

# ***On the Economic, Business and Political Climate***

***Roger Tutterow, Ph.D.  
Coles College of Business  
Kennesaw State University  
rtuttero@kennesaw.edu***

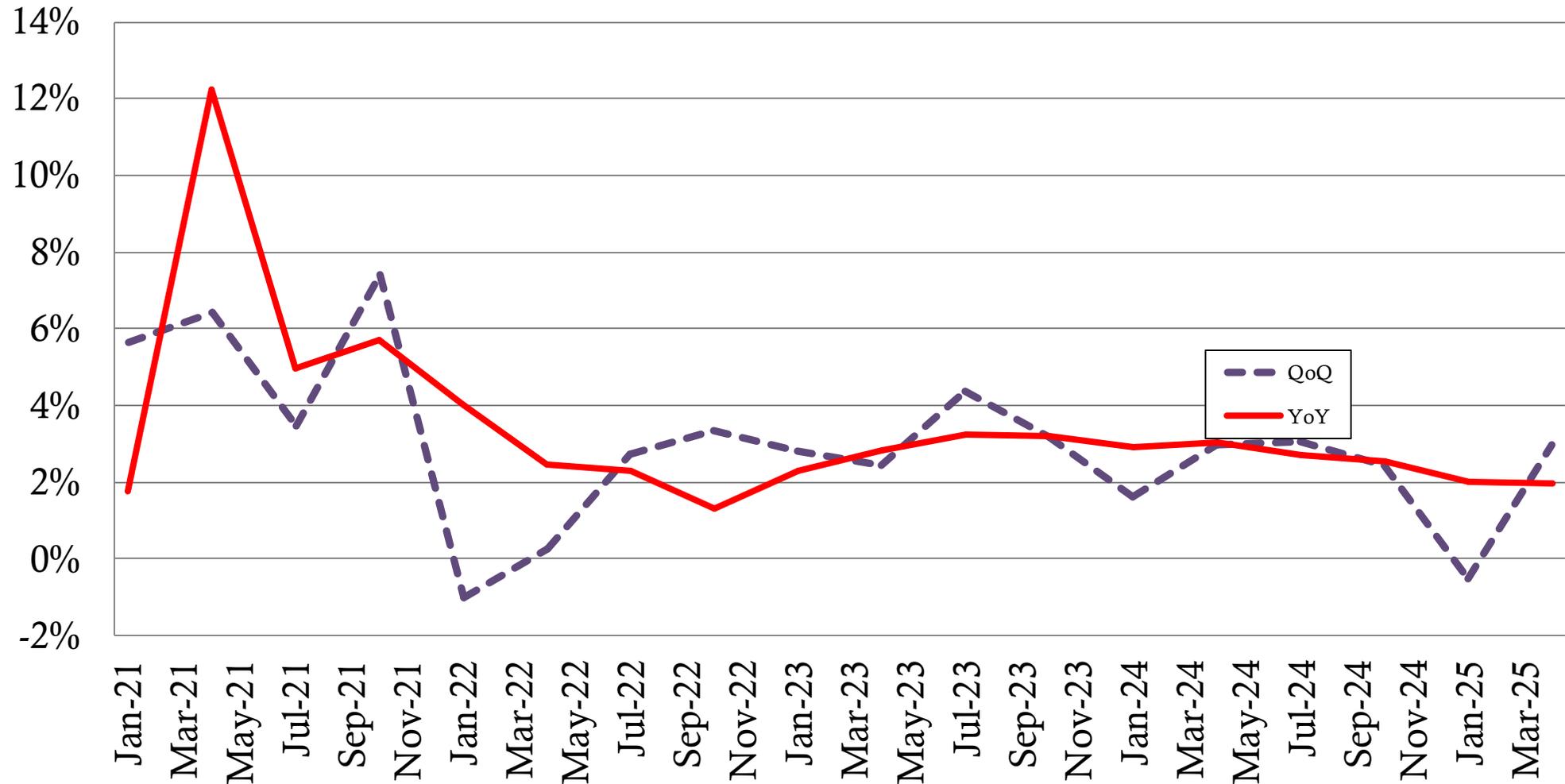
***2025 NAPCA Summer Workshop  
August 14, 2025  
Houston, TX***

# Topic #1:

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

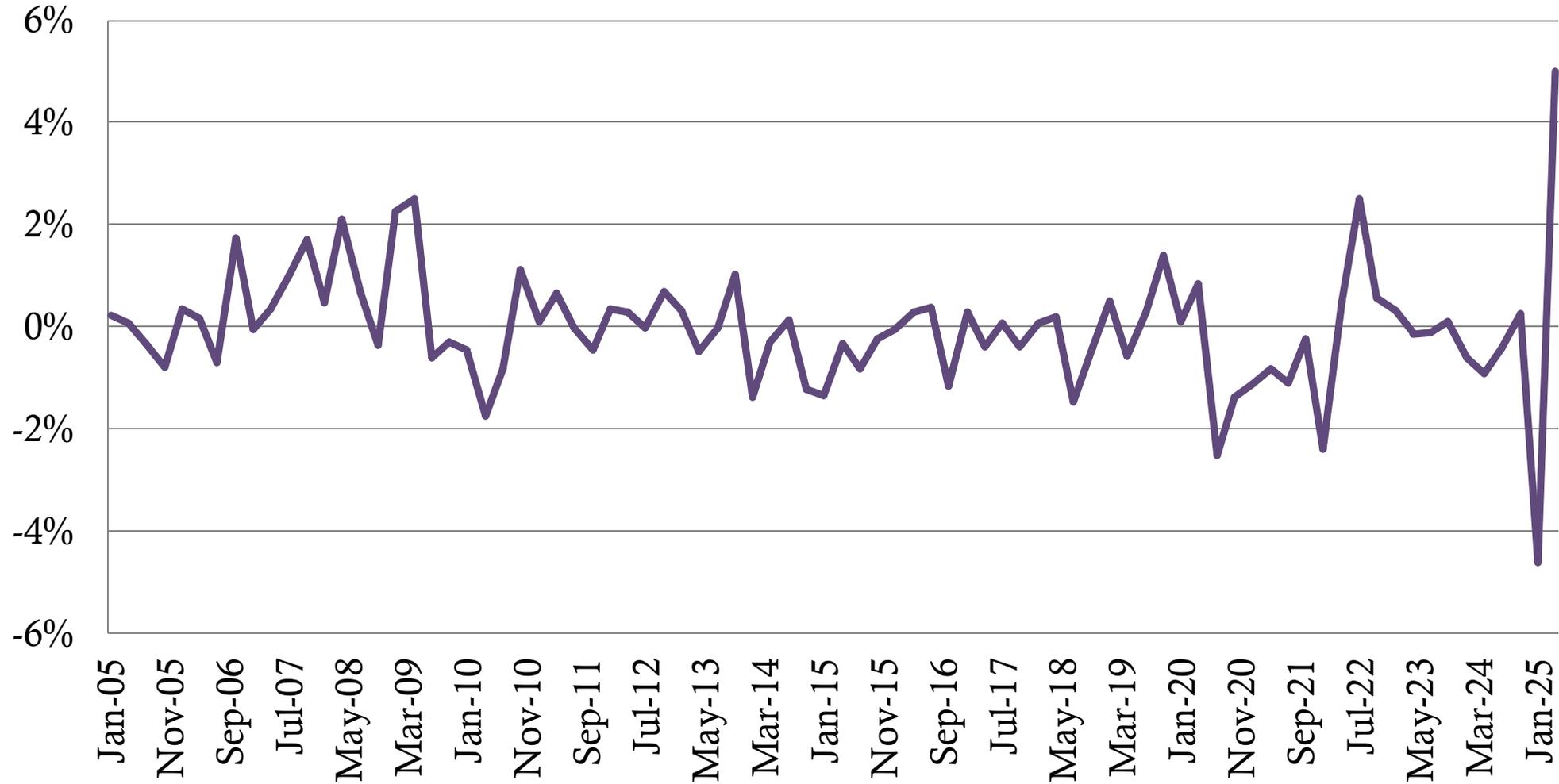
# Gross Domestic Product

(source: Department of Commerce)



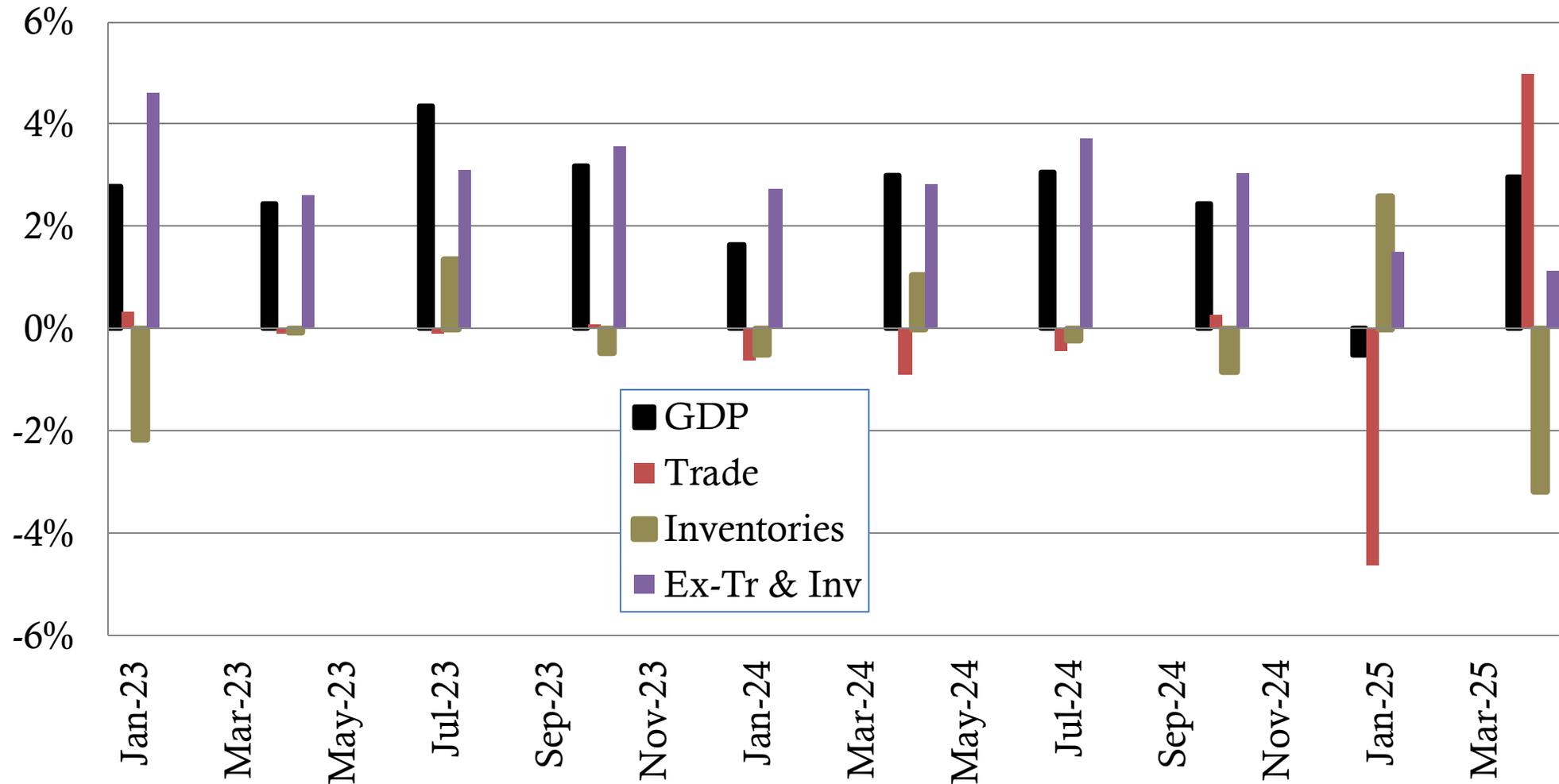
# Gross Domestic Product: Contribution of Net Exports

(source: Department of Commerce)



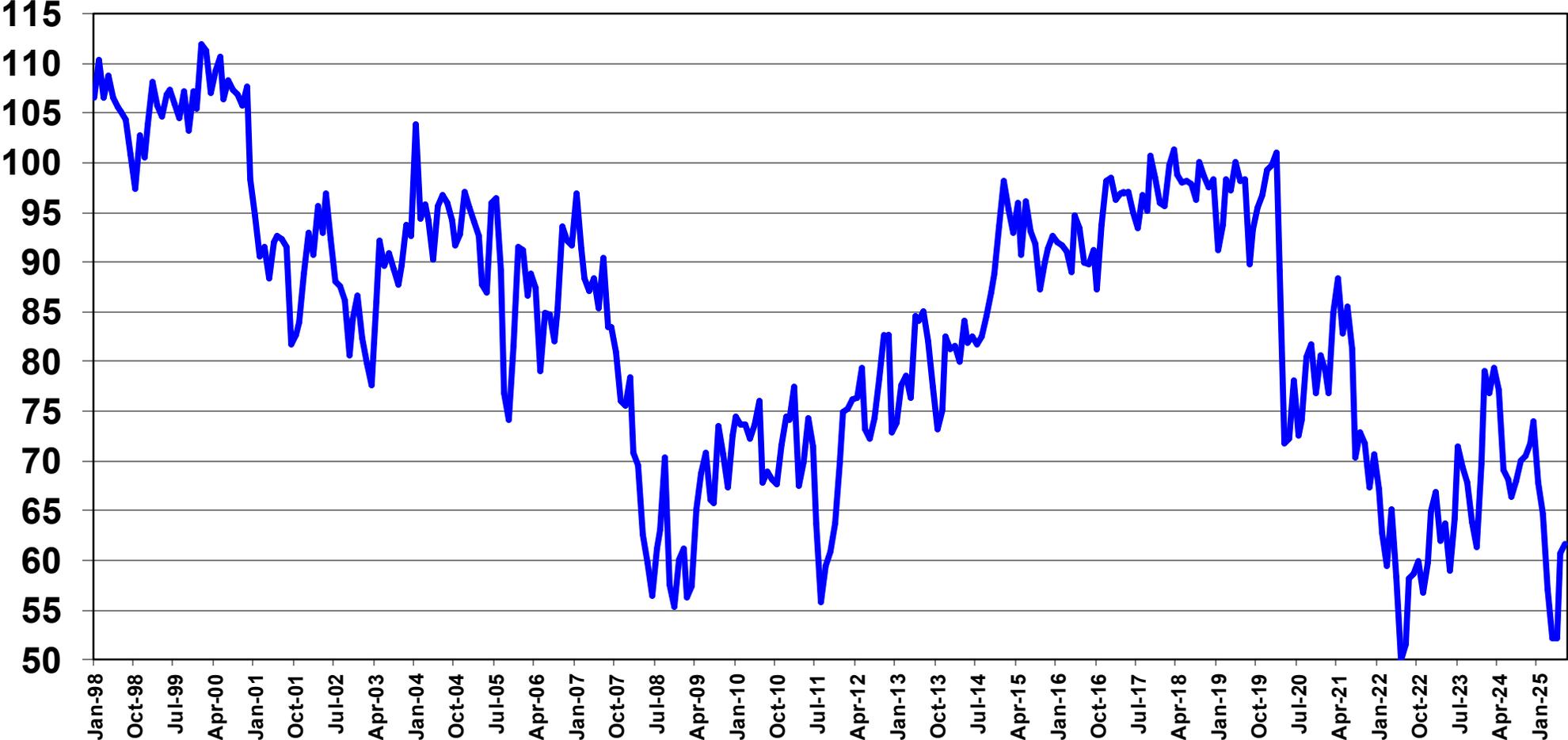
# Gross Domestic Product: Ex-Trade & Inventories

(source: Department of Commerce)



