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

As new data is released, the extent of the economic impact of the back-to-back black swan events is coming into focus. US Industrial Production has taken a noticeable hit; monthly Production in April was 15.8% below the April 2019 figure. Preliminary first-quarter data for US Real Gross Domestic Product, down 1.2% from the previous quarter (4.8% annualized contraction), also reflects the impact of the black swans. While the overall impact to the US economy has been negative, there are, as always, relative winners and losers. We'll start with the bad news:

• **Automotive:** US Automobile Production fell 99.5% from March to April. This is demonstrative of supply chain disruptions, manufacturing shutdowns, and a lack of demand, as exemplified by the nearly 50% decline in monthly US Light Vehicle Retail Sales over March and April.
• **Oil and gas:** The US Rotary Rig Count fell 26.7% to 566 rigs in April – the worst case of March-to-April decline in the nearly 80-year data history – due to very low oil prices and concerns about storage.
• **Discretionary retail:** US Furniture and Home Furnishings Retail Sales in April were down 66.3% from April 2019. Other weak areas include apparel, restaurants and bars, and general merchandise stores.
• **Aerospace:** US Nondefense Aircraft and Parts New Orders were negative for the month of March; in other words, cancelled orders exceeded new orders.

> *"It is important to remember that not all markets are doom and gloom. Economic 'winners' can still be identified."*

It is important to remember that not all markets are doom and gloom. Economic "winners" can still be identified. If possible, consider targeting these markets as areas of opportunity:

• **Food for at-home consumption:** The US Consumer Price Index for Food and Beverages posted the second-most robust case of March-to-April rise in the data history. Furthermore, monthly US Food and Beverage Stores Retail Sales were up 13.3% in April versus one year ago. Markets such as food processing machinery likely present opportunities due to increased demand for certain foodstuffs used in home cooking, the need to protect processing plant workers, and shortages of key products such as meat and eggs.
• **Online sales:** Monthly US Nonstore Retail Sales were up 21.2% in April from April 2019, suggesting that consumers have shifted toward shopping methods that require less human interaction. Consider how you can bolster your online presence.
• **COVID-19 products:** It is likely that assorted niche markets, such as face masks, ventilators, air quality systems, and disinfectants, will perform well due to COVID-19.
• **Defense industry:** We expect that the defense industry will perform well despite the black swans, with annual US Defense Capital Goods New Orders expected to rise through at least this year.

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Make Your Move

If the ongoing effects of the black swan events are hitting your markets hard, consider cost-cutting measures such as pay freezes, hiring freezes, or the elimination of overtime.

Investor Update

Trends in the S&P 500 are shaping up to be a replay of what occurred in 1987, with a bear market lasting only three months if the March low holds. Although the low may be behind us, don't expect the rise to continue uninterrupted.

ITR Economics Long-Term View

2020
DECLINE

2021
RECOVERY AND RISE

2022
GROWTH

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YOUR LINK TO THE SUPPLY CHAIN

Industry Analysis

RETAIL SALES

- Monthly US Total Retail Sales declined an unprecedented 16.6% from March to April, due in part to stay-at-home orders
- Annual Retail Sales declined in April, and decline is expected to persist into early 2021
- Food and Beverage Retail Sales and Nonstore Retail Sales are growing at double-digit rates as consumers eat, drink, and shop from home

WHOLESALE TRADE

- Annual total US Total Wholesale Trade ticked down in March, but was 0.4% above the year-ago level
- Both the Durable and Nondurable Goods segments will decline into early 2021
- Deflationary pressures and a weaker US economy will contribute to lower spending in Wholesale Trade this year

AUTO PRODUCTION

- North America Light Vehicle Production fell 27.6% from February to March, the sharpest February-to-March decline in the 93-year data history
- Annual Production will decline into early 2021
- Monthly US Light Vehicle Retail Sales in April were down 46.6% from the same month one year ago, an ominous signal for the industry

