

# Economic Update

## All Eyes on Investment and the Fed

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# Overview

- The trends and changes we have been experiencing in the US for the past twenty-five years are now to the point where they represent acute symptoms of underlying systemic vulnerabilities and risks that can easily crash the financial markets and collapse the economy in a short period of time.
- Inflation and the stratification of income and wealth has eroded the economic power and freedom of what once was a vibrant middle class.
- Political polarization and the inability of our established government and business institutions to effectively deal with these drivers represents a threat to our social structures and way of life.
- How we deal with these matters in the next few months and years will be pivotal to our success as an economy and as a society.

# Ongoing Key Issues

- Investment and capital spending
- Employment
  - Technology
  - Labor force composition and development
- Inflation
- Policy impacts on interest rates, bank reserve balances, and the money supply
- Global political and trade policy and their impact on international economic and military alliances and relationships

# Industrial Production and Capacity Utilization Rate

The Federal Reserve monthly indices

Covers manufacturing, mining, and electric and gas utilities

Measures *real* output and is expressed as a percentage of real output in a base year (2017)

Separate index covers manufacturing alone

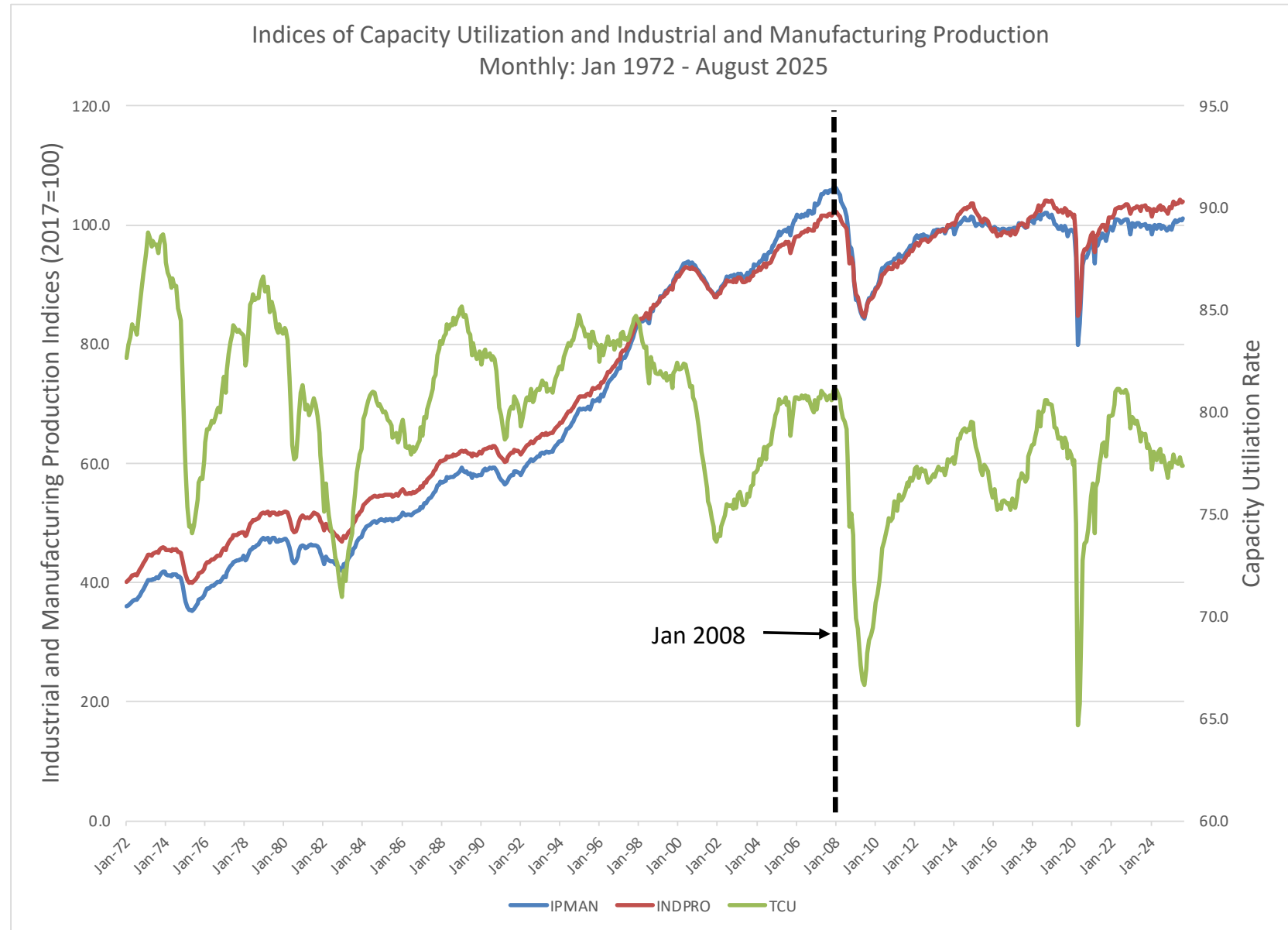
## **Capacity Utilization Rate:**

Estimate of sustainable potential output, is also expressed as a percentage of actual output in the base year (2017)

2008 represents the peak real output levels

Flat since Dec 2014;

Capacity utilization trending down



# Net New Investment Spending

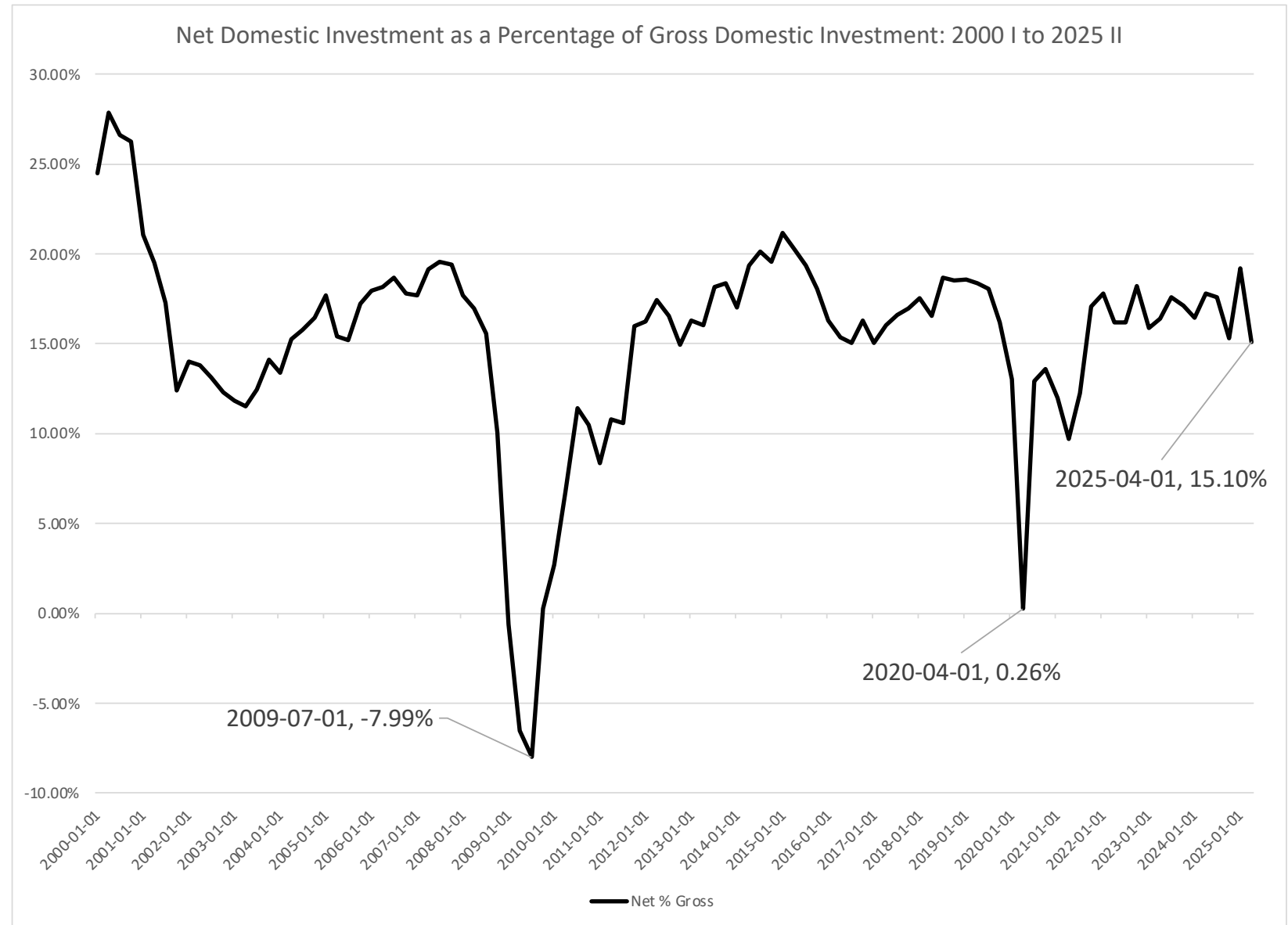
Lack of real growth since 2008 is evident in low net new investment rates

‘Many promises have been made and plans announced over the past six months

Technology investment levels have increased, seeded by the Chip Act subsidies and continuing to grow

Additional investments in energy infrastructure will be needed to power this technology

This has a multi-year maturity window.



# Recent (28 October) Layoff Announcements

Affected industries (broad swath)

- Tech
- Food
- Pharma
- Auto
- Retail
- Entertainment
- Shipping and delivery
- Business services/consulting
- **UPS example:**
  - 14,000 management
  - 34,000 operations
  - Stock price:
    - 10/24: \$87.22
    - 10/28: \$95.71

Recent Layoff Announcements:

1. UPS: 48,000 employees
2. Amazon: Up to 30,000 employees
3. Intel: 24,000 employees
4. Nestle: 16,000 employees
5. Accenture: 11,000 employees
6. Ford: 11,000 employees
7. Novo Nordisk: 9,000 employees
8. Microsoft: 7,000 employees
9. PwC: 5,600 employees
10. Salesforce: 4,000 employees
11. Paramount: 2,000 employees
12. Target: 1,800 employees
13. Kroger: 1,000 employees
14. Applied Materials: 1,444 employees
15. Meta: 600 employees

The labor market is clearly weakening.

# Employment Necessity or Luxury?

Measure:

