



The Economy Behind the Headlines: What Trade Policy Really Means for Pallet Demand

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Niree Kodaverdian, Ph.D.

Research Manager, Beacon Economics
beaconecon.com

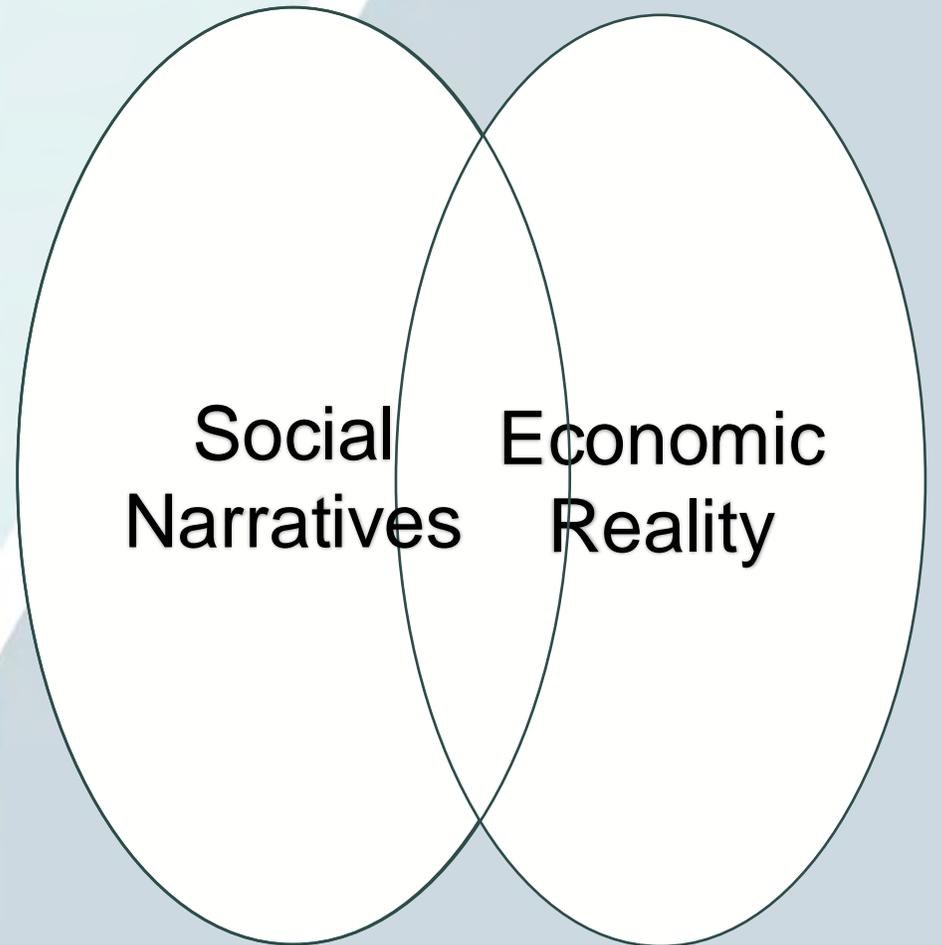


Beacon Economics

- Economic research firm founded in 2006 with a commitment to letting the *data* determine the *answer*.
- Impact studies, policy analysis, regional intelligence, litigation support, and revenue forecasts

A Tale of Two Economies

- What we *think* is happening in our economy (our social narrative or “lived experience”)
- What is *actually* happening in our economy (our objective statistical reality)
- It is the combination of the two that drives the forecast: Narratives drive choices, economics determines outcomes.



Good choices and smart policies start with the correct narrative.



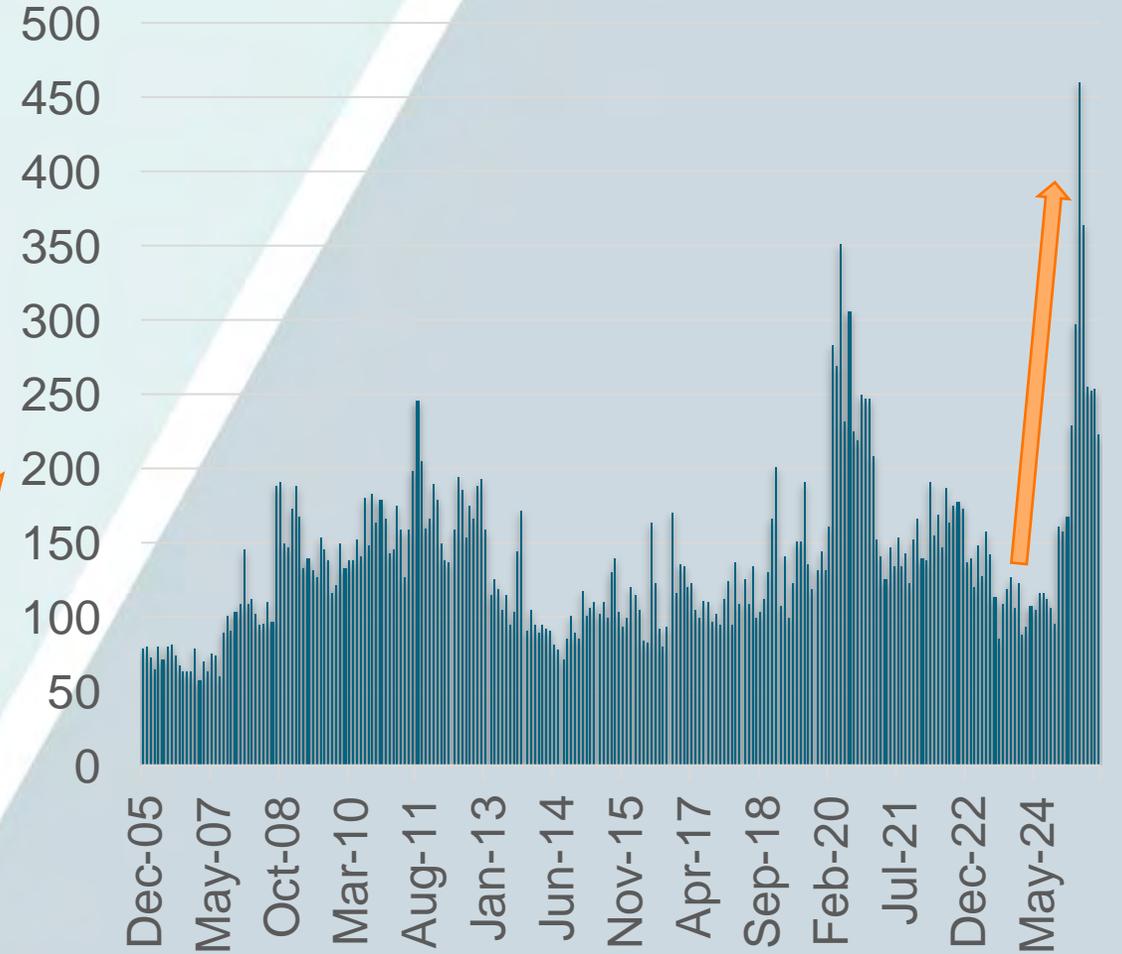
Slides available by using QR code at end of presentation, or email Kristen@beaconecon.com

The 2025 Narratives

University of Michigan Consumer Sentiment Survey



Policy Uncertainty Index



Forecast Accuracy?

“The only function of election polling is to make economic forecasting look respectable again.”

-Christopher F Thornberg



That *Other* Economic Narrative

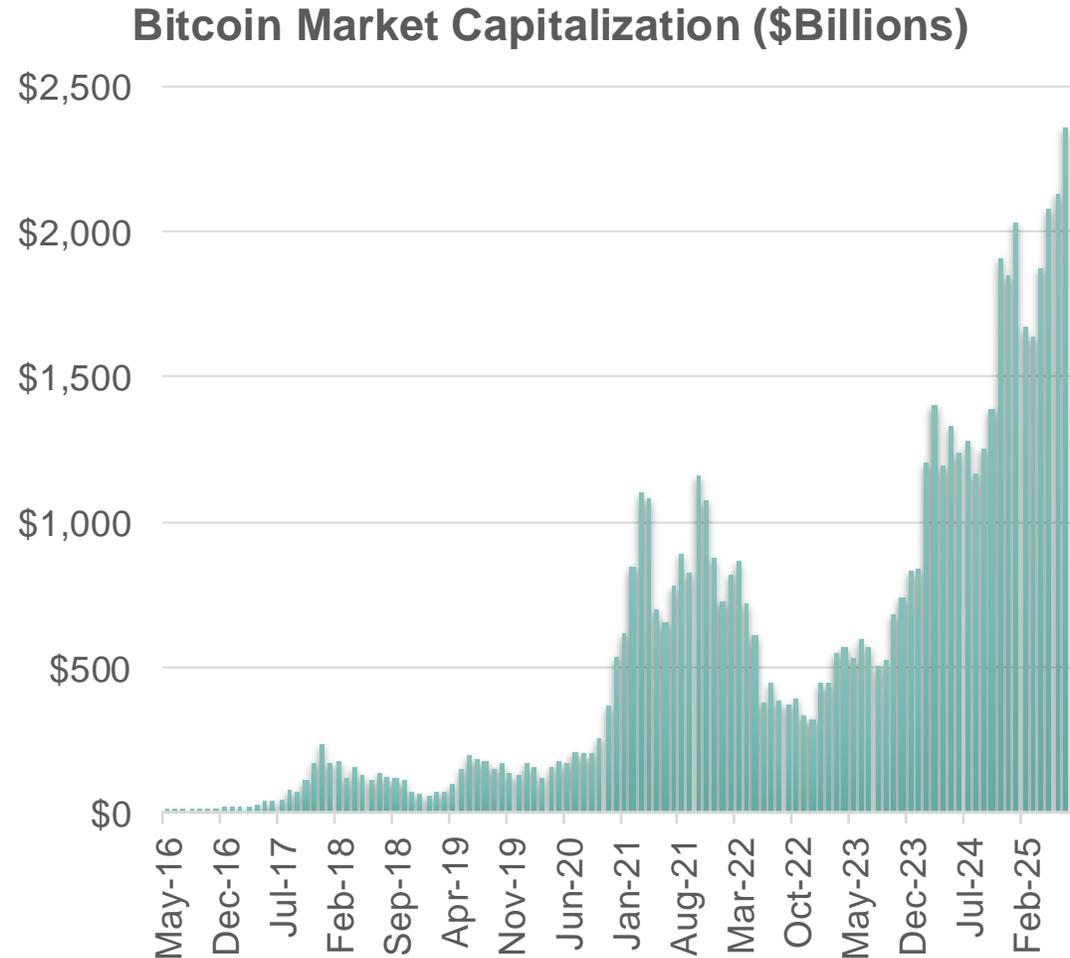


Robert Shiller CAPE

Cyclically Adjusted Price / Earnings Ratio



That *Other* Economic Narrative



Beacon's Outlook 2026

Economic Trends: slowed, not stopped

- Drags: Pandemic stimulus sugar-high waning, reduced labor supply, political and economic uncertainty
- Strengths: Household & business finances, inflation / rates down
- More fiscal and monetary stimulus being thrown at the economy

The California Economy

- Local economic fundamentals still solid, problems are largely self-made
- Housing supply shortages remain greatest barrier to growth
- Trade logistics look good, but decline of region's industrial base is an issue

Beware the Imbalances

- Strong private sector finances a function of unsustainable public deficits and debt accumulation along with financial asset bubbles
- Growing external imbalances are the weak link in the chain, and falling demand to invest in the US will lead to higher rates and inflation



How we got here...

Pandemic ≠ depression

- Lost Output: \$850 Billion
- Stimulus deployed: \$6 Trillion (\$5T in QE)

The Asset Price Multiplier

- Initial \$50k per HH turned into \$250K
- 26% increase in average net worth

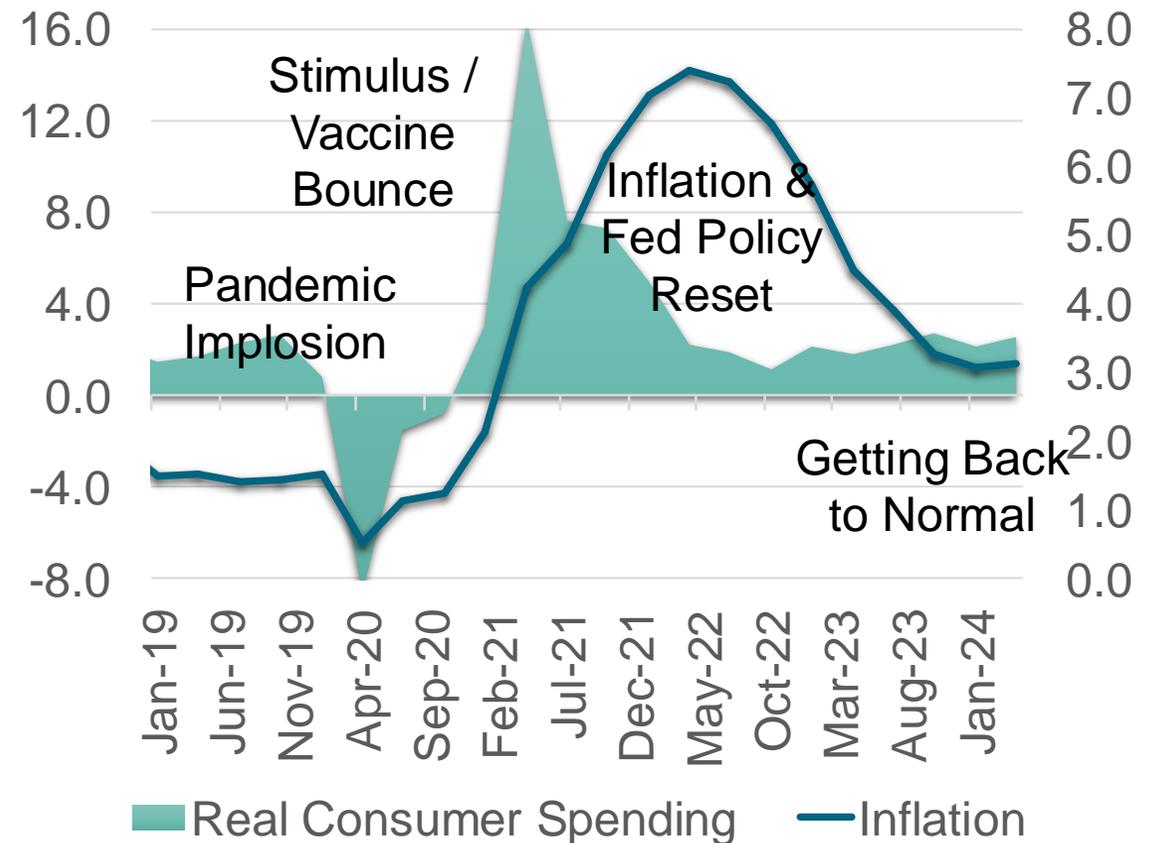
The Inflation Hangover

- Demand surge & 40% more money = inflation
- Fed reset drove up interest rates

Bubbles and Deficits

- Fed brakes offset by fiscal acceleration
- AI tech bubble

YOY Changes in Real Consumer Spending and Price Changes (%)

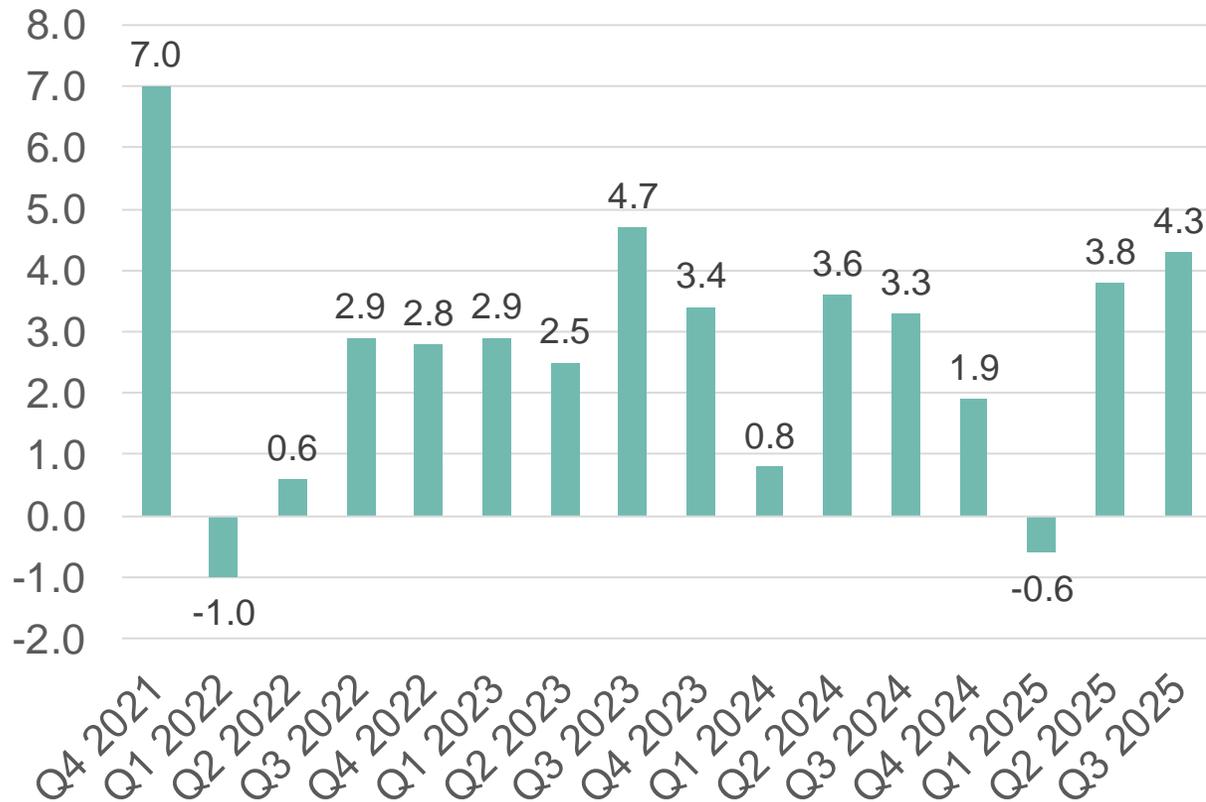


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- 1. Macroeconomic Trends**
 - 2. Consumer Demand and Finances**
 - 3. Demand-Side Sectors: Manufacturing, Construction, and Agriculture**
 - 4. Supply-Side: Lumber Market**
 - 5. Policy Impact: Tariffs, Trade, Inflation**
 - 6. Policy Impact: Immigration and Labor Market Effects**
 - 7. Structural Issues**

