FPSA
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

The economy is expanding, with many key segments accelerating in growth despite supply chain disruptions, general economic uncertainty, and trade policy volatility. While we are forecasting broad slowing growth in the upcoming year, we do not expect a significant pullback, due in part to business and consumer resiliency.

At its most recent meeting, the Federal Reserve unanimously voted to raise the federal funds target rate by 25 basis points after holding it steady throughout the year. The Federal Reserve cited resilient consumer spending, a stable labor market, and persistently elevated inflation. While inflation is likely to move lower next year, with a slightly softer demand backdrop, structural factors suggest it will remain elevated.

We recently upgraded our outlook for US Nondefense Capital Goods New Orders (excluding aircraft) to account for strong capital spending on investments related to high tech, power-generation, and automation. Policy factors, including tax incentives and tariffs, have accelerated some purchases into 2026, leading to an orders/inventory cycle that will dampen some activity next year. Additionally, spikes in commodities this year that have boosted New Orders, a dollar-denominated series, are unlikely to persist next year. As a whole, we expect rise in New Orders next year, but the pace of growth is likely to slow throughout the year, and volumes will be muted.

Persistent cost pressures and uneven demand will characterize the economy in the coming quarters

"A Tale of Two Consumers" continues, with upper-income earners driving most consumption activity. Energy costs, for example, were 16.3% above the year-ago level in August. Higher-income households are better able to absorb these inflated costs, while lower-income households must set aside a larger share of their income to buy necessities, leaving less room for discretionary spending. US Total Retail Sales are rising modestly, signaling that consumers are equipped to drive spending; however, recent movement in the ITR Retail Sales Leading Indicator™ points to slowing spending growth in the coming quarters.

US Single-Unit Housing Starts are trending below year-ago levels. Elevated mortgage rates, which are likely to be exacerbated by the Federal Reserve's recent decision to raise the federal funds rate, coupled with supply-driven elevated home prices, present a rocky landscape for this sector of construction. Nonresidential construction, on the other hand, is on the edge of recovery after an acceleration in business and consumer spending.

Persistent cost pressures and uneven demand will characterize the economy in the coming quarters. Opportunities are likely to remain concentrated in areas such as high tech, and defense. For many markets, do not assume a similar amount of volume growth for 2027 as in 2026.

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Make Your Move

Focus business efforts on resilient markets as the economy diverges. Markets tied to data centers, AI infrastructure, and defense could provide lift in the coming years, alongside health care and consumer essentials.

Investor Update

The S&P 500's monthly trend hit a record high in August, though its quarterly growth rate is slipping, and history suggests that softening in this metric is more likely than not to persist. Gains are extending beyond AI, with energy and health care leading the way, while consumer discretionary is on the softer side.

ITR Economics Long-Term View

2026	2027	2028
GROWTH	GDP GROWTH; MANUF. FLAT	GROWTH

Leading Indicator Snapshot

	4Q2026	1Q2027	2Q2027
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

- Recent data for most leading indicators is generally positive, though the economic landscape is mixed depending on market.
- The US OECD Leading Indicator monthly rate-of-change is in a prolonged rising trend, which supports our outlook for muted macroeconomic growth into next year.
- Mixed signals are the norm as shifting trade policy and monetary policy persist, but resilient businesses and consumers point to general rise ahead for the economy.

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Industry Analysis

RETAIL SALES

- US Total Retail Sales are rising mildly
- Cumulative inflation is inflicting pain on some consumers, particularly lower- and middle-income earners, but overall spending is resilient
- Dollar-denominated sales growth is more pronounced than volume growth

WHOLESALE TRADE

- US Total Wholesale Trade in the 12 months through July surpassed $9.0 trillion for the first time, at 9.5% above the year-ago level
- Improving sales-to-inventory ratios point to more rise ahead for durables and nondurables
- Inflation-adjusted US Goods Personal Consumption Expenditures are rising. While not as pronounced as pricing growth, consumer-driven volume growth is playing a part in record-high Wholesale Trade

AUTO PRODUCTION

- Annual North America Light Vehicle Production in July was 15.3 million units, 0.8% below the year-ago level
- Auto loan debt is reaccelerating in its pace of rise
- High financing costs are a damper on new car buying, particularly for luxury cars, which are sold at a higher price point

MANUFACTURING

- US Total Manufacturing Production in the 12 months through August was 1.4% above the year-ago level
- Nondurable goods manufacturing is mildly declining, while durable goods manufacturing is in a rising trend
- Manufacturing utilization rates are tepid, indicating that future rise will be mild

