

VISTAGE



2023 and Beyond: Preparing for the Next Economic Cycle

**Presented by ITR Economics
CEO and Chief Economist
Brian Beaulieu**



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First In Forecasts Worldwide

| | Duration | Accuracy |
|---------------------------|----------|----------|
| US GDP | 18 | 98.9% |
| US Ind. Production | 18 | 98.9% |
| Europe Ind. Production | 23 | 99.6% |
| Canada Ind. Production | 24 | 99.5% |
| China Ind. Production | 16 | 98.5% |
| Retail Sales | 13 | 98.0% |
| Housing - Single Family | 17 | 84.8% |
| Employment-Private Sector | 13 | 98.7% |

ITR Economics provides the best economic intelligence to reduce risk and drive practical and profitable business decisions.

| | Duration | Accuracy |
|--------------------------------------|----------|----------|
| World Industrial Production | 13 | 99.6% |
| Western Europe Industrial Production | 23 | 99.5% |
| Eastern Europe Industrial Production | 15 | 96.7% |
| Canada Industrial Production | 24 | 99.7% |
| China Industrial Production | 16 | 98.5% |
| Mexico Industrial Production | 13 | 98.4% |
| Japan Industrial Production | 13 | 98.7% |
| India Industrial Production | 26 | 98.7% |
| Germany Industrial Production | 13 | 99.2% |
| Brazil Industrial Production | 13 | 98.9% |

ITR Economics provides the best economic intelligence to reduce risk and drive practical and profitable business decisions.

Expect an Essentially Flat 2024

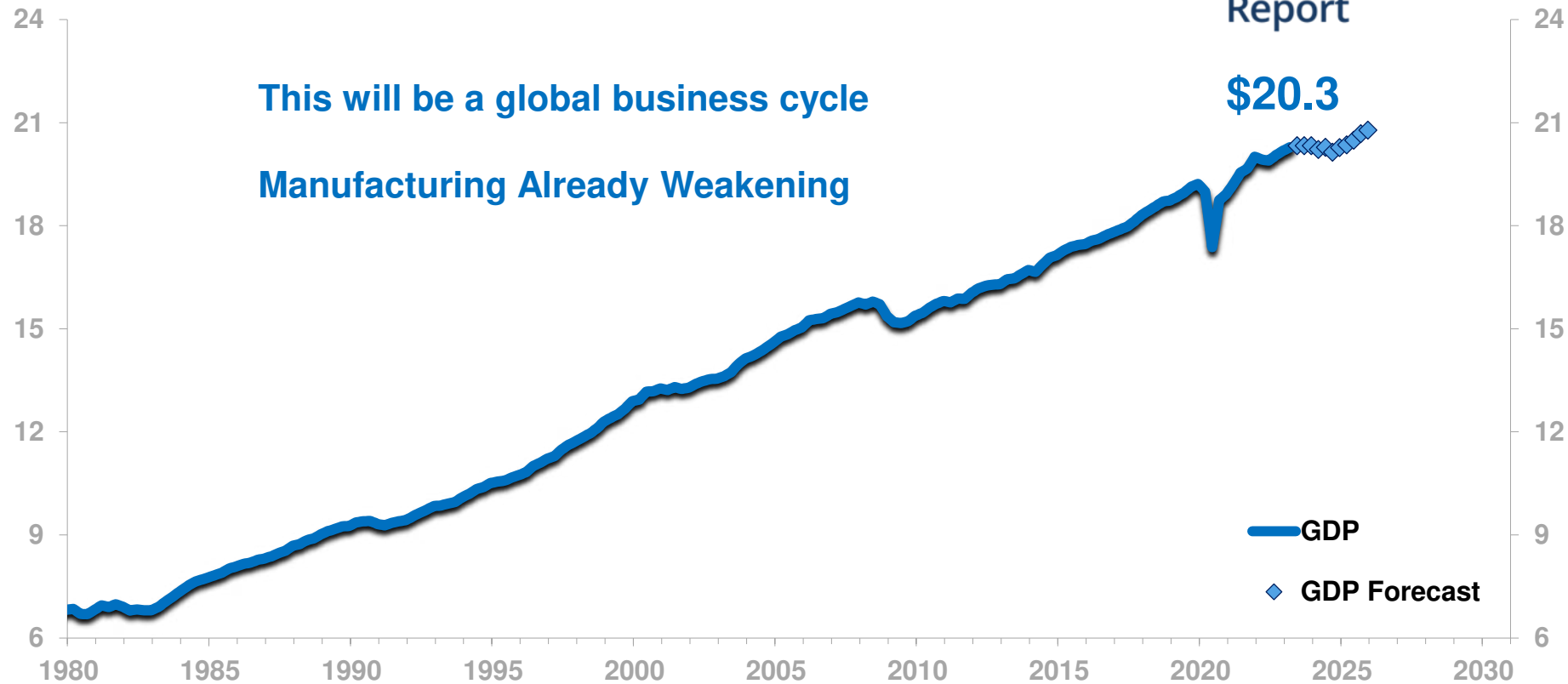
Source: BEA

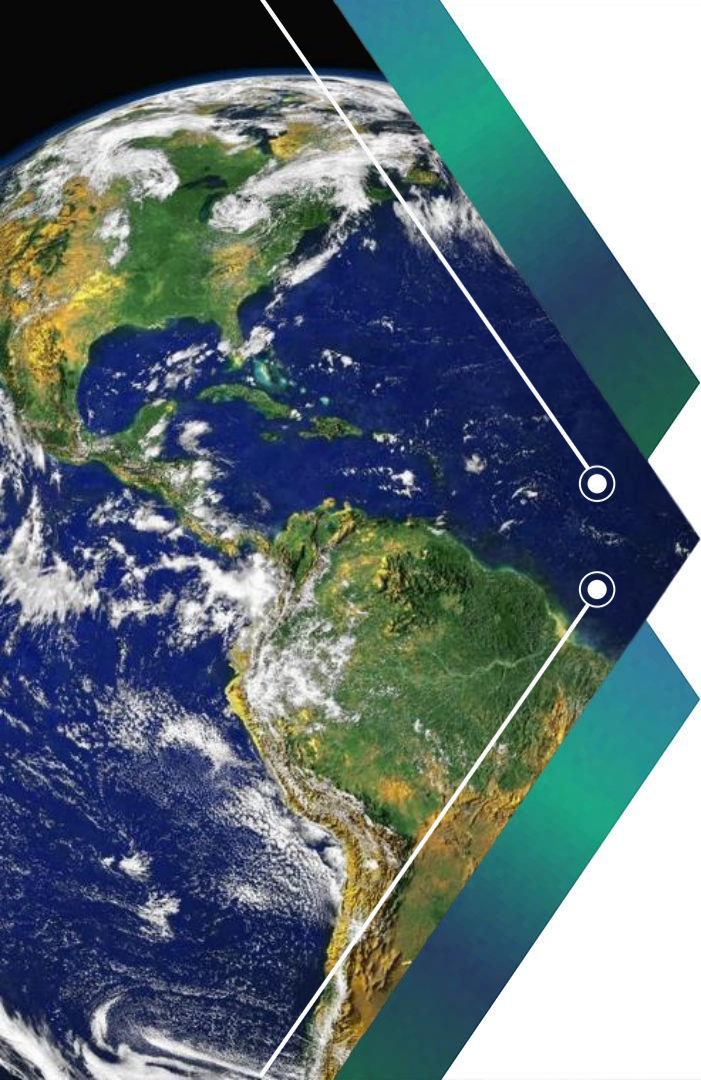
US Real Gross Domestic Product

Quarterly Data Trends: Trillions of Chained 2012 Dollars

as seen in
ITR Economics'
**Trends
Report**


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Global Issues

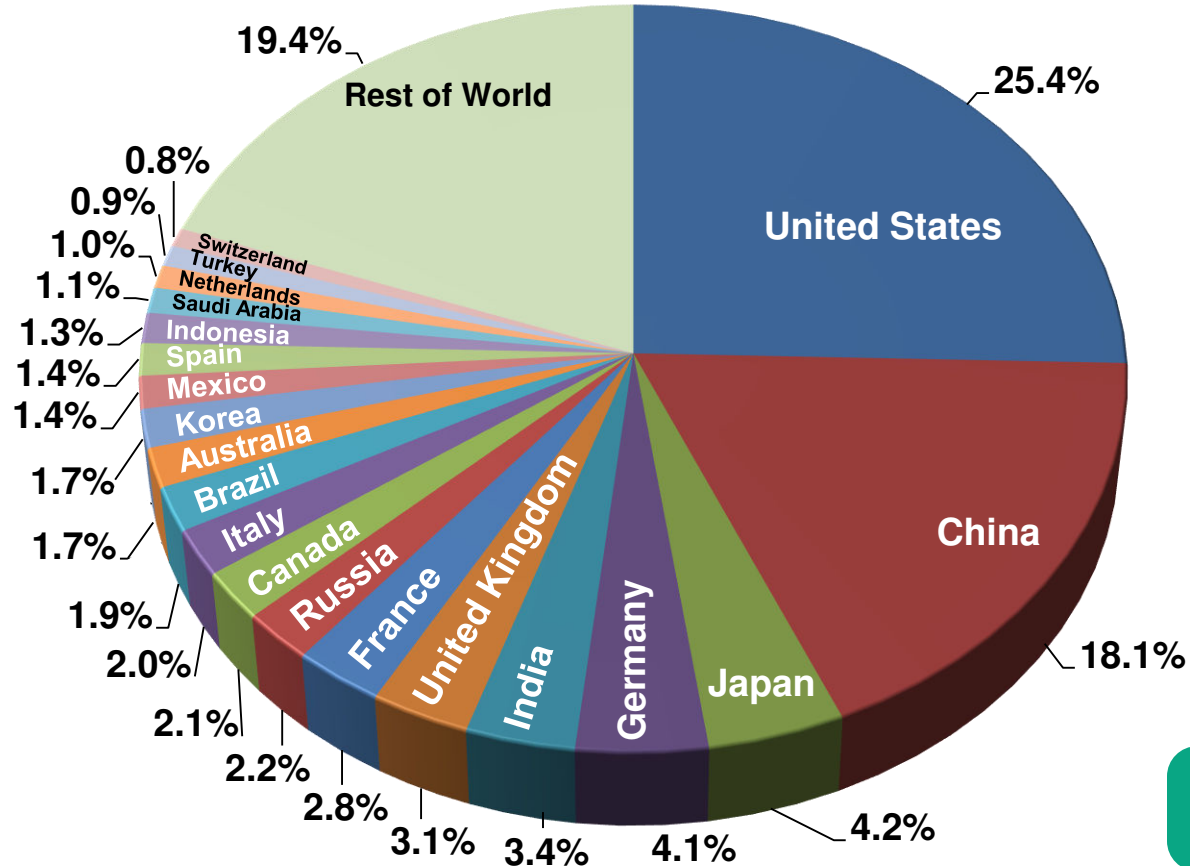


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Percent of World GDP by Country

