PIDA
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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

The US economy is increasingly divided: AI-related investment is fueling growth in select sectors, while some consumer metrics, markets sensitive to interest rates, and the bond market are signaling strain. These conflicting forces point to an uneven outlook, depending on your sector.

Consumer spending remains a key source of economic growth, although signs of slowing momentum are emerging. US Goods Personal Consumption Expenditures continue to rise in both nominal and inflation-adjusted terms. However, inflation-adjusted spending growth is moderating, which is likely reflective of sluggish real wage growth and, therefore, mounting pressure on household purchasing power. As a result, consumers may increasingly pull back on discretionary purchases, particularly higher-priced items that require financing. Spending on services, meanwhile, is more resilient. A relatively stable labor market should continue to support household spending, making an outright decline in overall consumption unlikely in the coming quarters.

Consumer Price inflation is contributing to diminishing purchasing power. US Consumer Prices (CPI) in September were 3.7% above the year-ago level, the second consecutive month of acceleration. Higher energy prices, strong demand for electronics and utilities, and structural constraints in housing and health care are notable contributors. We anticipate that Consumer Inflation will ease slightly next year but remain elevated to the Federal Reserve's 2% target.

> *Consumer spending remains a key source of economic growth, although signs of slowing momentum are emerging*

US Industrial Production is in a modest growth trend. Further growth will be uneven across industries: sectors benefiting from high-tech investment, along with those tied to AI and defense demand, are likely to outperform more traditional manufacturing markets, particularly those sensitive to interest rates. For many markets, 2027 will be a flatter year for manufacturing activity, with the potential for modest contraction.

The nonresidential construction market is splintered, with data center development standing out against otherwise subdued activity. Power construction and some public sectors are also outperforming the total. Rising energy and material costs will contribute to growth in the dollar value of construction, but on a volume basis, many sectors not tied to high tech are likely to remain muted in the coming quarters. Meanwhile, the housing market remains stagnant, mired by high mortgage rates and high building costs, and both are unlikely to see much relief.

The US economy is poised for modest but uneven growth — industries tied to the AI buildout or defense are likely to see more growth opportunities than those in the residential space or those with direct consumer exposure. Business owners should remain focused on managing costs and adapting to shifting demand while preparing for a waning business cycle in 2027.

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Make Your Move

Prioritize margin protection and having financial flexibility by closely managing costs and capital allocation, as businesses face the risk of margin squeezes.

Investor Update

The S&P 500 was relatively flat in September, as its quarterly growth rate moved lower for a third consecutive month. Meanwhile, individual investors increased their allocation to equities to a more than eight-year high. Elevated long-term interest rates and inflation, as well as already healthy corporate profitability, suggest businesses face an increased risk of margin compression ahead.

ITR Economics Long-Term View

2026	2027	2028
GROWTH	GDP GROWTH; MANUF. FLAT	GROWTH

Leading Indicator Snapshot

	4Q2026	1Q2027	2Q2027
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

- Leading indicator signals remain somewhat mixed, but they are favoring mild macroeconomic growth when taken together.
- The US Total Industry Capacity Utilization Rate has been choppy in recent quarters, but it is generally moving off a low point.
- The ITR Retail Sales Leading Indicator™ is painting a picture of muted retail activity ahead. Essential goods are likely to be a relative winner compared to discretionary goods given that consumers are being squeezed by inflation.

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Industry Analysis

RETAIL SALES

- US Total Retail Sales are rising and were 4.2% above the year-ago level in September
- Cumulative inflation is eroding consumers' purchasing power and ability to save
- A generally stable labor market will contribute to future mild rise in Retail Sales

WHOLESALE TRADE

- US Total Wholesale Trade in the 12 months through August rose to $9.2 trillion, 10.6% above the year-ago level
- Oil pricing pressures are boosting Wholesale Trade, a dollar-denominated series
- High-tech-related segments are notable drivers of rise

AUTO PRODUCTION

- Annual North America Light Vehicle Production in July was 15.2 million units, 1.0% below the year-ago level
- The EV sector is dealing with hurdles related to tariffs and a pullback in incentives
- Sales activity for light vehicles is generally declining

MANUFACTURING

- US Total Manufacturing Production in the 12 months through September was 1.3% above the year-ago level
- Production is likely to post muted rise in at least the near term given mildly positive trends in utilization
- Nondurable goods manufacturing is declining, while durable goods manufacturing is accelerating in its pace of rise

