Industrial Supply Association

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Reports
ITR Economics

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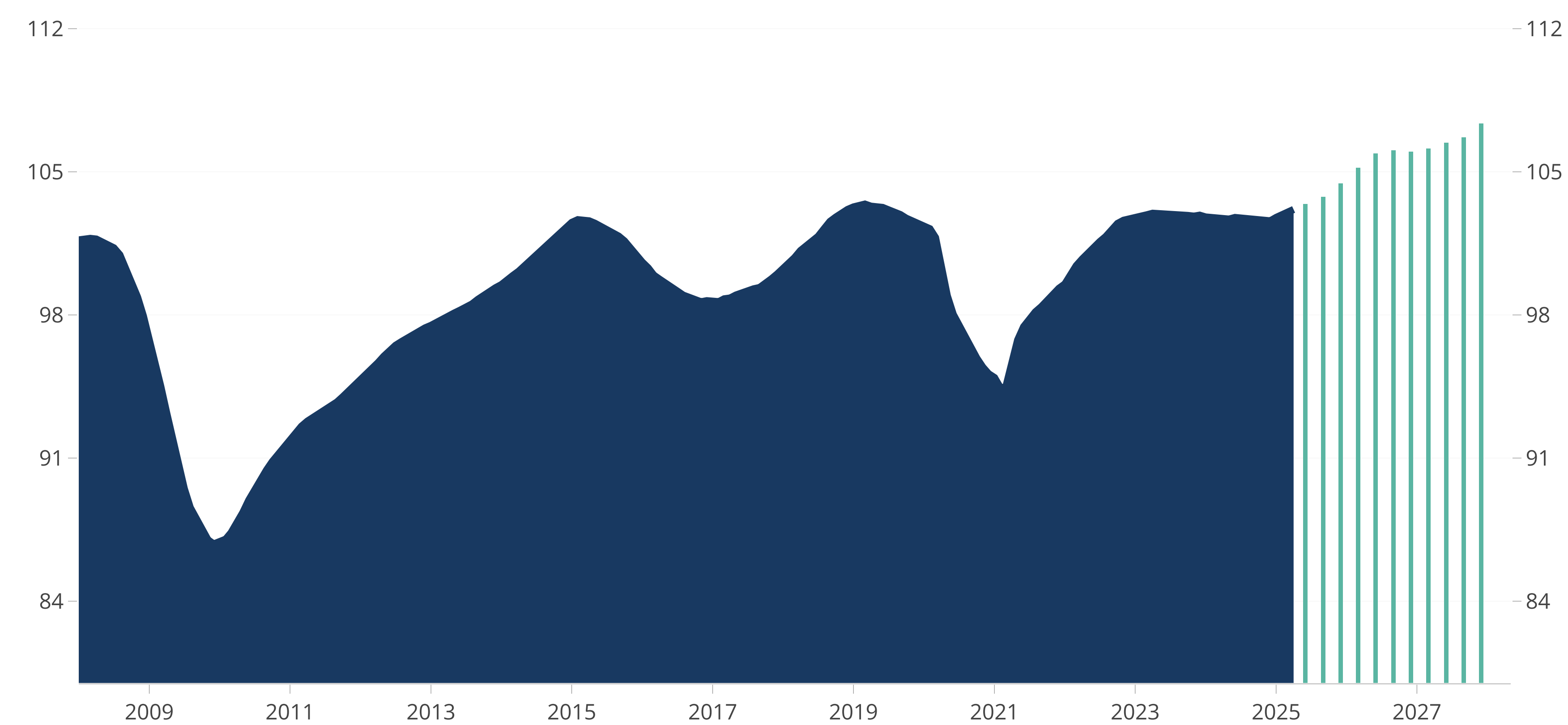
Economic Overview

Mid-2025 Update

Despite a wave of pessimistic sentiment reflected in some soft data sources (e.g., consumer confidence surveys), the US economy has demonstrated underlying resilience, as evidenced by hard data metrics. Although US Real GDP contracted minorly in Q1 2025, this was driven primarily by a surge in imports as businesses and consumers sought to preempt future tariff actions — a dynamic that mechanically subtracts from GDP. Both the consumer spending and business investment components of GDP registered growth in Q1, underscoring resilience in the underlying demand base. This is corroborated by monthly data through May showing accelerating industrial activity and rising Retail Sales. The policy environment remains uncertain, with trade negotiations oscillating between cooperation and friction. Elevated levels of macroeconomic uncertainty remain, prompting caution among decision-makers and tempering the pace of the current cyclical expansion. Nonetheless, our proprietary composite of leading indicators points to a mild upward trajectory for the US economy over the remainder of 2025. That said, recent trends have prompted slight downgrades to several of our key sector-specific outlooks.

US Industrial Production Index

Annual Average (12MMA)



We have modestly lowered our outlook for US Nondefense Capital Goods New Orders (excluding aircraft), a proxy for business-to-business (B2B) spending and capital investment. A historical data revision from the source revealed that the B2B sector is recovering from a prior mild recession that likely resulted from a prior period of excessive inventory buildup. The aggregate signal from our system of leading indicators suggests general, but mild, rise is still more likely for B2B spending in 2025 than contraction. Growth will likely be slightly stronger in 2026. It is important to note that some of this growth, expressed in nominal terms, will be supported by inflationary pricing dynamics rather than volume gains, which could put pressure on margins in price-sensitive sectors.

US Consumer Prices have been trending above the Federal Reserve's inflation target of 2.0%, and economic activity has been holding up relatively well. As a result, the Fed has been holding interest rates steady, with no committed timeline for future cuts. Elevated interest rates will generally contribute to the muted nature of rise ahead, although markets will ultimately adjust to this "new normal."

Housing and Consumer Markets

Our forecast for US Single-Unit Housing Starts, which tend to lead the macroeconomy, has also been revised downward. Despite the persistent shortage of existing housing stock, developers may be slightly more risk-averse in light of a slight uptick in vacancy rates, persistent affordability concerns, and ongoing economic uncertainty. As a result, we expect Starts for 2025 as a whole to come in below the 2024 total before growth returns in 2026 and, to a lesser extent, 2027. Sectors tied closely to residential construction should prepare for near-term softness.

