Industrial Supply Association

DECEMBER 2025

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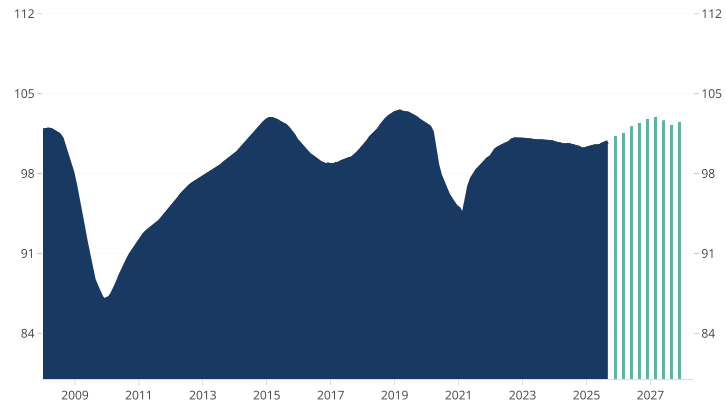
Economic Overview

US Industrial Production Index
Annual Average (12MMA)



The good-producing sector of the economy is gaining steam as the inventory glut moves behind us, uncertainty gradually dissipates, and a stable consumer base supports demand. Retail Sales, Wholesale Trade, and Industrial Production are all accelerating. 2026 will be a year of mild to moderate growth for these broad-based metrics of the economy; however, under the surface, there is significant deviation between individual markets. We are seeing evidence of a “K-shaped economy,” in which lower-income demographics are especially hard-hit while higher-net-worth consumers drive much of the growth. Deviation is also present in the industrial and construction sectors. Relative winners in the include high-tech manufacturing, pharmaceuticals, and defense markets. Some markets that were hit harder in 2025 will see larger growth rates in 2026, in part due to a weak point of comparison, but they will likely remain below record highs due to sticky interest rates. It is increasingly necessary to understand your downstream exposure across end markets, different consumer demographics, and regions.

There was a lot of noise this last year from trade policy, but it is important to remember that consumers are the primary driver of the economy. They remain on relatively solid footing, with manageable debt service levels and rising real income. Additionally, the value of assets such as homes and the stock market are elevated, so we could see some positive wealth effects. The cost of essentials and housing is weighing on consumer sentiment, particularly for younger or lower-income families. However, there is a weak correlation between consumer sentiment and economic activity. Consumers may be grumpy, but they are buying at an accelerating pace on both a dollar and volume basis.

Construction markets are going through a soft spot that will linger into 2026. Persistently low affordability and sticky interest rates are a drag on Single-Unit Housing Starts, and they will likely limit the next rising trend. Overall Nonresidential Construction faces downward pressure from interest rates, the soft economic conditions in recent years, and the gradual sunsetting of government spending.

We are anticipating some softness in the economy in 2027. Sticky interest rates and inflation over time will deteriorate the financial condition of some lower- and middle-income consumers. These cracks are not an immediate problem, but they will compound slightly further out. We expect that real income growth will be on the mild side, and savings are lackluster. Some of the consumption in 2026 will be debt-fueled, adding to consumers’ burden in 2027. Weak residential construction trends, which typically lead the economy, foreshadow the next cyclical downturn. We are forecasting a plateau for the industrial sector in 2027, but results will vary by end market.

We anticipate a return to growth in 2028, fueled in part by the investments in onshoring over the past few years gradually coming online. The 2028 upturn will be a good time to cushion your balance sheet. Remain cautious of taking on debt, as we anticipate a large and protracted downturn occurring in the 2030s. Consider shifting your business toward the service sector and essentials such as food, medical care, or pets, as these are more recession-resistant later this decade.

Be measured in your plans. We expect labor costs will still rise roughly 20% between now and the end of 2029, so investments in efficiency and automation are advisable. Meanwhile, ensure you are on good terms with a banker. Most importantly, lead with confidence. A strong purpose and plan will go a long way to reassure your employees and your customers alike.

