



ARMADA


# October 2024 Economic Outlook Affinis

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Managing Director

Economics is  
extremely useful as a  
form of employment  
for economists.



*John Kenneth Galbraith*

 Wonderful Quote

# Anything Interesting Lately?????

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- **Oh yeah – interest rates.**
- **Impact –**
  - For investors it is limited as these cuts have already been priced in (maybe too much)
  - For consumers – limited as it will take a while for reactions to trickle down. No immediate change to mortgages, credit cards, car loans
  - For commercial borrowers – confirmation of what was expected, projects are back on
  - For dollar – continued weakness. Lowest exchange value since August of 2023. Good for exporters and not so good for importers
- **What Now?**
  - Cut in December?
  - How low does it go in 2025
  - What will we learn from the Fed Minutes

# Anything Else???

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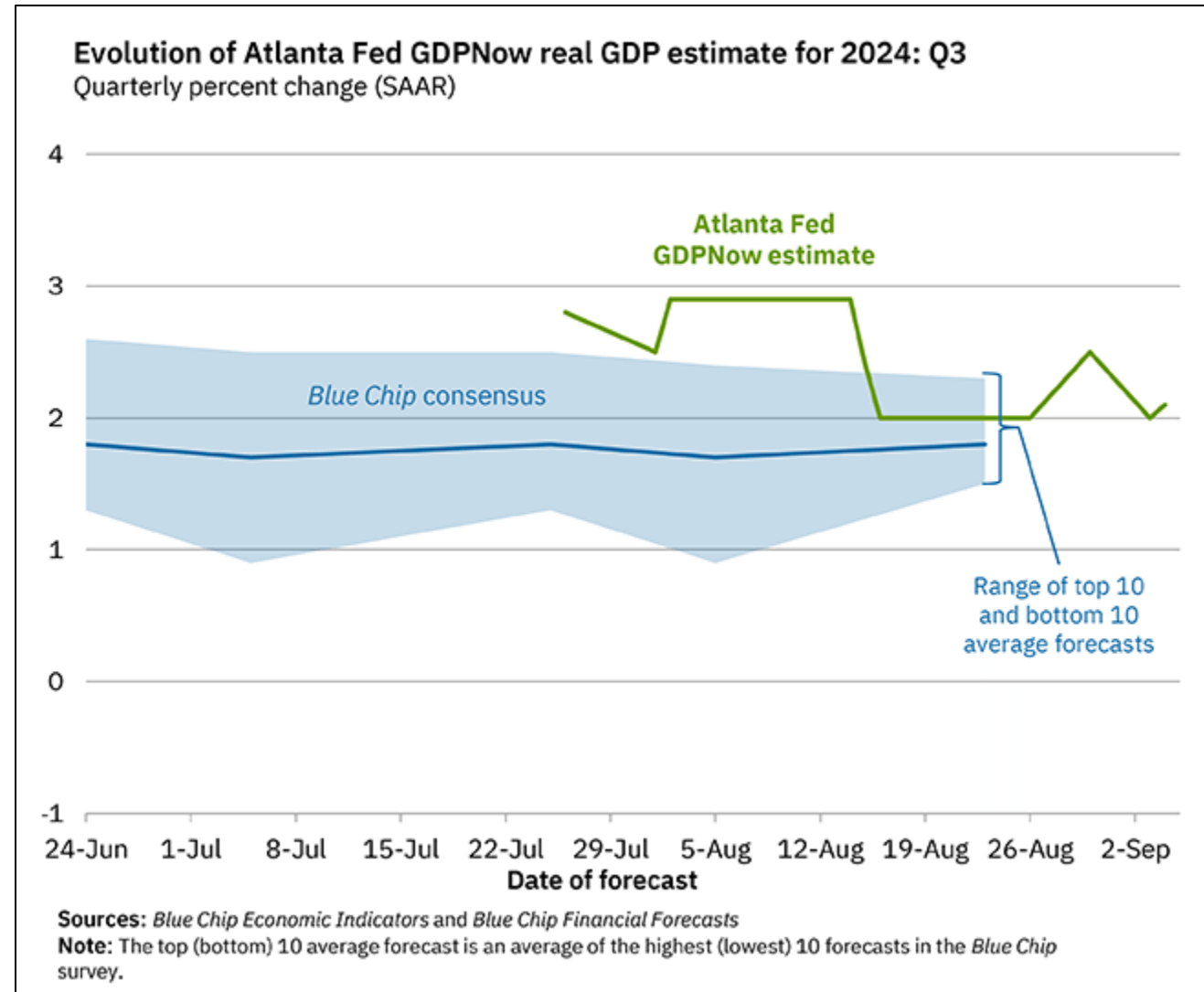
- **War in Middle East**
  - Iran is linchpin – what will Masoud Pezeshkian do?
  - What happens with Netanyahu
  - Gaza?
- **Dock Strike**
  - How long and what are the issues
- **Taiwan, China and Japan**
- **Election**
  - Impact of Presidential choice – somewhat limited
  - Who wins Congress – razor thin margins with both House and Senate close
  - Makes the remaining centrists very powerful
  - State and local elections ever more important

# What Happened to the “Polycrisis”

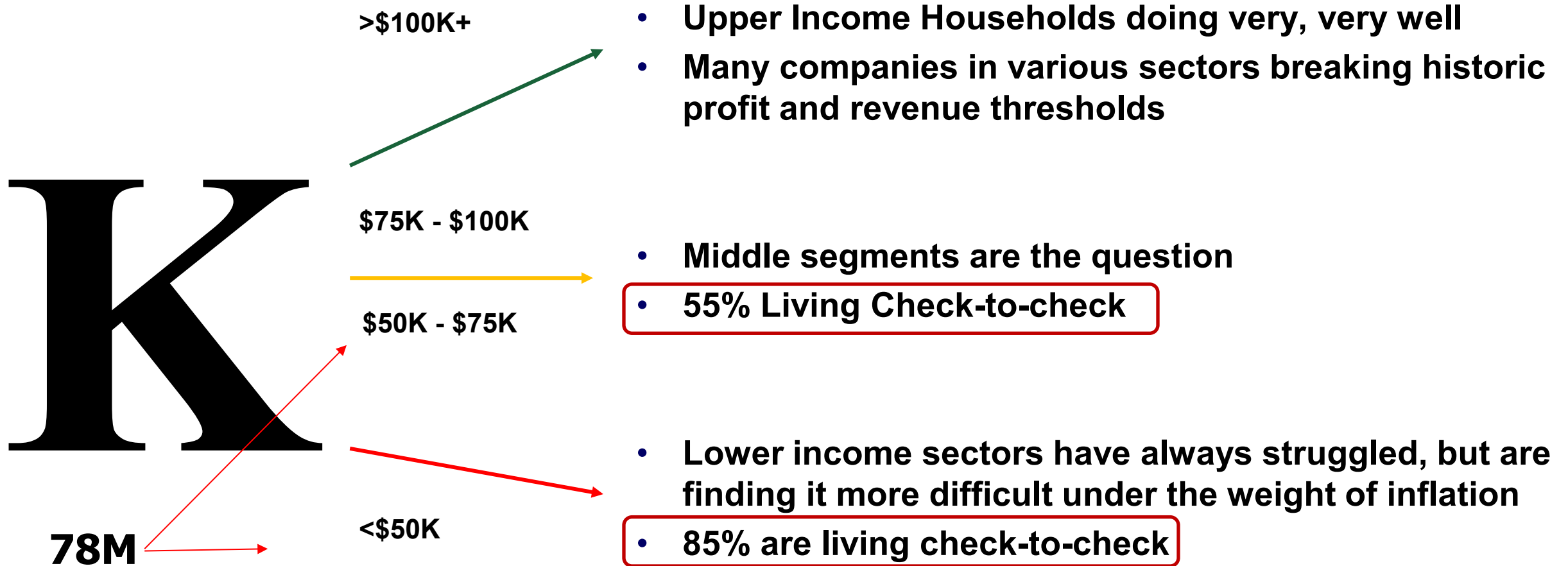
- **Stagflation – Supposed to be repeat of the 1970s – very low growth combined with very high inflation. We got the inflation but we also got high levels of growth. In fact it was the growth that triggered the inflation**
- **Oil Crisis – Russian sanctions were supposed to lead to \$200 a barrel oil. The current WTI is \$70 and Brent is \$73. Russia sells more oil now than before the sanctions. More worry about a glut these days.**
- **Crop prices – Supposed to be a crisis as Ukraine and Russia would not produce – both are setting export records again this year.**
- **Global recession – Nobody in western world has fallen below zero. Weaker in Europe but still no recession. Even developing world has managed to avoid deterioration.**
- **Did central banks manage to maneuver fast enough after all?**
- **Was this all media and political hysteria?**

## Q3 In-Line with Estimates

- Blue Chip Economists are expecting 1.8% growth for Q3, which is in-line with prior expectations. Initial Atlanta Fed estimates show it trending higher at nearly 2.1%. This will cool over the next few weeks as new data flows in.
- The economy is still being driven by:
  - **Consumer spending**
  - **Government spending**
  - **Business and Private Investment**
- 2023 Q3 GDP grew at 5.2% largely on heavy inventory building activity headed into the peak season. Many believe that this year, that inventory building activity was pulled-forward to avoid strike risk.

