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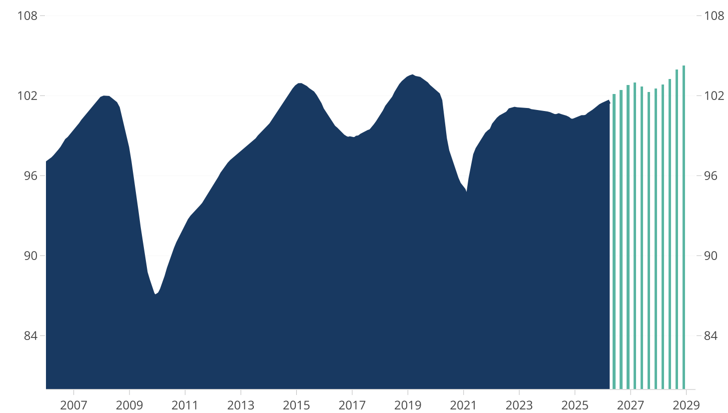
Economic Overview

We do not have a one-size-fits-all economy in 2026; mild aggregate growth is masking uneven outcomes across consumer, industrial, and construction markets. These divergent outcomes are due in part to differing sensitivities to sticky long-term interest rates, inflationary pressures, and uncertainty. The biggest winners are high tech and defense, with some positive spillover to supporting industries. Weak spots are discretionary big-ticket consumer items, legacy manufacturing, and industries tied to single-unit residential construction. If your business is trending differently from GDP, you are not alone; this cycle requires closer attention to end-market exposure and product mix to meet demand where it is.

US Industrial Production Index

Annual Average (12MMA)



Consumers are supporting mild macroeconomic growth. Employment is expanding at a slow pace, but inflation has stalled real wage growth; these factors will likely limit the pace of growth in the retail sector. Consumers still have room to take on more debt to finance spending, but sticky interest rates could deter borrowing for discretionary purchases. For those serving consumer markets, the demographic they serve will make a big difference.

Capex spending is accelerating due to both higher prices and increasing volumes. Tech investment and a drive for efficiency are common themes propelling capex higher. We are forecasting top-line rise ahead of the economy, but with heightened risk of stagnant or even declining volumes in 2027 and early 2028. Businesses should track unit activity closely instead of relying only on revenue trends. Avoid building inventories too aggressively late this year ahead of the softer demand environment in 2027.

Nonresidential construction activity is recovering overall. Lending conditions are becoming somewhat less restrictive, although there has not been much relief on interest rates. On the residential side, single-unit construction is soft due to affordability constraints and sluggish conditions will persist into 2027. Multi-unit Starts are presently stronger, but they are likely to weaken next year as softer rent growth and higher vacancies weigh on demand.

Input cost pressures are intense right now, creating margin pressure for businesses with price-sensitive customers. The war in Iran and disruption around the Strait of Hormuz add pressure to global energy markets and supply chains. While precedent suggests that oil prices will soften in the latter part of this year, there will be a lingering effect as those prices flow to downstream inputs such as plastics and fertilizers. Metals prices are another pain point. The Iran supply shock is not the only factor. Higher inflation is also driven by a more positive demand environment and prior monetary policy decisions. While this bout of inflation is uncomfortable and may illicit memories of the early 2020s, our analysis indicates that inflation will be sticky but not as severe as that last cycle. Still, it is vital to have a strategy for managing your costs and improving efficiency to protect your bottom line.

Passive management of your business could put you at risk this cycle. Organic market growth is out there, but it is uneven, so it must be targeted. To future-proof your business, look for ways to tap into the higher growth segments in the near term to bolster your balance sheet. In addition, strategize how to increase exposure to recession-resistant markets ahead of the prolonged downturn expected in the 2030s. Service-oriented and MRO offerings can be more resilient than producing goods and new construction. Companies should preserve flexibility as the K-shaped economy becomes more pronounced.

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* Growth Rate**	Phase	Annual Growth Rate Forecast (12/12), Year-End* 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)	5.7%	B	6.2%	0.5%	4.7%
7	US Machinery New Orders	8.0%	B	7.0%	1.5%	4.5%
8	US Food Production Index	0.9%	C	-0.1%	0.4%	0.5%
9	US Medical Equipment and Supplies Production Index	-4.1%	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, yellow Phase C, and red Phase D.*

