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What's Ahead for the U.S. Economy?

2025 ECONOMIC OUTLOOK

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Mark Vitner, Chief Economist

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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Tariffs Were Not as Terrifying As Feared

Tariffs have been the **biggest disruptive force this year**, leading to wide swings in imports that slashed Q1 GDP growth and will pad Q2 growth. The impact on underlying demand, employment and inflation has been more modest, however. **Real GDP appears set to grow at close to a 4% pace in the current quarter and should rise 1.7% on a Q4/Q4 basis this year**. That pace is below the economy's long-run potential and will result in a slight uptick in the unemployment rate.

Inflation Remains Contained Despite a Spike in Expectations

Both **the Fed and consumers are still shell-shocked from the inflation surge of 2021–2022**. While tariffs were expected to trigger a price spike, the impact has been muted so far. We still anticipate some upward pressure, but it should be modest. **Tariffs are a tax**—yet **inflation is ultimately a monetary issue**. As long as the Fed maintains tight policy and doesn't accommodate the cost shock, higher import prices will crowd out spending elsewhere, easing inflationary pressure on domestic services, which make up two-thirds of consumption.

Trump Sees His Mission As Improving Living Standards for Middle America

The **middle class** has faced **mounting pressure** since the **fall of the Berlin Wall**, with policy shifts triggering economic shocks that left lasting scars. **Neglect of these issues** by both major political parties **helped pave the way for Trump's rise**. Tariffs are now framed as **tools to accelerate reshoring**—a trend already in motion pre-pandemic—and as a fee for access to the U.S. market, helping offset the cost of underwriting global maritime security. Tariffs should also protect industry in the near-term but will also discourage innovation.

Tariffs and the Budget Bill will Set Up a Stronger Economy in 2026

Together, **the reconciliation bill before the Senate and proposed 10% across-the-board tariffs** would modestly **reduce the budget deficit over the next decade**, with minimal impact on growth or inflation. We expect the **secular stagnation that followed the Global Financial Crisis to fade**, with future growth increasingly driven by AI, advanced materials, aerospace, defense, leisure and entertainment and life sciences. This mix favors the South, Mountain West and parts of the Midwest.

Economic Growth Continues to Top Expectations

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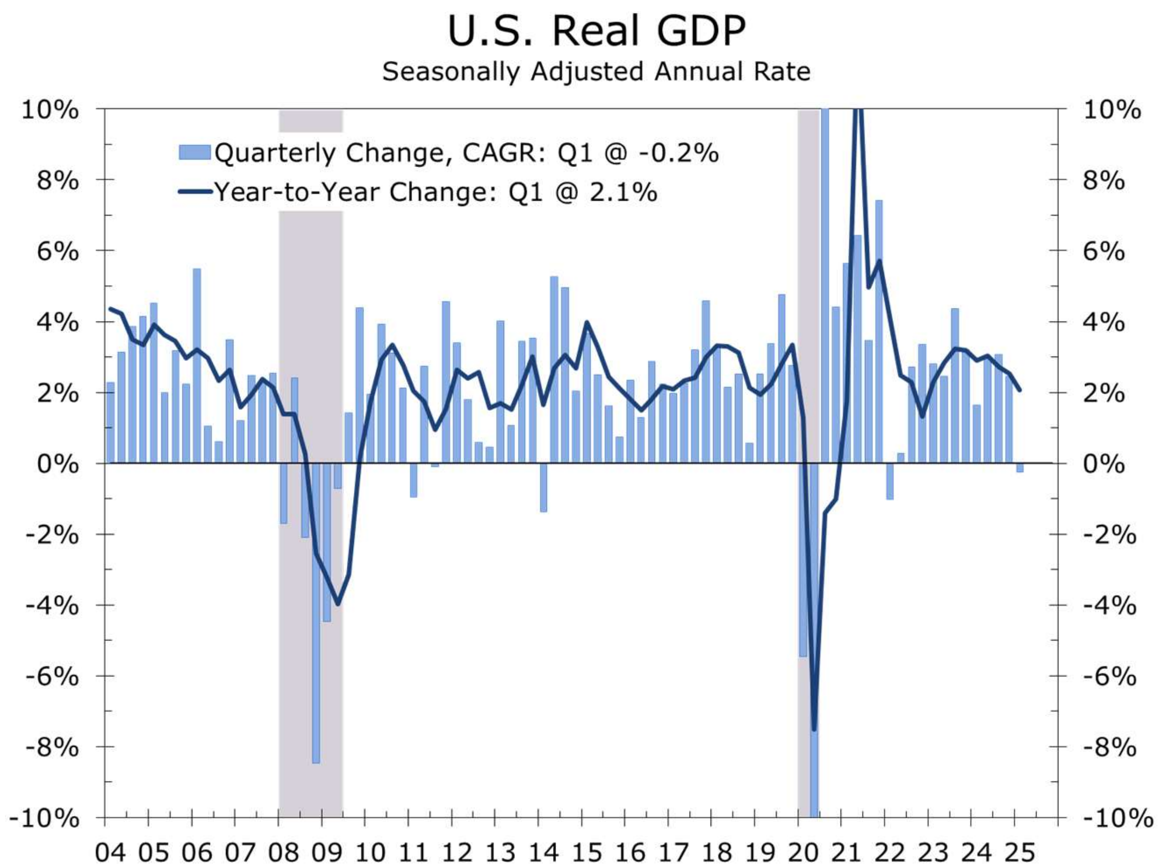
- Real GDP growth fell slightly in Q1, mostly due to a surge in imports ahead of tariffs.
- Final domestic demand also moderated but rose at a solid 2.5% pace.
- Investment in capital equipment surged ahead of tariffs, driven by the buildout of AI infrastructure.
- Consumer spending and government will add less to growth in 2005 and 2026.



Source: Bureau of Economic Analysis

Globalization & Automation Continue to Weigh on Compensation

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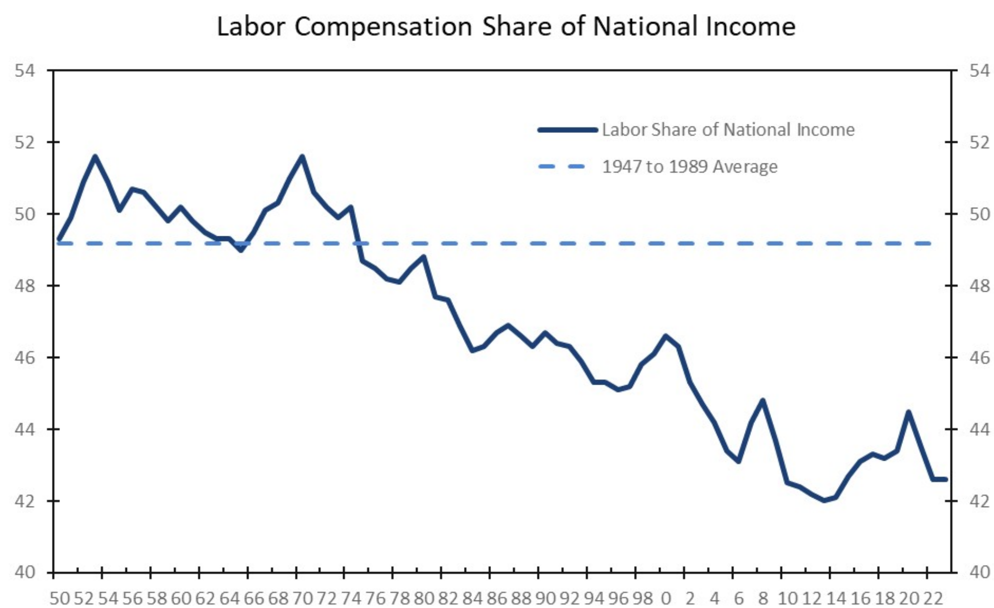
- Pay as a share of National Income has fallen since the early 1970s, when the energy shock triggered a downshift in productivity.
- Globalization and automation sparked additional shocks in the 1980s (Japan) and 1990s (USSR & IT).
- The declining share of National Income is driving populism in the developed world and sparking unrest in the developing world.



Source: Bureau of Economic Analysis & Piedmont Crescent Capital

Trump's Tariff Strategy Continues to Gradually Take Shape

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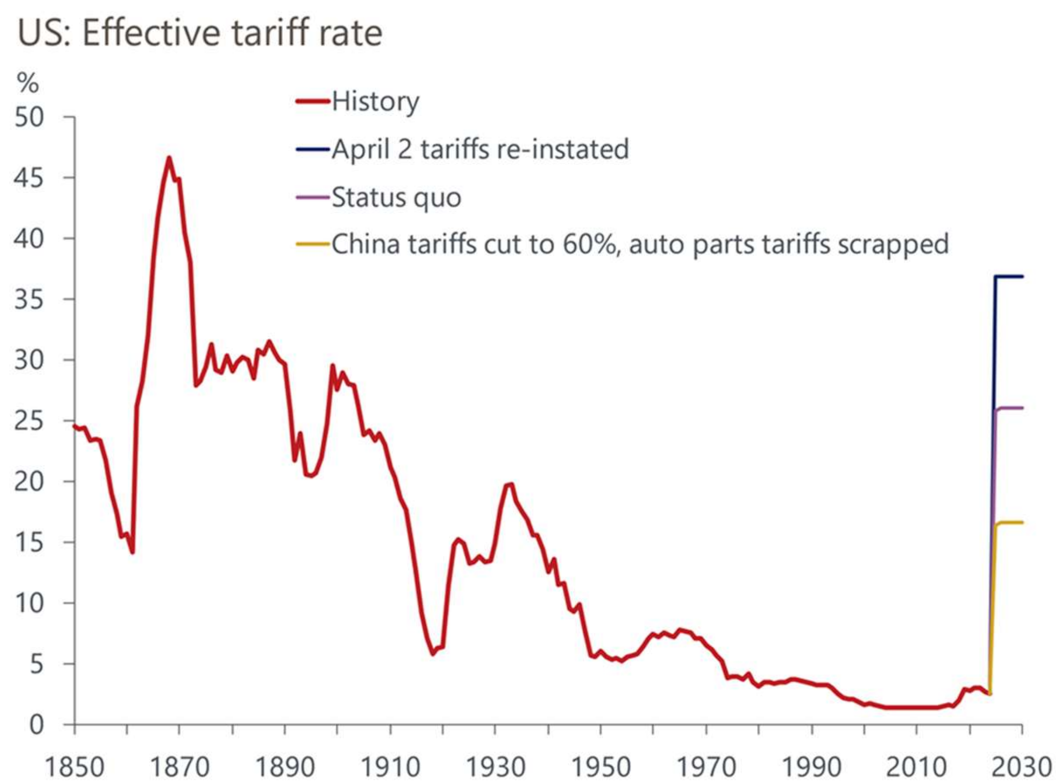
- There are still more questions than answers as to what tariffs are likely to look like and how long they will last.
- We expect Trump to extend the delay on tariffs on imported auto parts and reduce tariffs on China.
- Tariffs are likely to be higher than they were prior to April 2nd and to remain in place for quite some time.



Source: Oxford Economics

The Underlying Momentum Is Weaker Than The Headlines

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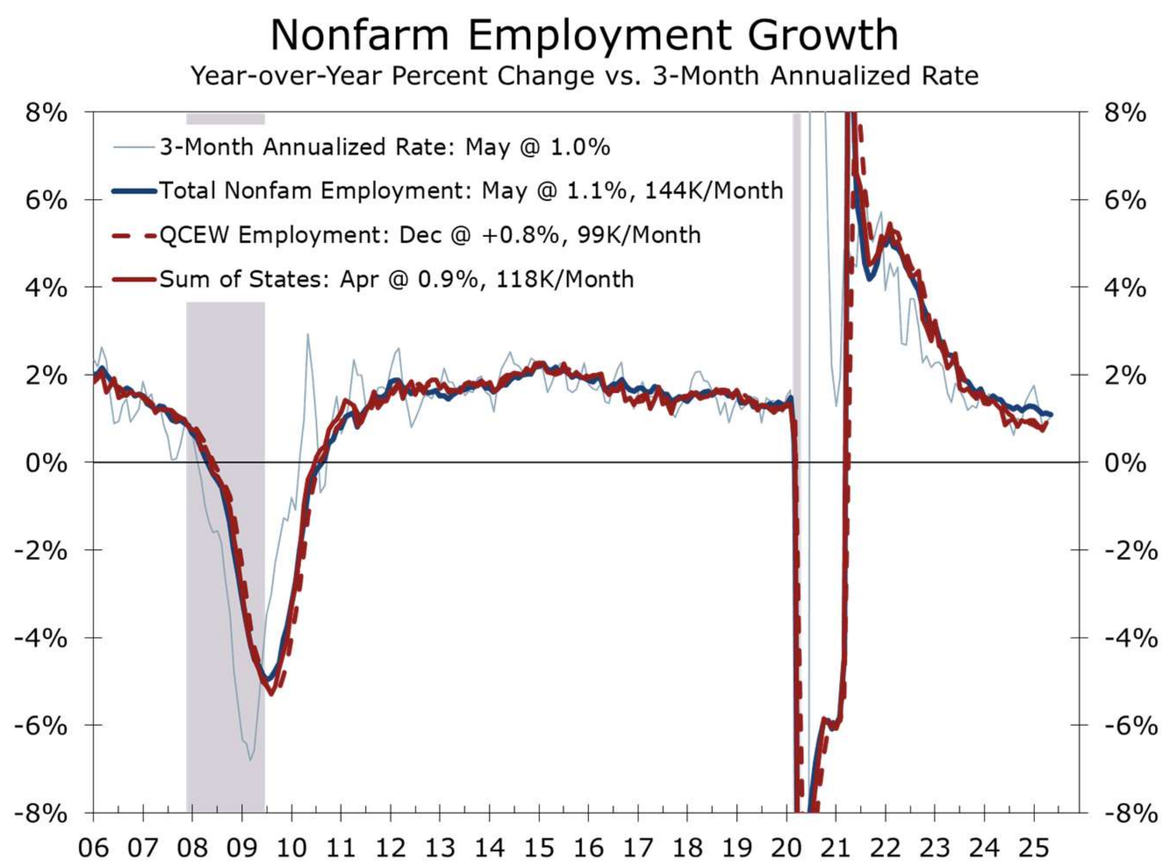
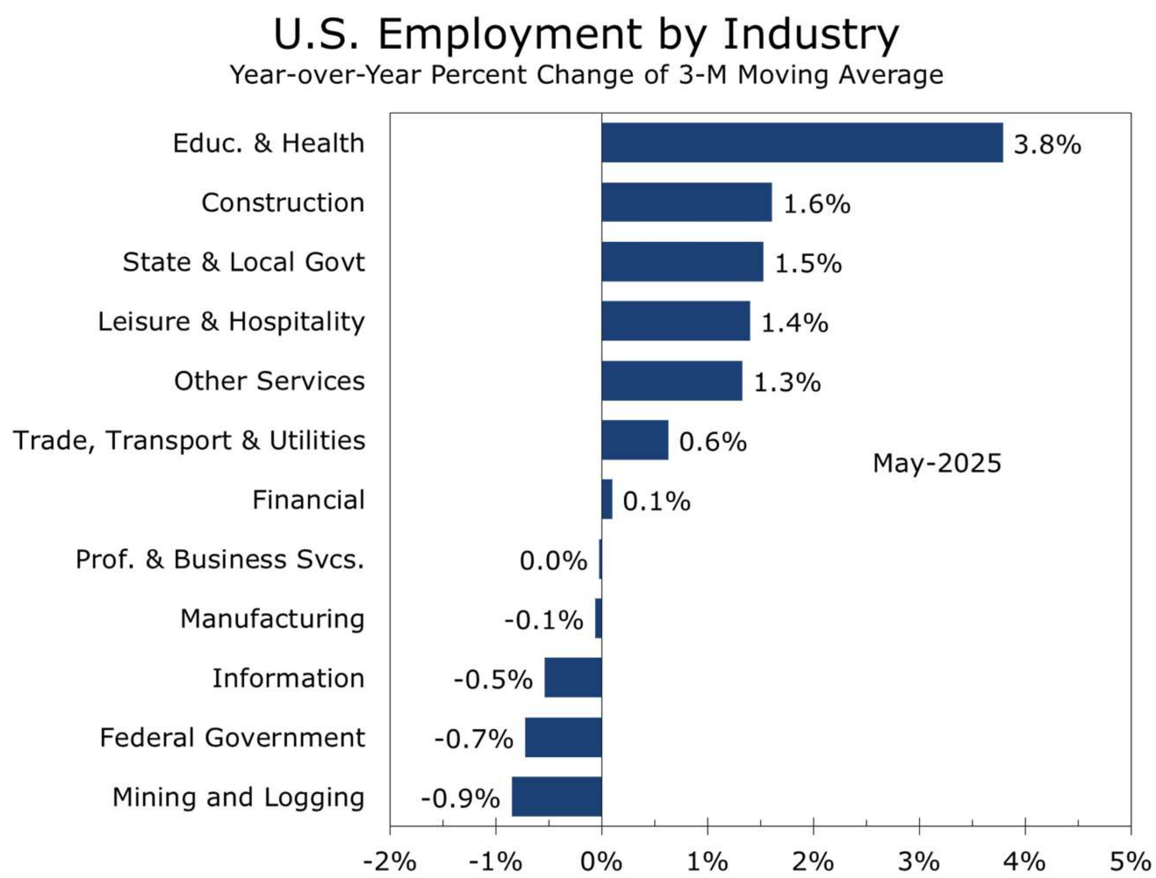
- The latest job data topped expectations but downward revisions to past data suggest there is less momentum present.
- The most recent QCEW data (Dec 2024) suggest nonfarm employment is overstated by 880K jobs.
- The QCEW data cast doubt on the stronger numbers shown in recent months.
- Bottom line is that the labor market has less momentum than widely thought and is vulnerable to shocks.