ROTARY RIG

- The US Rotary Rig Count in the three months through August averaged 580 units, 6.6% higher than the same three months one year earlier
- Higher oil prices could prompt some new exploration activity after a period of stagnation
- Rising demand for oil as the industrial sector expands may provide some mild lift to the Rig Count in at least the near term

CAPITAL GOODS NEW ORDERS

- US Nondefense Capital Goods New Orders (excluding aircraft) in the 12 months through July were 8.0% above the year-ago level
- US Defense Capital Goods New Orders throughout the same period were 29.0% above the year-ago level
- Commodity spikes and equipment prices are propelling these dollar-denominated series

TOTAL NONRESIDENTIAL CONSTRUCTION

- Annual US Total Nonresidential Construction in July was 2.4% below the year-ago level
- ITR Checking Points™ support a near-term recovery in construction
- The recent Fed rate hike is likely to have a minimal and lagged impact on overall Construction activity

TOTAL RESIDENTIAL CONSTRUCTION

- Annual US Total Residential Construction in July was 2.4% below the year-ago level
- Construction for the multi-family market is in recovery, while single-family construction is in recession
- Flattening real incomes are a key contributor to single-family housing affordability issues, especially in a rising-rate environment

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A Closer Look: The US Economy

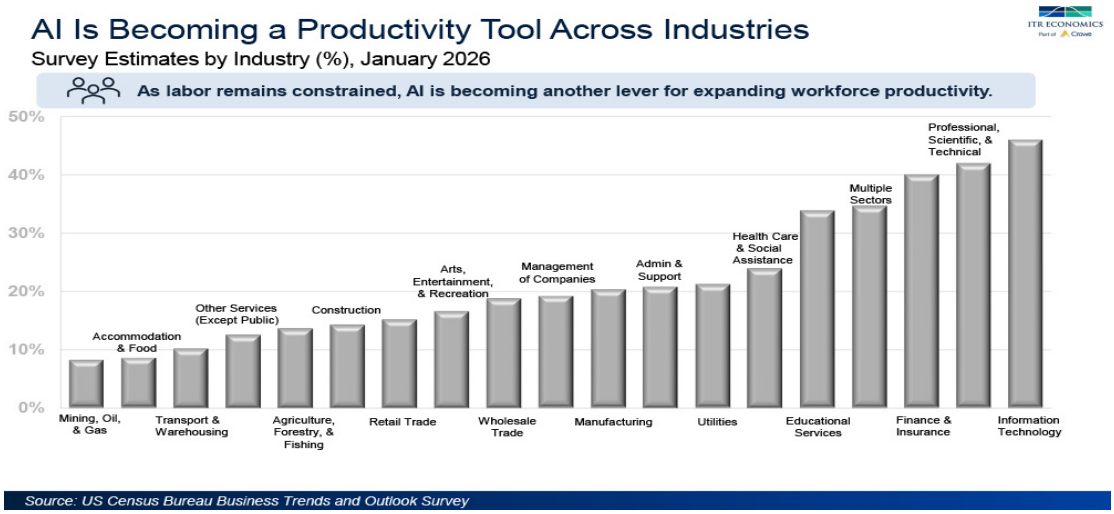
AI Adoption Is Uneven — and Its Impact Is Still Emerging

TARA BAYKE

AI use is concentrated in knowledge-based industries, while its broader productivity and labor-market effects are yet to be fully seen

Introduction

AI adoption varies widely across the US economy. In a January 2026 survey by the US Census Bureau, respondents reported that AI adoption was at approximately 46% in the information technology sector; 42% in professional, scientific, and technical services; and 40% in finance and insurance. In comparison, adoption was at 20% in manufacturing and 14% in construction.



This distribution is not especially surprising. Industries that work extensively with software, data, documents, and digital communications have more immediate uses for current AI tools. Production-oriented industries may require AI to interact with machinery, operating systems, or physical processes, making implementation more complex. The survey measured whether a business uses AI, but it did not measure how extensively it was used, the functions of that use (such as core business activities versus administrative functions), or whether it was generating a positive return.

Productivity and Labor Impacts Are Yet to Be Fully Seen

Across the economy, productivity data also provides an incomplete picture. The US Business Labor Productivity Index is in a long-term rising trend, but the data has not yet established a clear acceleration that can be attributed to AI. This may reflect the time required for businesses to redesign processes around new technology, or it may indicate that the current applications are too limited to materially affect aggregate output.

Labor market conditions offer another perspective. Annual nonfarm quit levels are 9.4% below their 10-year average, with even steeper gaps in industries such as information services, professional and business services, and manufacturing. Lower rates can reflect reduced worker confidence, less aggressive recruiting, or greater caution in an uncertain labor market.

