

Economic Update (At Least for Today)

NIBA - Dallas

“

Economics is a very difficult subject. I've compared it to trying to learn how to repair a car when the engine is running.

—
BEN BERNANKE

GRACIOUSQUOTES.COM

Latest Inflation Measure – CPI and Tariffs

- **Still expect tariff inflation, but it isn't showing in the macro data yet.**
 - Suppliers eating part of it (~10%)
 - Some of it absorbed in supply chain (carriers) (~10%)
 - ~10% being eaten in margin
 - Rest being passed on
 - Not sustainable long term, eventually it will evolve into a one-time price adjustment (by Q4 or Q1 '26)

Material	July 2025 Y/Y
Total CPI	2.7%
Goods Only (Commodities less Food and Energy)	1.2%
Goods Total (Including Food and Energy)	5.0%
Services	3.6%

****Goods only (is a core measure: stripping out food and energy) is the most accurate estimate for those sectors most impacted by tariff pressure.**

Average Impact from Current Tariffs ~ 13.9% on Nonresidential Construction Projects

- Based on the latest tariff rates, and factoring in complex market dynamics (discounting, etc.), the average price increase for the average nonresidential project increased from 9.2% in the prior assessment to 13.9% as of August 2025.
- Construction Dive found that on average contractors were using 10-15% markups as standard on bids, especially those with high import exposure.

Material	Weight in Project	Updated Tariff Rate	Adjusted Increase*	Contribution to Average
Steel	25%	50%	28%	7.0%
Aluminum	15%	50%	22%	3.3%
Lumber	20%	20%	8%	1.6%
Concrete	10%	5%	2%	0.2%
Copper	5%	30%	15%	0.8%
Drywall	5%	8%	4%	0.2%
HVAC Systems	5%	15%	7%	0.4%
Electrical Wiring	5%	20%	10%	0.5%
Total	100%	25%	12%	13.9%

*Note: "Adjusted Increase" factors in:

- Tariff rate itself (e.g., 50% tariff on imported steel).
- Pass-through effects — how much of that tariff cost suppliers actually add to the selling price in the U.S.
- Domestic price response — U.S. producers often raise their prices when imports become more expensive, even if their costs haven't changed.
- Supply chain markups — distributors, wholesalers, and contractors add their own percentage to cover higher purchase costs, shipping surcharges, and risk premiums

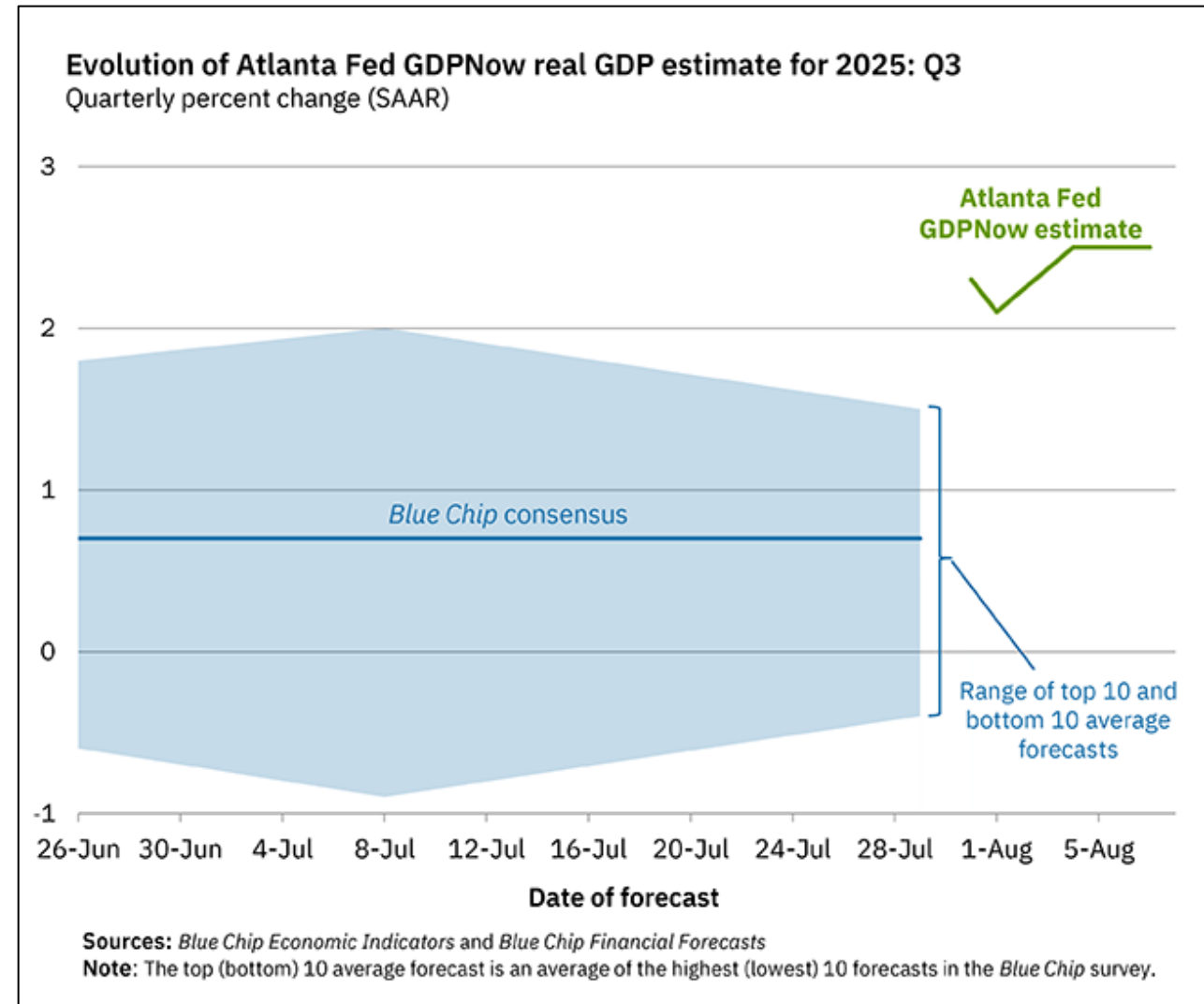
Review: Fed Looking at 2-3 Cuts in 2H '25

- Fed's outlook signals potential stagflation (rising inflation and cooling growth).
- First time since 1997 that the Fed was divided on rate policy (2 dissenters)
- Based on the latest inflation data, pressure in the housing market and some weaker labor data, most Wall Street odds have bumped the Fed's own expectations for 2 quarter-point cuts to 3.

Variable	Median ¹			
	2025	2026	2027	Longer run
Change in real GDP	1.4	1.6	1.8	1.8
March projection	1.7	1.8	1.8	1.8
Unemployment rate	4.5	4.5	4.4	4.2
March projection	4.4	4.3	4.3	4.2
PCE inflation	3.0	2.4	2.1	2.0
March projection	2.7	2.2	2.0	2.0
Core PCE inflation ⁴	3.1	2.4	2.1	
March projection	2.8	2.2	2.0	
Memo: Projected appropriate policy path				
Federal funds rate	3.9	3.6	3.4	3.0
March projection	3.9	3.4	3.1	3.0

