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Market Forecast Report
January 2025

Reports ITR Economics

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Economic Overview

Macro Growth Lies Ahead; Here Are Some Key Drivers:

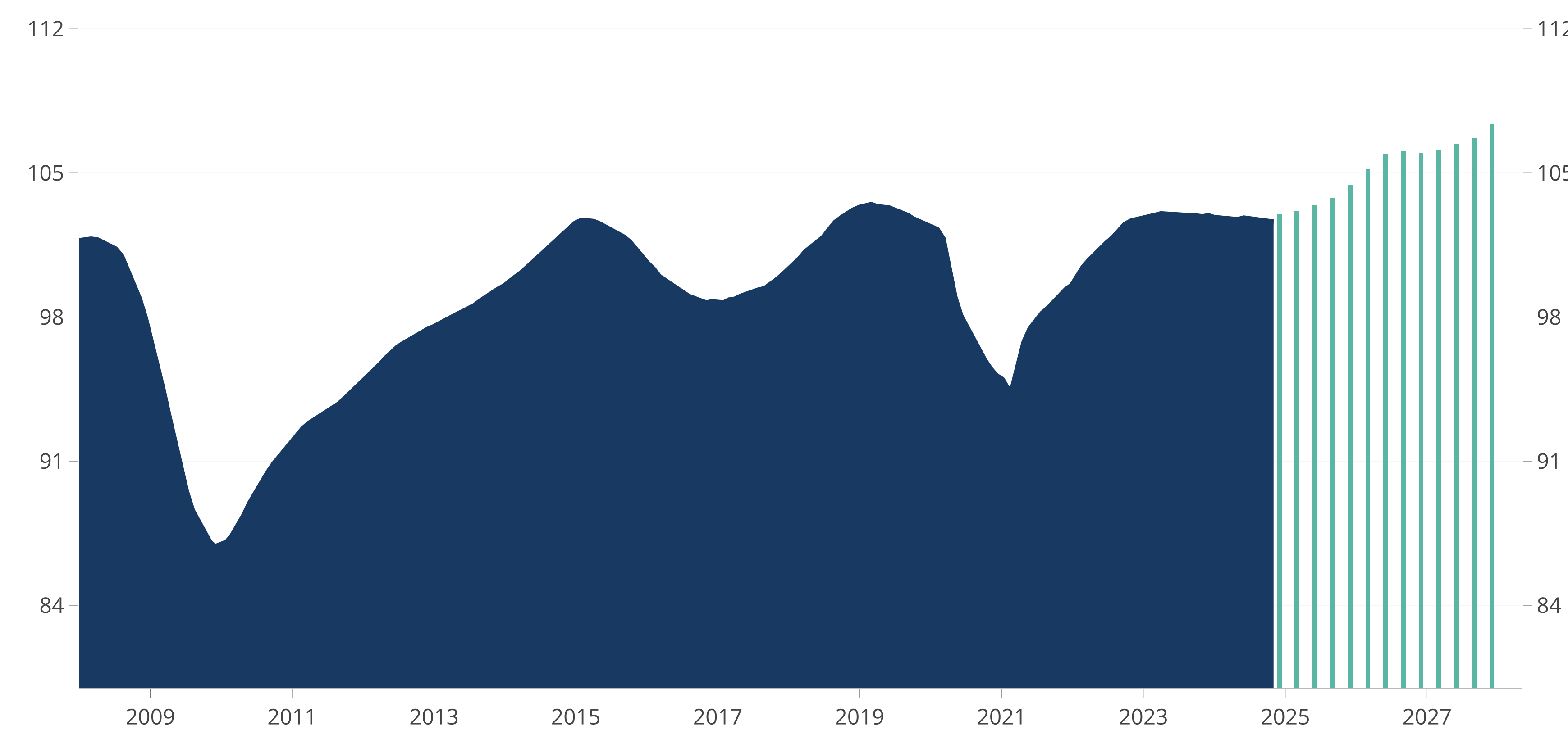
Consumers: Rising incomes and inflation-adjusted savings balances will help boost Retail Sales rise in the years ahead. Higher-income earners and those who saw their home prices rise and stock portfolios increase in value in recent years will likely drive much of the growth. Those demographics struggling with inflation should get some relief in 2025, but price sensitivity will linger. Retail Sales growth will start out sluggish in early 2025 but then ramp up later in the year. Improving consumer metrics will also be a positive for other sectors ranging from manufacturing to services.

Interest Rates: The Federal Reserve has shifted to a more accommodative monetary policy; however, a lower Federal Funds Rate (a short-term rate) does not necessarily equate to lower interest rates for businesses. Commercial loans and mortgage rates trend similarly to US Government Long Term Bond Yields, which we anticipate will likely generally rise this year. Beyond rates, borrowing conditions are improving. Many lenders have stopped tightening their credit standards, and the default risk premium has moved lower, suggesting lenders are less concerned about recession risks – though there are lingering concerns specific to the CRE market. When deciding on capex, focus on timing the ROI to best align with your market trends. Aim to have the payback period completed ahead of the 2030s, as we anticipate tougher economic times in that decade.

Inflation: Prices will generally rise in the coming years, picking up the pace in the second half of 2025. Inflation will be temperate relative to levels of 2021 and 2022 but not as low as in the 2010s. If further tariffs are put in place, they could pose an upside risk to our pricing outlooks.

US Industrial Production Index

Annual Average (12MMA)



Businesses: While borrowing costs are unlikely to come down, elevated corporate profits and corporate cash will allow businesses to spend more. We expect investments in domestic capacity in recent years to have a cumulative positive effect, helping the economy reach record heights. Rise will be driven both by higher volumes and higher dollar values. Efficiency gains will be necessary to maintain or improve margins.

The Labor Market: Labor challenges will persist in the upcoming years, as will the upward pressure on wages. While the labor market has softened, it will remain relatively tight in the coming years due in part to the aging population. It will be important to focus resources on attracting and retaining talent. Keep your wages and benefits competitive for your region and industry.

Key Industries and Takeaways for Your Business

It may feel difficult to be optimistic at this point in the business cycle, but there are green shoots. Leading indicators, including the ITR Leading Indicator™, point to upcoming business cycle rise; however, markets will trend differently throughout this period. In the construction market, residential construction will rise for much of the next few years, despite affordability constraints, given the high demand for housing. The nonresidential construction sector lags the overall economy and is likely to undergo mild decline for much of 2025 and into 2026. There will be areas of opportunity within nonresidential construction, notably data centers, as they are in high demand and likely to rise in the coming two years. Within the industrial sector (which will be boosted generally by the nearshoring efforts of the past few years), manufacturing related to technology will likely be an area of opportunity.

What is your business doing to prepare for general macroeconomic rise in second half of this decade? Do you have the capacity needed to take on more activity, or can you harness new technologies to increase productivity? Rising prices coupled with lingering price sensitivity could cause margin squeeze. Now is the time to focus on efficiencies to protect your margins and increase flexibility. If possible, diversify your supply chain or move inputs for your US consumer base closer to the US to help insulate you from potential future trade conflicts. Think back to previous periods of business cycle rise: What do you wish you could have done differently, and what worked well? Remember that for most markets rise will be more muted this cycle than during the pandemic stimulus-boosted rise.

