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Economic Overview

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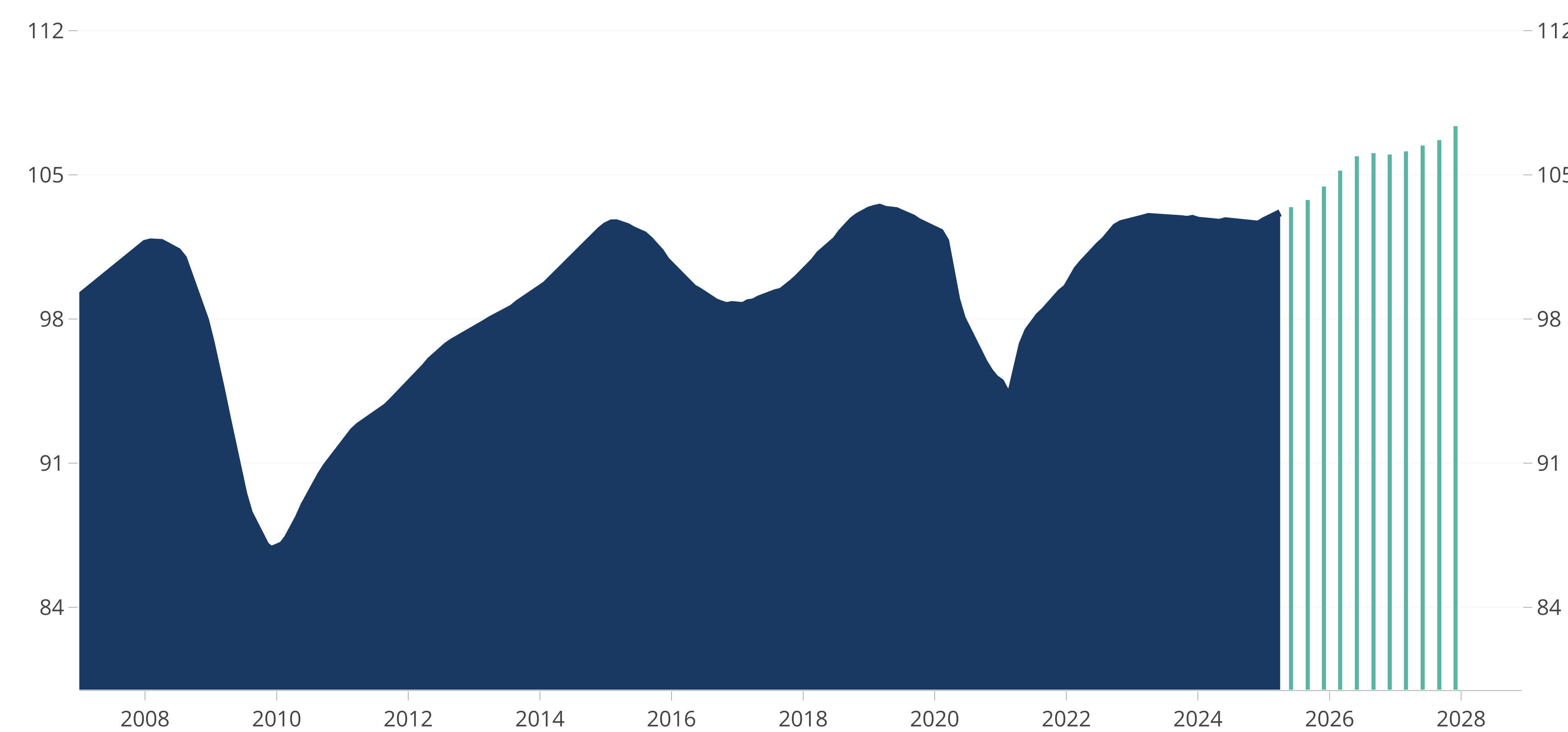
Mid-2025 Update

Despite a wave of pessimistic sentiment reflected in some soft data sources (e.g., consumer confidence surveys), the US economy has demonstrated underlying resilience, as evidenced by hard data metrics. Although US Real GDP contracted minorly in Q1 2025, this was driven primarily by a surge in imports as businesses and consumers sought to preempt future tariff actions — a dynamic that mechanically subtracts from GDP. Both the consumer spending and business investment components of GDP registered growth in Q1, underscoring resilience in the underlying demand base. This is corroborated by monthly data through May showing accelerating industrial activity and rising Retail Sales. The policy environment remains uncertain, with trade negotiations oscillating between cooperation and friction. Elevated levels of macroeconomic uncertainty remain, prompting caution among decision-makers and tempering the pace of the current cyclical expansion. Nonetheless, our proprietary composite of leading indicators points to a mild upward trajectory for the US economy over the remainder of 2025. That said, recent trends have prompted slight downgrades to several of our key sector-specific outlooks.

We have modestly lowered our outlook for US Nondefense Capital Goods New Orders (excluding aircraft), a proxy for business-to-business (B2B) spending and capital investment. A historical data revision from the source revealed that the B2B sector is recovering from a prior mild recession that likely resulted from a prior period of excessive inventory buildup. The aggregate signal from our system of leading indicators suggests general, but mild, rise is still more likely for B2B spending in 2025 than contraction. Growth will likely be slightly stronger in 2026. It is important to note that some of this growth, expressed in nominal terms, will be supported by inflationary pricing dynamics rather than volume gains, which could put pressure on margins in price-sensitive sectors.