ROTARY RIG

- The US Rotary Rig Count in the three months through September averaged 589 units, 9.0% above the year-ago level
- Favorable profitability in the oil market could lead to higher Rig Count activity in the near term
- Geopolitical tensions are elevated, supporting demand for domestic drilling

CAPITAL GOODS NEW ORDERS

- US Nondefense Capital Goods New Orders (excluding aircraft) in the 12 months through August were 9.0% above the year-ago level
- US Defense Capital Goods New Orders throughout the same period were 31.2% above the year-ago level
- Further rise is likely in the defense sector given prolonged conflicts abroad

TOTAL NONRESIDENTIAL CONSTRUCTION

- Annual US Total Nonresidential Construction in August was 2.1% below the year-ago level
- High interest rates and elevated construction costs are squeezing project margins
- US Total Public Construction is above year-ago levels, but it is slowing in growth

TOTAL RESIDENTIAL CONSTRUCTION

- Annual US Total Residential Construction in August was 2.9% below the year-ago level
- US Single-Unit Housing Starts, a volume measure that leads dollar-denominated put-in-place construction spending, are in a mild recovery trend, though affordability hurdles are a constraint
- The average 30-year mortgage rate just surpassed 7%

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A Closer Look: The US Economy

K-Shape Isn't Just for Consumers; Manufacturing Shows Split Outcomes

MICHELLE KOCSES

What you need to know: Diverse outcomes across industrial markets offer an opportunity to find greener pastures

Introduction

If you are following the news cycle, you're hearing plenty about the K-shaped economy and how it is affecting the consumer space. However, the K-shape extends beyond consumers, and we're going to shift focus to the manufacturing industry. The main divide for manufacturers isn't between income or net-worth levels as in the consumer space; it is between those with high-tech exposure and those in legacy markets.

If we exclude the high-tech sector, US industrial output (including manufacturing, mining, and utilities) has vacillated largely sideways over the last 20 years. The current level of US industrial activity excluding the high-tech sector is 4% lower than the January 2008 record high. The compound annual growth rates in the table illustrate the uneven performance across industrial markets since then.

	Sectors	CAGR Since January 2008
Positive	Oil and Gas Extraction	5.3%
	Computer and Electronic Products	3.9%
	Transportation Equipment	0.6%
	Food	0.5%
	Utilities	0.5%
	Beverage and Tobacco	0.3%
Negative	Petroleum and Coal Products	-0.4%
	Plastics and Rubber Products	-0.7%
	Primary Metal	-0.7%
	Wood Products	-1.0%
	Electrical Equipment, Appliances, and Components	-1.0%
	Machinery	-1.0%
	Chemical	-1.1%
	Fabricated Metal Products	-1.1%
	Misc Durables (including medical equipment)	-1.2%
	Nonmetallic Mineral Products	-1.4%
	Paper	-2.0%
	Mining Excluding Oil and Gas	-2.1%
	Printing	-3.0%
	Furniture	-3.1%
	Textiles and Apparel	-4.4%
	Mining Support Activities	-4.6%
	Newspaper, Periodical, Book, and Directory Publishers	-6.3%

If we were to drill down, some more granular segments show even more drastic divergence. US Computers, Communications Equipment, and Semiconductor Production has a 9.6% compound annual growth rate, which equates to a cumulative rise of 323.7% since January 2008. This is a clear winner — gain exposure if you can. However, be cautious if breaking into this market would require a significant capital investment. It may be worth it, but you do not want to be stuck with large obligations if the tech space hits a reality check following its breakneck speed of rise.

Oil and gas have also been high performers. While the fracking boom has passed, the supply crunch in the Middle East could drive more investment into domestic production. The volatility and uncertain geopolitical aspect of oil prices suggest a positive, albeit tempered, reaction in this market.

Markets with positive but low growth rates are largely nondiscretionary segments such as food and utilities. While the growth rates aren't that enticing, they may be good picks as we get closer to the 2030s depression, as their necessity provides stability and recession-resilience.
When we say that legacy manufacturing markets are struggling, we're referring to the markets experiencing negative long-run trends. However, some are beginning to see the tides turn in their favor. Machinery and electrical equipment will experience positive spillover from the tech buildout and defense demand. Intermediate goods manufacturers may feel some slight lift from the gradual trend toward the shortening of supply chains, although the protection afforded by trade policy can be fragile. The medical equipment sector will benefit as the US population ages.

