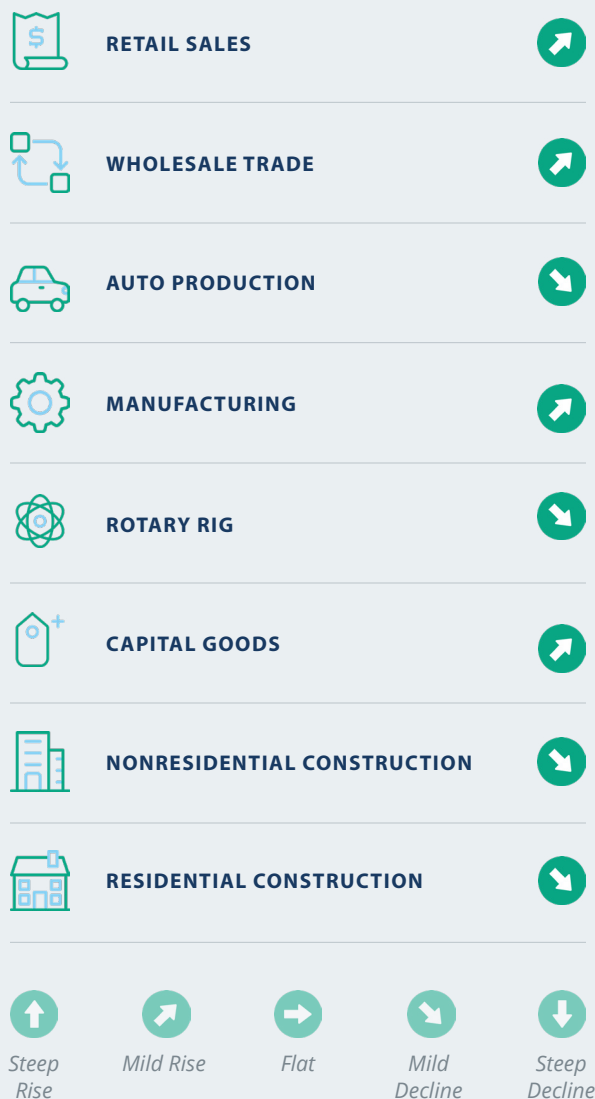


Industry Snapshots

Arrow denotes 12-month moving total/average direction.



Macroeconomic Outlook

US Real Gross Domestic Product (GDP) rose in the second quarter, despite the volatile policy environment. These results were in line with our expectations. Our outlook for mild rise in the macroeconomy this year and next remains the most likely outcome, supported by a consumer willing to spend amid relatively high levels of employment and rising real incomes, as well as increased business investment as uncertainty dissipates.

With inflation sticky and trending above the Federal Reserve's 2% target rate, the central bank opted to keep interest rates steady in July. The Fed's July meeting was marked by a historic dissent, with two Fed governors advocating for a rate cut. While inflation is ticking up, discord among Fed governors, coupled with weaker-than-previously-thought jobs numbers, could lead to a potential rate cut by the end of this year. Significant rate cuts are unlikely, however, as inflation remains driven by multiple factors and this business cycle is marked by shortages of labor, housing, and electricity.

For producers, inflation was at 1.9% for finished goods in July and is on a general upward trajectory. While volatility in commodity prices is likely to persist, supply and demand dynamics suggest rise ahead for many. In addition, tariffs will put upward pressure on many input prices. Look for ways to mitigate tariff exposure and consider reaching out to a customs and trade specialist to assist.

Align your business for general macroeconomic growth into 2027.

Annual US Industrial Production is above year-ago levels and poised for further growth. Rise will be driven in part by nearshoring, as well as by consumers and businesses as they acclimate to a higher-interest-rate environment. Sideways movement in selected leading indicators points to growth being relatively mild, with some markets outperforming others. Standouts right now include computers and electronics as well as pharmaceuticals; laggards include markets like fabricated metals and machinery for the agricultural, construction, and mining industries.

