

IMEC

DECEMBER 2024



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Economic Overview

Growth Lies Ahead; Here Are Some Key Drivers:

Consumers: Rising incomes and inflation-adjusted savings balances will help boost Retail Sales rise in the years ahead. Higher-income earners and those who saw their home prices rise and stock portfolios increase in value in recent years will likely drive much of the growth. Those demographics struggling with inflation should get some relief in 2025, but price sensitivity will linger. Retail Sales growth will start out sluggish in early 2025 but then ramp up later in the year. Improving consumer metrics will also be a positive for other sectors ranging from manufacturing to services.

Interest Rates: The Federal Reserve has shifted to a more accommodative monetary policy; however, a lower Federal Funds Rate does not necessarily equate to lower interest rates for businesses. Commercial loans and mortgage rates trend similarly to US Government Long Term Bond Yields, which we anticipate will have a relatively flat trajectory with the potential for minor downward movement into mid-2025. Beyond rates, borrowing conditions are improving. Many lenders have stopped tightening their credit standards, and the default risk premium has moved lower, suggesting lenders are less concerned about recession risks – though there are lingering concerns specific to the CRE market. When deciding on capex, focus on timing the ROI to best align with your market trends as opposed to waiting for a low in rates. Aim to have the payback period completed ahead of the 2030s, as we anticipate tougher economic times in that decade.

Inflation: Prices will generally rise in 2025 and 2026, picking up the pace in the second half of 2025. Inflation will be temperate relative to the levels of 2021 and 2022 but not as low as in the 2010s. If further tariffs are put in place, they could pose an upside risk to our pricing outlooks.

Businesses: While borrowing costs may not come down much more, elevated corporate profits and corporate cash will allow businesses to spend more. We expect investments in domestic capacity in recent years to have a cumulative positive effect, helping the economy reach record heights. Rise will be driven both by higher volumes and higher dollar values. Efficiency gains will be necessary to maintain or improve margins.

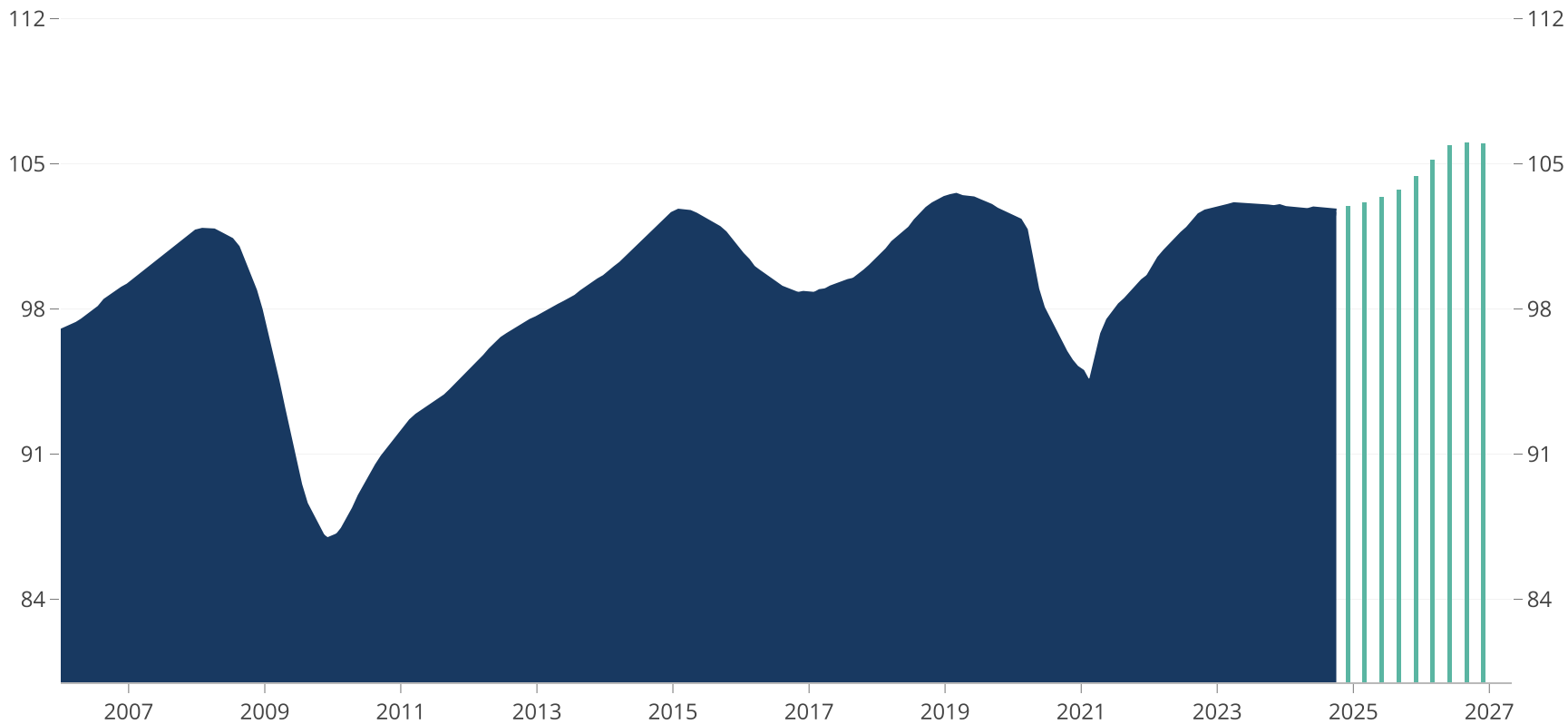
The Labor Market: Labor challenges will persist in the upcoming years, as will the upward pressure on wages. While the labor market has softened, it will remain relatively tight in the coming years due in part to the aging population. It will be important to focus resources on attracting and retaining talent. Keep your wages and benefits competitive for your region and industry.

