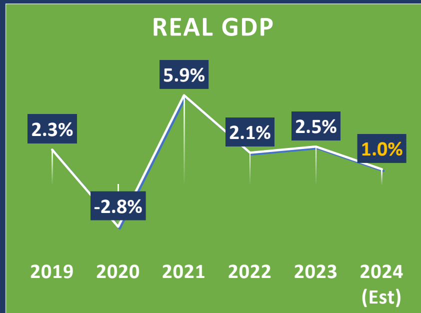
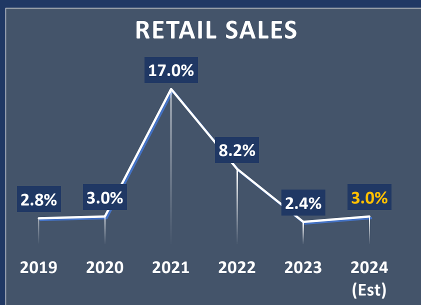
# Quarterly Economic Report

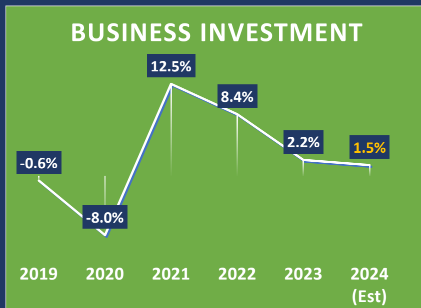


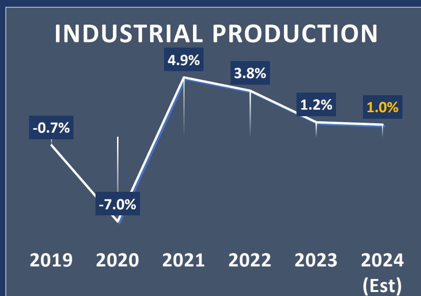
## Executive Summary – Q1 '24

### Selected Indices




## Big Items

**Real GDP:** Q1 2024 was partially stunning to analysts. At one point in the quarter, analysts thought it might have been growing by as much as 3%, but the first reading on Q1 had it come in at 1.6%. This will be adjusted a bit, but it was still a stable reading for Q1. Consumer spending was still a primary driver and government spending carried more weight this quarter. The second quarter is expected to grow at nearly 1% while Q3 could be lackluster at 2%. For the full year, estimates on Real GDP have been pushed up from 1% to at least 2% and perhaps higher if these trends continue.

**Paper Inventories-to-Sales:** The inventory-to-sales-ratio is an important barometer of future orders for new paper (consumer paper). The ratio has dropped slightly and is sitting at 1.01, down slightly from 1.02 in the last quarter. This is lower by 2.9% M/M through March (latest available). But it was lower by 10.6% versus a year ago and is still lower than the pre-pandemic period from 2014 to 2019. As mentioned last quarter, paper wholesalers are still sitting light on a historical basis. And also as mentioned last quarter, if the demand environment begins to improve, it will create price pressures quickly with inventories remaining this low. Inventories can fluctuate in the industry, and industry adjustments can happen quickly (1-2 months).

**Construction:** The overall outlook for construction continues to remain strong throughout 2024. Single family construction is now up by 17.2% Y/Y, and multi-family is up by 6.1%. Manufacturing construction is still surging with growth of 31.9% on more than $222 billion in spending (the average in a normal year prior to the pandemic was $50 billion). Reshoring and the expansion of automation and robotics was still a key driver. Most developers are looking at the second half of 2024 and early 2025 with caution. Three major government spending bills will likely continue to provide accelerated funding in 2024 (CHIPs Act, Inflation Reduction Act, and Infrastructure Bill). But interest rates and commercial real estate volatility was creating a mild headwind against growth expectations.

**Retail:** The unadjusted retail sales data were 4.0% higher year-over-year at the end of March. Stripping out the volatile auto and fuel categories, retail sales are up 3.6% year-over-year. Even when adjusting for inflation, sales were still growing at a 2.1% rate. The biggest concern is that non-essential categories of retail are still struggling. Furniture, electronics, building supply, sporting goods, and department stores are still lower year-over-year. Essential categories of retail (such as food, health care, general merchandise, and e-commerce) were still very strong.

**Manufacturing:** S&P Global data shows the US near contraction territory with a reading of 50.0 in early Q2. For most of Q1, manufacturing showed some slight expansion, but that has now flattened. Mexico was the only USMCA market still growing based on the latest data. Europe was showing some signs of recovery at the end of Q1, and many Asian markets were ticking up. India was still the fastest growing market in the world. But in the US, new orders are sluggish, input prices are still high (raw materials, component parts, labor, and energy), and selling prices are facing some pressure. Heading through Q2, with global inventories more balanced than in prior quarters, the hope is that global activity will gain some pace and lift all sectors.

## Risks

**Geopolitics and Inflation:** Developments in the Middle East are in a constant state of flux, and that has pushed the price of oil higher. At the time of writing, West Texas Intermediate was still near $79 a barrel and Brent North Sea Crude was nearly $83. Although some of the volatility in the Middle East was easing at the time of writing, there are some estimates that oil prices could touch $100 a barrel by July based on supply/demand dynamics and if global economic activity picks up pace as

current trends appear to show.

# Macroeconomic Viewpoints

**- Dr. Chris Kuehl**

**Contents:**

Macroeconomic View - 2
Upstream Conditions - 3
Producer Prices - 5
Downstream Demand - 6-7
Supply Chain Situation - 8
Banking Credit - 9
Industry Outlook - 10

**The Only Permanence is Change –** How does that old saying go? If you don't like the weather, just wait a day. That can be applied to the economy and especially this year. It is only early May and already nearly every expectation from the start of the year has been altered and now most analysts are perplexed regarding how the rest of 2024 proceeds. There are those that expect the economy to keep surging (or at least proceeding at a decent pace) but there are also those that assert the situation sours by year's end. The data that has been coming from The Watch (Armada's monthly assessment of the economy) suggests continued growth overall but with some weakness in select sectors such as aerospace and perhaps machinery.

