

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

Congress failed to appropriate funds for fiscal year 2026, temporarily suspending many federal services at the start of October. Much of the economic data from government sources is not being maintained in the interim and is therefore not updated in this edition of Advisor. However, we have updated all analysis to the fullest extent possible. We continue to monitor data from private sources, which includes many of the leading indicators businesses should be focusing on to drive their decisions going forward.

The government shutdown could cause a temporary spike in uncertainty, but any impact on macroeconomic metrics is likely to be minimal. Thus far, the leading indicators point to mild rise ahead for the economy, given a relatively solid consumer base, albeit with pockets of weakness primarily among lower-income consumers.

We have data coming in from a variety of non-government sources. For example, the US Weekly Economic Index, which tracks overall US Real GDP closely, has been suggestive of mild to moderate economic growth. Further, September employment data from payroll processing and HR firm ADP showed Total Employment was up 1.1% from one year prior. Johnson Redbook Weekly Retail Sales were up 5.9% from one year ago. Taken together, the economic data we still have access to amid the shutdown points to a growing economy.

The economy at large has been resilient to frequent policy changes

The industrial sector is accelerating in growth, spurred in part by nearshoring and reshoring efforts. Further growth is likely, but growth in the industrial sector will probably be more muted in this cycle than last.

Housing remains a pain point in the broader economy. US Single-Unit Housing Starts are in a recessionary trend, weighed down by affordability hurdles. Despite the recent cut to the Federal Funds Rate, long-term bond yields remain elevated, which is limiting downward movement in mortgage rates. There are more risks to long-term lending and, given higher inflationary expectations, not all short-term rate reductions are likely to pass through to long-term rates.

The economy at large has been resilient to frequent policy changes thus far and, while we are forecasting rise ahead, we do not expect a blockbuster year. You may feel some pressure on volumes this cycle while prices generally rise. Given our expectations for macroeconomic growth ahead to be somewhat mild and inflation to pick up steam, focus your efforts on margin improvement to avoid being moored by “profitless prosperity.”

Make Your Move

Factors such as AI adoption and investment, along with evolving trade policy, are creating disparate impacts. Identify the areas where your business is best positioned to grow and those where it is most at risk.

Investor Update

The S&P 500 rose by a stronger-than-normal 2.9% in September. Within the S&P 500, winners include communications, technology, consumer discretionary, and financial, which are up more than 20% year to date, but about 37% of stocks are down year to date. This bifurcated set of outcomes is evident in our client base as well. Ensure that you understand your portfolio's risk profile thoroughly.

ITR Economics Long-Term View

2025

MILD GROWTH

2026

GROWTH

2027

SLOWING GROWTH

Leading Indicator Snapshot

	4Q2025	1Q2026	2Q2026
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

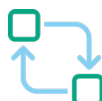
- Leading indicator signals remain mixed, but they generally suggest mild growth ahead.
- Although the US OECD Leading Indicator is flashing red on a rate-of-change basis, the monthly trend is at a 41-month high. On net, this indicator is also signaling that mild growth is probable.
- Heightened uncertainty is likely playing a large role in the mixed signals we are seeing. Despite prevailing unease, economic fundamentals remain sound, with manageable consumer debt levels and rising real incomes.

Industry Analysis



RETAIL SALES

- While our standard US Census Bureau retail spending data is on pause due to the shutdown, weekly Johnson Redbook data suggests consumer spending continues to rise
- Generally speaking, the consumer base is bifurcated, with middle- to upper-income consumers faring relatively well, while lower-income consumers are feeling more squeezed
- Sticky inflation will continue to inflate dollar-denominated Retail Sales



WHOLESALE TRADE

- We do not have data for Wholesale Trade post-government shutdown
- Annual US Total Wholesale Trade through July was rising, up 3.3% from one-year prior
- On the durable goods side, the auto sector was slowing in its ascent despite overall durables accelerating in growth
- Nondurable goods are likely to be hampered by low oil prices in at least the near term



AUTO PRODUCTION

- Annual North America Light Vehicle Production fell to 15.3 million units in August and was 2.0% below the year-ago level
- Light Vehicle Retail Sales are rising, which will likely lead Production higher in the coming quarters
- Cracks forming in the auto loan market present a potential downside that we are monitoring