The housing market is exhibiting disparate trends. US Single-Unit Housing Starts are declining, but regional trends vary, so ensure you are tracking regional data as well. US Multi-Unit Housing Starts are generally rising, with further rise likely given permitting trends. On the nonresidential side, construction is declining, though pockets of resiliency exist in some subsectors such as data centers and water/sewer, both of which are rising at a double-digit pace.

Align your business for general macroeconomic growth into 2027. Focus on how you can capture some of this growth while paying particular attention to efficiency, as labor costs will continue to rise in the coming years. Delaying investment in the hopes of looser financial conditions may prove more costly than investing in your business now, given our expectation for rising prices.

Make Your Move

Take steps to identify and minimize labor content from your products and services by increasing efficiencies. We expect labor costs to rise roughly 28% from 2025 to 2029.

Investor Update

In July, the S&P 500 rose 2.2%, maintaining its upward trend; the strength of the July ascent was normal. Equity allocations in individual portfolios rebounded from April's low of 64.1% to 68.3% in July, a sharp 4.2-point jump rarely seen outside major events like the COVID-19 rebound. If investor allocations exceed typical levels, the risk of a market pullback could rise. This trend will be closely monitored.

ITR Economics Long-Term View

2025

MILD GROWTH

2026

GROWTH

2027

SLOWING GROWTH

Leading Indicator Snapshot

	3Q2025	4Q2025	1Q2026
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

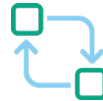
KEY TAKEAWAYS

- Divergence in leading indicator signals is in part a reflection of heightened uncertainty rather than a mark of fundamental weakness in the macroeconomy. We have seen some indicators, such as the US OECD Leading Indicator, bounce back after taking dips earlier in the year when the trade war initially ramped up; others, such as the PMI, have yet to do so.
- Choppy upward momentum in the US Total Industry Capacity Utilization Rate bodes well for the mild industrial sector growth we are forecasting through at least the end of this year.
- Vacillation in the ITR Retail Sales Leading Indicator™ supports our outlook for muted growth in US Total Retail Sales into at least the beginning of next year, with most of the ascent attributable to rising prices, not volumes. While consumers are enjoying rising real incomes, cumulative inflation and economic uncertainty may pinch discretionary spending.

Industry Analysis

**RETAIL SALES**

- Annual US Total Retail Sales in July were 3.6% above the year-ago level
- US E-Commerce Retail Sales are outperforming overall Retail Sales and were 6.9% above the year-ago level in June
- Rising real incomes — albeit at a mild pace — and debt-fueled spending will help drive further growth in consumer spending

**WHOLESALE TRADE**

- US Total Wholesale Trade in the 12 months through June totaled \$8.2 trillion, 3.5% above the year-ago level
- US Surface Trade with Canada and Mexico is generally rising but has ticked down sharply in recent months
- Growth in US Wholesale Trade of Nondurable Goods has been more muted than Durable Goods recently, due in part to weakness in the petroleum component

**AUTO PRODUCTION**

- Annual North America Light Vehicle Production totaled 15.3 million units in June, 3.1% below the year-ago level
- Economic uncertainty is likely to constrain Production volume; tariffs pose an upside risk to vehicle costs in the coming quarters
- Expect Production to stay suppressed as economic uncertainty, low consumer confidence, high interest rates, and high auto loan delinquency rates weigh on the industry

**MANUFACTURING**

- US Total Manufacturing in the 12 months through July was 0.4% above the year-ago level
- The auto and heavy-truck sector is weighing on manufacturing
- Still-elevated borrowing costs also remain a hindrance to this sector of the economy

**ROTARY RIG**

- The US Rotary Rig Count in the three months through July averaged 556 units, 6.1% below the year-ago level
- Recent softness in oil prices could contribute to a lower Rig Count in the near term
- Our four-quarter oil price expectations suggest the Rig Count is likely to stay at a low level into 2026

**CAPITAL GOODS NEW ORDERS**

- Annual US Nondefense Capital Goods New Orders (excluding aircraft) rose in June and were 1.0% above the year-ago level
- US Defense Capital Goods New Orders in the 12 months through June rose and were 22.1% above the year-ago level
- Anticipated US Producer Price inflation will contribute to upcoming rise in New Orders, a dollar-denominated series