The three factors that have changed most significantly include interest rates, inflation threats and potential consumer spending (especially from those in the upper third of income earners). At the start of the year, it was the consensus view that the Fed would start to pull interest rates down by no later than Q3 – going from 5.5% to perhaps 4.75%. That assumption has been challenged as several of the Fed officials are questioning the need to drop rates as long as inflation remains an issue and as long as the economy is not showing much in the way of distress. The mantra of the central bank is that they raise rates until they break something and then they lower rates to fix what they broke. With a continued low rate of unemployment and projected economic growth close to the twenty years average, the "hawks" question the wisdom of cutting when there are signs of persistence of inflation. There has been no official change in Fed strategy, but some are now suggesting that rates might not come down until early 2025.

The prime issue is the shift in inflation patterns. The persistent threat has been from wages and the Fed was already worried about the emergence of the dreaded "wage/price spiral". As companies face higher labor costs, they hike the prices of their output to cover those costs and that sparks workers to demand higher wages (to cover the costs of these generally higher priced goods) and so the cycle keeps repeating. The factor that had been keeping inflation growth at a minimum was falling commodity prices. Lately the tensions in the Middle East have affected oil prices and that has allowed inflation to nudge up a bit. It is not a crisis as interest rates are still under 3.0%, but it has been enough to cause the Fed to retain its focus on keeping rates high.

Now we come to consumer spending. This has been baffling as historically higher interest rates will curtail spending but the upper third of income earners are not feeling much stress. There is a major economic overhang brought to the system by the Boomers (who else?). This generation still holds 72% of the wealth in the US. This generation is now trying to decide what to do with all that cash. Traditionally this would be distributed to the next generation, but the Gen-X population is not waiting around for their inheritance. The government is looking at much higher inheritance taxes and that prompts people to spend their money rather than seeing it taxed away. That propels a lot of consumer activity and if these tax schemes come to pass there will be a massive surge of spending and that tends to spark inflation and subsequent interest rate hikes. Consumer spending thus far has been concentrated in that upper third of income earners while the lower third is struggling (85% are said to be living paycheck to paycheck). The middle third is still spending but this pattern is dependent on their level of job security.

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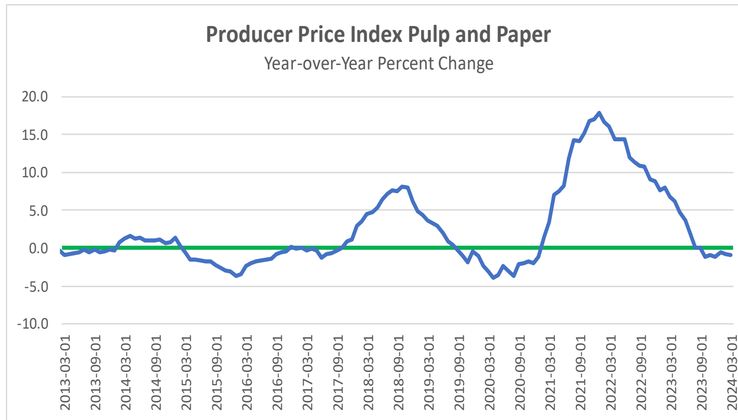
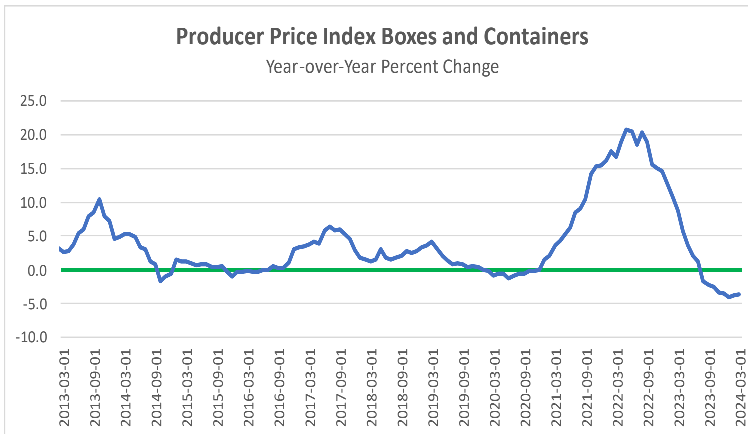
# Upstream Conditions

The following section includes viewpoints on key commodities. Wherever possible, the Producer Price Index (PPI) is used as a gauge of prices for specific commodities. The PPI is derived from monthly Government surveys of those that purchase specific products and services. The PPI includes views on both spot and contract pricing for a given product or service and is more representative of general changes in street-level pricing trends. The most recent months of activity are used to provide the most accurate viewpoints.




## Pulp and Paper Prices (WPU0913)

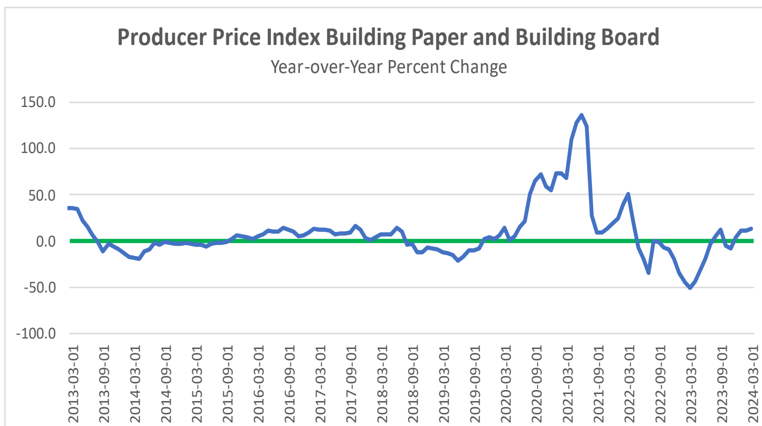
- The Producer Price Index (PPI) for paper and pulp in March (latest PPI available) was down 0.1% month-over-month (down 0.3% last month). It was lower year-over-year, down 0.9% Y/Y (down 0.8% last month) against more difficult comparisons.
- **Looking Ahead**: Input prices for pulp and paper flattened through Q1. Many producers were still experiencing higher input costs for production (higher labor and petroleum costs) offset by lower natural gas prices coming out of the winter season. The demand side of the equation should continue to remain stable; consumption of paper products at the consumer level is still strong and is expected to remain so.