Consumer spending is expected to grow at a moderate pace over the coming years. The lingering impact of cumulative inflation appears to be fostering a more discerning consumer mindset. Businesses with more exposure to discretionary segments, especially those catering to lower-income consumers, could underperform relative to the rest of the market. Our proprietary ITR Retail Sales Leading Indicator™ signals that, on the whole, Retail Sales will gradually gain momentum into at least early 2026, although vacillation in the Indicator suggests rise could be slightly choppy. Overall, we anticipate US Total Retail Sales growth through 2027, with 2026 marking the likely high point in terms of annual growth rates.

Businesses should take a proactive stance on margin management, as current macroeconomic conditions suggest an elevated risk of margin compression. Rising input costs, cautious end-market demand, and muted volume gains all underscore the importance of cost discipline, pricing strategy, and capital efficiency.

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**	**2025****	**2026****	**2027****
4	US Industrial Production Index	0.5%	B	1.4%	1.5%	1.3%
5	US Civilian Aircraft Equipment Production Index	7.4%	B	5.7%	3.1%	3.2%
6	US Automobile Production Index	-16.4%	A	-4.4%	4.8%	-1.1%
7	US Private Nonresidential Construction	3.2%	C	-1.4%	-0.2%	2.7%
8	US Primary Metals Production Index	-0.8%	A	2.0%	1.7%	-1.0%
9	US Real Gross Domestic Product *(Quarterly Growth Rate)*	2.1%	C	2.5%	2.1%	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.*

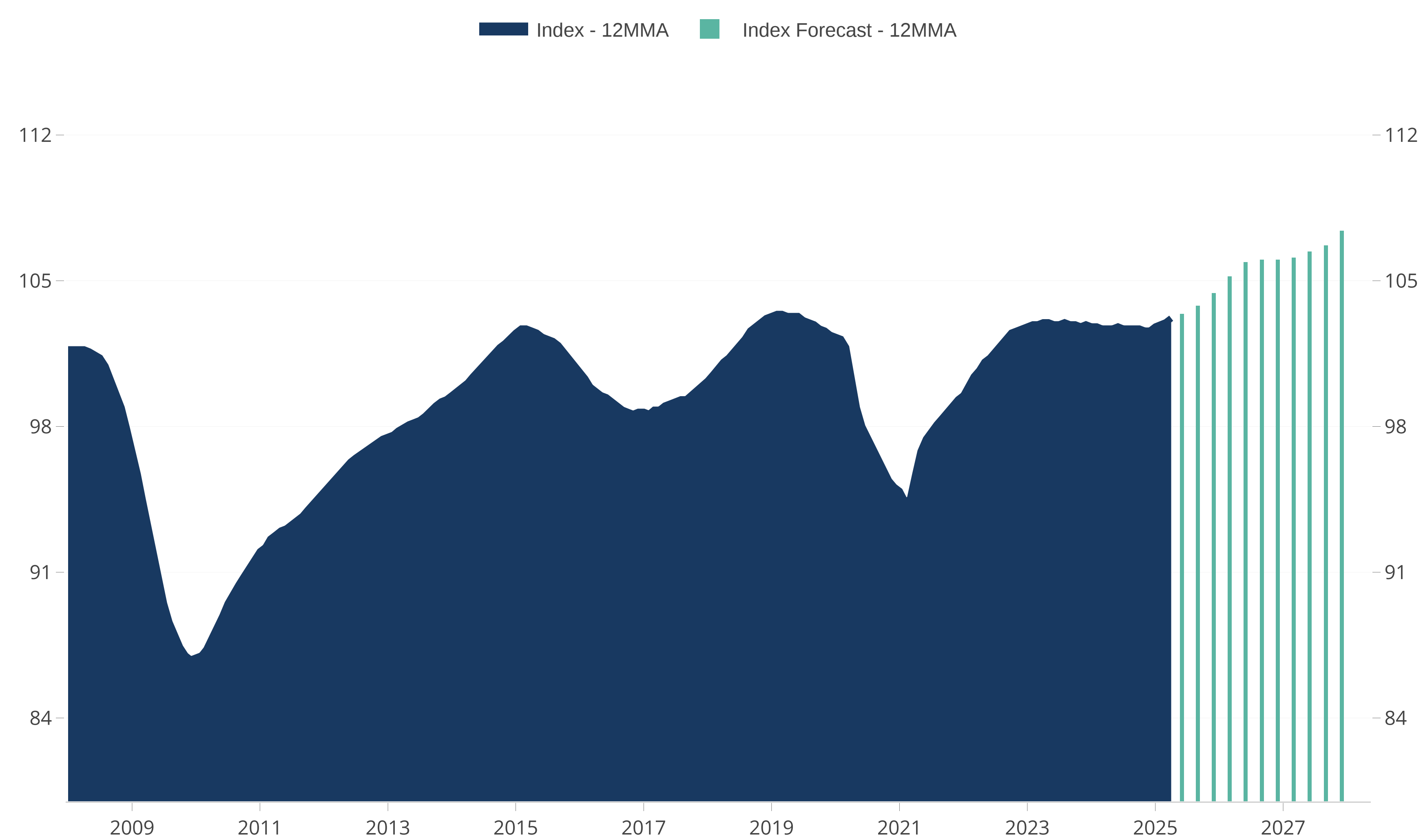
***Annual growth rate (12/12) except where otherwise noted.*

Recovery (A) Accelerating Growth (B) Slowing Growth (C) Recession (D)

US Industrial Production Index

Production to Rise Mildly Through at Least 2027; Trade Uncertainty Poses a Risk

Annual Average (12MMA)



Annual Growth Rate (12/12)

Current Phase

Phase B Accelerating Growth

Current Indicator Amplitude

- April 2025 Annual Growth Rate (12/12): 0.5%
- April 2025 Annual Average (12MMA), 2017=100: 103.2

