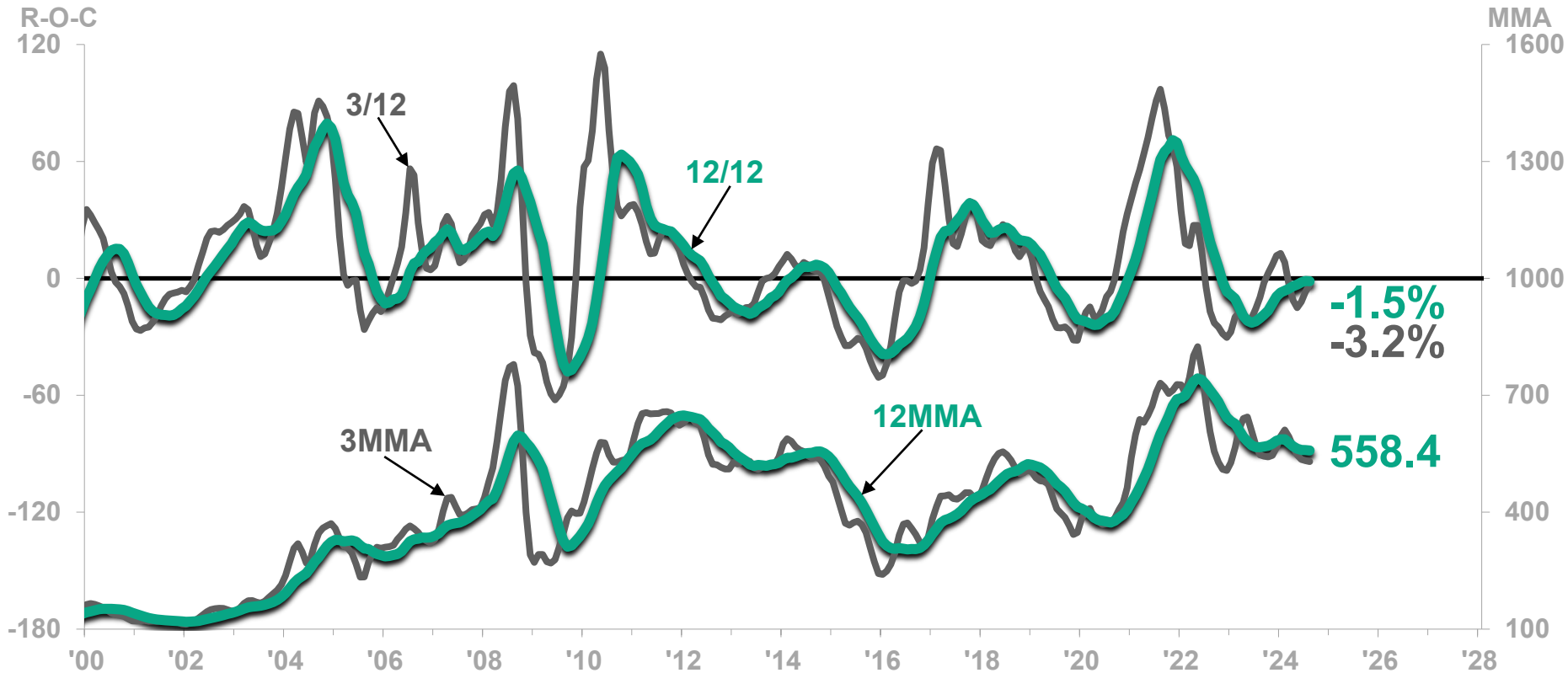
Source: BLS

US Steel Scrap Producer Price Index

1982 = 100



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Long-Term Upside Pressure from AI

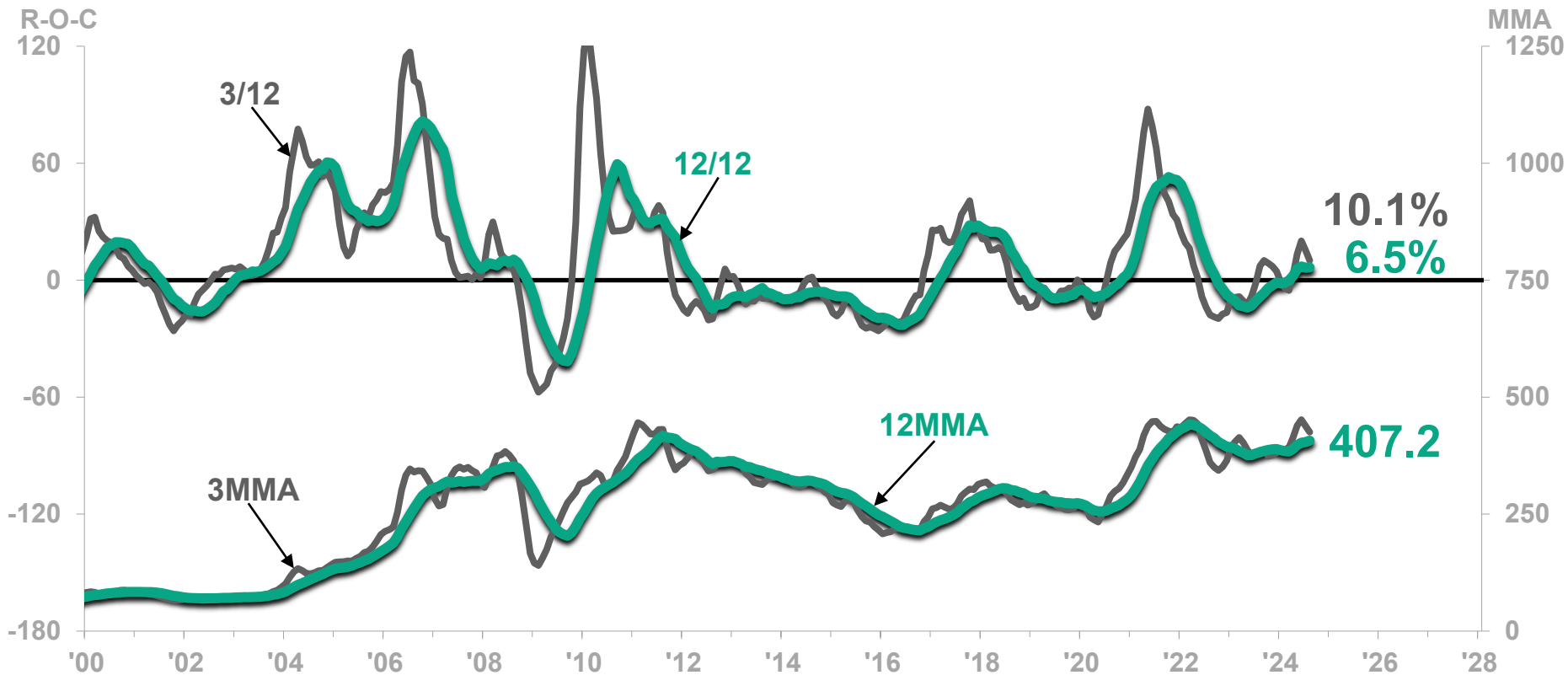
Source: WSJ

US Copper Futures Prices

Cents per Pound



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Longer Term: Expect Electricity Prices to Rise Relentlessly

AI Infusion



Data Center Proliferation



EV “Adoption”



**Environmental Temperature
Realization**

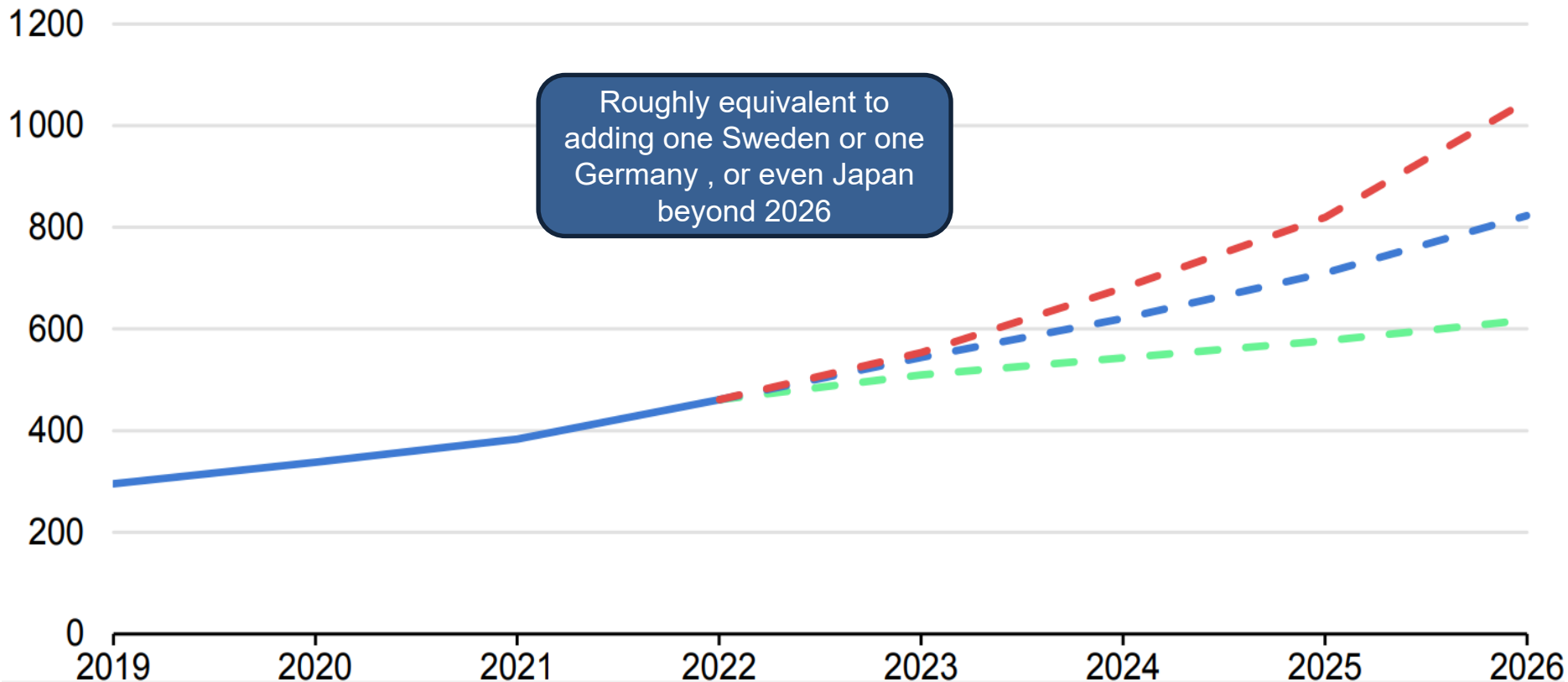


**Pushing
Demand
Higher:**

**Lack of Diversity in Energy
Sources & Resiliency
(e.g. CA and TX)**



Global Electricity Demand from Data Centers, AI, and Cryptocurrencies. 2019 - 2026