First Resource, Inc. Markets Dashboard

		Current		Annual Growth Rate Forecast (12/12), Year-End*		
Page Number	**Indicator**	**Growth Rate****	**Phase**	**2025****	**2026****	**2027****
3	US Total Retail Sales	3.0%	B	4.6%	4.5%	3.7%
4	North America Light Vehicle Production	1.2%	C	0.9%	3.7%	-0.3%
5	US Medical Equipment and Supplies Production Index	-2.2%	D	0.7%	0.5%	0.9%
6	US Private Nonresidential Construction	6.0%	C	-5.2%	1.8%	4.9%
7	US Agriculture, Construction and Mining Machinery Production Index	-6.3%	D	5.7%	2.8%	-0.4%

**Coloring denotes the business cycle phase at year-end. For example, if a value in the first column under "Annual Growth Rate Forecast (12/12), Year-End" is colored blue, the corresponding indicator is forecasted to be in Phase A, Recovery, at the year-end indicated by the column. Green denotes Phase B, yellow Phase C, and red Phase D.*

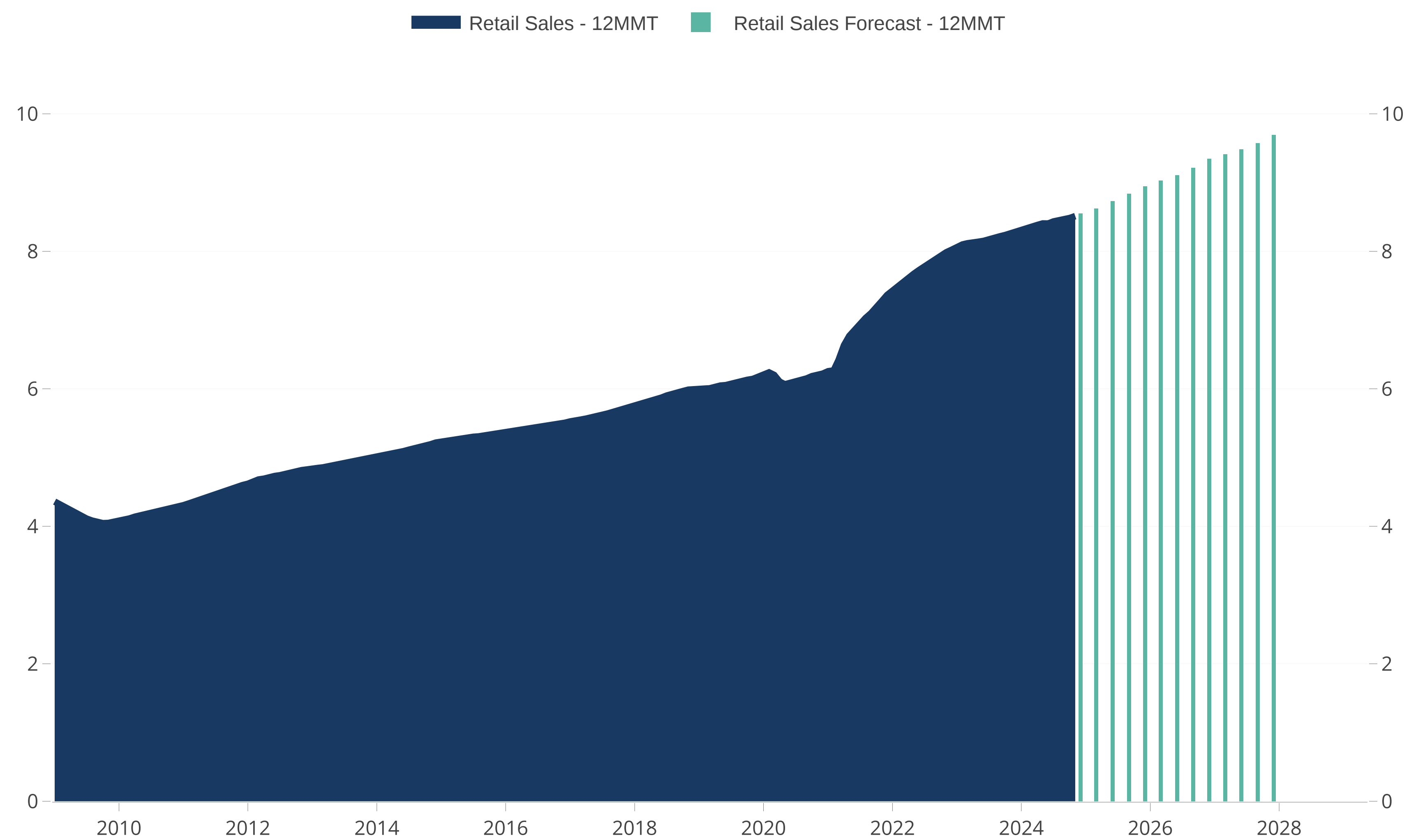
***Annual growth rate (12/12) except where otherwise noted.*

Recovery (A) **Accelerating Growth (B)** **Slowing Growth (C)** **Recession (D)**

