



ARMADA

**It is August – Do
You Know Where
Your Economy Is?**

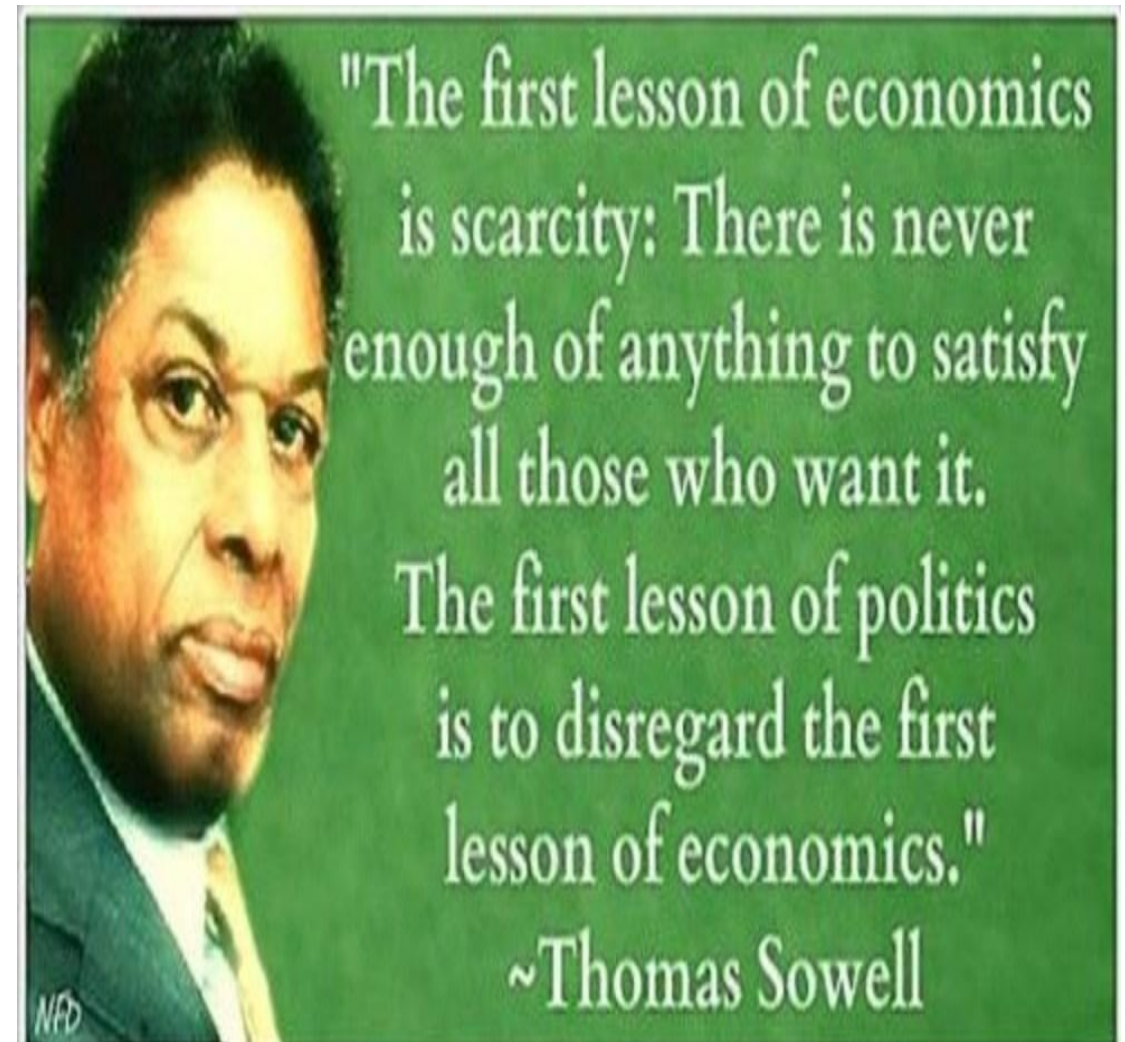
**Illinois Equipment
Dealers**

THE ONLY
FUNCTION
OF ECONOMIC
FORECASTING
IS TO MAKE
ASTROLOGY LOOK
RESPECTABLE.

John Kenneth Galbraith
www.quote-coyote.com

Breaking News or Maybe Braking News

- Trade deal with Japan – no reciprocal tariff – 15% on average but some carve outs possible.
- GM asserts it has lost a billion in profits from tariffs. EY study asserts that \$360 billion in profits have been lost since 2017.
- Europe gets a deal – sort of
- China gets another extension – 90 days – right before Santa comes!



Latest Inflation Measure – CPI and Tariffs

- **Still expect tariff inflation, but it isn’t showing in the macro data yet.**
 - Suppliers eating part of it (~10%)
 - Some of it absorbed in supply chain (carriers) (~10%)
 - ~10% being eaten in margin
 - Rest being passed on
 - Not sustainable long term, eventually it will evolve into a one-time price adjustment (by Q4 or Q1 ‘26)
- **Current CPI: Food and energy spikes were due to:**
 - Meat (primarily beef shortages)
 - Coffee
 - Sugar
 - Food away from home (wage pressure)
 - Natural gas (up 13.8%)
 - Electricity (up 5.5%)
 - Gasoline and oil were down (offsetting)

Material	July 2025 Y/Y
Total CPI	2.7%
Goods Only (Commodities less Food and Energy)	1.2%
Goods Total (Including Food and Energy)	5.0%
Services	3.6%

****Goods only (is a core measure: stripping out food and energy) is the most accurate estimate for those sectors most impacted by tariff pressure.**

Average Impact from Current Tariffs ~ 13.9% on Nonresidential Construction Projects

- Based on the latest tariff rates, and factoring in complex market dynamics (discounting, etc.), the average price increase for the average nonresidential project increased from 9.2% in the prior assessment to 13.9% as of August 2025.
- Dodge and Construction Dive are still using 9% annualized cost increases for their estimates through the first half of 2025.
- Construction Dive found that on average contractors were using 10-15% markups as standard on bids, especially those with high import exposure.

Material	Weight in Project	Updated Tariff Rate	Adjusted Increase*	Contribution to Average
Steel	25%	50%	28%	7.0%
Aluminum	15%	50%	22%	3.3%
Lumber	20%	20%	8%	1.6%
Concrete	10%	5%	2%	0.2%
Copper	5%	30%	15%	0.8%
Drywall	5%	8%	4%	0.2%
HVAC Systems	5%	15%	7%	0.4%
Electrical Wiring	5%	20%	10%	0.5%
Total	100%	25%	12%	13.9%

- *Note: "Adjusted Increase" factors in:
- Tariff rate itself (e.g., 50% tariff on imported steel).
 - Pass-through effects — how much of that tariff cost suppliers actually add to the selling price in the U.S.
 - Domestic price response — U.S. producers often raise their prices when imports become more expensive, even if their costs haven't changed.
 - Supply chain markups — distributors, wholesalers, and contractors add their own percentage to cover higher purchase costs, shipping surcharges, and risk premiums

A Few Interesting Nonresidential Construction Trends That Seem to Be Getting Reinforced of Late

1. The OBBBA could push construction project velocity – especially as we get closer to 2027/2028. In other words, the urgency to complete projects before January 1, 2031, will create some urgency downstream.
 1. May push for more modular projects.
2. Equipment orders surged in June (in anticipation of the passage of the bill).
 1. Equipment and machinery orders were the fastest growing segments in durable goods Y/Y.
 2. Watch for opportunities in the durable goods complex, some equipment manufacturers went from idle capacity to overcapacity in 60 days. Semi trucks, trailers, and many other sectors seeing a surge in new orders post-OBBBA.
3. Larger markets seeing micro-grid activity leading to industrial clustering, PPP higher ed industrial partnership projects, edge datacenter explosions in growth (mostly concentrated near or in industrial clusters).
4. “Hardening” of facilities to make them more insurance compliant is a factor in some markets. “Drone” hardening is becoming a “thing” for some installations, but hardening against extreme weather to reduce insurance premium risk is being mentioned more often. (Mostly east and west coast mandates – but some Midwest implications for insurance premiums).
5. Logistics facilities (especially cold chain, reverse logistics (360-degree logistics), and specialized logistics facilities (complex container sort and seg facilities, etc.).
6. Export-driven changes that could affect production volumes for some industrial sectors – requiring some build-out and capacity to be added. If the figures are correct and foreign partners follow-through (a big if), the Fed estimates \$450B in new US export business could result as early as 2026.