Source: IMF, *ROW: 70% are IMF Estimated Figures



*Total World GDP:
\$100.2 Trillion US \$

China's Demographic Demise

Sources: China National Bureau of Statistics, FRB



China Industrial Production Index to US Industrial Production Index

3/12 Rates-of-Change





China is becoming more of a problem going forward with mounting risks



Russia is a hollowed-out version of its former self



Nationalism is the new trend globally

Next Steps

- **The world in general is likely to weaken along with the US; market share gains are key**
- **On-shoring will continue to provide new opportunities**

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Inflation & Interest Rates



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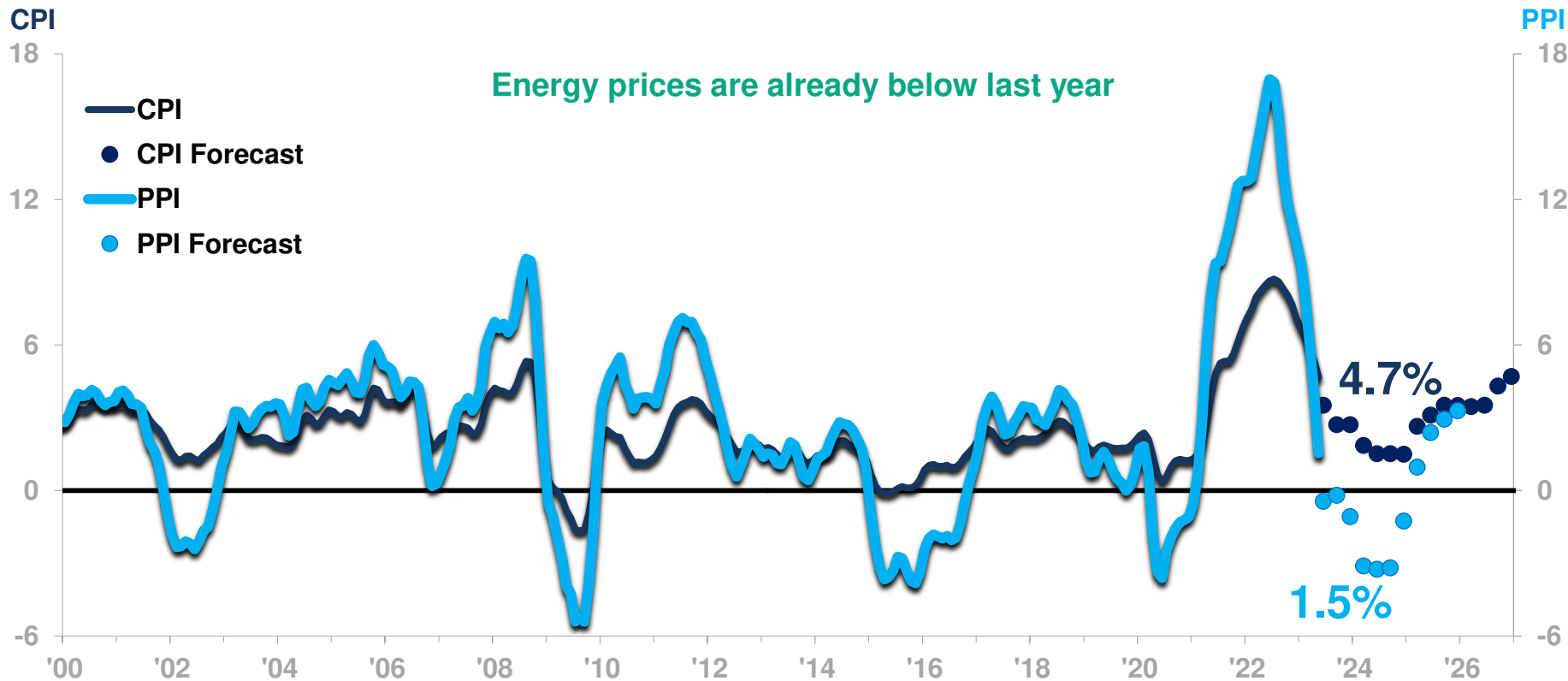
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Producer Price Deflation Imminent