$(\text{Force} - \text{Employed}) / \text{Force}$

1949-64: WWII vets become middle managers

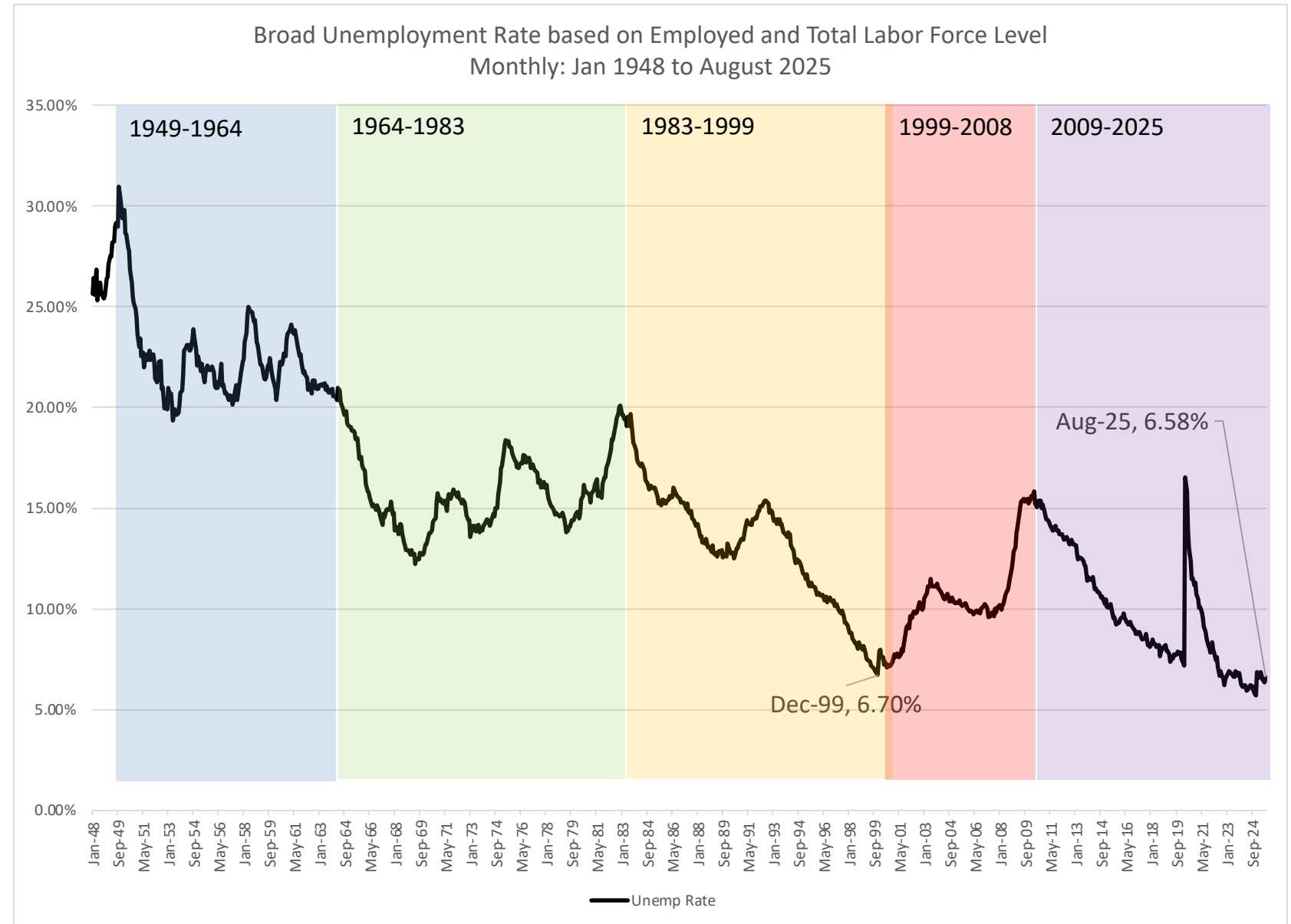
1964-83: Women enter the workplace

1983-99: Increases in professional and service jobs; two income households

1999-2008: Technology takes over

2009-25: Income disparities; increase in multiple jobholders

2025 and beyond?



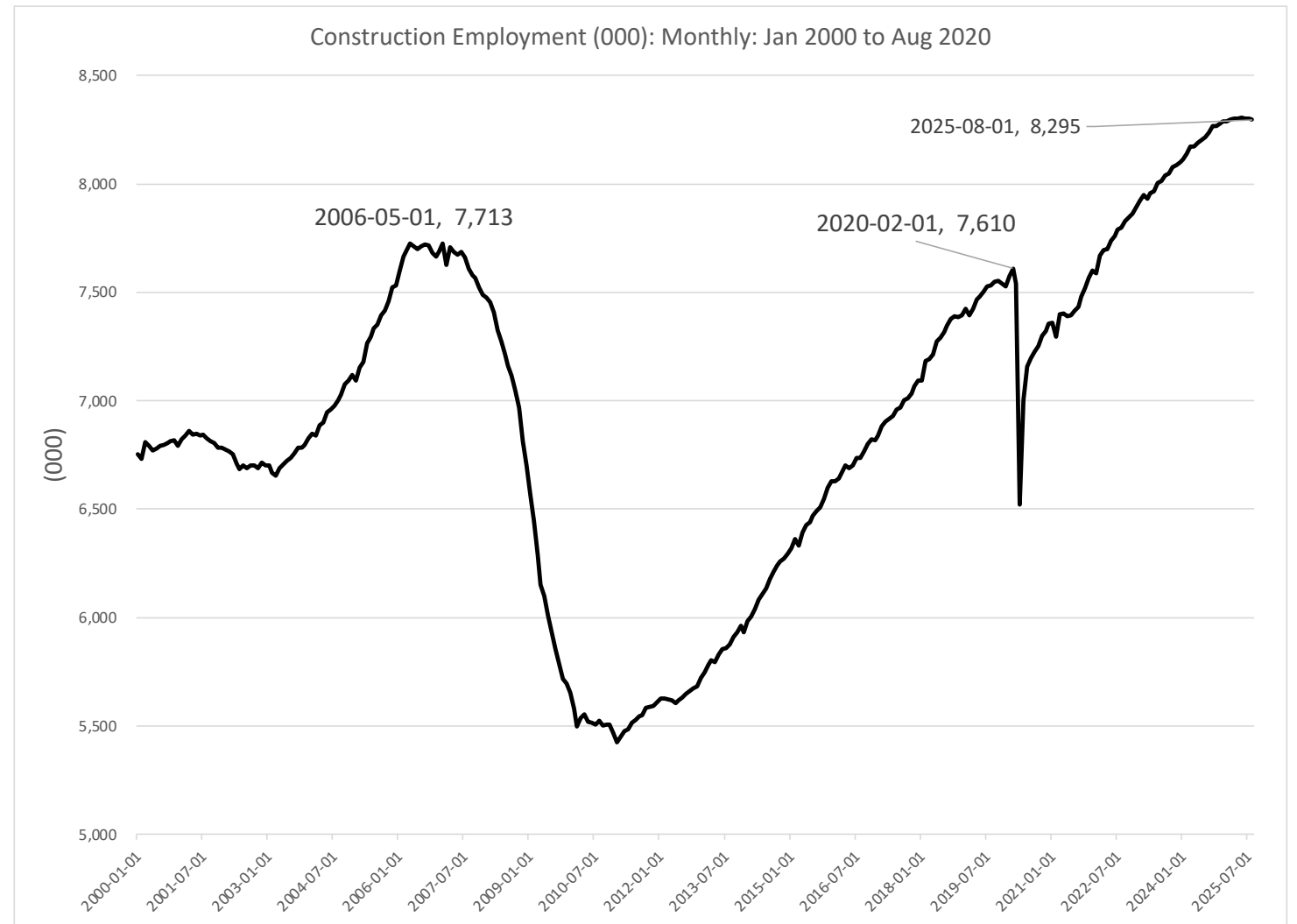
# Construction Employment

Peaked in May 2006 and February 2020

Has steadily grown through the post-pandemic recovery

Currently at its historical high level: 8,295,000 employed

Starting to show signs of slippage



# Impact of Undocumented Employees

Current payroll employment: 159,540,000

Estimated number of undocumented employees: 8,500,000: (5.3% of payroll employment)

## Construction (2023):

Total employment: 8,007,000

Undocumented: 1,729,000

Percentage: 21.59%

## Accommodation and Food Services (2023)

Total employment: 14,066,000

Undocumented: 1,031,800

Percentage: 7.33%

## Manufacturing (2023)

Total employment: 12,877,000

Undocumented: 909,700

Percentage: 7.06%

Source: American Community Survey

**Table 2. Undocumented Workers by Industry  
United States, 2023**

<i>Industry</i>	<i>Count</i>	<i>Percent</i>
Construction	1,729,000	20%
Accommodation & Food Services	1,031,800	12%
Manufacturing	909,700	11%
Administrative, Support, & Waste Management Services	859,800	10%
Retail Trade	642,800	8%
Other Services, Except Public Administration	542,900	6%
Healthcare & Social Assistance	495,100	6%
Professional, Scientific, & Technical Services	488,300	6%
Transportation & Warehousing	471,000	6%
Agriculture, Forestry, Fishing, & Hunting	291,800	3%
Finance & Insurance	194,100	2%
Wholesale Trade	182,400	2%
Educational Services	148,000	2%
Arts, Entertainment, & Recreation	97,600	1%
Information	87,800	1%
Real Estate, Rental, & Leasing	82,400	1%
Utilities	29,500	0%
Mining, Quarrying, & Oil/Gas Extraction	29,200	0%
Management of Companies & Enterprises	7,100	0%
Unemployed*	114,500	1%
<b>TOTAL</b>	<b>8,482,200</b>	<b>100%</b>

# Foreign-born US Employees

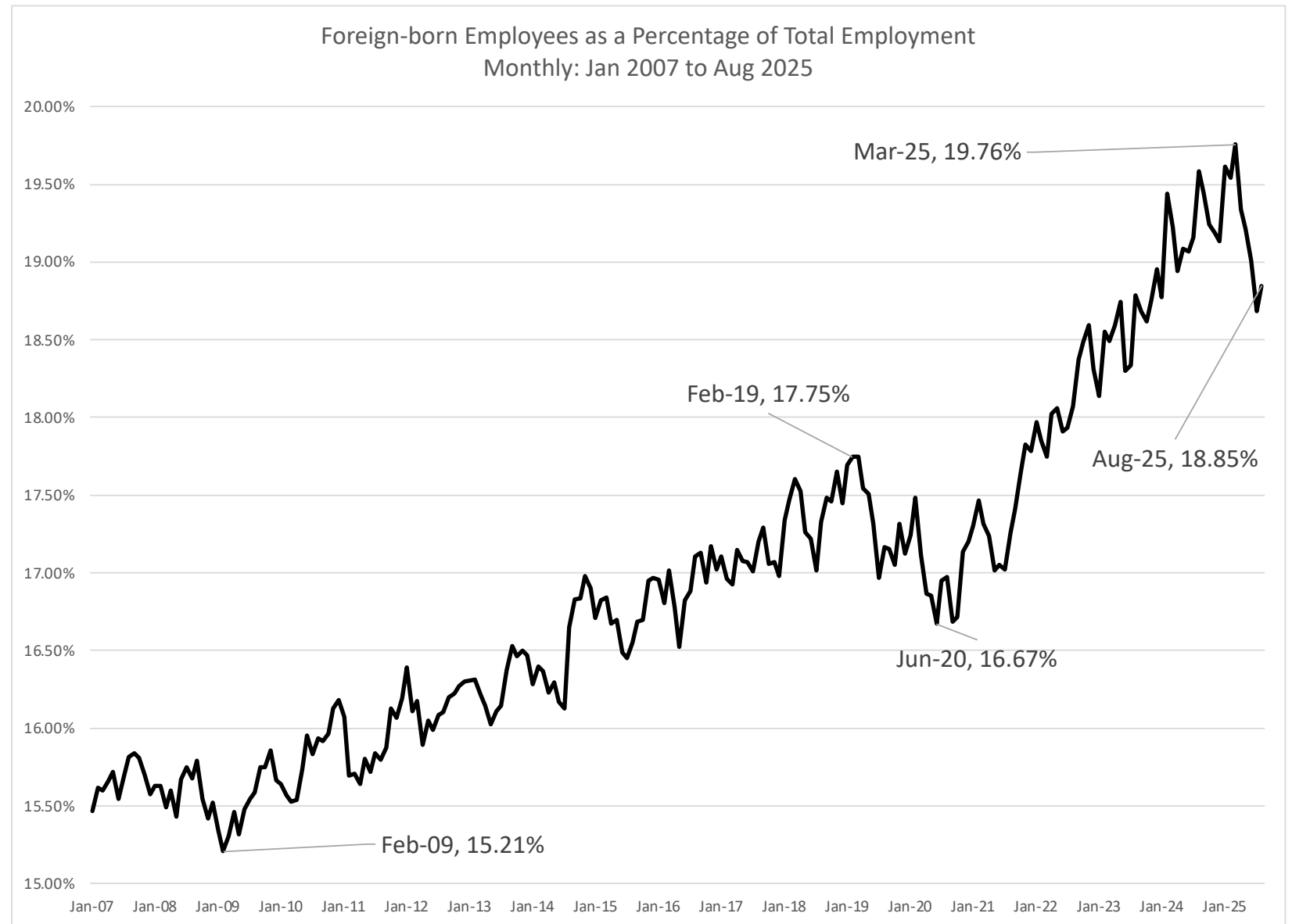
Foreign-born US employees peaked at 33,719,000 in March 2025, representing 19.76% of US employment

Since then, the number of foreign-born US employees has fallen by 1,480,000

Over that same time-period, native born employees have increased by 1,861,000

The rate at which native-born employees were added to the employed over that time-period was within the same range it has occupied since 2007

The rate at which foreign-born employees fell out of the employed was outside of and higher than the range it has occupied since 2007



# Key issue in the employment markets

- How do we equip the labor force for work in a technology driven future?
- Do we have the institutional means to do so?

