



IMEC

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603.796.2500 itreconomics.com

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Economic Overview

What to know for 2027 planning: the economy is likely to slow, but there will be opportunities for growth. The businesses best positioned for next year will recognize this shift early. Do not plan for a repeat of 2026[VO1.1].

A major risk for many companies is mistaking higher revenue for stronger underlying activity. Pricing will still support top-line results in parts of the economy, but unit volumes will be weaker in the coming year. This softer volume outlook matters for hiring, inventory, capacity, and capital allocation. If you trend alongside the macroeconomy, be more conservative in your planning for 2027.

Business investment will rise in the first half of the year and decline later in the year, but performance will vary by market. Demand tied to high technology and supporting infrastructure, automation, power generation, and defense will outperform broader business investment. Invest where the payoff is clear but avoid extrapolating recent growth too far into next year.

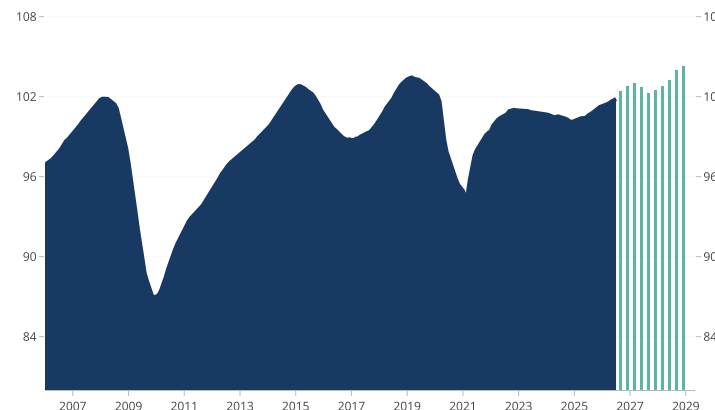
Consumer markets will likewise be softer in 2027. Stable employment will continue to support higher spending, but cumulative inflation has weakened purchasing power and made saving more difficult. That combination leaves consumers more cautious, especially for discretionary and big-ticket purchases. Elevated borrowing costs are likely to remain, keeping mortgage rates, auto financing, and credit card rates uncomfortable, limiting households' ability or willingness to stretch. Businesses serving consumers should expect price sensitivity to remain prevalent and remain ready to explain value, adjust product mix, or target customer segments with stronger financial resilience.

Construction will also be uneven. Single-unit housing is likely to stabilize but not meaningfully improve, with affordability still the central constraint. Elevated home prices, construction costs, mortgage rates, and uncertainty all point to a shallow recovery rather than a sharp rebound. Multi-unit housing is losing momentum as supply conditions and rent trends become less supportive. Nonresidential construction should be more favorable in 2027, boosted by earlier improvement in business activity and gradual recovery in commercial property prices, but that upturn will be restrained by high financing and building costs. The best opportunities remain concentrated in data centers, infrastructure tied to electrification and computing demand, and the pockets where prior government funding is still being spent.

Prices will generally remain elevated in 2027, although we are likely to see the pace of rise slow down. There will likely be pricing relief in small pockets, such as some metals commodities which have seen recent surges. For businesses, margin protection should be a central 2027 planning theme. Don't count on being able to pass along costs; rather, invest in long-run efficiency improvements.

A slower year can still be a productive one. 2027 plans will need to balance preserving cash where risk is elevated and making selective investments that improve productivity. Staffing plans should be measured, but not so cautious that the business is unprepared for the next macroeconomic upswing coming in 2028. Process improvements, cross-training, and targeted marketing and sales efforts can all create advantages before growth improves again. Do not wait out the year. Use this lull well, protect profitability, and enter the next expansion with a stronger operating model.

US Industrial Production Index Annual Average (12MMA)



Data Trends: Moving Averages and Totals

Quarterly Average (Three-Month Moving Average, or 3MMA)

The average of the latest three months of data, updated every month. In the example, \$57.79 is the quarterly average for the three months ending in March 2026 (i.e., the average for January, February, and March 2026).

Example: Monthly US Crude Oil Spot Prices averaged \$57.79 in the first quarter of 2026, a 26.3% increase from the first quarter of 2025.

Quarterly Total (Three-Month Moving Total, or 3MMT)

The total of the latest three months of data, updated every month. In the example, \$257.8 billion is the quarterly total for the three months ending in February 2026 (i.e., the total for December 2025, January 2026, and February 2026).

Example: Quarterly US Capital Goods New Orders totaled \$257.8 billion in February 2026.

