IMEC

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Reports
ITR Economics

603.796.2500 itreconomics.com

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Economic Overview

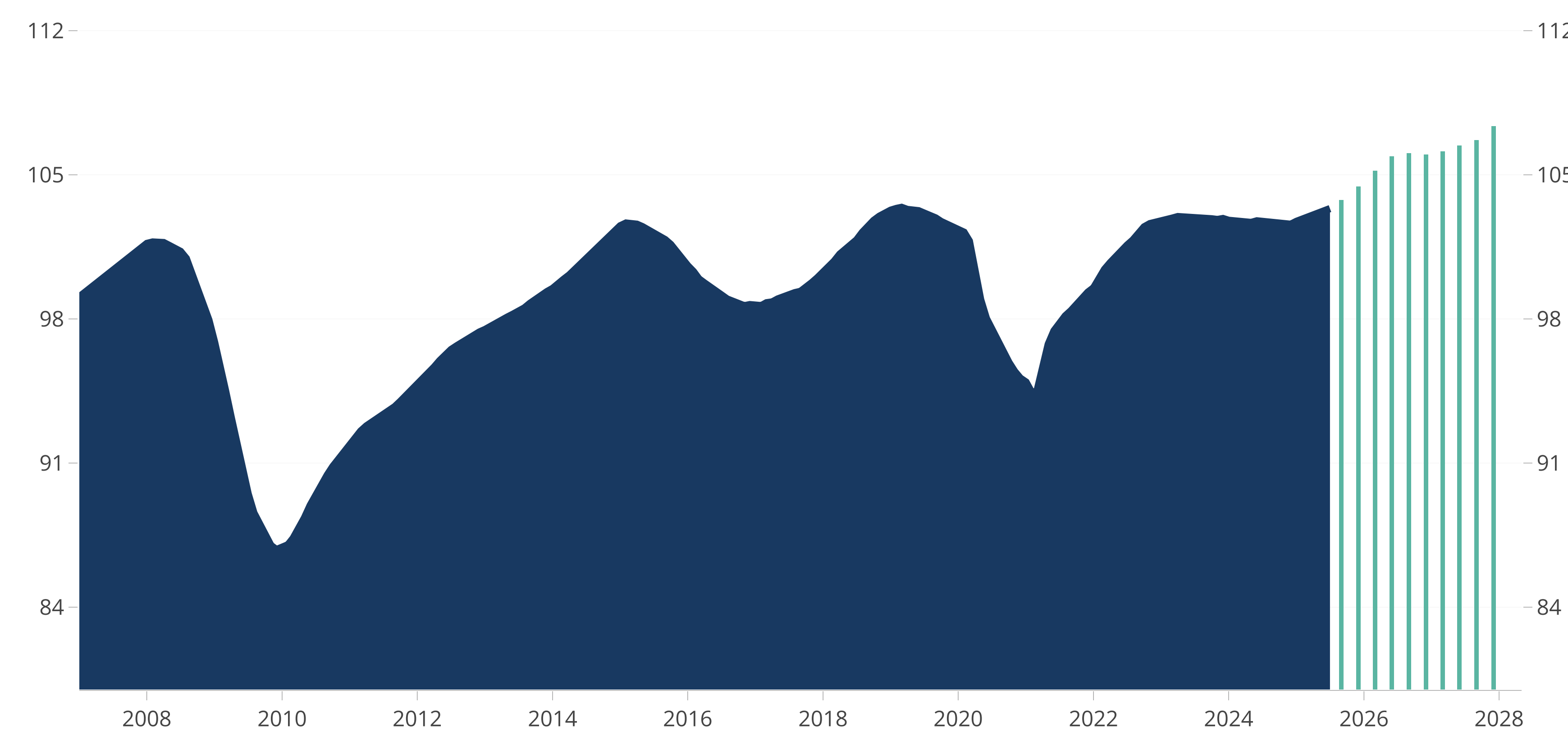
Where is the economy headed in the coming quarters? Many segments of the economy will experience mild to moderate growth in 2026, but do not expect a blockbuster year unless you have material exposure to an upside outlier, such as AI and data centers. Here are some trends to keep an eye on.

Consumer: Consumers are spending more than ever and are generally in a good spot, with record-high employment, rising inflation-adjusted incomes, and room to take on more debt. There is certainly some discomfort and price sensitivity. Those in lower-income brackets are seeing more of their expenditures squeezed by housing, food, and health care. Nonetheless, the majority of expenditures are made by consumers in middle- to upper-income brackets, a group that is well positioned to keep spending. We anticipate that US Total Retail Sales will generally rise in the coming quarters, though the pace will be muted relative to recent years.

Businesses: US Small Business Optimism is rebounding, and corporate balance sheets indicate a capacity to spend. Leading indicators point to modest gains in US Nondefense Capital Goods New Orders, our preferred benchmark for B2B spending, over the next two years. We anticipate increased investment in capital goods as firms adjust to elevated borrowing costs and policy uncertainty eases. Tariffs and a tight labor market underscore the need to invest in efficiency.

Inflation: Growing demand for goods and services will amplify inflationary pressures, the seeds of which were already planted with prior monetary and fiscal policy. Commodity prices are volatile and are more likely to swing with changing trade conditions and economic uncertainty; however, on net, both producers and consumers need to prepare for further rising prices. Companies need to be proactive in guarding against “profitless prosperity.” Rising prices will put pressure on margins, making it crucial to focus on efficiency, differentiation, and effective marketing.

US Industrial Production Index
Annual Average (12MMA)



Interest Rates: The Federal Reserve will likely cut the overnight rate in their mid-September meeting, but the economic fundamentals suggest limited justification for material rate cuts over the next year. The 10-Year Treasury Yields are typically a better proxy for actual borrowing costs in the economy and are typically “stickier” than the overnight rate. Long-term rates will vacillate around the current level in the near term and potentially dip slightly, but we anticipate general rise beginning in mid-2026. If you need to borrow or roll over debt in the next few years, plan for your interest expenses to go up. If you are counting on interest rates to suddenly drop and be a cure-all for economic pain points, you may be disappointed.

