

NOVEMBER 3, 2025



Economic Outlook: Fasten Your Seatbelts

Beth Ann Bovino

Chief Economist & Senior Vice President

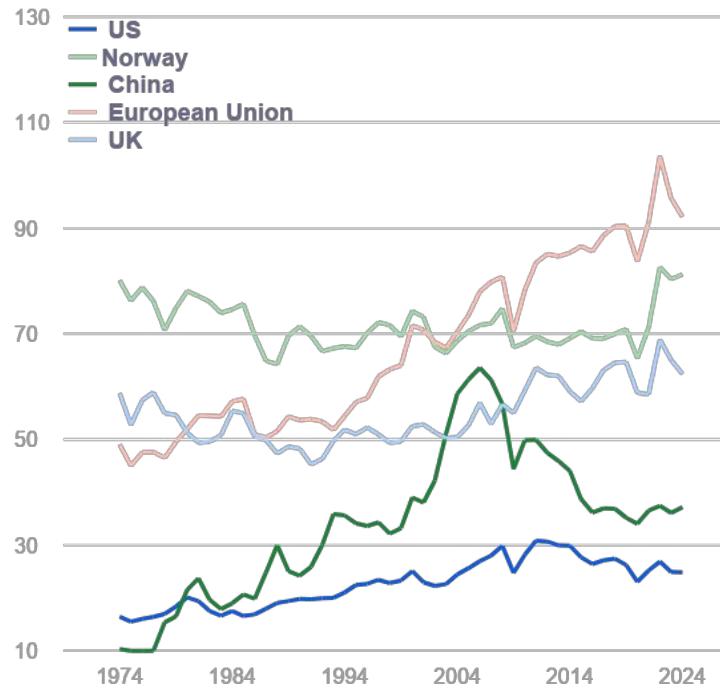
Digesting Trump's Tariff Plan

Trump's Tariffs Will Raise Effective Rate Rate To 1909 Levels

JOB
GROWTH

Tariffs Weaken World Economy

TRADE AS % OF GDP



China-US Tensions Mount

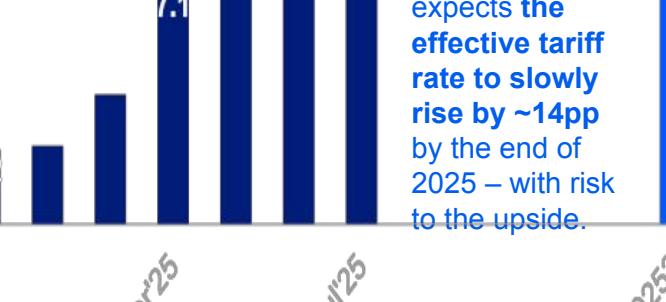
CUSTOMS DUTY REVENUE AS % OF IMPORTS,
APPROXIMATE

U.S. EFFECTIVE TARIFF RATE

Actual
(Observed Thru June)

2H'2025
(Expectation)

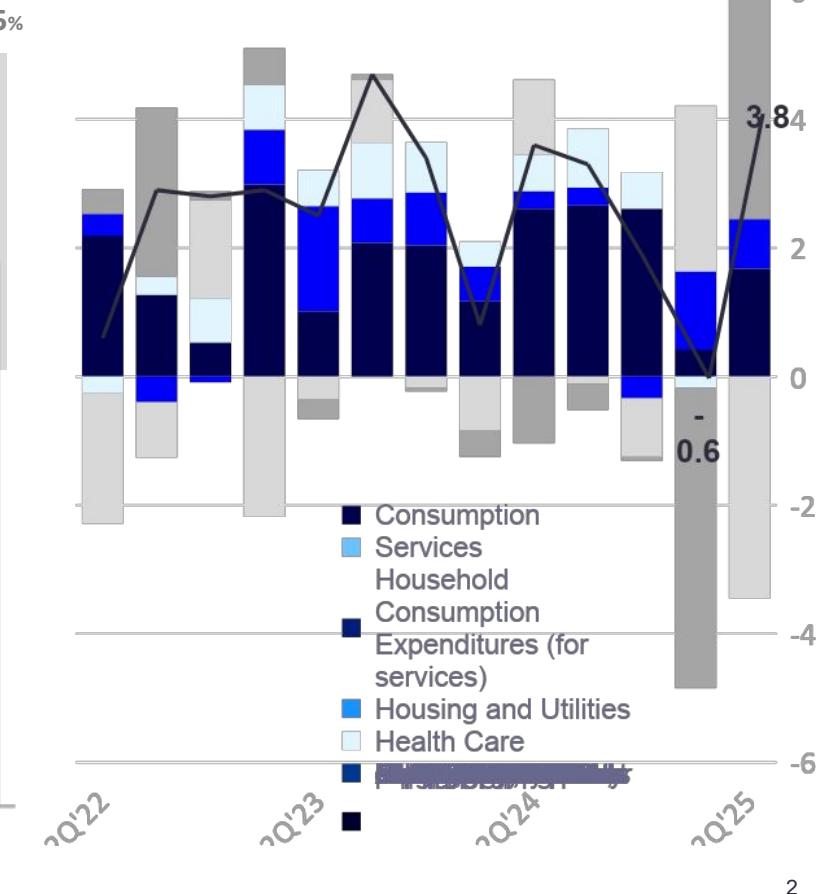
Our baseline
expects the
effective tariff
rate to slowly
rise by ~14pp
by the end of
2025 – with risk
to the upside.



