ITR Advisor / Volume 57 / July 2025
Published Monthly by ITR Economics™ for NAFEM Members

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	Mild Rise
NONRESIDENTIAL CONSTRUCTION	Mild Decline
RESIDENTIAL CONSTRUCTION	Mild Decline

Steep Rise · *Mild Rise* · *Flat* · *Mild Decline* · *Steep Decline*

Macroeconomic Outlook

The recently enacted government spending act (the OBBBA) introduces both tax reform and reshaped incentives across a multitude of sectors including, but not limited to, energy, defense, automotive, and agriculture. This bill comes on the heels of growing momentum within the industrial sector despite growing economic uncertainty. While the macroeconomic outlook remains generally positive, activity will vary by subsector.

In June, US Consumer Prices (CPI) were 2.7% above the year-ago level, a pickup from prior months. Core CPI, which excludes volatile prices for food and energy, is trending even higher at 2.9% year-over-year. With inflation trending above the Federal Reserve's 2% target, it is uncertain if the Fed will cut interest rates further in the near term.

US Total Retail Sales are rising, a trend which will persist through at least 2027, driven in part by expected rise in Real Personal Income. Real Personal Income, however, has begun to slow in its pace of rise. Tightened budgets are evident in the declining savings rate, which averaged 4.3% on an annual basis in May, down from the pre-COVID 10-year average of 7.2%. While stocks have recently rebounded, this financial cushion is limited for many, leaving vulnerable groups exposed as pricing pressures resurface.

"In light of shifting government incentives for some sectors, evaluate your business portfolio for any potential impact on your bottom line."

The industrial sector is growing mildly, with higher growth rates expected next year. On the business-to-business (B2B) front, spending is expected to rise mildly following the prior inventory build-up, though rise will be more muted on a volume basis.

We recently updated our outlook for US Private Nonresidential Construction following a data revision from the source. A lagging indicator for most sectors, Construction is declining given tight financing conditions and prior contraction in the housing market, but it is poised for recovery in the near term. On the residential side, low vacancy rates and adjusting expectations surrounding mortgage rates and affordability will push US Single-Unit Housing Starts to rise in the near term. We continue to expect limited investment in the Multi-Unit sector given a previous surge in inventory.

In light of shifting government incentives for some sectors, evaluate your business portfolio for any potential impact on your bottom line. Our analysis of weekly indicators amid recent economic uncertainty is not raising red flags for our longer-term outlook of subdued growth for most sectors, so position your business to capture this upswing.

onDemand

Make Your Move

Monitor your exposure to industries in vulnerable positions given reshaped government incentives, and pivot where possible.

Investor Update

The S&P 500 hit a record high in June, marking a third straight month of year-over-year growth. At midyear, top-performing sectors include riskier areas like industrials, tech, and communications. As businesses assess alignment with resilient industries and customers, investors must recognize that risk varies widely across the 11 S&P 500 sectors.

ITR Economics Long-Term View

2025	2026	2027
MILD GROWTH	GROWTH	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 and volatility in leading indicators suggests that the mild rise ahead for US Industrial Production in the upcoming quarters could be bumpy.
- Economic fundamentals remain sound despite some flashes of faint red in select indicators. Businesses and consumers alike are well-positioned, which will drive growth in most industries through the beginning of 2026.
- Evolving trade policy and government spending trends may introduce some dips on the road to growth, but relatively steady rise in both the ITR Leading Indicator™ and the US Total Industry Capacity Utilization Rate suggests that the upcoming trajectory is positive.