Job Growth Remains Concentrated in a Handful of Industries

- Job gains remains narrowly based.
- Health care & social services, leisure & hospitality and local government account for the bulk of recent job growth.
- Much of the increase in jobs is in positions that require workers to be physically present.
- Many of these jobs are also relatively low paying.



Source: Bureau of Labor Statistics

Manufacturing Has Struggled With China's Rise

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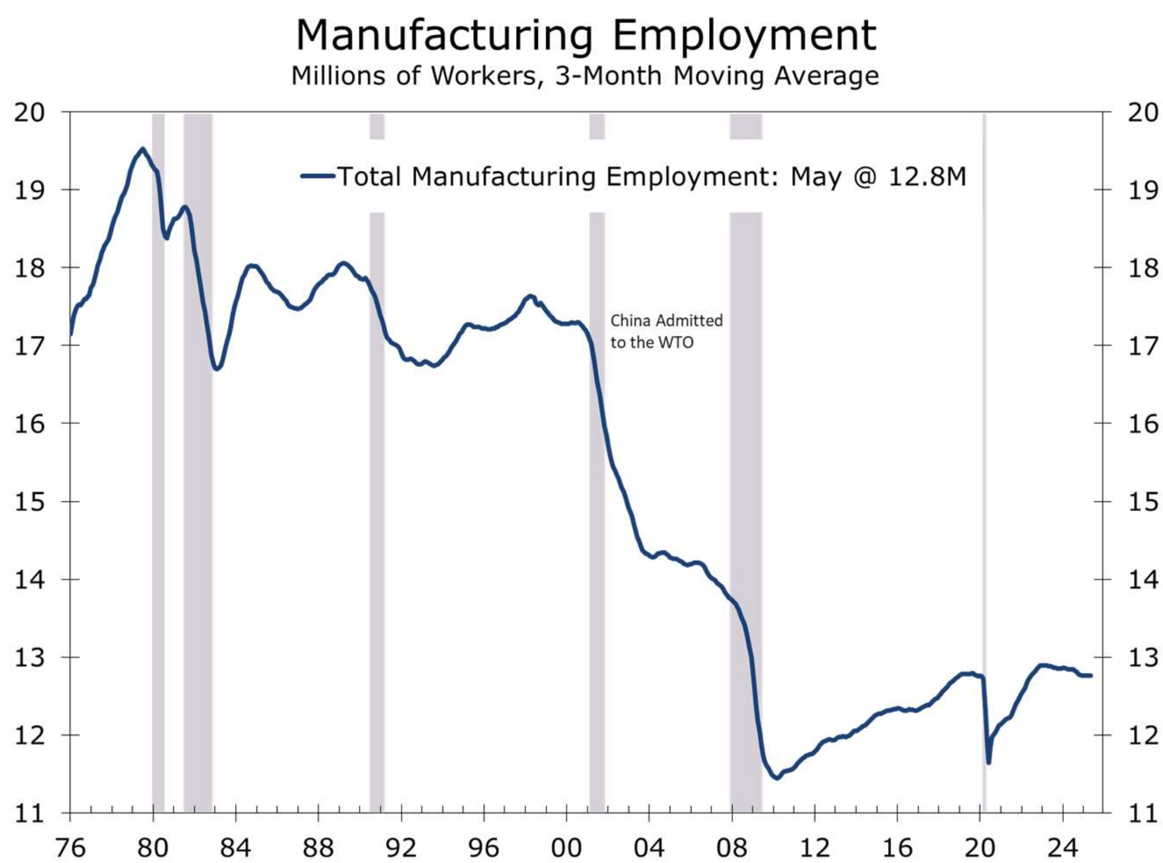
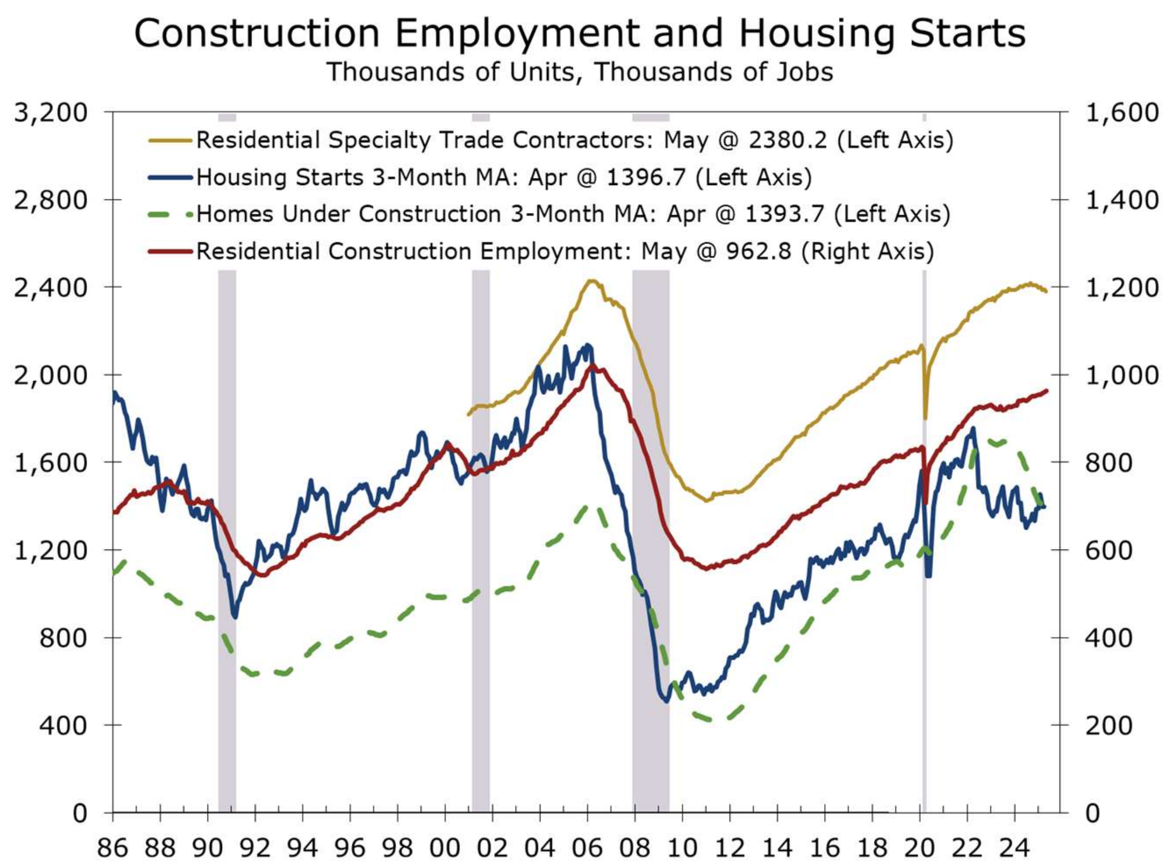
- Manufacturing employment peaked back in June 1979.
- Most of the decline through the end of the century was due to automation.
- NAFTA was designed to create a competitive block to help North America compete with China.
- For many, the China strategy was to shift labor intensive operations to China.



Source: Bureau of Labor Statistics

Home Building is Set to Slow in a Recession-like Manner

- Record backlogs of apartments are finally being cleared, which is beginning to weigh on construction employment.
- Single-family construction is also losing steam, as demand remains soft and rental inventories continue to rise.
- We look for construction employment to weaken during the second half of this year.



Wage Gains Remain Inconsistent With The Fed's Objectives

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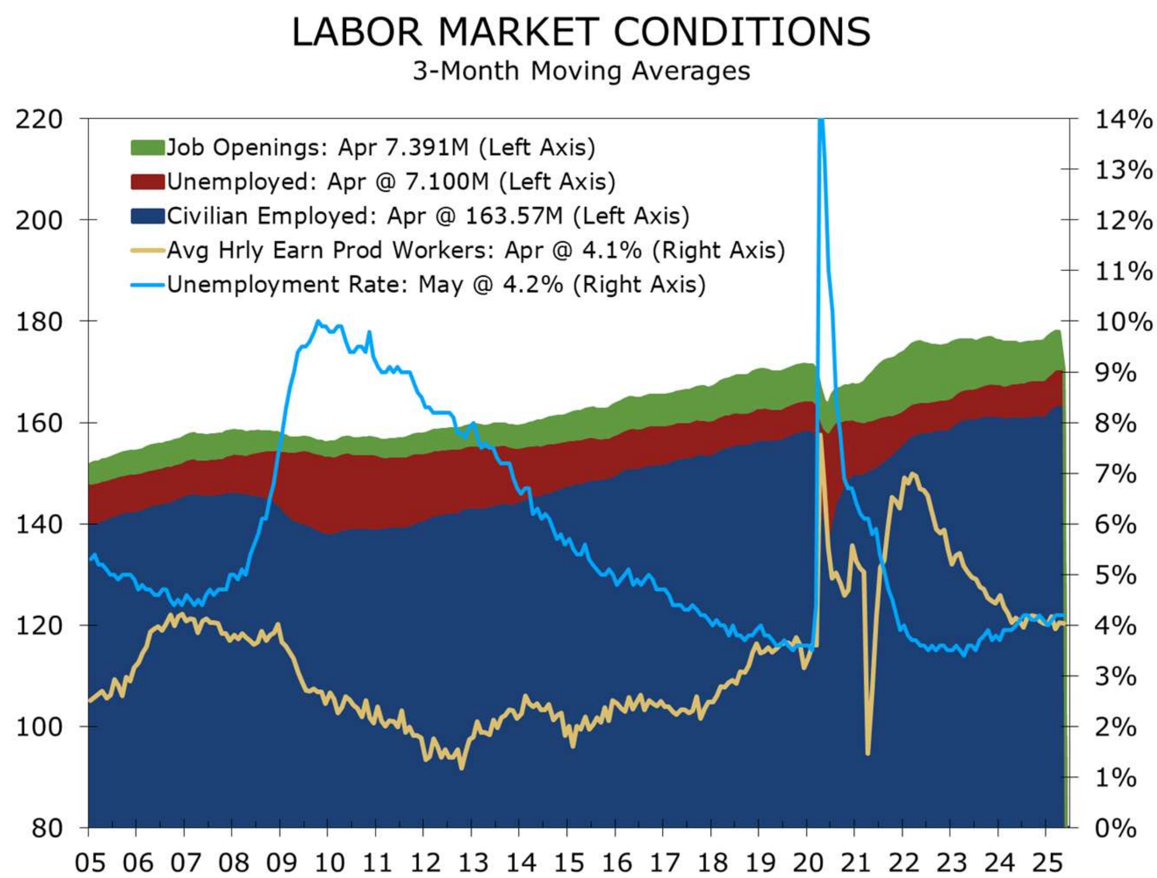
- The unemployment rate was unchanged in May, but the labor force weakened as both labor force participation and the employ-pop ratios declined.
- Job openings rose slightly but remain at the lower end of their recent range.
- Slower immigration is reducing labor force and civilian employment growth.



Source: Bureau of Labor Statistics

Worries About Stagflation Are Overblown

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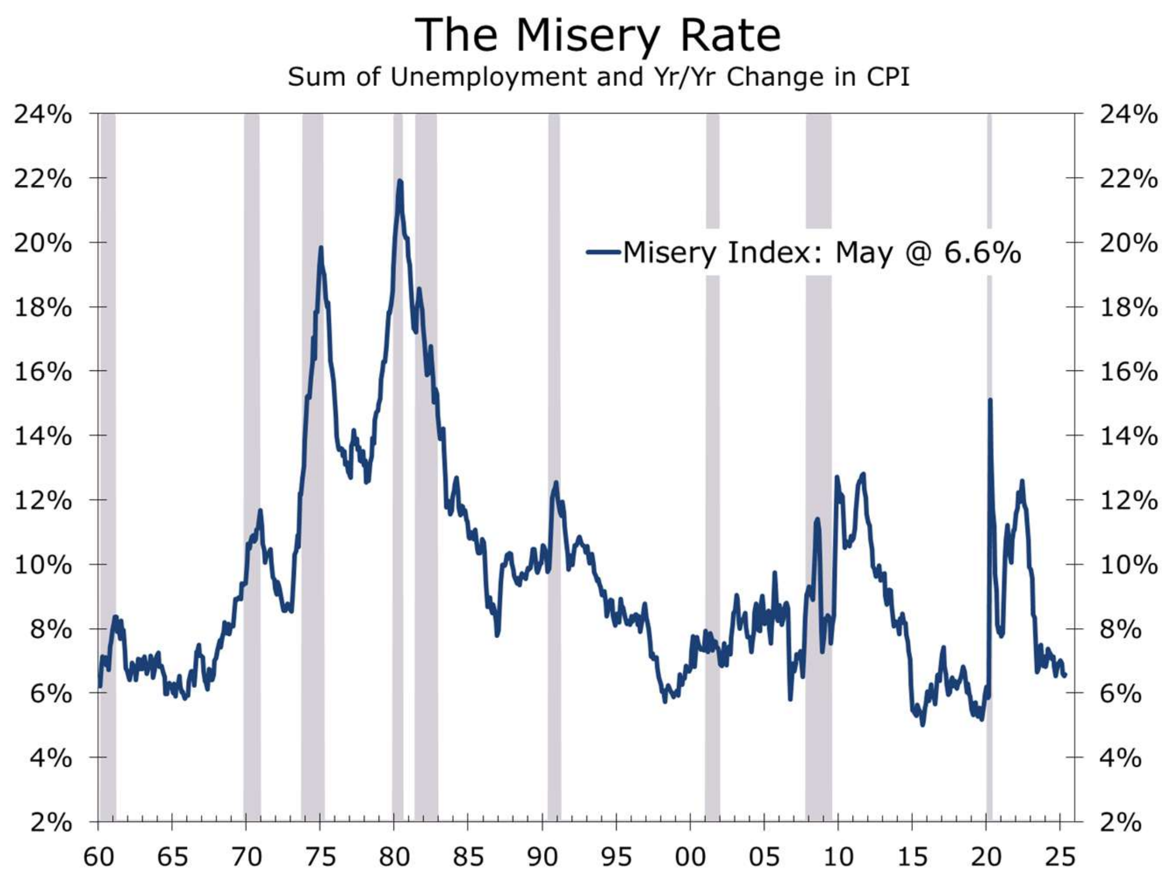
- Stagflation is persistently high unemployment and high inflation, accompanied by slow growth.
- The 1970s era is the most reference incidence of stagflation.
- The 70s also saw tremendous labor force growth as baby boomers and women entered the workforce.
- NAIRU was higher then and the Fed has run an expansionary policy since the early 1960s.



