

## **Economic Outlook:**

*A Resilient Economy, Sticky Inflation, and Aggressive Fiscal Policy Agenda Limit Downside Potential for Fed Rate Relief*

*January 2025*

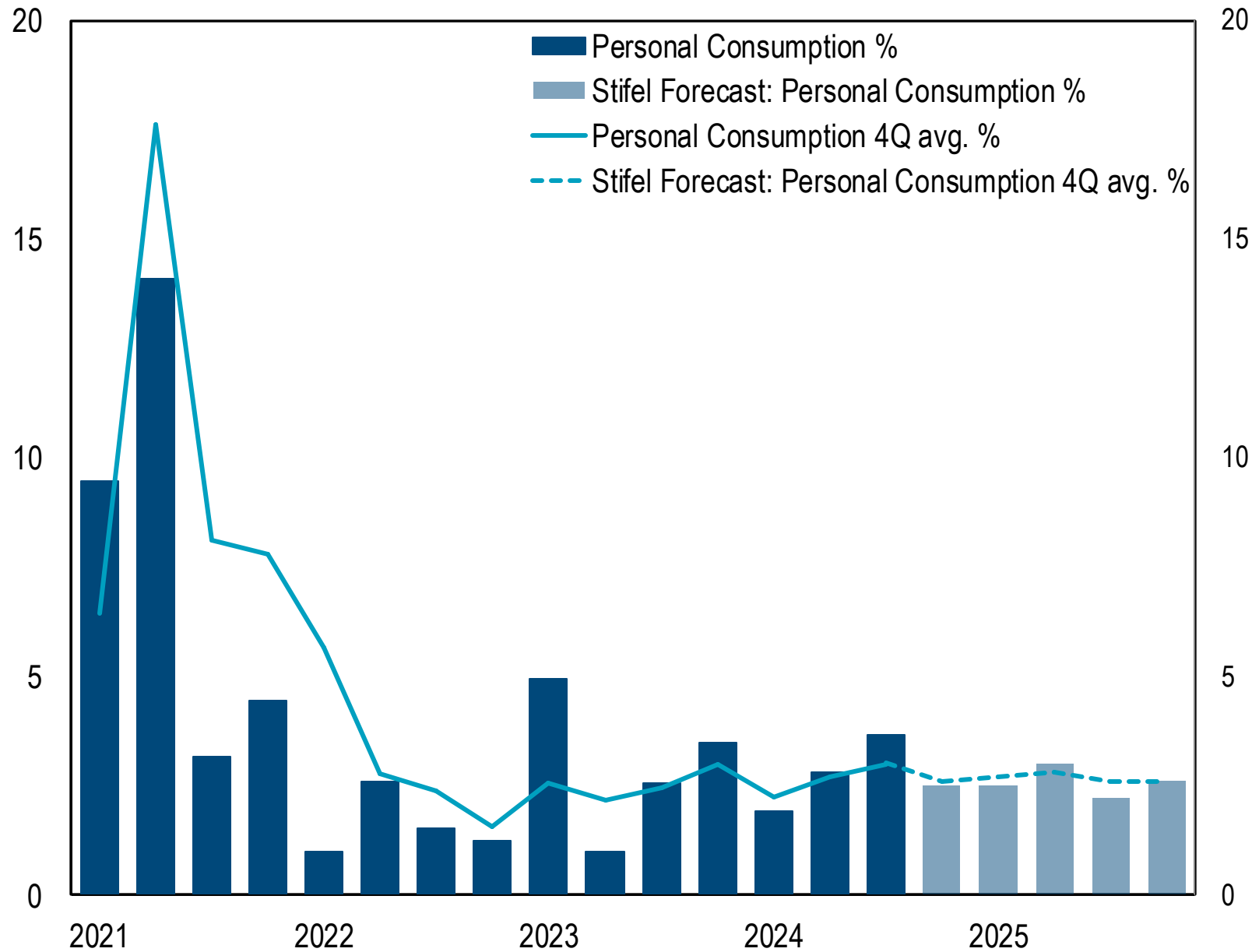


# STIFEL

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Chief Economist

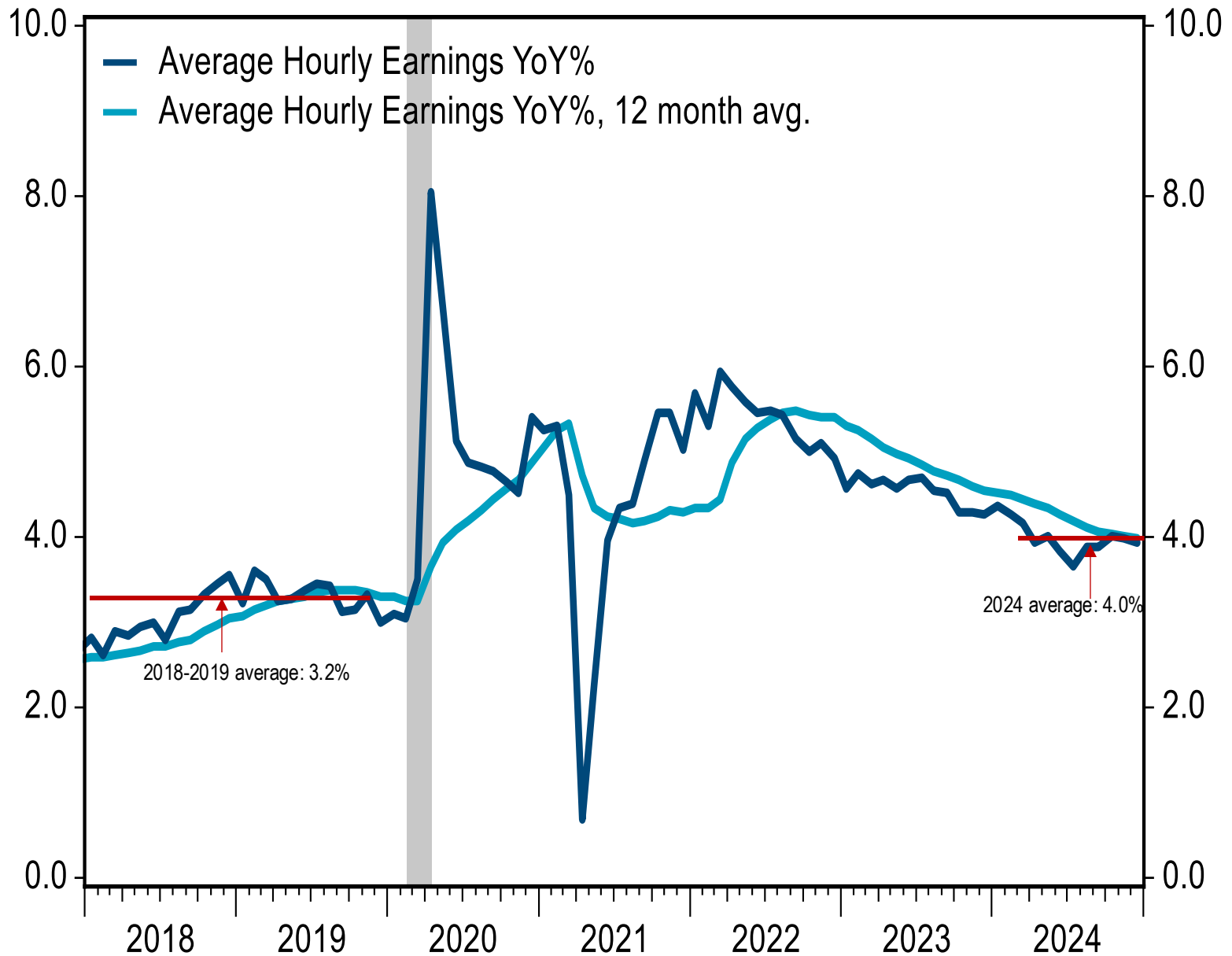
- Adjusting conditions warrant some further cuts in 2025
- The data do not indicate evolving softness
- Tempered approach to policy

## Consumer Remains Resilient



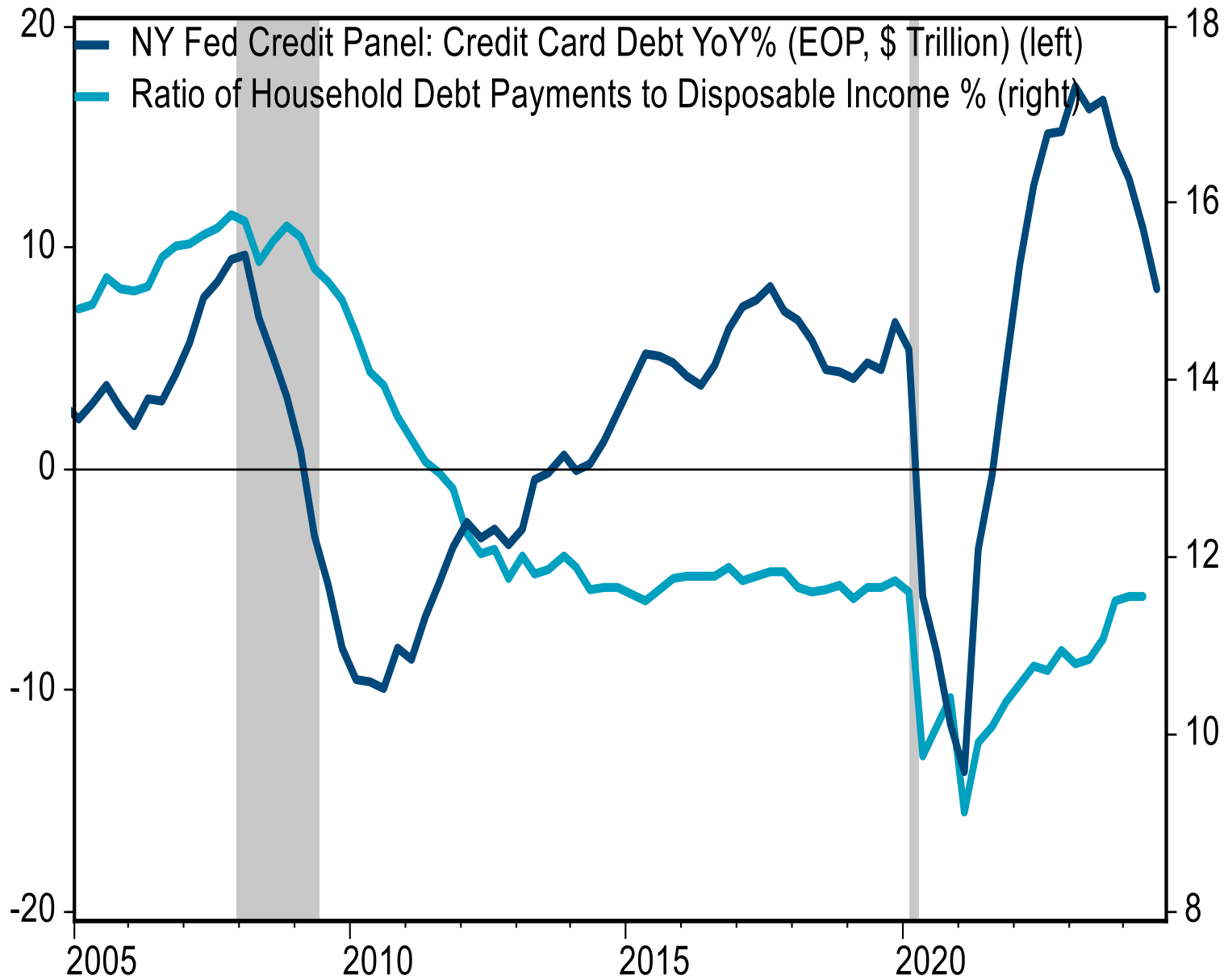
Source: Bureau of Economic Analysis/Stifel

