

On the Economic, Business and Political Climate

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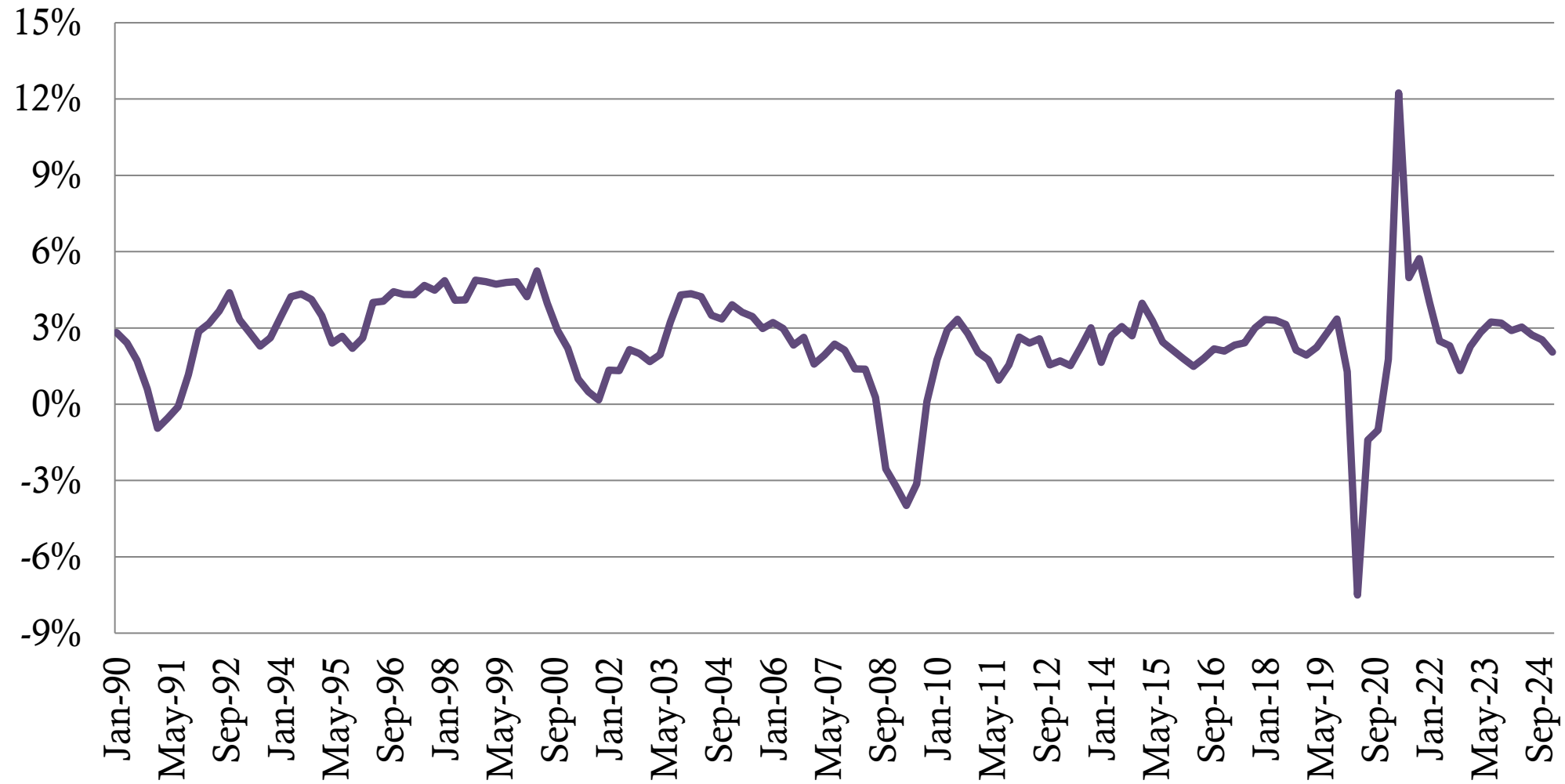
***Generation & Transmission Accounting & Finance Association
Annual Conference
June 25, 2025
Columbus, OH***

Topic #1:

In the post-Covid world, was the “recession talk” premature?

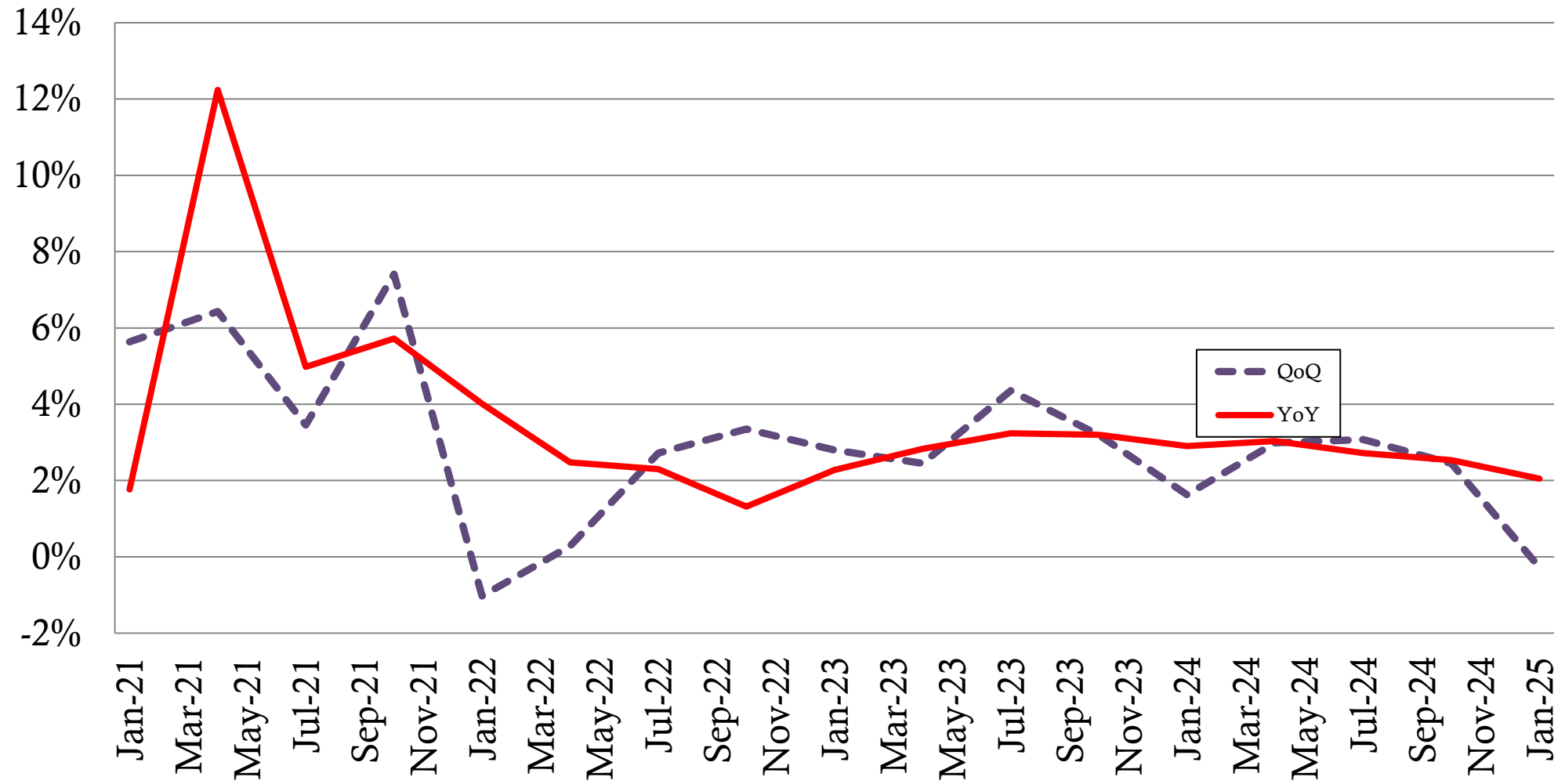
Gross Domestic Product: Year over Year

(source: Department of Commerce)



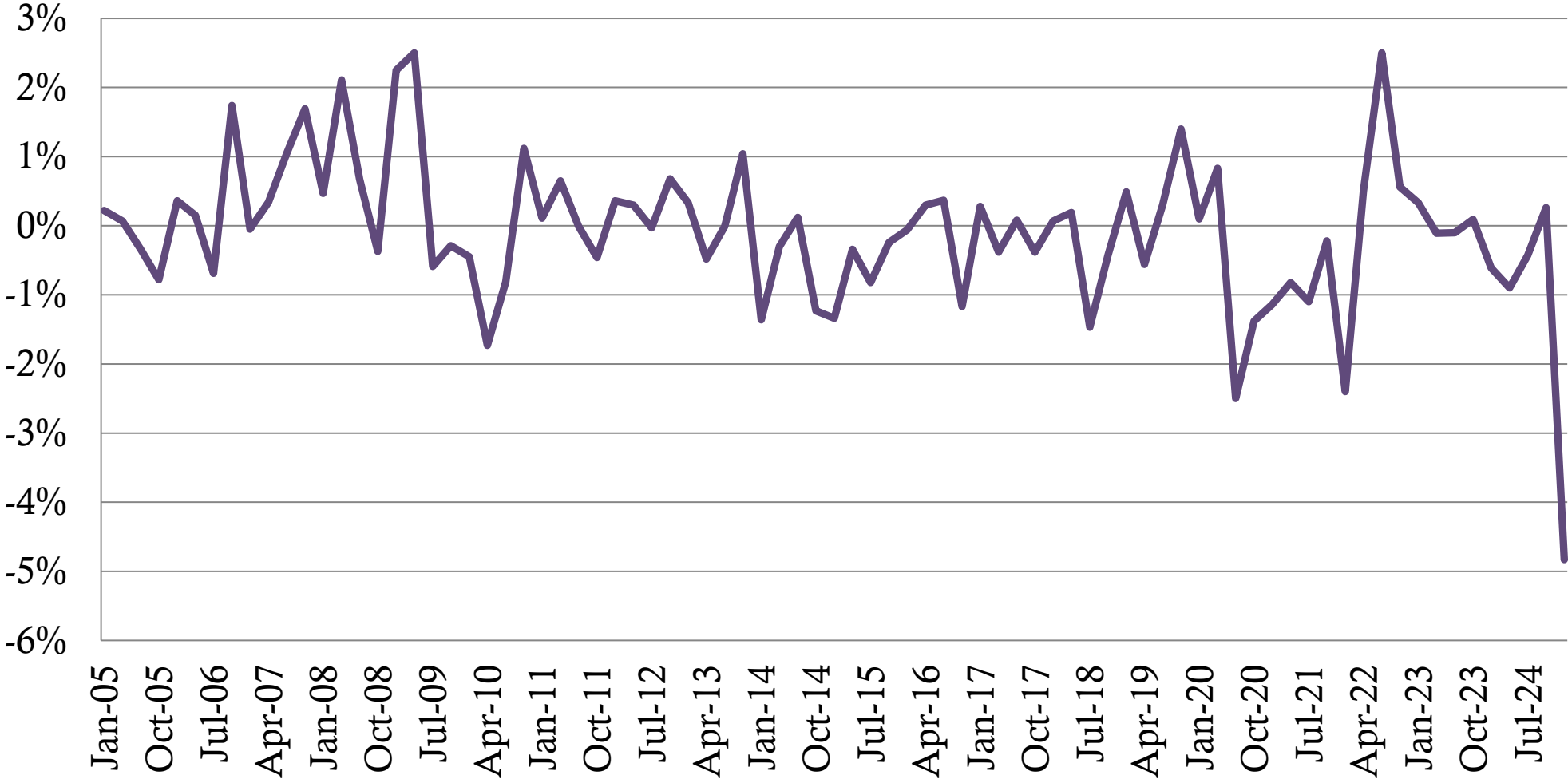
Gross Domestic Product

(source: Department of Commerce)



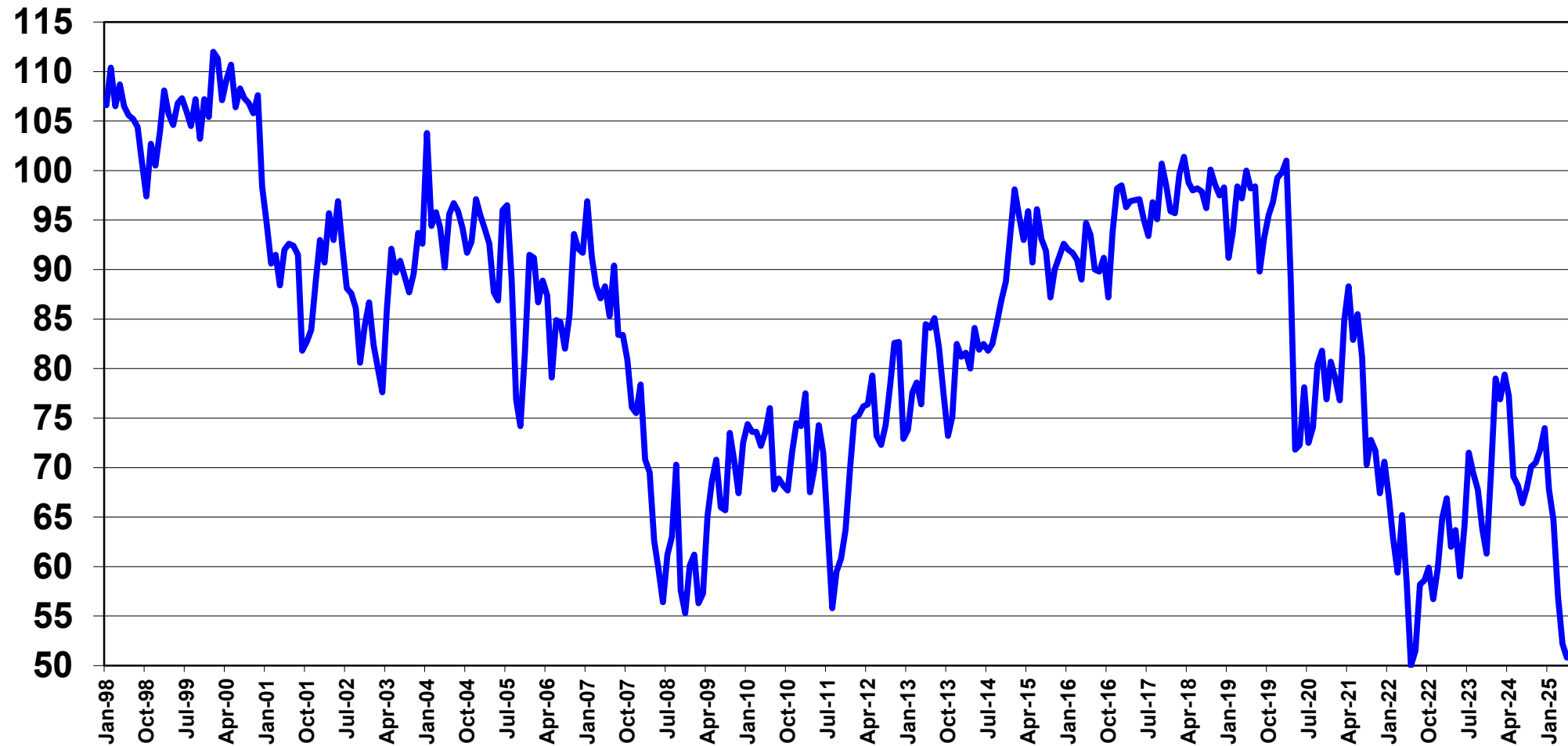
Gross Domestic Product: Contribution of Net Exports

(source: Department of Commerce)



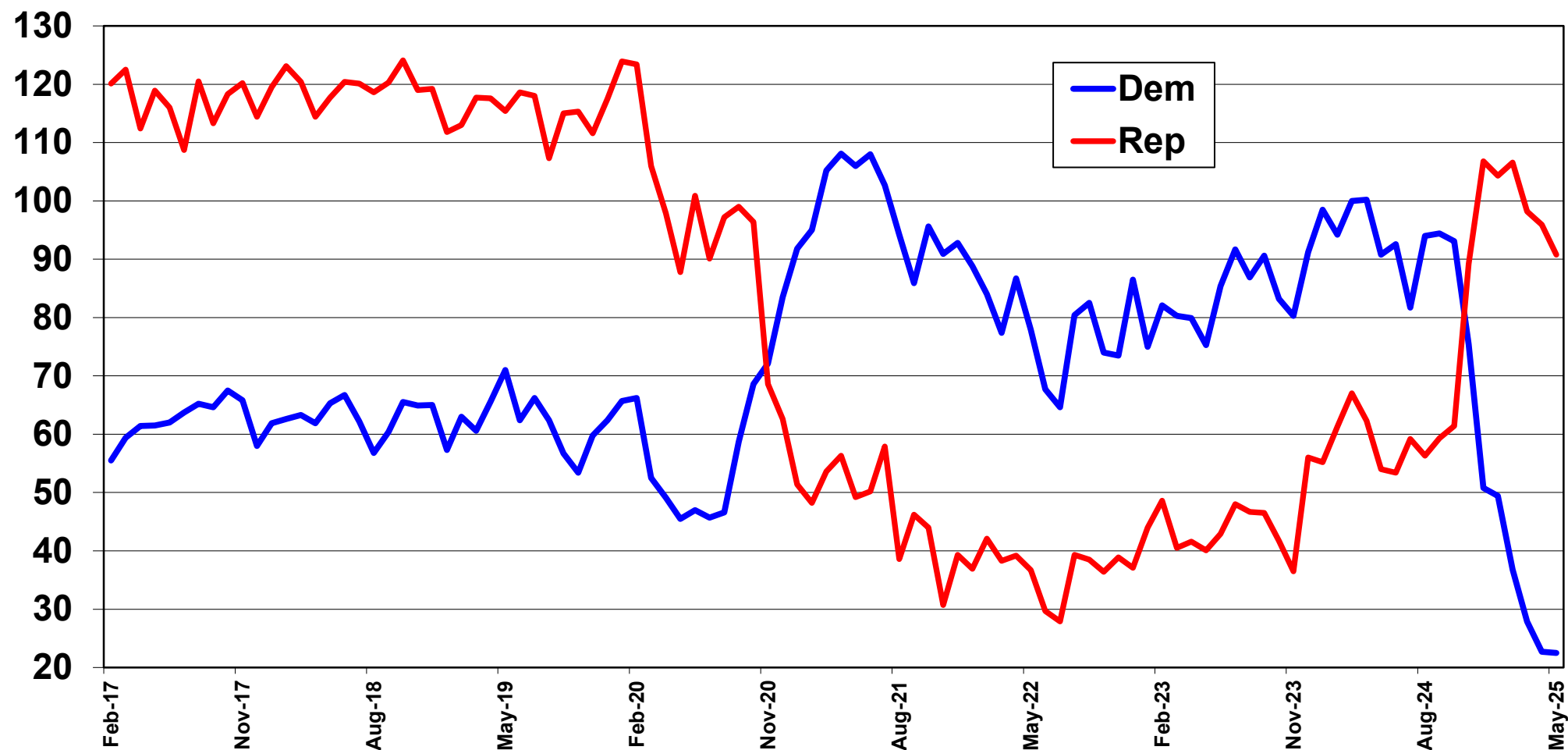
Consumer Sentiment

(source: University of Michigan, Survey Research Center)



