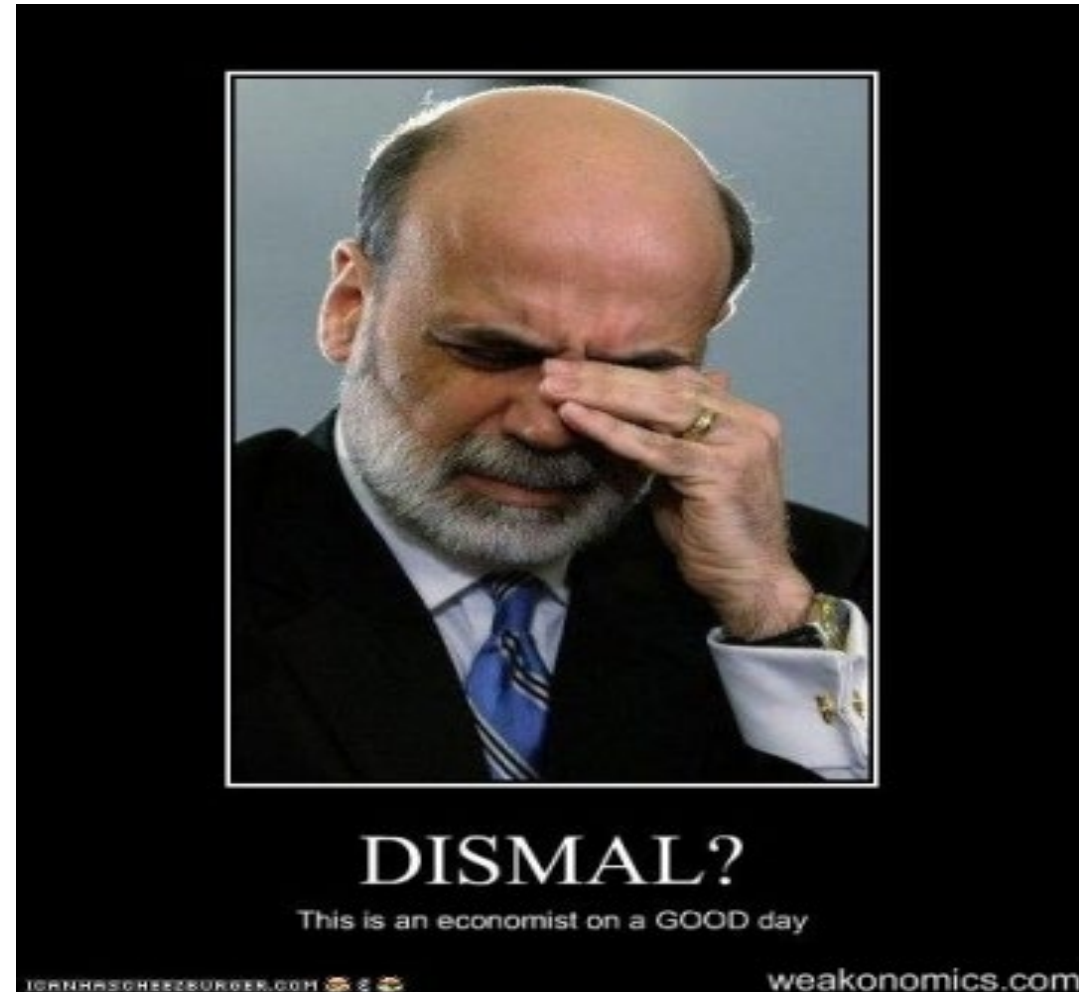




ARMADA

September 2024 SBDC Economic Outlook

Chris Kuehl – Armada Corporate
Intelligence



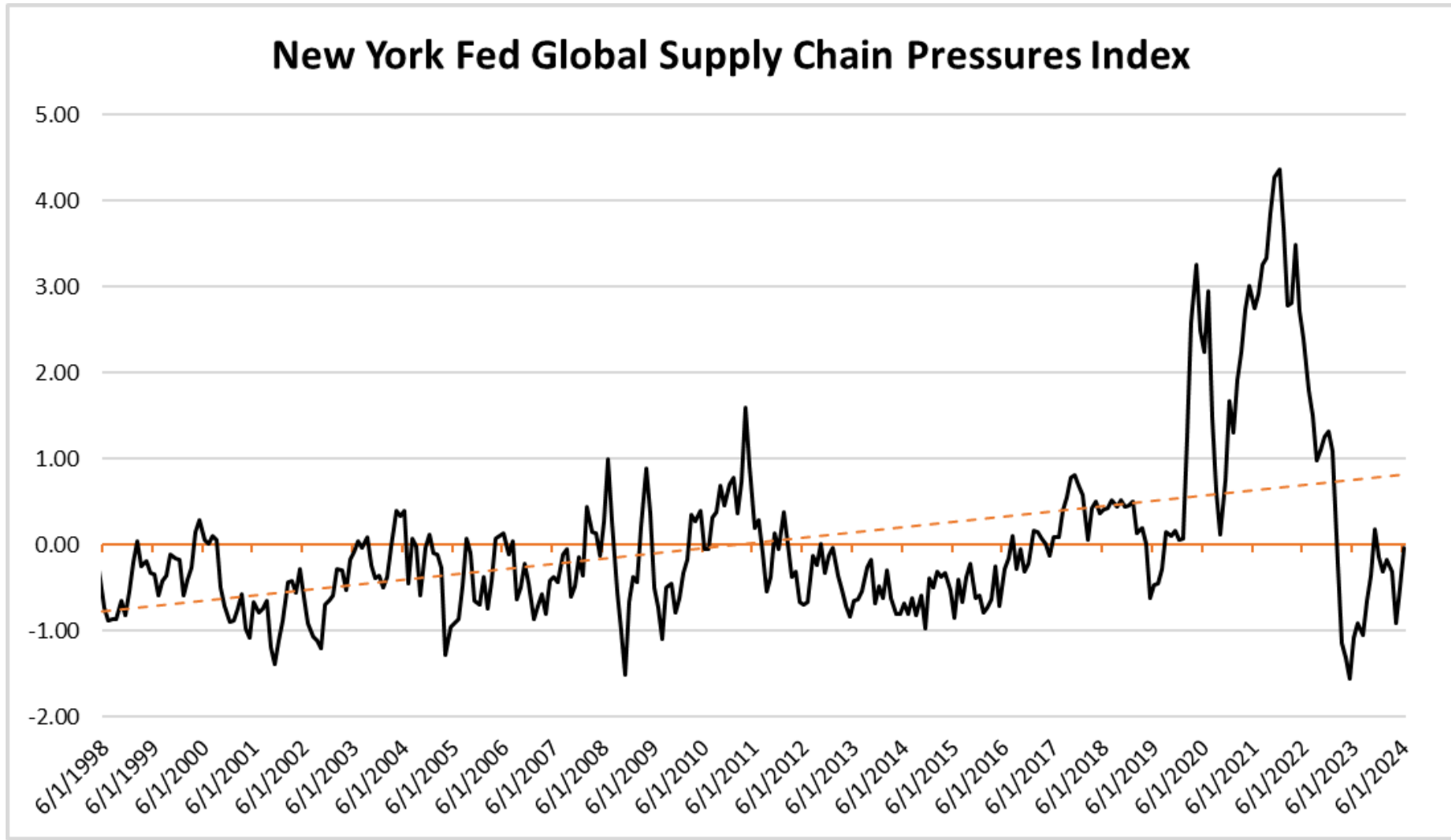
Lots of Activity in Recent Weeks

- **What was that all about? The Mini Market Crisis – triggered by jobs report and the yen carry trade shift. Affected the tech stocks but wasn't really about tech.**
- **Q2 numbers surprise on the upside with a 2.8% growth number as compared to 1.6% in Q1. Now Q3 expected to come in close to 2.5% or higher.**
- **Latest PMI numbers disappoint and another sell-off ensues. Very nervous markets**
- **Whole collection of global bad news developments – German economy still sinking, South Korean economy down, China getting desperate with rate cuts, retail numbers down in Canada. Luxury brands anticipating a bad season and the airlines are struggling even as they are flying full.**
- **Stubborn behavior – frozen housing market, evictions starting to accelerate in fast growing areas, wage driven inflation is hardest to alter. Supply chain mess is back**

Some Points to be Aware of During “Silly Season”

- **Presidents have remarkably little power over the economy. Fed sets monetary policy and Presidents don't have power over who sits on Board of Governors. Congress controls taxing and spending. Most of the key issues for business are deal with at the state and local level. US system has a very weak executive as compared to parliamentary systems.**
- **Economists are fundamentally philosophers – that is why they can look at the same data and come to radically different conclusions. We disagree on who the winners and losers should be. I am a Chicago school guy – Milton Friedman is my hero!**
- **Lies, Damned Lies and Statistics – The fact is that statistics can be manipulated endlessly and one can “prove” about anything. The burden falls on the consumer of that data to determine if it can be trusted. Besides, very often the question you want answered has not been asked and assessed statistically!**
- **Finally – beware of the drama queens in media. They want to get attention and boring stuff doesn't do it. Many reports are blown way out of proportion or lack context.**

