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FOOD PRODUCTION SOLUTIONS ASSOCIATION

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

Many sectors of the economy are exhibiting growth, with notable pockets of strength in areas exposed to AI infrastructure investment and defense spending. In this inflationary environment, driven in part by higher oil prices, some of the nominal gains reflect pricing pressures rather than volume growth. On the consumer side, signs of strain are emerging, though household fundamentals remain broadly stable.

US Real Gross Domestic Product (GDP) grew in the second quarter, supported in part by AI-related demand and resilient consumer spending. Persistent pricing pressures, however, are likely to constrain growth in other inflation-adjusted measures of economic activity. Real consumer income growth is trending on the weaker side, and households are gradually drawing down their inflation-adjusted savings balances. The personal savings rate as a share of disposable income – coming in at 2.7% in June – is very low, suggesting that households are allocating a larger portion of income to current expenses as costs rise. These constraints present a headwind for future GDP growth, but the balance of evidence still points to modest expansion and consumers' ability to continue spending.

Overall, the economy remains on a path of measured but uneven growth

Growth in B2B spending is accelerating, bolstered in part by significant price growth for a number of inputs (labor and materials alike) and outsized strength in computers/electronics and overall machinery orders. We continue to monitor upsides for the B2B market, stemming in large part from boosts provided by data center-related investment.

On the defense side, we recently upgraded our outlook for US Defense Capital Goods New Orders. Ongoing and escalating geopolitical conflict is supporting higher defense spending than previously anticipated. We expect double-digit growth rates this year and next, reflecting replenishment needs following drawdowns associated with the wars in Ukraine and Iran.

The clear standout in the nonresidential construction sector is still private data centers, which, while slowing in their pace of growth, are currently up 30.3% year over year. On the housing side, US Multi-Unit Housing Starts – up 12.1% year over year – are also slowing in growth. US Single-Unit Housing Starts are declining, pressured by still-high mortgage rates and generally tepid interest from prospective buyers.

Overall, the economy remains on a path of measured but uneven growth. AI infrastructure, capital equipment, and defense are providing notable support, while more mature industries such as autos, chemicals, and food are seeing little to no growth. Persistent inflation and consumer pressures are likely to keep broader growth in check. Make sure your business is focused on standing out from the competition, and keep close tabs on your margins.

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Make Your Move

Inflationary pressures are evident across a swath of inputs, so monitoring your bottom line will be key to maintaining profitability. Identify opportunities to streamline and keep costs in check.

Investor Update

The S&P 500 moved largely sideways in July, ending the month 0.1% below June's close. The broader market trend remains supported by continued economic growth, inflation, and relatively strong leading indicators. Our concerns about market caution in the second half of 2026 remain relevant, particularly given softer economic expectations for 2027. However, resilient leading indicators suggest that any potential weakness may be delayed, potentially into early next year.

ITR Economics Long-Term View

2026	2027	2028
GROWTH	GDP GROWTH; MANUF. FLAT	GROWTH

Leading Indicator Snapshot

	3Q2026	4Q2026	1Q2027
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 showing a mix of green and red, foreshadowing mild growth in industrial activity as the most likely outcome.
- The highly volatile US ISM PMI (Purchasing Managers Index) has posted notably positive results as of late, which could lead to more pronounced industrial sector rise in 2027 than we are forecasting, though the balance of leading indicator evidence points to a more muted outcome for next year.
- General decline in the ITR Retail Sales Leading Indicator™ signals that consumer spending is likely to enter a slowing growth period next year.

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Industry Analysis

RETAIL SALES

- US Total Retail Sales in the 12 months through July were 4.5% above the year-ago level
- A low savings rate and slowing income growth indicate that consumers have less financial cushion, suggesting slowing growth is probable next year
- Higher-income households are likely to be the driving force behind consumer spending for at least the coming quarters

WHOLESALE TRADE

- US Total Wholesale Trade in the 12 months through June rose to $9.0 trillion, 8.9% above the year-ago level
- For nondurable goods, fluctuating oil prices and global supply-chain pressures remain potential sources of volatility
- On the durable goods side, electrical goods, metals, professional equipment, and miscellaneous goods have been key contributors to growth

