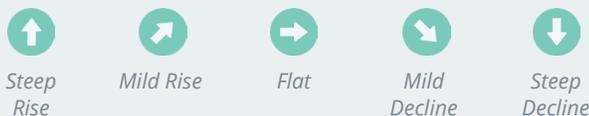
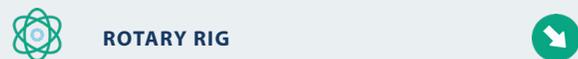
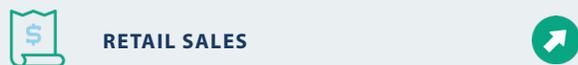


Industry Snapshots

Arrow denotes 12-month moving total/average direction.



Macroeconomic Outlook

Economic momentum is strengthening despite persistent uncertainty, though performance still varies by sector. We continue to monitor a broad range of indicators and the overall signal is positive, though not overwhelmingly so, suggesting a period of moderate, rather than robust, growth.

We recently made a material revision to our expectations for the single-unit housing market. We no longer expect growth in US Single-Unit Housing Starts this year. Instead, contraction will extend through 2026. Stalled activity in the existing home market and diminished movement in pending home sales overall, for example, outline a lull in demand due in part to an inventory mismatch, persistent affordability constraints, and “golden handcuffs” preventing some would-be sellers from listing their homes. For businesses in the residential construction sector, there may be reduced opportunities this year, though this will vary by region. Be proactive about strategic initiatives that could help you gain market share without relying on organic growth.

We no longer expect growth in US Single-Unit Housing Starts this year

Consumer inflation slowed in January, with US Consumer Prices (CPI) up 2.4% from the year-ago level. Over the next two years, we expect consumer inflation to remain elevated relative to the low levels of the past decade but well below the levels of the post-COVID surge. This could mean minimal rate cuts from the Federal Reserve ahead. On the other side of the Federal Reserve’s dual mandate, the labor market is stable. Employment is rising at a slowing pace, while the unemployment rate is hovering around the pre-COVID five-year average.

The industrial sector is in growth mode, though we expect growth to be mild this cycle due in part to muted business confidence and sticky interest rates. Upsides from reshoring efforts in the manufacturing sector are likely to be concentrated in areas like high tech. Defense remains another area of opportunity in the industrial sector moving forward, as geopolitical tensions are heightened.

The broader macroeconomic environment is fundamentally sound. Despite evidence of a “K-shaped” economy, consumers are generally well positioned and continue to spend. Growth in US Real Gross Domestic Product is expanding despite the high-interest-rate environment and lingering economic uncertainty. While the outlook for the residential housing market is softer for the coming years, pockets of residential opportunity exist. Assess your ability to pivot and tout competitive advantages where possible, particularly as customers may be more price sensitive and fatigued from years of high inflation.

Make Your Move

Real personal incomes are rising, supporting consumer spending and overall economic growth. However, consumer strength is likely to be uneven, as higher-income households are better positioned to absorb elevated prices than lower-income groups. Your firm should align its business planning with its particular customer income mix.

Investor Update

Peeking behind the curtain of a normal January ascent in the S&P 500, we are seeing signs of a rotation away from the tech and tech-like firms that outperformed in 2025 and toward sectors like energy, materials, and health care.

ITR Economics Long-Term View

2026

GROWTH

2027

GDP GROWTH; MANUF. FLAT

2028

GROWTH

Leading Indicator Snapshot

	1Q2026	2Q2026	3Q2026
ITR Leading Indicator™	●	●	●
ITR Retail Sales Leading Indicator™	●	●	●
US OECD Leading Indicator	●	●	●
US ISM PMI (Purchasing Managers Index)	●	●	●
US Total Industry Capacity Utilization Rate	●	●	●

● Denotes that the indicator signals cyclical rise for the economy in the given quarter.

● Denotes that the indicator signals cyclical decline for the economy in the given quarter.

● N/A

KEY TAKEAWAYS

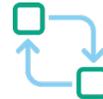
- Mixed signals in the table portray broad, though likely muted, growth for the economy in the coming quarters.
- Vacillation in the US ISM PMI (Purchasing Managers Index) is ongoing, which supports our outlook for growth to be somewhat mild and potentially choppy.
- After years of cumulatively strong 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.

