January 2024 Economic Outlook Red River Valley Estate Planning

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
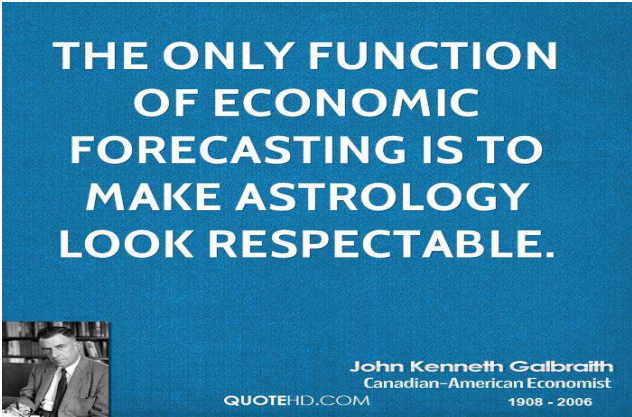
Kprather@armadaci.com

www.armada-intel.com

2024

1

Let's Get This Out of the Way...

- **Data shows 60% of the market overstocked relative to where they were prior to the pandemic**

- **But anecdotes suggest that most firms are back in a "balanced" range**

- **For 2024, we believe that focus will shift to demand planning, and figuring out order quantities sufficient to keep inventories lean**

Inventory to Sales Ratio (ISR) Analysis				
Sector	Nov Sales (Millions)	9/12/09 - 09/12/19 10-YR Average	Nov-23	ISR Percent Above/Below Pre-pandemic
Total Business		**1.34**	**1.37**	2.2%
1 Automotive		2.49	1.31	**-47.3%**
2 Retail		1.43	1.30	**-9.1%**
3 Merchant Wholesalers		1.29	1.34	**3.9%**
4 Manufacturing		1.35	1.48	**9.6%**
1 Drugs Wholesalers	90,670	1.09	0.96	**-11.9%**
2 Chemical Wholesalers	13,859	1.17	1.05	**-10.3%**
3 Paper Wholesalers (ie. National Paper)	7,978	1.09	1.01	**-7.3%**
4 Furniture, Appliance Stores (i.e NFM)	18,599	1.63	1.52	**-6.7%**
5 General Merchandise (ie. Walmart)	73,063	1.43	1.36	**-4.9%**
6 Computer Wholesale Distributors	24,888	0.79	0.76	**-3.8%**
7 Department Stores (ie. Nordstrom's)	10,611	2.11	2.05	-2.8%
8 Apparel Stores	26,217	2.39	2.34	-2.1%
9 Food and Beverage Stores	82,924	0.78	0.77	-1.3%
10 Furniture Wholesalers	10,183	1.71	1.70	-0.6%
11 Building Material Stores (ie. Home Depot)	35,541	1.85	1.88	1.6%
12 Grocery Wholesalers	72,430	0.68	0.73	**7.4%**
13 Lumber and Construction Material Wholesalers	18,335	1.49	1.61	**8.1%**
14 Commerical Equipment Wholesalers	49,918	1.09	1.21	**11.0%**
15 Machinery Wholesalers (ie. John Deere, Vermeer)	51,792	2.60	2.94	**13.1%**
16 Hardware, Plumbing, Heating Wholesalers	19,655	2.05	2.33	**13.7%**
17 Durable Goods Wholesalers	307,568	1.59	1.83	**15.1%**
18 Alcohol Wholesale Distributors	17,065	1.31	1.54	**17.6%**
19 Household Appliances/Electronics Wholesalers	63,395	1.10	1.31	**19.1%**

2 | Chris.kuehl@armadaci.com

www.armada-intel.com

2024

2

Let's Get This Out of the Way...

- 83% of the time, a Presidential election just doesn't matter to the market (4 out of 24 elections shown negative).

- With the S&P 500 being driven by corporate profits in the top 500, it would stand to reason that they also don't suffer during an election year.

- Now, in the years where it did matter…

Exhibit 266: The S&P 500 had positive returns in 83% of election years
S&P 500 total returns in Presidential election years

Election year	Total Return	Election year	Total Return
1928	38%	1976	24%
1932	-15%	1980	33%
1936	34%	1984	6%
1940	-10%	1988	17%
1944	20%	1992	8%
1948	5%	1996	23%
1952	18%	2000	-9%
1956	6%	2004	11%
1960	0%	2008	-37%
1964	16%	2012	16%
1968	11%	2016	12%
1972	19%	2022	18%

Source: Bloomberg, BofA US Equity & Quant Strategy

BofA GLOBAL RESEARCH

3 | Chris.kuehl@armadaci.com | www.armada-intel.com | 2024
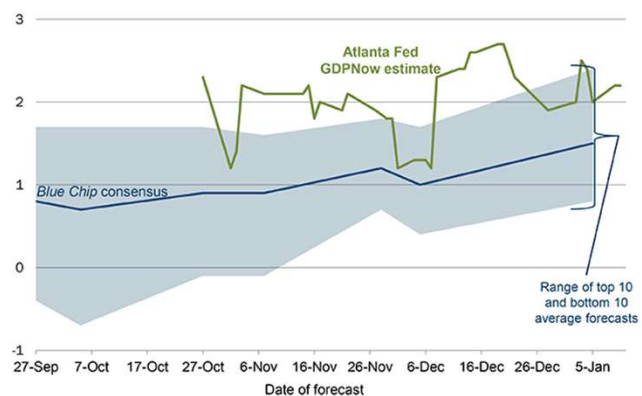
3

Pillars of the Economy – And Most are Related to Moving and Consuming Goods

Pillars of growth in the current economic state:

1. Consumer spending
2. **Nonresidential construction**
3. Government spending
4. Inventory building

Evolution of Atlanta Fed GDPNow real GDP estimate for 2023: Q4
Quarterly percent change (SAAR)

Atlanta Fed GDPNow estimate

Blue Chip consensus

Range of top 10 and bottom 10 average forecasts

Date of forecast: 27-Sep, 7-Oct, 17-Oct, 27-Oct, 6-Nov, 16-Nov, 26-Nov, 6-Dec, 16-Dec, 26-Dec, 5-Jan

Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts
Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the Blue Chip survey.