Source: BLS

US Consumer Price Index to US Producer Price Index

3/12 Rates-of-Change

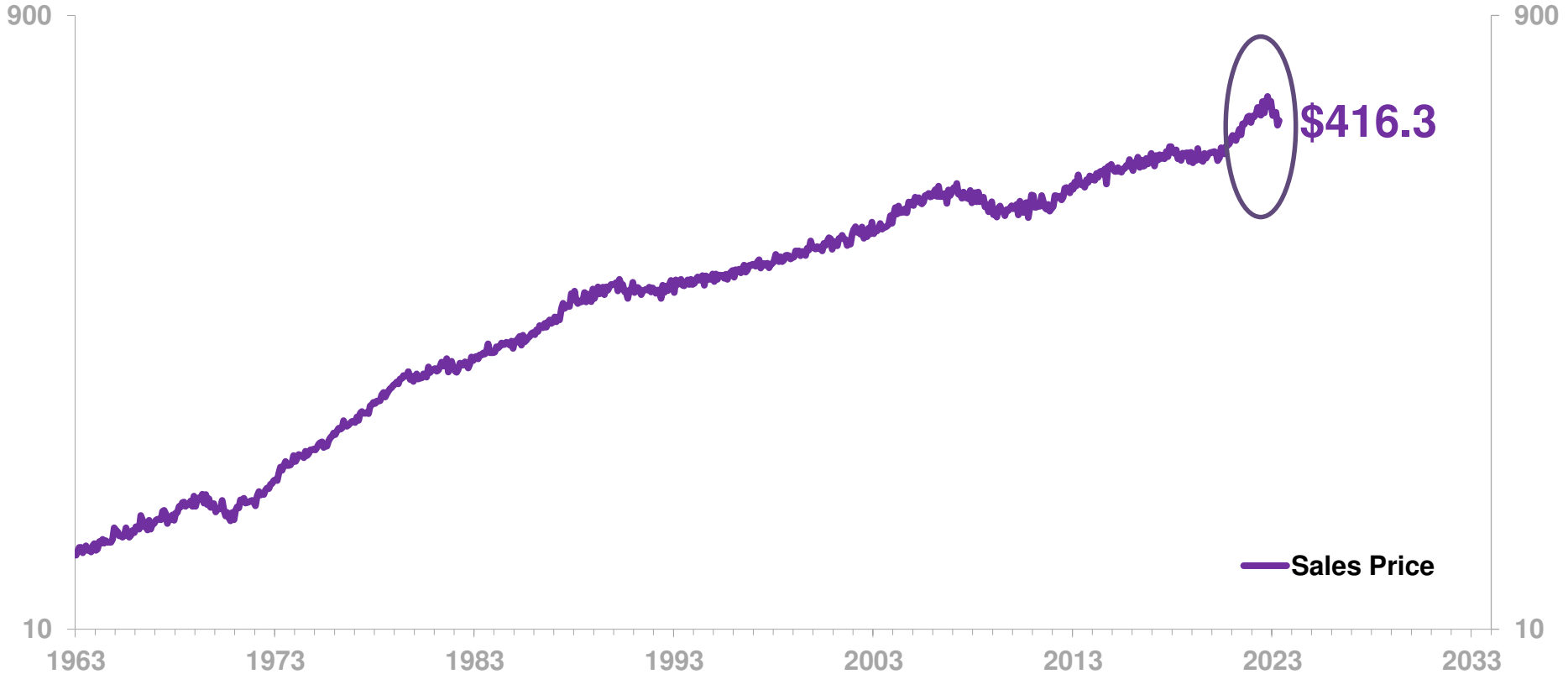


Price Correction; Not a Great Recession Redux

Source: US Census Bureau

US New Homes Median Sales Price

Thousands of Dollars



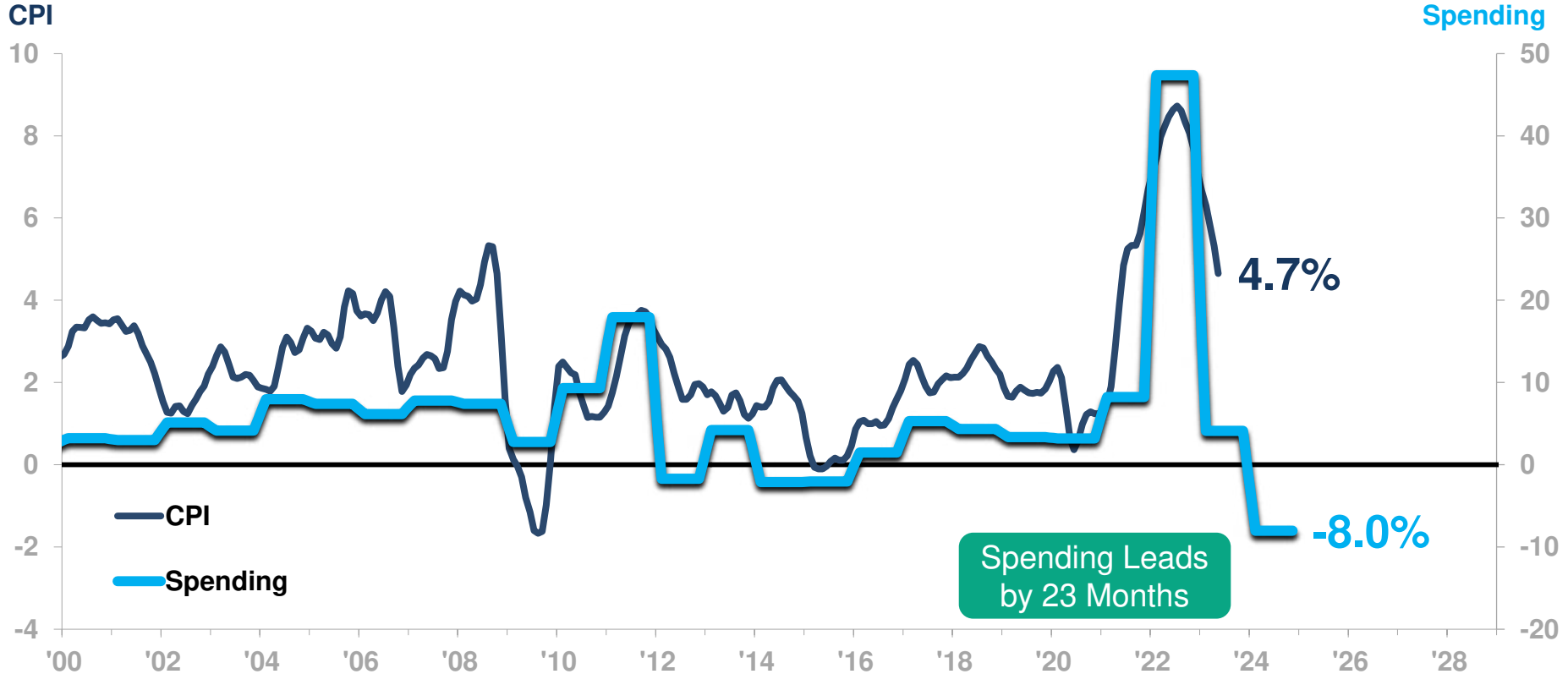
Inflation Tamed Through 2024

Sources: BLS, White House Office of Management and Budget



US Consumer Price Index to US Total Government Spending

3/12 Rates-of-Change



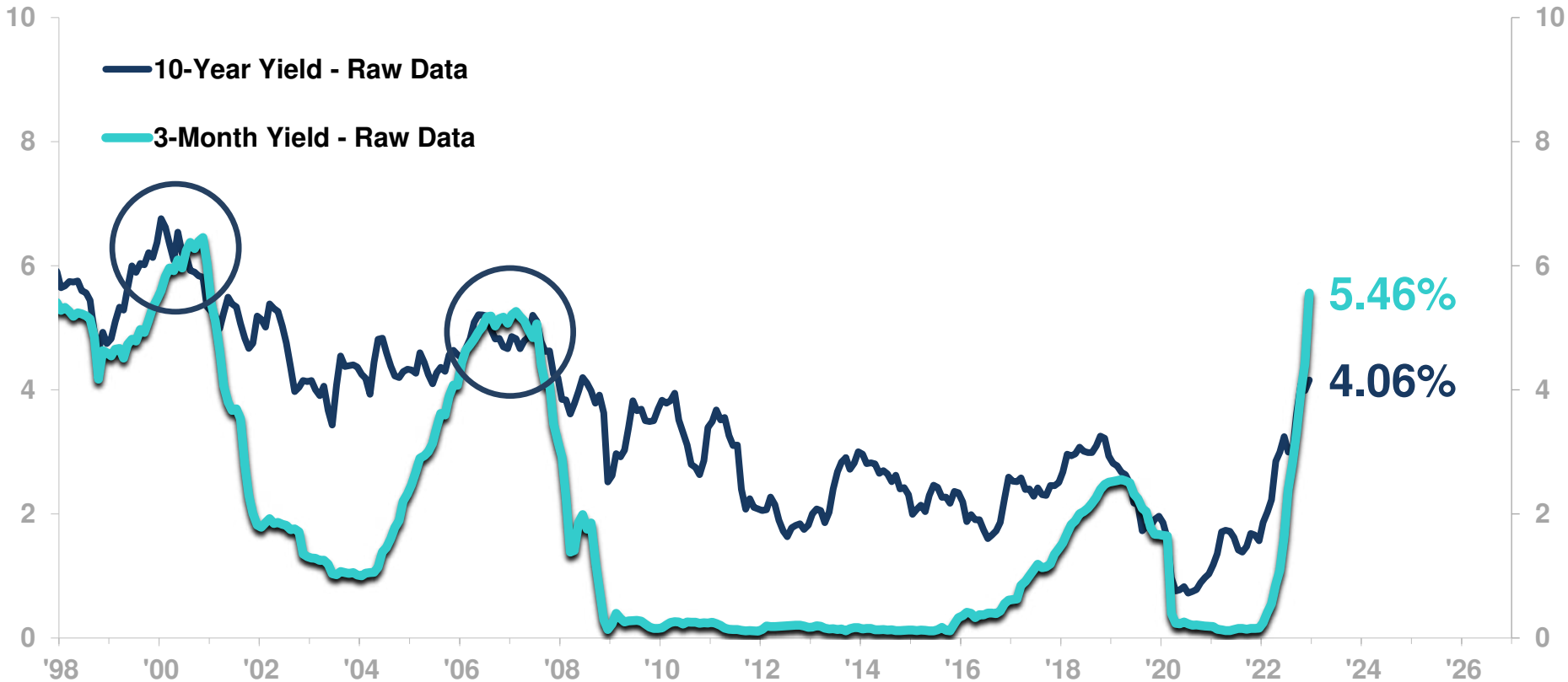
Inverse Yield Curve in Place: Recession Coming

Source:
US Treasury Dept.


US Government Long-Term Bond Yields to US 3-Month Treasury Bond Yield


Raw Data: Percent

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 Inflation is decreasing, but labor costs remain an issue.

 Fed's focus on wages is a real problem.

 Banks are tightening credit, making it more difficult to finance new projects.

Next Steps

- **This Federal Reserve is a wild card from our perspective. Stay with us via our weekly Fed Watch YouTube effort until this is over.**



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US Economy



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Real Wages Are Rising

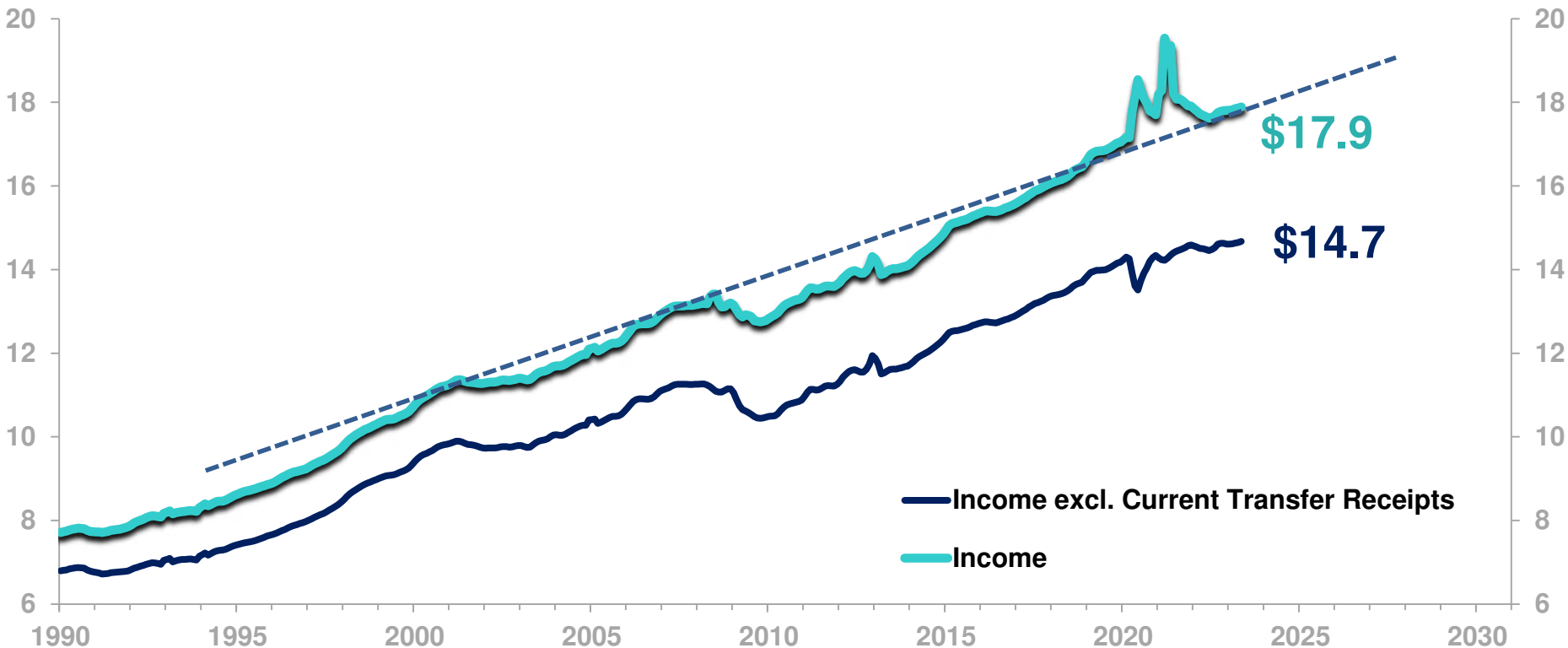
Source: BEA

US Real Personal Income (excluding current transfer receipts) to US Real Personal Income

