NON-FERROUS FOUNDERS' SOCIETY

ECONOMIC ADVISOR

Published monthly by ITR Economics™ for NFFS members

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 Decline
CAPITAL GOODS	Mild Rise
NONRESIDENTIAL CONSTRUCTION	Mild Decline
RESIDENTIAL CONSTRUCTION	Mild Decline

Steep Rise · Mild Rise · Flat · Mild Decline · Steep Decline

Macroeconomic Outlook

We are about to close the book on 2025, a year filled with volatile trade policy, heightened geopolitical tensions, and the longest government shutdown in US history. Despite these substantial headwinds, some sectors have grown this year, and many are poised to grow mildly in 2026, a testament to the health of US consumers and businesses. The labor market is supporting mild — though below average — real income gains, and consumer and business financial metrics are broadly stable. The economy is entering the new year prepared for growth, albeit at a magnitude more muted than some recent cycles.

A revision to US Industrial Production historical data from the Federal Reserve Board (FRB) revealed that the industrial sector is no longer on the cusp of record highs, primarily due to less-robust rise in 2021 and 2022 than was previously indicated. Despite this downward revision, US Industrial Production is in an accelerating growth trend. We revised our US Industrial Production outlook to account for the data revision, but we still anticipate mild rise through 2026. Production in 2027 will come in around the 2026 level.

The FRB data revision also reveals weaker conditions than previously indicated in certain legacy manufacturing markets. Some of the largest downgrades to the historical data were in the machinery, medical equipment, fabricated metals, and chemicals markets. In contrast, more consumer-facing markets, such as pharmaceuticals or computers and electronics, are growing briskly. This cycle, there will be uneven performance across the industrial sector, and it is important to be strategic about your end markets.

> *US Industrial Production is in an accelerating growth trend*

The Federal Reserve cut the fed funds rate by another 25 basis points in December, signaling growing concern about the labor market. The unemployment rate rose in November, though it is even with the one-year average. Sticky inflation is likely to limit the scope for further monetary easing. Also keep in mind that, as many borrowing costs are tied to long-term rates determined by the market, elevated inflation expectations may put some upward pressure on long-term borrowing costs. As a result, we recommend making necessary capital investments based on business needs rather than attempting to time a low in interest rates.

The housing market continues to be constrained by affordability challenges, but growth in Single-Unit Housing Starts is likely to resume in the first half of 2026. The private nonresidential construction market is trending below year-ago levels, but it is likely to return to rise by late 2026. Select markets, including data centers, are likely to undergo rise through that period.

With lingering economic uncertainty and inflation ramping up, keep in mind that consumers and businesses may be more price sensitive. What can you do to convey value to prospective buyers in order to capture upcoming growth? Touting competitive advantages, launching new products and services, or focusing on the more dynamic end-use markets can help you outperform the mild macroeconomic environment.

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Make Your Move

Carefully monitor material input costs for your industry. Locking in prices now could pay dividends down the line as pricing pressures broadly heat up.

Investor Update

Despite daily swings, the S&P 500 posted a 0.1% gain in November, ending a rare six-month run of 2.0%+ gains seen only in 1935, 1975, and 1995. A pause was normal. With policy uncertainty generally easing, investors can refocus on economic fundamentals: real income rose modestly in the third quarter and consumer debt is manageable. The data suggests that the US economy still has room to run.

ITR Economics Long-Term View

2025	2026	2027
MILD GROWTH	GROWTH	GDP GROWTH; MANUF. FLAT

Leading Indicator Snapshot

	1Q2026	2Q2026	3Q2026
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

- General rise in the ITR Leading Indicator™ is a positive signal for mild growth in the industrial sector in 2026.
- Economic fundamentals are sound. Volatility in some leading indicators is likely the result of lingering uncertainty and will likely yield milder-than-average economic growth rather than fundamental weakness.
- Mixed leading indicator signals suggest that while mild growth is likely to characterize the industrial sector overall, outcomes will be divergent across markets; knowing the specific trajectories of your market(s) is key for planning appropriately this business cycle.