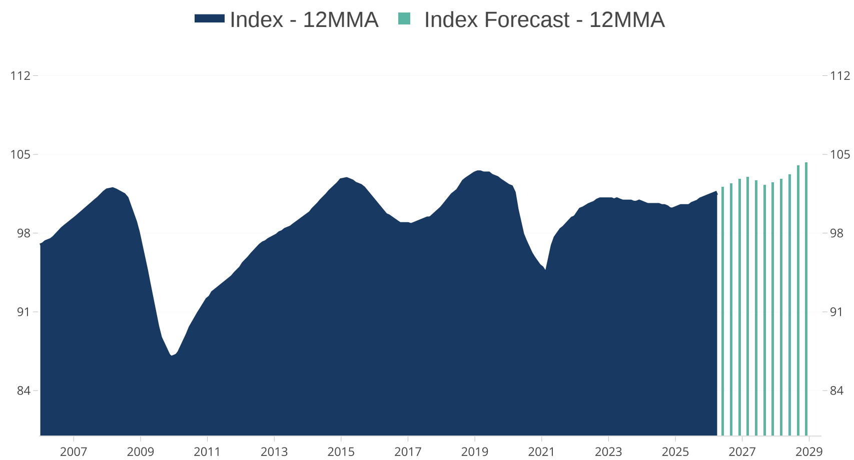
***Annual growth rate (12/12) except where noted otherwise.*

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

US Industrial Production Index

Expect Muted Growth Ahead; Rising Costs and Price-Sensitive Buyers Present Margin Risks

Annual Average (12MMA)



Annual Growth Rate (12/12)

Current Phase

Phase B Accelerating Growth

Current Indicator Amplitude

- April 2026 Annual Growth Rate (12/12): 1.2%
- April 2026 Annual Average (12MMA), 2017=100: 101.6

Industry Outlook

Year	Annual Growth Rate
2026	1.5%
2027	-0.3%
2028	1.7%

Outlook & Supporting Evidence

- US Industrial Production in the 12 months through April was 1.2% above the same period one year ago. We expect muted annual Production rise to extend through at least 2028, though 2027 will be relatively flat. Growth will be uneven, however, with much of the growth concentrated in the tech sector.
- Improving financial conditions, higher capacity utilization, and stronger business confidence point to rise ahead for the US industrial sector. Manufacturers are expected to see positive revenue growth supported by modest gains in sales volumes.
- Wage growth is not keeping pace with inflation, posing a downside to manufacturers that depend heavily on discretionary consumer spending. Demand may become more selective as household budgets tighten.
- Higher oil prices are increasing operating and transportation costs for many manufacturers. Electricity costs are also likely to rise in the coming years amid rising demand, driven in part by data centers. Profit margins are expected to remain under pressure over the longer term, with the risk of margin compression increasing in 2027 as the industrial sector moves into the later stages of the business cycle. It is essential to invest in efficiency to protect margins.

US Nondefense Capital Goods New Orders (excluding aircraft)

Technology Investment and Pricing Pressures Drive a Modestly Stronger New Orders Outlook

Annual Total (12MMT)

Annual Growth Rate (12/12)

Current Phase

Phase B Accelerating Growth

Current Indicator Amplitude

- April 2026 Annual Growth Rate (12/12): 5.7%
- April 2026 Annual Total (12MMT), Billions of USD: $943.5

Industry Outlook

Year	*Annual Growth Rate*
2026	6.2%
2027	0.5%
2028	4.7%

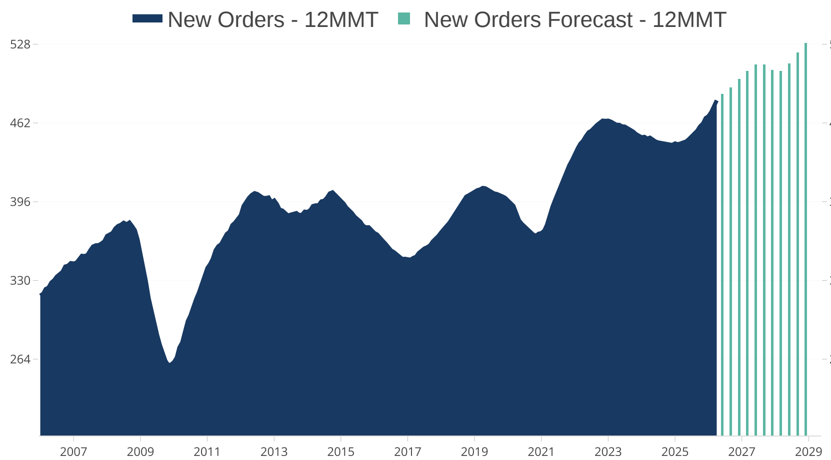
Outlook & Supporting Evidence

- We revised the US Nondefense Capital Goods New Orders (excluding aircraft) outlook to account for recent strength driven by technology-related capital spending, pricing pressures, and businesses accelerating purchases given the uncertain length of supply chain disruptions and cost increases linked to the Iran conflict. We lifted the annual New Orders forecast by 4.4%, 4.2%, and 2.6% for 2026, 2027, and 2028, respectively, but the overall trajectory remains largely unchanged. New Orders are expected to rise in 2026, level off in 2027, and resume growth in 2028.
- The ITR Leading Indicator™ remains in mildly positive territory, signaling a modest growth environment. We expect that growth this year will be supported by both pricing gains and slight volume increases, although volumes may soften modestly in 2027.
- Technology, defense, and electronics markets are expected to outperform many traditional manufacturing sectors. Government investment and accelerating technology adoption should create growth opportunities for manufacturers positioned to support these evolving markets.

