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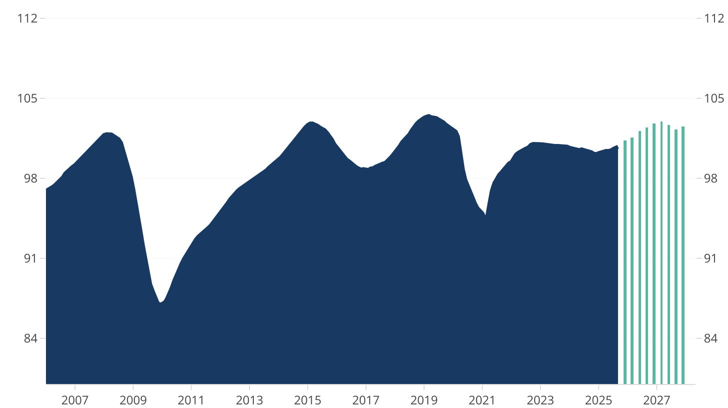
Economic Overview

The good-producing sector of the economy is gaining steam as the inventory glut moves behind us, uncertainty gradually dissipates, and a stable consumer base supports demand. Retail Sales, Wholesale Trade, and Industrial Production are all accelerating. 2026 will be a year of mild to moderate growth for these broad-based metrics of the economy; however, under the surface, there is significant deviation between individual markets. We are seeing evidence of a "K-shaped economy," in which lower-income demographics are especially hard-hit while higher-net-worth consumers drive much of the growth. Deviation is also present in the industrial and construction sectors. Relative winners in the include high-tech manufacturing, pharmaceuticals, and defense markets. Some markets that were hit harder in 2025 will see larger growth rates in 2026, in part due to a weak point of comparison, but they will likely remain below record highs due to sticky interest rates. It is increasingly necessary to understand your downstream exposure across end markets, different consumer demographics, and regions.

US Industrial Production Index
Annual Average (12MMA)



There was a lot of noise this last year from trade policy, but it is important to remember that consumers are the primary driver of the economy. They remain on relatively solid footing, with manageable debt service levels and rising real income. Additionally, the value of assets such as homes and the stock market are elevated, so we could see some positive wealth effects. The cost of essentials and housing is weighing on consumer sentiment, particularly for younger or lower-income families. However, there is a weak correlation between consumer sentiment and economic activity. Consumers may be grumpy, but they are buying at an accelerating pace on both a dollar and volume basis.

Construction markets are going through a soft spot that will linger into 2026. Persistently low affordability and sticky interest rates are a drag on Single-Unit Housing Starts, and they will likely limit the next rising trend. Overall Nonresidential Construction faces downward pressure from interest rates, the soft economic conditions in recent years, and the gradual sunsetting of government spending.

We are anticipating some softness in the economy in 2027. Sticky interest rates and inflation over time will deteriorate the financial condition of some lower- and middle-income consumers. These cracks are not an immediate problem, but they will compound slightly further out. We expect that real income growth will be on the mild side, and savings are lackluster. Some of the consumption in 2026 will be debt-fueled, adding to consumers' burden in 2027. Weak residential construction trends, which typically lead the economy, foreshadow the next cyclical downturn. We are forecasting a plateau for the industrial sector in 2027, but results will vary by end market.

We anticipate a return to growth in 2028, fueled in part by the investments in onshoring over the past few years gradually coming online. The 2028 upturn will be a good time to cushion your balance sheet. Remain cautious of taking on debt, as we anticipate a large and protracted downturn occurring in the 2030s. Consider shifting your business toward the service sector and essentials such as food, medical care, or pets, as these are more recession-resistant later this decade.

Be measured in your plans. We expect labor costs will still rise roughly 20% between now and the end of 2029, so investments in efficiency and automation are advisable. Meanwhile, ensure you are on good terms with a banker. Most importantly, lead with confidence. A strong purpose and plan will go a long way to reassure your employees and your customers alike.

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 2021 (i.e., the average for January, February, and March 2021).

Example: Monthly US Crude Oil Spot Prices averaged $57.79 in the first quarter of 2021, a 26.3% increase from the first quarter of 2020.

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 2021 (i.e., the total for December 2020, January 2021, and February 2021).

Example: Quarterly US Capital Goods New Orders totaled $257.8 billion in February 2021.

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 2021 (i.e., the average for the 12-month period from March 2020 through February 2021).

Example: US Private Sector Employment averaged 119.0 million workers during the 12 months through February 2021, 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 2021 (i.e., the total for the 12-month period from March 2020 through February 2021).

