

Industrial Supply Association

DECEMBER 2024

Table of Contents

Economic Overview1

Terminology and Methodology2

Industrial Supply Association Markets Dashboard3

US Industrial Production Index4

US Civilian Aircraft Equipment Production Index5

US Automobile Production Index6

US Private Nonresidential Construction7

US Primary Metals Production Index8

US Real Gross Domestic Product9

US Leading Indicators10

Market Definitions11

Management Objectives™12

Economic Overview

Growth Lies Ahead; Here Are Some Key Drivers:

Consumers: Rising incomes and inflation-adjusted savings balances will help boost Retail Sales rise in the years ahead. Higher-income earners and those who saw their home prices rise and stock portfolios increase in value in recent years will likely drive much of the growth. Those demographics struggling with inflation should get some relief in 2025, but price sensitivity will linger. Retail Sales growth will start out sluggish in early 2025 but then ramp up later in the year. Improving consumer metrics will also be a positive for other sectors ranging from manufacturing to services.

Interest Rates: The Federal Reserve has shifted to a more accommodative monetary policy; however, a lower Federal Funds Rate does not necessarily equate to lower interest rates for businesses. Commercial loans and mortgage rates trend similarly to US Government Long Term Bond Yields, which we anticipate will have a relatively flat trajectory with the potential for minor downward movement into mid-2025. Beyond rates, borrowing conditions are improving. Many lenders have stopped tightening their credit standards, and the default risk premium has moved lower, suggesting lenders are less concerned about recession risks – though there are lingering concerns specific to the CRE market. When deciding on capex, focus on timing the ROI to best align with your market trends as opposed to waiting for a low in rates. Aim to have the payback period completed ahead of the 2030s, as we anticipate tougher economic times in that decade.

Inflation: Prices will generally rise in 2025 and 2026, picking up the pace in the second half of 2025. Inflation will be temperate relative to levels of 2021 and 2022 but not as low as in the 2010s. If further tariffs are put in place, they could pose an upside risk to our pricing outlooks.

Businesses: While borrowing costs may not come down much more, elevated corporate profits and corporate cash will allow businesses to spend more. We expect investments in domestic capacity in recent years to have a cumulative positive effect, helping the economy reach record heights. Rise will be driven both by higher volumes and higher dollar values. Efficiency gains will be necessary to maintain or improve margins.

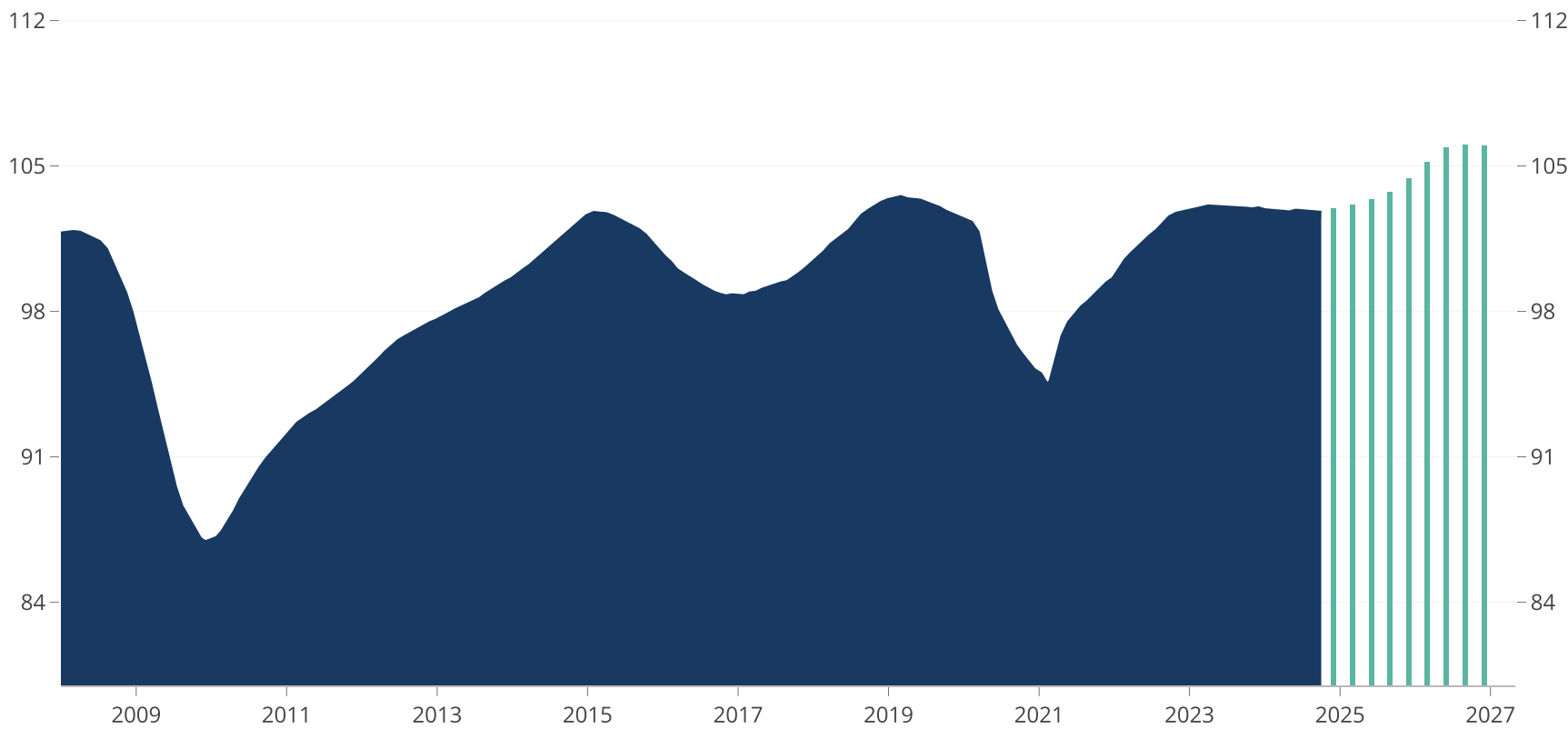
The Labor Market: Labor challenges will persist in the upcoming years, as will the upward pressure on wages. While the labor market has softened, it will remain relatively tight in the coming years due in part to the aging population. It will be important to focus resources on attracting and retaining talent in the coming years. Keep your wages and benefits competitive for your region and industry.

