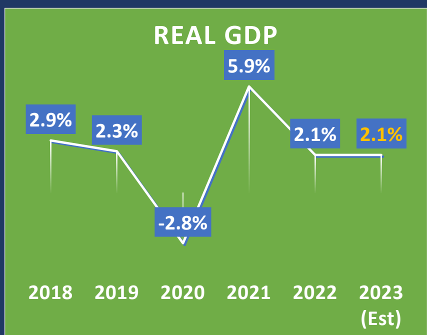
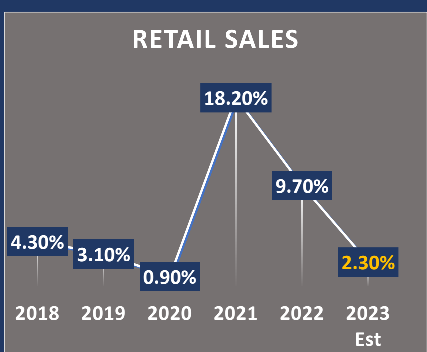
Quarterly Economic Report

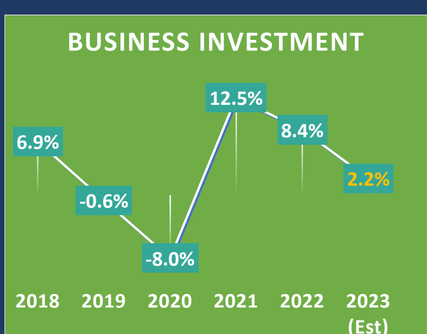
Q3 2023

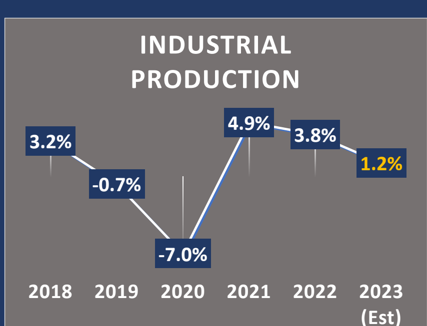
Executive Summary – Q3 '23

Selected Indices









Big Items

Real GDP: Cumulative data for Q3 from the Atlanta Federal Reserve shows current GDP trending at 4.9% for the quarter. This is ahead of expectations and is being driven by stronger than expected consumer spending, strong nonresidential construction activity, and government spending. The fourth quarter typically slows as inventory building seasonality comes to an end. Still, in Q4 it is now expected to grow by 1%. Many headwinds are building in the financial sector and that could slow growth in the first half of 2024. But as prior quarters have shown, the economy remains resilient.

Paper Inventories-to-Sales: The inventory-to-sales-ratio is an important barometer of future orders for new paper (consumer paper). The ratio has fallen back in the past quarter and currently sits at 1.06, that is up 1.0% M/M through August (latest available). It was lower by 5.4% versus a year ago and is still lower than the pre-pandemic period from 2014 to 2019. If the demand environment begins to improve (many uncertainties surround a surge in potential demand), but if it comes in the first half of 2024, it will create some price pressures quickly with inventories remaining this low. Inventories can fluctuate significantly in the industry, and this adjustment can happen quickly (1-2 months).

Construction: The overall outlook for construction continues to remain healthier than expected. Single family construction is down by 10.6% Y/Y, but multi-family is up by 24%. Manufacturing construction is still surging with growth of 65.5% on more than $200 billion in spending (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. The big question remains: what will 2024 and a higher interest rate environment bring for the sector? Most developers are looking at the second half of 2024 and early 2025 with caution. More than 60% of project delays today are based on inability to get financing, that rate was less than 10% a year ago (at that time, supply chain challenges and labor shortages were creating 60% of the project start delays). Next year will be a critical time to watch. Three major government spending bills will likely provide accelerated funding in 2024 (CHIPs Act, Inflation Reduction Act, and Infrastructure Bill).

Retail: The unadjusted retail sales data reversed trend and was up 0.6% in August from the previous month and were up 2.5% over August of last year. Overall, when adjusted for inflation sales are down 1.2% year-over-year. Consumer spending continued to be steady, but inflationary pressures are limiting the volume of discretionary items the average household can purchase. Nearly 61% of the population are living check-to-check and there is little cash left after these households pay for essentials (food, shelter, utilities, taxes).

Manufacturing: Global PMI data from JP Morgan remains in slight contraction at 49.1. The US remained in mild contraction with a PMI of 49.7, just marginally below the midpoint of 50 (the line between an expanding and contracting sector). Twenty-two countries now have manufacturing sectors in contraction. The war in the Middle East could usher in new challenges, and defense sector spending around the world is anticipated to grow rapidly in the coming quarters.

Risks

Geopolitics and Inflation: the outbreak of hostilities in the Middle East could impact oil markets if the fighting expands beyond Israel and the immediate area (Lebanon, Syria primarily). If some oil producing nations get pulled into the conflict (Saudi Arabia, Iran, and others), it could impact global oil supplies and push prices much higher. Any runup in oil prices creates a drain on US economic activity and could impact overall demand.

Macroeconomic Viewpoints

- Dr. Chris Kuehl

Contents:

How Swiftly Situations Change – For the last year and a half the US economy has been dodging the recession bullet and suddenly that projectile seems to be finding its mark. Lately there have been more reasons to worry. There are perhaps six reasons to think that a recession could now be in the offing.