Industry Analysis



RETAIL SALES

- US Total Retail Sales in 2025 were 3.7% above the 2024 level
- Cumulative inflation is leaving some consumers fatigued and price-sensitive
- While Retail Sales are poised for mild rise, relatively elevated costs in fundamental services and staple goods may result in some spending pattern shifts



WHOLESALE TRADE

- Annual US Total Wholesale Trade in November totaled \$8.4 trillion, 4.6% above the year-ago level
- The two major components are generally accelerating in growth; nondurables are 3.1% above year-ago levels, and durables are 6.3% above year-ago levels
- Businesses and consumers are well-positioned to drive Wholesale Trade higher in the coming years



AUTO PRODUCTION

- Annual North America Light Vehicle Production in 2025 totaled 15.3 million units, 2.1% below the 2024 level
- There is demand for new vehicles, but trends in US Luxury Car Retail Sales suggest consumers may be favoring more affordable brands
- In the US, Light Truck Sales are growing at a higher rate than broader Light Vehicle Sales



MANUFACTURING

- US Total Manufacturing Production in the 12 months through January was 1.2% above the year-ago level
- Utilization rates suggest further rise is likely, though it is likely to be mild relative to prior cycles
- Many durable goods markets will rebound this year, but legacy manufacturing may see muted growth rates



ROTARY RIG

- The US Rotary Rig Count in the three months through January averaged 547 rigs, 6.6% below the year-ago level; the Rig Count is in a general recovery trend
- Recent political shifts in Venezuela are unlikely to have a material impact on the broader oil industry in at least the near term
- Efficiency gains in the oil industry are evident in roughly the past decade; lower Rig Counts are sustaining higher levels of Production



CAPITAL GOODS NEW ORDERS

- US Nondefense Capital Goods New Orders (excluding aircraft) in the 12 months through November were 3.0% above the year-ago level
- Corporate profits and cash are pointing to mild rise ahead for capex
- US Defense Capital Goods New Orders were 12.7% above the year-ago level in the 12 months through November



TOTAL NONRESIDENTIAL CONSTRUCTION

- US Total Nonresidential Construction is declining
- High building and borrowing costs are weighing on the nonresidential construction sector as a whole
- Prior weakness in US Commercial Real Estate Occupancy Rates points to further decline in Nonresidential Construction in the near term



TOTAL RESIDENTIAL CONSTRUCTION

- Affordability constraints continue to weigh on US Single-Unit Housing Starts, which are declining
- Weakness in Single-Unit Starts is due in part to overbuilding in markets that had large population influxes post-COVID
- While Multi-Unit Starts have been more resilient, rising rental vacancy rates suggest some mild decline is also likely this year for the multi-unit segment

A Closer Look: The US Economy What Changed in the Housing Market and Why

DAVID FAIRCHILD

What you need to know: Protect your margins as the housing market faces headwinds

We lowered our expectations for US Single-Unit Housing Starts because of structural challenges. Businesses should plan for Starts to contract this year, trend flat in 2027, and then exhibit muted rise in 2028. Business plans should focus on segments of relative opportunity, controlling costs, and maintaining competitive advantages.

The primary challenge stems from an unprecedented market dynamic that emerged during and after the pandemic. Stimulus-driven demand and historically favorable monetary policy created an exceptionally robust housing market in 2021. Builders responded aggressively. As a result, starts significantly outpaced homes sold. This divergence is highly unusual. Even during prior cycles, including the period leading up to the Great Recession, ITR Economics did not observe this significant a deviation between Starts and New Single-Family Homes Sold. In short, builders overbuilt relative to true underlying demand. We are expecting decline in Starts through 2026, which will provide time for some mismatched inventory to be absorbed.

However, there is also a demand-side issue that further muddies the market. Persistently high 30-year mortgage rates and high construction costs have created a significant affordability barrier for would-be buyers. Even though incomes are outpacing inflation, monthly mortgage payments are materially higher than just a few years ago, stunting demand. While underlying demand remains intact, the cost of financing, coupled with already expensive home prices, is preventing would-be buyers from entering the market.

The COVID-era distortions created structural imbalances in the housing market that broke from historical precedent. The unusual overshoot in construction relative to sales led to forecasts that proved too optimistic.

Plan for a Multi-Year Slow Patch, Not a Market Collapse

The next three years will not be a repeat of 2008. Consumer credit conditions remain healthier than they did during the Great Recession. Underlying demographic demand is intact. However, excess inventory and affordability constraints are likely to keep new home building subdued. Companies that plan for slow and steady recovery rather than a sharp market rebound will be best positioned to protect margins now and capitalize on opportunities ahead.

