NON-FERROUS FOUNDERS' SOCIETY
# ECONOMIC ADVISOR
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## Industry Snapshots

Arrow denotes 12-month moving total/average direction.

| | |
|---|---|
| RETAIL SALES | Mild Rise |
| WHOLESALE TRADE | Mild Rise |
| AUTO PRODUCTION | Flat |
| MANUFACTURING | Mild Rise |
| ROTARY RIG | Mild Rise |
| CAPITAL GOODS | Mild Rise |
| NONRESIDENTIAL CONSTRUCTION | Mild Decline |
| RESIDENTIAL CONSTRUCTION | Flat |

Steep Rise | Mild Rise | Flat | Mild Decline | Steep Decline

## Macroeconomic Outlook

The macroeconomic landscape is mixed, varying by sector, region, and state, but it is poised for overall growth ahead. There are still headwinds from borrowing costs, impacts of cumulative inflation, and global uncertainty, so growth is likely to be measured rather than record-breaking.

While the economy is stable, headlines are negative and consumer sentiment is weak. Relief from still-high borrowing costs is unlikely in the coming years, and a war overseas obscures the future. However, business-to-business spending is rising, bolstered in part by inflation, though volume is also growing as business confidence recovers. Further rise is coming.

As B2B spending rises, producers face difficult decisions around preserving margins. Producer Prices in June were 6.7% above the year-ago level, driven by spikes in oil prices. Monitoring customer price sensitivity will be especially important as businesses make pricing decisions through the remainder of the year and onward.

> *The economy is in a period of restrained growth, supported by consumer demand and rising business spending*

Consumers are also spending more, armed with manageable debt levels and stable employment trends. While US Total Retail Sales will continue rising in the coming years, spending is uneven given the K-shaped economy, so expect higher-income households to do much of the heavy lifting. Weakness in real incomes does raise cause for concern, and we are monitoring the trend and its potential impact on consumer spending.

We recently revised our Nonresidential Construction outlook following a data revision by the US Census Bureau, and we expect general rise in 2027 and for a portion of 2028. Bright spots for the private sector in the coming years will include data centers and power construction, while the public sector will be boosted in part by prior infrastructure funding, water and sewer activity, and hospital-related demand. US Single-Unit Housing Starts are in recession, but recovery is likely to take hold soon given recovering permitting trends. Growth in Multi-Unit Starts is slowing, and rents are weakening.

The economy is in a period of restrained growth, supported by consumer demand and rising business spending. Still, elevated financing costs, uneven consumer strength, and margin pressures will require careful planning. Businesses that remain flexible on pricing, monitor shifts in demand, and invest selectively in areas of durable growth will be best positioned.

## Make Your Move

Evaluate your business's exposure to discretionary sectors, and prioritize investments in areas with stronger growth potential this cycle.

## Investor Update

Despite a mild pullback in June, the S&P 500's rise in the first half of the year remained toward the upper end of the normal range. However, inflation continues to weigh on consumer purchasing power, contributing to lackluster performance in the consumer discretionary sector. Gains in the first half of the year were concentrated largely in the technology sector.

## ITR Economics Long-Term View

| 2026 | 2027 | 2028 |
|---|---|---|
| GROWTH | GDP GROWTH; MANUF. FLAT | GROWTH |

## Leading Indicator Snapshot

| | 3Q2026 | 4Q2026 | 1Q2027 |
|---|---|---|---|
| ITR Leading Indicator™ | 🟢 | 🟢 | ⚪ |
| ITR Retail Sales Leading Indicator™ | 🟢 | 🟢 | 🔴 |
| US OECD Leading Indicator | 🟢 | 🟢 | 🟢 |
| US ISM PMI (Purchasing Managers Index) | 🟢 | 🔴 | 🟢 |
| US Total Industry Capacity Utilization Rate | 🟢 | 🟢 | ⚪ |

🟢 *Denotes that the indicator signals cyclical rise for the economy in the given quarter.*

🔴 *Denotes that the indicator signals cyclical decline for the economy in the given quarter.*

⚪ *N/A*

**KEY TAKEAWAYS**

- The economy is expanding, though volume growth is on the modest side. Dollar growth is more robust given pricing pressures.
- The ITR Retail Sales Leading Indicator™ points to rising Retail Sales activity for at least the remainder of this year; however, still-high inflation is disproportionately impacting lower- to middle-income households, and real incomes are weak.
- Upward momentum in the US Total Industry Capacity Utilization Rate supports further expansion in the industrial sector through at least the end of this year.

