



ACT Seminar 69 Economic Outlook

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Big Picture Summary

- *Call off the recession* – reasons to follow
- Inflation not in W col yet, but in retreat
- One (more) and done for Fed hikes
- Worst seems over for housing & tech
- Other normally cyclical sectors didn't dive (auto, capex)
- But not so sunny overseas...



Bad news, good news

Bad news

- Fed improvising, 1 more & done
- Credit availability remains an issue
- Manufacturing sector flatlining
- Labor market tight, unemployment 3.5%
- China weak, not boosting global growth

Good news

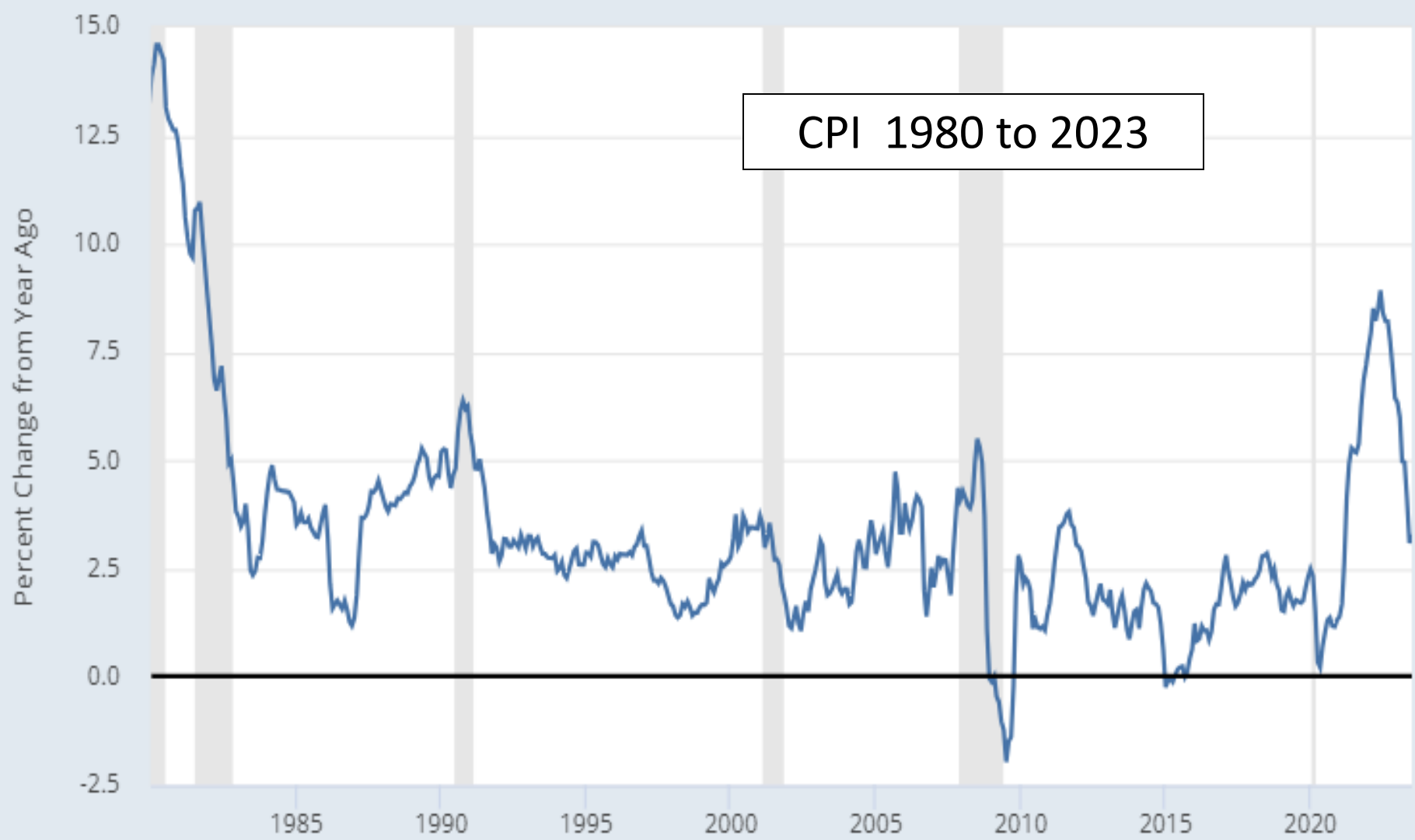
- Inflation numbers moderating
- Auto sales stay high, up 12%+ over 2022
- Supply-chain problems easing
- Business capex wasn't axed
- Energy prices down from summer '22 high
- Business & consumer confidence rising
- Stock rally signals better times ahead