Industrial Sector: With businesses and consumers both in good positions to spend, there will be upward pressure on the US industrial sector. Investments in domestic capacity made in recent years will help enable higher levels of production. The industrial sector will generally rise, but leading indicators signal that this rise could be choppy.

Construction: Single-Unit Housing Starts, which lead the economy, are declining largely due to trends in the South, as affordability constraints persist. Businesses tied to regional housing should closely monitor local activity. We expect near-term recovery, but it is likely to be muted rather than robust. Multi-Unit Housing Starts are generally rising, with permits suggesting more growth ahead. Nonresidential construction is contracting, but areas of opportunity, including data centers and some public segments, remain.

Takeaways

The biggest bang for your buck this cycle will be to focus on improving your company efficiencies. We are anticipating a modest rise in demand. Top-line growth is likely to outpace bottom-line growth as the pricing environment puts margins under pressure. Efficiencies, including automations to help your business rely less on labor, and working to eliminate bottlenecks will help your business capture upcoming growth.

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	0.6%	B	1.4%	1.5%	1.3%
5	US Nondefense Capital Goods New Orders (excluding aircraft)	1.4%	B	2.1%	3.2%	0.8%
6	US Machinery New Orders	1.1%	B	2.4%	4.1%	0.4%
7	US Food Production Index	0.7%	B	1.9%	0.7%	-0.1%
8	US Medical Equipment and Supplies Production Index	-5.0%	A	-2.3%	3.3%	0.0%

**Coloring denotes the business cycle phase at year-end. For example, if a value in the first column under "Annual Growth Rate Forecast (12/12), Year-End" is colored blue, the corresponding indicator is forecasted to be in Phase A, Recovery, at the year-end indicated by the column. Green denotes Phase B, yellow Phase C, and red Phase D.*

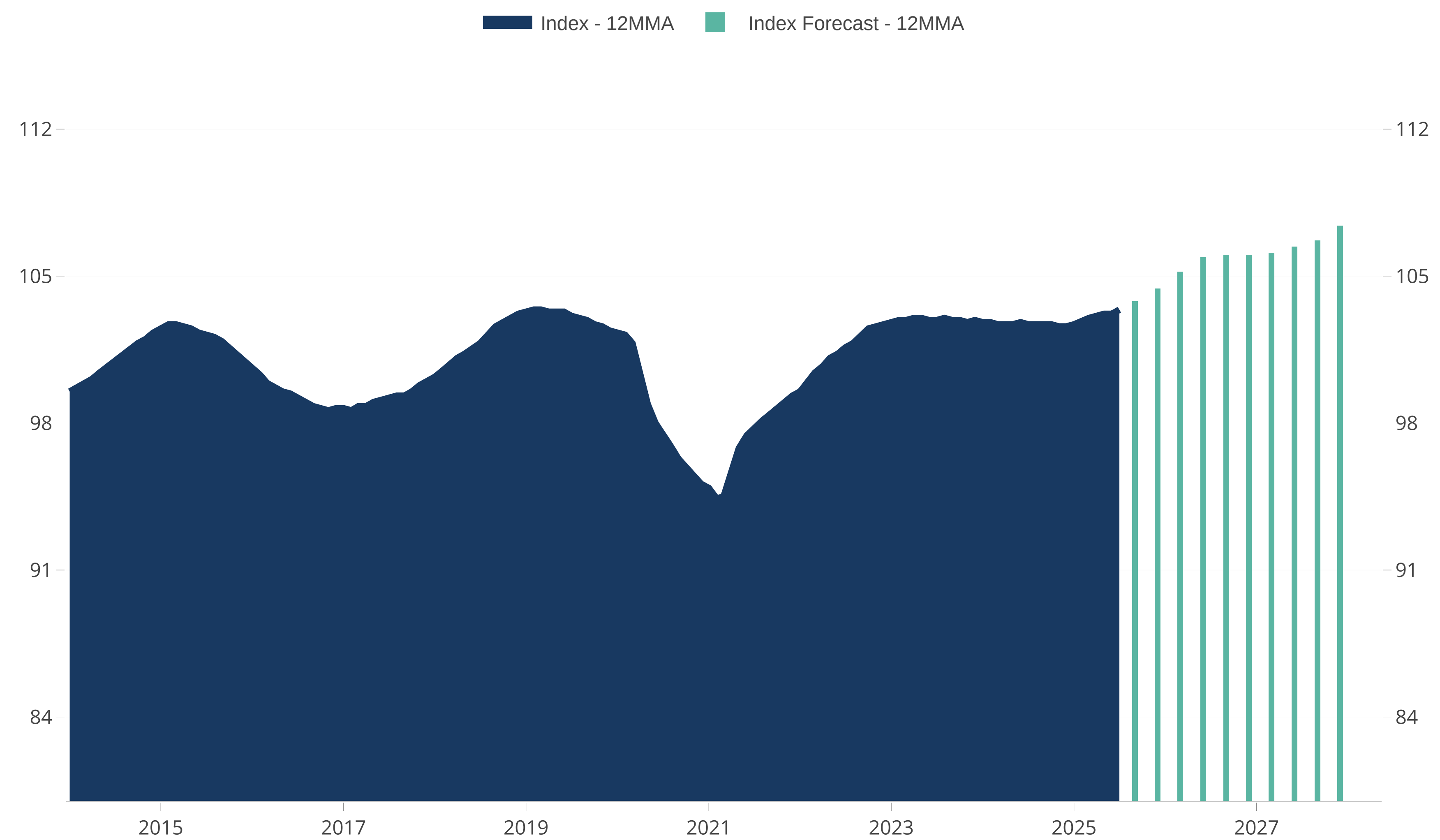
***Annual growth rate (12/12) except where otherwise noted.*