The US Draws More Energy for Data Centers Than Anyone

Sources: BLS,
US Census Bureau

US Electric Power Producer Price Index to US Private Data Center Construction

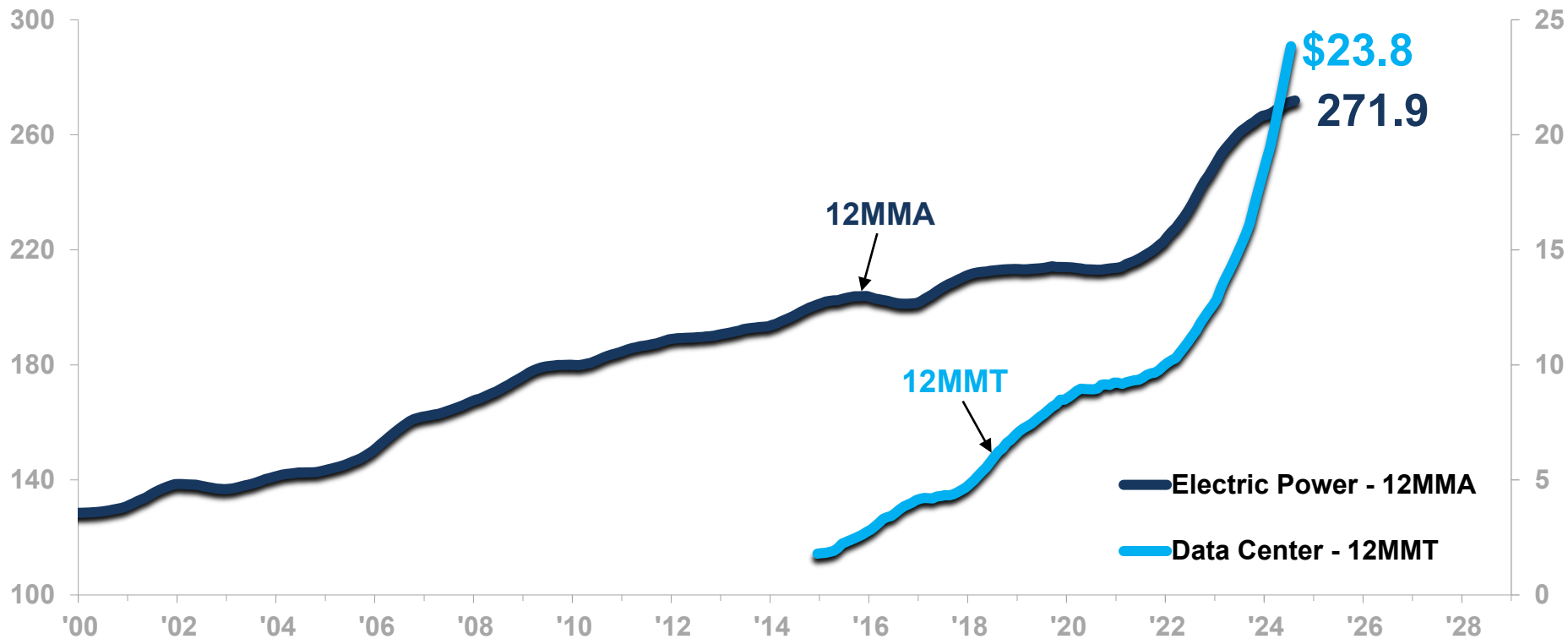


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Annual Data Trends

Electric Power PPI (1982 = 100)

Data Center (Bil. \$)





Inflation is decreasing and is expected to decline further. Rate decline is probable for 2024.



Bank credit remains tight. Cash flow analysis through 2024 is critical.



Use the next 2 years to strategize how you will contend with future inflation and higher interest rates.

Next Steps

- This Federal Reserve is a wild card from our perspective. Stay with us via our weekly Fed Watch YouTube free broadcasts until this is over.



People



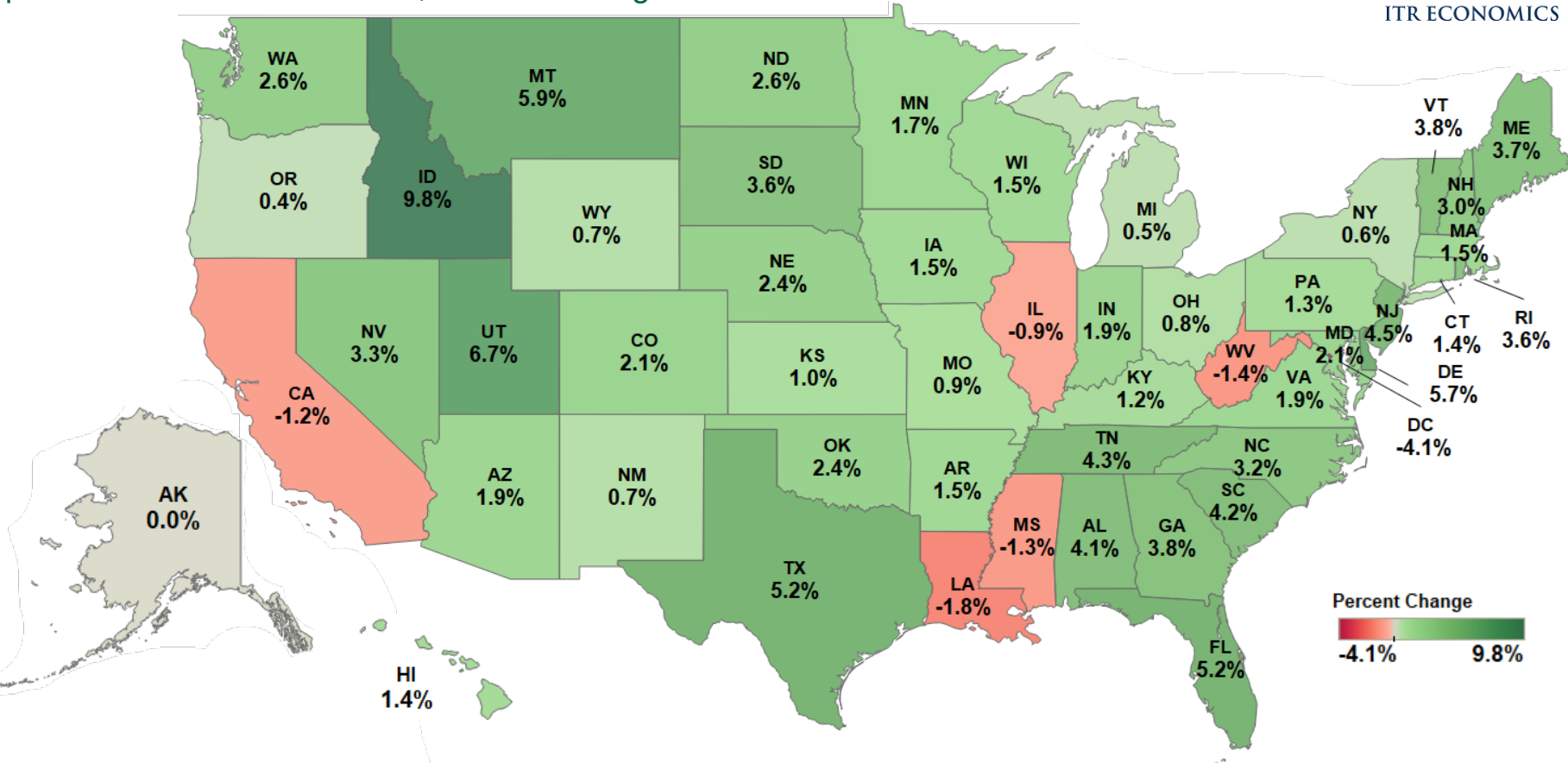
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Be Geographically Specific: Population Growth 2019 to 2023

