

# Industrial Supply Association

**SEPTEMBER 2024**

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# Economic Overview

## Mixed Signals

Economic signals are mixed. Inflation is easing, real incomes are rising, and employment is at record highs. However, interest rates remain elevated, muting demand for large-ticket items that are typically financed, and some demographics are under strain from the cumulative inflation of recent years. The industrial sector and B2B spending are plateauing, while US Single-Unit Housing Starts have hit a bump in the road. Consumer spending is keeping things moving, but it is also cutting into consumers' saving ability.

As we wrap up 2024 and head toward 2025, there are some key factors to keep in mind.

- **Interest Rate Cuts:** The Federal Reserve is likely to cut interest rates in the near term given abating inflation, but rates will likely come down gradually. Lower rates will provide an eventual boost for markets, such as durable goods and construction, and will offer some relief for consumers holding floating-rate debt, such as credit card debt. The direction of the impact is only half the story; the other key element for planning is the timing, which is unique to your specific business and market. The effects of interest rate cuts are unlikely to be instantaneous, instead taking time to develop. Some potential buyers may remain on the sidelines waiting for further cuts. In some markets, such as nonresidential construction, it can take between months and years for projects to go from conception to completion. Consider the stage of your market – using a construction analogy, are you or your customers doing the site work, putting up the framing, or painting the walls?
- **Residential Construction:** Prior rise in leading US Single-Unit Housing Starts is a solid signal for cyclical rise in the macroeconomy to come, but a recent tick down in Starts suggests there could be some waffling in the macroeconomy during 2025. We will be watching closely to see how reactive this sector is as rates are lowered. A tepid response in this market could pose a risk of stagnation in other sectors dragging on longer.

- **Stock Market Volatility:** In recent years, the S&P 500 has been rising faster than US Corporate Profits , a growing risk factor for stock valuations. Avoid conflating the stock market with the economy, as it is only a small part of the picture and is prone to volatility. Talk to your financial advisor to ensure that your portfolio matches your risk profile.

- **Employment:** The labor market has loosened somewhat but remains robust. Keep in mind that employment decisions lag the macroeconomy, so slowing growth in employment is a reaction to prior macroeconomic softening, not a harbinger of the future . Demographic trends suggest that the labor market will be tight in the coming years . Look for ways to reduce your dependence on labor, if possible. Take an active approach to managing employee morale and retention; otherwise, your growth in 2025-26 could be throttled by labor challenges.

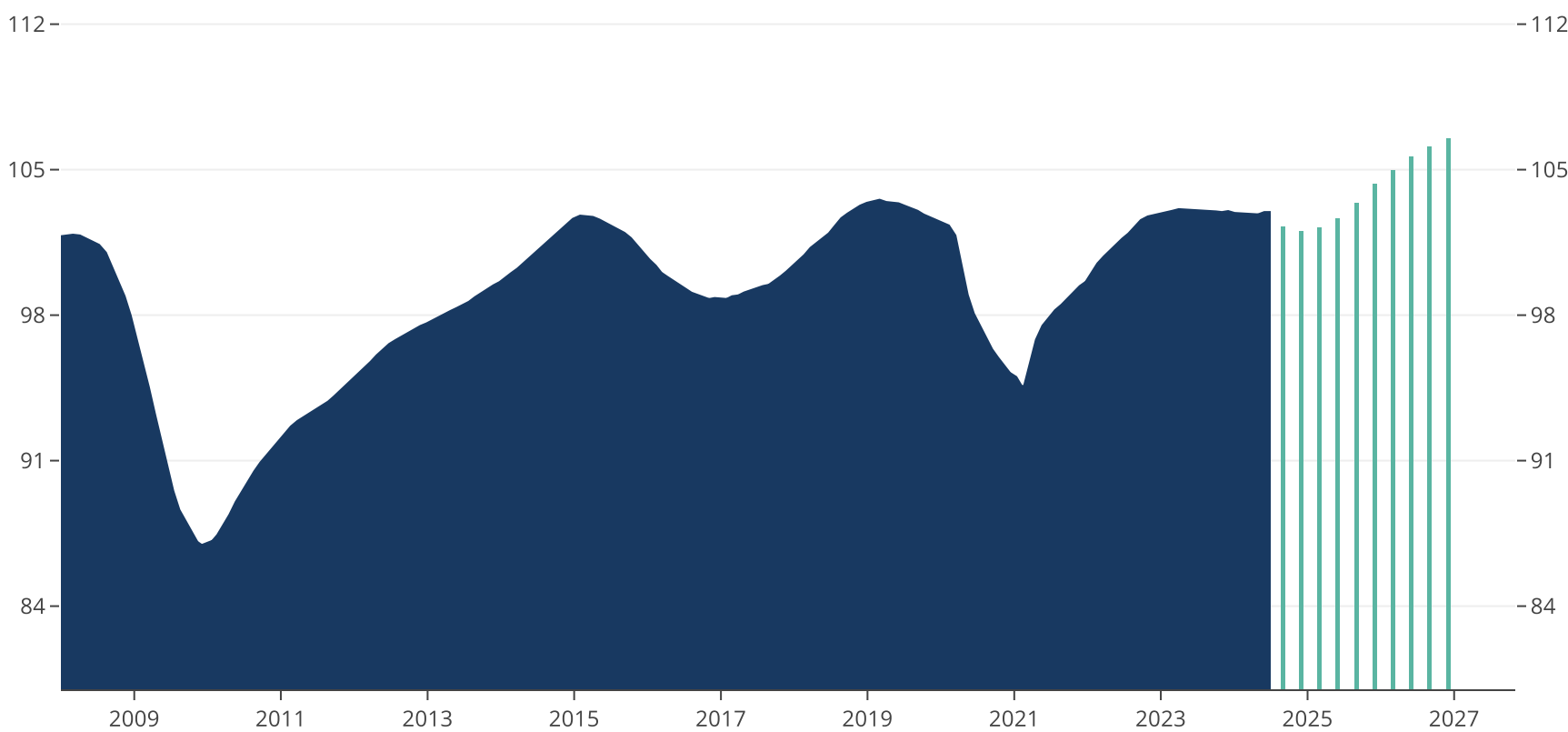
## Growth in 2025—Albeit Mild Growth—Brings Opportunities and Challenges

There are tentative signals that 2025 will be a somewhat stronger year than 2024, including rise in the ITR Leading Indicator™ and the ITR Retail Sales Leading Indicator™. For businesses closely tied to the industrial economy, now is the opportune time to assess labor and capital needs in preparation for the growth expected in 2025 and 2026.

It is also important to be proactive in addressing longer-term challenges ahead, including the potential for higher energy prices, margin compression, and labor shortages. Reacting to changes alongside everyone else may result in missed growth opportunities – now is the time to get ahead of the curve.

\*Note: Many of the market forecasts were revised this quarter due to annual data revisions by the US Census Bureau and Federal Reserve Board.

## US Industrial Production Index Annual Average (12MMA)



## Terminology and Methodology

### Data Trends: Moving Averages and Totals

#### Quarterly Average (*Three-Month Moving Average, or 3MMA*)

The average of the latest three months of data, updated every month. In the example, \$57.79 is the quarterly average for the three months ending in March 2021 (i.e., the average for January, February, and March 2021).

*Example: Monthly US Crude Oil Spot Prices averaged \$57.79 in the first quarter of 2021, a 26.3% increase from the first quarter of 2020.*

#### Quarterly Total (*Three-Month Moving Total, or 3MMT*)

The total of the latest three months of data, updated every month. In the example, \$257.8 billion is the quarterly total for the three months ending in February 2021 (i.e., the total for December 2020, January 2021, and February 2021).