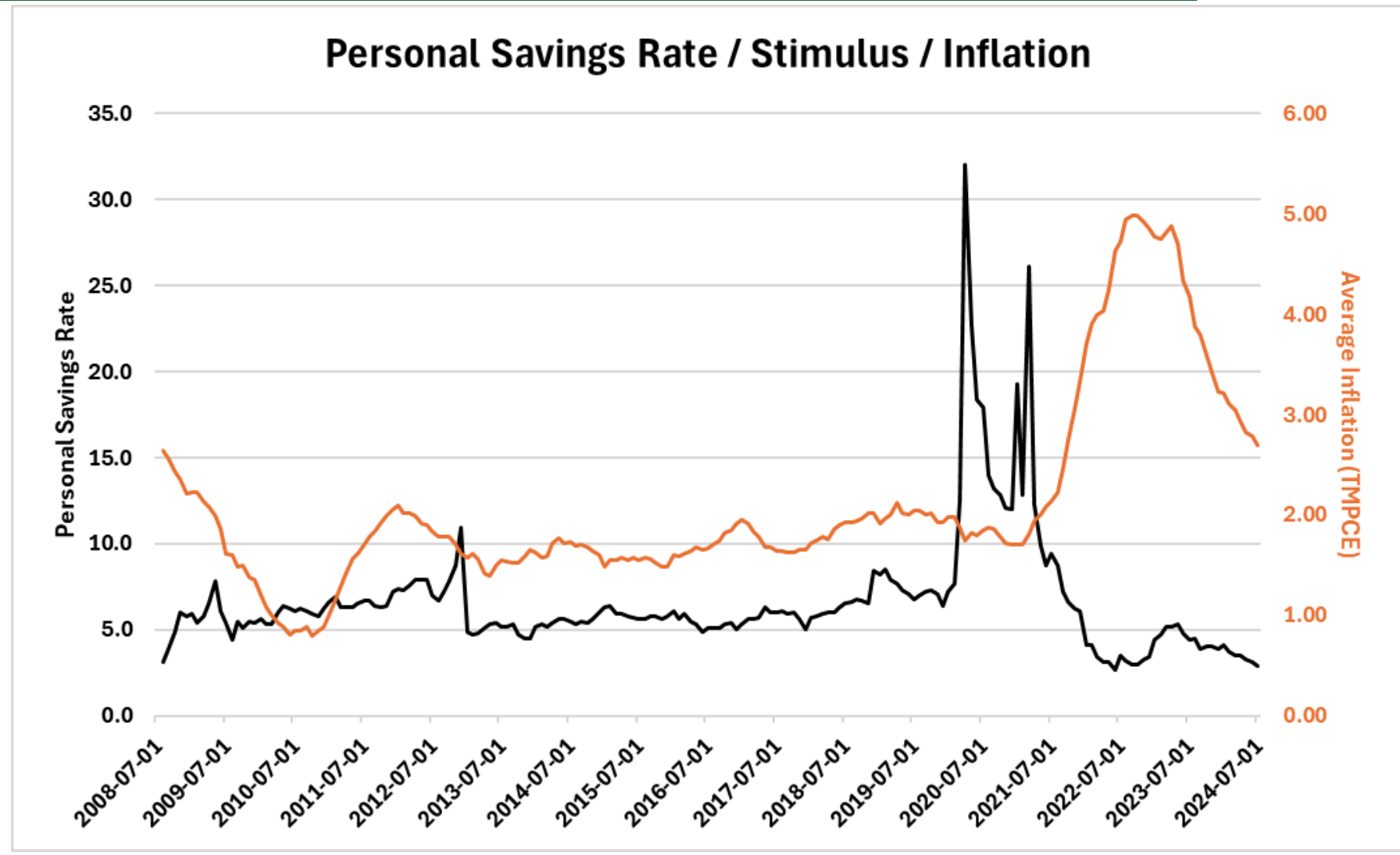


# The Rare, K Shaped Recovery



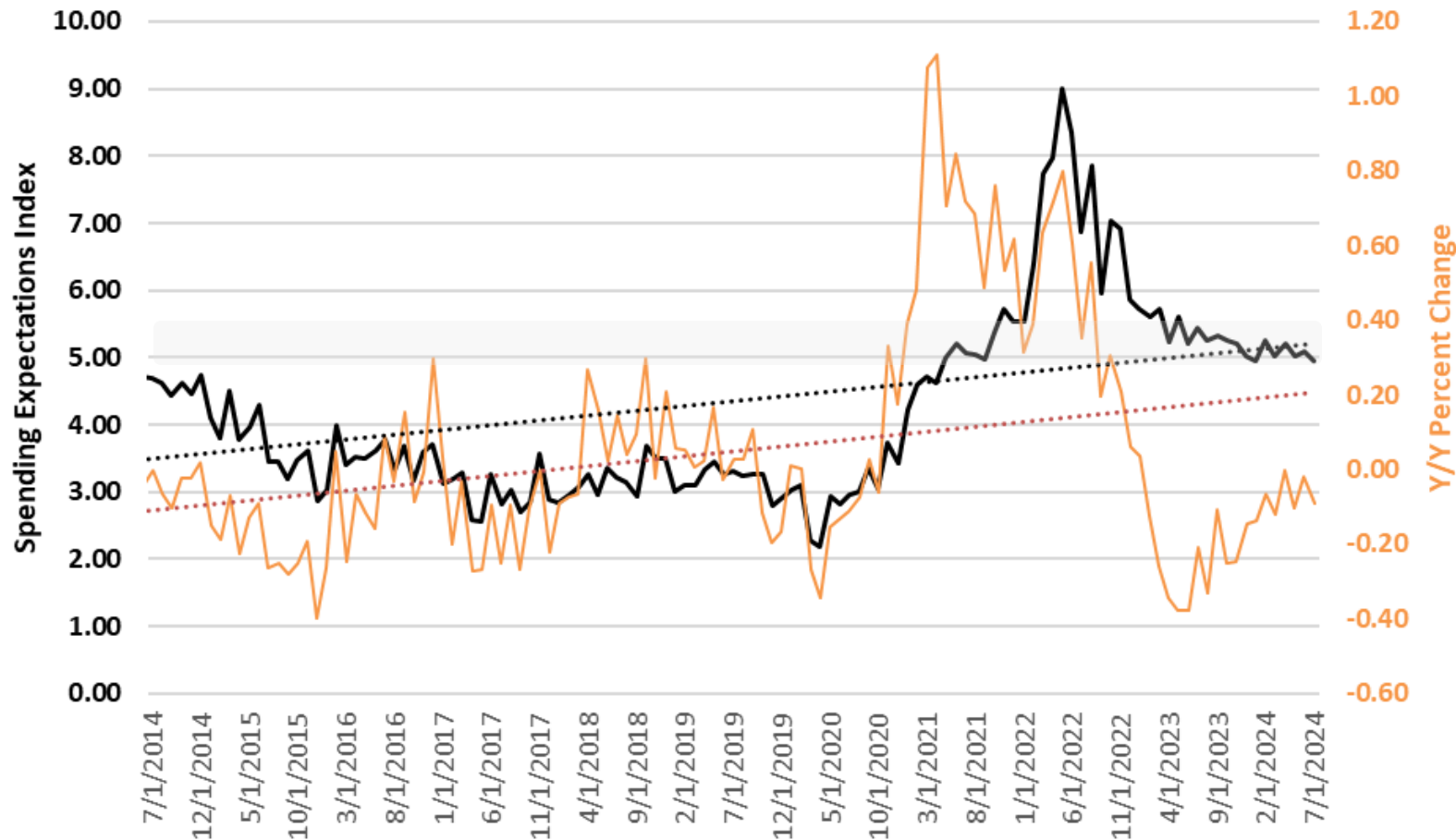
# Savings Rate / Stimulus / Inflation

1. First infusion.
2. Second infusion.
3. Third infusion.
4. Surge in average inflation between the second and third infusion of liquidity
5. Average inflation is finally coming down, but still historically high.
6. But the savings rate is falling further, approaching new all-time lows.



# Despite All of That: Consumer Spending Expectations Remain Historically High

## NY Fed Household Spending Expectations



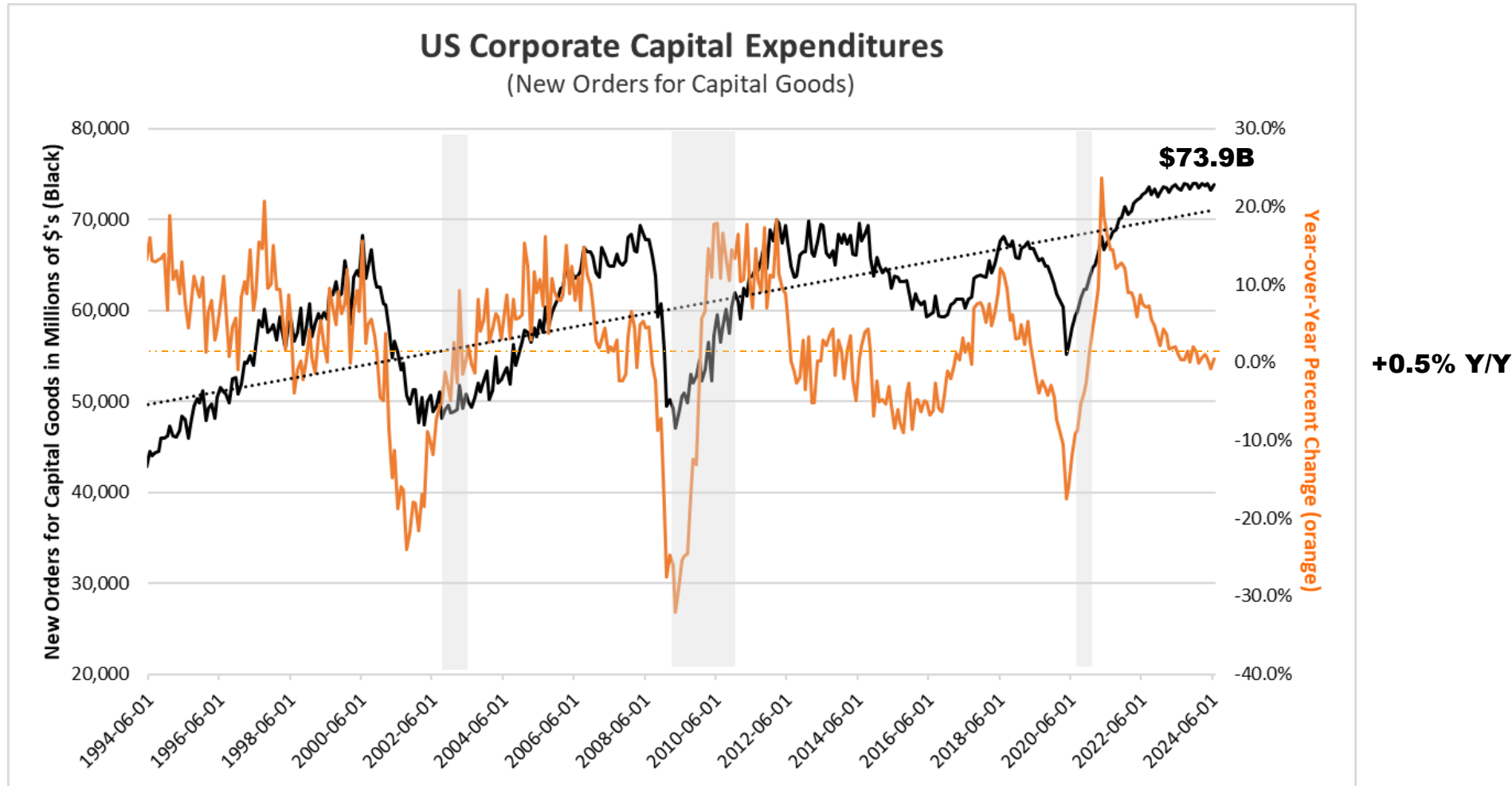
1. Historically, spending expectations remain high.
2. This could be a good sign for the peak retail season and help complete sell-through.
3. Again, some of this might be the 'K' shaped recovery in which some households are doing very well, but others are really struggling under the weight of inflation.