WORKER
DEMAND GAP

Trade/Inventory Distorts GDP

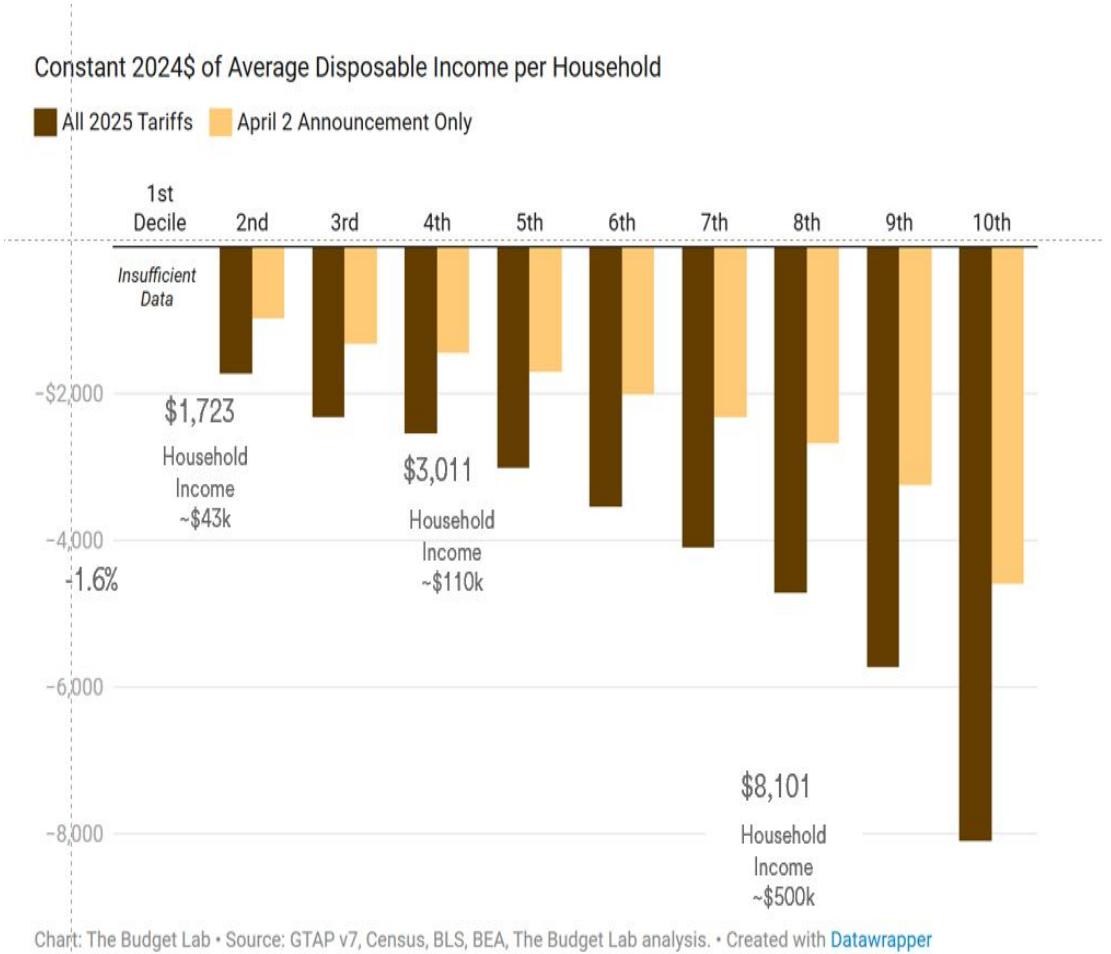
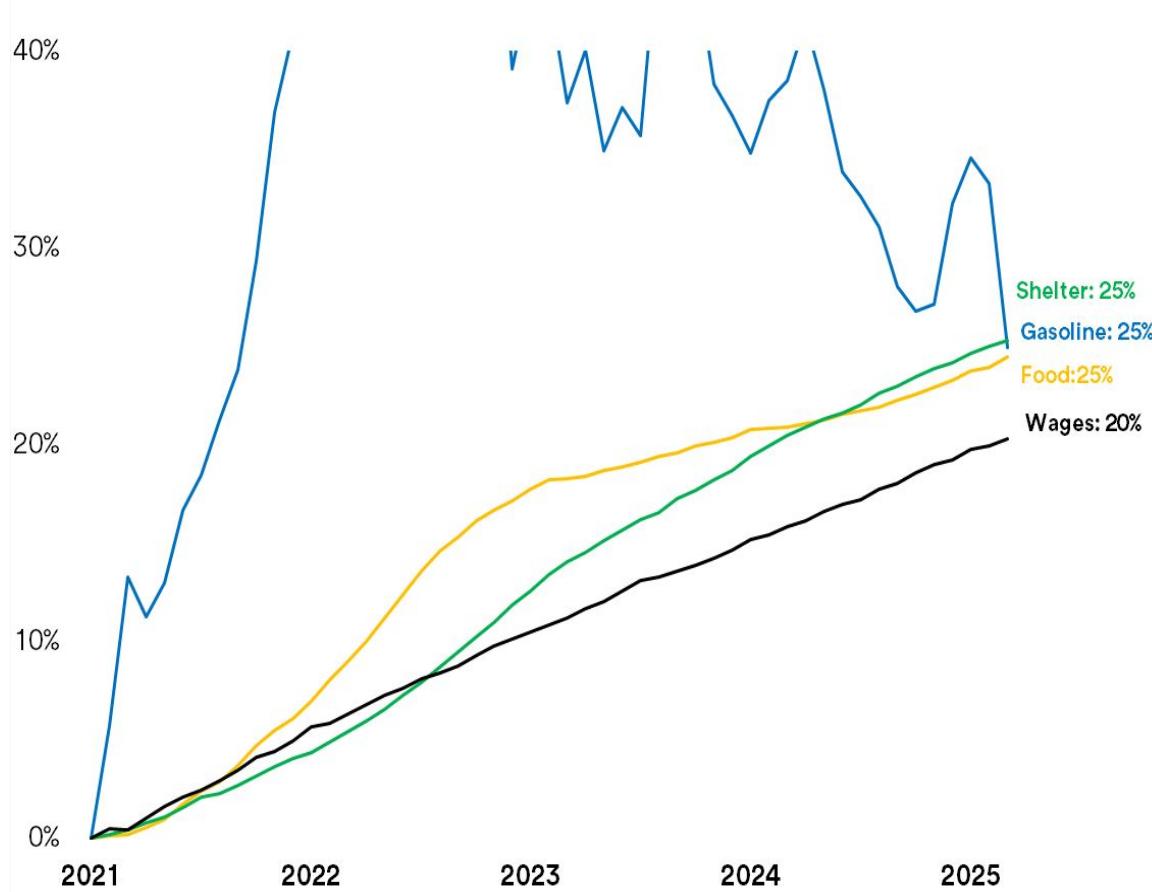
CONTRIBUTIONS TO ANNUAL % CHG IN REAL GDP