## Average Hourly Earnings Still Positive



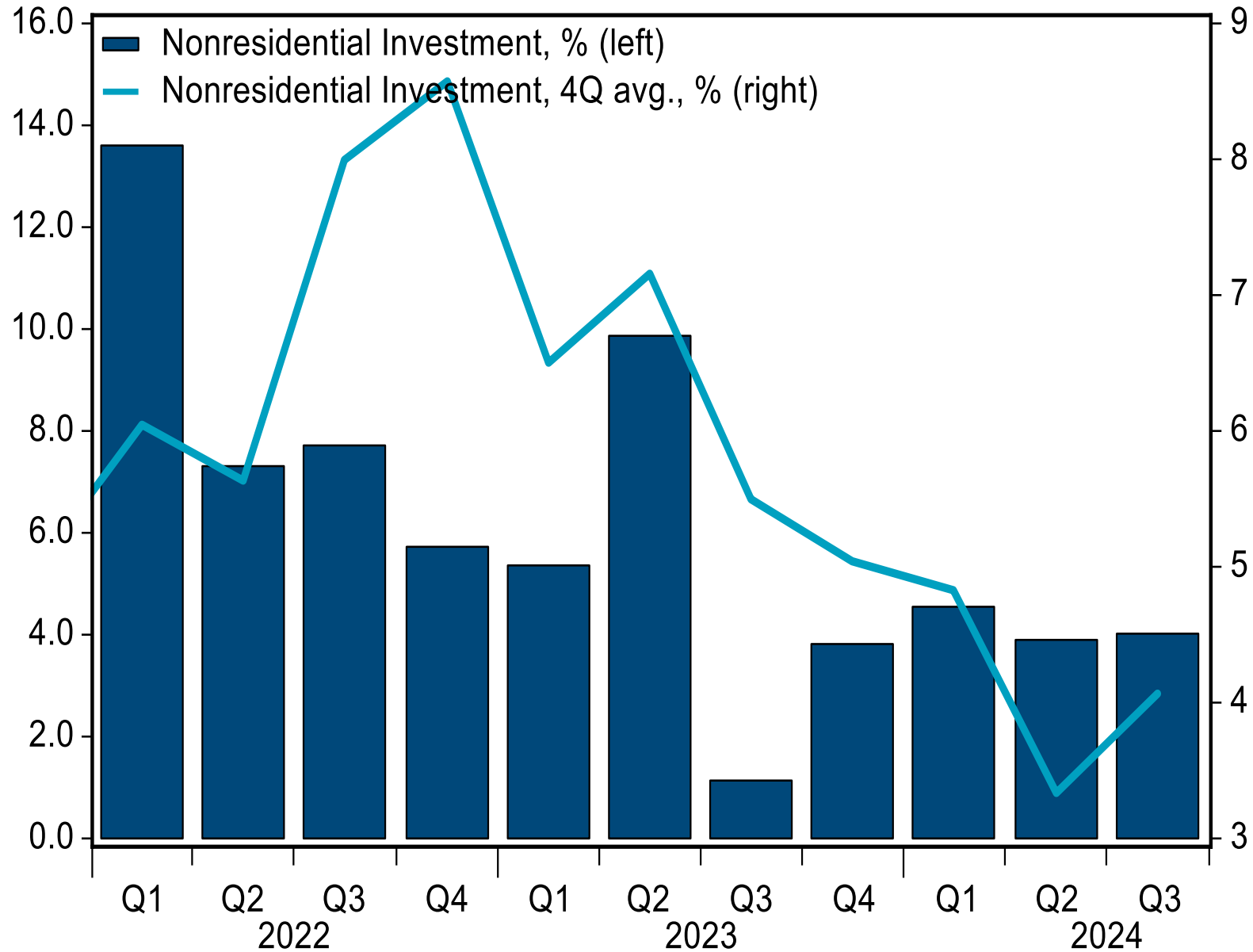
Source: Bureau of Labor Statistics/Haver Analytics

## Debt as a Percent of Income Still Near Record Low



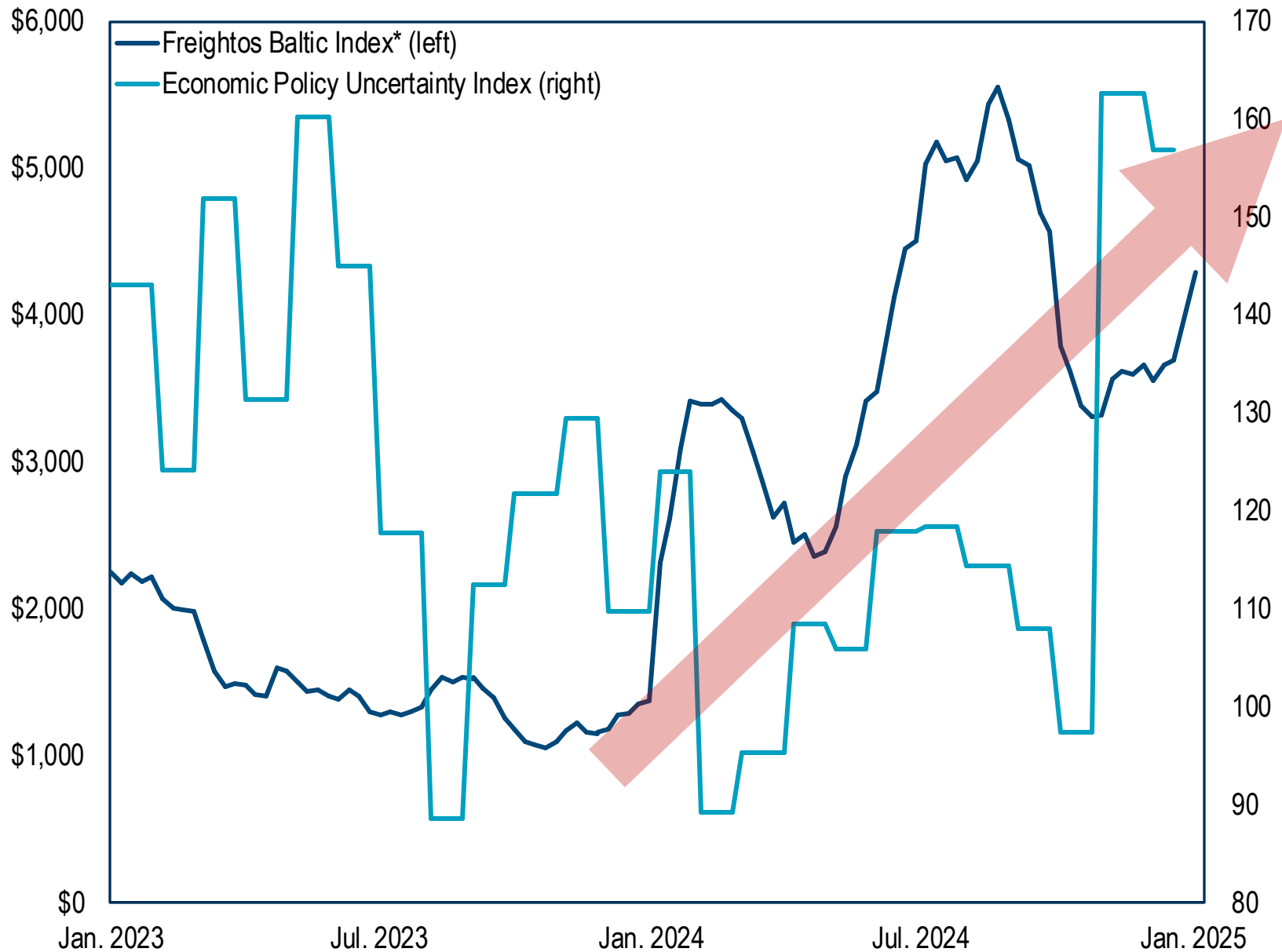
Sources: FRBNY/Haver Analytics

## Waning Business Investment



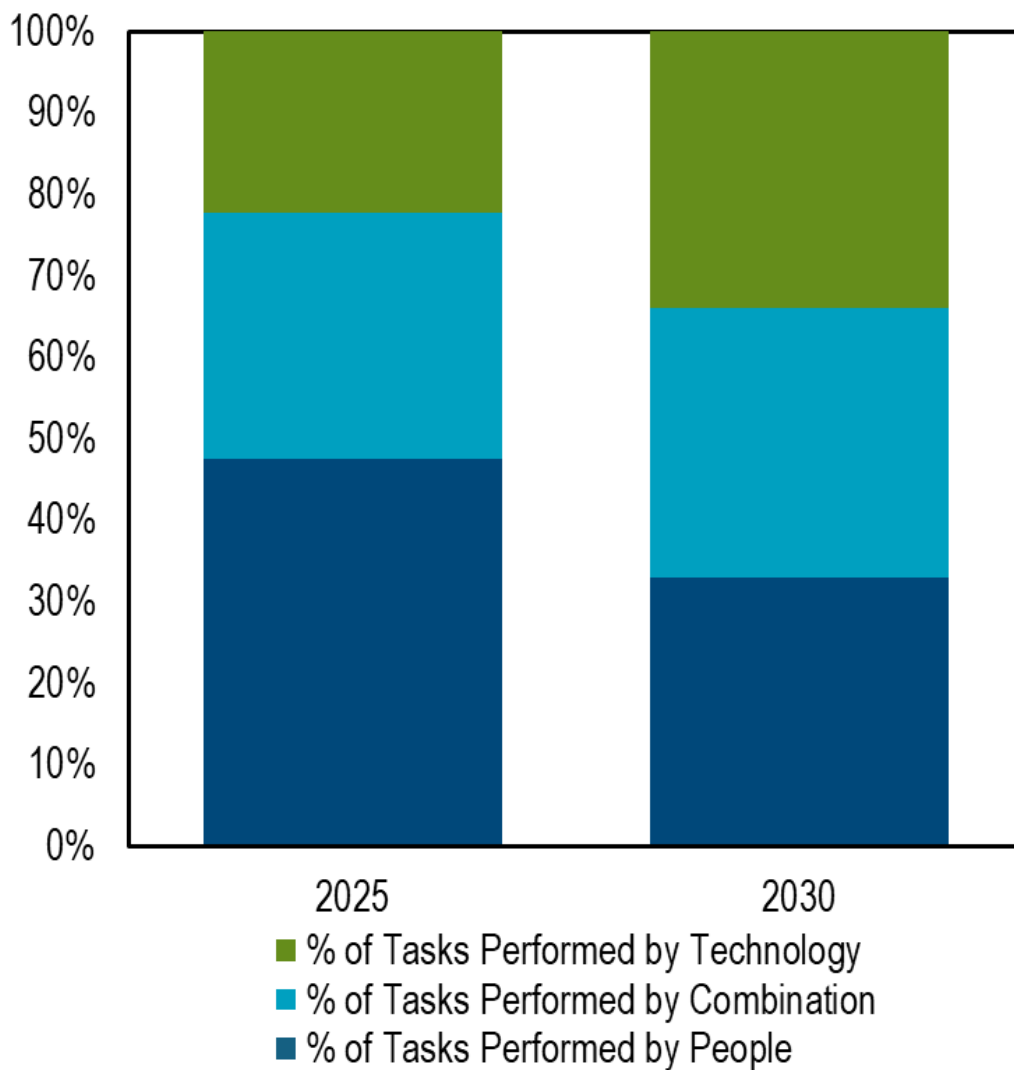
Source: Bureau of Economic Analysis/Haver Analytics

