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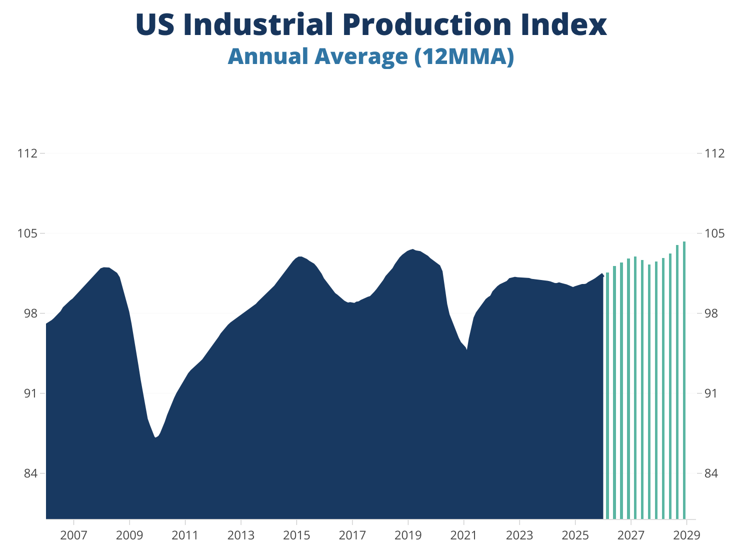
Economic Overview

From an economic perspective, the outbreak of war in the Middle East adds complication, delays, and costs to global supply chains, but the conflict is not expected to shift the business cycle based on its current trajectory. War-related spending would be counted as a positive for GDP, but that economic growth can feel hollow, as it does not directly improve consumers' economic wellbeing. Higher energy costs will be hitting consumers at a time when real income growth is already sluggish, but the impact is somewhat mitigated by efficiency gains in recent decades. Businesses should take a proactive approach to managing their supply chain risks in that region by ordering sooner rather than later and finding backup sources. Expect higher oil prices to flow over to downstream chemicals markets such as plastics and fertilizers in the near term. Our analysis suggests that similar black-swan type events typically lead to higher prices in the one to two quarters following the onset; however, prices then move back toward economic fundamentals. Even so, the length of the conflict and extent of infrastructure damage will matter. Do not get too caught up in the news. Remember that business cycles in the economy are larger than politics. The momentum for much of the economy is to the upside right now, with the notable exception of some construction markets.



The US economy continues to expand even in the face of headwinds. Consumers remain on relatively solid ground and still have the capacity to borrow to finance spending. Business-to-business spending is recovering, with inflation-adjusted US Nondefense Capital Goods New Orders (excluding aircraft) moving above year-ago levels to close out 2025. We are anticipating a growth rate peak for much of the macroeconomy late this year, including retail sales, industrial production, and capex spending. However, growth will not be even among industries. Legacy manufacturing markets are likely to lag behind the growth of total US Industrial Production. For example, we recently lowered our expectations for North America Light Vehicle Production due to tariff headwinds, weak income growth, and affordability issues. Meanwhile, markets like high tech, defense, and electrical equipment are likely to outperform the broader total, as efforts to modernize domestic manufacturing, invest in electrification, and reduce reliance on imports will drive growth.

Looking beyond this year, many segments of the economy will be heading into slowing growth to start 2027. As you begin to look operationally at the year ahead, ensure your planning accounts for this knowledge and that you are not overbuilding inventory late this year. The housing market is already signaling a stall, and housing typically leads the industrial sector by roughly one year. While some of the drivers of ongoing US Single-Unit Housing Starts are insular to the new construction industry, sticky interest rates and slowing growth in real incomes will weigh on the industrial sector. The expected stall will be brief though, with rise expected in 2028.

Profitless prosperity remains a risk for many businesses in the coming years. Input costs are generally accelerating, meaning that margin squeeze is likely for businesses with price-sensitive buyers. Higher costs will come from multiple vectors. Electricity, labor, materials, and transportation costs are likely to rise. Investing in efficiency will be vital to counter this pressure and maximize opportunities in the modest growth environment over the second half of this decade.