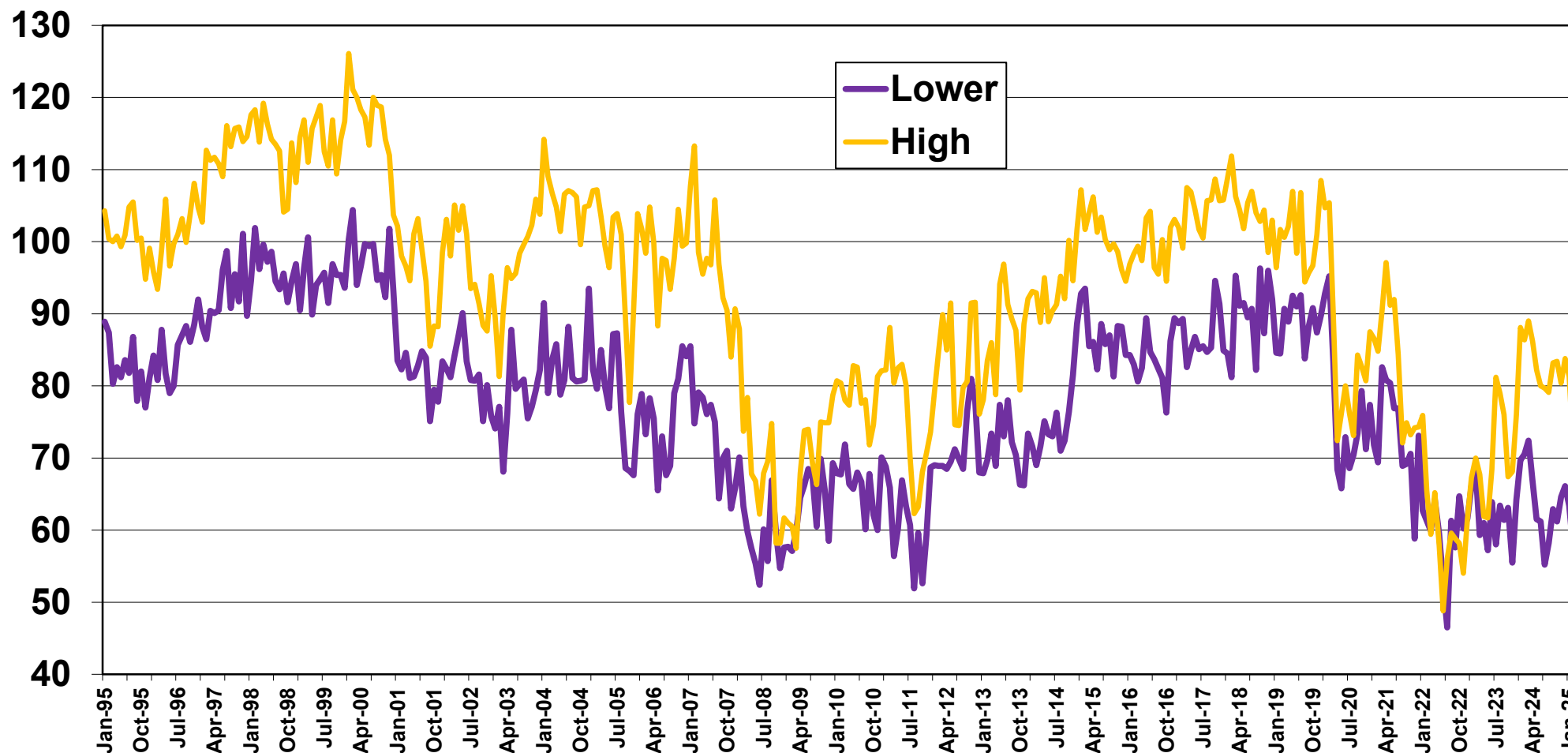
Consumer Expectations: By Party

(source: University of Michigan, Survey Research Center)



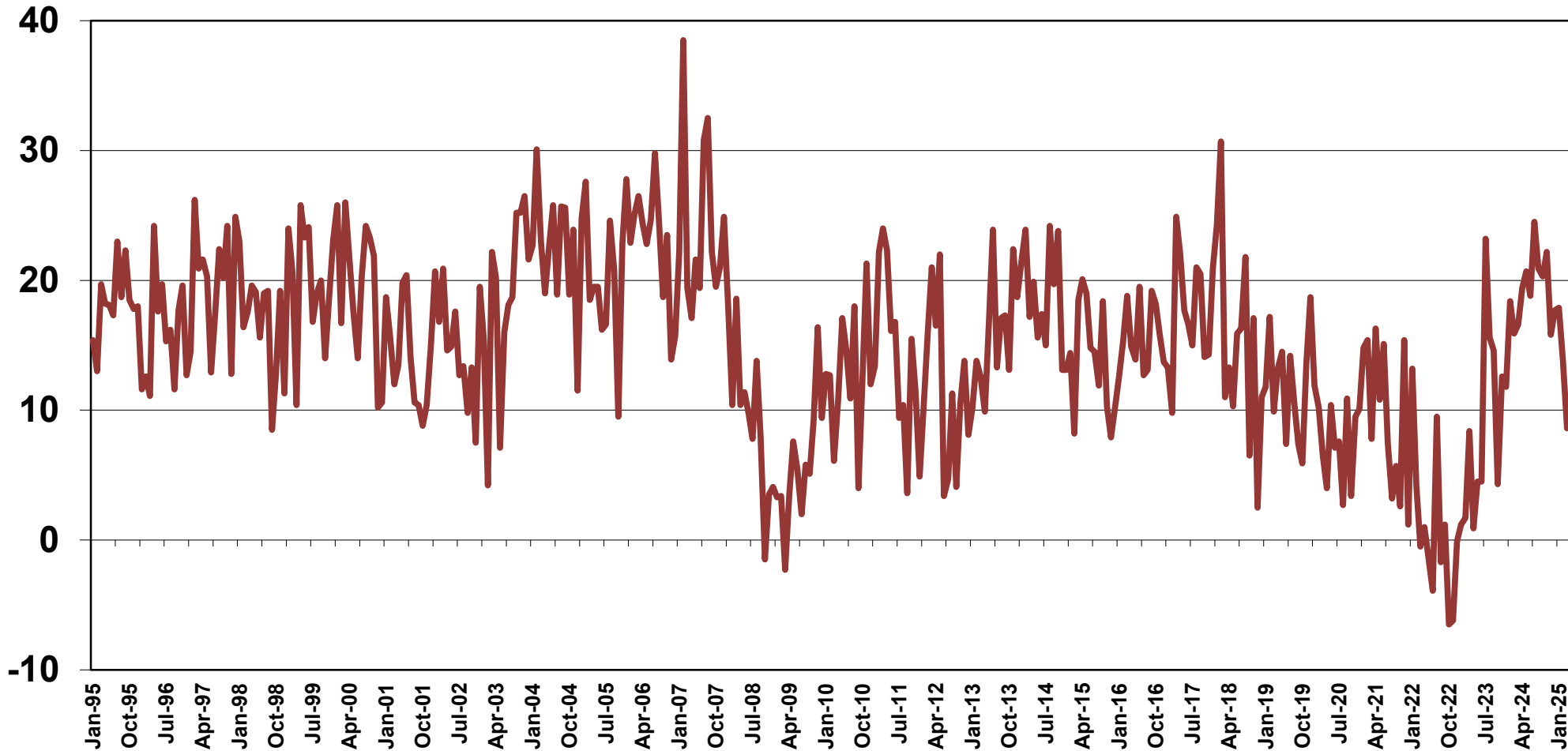
Consumer Expectations: By Income

(source: University of Michigan, Survey Research Center)



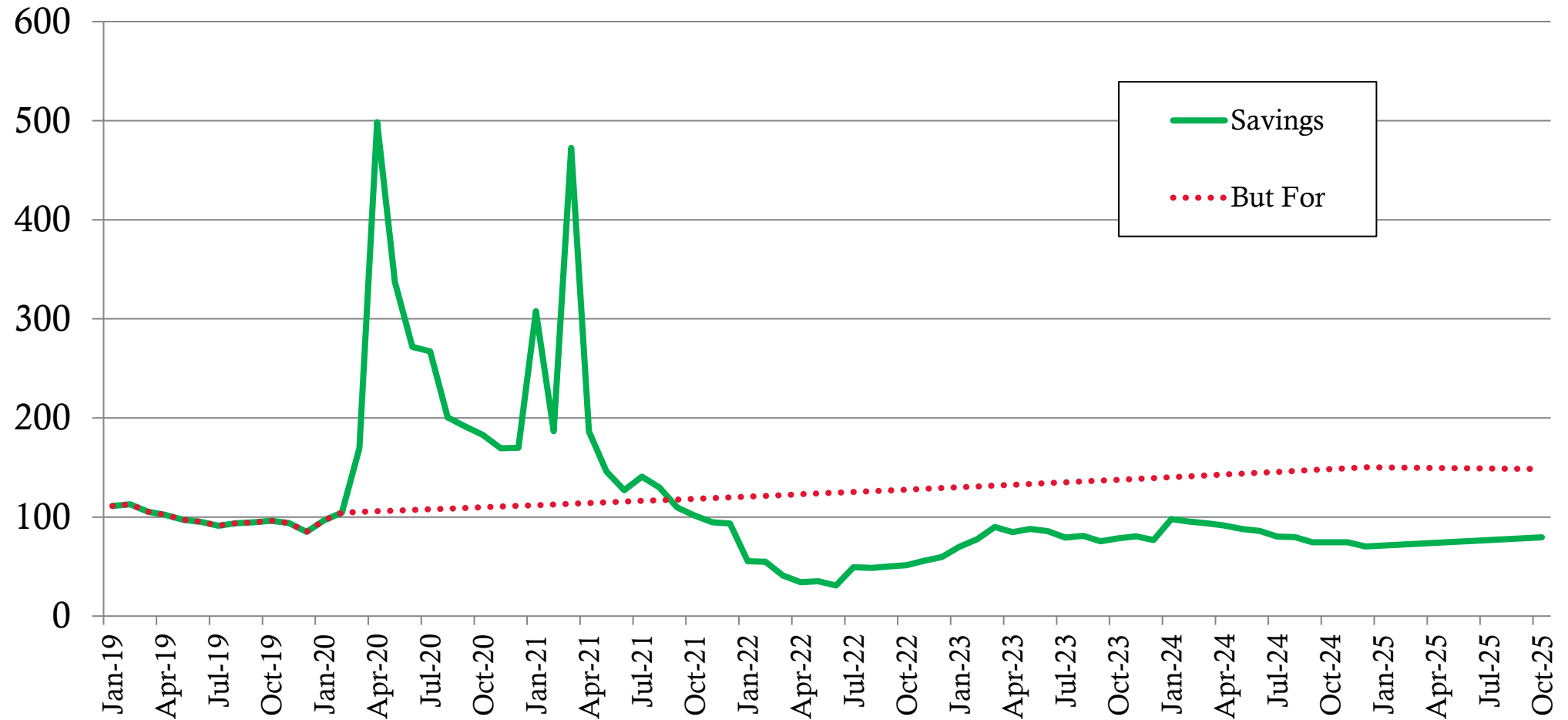
Consumer Expectations: Spread by Income

(source: University of Michigan, Survey Research Center)



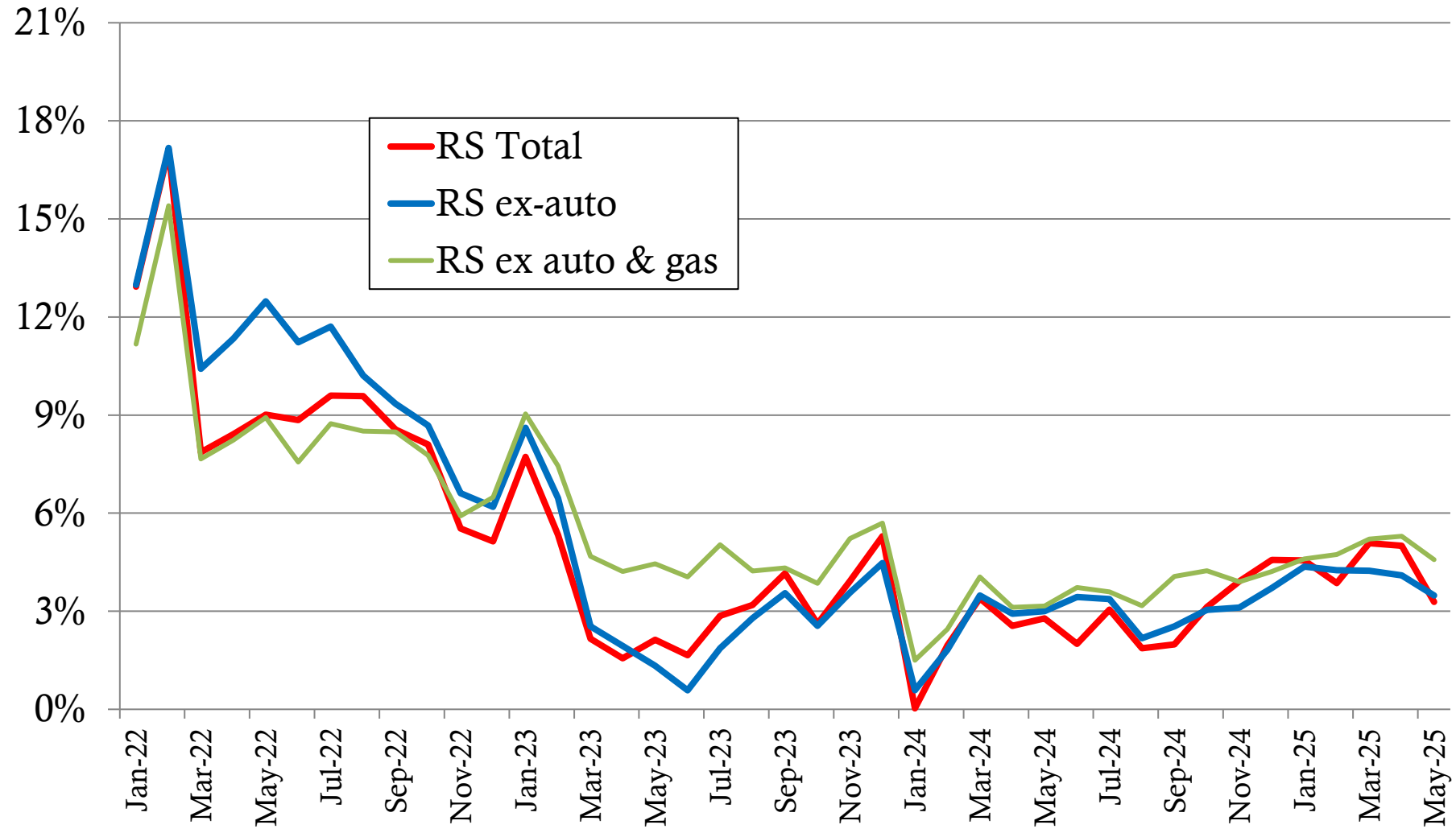
Personal Savings

(source: U.S. Bureau of the Census)



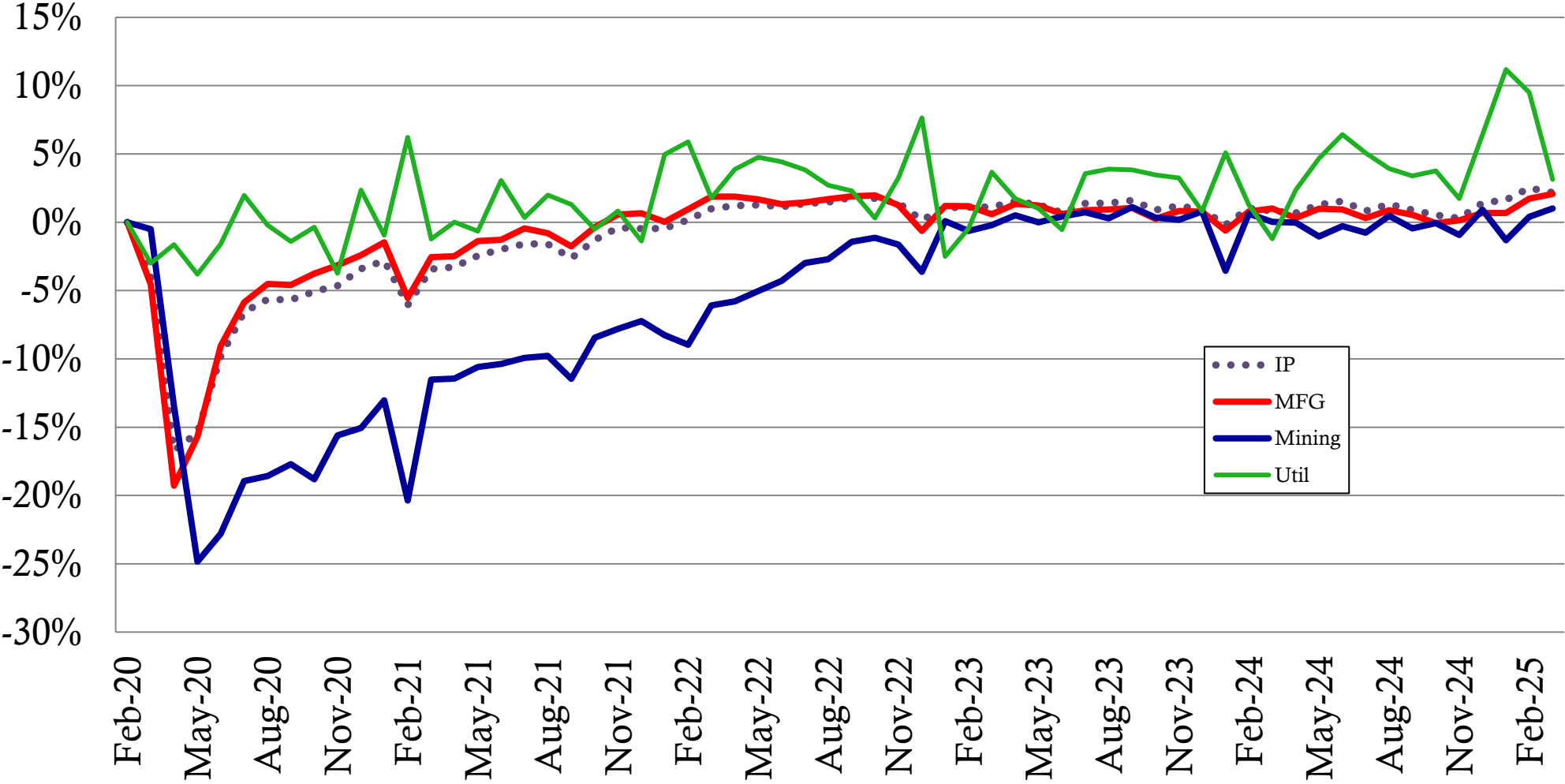
Retail Sales

(source: U.S. Bureau of the Census, annual rate of growth)