# Monetary Policy and Inflation: 2003-2025

2003-2008: Interest rates increased; monetary base growth stable; inflation increased; markets melted down in 2008 III

2009-2014: Era of Quantitative Easing: interest rates low; monetary base increasing (four times); inflation fell

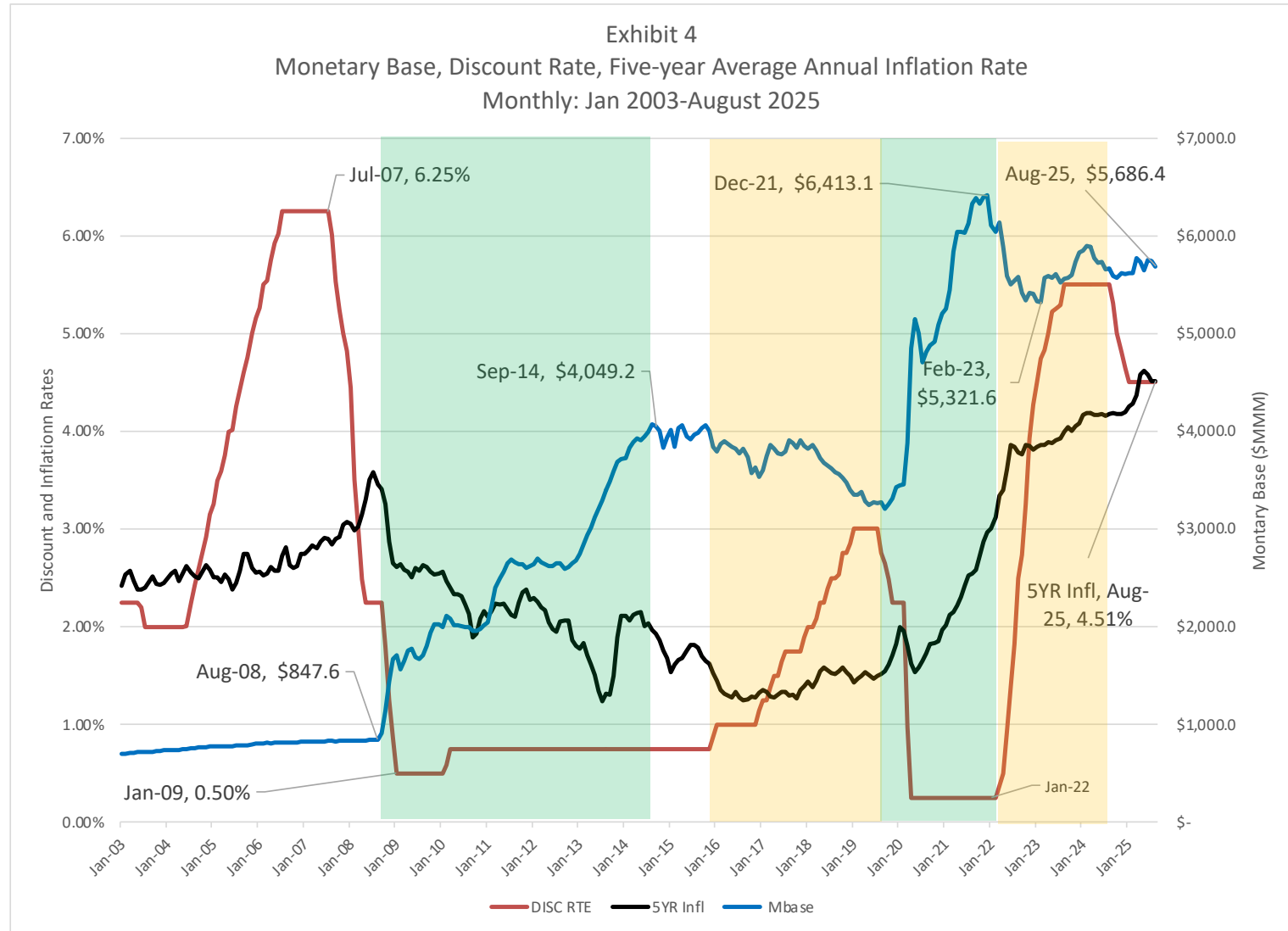
2016-2019: Fed tightens: interest rates increase; base growth slows down; inflation starts to rise

2020-2022; Pandemic expansion; low rates; high monetary growth; high inflation

2022-now: Fed tightens and slightly loosens: inflation persists at a relatively high rate

2023 I: banks start to become unstable

Are the tools still effective?



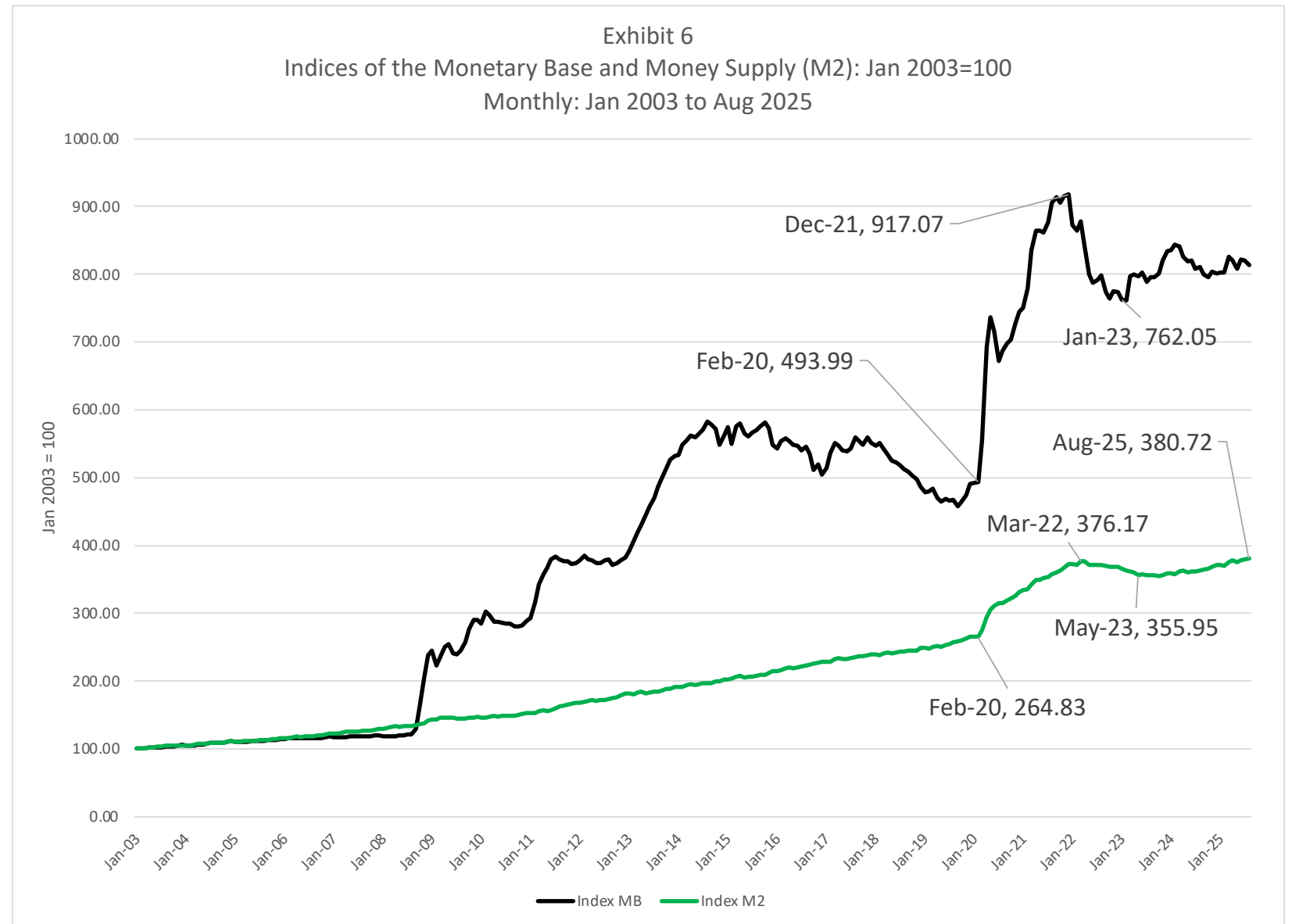
# Monetary Reserve Creation and Money Supply

The chart shows indices of the monetary base and money supply (M2)

Representative of the relative growth in each value

Between 2008 and 2020, creation of monetary reserves (monetary base) by the Fed did not substantially alter the growth rate in the money supply (M2)

This changed during the pandemic, during with monetary reserve creation was cause in the matter of the creation of massive amounts of money supply



# Consumer Price Inflation

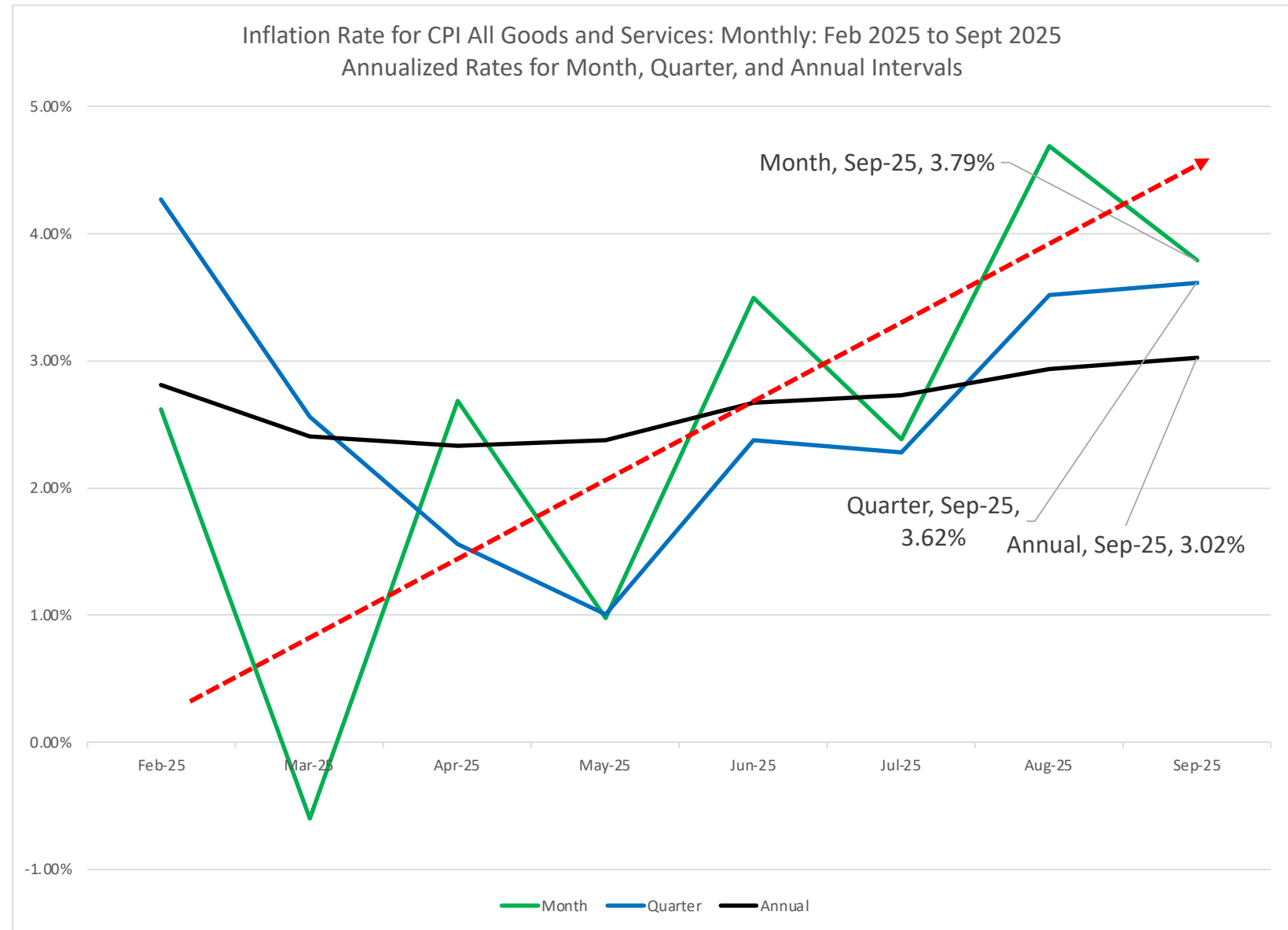
Still have a lot of M2 in the economy

Short and long-term measures of inflation are increasing

Tariffs are starting to impact both supply and demand

Important question: Where would inflation be in the absence of tariffs?