# K



# Growth: Corporate Investment Remains Steady – Easing of Rates Would Speed Things Up

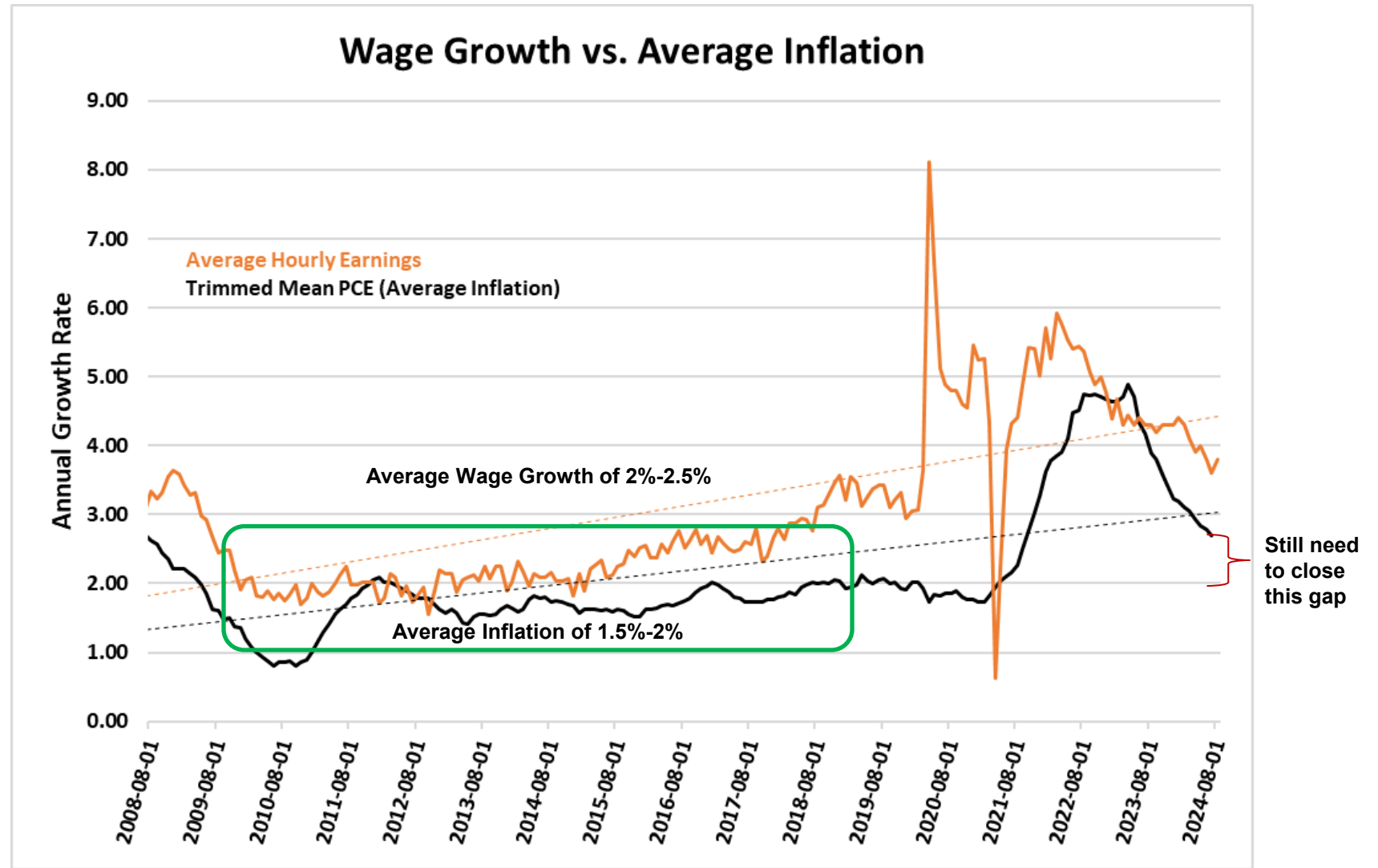
- Small business surveys show investment has started to decline, and is now showing in this view of the national data yet



Source: Federal Reserve

# The Key Fed Relationship Powell is Managing Against

1. Historical wage growth of 2.5%-3.0%
2. Average inflation needs to be 2% in order to allow households to build some “headroom” between income and costs
3. 62% of US households still living check-to-check (28% in higher earning households): 78 million households.



# Average Inflation Coming Down – Good for the Fed – New PCE the 30th

## One-month PCE inflation, annual rate

	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24
PCE	4.0	4.1	3.2	0.1	0.7	1.9
PCE ex F&E	3.1	4.1	3.1	1.2	2.0	2.0
Trimmed mean	3.2	3.3	2.6	2.0	1.8	1.7

## Six-month PCE inflation, annual rate

	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24
PCE	2.6	2.5	3.0	3.0	2.9	2.3
PCE ex F&E	3.0	3.0	3.2	3.3	3.3	2.6
Trimmed mean	3.1	3.0	3.0	3.1	3.1	2.4

## 12-month PCE inflation

	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24
PCE	2.5	2.7	2.7	2.6	2.5	2.5
PCE ex F&E	2.8	2.8	2.8	2.6	2.6	2.6
Trimmed mean	3.1	3.0	2.9	2.8	2.8	2.7

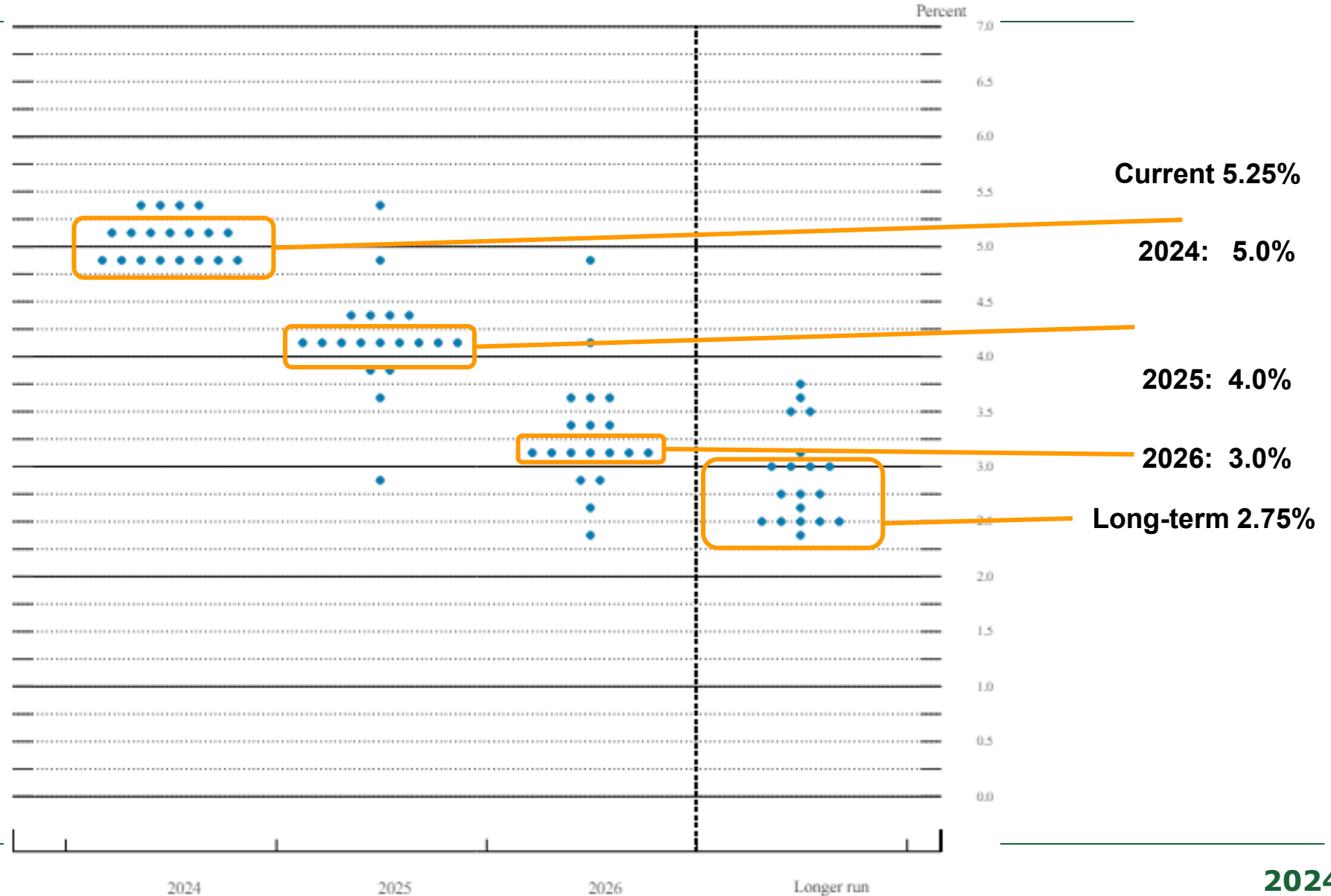
## Fed's Target Rate is 2%.

- 2.70% July '24
- 2.80% June '24
- 2.80% May '24
- 2.90% Apr '24
- 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
- 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

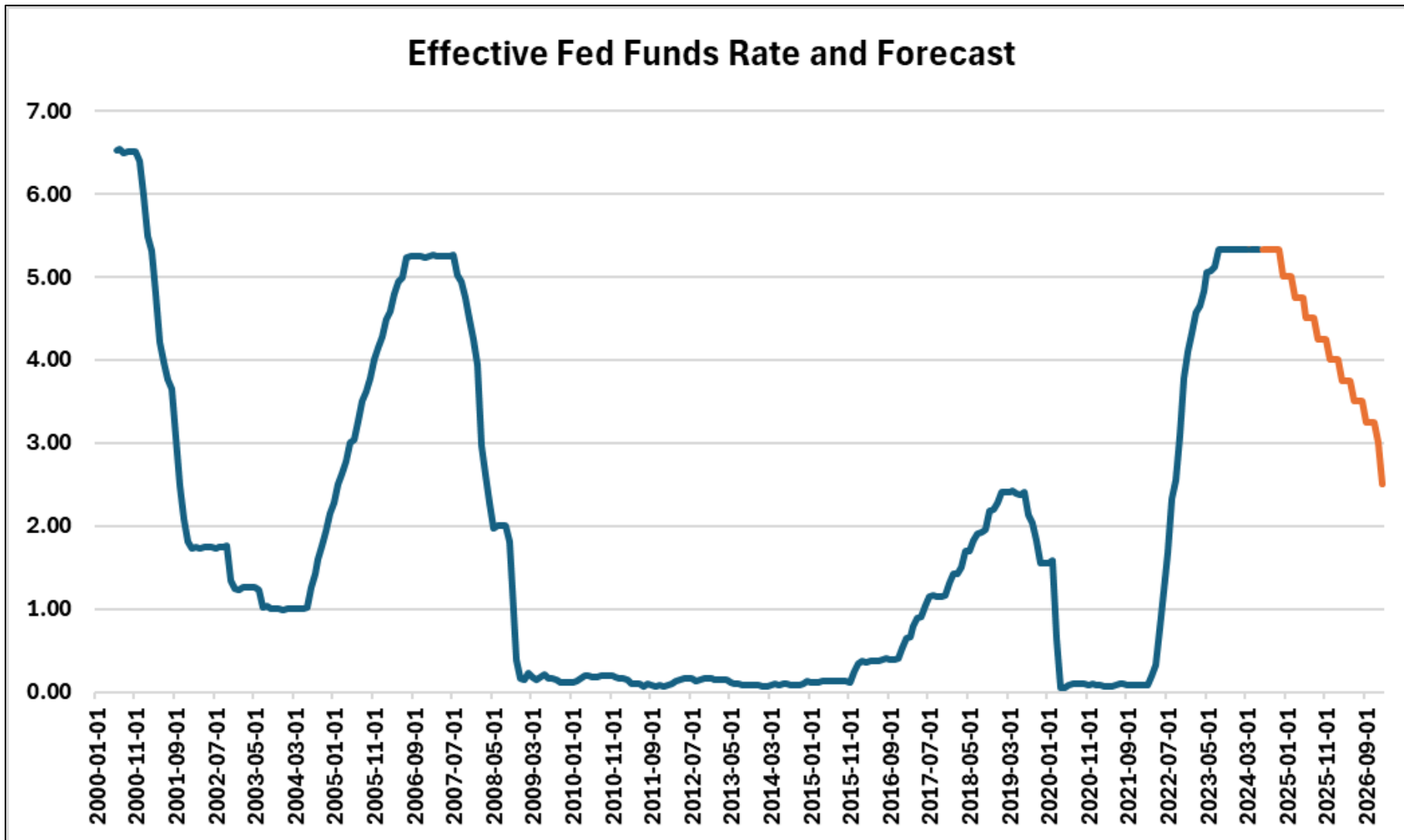
Pause

# Latest Fed Dot Plot Estimates for Interest Rates Moving Forward

- GDP Growth is stable, but pockets of weakness are showing.
- Inflation is easing, and within striking distance of the Fed target.
- Employment levels are still not easing enough to give it full confidence that inflation is fully under control. But they are realizing that it is perhaps a “new normal” with Baby Boomer retirements accelerating.



