NON-FERROUS FOUNDERS' SOCIETY

ECONOMIC ADVISOR

Published monthly by ITR Economics™ for NFFS members

Industry Snapshots

Arrow denotes 12-month moving total/average direction.

RETAIL SALES	Mild Rise
WHOLESALE TRADE	Mild Rise
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

The US economy is poised for growth in 2025 and beyond as trends normalize and the effects of COVID-19-related stimulus and the withdrawal of stimulus fade. US Real Gross Domestic Product grew by 2.5% in 2024. Consumers and businesses are in solid financial shape to drive the economy higher in the coming years. While tariffs could mute GDP growth in 2025, the impact will likely be minimal, and a recession is unlikely given strong economic fundamentals.

The Federal Reserve indicated they are in no hurry to reduce the Federal Funds Rate and opted to keep the target rate steady at their January meeting. A strong labor market alongside the threat of reignited inflation from tariffs will likely keep the rate-setting body from implementing further cuts in at least the near term.

Industrial sector softness will likely give way to near-term rise given upward movement in the US Total Industry Capacity Utilization Rate, and some underlying components are already rising. Annual average US Electric and Gas Utilities Production is 1.8% above the year-ago level, a result at least partially attributable to outsized growth in data centers. This upward pressure is likely to persist. The manufacturing sector is expected to pick up soon despite downside risks primarily in the durables sector, which is below year-ago levels and in recession, depressed by still-high borrowing costs.

> *"The manufacturing sector is likely to pick up soon despite downside risks."*

Annual US Single-Unit Housing Starts are edging lower off a tentative September 2024 peak as affordability constraints weigh on Starts. We expect the downturn will be fleeting given overall consumer strength and the need for housing stock; mild rise will likely be the overarching trend for 2025. We now expect a plateau in the multi-unit sector given muted permitting trends and an uptick in rental vacancy rates. This could be driven by tighter finances among lower-income consumers as well as a glut of multi-unit housing inventory following the construction boom of 2021-22. On the nonresidential side, components are diverging due to the varied impacts of government spending and incentives for different segments. We expect a mild recession in the private side of the nonresidential sector this year.

With borrowing costs likely to remain elevated in the coming quarters, start thinking about the most profitable sectors of your business and make investments accordingly. We expect inflation to accelerate in the back half of 2025 and into 2026, so you will want to consider future needs as most businesses that correlate to overall industrial activity have sales pick up. Regarding evolving tariff policies, ensure your supply chain is well diversified and that you have appropriate contracts in place for price escalators. Pinpoint your position and prepare to pivot should these policies significantly impact your bottom line. Finally, ascertain if you are in a winning or losing industry and make moves to offset any negative impact. What can you do to move into a winning industry?

Make Your Move

Do not let shifting government spending and tariff policy distract you from preparing for the economic growth, elevated inflation, and elevated interest rates that will characterize the latter half of the 2020s in advance of the 2030-36 depression.

Investor Update

Equities started the year generally positive, posting a normal 2.7% increase and ending January at a month-end record high. After a long period of seeing the seven Mega-cap tech-related stocks – Amazon, Telsa, NVIDIA, Microsoft, Meta, Apple, and Google – drive a huge chunk of rise in the S&P 500's ascent, leadership in the S&P 500 is showing some broadening signs. This trend is encouraging because it suggests a multitude of firms, not just a select few, are seeing brighter days ahead; this is consistent with our macroeconomic forecast for cyclical rise in much of 2025-26.

ITR Economics Long-Term View

2025	2026	2027
GROWTH	GROWTH	GROWTH

Leading Indicator Snapshot

	1Q2025	2Q2025	3Q2025
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

- Indicators are overwhelmingly flashing green for 2025 apart from the US ISM PMI (Purchasing Managers Index), which has waffled in recent months. Volatility in the index is not unprecedented, however, and most signs are pointing toward mild rise in US Industrial Production this year.
- Rising trends in both the US OECD Leading Indicator and the US Total Industry Capacity Utilization Rate are mild, supporting our outlook for industrial sector rise to be somewhat muted, in contrast to the breakneck ascent of the post-COVID period.
- Mildness in rise in the ITR Retail Sales Leading Indicator™ suggests that US Total Retail Sales growth will be consistent and steady, with some, but not all, upward pressure attributable to inflation.