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

US Industrial Production Index

Record Highs Likely, but the Maturity of US Industrial Sector Will Limit the Pace of Growth Ahead

Annual Average (12MMA)



Annual Growth Rate (12/12)

Current Phase

Phase B Accelerating Growth

Current Indicator Amplitude

- July 2025 Annual Growth Rate (12/12): 0.6%
- July 2025 Annual Average (12MMA), 2017=100: 103.4

Industry Outlook

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

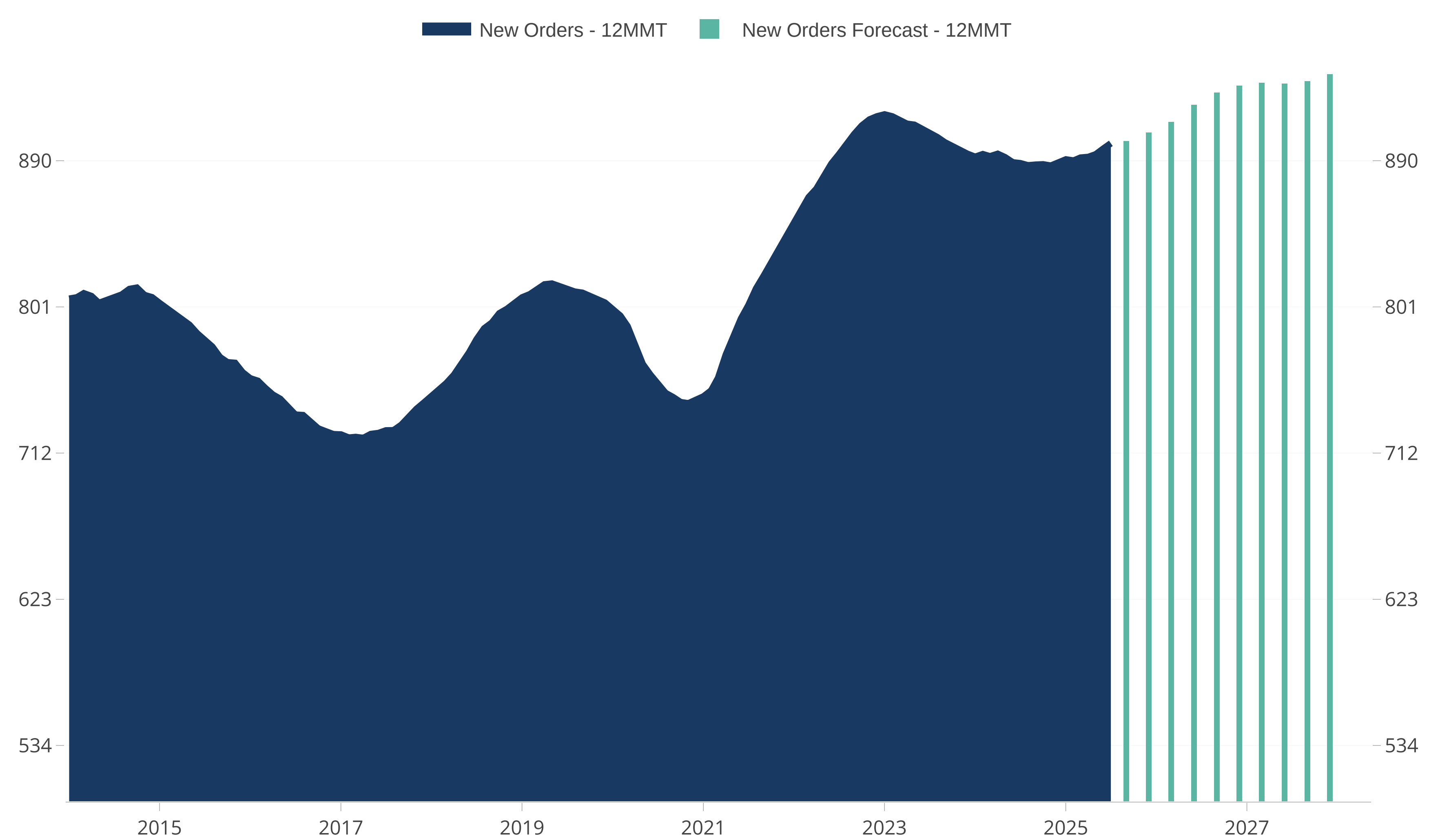
Outlook & Supporting Evidence

- US Industrial Production in the 12 months through July was up 0.6% year-over-year. Production has broken out of the prior plateau. We expect annual Production will generally rise through at least 2027, with annual growth rates in the low single digits.
- The industrial sector is nearing record highs and showing signs of maturity, which suggests that a muted pace of expansion is likely. Persistently high interest rates will also restrain demand for durable goods. However, a combination of nearshoring efforts and overall rise in the US economy will contribute to rise in the industrial sector through at least 2027.
- Consumers and enterprises have a demonstrated capacity to spend, and indicators point to a gradual strengthening of global demand. While we expect rise on the aggregate, there is likely to be varied outcomes for individual markets. Highly discretionary or interest-rate-sensitive markets could underperform.