Key Industries and Takeaways for Your Business

It may feel difficult to be optimistic at this point in the business cycle, but there are green shoots. Leading indicators, including the ITR Leading Indicator™, point to upcoming business cycle rise; however, markets will trend differently throughout this period. In the construction market, residential construction will rise for much of the next few years, despite affordability constraints, given the high demand for housing. The nonresidential construction sector lags the overall economy and is likely to undergo mild decline for much of 2025 and into 2026. There will be areas of opportunity within nonresidential construction, notably data centers, as they are in high demand and likely to rise in the coming two years. Within the industrial sector (which will be boosted generally by the nearshoring efforts of the past few years), manufacturing related to technology will likely be an area of opportunity.

What is your business doing to prepare for macroeconomic rise in 2025 and 2026? Do you have the capacity needed to take on more activity, or can you harness new technologies to increase productivity? Rising prices coupled with lingering price sensitivity could cause margin squeeze. Now is the time to focus on efficiencies to protect your margins and increase flexibility. If possible, diversify your supply chain or move inputs for your US consumer base closer to the US to help insulate you from potential future trade conflicts. Think back to previous periods of business cycle rise: What do you wish you could have done differently, and what worked well? Remember that for most markets rise will be more muted this cycle than during the pandemic stimulus-boosted rise.

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	-0.2%	A	0.1%	1.4%	1.5%
5	US Civilian Aircraft Equipment Production Index	-3.8%	A	3.1%	5.7%	3.1%
6	US Automobile Production Index	-8.9%	D	-6.3%	2.2%	6.2%
7	US Private Nonresidential Construction	6.9%	C	3.6%	-5.2%	1.8%
8	US Primary Metals Production Index	-0.6%	D	-1.5%	2.0%	1.7%
9	US Real Gross Domestic Product (Quarterly Growth Rate)	2.7%	C	2.0%	2.5%	2.1%

*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)



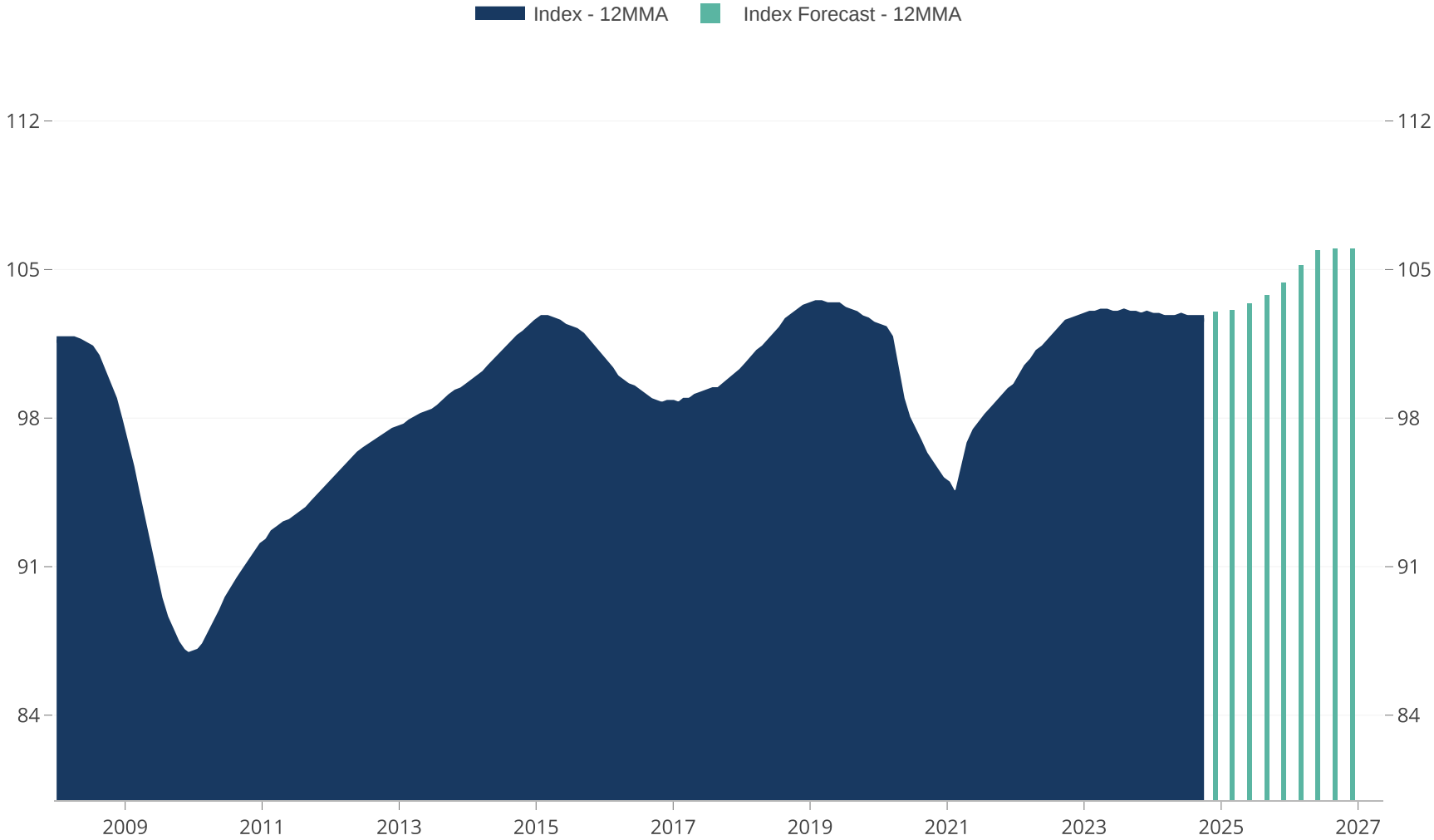
Slowing Growth (C)