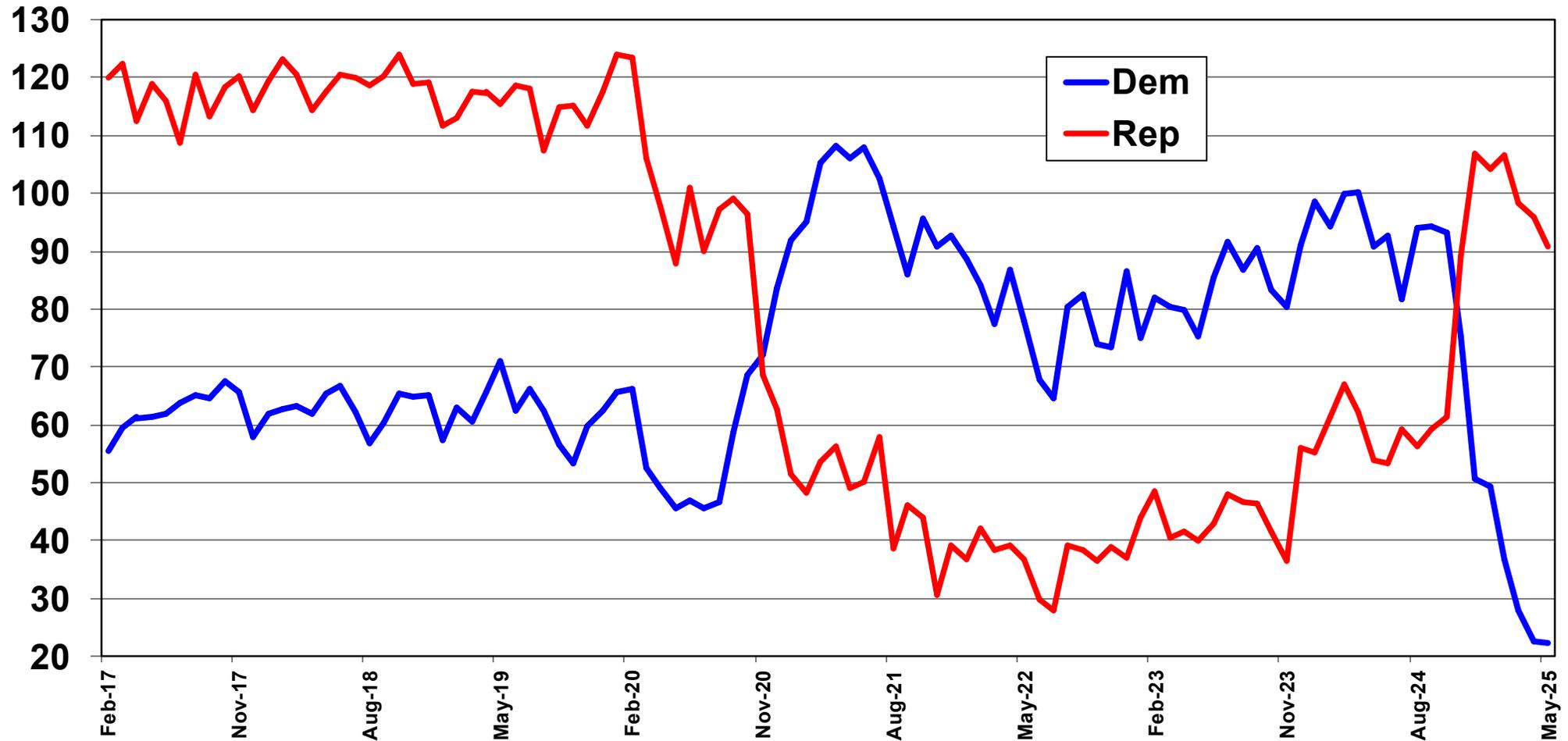
# Consumer Sentiment

(source: University of Michigan, Survey Research Center)



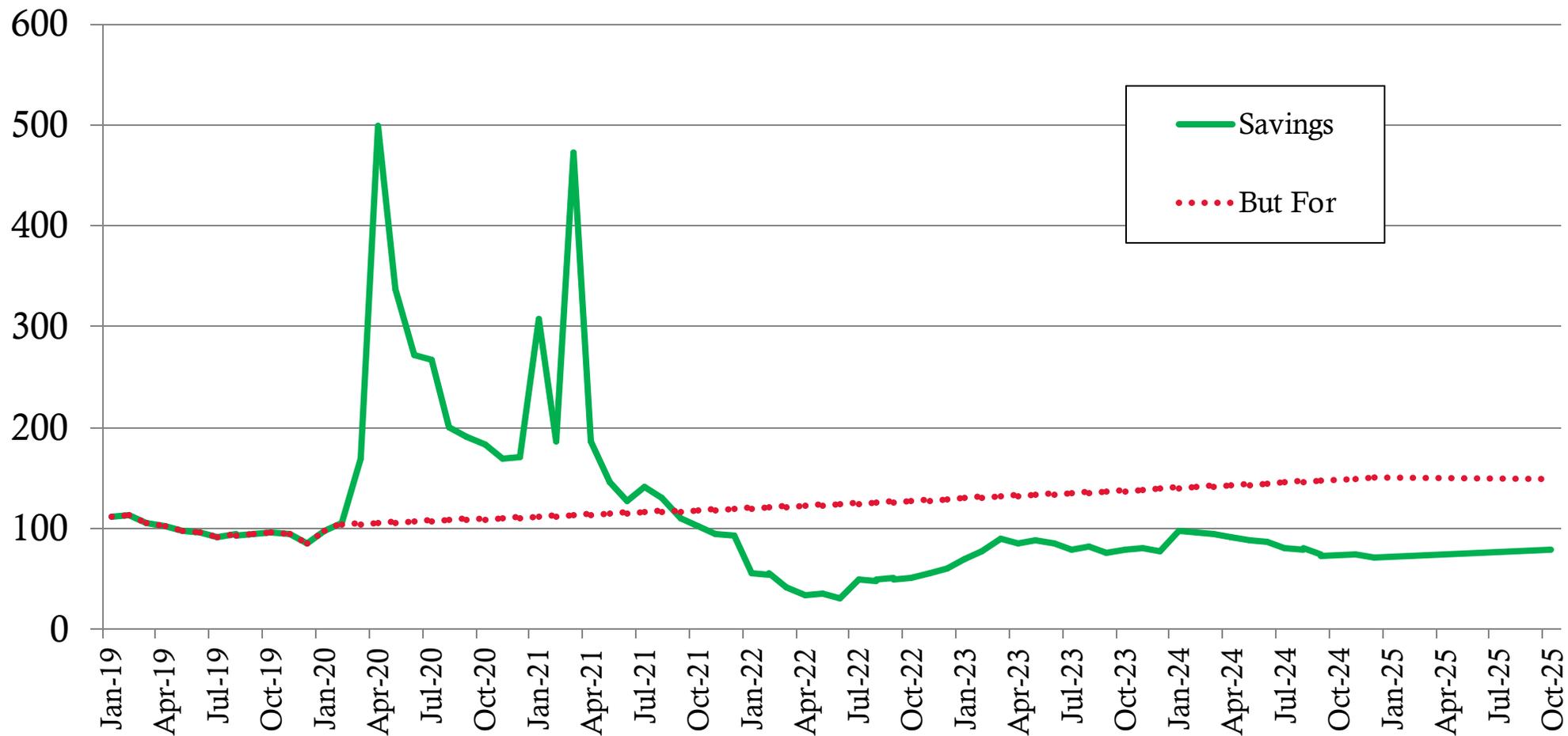
# Consumer Expectations: By Party

(source: University of Michigan, Survey Research Center)



# Personal Savings

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



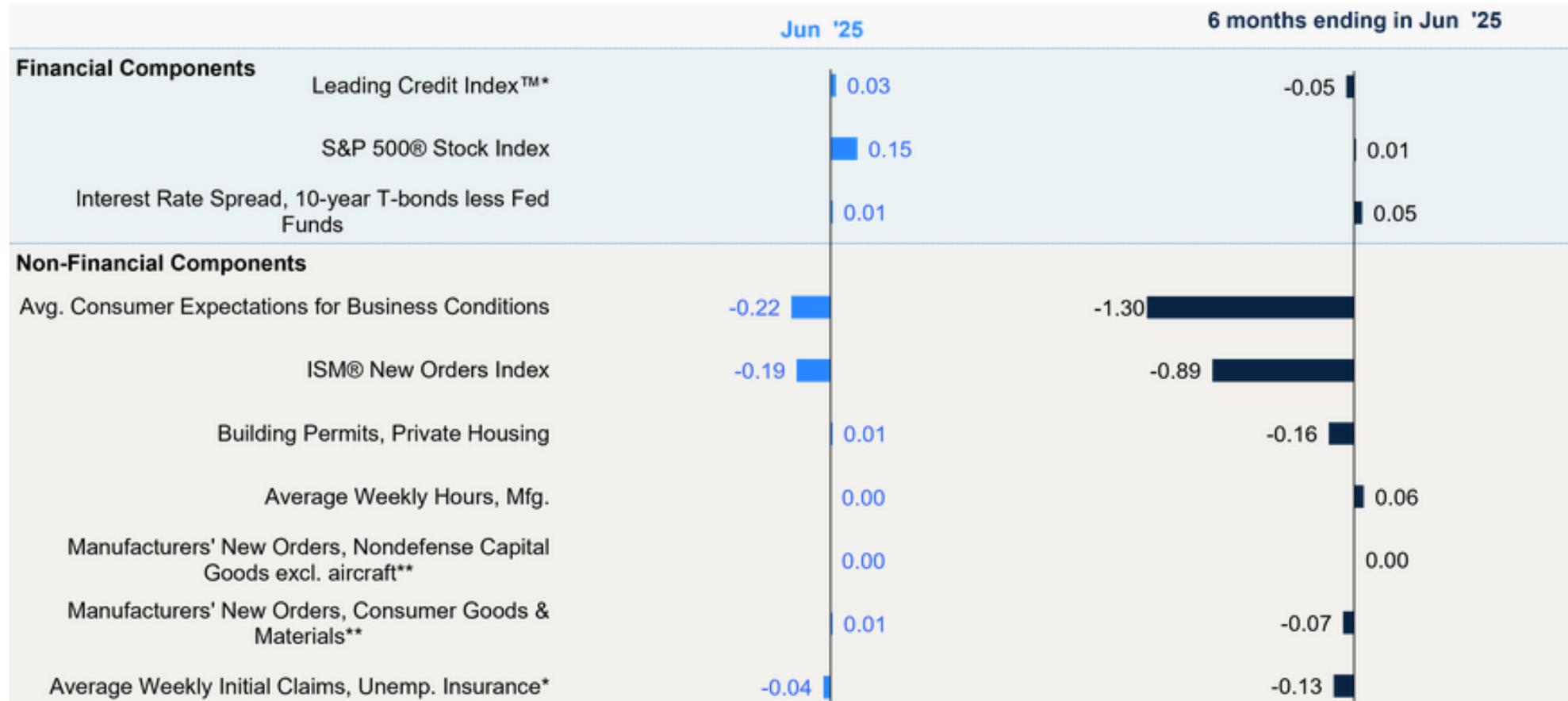
# Leading Economic Indicators

(source: Conference Board, 6 month change)



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(source: Conference Board, 6 month change)

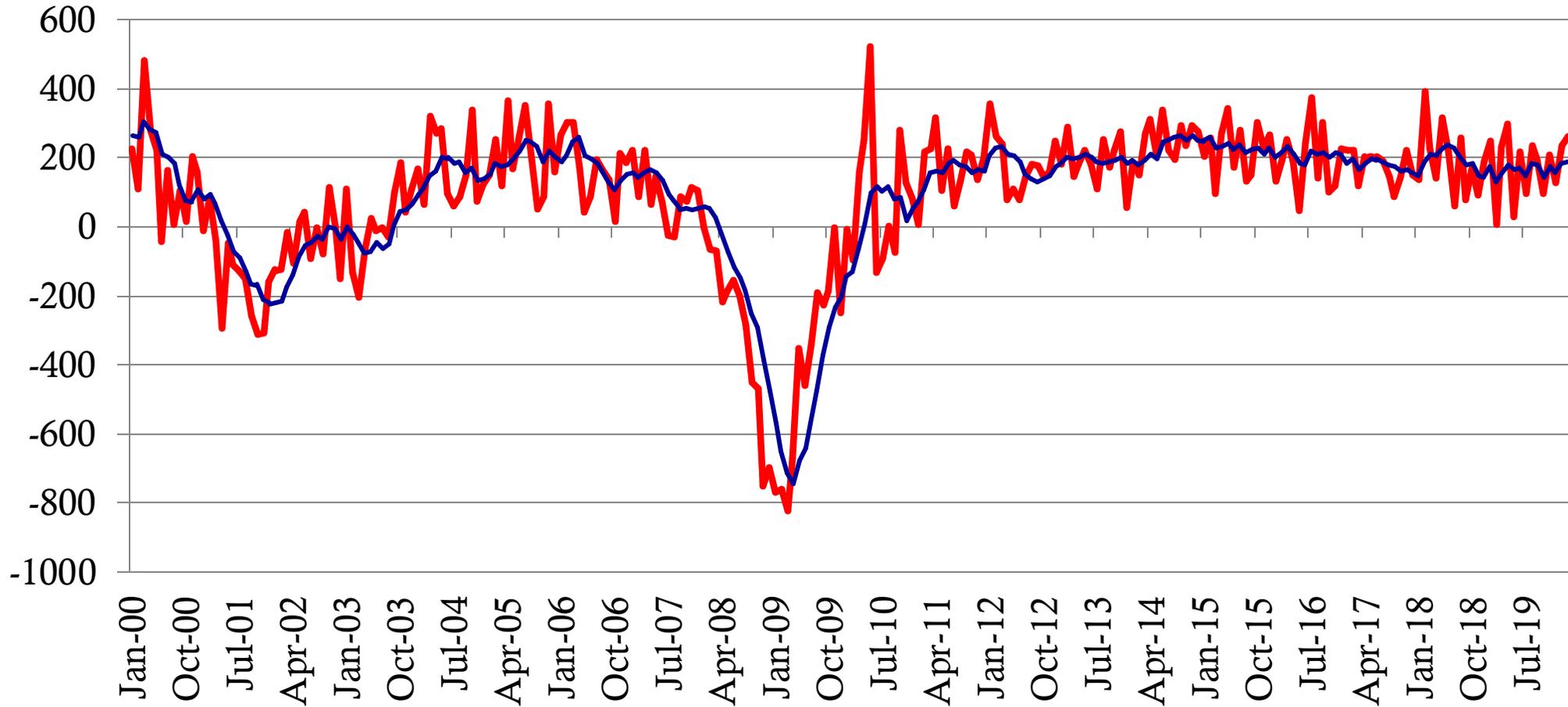


# Topic #2:

Tight labor markets – Is the challenge easing?