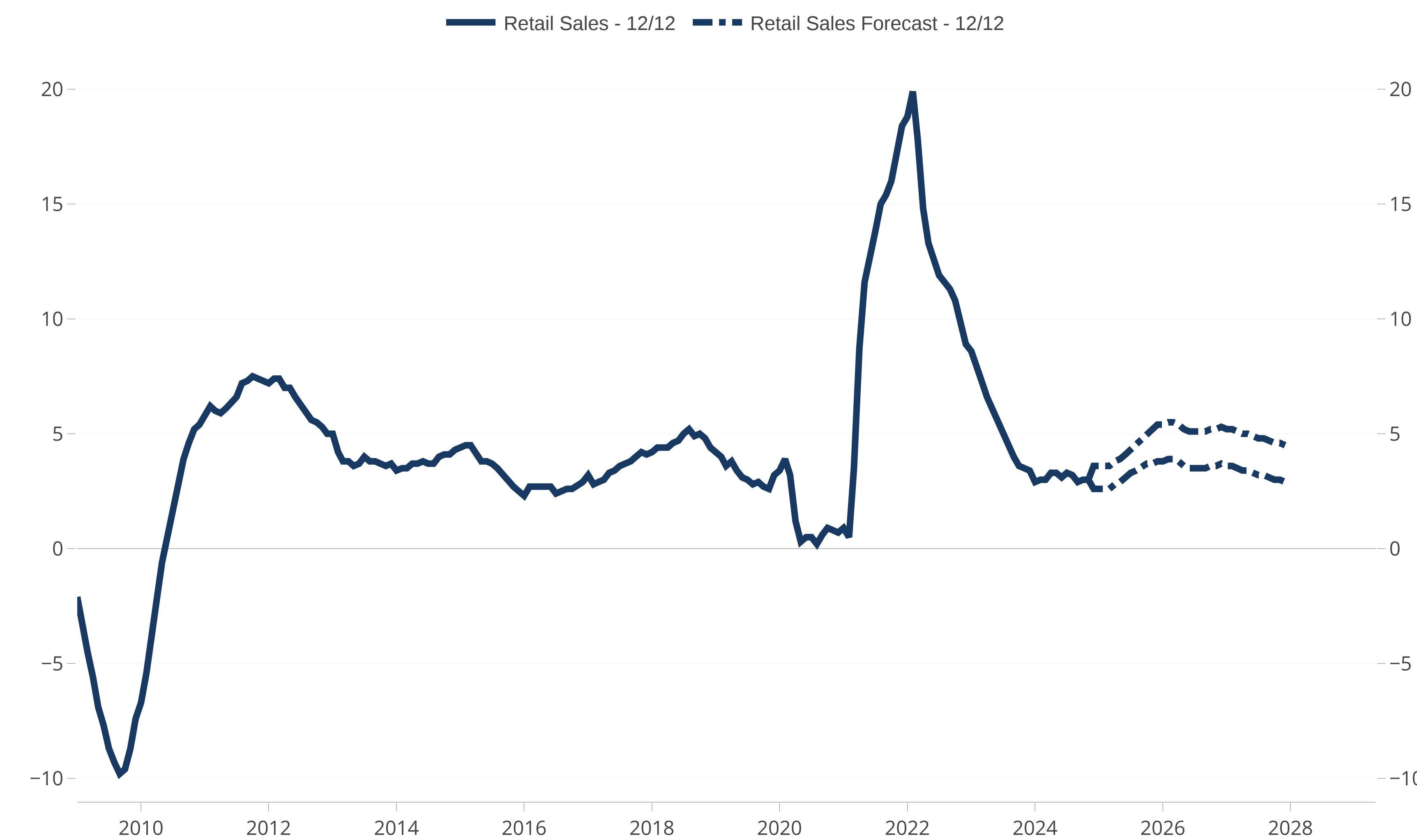
US Total Retail Sales

Retail Sales Will Rise Through at Least 2027, but Price-Sensitivity Will Remain in the Near Term

Annual Total (12MMT)



Annual Growth Rate (12/12)



Current Phase

Phase B Accelerating Growth

Current Indicator Amplitude

- November 2024 Annual Growth Rate (12/12): 3.0%
- November 2024 Annual Total (12MMT), Trillions of USD: $8.512

Industry Outlook

Year	*Annual Growth Rate*
2024	3.1%
2025	4.6%
2026	4.5%
2027	3.7%

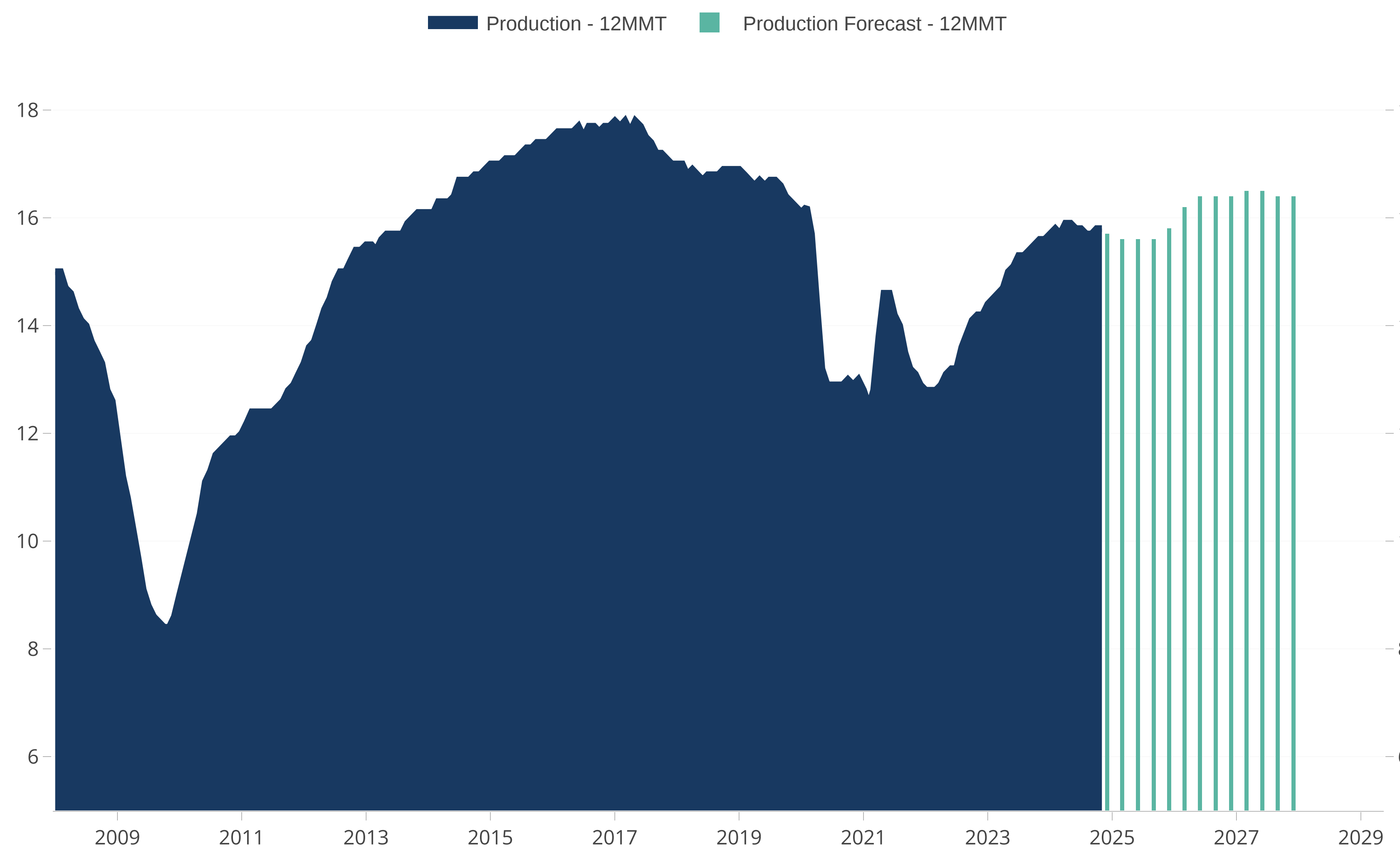
Outlook & Supporting Evidence

- US Total Retail Sales in the 12 months through November were $8.512 trillion, up 3.0% from the year-ago level. Retail Sales will rise through at least 2027, both on a dollar and volume basis.
- Consumers are likely to gain some financial footing in the coming quarters given rising incomes, rising inflation-adjusted savings balances, and rising employment levels. This will put consumers in a good position to drive retail spending higher in the coming years. Retail Sales growth will be mild at first and then ramp up in the second half of 2025.
- While inflation has come down, higher price levels will remain a burden for some families, and interest rates are likely to stay elevated, impacting the affordability of cars and homes. It is essential to do market research on your specific customer base, as some consumer segments are likely to struggle more than others. Many consumers, with the recent memory of high inflation, are likely to remain price-conscious in the near term.