Source:
US Census Bureau

Population Growth 2019 – 2023, Percent Change



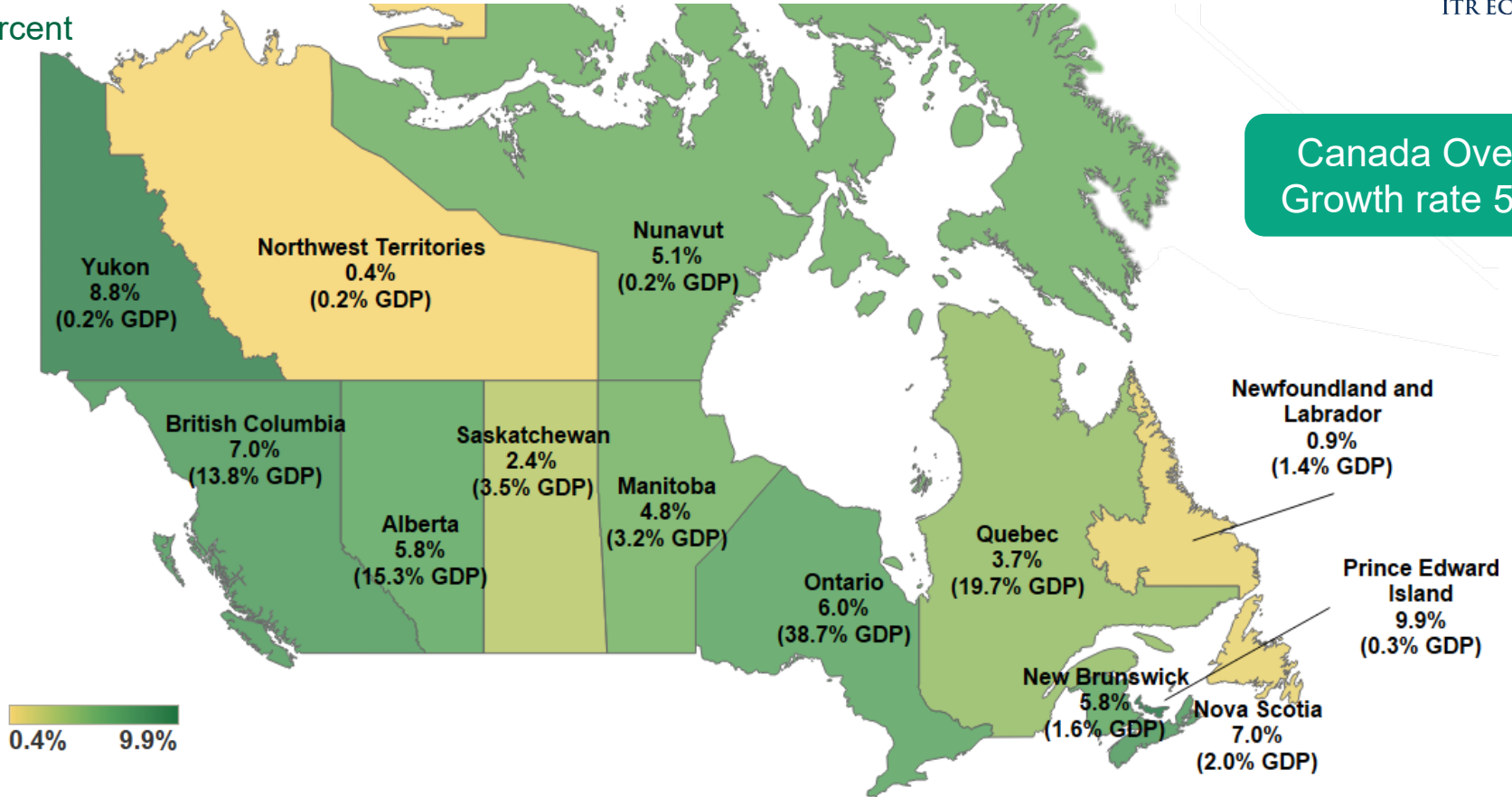
More Robust Numbers Than the US

Source: Statistics Canada



Canada Population Growth Rate 2018 to 2022

Percent



Mexico Population Growth By State 2010-2020

Source: Mexican Institute for
Statistics and Geography



Growth Rate



Mexico overall
increase 12.2%



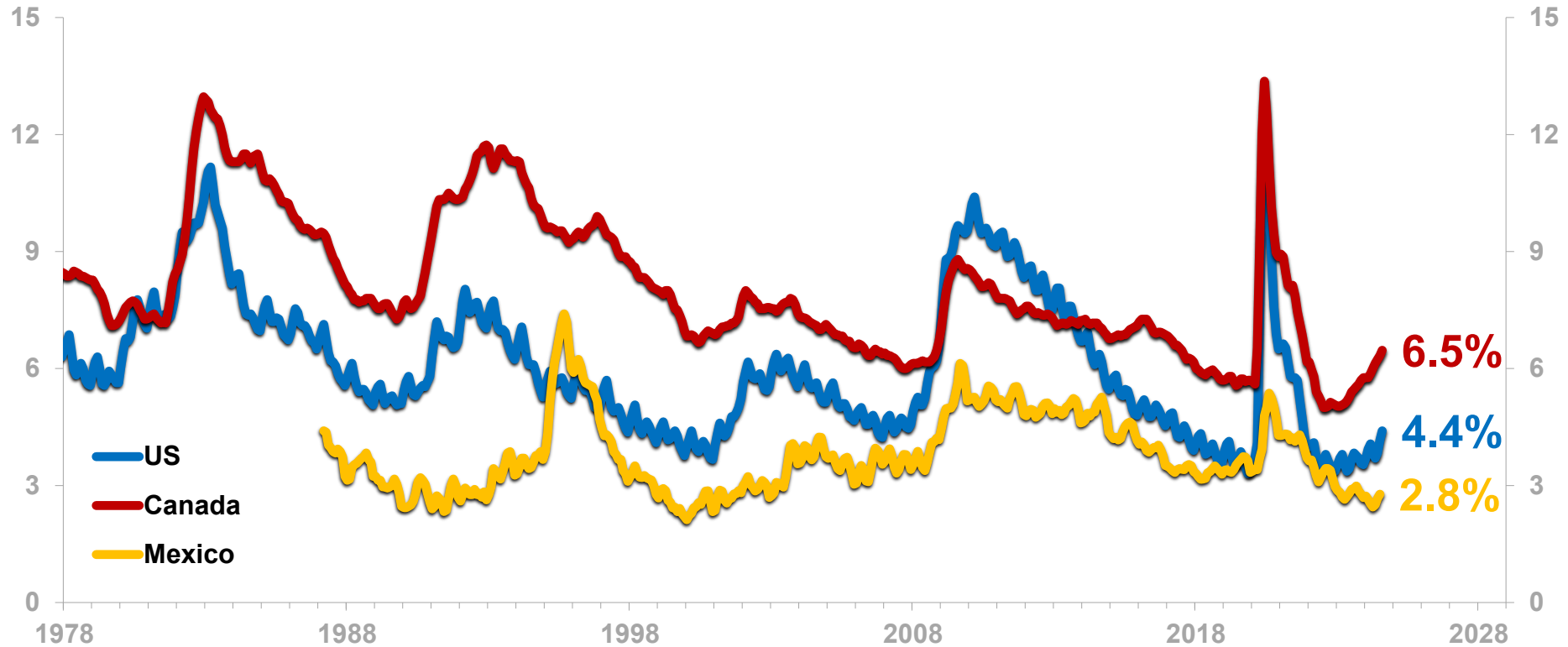
Low Unemployment in All 3 Markets

Sources: BLS, Statistics Canada, Mexico National Institute of Statistics and Geography



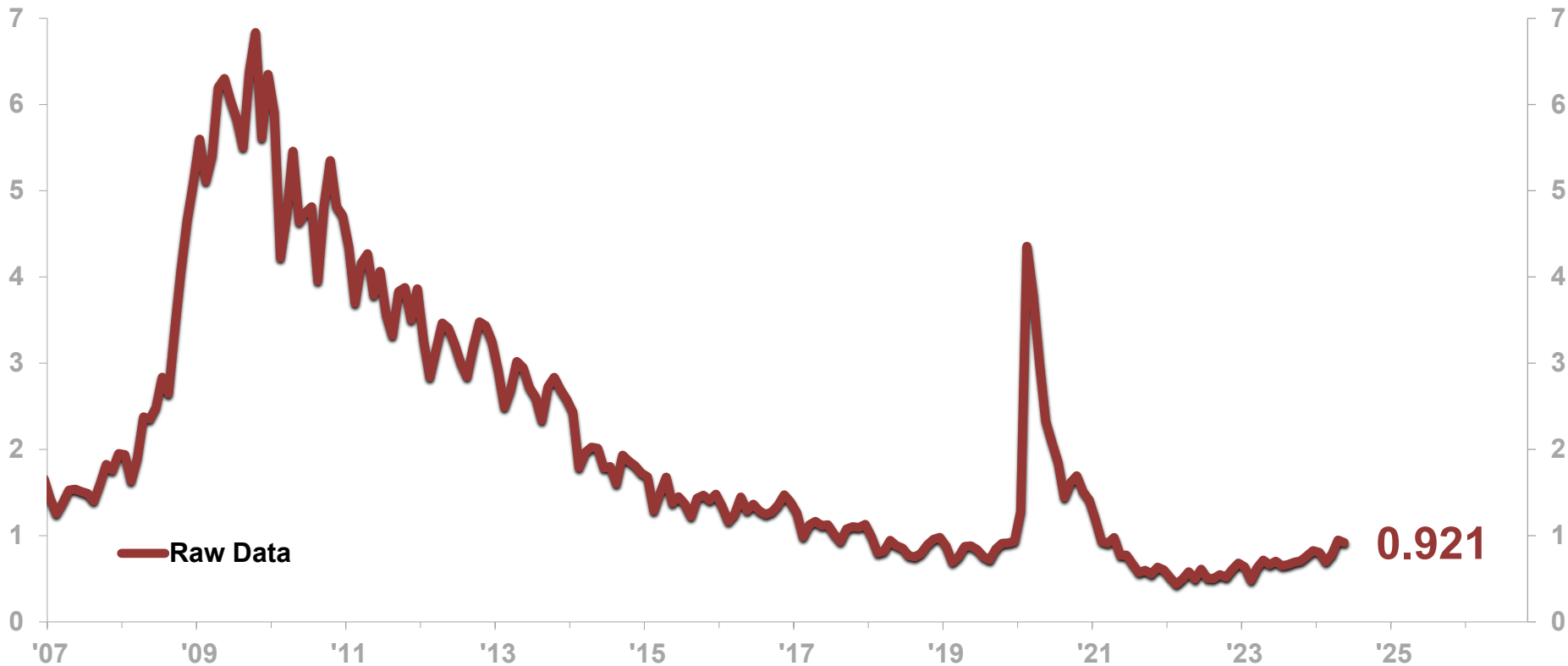
US Civilian Labor Force Unemployment Rate to Canada Unemployment Rate to Mexico Unemployment Rate

Quarterly Data Trends



US Number of Unemployed Persons per Job Opening

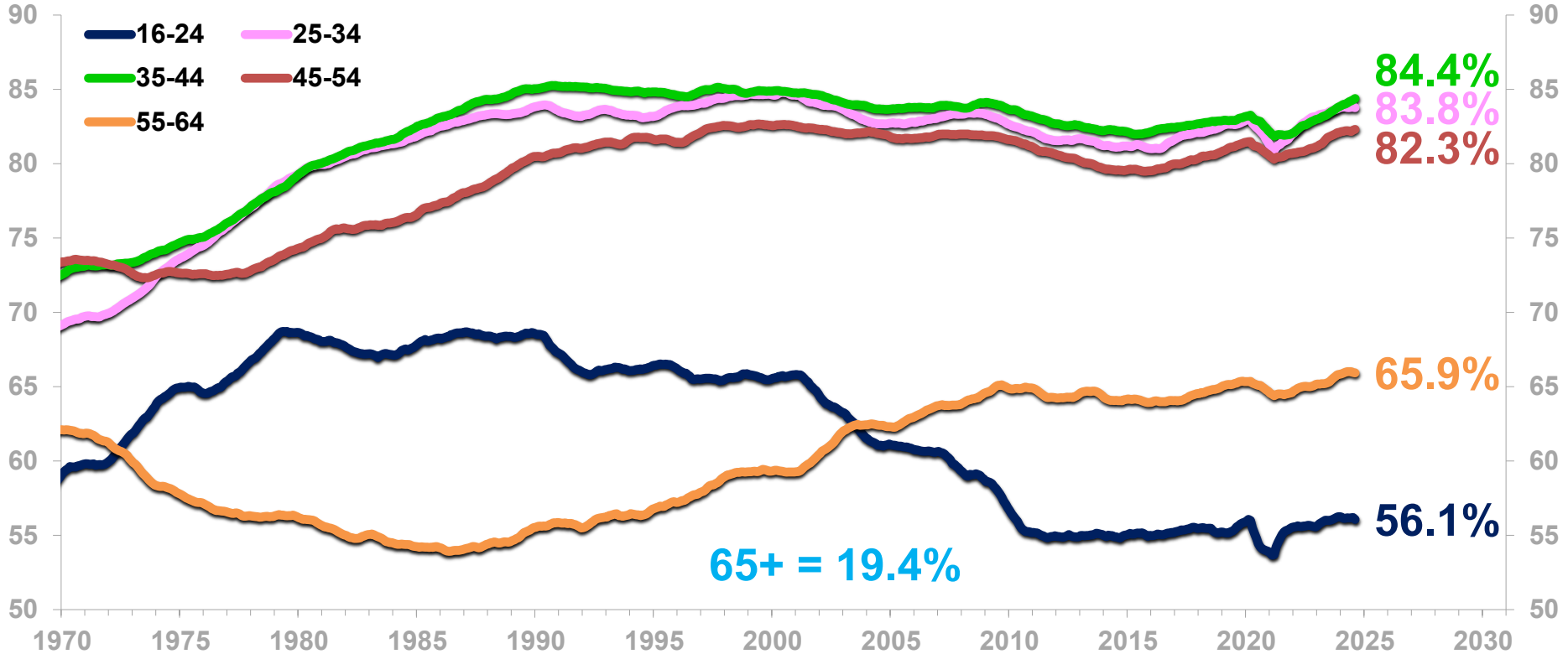
Raw Data, Number of Persons



US Civilian Labor Force Participation Rate For Ages 16-24, 25-34, 35-44, 45-54, 55-64, and Over 64