Number One – Calls for a Soft-Landing Peak Just Before a Hard Landing – It has been compared to the Athletic Director praising the football coach just hours before firing him. The assertions of an end to the recession threat seem to encourage people to quit worrying about it. One can look at the decisions to shut down the government and launch major labor strikes as an example. "What is there to worry about – we avoided recession?" That then sets up the recession everybody assumed was no longer in the cards.

Number Two – Fed Hikes Are About to Hit Hard – Now is not the time to go into gory detail on economic theory but there are many who assert that the neutral Fed Funds Rate is not 1.0% but is closer to 2.0%. There is much to say about this but the important aspect for this discussion is that it would mean the Fed rates didn't really start affecting the economy until February of this year and now is when there has been a palpable reaction. There is most definitely a financial sector crisis brewing. The bond market is reacting, equity markets are getting spooked. The impact of the rate hikes are just now starting to become obvious.

Number Three – NBER Readings are Signaling - The National Bureau for Economic Research is the arbiter of calling a recession and they do not do this until there has actually been one. They do not say you are in a recession; they tell you that you have been in one. But they look at a number of factors including measures of income, employment, consumer spending and factory output. All of these are starting to flash red to some degree. The most recent exception is an important one however. There was an unexpected surge in hiring – a gain of 339,000 in September. This is not a signal of recession at this point and job openings are still at 9.6 million (6 million is considered to be 'normal').

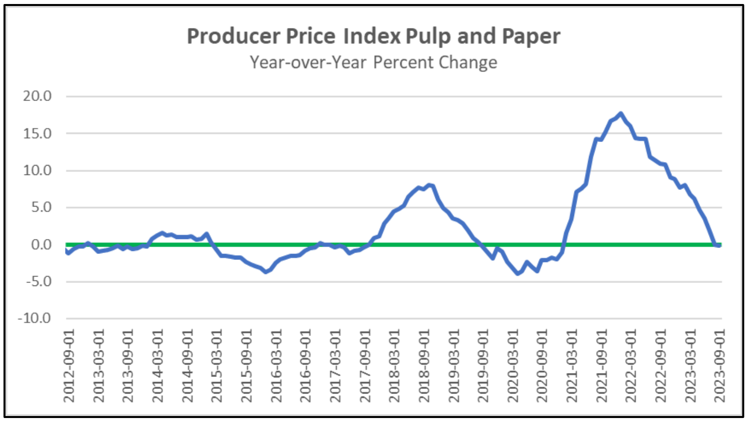
Number Four – Shocks to the System – This is where the self-inflicted wounds come in. We have a collection of politicians willing to tank a fragile economy with a shutdown that could drag as much as a point from GDP growth. We have major union actions threatening the loss of billions every week and it is not just the UAW. Pilots are close to action; healthcare workers have been in and out of strikes, and many other sectors are moving in that direction. These are enough to plunge the economy into reverse all by themselves. You can add in the imminent threat of a major spike in the per barrel price of oil due to the intense war that is now being waged in Israel.

Number Five – Household Spending – There have been many jokes regarding the impact of Beyonce and Taylor Swift but the reality is that consumers have been spending aggressively and running up their debt. There is over $7 trillion in credit card debt right now and $70 trillion in total consumer debt. This has started to dry up and when the consumer can no longer afford to spend on expensive concert tickets (figuratively speaking) the economy loses a major driver. Two factors are required to keep consumers engaged and job stability is the most important. So far that has been remarkably stable but there is record debt in the hands of the consumer, prices are still climbing and more than half of the consumer population is now living paycheck to paycheck.

Number Six – Credit Squeeze – The data from the senior loan officers shows that over half are seriously restricting loans and at a pace not seen since the 2008 financial crisis. The inability to borrow was what triggered the Great Recession in 2008 as businesses could not invest and could not hire. We have to see what transpires there.

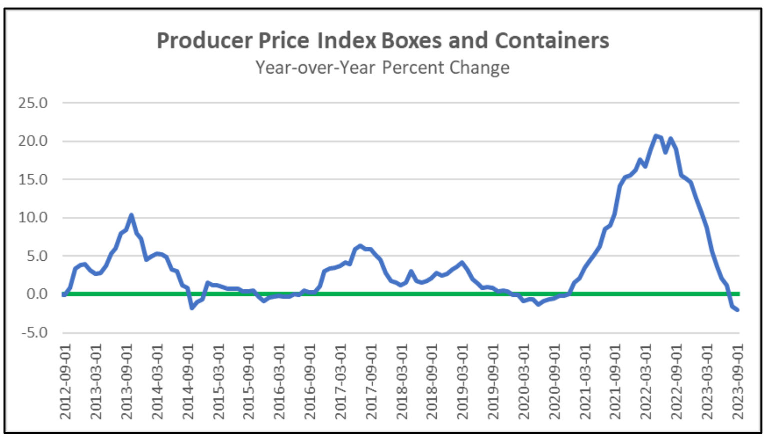
Upstream Conditions

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)

