

# New Days Dawning Sunshine or Stormy? The Economy: Summer 2025

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# Overview

- After today's presentation, you will have a better understanding and be able to make informed decisions based on your knowledge of:
  - The composition of recent real GDP growth
  - Interest rate levels and volatility
  - Inflation measures and rates
  - Employment and gaps in the labor markets
  - Tariffs
  - Private domestic investment
  - Continued rising debt levels

# Since our last meeting (San Diego/March)

- The economy continues to be “bifurcated”
  - Some population segments doing well
  - An increasing number of population segments are struggling
  - Some business sectors are active and growing
  - Other business sectors are stagnant and struggling
- Consumer debt continues to remain high; hitting capacity limits
- Federal government debt continues to increase (more later)
- Interest rates remain high (more later)

Real GDP Growth

# Composition of Real GDP Growth

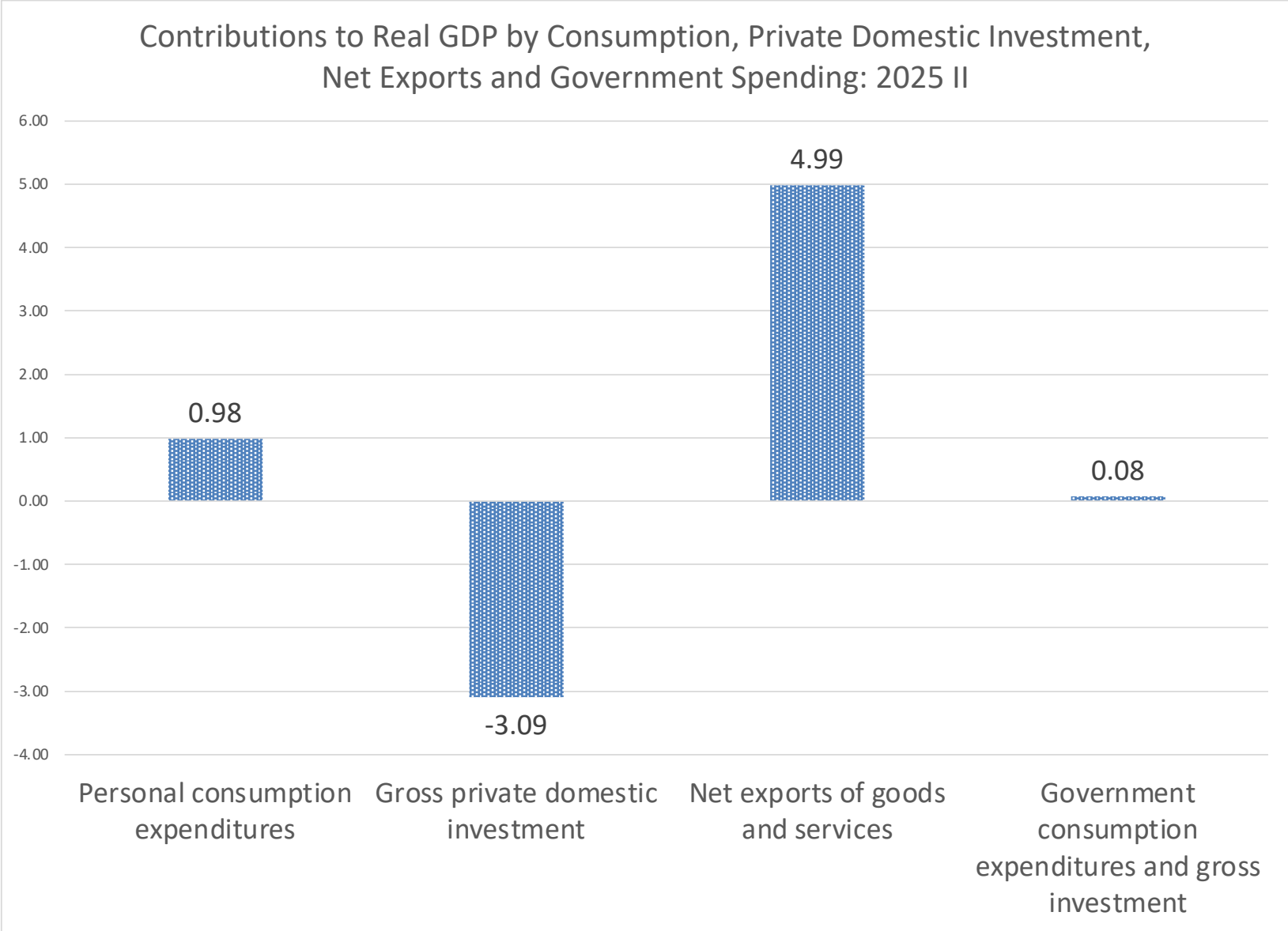
**C = 0.98%**

**I = -3.09%**

**G = 0.08%**

**X = 4.99%**

**RGDP = 2.96%**



# Contributions by Key Sectors: 2025 II

- Services (0.53%)
  - Health care (0.35%)
  - Food service (0.16%)
  - Portfolio management and financial advisory services (0.11%)
- Goods (0.46%)
  - Motor vehicles & parts (0.38%)
    - Auto output increased
  - “Other non-durable”(0.15%)
    - Pharmaceutical products
- Imports significantly down (increases GDP by 5.18%)
- Exports down (-0.19%)
- Inventory investment (-3.17%)
  - Chemical manufacturing
  - Durable goods wholesaling
- Federal government (-0.24%)
- State & Local gov’t (+0.32%)

# Fixed investment

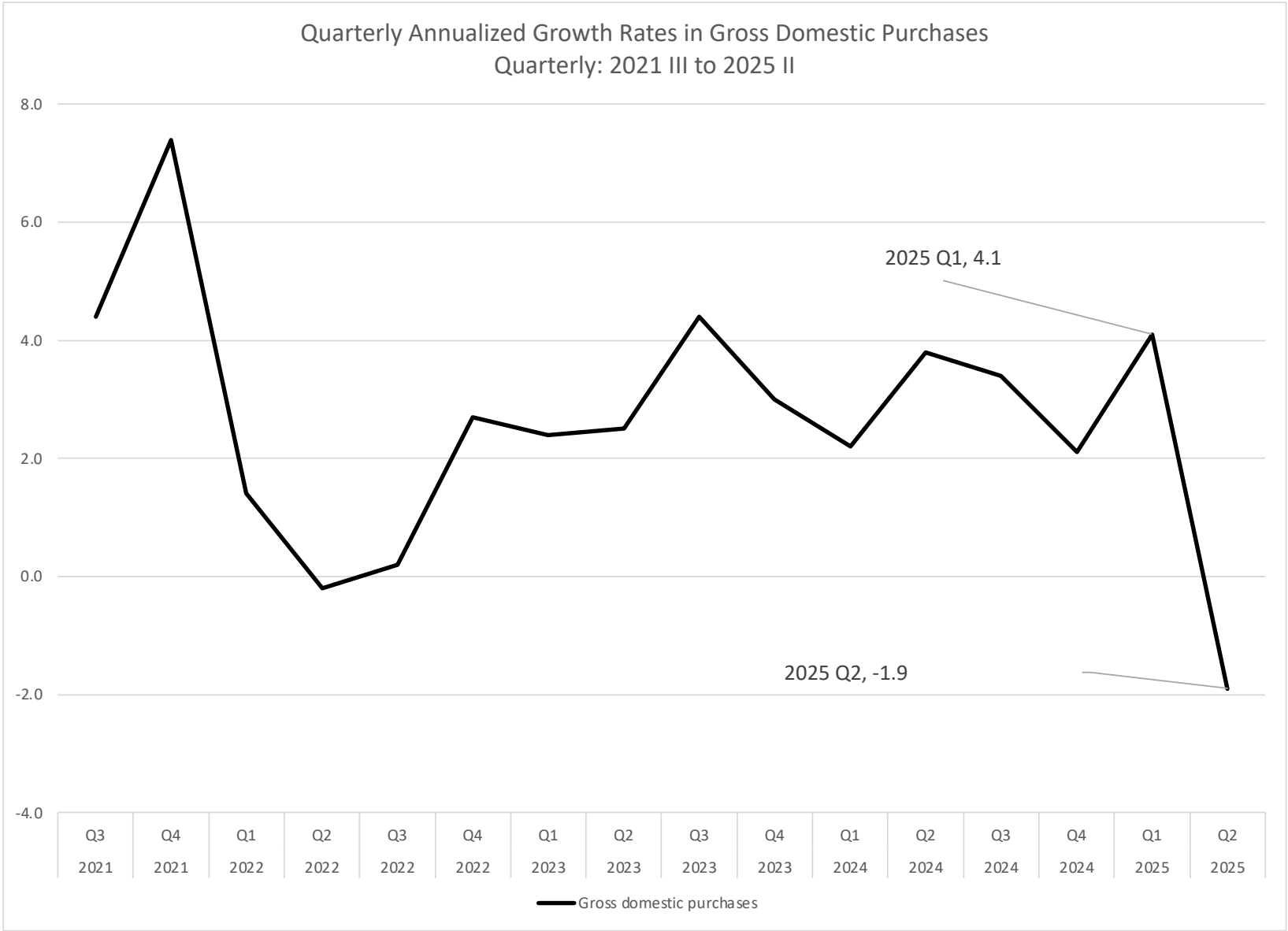
- Increased by 4.8% from prior quarter
- Leaders
  - Non-residential equipment (increased 16.5%)
    - Information processing equipment (Increased 8.0%)
    - Transportation equipment (increased 9.0%)
  - Intellectual property (increased 23.7%)
    - Software (increased 34.7%)
- Laggards
  - Residential structures (down 9.3%)
  - Nonresidential structures (down 18.0%)
  - Inventories (down 186.5%)

# Gross Domestic Purchases

*Gross purchases fell due to reduced purchases of imported products*

*Reduction in purchases of imports was not offset by purchases of domestically produced goods and services*