MANUFACTURING

- Monthly US Total Manufacturing Production declined a record 14.7% from March to April
- Hit by COVID-related shutdowns, the US Manufacturing Capacity Utilization Rate plummeted in April, falling from 71.3% in March to a record low 61.4%
- Manufacturing Production is expected to decline into early 2021

ROTARY RIG

- The US Rotary Rig Count averaged 710 rigs in the three months through April, down 31.0% compared to the same three months a year ago
- Expected decline in US Industrial Production and World Industrial Production into early 2021 suggests limited demand for inputs, including oil, during this time
- US Mining and Oil Field Machinery Production for the month of April came in 27.1% below April 2019; expect more decline ahead given limited industry capex

CAPITAL GOODS NEW ORDERS

- Annual US Nondefense Capital Goods New Orders (excluding aircraft) ticked down in March
- In contrast, annual US Defense Capital Goods New Orders rose further in March, up 6.7% from the March 2019 level
- Be prepared for business-to-business activity, as measured by US Nondefense Capital Goods New Orders (excluding aircraft), to be below the current level into at least 2021

TOTAL NONRESIDENTIAL CONSTRUCTION

- Annual US Total Nonresidential Construction rose further in March, up 3.3% from last year
- Construction spending will transition to decline imminently as COVID-19 repercussions ripple through the market
- Decline will persist into at least mid-2021

TOTAL RESIDENTIAL CONSTRUCTION

- The recovery trend in annual US Total Residential Construction persisted in March; the annual total was virtually even with the year-ago level
- Monthly US New Homes Sales in March came in 10.3% below the March 2019 figure
- We expect business cycle decline to take hold imminently in both Single-Unit and Multi-Unit Housing Starts and for decline to extend into late 2020 (Single-Unit) or early 2021 (Multi-Unit)

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YOUR LINK TO THE SUPPLY CHAIN

Leading Indicator Snapshot

	2Q2020	3Q2020	4Q2020
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

- Updated leading indicator data suggests that business cycle decline in US Industrial Production will persist through at least the end of this year
- The ITR Leading Indicator™, the ITR Retail Sales Leading Indicator™, and the US ISM PMI (Purchasing Managers Index) lost tentative lows due to the economic impacts of the double black swan events
- Sharp decline in the US Total Industry Capacity Utilization Rate suggests the aforementioned impacts will contribute to markedly diminished industrial sector activity into at least the second half of this year

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A Closer Look: The US Economy

The Shape of the US Economic Recovery

BY: ALEX CHAUSOVSKY

What you need to know: ITR Economics' updated US Industrial Production forecast calls for a recovery that is both V-shaped and U-shaped. The different profiles reflect different ways of interpreting the data.

The US economy is in the throes of a significant downturn. Since 2016, we have been calling for a recession in US Industrial Production, our benchmark for the US industrial economy, during this cycle. However, we didn't foresee COVID-19 and the oil prices crash, the black swan events that ravaged the US and global economies in the first quarter of this year. No one did. The black swans will lead to a longer, deeper period of contraction relative to our prior expectations.

As we analyzed the impact of these black swan events and the effects of the corresponding government response and mitigation strategies, we observed a tendency to match the possible visual profiles of the eventual economic recovery with letters of the alphabet. Some expect a sharp, V-shaped recovery, while others are predicting a more sluggish, U- or L-shaped recovery.

Any discussion of recovery must first acknowledge that the duration and full impact of the COVID-19 pandemic is still uncertain. Questions remain. When will the actual peaks occur for infections and deaths? Will there be additional viral waves due to the lifting of restrictions, or in the fall, when flu season typically ramps up? When will a vaccine be readily available to distribute to the US population? How effective will that vaccine be?

There are several risks that could undermine our forecast for the US economic recovery:

1. The potential for another surge in infections and deaths, stemming from either the reopening of the economy or the onset of flu season, is a major risk to our forecast. Its severity — and the government's accompanying response — would determine the economic impact. We will adjust our outlook as needed when more evidence becomes available.
2. If the imbalance in the oil market and low oil prices persist for longer that we expect, it would also pose a threat to our forecast.
3. The government stimulus package is unprecedented and has the potential to introduce unintended consequences. Government intervention poses another risk to our forecast.