US Industrial Production Index
Annual Average (12MMA)



US Consumer Prices have been trending above the Federal Reserve's inflation target of 2.0%, and economic activity has been holding up relatively well. As a result, the Fed has been holding interest rates steady, with no committed timeline for future cuts. Elevated interest rates will generally contribute to the muted nature of rise ahead, although markets will ultimately adjust to this "new normal."

Housing and Consumer Markets

Our forecast for US Single-Unit Housing Starts, which tend to lead the macroeconomy, has also been revised downward. Despite the persistent shortage of existing housing stock, developers may be slightly more risk-averse in light of a slight uptick in vacancy rates, persistent affordability concerns, and ongoing economic uncertainty. As a result, we expect Starts for 2025 as a whole to come in below the 2024 total before growth returns in 2026 and, to a lesser extent, 2027. Sectors tied closely to residential construction should prepare for near-term softness.

Consumer spending is expected to grow at a moderate pace over the coming years. The lingering impact of cumulative inflation appears to be fostering a more discerning consumer mindset. Businesses with more exposure to discretionary segments, especially those catering to lower-income consumers, could underperform relative to the rest of the market. Our proprietary ITR Retail Sales Leading Indicator™ signals that, on the whole, Retail Sales will gradually gain momentum into at least early 2026, although vacillation in the Indicator suggests rise could be slightly choppy. Overall, we anticipate US Total Retail Sales growth through 2027, with 2026 marking the likely high point in terms of annual growth rates.

Businesses should take a proactive stance on margin management, as current macroeconomic conditions suggest an elevated risk of margin compression. Rising input costs, cautious end-market demand, and muted volume gains all underscore the importance of cost discipline, pricing strategy, and capital efficiency.

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).

IMEC Markets Dashboard

		Current		Annual Growth Rate Forecast (12/12), Year-End*		
Page Number	Indicator	Growth Rate**	Phase	2025**	2026**	2027**
4	US Industrial Production Index	0.5%	B	1.4%	1.5%	1.3%
5	US Nondefense Capital Goods New Orders (excluding aircraft)	-0.2%	A	2.1%	3.2%	0.8%
6	US Machinery New Orders	-0.9%	A	2.4%	4.1%	0.4%
7	US Food Production Index	0.2%	B	1.9%	0.7%	-0.1%
8	US Medical Equipment and Supplies Production Index	-5.2%	D	-2.3%	3.3%	0.0%

**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 Industrial Production Index

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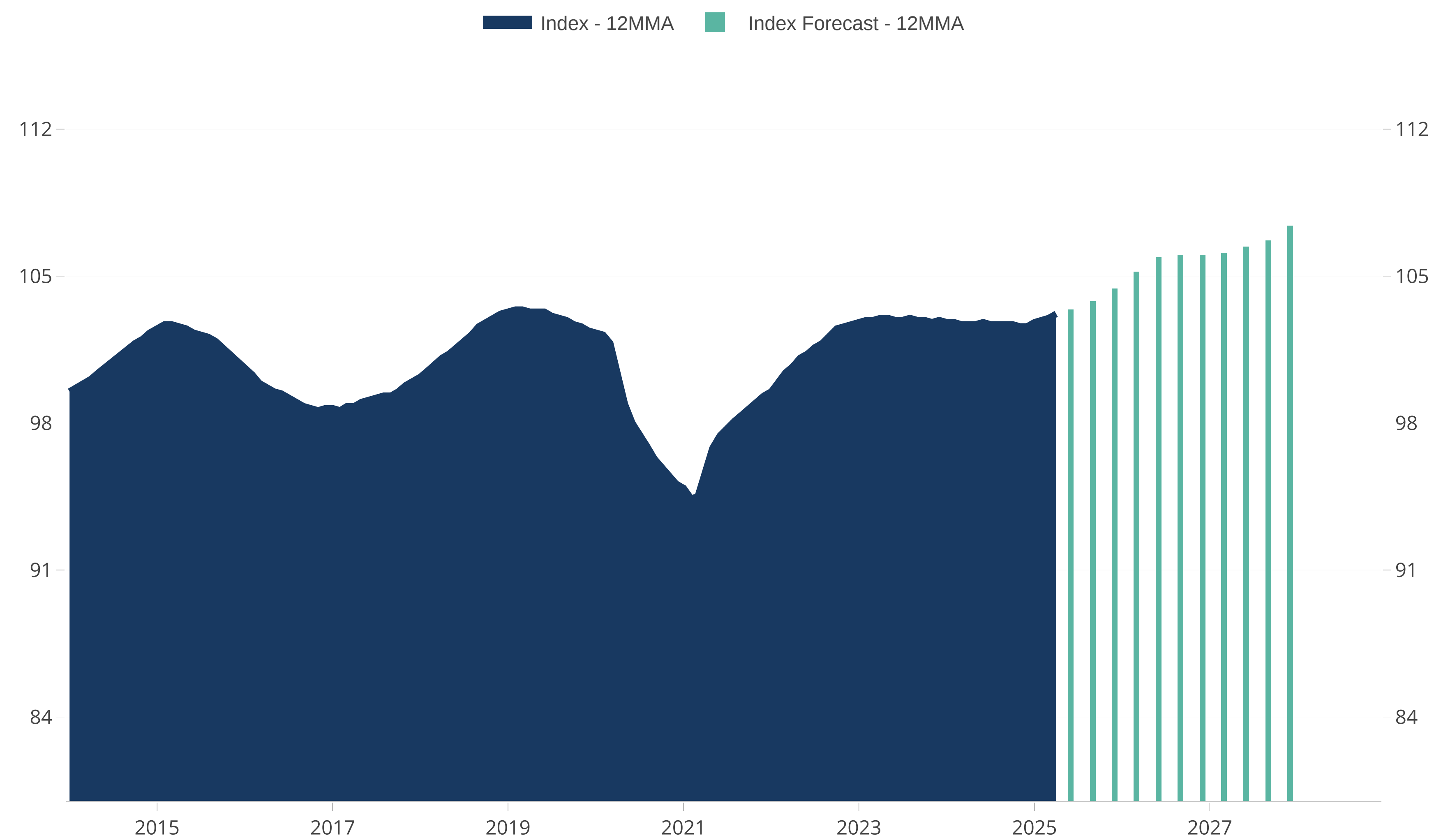
Production Poised for Mild Growth Despite Near-Term Uncertainty; Expect Inflationary Pressures Ahead