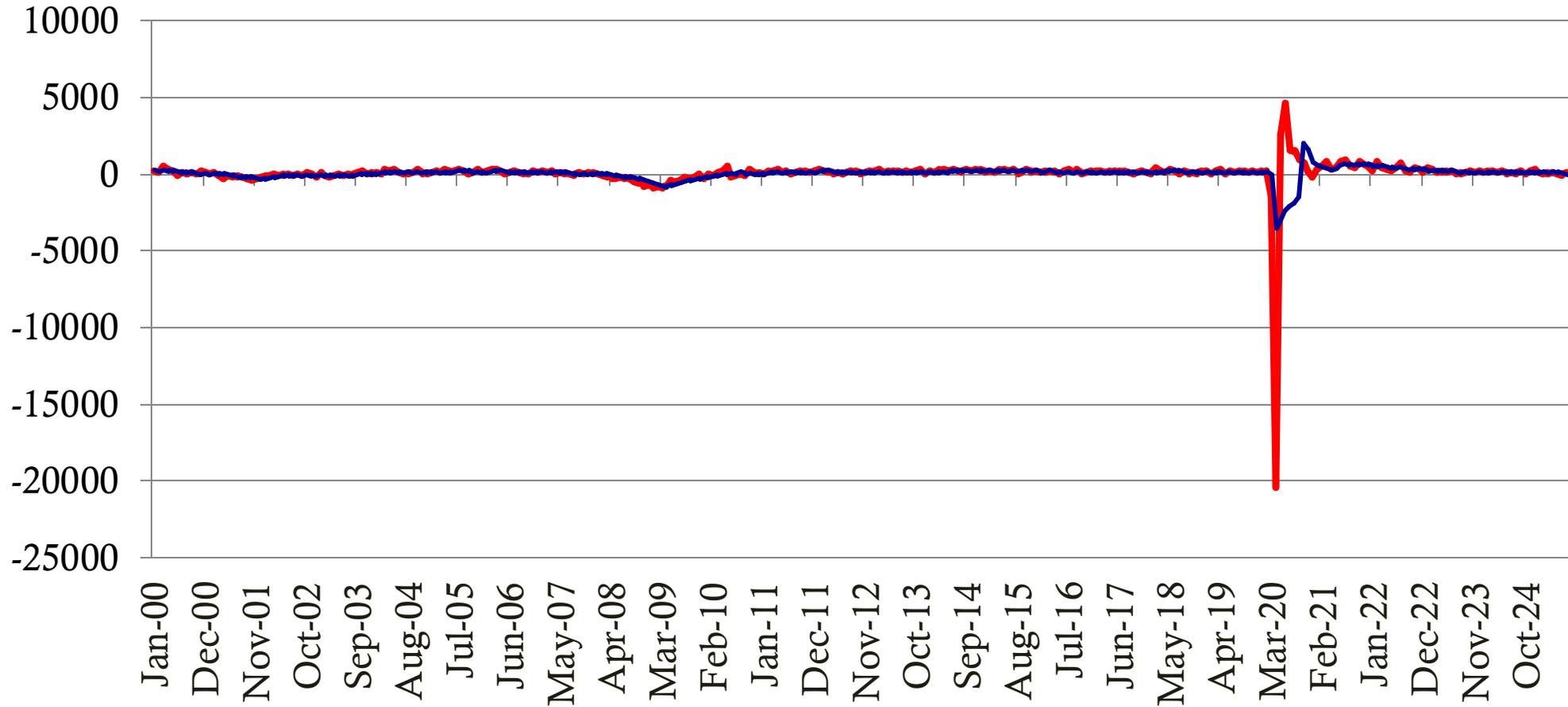
# Change in Payroll Employment

(Source: Bureau of Labor Statistics)



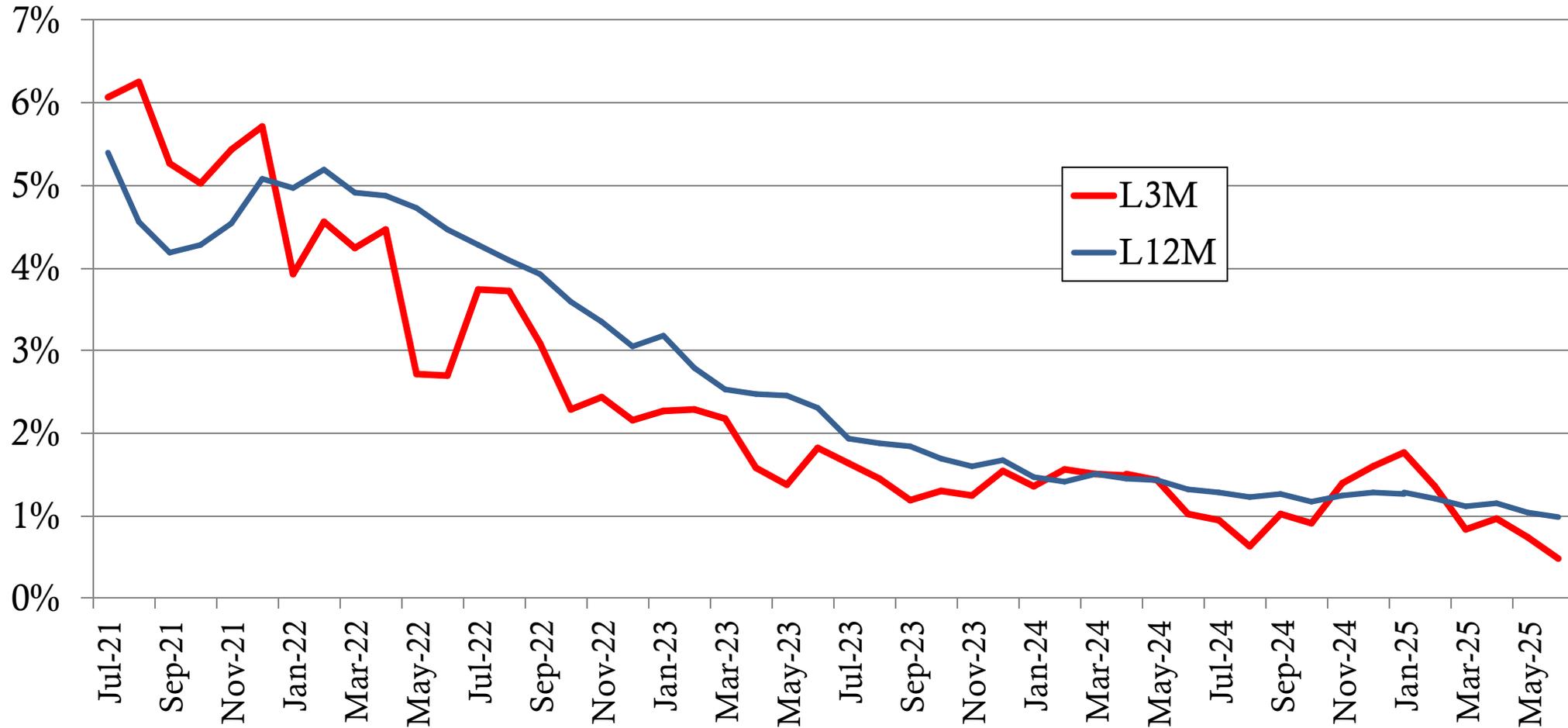
# Change in Payroll Employment

(Source: Bureau of Labor Statistics)



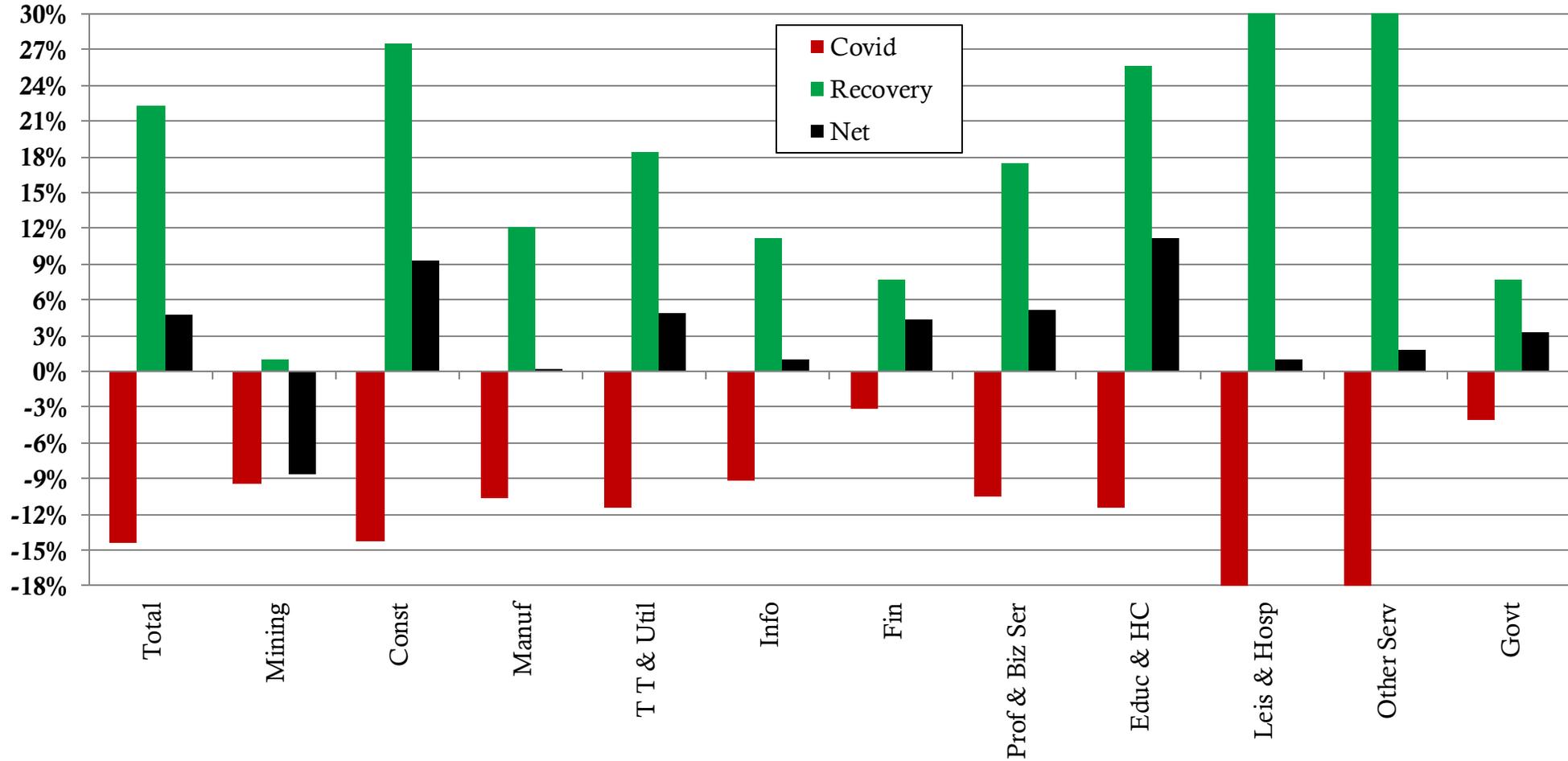
# Payrolls Growth

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



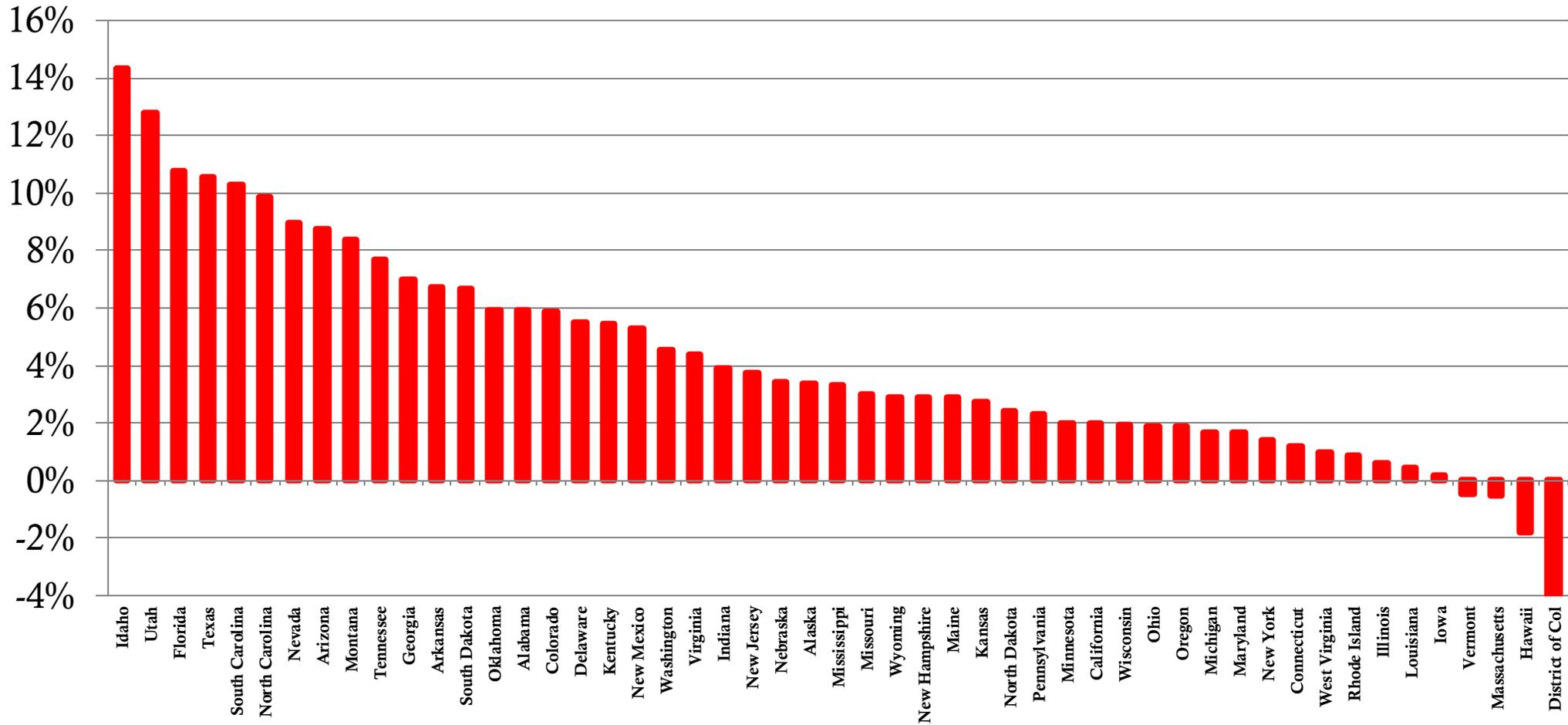
# Employment: by Sectors

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



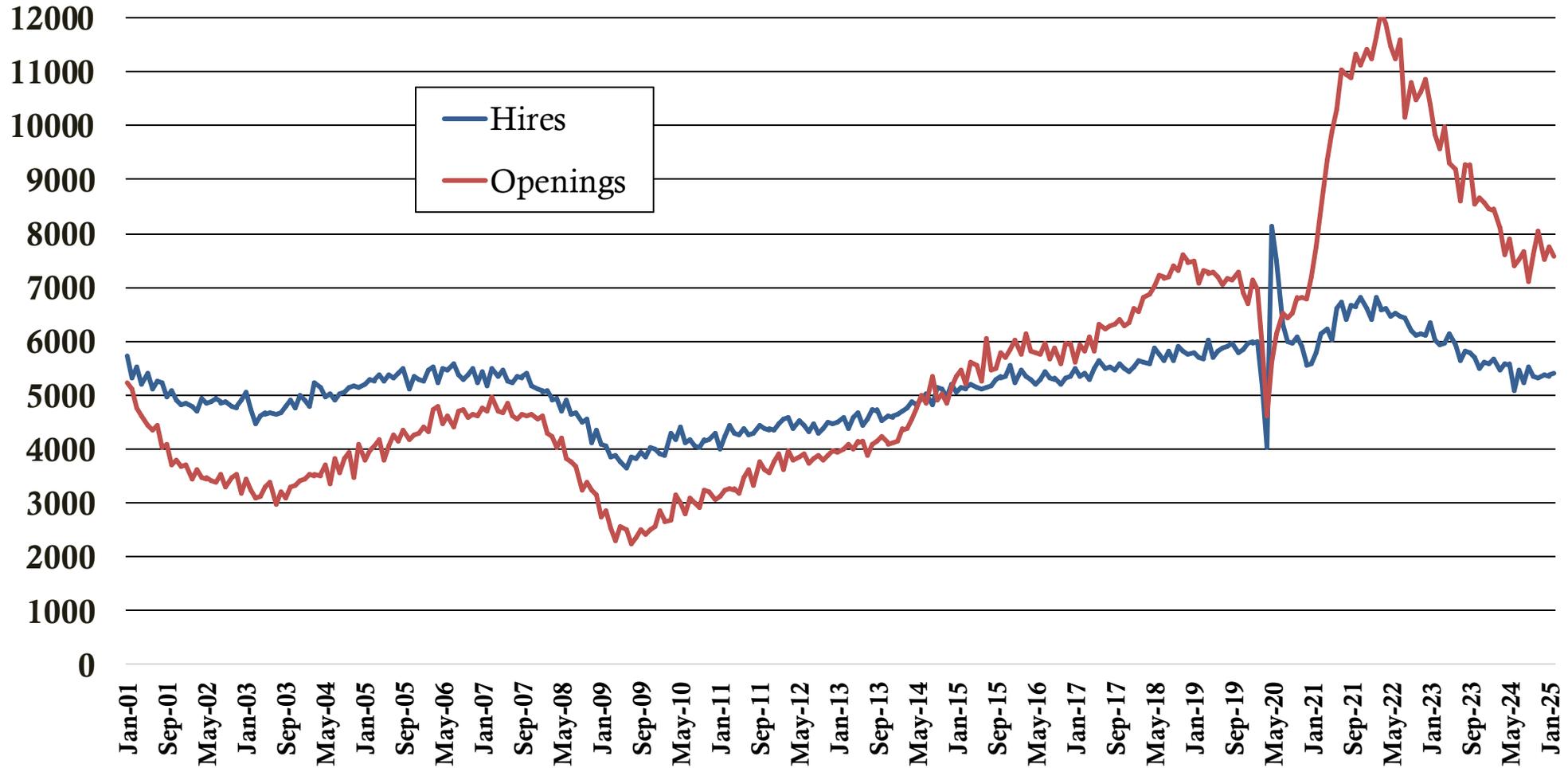
# Recovery from Bottom

(Source: Bureau of Labor Statistics; through June 2025)



