FPSA FOOD PRODUCTION SOLUTIONS ASSOCIATION

Industry Snapshots

Arrow denotes 12-month moving total/average direction.

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

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

Macroeconomic Outlook

The economy has remained resilient through 2026 despite ongoing supply chain disruptions and geopolitical uncertainty. US Real Gross Domestic Product (GDP) expanded in the first quarter while business-to-business spending climbed to record highs. Consumers are resilient and continue to support economic growth even as price rise accelerates, particularly for energy.

GDP increased in the first quarter of 2026, driven in part by business investment and strength in the services sector. Government spending also rebounded following the prior federal shutdown. Goods-related spending, however, remained comparatively weak. While softer real income growth remains a concern, consumers can still take on more debt and are not materially shifting their spending behavior. This supports our expectations for further, albeit modest, GDP growth.

Persistent inflationary pressure may influence the Federal Reserve's interest rate decisions

We recently revised our outlook for dollar-denominated US Nondefense Capital Goods New Orders (excluding aircraft), a proxy for B2B spending, due in part to continued strength in tech-related spending. Pricing pressures have also contributed to recent gains. Growth in B2B spending is expected to persist this year and into 2027, though it will likely be at a moderate single-digit pace. However, volumes may dip mildly in 2027 depending on the industry.

US Consumer Prices in April accelerated to 3.8% above year-ago levels. Much of the increase was driven by elevated energy prices. Excluding volatile categories such as food and energy, Consumer Prices rose 2.8% in April. Persistent inflationary pressure may influence the Federal Reserve's interest rate decisions, particularly as conflict in the Middle East continues. The Fed recently chose to keep rates unchanged at its April meeting, and strong inflation readings in both March and April make near-term rate cuts less likely.

US Single-Unit Housing Starts are in a general declining trend, though some upsides are cropping up. Starts' first quarter was strong, but affordability and zoning challenges, along with mismatched inventory, portend relatively flat Starts this year. US Multi-Unit Housing Starts are in an upward trend, but softer rent growth and rising vacancies present future headwinds.

Despite heightened uncertainty, geopolitical conflict, and some signals of weakness, most economic indicators are pointing to mild rise ahead. Rising incomes and business investment will drive muted economic expansion in the quarters ahead, depending on the sector.

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Make Your Move

Strengthen investment decision-making by distinguishing between short-term market volatility and longer-term economic trend changes. The US offers good long-term potential for doing business.

Investor Update

Stocks rebounded sharply in April following March's steep decline, with the S&P 500 posting its third strongest March-to-April rise in 126 years. Investor equity exposure remains near the norms of the past decade and does not indicate overexposure. There are notable parallels to 2018, which saw a weak start, a rebound, and renewed weakness late in the year.

ITR Economics Long-Term View

2026	2027	2028
GROWTH	GDP GROWTH; MANUF. FLAT	GROWTH

Leading Indicator Snapshot

	2Q2026	3Q2026	4Q2026
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

- Mild macroeconomic growth remains the most likely outcome this year given relative resiliency despite headwinds such as the war in Iran and ongoing supply chain disruptions. Dollar-based metrics and/or those tied to essential goods or services are likely to outperform volume-based and/or discretionary metrics.
- Consumer spending has remained resilient, though volume growth has been moderate as inflation rises. The ITR Retail Sales Leading Indicator™ is positive but declining, supporting our forecast for slowing growth in retail spending in 2027.
- Technology-related investment has been a key driver of business spending, a trend that is expected to persist as companies continue to invest in automation and AI.