## Paper Boxes and Container Prices

(WPU091503)

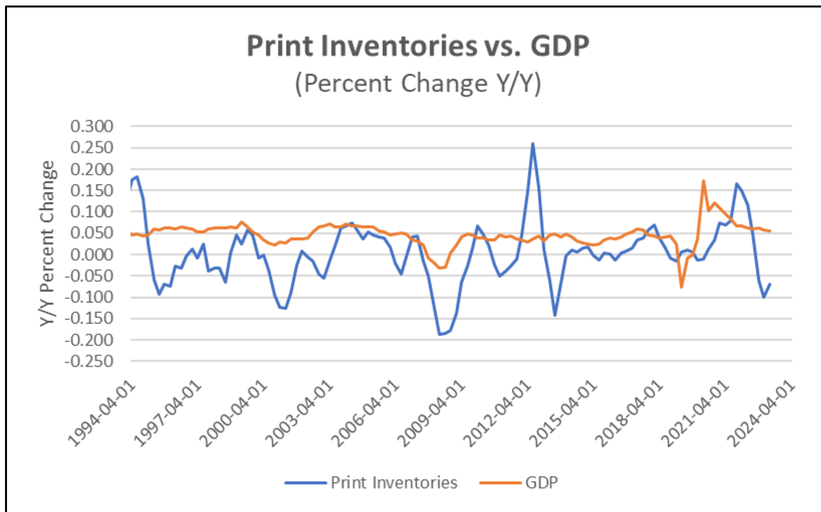
- The Producer Price Index (PPI) for boxes and containers in March (latest PPI available) was up 0.2% month-over-month (+0.3% last month). It was lower year-over-year, falling by 3.6% Y/Y (also down 3.8% last month). The index came in at 339.9 points in March; the all-time high for the index was 357 points in January of 2023.
- **Looking Ahead**: The graph at right shows the year-over-year change in the index, but the index itself remains higher than periods prior to the pandemic. Prices are still elevated for boxes and containers. Again, global demand for products is picking up in Europe and Asia especially, and US consumption of products at the retail level is still stable as well. Certainly, demand has cooled since the peak hit in 2022, but demand remains good.




## Building Paper / Building Board Prices

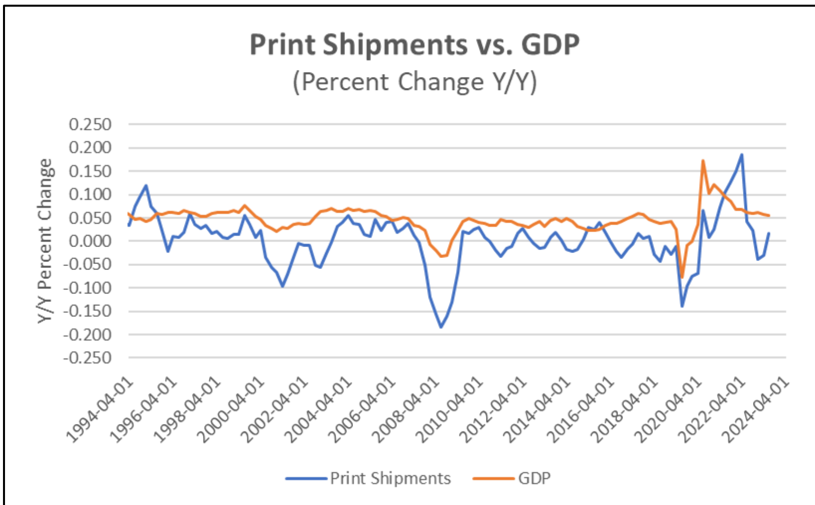
(WPU092)

- The Producer Price Index (PPI) for building paper and building board in March (latest PPI available) was up 1.9% month-over-month (up 0.3% last month). It was down year-over-year by 3.6% Y/Y (down 3.8% last month).
- **Looking Ahead**: Single family construction spending was up 17.2% Y/Y in February (latest available at the time of writing). In addition, strong growth was being seen in multi-family spending (up 6.1% Y/Y), and nonresidential spending which was up 14.2% Y/Y on $1.2 trillion in spending. Manufacturing construction was still leading the pack and was up by 31.9% Y/Y on $222B in spending, more than 4 times the average prior to the pandemic.



