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What's Ahead for the U.S. Economy, Consumer Spending and the Furniture Industry

2025 ECONOMIC OUTLOOK

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After spending the past 30 years as managing director and senior economist at Wells Fargo's Corporate and Investment Bank, Mark Vitner founded Piedmont Crescent Capital this past year. At his new firm, Mark provides analysis of the macro economy to clients located throughout the country and writes a series of reports on the US economy, local economies, small business, and residential and commercial real estate. He also provides economic content for CAVU Securities, writing their monthly newsletter, The CAVU Compass.

Originally from Atlanta, Mark earned a BBA in economics from the University of Georgia, an MBA from the University of North Florida and completed further graduate work in economics at the University of Florida. Mark is a member of the National Association of Business Economics and completed the NABE Advanced Training in Economics Program at Carnegie Mellon University. He is also a member of NABE's inaugural Certified Business Economist (CBE) class.

Mark is active in the community, co-founding the Charlotte NABE chapter and serving as board chair for the Foundation for the Charlotte Jewish Community. Mark also chaired the Economic Advisory Council for the California Chamber of Commerce and currently serves on the Joint Advisory Board of Economists for the Commonwealth of Virginia. His commentary has been featured in The New York Times, The Wall Street Journal, Bloomberg, and many other publications. Mark also makes frequent guest appearances on CNBC and other major networks.

The Economic Outlook Depends Upon Your Place & Perspective

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The Economy is Proving Surprisingly Resilient

Concerns over stagflation and recession have resurfaced, with real GDP. Swings in international trade have wreaked havoc with the economic data, resulting in a small drop in GDP growth in Q1 and sharp rebound in Q2. Output and consumer spending have held up well throughout this volatility but hiring has clearly slowed. We believe economic activity improved in Q3, with output likely rising at a 3.4% annual rate. The government shutdown will keep us in the dark for at least a few weeks, however, and will likely weigh on Q4 growth. We see growth rebound this spring.

Inflation Fatigue is Waning But Tariffs are Triggering PTSD

Inflation and housing affordability remain key concerns for consumers and policymakers. **Higher costs for housing, groceries, transportation, and insurance have left consumers with less to spend on other goods and services**. While consumers remain focused on inflation, the introduction of tariffs has led to a **spike in inflation expectations in consumer surveys**—***unmatched by actual inflation*** or **market-based measures**. Housing remains out of reach for many first-time buyers, while high mortgage rates continue to keep trade-up buyers locked in their current homes.

Higher Inflation and Higher Home Prices Continue to Fuel an Affordability Migration to the South

Higher inflation, particularly for housing, has fueled an **affordability-driven migration** to the South, **similar to trends seen in the early 1980s**. Texas, Florida, the Carolinas, Tennessee, and Georgia have been the primary beneficiaries. The influx has been **reinforced by business relocations from California, New York, and Chicago**, with **Dallas–Fort Worth**, **Nashville**, Atlanta, **Miami/South Florida**, Charlotte, and Raleigh seeing the greatest concentration of new headquarters and industrial development. The South is also riding a wave of Baby **Boomer retirements**, which is helping drive residential growth in Florida, the Carolinas, Tennessee and Texas.

Consumer Spending & the Outlook for Furniture Sales

Consumer spending in the U.S. is expected to slow through the rest of 2025 as households face economic uncertainty, persistent inflation from tariffs, and rising credit pressures—yet affluent buyers and home renovators remain key drivers of discretionary purchases, including furnishings. **The furniture industry is positioned for moderate growth, supported by demand for affordable, space-saving, and sustainable designs**—although persistent pressure from low home sales and cautious consumer sentiment will challenge manufacturers.

Tariffs and Uncertainty are Masking Weak Underlying Demand

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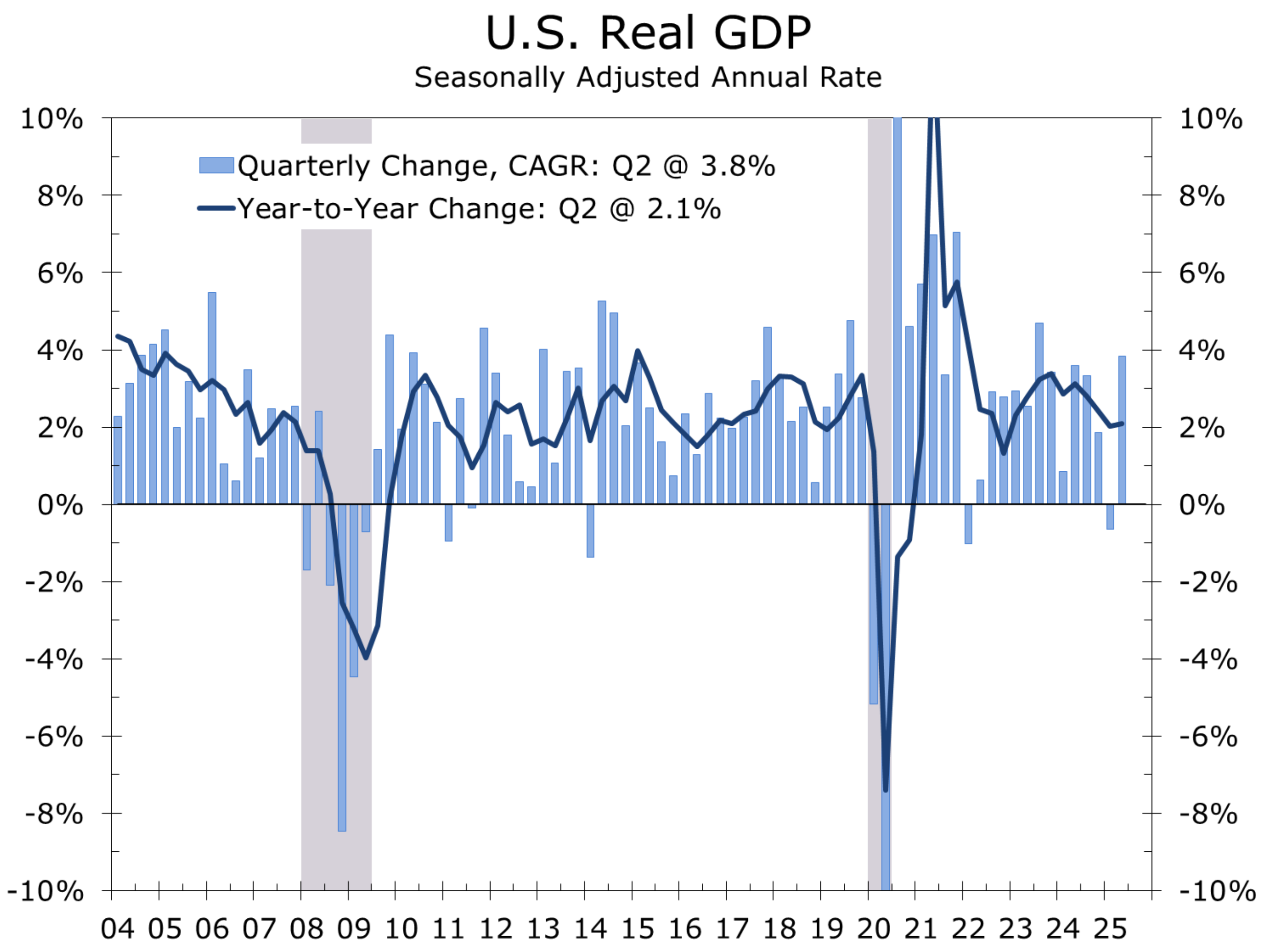
- The implementation of tariffs has led to wide swings in GDP growth this year, subtracting 4.7 ppts from Q1 and adding 4.8 ppts back to Q2.
- Heightened uncertainty has slowed hiring, capital investment, and overall spending.
- Real final sales to private domestic purchasers grew at 2.9% pace in Q2, compared to 1.9% growth in Q1.



Source: Bureau of Economic Analysis

The GDP by Industry Data Show Surprisingly Broad Q2 Growth

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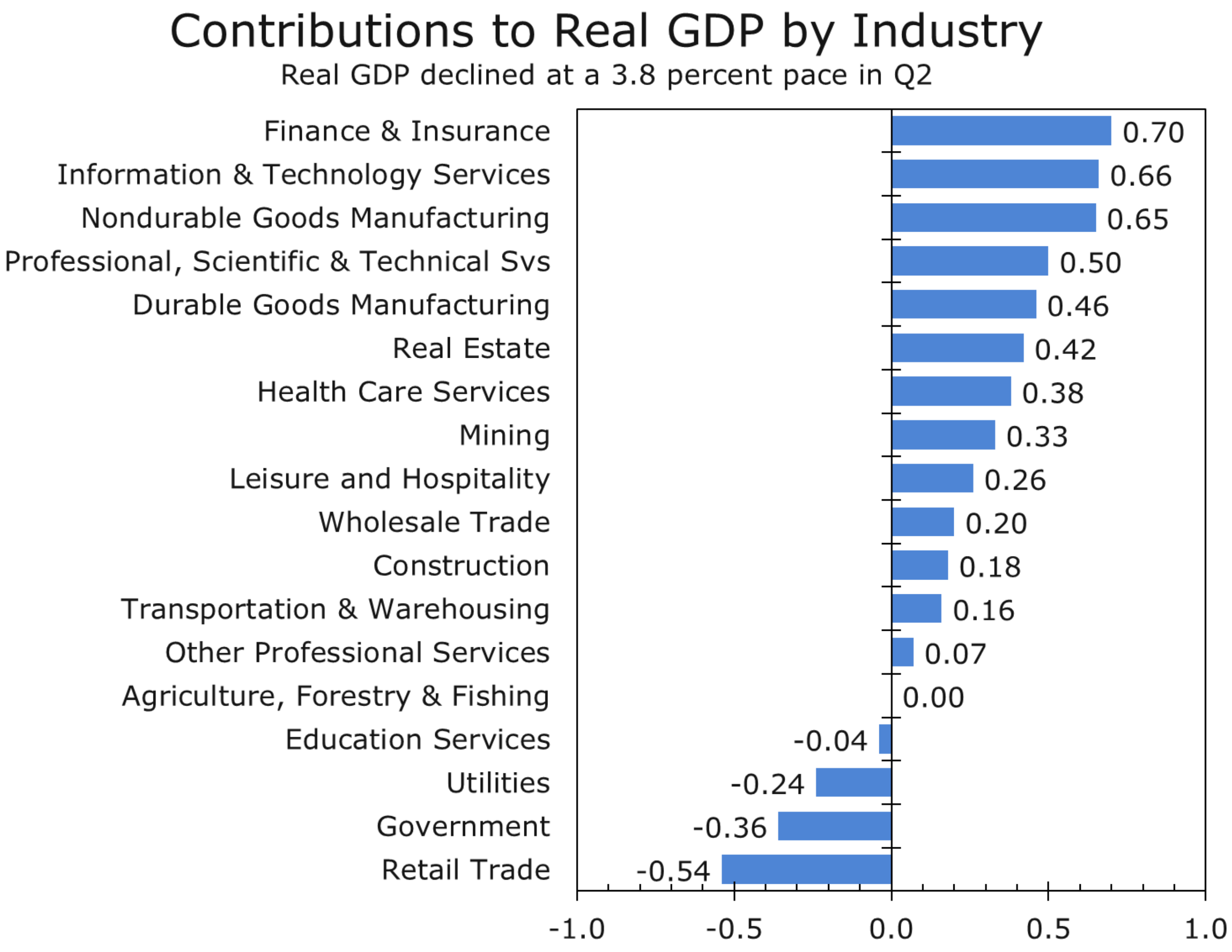
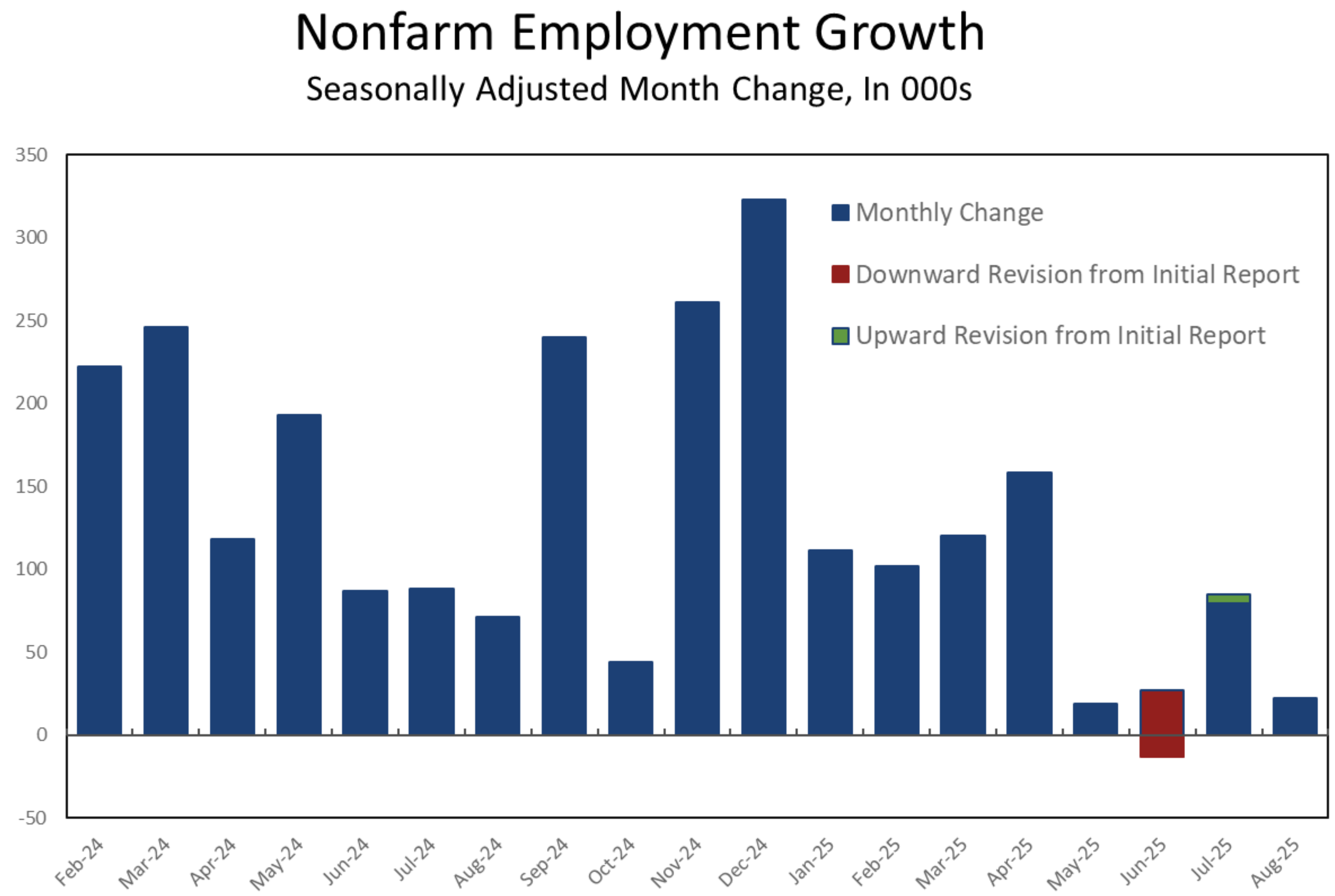
- Real GDP posted a broad-based expansion in Q2.
- Financial services gained from volatile trading, with markets finishing higher at quarter-end.
- IT and tech services show little of the slowdown evident in labor market data.
- Construction is cooling as IRA and CHIPS projects wind down, with many next-phase projects still in early design.



Source: Bureau of Economic Analysis (BEA)

Employment Report Came in Unexpectedly Weak

- August job growth came in well below expectations (+22K) and prior data were revised lower on net, with June now showing a modest decline.
- Not only is job growth weaker, but fewer industries are adding staff.
- Uncertainty about tariffs and the interest rates has led businesses to cut costs and hold off on hiring or expanding. Payrolls have risen by 41K per month since Liberation Day April 2.



Job Growth Remains Concentrated in a Handful of Industries

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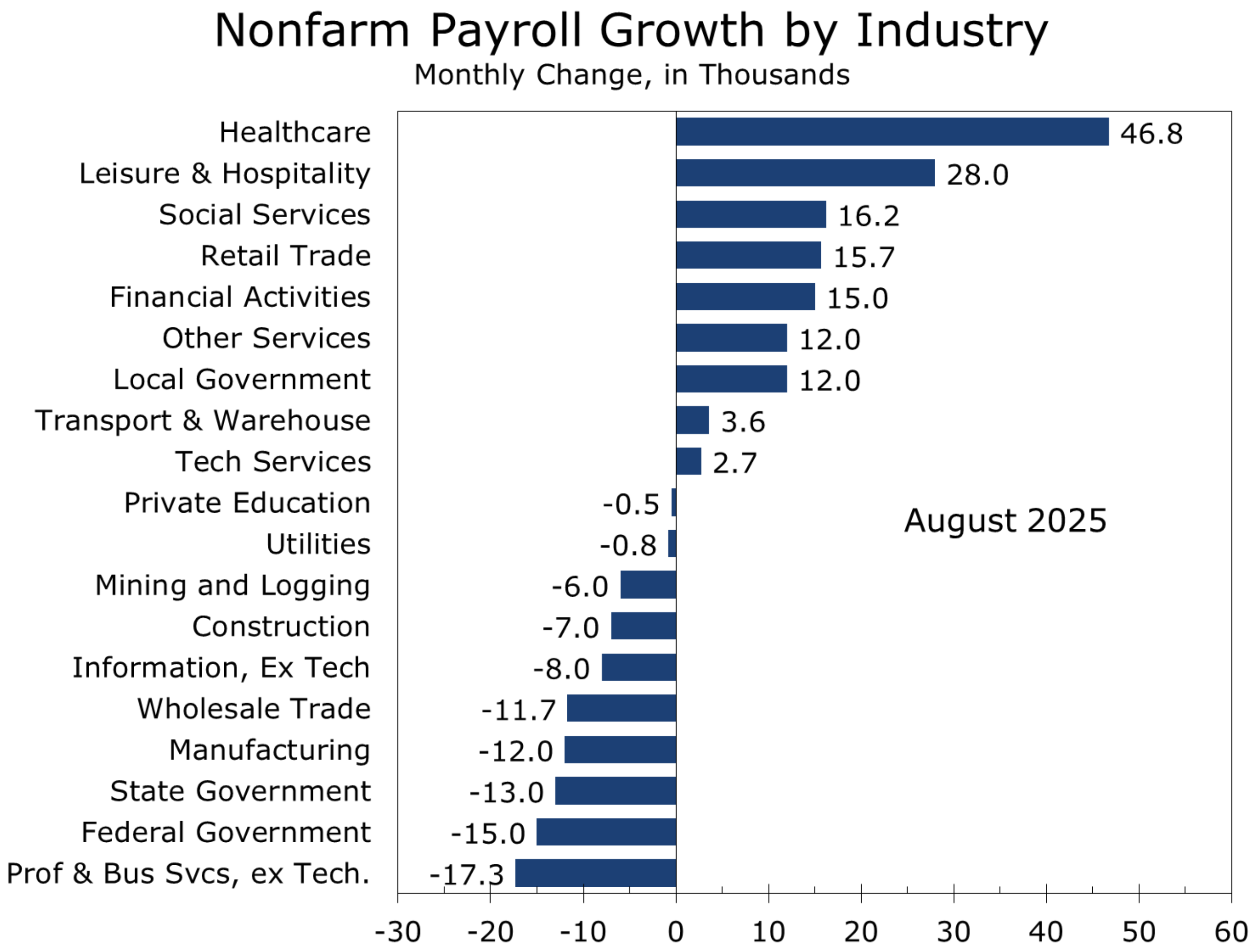
- Job gains remain narrowly based.
- Health care & social services, and a handful of other sectors account for the bulk of recent job growth.
- Private sector data (ADP survey) suggest hiring in healthcare has been exaggerated.
- Many of these jobs are also relatively low paying.