Recession (D)

Forecast Revised by Less Than 1%; Rise Will Be Sluggish at First and Then Ramp Up to Record Highs

Annual Average (12MMA)



Annual Growth Rate (12/12)



Current Phase

Phase A Recovery

Industry Outlook	
Year	Annual Growth Rate
2024	0.1%
2025	1.4%
2026	1.5%

Current Indicator Amplitude

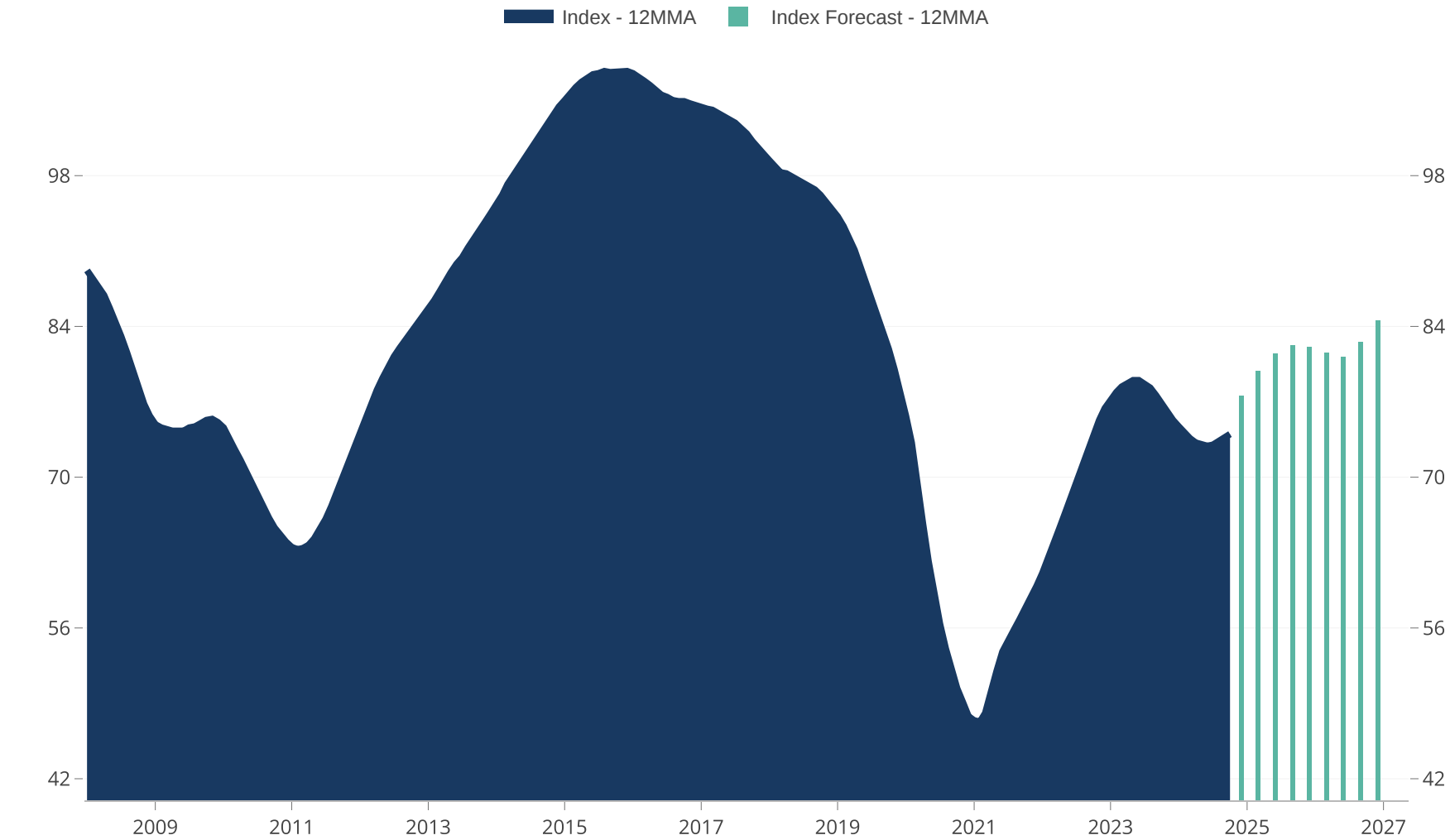
- October 2024 Annual Growth Rate (12/12): -0.2%
- October 2024 Annual Average (12MMA), 2017=100: 102.7

	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
Lower Forecast Range	-0.4	-0.2	0.0	0.3	0.8	1.4	1.8	1.6	0.9
Annual Growth Rate (%)	0.1	0.4	0.6	0.9	1.4	2.0	2.4	2.2	1.5
Upper Forecast Range	0.6	1.0	1.2	1.5	2.0	2.6	3.0	2.8	2.1

