NON-FERROUS FOUNDERS' SOCIETY

ECONOMIC ADVISOR

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Industry Snapshots

Arrow denotes 12-month moving total/average direction.

RETAIL SALES	Mild Rise
WHOLESALE TRADE	Mild Rise
AUTO PRODUCTION	Flat
MANUFACTURING	Mild Rise
ROTARY RIG	Mild Decline
CAPITAL GOODS	Mild Rise
NONRESIDENTIAL CONSTRUCTION	Mild Decline
RESIDENTIAL CONSTRUCTION	Flat

Steep Rise · *Mild Rise* · *Flat* · *Mild Decline* · *Steep Decline*

Macroeconomic Outlook

Impacts from the war overseas, especially reduced traffic through the Strait of Hormuz, are already exerting pressure in some areas of the economy. Oil prices are volatile and elevated. The stock market faltered, down 5.1% in March from February, but it has been rebounding for much of April so far. Harder economic data, or direct measures of fundamental economic activity, support our outlook for moderate growth.

While consumer spending is rising, lower-than-normal savings rates signal that consumers are saving less to fund expenses. Slowing growth in real incomes is a concern for future spending, particularly as elevated oil prices make their way to downstream markets; this is so far most notable in gas prices. Other consumer health metrics point to resilience: debt levels relative to earnings are generally more favorable now compared to pre-COVID levels, and the unemployment rate is stable. We continue to monitor this mixed bag of consumer metrics, which collectively point to mild growth in US Retail Sales ahead.

> *The industrial sector is growing, bolstered by underlying demand despite slight softening in consumer financials*

Given ongoing geopolitical uncertainty and sticky inflation, the Federal Reserve opted to keep rates steady at its March meeting, attending to both sides of its dual mandate (maximum employment and price stability). The outlook for rate cuts remains uncertain, particularly if wartime-driven pricing pressures persist.

The industrial sector is growing, bolstered by underlying demand despite slight softening in consumer financials. Business-to-business spending is growing, due in part to pricing pressures. One other major tailwind to business investment is the increased need for automation. Elevated corporate cash levels, though slowing in growth, have positioned businesses to increase spending and absorb higher costs.

Activity in the private nonresidential construction market is starting to reflect the pullback of government incentives and is below year-ago levels, though it has recently entered a nascent recovery trend. Data center buildouts remain an upside despite being in a slowing growth trend. On the residential side of construction, US Single-Unit Housing Starts are in a recession, with further downward movement likely this year given persistent affordability constraints and a mismatch between buyer preferences and available inventory.

While geopolitical tensions are contributing to volatility in oil and financial markets, the broader economy continues to point toward moderate, albeit uneven, growth. Balance caution with opportunity: maintain cost discipline and pricing flexibility and invest in productivity enhancements, such as automation.

Make Your Move

Higher oil prices are further squeezing already slowing real incomes, particularly for lower-income households. Maintain a clear understanding of your core customer base and remain responsive to shifting price sensitivity and demand.

Investor Update

March saw heightened market anxiety: oil traded primarily in the $90s range and stocks fell 5.1%. While unsettling, similar declines in 1994 and 2025 stabilized without derailing macroeconomic growth. The stock market has since been rebounding for much of April. Consumer income growth is on the weaker side, suggesting a reliance on savings and more measured spending ahead.

ITR Economics Long-Term View

2026	2027	2028
GROWTH	GDP GROWTH; MANUF. FLAT	GROWTH

Leading Indicator Snapshot

	2Q2026	3Q2026	4Q2026
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

- Green is outweighing red on the chart above, signaling mild, uneven rise across sectors of the economy in the quarters ahead.
- The industrial sector is accelerating in growth, with further, though likely muted, rise supported by the ITR Leading Indicator™ and trends in the US OECD Leading Indicator.
- Pricing pressures are heating up, driven in part by reduced trade through the Strait of Hormuz. Ascertain your firm's exposure and ensure that you remain agile in your pricing strategy to preserve margins.