Source: Bureau of Labor Statistics

Reported Job Growth is Now Closer to the True Underlying Trend

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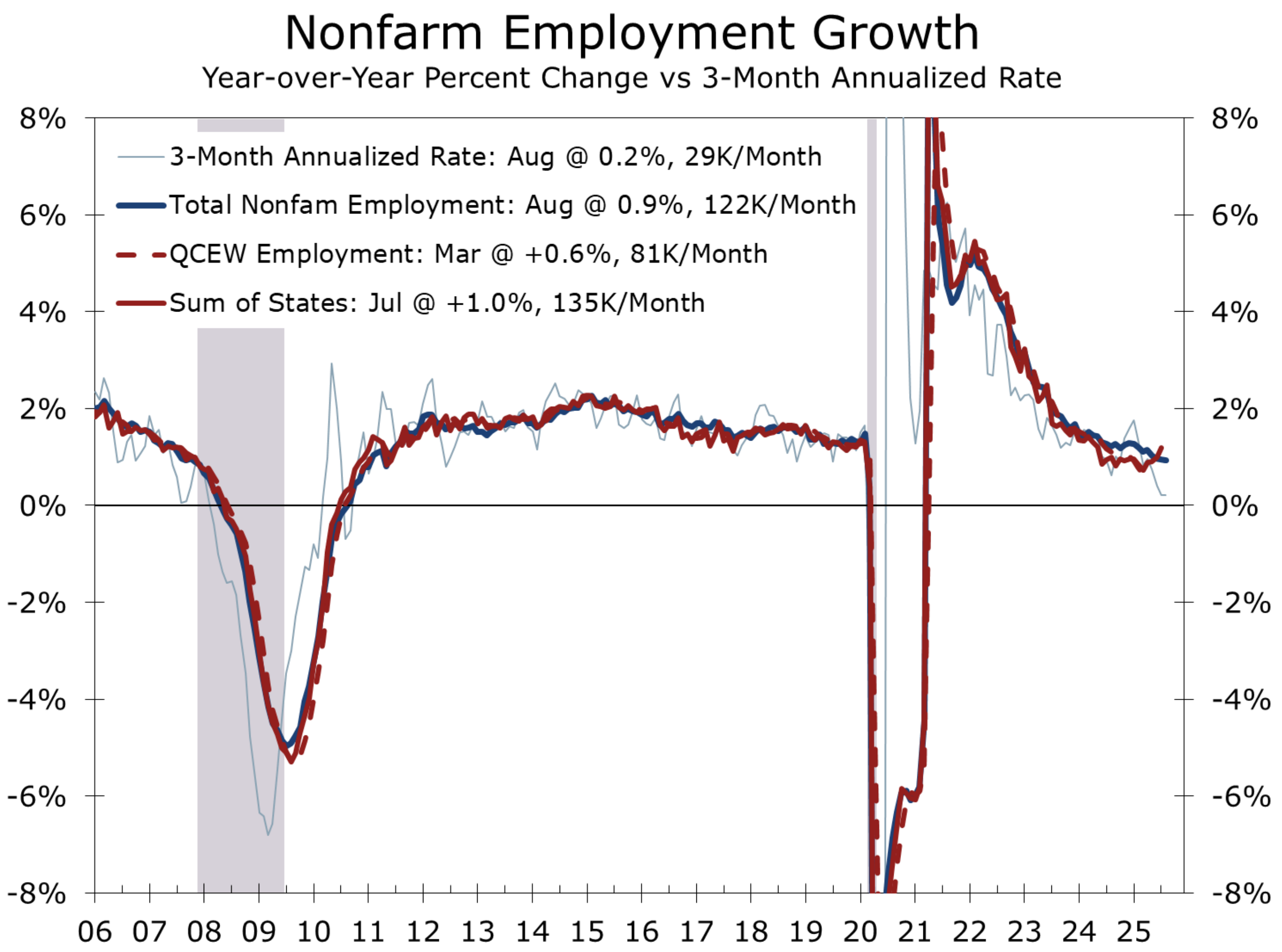
- After years of being overstated, job growth is now close to its underlying trend.
- Payrolls were overstated since the Feb 2023, due to an ‘odd’ benchmark adjustment that raised reported job growth.
- The most recent QCEW data (Mar 2025) suggest nonfarm job growth is averaging just under 81k per month.
- Worries about job prospects are weighing on consumer confidence and key economic decisions.



The Government Shutdown will Focus Attention of Private Data

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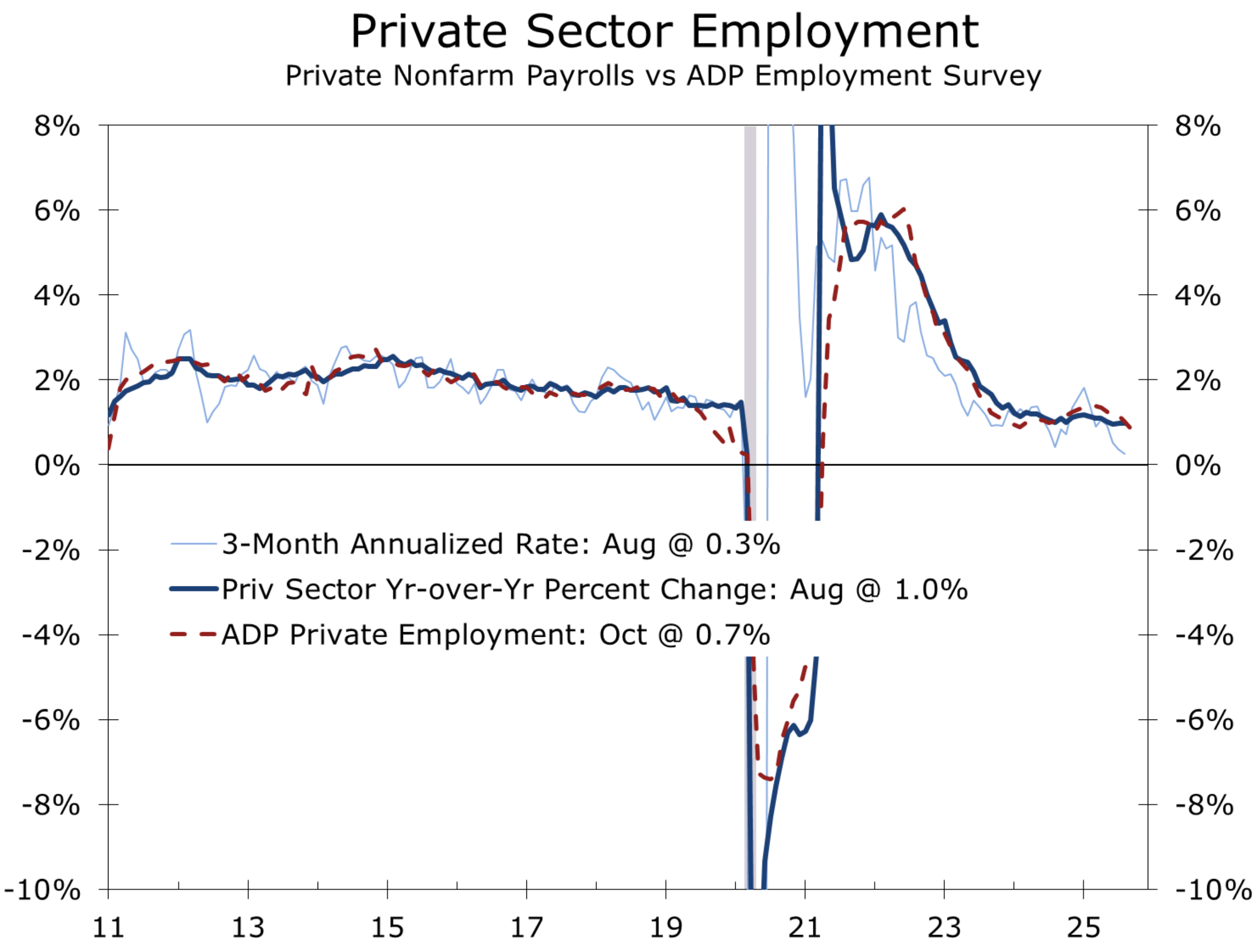
- Private-sector employers added 42,000 jobs in October, following back-to-back declines.
- Hiring remains sluggish at smaller companies, which are having a harder time passing along their higher costs.
- The ISM Services Survey also showed a pickup in activity but hiring remains sluggish.



Source: Bureau of Labor Statistics (BLS) and ADP

Confidence is Off the Lows, but Still Signals Weak Underlying Growth

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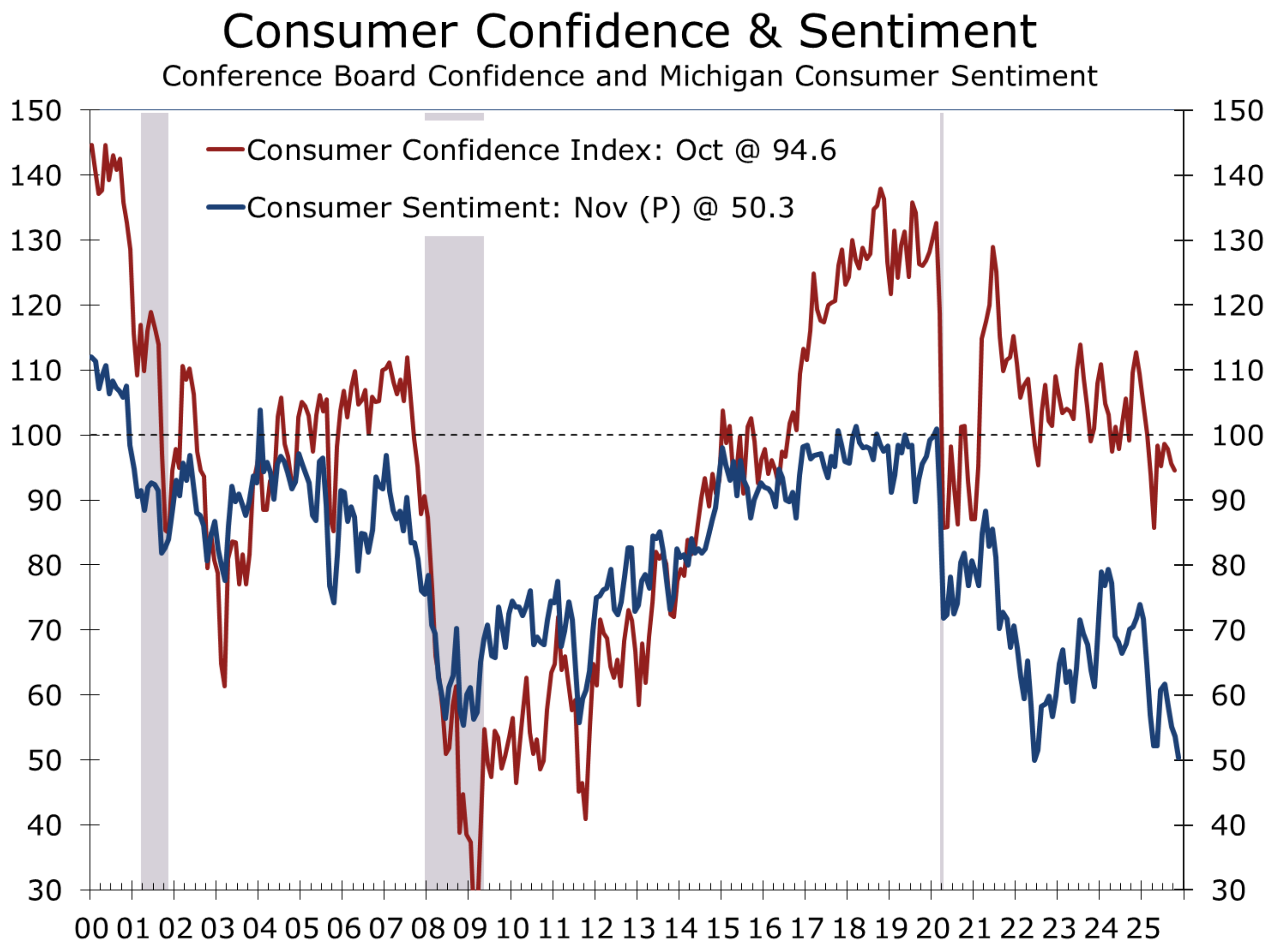
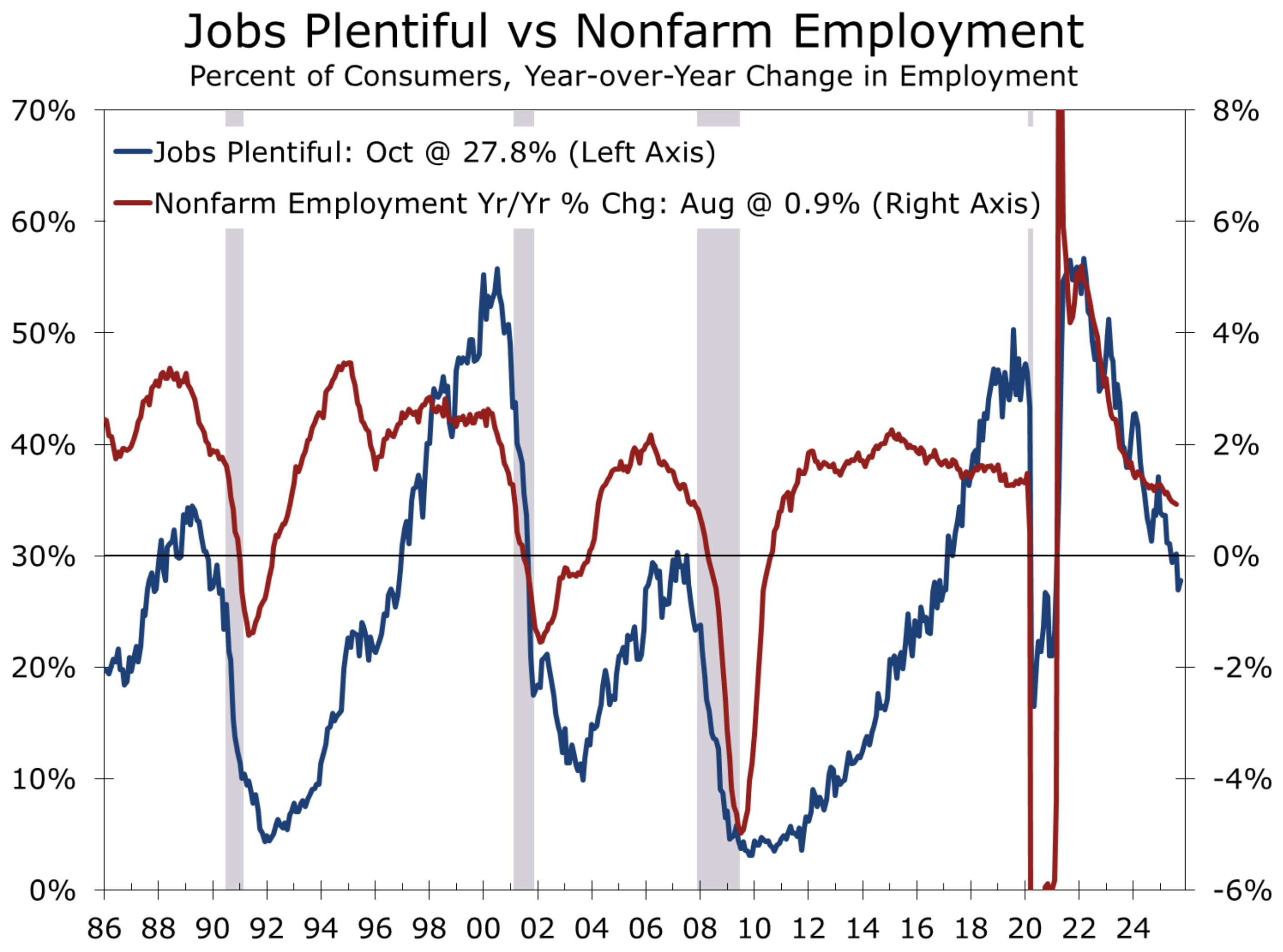
- Years of higher prices for housing, insurance, and groceries have weighed heavily on consumer sentiment.
- Uncertainty over tariffs and their impact on prices and hiring has further increased these concerns.
- Sentiment tumbled in early January, driving home the influence of political tensions, and remains consistent with slower economic growth—or worse.



Source: The Conference Board, University of Michigan and Refinitiv

Consumers Feel that the Labor Market is Weaker than the BLS says

- The share of consumers who believe "jobs are plentiful" has fallen sharply.
- This trend aligns with JOLTS data showing fewer hires and fewer separations.
- Weaker jobs data stand in sharp contrast to stronger GDP growth, suggesting the onset of a higher-productivity "*New Economy*" era.



Source: The Conference Board and Bureau of Labor Statistics (BLS)

Wages and Salaries are Holding Up Well Amidst Slowing Job Growth

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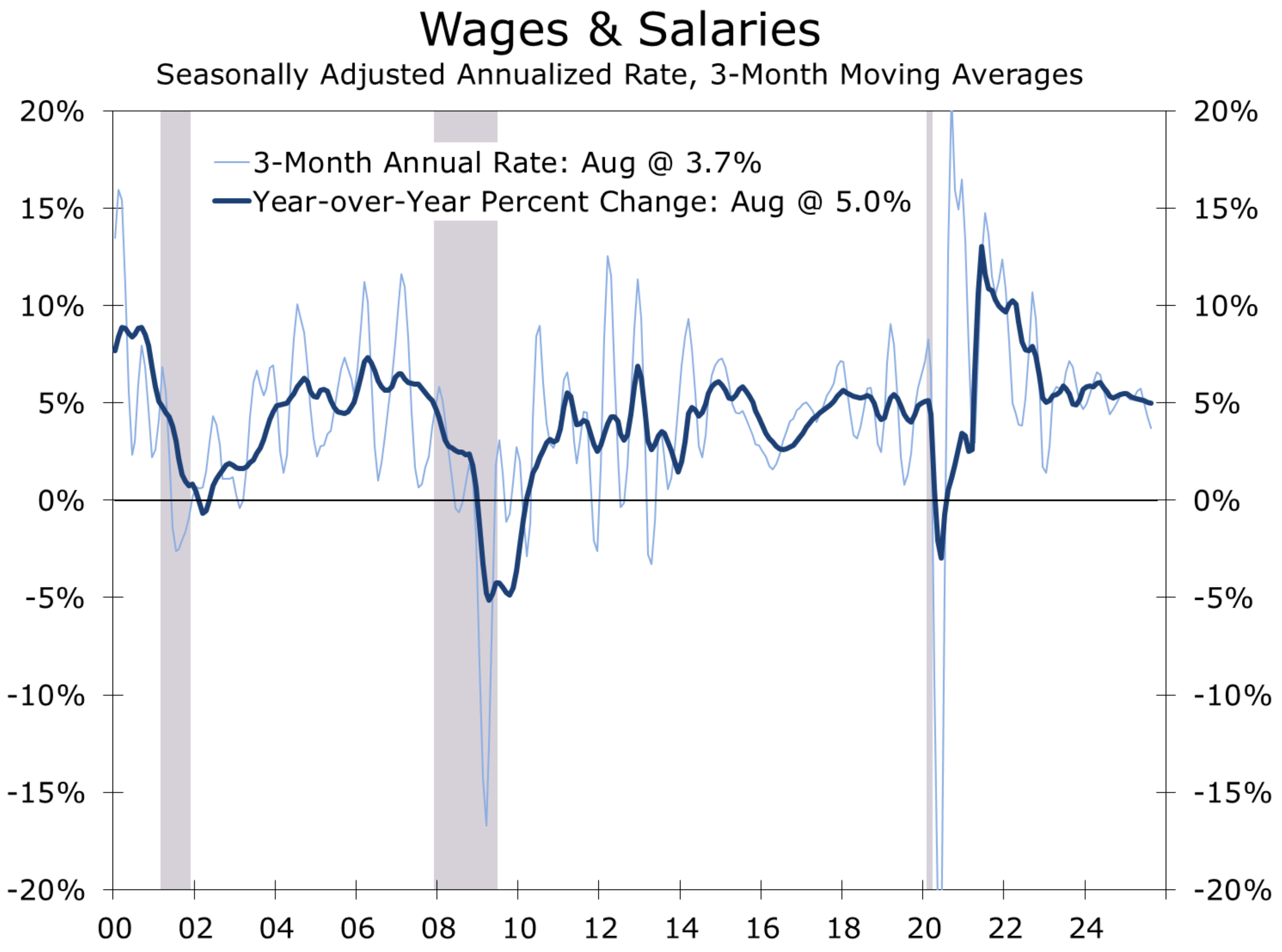
- Job hopping has slowed, as hiring has slowed across the country. We are in a "slow hiring, low firing" environment.
- Retail sales tend to closely follow wages and salaries.
- We look for wages and salaries to moderate toward 4.5% over the next couple of quarters.