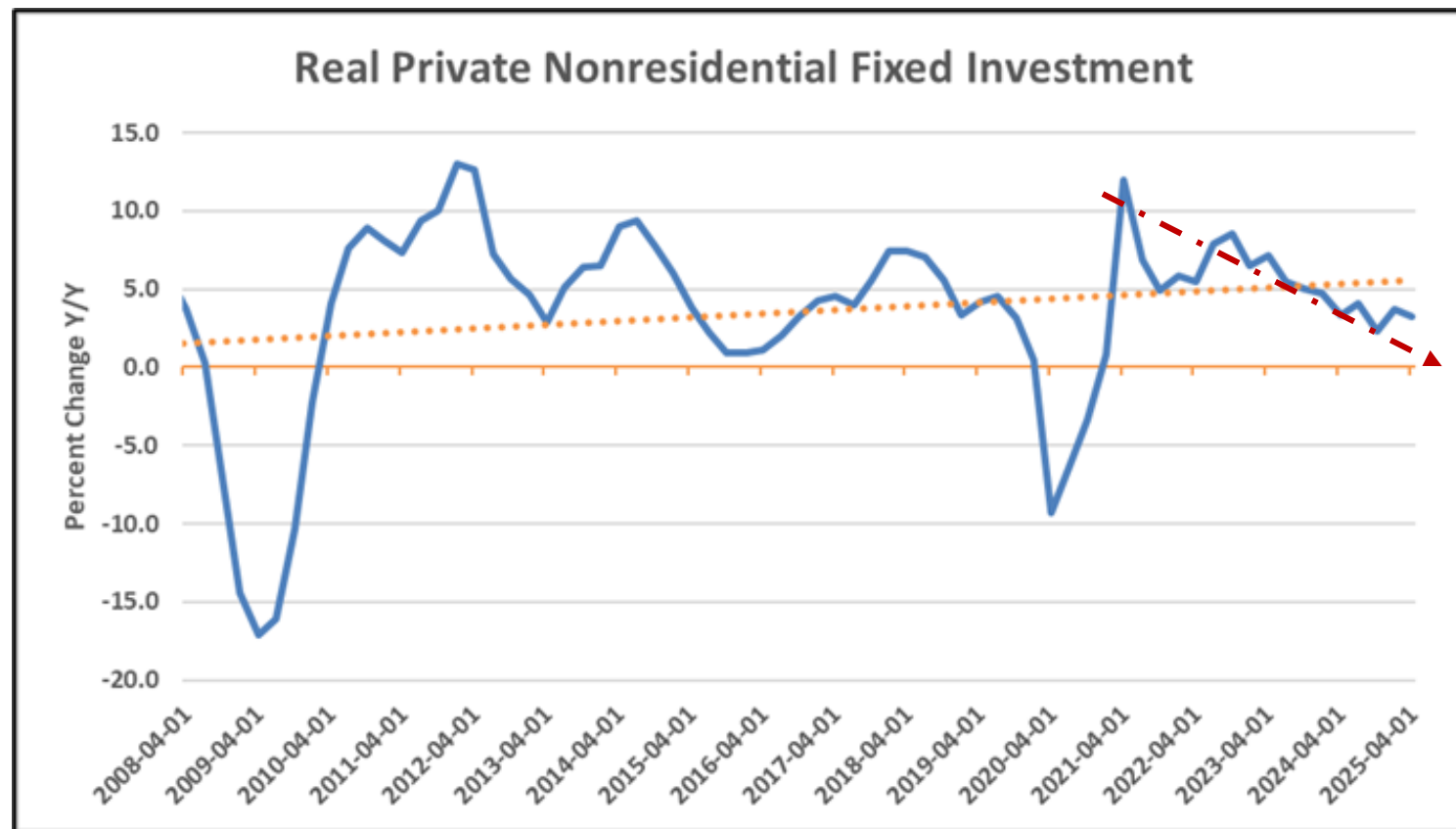
Q3 GDP Ahead of Expectations

- It's early, but Q3 data is currently showing GDP trending at 2.5%, well ahead of Blue Chip expectations of just 0.8%.
- Primary drivers early in Q3:
 1. Consumer spending is currently accounting for 55% of GDP
 2. Nonresidential fixed investment 15%
 3. Inventory building activity 32%
 4. Residential and Government ~12%
 5. Net exports were net drag on GDP ~-15%

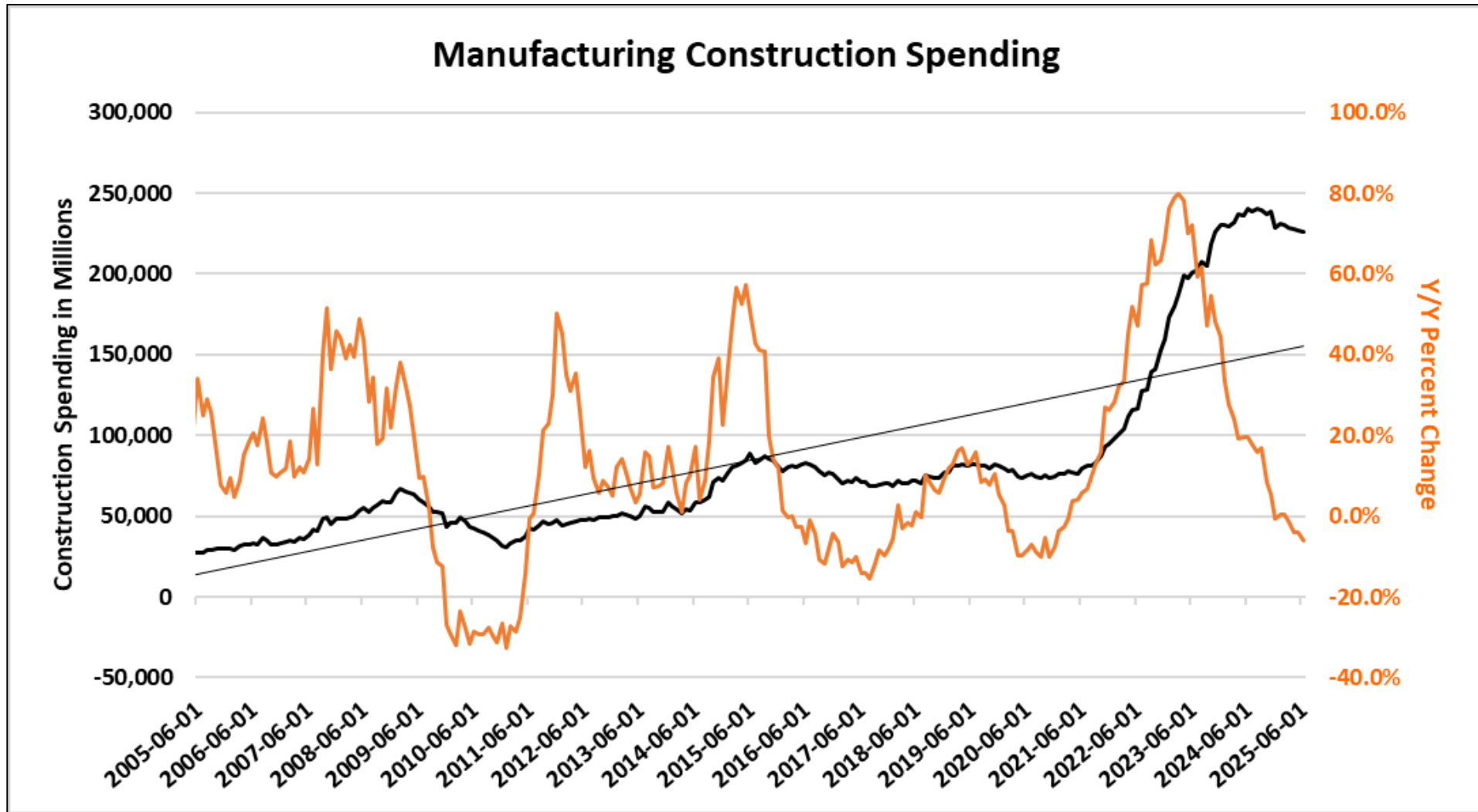


Working a Former Datapoint Back Into the Mix

- Inflation-adjusted nonresidential investment into fixtures and structures is a key metric for understanding future investment potential - and it has been sliding.
- Growing at 3.2% Y/Y through Q2, but the trend has been sliding since the peak hit in 2021.

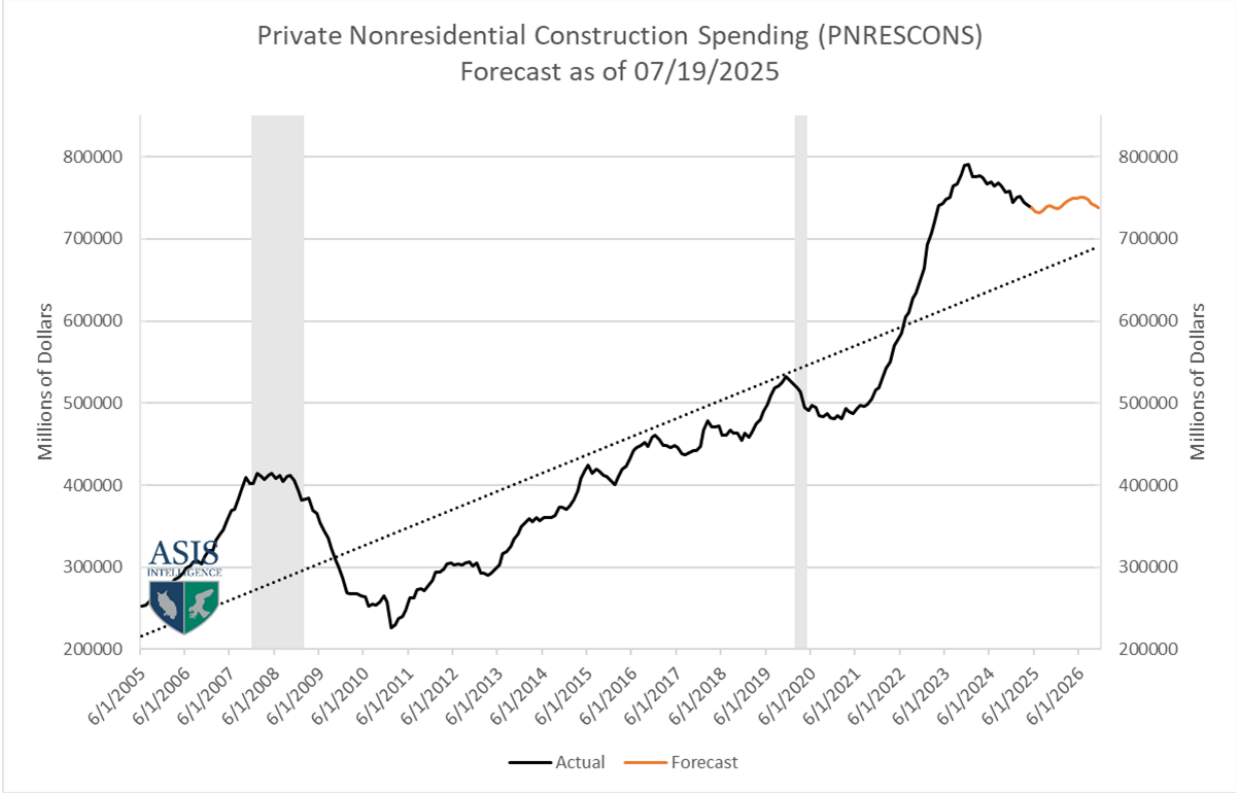
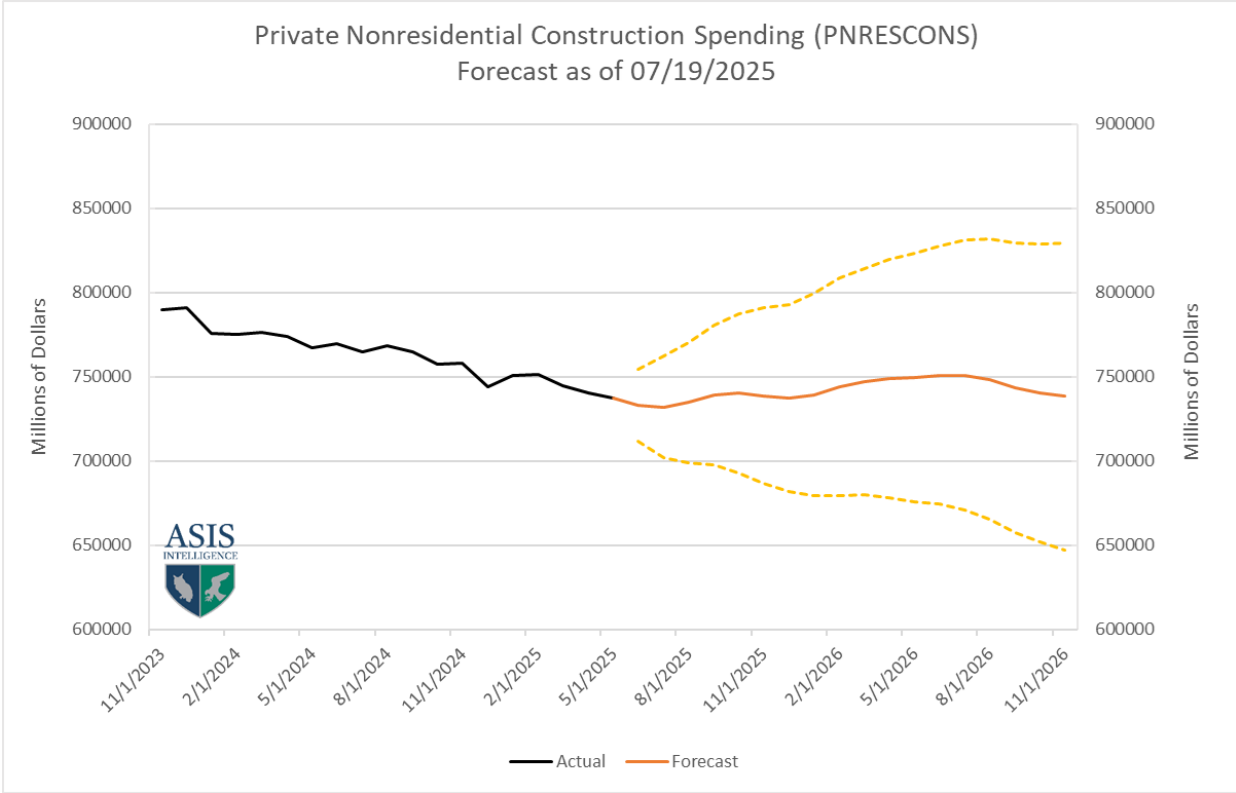