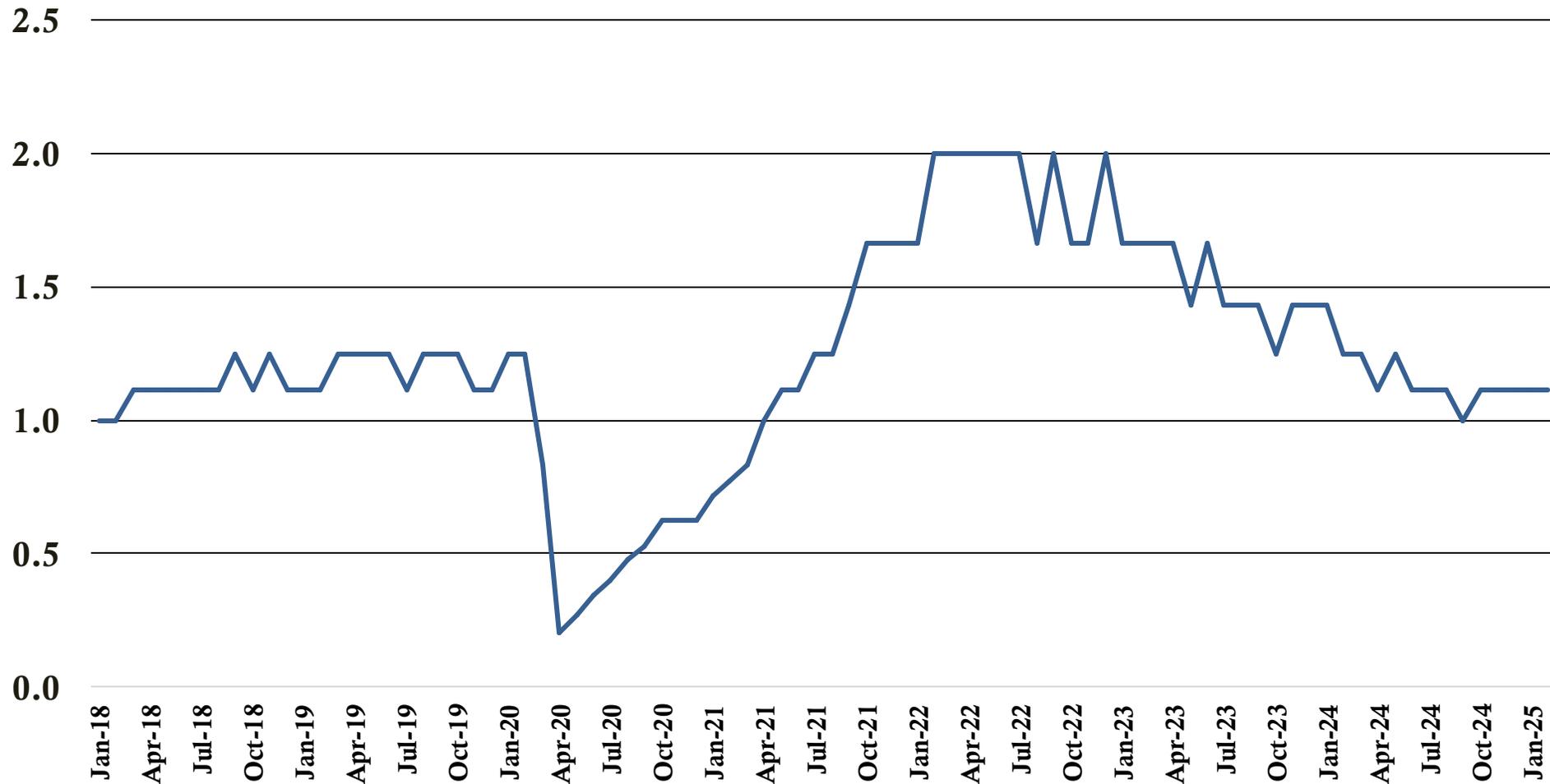
# JOLTS: Openings & Hires

(Source: Bureau of Labor Statistics)



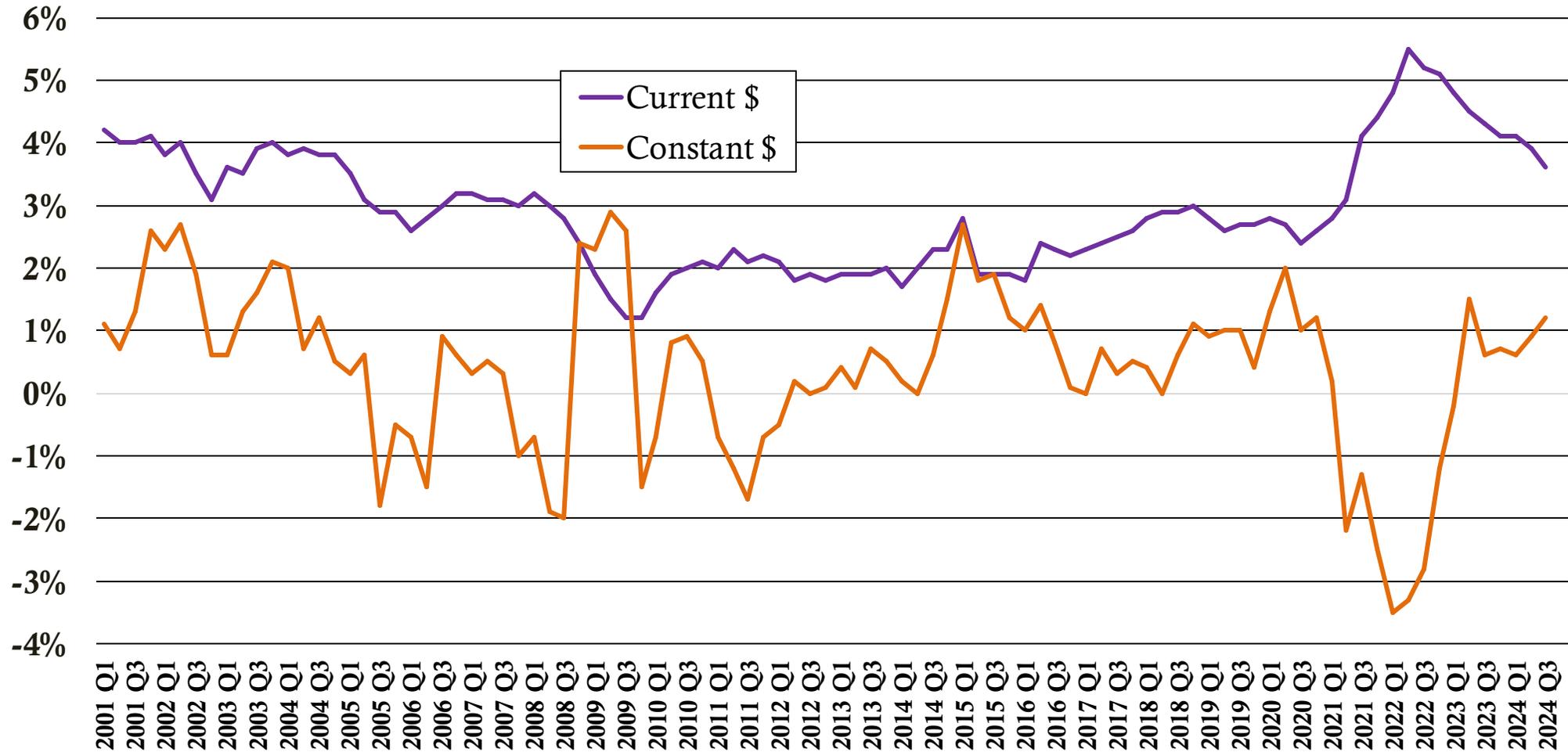
# JOLTS: Openings/Unemployed

(Source: Bureau of Labor Statistics)



# Employment Cost Index: Role of Inflation

(Source: Bureau of Labor Statistics)

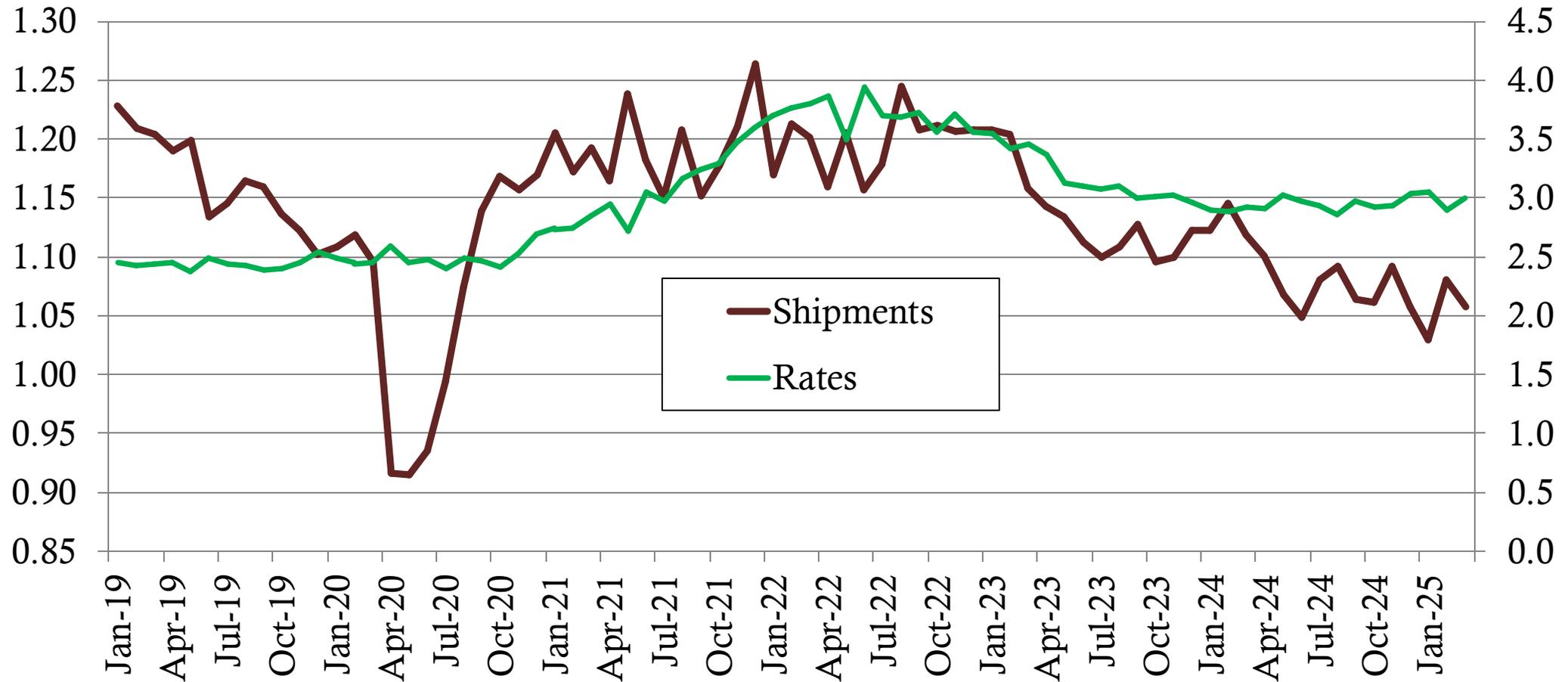


## Topic #3:

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

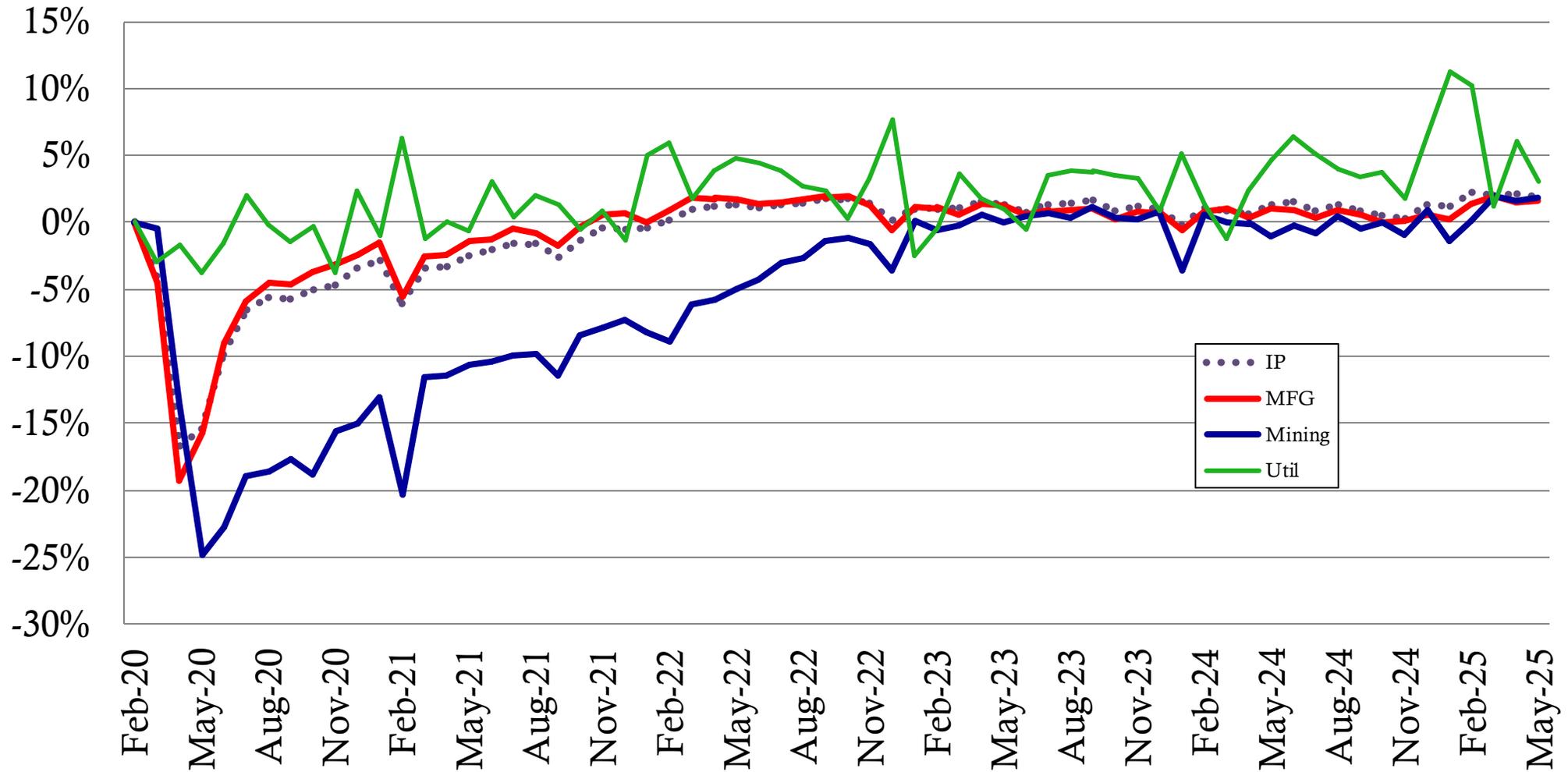
# Freight: Shipments & Rate

(source: Cass Freight Index, Seasonally Adjusted)