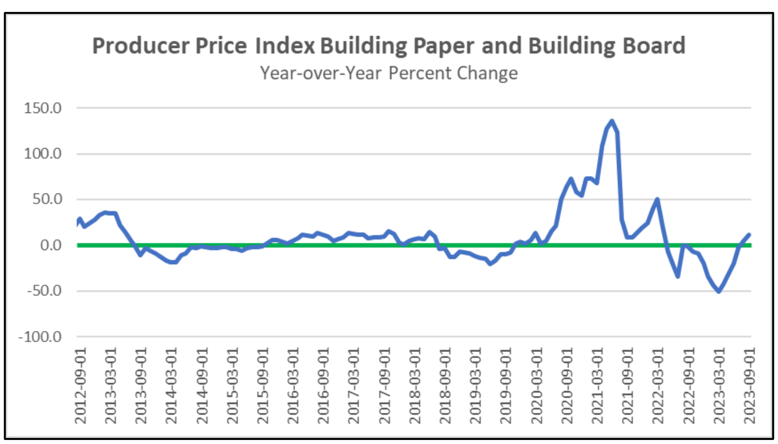
- The Producer Price Index (PPI) for paper and pulp in August (latest PPI available) was up month-over-month by 0.4% (down 0.7% last month). But it was lower year-over-year, falling by 0.2% Y/Y (unchanged last month) against more difficult comparisons.
- **Looking Ahead**: Input prices for pulp and paper are still easing on a year-over-year basis, despite remaining somewhat higher historically and still near all-time highs. Input prices are 23.8% higher than they were prior to the pandemic in Aug of 2019. Transportation costs are still lower, and back to 2019 levels. But labor costs are still higher and energy prices are fluctuating (but are generally lower for natural gas, electricity is highly variable depending on the region a facility is in).



Paper Boxes and Container Prices

(WPU091503)

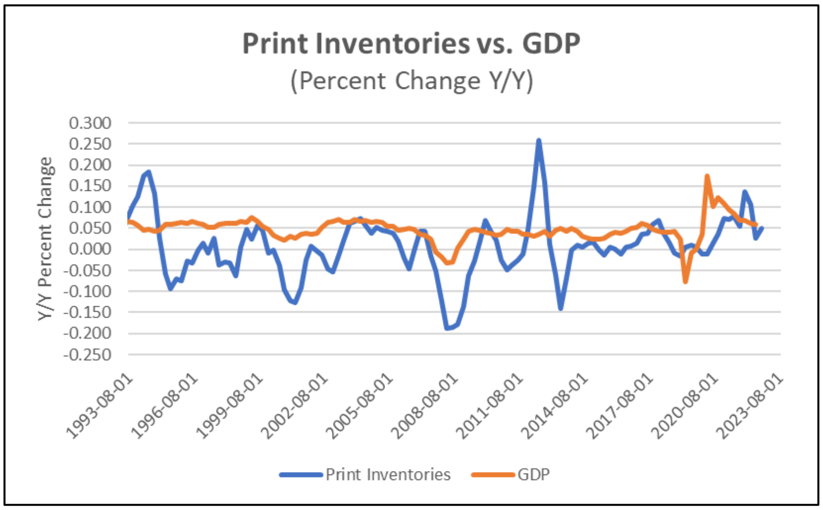
- The Producer Price Index (PPI) for boxes and containers in September (latest PPI available) was down month-over-month by 0.2% (-0.5% last month). It was also lower year-over-year, falling by 2.0% Y/Y (down 1.6% last month). The all-time high for the index was 357 points in January of 2023.
- **Looking Ahead**: Consumer spending is still robust and when adjusted for inflation, is still growing near all-time highs, but it has begun to decelerate. E-commerce (and packaging demand) is still growing at a 7% annual rate but as mentioned, some firms are getting creative about shipment bundling to reduce the number of packages used.



Building Paper / Building Board Prices

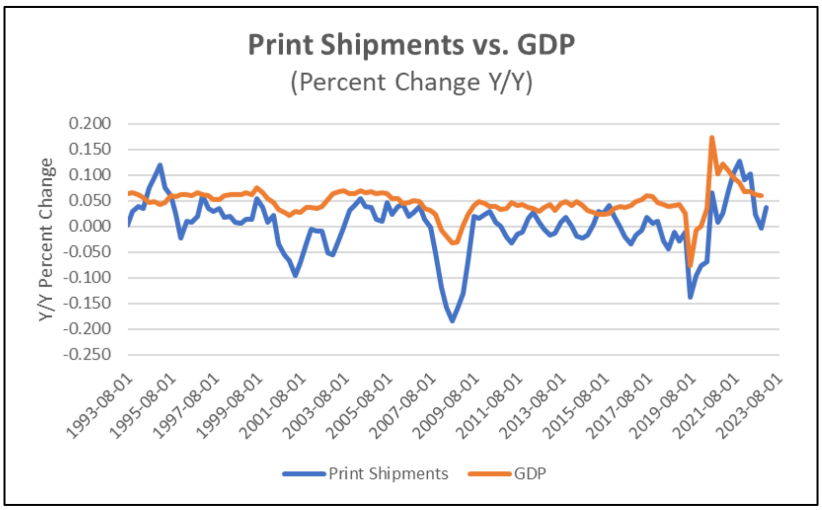
(WPU092)

- The Producer Price Index (PPI) for building paper and building board in September (latest PPI available) was unchanged month-over-month (up 13.6% last month). It was growing year-over-year, rising by 11.8% Y/Y (up 4.4% last month).
- **Looking Ahead**: Single family construction spending was down 10.6% Y/Y in August. However, strong growth was being seen in multi-family spending (up 24% Y/Y), and nonresidential spending which was up 17.6% Y/Y. Manufacturing and lodging are still higher by double digits. Other construction activities that use building paper and boards were still growing, no categories were lower year-over-year.



