MEP National Network

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Reports
ITR Economics

603.796.2500 itreconomics.com

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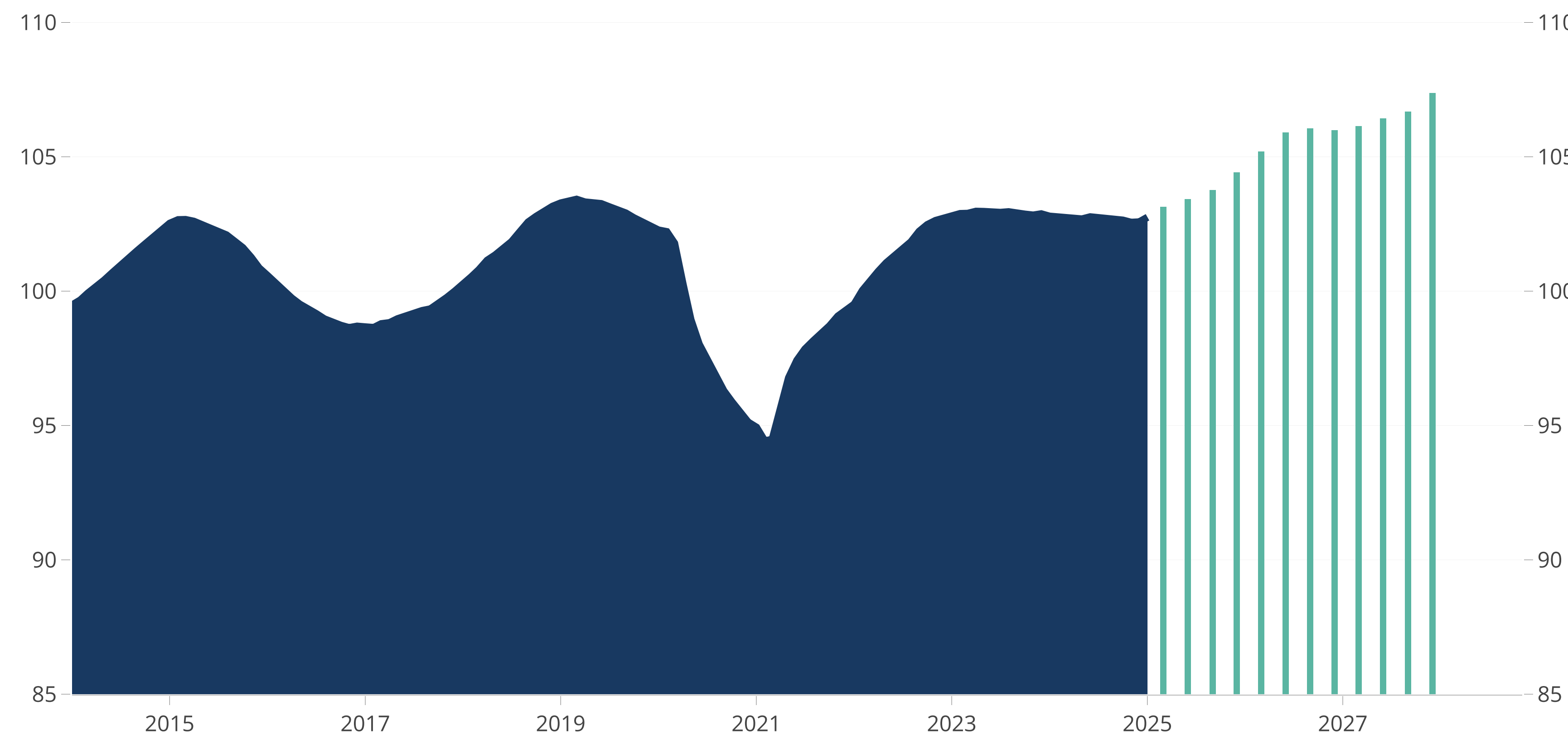
Economic Overview

Tariffs, geopolitical conflict, interest rates, inflation, stock market volatility, and more are on the minds of businesses and consumers, leading to elevated uncertainty. As we parse the various headwinds and tailwinds, we are maintaining our outlook for macroeconomic growth in the coming years. A number of leading indicators, including rise in the US Total Industry Capacity Utilization Rate and ITR Leading Indicator™ signal that there will be rise in 2025 and into at least 2026. However, in general, 2025 and 2026 will be muted relative to the prior cycle, and we want to emphasize that underneath the headline numbers, there are divergent outcomes. Knowing your market's trends is key.

US Industrial Production Index

Annual Average (12MMA)



Rising real incomes, as well as our expectations for generally rising consumer prices, suggest that Retail Sales will rise in the coming years. Not all consumer demographics are performing the same though – a large portion of consumer expenditures are made by high-income brackets . If your business caters to lower-income brackets, who on net are struggling to build up savings as prices generally rise and long-term interest rates stay sticky, your sales may not trend as closely this cycle with broader Retail Sales. Consider who your target demographics are when making business decisions.

Businesses are also in a stable position with elevated corporate profits, and business confidence metrics are slowly rising. US Nondefense Capital Goods New Orders, a proxy for B2B spending, is tentatively rising and poised for further rise in the rest of 2025 and throughout at least 2026, though growth will be muted relative to recent cycles. Businesses are contending with still-elevated borrowing costs, which will limit some capex. However, we urge clients to avoid trying to time a low for borrowing costs and instead invest in new capacity whenever it would most benefit their business. Our long-range expectation is for interest rates and inflation to generally rise given the multitude of inflationary drivers present in this cycle.

Construction trends differ from the macroeconomy and much of the industrial sector. The residential sector, which leads the macroeconomy, is undergoing very mild decline due in part to persistent affordability constraints. While these constraints are likely to persist, mild rise is on the horizon for US Single-Unit Housing Starts given the underlying demand for more housing. Multi-Unit Housing is facing other challenges and is likely to stay well below the stimulus and low-interest-rate-fueled 2022 level of activity. This is due to current interest rate headwinds and greater financial strains for those on the lower or middle end of the income spectrum, who predominantly rent multi-unit housing. The nonresidential construction sector, which lags the macroeconomy, will generally decline mildly this year and next due in part to elevated interest rates. However, be prepared for shifts within the overall nonresidential sector, with some segments of institutional construction, like education, lagging overall nonresidential outperforming and others that have been outperforming, like manufacturing, facing the impact of government incentives wearing off.