Global Supply Chain Pressures Index Rising Through June



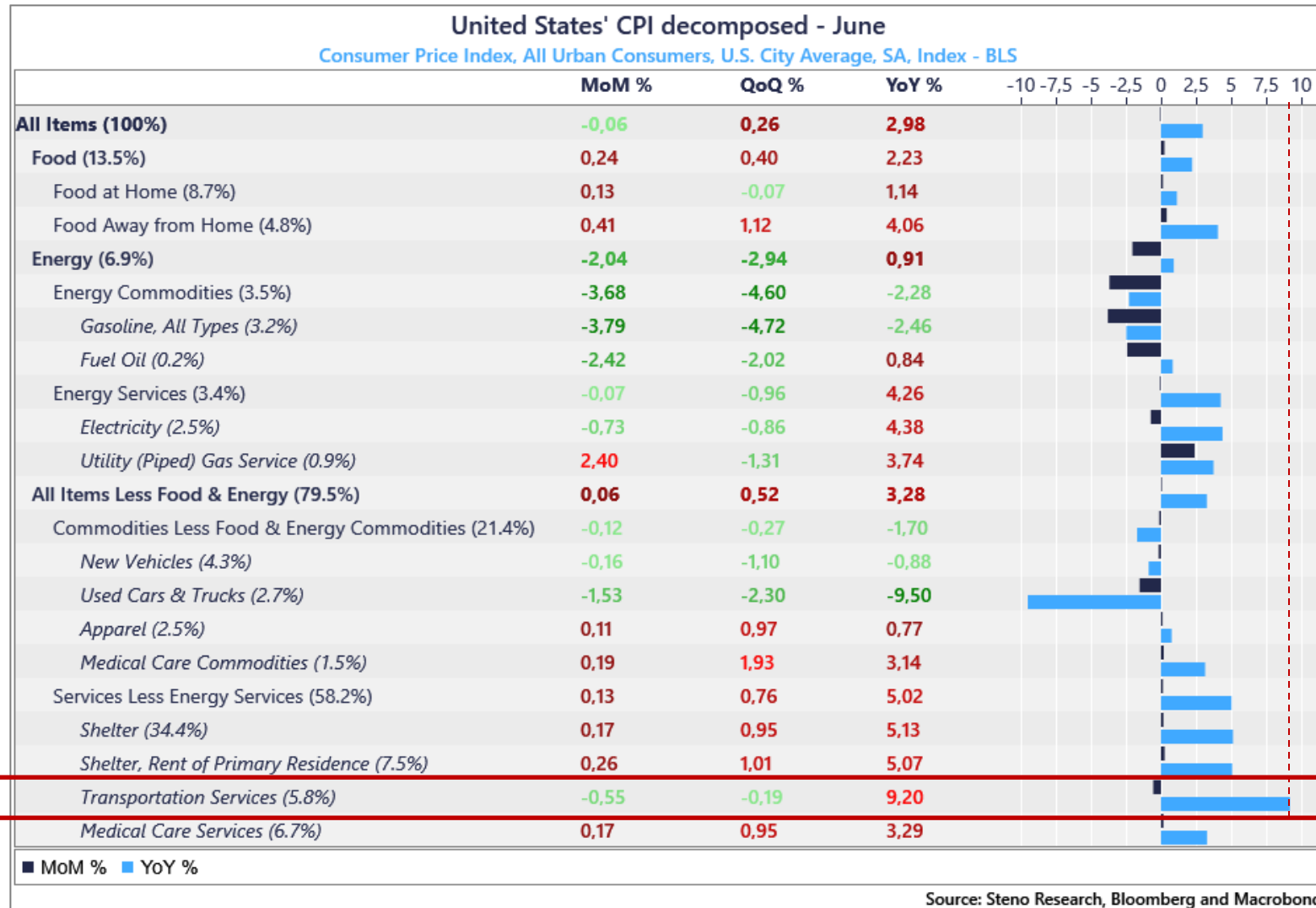
Maritime rates are still surging – could affect budget pressure for shippers

- Most maritime GRIs increased by \$1,000 per FEU (~33% increase) in May contract negotiations.
- This will be one more factor pushing more sourcing to Mexico.
- Also, for those that don't shift sourcing, it may increase their price sensitivity – and push them from road to rail where possible.

Route	Route code	27-Jun-24	04-Jul-24	11-Jul-24	Weekly change (%)	Annual change (%)
Composite Index	WCI-COMPOSITE	\$5,318	\$5,868	\$5,901	1% ▲	297% ▲
Shanghai - Rotterdam	WCI-SHA-RTM	\$7,322	\$8,056	\$8,048	0%	523% ▲
Rotterdam - Shanghai	WCI-RTM-SHA	\$676	\$643	\$631	-2% ▼	18% ▲
Shanghai - Genoa	WCI-SHA-GOA	\$7,102	\$7,573	\$7,614	1% ▲	294% ▲
Shanghai - Los Angeles	WCI-SHA-LAX	\$6,673	\$7,472	\$7,512	1% ▲	320% ▲
Los Angeles - Shanghai	WCI-LAX-SHA	\$693	\$696	\$699	0%	-17% ▼
Shanghai - New York	WCI-SHA-NYC	\$7,827	\$9,158	\$9,387	3% ▲	246% ▲
New York - Rotterdam	WCI-NYC-RTM	\$640	\$656	\$682	4% ▲	-8% ▼
Rotterdam - New York	WCI-RTM-NYC	\$2,044	\$1,977	\$1,955	-1% ▼	11% ▲

Source: Drewry

Showing Up in the CPI



Macroeconomic Outlook – “WE” BLEW IT AGAIN!!!!

2. Back to sub-2% growth through '25

	2023				2024				2019	2020	2021	2022	2023	2024	2025
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4							
Real GDP	1.1	2.4	5.2	2.5	2.1	0.7	2.0	1.3	2.3	-2.8	5.9	2.1	2.1	2.0	1.6
Unemployment rate (%)	3.5	3.6	3.7	3.7	3.8	3.9	4.1	4.2	3.7	8.1	5.4	3.6	3.6	4.0	4.0
PCE Inflation (%Y/Y)	4.6	3.9	3.3	2.8	2.8	2.8	2.5	2.5	1.5	1.1	4.0	5.6	3.7	2.5	2.5
Core PCE Inflation (%Y/Y)	4.8	4.6	3.8	3.2	3.1	2.5	2.3	2.2	1.7	1.3	3.5	4.8	4.1	2.5	2.2
Fed Funds Rate	4.9	5.1	5.3	5.4	5.4	5.2	4.7	4.7	1.6	0.1	0.1	4.4	5.4	4.7	3.0
Canada Real GDP	2.1	1.1	0.6	-	-	-	-	-	1.8	-5.2	4.5	3.4	1.3	1.5	-
Unemployment rate (%)	5.0	5.2	5.6	-	-	-	-	-	5.8	9.5	7.4	5.3	5.7	6.0	-
Mexico Real GDP	3.7	3.5	-	-	-	-	-	-	-1.8	-8.2	5.0	2.7	1.6	2.1	-
Unemployment rate (%)	2.9	2.9	-	-	-	-	-	-	3.6	4.4	4.1	3.3	3.4	3.3	-

1. Low recession risk for now, barring a significant event.

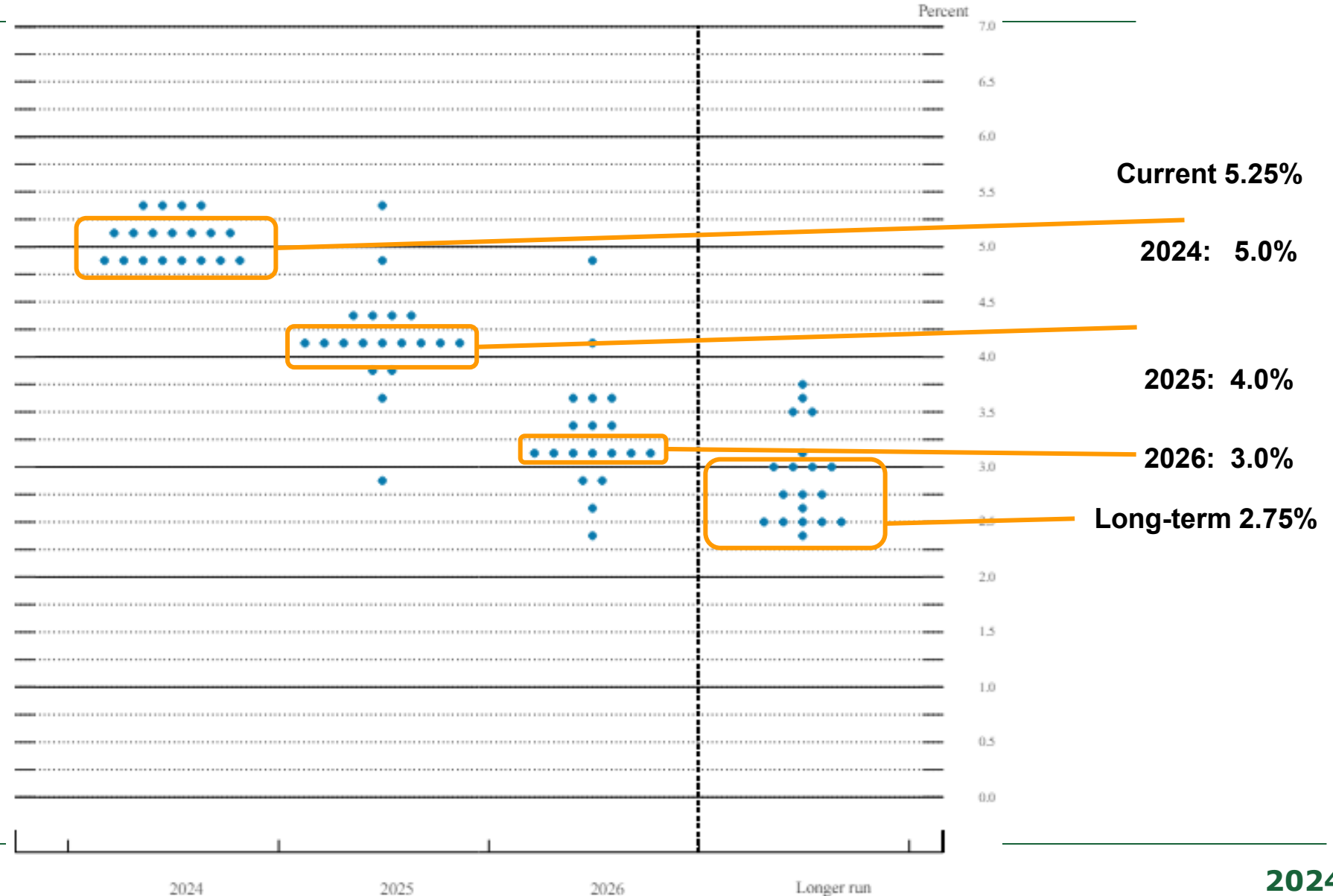
Note: Consumer spending was boosted by stock market gains

- \$900B in new stock wealth created
- \$288B estimated in additional spending as a result
- \$1.3 trillion economic multiplier applied to that
- 76% of 2023 GDP contribution