Annual Average (12MMA)



Annual Growth Rate (12/12)

Current Phase

Phase B
Accelerating Growth

Current Indicator Amplitude

- April 2025 Annual Growth Rate (12/12): 0.5%
- April 2025 Annual Average (12MMA), 2017=100: 103.2

Industry Outlook

Year	*Annual Growth Rate*
2025	1.4%
2026	1.5%
2027	1.3%

Outlook & Supporting Evidence

- US Industrial Production in the 12 months through April was 0.5% above the same period one year ago. Annual Production will rise through at least 2027, with growth rates in the low single digits.
- The ITR Leading Indicator™ and utilization rate trends support our outlook for industrial activity to gain momentum in the quarters ahead. However, growth will be sluggish in the near term as high economic uncertainty and elevated interest rates inhibit what would otherwise be a more robust ascent.
- As the US turns increasingly to economic nationalism, we may see a boost to domestic Production, with near-term gains concentrated in those segments where onshoring is already well underway.
- When making decisions, be mindful of the anticipated decline projected for 2030–2036. Prioritize investments that yield returns by the end of this decade to ensure a strong financial position entering the 2030s.

US Nondefense Capital Goods New Orders (excluding aircraft)

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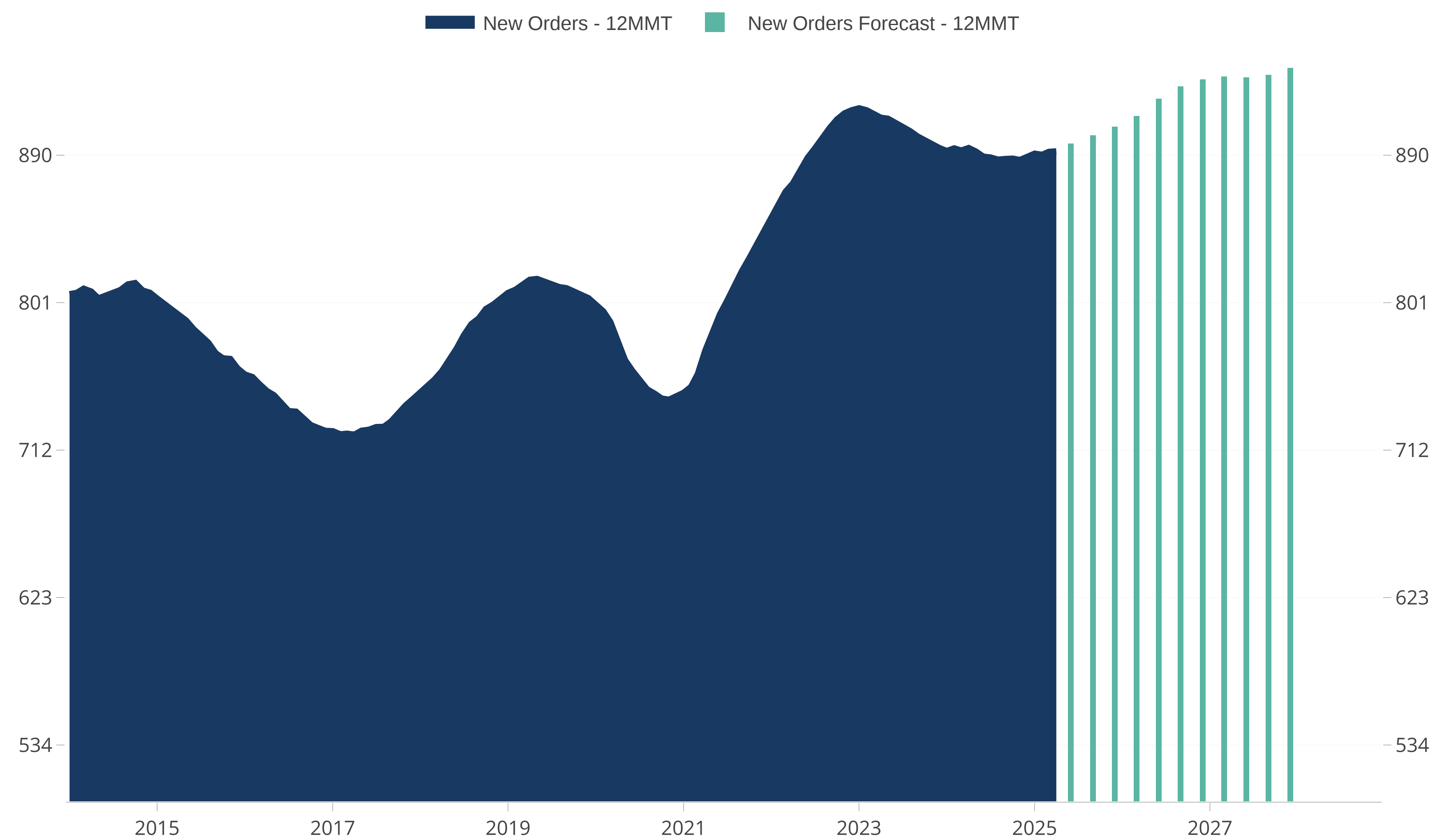
Forecast Revised Mildly Downward Following Data Revision and Tepid Rise in Leading Indicators