Source: Bureau of Economic Analysis (BEA)

Tariffs are Top of Mind, yet the Economy is Less Exposed to Tariffs

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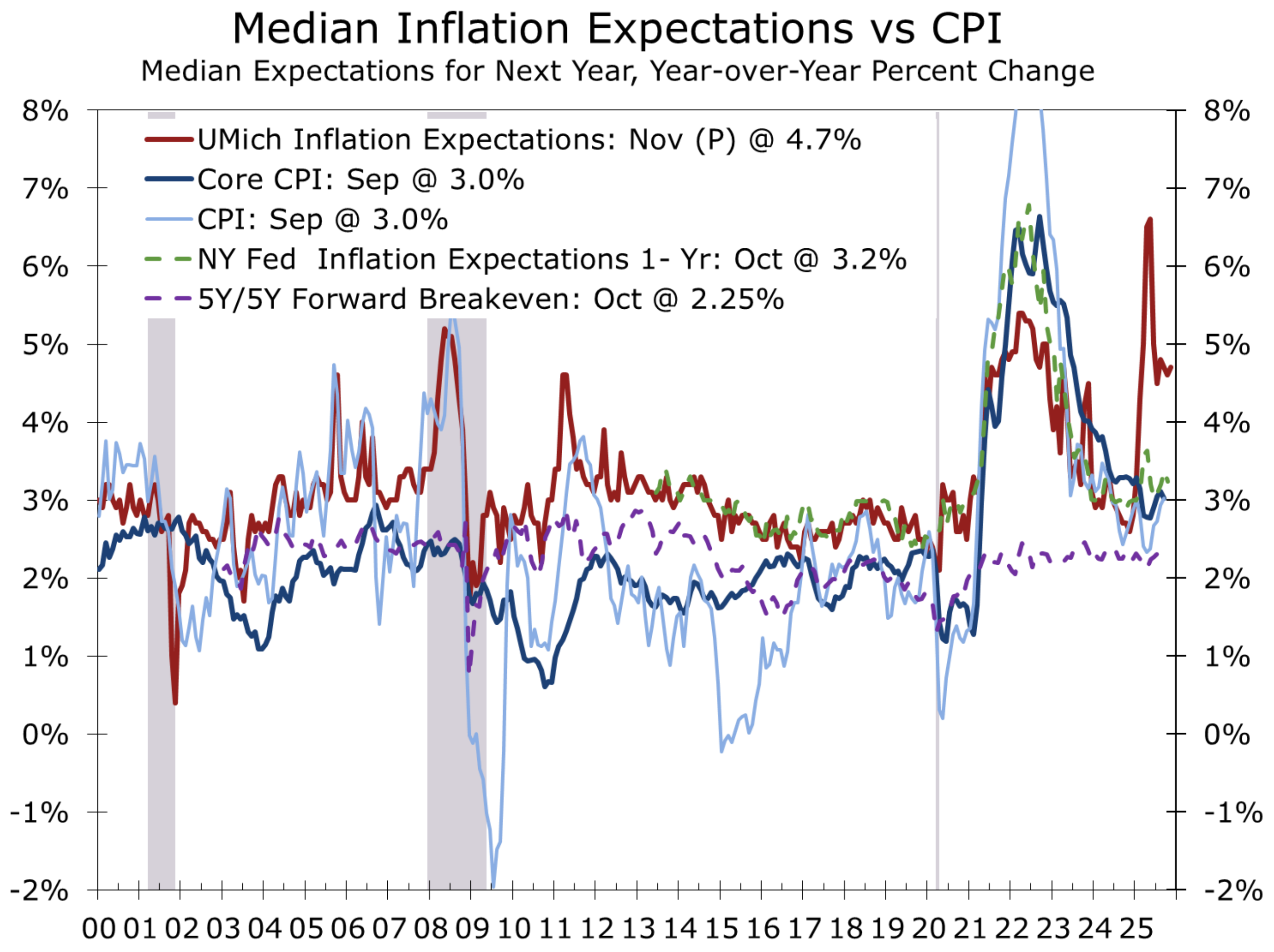
- Inflation expectations spiked following Trump's tariff announcements.
- While tariffs are the highest since the 1930s, the structure of the economy has changed dramatically since then.
- In the 1930s, 75% of consumer spending went to goods; today, more than two-thirds is for services, which are not tariffed.
- Of the remaining one-third spent on goods, only 40% are imported—and only part are subject to tariffs.
- Tariffs are also placed on the manufactured cost of goods not the retail price.



Source: University of Michigan and Bureau of Economic Analysis (BEA)

FDIC Delinquency Trends Across Loan Categories

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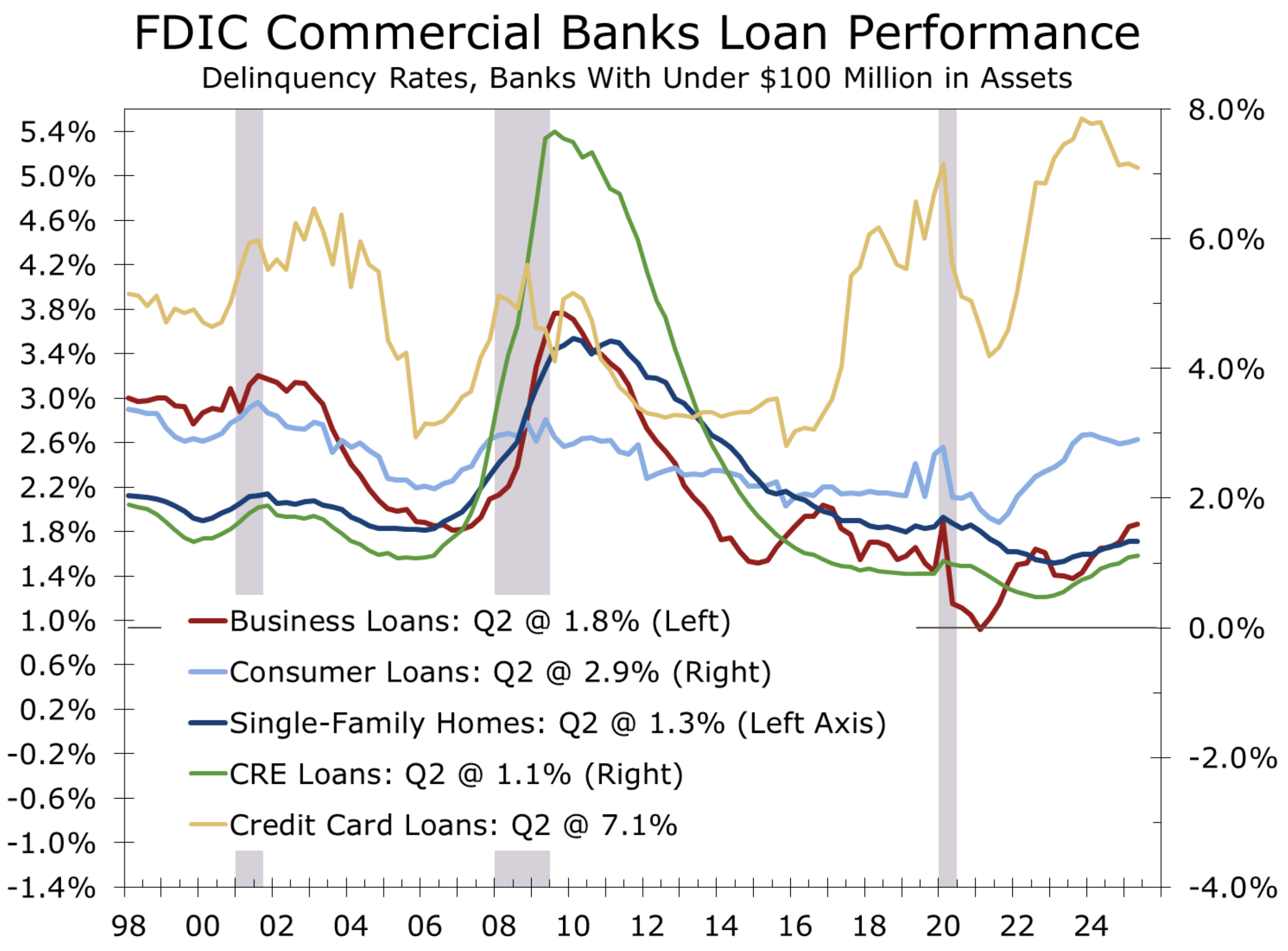
- Consumer delinquency rates have risen as household budgets are increasingly squeezed by higher costs for necessities.
- CRE delinquencies have crept higher, reflecting stress in the office sector and slower rent growth in general.
- Business & Resi delinquency remains relatively stable, though early signs of softening are emerging.



Source: Federal Deposit Insurance Corporation (FDIC)

Core Retail Sales Strengthened this Summer

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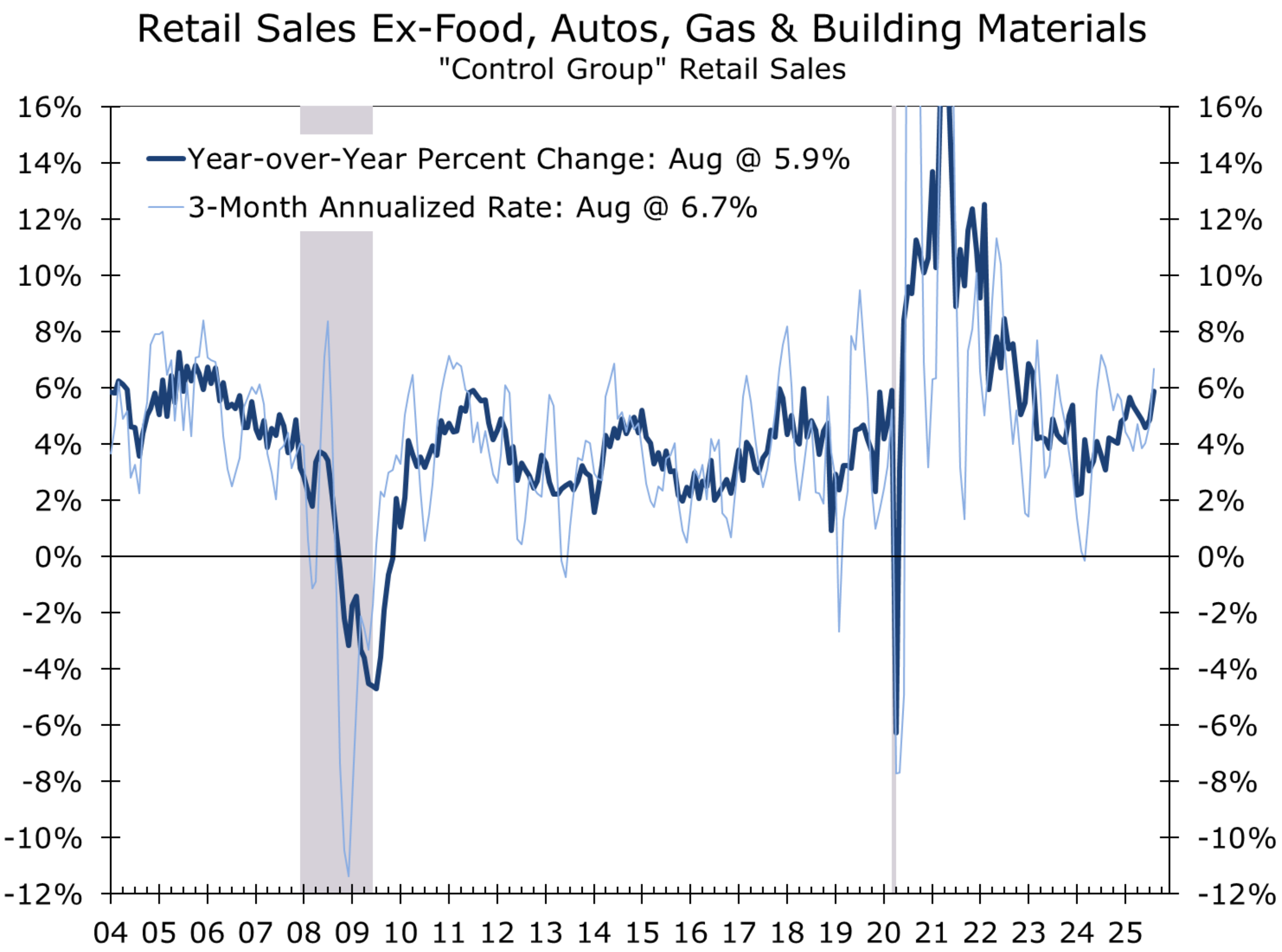
- Core retail sales surged at a 6.7% annual rate over the past three months.
- Part of the increase reflects a rise in goods prices, but real core retail sales look like the rose at around a 5% annual rate.
- Sales appear to have held up well in September, and a good back-to-school season is typically a good sign for the holiday shopping season.



Source: Census Bureau

Upper Income Household Account for the Bulk of Spending

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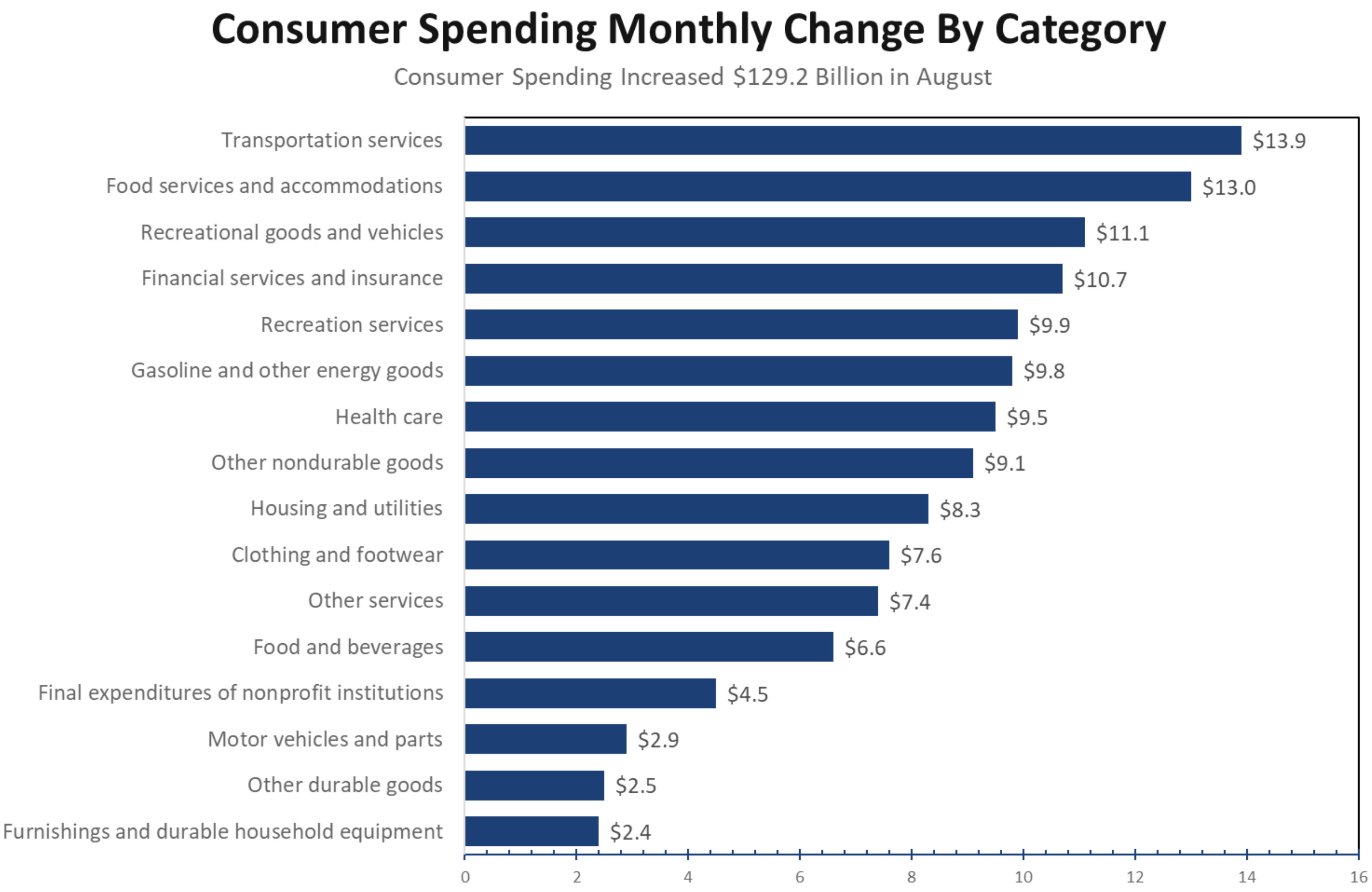
- Consumer spending has proven resilient but has become more reliant on higher income households.
- Spending for travel, entertainment and financial services top outlays.
- Middle income households are getting squeezed from higher inflation and slowing job growth, which is putting pressure on department stores and restaurant chains.



Source: Bureau of Economic Analysis (BEA)

The Bond Market is Pricing in Just One More 25 BP Cut

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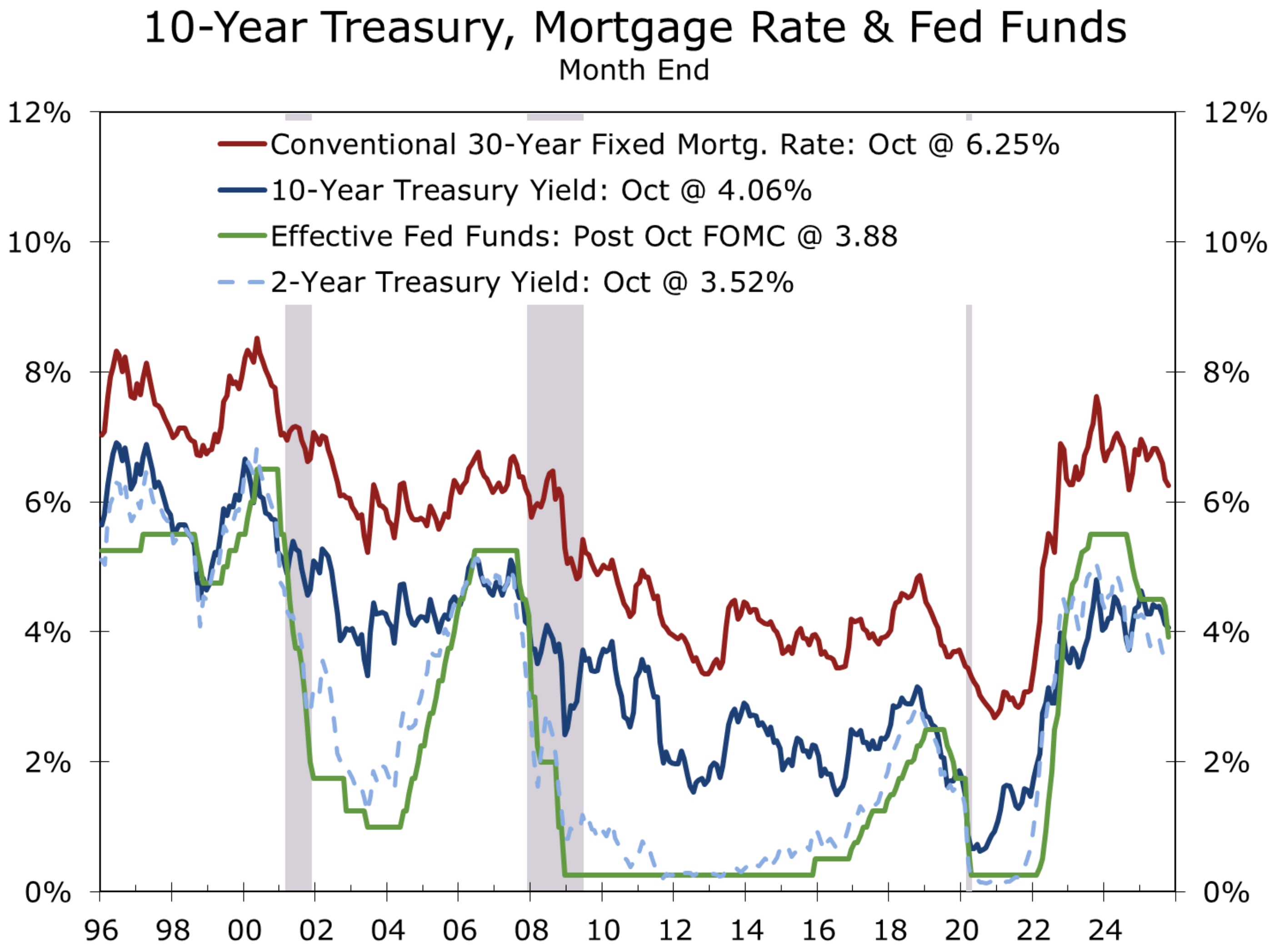
- The 2-Year Treasury typically leads the Fed Funds rate and currently signals just one more quarter point cut.
- Market consensus appears too bearish on growth, inflation and the dollar.
- **Our outlook:** We expect another quarter point cut in December, with a possible follow-up in January. The Fed could skip a meeting, our preferred path, stretching out the easing cycle.



