

What is in Store for 2024 (and 2025 for that Matter) NACM Webinar

Chris Kuehl - Managing Director

THE ONLY FUNCTION
OF ECONOMIC
FORECASTING IS TO
MAKE ASTROLOGY
LOOK RESPECTABLE.



John Kenneth Galbraith
Canadian-American Economist

QUOTEHD.COM

1908 - 2006

Some Recent Developments

- **Growth numbers in US disappoint – most expectations were at 2.0% to 2.5% but the first iteration of Q1 GDP is just 1.6%. May influence Fed hawks. Canada starts to see better growth – up more than expected. But then we got better than expected employment numbers again! GDPNow says 3.1% in Q2**
- **Chinese deflation may lead to dumping more export product on the global market. Slows down the process of re-shoring. China chronically overproduces. “Survival of the Fittest”**
- **Expectation of more labor demands and disputes in the months to come. More attempts to unionize in sectors where labor shortage has been acute. Also occurring internationally – major strikes likely in France as the Olympics get closer.**
- **Election Surprises – Supermajority for Morena in Mexico as Scheinbaum wins, Narendra Modi and BJP loses control of Indian parliament, ANC in South Africa loses control after 28 years, European Parliament drifts towards populist right with prominent role for Marine Le Pen and Giorgia Meloni**

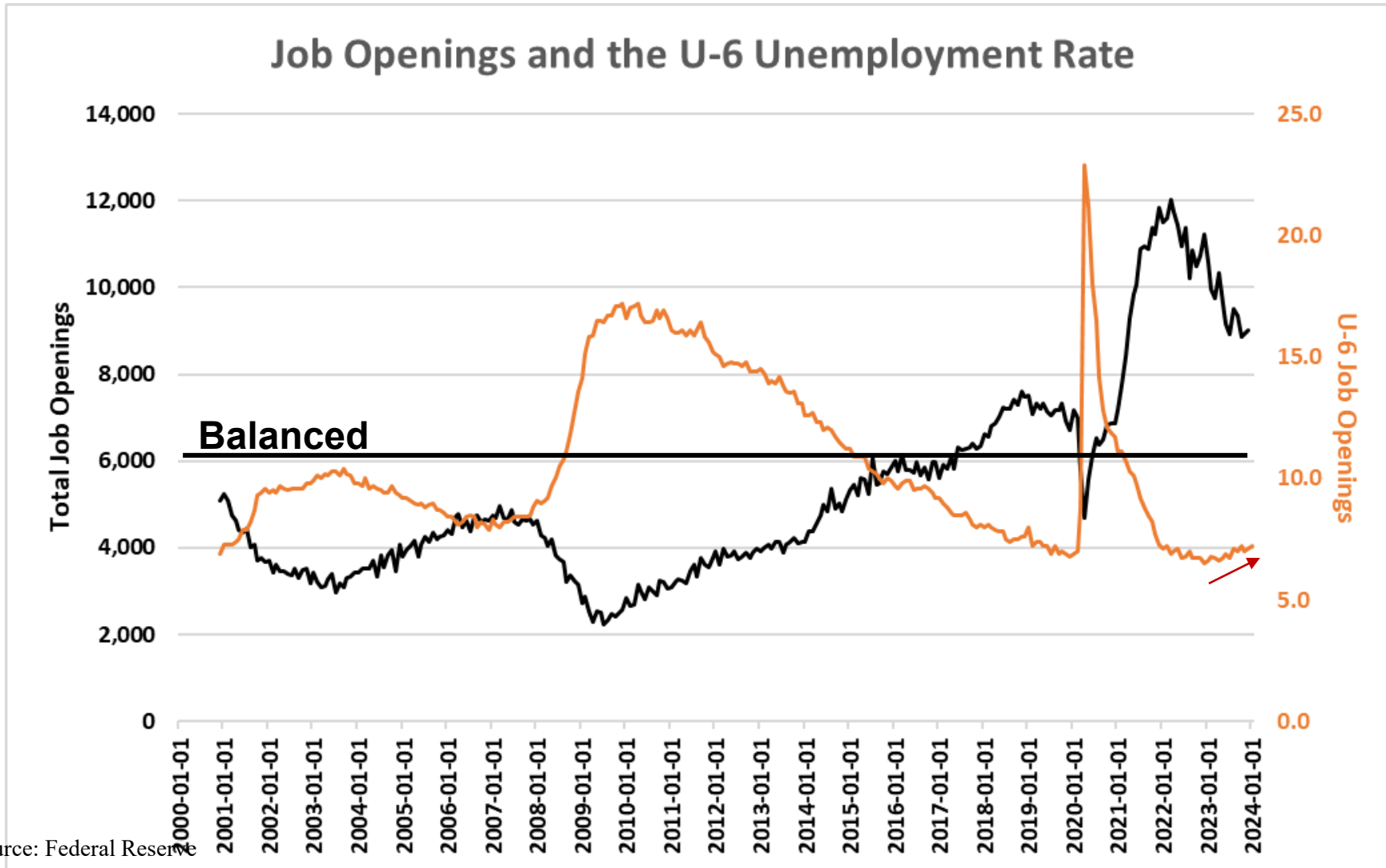
Key Issues for 2024

- **Interest rates – when does the Fed cut, how many times and how does this change economic expectations? Was likely in third quarter but now 2025 is a possibility. Maybe down to 4.75 (from 5.5). Depends on inflation and unemployment numbers. Where does Bank of Canada, Bank of England and ECB stand?**
- **Worker shortage and wage inflation – prime driver for the increase in inflation has been wage hikes – some evidence of the wage-price spiral. Worker shortage has been acute for years and no real relief in sight.**
- **Election and politics – Presidents do not affect economy much (bully pulpit). Monetary policy likely to remain stable. If Congress goes Republican there will be priority shifts – away from alternative energy to traditional infrastructure. No progress expected on debt or deficit.**
- **Trade relations – shift underway from a consumer centric trade policy to one that favors domestic producers. More barriers to imports will mean higher prices for consumers but more opportunity for domestic production.**

In Case You Have Been Sleeping at Night

- **The great wealth transfer – Boomers have a lot to work with. 1,000 billionaires over the age of 70 sitting on \$5.4 trillion. Generally speaking, Boomers control 72% of the US wealth collectively. More than 80% in Canada**
- **More billionaires created with inherited wealth in 2023 than through any sort of entrepreneurial activity.**
- **Governments have noted this and would just love to get more taxation in place. Inheritance taxes are very popular with governments but very unpopular with people who resent having their money taxed at least twice (once when earned and again when handed down)**
- **Economic impact – If Boomers see that their money is going to be taxed when passed on they are more likely to spend it instead of losing it to taxation. That surge of cash will trigger a massive increase in inflation and that will trigger a major increase in interest rates as central banks try to restrain it**

The Fed Still Has a Job Buffer to Work With – For Now



Powell still has a 2.756M job opening buffer to work with.

And a U-6 rate near the lowest in history (at 7.3%, but up from the 6.5% rate hit in Dec 2022).

Source: Federal Reserve

Average Inflation was Stable in March

One-month PCE inflation, annual rate

	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24
PCE	0.4	-0.1	1.5	5.2	4.1	3.9
PCE ex F&E	1.7	1.1	1.8	6.2	3.2	3.9
Trimmed mean	2.5	1.8	1.8	5.7	3.4	2.9

Six-month PCE inflation, annual rate

	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24
PCE	2.4	2.1	2.1	2.7	2.6	2.5
PCE ex F&E	2.3	1.9	1.9	2.7	3.0	3.0
Trimmed mean	2.8	2.6	2.5	3.0	3.2	3.0

12-month PCE inflation

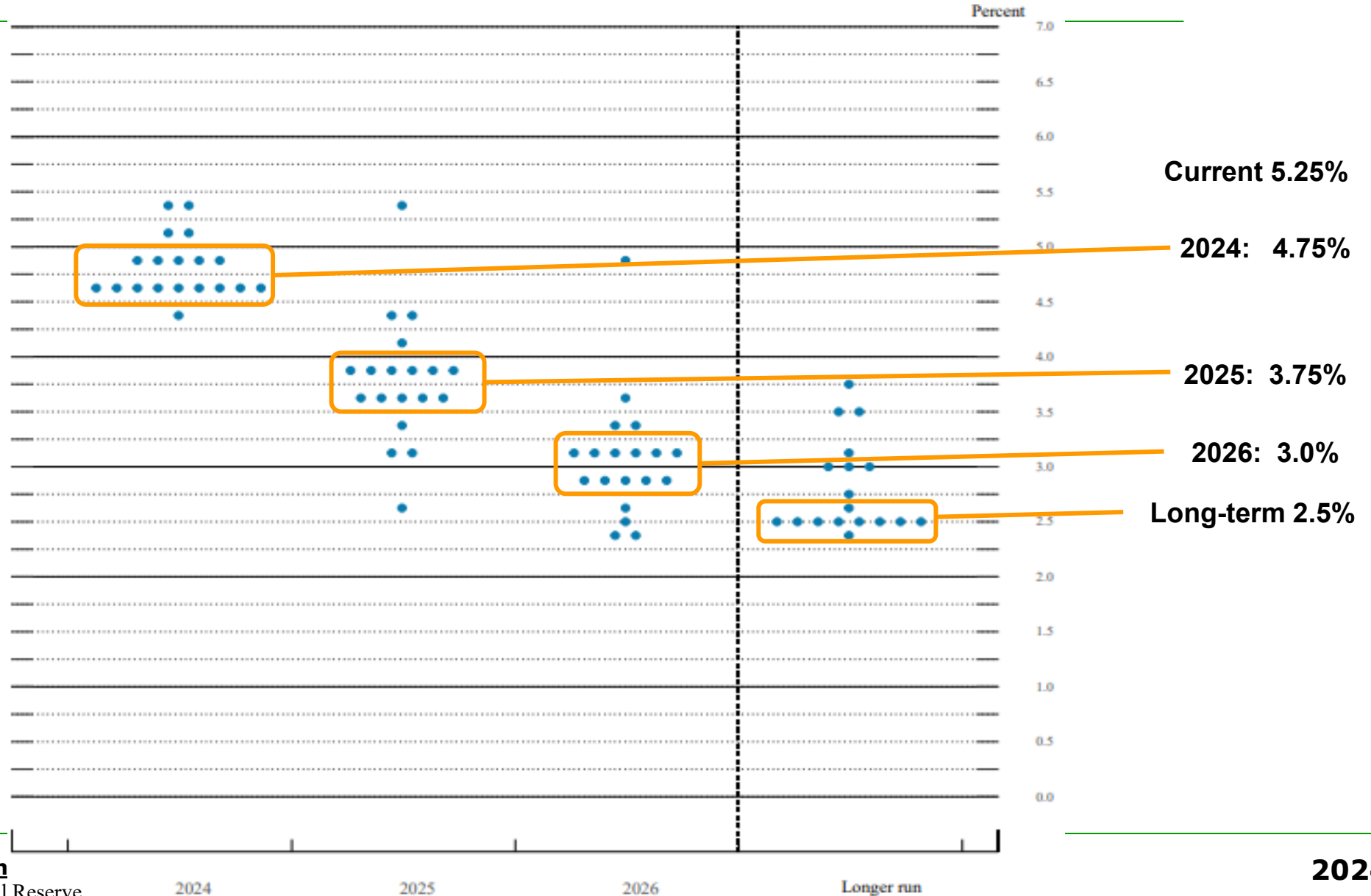
	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24
PCE	2.9	2.7	2.6	2.5	2.5	2.7
PCE ex F&E	3.4	3.2	2.9	2.9	2.8	2.8
Trimmed mean	3.6	3.4	3.2	3.2	3.1	3.0

- **3.00% Mar '24**
- 3.10% Feb '24
- 3.20% Jan '24
- 3.20% Dec '23
- 3.40% Nov '23
- 3.60% Oct '23
- 3.80% Sep '23 ← Pause
- 3.90% Aug '23
- 4.20% July '23
- 4.34% June '23
- 4.71% May '23
- 4.91% Apr '23
- 4.88% Mar '23
- 4.67% Feb '23
- 4.63% Jan '23
- 4.68% Dec '22
- 4.70% Nov '22
- 4.75% Oct '22
- 4.73% Sep '22
- 4.75% Aug '22