WSJ | MARKETS

**Markets Appear
Convinced Fed Can
Do a Soft Landing**

Stocks surged this past week on evidence that inflation is cooling. 106 4 min read

Inflation: steady CPI inflation retreat, still some way to go



CPI 1980 to 2023

3.2% y/y in July
4.8% y/y “core”

After 42 year high
@ 9.0% June '22

Approaching the 2%
FOMC goal

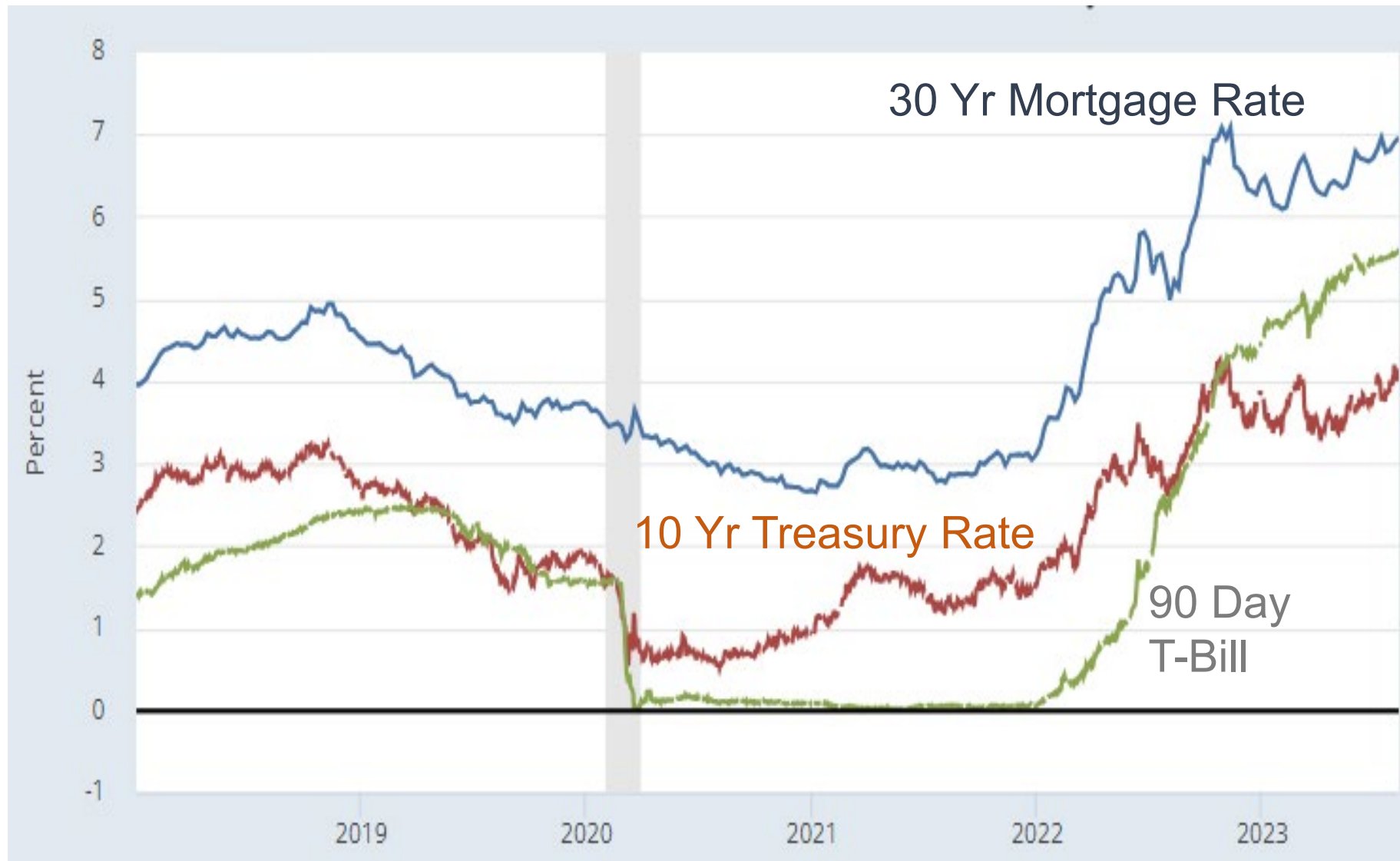
WTI stable in 2023 after 2022 roller coaster \$75 plus or minus 5