Source: Bureau of Labor Statistics and Piedmont Crescent Capital

Inflation Has Rolled Over But Remains Persistent and High

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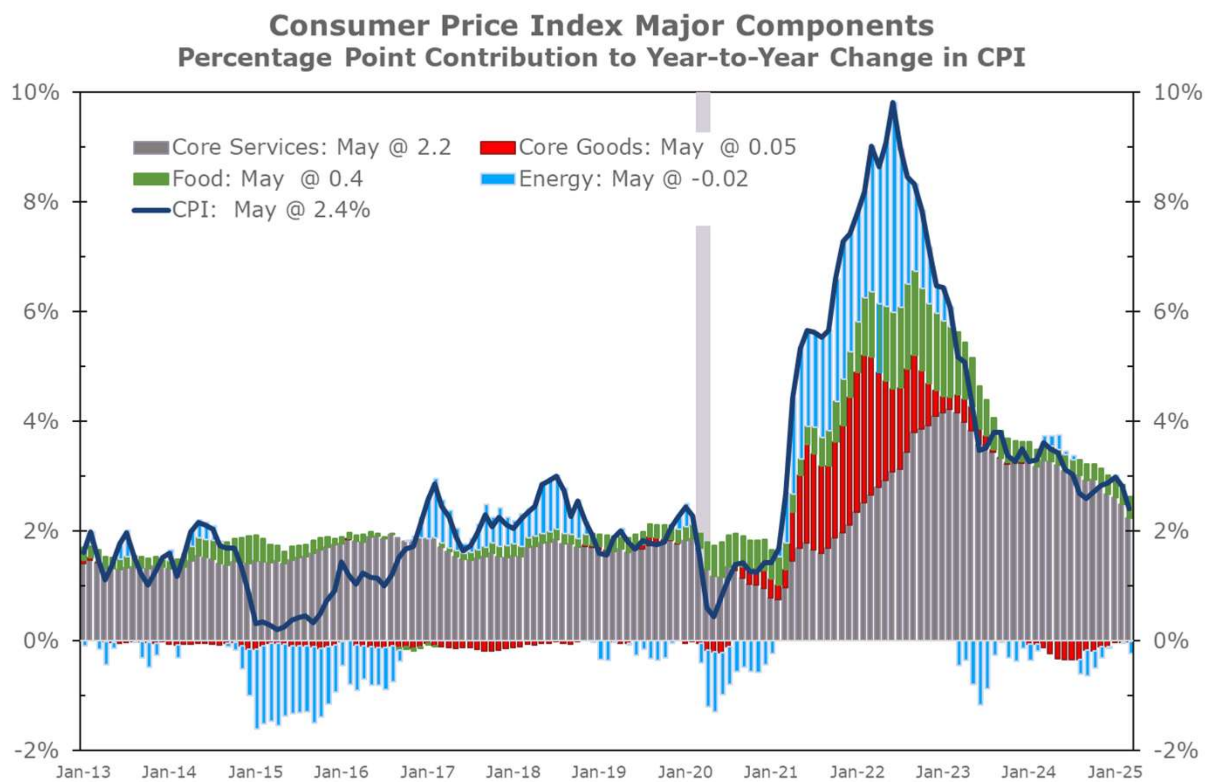
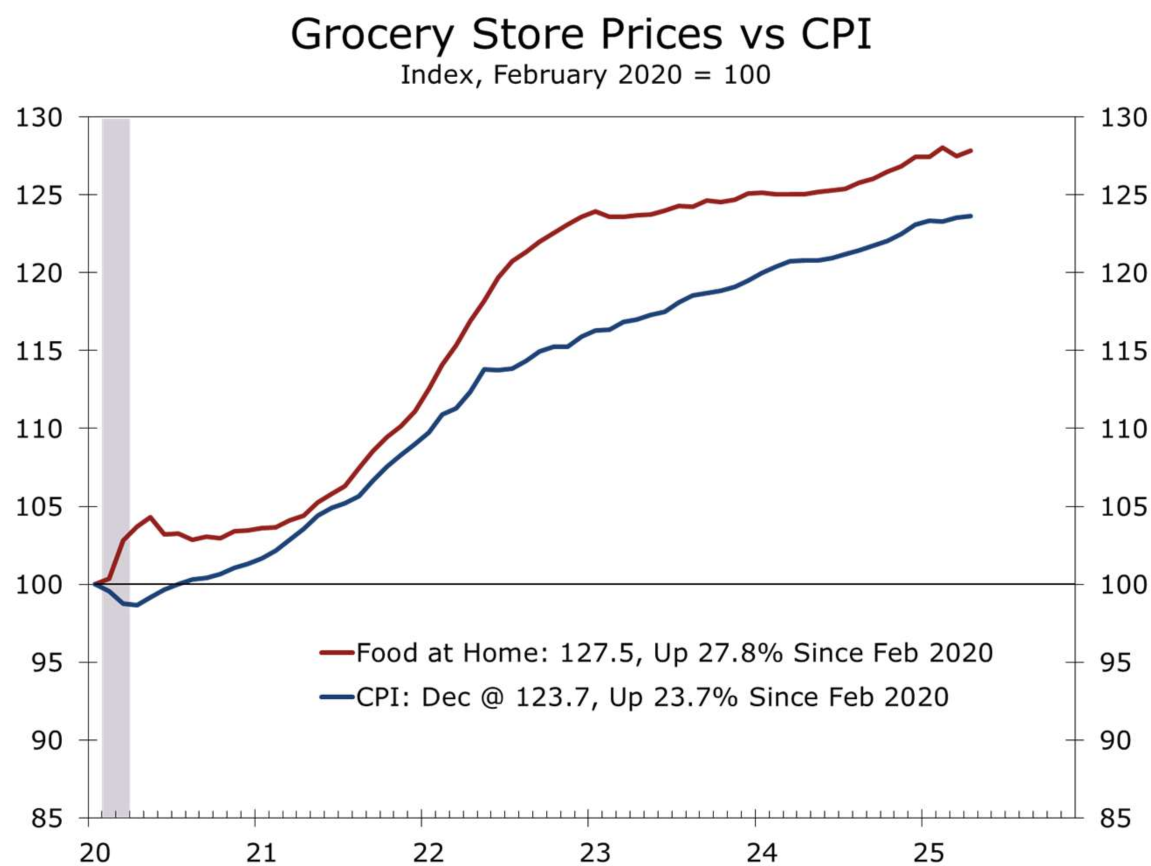
- Headline inflation moderated after the mid-2022, as gasoline prices declined and used car prices moderated. China also pushed exports to drive growth. Tariffs have yet to show up in the data.
- Core services inflation remains persistent but have decelerated in recent months. Wage gains have also cooled off.
- Residential rent and homeowners equiv. rent remain problematic but are also now improving.
- Health care, auto insurance, travel and entertainment remain trouble spots, fueled by still flush higher-end spenders.



Source: Bureau of Labor Statistics

Consumers Are Suffering From Inflation Fatigue

- Grocery store prices spiked following the Pandemic and have risen more modestly this past year.
- Prices have not fallen, however. A basket of $100 worth of groceries in February 2020 would cost $127.50 today.
- Prices at restaurants rose a cumulative 31%, while the overall market basket is up 23.6%.



Source: Bureau of Labor Statistics & Piedmont Crescent Capital

The Core CPI Has Improved Significantly in Recent Months

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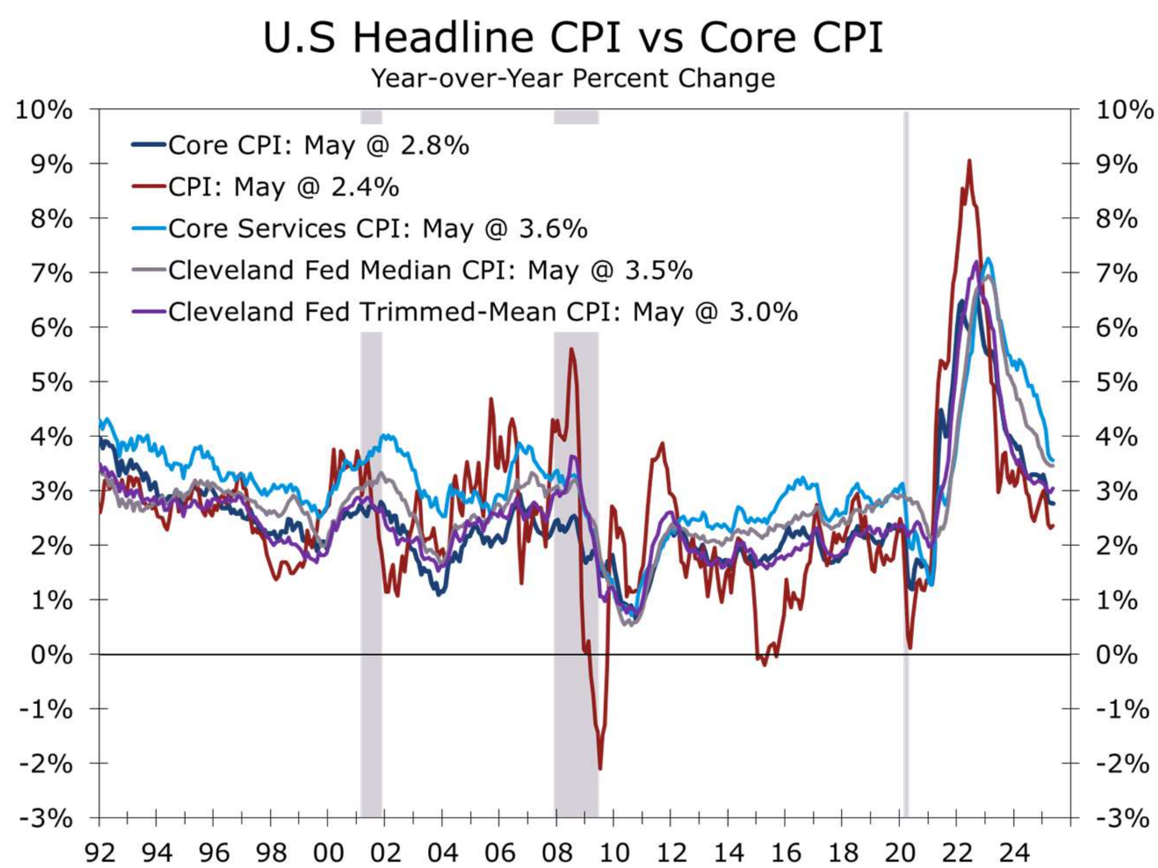
- The Cleveland Fed's **Trimmed Mean** and **Median CPI** have both improved notably, while core services prices have finally decelerated sharply lower.
- Tariffs will raise prices of tradable goods but will weigh on prices on non-tradable goods and services, unless the Fed eases aggressively.
- **The Fed does not need to wait for inflation to return to 2% before cutting** rates further but rather **continued disinflation**. Look for rate cuts this summer.



Source: Bureau of Labor Statistics, Cleveland Fed & Federal Reserve Board

Inflation Expectations Increased in January

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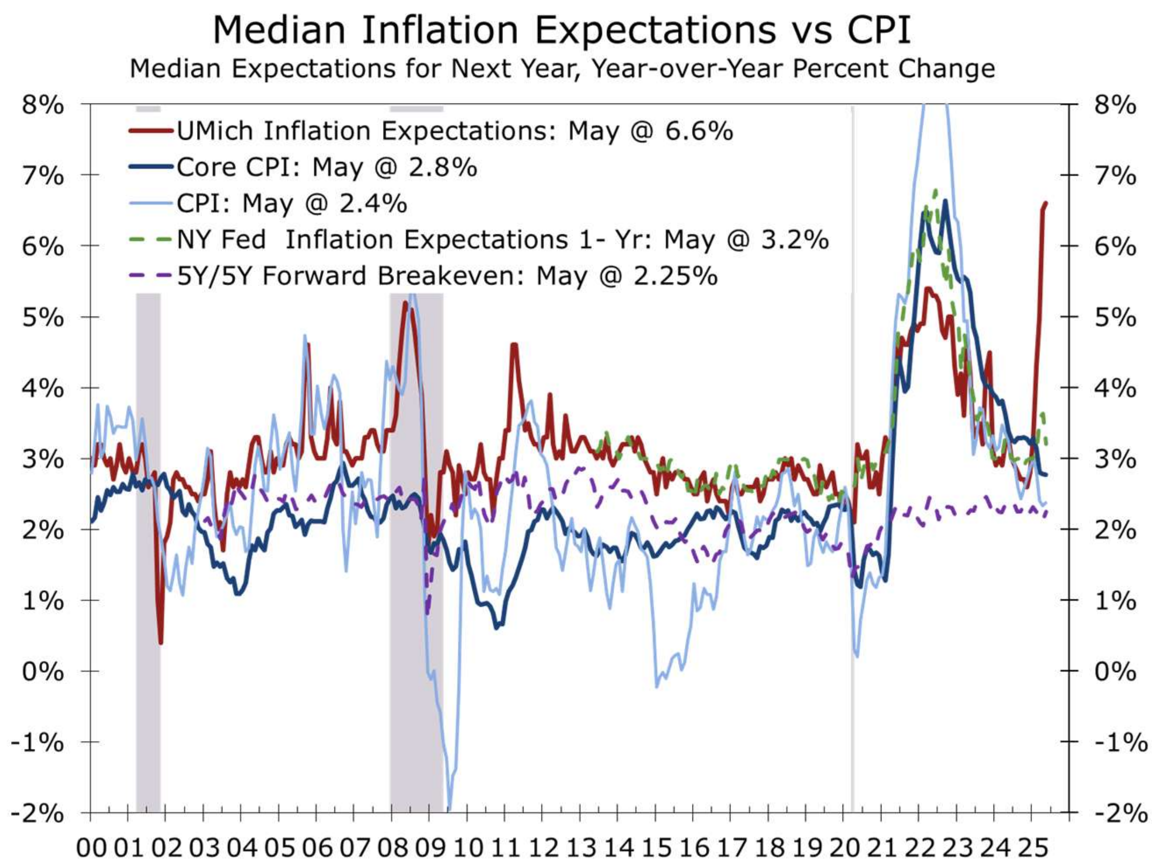
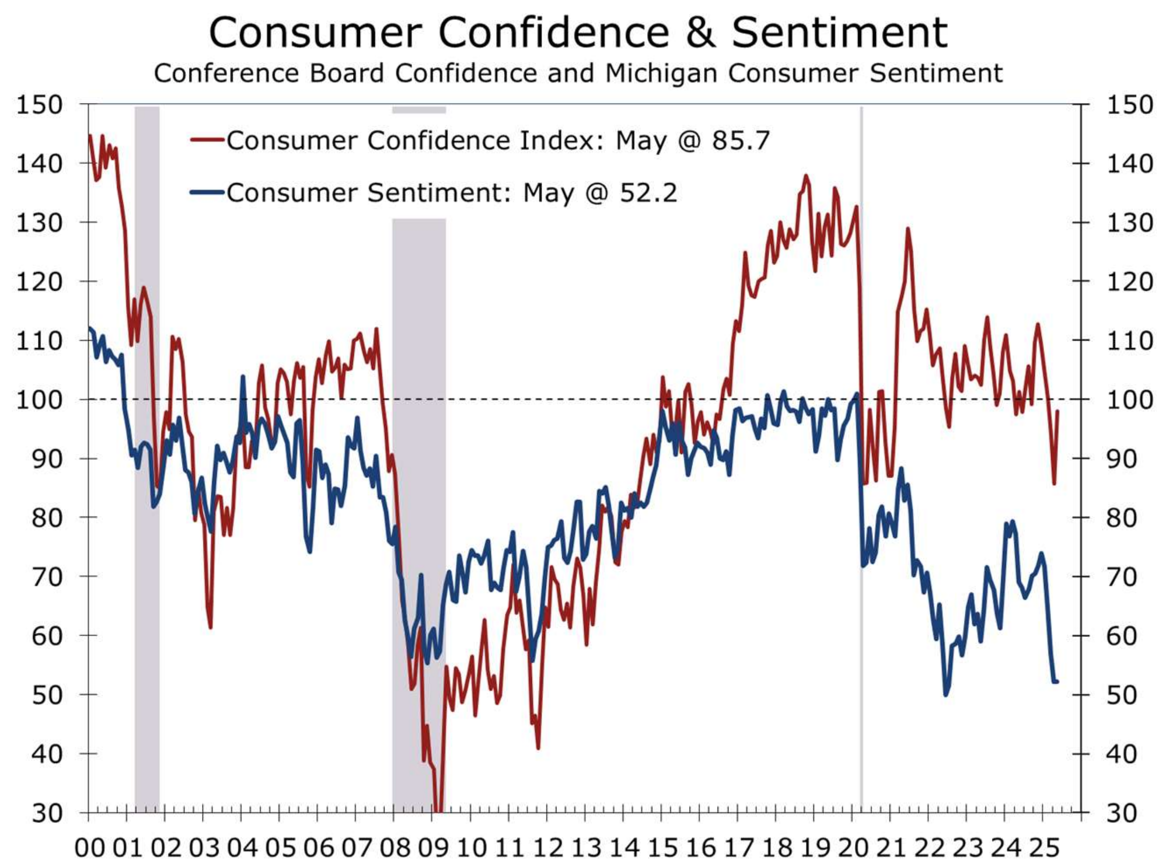
- Inflation expectations continue to spike higher in the UMich survey, likely reflecting tariff concerns and still high grocery prices.
- The resurgence coincides with moderation in most broad inflation measures and is not apparent in the more credible NY Fed survey or 5-Year Forward Breakeven rate.
- The Fed knows containing inflation expectations are key to keeping higher tariffs from pushing overall inflation higher. Inflation is always a monetary phenomenon.