Industry Outlook

Year	*Annual Growth Rate*
2025	1.4%
2026	1.5%
2027	1.3%

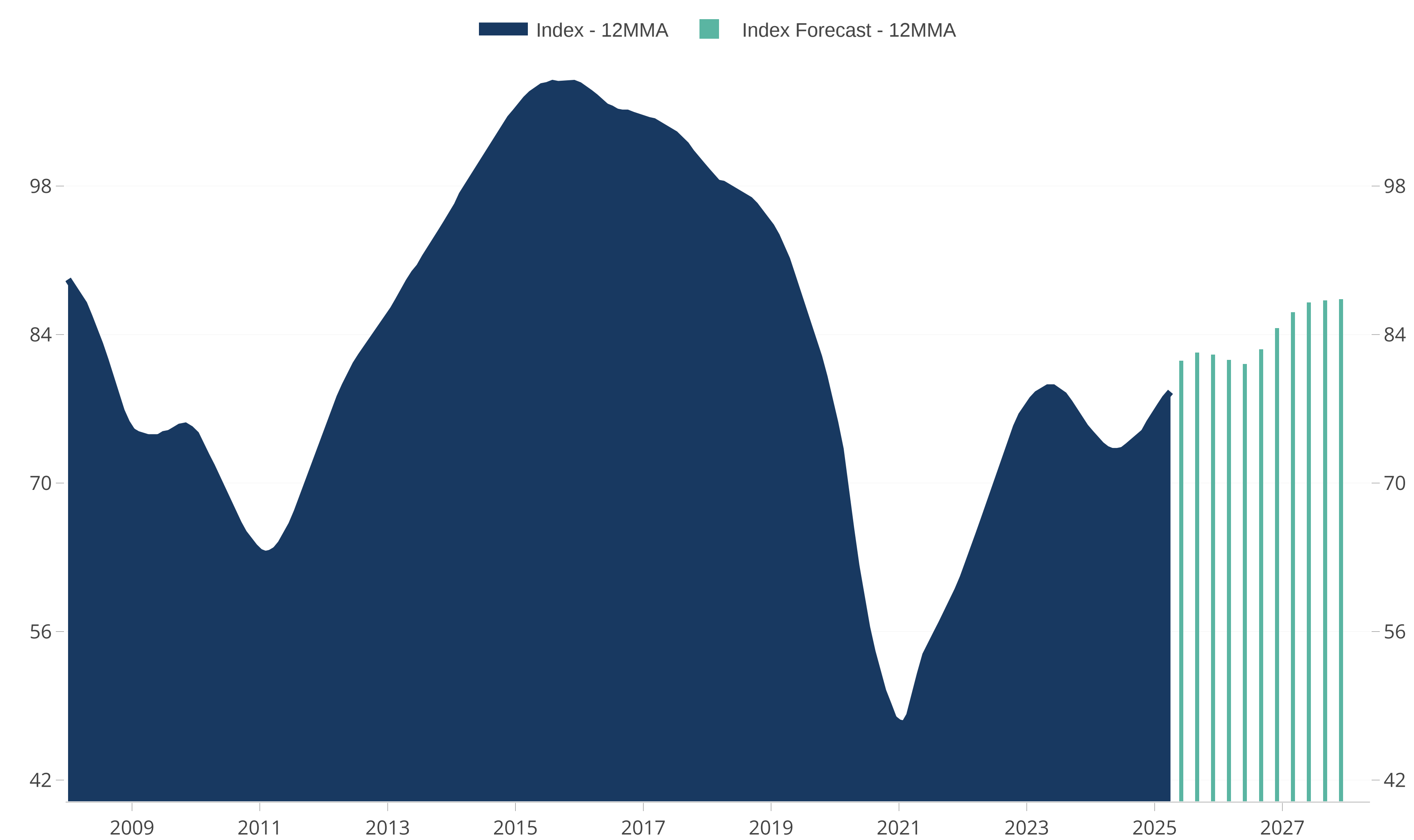
	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
Lower Forecast Range	0.0	0.3	0.8	1.4	1.8	1.6	0.9	0.3	-0.1	0.0	0.7
Annual Growth Rate (%)	**0.6**	**0.9**	**1.4**	**2.0**	**2.4**	**2.2**	**1.5**	**0.9**	**0.5**	**0.6**	**1.3**
Upper Forecast Range	1.2	1.5	2.0	2.6	3.0	2.8	2.1	1.5	1.1	1.2	1.9

Lower Forecast Range	102.8	103.1	103.8	104.6	105.3	105.4	105.4	105.5	105.8	106.0	106.7
Annual Average Index (2017=100)	**103.4**	**103.8**	**104.4**	**105.2**	**105.9**	**106.0**	**106.0**	**106.1**	**106.4**	**106.7**	**107.4**
Upper Forecast Range	104.0	104.4	105.0	105.8	106.5	106.7	106.6	106.8	107.1	107.3	108.0