# International Risks and Uncertainty Muddy the Outlook for Inflation, Policy

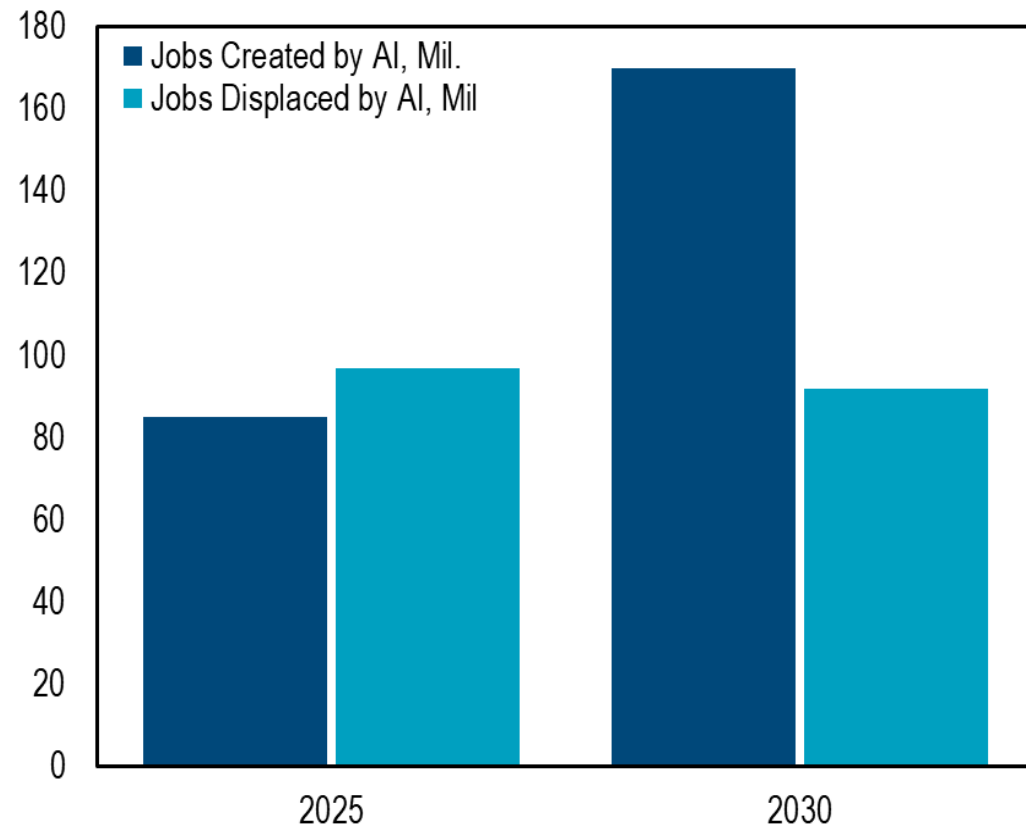


\*The index is a weighted average cost of a 40' container over twelve route indexes for ocean freight.