Tariffs Squeeze Budgets, Particularly Lower-Income Households

Price Growth Outpace Wages

The Tariff Tax Makes It Worse

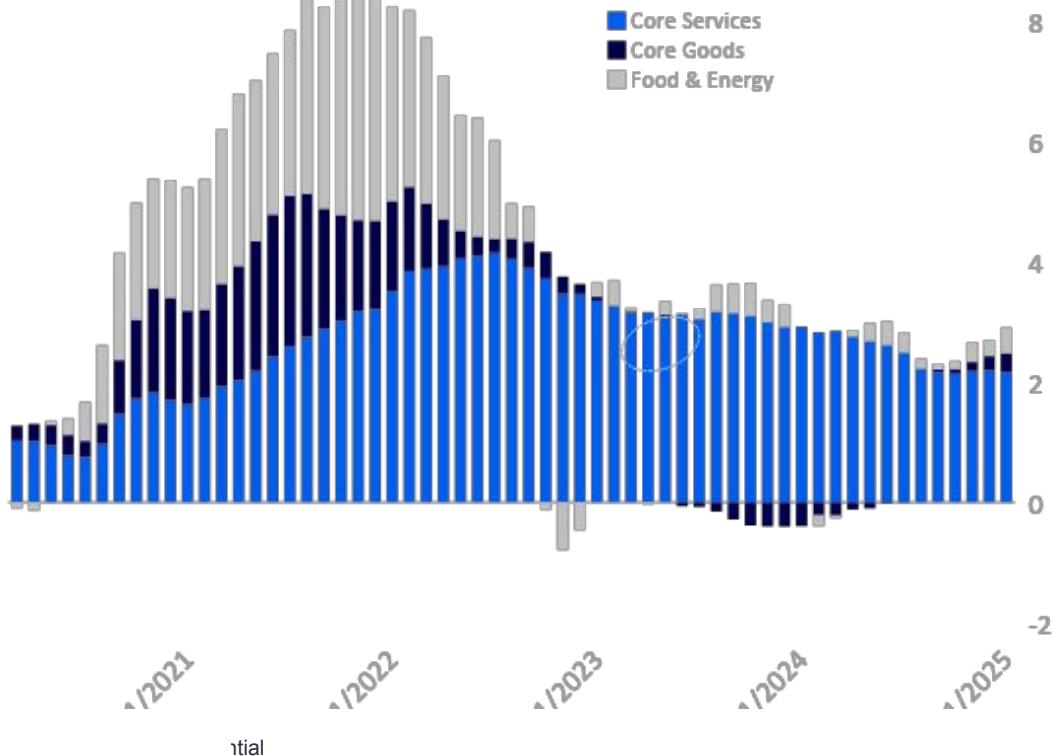


Inflation (Mandate I) : Elevated; Tariff Pressures Building

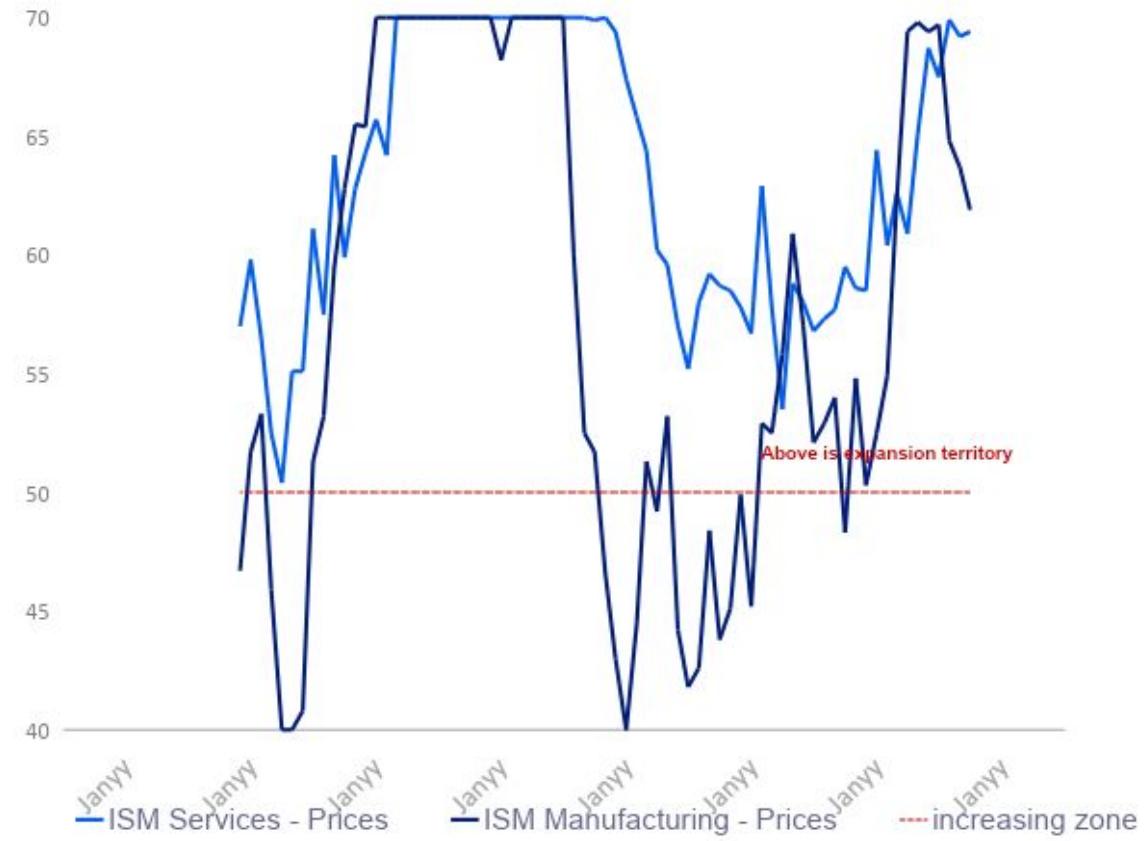
Tariff-Related Price Increases Will Continue to Impact Inflation