South: Federal Reserve Board

Housing Starts Slow Amid Rising Inventory and Softer Buyer Demand

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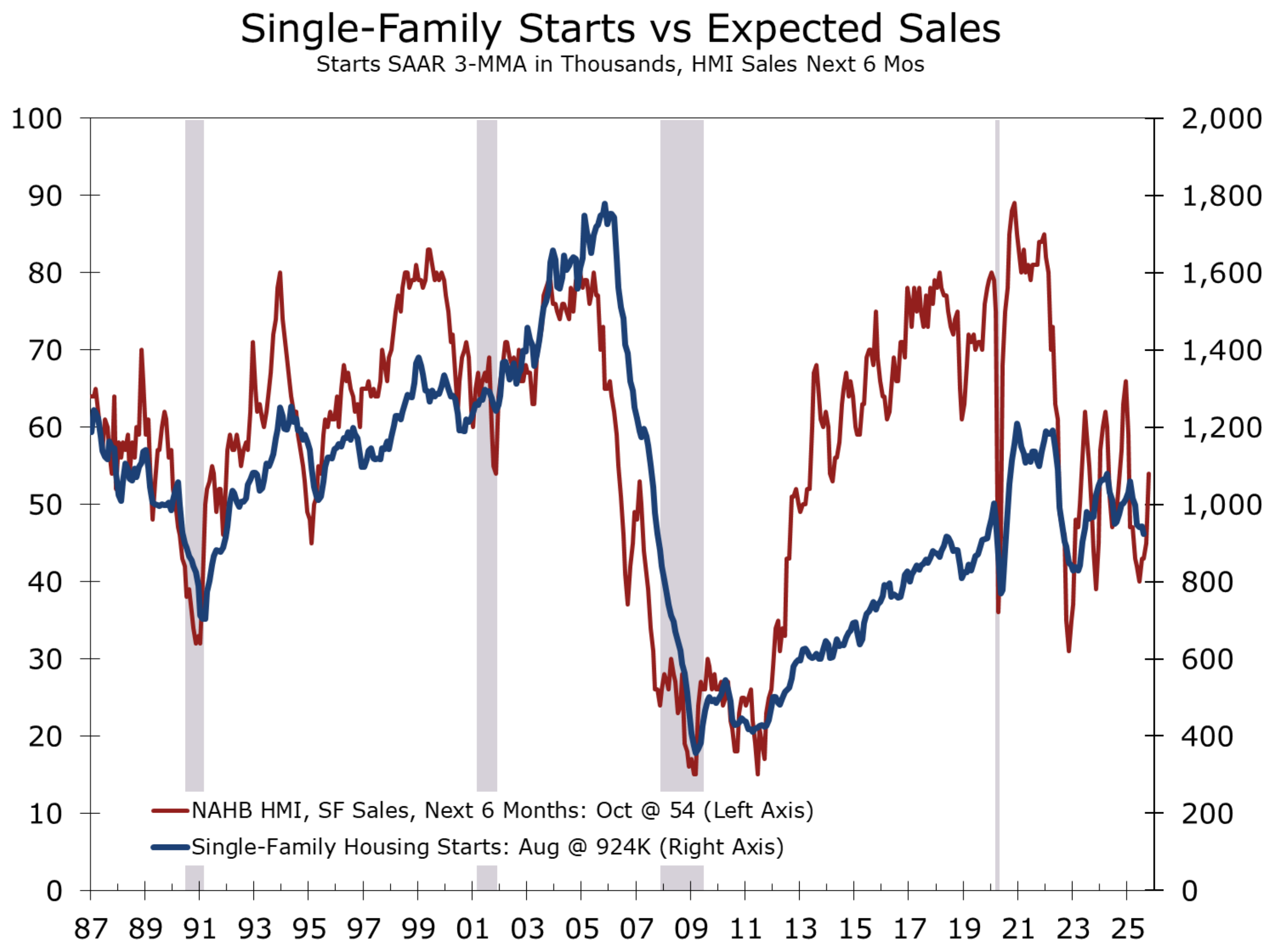
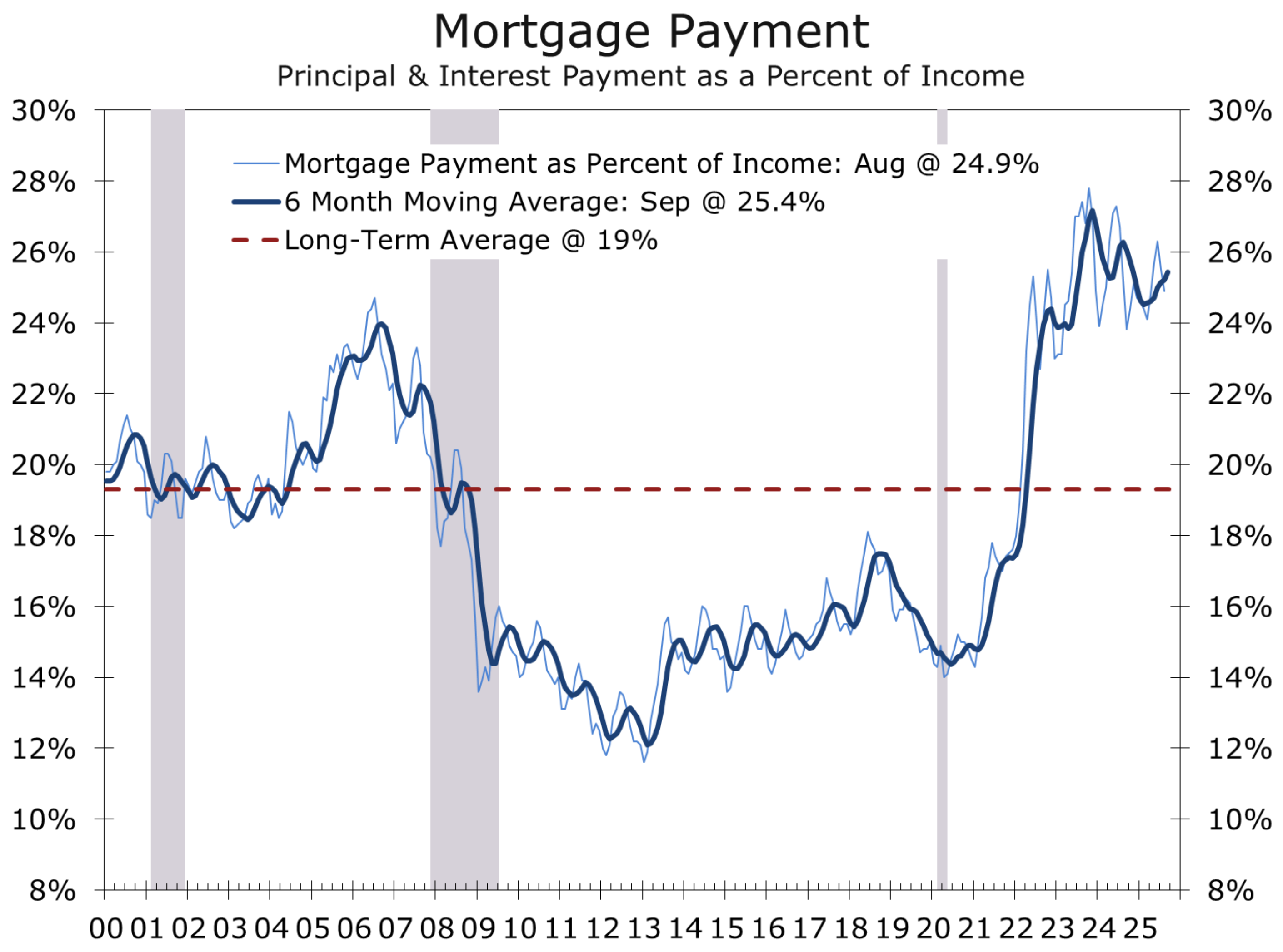
- Single-family starts fell 7.0% in August to 890,000 (seasonally adjusted), as high inventories and affordability pressures bite.
- Builders are aggressively discounting to trim the heaviest unsold inventories in more than a decade.
- The NAHB/Wells Fargo HMI rose to 54 in October, as price cuts brought out buyers. High inventories are weighing on builder sentiment, while discounting is slowly bringing buyers back into the market.



Source: Census Bureau and National Association of Home Builders (NAHB)

Principal and Interest Payments Require an Outsized Share of Income

- Home price appreciation has outpaced income and made housing less affordable for a large portion of the population.
- Higher prices are being driven by restrictions on new development and higher development costs.
- These trends have favored the South, but the affordability migration has pushed home prices above the native area's income.



Source: National Association of Realtors

Mortgage Rates Are Near Their Long-Run Average

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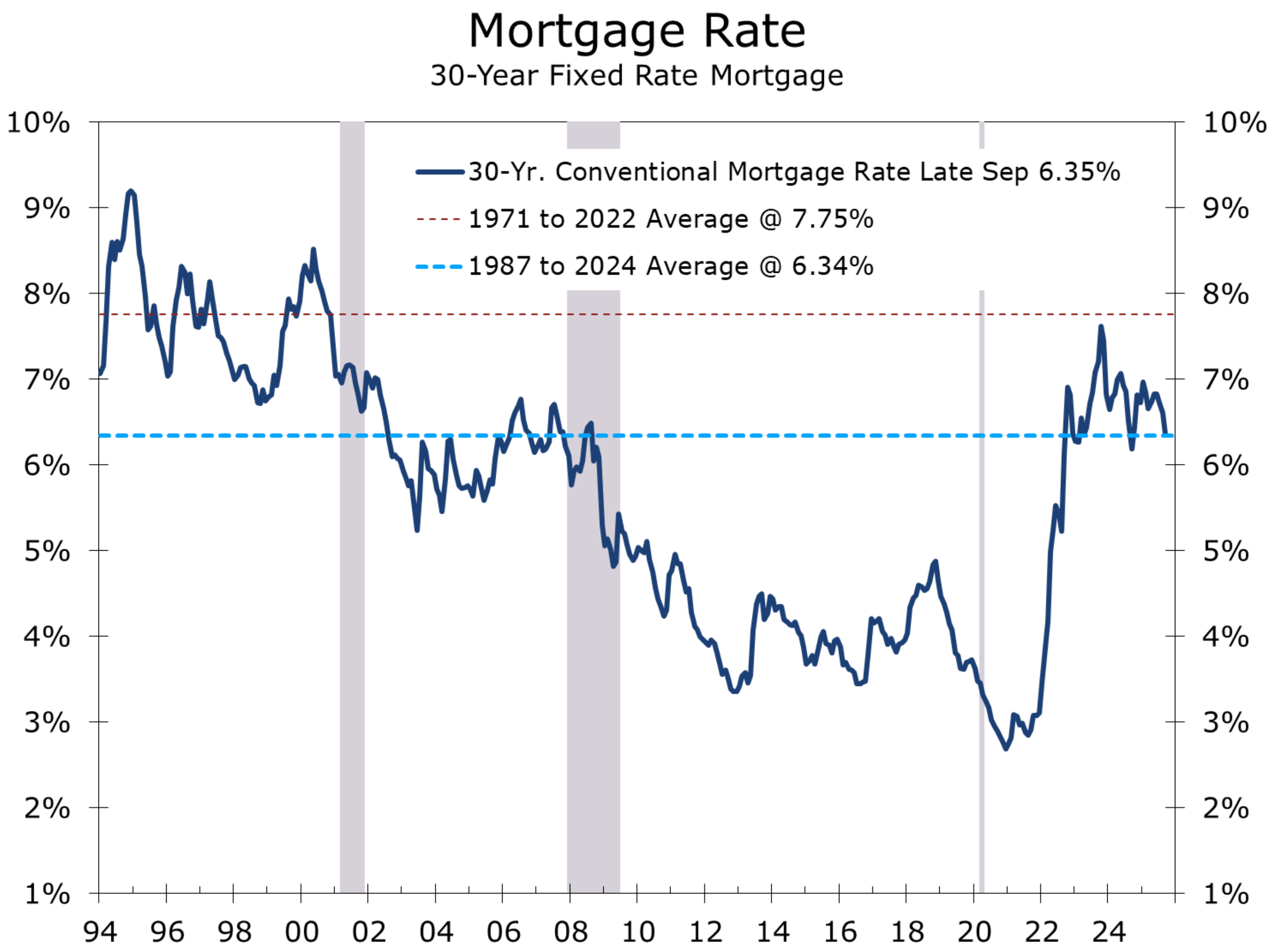
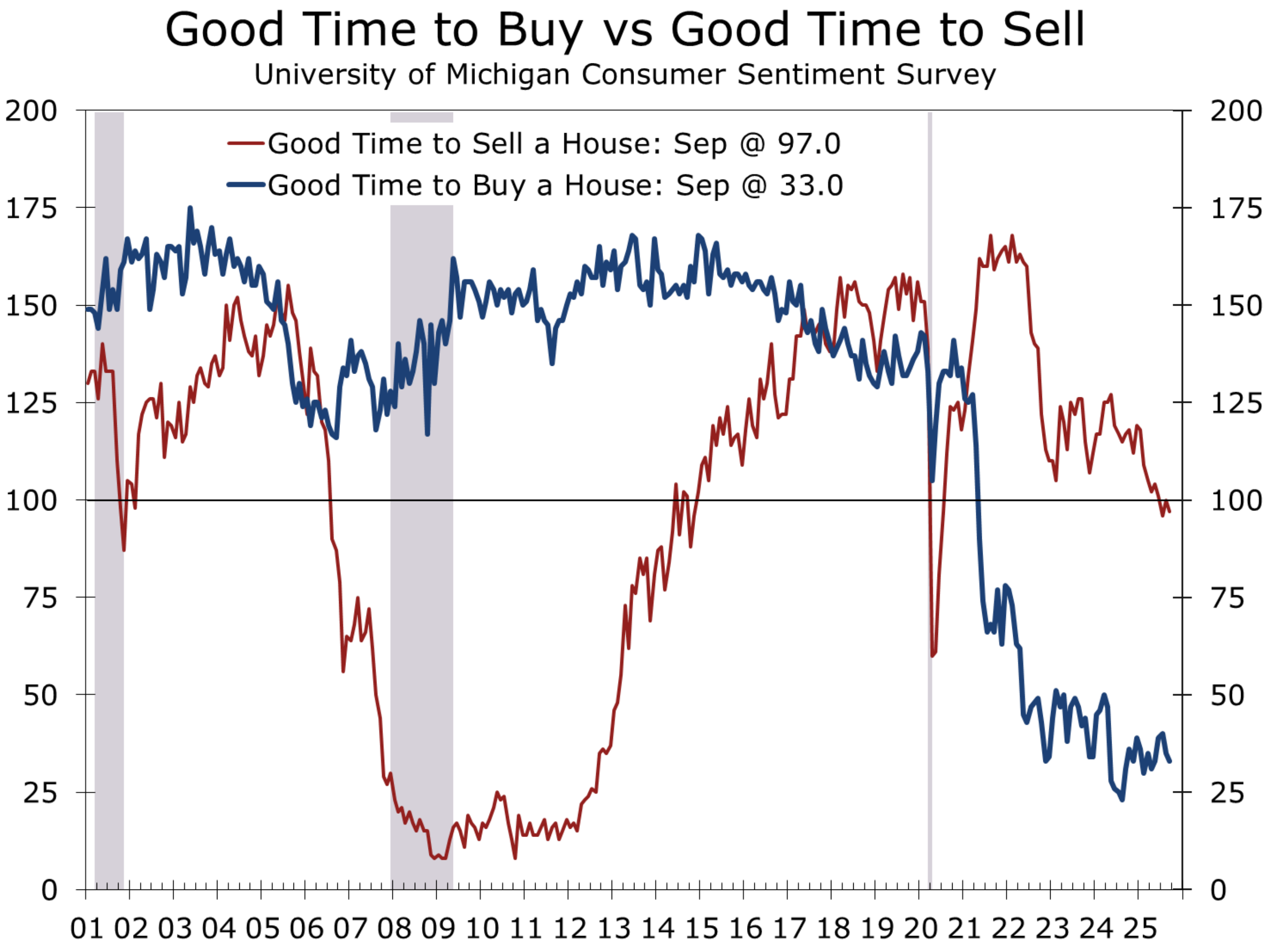
- Interest rates are only partially responsible for the affordability crisis.
- Mortgage rates have recently fallen near their long-run norm and are unlikely to fall significantly further.
- The low rates of the 2009-2021 period were the exception, not the new norm.



Source: Freddie Mac and Piedmont Crescent Capital

Buying Sentiment Remains Weak and Selling Sentiment is Falling

- The lack of affordable homes available for sale and 'high' interest rates have kept potential buyers on the sidelines.
- Fixed mortgage rates below 6.50% are a key signal to bring buyers back, but rates around 6% would produce a more meaningful rebound.
- The hiring slowdown is also weighing on buying plans.