*Example: Quarterly US Capital Goods New Orders totaled \$257.8 billion in February 2021.*

#### Annual Average (*12-Month Moving Average, or 12MMA*)

The average of the latest 12 months of data, updated every month. In the example, 119.0 million is the annual average for February 2021 (i.e., the average for the 12-month period from March 2020 through February 2021).

*Example: US Private Sector Employment averaged 119.0 million workers during the 12 months through February 2021, down 7.5% from one year earlier.*

#### Annual Total (*12-Month Moving Total, or 12MMT*)

The total of the latest 12 months of data, updated every month. In the example, \$5.849 trillion is the annual total for February 2021 (i.e., the total for the 12-month period from March 2020 through February 2021).

*Example: US Wholesale Trade totaled \$5.849 trillion during the 12 months through February 2021.*

### Growth Rates

#### Monthly Growth Rate (*1/12 Rate-of-Change*)

The percentage change between a given month and the same month one year earlier. In the example, 79.3% is the monthly growth rate for March 2021.

*Example: Monthly US Copper Futures Prices were at \$4.00 per pound in March 2021, 79.3% above the March 2020 level of \$2.29.*

#### Quarterly Growth Rate (*3/12 Rate-of-Change*)

The percentage change between a three-month period and the same three-month period from one year earlier. In the example, 26.3% is the quarterly growth rate for March 2021.

*Example: US Crude Oil Spot Prices averaged \$57.79 in the first quarter of 2021, a 26.3% increase from the first quarter of 2020.*

#### Annual Growth Rate (*12/12 Rate-of-Change*)

The percentage change between a 12-month period and the same 12-month period from one year earlier. In the example, -7.5% is the annual growth rate for February 2021; that is, US Private Sector Employment during March 2020 through February 2021 came in 7.5% below Employment from March 2019 through February 2020.

*Example: US Private Sector Employment averaged 119.0 million workers during the 12 months through February 2021, down 7.5% from one year earlier.*

### Business Cycle Phases



#### Recovery (A)

The annual growth rate (12/12) is rising, but the rate of growth is still negative. We denote this phase with blue (for improving).



#### Accelerating Growth (B)

The annual growth rate (12/12) is rising, and the rate of growth is positive. We denote this phase with green (for go).



#### Slowing Growth (C)

The annual growth rate (12/12) is positive, but the rate of growth is declining. We denote this phase with yellow (for caution).



#### Recession (D)

The annual growth rate (12/12) is declining, and the rate of growth is negative. We denote this phase with red (for warning).

# Industrial Supply Association Markets Dashboard

		Current		Annual Growth Rate Forecast (12/12), Year-End*		
Page Number	Indicator	Growth Rate**	Phase	2024**	2025**	2026**
4	US Industrial Production Index	-0.1%	D	-0.8%	2.2%	2.1%
5	US Civilian Aircraft Equipment Production Index	-5.5%	A	3.1%	5.7%	3.1%
6	US Automobile Production Index	-3.0%	D	-6.3%	2.2%	6.2%
7	US Private Nonresidential Construction	9.7%	C	3.6%	-5.2%	1.8%
8	US Primary Metals Production Index	-0.3%	D	-1.5%	2.0%	1.7%
9	US Real Gross Domestic Product (Quarterly Growth Rate)	3.1%	C	1.1%	1.5%	1.9%

\*Coloring denotes the business cycle phase at year-end. For example, if a value in the first column under “Annual Growth Rate Forecast (12/12), Year-End” is colored blue, the corresponding indicator is forecasted to be in Phase A, Recovery, at the year-end indicated by the column. Green denotes Phase B, yellow Phase C, and red Phase D.

\*\*Annual growth rate (12/12) except where otherwise noted.



Recovery (A)



Accelerating Growth (B)



Slowing Growth (C)

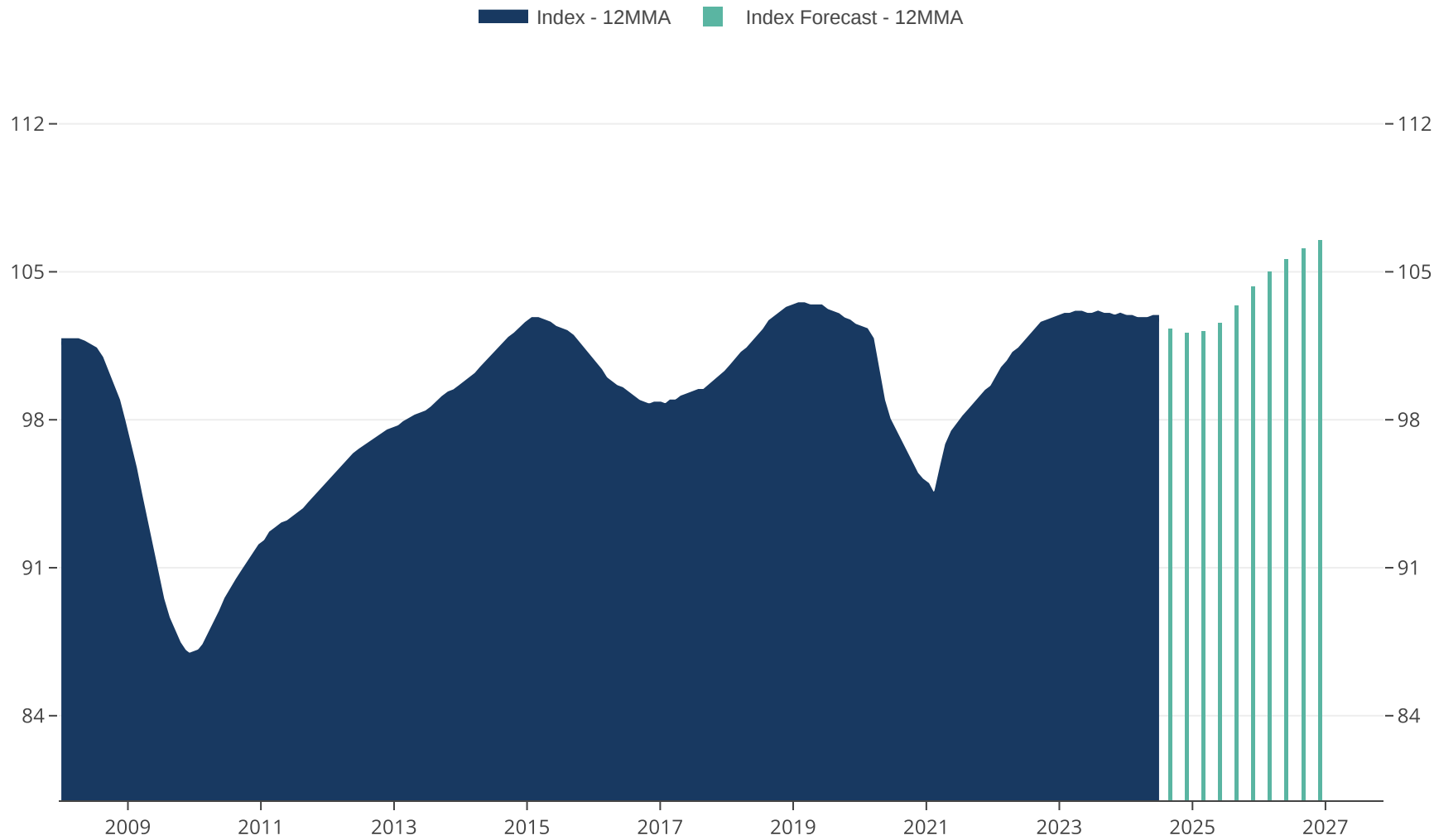


Recession (D)