Quarterly Data Trends in Trillions of Chained 2012 Dollars



Income excl. Transfers



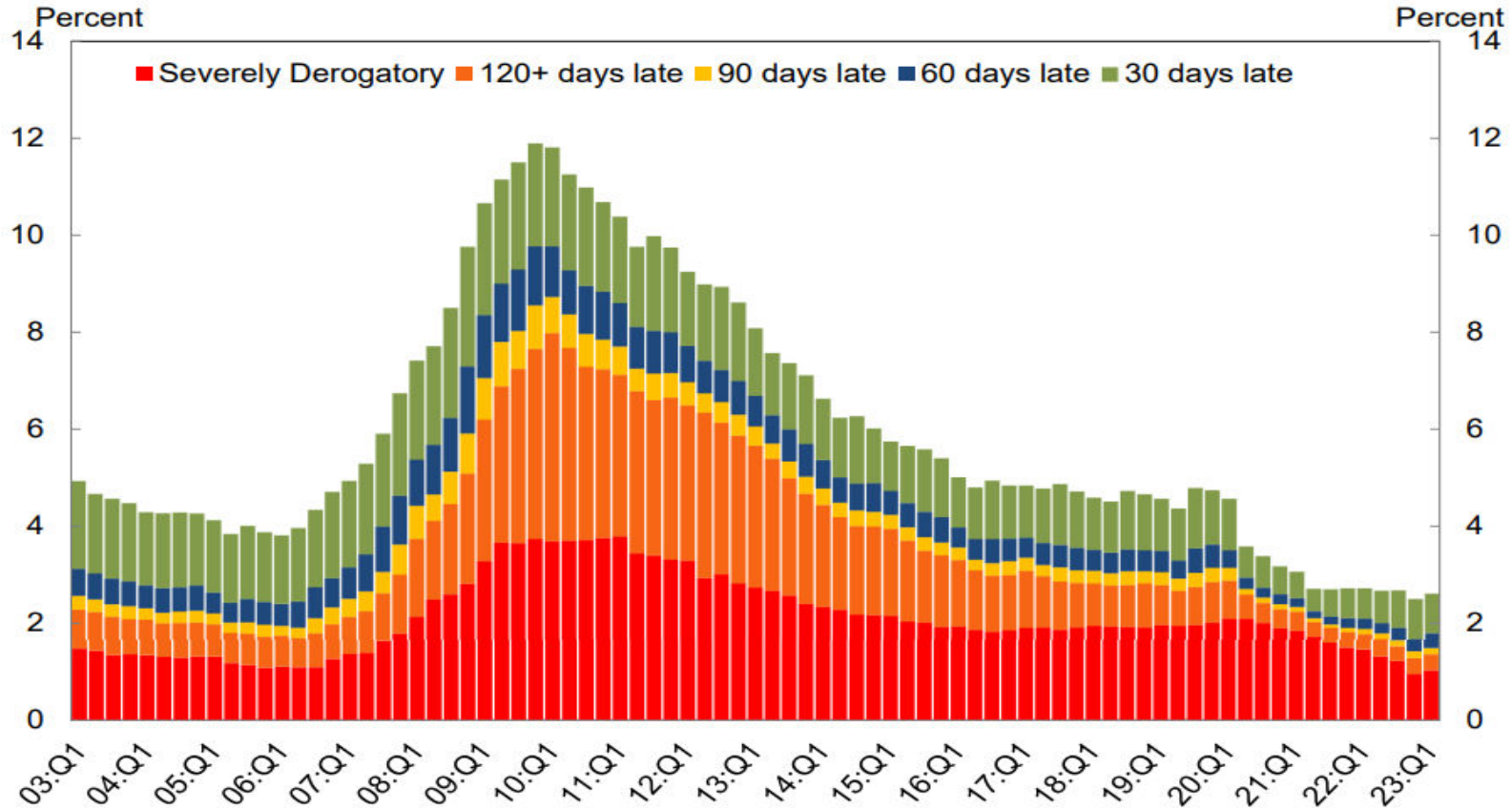
Consumers Are Handling the Debt Load

Source: New York Fed Consumer Credit Panel/Equifax

Total Balance by Delinquency Status



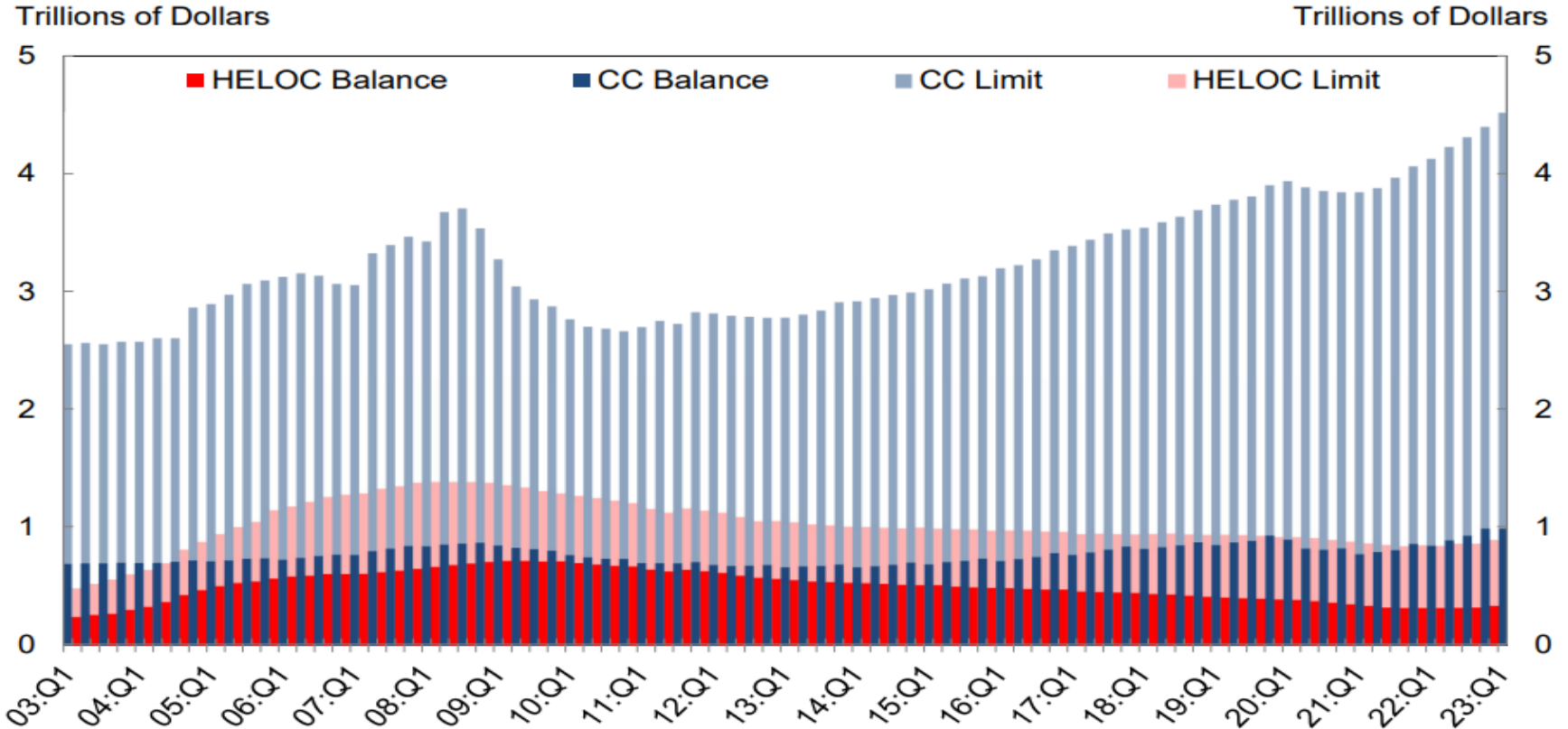
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Credit Card Balances Are Elevated But Delinquency Is Low

Source: New York Fed Consumer Credit Panel/Equifax

Credit Limit and Balance for Credit Cards and HE Revolving



Source: New York Fed Consumer Credit Panel/Equifax

The Decline in the Savings Balance Will Limit Growth

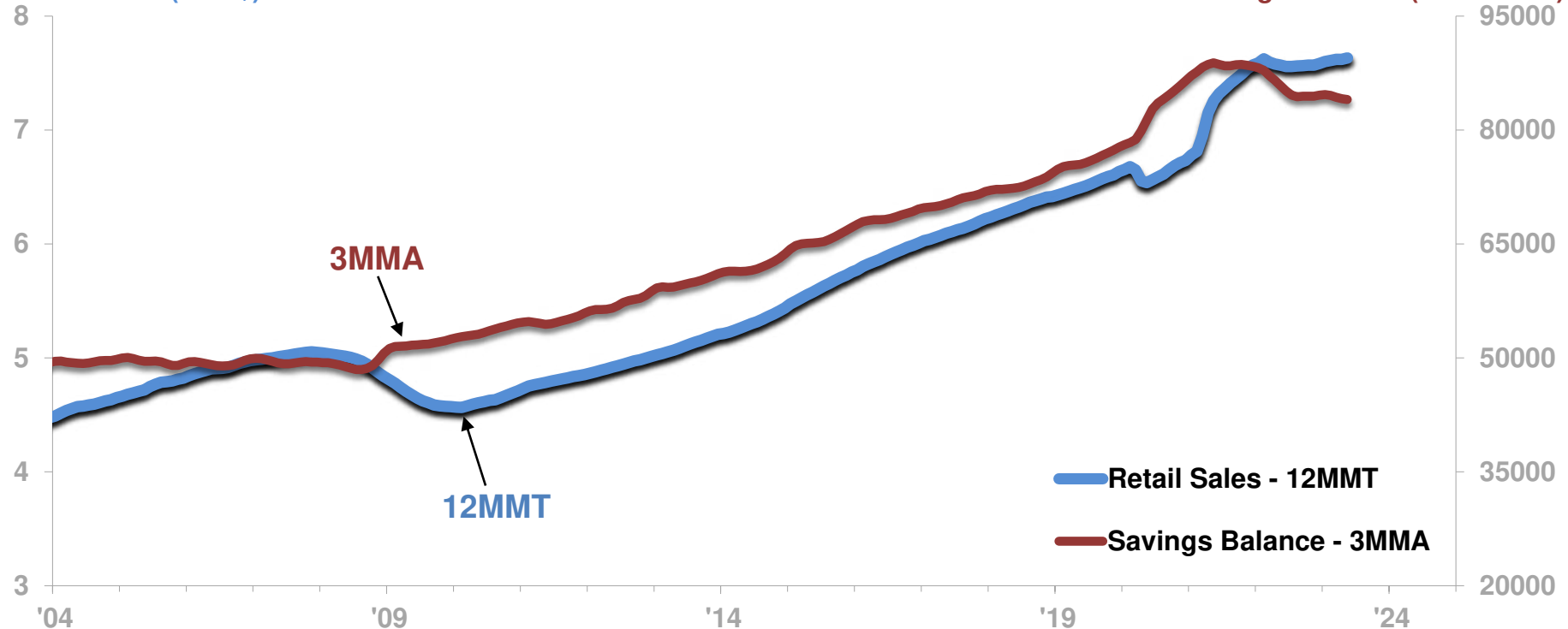
Sources: BEA, BLS,
ITR Economics

US Personal Savings Balance Index (deflated with US Consumer Price Index) to US Total Retail Sales (deflated)



Data Trends

Retail Sales (Tril. \$)



Monetary Policy Has Already Told Us About 2024

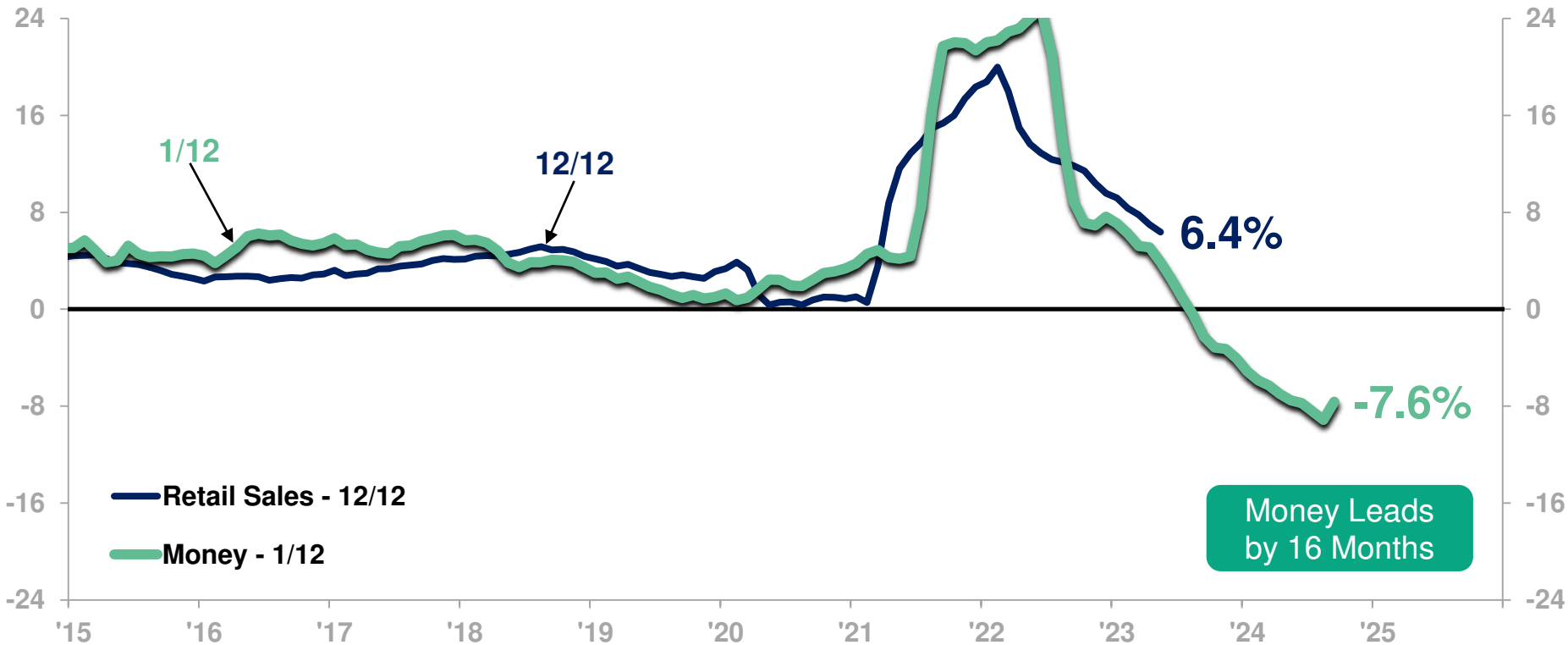
Sources: US Census Bureau, FRB



US Total Retail Sales to US M2 Money Supply (deflated)