Source: Conference Board; Federal Reserve

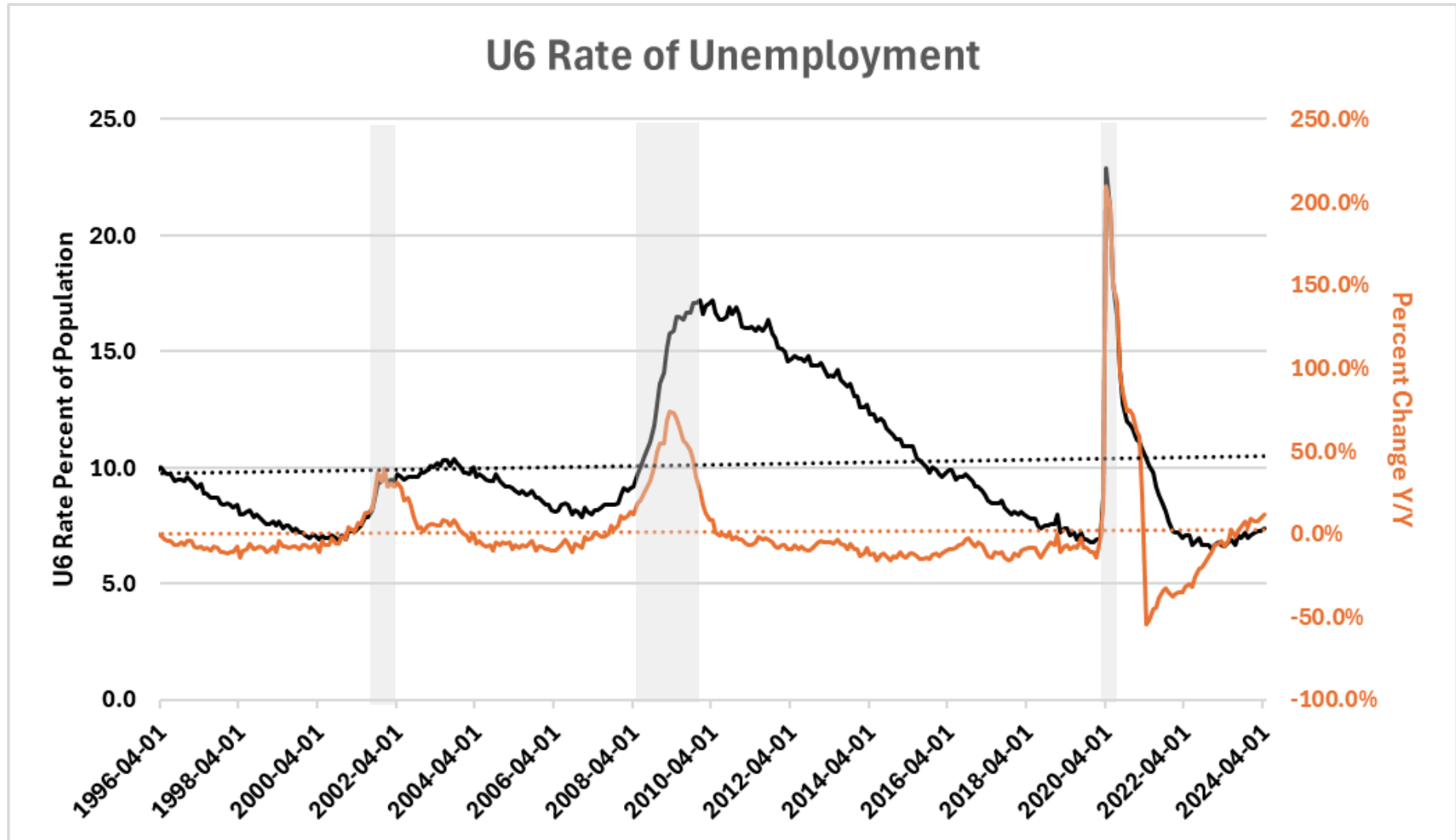
Latest Fed Dot Plot Calls for one cut in 2024

- 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.

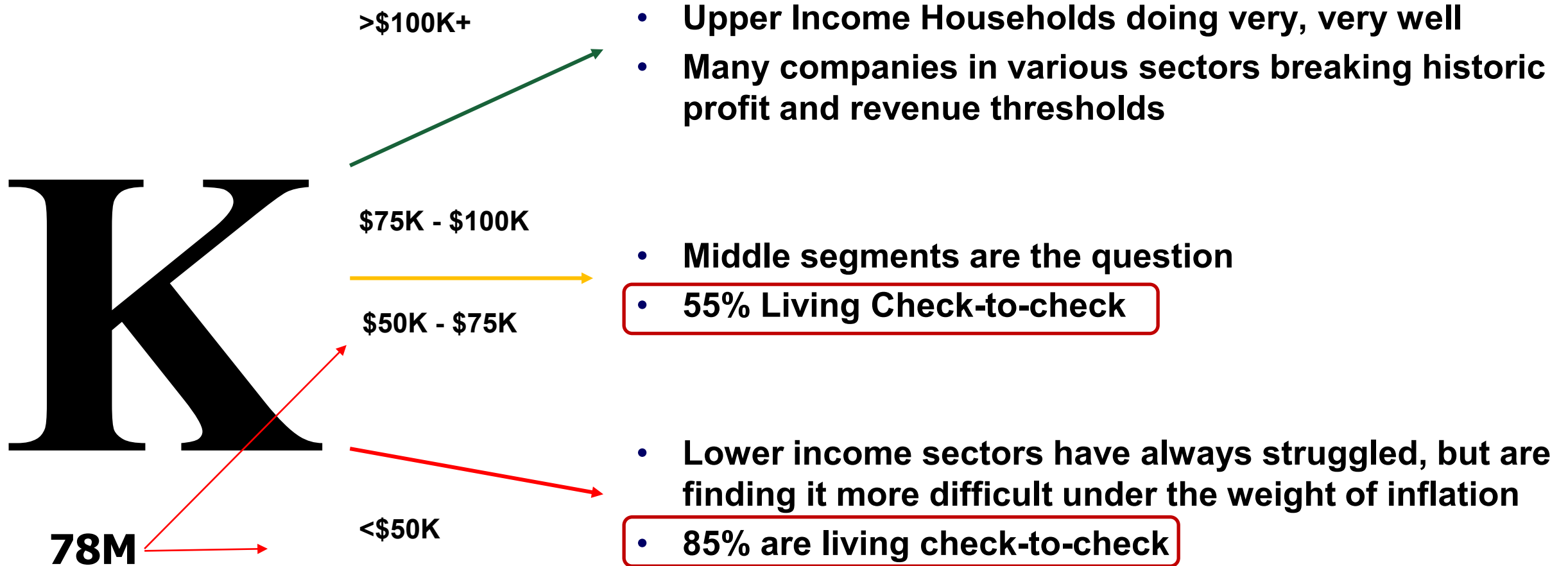


Maybe Trouble Brewing on the Labor Front?

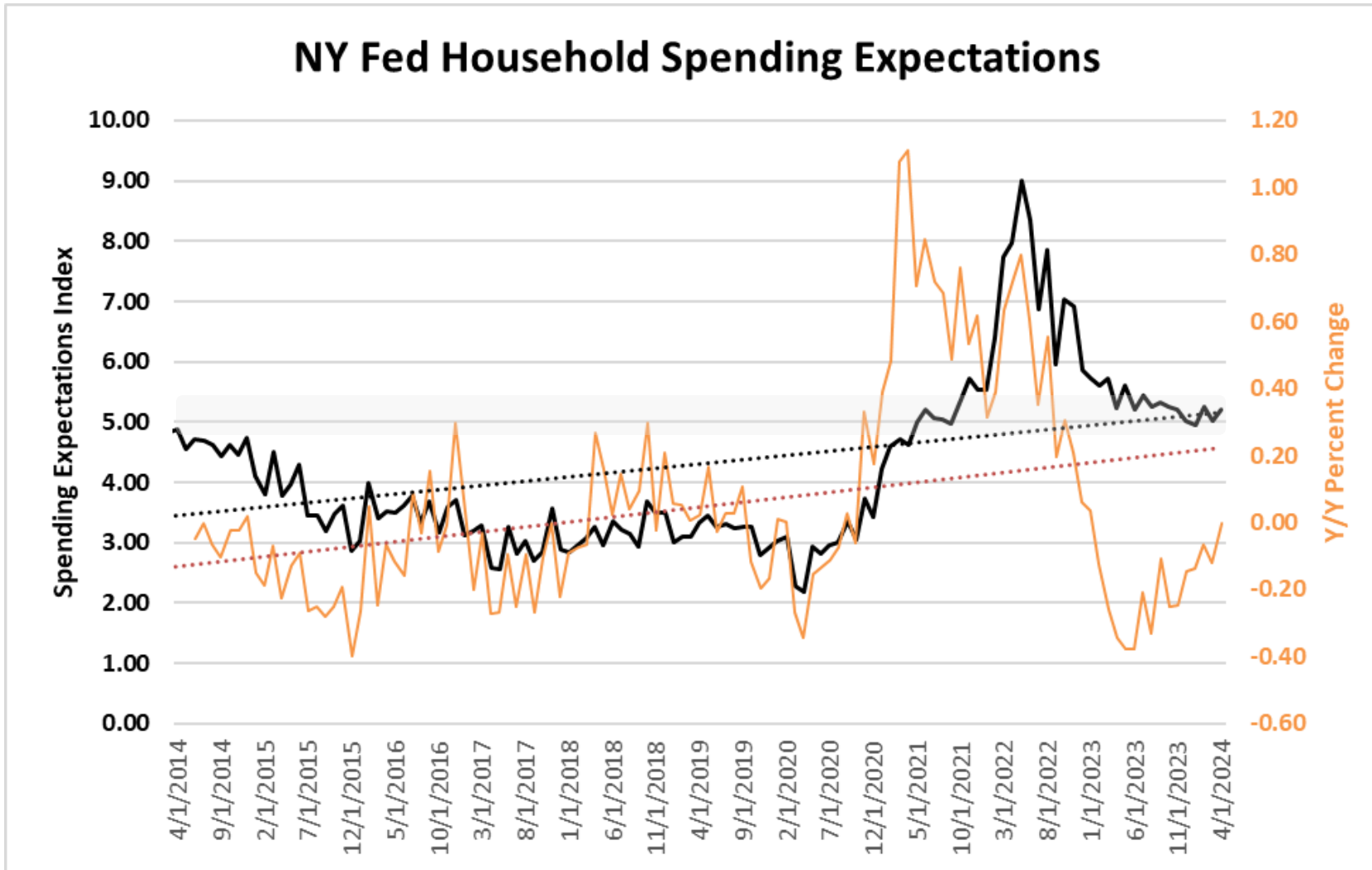
1. U-6 One of the broadest measures of unemployment. Y/Y growth is positive during recession.
2. Current rate is historically low, but it is the rate of change since late 2022 that is worrisome.
3. Loss of full-time jobs and growth of part-time jobs is the problem. People are underemployed.