Tariffs are at the forefront of the minds of businesses and consumers alike. At ITR Economics, we are apolitical and analyze policy solely due to its economic implications. Tariffs create winners and losers in the marketplace; some will face pain, while others will benefit from the shift in the competitive landscape. Where does your business fall within this spectrum? Consider your direct exposure to tariffs and the upstream and downstream effects on your business.

While each business's situation is unique, there are some recommendations we think apply broadly. The first is to focus on efficiency: Pricing pressures will increase in the coming years for both inputs and labor, which could cut into profits. Second, if you plan to finance business investments, focus more on the payback period rather than trying to time a low in interest rates, as they are likely to remain sticky. Our third recommendation is that you factor a challenging 2030s cyclical downturn into your longer-term plans. There is still time to position your business and personal finances to prepare for those tougher times, but the runway is rapidly shortening. Stagnation is terminal – growth requires constant attention and change.

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

		Current		Annual Growth Rate Forecast (12/12), Year-End*		
Page Number	Indicator	Growth Rate**	Phase	2025**	2026**	2027**
4	US Industrial Production Index	0.0%	A	1.4%	1.5%	1.3%
5	US Nondefense Capital Goods New Orders (excluding aircraft)	0.8%	B	2.1%	5.0%	0.2%
6	US Machinery New Orders	0.6%	C	5.0%	4.4%	-0.2%
7	US Food Production Index	-0.7%	A	0.6%	1.9%	0.6%
8	US Medical Equipment and Supplies Production Index	-2.4%	D	0.7%	0.5%	0.9%

**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

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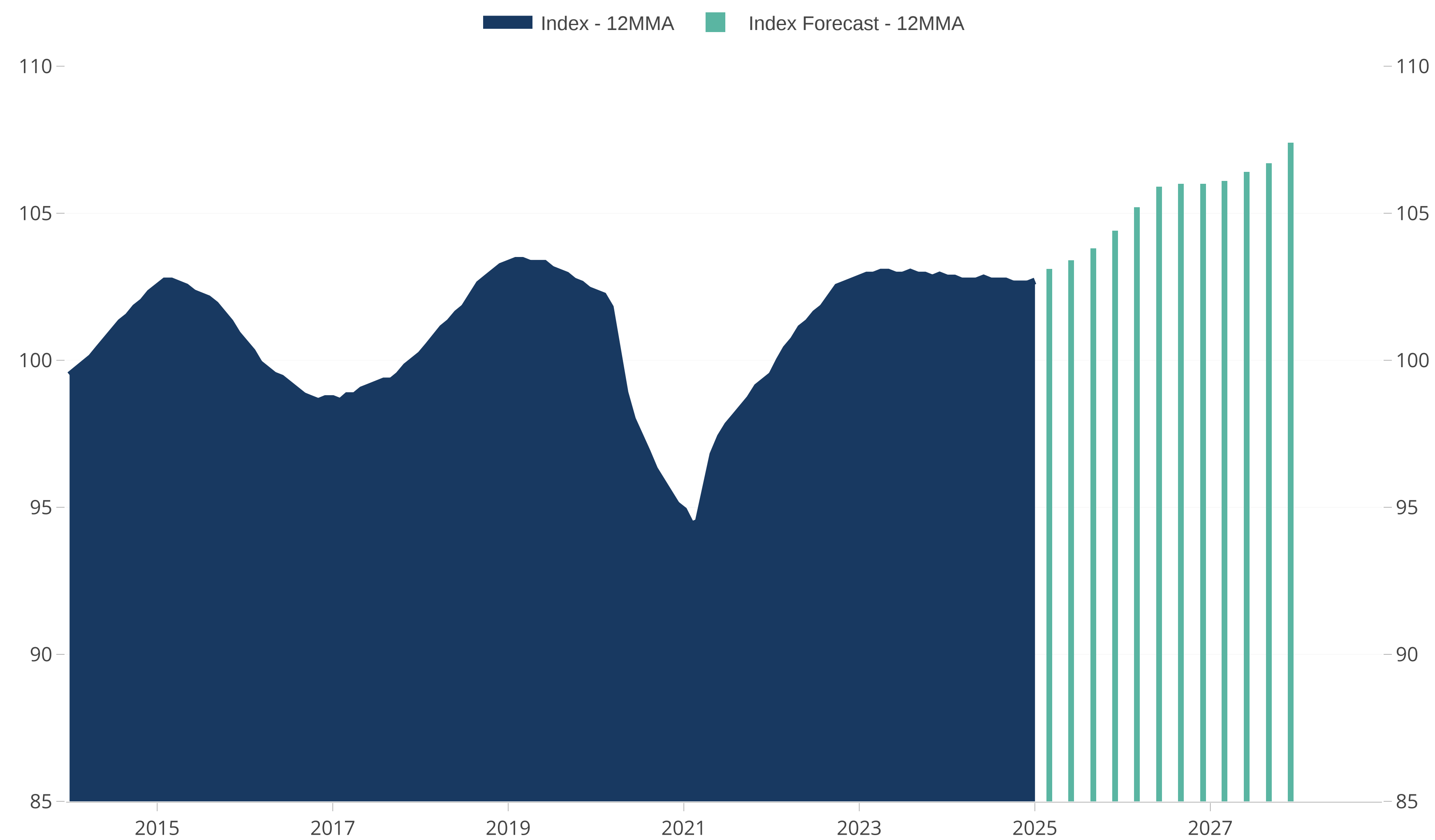
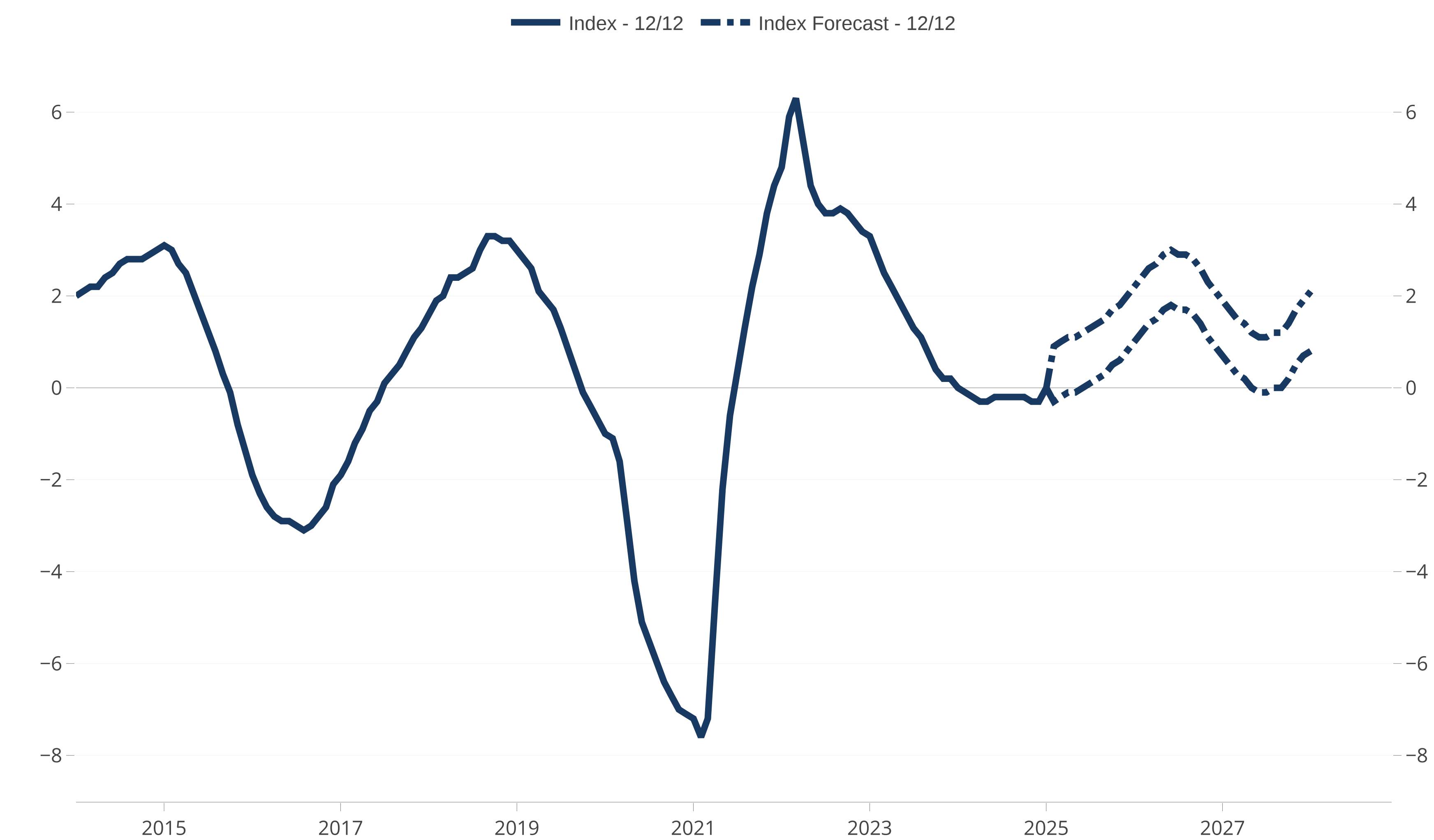
Production to Rise in Near Term Through at Least 2027; Rates to Remain Elevated