**TOTAL NONRESIDENTIAL CONSTRUCTION**

- Annual US Total Nonresidential Construction declined in June but was 0.5% above the year-ago level
- Rise in US Industrial Production, which leads Construction by about a year, suggests Construction decline will give way to rise by mid-2026
- Sticky construction costs present an upside; July Nonresidential Construction Producer Prices were 38.4% above the pre-COVID level and 1.0% above one year prior

**TOTAL RESIDENTIAL CONSTRUCTION**

- Residential Construction declined in June but was 0.5% above the year-ago level
- Starts data suggests nascent recovery in Private Multi-Family Construction is likely to persist in the coming quarters; Private Single-Family Construction is poised for more decline
- High housing costs are a downward pressure on Residential Construction, but consumer financials will limit the decline; look to remodeling, given mild rise in the ITR Remodeling Market Index™

A Closer Look: The US Economy The Great Spending Split

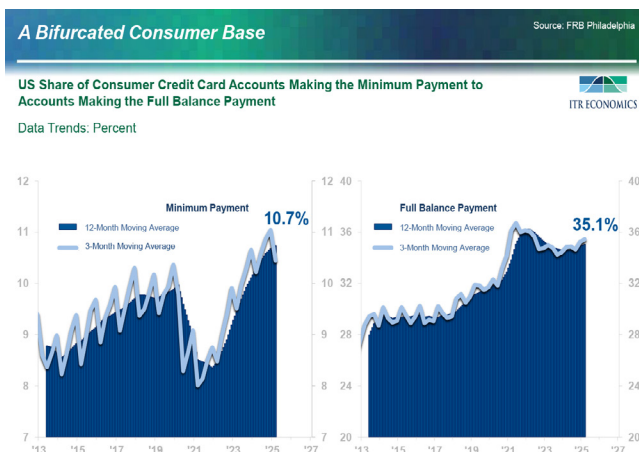
HALEY SIENKIEWICZ

What you need to know: While consumers are on solid footing overall, there is an evident divide between two groups based on credit card activity.

Our outlook for macroeconomic growth through at least 2027 rests on a solid consumer. Stable consumer financial footing is fortified by rising US Real Personal Incomes and a generally limited pool of available workers.

This is not to say there are no cracks emerging in consumers' financial foundation. There are cracks, but they are longer-term cracks that we are expecting to widen as we get closer to the depression of 2030–36. US Personal Savings as a Percentage of Disposable Personal Income sits below long-term levels as consumer spending grows. Leaner savings today will put consumers in a more vulnerable spot in the future. Luckily, in aggregate, consumer debts are manageable relative to incomes. Peeking beneath that aggregate number, disparate trends are forming in consumer spending behavior. Specifically, a divide is evident in the US Share of Consumer Credit Card Accounts Making the Minimum Payment and Accounts Making the Full Balance Payment.

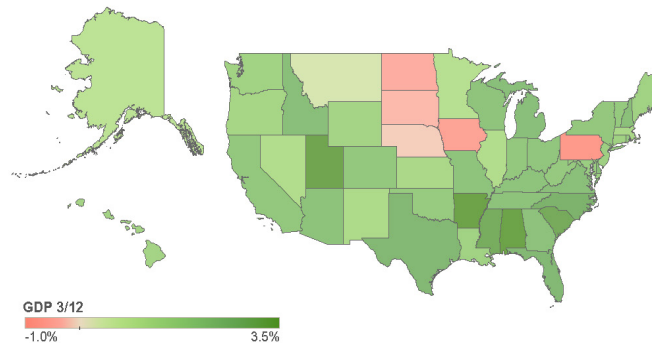
The shock of the COVID environment (low interest rates, restrained consumer spending due to lockdown, and a surge in stimulus and unemployment benefits) led to more people paying higher than the minimum payment and more paying off the full balance in 2021. The share of consumers making only the minimum payment has been generally rising since 2022. It is important to note, however, that excluding the COVID shakeup of consumer behavior and balance sheets, the long-term trend for this metric is one of rise. So, we are returning to the pre-COVID norm of consumers revolving their credit at higher and higher rates. On the other hand, the US Share of Consumer Credit Card Accounts Making the Full Balance Payment is rising mildly, but it remains below the 2022 peak.



