

Economic Outlook: Upheaval, Volatility, and Uncertainty: March 2025



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AfD Party German Election Results



Historical Economic Breakpoints

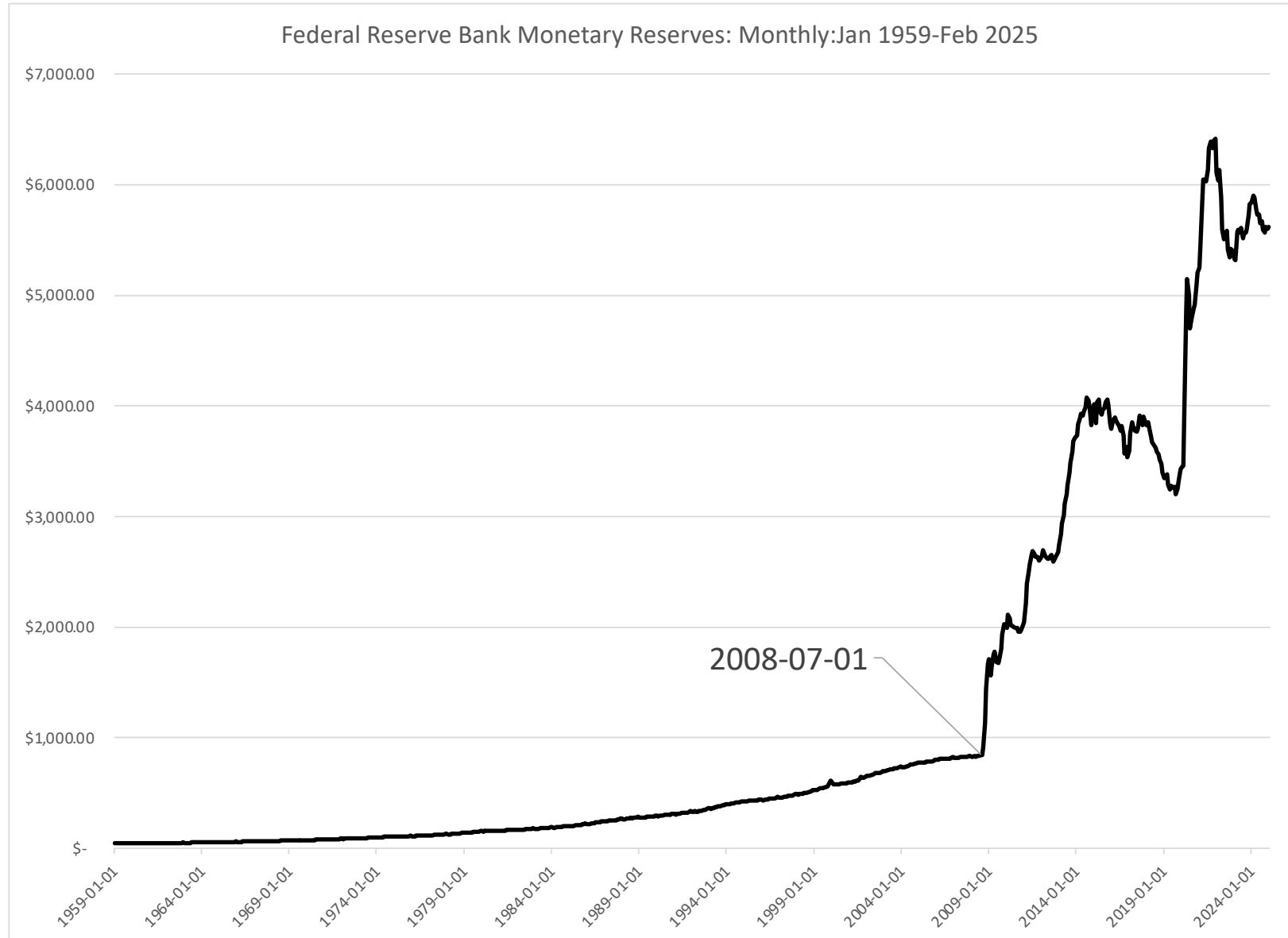
- 1929: Financial market meltdown
- 1930's: Great Depression
- 1940's: Second World War
- 1950's: Marshall plan; European economy rebuilt
- 1960's: Japanese economic "miracle"
- 1970's: End of the gold standard; Energy shock; end of 3-6-3 banking; expansion of debt markets
- 1980's: Rise of "active investors:" LBO's and offshore reinvesting
- 1990's: Technology and BPR; end of Glass-Steagle banking; rise of China
- 2000's: Offshoring of BPR; 2008: financial market meltdown
- 2010's: Monetization and private equitization of the economy
- 2020: Pandemic
- And Now: AI; Rise of China as a maritime superpower;

Current Setting

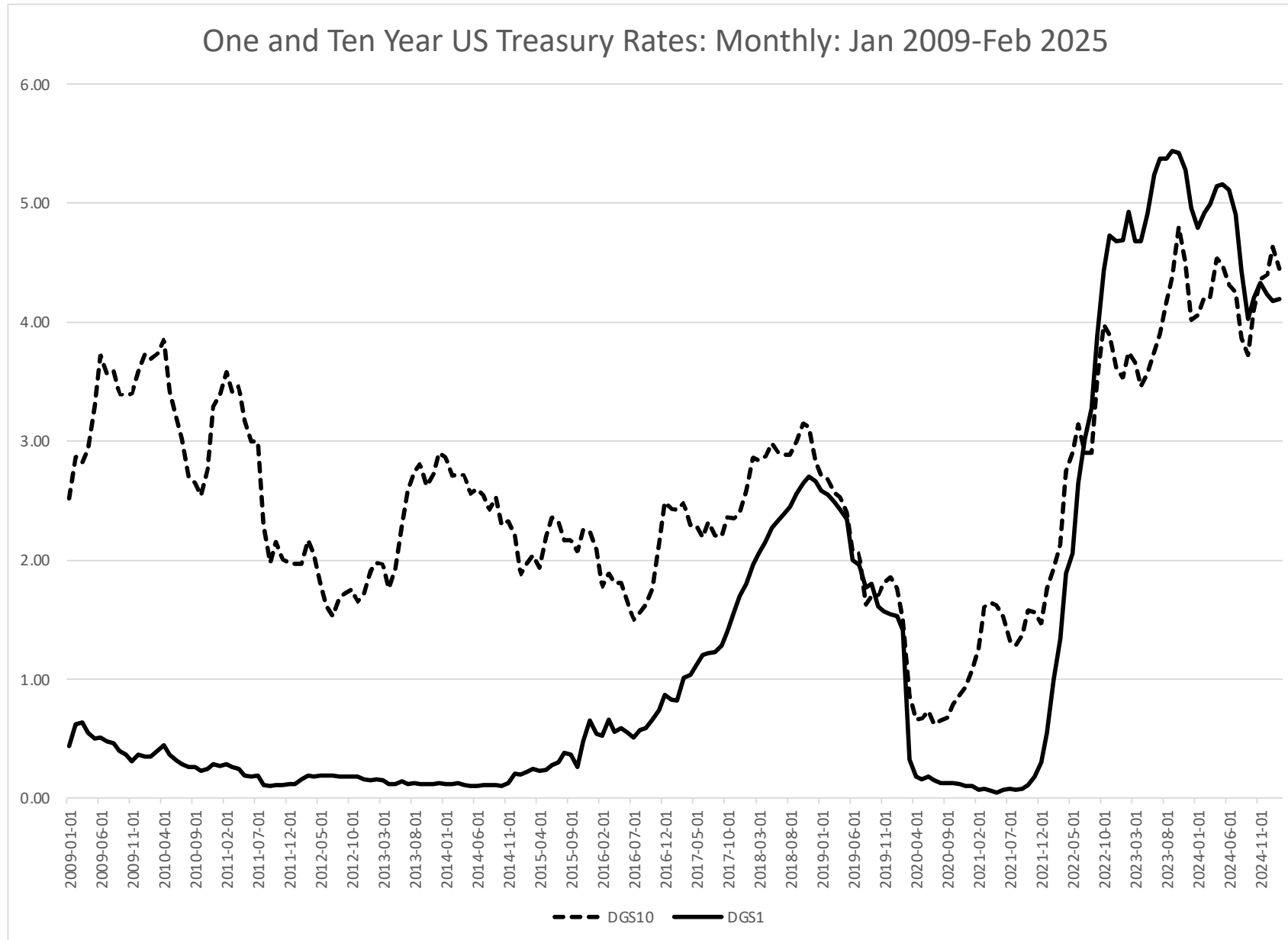
- Global resurgence of nationalist conservative political movements
- Conflict between nationalists and legacy globalists and systems leaning toward socialism
- Territorial conflicts: Ukraine, Gaza, Taiwan
- Threats of tariff driven trade wars between major trading partners (US v. Canada, Mexico, China, etc.)
- Rapid growth and infusion of AI into business decision making models and practices
- Energy and resource needs to fuel and cool AI server farms
- Underlying instability in the financial system driven by high debt levels and political economic uncertainty
- Lingering high interest rates and low capital investment spending
- The Top 20% are carrying the economy