Consumers are being squeezed



# Food Price Inflation

Food price inflation has behaved in a longer-term cyclical pattern

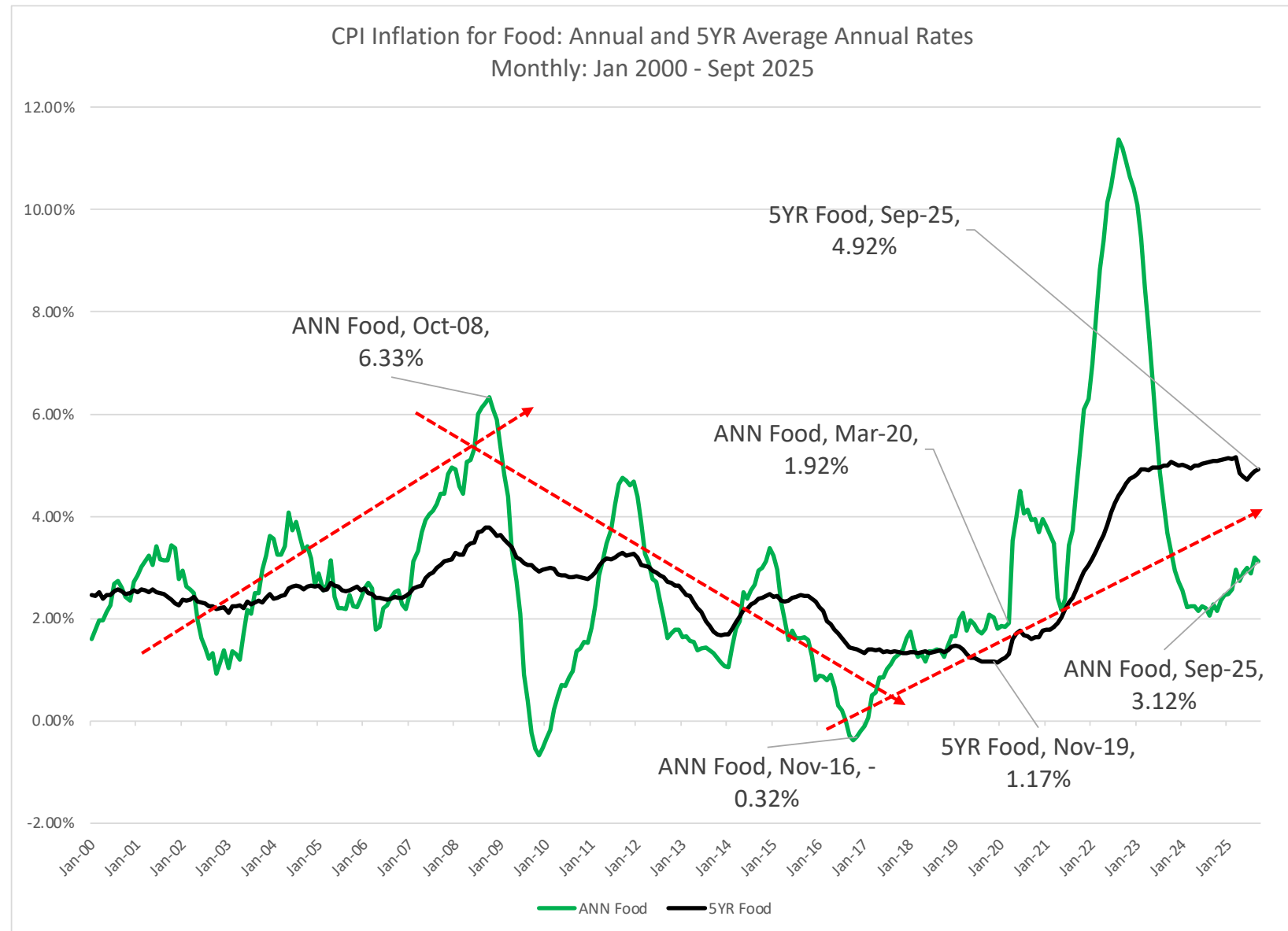
As we will see, this is correlated with commodity prices in general

Pre-2008: commodity price speculation led by energy markets; melted down in 2008

Post 2016: Institution of tariffs by Trump 45; continued by Biden; increased by Trump 47

Exacerbated by supply chain shortages and monetary inflation during the pandemic

Persists through the present day



# Monetary Reserves and Commodity Prices

Commodity prices are sensitive to the quantity of money and monetary reserves

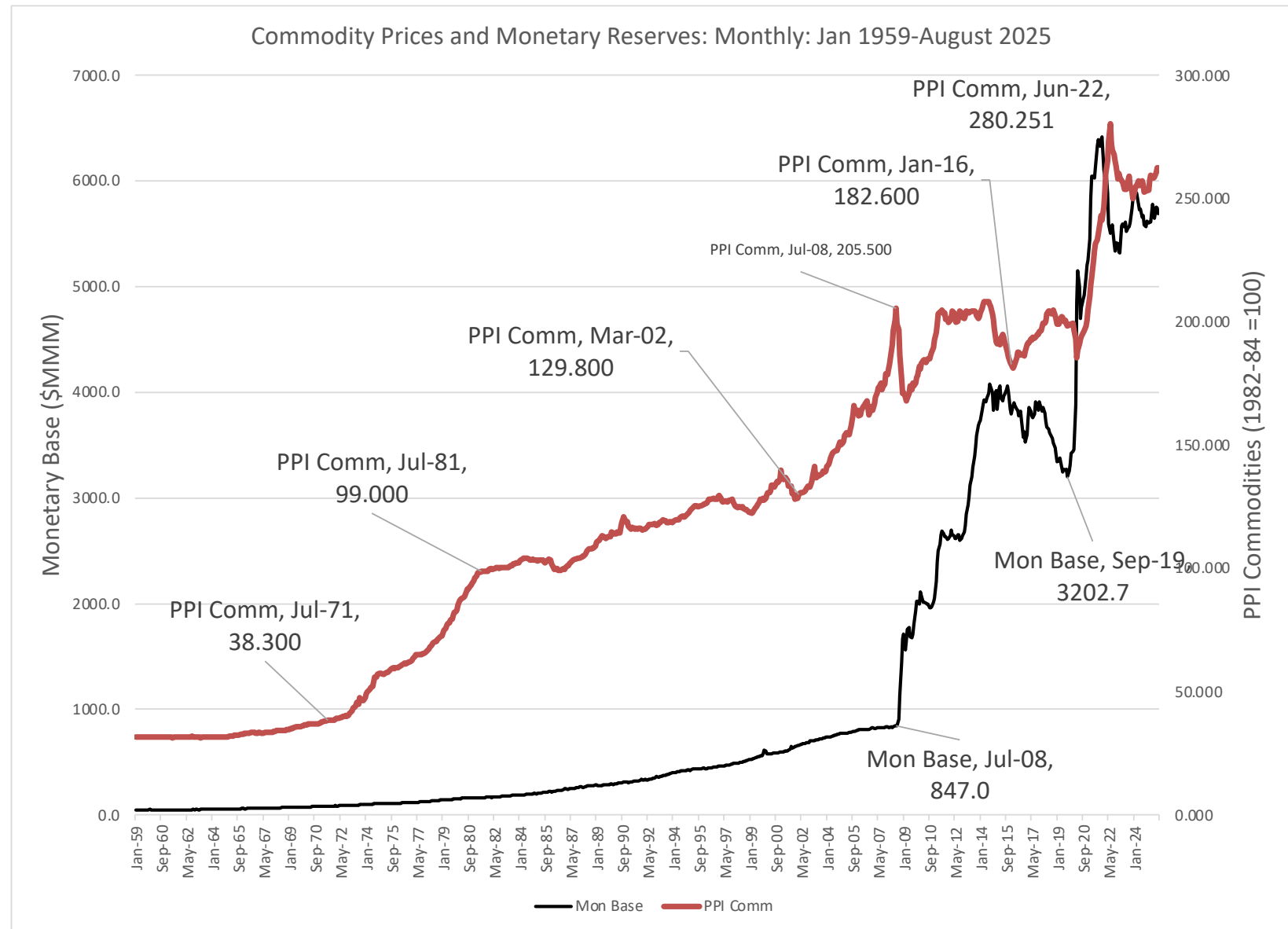
Started to increase in 1971 (end of the gold standard)

Growth increased leading up to the market collapse in 2008

Significant increases in monetary reserves did not result in rising commodity prices; monetary policy belayed deflation

Commodity prices started increasing with the tariff environment in 2017

Grew rapidly with monetary infusion and tariff environment during and after the pandemic



# Federal Reserve Portfolio

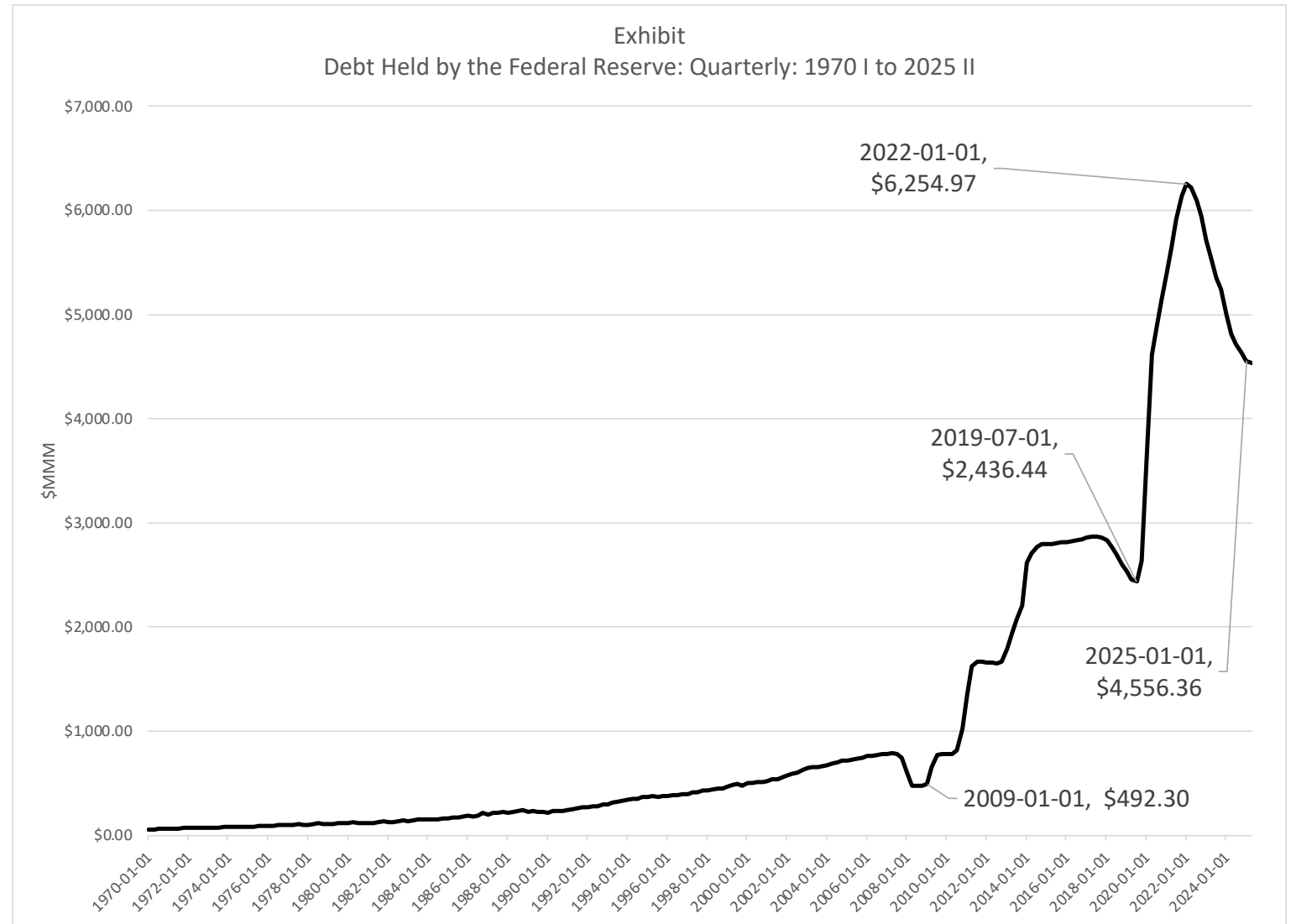
Chairman Powell announced the end of the passive drawdown of government debt held by the Fed