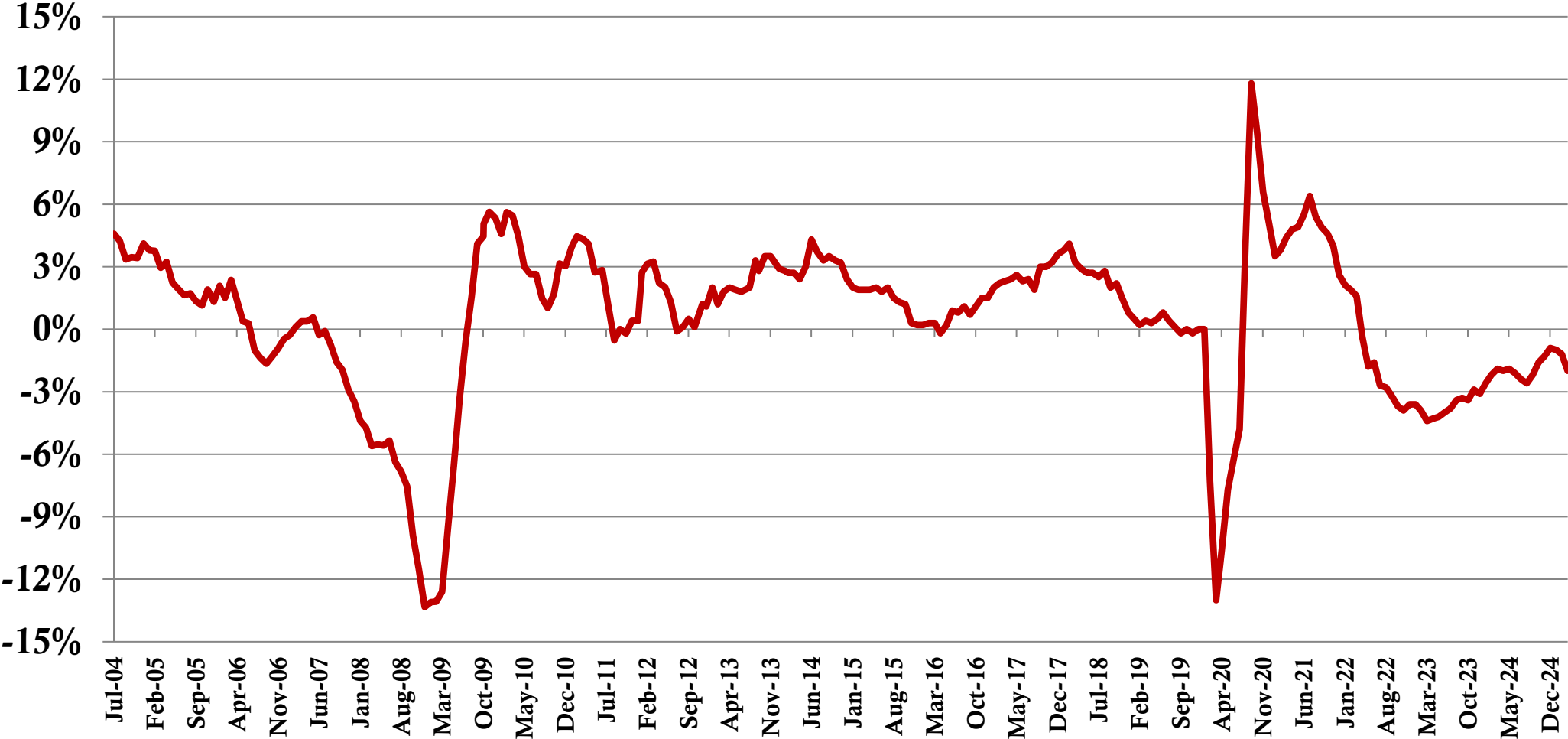
Industrial Production: From 2020 Peak

(source: Federal Reserve)



Leading Economic Indicators

(source: Conference Board, 6 month change)

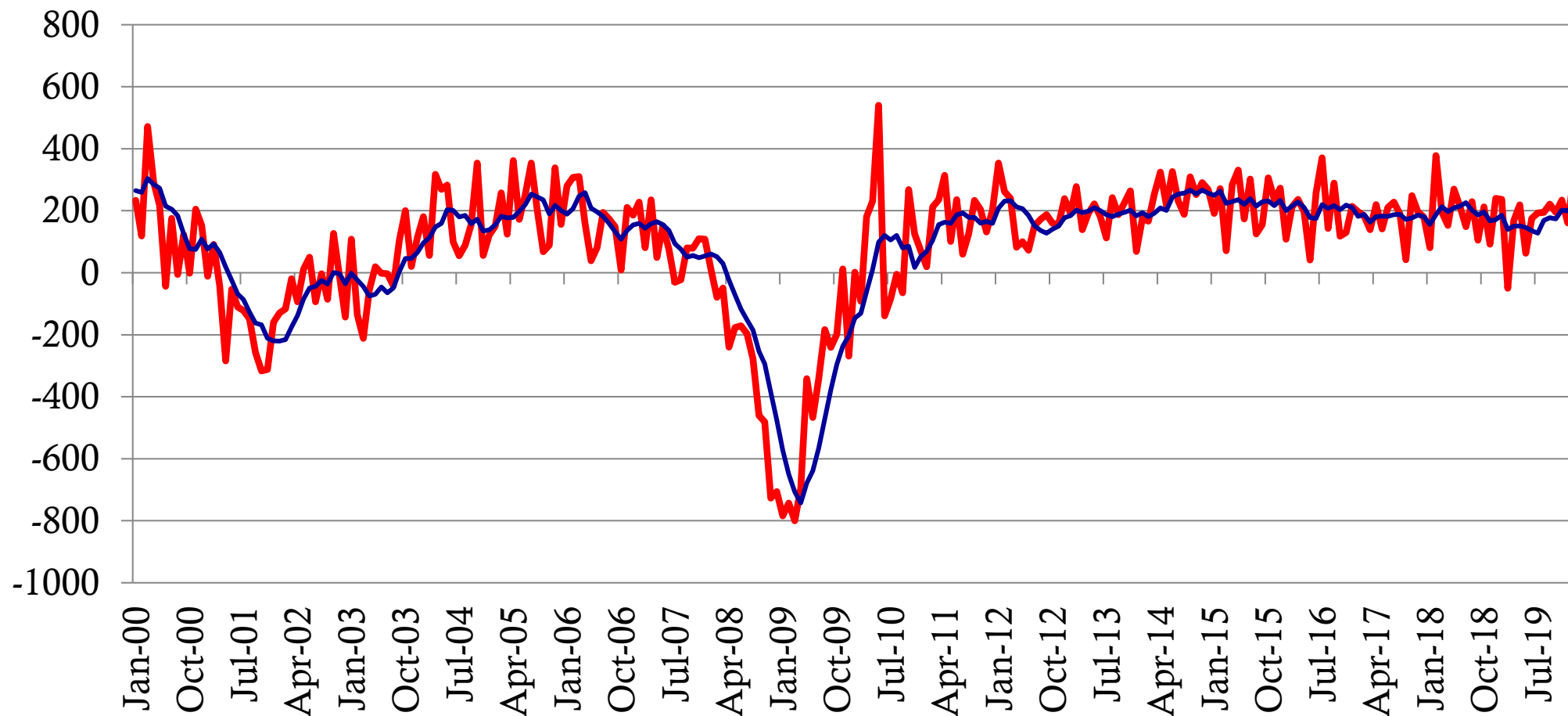


Topic #2:

Tight labor markets – Is the challenge easing?

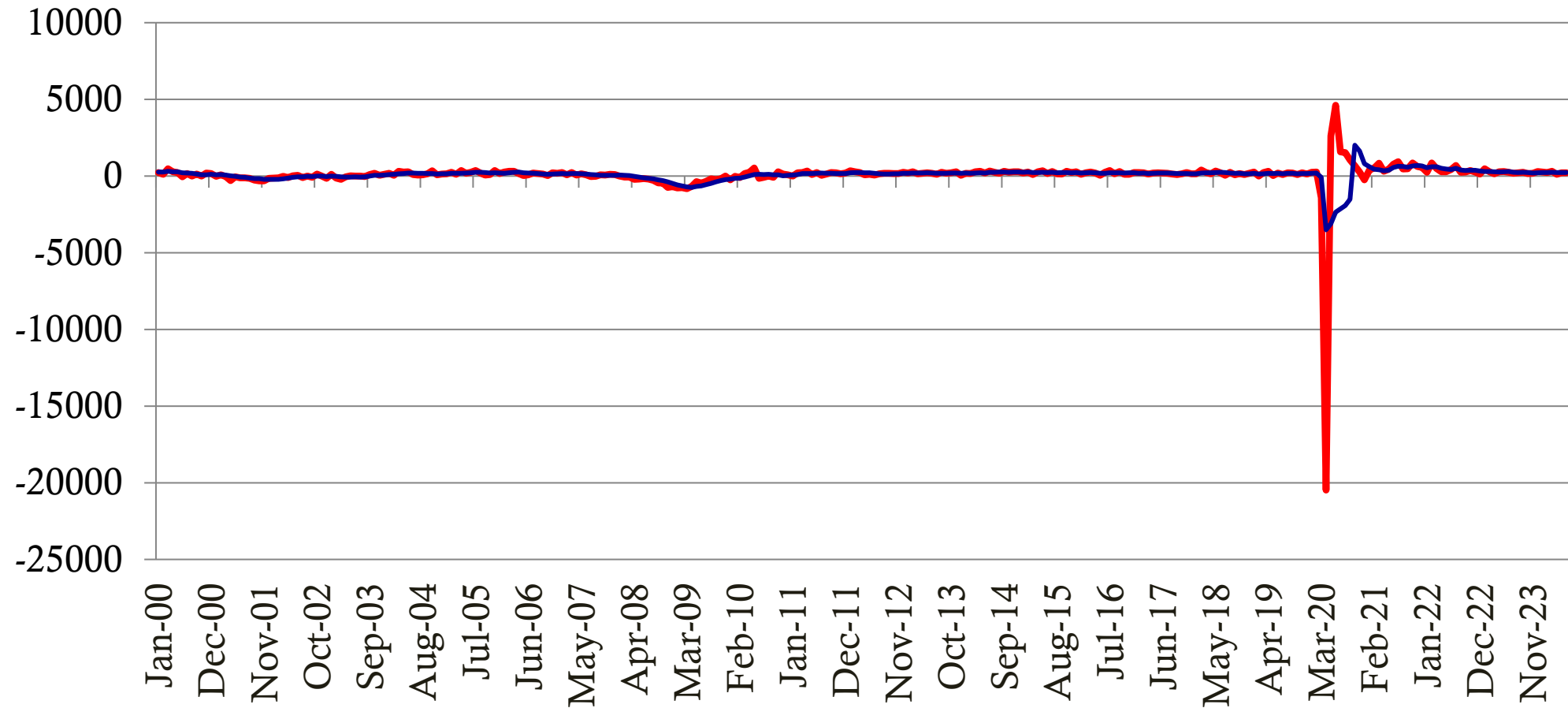
Change in Payroll Employment

(Source: Bureau of Labor Statistics)



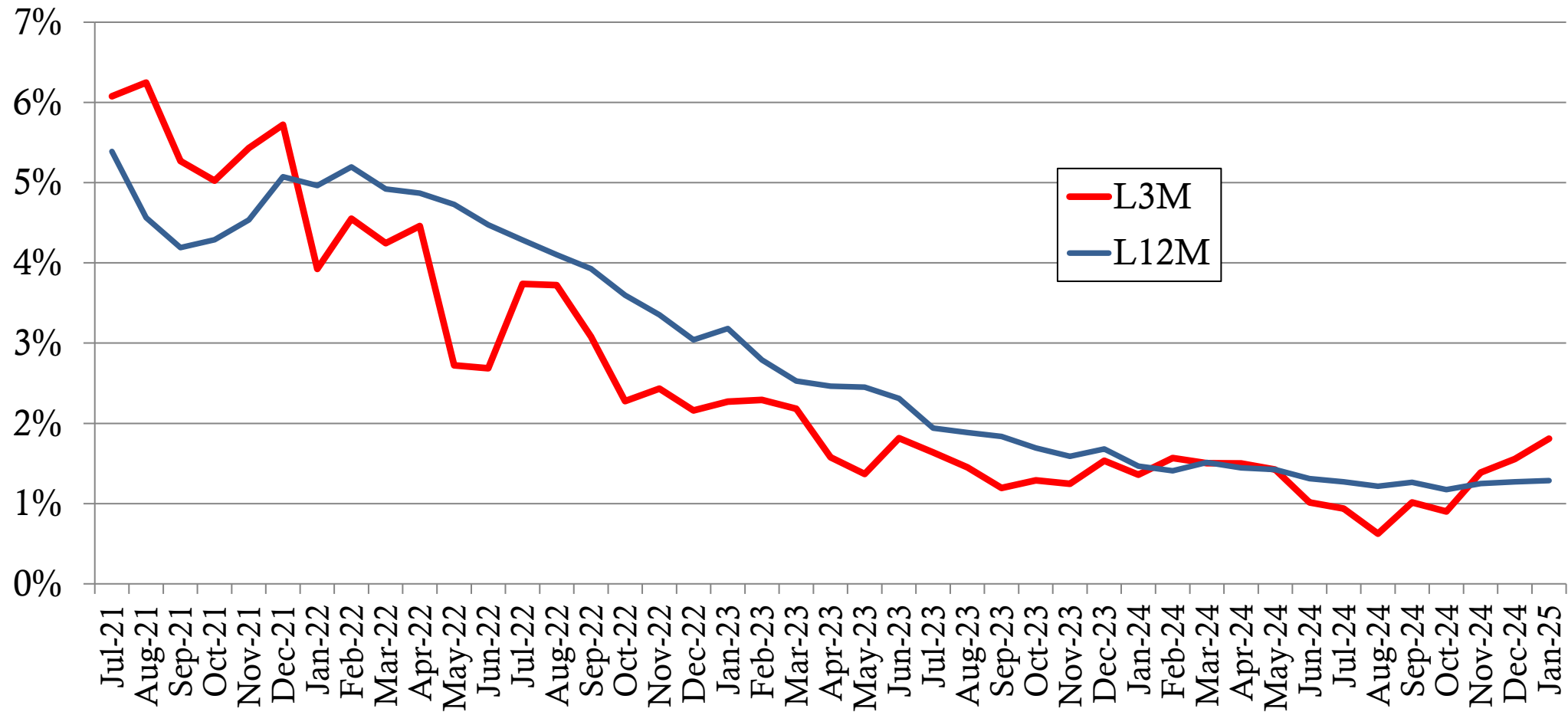
Change in Payroll Employment

(Source: Bureau of Labor Statistics)



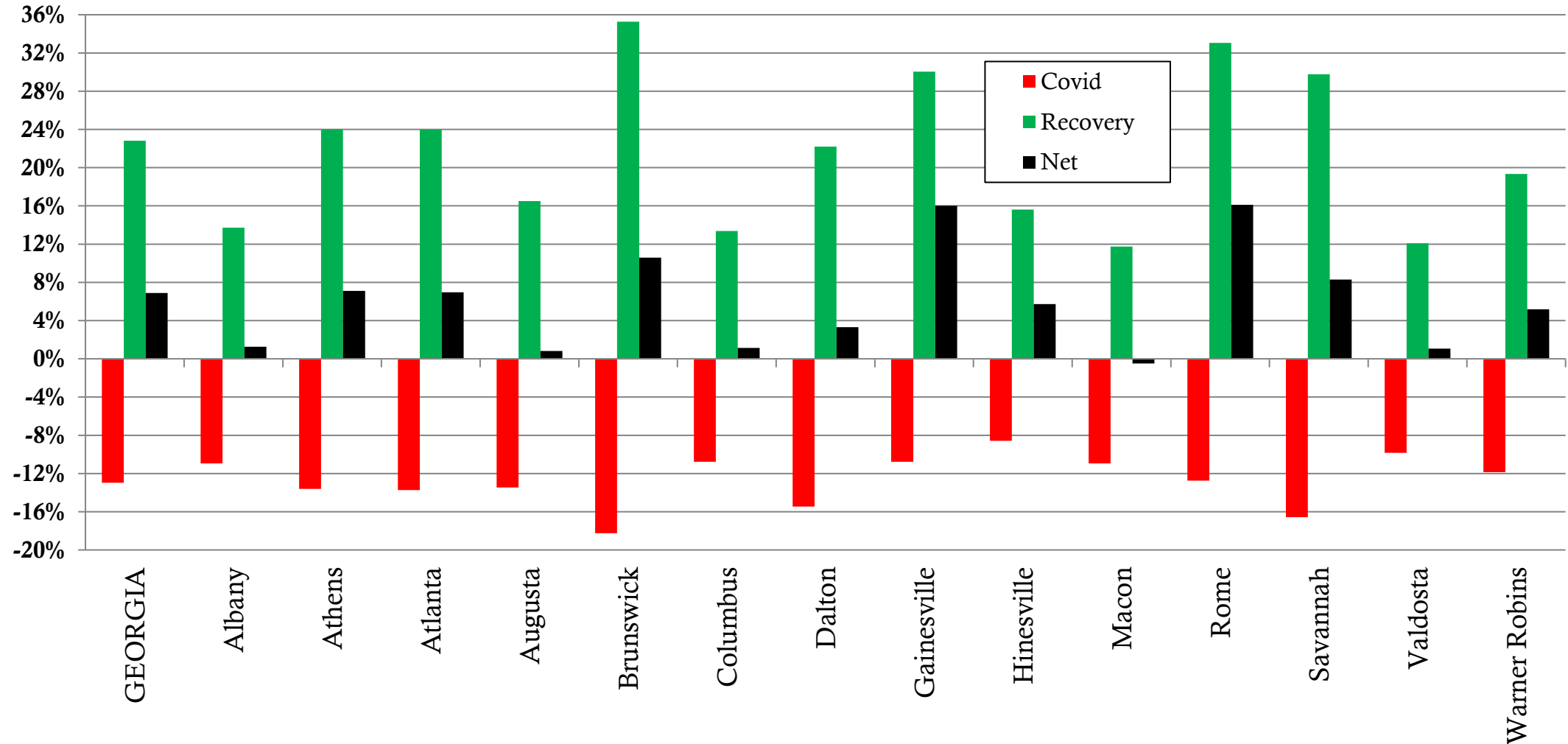
Payrolls Growth

(Source: Bureau of Labor Statistics; 3-month & 12-month growth rate)



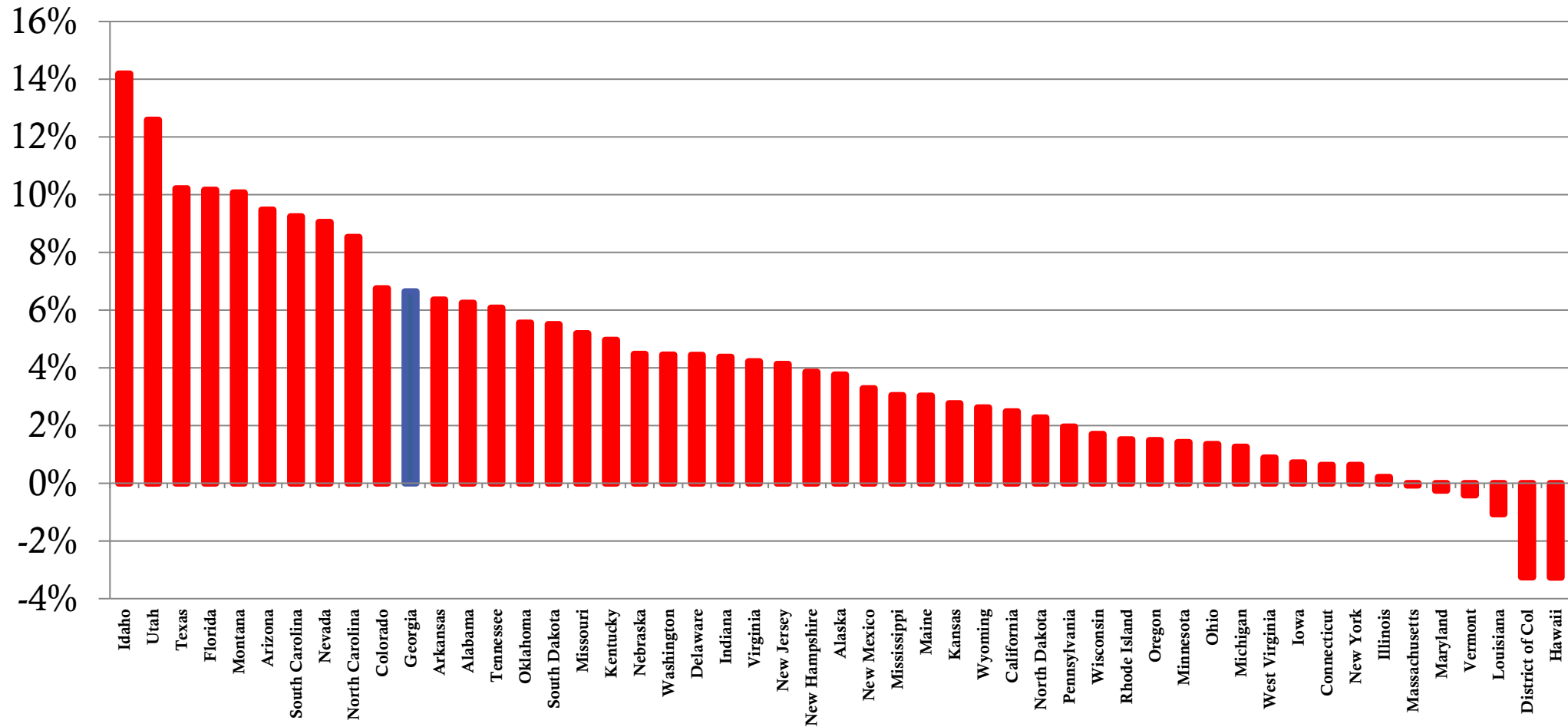
Employment: Georgia Cities

(source: Bureau of Labor Statistics, thru April 2025)