Annual Average (12-Month Moving Average, or 12MMA)

The average of the latest 12 months of data, updated every month. In the example, 119.0 million is the annual average for February 2026 (i.e., the average for the 12-month period from March 2025 through February 2026).

Example: US Private Sector Employment averaged 119.0 million workers during the 12 months through February 2026, down 7.5% from one year earlier.

Annual Total (12-Month Moving Total, or 12MMT)

The total of the latest 12 months of data, updated every month. In the example, \$5.849 trillion is the annual total for February 2026 (i.e., the total for the 12-month period from March 2025 through February 2026).

Example: US Wholesale Trade totaled \$5.849 trillion during the 12 months through February 2026.

Growth Rates

Monthly Growth Rate (1/12 Rate-of-Change)

The percentage change between a given month and the same month one year earlier. In the example, 79.3% is the monthly growth rate for March 2026.

Example: Monthly US Copper Futures Prices were at \$4.00 per pound in March 2026, 79.3% above the March 2025 level of \$2.29.

Quarterly Growth Rate (3/12 Rate-of-Change)

The percentage change between a three-month period and the same three-month period from one year earlier. In the example, 26.3% is the quarterly growth rate for March 2026.

Example: US Crude Oil Spot Prices averaged \$57.79 in the first quarter of 2026, a 26.3% increase from the first quarter of 2025.

Annual Growth Rate (12/12 Rate-of-Change)

The percentage change between a 12-month period and the same 12-month period from one year earlier. In the example, -7.5% is the annual growth rate for February 2026; that is, US Private Sector Employment during March 2025 through February 2026 came in 7.5% below Employment from March 2024 through February 2025.

Example: US Private Sector Employment averaged 119.0 million workers during the 12 months through February 2026, down 7.5% from one year earlier.

Business Cycle Phases



Recovery (A)

The annual growth rate (12/12) is rising, but the rate of growth is still negative. We denote this phase with blue (for improving).



Accelerating Growth (B)

The annual growth rate (12/12) is rising, and the rate of growth is positive. We denote this phase with green (for go).



Slowing Growth (C)

The annual growth rate (12/12) is positive, but the rate of growth is declining. We denote this phase with yellow (for caution).



Recession (D)

The annual growth rate (12/12) is declining, and the rate of growth is negative. We denote this phase with red (for warning).

IMEC Markets Dashboard

Page Number	Indicator	Current		Annual Growth Rate Forecast (12/12), Year-End*		
		Growth Rate**	Phase	2026**	2027**	2028**
5	US Industrial Production Index	1.2%	B	1.5%	-0.3%	1.7%
6	US Nondefense Capital Goods New Orders (excluding aircraft)	8.0%	B	10.6%	1.3%	0.3%
7	US Machinery New Orders	10.8%	B	12.6%	4.0%	-0.2%
8	US Food Production Index	0.7%	C	-0.1%	0.4%	0.5%
9	US Medical Equipment and Supplies Production Index	-1.7%	A	-0.3%	4.2%	0.5%

*Coloring denotes the business cycle phase at year-end. For example, if a value in the first column under "Annual Growth Rate Forecast (12/12), Year-End" is colored blue, the corresponding indicator is forecasted to be in Phase A, Recovery, at the year-end indicated by the column. Green denotes Phase B, Accelerating Growth, yellow Phase C, and red Phase D.

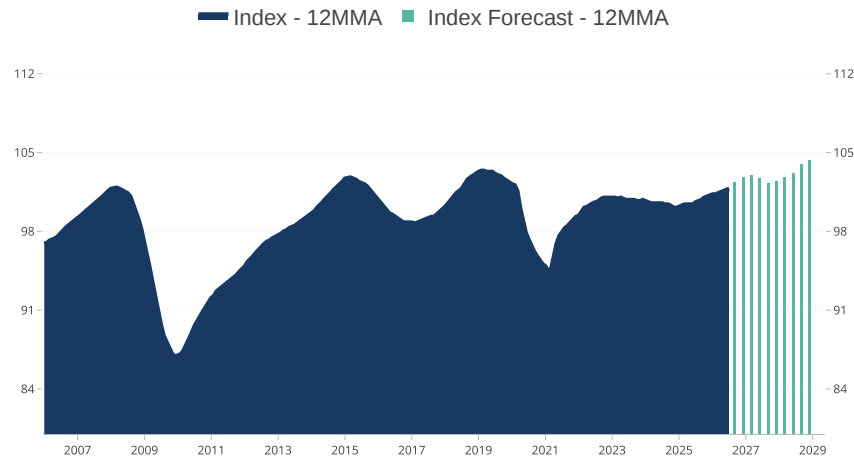
**Annual growth rate (12/12) except where noted otherwise.