*Shows weakness in the consumer sector*

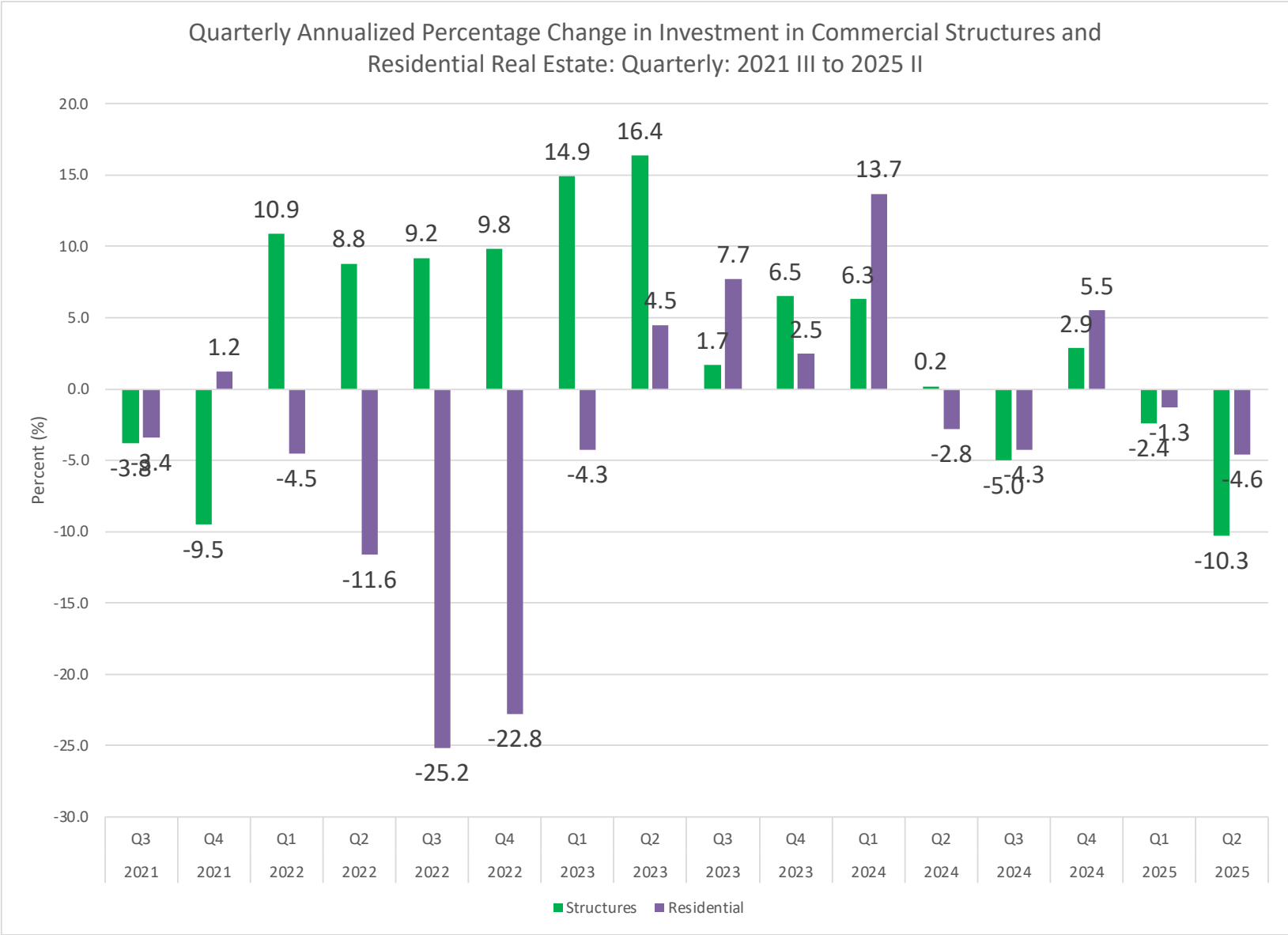


# Construction Investment

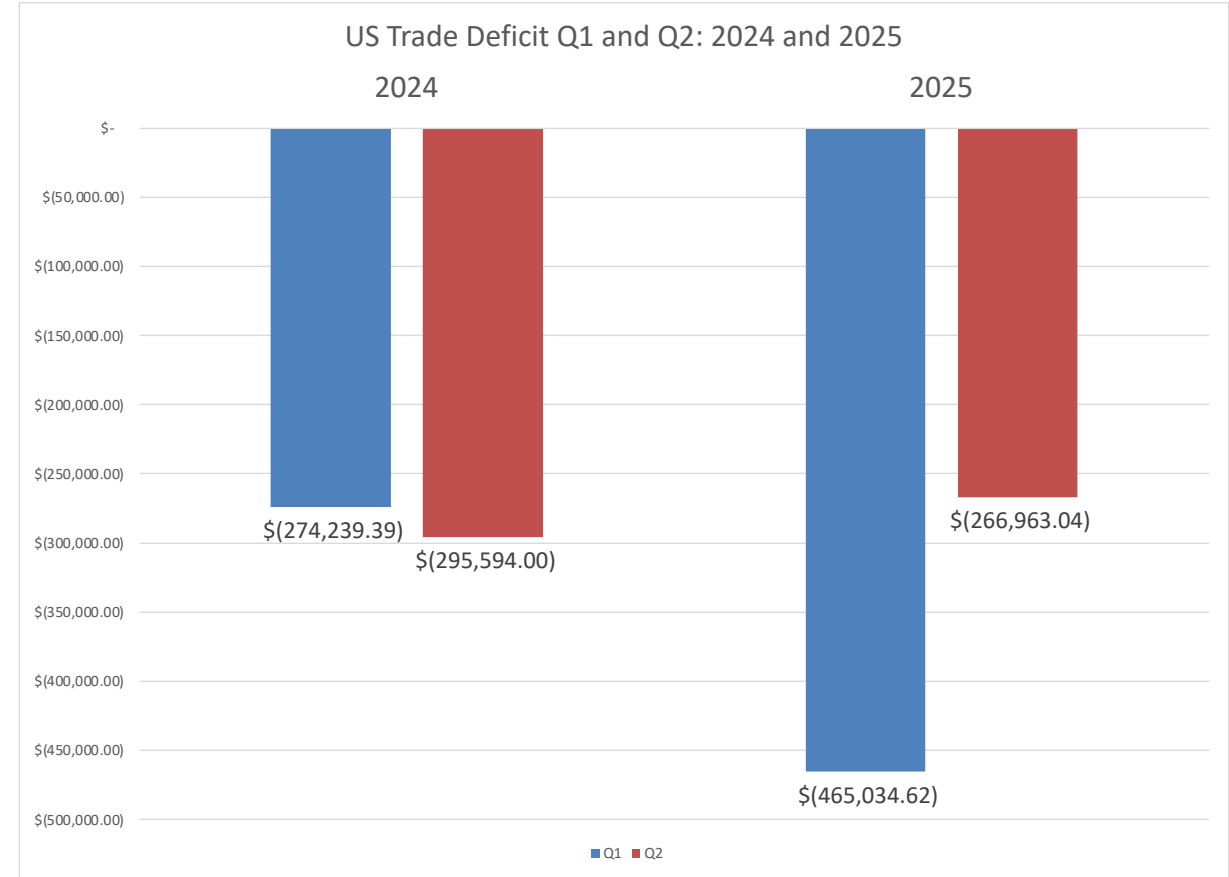
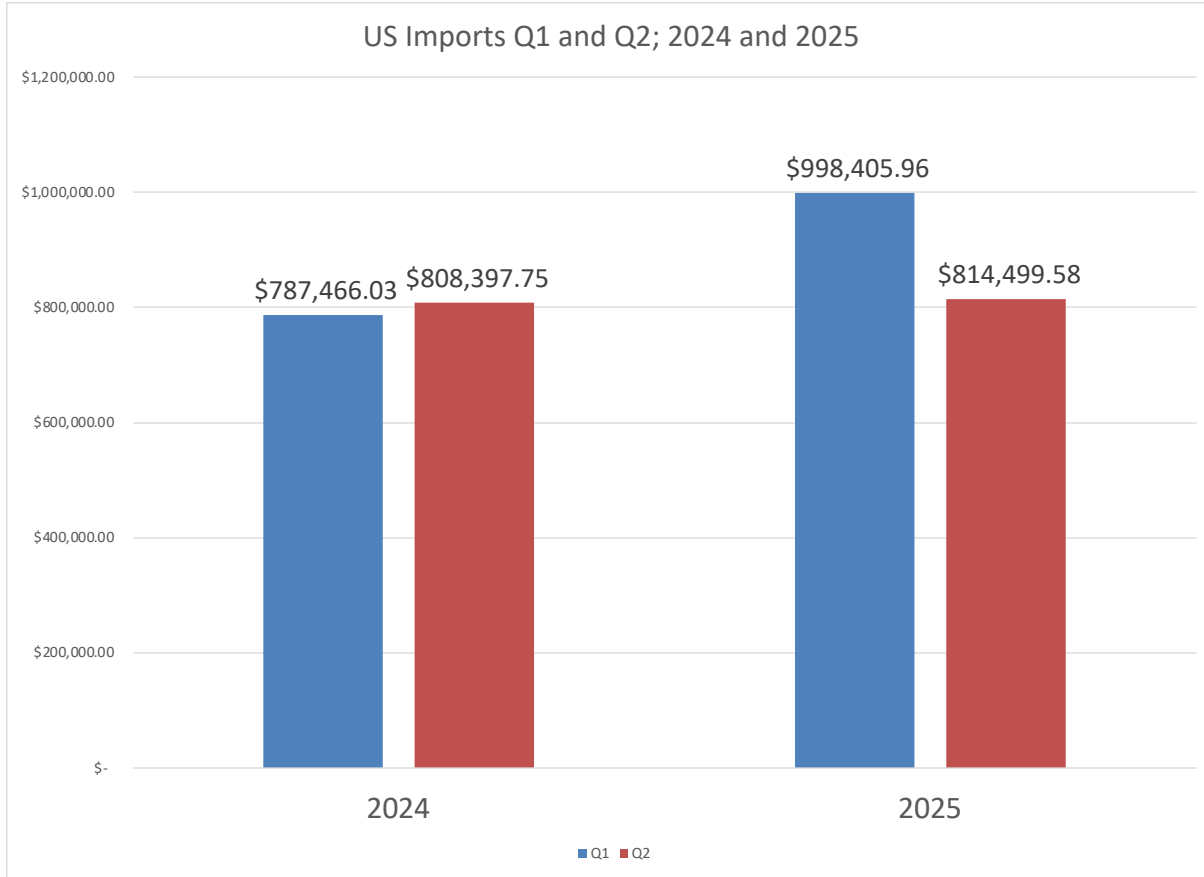
**Residential real estate construction down by 4.6%**

**Investment in commercial structures down 10.3%**

**Still waiting for commitments to materialize**



- Anticipated tariffs drove up import activity for 2025 Q1, which was \$210 MMM higher than Q1 2024
- Imports for 2025 Q2 were down from Q1, but \$6.5 MMM higher than 2024 Q2
- This behavior dramatically deepened the deficit for 2025 Q1;