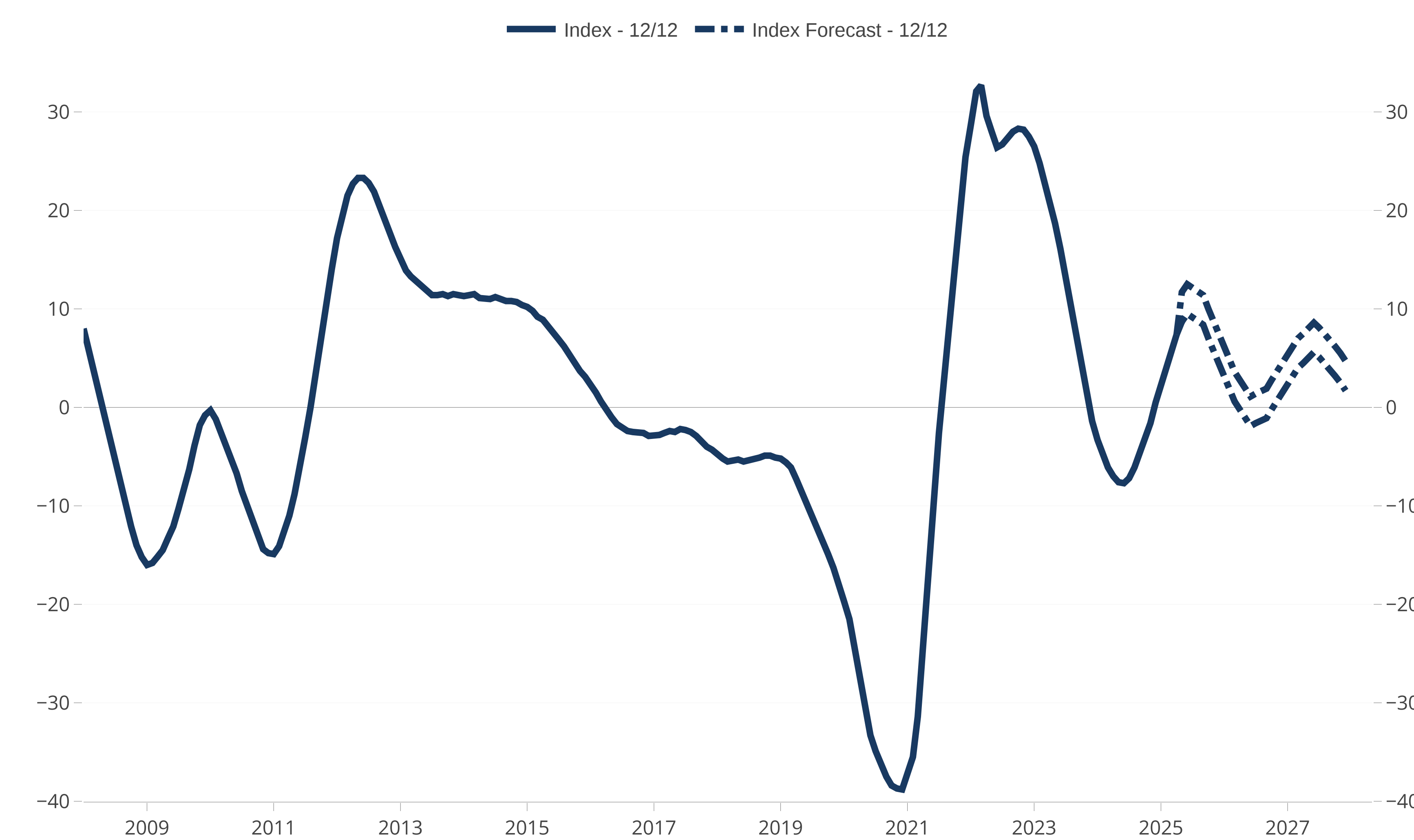
US Civilian Aircraft Equipment Production Index

Expect General Rise Through 2027; Unfilled Orders Trend Suggests More Subdued 2026 Growth

Annual Average (12MMA)



Annual Growth Rate (12/12)



Current Phase

Phase B Accelerating Growth

Current Indicator Amplitude

- April 2025 Annual Growth Rate (12/12): 7.4%
- April 2025 Annual Average (12MMA), 2017=100: 78.6

Industry Outlook

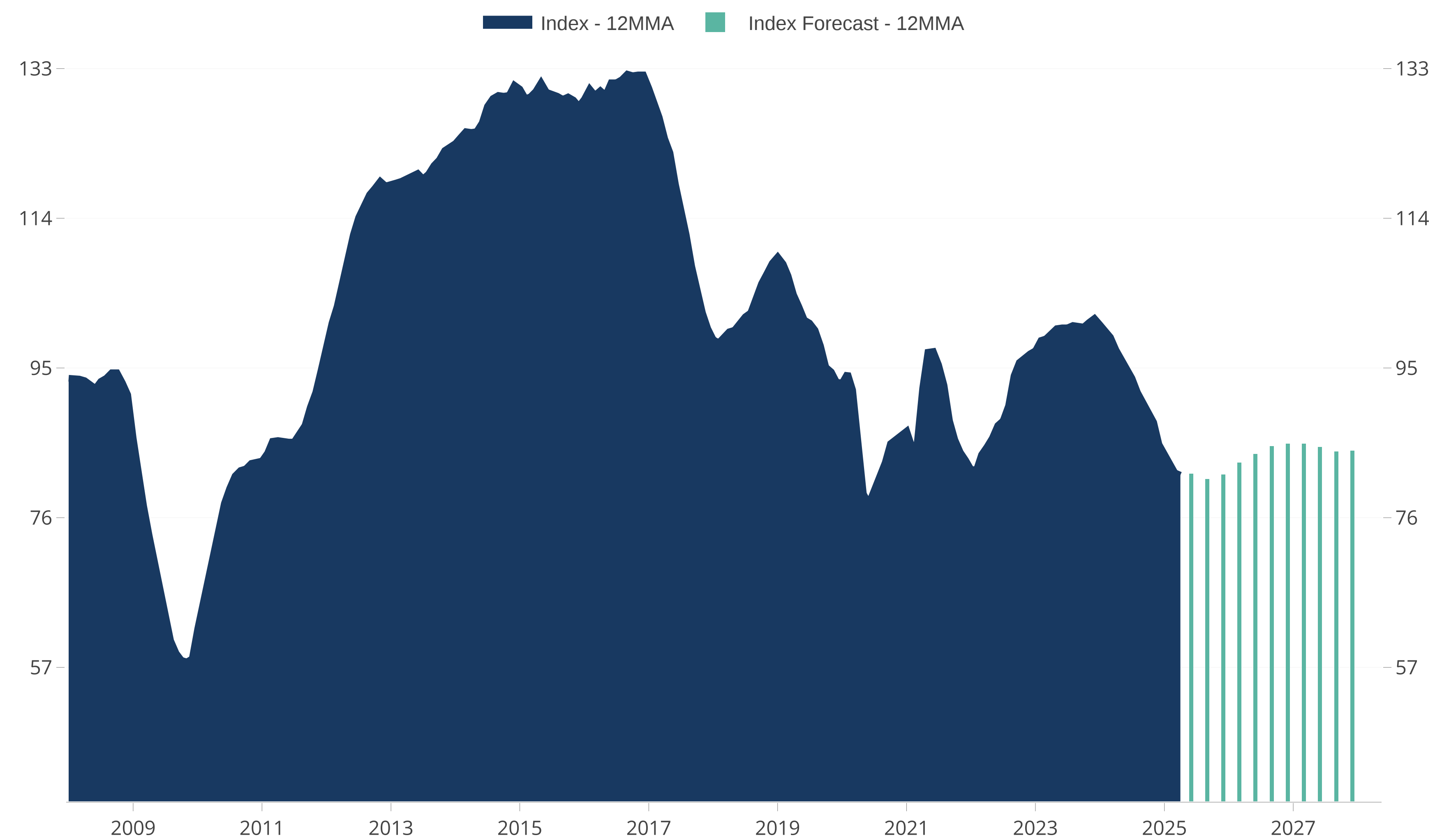
Year	*Annual Growth Rate*
2025	5.7%
2026	3.1%
2027	3.2%