Tight range over
30 weeks in 2023

Russia & Saudi
supply cuts
pushing up price a
bit above 80/bbl
in last six weeks

Short rates up, long rates stable since October



Fed rate hikes (green)—may be one more

Long rates peaked in Oct, then flattish

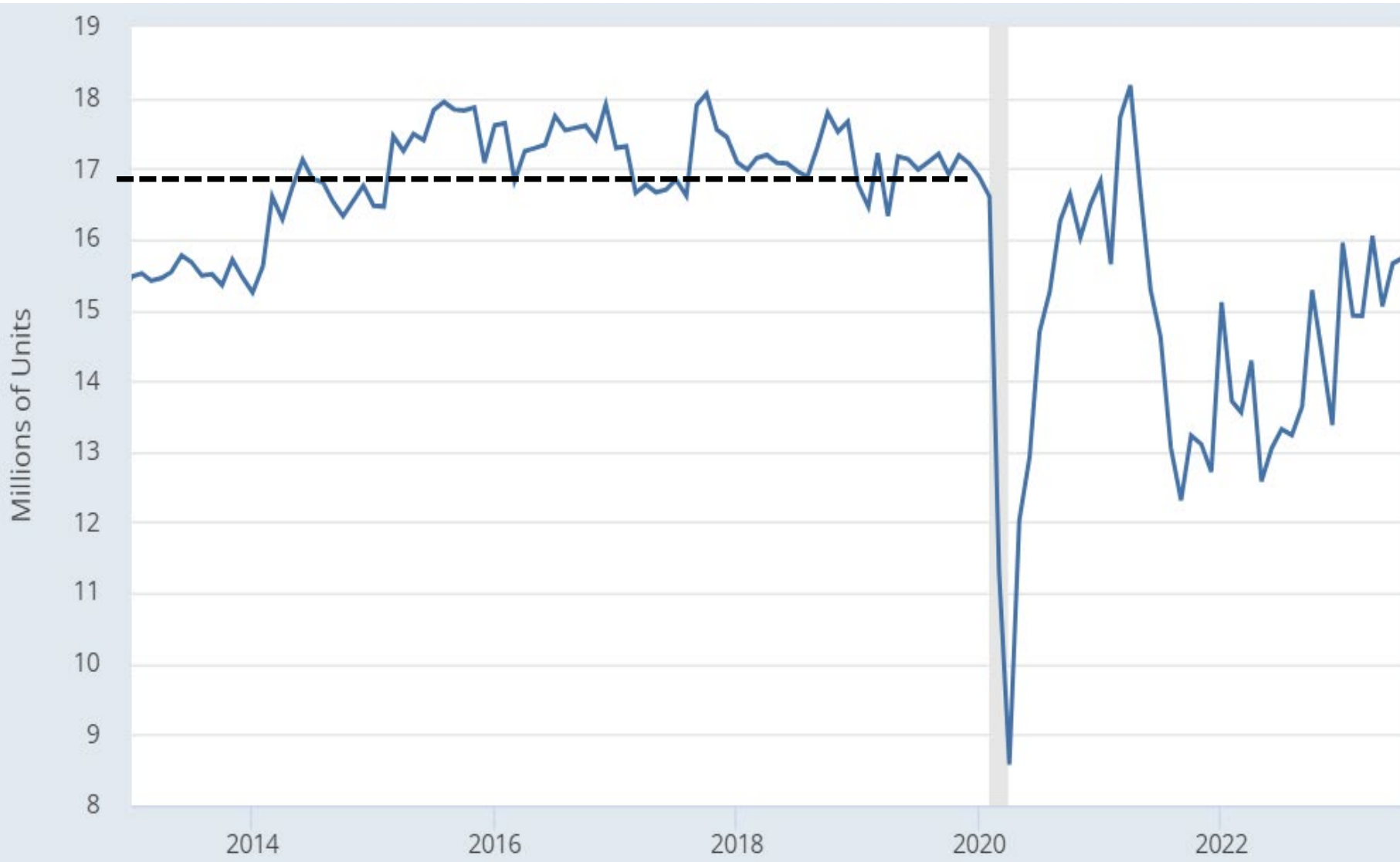
Red (10 yr Tbond)
Blue (30 yr mortgage)

Pro-cyclical sectors

- Motor vehicles
- Residential (construction & sales)
- Business capital expenditures
- Inventories (excess)