Annual Average (12MMA)



Annual Growth Rate (12/12)



Current Phase

Phase A Recovery

Current Indicator Amplitude

- January 2025 Annual Growth Rate (12/12): 0.0%
- January 2025 Annual Average (12MMA), 2017=100: 102.7

Industry Outlook

Year	Annual Growth Rate
2025	1.4%
2026	1.5%
2027	1.3%

Outlook & Supporting Evidence

- Industrial Production will break out of its plateau this year with the accumulation of nearshoring investments from recent years enabling record highs in the years ahead. Growth will be sluggish at first and then momentum will build into mid-2026. Growth rates will then wane into mid-2027, with a soft landing expected for that cyclical trough.
- Consumers and businesses alike remain in relatively solid financial positions, and rising incomes and elevated corporate profits will support higher spending in the years ahead. Budding momentum in the US Total Industry Capacity Utilization Rate and persistent rise in the ITR Leading Indicator™ support our forecast for cyclical rise in the coming quarters.
- The Federal Reserve is easing monetary policy, but long-term interest rates – a closer match to what businesses and consumers pay – are likely to remain elevated. Downside pressure could linger in interest-rate-sensitive markets. Over time, the market will adjust to a “new normal” for interest rates that will likely be higher than the abnormally low rates of the 2010s and early 2020s.
- IMEC members should prepare for market conditions to improve, especially later in the year and in 2026. Do you have the capacity and talent you need? Are you in close communication with your upstream and downstream partners and ready to adapt if tariffs throw you a curve ball?

