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# Market Forecast Report
# April 2025

Reports
ITR Economics

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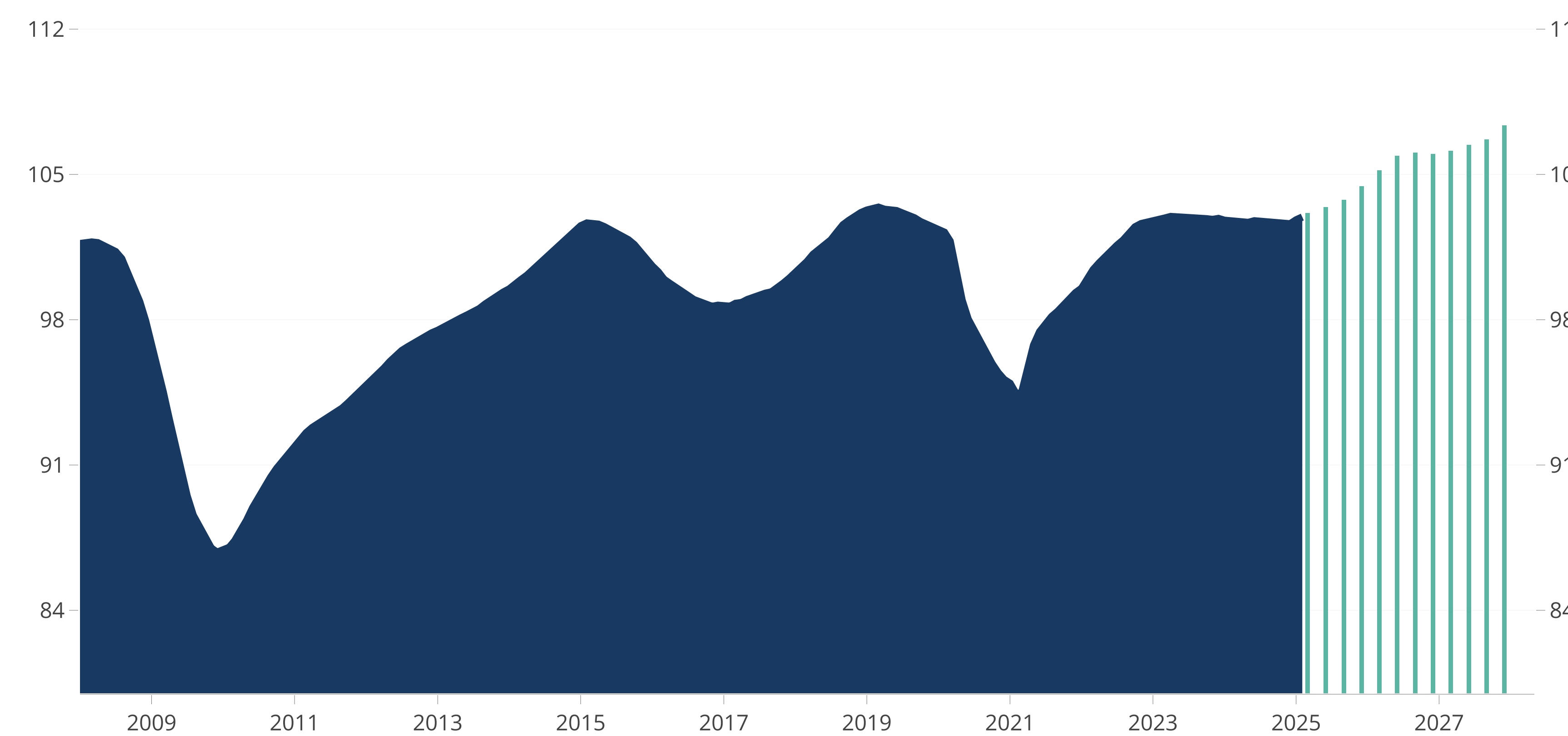
# Economic Overview

Tariffs, geopolitical conflict, interest rates, inflation, stock market volatility, and more are on the minds of businesses and consumers, leading to elevated uncertainty. As we parse the various headwinds and tailwinds, we are maintaining our outlook for macroeconomic growth in the coming years. A number of leading indicators, including rise in the US Total Industry Capacity Utilization Rate and ITR Leading Indicator™, signal that there will be rise in 2025 and into at least 2026. However, in general, 2025 and 2026 will be muted relative to the prior cycle, and we want to emphasize that underneath the headline numbers, there are divergent outcomes. Knowing your market's trends is key.

## US Industrial Production Index

### Annual Average (12MMA)




Rising real incomes, as well as our expectations for generally rising consumer prices, suggest that Retail Sales will rise in the coming years. Not all consumer demographics are performing the same though – a large portion of consumer expenditures are made by high-income brackets. If your business caters to lower-income brackets, who on net are struggling to build up savings as prices generally rise and long-term interest rates stay sticky, your sales may not trend as closely this cycle with broader Retail Sales. Consider who your target demographics are when making business decisions.

Businesses are also in a stable position with elevated corporate profits, and business confidence metrics are slowly rising. US Nondefense Capital Goods New Orders, a proxy for B2B spending, is tentatively rising and poised for further rise in the rest of 2025 and throughout at least 2026, though growth will be muted relative to recent cycles. Businesses are contending with still-elevated borrowing costs, which will limit some capex. However, we urge clients to avoid trying to time a low for borrowing costs and instead invest in new capacity whenever it would most benefit their business. Our long-range expectation is for interest rates and inflation to generally rise given the multitude of inflationary drivers present in this cycle.

Construction trends differ from the macroeconomy and much of the industrial sector. The residential sector, which leads the macroeconomy, is undergoing very mild decline due in part to persistent affordability constraints. While these constraints are likely to persist, mild rise is on the horizon for US Single-Unit Housing Starts given the underlying demand for more housing. Multi-Unit Housing is facing other challenges and is likely to stay well below the stimulus and low-interest-rate-fueled 2022 level of activity. This is due to current interest rate headwinds and greater financial strains for those on the lower or middle end of the income spectrum, who predominantly rent multi-unit housing. The nonresidential construction sector, which lags the macroeconomy, will generally decline mildly this year and next due in part to elevated interest rates. However, be prepared for shifts within the overall nonresidential sector, with some segments of institutional construction, like education, lagging overall nonresidential outperforming and others that have been outperforming, like manufacturing, facing the impact of government incentives wearing off. Upside potential in multi-tenant retail and office segments remain limited by online shopping and remote work trends.