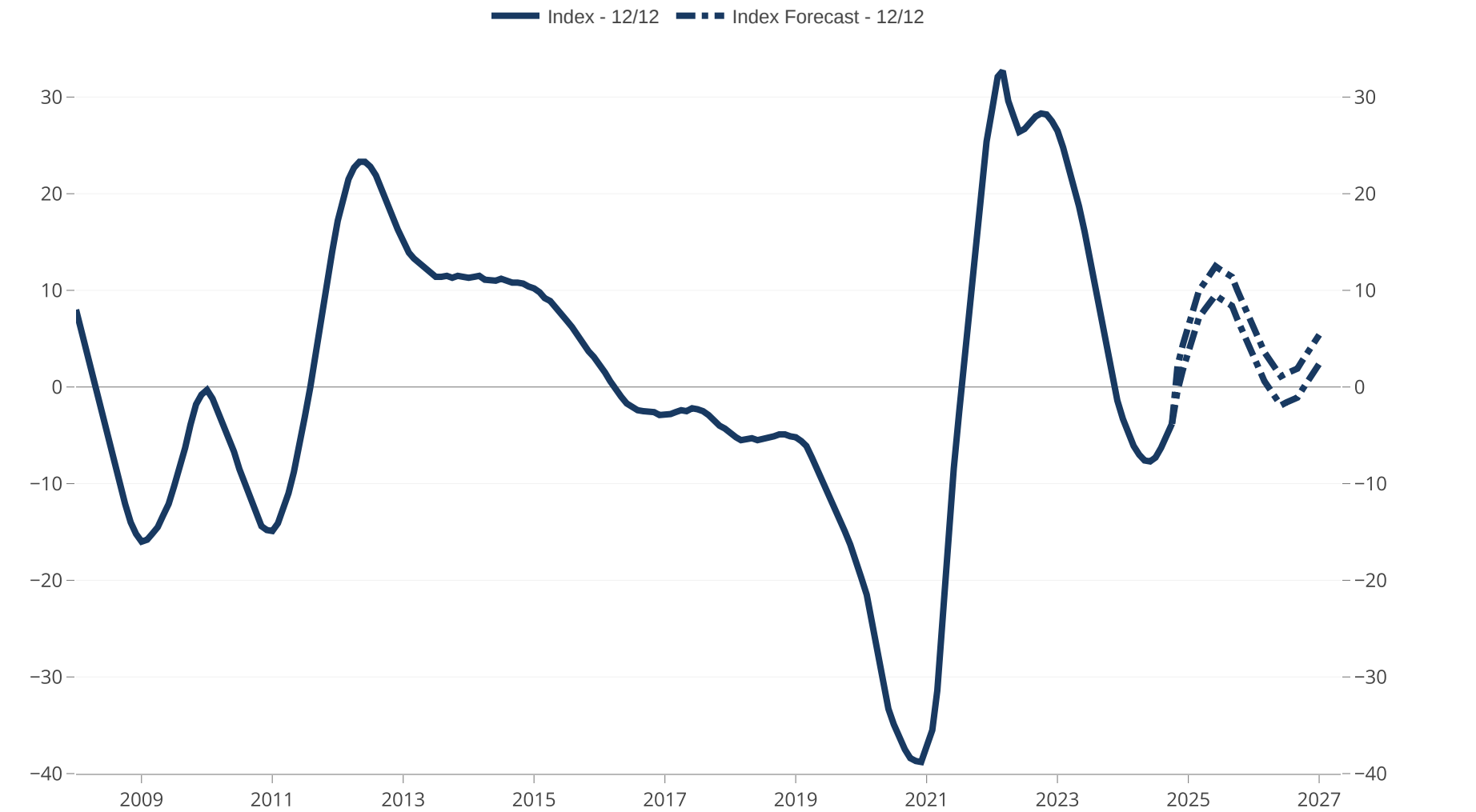
Lower Forecast Range	102.5	102.5	102.8	103.1	103.8	104.6	105.3	105.4	105.4
Annual Average Index (2017=100)	103.0	103.1	103.4	103.8	104.4	105.2	105.9	106.0	106.0
Upper Forecast Range	103.5	103.7	104.0	104.4	105.0	105.8	106.5	106.7	106.6

Unfilled Orders and High Travel Demand Support Rise Ahead; Boeing Issues Are a Downside Risk