Key Industries and Takeaways for Your Business

It may feel difficult to be optimistic at this point in the business cycle, but there are green shoots. Leading indicators, including the ITR Leading Indicator™, point to upcoming business cycle rise; however, markets will trend differently throughout this period. In the construction market, residential construction will rise for much of the next few years, despite affordability constraints, given the high demand for housing. The nonresidential construction sector lags the overall economy and is likely to undergo mild decline for much of 2025 and into 2026. There will be areas of opportunity within nonresidential construction, notably data centers, as they are in high demand and likely to rise in the coming two years. Within the industrial sector (which will be boosted generally by the nearshoring efforts of the past few years), manufacturing related to technology will likely be an area of opportunity.

What is your business doing to prepare for macroeconomic rise in 2025 and 2026? Do you have the capacity needed to take on more activity, or can you harness new technologies to increase productivity? Rising prices coupled with lingering price sensitivity could cause margin squeeze. Now is the time to focus on efficiencies to protect your margins and increase flexibility. If possible, diversify your supply chain or move inputs for your US consumer base closer to the US to help insulate you from potential future trade conflicts.

US Industrial Production Index Annual Average (12MMA)



Terminology and Methodology

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

				Annual Growth Rate Forecast (12/12), Year-End*		
				Current		
Page Number	Indicator	Growth Rate**	Phase	2024**	2025**	2026**
4	US Industrial Production Index	-0.2%	A	0.1%	1.4%	1.5%
5	US Nondefense Capital Goods New Orders (excluding aircraft)	0.6%	C	-0.6%	3.4%	2.4%
6	US Machinery New Orders	0.3%	C	-0.3%	5.0%	4.4%
7	US Food Production Index	-1.2%	A	-0.2%	1.7%	1.5%
8	US Medical Equipment and Supplies Production Index	-1.7%	D	-1.1%	0.9%	0.8%

*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 otherwise noted.



Recovery (A)



Accelerating Growth (B)



Slowing Growth (C)

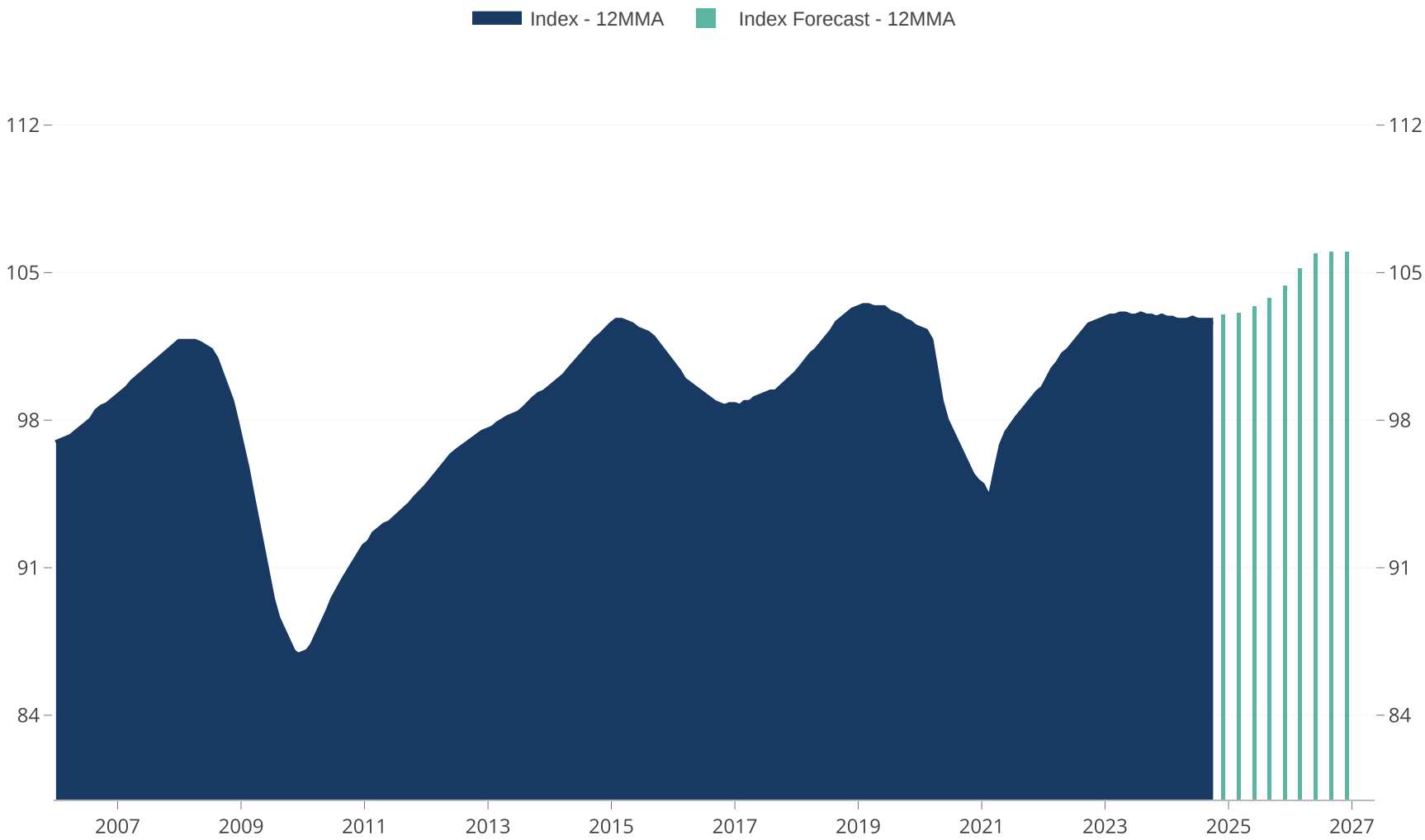


Recession (D)