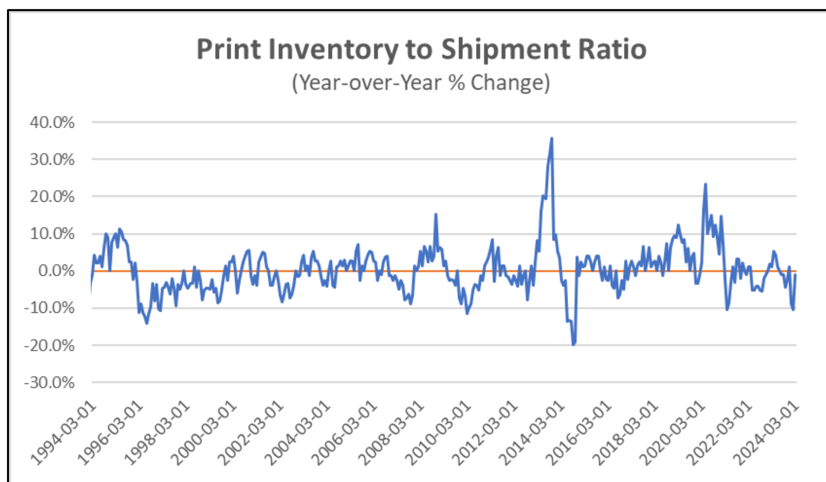

## Print Inventories vs. GDP (U23STI)

- Print inventories continued to fall in Q1, dipping 6.8% year-over-year (Q1 latest available data) and were improving slightly vs. the -9.9% posted in Q4. These inventory figures cover the broadest spectrum of print material, some sub-sectors could be experiencing tighter conditions.
- **Looking Ahead**: Print inventories generally follow GDP trends, but the year-over-year percent changes in inventory levels are more dramatic than the changes in GDP. The outlook has not changed since the last quarter, it appears as though the economy will continue to grow at a slower, but stable rate throughout the rest of 2024. Importantly, consumer spending continued to be stable through Q1. Discretionary spending is still flat, but wage growth is now outpacing inflation and that could lead to more discretionary spending activity in the remaining three quarters of the year.




## Print Shipments vs. GDP (U23SVS)

- Shipments of print material were up 1.7% year-over-year through March (up from the -3.1% rate hit in the prior quarter). Shipment activity was lower in the last quarter by 1.2% over the prior quarter.
- **Looking Ahead**: Like inventories, print shipment activity has more volatility than is seen in GDP. On a year-over-year percent change basis, shipments rebounded against last year's levels. Inflation was still helping the value of those shipments remain at the upper end of the 15-year range (aside from the peak hit in December of 2022 of $7.6 B versus currently at $6.56B through March).




## Inventory to Shipments Ratio (U23SIS)

- The inventory to shipment ratio (ISR) for the print industry was down 1.1% year-over-year and was down 3.2% month-over-month through March (latest available).
- **Looking Ahead**: The importance of the inventory to shipment ratio (ISR) is that it shows how quickly inventories are building relative to outgoing shipment volumes. An ISR that is falling (like the current condition) shows that inventory building activity is slower than outgoing shipments and inventories are generally falling. The ratio itself (at 0.9 months of inventory on hand) is higher than the 0.8 months of inventory on hand kept during the decade prior to the pandemic. As an industry, the sector is sitting just a "bit heavier" than it did prior – but with the ISR generally trending lower, it will soon be back in cycle and new orders could create a more predictive production environment across the industry.

# Manufacturing Producer Prices

The Producer Price Index (PPI) for key paper industry metrics is listed in the chart below including month-over-month and year-over-year comparisons. To the degree that the PPI is derived from monthly Government Surveys of actual purchasers and users of the following products, it provides a more accurate street-level pricing viewpoint. Some data is delayed and may not have been updated by the time of publication.

| Producer Price Index - Key Manufacturing Sectors | | | | | | |
|---|---|---|---|---|---|---|
| Category | PPI Code | Mar-24 | Feb-24 | M/M% Chg | Mar-23 | Y/Y % Chg |
| **Paper Manufacturing** | PCU322322 | 181.2 | 182.0 | -0.4% | 186.9 | -3.0% |
| Pulp, Paper and Paperboard Mills | PCU32213221 | 174.0 | 174.5 | -0.3% | 183.9 | -5.4% |
| Pulp Mills | PCU3221132211 | 231.8 | 234.4 | -1.1% | 280.8 | -17.5% |
| Paper Mills | PCU3221232212 | 237.7 | 238.6 | -0.4% | 245.1 | -3.0% |
| Paper Mills (Except Newsprint) | PCU322121322121 | 162.5 | 163.1 | -0.4% | 167.6 | -3.0% |
| Newsprint | WPU091302 | 134.5 | 134.4 | 0.0% | 172.3 | -21.9% |
| Paperboard (Primary Products) | PCU322130322130P | 347.2 | 347.0 | 0.1% | 370.8 | -6.4% |
| Recycled Paperboard | PCU3221303221307 | 387.5 | 388.4 | -0.2% | 421.4 | -8.0% |
| Paper Container Manufacturing | PCU3222132221 | 318.4 | 320.4 | -0.6% | 327.9 | -2.9% |
| Converted Paper Product Manufacturing | PCU32223222 | 186.9 | 187.9 | -0.5% | 191.0 | -2.1% |
| Corrugated and Solid Fiber Box Manufacturing | PCU322211322211 | 420.1 | 419.2 | 0.2% | 438.9 | -4.3% |
| Shipping Containers for food, beverages, carryout | PCU32221132221101 | 352.1 | 352.6 | -0.1% | 371.6 | -5.2% |
| Shipping Containers for paper products | PCU32221132221102 | 400.2 | 395.3 | 1.2% | 451.0 | -11.3% |
| Shipping Containers for Metal Machinery | PCU32221132221103 | 246.3 | 245.2 | 0.5% | 264.9 | -7.0% |
| Corrugated Paperboard in Sheets and Rolls | WPU091405 | 329.7 | 329.7 | 0.0% | 338.3 | -2.5% |
| Folding Paperboard Box Manufacturing | PCU322212322212P | 232.9 | 238.2 | -2.2% | 231.0 | 0.8% |
| Paper Bag and Coated and Treated Paper Manuf. | PCU322220322220 | 132.9 | 133.0 | -0.1% | 134.1 | -0.9% |
| Stationery Product Manufacturing | PCU322230322230 | 165.3 | 164.8 | 0.3% | 162.9 | 1.5% |
| Sanitary Paper Product Manufacturing | PCU322291322291 | 130.9 | 132.7 | -1.4% | 133.8 | -2.2% |
| Disposable Sanitary Product Manufacturing | PCU3222913222912 | 103.7 | 103.7 | 0.0% | 103.7 | 0.0% |
| Sanitary Tissue Product Manufacturing | PCU3222913222915 | 162.3 | 166.7 | -2.6% | 169.5 | -4.2% |

**Q1 2024 Comments:** One item to consider in the Producer Price Index is that this data shows M/M and Y/Y comparisons. If we were looking at historic data on many of these measures, they would show prices or input costs still much higher than pre-pandemic levels. By now, most companies have reset their sales staff, operational costs, and expectations based on post-pandemic levels, so it might not matter any longer. But nearly across the board, there was some weakness in Producer Prices on both a month-over-month basis and year-over-year basis through the end of Q1. Strong drops in prices year-over-year were seen in pulp mills, newsprint, shipping containers for paper products, and shipping containers for metal machinery. But again, many of these hit historic peaks a year ago, and some softening is expected.