Industry Analysis

RETAIL SALES

- US Total Retail Sales in the 12 months through February were up 3.9% year over year; the pace of growth has been relatively steady over the last three quarters
- Weekly retail sales data from Johnson Redbook shows that consumers continued to spend following the onset of war in Iran
- Slowing growth in real incomes poses a constraint to future retail volumes; spending is likely to prove more resilient

WHOLESALE TRADE

- US Total Wholesale Trade in the 12 months through February reached $8.5 trillion, 5.7% above the year-ago level
- Generally accelerating Producer Prices will be an upside pressure on dollar-denominated trade
- Mildly declining truck tonnage, coupled with pricing trends, indicates that most upside in the distribution channel is related to pricing

AUTO PRODUCTION

- Annual North America Light Vehicle Production in February totaled 15.2 million units, 1.2% below the year-ago level
- The US component of Production is outperforming Mexico and especially Canada, though all countries are below year-ago levels
- Used and new car sales are generally plateauing, while luxury car sales are in a declining trend

MANUFACTURING

- US Total Manufacturing Production in the 12 months through March was 1.3% above the year-ago level
- Durable goods are showing strength while key nondurables segments like chemicals and food soften
- Rising exports present an upside to the manufacturing sector

ROTARY RIG

- The US Rotary Rig Count in the first quarter averaged 549 units, 6.7% below the year-ago level
- Oil prices continue to fluctuate at high levels due to ongoing uncertainty surrounding the blockage of the Strait of Hormuz
- We expect the oil prices surge to be followed by sharp decline back toward, but not quite reaching, pre-war prices

CAPITAL GOODS NEW ORDERS

- US Nondefense Capital Goods New Orders (excluding aircraft) in the 12 months through February were 4.1% above the year-ago level; growth is accelerating
- Pricing pressures are the likely primary cause for stronger-than-expected rise in New Orders
- Data suggests that small businesses are likely not benefiting fully from this overall strength

TOTAL NONRESIDENTIAL CONSTRUCTION

- US Total Nonresidential Construction in the 12 months through January was 0.6% below the year-ago level
- The public component of Construction is rising, but slowing in growth; the private component is declining
- Declining construction backlogs indicate further softening in Nonresidential Construction trends ahead

TOTAL RESIDENTIAL CONSTRUCTION

- US Private Single-Family Residential Construction in the 12 months through January was 3.6% below the year-ago level; multi-family spending is recovering
- Decline in permitting activity portends continued softness in the residential construction sector
- Competition for new builds in the form of rising existing home inventory for sale is growing, but that growth is slowing

A Closer Look: The US Economy

Navigating Growth in an Era of Uncertainty

MICHELLE KOCSES

What you need to know: Current geopolitical volatility and the oil supply shock do not automatically spell recession

The latest data suggests that while uncertainty is elevated, particularly due to the war in Iran, the broader economy remains resilient. Shift your focus away from whether growth will continue to how uneven that growth will be across industries.

Don't Overestimate Macro Impact; Pay Attention to Micro Nuances

One of the lessons from tariff disruptions last year was that shocks do not always translate into broad economic downturns. While risks have increased, a recession is not a foregone conclusion. If you are stressed about the current situation, look at the chart below. Retail Spending and the Weekly Economic Index (an estimate of GDP growth) have been relatively unfazed by the volatile geopolitical situation of recent weeks.

Instead of fearing a recession, businesses should be preparing for mild macroeconomic growth, with results that vary by company and sector. Your strategy needs to shift toward operational agility. Companies that can quickly adjust sourcing, pricing, and production in response to changing conditions will be better positioned than those that take a wait-and-see approach.

Follow the Shifts in Demand

Consumer behavior remains stable overall, but underlying dynamics are shifting. Higher essential costs are crowding out some discretionary spending, and real income growth is lackluster. This creates a more polarized market, where value propositions must be more targeted. It is key to recognize that uncertainty creates divergence and, with it, opportunity for those positioned to capture it.

Within consumer markets, put extra attention on your product mix and marketing messaging. Consider increasing your exposure to nondiscretionary segments.

Within manufacturing, there are many hot spots, with emerging high-tech segments providing the most attractive growth. Defense and energy industries are benefiting from conflict in the Middle East, though some companies may be measured in their responses given that the longevity of the conflict is unknown.

Supply Chain Friction Increases the Need for Margin Protection

Logistics conditions are tightening again, echoing supply chain disruptions seen during and after the COVID period. With rising shipping rates and fuel surcharges, cost variability and longer lead times should be built into planning assumptions.