Annual Total (12MMT)



Annual Growth Rate (12/12)

Current Phase

Phase A Recovery

Current Indicator Amplitude

- April 2025 Annual Growth Rate (12/12): -0.2%
- April 2025 Annual Total (12MMT), Billions of USD: $892.2

Industry Outlook

Year	*Annual Growth Rate*
2025	2.1%
2026	3.2%
2027	0.8%

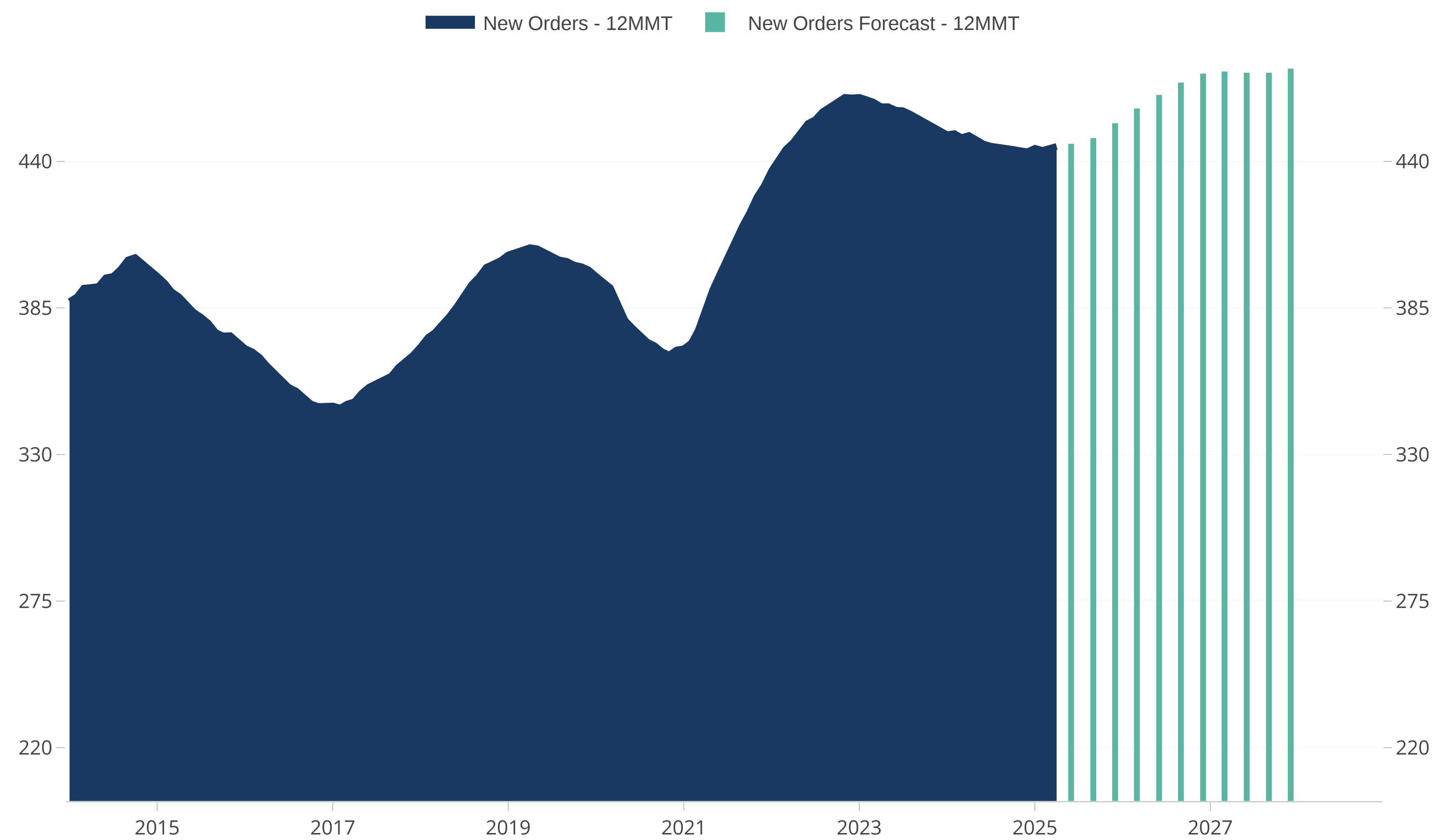
Outlook & Supporting Evidence

- A historical data revision issued by the US Census Bureau revealed that annual US Nondefense Capital Goods New Orders (excluding aircraft) contracted 3.4% from early 2023 to late 2024, which was likely due to a prior period of inventory overstocking. Additionally, slowing growth in Domestic Nonfinancial Corporate Profits, elevated economic uncertainty, and a tick down in several leading indicators, suggested the ramp-up in B2B spending will be more sluggish in this cycle than previously forecast.
- We still expect annual New Orders will rise through 2026 and then plateau in 2027, but we lowered the amplitude of our growth rate outlook. Growth in New Orders is likely to be mild given sluggishness in leading indicators like the US ISM PMI (Purchasing Managers Index).
- Keep in mind that New Orders are dollar denominated. Given expectations for higher inflation in the coming years, volumes in some markets may suffer. Labor costs, exacerbated by demographic factors, will also contribute to higher costs and potential margin squeeze. It will be especially important in the coming years that your contracts include appropriate price escalators.