ITR Economics' updated US Industrial Production forecast calls for a recovery that is both V-shaped and U-shaped. The different profiles reflect different ways of interpreting the data.

From a rate-of-change perspective, which echoes the US industrial business cycle, we expect the recovery to look more like a V. The next cyclical low in the US Industrial Production Index year-over-year growth rate is expected to occur in the first quarter of 2021. Annual growth is expected to be positive in 2021. This sharp decline and subsequent strong recovery is what leads to the V-shaped profile typical of black swan events.

From a data trend perspective, however, the recovery is expected to be more U-shaped. The 12-month moving average for the US Industrial Production Index is expected to decline into early 2021 before a rising trend ensues. Despite the rise, there will be less overall industrial activity (what the data trend measures) than immediately prior to the black swan events, through at least 2021. This prolonged recovery profile is closer to a U than a V.

Never has it been more critical for you to maintain a clear, impartial, and data-driven perspective on how factors such as COVID-19 and oil market volatility will impact the most important part of the economy: you and your business. Our advice in this regard is simple:

- Leverage ITR's analyses to cut through the fear, noise, and emotion surrounding these black swan events, and to ensure a data-driven approach to your decision-making.
- Follow the leading indicators outlined in the ITR Advisor™ and research industry-specific leading indicators for your markets.
- Track your company's own data trends and rates-of-change.
- Ensure you have a set of predetermined, quick-to-implement management actions that correspond to specific thresholds in your company data and in the leading indicators.
- Reach out to us if you need help with any of the above; we help businesses with this sort of planning every day via our consultative programs.

If you follow this simple advice, you will be a better business leader no matter what shape the economic recovery takes.

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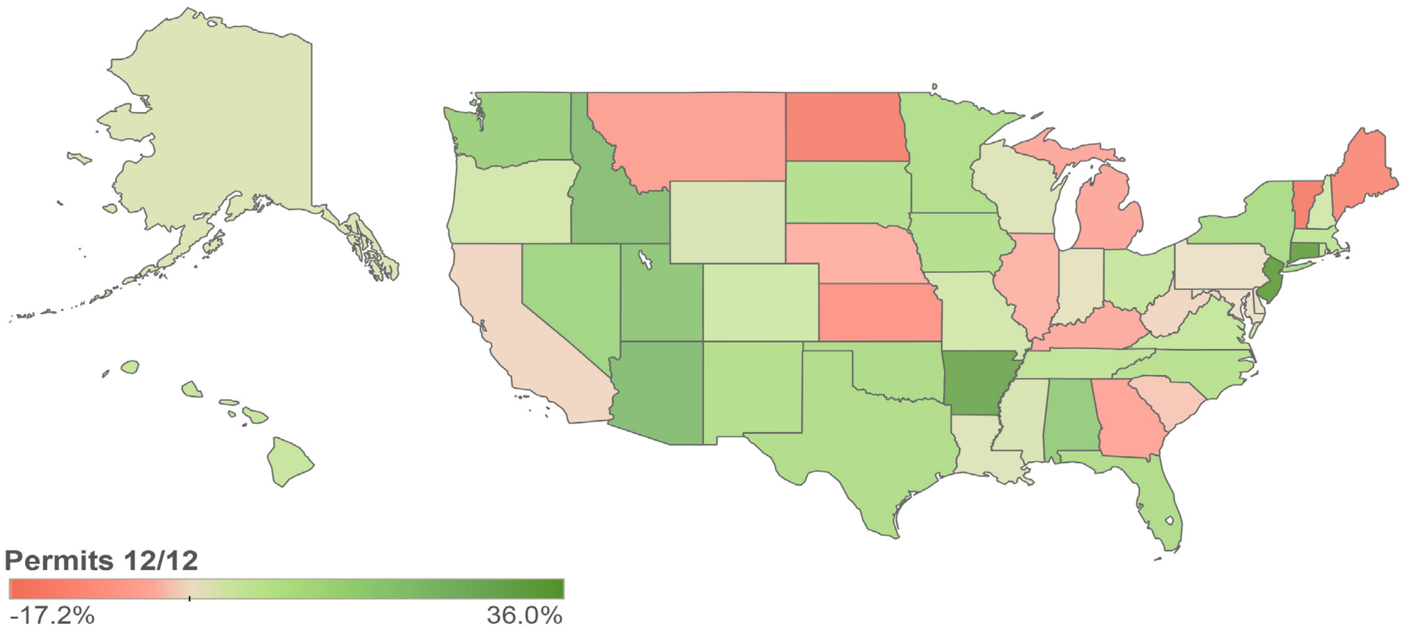
State-by-State: Permits