Layoff trends show a sharper divide. Annual layoffs in information services are 29.0% above their 10-year average; however, professional and business services layoffs are 9.7% above average, and those in financial services are just 3.0% above average. In contrast, manufacturing and construction layoffs are 15.0% and 11.2% below their 10-year averages, respectively.

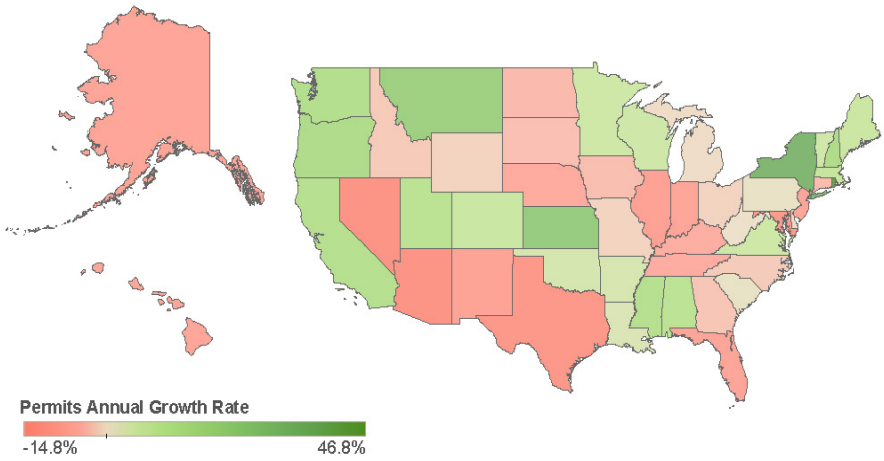
These figures are consistent with greater labor-market adjustment in industries that employ higher concentrations of white-collar workers and report relatively high AI adoption, but they do not prove that AI is causing those layoffs. Industry demand, corrections for previous hiring patterns, financing conditions, broader cost-cutting efforts, and, in some cases, offshoring also influence employment decisions. Finance-related industries illustrate this ambiguity: AI adoption is relatively high in finance and insurance, while financial services layoffs are 3.0% above their 10-year average — relevant, but well below the 29.0% gap in information services.

Company-Level Results Will Matter More Than Economy-Wide Signals

The available data therefore points to a transition rather than a settled outcome. AI adoption is already substantial in some industries, but its economy-wide productivity effects remain difficult to isolate. Businesses using the tool should focus on how this technology changes output, staffing needs, and operating costs within their own organizations, as measurable internal results will provide a more useful guide than broad assumptions about what AI will eventually mean for the economy.

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State-by-State: Housing Permits



- Annual US Housing Permits in July were 1.41 million. While in a mild rising trend, they are 1.6% below the year-ago level.
- Permitting trends in the country are divided. On net, permitting activity in the West and Northeast is above year-ago levels, while permitting in the Midwest and South is below year-ago levels.
- More granularly, however, permitting in the Plains region of the Midwest is above year-ago levels, as is activity in the Mid-Atlantic and Gulf & Delta regions of the South.
- Home affordability remains a significant constraint on building activity.

Readers' Forum

Why aren't US home prices falling if fewer people are buying?

Haley Sienkiewicz, Economist at ITR Economics™, answers:

One might best define the housing market right now as sluggish. It's not collapsing, nor booming, but slowly crawling. Mortgage rates are staying high, with 30-year rates rising to 6.7% in August, just about one percentage point below the 2023 peak. As mortgage rates rise, monthly payments rise, squeezing first-time homebuyers and disincentivizing some existing homeowners from listing their homes, particularly those who locked in more affordable rates before the rate-hiking cycle. Existing home sales signal weaker transaction activity compared to much of the past decade.

However, home prices have not fallen dramatically because inventory remains constrained in many markets. Prices of existing homes are at record highs. At the same time, new single-family builds have mildly come down in price from their 2023 peak, which could reflect a combination of factors such as lower-priced homes selling or builders adjusting their prices to account for an elevated inventory of new homes.

Please send questions to: questions@itreconomics.com



APPLY FOR A STRATEGY SESSION

Turn Geographic Risk Into Strategic Opportunity

Have you considered how your geographic exposure will affect your business in the coming years and into the 2030s depression?

- *How will you meet labor needs if your state is undergoing major demographic shifts?*
- *Which region is the best to grow into based on your business' goals?*
- *If you are in a region of resilience, what's the right move to capitalize on it?*
- *How will you protect your margins if your customers are negatively impacted?*

You don't need to answer these questions alone. Our economists can help you apply the findings of the State Opportunity Index directly to your business with practical strategies. If you are considering decisions that can affect capital, facilities, labor, or enterprise value, our economists can help you reduce uncertainty and strengthen your resolve.

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