Pet Industry Distributors Association

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Industry Snapshots

Arrow denotes 12-month moving total/average direction.

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

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

Macroeconomic Outlook

The US economy is on track for modest rise in 2025. Keep in mind that growth rates for many core metrics will be muted in the first half of 2025, but the pace of growth for most core segments of the US economy will pick up in the second half of the year. There are still some lingering downside effects from high interest rates and affordability constraints in some markets, such as the residential construction market and the automotive sector. Federal Reserve shifts to more accommodative monetary policy are generally a positive sign, but downward momentum in interest rates will be minimal for much of 2025 given long-term inflationary pressures. These include a generally tight labor market fueling wage increases, a national housing shortage propping up home prices, and electrification/AI power consumption driving up electricity prices. Nonetheless, easing credit scrutiny and elevated corporate profits will likely stimulate capital expenditure spending by mid-2025.

For consumers, rising inflation-adjusted savings balances and rising incomes will ultimately lead to real gains in financial footing. Consumers will be able to drive retail spending higher, though the fresh memory of inflationary hits will keep them searching for the best deals. Ensure your consumer-facing products exemplify value; relative price points could notably impact sales volume in the coming rising cycle, and strong competitive advantages will be key to capitalizing on growth ahead.

Manufacturing is poised for mild growth. Keep in mind that some individual markets may outpace the macroeconomy in terms of growth, while others will trail behind. Select markets – such as automotive, construction machinery, heavy-duty trucking, and electrical equipment – will face lingering downside pressures into mid-2025, so keep this timeline in mind if you sell into these end-use markets. However, even these markets will grow by the end of 2025. The full potential of manufacturing rise could be constrained by ongoing labor market tightness for the coming years as demographics and other forces limit the supply of the manufacturing workforce. Consider if investing in labor-saving efficiencies is a viable option for your business.

> *"Manufacturing is poised for mild growth."*

Several nonresidential construction markets, which typically lag the industrial sector by roughly one year, are headed for decline in 2025. US Private Office Buildings Construction Excluding Data Centers will notably contract for the first half of 2025. Rising demand for data centers and public spending on utilities-related projects may offer a relative area of opportunity. The net impact will be moderate downside pressure on construction in 2025.

Consumer and producer price inflation will pick up alongside macroeconomic rise in 2025 and moreso in 2026. Resolving the clash between inflationary pressures and lingering price sensitivity will require creativity and competitiveness. Engage your workforce to help identify efficiency gains, potentially with a focus on building flexibility in your supply chain.

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Make Your Move

Inflationary pressures in 2025 may clash with lingering price sensitivity. Identify the price index for your business, and make sure your prices are moving in line with what the market data is saying. Assessing demand for input materials and purchasing forward based on the cost forecast could also help you maintain margins.

Investor Update

The S&P 500 erased October's tick-down and then some, rising an abnormally strong 5.7% from October to November and ending November above the 6,000-point threshold. November marked the 20th month of 12/12 ascent for the S&P 500. Twenty months is a significant marker because it means the market has now exhibited a longer-than-normal period of 12/12 rise. In turn, this means that, while the near term looks rosy, it would be anomalous for the S&P 500's accelerating growth trend to persist throughout 2025.

ITR Economics Long-Term View

2024	2025	2026
RETAIL GROWTH; INDUSTRIAL FLAT	GROWTH	GROWTH

Leading Indicator Snapshot

	1Q2025	2Q2025	3Q2025
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

- The leading indicators are generally supportive of somewhat uneven, muted rise ahead for US Industrial Production.
- A number of the key leading indicators have waffled in recent months amid overall trends that are, for the most part, generally rising. The preponderance of economic evidence, including rising inflation-adjusted savings levels and elevated corporate profits, still suggests that US Industrial Production activity will pick up somewhat in the second half of 2025.
- The movements in the macroeconomic leading indicators obscure highly disparate trends among different industries. While we always see variation within industries, this cycle's outsized differences highlight the need to pay attention to the key leading indicators for both your business and your industry. Reach out to us if you need help.

Industry Analysis

RETAIL SALES

- US Total Retail Sales in the 12 months through November were 3.0% above the year-ago level
- US Consumer Credit Card Delinquency Rates, at 3.2%, are still elevated relative to the past decade's 2.4% average but have flattened out in recent quarters below the long-run average of 3.7%
- Consumers are likely to gain some financial footing in the coming quarters given rising incomes and rising inflation-adjusted savings balances, driving Retail Sales growth

WHOLESALE TRADE

- US Total Wholesale Trade in the 12 months through October ticked up slightly, coming in 1.4% above the year-ago level
- US Surface Trade with Canada and Mexico has inched back up to record levels and is accelerating in its ascent, a positive sign
- Bloated inventories are affecting the wholesale machinery market; inventories are relatively leaner in electrical equipment & electronics, petroleum products, and pharmaceutical drugs

AUTO PRODUCTION

- Annual North America Light Vehicle Production in October was 2.1% higher than the year-ago level
- The US Auto Loan Delinquency Rate rose to 4.6% in the third quarter of 2024, which is above the 3.5% historical average, a headwind for the industry
- US Light Vehicle Retail Sales have ticked up recently, with the three months ending in November coming in 2.6% higher than the same three months in 2023