Annual Data Trends, Percent



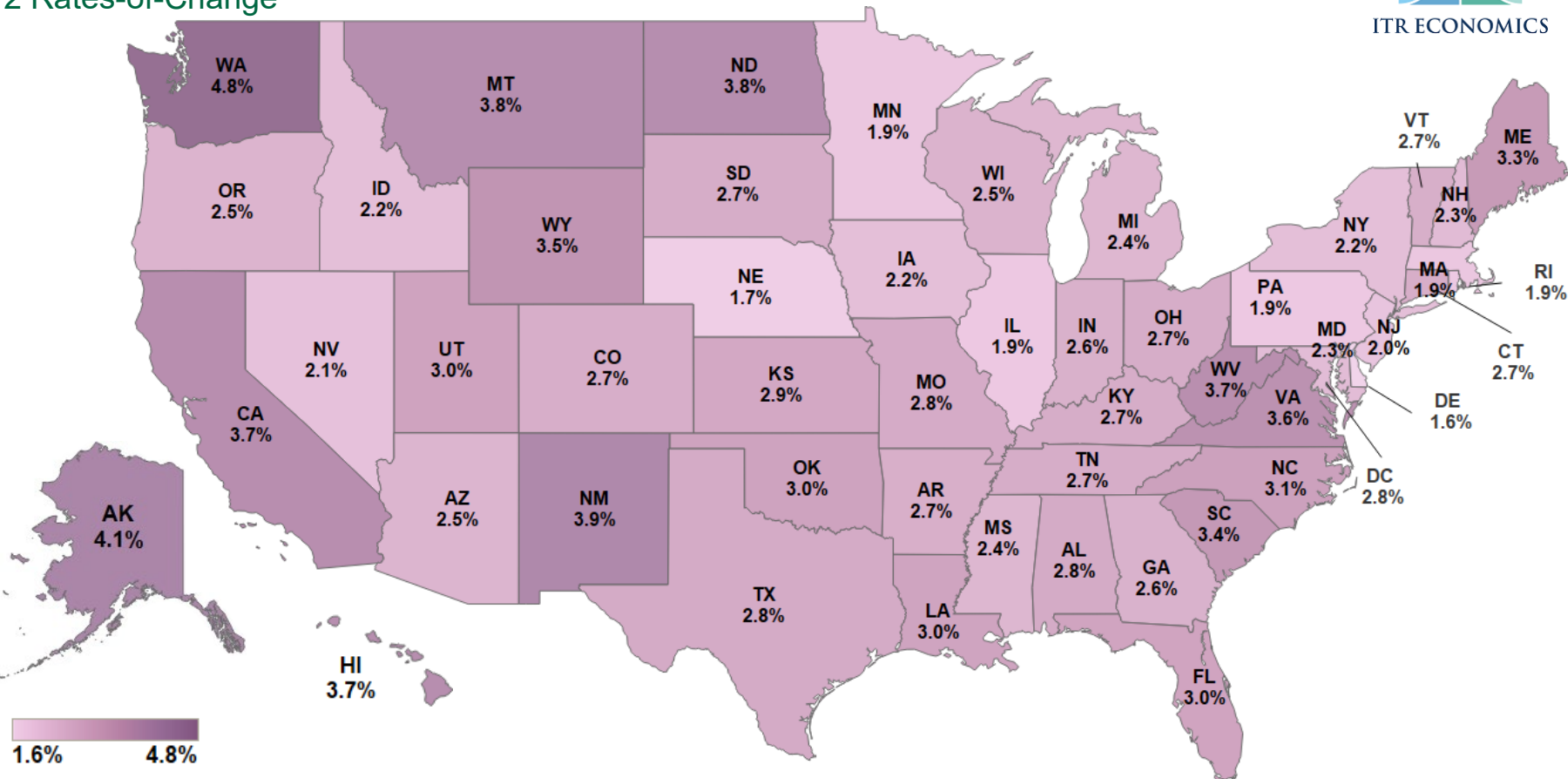
US Wage Inflation by State

Source: BLS

12/12 Rates-of-Change



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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 2024.



Higher income levels likely to feel less of the “pain” of 2024.

Next Steps

- **Think about targeting the higher end of the market through 2024**
- **Regional differences will likely be pronounced**



Your Markets



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Flat in 2024; Rise in 2025

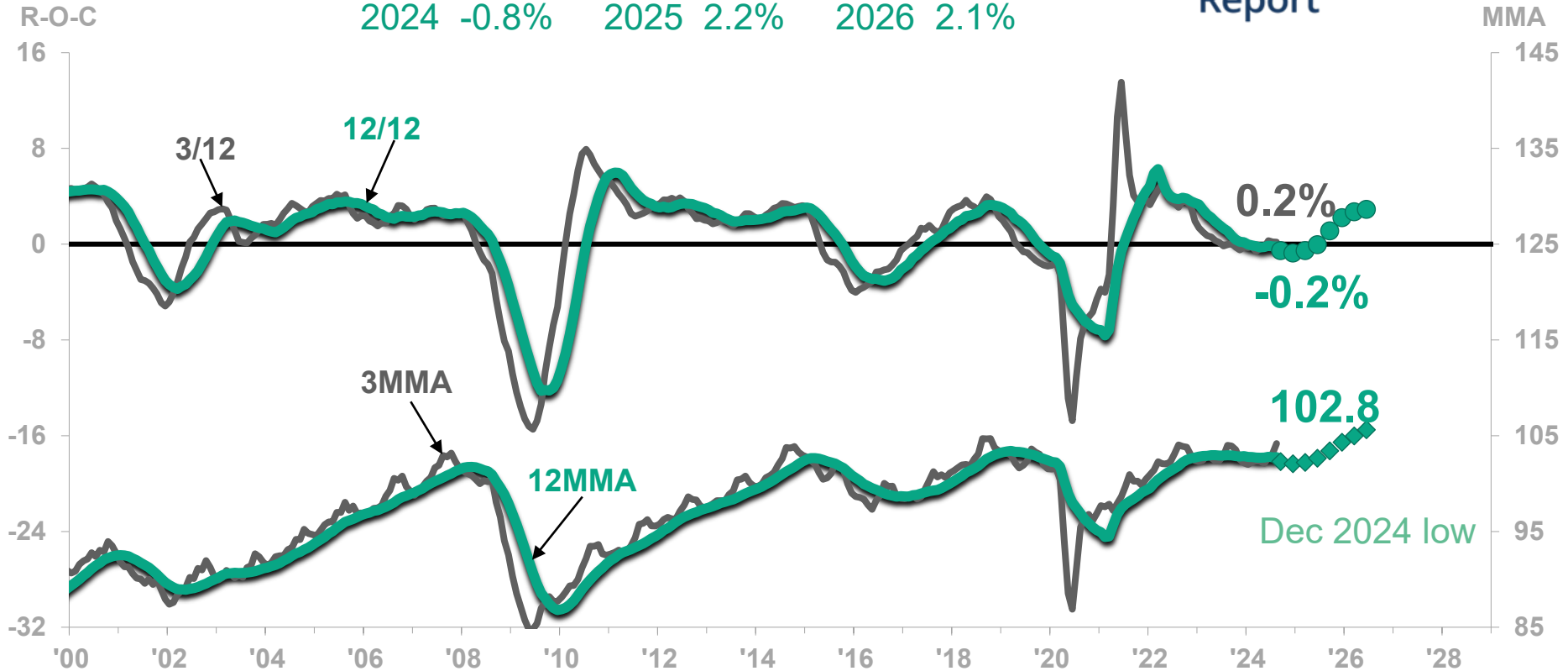
Source: FRB

US Industrial Production Index

2017 = 100

as seen in
ITR Economics'
**Trends
Report**


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US Industry

Rates-of-Change



	12/12	Phase	3/12	Phase
Aerospace Products & Parts	4.1%	C	1.5%	C
Beverages	-7.2%	D	-12.3%	A
Chemical Products excl. Pharma & Medicines	1.4%	C	0.6%	B
Civilian Aircraft	-0.5%	A	-0.3%	A
Computer & Electronics New Orders	-6.3%	A	1.9%	B
Construction Machinery	3.1%	B	2.5%	C

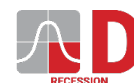


US Industry

Rates-of-Change



	12/12	Phase	3/12	Phase
Durable Hardgoods	-0.7%	A	-0.5%	D
Electrical Power	1.9%	C	2.1%	C
Engines & Turbines	-4.0%	A	0.3%	B
Fabricated Metal	-1.1%	A	-1.2%	A
Food	-1.6%	A	-0.3%	A
Plastics	-0.4%	A	-1.9%	D
Iron & Steel	-1.7%	D	-4.2%	A
Industrial Machinery	-9.5%	A	-6.8%	D



Downside Pressure on New Orders in 2024

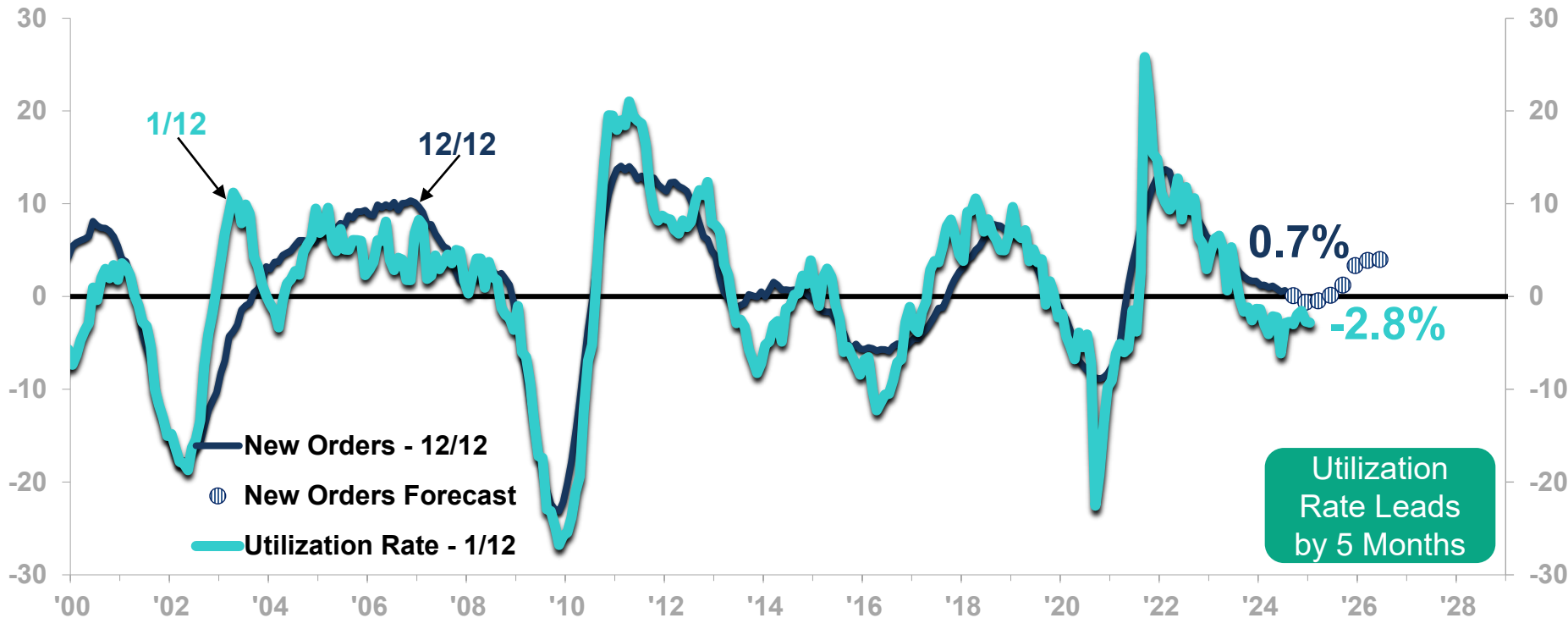
Sources: US Census Bureau,
FRB

US Nondefense Capital Goods New Orders (excluding aircraft) to US Machinery Manufacturing Capacity Utilization Rate Rates-of-Change