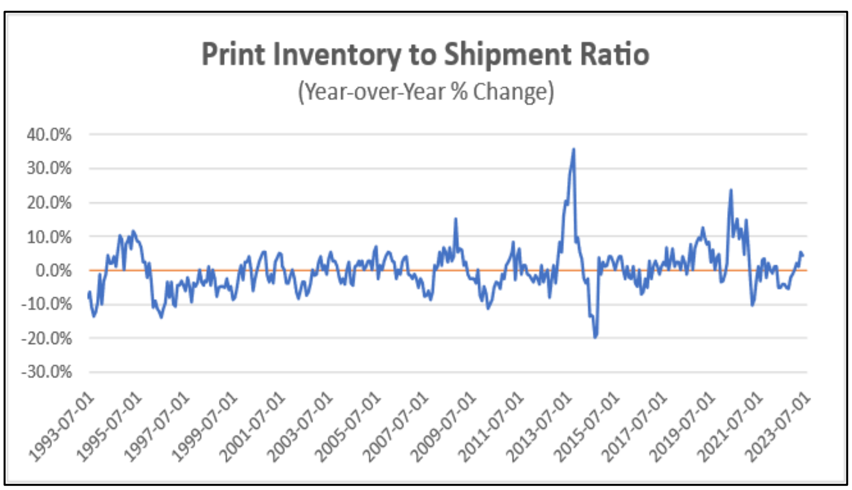
Print Inventories vs. GDP (U23STI)

- Print inventories dove in Q3, falling 6.2% year-over-year (Aug latest available data) and were lower than the -3.1% posted in Q2. 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, of course 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, with risks of recession abated for 2023, demand for ongoing print products is stable. The big question moving forward into 2024 is what the Presidential election will do for print activity – and it should help boost spending on mail collateral and other types of temporary signage.



Print Shipments vs. GDP (U23SVS)

- Shipments of print material were down 1.3% year-over-year through August (down from the 2.3% rate hit in the prior quarter). Shipment activity was higher in the last quarter by 1.1% over the prior quarter. Activity was stable.
- **Looking Ahead**: Like inventories, print shipment activity has more volatility than is seen in GDP. On a year-over-year percent change basis, shipments were still showing some softening against more difficult comparisons from last year. 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 $7.44 B through August).



Inventory to Shipments Ratio (U23SIS)

- The inventory to shipment ratio (ISR) for the print industry was flat both year-over-year and month-over-month through August (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 rising (like the current condition) shows that inventory building activity is outpacing outgoing shipments. The shipment ratio is also a gauge of how backlogged the manufacturing process is. Looking at the inventory-to-sales ratio for the industry, it currently shows that the industry is doing a better job of balancing inventories relative to demand. And interestingly, the sector is doing a good job of managing seasonality, as is shown by the tight relationship Y/Y and M/M, showing no changes in inventory levels relative to sales and shipment volumes.

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	Sep-23	Aug-23	M/M% Chg	Sep-22	Y/Y % Chg
Paper Manufacturing	PCU322322	182.3	182.8	-0.3%	185.4	-1.7%
Pulp, Paper and Paperboard Mills	PCU32213221	174.2	175.2	-0.6%	181.2	-3.9%
Pulp Mills	PCU3221132211	180.2	216.2	-16.7%	271.6	-33.7%
Paper Mills	PCU3221232212	240.6	241.1	-0.2%	236.0	2.0%
Paper Mills (Except Newsprint)	PCU322121322121	164.5	164.9	-0.2%	161.6	1.8%
Newsprint	WPU091302	161.1	166.1	-3.0%	176.0	-8.5%
Paperboard (Primary Products)	PCU322130322130P	354.5	351.2	0.9%	375.9	-5.7%
Recycled Paperboard	PCU3221303221307	393.4	396.6	-0.8%	444.3	-11.5%
Paper Container Manufacturing	PCU3222132221	322.1	322.5	-0.1%	331.8	-2.9%
Converted Paper Product Manufacturing	PCU32223222	188.9	188.9	0.0%	190.6	-0.9%
Corrugated and Solid Fiber Box Manufacturing	PCU322211322211	422.8	422.9	0.0%	452.4	-6.5%
Shipping Containers for food, beverages, carryout	PCU32221132221101	357.5	357.8	-0.1%	379.7	-5.9%
Shipping Containers for paper products	PCU32221132221102	394.9	395.2	-0.1%	470.4	-16.1%
Shipping Containers for Metal Machinery	PCU32221132221103	260.8	260.9	-0.1%	270.7	-3.7%
Corrugated Paperboard in Sheets and Rolls	WPU091405	329.3	329.3	0.0%	364.5	-9.7%
Folding Paperboard Box Manufacturing	PCU322212322212P	236.8	237.9	-0.5%	221.8	6.7%
Paper Bag and Coated and Treated Paper Manuf.	PCU322220322220	133.6	133.4	0.1%	131.9	1.2%
Stationery Product Manufacturing	PCU322230322230	163.9	162.8	0.6%	158.8	3.2%
Sanitary Paper Product Manufacturing	PCU322291322291	135.2	134.8	0.3%	130.1	3.9%
Disposable Sanitary Product Manufacturing	PCU3222913222912	103.7	103.7	0.0%	101.2	2.4%
Sanitary Tissue Product Manufacturing	PCU3222913222915	172.8	171.8	0.5%	161.4	7.1%

Q3 2023 Comments: Paper prices across both inputs and finished goods are mixed through September. The general theme across the sector was softening across the board on a year-over-year basis. A few sectors still had some strength, specifically in folding paperboard boxes, stationery, and sanitary paper product manufacturing. Remember that many consumer spending trends are showing that households are still spending near all-time highs on essential items but have slowed down their spending on discretionary items. That is shown in the price indexes through September.