Source: University of Michigan

Consumers Are a Slightly More Upbeat About Major Purchases

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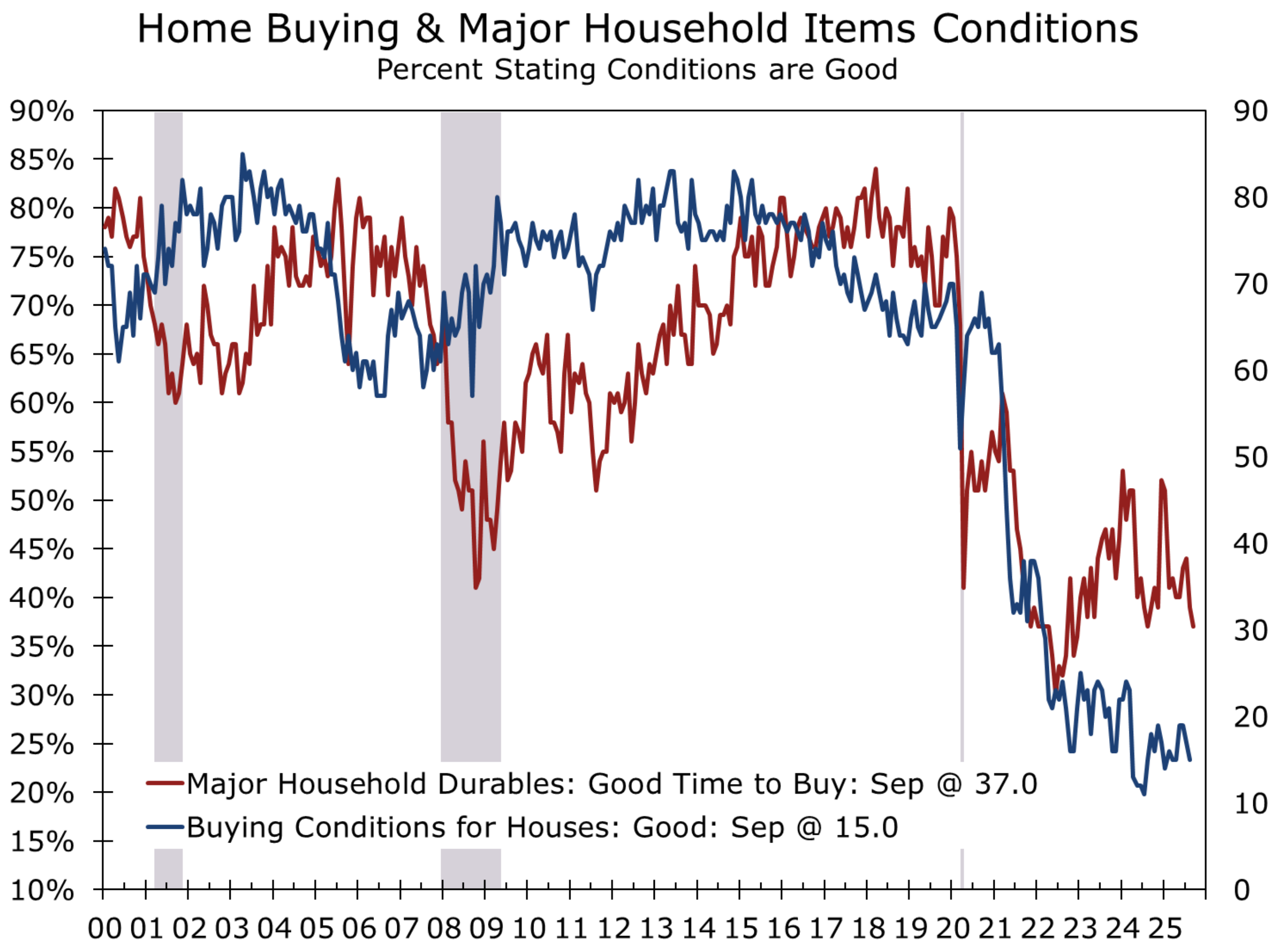
- With so many homeowners locked into low-rate mortgages, the link between home buying plans and plans to purchase major appliances have split.
- Buying plans remain low, however, reflecting the split between families that make more or less than the national median.



Source: University of Michigan

Existing Home Sales Have Likely Bottomed

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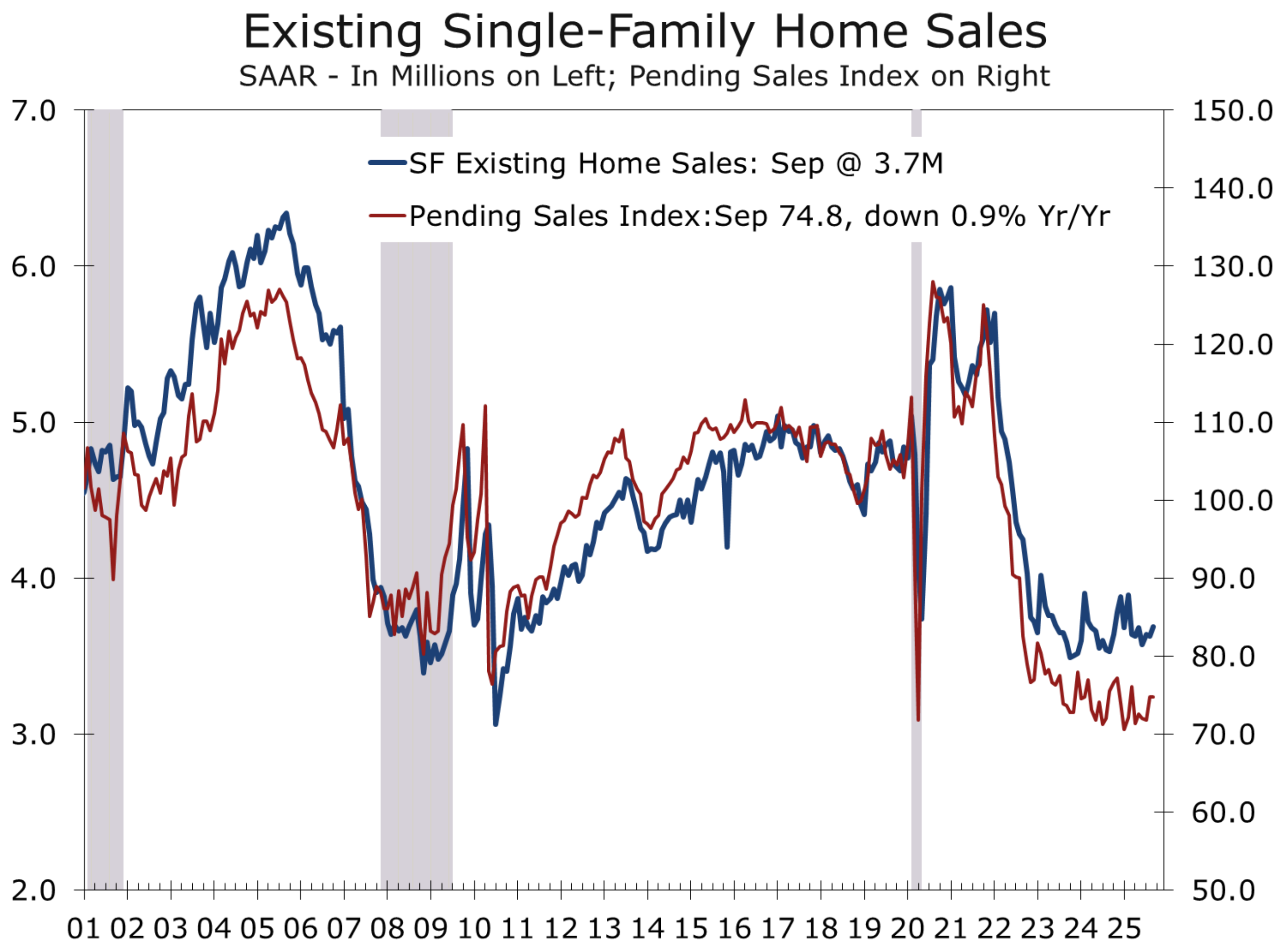
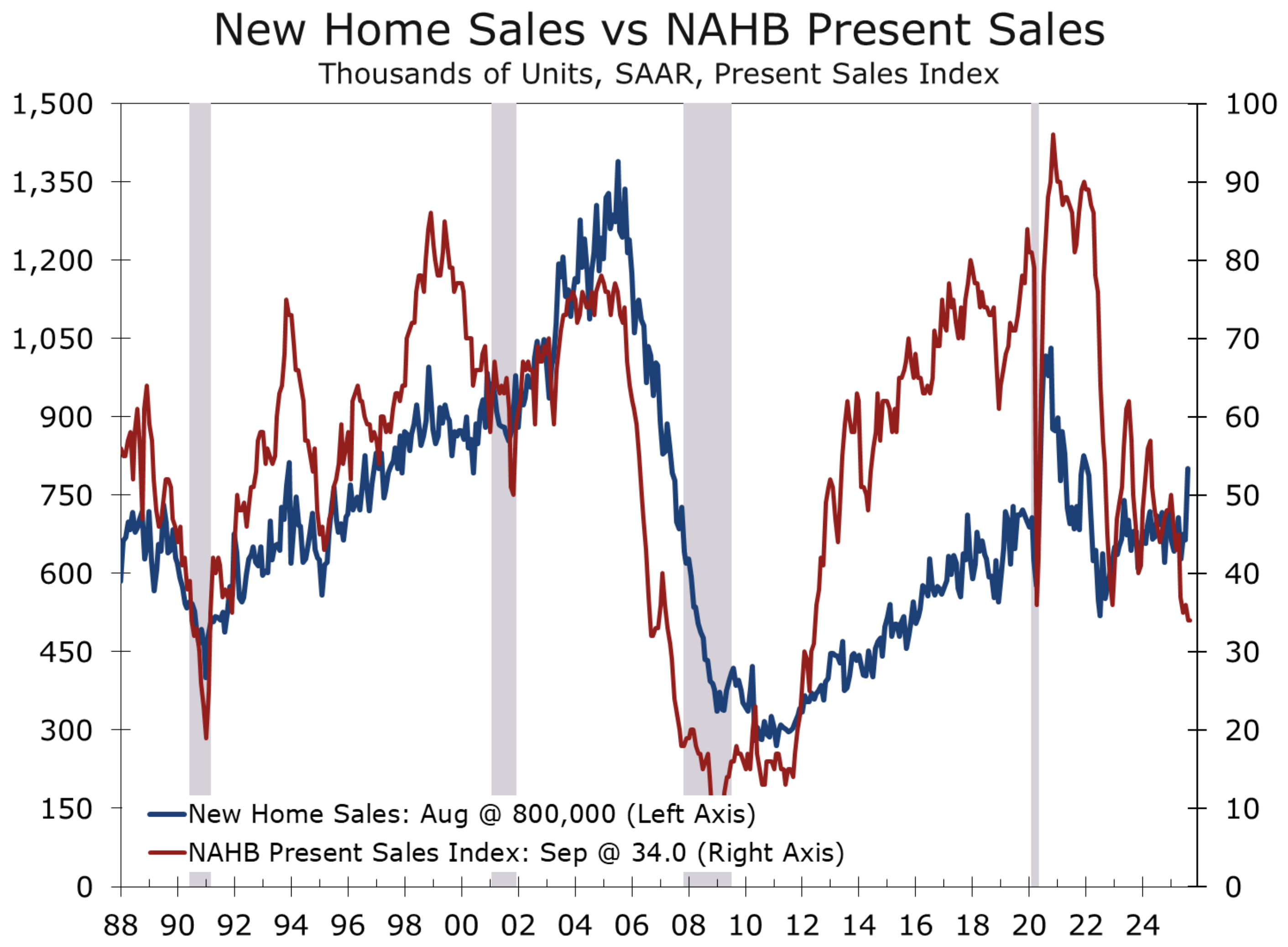
- Pending home sales were unchanged in September but remain well below the recent trend in closings.
- The widening gap between two is noteworthy and is consistent with reports of an increase in broken deals.
- Higher property taxes and insurance costs are adding to affordability woes.
- We look for existing home sales to improve modestly in 2026 and look for a good spring selling season next year.



Source: National Association of Realtors

Confidence Has Fallen on Less Buyer Traffic and More Inventory

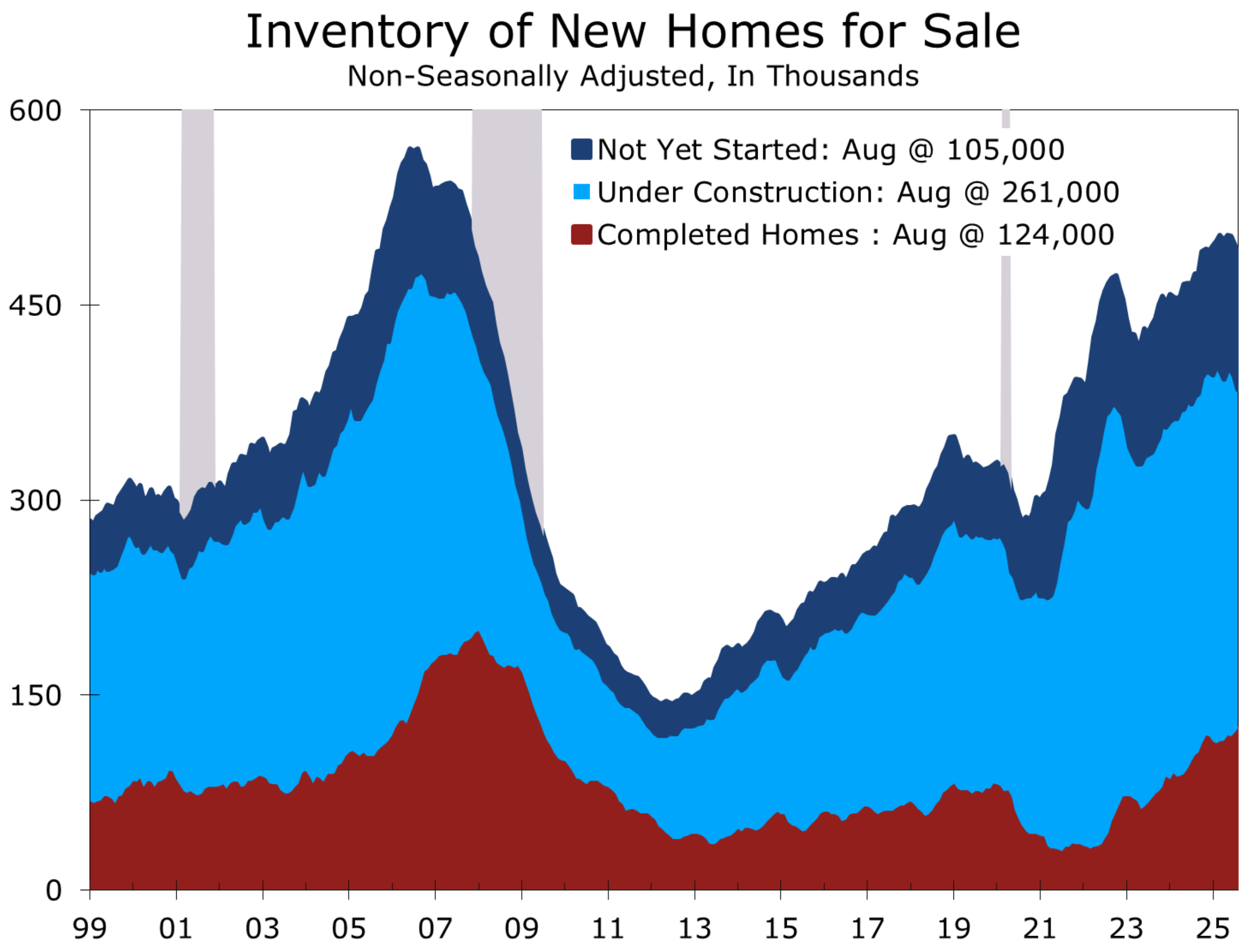
- New home sales spiked in September, as lower interest rates and aggressive discounting brought buyers back out.
- The spike in sales is surprising as buyer traffic has slowed. New home sales are extremely volatile and prone to revision.
- We expect the recent pullback in mortgage rates and increased inventory to lead to a modest sales uptick this fall.



Source: National Association of Realtors

New Home Inventories Have Increased

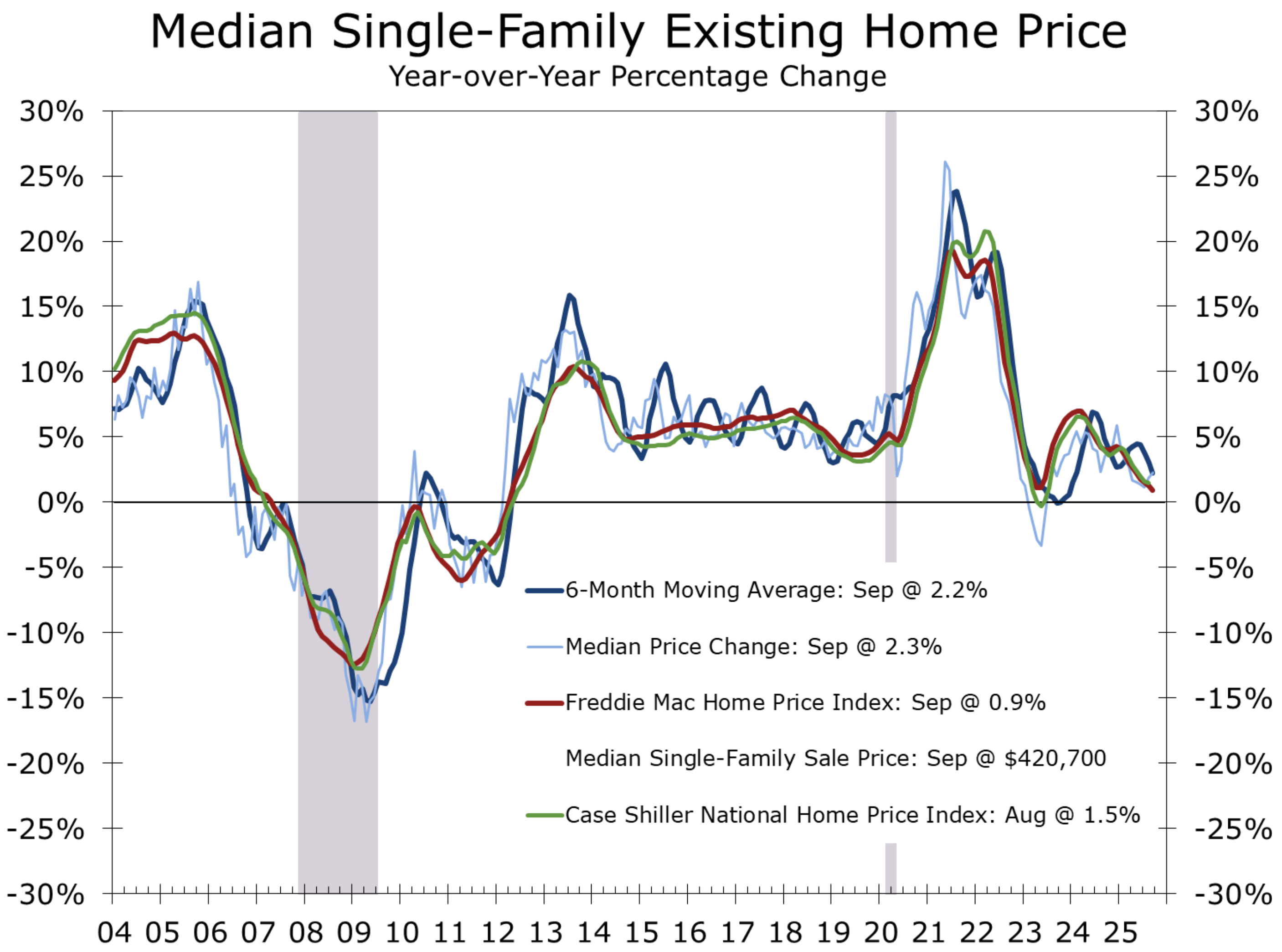
- Inventory fell slightly for the third month in row, sliding bac to 490,000 homes in August, but remain 4% higher than a year ago.
- With sales up, supply fell to 7.4 months, down from a high of 9.6 months.
- Completed, move-in ready homes has risen 25.3% over the past year to 124,000.
- Median new home price fell 0.8% in July to $403,800 and have fallen 5.9% from their year ago level.