GDP Growth Still Solid



Real GDP: Percent Change from Preceding Quarter (Annualized Rates)



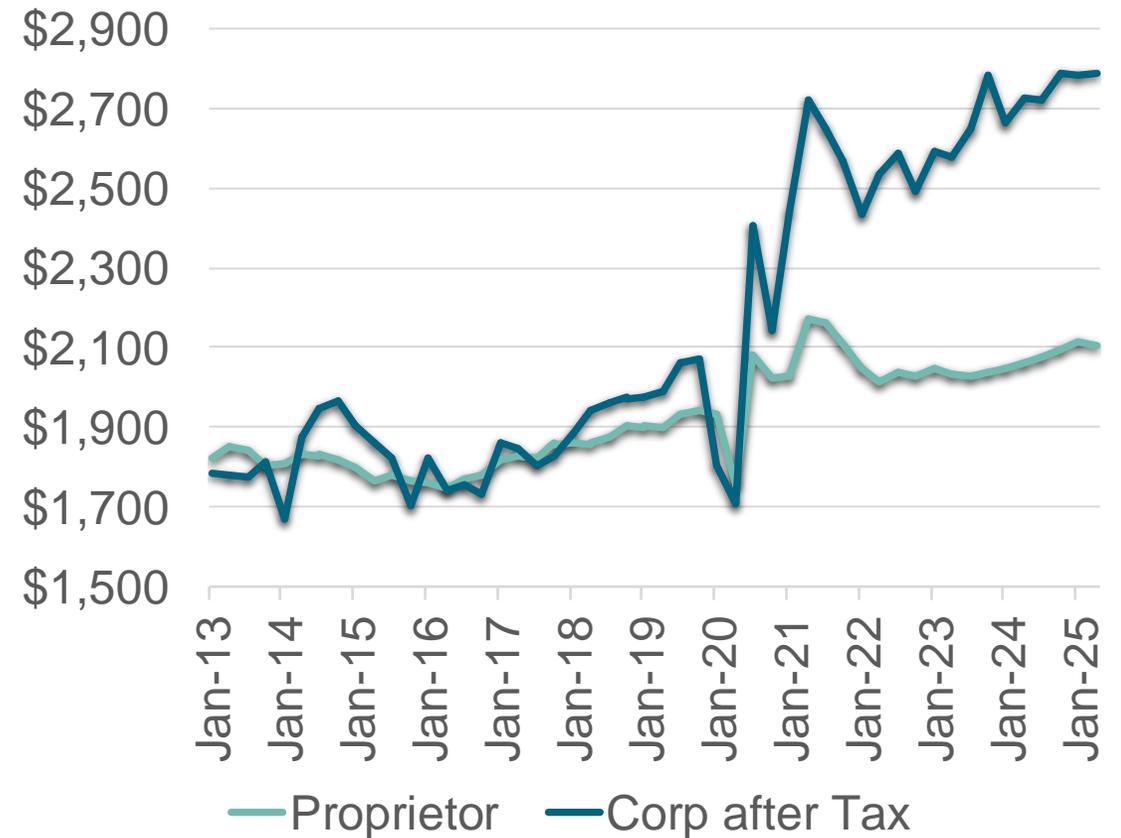
	Q3 2023	Q3 2024	Q3 2025
Real GDP Growth	4.7	3.3	4.3
Final Demand Growth	3.7	3.5	4.6
<i>(no inventory changes)</i>			
Consumption	3.1	4.0	3.5
Fixed investment	3.8	1.5	1.0
Structures	6.8	-2.2	-6.3
Equipment	-2.6	8.2	5.4
IPP	2.9	2.6	5.4
Residential	11.5	-4.8	-5.1
Net exports			
Exports	4.4	8.9	8.8
Goods	6.0	8.4	7.4
Services	1.6	9.8	11.2
Imports	3.0	10.1	-4.7
Goods	4.1	8.9	-7.5
Services	-1.3	15.3	6.3
Government			
Federal	6.8	8.6	2.9
State and local	4.2	3.6	1.8



Business Investment / Corp Profits

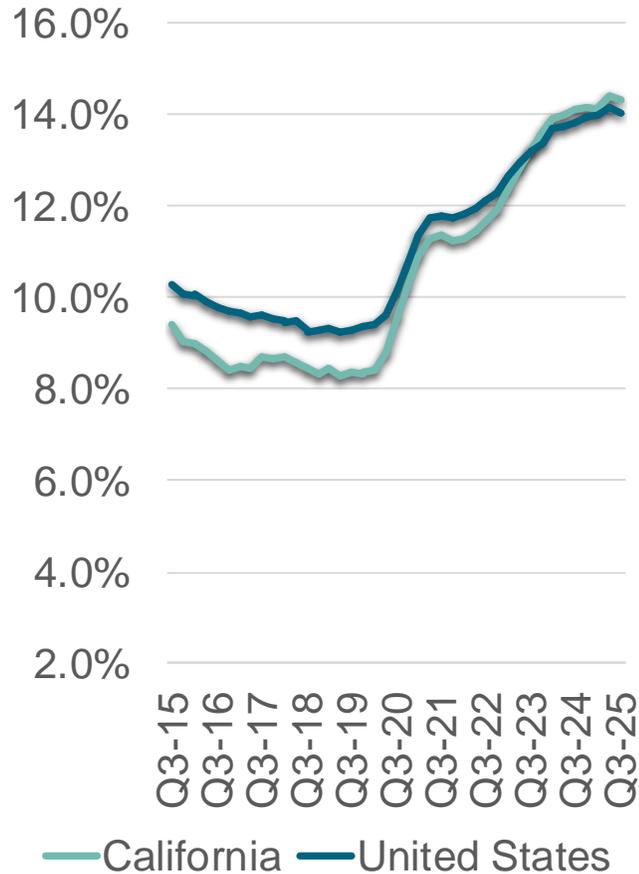
	2025	23-24	24-25
	Q2		
Private fixed investment	4349.3	3.7%	2.2%
Information processing equip	608.1	4.7%	18.8%
Software	841.4	7.1%	9.9%
Transportation equipment	323.2	2.2%	4.8%
Power and communication	128.4	9.1%	3.5%
Industrial equipment	267.0	0.6%	3.4%
Research and development	655.1	2.3%	-0.7%
Residential	785.1	5.1%	-1.3%
Entertainment, literary, and artistic	89.5	-1.5%	-2.6%
Manufacturing	145.1	21.0%	-2.7%
Commercial and health care	164.3	-5.7%	-3.9%
Mining, shafts, and wells	93.6	-6.5%	-16.0%

National Business Profits (Inflation Adjusted)