Drawing down represents a contractionary monetary policy

Reserves are taken out of the banking system

From 2019 III to 2022 I, the Fed added \$3.8 trillion of Federal government debt to its portfolio

It has since reduced its holdings by \$1.7 trillion



# Monetary Base, Reserve Balances, and Debt Held

The Fed began drawing down the monetary base in 2022 I

It began adding back to the base in 2023 I

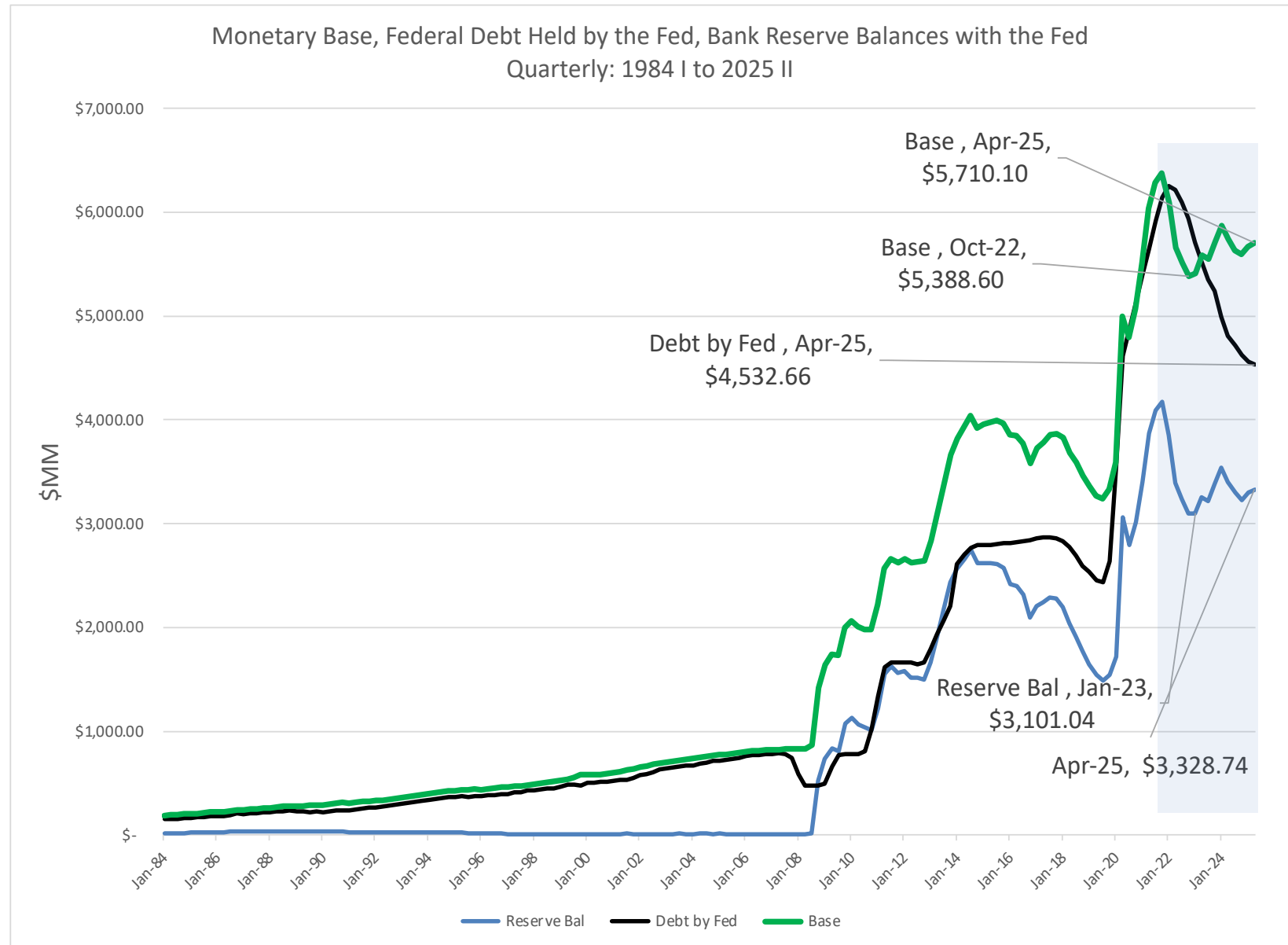
This corresponds to the mini-banking crisis of 2023 I

The Fed, however, continued to reduce its holdings of Federal government debt

Since 2023 I, the Fed has added \$322 billion to the monetary base

Of this addition, bank reserve balances increased by \$227 billion

Reserve balances serve as a cushion in times of bank distress



# Money, Bank Reserve Balances, Federal Debt Held by the Fed

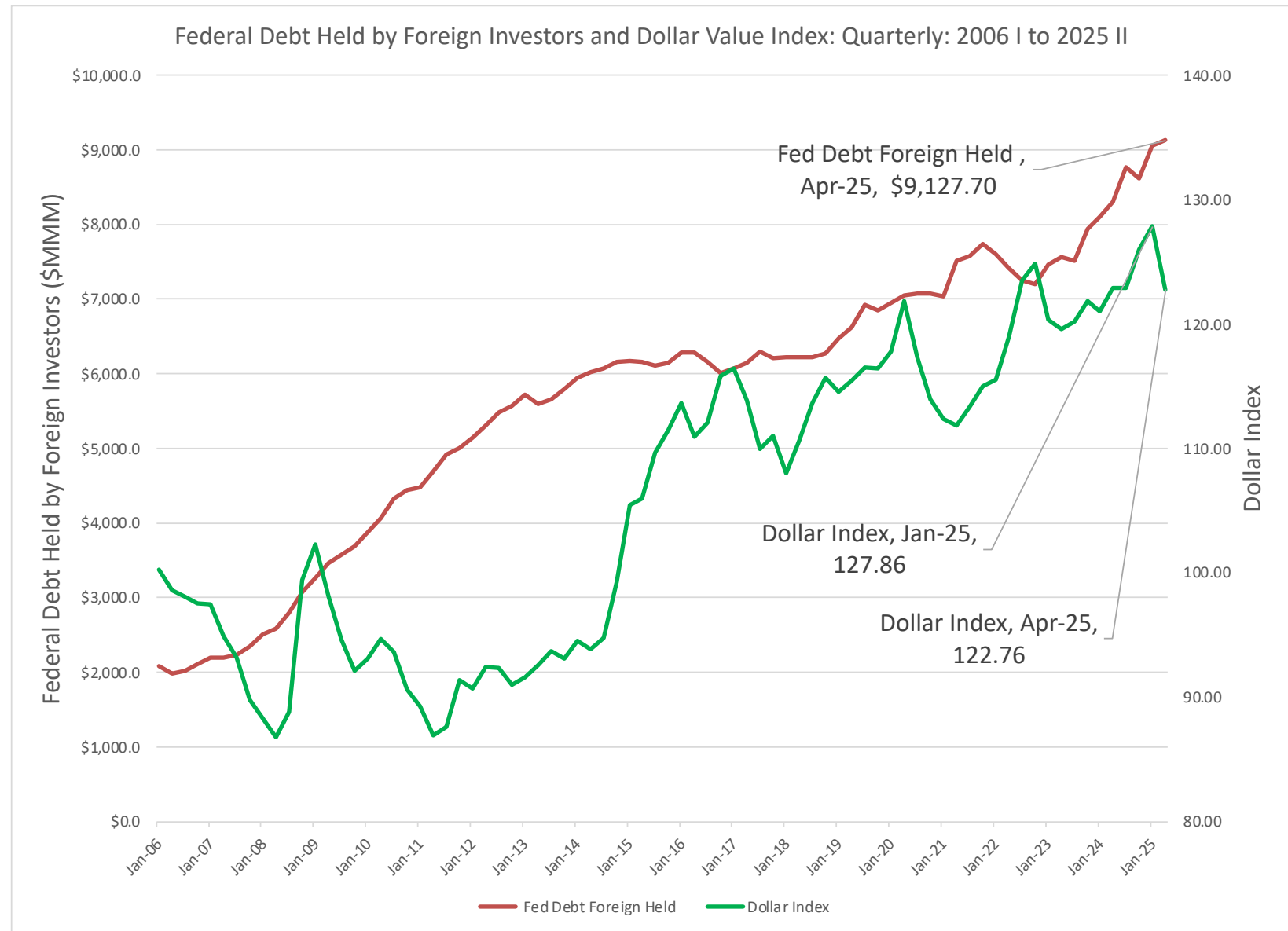
<b>Time Period</b>	<b>Monetary Base</b>	<b>M2</b>	<b>Fed Debt</b>	<b>Reserve Balances</b>	<b>Fed's Federal Debt Holdings</b>	<b>Fed Debt held by foreign investors</b>
Jan 20 - Jan 22	\$ 2,499.30	\$ 6,038.60	\$ 7,177.15	\$ 2,136.03	\$ 2,695.41	\$ 654.70
Jan 22 - Jan 23	\$ (685.30)	\$ (575.80)	\$ 1,057.48	\$ (752.06)	\$ (541.72)	\$ (135.60)
Jan 23 - Apr 25	\$ 302.70	\$ 815.20	\$ 4,753.03	\$ 227.71	\$ (1,180.59)	\$ 1,659.10
Jan 22 - Apr 25	\$ (382.60)	\$ 239.40	\$ 5,810.51	\$ (524.36)	\$ (1,722.30)	\$ 1,523.50
<b>Net</b>	<b>\$ 2,116.70</b>	<b>\$ 6,278.00</b>	<b>\$12,987.66</b>	<b>\$ 1,611.68</b>	<b>\$ 973.11</b>	<b>\$ 2,178.20</b>

# Foreign Holding of Federal Debt and the Value of the Dollar

The dollar is still widely held as a reserve currency

Foreign ownership of Federal debt has reached over \$9.1 trillion; about 25% of the total federal debt

Despite trading ahead of the tariff impacts in the first quarter 2025, the value of the dollar compared to its trading partners remains high and on a growth path.