MANUFACTURING

- US Total Manufacturing in the 12 months through August was 0.5% above the year-ago level; growth is accelerating
- Annual US Total Manufacturing Production through August was accelerating in growth
- Manufacturing leading indicators from private data sources suggest that mild business cycle rise for Manufacturing Production is probable



ROTARY RIG

- The US Rotary Rig Count in the third quarter of this year averaged 540, 7.8% below the year-ago level
- Low oil prices will likely keep the Rig Count muted in the near term
- Increased supply from OPEC+ presents a further downside, though increasing industrial activity will keep the Rig Count from what would otherwise be a steeper decline



CAPITAL GOODS NEW ORDERS

- While there is no data beyond July due to New Orders, leading indicator evidence is suggestive of an uneven cyclical ascent in New Orders in the future
- Annual US Nondefense Capital Goods New Orders (excluding aircraft) through July was accelerating in growth
- Annual Defense Capital Goods New Orders were also in an upward trend



TOTAL NONRESIDENTIAL CONSTRUCTION

- The latest data through July showed Nonresidential Construction in recession; we are on hold as the government shutdown delays further data releases
- The Associated Builders and Contractors' Construction Backlog Indicator is in an accelerating growth trend, which, given the roughly one-year lead time to Nonresidential Construction, suggests a relatively mild and short dip this cycle is probable



TOTAL RESIDENTIAL CONSTRUCTION

- Data is only available through July due to the government shutdown; the National Association of Home Builders US Housing Market Index through October suggests difficult conditions
- Annual US Total Residential Construction through July was generally declining
- Long-term mortgage rates have come down somewhat, but, with the number of forces keeping long-term rates elevated this cycle, do not expect comprehensive relief from affordability constraints

A Closer Look: The US Economy

Rowing With the Current: Planning for 2026 Growth

JENNA ALLEN

Businesses should prepare for 2026's inflation-tinged, mild macroeconomic growth environment by focusing on their industry's trends and increasing efficiencies or competitive advantages amid margin pressures.

As 2025 winds down, businesses are setting budgets and goals for 2026. While this year has brought its share of uncertainty — tariffs, inflationary pressures, and now a government shutdown — the broader macroeconomic landscape shows that the US economy is chugging along. For most companies, 2026 should offer an opportunity to row with the current rather than against it.

Why We Are Not Changing Our Outlook

With the ongoing federal government shutdown moving into week three as of this writing, some clients are asking whether we have changed our macroeconomic outlook. The answer is no. Modern shutdowns are a recurring feature of American politics. Even the longest government shutdown, the 35-day closure in 2018-19, had minimal measurable economic effect (just 0.05% of GDP, the majority of which was expected to be recovered later that year). Shutdowns delay some spending and disrupt many federal workers' lives, but they have not historically derailed the broader business cycle. However, local effects may be noticeable in regions heavily saturated by government workers. The private sector typically moves forward.

Evidence Supporting Mild Growth in 2026

Economic fundamentals point toward mild growth next year. Financial conditions remain accommodative: money supply growth is exceeding inflation, bank lending is supporting liquidity, and credit-risk premiums are low overall despite some jitters related to auto loans and non-bank financial institutions' loans.

The consumer sector, which drives roughly two-thirds of US GDP, is solid. The ITR Retail Sales Leading Indicator™ has trended upward, and inflation-adjusted incomes are rising, albeit at a milder-than-average pace. The US Homeownership Rate is trending at around 65%, and many households have seen their balance sheets strengthen thanks to high housing and equity values. These income and wealth effects will drive consumer spending even though consumer confidence — a poor predictor of consumer spending — is low as consumers show their annoyance with high prices. Consumers on the lower end of the income spectrum may struggle to keep up.

In the commercial sector, sentiment has improved. The US Small Business Optimism Index is rebounding, and overall US Domestic Corporate Profits are rising, though at a slowing pace. Businesses are investing in automation and productivity to offset labor shortages and margin pressures, with new orders growth signaling readiness for expansion. Globally, leading indicators point to a cautiously improving environment.