# Historical Perspective: Fed Funds Rate Forecast – Long Term 2.75%



# Global Manufacturing Slowing

- Preliminary data shows 15 countries had manufacturing sectors in contraction in July
- 17 out of 30 countries surveyed fell M/M.
- General Themes:
  1. New orders were sluggish in August
  2. Input prices were still high
  3. Pushback on selling prices (customers not accepting hikes)
  4. Hiring has stalled, some countries seeing reductions in headcount
  5. And yet, 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		Aug	47.9	49.6	-1.7	Aug	55.7	55.0	0.7
Global PMI	\$ 4,700	Aug	49.5	49.7	-0.2	Aug	53.8	53.3	0.5
Canada	\$ 665	Aug	49.5	47.8	1.7	Aug	47.8	47.3	0.5
Mexico	\$ 661	Aug	48.5	49.6	-1.1				
China	\$ 655	Aug	50.4	49.8	0.6	Aug	51.6	52.1	-0.5
Eurozone PMI	\$ 632	Aug	45.8	45.8	0.0	Aug	51.0	50.2	0.8
ASEAN	\$ 369	Aug	51.1	51.6	-0.5				
Japan	\$ 210	Aug	49.8	49.1	0.7	Aug	53.7	53.7	0.0
Germany	\$ 201	Aug	42.4	43.2	-0.8	Aug	51.2	52.5	-1.3
South Korea	\$ 161	Aug	51.9	51.4	0.5				
UK	\$ 118	Aug	52.5	52.1	0.4	Aug	53.7	52.5	1.2
Taiwan	\$ 114	Aug	51.5	52.9	-1.4				
India	\$ 113	Aug	57.5	58.1	-0.6	Aug	60.9	60.3	0.6
Vietnam	\$ 113	Aug	52.4	54.7	-2.3				
Netherlands	\$ 88	Aug	47.7	49.2	-1.5				
Ireland	\$ 88	Aug	50.4	50.1	0.3	Aug	53.8	53.6	0.2
Switzerland	\$ 87	Aug	49.0	43.5	5.5				
Italy	\$ 83	Aug	49.4	47.4	2.0	Aug	51.4	51.7	-0.3
France	\$ 80	Aug	43.9	44.0	-0.1	Aug	55.0	50.1	4.9
Brazil	\$ 78	Aug	50.4	54.0	-3.6	Aug	54.2	56.4	-2.2
Singapore	\$ 65	Aug	50.9	50.7	0.2				
Thailand	\$ 60	Aug	52.0	52.8	-0.8				
Australia	\$ 39	Aug	48.5	47.5	1.0	Aug	52.5	50.4	2.1
Indonesia	\$ 37	Aug	48.9	49.3	-0.4				
Russia	\$ 36	Aug	52.1	53.6	-1.5	Aug	52.3	51.1	1.2
Spain	\$ 35	Aug	50.5	51.0	-0.5	Aug	54.6	53.9	0.7
Hong Kong	\$ 34	Aug	49.4	49.5	-0.1				
Philippines	\$ 23	Aug	51.2	51.2	0.0				
Poland	\$ 11	Aug	47.8	47.3	0.5				
Greece	\$ 3	Aug	52.9	53.2	-0.3				

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



# Regional Growth HotSpots

Potential Regional Blocks  
and cumulative PIQ  
Construction Potential  
Scores.

1. 6,764.9
2. 2,318.9
3. 4,094.7
4. 3,996.9
5. 1,260.3

Single MSA Pockets:

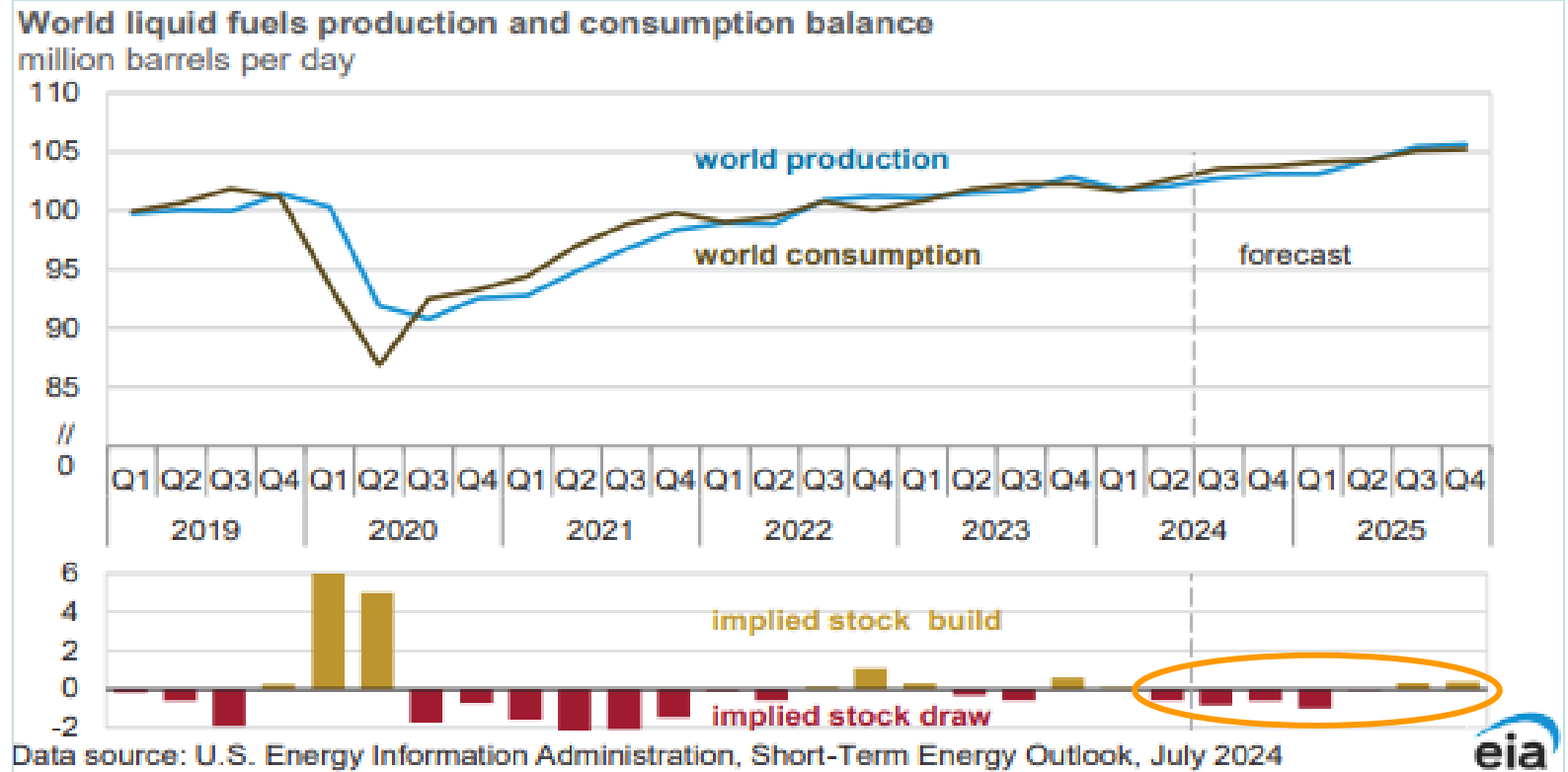
6. Phoenix: 1,780.6

Note: Mileage between  
major MSA's within each  
corridor listed on the map.  
Longer distances within a  
corridor may have affected  
the rankings (highest score  
didn't always show up on  
top).



# The Unknown: 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.



### Crude forecast:

• 2021	\$68.21
• 2022	\$94.91
• 2023	\$77.58
• 2024	\$82.03
• 2025	\$83.88

### Diesel forecast:

• 2021	\$3.29
• 2022	\$5.02
• 2023	\$4.22
• 2024	\$3.89
• 2025	\$3.92

### Gasoline forecast:

• 2021	\$3.02
• 2022	\$3.97
• 2023	\$3.52
• 2024	\$3.41
• 2025	\$3.47

Source: EIA; Baker Hughes; Conoco-Philips



# Impact of a 28% Increase in the Corporate Tax Rate

- Affects their ability to raise capital, investments, staffing levels and new hiring, etc.
- It does have a broader macroeconomic impact on the economy.
- Is only beneficial if government spending is kept flat.
- The far chart shows the number of countries with lower tax rates today, the orange line represents after a 28% tax hike.

## Exhibit 5: Higher tax rate (28% from 21%) is estimated to be a 5% hit to EPS

Hit to EPS from the corporate statutory tax rate rising to 28% from 21%

	Increased tax amount	2025 net income	Hit to EPS
Cons. Disc.	16,939	213,186	(7.9%)
Comm. Svcs.	16,033	268,899	(6.0%)
Financials	22,153	409,558	(5.4%)
Health Care	15,578	311,913	(5.0%)
Industrials	9,921	200,018	(5.0%)
Staples	6,091	154,426	(3.9%)
Tech	21,051	563,418	(3.7%)
Materials	1,757	54,645	(3.2%)
Energy	2,947	146,189	(2.0%)
Real Estate	172	29,910	(0.6%)
Utilities	60	67,413	(0.1%)
<b>S&amp;P 500</b>	<b>112,703</b>	<b>2,419,576</b>	<b>(4.7%)</b>

