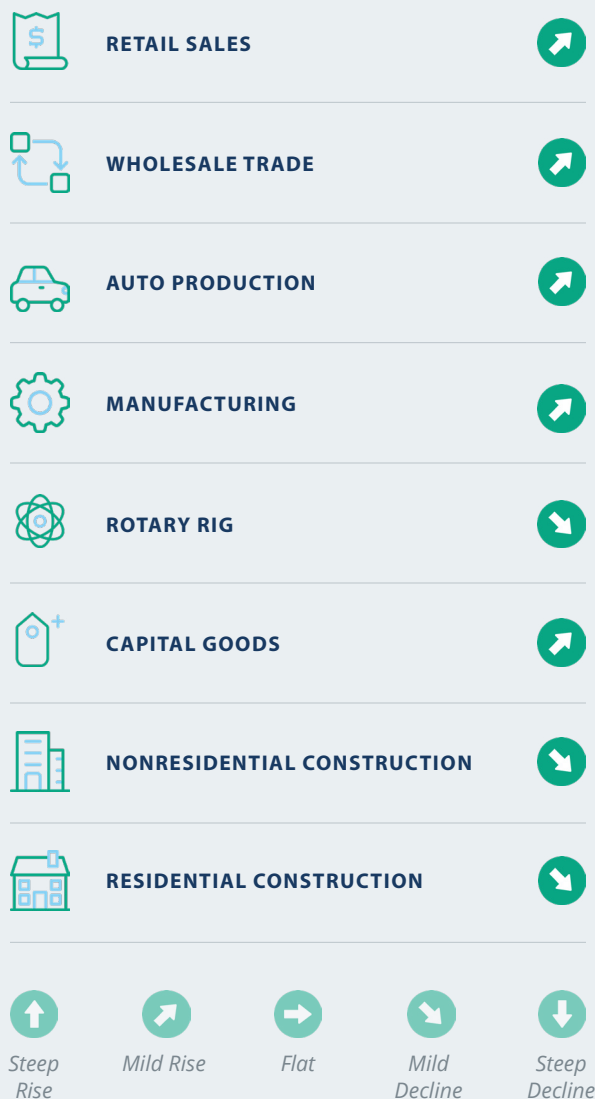


Industry Snapshots

Arrow denotes 12-month moving total/average direction.



Macroeconomic Outlook

Many core sectors of the economy are in trends of mild rise. Incomes are keeping up with inflation, and economic policy uncertainty is waning. US Industrial Production is above year-ago levels and poised for further expansion. Business-to-business spending will follow a similar trajectory. Consumers continue to drive the economy in a shallow upward trend despite tepid sentiment; Retail Sales are rising alongside incomes.

The Federal Reserve cut the Federal Funds Rate by 25 basis points in September and signaled the potential for further rate cuts this year. Reductions will provide some relief to short-term borrowers, such as credit card users. However, the benefits are unlikely to meaningfully impact long-term loans for major purchases or capital expenditures, which are tied to longer-term yields, in at least the near term. Businesses should weigh this when planning expansions or evaluating the timing of large investments.

Middle- to upper-income consumers are in the driver's seat of the rising macroeconomy, as they are better positioned to manage higher prices than their lower-income counterparts. The pace of growth in US Total Retail Sales has been relatively stable for the last 18 months at 2.9% to 3.7% annually. Growth in the coming quarters will likely remain mild, with a slight pickup likely as inflation increases. Consumer health shows some encouraging signs. There was decline in the US Consumer Credit Card Delinquency Rate for a third consecutive quarter in June, reflecting an improving ability to manage debt. At the same time, while the labor market is growing, recent weaker employment data has raised concerns. Keep in mind that employment trends lag the macroeconomy. In addition, incomes are continuing to rise, fueling consumption increases, as the limited supply of workers naturally suppresses jobs numbers.

Middle- to upper-income consumers are in the driver's seat of the rising macroeconomy

We lowered our outlook for US Single-Unit Housing Starts, due in part to outsized weakness in the South region and persistent affordability challenges. Moderately rising vacancy rates, though still historically low, also contributed to the downgrade. Vacancy rates are highest in the South, where supply has boomed in recent years. The multi-unit sector is growing, but it is unlikely to reach prior peaks in the next couple of years.