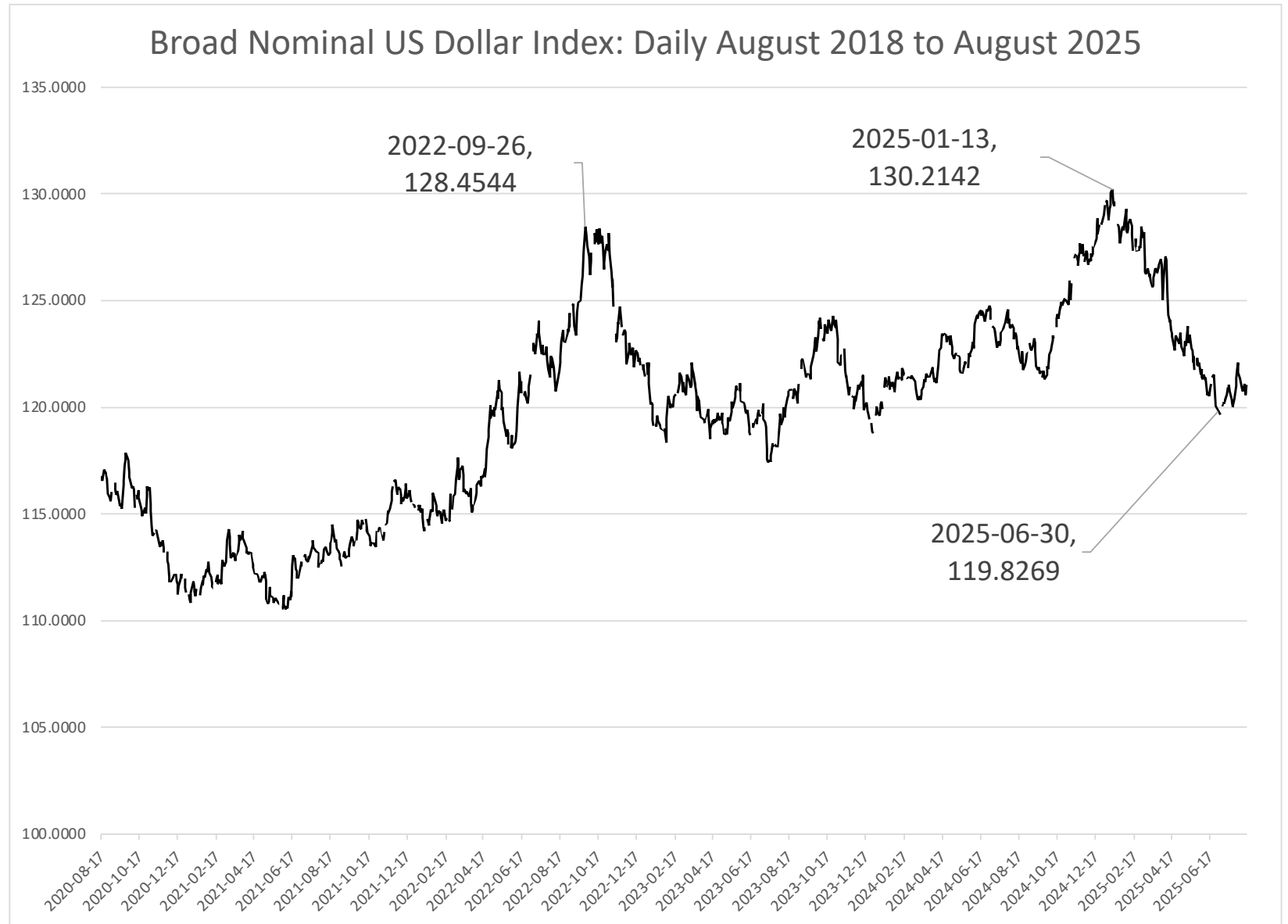


# ***Value of the Dollar Declined***

***Import activity led to declining dollar value on the global currency markets***

***Declined from index value 130.21 to 119.83 during 2025 Q1***

***Foreign holdings of US Treasury debt increased to an all-time high of over \$9.7 trillion***



# Interest Rate Levels and Volatility

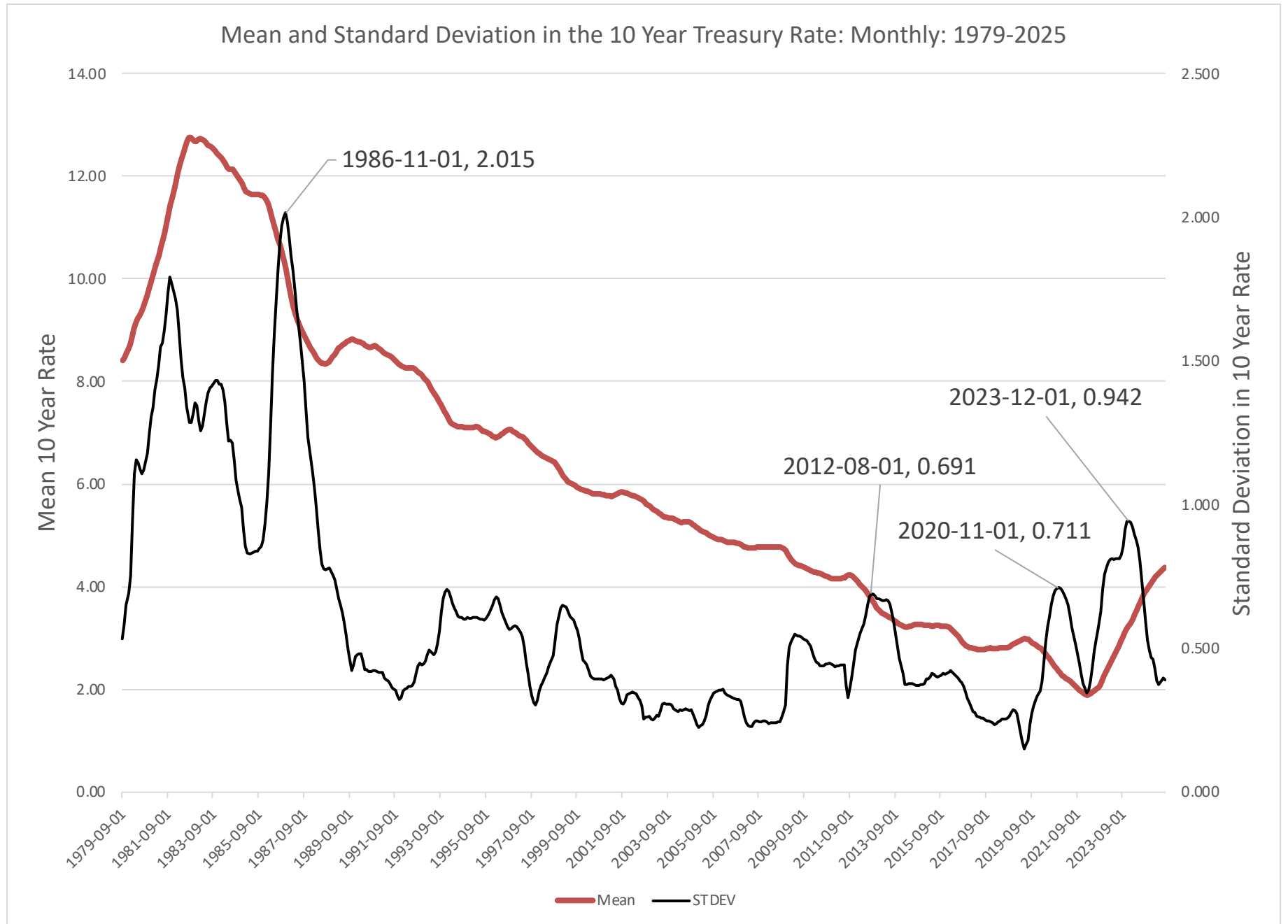
# 10 Year Treasury Mean and Volatility

Mean and volatility down from 1980s to 2020

Volatility increases and peaks in 1986, 2012, and 2023

10 Year rate has risen since Fed policy change in 2022

Volatility is down over past two years



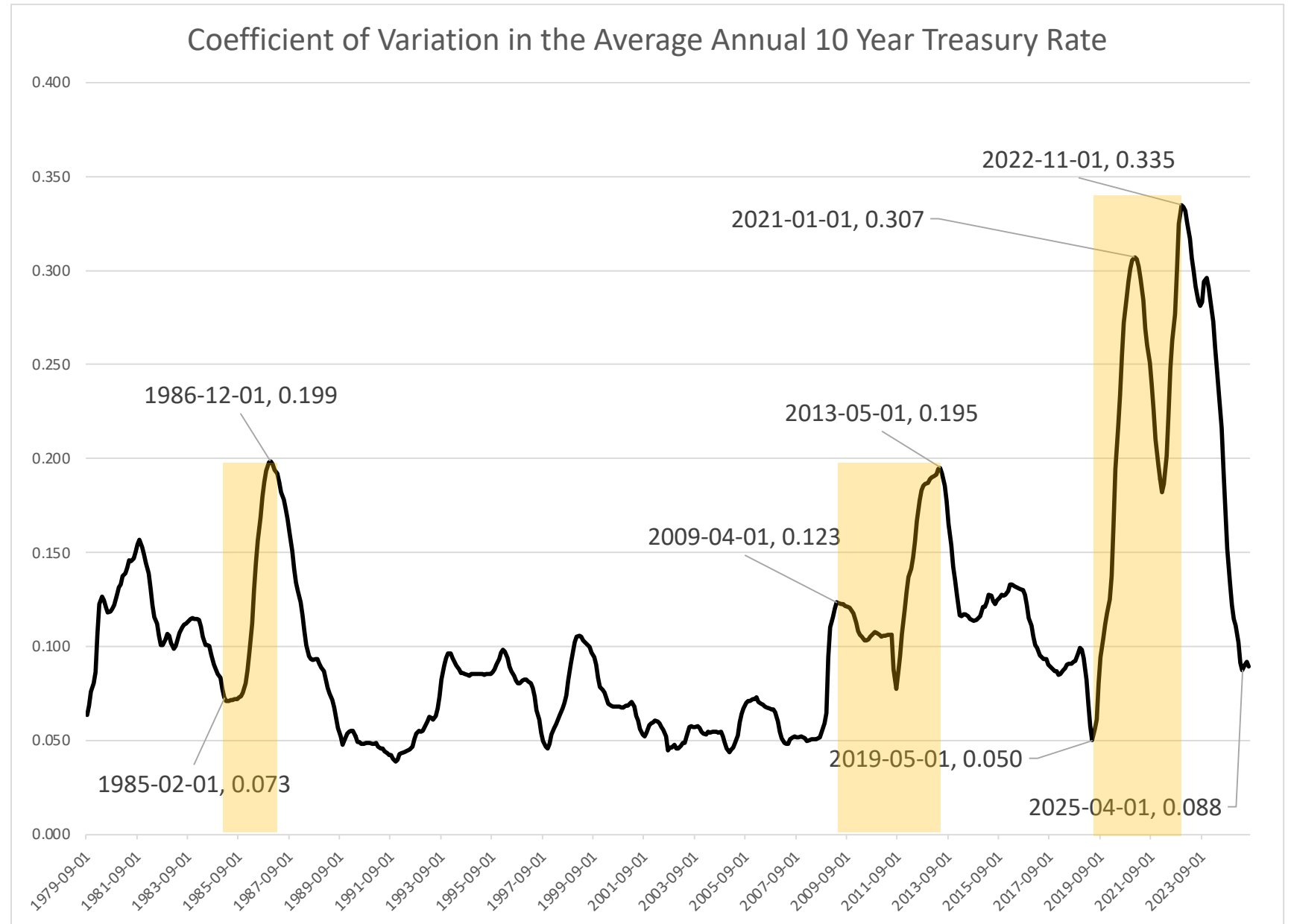
# 10 Year Treasury Mean and Volatility

Coefficient of  
Variation

Standard Deviation /  
Mean Value

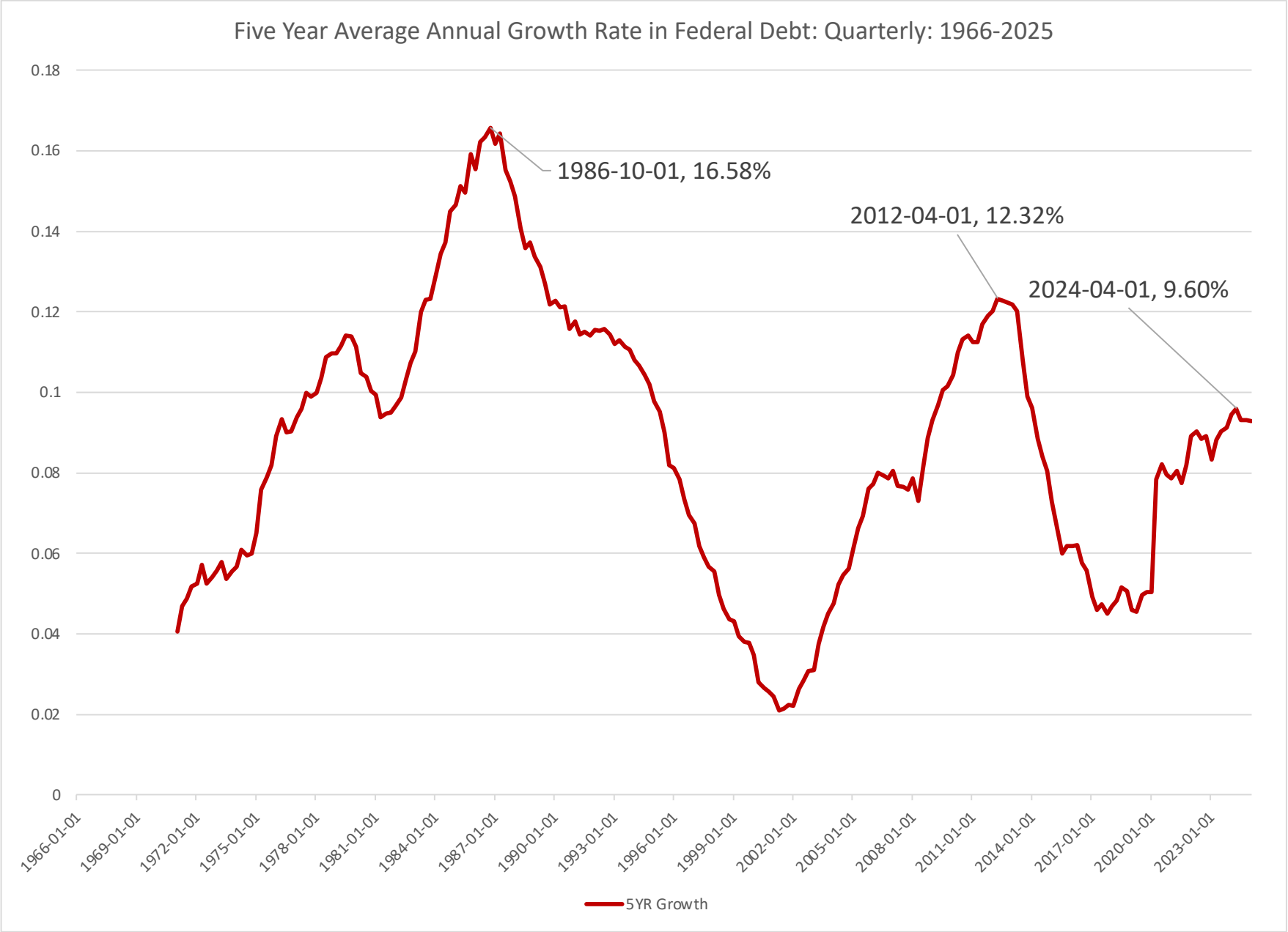
Relative volatility  
peaks in 1986, 2013,  
and 2022