There was a significant drop in prices for pulp mills through September, prices were down 16.7% month-over-month and a sharp 33.7% drop year-over-year. There were also significant drops in shipping containers for paper products. Oddly, e-commerce sales are still doing well, they were nearly 8% higher year-over-year through September. But that is not showing up in shipping containers used primarily for those shipments. Some shipment consolidation techniques being used by large e-commerce retailers are reducing some demand for shipping boxes. And again, inflationary pressure is keeping total retail sales strong, but consumer dollars are buying fewer units, which reduces the total demand for shipping containers relative to the prior 3-4 quarters.

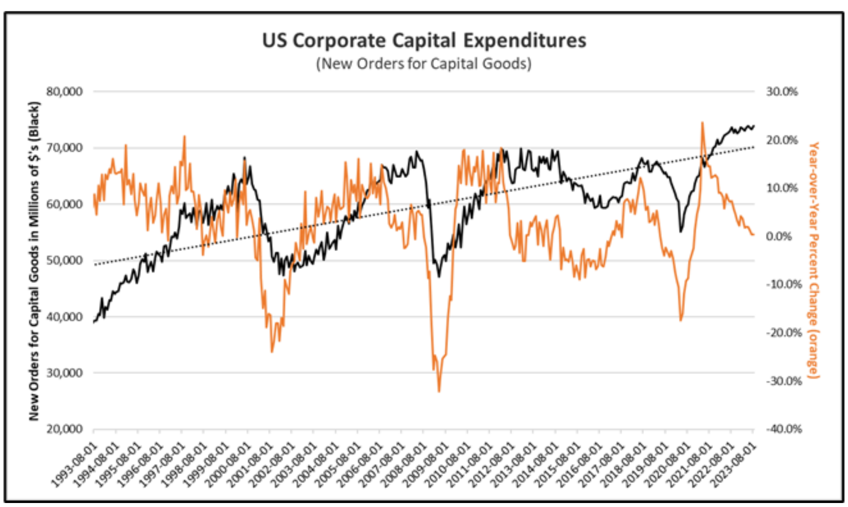
Downstream Market Demand

Kind of Business	Percent Change	
	Sep. 2023 Advance from --	
	Aug. 2023	Sep. 2022
Retail & food services, total	**0.7**	**3.8**
Retail	0.7	3.0
Motor vehicle & parts dealers	**1.0**	**6.2**
Furniture & home furn. stores	**0.0**	**-5.9**
Electronics & appliance stores	**-0.8**	**-2.2**
Building material & garden eq. & supplies dealers	**-0.2**	**-4.0**
Food & beverage stores	**0.4**	**1.6**
Grocery stores	0.4	1.6
Health & personal care stores	**0.8**	**8.3**
Gasoline stations	**0.9**	**-3.5**
Clothing & clothing accessories stores	**-0.8**	**0.1**
Sporting goods, hobby, musical instrument, & book stores	**0.0**	**-2.1**
General merchandise stores	**0.4**	**2.0**
Department stores	0.0	-4.7
Nonstore retailers	**1.1**	**8.4**
Food services & drinking places	**0.9**	**9.2**

Retail Sales (RRSFS)

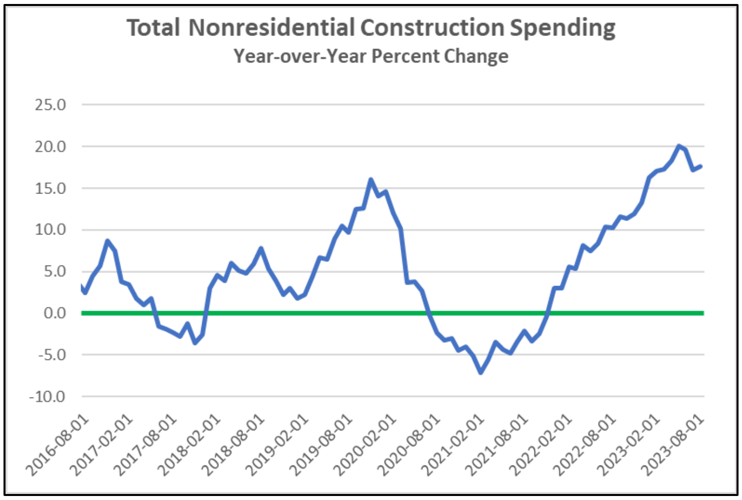
- Total retail sales were 3.8% higher year-over-year in September (the latest available). When stripping out fuel and autos, sales were still up 3.0%. However, when adjusting for inflation, total retail sales were down 0.7% Y/Y but were 0.3% higher sequentially M/M in September.
- General merchandise retailers saw sales 2.0% higher year-over-year and the critical e-commerce sector experienced an increase of 8.4%. As mentioned last quarter, inflation is pressuring households (64% of US households are still living check-to-check).
- **Outlook**: As mentioned in other places in this quarter's briefing, retail sales are resilient on a total dollar basis and remain near historic highs and well above pre-pandemic levels. However, inflationary pressures are still reducing the number of products that consumers can purchase. And record high credit card interest rates and higher debt levels have reduced the volume of discretionary items that households can purchase; they are being forced to focus on essential spending at this point. That overall reduces the total demand for various types of paper products at a retail level. But packaging for consumer staples, health and personal care stores, general merchandise, etc. are still stable.

