

Industry Snapshots

Arrow denotes 12-month moving total/average direction.

	RETAIL SALES	
	WHOLESALE TRADE	
	AUTO PRODUCTION	
	MANUFACTURING	
	ROTARY RIG	
	CAPITAL GOODS	
	NONRESIDENTIAL CONSTRUCTION	
	RESIDENTIAL CONSTRUCTION	

Steep Rise
 Mild Rise
 Flat
 Mild Decline
 Steep Decline

Macroeconomic Outlook

On net, consumers and businesses are on relatively solid footing at this year's halfway point. However, pricing pressures due to elevated oil and commodity prices, softening corporate profits, and slowing income growth present headwinds to future growth. Even so, growth is the most likely outcome.

Monthly US Consumer Prices rose notably in May to 4.2% above the year-ago level, bolstered largely by spiking energy costs. Recent inflation trends are making the case for further interest rate cuts harder; the Federal Reserve held rates steady at their most recent meeting and even signaled that a rate hike could happen this year. Producer Prices are also top of mind for many, as higher oil prices and tighter supply chains impact segments including gasoline, fertilizer, plastics, and commodities like copper and aluminum. Inflationary pressures for both producers and consumers are likely to persist this year.

US Private Sector Employment rose in May, and the unemployment rate remained stable at 4.1%. A modestly expanding macroeconomy will drive hiring activity, which lags the economy, but record-breaking growth in employment is unlikely given AI-driven hesitation and prevailing uncertainty due in part to geopolitical conflict.

Inflationary pressures for both producers and consumers are likely to persist this year

Annual US Real Personal Income (excluding current transfer receipts) is just 0.5% above the year-ago level on an annual basis, and it has fallen below the year-ago level on a quarterly basis, raising concerns about potential financial strain among consumers moving forward. Consumer spending is likely to rise in the coming years, but growth will be supported by inflationary pressures, and volumes in some sectors may be under pressure.

Business-to-business spending is rising, bolstered in part by pricing pressures and pull-forward activity by firms on the heels of supply chain issues. Further rise is likely to be based on underlying demand and rising overall corporate cash levels alongside expected accelerating inflation, at least in the near term.

The housing market continues to be dampened by affordability issues, though US Single-Unit Housing Starts are on the cusp of recovery, supported in part by the rising ITR Single-Unit Housing Starts Leading Indicator™. Elsewhere in the housing market, US Multi-Unit Housing Starts are in a rising trend. This is likely to persist in the near term given permitting trends, though we expect weakness next year.

Despite elevated pricing pressures, slowing income growth, and lingering geopolitical and monetary policy uncertainty, many economic indicators are pointing to mild rise ahead. However, consumers facing fiscal strain, particularly on the lower end of the income spectrum, will be more selective with their spending; businesses that clearly communicate their value proposition and competitive advantages will be better positioned to capture consumer demand.

Make Your Move

Focus on the bigger picture amid day-to-day volatility. Economic growth and elevated inflation are contributing to price sensitivity for some consumers and businesses.

Investor Update

The S&P 500 rose an abnormally strong 5.1% in May, its second stronger-than-normal month of rise. A June 5 drop in the technology sector ETF made headlines, on the heels of blistering ascent in technology stocks in April and May, but it has tentatively reversed course as of this writing.

ITR Economics Long-Term View

2026

GROWTH

2027

GDP GROWTH; MANUF. FLAT

2028

GROWTH

Leading Indicator Snapshot

	3Q2026	4Q2026	1Q2027
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

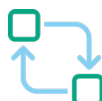
- Expect uneven growth across sectors given the choppy and generally mild rise in the leading indicators. Strength is likely to be concentrated in tech-related fields and the defense sector, while discretionary, big-ticket, and interest-rate-sensitive items are likely to be relative underperformers.
- The US ISM PMI (Purchasing Managers Index) rate-of-change rose for its fifth consecutive month in May. Rise in this indicator suggests that we could see the expected business cycle peak in US Industrial Production extend beyond our second half of 2026 expectation.
- Elevated commodity prices and geopolitical conflict may delay investment decisions.

Industry Analysis



RETAIL SALES

- US Total Retail Sales in the 12 months through May were 4.0% above the year-ago level
- Slowing growth in consumer savings will mute growth in Retail Sales as price-sensitivity increases
- However, renewed inflationary pressures will support higher Retail Sales, which are dollar-denominated



WHOLESALE TRADE

- US Total Wholesale Trade in the 12 months through April rose to \$8.7 trillion, 7.0% above the year-ago level
- US Surface Trade with Canada and Mexico is below year-ago levels
- Accelerating Producer Prices are a partial contributor to rise in dollar-denominated Wholesale Trade



AUTO PRODUCTION

- Annual North America Light Vehicle Production in April totaled 15.3 million units, 0.1% below the year-ago level
- Production in the US is 1.2% higher than the year-ago level, while activity in Canada and Mexico sits below year-ago levels
- Elevated financing costs for new car buyers will be a downside risk to future Production activity