Source: Federal Reserve

4 | Chris.kuehl@armadaci.com | www.armada-intel.com | 2024

4

Macroeconomic Outlook

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	-0.9	-0.7	1.5	1.8	2.3	-2.8	5.9	2.1	2.1	0.8	1.8
Unemployment rate (%)	3.5	3.6	3.8	4.0	4.5	4.5	4.4	4.3	3.7	8.1	5.4	3.6	3.8	4.0	4.0
PCE Inflation (%Y/Y)	4.6	3.6	3.1	3.1	3.1	2.5	2.1	2.0	1.5	1.1	4.0	5.6	3.1	2.4	2.0
Core PCE Inflation (%Y/Y)	4.7	4.3	3.8	3.5	3.1	2.5	2.1	2.0	1.7	1.3	3.5	4.8	3.5	2.2	2.0
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. **Greatest recession risk is being pushed further out, but it appears greatest between Q1 and Q2 of 2024.**

Source: Conference Board; Federal Reserve

Chris.kuehl@armadaci.com www.armada-intel.com **2024**

5

The K Shaped Recovery

K

- **Upper Income Households doing very, very well**
- **Many companies in various sectors breaking historic profit and revenue thresholds**

- **Middle segments are the question**
- **55% Living Check-to-check**

- **Lower income sectors have always struggled, but are finding it more difficult under the weight of inflation**
- **Companies that were heavily reliant on borrowing finding it tougher to survive**
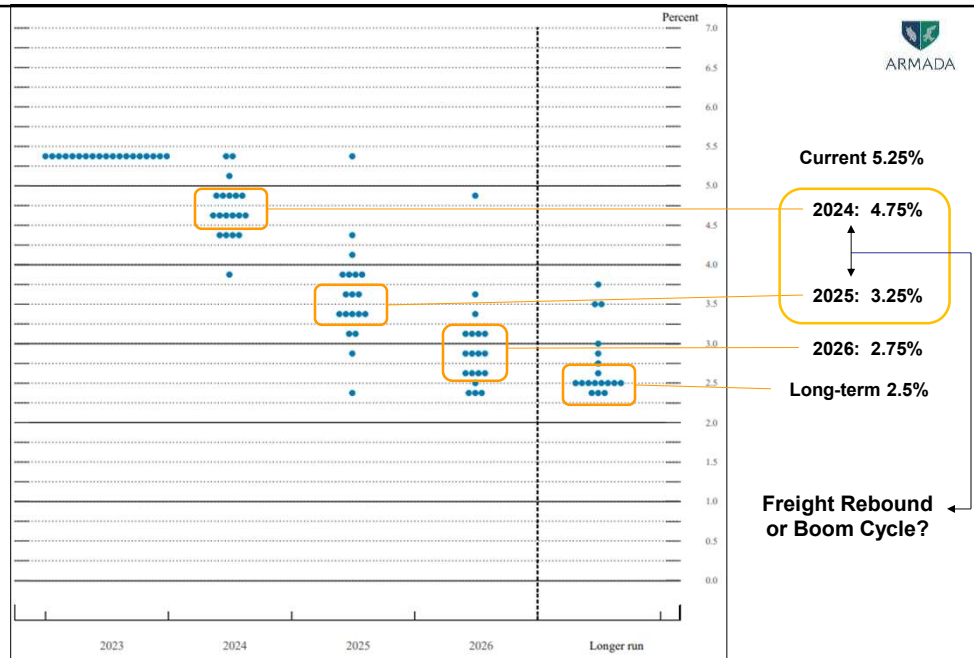- **85% are living check-to-check**

Chris.kuehl@armadaci.com www.armada-intel.com **2024**

6

Latest Fed Dot Plot Estimates for Interest Rates Moving Forward

Current 5.25%

2024: 4.75%

2025: 3.25%

2026: 2.75%

Long-term 2.5%

Freight Rebound or Boom Cycle?

7

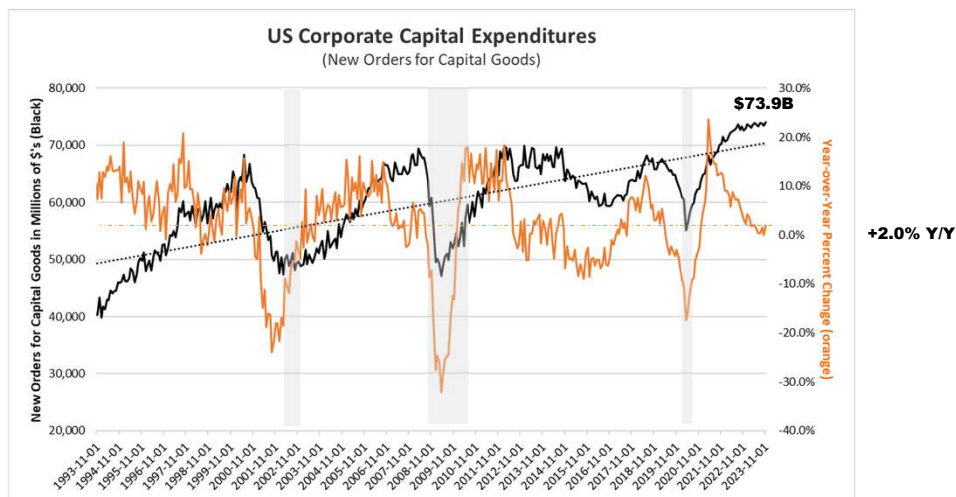## Corporate Investment Remains Steady

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

US Corporate Capital Expenditures
(New Orders for Capital Goods)

$73.9B

+2.0% Y/Y

Source: Federal Reserve

8

Construction Spending Still Very Strong.