Drivers

Monetization

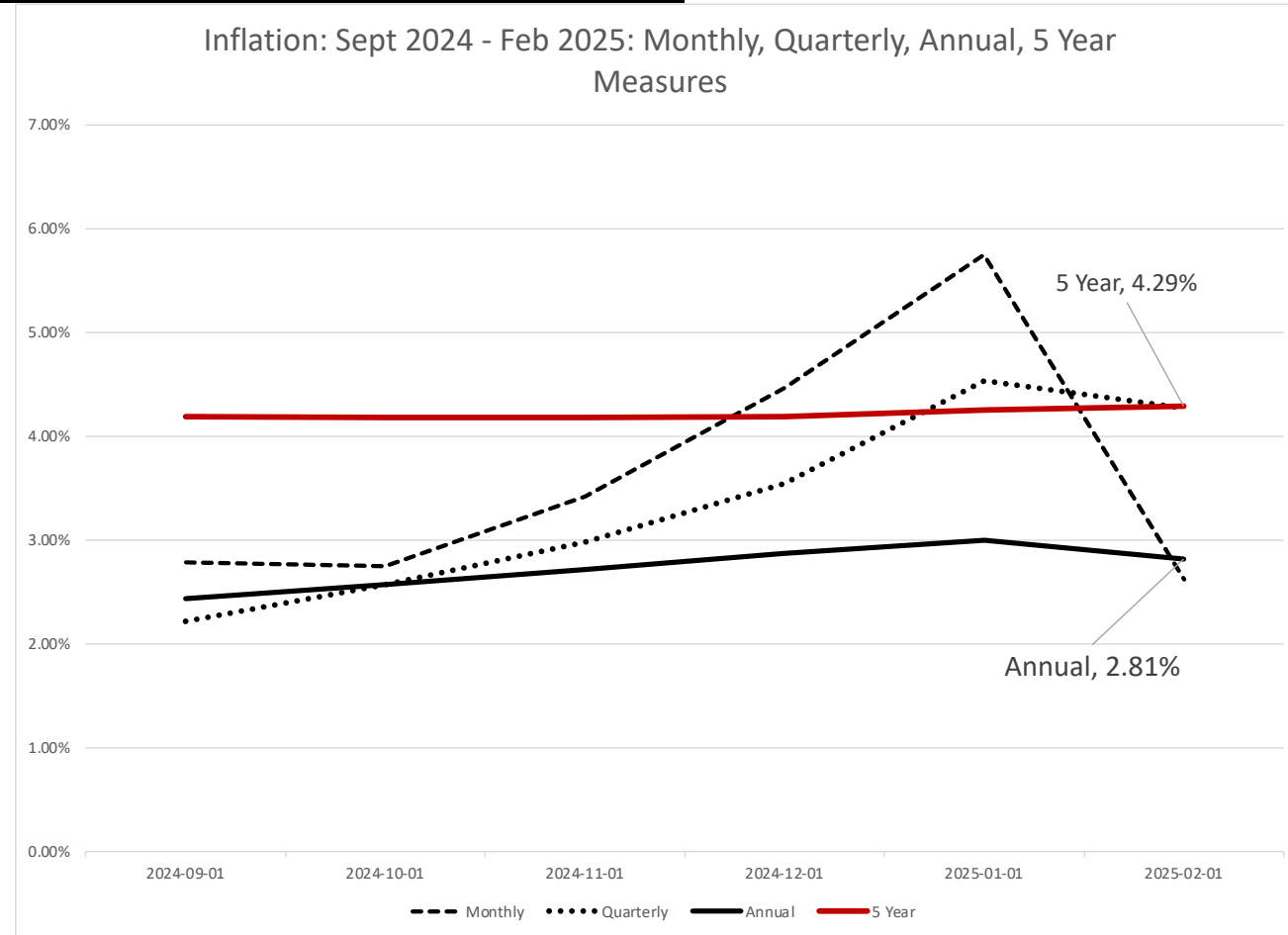


Interest Rates

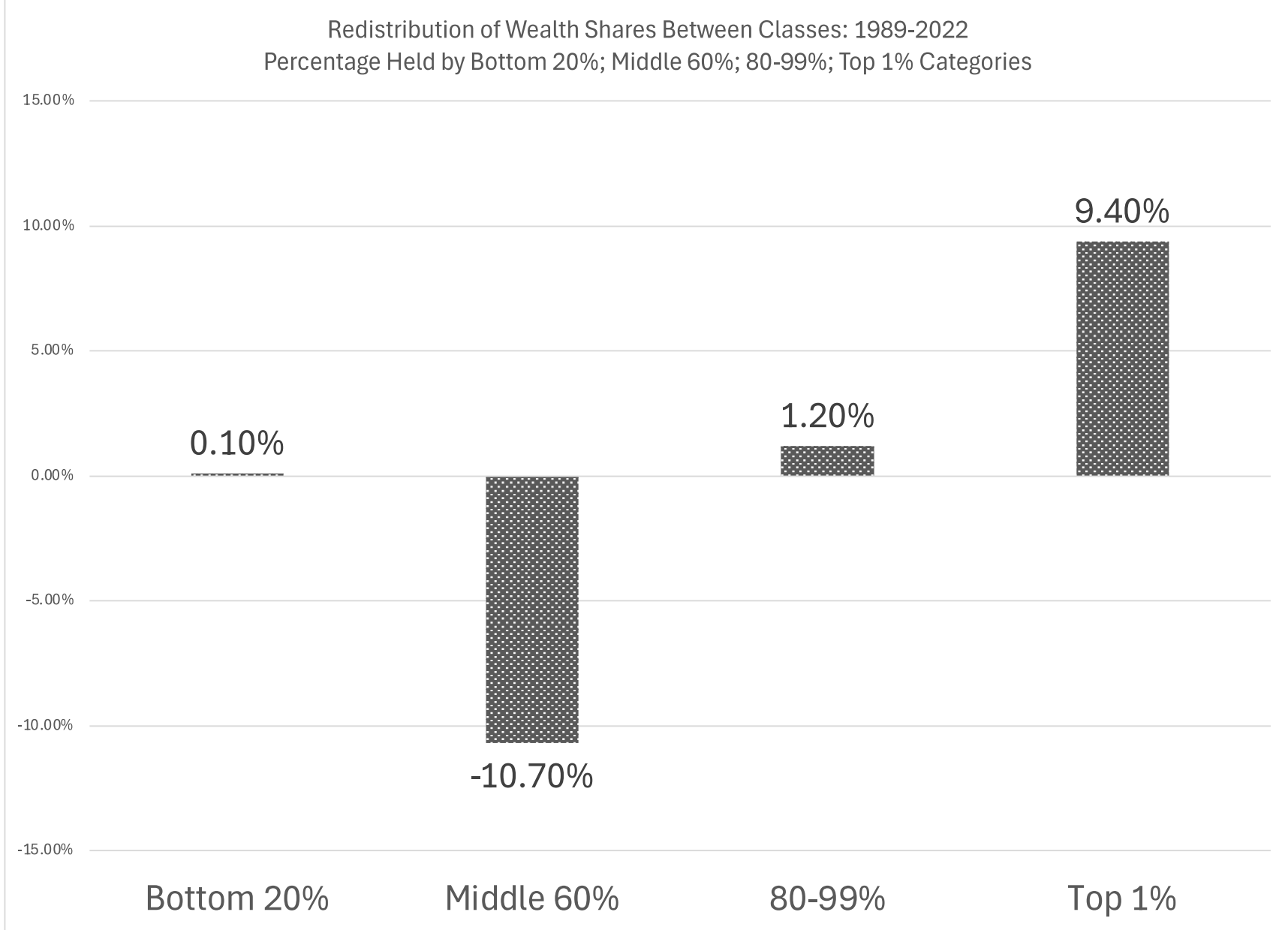


Inflation

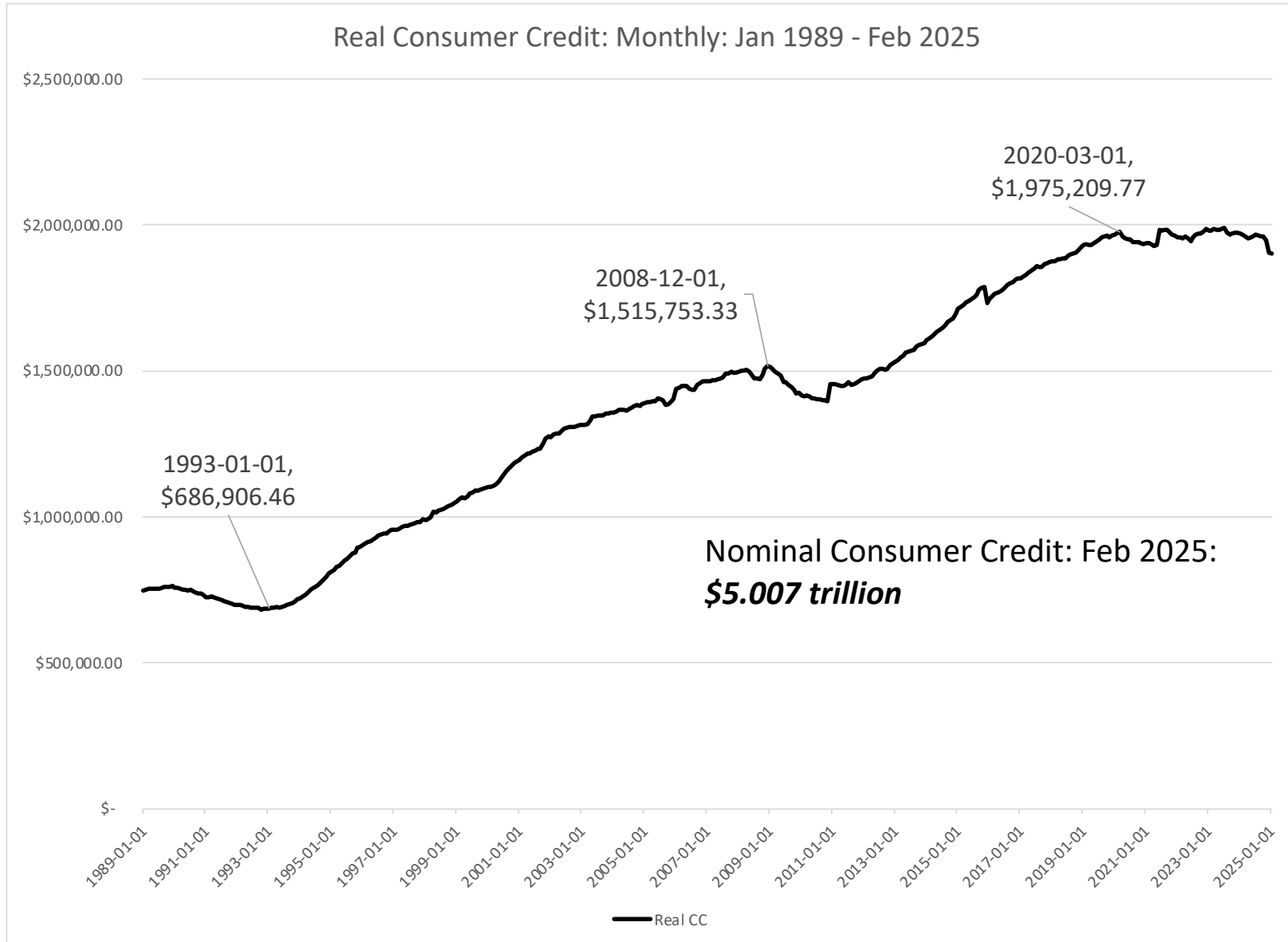
Inflation Rates for February 2025				
Index	Monthly	Quarterly	Annual	5 Year
Overall	2.62%	4.27%	2.81%	4.29%
Food	1.99%	3.32%	2.57%	5.12%
Energy	2.38%	15.77%	-0.33%	5.72%