Keep in Mind the Historical Spending Comparison



- \$60B average annually prior to pandemic.
- **\$225B average** over past two years

Nonresidential Construction



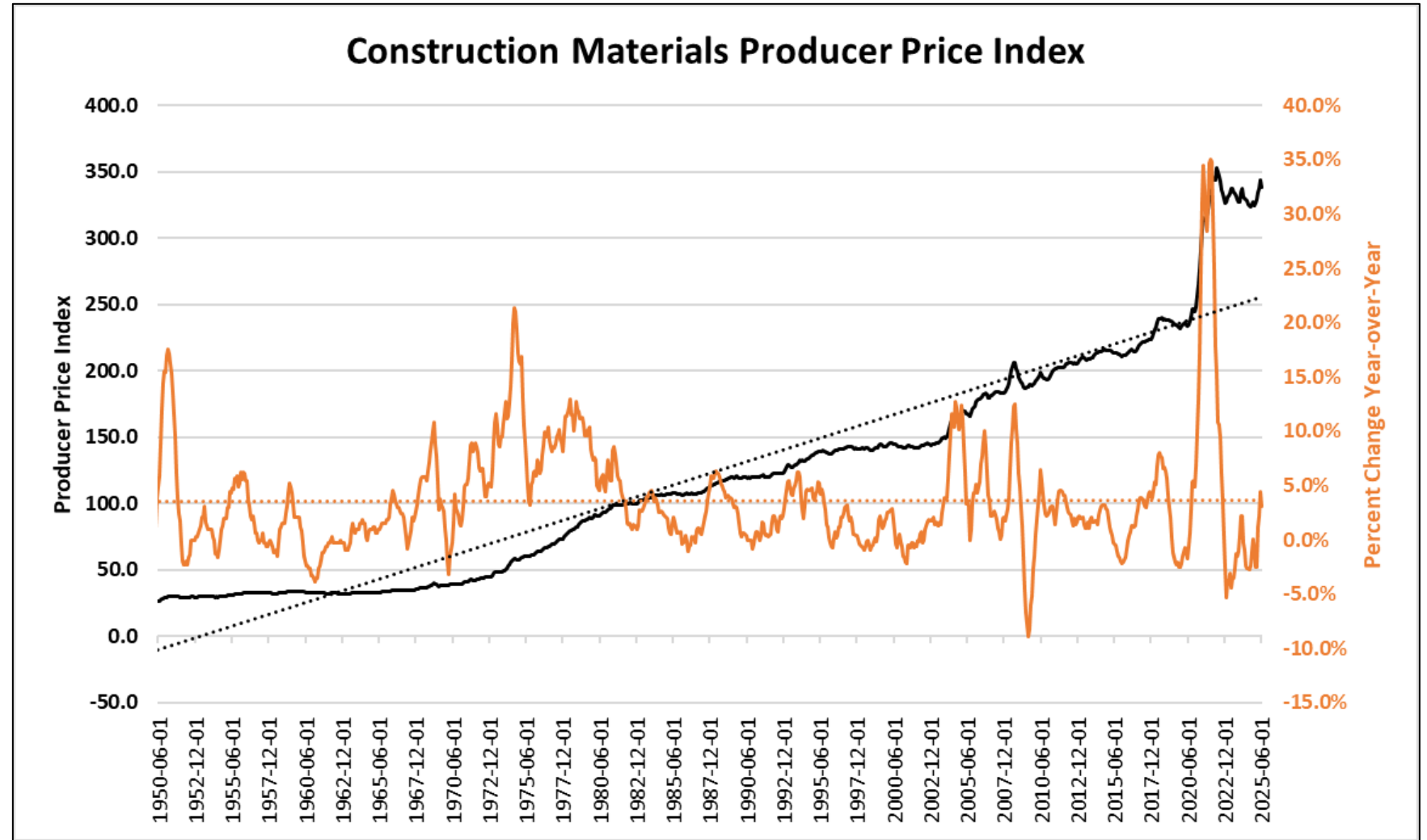
	2023				2024				2025				2023	2024	2025*
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3*	Q4*			
Private Nonresidential Construction PNRESCONS	8.56%	3.76%	2.57%	3.19%	-1.87%	-0.89%	-0.63%	-2.69%	0.12%	-1.55%	0.81%	-0.27%	19.22%	-5.97%	-0.90%