US Industrial Production Index

Forecast Adjusted; Industrial Sector Poised for Record Highs, but Interest Rates Pose a Risk

Annual Average (12MMA)



Annual Growth Rate (12/12)



Current Phase



Phase A
Recovery

Current Indicator
Amplitude

- October 2024 Annual Growth Rate (12/12): -0.2%
- October 2024 Annual Average (12MMA), 2017=100: 102.7

Industry Outlook

<u>Year</u>	<u>Annual Growth Rate</u>
2024	0.1%
2025	1.4%
2026	1.5%

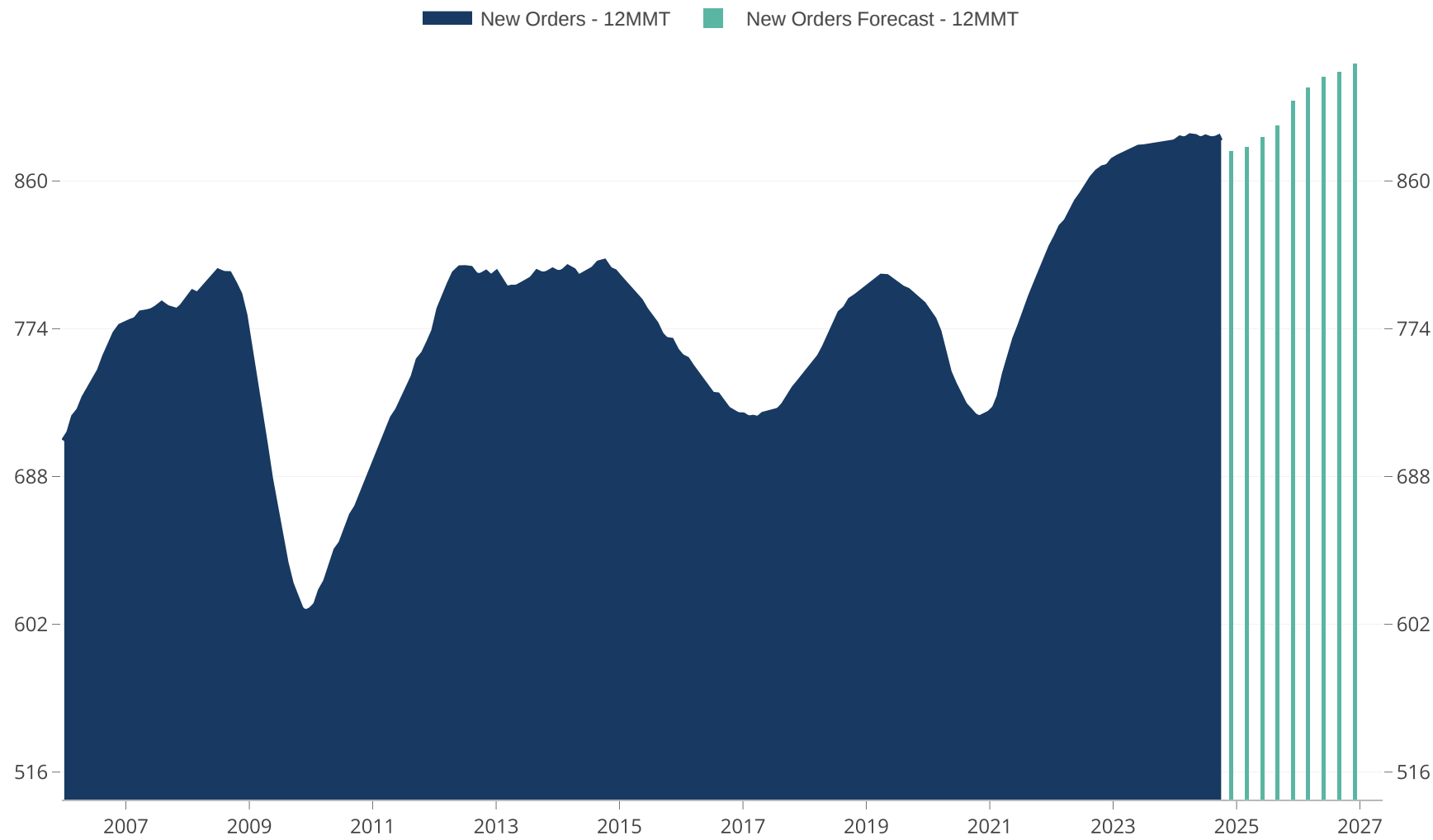
Outlook & Supporting Evidence

- The US Industrial Production plateau has had less of a downward tilt than we expected. Looking forward to 2025, mixed leading indicator evidence suggests that rise will be milder than previously anticipated. We adjusted our forecast, but the changes amount to less than 1%.
- Shallow rise in leading indicators suggests that Industrial Production rise will be tepid through the first half of 2025 but then pick up in the back half of the year. By year-end 2026, annual Production will have surpassed the prior record high by 2.5%, enabled by investments in domestic capacity and shortening supply chains.
- Preparing for the rise ahead will look different depending on your specific market. Businesses in high-growth markets must invest in capacity or they risk losing share. However, mature markets or those facing structural issues should focus not on adding capacity but on improving efficiencies, reducing dependence on labor, and expanding into markets with better long-term growth prospects. Look for investments where you can capture the return ahead of the tougher economic times we expect in the 2030s.
- The Federal Reserve has begun to loosen monetary policy and has lowered the Federal Funds Rate. Longer-term rates, which are not set by the Fed, have come down mildly over the last year. Historically, it can take two years for interest rates to impact the industrial sector, so high rates pose a lingering downside risk.