US Machinery New Orders

Outlook Lifted Amid High-Tech Investment and Pre-Ordering Trends; Industrial Machinery Orders Surge

Annual Total (12MMT)



Annual Growth Rate (12/12)

Current Phase

Phase B Accelerating Growth

Current Indicator Amplitude

- April 2026 Annual Growth Rate (12/12): 8.0%
- April 2026 Annual Total (12MMT), Billions of USD: $480.9

Industry Outlook

Year	*Annual Growth Rate*
2026	7.0%
2027	1.5%
2028	4.5%

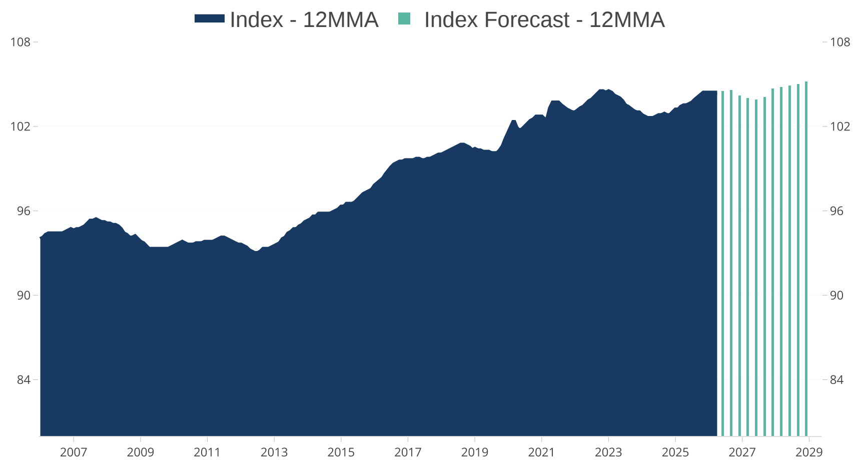
Outlook & Supporting Evidence

- Strong demand for equipment supporting data center expansion and AI-related investment has been a key driver of recent growth. Pricing impacts and businesses pulling forward some orders trying to get ahead of potential Middle East-related supply disruptions have also likely contributed to some recent positivity. As a result, we revised the annual US Machinery New Orders outlook upward by 5.3% to 6.6% through 2028.
- Annual New Orders will rise into mid-2027, followed by decline into early 2028 amid a stall in the broader industrial sector during that time, especially in legacy markets. Rise will characterize the remainder of 2028.
- Data center demand is contributing to rise in several machinery markets, including power generation equipment, refrigeration and HVAC equipment, and construction machinery. The Material Handling Equipment segment of New Orders is a relative weak spot amid still-low trucking volumes, although they have improved modestly.
- Rising prices are boosting Machinery New Orders but squeezing profitability. US Profit Margins for the Machinery Manufacturing Industry have come down from 2024 record highs, but remain relatively elevated at 11.1% in early 2026.

US Food Production Index

Food Production Likely to Be a Lackluster Market in the Coming Years

Annual Average (12MMA)



Annual Growth Rate (12/12)

Current Phase

Phase C
Slowing Growth

Current Indicator Amplitude

- April 2026 Annual Growth Rate (12/12): 0.9%
- April 2026 Annual Average (12MMA), 2017=100: 104.4