Those who are struggling to make full payments are likely to continue to feel stretched at elevated interest rates. In summary, the divide between these two types of consumers continues to widen.

What does this mean for consumers as a whole? Potentially not much from a macroeconomic perspective, as when taken together and alongside other leading indicators, the consumer base is chugging along fine and continuing to increase spending. The question then becomes: Will a weakened bottom brick of vulnerable consumers lead to economic collapse? The answer is very likely no, as those paying off their balance in full are the likely drivers of economic growth and investment. This is corroborated by sizeable savings levels of the top 20% of earners compared to the bottom 20%; the bottom 20%, when accounting for debt, has a negative savings rate. This group of consumers' debt load makes them more likely to be in the minimum payment camp. While the rise in US Share of Consumer Credit Card Accounts Making the Minimum Payment is concerning, this trend is not new, but is something to keep an eye on. In short, we acknowledge and sympathize with those who are struggling to keep up financially in an era of elevated inflation and interest rates. At the same time, we urge businesses not to misconstrue that pain as evidence of imminent economic collapse.

Businesses that cater to lower-income demographics, however, might see a change in consumer spending patterns, and may notice consumers searching for lower cost alternatives or the best deal. For those businesses that cater to customers who tend to own homes with low fixed interest rates and/or have stock portfolios or other means of capitalizing on the surge in corporate profitability post-COVID, days are brighter. Knowing your customer base is always key, but it is especially so in an era of a bifurcated consumer base within the US economy.



- US Real Gross Domestic Product (GDP) mildly declined in the first quarter despite rising consumer spending as imports surged; GDP then rose in the second quarter to 2.0% above the year-ago level.
- South region GDP grew the fastest in the first quarter (latest available data), with Alabama, Arkansas, Mississippi, and South Carolina posting GDP growth in excess of 3% over the prior 12 months; Utah joins this list.
- The majority of the states that saw year-over-year contraction were in the Midwest: Iowa (first quarter was down -0.7% from one year ago), North Dakota (-0.5%), South Dakota (-0.3%), and Nebraska (-0.2%). Pennsylvania also experienced contraction (-1.0%).
- GDP is on track for mild growth in the longer term. Rising consumer and business spending, thanks to mild rise in real wages, is expected to sustain the upward trend, but elevated inflation, interest rates, and economic uncertainty will keep the ascent mild.

Readers' Forum

Which sectors of the nonresidential construction market should I focus resources on as we approach 2026?

Haley Sienkiewicz, Economist at ITR Economics™, answers:

We expect annual US Total Nonresidential Construction to decline mildly into early 2026 before transitioning to mild rise, but performance among sectors will be mixed.

One area of likely opportunity right now and going forward is US Private Data Center Construction, which is currently 44.2% above the year-ago level on an annual basis, though growth is slowing. Further rise is likely in the coming years given strong demand for AI. Manufacturing Construction is likely to decline through next year as some government funding runs out, but it will be more than double the pre-pandemic levels. On a smaller scale, US Private Warehouse Construction will be weak for the remainder of this year; however, it will be in double-digit growth by the end of 2026.

Please send questions to: questions@itreconomics.com

July Webinar Recording Is Now Available for Purchase



The US economy is being hindered by uncertainty — from shifting fiscal policies to tariff disruptions and market volatility. While these dynamics present challenges for today's business leaders, they also open the door to opportunity. However, navigating this complex environment demands strategic foresight and a clear grasp of where the economy is heading.

If you missed the live presentation in July, you can still gain valuable insights by purchasing the recording of our Executive Series Webinar, "Contending With Uncertainty and Change." Do not miss this opportunity to equip yourself and your business with the tools needed to lead decisively through this period of uncertainty. Insider members receive \$25 off their purchase with code INSIDER2025!

PURCHASE RECORDING