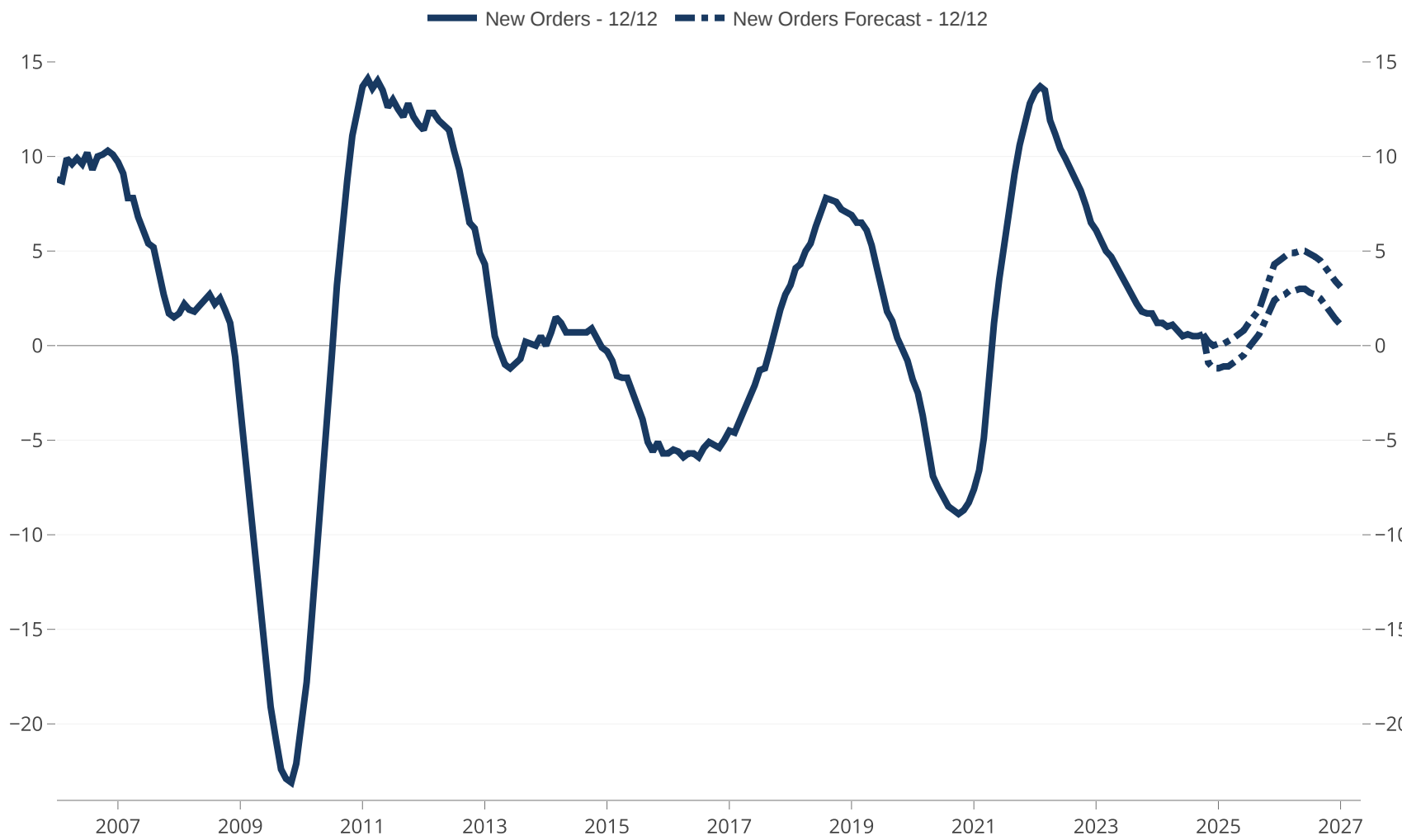
US Nondefense Capital Goods New Orders (excluding aircraft)

Capex to Rise on Dollar and Volume Basis, but Watch Out for Margin Squeeze

Annual Total (12MMT)



Annual Growth Rate (12/12)



Current Phase



Phase C
Slowing Growth

Current Indicator Amplitude

- October 2024 Annual Growth Rate (12/12): 0.6%
- October 2024 Annual Total (12MMT), Billions of USD: \$885.8

Industry Outlook

Year	Annual Growth Rate
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2024	-0.6%
2025	3.4%
2026	2.4%