US Industrial Production Index

Further Plateau Likely Given Mixed Economic Signals and Divergent Components; Growth in 2025-2026

Annual Average (12MMA)



Annual Growth Rate (12/12)



Current Phase



Phase D  
Recession

Current Indicator  
Amplitude

- July 2024 Annual Growth Rate (12/12): -0.1%
- July 2024 Annual Average (12MMA), 2017=100: 102.8

Industry Outlook

Year Annual Growth Rate

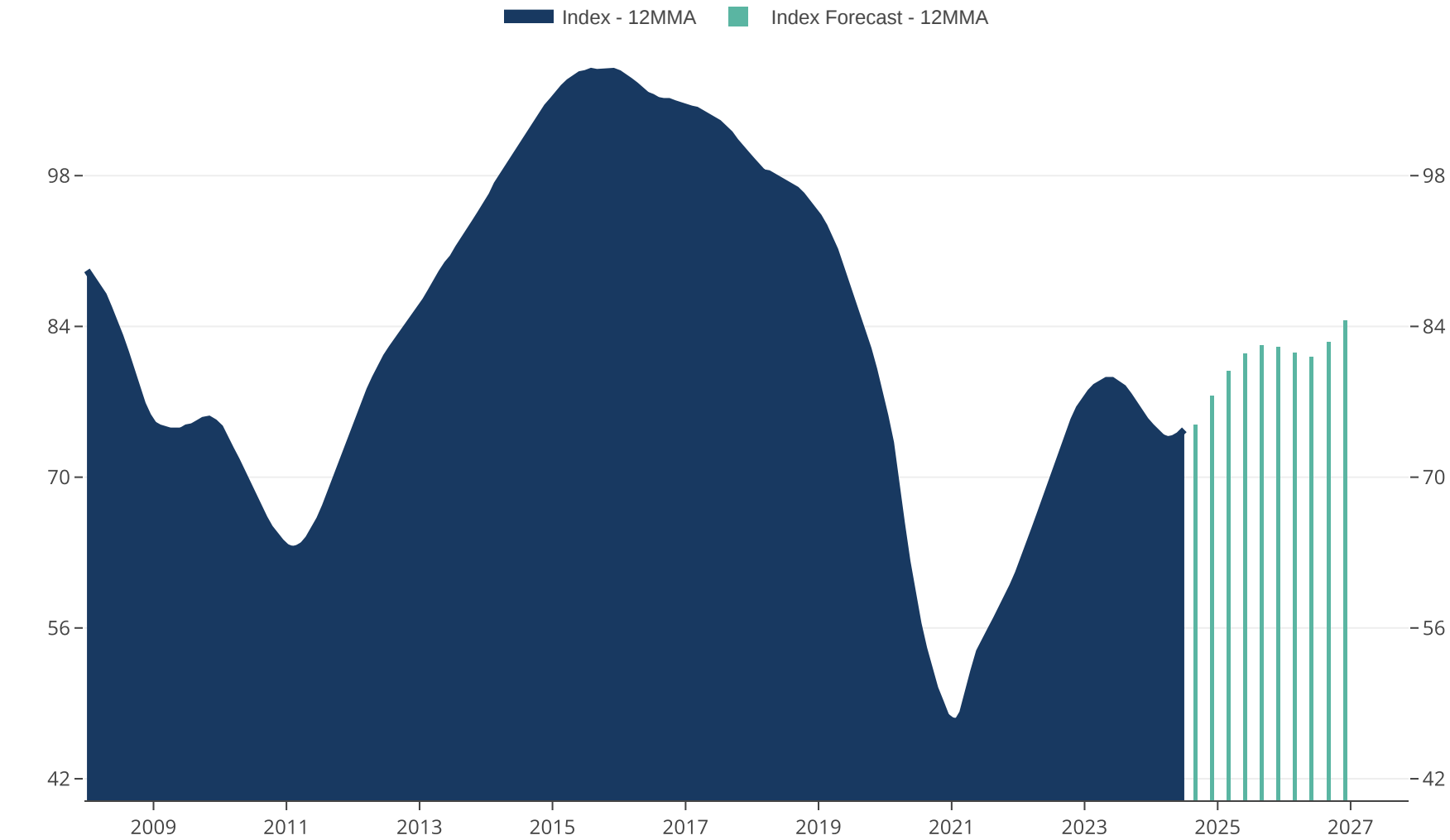
2024	-0.8%
2025	2.2%
2026	2.1%

	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
Lower Forecast Range	-1.1	-1.3	-1.1	-0.6	0.5	1.6	2.1	2.3	2.0	1.5
Annual Growth Rate (%)	-0.6	-0.8	-0.6	-0.1	1.1	2.2	2.7	2.9	2.6	2.1
Upper Forecast Range	0.0	-0.2	0.0	0.5	1.7	2.8	3.3	3.5	3.2	2.7

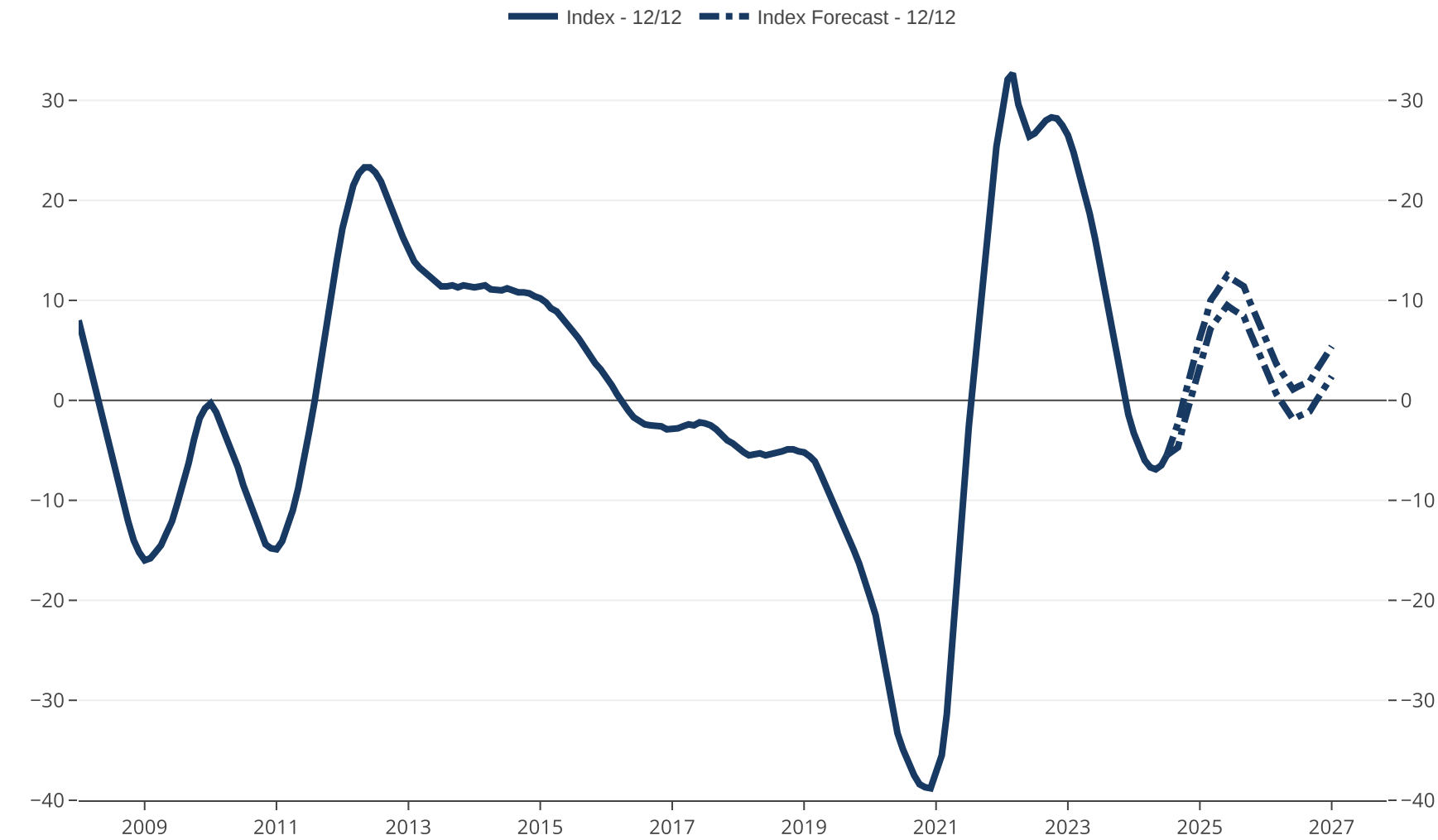
Lower Forecast Range	101.7	101.5	101.6	102.1	102.8	103.7	104.4	105.0	105.5	105.9
Annual Average Index (2017=100)	102.3	102.1	102.2	102.6	103.4	104.3	105.0	105.6	106.1	106.5
Upper Forecast Range	102.9	102.6	102.8	103.2	104.0	104.9	105.6	106.2	106.7	107.1