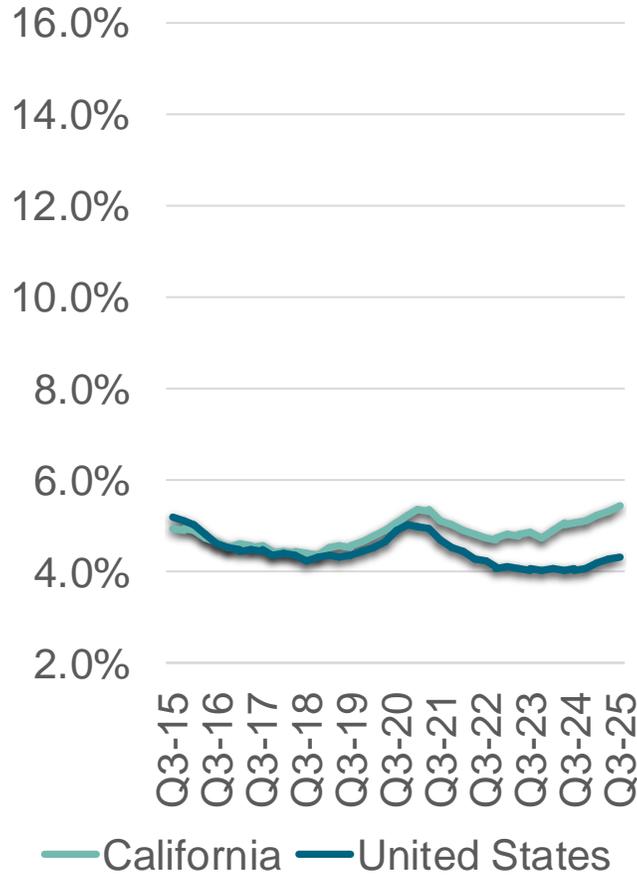


Commercial RE Trends

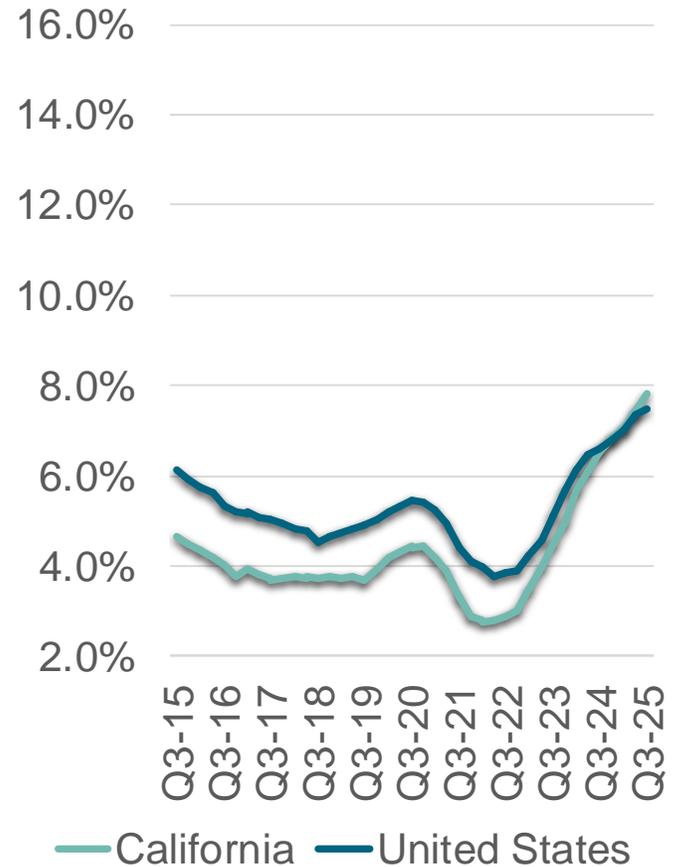
Office Vacancy Rate



Retail Vacancy Rate

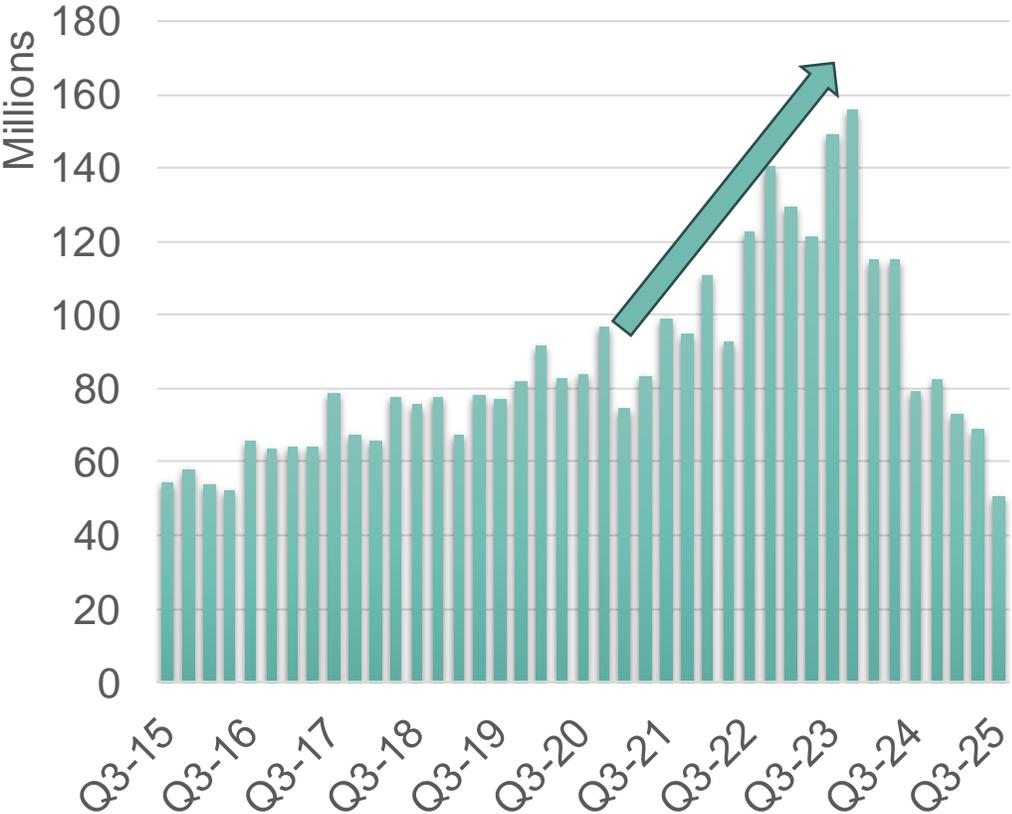


Industrial Vacancy Rate

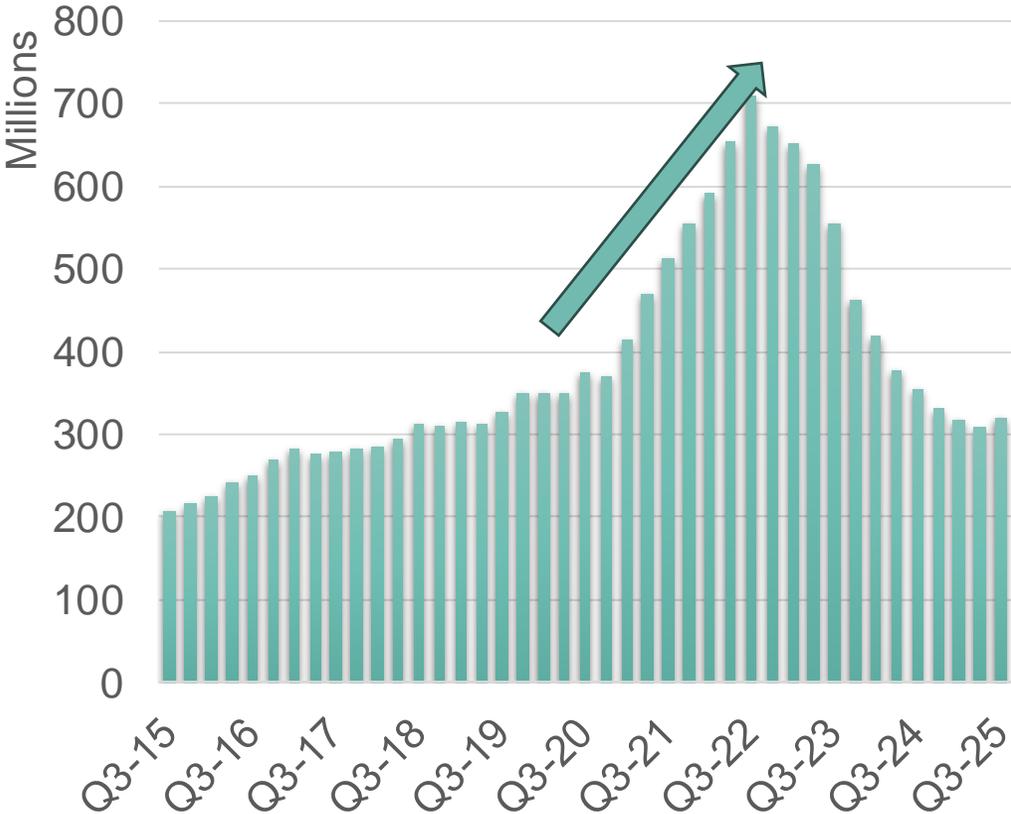


Oversupplied Industrial Space During Pandemic; Normalizing Since

U.S. Industrial
Gross Delivered SF

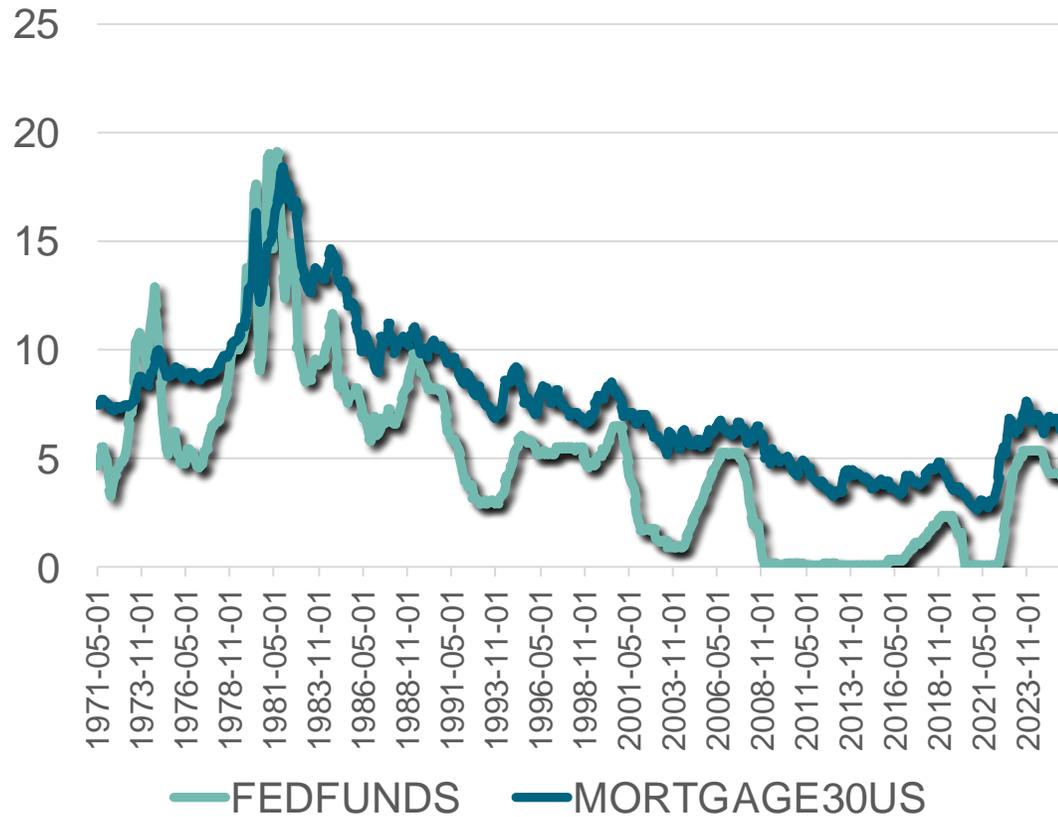


U.S. Industrial
Under Construction SF

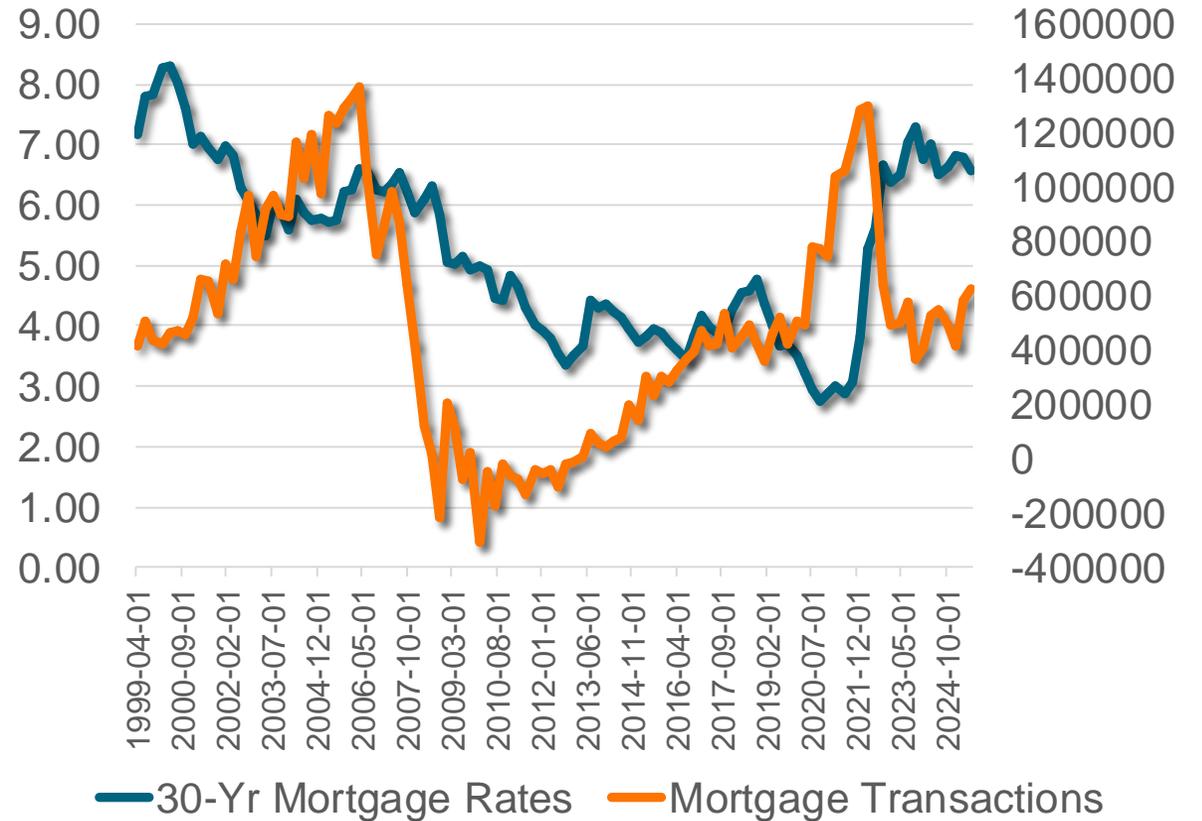


Residential RE Trends...

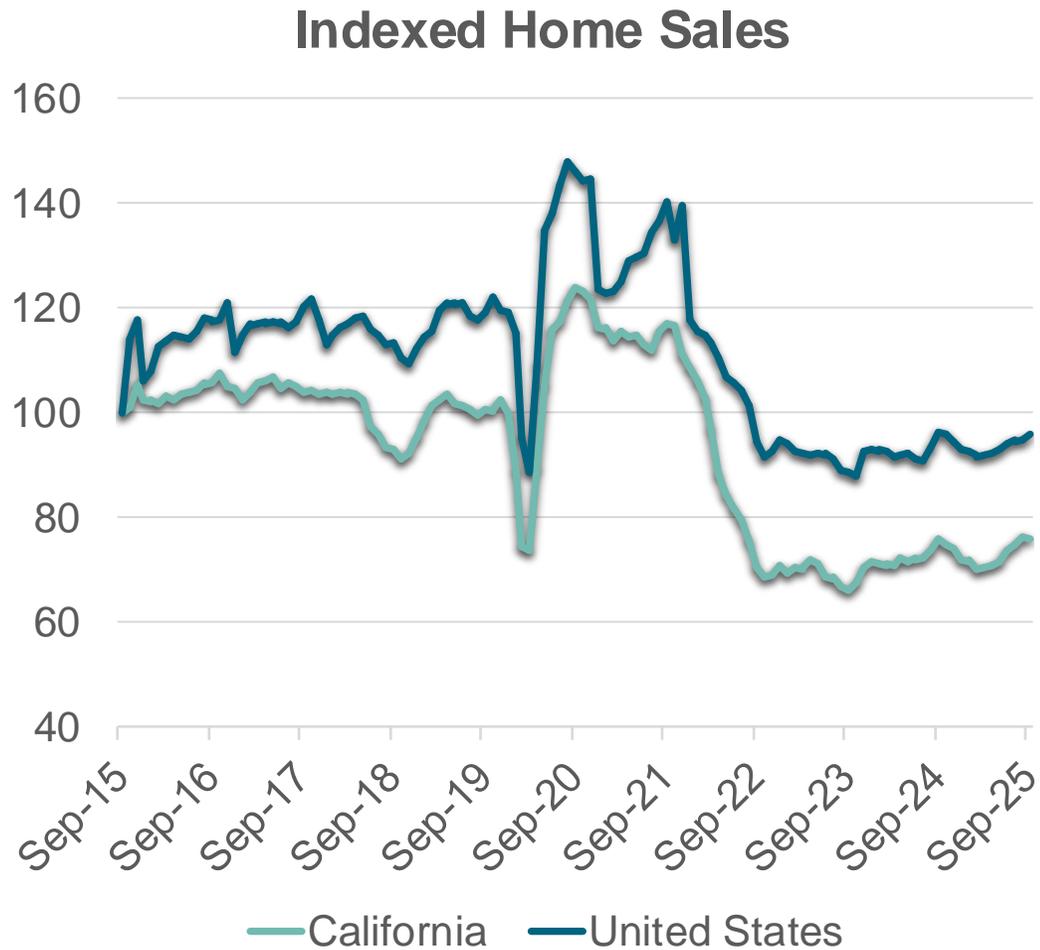
Effective Fed Funds Rate and 30-Year Mortgage Rates



Mortgage Transactions and 30-Year Mortgage Rates



...May be Starting to Pick Back Up



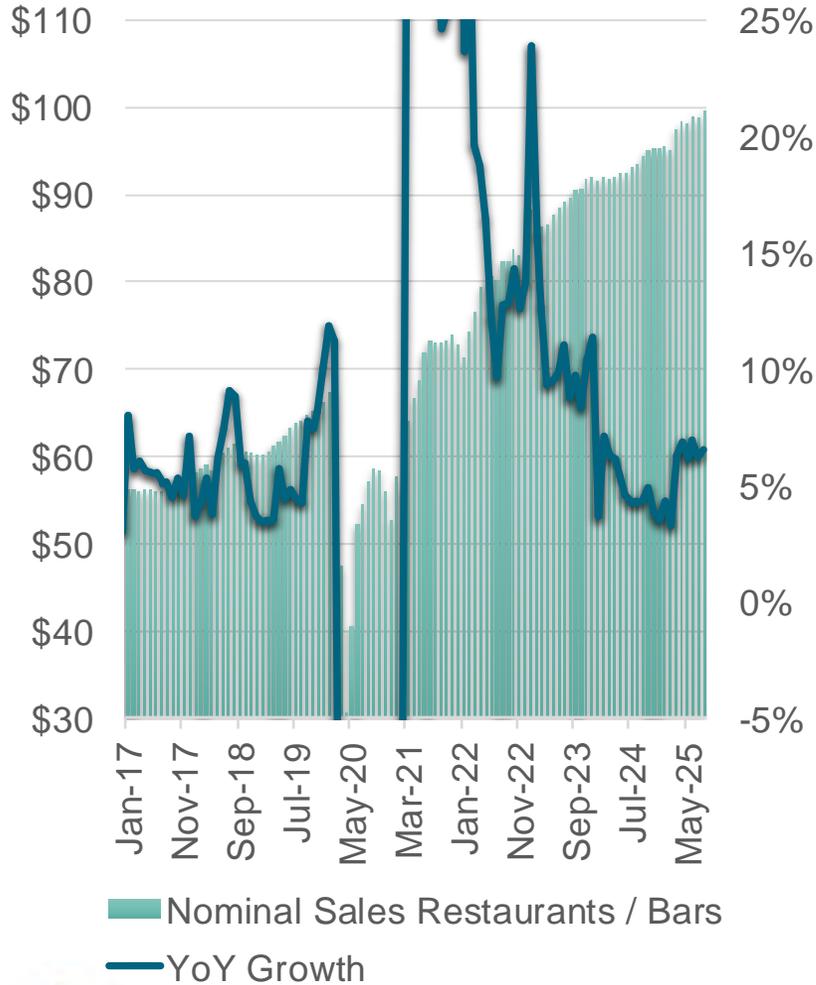
Location	Nov-25 Homes Sold	1-Year Chg. (%)	Chg. since Feb-20 (%)
United States	335,739	-0.6	-19.6
Arizona	7,444	3.8	-21.1
Florida	22,789	3.5	-16.5
Ohio	9,484	1.9	-18.5
California	18,786	0.5	-23.7
Virginia	6,820	0.1	-20.1
Oregon	3,499	-1.8	-27.1
Michigan	8,325	-1.9	-21.4
Illinois	7,912	-2.0	-18.4
Georgia	8,759	-4.2	-26.3
Texas	24,717	-6.0	-9.2



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Consumers: Still Having Fun!

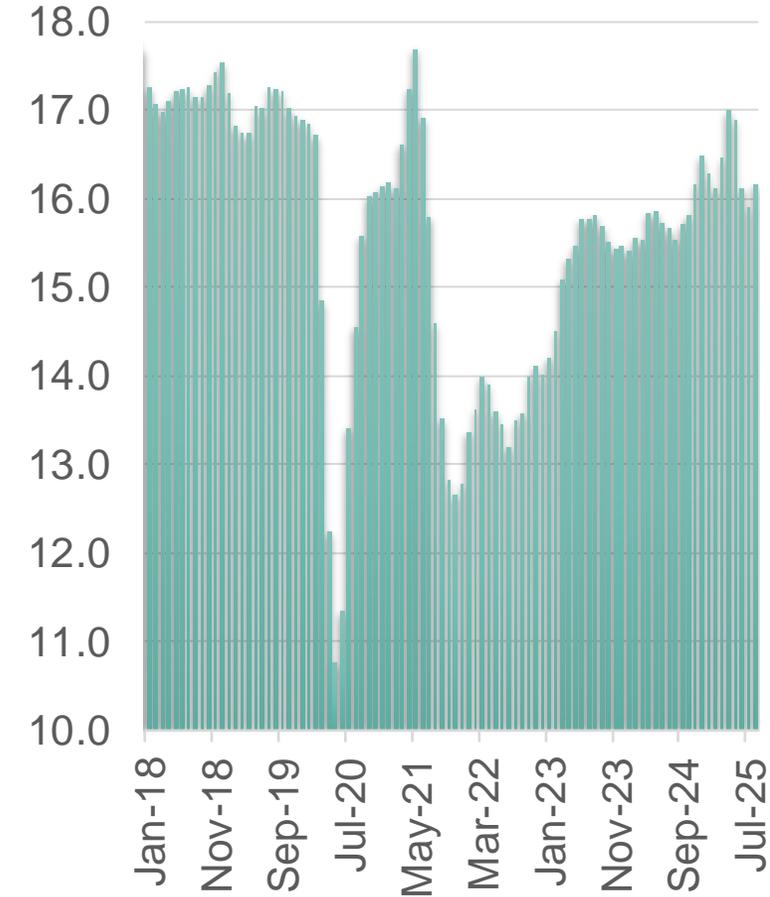
Retail Spending Restaurants



Las Vegas Gaming Revenues

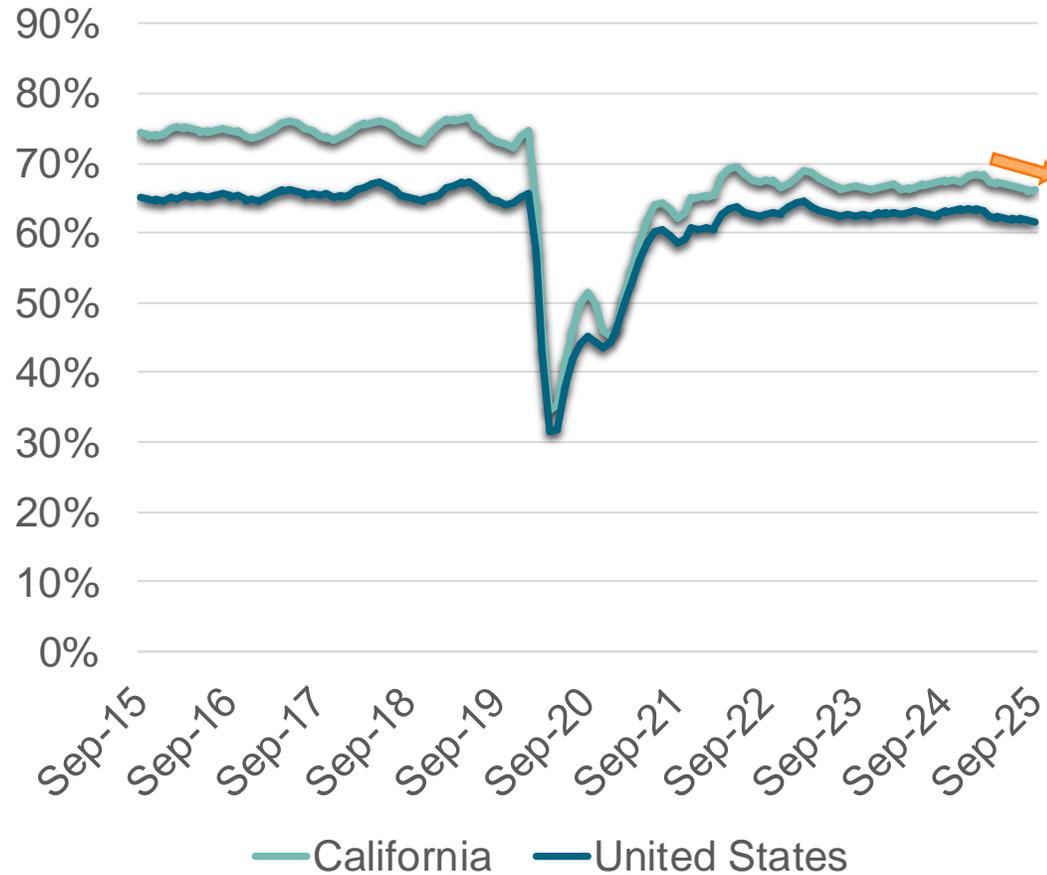


Auto / Light Truck Unit Sales (Mil, SAAR)



Though Tourism Slightly Down Over the Year

Hotel Occupancy Rate

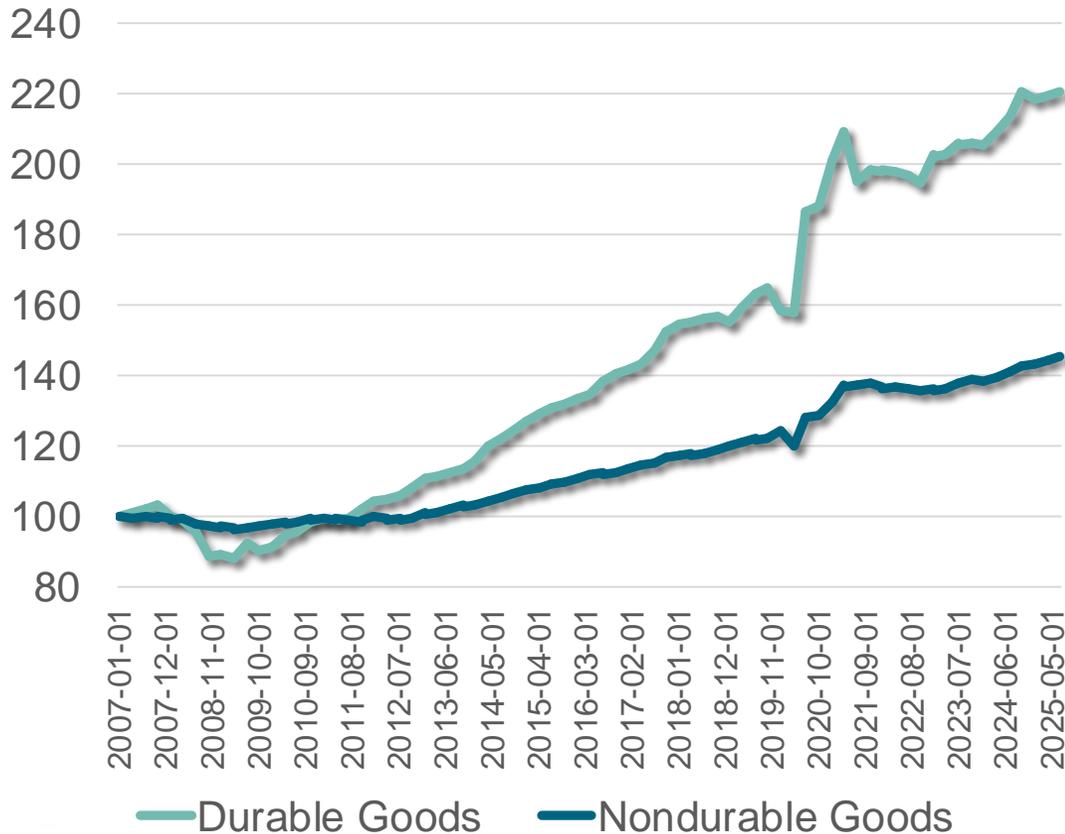


Location	Sep-25 RevPAR (\$)	1-Year Chg. (%)	Chg. since Dec-19 (%)
United States	97.92	-2.3	13.6
Chicago	115.89	3.9	21.1
Orlando	138.65	-0.3	11.5
Orange County	147.48	-1.1	11.6
Atlanta	79.33	-1.2	7.2
Phoenix	110.36	-5.9	16.9
Miami	156.05	-5.9	6.1
Los Angeles	132.54	-6.4	-1.0
San Diego	145.92	-7.9	14.6
Las Vegas	143.31	-8.6	22.4

