Industry Snapshots

Arrow denotes 12-month moving total/average direction.

RETAIL SALES	Mild Rise
WHOLESALE TRADE	Mild Rise
AUTO PRODUCTION	Mild Decline
MANUFACTURING	Mild Rise
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

US trade policy is fluid. For now, uncertainty abounds for consumers and businesses, reigniting financial market turmoil and dormant fears of a strained supply chain. In terms of businesses, our apolitical analysis shows that the evolving tariff environment will create winners and losers. As tariffs act as a tax on goods, they tend to negatively impact consumers. We still anticipate general growth in most major macroeconomic benchmarks, such as Retail Sales and Industrial Production, though we have changed a number of forecasts (oil prices, bond yields, nondurable goods distribution, and industrial production for both Canada and Mexico, for example) as a result of the changed landscape.

While the aim of tariffs is to boost domestic manufacturing, they can lead to higher input costs, squeezed margins, and a less efficient supply chain. For more details, check out our recent blog post on tariff impacts: blog.itreconomics.com/blog/the-impact-of-tariffs-on-us-manufacturing-production.

The US manufacturing sector recently rose above year-ago levels, and further rise is likely given rise in our system of leading indicators. Despite recent softening, corporate cash in this sector – at 42% above the pre-COVID level, which far outstrips inflation – is elevated, signaling the industry is decently positioned to absorb rising costs should tariffs have an outsized impact on input prices.

> *"Take steps to insulate your business from the trade war."*

Business-to-business spending will generally rise this year, though some near-term volatility may occur given trade uncertainty. Further rise is likely given positivity in our ITR Leading Indicator™ and our expectations for reignited pricing pressures, which boost dollar-denominated metrics.

The nonresidential construction market is slowing in growth from the lagged impact of still-elevated financing costs and the drawdown of government infrastructure funding. On the residential side, US Single-Unit Housing Starts are plateauing with a downward bias, with further downside pressure likely ahead as affordability constraints persist. The Multi-Unit sector is in a nascent rising trend, though we expect the rise to be relatively mild given the hangover of elevated long-term interest rates and economic uncertainty. Consumers are spending more than ever, with record-high US Total Retail Sales. Rising incomes and a relatively resilient labor market may be fueling the engine of our economy to go uphill, but the cumulative impact of high prices, high interest rates, stock market weakness, and slowing income growth are limiting consumer spending growth.

While trade policy is uncertain, our general macroeconomic expectation of mild industrial sector growth, reemerging inflation, and elevated interest rates is unchanged. Take steps to insulate your business from the trade war, such as going one layer deeper to investigate your supply chain for resiliency (ensure that you know where your suppliers' suppliers are located). Meanwhile, do not lose sight of the longer term: have a clear-cut plan for pricing and labor in the coming years.

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Make Your Move

If you plan to finance business investments to capitalize on growth ahead, focus more on the payback period rather than trying to time a low in interest rates, as they are likely to remain sticky.

Investor Update

The S&P 500 declined 5.8% in March as investors grappled with the fallout from tariffs. While we expect actual GDP may come in soft due to the negative impact of elevated imports to get in front of tariffs, the overall picture suggests that consumers in aggregate are upset, not financially insolvent. This increases the probability that financial unrest and tariff uncertainty are headwinds to the economy but not the be-all and end-all.

ITR Economics Long-Term View

2025	2026	2027
MILD GROWTH (WEAKER 1ST HALF)	GROWTH	SLOWING GROWTH

Leading Indicator Snapshot

	2Q2025	3Q2025	4Q2025
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

- The dominant color for our macroeconomy in 2025 is green, though this year may be more of a light green, as leading indicators are mostly in shallow, sometimes inconsistent upward trends rather than shooting up – this paints the picture of mild economic growth as the most likely outcome.
- The industrial sector recently transitioned to an accelerating growth trend that is likely to persist given positive signs from the ITR Leading Indicator™ and a generally rising US Total Industry Capacity Utilization Rate.
- The ITR Retail Sales Leading Indicator™ points toward a continued rising trend in consumer spending in 2025.

