Pet Industry Distributors Association

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Industry Snapshots

Arrow denotes 12-month moving total/average direction.

RETAIL SALES	Mild Rise
WHOLESALE TRADE	Mild Rise
AUTO PRODUCTION	Mild Decline
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 fog surrounding trade policy remains, and the push and pull of negotiations with other countries is ongoing. Recent news of temporarily lowered tariffs for US goods imported from China was welcome news for many. While metrics show uncertainty is elevated for both businesses and consumers, our collection of leading indicators still supports general, albeit mild, growth ahead for the US macroeconomy rather than a recession.

US Real Gross Domestic Product (GDP) mildly declined in the first quarter of 2025. This was due primarily to heightened imports, which subtract from GDP, as consumers and businesses looked to get in front of new tariffs. Critically, both the consumer spending and business spending components rose, and the broader outlook remains stable: Real incomes are still rising, albeit at a slowing rate, and the labor market remains relatively tight. Mild growth in GDP is likely this year and into next.

On the business side of the economy, the US Census Bureau just released its annual revision to New Orders data. The revised data shows that B2B spending is recovering from a prior mild recession that likely resulted from an excessive inventory buildup. Our analysis suggests that mild rise, with a substantial portion of the rise attributable to price increases, is probable.

Due in part to slowing income growth and economic uncertainty, we adjusted our outlook for US Total Retail Sales, but we still expect general rise into at least the middle of 2026. The consumer is in a solid position overall, but results vary considerably depending on where you are looking. For example, we are seeing the percentage of both people who are paying the minimum on their credit card rise (bad news) alongside the rising percentage of people paying off their credit card in full each month (good news). Thus far, those in a strong position outweigh those in a weak position. Given our outlook for sticky inflation though, volume growth in Retail Sales will be modest.

> *"Remaining versatile as tariffs evolve is key."*

In April, US Consumer Prices came in 2.3% above the year-ago level; the figure excluding food and energy was 2.8% above the year-ago level. Both metrics exceed the Fed's 2% target. The Fed held interest rates steady in May and has not committed to a timeline for rate cuts. Still-elevated interest rates will challenge growth in housing starts, as affordability remains a hurdle. US Single-Family Housing Starts are declining partly in response to these challenges. Meanwhile, the lagging nonresidential sector is poised to decline in the near term. This will vary by segment, as some nonresidential sectors will avoid contraction this year.

Remaining versatile as tariffs evolve is key. While day-to-day policy shifts can spark unease, move forward with the confidence that we are not poised to fall off a cliff; rather, we are moving toward mild growth.

onDemand

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Make Your Move

Remain agile in the shifting markets by regularly reviewing your capital allocation and shifting resources when necessary. Lead with optimism, using your knowledge of future growth for many markets as a tool for capturing market share.

Investor Update

The S&P 500 declined a normal 0.8% in April. Volatility was significant. The S&P 500 has rebounded from early April lows but remains below the record high. Elevated economic uncertainty has led to market declines this year; however, it is associated with generally higher than average stock market returns 3, 6, and 12 months out. While concerns about margin erosion persist due to inflationary pressures like tariffs and slowing corporate profits, do not overreact. Panic during uncertain periods has historically led to poor investment outcomes.

ITR Economics Long-Term View

2025	2026	2027
MILD GROWTH (WEAKER 1ST HALF)	GROWTH	SLOWING GROWTH

Leading Indicator Snapshot

	2Q2025	3Q2025	4Q2025
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

- Elevated uncertainty is causing some discomfort, but our collection of leading indicators suggests mild growth is probable for most major segments of the US economy this year.
- Prior mild rise in the ITR Retail Sales Leading Indicator™ suggests that consumer spending will move higher this year; we are carefully watching to see if the two-month slide in the Indicator is just noise or a precursor to potential retail spending weakness developing in 2026.
- Similarly, we have seen some tick downs in recent months in the ITR Leading Indicator™, the US OECD Leading Indicator, and the US ISM PMI (Purchasing Managing Index); however, overall the trends are rising and suggestive of mild industrial sector growth ahead.