Despite some headwinds in the job market and persistent inflationary trends, the economy is growing in aggregate. Expect mild macroeconomic growth coupled with elevated inflation to persist in the coming quarters. Accordingly, do not rely solely on organic growth to lift your business; take proactive steps to capture market share and preserve your margins.

Make Your Move

Adopting a proactive pricing strategy and remaining adaptable to shifting market dynamics, such as fluctuating raw material costs or supply chain disruptions, will be key to capturing profits. Keep an eye on your bottom line as pricing pressures intensify.

Investor Update

The S&P 500 rose 2.6% in August. Whether the quarterly rate-of-change low will hold depends heavily on the forces pushing and pulling against corporate profitability this cycle.

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

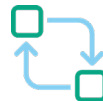
- Despite some volatility in the leading indicators this year, most are bouncing back after dipping during the initial tariff period.
- For the indicators that had exhibited volatility (which do not include the relatively steady US Total Industry Capacity Utilization Rate), we have seen between two and five consecutive months of ascent, which bodes well for economic growth ahead.
- Mixed signals from leading indicators suggest some caution, but overall, the evidence supports mild rise ahead with outcomes varying by sector.

Industry Analysis



RETAIL SALES

- Annual US Total Retail Sales in August were 3.7% above the year-ago level
- Declining credit card delinquency rates are a positive sign for consumer health
- Middle- to upper-income consumers will be the driving force behind further growth in Retail Sales



WHOLESALE TRADE

- US Total Wholesale Trade in the 12 months through July totaled \$8.3 trillion, 3.3% above the year-ago level, and is accelerating
- The nondurables component is 0.8% above the year-ago level, while the durables component is 6.1% above the year-ago level as leaner inventories yield a stronger sales environment
- On the whole, rising real incomes among consumers will help to drive Wholesale Trade higher



AUTO PRODUCTION

- Annual North America Light Vehicle Production rose to 15.4 million units in July but remained 2.1% below the year-ago level
- Positive momentum in automotive retail activity portends a sustained upswing in Production
- Upcoming rise will likely be mild, due in part to economic uncertainty and elevated auto loan delinquencies



MANUFACTURING

- US Total Manufacturing in the 12 months through August was 0.5% above the year-ago level; growth is accelerating
- A bright spot in the manufacturing sector is US Computers and Electronics Products Production, at 5.9% above the year-ago level; conversely, US Rubber and Plastics Products Production is 3.5% below the year-ago level
- Leading indicators signal that mild growth in manufacturing is likely in the coming quarters



ROTARY RIG

- The US Rotary Rig Count in the three months through August averaged 544, 7.2% below the year-ago level
- Sluggishness in the US Oil and Gas Extraction Capacity Utilization Rate signals that the Rig Count could be subdued in at least the near term
- Fundamental demand for oil in an expanding industrial economy will likely keep the Rig Count from significant decline



CAPITAL GOODS NEW ORDERS

- Annual US Nondefense Capital Goods New Orders (excluding aircraft) rose in July and were 1.4% above the year-ago level
- We see upward momentum in Machinery New Orders, with the sales-to-inventory ratio finally starting to indicate tightening inventories after a multi-year stretch of excess
- US Defense Capital Goods New Orders through the same period were 20.6% above the year-ago level



TOTAL NONRESIDENTIAL CONSTRUCTION

- Annual US Total Nonresidential Construction declined in July and was 0.1% below the year-ago level
- Some markets, like data centers and water/sewer, are showing resilience, while others, such as warehouses, are underperforming the overall trend
- Expected continued elevation in long-term interest rates suggests that future growth will be relatively mild