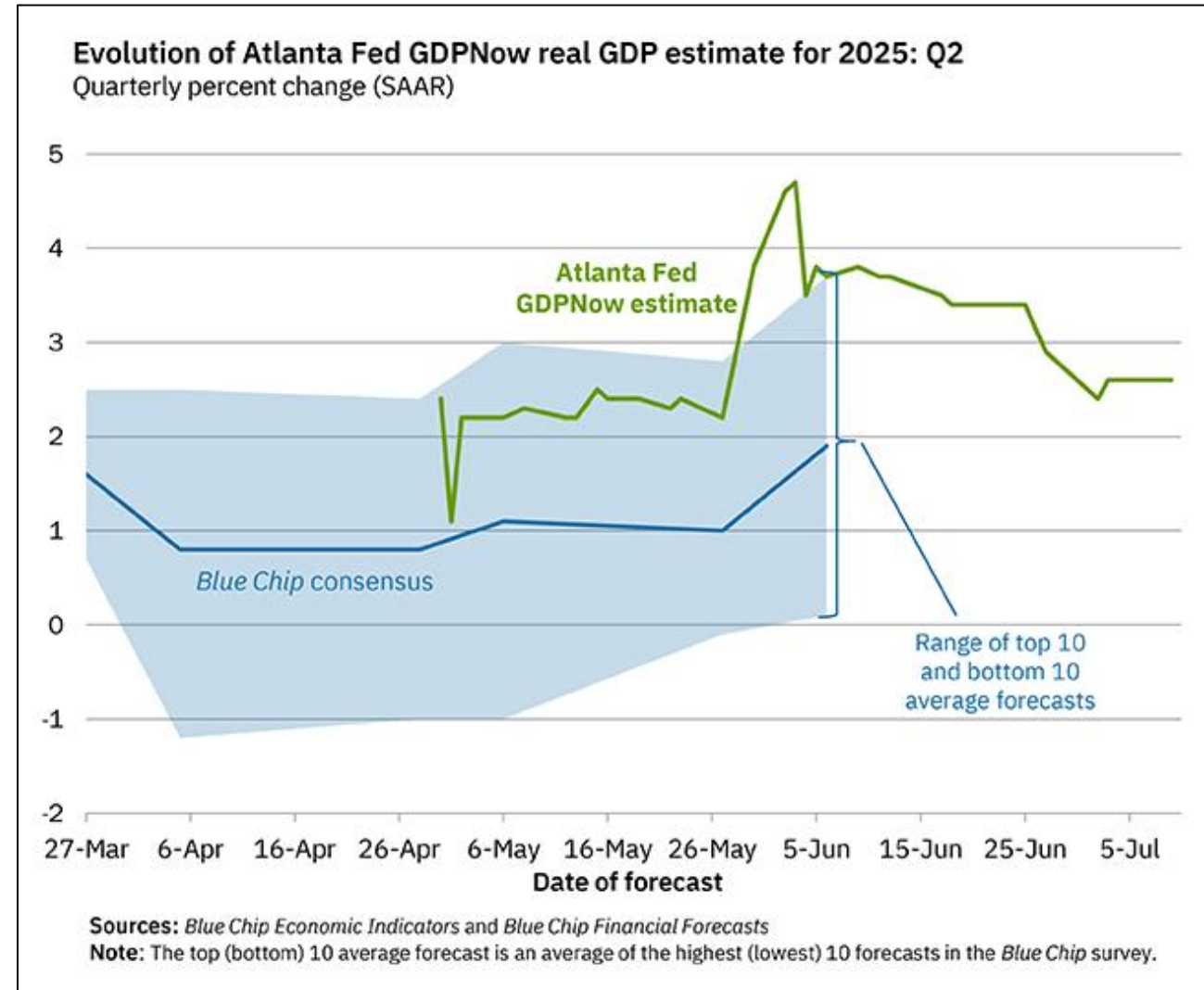
Fed Statement Shock...Yes! But not from what you think.

- Fed's outlook signals stagflation (rising inflation and cooling growth). That's in sharp contrast to the administration's view.
- New outlook is for two quarter-point cuts in 2025 but was only one vote away from there being just one cut this year.
- Then next year, only one cut followed by just one cut in 2027. That's dismal, a new Fed Chair will be in place long before that.
- This outlook is very different from private estimates – so we'll see.

Variable	Median ¹			
	2025	2026	2027	Longer run
Change in real GDP	1.4	1.6	1.8	1.8
March projection	1.7	1.8	1.8	1.8
Unemployment rate	4.5	4.5	4.4	4.2
March projection	4.4	4.3	4.3	4.2
PCE inflation	3.0	2.4	2.1	2.0
March projection	2.7	2.2	2.0	2.0
Core PCE inflation ⁴	3.1	2.4	2.1	
March projection	2.8	2.2	2.0	
Memo: Projected appropriate policy path				
Federal funds rate	3.9	3.6	3.4	3.0
March projection	3.9	3.4	3.1	3.0

Q3 Consumer Spending Remains Stable

- Q2 GDP Estimates have stabilized at 2.6% (Blue Chip Estimates for 2%)
- Consumer spending on a nominal basis remains stable.
- Other categories are equally performing well in Q2.
- Private investment in equipment and structures is surging.
- Government spending was also trending higher.



Big Benefits to Construction/Industrial from the OBBBA

- **100% Bonus Depreciation Restored and Made Permanent**
 - For qualifying property (including construction equipment, vehicles, and certain improvements to nonresidential real property), the bill permanently reinstates 100% bonus depreciation.
 - This applies to both new and used property placed in service on or after January 19, 2025. There is no longer a phase-down schedule as under prior law.
- **Special 100% Expensing for Qualified Production Property (QPP)**
 - Industrial projects that qualify as "Qualified Production Property" (QPP)—primarily new nonresidential buildings used for manufacturing, production, or refining tangible personal property—can be fully expensed in the year placed in service.
 - Construction must begin after January 19, 2025, and **before January 1, 2029**.
 - The property **must be placed in service by the end of 2030** (extensions possible for “acts of God”).
 - The deduction applies to new buildings and improvements, but not to property used for office, administrative, lodging, parking, sales, research, software development, or engineering functions.
- **Section 179 Tax Provision Expensing Expanded**
 - The maximum Section 179 deduction increases to \$2.5 million (with a \$4 million phase-out threshold), indexed for inflation, for property placed in service after December 31, 2024.
 - This allows immediate expensing for a broader range of qualifying equipment and certain improvements.
 - Could help boost sales for equipment manufacturers – and require some expanding of those facilities.

Benefits to Business Overall from the OBBBA

- **Permanent Extension of Business Tax Cuts**
 - Makes permanent most of the 2017 Tax Cuts and Jobs Act provisions (TCJA), including lower corporate tax rates and expanded business deductions.
 - Can boost after-tax profits for construction firms. Also boosts profits for clients, encouraging more investment in commercial projects.
- **Increased Infrastructure and Defense Spending**
 - Allocates \$150 billion in new defense spending
 - \$12.5 billion earmarked for modernization of the air traffic control system, which may create opportunities for contractors specializing in aviation and transportation infrastructure.
- **Expansion of Certain Tax Credits**
 - The bill permanently expands the Low-Income Housing Tax Credit (LIHTC) and lowers the private activity bond threshold for affordable housing projects, which could stimulate multifamily and mixed-use development.
 - Increased tax credits for advanced semiconductor manufacturing may drive demand for new high-tech manufacturing facilities.
- **Fossil Fuel Incentives and Reduced Green Regulation**
 - The bill phases out many clean energy tax credits and promotes fossil fuel development, potentially increasing demand for industrial and energy-related construction, such as pipelines, refineries, and power plants.

Risks from the OBBBA

- **Impact on the deficit...Really depends on growth which isn't in the CBO estimates**
- **Phasing Out Clean Energy Incentives**
 - Repeals or restricts many clean energy tax credits, including those for wind, solar, and energy efficiency.
- **Stricter Domestic Content and Foreign Entity Restrictions**
 - New rules block access to energy tax credits for projects using components or services from "Foreign Entities of Concern" (notably China) and require stricter domestic content compliance. This may complicate procurement and increase costs for projects reliant on global supply chains (also boosts US domestic industrial buildout).
- **Cuts to Medicaid and SNAP**
 - While not directly construction-related, significant cuts to Medicaid and SNAP could reduce demand for certain types of public and institutional construction (such as hospitals and community centers) in affected regions.
- **No Major New Federal Infrastructure Grants**
 - The OBBBA does not include a large new tranche of general-purpose federal infrastructure grants for non-defense construction. Most new spending is targeted at defense, border security, and specific sectors.
- **Potential Labor Pressures**
 - The rush to start projects before certain tax credit phaseouts may exacerbate skilled labor shortages.