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Industry Analysis

RETAIL SALES

- US Total Retail Sales in the 12 months through April were 3.2% above the year-ago level; the March-to-April movement in Retail Sales was normal despite the high economic uncertainty
- Consumers remain relatively well positioned and are likely to mildly increase spending as their wages rise rather than pull back spending
- Slowing income growth and the impact of cumulative inflation will limit the strength of rise

WHOLESALE TRADE

- Annual US Total Wholesale Trade in the 12 months through March was 2.6% above the year-ago level
- Sales-to-inventory ratios are mildly rising for the durables sector and declining in the nondurables sector
- Wholesale Trade will likely rise given our expectations for an expanding macroeconomy

AUTO PRODUCTION

- North America Light Vehicle Production in the 12 months through March was 1.8% below the year-ago level; the most recent three months were down 4.0% year over year
- Further downward pressure is likely given generally declining utilization rates within the industry
- Given that middle- to upper-income consumers are faring relatively well, Production decline will be mild

MANUFACTURING

- Annual US Total Manufacturing Production in April was 0.2% above the year-ago level and is accelerating in its ascent
- Cyclical rise in the US Manufacturing Capacity Utilization Rate signals that further rise in Production is probable
- Elevated corporate profits within the manufacturing industry will help absorb rising costs should tariffs exert upward pressure on input prices

ROTARY RIG

- The US Rotary Rig Count in the three months through April averaged 589 rigs, 5.2% below the same period one year ago
- Oil Prices have moved generally lower on economic uncertainty, a downside risk to the Rig Count, though macroeconomic expansion suggests monthly prices are likely around the low for this business cycle
- US Oil and Gas Extraction Production is rising, but growth is slowing

CAPITAL GOODS NEW ORDERS

- The Census Bureau revised historical US Nondefense Capital Goods New Orders (excluding aircraft) data, which now shows mild contraction in 2023-24, with subsequent recovery underway
- Recovery is in line with the ITR Leading Indicator™
- Growth in New Orders is likely to be mild given sluggishness in leading indicators like the US ISM PMI (Purchasing Managers Index)

TOTAL NONRESIDENTIAL CONSTRUCTION

- US Total Nonresidential Construction in the 12 months through March was 5.1% above the year-ago level; growth is slowing
- As construction lags interest rates, elevated interest rates will lead to additional softening in Construction in the coming quarters
- Construction trends will vary by region; regions with recent large increases in housing may have more demand for nonresidential structures to accommodate

TOTAL RESIDENTIAL CONSTRUCTION

- US Total Residential Construction in the 12 months through March was 5.0% above the year-ago level
- The single-family portion of this market is showing signs of weakness; consumers may be adopting a wait-and-see approach amid uncertainty and high interest rates
- Flat apartment rents coupled with high interest rates will likely limit incentives for growth in the multi-unit sector in at least the near term

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A Closer Look: The US Economy

Use This, Not That

MICHELLE KOCSES

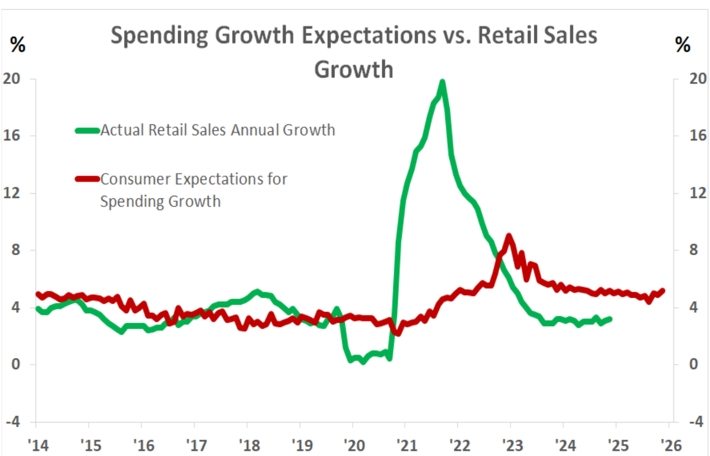
What you need to know: Consumer sentiment data has a poor relationship to actual spending; utilize proven leading indicators instead.