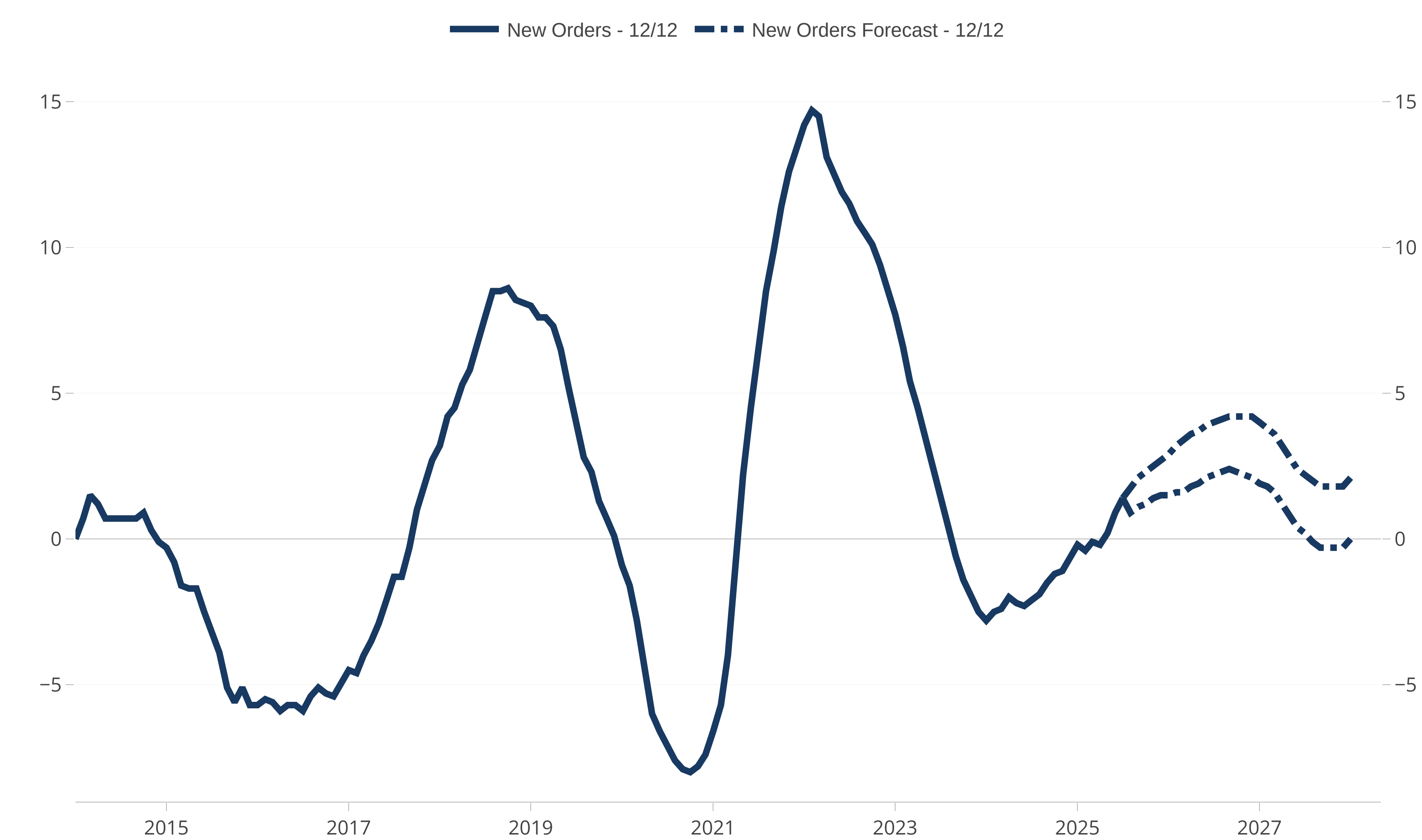
US Nondefense Capital Goods New Orders (excluding aircraft)

New Orders to Rise as Businesses Adapt to Higher Rate Environment and Policy Uncertainty Dissipates

Annual Total (12MMT)



Annual Growth Rate (12/12)



Current Phase

Phase B Accelerating Growth

Current Indicator Amplitude

- July 2025 Annual Growth Rate (12/12): 1.4%
- July 2025 Annual Total (12MMT), Billions of USD: $900.6