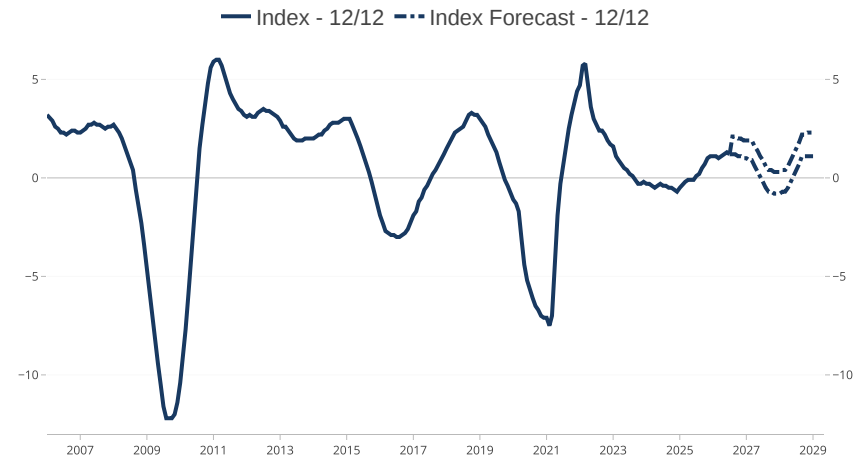
US Industrial Production Index

Industrial Sector Volume Growth Is Mild; Expect Flat to Mildly Declining Volumes in 2027

Annual Average (12MMA)



Annual Growth Rate (12/12)



Current Phase



**Phase B
Accelerating
Growth**

Current Indicator Amplitude

- July 2026 Annual Growth Rate (12/12): 1.2%
- July 2026 Annual Average (12MMA), 2017=100: 101.8

Industry Outlook

<u>Year</u>	<u>Annual Growth Rate</u>
2026	1.5%
2027	-0.3%
2028	1.7%

Outlook & Supporting Evidence

- Industrial Production in the 12 months through July rose to 1.2% above the year-ago level. This represents volume growth and is notably milder than dollar-denominated metrics such as US Nondefense Capital Goods New Orders (on the following page). Ideally, track both volume and dollars for your business and compare them to a benchmark that uses that same denomination. Both perspectives are necessary given the sticky inflation environment we are in.
- Annual Production will move mildly higher into early 2027 before plateauing for the remainder of that year, a function of elevated interest rates, energy costs, and the capital investment cycle waning. Contraction is possible for some legacy markets in 2027. Growth is expected to return in 2028.
- Nearshoring is happening across many industries, but the benefits will not be evenly distributed. Producers with differentiated products, specialized expertise, or exposure to stronger end markets will be better positioned to capture growth as overall industrial activity plateaus next year.

US Nondefense Capital Goods New Orders (excluding aircraft)

AI-Led Capital Spending and Elevated Pricing Drove an Upward Revision to the New Orders Forecast

Annual Total (12MMT)



Annual Growth Rate (12/12)



Current Phase



Phase B
Accelerating
Growth

Current Indicator Amplitude

- July 2026 Annual Growth Rate (12/12): 8.0%
- July 2026 Annual Total (12MMT), Billions of USD: \$972.7

Industry Outlook

<u>Year</u>	<u>Annual Growth Rate</u>
2026	10.6%
2027	1.3%
2028	0.3%

Outlook & Supporting Evidence

- We upgraded the US Nondefense Capital Goods New Orders (excluding aircraft) outlook to reflect stronger-than-expected capital spending, led by AI and data-center investment, broader machinery demand, and an elevated pricing environment. Tax incentives and tariff policy also pulled purchases into 2026, leading to a stronger year than we previously projected. We raised the annual total forecast by 4.2%, 5.0%, and 0.6% for 2026 through 2028, respectively.
- New Orders are expected to rise robustly through early 2027, decline into mid-2028 as pulled-forward demand unwinds, and rise again thereafter.
- Pricing pressures tied to metals and computer-related components remain the main driver of higher input costs for New Orders, with indirect effects from the Iran war, such as shipping and oil prices, adding secondary pressure. These cost increases are being passed along to customers. While real volume growth is occurring this year, higher prices are also boosting the growth rate of dollar-denominated metrics.