Relative volatility  
has responded to  
Fed tightening since  
2009



# 10 Year Treasury Mean and Volatility and Federal Debt Growth

Absolute and relative volatility increases since 1979 are all associated with increasing growth in the rate of federal government borrowing



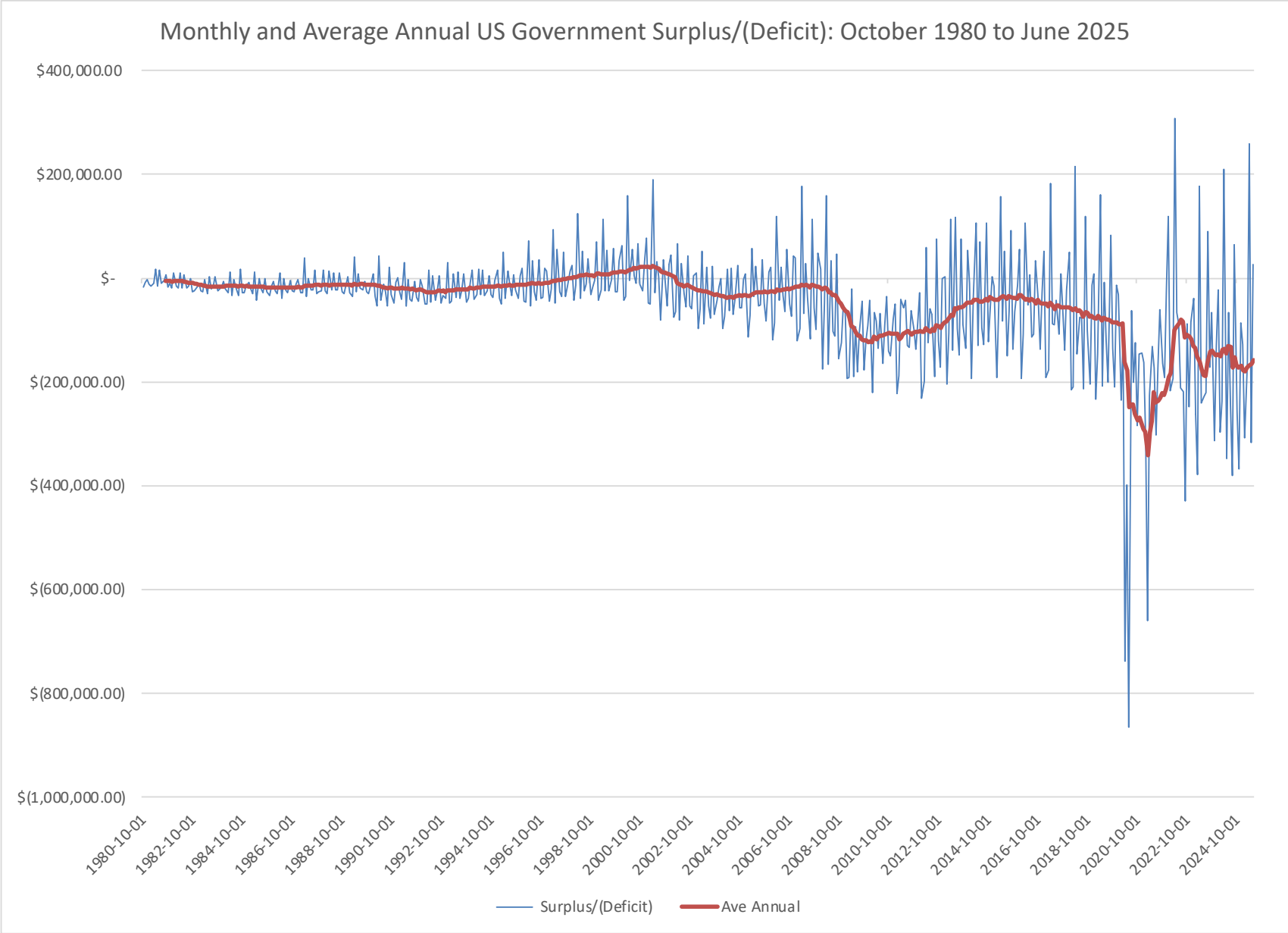
# Monthly Federal Surplus/(Deficit)

The federal government may run a surplus or a deficit in any given month

The average annual deficits hit their maximum levels during the pandemic

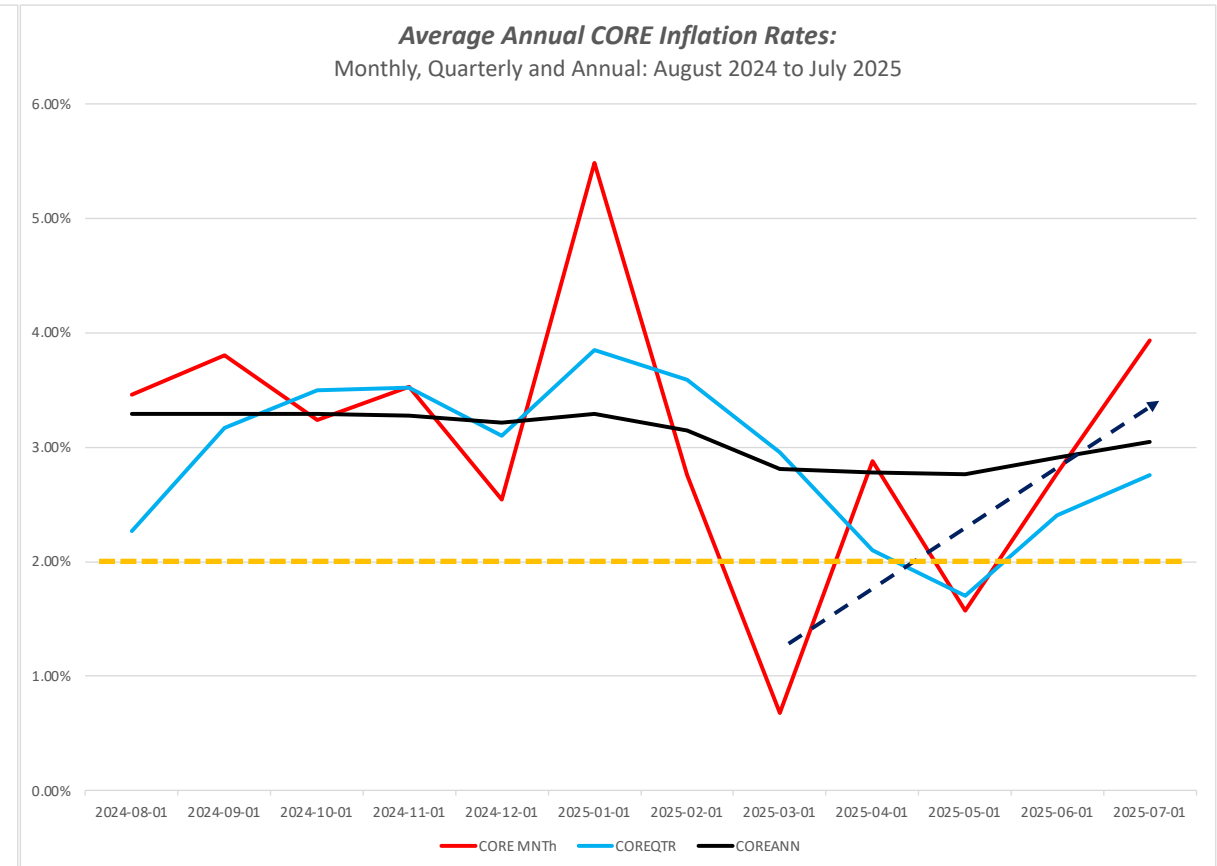
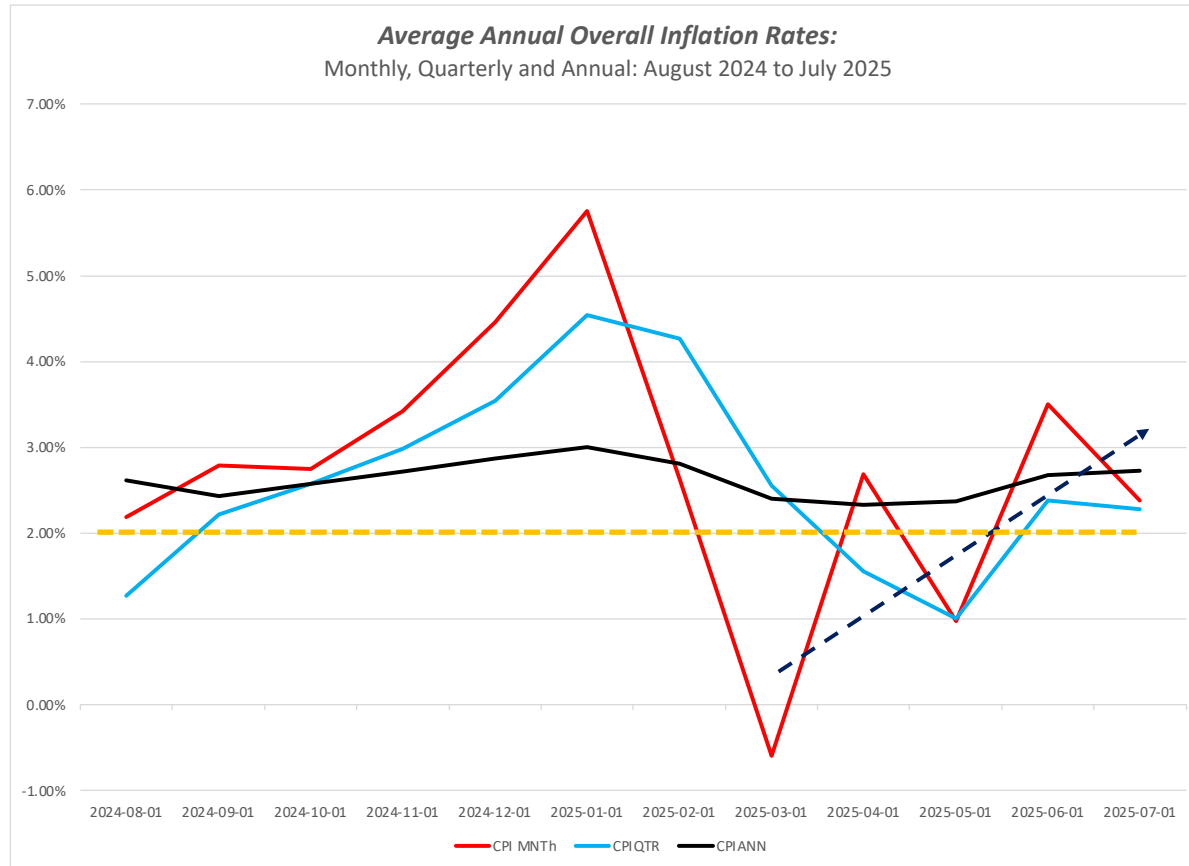
Since the pandemic recovery, the deficit continues to worsen