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

Consumers Are Suffering From Inflation Fatigue

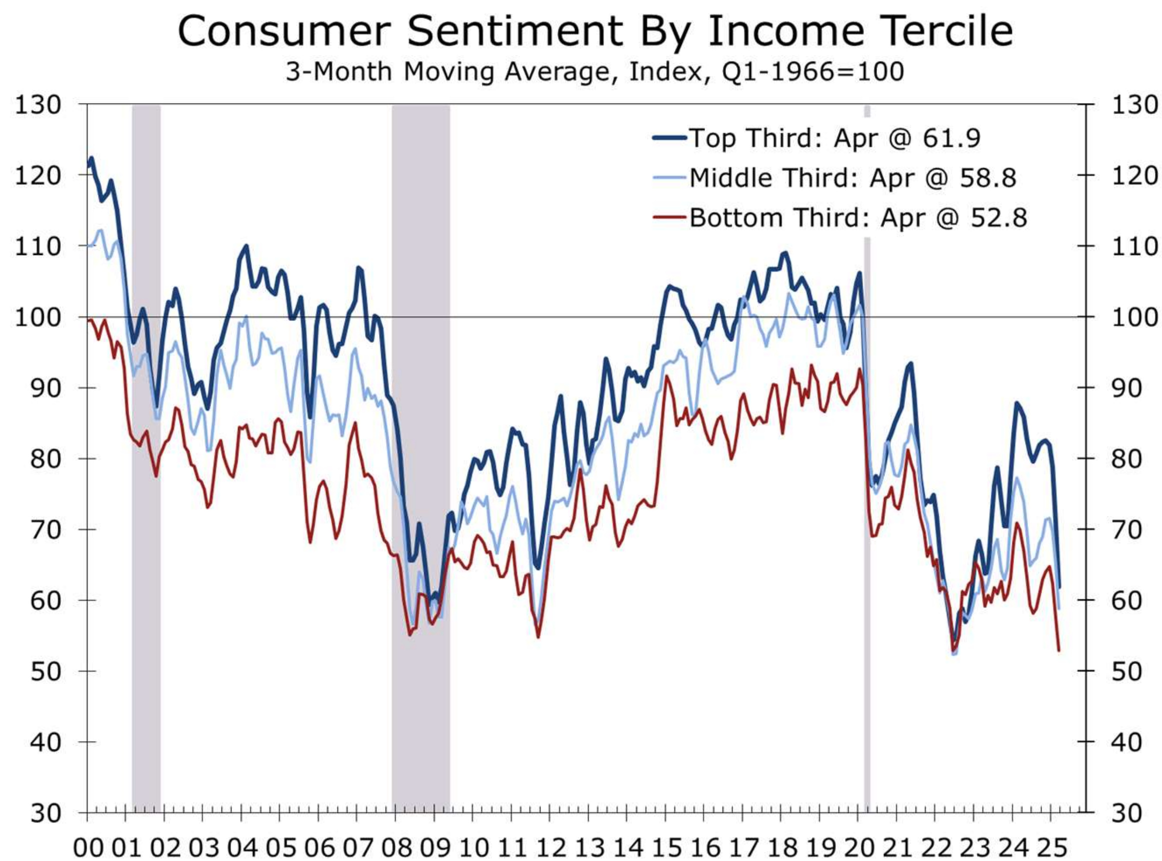
- With the economy essentially at "full employment", consumers still feel relatively upbeat about employment conditions - 60% of the Consumer Confidence Index.
- Higher prices, however, particularly for necessities, and moderating wage gains weigh more heavily on consumer sentiment, where finances carry more weight.
- The early March sentiment data show weakness in both the present situation and expectations components. The latter plunged nearly 10 points since the prior survey.



Source: The Conference Board, University of Michigan and Refinitiv

Sentiment Remains Near Lows for Mid- and Lower Income Households

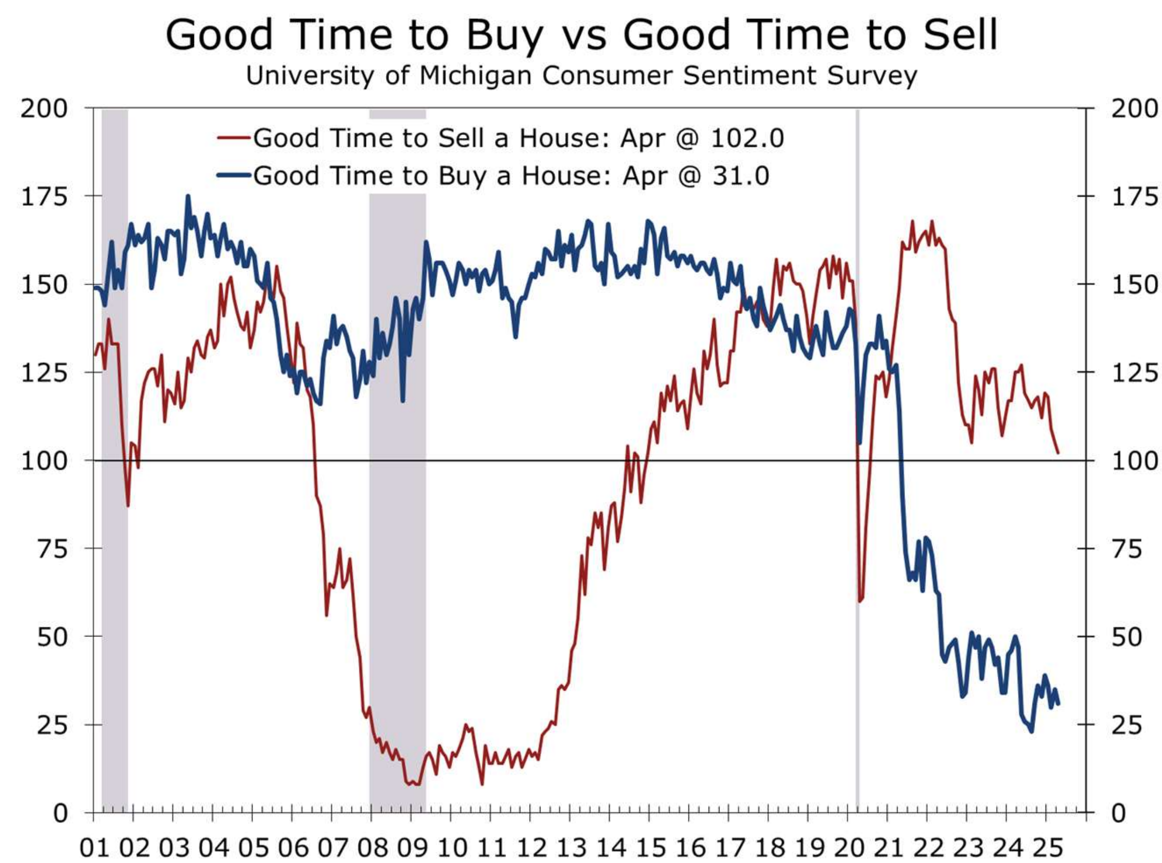
- Persistently high grocery prices, record low housing affordability and sky rocketing insurance cost are weighing on middle income families.
- Upper income folks had been holding up better until the stock market plunged in April.
- Sentiment now appears to be improving, as tariffs are being seen more as a means to reach trade deals.



Source: University of Michigan

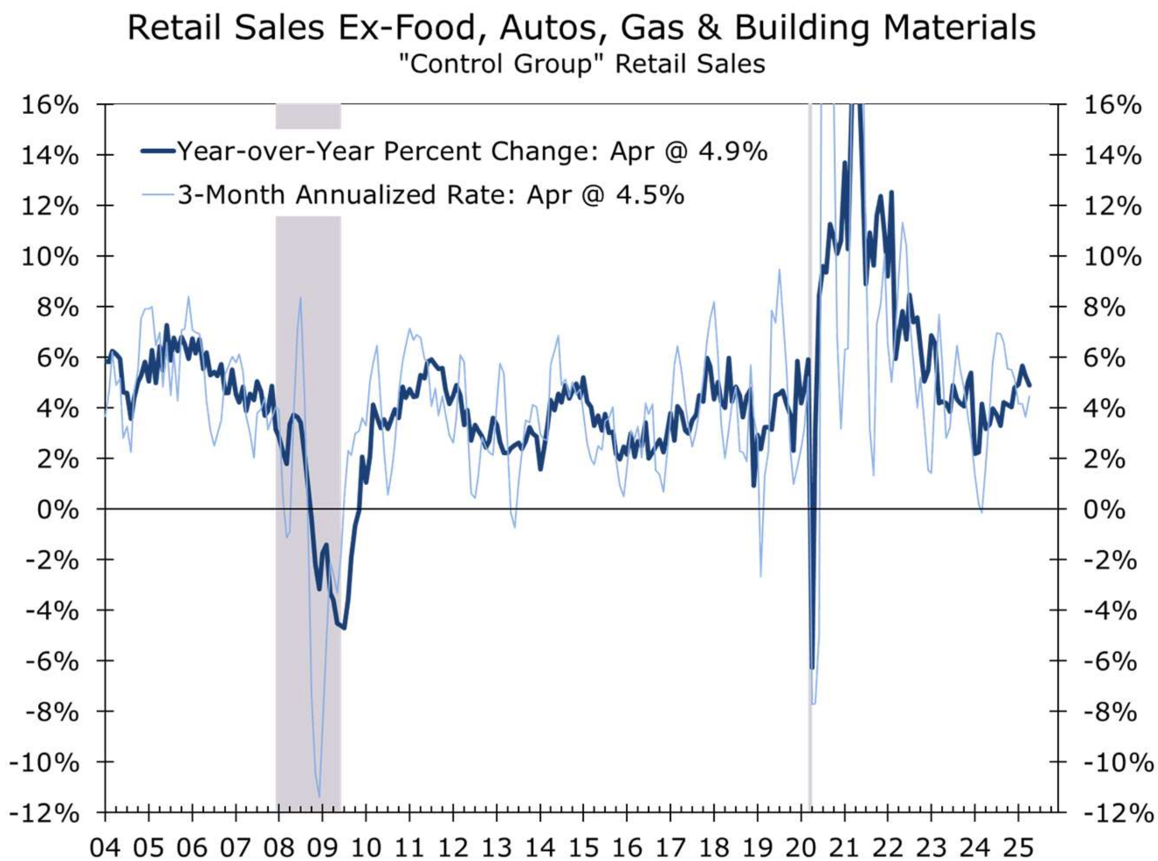
Relatively Few Consumers Feel Now is a Good Time to Buy a Home

- Sluggish real income growth, higher home prices and higher mortgage rates are weighing on home buying.
- The share of consumers that feel now is a good time to buy a home hit an all-time low when mortgage rates rose about 7.25%.
- We feel buyers will come back when mortgage rates fall to 6.50% or less.



Retail Sales Posted Solid Gains This Past Year

- After a slow start, consumer spending picked up in March, as consumers rushed to make major purchases ahead of tariffs.
- Sales of light vehicles and electronics saw the largest gains.
- Spending for other discretionary items slowed and remained soft in April.