Here is the Problem: The K Shaped Recovery



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



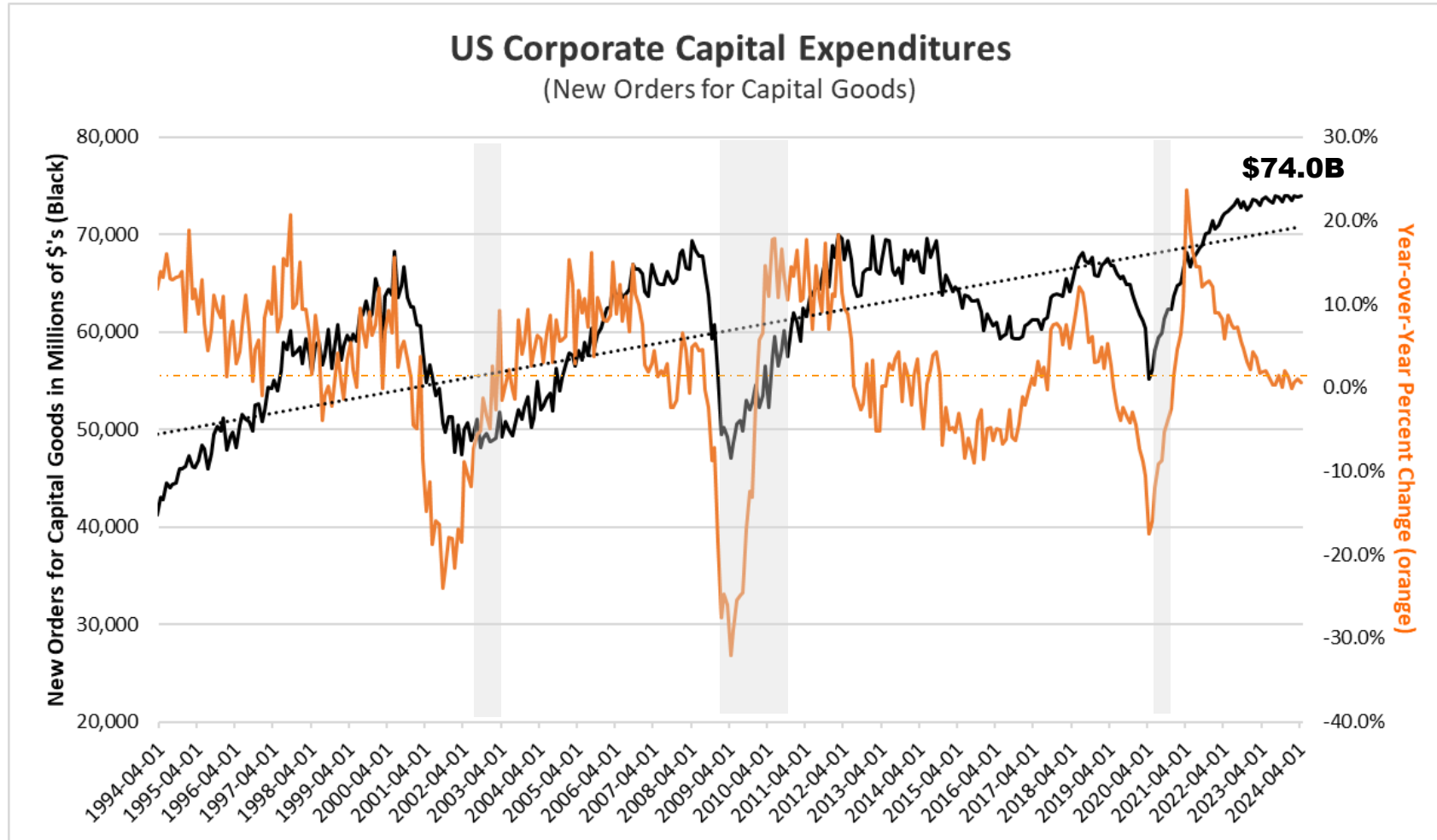
1. Historically, spending expectations remain high.
2. Compared to the past three years, it will feel recessionary.
3. Again, some of this might be the 'K' shaped recovery in which some households are doing very well, but others are really struggling under the weight of inflation.

Job Openings By Sector

	Apr-24	Mar-24	Apr-23	M/M	Y/Y	10 year Average	Difference	2019 PrePandemic Level	Difference
Total NonFarm	8,059	8,355	9,904	-3.5%	-18.6%	5,088	58.4%	6,699	20.3%
Retail Trade	528	507	860	4.1%	-38.6%	605	-12.7%	727	-27.4%
Trade, Transportation and Utilities	1,054	1,039	1,678	1.4%	-37.2%	950	10.9%	1,189	-11.4%
Arts, Entertainment and Recreation	147	159	211	-7.5%	-30.3%	79	86.1%	137	7.3%
Non-durable goods	175	191	259	-8.4%	-32.4%	124	41.1%	157	11.5%
State and Local	746	813	888	-8.2%	-16.0%	400	86.5%	655	13.9%
Leisure and Hospitality	1,084	1,193	1,377	-9.1%	-21.3%	667	62.5%	926	17.1%
Government	885	957	1,040	-7.5%	-14.9%	489	81.0%	748	18.3%
Accommodation and Food Services	937	1,034	1,166	-9.4%	-19.6%	587	59.6%	789	18.8%
Professional and Business Service	1,512	1,390	1,767	8.8%	-14.4%	962	57.2%	1,237	22.2%
Construction	338	346	363	-2.3%	-6.9%	165	104.8%	257	31.5%
Manufacturing	516	546	647	-5.5%	-20.2%	320	61.3%	380	35.8%
Health Care and Social Assistance	1,541	1,745	1,803	-11.7%	-14.5%	830	85.7%	1,134	35.9%
Education and Health Services	1,754	1,908	1,954	-8.1%	-10.2%	919	90.9%	1,241	41.3%
Durable Goods	340	355	388	-4.2%	-12.4%	196	73.5%	223	52.5%
Census Region									
West	1,636	1,703	2,365	-3.9%	-30.8%	1,166	40.3%	1,638	-0.1%
Midwest	1,602	1,826	2,078	-12.3%	-22.9%	1,139	40.6%	1,421	12.7%
Northeast	1,415	1,512	1,583	-6.4%	-10.6%	885	59.9%	1,147	23.4%
South	3,406	3,313	3,879	2.8%	-12.2%	1,899	79.4%	2,492	36.7%

Growth: 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



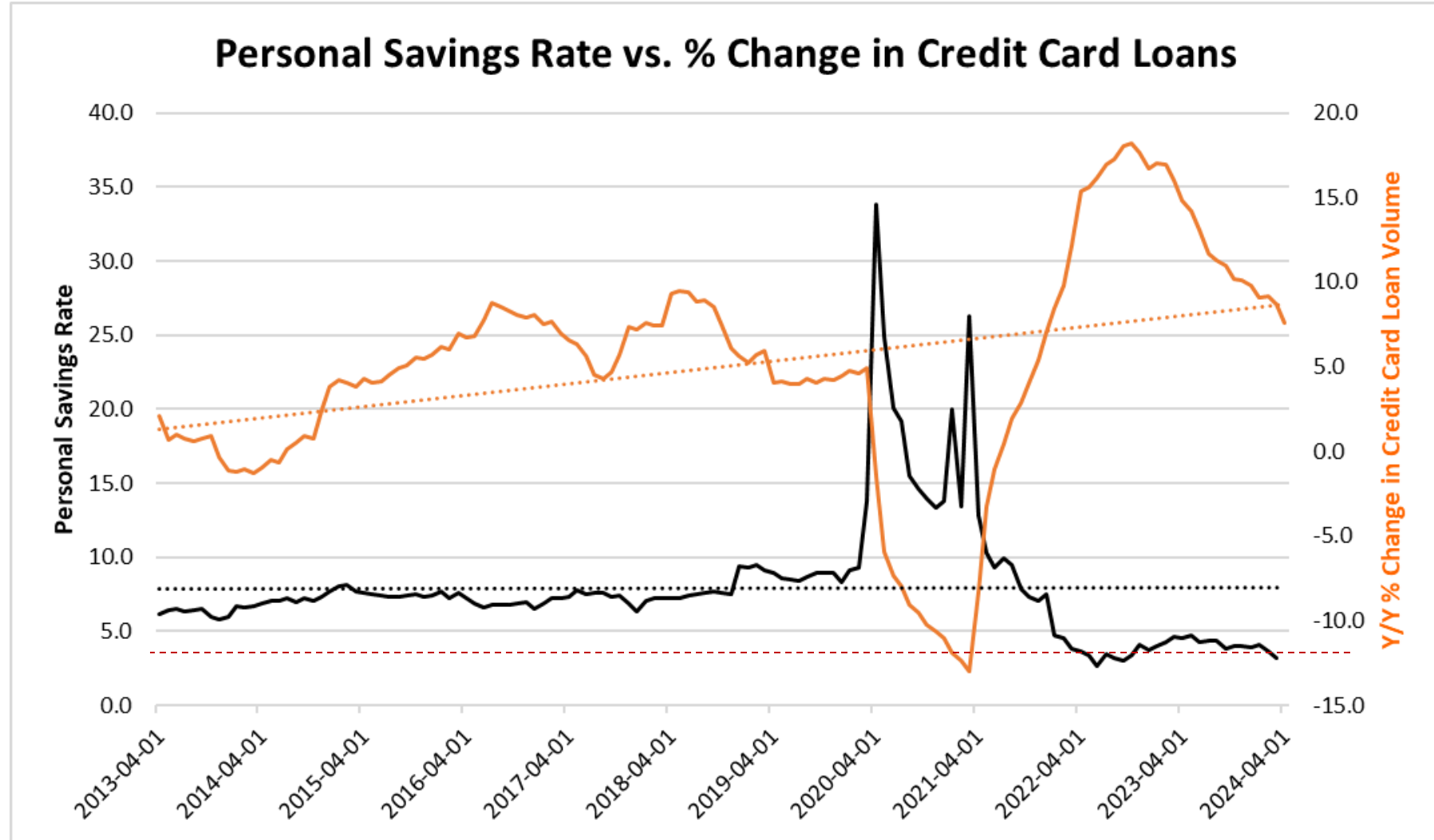
+0.5% Y/Y

\$74.0B

Source: Federal Reserve

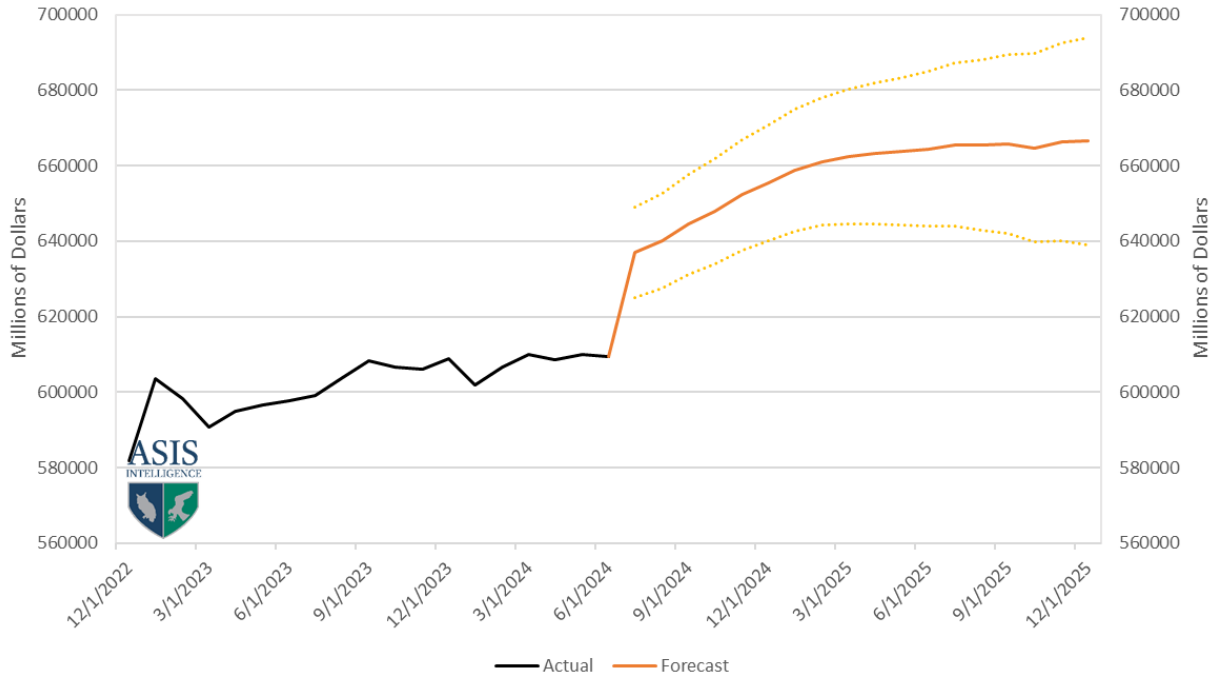
Personal Savings Rate vs. Credit Card Use

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.

