






















Industry Snapshots

Arrow denotes 12-month moving total/average direction.

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

Macroeconomic Outlook

The economy is proving resilient in the face of still-elevated interest rates. The industrial sector continues to plateau alongside business-to-business spending, and consumers are spending more, albeit at a slowing rate. The Federal Reserve opted to cut interest rates by 25 basis points in early November following a cut of 50 basis points in September. Inflation continues to abate. We expect that most core segments of the US economy will grow at a slightly faster pace in 2025 than in 2024 given sound, if unspectacular, economic fundamentals.

We recently lifted our outlook for US Real GDP, which is slowing in its ascent. Components of GDP are trending differently, with the services component slightly outperforming goods on a year-over-year basis. However, the goods component is accelerating in growth. Further ascent in overall GDP is likely given rising real incomes and our expectation for continued growth in government spending.

The pace of growth in US Total Retail Sales is milder than in recent years. Consumers, while in a relatively strong position, are pulling back somewhat because of cumulative inflation and economic uncertainty. Higher-income consumers who own their homes or equities are better equipped to weather the pain of cumulative inflation than lower-income consumers, who are likely riding the waves of swelling shelter costs. Recent rate cuts by the Federal Reserve will have a long and lagged impact on Retail Sales and could spur higher inflation down the line.

"We recently lifted our outlook for US Real GDP, which is slowing in its ascent."

The labor market is showing signs of softening but remains relatively strong. Quit Rates are generally declining and below year-ago levels, though they are roughly even with the pre-COVID five-year average. The number of unemployed people per job opening is below parity, averaging 0.8 people in the 12 months through September, far below the pre-COVID five-year average of 1.1 unemployed people per job opening. Workers continue to have a leg up in the job market, though less so compared to one year ago.

Anticipated slightly more accommodative monetary policy, a still-tight (though easing) labor market, and government spending all contribute to our expectation for reinvigorated inflation in late 2025. As such, 2025 will be an opportune time to make investments for your business, as this is a likely low point for borrowing costs for at least the next several years.

Make Your Move

Inflation in the latter half of the 2020s followed by depression in the first six years or so of the 2030s will likely create challenges for investors and businesses. Ensure you have both a business plan and a personal plan to be in a rock-solid financial position heading into the 2030s.

Investor Update

While the S&P 500 edged down 1.0% in October, the market has seen gains in ten of the last twelve months, which only occurs about 14.4% of the time in the more-than-100-year data history. The Shiller Price-to-Earnings (PE) ratio is elevated, though we do not see cause for concern at this time given liquidity in the financial system. The Kansas City Federal Reserve's Financial Stress Index is currently below the long-term average, a sign of further stability. We will continue to monitor indicators such as these to see if the stock market is under more imminent threat in the future.

ITR Economics Long-Term View

2024

RETAIL GROWTH; INDUSTRIAL FLAT

2025

GROWTH

2026

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

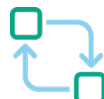
- Loosening monetary policy may have a lagged impact on leading indicators, but, for now, rise in leading indicators remains uneven and overall mild.
- The US ISM PMI (Purchasing Managers Index) continues to show signs of weakness. We continue to monitor this movement as a possible downside risk for 2025.
- The US Total Industry Capacity Utilization Rate is generally plateauing with a slight upward bias, which supports our outlook for muted rise in the industrial sector in 2025.

Industry Analysis



RETAIL SALES

- US Total Retail Sales in the 12 months through October were 3.0% above the year-ago level
- Renters and lower-income consumers are facing cost-of-living pressures, while those benefiting from a low fixed mortgage rate or elevated stock portfolios are driving retail spending higher
- Recent rate cuts from the Federal Reserve will have a long and lagged impact on consumer activity



WHOLESALE TRADE

- US Total Wholesale Trade in the 12 months through September ticked down slightly but was 1.2% above the year-ago level
- Still-high interest rates will mute growth in the near term
- General rise is supported by solid consumer health and rising real incomes



AUTO PRODUCTION

- Annual North America Light Vehicle Production in September was 2.0% higher than the year-ago level
- The volume of light vehicle sales is plateauing as a whole, while hybrid vehicle sales are up 36.1% from one year ago (annual basis)
- Lingering affordability constraints are a downside in the near term



MANUFACTURING

- Annual US Manufacturing Production in October was 0.2% below the year-ago level
- Some manufacturing markets such as electrical equipment and machinery will likely end this year on the back side of the business cycle, while others like metalworking and defense will end 2024 in accelerating growth
- Reshoring trends are an upside factor that will persist in the coming years