	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
Lower Forecast Range	9.5	8.4	4.2	0.6	-1.9	-1.1	1.6	4.0	5.6	4.0	1.7
Annual Growth Rate (%)	**11.0**	**9.9**	**5.7**	**2.1**	**-0.4**	**0.4**	**3.1**	**5.5**	**7.1**	**5.5**	**3.2**
Upper Forecast Range	12.5	11.4	7.2	3.6	1.1	1.9	4.6	7.0	8.6	7.0	4.7
Lower Forecast Range	80.4	81.2	80.9	80.4	80.0	81.4	83.4	84.8	85.8	86.0	86.1
Annual Average Index (2017=100)	**81.5**	**82.3**	**82.1**	**81.6**	**81.2**	**82.6**	**84.6**	**86.1**	**87.0**	**87.2**	**87.3**
Upper Forecast Range	82.6	83.4	83.2	82.8	82.4	83.9	85.8	87.3	88.2	88.4	88.6

US Automobile Production Index

Affordability Constraints and Trade Tensions Weighing on Auto Sector, but Mild Rise Is Coming

Annual Average (12MMA)



Annual Growth Rate (12/12)

Current Phase

Phase A Recovery

Current Indicator Amplitude

- April 2025 Annual Growth Rate (12/12): -16.4%
- April 2025 Annual Average (12MMA), 2017=100: 81.4

Industry Outlook

Year	*Annual Growth Rate*
2025	-4.4%
2026	4.8%
2027	-1.1%

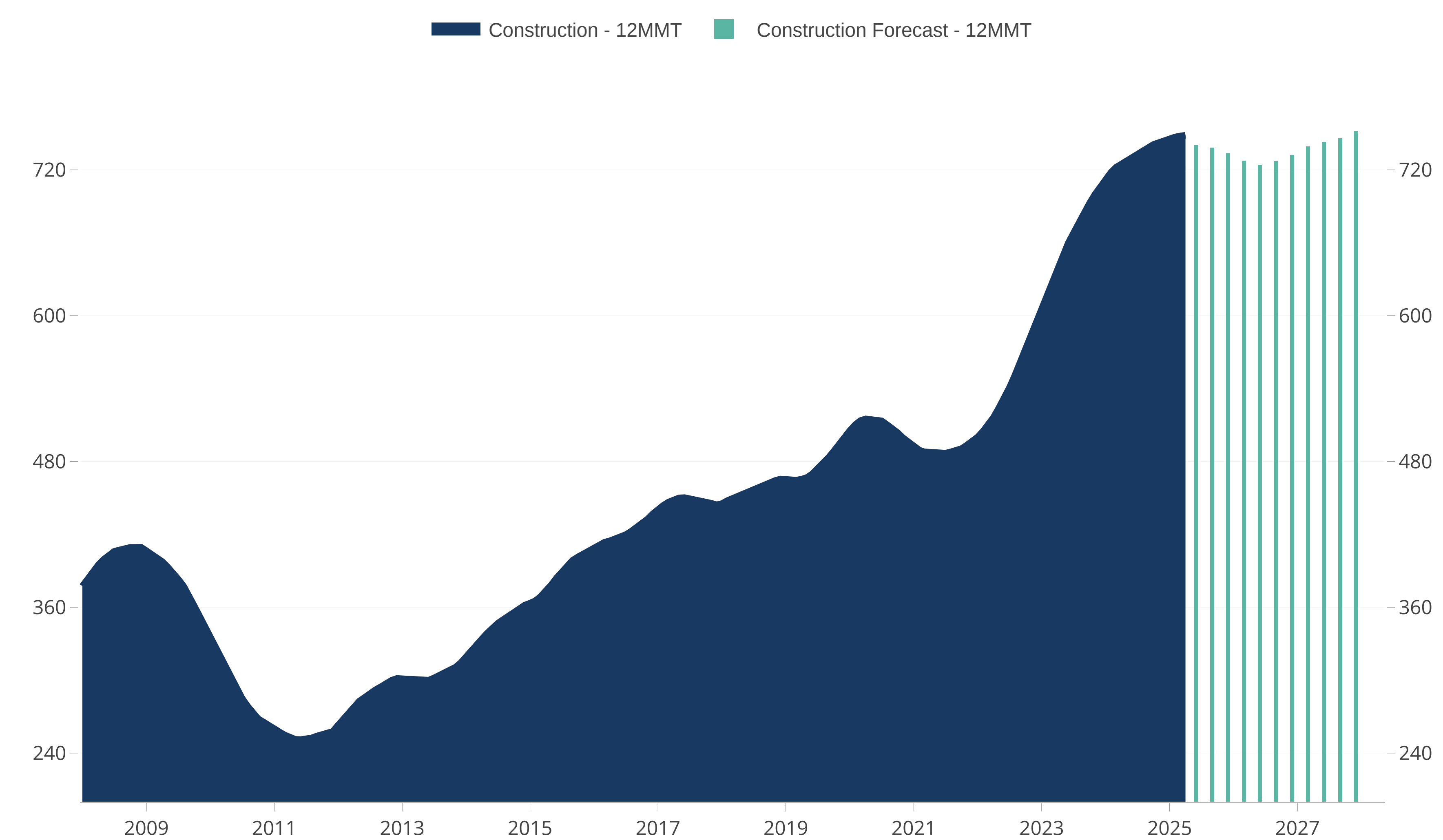
	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
Lower Forecast Range	-15.6	-12.0	-5.9	-0.8	1.6	3.6	3.3	1.4	-0.5	-2.3	-2.6
Annual Growth Rate (%)	**-14.1**	**-10.5**	**-4.4**	**0.7**	**3.1**	**5.1**	**4.8**	**2.9**	**1.0**	**-0.8**	**-1.1**
Upper Forecast Range	-12.6	-9.0	-2.9	2.2	4.6	6.6	6.3	4.4	2.5	0.7	0.4