US Machinery New Orders

Stronger AI-Driven Demand Spurred an Upgrade to the Machinery New Orders Forecast Through 2028

Annual Total (12MMT)

Annual Growth Rate (12/12)



Current Phase

Phase B
Accelerating
GrowthCurrent Indicator
Amplitude

- July 2026 Annual Growth Rate (12/12): 10.8%
- July 2026 Annual Total (12MMT), Billions of USD: \$499.4

Industry Outlook

<u>Year</u>	<u>Annual Growth Rate</u>
2026	12.6%
2027	4.0%
2028	-0.2%

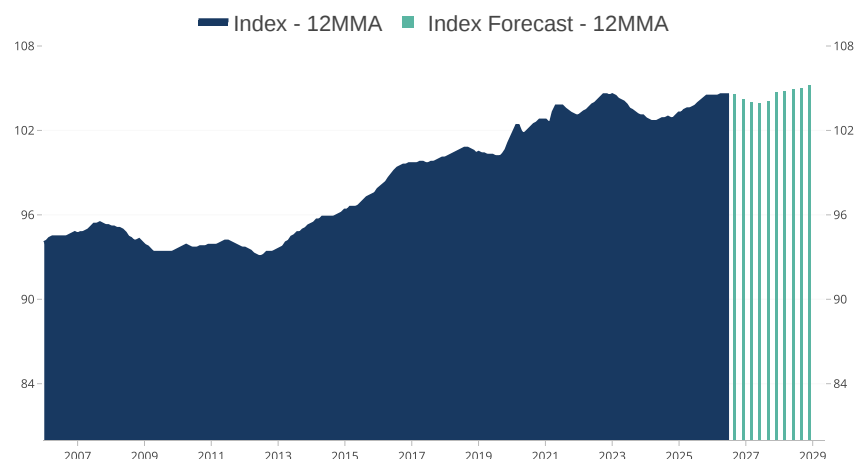
Outlook & Supporting Evidence

- Strong demand for equipment supporting data center expansion and AI-related investment has been a key driver of recent growth and outperformance relative to our previous forecast. Higher equipment prices have also contributed to the recent outperformance, particularly due to notable price increases for inputs like metals. As a result, we revised the annual US Machinery New Orders outlook upward by 3.0%-7.8% through 2028.
- Annual New Orders will rise into the middle of 2027. The following declining trend will be more pronounced than previously expected, due in part to a more exaggerated price and inventory cycle, extending into 2028. Mild rise will then return at the end of that year.
- Key risks to the outlook include stronger-than-expected AI-related investment, shifts in government incentives, and tariff-related disruptions.

US Food Production Index

Food Production Supported by Resilient Demand, Though Some Consumers May Shift Toward Value Options

Annual Average (12MMA)



Annual Growth Rate (12/12)



Current Phase



Current Indicator Amplitude

- July 2026 Annual Growth Rate (12/12): 0.7%
- July 2026 Annual Average (12MMA), 2017=100: 104.5