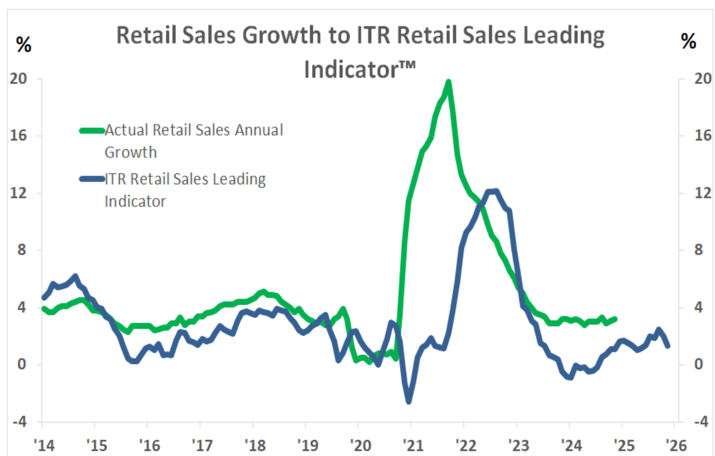
Markets breathed a collective sigh of relief after the May 12 temporary trade agreement with China. While the trade war is not over, this trade deal gives us a moment of pause to craft a plan on how to handle what comes next. We advocate a data-driven approach to planning with a recognition that not all data is useful; only use data that has a proven track record. Once we identify the data that is just noise, we can select better alternatives. Hard data (measurable, objective facts) is best, but can often can be lagged, so it is not as helpful during spikes in volatility. Soft data (subjective and opinion based, such as surveys of sentiment) often has a poor predictive track record.

The University of Michigan's US Index of Consumer Expectations April 2025 reading tied with the July 2022 reading as the lowest level of Consumer Expectations since the early 1980s. Such weak data could have the retail sector shaking in its boots. Fortunately, this index has very low predictive power, even at times moving opposite to actual spending. We recommend leaving this indicator out of your dashboard.

Next, we turn to the NY Federal Reserve's Survey of Consumer Expectations. We analyzed this survey data's predictive power for over a dozen categories. We cannot blame consumers for doing a poor job of forecasting the COVID-19 pandemic and its subsequent inflation; however, even before the pandemic, their "predictions" were more reflective of the past than the future. Take a look at the Retail Sales example to see how well their expectations matched actual spending – note that we shifted the expectations data forward one year to represent that it is supposed to be a future prediction. This indicator is also skip-worthy.

What is a better alternative? We designed our own proprietary ITR Retail Sales Leading Indicator™ to signal where momentum is headed for the retail space. In the chart, the Leading Indicator is shifted forward a year to reflect its historical best fit lead time to retail spending. Compare how this indicator has tracked with Retail Sales historically. At this juncture, the Leading Indicator signals that Retail Sales will gradually gain momentum through at least early 2026. A recent tick down in the Leading Indicator suggests some softness in the first half of 2026, suggesting a slightly choppy mild rising trend. This indicator confirms our view that retail spending is very unlikely to contract in this business cycle; instead, plan for mild growth, with a good chunk of the rise driven by higher prices as opposed to increasing volume.





What about B2B and industrial businesses? Our analysis shows that survey data for the business community is more trustworthy than consumer surveys. We recommend monitoring rates-of-change for the US ISM PMI (Purchasing Managers Index) and the US Business Confidence Index, even though they are survey data. The Leading Indicator Snapshot in this report highlights a few of our favorites. Right now, our basket of leading indicators is signaling "Don't Panic!" General, albeit mild, rise is still more likely than contraction for B2B spending. While recent uncertainty has caused some hesitancy for committing to capex, the fundamentals of the economy are in a relatively solid position, and further growth lies beyond present-day fears.