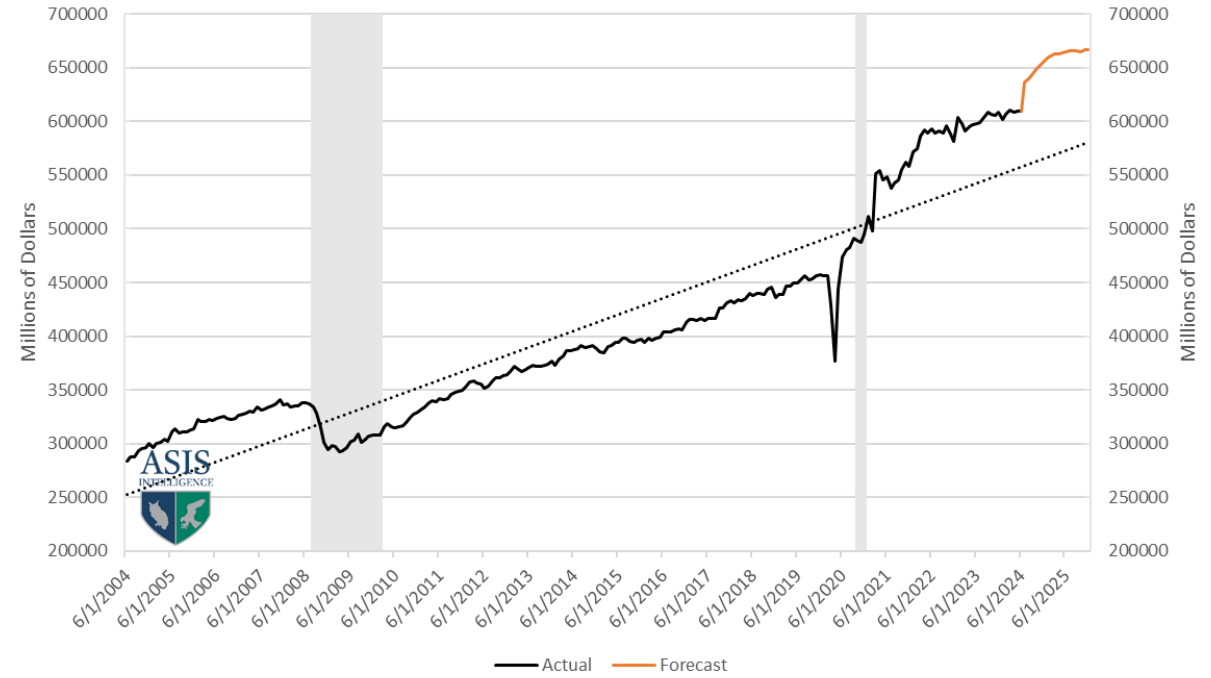


Forecast Growth: Retail Spending (Consumer Spending) Forecast

Advance Retail Sales: Retail Trade (RSXFS)
Forecast as of 07/19/2024



Advance Retail Sales: Retail Trade (RSXFS)
Forecast as of 07/19/2024



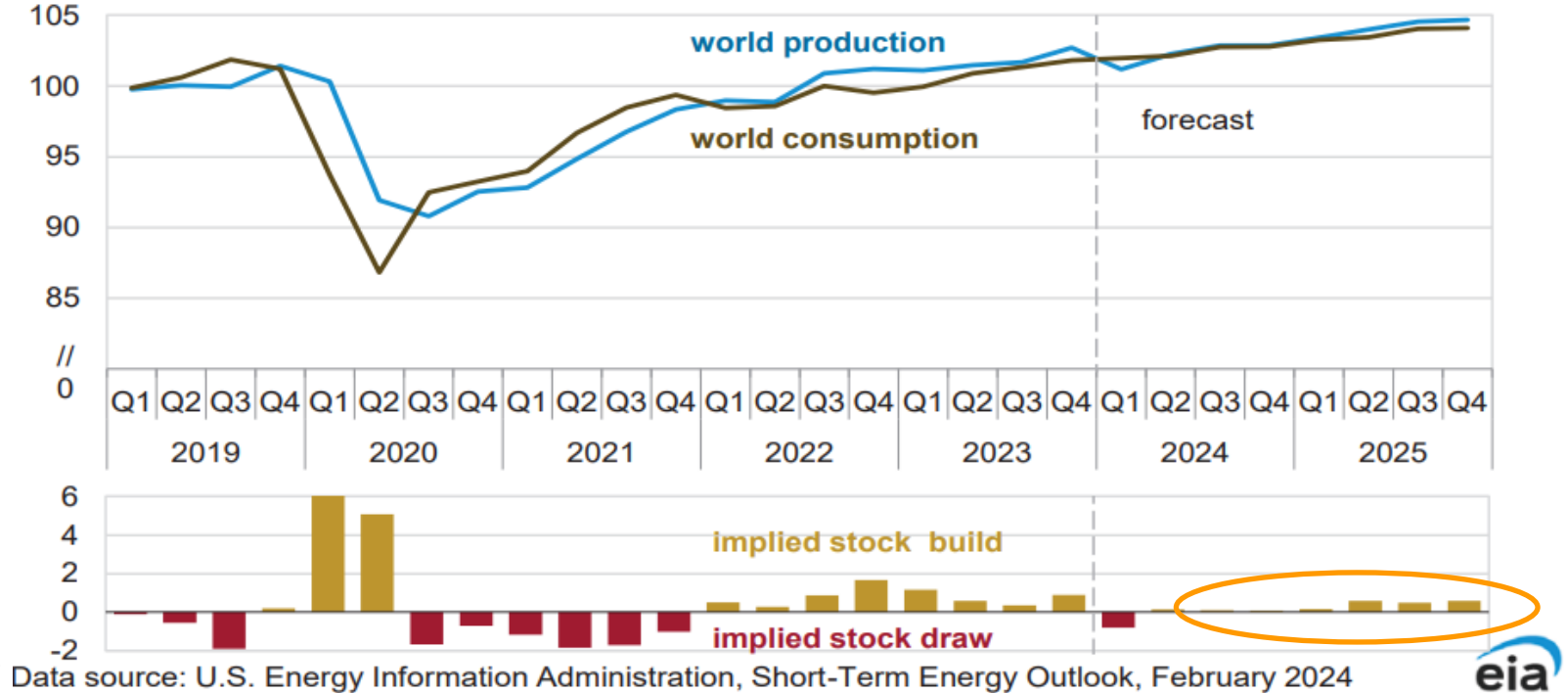
Source: Armada Forecasts

	3-month	6-month
New Privately-Owned Housing Units Started: Total Units HOUST	92.0%	N/A
Private Nonresidential Construction PNRESCONS	99.5%	92.5%
Advanced Retail Sales RSXFS	97.3%	97.8%