Source: Armada Forecasts

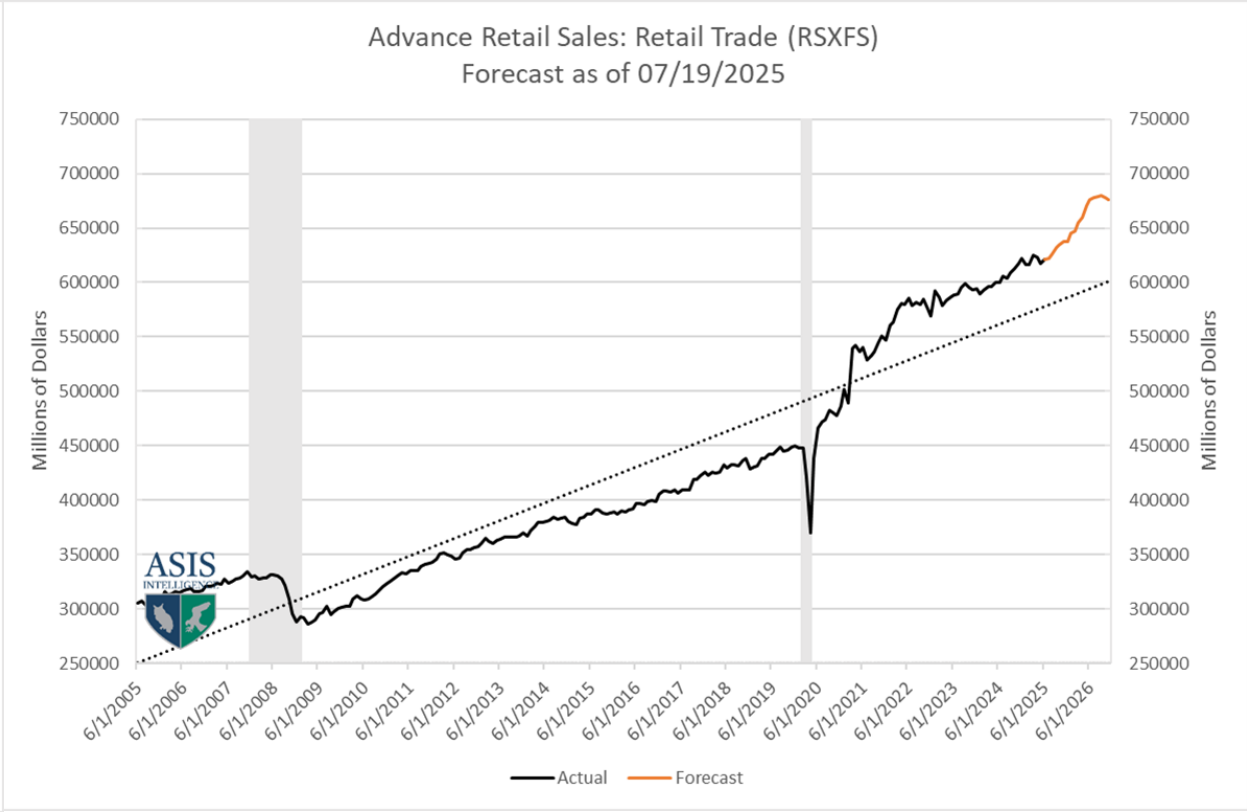
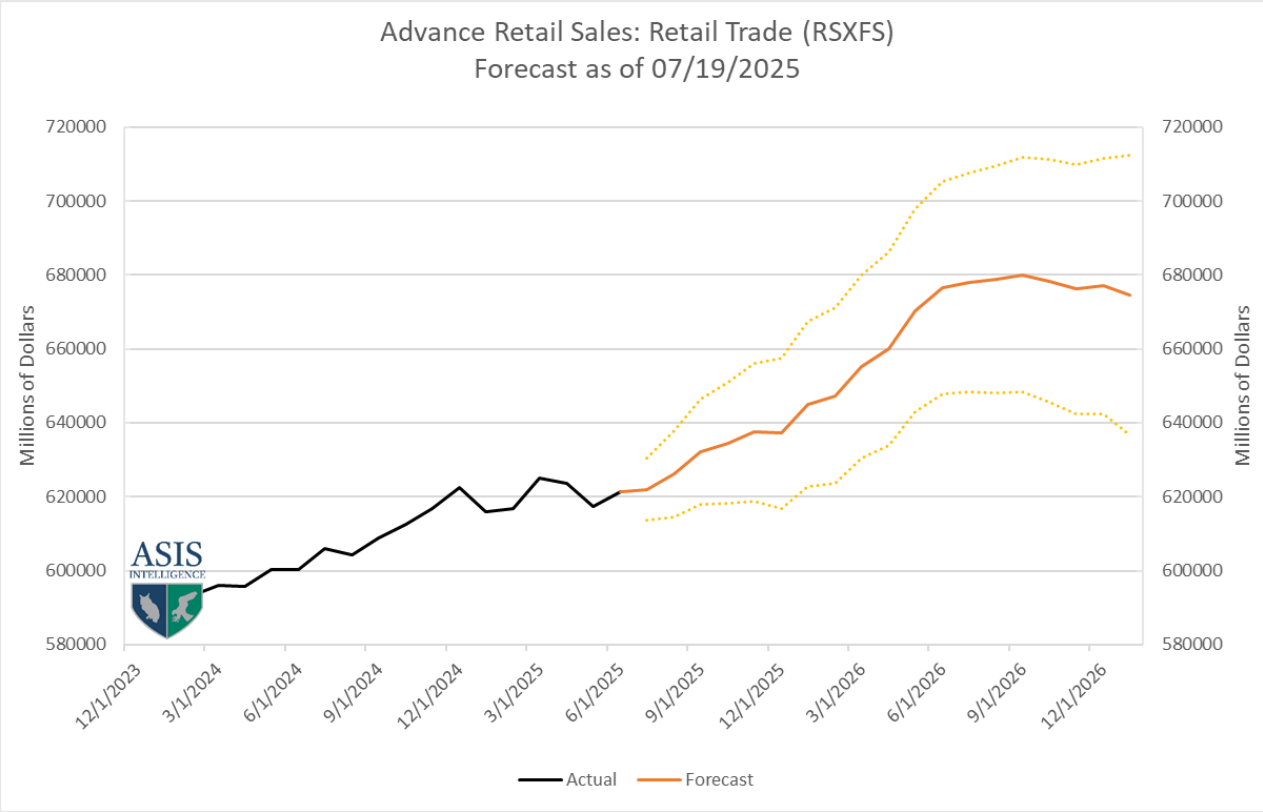
Private Nonresidential Construction PNRESCONS	3-month	6-month
	99.088%	97.1%

Construction Materials Producer Price Index

- Up 3.1% Y/Y, slightly below May annualized rate.
- Down 1.6% M/M between May and June.
- July PPI gets released 8/14



Retail Spending Forecast



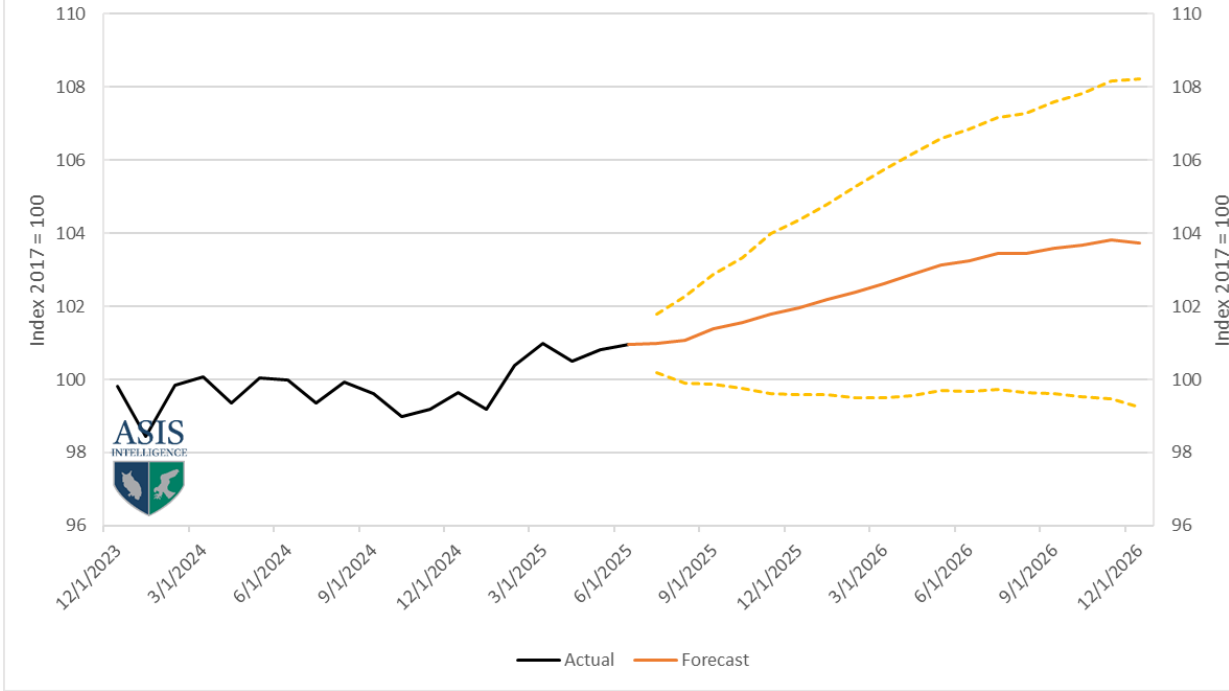
	2023				2024				2025				2023	2024	2025*
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3*	Q4*			
Advanced Retail Sales RSXFS	1.70%	1.70%	1.75%	-0.78%	0.29%	0.72%	1.40%	2.25%	0.44%	-0.60%	1.75%	0.78%	4.42%	4.74%	2.37%

Source: Armada Forecasts

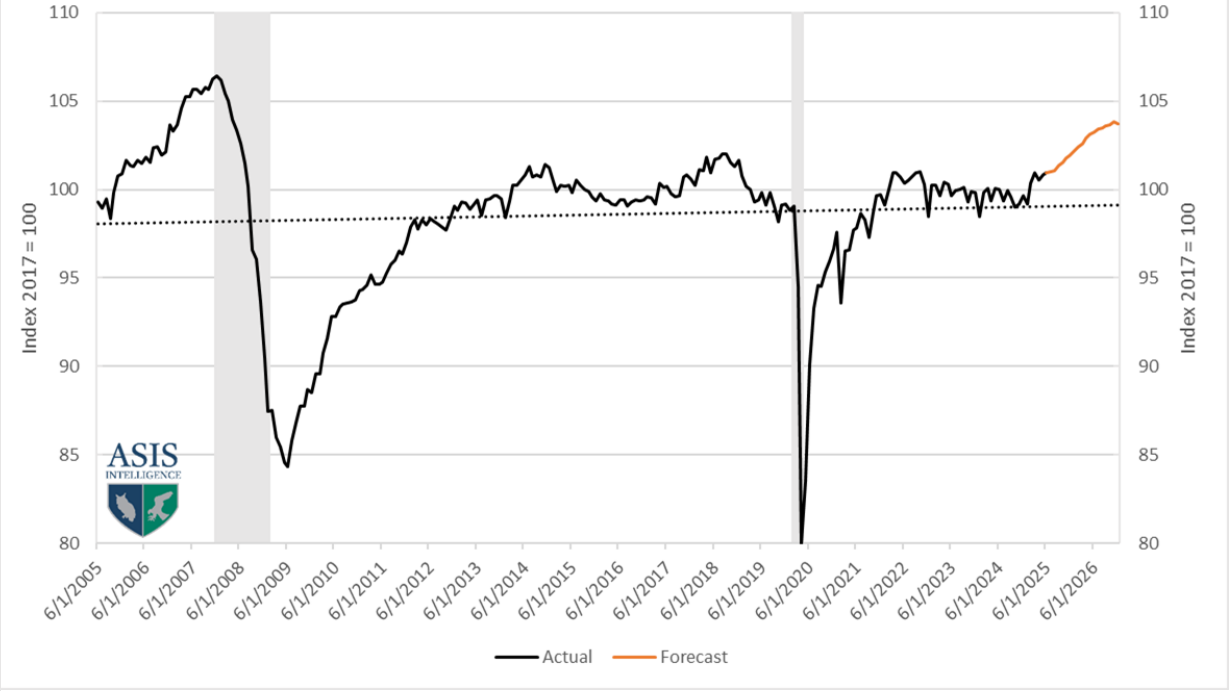
	Accuracy Rates	3-month		6-month	
		Advanced Retail Sales RSXFS			
		96.4%		94.4%	