- **Residential surprisingly strong**
  - 1 new home creates demand for 7 truckloads of fixtures and non-shell items

- **Nonresidential provides largest competition for CDL drivers – and creates demand at the same time**

Data Source: US Census Bureau

	Type of Construction	Nov 2023ᵖ	Oct 2023ʳ	Nov 2022	Percent change Nov 2023 from - Oct 2023	Percent change Nov 2023 from - Nov 2022
	Total Construction	2,050,058	2,042,518	1,842,206	0.4	11.3
	Residential	907,395	898,151	874,829	1.0	3.7
	New single family	422,579	410,546	400,397	2.9	5.5
	New multifamily	135,630	135,544	119,431	0.1	13.6
	Nonresidential	1,142,663	1,144,367	967,377	-0.1	18.1
P	Manufacturing	209,778	208,756	131,816	0.5	59.1
P	Religious	3,585	3,657	2,735	-2.0	31.1
G	Sewage and waste disposal	43,819	44,316	34,619	-1.1	26.6
G	Public safety	14,181	14,481	11,574	-2.1	22.5
G	Water supply	29,301	29,496	24,393	-0.7	20.1
G	Power	128,115	127,461	109,430	0.5	17.1
G	Educational	123,033	123,285	105,446	-0.2	16.7
G	Highway and street	136,972	136,512	118,786	0.3	15.3
G	Health care	63,348	63,323	56,724	0.0	11.7
P	Transportation	64,355	64,769	59,958	-0.6	7.3
P	Amusement and recreation	33,370	33,521	31,446	-0.5	6.1
P	Office	100,945	100,924	95,466	0.0	5.7
P	Lodging	23,156	23,941	21,956	-3.3	5.5
P	Commercial	131,982	132,610	126,631	-0.5	4.2
P	Communication	25,373	25,404	25,002	-0.1	1.5
G	Conservation	11,351	11,911	11,394	-4.7	-0.4

9   Chris.kuehl@armadaci.com   **www.armada-intel.com**   **2024**

9

Nonresidential Construction Forecast from The Watch

ASIS - Industrial Production: Private Nonresidential Construction Spending (PNRESCONS) Forecast as of December 2023

Private Nonresidential Construction Spending (PNRESCONS) Forecast as of December 2023
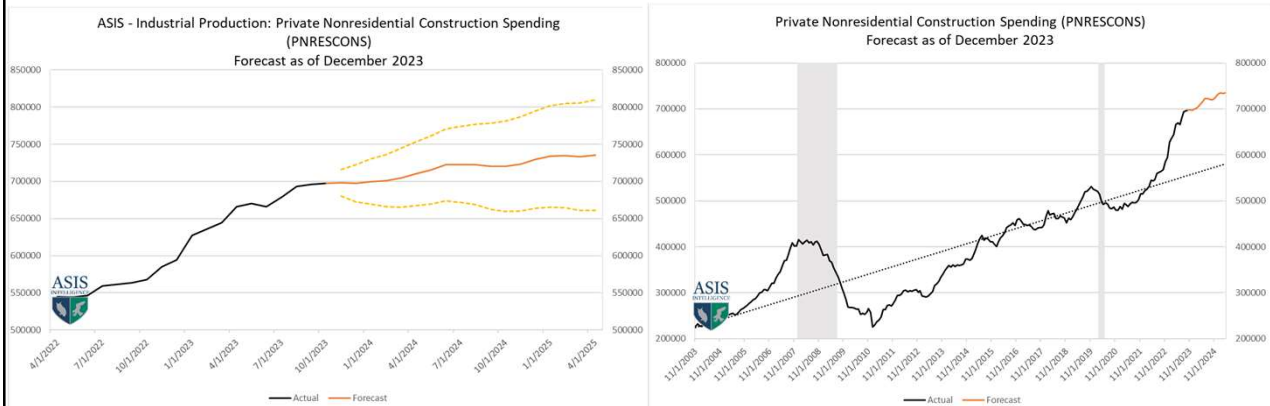
	1 mo	3 mo
TRUCK D11	94.72%	93.70%
RAILFRTCARLOADSD11	98.88%	99.75%
RSXFS	98.68%	97.89%
PNRESCONS	94.40%	93.99%

10   Chris.kuehl@armadaci.com   **www.armada-intel.com**

10

Inflation-Adjusted Retail Spending Continued to Remain Stable and Near Historical Highs Through December

1. Inflation-adjusted retail sales continued to outpace the 30-year trend through December.
2. And they grew 2% Y/Y, an improvement from past months. This data is still subject to revision…
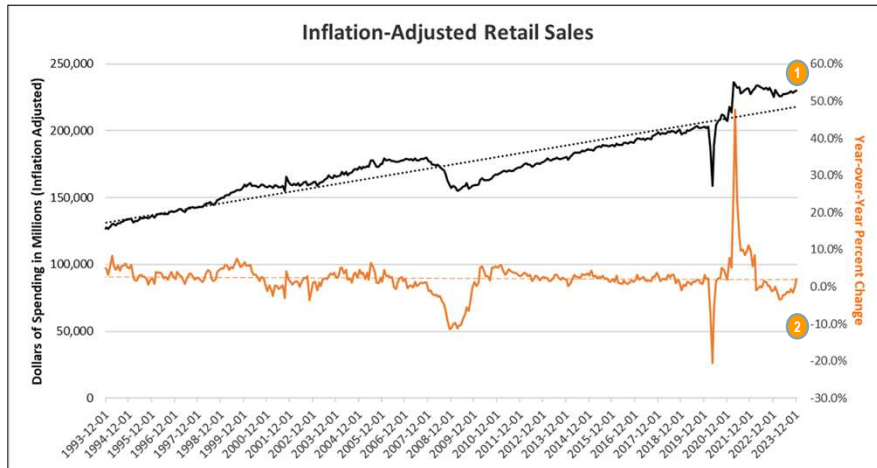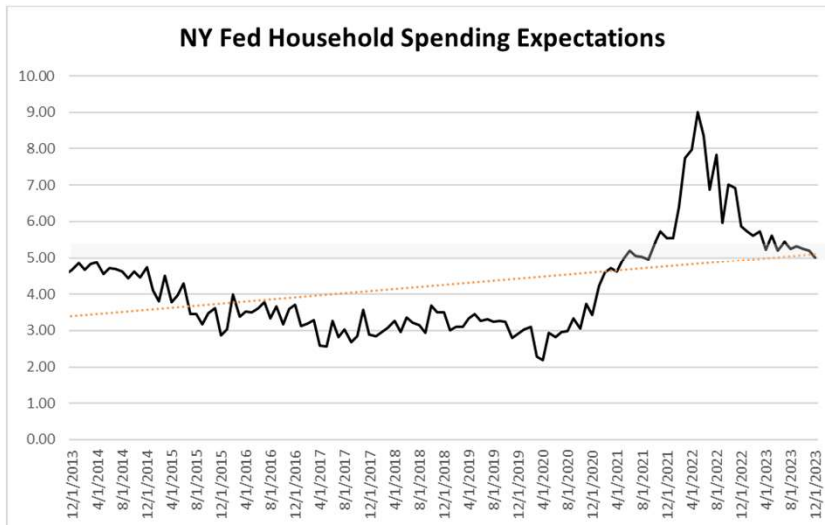