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Industry Analysis

RETAIL SALES

- US Total Retail Sales in the 12 months through March were 2.9% above the year-ago level
- Continued mild rise is likely given rising real incomes, though substitution with lower-cost items is likely given the cumulative inflation pinch on consumers and that volume's contribution to the trend is likely to be minimal
- Near-term volatility could occur given tariff uncertainty

WHOLESALE TRADE

- Annual US Total Wholesale Trade in the 12 months through February was 1.7% above the year-ago level
- Wholesale Trade is being weighed down by the petroleum component, which is 5.7% below the year-ago level
- The inventory positions of Wholesale Trade's subcomponents vary widely; know your market's inventory situation (reach out to us if you need help)

AUTO PRODUCTION

- North America Light Vehicle Production in the 12 months through February was 2.4% below the year-ago level
- Annual Production is likely to weaken further in the near term due in part to still-high financing costs for consumers
- Higher prices from proposed tariffs will pose a downside risk to Production should they impact demand

MANUFACTURING

- Annual US Total Manufacturing Production is in a nascent accelerating growth trend, coming in 0.1% above the year-ago level
- Computers and electronics (up 4.9% year over year) are a notable bright spot; machinery for agriculture, construction, and mining (down 7.3%) is mired in a recession
- Expect mild growth this year, with outcomes differing considerably between components

ROTARY RIG

- The US Rotary Rig Count in the first quarter of 2025 averaged 588 rigs, 5.5% below the first quarter of 2024
- Oil prices dropped sharply in early April and have rebounded slightly; lower prices could put downside pressure on the Rig Count
- Our expectations for a generally growing industrial sector support future rise in the Rig Count

CAPITAL GOODS NEW ORDERS

- US Nondefense Capital Goods New Orders (excluding aircraft) in the 12 months through February were 0.4% above the year-ago level
- The potential for delayed capex as a result of trade policy uncertainty presents a downside risk to New Orders; the fundamentals suggest growth
- US Defense Capital Goods New Orders in the 12 months through February were 9.4% above the year-ago level and accelerating in growth

TOTAL NONRESIDENTIAL CONSTRUCTION

- US Total Nonresidential Construction in the 12 months through February was 4.0% above the year-ago level; growth is slowing
- US Private Multi-Tenant Retail Construction is showing nascent signs of recovery; US Private Manufacturing Construction growth is slowing sharply
- Rising, though still low, commercial and industrial loan delinquencies are a downside factor for Construction

TOTAL RESIDENTIAL CONSTRUCTION

- US Total Residential Construction in the 12 months through February was 5.0% above the year-ago level
- Private Single-Family Construction is plateauing as the flat to mild downward bias in Single-Family Starts gets reflected in Construction spending
- The homeowner vacancy rate is low but rising, signaling a loosening, but still tight, housing market

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A Closer Look: The US Economy

How Well Positioned Is the US Consumer?

CAROLINE DUNSBY

What you need to know: Consumer finances in aggregate are in decent shape, but the picture is far from uniform and some cracks are showing; knowing your customer base is key.

HOW IS THE CONSUMER REALLY DOING?

Consumers are spending more than ever. US Personal Consumption Expenditures on both Goods and Services are at record highs. Part of this rise is attributable to inflation and part is associated with increased volume. For example, Personal Consumption Expenditures for Goods are up 39% since 2019, with 21% of the increase (after adjusting for inflation) due to volume gains and the remainder due to inflation.

How are incomes keeping up with increased prices and spending? Adjusted for inflation, Personal Income (excluding transfer receipts) is at record highs, though the pace of rise is slowing. While this does not include transfer receipts such as Social Security, it does include categories that tend to benefit all workers, such as wages and salaries, as well as categories like dividend income, interest income, and proprietors' income, which tend to benefit higher-net-worth individuals.

While we are not seeing decline in inflation-adjusted income in aggregate, some consumers may be drawing upon more debt this cycle or forgoing some discretionary expenditures. ITR Economics' inflation-adjusted US Personal Savings Balance Index, which tracks aggregate consumer savings over time, is running below its long-term trend, and US Credit Card Delinquency Rates are trending around the highest levels in about 12 years, though they are still well below the pre-Great Recession period. Simply put, those on the lower end of the income spectrum are likely feeling strain.

The majority of consumer expenditures in the US are made by higher-income consumers, many of whom benefited from stock portfolios increasing in value in recent years. Tariffs aside, macroeconomic fundamentals – such as those encapsulated in our ITR Retail Sales Leading Indicator™, which was generally rising through February before a tentative tick down in March – point to rising consumer spending in the coming years. However, markets that cater towards lower-income consumers could see a shift in buying patterns.