Data and Forecast Revised, Forecast Shape Is Little Changed; Rise Into Mid-2025 Given Robust Orders

Annual Average (12MMA)



Annual Growth Rate (12/12)



Current Phase

Phase A Recovery

Industry Outlook	
Year	Annual Growth Rate
2024	3.1%
2025	5.7%
2026	3.1%

Current Indicator Amplitude

- July 2024 Annual Growth Rate (12/12): -5.5%
- July 2024 Annual Average (12MMA), 2017=100: 74.4

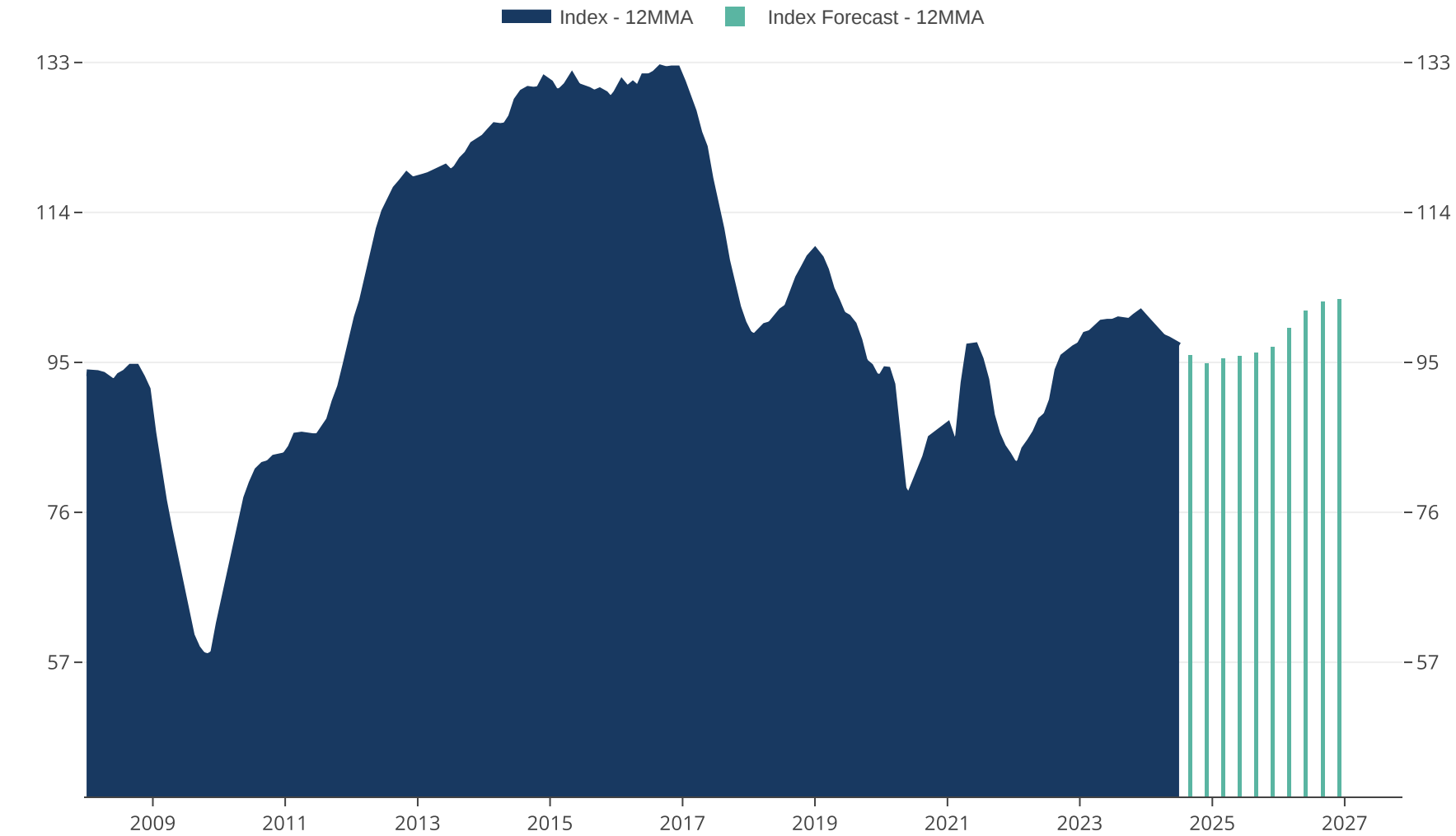
	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
Lower Forecast Range	-4.7	1.8	7.2	9.5	8.4	4.2	0.6	-1.9	-1.1	1.6
Annual Growth Rate (%)	-3.5	3.1	8.6	11.0	9.9	5.7	2.1	-0.4	0.4	3.1
Upper Forecast Range	-2.3	4.4	10.0	12.5	11.4	7.2	3.6	1.1	1.9	4.6

Lower Forecast Range	74.0	76.7	78.9	80.4	81.2	80.9	80.4	80.0	81.4	83.4
Annual Average Index (2017=100)	74.9	77.6	79.9	81.5	82.3	82.1	81.6	81.2	82.6	84.6
Upper Forecast Range	75.8	78.6	80.9	82.6	83.4	83.2	82.8	82.4	83.9	85.8