Remember: Tariff Scenario 1: Negotiated Non-Tariff Barrier (NTB) Reforms with Moderate Tariffs (highest likelihood)

- **Average tariffs stabilize at 8-12% alongside @\$350B in generated US exports driven by NTB removals**
- **US GDP Estimate under this scenario: @1.8% (down from 2.4% estimates prior to the reciprocal tariff announcement) and 2.3% in 2026.**
- **Global GDP Estimate under this scenario: @2.8% (IMF) and 3.0% in 2026**
- **By itself – does not include impact of a tax deal (15% corporate and depreciation on industrial projects), sped up permitting, etc.**

Remember: Tariff Scenario 2: Limited Escalation with Carveouts (moderate Probability)

- **Average tariffs inflated at 15-18%**
- **US GDP Estimate under this scenario: @1.2% (down from 2.4% estimates prior to the reciprocal tariff announcement) and 0.4% in 2026.**
- **Global GDP Estimate under this scenario: @2.5% (IMF/WTO) and 2.1% in 2026**
- **Would likely require more than \$300B in farm export protection packages to offset Chinese retaliation (based on a similar experience in the 2018/2019 period and a subsequent \$29B bailout package that followed). Total US export benefit under a tariff regime is between \$350B and \$450B.**

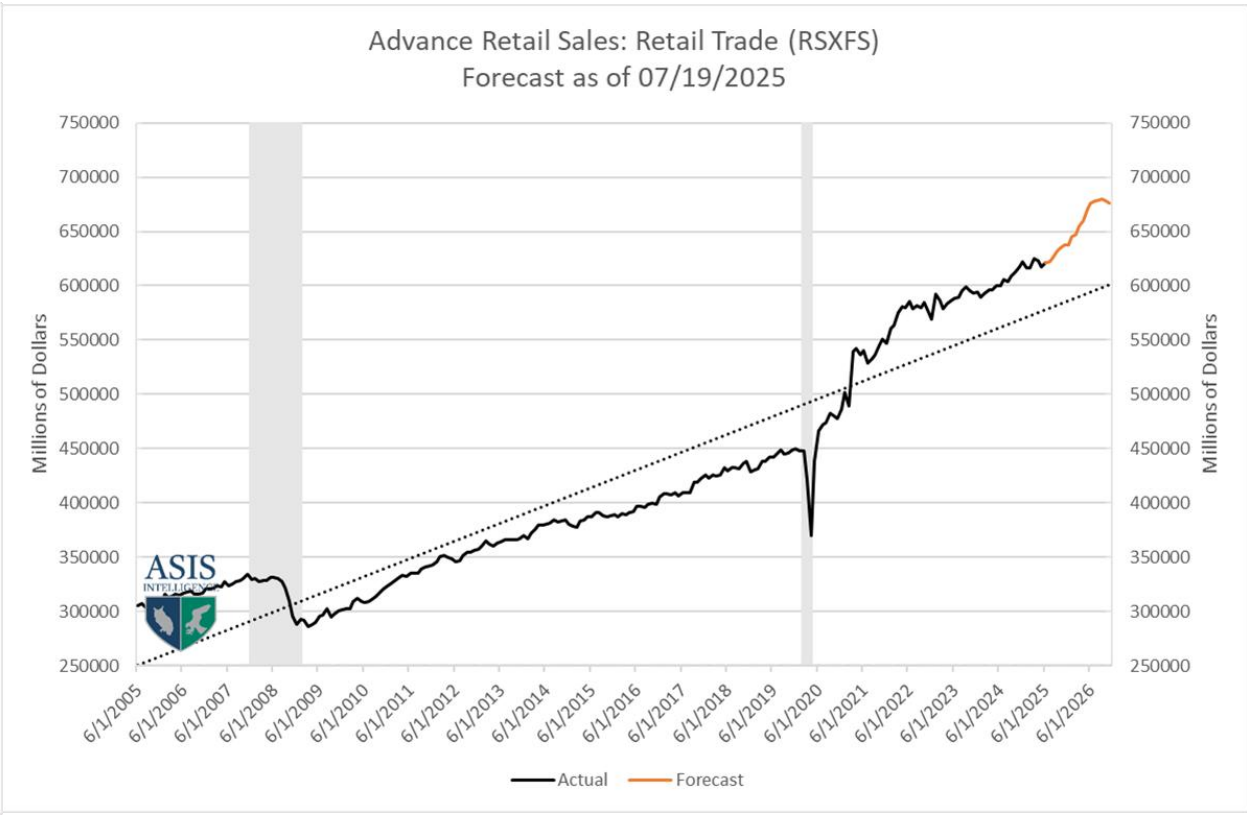
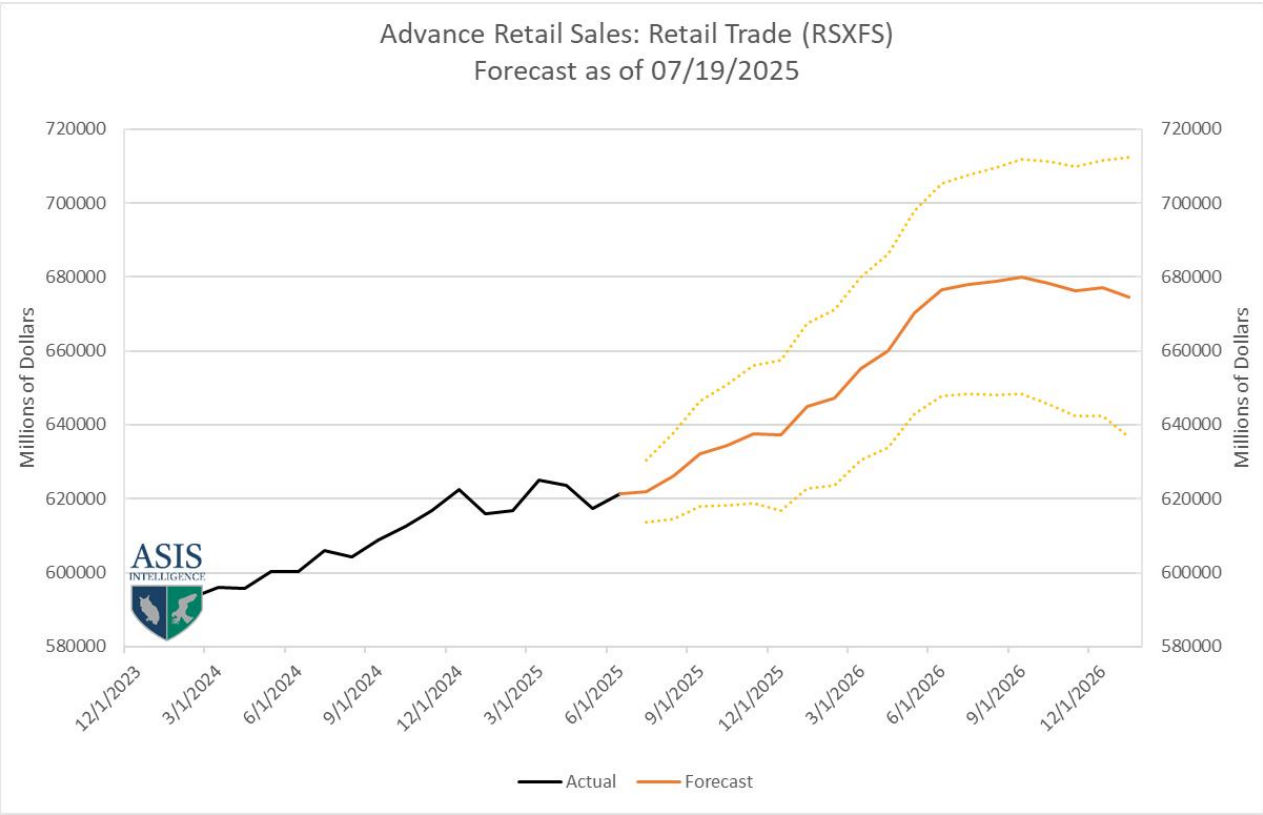
Global Manufacturing Sluggish.

- 20 countries had manufacturing sectors in contraction in July (of 30 countries being monitored)
- 12 out of 30 countries surveyed fell M/M.
- Most countries still seeing higher input and output prices, but new orders are sluggish across most markets.
- Canada at risk with both manufacturing and services sectors in contraction.
- Mexico was starting to report stockouts that held back production. New order volumes were slightly subdued.
- Still many questions about how much inventory was pulled forward over the past several months and what the 90-day softening of tariffs will do to intermediate inbound volumes.

Manufacturing						Services			
Country PMI	Trade with US (in billions)	Current Month	Latest Month PMI	Prior Month PMI	M/M Change	Current Month	Latest Month PMI	Prior Month PMI	M/M Change
US		July	49.8	52.9	-3.1	July	55.7	52.9	2.8
Global PMI	\$ 4,700	July	49.7	50.4	-0.7	July	53.4	51.8	1.6
Canada	\$ 665	July	46.1	45.6	0.5	July	49.3	44.3	5.0
Mexico	\$ 661	July	49.1	46.3	2.8				
China	\$ 655	July	49.5	50.4	-0.9	July	52.6	50.6	2.0
Eurozone PMI	\$ 632	July	49.8	49.5	0.3	July	51.0	50.5	0.5
ASEAN	\$ 369	July	50.1	48.6	1.5				
Japan	\$ 210	July	48.9	50.1	-1.2	July	53.6	51.7	1.9
Germany	\$ 201	July	49.1	49.0	0.1	July	50.6	49.7	0.9
South Korea	\$ 161	July	48.0	48.7	-0.7				
UK	\$ 118	July	48.0	47.7	0.3	July	51.8	52.8	-1.0
Taiwan	\$ 114	July	46.2	47.2	-1.0				
India	\$ 113	July	59.1	58.4	0.7	July	60.5	60.4	0.1
Vietnam	\$ 113	July	52.4	48.9	3.5				
Netherlands	\$ 88	July	51.9	51.2	0.7				
Ireland	\$ 88	July	53.2	53.7	-0.5	July	50.9	51.5	-0.6
Switzerland	\$ 87	July	48.8	49.6	-0.8				
Italy	\$ 83	July	49.8	48.4	1.4	July	52.3	52.1	0.2
France	\$ 80	July	48.2	48.1	0.1	July	48.5	49.6	-1.1
Brazil	\$ 78	July	48.2	48.3	-0.1	July	46.3	49.3	-3.0
Singapore	\$ 65	July	49.9	50.0	-0.1				
Thailand	\$ 60	July	51.9	51.7	0.2				
Australia	\$ 39	July	51.3	50.6	0.7	July	54.1	51.8	2.3
Indonesia	\$ 37	July	49.2	46.9	2.3				
Russia	\$ 36	July	47.0	47.5	-0.5	July	48.6	49.2	-0.6
Spain	\$ 35	July	51.9	51.4	0.5	July	55.1	51.9	3.2
Hong Kong	\$ 34	July	49.2	47.8	1.4				
Philippines	\$ 23	July	50.9	50.7	0.2				
Poland	\$ 11	July	45.9	44.8	1.1				
Greece	\$ 3	July	51.7	53.1	-1.4				