Rates-of-Change

Retail Sales



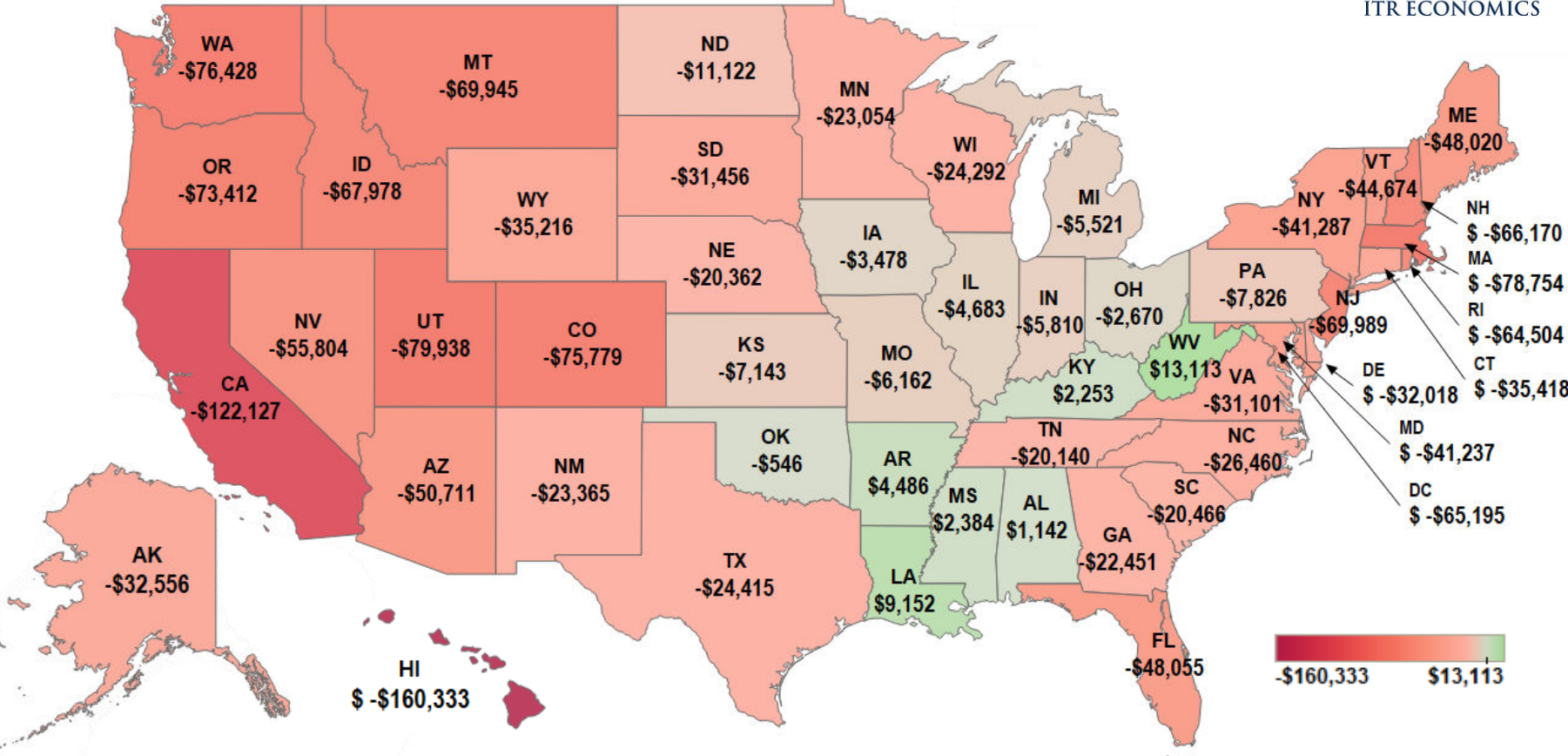
Housing Affordability Varies Considerably

Sources: Zillow, Tax -Rates.org, Wall Street Journal, Federal Housing Agency, US Census Bureau

Average Household Income Surplus or Deficit to Income Needed to Afford an Average Priced Home



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Favorable Trends That Reflect Healthy Consumer Finances