Source: BofA US Equity & Quant Strategy

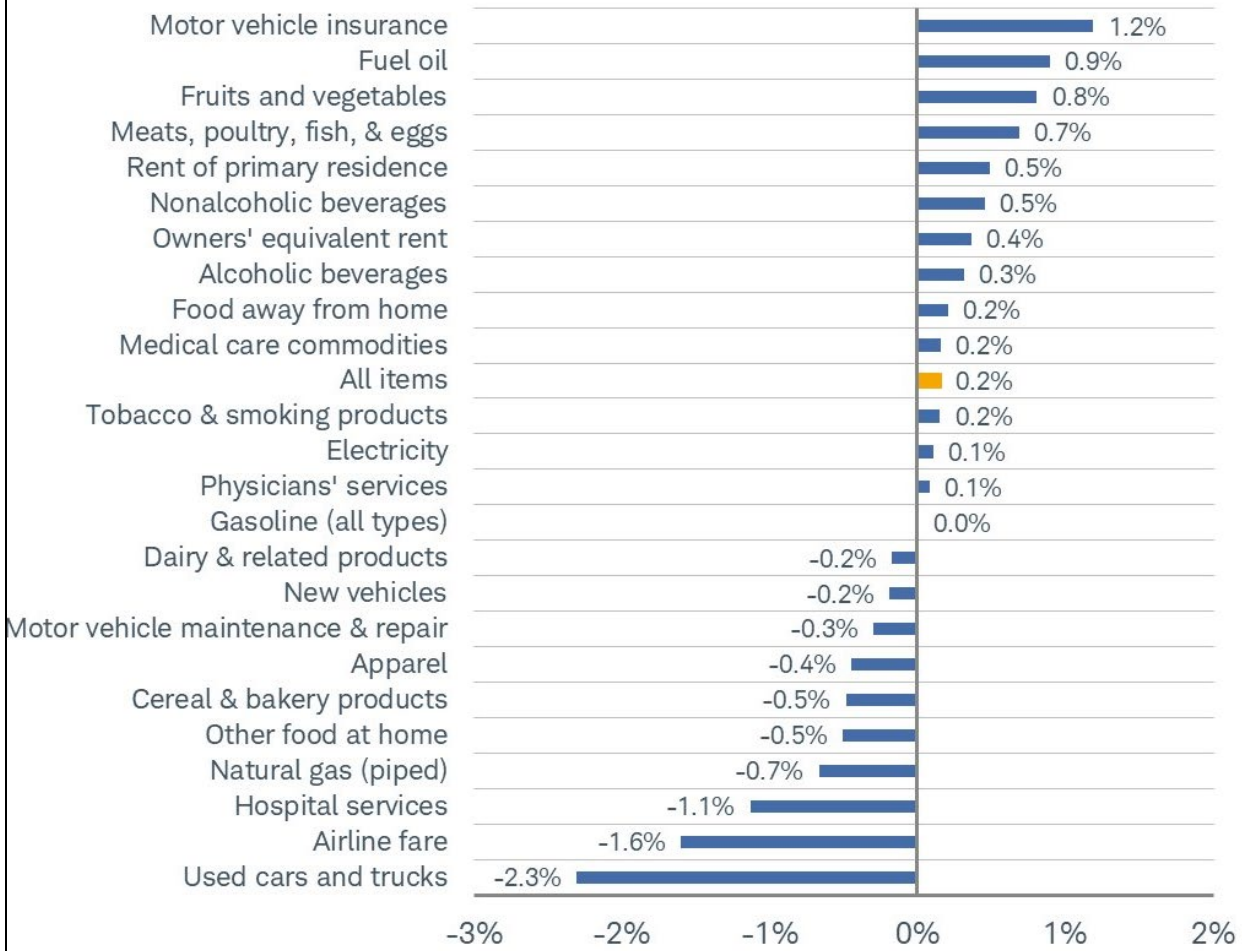
BofA GLOBAL RESEARCH

Corporate Tax Rates around the World, 2023		
Country		Corporate Tax Rate
HKG	Hong Kong	17%
SGP	Singapore	17%
TWN	Taiwan	20%
THA	Thailand	20%
VNM	Viet Nam	20%
<b>USA</b>	<b>United States of America</b>	<b>21%</b>
CHN	China**	25%
ESP	Spain	25%
GBR	UK	25%
FRA	France	26%
CAN	Canada	26%
KOR	Republic of Korea	27%
JPN	Japan	30%
DEU	Germany	30%
AUS	Australia	30%
IND	India	30%
MEX	Mexico	30%
BRA	Brazil	34%
ARG	Argentina	35%

\*\* (special sectors are as low as 15%)

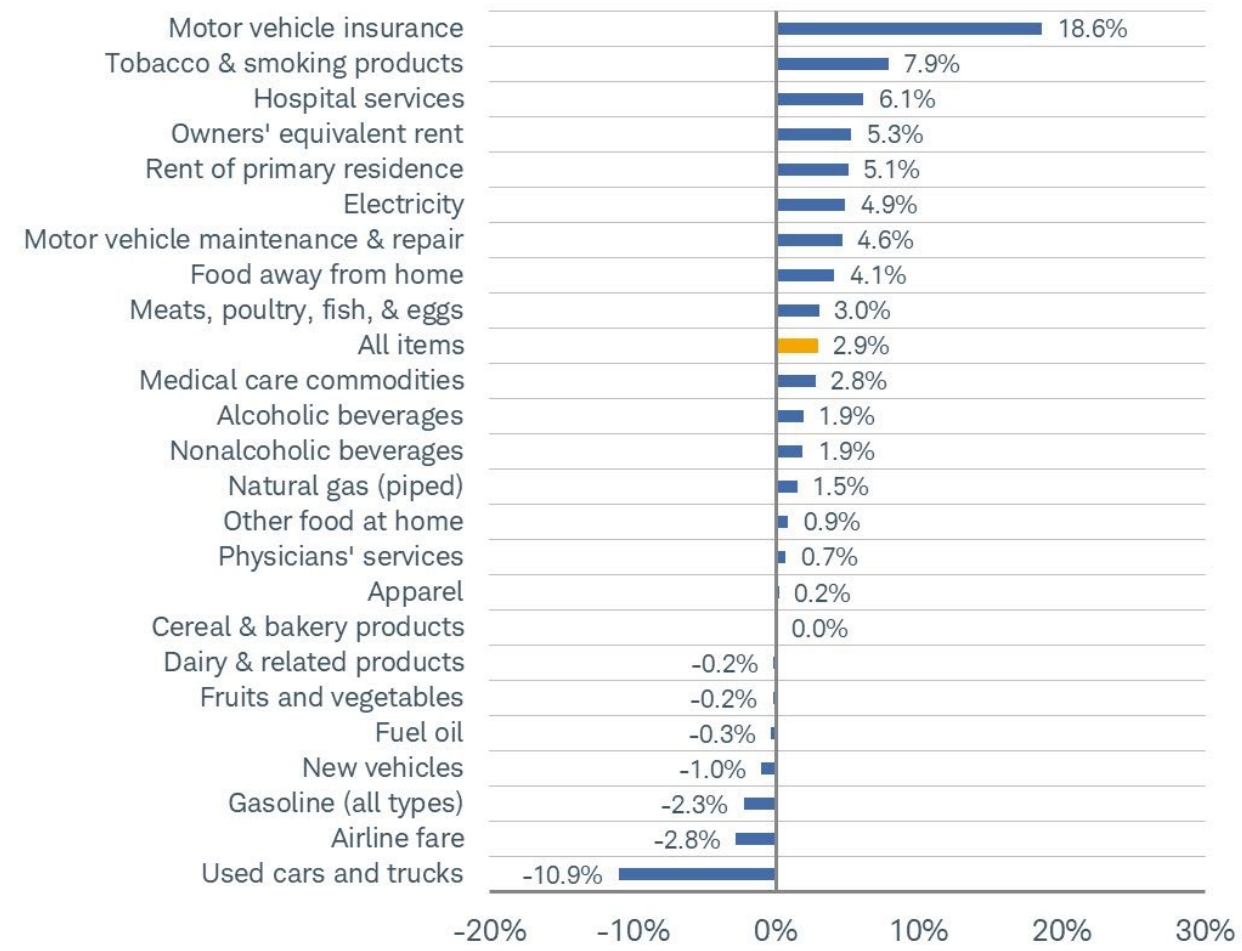
# Yesterday's CPI, What Was Hot and What Was Not

CPI select categories (m/m % change)



Source: Charles Schwab, Bureau of Labor Statistics, as of 7/31/2024.

CPI select categories (y/y % change)

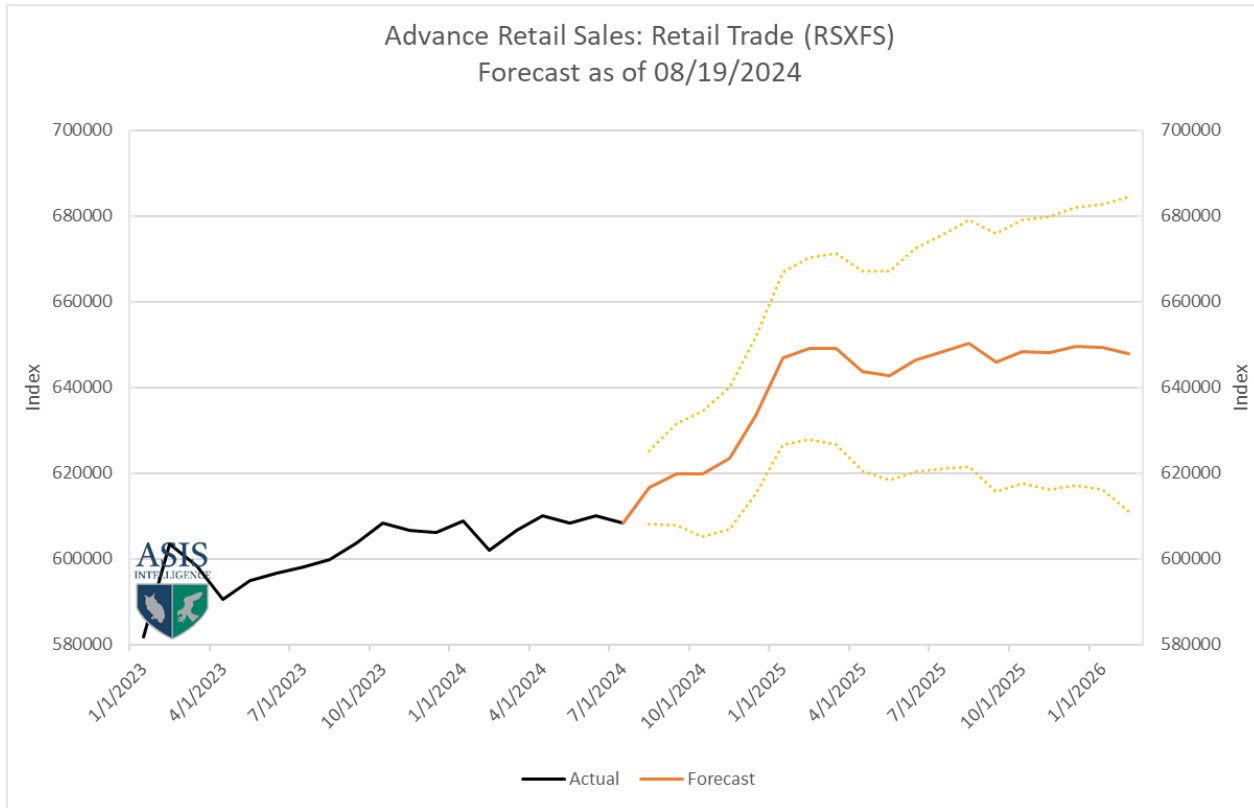


Source: Charles Schwab, Bureau of Labor Statistics, as of 7/31/2024.

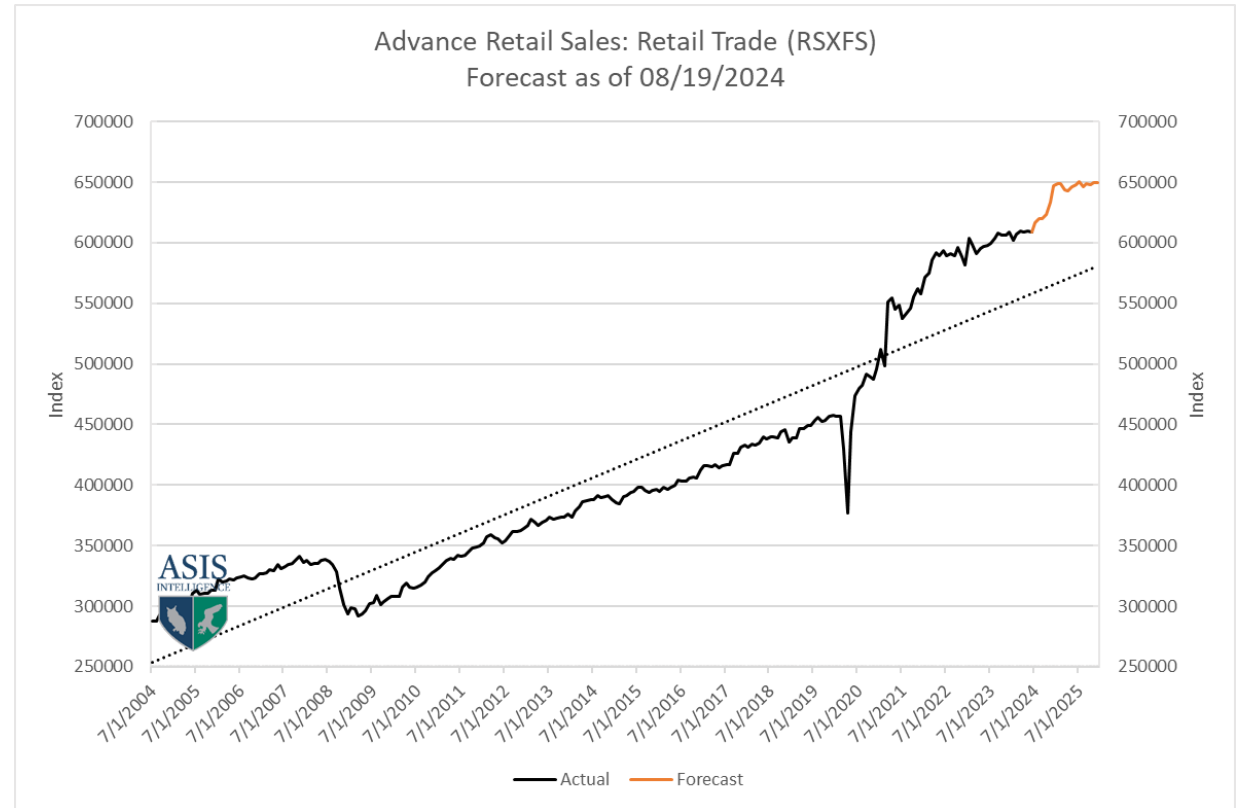
# Forecast Growth: Retail Spending (Consumer Spending) Forecast