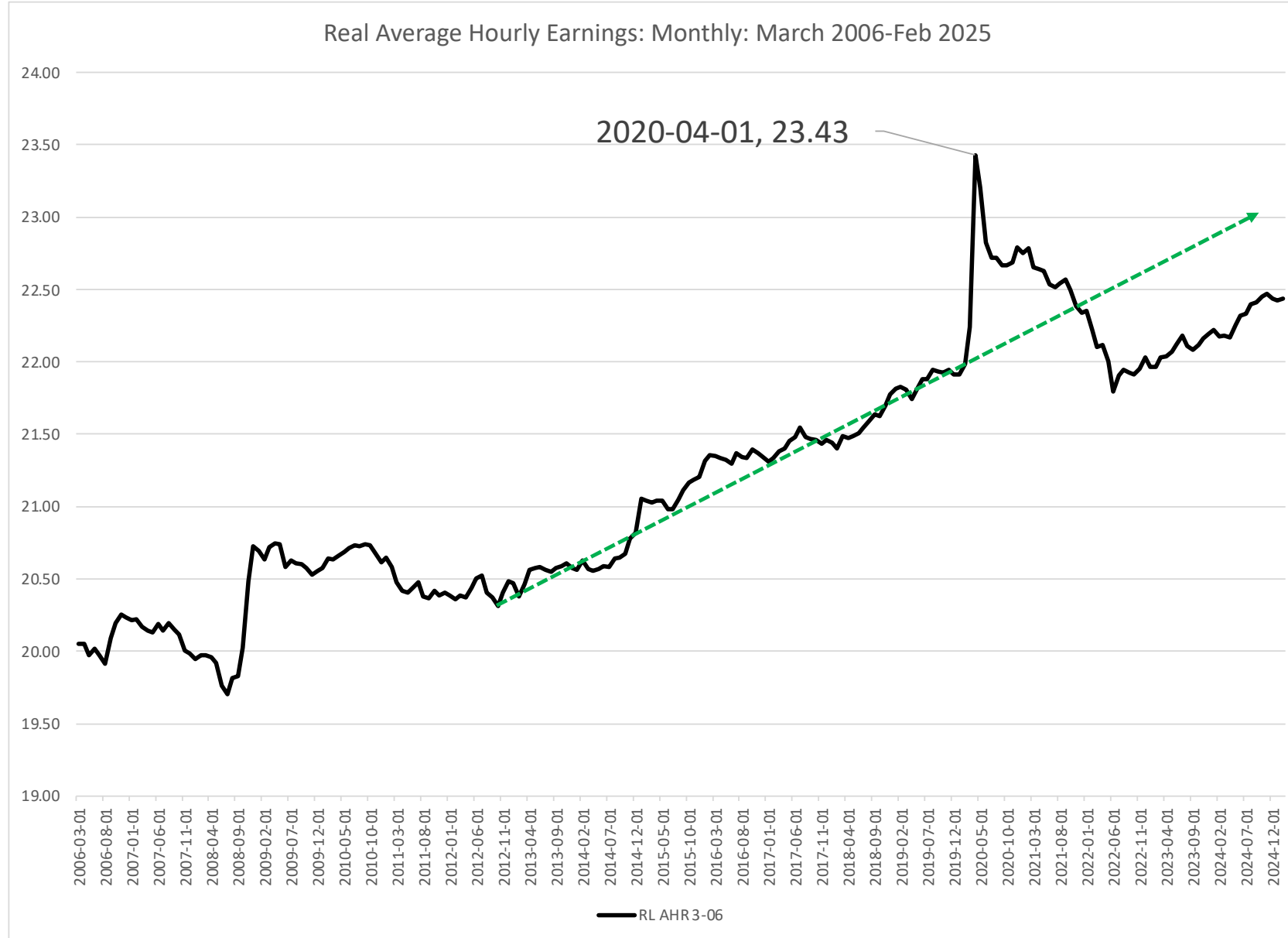
The Bifurcated Economy



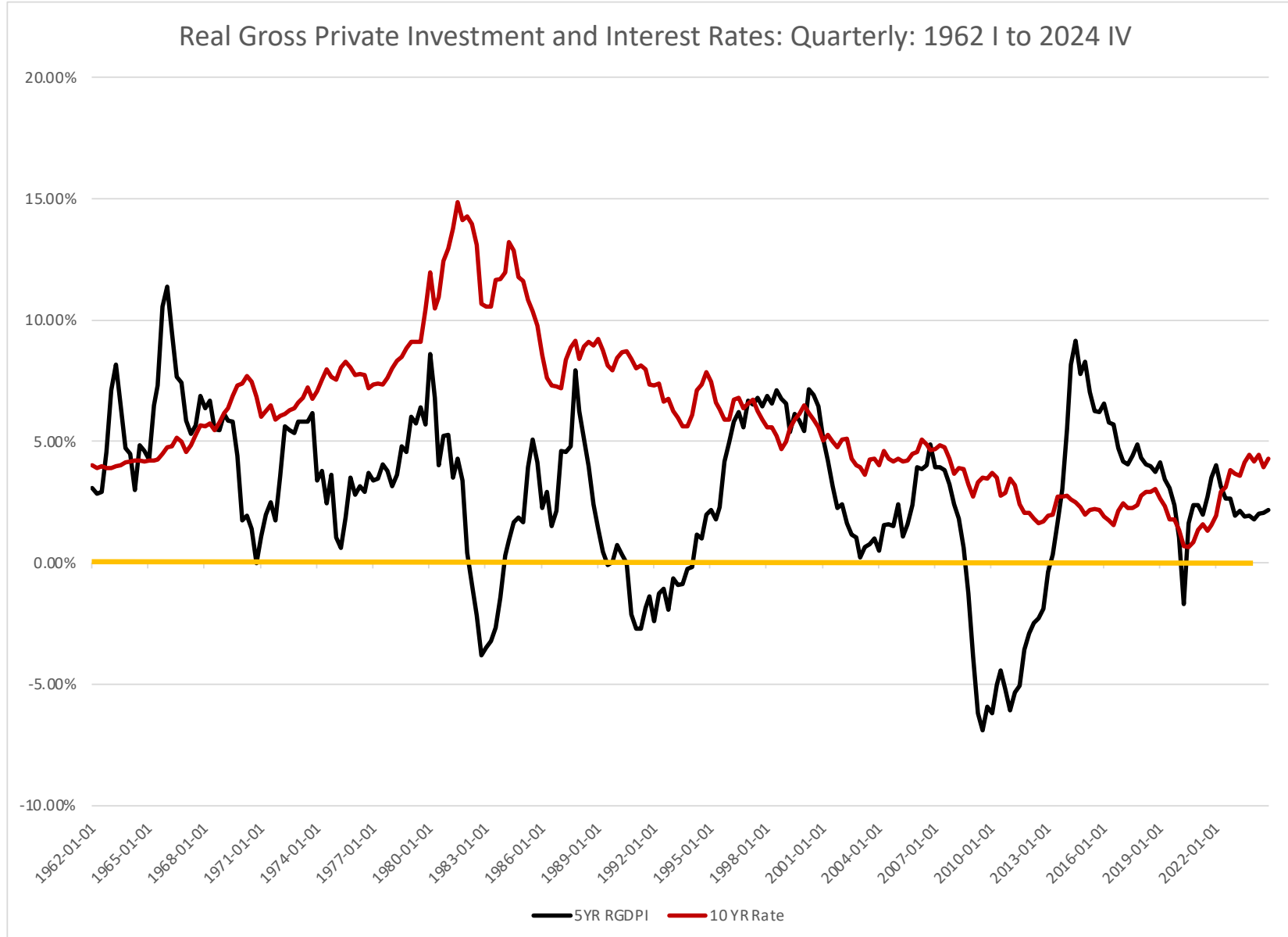
Real Consumer Credit



Real Earnings



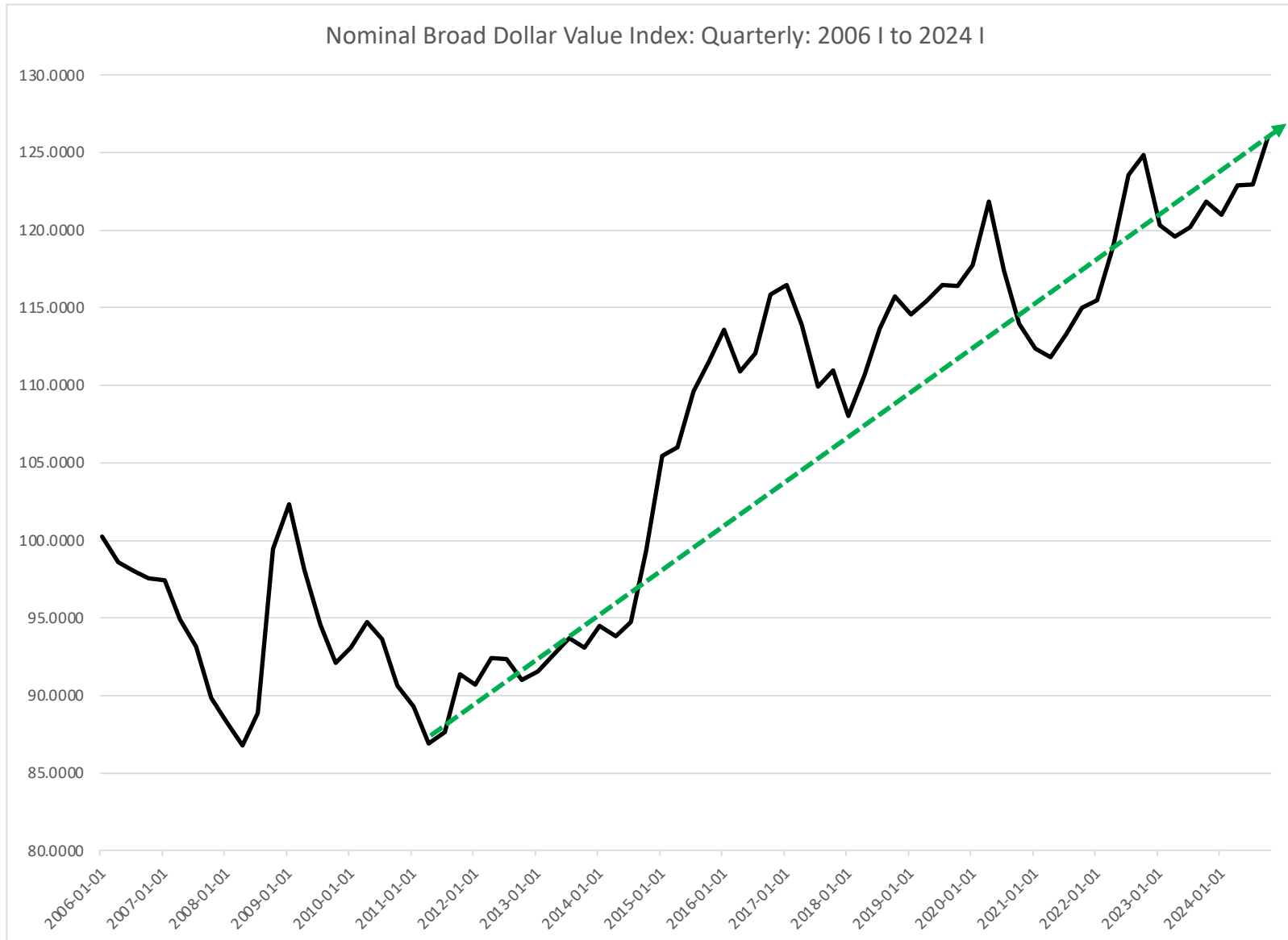
Interest Rates and Investment Spending



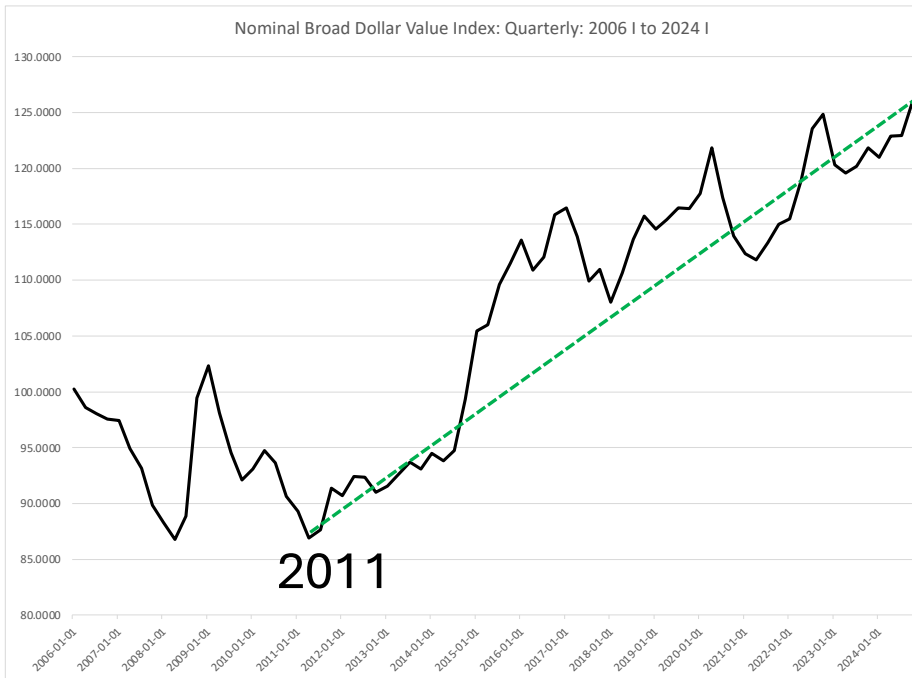
Trade and Tariffs

Where will it land?

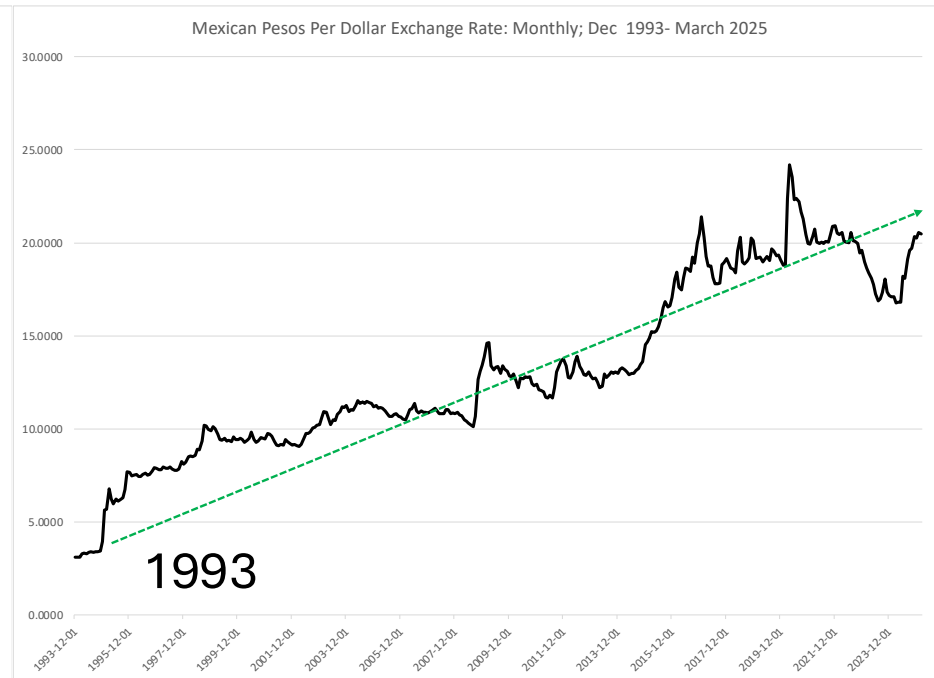
The US Dollar is Strong, encouraging imports



