

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

Consumers and businesses are proving relatively resilient amid rising uncertainty and changing global trade dynamics. Pricing challenges remain top of mind due to the evolving tariff environment, and escalating input and labor costs are fueling concerns over margin compression. Despite these headwinds, economic fundamentals still signal that mild growth is on the horizon. A generally stable consumer base and solid business financials are well-positioned to absorb some of the volatility.

US Consumer Prices in May were 2.4% above the year-ago level, a 0.1 percentage point tick up in inflation from the prior month. Despite growing economic unease, consumers are still spending more on both goods and services, even when adjusting for inflation. Personal income gains exceeding inflation are helping consumers spend, but spending habits are likely to shift toward essentials and away from discretionary items.

Business-to-business spending is rising mildly. While corporate profits are elevated, profit growth is slowing, suggesting further but tempered growth. The sideways trend in the US ISM PMI (Purchasing Managers Index) also indicates that near-term growth in B2B spending will likely remain mild, as elevated economic uncertainty and high financing costs will prompt some businesses to be cautious in their capital expenditure plans.

"We are also starting to see turnarounds in some of the more beleaguered segments of industrial activity."

Annual US Industrial Production is poised to continue its ascent. High-tech sectors can expect to benefit, and vertical markets to data center construction and power grid infrastructure will grow. We are also starting to see turnarounds in some of the more beleaguered segments of industrial activity that struggled with excess inventories in 2023-24, such as machinery.

Meanwhile, affordability constraints continue to weigh on the housing sector. Annual US Single-Unit Housing Starts in April were 2.8% below the year-ago level and are declining. Sectors tied to the housing market may experience some near-term pain as a result. Despite current softness, underlying demand for housing is evident in generally low, though rising, homeowner vacancy rates. We are still awaiting signs of the next upturn in housing, as the ITR Single-Unit Housing Starts Leading Indicator™ moved lower in April.

In this macroeconomic environment, protecting profitability is paramount. Businesses should refine pricing strategies, considering tools like price escalator clauses, to adapt quickly to cost changes and reduce decision lag. Prioritizing investment in higher-margin segments of the business will be essential.

Make Your Move

Ensure you have a plan for the remainder of the 2020s to prepare for the 2030-36 depression ITR Economics is forecasting due to demographics, government debt, and other factors. We now have fewer years to prepare for the downturn than the downturn will ultimately last. Act now.

Investor Update

The stock market jumped 6.2% in May, turning year-to-date gains slightly positive and marking a second month of monthly rate-of-change ascent, though longer-term rate-of-change signatures show the market is in a slowing growth trend. Historical precedent suggests that the market's struggles may not be over yet. It is also likely that the rate-of-change downturn will be relatively brief given the US economy's solid foundation.

ITR Economics Long-Term View

2025

MILD GROWTH (WEAKER 1ST HALF)

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

- Leading indicators are vacillating, but the overall thrust of the signals continues to point to mild rise in the US industrial sector through at least the remainder of 2025.
- We are watching nascent declines in several of our leading indicators carefully to see how they respond if economic uncertainty dissipates later this year as we anticipate. Right now, our analysis suggests the tick downs are a result of uncertainty more than inherent consumer or corporate financial weakness.
- Knowing your market's particular supply, demand, inventory, and tariff dynamics is crucial for knowing whether your business will be on the stronger or weaker side of what these macroeconomic leading indicators suggest.

Industry Analysis



RETAIL SALES

- Annual US Total Retail Sales are generally rising on the back of an overall solid consumer base, but some evidence of financial distress among consumers is evident in the rising percentage of those making only minimum payments on credit cards
- Fewer creditors are tightening credit card loan standards, which could ease pressure on consumers, a positive sign for Retail Sales
- The labor market has remained relatively resilient, boding well for general rise in spending



AUTO PRODUCTION

- North America Light Vehicle Production totaled 15.3 million vehicles in the 12 months through April, 3.8% below the year-ago level
- US Light Vehicle Retail Sales spiked in March and April as consumers acted to get ahead of tariff-induced price increases; Sales normalized in May
- The scope and duration of tariffs are likely to dictate whether impacts in the auto industry are long term or transitory; producers with more heavily domestic supply chains will likely benefit



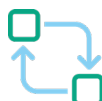
ROTARY RIG

- The US Rotary Rig Count declined to an average of 584 in the three months through May, coming in 5.0% below the same period one year ago
- Oil Prices spent much of May near the breakeven price for new wells, likely contributing to a weaker Rig Count
- Oil Prices have risen for much of June due in part to increased conflict in the Middle East, which may improve prospects for US exploration and production in the future



TOTAL NONRESIDENTIAL CONSTRUCTION

- Annual US Total Nonresidential Construction in April was 4.8% above the year-ago level
- After surging to meet demand from pandemic-era projects, annual US Total Construction Job Openings have fallen to their lowest level in four years, signaling further downside pressure on Construction
- Some construction segments will outperform others in the coming quarters; consider focusing your efforts on markets like hospital construction