Advance Retail Sales: Retail Trade (RSXFS)  
Forecast as of 08/19/2024



Advance Retail Sales: Retail Trade (RSXFS)  
Forecast as of 08/19/2024



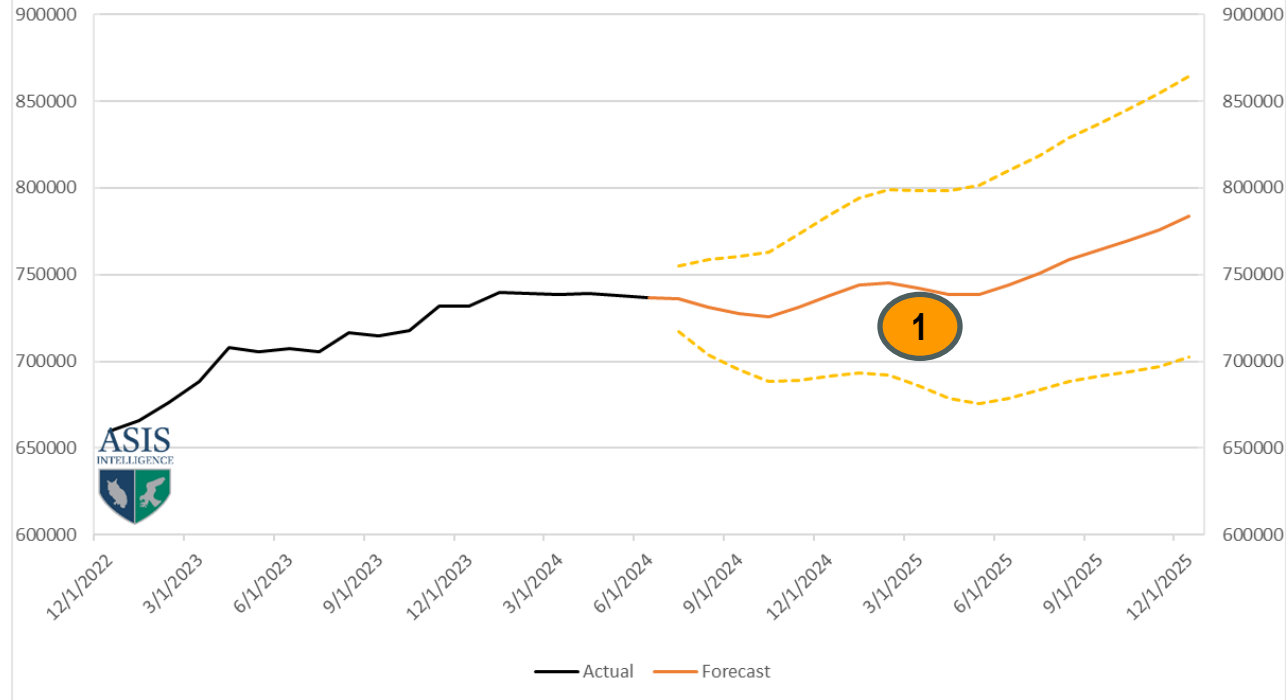
Source: Armada Forecasts

	3-month	6-month
Advanced Retail Sales RSXFS	97.4%	96.9%

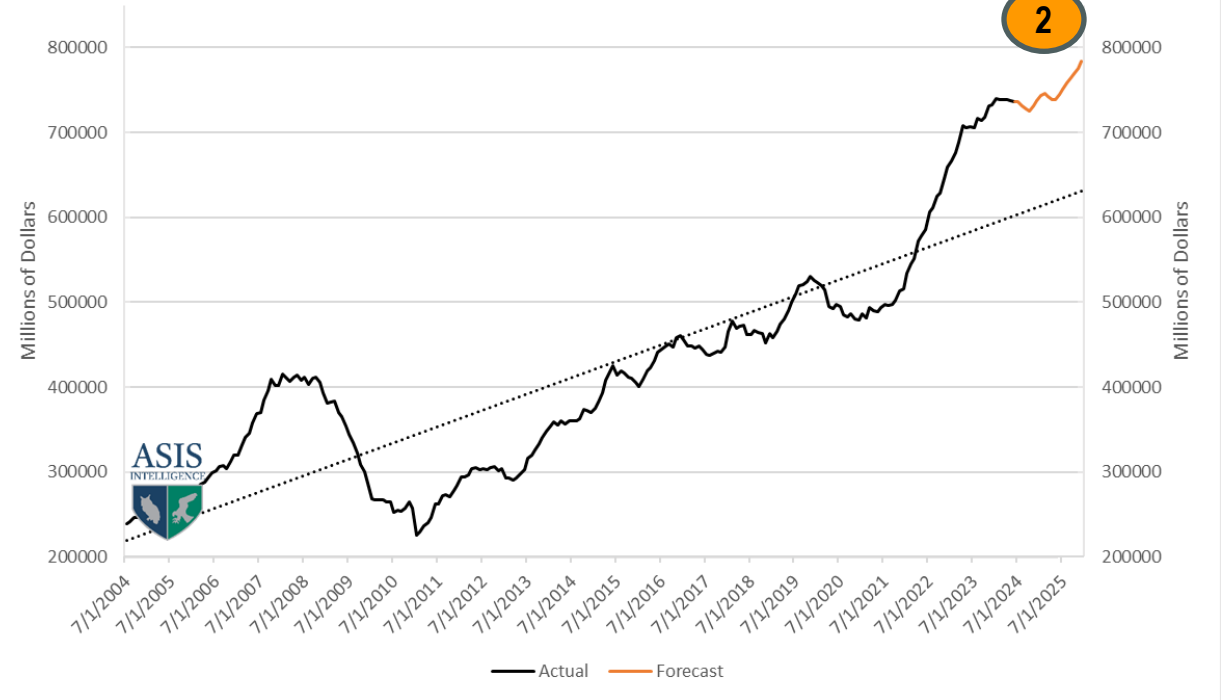
# Growth Forecast: Nonresidential Construction Forecast



Private Nonresidential Construction Spending (PNRESCONS)  
Forecast as of 08/19/2024

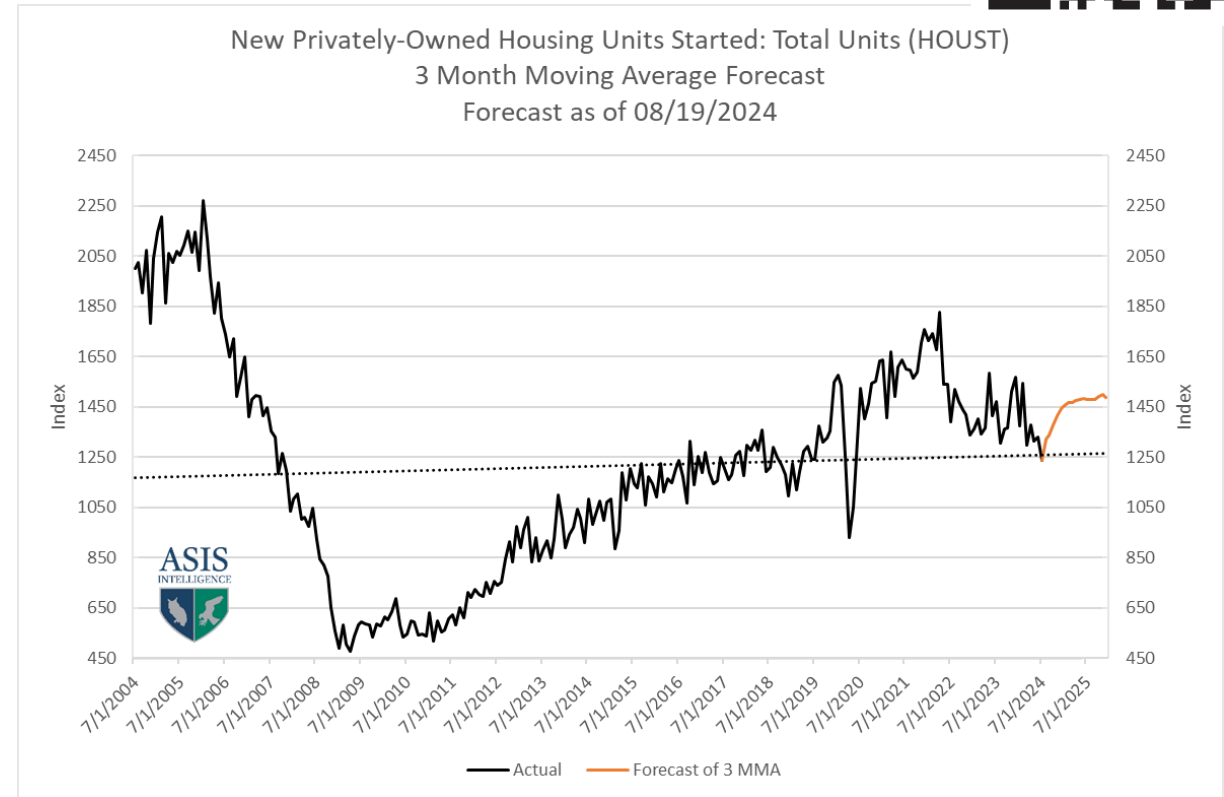
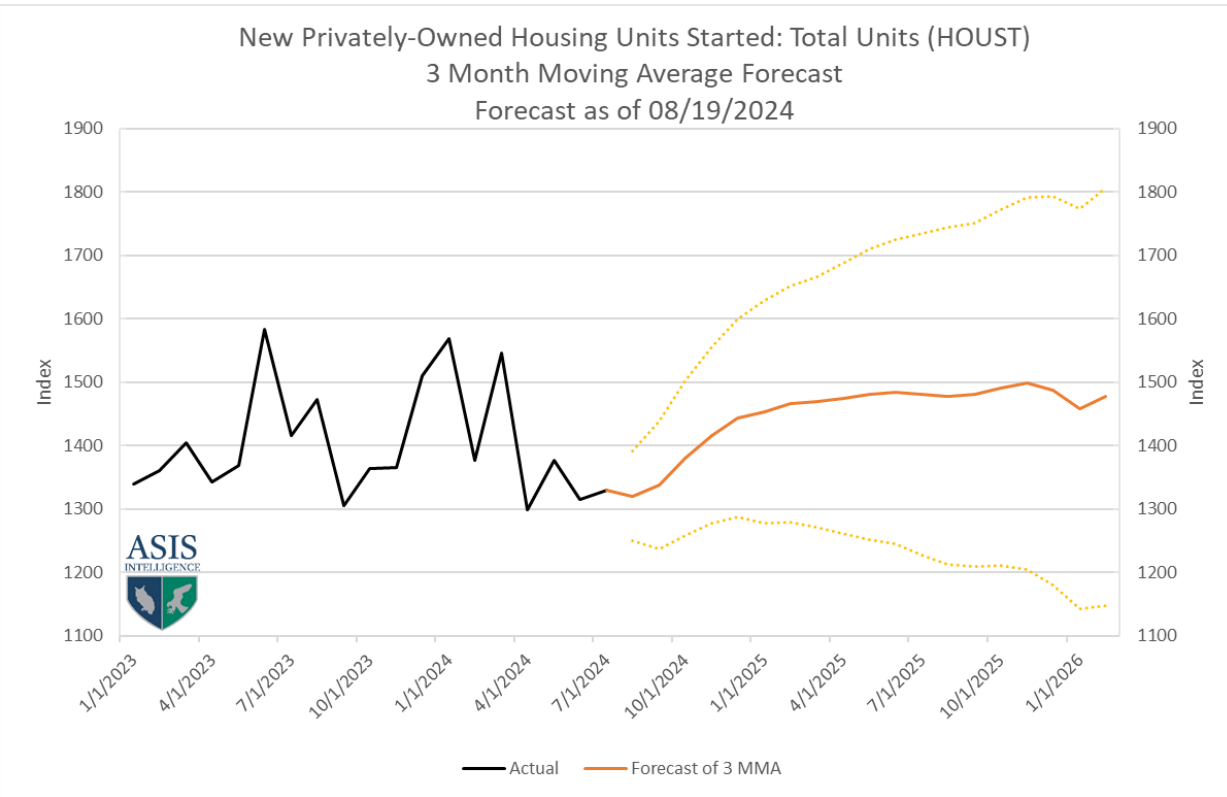