ROTARY RIG

- The average US Rotary Rig Count in the three months through October remained at 586 rigs, 7.8% below the year-ago level
- US Mining and Oil Field Machinery Production is down 5.8% year-over-year and the severity of decline is intensifying as firms cut back on capital expenditures
- Oil prices are generally declining amid sluggishness in industrial economies abroad, a downside risk to the Rig Count



CAPITAL GOODS NEW ORDERS

- US Nondefense Capital Goods New Orders (excluding aircraft) in the 12 months through September were 0.5% above the year-ago level
- Rising corporate profits bode well for capital expenditures as short-term interest rates move lower
- Annual US Defense Capital Goods New Orders in the 12 months through September were 2.8% above the year-ago level and are accelerating in growth



TOTAL NONRESIDENTIAL CONSTRUCTION

- US Total Nonresidential Construction in the 12 months through September was 9.5% above the year-ago level
- Rising delinquency rates on commercial real estate loans will contribute to continued softness
- Continued government spending is an upside for segments such as US Private Data Center Construction (annual trend up 59.4% year-over-year)



TOTAL RESIDENTIAL CONSTRUCTION

- Annual US Total Residential Construction in September was 5.5% above the year-ago level
- The multi-unit sector is struggling with investor hesitancy; rental vacancy rates are above year-ago levels and are generally rising, though below the long-term norm
- Annual US Private Single-Family Residential Construction is above year-ago levels but is slowing in growth on a quarterly basis

A Closer Look: The US Economy

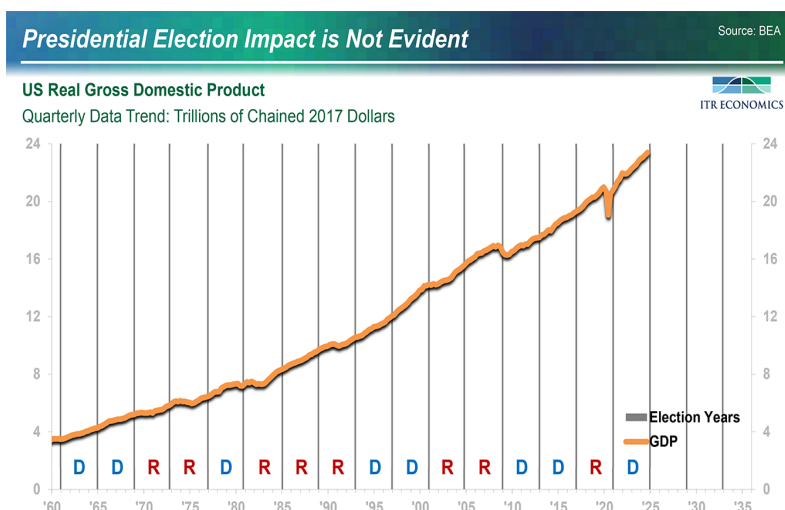
Post-Election Economic Outlook

JOHN OLSON

What you need to know: Policies, not politics, impact the US economy; it is unlikely that policies will significantly impact near-term GDP or Industrial Production.

There is much hubbub following the 2024 election. We have received many questions about the possible economic impacts of proposed policies from the incoming administration and Congress. In brief, it is too soon to say which policies will end up becoming law and what the impacts of those policies will be further along. Though some individual elections were too close to call at the time of writing, the overall results indicate slight Republican majorities in the Senate and in the House of Representatives.

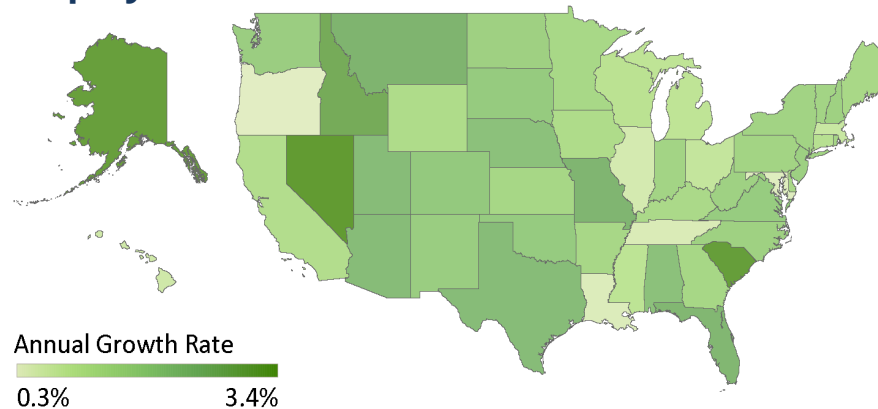
Before diving deeper, we would like to remind you that ITR Economics is an apolitical and nonpartisan organization. Furthermore, our research has found that the non-political dynamics of a particular business cycle, such as what the ITR Leading Indicator™ is doing (right now it is rising mildly), are a better predictor of the subsequent economic environment than the political environment of Washington, D.C. Deficit spending, whether through tax cuts or programmatic spending, remains one of few constants regardless of who is in charge. This spending contributes to our outlook for some dismal years for the US economy ahead in the 2030s.