North America Light Vehicle Production

Following a Near-Term Plateau, Annual Production Will Rise 6.4% From Mid-2025 Into Early 2027

Annual Total (12MMT)



Annual Growth Rate (12/12)

Current Phase

Phase C
Slowing Growth

Current Indicator Amplitude

- November 2024 Annual Growth Rate (12/12): 1.2%
- November 2024 Annual Total (12MMT), Millions of Units: 15.8

Industry Outlook

Year	*Annual Growth Rate*
2024	0.5%
2025	0.9%
2026	3.7%
2027	-0.3%

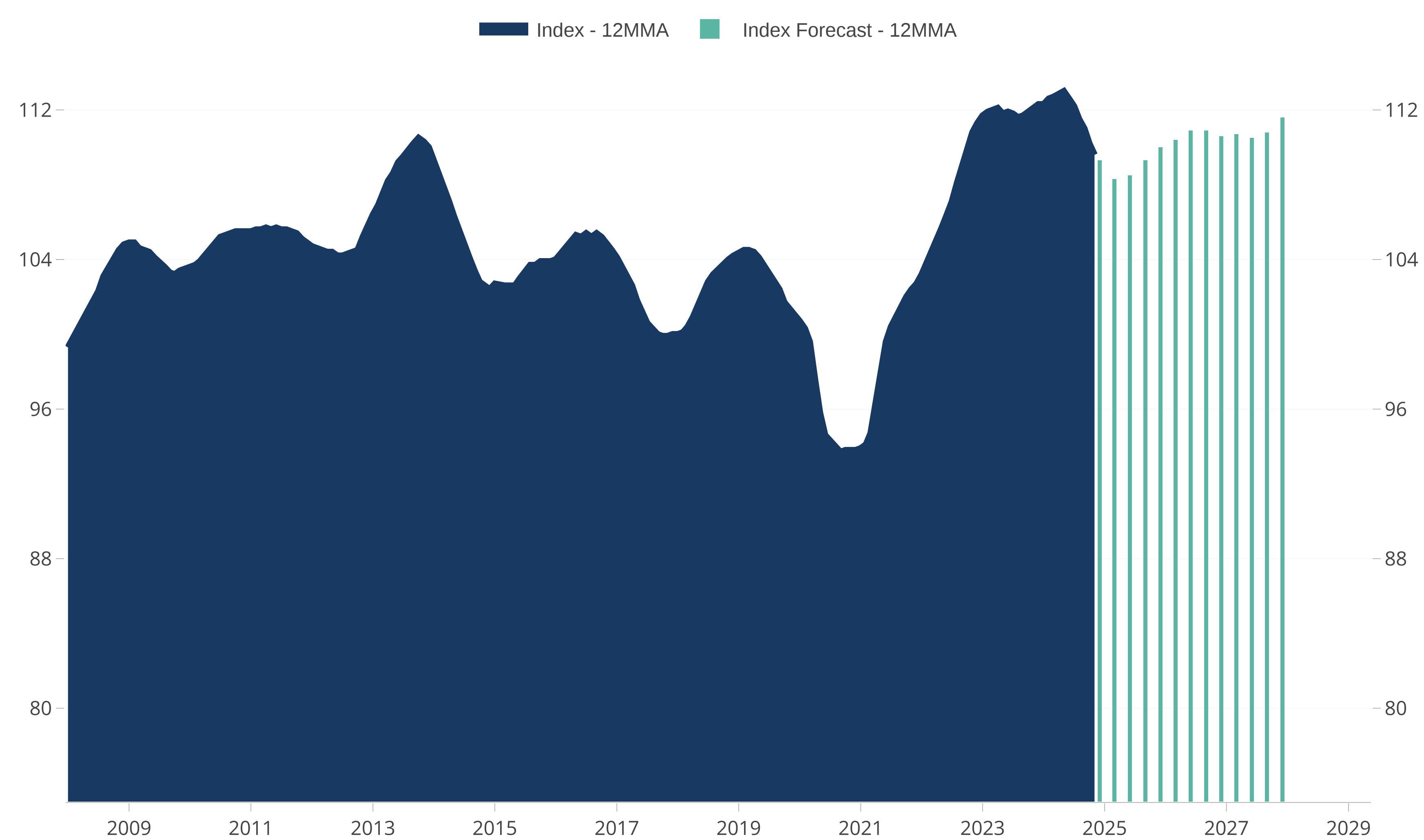
Outlook & Supporting Evidence

- North America Light Vehicle Production in the 12 months through November totaled 15.8 million units, 1.2% above the year-ago level. We expect annual Production will plateau with a downward bias into mid-2025. Subsequent rise will persist through 2026 and into early 2027.
- Elevated vehicle prices and high interest rates are driving affordability headwinds. The US Auto Loan Delinquency Rate rose to 4.6% in the third quarter of 2024, which is above the 3.5% historical average, a downside risk for the industry. These headwinds will put a damper on Production in the near term, but improving consumer finances will shift the market by the second half of 2025. Annual Production will rise from mid-2025 into early 2027, rising by around 6.5% during this period.
- Short-term interest rates may go down in the near term, but long-term rates are likely to rise in 2025. Keep this in mind as you make capital expenditure plans. Investing in efficiencies could allow your businesses to capitalize more readily on the rising trend ahead, especially given that labor costs will remain a pain point for the coming years.
- Annual Production will trend relatively flat with a downward bias for a large part of 2027, during which we expect a relatively soft landing for the macroeconomy.