US Nondefense Capital Goods New Orders (excluding aircraft)

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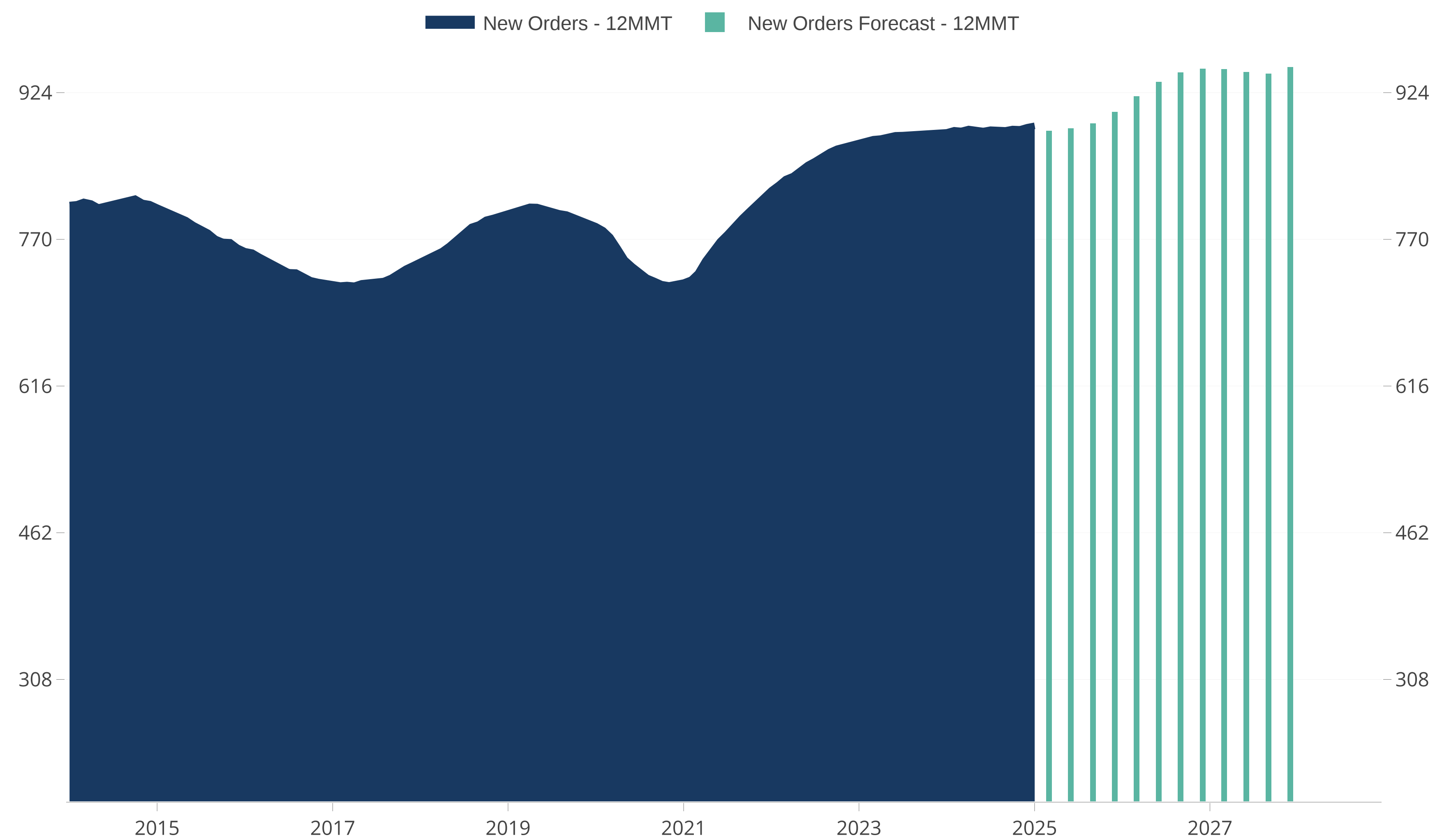
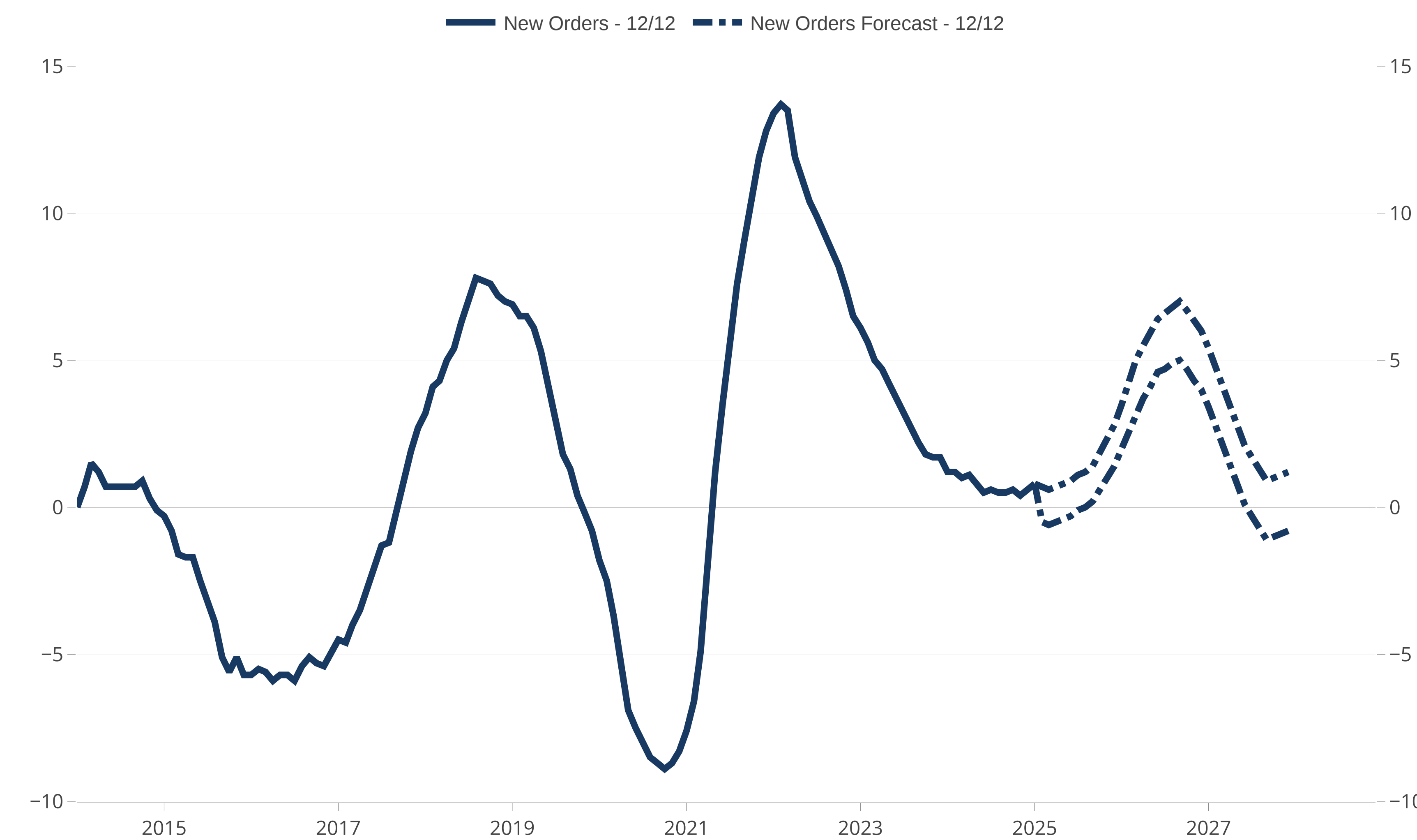
Plan for 2025-26 Rise, 2027 Plateau in CapEx; Slight Improvement in Inventory Ratios Is a Good Sign