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****
5	US Industrial Production Index	0.4%	B	1.2%	1.5%	-0.3%
6	US Civilian Aircraft Equipment Production Index	7.1%	B	9.6%	13.5%	-2.5%
7	US Automobile Production Index	-12.9%	A	-4.4%	4.8%	-1.1%
8	US Private Nonresidential Construction	-3.4%	D	-2.9%	0.8%	1.6%
9	US Primary Metals Production Index	0.4%	B	2.1%	-0.2%	-1.2%
10	US Real Gross Domestic Product *(Quarterly Growth Rate)*	2.3%	B	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.*

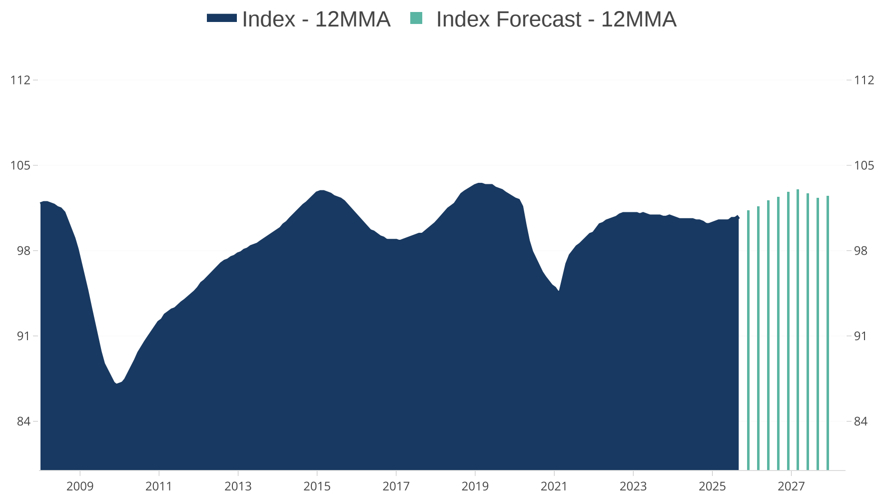
***Annual growth rate (12/12) except where noted otherwise.*

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

US Industrial Production Index

Revised Data Shows Production 2.7% Below Record; Rise Still Expected Into Early 2027

Annual Average (12MMA)



Annual Growth Rate (12/12)

Current Phase

Phase B Accelerating Growth

Current Indicator Amplitude

- September 2025 Annual Growth Rate (12/12): 0.4%
- September 2025 Annual Average (12MMA), 2017=100: 100.8

Industry Outlook

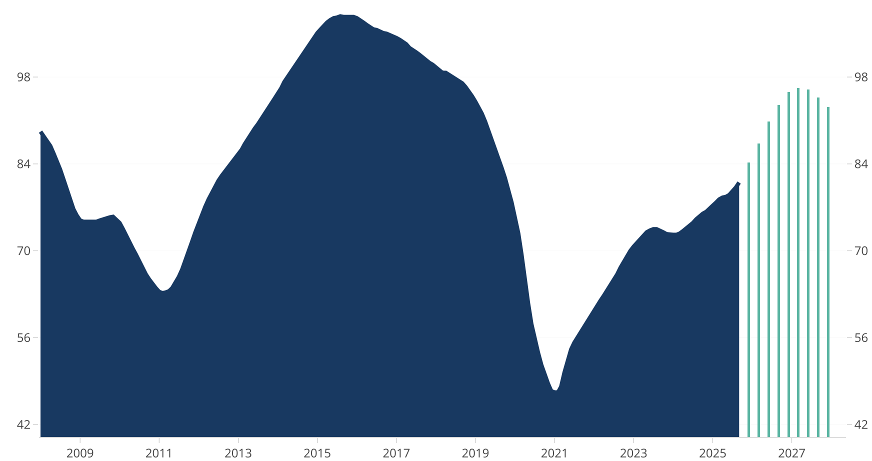
Year	*Annual Growth Rate*
2025	1.2%
2026	1.5%
2027	-0.3%

	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
Lower Forecast Range	0.8	0.8	1.2	1.2	1.0	0.9	0.0	-0.7	-0.8
Annual Growth Rate (%)	**1.2**	**1.2**	**1.7**	**1.7**	**1.5**	**1.4**	**0.6**	**-0.2**	**-0.3**
Upper Forecast Range	1.6	1.6	2.1	2.1	1.9	1.9	1.1	0.4	0.3
Lower Forecast Range	100.9	101.2	101.7	102.0	102.3	102.5	102.1	101.7	102.0
Annual Average Index (2017=100)	**101.3**	**101.6**	**102.1**	**102.4**	**102.8**	**103.0**	**102.7**	**102.3**	**102.5**
Upper Forecast Range	101.7	102.0	102.6	102.9	103.2	103.5	103.2	102.8	103.1

US Civilian Aircraft Equipment Production Index

Forecast Lifted On Positive Boeing Performance; Production Will Rise Into 1Q2027

Annual Average (12MMA)



Annual Growth Rate (12/12)

Current Phase

Phase B Accelerating Growth

Current Indicator Amplitude

- September 2025 Annual Growth Rate (12/12): 7.1%
- September 2025 Annual Average (12MMA), 2017=100: 81.0