The accumulated debt level has hit \$37 trillion



# Inflation Measures and Rates

# Overall and core inflation rates are increasing and remain above Federal Reserve Target Levels



### Inflation Measures for July 2025

Measure	Monthly	Quarterly	Annual	5YR Ave. Annual
Overall CPI	2.38%	2.28%	2.73%	4.51%
Core CPI	3.94%	2.76%	3.05%	4.21%
Overall PCE	3.42%	2.45%	2.58%	3.96%
Core PCE	3.12%	2.63%	2.79%	3.80%

# Employment and Job Openings

# Unemployment Rate Measures

Rates of unemployment depend upon the data used in the calculation

Employment data comes from two primary sources:

- Current population survey
- Nonfarm payrolls

The different measures do not align

CPS tends to create a downward bias

Payroll data includes multiple jobholders

This yields three measures of the unemployment rate

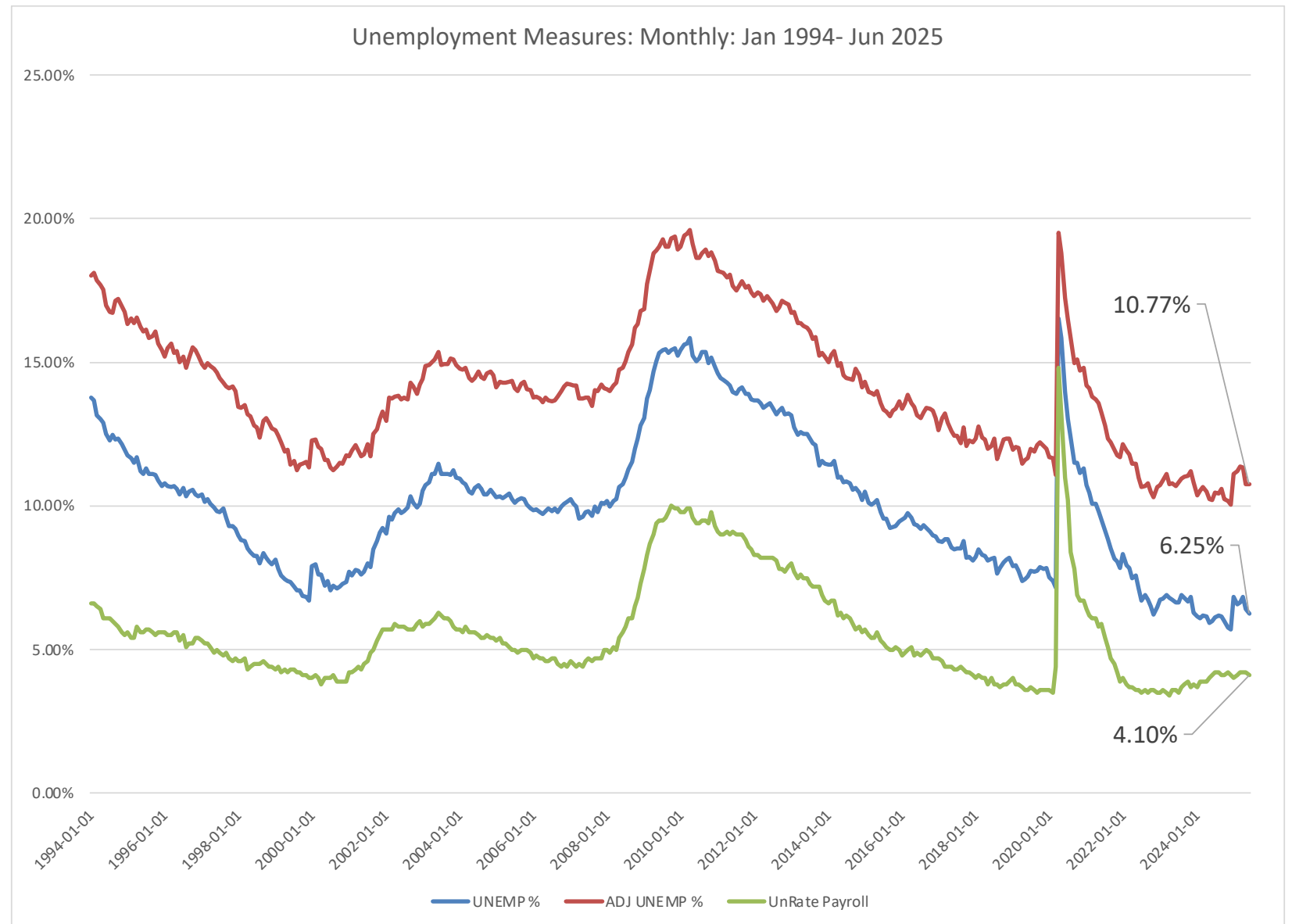
Unemployment Rate	
June 2025	Value (000)
Labor force (CPS)	170,380
Employed (payroll)	159,724
Unemployed (CPS)	7,015
Total	166,739
Gap (Force - Total)	3,641
Multiple Jobs (CPS)	7,686
Measure	Rate
CPS: Unemployed/Labor force	4.12%
CPS Payroll: ((Labor force - Employed)/Labor Force)	6.25%
CPS Adjusted payroll: ((Labor force - (Employed - multiples))/Labor Force)	10.77%

## ***Unemployment Measures***

All three measures demonstrate the same pattern of behavior.

Differences in the measurement of what constitutes being “unemployed” explain the differences