Tariffs are at the forefront of the minds of businesses and consumers alike. At ITR Economics, we are apolitical and analyze policy solely due to its economic implications. Tariffs create winners and losers in the marketplace; some will face pain, while others will benefit from the shift in the competitive landscape. Where does your business fall within this spectrum? Consider your direct exposure to tariffs and the upstream and downstream effects on your business. Potential challenges include supply-chain disruptions, higher prices, and potential demand destruction in some markets. Retaliatory tariffs could impact demand for US exports.

While each business's situation is unique, there are some recommendations we think apply broadly. The first is to focus on efficiency: Pricing pressures will increase in the coming years for both inputs and labor, which could cut into profits. Second, if you plan to finance business investments, focus more on the payback period rather than trying to time a low in interest rates, as they are likely to remain sticky. Our third recommendation is that you factor a challenging 2030s cyclical downturn into your longer-term plans. There is still time to position your business and personal finances to prepare for those tougher times, but the runway is rapidly shortening. Stagnation is terminal – growth requires constant attention and change.

## Terminology and Methodology

### Data Trends: Moving Averages and Totals

**Quarterly Average *(Three-Month Moving Average, or 3MMA)***
The average of the latest three months of data, updated every month. In the example, $57.79 is the quarterly average for the three months ending in March 2021 (i.e., the average for January, February, and March 2021).

*Example: Monthly US Crude Oil Spot Prices averaged $57.79 in the first quarter of 2021, a 26.3% increase from the first quarter of 2020.*

**Quarterly Total *(Three-Month Moving Total, or 3MMT)***
The total of the latest three months of data, updated every month. In the example, $257.8 billion is the quarterly total for the three months ending in February 2021 (i.e., the total for December 2020, January 2021, and February 2021).

*Example: Quarterly US Capital Goods New Orders totaled $257.8 billion in February 2021.*

**Annual Average *(12-Month Moving Average, or 12MMA)***
The average of the latest 12 months of data, updated every month. In the example, 119.0 million is the annual average for February 2021 (i.e., the average for the 12-month period from March 2020 through February 2021).

*Example: US Private Sector Employment averaged 119.0 million workers during the 12 months through February 2021, down 7.5% from one year earlier.*

**Annual Total *(12-Month Moving Total, or 12MMT)***
The total of the latest 12 months of data, updated every month. In the example, $5.849 trillion is the annual total for February 2021 (i.e., the total for the 12-month period from March 2020 through February 2021).

*Example: US Wholesale Trade totaled $5.849 trillion during the 12 months through February 2021.*

### Growth Rates

**Monthly Growth Rate *(1/12 Rate-of-Change)***
The percentage change between a given month and the same month one year earlier. In the example, 79.3% is the monthly growth rate for March 2021.

*Example: Monthly US Copper Futures Prices were at $4.00 per pound in March 2021, 79.3% above the March 2020 level of $2.29.*

**Quarterly Growth Rate *(3/12 Rate-of-Change)***
The percentage change between a three-month period and the same three-month period from one year earlier. In the example, 26.3% is the quarterly growth rate for March 2021.

*Example: US Crude Oil Spot Prices averaged $57.79 in the first quarter of 2021, a 26.3% increase from the first quarter of 2020.*

**Annual Growth Rate *(12/12 Rate-of-Change)***
The percentage change between a 12-month period and the same 12-month period from one year earlier. In the example, -7.5% is the annual growth rate for February 2021; that is, US Private Sector Employment during March 2020 through February 2021 came in 7.5% below Employment from March 2019 through February 2020.

*Example: US Private Sector Employment averaged 119.0 million workers during the 12 months through February 2021, down 7.5% from one year earlier.*

### Business Cycle Phases

**Recovery (A)**

The annual growth rate (12/12) is rising, but the rate of growth is still negative. We denote this phase with blue (for improving).

**Accelerating Growth (B)**

The annual growth rate (12/12) is rising, and the rate of growth is positive. We denote this phase with green (for go).

**Slowing Growth (C)**

The annual growth rate (12/12) is positive, but the rate of growth is declining. We denote this phase with yellow (for caution).

**Recession (D)**

The annual growth rate (12/12) is declining, and the rate of growth is negative. We denote this phase with red (for warning).

# First Resource, Inc. Markets Dashboard

| | | *Current* | | Annual Growth Rate Forecast (12/12), Year-End* | | |
|---|---|---|---|---|---|---|
| **Page Number** | **Indicator** | **Growth Rate**** | **Phase** | **2025**** | **2026**** | **2027**** |
| 4 | US Total Retail Sales | 3.1% | B | 3.5% | 4.8% | 3.0% |
| 5 | North America Light Vehicle Production | -1.8% | D | -3.1% | 3.2% | 0.6% |
| 6 | US Medical Equipment and Supplies Production Index | -3.8% | D | 0.7% | 0.5% | 0.9% |
| 7 | US Private Nonresidential Construction | 4.0% | C | -1.4% | -0.2% | 2.7% |
| 8 | US Agriculture, Construction and Mining Machinery Production Index | -7.3% | D | -3.3% | 8.1% | 3.0% |