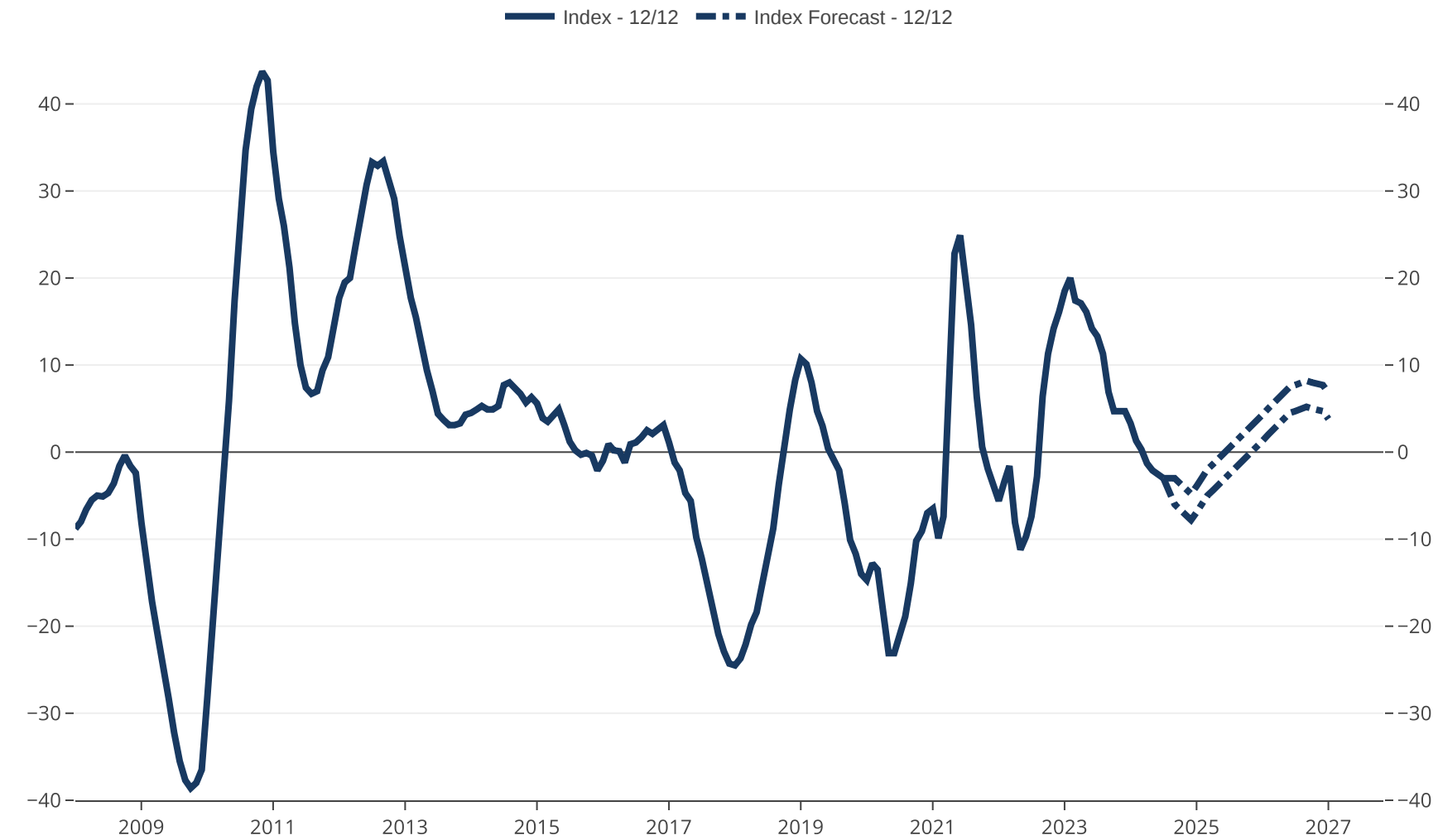


Data and Forecast Revised; Expect a Plateau Into Mid-2025 From Vehicle Affordability Headwinds

Annual Average (12MMA)



Annual Growth Rate (12/12)



Current Phase

Phase D  
Recession

Industry Outlook	
Year	Annual Growth Rate
2024	-6.3%
2025	2.2%
2026	6.2%

Current Indicator Amplitude

- July 2024 Annual Growth Rate (12/12): -3.0%
- July 2024 Annual Average (12MMA), 2017=100: 97.1

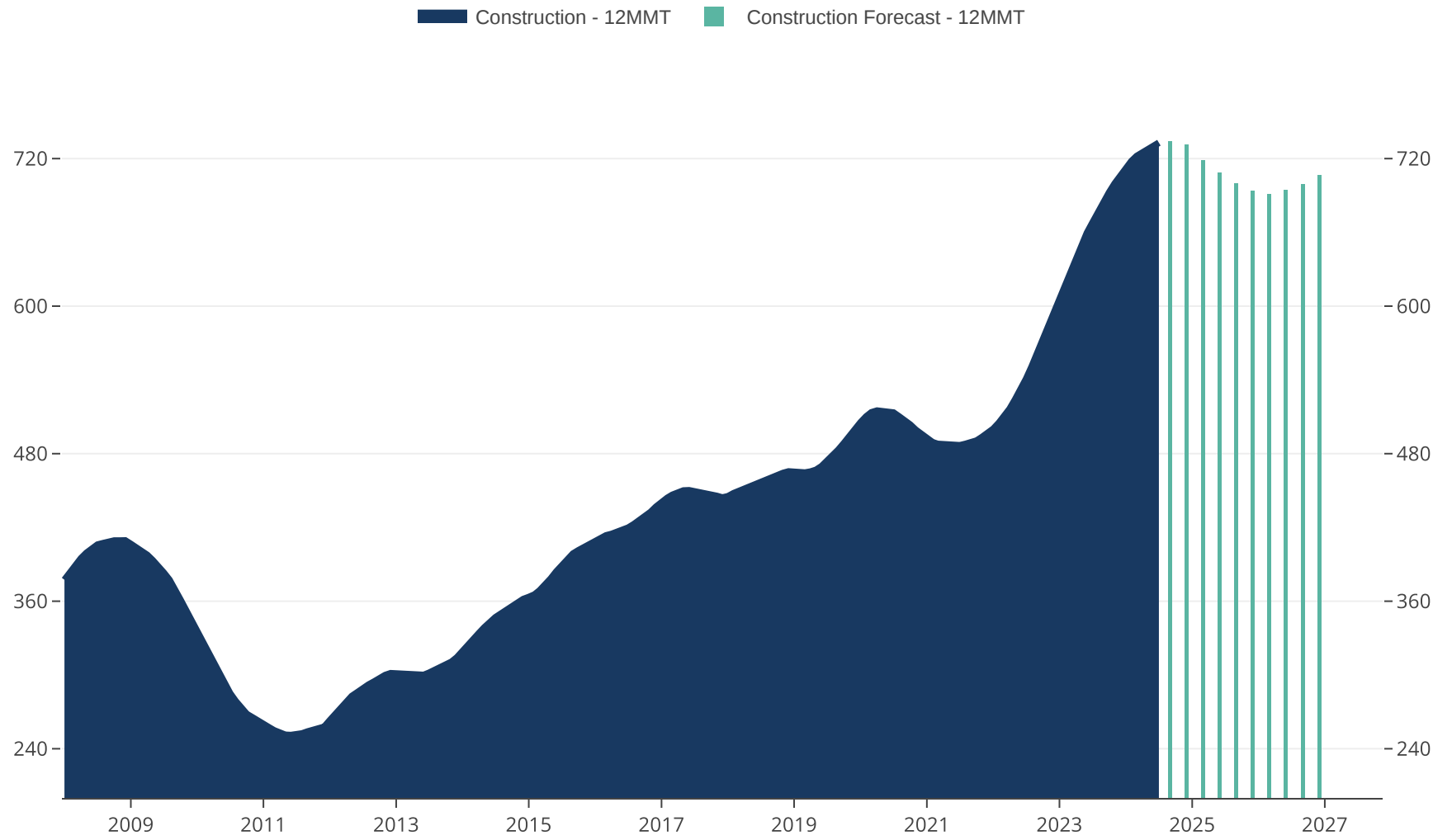
	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
Lower Forecast Range	-6.0	-7.8	-5.0	-3.2	-1.2	0.7	2.6	4.5	5.2	4.7
Annual Growth Rate (%)	-4.5	-6.3	-3.5	-1.7	0.3	2.2	4.1	6.0	6.7	6.2
Upper Forecast Range	-3.0	-4.8	-2.0	-0.2	1.8	3.7	5.6	7.5	8.2	7.7