Industry Outlook

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

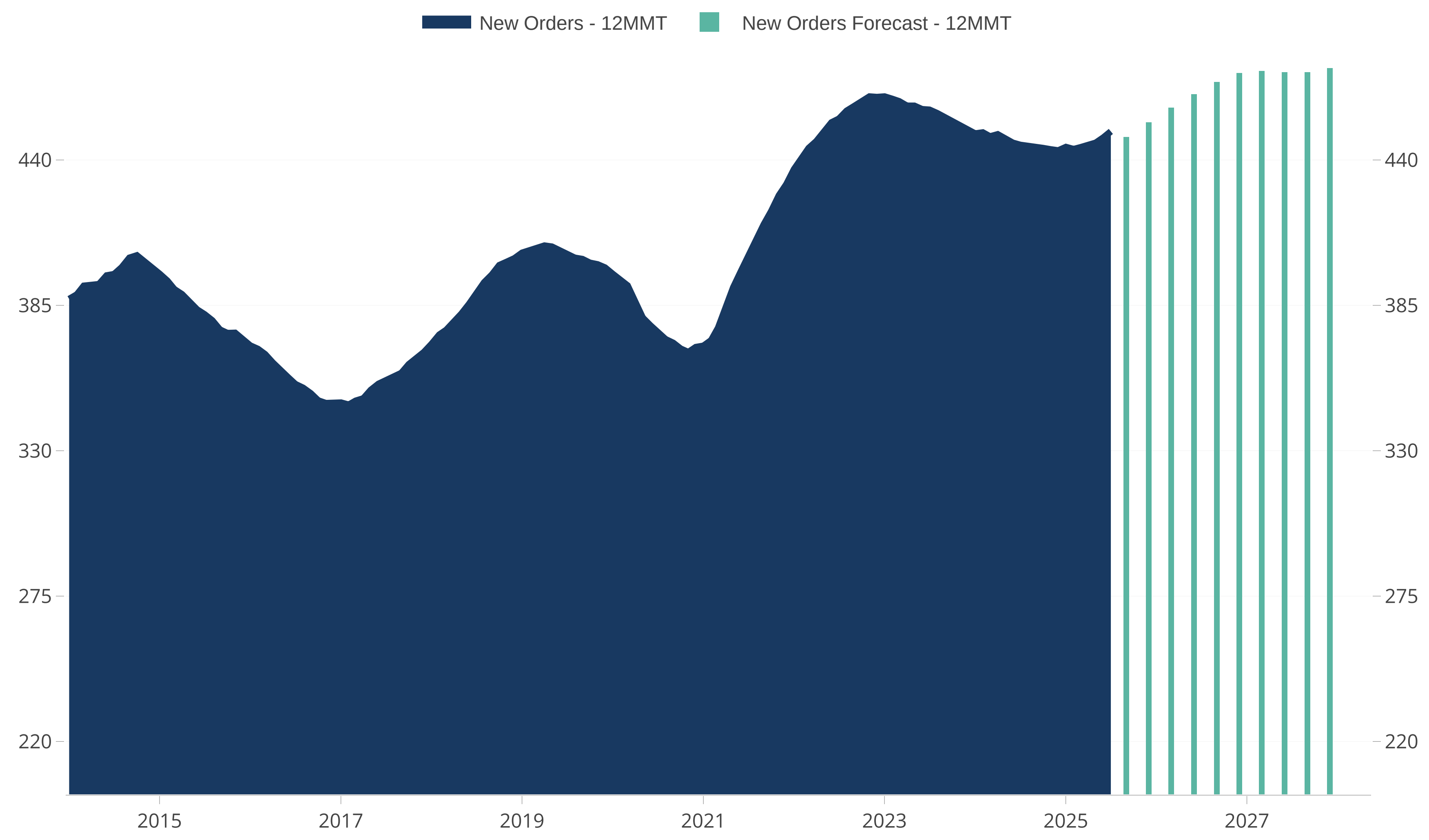
Outlook & Supporting Evidence

- US Nondefense Capital Goods New Orders (excluding aircraft) in the 12 months through July totaled $900.6 billion, coming in 1.4% above the year-ago level. We expect New Orders rise will extend through 2026. Annual New Orders will then plateau for much of 2027.
- We expect rising investment in capital goods as businesses adapt to the reality of higher borrowing costs and as economic policy uncertainty dissipates. While corporate financials show businesses are generally well-positioned to spend, leading indicators signal that growth in New Orders this year and next will be mild.
- Some buyers may try to hold out for lower interest rates. While the Federal Reserve will likely lower rates in their September meeting, economic fundamentals suggest limited cause for material rate cuts over the next year. Also, longer-term rates tend to be sticker than the overnight rate set by the Federal Reserve. Buyers should focus on maximizing ROI with interest rates remaining near the current level in the near term and likely rising in the coming years.
- With inflation expected to rise and price-sensitivity likely to persist across the economy, many businesses are at risk of profitless prosperity in the coming years. Keeping a close eye on your margins will be critical. Look to drive efficiency improvements and bolster your competitive advantages to avoid competing primarily on price.