  

# Industry Analysis

### RETAIL SALES

- US Total Retail Sales in the 12 months through June were 4.4% above the same period one year ago
- The bifurcated US consumer base is driving uneven spending across income groups
- Weakness in real incomes threatens purchasing power

### WHOLESALE TRADE

- US Total Wholesale Trade in the 12 months through May rose to 8.8 trillion, 8.1% above the year-ago level
- Favorable sales-to-inventory ratios for both durable and nondurable goods point to further rise ahead
- Inflation is playing a part in dollar-denominated Wholesale Trade rise

### AUTO PRODUCTION

- Annual North America Light Vehicle Production in May totaled 15.2 million units, 0.3% below the year-ago level
- Inflation-adjusted US Personal Consumption Expenditures for New Autos are in a nascent recovery trend, a green shoot for demand
- High delinquency rates for auto loans are a constraint on car purchases

### MANUFACTURING

- US Total Manufacturing Production in the 12 months through June was 1.3% above the year-ago level
- US Exports are rising, signaling a mix of rising demand for US goods and climbing prices
- A muted US Manufacturing Capacity Utilization Rate points to measured growth in manufacturing activity this cycle

### ROTARY RIG

- The US Rotary Rig Count in the three months through June averaged 555 units, 2.9% lower than the year-ago level
- Natural gas production is expanding more notably than crude oil production
- Daily oil prices are fluctuating, but prices will likely remain elevated in the near term

### CAPITAL GOODS NEW ORDERS

- US Nondefense Capital Goods New Orders (excluding aircraft) in the 12 months through May were 6.4% above the year-ago level
- Supply chain pressures could put upside pressure on the dollar value of New Orders
- While overall business confidence is rising, data shows that smaller businesses are less optimistic

### TOTAL NONRESIDENTIAL CONSTRUCTION

- In the 12 months through May, US Total Nonresidential Construction was 2.2% below the year-ago level
- The picture is bleaker after adjusting for inflation, as higher prices obscure a deeper contraction
- Data center and power construction will be prominent upsides for overall construction activity in the coming years

### TOTAL RESIDENTIAL CONSTRUCTION

- Annual US Total Residential Construction in May was 0.5% below the year-ago level
- Budding trends in quarterly US Single-Unit Housing Permits are signaling potential upside pressure for Single-Unit Starts activity, but Permits remain below year-ago levels.
- Proverbial "golden handcuffs" are encouraging some homeowners to stay put; US Existing Home Sales are plateauing

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# A Closer Look: The US Economy

## AI, Data Centers, and the Electricity Problem

JENNA ALLEN

*What you need to know: Data centers are not the primary cause of higher electricity prices nationwide; nonetheless, rapid demand growth and mounting infrastructure needs will increasingly challenge US utilities.*

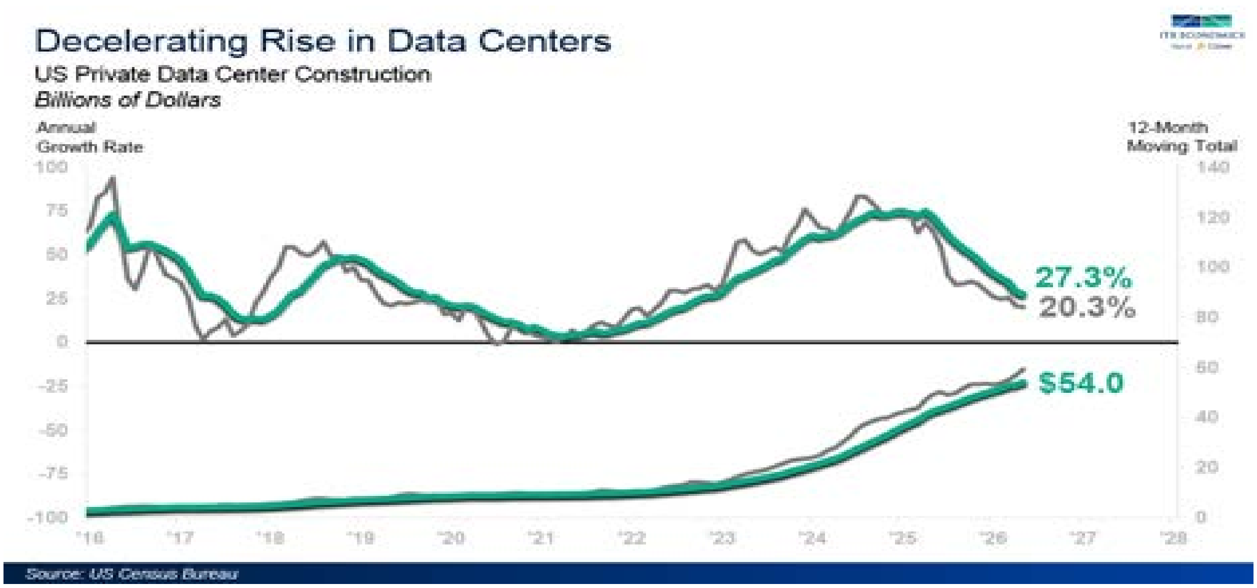
Rapid AI expansion has made data centers one of the fastest-growing sources of electricity demand in the US. Since January 2020, the dollar value of US Private Data Center Construction has increased more than fivefold, fueling investment across the economy while placing new pressures on the nation's power grid and electricity prices. Demand is growing for a resource with limited short-run supply: electricity.