# Impact of Artificial Intelligence (AI) on Labor Market



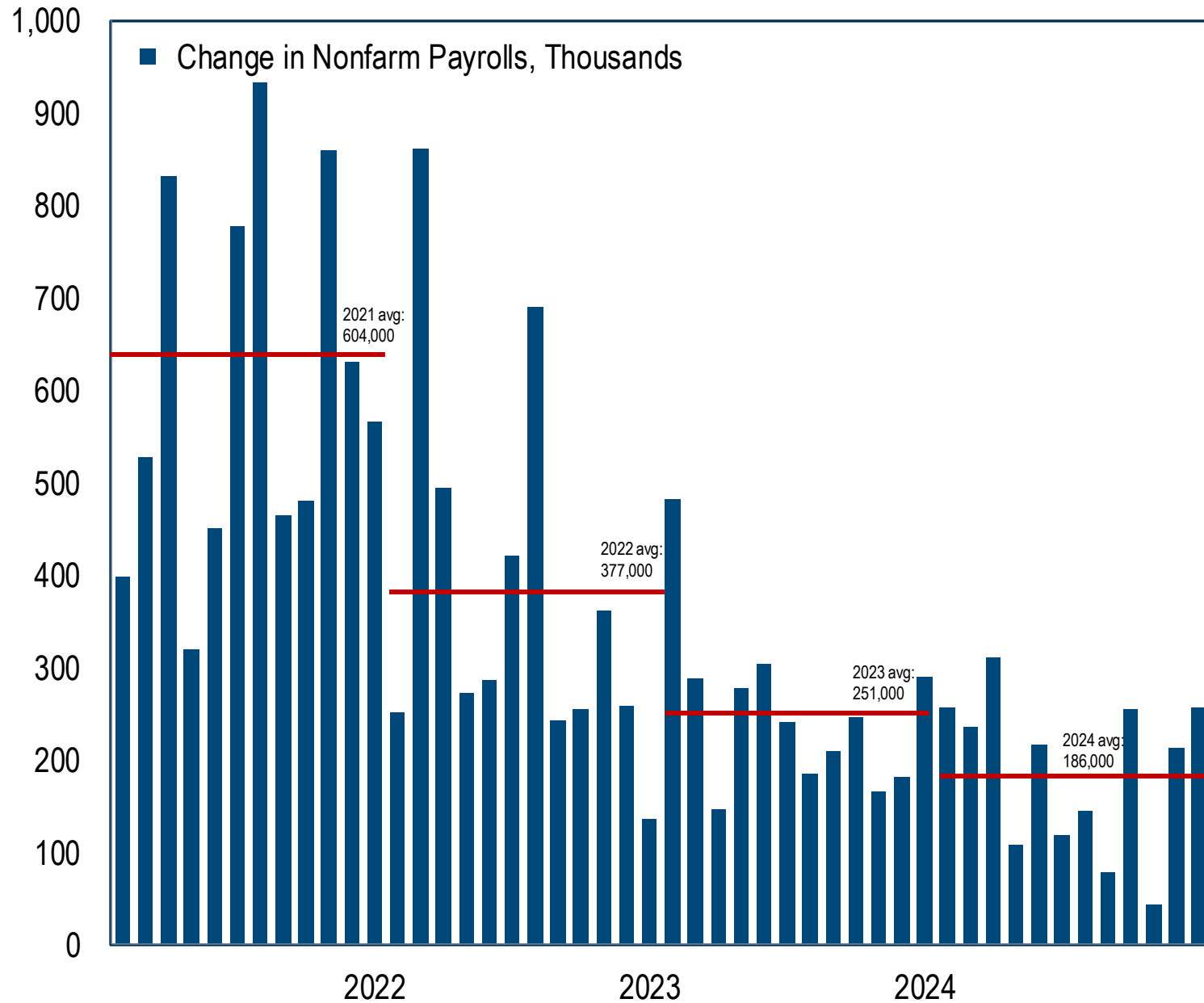
Source: World Economic Forum



Source: World Economic Forum

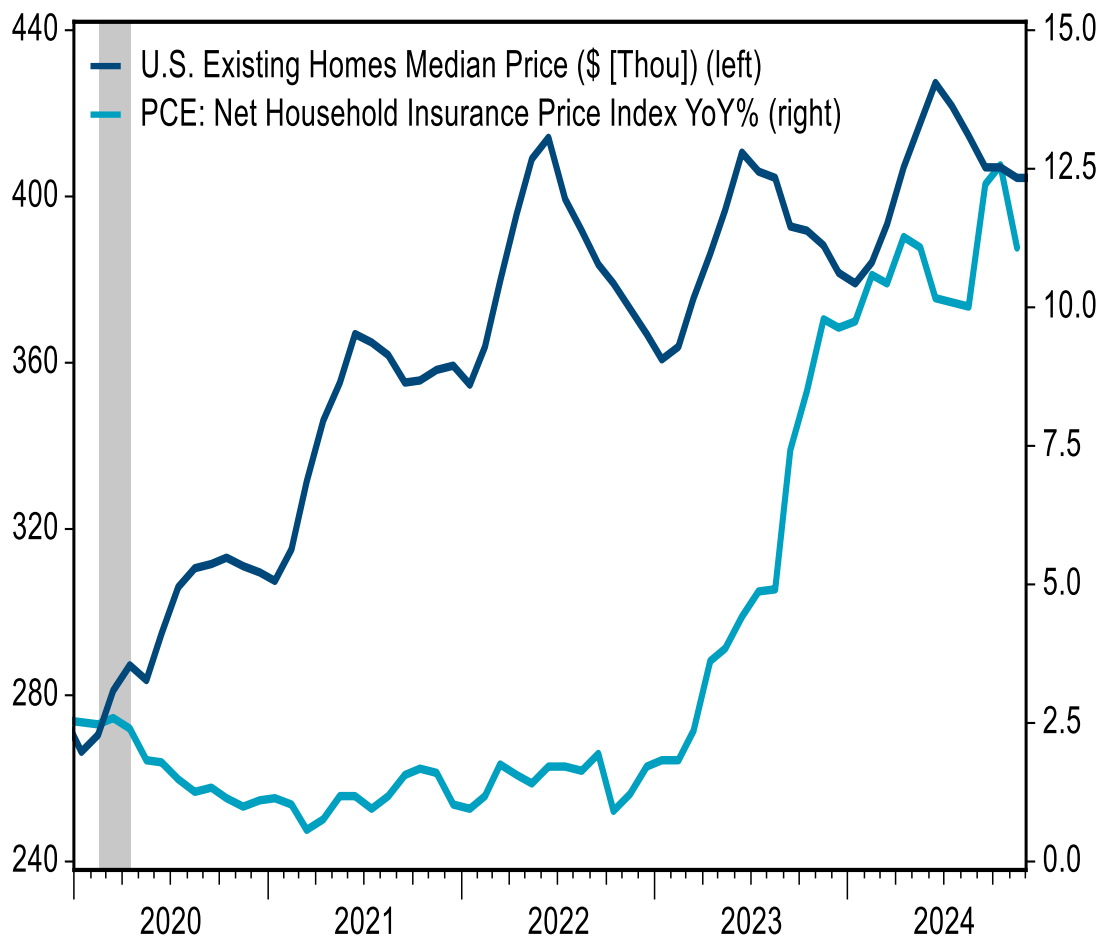


# Labor Market Conditions Cooling but Still Solid



Source: Bureau of Labor Statistics/Haver Analytics

# Housing Affordability Remains Low; Elevated Insurance Premiums Add to Rising Cost of Housing

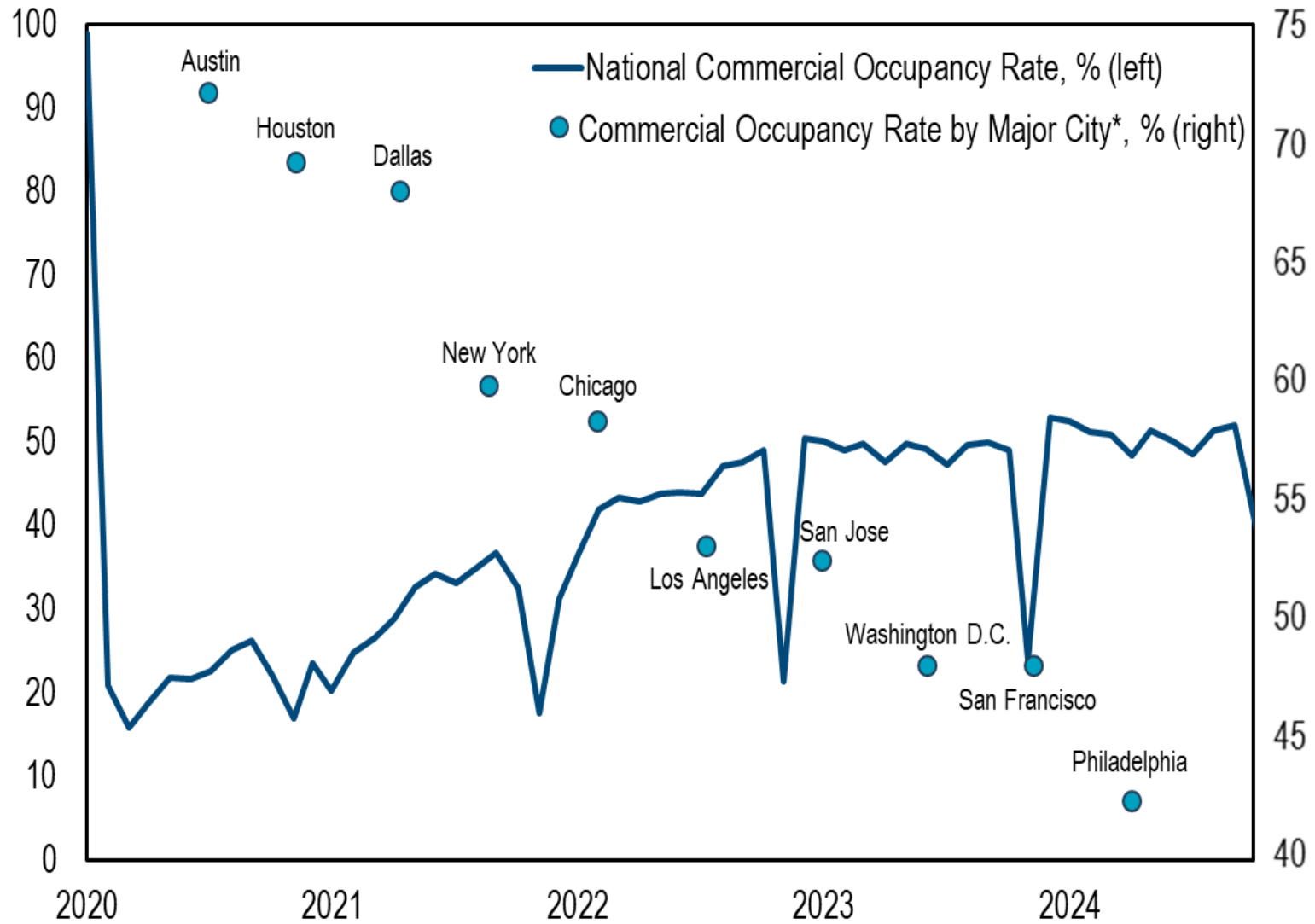


State	Cumulative Home Insurance Increase, 2019-2024
Arizona	62.1%
Nebraska	59.9%
Illinois	56.9%
Utah	54.6%
Texas	54.5%
Colorado	50.7%
South Dakota	49.7%
California	49.4%
Minnesota	45.2%
Montana	44.3%

Source: LendingTree Analysis of RateWatch from S&P Global Data

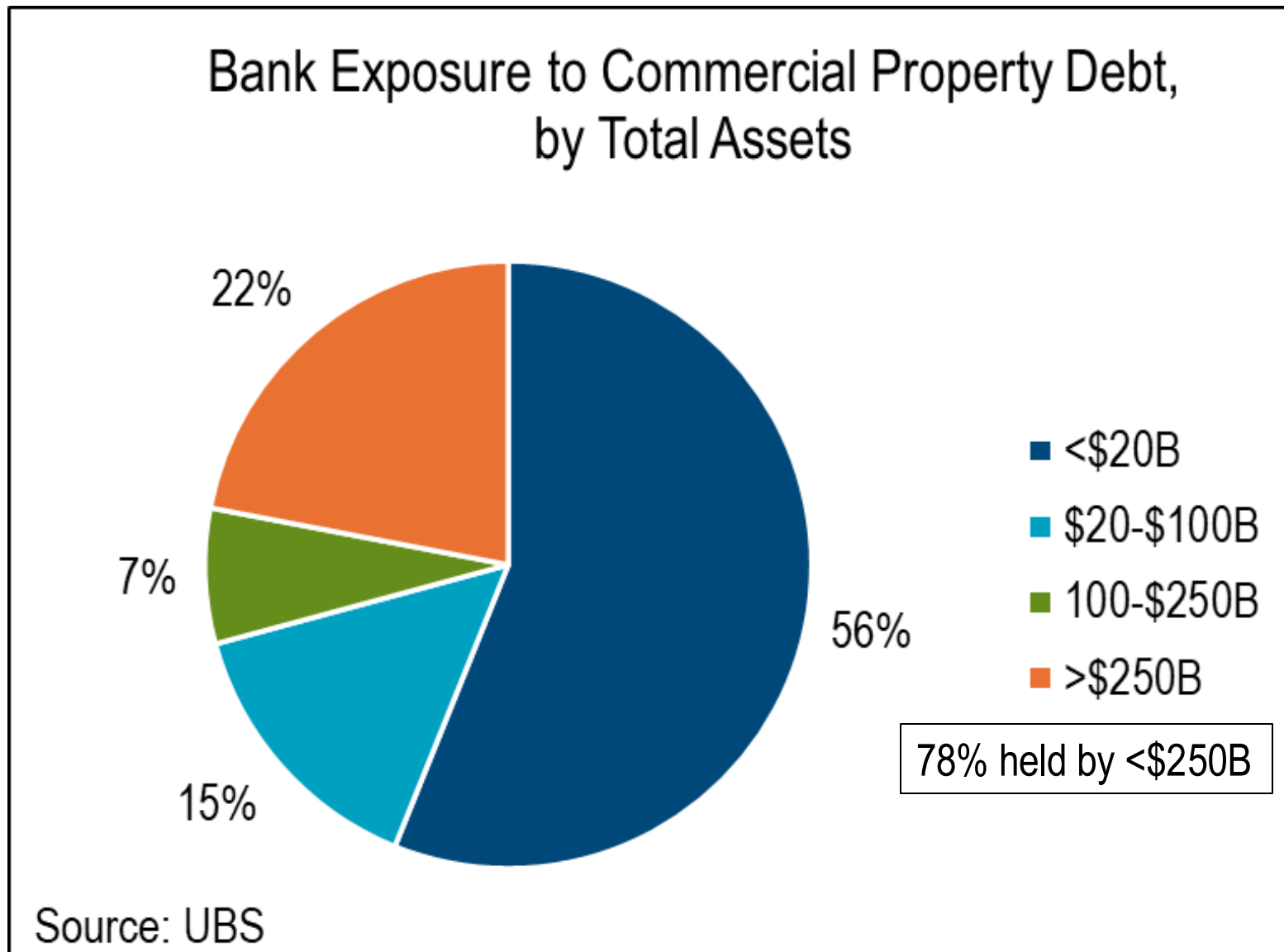
Note: In 1988, California Prop. 103 introduced price caps in a set of regulations that limit how much insurers can charge for premiums.

# Real Estate and Return to Office Rates



\*Data from November 2024

Source: Kastle



- Positive outlook for domestic growth
- Stubbornly sticky inflation
- Finally concerns of a bloated fiscal balance sheet

*Resulting in*

- Limited downside potential for easing
- Higher longer-run real rates
- Normal shaped curve