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



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

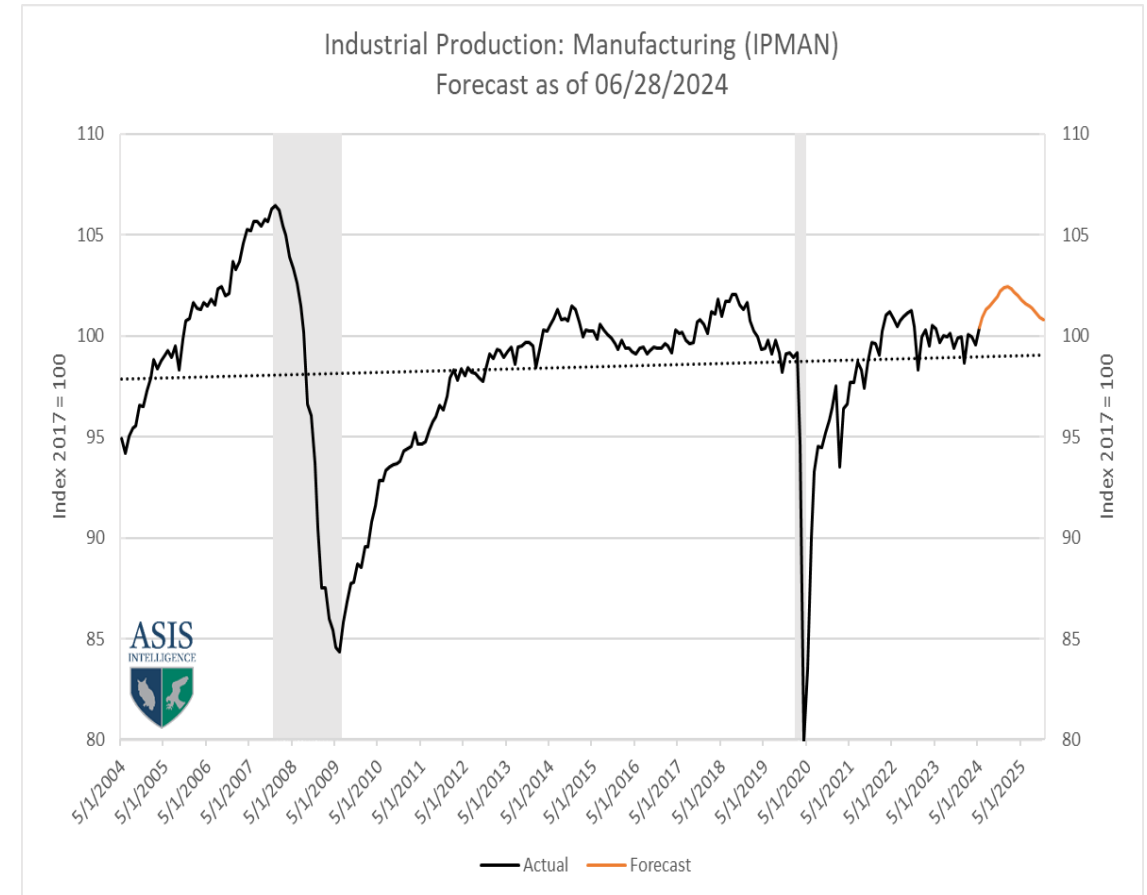
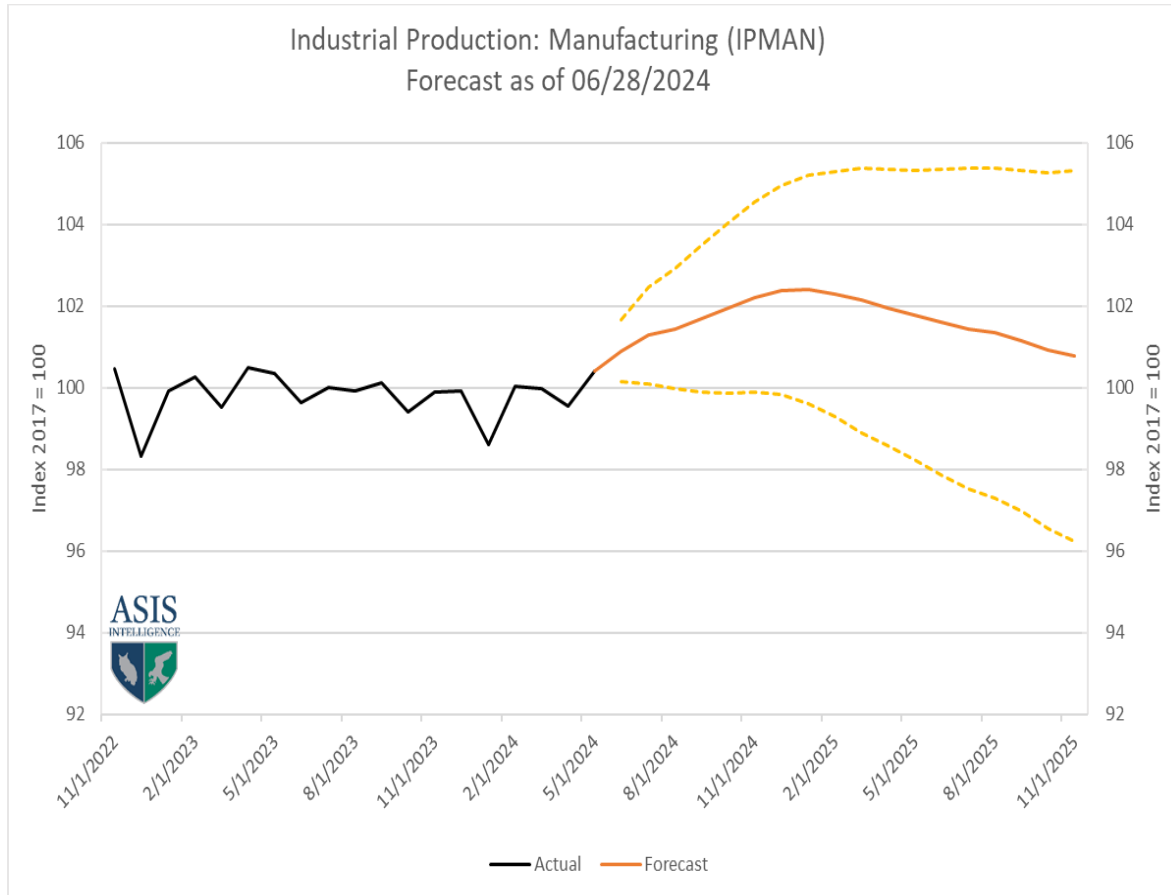
Headwind BLUF: Global Manufacturing Highlights

- Preliminary data shows 9 countries had manufacturing sectors in contraction in May
- 10 out of 30 countries surveyed fell M/M.
- General Themes:
 1. New orders were sluggish in May
 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		May	51.3	50.0	1.3	May	54.8	51.3	3.5
Global PMI	\$ 4,700	May	50.9	50.3	0.6	May	54.1	52.7	1.4
Canada	\$ 665	May	49.3	49.4	-0.1	May	51.1	49.3	1.8
Mexico	\$ 661	May	51.2	51.0	0.2				
China	\$ 655	May	51.7	51.4	0.3	May	54.0	52.5	1.5
Eurozone PMI	\$ 632	May	47.3	45.7	1.6	May	52.2	51.7	0.5
ASEAN	\$ 369	May	51.7	51.0	0.7				
Japan	\$ 210	May	50.4	49.6	0.8	May	53.8	54.3	-0.5
Germany	\$ 201	May	45.4	42.5	2.9	May	54.2	53.2	1.0
South Korea	\$ 161	May	51.6	49.4	2.2				
UK	\$ 118	May	51.2	49.1	2.1	May	52.9	55.0	-2.1
Taiwan	\$ 114	May	50.9	50.2	0.7				
India	\$ 113	May	57.5	58.8	-1.3	May	60.2	60.8	-0.6
Vietnam	\$ 113	May	50.3	50.3	0.0				
Netherlands	\$ 88	May	52.5	51.3	1.2				
Ireland	\$ 88	May	49.8	47.6	2.2	Apr	53.3	56.6	-3.3
Switzerland	\$ 87	May	46.4	41.4	5.0				
Italy	\$ 83	May	45.6	47.3	-1.7	May	54.2	54.3	-0.1
France	\$ 80	May	46.4	45.3	1.1	May	49.3	51.3	-2.0
Brazil	\$ 78	May	52.1	55.9	-3.8	May	55.3	53.7	1.6
Singapore	\$ 65	May	50.6	50.5	0.1				
Thailand	\$ 60	May	50.3	48.6	1.7				
Australia	\$ 39	May	49.7	49.6	0.1	May	52.5	53.6	-1.1
Indonesia	\$ 37	May	52.1	52.9	-0.8				
Russia	\$ 36	May	54.4	54.3	0.1	May	49.8	50.5	-0.7
Spain	\$ 35	May	54.0	52.2	1.8	May	56.9	56.2	0.7
Hong Kong	\$ 34	May	49.2	50.6	-1.4				
Philippines	\$ 23	May	51.9	52.2	-0.3				
Poland	\$ 11	May	45.0	45.9	-0.9				
Greece	\$ 3	May	54.9	55.2	-0.3				

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

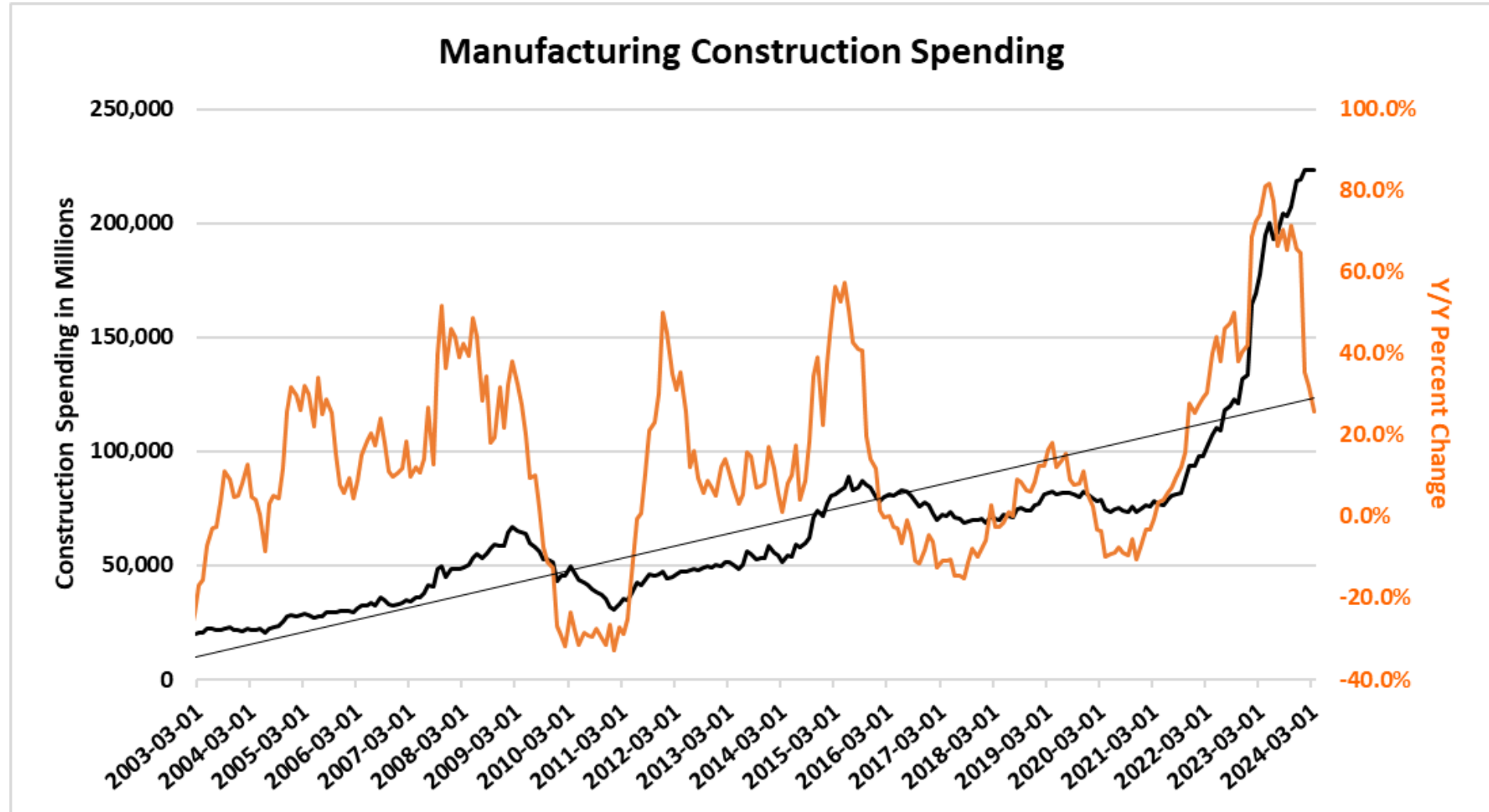
General Manufacturing Forecast from The Watch