Industry Analysis

RETAIL SALES

- US Total Retail Sales in the 12 months through January were 3.3% above the year-ago level
- Our ITR Retail Sales Leading Indicator™ suggests accelerating growth in retail spending in the coming quarters
- While the US Consumer Credit Card Delinquency Rate has risen above pre-pandemic amplitudes, it is still significantly below the pre-Great Recession norm

WHOLESALE TRADE

- Annual US Total Wholesale Trade in 2024 rose and was 2.0% above the 2023 level
- Prior downward movement in the US Total Goods Wholesale Inventory/Sales Ratio signals leaner inventories as customer demand firms, a positive sign for future Wholesale Trade spending growth
- Wholesale Trade Job Openings are nearly at a four-year low and are declining sharply as wholesalers look to limit labor costs and increase reliance on automation

AUTO PRODUCTION

- Annual North America Light Vehicle Production is generally declining, though still 0.3% above the year-ago level
- Decline in the US Motor Vehicles and Parts Capacity Utilization Rate portends further softness for Production in the near term
- While it is too soon to tell the full impact, policy changes, such as freezing federal funds to build EV chargers, could lead to movement away from EVs and toward combustion engine vehicles

MANUFACTURING

- US Total Manufacturing Production is relatively flat, with annual average Production coming in 0.2% below the year-ago level in January
- We expect mild growth in 2025 given our expectation for continued growth in consumer activity
- Corporate cash in the manufacturing industry has moved lower, but is about 40% above the pre-pandemic level; focus your efforts on preventing margin squeeze in the coming years

ROTARY RIG

- The US Rotary Rig Count in the three months through January averaged 585 rigs, 5.7% below the year-ago level
- ITR Checking Points™ support further recovery for the Rig Count
- We are forecasting mild rise in Oil Prices and the Rig Count this year

CAPITAL GOODS NEW ORDERS

- US Nondefense Capital Goods New Orders (excluding aircraft) in 2024 were 0.6% above the 2023 level, and positive ITR Checking Points™ suggest that an upturn in 2025 is probable, in alignment with our forecast
- Still-elevated interest rates will keep growth in New Orders somewhat muted
- US Defense Capital Goods New Orders in 2024 were 7.8% above the year-ago level and are accelerating in their ascent

TOTAL NONRESIDENTIAL CONSTRUCTION

- US Total Nonresidential Construction in the 12 months through December was 6.9% above the year-ago level
- The delayed impacts of slowing economic growth and high interest rates will likely contribute to further slowing growth in the near term
- Higher input costs due to tariffs could increase already high construction materials prices

TOTAL RESIDENTIAL CONSTRUCTION

- US Total Residential Construction in 2024 was 5.9% above the 2023 level, but ITR Checking Points™ signal softness on the horizon
- Single-Family Construction in 2024 was 7.1% above the year-ago level, while Multi-Family fell 6.7%; permitting trends show single-family softening and multi-family recovery
- Climbing rental vacancy rates and elevated long-term interest rates are deterrents to multi-family sector investment

A Closer Look: The US Economy

US Energy – A Powerful Economic Force

JENNA ALLEN

What you need to know: Electricity demand is set to outpace supply in the coming years. This presents significant price risks, but also opportunities for energy-related businesses.

Electricity demand is set to outpace supply as the following factors drive a substantial rise in energy demand:

1. Population growth and economic growth
2. Data center expansion to accommodate digitalization and AI adoption
3. Electrification trends including transport and heating/cooling
4. Higher temperatures and more volatile weather

As a result, we can expect energy prices to generally rise. Businesses should plan carefully for higher prices by taking steps to increase energy efficiency and potentially considering alternative ways to secure energy supply.

THE US ENERGY MIX

Reports from Federal Energy Regulatory Commission grid planners estimate that electricity demand will increase by 8.2% over the next five years, while other industry sources suggest the total impact will be in the double digits from a growth rate perspective.

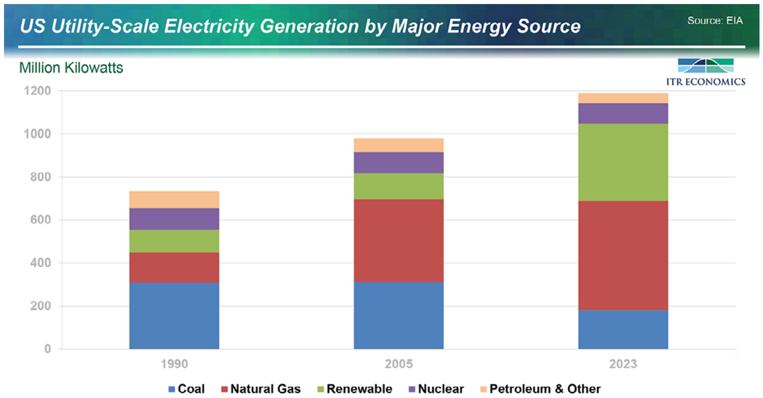
In the past 20 years, the US has become less dependent on coal in favor of natural gas and renewable sources. In 2023, US utility-scale capacity broke down into 42.7% from natural gas sources, 15.2% from coal, 8.1% from nuclear, and 30.0% from renewables. Given the current US energy mix, it will be important to pay attention to natural gas prices as well as developments related to the mining and trade of critical minerals used for renewables. These include copper, lithium, nickel, and gallium, in addition to the steel that is used to make wind turbines.