Lower Forecast Range	94.4	93.4	94.0	94.3	94.8	95.6	98.0	100.1	101.2	101.5
Annual Average Index (2017=100)	95.9	94.9	95.5	95.8	96.2	97.0	99.4	101.6	102.7	103.0
Upper Forecast Range	97.4	96.4	97.0	97.3	97.6	98.4	100.9	103.0	104.1	104.5

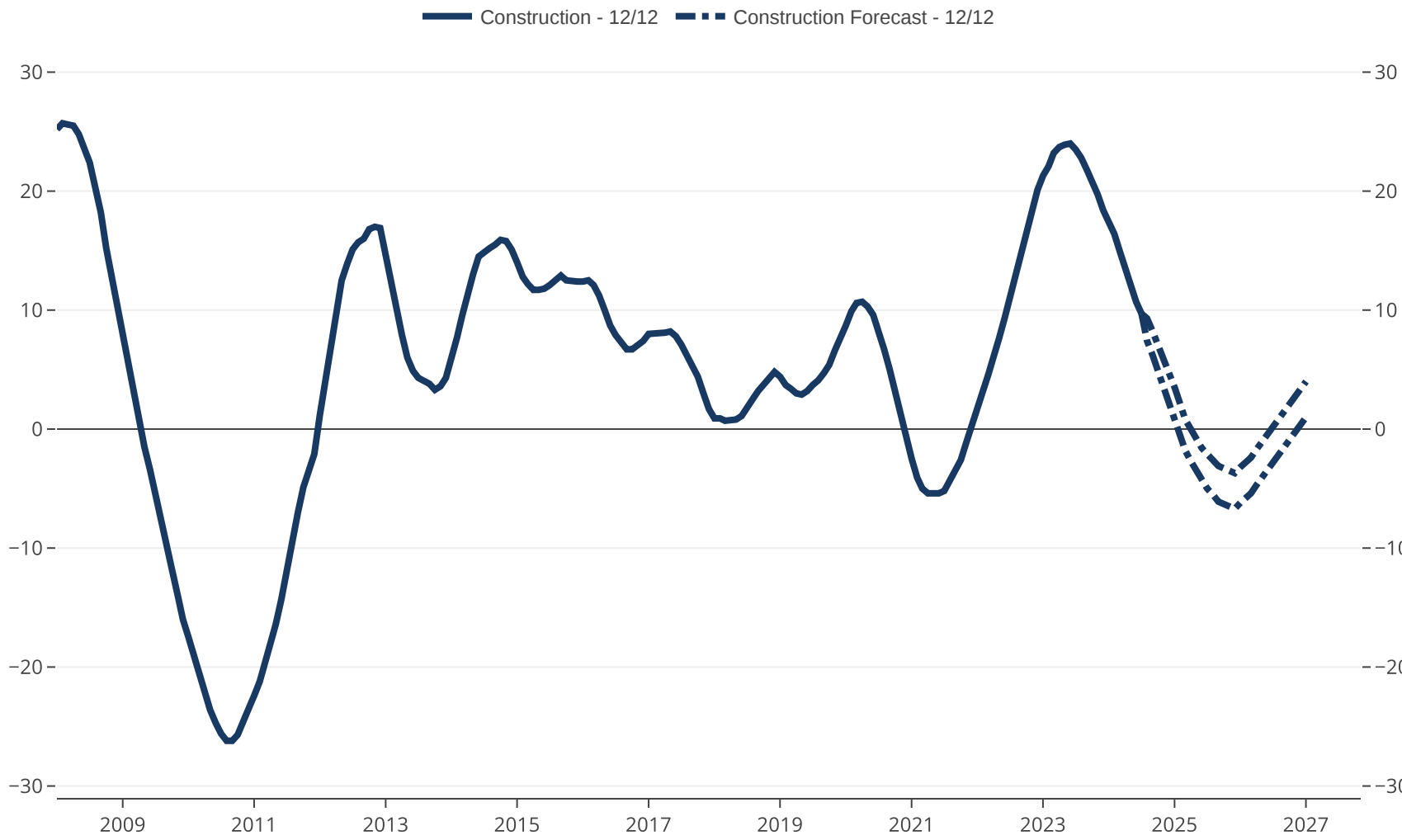


Data and Forecast Revised; Lagged Impact of Elevated Interest Rates to Drive Decline Into Early 2026

Annual Total (12MMT)



Annual Growth Rate (12/12)



Current Phase

Phase C  
Slowing Growth

Industry Outlook	
<i>Year</i>	<i>Annual Growth Rate</i>
2024	3.6%
2025	-5.2%
2026	1.8%

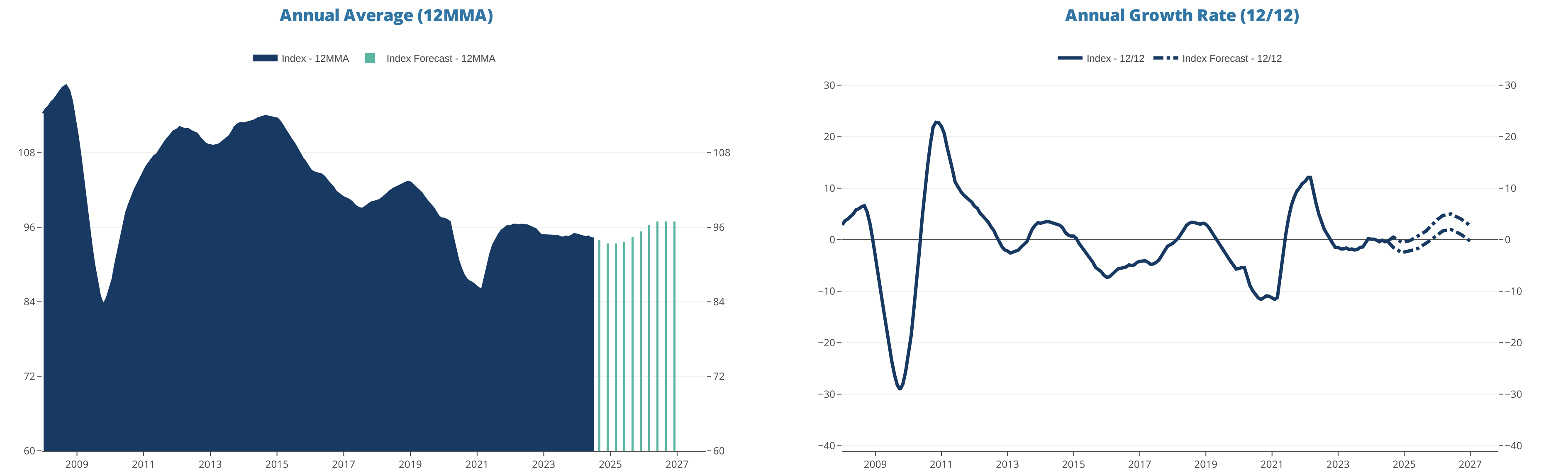
Current Indicator Amplitude

- July 2024 Annual Growth Rate (12/12): 9.7%
- July 2024 Annual Total (12MMT), Billions of \$: 732.9