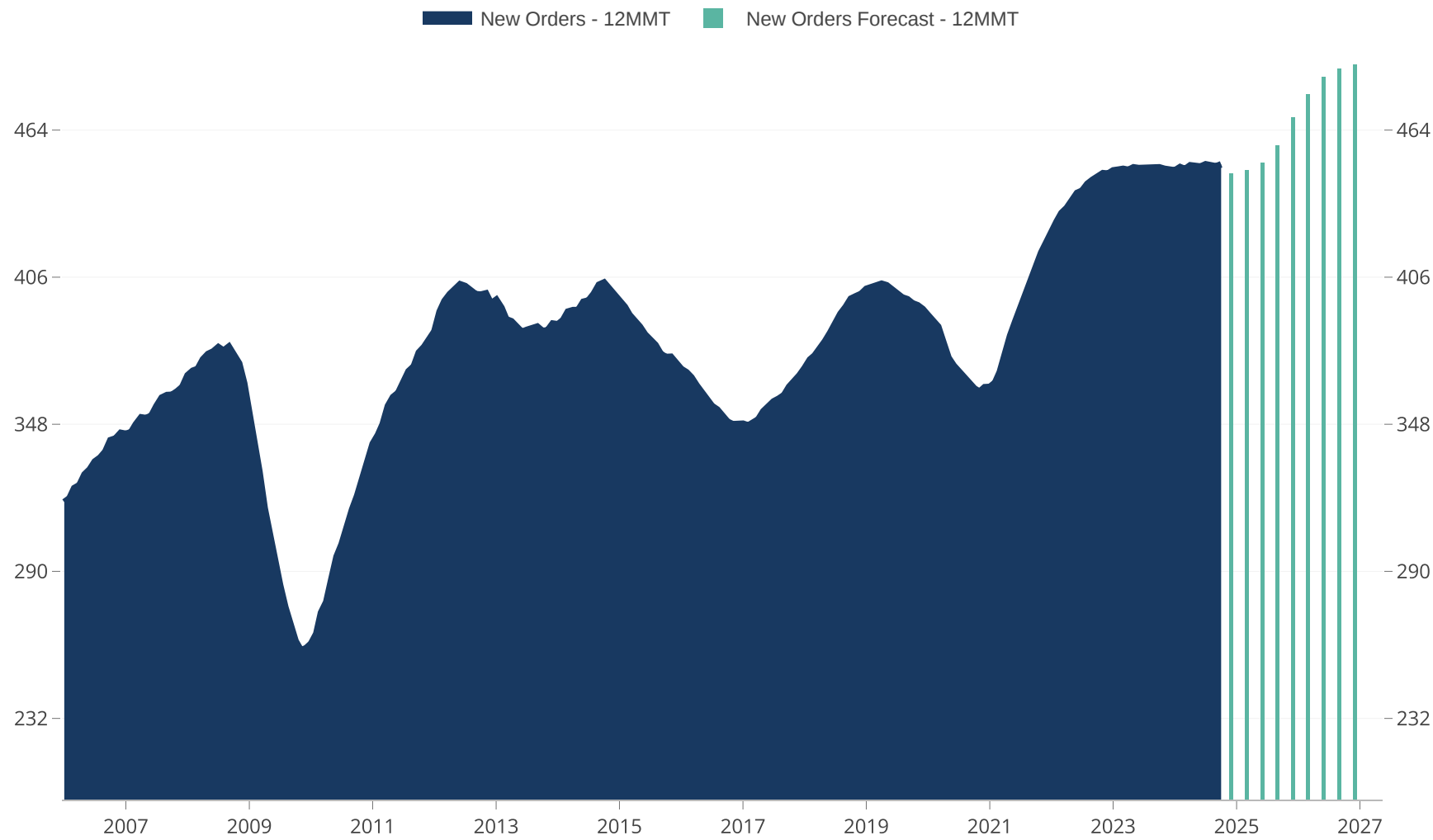
Outlook & Supporting Evidence

- Beneath a top-level plateau, capital goods markets are diverging, with electronics outperforming traditional machinery.
- Business confidence is muted, but those who follow leading indicators, such as the ITR Leading Indicator™, have confidence that a better year - not a blockbuster year, but a better year - is coming. The ITR Leading Indicator™ is maintaining a gradual rising trend, and the US ISM PMI monthly rate-of-change is signaling that more than a year of cyclical rise is probable this cycle. Upcoming growth in 2025 will likely be weighted toward the second half of the year. Growth will persist through at least 2026.
- US Exports are generally rising, which is supportive of New Orders, though an appreciating US dollar could temper this trend. Future trade policy could have economic impacts but, at this juncture, the changes that the upcoming administration will enact are speculative. When policy specifics become available, we will share our analysis. It is prudent to pursue deep knowledge of your supply chain to understand your risk exposure and diversify sources where possible.
- Pricing pressures will contribute to rise, as New Orders are dollar-denominated, and we foresee inflation heating up in 2025. However, with rising input costs and price-sensitive buyers, there is a risk of margin squeeze, so it is important to make efficiency improvements.

