






















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

This year will be characterized by subdued growth for many industries. The Federal Reserve is easing monetary policy, but long-term interest rates are elevated, dampening the potential for significant growth levels in interest-rate-sensitive industries. We expect growth in US Real Gross Domestic Product this year, albeit at a slowing rate for the beginning of the year. Meanwhile, the industrial sector is poised to rise in the near term, due in part to the cumulative impact of nearshoring and progress made on rightsizing inventories after post-COVID inventory gluts for some. At a high level, the dueling factors of high interest rates and generally strong businesses and consumers will lead to modest growth in 2025.

Diverging trends in the bond market are a symptom of underlying unease. Recent cuts to the Federal Funds Rate tapped down short-term interest rates in kind, but long-term rates crept higher in recent months. Larger purchases, most notably homes, are subject to these long-term rates. The market can read the writing on the wall: Inflation is sticking above the Federal Reserve's target of 2% year-over-year, and bondholders require an elevated premium to take on the uncertainty of holding debt with so many inflationary drivers present.

Consumers have handled the bump in pricing well, as evidenced by consistent growth in US Total Retail Sales and rising real incomes. One measure of wealth for a subset of consumers, the equities market, posted a second consecutive year with a 20-plus percent gain. Consumers invested in the stock market are likely to feel more encouraged to spend than their non-invested counterparts, who are more likely to be lower-income and thus more impacted by cumulative inflation. Consider what kind of workers you want to recruit, as certain areas of the job market remain tight. As for your customers, are they less price-sensitive or are they looking for a deal? If you provide financing, inform your customers that it is likely a low point in interest rates and lock in that business sooner than later.

"Diverging trends in the bond market are a symptom of underlying unease."

US Single-Unit Housing Starts, a bellwether for the macroeconomy, are poised for mild growth in 2025 following near-term decline. Growth is supported by low vacancy rates that signal a need for more housing supply. US Multi-Unit Housing Starts may be an area of relative opportunity this year, as their growth will be more pronounced following a soon-to-be trough. The lagging nonresidential sector will decline this year; however, underlying components are diverging.

With overall labor market tightness set to continue, think about cost-effective ways to be competitive in employee retention and hiring. Finally, operate with the knowledge that we are near a likely low point in financing costs. This could mean getting a jumpstart on investments for your business or locking in rates for longer-term borrowing.

Make Your Move

Although inflation is retreating, the combination of rising real personal incomes, a relatively tight labor market, and the expectation of continued elevation in government spending point toward reignited inflation on the horizon. Lock in pricing sooner rather than later.

Investor Update

The S&P 500 gave back some of November's abnormally strong 5.7% ascent, declining an abnormally severe 2.5% in December. 2025 is very likely to be a year of rate-of-change descent for the market. The real question is whether that rate-of-change descent simply means slowing growth (but growth nonetheless) or if we are likely to see a correction in the S&P 500 Index. Factors we are considering regarding the likelihood of a more or less favorable outcome this time around include domestic cash holdings in a recessionary trend, the potential for downside pressure from tariffs, growing real personal incomes, and a generally healthy financial system, save for some CRE stress.

ITR Economics Long-Term View

2025

GROWTH

2026

GROWTH

2027

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

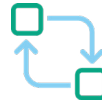
- While signs are pointing toward rise in US Industrial Production in the coming quarters, rise will be modest due in part to still-elevated interest rates.
- The US ISM PMI (Purchasing Managers Index) monthly rate-of-change has risen for the third month in a row, but one quarter does not make a trend. We continue to monitor this leading indicator and others for their potential impact on the macroeconomy.
- We are at an inflection point for the industrial sector; rise is likely going forward, but some contradictory leading indicators indicate that the strength of rise is likely to be limited. Well-positioned consumers and businesses, however, support a stronger 2025 than 2024, particularly in the second half of the year.

Industry Analysis



RETAIL SALES

- US Total Retail Sales in the 12 months through December were 3.0% above the year-ago level; growth is occurring at a relatively steady pace
- Real incomes, supported by a tight labor market, are rising at a pace nearly identical to the ten-year average rate of ascent, a trend which will, in turn, stimulate spending
- Lower-income consumers are less likely to be willing to spend given the cumulative impacts of inflation and less favorable household financials



WHOLESALE TRADE

- US Total Wholesale Trade in the 12 months through November ticked down but was 1.3% above the year-ago level
- Pricing pressures are likely to keep Wholesale Trade elevated in the coming quarters, as it is a dollar-denominated series
- The nondurable component has floundered in recent months due in part to lower oil prices



AUTO PRODUCTION

- Annual North America Light Vehicle Production in November was 1.2% above the year-ago level
- Although some dealers are offering financial incentives in terms of financing for new vehicles, cumulative inflation may prevent some would-be buyers from entering the market
- Rising real incomes will likely keep Production from contracting significantly