Trend analysis is still meaningful



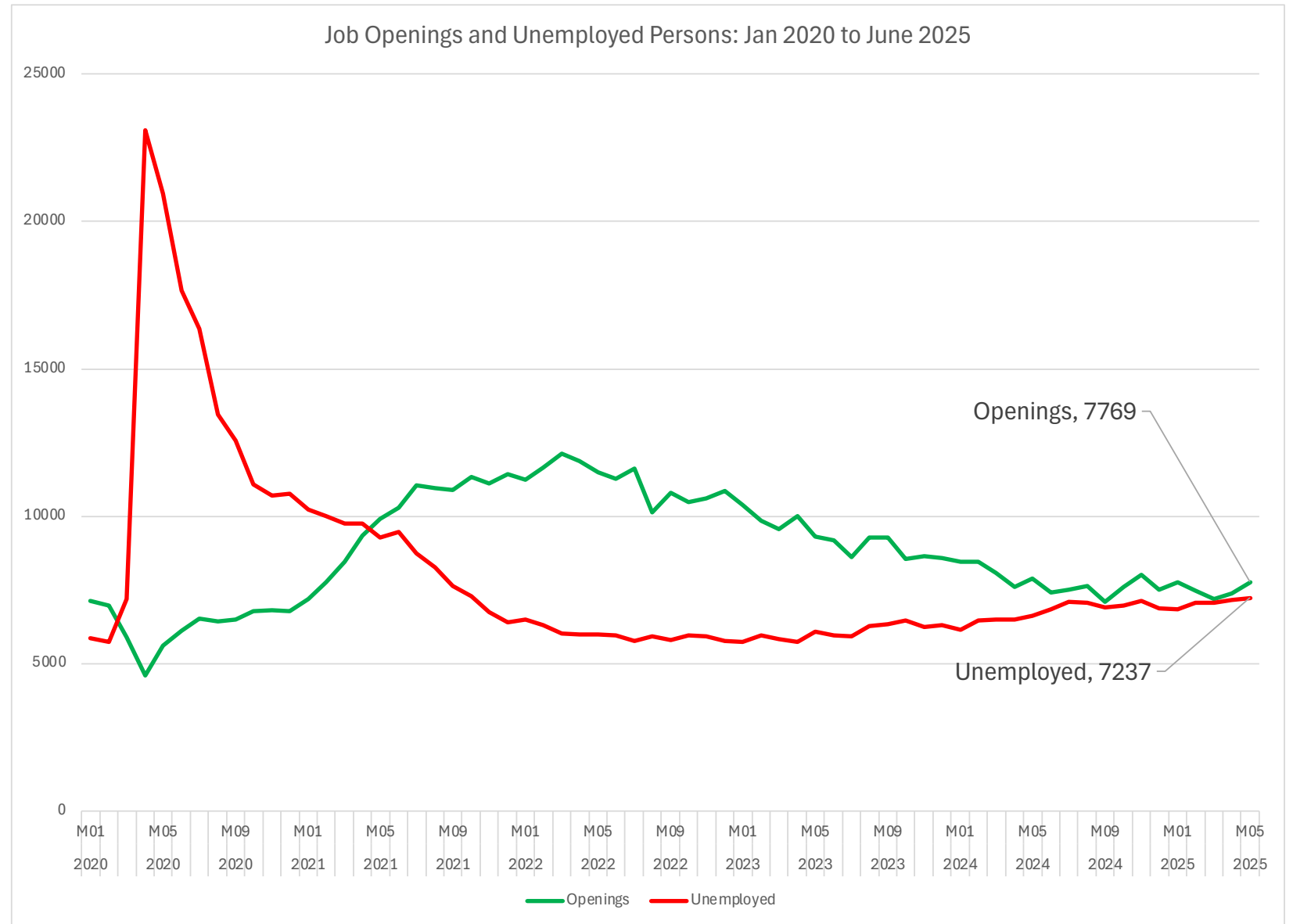
## ***Job openings and Unemployment***

Job openings have been falling since mid-2022

This coincides with interest rates increasing

The number of unemployed has risen, and is still below the number of openings

Evidence of mismatches in the labor market



## ***Job Openings by Industry***

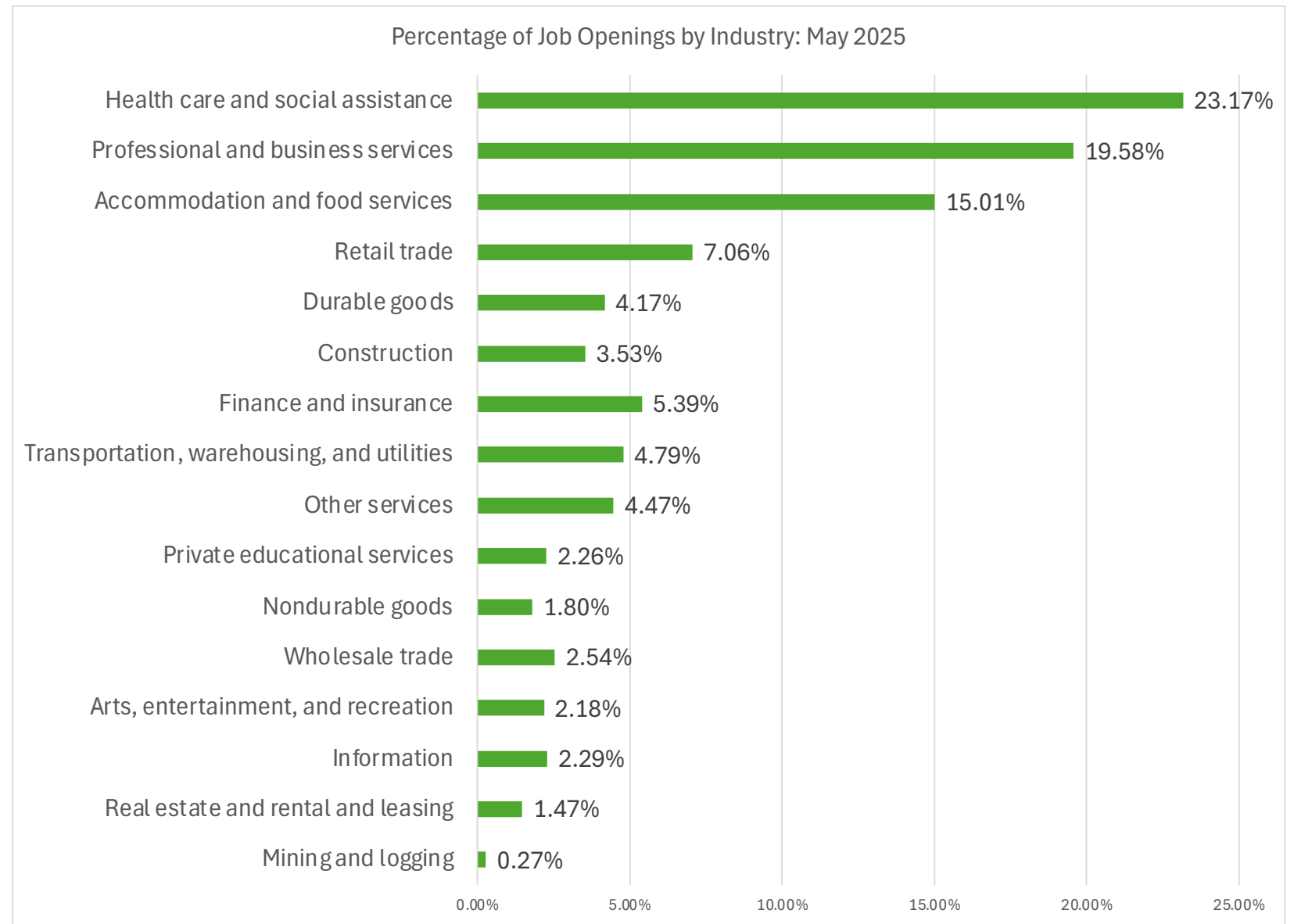
Almost 60% from three industries:

- Health care
- Prof. services
- Accommodation and food

Relatively few in manufacturing

- Manufacturing jobs don't exist (yet)

Further evidence of mismatches in the labor market



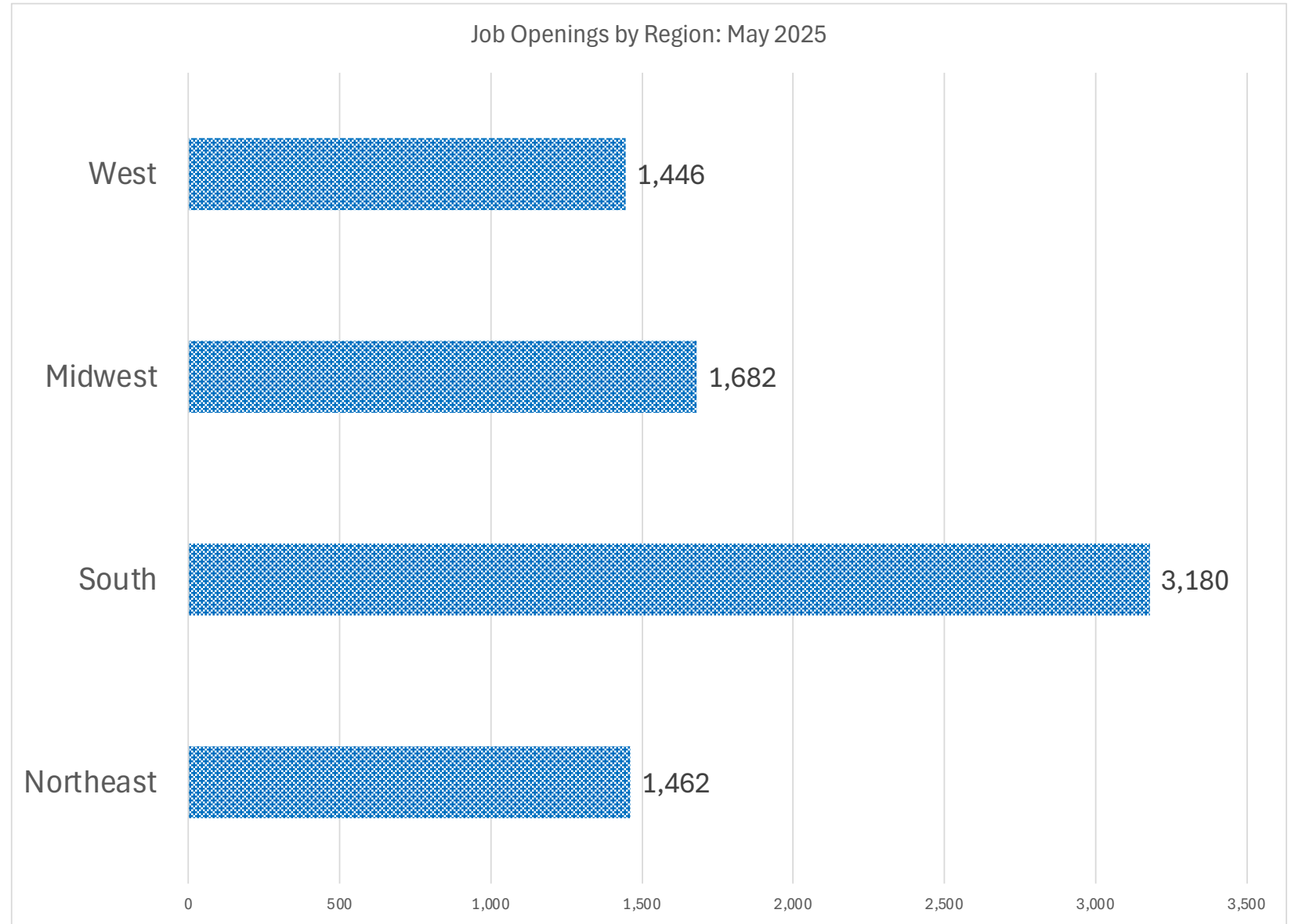
## ***Job Openings by Region***

**Northeast:** Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont

**South:** Alabama, Arkansas, Delaware, District of Columbia, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, and West Virginia

**Midwest:** Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin

**West:** Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, and Wyoming.



# Tariff Situation

# Tariff Highlights as of Early August 2025

- **Canada:**
  - 35% tariff on most goods;
  - 10% on energy and potash
  - retaliatory tariffs of 25% on some U.S.-origin imports.
- **Mexico:**
  - 25% tariff on most goods
  - 10% on potash
  - Extended for 90 days, with a possible increase to 30%.
- **China:**
  - Contingently set at 145% with continued 90-day extension of the 30% rate
- **European Union:** 15%
- **India:** 25% set to increase to 50% on August 27, 2025.
- **Steel and Aluminum:** Tariffs were increased to 50% on June 4, 2025
- **Autos and Auto Parts:** 25% tariff on all imported automobiles and certain auto parts, effective April 3, 2025.
- **Copper:**
  - 50% tariff on semi-finished copper products and copper-intensive derivative products took effect on August 1, 2025.
  - Copper input materials and scrap are exempt.

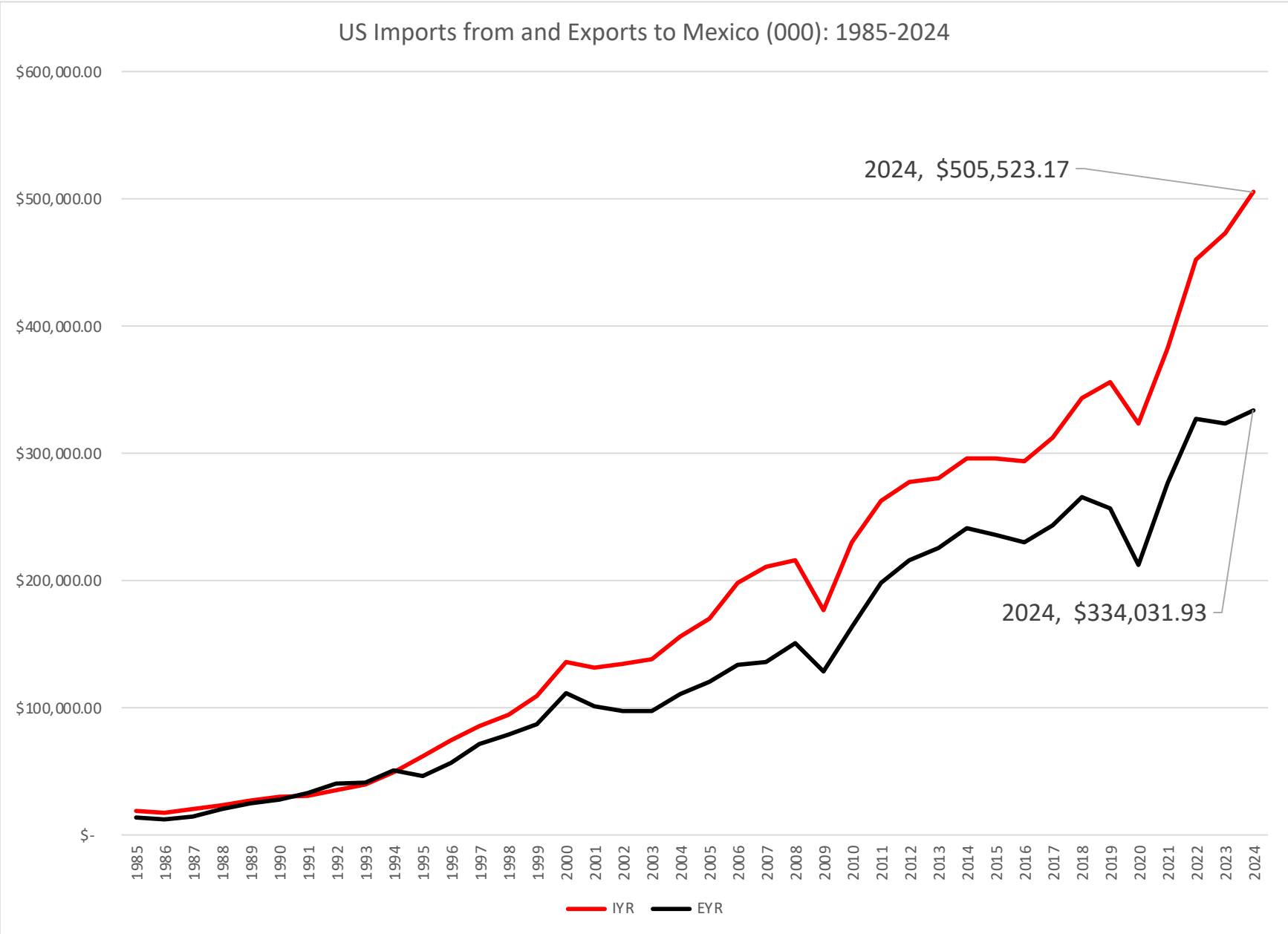
Trading Volume with Top Trading Partners					
Trading Partner	Exports (\$MM)	Imports (\$MM)	Total Volume (\$MM)	Deficit (\$MM)	Deficit as % of Volume
EU	\$ 369,789.33	\$ 605,663.22	\$ 975,452.55	\$ (235,873.89)	-24.18%
Mexico	\$ 334,031.93	\$ 505,523.17	\$ 839,555.10	\$ (171,491.24)	-20.43%
Canada	\$ 349,908.15	\$ 411,886.68	\$ 761,794.84	\$ (61,978.53)	-8.14%
China	\$ 143,226.75	\$ 438,742.00	\$ 581,968.75	\$ (295,515.25)	-50.78%
South Korea	\$ 65,586.30	\$ 131,553.16	\$ 197,139.46	\$ (65,966.86)	-33.46%
<b>Totals</b>	<b>\$ 1,262,542.46</b>	<b>\$ 2,093,368.23</b>	<b>\$ 3,355,910.69</b>	<b>\$ (830,825.77)</b>	<b>-24.76%</b>
Impact of Tariffs on Revenue and US Households					
	Imports (\$MM)	Tariff rate	% Applied	Revenue (\$MM)	Per Household (\$)
EU	\$ 605,663.22	15%	80%	\$ 72,679.59	\$ 538.37
Mexico	\$ 505,523.17	25%	80%	\$ 101,104.63	\$ 748.92
Canada	\$ 411,886.68	35%	80%	\$ 115,328.27	\$ 854.28
China	\$ 438,742.00	30%	100%	\$ 131,622.60	\$ 974.98
South Korea	\$ 131,553.16	15%	100%	\$ 19,732.97	\$ 146.17
<b>Totals</b>	<b>\$ 2,093,368.23</b>			<b>\$ 440,468.07</b>	<b>\$ 3,262.73</b>
Potential Inflation Impact					
Consumer expenditures (Jun 2025 rate)	20,685,200.00				
Additional cost	\$ 440,468.07				
<b>Inflation impact</b>	<b>2.13%</b>				