Sources: U.S. Bank Economics, Bloomberg,
Updated 10/8/2025

Consumer Price Edging Higher



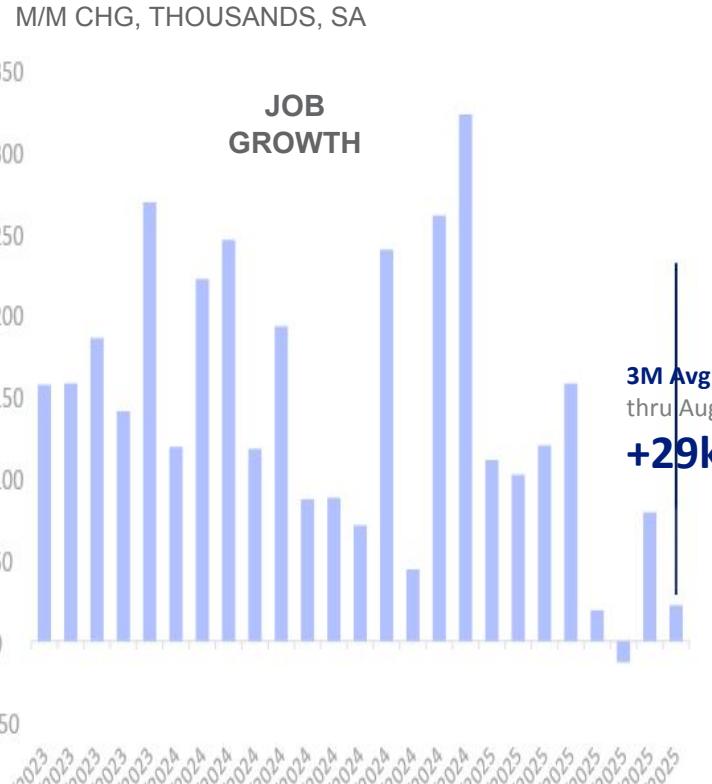
ISM Surveys Expect Price Increases



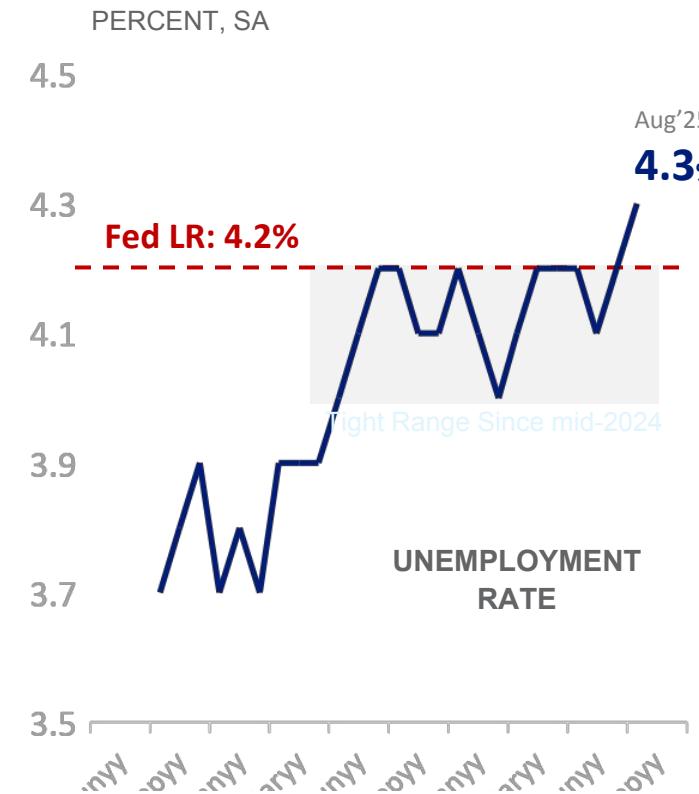
Labor Market (Mandate II): 'Low-Hire, Low-Fire'

Both the Demand and Supply for Labor are Slowing, Amid Less Hiring and Stricter Immigration