as seen in
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New Orders

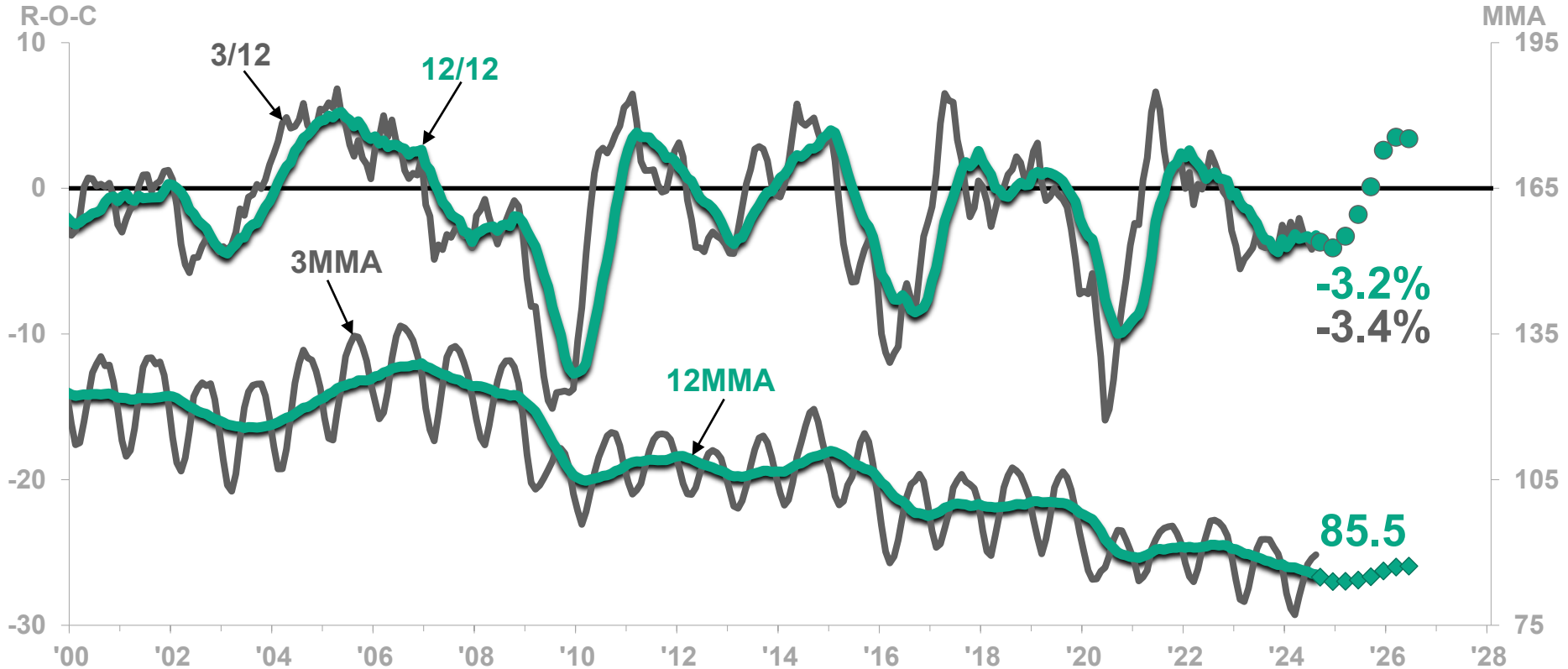


Metal Ore Component in Phase B Trend; Coal in Recession

Source: FRB

US Mining Production Index (excluding oil and gas)

2017 = 100



Geopolitical Conflict an Upside Risk to North American Production

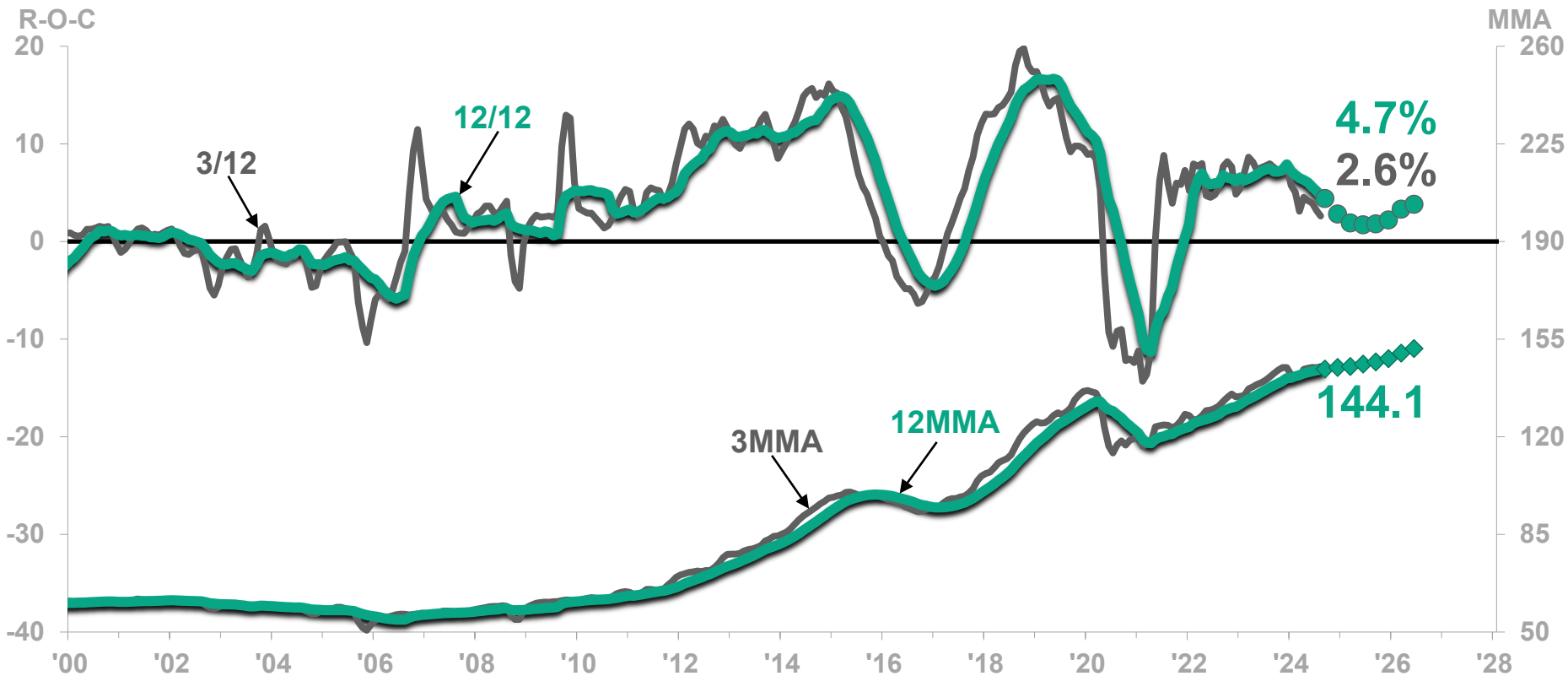
Source: FRB

US Oil and Gas Extraction Production Index

2017 = 100



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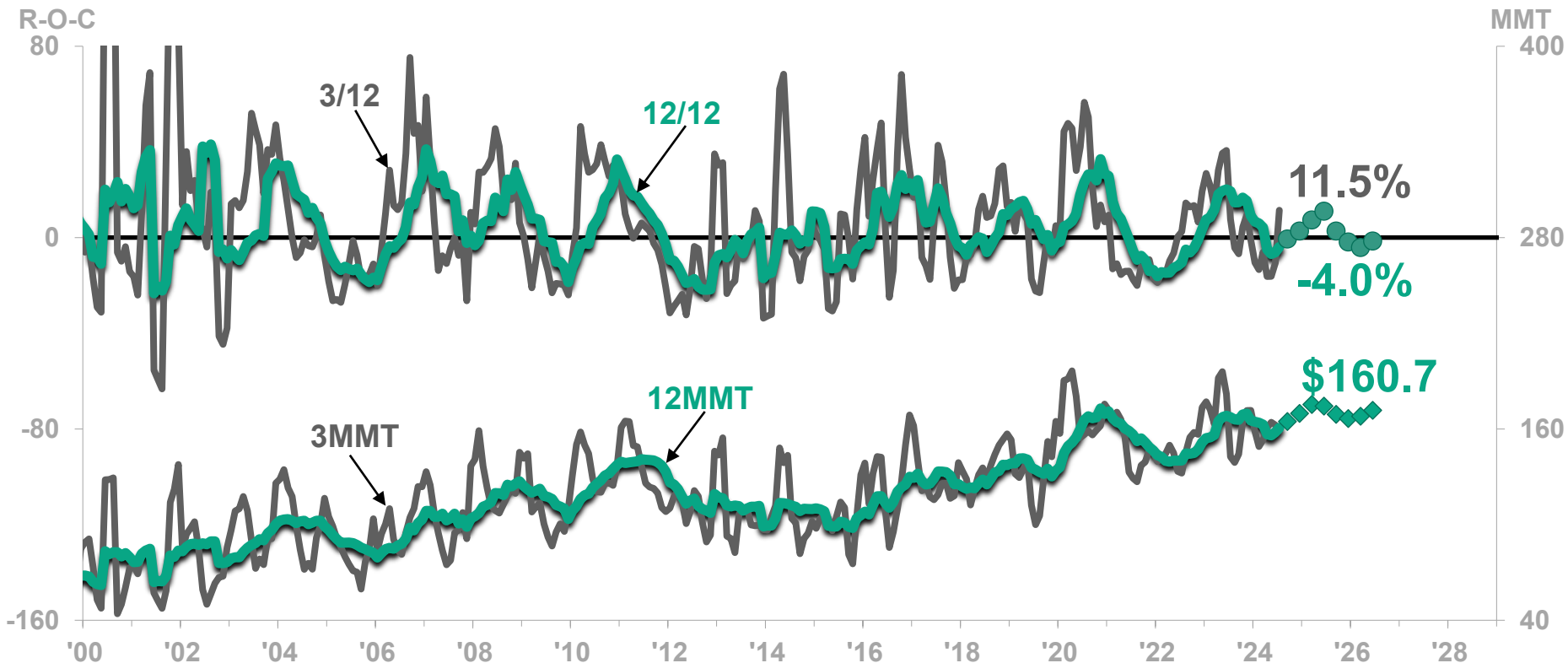