	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
Lower Forecast Range	6.2	2.4	-1.8	-4.4	-6.1	-6.7	-5.4	-3.5	-1.6	0.3
Annual Growth Rate (%)	7.2	3.6	-0.5	-3.0	-4.6	-5.2	-3.9	-2.0	-0.1	1.8
Upper Forecast Range	8.2	4.8	0.8	-1.6	-3.1	-3.7	-2.4	-0.5	1.4	3.3

Lower Forecast Range	726.9	723.1	709.1	698.0	689.0	682.9	680.0	683.5	688.8	695.9
Annual Total Construction (Billions of \$)	733.8	731.5	718.5	708.3	700.0	693.9	690.8	694.1	699.3	706.3
Upper Forecast Range	740.6	740.0	727.8	718.5	711.0	704.8	701.6	704.7	709.8	716.7

Data and Forecast Revised; Production to Stagnate Into Late 2025 Given Headwinds in Durables Markets



Current Phase



Phase D  
Recession

Industry Outlook	
<i>Year</i>	<i>Annual Growth Rate</i>
2024	-1.5%
2025	2.0%
2026	1.7%

Current Indicator Amplitude

- July 2024 Annual Growth Rate (12/12): -0.3%
- July 2024 Annual Average (12MMA), 2017=100: 94.1

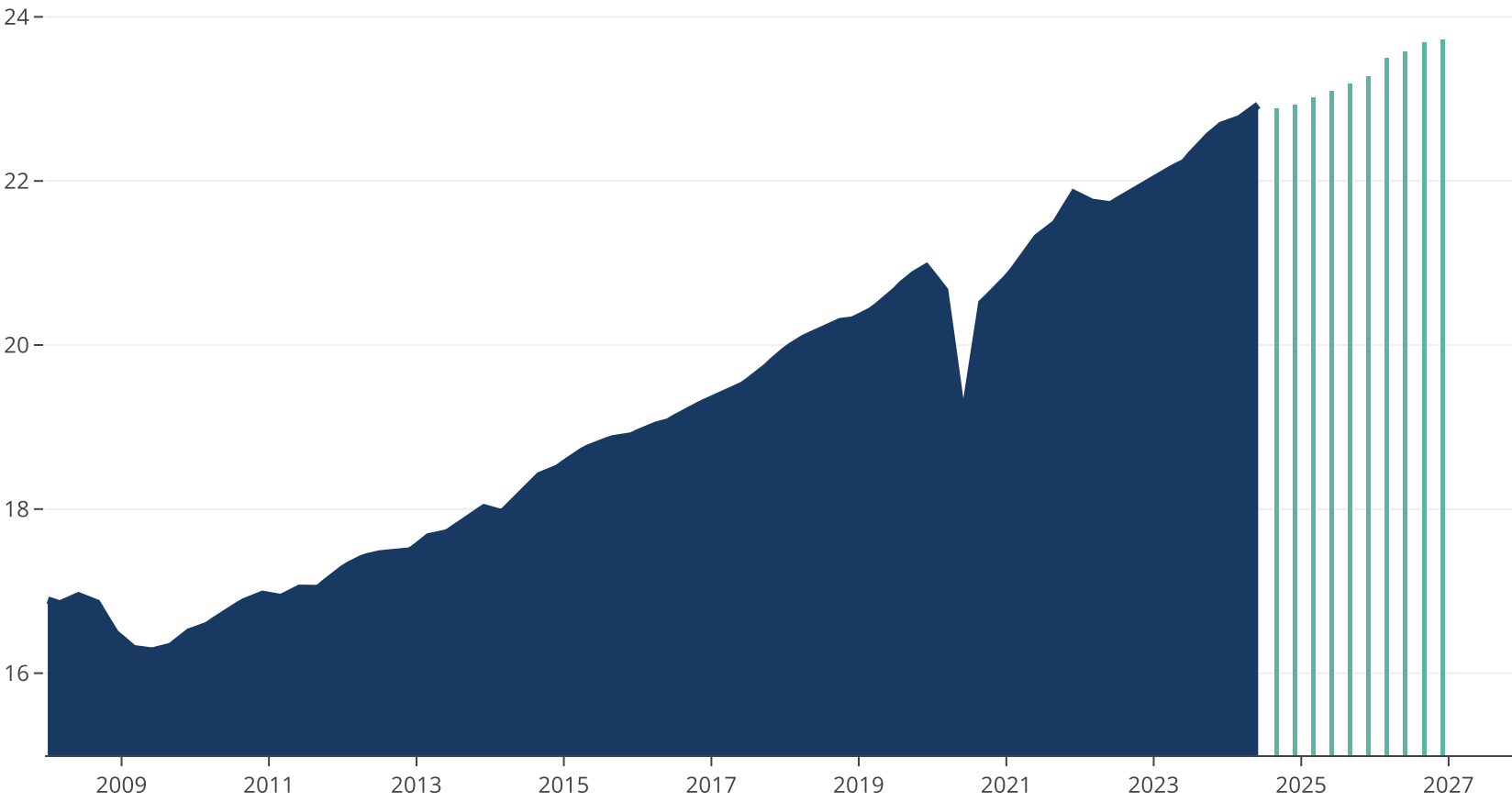
	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
Lower Forecast Range	-1.5	-2.5	-2.2	-1.7	-0.7	0.5	1.7	2.0	1.2	0.2
Annual Growth Rate (%)	-0.5	-1.5	-1.2	-0.5	0.5	2.0	3.2	3.5	2.7	1.7
Upper Forecast Range	0.5	-0.5	-0.2	0.7	1.7	3.5	4.7	5.0	4.2	3.2

Lower Forecast Range	93.0	92.5	92.4	92.5	93.2	93.9	94.9	95.5	95.5	95.5
Annual Average Index (2017=100)	93.9	93.4	93.4	93.6	94.4	95.3	96.3	96.9	96.9	96.9
Upper Forecast Range	94.8	94.4	94.3	94.8	95.5	96.7	97.7	98.3	98.3	98.3

Non-Discretionary Consumer Spending Drove Rise, Which Could Strain Consumers; Expect Further Phase C

Quarterly Average (3MMA)

Real GDP - 3MMAReal GDP Forecast - 3MMA



Quarterly Growth Rate (3/12)

Real GDP - 3/12Real GDP Forecast - 3/12



Current Phase



Phase C  
Slowing Growth

Current Indicator  
Amplitude

- June 2024 Quarterly Growth Rate (3/12): 3.1%
- June 2024 Quarterly Average (3MMA), Trillions of Chained 2017 \$: 22.925

Industry Outlook

YearQuarterly Growth Rate

2024	1.1%
2025	1.5%
2026	1.9%

	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
Lower Forecast Range	1.5	0.9	0.9	1.3	1.0	1.2	1.7	1.7	1.8	1.6
Quarterly Growth Rate (%)	1.7	1.1	1.3	1.7	1.3	1.5	2.1	2.1	2.1	1.9
Upper Forecast Range	2.0	1.4	1.6	2.0	1.7	1.9	2.4	2.4	2.5	2.3

Lower Forecast Range	22.825	22.868	22.942	23.015	23.107	23.191	23.412	23.494	23.601	23.636
Quarterly Average Real GDP (Trillions of Chained 2017 \$)	22.881	22.925	23.016	23.095	23.187	23.272	23.492	23.575	23.682	23.718
Upper Forecast Range	22.938	22.982	23.090	23.174	23.267	23.352	23.573	23.656	23.763	23.799

US Leading Indicators

Indicator	Direction		
	3Q24	4Q24	1Q25
ITR LEADING INDICATOR™	●	●	●
ITR RETAIL SALES LEADING INDICATOR™	●	●	●
US OECD LEADING INDICATOR	●	●	●
US ISM PMI (PURCHASING MANAGERS INDEX)	●	●	●
US TOTAL CAPACITY UTILIZATION RATE	●	●	N/A
Green denotes that the indicator signals cyclical rise for the economy in the given quarter. Red denotes the opposite.			