Source: Federal Reserve

11 | Chris.kuehl@armadaci.com   www.armada-intel.com   2024

11

Consumer Spending Expectations Flattening – New York Fed

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.
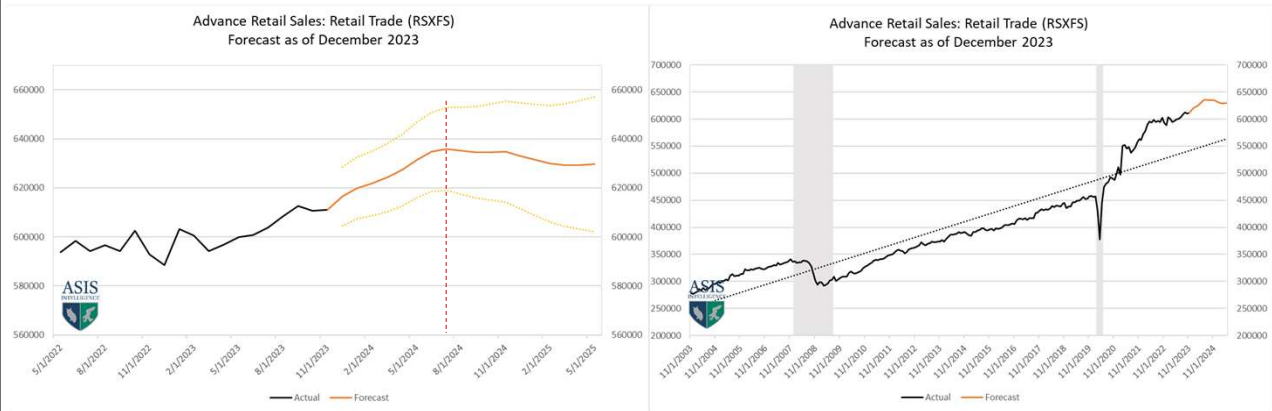
12 | Chris.kuehl@armadaci.com   www.armada-intel.com   2024

12

Retail Spending (Consumer Spending) Forecast from The Watch

Advance Retail Sales: Retail Trade (RSXFS)
Forecast as of December 2023

Advance Retail Sales: Retail Trade (RSXFS)
Forecast as of December 2023

13 | Chris.kuehl@armadaci.com   www.armada-intel.com   2024

13

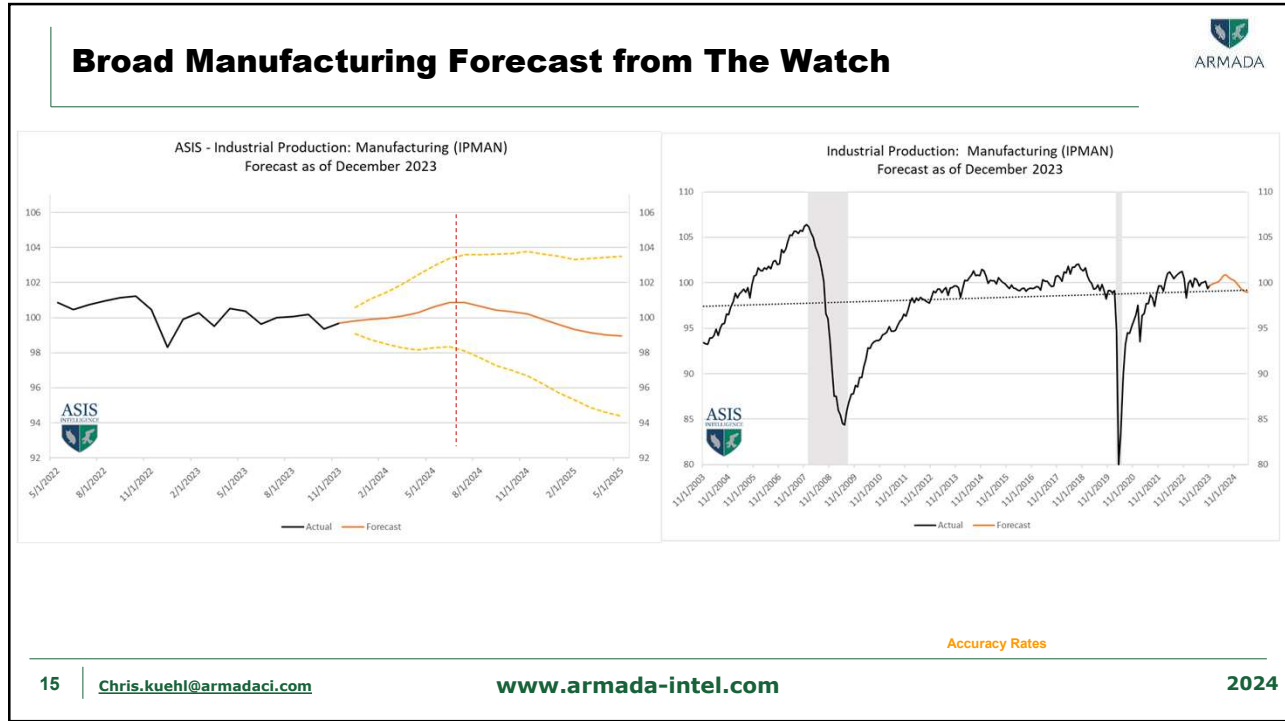## Headwind BLUF: Global Manufacturing Highlights

- 20 countries had manufacturing sectors in contraction in Dec

- Europe still in recession.