Buyers still lining up for new autos



PENT-UP DEMAND FOR NEW AUTOS

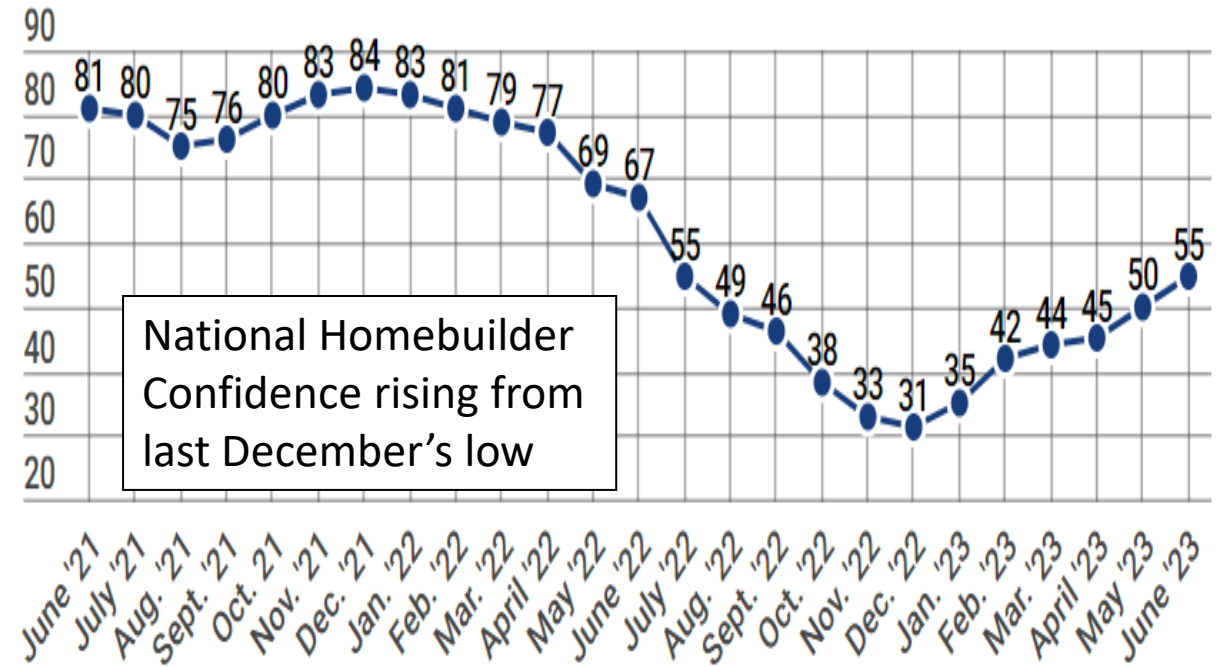
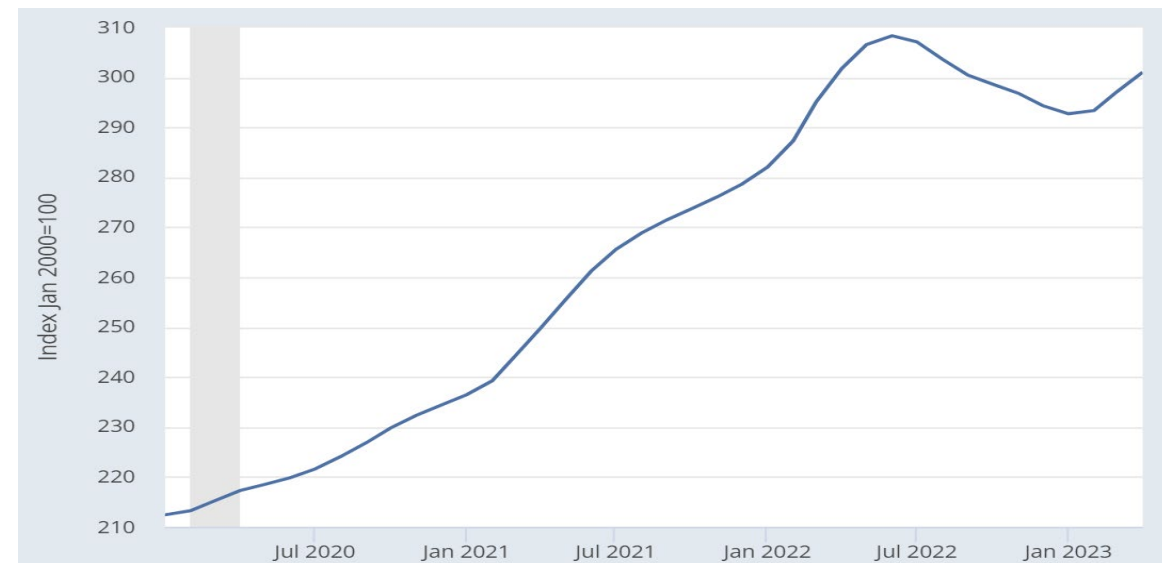
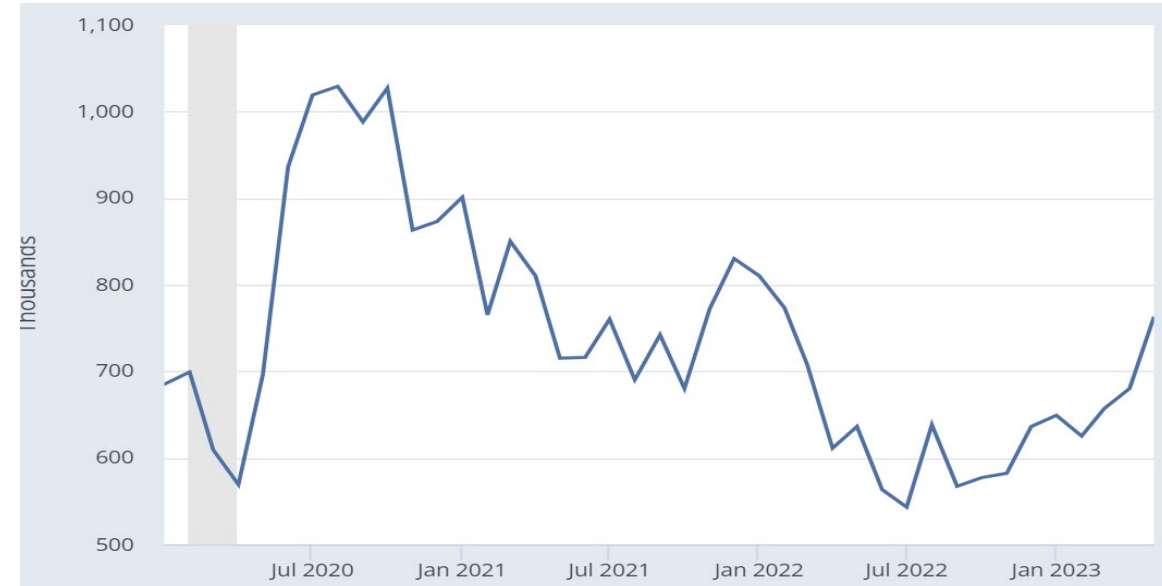
15.7m July sales rate