Regional and Segment Differentiation Matters

Housing weakness will not be uniform. Some regions and segments will outperform others, particularly areas with strong population inflows and more affordable entry-level homes. Repair and remodel activity may be more resilient in the near term than new construction. To make the most of the market, shift your focus toward stronger geographies and segments. Diversify exposure beyond new single-unit construction where possible.

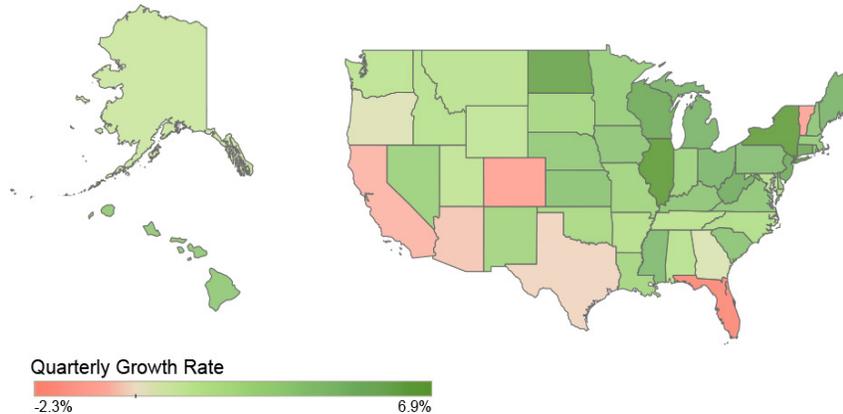
Protect Your Margins

As volume declines in most areas, competitive pricing pressure will increase. Chasing prices down can weaken long-term positioning and erode margins quickly. Instead, prioritize margin preservation and manage costs proactively. Avoid overextending capacity as demand settles and normalizes.

Strategic Opportunity Window (2026-27)

Periods wherein markets struggle often create strategic openings. Your competitors may face financial strain, making it a potentially ripe time for acquisitions. Keep your balance sheets strong, but keep an ear to the ground for potential opportunities to acquire — horizontally or vertically.

State-by-State: Prices



- US Home Prices in the three months through November came in 1.9% above the year-ago level; quarterly Prices are rising at their slowest rate in over 13 years.
- Most US states are experiencing rising Home Prices, with the strongest growth rates concentrated in the East.
- Some states that had stronger-than-average rise in Home Prices during the pandemic are experiencing mild decline in quarterly Prices, largely in the South and West regions.
- In many cases, it is the higher-priced and higher-end homes that are exhibiting declining prices; it is possible that this is a correction stemming from the affordability issues that have pervaded the market of late.

Readers' Forum

Are wage gains keeping up with pricing across all sectors?

Haley Sienkiewicz, Economist at ITR Economics™, answers:

Total Personal Consumption Expenditures, adjusted for inflation, were 2.5% higher than the year-ago level in November. While real incomes have been rising (coming in at 1.3% above the year-ago level in November), affordability relative to incomes is not even across all markets.

For example, US Median Annual Earnings have grown faster than the cost of many consumer goods over the past two decades. Some consumer goods have even declined in price, due in part to efficiency gains and globalization. Items such as clothing, computers, and cars have become relatively more affordable for the average consumer. On the other hand, growth in Median Earnings is not keeping up with the cost of many service-based expenses like childcare, college tuition, and medical care. As such, the average earner may feel their budgets strained, and spending growth in services is likely to be increasingly driven by higher-income households.

Please send questions to: questions@itreconomics.com

Profitless Prosperity: Why Growth Isn't Translating Into Profits — and What Leaders Must Do Next



Economic growth remains steady, yet many leaders are finding it increasingly difficult to convert that growth into meaningful earnings. Rising costs, wage pressures, technology investments, regulatory demands, and supply-chain complexity are compressing margins despite resilient demand — a structural challenge known as profitless prosperity. In our upcoming webinar, we will clarify what this environment means for your organization, why traditional growth strategies are falling short, and how leadership teams can adapt with greater precision. Leveraging forward-looking forecasts and economic insights, attendees will learn to distinguish real risk from noise, pinpoint margin erosion, and make more strategic decisions around pricing, investment, labor, and technology.

Discover the critical insights you need to tackle profitless prosperity by watching our March webinar. Insider members receive \$25 off with code INSIDER2026!

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