Annual Total (12MMT)



Annual Growth Rate (12/12)



Current Phase

Phase B Accelerating Growth

Current Indicator Amplitude

- January 2025 Annual Growth Rate (12/12): 0.8%
- January 2025 Annual Total (12MMT), Billions of USD: $889.2

Industry Outlook

Year	Annual Growth Rate
2025	2.1%
2026	5.0%
2027	0.2%

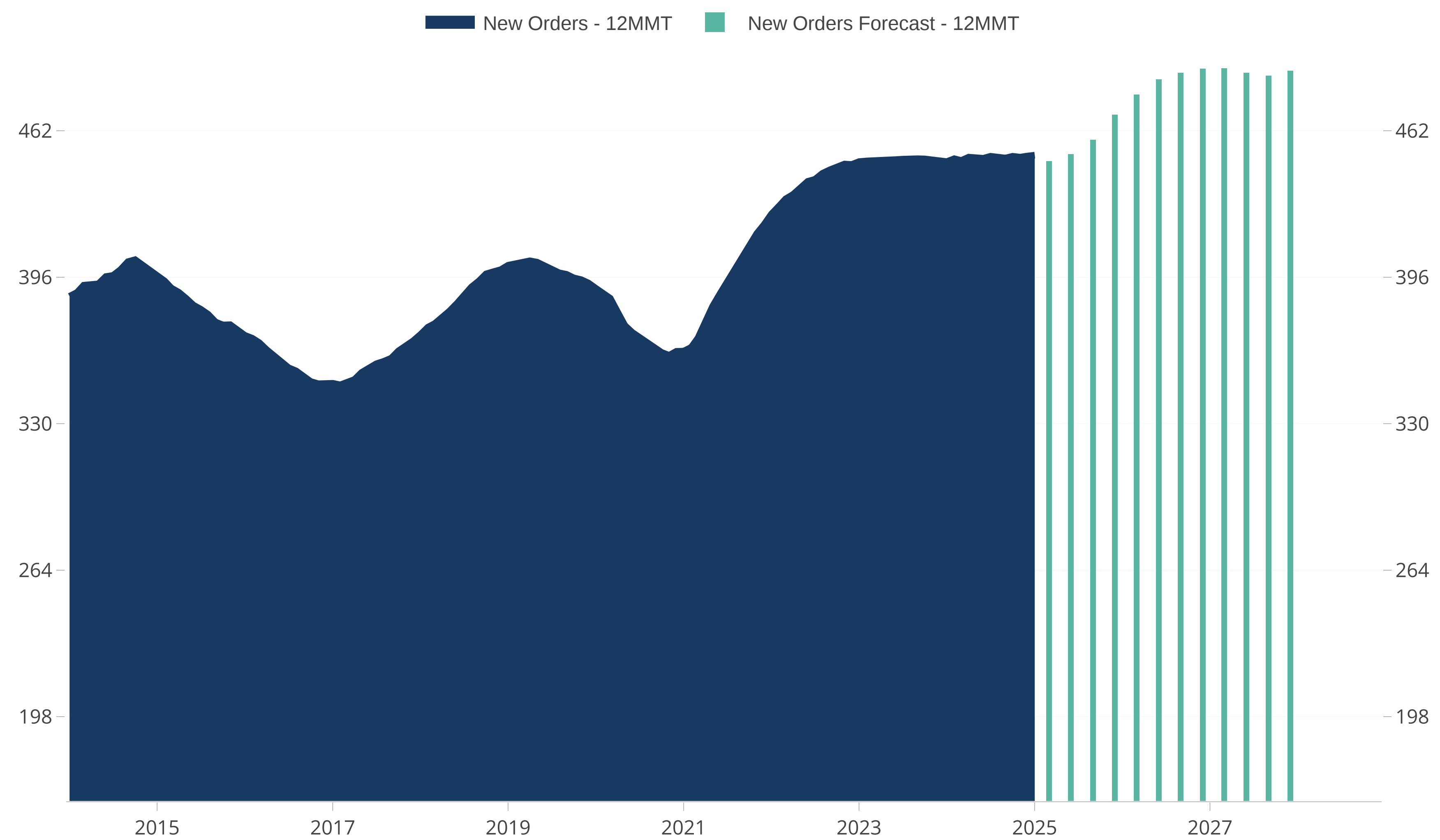
Outlook & Supporting Evidence

- US Nondefense Capital Goods New Orders (excluding aircraft) totaled a record $889.2 billion in the 12 months through January, but annual growth was just 0.8%. Annual New Orders are plateauing, a culmination of diverging trends within capital goods industries.
- We expect general rise in annual New Orders through 2026. Rise will be muted in the first half of 2025 and strongest in mid-2026. Mild rise in our system of leading indicators, coupled with inflationary pressures, is likely to drive New Orders spending slightly higher in 2025. We have also seen a rebalancing of inventories, with healthier inventory ratios, in the durable goods space, though machinery is still oversupplied. Still-elevated interest rates are hindering some capex spending, but record-high domestic corporate profits will help some businesses self-finance and minimize borrowing.
- Annual New Orders will plateau around $950 billion in 2027, with the potential for a brief dip that year. Consequently, 2027 may be a good year to plan process or equipment changes better suited for a slower period to minimize the impact of potential disruptions.
- New Orders are dollar-denominated and will also be boosted by generally rising prices. We are monitoring potential future tariffs that could be inflationary, an upside risk to the outlook.