Example: US Wholesale Trade totaled $5.849 trillion during the 12 months through February 2021.

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 2021.

Example: Monthly US Copper Futures Prices were at $4.00 per pound in March 2021, 79.3% above the March 2020 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 2021.

Example: US Crude Oil Spot Prices averaged $57.79 in the first quarter of 2021, a 26.3% increase from the first quarter of 2020.

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 2021; that is, US Private Sector Employment during March 2020 through February 2021 came in 7.5% below Employment from March 2019 through February 2020.

Example: US Private Sector Employment averaged 119.0 million workers during the 12 months through February 2021, 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

		Current		Annual Growth Rate Forecast (12/12), Year-End*		
Page Number	**Indicator**	**Growth Rate****	**Phase**	**2025****	**2026****	**2027****
5	US Industrial Production Index	0.4%	B	1.2%	1.5%	-0.3%
6	US Nondefense Capital Goods New Orders (excluding aircraft)	2.1%	B	2.1%	3.2%	0.8%
7	US Machinery New Orders	2.5%	B	2.4%	4.1%	0.4%
8	US Food Production Index	1.1%	B	1.4%	-0.1%	0.4%
9	US Medical Equipment and Supplies Production Index	-7.4%	A	-5.7%	2.7%	1.0%

**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, yellow Phase C, and red Phase D.*

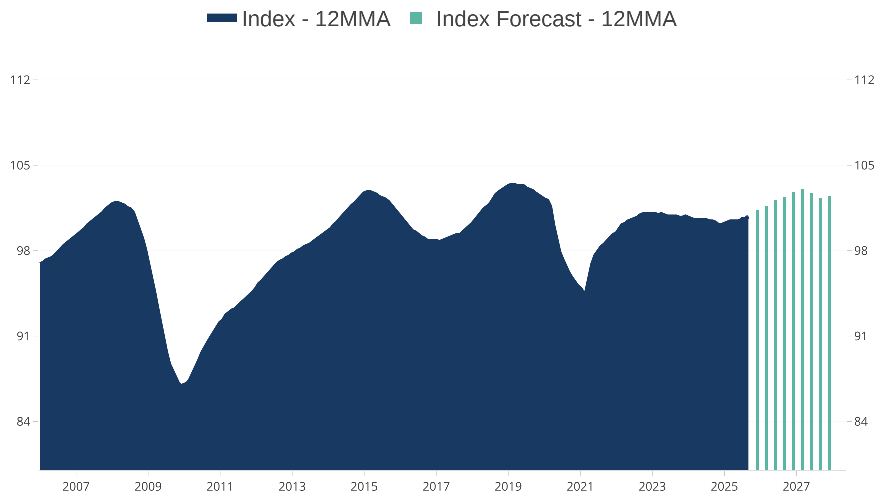
***Annual growth rate (12/12) except where noted otherwise.*

Recovery (A) **Accelerating Growth (B)** **Slowing Growth (C)** **Recession (D)**

US Industrial Production Index

Production Historical Data Revised Lower; We Still Anticipate Mild Rise Ahead

Annual Average (12MMA)



Annual Growth Rate (12/12)

Current Phase

Phase B Accelerating Growth

Current Indicator Amplitude

- September 2025 Annual Growth Rate (12/12): 0.4%
- September 2025 Annual Average (12MMA), 2017=100: 100.8