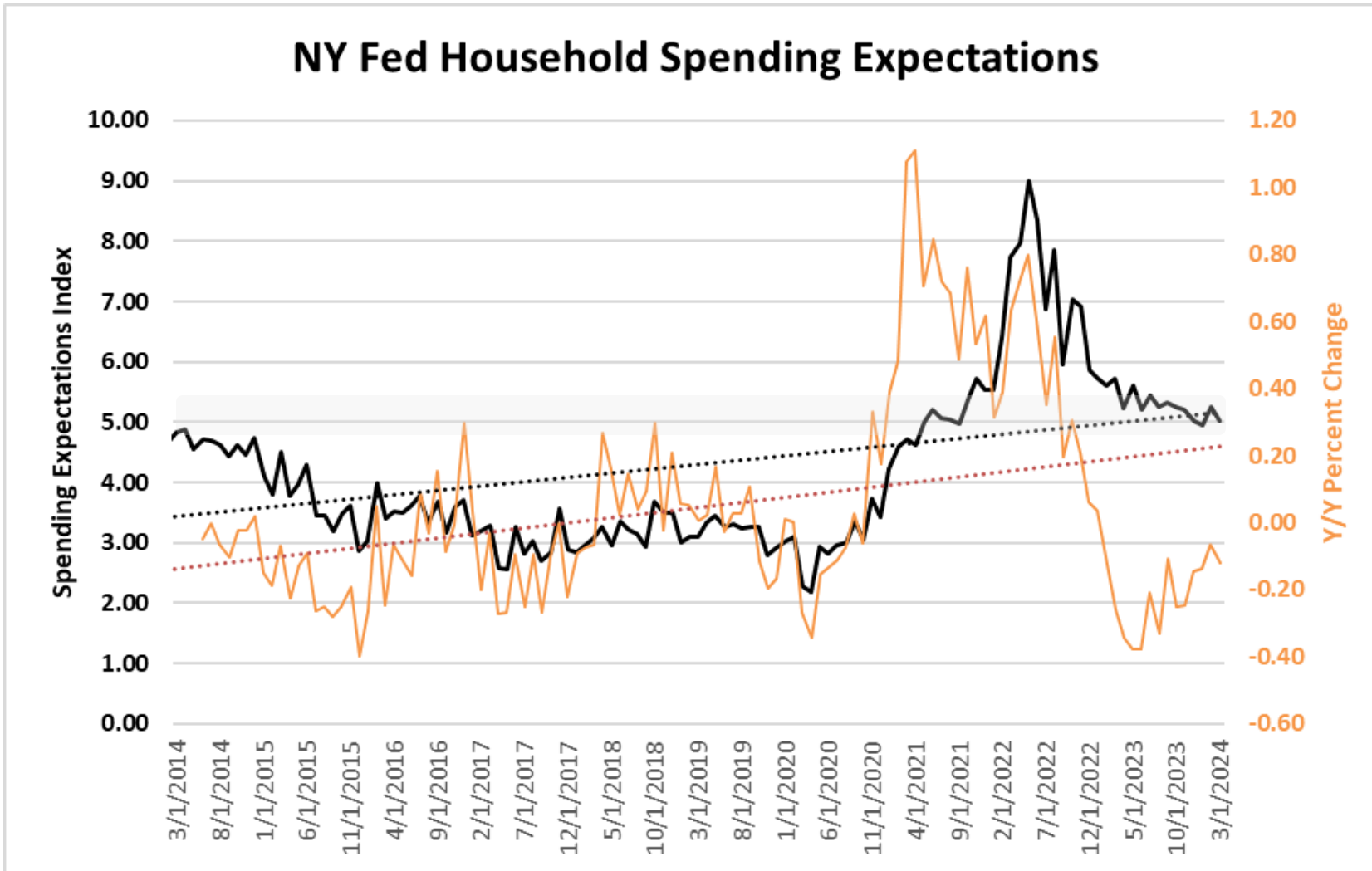
Fed's Target Rate is 2%.

Latest Fed Dot Plot Estimates for Interest Rates Moving Forward

- This is the real forecast, from the Fed (subject to change).
- The Fed is likely going to lean toward two quarter point cuts at this stage. Wall Street is leaning more toward one cut at this stage.
- Most construction projects have determined that two cuts will trigger design and planning stage new projects – accelerating strong construction activity.



Consumer Spending Expectations Flattening – New York Fed; But Remain Historically High



1. Historically, spending expectations remain high.
2. Compared to the past three years, it will feel recessionary.
3. Again, some of this might be the 'K' shaped recovery in which some households are doing very well, but others are really struggling under the weight of inflation.

Headwind BLUF: Global Manufacturing Highlights

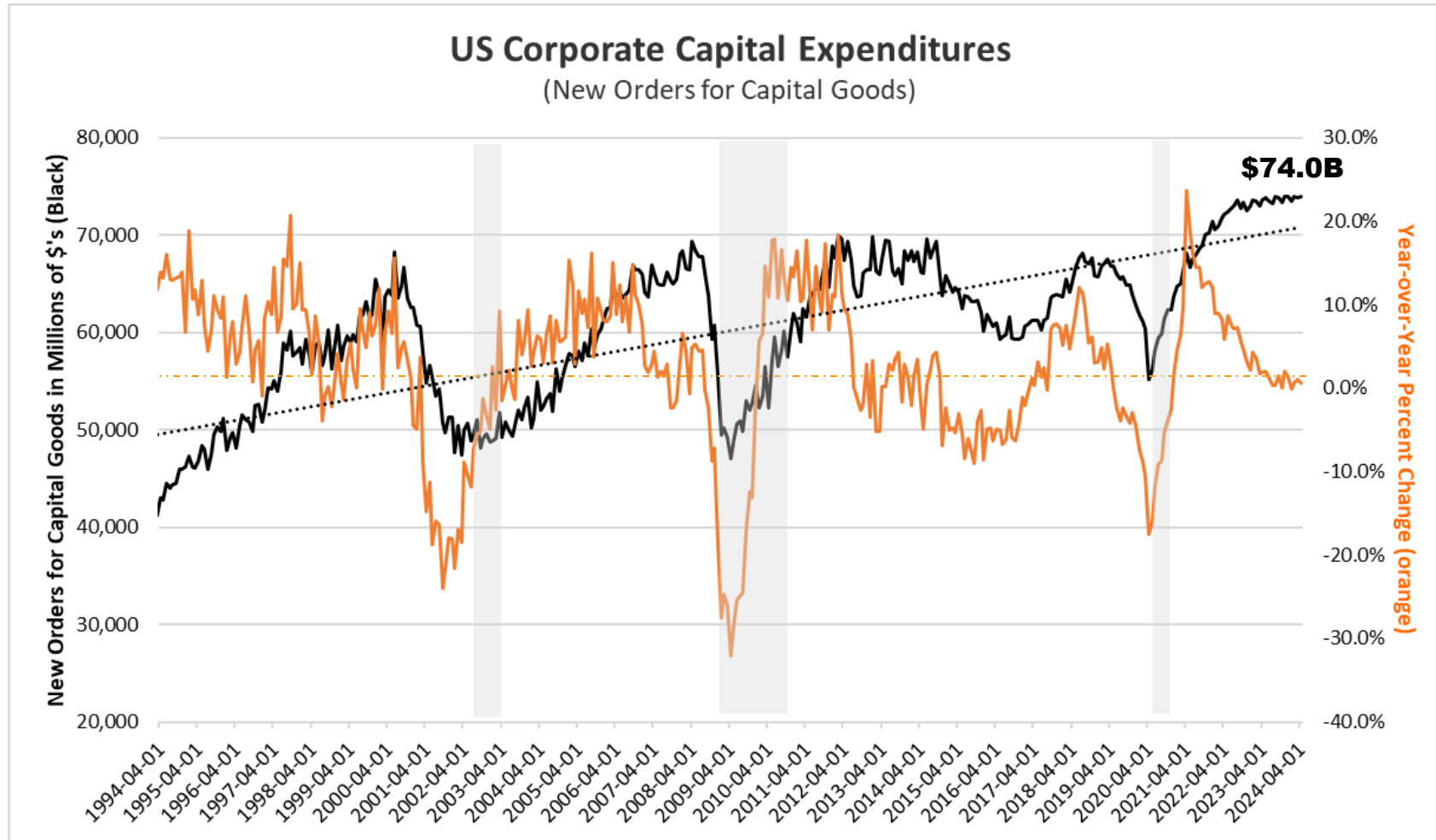
- Preliminary data shows 13 countries had manufacturing sectors in contraction in April
- But 19 out of 30 countries surveyed fell M/M.
- General Themes:
 1. New orders were sluggish in April
 2. But Input prices were still rising
 3. Pushback on selling prices (customers not accepting hikes)
 4. Hiring has stalled, some countries seeing reductions in headcount
 5. Most manufacturers remain optimistic about the future

Country PMI	Manufacturing					Services			
	Trade with US (in billions)	Current Month	Latest Month PMI	Prior Month PMI	M/M Change	Current Month	Latest Month PMI	Prior Month PMI	M/M Change
US		Apr	50.0	51.9	-1.9	Apr	51.3	51.7	-0.4
Global PMI	\$ 4,700	Apr	50.3	50.6	-0.3	Apr	52.5	52.4	0.1
Canada	\$ 665	Apr	49.4	49.8	-0.4	Apr	49.3	46.4	2.9
Mexico	\$ 661	Apr	51.0	52.2	-1.2				
China	\$ 655	Apr	51.4	51.1	0.3	Apr	52.5	52.7	-0.2
Eurozone PMI	\$ 632	Apr	45.7	46.1	-0.4	Apr	53.3	51.5	1.8
ASEAN	\$ 369	Apr	51.0	51.5	-0.5				
Japan	\$ 210	Apr	49.0	47.2	1.8	Apr	54.6	54.1	0.5
Germany	\$ 201	Apr	49.6	48.2	1.4	Apr	53.2	50.1	3.1
South Korea	\$ 161	Apr	49.4	49.8	-0.4				
UK	\$ 118	Apr	49.1	50.3	-1.2	Apr	55.0	53.1	1.9
Taiwan	\$ 114	Apr	50.2	49.3	0.9				
India	\$ 113	Apr	58.8	59.1	-0.3	Apr	60.8	61.2	-0.4
Vietnam	\$ 113	Apr	50.3	49.9	0.4				
Netherlands	\$ 88	Apr	51.3	49.7	1.6				
Ireland	\$ 88	Apr	47.6	49.6	-2.0	Apr	53.3	56.6	-3.3
Switzerland	\$ 87	Apr	41.4	45.2	-3.8				
Italy	\$ 83	Apr	47.3	50.4	-3.1	Apr	54.3	54.6	-0.3
France	\$ 80	Apr	45.3	46.2	-0.9	Apr	51.3	48.3	3.0
Brazil	\$ 78	Apr	55.9	53.6	2.3	Apr	53.7	54.8	-1.1
Singapore	\$ 65	Apr	50.5	50.7	-0.2				
Thailand	\$ 60	Apr	48.6	49.1	-0.5				
Australia	\$ 39	Apr	49.6	47.3	2.3	Apr	53.6	54.4	-0.8
Indonesia	\$ 37	Apr	52.9	54.2	-1.3				
Russia	\$ 36	Apr	54.3	55.7	-1.4	Apr	50.5	51.4	-0.9
Spain	\$ 35	Apr	52.2	51.4	0.8	Apr	56.2	56.1	0.1
Hong Kong	\$ 34	Apr	50.6	50.9	-0.3				
Philippines	\$ 23	Apr	52.2	50.9	1.3				
Poland	\$ 11	Apr	45.9	48.0	-2.1				
Greece	\$ 3	Apr	55.2	56.9	-1.7				

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

But Corporate Investment Remains Steady

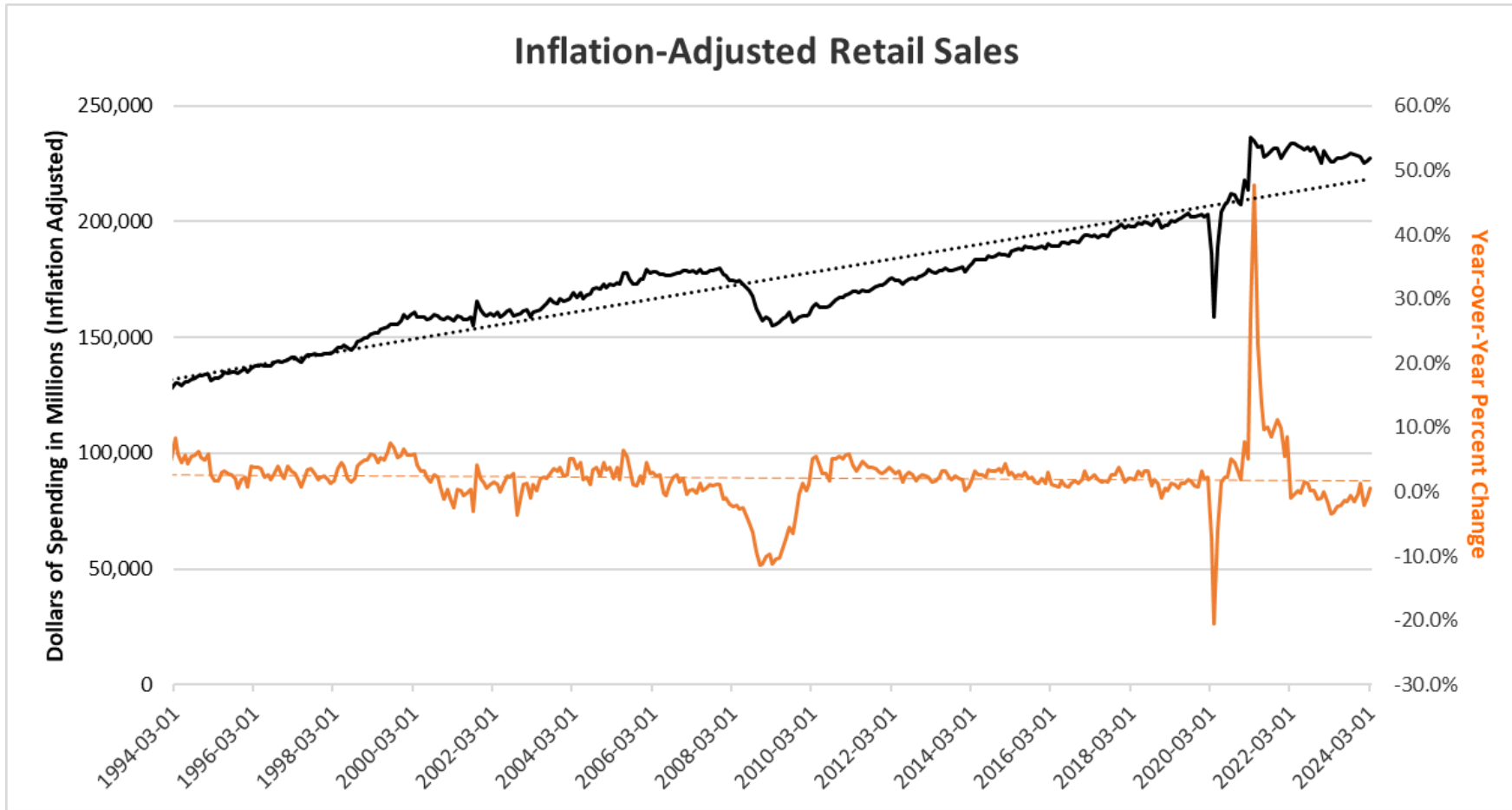
- Small business surveys show investment has started to decline, but still not showing in this view of the national data yet



Source: Federal Reserve

Growth: Inflation-Adjusted Retail Spending inched up in March Year-over-Year by 0.6%.