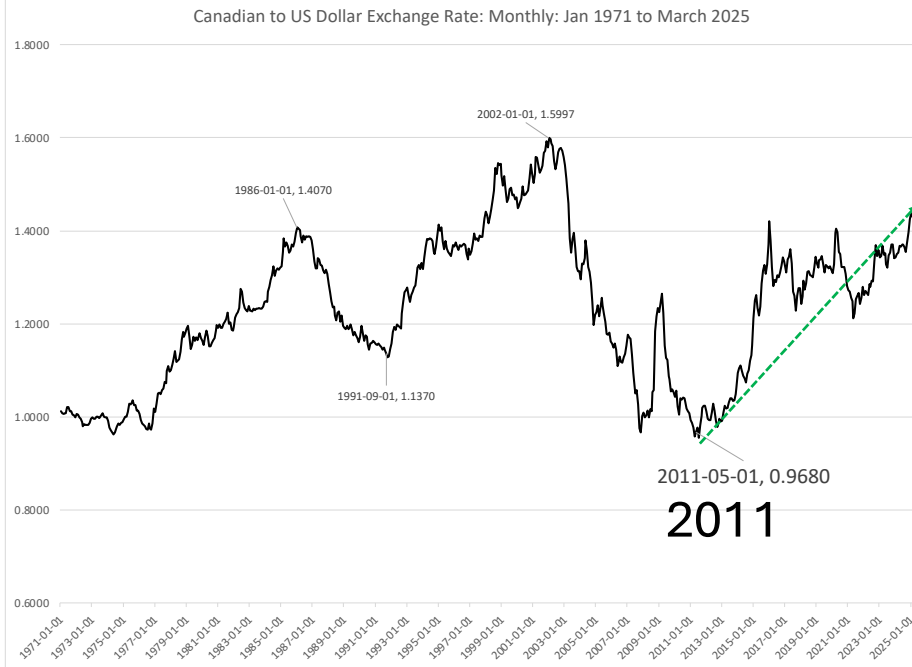
Broad Index



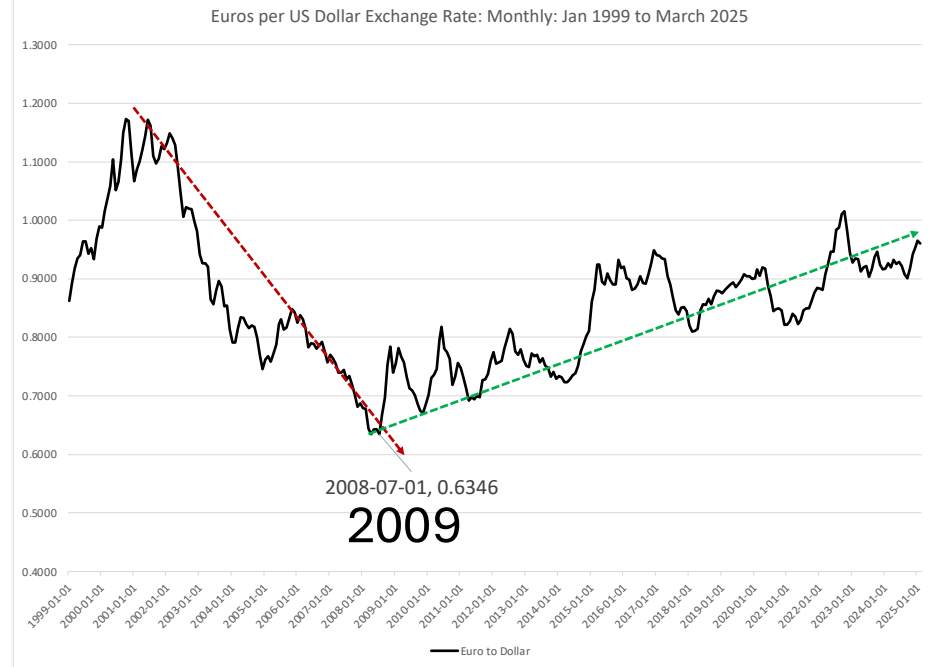
Mex Pesos / US Dollar



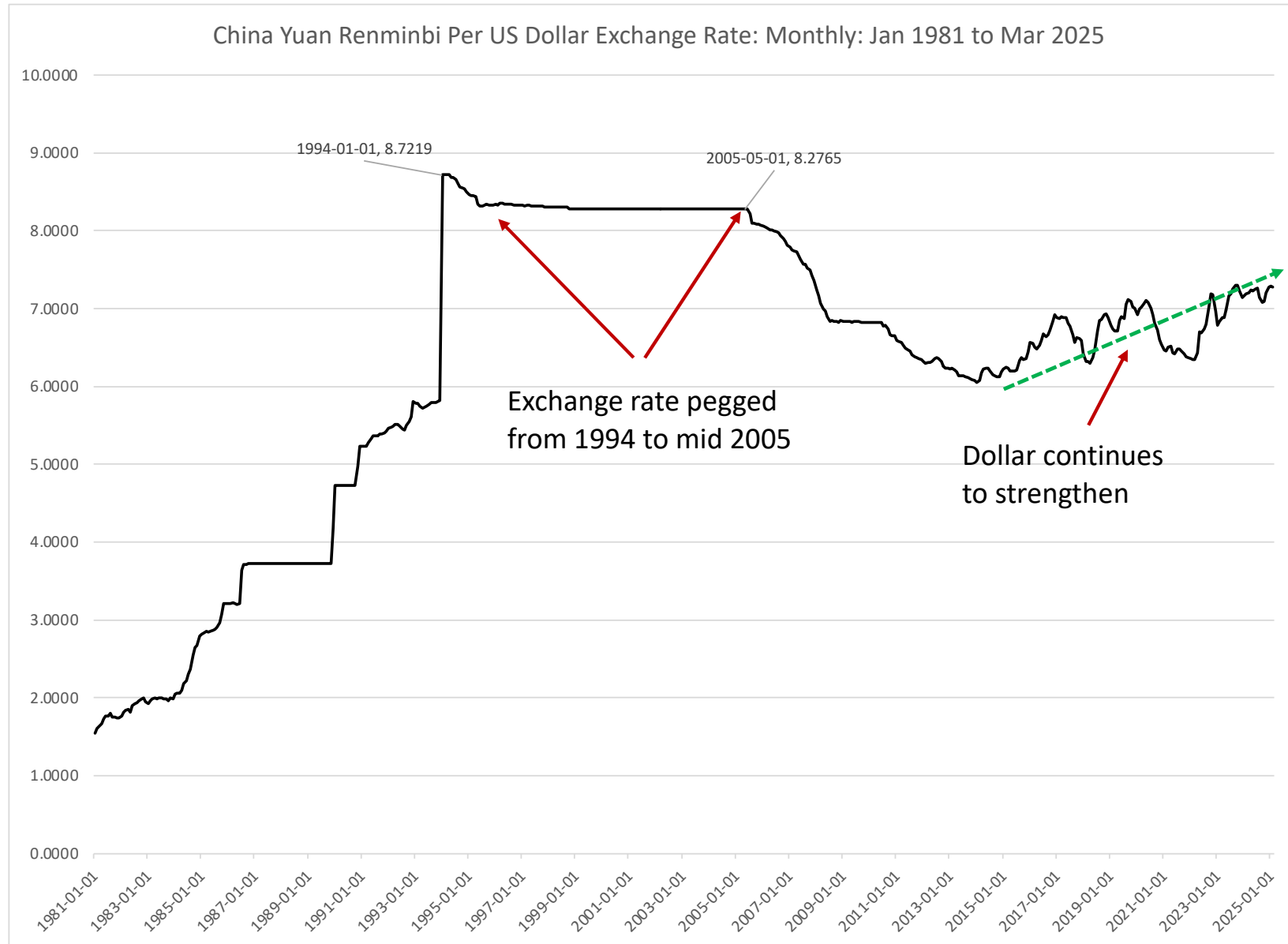
Canadian / US Dollar



Euros / US Dollar



China's peg distorted market movements

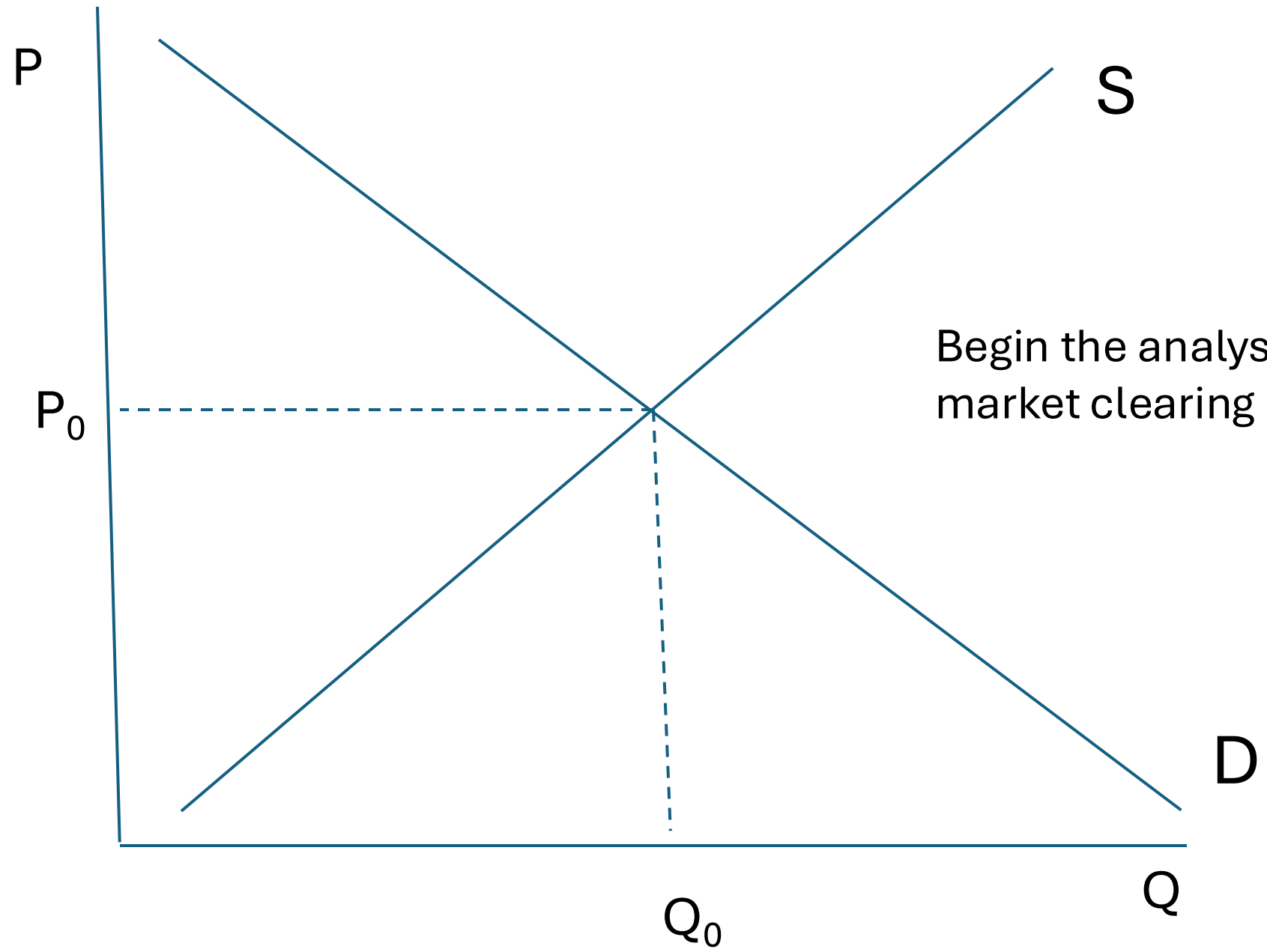


Investment decision models

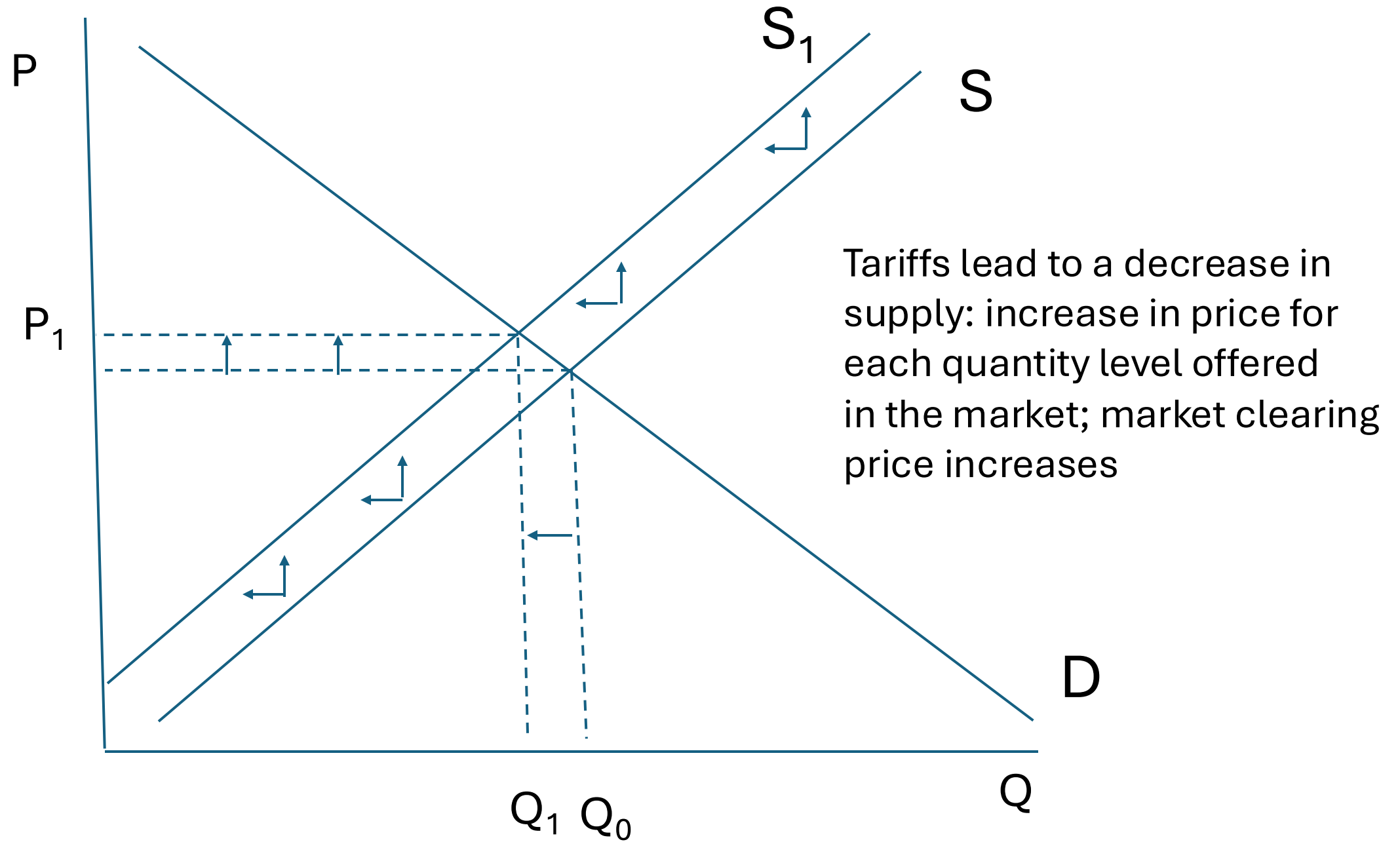
- Where to invest?
- Goal: Maximize return/minimize risk (max return given risk level)
- Elements
 - Fixed investment costs: amortized over the long term
 - Variable operating costs (labor, utilities, materials, transportation)
 - ***“Normal” profit (ROI) demanded by investors (acceptable return given the perceived risk level)***
- Key factors
 - Barriers to entry
 - Mobility of capital (financial and real fixed capital)