Industry Outlook

Year	*Annual Growth Rate*
2025	1.2%
2026	1.5%
2027	-0.3%

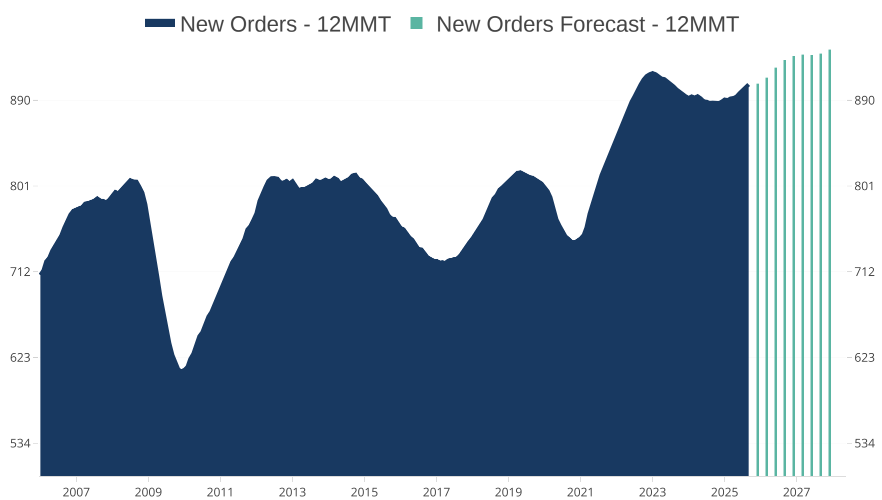
Outlook & Supporting Evidence

- The Federal Reserve Board revised historical US Industrial Production data. The largest change is that annual Production is no longer on the cusp of record highs, due to a less robust runup in 2021–22. Revised data still shows decline in 2023 and 2024 and mild rise through 2025.
- We adjusted the forecast to account for this data revision. Annual Production will generally rise into early 2027. Relatively stable consumer financials and resilient business trends bode well for upcoming rise. Confidence is likely to improve in 2026, as the worst of trade policy volatility is likely behind us. We still expect growth to be mild, not robust, given some waffling in leading indicators in recent quarters and sticky long-term interest rates.
- Annual Production will dip in mid-2027, with the year as a whole coming in roughly even with the 2026 level. Some legacy manufacturing segments that are more prone to hard landings will contract that year.

US Nondefense Capital Goods New Orders (excluding aircraft)

Plan For Mild To Modest Growth In New Orders In 2026 Followed By A Flatter 2027

Annual Total (12MMT)



Annual Growth Rate (12/12)

Current Phase

Phase B Accelerating Growth

Current Indicator Amplitude

- September 2025 Annual Growth Rate (12/12): 2.1%
- September 2025 Annual Total (12MMT), Billions of USD: $906.4

Industry Outlook

Year	Annual Growth Rate
2025	2.1%
2026	3.2%
2027	0.8%

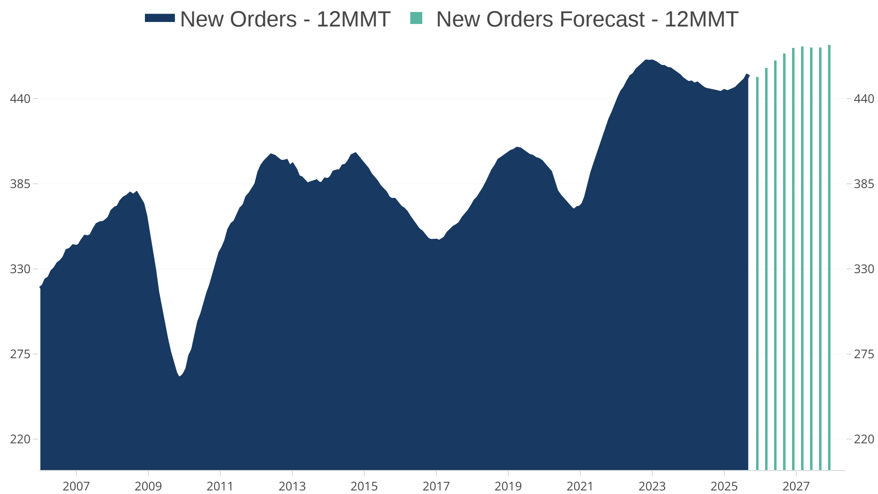
Outlook & Supporting Evidence

- US Nondefense Capital Goods New Orders (excluding aircraft) totaled $906.4 billion in the 12 months through September, up 2.1% from the year-ago level. Annual New Orders will rise through 2026 and then plateau during much of 2027.
- The US Durable Goods Wholesale Sales to Inventory Ratio is rising, signaling that business activity is picking up across durable goods and that the prior glut is clearing out. Stronger inventory turns and rise in the ITR Leading Indicator™ bode well for New Orders into at least the middle of next year.
- Businesses are expected to accelerate in their spending in 2026, enabled by ample cash balances, plenty of liquidity, and moderate interest rates. The unusually high level of uncertainty caused by trade policy is likely to abate. Inflation will also push up on the dollar value of spending.
- Divergence among individual capital goods markets is expected to persist. While growth rates in harder-hit legacy segments should rebound next year, overall activity levels are likely to remain below prior peaks given market maturity and the interest rate environment. High-tech and electrical sectors are outperforming.