MANUFACTURING

- US Total Manufacturing Production in the 12 months through May was 1.3% above the year-ago level
- Tepid rise in US Domestic Manufacturing Industries Corporate Profits is a positive sign for Production growth ahead
- Durables manufacturing is accelerating in growth, while nondurables are in a mild recession



ROTARY RIG

- The US Rotary Rig Count in the three months through May averaged 549 units, down 5.9% from the year-ago level
- US Oil and Gas Extraction Production is rising mildly
- US producers may be hesitant to meaningfully ramp up domestic production following the UAE's recent exit from OPEC+, given the potential implications for oil supply volatility



CAPITAL GOODS NEW ORDERS

- US Nondefense Capital Goods New Orders (excluding aircraft) in the 12 months through April were 5.7% above the year-ago level
- Pre-stocking amid supply chain uncertainty is a likely contributor to recent strength in New Orders
- Annual US Defense Capital Goods New Orders through April were 27.8% higher than the year-ago level



TOTAL NONRESIDENTIAL CONSTRUCTION

- In the 12 months through April, US Total Nonresidential Construction was 0.1% below the year-ago level; it is in a recovery trend
- US Total Public Construction is rising, boosted by tailwinds of government infrastructure spending
- High interest rates are likely to keep upcoming growth muted



TOTAL RESIDENTIAL CONSTRUCTION

- Annual US Total Residential Construction in April was 1.3% below the year-ago level
- The US 30-Year Conventional Mortgage Rate rose for its third consecutive month in May, reaching near 6.5%
- Elevated borrowing costs could incentivize more would-be homebuyers to rent for longer, an upside factor for the multi-unit market

A Closer Look: The US Economy

Consumer Prices Inflation Reaccelerates, With Energy Doing Much of the Heavy Lifting

HALEY SIENKIEWICZ

What you need to know: Energy-driven inflation is accelerating, but underlying price pressures are less stark, albeit still elevated, than the headline CPI figure suggests.

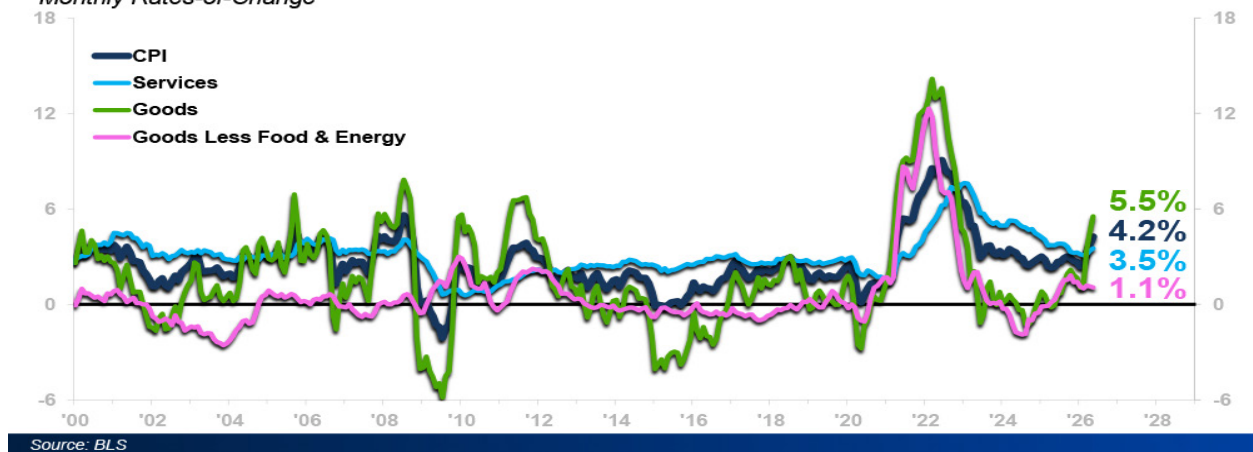
Headline figures for the Consumer Price Index (CPI) have stoked anxiety as of late. Prices accelerated to 4.2% above the year-ago level in May, the metric's first time exceeding 4% since the first half of 2023. These hot readings are raining on the would-be parade of a continued rate-cutting cycle initiated by the Federal Reserve, as monetary policymakers are signaling that sticky inflation is one factor keeping the federal funds rate stable for now. But CPI is a broad measure, and sifting through components often tells a more complete story of the economy. Once energy costs are stripped out, the CPI is up a comparatively tame, though less than comfortable, 2.9% versus one year ago.

The Services component of CPI, previously in a deflationary trend, is newly accelerating in its pace of rise, coming in at 3.5% above the year-ago level in May. Transportation services are one notable source of pressure, with prices up 9.3% from one year ago. These gains are being supported in part by fuel price increases tied to supply-chain disruptions and broader energy market volatility.