US Defense Capital Goods New Orders

Billions of Dollars



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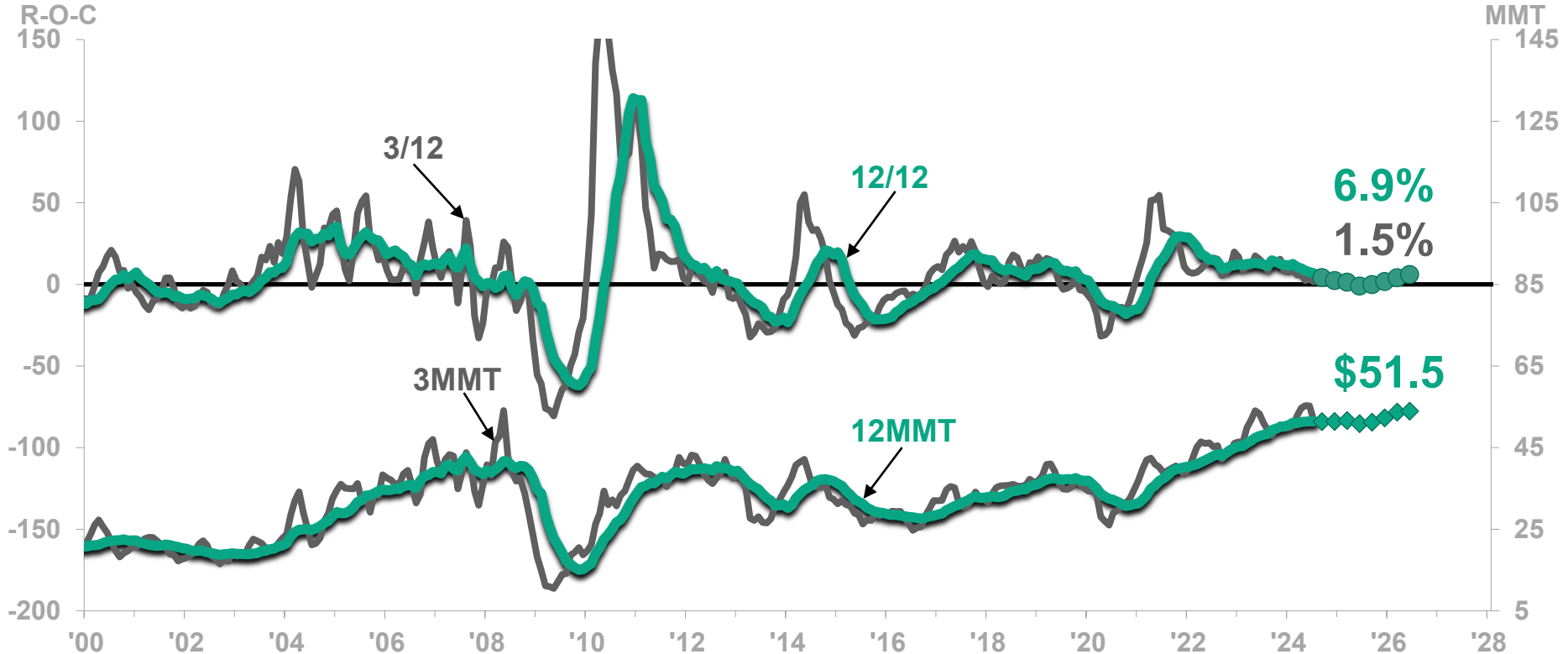


Downside Construction Demand; Exports Market Soft

Source: US Census Bureau

US Construction Machinery New Orders

Billions of Dollars



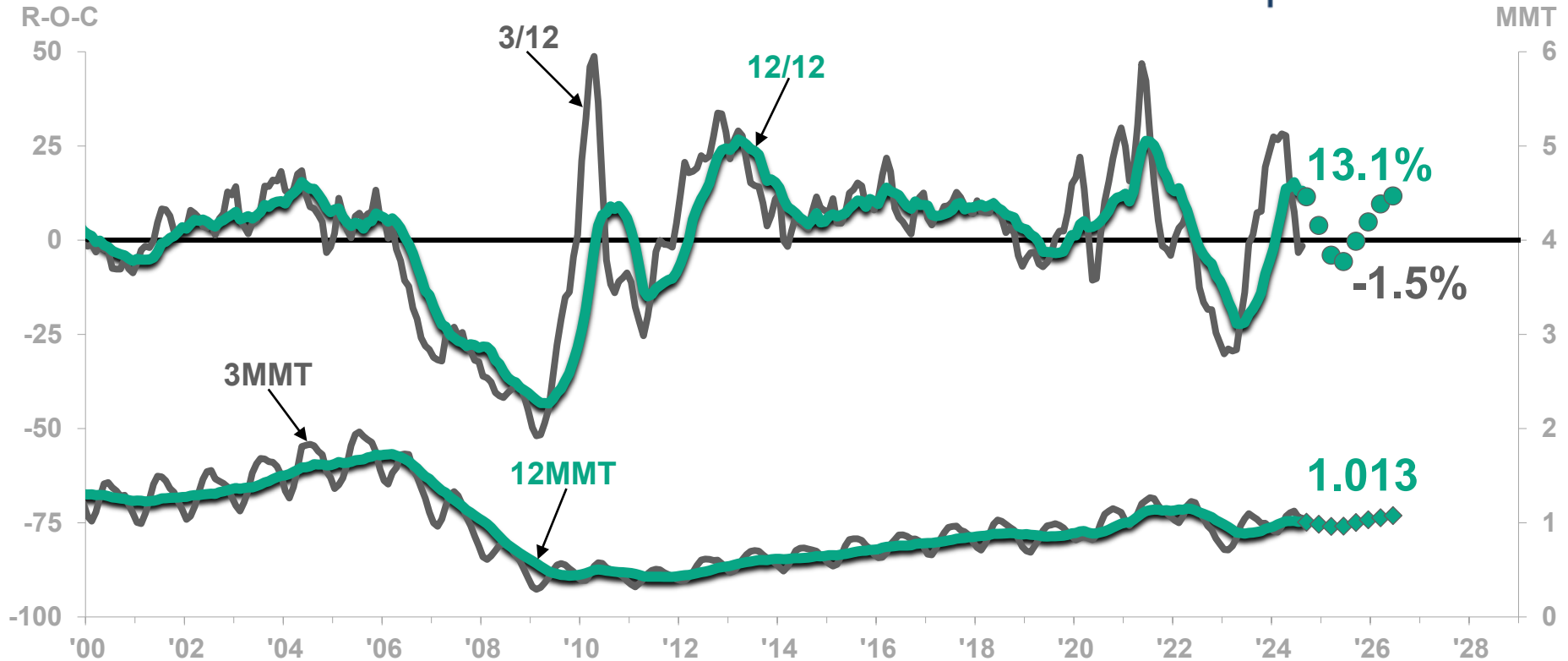
Affordability Constraints Limiting Residential Construction

Source: US Census Bureau

US Single Unit Housing Starts

Millions of Units

as seen in
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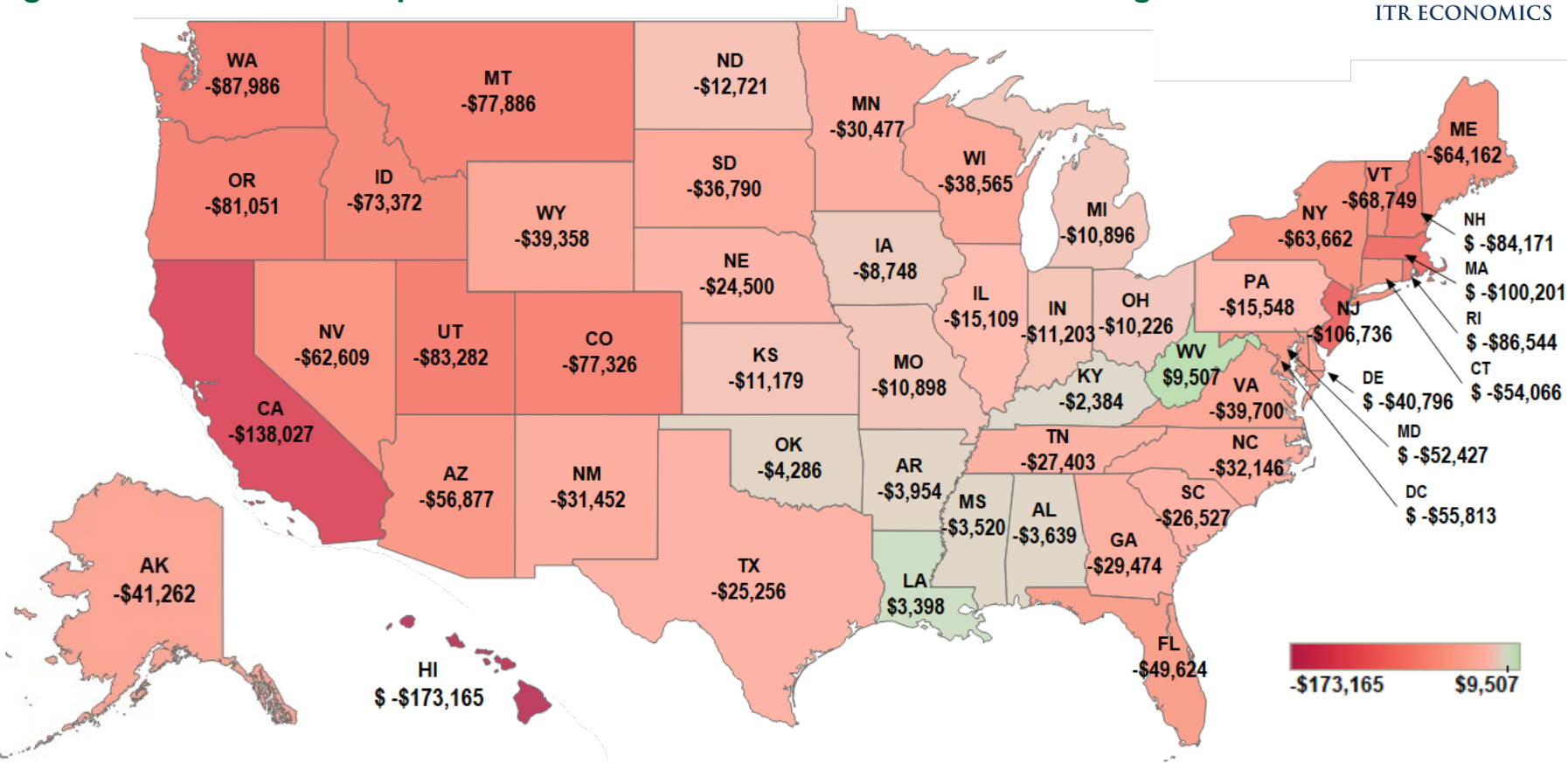
Housing Affordability Varies Considerably