Sector Nuance and Planning Implications

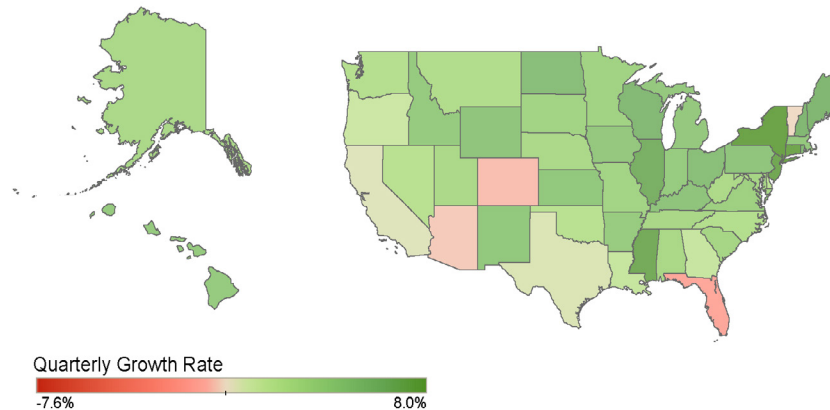
Not all markets will move in lockstep. Some discretionary and interest-sensitive markets will continue to face headwinds from somewhat sticky interest rates. Nonetheless, the demographics driving the majority of consumer and business activity remain on solid footing.

Given this landscape, business planning should balance optimism with discipline:

- Set realistic targets. The macroeconomic evidence supports gradual acceleration next year; understanding the likely performance of your industry and region is key as well, given that there are significant differences in performance in this cycle.
- Monitor inventory ratios closely. Some improvement in demand could lead to widening lead times, an issue that could be exacerbated further by supply chains adjusting to tariffs.
- The labor market will remain tight as the population ages and nears retirement. Plan for modestly higher wage adjustments.

Uncertainty is part of every cycle, but it should not paralyze your planning. History shows the economy adapts quickly even amid political standoffs like the current shutdown. Inflation will support nominal revenue gains but compress margins. Ensure that your plans include a way to manage efficiency and control costs without alienating employees or customers.

State-by-State: Prices



- US Home Prices in the three months through July were 2.7% above the same period one year ago. The pace of ascent is the slowest it has been in 13 years.
- Rise is the overarching theme for Home Prices in the US, though there are a handful of outliers spread across regions. The Northeast, with high demand and less available space to build, is the region with the fastest growing home prices; declines are present primarily in DC, Florida, and — to a lesser extent — Arizona, Colorado, and Vermont.
- Mortgage rates, while elevated, have been generally retreating from the prior peaks set in 2023. Recent cuts to the target Federal Funds Rate may provide some relief for affordability constraints, but it will not be significant, as mortgage rates are more tied to long-term debt.
- The US Homeowner Vacancy Rate is rebounding but remains historically low, signaling tight supply. Barring any supply booms, national Home Prices are likely to see relative resiliency this cycle.

Readers' Forum

With volatile trade policy and the ongoing government shutdown, what measures should be taken when planning a budget for 2026?

Haley Sienkiewicz, Economist at ITR Economics™, answers:

It can be difficult to make executive decisions for your business when it feels like your windshield is clouded. As you plan your budget for 2026 and beyond, consider the following trends, while noting that impacts will vary by market:

1) Rising input costs: this will span both materials and labor. As rising costs from tariff policy make their way through pricing channels and demographic trends result in a still relatively tight labor market despite the economic headwinds, businesses can generally expect to spend more on material inputs and labor in 2026 compared to 2025.

2) Elevated borrowing costs: despite the recent cut to the Federal Funds Rate and signals of further easing ahead, sticky inflation will keep interest rates from falling significantly in the coming quarters. We see the current softness in long-term rates as an opportunity to invest in efficiencies and short ROI projects. You might also consider investing in or entering new markets to position your business for the longer-term inflationary and interest rate pressures we see building in the latter half of this decade.

Navigating 2026 and the years ahead requires a trusted advisor who can help you plan with clarity and confidence. If you would like an independent perspective on the trajectory of your business, consider booking an ITR Economics speaker or enrolling in a custom report plan.

Please send questions to: questions@itreconomics.com

Strategic Shifts for Resiliency in the 2030s Great Depression



The changes coming up for the economy, and by extension our markets and businesses, are going to be tectonic given the megatrends that are coming to a nexus in the early 2030s. Going into the downturn with a “we will just sell more” attitude is using hope as a strategy. We have seen that hope dashed repeatedly in every major recession, and the 2030s will be the worst downturn that any of us has experienced. The good news is that we can prepare our businesses and position our wealth to not simply survive the coming depression but come out stronger on the other side.

Discover the critical insights you need for the next decade by attending our December webinar. Insider members receive \$25 off with code INSIDER2025!

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