Notably, there was still some deceleration taking place toward the end of Q1, albeit a mild softening. Demand is picking up in Asia and pockets in Europe are beginning to recover. That will lift global demand to a degree and many of these markets have been sluggish for nearly 18 months, some supply chains will have a slow time adjusting to shifting volume demand and that could push prices higher in the interim.

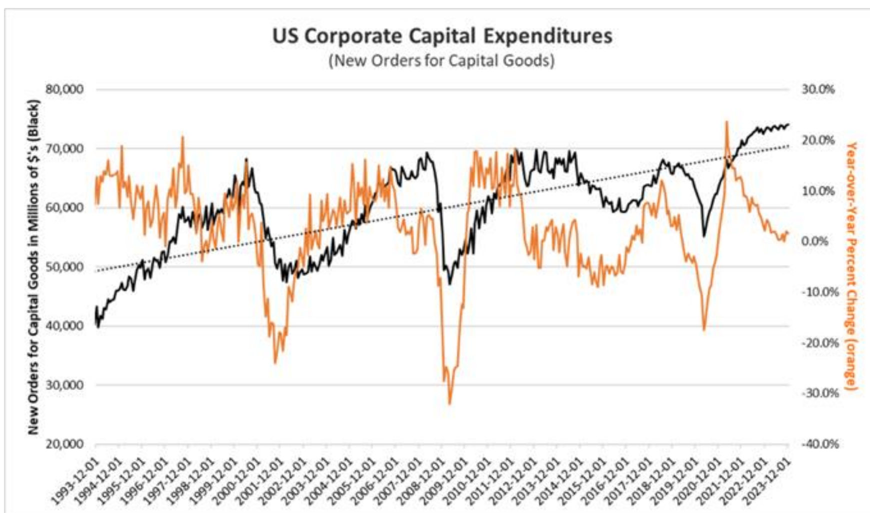
# Downstream Market Demand

| Kind of Business | Percent Change Mar. 2024 Advance from -- | |
|---|---|---|
| | Feb. 2024 | Mar. 2023 |
| Retail & food services, total | 0.7 | 4.0 |
| Retail | 0.8 | 3.6 |
| Motor vehicle & parts dealers | -0.7 | 2.8 |
| Furniture & home furn. stores | -0.3 | -6.1 |
| Electronics & appliance stores | -1.2 | -0.6 |
| Building material & garden eq. & supplies dealers | 0.7 | -0.6 |
| Food & beverage stores | 0.5 | 1.4 |
| Grocery stores | 0.5 | 1.1 |
| Health & personal care stores | 0.4 | 2.3 |
| Gasoline stations | 2.1 | -0.7 |
| Clothing & clothing accessories stores | -1.6 | 1.4 |
| Sporting goods, hobby, musical instrument, & book stores | -1.8 | -3.9 |
| General merchandise stores | 1.1 | 5.7 |
| Department stores | -1.1 | -2.5 |
| Nonstore retailers | 2.7 | 11.3 |
| Food services & drinking places | 0.4 | 6.5 |

## Retail Sales (RRSFS)

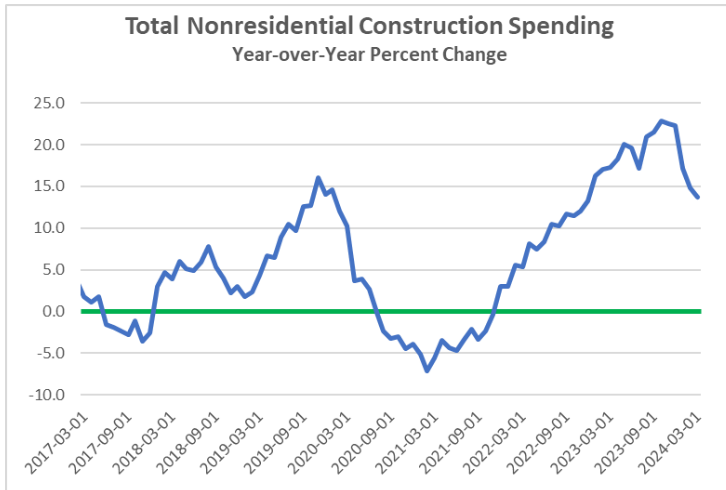
- Total retail sales were 4.0% higher year-over-year in March (the latest available). When stripping out fuel and autos, sales were still up 3.6%. However, when adjusting for inflation, total retail sales were up 0.6% Y/Y and were flat sequentially M/M in March.
- General merchandise retailers saw sales 5.7% higher year-over-year and the critical e-commerce sector experienced an increase of 11.3%. Although softening, Inflation is still an issue but has finally dipped below wage growth, which is helping some discretionary spending categories.
- **Outlook**: Consumer spending is still stable, but consumers are still scrutinizing their spending patterns. A glance across the retail sectors in the table on the left shows that most non-essential categories were experiencing weaker sales year-over-year, and many had slowed a bit month-over-month in March.