YTD run rate 15.5m
(up 12% from 2022)

Compare to

- 13.8m total 2022 sales
- 17m pre-COVID norm 2013-2020

Housing Revival

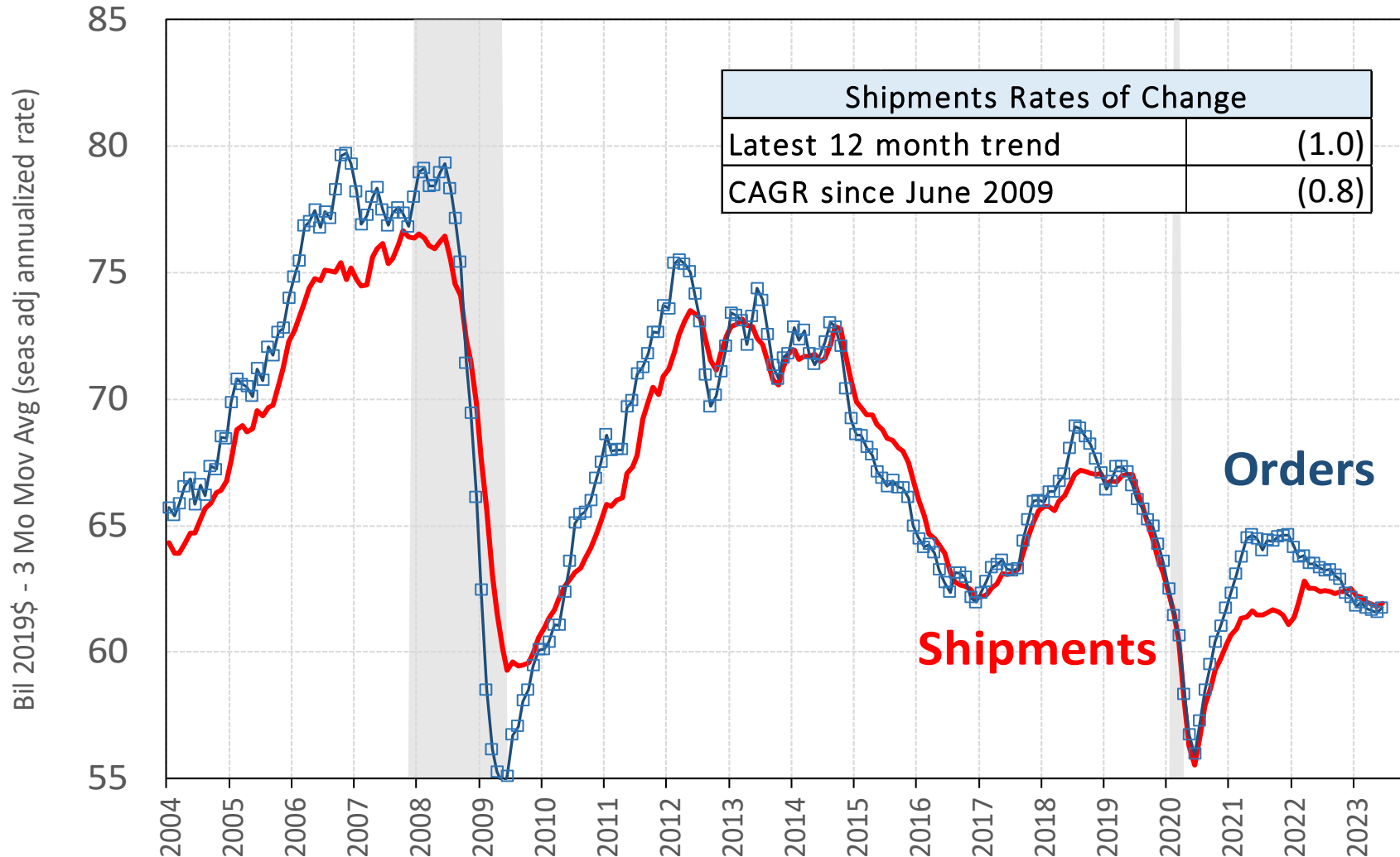


Still far from 2022 Q1 peak...

...but up from first quarter low