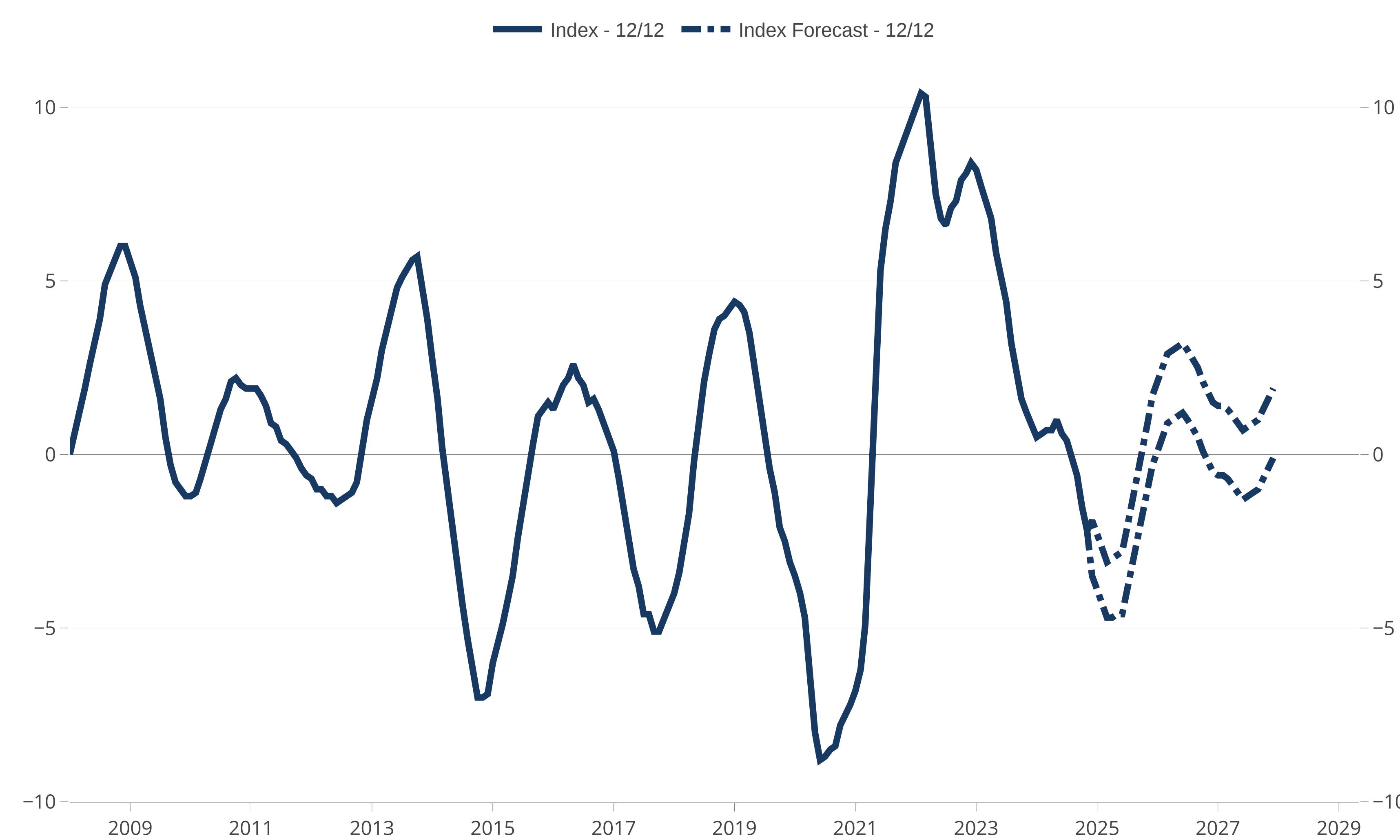
US Medical Equipment and Supplies Production Index

Annual Production to Remain Elevated Relative to Pre-COVID, but Upcoming Growth Will Be Muted

Annual Average (12MMA)



Annual Growth Rate (12/12)



Current Phase

Phase D Recession

Current Indicator Amplitude

- November 2024 Annual Growth Rate (12/12): -2.2%
- November 2024 Annual Average (12MMA), 2017=100: 109.6

Industry Outlook

Year	Annual Growth Rate
2024	-2.7%
2025	0.7%
2026	0.5%
2027	0.9%

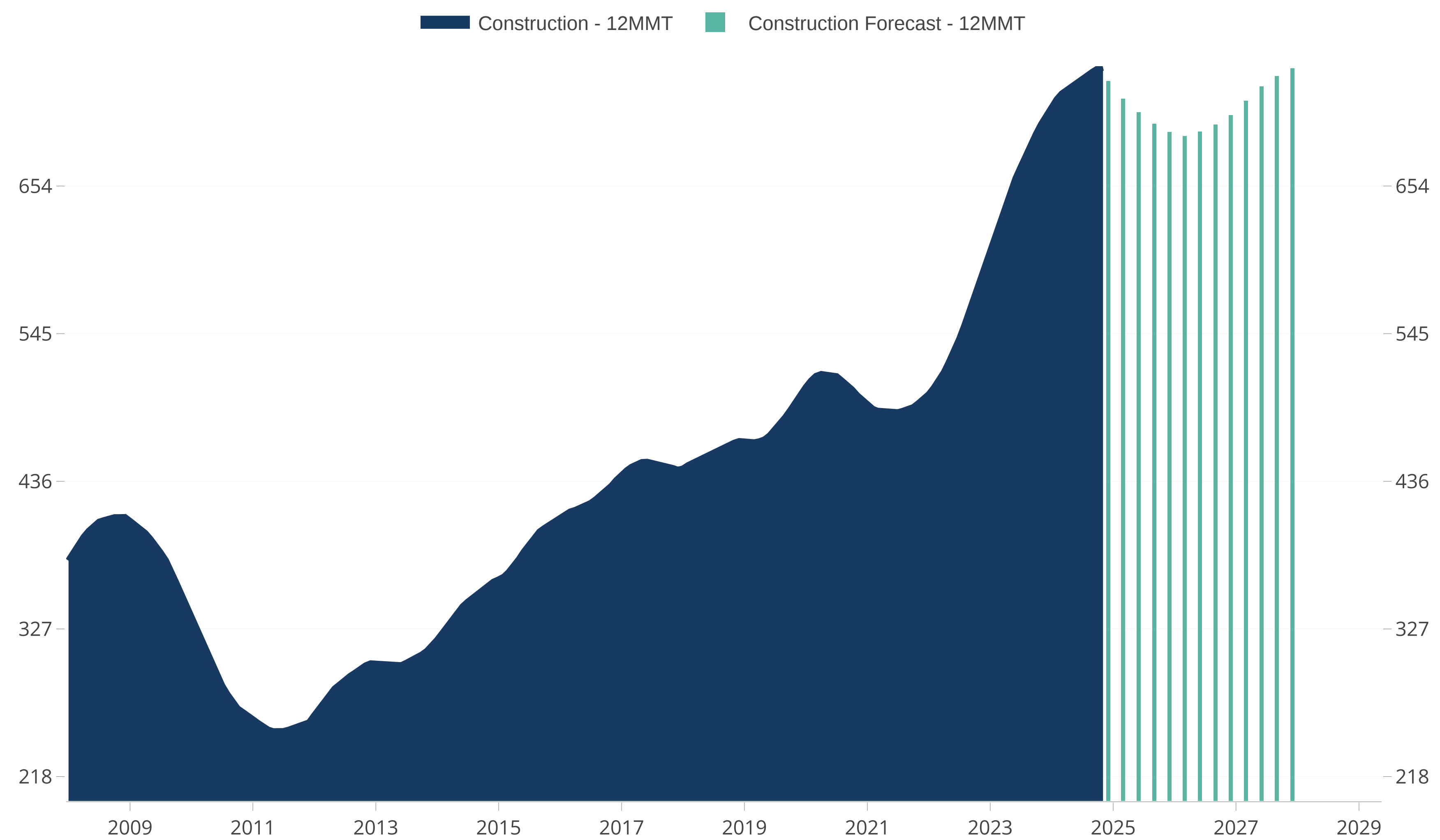
Outlook & Supporting Evidence

- US Medical Equipment and Supplies Production in the 12 months through November was 2.2% below the year-ago level. We adjusted the forecast due to underperformance, but the change is minimal; the 2025 and 2026 year-end growth rates were adjusted by less than half a percentage point. The industry is grappling with high financing costs and a post-COVID downward correction.
- Annual Production will transition to a rising trend in the first half of 2025, but the rise will be muted, as persistent high interest rates will discourage some medical providers from financing large equipment. Rise will last into mid-2026, followed by a plateau around 1% above the current level into the latter half of 2027.
- The essential nature of medical services will keep downside in this market mild. The aging population and onshoring trends are likely to contribute positively to Production in the longer term. Do not let the current mild downturn in this market stop you from investing in your business, but avoid overleveraging given that we expect annual growth rates of less than 1% for 2025, 2026, and 2027.