MANUFACTURING

- Annual US Manufacturing Production in October was 0.2% below the year-ago level
- Weakness will linger into 2025 for the light vehicle and heavy-duty truck sectors, but the machinery and food sectors are either at or nearing a positive inflection point
- Reshoring trends are an upside factor that will persist in the coming years

ROTARY RIG

- The average US Rotary Rig Count in the three months through November was at 585 rigs, 6.3% below the year-ago level
- Mild macroeconomic rise in 2025 will increase oil demand, putting upward pressure on this market
- A relatively strong dollar poses a downside risk to demand

CAPITAL GOODS NEW ORDERS

- US Nondefense Capital Goods New Orders (excluding aircraft) in the 12 months through October were 0.6% above the year-ago level
- US Exports and US Corporate Profits are generally rising, which bodes well for New Orders
- Business confidence is muted, but mild rise in the ITR Leading Indicator™ suggests we will see business cycle momentum in New Orders gradually pick up over the course of 2025

TOTAL NONRESIDENTIAL CONSTRUCTION

- US Total Nonresidential Construction in the 12 months through October was 8.6% above the year-ago level
- Remote work trends are a factor driving office construction woes; prior retail activity weakness is impacting Multi-Tenant Retail Construction
- In contrast, the public, data center, manufacturing, and power components are each growing at a double-digit pace, though growth is slowing in each of these segments

TOTAL RESIDENTIAL CONSTRUCTION

- Annual US Total Residential Construction in October was 6.2% above the year-ago level
- The single-unit sector is softening on a quarterly basis, in part due to relatively high mortgage rates
- Annual US Private Multi-Family Residential Construction is declining; expect the pace of decline to intensify in at least the near term

A Closer Look: The US Economy

New Year's Resolutions to Ride the Business Cycle

MICHELLE KOCSES

What you need to know: Economic growth will be the prevailing trend for the latter part of the 2020s, but a depression will follow in 2030-36. The window to prepare is closing, so ensure that your New Year's resolutions include a focus on preparedness.

As the year ends, we often turn inward and reflect on what we could have done better and then establish what we want to accomplish in the coming year. As with individual New Year's resolutions, there are many timeless business goals. Lose weight = cut costs! Exercise more = improve productivity! Learn a new skill or hobby = create a new product or enter a new market! These well-intentioned goals can fall short in implementation, especially if they are not scaled appropriately to market conditions.

Your best chance for success is in building goals that account for where your market is in the business cycle now and for where that momentum is heading in the next few years. A company or market forecast can help provide visibility for building those business-cycle-minded goals, and we at ITR Economics would be happy to serve as your accountability buddy. Even without that level of detail, there is a lot to gain from understanding the macroeconomic environment of the coming years to fashion your goals.

It is a best practice to plan at least half a business cycle ahead. At this juncture though, we think it is best to form a long-range plan stretching into the 2030s. We forecast that the second half of this decade will be characterized by economic growth. However, the 2030s will likely bring a noticeably tougher economic environment (a depression, not just a recession) given a confluence of unsustainable demographic factors and ballooning deficit spending. The US' debt level exceeds 120% of GDP despite the latter's relatively robust growth – by contrast, debt was 106% of GDP pre-COVID – and a political solution to US government spending is unlikely. We recently hosted an in-depth webinar on our 2030s outlook and how to plan for it. The good news is that the 2030s are not here yet. The window is shrinking, but we do have time to prepare.

RESOLUTION #1: MAKE CAPITAL INVESTMENTS SOONER RATHER THAN LATER

We think capex should be top of mind in 2025. Given that many projects have a multi-year horizon from conception to implementation to payback, the best time to start is likely sooner rather than later. That way, you can utilize that capex in the coming years of growth and enter the 2030s with a minimal debt burden. Other factors, namely inflation and interest rates, also support sooner business investment. Looking at US Treasury Issuances as a proxy for government deficit spending, we can see that the next round of inflation is already forming. We are forecasting general rise for US Producer Prices, with inflation gaining momentum again in late 2025 and in 2026. This likely means a higher price tag the longer you wait for whatever capex you have in mind. Higher inflation will mean higher interest rates as well. While the Federal Reserve has been lowering the overnight Federal Funds Rate, longer-term rates – which more closely approximate what businesses pay – are trending differently. Longer-term rates moved lower ahead of, but not since, the Federal Reserve's policy changes. Our projections have relatively flat long-term interest rates in the coming quarters, with some potential for very mild downward movement through mid-2025; however, the longer-term trajectory will likely be rise. Given payback times, pricing, and interest rates, we suggest you consider acting sooner rather than later.