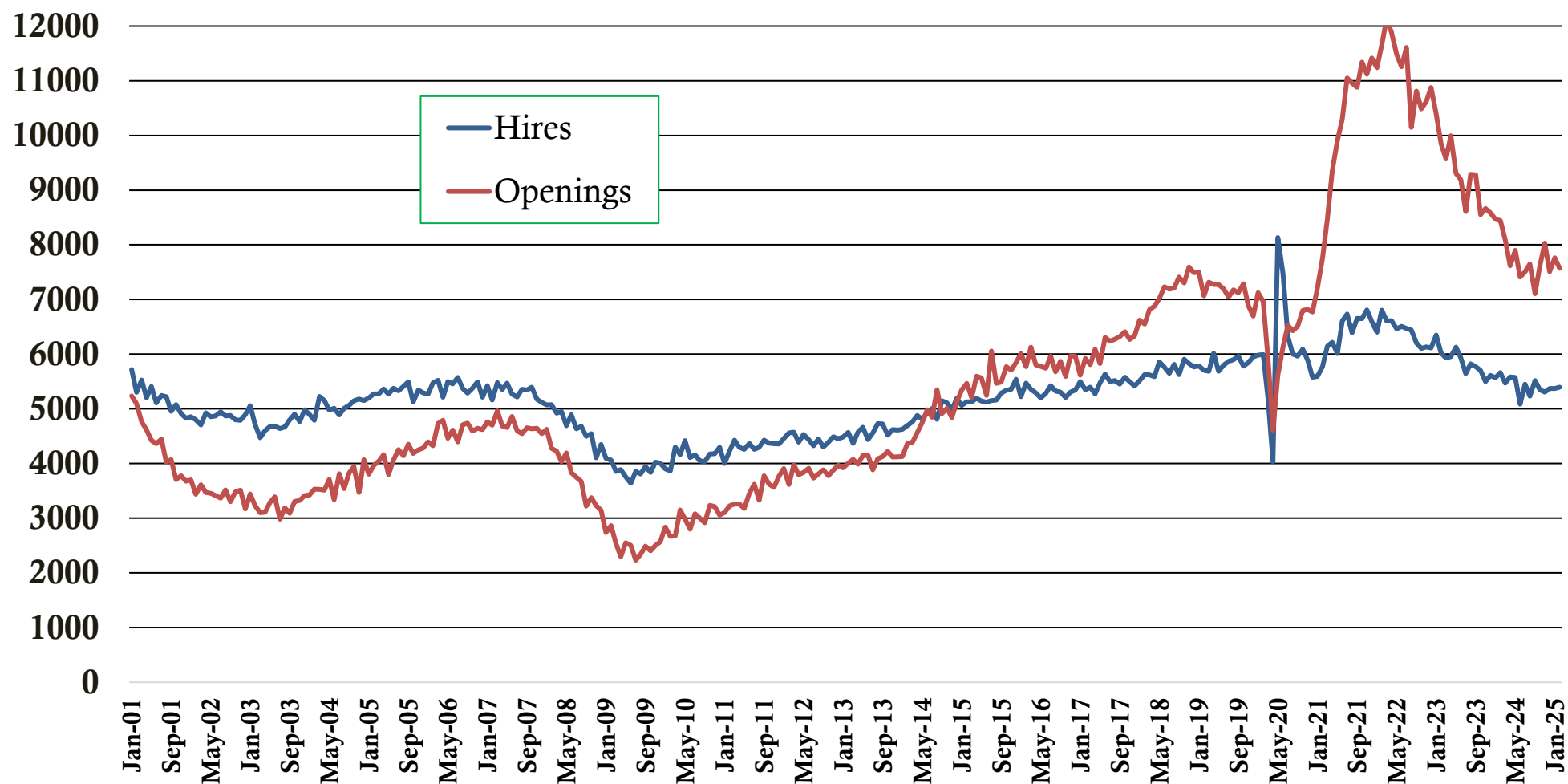
Recovery from Bottom

(Source: Bureau of Labor Statistics)



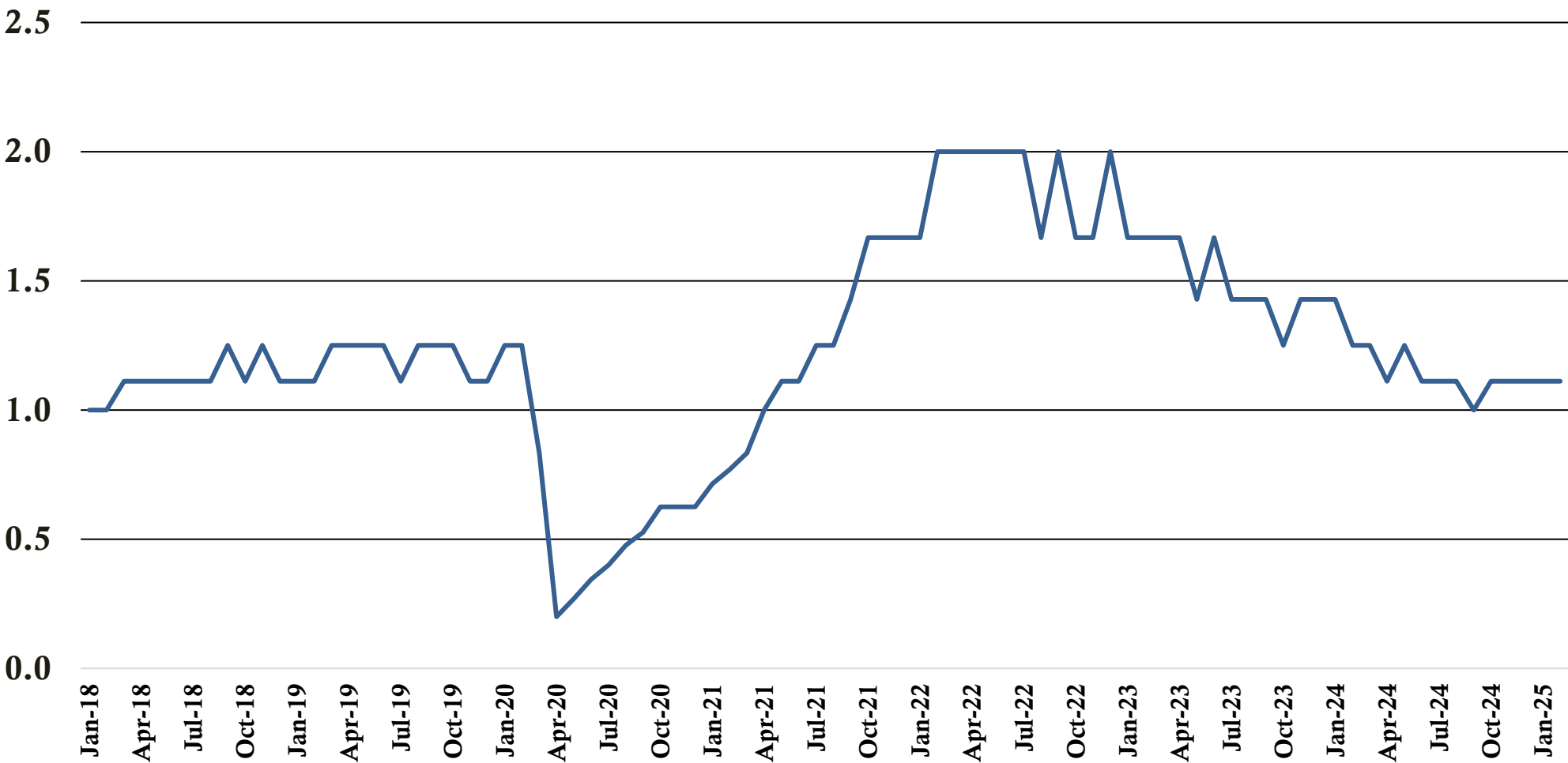
JOLTS: Openings & Hires

(Source: Bureau of Labor Statistics)



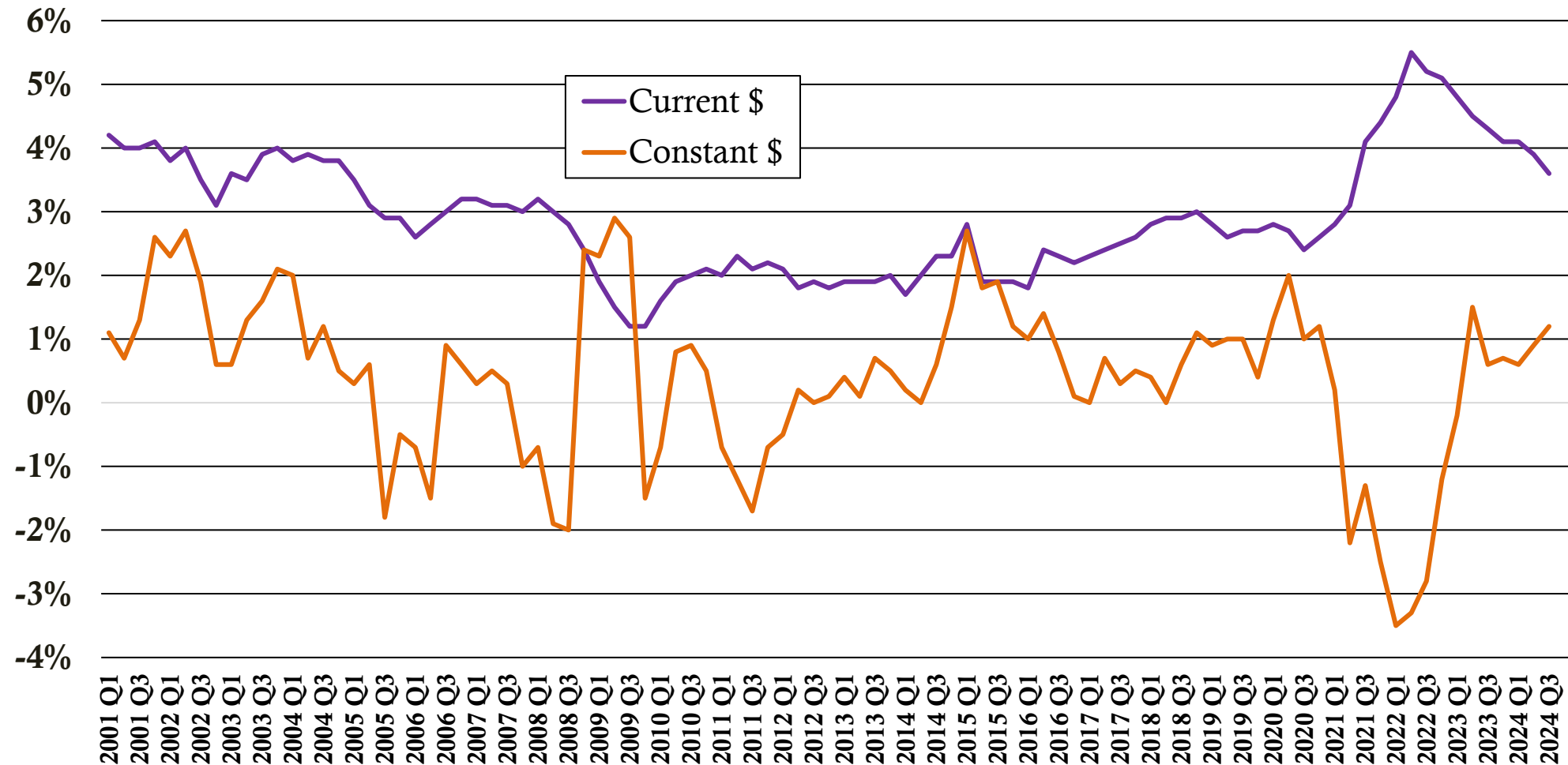
JOLTS: Openings/Unemployed

(Source: Bureau of Labor Statistics)



Employment Cost Index: Role of Inflation

(Source: Bureau of Labor Statistics)

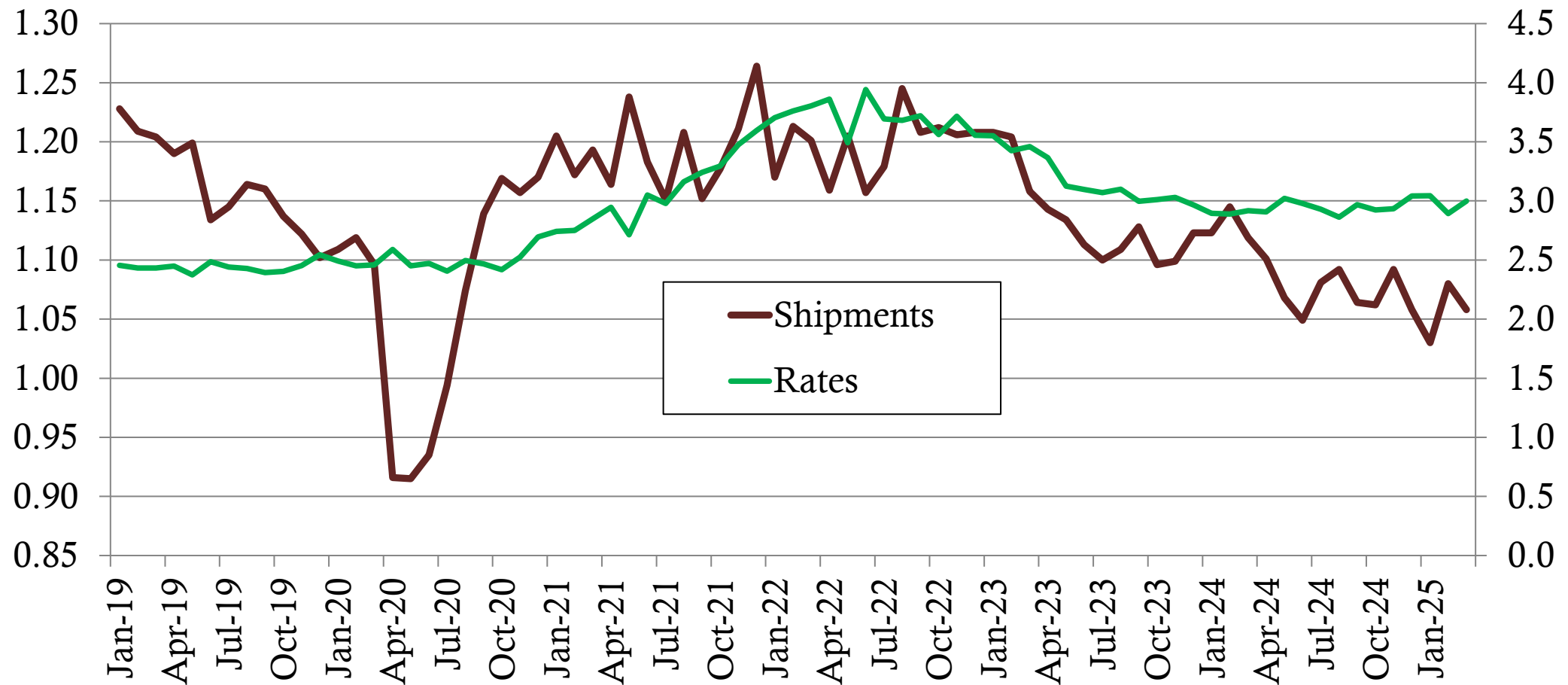


Topic #3:

Have global trade fears shifted from supply chain & labor to currency & tariffs?

Freight: Shipments & Rate

(source: Cass Freight Index, Seasonally Adjusted)



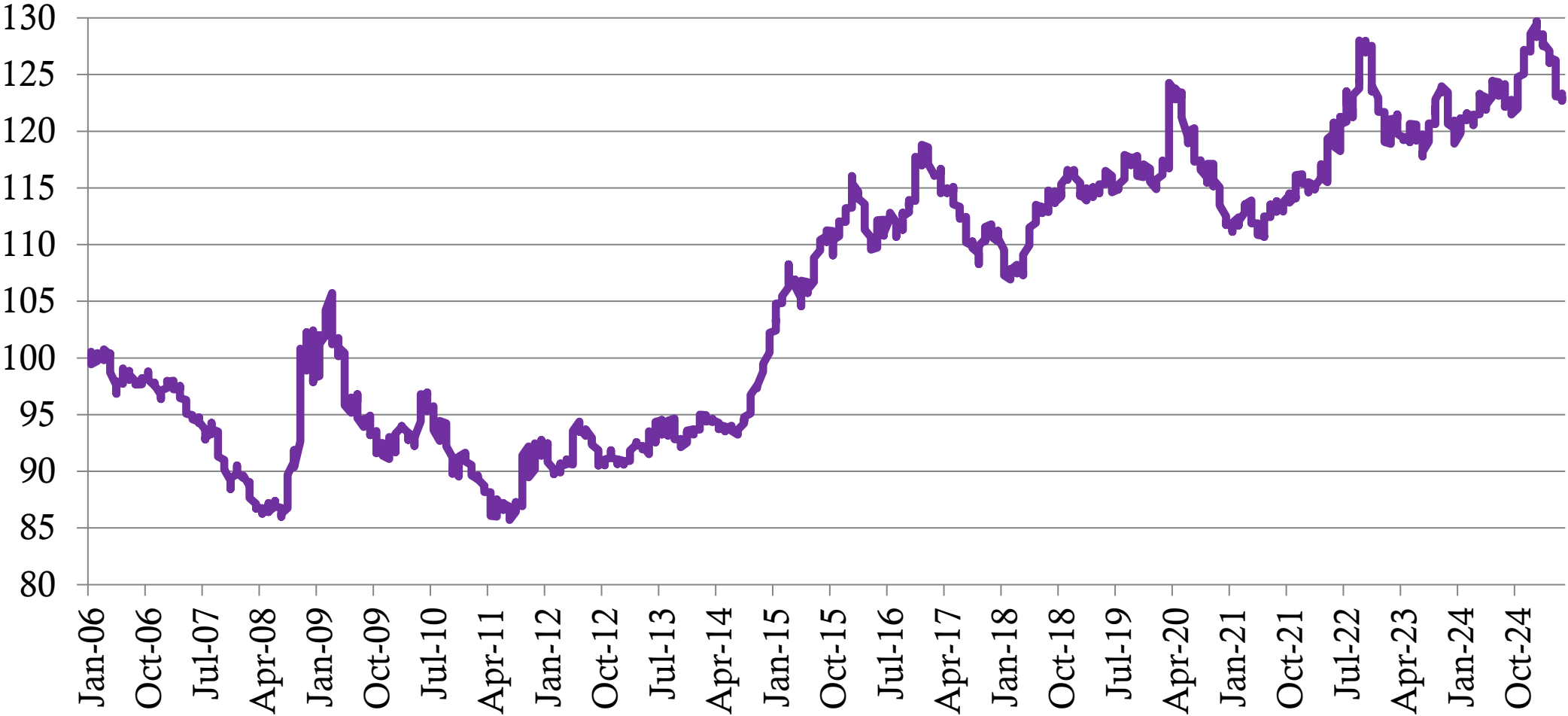
Global Supply Chain Pressure

(Source: Federal Reserve Bank of New York)



Foreign Exchange: Broad Dollar

(source: Board of Governors of Federal Reserve System)



Basis of Tariffs

Congress has constitutional standing.