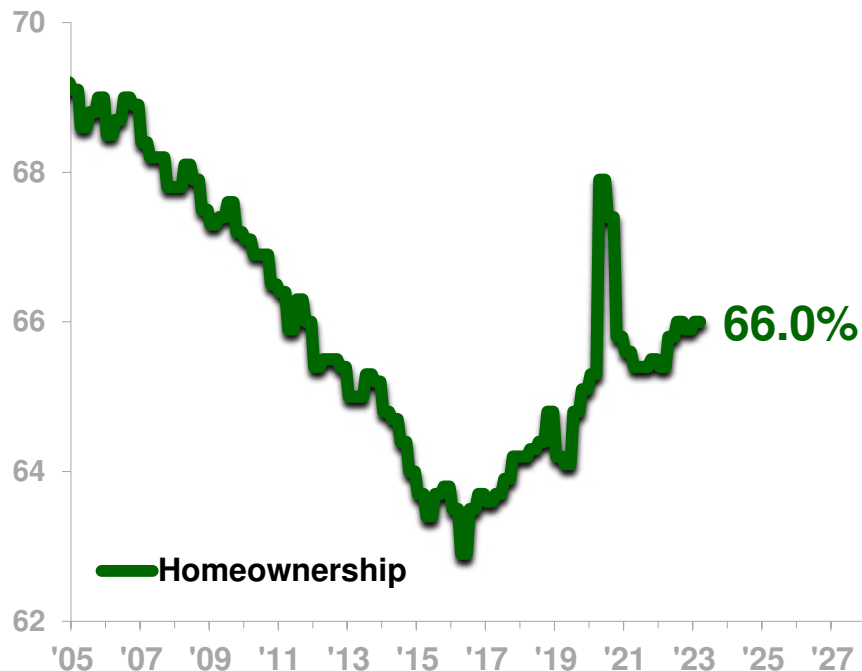
Source: US Census Bureau

US Homeownership and Vacancy Rates

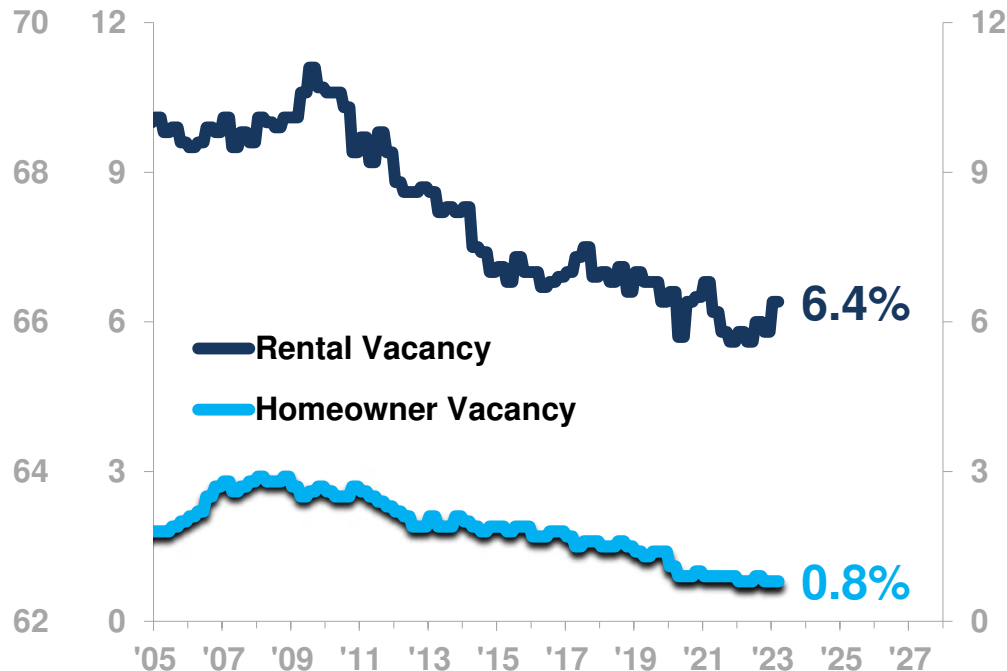
Raw Data, Percent



Homeownership Rate



Vacancy Rates



Housing Leads – Nonresidential Lags

Source: US Census Bureau

US Private Nonresidential Construction to US Single-Unit Housing Starts

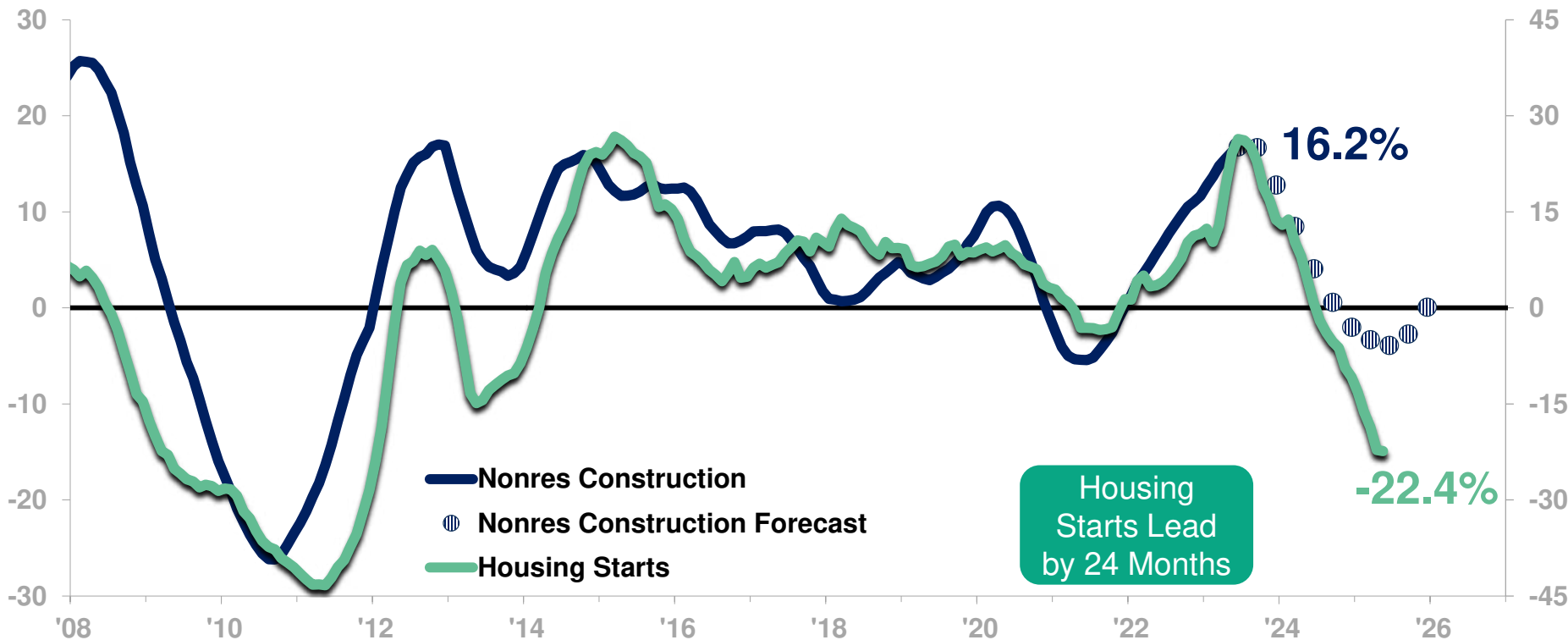
12/12 Rates-of-Change

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Nonres Construction

Housing Starts

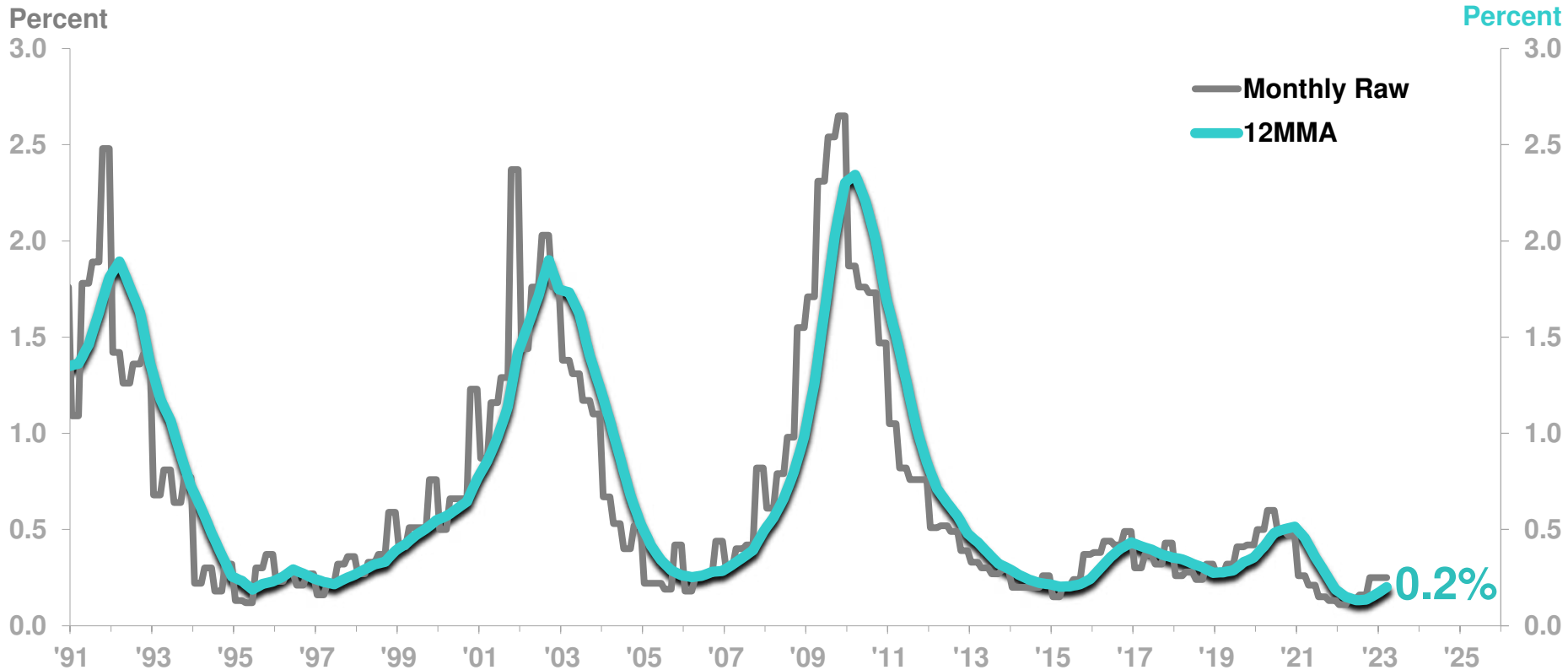


No Pressure from the Business Community as Yet

Source: FRB

US Commercial and Industrial Loan Charge-off Rates

Data Trends, Percent



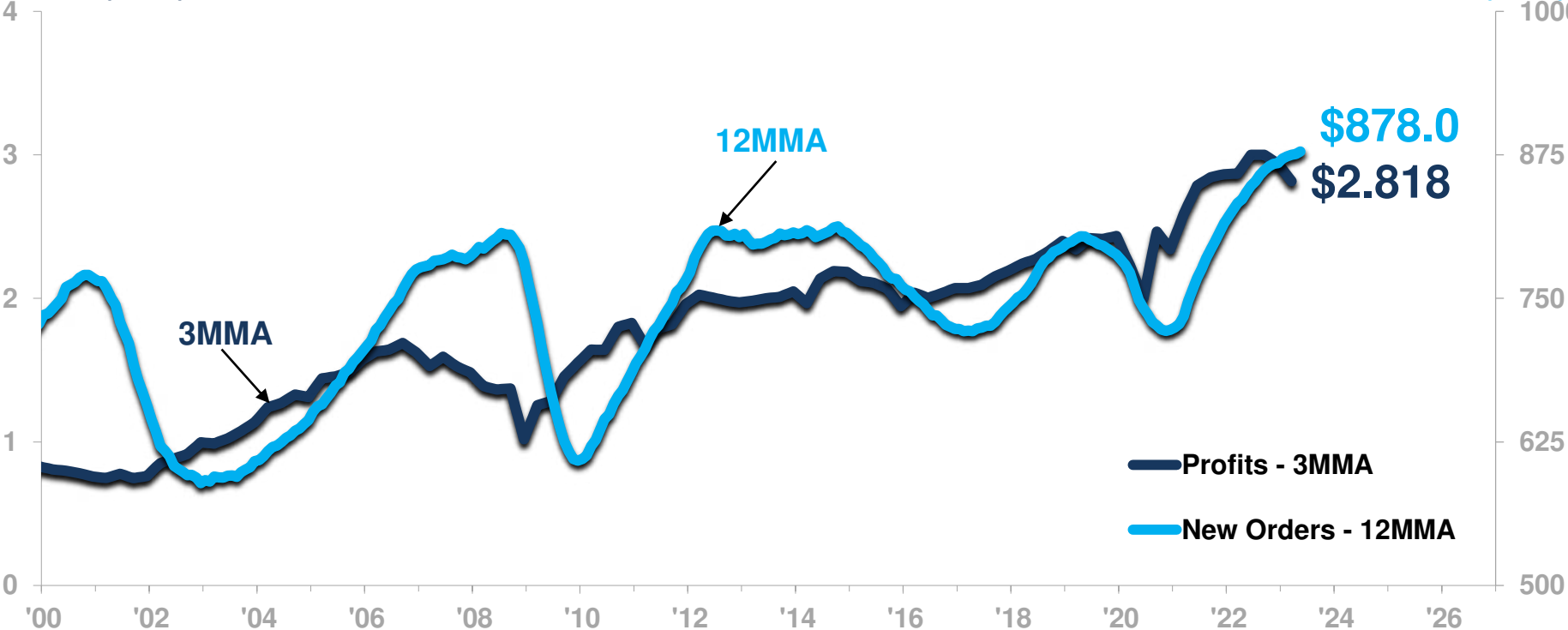


US Corporate Profits (with capital consumption adjustments) to US Nondefense Capital Goods New Orders (excluding aircraft)

Data Trends

Profits (Tril.\$)

New Orders (Bil. \$)



Office Vacancies Are Elevated; Industrial and Retail Vacancies Are Low

Source: Nareit

US Vacancy Rates



| | Monthly | 10-Year Average | Difference |
|---------------------|---------|-----------------|---------------|
| Apartments | 4.2% | 4.7% | -0.5 pct. pts |
| Industrial Building | 2.6% | 4.4% | -1.8 pct. pts |
| Office | 11.3% | 8.8% | +2.5 pct. pts |
| Retail | 3.3% | 4.9% | -1.6 pct. pts |




Office Prices Down Double-Digits; Industrial Rises; Retail, Apartments Decline Mildly

Source: CoStar Group

US Value-Weighted Real Estate Index of Prices



| | 1/12 R-O-C | 10-Year Average |
|------------|-------------------|------------------------|
| Apartments | -5.3% | 9.6% |
| Industrial | 6.8% | 12.2% |
| Office | -15.7% | 4.3% |
| Retail | -2.2% | 4.6% |

-  The consumer balance sheet is strong but macro trends are working against the consumer.
-  Corporate sector (including smaller banks) is under pressure.
-  Sales expressed in units will trend lower than nominal \$ sales.