RESOLUTION #2: BUTTRESS YOUR MARGINS

While we are encouraging our clients to invest in their businesses, efficiency improvements may be called for rather than additional capacity. Margins will likely come under pressure when inflation starts to rise again in late 2025. Consumers and businesses are in a decent financial position, but buyers are price-sensitive and a stimulus windfall may be unlikely this cycle given inflationary pressures, among other factors. Protecting your margins could take many different forms. Investing in capital or technological efficiency improvements, especially ones that reduce your dependence on labor, will likely be helpful in the long run amid a generally tight labor market. Another tactic to protect your margins is to lean into your competitive advantages to improve customer loyalty and avoid competing primarily on price. Or you can be a leader in your market, developing new and better products while charging a premium. Change is necessary to keep up with the market. Market research lets you pinpoint where you fit into your market to make appropriate pricing and branding decisions. Keep efficiency and margins at the forefront of your planning.

RESOLUTION #3: DIVERSIFY TO MINIMIZE RISK

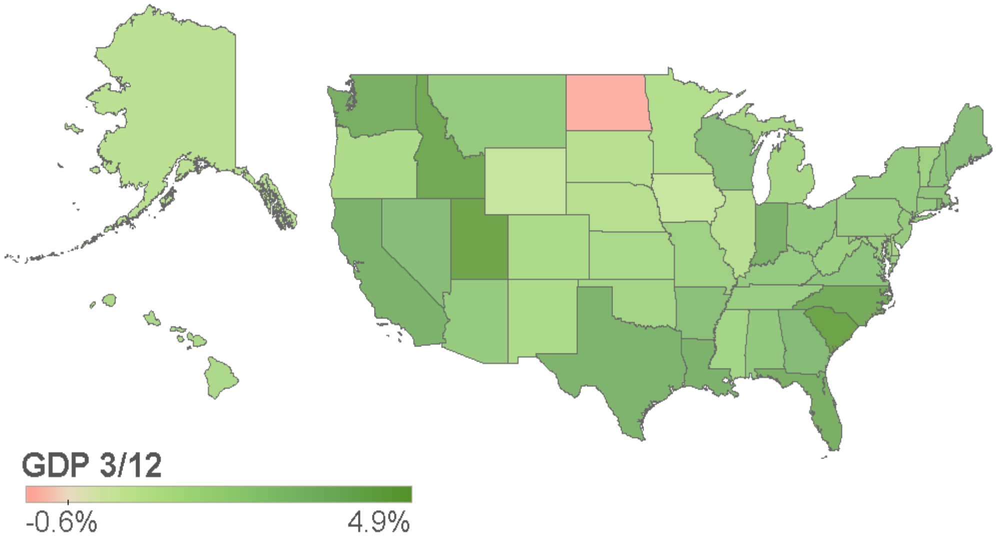
While the economy can weather spikes in trade tensions or localized shipping disruptions, there can be severe consequences for some markets or individual companies. Map out your supply chain – we know this is hard to do, but it is especially important to know where you are exposed to risk given that trade tensions are on the rise again. If possible, we suggest that you diversify outside of China and exercise caution in Mexico. While any tariff changes are speculative at this point, if they occur, being nimble and knowing your supply chain will give you a head start.

RESOLUTION #4: HAVE FUN – ENJOY MACROECONOMIC GROWTH AND BUILD A STRONGER COMPANY CULTURE

While the coming years will still have challenges, they will generally be growth years for those that trend with the macroeconomy. Use the easier times ahead to build a robust company culture. Train up employees and tell them how they are making a positive impact at work and in their communities. Loyal and well-trained employees will be critical both in the near term and when the tougher times of the 2030s hit.

Plan for the 2030s to best position yourself and your business. Through preparation, you can support yourself and your family, keep your doors open, continue to provide good jobs for your employees, and be situated to consider charitable contributions to help your local community through the tough times of the 2030-36 period.

State-by-State: GDP



- US Real Gross Domestic Product (GDP) in the third quarter came in 2.7% above the year-ago level; growth is slowing.
- Quarterly Real GDP came in above the year-ago level in all states except North Dakota in the second quarter (latest available data).
- Real GDP grew fastest in states with positive demographic trends, such as South Carolina, North Carolina, and Florida; in contrast, states with weaker demographics, such as much of the central region, came in weaker.
- We anticipate general mild Real GDP growth in 2025 as a generally solid consumer propels the economy.

Readers' Forum

With the potential for further Federal Reserve rate cuts ahead, when is the best time to take out a loan to invest in my business?

Jenna Allen, Economist at ITR Economics™, answers:

The Federal Reserve has begun to lower the Federal Funds Rate, the rate at which banks lend money to each other overnight. This shift toward more accommodative monetary policy is likely to result in some improvement for short-term rates, and there is a chance that the Fed will lower rates a bit more in 2025. However, businesses that borrow at longer-term rates must consider that long-term rates are impacted by broader market factors, not by short-term rates alone. We expect minimal downward movement for longer-term rates due to stubborn inflation and the sizeable Treasury issuances necessary to fund government deficit spending.

Nonetheless, we can see that many lenders have stopped tightening their credit standards, and a low default risk premium suggests lenders are offering relatively favorable terms for businesses with debt profiles perceived as riskier. Waiting for potentially slightly lower rates before making your move should not be your sole strategy. Instead, consider capitalizing on improving lending standards and focus on the magnitude and duration of the ROI of your projects in the context of both the rising pricing pressures ahead and the depression we are forecasting for 2030-36.

Please send questions to: questions@itreconomics.com