	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
Lower Forecast Range	80.2	79.6	80.2	81.7	82.9	83.9	84.2	84.1	83.7	83.1	83.2
Annual Average Index (2017=100)	**81.6**	**80.9**	**81.5**	**83.0**	**84.1**	**85.1**	**85.4**	**85.4**	**85.0**	**84.4**	**84.5**
Upper Forecast Range	83.0	82.3	82.8	84.2	85.4	86.3	86.6	86.6	86.2	85.7	85.8

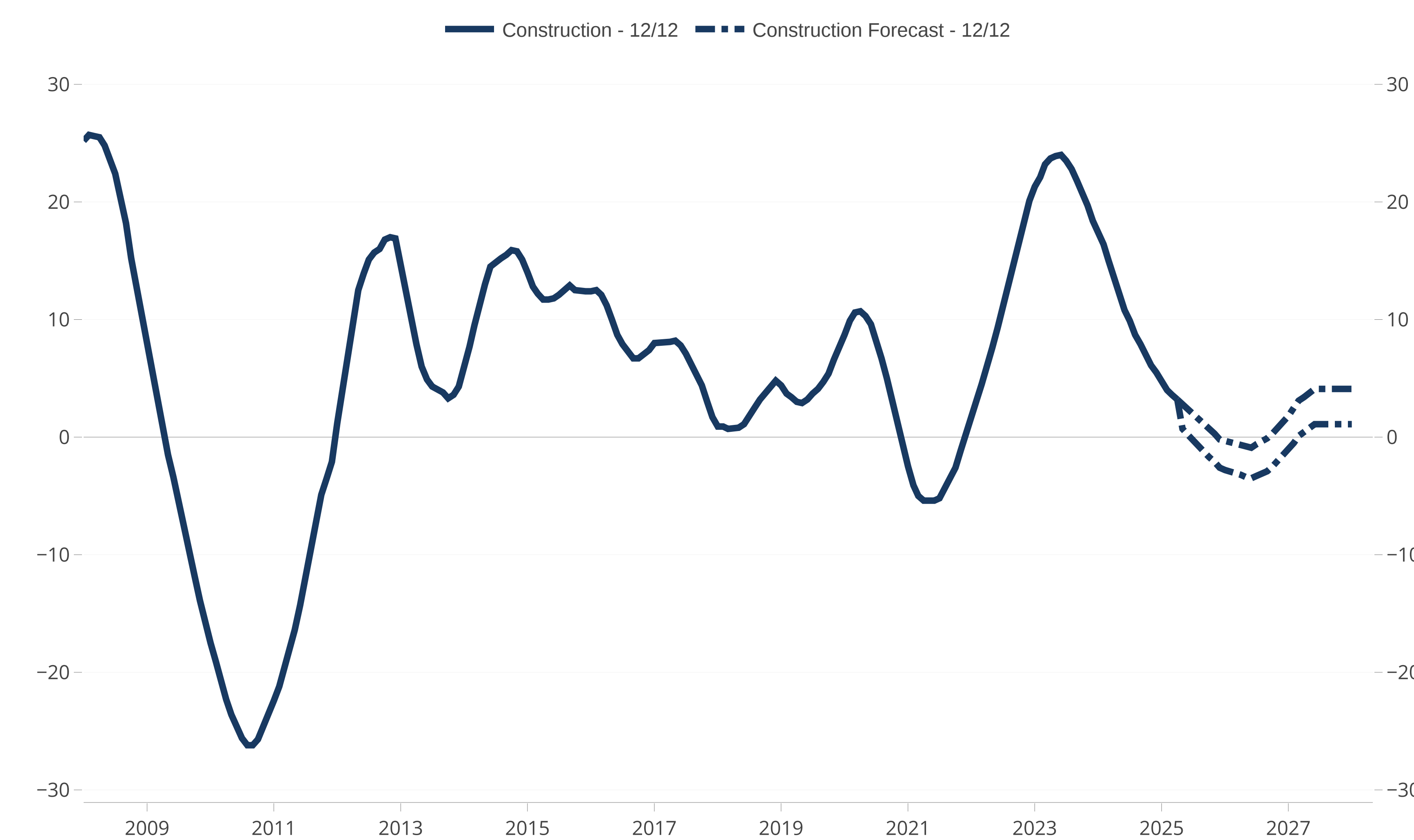
US Private Nonresidential Construction

Prior Macro Weakness and High Rates to Limit Construction Into Mid-2026; Component Trends Vary

Annual Total (12MMT)



Annual Growth Rate (12/12)



Current Phase

Phase C
Slowing Growth

Current Indicator Amplitude

- April 2025 Annual Growth Rate (12/12): 3.2%
- April 2025 Annual Total (12MMT), Billions of $: 748.4