Industry Outlook

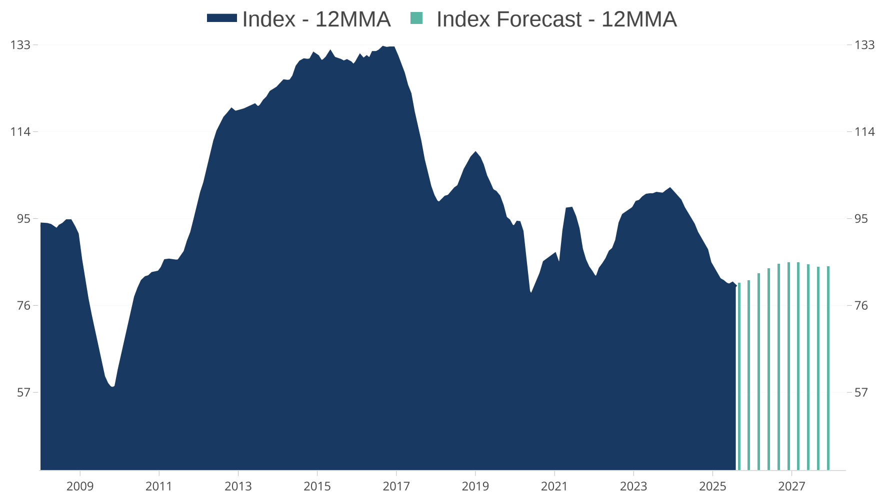
Year	*Annual Growth Rate*
2025	9.6%
2026	13.5%
2027	-2.5%

	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
Lower Forecast Range	8.1	10.0	13.4	13.9	12.0	8.7	4.2	-0.2	-4.0
Annual Growth Rate (%)	**9.6**	**11.5**	**14.9**	**15.4**	**13.5**	**10.2**	**5.7**	**1.3**	**-2.5**
Upper Forecast Range	11.1	13.0	16.4	16.9	15.0	11.7	7.2	2.8	-1.0
Lower Forecast Range	83.1	86.1	89.6	92.3	94.3	94.9	94.6	93.3	91.8
Annual Average Index (2017=100)	**84.2**	**87.3**	**90.8**	**93.5**	**95.6**	**96.2**	**96.0**	**94.7**	**93.2**
Upper Forecast Range	85.4	88.5	92.0	94.7	96.9	97.5	97.3	96.1	94.7

US Automobile Production Index

Ramp Up In Sales Has Drawn Down Inventories, Boding Well For Higher Production Needs In 2026

Annual Average (12MMA)



Annual Growth Rate (12/12)

Current Phase

Phase A Recovery

Current Indicator Amplitude

- August 2025 Annual Growth Rate (12/12): -12.9%
- August 2025 Annual Average (12MMA), 2017=100: 80.0

Industry Outlook

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

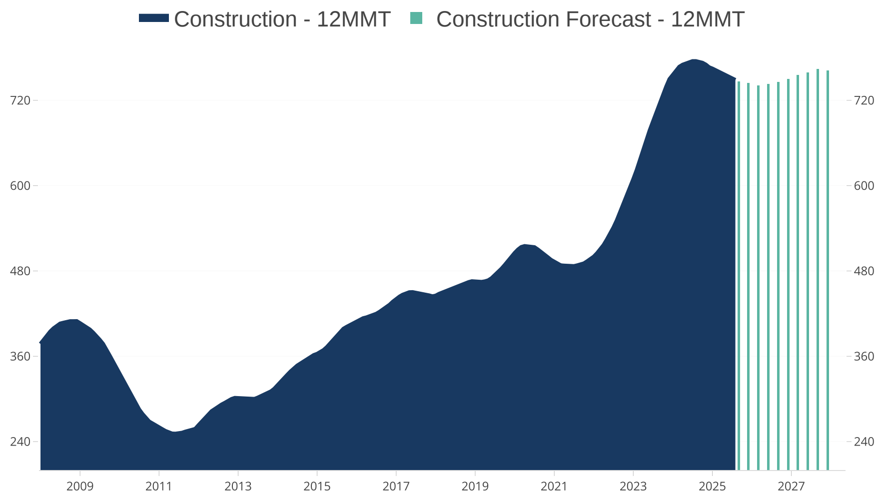
	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
Lower Forecast Range	-12.0	-5.9	-0.8	1.6	3.6	3.3	1.4	-0.5	-2.3	-2.6
Annual Growth Rate (%)	**-10.5**	**-4.4**	**0.7**	**3.1**	**5.1**	**4.8**	**2.9**	**1.0**	**-0.8**	**-1.1**
Upper Forecast Range	-9.0	-2.9	2.2	4.6	6.6	6.3	4.4	2.5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