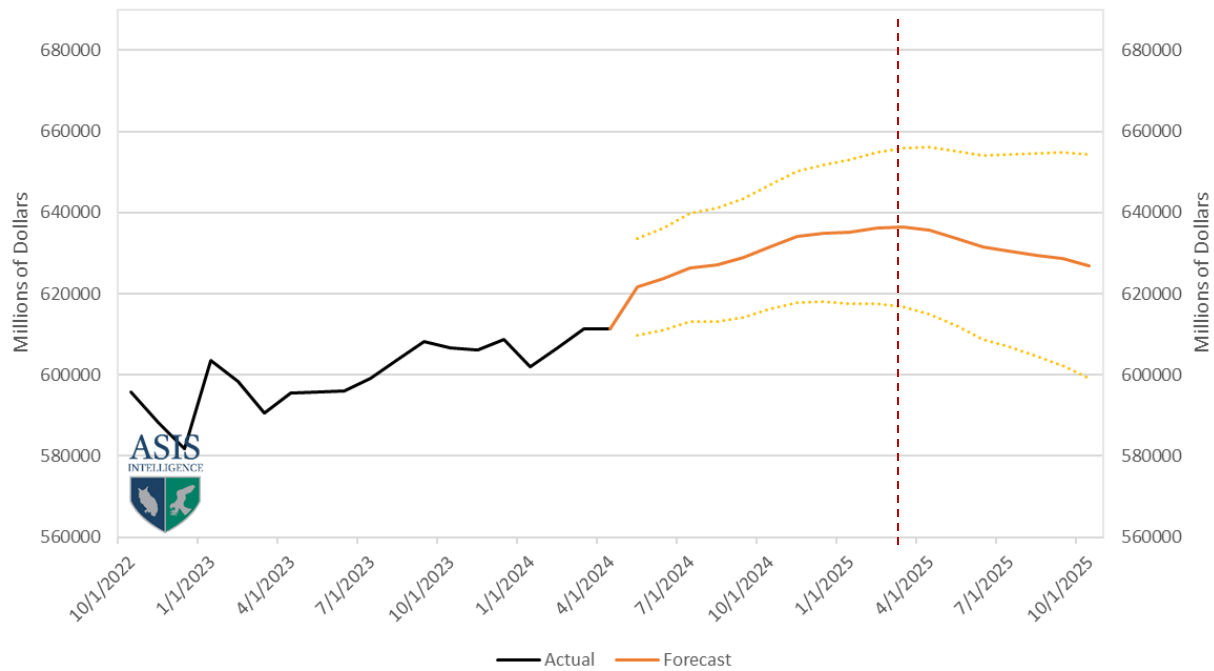
1. Inflation-adjusted retail sales continued to outpace the 30-year trend through March.
2. They were up marginally by 0.6% Y/Y but continued on a slight deceleration trend long-term.



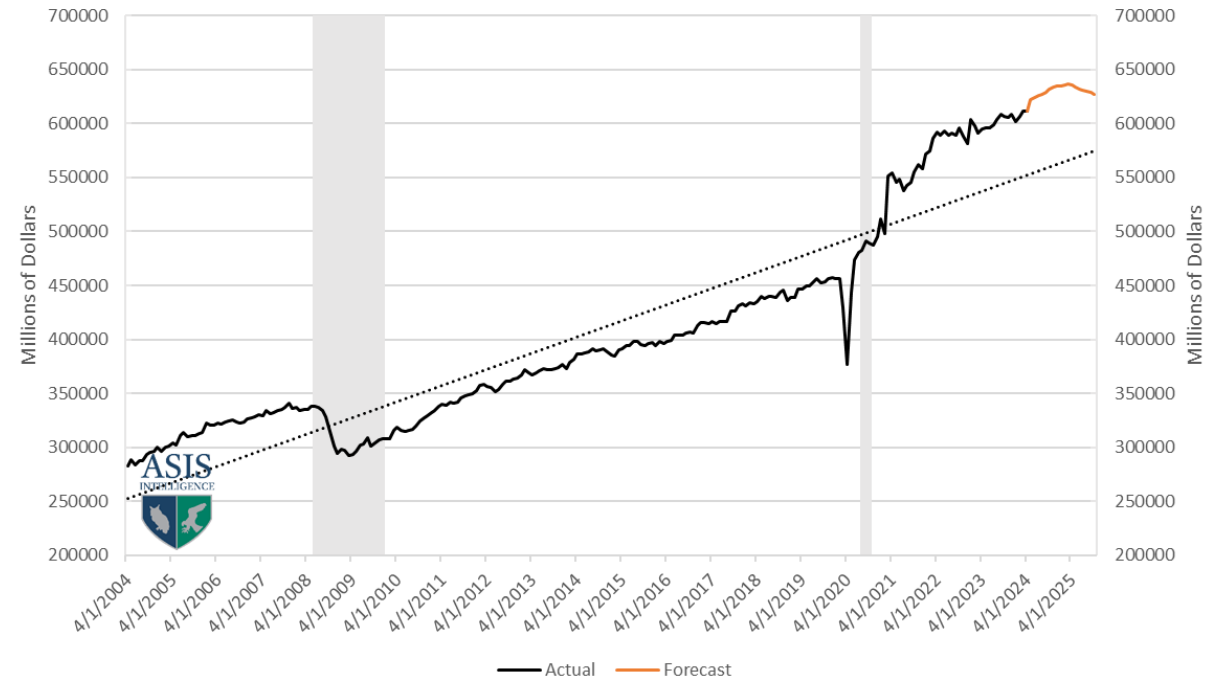
Source: Federal Reserve

Forecast Growth: Retail Spending (Consumer Spending) Forecast

Advance Retail Sales: Retail Trade (RSXFS)
Forecast as of 05/17/2024



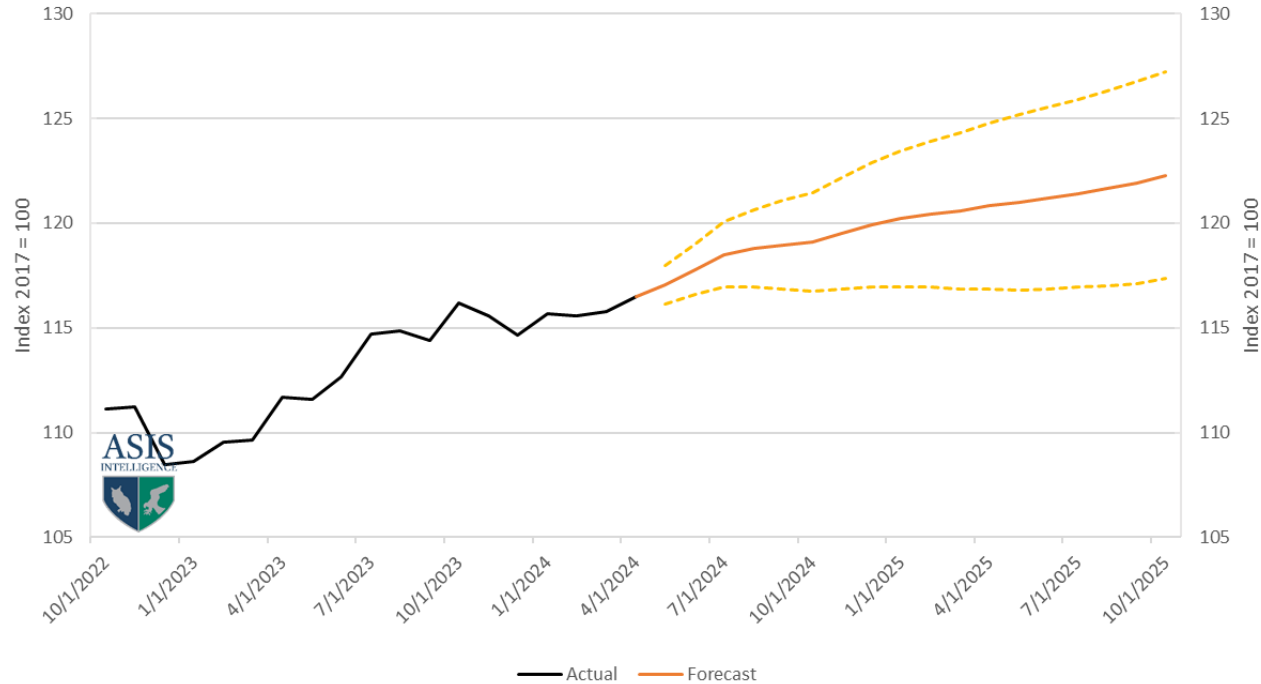
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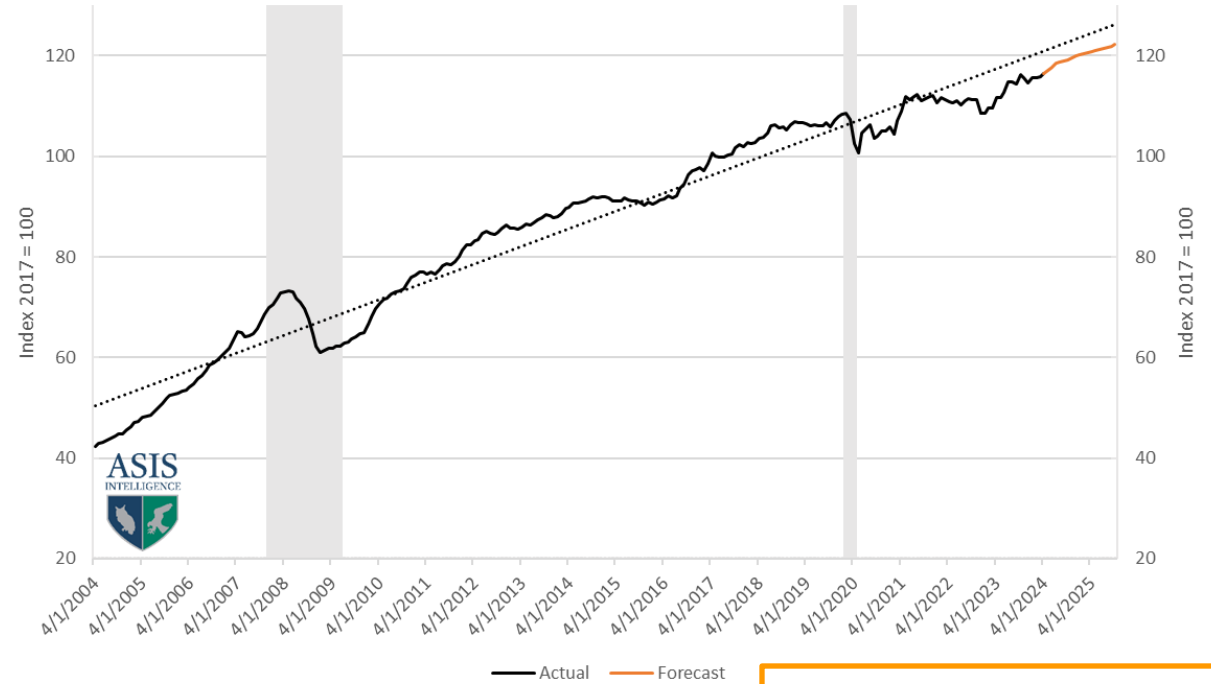
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Computer and Electronic Forecast

Industrial Production: Computer and Electronic Product (IPG334S)
Forecast as of 05/17/2024