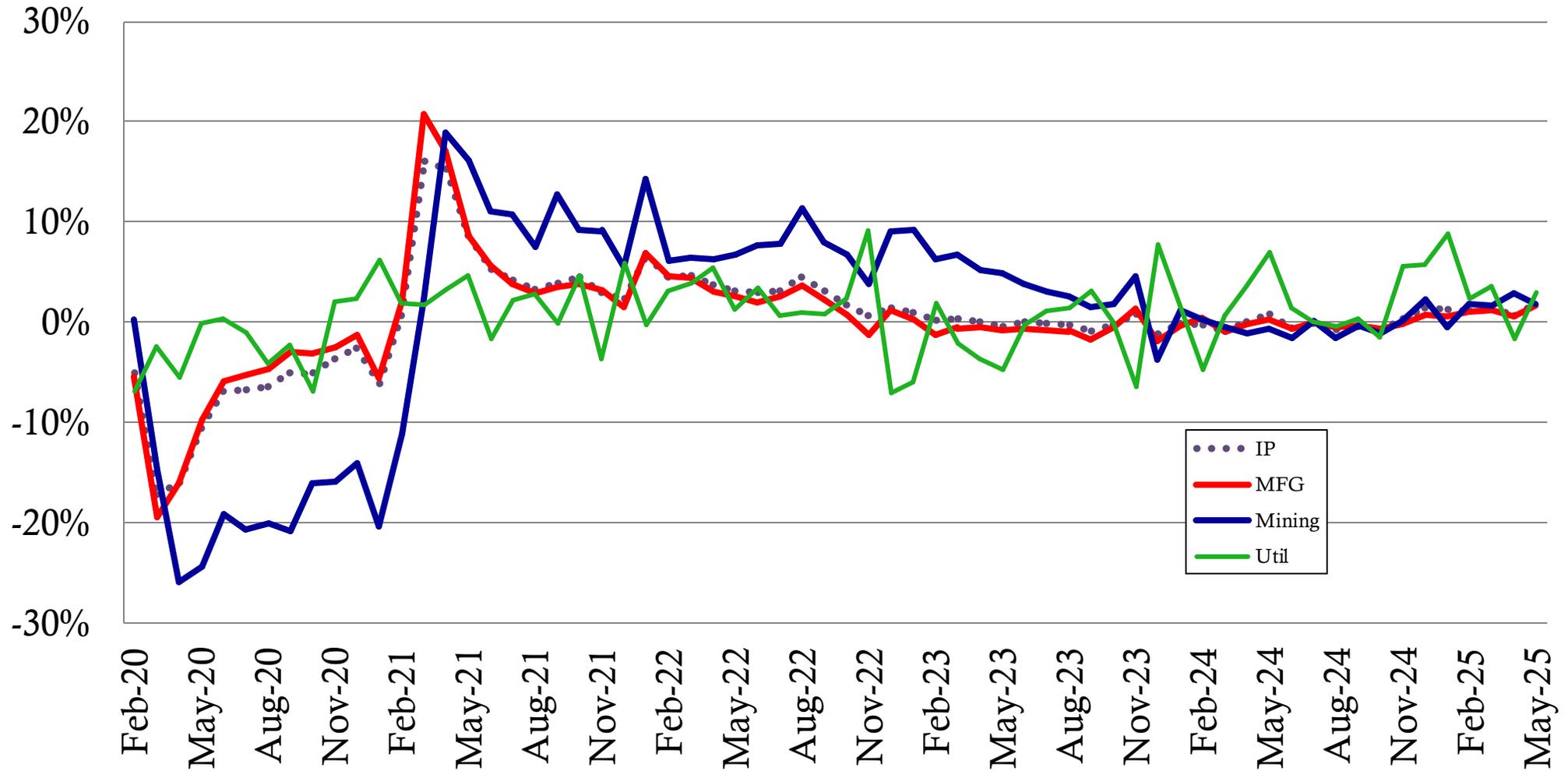
# Industrial Production: From 2020 Peak

(source: Federal Reserve)



# Industrial Production: Year over Year

(source: Federal Reserve)



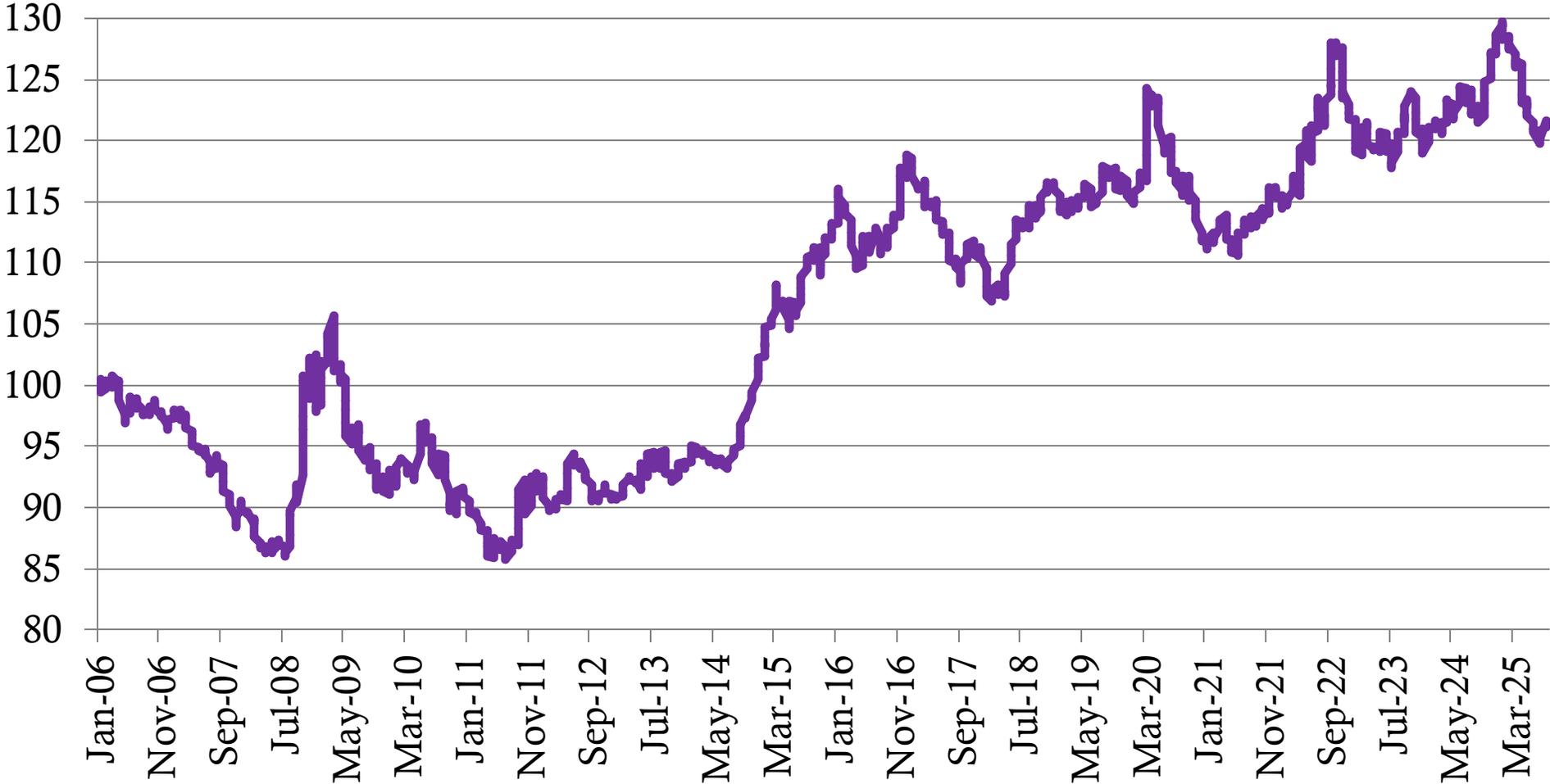
# Global Supply Chain Pressure

(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

# Update of Tariffs

- Countries
  - Japan has reached a deal, bringing the tariff rate to 15%. Recent adjustment to prevent “stacking” of tariffs (similar to EU carve out). Auto parts tariffs will fall to 15%. Nikkei hits record high.
  - China gets 90-day extension on tariff truce (holding at 30%/10% level)
  - South Korea is also at 15% with the conditions that South Korea invest in the U.S. economy.
  - EU has a 15% trade deal, but several industries are exempt.
  - Brazil is facing 50% on many goods.
  - India currently has a 25% tariff with threats for higher due to its purchase of Russian Oil
  - Mexico is granted a 90-day reprieve to strike a long-term deal.
  - Canada (35%) and Mexico (25%) do have tariffs that are currently imposed, but USMCA goods are exempt, which accounts for over 90% of goods, with non-USMCA-compliant vehicles and parts remaining at 25%.
- Product Specific
  - Semi-finished copper products are now at 50%.
  - A 25% on automobile parts are leading to accelerated activity in some domestic assembly locales.

# Update of Tariffs

- ISM-PMI still contracting – lowest in 9 months. Imports in contraction for 4 months. Price still rising, but slower than in June.
- Manufacturers are slowing capital expenditures as they wait for more “clarity”
- IEEPA (77) finished oral argument on July 31; ruling forthcoming.
- Domestic impact is product of
  - Tariff rate
  - Margin compression for producer
  - Change in FX
  - Percentage of final good subject to tariff
  - Ability of final consumer to substitute
- 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?

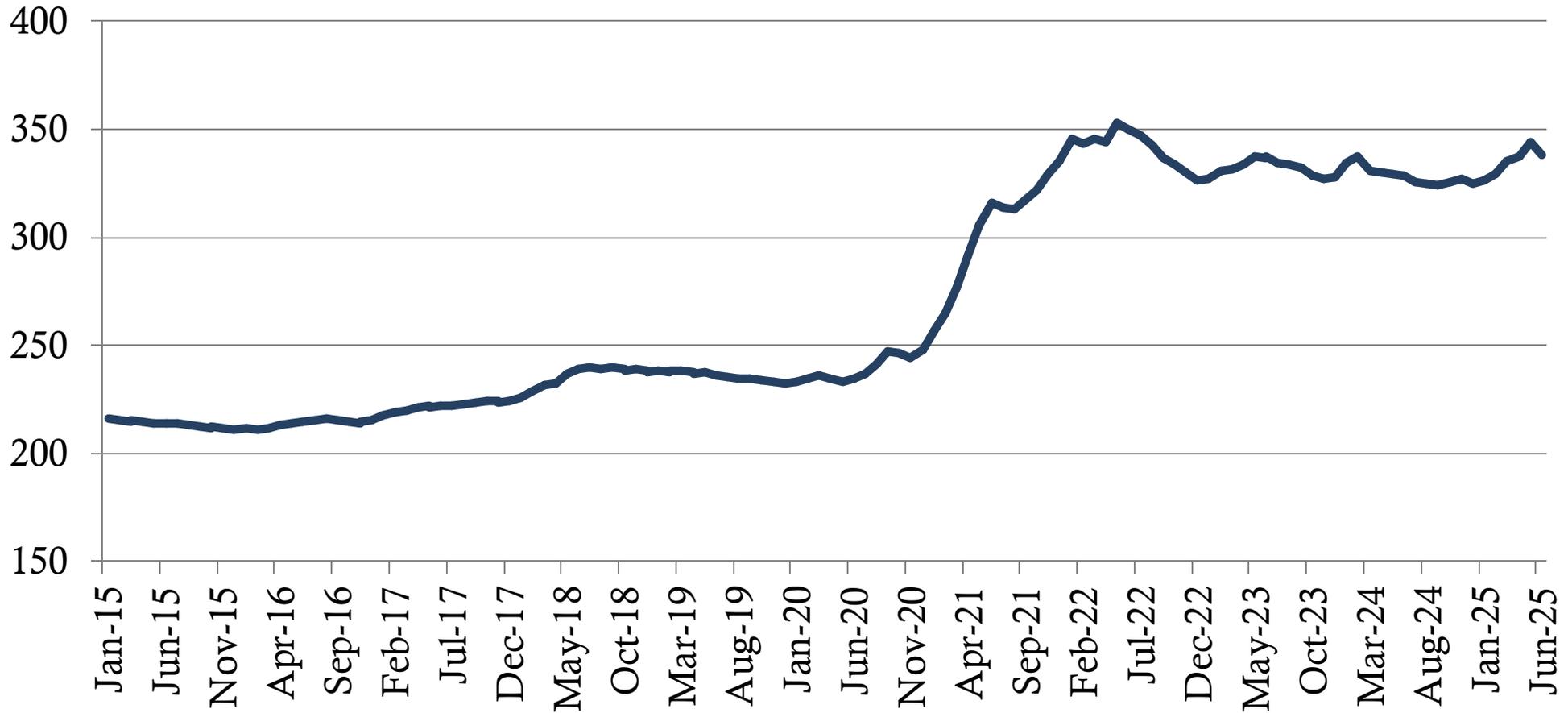
# Inflation: Transitory or Persistent?

(source: Bureau of Labor Statistics)

- CPI up 0.2% in July – after being up 0.3% and 0.1% in two previous months. Overall CPI up 2.7% over last 12 months.
- Core CPI up 0.3% in July – after being up by 0.2% and 0.1% in two previous month. Core up 3.1% over last year.
- Energy component was down 1.1% in July. The energy component is now down 1.6% over the last 12 months.
- PCE up 2.6% for 12 months ending in July, core PCE up 2.8% over the same period.

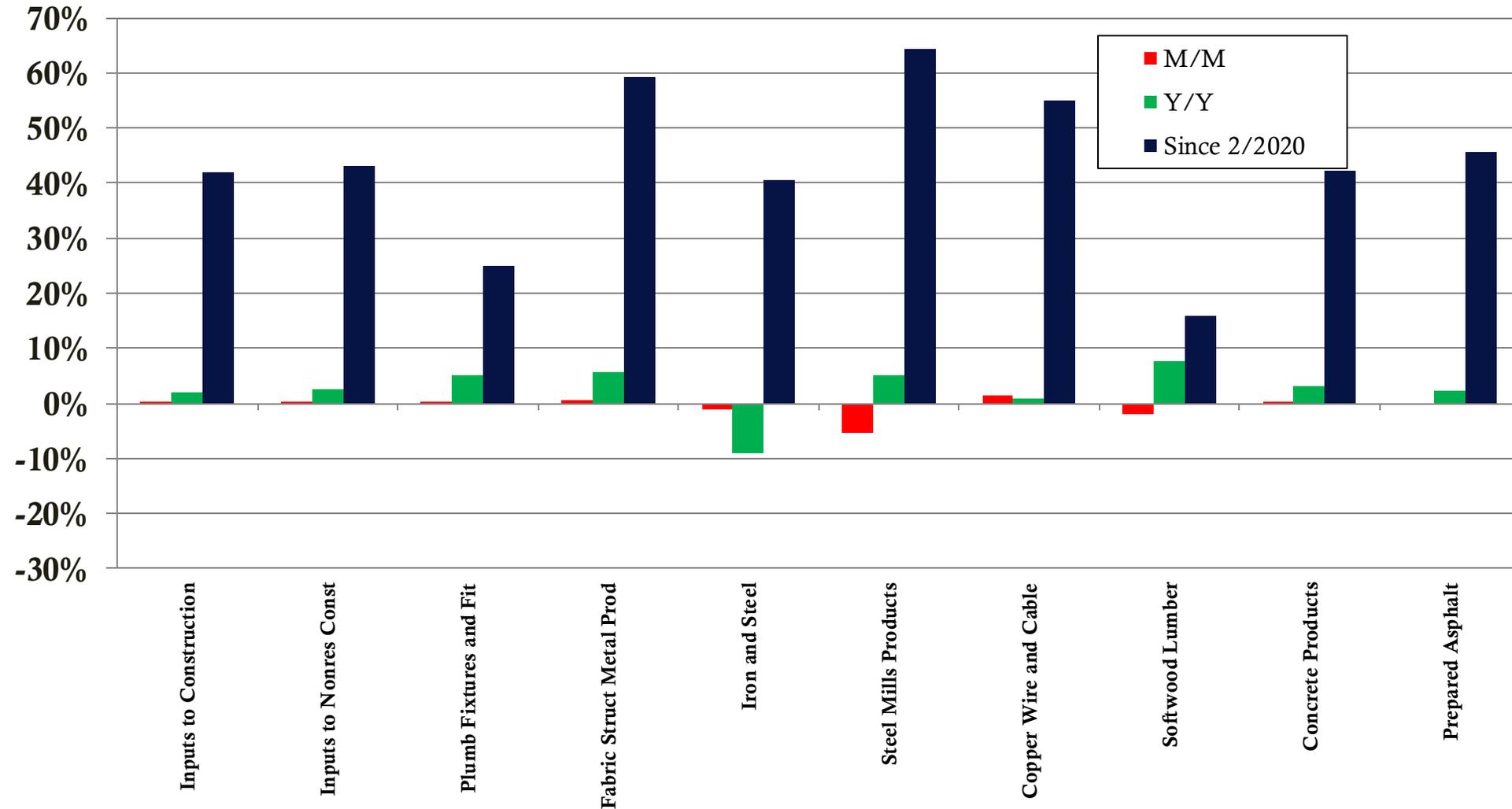
# Producer Price Index: Construction Materials

(source: Bureau of Labor Statistics)