Sources: S&P Global, Caixin, JP Morgan, Jibun Bank, Nevi, BME, CIPS

Retail Spending Forecast

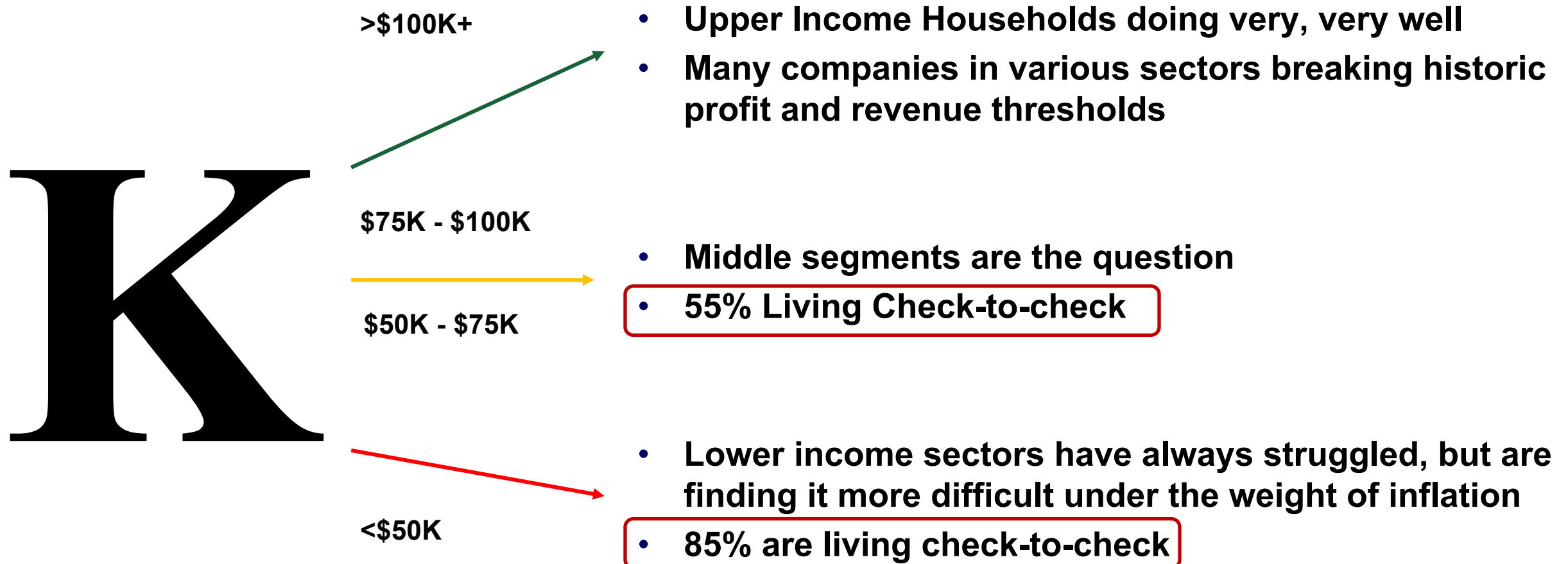


	2023				2024				2025				2023	2024	2025*
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3*	Q4*			
Advanced Retail Sales RSXFS	1.70%	1.70%	1.75%	-0.78%	0.29%	0.72%	1.40%	2.25%	0.44%	-0.60%	1.75%	0.78%	4.42%	4.74%	2.37%

Source: Armada Forecasts

	3-month	6-month
Advanced Retail Sales RSXFS	96.4%	94.4%

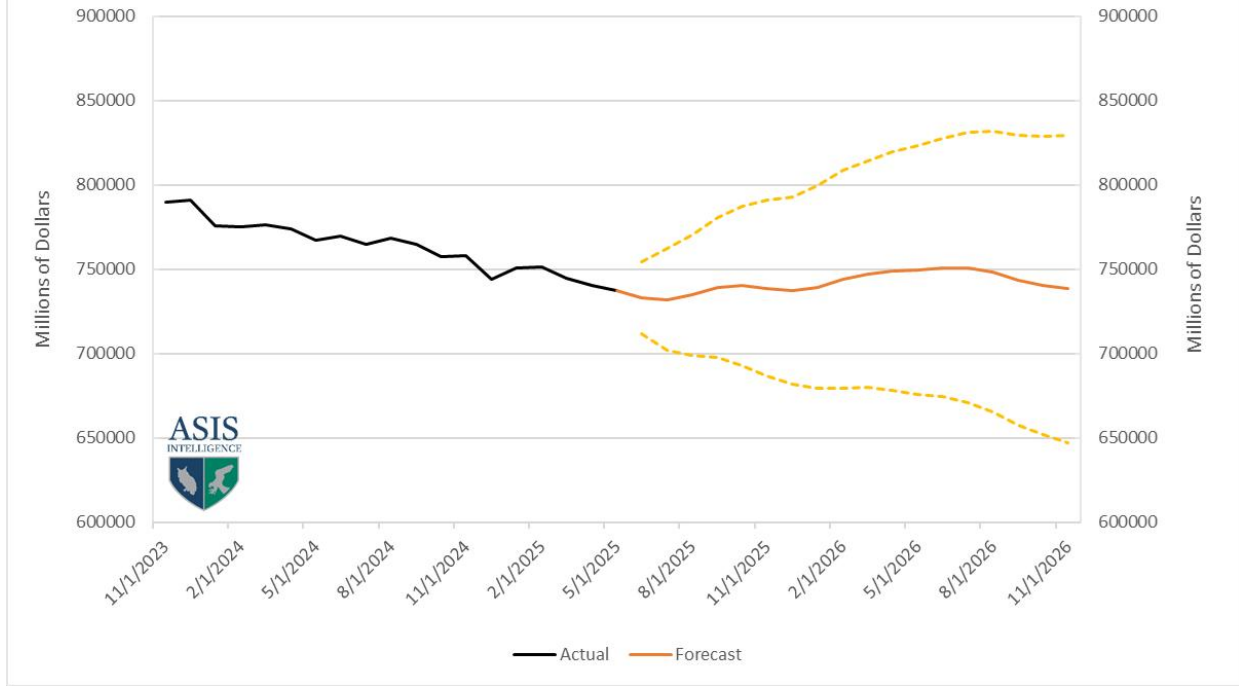
Your Employees and Something Critical To Keep In Mind Over the Next Two Years