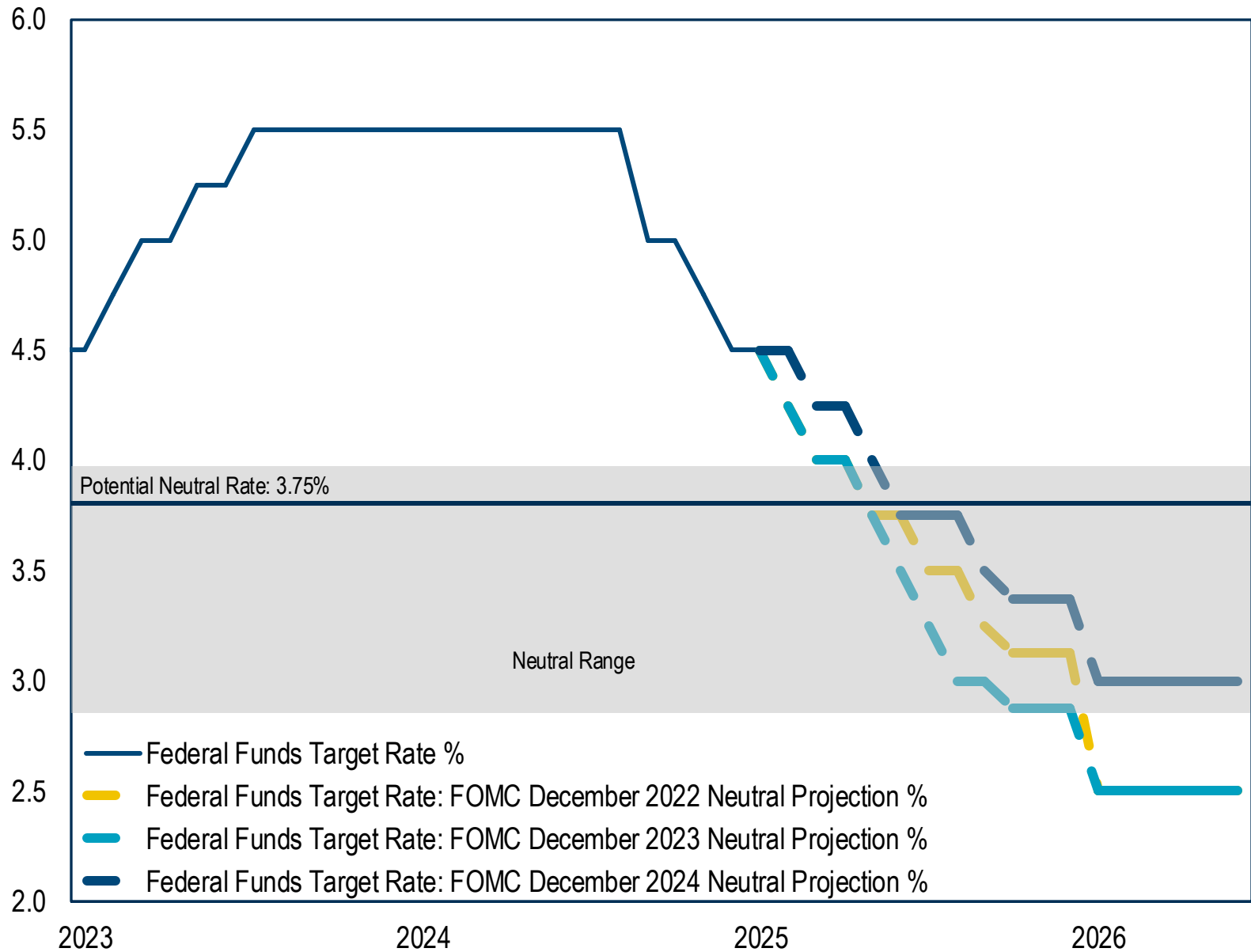
*“Recent indicators suggest that **economic activity** has continued to expand at a **solid pace.**”*

*“The **unemployment rate** has stabilized at a **low level** in recent months, and labor market conditions remain solid.”*

*“**Inflation** remains somewhat **elevated.**”*

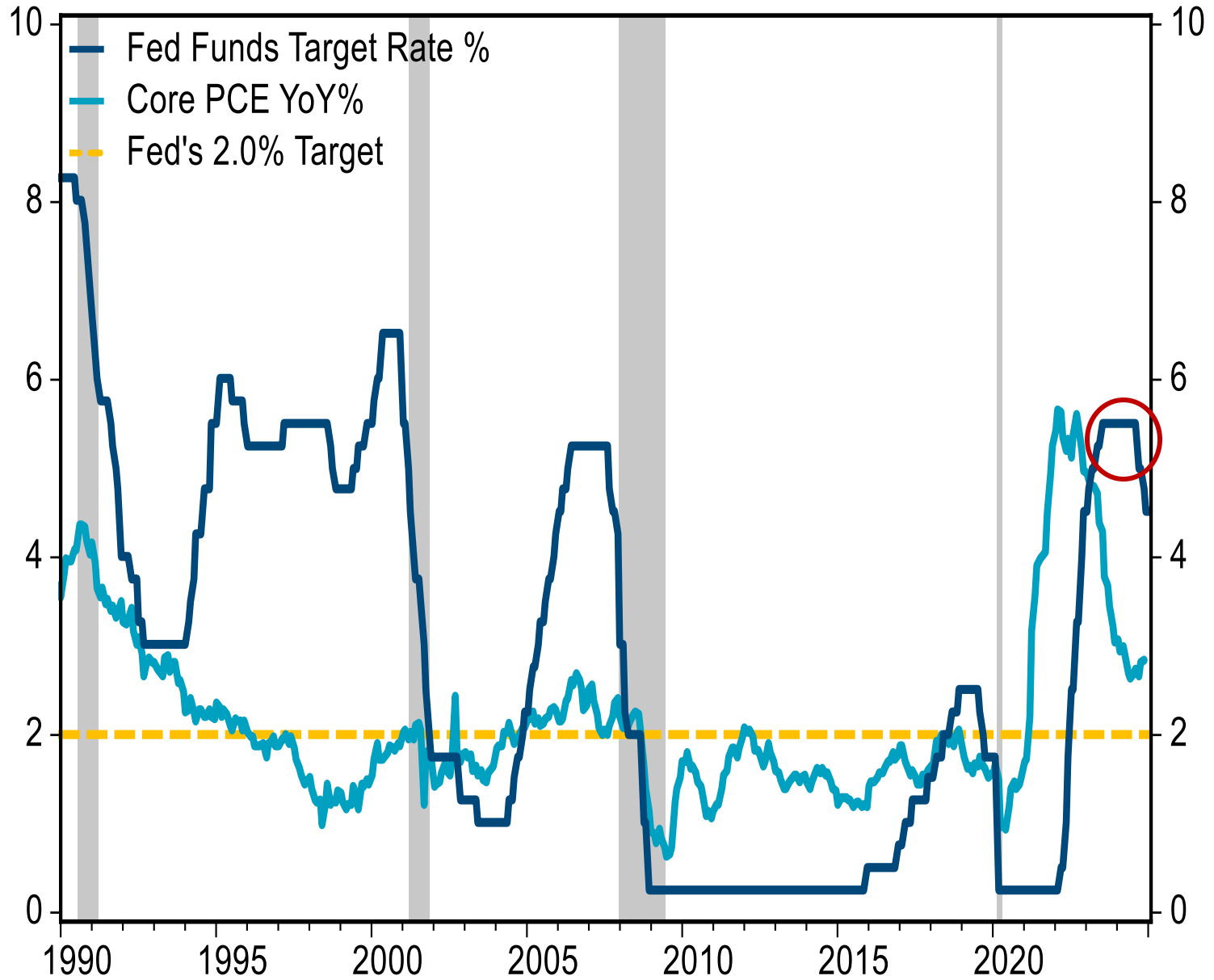
- January 29 FOMC Statement

# Significantly Higher Neutral Rate



Source: Bureau of Economic Analysis/Federal

# Significantly Higher Neutral Rate



Sources: FRB, BEA/Haver



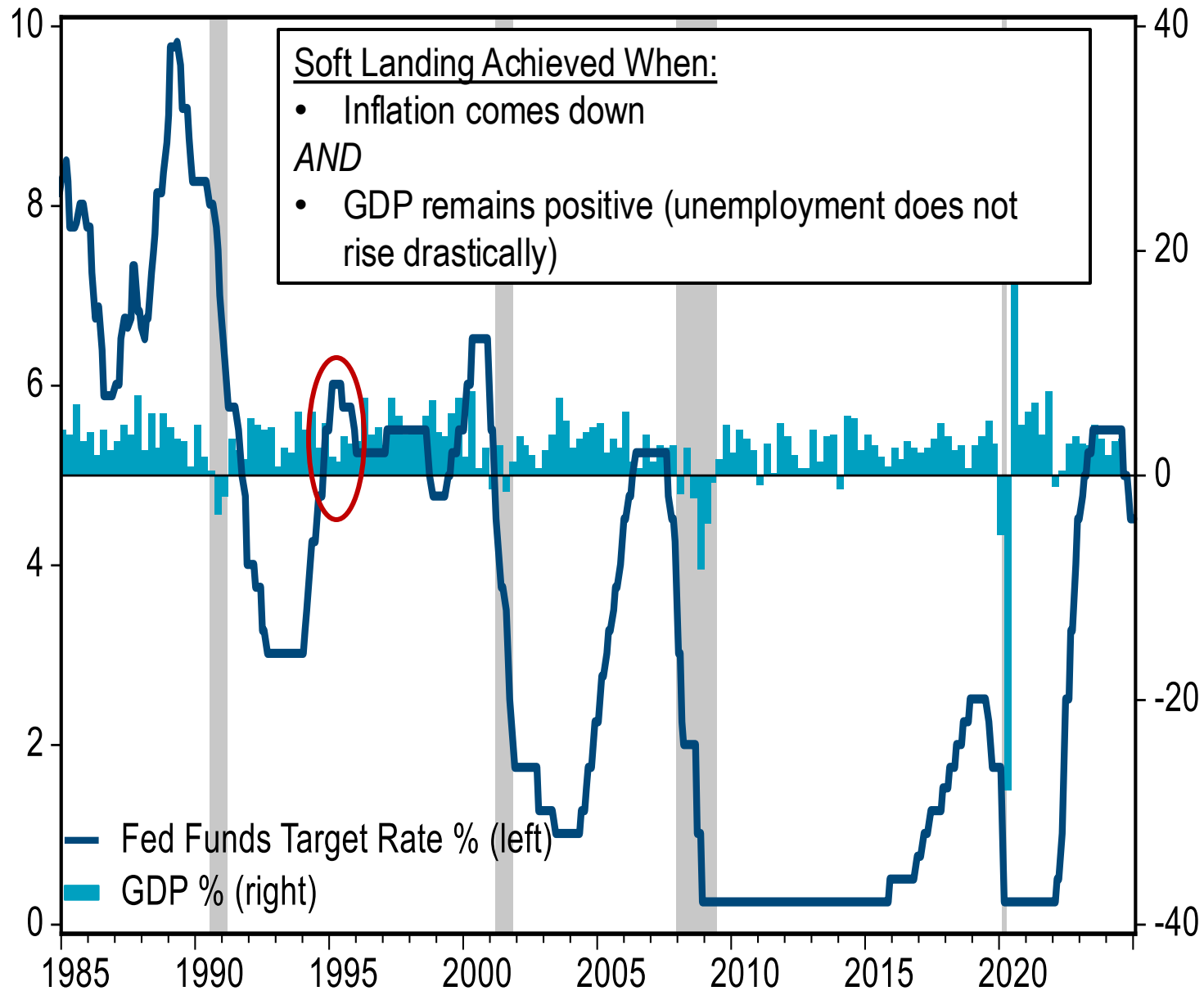
## Reinstating Price Stability is Far from a Foregone Conclusion

	Dec-23	Jan-24	Jun-24	Sep-24	Oct-24	Nov-24	Dec-24
CPI	3.4	3.1	3.0	2.4	2.6	2.7	2.9
Core CPI	3.9	3.9	3.3	3.3	3.3	3.3	3.2
Supercore CPI	3.9	4.4	4.6	4.3	4.4	4.3	4.2
CPI: Housing	4.8	4.6	4.4	4.1	4.2	4.1	4.1
PPI	1.0	1.0	3.0	2.1	2.7	3.0	3.3
Core PPI	1.8	2.0	3.3	3.2	3.4	3.5	3.5
PCE	2.7	2.6	2.4	2.1	2.3	2.4	--
Core PCE	3.4	3.7	2.6	2.7	2.8	2.8	--
Supercore PCE	3.4	3.7	3.3	3.3	3.5	3.5	--