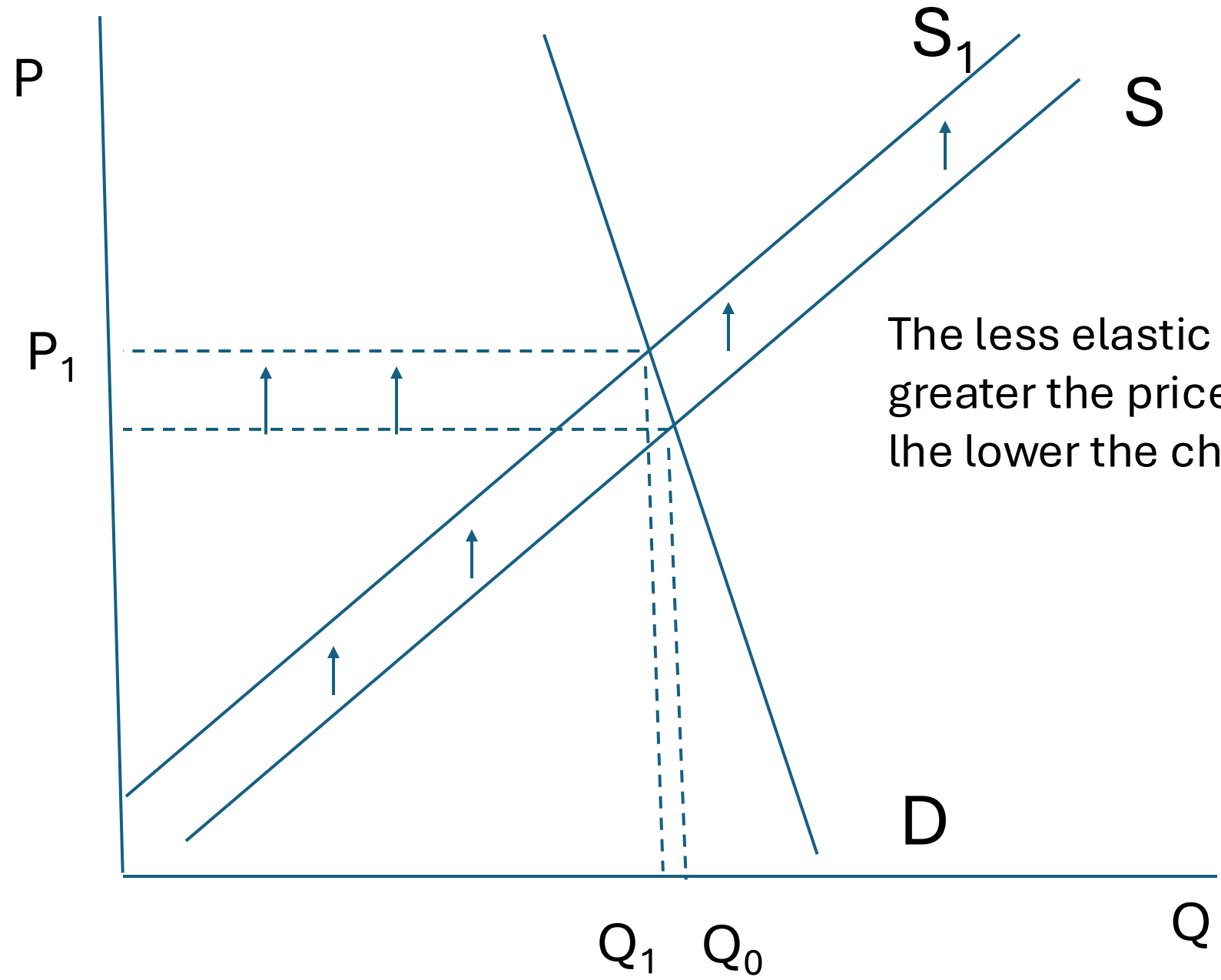
Tariffs

- Tax on goods entering a country
- Affect the "supply curve:" the amount of product that providers are willing to sell at given price levels
- Tariffs create an additional variable cost; shifts the supply curve (toward a decrease in supply)
- The overall impact of the tariff will depend on several factors:
 - The nature (elasticity) of the demand
 - Available substitutes
 - Degree of need for the product
 - The nature (elasticity) of the supply
 - The level of profit relative to the "normal profit" earned by selling firms

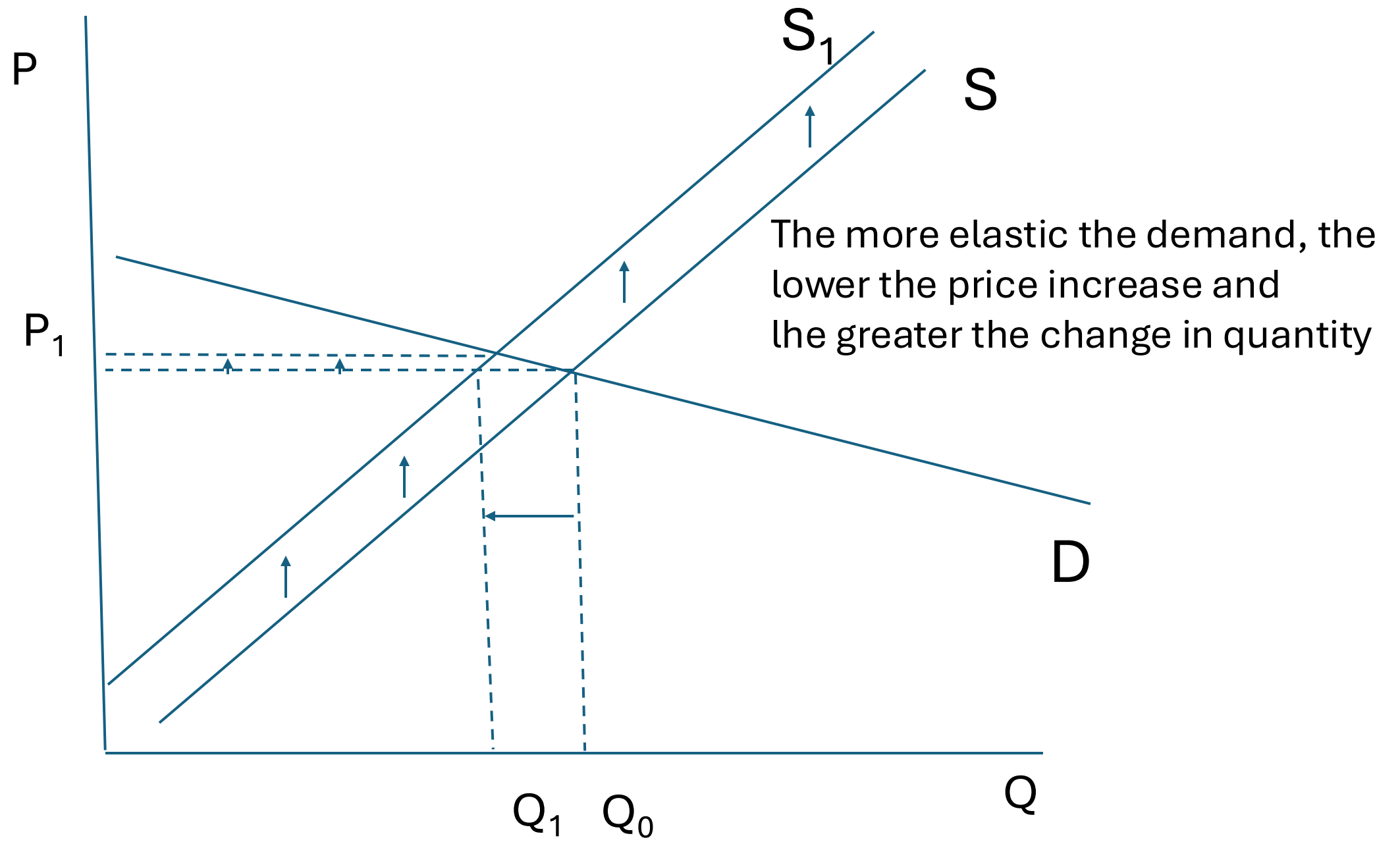


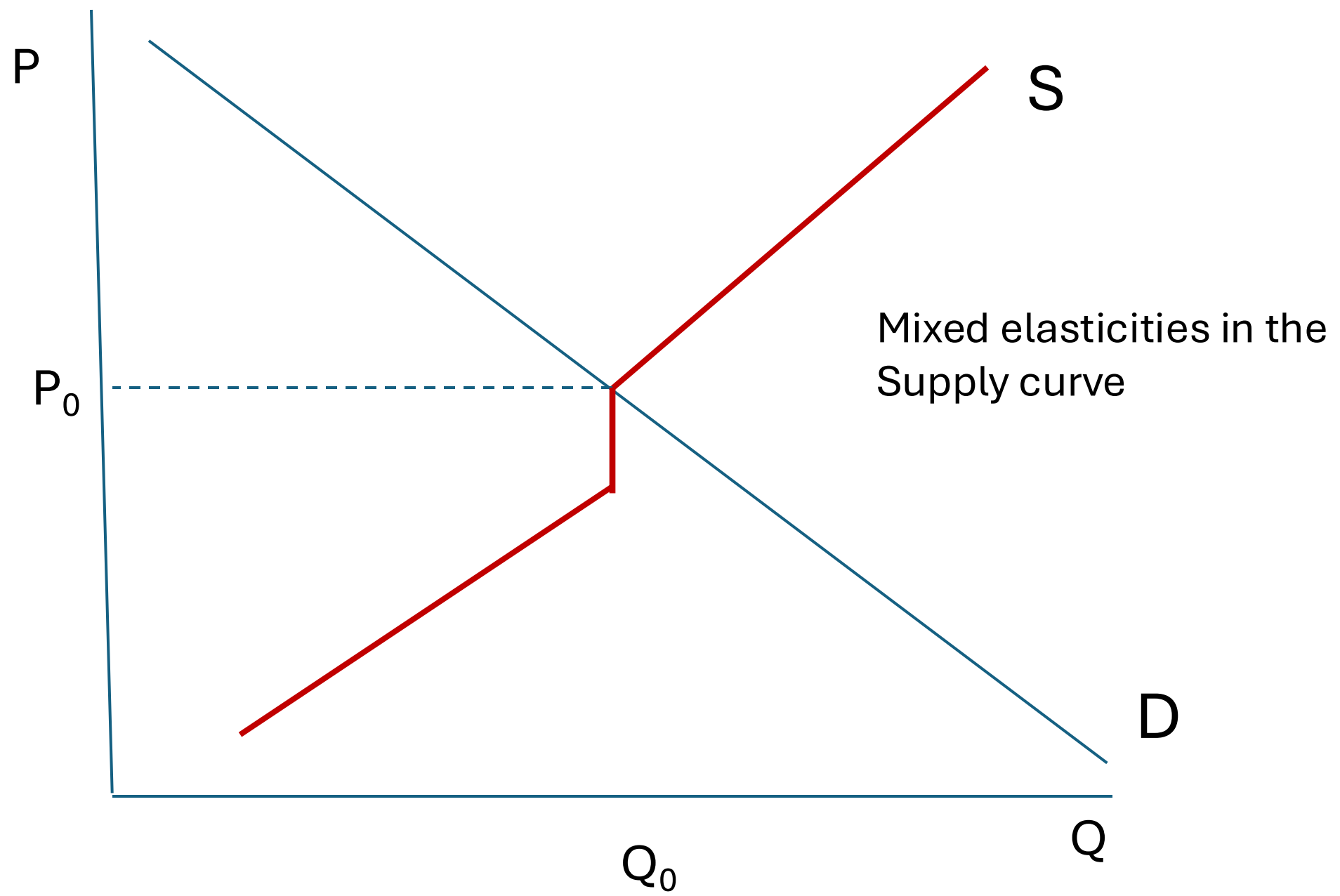
Begin the analysis with a market clearing price