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

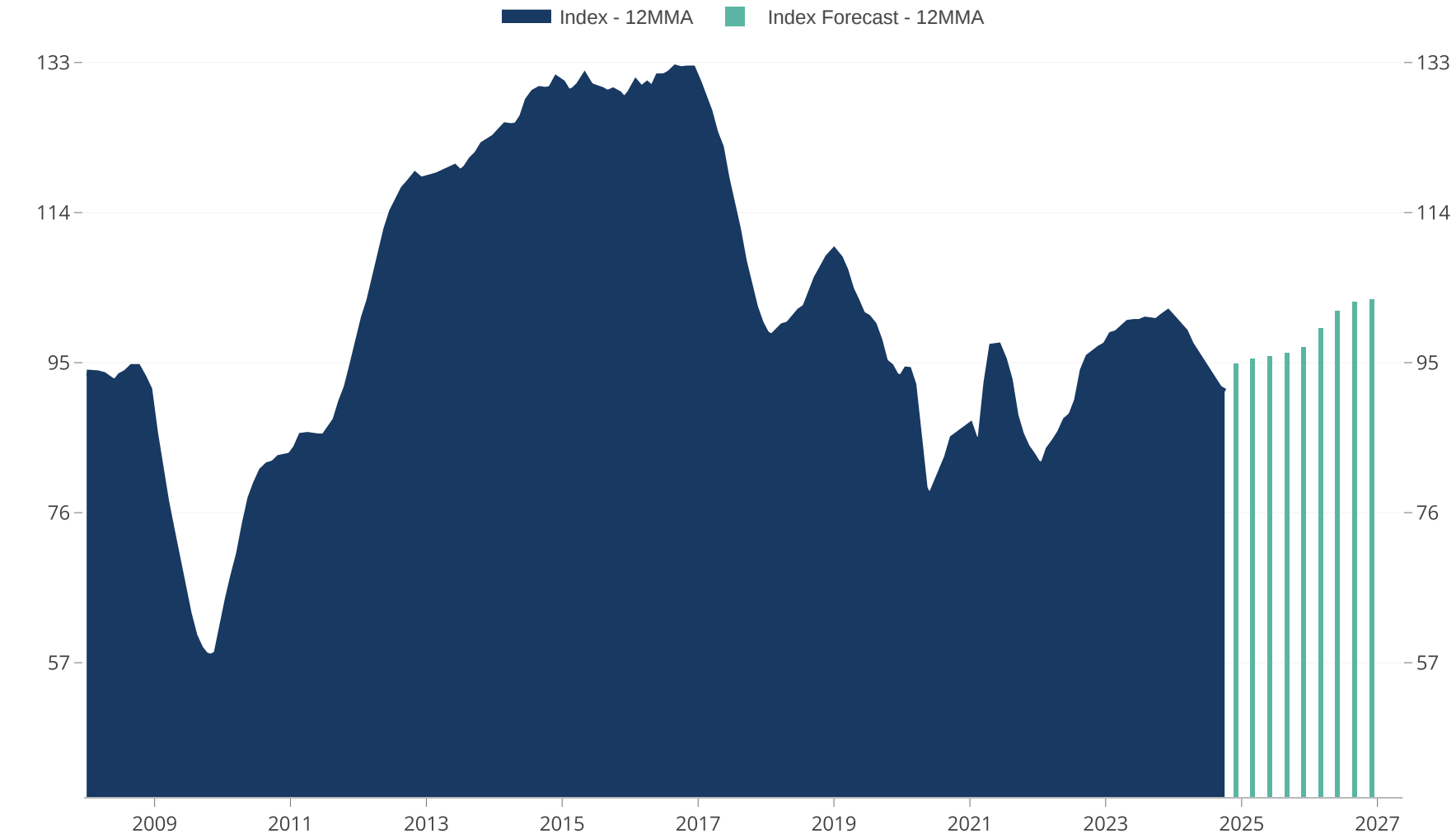
- October 2024 Annual Growth Rate (12/12): -3.8%
- October 2024 Annual Average (12MMA), 2017=100: 74.0

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

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

Production Will Trend Flat for Much of 2025, Then Rise in 2026 Due to Improved Consumer Finances

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%

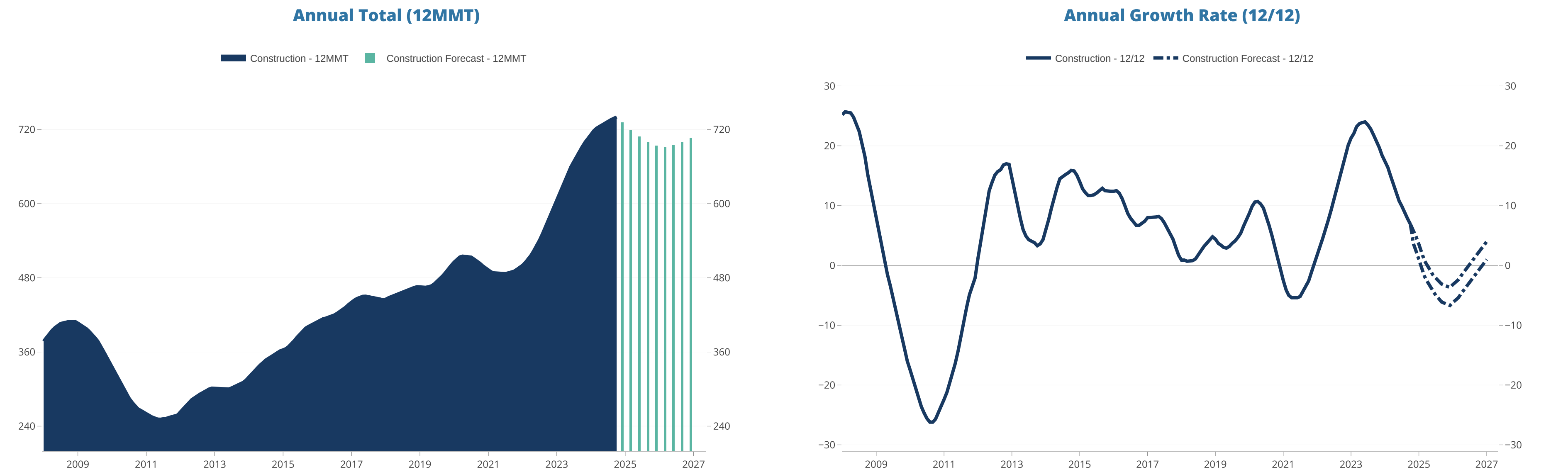
Current Indicator Amplitude

- October 2024 Annual Growth Rate (12/12): -8.9%
- October 2024 Annual Average (12MMA), 2017=100: 91.3