\*All figures are reported YoY%

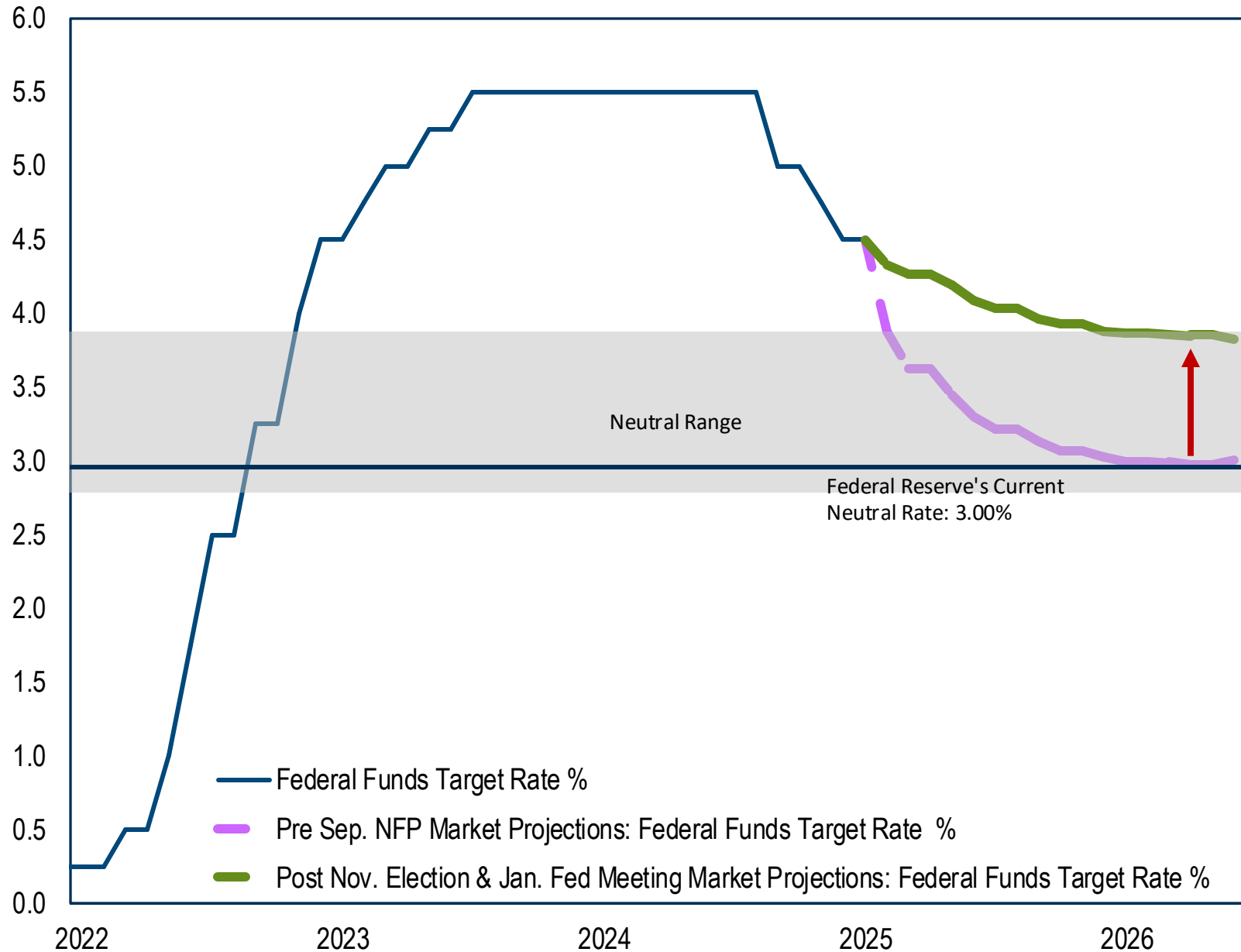
Source: BEA, BLS, Haver Analytics

## Soft Landing Only Achieved by the Fed Once in Last 60 Years



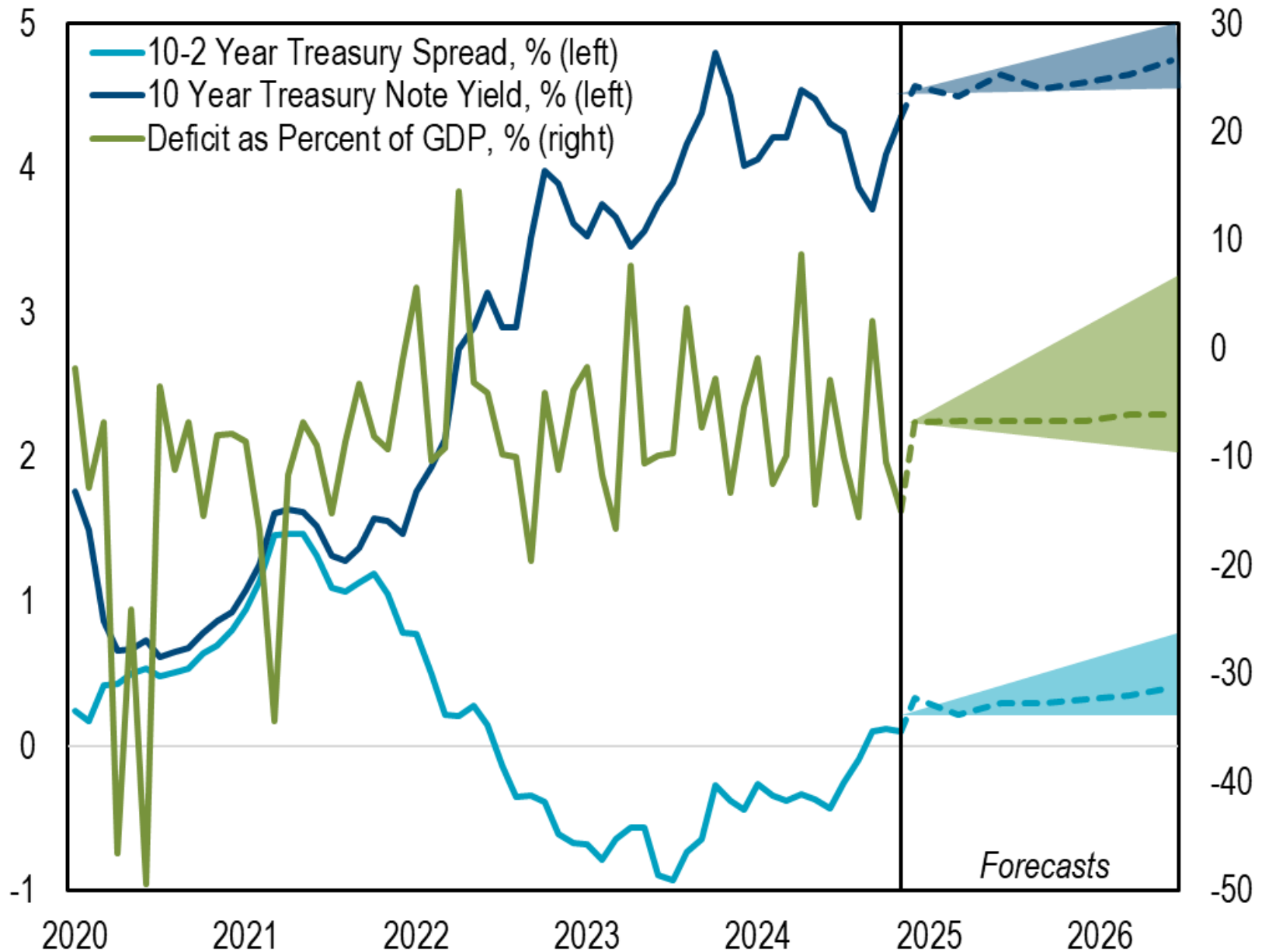
Sources: FRB, BEA/Haver

# Federal Reserve Likely to Move at a Controlled, Tempered Pace



Source: Bureau of Economic Analysis/Federal

## Investors Likely to Continue to Reshape Expectations for Longer-term Yields



Source: FRED/CBO/Bloomberg

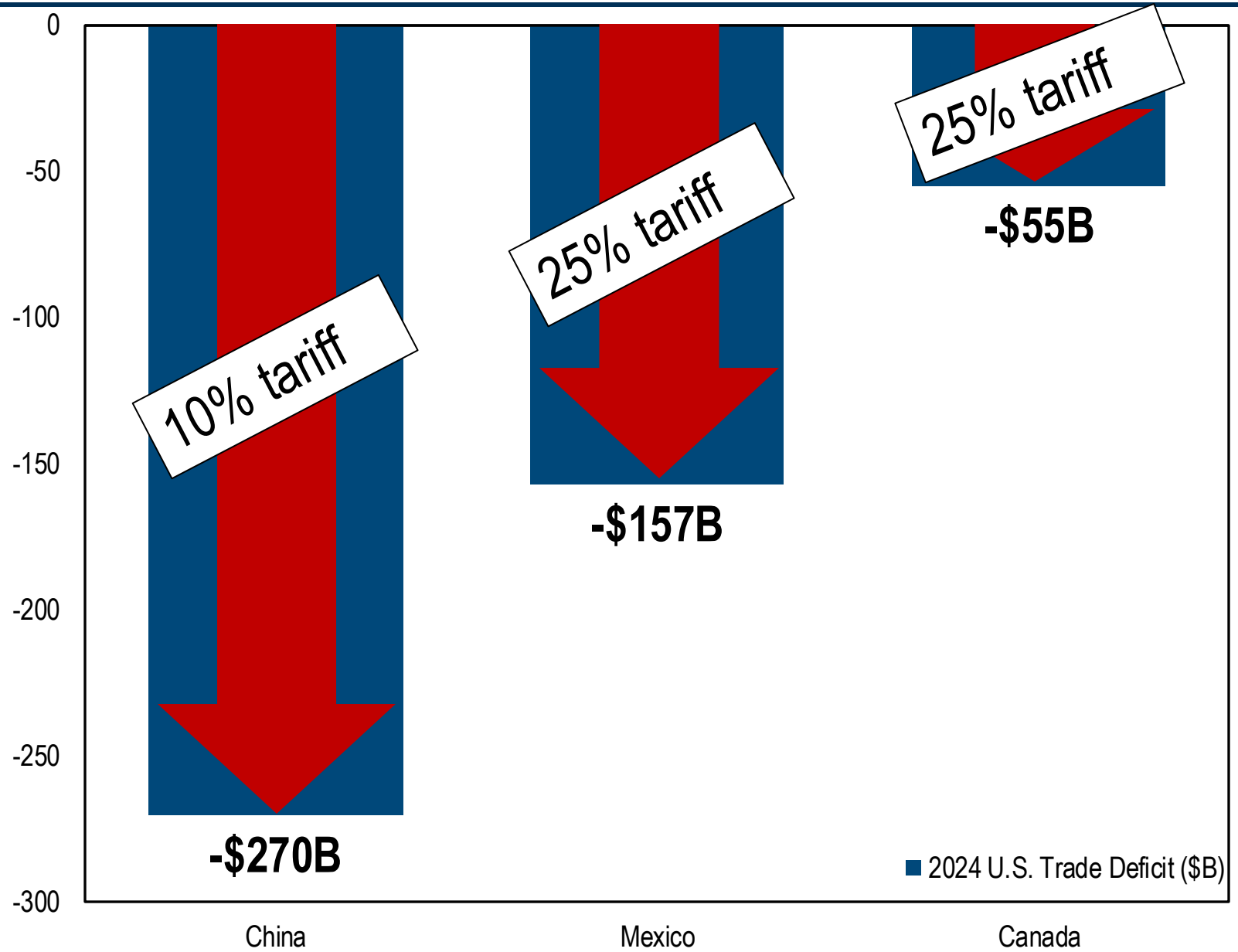
- Ongoing positive growth
- Persistent above-target inflation
- Growing budget strains