Industry Outlook

Year	*Annual Growth Rate*
2026	-0.1%
2027	0.4%
2028	0.5%

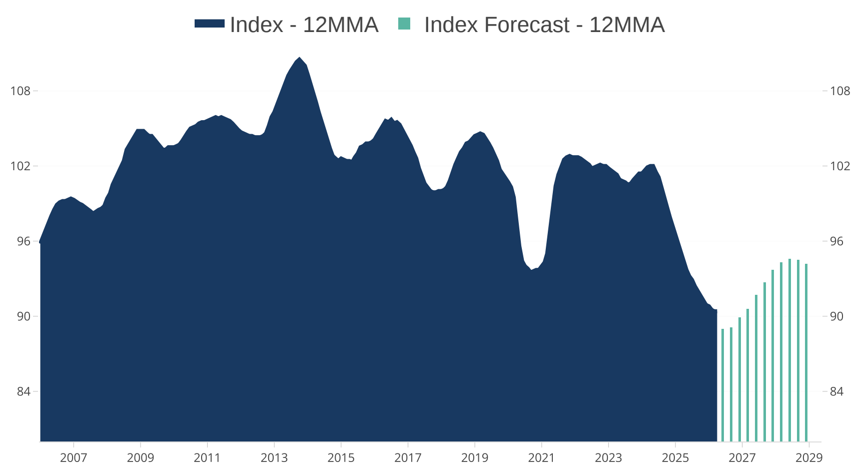
Outlook & Supporting Evidence

- US Food Production in the 12 months through April came in 0.9% above the year-ago level. Annual Production will peak later this year around record highs. Production will subsequently decline into mid-2027, then rise through at least 2028.
- The near-term outlook suggests limited upside despite current growth. Corporate cash levels within the US Food Manufacturing Industry have been declining since 2024, diverging from broader US corporate trends. On an inflation-adjusted basis, industry cash reserves are now at their lowest level in more than a decade.
- Potential supply chain disruptions related to the Iran conflict could add further margin pressure through higher input costs, including fertilizers and other agricultural inputs. Combined with weakening capacity utilization rates, these factors are likely to constrain production growth over the next several years.
- While food demand tends to be relatively stable, recent decline in real income growth may encourage consumers to trade down to lower-cost products. Rising prices for premium proteins such as beef and seafood could further accelerate substitution toward more affordable food options.

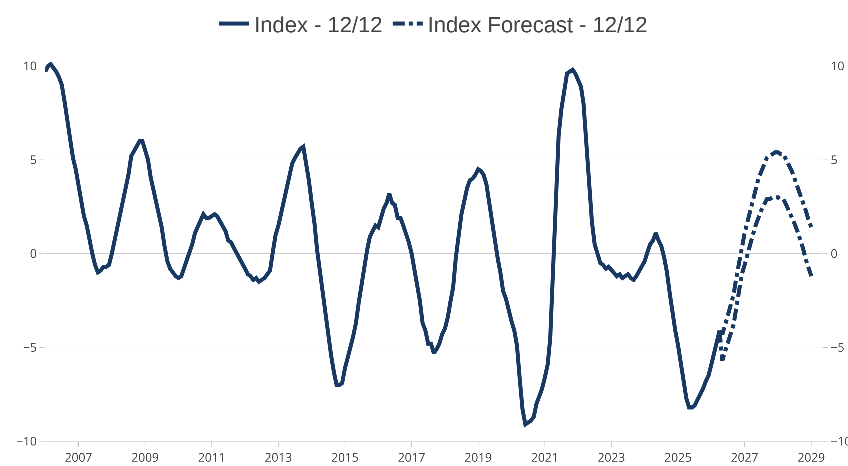
US Medical Equipment and Supplies Production Index

Healthcare Spending Will Ultimately Drive Rise; Insurance and Regulatory Changes Could Pose Risks

Annual Average (12MMA)



Annual Growth Rate (12/12)



Current Phase

Phase A Recovery

Current Indicator Amplitude

- April 2026 Annual Growth Rate (12/12): -4.1%
- April 2026 Annual Average (12MMA), 2017=100: 90.4

Industry Outlook

Year	*Annual Growth Rate*
2026	-0.3%
2027	4.2%
2028	0.5%

Outlook & Supporting Evidence

- US Medical Equipment and Supplies Production in the 12 months through April was 4.1% below the year-ago level. Production will transition to rise in the near term, with annual Production rise extending into mid-2028. Production will subsequently decline through at least 2028.
- Strong revenue growth at major medical technology and device companies is a positive sign, although this strength is not consistent across the board. Pharmaceutical companies, in particular, are experiencing headwinds, and the prior stockpiling of drugs has generated elevated inventories that will translate into weaker demand for domestic drug production.
- Reshoring initiatives, broader economic growth, and increasing demand for healthcare services are expected to create opportunities in the years ahead.
- However, recently implemented work requirements for Medicaid eligibility and more stringent rules for certain health services under Medicare are likely to reduce coverage volume. COVID-era health insurance subsidies were also scaled back. These developments increase the risk of underinsured individuals and the risk of bad debts at hospitals. These factors could post downside risks to the outlook, particularly for suppliers reliant on rural or high-Medicaid volume hospitals.

US Leading Indicators

Indicator	Direction 2Q26	3Q26	4Q26
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

- 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.

Supply chain pressures will increase this year as the industrial sector rises. Focus on how you can reduce the risk of longer lead times and higher prices. But, with slower conditions expected in 2027, be cautious of not overbuilding inventory late this year.

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