TOTAL RESIDENTIAL CONSTRUCTION

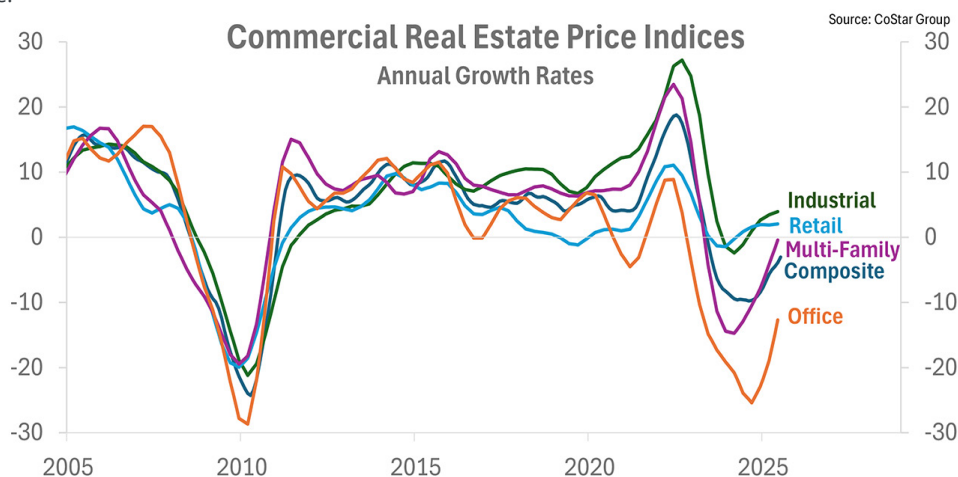
- US Total Residential Construction in the 12 months through July declined and was 0.5% below the year-ago level
- The ITR Single-Unit Housing Starts Leading Indicator™ ticked up in July; this, coupled with declining but high mortgage rates, signals the Construction downturn will be relatively mild
- The ITR Remodeling Market Index™ is in a mild accelerating growth trend, indicating opportunities in this space

A Closer Look: The US Economy Commercial Real Estate

MICHELLE KOCSES

What you need to know: While the commercial real estate market is stressed, a recovery trend in Prices is already underway.

The prior jump in interest rates and soft economic activity last year are weighing on new commercial construction, pulling it down double-digit percentages below year-ago levels. But how is the existing commercial real estate market holding up? CoStar's US Composite Commercial Real Estate Price Index declined 16.7% from late 2022 into mid-2025 on an annual average basis, but Prices are now in a recovery trend. Office Prices, down 43.4% from a mid-2022 peak, are dragging down the whole. Remote work, the expansion of AI, and weak white-collar employment have made the expense of an office building less appealing. This is a structural problem that is likely to persist. Annual average Multi-Family Prices are beginning to rebound and are just shy of year-ago levels. Meanwhile, Retail Prices and Industrial Prices are above year-ago levels and accelerating as they rise.



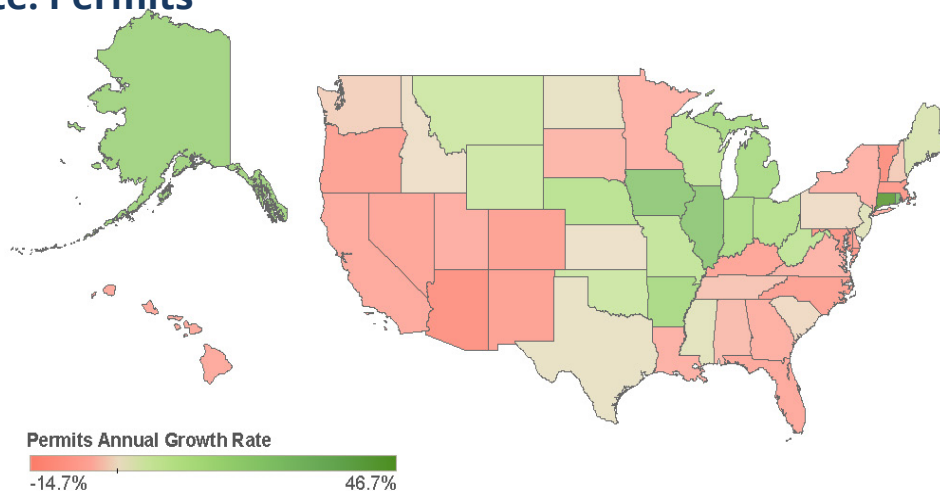
Lower Prices, though concentrated in offices, pose an increased risk that some businesses may be underwater on their loans. The annual average US Delinquency Rate on Commercial Real Estate Loans stands at 1.6% as of June 2025 and has been rising since late 2022. While rising delinquency is concerning, the rate is still within the typical range for noneventful times. For comparison, during the early 1990s and Great Recession real estate crises, Delinquency Rates rose above 11.7% and 8.7%, respectively. Corporate financials, with near-record profits, are in a fairly good position, which limits the risk of runaway delinquency. Recent acceleration in consumer and B2B spending illustrates improving economic conditions. Margins, and therefore profits, could come under pressure as inflation picks up, but in aggregate, businesses will be supported by mild improvement in underlying volume.