- Stable mortgage rates
- Low available inventory
- West coast/tech markets home prices rising again

US Non-defense Capital Goods (excluding aircraft)



Slow Retreat

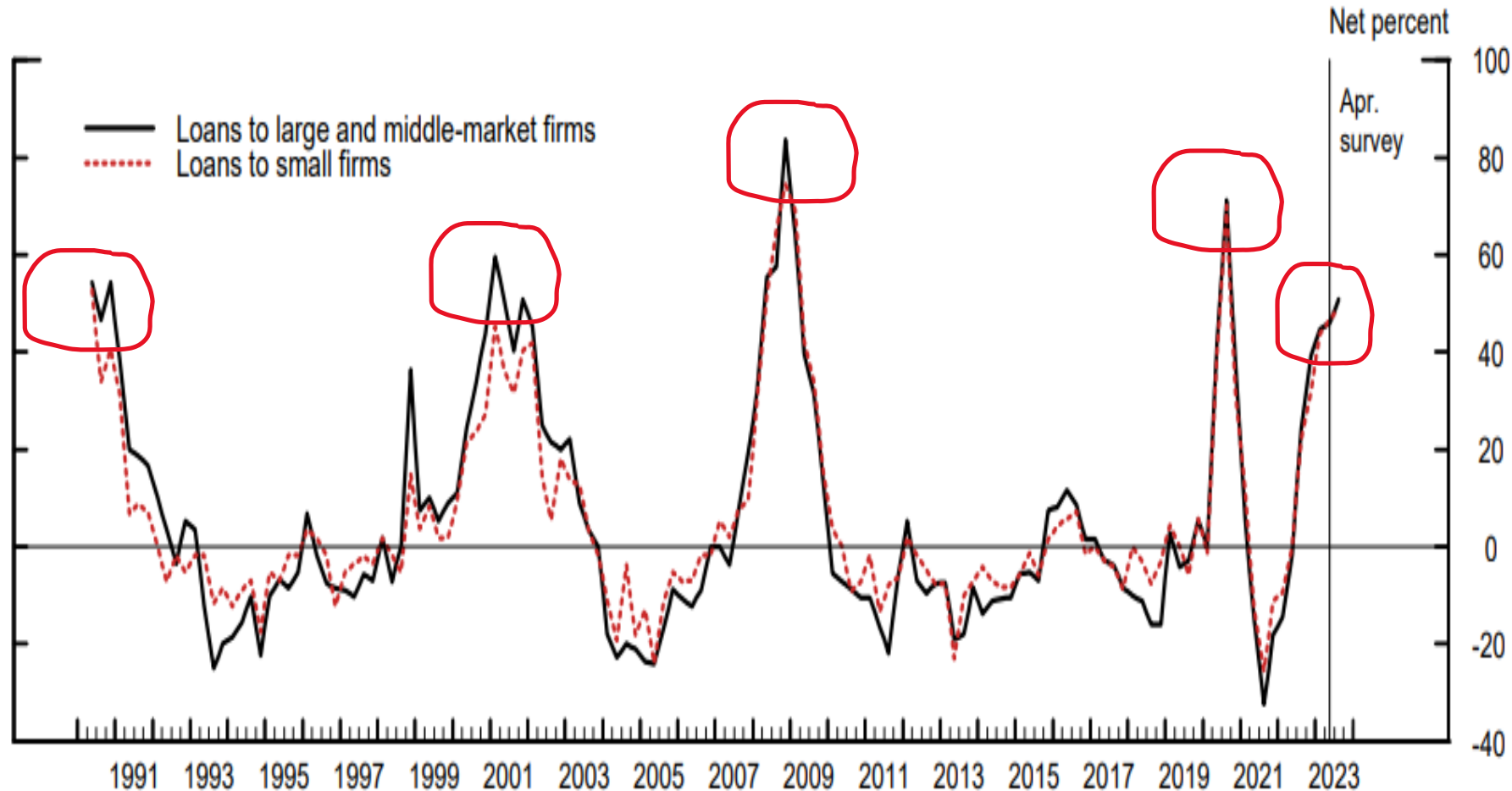
**Compare to
Great Recession
2008-09 plunge**