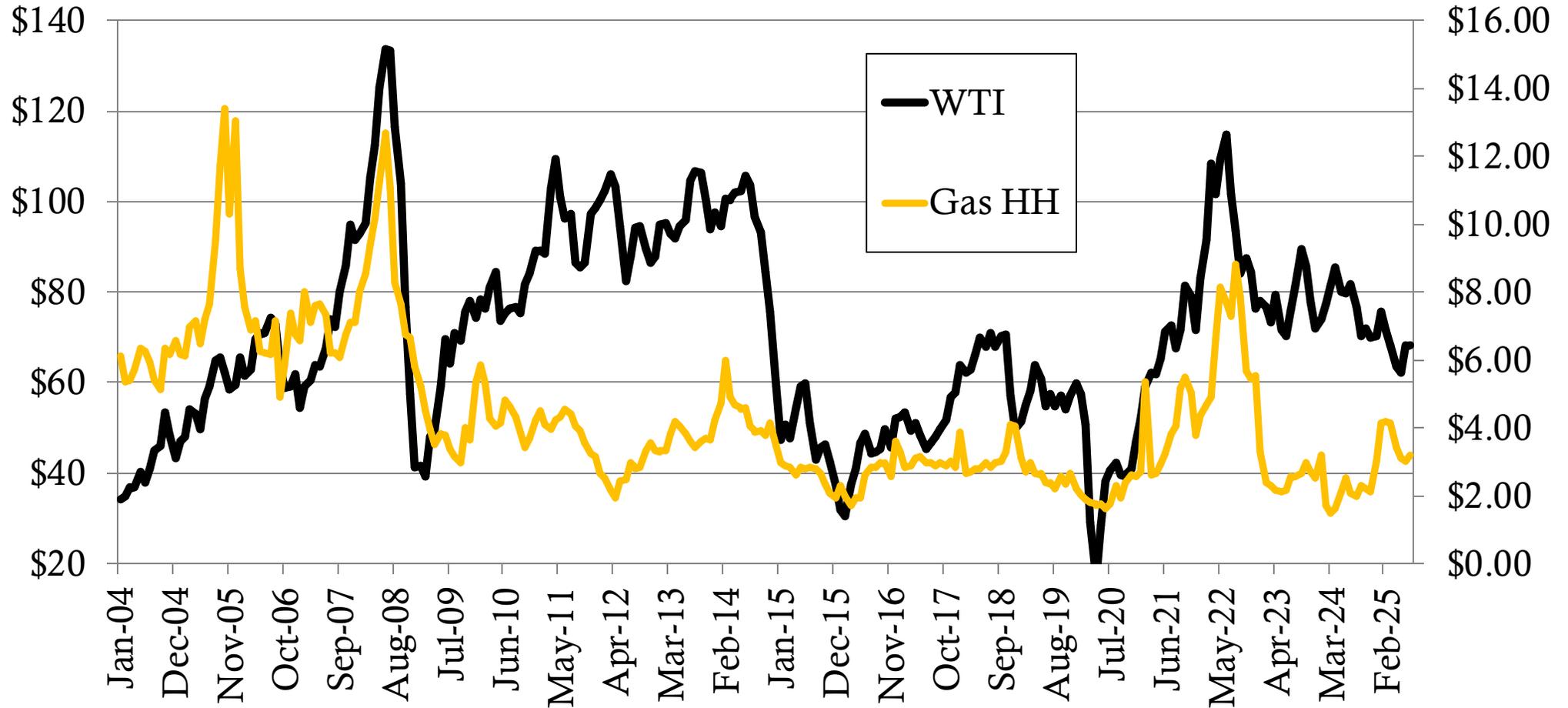
# Construction Cost thru June 2025

(source: Bureau of Labor Statistics; Associated Builders & Contractors)



# Energy Cost: Oil & Natural Gas

(source: U.S. Energy Information Administration)

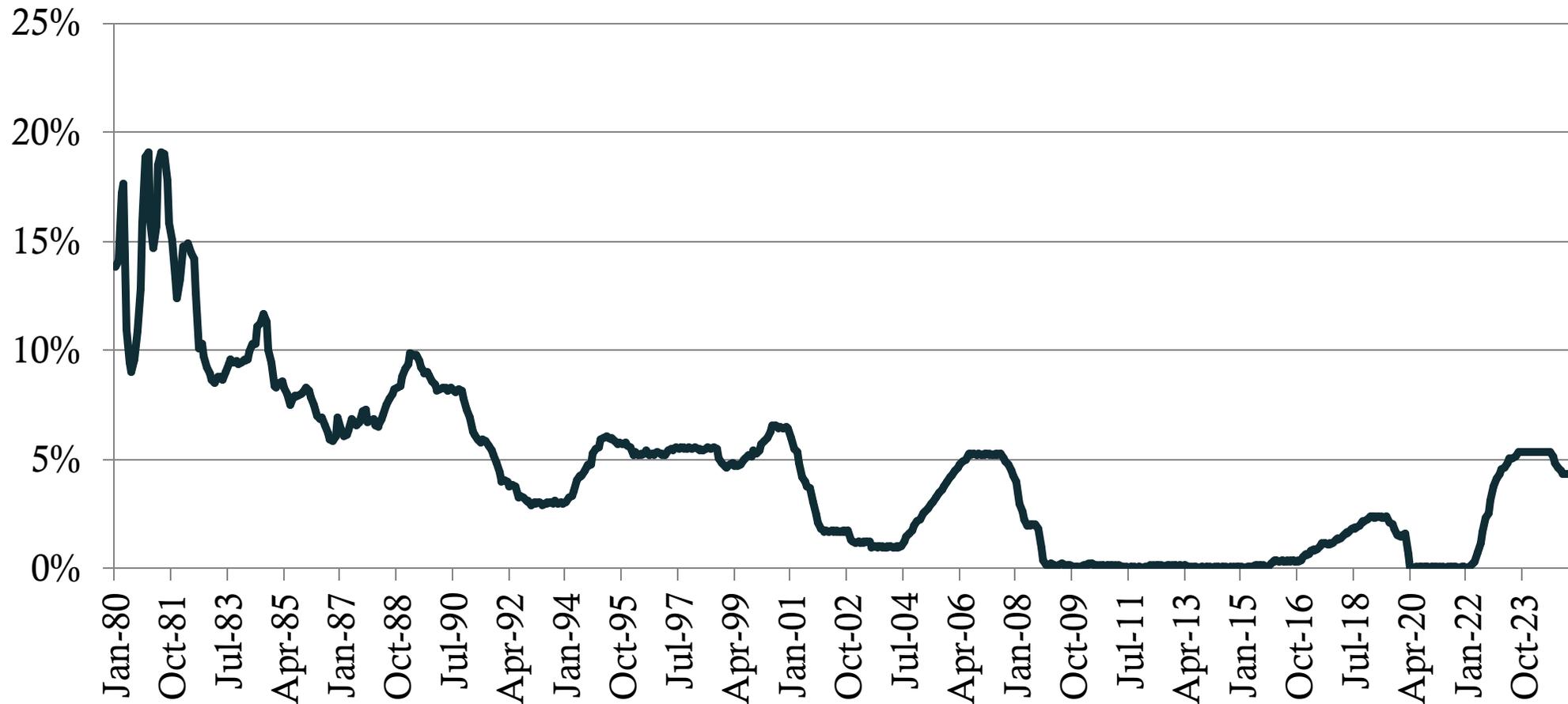


# Topic #5:

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:

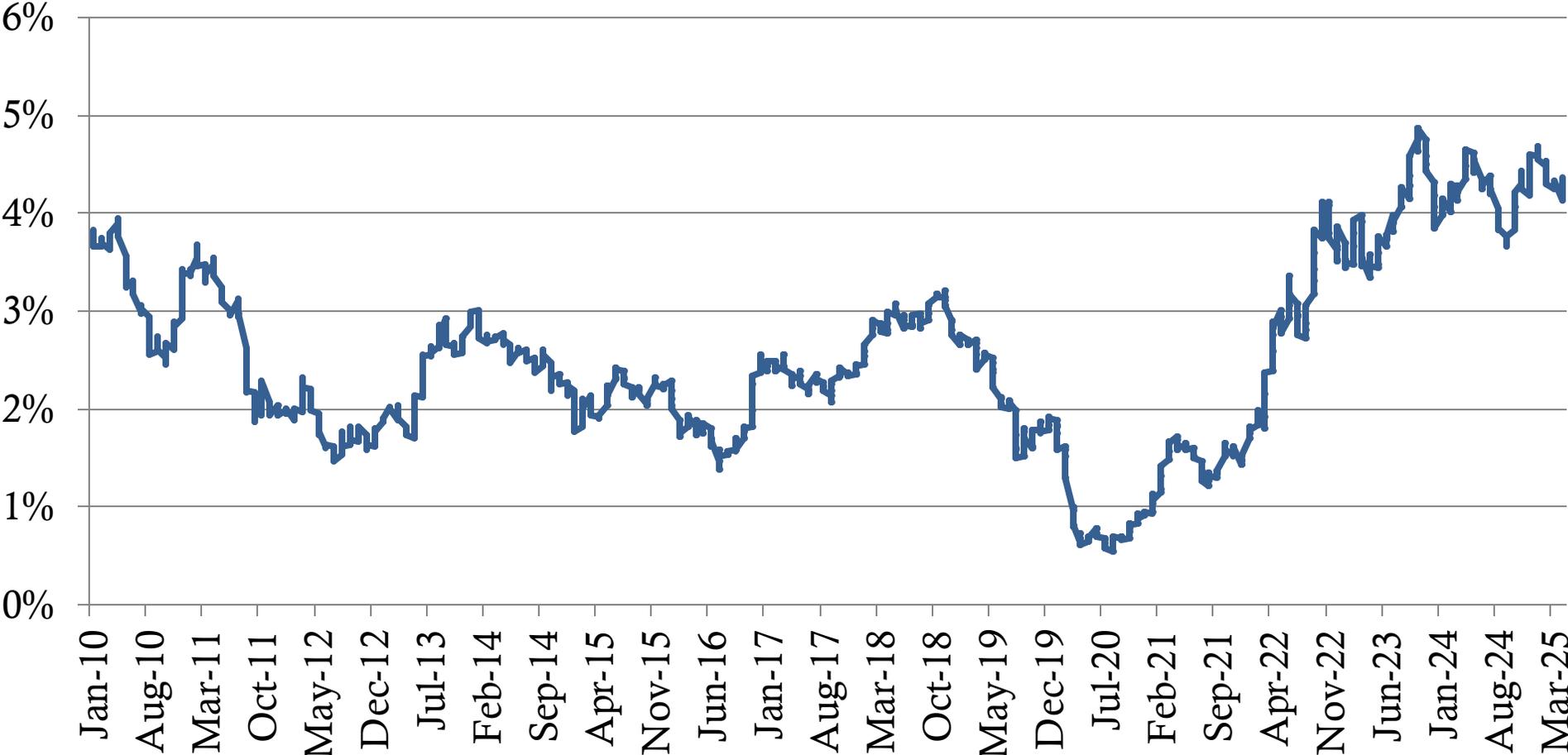
August 12, 2025

(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
9/17/2025					0.0%	0.0%	0.0%	0.0%	86.5%	13.5%
10/29/2025	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	53.6%	41.2%	5.1%
12/10/2025	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	42.8%	43.8%	12.5%	1.0%
1/28/2026	0.0%	0.0%	0.0%	0.0%	0.0%	18.9%	43.2%	29.9%	7.4%	0.6%
3/18/2026	0.0%	0.0%	0.0%	0.0%	9.3%	30.8%	36.7%	18.9%	4.1%	0.3%
4/29/2026	0.0%	0.0%	0.0%	2.7%	15.5%	32.5%	31.5%	14.6%	3.0%	0.2%
6/17/2026	0.0%	0.0%	1.4%	9.4%	24.4%	32.0%	22.7%	8.5%	1.5%	0.1%
7/29/2026	0.0%	0.4%	3.8%	13.9%	26.7%	29.2%	18.5%	6.4%	1.1%	0.1%
9/16/2026	0.1%	1.6%	7.2%	18.2%	27.5%	25.5%	14.3%	4.6%	0.7%	0.0%
10/28/2026	0.4%	2.6%	9.2%	19.9%	27.2%	23.5%	12.6%	3.9%	0.6%	0.0%
12/9/2026	0.8%	3.7%	11.0%	21.1%	26.6%	21.7%	11.1%	3.4%	0.5%	0.0%

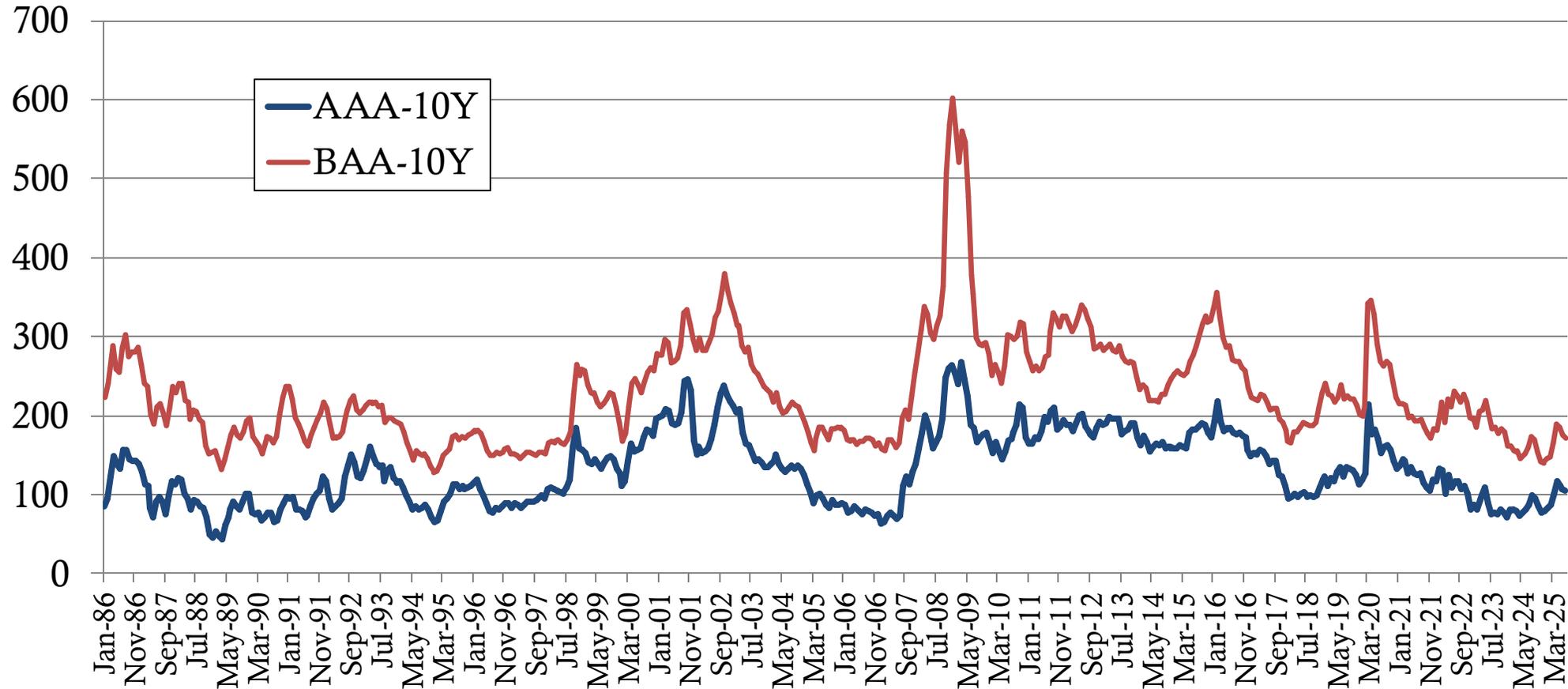
# 10-Year Treasury Bonds

(source: Board of Governors of Federal Reserve System)