MANUFACTURING

- US Total Manufacturing Production in 2024 was 0.4% below the 2023 level
- Durable goods manufacturing in December was 0.9% below the year-ago level, while nondurable goods were 0.2% above the year-ago level
- Durable goods are more likely to be financed, which could be a contributor to their relative weakness, as financing costs remain restrictive; excess inventory in some areas of durable goods is also a contributing factor



ROTARY RIG

- The US Rotary Rig Count in the fourth quarter of 2024 averaged 586 rigs, 5.7% below the year-ago level
- Domestic output in 2025 will be bolstered by low OPEC+ supply and an expanding macroeconomy
- Geopolitical tensions will also contribute to upward pressure



CAPITAL GOODS NEW ORDERS

- US Nondefense Capital Goods New Orders (excluding aircraft) in the 12 months through November were 0.4% above the year-ago level
- Inflationary pressures will be a partial driver for rise in New Orders in the coming quarters
- US Domestic Corporate Cash Holdings were down 11.0% in the third quarter of 2024 relative to one year prior, which could limit the upside to capex in the coming quarters



TOTAL NONRESIDENTIAL CONSTRUCTION

- US Total Nonresidential Construction in the 12 months through November was 7.6% above the year-ago level; growth is slowing
- The Nonresidential Construction sector lags the overall economy and is poised for continued softness, though data centers present an area of relative opportunity in at least the near term
- The tapering of Nonresidential Construction is partly a result of still-elevated interest rates, particularly long-term rates



TOTAL RESIDENTIAL CONSTRUCTION

- Annual US Total Residential Construction in November was 5.6% above the year-ago level and is tentatively slowing in growth
- While the single-unit sector is softening, the low supply of homes for sale bodes well for the longer-term trajectory
- The multi-unit sector is struggling as it contends with high interest rates and weaker financial fundamentals of renters; however, quarterly permitting activity is recovering robustly

A Closer Look: The US Economy

What's to Come for Borrowing Costs

CAROLINE DUNSBY

What you need to know: Long-term interest rates are creeping up despite Fed rate cuts; avoid basing your investment decisions on hopes for low interest rates.

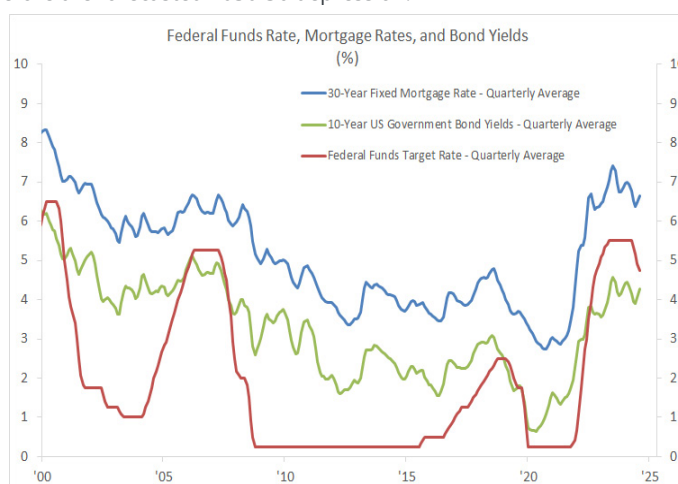
THE FED CUTS SHORT-TERM RATES

The Federal Reserve has lowered its benchmark rate, the federal funds rate, three consecutive times in late 2024. It is now down a full percentage point from the peak. Consumers and businesses alike had been hopeful that this would result in lower borrowing costs and mortgage rates, which tend to follow the direction of the federal funds rate. However, this has not come to fruition. The Fed is lowering short-term rates, but long-term interest rates – including mortgage rates – have been impacted by other market factors, which have been pushing them higher in recent months. The Fed has indicated that further rate cuts in 2025 will be limited, so, while short-term rates may move slightly further downward, we will likely still be contending with elevated longer-term rates that are sticky.

LONGER-TERM BORROWING COSTS

Longer-term borrowing costs are closely tied to Long-Term Government Bond Yields – the borrower needs to supply an attractive return on investment relative to government bonds, so, as Bond Yields rise, borrowing costs also tend to rise. A number of inflationary factors are putting upward pressure on Bond Yields, including the inflationary risk of potential future tariffs, tight labor and housing supply, resumed rise in the M2 money supply, electricity demand outstripping supply amid an electrification and AI boom, and the need to fund government deficit spending.

Our recently upgraded outlook for quarterly Long-Term Government Bond Yields is for gradual rise throughout 2025. This means businesses or consumers may not see much if any downward movement in long-term borrowing costs. If your business is looking to borrow, we recommend that you not try to time a low in rates. Instead, focus on the longer-term ROI of your capital investment and your strategic positioning for general macroeconomic growth this decade before the forecasted 2030-36 depression.