# Trump's Policy Proposals

	Trump's Policy Proposal	Potential Consequences
<b>Tariffs</b>	<ul style="list-style-type: none"> <li>•Increase tariffs on Chinese imports up to 60%.</li> <li>•25% tariff on Canadian and Mexican imports.</li> <li>•20% global tariff.</li> </ul>	<p><b>Not Inflationary:</b> A onetime price increase lacks the “inflationary” implications some fear in terms of perpetual upward momentum in costs;</p> <p><b>Higher Inflation:</b> However, escalating trade disputes resulting do risk sustained price pressures.</p>
<b>Taxes</b>  <b>Corporate Taxes</b>  <b>Investment Income</b>	<ul style="list-style-type: none"> <li>•Extend the Tax Cuts and Jobs Act (TCJA) of 2017.</li> <li>•Suggested on Sept.18 that he would restore full state and local tax deduction (SALT) expire.</li> <li>•Exempt tips, overtime pay, and Social Security from income tax.</li> <li>•Cut corporate the corporate tax rate to 20% and to 15% for companies that make their products in the U.S.</li> <li>•No proposed changes</li> </ul>	<p><b>Higher Inflation:</b> A sizable reduction in taxes could result in inflationary tax-cut fueled spending as well as have a meaningful budget impact in the near term.</p> <p><b>Increase in Debt:</b> Expected loss of roughly \$4 trillion in reduced government revenues over the next ten years.</p> <p><b>Growth:</b> Potential pickup in longer-run growth.</p>
<b>Immigration</b>	<ul style="list-style-type: none"> <li>•Implement stricter border measures.</li> <li>•Mass deportations of illegal immigrants.</li> </ul>	<p><b>Labor Supply Shortage &amp; Higher Production Costs:</b> Additional immigration restrictions could exacerbate the already existing labor supply shortage and result in higher production costs and wage pressures.</p> <p><b>Reduced Costs:</b> Cost reduction on social programs.</p>
<b>Energy</b>	<ul style="list-style-type: none"> <li>•Roll back incentives for buying and producing electric vehicles.</li> <li>•Restarting permitting for liquid and natural gas exports.</li> <li>•Open up more land for drilling oil.</li> <li>•Repeal/relax environmental regulations.</li> </ul>	<p><b>Environmental Impact:</b> U.S. unlikely to meet emission-reduction targets set by EPA.</p> <p><b>Energy Independence:</b> Maintain dominance as the world's leading energy producer.</p>
<b>Fed Leadership</b>	<ul style="list-style-type: none"> <li>•Select next Fed Chair as Chair Powell's term as Chairman ends in May 2026.</li> <li>•Select new Vice Chair of Bank Supervision as Michael Barr will step down on February 28.</li> <li>•Select new Vice Chair as Philip Jefferson's term ends in September 2027.</li> </ul>	<p><b>Fed Leadership:</b> Stack the proverbial Fed deck with more dovish-leaning members inclined to support less restrictive policy.</p>
<b>Healthcare</b>	<ul style="list-style-type: none"> <li>•Possibly try to repeal the Affordable Care Act.</li> </ul>	<p><b>Social Impact:</b> Potential increase in the number of uninsured.</p> <p><b>Cost Reduction:</b> Decrease government spending/entitlement spending.</p>
<b>Summary</b>	Increase deficits by around \$4T in next 10 years with GDP rising over next 10 years	

Source: Campaign Websites, Tax Foundation, Stifel's Chief Washington Policy Strategist Brian Gardner

## Trade and Tariffs



Source: U.S. Census Bureau

## Benefits

Negotiation tactic to potentially:

- Secure better trade deals
- Secure cooperation on ending illegal immigration
- Deter military conflict or aggression
- Encourage allies to spend more on defense

## Risks

- Potential price increase for consumers
- One-time increase lacks upward momentum
- Retaliatory tit-for-tat tariffs risks sustained price pressures



## Likely Extension of Tax Cuts and Jobs Act (TCJA)

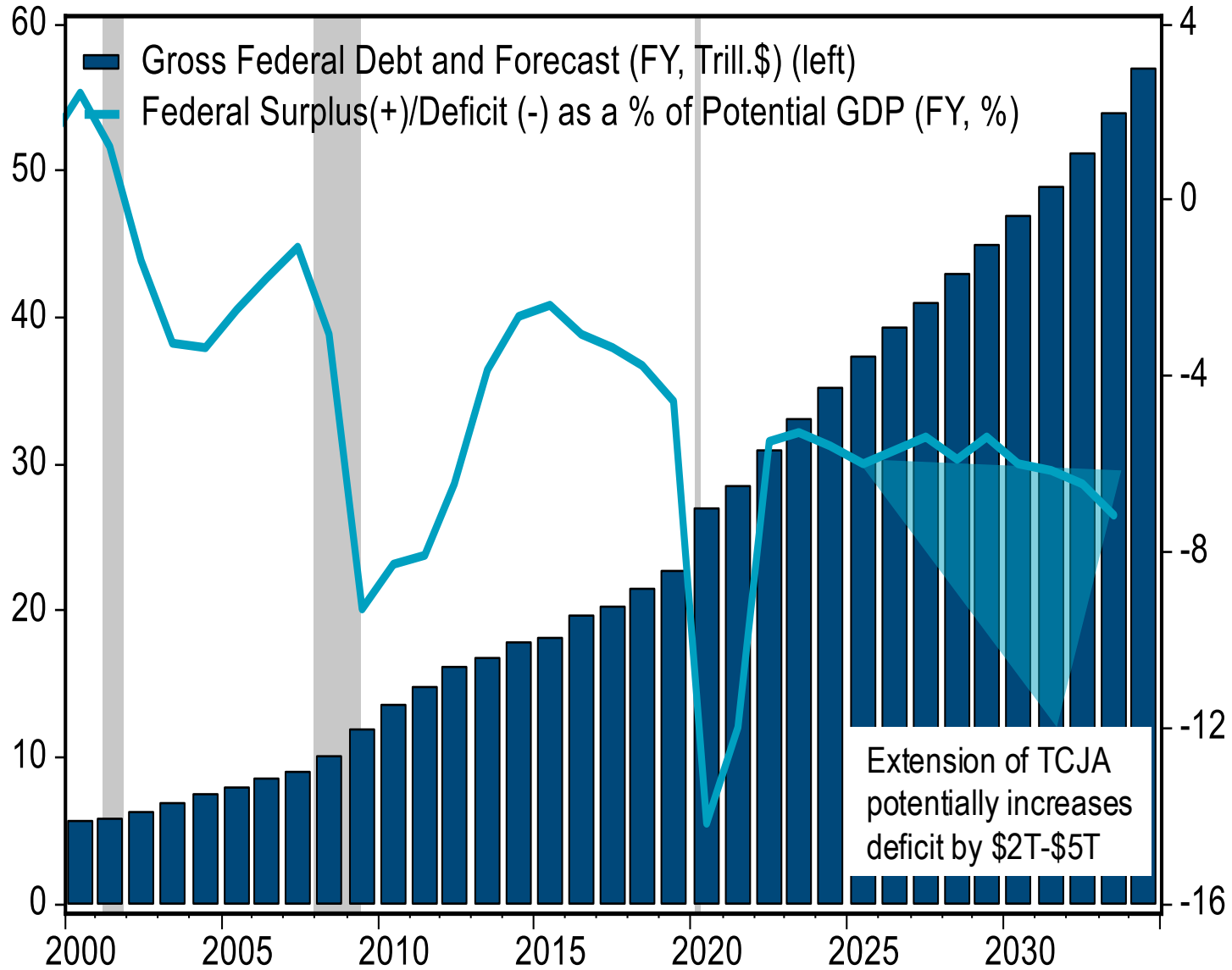
**If TCJA is not extended, the rates and brackets will resemble their 2017 structure.**

A 2026 extension will largely reflect the current TCJA. President-elect Trump has proposed excluding overtime, tips, and Social Security benefits as well.

Income brackets before and after the Tax Cuts and Jobs Act (TCJA)					
Prior law (2017)		2023		2024	
Not over \$19,050	10%	Not over \$22,000	10%	Not over \$23,200	10%
\$19,051-\$77,400	15%	\$22,001-\$89,450	12%	\$23,200-\$94,300	12%
\$77,401-\$156,150	25%	\$89,450-\$190,750	22%	\$94,301-\$201,050	22%
\$156,151-\$237,950	28%	\$190,751-\$364,200	24%	\$201,051-\$383,900	24%
\$237,951-\$424,950	33%	\$364,201-\$462,500	32%	\$383,901-\$487,450	32%
\$424,951-\$480,050	35%	\$462,501-\$693,750	35%	\$487,450-\$731,200	35%
Over \$480,050	39.6%	Over \$693,750	37%	Over \$731,200	37%