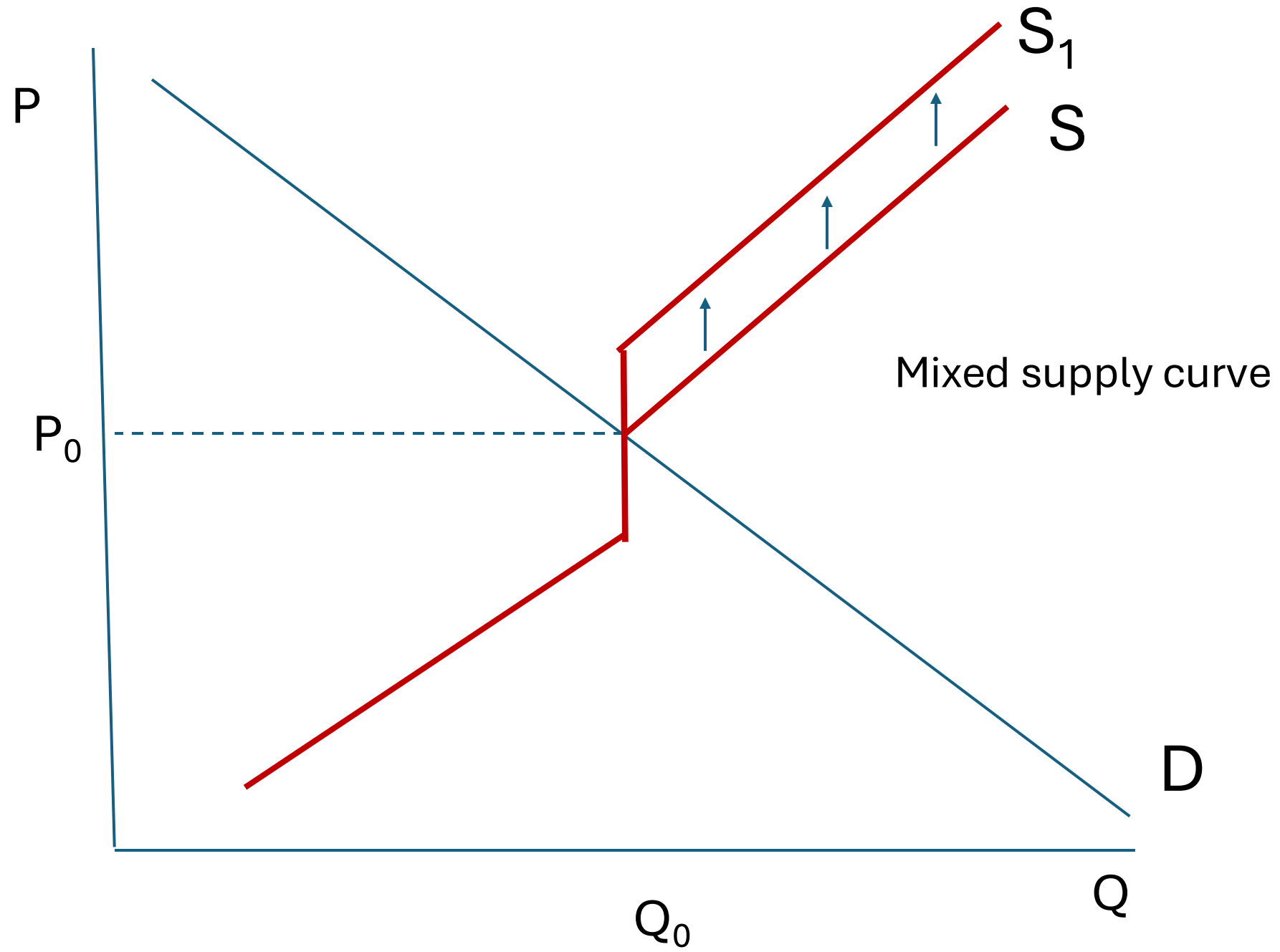




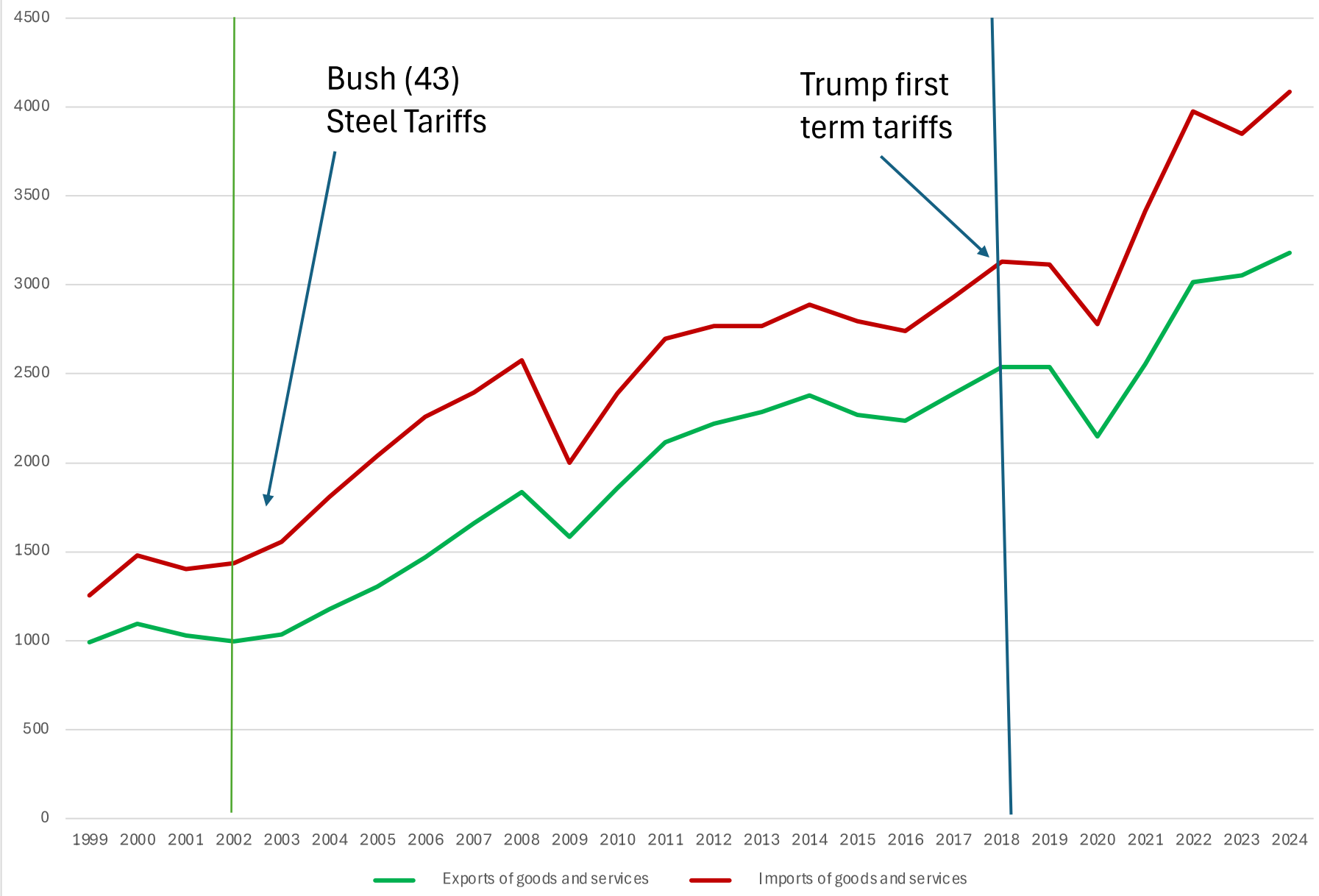
The less elastic the demand, the greater the price increase and the lower the change in quantity



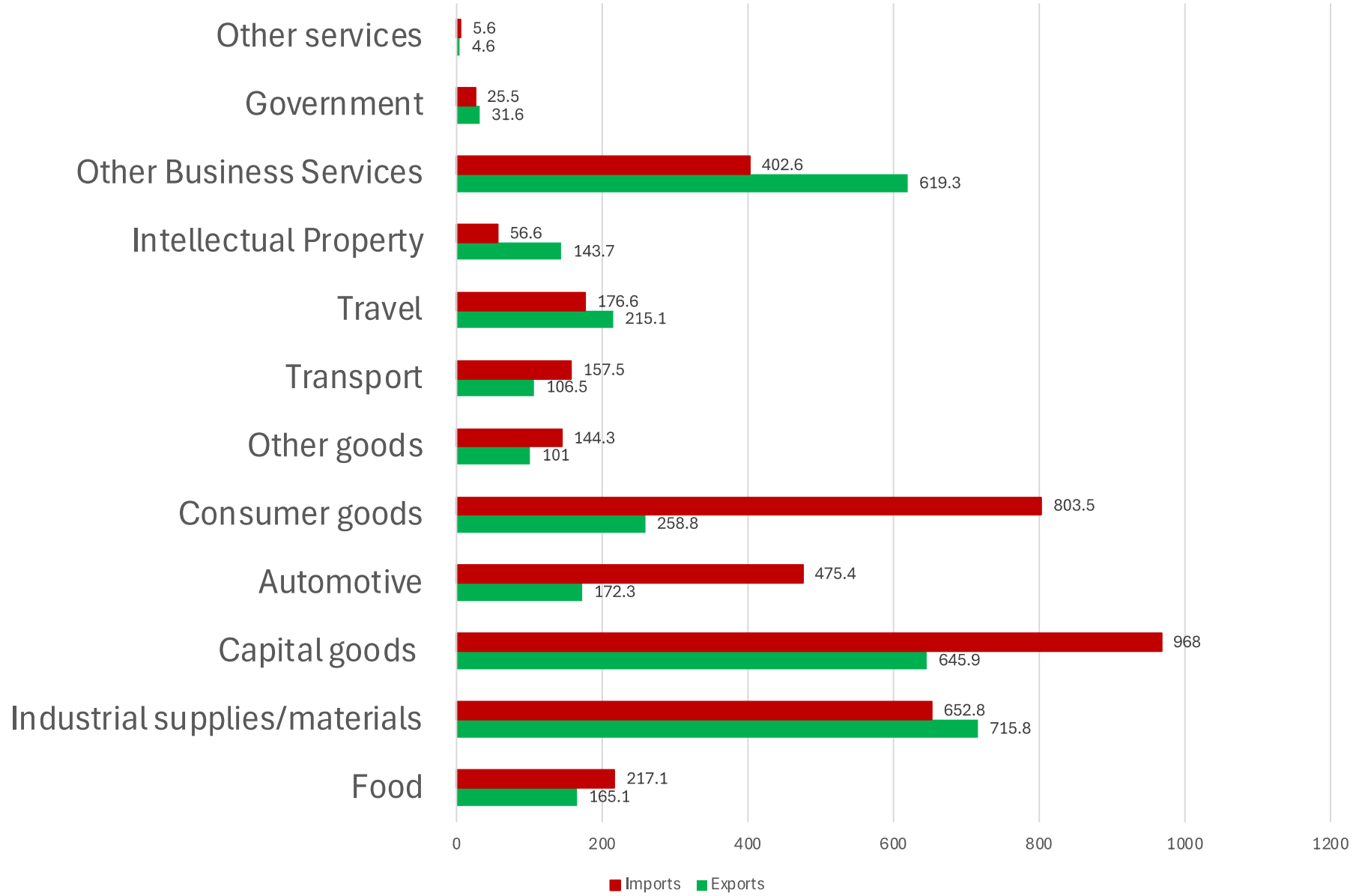




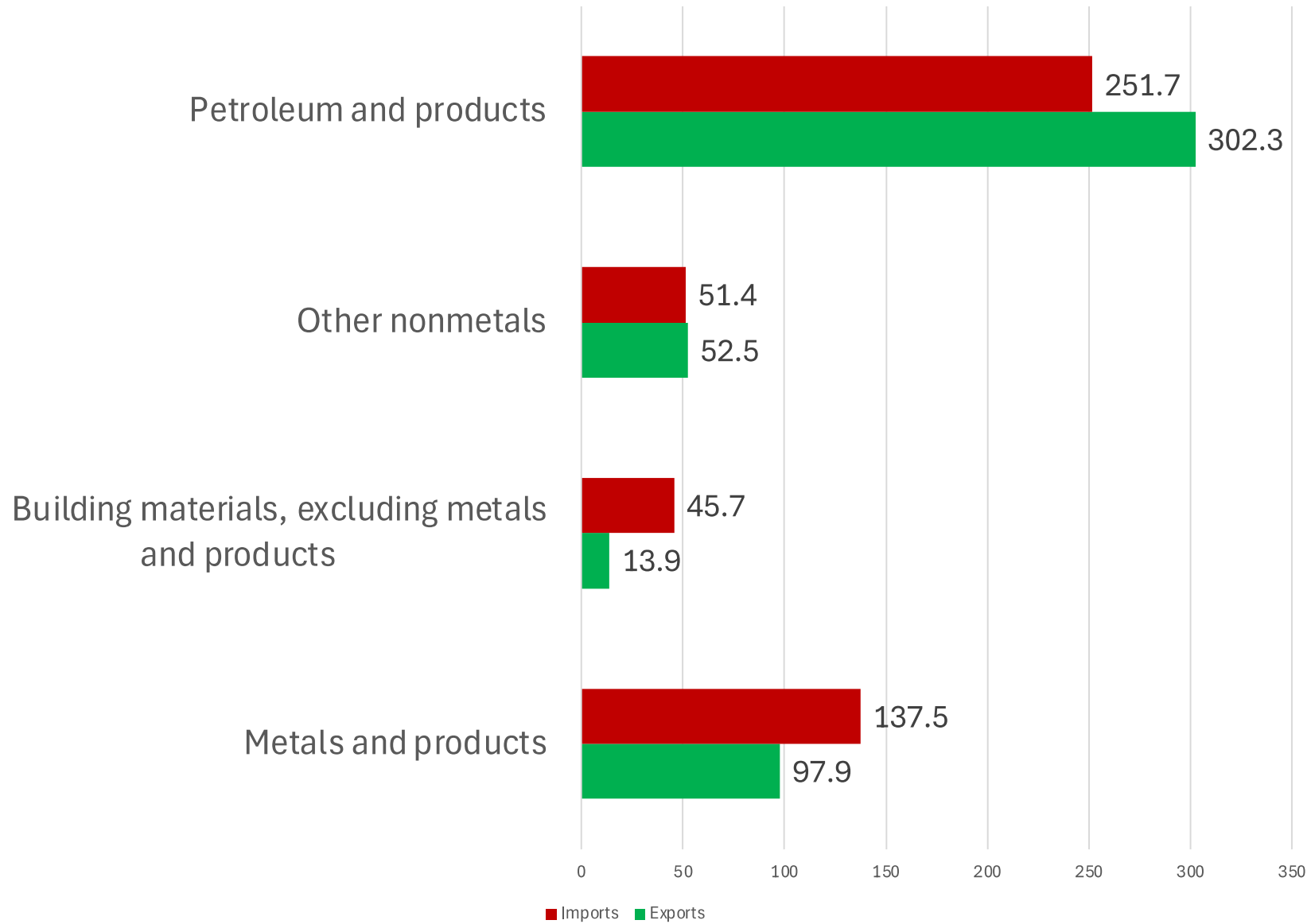
US Exports and Imports by Year: 1999-2024