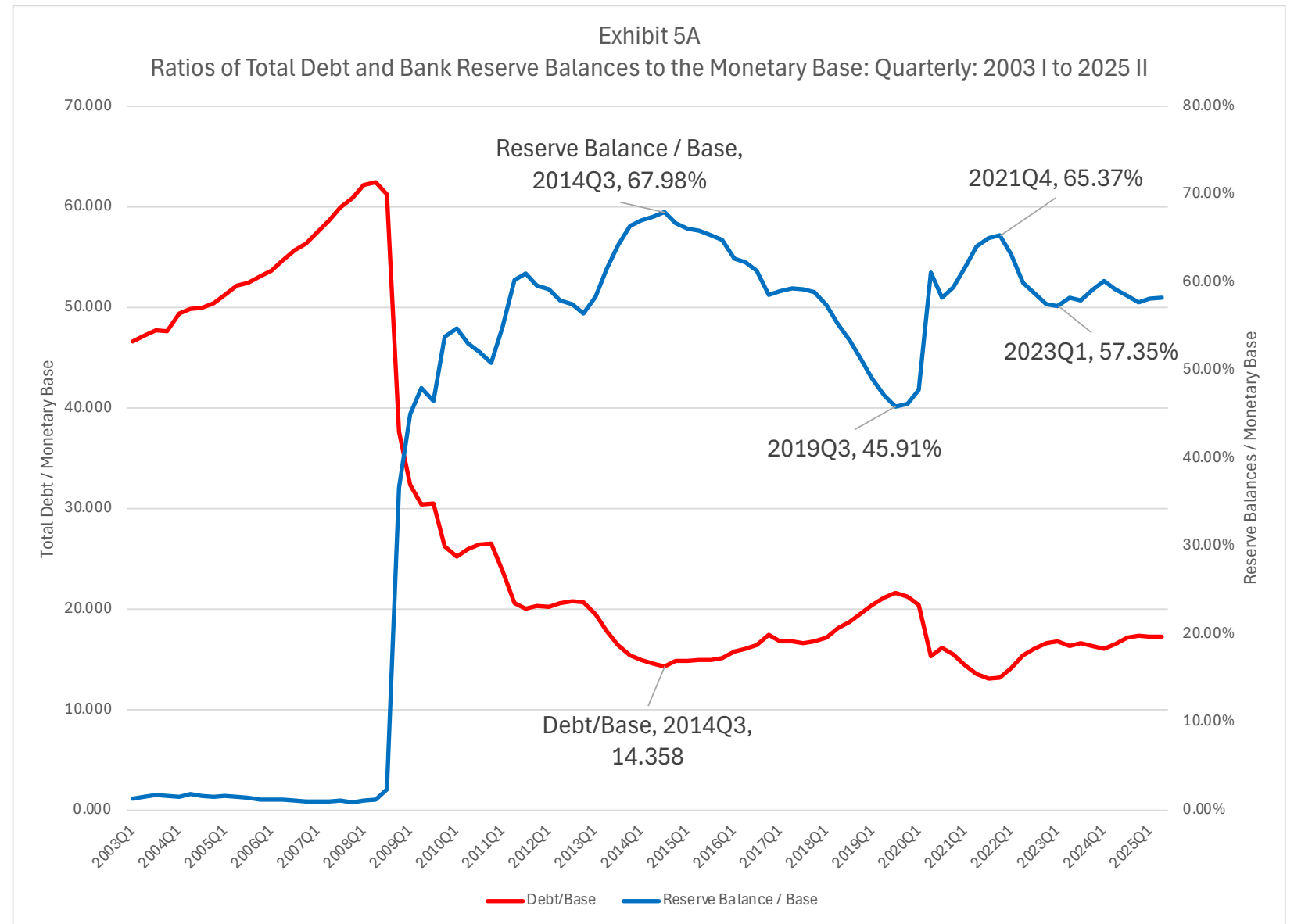


# 2008: Changes in the Structural Relationships in the Debt Markets

Banks begin holding significantly higher reserve balance deposits as the Fed infuses additional reserves by adding to the monetary base

As the monetary base declines, so does the percentage of reserve balances

The degree to which monetary reserves create debt has declined from \$63 debt/base down to \$16 debt/base.



# Treasury Rates and the Discount Rate

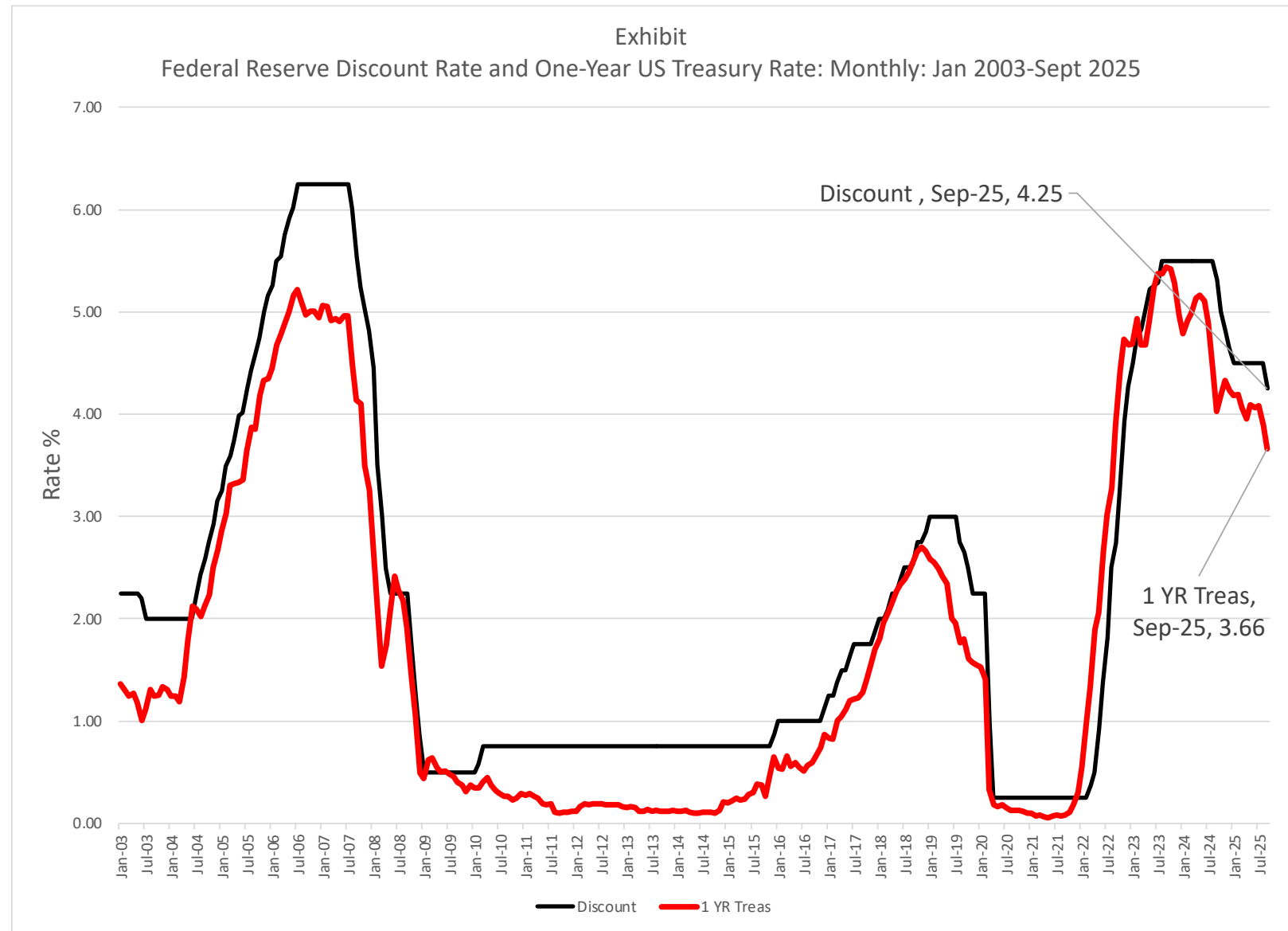
As expected, treasury rates tend to follow the discount rate trend

The treasury rate is generally lower because it is a risk-free rate

Discount window transactions involve banks, which carry a certain degree of risk

Lowering the discount rate will most likely result in falling treasury rates

High rates support a higher dollar value on the global exchange markets



# Prime Rate and Prime/Discount Rate Spread

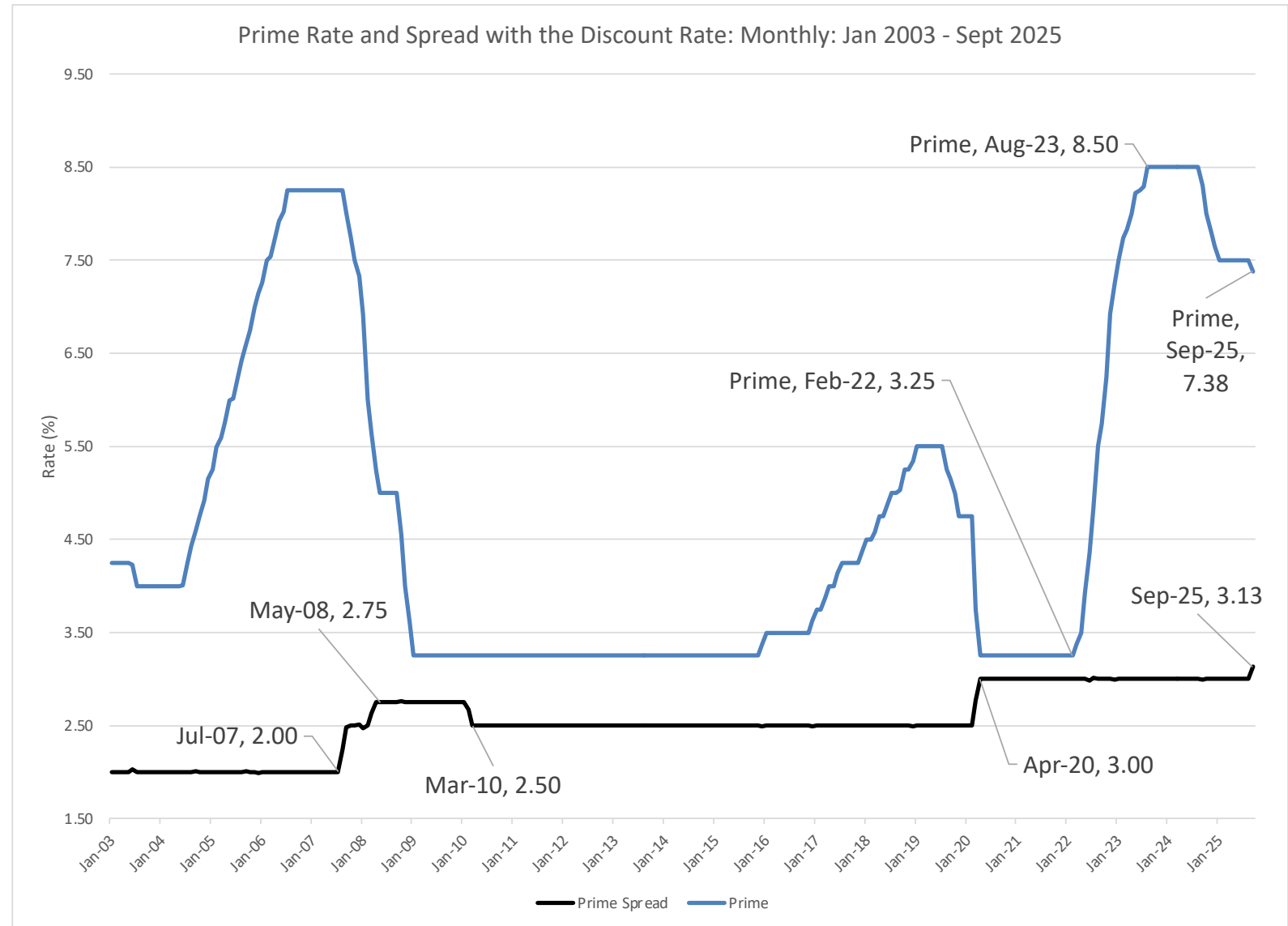
Banks borrow from the Fed in order to lend

Spreads represent sources of profits from lending

Spreads also represent compensation for risk

The Prime/discount spread bumped up in 2008 and again in 2020.