Section 232 (1962): certain circumstances allows the president to impose tariffs based on the recommendation from the Secretary of Commerce if "an article is being imported into the United States in such quantities or under such circumstances as to threaten or impair the national security.

Section 201 & 301 (1974): designed to eliminate unfair foreign trade practices that adversely affect U.S. trade and investment in both goods and services.

International Emergency Economic Powers Act of 1977

A Very Brief History on Tariffs

January – June 2018: tariffs on solar panels, washing machines; steel and aluminum from most countries including European Union, Canada and Mexico. Later, tariff on broad basket of goods imported from China; Canada & China implement tariffs.

July 2020: USMCA takes effect

January 2025: Broad-based tariffs on Canada and Mexico

March 2025: Targeted on Steel & Aluminum

April 2025: “Reciprocal” tariff , 90-day pause

May 2025: Reduction of US-China tariffs from 145/125 to 30/10

Are the Tariffs “Reciprocal”?

On calculation of “reciprocal” tariffs

$$\Delta\tau_i = \frac{x_i - m_i}{\varepsilon * \varphi * m_i}.$$

Elasticities cancel and we are left with trade deficit as percentage of imports

Reciprocal Tariffs			Reciprocal Tariffs		
Country		Tariffs Charged to the U.S.A. Including Currency Manipulation and Trade Barriers	Country		Tariffs Charged to the U.S.A. Including Currency Manipulation and Trade Barriers
		U.S.A. Discounted Reciprocal Tariffs			U.S.A. Discounted Reciprocal Tariffs
China	67%	34%	Peru	10%	10%
European Union	39%	20%	Nicaragua	36%	18%
Vietnam	90%	46%	Norway	30%	15%
Taiwan	64%	32%	Costa Rica	17%	10%
Japan	46%	24%	Jordan	40%	20%
India	52%	26%	Dominican Republic	10%	10%
South Korea	50%	25%	United Arab Emirates	10%	10%
Thailand	72%	36%	New Zealand	20%	10%
Switzerland	61%	31%	Argentina	10%	10%
Indonesia	64%	32%	Ecuador	12%	10%
Malaysia	47%	24%	Guatemala	10%	10%
Cambodia	97%	49%	Honduras	10%	10%
United Kingdom	10%	10%	Madagascar	93%	47%
South Africa	60%	30%	Myanmar (Burma)	88%	44%
Brazil	10%	10%	Tunisia	55%	28%
Bangladesh	74%	37%	Kazakhstan	54%	27%
Singapore	10%	10%	Serbia	74%	37%
Israel	33%	17%	Egypt	10%	10%
Philippines	34%	17%	Saudi Arabia	10%	10%
Chile	10%	10%	El Salvador	10%	10%
Australia	10%	10%	Côte d'Ivoire	41%	21%
Pakistan	58%	29%	Laos	95%	48%
Turkey	10%	10%	Botswana	74%	37%
Sri Lanka	88%	44%	Trinidad and Tobago	12%	10%
Colombia	10%	10%	Morocco	10%	10%

Are Tariffs Passed Through to Market Prices?

Impact on prices depends on response on domestic consumers, margin reduction for foreign producers, changes in FX, etc.

Level shifts versus untick in inflation.

- Lags in system
- Feedback on retaliatory tariffs

Open questions:

Will we build redundant supply chains or “reshore”

What does it mean for capital flows?

Topic #4:

Inflation returned, now falling toward the 2% target? Will it stick?

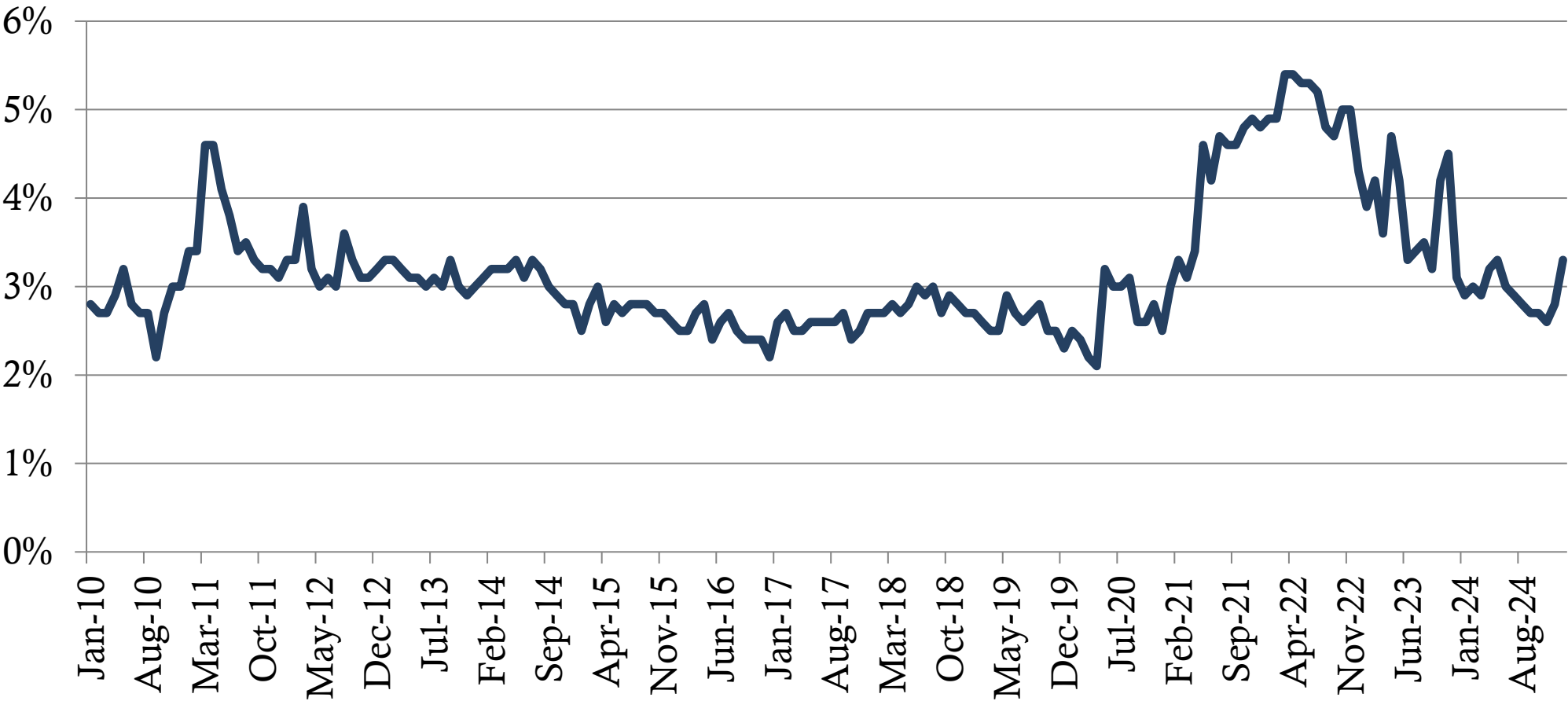
Inflation: Transitory or Persistent?

(source: Bureau of Labor Statistics)

- CPI up 0.1% in May – after being down 0.1% and up 0.2% in two previous months. Overall CPI up 2.4% over last 12 months.
- Core CPI up 0.1% in May – after being up by 0.2% and 0.1% in two previous month. Core up 2.8% over last year.
- Energy component was down 1.0% in May. The energy component is now down 3.5% over the last 12 months.
- PCE up 2.1% for 12 months ending in April, core PCE up 2.5% over the same period.

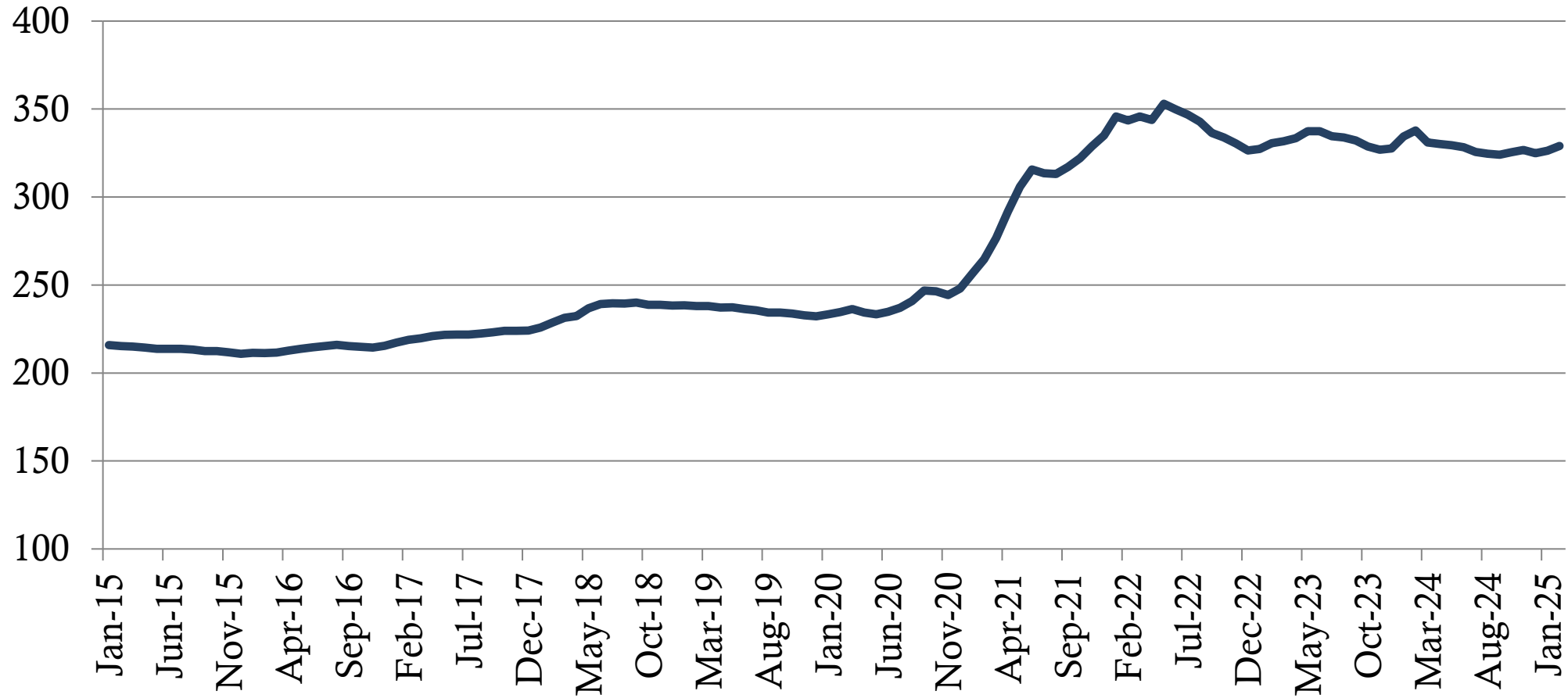
Inflation Expectations: Next 12 Months

(source: University of Michigan, Survey Research Center)



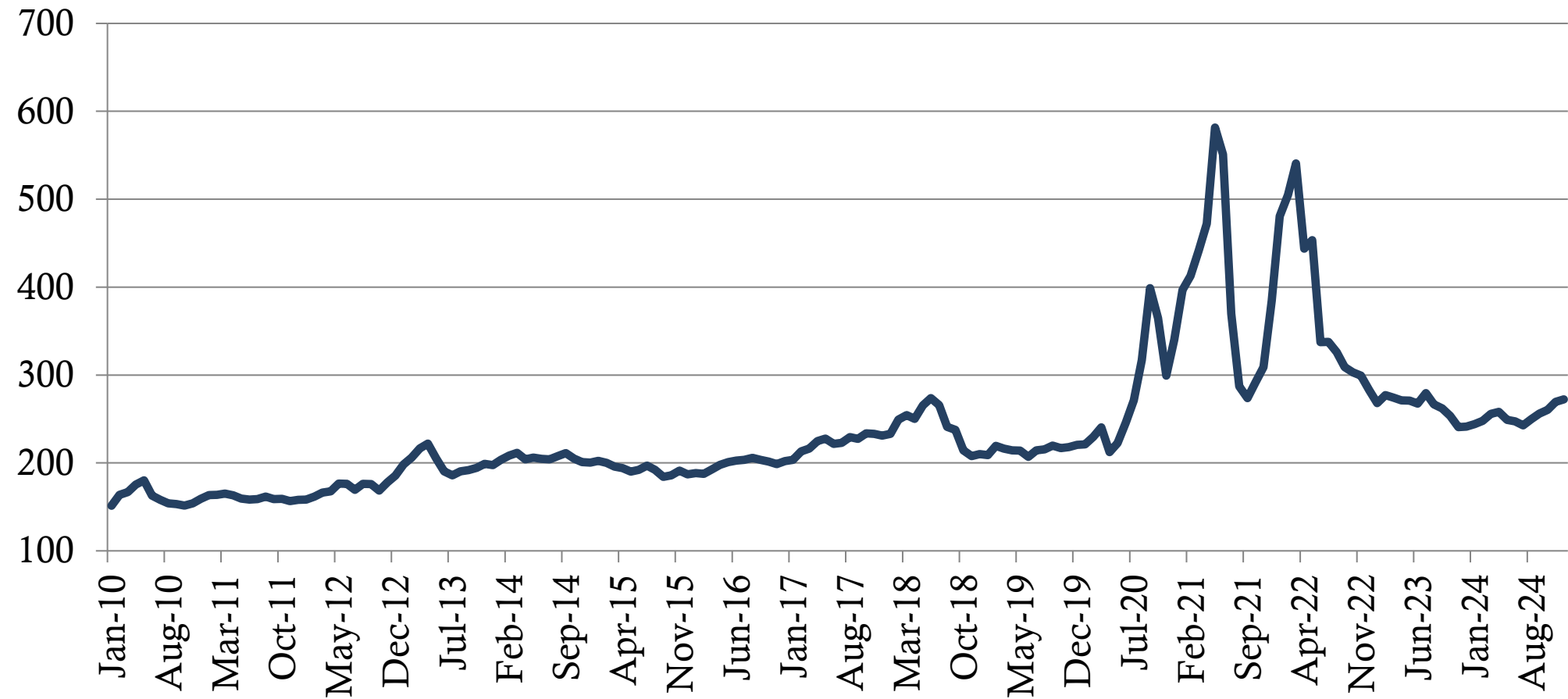
Producer Price Index: Construction Materials

(source: Bureau of Labor Statistics)



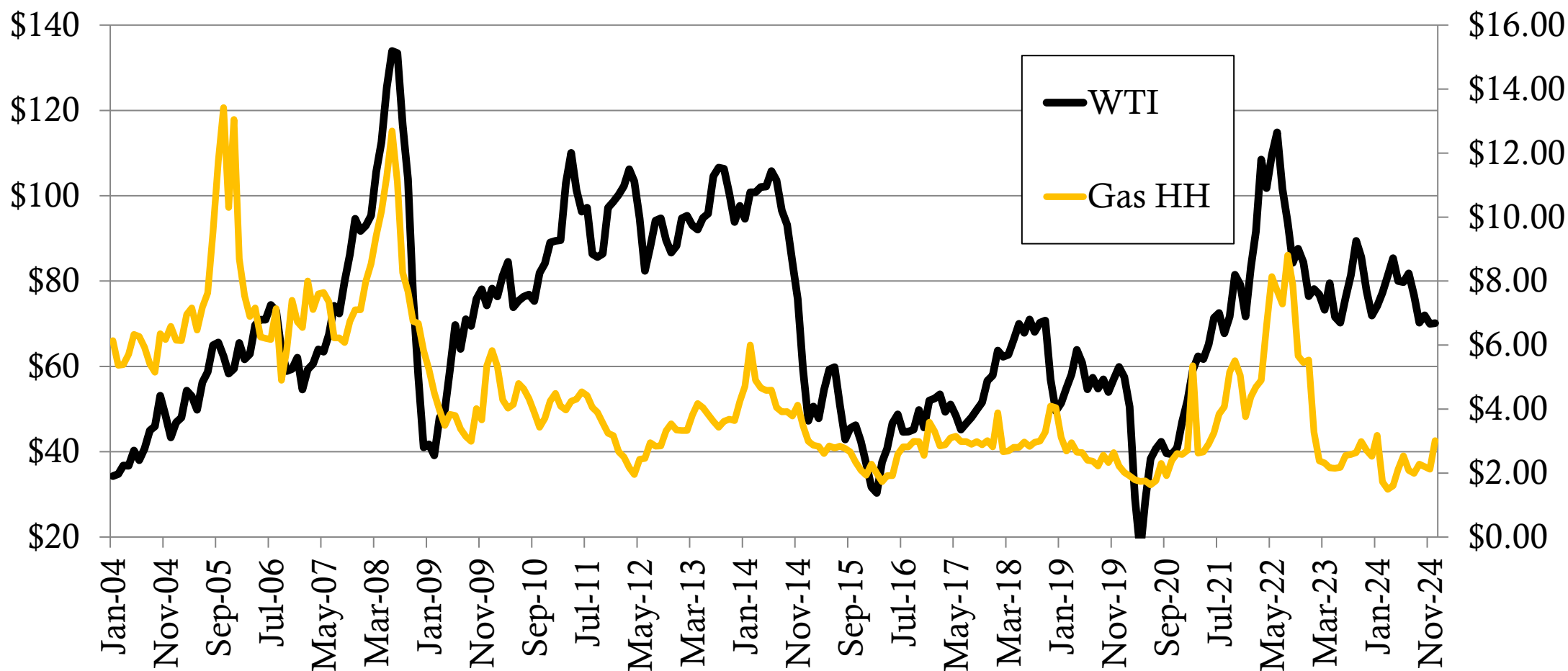
Producer Price Index: Softwood Lumber

(source: Bureau of Labor Statistics)



Energy Cost: Oil & Natural Gas

(source: U.S. Energy Information Administration)

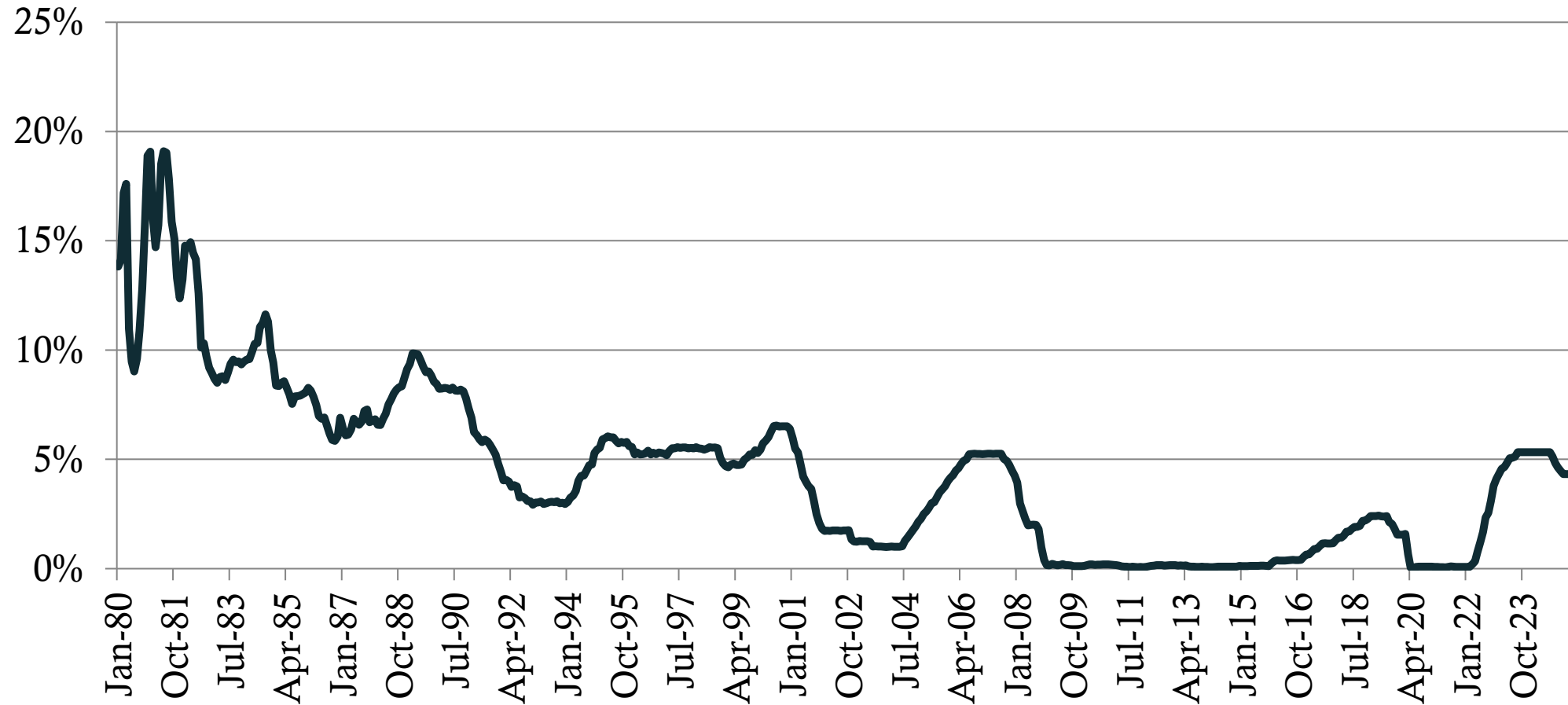


Topic #5:

Fed signaled “peak rates” in early 2024. Now with three rate cuts behind us, are more to come?