Job Creation Has Hit the Skids



Unemployment Edging Up

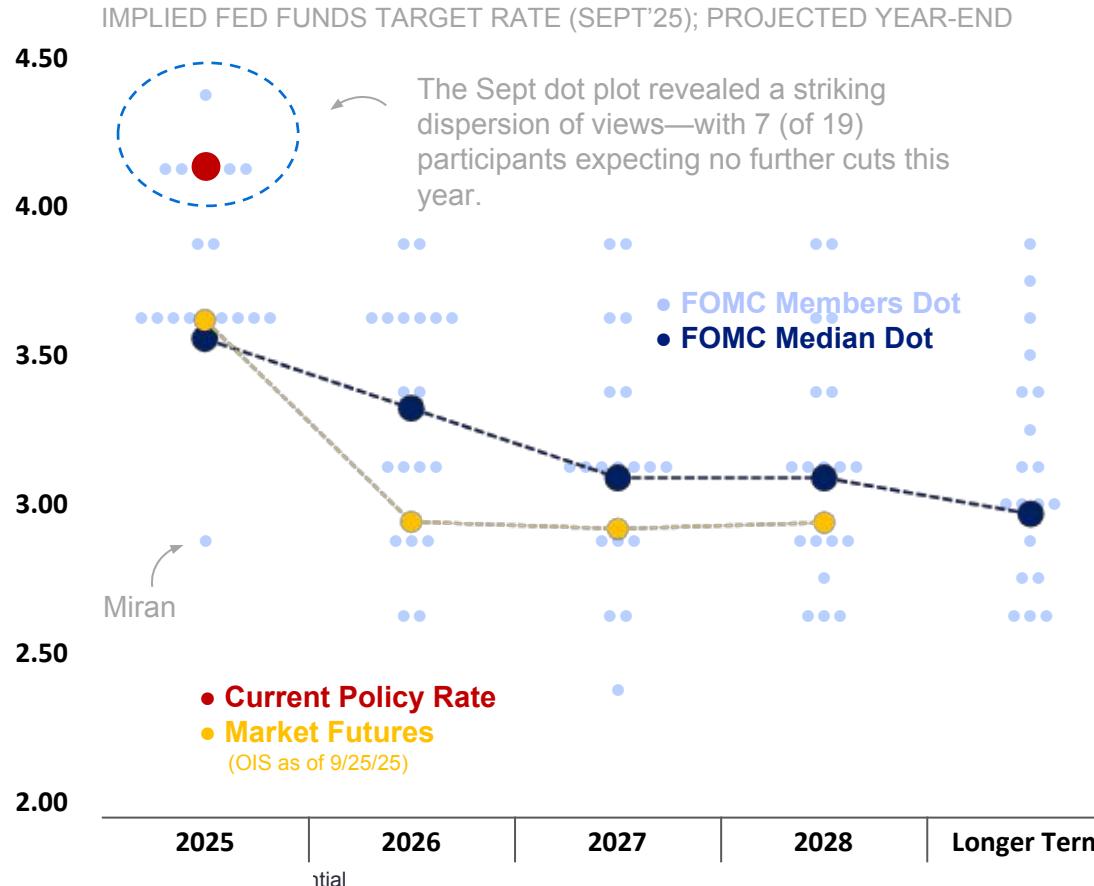


Fed Crystal Ball: Cloudy w/ Chance of Rate Cuts

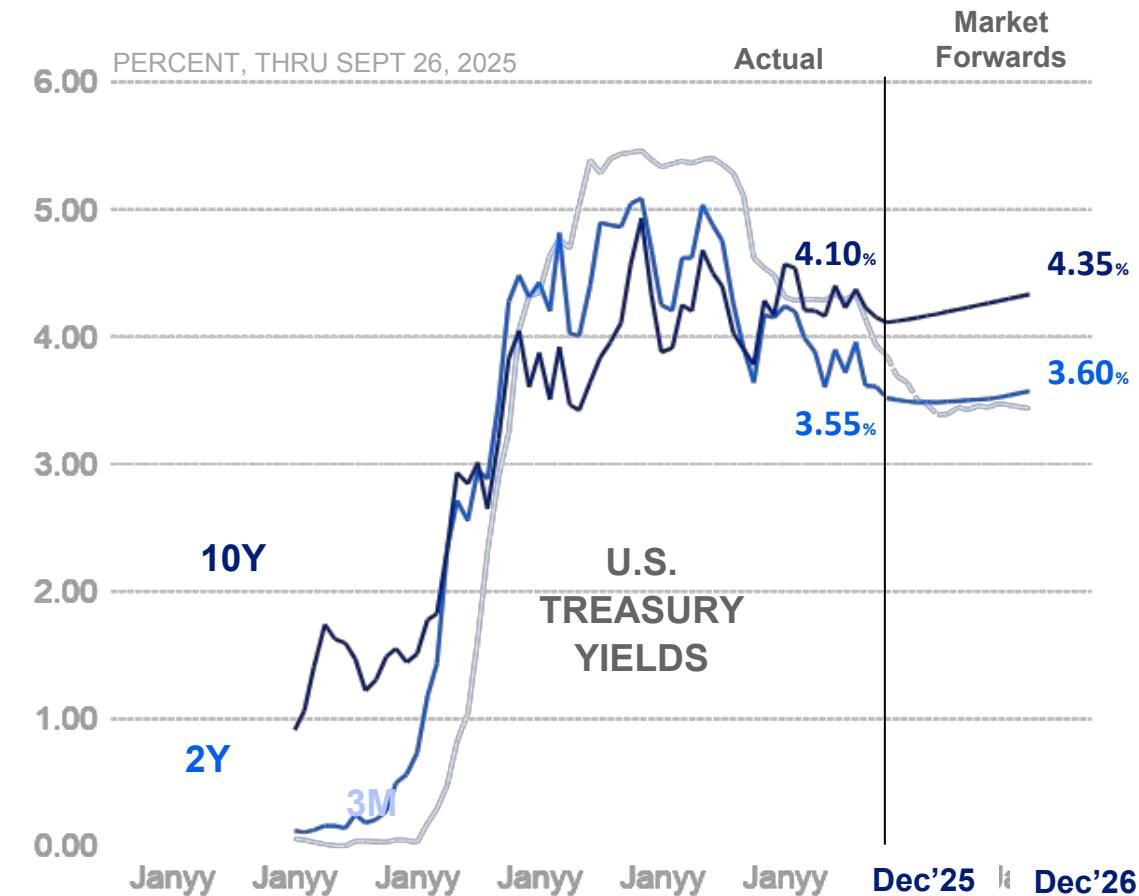
"Near-term risks to inflation are tilted to the upside and risks to employment to the downside—a challenging situation." Powell 9/23/25

"I view policy as very restrictive, (and) believe it poses material risks to the Fed's employment mandate." Miran 9/22/24

Uncertainty Creates Division on FOMC



Markets Expect Yield Curve to Steepen

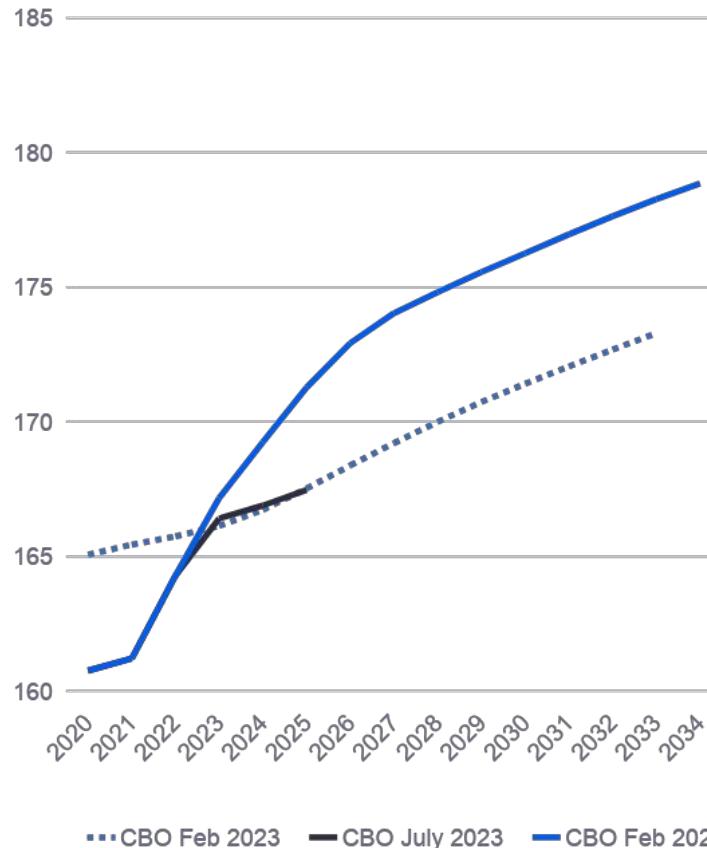


Larger Labor Force Projections Had Driven Growth Higher

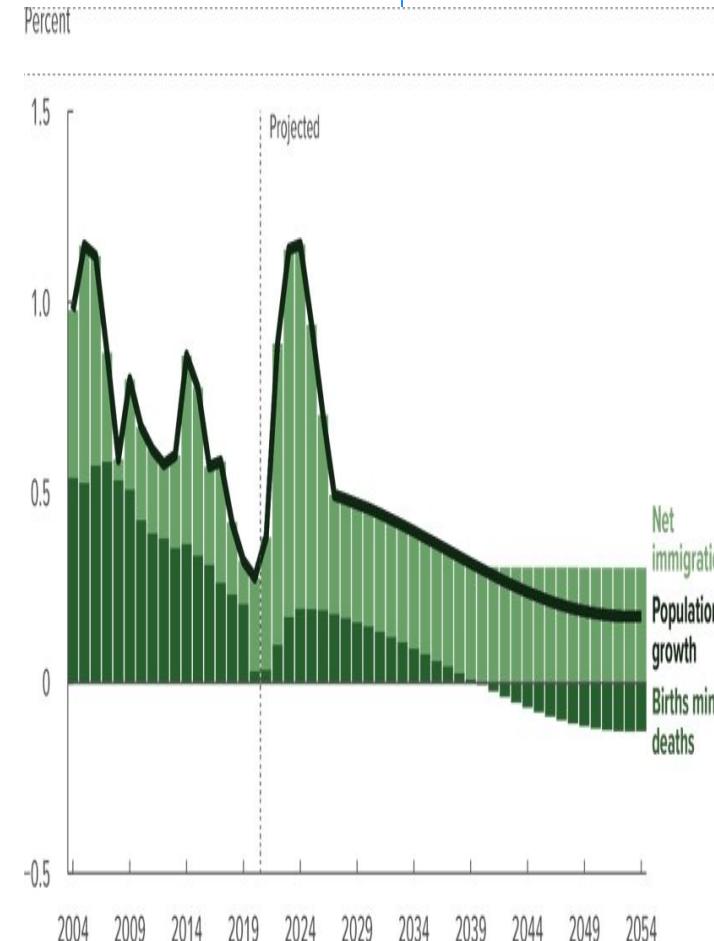
Tighter immigration now slows growth of the labor force, and a drag on growth