To mitigate risk, companies should look to diversify suppliers, monitor regional exposure, and watch trends in critical inputs. Small disruptions can have outsized consequences, so proactive inventory and sourcing strategies are essential.

Cost pressures are likely to remain a defining feature of the coming years. Rather than relying solely on price increases, businesses should prioritize investments in efficiency that can be paid off in the next two to three years. Initiatives that reduce labor dependency or improve throughput are essential to preserve margins. In a time of volatile commodities, it is important to control what you can.

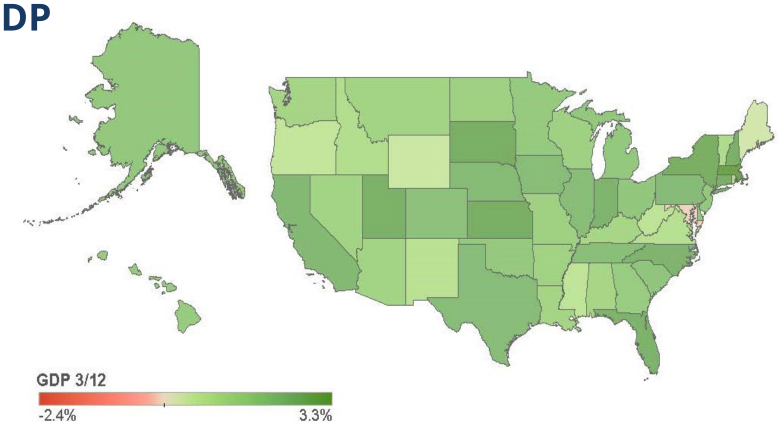
Plan for the Long Term, Not Just the Next Cycle

Beyond near-term challenges, structural risks are building. Persistent deficits, sticky interest rates, and inflationary pressures are increasing the likelihood of a more difficult economic environment in the 2030s. Businesses should begin preparing now by strengthening balance sheets, building cash reserves, and prioritizing efficiency over expansion.

A Practical Path Forward

Growth is still likely, but it will be uneven and harder won. The most successful organizations will be those that stay grounded by not overreacting to macro fears and actively managing micro-level risks. Stay flexible, disciplined, and ready to adapt.

State-by-State: GDP



- US Real Gross Domestic Product (GDP) rose in the fourth quarter of 2025, coming in 2.0% above the year-ago level.
- Only Maryland and Washington D.C. experienced year-over-year contraction in GDP (-0.1% and -2.4%, respectively), likely due in part to the federal government shutdown at the end of 2025. Given the area's high concentration of federal employees, it is particularly sensitive to federal spending disruptions.
- All other US states expanded through the fourth quarter. These gains were geographically dispersed, with no single region clearly outperforming others.
- Despite some softening in real incomes, consumer spending remains resilient and is expected to support GDP growth in 2026. The war overseas does introduce uncertainty, which could pose a downside risk to some activity; however, increased defense spending could boost GDP.

Readers' Forum

How will high oil prices impact consumers, and when will prices stabilize?

Haley Sienkiewicz, Economist at ITR Economics™, answers:

If you have been monitoring day-to-day fluctuations in oil prices in the past several weeks, you probably have whiplash. Reduced trade through the Strait of Hormuz amid the war in Iran and messaging around the conflict have led prices to stay elevated but extremely volatile. Our analysis of historical shocks suggests that oil price spikes are unlikely to last. We are forecasting that quarterly US Crude Oil Spot Prices will rise in the near term, but they will generally moderate for the majority of this year. However, they are unlikely to return to the lows seen in late 2025.

While elevated oil prices are likely to have downstream impacts including in chemical, transportation, and agriculture markets, the immediate impact for consumers is at the gas pump. In March, the US Retail On-Highway Gas Price jumped to an average of $3.77 per gallon, up a record 24.2% from the month prior. This may lead to less consumer spending elsewhere until consumers can adjust to these higher prices. Lower-income consumers will be squeezed the most. Uncertainty surrounding the conflict and its impact on energy costs is likely to complicate household budgeting in the months ahead.

Please send questions to: questions@itreconomics.com