- Asia is reeling from lack of demand in NA and Europe

- India is booming – because of shifting sourcing patterns

- Canada and the US in contraction, Mexico stronger

- From a global economy perspective, its not great news. One of the reasons why some inventories on raw materials are tight, but prices continue to fall

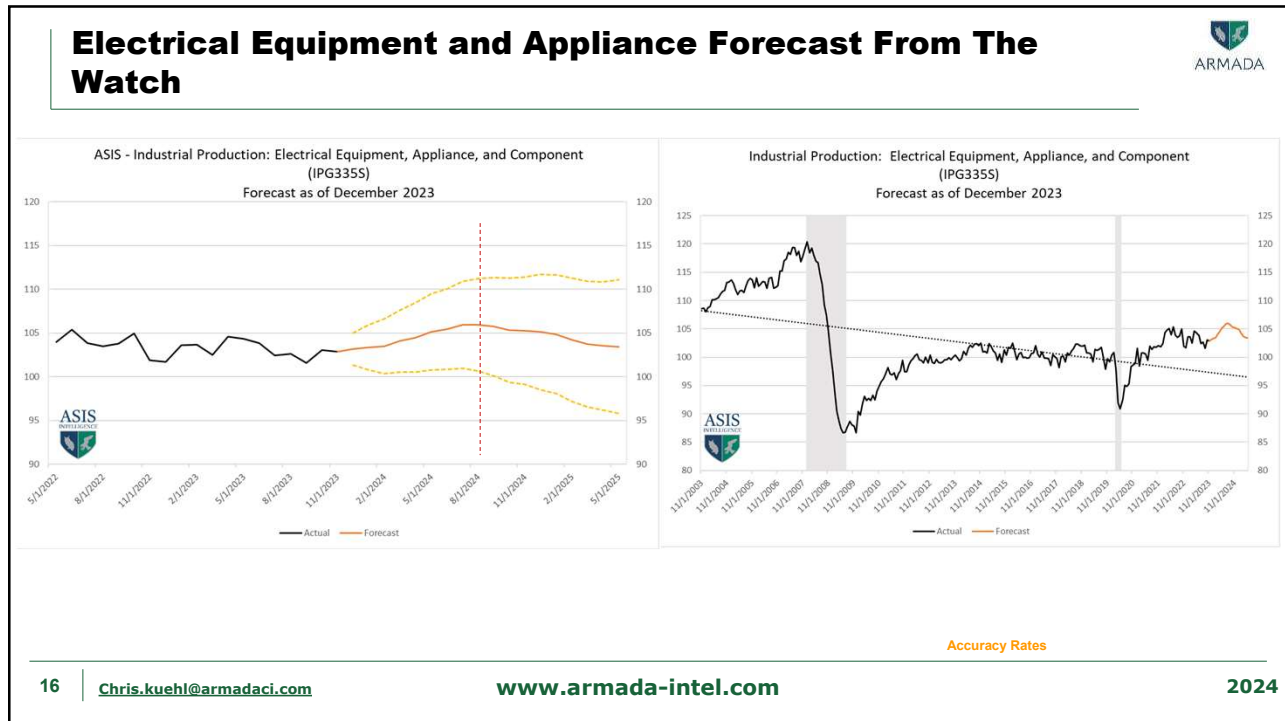|		Manufacturing				Services		
Country	Current Month	Latest Month PMI	Prior Month PMI	M/M Change	Current Month	Latest Month PMI	Prior Month PMI	M/M Change
Global PMI	Dec	49.0	49.3	-0.3	Dec	51.6	50.6	1.0
Eurozone PMI	Dec	44.4	44.2	0.2	Dec	47.6	47.6	0.0
US	Dec	47.9	49.4	-1.5	Dec	51.4	50.8	0.6
China	Dec	50.8	50.7	0.1	Dec	52.9	51.5	1.4
Canada	Dec	45.4	47.7	-2.3	Dec	44.6	44.5	0.1
Mexico	Dec	52.0	52.5	-0.5				
Japan	Dec	47.7	48.3	-0.6	Dec	52.0	50.8	1.2
Germany	Dec	43.3	42.6	0.7	Dec	49.3	49.6	-0.3
South Korea	Dec	49.9	50.0	-0.1				
UK	Dec	46.2	47.2	-1.0	Dec	53.4	50.9	2.5
France	Dec	42.1	42.9	-0.8	Dec	45.7	45.4	0.3
India	Dec	54.9	56.0	-1.1	Dec	59.0	56.9	2.1
Italy	Dec	45.3	44.4	0.9	Dec	49.8	49.5	0.3
Taiwan	Dec	47.1	48.3	-1.2				
Brazil	Dec	48.4	49.4	-1.0	Dec	50.5	51.2	-0.7
Spain	Dec	46.2	46.3	-0.1	Dec	51.5	51.0	0.5
Russia	Dec	54.6	53.8	0.8	Dec	56.2	52.2	4.0
Netherlands	Dec	44.8	44.9	-0.1				
Ireland	Dec	48.9	50.0	-1.1	Dec	53.2	54.2	-1.0
Greece	Dec	51.3	50.9	0.4				
Poland	Dec	47.4	48.7	-1.3				
ASEAN	Dec	49.7	50.0	-0.3				
Vietnam	Dec	48.9	47.3	1.6				
Philippines	Dec	51.5	52.7	-1.2				
Australia	Dec	47.6	47.7	-0.1	Dec	47.1	46.0	1.1
Switzerland	Dec	43.0	42.1	0.9				
Hong Kong	Dec	51.3	50.1	1.2				
Singapore	Dec	50.5	50.3	0.2				
Indonesia	Dec	52.2	51.7	0.5				
Thailand	Dec	45.1	47.6	-2.5				