Source: Census Bureau

Furniture Store Sales Have Rebounded Off Last Year's Lows

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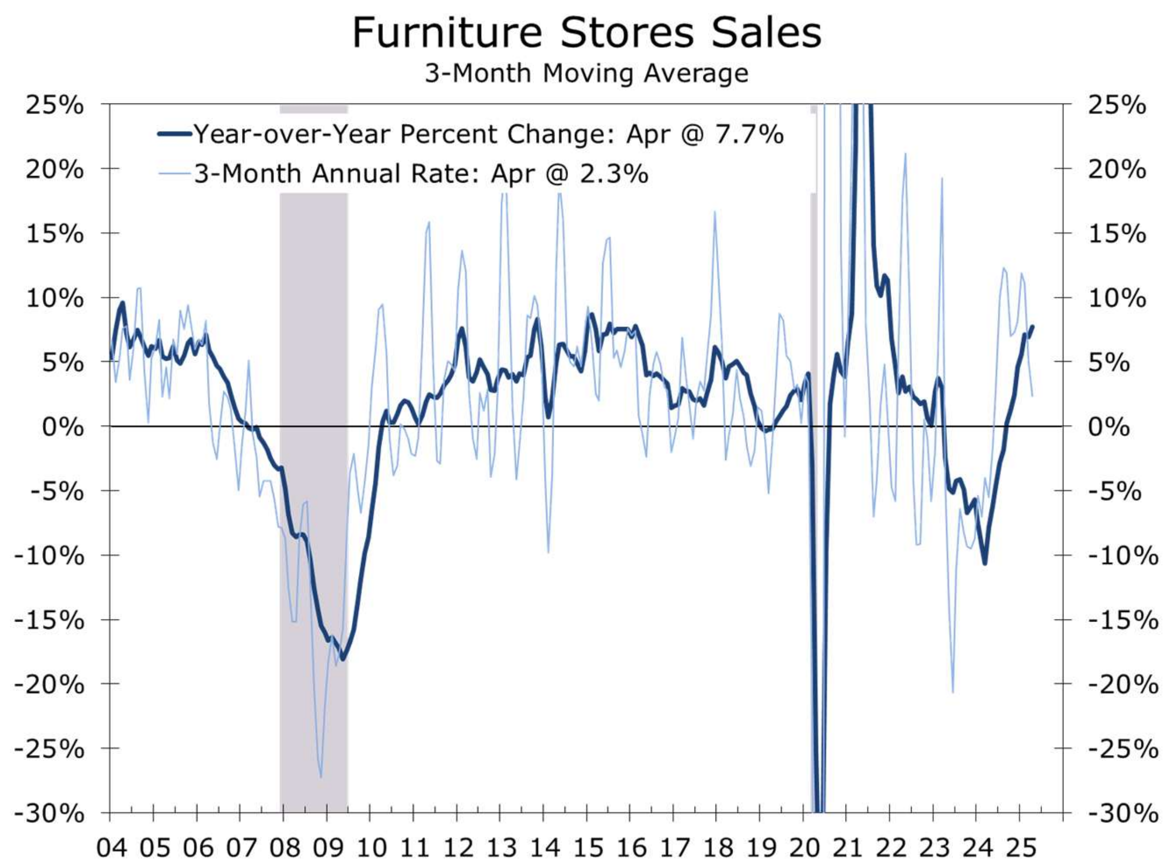
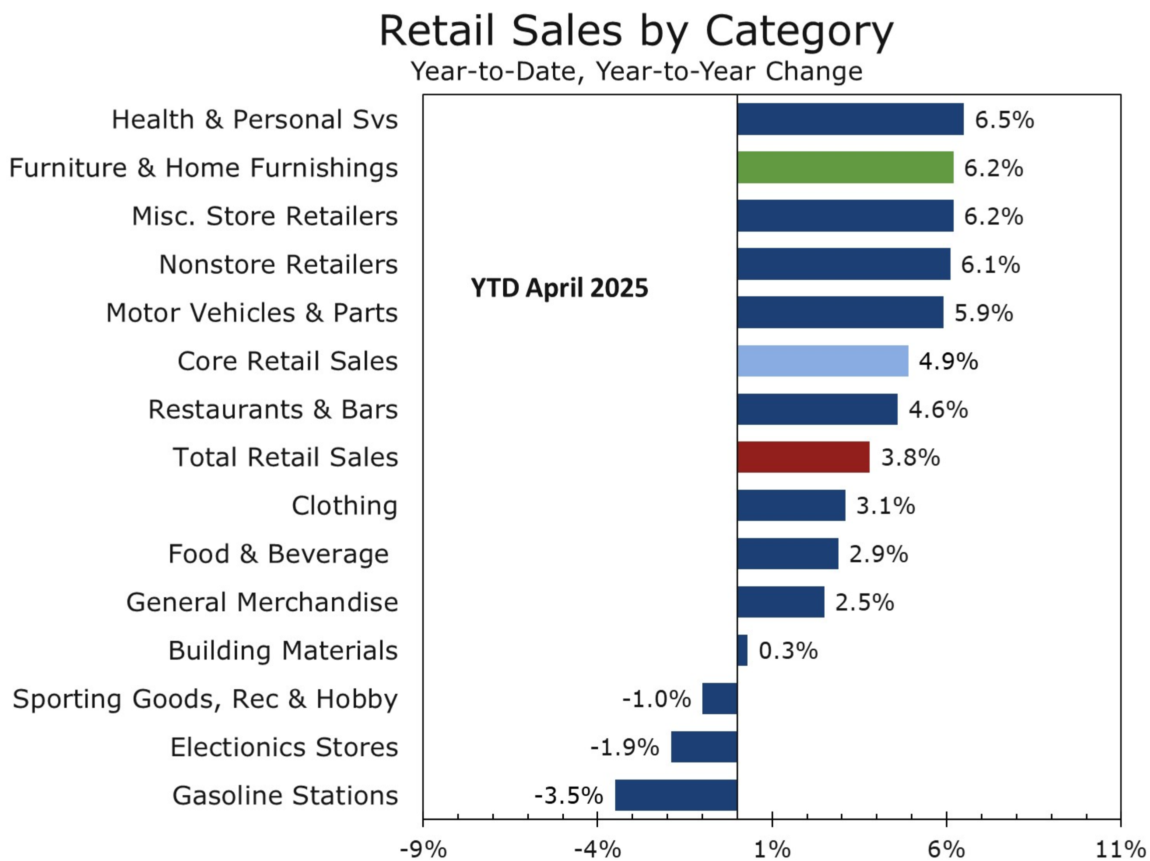
- Furniture stores enjoyed a rebound in sales in Q4 and Q1 of this year.
- Sales have slowed more recently, despite a rush to beat price hikes ahead of tariffs.
- Spring home buying has been unusually slow.
- Renovations are holding up well, however, driven by record home equity and the lock in effect.



Source: Census Bureau

Lower Gasoline Prices Are Supporting Spending Elsewhere

- Lower prices have reduced spending at gasoline by 3.5% this past year.
- Falling prices also likely weighed on spending at electronics stores, which saw a jump in sales and prices in March and April.
- Furniture sales had strengthened earlier of weak year-to-year comps.



Source: Census Bureau

Manufacturing Is Showing A Bit of Life in Early 2025

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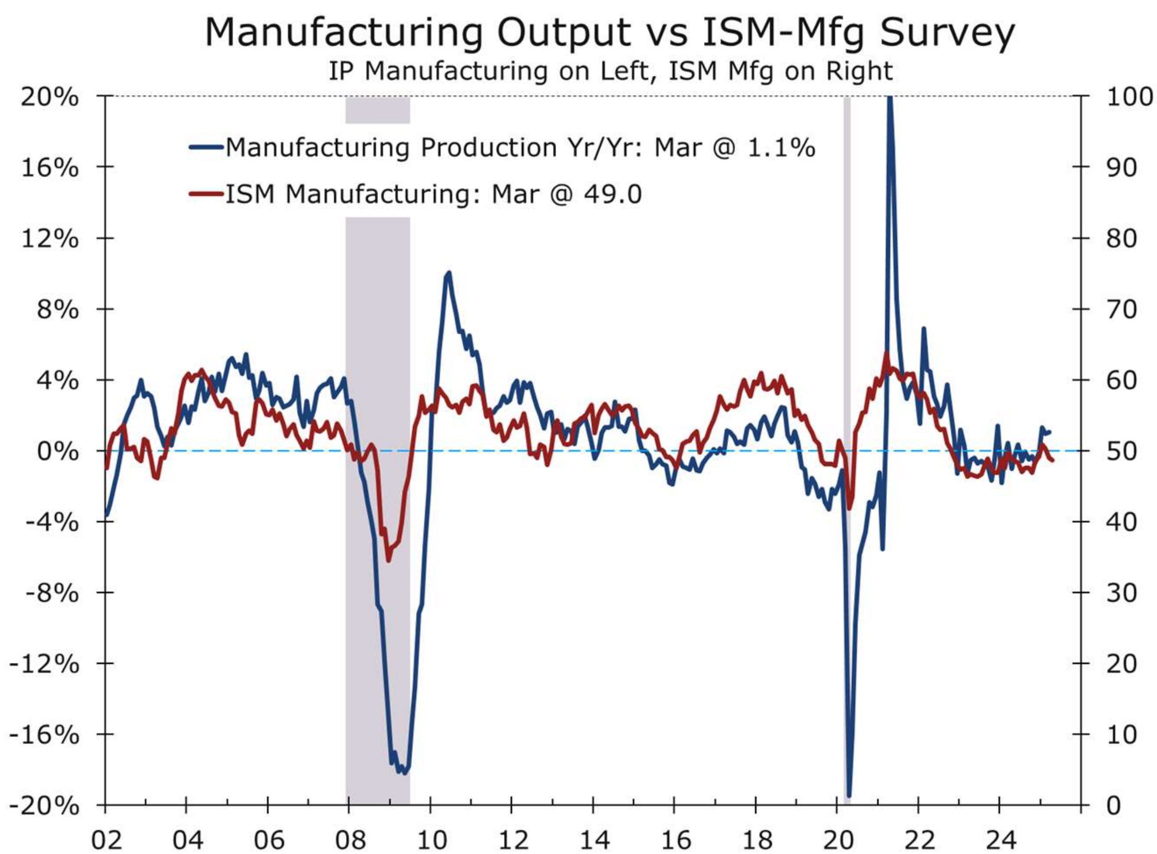
- Manufacturing Activity is showing some slight improvement.
- Manufacturers saw a surge in orders ahead of tariffs. Commercial aircraft assemblies have also risen, as have motor vehicle sales.
- New orders are growing modestly but consumers remain stretched, and tariffs are boosting uncertainty.



Source: Federal Reserve Board

Long-Term Rates Have Likely Returned to a More Typical Range

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- Secular Stagnation weighed on growth and interest rates following the Global Financial Crisis.
- Long-term interest rates have generally remained well below their long-term norms.
- The U.S. and global economies were showing signs of shaking Secular Stagnation prior to the tariff standoff.
- Concerns about the U.S. leadership, trade relationships, and fiscal and monetary policies are pressuring long rates.

South: Federal Reserve Board

The Era of Ultra-Low Interest Rates Has Likely Ended

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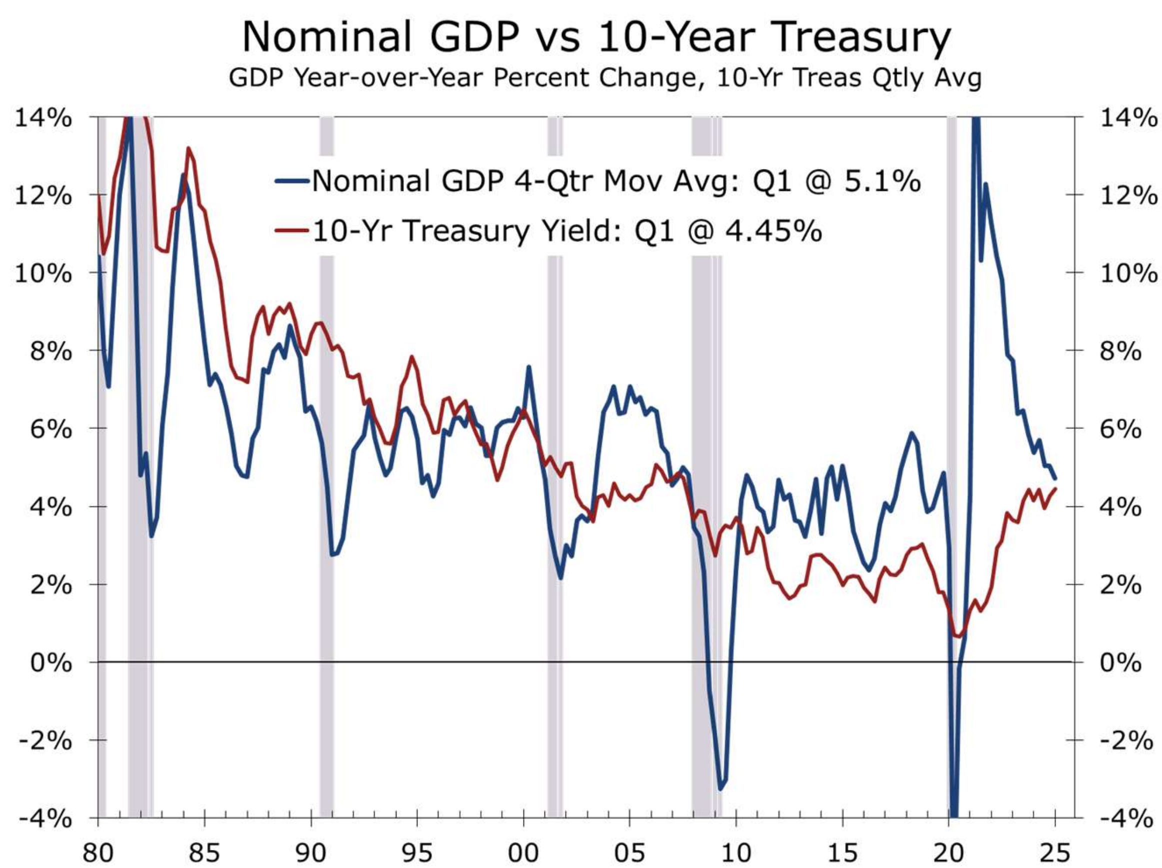
- Trump's aggressive trade policies have roiled financial markets and heightened the risk of a policy misstep.
- Uncertainty surrounding U.S. leadership, along with fiscal and monetary policy challenges, is putting downward pressure on the dollar.
- Rising capital inflows into emerging markets are increasing competition for investment, putting upward pressure on U.S. interest rates.



Source: Federal Reserve Board, Bureau of Economic Analysis and Piedmont Crescent Capital

Higher Mortgage Rates And Cold Weather Weighed on Sales

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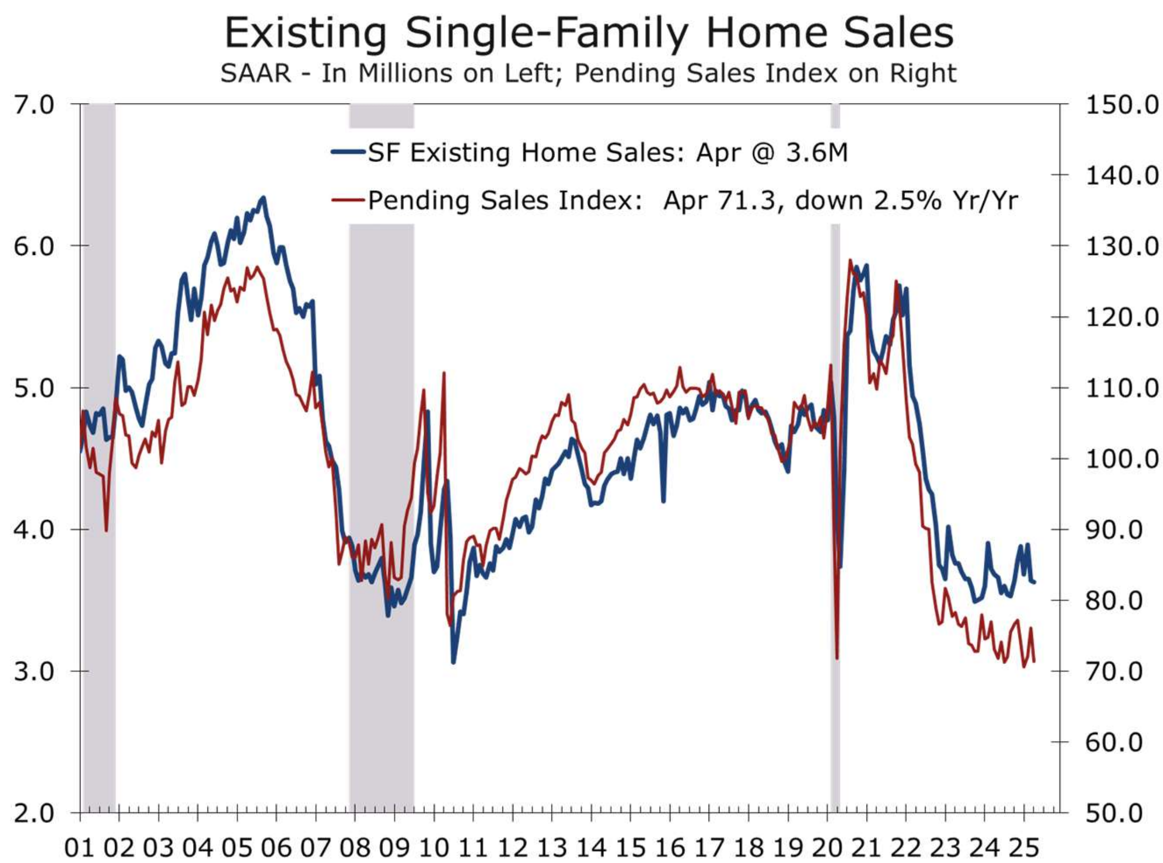
- Home sales continue to bounce around in response to swings in the weather and mortgage rates.
- Pending sales rose off an all-time low in February but remain weak and are running well below sales.
- Inventories of existing homes are rising, although much of the growth is in a handful of markets, namely in Florida.