Industry Analysis

RETAIL SALES

- US Total Retail Sales in the 12 months through October were 4.0% above the year-ago level
- Debt-to-income ratios are falling, a positive sign for consumer strength and ability to spend
- Price sensitivity may become more prominent as inflation ramps up, particularly among lower-income households

WHOLESALE TRADE

- Annual US Total Wholesale Trade in September totaled $8.3 trillion, 4.3% above the year-ago level
- The nondurables segment was 2.1% above the year-ago level; the petroleum component, impacted by weaker oil prices, is putting downward pressure on nondurables
- The durables component is 6.7% above the year-ago level, boosted by the electrical and electronic goods component

AUTO PRODUCTION

- Annual North America Light Vehicle Production totaled 15.3 million units in October, 2.9% below the year-ago level
- Lower-than-average inventories for light vehicles signal that there may be cause for automakers to ramp up Production to meet demand
- Rising auto loan delinquency rates pose a potential downside to future Production demand

MANUFACTURING

- Annual US Total Manufacturing in September was 0.2% above the year-ago level
- Some manufacturing segments are trending at record highs, such as computers, oil and gas, and utilities, while other segments peaked decades ago, such as mining (excluding oil and gas) and furniture
- Manufacturing is generally poised for mild rise, but outcomes will vary across segments

ROTARY RIG

- The US Rotary Rig Count in the three months through November averaged 546 units, 6.7% below the year-ago level
- Oil prices are soft, but the industrial sector is growing mildly, a positive signal for the Rig Count
- US Oil and Gas Extraction Production is rising and accelerating in growth

CAPITAL GOODS NEW ORDERS

- US Nondefense Capital Goods New Orders (excluding aircraft) in the 12 months through September were 2.1% above the year-ago level
- Ample cash balances will help boost B2B spending in the coming year
- US Defense Capital Goods New Orders in the 12 months through September were 15.9% above the year-ago level

TOTAL NONRESIDENTIAL CONSTRUCTION

- US Total Nonresidential Construction is below year-ago levels
- Recent cuts to short-term interest rates will have a minimal impact on Construction; we expect that longer-term rates will remain relatively sticky
- Rising input price pressures will keep Construction, a dollar-denominated series, from contracting significantly

TOTAL RESIDENTIAL CONSTRUCTION

- Annual US Private Single-Unit Residential Construction is declining and below year-ago levels
- Through December, the National Association of Home Builders US Housing Market Index indicates some pessimism in the market
- Home affordability is a persistent challenge that may keep prospective buyers in multi-unit buildings for longer

A Closer Look: The US Economy

Borrowed Time or Sustainable Strength? A Look at Consumer Debt

HALEY SIENKIEWICZ

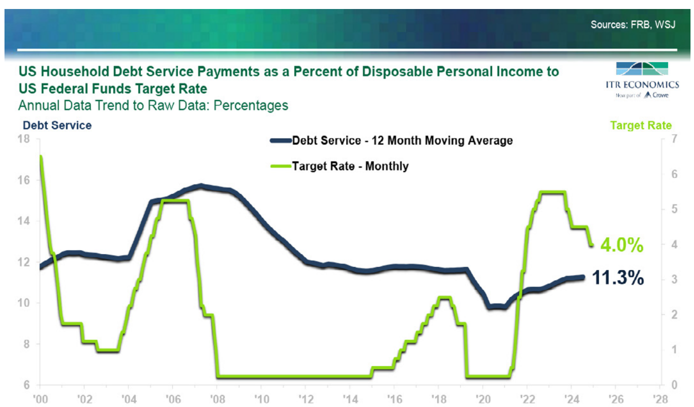
Overall, consumers are managing debt effectively, a positive sign for future spending

Well-positioned consumers are driving growth in the macroeconomy, supported by mildly rising real incomes. US Total Retail Sales are rising, and consumer delinquency rates are generally on par with historical averages. Some isolated areas of weakness — notably, elevated auto loan delinquencies — are balanced by some stronger areas such as low mortgage delinquencies. At present, though, consumer metrics are signaling relative stability, which we expect will persist.