Industry Analysis

RETAIL SALES

- US Total Retail Sales in the 12 months through April were 3.9% above the year-ago level
- Real (inflation-adjusted) retail sales growth remains modest due in part to cumulative inflationary pressures
- Higher fuel prices are contributing to more spending at gas stations

WHOLESALE TRADE

- US Total Wholesale Trade in the 12 months through March rose to $8.6 trillion, 6.3% above the year-ago level
- Generally healthy business and consumer balance sheets continue to support Wholesale Trade activity
- The nondurables component is likely to be boosted by high oil prices in at least the near term

AUTO PRODUCTION

- Annual North America Light Vehicle Production in March totaled 15.3 million units, 1.1% below the year-ago level
- Overall US Light Vehicle Retail Sales are under pressure, as some buyers are being pushed out of the market given high vehicle prices and financing costs
- US Hybrid Vehicle Retail Sales, on the other hand, are holding up better, up 7.7% year over year

MANUFACTURING

- US Total Manufacturing Production in the 12 months through April was 1.3% above the year-ago level
- Rising energy and commodity prices are creating margin pressures for manufacturers
- Softer capacity utilization trends suggest manufacturing growth could moderate in the coming quarters

ROTARY RIG

- The US Rotary Rig Count in the three months through April averaged 549 units, down 6.9% from the year-ago level
- Domestic oil production has shown limited response thus far to oil price volatility associated with the war in Iran
- Oil prices are likely to move lower later this year

CAPITAL GOODS NEW ORDERS

- US Nondefense Capital Goods New Orders (excluding aircraft) in the 12 months through March were 4.9% above the year-ago level
- US Defense Capital Goods New Orders through the same period were 21.9% higher than the year-ago level
- Geopolitical tensions and a proposed large increase to the defense budget are likely to drive defense spending higher

TOTAL NONRESIDENTIAL CONSTRUCTION

- US Total Nonresidential Construction in the 12 months through March was 0.3% below the year-ago level and is in a tentative recovery trend
- Commercial property prices are rising, which supports further recovery in Construction
- Project delays, due in part to uncertainty and supply disruptions, pose a downside risk

TOTAL RESIDENTIAL CONSTRUCTION

- US Private Single-Family Residential Construction in the 12 months through March was 4.5% below the year-ago level
- US Private Multi-Family Residential Construction is also below year-ago levels
- Softening rents and rising vacancy trends will put downside pressure on multi-family unit demand

A Closer Look: The US Economy

Remapping Global Logistics Flows

JENNA ALLEN

What you need to know: Trade flows are shifting amid geopolitical tensions. Flexibility and resiliency are increasingly critical competitive advantages, although these qualities may come at a higher cost.

Global logistics flows are shifting as companies adapt to geopolitical risk and persistent supply chain volatility. Transportation flows into the US are increasingly pivoting away from China and toward other countries, such as Vietnam, Taiwan, and Thailand. Additionally, US port traffic is strong in the Gulf and on the East Coast, while Pacific port traffic has become more volatile.

As you navigate evolving trade flows, it is a best practice to track a variety of relevant indicators to understand your business' sensitivity to changes. We will cover a handful of them below.

Maritime Shipping

Supply chain pressures have spiked amid the Middle East conflict, with the Strait of Hormuz posing a particular risk to energy markets, fuel costs, fertilizer costs, and more. The World Bank's Global Supply Chain Stress Index, which measures stress in container shipping and is particularly sensitive to maritime disruptions, has risen to levels just shy of the COVID-era peak. As of 2024, roughly 80% of US international trade volumes move over the ocean, so maritime stress is likely to be relevant for many US firms.

Shipping prices are rising, but they are not rising as sharply as the Stress Index. The Drewry World Container Shipping Index increased from roughly $1,899 to $2,553 per 40-foot container between late February and early May. Despite the need for vessel rerouting and higher fuel costs, Drewry price rise has been comparatively modest for now.

A broader measure of supply chain pressures, the Global Supply Chain Pressure Index, has also risen to its highest level in over three years, but it is well below the COVID-era peak.

Air Cargo

Within air cargo markets, Hong Kong remains the number one hub by tonnage. However, Hong Kong is now competing in a far more fragmented and diversified air cargo network. Intra-Asia and Asia-Europe air corridors are now among the fastest-growing freight lanes globally.