Manufacturing Production Forecast

Industrial Production: Manufacturing (IPMAN)
Forecast as of 07/19/2025



Industrial Production: Manufacturing (IPMAN)
Forecast as of 07/19/2025



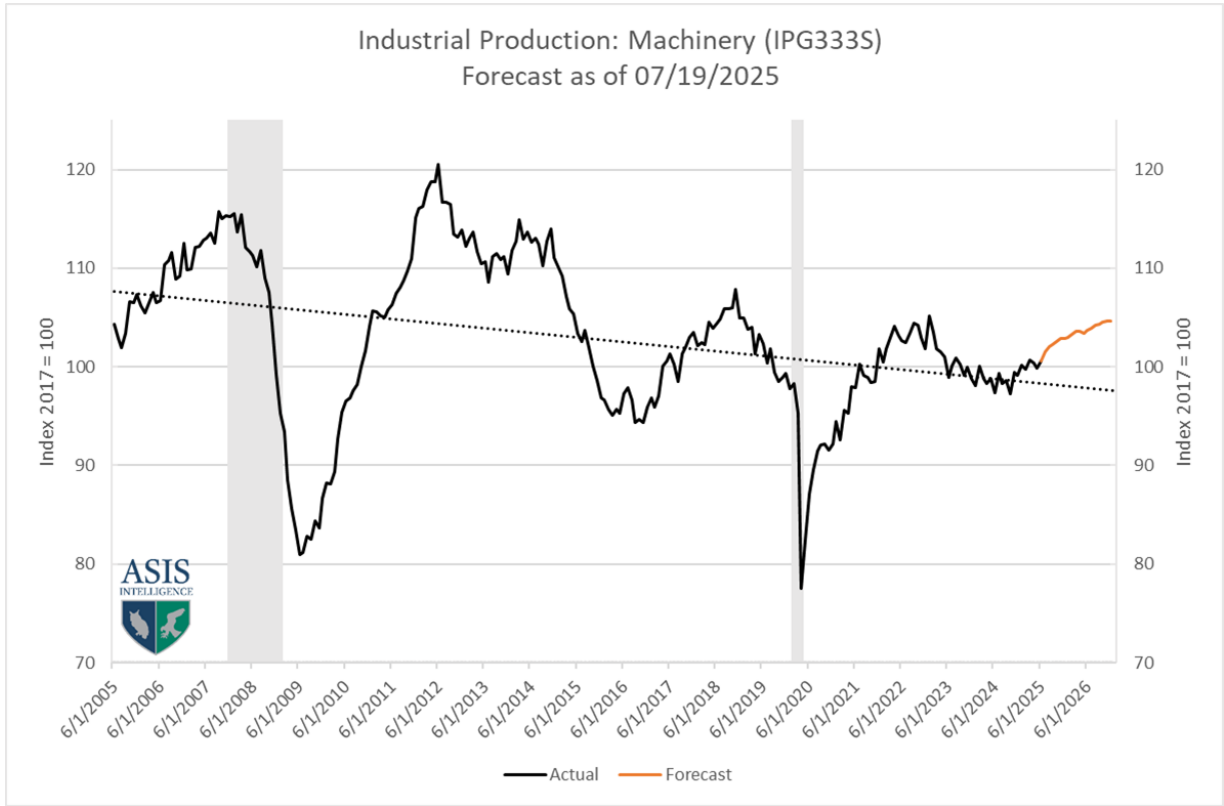
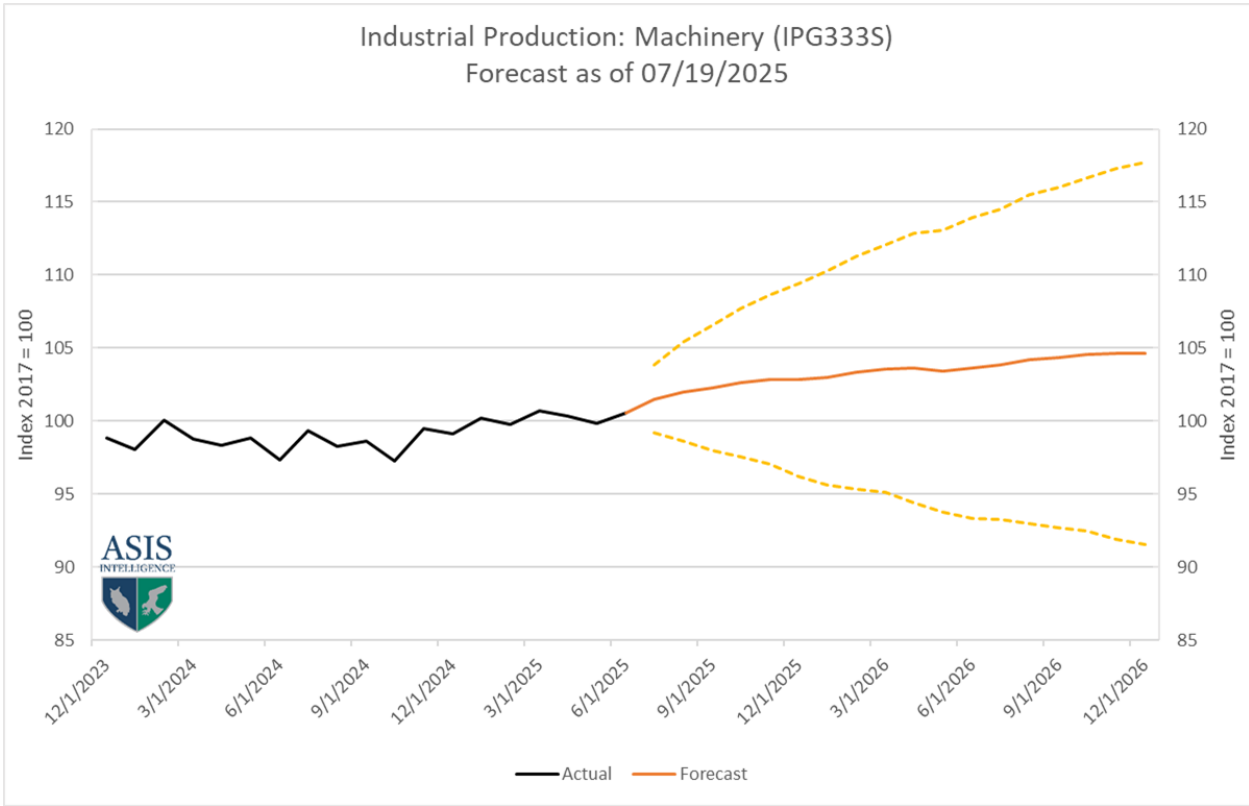
	2023				2024				2025				2023	2024	2025*
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3*	Q4*			
Industrial Production: Manufacturing	1.22%	0.01%	0.45%	-0.27%	0.24%	-0.07%	-0.38%	0.03%	1.33%	-0.03%	0.43%	0.59%	1.41%	-0.18%	2.33%

Source: Armada Forecasts

Accuracy Rates

	3-month	6-month
Industrial Production: Manufacturing IPMAN	99.8%	99.65%

Machinery Production Forecast



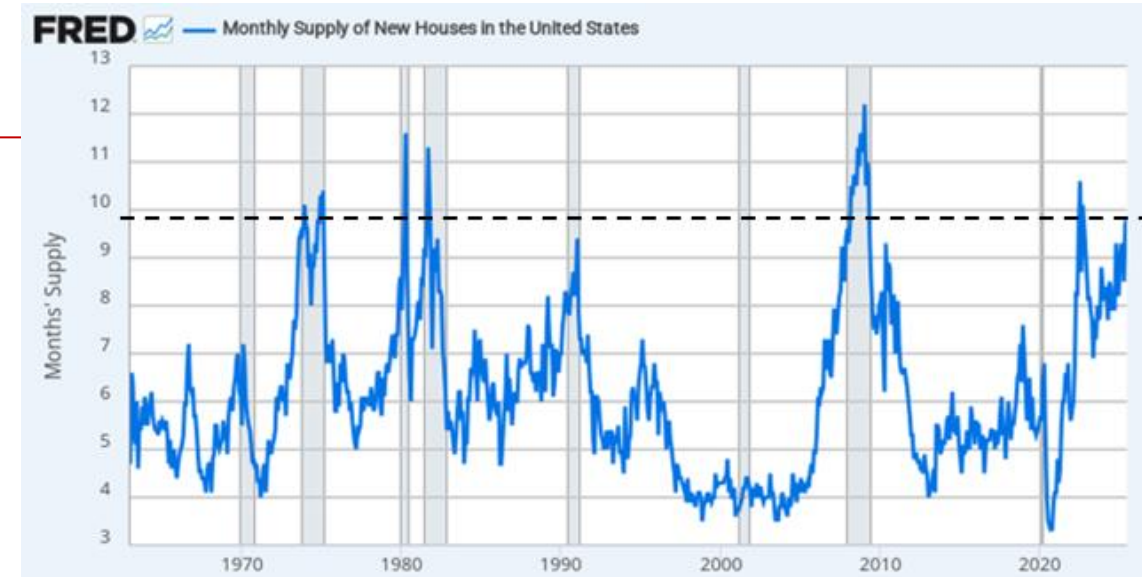
	2023				2024				2025				2023	2024	2025*
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3*	Q4*			
Machinery IPG333S	0.04%	-2.87%	1.31%	-1.43%	-0.03%	-1.44%	1.29%	0.52%	1.59%	-0.13%	1.69%	0.53%	-2.96%	0.33%	3.72%