Source: The National Association of Realtors

Home Prices Are Moderating

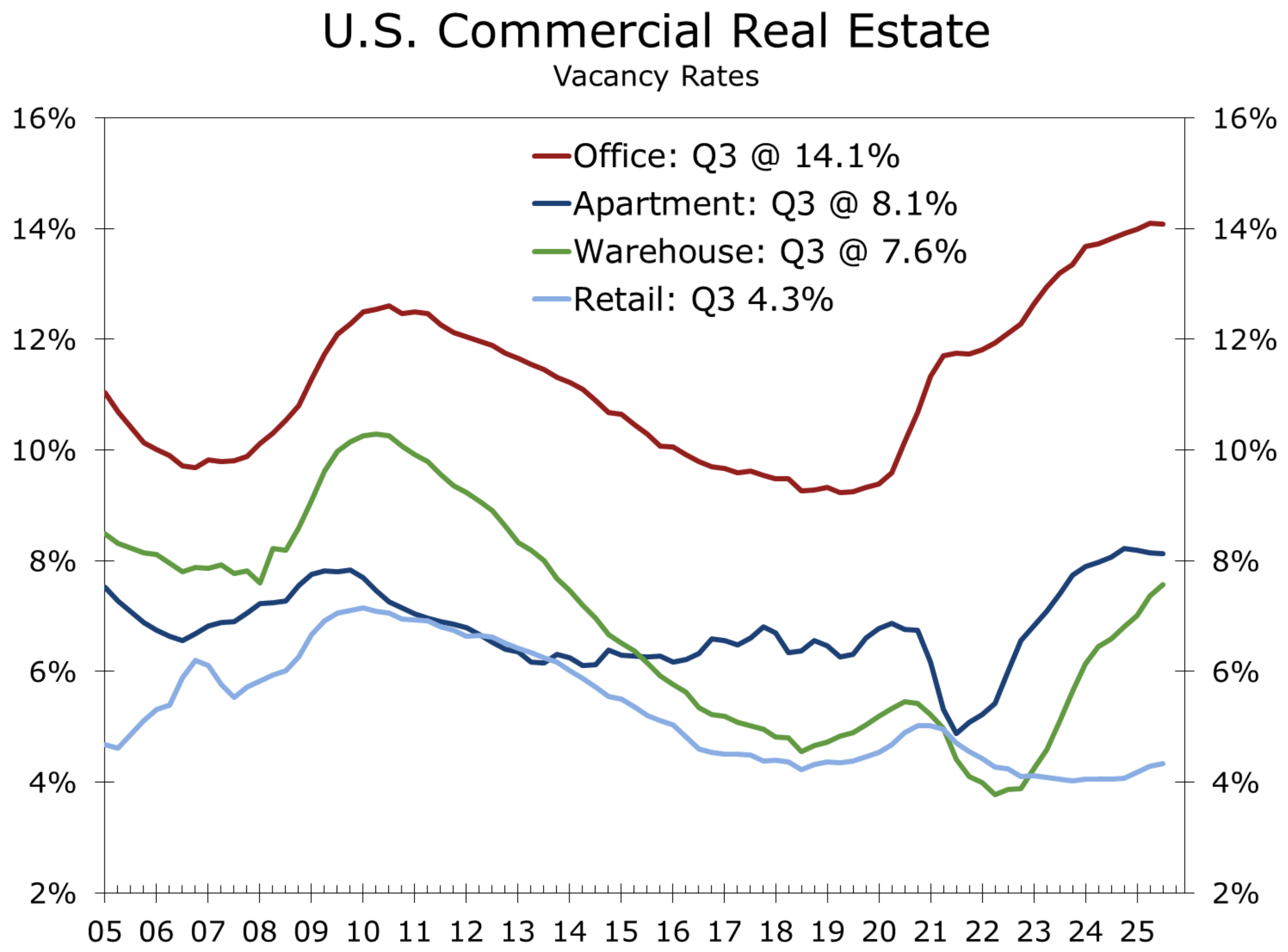
- The Case-Shiller HPI has fallen the past three months, and year-to-year price appreciation has slowed across all price measures.
- The Median Price of Existing Home hit an all-time high due to a shift in the mix of sales.
- Prices are easing the most in markets that had seen sharp appreciation, including Florida and Austin.



Source: S&P Global

Office and Apartment Vacancy Rates Are Showing Signs of Stabilizing

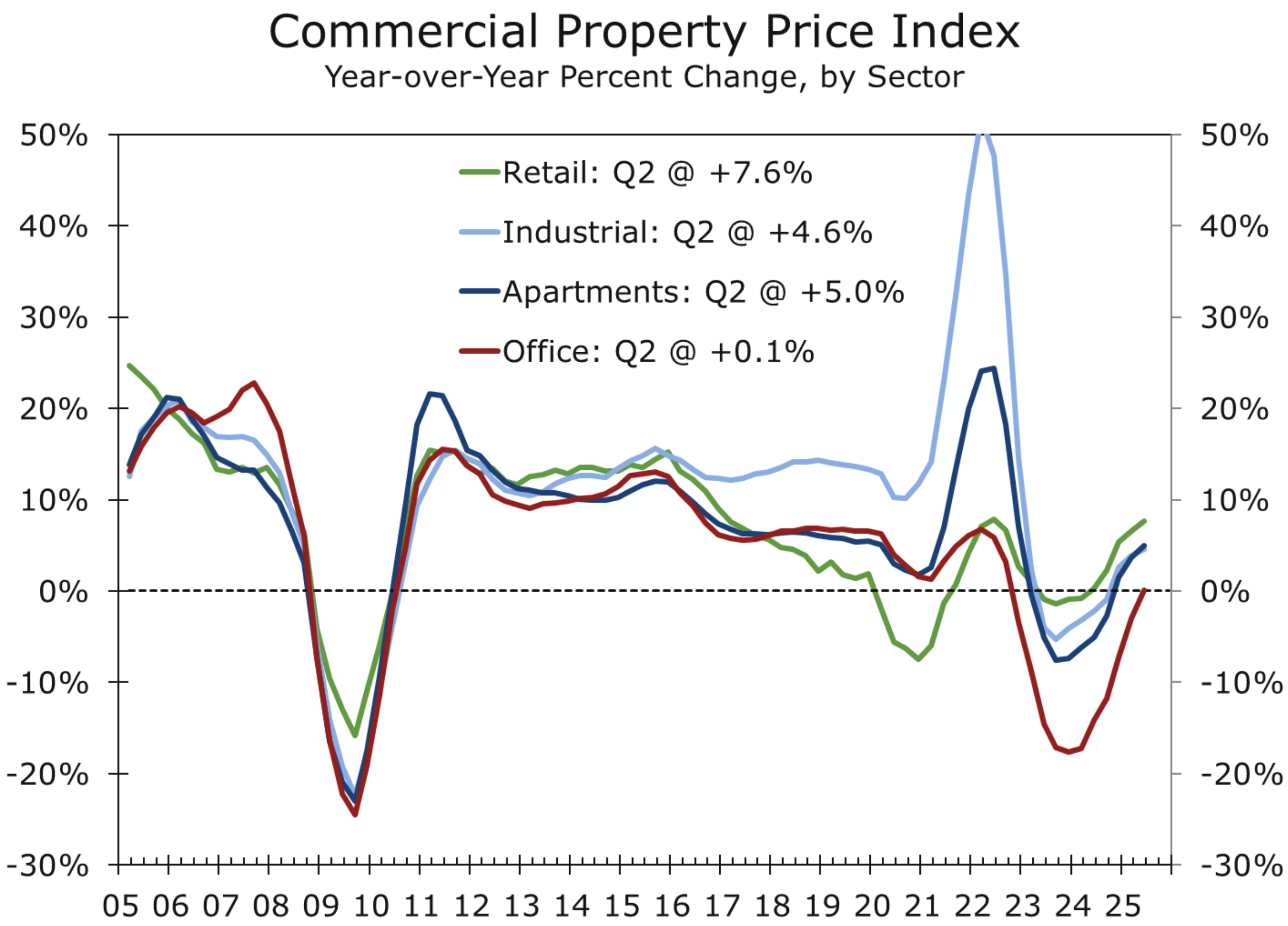
- The U.S. office market remains challenged: with vacancy around 14% and negative absorption despite improving return-to-office trends and limited new deliveries.
- Apartment remain the standout—with stronger than expected demand.
- Industrial real estate is experiencing robust demand as growth slows from peak levels amidst a torrent of new supply.
- With little new supply, the retail market continues to see low vacancy, with strong demand for specialty retail and experiential space and even a modest recovery in enclosed malls.



Source: CoStar

Q2 Signaled a Fragile Rebound, with Income Gains Across All Sectors

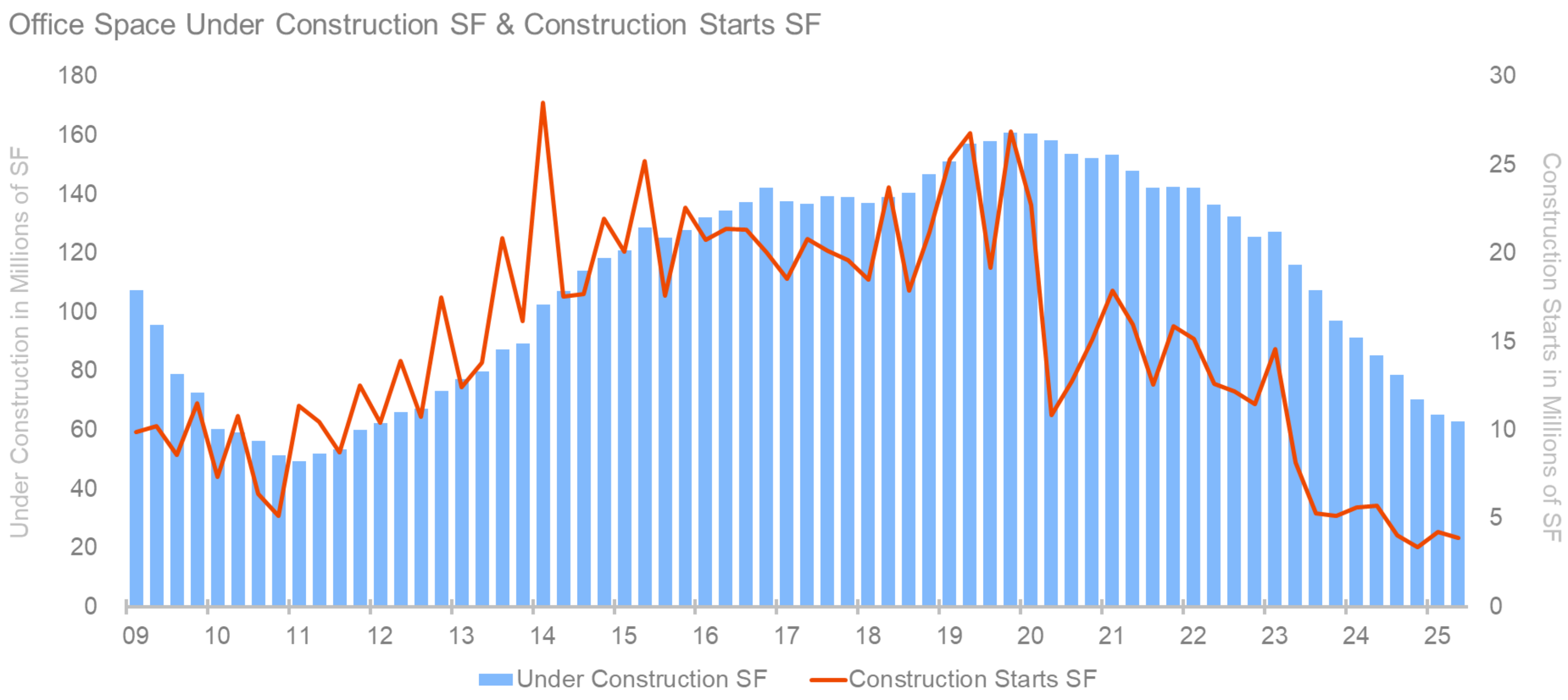
- Total return for Q2 2025 was +1.23%, marking the fourth consecutive quarter of positive returns.
- Income accounted for nearly the entire return, +1.19%, while capital appreciation added a modest +0.04%.
- All property sectors posted positive returns in Q2: seniors housing led with +2.08%, followed by retail (+1.94%); self-storage (+1.62%); apartments (+1.38%); office (+0.78%); and hotel (+0.04%).



Source: NCREIF

The Office Market is Close to Bottoming Out

- Office construction totals just 29.3 million square feet, the lowest since 2011 and reflects a sharp pullback in deliveries—helping ease future oversupply risks.
- Vacancy remains high but appear close to topping out—particularly for well-located Class A space.
- Leasing demand has strengthened in large urban markets.
- Suburban markets are also improving but have a larger supply of aging non-class A product that needs to be reinvented (not necessarily repurposed).



Source: CoStar

The Return to the Office is Boosting Urban Office Demand

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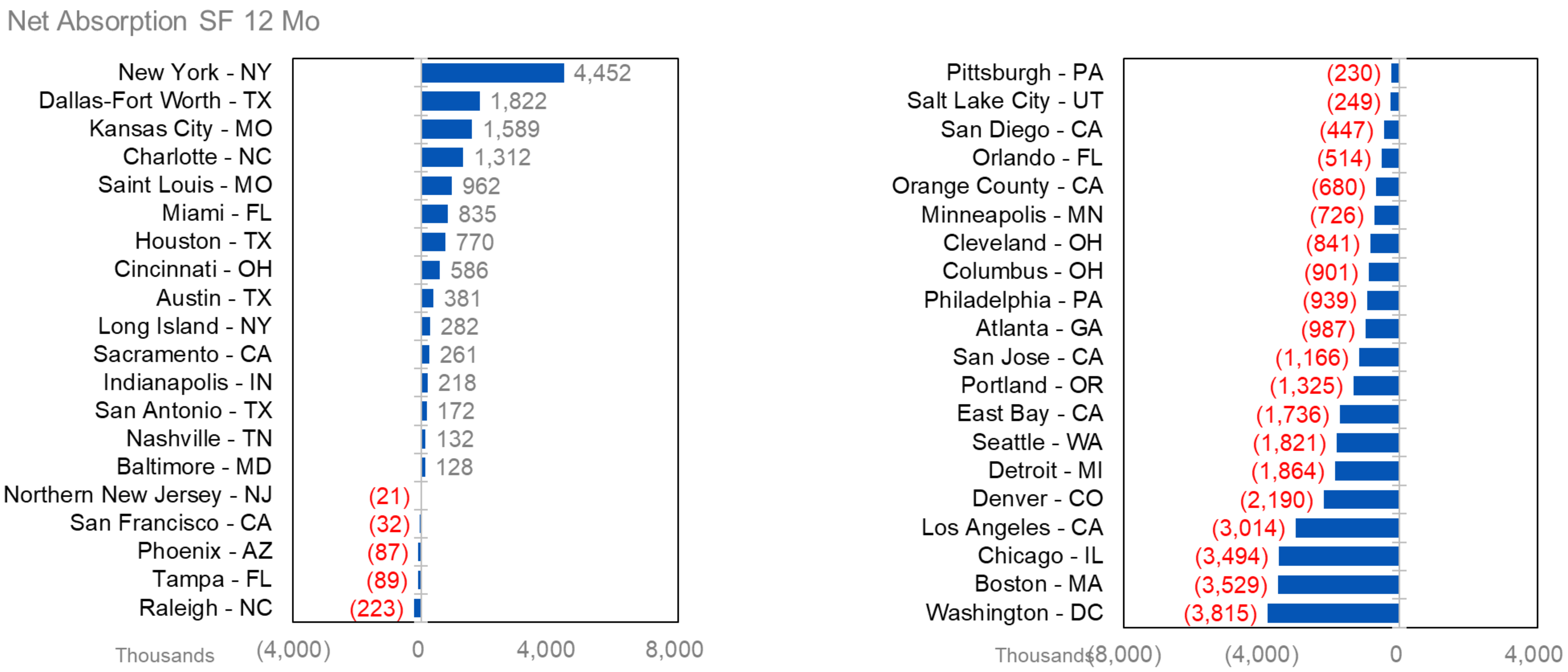
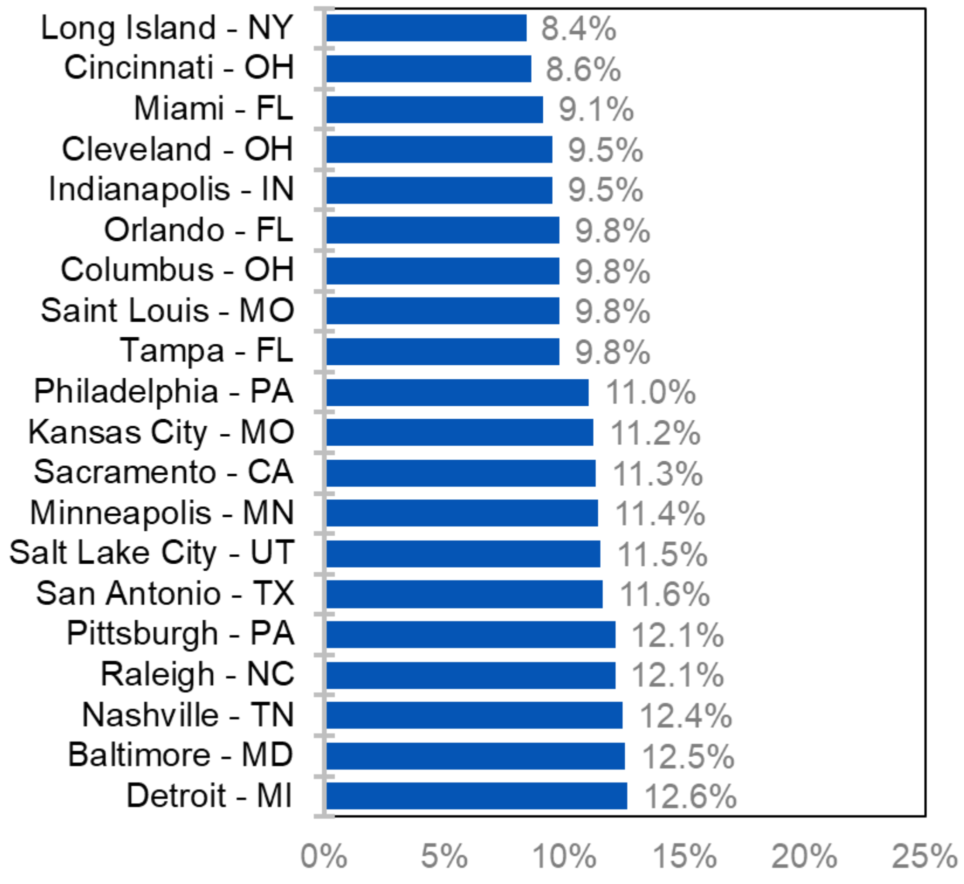
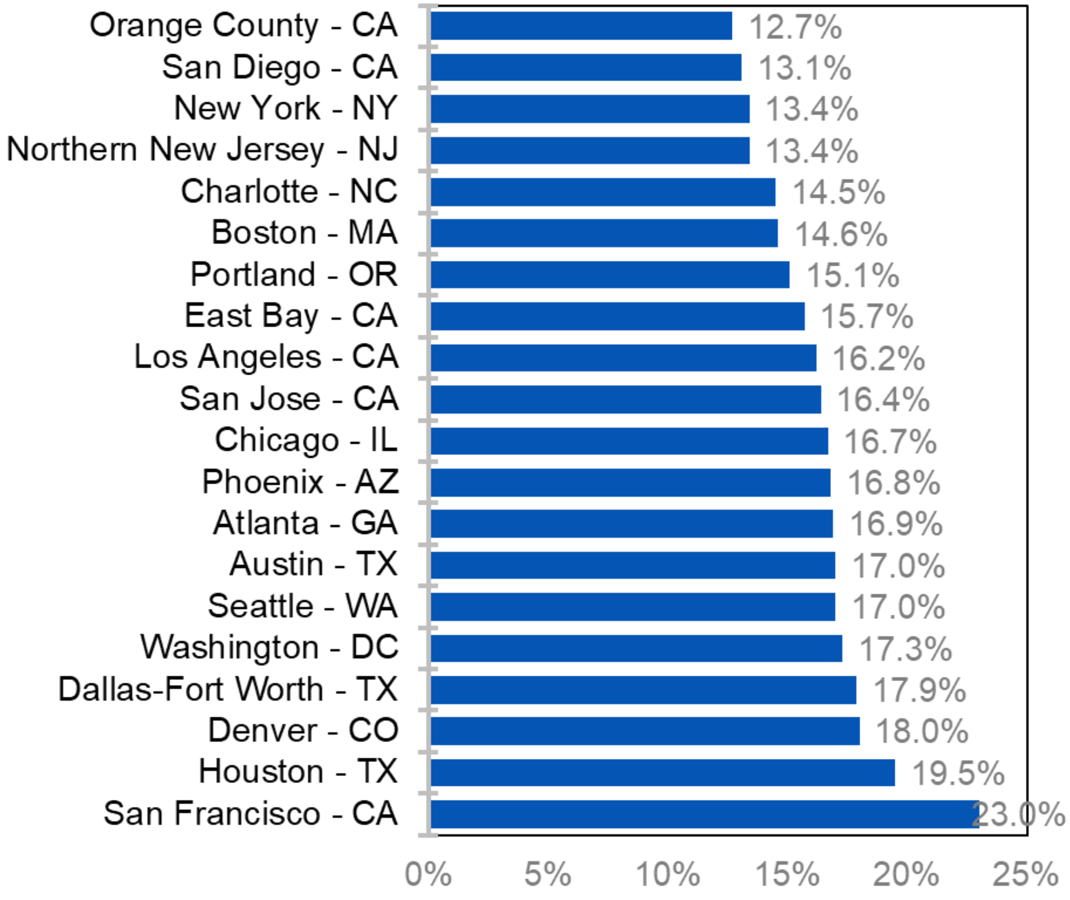