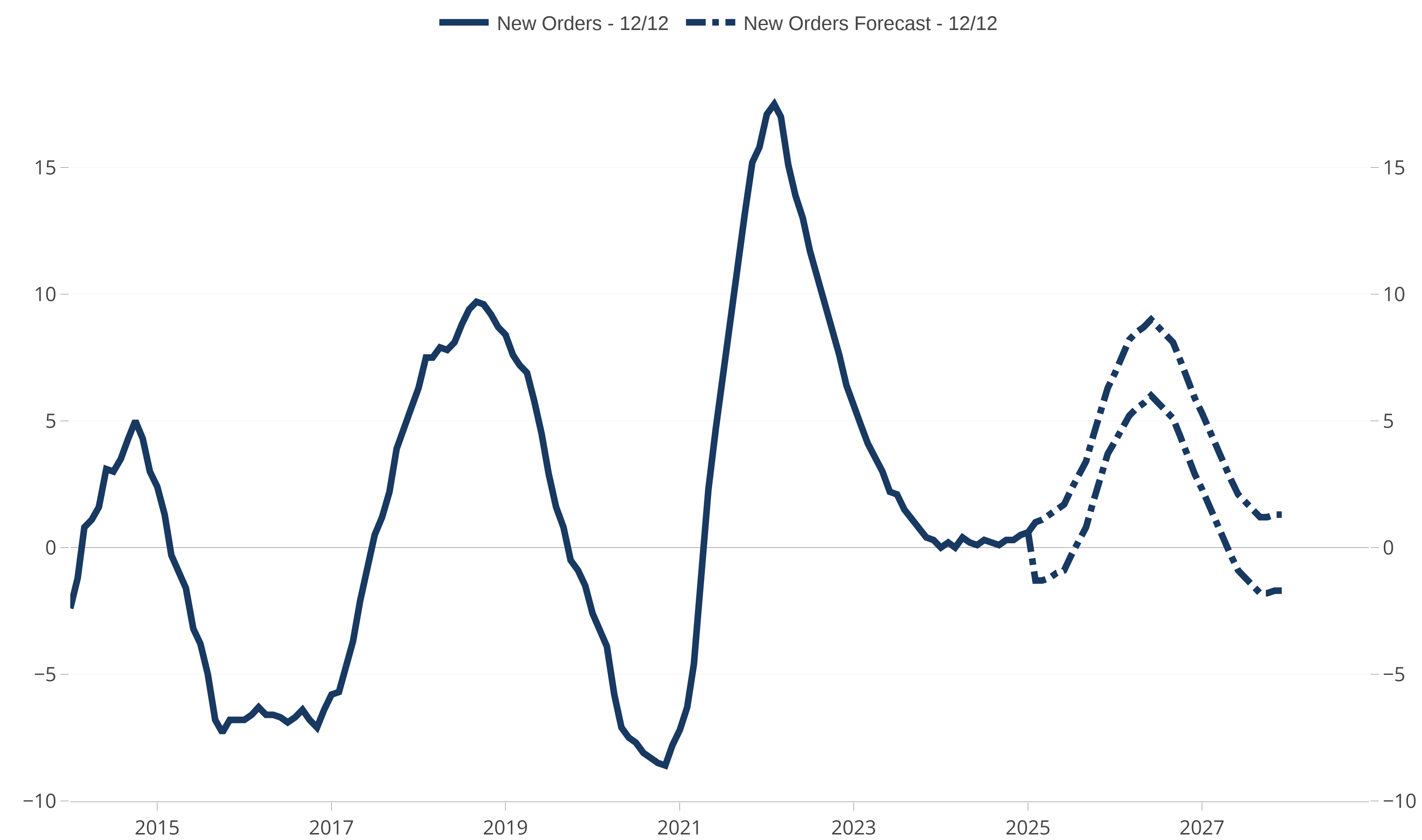
US Machinery New Orders

Capex, Enabled by Healthy Profits, Will Become More Appealing as Economy Picks Up This Year

Annual Total (12MMT)



Annual Growth Rate (12/12)



Current Phase

Phase C
Slowing Growth

Current Indicator Amplitude

- January 2025 Annual Growth Rate (12/12): 0.6%
- January 2025 Annual Total (12MMT), Billions of USD: $451.0