Industry Outlook

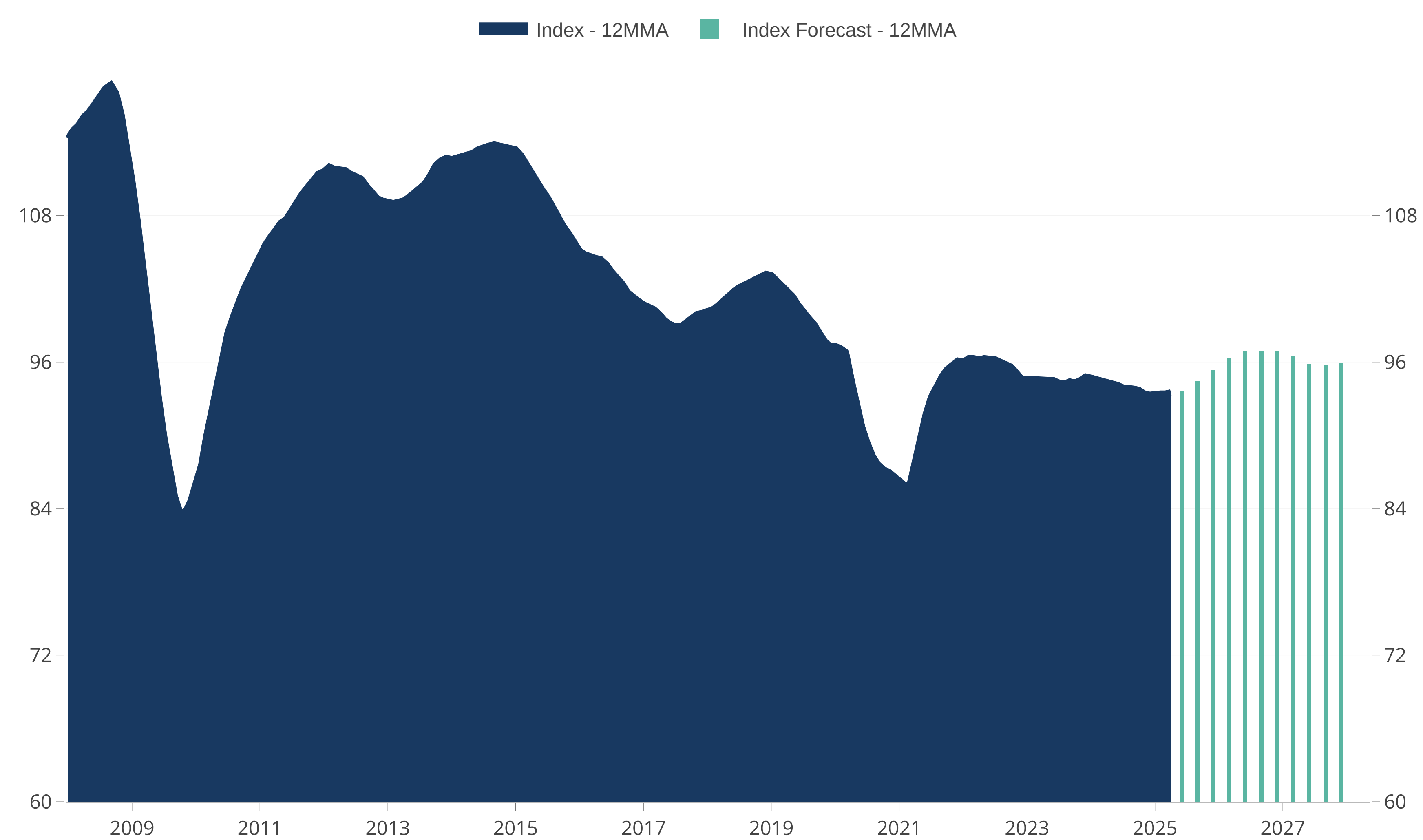
Year	*Annual Growth Rate*
2025	-1.4%
2026	-0.2%
2027	2.7%

	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
Lower Forecast Range	0.2	-1.2	-2.6	-3.1	-3.5	-2.9	-1.6	0.1	1.1	1.1	1.2
Annual Growth Rate (%)	1.3	0.0	-1.4	-1.8	-2.2	-1.5	-0.2	1.6	2.6	2.6	2.7
Upper Forecast Range	2.4	1.2	-0.2	-0.5	-0.9	-0.1	1.2	3.1	4.1	4.1	4.2
Lower Forecast Range	732.2	729.1	724.5	717.9	714.4	716.6	721.6	728.2	732.0	734.9	740.7
Annual Total Construction (Billions of $)	**740.3**	**738.0**	**733.4**	**727.5**	**724.0**	**726.9**	**731.9**	**739.1**	**742.8**	**745.8**	**751.7**
Upper Forecast Range	748.3	746.9	742.3	737.1	733.6	737.3	742.2	750.1	753.7	756.7	762.7

US Primary Metals Production Index

Utilization Rates Support Near-Term Production Recovery, but Production Levels to Remain Muted

Annual Average (12MMA)



Annual Growth Rate (12/12)

Current Phase

Phase A Recovery

Current Indicator Amplitude

- April 2025 Annual Growth Rate (12/12): -0.8%
- April 2025 Annual Average (12MMA), 2017=100: 93.5