- Prior to COVID-19, the US housing market was starting to take off; in February, monthly Single-Unit Housing Starts and Multi-Unit Housing Starts were respectively up 33.2% and 53.2% from February 2019 levels
- Growth in overall US Housing Unit Building Permits accelerated through March, with the highest annual growth rates in New Jersey (36.0%), Connecticut (34.7%), and Arkansas (32.0%)
- The impact of COVID-19 can be seen in the drop-off in monthly Single- and Multi-Unit Housing Starts, which in April were respectively down 26.0% and 40.9% from April 2019 levels
- We expect that COVID-19 will interrupt growth in the residential housing market, but thereafter the industry will be a relative winner due to very low mortgage rates and the tight supply of existing homes

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Reader's Forum

Why does ITR think it will take until early 2021 for the economy to pick up? Shouldn't we see things go back to normal as restrictions are lifted?

Lauren Stockli, Economist at ITR Economics™, answers:

Great question. We frequently ask ourselves similar questions in order to ensure our outlook truly reflects the most probable course of events. Our expectations assume that different aspects of the economy will recover at different times during the second half of this year and into early 2021. To use an analogy, we don't expect all the lights in the house to turn on at once, but rather one room at a time. Some states will get back to business faster than others. Some businesses will be able to rebound faster than others. If some people remain hesitant (and there are a lot of them), then restaurants, bars, travel, sporting events, venues, etc. will be particularly slow to come back to full capacity. Accordingly, people employed in those sectors may not be able to return to their pre-COVID-19 buying behavior for at least some time. We are also concerned about another potential complication: a second wave of layoffs, beginning Aug. 1, by businesses that have used up their PPP loans. I hope that answered your question.

Please send questions to: questions@itreconomics.com

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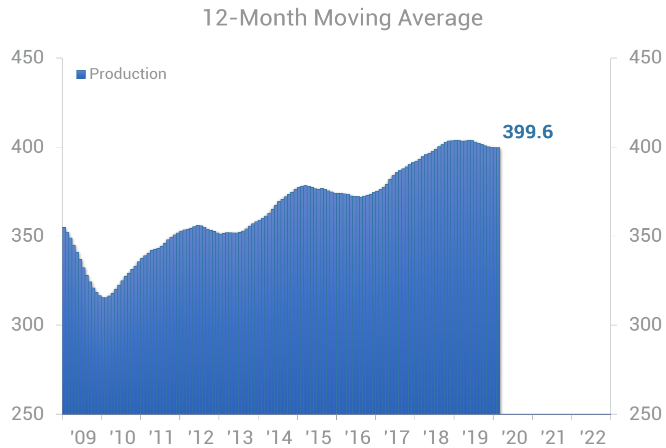
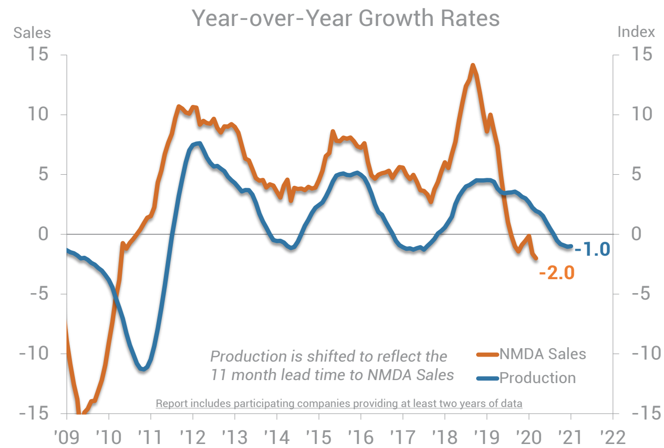
Canada Industrial Production