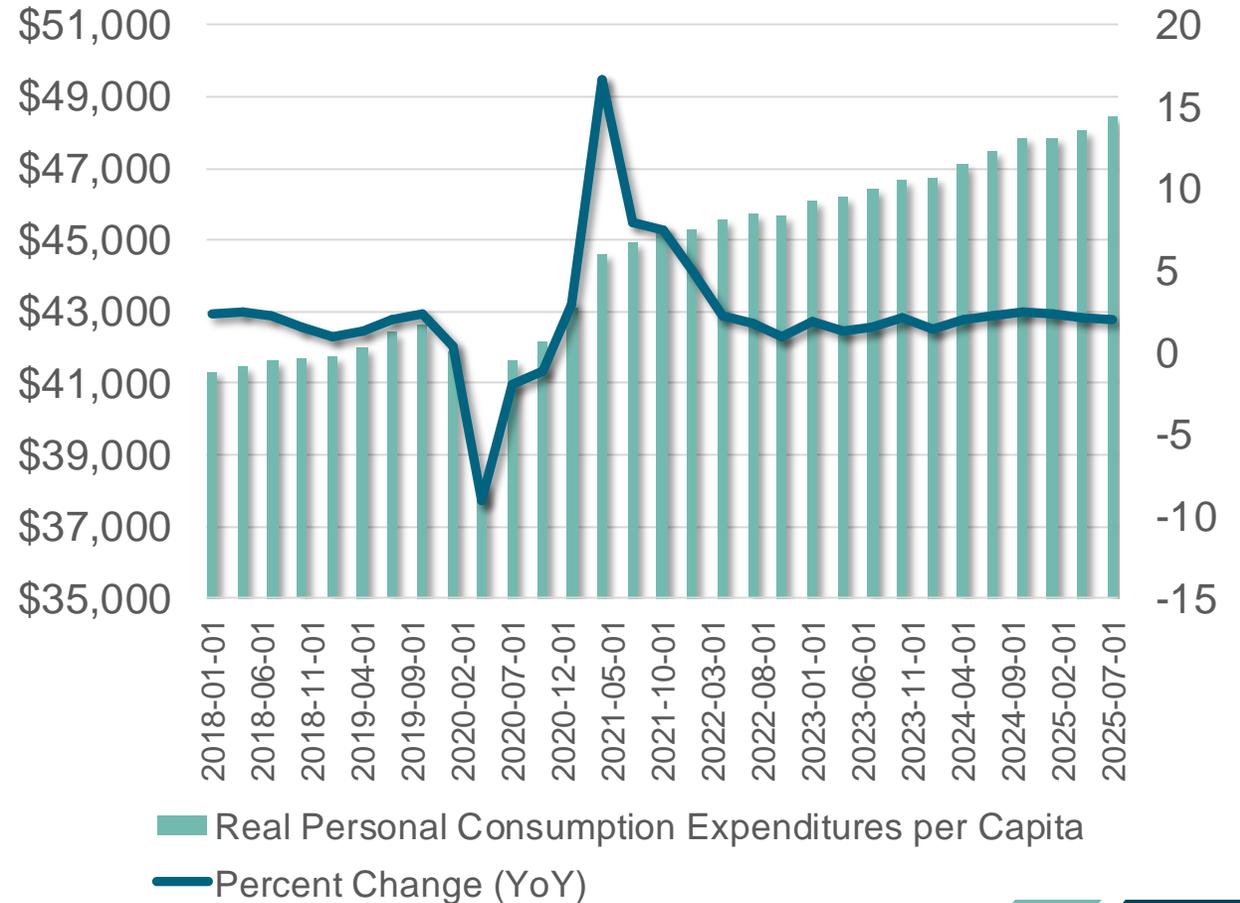


Consumer Demand for Goods Continues to Rise, Esp. Durables

Indexed Real Personal Consumption Expenditures: Goods



Real Personal Consumption Expenditures Per Capita (Chained 2017 Dollars, SA)

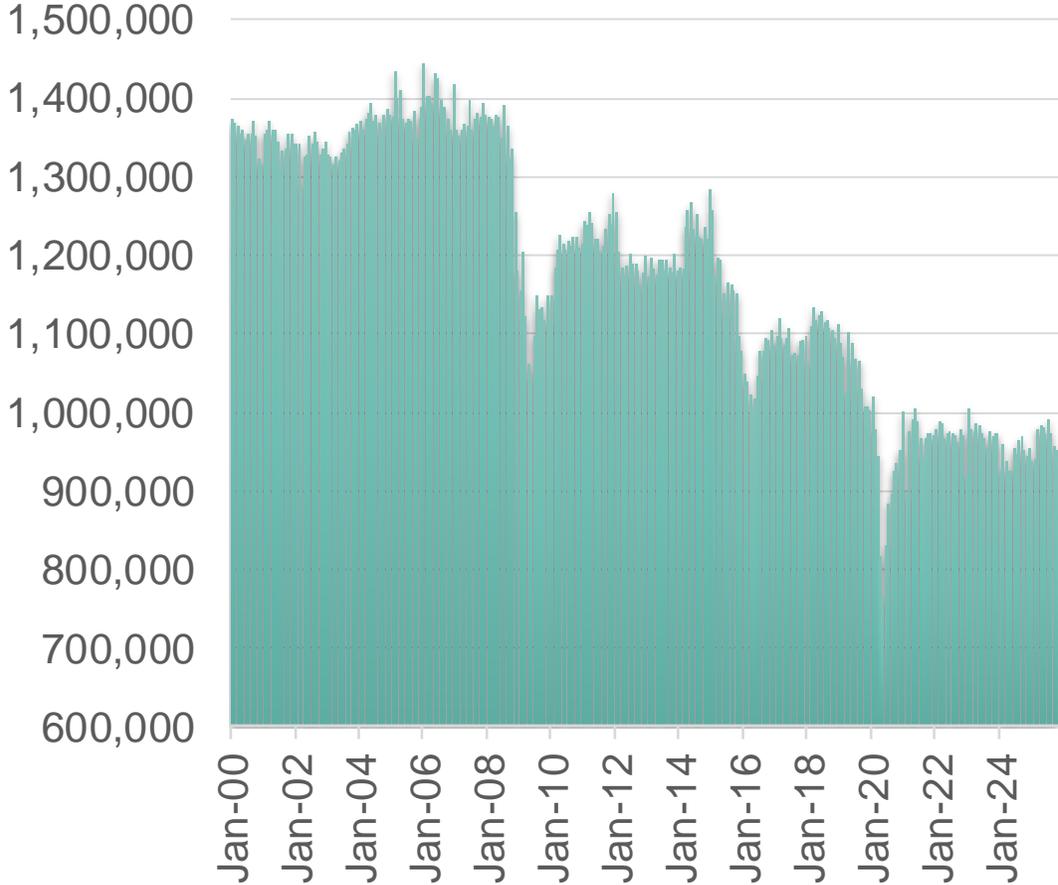


But... Downtrend in Shipments Means Consumers Buying Different Durables

Cass Freight Index: Shipments

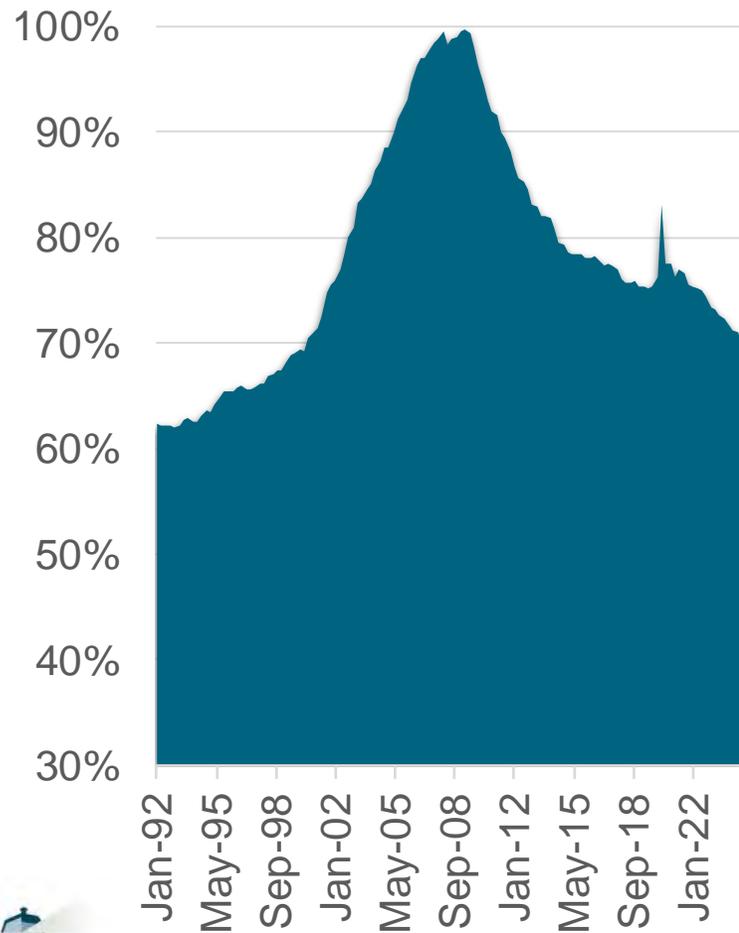


Rail Freight Carloads



Overall Financial Conditions: Great!

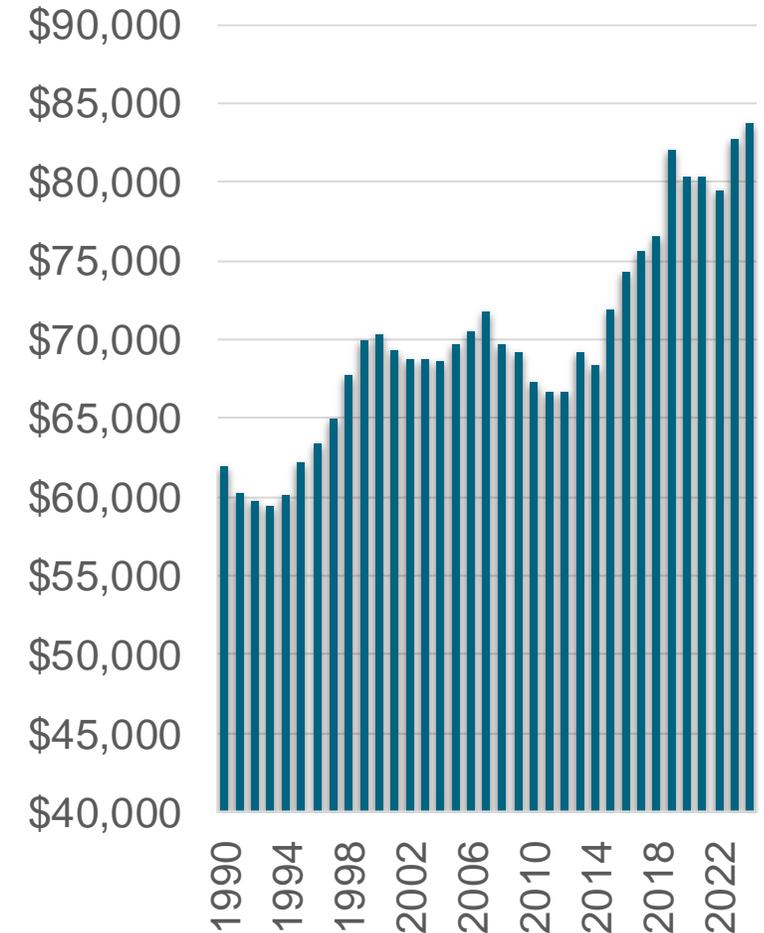
Household Debt as % of GDP



Real Household Net Worth (\$Trillions)