Industry Analysis

RETAIL SALES

- Annual US Total Retail Sales in June were 3.5% above the year-ago level
- Credit card delinquencies are declining from their 3Q24 high, a positive sign for consumer financial health
- Sticky inflation will help boost Retail Sales

WHOLESALE TRADE

- US Total Wholesale Trade in the 12 months through May totaled $8.2 trillion, up 2.5% from the year-ago level
- The durables component is experiencing stronger growth in sales-to-inventory ratios than the nondurables component
- Prior contraction in US Single-Unit Housing Starts, which lead Wholesale Trade, will be a mild downward pressure on near-term growth

AUTO PRODUCTION

- Annual North America Light Vehicle Production totaled 15.3 million vehicles in May, 3.6% below the year-ago level
- With elevated economic uncertainty, consumers may reel in discretionary spending, particularly on high-dollar items like vehicles
- Rising auto loan delinquency rates present evidence of some consumer fatigue in this industry

MANUFACTURING

- US Total Manufacturing in the 12 months through June was 0.3% above the year-ago level
- Further rise is likely given upward movement in the US Manufacturing Capacity Utilization Rate
- The nondurables component, which includes nondiscretionary categories such as food, is growing faster than the durables component

ROTARY RIG

- The US Rotary Rig Count in the second quarter declined to an average of 571, 5.2% below the year-ago level
- Global economic uncertainty could hinder exploration activity in at least the near term
- Still, a growing industrial sector will put upward pressure on oil demand and keep the Rig Count from plunging

CAPITAL GOODS NEW ORDERS

- Annual US Nondefense Capital Goods New Orders (excluding aircraft) rose in May and were 0.2% above the year-ago level
- Profits and debt levels suggest businesses are largely well-positioned to continue capital investment, but cautiously amid uncertainty
- US Defense Capital Goods New Orders in the 12 months through May were 21.0% above the year-ago level; there may be pockets of opportunity in this market from OBBBA funding

TOTAL NONRESIDENTIAL CONSTRUCTION

- Annual US Total Nonresidential Construction declined in May and was 0.7% above the year-ago level
- Generally declining construction backlogs and elevated financing costs are likely to drive Construction further downward in at least the near term
- Public nonresidential construction is still above year-ago levels, outperforming the private sector

TOTAL RESIDENTIAL CONSTRUCTION

- Annual US Total Residential Construction declined in May and was 1.8% above the year-ago level
- Softening permitting trends suggest further downside pressure on Construction in the near term
- Mortgage rates are likely to remain a pain point for many homebuyers, but given strong housing demand, the Construction downturn will likely be relatively mild

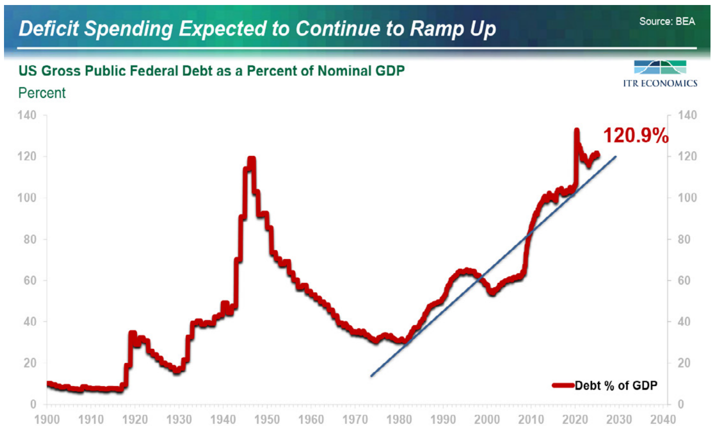
A Closer Look: The US Economy

An OBBBA Recap

JOHN OLSON

What you need to know: The OBBBA will have near-term winners and losers, but rising deficits sound the alarm for long-term growth risks.

In early July, the federal government passed this year's budget reconciliation program, the One Big Beautiful Bill Act (OBBBA). As an apolitical, nonpartisan firm, we at ITR do not have a preference for either party. In addition, we have found in the past that economic outcomes are largely similar regardless of the party in charge. Our analysis has shown that both sides of the aisle are often guilty of deficit spending, a significant contributing factor to our outlook for a depression in the 2030s. The chart below shows how overall government spending has risen throughout the years, regardless of party.



This latest reconciliation package continues that trend. Estimates suggest this package will add trillions to the federal deficit over the next 10 years. This would likely require more debt issuances and pushing net interest payments even higher. While these longer-term impacts may not be felt immediately, there are some groups which are likely to see immediate impacts from the OBBBA.