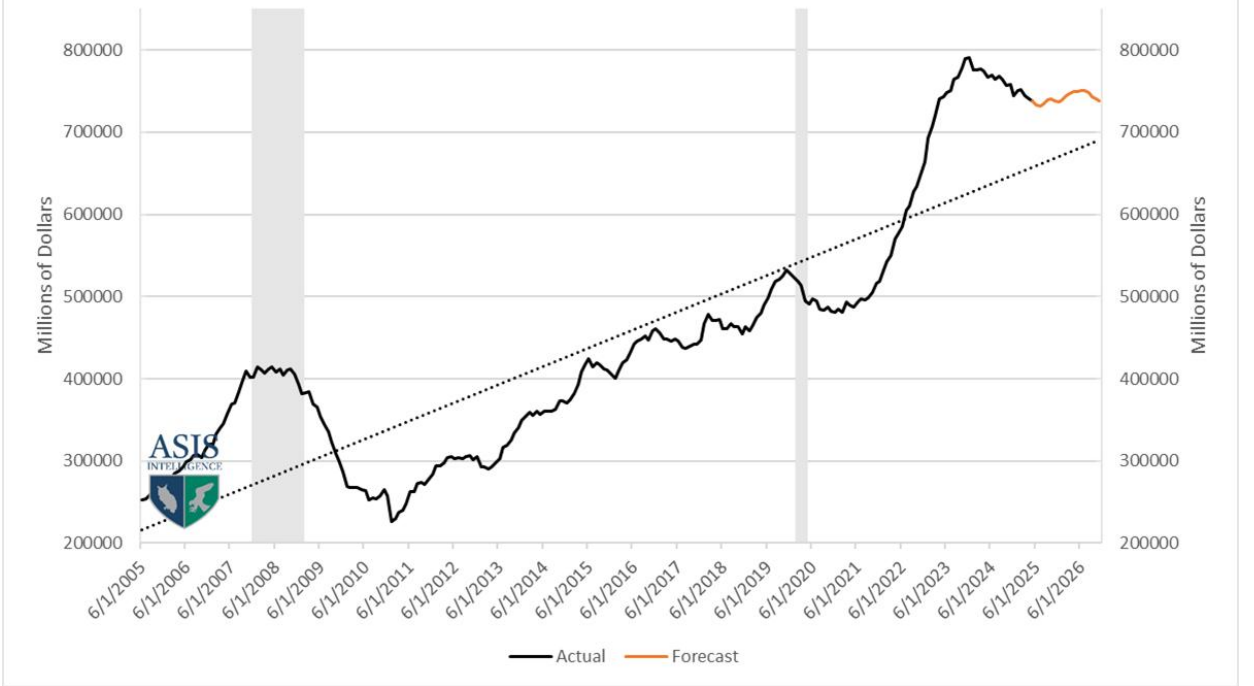
Nonresidential Construction



Private Nonresidential Construction Spending (PNRESCONS)
Forecast as of 07/19/2025



Private Nonresidential Construction Spending (PNRESCONS)
Forecast as of 07/19/2025

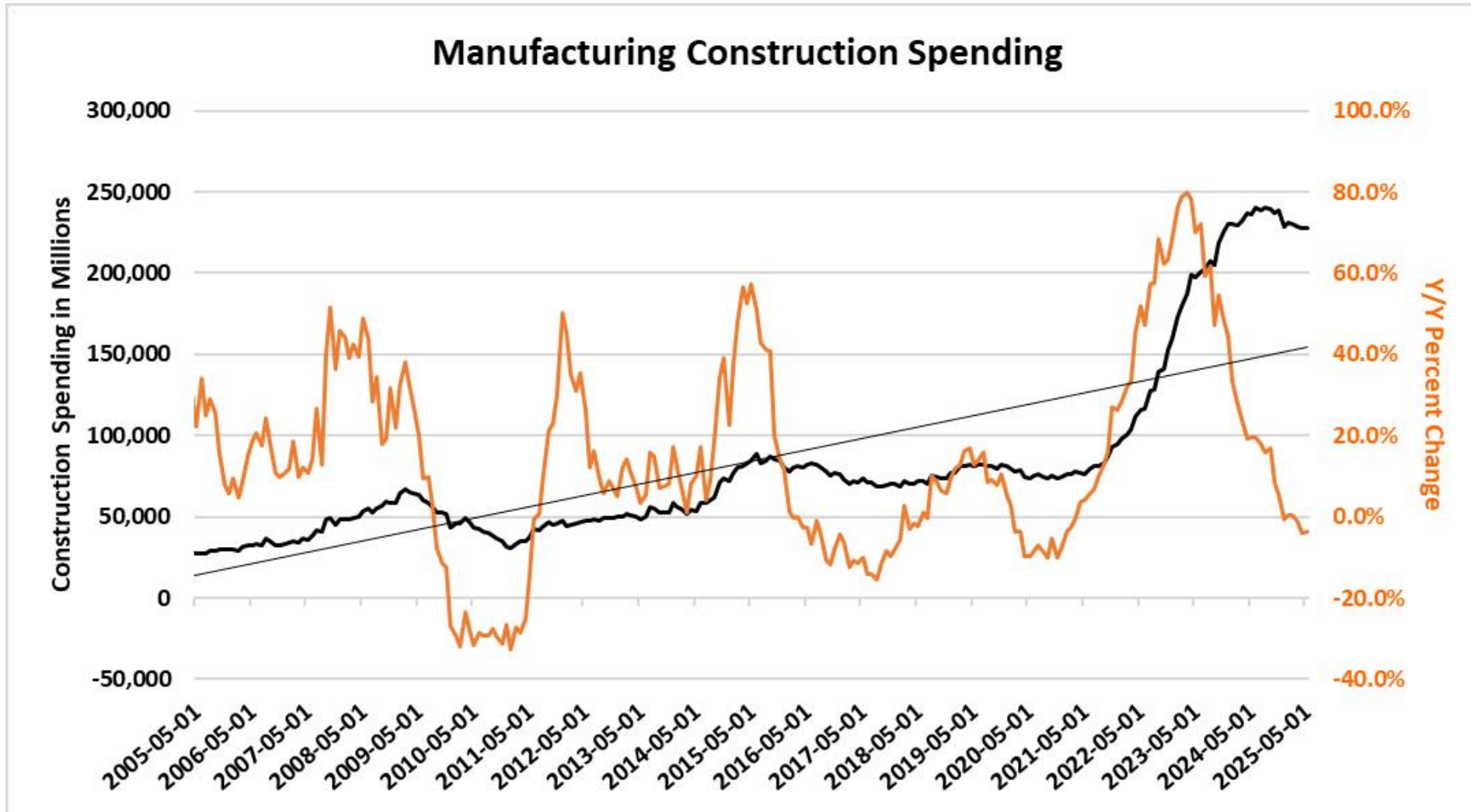


	2023				2024				2025				2023	2024	2025*
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3*	Q4*			
Private Nonresidential Construction PNRESCONS	8.56%	3.76%	2.57%	3.19%	-1.87%	-0.89%	-0.63%	-2.69%	0.12%	-1.55%	0.81%	-0.27%	19.22%	-5.97%	-0.90%

Source: Armada Forecasts

Private Nonresidential Construction PNRESCONS	3-month	6-month
	99.088%	97.1%

Ultimately, It Pushes Industrial Manufacturing Higher

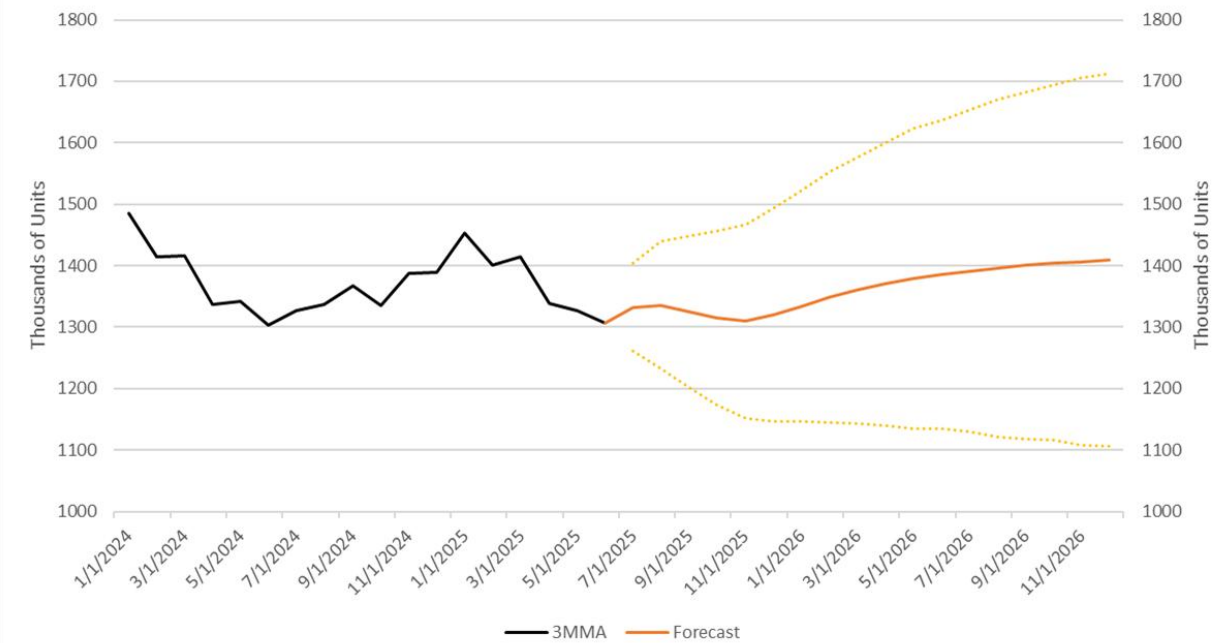


- \$60B average annually prior to pandemic.
- \$234B average over past two years
- Reportedly \$5T in commitments (Trump Administration touting \$8T)
 - After the Saudi Arabia and Qatar meetings: \$7T