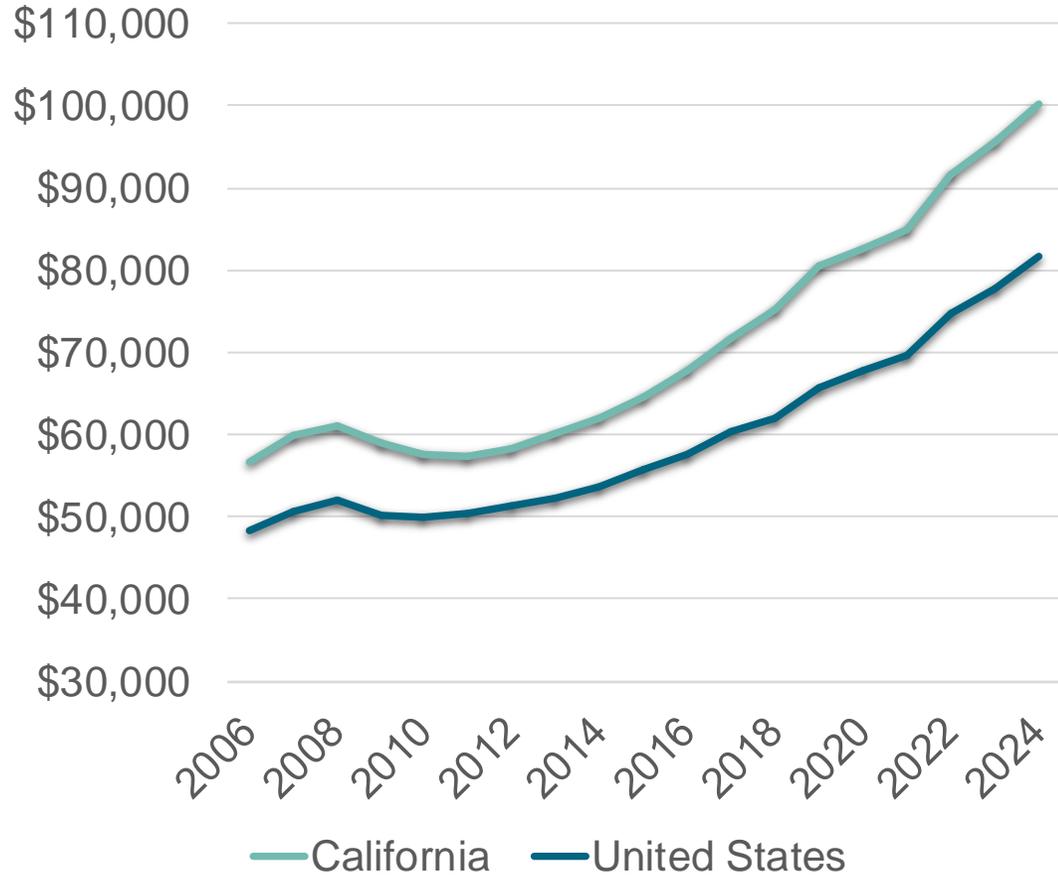


Real Median HH Income

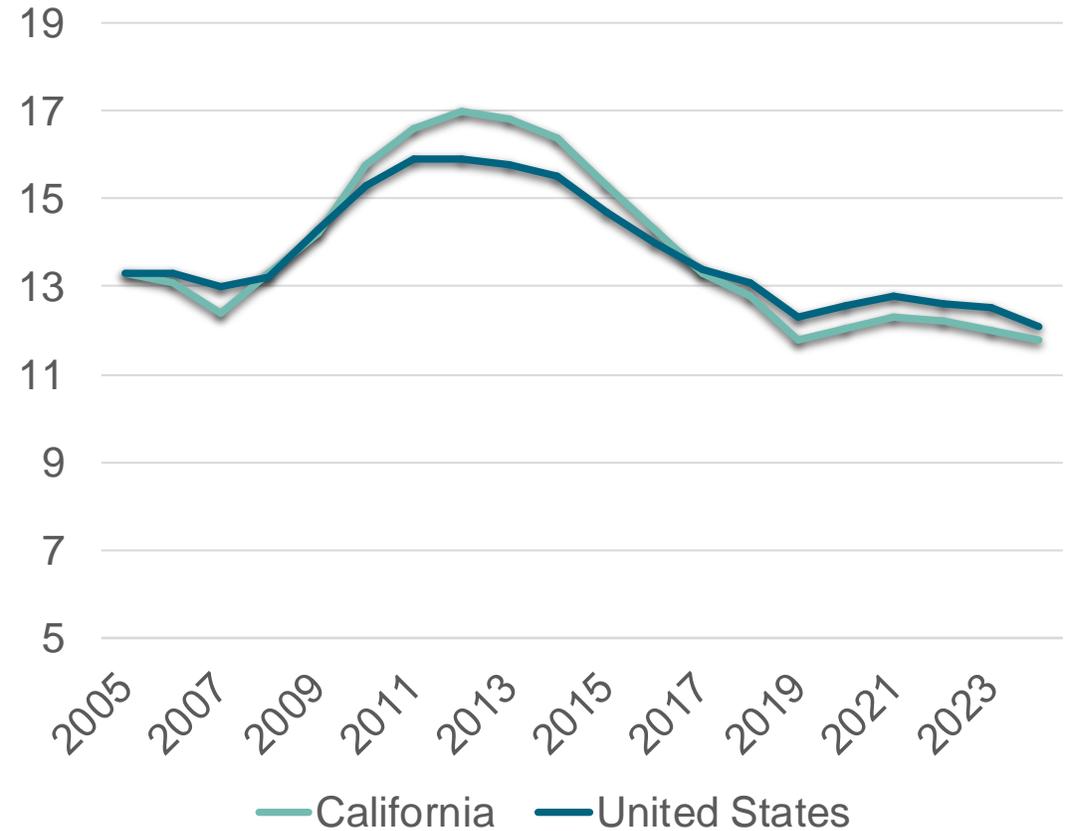


Incomes Remain Higher in CA; Official Poverty Rate Lower than Decade Ago

Median Household Income

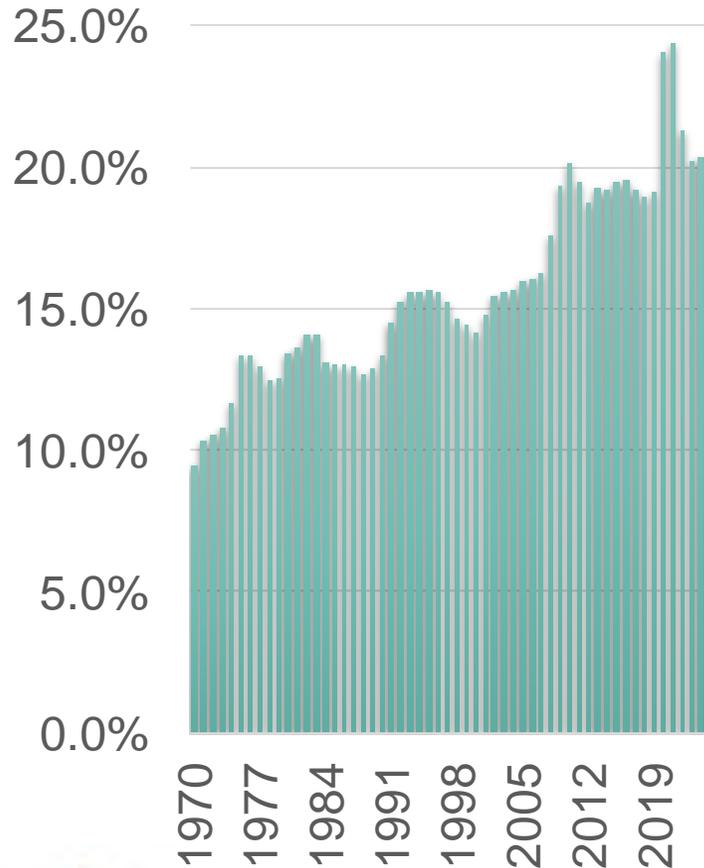


Poverty Rate

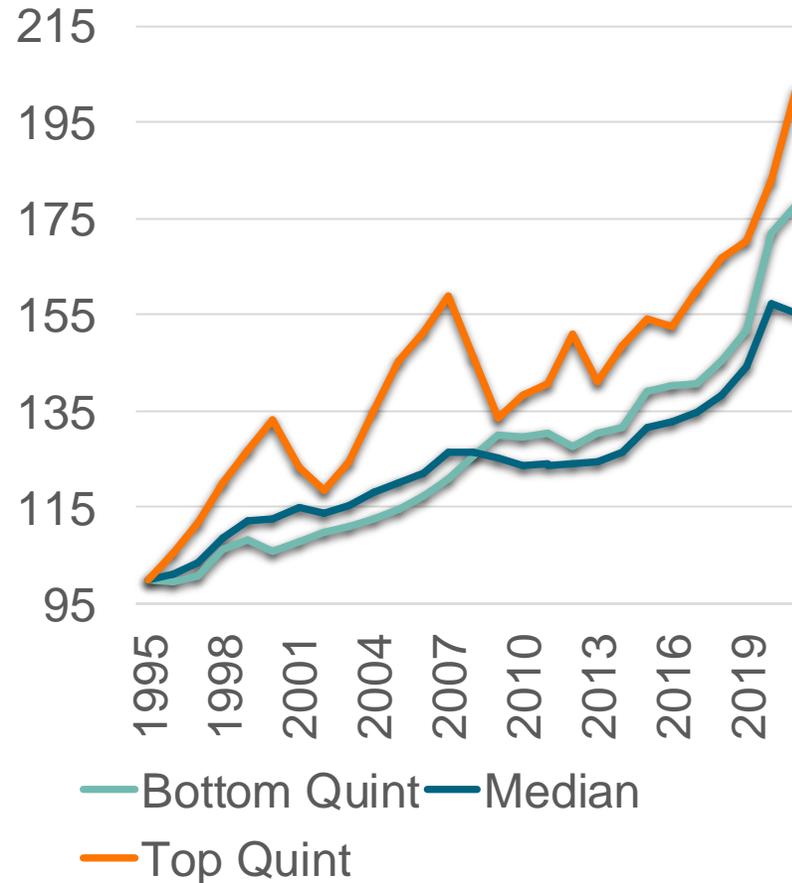


Transfers and Taxes: Is Income Inequality Growing?

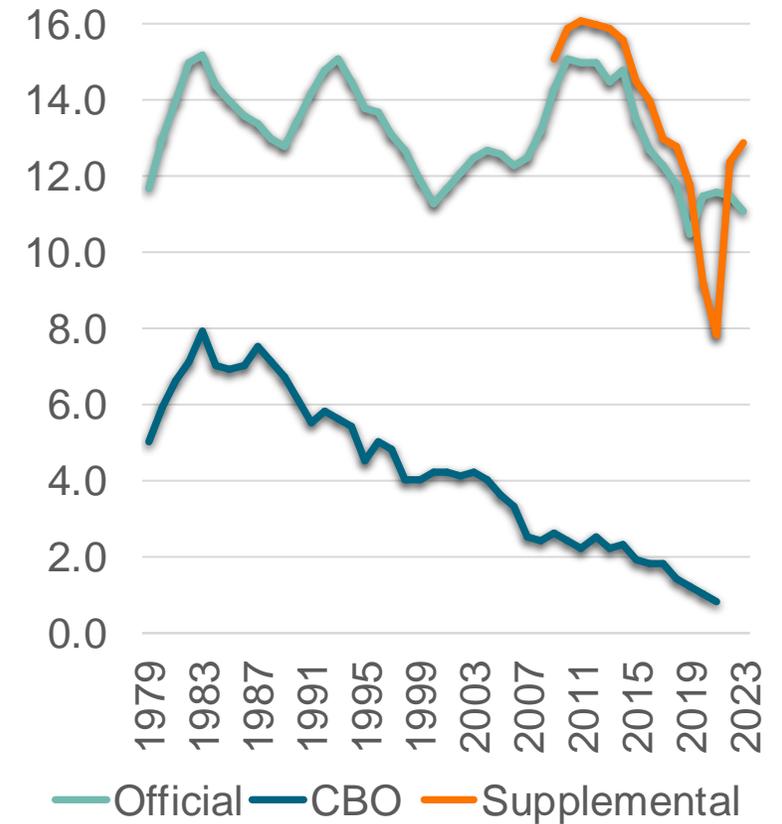
Gov Transfers as % DPI



Index of Real Net Incomes by Quintile



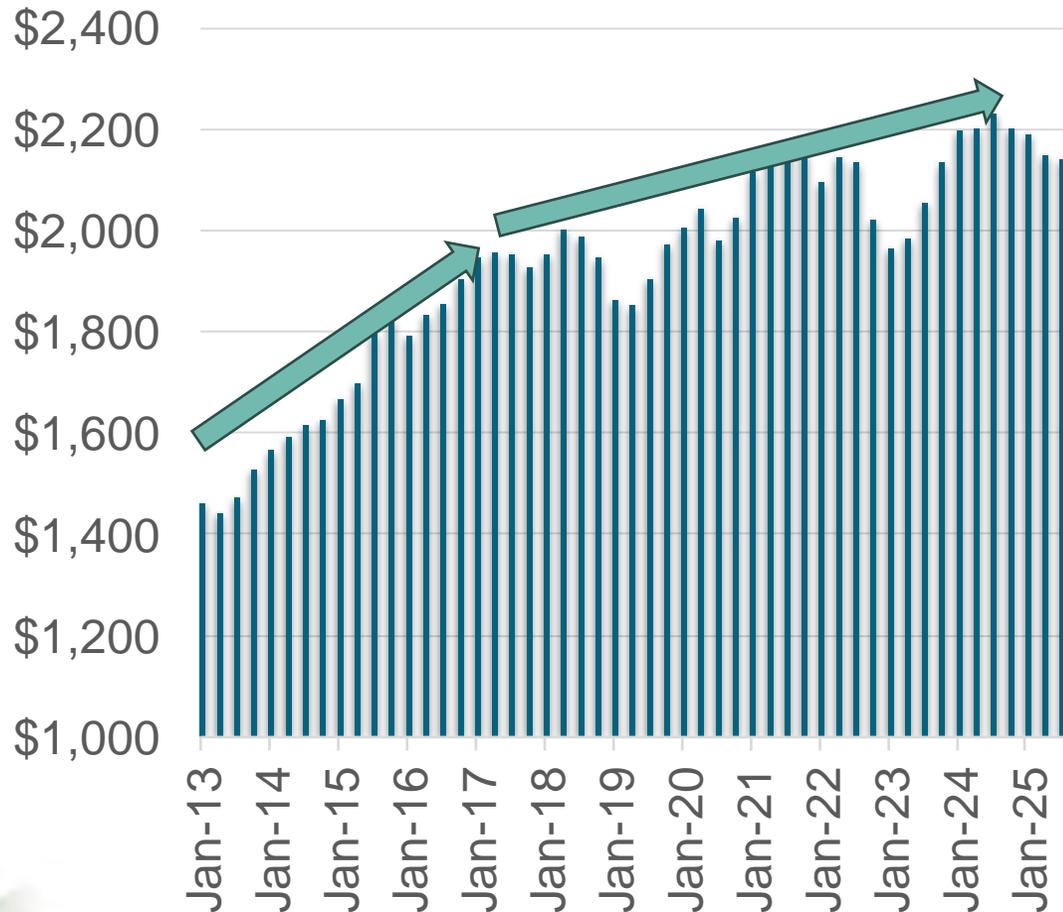
Estimates of the Share of US in Poverty



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Construction Activity

U.S. Real Construction Spending



Real Construction Spending by Category

	2022	2023	2024
Nonresidential	588.2	686.4	694
Commercial and health care	180.5	190.1	178
Office	65.7	64.1	63.6
Data centers	8.4	12.6	19.7
General, financial	57.2	51.3	43.7
Health care	38.2	40.7	41.9
Warehouses	47.3	50.6	39.6
Manufacturing	84.4	128	149.2
Power and communication	112.9	131.4	136.5
Other structures	106.5	122.1	118.3
Residential	814.1	748.5	771.9
Permanent site	403.6	369.4	375.6
Single-family structures	311.6	266.5	283.2
Multifamily structures	92.1	106	93.7
Improvements	254.7	257.4	273.3

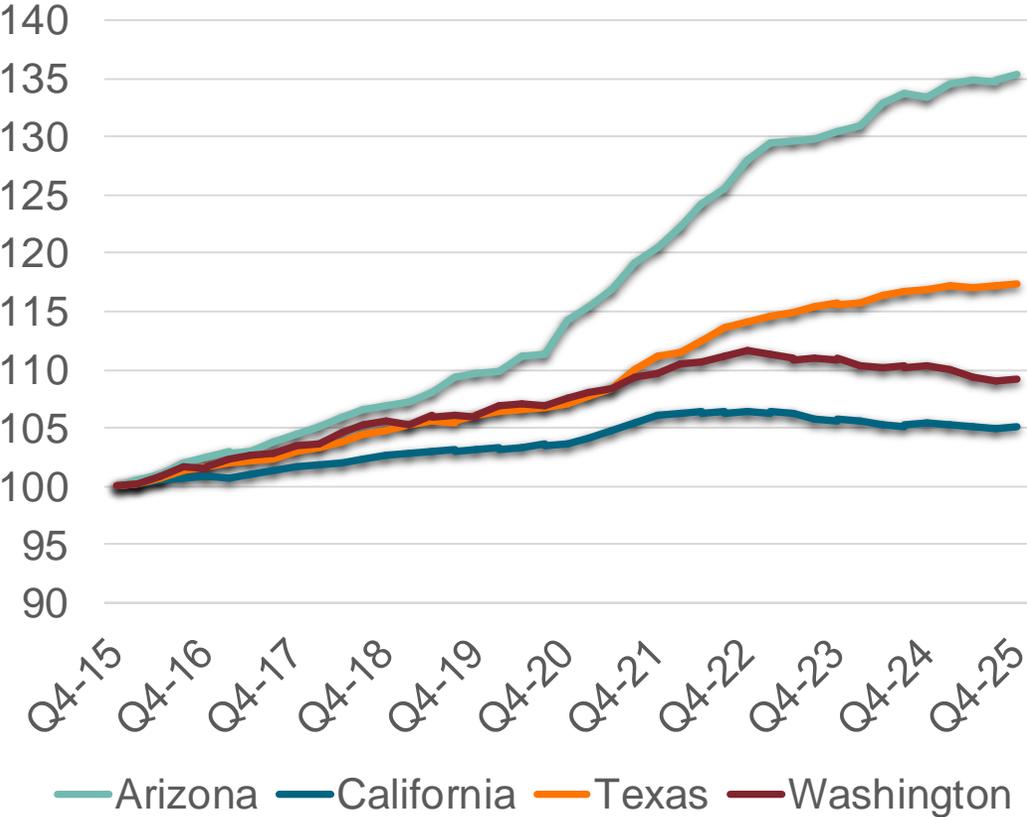


Occupied Warehouses in WPA States

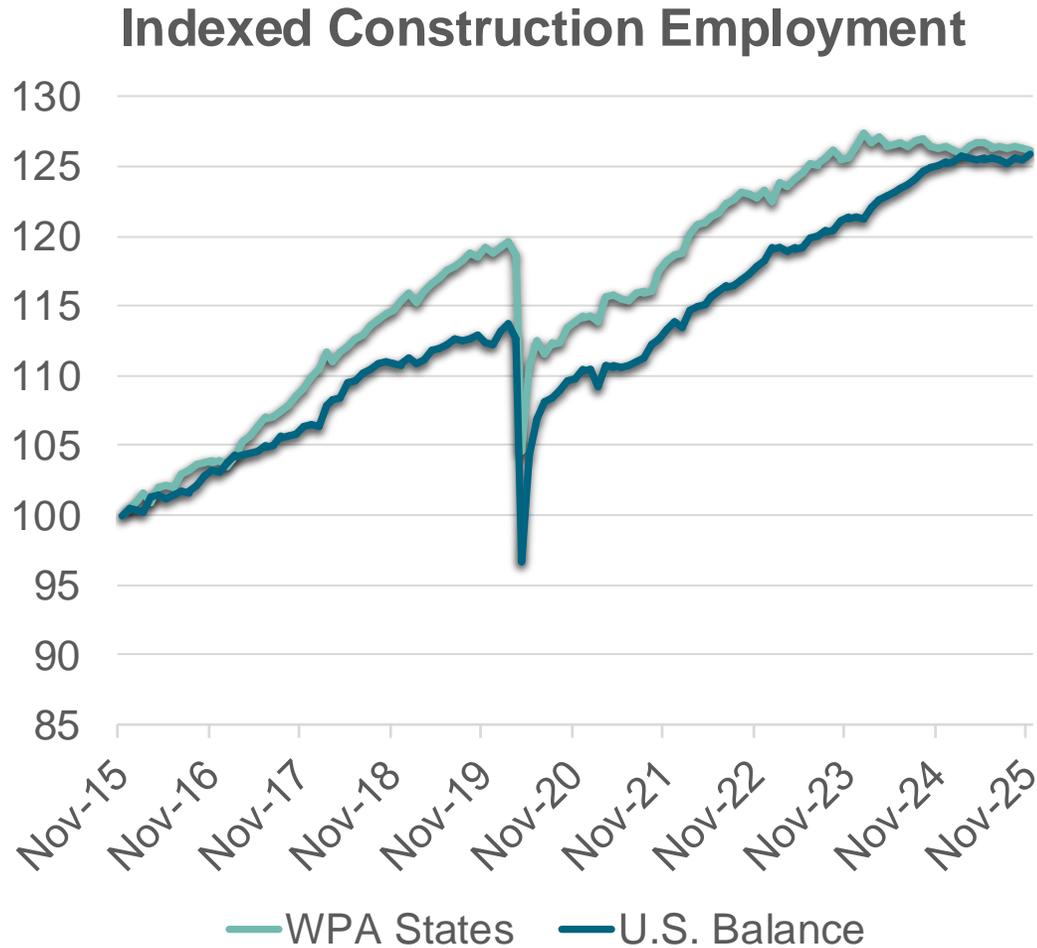
- **Most** growth in Arizona (35% over 10 years)

- **Least** growth in California (5% over 10 years)

Indexed Occupied Stock of Warehouses



Construction Employment Flat Over Last 2 Years in WPA States



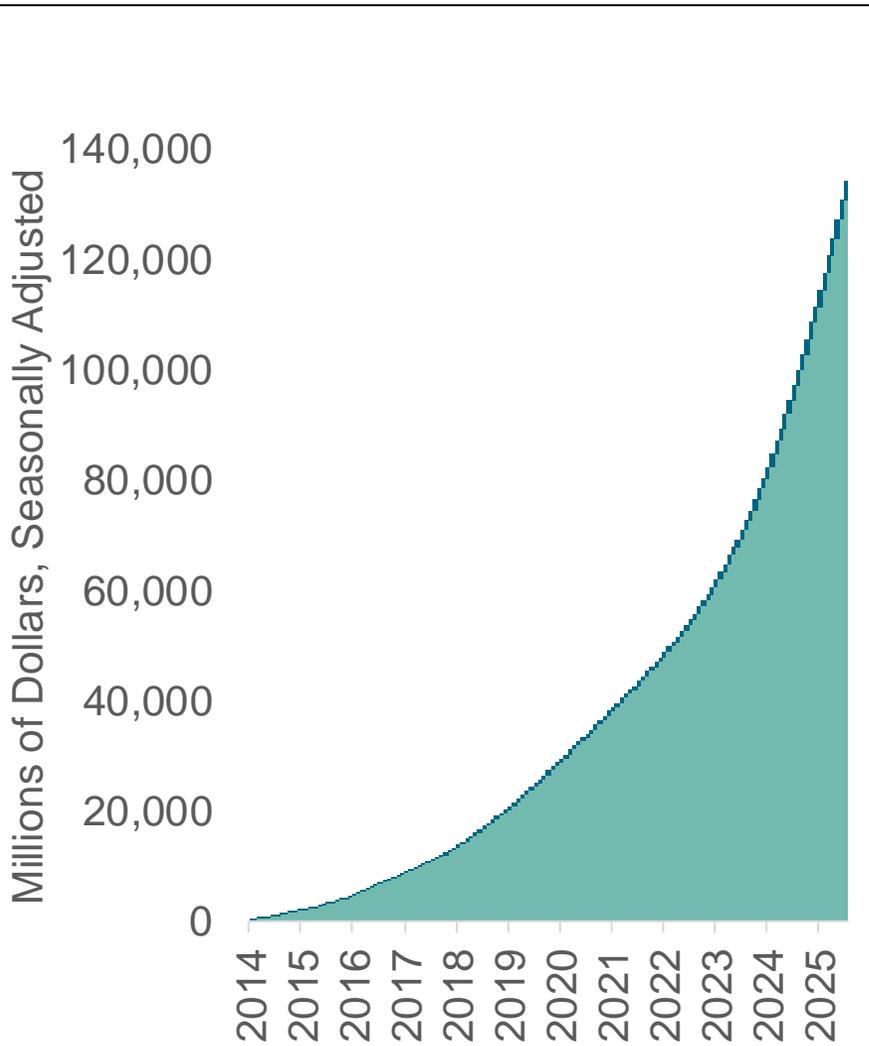
Construction Employment	Nov-25 Emp (000s)	1-Year Chg. (%)	Chg. since Feb-20 (%)
United States	8,314.0	0.5	8.5
Texas	883.1	2.8	12.1
Arizona	223.5	0.3	21.1
Oregon	117.4	0.1	5.0
California	888.2	-1.8	-2.4
Washington	210.1	-4.8	-6.2



