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Industry Snapshots

Arrow denotes 12-month moving total/average direction.

RETAIL SALES	Mild Rise
WHOLESALE TRADE	Flat
AUTO PRODUCTION	Mild Decline
MANUFACTURING	Flat
ROTARY RIG	Mild Decline
CAPITAL GOODS	Flat
NONRESIDENTIAL CONSTRUCTION	Mild Rise
RESIDENTIAL CONSTRUCTION	Mild Rise

Steep Rise · *Mild Rise* · *Flat* · *Mild Decline* · *Steep Decline*

Macroeconomic Outlook

While leading indicators remain somewhat mixed, a plateau (for industrial activity) to mild growth (for most other core segments of the economy) is the expected prevailing trend for the coming quarters. The 10-year to 2-year Treasury yield curve normalization is a signal of renewed optimism for future economic prospects. Consumer health, in aggregate, is relatively sound, and the labor market has proven relatively resilient to the effects of prior monetary tightening. Overall, a soft landing is probable for our macroeconomy given the evidence we currently have.

Equity markets are strong, but we do anticipate that the current pace of growth is likely to prove unsustainable. As the Federal Reserve moves toward a more accommodative monetary policy, the yield curve will likely normalize further. This may allow for more accommodative lending standards, an additional boon to economic activity, as banks feel relief from interest rate squeeze. Still, interest rates remain high compared to recent decades despite some recent relief.

US Total Retail Sales continue to rise mildly, a sign of a relatively confident and comfortable consumer. Deflationary pressures on both the durables and nondurables side of the retail goods market are helping consumers drive retail volume higher. The seasonally adjusted unemployment rate is rising but remains historically low, and nonfarm payrolls, while slowing in growth, are elevated. Still, cumulative inflation remains a hurdle for lower-to-middle-income consumers, and high cost-of-living expenses are a downward pressure on retail. Remain aware of the economic pressures facing your customer base; those who own stocks or homes have been the winners in this cycle, while those exposed to variable interest rates or spiking shelter costs have suffered.

> *"The 10-year to 2-year Treasury yield curve normalization is a signal of renewed optimism for future economic prospects."*

We now expect a near-term plateau in industrial activity rather than mild decline, partially a result of persistent rise in inflation-adjusted personal incomes, followed by mild growth in 2025. Relative tightness in the labor market, borne from demographic trends, has allowed workers to command higher and higher compensation. This, in turn, has driven middle-to-upper-income consumers to a favorable position, allowing for more economic growth than previously anticipated. Corporate profits are also rising at an accelerating pace, signaling that pronounced decline in the industrial sector is unlikely.

Be on the lookout for opportunities to invest in your business in the coming quarters, and gear up for rise in 2025 and 2026, depending on your market. Be sure to scale your business appropriately and focus on projects that have a relatively quick ROI, as we expect the 2030s to be a decade of economic turmoil as opposed to the overall growth trend we expect to characterize the 2020s.

onDemand

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Make Your Move

On a quarterly basis, the S&P 500 is in an accelerating growth trend. Despite this strength, it is unlikely that the index will continue rising at its current clip into the longer term. With inflation at 2.4%, a rising inflation-adjusted money supply, declining interest rates, a solid job market, a weakened savings picture for consumers yet sustainable debt loads, and lackluster leading indicator rise, we think it is a nuanced economic picture. There are sufficient mixed signals for the economy to cause us to reaffirm the likelihood that double-digit stock market growth is unlikely to repeat in 2025.

Investor Update

The S&P 500 rose for a fifth consecutive month, establishing a new 3/12 high for this cycle; the 3/12 ascent is now longer than normal. The economy has mixed signals, suggesting that it may be overly optimistic to expect a double-digit rate of rise in 2025.

ITR Economics Long-Term View

2024	2025	2026
RETAIL GROWTH; INDUSTRIAL FLAT	GROWTH	GROWTH

Leading Indicator Snapshot

	4Q2024	1Q2025	2Q2025
ITR Leading Indicator™	🟢	🟢	⚪
ITR Retail Sales Leading Indicator™	🟢	🟢	🟢
US OECD Leading Indicator	🟢	🔴	🔴
US ISM PMI (Purchasing Managers Index)	🟢	🟢	🔴
US Total Industry Capacity Utilization Rate	🟢	🟢	⚪

🟢 *Denotes that the indicator signals cyclical rise for the economy in the given quarter.*
🔴 *Denotes that the indicator signals cyclical decline for the economy in the given quarter.*
⚪ *N/A*

KEY TAKEAWAYS

- Leading indicators continue to suggest rise for many sectors through the end of this year and in 2025, though still-high interest rates are dampening the steepness of that ascent. Mild growth is the most probable outcome for most core segments of the US economy next year.
- Recovery in the ITR Leading Indicator™ has stalled in recent months. Recovery this cycle has been shallow compared to prior descent, mirroring the degree of expected recovery in the industrial sector.
- The ITR Retail Sales Leading Indicator™ has declined throughout the third quarter of this year. Should this decline persist, it could mean weakness in the pace of rise for US Total Retail Sales in the second half of 2025.