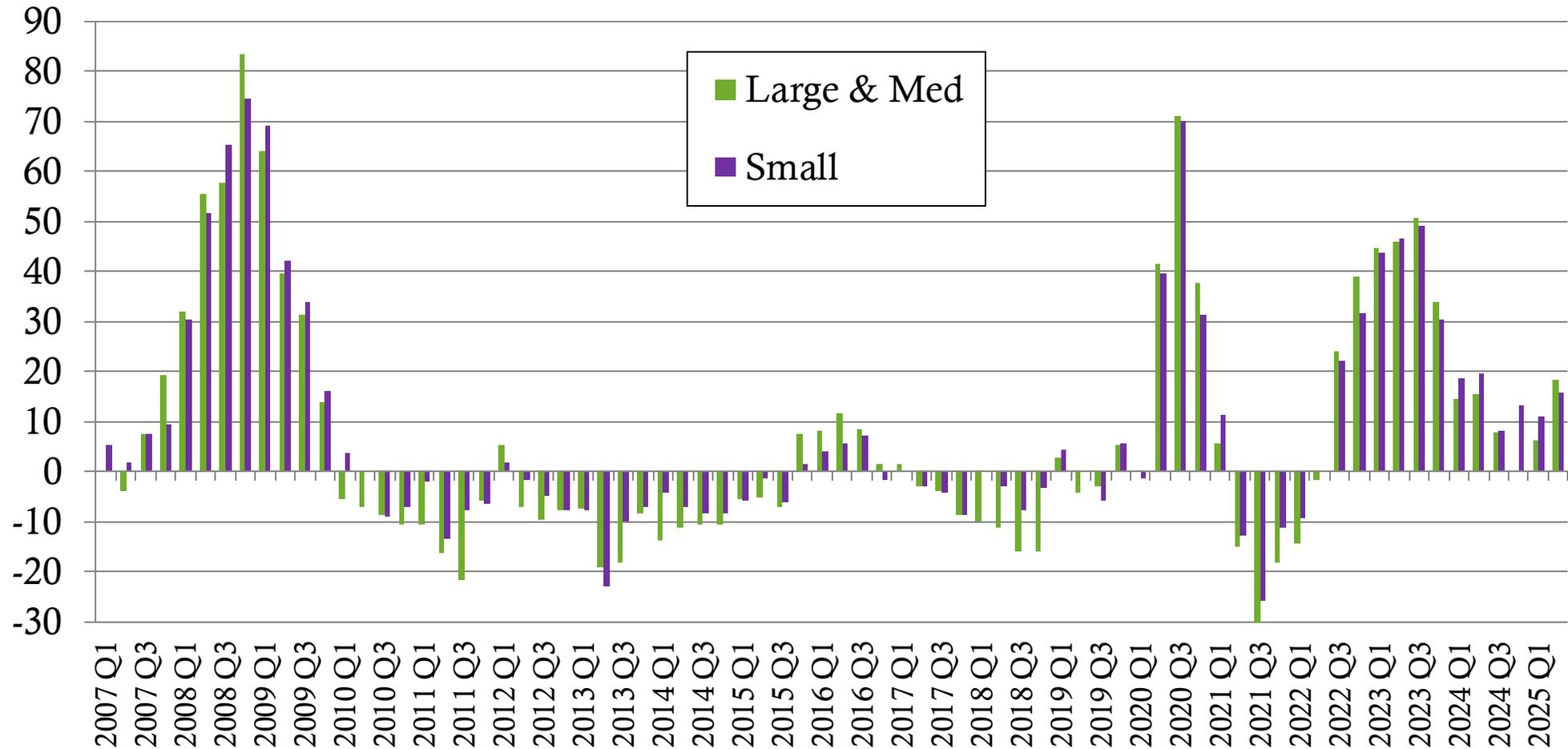
# Corporate Credit Spreads

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



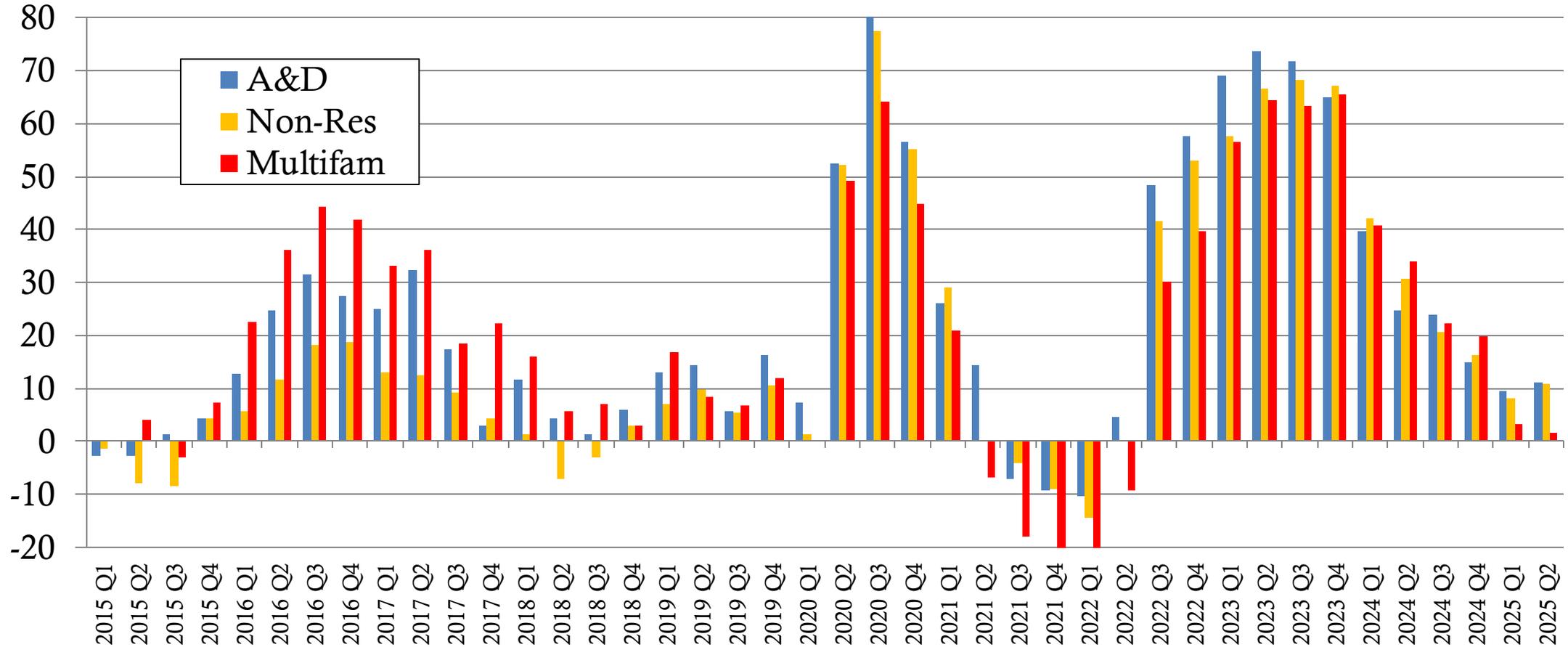
# C&I Loan Standards: Net Tightening

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



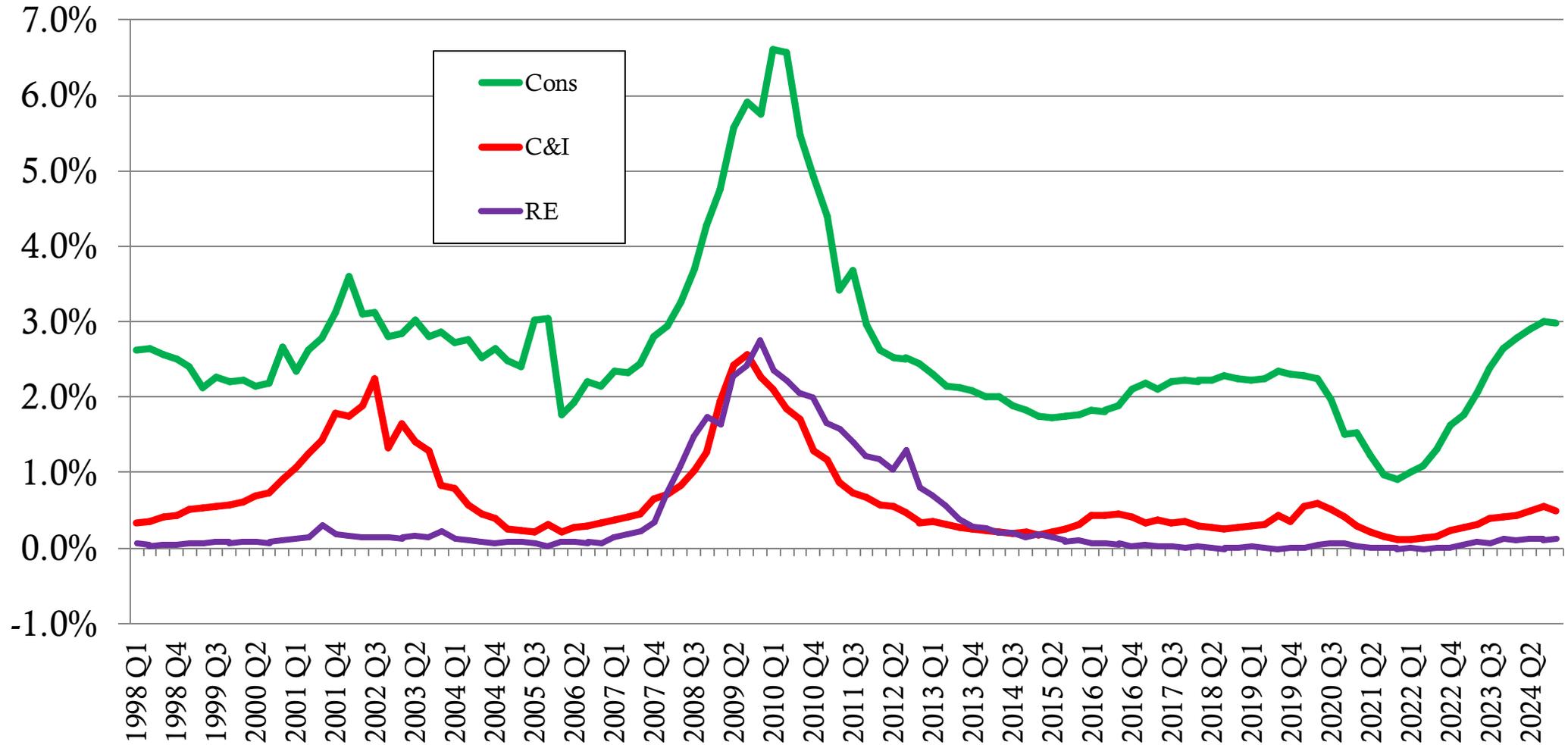
# CRE Loan Standards: Net Tightening

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



# Charge Off Rates at Banks

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



# 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 #6:

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

And is housing market getting “frothy” again?

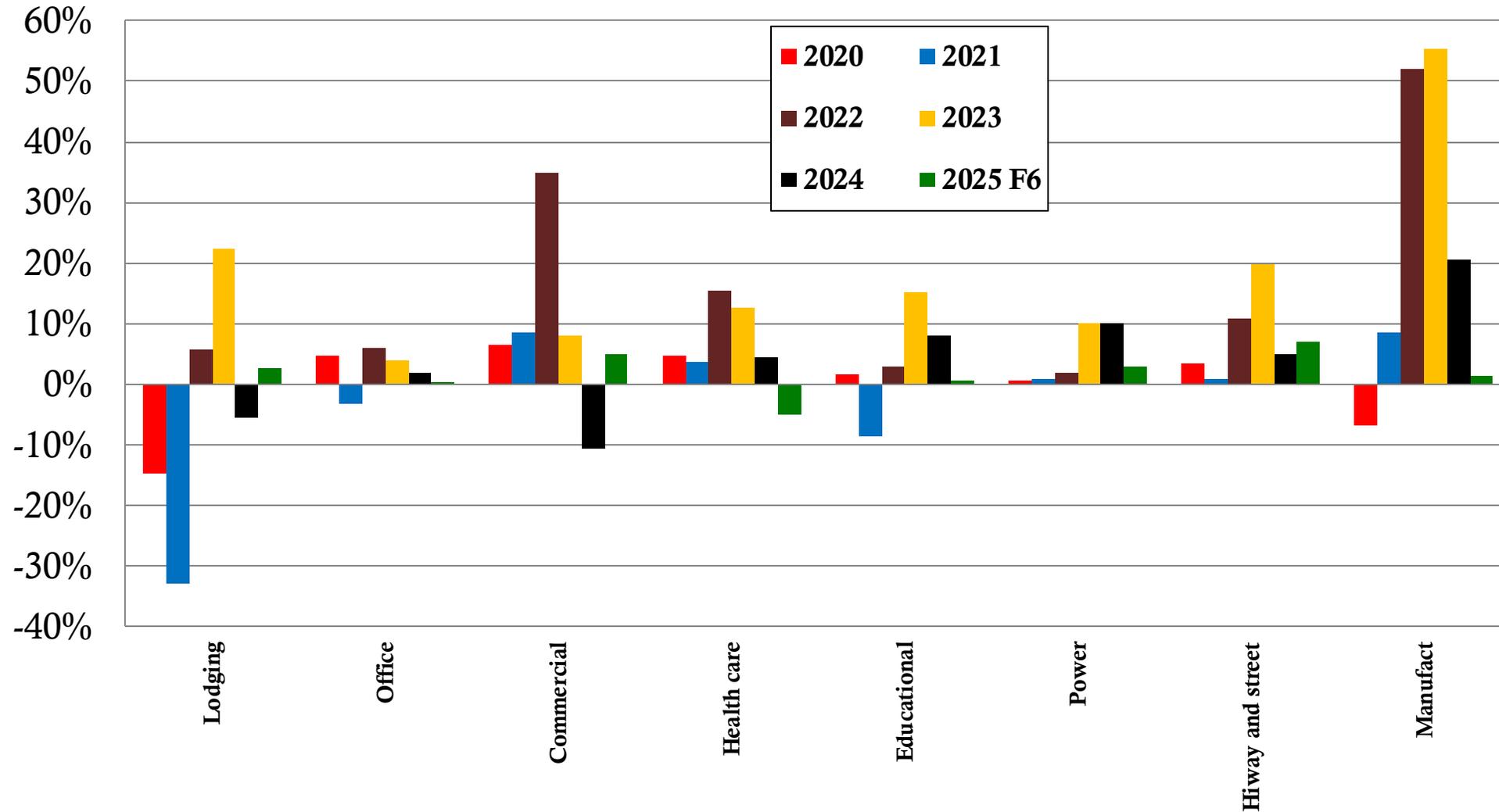
# Construction Spending: Annual Change

(Source: U.S. Census Bureau)



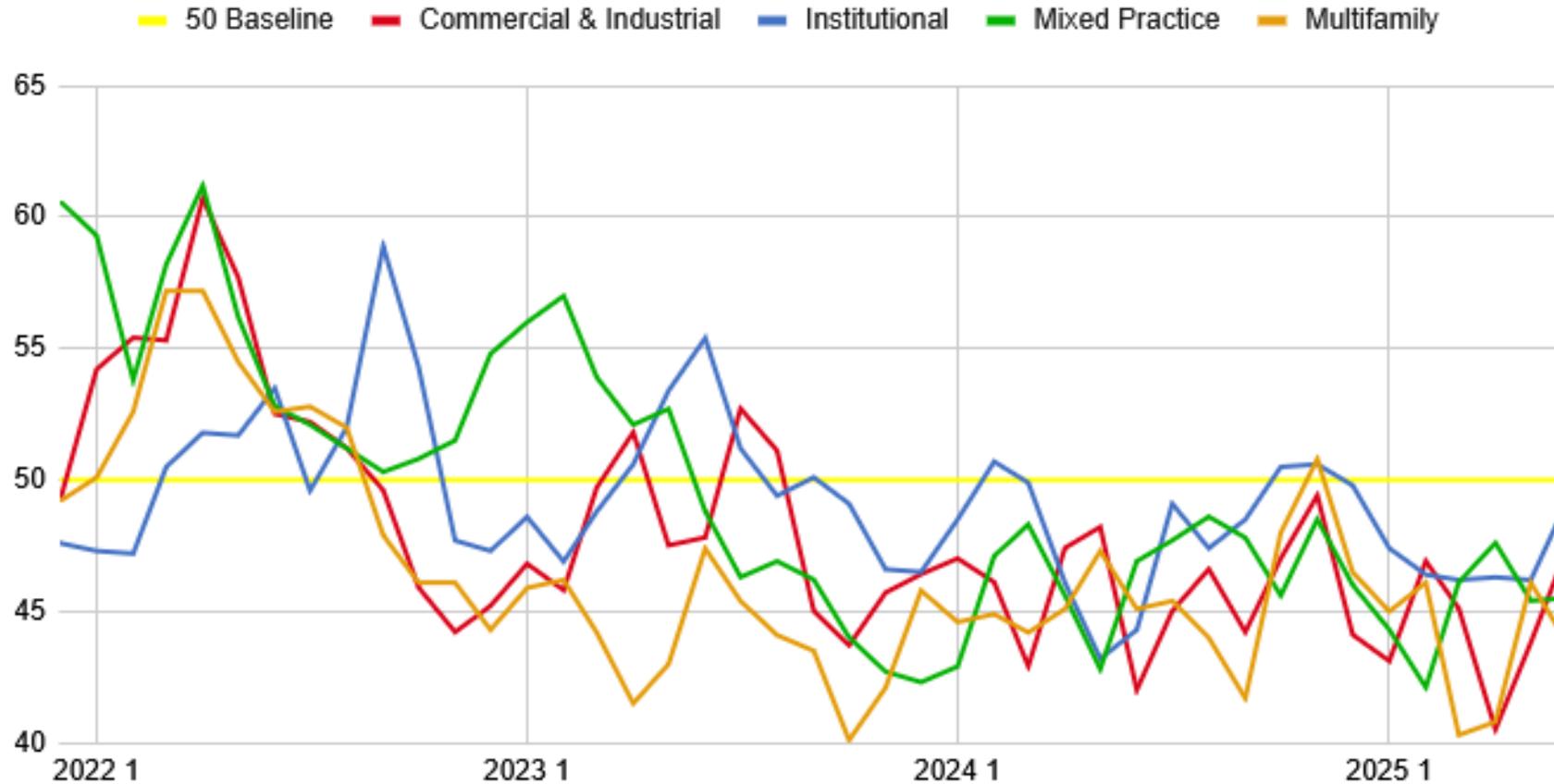
# Non-Residential Construction

(Source: U.S. Census Bureau)