Data Center Construction Activity

Total Value of New Data Center Construction

Construction industry employment and projected employment, 2023–33

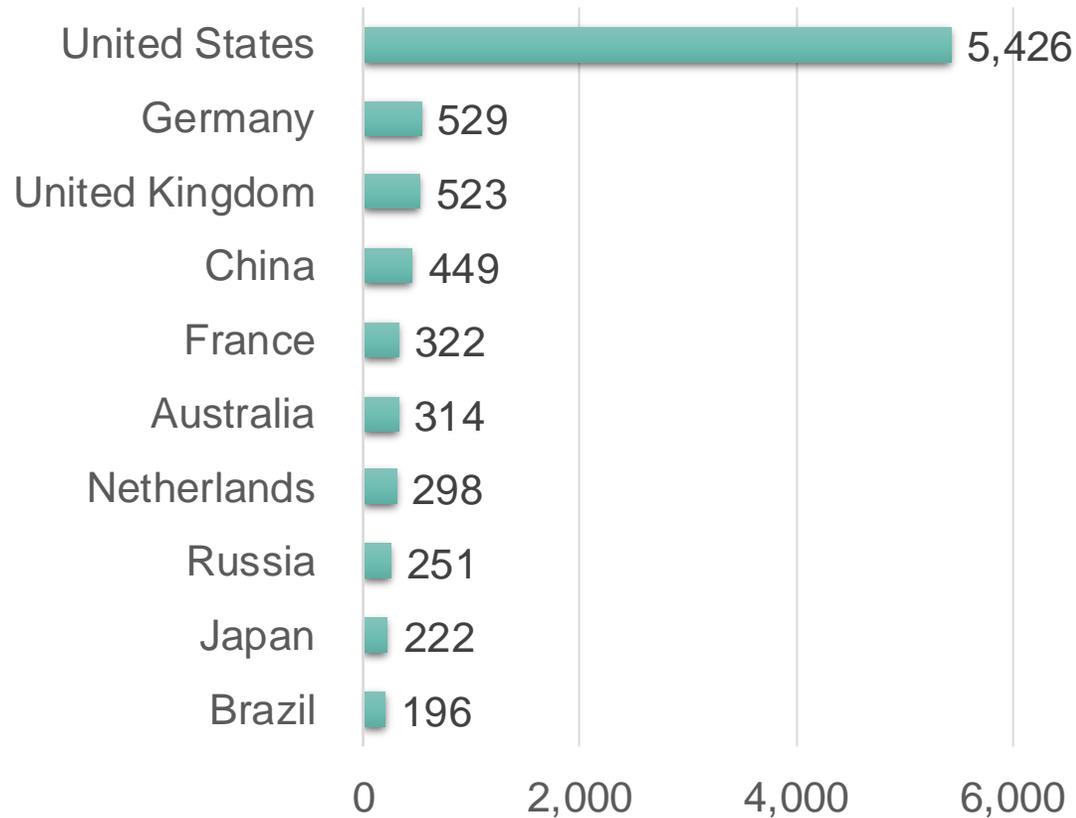


Industry sector	Emp, in 1000s, 2023	Projected emp, in 1000s, 2033	Emp change, in 1000s, 2023–33	% Emp change, 2023–33
Construction	8,017.90	8,398.00	380.1	4.7
Power & communication line & related structures	239.6	255.3	15.7	6.6
Electrical & other wiring installation contractors	1,067.40	1,137.90	70.5	6.6
Plumbing, heating, & air-conditioning contractors	1,259.40	1,334.40	75	6
Nonresidential building	884.2	936.4	52.2	5.9
Other building equipment contractors	155.9	164.6	8.7	5.6
Other specialty trade contractors	780	823	43	5.5
Poured concrete foundation & structure contractors	255.8	267.9	12.1	4.7
Highway, street, and bridge	369.8	386.3	16.5	4.5
Other heavy & civil engineering	128.6	134.4	5.8	4.5
Roofing contractors	245.3	256.1	10.8	4.4
Residential building	927	963.2	36.2	3.9
Masonry contractors	149.2	152.8	3.6	2.4
Drywall & insulation contractors	247.1	248.6	1.5	0.6
Painting & wall covering contractors	205	205.8	0.8	0.4
Land subdivision	38.5	38.6	0.1	0.3

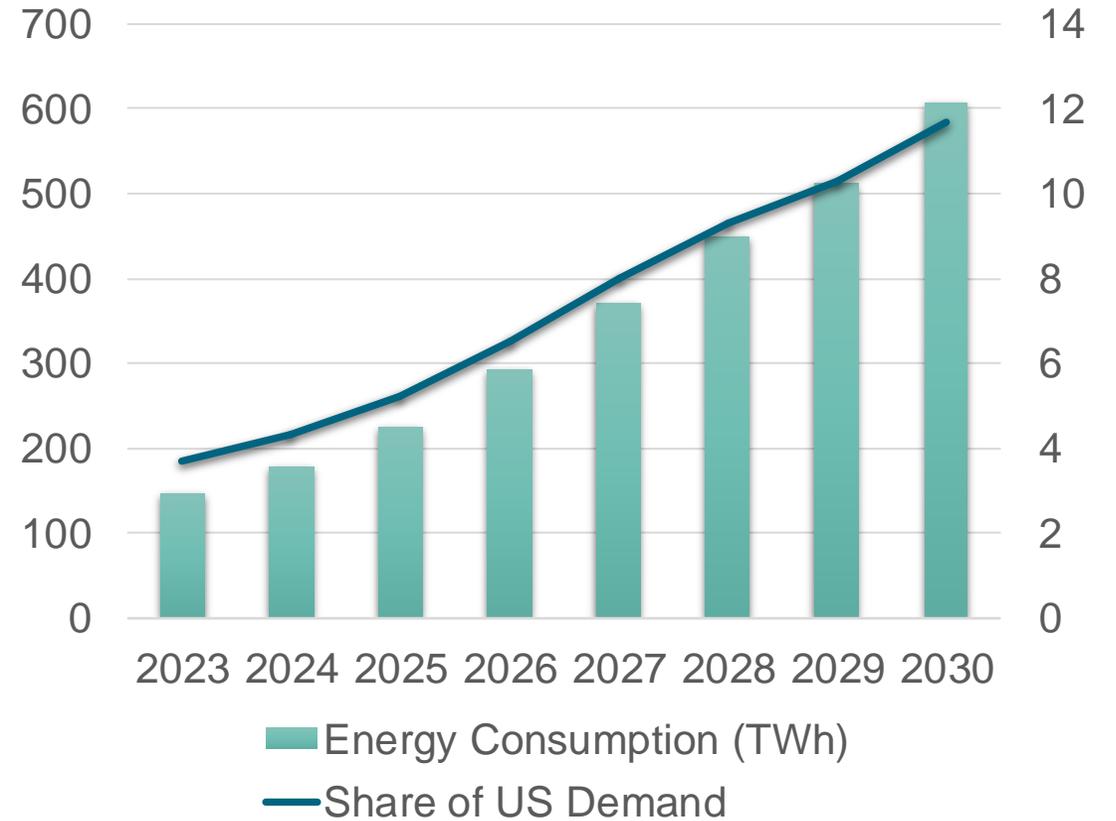
Note: Employment for industries is wage and salary. Source: U.S. Bureau of Labor Statistics.

Data Centers

Number of Data Centers by Country



U.S. Data Center Power Demand Forecast



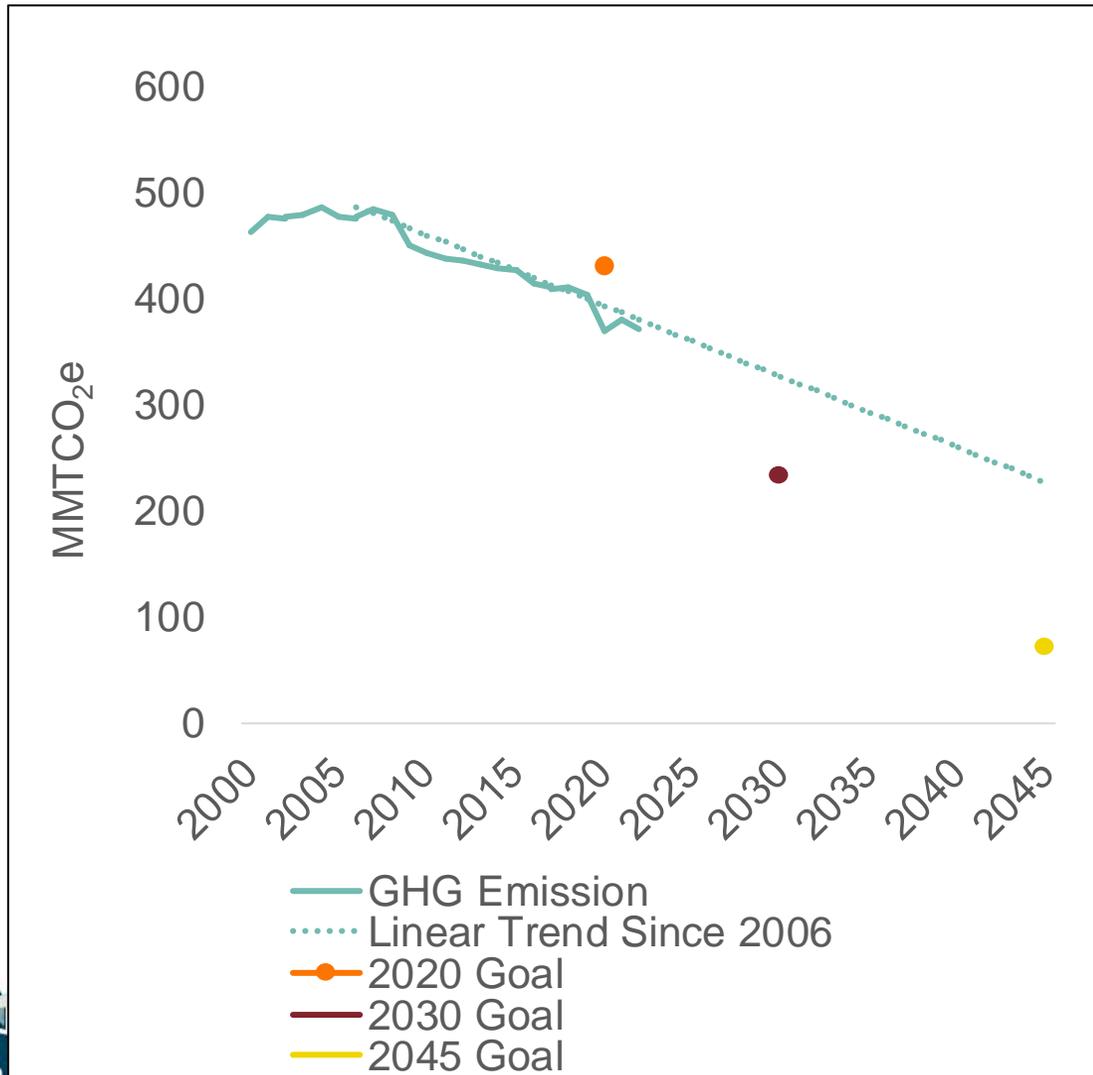
Source: Cloudscene

Source: McKinsey & Company, Global Energy Perspective

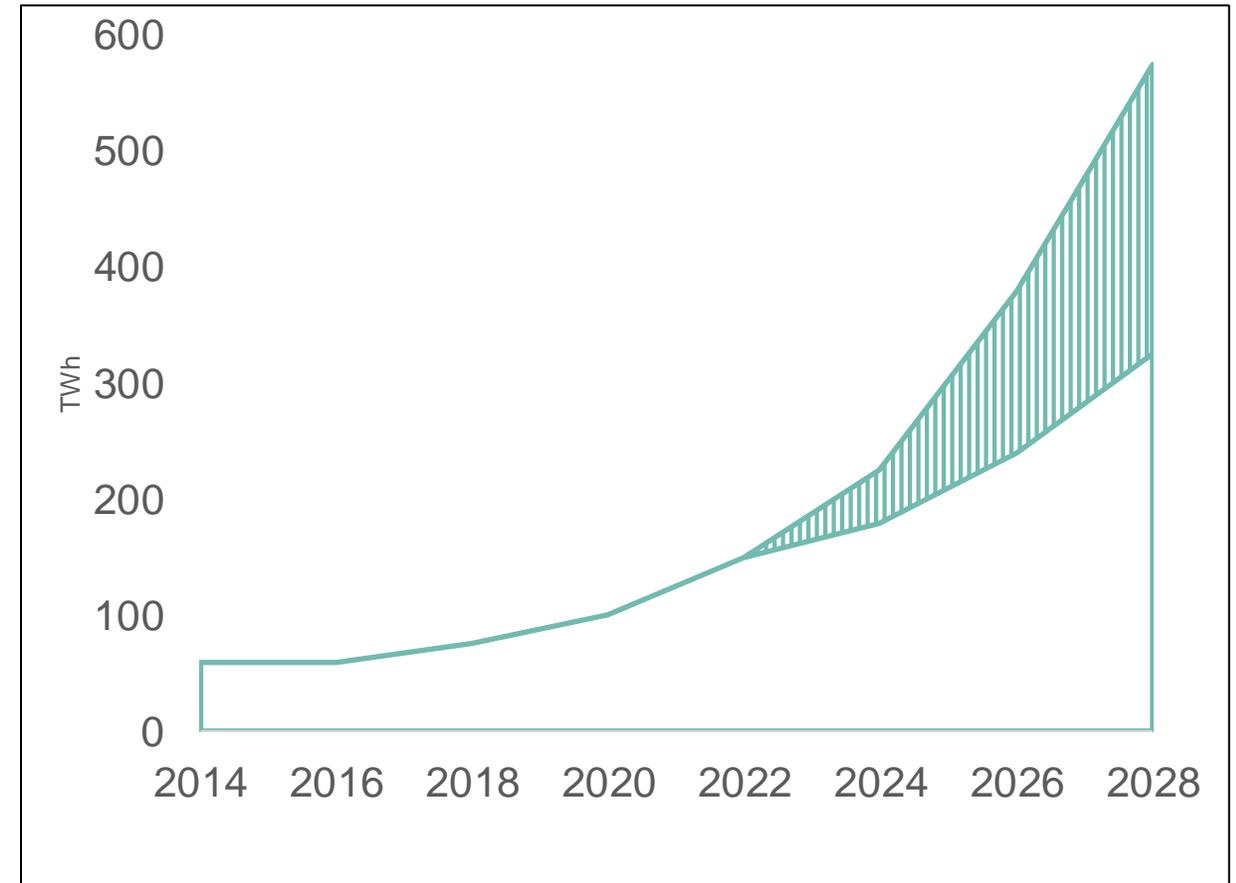


CA Energy Goals and Growing Demand for Energy -> More Construction

California Emissions and AB 32 Goals



Energy Demand by Data Centers, 2014-2028

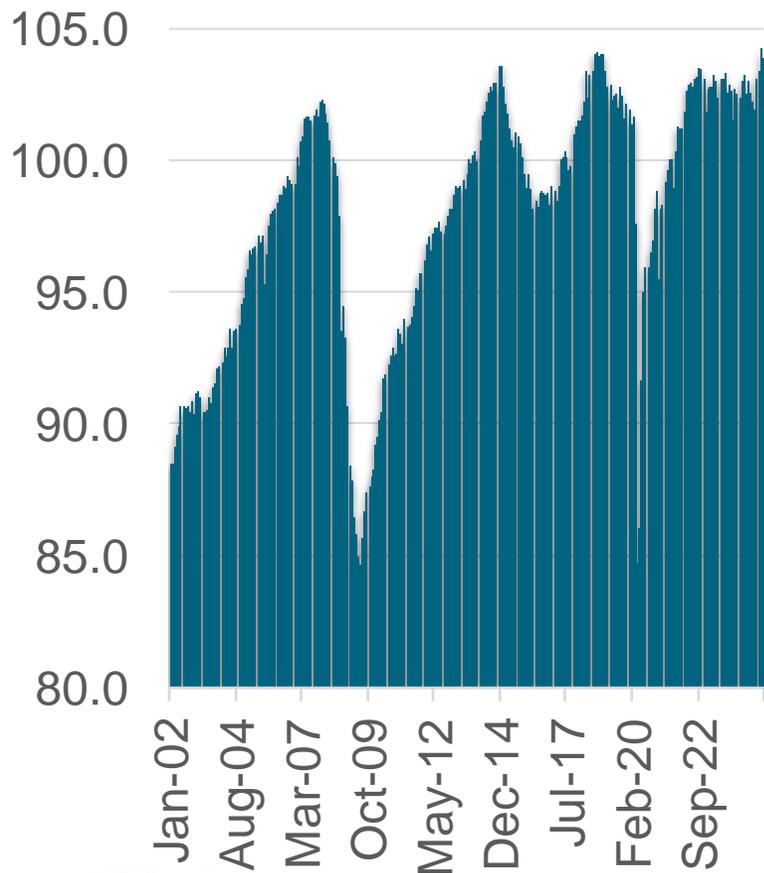


Source: Lawrence Berkeley National Laboratory (2024).