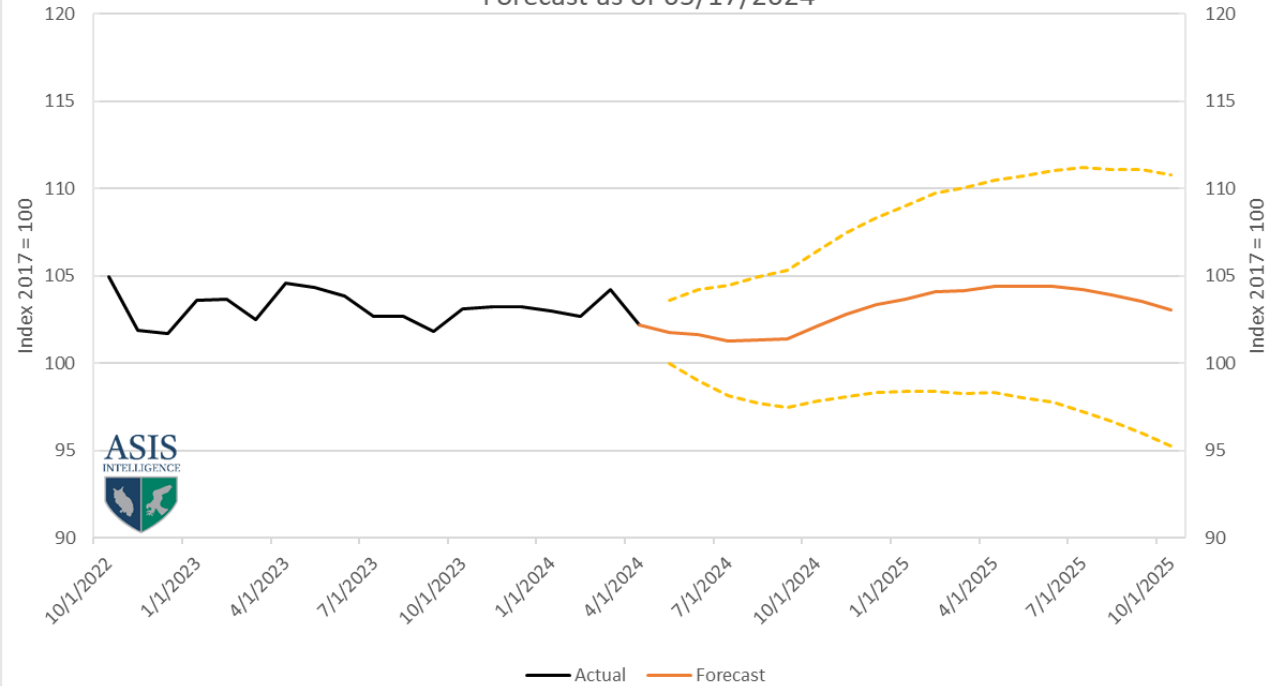
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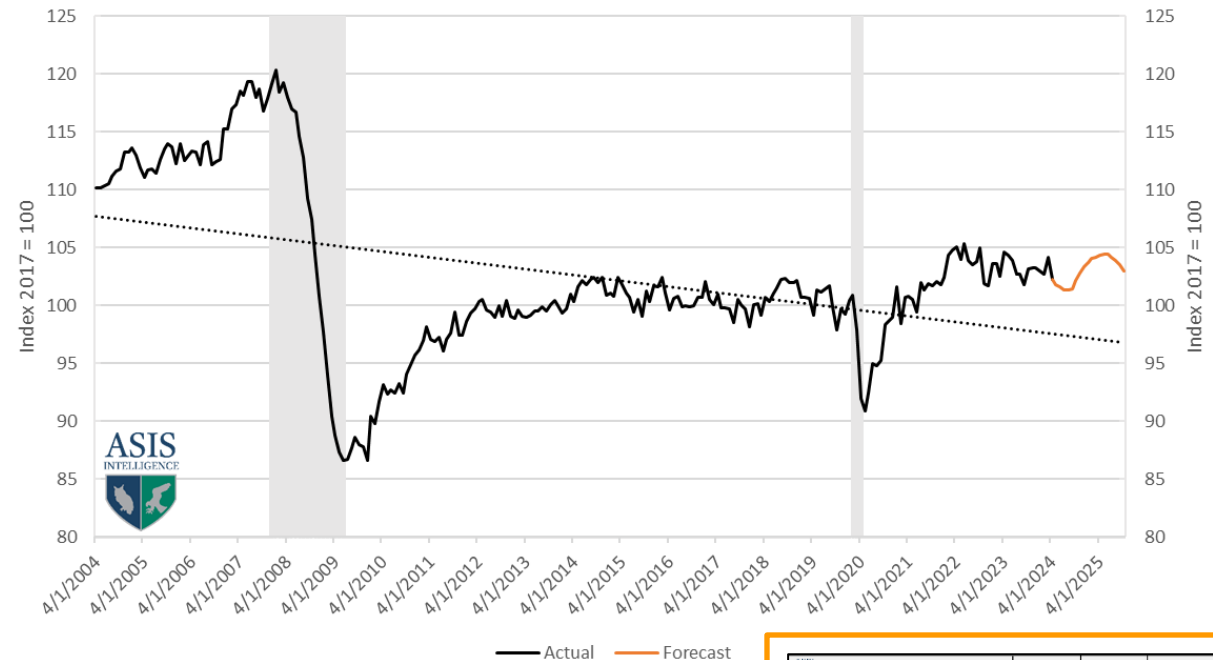
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Industrial Production: Manufacturing	99.806%	97.303%	99.332%
Aerospace and Miscellaneous Transportation Equipment	99.197%	99.548%	99.771%
Computer and Electronic Product	99.305%	97.993%	98.874%
Electrical Equipment, Appliance, and Component	98.540%	98.215%	92.380%
Fabricated Metal Product	98.485%	94.130%	96.570%
Machinery	98.462%	98.859%	98.339%
Motor Vehicles and Parts	96.998%	91.727%	99.618%
Primary Metal	98.570%	93.495%	99.415%
Average	98.670%	96.409%	98.037%

Electrical Equipment and Appliance Forecast

Industrial Production: Electrical Equipment, Appliance, and Component (IPG335S)
Forecast as of 05/17/2024



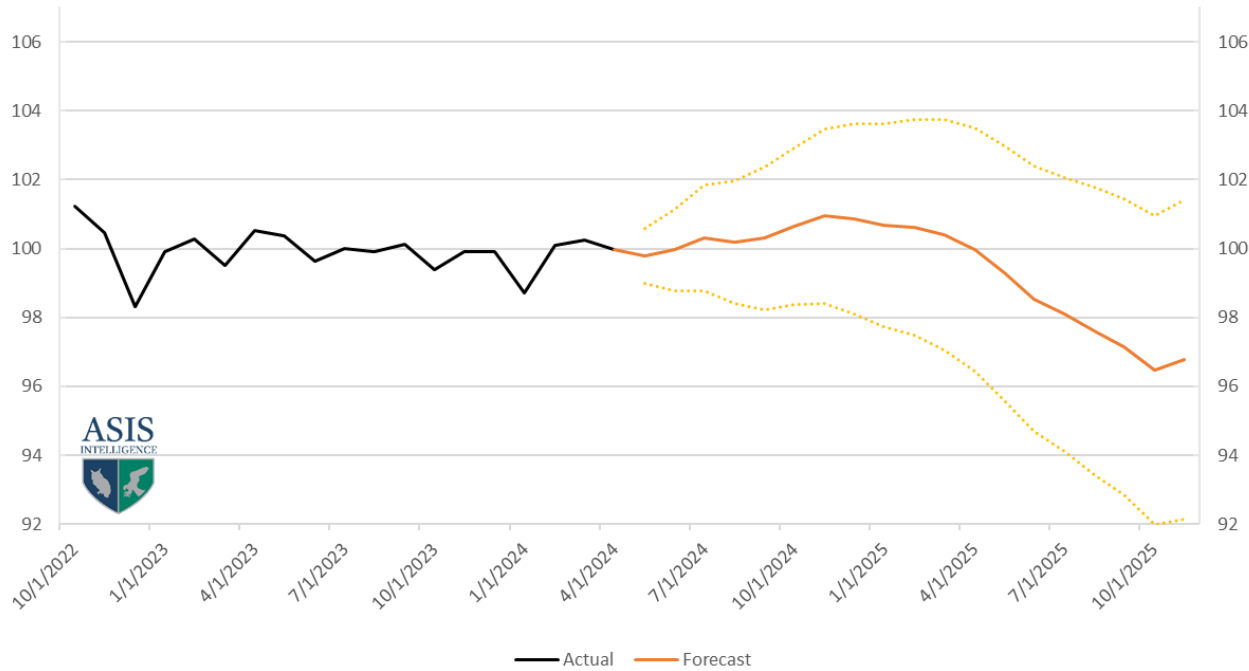
Industrial Production: Electrical Equipment, Appliance, and Component (IPG335S)
Forecast as of 05/17/2024



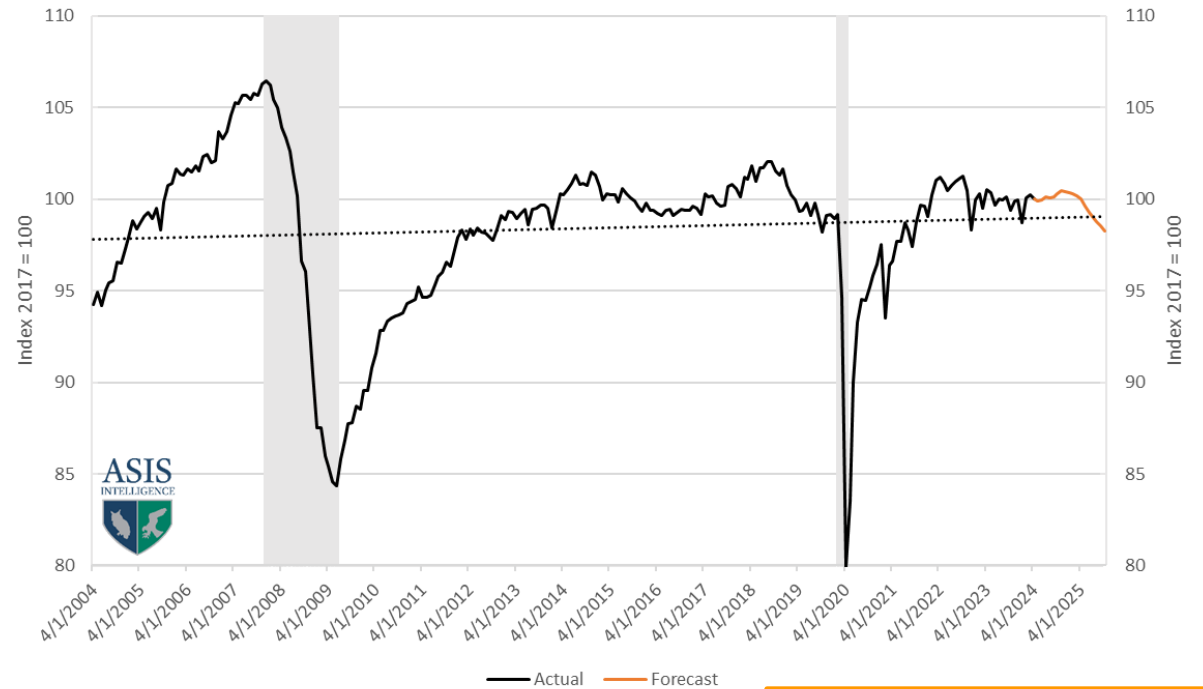
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General Manufacturing Forecast