WHOLESALE TRADE

- US Total Wholesale Trade in the 12 months through April totaled \$8.2 trillion, up 2.5% from the year-ago level
- Durables and nondurables diverged in recent months; durables accelerated in growth as nondurables trended near year-ago levels, hindered by decline in the petroleum segment
- Lingering tariff uncertainties pose downside risks to wholesale trade volumes, but inflationary pressures will contribute to top line rise



MANUFACTURING

- US Total Manufacturing Production is above year-ago levels and rising
- ITR Checking Points™ signal further rise ahead for Production
- While the balance of leading indicator evidence points to mild rise ahead, we are monitoring potential risks to rise, ranging from elevated uncertainty and tariff threats to vacillation in some indicators like the US ISM PMI (Purchasing Managers Index)



CAPITAL GOODS NEW ORDERS

- Annual US Nondefense Capital Goods New Orders (excluding aircraft) rose in April, though they were 0.2% below the year-ago level
- In aggregate, the leading indicator evidence points to mild growth ahead for New Orders
- US Defense Capital Goods New Orders in the 12 months through April were 15.6% above the year-ago level, reflecting elevated global uncertainty and geopolitical tensions



TOTAL RESIDENTIAL CONSTRUCTION

- Annual US Total Residential Construction is declining, coming in 3.1% above the year-ago level in April
- Construction materials inflation came in at 1.9% in May; inflation will put upward pressure on dollar-denominated Construction metrics as volume declines, a painful combination
- Trends in US Residential Sector Architecture Billings point to further downward pressure on Construction in at least the coming months

A Closer Look: The US Economy

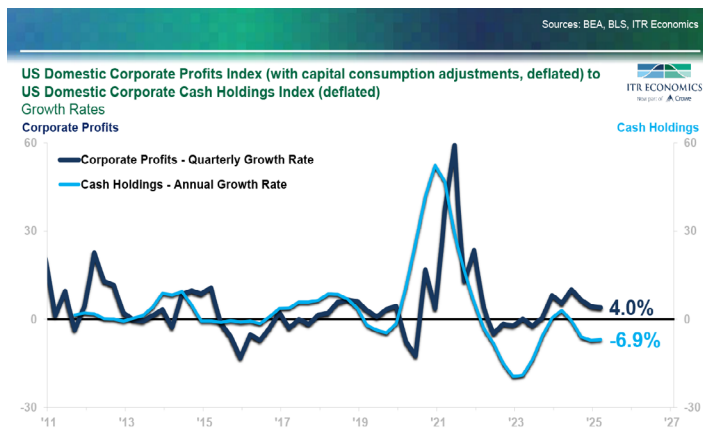
Corporate Finance and Capex – a Tale of Two KPIs

JENNA ALLEN

What you need to know: Corporate profits and cash levels are likely to be squeezed this cycle. Firms will need to take extra care to mitigate the risk of profitless prosperity.

To assess corporate financial health, we need to take a deeper dive into the current state of two key performance indicators: corporate profits and corporate cash levels. Both US Domestic Corporate Profits and US Domestic Corporate Cash levels are elevated relative to historical levels; however, while profits have continued to rise following pandemic spikes, cash levels have declined modestly. Profit levels are still a relevant and solid indicator of today's relatively stable business landscape, but cash flow is key, and corporate cash levels may be especially important in an environment where borrowing is still relatively expensive. The tick down in corporate cash levels tells us that firms are likely to be judicious making capital investments. While corporate cash can drop from capex spending, muted B2B spending data as of late suggests that this is generally not the case.

In the chart below, we have adjusted corporate profits and corporate cash levels for inflation, specifically inflation related to capital expenditures (US Final Demand Private Capital Equipment Producer Prices). Trends in inflation-adjusted corporate profits are signaling modest rise for B2B spending ahead, but inflation-adjusted corporate cash levels suggest slightly more trouble afoot. While we still anticipate general but mild macroeconomic rise ahead, businesses are more likely to take a hit to their bottom line. Inflationary pressures are expected to generally rise in the coming years amid factors including demographic-driven rise in labor costs, rising electricity costs amid the boom in AI, and increasing economic nationalism.



The dip in corporate cash levels is a reason to tread carefully, but corporate financial flexibility is nowhere near crisis level. US Nonfinancial Corporate Business Debt as a Percentage of Net Worth (market value) is at a reasonable 41.6% as of the fourth quarter of 2024 (latest available data). Compare this to the peak of 51.8% in the first quarter of 2020 and the pre-COVID 10-year average of 46.4%, and it is clear that, in general, businesses are not yet at the level of being overburdened. Debt as a Percentage of Corporate Equities at market value is similarly encouraging. The most recent data, at 18.0% in the fourth quarter of 2024, compares favorably to the COVID-related high of 34.4% and the pre-COVID 10-year average of 31.3%.

Ultimately, these metrics suggest that corporations have room to take on more debt, but they may be inclined to keep spending moderately given lower cash levels and a financial backdrop of economic uncertainty and elevated interest rates.