Sources: Zillow, Tax-Rates.org, Wall Street Journal, Federal Housing Agency, US Census Bureau

Average Household Income Surplus or Deficit to Income Needed to Afford an Average Priced Home



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Housing Leads – Nonresidential Lags

Source: US Census Bureau

US Private Nonresidential Construction to US Single-Unit Housing Starts

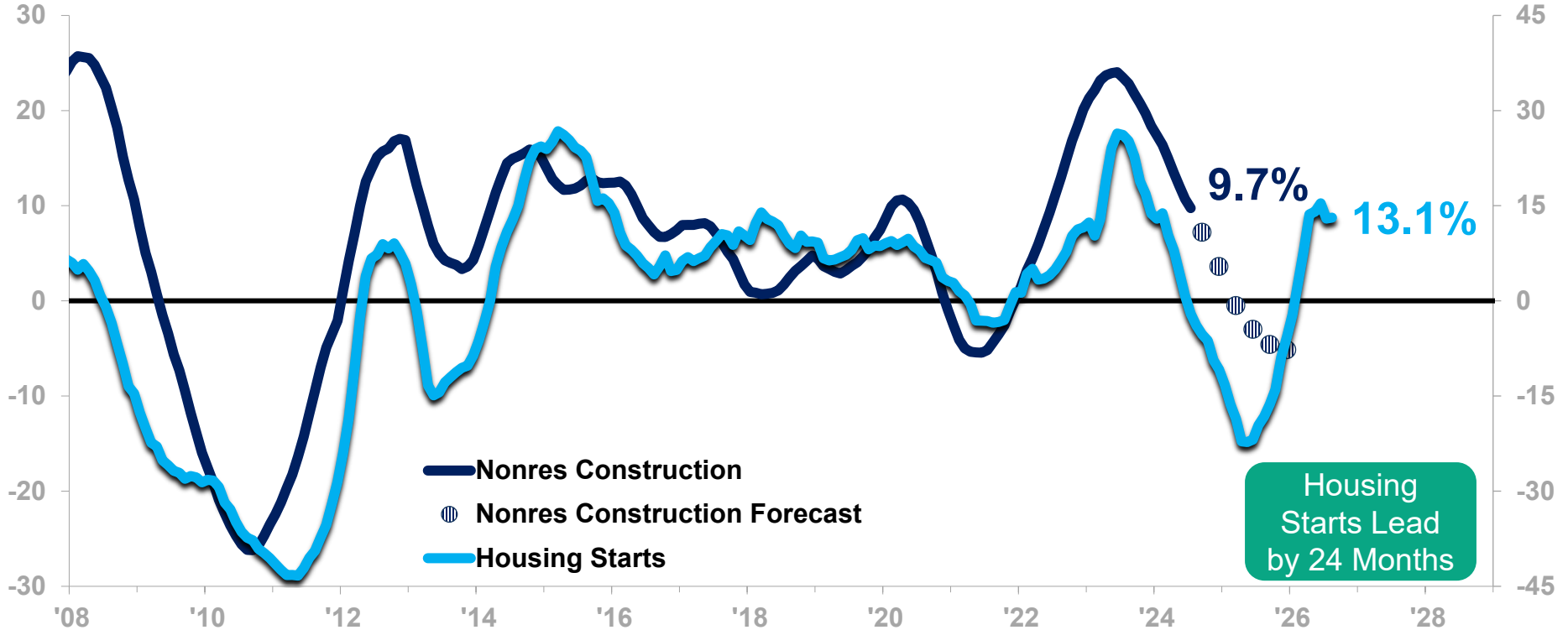
12/12 Rates-of-Change

as seen in
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Nonres Construction

Housing Starts

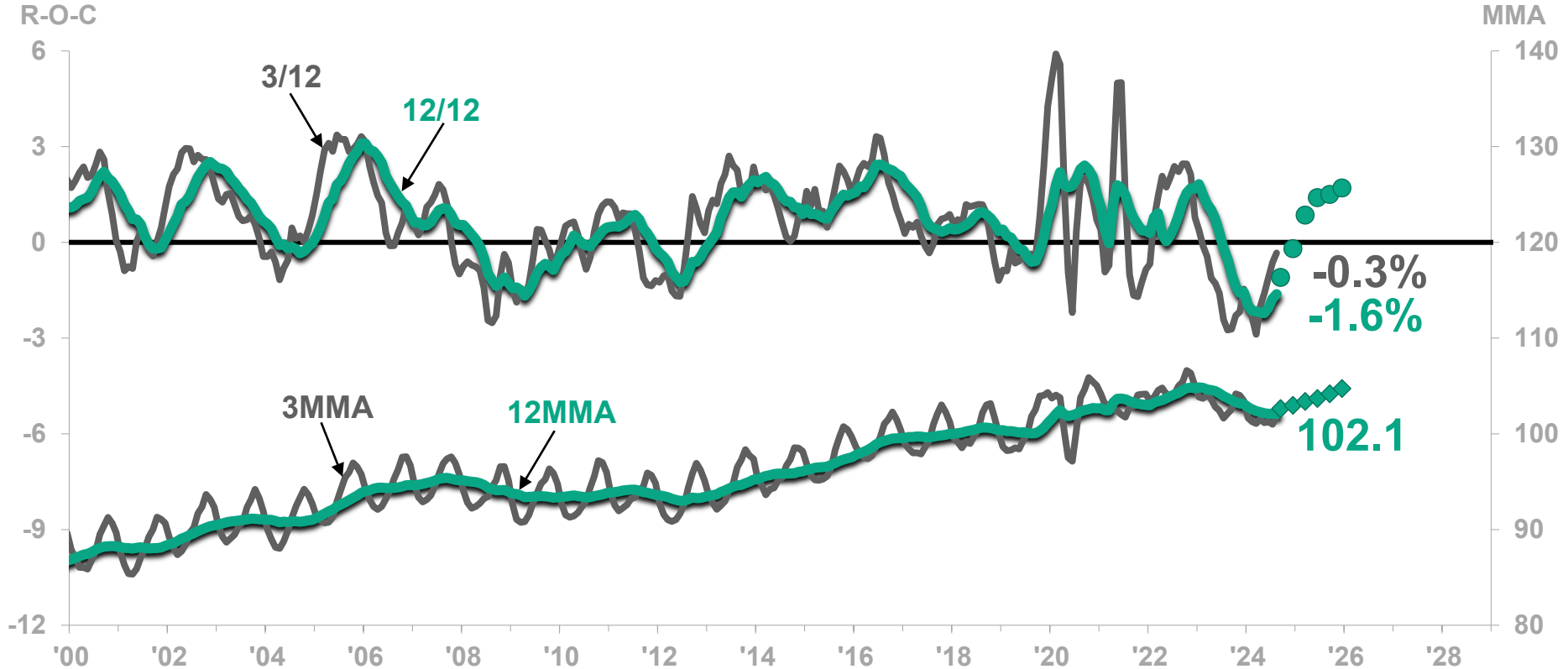


Normalization Following Extreme Weather, Crop Shortages

Source: FRB

US Food Production Index

2017 = 100



Rail: Downside Indication from Carloads

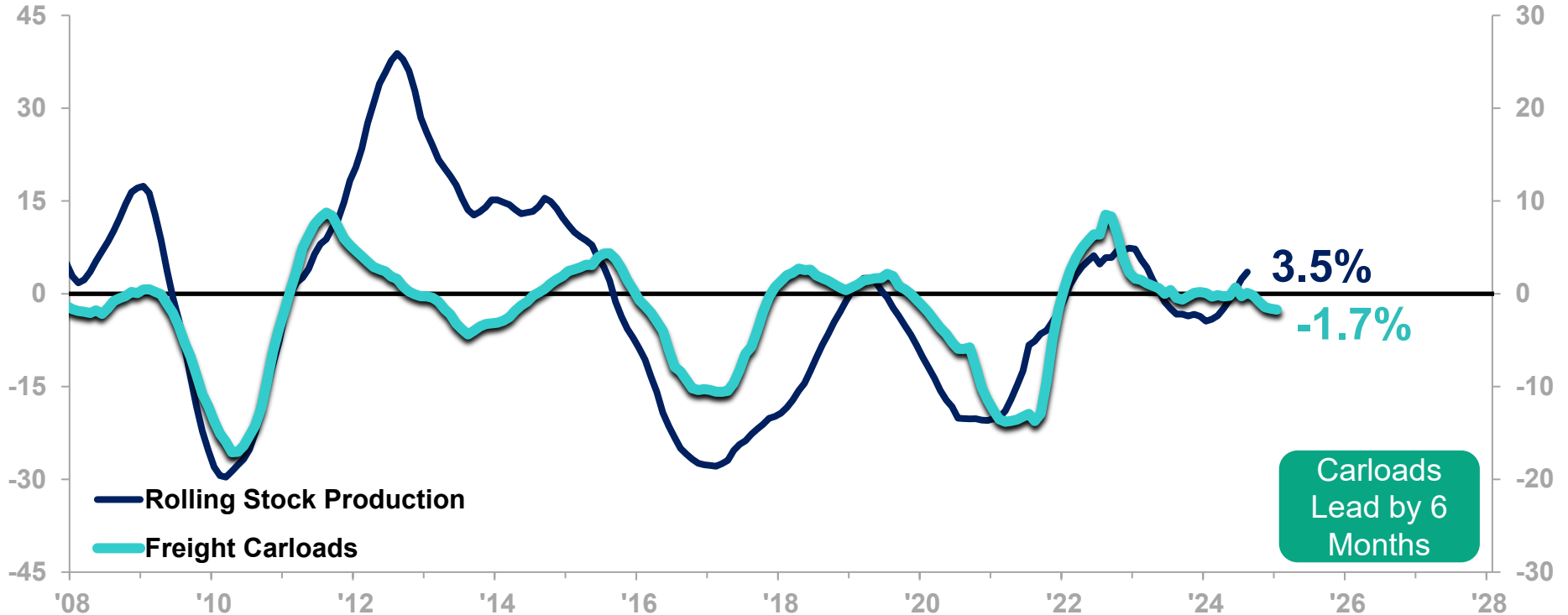
Sources: FRB,
US Bureau of Transportation Statistics






US Railroad and Rolling Stock Production Index to US Rail Freight Carloads in the US and Canada 12/12 Rates-of-Change

Production

Freight Carloads



Carloads
Lead by 6
Months

-  Ignore the political noise
-  Businesses are profitable and cash is above the year ago level
-  Impact of interest rates and monetary tightening in 2024