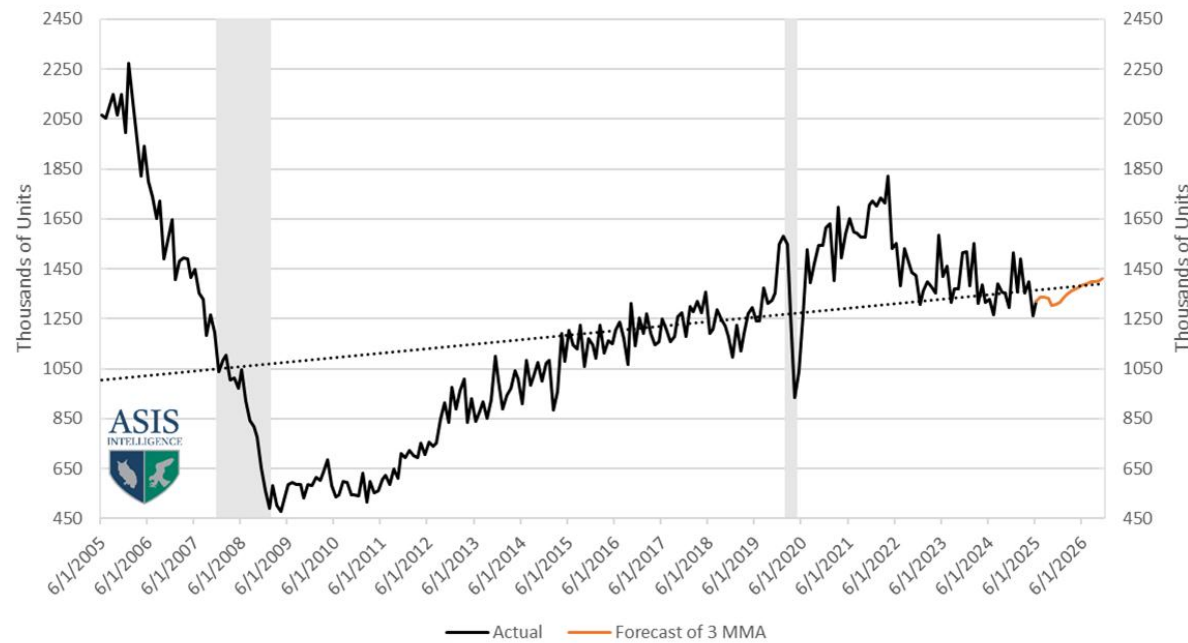
Residential Construction Forecast



New Privately-Owned Housing Units Started: Total Units (HOUST)
3 Month Moving Average Forecast
Forecast as of 07/19/2025



New Privately-Owned Housing Units Started: Total Units (HOUST)
3 Month Moving Average Forecast
Forecast as of 07/19/2025



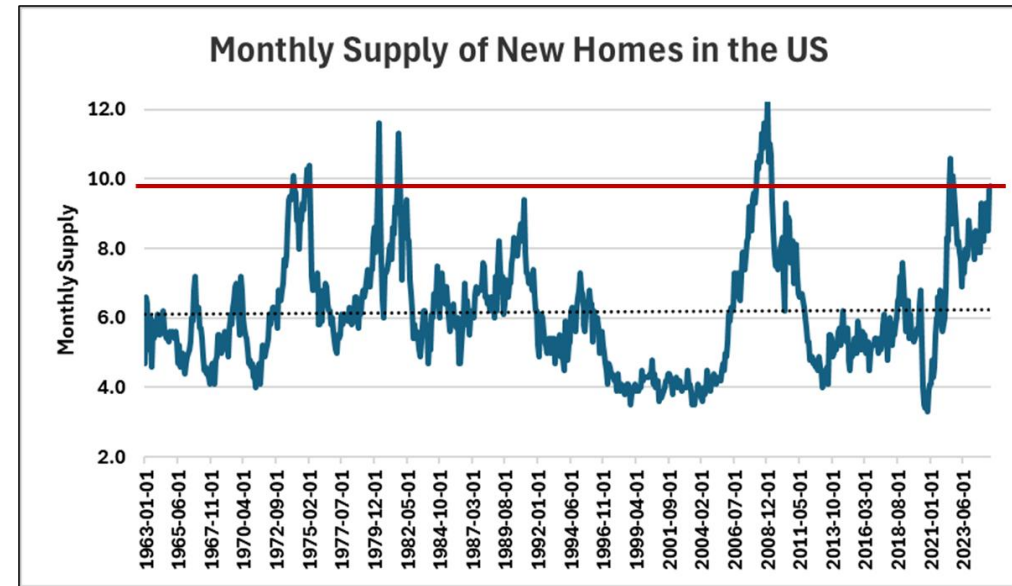
	2023				2024				2025				2023	2024	2025*
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3*	Q4*			
New Privately-Owned Housing Units Started: Total Units HOUST	5.28%	3.20%	-3.52%	10.94%	-13.74%	1.14%	2.26%	11.57%	-10.50%	-2.51%	0.83%	-1.17%	16.28%	-0.46%	-13.06%

Source: Armada Forecasts

	3-month	6-month
New Privately-Owned Housing Units Started: Total Units HOUST	95.5%	97.5%

The Big Risk: US Housing

- US Residential Housing sector accounts for 16% of GDP – and as goes the US housing market so goes the economy.
- The Monthly Supply of Homes is currently trending at 9.8 months of inventory on hand.
 - Other than a dramatic crisis period (the pandemic lockdown or the Great Recession), this is the highest level since 1981.
- Estimates show one new single-family home creates 7 full truckloads of equivalent volume for the inside of the home alone, does not include the exterior or foundation materials.
- Builder sentiment inched up by one point this month to 33, up from 32 last month but still 19% lower than this time last year.
 - Input costs are still a concern for many builders – and mortgage rates are still not dropping at sufficient rates
 - For context:
 - Historic average is 51.6
 - All time high was 90 in November 2020
 - All time low was 8.0 in January of 2009 during the Great Recession

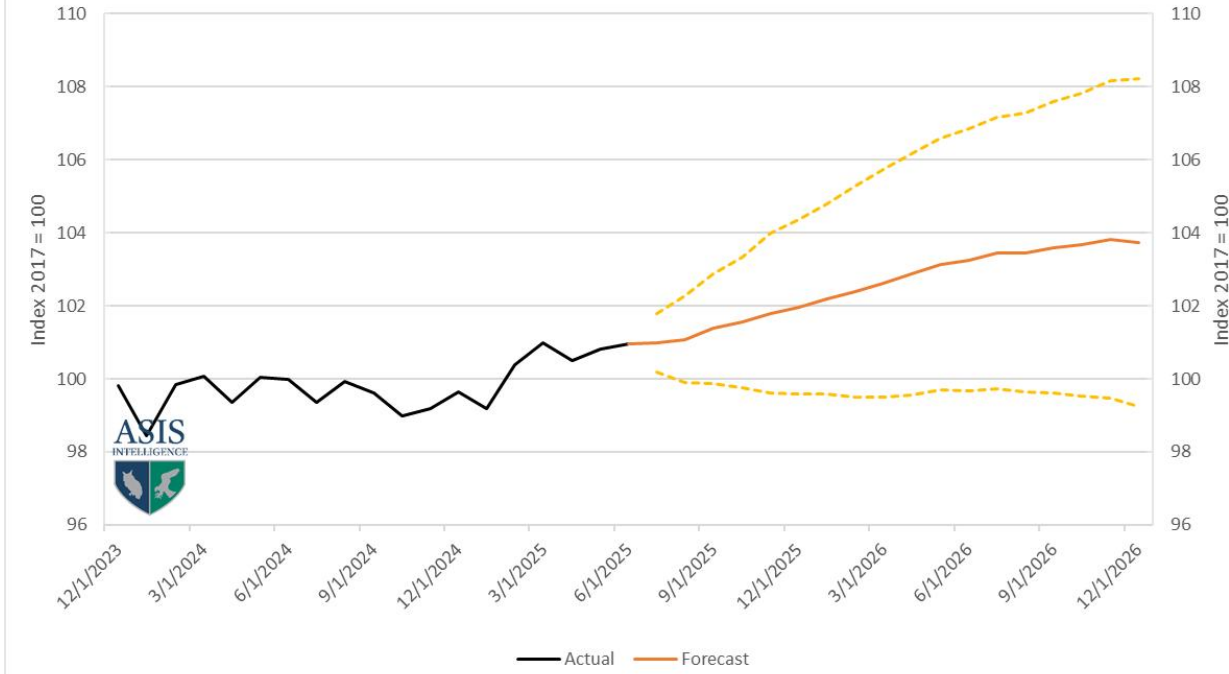


NAHB/Wells Fargo National and Regional Housing Market Index (HMI)										
NATIONAL										
(Seasonally Adjusted)	2024		2025							
	Jul	Aug	Jan	Feb	Mar	Apr	May	Jun	Jul	
								Revised	Prelim.	M/M Y/Y
Housing Market Index	41	39	47	42	39	40	34	32	33	3.1% -19.5%
Housing Market Index Components										
Single Family Sales: Present	46	44	50	46	43	45	37	35	36	2.9% -21.7%
Single Family Sales: Next 6 Months	48	49	59	47	47	43	42	40	43	7.5% -10.4%
Traffic of Prospective Buyers	27	25	32	29	24	25	23	21	20	-4.8% -25.9%
REGIONAL HMI										
(Seasonally Adjusted)	2024		2025							
	Jul	Aug	Jan	Feb	Mar	Apr	May	Jun	Jul	
								Revised	Prelim.	M/M Y/Y
Northeast	47	46	65	50	48	43	42	44	48	9.1% 2.1%
Midwest	39	38	44	43	38	43	40	39	44	12.8% 12.8%
South	43	39	47	41	39	38	32	30	29	-3.3% -32.6%
West	37	37	42	35	34	36	27	22	25	13.6% -32.4%