Larger Labor Projections

Labor Force Growth Projections

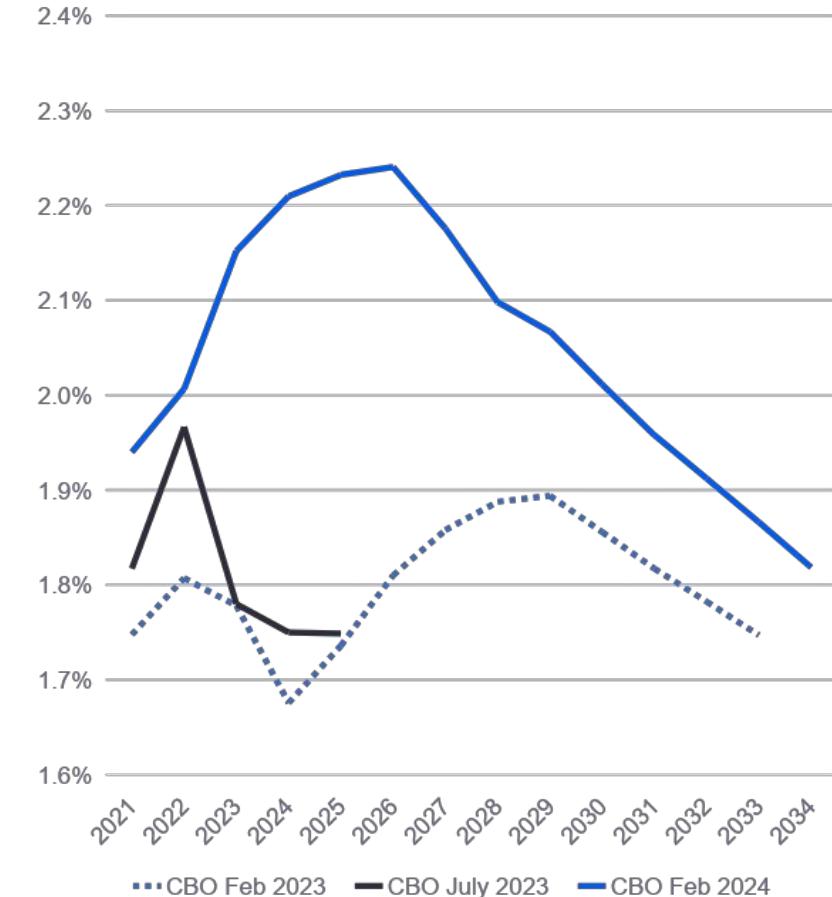


On Higher Immigration



Drives GDP Growth Higher

Potential GDP Growth Estimates

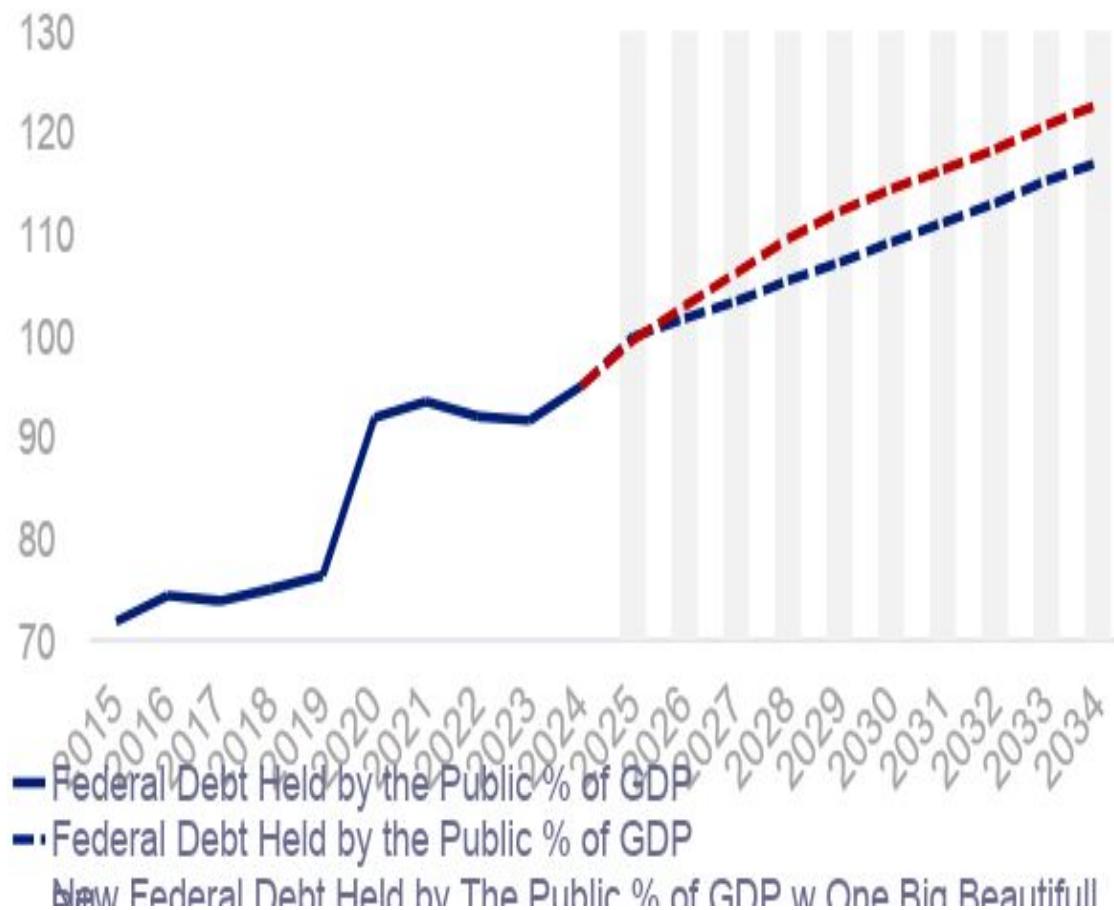


Economic Policy Debate: Growth Implications