The ending of the delayed student loan repayments may not have as big of an impact as economists had thought. Many households started making payments again in July, lessening the impact overall going into Q4. And if inflation continues to fall to remain below average wage growth, consumer households can dig out of their debt problems and that will spur discretionary spending (non-essential product purchases like electronics, furniture, sporting goods, etc.).



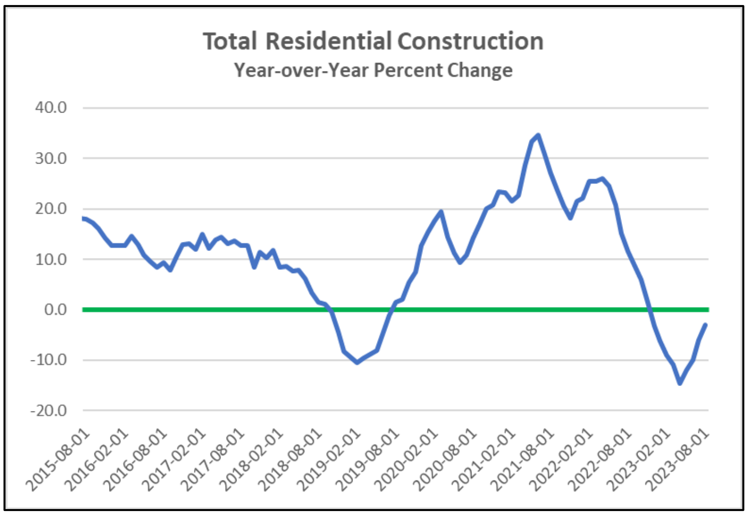
Capital Spending (NEWORDER)

- Spending on capital goods continued to be 'stable' through August (latest available); they were up sequentially 0.9% M/M (down 0.4% last month). They were up by 0.4% Y/Y (up 0.4% last month) and continued to be strong historically.
- **Outlook**: The chart at left shows the total spending continuing to stay near all-time highs, despite some flattening. The year-over-year comparison is difficult because it is going up against strong comparisons from 2022. But companies continue to find funds to invest in automation, capacity expansion, and asset purchases. Looking forward, banks are tightening credit standards for many different types of lending, and that could start to weigh on investment and spending. But for now, spending remains stable and at historically high levels.



Total Non-Residential Constr. (TLNRESCONS)

- Total Non-Residential Construction was 17.6% higher than it was a year ago (17.1% higher last month) and was up 0.4% M/M (0.3% last month). Overall spending was at an annual rate of $1,093 (a new annualized run rate peak).
- **Outlook**: Nonresidential construction activity is still growing aggressively across all sectors. Analysts are watching the infusion of $110B to $150B next year from CHIPs Act, Infrastructure Bill, and Inflation Reduction Act funding that will hit the street next year. 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 $200 billion in spending, which is well above the decade pre-pandemic average of roughly $50 billion a year.



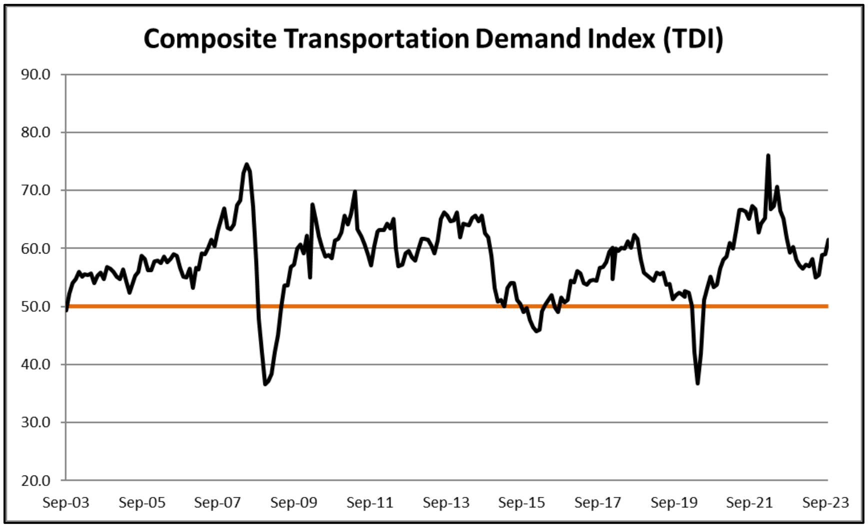
Total Residential Construction (PRRESCONS)

- Total residential construction in August (latest available), was down by 3.1% Y/Y (down 5.9% last month). It was up 0.6% M/M (1.6% last month).
- **Outlook**: The housing market is still slowing at the single-family level. High interest rates are making it more difficult for buyers to afford current entry-level homes, and those with low sub-3% mortgages are not willing to trade for current 8% interest rates. Only those being forced to move for work or personal reasons are trading homes. That reduces the amount of inventory in many markets, and especially in affordable middle-market home categories. Builder sentiment has started to fall again, and with mortgages more connected to the US 10-Year treasury, which has been rising of late.

Wholesale Paper ISR (R4241IM163SCEN)

- Merchant wholesalers' inventory to sales ratios of paper supplies were at 1.06 months of inventory-on-hand. This is still lower than the decade average. The ratio was down 5.4% Y/Y through August (latest available; down 7.9% Y/Y last month).
- **Outlook**: Wholesale inventory to sales ratios for paper products are much lower than they were in the last quarterly report. Wholesalers have reduced their inventory levels relative to sales, and that could eventually tighten inventories and stabilize prices. Like other industries, companies are trying to destock to get their cost of capital lower 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.