Source: National Association of Realtors

Affordability Deteriorated Quickly Following the Pandemic

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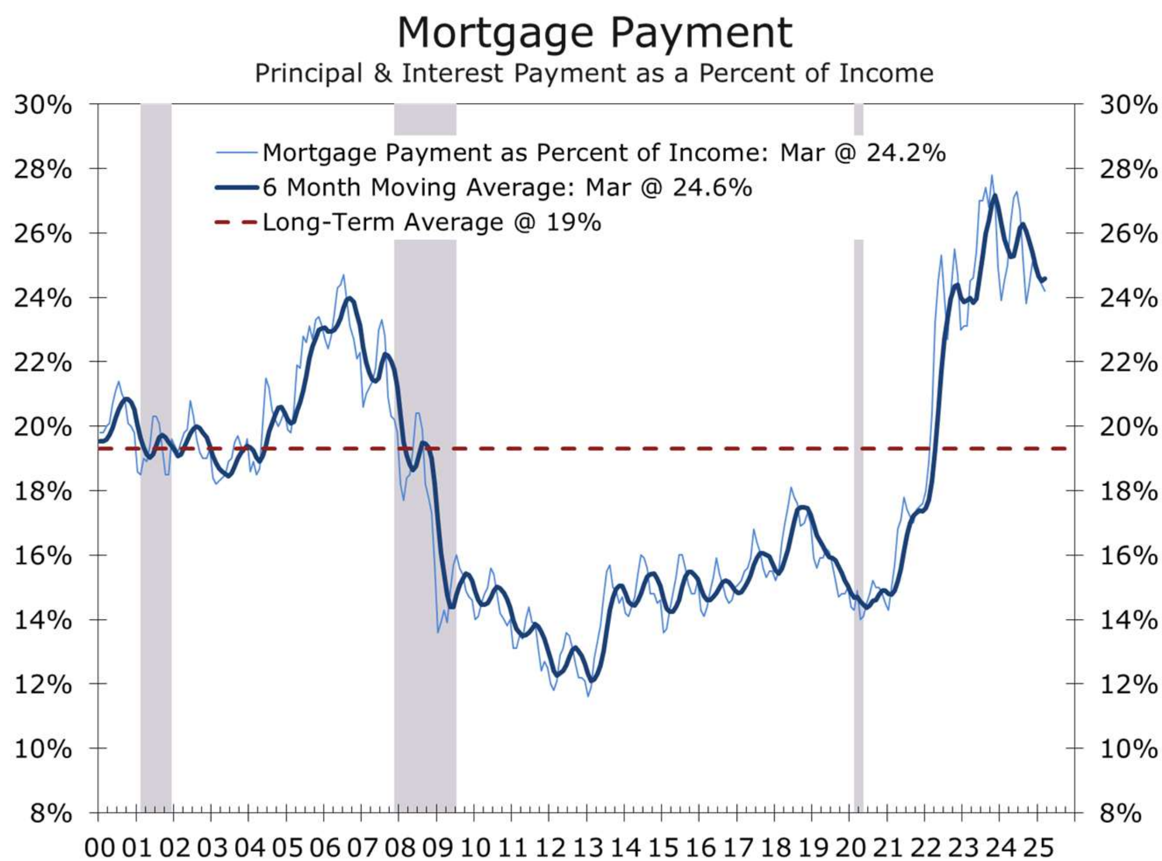
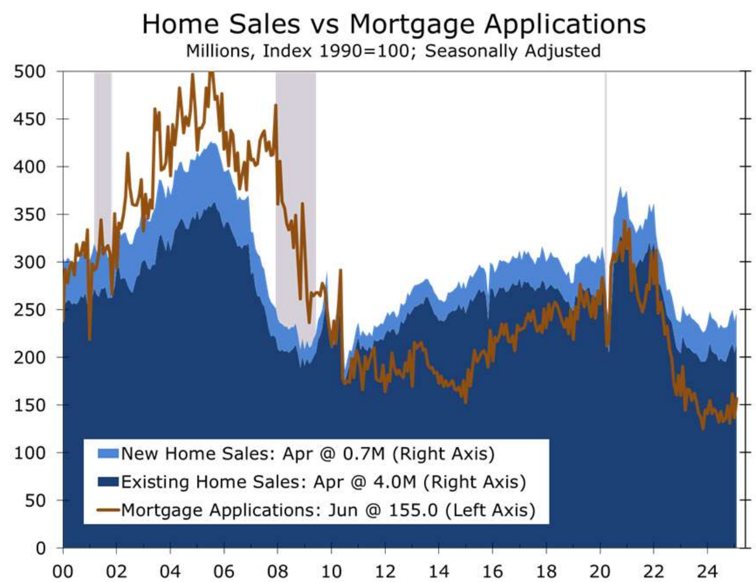
- Housing affordability remains stretched. P&I payments were 24.2% of median family income in December. The norm is around 19%.
- At $2,113/Month, principal and interest payments now account for about the same share they did at the peak of the housing bubble.
- Low affordability is keeping prospective buyers in the rental market.

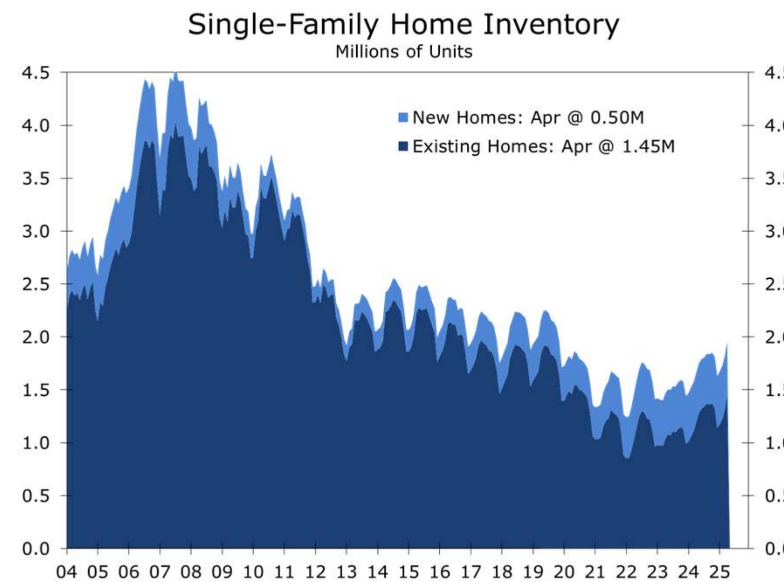


Source: National Association of Realtors

Affordability Concerns Continue to Weigh on Home Sales

Higher prices, rising interest rates, and limited inventory weighed on home sales this past year. Builders helped offset the lack of existing homes, but new home sales have recently slowed, boosting inventories and slowing new development. Prices are softening in parts of the country—especially in Florida. Sales appear to have bottomed and purchase applications have risen as buyers are getting used to 7% mortgage rates.





Source: Census Bureau, National Association of Realtors and Mortgage Bankers Association

The Affordability Migration Has Slowed High End Sales

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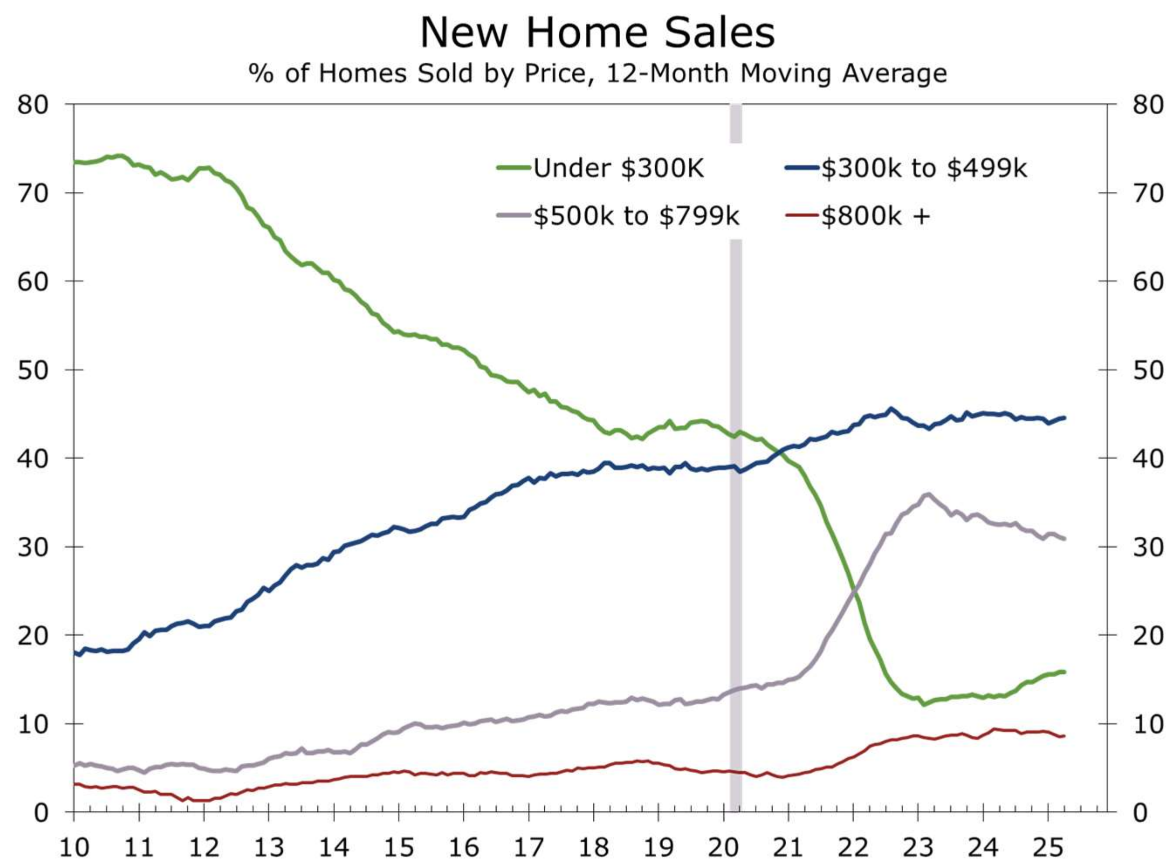
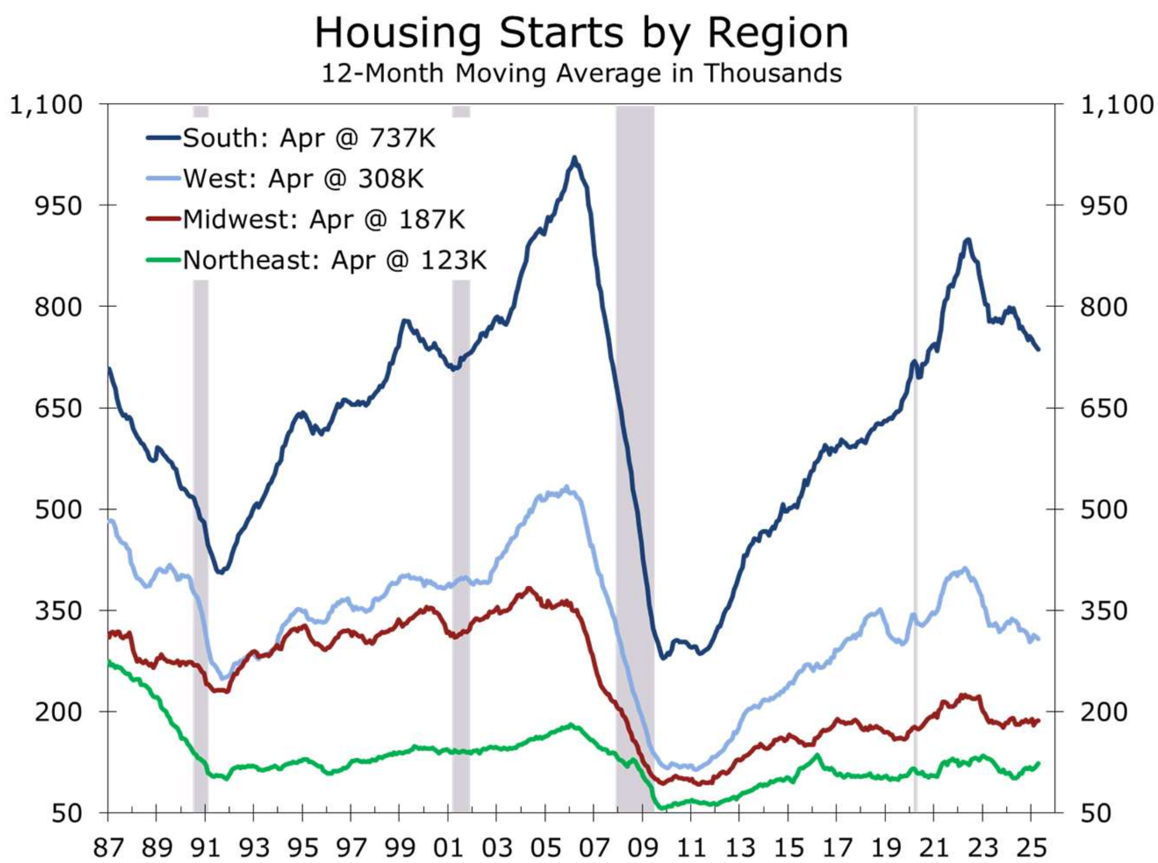
- The post-pandemic period set off an epic arbitrage opportunity for homeowners.
- The migration to lower cost suburbs and lower cost metro areas, led to a surge in home sales above 500K
- Lower priced markets in the South are still seeing strong in-migration.