AUTO PRODUCTION

- Annual North America Light Vehicle Production in June totaled 15.2 million units, 0.2% below the year-ago level
- US Light Vehicle Retail Sales have generally softened, pointing to weaker demand for new vehicles amid high uncertainty, elevated prices, and sticky long-term interest rates
- If auto lenders tighten standards, it would put further downside pressure on the auto market

MANUFACTURING

- US Total Manufacturing Production in the 12 months through July was 1.3% above the year-ago level
- Persistent inflation is likely to keep real measures of manufacturing activity on the more muted side
- Legacy manufacturing industries are likely to see less upside pressure than high-tech industries

ROTARY RIG

- The US Rotary Rig Count in the three months through July averaged 568 units, 2.2% higher than the same three months one year earlier
- The quarterly Rig Count is exhibiting year-over-year growth for the first time since 2023
- Further rise is likely for Rig Count

CAPITAL GOODS NEW ORDERS

- US Nondefense Capital Goods New Orders (excluding aircraft) in the 12 months through June were 7.3% above the year-ago level
- US Defense Capital Goods New Orders through the same period were 25.9% above the year-ago level
- Ongoing geopolitical conflict is likely to keep defense spending robust

TOTAL NONRESIDENTIAL CONSTRUCTION

- Annual US Total Nonresidential Construction is in a mild recession, coming in 2.3% below the year-ago level in June
- Elevated interest rates will be a persistent headwind for construction activity in the coming years
- The public portion of Construction is a relative bright spot, trending slightly above year-ago levels

TOTAL RESIDENTIAL CONSTRUCTION

- Annual US Total Residential Construction in June was 1.7% below the year-ago level
- Affordability constraints and uncertainty are significant obstacles in the single-family housing market
- Despite some easing, mortgage rates are still elevated, deterring many buyers

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A Closer Look: The US Economy

The Resilient Consumer Is Starting to Bend

DAVID FAIRCHILD

What you need to know: Consumers are becoming more selective with their spending habits, and businesses need to prepare accordingly

Introduction

The story is not that the American consumer has stopped spending, or even that spending is expected to weaken materially over the longer term. Rather, consumers appear to be becoming more deliberate about their spending. While this may create near-term softness in some categories, the longer-term outlook remains relatively stable. For businesses, the shift may be less about preparing for a weaker consumer and more about adapting to an increasingly selective one.

What Is Driving the Slowdown?

The issue is less about consumers suddenly stopping their spending and more about the gradual erosion of purchasing power. There are several factors at play:

- Inflation remains a major factor, having exceeded 2% for five-plus years and counting. Renewed increases in energy and other household costs have added pressure.
- Higher borrowing costs are another constraint. Interest rates are elevated given the multitude of inflationary drivers. Mortgage rates, for example, are sitting north of 6%. This makes financing everything more expensive – from homes to vehicles to credit-card balances.
- Meanwhile, wage growth has moderated, which has led to a general flattening in inflation-adjusted personal income, as shown below. This is constraining consumers' ability to increase their spending activity, particularly those lower- and middle-tier earners who pay for most items via income.



Where Will Businesses Feel It First?

A softer consumer does not necessarily mean spending disappears. Instead, buyers often become more selective and slow their pace of overall spending growth, as we are forecasting for 2027. The Federal Reserve has reported increasing price sensitivity among consumers, with some households trading down to lower-cost alternatives (e.g., choosing lower-priced food items) or reducing discretionary purchases.

We have seen this manifest already with big-ticket items: homes and cars. Single-unit housing starts are underwater, and North American auto production is sluggish. Weakness is also evident in areas like RVs and boats. Retailers, restaurants, and other consumer-facing businesses should also pay close attention to changes in volumes. Their markets may more be insulated than big-ticket ones, but they are not completely immune. Keep an eye on customers' willingness to accept price increases.

The impact may not be uniform. Strong stock market gains and accumulated household wealth will support higher-income consumers. Households with less financial flexibility are likely to feel the strain of elevated prices and borrowing costs more acutely. The result will continue to be an increasingly divided consumer economy.