U.S. Industrial Production: Above Average; Manufacturing: Below Average

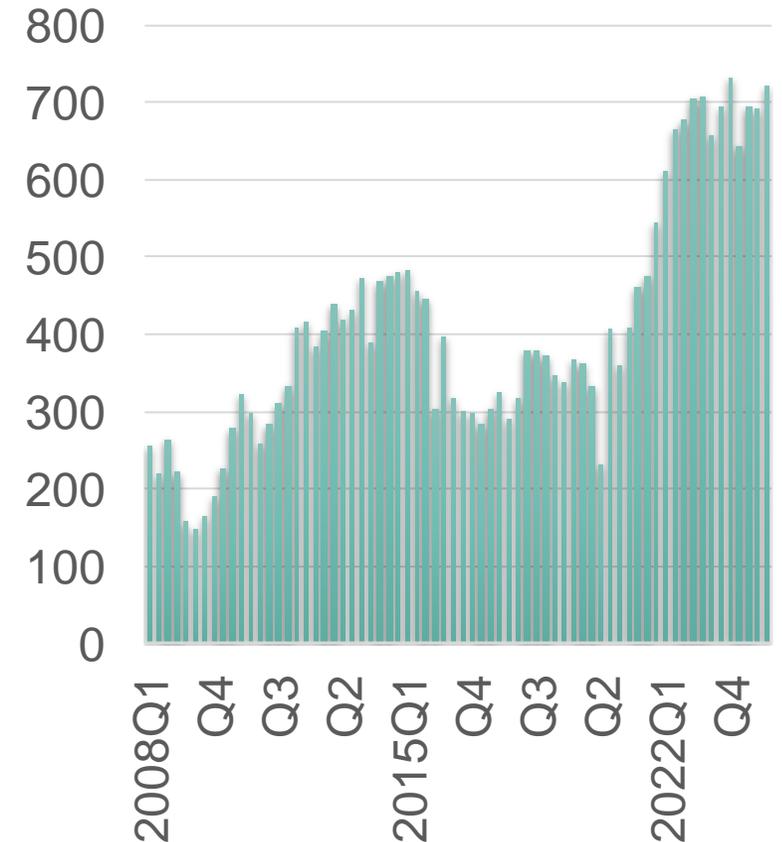
Industrial Production



Industrial Production: Manufacturing

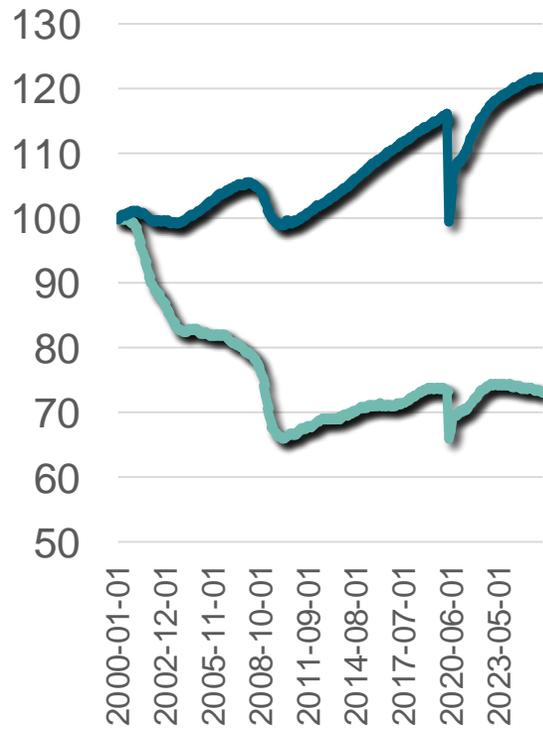


Manufacturing Profits (Corporate)



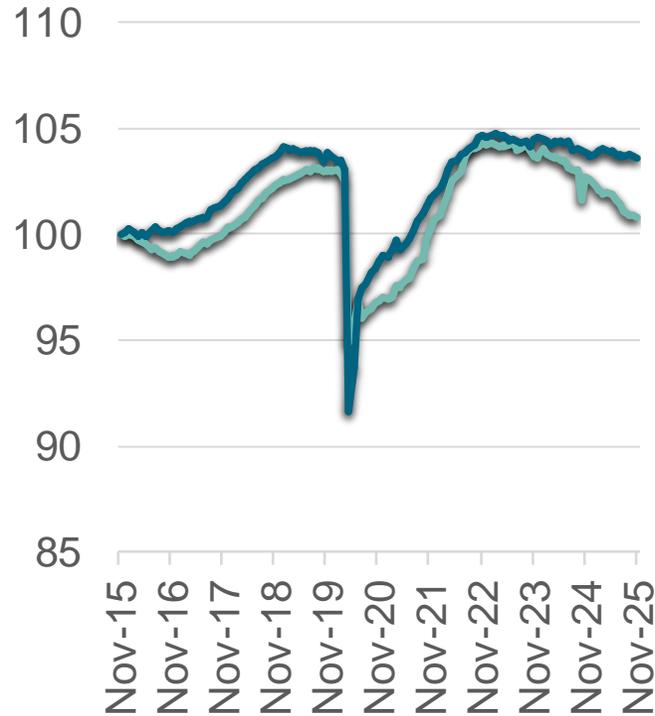
Manufacturing Employment Fell Over Last 2 Years in WPA States

Indexed Employment, U.S.



— Manufacturing
— Total Nonfarm

Indexed Manufacturing Employment



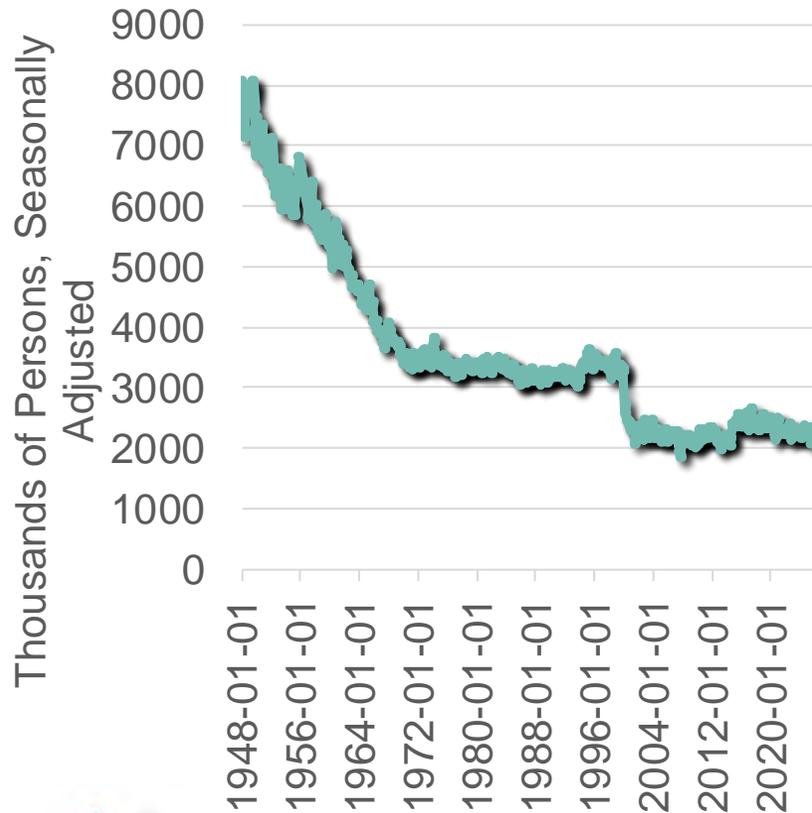
— WPA States — U.S. Balance

Manufacturing Employment	Nov-25 Emp (000s)	1-Year Chg. (%)	Chg. since Feb-20 (%)
United States	12,700.0	-0.5	-0.3
Texas	969.4	-0.4	6.0
Arizona	192.5	-0.9	6.1
California	1,203.2	-2.5	-7.1
Washington	269.9	-2.6	-8.2
Oregon	177.1	-4.1	-9.9

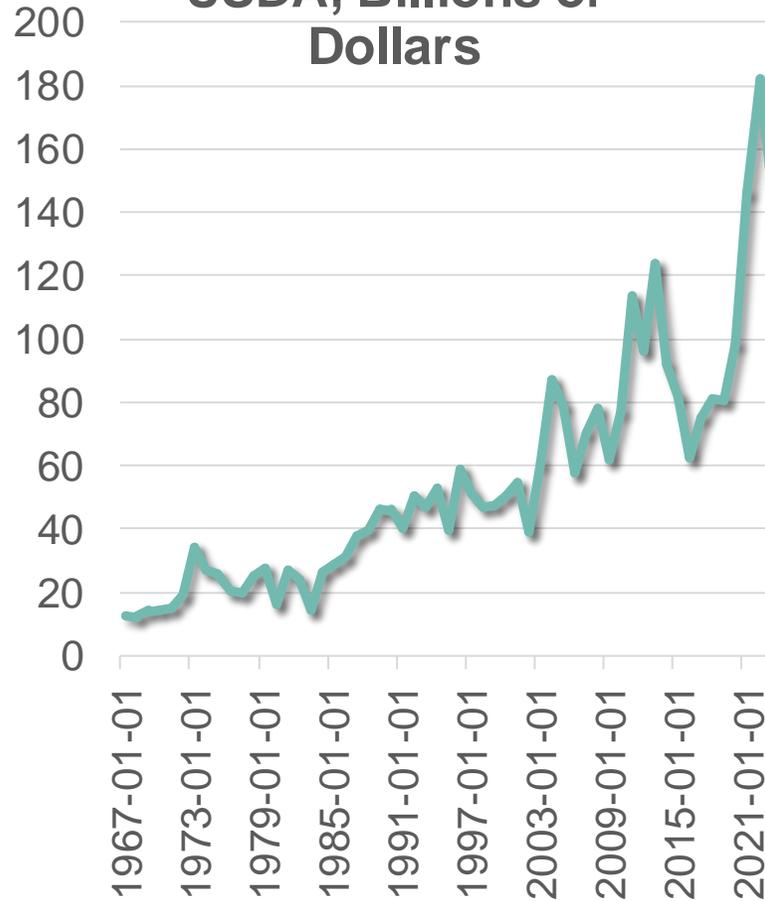


Long-Term Decline in Ag Employment but Net Farm Income & Exports Rising

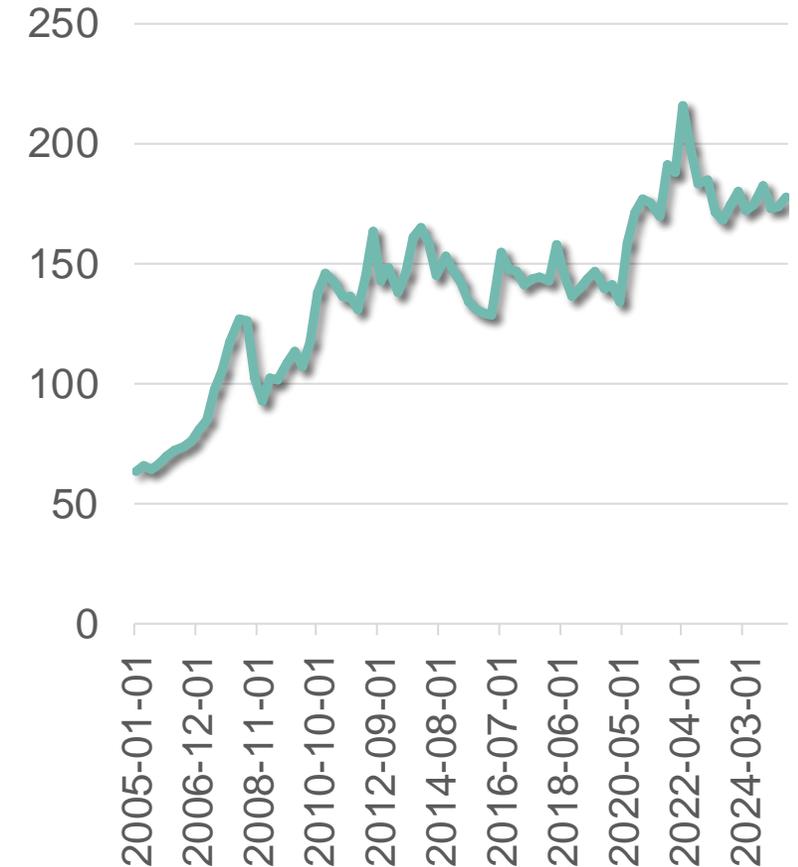
Employment Level: Agriculture and Related Industries



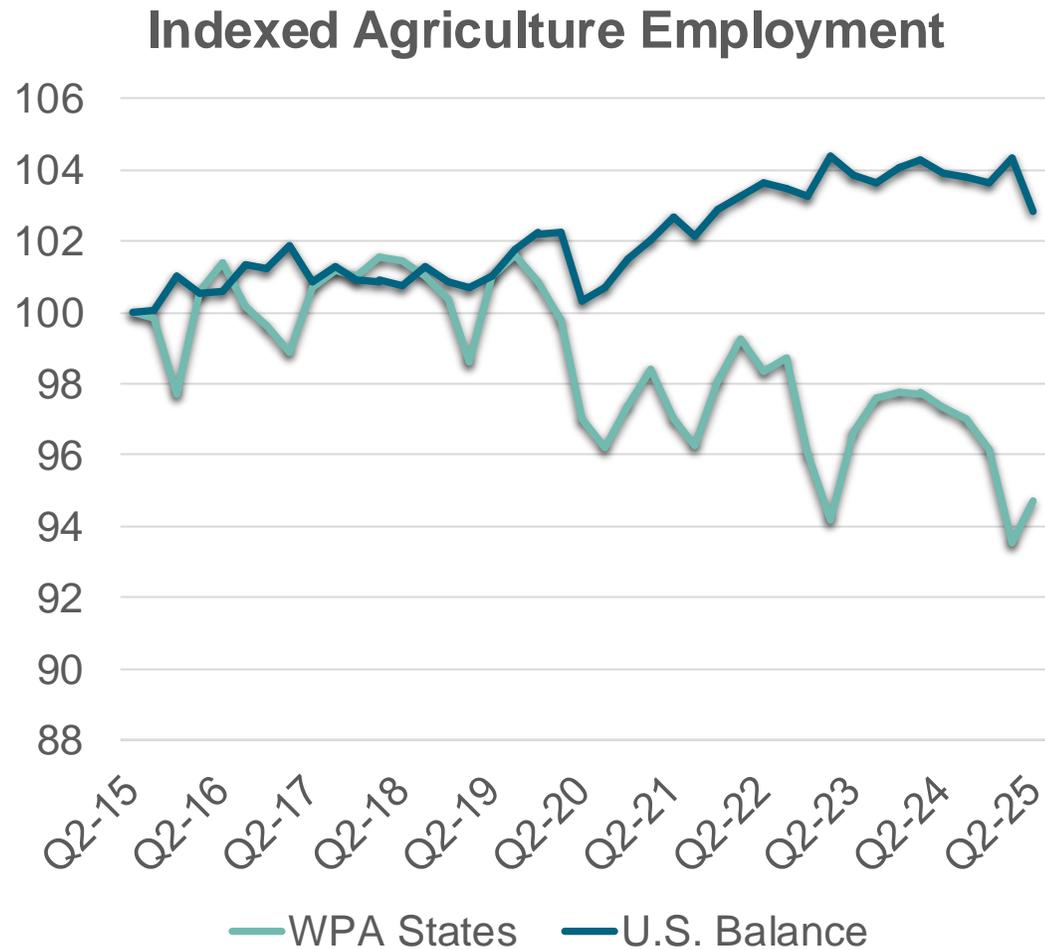
Net Farm Income, USDA, Billions of Dollars



Exports of Agricultural Goods



Agriculture Employment for WPA States



Agriculture Employment	Q2-25 Emp (000s)	1-Year Chg. (%)	6-Year Chg. (%)
United States	1,270.5	-1.8	-2.8
Arizona	19.0	0.8	-6.4
Texas	60.6	0.4	1.0
Oregon	52.2	0.3	-0.7
Washington	94.9	-0.1	-14.1
California	423.7	-4.2	-7.6



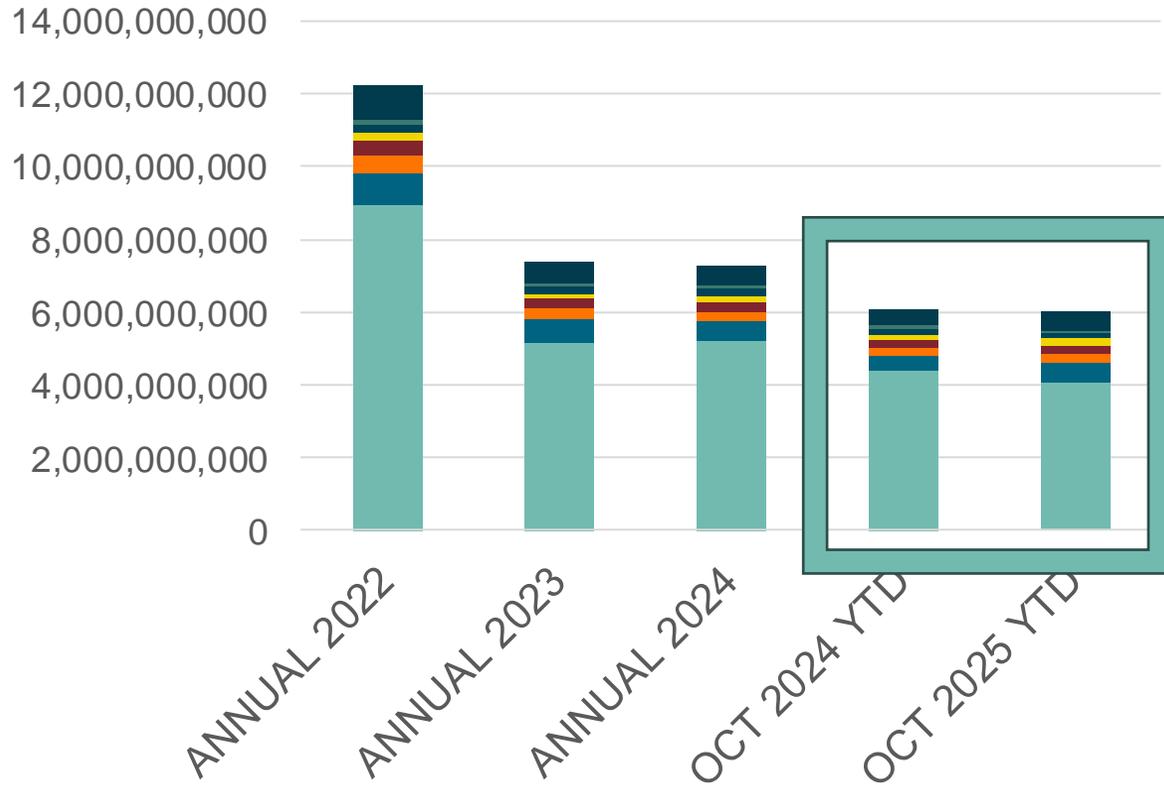
Motor Vehicle Retail Sales: Heavy Weight Trucks