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	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)	3.6%	B	3.2%	0.8%	6.3%
7	US Machinery New Orders	5.1%	B	4.1%	0.4%	5.8%
8	US Food Production Index	1.3%	B	-0.1%	0.4%	0.5%
9	US Medical Equipment and Supplies Production Index	-6.8%	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.*

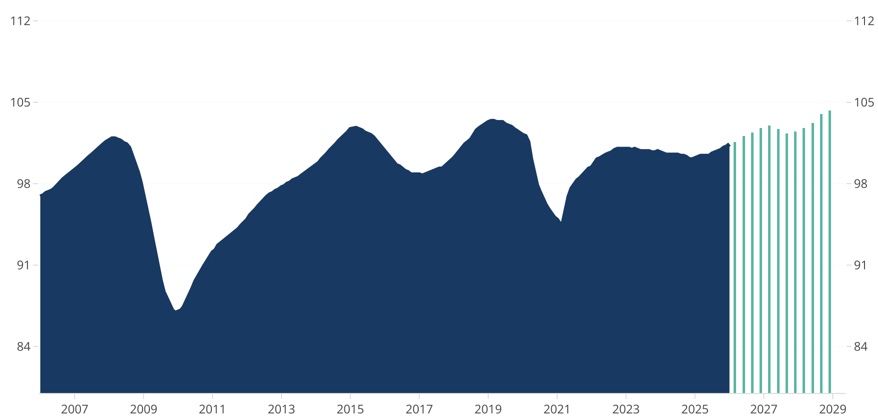
***Annual growth rate (12/12) except where noted otherwise.*

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

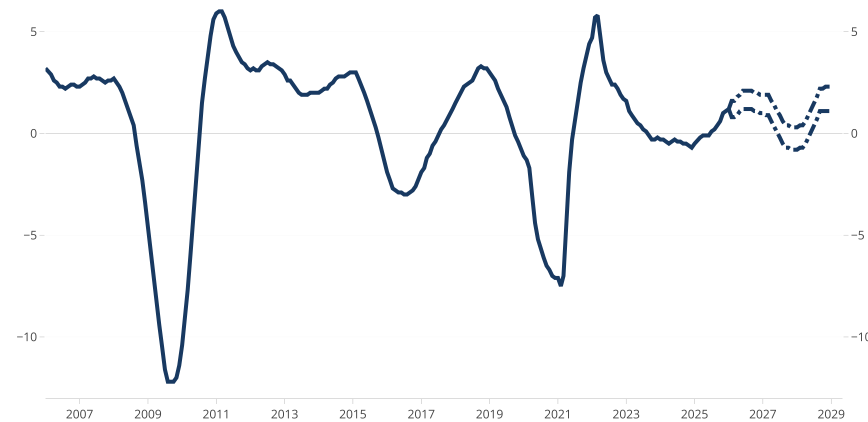
US Industrial Production Index

Industrial Sector to Grow in 2026 and -28; Interest Rates and Electricity Costs to Temper 2027 Rise

Annual Average (12MMA)



Annual Growth Rate (12/12)



Current Phase

Phase B Accelerating Growth

Industry Outlook

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

Current Indicator Amplitude

- January 2026 Annual Growth Rate (12/12): 1.2%
- January 2026 Annual Average (12MMA), 2017=100: 101.4

Outlook & Supporting Evidence

- Annual US Industrial Production is projected to rise this year and in 2028, with a relatively flat 2027. Expect Production to rise a net 2.8% by the end of 2028.
- Onshoring initiatives and solid consumer financials will help drive general expansion, though the maturity of the market and lingering uncertainty will contribute to lower growth rates this cycle.
- The annual Production plateau in 2027 is consistent with expectations for elevated long-term interest rates, slower consumer spending, and higher electricity costs, which will temper growth.
- The high-tech subsector of Industrial Production is expected to experience more robust rise than legacy markets like machinery manufacturing or mining. Industrial activity supporting the defense sector is also likely to provide opportunities in the coming years.

US Nondefense Capital Goods New Orders (excluding aircraft)

B2B Spending to Accelerate This Year Amid Sufficient Liquidity but Plateau for Much of 2027

Annual Total (12MMT)

Annual Growth Rate (12/12)

Current Phase

Phase B Accelerating Growth

Current Indicator Amplitude

- December 2025 Annual Growth Rate (12/12): 3.6%
- December 2025 Annual Total (12MMT), Billions of USD: $920.1

Industry Outlook

Year	*Annual Growth Rate*
2026	3.2%
2027	0.8%
2028	6.3%

Outlook & Supporting Evidence

- Expect annual US Nondefense Capital Goods New Orders (excluding aircraft) to move higher through the end of this year. On net, annual New Orders will plateau in 2027, but some mature and interest rate-sensitive capex markets will contract that year. Growth will return in 2028.
- We expect growth in New Orders this year as industrial capacity utilization increases and inventory turns for durable goods continue to improve. Corporate profits and cash are supportive of rise but suggest a relatively mild pace.
- Higher capital equipment prices are boosting the dollar value of New Orders. However, there is some volume growth occurring as well. Investing in efficiency is advisable given higher input costs and a tight labor market that could squeeze margins and constrain output.