Sources: S&P Global, Caixin, JP Morgan, Jibun Bank, Nevi, BME, CIPS
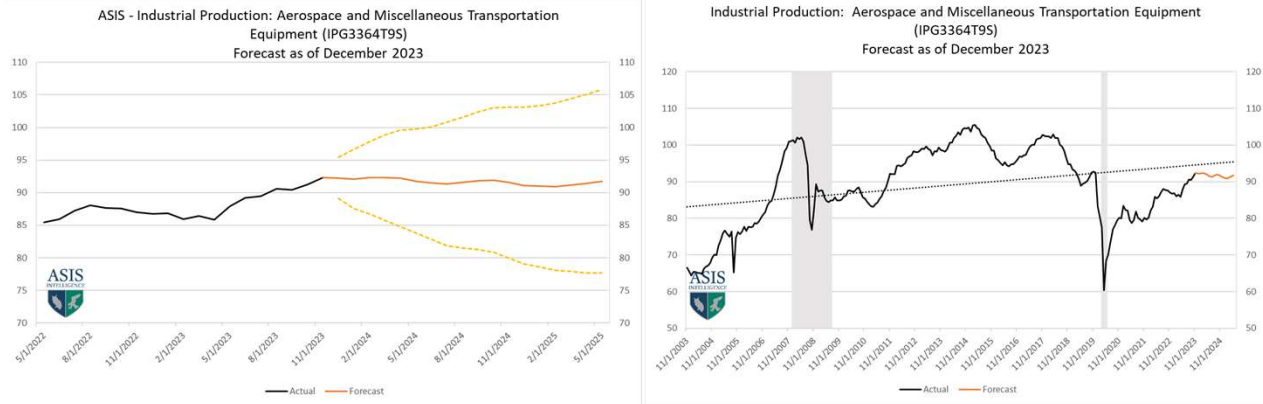
14 | Chris.kuehl@armadaci.com   www.armada-i...
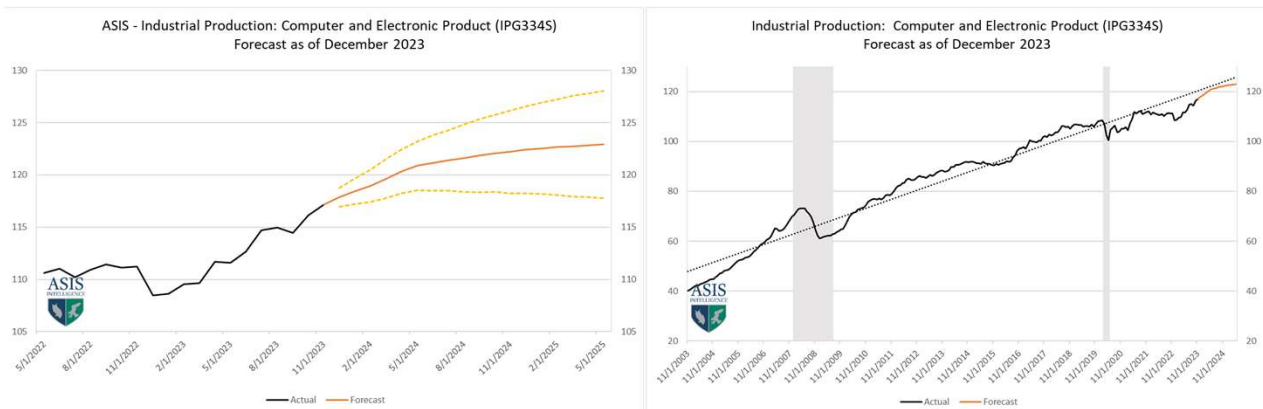
14

Broad Manufacturing Forecast from The Watch

15

Electrical Equipment and Appliance Forecast From The Watch

16

Aerospace Production Forecast from The Watch

ASIS - Industrial Production: Aerospace and Miscellaneous Transportation Equipment (IPG3364T9S)
Forecast as of December 2023

Industrial Production: Aerospace and Miscellaneous Transportation Equipment (IPG3364T9S)
Forecast as of December 2023

Accuracy Rates

17   Chris.kuehl@armadaci.com   www.armada-intel.com   2024

17

Computer and Electronic Forecast from The Watch

ASIS - Industrial Production: Computer and Electronic Product (IPG334S)
Forecast as of December 2023

Industrial Production: Computer and Electronic Product (IPG334S)
Forecast as of December 2023

Accuracy Rates

18   Chris.kuehl@armadaci.com   www.armada-intel.com   2024

18

Automotive Production Forecast from The Watch

ASIS - Industrial Production: Motor Vehicles and Parts (IPG3361T3S)
Forecast as of December 2023

Industrial Production: Motor Vehicles and Parts (IPG3361T3S)
Forecast as of December 2023
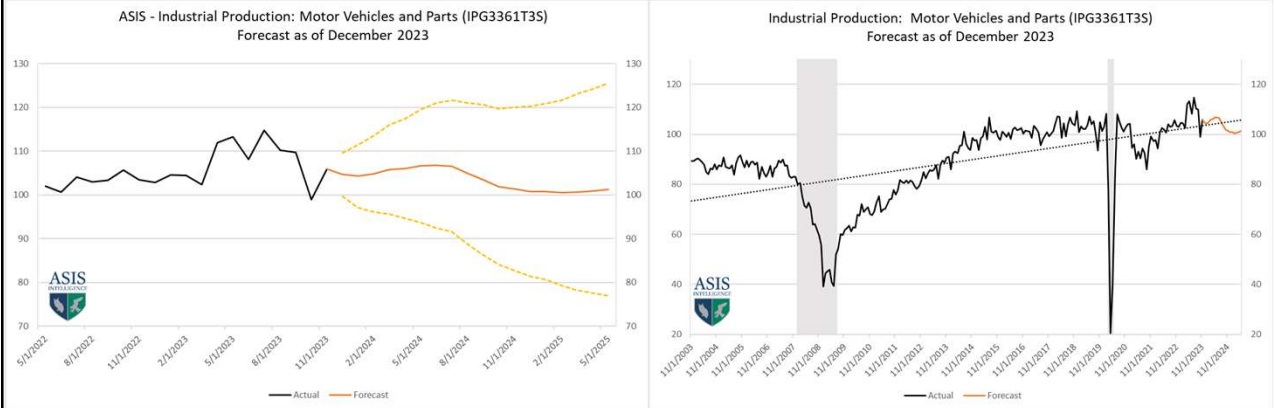
Accuracy Rates