**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.*

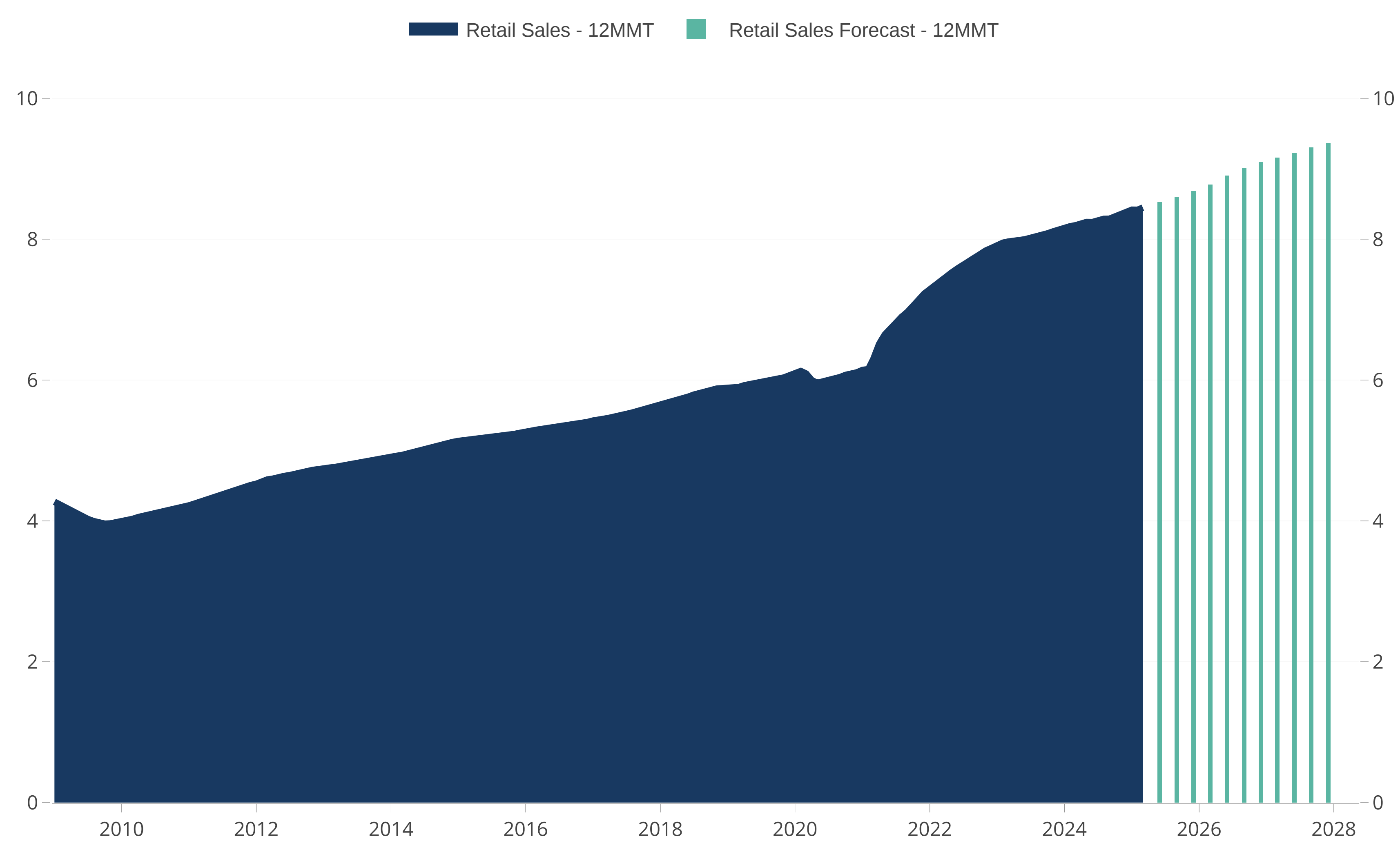
***Annual growth rate (12/12) except where otherwise noted.*

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

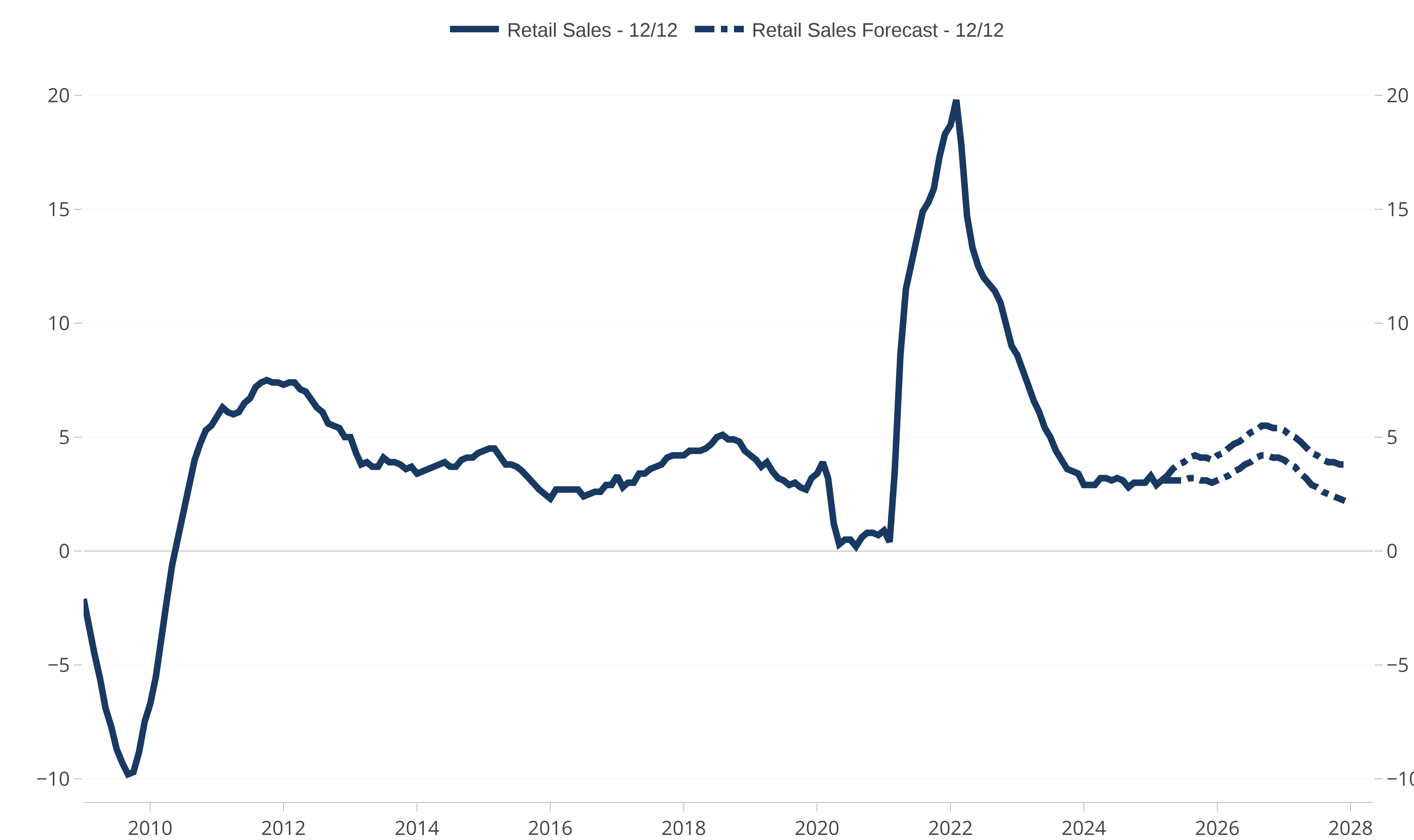
# US Total Retail Sales

## Growth Rate Outlook Downgraded on Slowing Income Growth and Heightened Economic Uncertainty

### Annual Total (12MMT)




### Annual Growth Rate (12/12)




### Current Phase

**Phase B Accelerating Growth**

### Current Indicator Amplitude

- March 2025 Annual Growth Rate (12/12): 3.1%
- March 2025 Annual Total (12MMT), Trillions of USD: $8.448