US Machinery New Orders

New Orders to Rise This Year; Growth Partially Attributable to Pricing Pressures

Annual Total (12MMT)

Annual Growth Rate (12/12)

Current Phase

Phase B Accelerating Growth

Industry Outlook

Year	*Annual Growth Rate*
2026	4.1%
2027	0.4%
2028	5.8%

Current Indicator Amplitude

- December 2025 Annual Growth Rate (12/12): 5.1%
- December 2025 Annual Total (12MMT), Billions of USD: $466.1

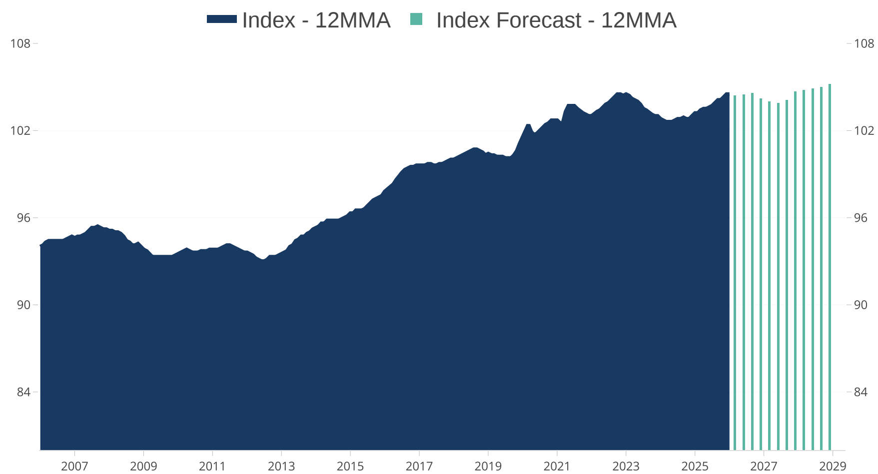
Outlook & Supporting Evidence

- US Machinery New Orders in 2025 came in 5.1% above the 2024 level and were at a record high. December New Orders data also marked a new record high. We expect annual New Orders to continue rising into early next year before plateauing through the remainder of 2027. Growth is projected to resume in 2028.
- Upside pricing pressures will contribute to dollar-denominated New Orders growth this year. Prices within subsegments of Machinery New Orders — including construction, electrical, agricultural, metal working, and mining machinery — are accelerating. Though inflationary trends are likely to continue, we are unlikely to see a surge comparable to 2022 and 2023.
- From a volume perspective, employment data suggests that manufacturers are leaning into automation. Growing interest and preference for automated solutions will bolster overall machinery spending in the coming years.

US Food Production Index

Food Production Growth to Slow This Year Amid Cautious Consumer Discretionary Spending

Annual Average (12MMA)



Annual Growth Rate (12/12)

Current Phase

Phase B Accelerating Growth

Current Indicator Amplitude

- January 2026 Annual Growth Rate (12/12): 1.3%
- January 2026 Annual Average (12MMA), 2017=100: 104.5