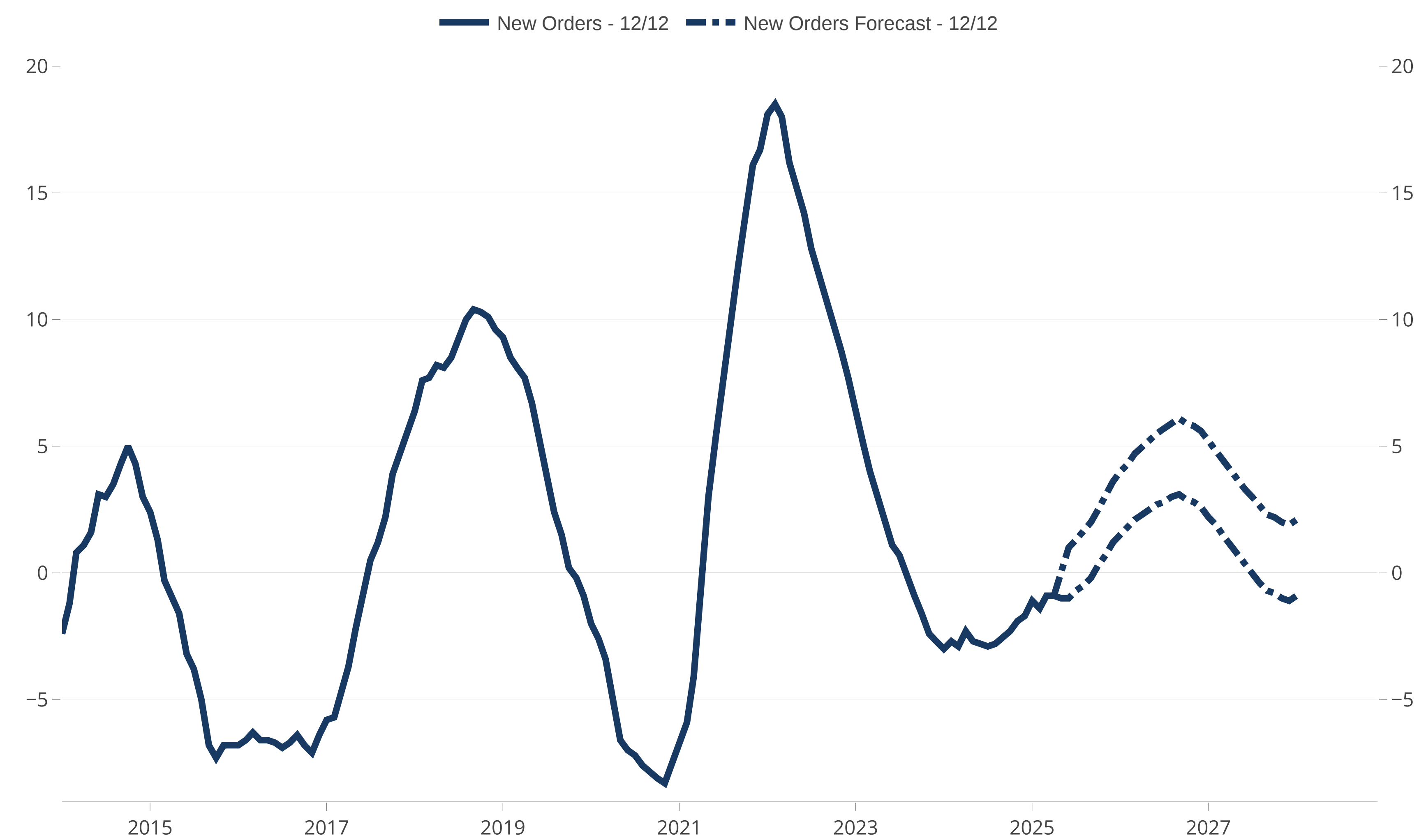
US Machinery New Orders

Growth Through 2026 May Be Driven More by Higher Prices Rather Than Volumes

Annual Total (12MMT)



Annual Growth Rate (12/12)



Current Phase

Phase A Recovery

Current Indicator Amplitude

- April 2025 Annual Growth Rate (12/12): -0.9%
- April 2025 Annual Total (12MMT), Billions of USD: $445.6