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

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

Borrowing Costs Portend Decline Ahead, Corroborated by Backlogs and Architecture Billings



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

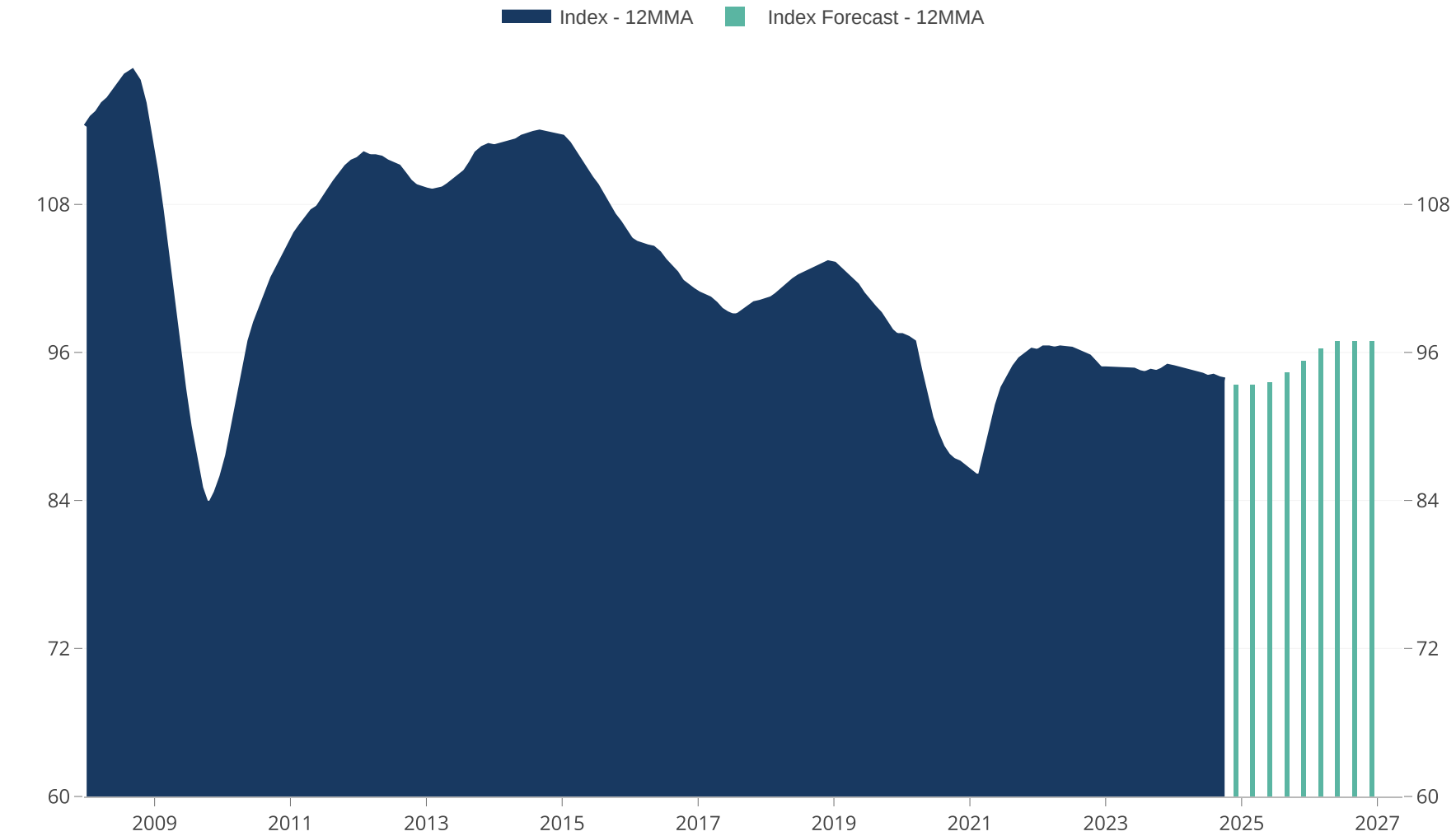
- October 2024 Annual Growth Rate (12/12): 6.9%
- October 2024 Annual Total (12MMT), Billions of \$: 740.2

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

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

Industry Utilization Rates Suggest Near-Term Stagnation; Rise to Follow in Late 2025 and Early 2026

Annual Average (12MMA)



Annual Growth Rate (12/12)



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

- October 2024 Annual Growth Rate (12/12): -0.6%
- October 2024 Annual Average (12MMA), 2017=100: 93.7