Impacts for Consumers

A variety of tax changes and other financial adjustments are likely to impact consumer balance sheets. While many of the provisions simply make adjustments originally made in the Tax Cuts and Jobs Act (TCJA) of 2017 permanent, others represent new temporary changes to the tax code or other government spending programs. Some of the new provisions include car loan interest deductions for vehicles assembled in the US, no taxes on overtime and tipped income (up to certain thresholds), and changes to federal student loan programs.

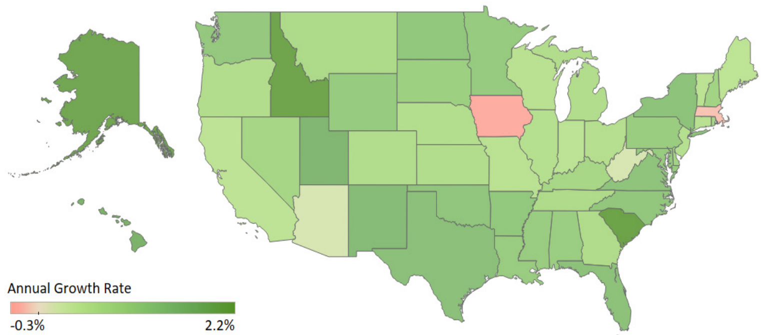
Impacts for Businesses

While our research shows that politics are generally not enough to significantly shift the US macroeconomy, there are some provisions within the legislation itself that will likely have industry-specific implications. For example, Oil and Gas E&P firms may benefit from increased availability of federal land for drilling and the elimination of tax credits for renewables, which will impact their competitiveness in the market. Meanwhile, businesses that largely cater to lower-income consumers may be negatively impacted by the changes to Medicaid and food assistance programs. For more detailed insights on which industries are affected, and how to navigate ongoing volatility, consider signing up for this month's Executive Series Webinar, "Contending With Uncertainty and Change". Chief Economist Brian Beaulieu and Economist Lauren Saidel-Baker will examine business and consumer uncertainty, tariffs, and both near-term and longer-term fiscal policy implications. Visit itrondemand.com/store/product/contending-uncertainty-change to register.

Takeaways

Consumers and businesses alike should be prepared to account for these changes when budgeting and planning for the future, but the overall trajectory of the US economy is unlikely to alter its course as a result of the OBBBA. Focus on ongoing economic headwinds, such as high interest rates, a tight labor market, and shifting pricing pressures. That will likely yield more productive discussions for your business.

State-by-State: Employment



- US Private Sector Employment in the 12 months through June was 1.1% above the year-ago level; growth is slowing.
- The Employment annual growth rate of 1.1% is a little more than half the pre-COVID five-year average growth rate of 1.9%. This, coupled with declining quit rates and job openings, reflects a softening labor market.
- Nonfarm employment contracted in Iowa (-0.3%) and Massachusetts (-0.1%), while growing population areas like the Mountain West and South generally saw growth rates come in above the national average.
- Despite current signals of a weaker job market, demographic trends, coupled with our expectations for mild growth in the macroeconomy, suggest mild employment growth is on the horizon.

Readers' Forum

With interest rates remaining elevated, how are consumers managing their credit card debt?

Haley Sienkiewicz, Economist at ITR Economics™, answers:

The US Prime Interest Rate, which credit card companies use as a benchmark for calculating APR, is at 7.5%. This is higher than the 10-year average of 5.2%. The rate is closely tied to the federal funds rate, which is likely to stay elevated in at least the near term.

As interest rates ramped up in 2022, peaking in 2024, the US Consumer Credit Card Delinquency Rate rose as consumers struggled to service their higher debt payments. However, recent trends suggest that consumers are adapting. While at 3.1%, the Delinquency Rate is still elevated compared to the pre-COVID 10-year average, but it has declined for three consecutive quarters. Consumers have dipped into some of their savings to service debt; personal savings as a percentage of disposable personal income is trending lower than pre-COVID levels, but it is up from lows in 2022.

Please send questions to: questions@itreconomics.com