US Machinery New Orders

Developing Macroeconomic Tailwinds a Harbinger of New Orders Rise, but Will Take Time to Manifest

Annual Total (12MMT)



Annual Growth Rate (12/12)



Current Phase



Phase C
Slowing Growth

Current Indicator
Amplitude

- October 2024 Annual Growth Rate (12/12): 0.3%
- October 2024 Annual Total (12MMT), Billions of USD: \$450.5

Industry Outlook

<i>Year</i>	<i>Annual Growth Rate</i>
2024	-0.3%
2025	5.0%
2026	4.4%

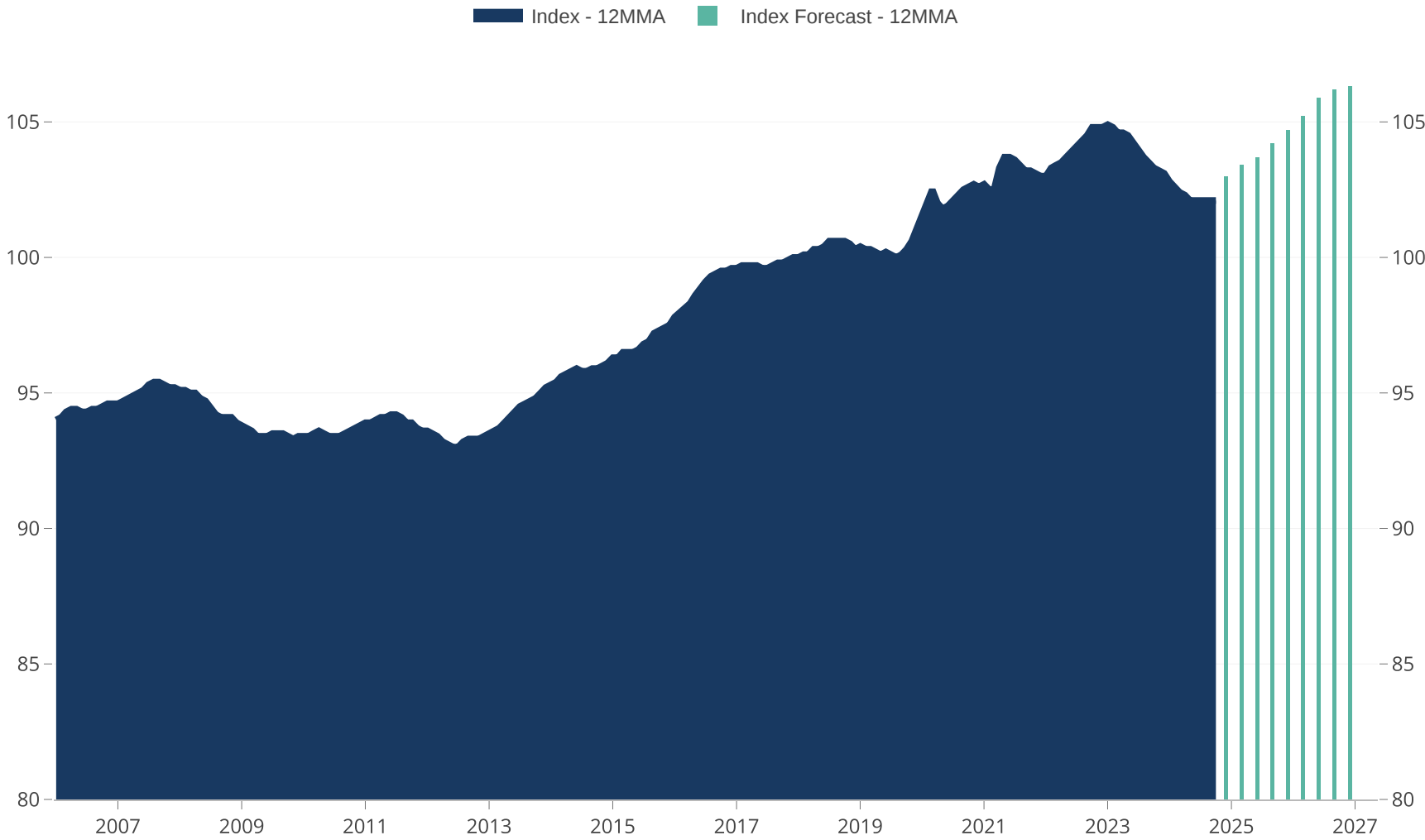
Outlook & Supporting Evidence

- US Machinery New Orders in the 12 months through October were 0.3% above the year-ago level. We expect New Orders will generally plateau into early 2025. Rise will then take hold and extend through at least 2026.
- Borrowing conditions are improving slightly, which is generally a boon to machinery markets. The Federal Reserve is lowering the Federal Funds Rate as inflation eases, and the corporate bond market indicates a lower default risk premium, likely due to perceived economic strength and associated low default risk. While these are positive signs, effects typically take time to develop. Some buyers may wait for additional rate cuts or for more positive economic evidence and momentum.
- While it may be difficult to feel optimistic at this point in the business cycle, there are green shoots forming. The ITR Leading Indicator™ is gradually rising, and US Corporate Profits and US Exports of Goods are in nascent accelerating growth trends.

US Food Production Index

Upcoming Production Rise in 2025 and 2026 Supported by Improving Consumer Financial Metrics

Annual Average (12MMA)



Annual Growth Rate (12/12)



Current Phase



Phase A
Recovery

Current Indicator
Amplitude

- October 2024 Annual Growth Rate (12/12): -1.2%
- October 2024 Annual Average (12MMA), 2017=100: 102.1