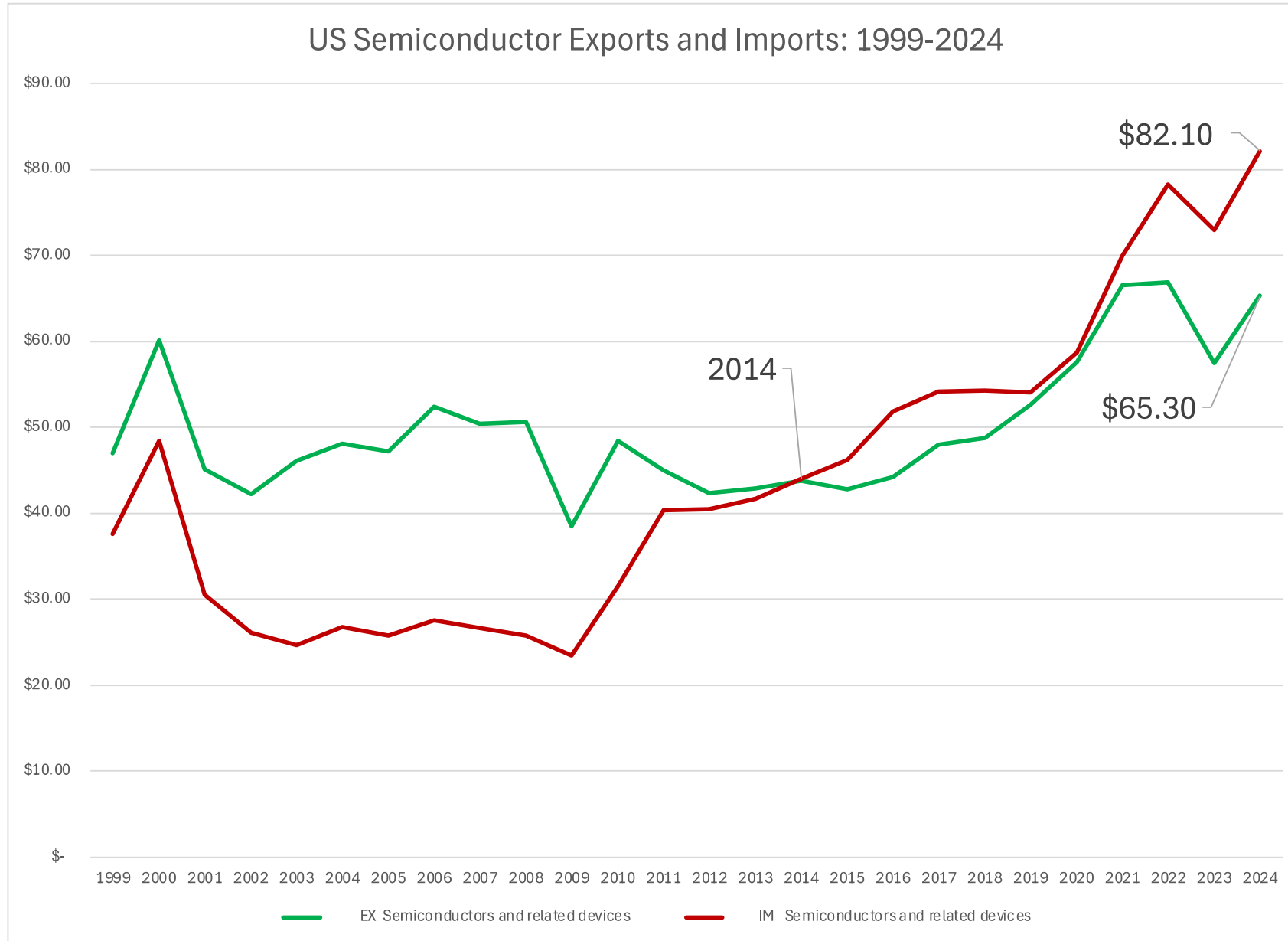
US Exports and Imports by Category: 2024



Selected Exports and Imports of Industrial Materials and Supplies: 2024



Semiconductor Trade: Key Global Industry



R&D EXPENDITURES AS A PERCENTAGE OF SALES

Pharmaceuticals & Biotechnology

23.1%

Semiconductors

19.3%

Software & Computer Services

19.0%

Telecommunications

13.5%

Semiconductor Equipment

10.3%

Consumer Electronics

9.5%

U.S.

19.3%

Europe

14.0%

Japan

12.0%

Taiwan

11.0%

South Korea

9.5%

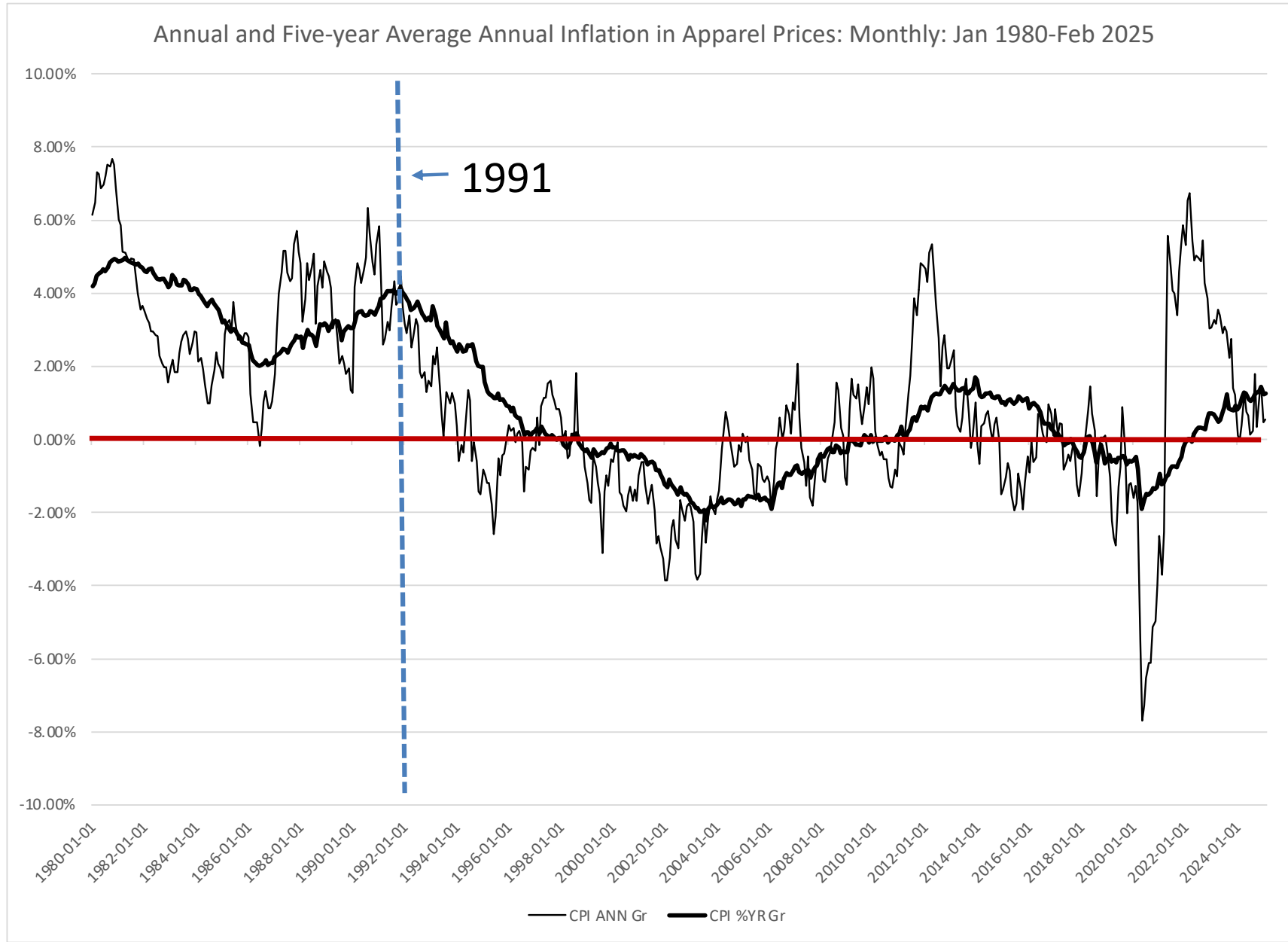
China

7.6%

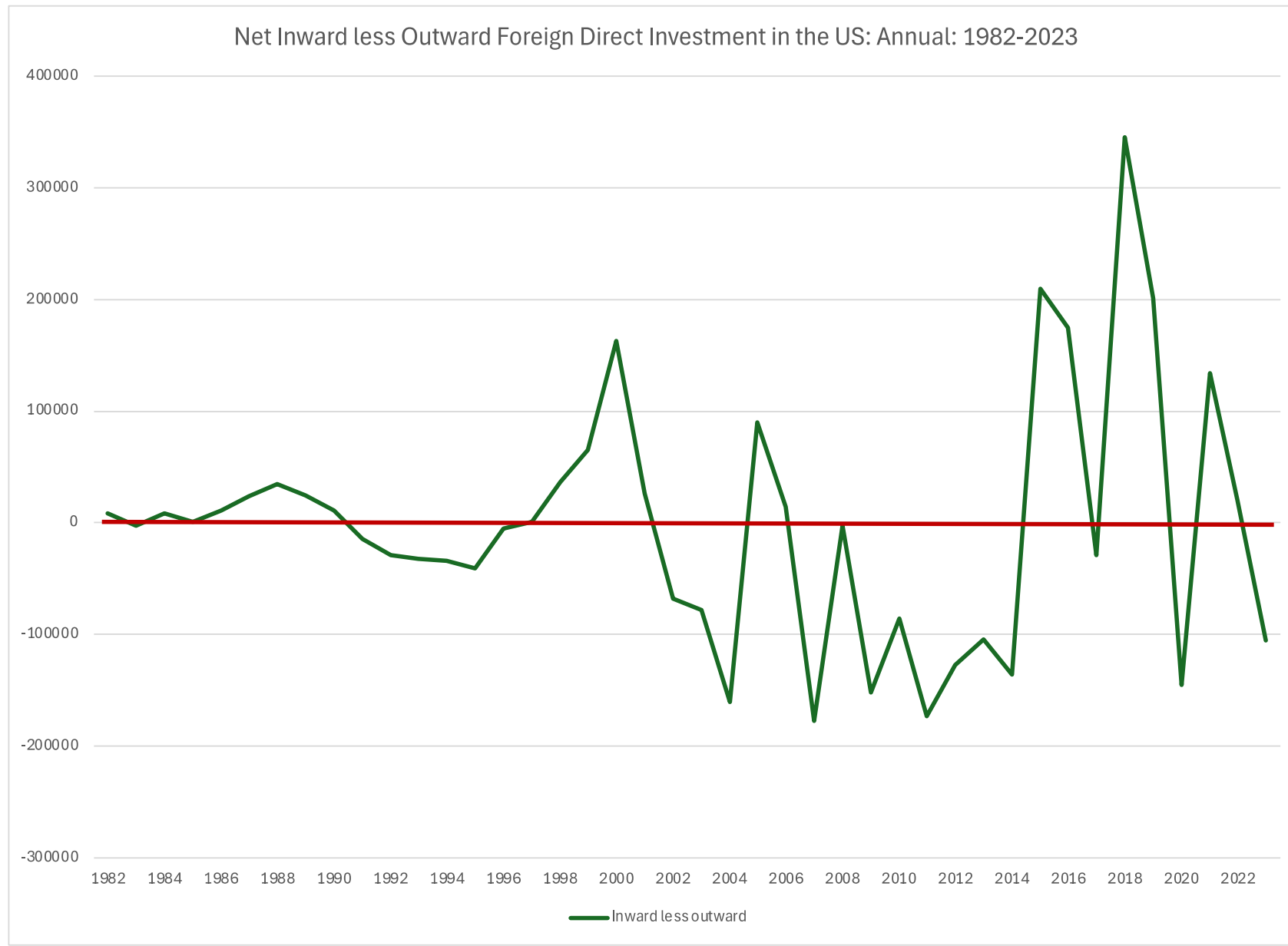
US Semiconductor compared to
Other US industries