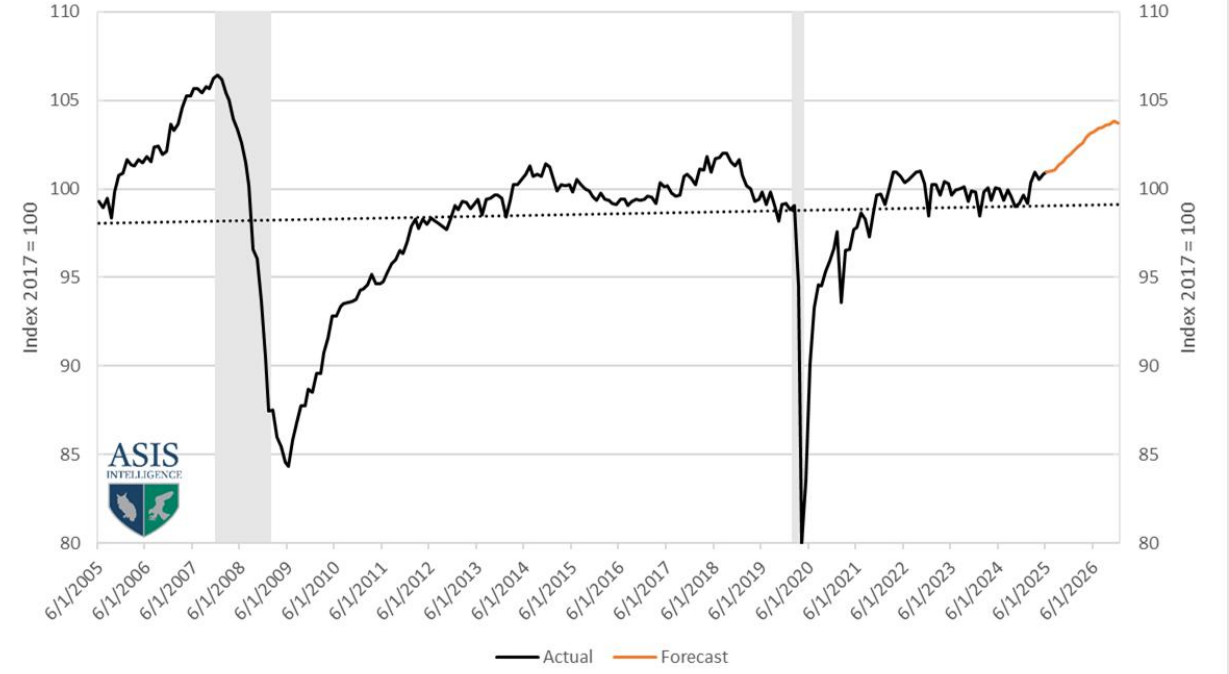
Manufacturing Production Forecast



Industrial Production: Manufacturing (IPMAN)
Forecast as of 07/19/2025



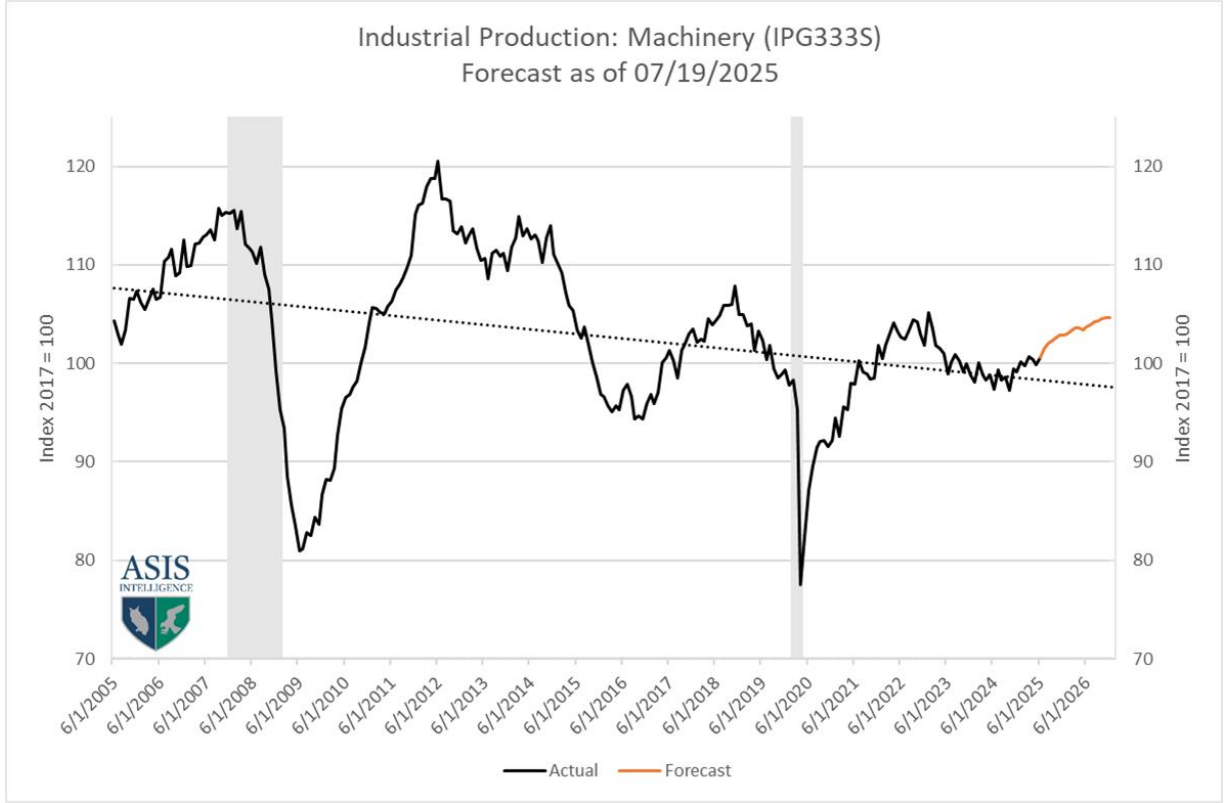
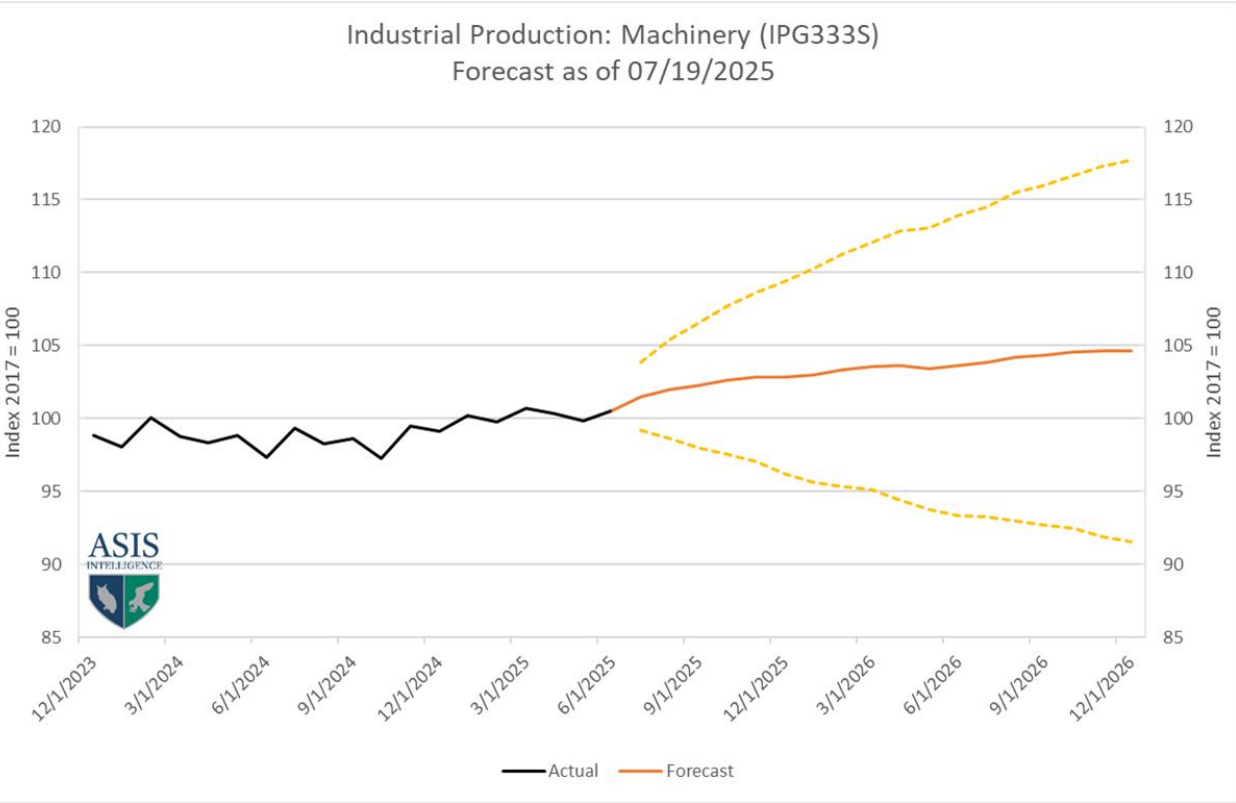
Industrial Production: Manufacturing (IPMAN)
Forecast as of 07/19/2025