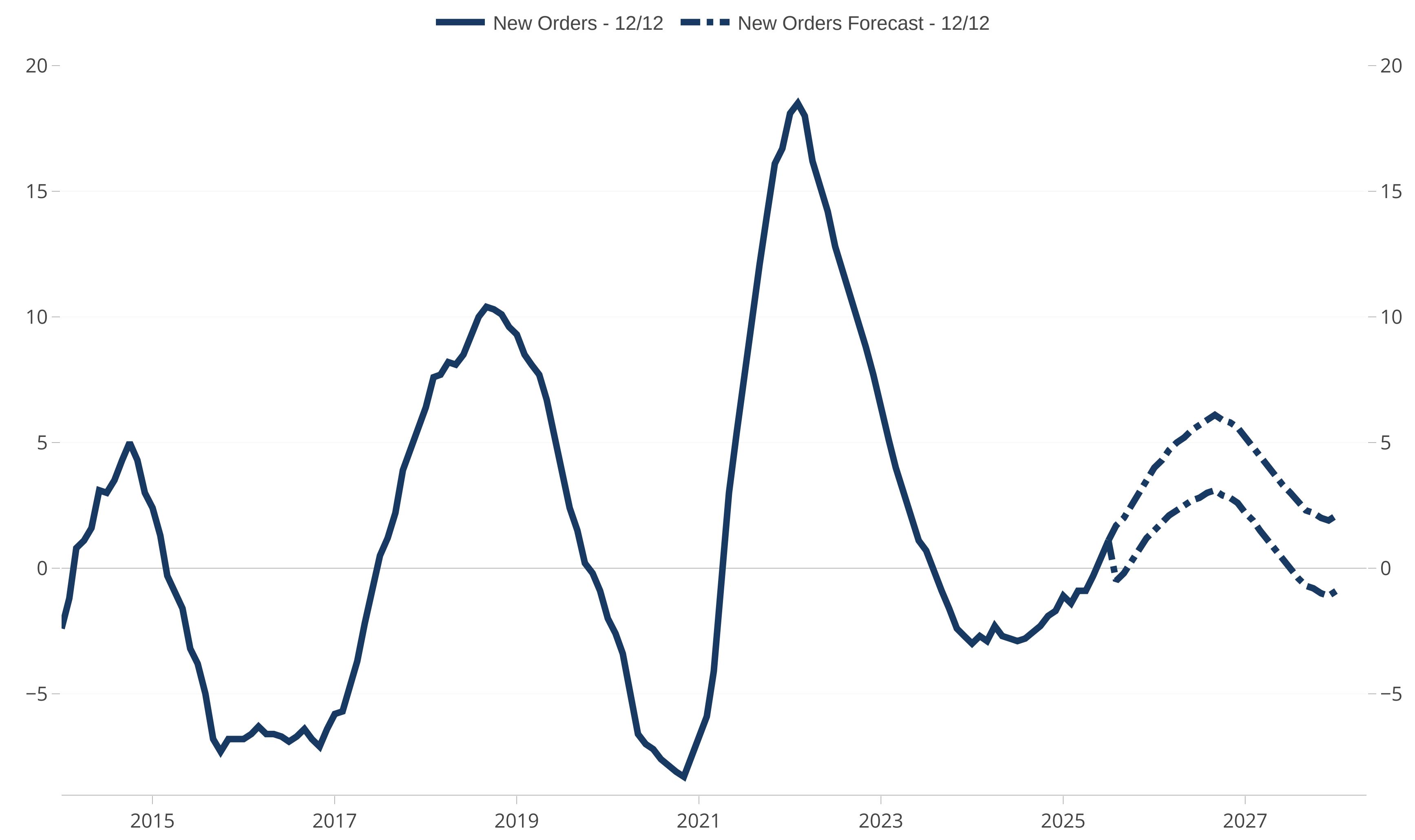
US Machinery New Orders

Leading Indicators Point to Rise Ahead, but Some Businesses Remain Cautious, Limiting Pace of Rise

Annual Total (12MMT)



Annual Growth Rate (12/12)



Current Phase

Phase B Accelerating Growth

Current Indicator Amplitude

- July 2025 Annual Growth Rate (12/12): 1.1%
- July 2025 Annual Total (12MMT), Billions of USD: $450.8

Industry Outlook

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

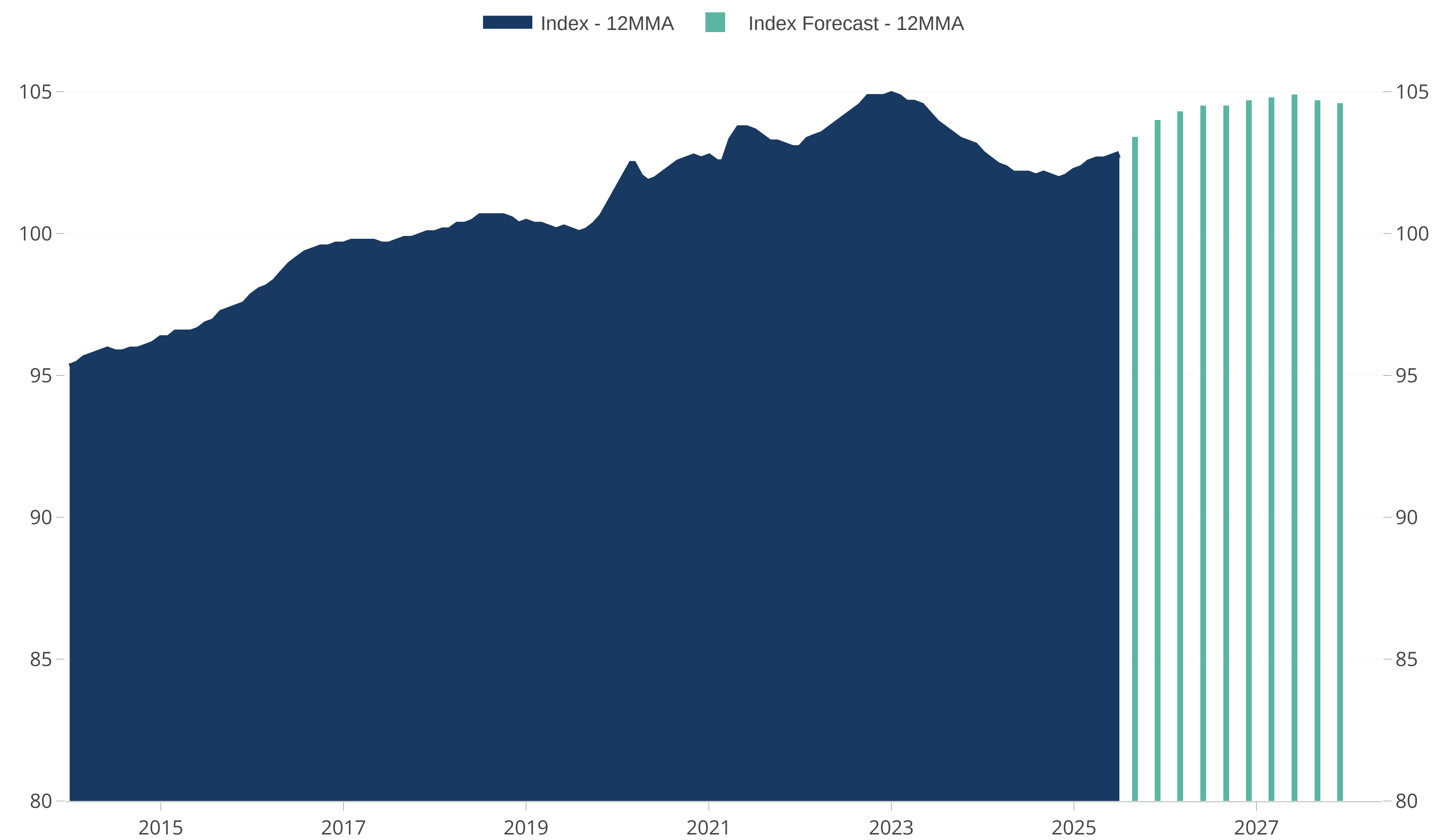
Outlook & Supporting Evidence

- US Machinery New Orders in the 12 months through July totaled $450.8 billion, up 1.1% from the year-ago level. We anticipate annual New Orders will rise through 2026, then plateau for much of 2027.
- Demand for machinery appears to be recovering after a period of decline that was driven, in part, by interest rates and a slowdown in activity. Rising Utilization Rates signal an uptick in activity that is a positive sign for demand for machinery.
- Elevated corporate profits will help support additional capex spending. However, elevated borrowing costs and the prior inventory buildup will keep some businesses cautious in their capex spending this cycle. Paired with heightened economic uncertainty, this will limit the pace of rise this cycle.
- A rising ratio of durable goods sales to inventories suggests that companies may want to reassess their inventory strategy as economic conditions improve.