US Semiconductor compared to
Semiconductor in other countries

Trade has reduced consumer goods inflation



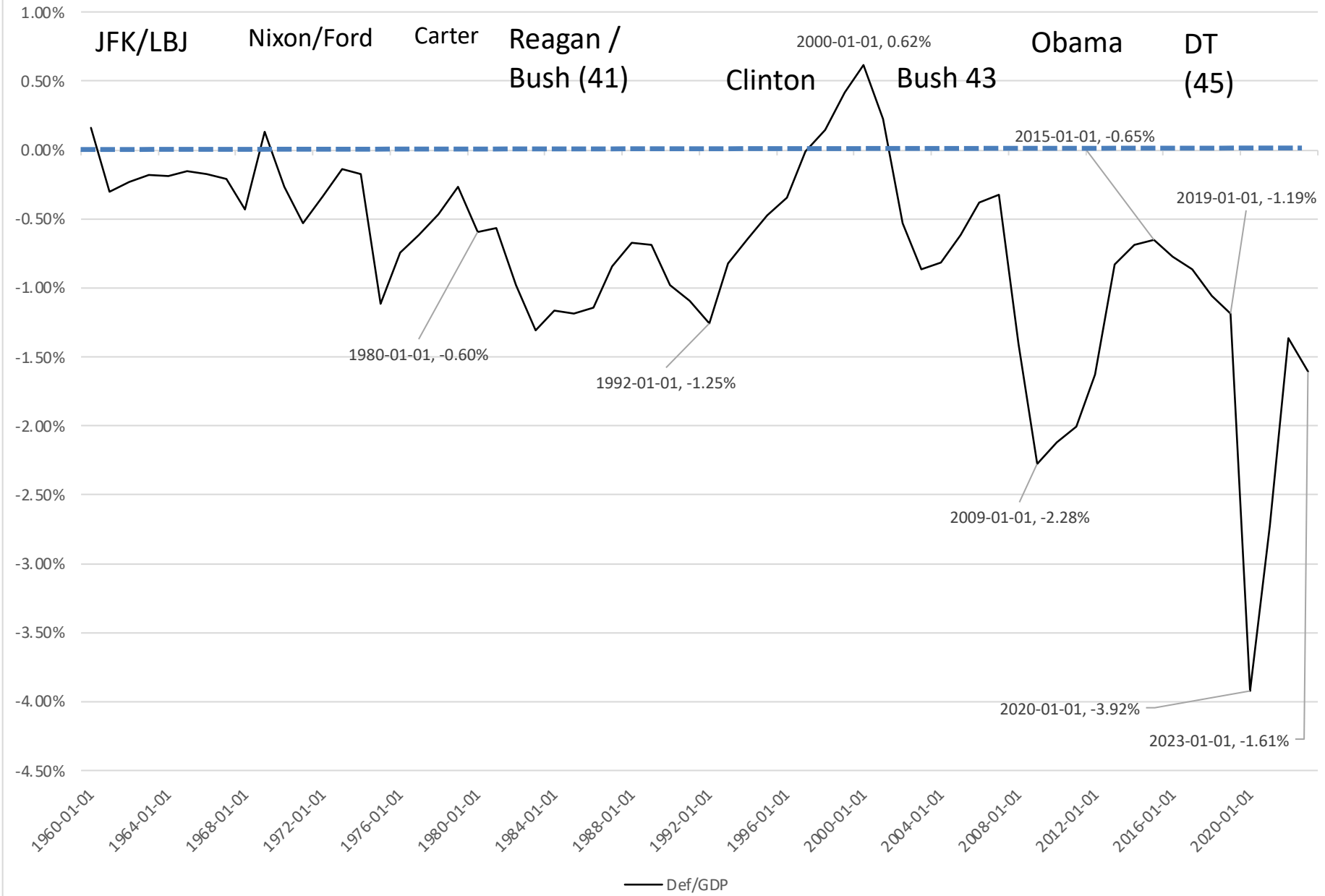
Net direct investment flows to (out of) the US



Government Taxation and Spending

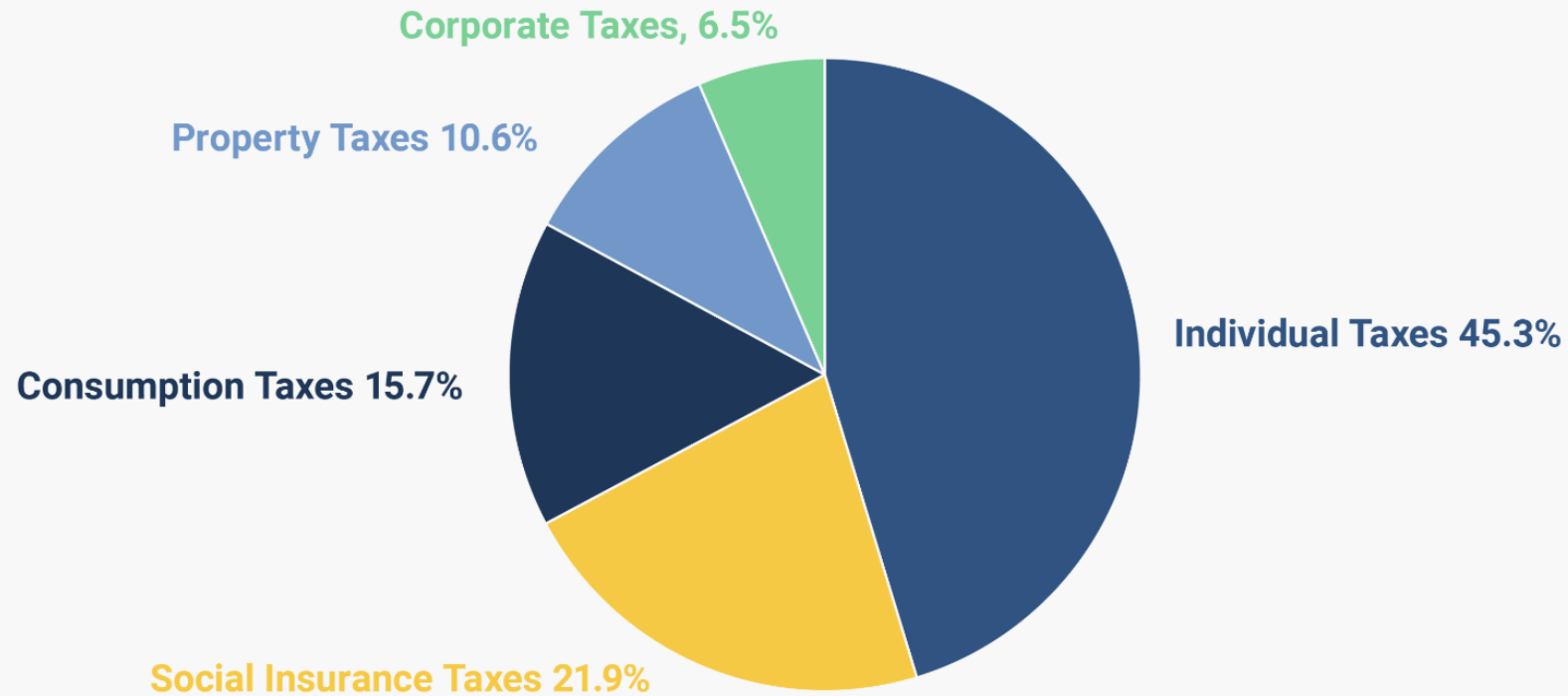
Controlling growth of the federal debt

Federal Government Deficit as a Percentage of GDP: 1960-2023



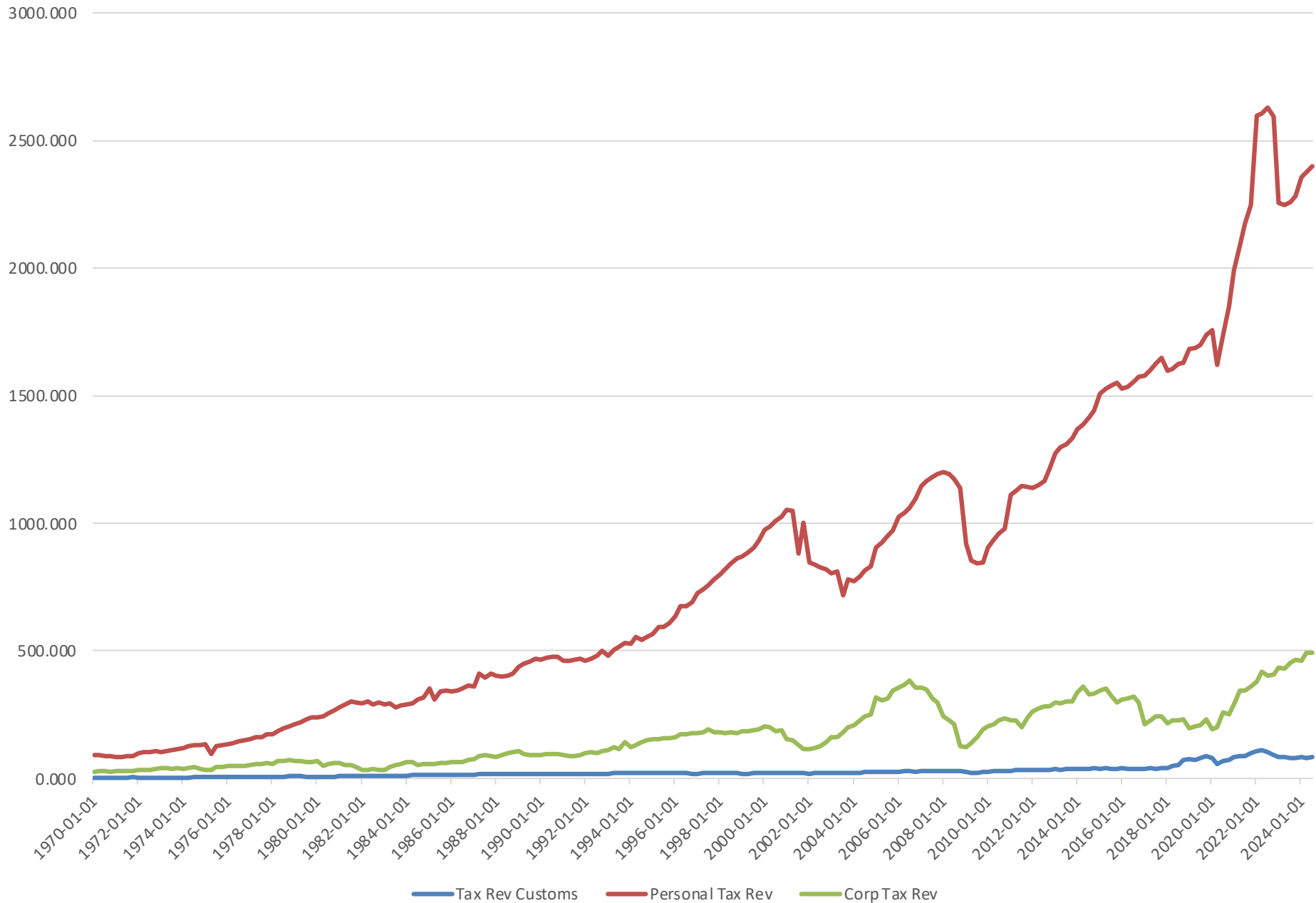
Individual Taxes Are the Most Important Tax Revenue Source for the United States

Sources of Tax Revenue in the United States, 2022



Source: OECD, "Revenue Statistics - OECD Countries Comparative Tables"

Tax Revenue from Personal, Corporate, and Trade Sources: Quarterly: 1970-2023



Challenges

- Federal deficit management: revenues v. expenses
- Financial markets: investor behavior
 - Private equitization of the economy has resulted in exit rather than growth
 - Monetization has shortened investor time horizons
 - High returns plus capital mobility have led to offshoring rather than domestic investment
 - Debt plus concentration of ownership has increased underlying systemic risk
- How do we direct investment into key domestic strategic and growth industries?

Imperatives

- Funding R&D to maintain competitive edge in key strategic and growth industries
- Fund domestic investment in key strategic and growth industries
- Maintaining physical and cybersecurity
- Reduce levels of consumer, corporate, and government indebtedness
- Reduce inflation and restore real earnings growth
- Countering China as the principle global sea power

Why Sea Power?

- (1) For survival, economically and as a free nation, we must maintain ourselves as a sea power that is second to none;
- (2) To have sea power, we must have a powerful modern navy and a strong modern merchant marine;
- (3) For a strong modern merchant marine, funds are required vastly beyond the capacity of the shipping industry to provide;
- (4) For such funds, therefore, there is an immediate and urgent need for a long-range government program to expand the present subsidy policy and to appropriate the necessary funds over the required number of years.
- (5) To support such a long-range government program, there is a need for public understanding of the issues involved.

Alfred Thayer Mahan, The Influence of Sea Power on History; 1890

Liberty Ships
2,700 produced
in four years

5,500 ships total
produced during
WW II





Global Shipbuilding Output by Country: 2023

















Rank	Country	Gross Tonnage (2023)	Share of Total
1	 China	32,859,862	51%
2	 South Korea	18,317,886	28%
3	 Japan	9,965,182	15%
4	 Philippines	805,938	1%
5	 Italy	402,164	0.62%
6	 France	326,680	0.50%
7	 Germany	289,666	0.45%
8	 Finland	261,654	0.40%
9	 Taiwan	187,558	0.29%
10	 Russia	177,571	0.27%
11	 Netherlands	90,596	0.14%
12	 Türkiye	79,032	0.12%
13	 Indonesia	75,979	0.12%
14	 U.S.	64,809	0.10%
15	 Iran	64,760	0.09%
	Others	870,192	1.34%
	 World	64,774,769	100%

Table I. Year-End Orderbook for Large Oceangoing Ships

(number of ships under construction)

Shipbuilder	2022	2021	2020
China	1,794	1,708	1,216
South Korea	734	626	441
Japan	587	612	533
Europe	319	288	284
United States	5	3	4

Source: BRS Shipbrokers, *Annual Review*, <https://brsshipbrokers.com/publications>.

Takeaways

- Consumer markets will slow in 2025
 - Middle market retailers, restaurants, and entertainment hit hardest
- Uncertainty will belay investment spending and new business development
- The Fed is unlikely to lower rates due to lingering inflation
- Consumer credit delinquencies and defaults will increase
- Likely increase in corporate restructurings and reorganizations (e.g., Walgreen)
- Increases in private equity bankruptcies due to low valuations
- Government budget and debt decisions will be impactful: still up in the air
- Keep your eye on the courts: they will ultimately decide on layoffs and cuts
- Tariffs will have differential impacts depending upon several factors:
 - Retaliation
 - Demand conditions (elasticities)
 - Supply conditions
 - Look at supply chains: upstream and downstream

Questions?

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