Industry Outlook

Year	Annual Growth Rate
2025	5.0%
2026	4.4%
2027	-0.2%

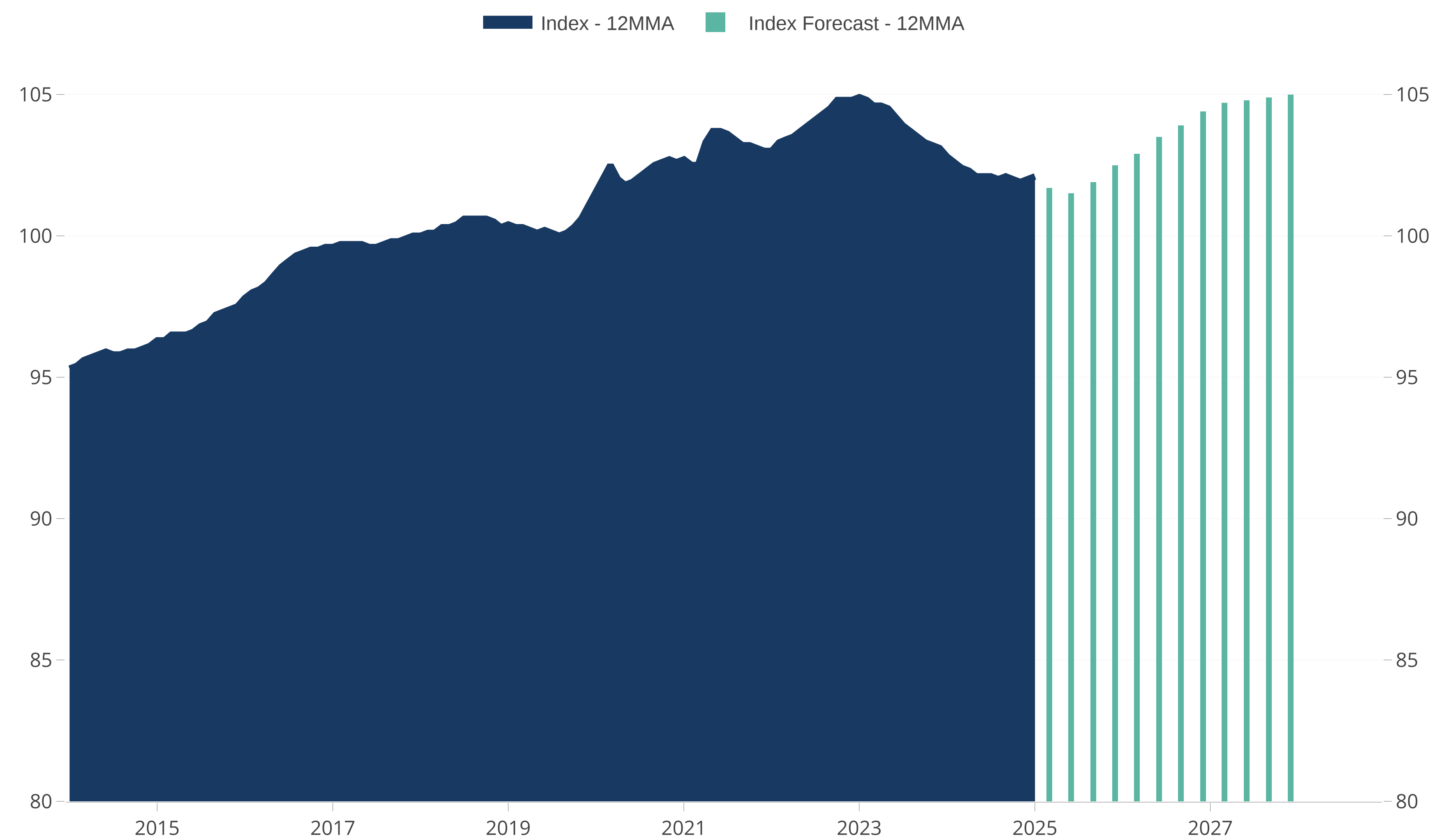
Outlook & Supporting Evidence

- US Machinery New Orders totaled $451.0 billion in the 12 months through January, 0.6% above the year-ago level. Annual New Orders will rise in much of this year and in 2026. Annual New Orders will then plateau in 2027 at a level around 8% above current New Orders.
- As the macroeconomy expands and demand picks up, adding new capacity or upgrading to more efficient machinery will likely be more appealing. The Machinery Manufacturing Capacity Utilization Rate corroborates upward momentum ahead for New Orders. US Domestic Manufacturing Industries Corporate Profits industries are plateauing around record highs. This may allow manufacturers some leeway in investing in new machinery despite elevated borrowing costs.
- Onshoring trends will continue to benefit this market, and companies already operating within the US may look to expand their domestic capacity, when possible, to avoid some tariff exposure from their manufacturing plants outside of the US. However, tariffs can also have unintended consequences and could impact export markets and input costs as well.
- It is vital to be in close contact with your upstream and downstream business partners and to be nimble as economic policies are shifting. Make sure you are assessing your pricing frequently and consider locking in input costs sooner rather than later, as inflationary pressures will pick up later this year.

US Food Production Index

Forecast Lowered; Lean Inventories, Consumer Trends, and Utilization Rates Point to Coming Rise

Annual Average (12MMA)



Annual Growth Rate (12/12)

Current Phase

Phase A Recovery

Current Indicator Amplitude

- January 2025 Annual Growth Rate (12/12): -0.7%
- January 2025 Annual Average (12MMA), 2017=100: 102.1

Industry Outlook

Year	Annual Growth Rate
2025	0.6%
2026	1.9%
2027	0.6%

Outlook & Supporting Evidence

- The cumulative impact of inflation has led to increased price sensitivity and may have caused some consumers to pull back their spending in some food categories. In 2024, there was a more severe recession in the snack and condiments category. Downside pressure in the fruit and vegetable component has also been stronger than anticipated, potentially due to weather impacts on agriculture.
- As a result of these factors, we lowered the Food Production forecast. We now expect a slightly slower recovery. Annual Production will rise from mid-2025 through at least 2027. Growth will be strongest in 2026.
- Lean wholesale inventories for groceries and related products suggest Production will need to pick up to keep up with demand. Prior rise in the US Food Capacity Utilization Rate and rising real incomes also point to positive signs for upcoming Food Production. However, consumers may look toward value products – such as store brands – given the jump in food prices in recent years. Should trade policy lead to further inflation in food prices, we may see an increase in substitution and higher demand for value products in the food space.