The Global Baltic Air Freight Index, calculated by TAC Innovation, was 37.2% above year-ago levels in early May amid higher jet fuel prices and disrupted shipping conditions. Although businesses generally use air freight selectively, maintaining access to air capacity may still be key for firms dealing with supply chain disruptions and critical component shortages.

US Trucking

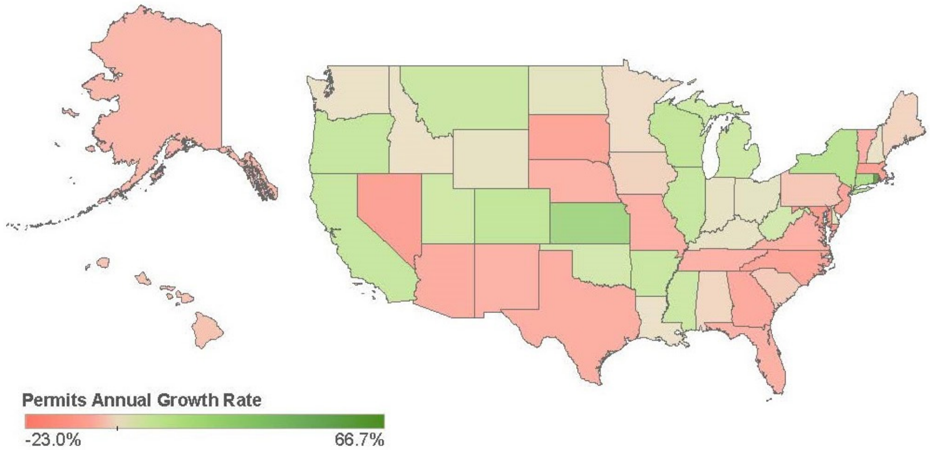
Domestic trucking markets are showing renewed signs of tightening. The US Retail On-Highway Diesel Price in April was 54.2% above the year-ago level, coming in at $5.50 per gallon. While trucking volumes remain relatively soft, spot trucking rates have been generally rising this year. US Truck Transportation of Freight Producer Prices were up 15.2% in April relative to one year prior, with a strongest-ever March-to-April surge.

Adapting to Changes

Flexibility is becoming almost as important as cost optimization. Ocean freight remains the preferred option for most goods because of its cost efficiency, but firms should anticipate higher variability in transit times and pricing. Air freight may still be necessary for critical inputs, where delays could disrupt production or customer delivery commitments.

Make sure your insurance policies and contracts are designed to mitigate your risks. Diversify suppliers and consider utilizing regional warehousing. These strategies may increase costs in the near term, but you will be better positioned to manage future disruptions and shifting trade dynamics.

State-by-State: Permits



- US Housing Unit Building Permits in the 12 months through March were 2.8% below the year-ago level.
- Growth in permitting activity is mildly positive in the West (+3.2% above year-ago levels) and Midwest (+3.3%), and more tepid in the Northeast (+0.7%). Activity is declining in the South (-7.2%) after previous strength in that region.
- On a national level, Multi-Unit Permits are rising while Single-Unit Permits are declining. The housing market is bifurcated due in part to financing pressures for single-family homes, which is keeping some would-be homebuyers in the multi-family rental space.

Readers' Forum

Is it cheaper to buy a home or rent right now?

Haley Sienkiewicz, Economist at ITR Economics™, answers:

At the national level, the average monthly mortgage payment in the 12 months through March was $2,178. Typical rent through the same period was $1,907 according to Zillow. The price gap is narrowing after it widened considerably in the post-pandemic period as home prices surged and mortgage rates climbed to multi-decade highs. This significantly increased monthly mortgage payments for prospective buyers, while rent growth rates began to cool from their pandemic-era peak.

On a monthly cost basis at the national level, renting is cheaper than owning, but the relative affordability of owning versus renting varies substantially by geography, and not only by state or metro area, but often even by neighborhood and ZIP code. Factors such as local home prices and rents, property taxes, insurance costs, down payment size, HOA fees, expected length of stay, and housing supply can materially shift the economics of renting versus buying within the same region.

Please send questions to: questions@itreconomics.com