Industry Analysis

RETAIL SALES

- US Total Retail Sales in the 12 months through September were 2.9% above the year-ago level
- Despite rising incomes, cumulative inflation is exerting some downward pressure on consumers, particularly those who do not own homes or equities
- Still, we anticipate mild growth in the quarters ahead based on generally sound consumer balance sheets

WHOLESALE TRADE

- US Total Wholesale Trade in the 12 months through August ticked down but was 1.1% above the year-ago level
- Mild upward pressure is likely in 2025 given our expectations for mildly rising producer prices, as Wholesale Trade is dollar-denominated
- Sales-to-inventory ratios signal tightness in inventories for nondurables and recovery for durables

AUTO PRODUCTION

- Annual North America Light Vehicle Production declined in August but was 2.6% higher than the year-ago level
- Further downward pressure is likely given weakening utilization rates within the industry
- US Auto Exports are steadily declining; this will place downward pressure on Production in at least the near term

MANUFACTURING

- Annual US Total Manufacturing Production in September was 0.3% below the year-ago level and is in a recovery trend
- Corporate profits within the manufacturing industry remain elevated, signaling that continued recovery is probable
- Sluggish rise in our system of leading indicators suggests that the strength of the 2025 cyclical upturn for manufacturing will be very mild

ROTARY RIG

- The average US Rotary Rig Count in the three months through September remained at 586 rigs, 9.9% below the year-ago level
- Mild rise in the Rotary Rig Count is probable moving into 2025 as we see a mild upturn in industrial activity
- The possibility that we see oil prices stumble given economic weakness abroad is a downside threat to the domestic oil industry

CAPITAL GOODS NEW ORDERS

- US Nondefense Capital Goods New Orders (excluding aircraft) in the 12 months through August were 0.5% above the year-ago level and are generally slowing in growth
- Firms are taking a wait-and-see approach to capex given mixed economic signals and political uncertainty, among other factors
- Annual US Defense Capital Goods New Orders are in a recovery trend but were 1.2% below the year-ago level in August

TOTAL NONRESIDENTIAL CONSTRUCTION

- US Total Nonresidential Construction in the 12 months through August was 10.5% above the year-ago level and is slowing in growth
- Slowing growth is likely to persist given the lagged impact of prior softening in corporate profits
- Lending standards on commercial real estate are tightening, which will limit activity

TOTAL RESIDENTIAL CONSTRUCTION

- Annual US Total Residential Construction in August was 4.9% above the year-ago level and is accelerating in growth
- Annual US Private Multi-Family Residential Construction is declining; US Private Single-Family Residential Construction is accelerating in growth
- Normalization in the yield curve will have a lagged impact on housing construction; do not expect affordability to return to pre-COVID norms in at least the near term

A Closer Look: The US Economy

US Trade

JENNA ALLEN

What you need to know: Nearshoring and onshoring trends are prevalent, but global trade patterns remain relevant to the US economy. Rising trade activity will contribute to US macroeconomic growth in 2025.

Onshoring and nearshoring trends are increasingly moving supply chains closer to home. But exactly how much are these trends, and the rising interest in protectionism, impacting US trade dependence? What is happening to the US trade deficit with China, and how might the US presidential election impact it?

US Imports and Exports

As of 2024, the US remains a net importer, with imports coming in at $3.2 trillion in the most recent 12 months compared to exports of $2.1 trillion during that same period. That is a trade deficit of around $1.1 trillion, a slight tick-down from the 2022 deficit based on non-seasonally adjusted data. The global slowdowns that followed COVID-19 supply shocks did encourage a dip in exports and imports in recent years. US Imports of Goods From the World contracted 5.2% from early 2023 to early 2024. This represents a slight shift downward, but imports have returned to a rising trend and, as you can see in the chart below, the long-term trajectory is upward.

The US Exports trend is also moving in a positive direction. Exports during the most recent 12 months were up 1.4% from the same period a year ago. Growth is accelerating. This bodes well for the US industrial sector moving into 2025.