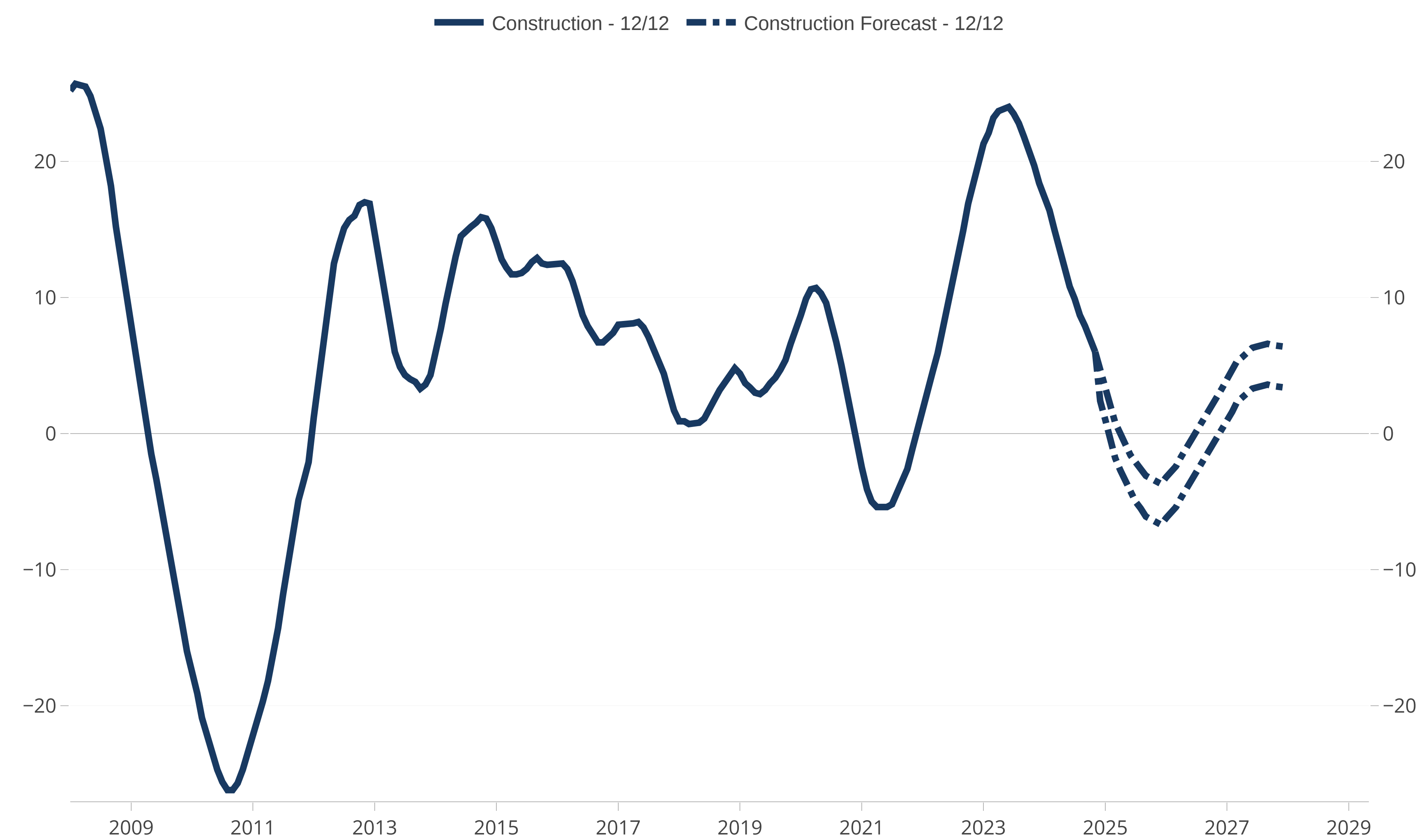
US Private Nonresidential Construction

Construction Will Decline Mildly in 2025 and Into 2026; Trends Vary by Construction Segment

Annual Total (12MMT)



Annual Growth Rate (12/12)



Current Phase

Phase C
Slowing Growth

Current Indicator Amplitude

- November 2024 Annual Growth Rate (12/12): 6.0%
- November 2024 Annual Total (12MMT), Billions of USD: $741.5