What You Can Do

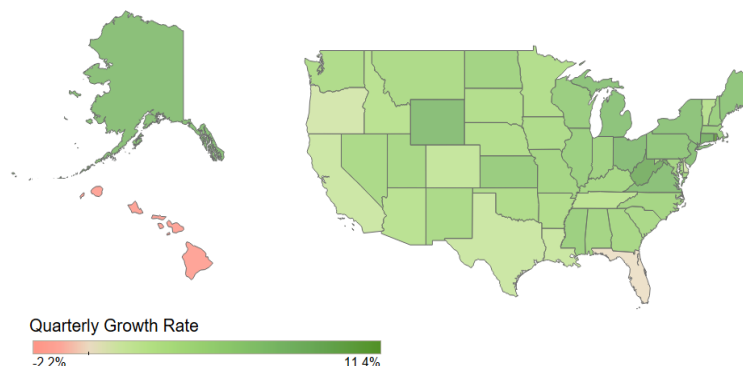
Now is the time to plan for the upcoming rising trend, but it will be important to consider the potential for profitless prosperity impacting your bottom line. Take a closer look at your profitability by product or segment and then allocate resources toward the high-performing areas.

In terms of your capital expenditures, prioritize those investments that help sharpen your competitive advantages so you can pass along prices to your customers. Or, prioritize investments that help you produce your products or services more efficiently.

To hedge the risks presented by currently elevated levels of economic uncertainty, monitor lead times and inventory levels, reassess your exposure to tariff-affected inputs, and implement supplier diversification.

While the foundation of corporate financial health remains relatively solid, the interplay between rising profits and declining cash levels signals a more complex environment ahead — one that demands strategic planning, operational agility, and a sharp focus on profitability to navigate the next phase of economic expansion.

State-by-State: Prices



- US Home Prices in the first quarter of 2025 were 4.2% above the first quarter of 2024; the pace of ascent is easing.
- The vast majority of US states are experiencing year-over-year growth in Home Prices. Weaker growth – or mild decline in the case of Hawaii – is generally evident along the West Coast and Florida, places where home prices are elevated and thus likely harder hit by high interest rates.
- Home prices are rising most notably in the Northeast region, which is likely due to general tightness in supply stemming from zoning and land availability, as well as in some places with low-priced homes like West Virginia.
- Mortgage rates and home prices are both elevated, contributing to affordability challenges for prospective buyers. As a result, Home Price growth is unlikely to return to the rapid acceleration seen from 2020 to 2022, when rates were more favorable.

Readers' Forum

How is the US tourism market faring given consumer sentiment and financial headwinds?

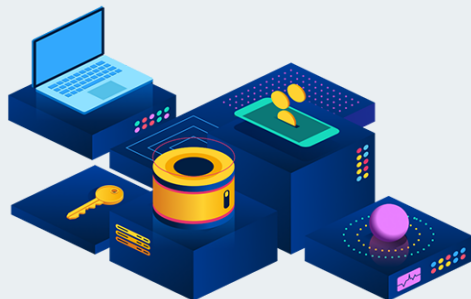
Haley Sienkiewicz, Economist at ITR Economics™, answers:

Following the onset of the trade war, headlines have emphasized that some foreign travelers are avoiding the US as a travel destination. We have seen some effect on US Tourism Revenue, which saw worse-than-normal month-to-month changes in Revenue in February and March. However, data through April shows an above-normal rebound. Overall, US Tourism Revenue is in a general slowing growth trend, totaling a record \$254.0 billion in the 12 months through April (most recent data). The portion of US Personal Consumption Expenditures made by foreign travelers – which represents 0.8% of overall Expenditures – is in a nascent declining trend for the first time post-COVID, similar to what is occurring in the TSA Checkpoint Travelers data.

Tourism metrics had been slowing in growth following the post-pandemic rebound, and our apolitical analysis of the data suggests softening tourism is the result of many factors: political tensions, general uncertainty surrounding the global economy, and various consumer and financial headwinds. The tourism market may face some downside pressures as domestic consumers continue to buckle down on discretionary spending alongside weakness in foreign travel to the US.

Please send questions to: questions@itreconomics.com

Find Your Way Through Tariffs, Fiscal Policy Changes and Economic Uncertainty With Our Special July Webinar!



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The landscape of the United States economy is currently marked by a profound sense of uncertainty, perplexity and confusion, largely driven by the ongoing tariff situation and developing fiscal policy changes. For business executives, this environment presents both challenges and opportunities, demanding a strategic approach to navigate the complexities ahead.

Join us on Tuesday, July 29, as ITR Consulting Principal and Chief Economist Brian Beaulieu and ITR Economist Lauren Saidel-Baker help you cut through the noise with our upcoming Executive Series Webinar, "Contending With Uncertainty and Change." Whether you're grappling with the uncertainty tariffs and fiscal policy changes bring or looking to capitalize on emerging opportunities, don't miss your chance to gain valuable foresight and actionable advice that could make all the difference for your company's future success!