The incoming administration has proposed many economic policies, the most well-known being a plan to enact tariffs on all imported goods. However, the implementation and effects of new policies can take a significant amount of time. If policies are enacted, the effects are more likely to be evident at the individual industry level rather than at the overall macroeconomic level. To determine the impact of those changes, we study past precedents and then update the forecasts if necessary. ITR is planning a Policy Summit for early 2025 to answer some of the more pressing questions our clients have, and there are more details to come. For now, keep in mind that, barring a black swan event such as COVID-19 shutdowns, the US economy is generally too large to be swayed quickly, regardless of party. The bottom line is that our macroeconomic forecasts were in place before the election, and we see no reason to change them because of the election result.

Shifting to more concrete data, many signs are pointing to economic growth in 2025. The Federal Reserve has lowered interest rates by a cumulative 0.75 percentage points over their last two meetings, which may lead to easier lending conditions. At the same time, the labor market remains relatively strong. Corporate profits are rising, as is US Real Personal Income. The Credit Card Delinquency Rate ticked down in the second quarter (latest available data); while more data is needed to confirm a shift in the trend, this is yet another piece of evidence that consumer finances are relatively stable. In short, most business owners should be prepared for growth next year despite ongoing uncertainty. Lower short-term interest rates may allow you to invest more effectively in efficiency improvements, and increased cash flow may allow you to rebuild a cash buffer or act on potential expansion opportunities. Continue to lead with confidence.

State-by-State: Employment



- US Private Sector Employment in the 12 months through October averaged 134.9 million workers, 1.5% above the year-ago level.
- Regional trends are weaker than in past quarters as the labor market steadies, but stronger employment gains remain weighted toward states in the Mountain West and Southeast.
- Conversely, the growth rates for the Great Lakes, Northeast, and Mid-Atlantic regions were generally weaker than the nation overall.
- We anticipate a relatively tight labor market in the coming years. As demographic shifts lead to an older workforce, ensure your business remains competitive in the labor market or look for potential labor-saving efficiencies.

Readers' Forum

What are the implications of the widespread use of AI on our economy and elsewhere?

Haley Sienkiewicz, Economist at ITR Economics™, answers:

The burgeoning usage of artificial intelligence (AI) raises questions about the efficiency of AI, its environmental impacts, and the effect it will have on our labor market.

If equity prices for AI-adjacent companies were a direct reflection of the true value of AI, it would be among the most profitable and efficient innovations of our lifetime; chipmaker NVIDIA recently became the most valuable company on Wall Street, surpassing a stock market value of a whopping \$3.6 trillion. The hopes that investors are placing in AI are reflected in other AI-adjacent companies also; Microsoft and Google stocks soared as potential big winners in the race to perfect AI.

The environmental impact of AI is considerable given the amount of energy it requires. Annual US Private Data Center Construction in September totaled \$25.7 billion and is accelerating in growth. Meeting the energy needs of these centers will be a challenge, and how we will source and distribute this energy remains in question. Our clients with the right specializations within the construction and utilities sectors may benefit from the need to build out capacity.

The impact that AI will have on our labor market will vary by sector. Currently, the labor market is tight overall, and it is possible that the implementation of AI could provide some relief for employers as they scale up efficiency and make do with fewer workers.

It is too early to tell what impact AI will ultimately have on our economy, as it is still in its early stages. Whether the true value of AI is reflected in equity markets is unknown, but we do know that nonresidential construction is benefiting in the form of data centers. Firms should focus on identifying the correct areas to implement AI, properly train employees in its use, and pull in outside resources as necessary.

Please send questions to: questions@itreconomics.com

Receive a 15-Year Forecast to Get Your Business Through the 2030s Depression



Are you aware of the potential impact the upcoming economic depression could have on your business? Have you taken steps to prepare for the challenges of the 2030s? Our Financial Resilience program is designed to help your business navigate and thrive through the economic downturns expected in the 2030s.

Through the Financial Resilience program, you work closely with ITR Economics Consulting Principal and Chief Economist Brian Beaulieu as we provide your organization with a 15-year company forecast, economic stress test of your business performance and markets, and provide answers to your most important questions about the future of your business. Contact us today for more information!

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