US Commercial Real Estate Loans spiked in 2022 and 2023, with year-over-year growth peaking at 11.4%. Five-year loans made in the early 2020s will be due soon, often with balloon payments rolled over into new loans. However, today's higher rates mean refinancing will come with higher interest expenses. While higher interest costs are not desirable, the recovery trend in Commercial Real Estate Prices and solid corporate finances suggest the commercial real estate market has the means to weather the higher expense load. We are monitoring this closely.

The Federal Reserve's cut to overnight rates is a welcome shift for many, but do not expect a one-to-one reduction in interest rates on commercial real estate loans. These are much longer in duration and factor in risks such as property valuation trends, the creditworthiness of the borrower, and inflation projections. As such, longer-term interest rates are stickier than the Federal Reserve's overnight rate.

While there are some weak spots in the commercial real estate market, particularly in the office market, the macroeconomic backdrop is helping provide some relative relief, with Prices recovery underway. Nonetheless, we suggest our clients keep a close eye on their exposure to commercial real estate. Our concerns are centered on the second half of this decade as interest rates rise, the US government's deficit problems come to a head, and cumulative inflation causes a drag on the economy. Ask yourself: what geographic areas (desirable, with net population inflows, or not) are you exposed to? Which asset classes are you exposed to? Office and industrial vacancies are notably higher than multi-family or retail. As we move closer to the 2030s, risks increase, and so should the level of scrutiny you apply to your CRE portfolio.

State-by-State: Permits



- US Housing Unit Building Permits in the 12 months through July were 2.4% below the year-ago level. The Midwest, with its generally more affordable housing, is bucking this national trend, up 10.4% in the same period.
- Both Single- and Multi-Unit Permits are declining on an annual basis. However, Multi-Unit Permits are in a recovery trend, while Single-Unit Permits are experiencing a worsening pace of contraction.
- Greater affordability and distance from the ocean are common features among most of the 11 states exhibiting double-digit rates of growth: Arkansas, Connecticut, Illinois, Indiana, Iowa, Michigan, Missouri, Montana, Nebraska, Ohio, and Rhode Island.
- Conversely, the five states exhibiting double-digit rates of decline skew coastal and are more expensive: Arizona, Vermont, Delaware, Maryland, Massachusetts, and Oregon.

Readers' Forum

How are online retail sales trending compared to brick-and-mortar sales?

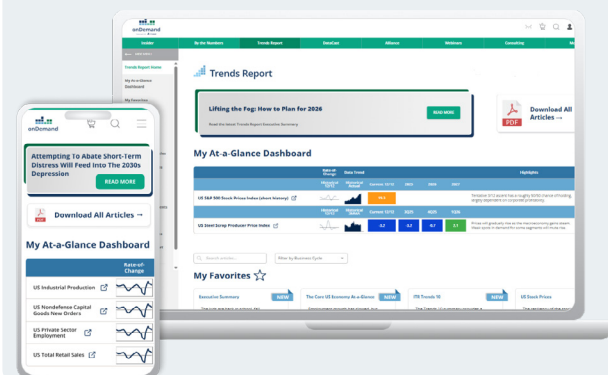
Haley Sienkiewicz, Economist at ITR Economics™, answers:

Annual US Total Retail Sales in August were 3.7% above the year-ago level, which is on par with the pre-COVID five-year average for Retail Sales growth. Drilling down, growth is more pronounced in the online shopping component: annual US E-Commerce Retail Sales grew 6.9% over the most recent 12 months of data, which compares to 2.8% growth for US In-Store Retail Sales over the same period.

Online purchases are making up an increasingly larger portion of overall Retail Sales, but the rate of increase has been slowing since early 2024. That slowdown has coincided with a slowing growth trend in US Disposable Personal Income as inflation and interest rates have eaten into consumers' budgets. Thus far, consumers have prioritized spending on categories like eating out (retail sales up 4.9% year over year) and automotive (up 5.0% year over year), which has likely slowed — though not reversed — the inroads of E-Commerce Retail Sales. We will be watching to see if the mild pickup in economic activity forecast for 2026 leads to a pickup in E-Commerce relative to overall Retail Sales, or if increasing inflationary pressures keep consumers focused elsewhere.

Please send questions to: questions@itreconomics.com

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