Industrial Production: Manufacturing (IPMAN)
Forecast as of 05/17/2024



Industrial Production: Manufacturing (IPMAN)
Forecast as of 05/17/2024



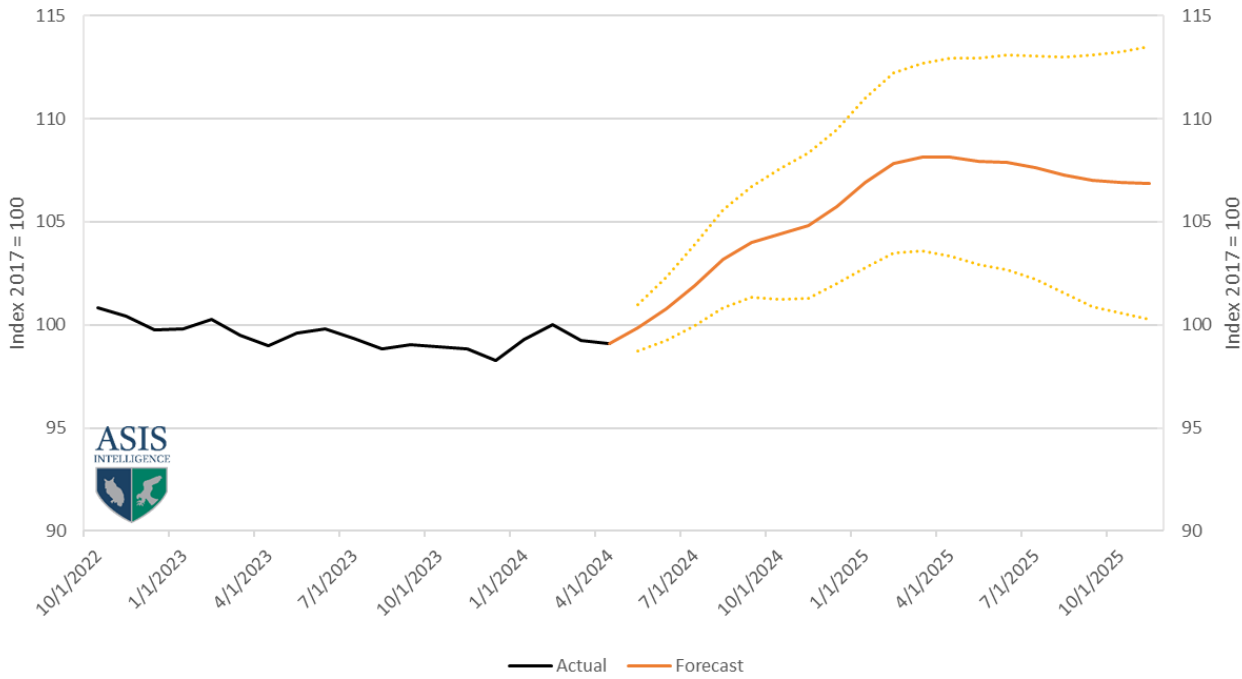
Accuracy Rates

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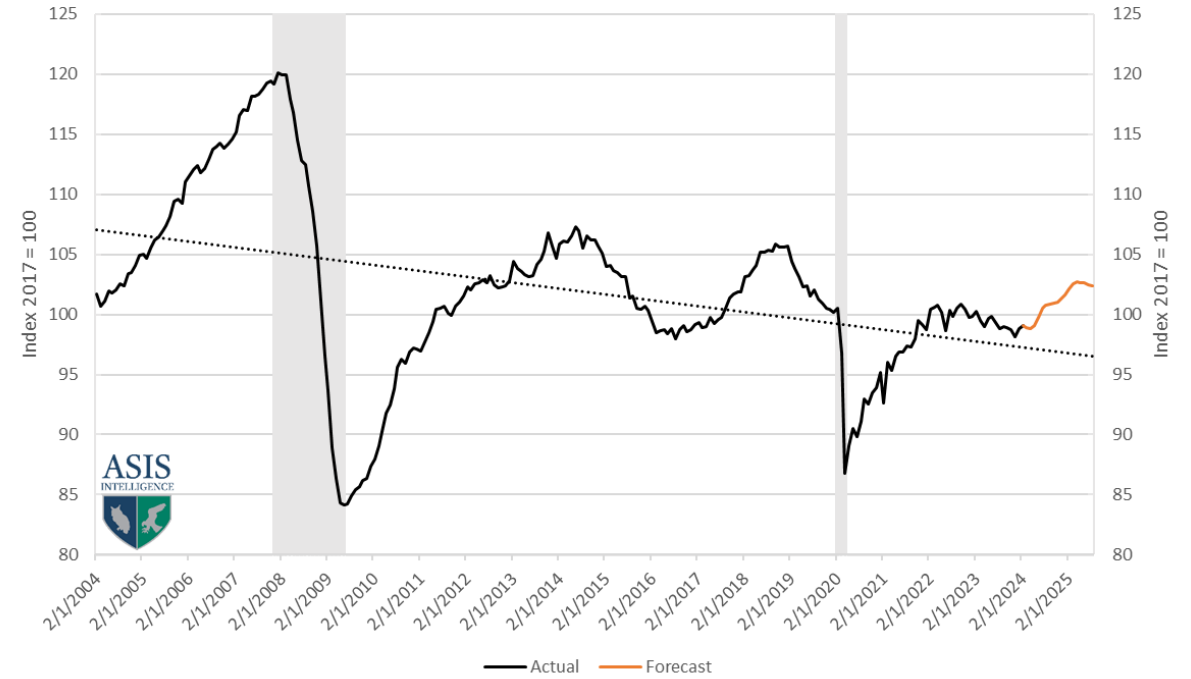
Source: Armada Forecasts

Fabricated Metal Forecast

Industrial Production: Fabricated Metal Product (IPG332S)
Forecast as of 05/17/2024



Industrial Production: Fabricated Metal Product (IPG332S)
Forecast as of 04/12/2024



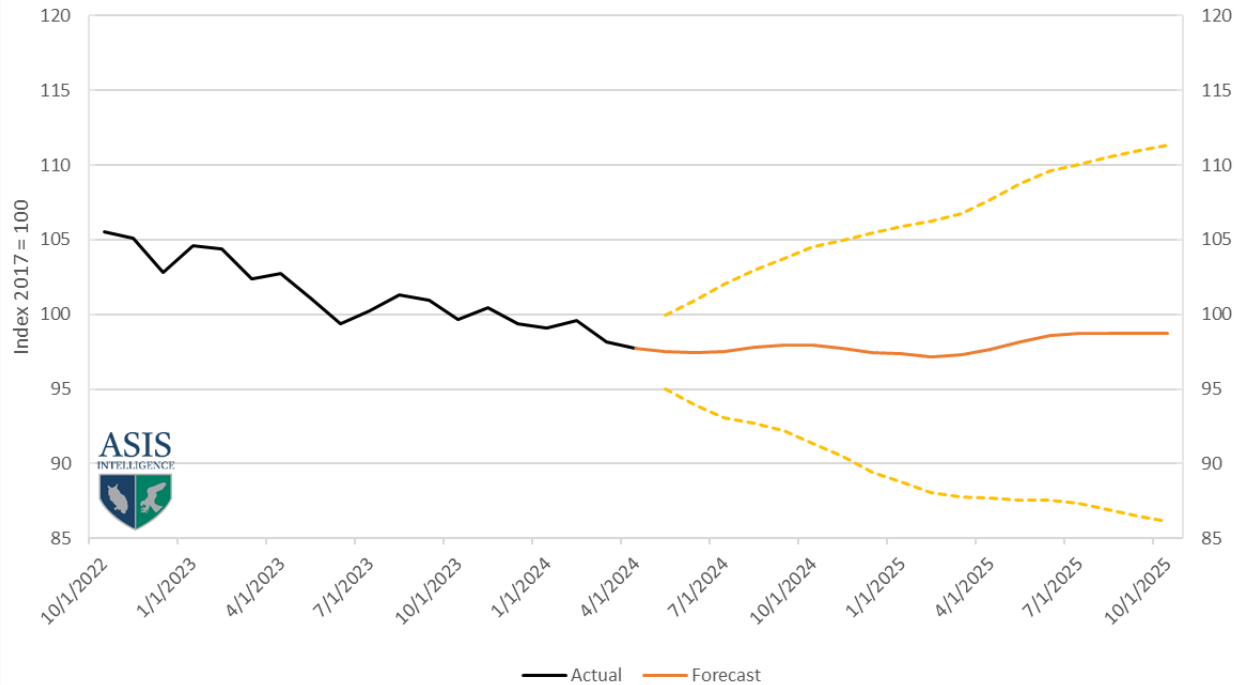
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Source: Armada Forecasts

Machinery Production Forecast

Industrial Production: Machinery (IPG333S)
Forecast as of 05/17/2024



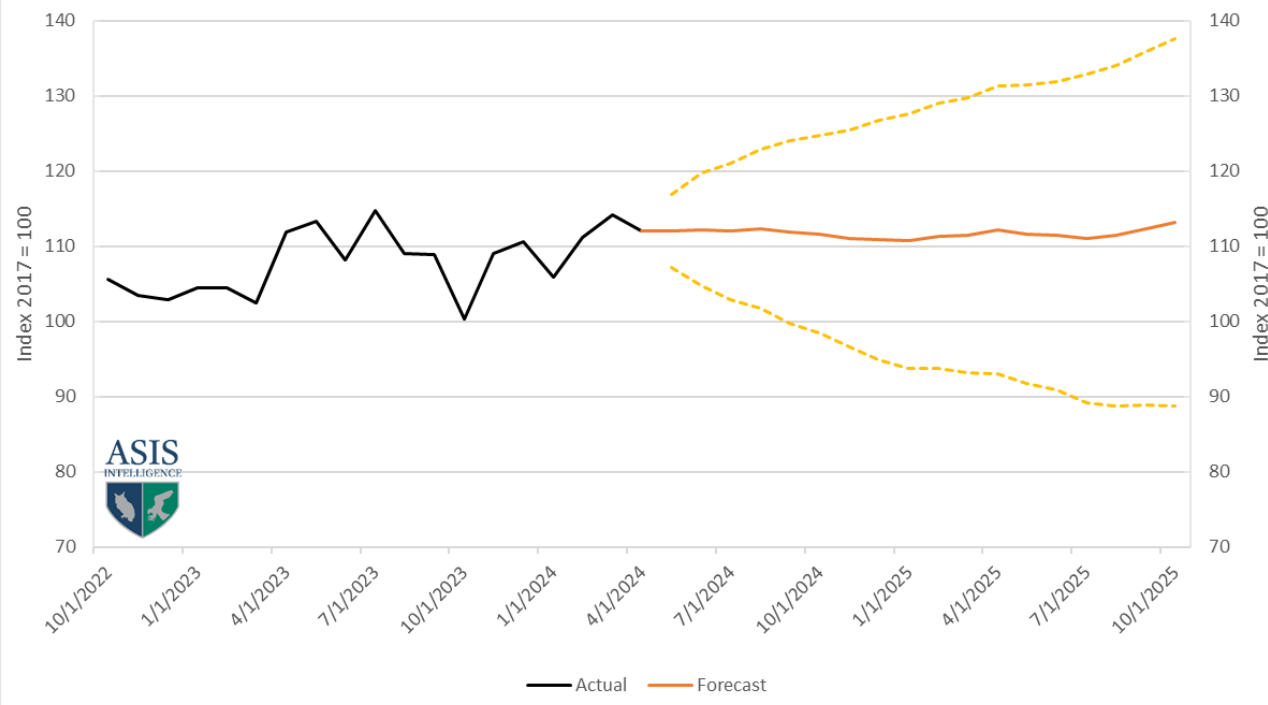
Industrial Production: Machinery (IPG333S)
Forecast as of 04/12/2024



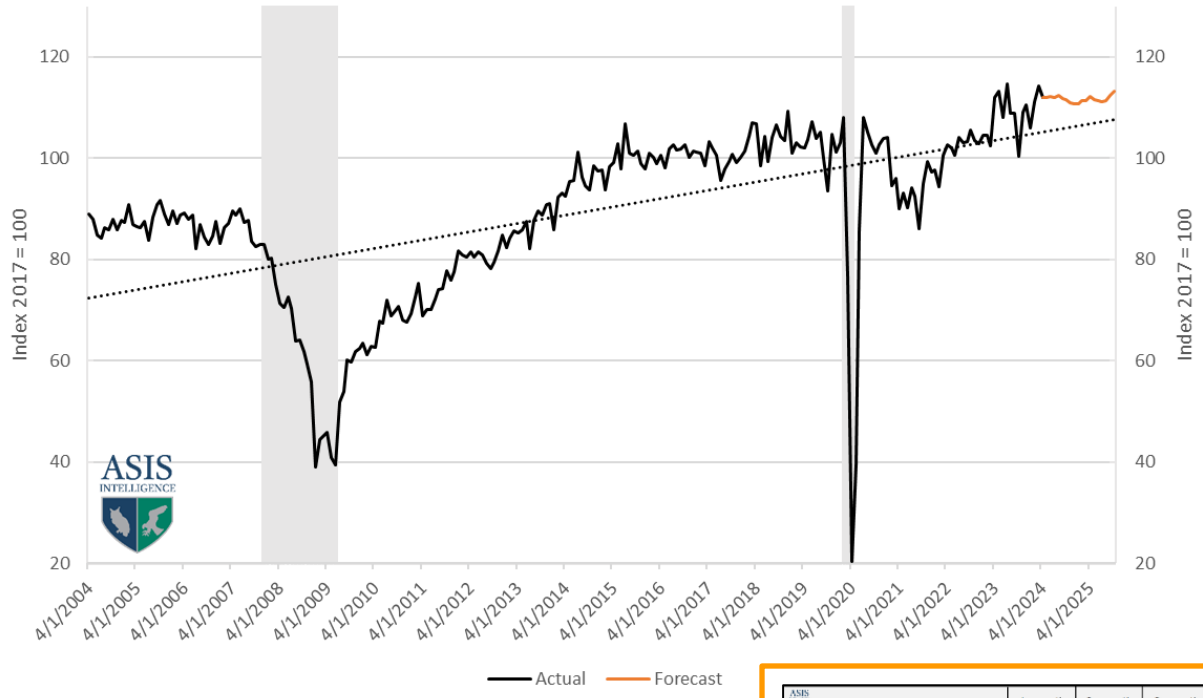
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Automotive Production Forecast

Industrial Production: Motor Vehicles and Parts (IPG3361T3S)
Forecast as of 05/17/2024