Lower Forecast Range	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)	**80.9**	**81.5**	**83.0**	**84.1**	**85.1**	**85.4**	**85.4**	**85.0**	**84.4**	**84.5**
Upper Forecast Range	82.3	82.8	84.2	85.4	86.3	86.6	86.6	86.2	85.7	85.8

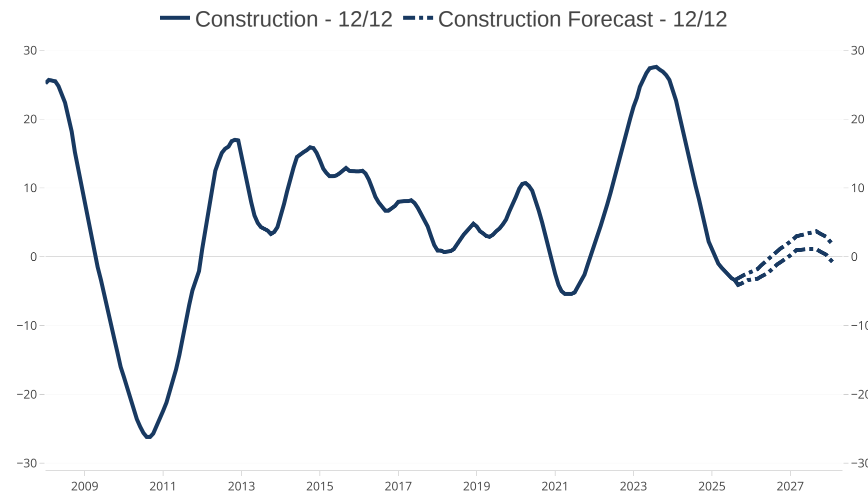
US Private Nonresidential Construction

Forecast Revised; Expect Near-Term Construction Decline Then Mild Rise Into Late 2027

Annual Total (12MMT)



Annual Growth Rate (12/12)



Current Phase

Phase D
Recession

Industry Outlook

Year	*Annual Growth Rate*
2025	-2.9%
2026	0.8%
2027	1.6%

Current Indicator Amplitude

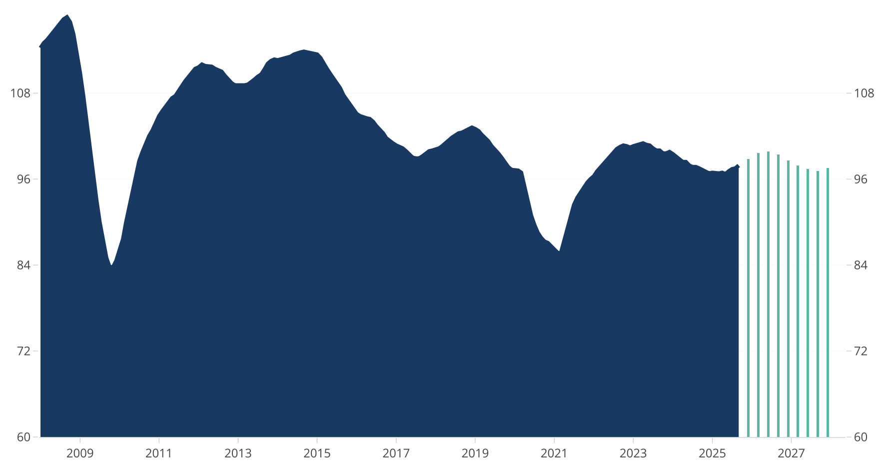
- August 2025 Annual Growth Rate (12/12): -3.4%
- August 2025 Annual Total (12MMT), Billions of $: 748.6

	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
Lower Forecast Range	-4.1	-3.4	-3.2	-2.4	-1.1	-0.2	1.0	1.1	1.1	0.3
Annual Growth Rate (%)	**-3.6**	**-2.9**	**-2.5**	**-1.4**	**-0.1**	**0.8**	**2.0**	**2.2**	**2.4**	**1.6**
Upper Forecast Range	-3.1	-2.4	-1.8	-0.4	0.9	1.8	3.0	3.3	3.7	2.9
Lower Forecast Range	742.8	740.4	735.4	735.4	738.5	742.8	748.1	751.1	754.1	752.5
Annual Total Construction (Billions Of $)	**746.7**	**744.3**	**740.7**	**742.9**	**745.9**	**750.2**	**755.5**	**759.3**	**763.8**	**762.2**
Upper Forecast Range	750.5	748.1	746.0	750.5	753.4	757.7	762.9	767.5	773.5	772.0