  Positive tailwinds are still coming from a strong jobs market. There are still roughly 8.4 million jobs open in the US based on the latest data (March) and the most aggressive measurement of unemployment is still showing historically low levels. Most importantly, wages are still growing at a 4.1% annual rate while most average inflation measures show it growing at 3.2%. This gap of nearly 1 full percentage point will allow many households to dig out of their debt situation, and that will (in turn) push discretionary spending higher in many retail categories. Although discretionary categories like clothing us less packaging at the point of sale, other categories like home improvement, furniture, some sporting goods, would be good categories for the paper and pulp sector.



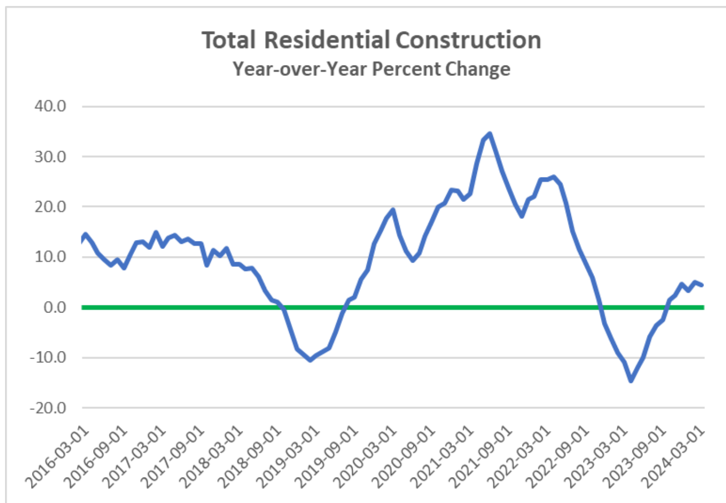

## Capital Spending (NEWORDER)

- Spending on capital goods continued to be ‘stable’ through March (latest available); they were up sequentially 0.7% M/M (down 0.3% last month). They were up by 0.6% Y/Y (down 0.3% last month) and continued to be strong historically.
- **Outlook**: The chart at left shows the total spending continuing to stay near all-time highs at $73.9 billion in corporate investment and spending. The year-over-year comparison is difficult because it is going up against strong comparisons from 2023. But companies continue to find funds to invest in automation, capacity expansion, and asset purchases. Banks have also started to ease lending slightly, the percentage of banks tightening standards for lending has dropped. This, despite bank risk remaining higher than expected given strong US GDP growth rates.




## Total Non-Residential Constr. (TLNRESCONS)

- Total Non-Residential Construction was 13.7% higher than it was a year ago (14.8% higher last month) and was up 0.2% M/M (-0.4% last month). Overall spending was at an annual rate of $1,188.
- **Outlook**: Nonresidential construction activity is still growing aggressively across all sectors. Analysts are watching an additional infusion of $110B to $150B in spending in 2024 from the CHIPs Act, Infrastructure Bill, and Inflation Reduction Act. Reshoring activity is also still being fueled by global instability as manufacturers work to secure their supply chains. Spending in that category is still trending at $222 billion in spending, which is well above the decade pre-pandemic average of roughly $50 billion a year. Some slight pushbacks in funding of commercial construction (in some markets) is a headwind that is still being built.



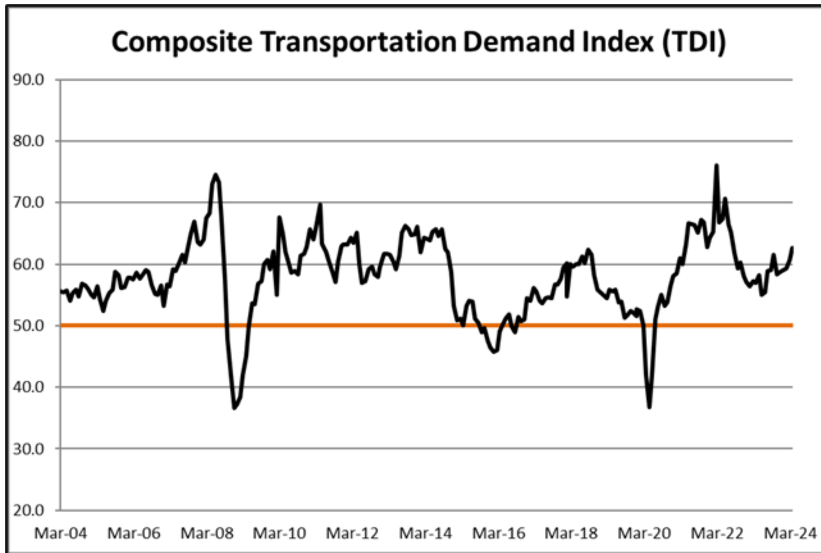

## Total Residential Construction (PRRESCONS)

- Total residential construction in March (latest available), was up by 4.4% Y/Y (up 5.1% last month). It was down 0.7% M/M (up 0.7% last month).
- **Outlook**: Residential construction trends are volatile, starts are swinging wildly and interest rates remain high. Thirty-year mortgage rates are tied to the 10-Year Treasury, and treasury rates were rising through much of Q1, and analysts believe that they will continue to rise through the rest of the year – unless the Fed is able to sneak in a rate cut or two. For now, with GDP remaining positive, job openings high, unemployment low, and inflation sticky, the odds of rate cuts are slipping. Home buyers have managed to remain resilient, but there is some concern that buying conditions could get to the point that they become a true headwind and home starts and permits get impacted more. Some strong home building construction markets were hinting at signs of slowing in early Q2.

## Wholesale Paper ISR (R4241IM163SCEN)

- Merchant wholesalers' inventory to sales ratios of paper supplies were at 1.01 months of inventory-on-hand. This is still lower than the decade average. The ratio was down 10.6% Y/Y through February (latest available; down 10.3% Y/Y last month).
- **Outlook**: Wholesale inventory to sales ratios for paper products are weaker than they have been in the past 15 years. Wholesalers have reduced their inventory levels relative to sales, and that will keep prices firm. Like other industries, companies are attempting to keep inventories lean at a time when interest rates are high and bank credit availability is low. But, with inventory levels this low relative to sales volumes, any change in demand will quickly translate into higher paper prices. We are also noting that some global markets are emerging (China, India, parts of Europe, and south Asia).