Source: Armada Forecasts

	3-month	6-month
Machinery IPG333S	99.2%	96.8%

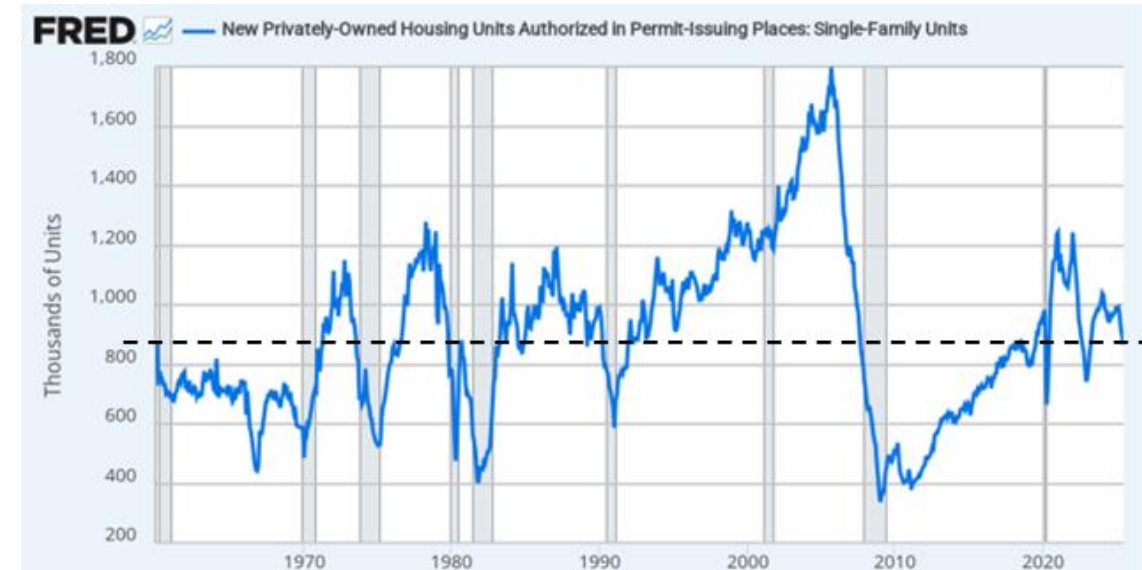
The Big Risk: US Housing

- **US Residential Housing sector accounts for 16% of GDP – and as goes the US housing market so goes the economy.**
- **The Monthly Supply of Homes is currently trending at 9.8 months of inventory on hand.**
 - Other than a dramatic crisis period (the pandemic lockdown or the Great Recession), this is the highest level since 1981.
- **Single Family Home starts are down sharply**
 - Total -0.5%
 - Single Family -10.0%
 - Multi-Family +25.8%
- **Permits Also Weaker**
 - Total -4.7%
 - Single Family -8.4%
 - Multi-Family +1.9%
- **The residential market is not at 2007 crisis levels, but they are sharply weaker than trends in the past 18 years.**



Sources: U.S. Census Bureau; U.S. Department of Housing and Urban Development via FRED®
Shaded areas indicate U.S. recessions.

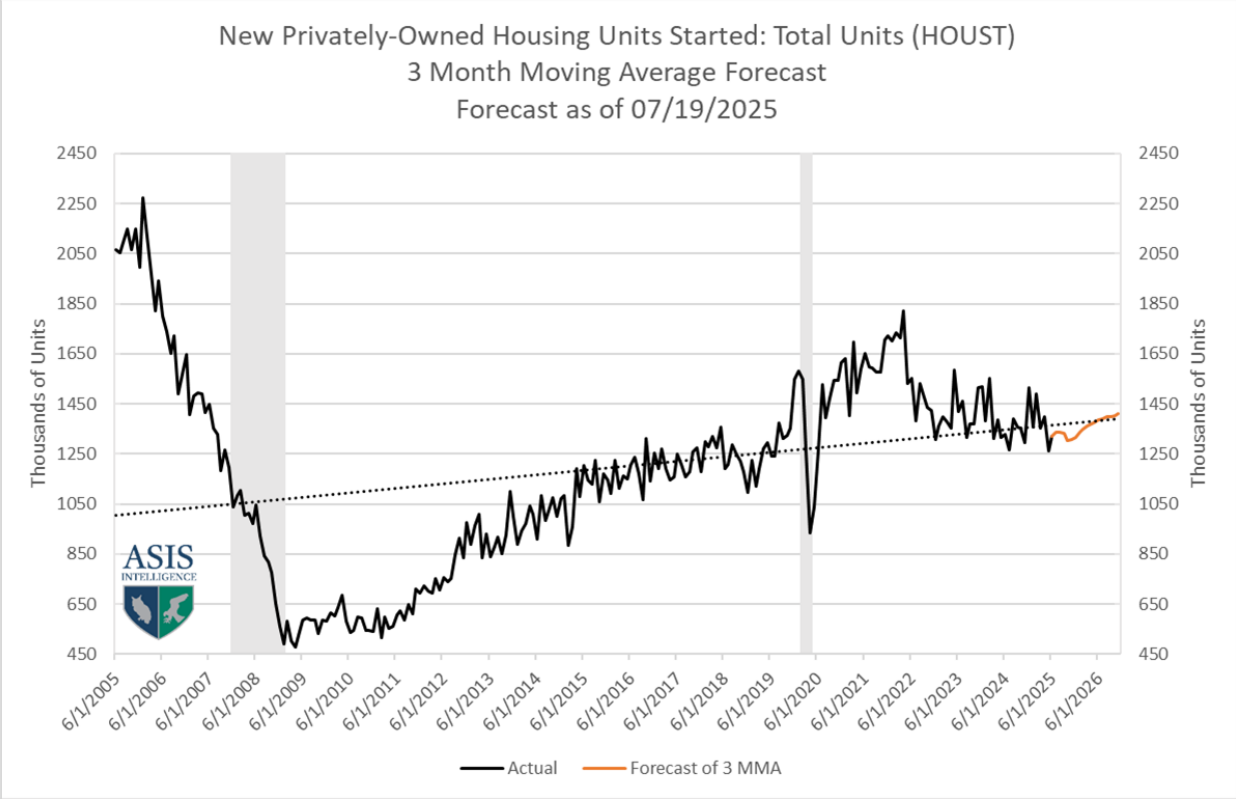
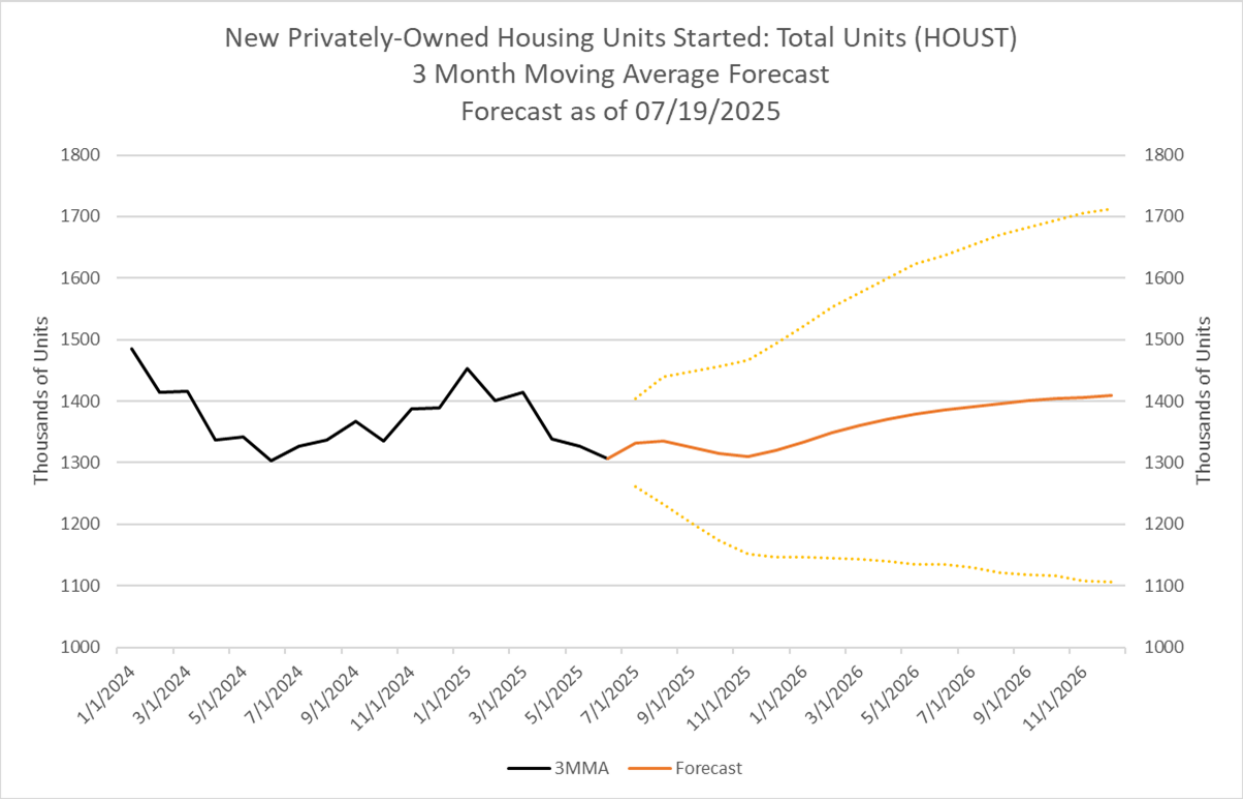
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Sources: U.S. Census Bureau; U.S. Department of Housing and Urban Development via FRED®
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Residential Construction – Risk Forecast Flattening



	2023				2024				2025				2023	2024	2025*
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3*	Q4*			
New Privately-Owned Housing Units Started: Total Units HOUST	5.28%	3.20%	-3.52%	10.94%	-13.74%	1.14%	2.26%	11.57%	-10.50%	-2.51%	0.83%	-1.17%	16.28%	-0.46%	-13.06%

Source: Armada Forecasts

	3-month	6-month
New Privately-Owned Housing Units Started: Total Units HOUST	95.5%	97.5%

Global Manufacturing Sluggish.