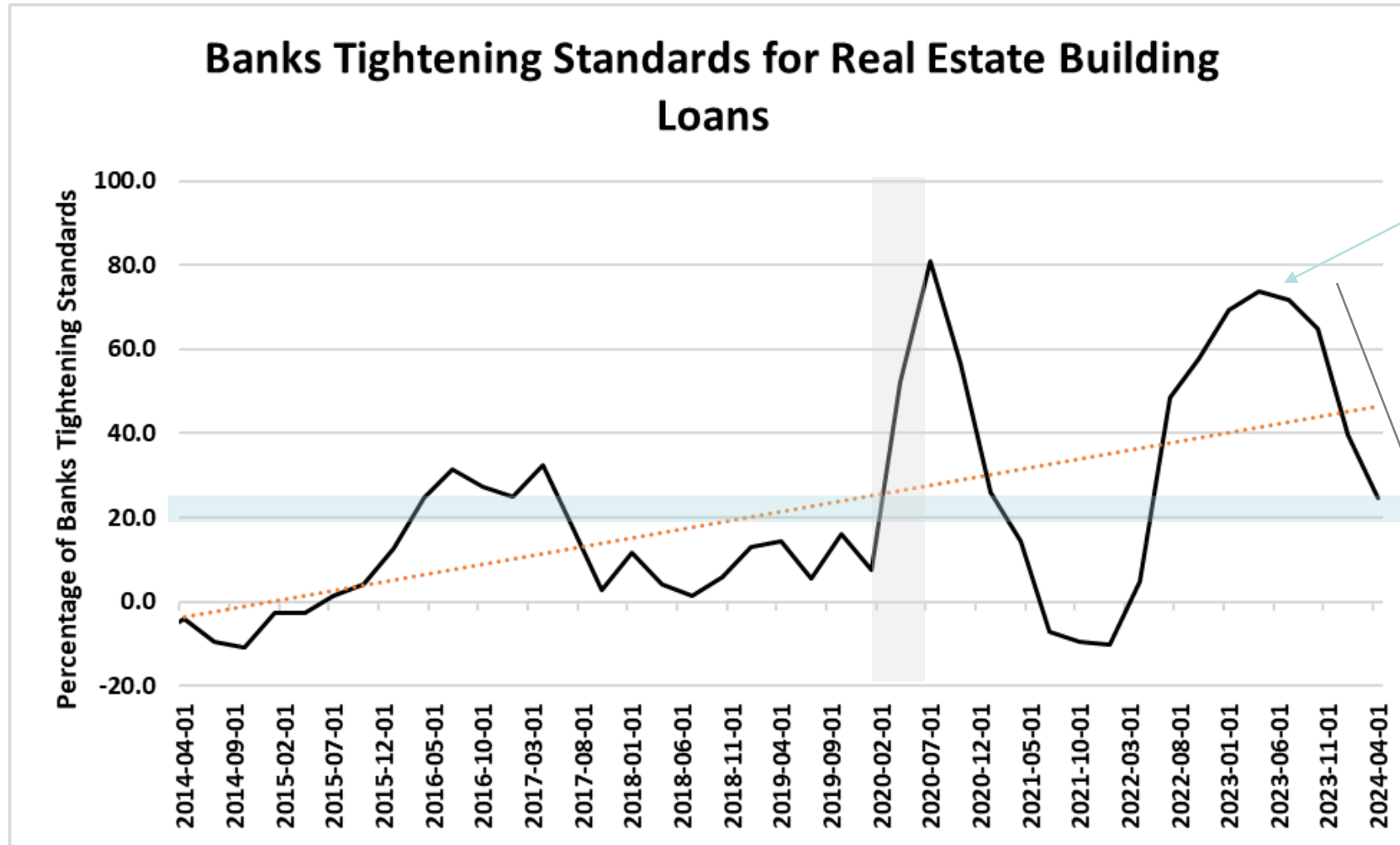
Industrial Production: Motor Vehicles and Parts (IPG3361T3S)
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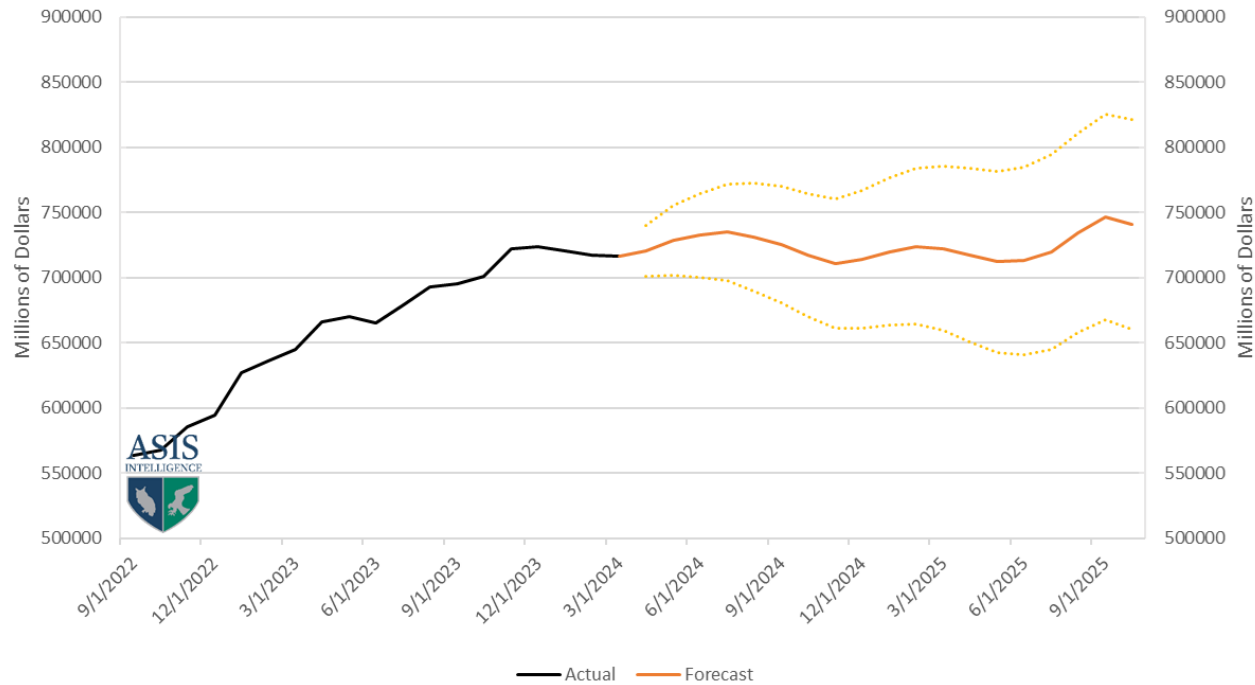
Banks Approach to Lending...Surprisingly Easing?



March '23 Mini Banking Crisis

Growth Forecast: Nonresidential Construction Forecast

Private Nonresidential Construction Spending (PNRESCONS)
Forecast as of 05/17/2024



Private Nonresidential Construction Spending (PNRESCONS)
Forecast as of 05/17/2024



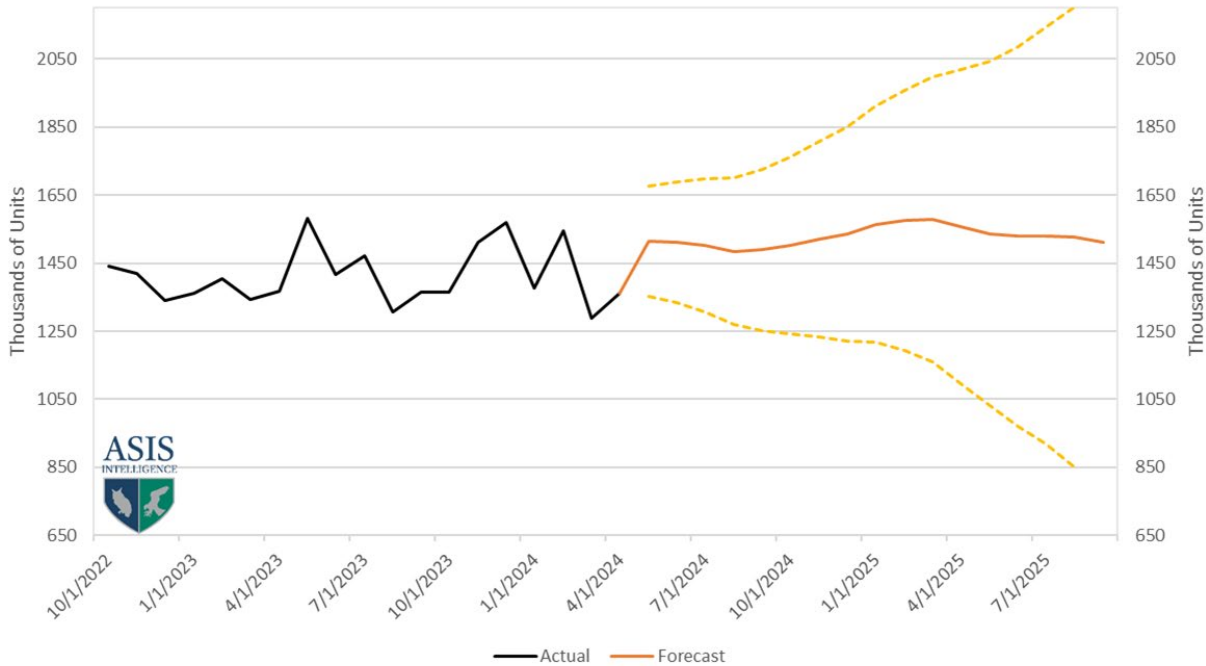
Source: Armada Forecasts

Accuracy Rate

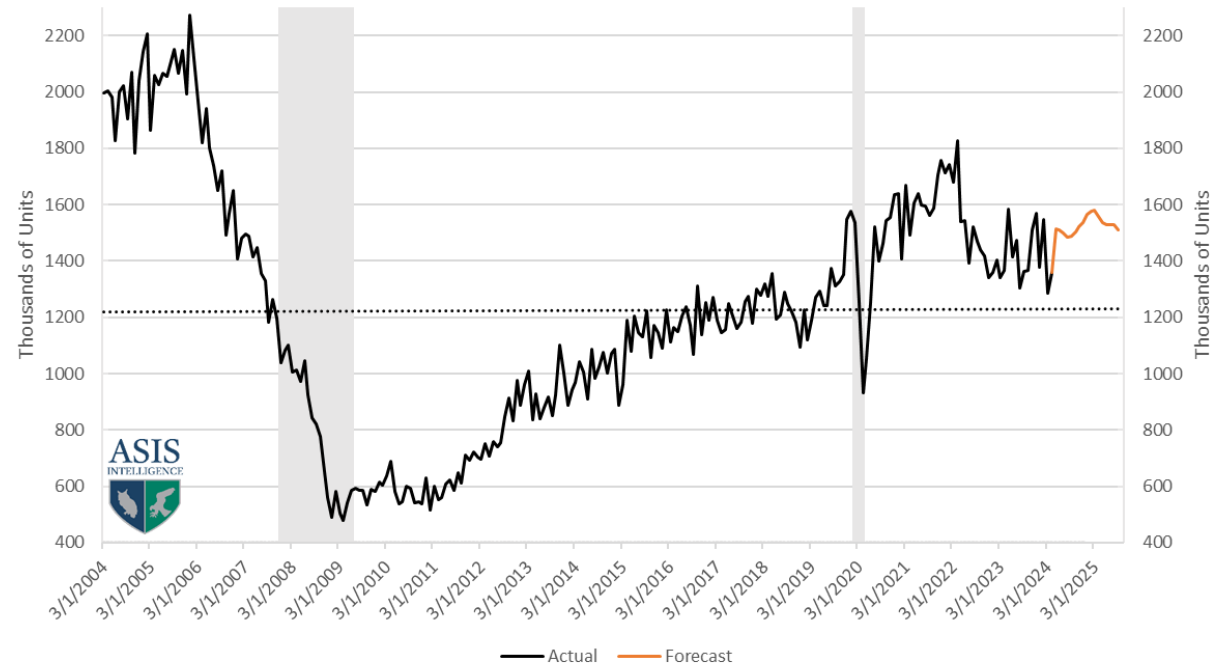
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Growth Forecast: Residential Construction Forecast

New Privately-Owned Housing Units Started: Total Units (HOUST)
Forecast as of 05/17/2024



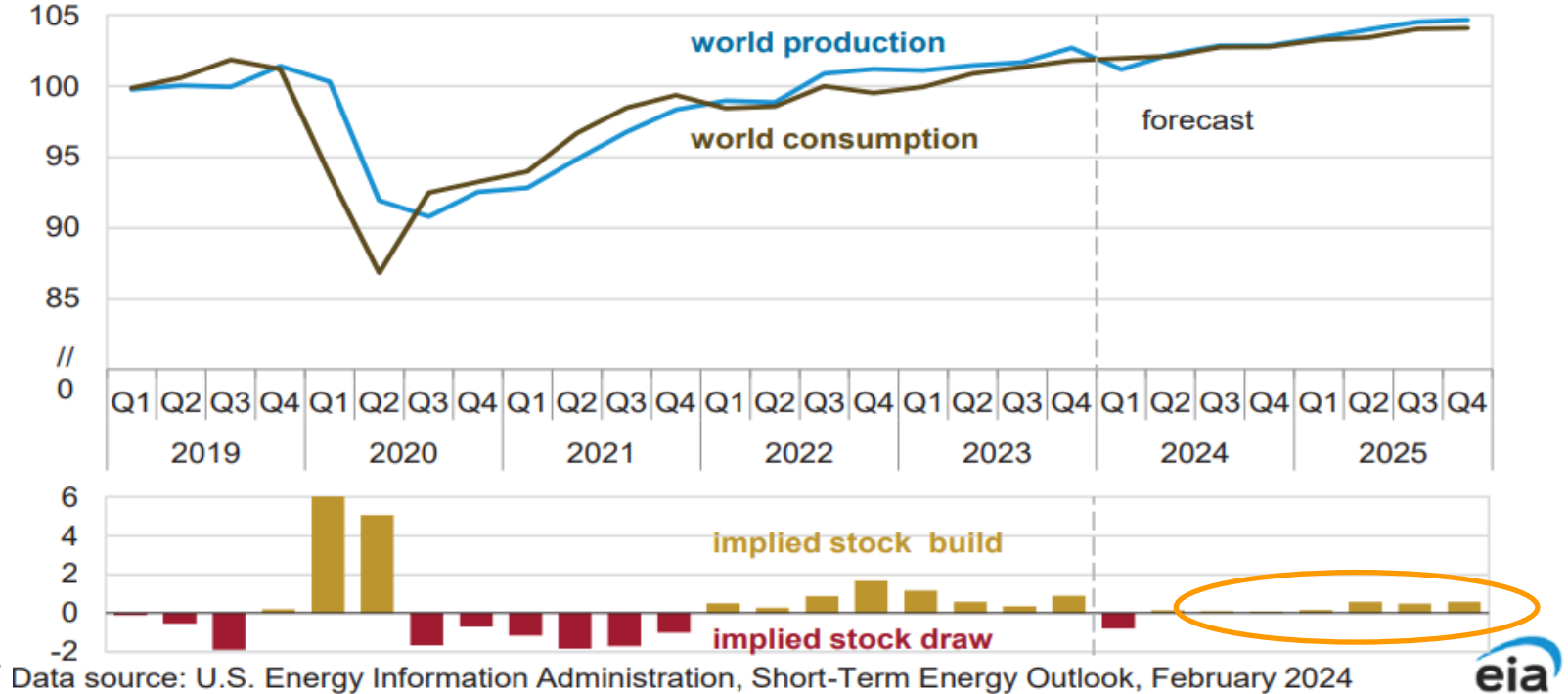
New Privately-Owned Housing Units Started: Total Units (HOUST)
Forecast as of 05/17/2024



Oil and Gasoline – Now an Implied Build for 2025

- Fairly balanced outlook through 2024
 - Anecdotal evidence suggests that many new wells have been built and are ready for production – but are shut-in and waiting on demand to resurface before starting production.
- The US may have officially hit a “dynamic production” zone in which production can quickly keep pace with demand. That could lead to oil prices hovering in the \$70 range in perpetuity.