Source: Census Bureau

The Affordability Migration Boosted Home Building the South

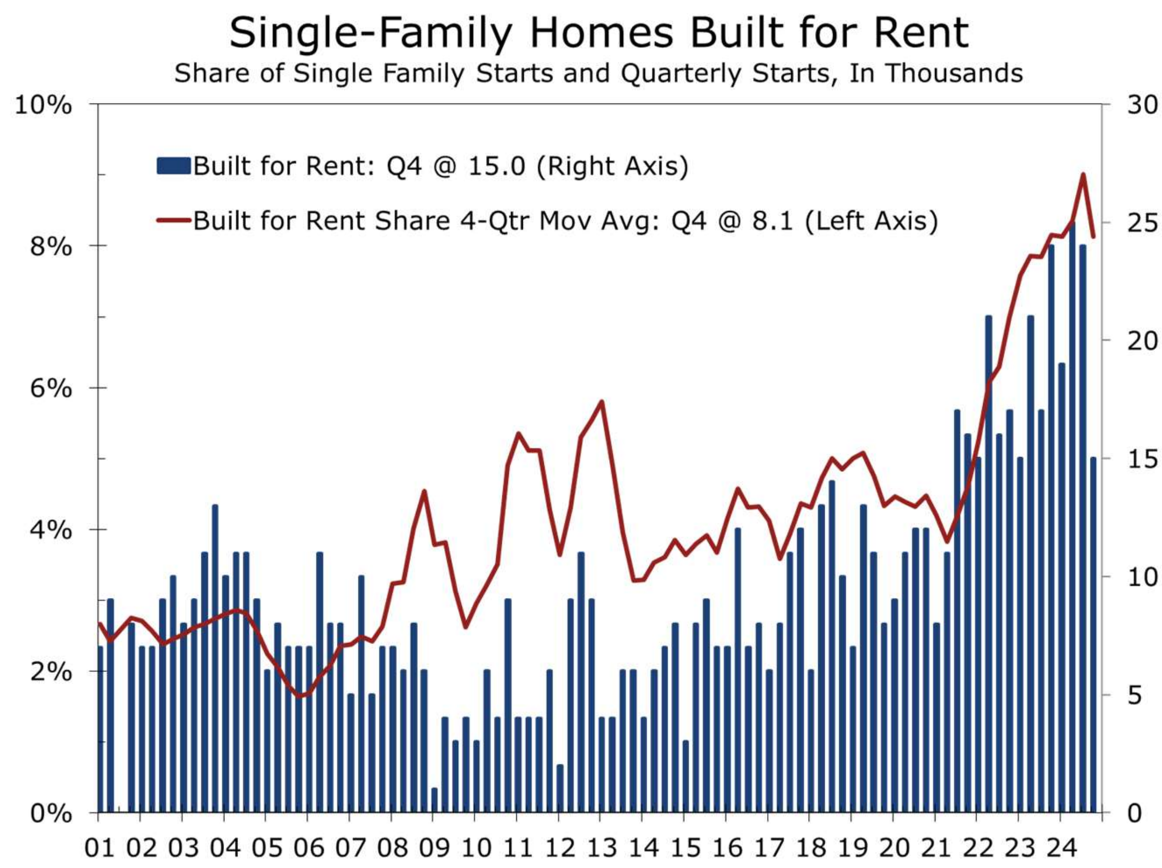
- Migration out of high costs housing markets in the Northeast and West drove housing starts in the South and parts of the West and Midwest.
- Much of this construction was for high-end homes, reflecting and influx of equity rich buyers.
- Migration has slowed more recently, although the Carolinas are seeing a larger influx of Floridians.



Source: Census Bureau

The Lack of Affordability is Boosting Built for Rent SF Construction

- Builders are increasingly incorporating a build for rent segment, which helps smooth production schedules and achieve economies of scale.
- Build to rent accounts for an even larger share of single-family housing starts in the South – which is by far the nation's largest new home market.



Source: Census Bureau

Home Prices Are Rising More Modestly

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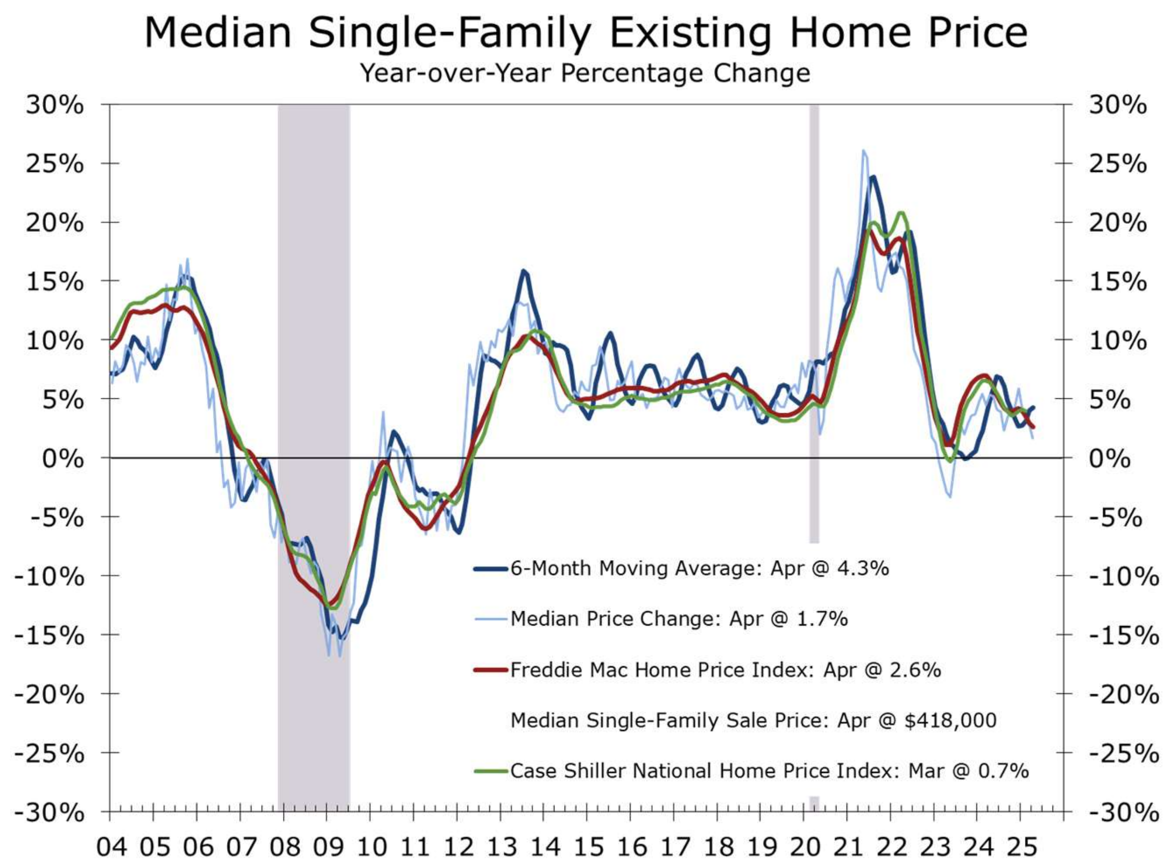
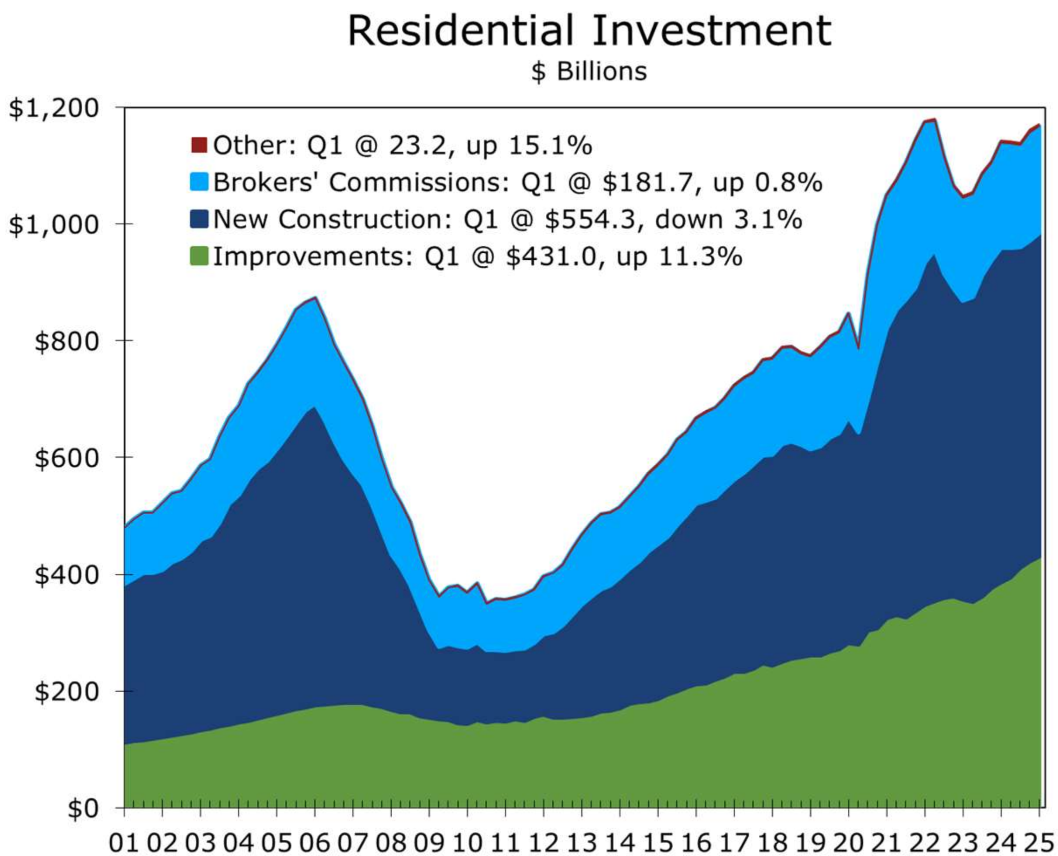
- Home Prices have been rising more modestly this pas year and are essentially keeping pace with income growth.
- Prices have risen the most in the fastest growing parts of the South and Mountain West.
- Prices are easing in a handful of markets.



Source: S&P Global

New Construction & Renovation Account for an Outsized Share

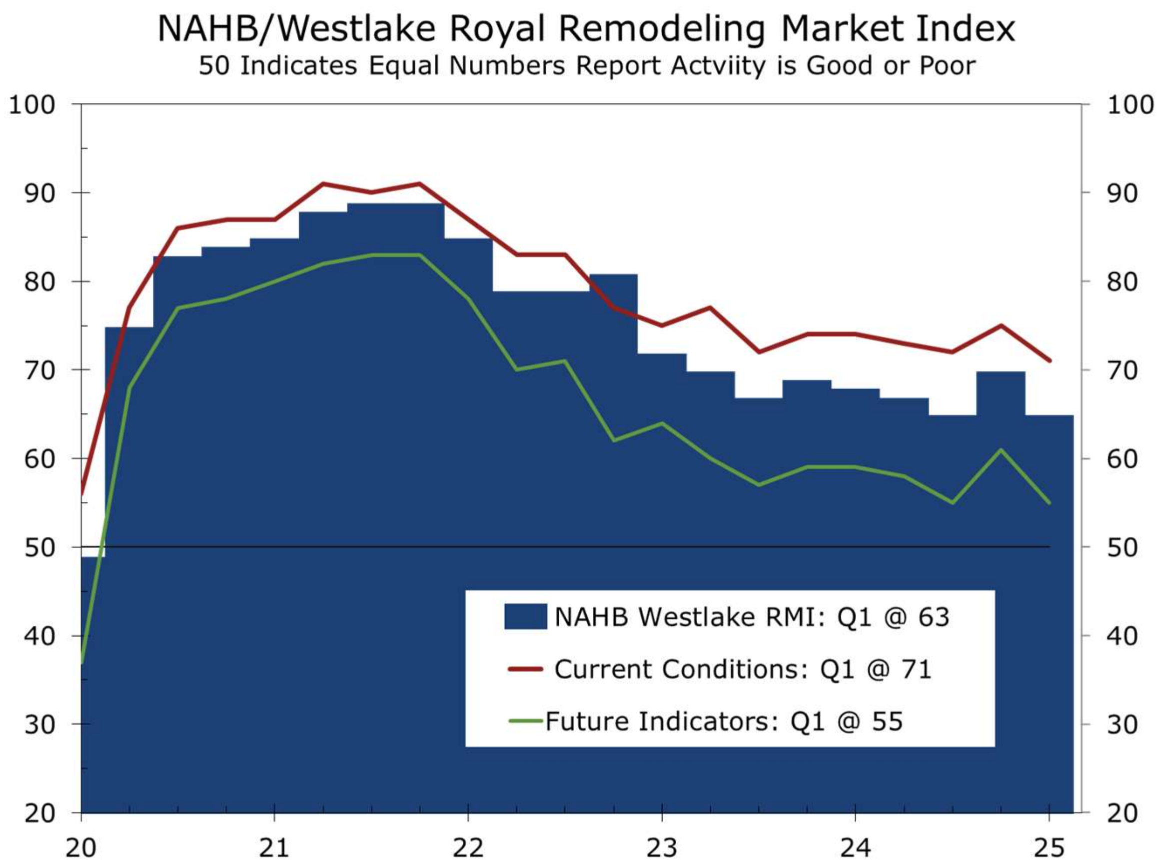
- The combination of restrained existing home sales, the apartment boom and the rise in built-to-rent single-family homes, is driving residential construction.
- Commissions are being restrained by the lack of existing home sales but bolstered by single family rentals.
- Lower mortgage rates should bolster housing this spring.



Source: Bureau of Economic Analysis

Remodeling Activity Picked Up At Yearend

- Remodeling activity picked up at year end, with a rise in both large and smaller projects.
- Home prices and consumer finances are the biggest short-term drivers of remodeling outlays and remain largely positive.
- Outdoor living spaces remain extremely popular and are a refuge from being plugged in all day.



Source: NAHB Westlake/Royal Remodeling Index

Commercial Real Estate Is Holding Up Better Than Expected

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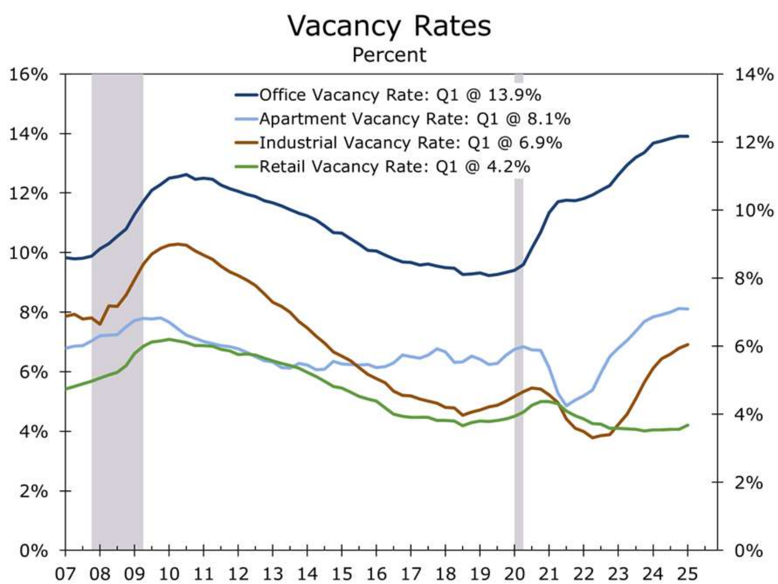
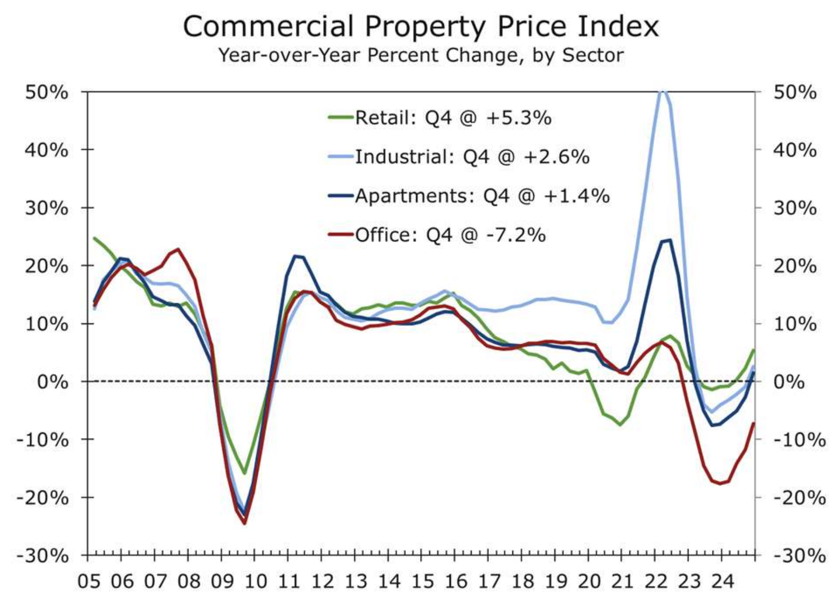
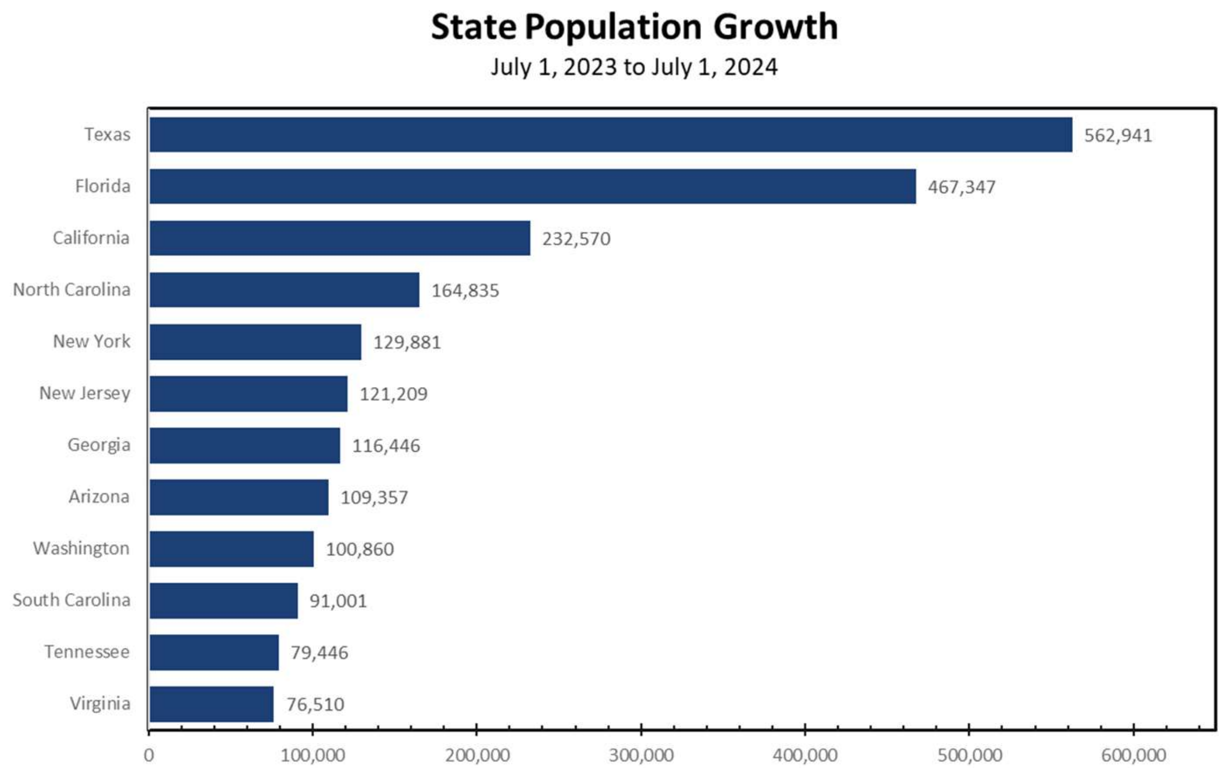
Commercial Real Estate appears to have weathered the worst from the shift to remote work and higher interest rates. Most markets are seeing a substantial return to the office, although work arrangements remain flexible. Property prices are beginning to rebound off last year's low but may run into some resistance as the Fed slows its easing and long-term interest rates rise back to a more "normal" range.