Industry Outlook

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

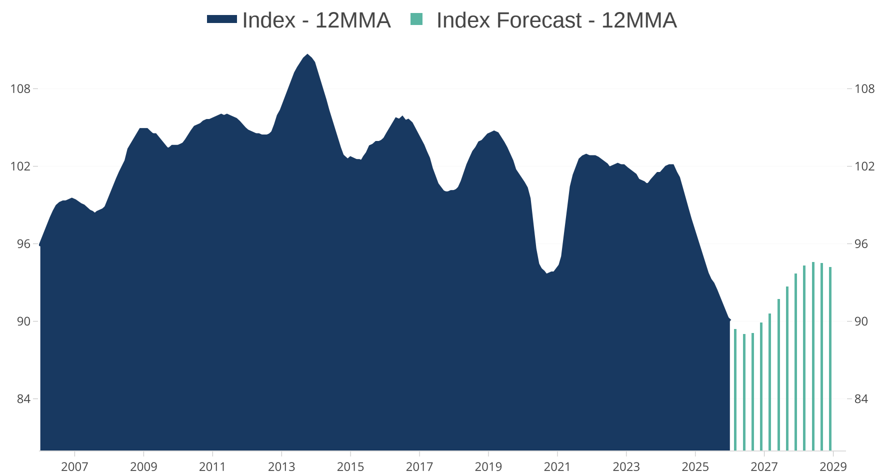
Outlook & Supporting Evidence

- US Food Production in the 12 months through January was 1.3% above the same period one year ago. Annual Production will rise mildly into the second half of this year, then trend lower into mid-2027. Subsequent growth will extend through at least 2028. Gains will be modest, and annual Production will end that year slightly above the current level.
- While food demand is relatively inelastic and less volatile than many other manufacturing segments, companies should prepare for slower growth and the potential for price sensitivity to cut into volumes this year as middle- and lower-income consumers are squeezed by cumulative inflation.
- Capital spending within the food production sector is likely to be softer this year. While elevated relative to the 10-year average, corporate profits within the food and beverage industry are declining, which could temper investments. However, labor-saving efforts are likely to remain a priority.

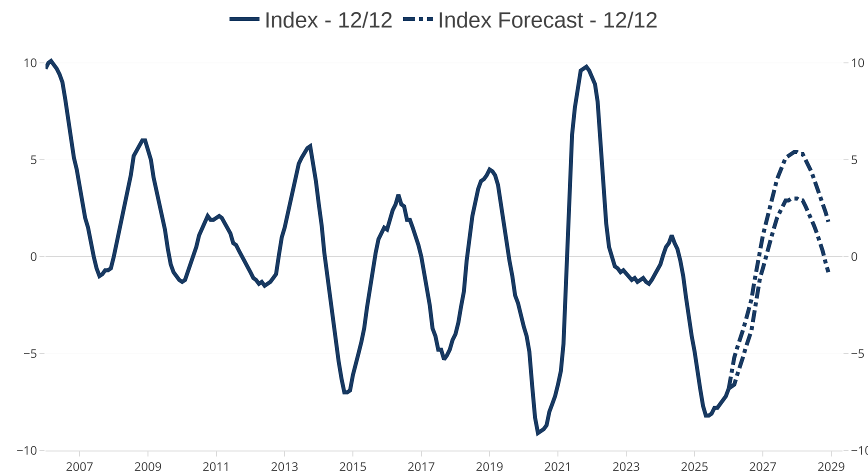
US Medical Equipment and Supplies Production Index

Forecast Lowered; Import Substitution Stunting Domestic Medical Equipment Production

Annual Average (12MMA)



Annual Growth Rate (12/12)



Current Phase

Phase A Recovery

Current Indicator Amplitude

- January 2026 Annual Growth Rate (12/12): -6.8%
- January 2026 Annual Average (12MMA), 2017=100: 90.0

Industry Outlook

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

Outlook & Supporting Evidence

- We lowered our US Medical Equipment and Supplies Production forecast as the economic evidence and latest data point to a more gradual recovery.
- Expect further annual Production decline in the near term before a growth pattern emerges in mid-2026. Rise is expected to extend into mid-2028. Annual Production will rise by around 6.3% during that period before decline characterizes the latter half of 2028.
- While aging demographics present opportunities for the medical industry broadly, the trend for domestic Medical Equipment and Supplies Production has been long-term shrinkage since 2013. Globalization and import substitution have crowded out domestic manufacturing of medical equipment and supplies.
- Reshoring efforts and rising demand for medical services overall will present pockets of opportunity for the market ahead, but we anticipate that annual Production will remain below the 2024 peak through at least 2028.

US Leading Indicators

Indicator	Direction		
	1Q26	2Q26	3Q26
ITR LEADING INDICATOR™	Green	Green	Green
ITR RETAIL SALES LEADING INDICATOR™	Green	Red	Green
US OECD LEADING INDICATOR	Red	Red	Red
US ISM PMI (PURCHASING MANAGERS INDEX)	Red	Red	Green
US TOTAL CAPACITY UTILIZATION RATE	Green	Green	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

• Mixed signals in the table portray broad, though likely muted, growth for the economy in the coming quarters.

• Vacillation in the US ISM PMI (Purchasing Managers Index) is ongoing, which supports our outlook for growth to be somewhat mild and potentially choppy.

• After years of cumulatively strong pricing pressures, consumers and businesses are likely feeling fatigued and may be more price-sensitive during the current rising trend. Keep this in mind when introducing products and services.

Electricity and labor will be a significant cost pressure over the next few years due in part to increased demand from AI infrastructure and US demographics. Consider looking for ways to reduce dependency on the grid and invest in tools and technology to make your employees more efficient.

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