Federal Funds Rate

(source: Board of Governors of the Federal Reserve System)



Market's Expectation for Federal Funds Rate:

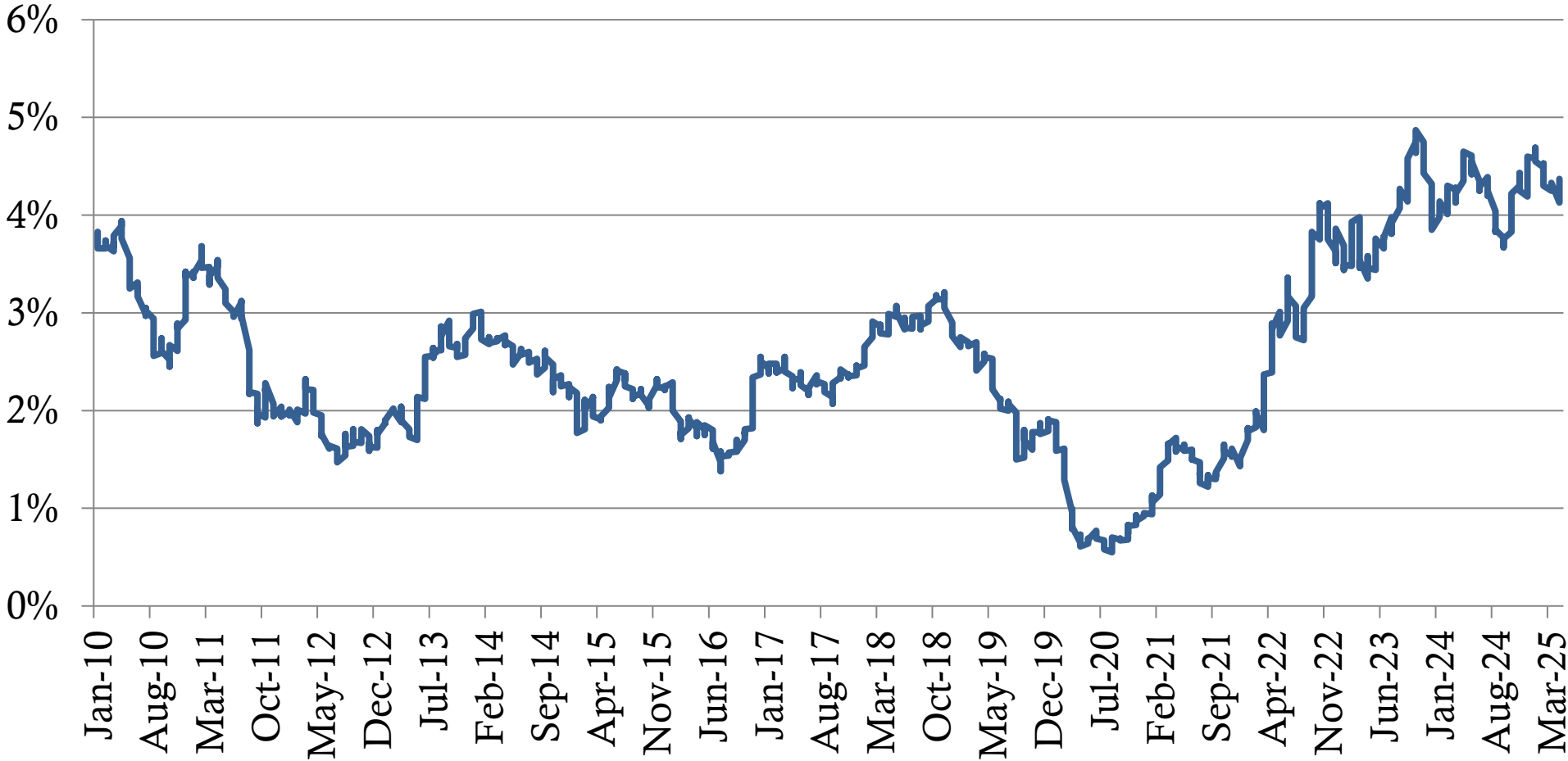
May 18, 2025

(Source: CME Group)

	CME FEDWATCH TOOL - CONDITIONAL MEETING PROBABILITIES									
MEETING DATE	200-225	225-250	250-275	275-300	300-325	325-350	350-375	375-400	400-425	425-450
6/18/2025					0.0%	0.0%	0.0%	0.0%	0.1%	99.9%
7/30/2025	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	14.5%	85.5%
9/17/2025	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	8.3%	54.9%	36.8%
10/29/2025	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	3.9%	30.2%	46.4%	19.5%
12/10/2025	0.0%	0.0%	0.0%	0.0%	0.0%	2.4%	20.3%	40.3%	29.6%	7.3%
1/28/2026	0.0%	0.0%	0.0%	0.0%	0.9%	9.0%	27.6%	36.4%	21.5%	4.6%
3/18/2026	0.0%	0.0%	0.0%	0.5%	5.3%	19.1%	32.4%	28.3%	12.4%	2.1%
4/29/2026	0.0%	0.0%	0.1%	1.8%	9.0%	22.7%	31.3%	24.0%	9.6%	1.6%
6/17/2026	0.0%	0.1%	0.9%	5.4%	15.8%	26.9%	27.7%	16.9%	5.6%	0.8%
7/29/2026	0.0%	0.4%	2.5%	9.0%	19.7%	27.2%	23.9%	12.9%	3.9%	0.5%

10-Year Treasury Bonds

(source: Board of Governors of Federal Reserve System)



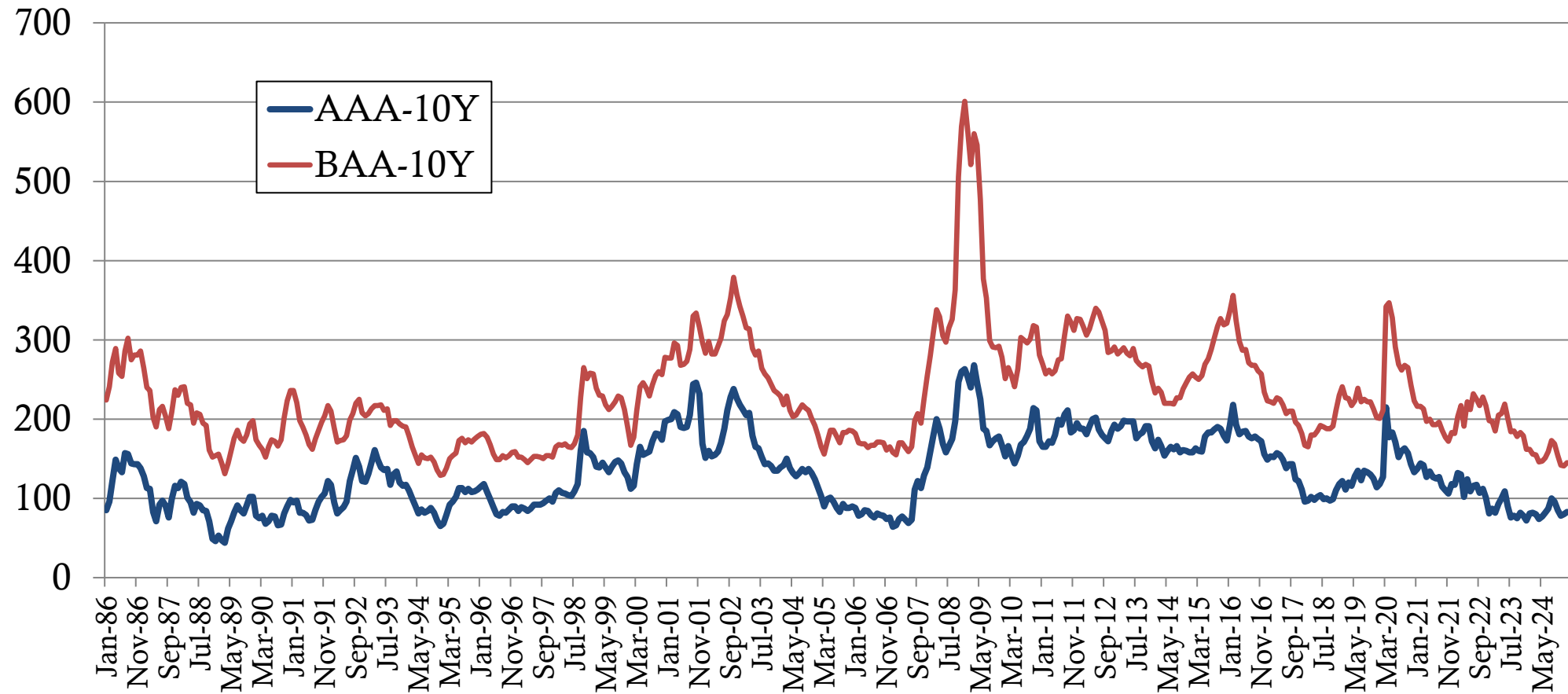
Mortgages vs 10-Year T-Bonds

(source: Board of Governors of Federal Reserve System)



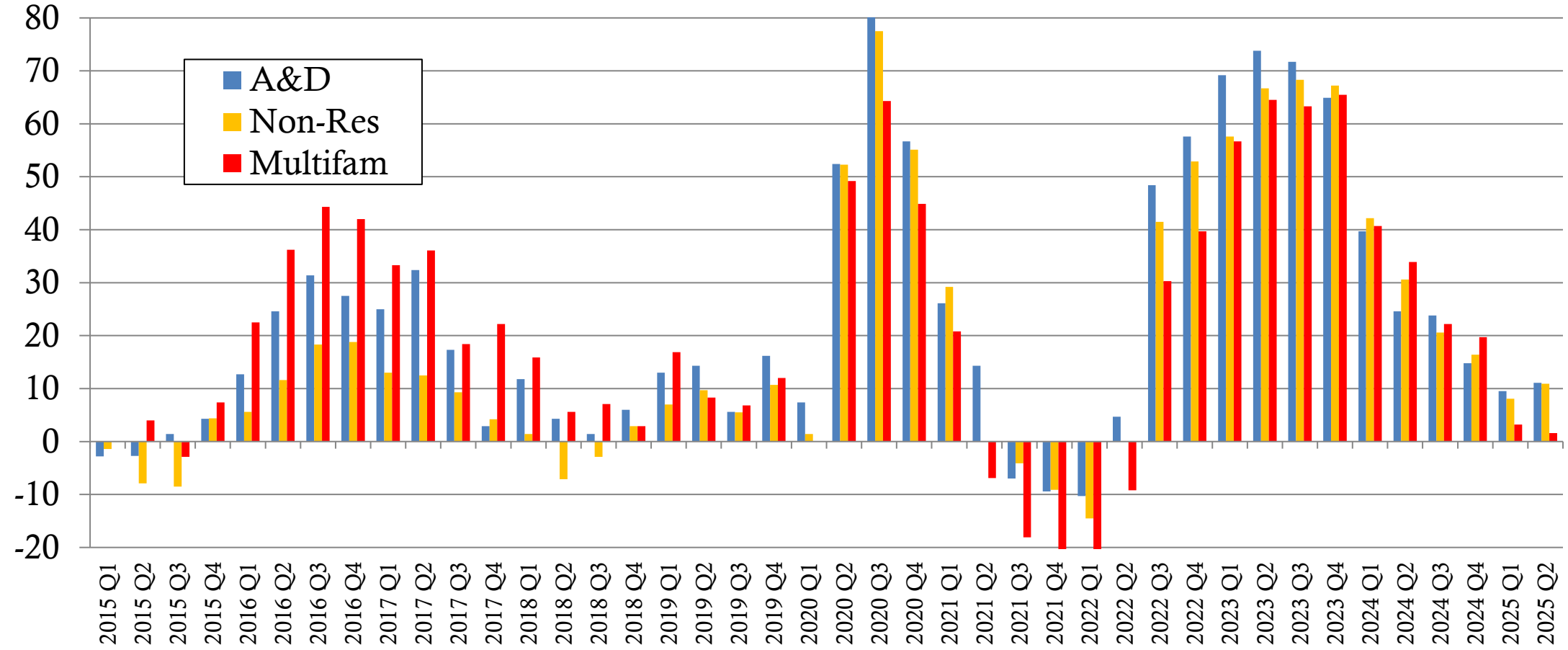
Corporate Credit Spreads

(source: Board of Governors of Federal Reserve System, Moody's)



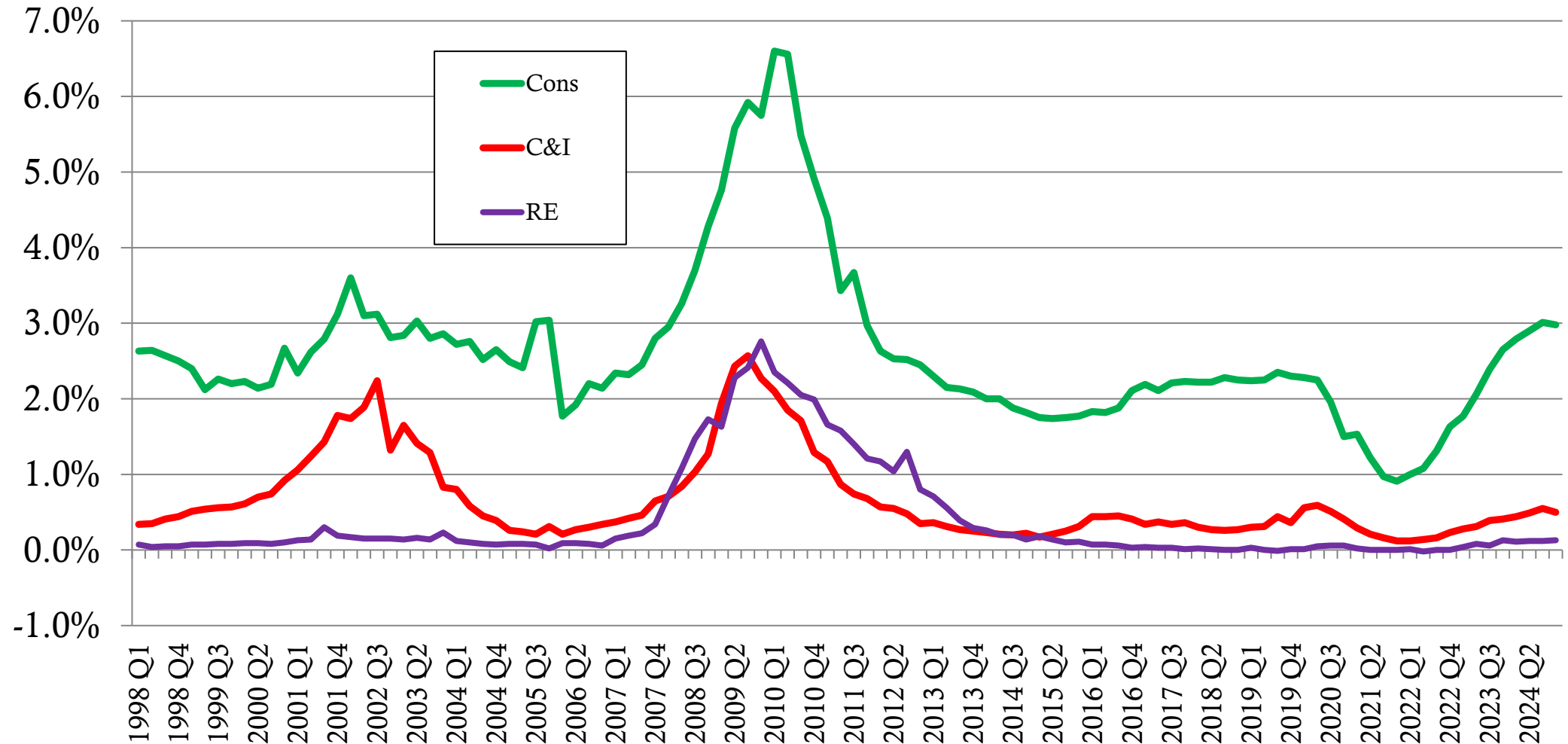
CRE Loan Standards: Net Tightening

(Source: Federal Reserve System, Senior Officers Lending Survey)



Charge Off Rates at Banks

(source: Board of Governors of the Federal Reserve System)