Immigration Boosted Population Growth the Past Two Years

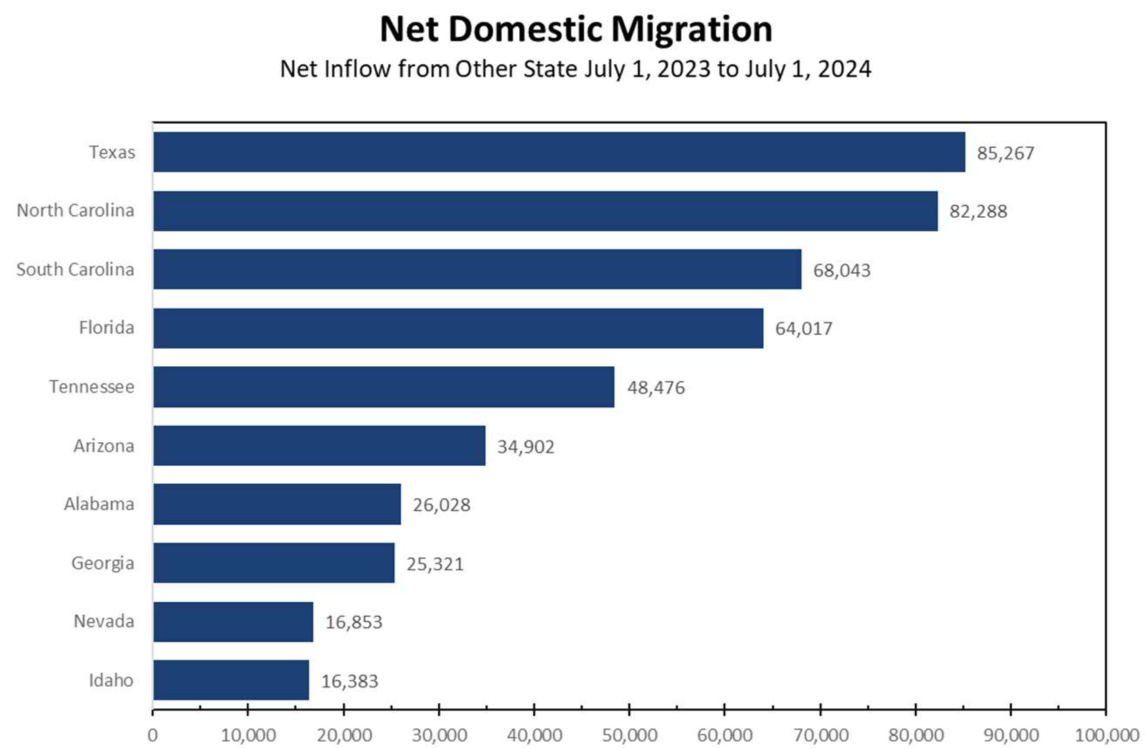
- California, New York and New Jersey saw gains in population this past year, thanks to a surge in immigration, which has now slowed.
- Nearly every state saw a jump in net immigration, with gateway states leading the way.
- Natural increase also turned slightly positive this past year and likely improved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



Source: Census Bureau

The Affordability Migration Shifted This Past Year

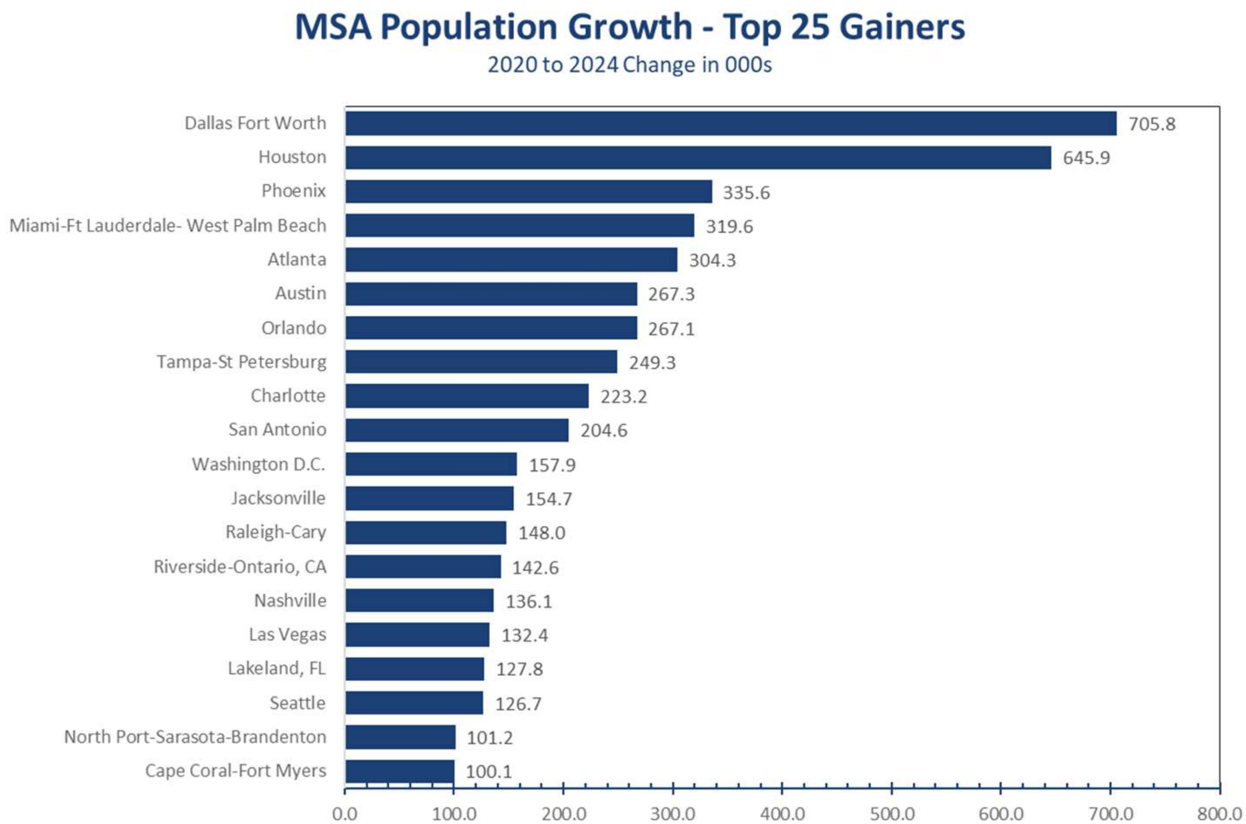
- The affordability and lifestyle migration from the Northeast, West Coast and greater Chicago moderated this past year, as offices more fully reopened.
- Texas still receives the bulk of net migration from other states.
- The Carolinas have seen an influx of Floridians pushed out by higher costs. The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



Source: Census Bureau

Texas & Florida Dominate the List of Fastest Growing MSAs

- Sunbelt MSAs account for the bulk of major metro areas population growth.
- Texas and Florida continue to lead the list, although many metros in these states have lost momentum.
- North Carolina is the only other state with 2 metro areas in the top 25 gainers.



Source: Census Bureau

Economic Outlook

PIEDMONT CRESCENT CAPITAL

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	1.6	3.0	3.1	2.5	**(0.2)**	3.8	1.2	1.6	1.9	2.3	2.6	2.5	2.9	**2.8**	2.3	1.8	2.4
Final Sales to Domestic Private Purchasers	2.9	2.7	3.4	2.9	**2.5**	1.9	1.2	2.2	3.1	2.7	2.6	2.7	2.5	**3.0**	2.8	2.4	2.6
Consumer Spending	1.9	2.8	3.7	4.0	**1.8**	3.4	2.1	1.8	1.8	2.1	2.3	2.5	2.5	**2.8**	3.2	2.0	2.4
Nonresidential Fixed Investment	4.5	3.9	4.0	(2.9)	**10.3**	(1.0)	(0.6)	3.6	6.0	4.3	3.5	3.4	4.9	**3.5**	2.6	3.3	3.4
Light Vehicle Sales	15.5	15.6	15.6	16.5	**16.4**	15.8	15.5	15.9	16.0	16.2	16.4	16.5	15.5	**15.8**	15.9	16.3	16.6
Industrial Production, Manufacturing (Yr/Yr)	(0.9)	1.4	(0.7)	(1.4)	**1.0**	1.1	1.2	2.3	2.4	2.6	2.8	2.8	(0.4)	**(0.4)**	1.4	2.7	2.8
Unemployment Rate (Qtrly Avg)	3.8	4.0	4.2	4.1	**4.1**	4.2	4.4	4.5	4.5	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	**1,396**	1,360	1,340	1,320	1,340	1,370	1,380	1,400	1,421	**1,368**	1,350	1,375	1,450
New Home Sales	677	685	707	671	**662**	690	680	670	680	700	720	730	666	**684**	676	710	760
Existing Home Sales	4,143	4,023	3,937	4,163	**4,127**	3,980	4,050	4,100	4,120	4,140	4,160	4,180	4,090	**4,060**	4,064	4,150	4,280
S&P/Case-Shiller Natl Home Prices (Yr/Yr % Change)	6.4	6.0	4.4	3.7	**3.8**	3.6	3.5	3.4	3.5	3.6	3.7	3.8	2.5	**5.1**	3.7	3.7	3.8
Inflation (Year-to-Year % Change)																	
Consumer Price Index (CPI)	3.2	3.2	2.7	2.7	**2.7**	2.4	2.8	3.0	2.9	2.8	2.7	2.6	4.1	**3.0**	2.7	2.8	2.4
Core CPI	3.8	3.4	3.3	3.3	**3.1**	2.8	3.0	3.1	3.1	3.0	2.7	2.6	4.8	**3.4**	3.0	2.9	2.3
Personal Consumption Deflator	2.7	2.6	2.3	2.5	**2.5**	2.2	2.5	2.8	2.9	2.8	2.7	2.6	3.2	**2.8**	2.5	2.8	2.3
Core PCE Deflator	3.0	2.7	2.7	2.8	**2.8**	2.6	2.9	3.0	3.1	3.0	2.7	2.6	4.1	**2.8**	2.8	2.9	2.3
Employment Cost Index	4.2	4.0	3.8	3.8	**3.6**	3.7	3.6	3.7	3.8	3.7	3.6	3.7	4.5	**3.9**	3.6	3.7	3.8
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	3.75-4.00	3.5-3.75	3.5-3.75	3.5-3.75	3.5-3.75	5.02	**5.14**	3.90	3.69	4.00
10-Year Treasury Note	4.21	4.33	3.81	4.58	**4.23**	4.50	4.60	4.70	4.80	4.90	4.90	4.90	3.96	**4.21**	4.51	4.88	4.95
Conventional Mortgage Rate (Freddie Mac)	6.79	6.86	6.08	6.85	**6.65**	6.90	6.90	6.90	6.90	7.00	7.00	7.00	6.81	**6.72**	6.84	6.98	6.95

Piedmont Crescent Capital - June 10, 2025

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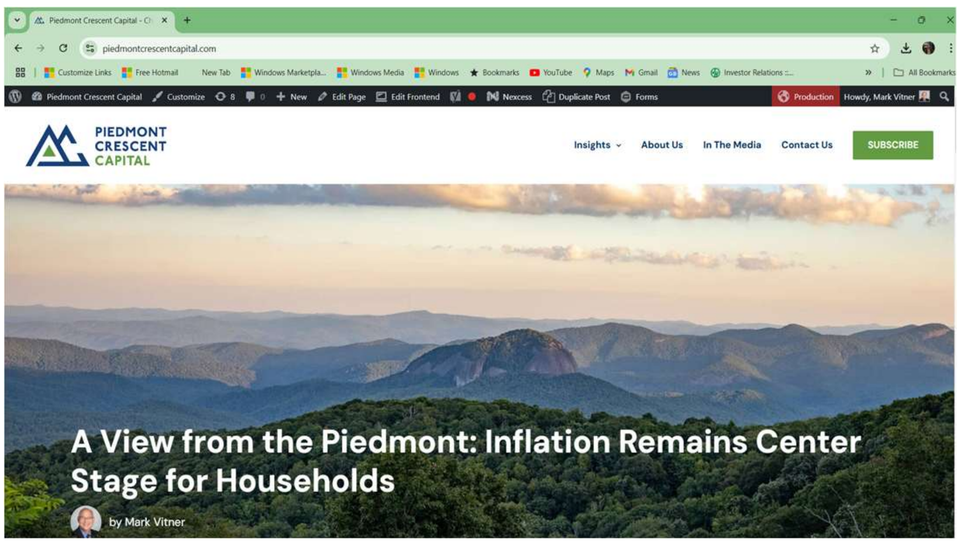

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