World liquid fuels production and consumption balance
million barrels per day



Data source: U.S. Energy Information Administration, Short-Term Energy Outlook, February 2024



Crude forecast:

• 2021	\$68.21
• 2022	\$94.91
• 2023	\$77.58
• 2024	\$83.78
• 2025	\$82.48

Diesel forecast:

• 2021	\$3.29
• 2022	\$5.02
• 2023	\$4.21
• 2024	\$4.06
• 2025	\$4.19

Gasoline forecast:

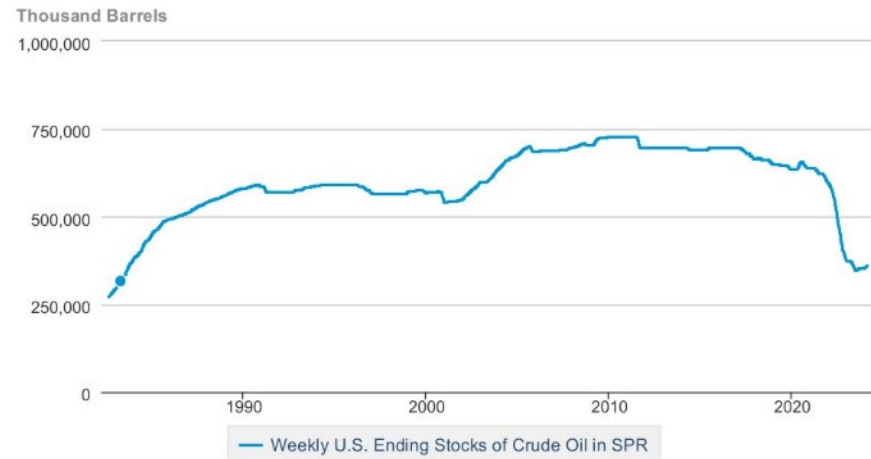
• 2021	\$3.02
• 2022	\$3.97
• 2023	\$3.52
• 2024	\$3.59
• 2025	\$3.58

Source: EIA; Baker Hughes; Conoco-Philips

US Production Touching New All-Time Highs at 13.31M BPD

- Prior record was 13M BPD in Nov of 2019.
- Significant shut-in capacity is ready and could be tapped at any time. Again, oil prices remaining in the \$70-\$80 per barrel range is optimum for producers.
- SPR inventories still at 1980's lows. Officials state that it can only be refilled at a specific rate because of limitations on storage facilities.

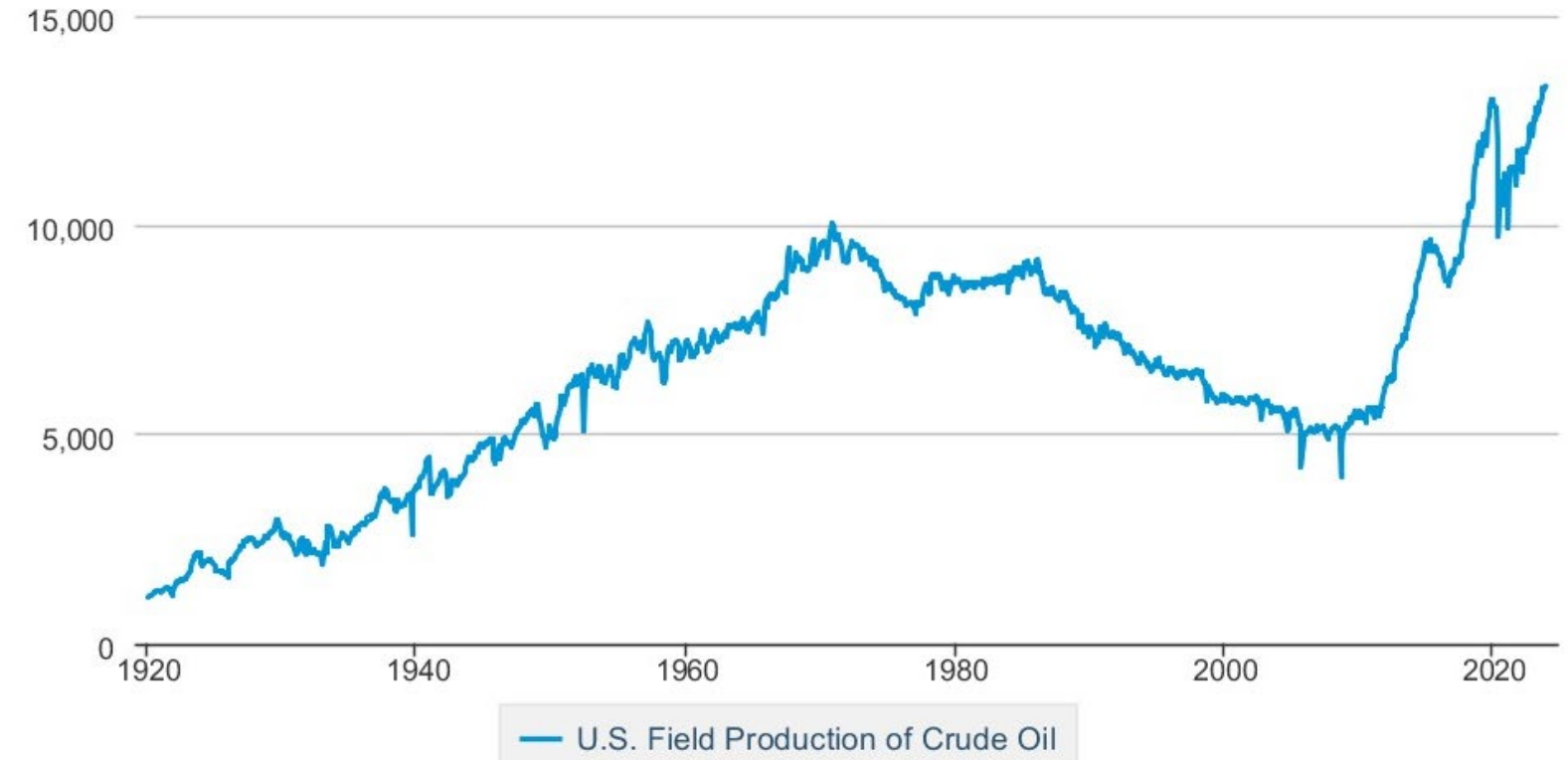
Weekly U.S. Ending Stocks of Crude Oil in SPR