US Machinery New Orders

Utilization Trends Bode Well For Further Rise In New Orders; Beware The Risk Of Margin Squeeze

Annual Total (12MMT)



Annual Growth Rate (12/12)

Current Phase

Phase B Accelerating Growth

Current Indicator Amplitude

- September 2025 Annual Growth Rate (12/12): 2.5%
- September 2025 Annual Total (12MMT), Billions of USD: $455.7

Industry Outlook

Year	*Annual Growth Rate*
2025	2.4%
2026	4.1%
2027	0.4%

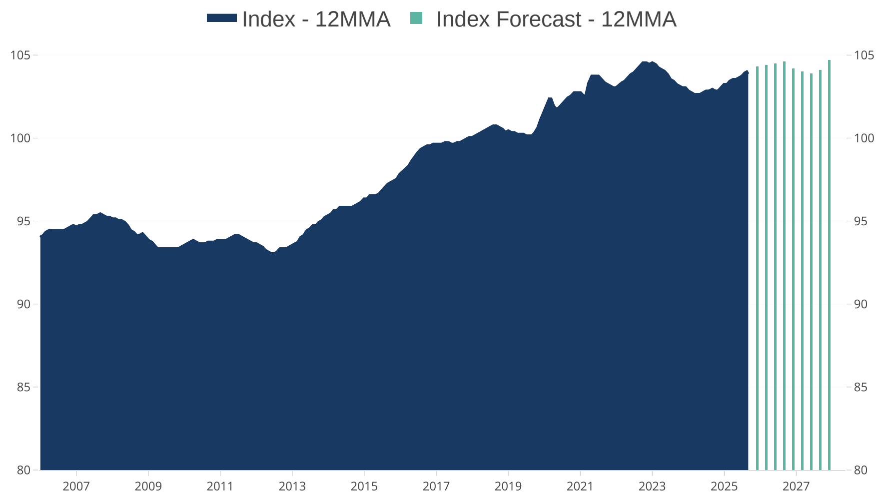
Outlook & Supporting Evidence

- US Machinery New Orders are in a general rising trend that will extend through 2026, with a subsequent general plateau for much of 2027. Growth will be somewhat muted this cycle compared to the last, which was spurred higher by government stimulus.
- Our expectations for generally higher commodity prices, including steel, suggest pricing will contribute to rise in New Orders in the coming quarters. Spending growth will reflect a mixture of volume gains and higher prices.
- Rising momentum in the US Machinery Manufacturing Capacity Utilization Rate will likely spur interest in new equipment to expand output, replace aging capital, or improve efficiency, a good sign for increased New Orders demand.
- Higher costs are likely from many vectors, so there is risk this cycle of profitless prosperity, where revenues increase but higher costs squeeze margins. Additionally, demographics suggest a tight and therefore costly labor market. This means that investing in efficiency and automation is likely to be worthwhile.

US Food Production Index

Outlook Revised; This Mature Market's Growth To Be Muted, Labor Shortage Suggests Capex Need

Annual Average (12MMA)



Annual Growth Rate (12/12)

Current Phase

Phase B Accelerating Growth

Current Indicator Amplitude

- September 2025 Annual Growth Rate (12/12): 1.1%
- September 2025 Annual Average (12MMA), 2017=100: 104.0

Industry Outlook

Year	*Annual Growth Rate*
2025	1.4%
2026	-0.1%
2027	0.4%

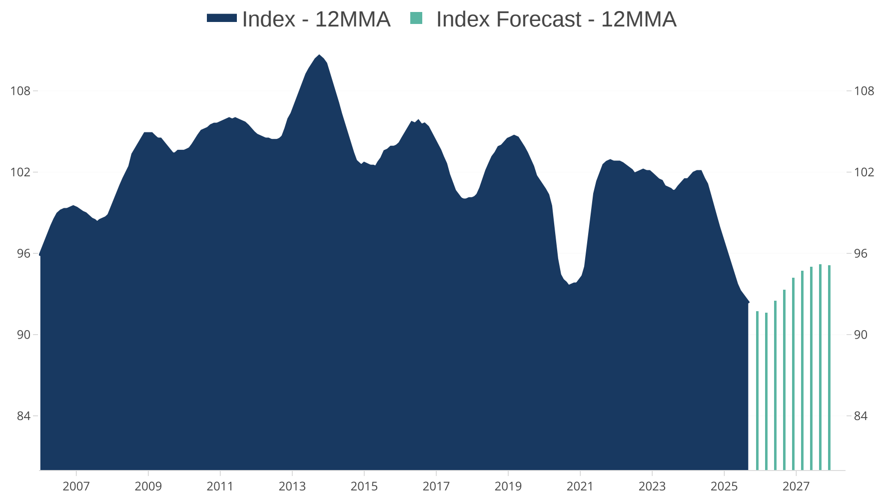
Outlook & Supporting Evidence

- The Federal Reserve Board revised historical US Food Production data downward in 2022–23 and upward in 2024–25. We adjusted the outlook to incorporate this data revision.
- Annual Production will rise into the second half of 2026 to around record highs. Annual Production will then decline into the middle of 2027, troughing near current levels. Production will pick up again in the second half of 2027, bringing the year overall slightly higher than 2026.
- Demand fundamentals are solid, but softer sales relative to inventories point to muted near-term growth. Further trade policy volatility and potential adverse weather events are key risks to the Production outlook.
- Generally rising costs may lead some manufacturers to be cost conscious, but capex will still be necessary to address labor shortages. Annual Food Manufacturing Capacity is in Phase B, Accelerating Growth, and up 0.8% from one year ago as of September 2025. However, Capacity is 4.2% below a 2020 record high.