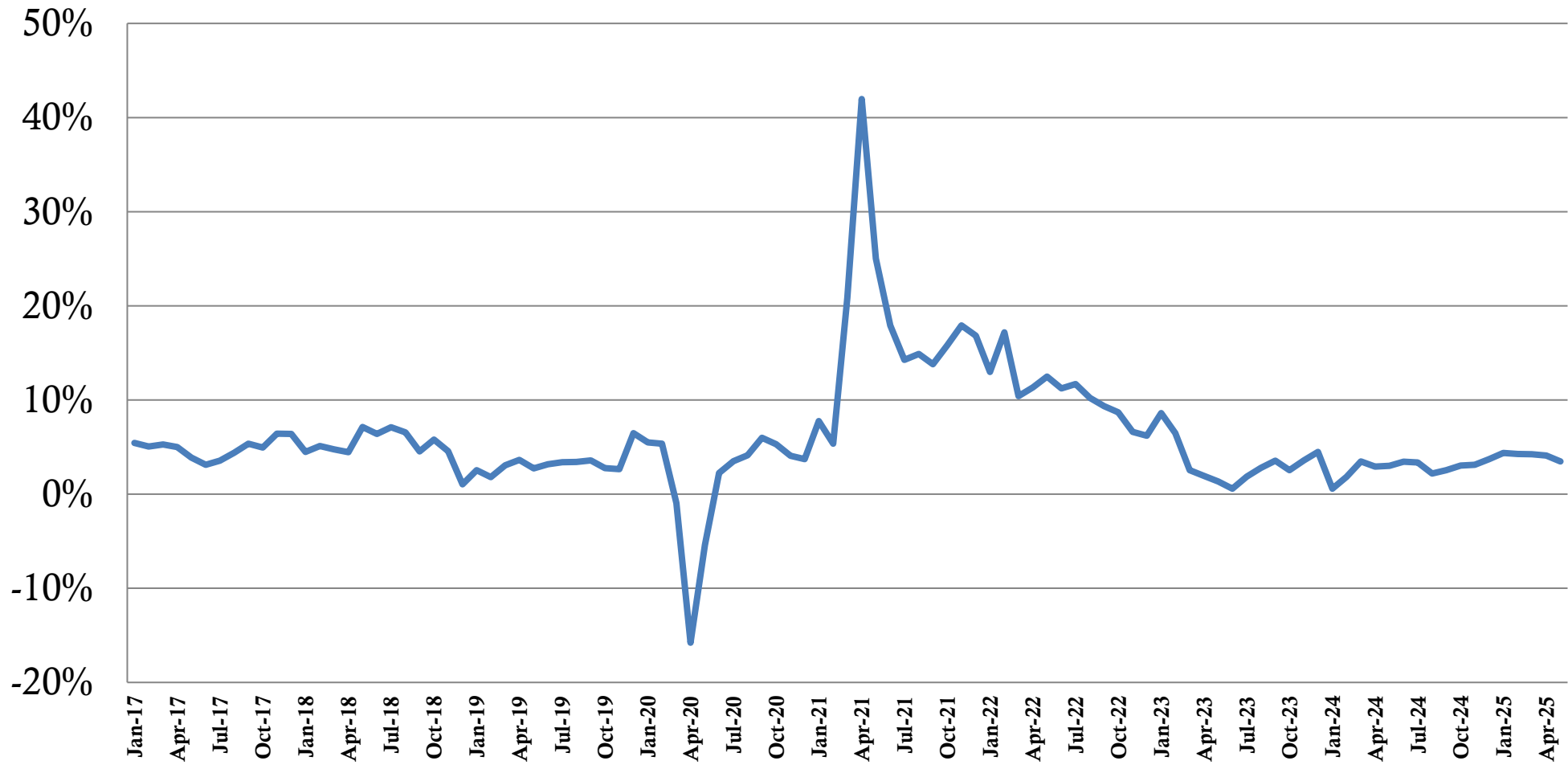
Topic #6:

Did Covid signal the death of “big box” and office?

And is housing market getting “frothy” again?

Construction Spending: Annual Change

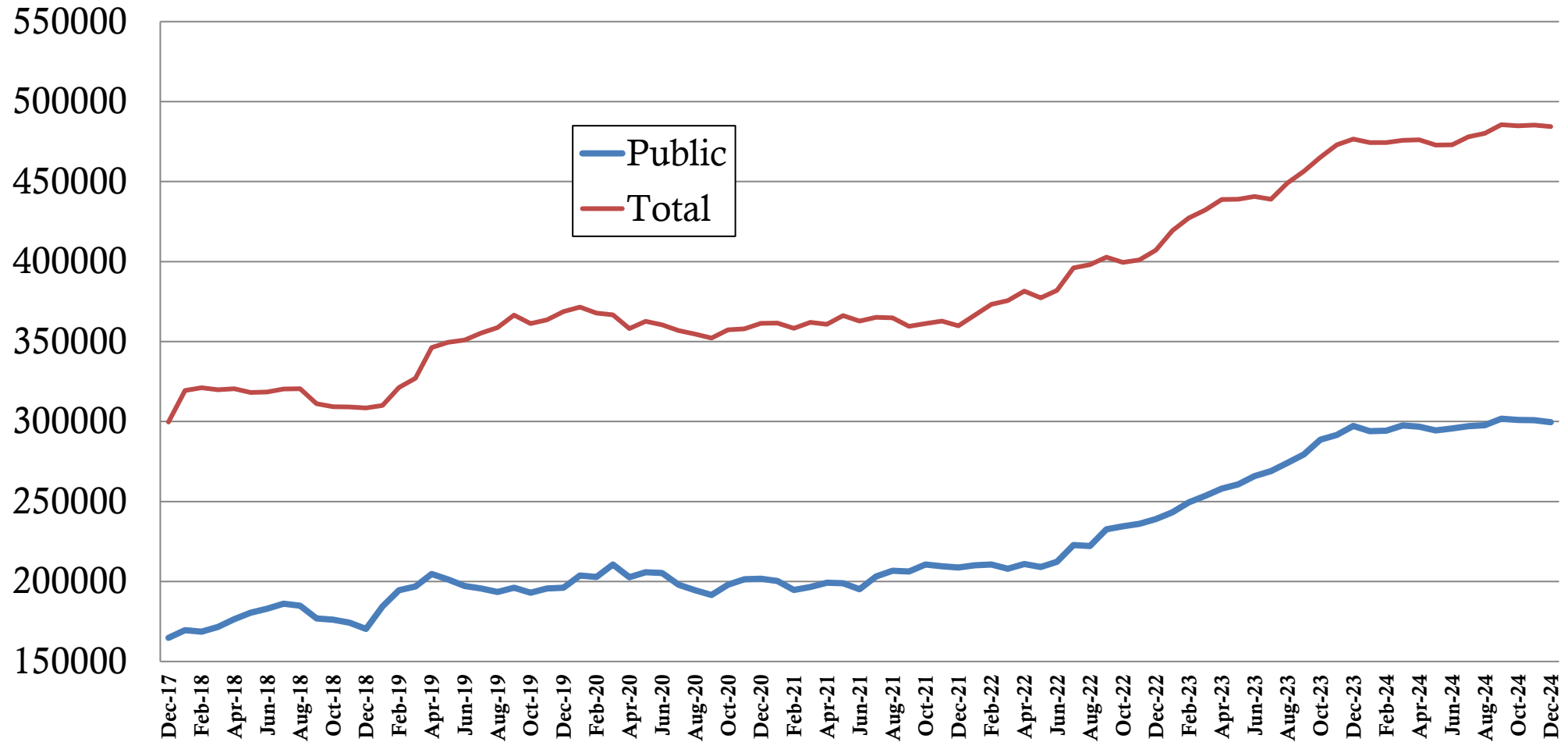
(Source: U.S. Census Bureau)



Infrastructure Construction

(Transportation, Power, Highway, Sewer, Water & Conservation;

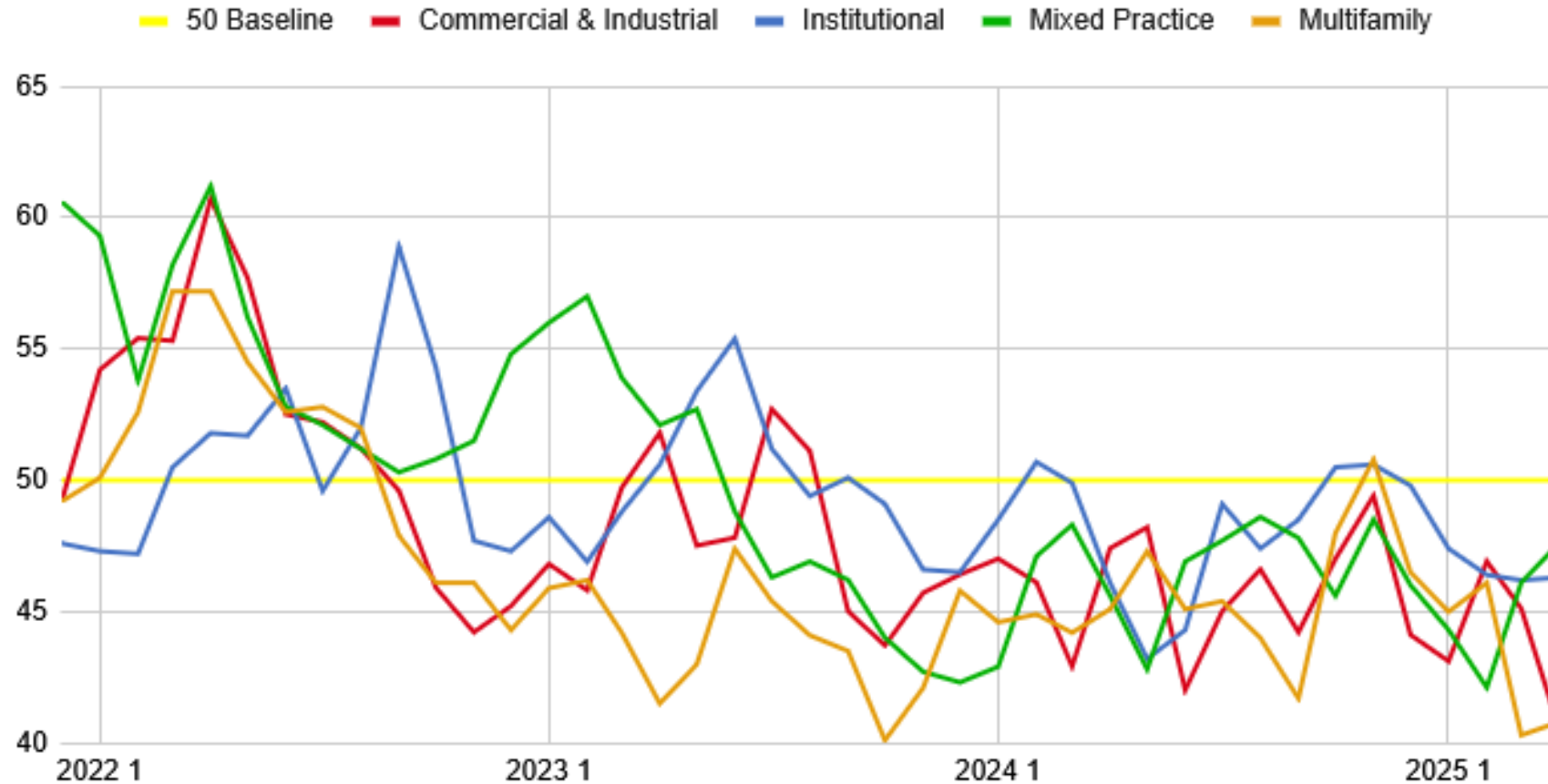
Source: U.S. Census Bureau)



Architecture Billings Activity

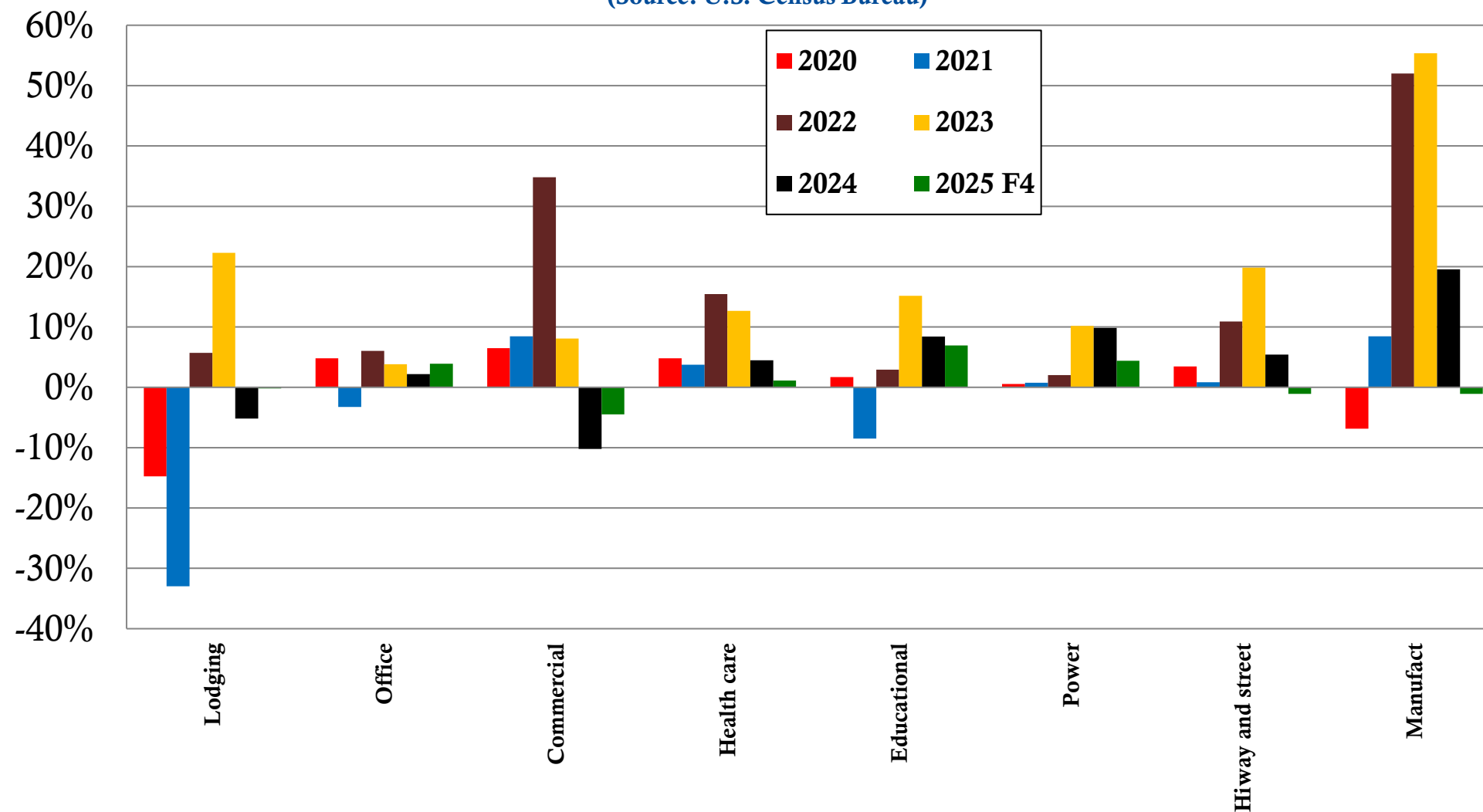
(source: American Institute of Architects)

ABI by Sector

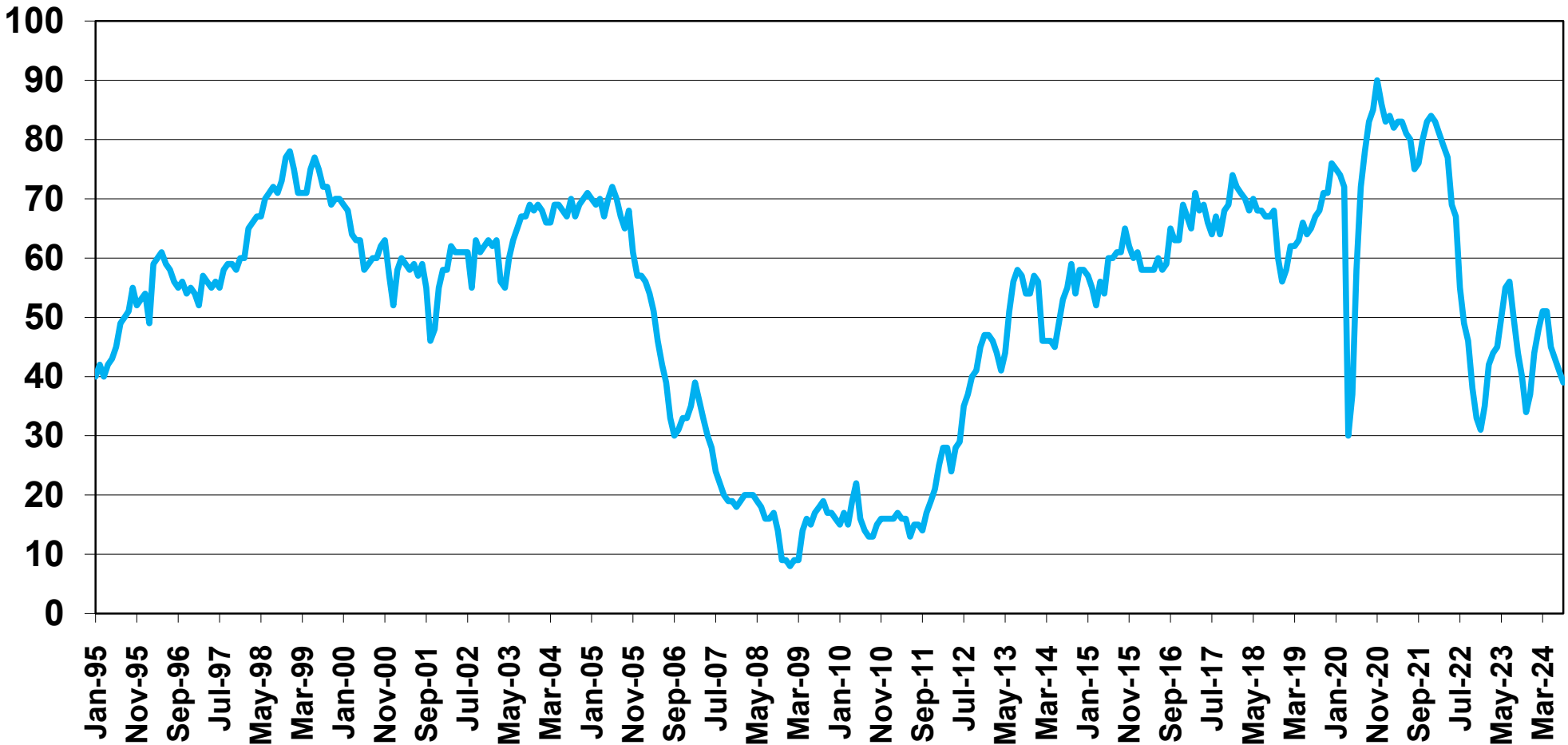


Non-Residential Construction

(Source: U.S. Census Bureau)