Industry Outlook

<u>Year</u>	<u>Annual Growth Rate</u>
2026	-0.1%
2027	0.4%
2028	0.5%

Outlook & Supporting Evidence

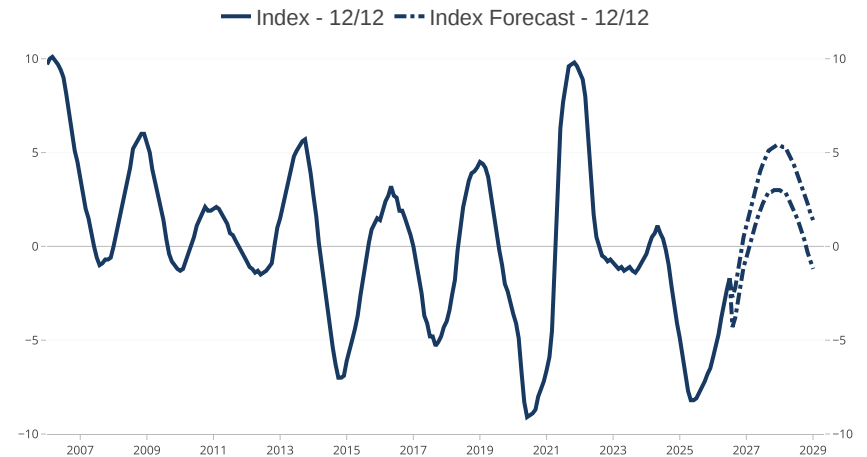
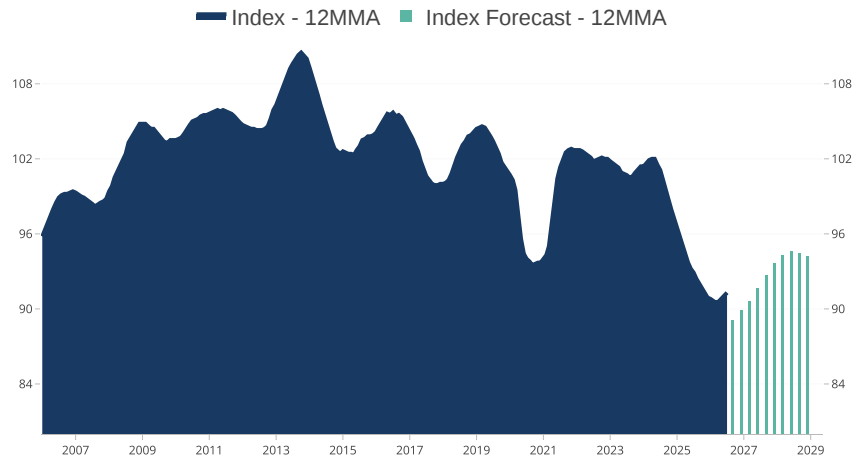
- US Food Production in the 12 months through July came in 0.7% above the year-ago level. Annual Production will rise in the near term before transitioning to a declining trend, which will extend into the middle of 2027. Rise will then take hold again, persisting through at least 2028.
- Food's status as a household necessity should provide a stable demand base, limiting the extent to which consumers reduce overall consumption even as budgets remain pressured.
- The greater challenge will be mix and margin, as affordability concerns push more shoppers toward lower-priced brands, store-label goods, and staple categories while premium and discretionary items face greater scrutiny. Slowing growth in real incomes is likely to contribute further to this scrutiny.
- Machinery and equipment spending in the food sector is likely to be limited over at least the next few quarters. Food manufacturing capacity utilization is running below year-ago levels, signaling room for manufacturers to expand production without new capital investments. Decline in US Food, Beverage, and Tobacco Products Industries Corporate Profits poses a potential headwind to significant capex.

US Medical Equipment and Supplies Production Index

Aging Population Supports Long-Term Demand, but Import Competition Will Limit Upside

Annual Average (12MMA)

Annual Growth Rate (12/12)



Current Phase



**Phase A
Recovery**

Current Indicator Amplitude

- July 2026 Annual Growth Rate (12/12): -1.7%
- July 2026 Annual Average (12MMA), 2017=100: 91.3

Industry Outlook

<u>Year</u>	<u>Annual Growth Rate</u>
2026	-0.3%
2027	4.2%
2028	0.5%

Outlook & Supporting Evidence

- US Medical Equipment and Supplies Production in the 12 months through July was 1.7% below the year-ago level. Annual Production reached a tentative low and is expected to rise through mid-2028.
- The population aged 65 and older is growing and will provide long-term opportunities as providers expand capacity and serve more Medicare beneficiaries. This will provide durable demand for home medical equipment for seniors and orthopedic, cardiac, and diabetic care items.
- Trade policy is increasingly influencing sourcing decisions across the medical equipment supply chain, as calculated duties on medical and precision instrument imports have risen sharply. This may encourage some substitution toward domestic suppliers where capacity exists, though large medical device companies with both domestic and international sourcing footprints will continue to face cost pressures across their supply networks.

US Leading Indicators

Indicator	Direction		
	3Q26	4Q26	1Q27
ITR LEADING INDICATOR™	●	●	●
ITR RETAIL SALES LEADING INDICATOR™	●	●	●
US OECD LEADING INDICATOR	●	●	●
US ISM PMI (PURCHASING MANAGERS INDEX)	●	●	●
US TOTAL CAPACITY UTILIZATION RATE	●	●	N/A

Green denotes that the indicator signals cyclical rise for the economy in the given quarter. Red denotes the opposite.

What It Means for the US Economy

- 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.

Persistent cost pressures are expected to continue, making investments in process and systems efficiency essential to preserving margins today and strengthening profitability in the years ahead.

Market Definitions

US Industrial Production Index

Index of total industrial production in the United States; includes manufacturing, mining, and utilities. Source: Federal Reserve Board (FRB). Index, 2017 = 100, not seasonally adjusted (NSA).