Industry Outlook

Year	Annual Growth Rate
2025	2.4%
2026	4.1%
2027	0.4%

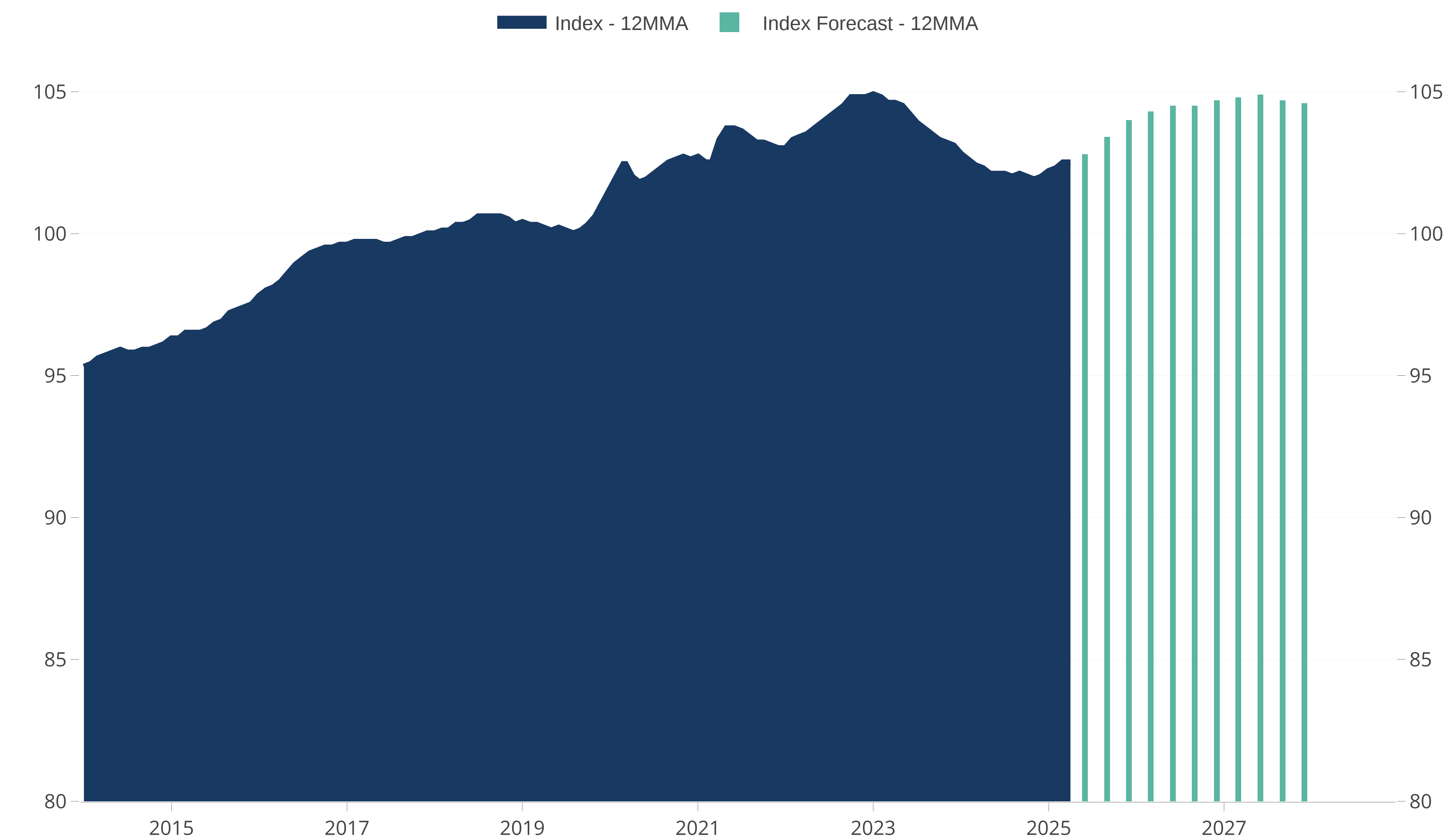
Outlook & Supporting Evidence

- The US Census Bureau revised the historical data for US Machinery New Orders. The updated figures indicate a sharper increase in annual Production during 2022, followed by declines in 2023 and 2024, contrasting with the previously reported plateau. We have adjusted our forecast to reflect these changes. Despite the revision, we continue to anticipate growth through 2026, supported by a general, mild improvement in the macroeconomic environment. Production will then plateau for much of 2027.
- We anticipate that growth in the industrial sector will contribute to higher machinery spending through 2026. However, be cognizant that inflation is likely to inflate nominal spending figures, and there is a risk that actual volumes may soften, partly due to the impact of tariffs.
- Given ongoing uncertainty surrounding trade policy, manufacturers should prepare contingency strategies for input pricing and sourcing. Domestic producers may find opportunities to expand their market share by leveraging the rise in economic nationalism.

US Food Production Index

Forecast Revised Mildly; Expect Rise Through 2027, Remain Aware of Lingering Price Sensitivity

Annual Average (12MMA)



Annual Growth Rate (12/12)

Current Phase

Phase B Accelerating Growth

Current Indicator Amplitude

- April 2025 Annual Growth Rate (12/12): 0.2%
- April 2025 Annual Average (12MMA), 2017=100: 102.5

Industry Outlook

Year	Annual Growth Rate
2025	1.9%
2026	0.7%
2027	-0.1%

Outlook & Supporting Evidence

- In response to recent strength in the data, we revised the US Food Production forecast. The most significant adjustment was a 1.5% upward revision to 2025 annual Production. The outlook for 2026 and 2027 remained largely unchanged.
- The US Food Capacity Utilization Rate indicates near-term upward momentum is likely for Production. We anticipate that Annual Production rise will extend into 2027, then plateau for much of that year. By year-end 2027, Production will be around 2% higher than the May 2025 level.
- Although food inflation has been moderating, consumers are still likely to feel the impact of cumulative price increases at the grocery store. Food Consumer Prices have risen approximately 28% over the past five years. Food producers should remain mindful of their target demographics, as many consumers may opt for more affordable alternatives. Meanwhile, Corporate Cash in the Food Manufacturing Industry is experiencing a modest decline. Coupled with uncertainties from the trade war and elevated borrowing costs, this may lead some companies to delay capital expenditures in the near term. Nonetheless, investments in labor-saving machinery could prove worthwhile, given persistent labor shortages across the food sector.
- Conduct targeted market research to understand your customers' financial situation and better tailor your product offerings. Be sure to emphasize your competitive advantages.