Industry Outlook

Year	Annual Growth Rate
2024	3.6%
2025	-5.2%
2026	1.8%
2027	4.9%

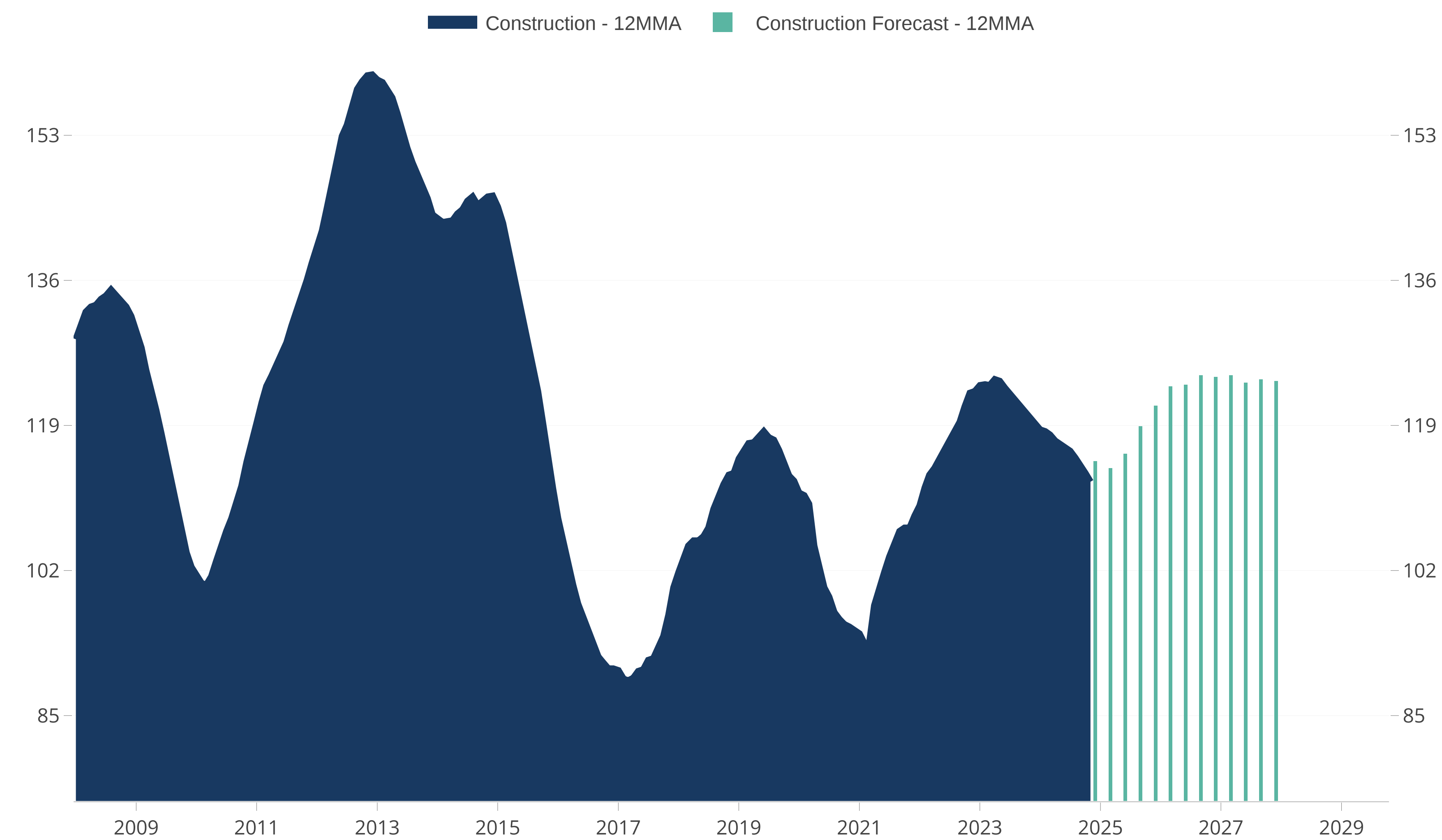
Outlook & Supporting Evidence

- US Private Nonresidential Construction in the 12 months through November totaled $741.5 billion, 6.0% above the year-ago level. Construction spending, which typically lags the industrial sector by roughly one year, will peak in the near term, then mildly decline through 2025 and into early 2026. Upcoming decline is driven primarily by elevated interest rates and the proceeding sluggish macroeconomic conditions.
- There is some divergence amongst nonresidential construction markets. US Private Office Buildings Construction Excluding Data Centers will notably contract for the first half of 2025, as remote work trends are softening demand. Prior retail activity weakness is impacting Multi-Tenant Retail Construction. Conversely, the public, data center, manufacturing, and power components are each growing at a double-digit pace, though growth is slowing for each of these segments. The net impact will be moderate downside pressure on overall nonresidential construction in 2025.
- Improving macroeconomic conditions will eventually benefit the pipeline for Construction projects. Construction will recover in 2026, with annual spending rising by around 7% from early 2026 through 2027. Rising labor costs and tightness in the labor market will be a pain point throughout the rest of the 2020s. Now is the time to focus on capital investments and training programs to increase efficiencies and mitigate labor risks.

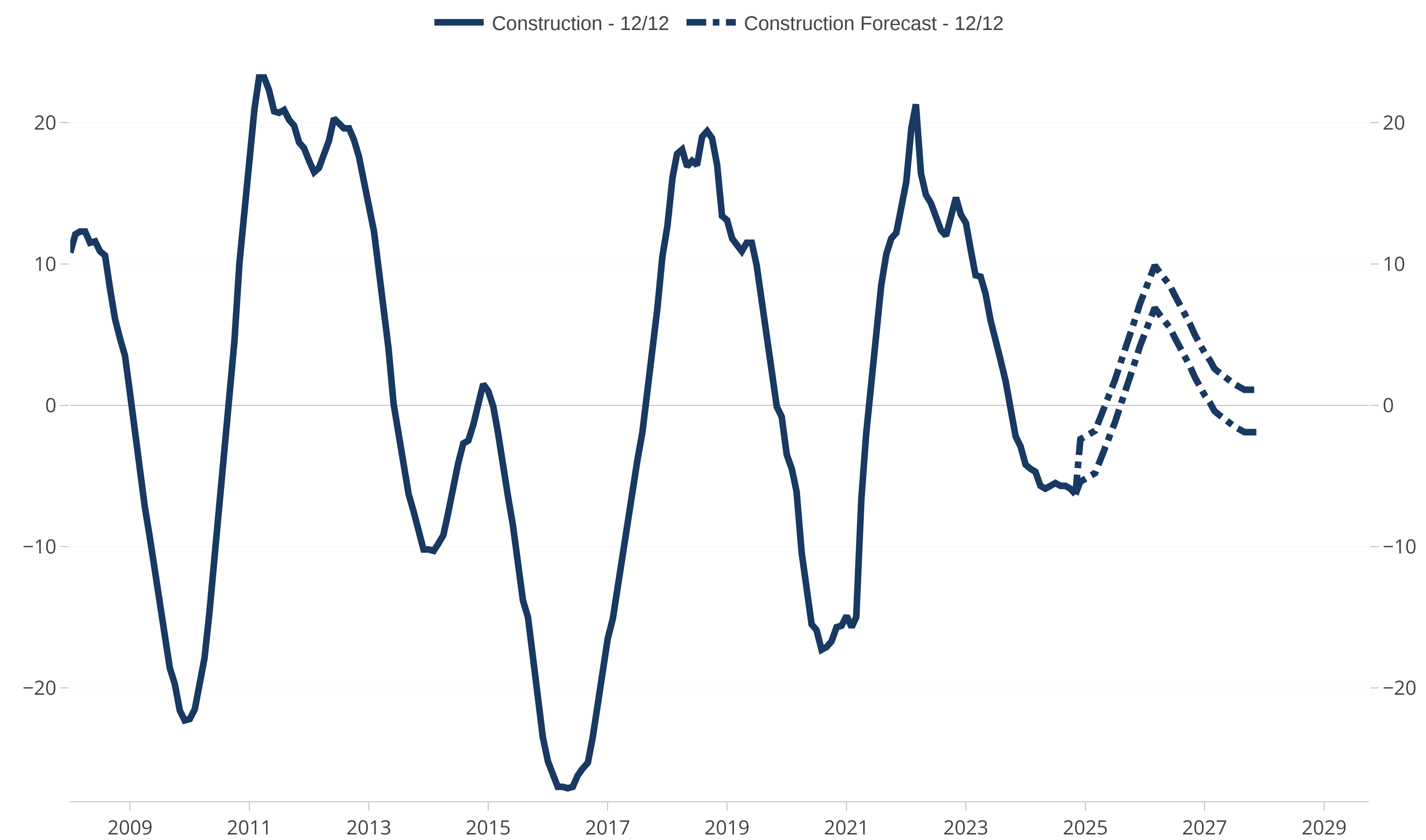
US Agriculture, Construction and Mining Machinery Production Index

Bloated Inventories Plague Machinery Markets; Expect Production Decline Into Early 2025

Annual Average (12MMA)



Annual Growth Rate (12/12)



Current Phase

Phase D Recession

Current Indicator Amplitude

- November 2024 Annual Growth Rate (12/12): -6.3%
- November 2024 Annual Average (12MMA), 2017=100: 112.4

Industry Outlook

Year	Annual Growth Rate
2024	-3.9%
2025	5.7%
2026	2.8%
2027	-0.4%

Outlook & Supporting Evidence

- US Agriculture, Construction and Mining Machinery Production in the 12 months through November was 6.3% below the year-ago level. Annual Production will decline into early 2025, then rise through mid-2026 by around 9.6%. Production will subsequently plateau from late 2026 into early 2027, then dip mildly for the rest of 2027.
- Bloated inventories are affecting the wholesale machinery market. Phase A, Recovery, in the US Machinery, Equipment, and Supplies Wholesale Sales/Inventory Ratio suggests that inventories remain bloated but are likely heading towards rebalancing. Trends in Farm Proprietors Income and US Mining Capacity Utilization Rate (excluding oil and gas) suggest near-term downside risk to the forecast, but green shoots in US Farm Machinery Shipments and rising trends in the US Support Activities for Mining Capacity Utilization Rate suggest that recovery is ahead. Together, these factors could mean that Production recovery will be choppy and affect different sectors unevenly.
- Production is sensitive to agriculture commodity prices, which can be volatile. Ensure you have contingency plans in place, considering that order cancellations are more common at this point in the cycle. It may be a good idea to hold onto a larger cash buffer in the near term.