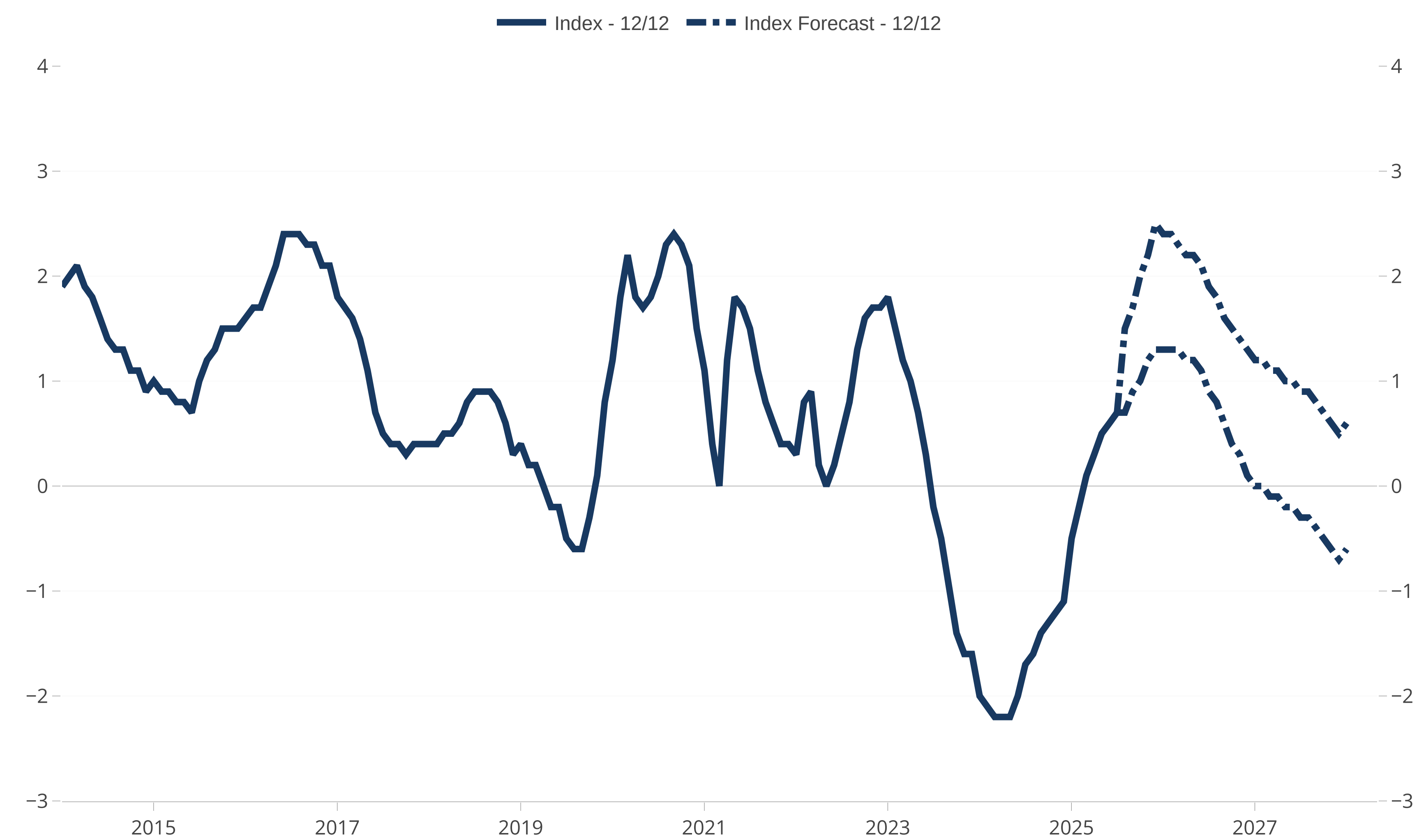
US Food Production Index

Solid Demand-Side Factors Suggest Rise in Production Likely, but Target Market Matters

Annual Average (12MMA)



Annual Growth Rate (12/12)



Current Phase

Phase B Accelerating Growth

Current Indicator Amplitude

- July 2025 Annual Growth Rate (12/12): 0.7%
- July 2025 Annual Average (12MMA), 2017=100: 102.8