### Industry Outlook

| Year | Annual Growth Rate |
|---|---|
| 2025 | 3.5% |
| 2026 | 4.8% |
| 2027 | 3.0% |

### Outlook & Supporting Evidence

- We lowered our US Total Retail Sales growth rate outlook by 1.1 percentage points for 2025 due to slowing total income growth, stock market malaise, and elevated economic uncertainty. Annual Retail Sales are still expected to rise over the next three years, just at a slightly milder pace than we previously forecasted. The Retail Sales annual growth rate is oscillating around 3%. Annual growth will edge higher later this year, pop more noticeably to 4.8% in 2026, and then slow back down to 3% in 2027.
- Budgets of lower-income consumers are strained given still-elevated interest rates and contending with cumulative inflation. A volatile stock market could make higher-income consumers slightly more conservative in their purchases in at least the near term. Additionally, the prior pullback in inflation-adjusted savings levels will likely contribute to muted growth in the next few quarters. On the upside, the ITR Retail Sales Leading Indicator™ is generally rising mildly, aggregate consumer debt loads are in a manageable territory, and the labor market is softening but showing overall resilience. These factors point to greater Retail Sales spending ahead.
- Tariff impacts are likely to be mixed. If higher prices are passed along to consumers, it could push up on the dollar value of Retail Sales. However, higher prices could result in some demand destruction and lower volumes, particularly for discretionary items. Tariffs could impact the availability of goods - apparel, computers, and electronic goods are at greater risk due to a higher dependence on imports relative to domestic production.

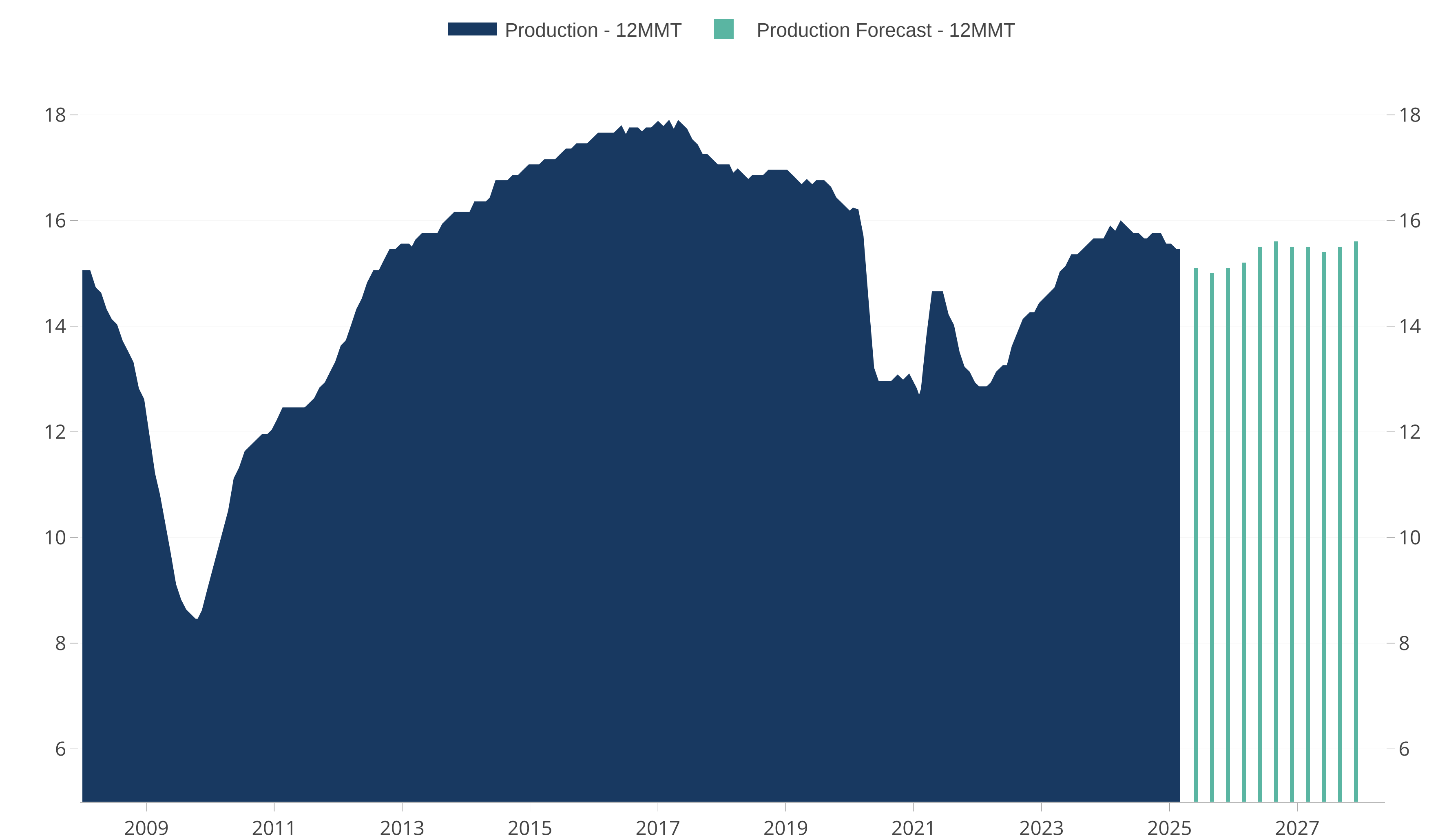
Consulting



## North America Light Vehicle Production

### Forecast Lowered; Tariff Impacts Likely to Vary by Make and Model; US Remains Dominant NA Automaker

**Annual Total (12MMT)**




**Annual Growth Rate (12/12)**


**Current Phase**

Phase D
Recession

**Current Indicator Amplitude**

- March 2025 Annual Growth Rate (12/12): -1.8%
- March 2025 Annual Total (12MMT), Millions of Units: 15.4

**Industry Outlook**

| Year | Annual Growth Rate |
|---|---|
| 2025 | -3.1% |
| 2026 | 3.2% |
| 2027 | 0.6% |

**Outlook & Supporting Evidence**

- North America Light Vehicle Production totaled 15.4 million units in the 12 months through March, down 1.8% from the year-ago level. Given its complex supply chain, the automotive market is at risk amidst the current trade war. Additionally, we adjusted our industrial expectations for Mexico and Canada. Consequently, we lowered the Production outlook between 4.6% and 5.4% for the next three year-ends. We anticipate annual Production decline into the latter half of this year, subsequent rise in 2026, and then a relatively flat trend in 2027.
- Annual US Light Vehicle Sales are rising, although the overarching trend is slowing growth. Some consumers are still struggling with the pinch of inflation. We anticipate Production will trend below the mid-2010s highs during the next rising trend, in part due to interest rates.
- The US remains the dominant player in the North American automotive production market, with roughly 65% of vehicles produced in the US. Mexico produces roughly one-quarter and Canada produces less than ten percent. Foreign-built cars and non-USMCA-compliant vehicles and parts face tariffs when imported to the US, though the tariff environment is evolving. The impact will vary by make and model, so be in close communication with your supply chain. If any car manufacturers decide to change where vehicles are produced because of tariff policies, these changes will take time to enact.