MORTGAGE RATES

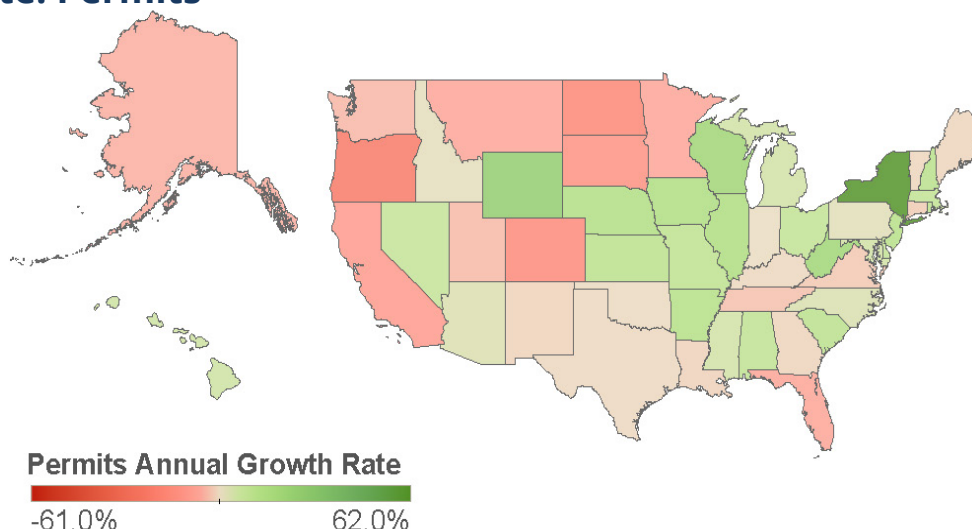
Mortgage rates are closely tied to bond yields, though they tend to trend higher since there is more risk involved for investors. Similar to overall long-term rates, those who have been waiting for a significant decline in mortgage rates are unlikely to have much luck. Thirty-year conventional mortgage rates averaged 6.7% in 2024, down slightly from 6.8% in 2023. This is notably higher than the record lows below 3% in parts of 2020 and 2021. Given inflationary factors similar to those already mentioned, we are unlikely to see much downward movement in mortgage rates in the coming quarters.

We expect consumers will adapt to relatively high mortgage rates as the “new normal” and resume more typical purchasing patterns in the near term. While affordability constraints are prominent in the US housing market, they are not unprecedented. The average mortgage payment as a percent of median income is elevated relative to the past multiple decades, but it is generally lower than what homeowners experienced in the 80s and into the early 90s. One recent adaptation to affordability constraints is the building of smaller homes – the median floor area of homes built in the US has declined to the lowest level in 14 years.

CONCLUSION

If your business has been eyeing new equipment to improve capacity to capture expected growth in your market, do not sit around waiting for long-term borrowing costs to drop. Getting the clock started on capturing your ROI before prices rise further and the 2030s depression draws nearer is likely to prove more fruitful than waiting for a small, if any, drop in long-term rates.

State-by-State: Permits



- US Housing Permits in the 12 months through November declined to 1.458 million but came in 0.4% above the year-ago level.
- We are seeing significant divergence in permitting trends between various states; 14 states are growing at a double-digit pace, while five states and Washington D.C. are contracting by double digits.
- New York leads the country at a 62% growth rate, but this represents recovery from a weak 2023 rather than significant expansion in the state.
- Regionally, the Midwest has outpaced other regions, while the pricey Mountain and West regions have fallen behind the pack.

Readers' Forum

I hear from some news outlets that the labor market is softening, but others say it is tight. Why the diverging headlines and what is the truth?

Haley Sienkiewicz, Economist at ITR Economics™, answers:

News headlines swing from unfavorable to favorable from month to month, garnering clicks, but the underlying picture has not changed. Labor market conditions have softened slightly over the last year but remain tight, fueled by demographic trends (as baby boomers retire, the labor supply tightens). While the unemployment rate of 4.1% is higher than one year ago, it is notably lower than the 20-year average of 5.8%. While Job Openings are at a more than three-year low, they still outnumber unemployed workers. This relative tightness is driving wage increases; US Overall Wage Growth for the fourth quarter averaged 4.2% above one year prior, outstripping inflation and coming in above the 20-year average of 3.5%.

Certain industries have seen more significant increases in unemployment rates. Unemployment in the wood products industry has jumped amid high interest rates and a softened housing market. Conversely, the financial, professional services, and nondurable goods industries are seeing lower unemployment rates. Focus on your market's labor needs and realities and remember that the supply of workers is tight given demographics; do not take news headlines at face value.

Please send questions to: questions@itreconomics.com

2025 Crowe // ITR Economics Summit – Tickets Available Now!



On Thursday, March 20, ITR Economics will be hosting a special Virtual Summit! Join us this spring for a day filled with insightful presentations from ITR Economics and Crowe experts on some of the most popular topics in business today, from the 2030s depression to government policies, AI, and more.

Tickets for the 2025 Crowe ITR Economics Summit are now available for purchase! Tickets for the event can be purchased for \$1,200. Those who act fast can take advantage of our early bird special and get their tickets for just \$950 until the promotion ends on February 13.

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