19   Chris.kuehl@armadaci.com   **www.armada-intel.com**   **2024**

19

Machinery Production Forecast from The Watch

ASIS - Industrial Production: Machinery (IPG333S)
Forecast as of December 2023

Industrial Production: Machinery (IPG333S)
Forecast as of November 2023
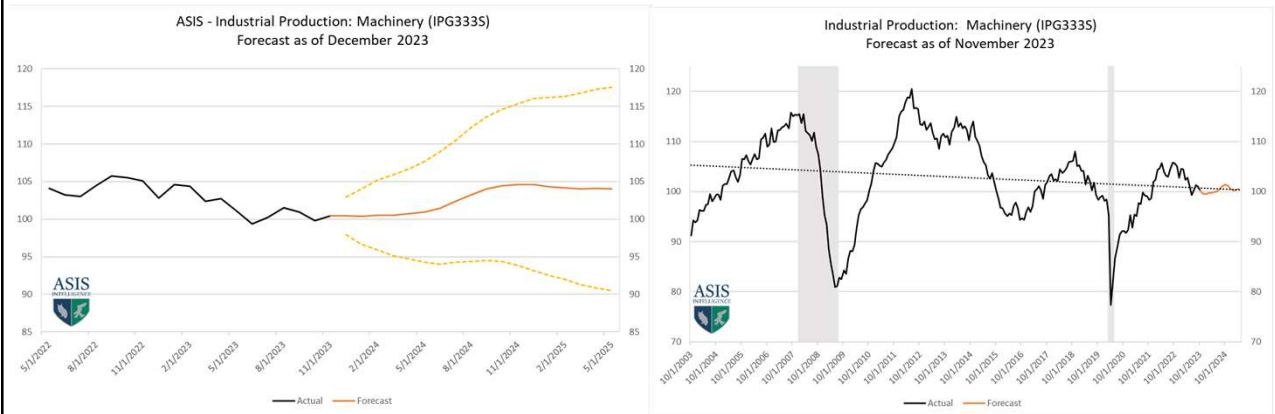
Accuracy Rates

20   Chris.kuehl@armadaci.com   **www.armada-intel.com**   **2024**

20

Primary Metal Production Forecast from The Watch

21 | Chris.kuehl@armadaci.com | www.armada-intel.com | 2024
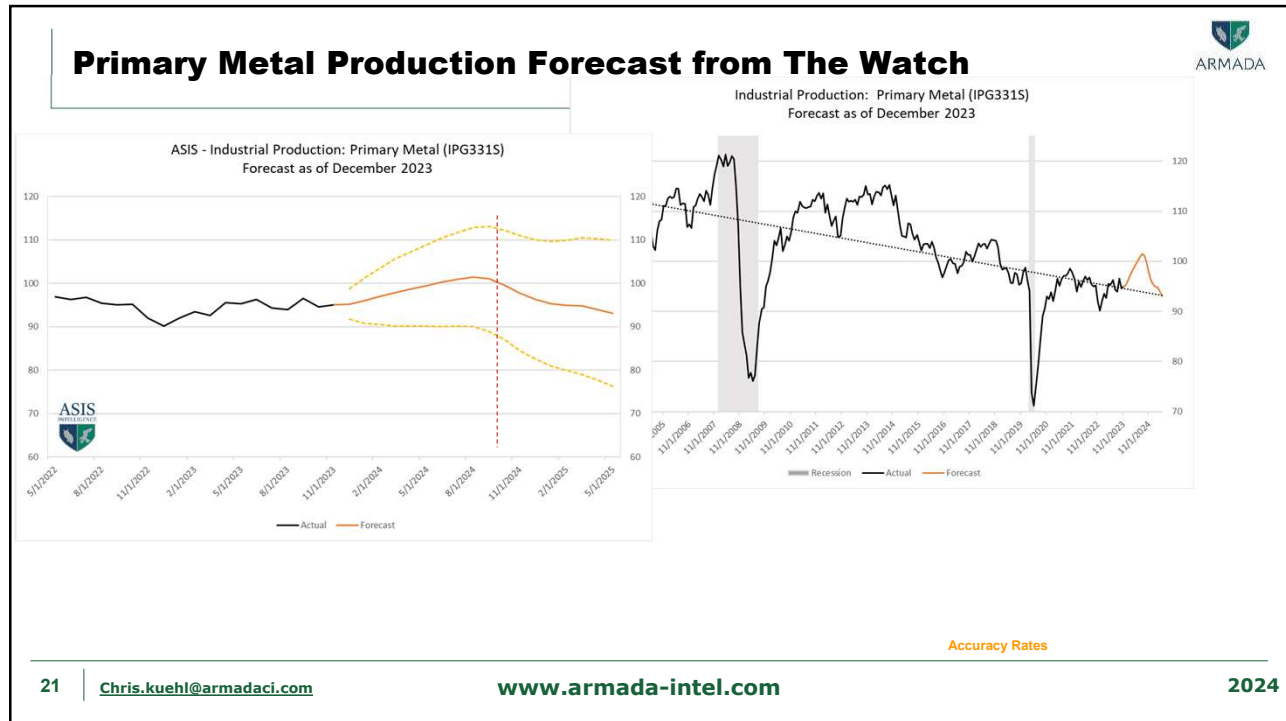
21