Industry Outlook

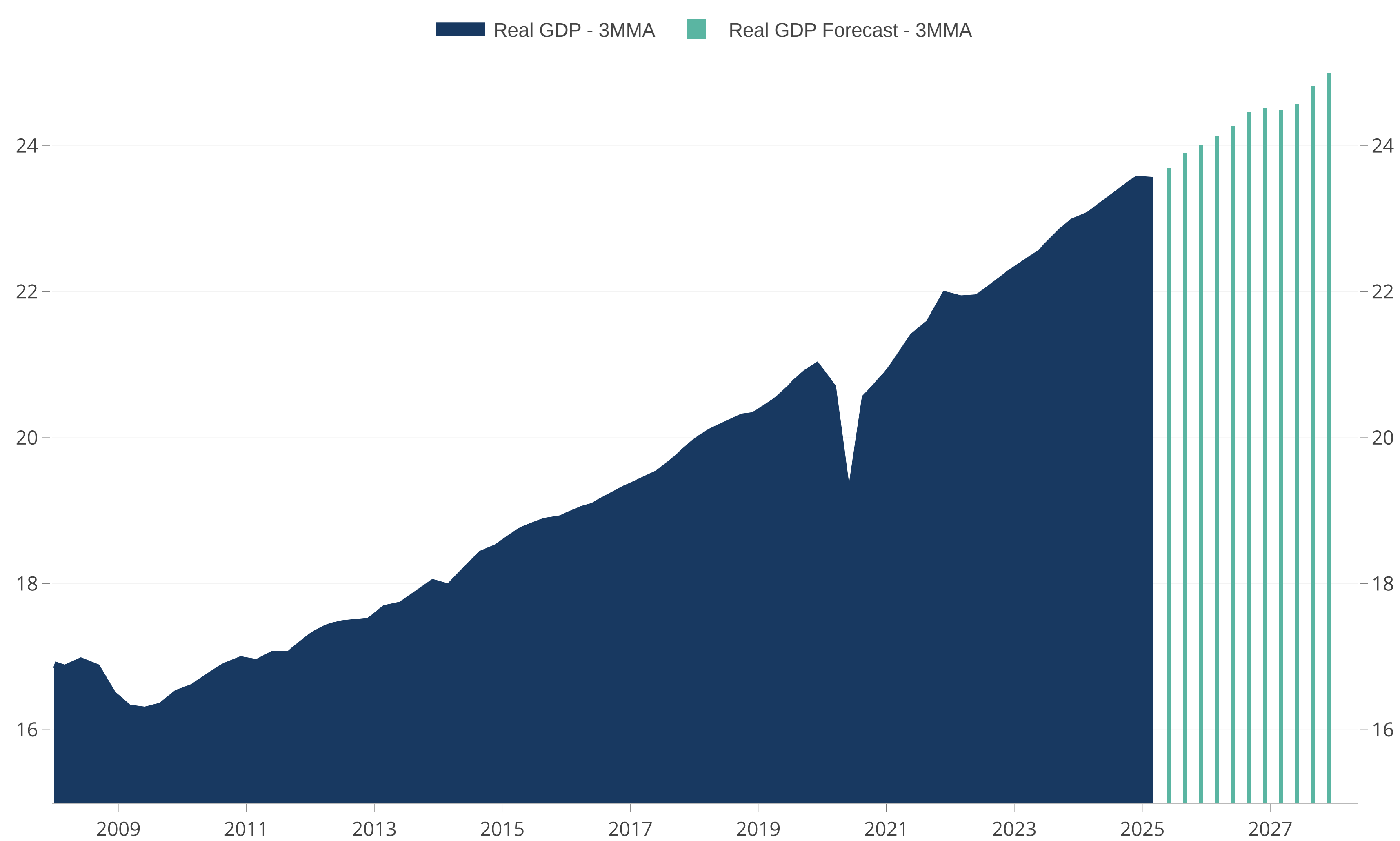
Year	*Annual Growth Rate*
2025	2.0%
2026	1.7%
2027	-1.0%

	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
Lower Forecast Range	-1.7	-0.7	0.5	1.7	2.0	1.2	0.2	-1.3	-2.6	-2.7	-2.5
Annual Growth Rate (%)	**-0.5**	**0.5**	**2.0**	**3.2**	**3.5**	**2.7**	**1.7**	**0.2**	**-1.1**	**-1.2**	**-1.0**
Upper Forecast Range	0.7	1.7	3.5	4.7	5.0	4.2	3.2	1.7	0.4	0.3	0.5
Lower Forecast Range	92.5	93.2	93.9	94.9	95.5	95.5	95.5	95.1	94.4	94.3	94.5
Annual Average Index (2017=100)	**93.6**	**94.4**	**95.3**	**96.3**	**96.9**	**96.9**	**96.9**	**96.5**	**95.8**	**95.7**	**95.9**
Upper Forecast Range	94.8	95.5	96.7	97.7	98.3	98.3	98.3	98.0	97.3	97.2	97.4

US Real Gross Domestic Product

Import Surge Contributed to 1Q25 GDP Weakness; We Still Expect General Growth Through at Least 2027

Quarterly Average (3MMA)



Quarterly Growth Rate (3/12)

Current Phase

Phase C
Slowing Growth

Current Indicator Amplitude

- March 2025 Quarterly Growth Rate (3/12): 2.1%
- March 2025 Quarterly Average (3MMA), Trillions of Chained 2017 $: 23.528

Industry Outlook

Year	*Quarterly Growth Rate*
2025	2.5%
2026	2.1%
2027	2.1%

	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
Lower Forecast Range	1.7	2.1	2.2	2.4	2.1	2.1	1.8	1.2	0.9	1.2	1.8
Quarterly Growth Rate (%)	2.0	2.4	2.5	2.7	2.4	2.4	2.1	1.5	1.2	1.5	2.1
Upper Forecast Range	2.3	2.6	2.8	3.0	2.7	2.7	2.4	1.8	1.5	1.7	2.4

Lower Forecast Range	23.623	23.831	23.934	24.055	24.197	24.389	24.437	24.417	24.495	24.753	24.955
Quarterly Average Real GDP (Trillions of Chained 2017 $)	**23.694**	**23.897**	**24.006**	**24.128**	**24.270**	**24.463**	**24.511**	**24.491**	**24.569**	**24.821**	**25.024**
Upper Forecast Range	23.766	23.962	24.078	24.200	24.343	24.536	24.584	24.564	24.643	24.889	25.093

US Leading Indicators

Indicator	Direction 3Q25	4Q25	1Q26
ITR LEADING INDICATOR™	🟢	🟢	N/A
ITR RETAIL SALES LEADING INDICATOR™	🟢	🟢	🟢
US OECD LEADING INDICATOR	🟢	🔴	N/A
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

- Leading indicators are vacillating, but the overall thrust of the signals continues to point to mild rise in the US industrial sector through at least the remainder of 2025.

- We are watching nascent declines in several of our leading indicators carefully to see how they respond if economic uncertainty dissipates later this year as we anticipate. Right now, our analysis suggests the tick downs are a result of uncertainty more than inherent consumer or corporate financial weakness.

- Knowing your market's particular supply, demand, inventory, and tariff dynamics is crucial for knowing whether your business will be on the stronger or weaker side of what these macroeconomic leading indicators suggest.

Do not let shifting government trade policies distract you from preparing for the economic growth, elevated inflation, and elevated interest rates ahead. Focus on initiatives that can preserve margins, reduce supply chain risks, and enhance your competitive advantages to prepare for competing in a higher price environment.

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