# Trade between US and Mexico

Started to grow after 1994 NAFTA agreement

Gap widened following the pandemic, even though US exports to Mexico grew at a high rate

The widening gap can be explained by looking at the auto industry



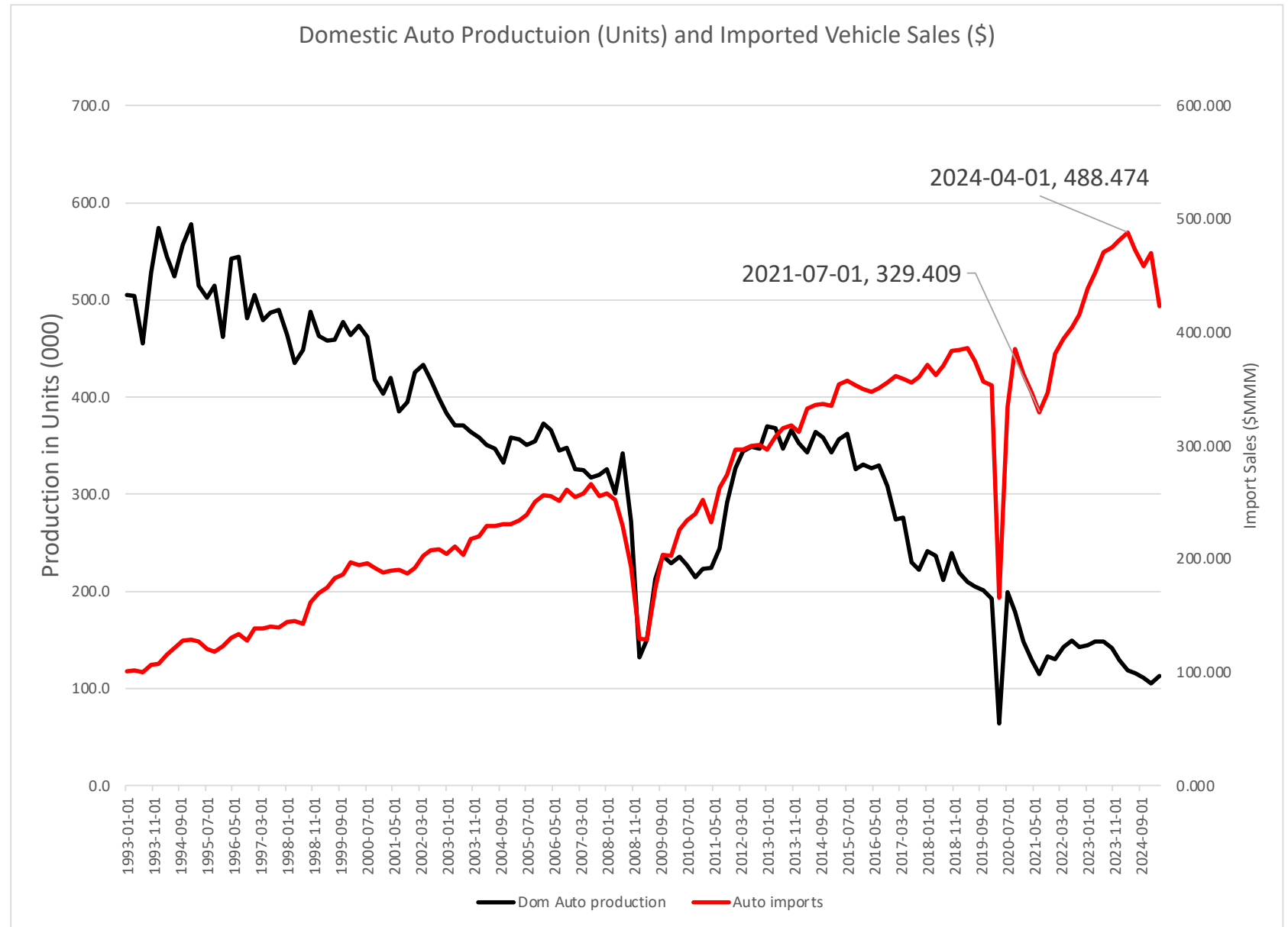
# US Domestic Auto Output and Import Sales

US auto output has been steadily declining since the financial markers melted down in 2008

The gap has been filled by imports

The gap substantially widened following the pandemic

Many US and offshore manufacturers are currently planning to ramp up domestic production



## ***Understanding the Impact of Tariffs***

Begin by examining the product mix of imported goods and services

Measure the impact of increases in prices of these goods on your own and your customers' operations.

Factor in the tariff rate as an increase in selling price or input prices

Estimate impact on prices, sales volume and profit margins

<b>United States Imports from Mexico</b>			
<b>Product Category</b>	<b>\$MMM</b>	<b>PCT</b>	<b>CUM</b>
<u>Vehicles other than railway, tramway</u>	\$137.2300	26.91%	26.91%
<u>Machinery, nuclear reactors, boilers</u>	\$105.8300	20.75%	47.66%
<u>Electrical, electronic equipment</u>	\$87.5600	17.17%	64.83%
<u>Optical, photo, technical, medical apparatus</u>	\$22.9200	4.49%	69.33%
<u>Mineral fuels, oils, distillation products</u>	\$16.8500	3.30%	72.63%
<u>Beverages, spirits and vinegar</u>	\$13.1400	2.58%	75.21%
<u>Furniture, lighting signs, prefabricated buildings</u>	\$12.8200	2.51%	77.72%
<u>Commodities not specified according to kind</u>	\$12.1100	2.37%	80.10%
<u>Edible fruits, nuts, peel of citrus fruit, melons</u>	\$11.0800	2.17%	82.27%
<u>Edible vegetables and certain roots and tubers</u>	\$10.2400	2.01%	84.28%
<u>Plastics</u>	\$8.2300	1.61%	85.89%
<u>Articles of iron or steel</u>	\$7.3400	1.44%	87.33%
<u>Pearls, precious stones, metals, coins</u>	\$5.8200	1.14%	88.47%
<u>Rubbers</u>	\$4.7300	0.93%	89.40%
<u>Iron and steel</u>	\$3.3100	0.65%	90.05%