Industry Outlook

<i>Year</i>	<i>Annual Growth Rate</i>
2024	-0.2%
2025	1.7%
2026	1.5%

Outlook & Supporting Evidence

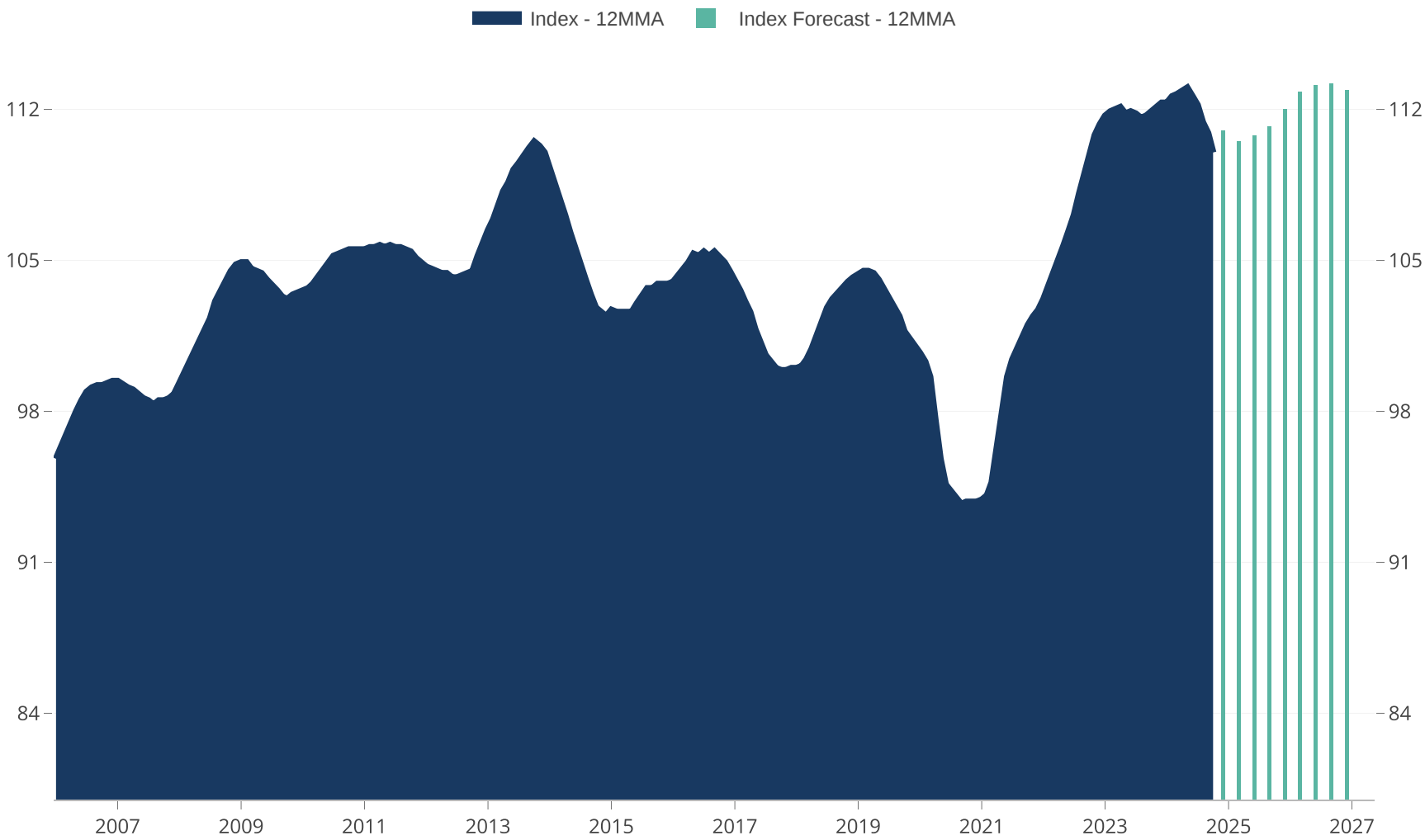
- Annual US Food Production has reached a flat trough and is on the cusp of rise. Upcoming rise will last through at least 2026, with growth slowing in the second half of that year.
- Upcoming rise in annual Production is supported by an uptick in the US Food Capacity Utilization Rate and generally elevated industry profits.
- Consumers are generally financially healthy, with real incomes rising, which will allow consumers to spend more on food. Population growth is also a positive for demand in this market. While food purchases will rise on a volume basis, the cumulative impact of prior inflation is compelling consumers to be more price-conscious. Consumers are opting for cheaper substitutes or are reducing discretionary spending, such as on snack and brand-name foods. The component of Production that includes snack foods is underperforming and remains in Phase D, Recession. Components with more inelastic tendencies, such as Grains and Meats, are outperforming and are in an early Phase B, Accelerating Growth, trend.
- Risks to the forecast include supply-side factors, such as adverse weather impacting domestic agriculture output, and the potential for tariff changes that could affect imports and exports.