**Pre-Covid &
Covid 2019-20
Swan dive**



Measures of Supply and Demand for Commercial and Industrial Loans, by Size of Firm Seeking Loan

Net Percent of Domestic Respondents Tightening Standards for Commercial and Industrial Loans



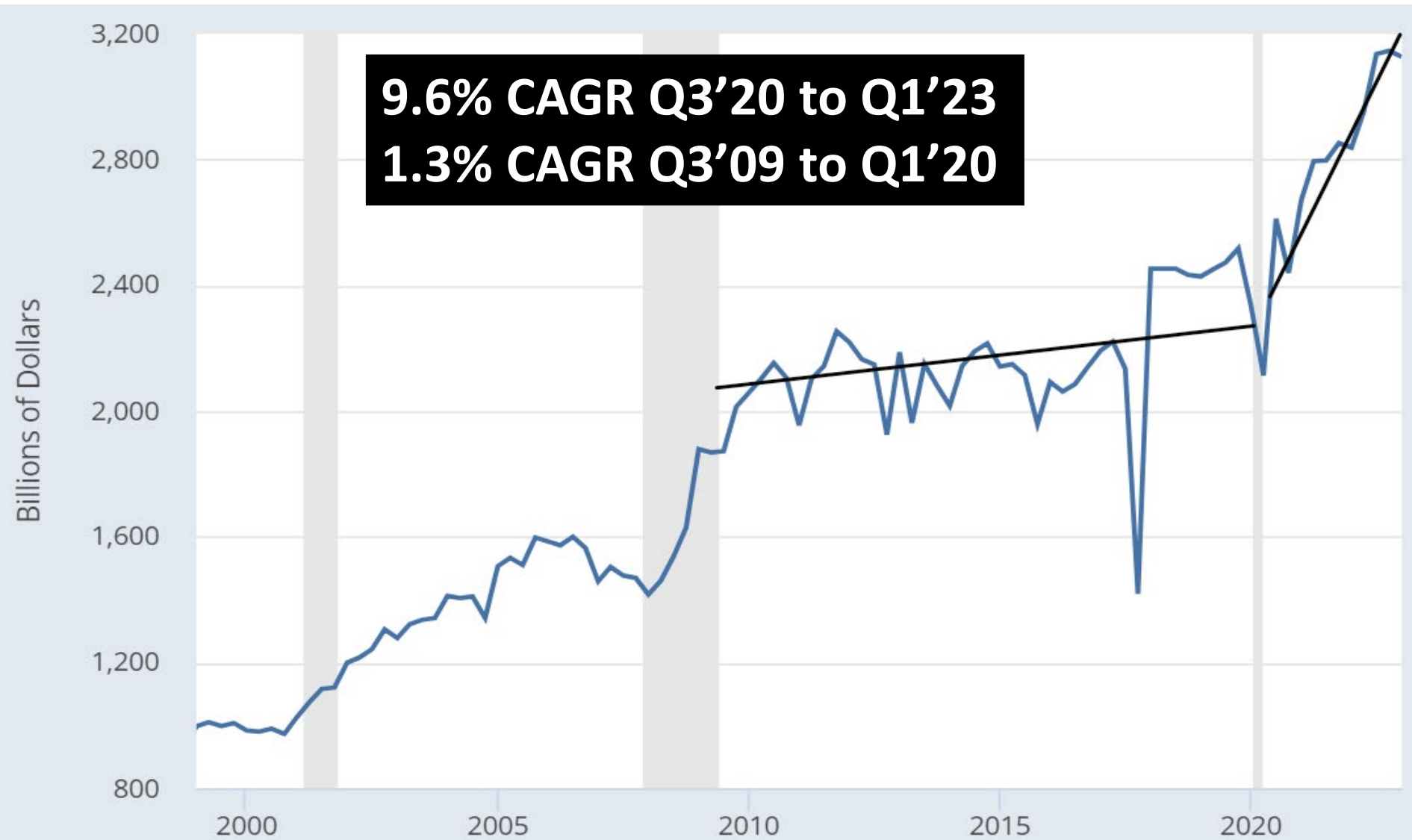
**HIGH RATES.
TOUGH
STANDARDS.**

**Lending very
restrictive now**

**Red circles show
prior recessions
(and now)**



Corporate Cash Flow



Big upswing in corporate cash flow fills the bank lending gap



Purchasing Managers Indexes

NA OK, the world is flat & Europe walks a tightrope

	Last 12 Months												
	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23
Global	51.1	50.3	49.8	49.4	50.6	48.6	49.1	50.0	49.6	49.6	49.6	48.8	48.7
United States	52.2	51.5	52.0	50.4	47.7	46.2	46.9	47.3	49.2	50.2	48.4	46.3	49.0
Canada	52.5	48.7	49.8	48.8	49.6	49.2	51.0	52.4	48.6	50.2	49.0	48.8	49.6
Mexico	48.5	48.5	50.3	50.3	50.6	51.3	48.9	51.0	51.0	51.1	50.5	50.9	53.2
Eurozone	49.8	49.6	48.4	46.4	47.1	47.8	48.8	48.5	47.3	45.8	44.8	43.4	42.7
Germany	49.3	49.1	47.8	45.1	46.2	47.1	47.3	46.3	44.7	44.5	43.2	40.6	38.8
France	49.5	50.6	47.7	47.2	48.3	49.2	50.5	47.4	47.3	45.6	45.7	46.0	45.1
Italy	48.5	48.0	48.3	46.5	48.4	48.5	50.4	52.0	51.1	46.8	45.9	43.8	44.5
Spain	48.7	49.9	49.0	44.7	45.7	46.4	48.4	50.7	51.3	49.0	48.4	48.0	47.8
UK	52.1	47.3	48.4	46.2	46.5	45.3	47.0	49.3	47.9	47.8	47.1	46.5	45.3
Russia	50.3	51.7	52.0	50.7	53.2	53.0	52.6	53.6	53.2	52.6	53.5	52.6	52.1
Japan	52.1	51.5	50.8	50.7	49.0	48.9	48.9	47.7	49.2	49.5	50.6	49.8	49.6
China	50.4	49.5	48.1	49.2	49.4	49.0	49.2	51.6	50.0	49.5	50.9	50.5	49.2