Supply Chain and Transportation Situation



Transportation Demand Normalizing

- The Transportation Demand Index shows the current demand environment for freight services improved steadily in the past quarter and remains in the expansion zone with a reading of 61.5 as compared to 59.0 in the month prior.
- **Outlook:** The demand index has shown some improvements over the past quarter, most of it seasonally driven by inventory building activity going into the peak retail season. This index does not account for changes in capacity, it primarily focuses on the growth in demand. Capacity in the LTL sector has tightened as Yellow Freight exited the industry and at least one other primary competitor struggled with a cyber-attack which interrupted operations. Those factors have tightened the LTL sector, but TL capacity remains largely loose across the country.

	23-Sep	23-Aug	22-Sep	Y/Y Change %	M/M Change %
Composite	61.5	59.0	59.3	**3.7%**	**4.2%**
Rail	58.8	56.4	57.5	**2.3%**	**4.3%**
Trucking	61.9	59.3	59.5	**4.0%**	**4.4%**
Air	64.6	64.1	63.1	**2.4%**	**0.8%**
Maritime	62.8	61.6	61.6	**1.9%**	**1.9%**

Mode Demand Slowing

- Each mode of transportation experienced rebounding demand through September. A reading over 50 here shows an expanding market, a reading under 50 is contracting. Every mode had indexes above normal; demand is stable. And all modes were up slightly in September but were much weaker off the peaks hit over the past two years. Again, as mentioned in Q2, it feels more like a normalization process bringing prices and capacity back to pre-pandemic levels.

What we are Watching in Transportation

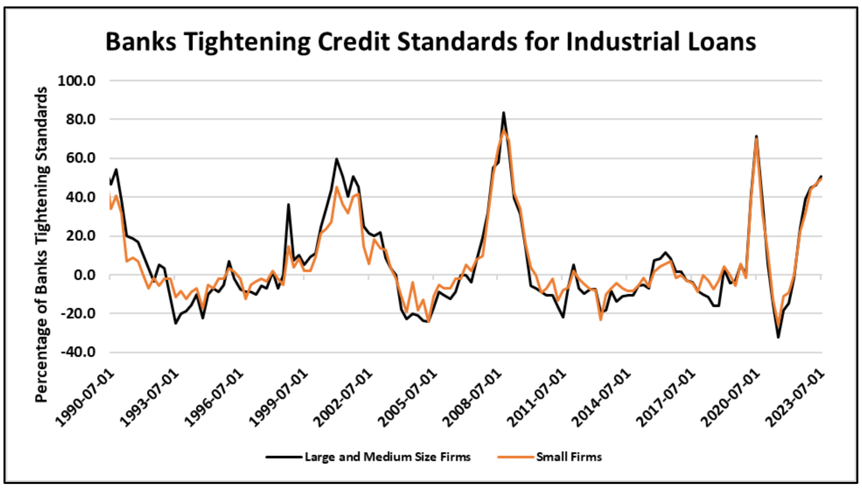
- **Could the Supply Chain Fall Back in Disarray?** It might be a stretch, but there is a chance that the global supply chain could fall back into disarray. Two major global conflicts are still erupting, and global defense sectors are seeing increased urgency in producing products used in those conflicts. That tightens the global demand for certain raw materials and makes it more difficult for companies in non-defense sectors to get key materials. That could work two ways. First, it could strip the current inventory overstocks and restart the global supply chain. Second, it may create an instance in which companies start to stockpile products once again, like what we saw in the last two years. Consider the fact that the war in Ukraine is the largest since World War II in Europe and this war in Israel could expand to become the largest Middle East conflict in some time. The fact is, nobody really knows at this stage how it will all play out, how it impacts petroleum, raw material availability, etc. The Mississippi River is also at low levels, impacting barge traffic downstream. That is hurting the movement of key commodities and could eventually impact the paper sector if these drought conditions continue.

- **Petroleum Roller-Coaster.** In the past few weeks prior to the writing of this quarter's brief, petroleum prices had moved from the mid $90's to into the low $80's. After the initial outbreak of conflict in the Middle East, prices for WTI back up into the high $80's. Inventories in the United States are sitting below their 5-year averages, the Strategic Petroleum Reserve is at just 17 days of inventory on hand and are at the lowest levels since the early 1980's. Further, supplies in Cushing, Oklahoma is nearing "operational minimums". US output is approaching 13 million barrels per day, but US consumption is still running nearly 21 million barrels per day. With demand for oil supplies from the US quickly rising to support allies (US exports of oil are rising), oil prices remain volatile. Oil prices account for 41% of the price of a gallon of diesel, it has a significant impact on street level diesel prices.