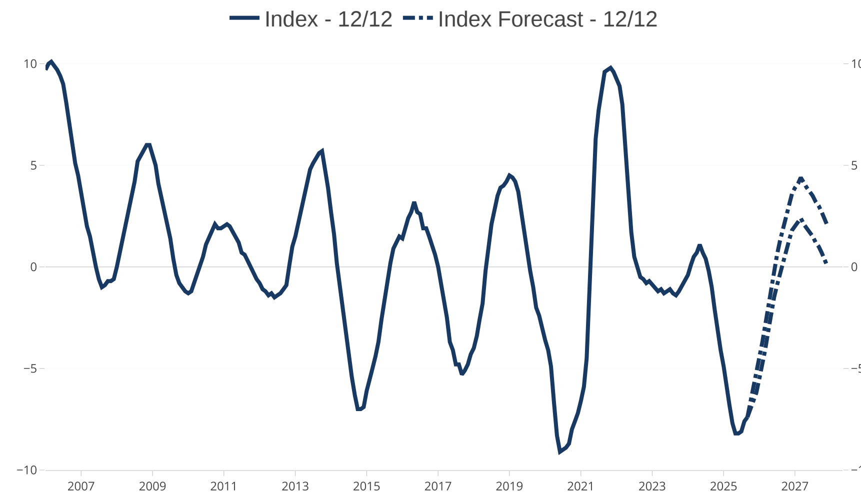
US Medical Equipment and Supplies Production Index

Forecast Revised Following Significant Data Revision; Production To Begin Rising In Early 2026

Annual Average (12MMA)



Annual Growth Rate (12/12)



Current Phase

Phase A Recovery

Current Indicator Amplitude

- September 2025 Annual Growth Rate (12/12): -7.4%
- September 2025 Annual Average (12MMA), 2017=100: 92.3

Industry Outlook

Year	*Annual Growth Rate*
2025	-5.7%
2026	2.7%
2027	1.0%

Outlook & Supporting Evidence

- In an annual revision by the Federal Reserve Board, US Medical Equipment and Supplies Production historical data was revised to remove the previously shown record highs of 2022–24. Revised data shows Production mildly declined for much of that period. Recent annual Production was revised downward by as much as 13%, but the rate-of-change trend still shows an early Phase A, Recovery. We lowered the forecast as a result of the data revision.
- Annual Production is declining and will reach a low around the start of 2026. Annual Production will then generally rise for much of 2026 and 2027.
- Growth in US Medical and Diagnostic Laboratory Services Revenue points to strengthening demand, benefiting medical supply producers. A softer US dollar over the past year could further enhance domestic price competitiveness. However, this remains an import sensitive industry.
- Increasing insurance premiums by Affordable Care Act providers could pose a downside risk to some demand for Production should some consumers choose to delay or forgo some medical care. However, a larger portion of demand is nondiscretionary, and demographics are in favor of the medical industry.

US Leading Indicators

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Indicator	Direction 4Q25	1Q26	2Q26
ITR LEADING INDICATOR™	Green	Red	N/A
ITR RETAIL SALES LEADING INDICATOR™	Green	Green	Red
US OECD LEADING INDICATOR	Red	Red	Red
US ISM PMI (PURCHASING MANAGERS INDEX)	Green	Red	Green
US TOTAL CAPACITY UTILIZATION RATE	Red	Red	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 indicator signals remain mixed, but they generally suggest mild growth ahead.
- Although the US OECD Leading Indicator is flashing red on a rate-of-change basis, the monthly trend is at a 41-month high. On net, this indicator is also signaling that mild growth is probable.
- Heightened uncertainty is likely playing a large role in the mixed signals we are seeing. Despite prevailing unease, economic fundamentals remain sound, with manageable consumer debt levels and rising real incomes.

Our outlook calls for mild macroeconomic rise ahead, but profitless prosperity is still a risk. Prioritize margin resilience, working-capital efficiency, and look to selectively capture growth opportunities that enhance returns rather than volume alone.

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