The US Consumer Price Index (CPI) for electricity has increased by approximately 40% since January 2020, outpacing overall US Consumer Price inflation of 27.8% during the same period. Data centers are only one contributor to rising electricity prices. Higher labor costs, aging infrastructure, increasing expenditures related to extreme weather events (including wildfires), and other factors such as changes in fossil fuel prices have also raised utility costs. Even so, the scale of new electricity demand from AI is significant. The International Energy Agency (IEA) estimates that a typical AI-focused data center consumes as much electricity as 100,000 households, and larger facilities have the potential to consume roughly 20 times that.

Meeting this demand requires utilities to invest in new generation, substations, transmission lines, and distribution equipment. These investments are typically recovered through regulated electricity rates over many years. As a result, expanding data center demand may contribute to higher electricity bills if utilities accelerate infrastructure spending. However, the magnitude will vary by region, based on available generation capacity and regulatory policy.

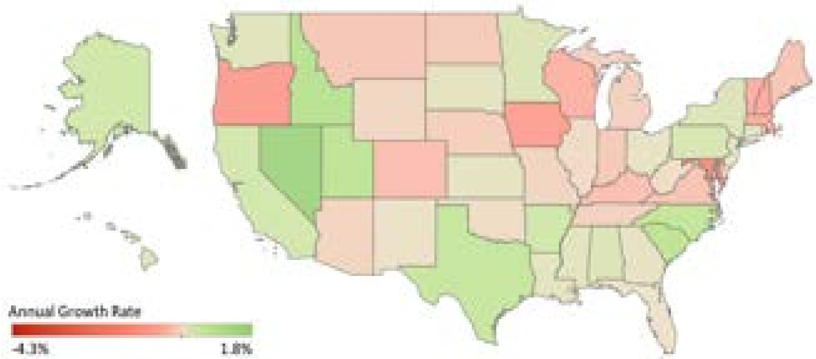
Data center expansion is also reshaping markets for critical industrial inputs. Copper demand has increased because of the industry's extensive use of power cables, transformers, switchgear, and transmission infrastructure. However, the most significant supply constraints have emerged in electrical equipment rather than raw materials alone. Manufacturers of large power transformers face shortages of electrical steel, copper, and skilled labor. These factors, when combined with strong demand and limited manufacturer capacity, have pushed out lead times significantly, often by several years. Access to electrical infrastructure is one of the primary constraints on new data center development.

Although investment in new facilities remains historically elevated, the pace of data center construction growth is beginning to moderate as developers encounter growing constraints in securing power, utility interconnections, and electrical equipment. Nevertheless, data center construction is expected to remain robust in the coming years, suggesting that upward pressure on electricity infrastructure and critical industrial inputs will likely persist for several more years.




The next phase of the AI economy may depend less on advances in computing power than on the US power grid's capacity to deliver reliable and affordable electricity at scale. Until electricity supply and infrastructure catch up with demand, businesses should expect electricity, infrastructure, and industrial input costs to remain a source of persistent margin pressure.

# State-by-State: Employment




- US Total Nonfarm Employment in the 12 months through June was 0.3% above the year-ago level and is slowing in growth.
- The labor market is relatively stable, with the unemployment rate remaining moderate at 4.2%. However, a declining quit rate suggests that workers are becoming more cautious about leaving their current roles.
- Employment is below year-ago levels in roughly half of US states, and weakness is most pronounced in the Midwest.
- Employment contraction alone does not necessarily indicate that a state is an unattractive place to do business. Employment lags the economy. Ensure you are tracking other factors such as financial health and population trends to determine the most advantageous states for expansion.

# Readers' Forum

## When will inflation cool down? Will we see borrowing costs decline soon?

**Haley Sienkiewicz, Economist at ITR Economics™, answers:**

Inflation is elevated. Consumer Prices in June rose to 3.5% above the year-ago level, and Producer Prices of Finished Goods came in a whopping 6.7% above the year-ago level. Oil pricing pressures are one contributor. Despite the day-to-day fluctuations, we anticipate that upward pressure from oil prices will persist in the near term. On the Consumer Prices front, we are forecasting quarterly inflation in excess of 2.5% through at least 2028, with the most significant lift occurring this year and in late 2028. The bond market aligns with our expectations for higher inflation and thus higher interest rates; the 10-year Treasury yield is hovering at elevated levels, coming in at 4.5% in June, just shy of prior peaks.

The Federal Reserve has voiced concern about persistent inflation and opted to keep interest rates steady at the June FOMC meeting. The preponderance of leading indicator evidence points to rates remaining elevated overall, particularly as inflation stays high and the labor market remains stable (though muted). Any decrease would likely be immaterial. As such, make investments for your business sooner rather than later, if doing so makes sense given your current capacity and the market's trajectory.

Please send questions to: questions@itreconomics.com



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