US Primary Metals Production Index

Forecast Revised On Upward Data Revision; Industry Utilization Rates Support Outlook For Rise Ahead

Annual Average (12MMA)



Annual Growth Rate (12/12)

Current Phase

Phase B Accelerating Growth

Industry Outlook

Year	*Annual Growth Rate*
2025	2.1%
2026	-0.2%
2027	-1.2%

Current Indicator Amplitude

- September 2025 Annual Growth Rate (12/12): 0.4%
- September 2025 Annual Average (12MMA), 2017=100: 97.9

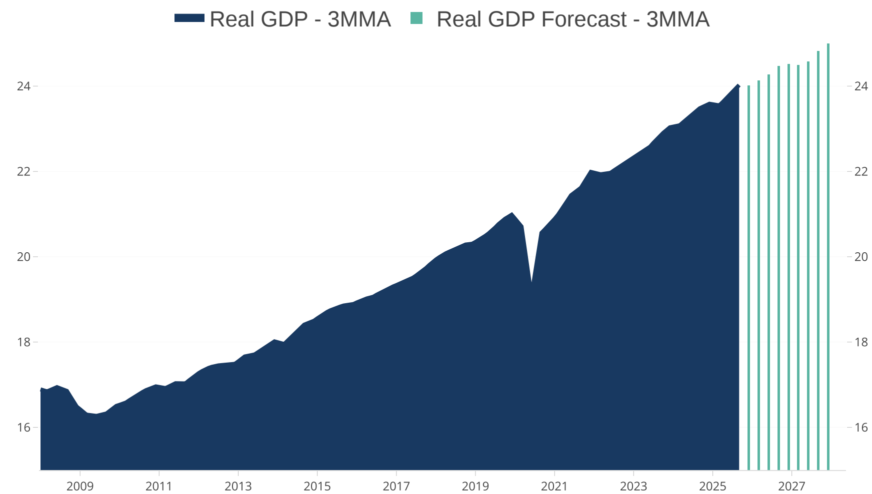
	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
Lower Forecast Range	1.1	1.8	1.7	0.5	-1.4	-2.9	-3.7	-3.6	-2.7
Annual Growth Rate (%)	**2.1**	**2.8**	**2.8**	**1.6**	**-0.2**	**-1.7**	**-2.4**	**-2.3**	**-1.2**
Upper Forecast Range	3.1	3.8	3.9	2.7	1.0	-0.5	-1.1	-1.0	0.3

Lower Forecast Range	97.9	98.6	98.7	98.3	97.5	96.7	96.1	95.8	96.0
Annual Average Index (2017=100)	**98.8**	**99.6**	**99.8**	**99.4**	**98.6**	**97.9**	**97.4**	**97.1**	**97.5**
Upper Forecast Range	99.8	100.5	100.9	100.5	99.8	99.1	98.7	98.4	98.9

US Real Gross Domestic Product

Leading Indicator Trends Such As Savings And Real Personal Income Support Modest Rise Ahead

Quarterly Average (3MMA)



Quarterly Growth Rate (3/12)

Current Phase

Phase B Accelerating Growth

Current Indicator Amplitude

- September 2025 Quarterly Growth Rate (3/12): 2.3%
- September 2025 Quarterly Average (3MMA), Trillions of Chained 2017 $: 24.025

Industry Outlook

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

	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
Lower Forecast Range	2.2	2.4	2.1	2.1	1.8	1.2	0.9	1.2	1.8
Quarterly Growth Rate (%)	**2.5**	**2.7**	**2.4**	**2.4**	**2.1**	**1.5**	**1.2**	**1.5**	**2.1**
Upper Forecast Range	2.8	3.0	2.7	2.7	2.4	1.8	1.5	1.7	2.4
Lower Forecast Range	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 $)	**24.006**	**24.128**	**24.270**	**24.463**	**24.511**	**24.491**	**24.569**	**24.821**	**25.024**
Upper Forecast Range	24.078	24.200	24.343	24.536	24.584	24.564	24.643	24.889	25.093

US Leading Indicators

Indicator	Direction		
	4Q25	1Q26	2Q26
ITR LEADING INDICATOR™	🟢	🔴	N/A
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

- 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.

Our outlook calls for mild macroeconomic rise ahead, but profitless prosperity is still a risk. Prioritize margin resilience, working-capital efficiency, and look to selectively capture growth opportunities that enhance returns rather than volume alone.

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 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 Automobile Production Index

Automobile Production. This US 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 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).

Market Definitions

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 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 entrepreneural 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