The bottom of the table includes markets facing structural decline in demand or severe regulatory headwinds; such markets include paper, printing, and non-oil mining. Those industries remain at risk of further consolidation. Additionally, manufacturers with exposure to big-ticket discretionary categories such as RVs and boats are at risk as entrenched inflation and higher interest rates weigh on consumers in the years ahead.

The industrial sector will continue to see diverse outcomes, but the relative positioning of these markets will evolve in the years ahead. This is not just a factoid but something worth acting on. If your company's goal is to prioritize growth, can you move to a better market? If you want to prioritize long-run stability, consider those nondiscretionary and recession-resilient markets. If breaking into a new market isn't on the table for you, consider using market research to prioritize a more attractive subsector of your existing market and adjust your product mix and marketing.

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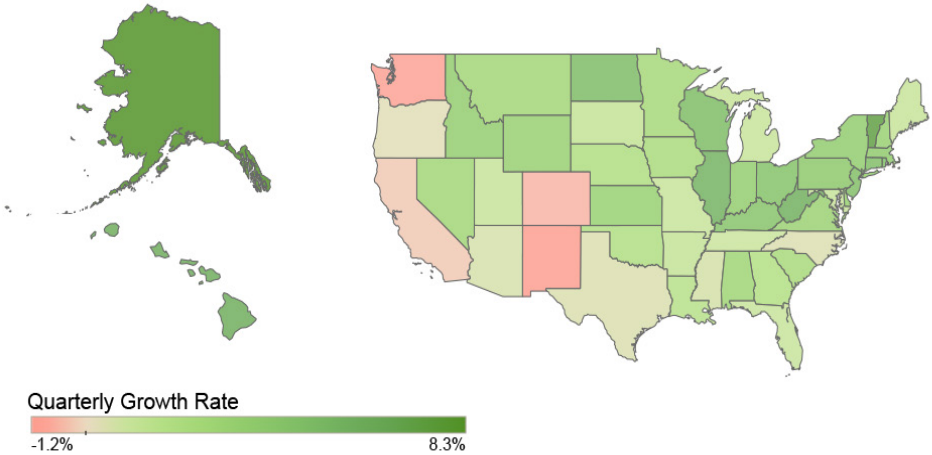
State-by-State: Home Prices



- US Home Prices in the three months through July rose to 2.4% above the same period one year ago.
- The Northeast continues to lead in Home Price gains, averaging year-over-year growth of 3.9% in the second quarter of this year. The Midwest is the runner-up, averaging prices 2.9% higher through the same period.
- Home Price growth is below the national average in the West and South (1.7% and 1.9%, respectively), due in part to prior growth in housing inventory.
- The 30-Year Mortgage Rate is trending above 7%, contributing to persistent affordability issues. Activity in the national housing market remains sluggish as a result.

Readers' Forum

What does the recent rate hike by the Federal Reserve mean for ITR Economics' macroeconomic outlook?

Haley Sienkiewicz, Economist at ITR Economics™, answers:

In September, the Federal Reserve raised the federal funds target rate for the first time since 2023. Since well before COVID-19, ITR Economics has been anticipating that persistent inflationary and interest rate pressures would characterize the 2020s; therefore, we did not ascribe to the widely held position in the market that rate cuts could be needed this year. Since our expectations for elevated interest rates and inflation are already incorporated into our forecasts, the Fed's latest decision does not materially change our outlook for uneven macroeconomic growth ahead.

Financial markets are adjusting to the changing interest rate environment. The US 10-Year Treasury Yield has trended above 5% in recent weeks, reflecting in part a combination of inflation concerns and expectations for tighter monetary policy. Higher Treasury yields have contributed to rising borrowing costs, with the average 30-year fixed mortgage rate exceeding 7% and the bank prime lending rate reaching 7%. Although tighter monetary policy creates additional headwinds for economic activity, these developments are consistent with our existing forecast for continued weakness in the housing market and slowing consumer spending growth.

Please send questions to: questions@itreconomics.com

The 2030s Action Plan: 7 Decisions That Can't Wait Until 2030

The 2030s will demand a different playbook — and the decisions you make before the decade begins will shape how well you navigate it.

In our upcoming Executive Series webinar, economists Connor Lokar and Lauren Saidel-Baker will move beyond the causes of the coming downturn to focus on the seven decisions leaders should be preparing for now. From interest rates and capital expenditures to M&A, commercial real estate, market exposure, and personal housing considerations, you will learn what deserves attention now, what requires flexibility, and how to position yourself both for risk and opportunity.

Insiders get $25 off with code INSIDER2026

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