HOW WILL TARIFFS IMPACT CONSUMERS?

The US is heavily reliant on importing manufactured goods, and while tariffs on imports to the US could expedite ongoing onshoring efforts, the US manufacturing sector will not be able to scale up fast enough to avoid relying as heavily on imported goods. Companies importing goods into the US are responsible for paying the tariffs, and oftentimes some or even the entire cost is passed on to the consumer as companies work to maintain margins.

Consumer markets that heavily rely on imports, such as computers and electronics (if the tariff pause is not rescinded), automotive, apparel, and leather, might feel some demand destruction given the likely higher prices in these markets. Additionally, consumer buying behavior is likely to shift as consumers look to substitute goods for more cost-effective alternatives, and markets skewed toward discretionary goods are likely to feel some pain.

Tariff negotiations have also been causing abnormally large swings in the stock market. Individuals feeling large swings in their net worth as a result, who tend to be those of higher net worth and therefore bigger spenders, may also choose to be more cautious in their spending.

HOW DOES THIS IMPACT YOUR BUSINESS?

All businesses should be evaluating their potential tariff exposure. If your product is mostly made in the US, advertise that proudly as a competitive advantage. Whether your business caters to consumers directly or indirectly, what do you know about their income demographics? Where do your products or services fall on the spectrum of discretionary to nondiscretionary? Your answers to those questions will determine how likely your customers are to accept price increases and continue to spend in the coming quarters. Do you offer lower cost alternatives of your product mix? These may see better performance.

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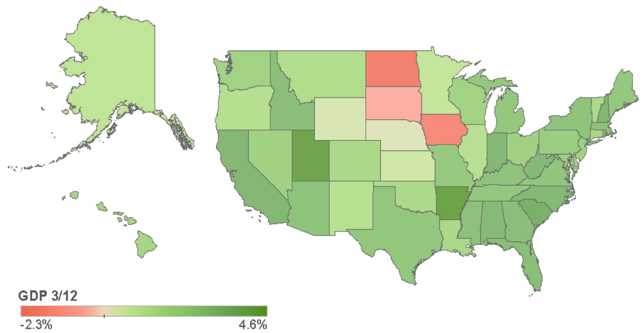
State-by-State: GDP



- US Real Gross Domestic Product in the fourth quarter came in 2.5% above the year-ago level.
- Three states experienced GDP contraction, each of which are located in the Midwest: North Dakota (fourth quarter down 2.3% versus one year ago), Iowa (down 1.9%), and South Dakota (down 0.6%).
- States in the Southeast region generally outperformed overall GDP, with Arkansas topping the list, growing by 4.6% in the fourth quarter.
- Businesses and consumers remain in a relatively stable position despite the ebbs and flows of tariff uncertainty. GDP results may come in weak in the first half of this year as surging imports (which count against GDP) coupled with economic uncertainty lead to some softness; however, longer-term, a mild growth trend is the most likely trajectory.

Readers' Forum

How will the recent layoffs of some federal workers impact the labor market?

Haley Sienkiewicz, Economist at ITR Economics™, answers:

As a reminder, we answer this question from an apolitical perspective to advise what the data says about a policy's effects. This issue is fraught with emotions, but our job is to provide the economic facts and likely outcomes. At present, recent layoffs have not had a discernible impact on many labor market metrics, but we continue to monitor these trends. Our expectations for a generally tight labor market in the coming years due to demographic trends is unchanged.

Federal workers make up 1.9% of the current workforce in the US, totaling 3.0 million workers. March data shows that US Federal Government Employment came in equal to the March 2024 level, with the month-to-month changes in Employment in February and March coming in below normal as thousands of public workers were laid off. Despite this turmoil, US Civilian Labor Force Employment, which includes most private and public sector jobs, rose through the first quarter of 2025, indicating that more positions were added than lost when viewing this period at the macroeconomic level.

Please send questions to: questions@itreconomics.com

Secure Your Business's Future With the Financial Resilience Program!

What is your plan for the 2030s depression? Is your business prepared for what is coming throughout the coming decade? With our Financial Resilience program, we meet with your team to create a custom blueprint for the depression, complete with a 15-year company forecast that is fully tailored specifically to your business.

Contact us today to get started with the Financial Resilience program! Our team of experts will work closely with your business to help you achieve your goals through the upcoming depression. Reach out to us now to secure your business's future!

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