US Medical Equipment and Supplies Production Index

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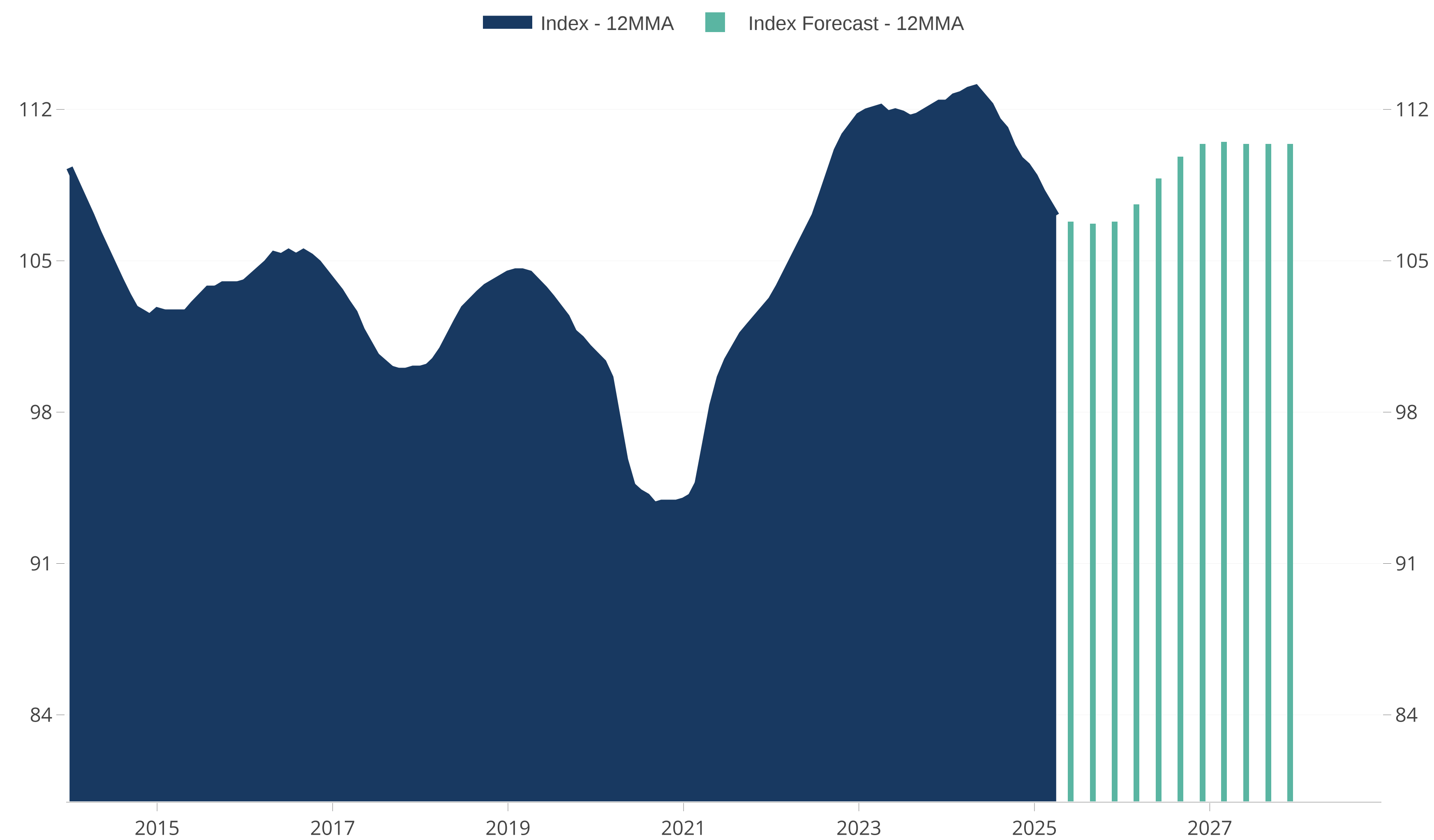
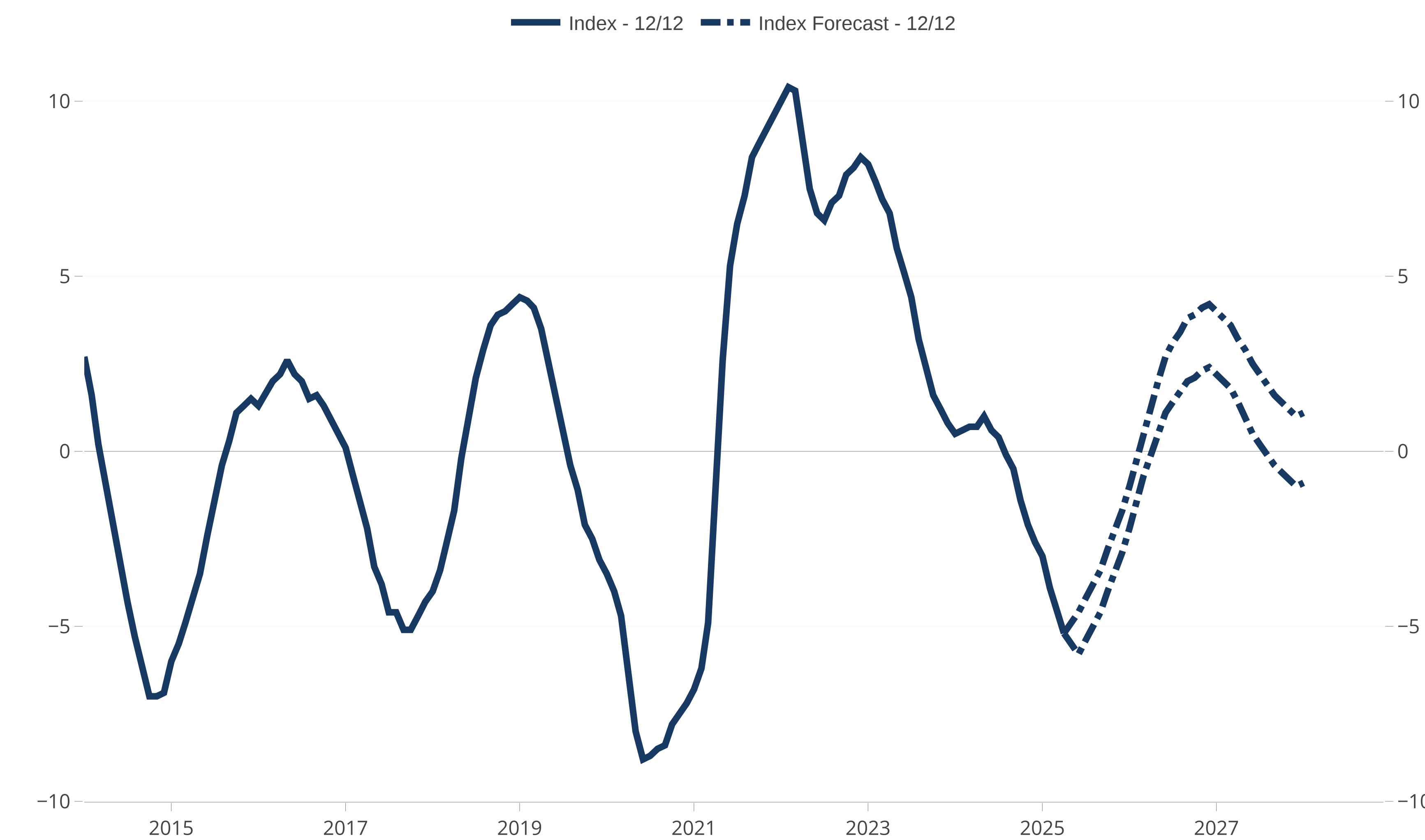
Forecast Lowered Mildly; Aging Population and Growing Economy to Drive Upcoming Production Rise