	2023				2024				2025				2023	2024	2025*
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3*	Q4*			
Industrial Production: Manufacturing	1.22%	0.01%	0.45%	-0.27%	0.24%	-0.07%	-0.38%	0.03%	1.33%	-0.03%	0.43%	0.59%	1.41%	-0.18%	2.33%

Source: Armada Forecasts

Machinery Production Forecast



	2023				2024				2025				2023	2024	2025*
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3*	Q4*			
Machinery IPG333S	0.04%	-2.87%	1.31%	-1.43%	-0.03%	-1.44%	1.29%	0.52%	1.59%	-0.13%	1.69%	0.53%	-2.96%	0.33%	3.72%

Source: Armada Forecasts

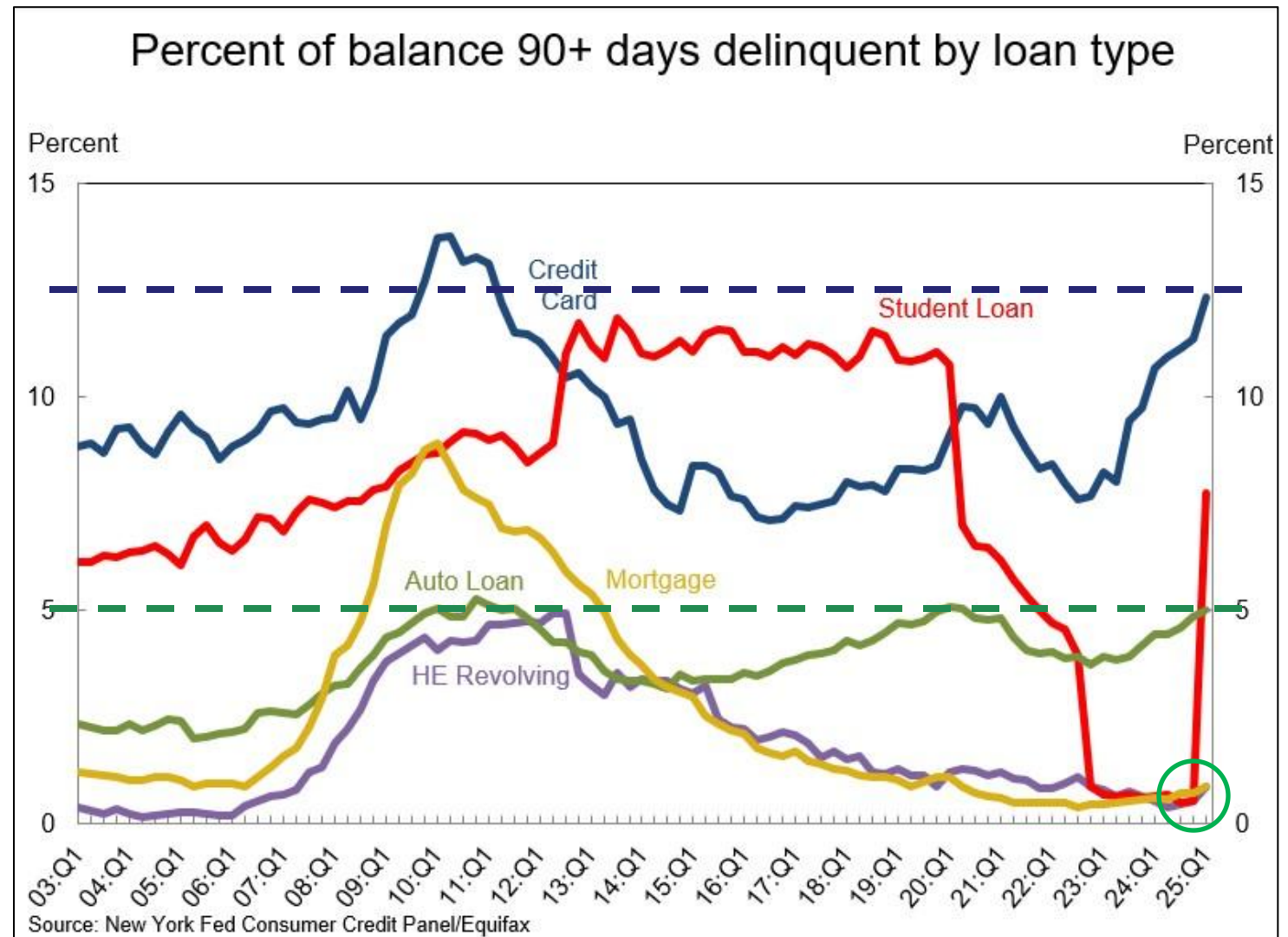
The Long-Term Labor Market Problem

- **AI is starting to have an impact on employment, but here is a new bottom line looking forward between 2025 and 2030:**
 - Baby Boomer Retirements -21.7M
 - Net New Entrants 2.3M
 - AI job losses -4.0M
 - AI job creation 1.0M
 - Net Labor Force Change by 2030 ~ -18.0M
- **We have to go through a transition period where AI outpaces retirements and job creation, but long term, the US still has a labor shortage.**

Category	Jobs Added or Subtracted in June
Total	147,000
Mining and Logging	(2,000)
Construction	15,000
Nonresidential	(400)
Manufacturing	(7,000)
Trade, Transportation, Utilities	3,000
Retail	2,400
Information	3,000
Financial Activities	3,000
Real Estate	2,100
Professional and Business	(7,000)
Computer system design	(2,500)
Private Education	(7,500)
Health Care	58,600
Leisure and Hospitality	20,000
Government	73,000
Federal	(7,000)
State	47,000
Local	33,000

Delinquency by Loan Type

- Credit card and auto loan delinquency rates are near 2009 highs.
- But mortgage and HE Line delinquencies are still low.
- Final reporting of student loan debt not as bad as expected. Some delays likely still here.
- New data shows:
 - 46.7% think credit will be harder to get than last year (highest since 6/24)
 - 8.5% were not applying because they didn't think they would get approved (highest in history of the survey – 10/13)
 - 33.5% probability of rejection rate for big-ticket loans (auto, home, etc.), highest in history of the survey.
 - Being able to come up with \$2,000.00 62.7%, lowest in the history of the survey.



Questions?

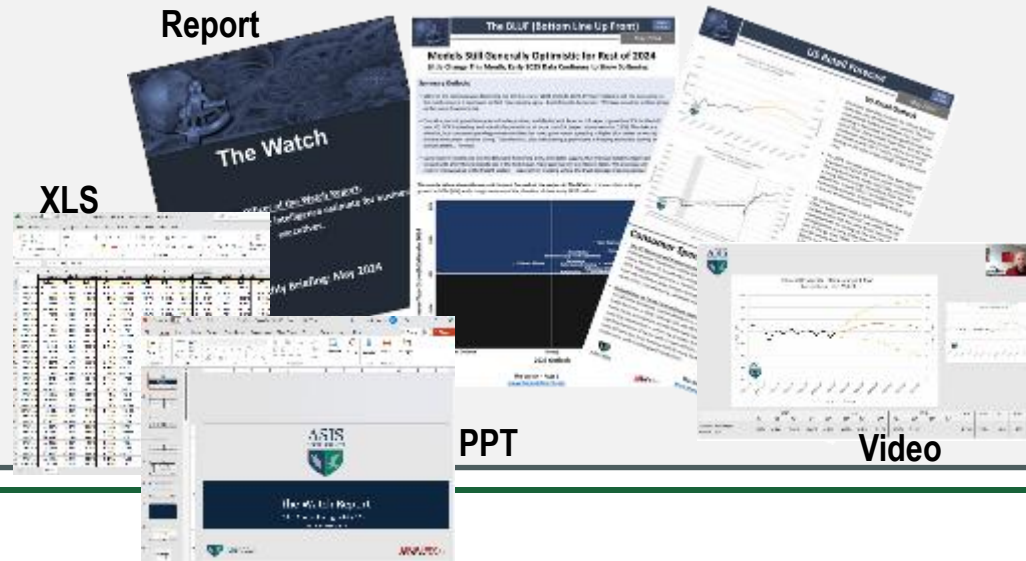
- **Like this content? Check out the ASIS: all of it for about the price of a cup of coffee.**

Armada Strategic Intelligence System (ASIS): All This Below for Just \$7 / Month

The Flagship – 3 Days a Week.



The Watch – Once a Month.



Inside the Executive Suite – Once a Week.