US Leading Indicators

Indicator	Direction 1Q25	2Q25	3Q25
ITR LEADING INDICATOR™	Green	Green	N/A
ITR RETAIL SALES LEADING INDICATOR™	Green	Green	Red
US OECD LEADING INDICATOR	Green	Green	N/A
US ISM PMI (PURCHASING MANAGERS INDEX)	Green	Red	Red
US TOTAL CAPACITY UTILIZATION RATE	Red	Red	N/A

Green denotes that the indicator signals cyclical rise for the economy in the given quarter. Red denotes the opposite.

What It Means for the US Economy

- The leading indicators are generally supportive of somewhat uneven, muted rise ahead for US Industrial Production.
- A number of the key leading indicators have waffled in recent months amid overall trends that are, for the most part, generally rising. The preponderance of economic evidence, including rising inflation-adjusted savings levels and elevated corporate profits, still suggests that US Industrial Production activity will pick up somewhat in the second half of 2025.
- The movements in the macroeconomic leading indicators obscure highly disparate trends among different industries. While we always see variation within industries, this cycle's outsized differences highlight the need to pay attention to the key leading indicators for both your business and your industry. Reach out to us if you need help.

Leading indicators support that muted economic growth will be the prevailing trend for 2025. Capitalizing on growth may be tricky, as margins will likely come under pressure when inflation starts to rise again in late 2025. Lean into your competitive advantages to improve customer loyalty and avoid competing primarily on price. Preparing your supply chain for the potential of rising trade tensions may also provide a distinct competitive advantage in the coming years.

Market Definitions

US Industrial Production Index

Index of total industrial production in the United States; includes manufacturing, mining, and utilities. Source: Federal Reserve Board (FRB). Index, 2017 = 100, not seasonally adjusted (NSA).

North America Light Vehicle Production

Passenger car and light-duty truck production (classes 1-3) in the US, Canada, and Mexico combined, including transplants. A passenger car is a road motor vehicle, other than a motorcycle, intended for the carriage of passengers and designed to seat no more than nine persons (including the driver). Source: WardsAuto. Measured in millions of units, not seasonally adjusted (NSA).

US Private Nonresidential Construction

Private nonresidential construction in the United States. Includes private construction of the following types: office, commercial, automotive, lodging, dining, retail, warehouse, storage facilities, schools, dormitories, sports facilities, galleries, museums, hospitals, medical buildings, special care facilities, religious buildings, fitness centers, amusement parks, movie theaters, social centers, transportation facilities, power facilities, and manufacturing facilities. Source: US Census Bureau. Measured in billions of dollars, not seasonally adjusted (NSA).

US Total Retail Sales

Total retail sales in the United States, including motor vehicles and parts, furniture and home furnishings, electronics and appliances, building materials and garden supplies, food and beverages, health and personal care products, gasoline stations, clothing, and other miscellaneous goods. Includes store and non-store retail sales. Non-store retailers include those that sell via television commercials, catalogs, the internet, etc. Source: US Census Bureau. Measured in trillions of dollars, not seasonally adjusted (NSA).

US Medical Equipment and Supplies Production Index

Medical equipment and supplies manufacturing index for the United States. Examples of products made by these establishments are surgical and medical instruments, surgical appliances and supplies, dental equipment and supplies, orthodontic goods, ophthalmic goods, dentures, and orthodontic appliances. Source: Federal Reserve Board. NAICS Code: 3391. Index, 2017 = 100, not seasonally adjusted (NSA).

US Agriculture, Construction and Mining Machinery Production Index

Agriculture, construction, and mining machinery manufacturing. Includes farm machinery and equipment, powered mowing equipment and other powered home lawn and garden equipment; construction machinery, surface mining machinery, and logging equipment; oil and gas field and underground mining machinery and equipment. Source: Federal Reserve Board (FRB). Index, 2017 = 100, not seasonally adjusted (NSA).

Management Objectives™

Phase A

Recovery

- Scrupulously evaluate the supply chain
- Model positive leadership (culture turns to behavior)
- Start to phase out marginal opportunities (products, processes, people); repair margins
- Perform due diligence on customers and extend credit
- Be on good terms with a banker; you will need the cash more now than in any other phase
- Invest in customer market research; know what they value and market/price accordingly
- Hire key people and implement company-wide training programs ahead of Phase B
- Allocate additional resources to sales and marketing
- Invest in system/process efficiencies
- Make opportunistic capital and business acquisitions; use pessimism to your advantage

Phase B

Accelerating Growth

- Ensure quality control keeps pace with increasing volume
- Invest in workforce development: hiring, training, retention
- Ensure you have the right price escalator; space out price increases
- Maximize your profit margins through differentiation; stand out from the crowd and set yourself apart
- Use improved cash flow to strategically position the business to beat the business cycle
- Expand credit to customers
- Improve corporate governance (rent a CFO; establish a board of advisors or board of directors)
- Communicate competitive advantages; build the brand
- Query users for what they want and what is important to them
- Sell the business in a climate of maximum goodwill

Phase C

Slowing Growth

- Know if your markets are headed for a soft landing or a hard landing
- Cash is king; beware of unwarranted optimism
- Stay on top of aging receivables
- Revisit capital expenditure plans
- Lose the losers: if established business segments are not profitable during this phase, eliminate them
- Use competitive pricing to manage your backlog through the coming slowdown
- Avoid committing yourself to long-term expenses at the top of the price cycle, but lock in revenue
- Go entrepreneurial and/or counter-cyclical
- Evaluate your vendors for financial strength; if needed, look for additional vendors as a safety net
- If the cycle looks recessionary, cross-train key people to prepare for workforce attrition/reduction

Phase D

Recession

- Implement aggressive cost-cutting measures
- Offer alternative products with a lower cost basis
- Perform due diligence on acquisitions while valuations are falling
- Reduce advertising as consumers become more price conscious
- Enter or renegotiate long-term leases
- Negotiate labor contracts
- Consider capital equipment needs for the next cycle
- Tighten credit policies
- Develop programs for advertising, training, and marketing to implement in Phase A
- Lead with optimism, remembering that Phase D is temporary