A central pillar of household finances is debt. US Total Household Debt has been rising for the past dozen years, mounting higher each year. Households rely on debt to fund necessities and everyday expenses, which generally rise in cost. Consumer Prices have risen a cumulative 26% since the end of 2019. This alone, however, is not cause for concern, as real incomes have risen to support debt-funded spending.

One metric for consumer health that factors into rising incomes is the debt-to-income ratio. In September, US Household Debt per Capita as a Percentage of US Median Annual Earnings was 107.0%. This metric is well within recent precedents, signaling that households are well positioned to weather economic swings. This resilience will vary by income bracket, however, with upper middle- to upper-income households being relatively more agile than their low- to middle-income counterparts.

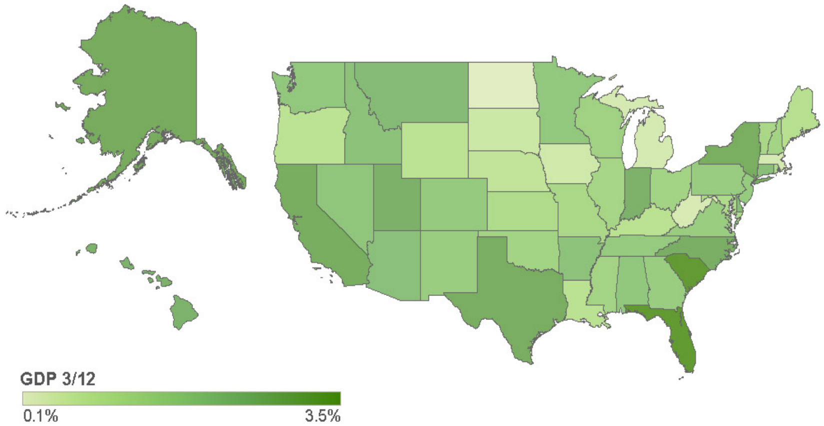
It is important to factor in fluctuations in borrowing costs. While rising incomes have helped offset higher debt levels, it is worth considering how much strain elevated interest rates have placed on household balance sheets in recent years. The answer: not as much as you might think. The high-level metric of US Household Debt Service Payments as a Percent of Disposable Personal Income, coming in at 11.3%, is trending below pre-COVID levels despite interest rates being higher.



This percentage reached near-record lows in 2021 amid disruptions from the pandemic, stimulus checks, and low interest rates, but has since risen. Despite sloping upward, US Household Debt Service Payments as a Percent of Disposable Personal Income have been trending below pre-pandemic levels, a positive sign that, in aggregate, consumers are managing their debts well amid the high interest rate environment, an encouraging bellwether for future economic growth.

While aggregate conditions are stable, sensitivity to pricing, financing terms, and value proposition is likely to rise, particularly among lower- and middle-income customers. Focus your strategy on affordability, flexible payment options, and clear value differentiation to sustain demand during the upcoming period of mild economic growth.

State-by-State: GDP



- US Real Gross Domestic Product (GDP) rose in the second quarter. Third quarter data is delayed due to the prior government shutdown, but the Weekly Economic Index (WEI), which estimates GDP growth, suggests that growth occurred during that time.
- All US states experienced year-over-year growth in the second quarter.
- On average, GDP growth was strongest in the South and West regions. The Midwest had the mildest growth.
- GDP is positioned for further growth given relatively sound economic fundamentals, including a stable consumer, but growth overall is likely to be mild.

Readers' Forum

My company's input prices are not aligning with the US Producer Price Index. What can I do to be more in tune with pricing?

Haley Sienkiewicz, Economist at ITR Economics™, answers:

Monthly US Producer Prices in September were 3.3% above the year-ago level, and further accelerating rise is likely. However, this is a broad pricing measure, and for many companies it may not fully reflect their cost pressures. For example, companies that do business in utilities may be feeling pressures from US Pumping Equipment Producer Prices being 25.4% above the year-ago level, much higher than overall Producer Price growth in that period. Over the same period, US Industrial Chemicals Producer Prices fell by 2.6%. Be cognizant of pricing trends within your industry-specific inputs and align initiatives accordingly. We expect Producer Prices on net to rise in 2026, which could put pressure on your margins.

Please send questions to: questions@itreconomics.com