# Supply Chain and Transportation Situation




| | 24-Mar | 24-Feb | 23-Mar | Y/Y Change % | M/M Change % |
|---|---|---|---|---|---|
| Composite | 62.7 | 60.7 | 57.0 | 10.0% | 3.3% |
| Rail | 60.4 | 58.8 | 55.0 | 9.8% | 2.7% |
| Trucking | 62.7 | 60.7 | 57.2 | 9.6% | 3.3% |
| Air | 70.0 | 68.3 | 61.2 | 14.4% | 2.5% |
| Maritime | 68.5 | 66.8 | 59.1 | 15.9% | 2.5% |

## Transportation Demand Normalizing

- The Transportation Demand Index shows the current demand environment for freight services, and it was rising through March and was more commensurate with levels seen during the 2010-2014 period. The composite had a reading of 62.7, 10% higher than last year's reading of 57.0 and up from February's 60.7 reading.
- **Outlook:** This index does not account for changes in capacity, it primarily focuses on the growth in demand. As mentioned, many times throughout this quarter's briefing, the global supply chain has gone through a "reset" because of destocking that took place over the past 18 months. New order demand at the manufacturing level is now generating demand upstream for raw materials, component parts, energy, etc. That is helping push commodity and energy demand higher – and real macroeconomic growth translates more directly into real freight activity – tightening capacity in the process.

## Mode Demand Slowing

- Each mode of transportation is building momentum headed into the second quarter. This index measures demand but does not have a capacity component to it. Capacity in trucking has elevated since the pandemic (more than 125,000 individuals and firms sought operating authority since 2020 – many of these will be in e-commerce distribution). But even among owner-operators, there is more capacity available in the industry. Note the strength of air cargo and maritime, that is indicative of global activity building pace.

## What we are Watching in Transportation

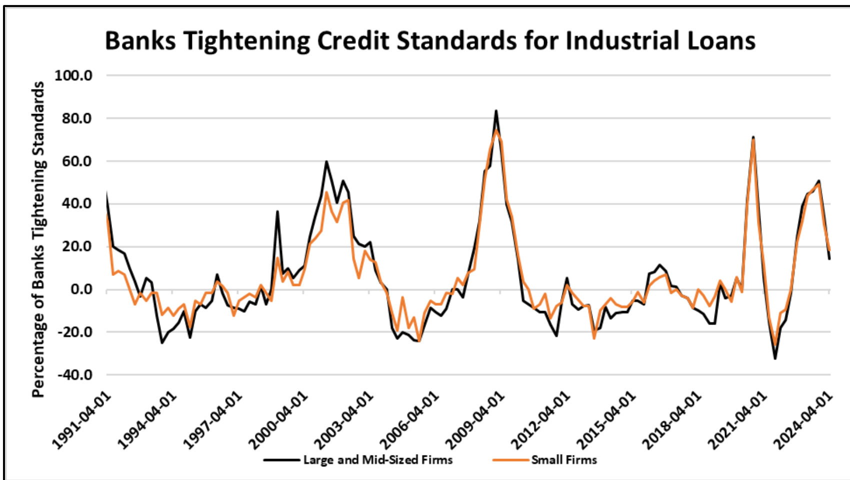
- **Global Distribution Adjusts to Bottlenecks.** The Red Sea disruption to distribution has been 'worked around' and supply chains have adjusted to that change. In addition, the Panama Canal situation is improving, and throughput is increasing. Approximately 15% of capacity has been stripped because of "freight on water longer" (as shipments avoid the Red Sea), and rates are higher as a result, but the price increases have slowed in the last several weeks.

- **Petroleum Inches up Into Geopolitical/Weather Related Risk in 2024.** In last quarter's briefing, oil prices were hovering in the $70 per barrel range. That has now transitioned into West Texas Intermediate being $83 at the time of writing this quarter's briefing and Brent North Sea Crude hitting $88.15 a barrel. Both are up more than 14% year-over-year and petroleum accounts for 45% of the price of a gallon of diesel.

  Two factors will likely continue to push it higher. The geopolitical pressures are obvious throughout the Middle East, especially if the Strait of Hormuz were to become impacted (nearly 20% of global oil exports are "shut-in" and must move through the Strait of Hormuz). Secondly, the Western Hemisphere is transitioning from a strong El Nino into a neutral situation and then will be followed by a La Nina situation by this fall. Gulf and Atlantic waters are still warm (providing fuel for strong storm formation) and the easing of El Nino removes upper-level wind shear that had been somewhat protecting US coastlines. This was especially true in the Gulf of Mexico. With this weather change, refinery activity and offshore production could be at risk this year during hurricane season.