Nuclear power has remained a minority share of the US energy mix but could experience some resurgence, especially as technological developments such as microreactors and breakthroughs in nuclear fusion take the stage.

OPPORTUNITIES FOR ENERGY-RELATED BUSINESSES

Rising energy demand is a significant area of opportunity if your business sells into energy markets or provides energy-related products. Given that interest rates are likely to be generally on the rise along with inflation during the latter half of the 2020s, now is the time to invest in your business to capitalize on forthcoming energy demand.

Businesses that can provide efficiency solutions are likely to see increased interest. Consider stocking up relatively more of the products that provide significant energy savings. Some other areas of opportunity in this vein may include high-performance insulation, weather-stripping, or windows. The components that make up the electric grid will also need additional investment, including transmission and substation equipment.

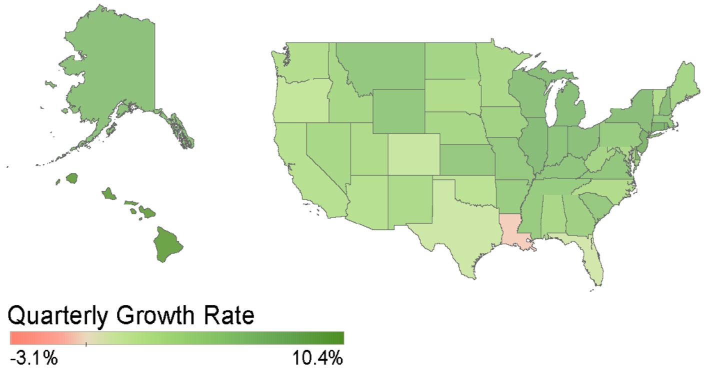


CONCLUSION

Now is the time to take on investments and put plans in place that will soften the blow of higher energy costs to come. Depending on your business, there could be many creative ways to think about preparing for higher energy demand. Manufacturing facilities are increasingly looking to utilize solar in addition to building their own power plants, but we will leave you with some other options to consider:

- If you are a manufacturer, re-evaluate the design of your production floor. Efficient design can guide production steps effortlessly to the right action at the right time, reducing idle time and ensuring power management.
- Match the appropriate level of human and physical capital. Focus on training and retaining your A-player and B-player employees and make certain they have the tools necessary for productivity.
- In some cases, you may find your crew more efficient with more space. In other cases, proper design could allow you to downsize
- Consider diversifying your energy sources so that you can switch between fuel types based on relative pricing trends.
- Look to position your operations near regions with more reliable electricity capacity and bona fide plans to deploy new generation.
- Search for a power supplier that allows you to lock in rates with a long-term contract.

State-by-State: Prices



- US Home Prices in the three months through November came in 4.4% above the year-ago level; the pace of Prices rise is slowing.
- Home Prices are rising in all states except for Louisiana and Washington D.C., which are contracting year-over-year by 0.4% and 3.1%, respectively.
- Home Prices are appreciating at the fastest pace in the geographically smallest states, with five of the six highest growth rates coming from the five smallest states in the US, where buildable lots may be especially scarce; meanwhile, physically larger states in the South and West are experiencing milder Prices rise.
- High interest rates, a rising but still low inventory of existing homes for sale, and generally solid consumer fundamentals signal that a relatively balanced environment between buyers and sellers is probable in the coming quarters at the national level.

Readers' Forum

What are the impacts of immigration on our economy and labor market?

Haley Sienkiewicz, Economist at ITR Economics™, answers:

The waxing and waning of immigration into the US will impact businesses differently. Businesses stationed in the South or Southwest are most likely to feel waves in either direction, as most immigrants live and work in these regions. Right now, though it has cooled somewhat from the white-hot 2021-22 period, the US labor market is still relatively tight, with job openings exceeding the number of unemployed workers. As labor supply rises with increased immigration, more job openings can be filled, and wage pressures – along with the corresponding inflationary and interest rate pressures – are alleviated somewhat. As labor supply declines with decreased immigration, the reverse happens.

Please send questions to: questions@itreconomics.com