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

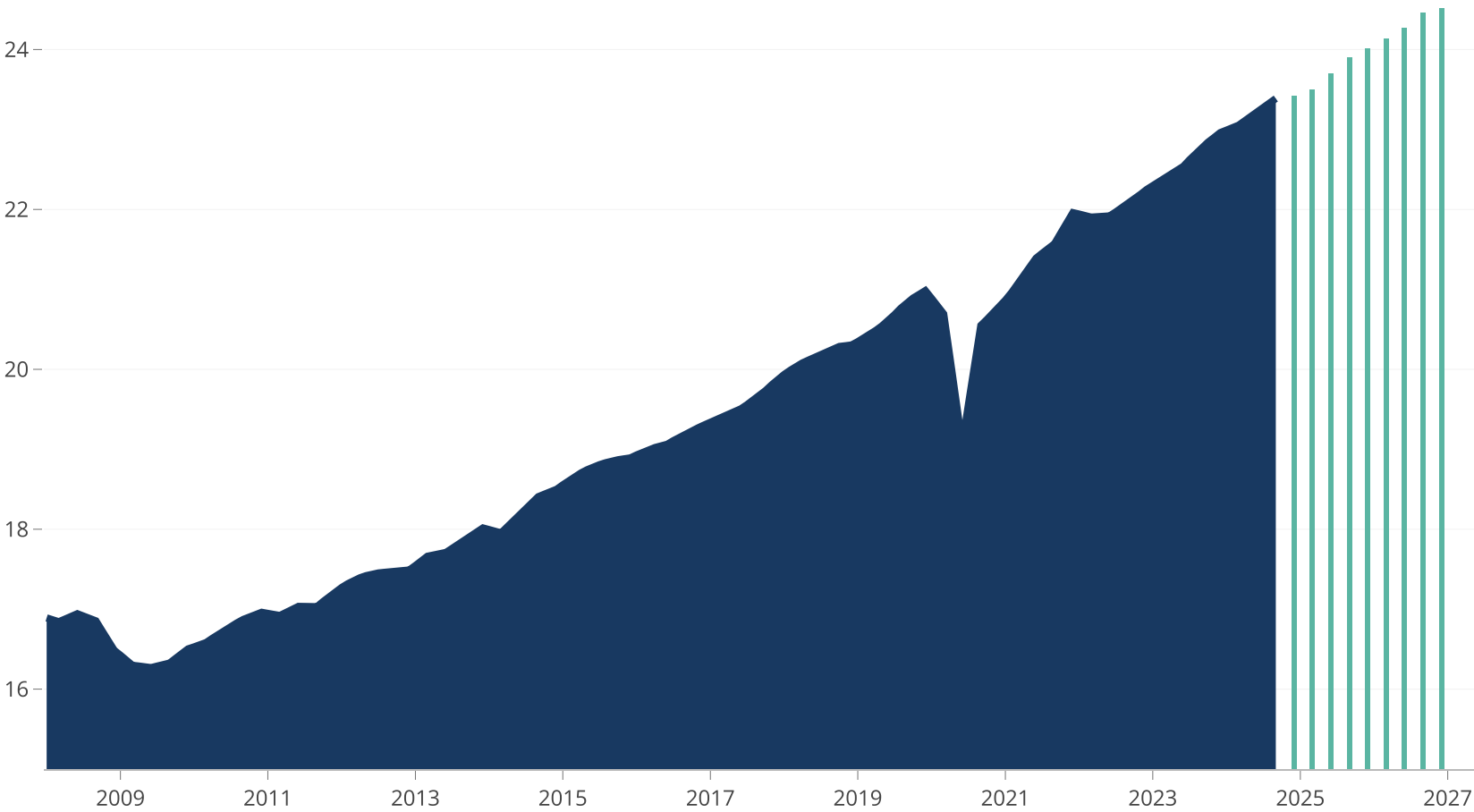
Lower Forecast Range	92.5	92.4	92.5	93.2	93.9	94.9	95.5	95.5	95.5
Annual Average Index (2017=100)	93.4	93.4	93.6	94.4	95.3	96.3	96.9	96.9	96.9
Upper Forecast Range	94.4	94.3	94.8	95.5	96.7	97.7	98.3	98.3	98.3

US Real Gross Domestic Product

Forecast Revised Upward on Strong Services Sector; Expect General Rise Through at Least 2026

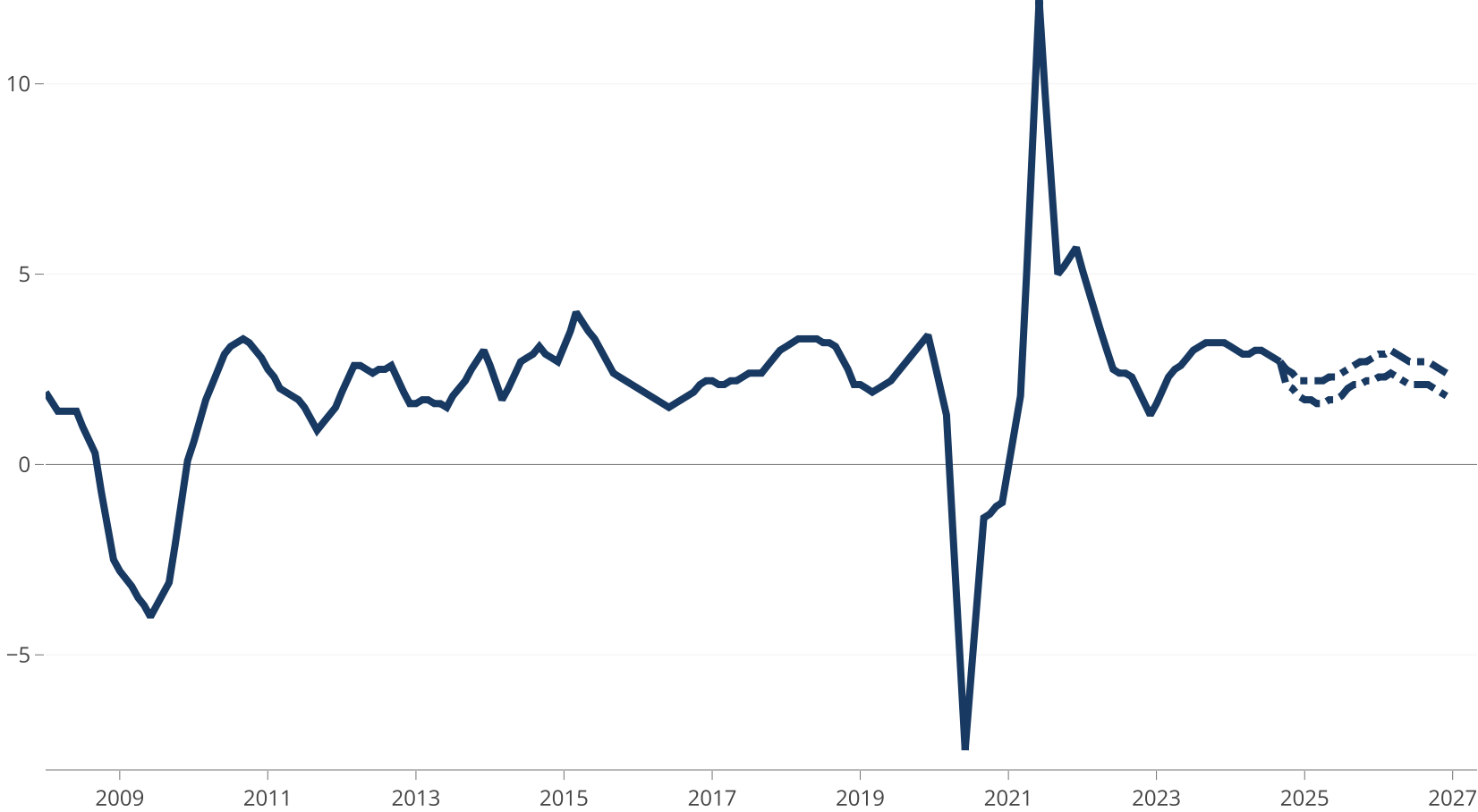
Quarterly Average (3MMA)