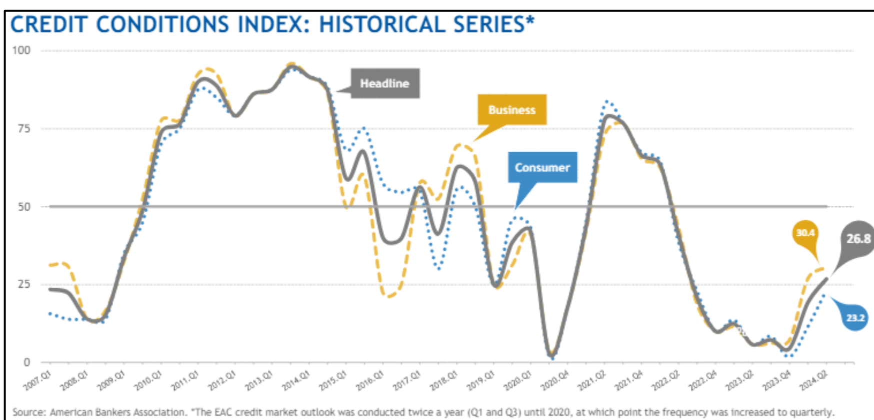
# Banking Credit and Finance

**Overall Observations:** The Federal Reserve is now getting mixed signals on the economy. Overall, the economy is growing at a strong rate, job openings are still high, unemployment is low, and wage growth is strong. In fact, that might be contributing to the inflation problem, which is still running too hot. Average inflation was still running 3.1% against the Fed's target rate of 2%. Current forecasts from the Federal Reserve are still calling for 2-3 rate cuts in 2024 with the Fed Funds Rate going from 5.25% to 4.5% to 4.75%. But it will be highly data driven and recent data points could keep the Fed from trimming anytime soon. And, as the calendar gets closer to the election, most analysts believe that rate action will be curtailed (for fear of being accused of election interference).




## Banks Tightening Conditions (DRTSCILM; DRTSCIS)

- The latest view of the number of banks tightening credit standards has eased to now hit 14.5% for large and medium-sized commercial firms and 18.6% for smaller firms.
- **Outlook**: Banks have begun to ease their rate tightening trends; they must lend to generate revenue. After last year's banking closures in March, nearly 50% of banks shifted largely into a risk-off operating environment. But as financial risk has eased over the past three quarters, the need for risk aversion has also eased and just a small handful of banks are still tightening. Many firms are being a little selective in the types of projects that they will entertain, and commercial real estate projects are still going to be scrutinized both on a project type basis and based on regional dynamics. Some markets will see very little aversion to commercial projects while others will see little activity or willingness to consider projects in those markets where urban property vacancies are high.




## ABA Credit Conditions (ABA)

- The American Bankers Association's Credit Conditions Index for business credit increased by 3.4 points to 30.4 in early Q2 but is still well below the midpoint 50 line (latest available). The sub-50 score suggests that members expect credit conditions to deteriorate over the next six months.
- **Outlook**: Although this was the highest level in more than two years, most members still expect credit to deteriorate. Credit conditions for consumers are also expected to generally deteriorate over the next several quarters. Among some of the challenges, mortgage rates are rising as the 10-year treasury increases. Mortgage rates are more closely correlated to bond rates and less toward the Federal Reserve and interest rate policy (although historically interest rates and bond rates have generally moved similarly to one another). In this cycle, with a significant amount of treasury paper being offered (estimated $10 trillion), the forecast bias is for US Treasuries rates to go higher, pushing mortgage rates up with them.

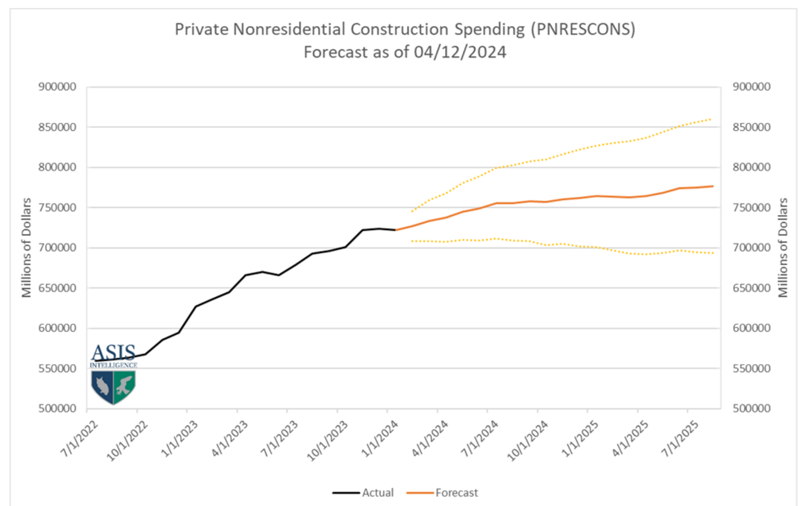
# Industry Outlook

| | 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 | - |

We have been tracking inventory overstocks for the past 18 months, and most surveys at the end of Q1 suggested that the global destocking trend may be over. The impact of this is that the entire upstream portion of the supply chain is getting re-energized which increases the flow and stockpiling of raw materials, component parts, labor, energy, etc. (the factors that feed manufacturing assembly lines and create paper and new packaging demand).

There still remain three legs in the proverbial “growth stool” for US economic activity. Through Q1, 1) consumer spending, 2) government spending, and 3) nonresidential construction are still the primary drivers of GDP growth. Consumer spending continues to exceed expectations, but we now know that there might be a catch. More than 76% of last year’s GDP may have been tied to stock market gains. When the stock market performs well, middle and upper income households increase spending and it may have accounted for as much as $288 billion in consumer spending. That aside, job openings are still running close to 8.4 million (6 million is balanced) and wages are growing at a 4.1% annual rate. Those conditions are helping households of all sizes continue to spend. Retail spending was still trending at 4% annually, with inflation-adjusted retail closer to 2% growth. Although slower than the past two years, growth is growth in this instance with such a large US consumer economy. It will keep retailers stable and planning for a good peak retail season and push paper demand up with it.

Total construction activity is still trending higher than expected. Residential construction is still growing at a 6.5% annual rate, and spending on single-family residential was growing at 17% year-over-year through February (latest available). Remember that a single new residential home generates 7 full truckloads of demand for fixtures and elements that go into the home (does not include the shell of the house). This increases demand for cartons and packaging. Nonresidential construction is also surging, growth in the sector is up 14% year-over-year through February after growing 25% last year and 15% the year prior. The chart at right is our forecast for nonresidential construction based on data algorithms and it shows no downside risk in the outlook over the next 18 months.




Overall, conditions should be improving on a global basis for overall paper demand, if current conditions hold. Again, given that a global destocking process is largely over, small upticks in final demand will increase demand for paper inputs into the manufacturing and fulfillment process.