Source: CoStar

Office Vacancy is Highest in Areas With Large Suburban Markets

Vacancy Rate





Source: CoStar

Demand for Apartments Has Been Surprisingly Strong This Year

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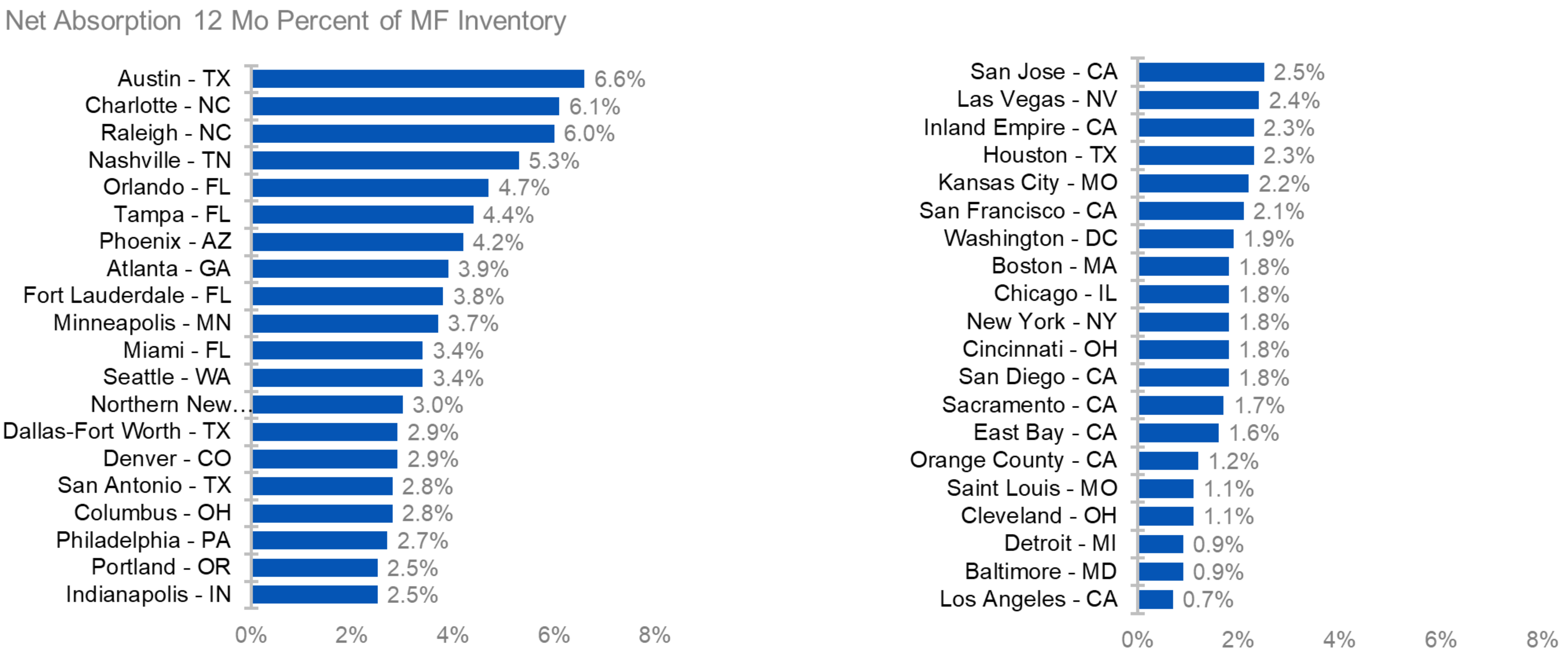

Source: CoStar

After a Brief Rebound, Apartment Supply is Expected to Slow

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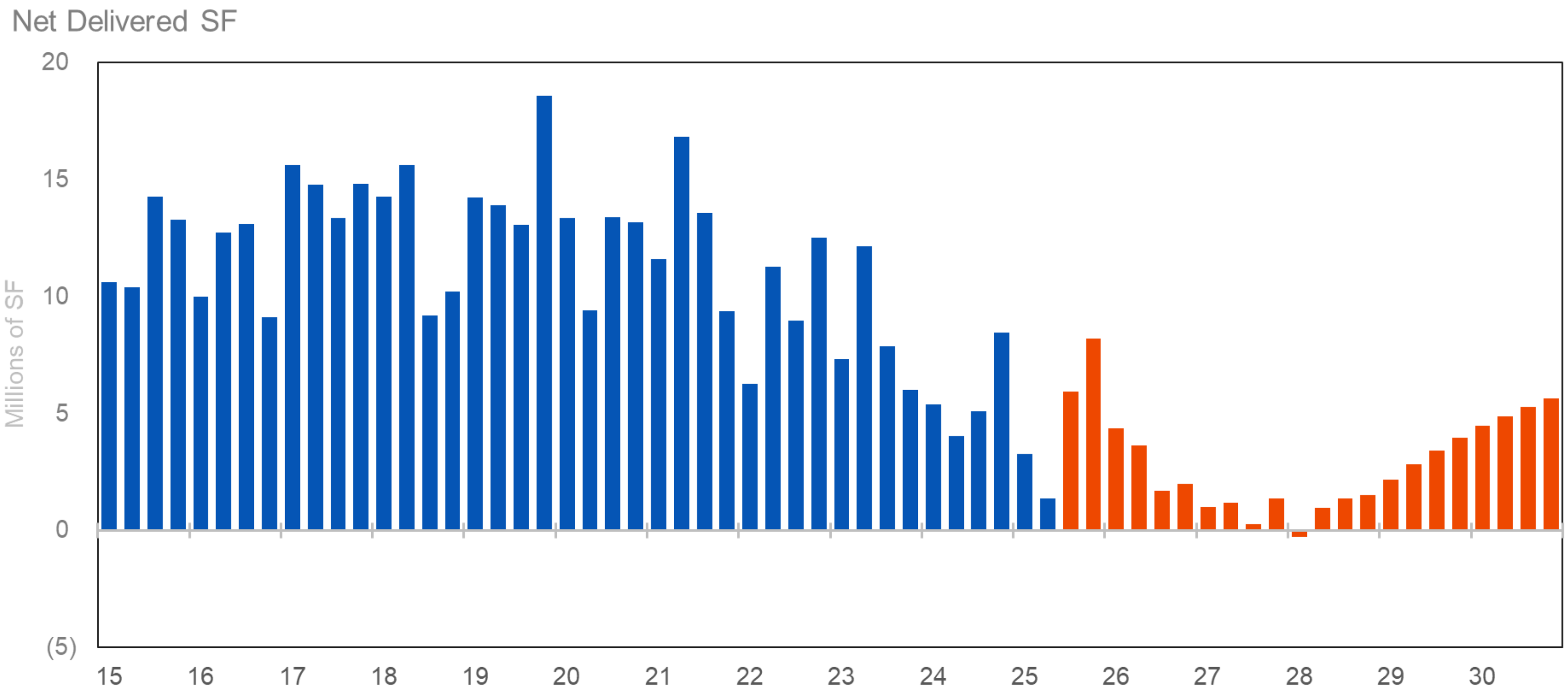
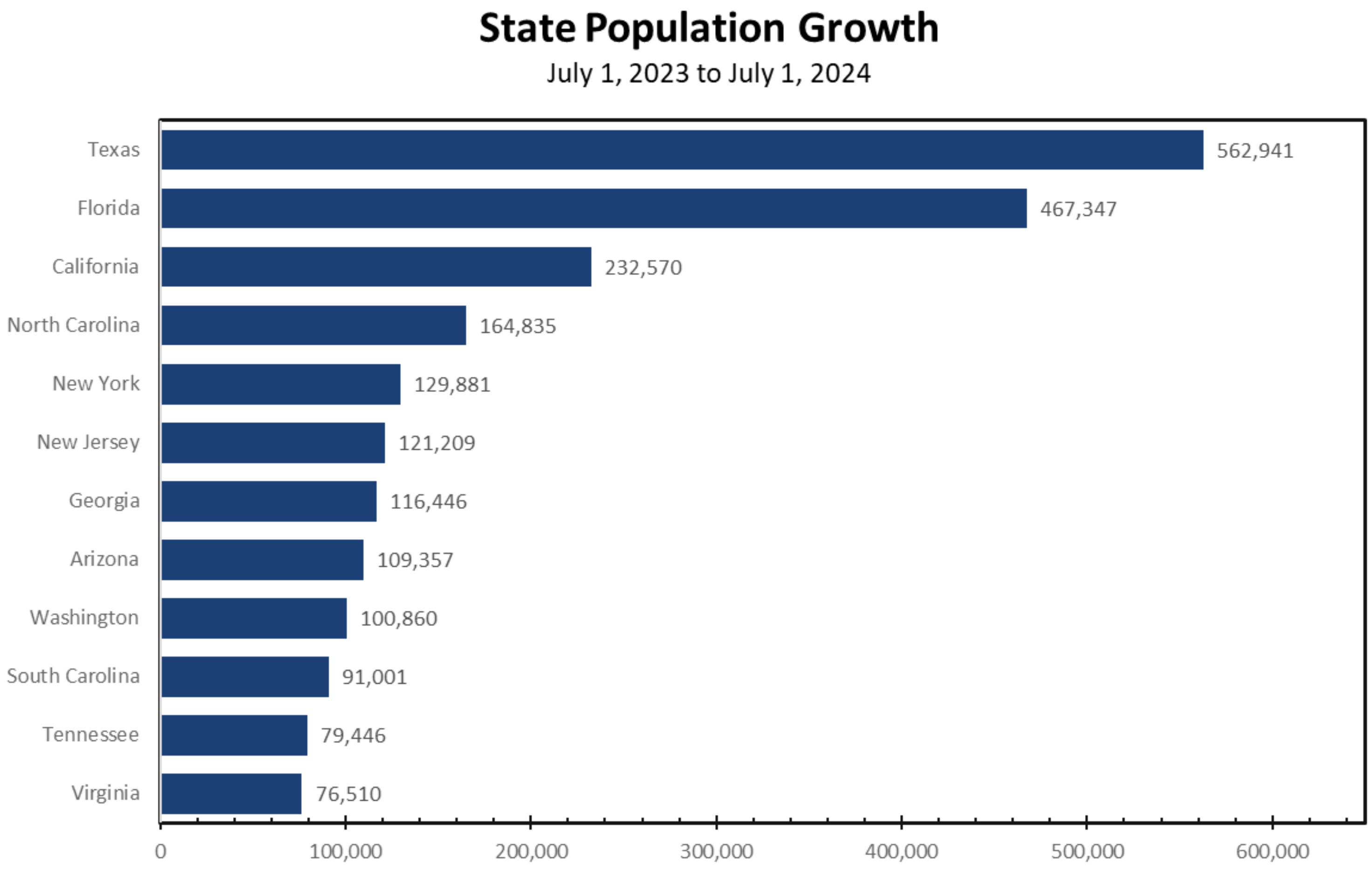
- Slower job growth and moderation in the growth of renting age households is expected to slow new construction over the next few years.
- The recent rebound in starts likely reflects the restart of projects stalled over the past few quarters.
- CoStars' trend may be a bit too pessimistic, as a higher share of households choose to remain renters.



Source: CoStar Data and Piedmont Crescent Capital

Immigration Boosted Population Growth the Past Two Years

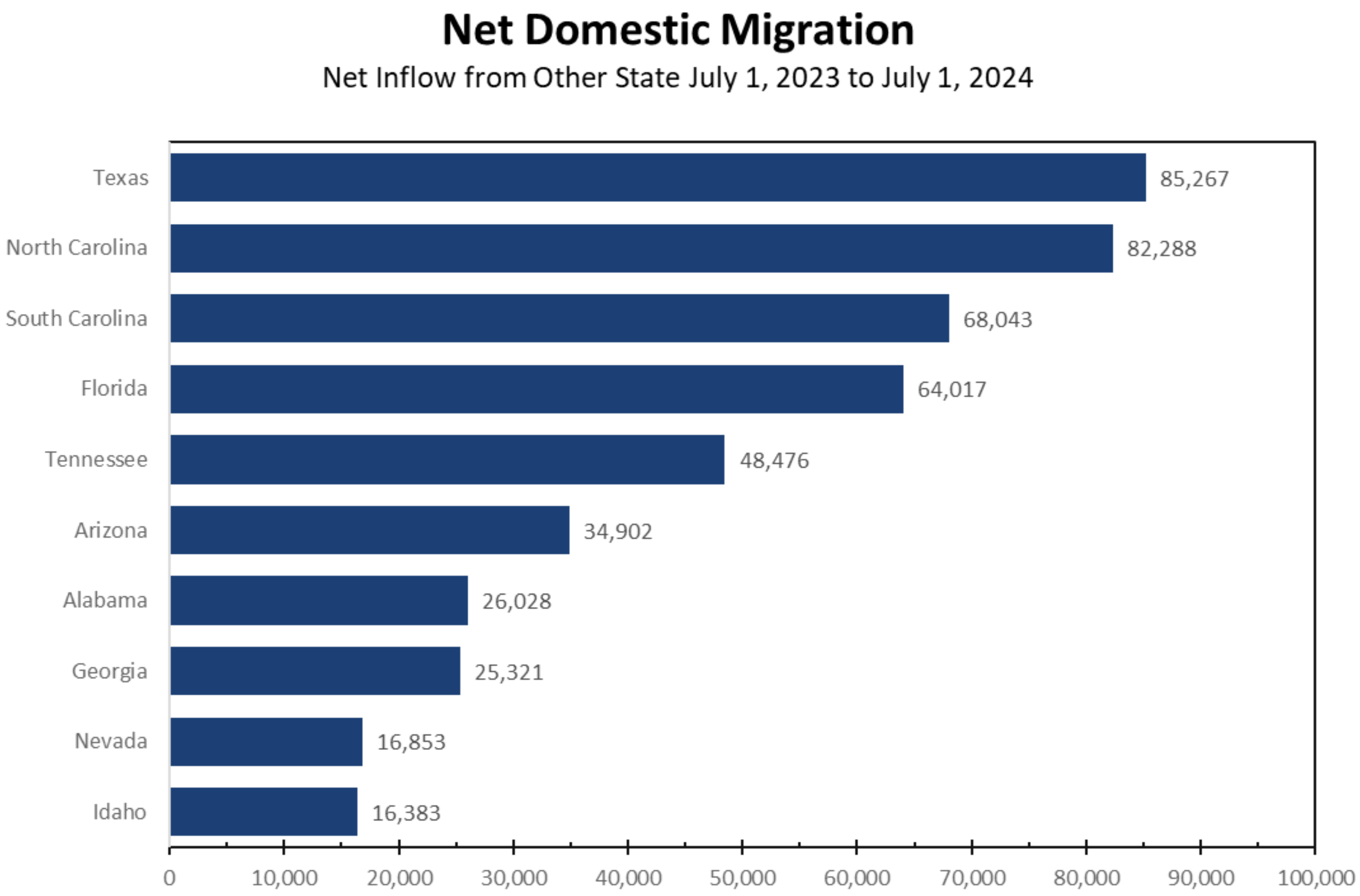
- California, New York and New Jersey saw gains in population this past year, thanks to a surge in immigration.
- Nearly every state saw a jump in net immigration, with gateway states leading the way.
- Natural increase also turned slightly positive this past year and likely improved further this year.



Source: Census Bureau

The Affordability Migration Shifted This Past Year

- The affordability and lifestyle migration from the Northeast, West Coast and greater Chicago slowed this past year, as offices reopened.
- Texas still receives the bulk of net migration from other states.
- The Carolinas have seen an influx of Floridians pushed out by higher costs. The juice was not worth the squeeze.



Source: Census Bureau

From Surge to Stall: A More Cautious Construction Cycle

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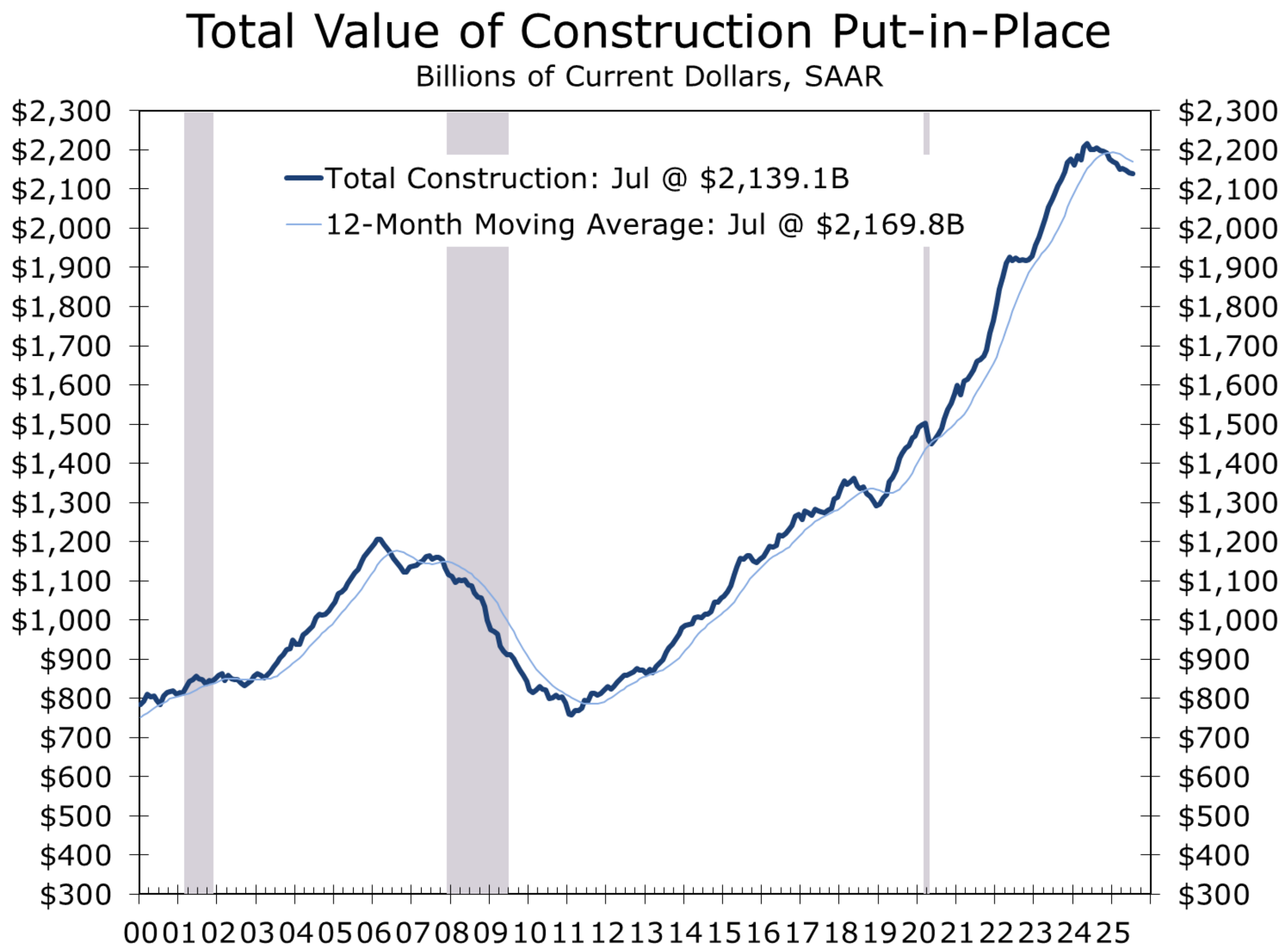
- Year-to-date outlays have fallen 2.2% thru July, versus a 5.7% gain in for all of 2024.
- Residential remains a drag: Multifamily starts are falling steeply, while single-family housing is still constrained by affordability concerns and rising inventories.
- Nonresidential is struggling with high office vacancy, overbuilding of warehouse space and some moderation manufacturing projects.
- Strength is concentrated in infrastructure, data centers, and health care facilities, but overall momentum has shifted into a slow-growth, high-uncertainty phase.