Inflation is stronger on the Goods side of CPI (+5.5 in May). Goods prices are typically more responsive to commodity input costs versus services, and the recent acceleration can largely be attributed to fuel-related pressures. However, the goods pricing picture is less concerning once volatile food and energy prices are stripped out. Excluding those categories, goods inflation is much more modest at 1.1%, suggesting that the recent pressure is concentrated in categories most directly exposed to swings in commodity and energy markets rather than reflecting broad-based price acceleration across the entire goods sector.

Building Inflation in Goods

US Consumer Price Index to Consumer Price Indexes for Services to US All Commodities Price Index to US Consumer Price Index for All Commodities Less Food and Energy
Monthly Rates-of-Change

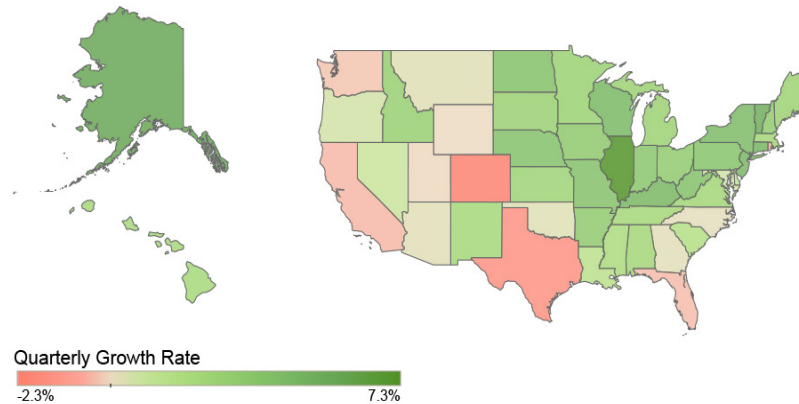


Consumers are no doubt fatigued from years of cumulative inflation. Even when consumers are not purchasing fuel directly, elevated transportation costs can work their way into final prices for food, household goods, and services that depend on travel.

We expect that consumer price inflation will continue its ascent through this year before disinflation takes hold in 2027. It is more likely that consumers will prioritize necessities and put off larger purchases in the near term, particularly consumers who are lower to middle income. New vehicle prices, for example, are up 1.0% from one year ago. New car sales are declining, with the last three months of sales down 6.5% compared to the same three months in 2025. Used car and truck prices are in a deflationary trend.

Headline inflation's latest acceleration is less a sign of runaway demand than a reminder that supply-side shocks can alter the pricing environment. As energy costs ripple through transportation, goods, and select services, consumers are likely to become more selective in their spending, especially on big-ticket purchases. Businesses should not assume that inflation relief will be linear; instead, they should prepare for continued volatility by monitoring input costs closely, maintaining pricing discipline, and preserving flexibility in sourcing and inventory decisions.

State-by-State: US Home Prices



- US Home Prices in the three months through March decelerated and were 1.8% above the year-ago level.
- Growth in Home Prices is more pronounced in the Northeast and Great Lakes regions, while the South and West are posting more modest gains.
- Some states are experiencing a retreat in prices, particularly those that had strong pandemic-era migration and price growth, such as Colorado and Texas.
- While still below recent peaks, the 30-Year Mortgage Rate is rising once again, exacerbating existing affordability issues.

Readers' Forum

Are we starting to see productivity gains from AI?

Haley Sienkiewicz, Economist at ITR Economics™, answers:

Since generative AI (artificial intelligence) became widely available in 2022, the technology has gained investment traction in workplaces, the stock market, and in personal use. Businesses and employees may be ramping up their AI usage in the workplace, but in these early years of adoption, how much is it affecting labor productivity? At the aggregate level, the US Business Labor Productivity Index rose for a fourth consecutive quarter in the first quarter of 2026, reaching further record highs. However, productivity gains have been trending above the pre-COVID long-term trajectory since 2022, and it is difficult to isolate the role of AI.

Sector-level data could suggest the impact is uneven. For example, the US Manufacturing Labor Productivity Index has not shown similar gains, which may reflect lower AI adoption in the industry, among other factors. Industries such as professional services, on the other hand, have higher rates of adoption. Overall, AI may be starting to support productivity growth, but the evidence is still nascent and uneven. For now, its impact appears more likely to emerge gradually and vary across industries.

Please send questions to: questions@itreconomics.com

Winning US States for the 2030s: Where to Invest, Where to Exit, and What to Do Now



Not all states will experience the 2030s economy the same way — and understanding where opportunity and risk will emerge could be critical to your long-term strategy. In our webinar, we will reveal which states are best positioned for growth, resilience, and investment opportunity as the next decade unfolds. Attendees will gain actionable insights into where to invest, expand, consolidate, or exit based on ITR Economics' proprietary State Opportunity Index and forward-looking economic forecasts.

Discover which states are positioned to thrive in the decade ahead by registering for our Executive Series webinar. Insider members receive \$25 off with code INSIDER2026!

- Event rebroadcast with live Q&A – June 25, 2026
- Recording and slide deck included in purchase

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