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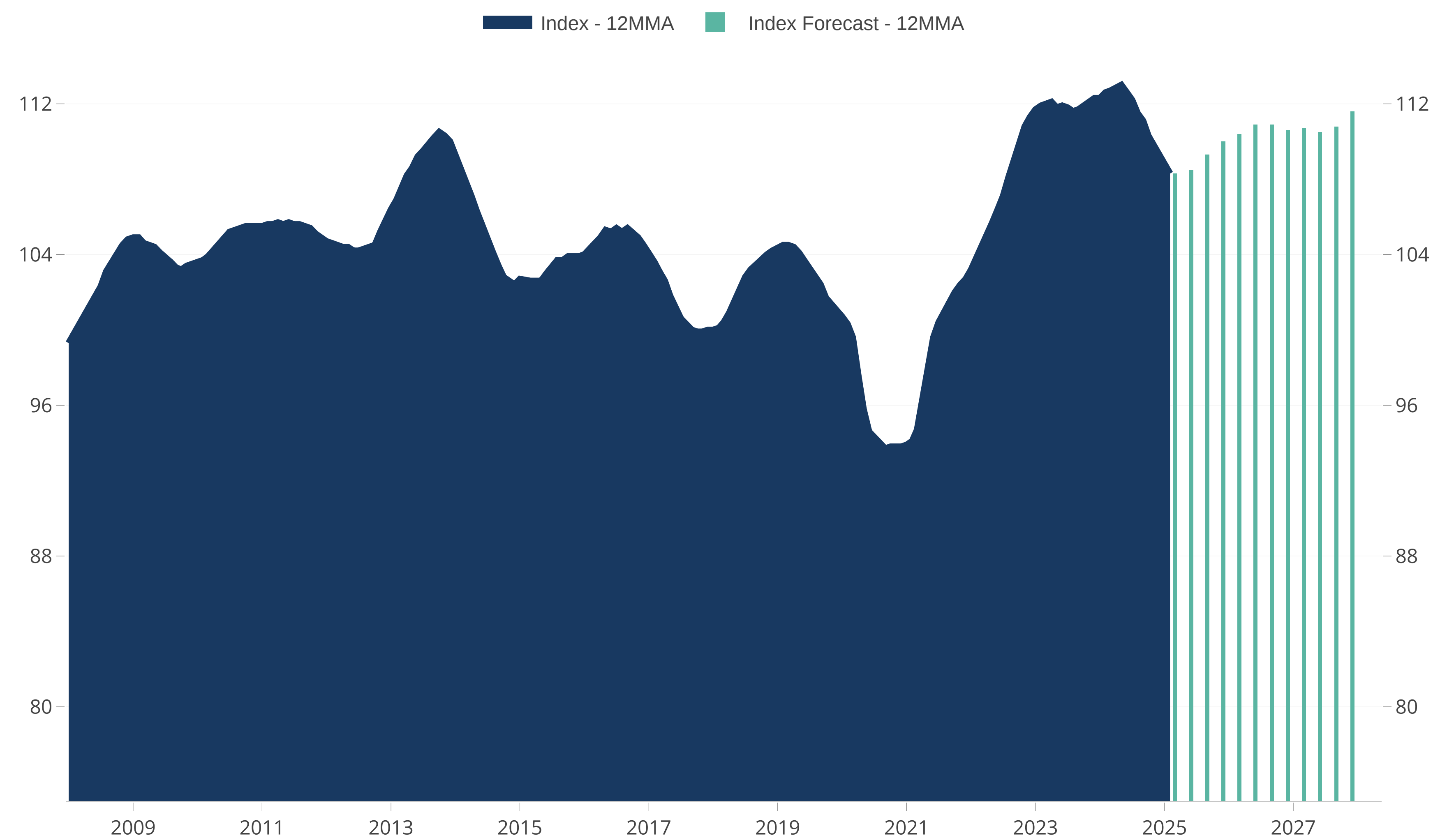
# US Medical Equipment and Supplies Production Index

## Production Trends and Leading Indicators Support Upcoming Shift to Phase A, Recovery

### Annual Average (12MMA)




### Annual Growth Rate (12/12)


### Current Phase

**Phase D Recession**

### Current Indicator Amplitude

- February 2025 Annual Growth Rate (12/12): -3.8%
- February 2025 Annual Average (12MMA), 2017=100: 108.3