Source: Census Bureau

Infrastructure is the Anchor

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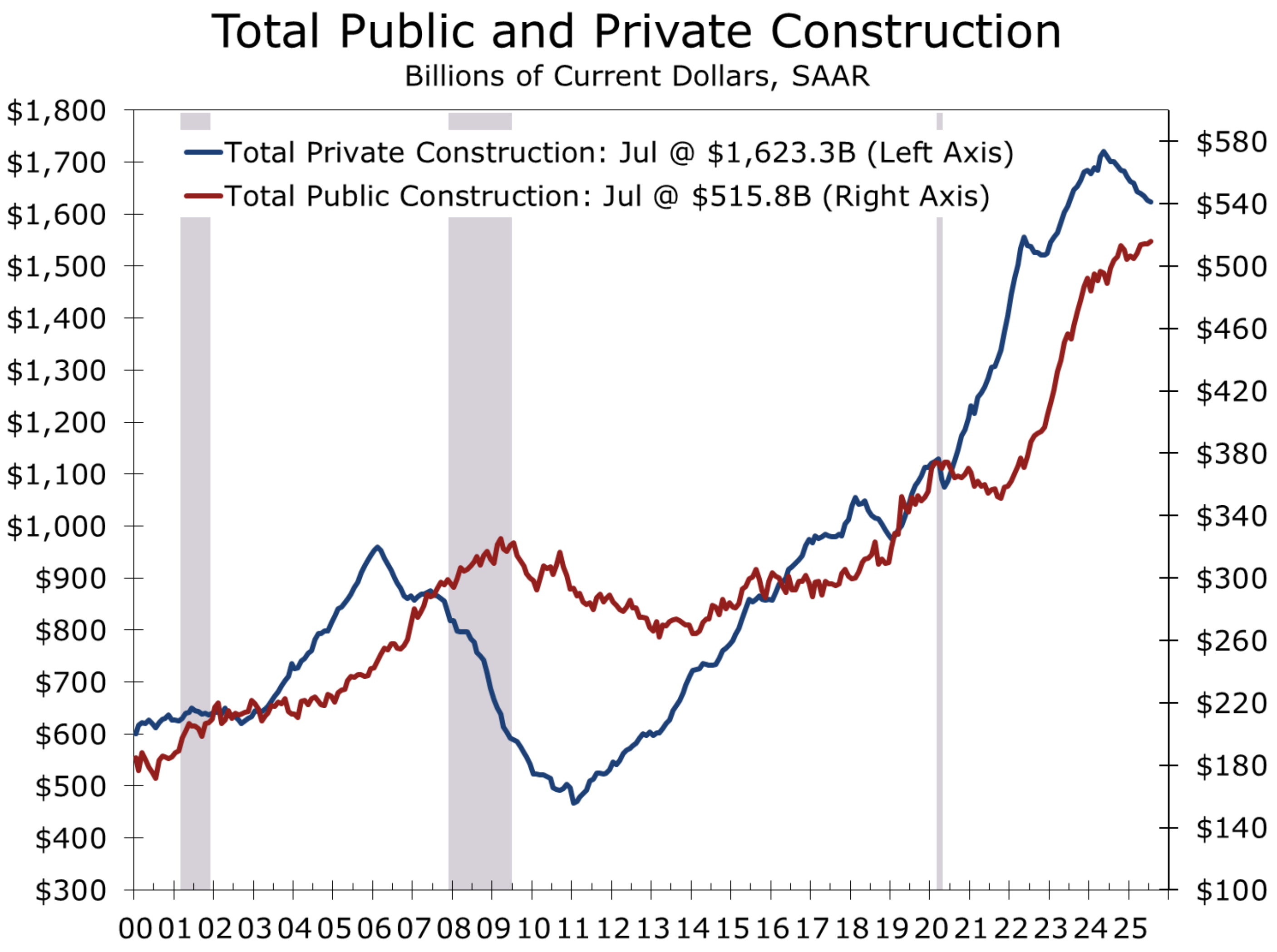
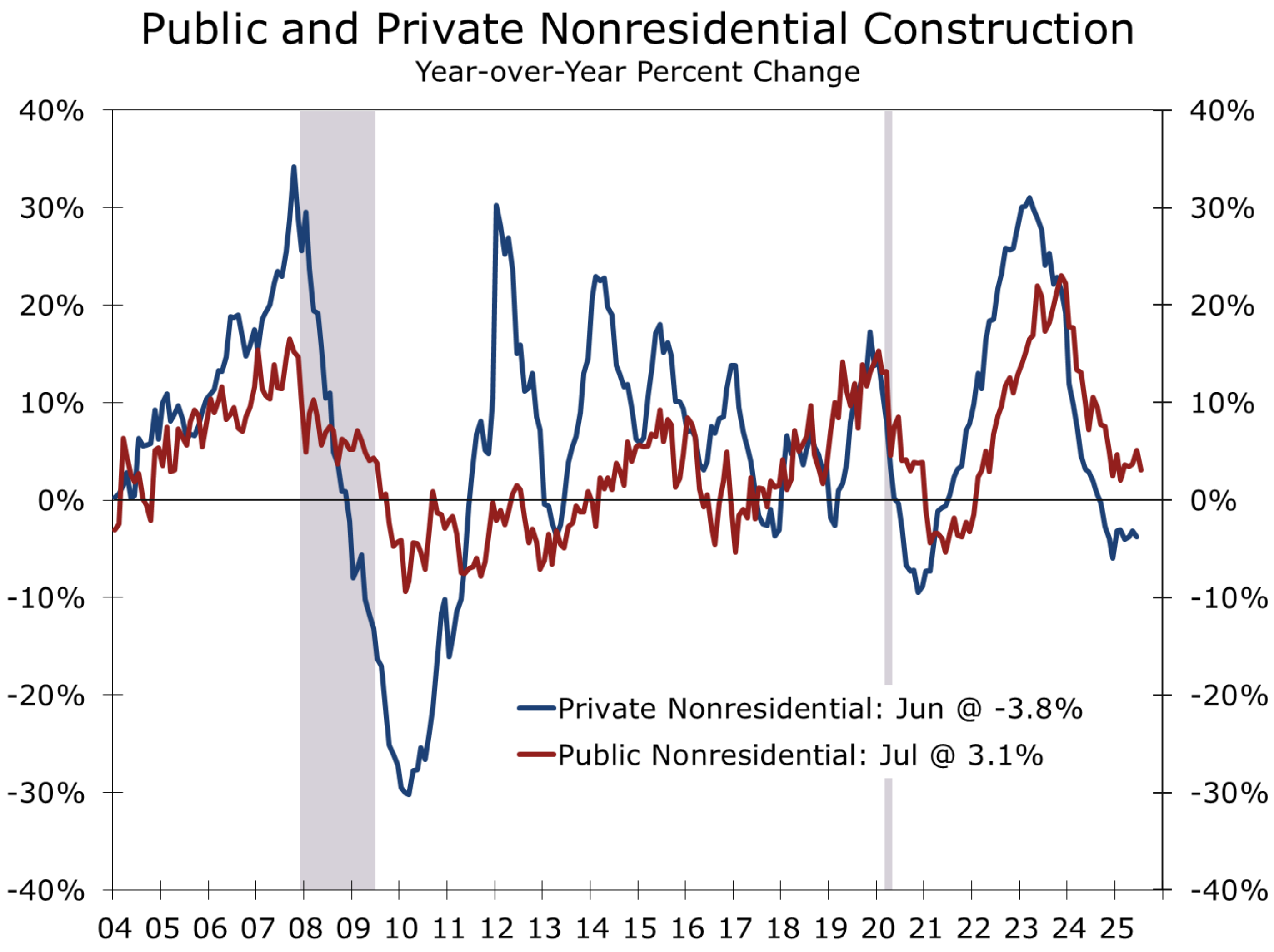
- Highways, bridges, water, sewage, and power projects remain the strongest demand drivers.
- IJA and STRA-21 reauthorization (2026) underpin medium-term funding momentum.
- Aggregates, asphalt, and cement benefit directly from state-led and private infrastructure expansion.
- Long-term needs: $3 trillion+ in road/bridge repairs by 2033, with a $1 trillion funding gap.



Source: Census Bureau

Infrastructure Projects Are Helping Sustain Construction Spending

- Home building is continuing to wind down as inventories of unsold homes have risen and builders have grown more cautious.
- The extension of the 2017 tax act should bolster capital spending in 2026, particularly in industries reshoring production.



Source: Census Bureau

Manufacturing Plateaus, Data Centers Still Growing

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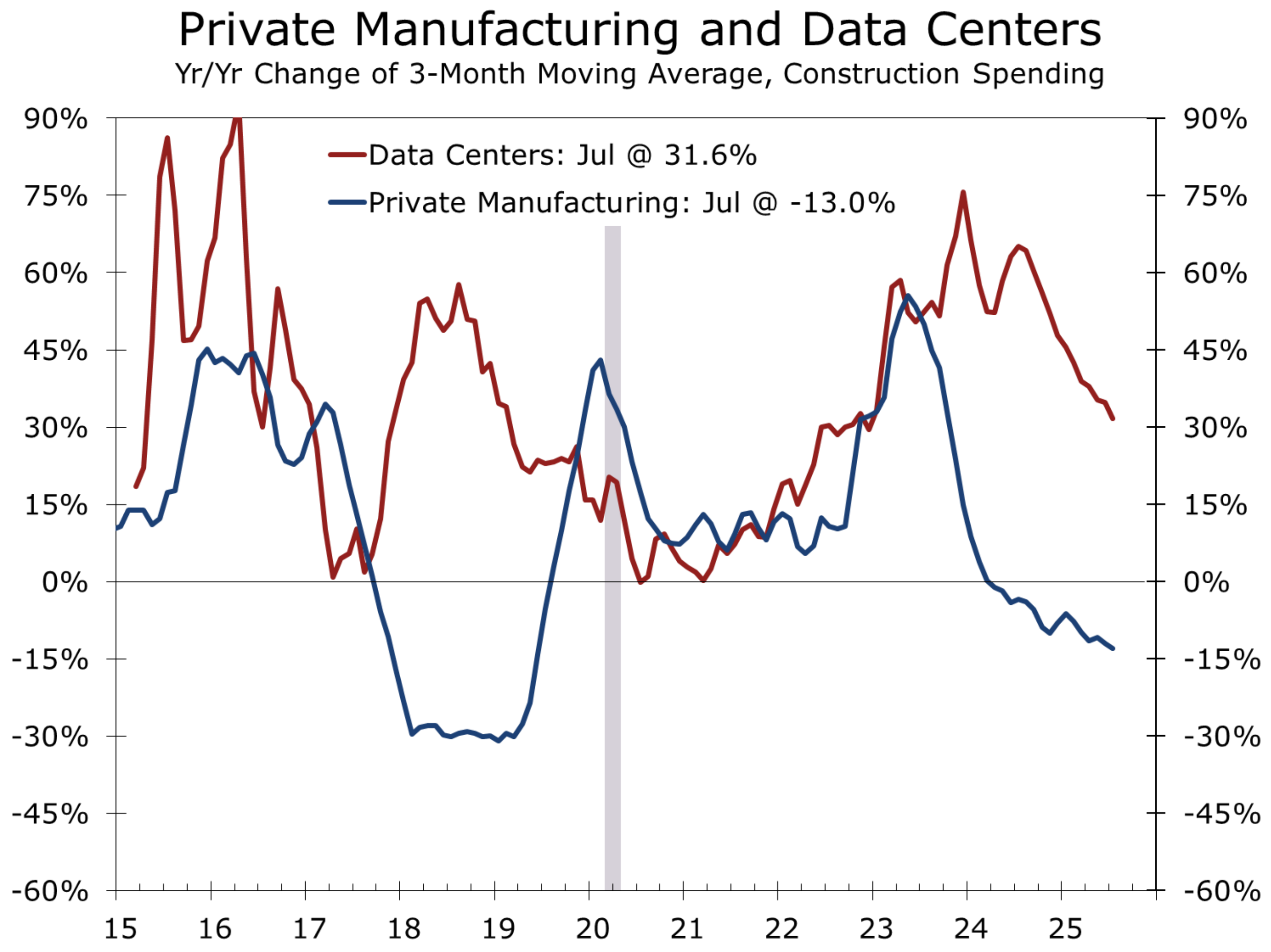
- Manufacturing facility construction: after surging 2023–24, may decline slightly this year before rebounding in 2026.
- Data centers: spending up should rise around 30% in 2025 and 20% in 2026, but facing power, labor, and permitting constraints.
- Demand for cement and concrete shifting from broad industrial builds toward fewer, very large projects.
- “Next leg” of growth tied to grid modernization and power production and transmission.



Source: Census Bureau

Economic Outlook

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US Economic and Financial Outlook

(% change on previous period, annualized, except where noted)

	2024				2025				2026				2023	2024	2025	2026	2027
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Actual	Actual	Forecast	Forecast	Forecast
Output																	
Real GDP	0.8	3.6	3.3	1.9	(0.6)	**3.8**	3.4	1.9	2.3	2.7	2.5	2.6	2.9	**2.8**	2.1	2.6	2.7
Year-to-Year Change (4th Qtr/4th Qtr for annual data)	*2.9*	*3.1*	*2.8*	***2.4***	*2.0*	*2.1*	*2.0*	*1.9*	*2.6*	*2.4*	*2.4*	*2.5*	*3.4*	***2.4***	*1.9*	*2.5*	*2.5*
Final Sales to Domestic Private Purchasers	2.0	3.4	3.5	2.7	1.9	**2.9**	3.9	2.5	2.5	3.0	2.9	3.0	2.5	**3.0**	2.7	3.0	2.8
Consumer Spending	1.7	3.9	4.0	3.9	0.6	**2.5**	3.2	1.8	2.0	2.2	2.4	2.6	2.5	**2.8**	2.7	2.3	2.4
Nonresidential Fixed Investment	1.5	2.5	3.5	(3.7)	9.5	**7.3**	5.4	3.8	3.5	4.5	4.0	3.8	4.9	**2.9**	4.2	4.3	3.8
Residential Investment	8.2	(2.0)	(4.8)	4.3	(1.0)	**(5.1)**	(5.0)	(4.0)	(1.5)	2.5	3.5	3.8	(8.3)	**4.2**	(1.9)	(1.8)	4.0
Light Vehicle Sales	15.5	15.6	15.6	16.6	16.4	**16.1**	16.1	15.8	16.0	16.2	16.4	16.5	15.5	**15.8**	16.1	16.3	16.6
Industrial Production, Manufacturing (Yr/Yr)	(0.9)	1.4	(0.7)	(1.4)	0.7	**0.9**	1.4	2.2	1.9	2.0	2.3	2.6	(0.4)	**(0.4)**	1.3	2.2	2.6
Unemployment Rate (Qtrly Avg)	3.8	4.0	4.2	4.1	4.1	**4.2**	4.4	4.5	4.6	4.5	4.4	4.3	3.6	**4.0**	4.3	4.4	4.2
Housing Market																	
Housing Starts (Units, thous)	1,415	1,343	1,338	1,387	1,401	**1,354**	1,340	1,280	1,250	1,290	1,330	1,360	1,421	**1,371**	1,344	1,308	1,440
New Home Sales	677	685	707	671	655	**670**	730	680	680	700	720	730	665	**685**	684	708	760
Existing Home Sales	4,143	4,023	3,937	4,163	4,127	**3,990**	4,030	4,040	4,080	4,140	4,180	4,210	4,090	**4,060**	4,047	4,153	4,350
S&P/Case-Shiller Natl Home Prices (Yr/Yr % Change)	6.4	6.0	4.4	3.8	3.8	**2.3**	1.8	1.7	1.6	1.7	1.9	2.0	2.5	**5.1**	2.4	1.8	2.5
Inflation (Year-to-Year % Change)																	
Consumer Price Index (CPI)	3.2	3.2	2.7	2.7	2.7	**2.5**	2.9	3.0	2.9	2.8	2.7	2.6	4.1	**3.0**	2.8	2.8	2.5
Core CPI	3.8	3.4	3.3	3.3	3.1	**2.8**	3.1	3.2	3.3	3.2	3.1	2.9	4.8	**3.4**	3.0	3.1	2.5
Personal Consumption Deflator	2.8	2.7	2.4	2.6	2.6	**2.4**	2.7	2.8	2.9	2.8	2.7	2.6	3.2	**2.8**	2.6	2.8	2.4
Core PCE Deflator	3.1	2.8	2.8	3.0	2.8	**2.7**	2.9	3.1	3.2	3.0	2.9	2.8	4.1	**2.8**	2.9	3.0	2.4
Employment Cost Index	4.2	4.0	3.8	3.8	3.6	**3.6**	3.6	3.5	3.5	3.4	3.4	3.4	4.5	**3.9**	3.6	3.4	3.5
Interest Rates (Quarter End and Ann Avg)																	
Fed Funds Target Range	5.25-5.50	5.25-5.50	4.75-5.00	4.25-4.50	4.25-4.5	**4.25-4.5**	4-4.25	3.75-3.50	3.25-3.5	3.25-3.5	3.25-3.5	3.25-3.5	5.02	**5.14**	4.12	3.38	3.63
10-Year Treasury Note	4.21	4.33	3.81	4.58	4.23	**4.24**	4.14	4.05	4.00	4.10	4.20	4.30	3.96	**4.21**	4.16	4.15	4.40
Conventional Mortgage Rate (Freddie Mac)	6.79	6.86	6.08	6.85	6.65	**6.77**	6.10	6.20	6.10	6.10	6.20	6.20	6.81	**6.72**	6.43	6.15	6.20

Piedmont Crescent Capital - November 2, 2025

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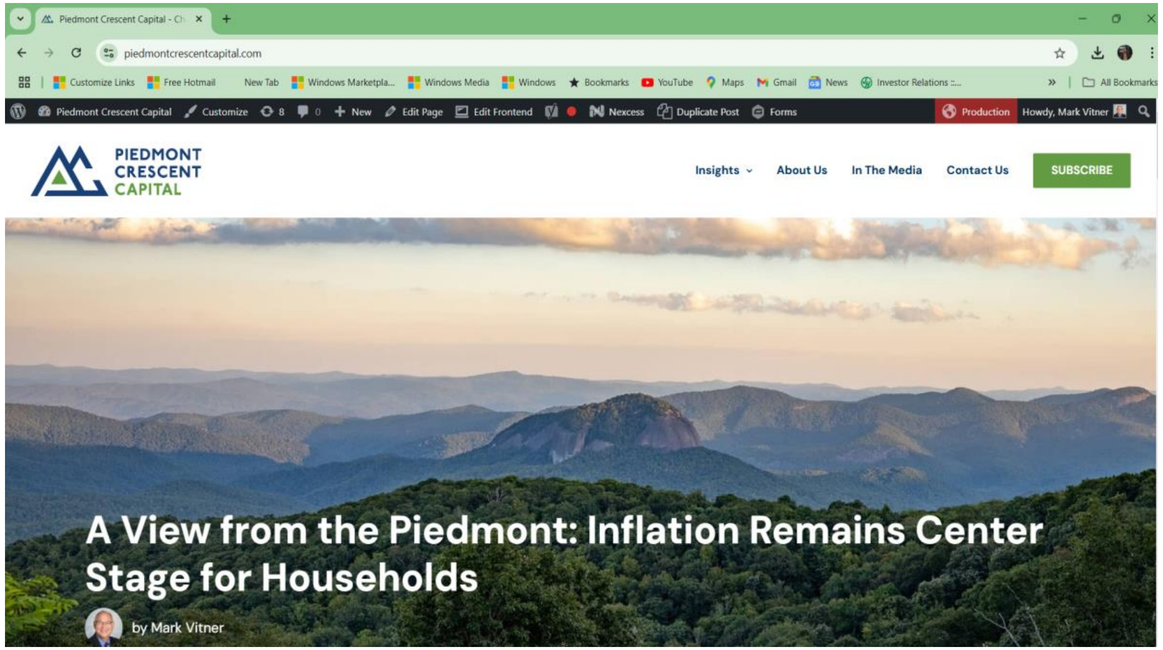

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