Federal Debt: A Factor In BBB

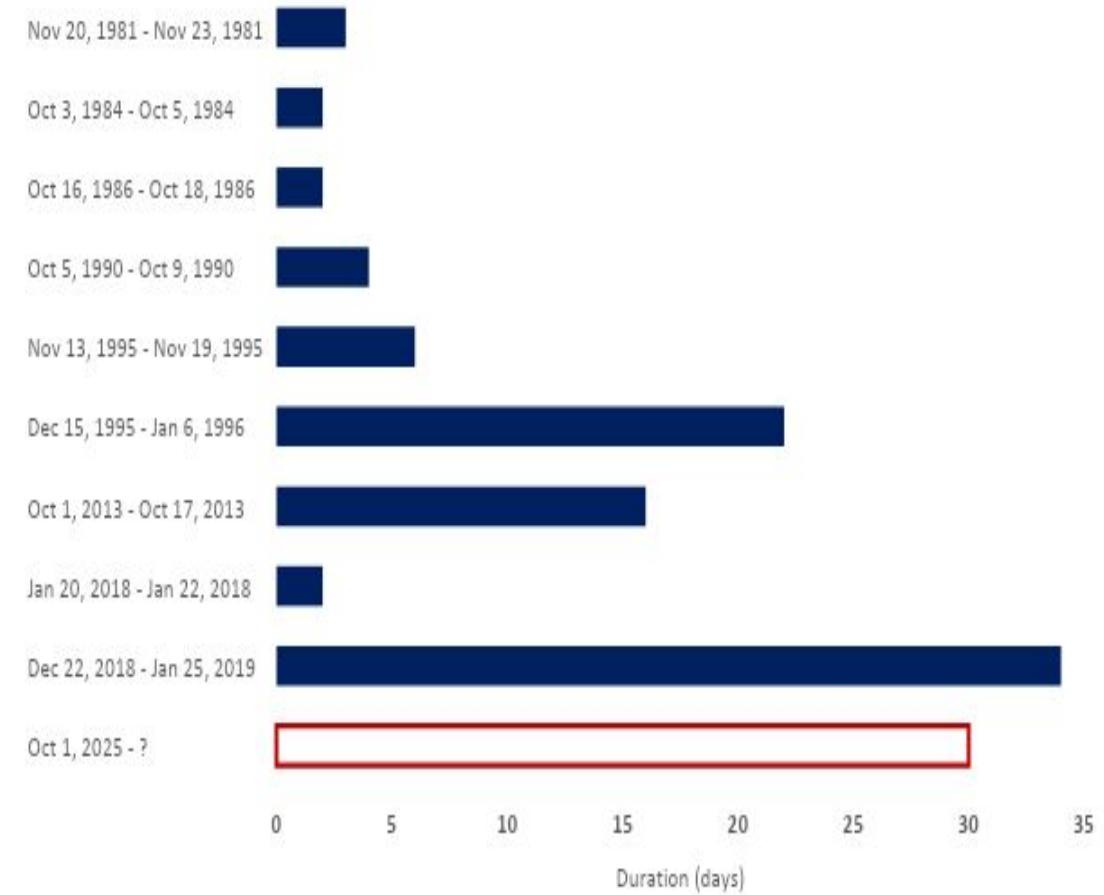
Not a Solution

PERCENT OF GDP, ANNUAL CBO PROJECTIONS



U.S. GOVERNMENT SHUTDOWNS

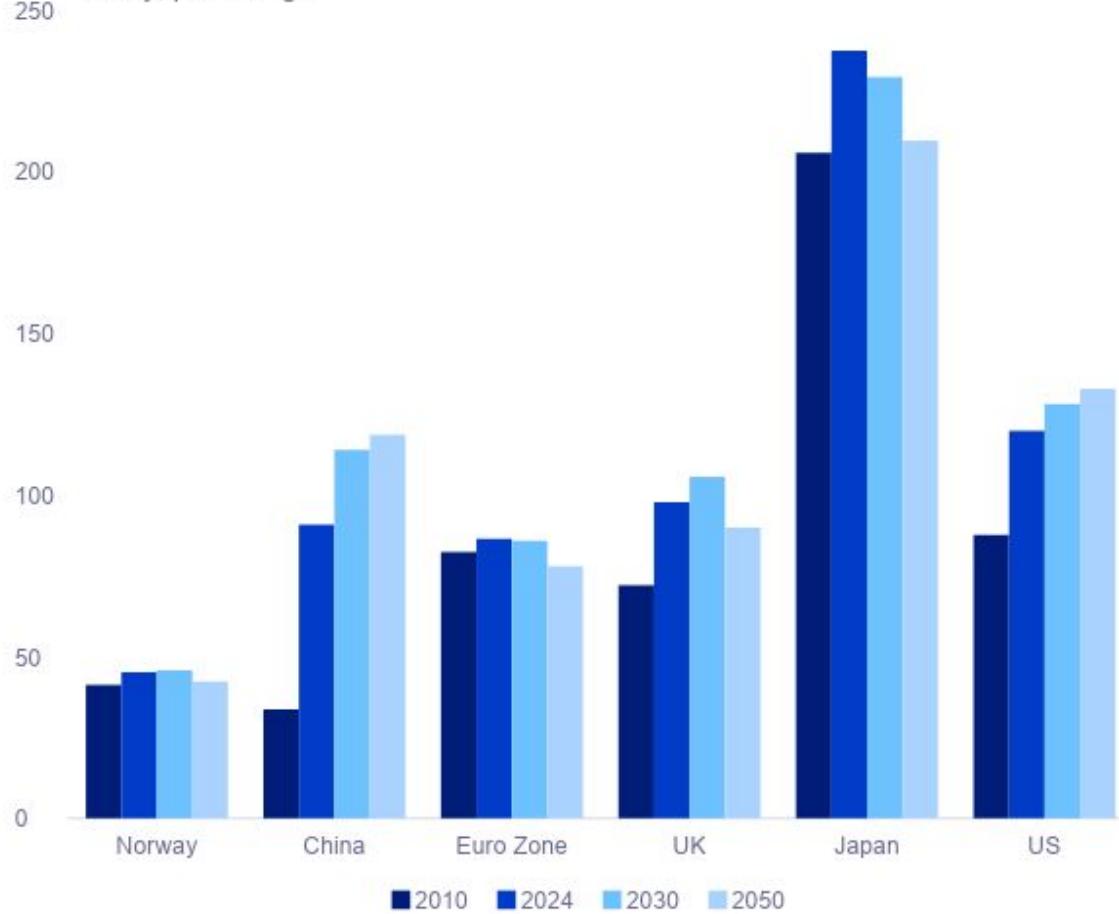
INVOLVING FURLoughs AND LASTING AT LEAST ONE DAY - AS OF OCT 31ST, 2025