eia Data source: U.S. Energy Information Administration

U.S. Field Production of Crude Oil

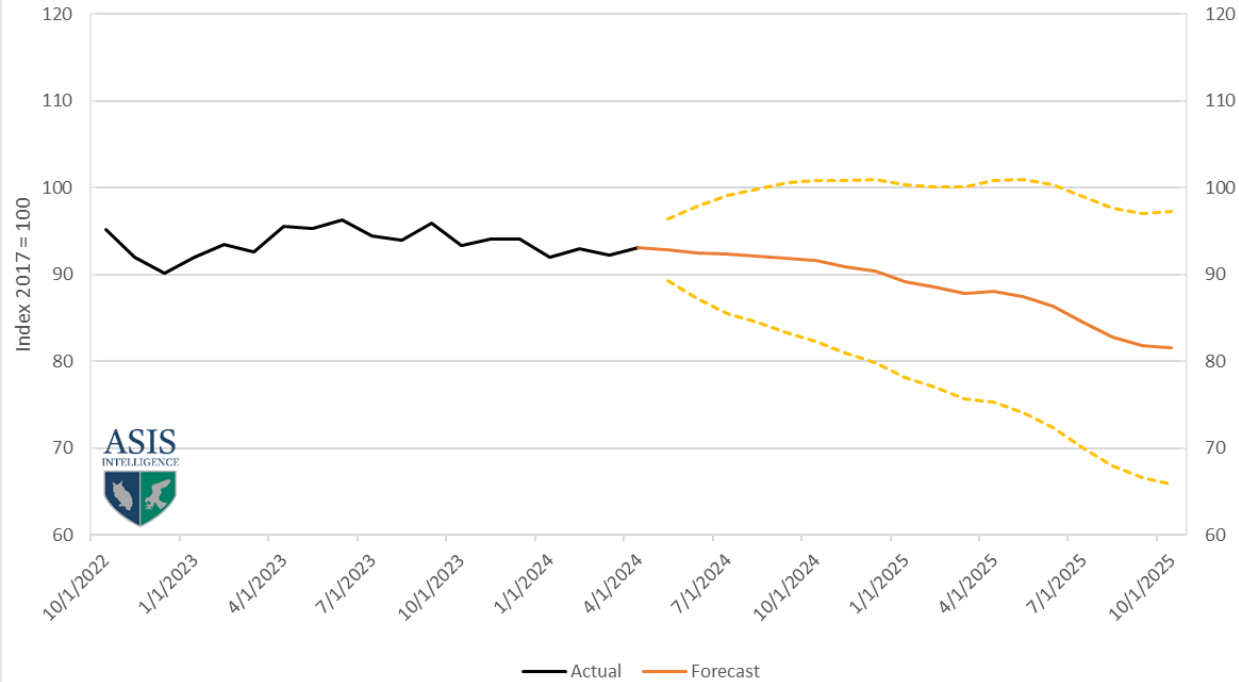
Thousand Barrels per Day



eia Data source: U.S. Energy Information Administration

Primary Metal Production Forecast

Industrial Production: Primary Metal (IPG331S)
Forecast as of 05/17/2024

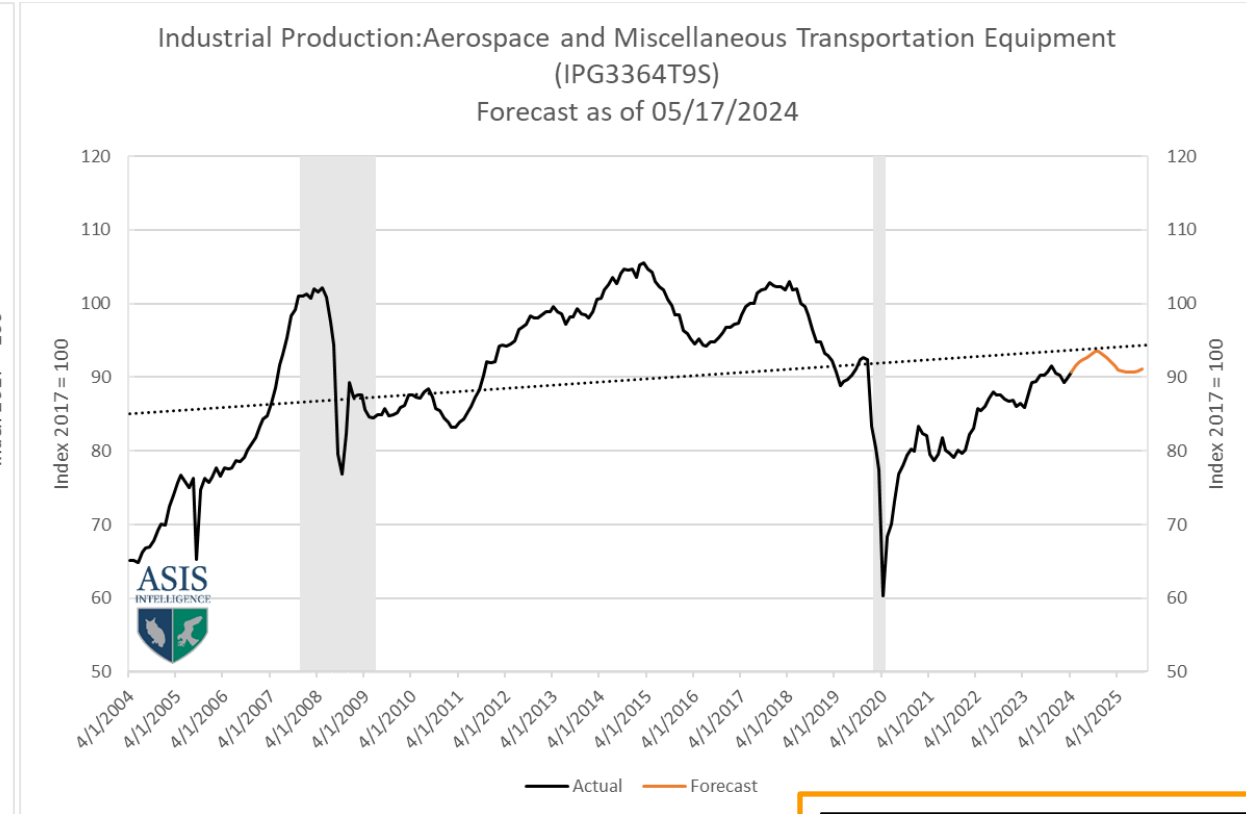
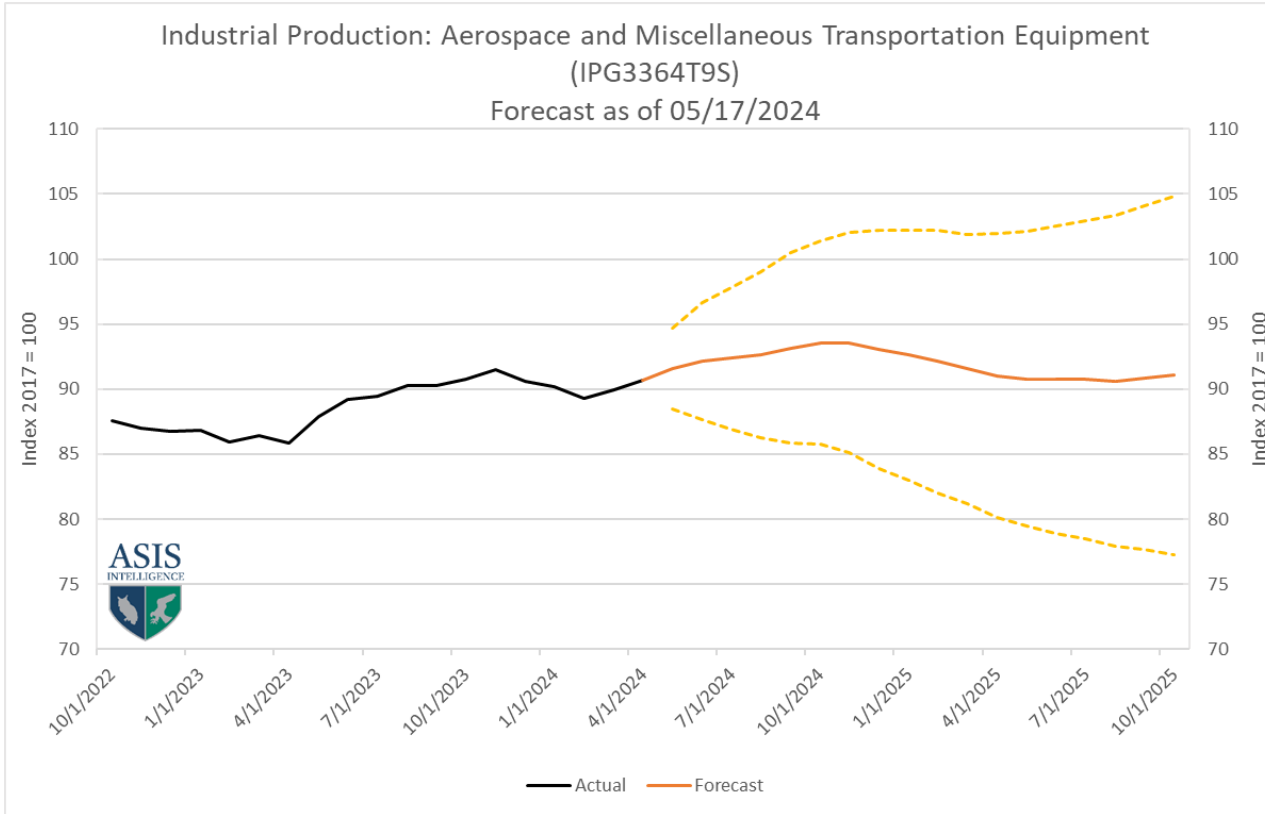


Industrial Production: Primary Metal (IPG331S)
Forecast as of 05/17/2024



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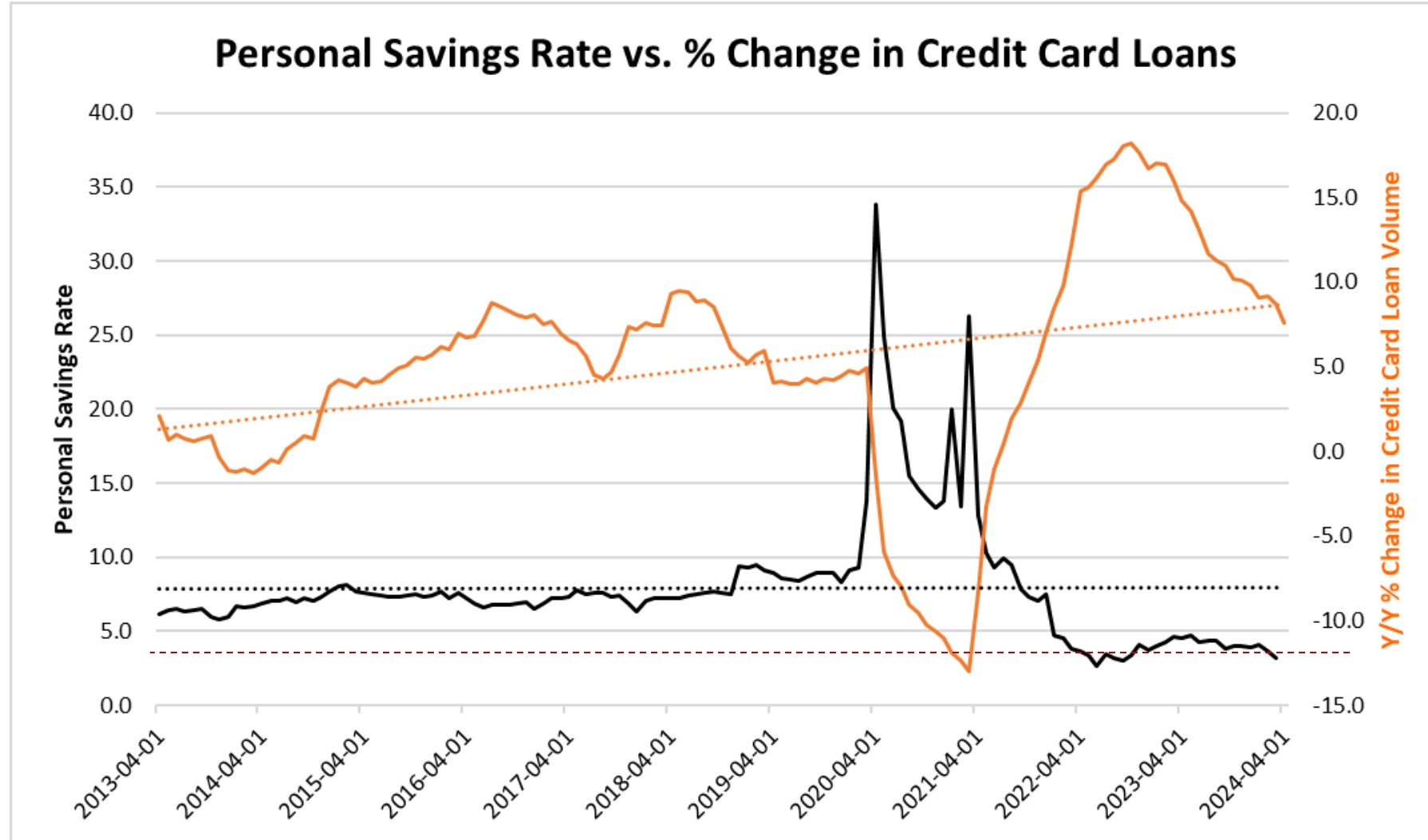
Aerospace Production Forecast



ASIS	1-month	3-month	6-month
Industrial Production: Manufacturing	99.806%	97.303%	99.332%
Aerospace and Miscellaneous Transportation Equipment	99.197%	99.548%	99.771%
Computer and Electronic Product	99.305%	97.993%	98.874%
Electrical Equipment, Appliance, and Component	98.540%	98.215%	92.380%
Fabricated Metal Product	98.485%	94.130%	96.570%
Machinery	98.462%	98.859%	98.339%
Motor Vehicles and Parts	96.998%	91.727%	99.618%
Primary Metal	98.570%	93.495%	99.415%
Average	98.670%	96.409%	98.037%

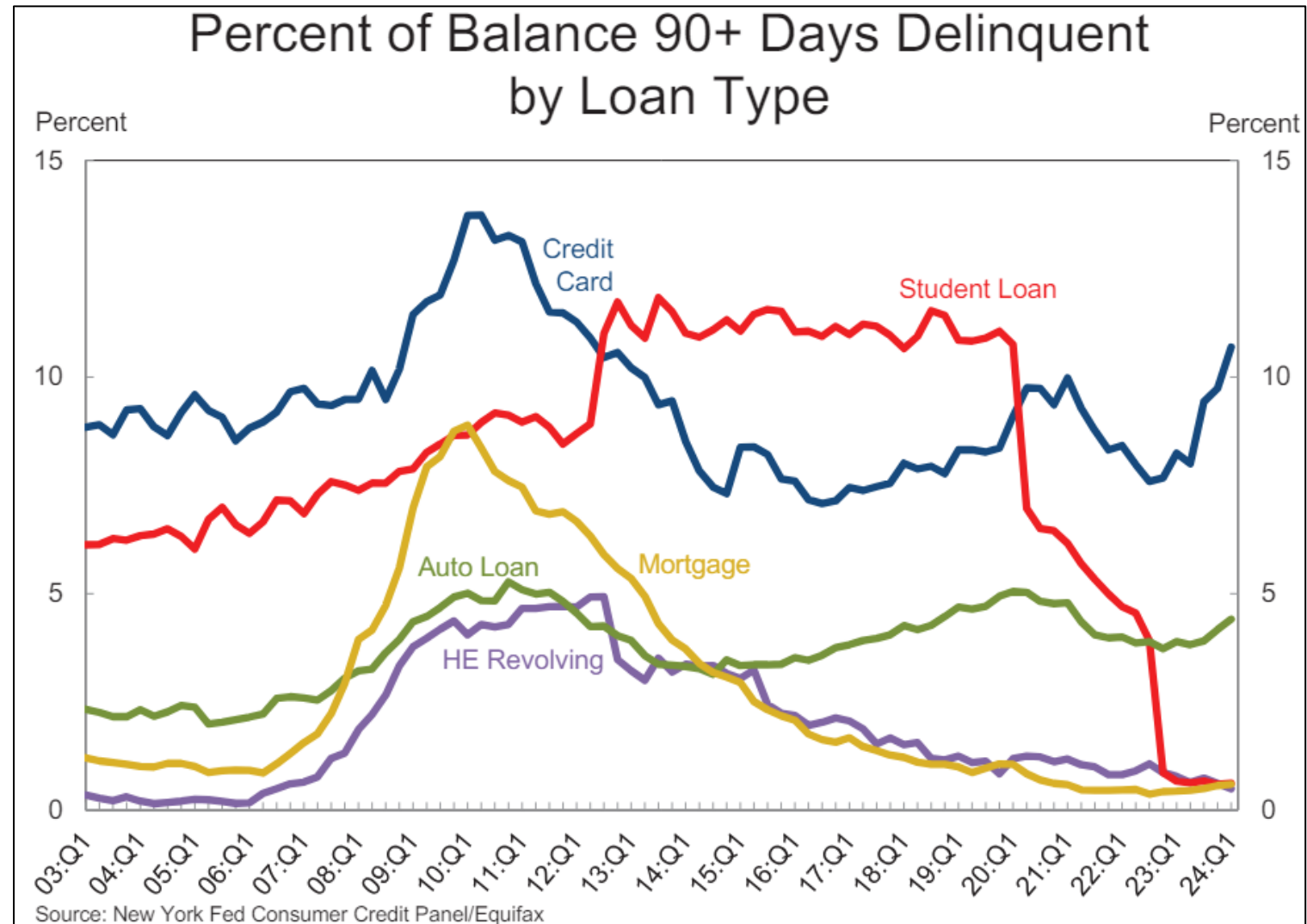
Personal Savings Rate vs. Credit Card Use

1. Personal savings rate once again approaching all-time lows. This could cause some default risk, especially if layoff activity increases.
2. Credit card borrowing is still pushing all-time highs, but the rate of change is the important factor. Credit card borrowing was growing at a 7.6% annual rate.



Fed Eyeing Loan Delinquency. Rates are Rising, But...

- Autos and Credit Card Delinquencies Starting to Become Concerning.
- Mortgage, Home Equity not concerning.
- The Fed will not release new student loan aging until Q3 or Q4 this year...why?



For More Enlightenment

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Aren't You Excited? Proof that I am
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Monthly

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