US Nondefense Capital Goods New Orders (excluding aircraft)

New orders for nondefense capital goods, excluding aircraft, in the United States. Includes farm machinery and equipment, construction machinery, mining machinery, nondefense small arms and ordnance, industrial machinery, commercial and service industry equipment, other general purpose machinery, photographic equipment, metalworking machinery, turbine and generator manufacturing, power transmission equipment, pumps and compressors, material handling equipment, electronic computers, computer storage devices and peripheral equipment, communications equipment, nondefense search and navigation equipment, electrometrical equipment, electrical equipment, heavy duty truck manufacturing, railroad rolling stock, nondefense ship and boat building, office and institutional furniture, and medical equipment and supplies. Source: US Census Bureau. Measured in billions of dollars, not seasonally adjusted (NSA).

US Machinery New Orders

New orders for machinery in the United States. Industries in the machinery manufacturing subsector create end products that utilize mechanical force, for example, the application of gears and levers, to perform work. Some important processes for the manufacture of machinery are forging, stamping, bending, forming, and machining, which are used to shape individual pieces of metal. Processes such as welding and assembling are used to join separate parts together. Although these processes are similar to those used in metal fabricating establishments, machinery manufacturing is different because it typically employs multiple metal forming processes in manufacturing the various parts of the machine. Moreover, complex assembly operations are an inherent part of the production process. NAICS Code: 333. Source: US Census Bureau. Measured in billions of dollars, not seasonally adjusted (NSA).

US Food Production Index

Industries in the US Food Manufacturing subsector transform livestock and agricultural products into products for intermediate or final consumption. The industry groups are distinguished by the raw materials (generally of animal or vegetable origin) processed into food products. The food products manufactured in these establishments are typically sold to wholesalers or retailers for distribution to consumers. Source: Federal Reserve Board. NAICS Code: 311. Index, 2017 = 100, not seasonally adjusted (NSA).

Market Definitions

US Medical Equipment and Supplies Production Index

Medical equipment and supplies manufacturing index for the United States. Examples of products made by these establishments are surgical and medical instruments, surgical appliances and supplies, dental equipment and supplies, orthodontic goods, ophthalmic goods, dentures, and orthodontic appliances. Source: Federal Reserve Board. NAICS Code: 3391. Index, 2017 = 100, not seasonally adjusted (NSA).

Management Objectives™

Phase A



Recovery

- Scrupulously evaluate the supply chain
- Model positive leadership (culture turns to behavior)
- Start to phase out marginal opportunities (products, processes, people); repair margins
- Perform due diligence on customers and extend credit
- Be on good terms with a banker; you will need the cash more now than in any other phase
- Invest in customer market research; know what they value and market/price accordingly
- Hire key people and implement company-wide training programs ahead of Phase B
- Allocate additional resources to sales and marketing
- Invest in system/process efficiencies
- Make opportunistic capital and business acquisitions; use pessimism to your advantage

Phase B



Accelerating Growth

- Ensure quality control keeps pace with increasing volume
- Invest in workforce development: hiring, training, retention
- Ensure you have the right price escalator; space out price increases
- Maximize your profit margins through differentiation; stand out from the crowd and set yourself apart
- Use improved cash flow to strategically position the business to beat the business cycle
- Expand credit to customers
- Improve corporate governance (rent a CFO; establish a board of advisors or board of directors)
- Communicate competitive advantages; build the brand
- Query users for what they want and what is important to them
- Sell the business in a climate of maximum goodwill

Phase C



Slowing Growth

- Know if your markets are headed for a soft landing or a hard landing
- Cash is king; beware of unwarranted optimism
- Stay on top of aging receivables
- Revisit capital expenditure plans
- Lose the losers: if established business segments are not profitable during this phase, eliminate them
- Use competitive pricing to manage your backlog through the coming slowdown
- Avoid committing yourself to long-term expenses at the top of the price cycle, but lock in revenue
- Go entrepreneurial and/or counter-cyclical
- Evaluate your vendors for financial strength; if needed, look for additional vendors as a safety net
- If the cycle looks recessionary, cross-train key people to prepare for workforce attrition/reduction

Phase D



Recession

- Implement aggressive cost-cutting measures
- Offer alternative products with a lower cost basis
- Perform due diligence on acquisitions while valuations are falling
- Reduce advertising as consumers become more price conscious
- Enter or renegotiate long-term leases
- Negotiate labor contracts
- Consider capital equipment needs for the next cycle
- Tighten credit policies
- Develop programs for advertising, training, and marketing to implement in Phase A
- Lead with optimism, remembering that Phase D is temporary