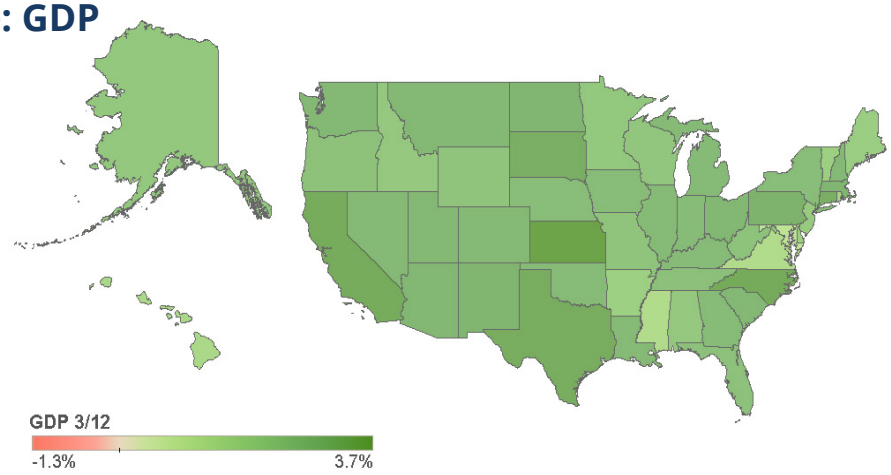
What Should Businesses Watch?

The current state of the consumer does not signal an economic downturn. The labor market remains relatively stable, unemployment is below the long-term historical average, and household spending continues to grow. But the margin for error is becoming smaller.
Over the coming months, our economists will be looking at employment, wage growth, retail sales, consumer confidence, and delinquency trends for evidence that we are moving into a slowing growth trend.

For now, the story is not that the American consumer has stopped spending. It is that consumers are becoming more deliberate about where, when, and how much they are spending – and that spending growth in 2027 is likely to occur at a slower pace than in 2026. After years of surprising resilience, that change in behavior may prove to be one of the more important economic signals to watch for firms preparing for 2027. Make sure your 2027 planning takes that likelihood into account.

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State-by-State: GDP



- US Real Gross Domestic Product (GDP) rose in the second quarter of 2026 and was 2.1% above the year-ago level. GDP has tentatively transitioned to a slowing growth trend.
- As of the first quarter of 2026 – the latest available GDP data for individual states – the Pacific region has posted the highest gains (+3.0%) of all regions, while the Mid-Atlantic is seeing the lowest GDP growth (+0.8%).
- In contrast with the gains posted by all 50 states, Washington D.C. has exhibited contraction (-1.3%) during this time period, likely still experiencing the pullback from the prior federal government shutdown. Larger states like Texas and California, each of which grew at a 3.3% clip in the first quarter, are among the stronger performers.
- Persistent inflation is leading to softer real income growth among consumers; this is likely to keep GDP growth muted moving forward.

Readers' Forum

Should we expand headcount now, or should we wait for hiring conditions to improve over the next year?

Haley Sienkiewicz, Economist at ITR Economics™, answers:

Hiring conditions are unlikely to improve meaningfully over the next year, suggesting businesses with a clear need for labor may be better served expanding headcount sooner rather than later.

From the worker's perspective, the labor market is broadly stable, albeit unspectacular, with mild jobs growth, low unemployment, and wages in a slowing growth trend. During the 12 months through June, there was an average of 1.05 unemployed people per job opening, indicating a relatively balanced market.

Structural factors could add further pressure. Prime-age employment is near multi-decade highs, leaving fewer workers on the sidelines, while slower population growth is limiting new labor supply. With further economic expansion ahead, demand for workers will persist; a materially easier hiring environment over the next year is unlikely. Generally speaking, for firms in need of additional labor, we think focusing on finding and attracting the right people now is a better option than trying to wait for a softer period in the labor market. Finally, don't neglect your workforce retention efforts. Keeping your already trained workers will be key to maximizing your upside potential.

Please send questions to: questions@itreconomics.com

Pressure-test your next geographic decision with our 2030s strategy workbook



Whether you are evaluating a facility move, expansion, acquisition, consolidation, hiring strategy, or making a market-entry decision, our 2030s Geographic Strategy Workbook will help you pressure-test your options and determine where confidence is strong, where it is weak, and what would make the recommendation defensible.

The goal isn't to find a universally "best" state. It's to determine which geography best supports the outcome your business needs — and whether you have enough evidence to defend that decision.

DOWNLOAD THE WORKBOOK

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