It appears to continue to rise, even as the prime and rate comes down



# Corporate Borrowing Rates and Spreads

Moody's Aaa and Baa spiked in late 2008 as the markets collapsed

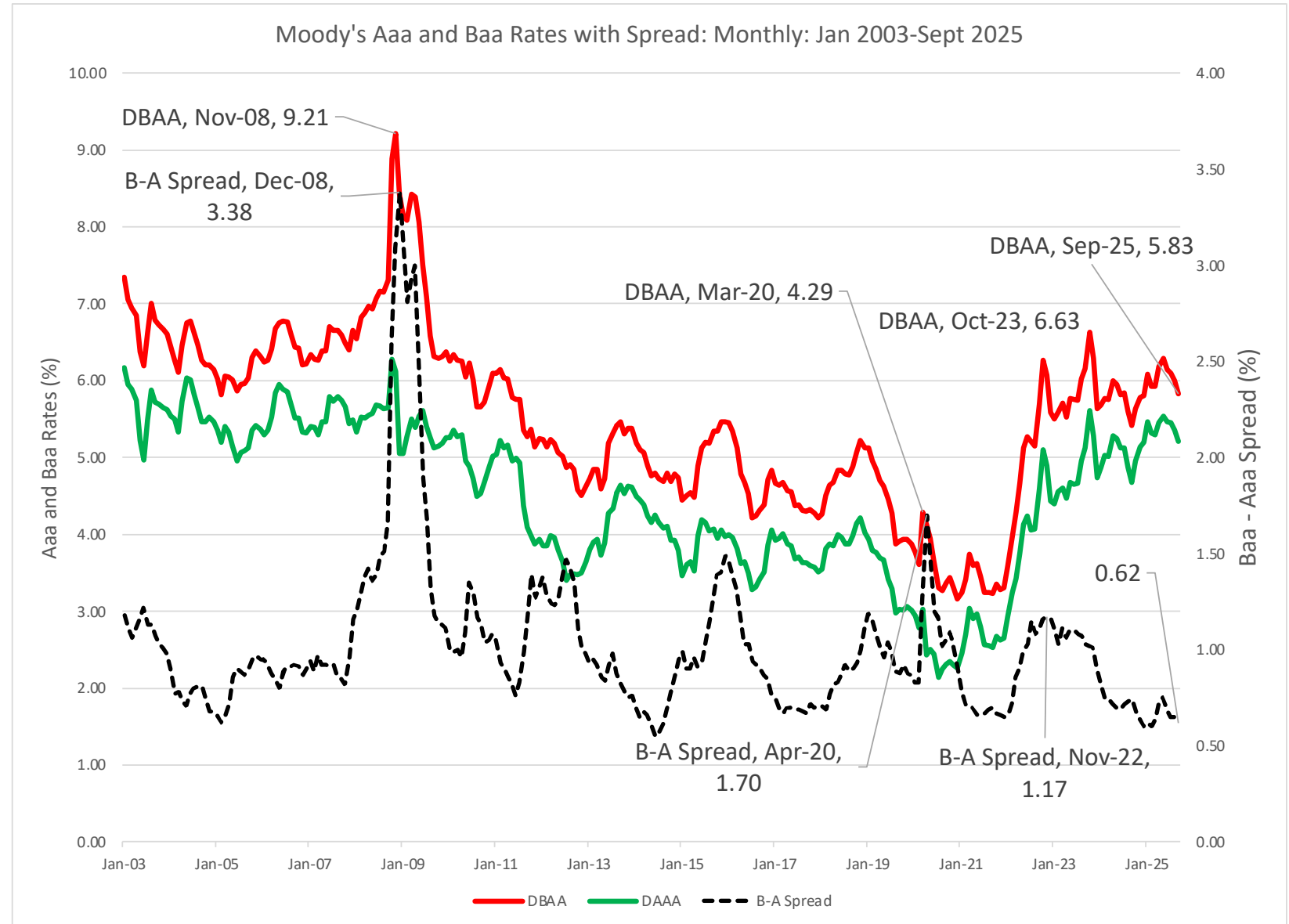
The Baa/Aaa spread also peaked in 2008

All three declined through the pandemic, with a brief spike in the spread in March 2020

Both rates have increased substantially as the Fed went after inflation, lingering at high levels

Despite the high rates, the spread has narrowed

***This may be a sign of increased systemic or non-diversifiable risk present in the lending markets***



# Sector Debt

The chart shows indices of debt by sector

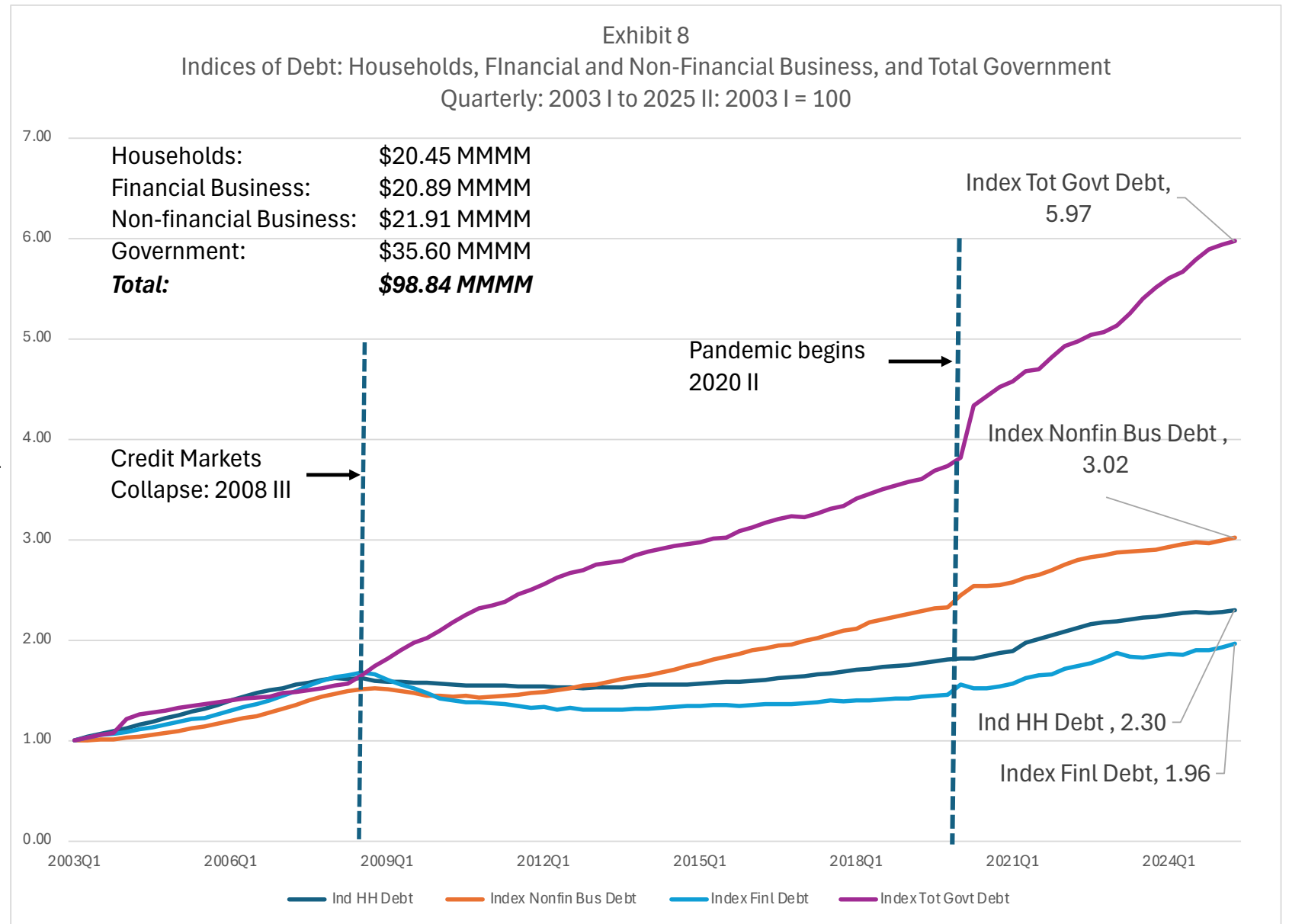
Pre-2008: relative growth across sectors was similar

2008-2020: Borrowing by government and non-financial business increases relative to that by households and financial business

Post 2020: Government debt growth increases, as does non-financial business debt

Household and financial debt begins to increase again

Much of the government and non-financial business debt will need refinancing in the shorter term





# Light Vehicle Output, Sales, Inflation

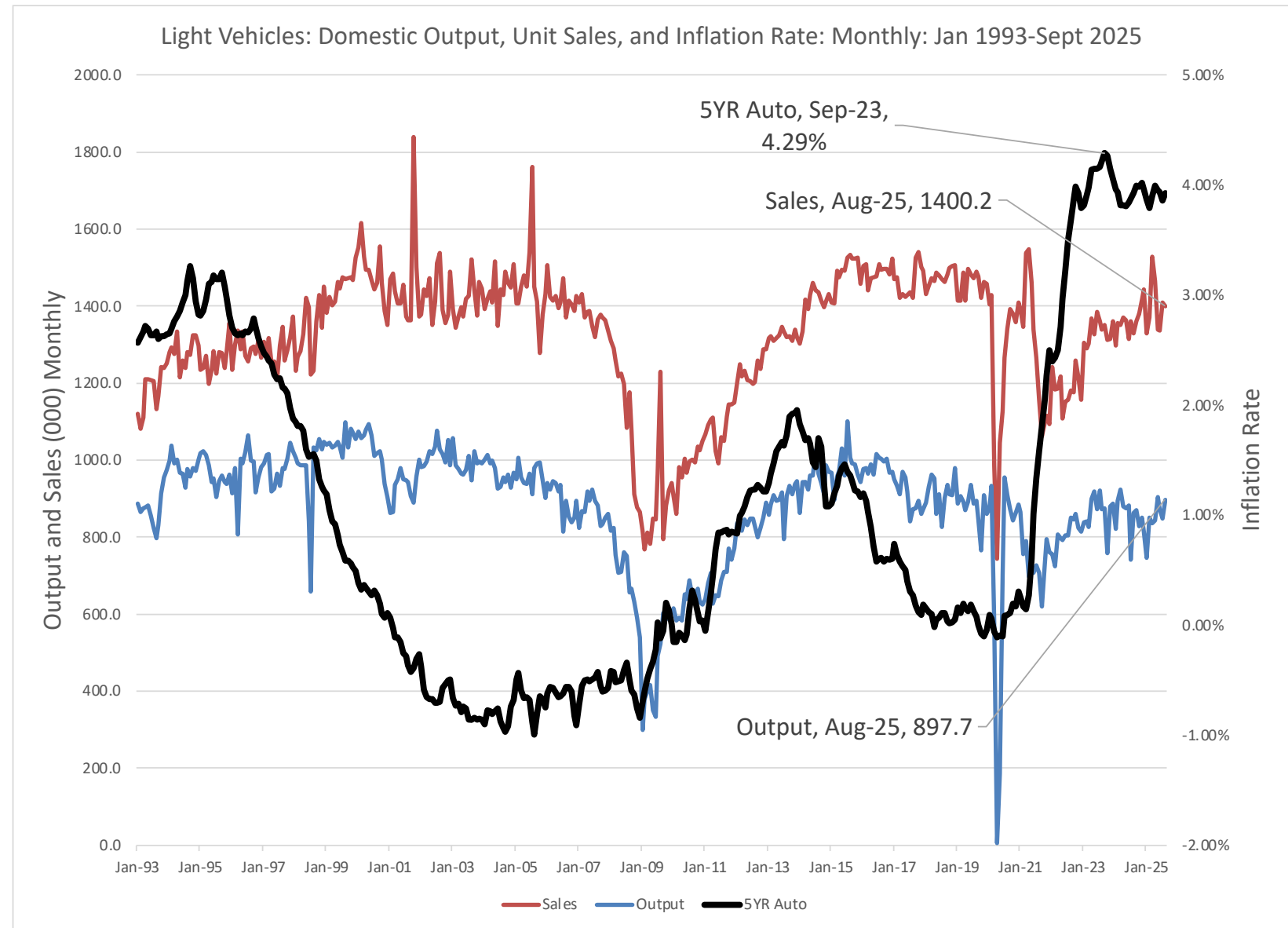
Light vehicle prices are increasing at an average annual rate of 4.3% over five years