Private Nonresidential Construction Spending (PNRESCONS)  
Forecast as of 08/19/2024



	3-month	6-month
Private Nonresidential Construction PNRESCONS	98.3%	98.1%

# Growth Forecast: Residential Construction Forecast

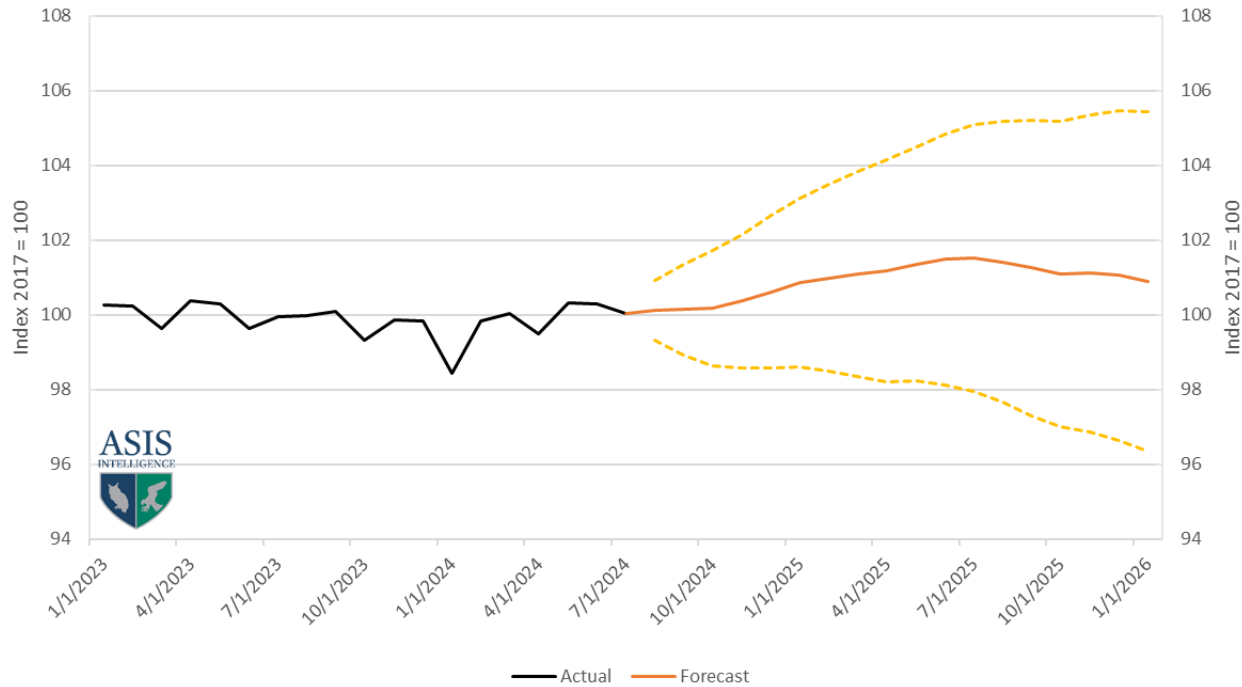


	3-month	6-month
New Privately-Owned Housing Units Started: Total Units HOUST (3MMA)	N/A	N/A

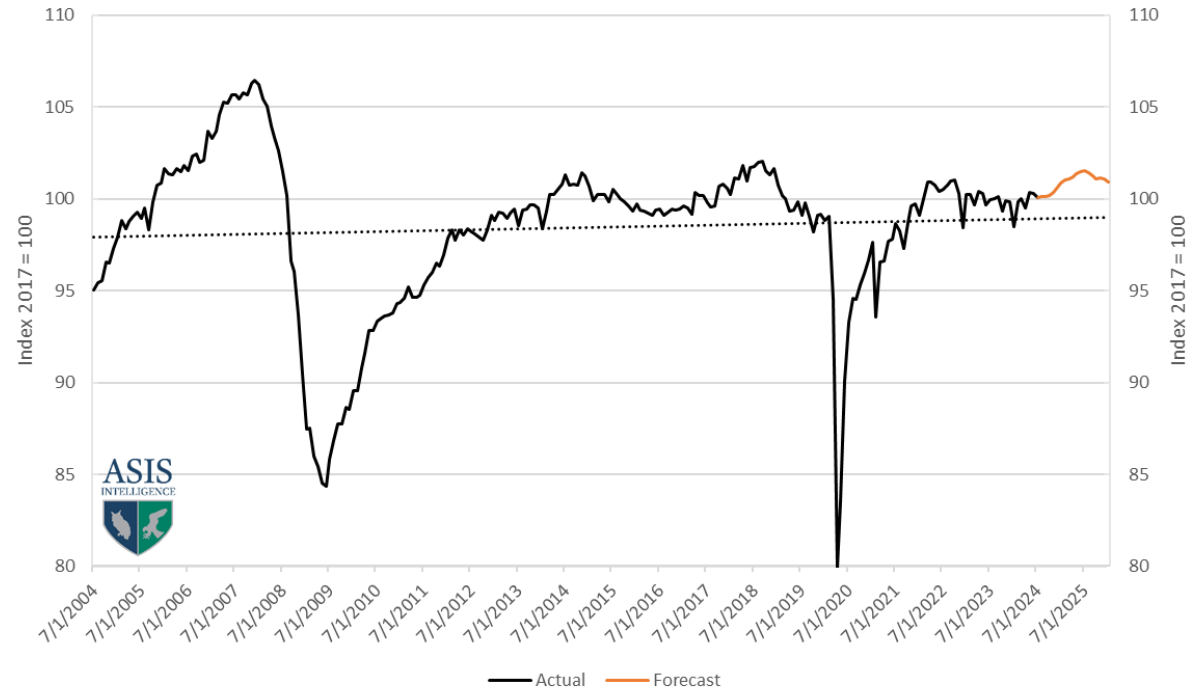
# General Manufacturing Forecast



Industrial Production: Manufacturing (IPMAN)  
Forecast as of 08/19/2024



Industrial Production: Manufacturing (IPMAN)  
Forecast as of 08/19/2024



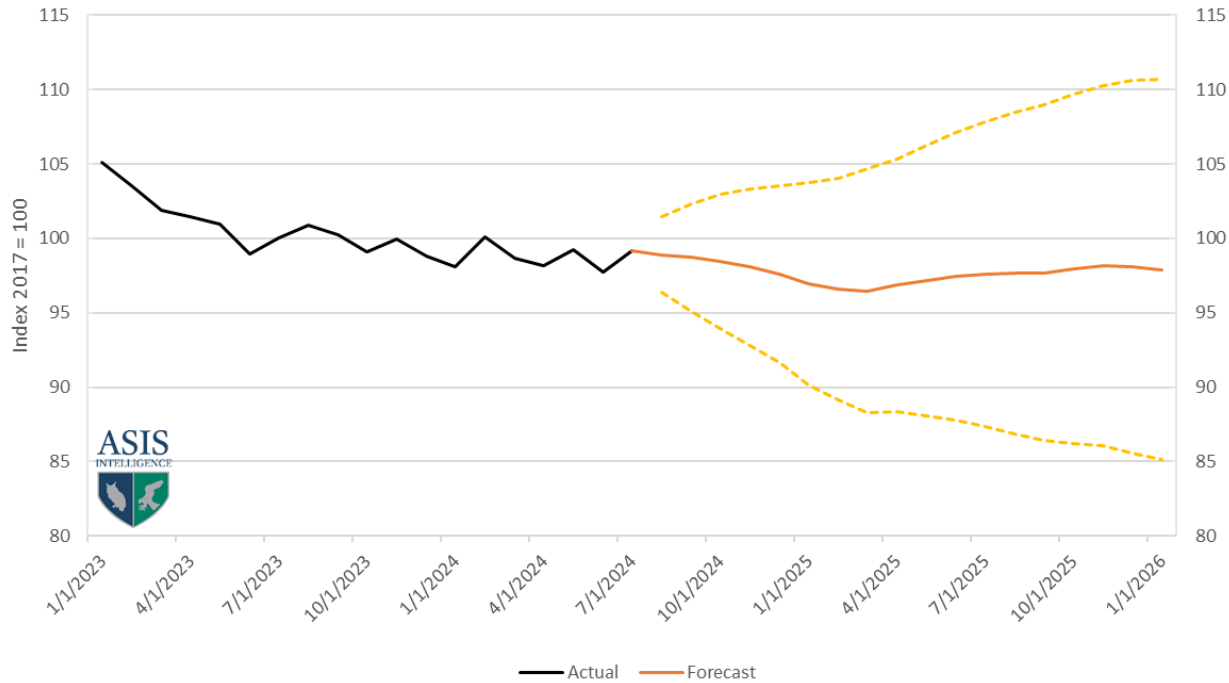
	3-month	6-month
Industrial Production: Manufacturing IPMAN	99.2%	99.2%