What It Means for the US Economy

- We continue to expect upward momentum in 2025, as most leading indicators are pointing upward for this period. A few others, however, are sending mixed messages on the trajectory of the macroeconomy for later that year.
- Mild rise in the ITR Leading Indicator™ signals that businesses that align closely with US Industrial Production should see a mild upturn in growth rates moving into next year.
- The US ISM PMI (Purchasing Managers Index) monthly rate-of-change is in a nascent downward trend after exhibiting fairly consistent rise since late 2022. Should this weakness continue, it would pose a downside pressure to the industrial sector in the second half of 2025 based on its median lead time of roughly one year.

While many indicators are signaling positivity, we will not likely see that translate to stronger activity until early 2025. Economic conditions, such as still-elevated interest rates and a price-conscious consumer, are not favorable this year. While there were some recent stumbles in some leading indicators, improved B2B spending, a rebounding industrial sector, and a more stable consumer in 2025 and 2026 still seem probable. Activate plans now to capitalize on this stronger macroeconomy in the years to come.

## Market Definitions

### US Industrial Production Index

Index of total industrial production in the United States; includes manufacturing, mining, and utilities. Source: Federal Reserve Board (FRB). Index, 2017 = 100, not seasonally adjusted (NSA).

### US Automobile Production Index

Automobile Production. This U.S. industry comprises establishments primarily engaged in (1) manufacturing complete automobiles (i.e., body and chassis or unibody) or (2) manufacturing automobile chassis only. Source: Federal Reserve Board (FRB). Index, 2017 = 100, not seasonally adjusted (NSA).

### US Primary Metals Production Index

Industries in the Primary Metal Manufacturing subsector smelt and/or refine ferrous and nonferrous metals from ore, pig or scrap, using electrometallurgical and other process metallurgical techniques. Establishments in this subsector also manufacture metal alloys and superalloys by introducing other chemical elements to pure metals. The output of smelting and refining, usually in ingot form, is used in rolling, drawing, and extruding operations to make sheet, strip, bar, rod, or wire, and in molten form to make castings and other basic metal products. Source: Federal Reserve Board (FRB). Index, 2017 = 100, not seasonally adjusted (NSA).

### US Civilian Aircraft Equipment Production Index

Index for US establishments primarily engaged in one or more of the following: (1) manufacturing aircraft engines and engine parts; (2) developing and making prototypes of aircraft engines and engine parts; (3) aircraft propulsion system conversion (i.e., major modifications to systems); (4) aircraft propulsion systems overhaul and rebuilding (i.e., periodic restoration of aircraft propulsion system to original design specifications). Source: Federal Reserve Board. NAICS Code: 336412,3. Index, 2017 = 100, not seasonally adjusted (NSA).

### US Private Nonresidential Construction

Private nonresidential construction in the United States. Includes private construction of the following types: office, commercial, automotive, lodging, dining, retail, warehouse, storage facilities, schools, dormitories, sports facilities, galleries, museums, hospitals, medical buildings, special care facilities, religious buildings, fitness centers, amusement parks, movie theaters, social centers, transportation facilities, power facilities, and manufacturing facilities. Source: US Census Bureau. Measured in billions of dollars, not seasonally adjusted (NSA).

### US Real Gross Domestic Product

Real (inflation-adjusted) gross domestic product (GDP) in the United States. GDP is the monetary value of all the finished goods and services produced within a country's borders in a specific time period. GDP includes all private and public consumption, government outlays, investments and exports minus imports that occur within a defined territory. Put simply, GDP is a broad measurement of a nation's overall economic activity. Source: Bureau of Economic Analysis. Measured in trillions of 2017 chained dollars, seasonally adjusted at annual rate (SAAR).

Management Objectives™

Phase A	Phase B	Phase C	Phase D
<div><div></div><div>Recovery</div></div> <ul style="list-style-type: none"><li>● Scrupulously evaluate the supply chain</li><li>● Model positive leadership (culture turns to behavior)</li><li>● Start to phase out marginal opportunities (products, processes, people); repair margins</li><li>● Perform due diligence on customers and extend credit</li><li>● Be on good terms with a banker; you will need the cash more now than in any other phase</li><li>● Invest in customer market research; know what they value and market/price accordingly</li><li>● Hire key people and implement company-wide training programs ahead of Phase B</li><li>● Allocate additional resources to sales and marketing</li><li>● Invest in system/process efficiencies</li><li>● Make opportunistic capital and business acquisitions; use pessimism to your advantage</li></ul>	<div><div></div><div>Accelerating Growth</div></div> <ul style="list-style-type: none"><li>● Ensure quality control keeps pace with increasing volume</li><li>● Invest in workforce development: hiring, training, retention</li><li>● Ensure you have the right price escalator; space out price increases</li><li>● Maximize your profit margins through differentiation; stand out from the crowd and set yourself apart</li><li>● Use improved cash flow to strategically position the business to beat the business cycle</li><li>● Expand credit to customers</li><li>● Improve corporate governance (rent a CFO; establish a board of advisors or board of directors)</li><li>● Communicate competitive advantages; build the brand</li><li>● Query users for what they want and what is important to them</li><li>● Sell the business in a climate of maximum goodwill</li></ul>	<div><div></div><div>Slowing Growth</div></div> <ul style="list-style-type: none"><li>● Know if your markets are headed for a soft landing or a hard landing</li><li>● Cash is king; beware of unwarranted optimism</li><li>● Stay on top of aging receivables</li><li>● Revisit capital expenditure plans</li><li>● Lose the losers: if established business segments are not profitable during this phase, eliminate them</li><li>● Use competitive pricing to manage your backlog through the coming slowdown</li><li>● Avoid committing yourself to long-term expenses at the top of the price cycle, but lock in revenue</li><li>● Go entrepreneurial and/or counter-cyclical</li><li>● Evaluate your vendors for financial strength; if needed, look for additional vendors as a safety net</li><li>● If the cycle looks recessionary, cross-train key people to prepare for workforce attrition/reduction</li></ul>	<div><div></div><div>Recession</div></div> <ul style="list-style-type: none"><li>● Implement aggressive cost-cutting measures</li><li>● Offer alternative products with a lower cost basis</li><li>● Perform due diligence on acquisitions while valuations are falling</li><li>● Reduce advertising as consumers become more price conscious</li><li>● Enter or renegotiate long-term leases</li><li>● Negotiate labor contracts</li><li>● Consider capital equipment needs for the next cycle</li><li>● Tighten credit policies</li><li>● Develop programs for advertising, training, and marketing to implement in Phase A</li><li>● Lead with optimism, remembering that Phase D is temporary</li></ul>