Government Debt: Growing Everywhere

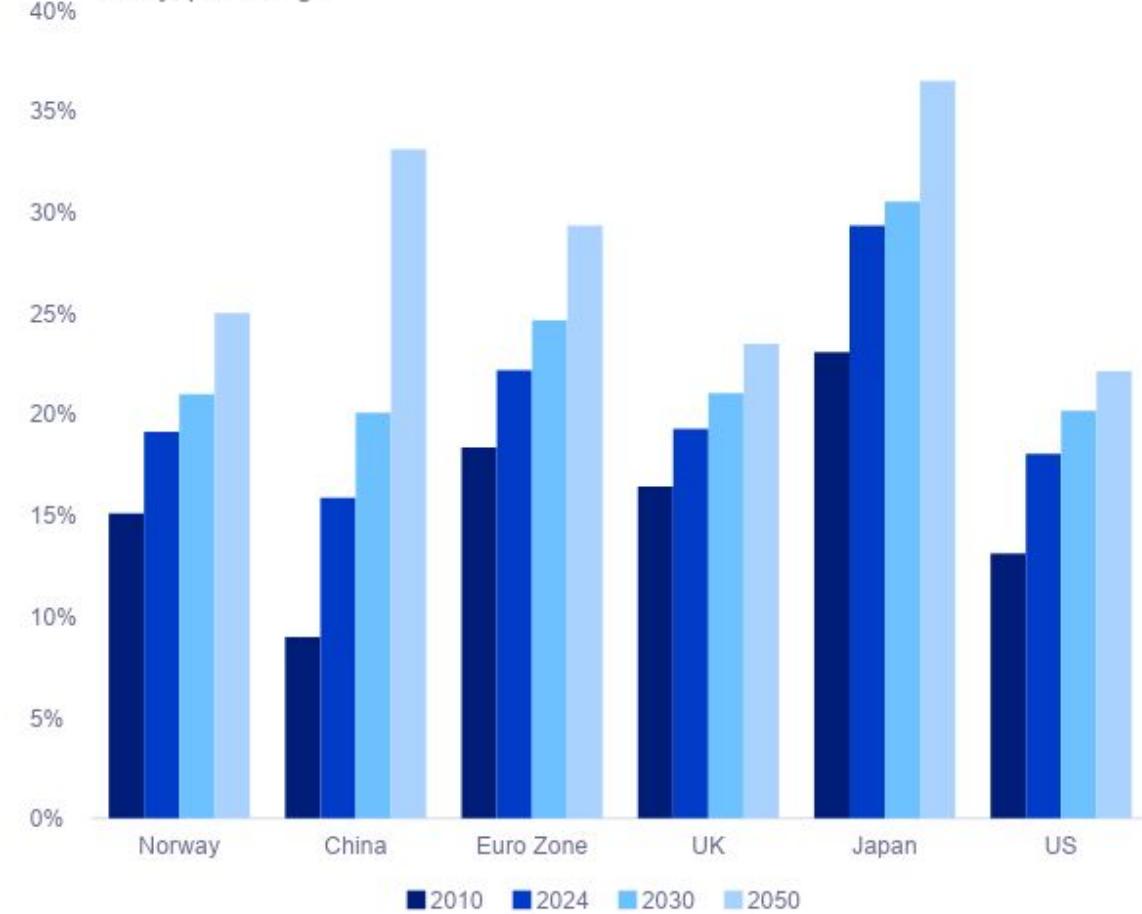
Government Debt Rising

General Government Debt to GDP Ratio
Yearly, percentage



Because We're All Getting Old

Percent of Tot Population Over 65
Yearly, percentage



Economic Risk Watch

Economic risks we are watching that may impact the baseline outlook in the next 12 months

Key Risks to Watch

Risk	Description	Economic Impact	Economic Impact Drivers
1. Fed misstep	Central bank mistake in either direction, government shutdown results in data loss	HIGH	Rates decline too quickly, fueling inflation, forcing Fed to hike rates, leading to recession. Rates remain too high for too long, forcing a recession.
2. Tariffs/Trade War escalates	Significantly escalating tariffs/trade war (U.S. tariffs and foreign retaliation)	HIGH	Increase input costs for manufacturers in U.S., higher consumer prices (reduced consumer purchasing power), Fed response can reduce affordability
3. Federal Reserve independence	Federal Reserve Bank loses credibility	HIGH	Inflation accelerates significantly, dollar devalues, loss of credit worthiness (higher credit costs)
4. Tighter immigration or foreign travel bans	Decline net migration and travel to U.S., rise in visa cancellations, fewer visa issuances, travel bans, and increased deportations	MODERATE	Labor shortages and wage pressure increase, notably in construction, hospitality, agriculture, and healthcare. Slower GDP growth
5. Economic Data Integrity	Politicizing of the federal government's data collection process	LOW	Presents risks to the conduct of monetary policy, to financial stability, and to the economic outlook.

= Moved to 1st from 5th

Economic Impact Descriptions

HIGH – If risk materializes and persists, expect significant broad economic impact; material revision to baseline forecasts required

Moderate – If risk materializes and persists, expect material regional- or sector-specific impacts; baseline forecast adjustments expected

LOW – If risk materializes and persists, expect limited economic impact, sector or regional impacts with limited adjustments to baseline forecast

Resilience Meets New Challenges

Heightened Policy Uncertainty Threatens Lower Growth + Elevated Prices

High Rates/Prices + Added Uncertainty Weigh on Spending/Investment

Labor Market, Inflationary Pressure Will Be Key Drivers of Activity

Slower But Still Positive Economic Growth

Households and Businesses Still have Economic Horsepower to Support Broader Economy

Consumer spending to Provide Support For Travel

Stable jobs market to provide cushion for spending. Retirees add support

Inflation Slowly Decelerates this Year

Political Uncertainty + Mandate Tension Leaves Central Banks In A 'Lose-Lose' Situation

Recession Risk Rising Amid Worsening Uncertainty

Trade Tensions Risk Weighing on Product/Financial Markets and a More Significant Deterioration in Activity

Thank you

Please visit our new Economics Insights page!

<https://www.usbank.com/corporate-and-commercial-banking/insights/economy.html>