Domestic sales in August 2025 are 1,400,000 units

Domestic output was 897,000 units

Imports represent 503,000 units

Tariffs are affecting prices of not only imported, but all units



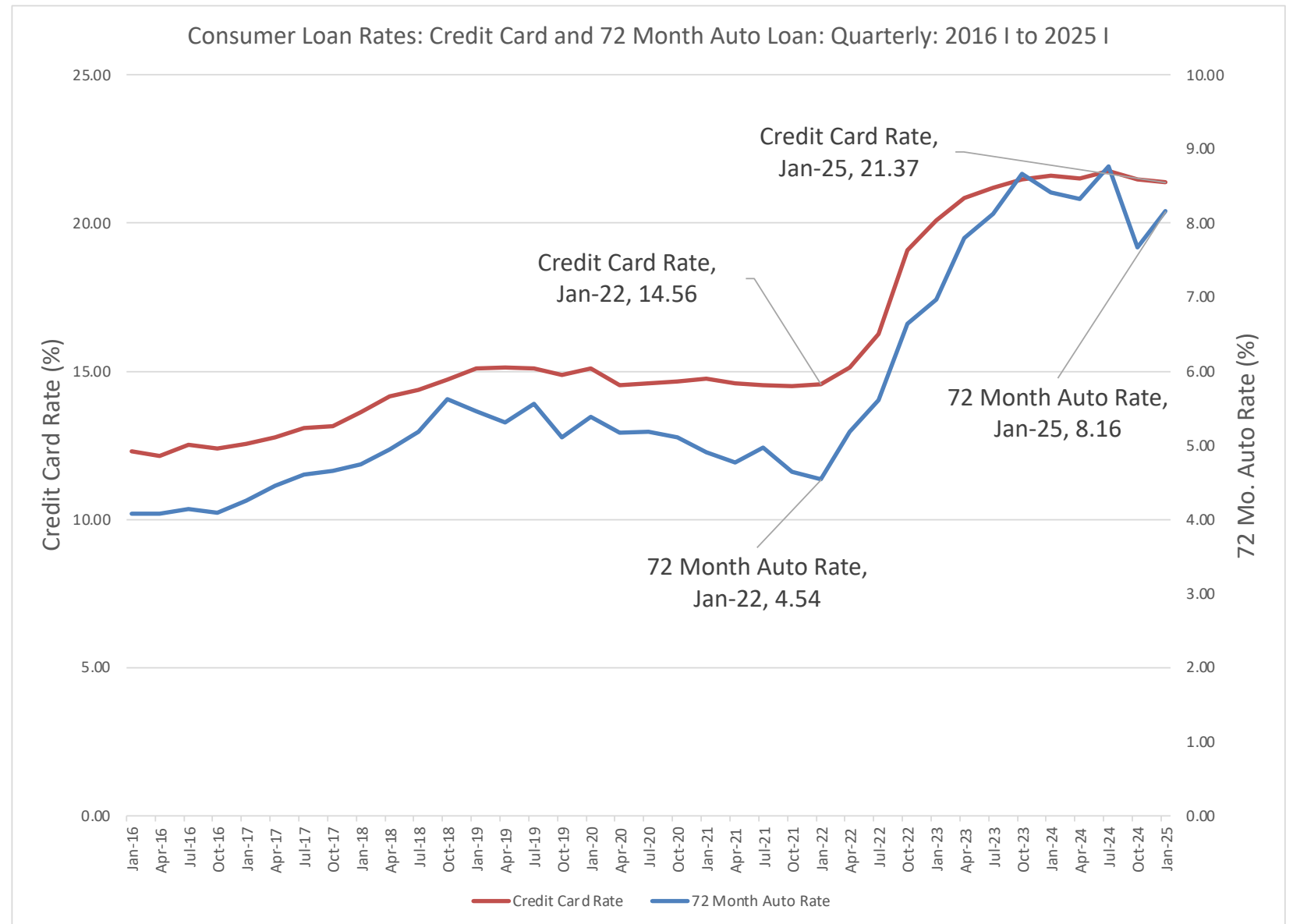
# Consumer Borrowing Rates

Rates have risen substantially since the Fed took on inflation in January 2022

Credit card rates are up almost 50%

Auto loan rates are up almost 60%

This is being exacerbated by rising consumer prices



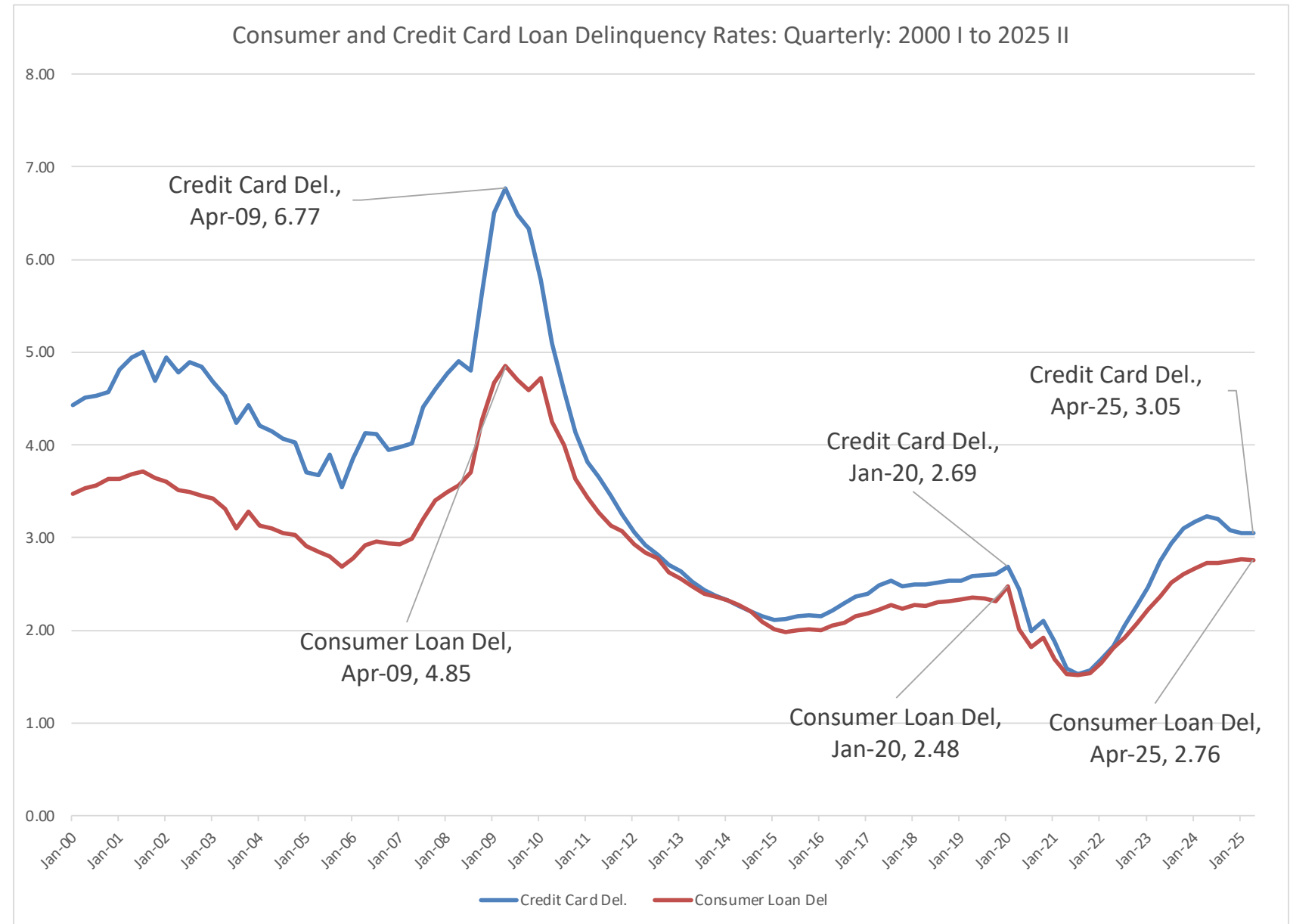
# Consumer Delinquency Rates

Consumer delinquencies were starting to tick up prior to the pandemic

Many households used stimulus money to get out of debt

Inflation and slowing wage growth resulted in their getting back into debt

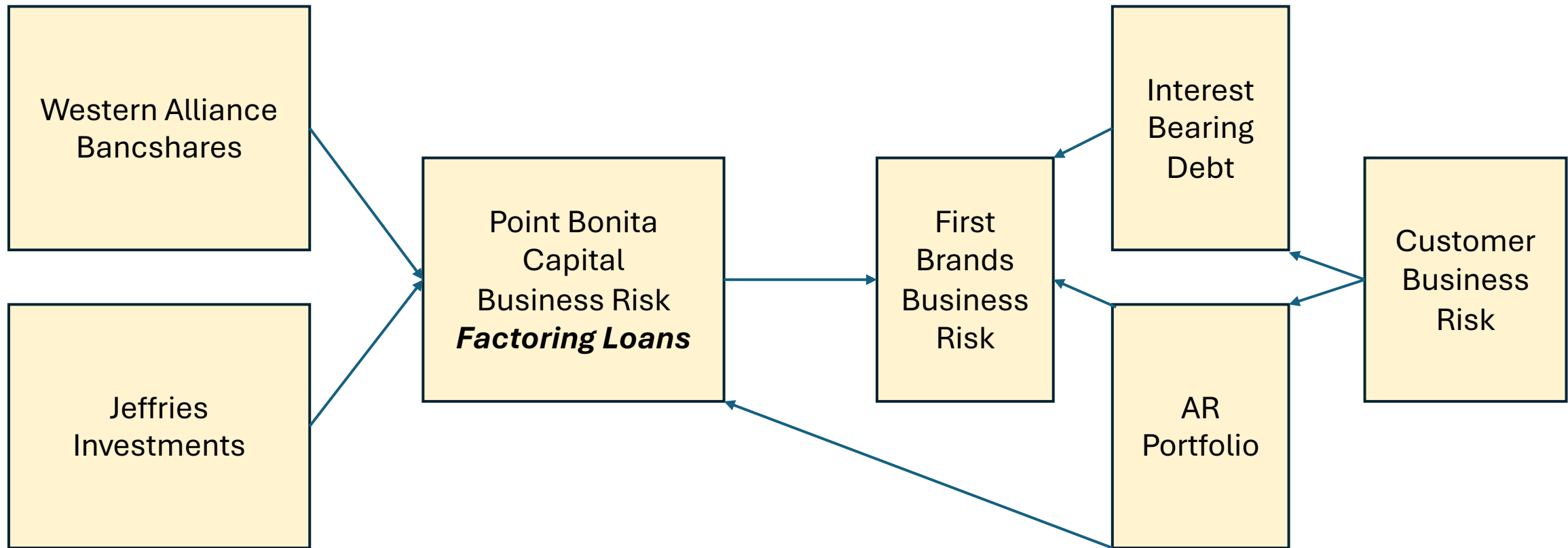
Delinquencies are once again rising



# Structural Changes; Cause for Concern

- The First Brands default is exposing systemic risk in the financial markets
- Post 2008 regulations restricted direct bank lending
- Private lenders began to fill the gap
- Banks are indirectly lending to these private lenders
- Banks are being exposed to risk two to three times removed
- Very similar to unseen and misunderstood risks that brought down the money and debt markets in 2008
- Recent cases: First Brands and Tri-Color Loans

# Multi-level risk exposure



“My antenna goes up when things like that happen. And I probably shouldn’t say this, but when you see one cockroach, there are probably more... Everyone should be forewarned on this.”

Jamie Dimon, 16 October 2025

# Dangers and what's brought us here?

- Financial market collapse/economic crises
- War and global geopolitical tension
- Lack of monetary discipline
- Excessive borrowing, especially by the Federal government
- Stability of the dollar as a global reserve currency
- Shift in corporate finance over to a debt driven capital structure
- Consolidation and concentration of ownership of capital assets
- Increases in non-financial business debt
- Offshoring of manufacturing and business processes
- Increased household debt
- Market shifting from bank to private lending

# Solutions

- Monetary discipline
- Alignment of government spending with sound policy and tax revenue
- Reduce or eliminate the rate at which the economy is consolidating, especially in debt-financed transactions
- Increase net new investment in the domestic economy
- Create pathways to employment in line with future needs
- Establish and maintain trading and geopolitical partnerships that make sense from an economic and security standpoint
- Don't allow polarization to neutralize the effectiveness of our governmental and societal institutions

# For credit managers

- Increase liquidity and reduce leverage on your own balance sheet
- Monitor customer short- and long-term liquidity: make sure you understand the term structure of all of your customers' liabilities
- Go further and deeper upstream and downstream in analyzing sources of risk that affect your business given your position in the value chain
- Diversify your banking and other key relationships
- Increase credit monitoring, especially in industries in which tariffs are a significant factor
- Organize your portfolio based on customers' exposure both up and downstream of their business positions
- Advocate for sensible trade and other policies within your industries

# Disaster Plan Checklist Questions

- Where are the risks in our supply chain? How do we mitigate those risks?
- Should we keep an extra quantity of inventory/supplies on hand to deal with a shortage? How much should we hold and at what cost?
- Do we have adequate levels of liquidity? Do we have additional sources of liquidity? To how much liquidity do we have access? Should we hold more?
- Do we have a sound plan for cash flow management if different scenarios materialize? Can we model those scenarios?
- What can we do to support our customers' businesses through the disaster?
- What resources do we have for supporting our people in the event of such a disaster? Can we maintain team cohesiveness? Can we maintain morale? Can we financially support them?