### Industry Outlook

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

### Outlook & Supporting Evidence

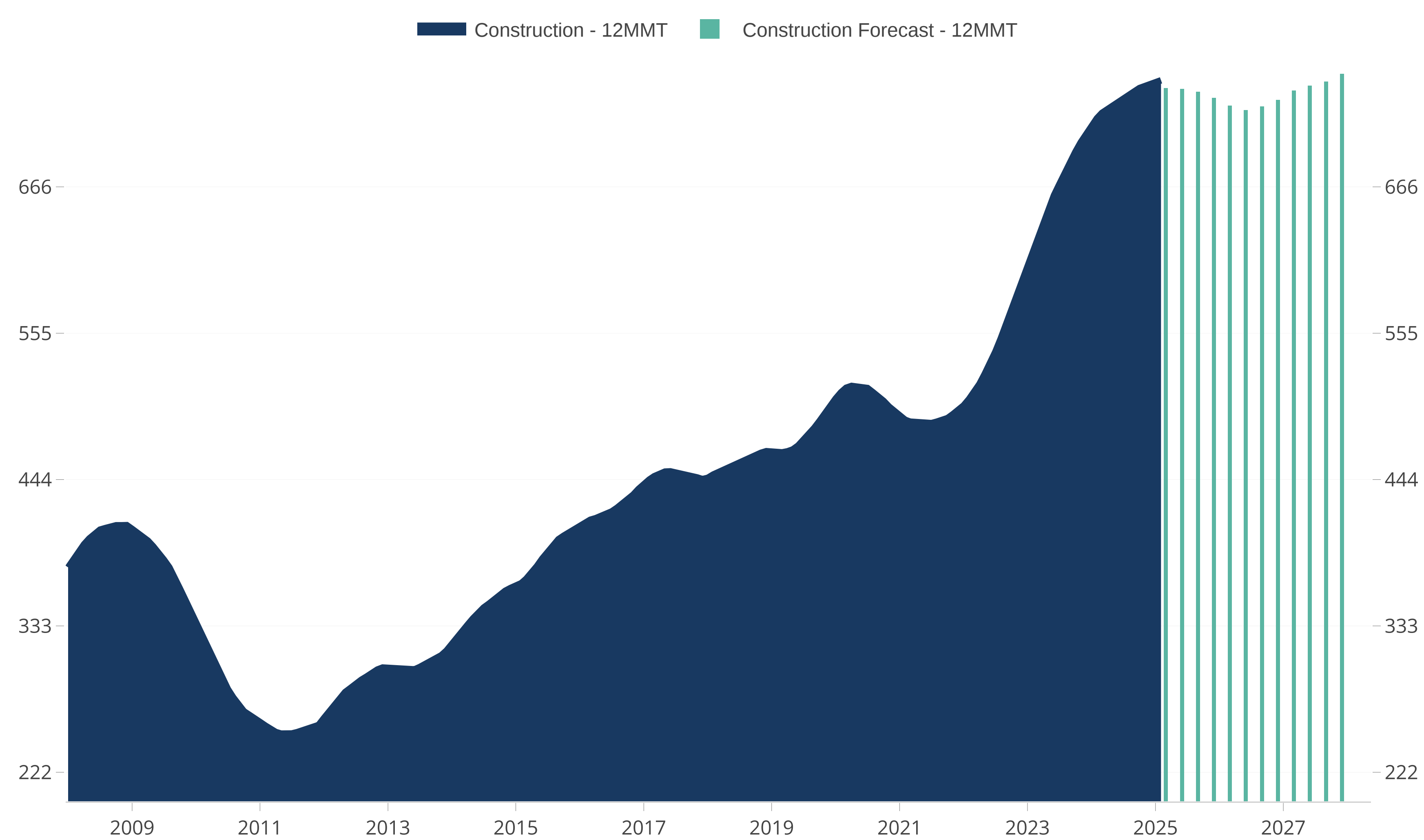
- US Medical Equipment and Supplies Production in the 12 months through February was 3.8% below the year-ago level. We anticipate a shift to Phase A, Recovery, in the middle of this year given a nascent rising trend in the Production 3/12 and positive signals from leading indicators, such as rising US Medical and Diagnostic Laboratories Services Revenue.
- Annual Production will likely form a low soon, between now and the middle of the year. This is a relatively mature market that is typically slow-moving, but we expect the upcoming rising trend will be muted. An aging population and growing macroeconomy inform this anticipated rise, though it will be modest given import competition.
- Tariff and other trade protectionism policies pose an upside risk to our outlook if there is a longer-term shift to increased domestic production to avoid these added costs.

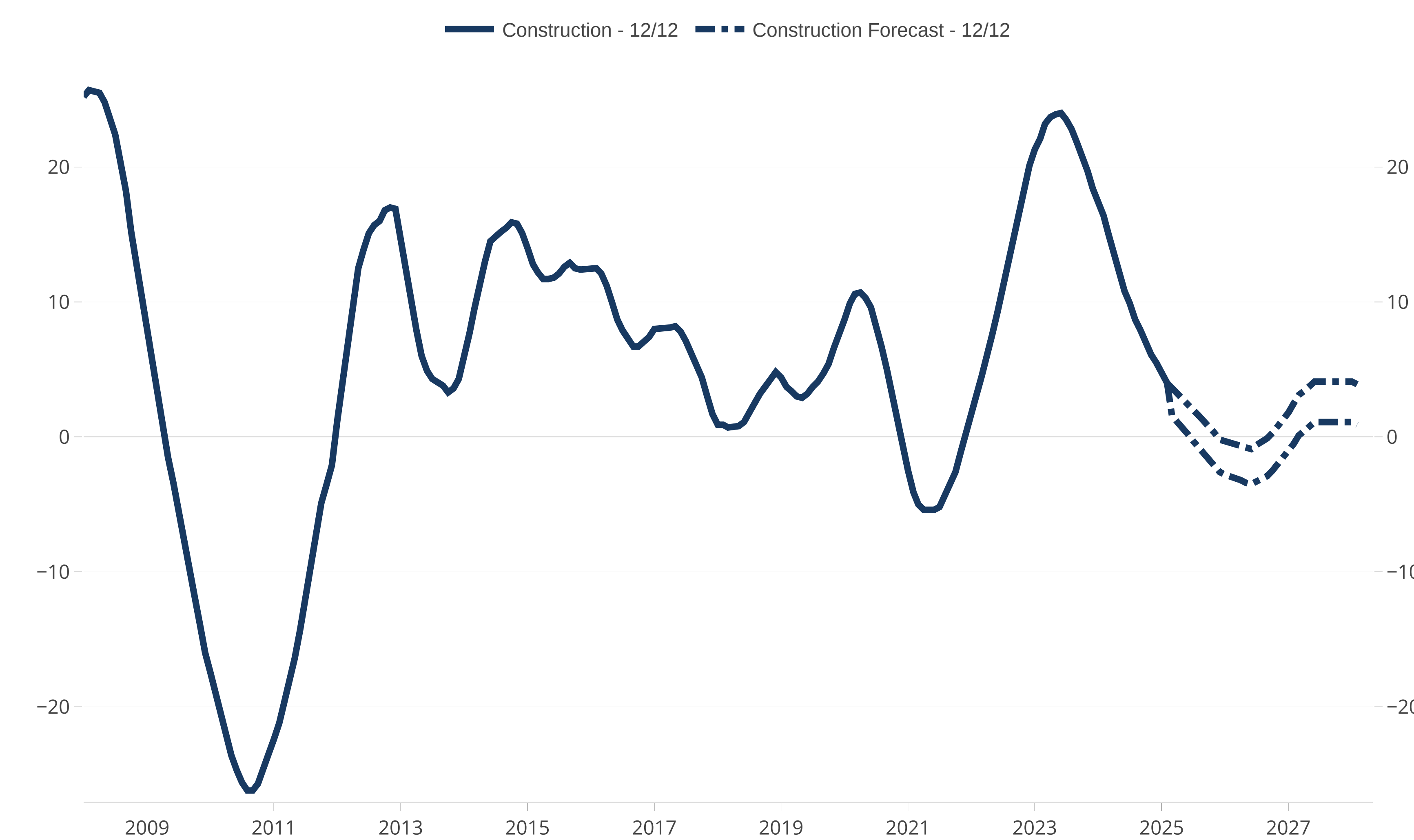
# US Private Nonresidential Construction