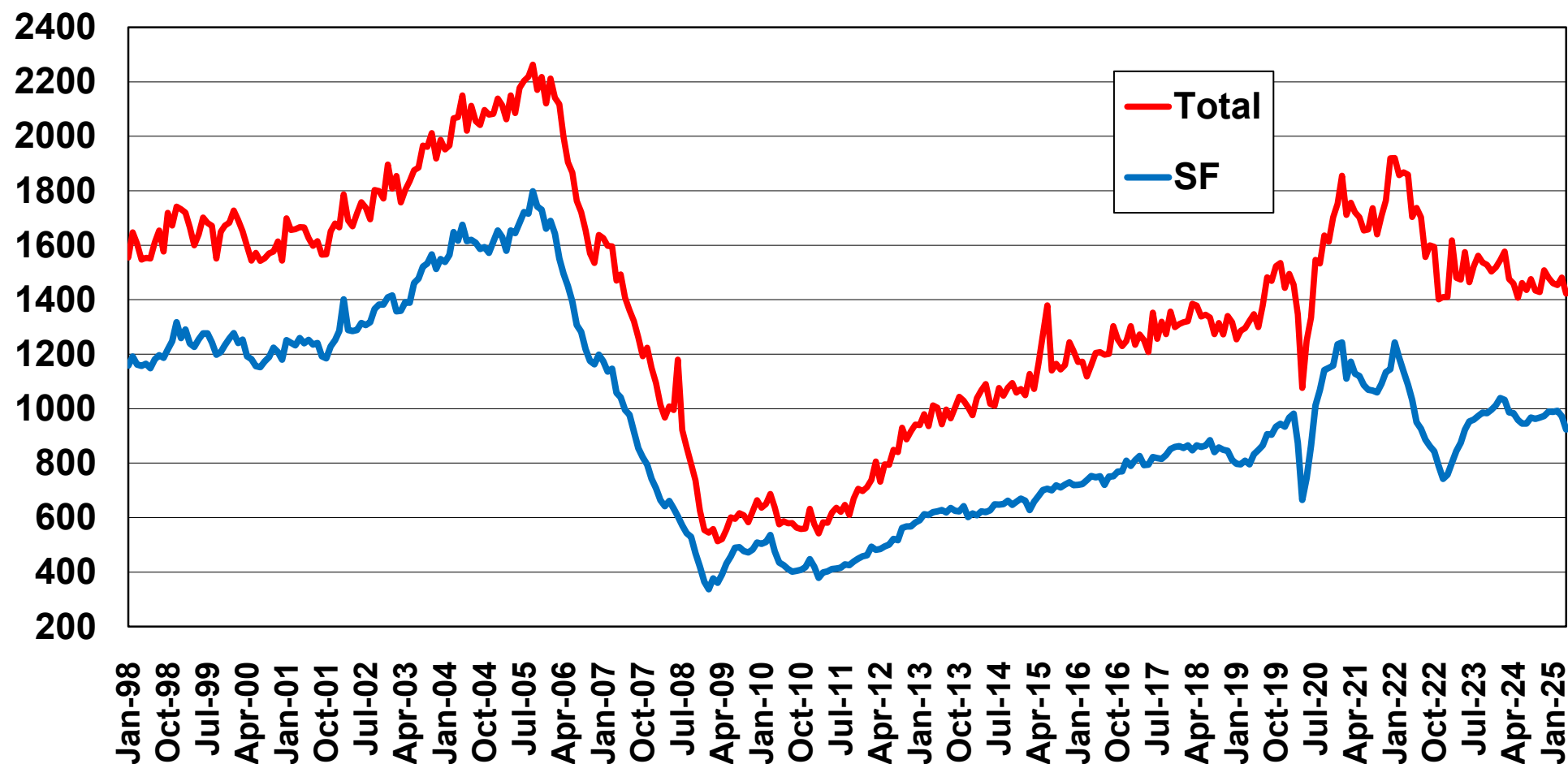


NAHB: Housing Market Index



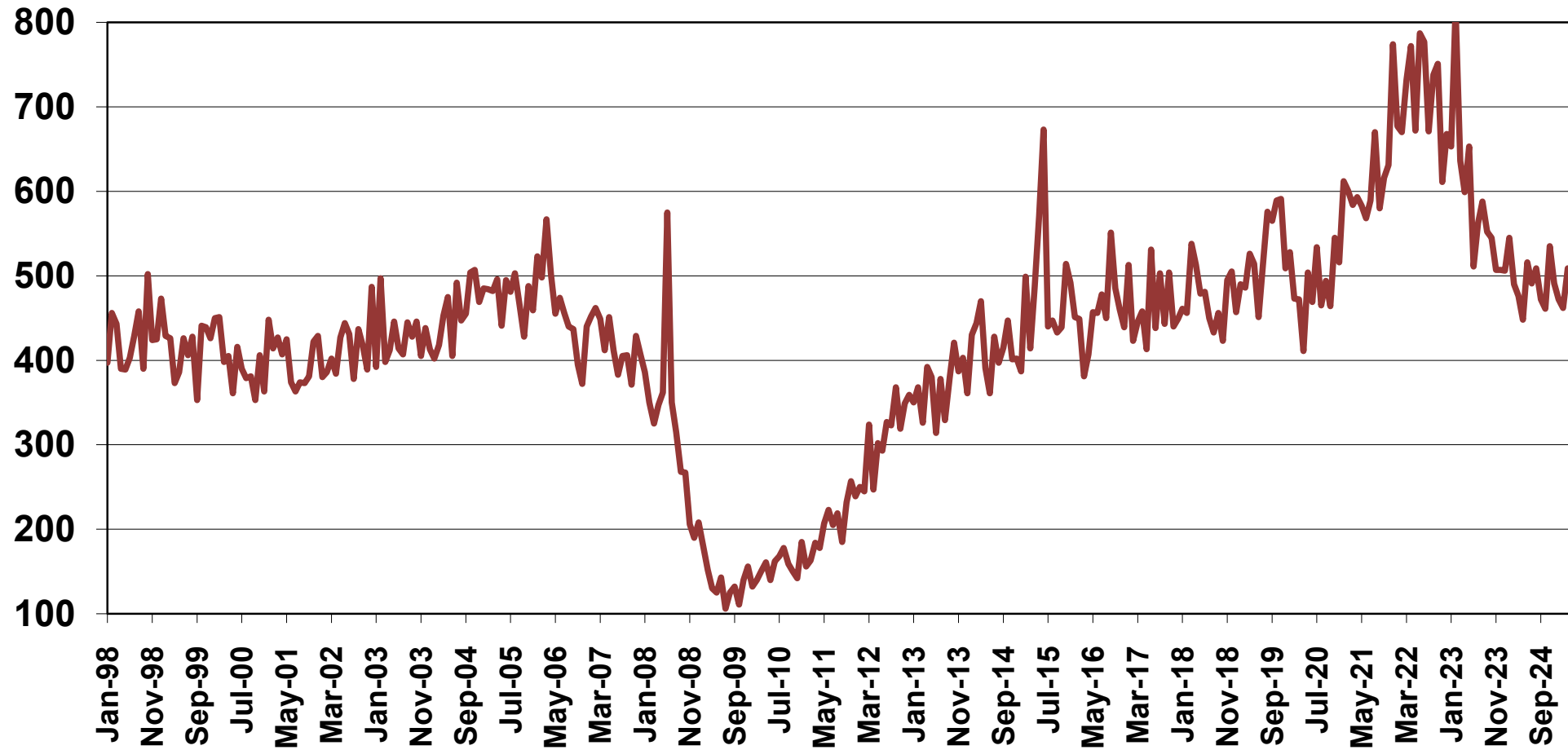
US Housing Permits: SF and Total

(source: U.S. Census Bureau)



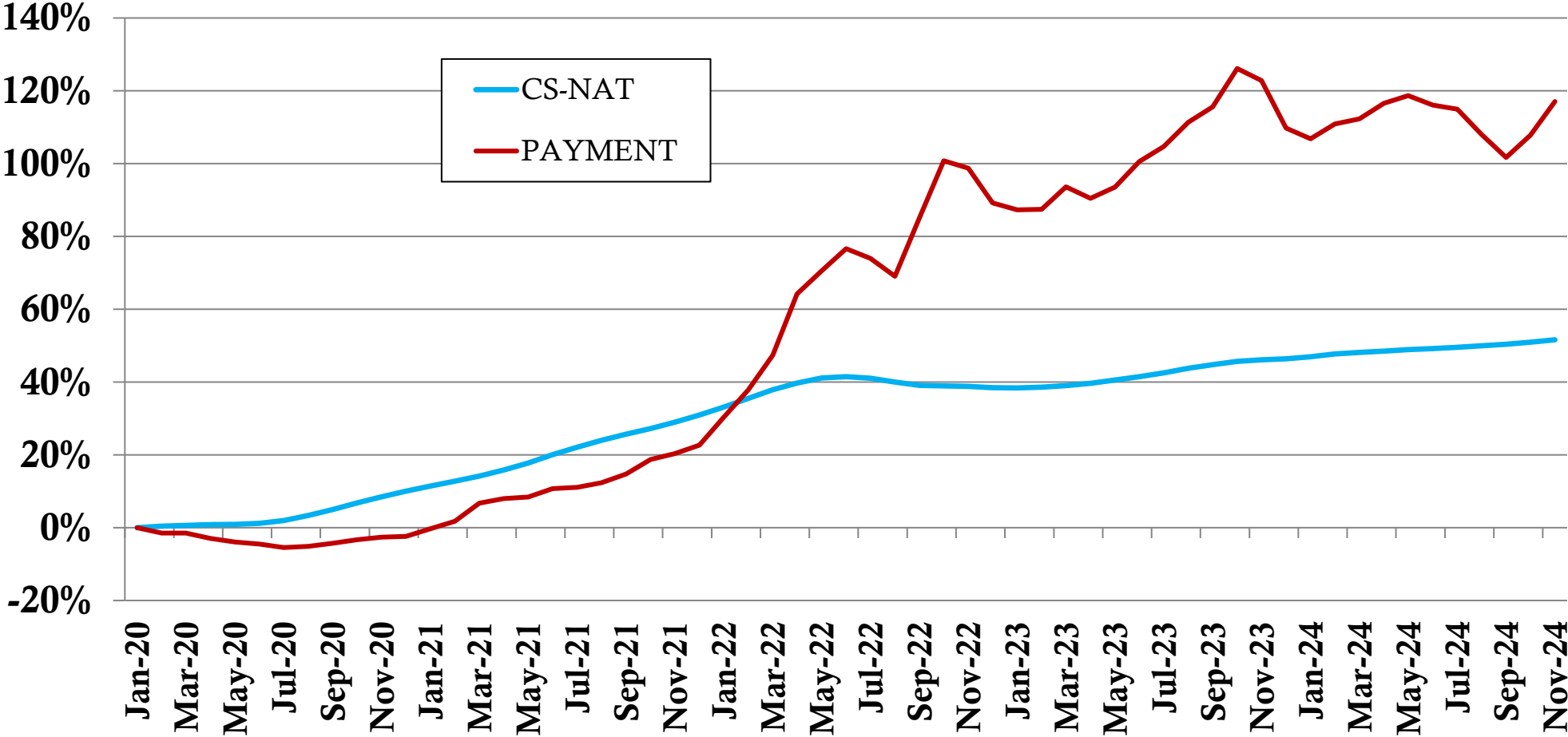
US Housing Permits: Multi-family

(source: U.S. Census Bureau)



Housing Affordability: Rate Effect

(source: S&P Case-Shiller, Freddie Mac)



Comments on Risk & Capital Markets

- Can we accurately assess the impact of rising rates (2022 to 2024) on credit risk? What about on “Cap” rates?
- Will tighter underwriting restrict ability to refinance/refund debt markets? Credit tightening may be more about leverage more than rates.
- Will rise in private debt market continue?
- Is there risk in liquidation of assets that support credits?

Topic #7:

Shared governance in 2024 . . . But can the parties govern themselves? In 2025, one-party rule?

And what about demographic trends?

Comments on the New Regime

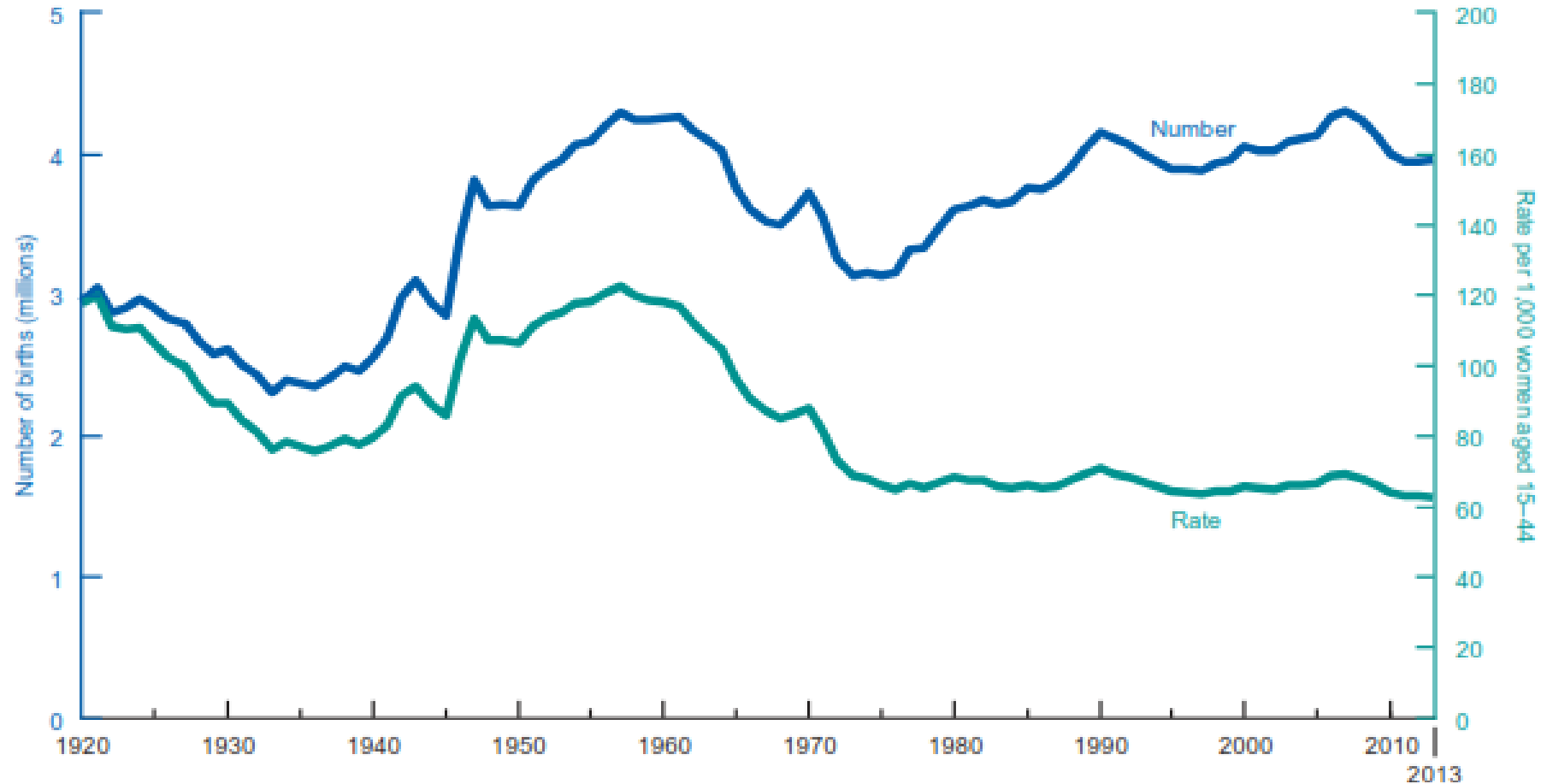
- General Paradigm
 - Shift in regulation
 - Team Doge
 - M&A activity
 - Tariffs as tool
 - Digital Currencies
- Cabinet Picks
 - Treasury: Scott Bessent (Key Square)
 - Commerce: Howard Lutnick (Cantor Fitz)
 - Energy: Chris Wright (Liberty Energy)
 - Justice: Pam Bondi (R-Fl.)
 - Labor: Lori Chavez-DeRemer (R-Ore.)
- Chevron decision
- “A.I.”
 - FinTech
 - HealthTech
 - Cybersecurity

Comments on Shifting Fiscal Policy

- Extend 2017 TCJA (Tax Cuts and Jobs Act)
 - Corporate Tax Rate
 - Shifted to flat 21%
 - Shift between Global & Territorial Tax regimes
 - Changes in Depreciation & Net Loss Carryback
 - Individual Tax Rates
 - Cut in marginal tax rates
 - Treatment for Pass-Through Entities
 - Carried Interest
 - Tax on tips & overtime; SSI
 - “SALT” Deduction
 - Estate Tax

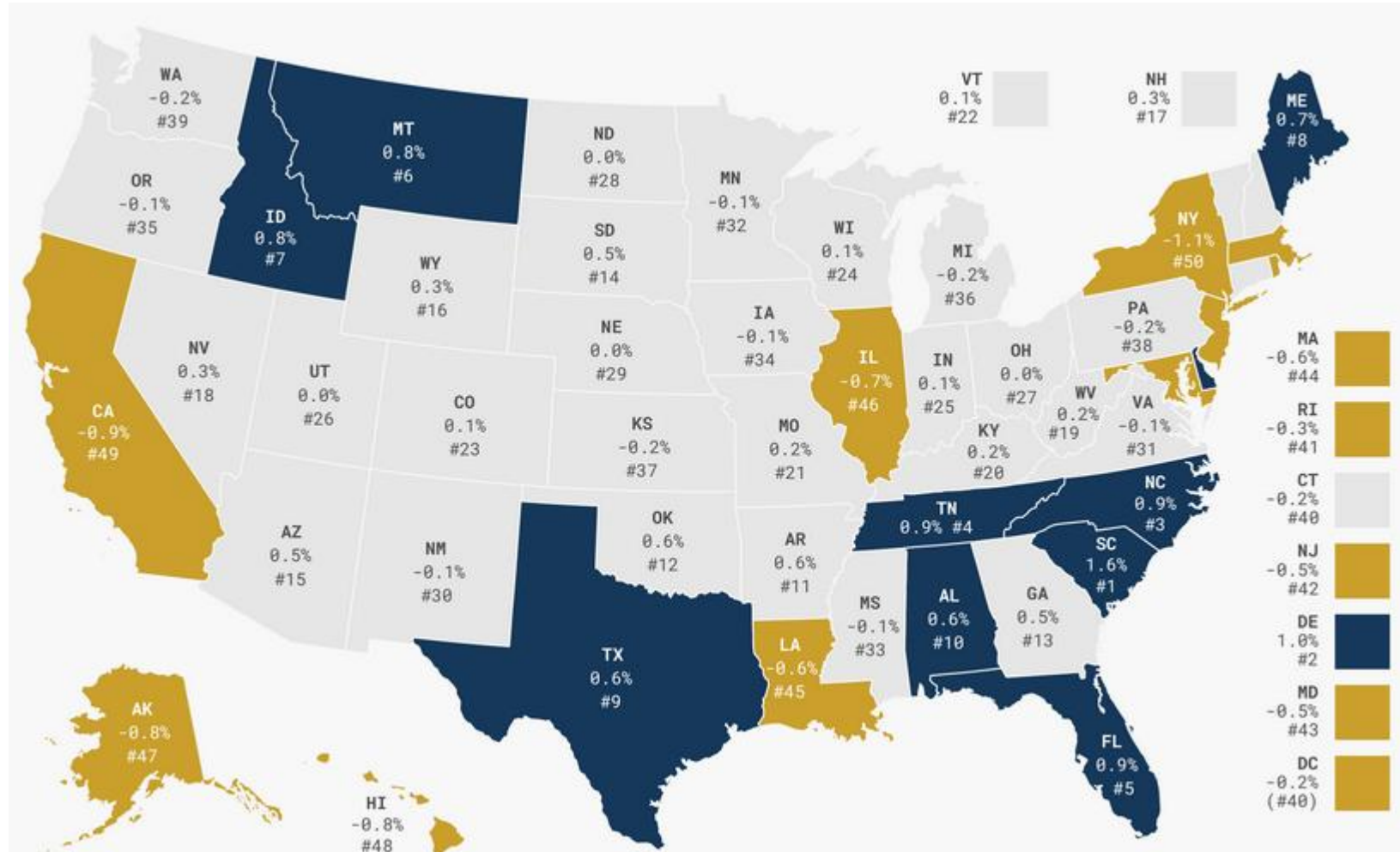
The Demographics: Boom & Bust

(source: U.S. Census Bureau)



Internal Migration

(source: Tax Foundation, 2023)



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