US Medical Equipment and Supplies Production Index

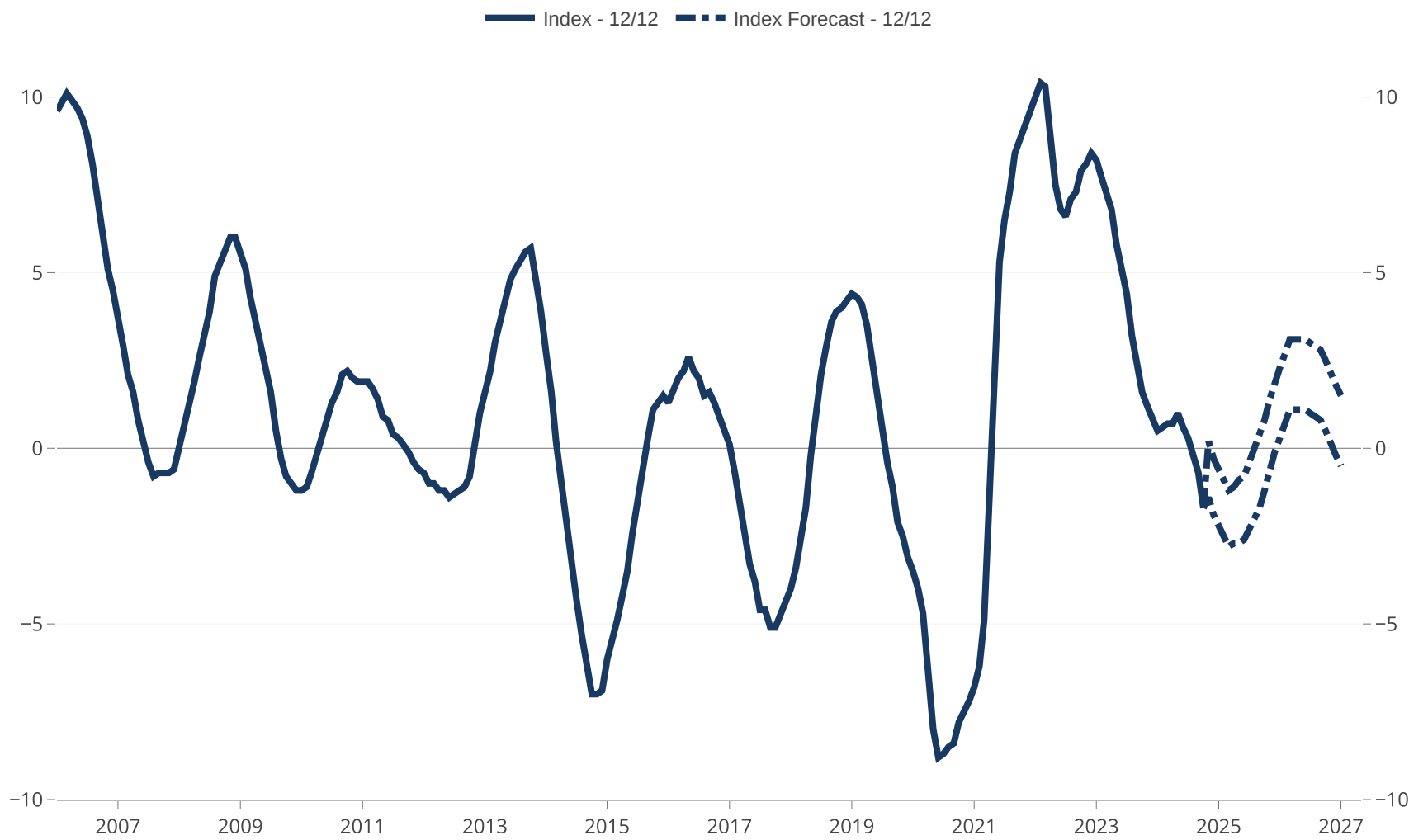


Phase D Will Be Brief: Demographic Trends Suggest Medical Is a Market of Opportunity

Annual Average (12MMA)



Annual Growth Rate (12/12)



Current Phase



Phase D
Recession

Current Indicator
Amplitude

- October 2024 Annual Growth Rate (12/12): -1.7%
- October 2024 Annual Average (12MMA), 2017=100: 110.0

Industry Outlook

<u>Year</u>	<u>Annual Growth Rate</u>
2024	-1.1%
2025	0.9%
2026	0.8%

Outlook & Supporting Evidence

- US Medical Equipment and Supplies Production has transitioned to Phase D, Recession. Recession will be brief and mild given the aging US demographic and onshoring in this sector in recent years. Healthcare expenditures in the US for those ages 45 and up make up the majority of overall healthcare expenditures. As the proportion of the population over 45 increases, demand for health care and related supplies and equipment is likely to accelerate.
- Annual Production will decline for about two more quarters before rising into the second half of 2026, meeting record highs. Production will tick down in late 2026.
- There are green shoots on the horizon for Production. A positive trend in US Medical and Diagnostic Laboratories Revenue supports our outlook for upcoming rise. There are also pricing trends in select healthcare stocks that bode well for Production.
- We expect domestic producers to hold on to or potentially gain market share in the coming years, as the risks of sourcing abroad were laid bare during the pandemic.

US Leading Indicators



Indicator	Direction		
	4Q24	1Q25	2Q25
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

- Loosening monetary policy may have a lagged impact on leading indicators, but, for now, rise in leading indicators remains uneven and overall mild.
- The US ISM PMI (Purchasing Managers Index) continues to show signs of weakness. We continue to monitor this movement as a possible downside risk for 2025.
- The US Total Industry Capacity Utilization Rate is generally plateauing with a slight upward bias, which supports our outlook for muted rise in the industrial sector in 2025.

For many leading indicators, the strength of rise is more muted than robust at this time. Depending on your market, expect a more sluggish upward trend compared to the previous cycle, due in part to the lagged effects of still-elevated interest rates. Technology and renewables-focused markets continue to be areas of relative opportunity.

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 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. Source: US Census Bureau. NAICS Code: 333. Measured in billions of dollars, NSA.

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: FRB. NAICS Code: 3391. Index, 2017 = 100, 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, 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: FRB. NAICS Code: 311. Index, 2017 = 100, NSA.

Management Objectives™

Phase A	Phase B	Phase C	Phase D
<div><div></div><div>Recovery</div></div> <div><ul style="list-style-type: none">● 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</div>	<div><div></div><div>Accelerating Growth</div></div> <div><ul style="list-style-type: none">● 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</div>	<div><div></div><div>Slowing Growth</div></div> <div><ul style="list-style-type: none">● 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</div>	<div><div></div><div>Recession</div></div> <div><ul style="list-style-type: none">● 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</div>