Industry Outlook

Year	*Annual Growth Rate*
2025	1.9%
2026	0.7%
2027	-0.1%

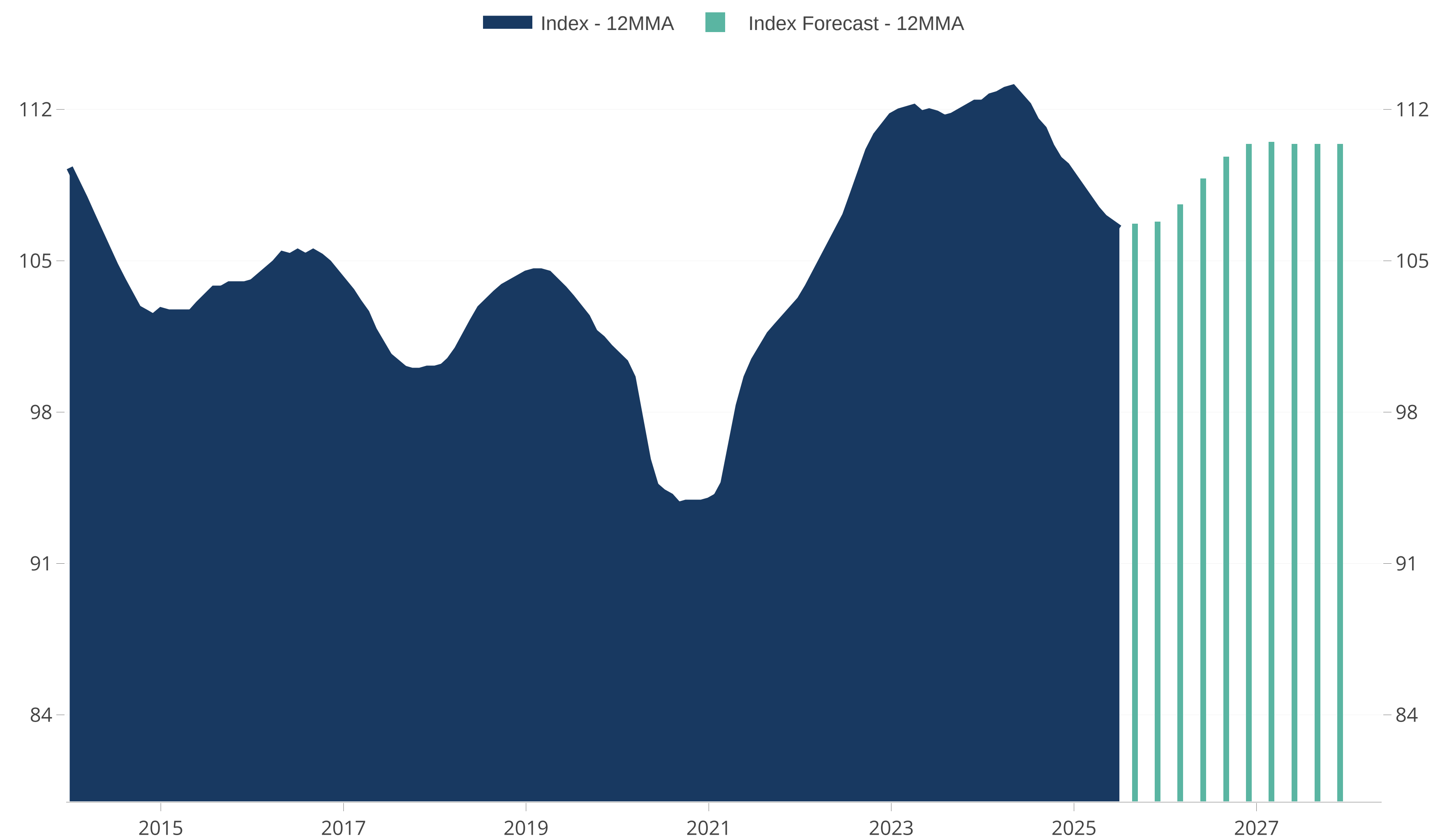
Outlook & Supporting Evidence

- Annual US Food Production rose in July, coming in 0.7% above the year-ago level. Annual Production will rise into the middle of 2027 before plateauing through at least the end of that year.
- Demand-side factors are relatively solid, owing in part to the relative inelasticity of demand for food products; adjusted for inflation, US Personal Consumption Expenditures on Food are nearing record highs. However, consumers are not on even footing, with higher-income households doing relatively better than those in lower income brackets, which will likely be reflected in food purchasing habits.
- US Food, Beverage, and Tobacco Products Industries Corporate Profits signal that Production will transition to Phase C, Slowing Growth, around the end of this year. However, with profits still around record highs and the labor market quite tight, companies may be interested in automation and new machinery.

US Medical Equipment and Supplies Production Index

Healthcare Demand Suggests Rise Ahead; Competition From Imports Poses a Risk

Annual Average (12MMA)



Annual Growth Rate (12/12)

Current Phase

Phase A Recovery

Current Indicator Amplitude

- July 2025 Annual Growth Rate (12/12): -5.0%
- July 2025 Annual Average (12MMA), 2017=100: 106.5

Industry Outlook

Year	Annual Growth Rate
2025	-2.3%
2026	3.3%
2027	0.0%

Outlook & Supporting Evidence

- Annual US Medical Equipment and Supplies Production will trend relatively flat for the remainder of this year. Annual Production will rise in 2026 and then plateau in 2027.
- Rising real personal incomes and an aging population suggest healthcare demand will be relatively rigid.
- In contrast to Medical Equipment and Supplies, US Pharmaceuticals and Medicines Production is rising at an accelerating pace, reaching its fastest pace since the early 2000s. This trend highlights the disparity in outcomes even within the medical industry. Medical equipment and supplies, which are more susceptible to cheaper foreign competition than pharmaceuticals, faces increased competition even despite tariff impacts.
- The dental services market may be an area of opportunity in the healthcare space; inflation-adjusted US Dentists Personal Consumption Expenditures are in Phase B, Accelerating Growth. Veterinary is a soft spot, with inflation-adjusted spending roughly even with one year ago.

US Leading Indicators

Indicator	Direction 3Q25	Direction 4Q25	Direction 1Q26
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

- Divergence in leading indicator signals is in part a reflection of heightened uncertainty rather than a mark of fundamental weakness in the macroeconomy. We have seen some indicators, such as the US OECD Leading Indicator, bounce back after taking dips earlier in the year when the trade war initially ramped up; others, such as the PMI, have yet to do so.

- Choppy upward momentum in the US Total Industry Capacity Utilization Rate bodes well for the mild industrial sector growth we are forecasting through at least the end of this year.

- Vacillation in the ITR Retail Sales Leading Indicator™ supports our outlook for muted growth in US Total Retail Sales into at least the beginning of next year, with most of the ascent attributable to rising prices, not volumes. While consumers are enjoying rising real incomes, cumulative inflation and economic uncertainty may pinch discretionary spending.

Leading indicators suggest that rise ahead will be bumpy, and we expect divergence by markets. Set your sights on goals that fit the long-term outlook. Seek investments that provide ROI by the end of this decade so that you enter the 2030s on solid financial footing.

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