## Forecast Lifted; Pullback Still Likely in Reaction to Prior Economic Slowdown and High Rates

### Annual Total (12MMT)




### Annual Growth Rate (12/12)




### Current Phase

**Phase C**
**Slowing Growth**

### Current Indicator Amplitude

- February 2025 Annual Growth Rate (12/12): 4.0%
- February 2025 Annual Total (12MMT), Billions of USD: $746.8

### Industry Outlook

| *Year* | *Annual Growth Rate* |
|---|---|
| 2025 | -1.4% |
| 2026 | -0.2% |
| 2027 | 2.7% |

### Outlook & Supporting Evidence

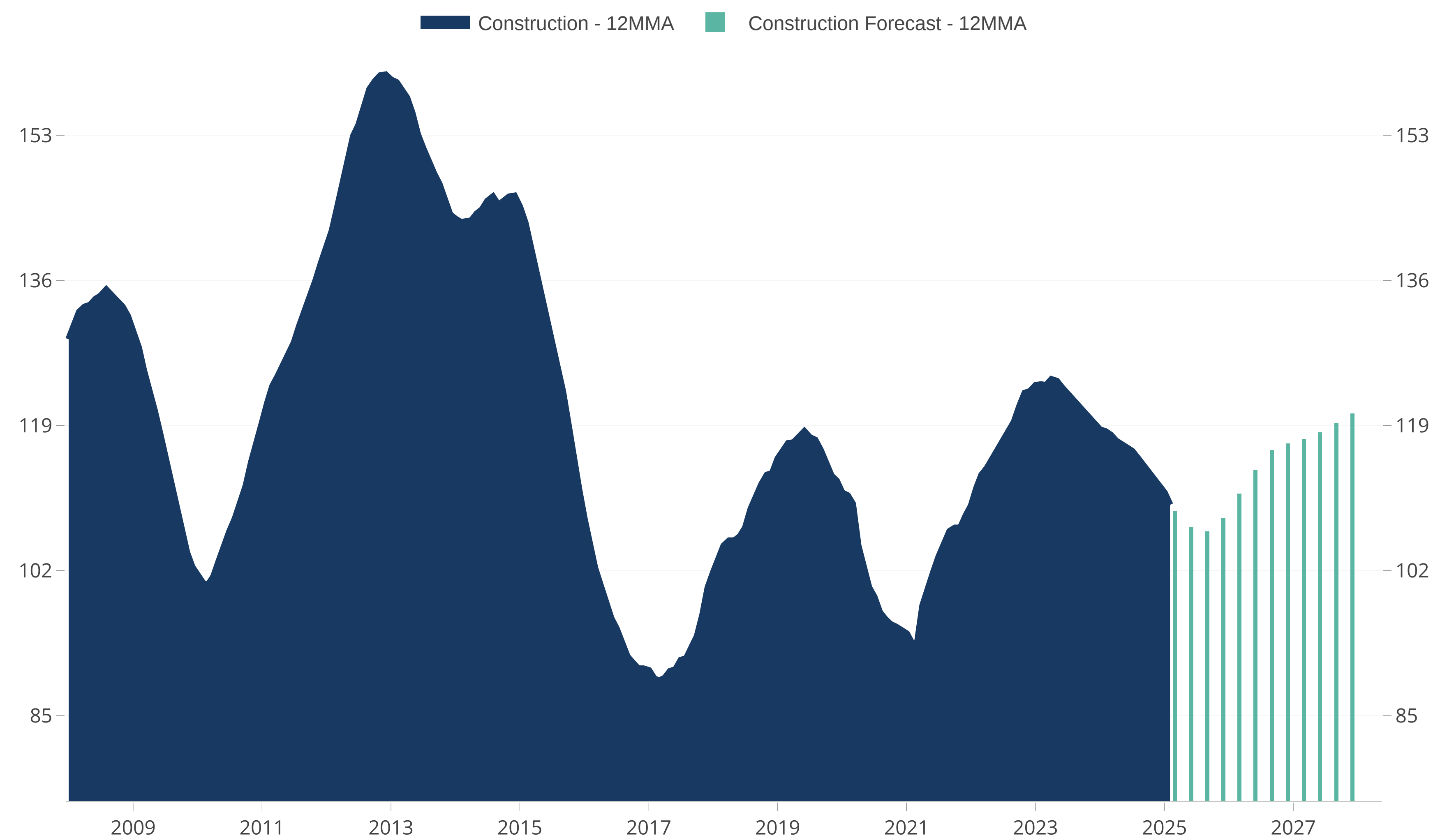
- We lifted our 2025 outlook for US Private Nonresidential Construction, as certain segments of Construction are benefiting from government spending more than we anticipated. The general shape of the forecast and the 2026 growth rate are little changed.
- Annual Construction in the 12 months through February was 4.0% above the year-ago level. The Nonresidential Construction market lags the macroeconomy by around a year, so the delayed impacts of slowing economic growth and high interest rates will continue to place downside pressure on Construction in the coming year. We expect decline will take hold in the near term and extend into mid-2026.
- Some segments may fare better than others this year. Manufacturing and Water and Sewer will rise for a portion of this year, but they will then face decline as the upside from government incentives wears off. Warehouse Construction is set to outperform, as it has already undergone a correction and consumer activity is expected to pick up in 2025.
- Annual Nonresidential Construction will rise from mid-2026 through at least 2027, following improving macroeconomic conditions in 2025.The next round of rise is foreshadowed by a previous uptick in residential construction and rise in macroeconomic leading indicators.