Ultimately, the data suggests that despite nearshoring and protectionist trends, trade remains an important part of the US economy. At the same time, we can see that onshoring trends are creating new pockets of opportunity on domestic soil as US businesses look to improve lead times, insulate themselves from future global supply chain bottlenecks, and take advantage of government incentives. Markets benefiting the most from onshoring recently are electric vehicle batteries, computers and electronics, transportation equipment, chemicals, and machinery.

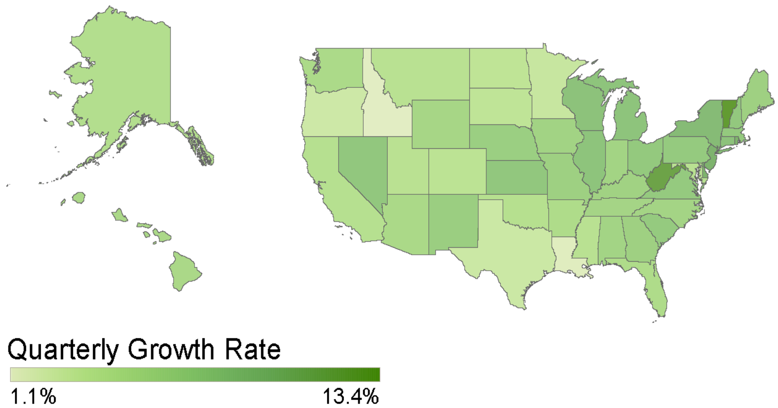
The China Picture and the US Election

The US has a trade deficit with China. China Exports to the US totaled $509.7 billion in the 12 months through August while US Exports to China totaled $147.0 billion during the same period. However, the long-term rising trend for China Exports to the US has shifted downward, contracting almost 20% from mid-2022 through the first half of 2024 amidst slowing global activity, bloated US inventory levels, new tariffs, and nearshoring trends. In other words, while China Exports to the US are rising again, China is a less significant US trade partner than it used to be.

US firms are exposed to a long-term business risk if they are heavily reliant on China. China Industrial Production's annual growth rate was 5.7% in August, a lackluster result compared to the double-digit growth of prior decades. We recommend that you maintain a flexible supply chain, potentially rotate orders between alternative suppliers in different countries, look into nearshoring opportunities, and develop a comprehensive global risk management strategy.

Finally, it is important to remember that the political party that occupies the White House does not determine the course of the business cycle. In addition, any economic impact of legislation is typically lagged. Focus on developing a robust supply chain for its own sake.

State-by-State: Prices



- The US Housing Price Index in the three months through July was 5.3% above the year-ago level.
- Home Prices have risen at the fastest pace largely in the Northeast, i.e., where there is limited room to expand. Vermont, Rhode Island, Delaware, and New Jersey were all in the top five fastest-growing states.
- Conversely, the 10 states with the lowest growth rates were all west of the Mississippi River; Idaho, Louisiana, Oregon, Texas, and Minnesota made up the bottom five.
- Home affordability is likely to shift in the coming quarters as mortgage rates generally decline and consumer incomes continue to rise.

Readers' Forum

The yield curve recently un-inverted. What does this mean for the economy?

Haley Sienkiewicz, Economist at ITR Economics™, answers:

Typically, the yield on longer-term debt, i.e., the 10-year Treasury, is higher than that on shorter-term debt, i.e., the 2-year Treasury. This is due to the higher opportunity risk of investing in a bond with longer maturity. From mid-2022 until just recently, however, the yield curve was inverted, meaning that the yield on the 2-year Treasury was higher than the yield on the 10-year Treasury, reflecting both diminished confidence in the economy and high near-term inflation expectations.

Recently, the yield curve has normalized, signaling optimism for the economy. The Federal Reserve recently implemented an interest rate cut, which will eventually stimulate both the economy and private investment, and the labor market remains mostly solid.

So, what are the direct implications of the normalized yield curve? It is important to remember that a yield curve normalization is not so much the sole driver of economic growth; rather, it a signal of the prevailing economic conditions that led to the normalization. Investors likely feel that we are out of the woods, so the usual safe haven of long-term investments is less appealing. They would rather have money on hand now to seize the upswing. We should also note that the 10-year to 3-month yield curve remains inverted.

On net we see the normalization in the 10-year to 2-year as a sign that financial markets are coming around to the medium-term growth prospects we have been forecasting here at ITR Economics for some time. Most firms – unless the markets they are in face particular headwinds – should be thinking about how they can capitalize on mild growth in the US economy in the coming years before the tumultuous times of the 2030s hit.

Please send questions to: questions@itreconomics.com