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

- September 2024 Quarterly Growth Rate (3/12): 2.7%
- September 2024 Quarterly Average (3MMA), Trillions of Chained 2017 \$: 23.387

Industry Outlook

Year Quarterly Growth Rate

2024	2.0%
2025	2.5%
2026	2.1%

	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
Lower Forecast Range	1.8	1.6	1.7	2.1	2.2	2.4	2.1	2.1	1.8
Quarterly Growth Rate (%)	2.0	1.9	2.0	2.4	2.5	2.7	2.4	2.4	2.1
Upper Forecast Range	2.2	2.2	2.3	2.6	2.8	3.0	2.7	2.7	2.4

Lower Forecast Range	23.373	23.422	23.623	23.831	23.934	24.055	24.197	24.389	24.437
Quarterly Average Real GDP (Trillions of Chained 2017 \$)	23.420	23.492	23.694	23.897	24.006	24.128	24.270	24.463	24.511
Upper Forecast Range	23.467	23.563	23.766	23.962	24.078	24.200	24.343	24.536	24.584

US Leading Indicators

Indicator	Direction		
	4Q24	1Q25	2Q25
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

- Loosening monetary policy may have a lagged impact on leading indicators, but, for now, rise in leading indicators remains uneven and overall mild.
- The US ISM PMI (Purchasing Managers Index) continues to show signs of weakness. We continue to monitor this movement as a possible downside risk for 2025.
- The US Total Industry Capacity Utilization Rate is generally plateauing with a slight upward bias, which supports our outlook for muted rise in the industrial sector in 2025.

Leading indicators suggests rise ahead for the macroeconomy, but growth is likely to be more weighted toward the second half of 2025. Consumer and Producer Prices are expected to rise alongside the heating economy in the coming years, so make sure you are budgeting for rising costs, not just revenues, ahead. Focus on developing your competitive advantages so that you may be better equipped to pass price increases along.

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



Recovery

- Scrupulously evaluate the supply chain
- Model positive leadership (culture turns to behavior)
- Start to phase out marginal opportunities (products, processes, people); repair margins
- Perform due diligence on customers and extend credit
- Be on good terms with a banker; you will need the cash more now than in any other phase
- Invest in customer market research; know what they value and market/price accordingly
- Hire key people and implement company-wide training programs ahead of Phase B
- Allocate additional resources to sales and marketing
- Invest in system/process efficiencies
- Make opportunistic capital and business acquisitions; use pessimism to your advantage


Phase B



Accelerating Growth

- Ensure quality control keeps pace with increasing volume
- Invest in workforce development: hiring, training, retention
- Ensure you have the right price escalator; space out price increases
- Maximize your profit margins through differentiation; stand out from the crowd and set yourself apart
- Use improved cash flow to strategically position the business to beat the business cycle
- Expand credit to customers
- Improve corporate governance (rent a CFO; establish a board of advisors or board of directors)
- Communicate competitive advantages; build the brand
- Query users for what they want and what is important to them
- Sell the business in a climate of maximum goodwill


Phase C



Slowing Growth

- Know if your markets are headed for a soft landing or a hard landing
- Cash is king; beware of unwarranted optimism
- Stay on top of aging receivables
- Revisit capital expenditure plans
- Lose the losers: if established business segments are not profitable during this phase, eliminate them
- Use competitive pricing to manage your backlog through the coming slowdown
- Avoid committing yourself to long-term expenses at the top of the price cycle, but lock in revenue
- Go entrepreneurial and/or counter-cyclical
- Evaluate your vendors for financial strength; if needed, look for additional vendors as a safety net
- If the cycle looks recessionary, cross-train key people to prepare for workforce attrition/reduction

Phase D



Recession

- Implement aggressive cost-cutting measures
- Offer alternative products with a lower cost basis
- Perform due diligence on acquisitions while valuations are falling
- Reduce advertising as consumers become more price conscious
- Enter or renegotiate long-term leases
- Negotiate labor contracts
- Consider capital equipment needs for the next cycle
- Tighten credit policies
- Develop programs for advertising, training, and marketing to implement in Phase A
- Lead with optimism, remembering that Phase D is temporary