Next Steps

- Determine if a Peloton effect is present in your business
- Market share gains and espousing your competitive advantages are key



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People



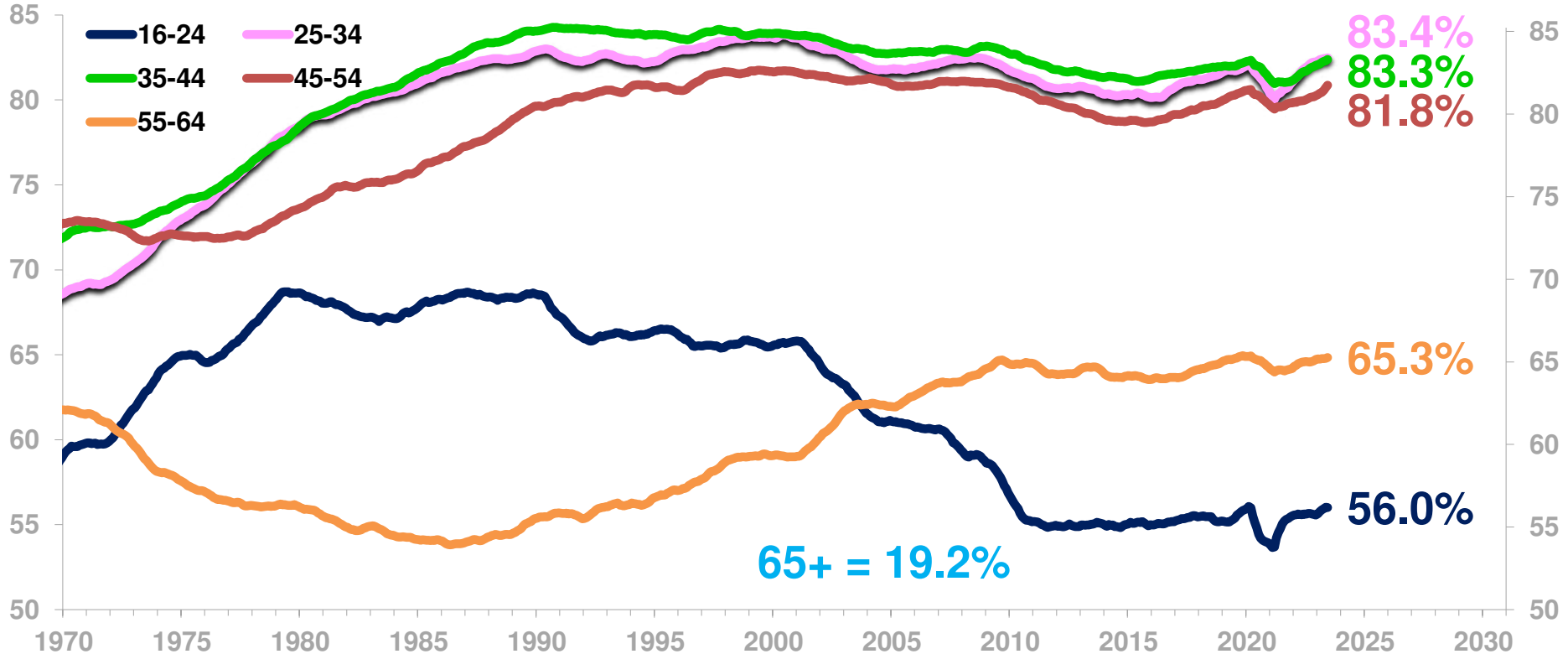
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US Civilian Labor Force Participation Rate For Ages 16-24, 25-34, 35-44, 45-54, 55-64, and Over 64

Annual Data Trends, Percent

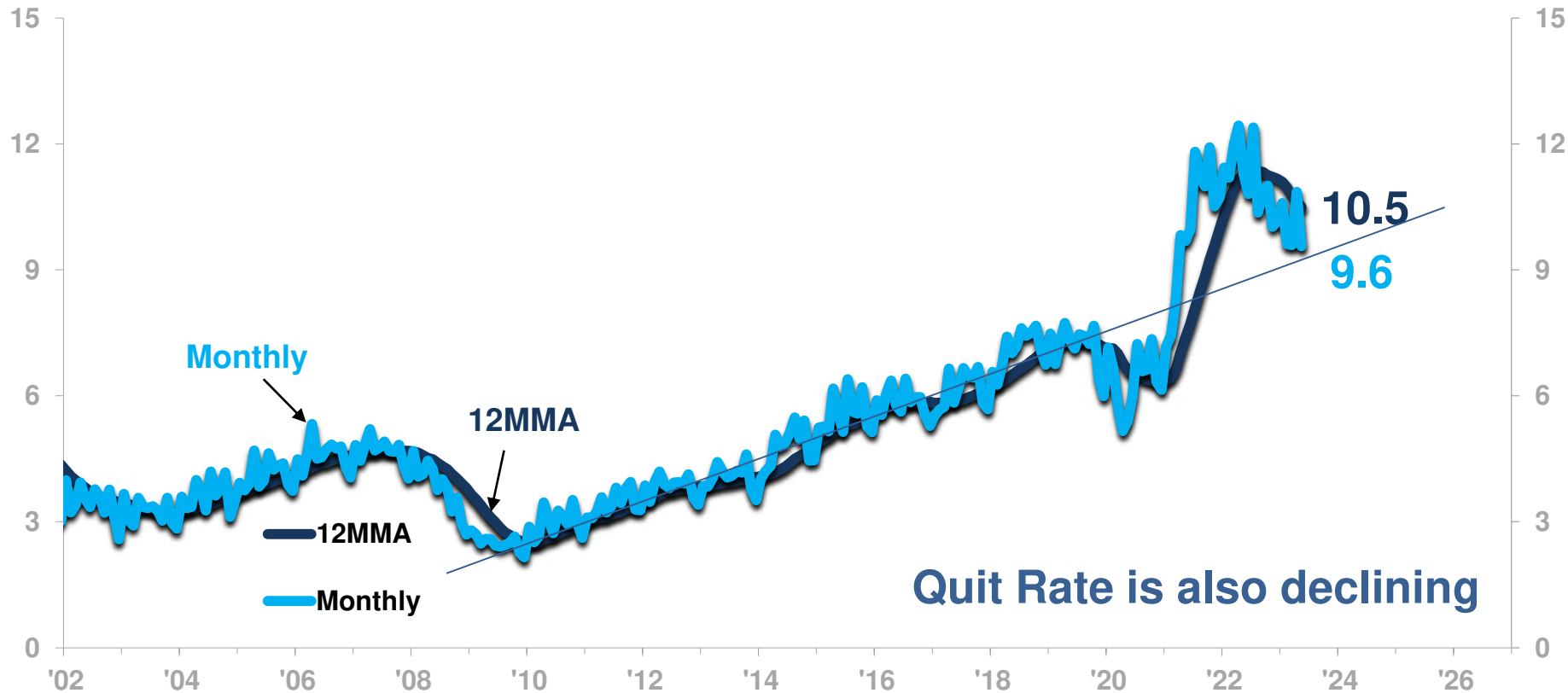





Job Openings Are Decreasing

Source: BLS

US Total Nonfarm Job Openings

Data Trends: Millions of Job Openings



-  Unemployment remains too low for the Federal Reserve.
-  Labor costs are proving to be “sticky downward”.
-  Expect the labor availability to improve beginning 4Q23 and continuing through 2024.

Next Steps

- There are going to be some layoffs in 2023-2024; grab some freed-up talent
- Tougher times increases employee “stickiness” so moderate your own wage inflation

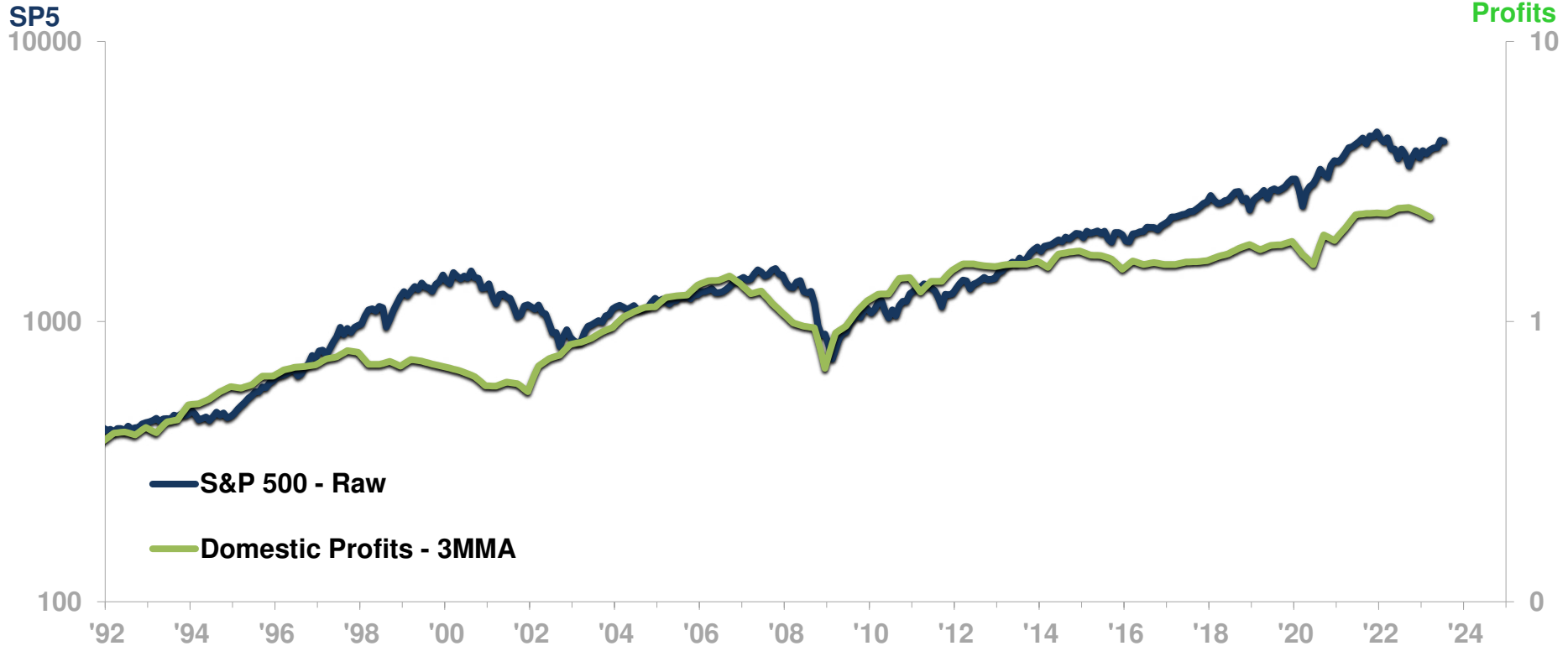
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Financial Markets



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US Stock Prices Index to US Domestic Corporate Profits with Capital Consumption Adjustments Data Trends



Optimizer A Oct 1, 2020 through June 30, 2023

Optimizer A



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— OPTIMIZER A - Cumulative Return — S&P 500 - Total Return - Cumulative Return

-  1. Demographics
-  2. Health Care Costs
-  3. Entitlements
-  4. Inflation
-  5. US National Debt