Next Steps

- Watch the inverse yield curve
- Invest in your business
- Good opportunity for organic growth in 2025



The 2030s



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

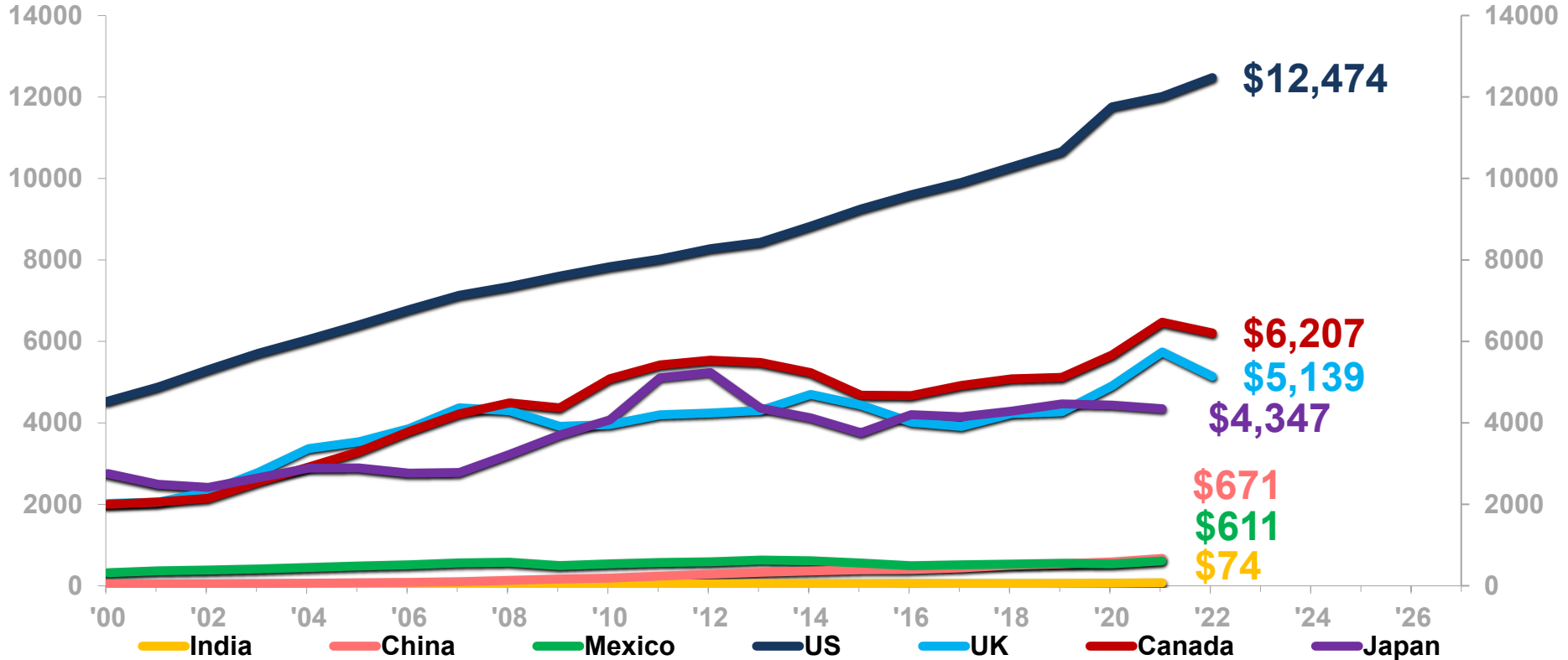


USA Leads in Health Care \$ Per Capita

Source: WorldBank

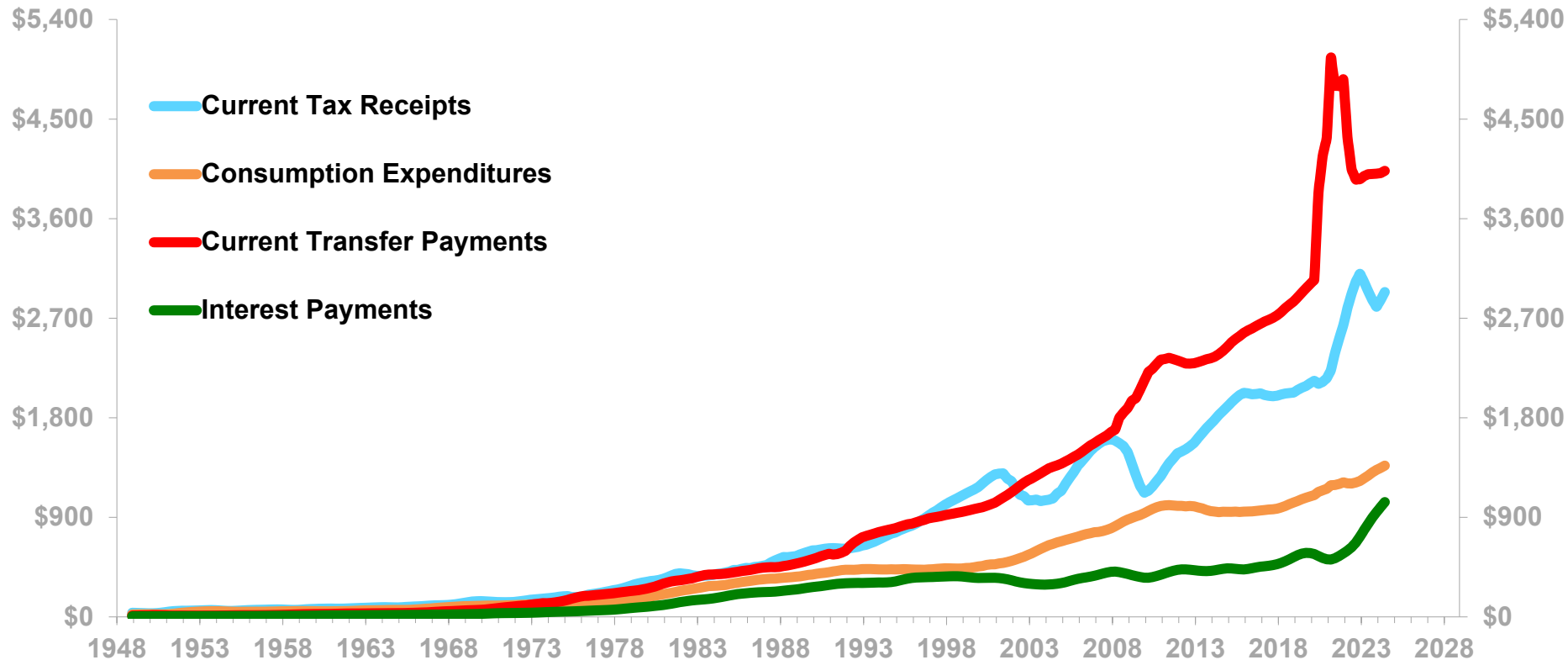
Current Health Expenditure per Capita

Raw Data: Current US Dollars



Federal Government Receipts and Payments

Annual Data Trends in Billions of Dollars



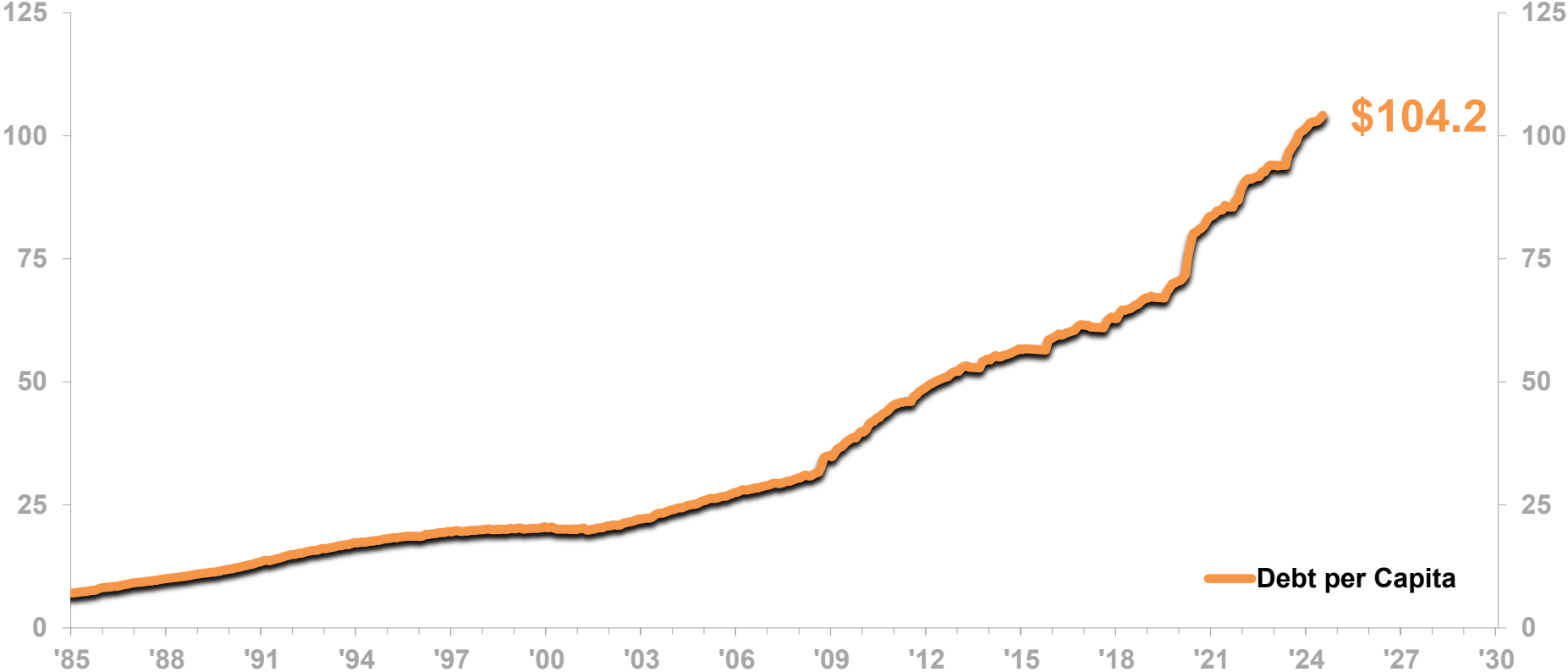
An Accelerating Trend

Sources: US Department of the Treasury, BEA



US Federal Government Debt per Capita

Thousands of Dollars





**Switch to wealth preservation
circa 2030 - 2032**



**Safety over magnitude of return
will be a virtue next decade**



**Be ready to switch back into an
aggressive posture circa 2036**

Next Steps

- **Talk to your wealth advisor
about best investments in a
period of inflation.**

- Disinflation will characterize 2024 with an attendant easing of wage inflation.
- Expect interest rates to ease lower in 2024 and likely early 2025.

- Service sector expected to hold up better than private manufacturing in 2024.
- Fiscal policy and high corporate cash levels are a buffer for the economy.

- Assess cash needs
- 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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