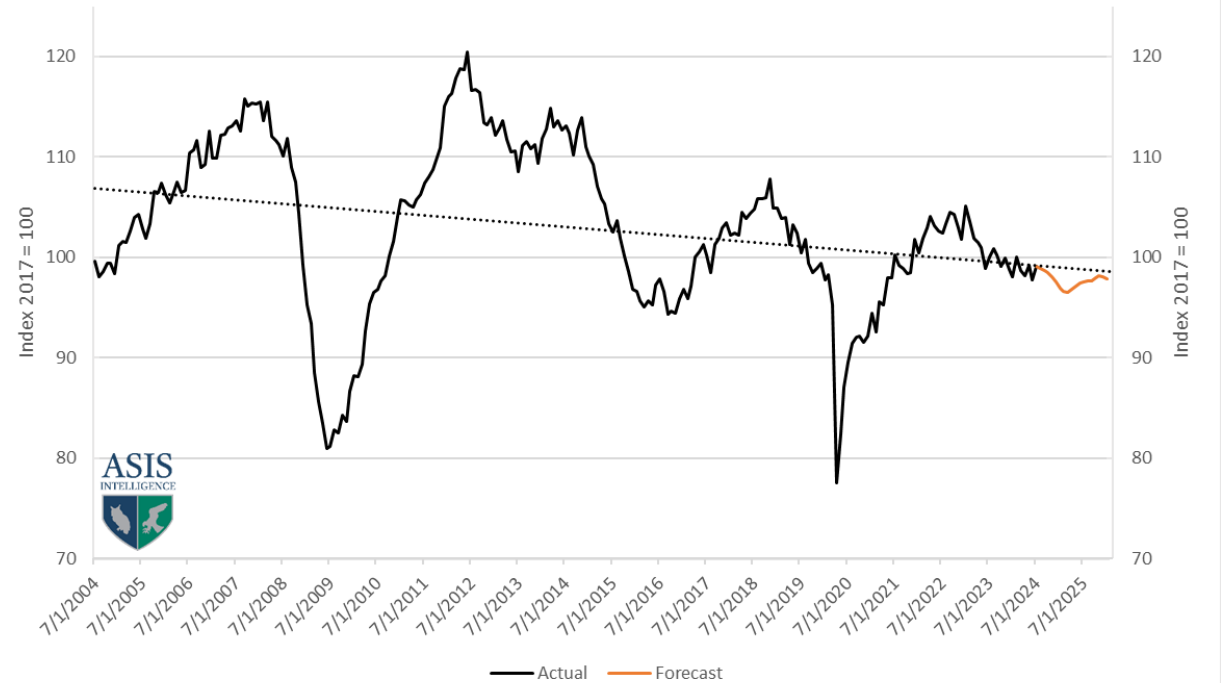
# Machinery Production Forecast



Industrial Production: Machinery (IPG333S)  
Forecast as of 08/19/2024



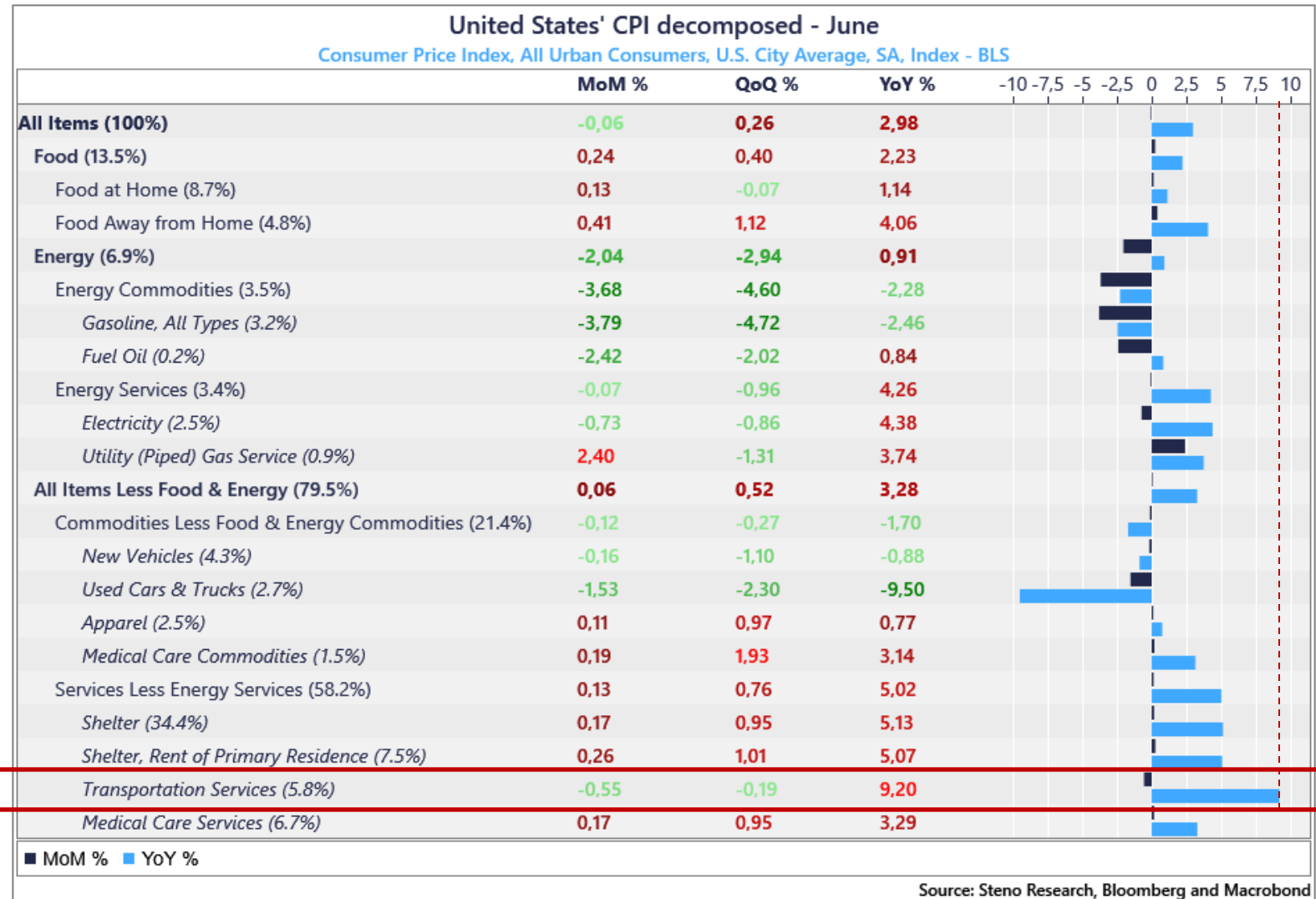
Industrial Production: Machinery (IPG333S)  
Forecast as of 08/19/2024



	3-month	6-month
Machinery IPG333S	98.7%	96.8%

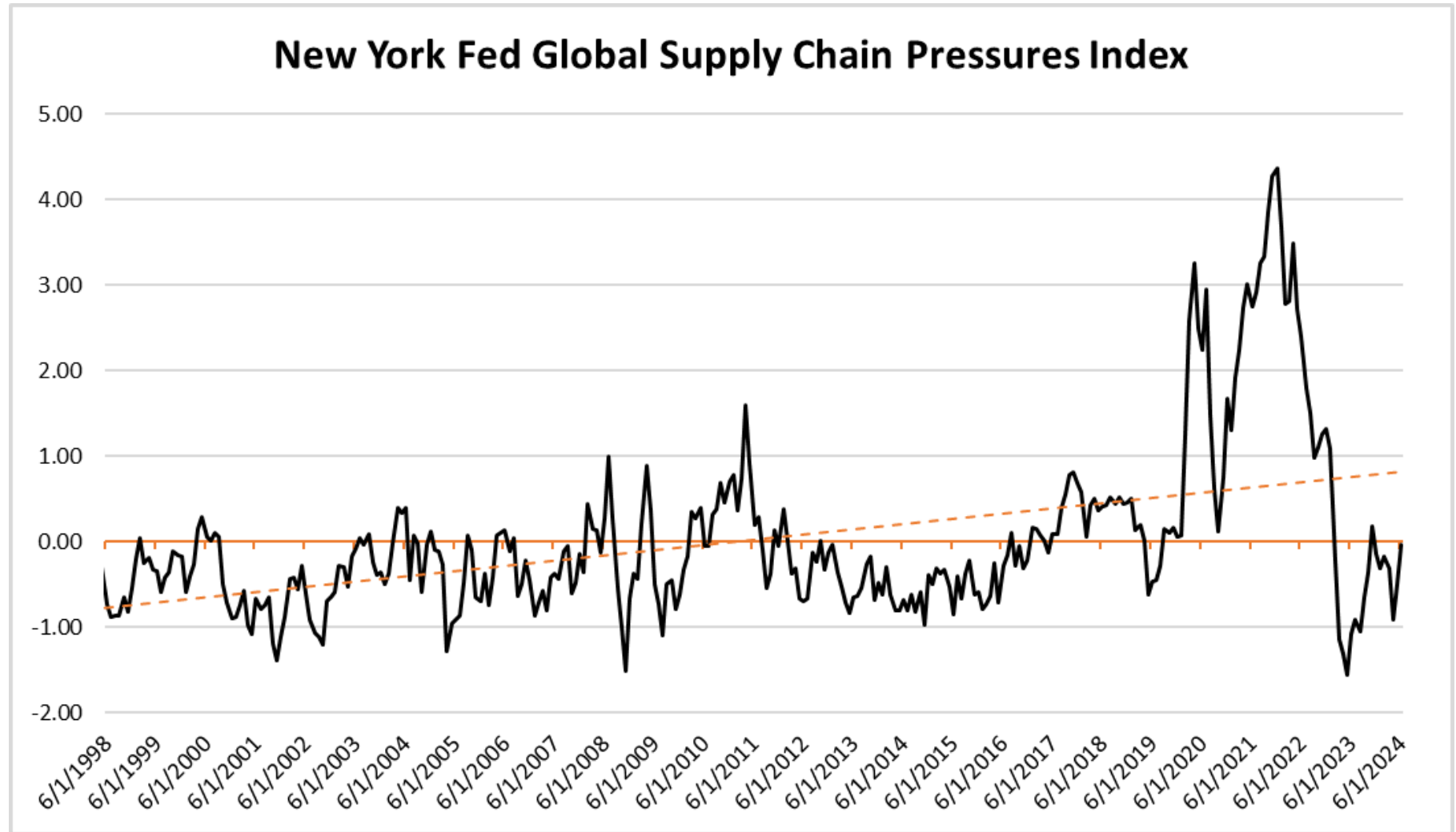
# Transportation services costs surge in CPI

- The Consumer Price Index rose at a 2.98% annual rate through June.
- Core CPI inflation grew at 3.28% against the Fed's target rate of 2%.
- Transportation services were the fastest inflating measure in the CPI, rising at 9.2% Y/Y despite decelerating slightly M/M.





# 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	11-Jul-24	18-Jul-24	25-Jul-24	Weekly change (%)	Annual change (%)
Composite Index	WCI-COMPOSITE	\$5,901	\$5,937	\$5,806	-2% ▼	268% ▲
Shanghai - Rotterdam	WCI-SHA-RTM	\$8,048	\$8,267	\$8,260	0%	539% ▲
Rotterdam - Shanghai	WCI-RTM-SHA	\$631	\$630	\$627	0%	19% ▲
Shanghai - Genoa	WCI-SHA-GOA	\$7,614	\$7,727	\$7,645	-1% ▼	304% ▲
Shanghai - Los Angeles	WCI-SHA-LAX	\$7,512	\$7,288	\$6,934	-5% ▼	232% ▲
Los Angeles - Shanghai	WCI-LAX-SHA	\$699	\$701	\$706	1% ▲	-16% ▼
Shanghai - New York	WCI-SHA-NYC	\$9,387	\$9,612	\$9,213	-4% ▼	202% ▲
New York - Rotterdam	WCI-NYC-RTM	\$682	\$710	\$736	4% ▲	0%
Rotterdam - New York	WCI-RTM-NYC	\$1,955	\$1,943	\$1,954	1% ▲	23% ▲

Source: Drewry

# Questions?

- **Like this content? Check out the ASIS: all of it for about the price of a cup of coffee.**



## Armada Strategic Intelligence System (ASIS): All This Below for Just \$7 / Month

The Flagship – 3 Days a Week.

The Watch – Once a Month.

Inside the Executive Suite – Once a Week.

The Flagship - An Executive Intelligence Briefing  
Domestic Quick Items of Interest  
Business Cycle Indicators We Are Watching  
US Retail Forecast

Report  
The Watch  
XLS  
PPT  
Video  
The Watch Report  
MIA Briefing - May 2024

The BLUF (Bottom Line Up Front)  
US Retail Forecast  
Consumer Spending  
ASIS

Inside the Executive Suite  
During a strategy planning workshop with a senior organization executive, the chief financial officer (CFO) and the CEO's long-time assistant, from our first perspective meeting, the assistant has an idea for organizational success that is essential for direct responsibility for several important organizational areas.

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2024