The 2030s

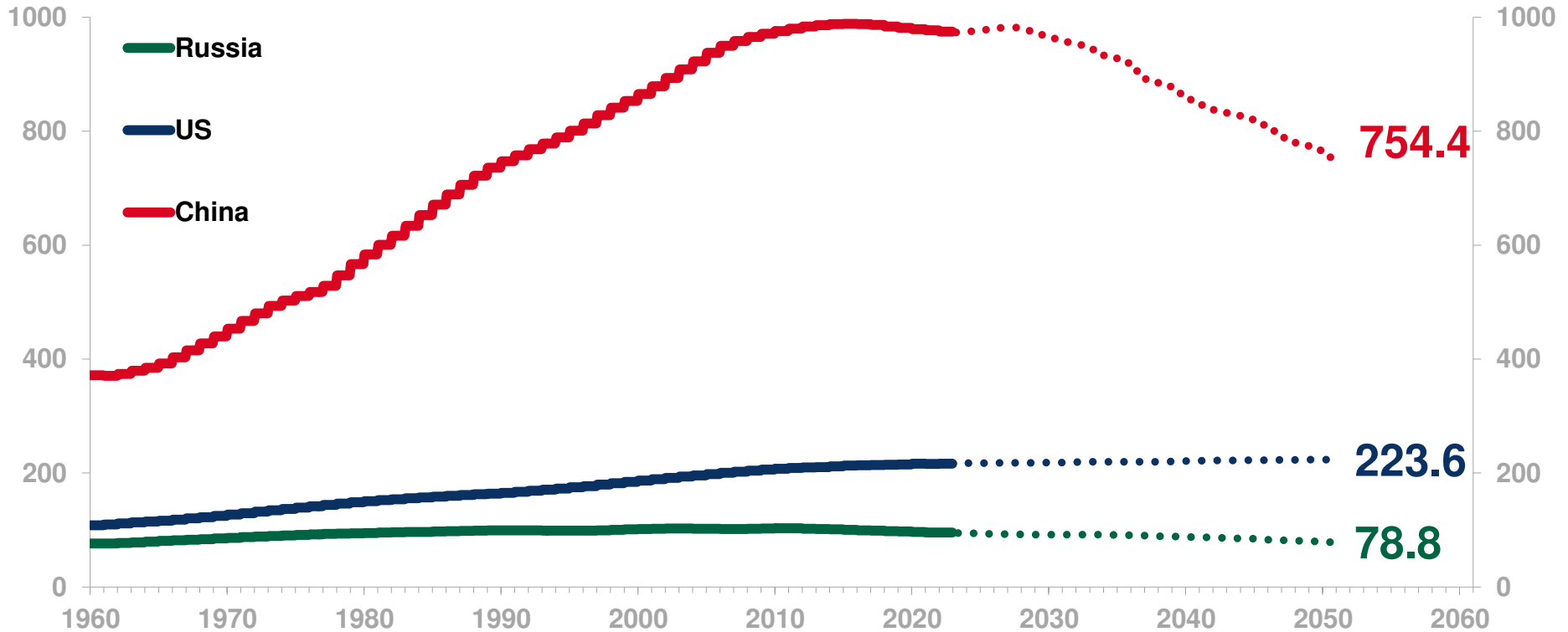


A Declining Population Wreaks Economic Havoc

Source: World Bank

Total Population Age 15-64 With Projections – US, Russia, China

Millions of Persons

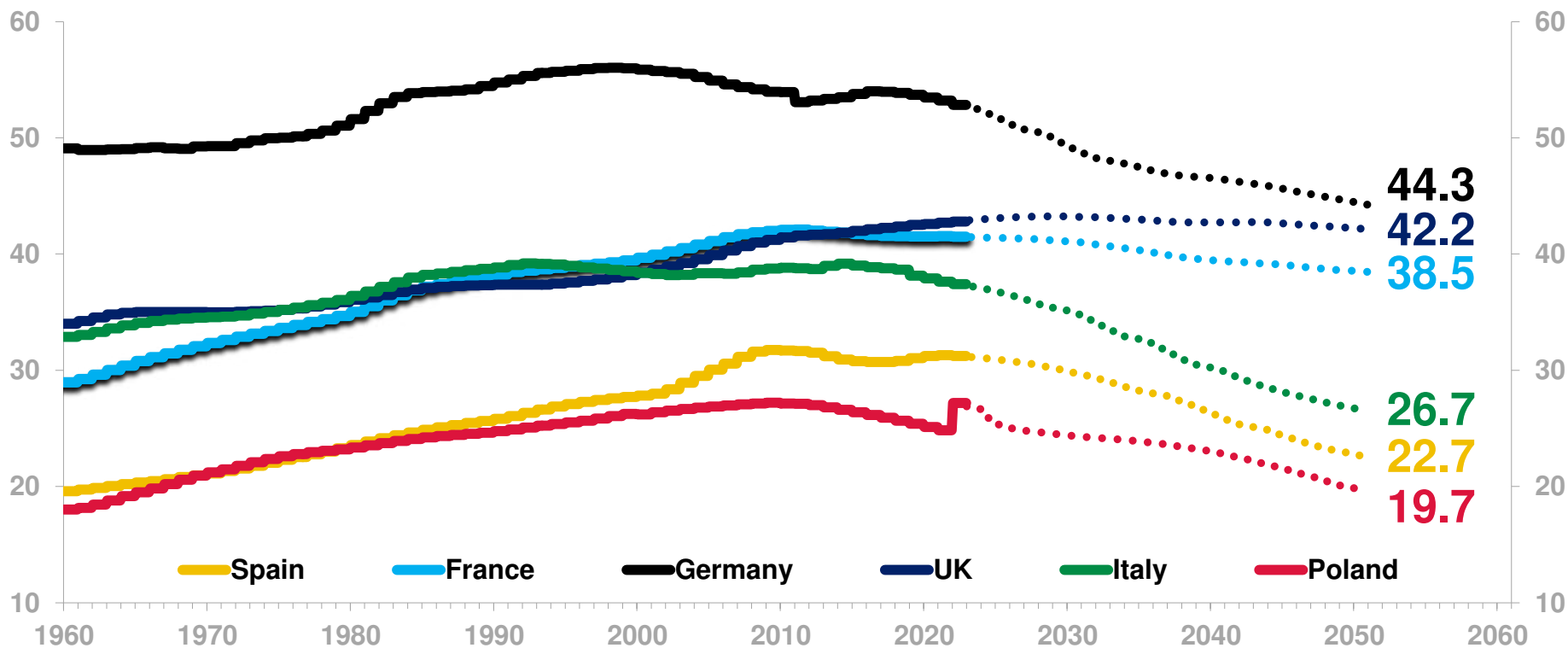


Europe is Facing the Same Demographic Issue

Source: World Bank,
Projections by World Bank

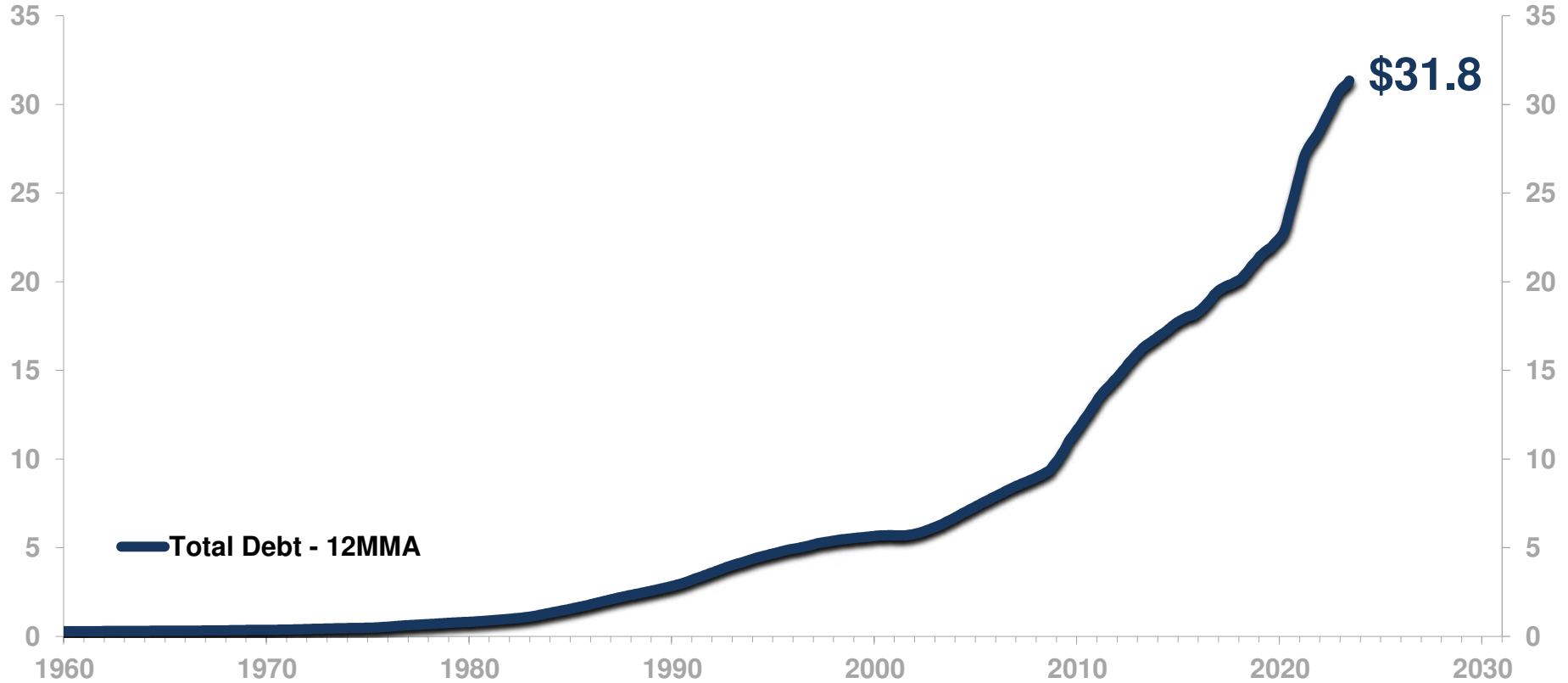
Total Population Age 15-64 With Projections – Spain, France, Germany, UK, Italy, Poland

Millions of Persons



US Total Public Debt Outstanding

Quarterly Data Trends: Trillions of Dollars



-  **Build a financial bunker 2028-2029 if you are not selling the business**
-  **Safety over magnitude of return will be a virtue**
-  **Focus on wealth preservation circa 2030 – 2036**

Next Steps

Long-terms to maturity will yield the greatest capital appreciation. Can you take the beta?

Join us July 27, 2:30 eastern, for a deeper dive into the 2030s probabilities.



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Any questions?

The next Great Depression – beginning in 2030 and defining that decade – has long been forecasted by ITR Economics. What trends are contributing to that forecast, and how should businesses prepare?

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