Source: IRS

# Potential Increase in Deficits



Source: Congressional Budget Office/Haver Analytics

## Government Balance Sheet and *Potential Cuts*

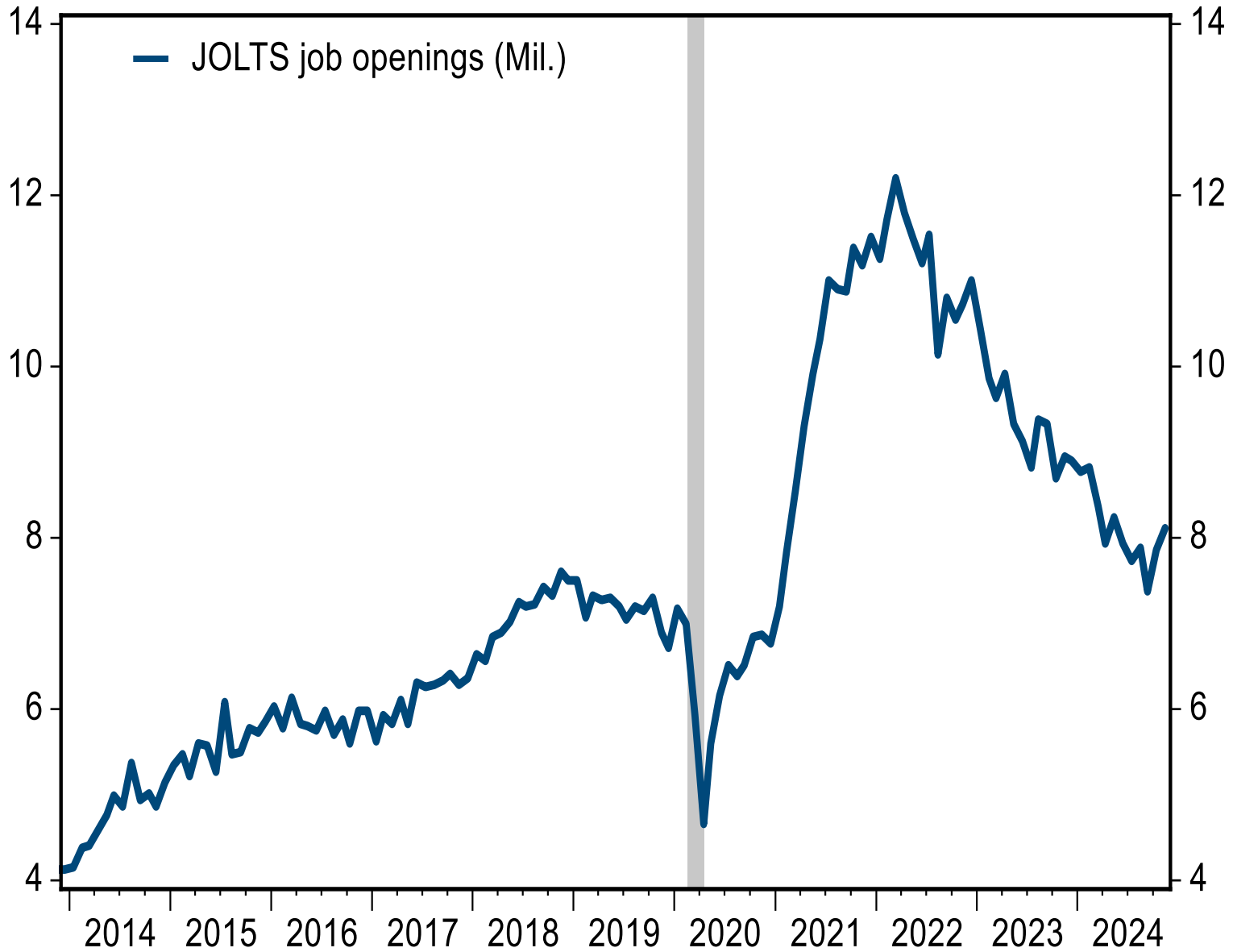
Areas of Cuts/Reforms	Expected Cuts	Budget
Federal Spending on Diversity, Equity, & Inclusion (DEI)*	\$124B	\$124B
Reduce Federal Workforce Size	Unspecified	\$293B
Remove or Fundamentally Change Government Agencies	Unspecified	--
Internal Revenue Service	Unspecified	\$14.1B
Cut Consumer Financial Protection Bureau	\$762.9M	\$762.9M
Corporation for Public Broadcasting	Unspecified	\$535M
Planned Parenthood Spending	Unspecified	\$148M
Remove Federal Regulations	Unspecified	--

Sources: CNN/The Independent/Yahoo News/X

\*As of 1/21 the webpage for DEI on the Office of Personnel Management site is down

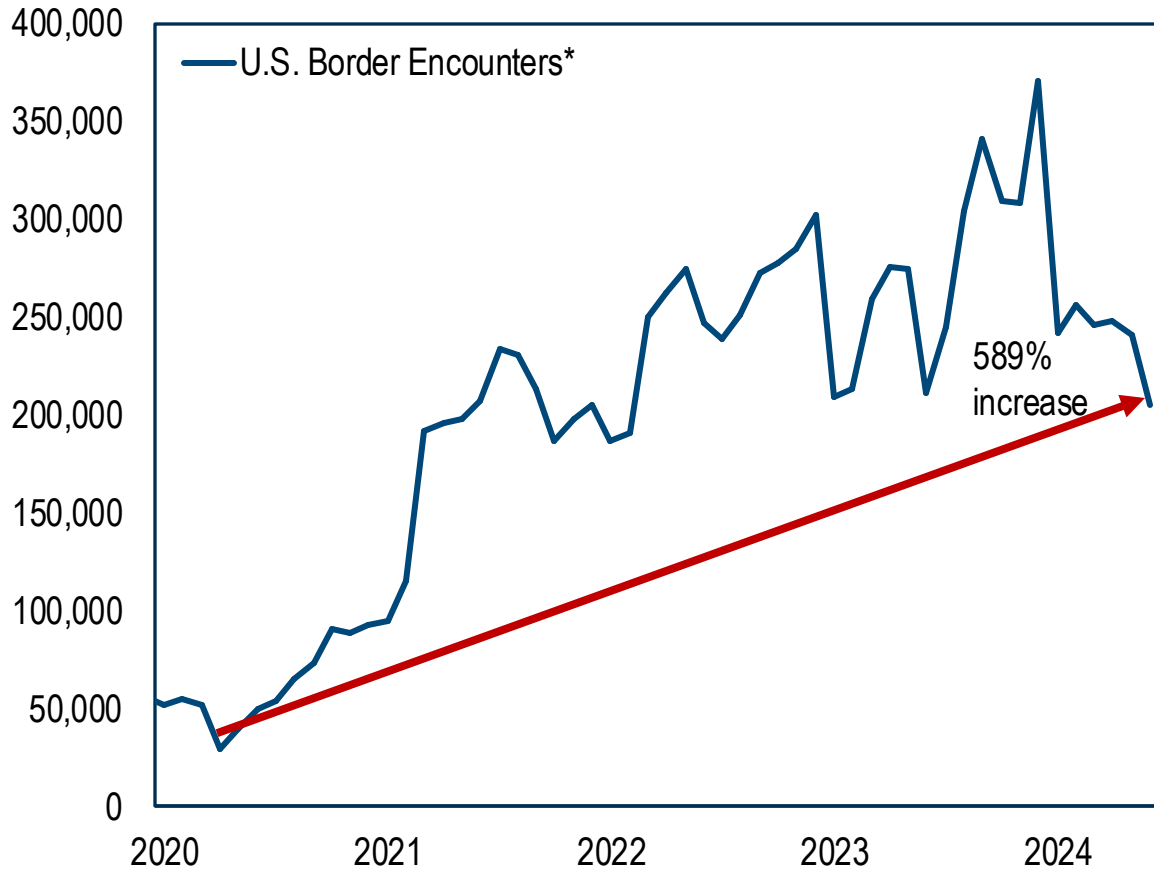
As of 1/21, Vivek Ramaswamy announced he will not be co-heading the agency

## Job Openings Remain Elevated



Source: Bureau of Labor Statistics/Haver Analytics

# Immigration Reform



Cost of Illegal Immigrants* (\$B)	
California	22.8
Texas	9.9
New York	7.4
Florida	6.0
New Jersey	3.9
Illinois	2.9
Arizona	2.4
Georgia	2.3
North Carolina	2.3
Virginia	2.1

Source: Federation for American Immigration Reform

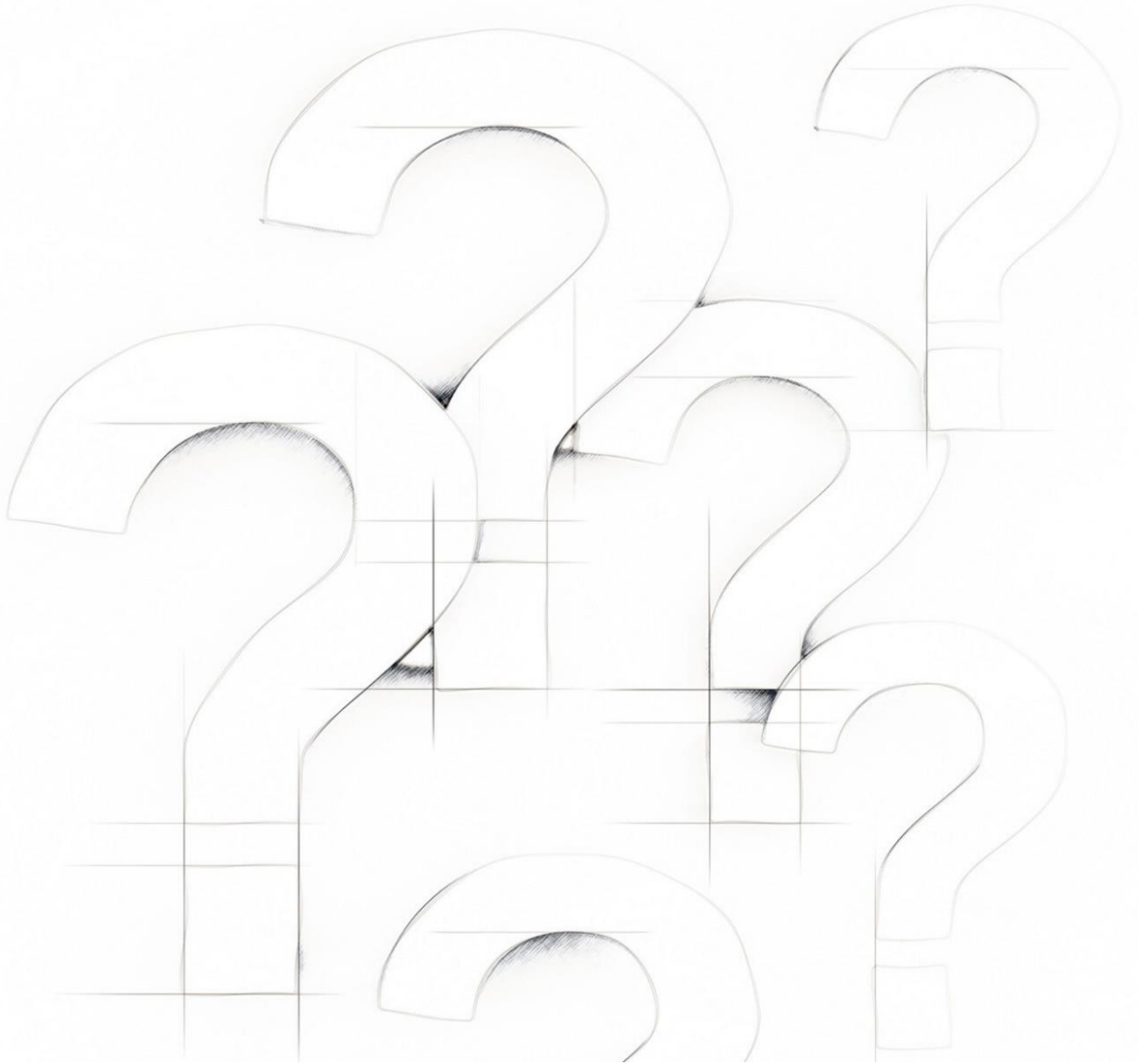
\*Spending data from 2022

Source: Center for Immigration Studies/U.S. Customs & Border Patrol

\*Encounter: any interaction between a U.S. Customs and Border Protection officer and a noncitizen who is attempting to enter the United States without authorization

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# Q&A



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