Source: Armada Forecasts

Manufacturing Construction Spending Still Strong

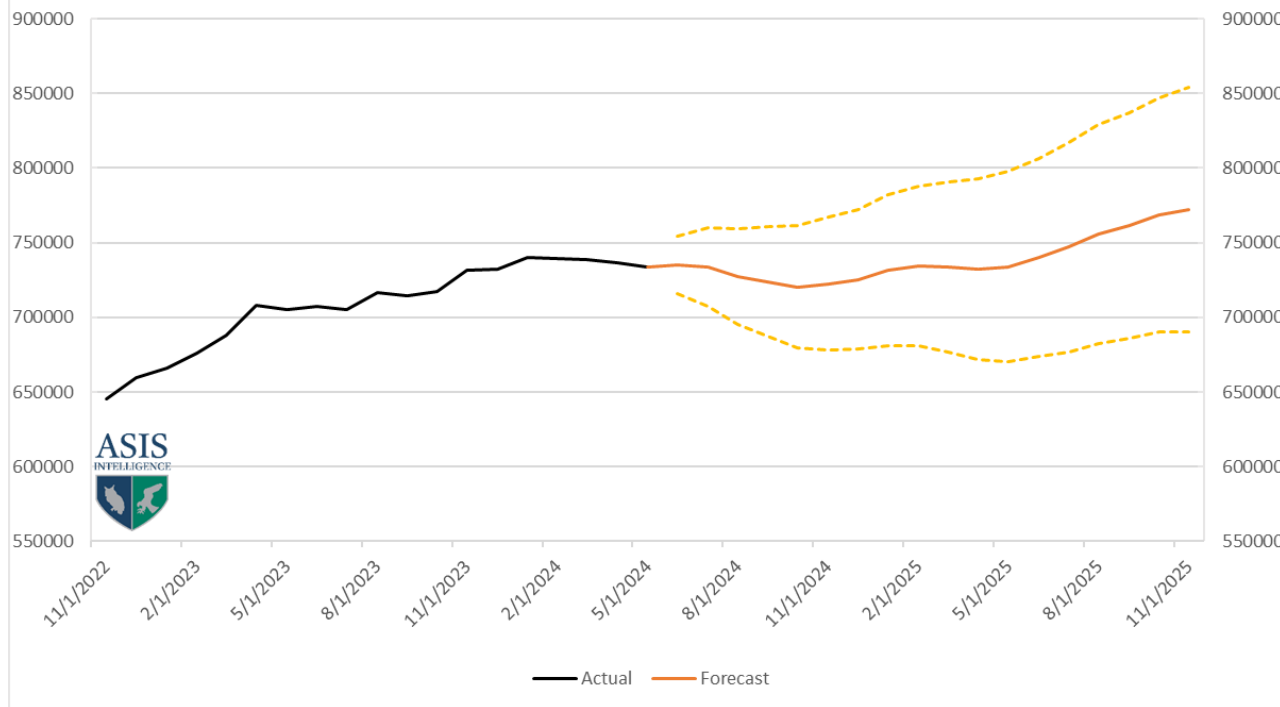
- Actual spending was still running at record levels – and 4 times the levels averaged prior to the pandemic.
- The percent change is obviously dropping as spending goes up against strong year-over-year comps.



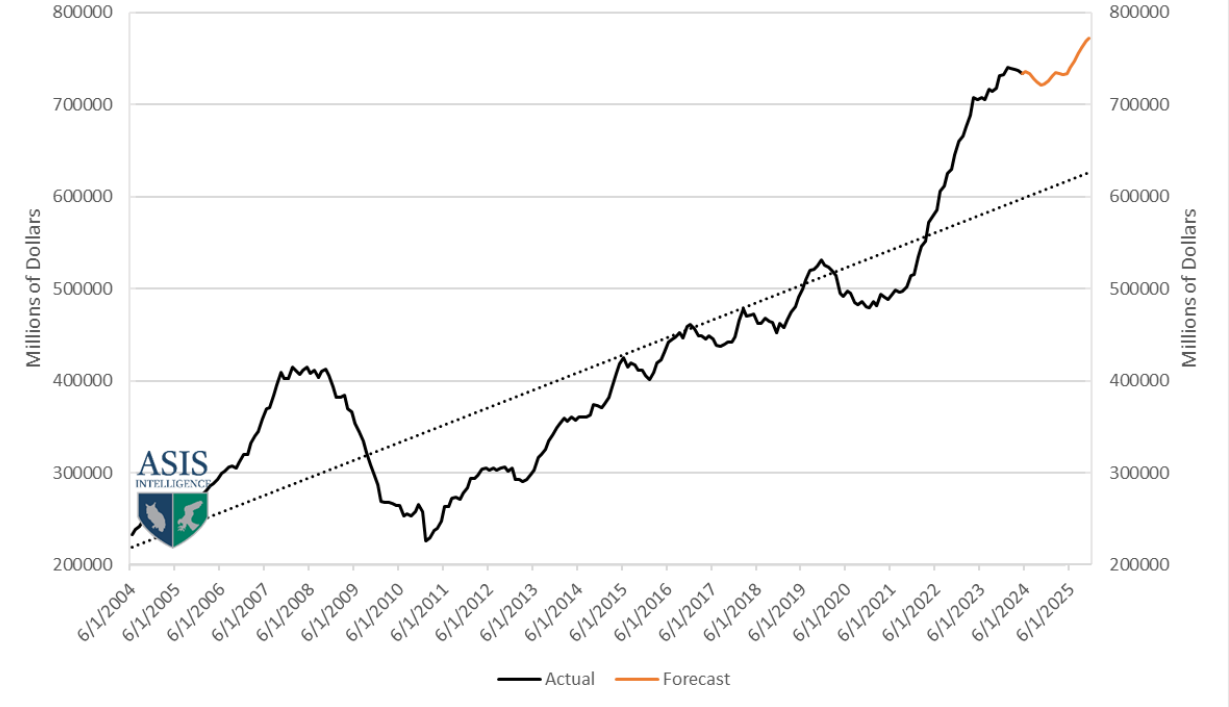
Growth Forecast: Nonresidential Construction Forecast



Private Nonresidential Construction Spending (PNRESCONS)
Forecast as of 07/19/2024



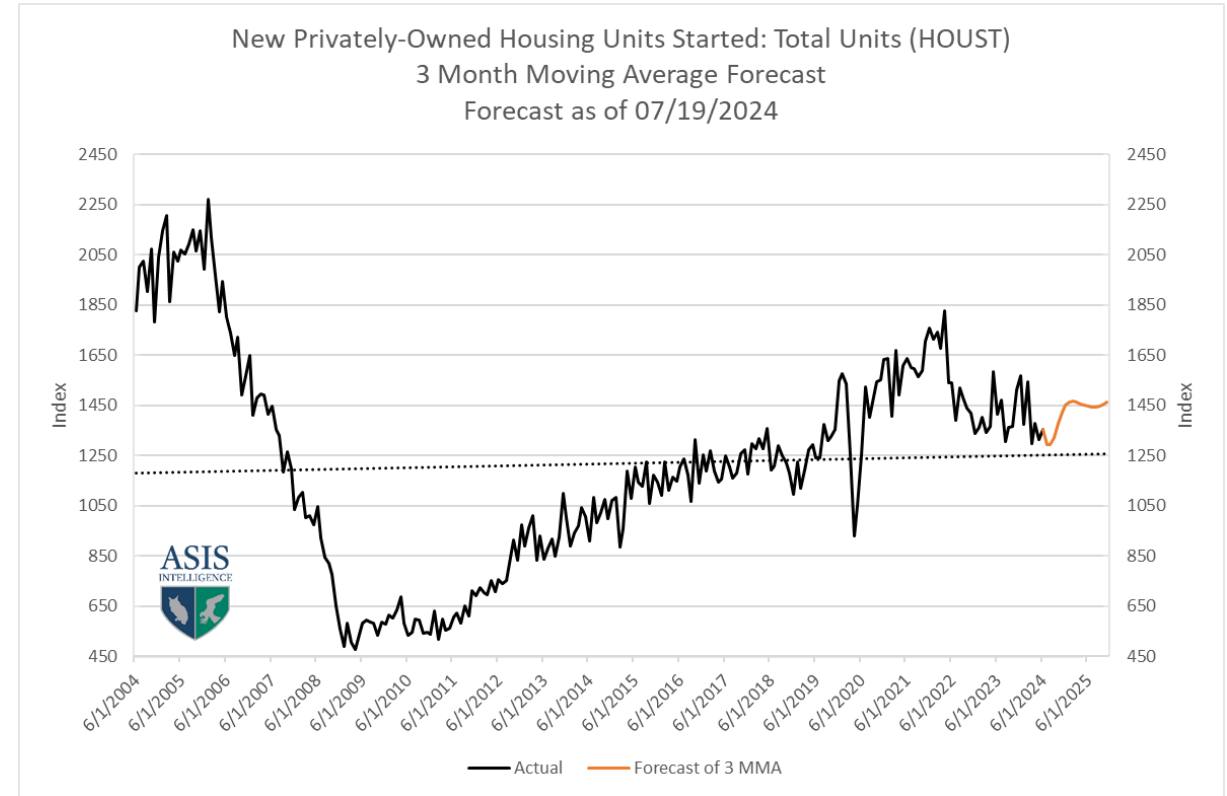
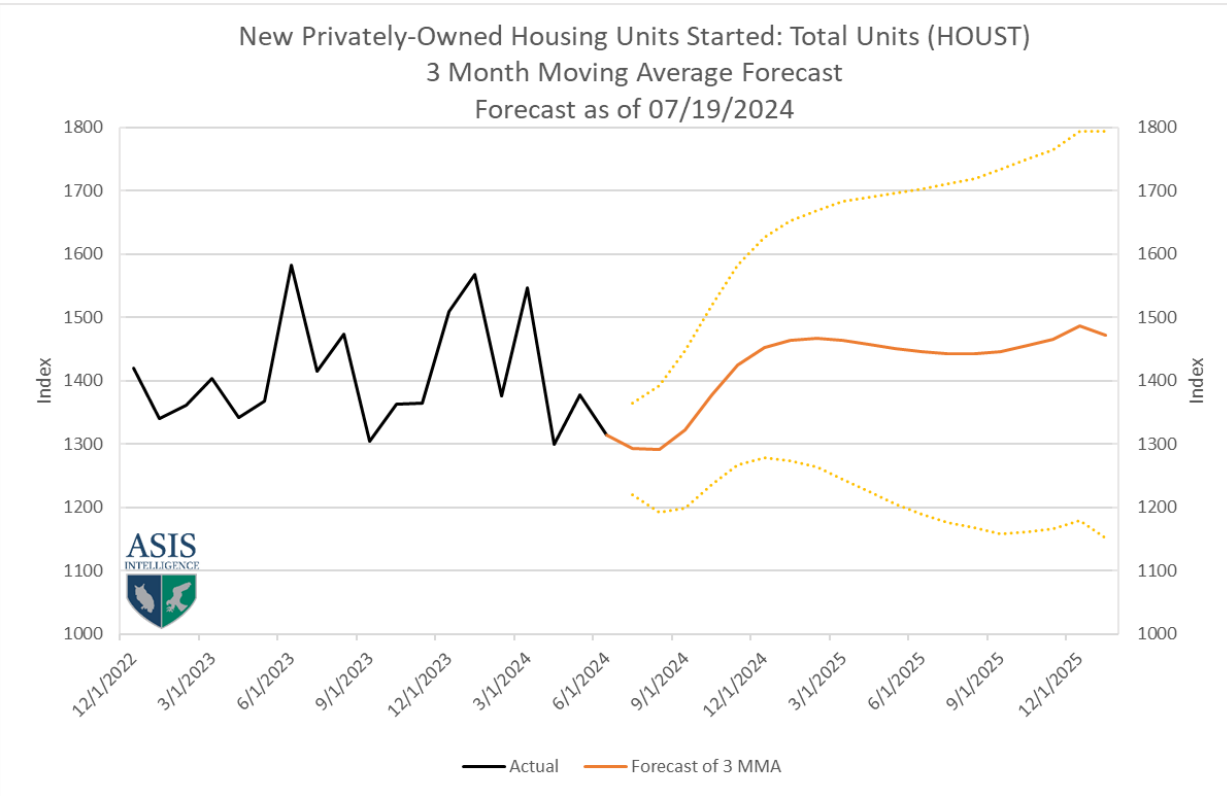
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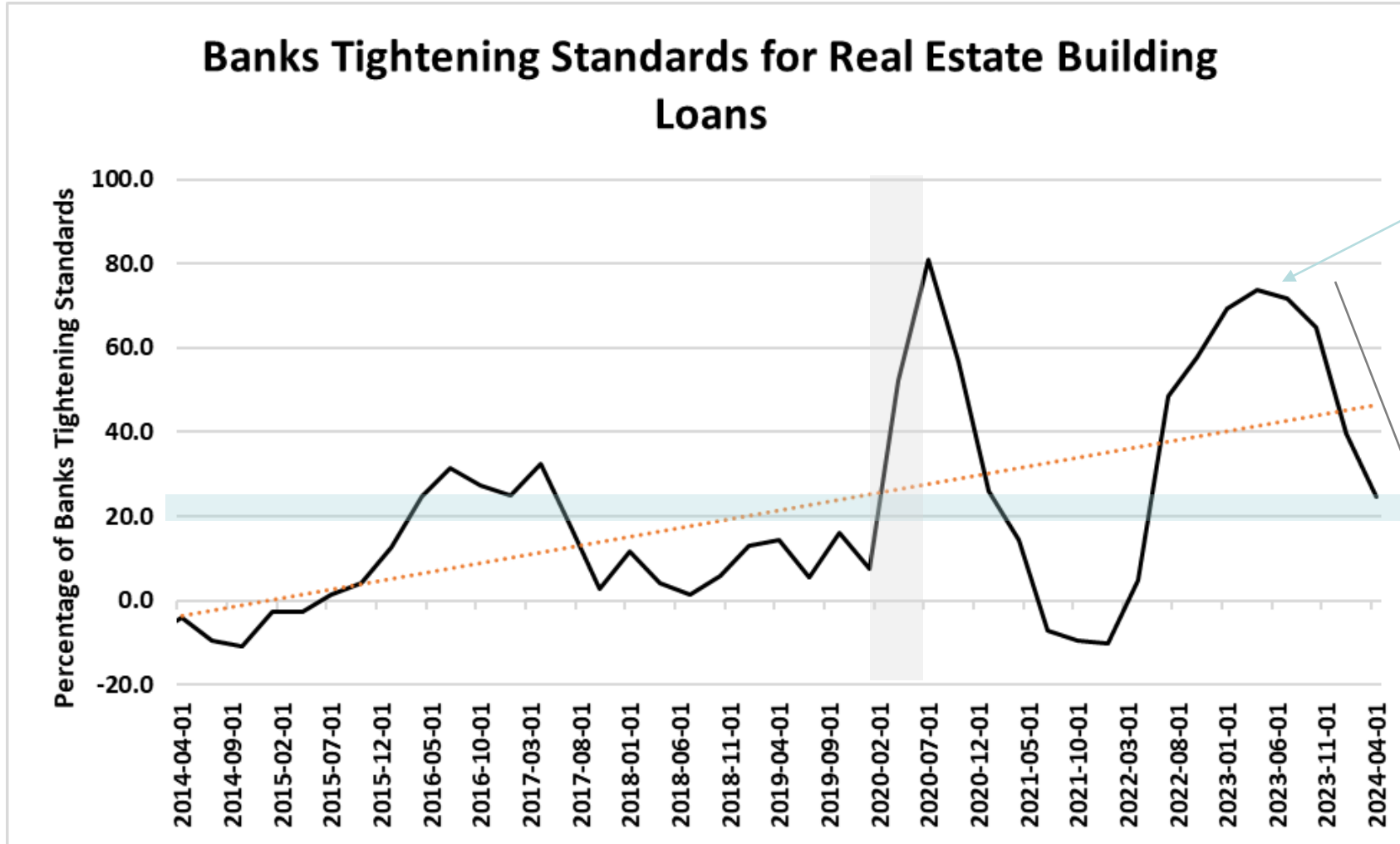
Growth Forecast: Residential Construction Forecast