India	56.4	56.2	55.1	55.3	55.7	57.8	55.4	55.3	56.4	57.2	58.7	57.8	57.7
Brazil	54.0	51.9	51.1	50.8	44.3	44.2	47.5	49.2	47.0	44.3	47.1	46.6	47.8

>54

Above Trend

51-54

Trend

45-51

Flat

<45

Recession



Summary Indicator Forecast Table

	2020 Actual	2021 Actual	2022 Actual	FORECAST	
				2023 Forecast	2024 Forecast
Real GDP	-2.8	5.9	2.1	2.3	2.2
Consumer Spending	-3.0	8.3	2.7	2.3	1.7
Capital Spending	-4.9	6.4	3.9	3.8	3.1
Equipment	-10.5	10.3	4.3	5.7	4.6
Structures	-10.1	-6.4	-6.6	-4.0	-2.4
Intellectual Property	4.8	9.7	8.8	2.0	3.0
Residential Investment	7.2	10.7	-10.6	-11.8	2.1
Government Consumption	2.6	0.6	-0.6	3.2	2.1
Net Exports (2012 \$B)	-923	-1233	-1355	-1210	-1265
Mfg Industrial Production	-6.3	5.8	3.2	0.0	1.5
Housing Starts (M)	1.38	1.60	1.56	1.44	1.48
US Light Vehicle SIs (M)	14.5	14.9	13.8	15.6	16.1
NA Lt Veh Production (M)	13.0	12.9	14.2	15.5	16.2
Unemployment Rate (%)	8.1	5.4	3.6	3.7	4.1
90 Day Treasury Yield	0.4	0.0	2.0	5.3	5.1
10 Year Treasury Yield	0.9	1.4	3.0	3.8	4.0
GDP Deflator	1.3	4.5	7.0	3.7	2.4

Three years of trend-type growth 2022-24

Recession not “most likely” base case but realistically a could be

Neutral to positive for capex (truck) and for freight

Percent Changes except where indicated

Updated August 10, 2023

Symmetric Wrap-up

- *Call off the recession* – reasons explained
- Inflation not in W col yet, but in retreat
- One (more) and done for Fed hikes
- Worst seems over for housing & tech
- Other normally cyclical sectors didn't dive (auto, capex)
- Trend growth behind and ahead in North America
- But not so sunny overseas...





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