Global Supply Chain Pressures Index Snaps in Dec/Jan
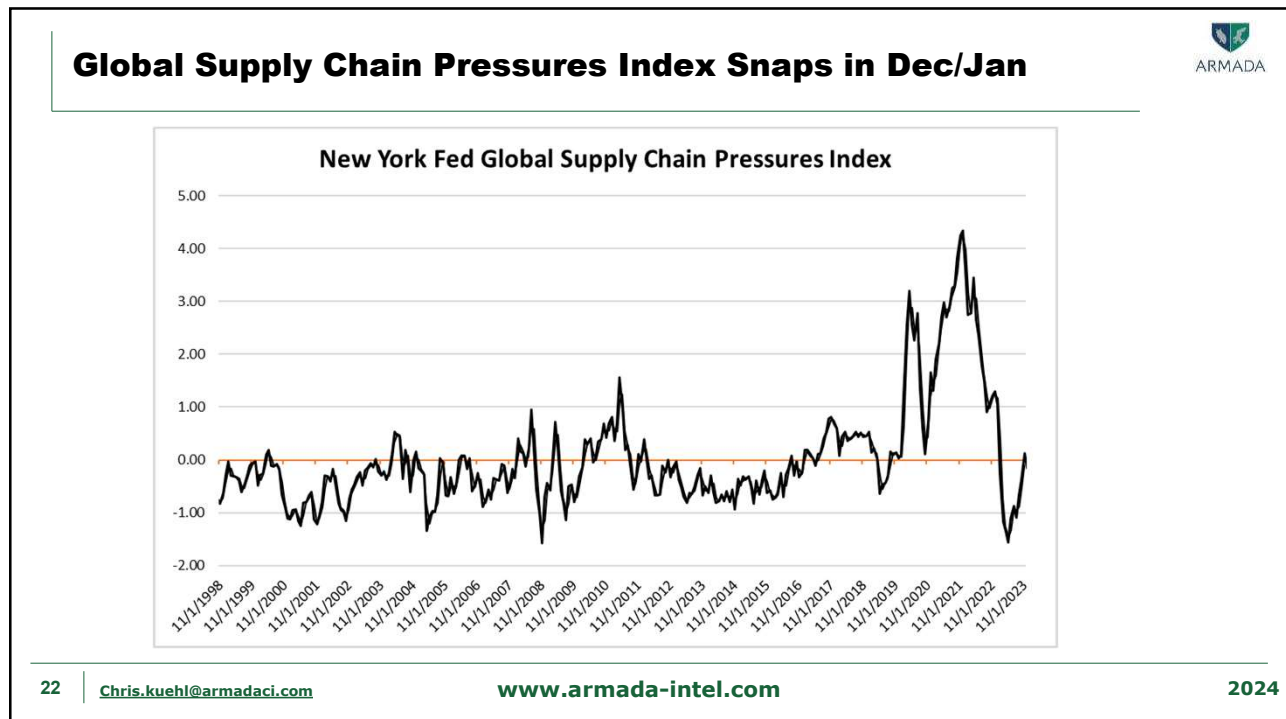
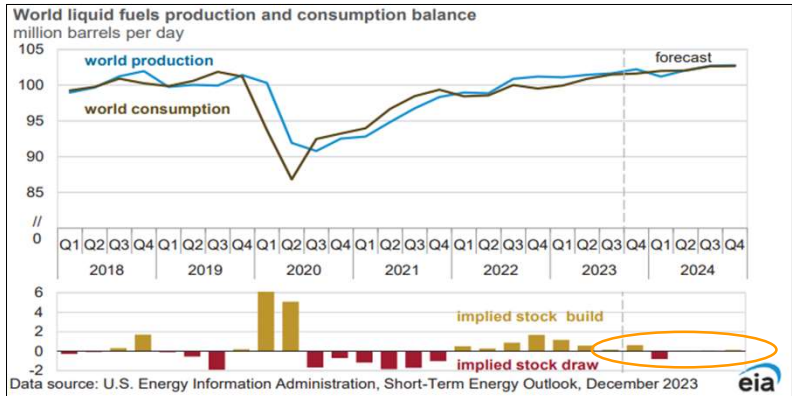22 | Chris.kuehl@armadaci.com | www.armada-intel.com | 2024

22

EIA forecast remains balanced between supply/demand. This does not include replacing the SPR

- 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.

Source: EIA; Baker Hughes; Conoco-Philips

World liquid fuels production and consumption balance
million barrels per day

Data source: U.S. Energy Information Administration, Short-Term Energy Outlook, December 2023

Crude forecast:		Diesel forecast:		Gasoline forecast:	
• 2021	$68.21	• 2021	$3.29	• 2021	$3.02
• 2022	$94.91	• 2022	$5.02	• 2022	$3.97
• 2023	$77.63	• 2023	$4.22	• 2023	$3.53
• 2024	$78.07	• 2024	$3.95	• 2024	$3.36

23   Chris.kuehl@armadaci.com   www.armada-intel.com   2024
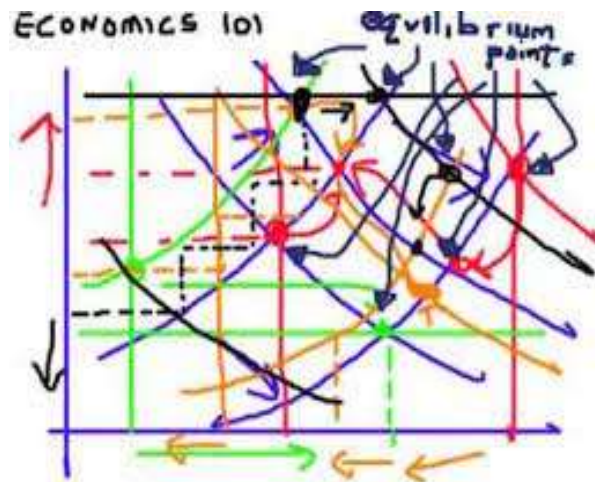
23

For More Enlightenment

Chris.kuehl@armadaci.com

Bonus Offer for Attendees – Aren't You Excited? Proof that I am as long-winded in print as in public!

Flagship – Three times a week (MWF). $7 per month but free trial for a month

The Watch – $44 monthly but free trial for TWO months

24   Chris.kuehl@armadaci.com   www.armada-intel.com   2024

24