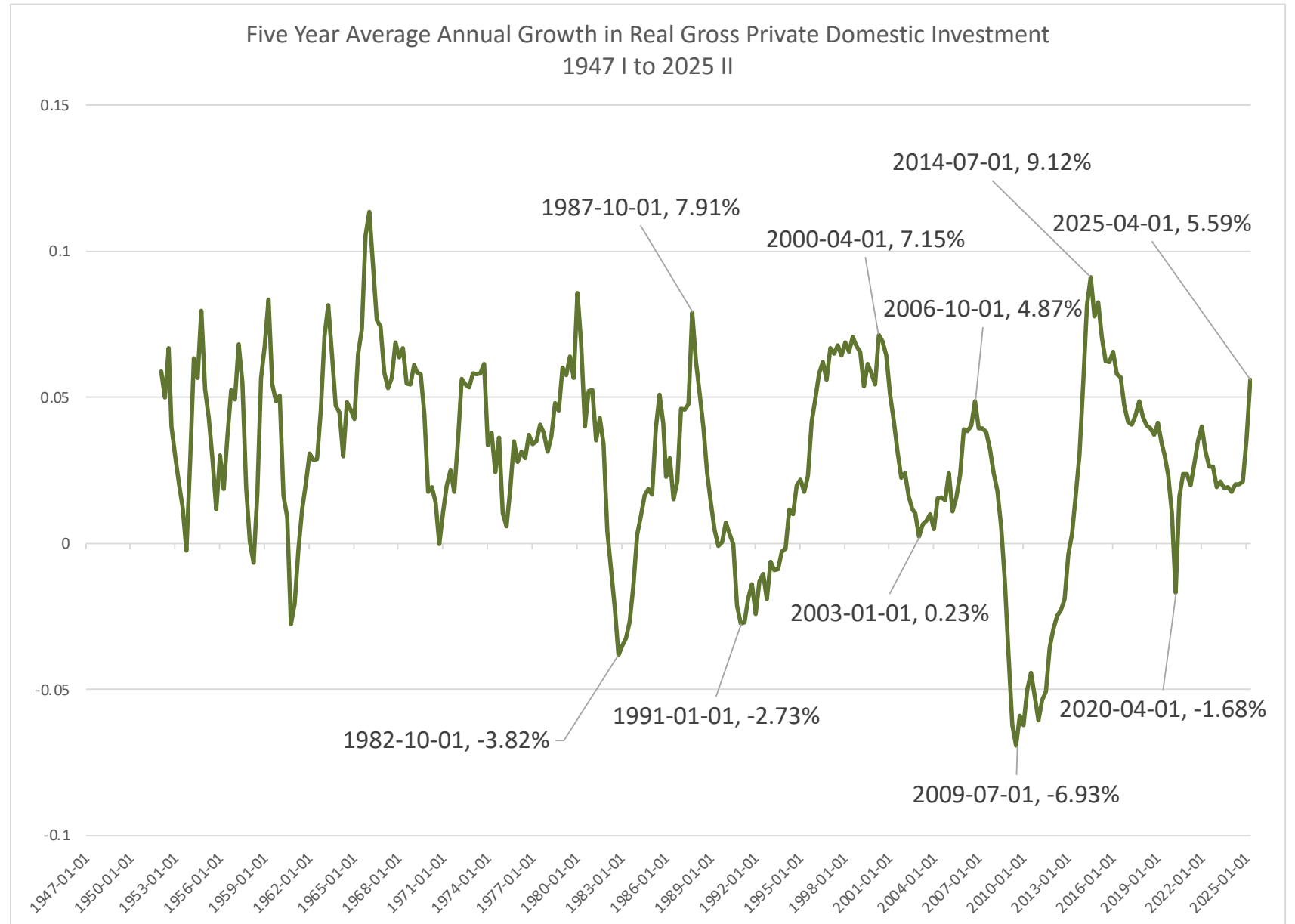
# Private Domestic Investment

# ***Investment is the Key Driver of Economic Growth***

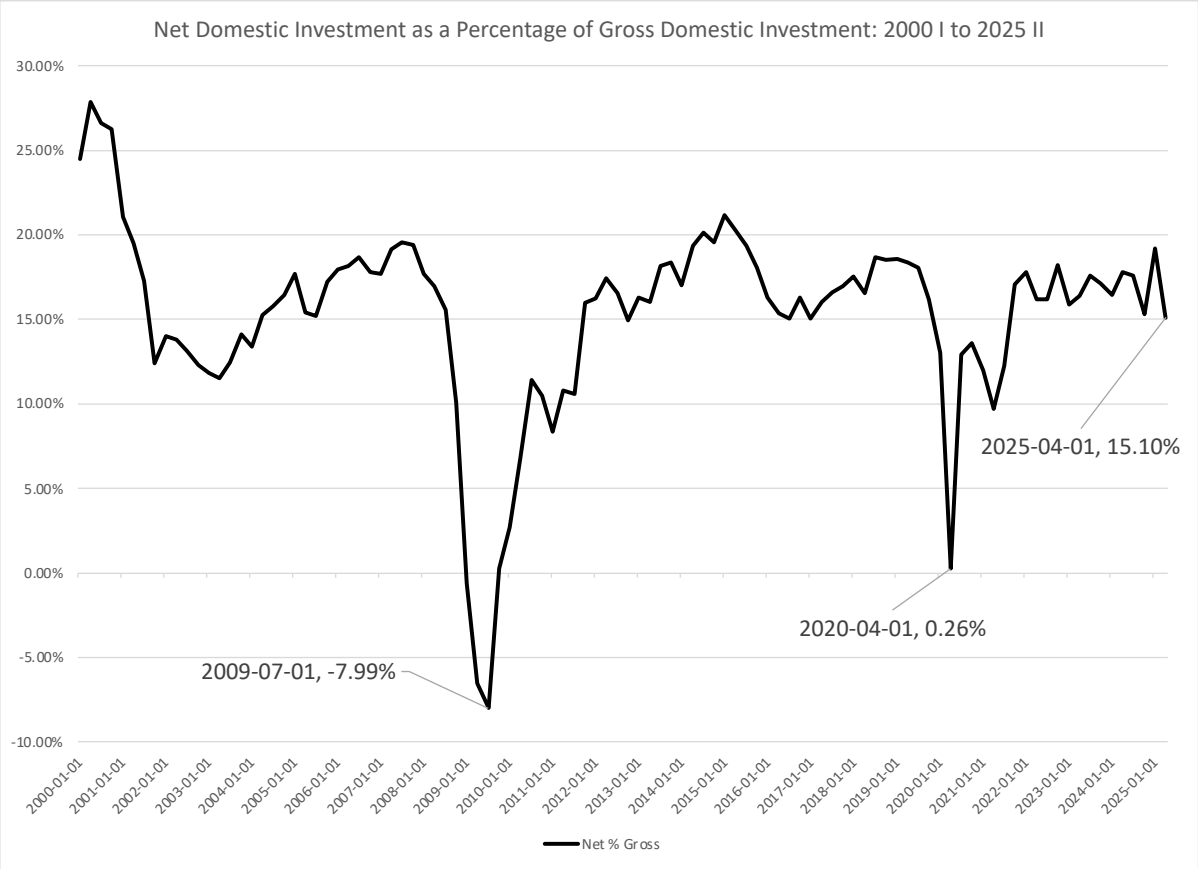
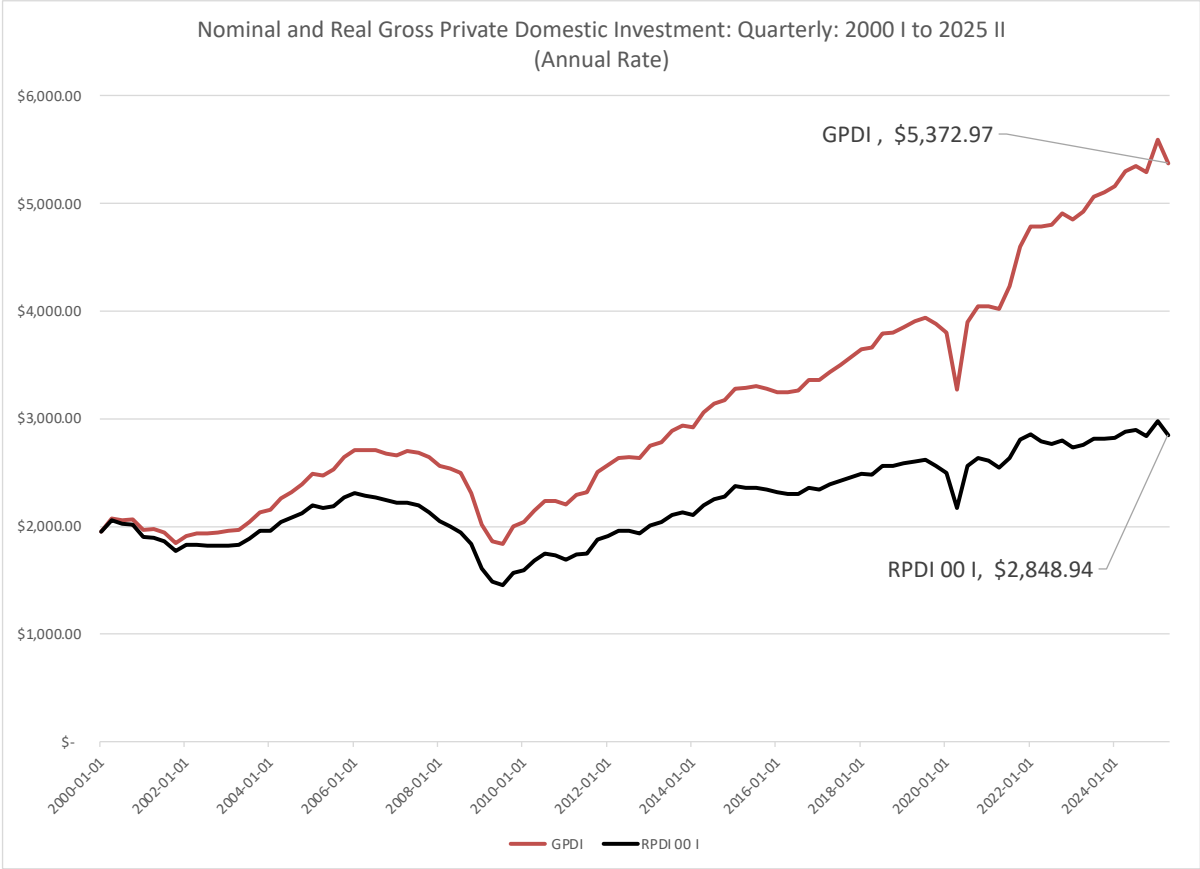
The five-year growth rate is up due to being five years out from 2020 II

As shown earlier, the quarterly rate was down for 2025 II

It is easy to see the cyclical nature of investment and its impact on economic growth



Gross investment barely keeping up with inflation; Net investment has been about 15-20% of gross investment since the recovery following 2008.



# Potential Impacts of New Investment Commitments

- Nominal gross investment is: \$5.3 trillion
- As per WhiteHouse.gov, companies have committed about \$2.2 trillion in investment intentions
- Average period of investment is 4.5 years: about \$488 MM annually
- Represents an almost 10% increase in gross investment
- Key questions:
  - How much will be net new as opposed to replacing other investment spending?
  - To what degree will the commitments materialize?

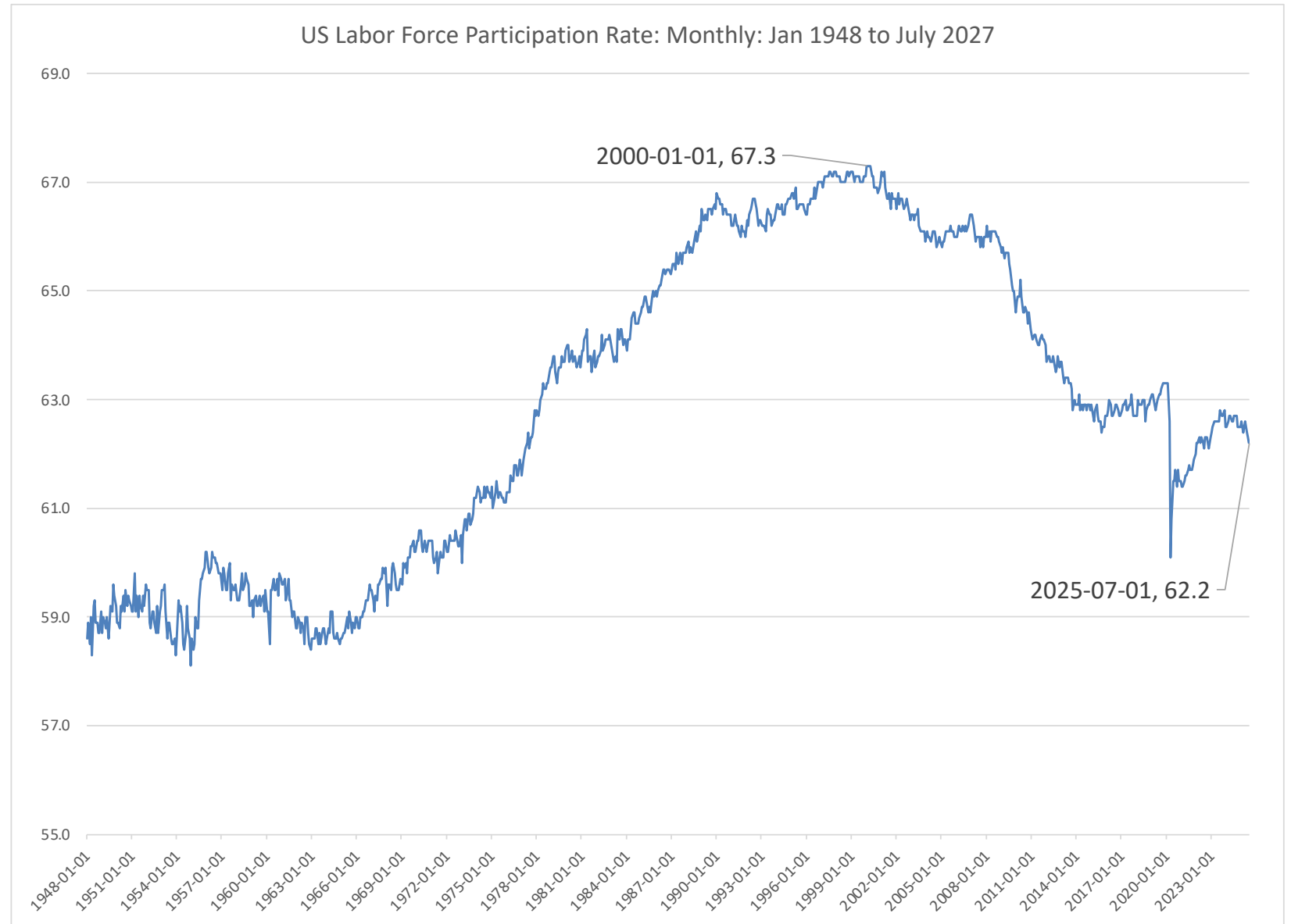
# New investment and employment

- Commitments heavily emphasize technology, pharmaceuticals, and automobile industries
- Tech commitments driving toward AI infrastructure and implementation
- Manufacturing has become highly technical and automated
- There will be job creation, but how many and of what kinds?
- Can we close the mismatch gap in the current labor markets?
- What will happen to jobs in five years, after the technology impacts the labor market?

# ***Impact of the Tech Investment Boom of the Late 1990's***

Labor force participation peaked at the top of the investment boom

Has steadily declined since



# Takeaways

- Keep an eye on the NET investment levels in:
  - Your industry; your suppliers' industries; your customers' industries; your customers' customers' industries
- Monitor tariff impacts both up and downstream using the method we have presented today
- The debt elephant is still in the room:
  - Government debt now exceeds \$37 trillion
  - Consumers are still tapped out
- Bankruptcy risks:
  - Large bankruptcy filings are up in 2025
  - Private equity: five years out from the biggest PE transaction years ever (2020-2021); Valuations are low due to high rates and slow growth
- Interest rates:
  - The Fed may hold out until inflation pressures ease
  - The short run impacts of tariffs will be inflationary at best; it will take a few quarters to see their real impact; it will take years for new investment to mature into economic growth

And the key takeaway from this meeting:

If your AI:

*Lacks*

**Sufficient**

*Data*

It will hallucinate!

# Questions?

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