Source: Armada Forecasts

	3-month	6-month
New Privately-Owned Housing Units Started: Total Units HOUST	92.0%	N/A
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Advanced Retail Sales RSXFS	97.3%	97.8%

And Yet, Banks Approach to Lending...Surprisingly Easing?

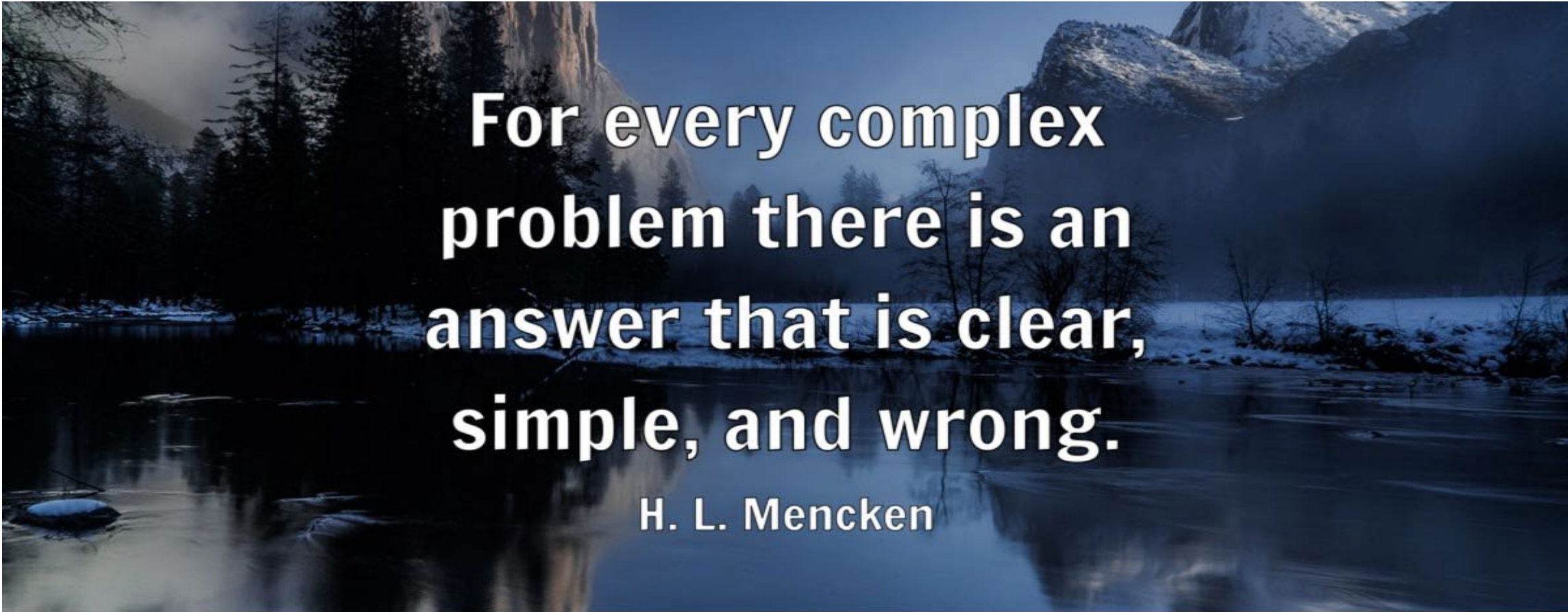


March '23 Mini Banking Crisis

Inventory to sales ratios are closer to 'balanced'

- 31.4% of inventories are understocked.
- 10.3% are balanced.
- 58.3% are still overstocked.
- But when stripping out the durable goods wholesalers (big ticket items that can skew the full insight), only 27% are overstocked.
- Most importantly, general merchandise retailers (big box retailers) are now underweighted – which should be good for intermodal activity.

Inventory to Sales Ratio (ISR) Analysis					
	Sector	March Sales (Millions)	9/12/09 - 09/12/19 10-YR Average	Mar-24	ISR Percent Above/Below Pre-pandemic
	Total Business		1.34	1.37	2.2%
1	Automotive		2.49	1.39	-44.2%
2	Retail		1.43	1.29	-9.8%
3	Merchant Wholesalers		1.29	1.35	4.7%
4	Manufacturing		1.35	1.47	8.9%
1	General Merchandise (ie. Walmart)	76,113	1.43	1.28	-10.5%
2	Paper Wholesalers (ie. National Paper)	7,851	1.09	1.01	-7.3%
3	Drugs Wholesalers	89,386	1.09	1.01	-7.3%
4	Food and Beverage Stores	82,422	0.78	0.73	-6.4%
5	Chemical Wholesalers	13,350	1.17	1.10	-6.0%
6	Hardware, Plumbing, Heating Wholesalers	19,667	2.32	2.21	-4.7%
7	Apparel Stores	25,432	2.39	2.29	-4.2%
8	Furniture, Appliance Stores (i.e NFM)	18,294	1.63	1.66	1.8%
9	Grocery Wholesalers	73,979	0.68	0.70	2.9%
10	Department Stores (ie. Nordstrom's)	10,916	1.90	1.96	3.2%
11	Building Material Stores (ie. Home Depot)	35,129	1.85	1.94	4.9%
12	Household Appliances/Electronics Wholesalers	68,433	1.10	1.22	10.9%
13	Durable Goods Wholesalers	313,420	1.59	1.82	14.5%
14	Commerical Equipment Wholesalers	49,194	1.09	1.25	14.7%
15	Machinery Wholesalers (ie. John Deere, Vermeer)	52,042	2.60	2.99	15.0%
16	Computer Wholesale Distributors	23,262	0.79	0.92	16.5%
17	Lumber and Construction Material Wholesalers	17,957	1.49	1.74	16.8%
18	Furniture Wholesalers	8,550	1.71	2.00	17.0%
19	Alcohol Wholesale Distributors	15,371	1.31	1.55	18.3%



For every complex
problem there is an
answer that is clear,
simple, and wrong.

H. L. Mencken

BrainyQuote®

Questions?

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Inside the Executive Suite – Once a Week.

Domestic Quick Items of Interest

Business Cycle Indicators We Are Watching

The Watch Report

The Watch Report

The Watch - Page 2

The BLUF (Bottom Line Up Front)

US Retail Forecast

Consumer Spending

Inside the Executive Suite

During a strategy planning workshop with a senior organization...

ASIS INTELLIGENCE

The Watch Report

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2024