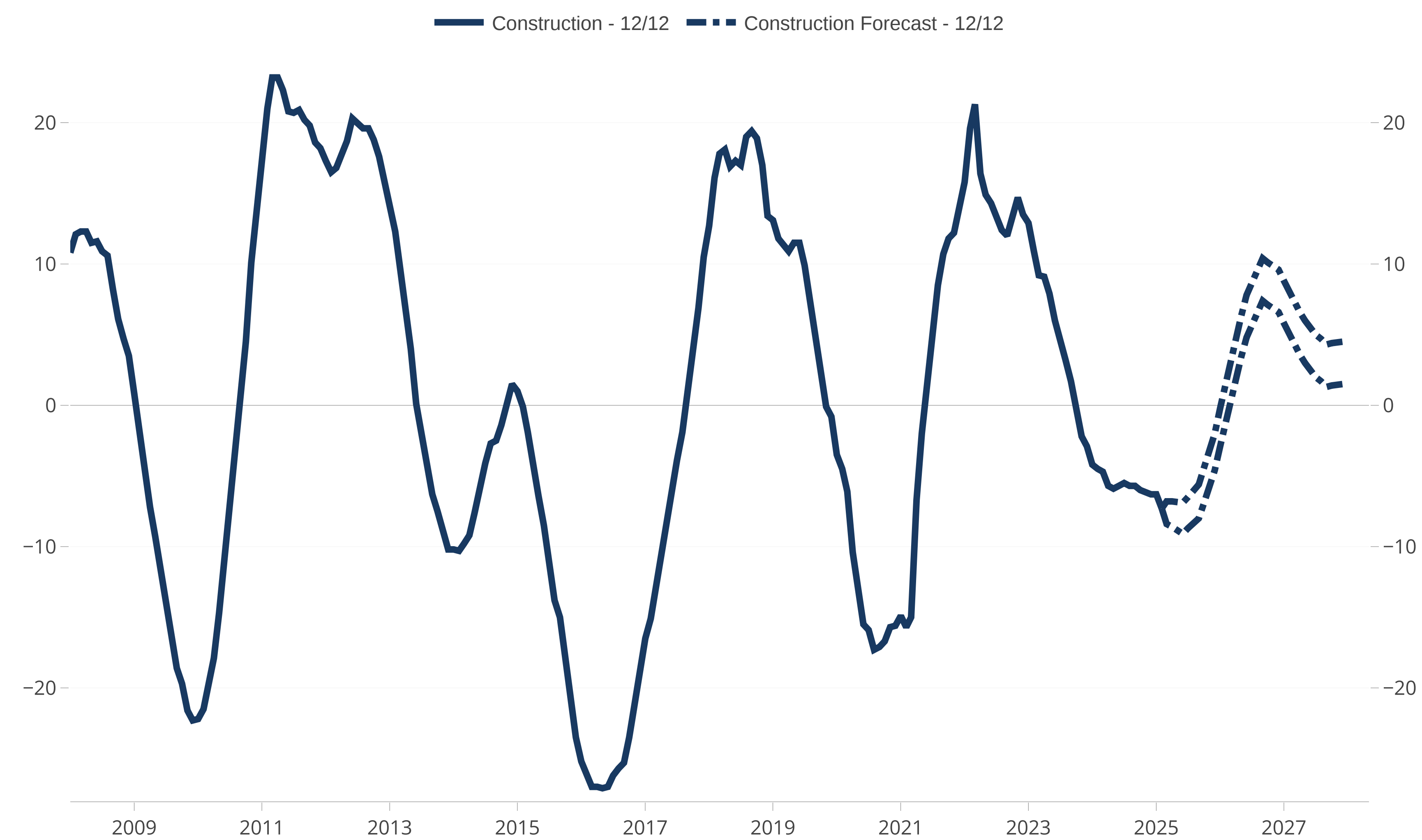
# US Agriculture, Construction and Mining Machinery Production Index

## Forecast Revised Downward; Expect Decline Into Mid-2025, Then Rise Through at Least 2027

### Annual Average (12MMA)




### Annual Growth Rate (12/12)




### Current Phase

**Phase D**
**Recession**

### Current Indicator Amplitude

- February 2025 Annual Growth Rate (12/12): -7.3%
- February 2025 Annual Average (12MMA), 2017=100: 109.7

### Industry Outlook

| Year | Annual Growth Rate |
|---|---|
| 2025 | -3.3% |
| 2026 | 8.1% |
| 2027 | 3.0% |

### Outlook & Supporting Evidence

- We lowered the forecast as interest rates, soft commodity prices, and uncertainty are weighing on off-road segments and suggest a slightly later low. The downgrade was primarily to 2025.
- We now anticipate annual Production will decline into the latter half of this year. Subsequent rise will extend through at least 2027. Equipment demand will gradually recover following a strengthening of the macroeconomy and the expected rise in commodity prices later this year.
- Trends in US Farm Proprietors Income, our expectations for US Mining Production (excluding oil & gas), and US Architecture Billings signal a near-term transition to Phase A, Recovery, for Production.
- Evolving tariff policies and the uncertain direction of monetary policy pose risks to our outlook. Tariffs could allow domestic producers to produce more; however, they also could hinder input availability and impact export demand. Analyze your upstream and downstream supply chain, as tariff impacts will not be one-size-fits-all. Look for backup suppliers and try to drive efficiencies, as margins are likely to come under pressure.

## US Leading Indicators

| Indicator | Direction 2Q25 | 3Q25 | 4Q25 |
|---|---|---|---|
| ITR LEADING INDICATOR™ | 🟢 | 🟢 | N/A |
| ITR RETAIL SALES LEADING INDICATOR™ | 🟢 | 🟢 | 🟢 |
| US OECD LEADING INDICATOR | 🟢 | 🟢 | N/A |
| US ISM PMI (PURCHASING MANAGERS INDEX) | 🔴 | 🔴 | 🟢 |
| US TOTAL CAPACITY UTILIZATION RATE | 🟢 | 🟢 | 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 majority of leading indicators continue to suggest mild rise overall in the economy for 2025. The US ISM PMI (Purchasing Managers Index) still depicts a slight downside risk, but it is neither diving nor shooting up. Fits and starts in this indicator have minimal bearing on our overall picture of the economy given the indicator's volatility.

• Rise in the ITR Retail Sales Leading Indicator™ supports an upward trajectory for US Total Retail Sales. Rising incomes will continue to bolster spending in 2025.

• Despite the mildness of rise in the US Total Industry Capacity Utilization Rate, it has likely reached a low point, signaling that rise in the industrial sector is probable for 2025.

Leading indicators suggest that muted economic growth will be the prevailing trend for 2025. Capitalizing on growth may be tricky, as margins will come under pressure when inflation heats up in late 2025. Look to maximize efficiencies and strengthen your supply chain. Tariffs pose a mixture of upside and downside risks - it is important to analyze your specific situation, as the impact will not be one-size-fits-all.

# 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, 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, 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, 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: FRB. NAICS Code: 3391. Index, 2017 = 100, 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: FRB. Index, 2017 = 100, 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