- 20 countries had manufacturing sectors in contraction in July (of 30 countries being monitored)
- 12 out of 30 countries surveyed fell M/M.
- Most countries still seeing higher input and output prices, but new orders are sluggish across most markets.
- Canada at risk with both manufacturing and services sectors in contraction.
- Mexico was starting to report stockouts that held back production. New order volumes were slightly subdued.

Manufacturing						Services			
Country PMI	Trade with US (in billions)	Current Month	Latest Month PMI	Prior Month PMI	M/M Change	Current Month	Latest Month PMI	Prior Month PMI	M/M Change
US		July	49.8	52.9	-3.1	July	55.7	52.9	2.8
Global PMI	\$ 4,700	July	49.7	50.4	-0.7	July	53.4	51.8	1.6
Canada	\$ 665	July	46.1	45.6	0.5	July	49.3	44.3	5.0
Mexico	\$ 661	July	49.1	46.3	2.8				
China	\$ 655	July	49.5	50.4	-0.9	July	52.6	50.6	2.0
Eurozone PMI	\$ 632	July	49.8	49.5	0.3	July	51.0	50.5	0.5
ASEAN	\$ 369	July	50.1	48.6	1.5				
Japan	\$ 210	July	48.9	50.1	-1.2	July	53.6	51.7	1.9
Germany	\$ 201	July	49.1	49.0	0.1	July	50.6	49.7	0.9
South Korea	\$ 161	July	48.0	48.7	-0.7				
UK	\$ 118	July	48.0	47.7	0.3	July	51.8	52.8	-1.0
Taiwan	\$ 114	July	46.2	47.2	-1.0				
India	\$ 113	July	59.1	58.4	0.7	July	60.5	60.4	0.1
Vietnam	\$ 113	July	52.4	48.9	3.5				
Netherlands	\$ 88	July	51.9	51.2	0.7				
Ireland	\$ 88	July	53.2	53.7	-0.5	July	50.9	51.5	-0.6
Switzerland	\$ 87	July	48.8	49.6	-0.8				
Italy	\$ 83	July	49.8	48.4	1.4	July	52.3	52.1	0.2
France	\$ 80	July	48.2	48.1	0.1	July	48.5	49.6	-1.1
Brazil	\$ 78	July	48.2	48.3	-0.1	July	46.3	49.3	-3.0
Singapore	\$ 65	July	49.9	50.0	-0.1				
Thailand	\$ 60	July	51.9	51.7	0.2				
Australia	\$ 39	July	51.3	50.6	0.7	July	54.1	51.8	2.3
Indonesia	\$ 37	July	49.2	46.9	2.3				
Russia	\$ 36	July	47.0	47.5	-0.5	July	48.6	49.2	-0.6
Spain	\$ 35	July	51.9	51.4	0.5	July	55.1	51.9	3.2
Hong Kong	\$ 34	July	49.2	47.8	1.4				
Philippines	\$ 23	July	50.9	50.7	0.2				
Poland	\$ 11	July	45.9	44.8	1.1				
Greece	\$ 3	July	51.7	53.1	-1.4				

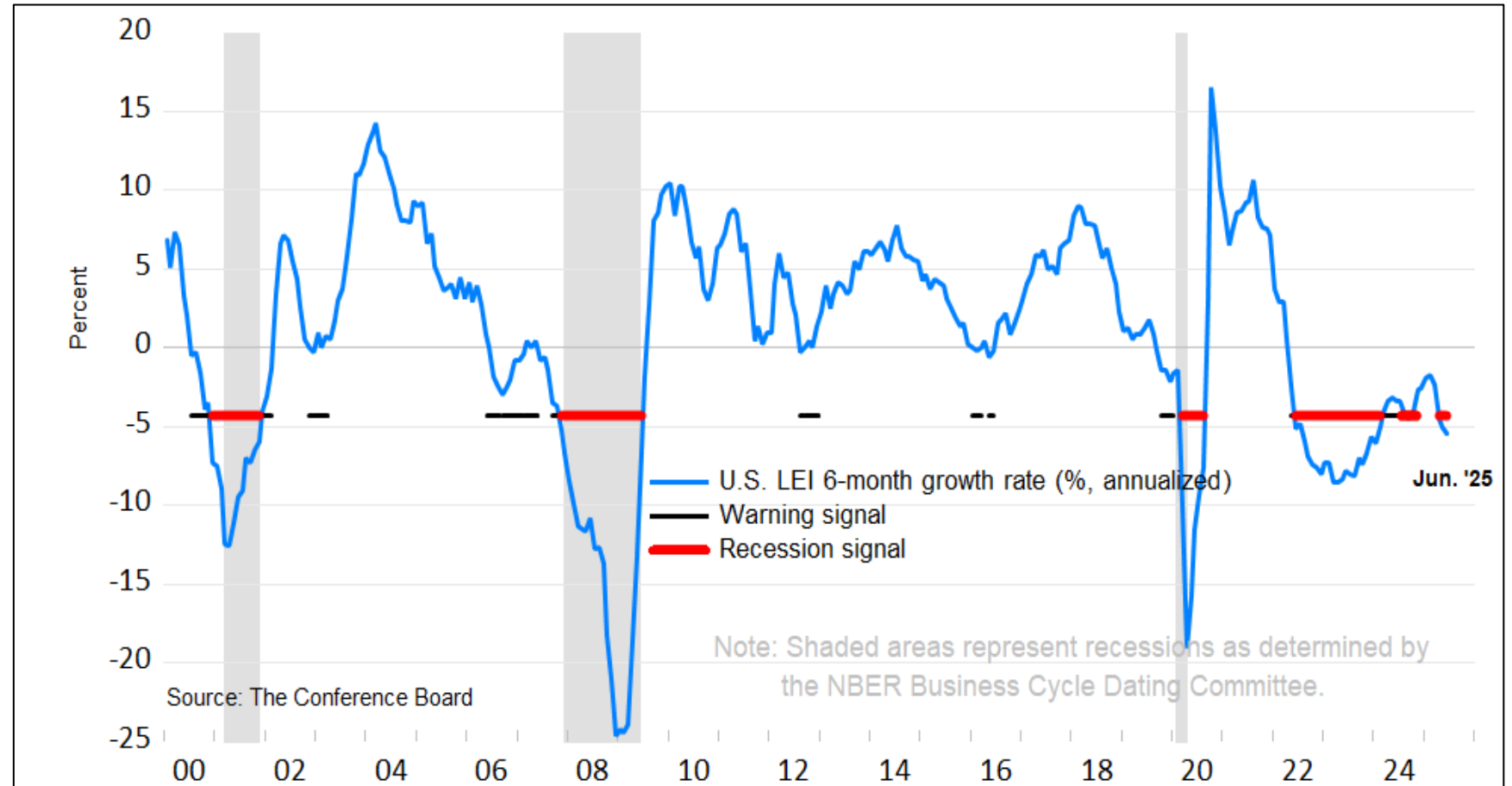
Sources: S&P Global, Caixin, JP Morgan, Jibun Bank, Nevi, BME, CIPS

Warning Signals in the Conference Board's LEI

S&P 500 propped it up

Drags:

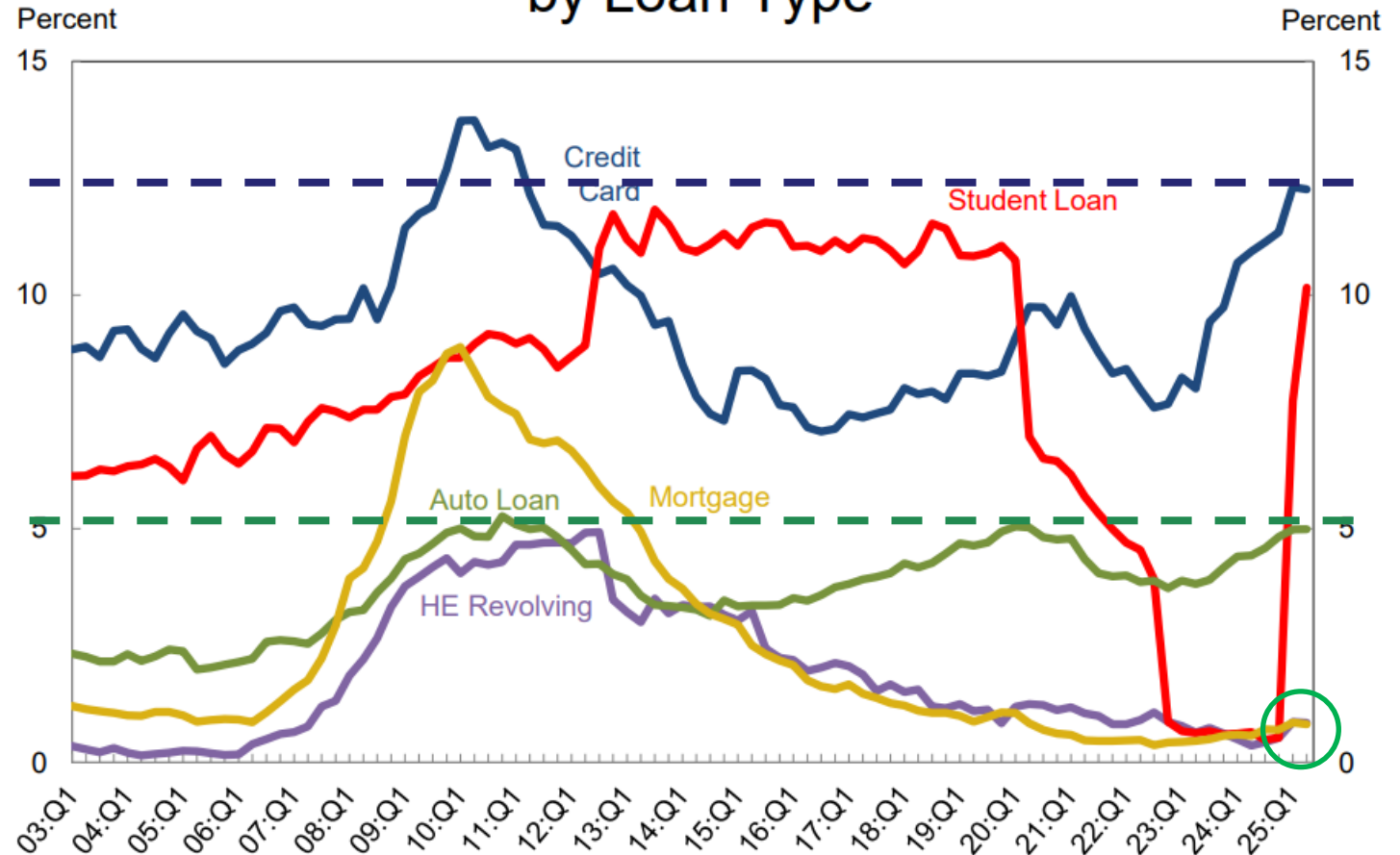
- **Consumer expectations**
- **Manufacturing New Orders**
- **Unemployment claims**



Delinquency by Loan Type

- Credit card and auto loan delinquency rates are near 2009 highs.
- But mortgage and HE Line delinquencies are still low.
- New data shows:
 - 46.7% think credit will be harder to get than last year (highest since 6/24)
 - 8.5% were not applying because they didn't think they would get approved (highest in history of the survey – 10/13)

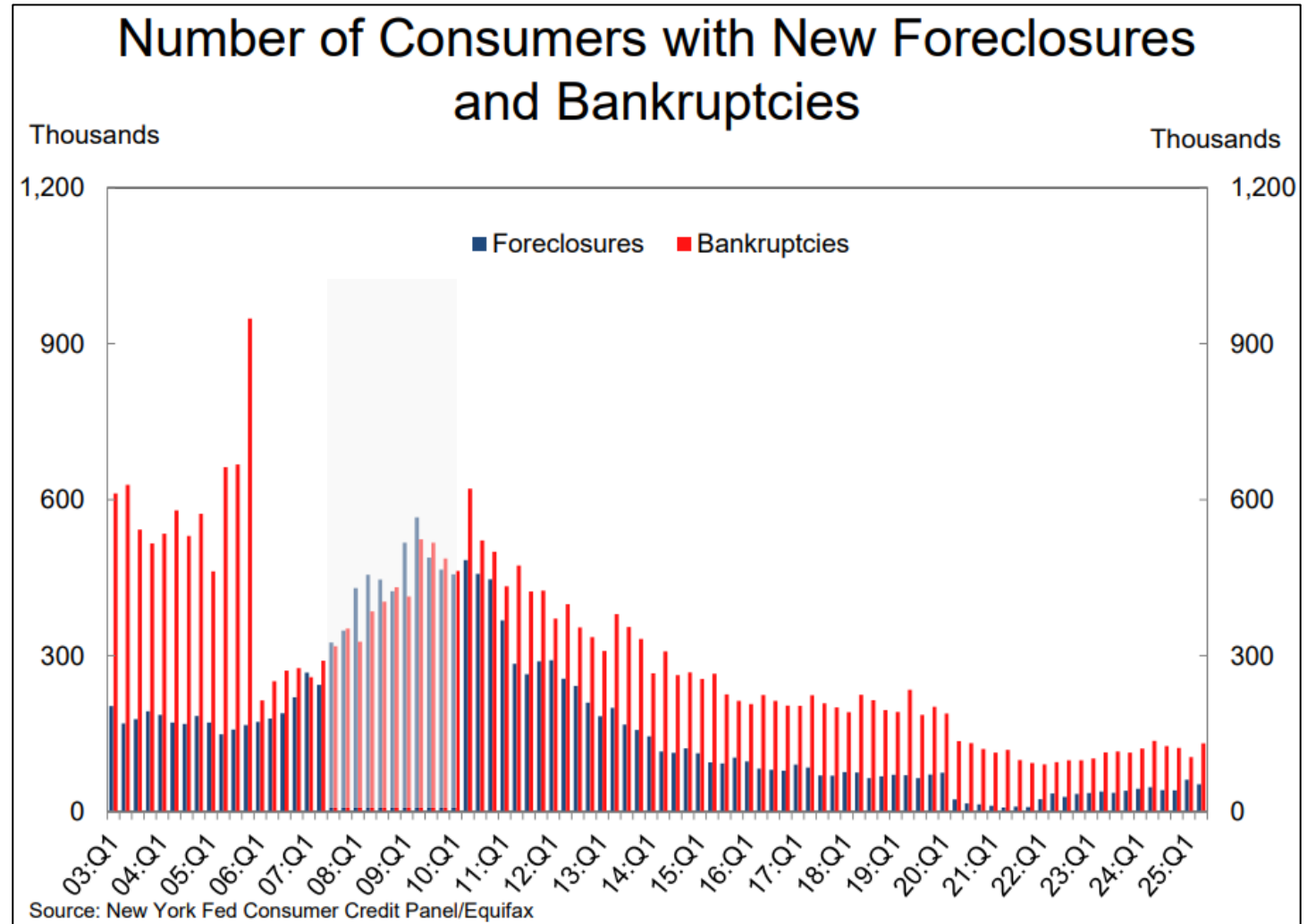
Percent of Balance 90+ Days Delinquent by Loan Type



Source: New York Fed Consumer Credit Panel/Equifax

But Foreclosures and Bankruptcies are In-Line

- No significant concerns over foreclosure or bankruptcy activity at this time.
- Increases in this metric would begin to trigger fears of recession risk, but this is often a lagging indicator – the damage was done long before the foreclosure or bankruptcy is filed.



The Long-Term Labor Market Problem

- AI is starting to have an impact on employment, but here is a new bottom line looking forward between 2025 and 2030:
 - Baby Boomer Retirements -21.7M
 - Net New Entrants 2.3M
 - AI job losses -4.0M
 - AI job creation 1.0M
 - Net Labor Force Change by 2030 ~ -18.0M
- We have to go through a transition period where AI outpaces retirements and job creation, but long term, the US still has a labor shortage.

Category	Jobs Added or Subtracted in June
Total	147,000
Mining and Logging	(2,000)
Construction	15,000
Nonresidential	(400)
Manufacturing	(7,000)
Trade, Transportation, Utilities	3,000
Retail	2,400
Information	3,000
Financial Activities	3,000
Real Estate	2,100
Professional and Business	(7,000)
Computer system design	(2,500)
Private Education	(7,500)
Health Care	58,600
Leisure and Hospitality	20,000
Government	73,000
Federal	(7,000)
State	47,000
Local	33,000

Questions?

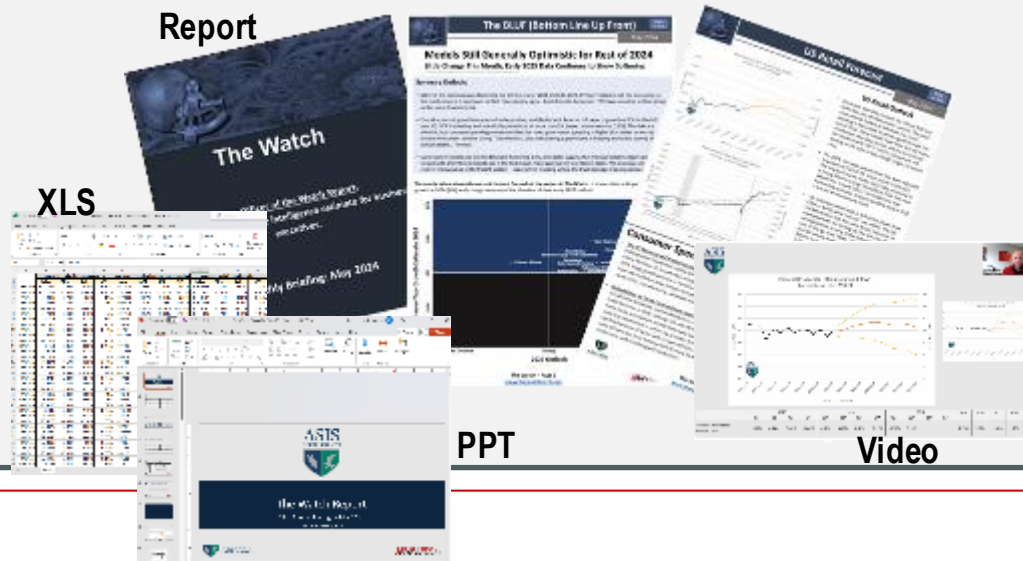
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