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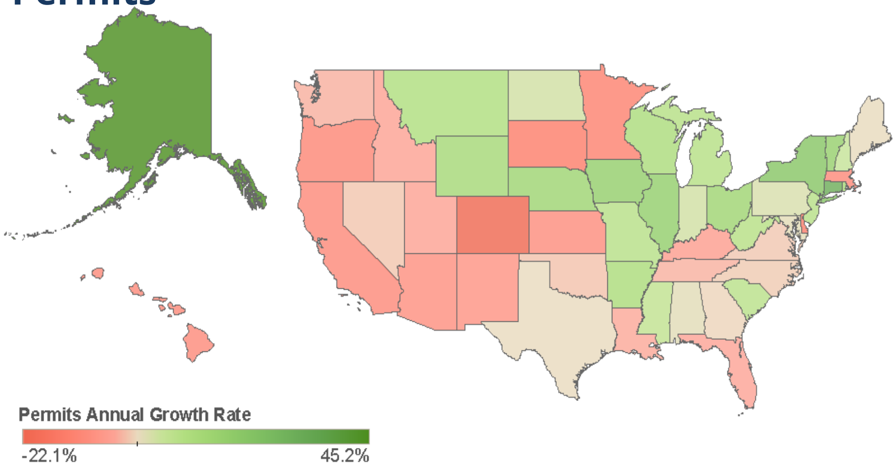
State-by-State: Permits



- US Housing Permits in the 12 months through March declined to 1.449 million, 1.2% below the year-ago level.
- Roughly half of US states have Housing Permits below year-ago levels, with year-over-year declines particularly prevalent in the West and South regions.
- States in the Rust Belt and Northeast are generally showing more positivity.

Readers' Forum

Are high mortgage rates impacting consumer spending elsewhere?

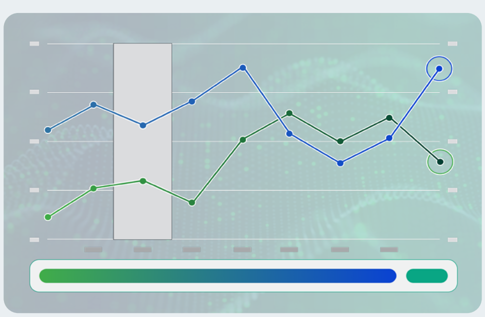
Haley Sienkiewicz, Economist at ITR Economics™, answers:

You are correct that mortgage rates are elevated, and newer homeowners are feeling the strain. In 2024, a US mortgage payment for an average-priced new home with 85% financing amounted to 45.7% of monthly median income. While this percentage has eased slightly from 2023's multi-decade highs, it is up from 32.4% in 2019, prior to the issuance of considerable monetary and fiscal stimulus that drove home prices higher. While many current homeowners have lower rates locked in from prior financing, the broader US Effective Mortgage Rate on Outstanding Debt is at the highest rate in a dozen years.

Thus far, the consumer has been able to largely shrug off housing affordability headwinds. US Total Personal Consumption Expenditures through March were up 5.5% year over year, which is nearly identical to the 20-year average rate of growth. While high mortgage payments may be preventing some would-be new homeowners from entering the housing market, consumers continue to spend thanks to rising incomes, plentiful jobs, and accessibility to consumer credit.

Please send questions to: questions@itreconomics.com

Time Is Running Out – Prepare Your Business for the 2030s Depression Now



As we approach the Great Depression of the 2030s, it is crucial for businesses to seek expert insights to prepare for the significant economic challenges ahead. Are you asking the right questions to ensure your company is well-positioned for the coming decade? Now is the time to plan your business strategy for the future and make informed decisions to safeguard your company's success.

Our Financial Resilience program offers a comprehensive solution to help your business thrive during economic uncertainty. Working closely with your team, we create a fully customized blueprint tailored specifically to your business needs, including a 15-year company forecast. This program provides the tools and strategies necessary to build resilience and achieve your goals through the upcoming depression. Contact us today to get started and secure your business's future!

LEARN MORE

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