Banking Credit and Finance

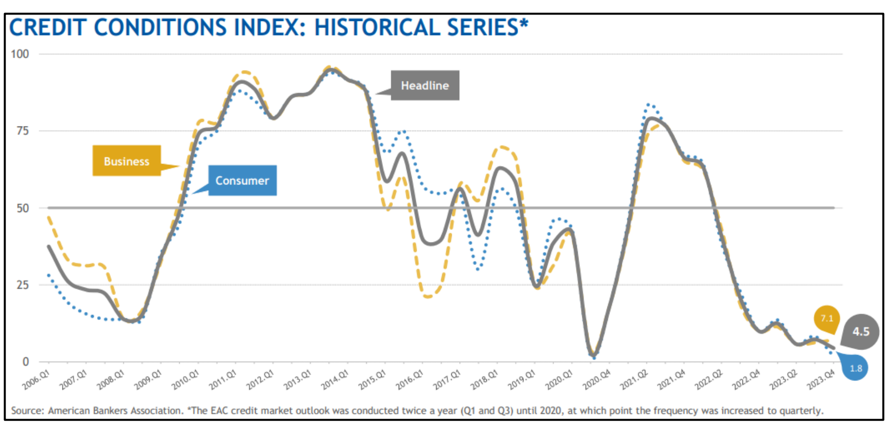
Overall Observations: The Federal Reserve appeared to be nearing a peak in the interest rate hike cycle at the beginning of October. Some stable employment data, good GDP growth, and cooling inflation would have continued to be a good set of readings for the Fed. But the sentiment from Federal Reserve officials is that rates will stay 'higher for longer'. And the problem is that the new war in Israel is likely to complicate conditions on the inflation front. Demand for war-supporting supplies is expected to keep inflationary pressures higher for longer now, and how the Fed reacts to that situation will determine whether rates can be near their peak.

Private equity has stepped up and many are looking for opportunities to invest in long-term projects. Some of these firms are eyeing non-residential construction opportunities (primarily in industrial/manufacturing, 'infrastructure', leisure, and hospitality, etc.), but remain conservative in their geographic and sector focus (looking for safe-haven growth sectors and locations). Still, construction activity is expected to slow in the second half of 2024.



Banks Tightening Conditions (DRTSCILM; DRTSCIS)

- The latest view of the number of banks tightening credit standards has now hit 50.8% for large and medium-sized commercial firms and 49.2% for smaller firms. This is still the fourth tightest lending environment going back into the early 1990's, and all prior periods were during recession periods.
- **Outlook**: commercial real estate risk will grow throughout 2024 and 2025 as nearly $1.8 trillion in commercial loans mature and must be renegotiated. Much of this risk is being held with regional and local banks. Coupled with a tighter regulatory environment following the March bank failure episodes, conditions are more likely to remain tighter for longer. Difficulty finding funding now accounts for 63% of all construction project delays (as opposed to supply chain challenges and labor shortages accounting for 70% of the project delays in 2022).



ABA Credit Conditions (ABA)

- The American Bankers Association's Credit Conditions Index for business credit decreased by 2.8 points to 4.5 in early Q4 and is well below the midpoint 50 line. The respondents all believe this sub-50 reading will extend through the end of the year and this matches credit levels not seen since the pandemic.
- **Outlook**: Banks are expected to remain cautious in extending credit over the next quarter, and that will likely extend to next year. Consumer credit conditions will also weaken headed into 2024, and with credit card interest rates at all-time highs, spending will be impacted as a result. The ABA also believes that credit conditions for businesses will remain weak for at least the next two quarters.

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	2.5	1.0	-1.0	-0.7	2.2	2.3	2.3	-2.8	5.9	2.1	2.1	0.7	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	4.3	4.5
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	2.2	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	5.6	5.6	5.2	4.7	4.0	1.6	0.1	0.1	4.4	5.5	4.0	3.1

The macroeconomic setting is giving us mixed signals, especially in the midst of two significant conflicts around the world. Although it should not have a direct impact on the US economy, there is a scenario in which the conflict in Israel does ripple through the global economy. If oil supplies are reduced (and some actors have already called for a cut in petroleum shipments to Israel and other western interests), it would change the global economic dynamic. If conflict spreads aggressively into Lebanon and Syria, it could involve Iran and risk its 3 million barrels a day of oil production (that today is finding its way onto the global market through back channels). With current US petroleum supplies very low (Cushing, Oklahoma inventories are the lowest in a decade and the Strategic Petroleum Reserves are at lows not seen since the early 1980's), a spike in petroleum prices is possible. And if that happens, it would quickly change US macroeconomic growth estimates.

That aside, it now looks like the economy could go through just a soft patch in the first half of 2024, but regain growth momentum in the second half of 2024 and into 2025. Much of that depends on the Federal Reserve lowering interest rates in the second half of 2024 (and assumes that inflation has cooled as a result), which it currently is forecasting as its leading scenario.

Consumer spending continues to be stable. The latest retail data shows spending remaining at historically high levels. Job openings surged back to 9.6 million (6 million is a balanced environment) and the most aggressive measure of unemployment still shows it near all-time lows. Wages are growing at 4.1% with inflation rising at a 3.6% annual rate, which is beginning to give households more breathing room. Today, consumers (which account for 70% of GDP) are largely just covering essential spending. That's why retail spending can be near all-time highs, but some discretionary spending retail categories are struggling. If the wage/inflation relationship continues to improve, that would allow households to start engaging in more discretionary types of spending, which would help with paper consumption.

Lastly, construction as mentioned throughout this month's report is still doing very well. Single-family household construction is still down 10.6% Y/Y, but multi-family and nonresidential construction activity are still doing well, growing at 24% and 17.6% Y/Y respectively. Next year, the CHIPs Act, Infrastructure Bill, and Inflation Reduction Act funds will start flowing into the economy. Although only segments of that spending will help the paper industry, overall infusions of capital into the economy (spending that is already allocated) will be a tide that helps lift all ships.

There are still many risks out there. And perhaps more than any time in recent history, the list of risks is very long. The economy has remained resilient on the back of a strong consumer that is still willing to spend. For now, the economy continues to blow through this period, dodging speed bumps along the way. But again, conditions can change rapidly in this environment.