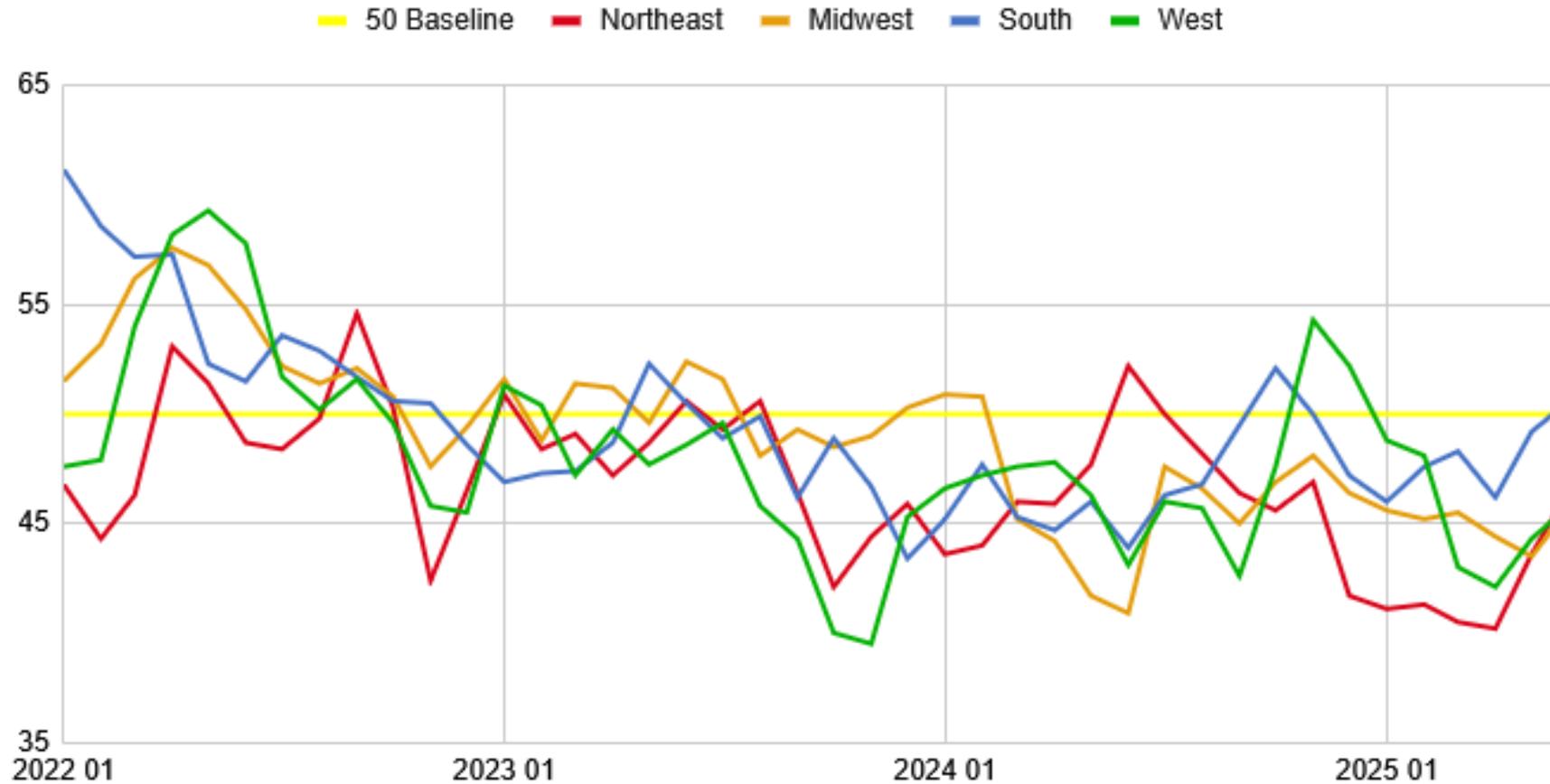
# Architecture Billings Activity

(source: American Institute of Architects)



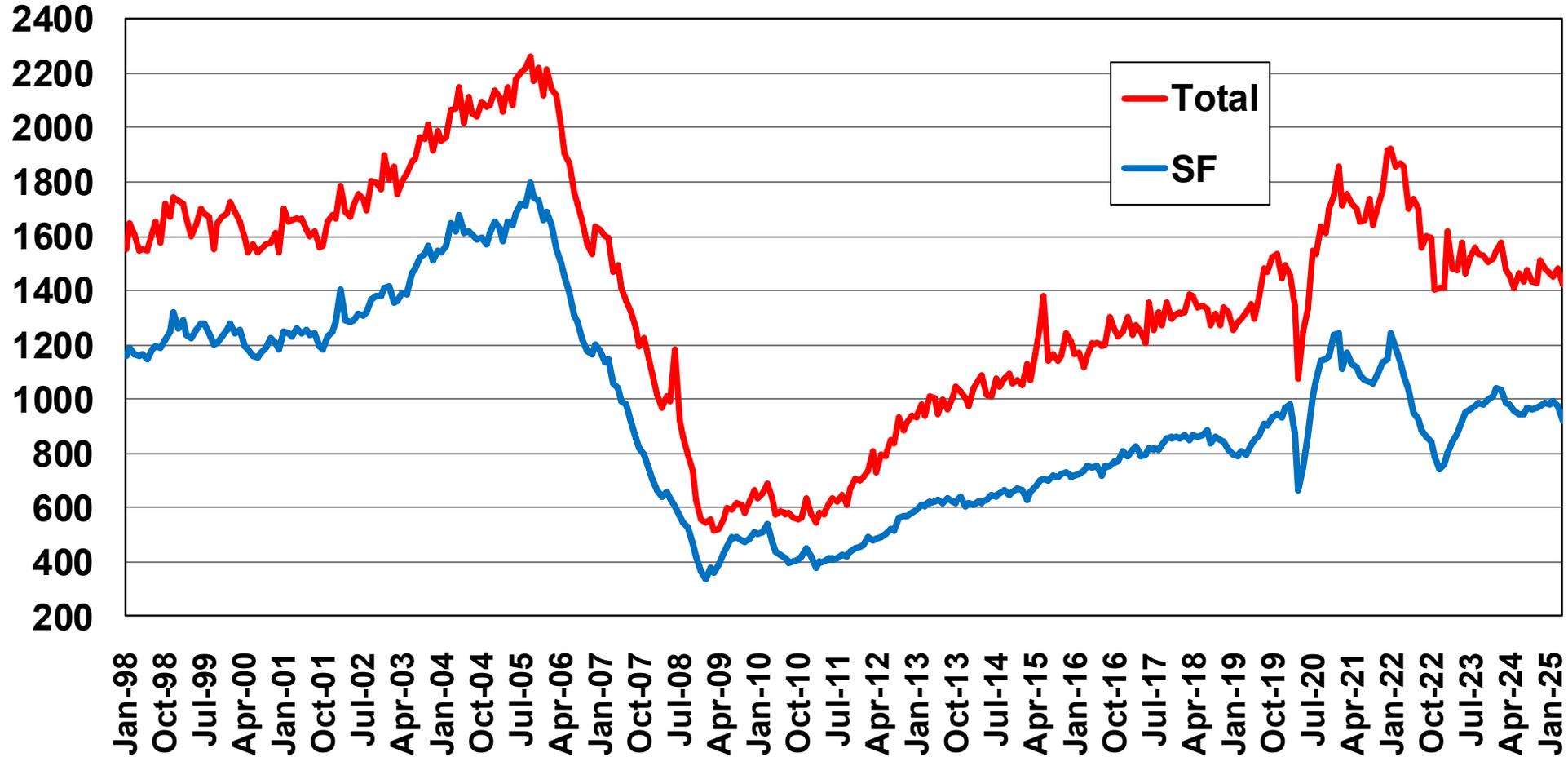
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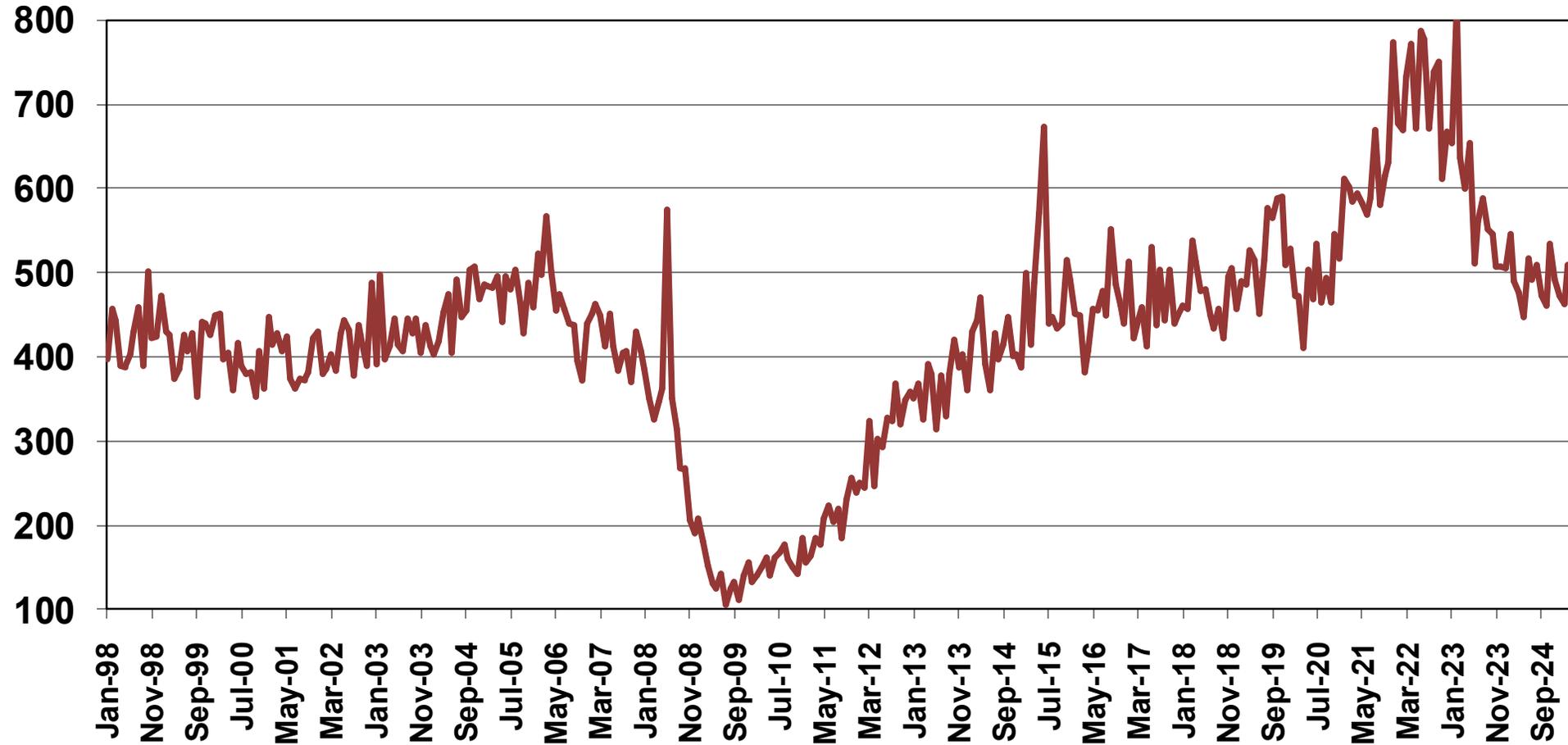
# US Housing Permits: SF and Total

(source: U.S. Census Bureau)



# US Housing Permits: Multi-family

(source: U.S. Census Bureau)



# 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

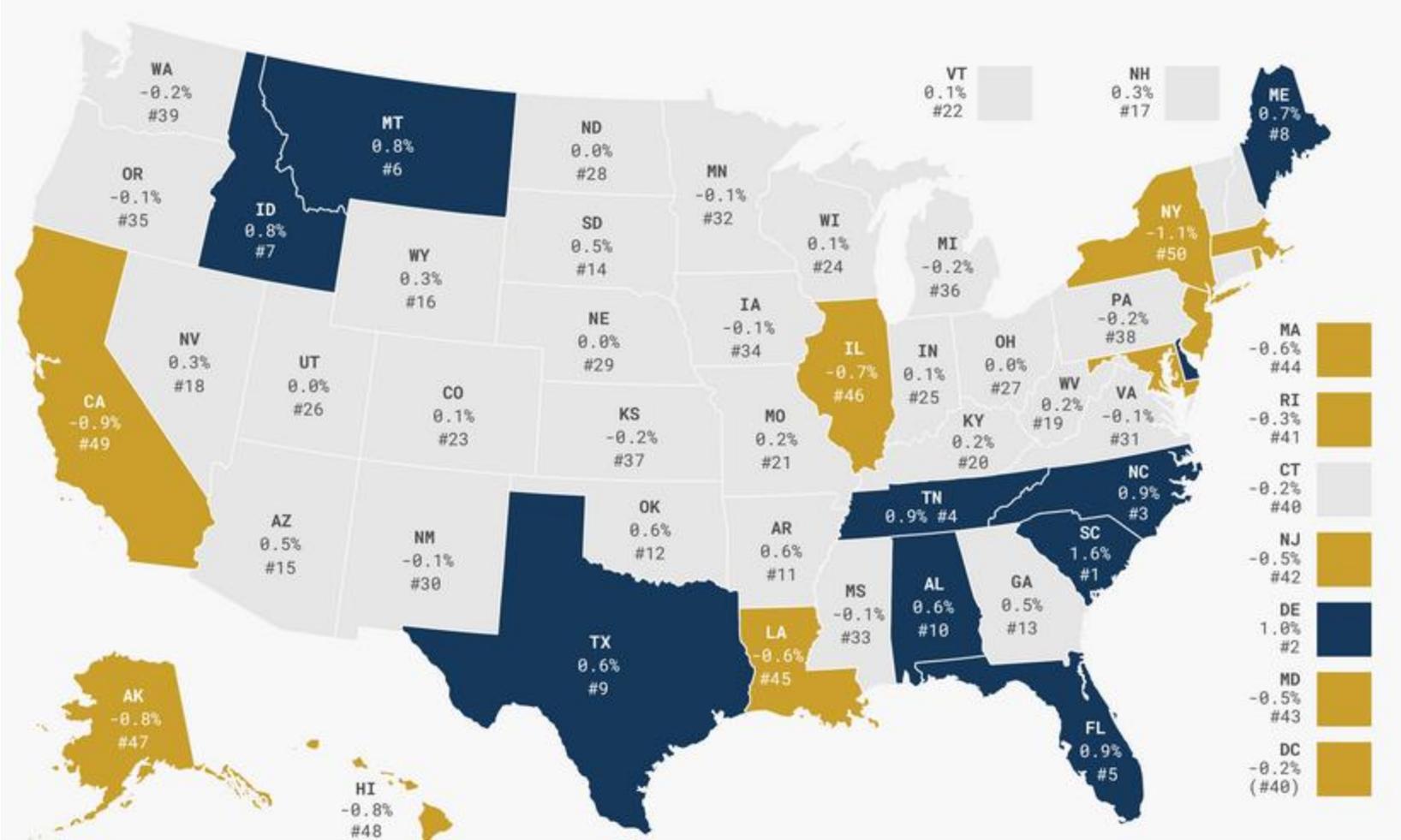
- General Paradigm
  - Shift in regulation
  - Team Doge
  - M&A activity
  - Tariffs as tool
  - Digital Currencies
- Cabinet Picks
  - Treasury: Scott Bessent (Key Square)
  - Commerce: Howard Lutnick (Cantor Fitz)
  - Energy: Chris Wright (Liberty Energy)
  - Justice: Pam Bondi (R-Fl.)
  - Labor: 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

# Internal Migration

(source: Tax Foundation, 2023)



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