US Medical Equipment and Supplies Production Index

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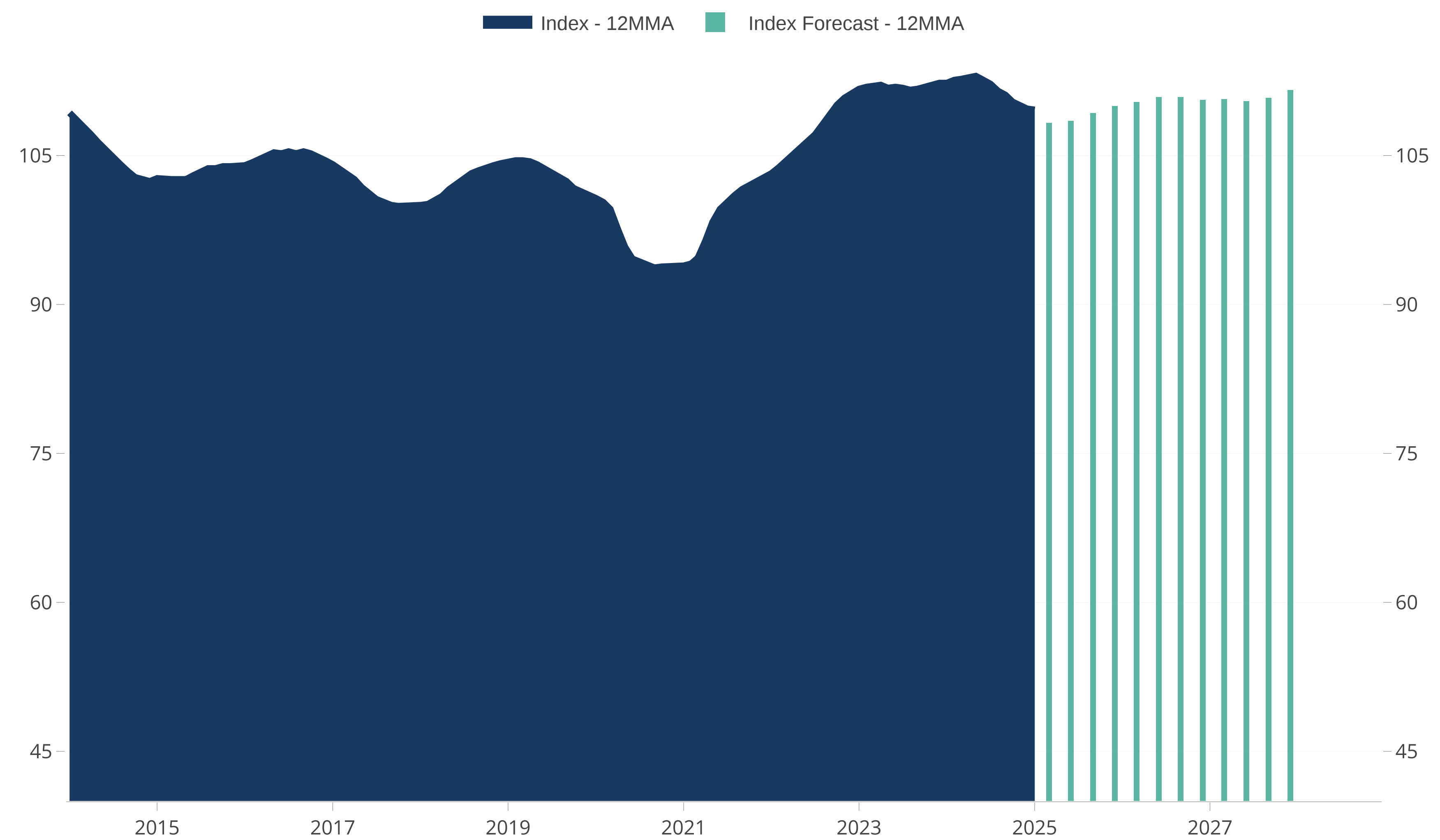
Forecast Adjusted; Production to Rise From the Near-Term Through Mid-2026, Then Plateau

Annual Average (12MMA)



Annual Growth Rate (12/12)

Current Phase

Phase D Recession

Current Indicator Amplitude

- January 2025 Annual Growth Rate (12/12): -2.4%
- January 2025 Annual Average (12MMA), 2017=100: 109.6

Industry Outlook

Year	Annual Growth Rate
2025	0.7%
2026	0.5%
2027	0.9%

Outlook & Supporting Evidence

- Annual US Medical Equipment and Supplies Production is 2.4% below the year-ago level. We adjusted the forecast to account for a recent downward deviation, but the growth rates for the coming years are little changed.
- Annual Production will reach a low in the near term and then rise into the middle of 2026. Annual Production will then plateau through at least 2027.
- US Hospital Construction is expected to have a soft landing this cycle, supported by a strong Hospital Services Revenue trend. New construction will need to be outfitted with new hospital beds and equipment. Demand for consumables is likely to gradually increase as the population ages. Despite these upside pressures, upcoming rise is likely to be muted. Strength in the US dollar presents a downside pressure, as it could make cheaper foreign goods more attractive.
- The aging demographic and nearshoring initiatives are a solid base for this market in the longer term, and we are unlikely to see any significant decline in at least the next three years.

US Leading Indicators

Indicator	Direction		
	1Q25	2Q25	3Q25
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

- Indicators are overwhelmingly flashing green for 2025 apart from the US ISM PMI (Purchasing Managers Index), which has waffled in recent months. Volatility in the index is not unprecedented, however, and most signs are pointing toward mild rise in US Industrial Production this year.

- Rising trends in both the US OECD Leading Indicator and the US Total Industry Capacity Utilization Rate are mild, supporting our outlook for industrial sector rise to be somewhat muted, in contrast to the breakneck ascent of the post-COVID period.

- Mildness in rise in the ITR Retail Sales Leading Indicator™ suggests that US Total Retail Sales growth will be consistent and steady, with some, but not all, upward pressure attributable to inflation.

Leading indicators suggest that muted economic growth will be the prevailing trend for 2025. Capitalizing on growth may be tricky, as margins will come under pressure when inflation heats up in late 2025. Look to maximize efficiencies to protect margins. Preparing your supply chain for the potential of rising trade tensions is also advisable.

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. NAICS Code: 333. Source: US Census Bureau. Measured in billions of dollars, not seasonally adjusted (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: Federal Reserve Board. NAICS Code: 3391. 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 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).

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