Billions of chained 2012 Canadian dollars



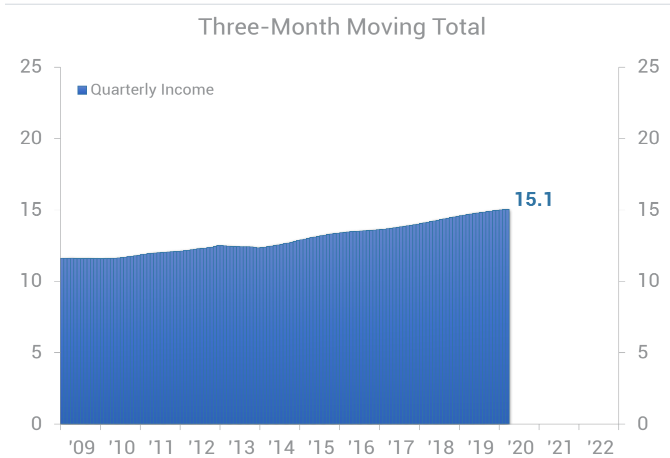


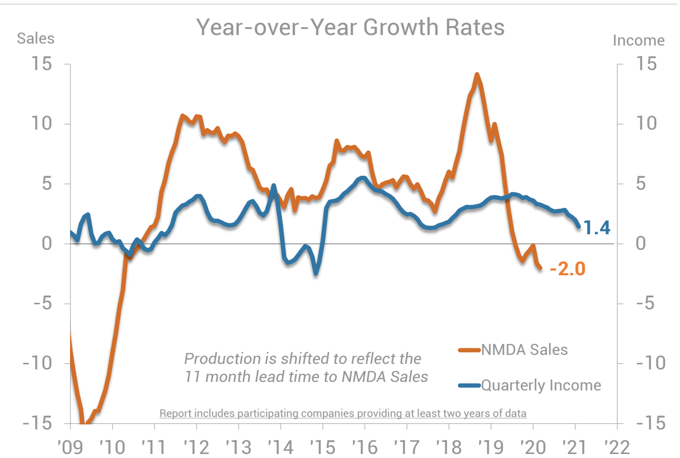
Canada Industrial Production in the 12 months through February was down 1.0% from the same time period one year ago. We expect overall decline in Production through at least the remainder of this year as the economic impacts of COVID-19 and the sharp decline in oil prices ripple throughout many economies.

Monthly Canada Employment fell significantly, down 15.1% compared to April 2019, in the wake of COVID-19 shutdowns and oil-related cutbacks. Employment is expected to come back in phases as shutdowns are gradually lifted. The Canada Leading Indicator also plummeted in April, falling below its previously established low. Our overall analysis suggests that Industrial Production business cycle decline will persist into at least early 2021. In the meantime, consider cost-cutting measures such as pay freezes, hiring freezes, or the elimination of overtime.

US Disposable Personal Income

Trillions of chained 2012 dollars





Quarterly US Disposable Personal Income (DPI) in March ticked down, disrupting the prior rising trend and marking the first case of DPI decline since mid-2016. This is likely due to the unprecedented rise in the US Unemployment Rate (not seasonally adjusted) disturbing consumer cash flow.

Ongoing business cycle decline in US Real Gross Domestic Product, expected to persist into the latter half of this year, will likely place further downside pressure on DPI. A sharp drop in US Retail Sales in April (down 21.2% compared to April 2019) suggests that consumers are spending less, likely due to a combination of lower levels of employment, store closures, and stay-at-home orders. Ensure your products are easily accessible to at-home shoppers. It is likely that DPI will rise again when the US economy recovers and ultimately rises during 2021. In the meantime, use this time of lower activity to solidify marketing plans to be implemented late this year.

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