Annual Average (12MMA)



Annual Growth Rate (12/12)



Current Phase

Phase D Recession

Current Indicator Amplitude

- April 2025 Annual Growth Rate (12/12): -5.2%
- April 2025 Annual Average (12MMA), 2017=100: 107.1

Industry Outlook

Year	Annual Growth Rate
2025	-2.3%
2026	3.3%
2027	0.0%

Outlook & Supporting Evidence

- In the 12 months through April, US Medical Equipment and Supplies Production was 5.2% lower than the same period one year ago. Despite early signs of recovery in end-market services, recent Production results suggest annual Production will trend flatter than previously anticipated over the next couple of quarters. We mildly lowered the annual Production forecast to account for the probability of a more sluggish recovery trend, with the largest downgrade, of 2.9%, to 2025.
- Annual Production will plateau in the near term, then rise from late this year through 2026. Annual Production will plateau in 2027.
- The trajectory for Production through 2027 is generally positive due in part to an aging population and growing economy. Strength in inflation-adjusted dental spending suggests demand for elective medical supplies is currently stable.

US Leading Indicators

Indicator	Direction		
	3Q25	4Q25	1Q26
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

- Leading indicators are vacillating, but the overall thrust of the signals continues to point to mild rise in the US industrial sector through at least the remainder of 2025.

- We are watching nascent declines in several of our leading indicators carefully to see how they respond if economic uncertainty dissipates later this year as we anticipate. Right now, our analysis suggests the tick downs are a result of uncertainty more than inherent consumer or corporate financial weakness.

- Knowing your market's particular supply, demand, inventory, and tariff dynamics is crucial for knowing whether your business will be on the stronger or weaker side of what these macroeconomic leading indicators suggest.

Do not let shifting government trade policies distract you from preparing for the economic growth, elevated inflation, and elevated interest rates anticipated ahead. Focus on initiatives that can preserve margins, reduce supply chain risks, and enhance your competitive advantages to prepare for competing in a higher price environment.

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).

US Machinery New Orders

New orders for machinery in the United States. Industries in the machinery manufacturing subsector create end products that utilize mechanical force, for example, the application of gears and levers, to perform work. Some important processes for the manufacture of machinery are forging, stamping, bending, forming, and machining, which are used to shape individual pieces of metal. Processes such as welding and assembling are used to join separate parts together. Although these processes are similar to those used in metal fabricating establishments, machinery manufacturing is different because it typically employs multiple metal forming processes in manufacturing the various parts of the machine. Moreover, complex assembly operations are an inherent part of the production process. NAICS Code: 333. Source: US Census Bureau. Measured in billions 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 Nondefense Capital Goods New Orders (excluding aircraft)

New orders for nondefense capital goods, excluding aircraft, in the United States. Includes farm machinery and equipment, construction machinery, mining machinery, nondefense small arms and ordnance, industrial machinery, commercial and service industry equipment, other general purpose machinery, photographic equipment, metalworking machinery, turbine and generator manufacturing, power transmission equipment, pumps and compressors, material handling equipment, electronic computers, computer storage devices and peripheral equipment, communications equipment, nondefense search and navigation equipment, electrometrical equipment, electrical equipment, heavy duty truck manufacturing, railroad rolling stock, nondefense ship and boat building, office and institutional furniture, and medical equipment and supplies. Source: US Census Bureau. Measured in billions of dollars, not seasonally adjusted (NSA).

US Food Production Index

Industries in the US Food Manufacturing subsector transform livestock and agricultural products into products for intermediate or final consumption. The industry groups are distinguished by the raw materials (generally of animal or vegetable origin) processed into food products. The food products manufactured in these establishments are typically sold to wholesalers or retailers for distribution to consumers. Source: Federal Reserve Board. NAICS Code: 311. 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