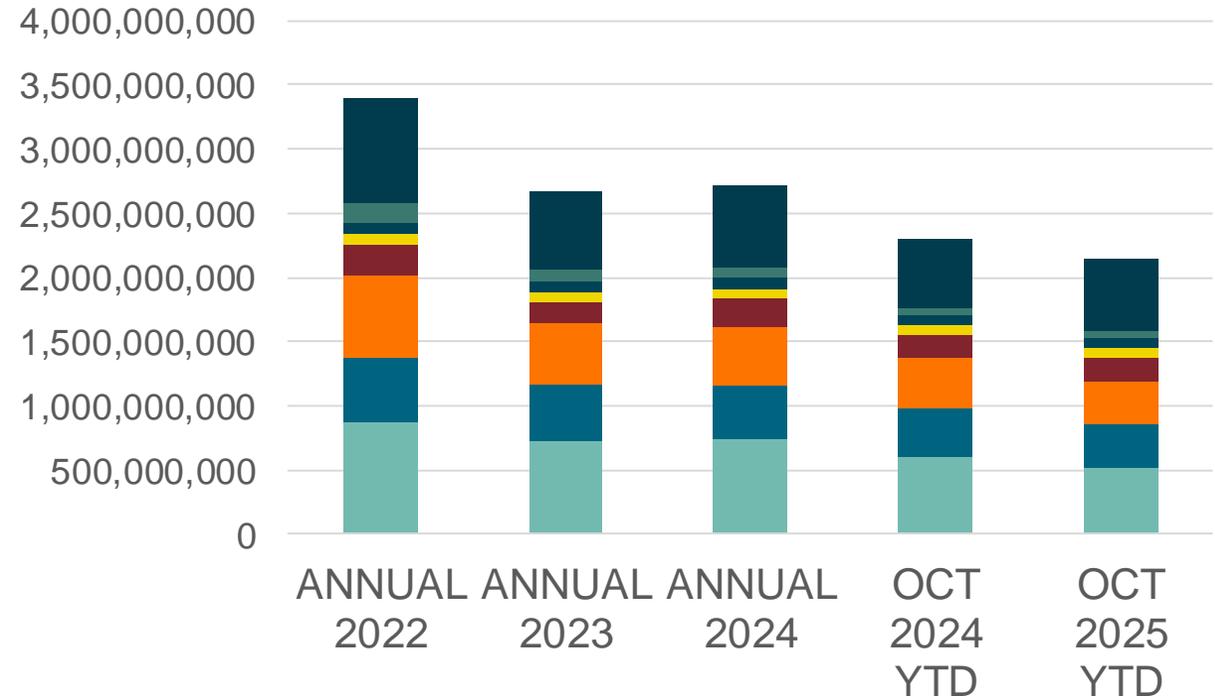
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Wood Imports Unaffected by Tariffs

Wood Imports (Nominal \$)



Wood Exports (Nominal \$)



Canada
Brazil
Australia

Germany
Chile
All Other

Sweden
New Zealand

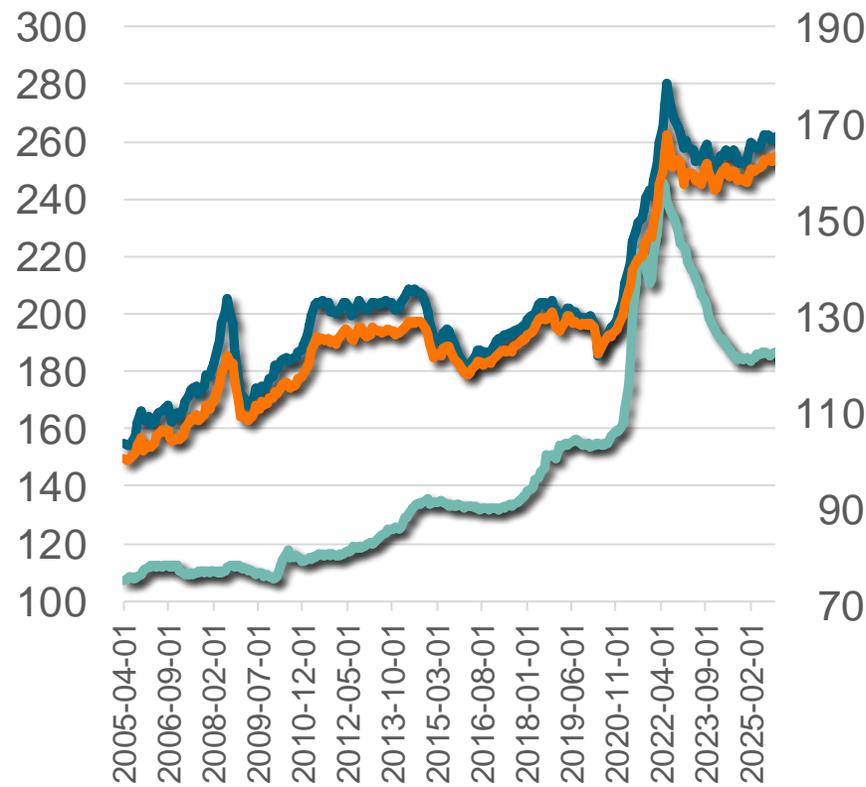
China
Canada
United Kingdom
Japan

Mexico
Vietnam
Dominican Republic
All Other

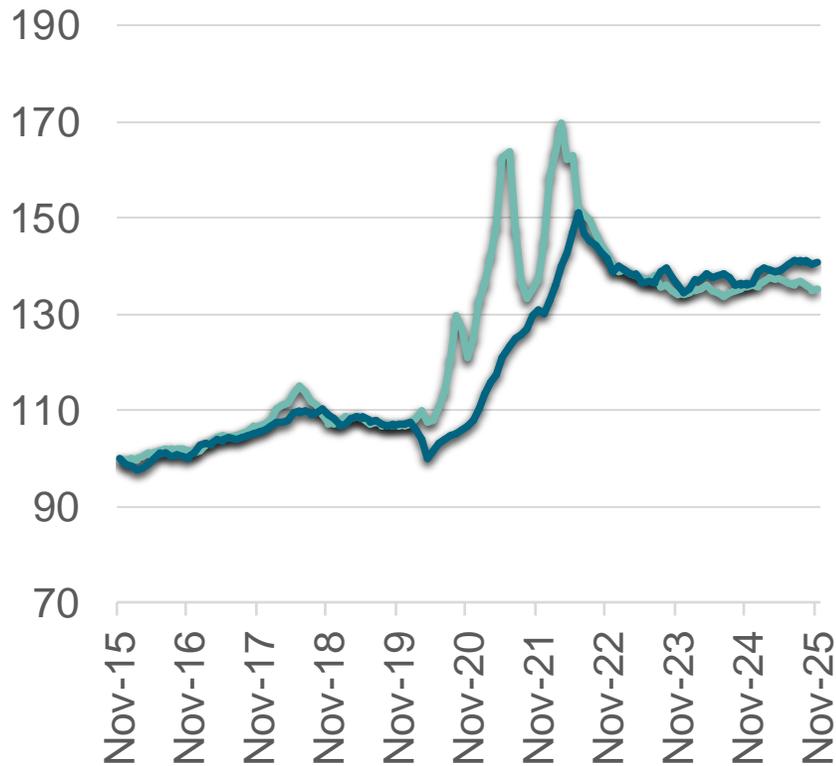


Pallet Manufacturing – Costs & Production

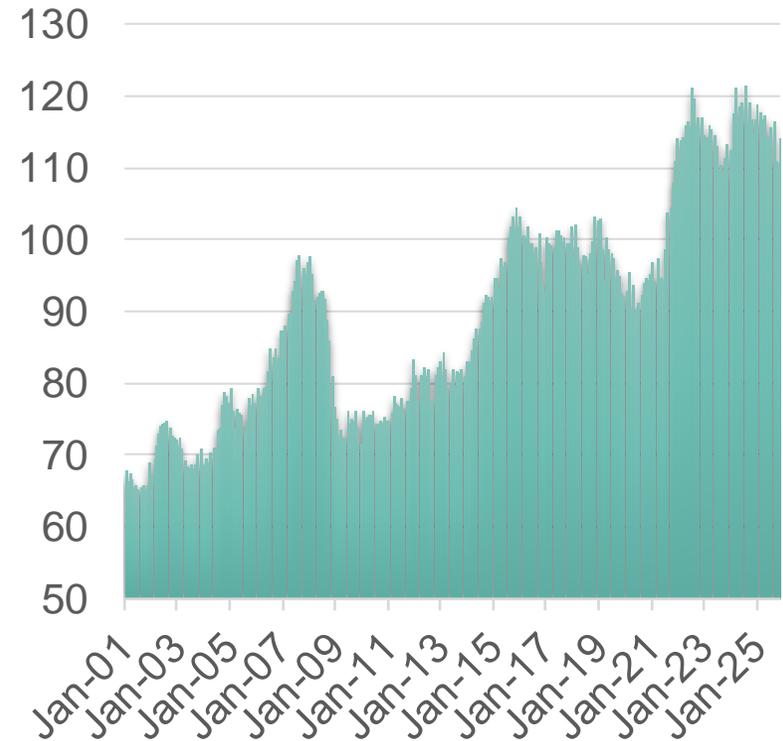
Producer Price Indexes



Producer Price Index:
Lumber and Wood
Products



Industrial Production:
Wood Container and
Pallet Manufacturing



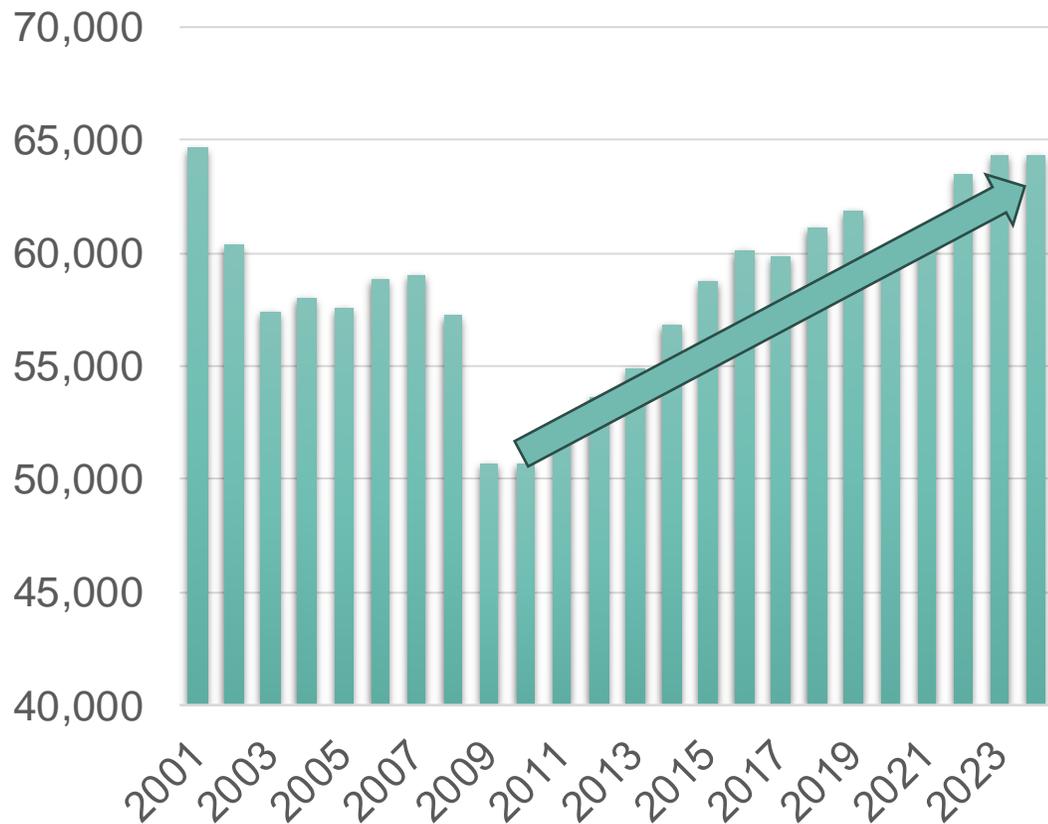
— PPI: Wood Container & Pallet
Manufacturing

— Lumber and Wood Products
— All Commodities

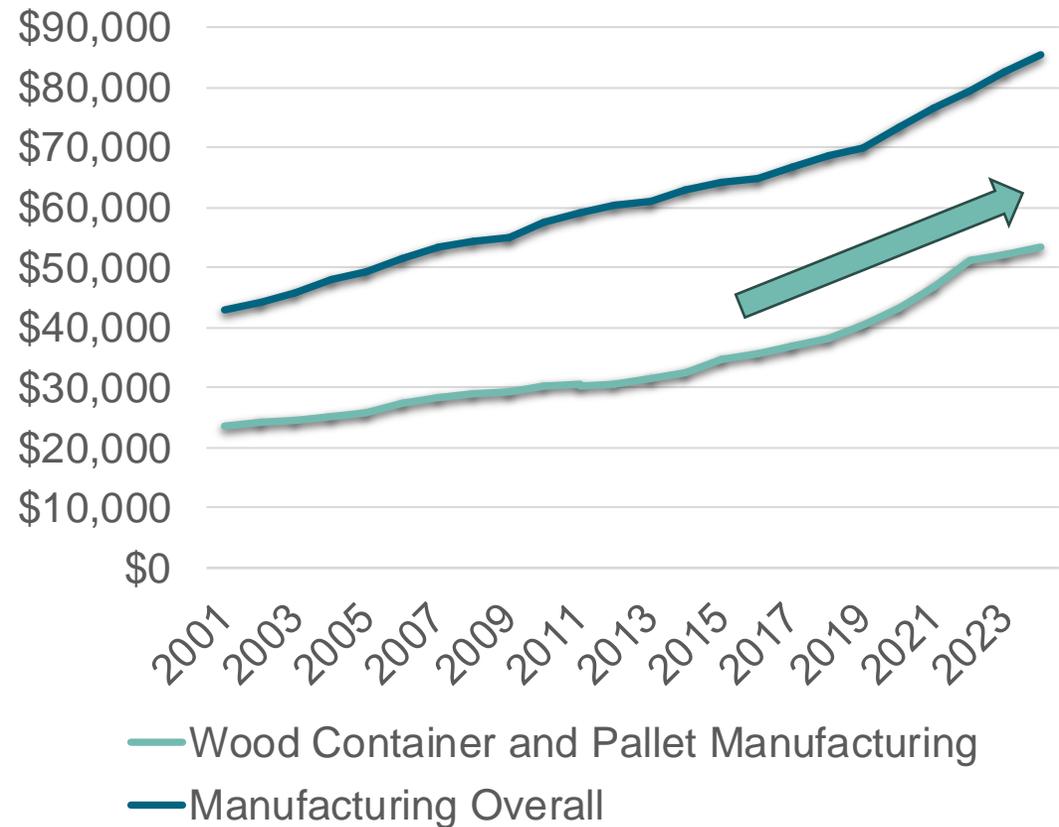


Pallet Manufacturing - Employment

Employment: Wood Container and Pallet Manufacturing



Average Annual Wage: Wood Container and Pallet Manufacturing

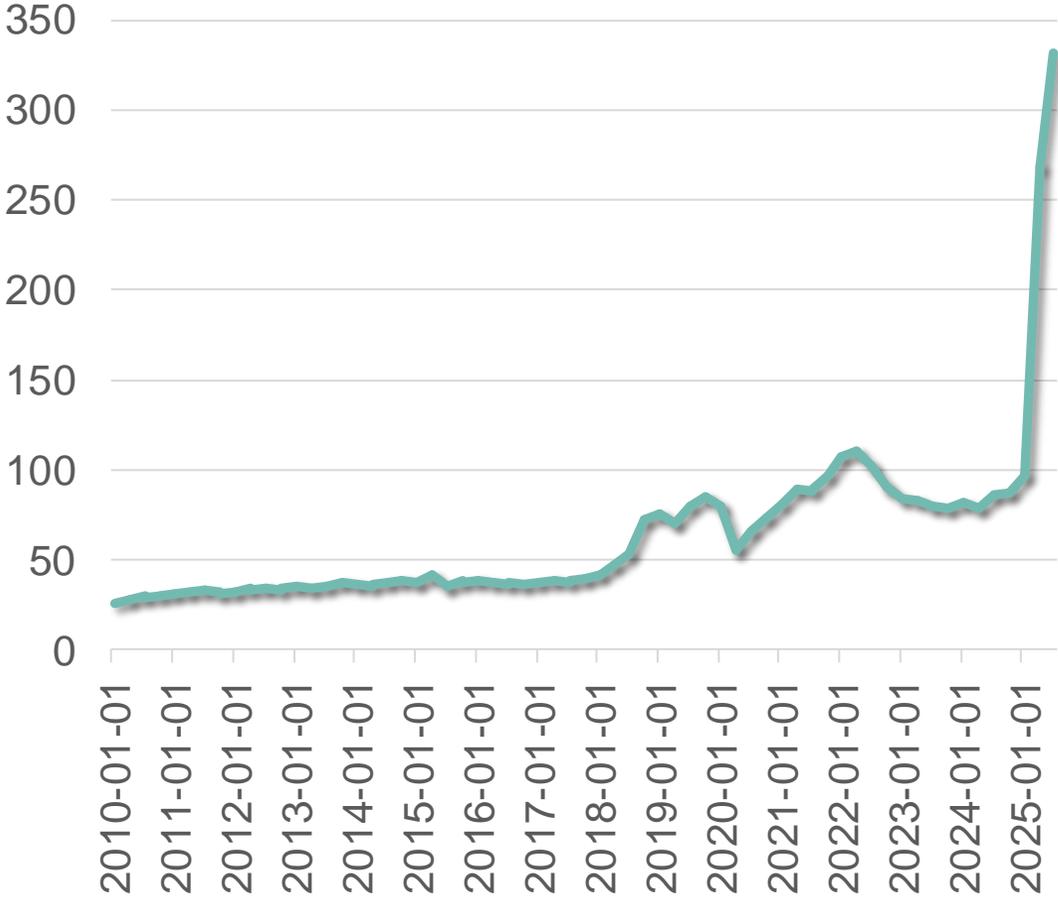
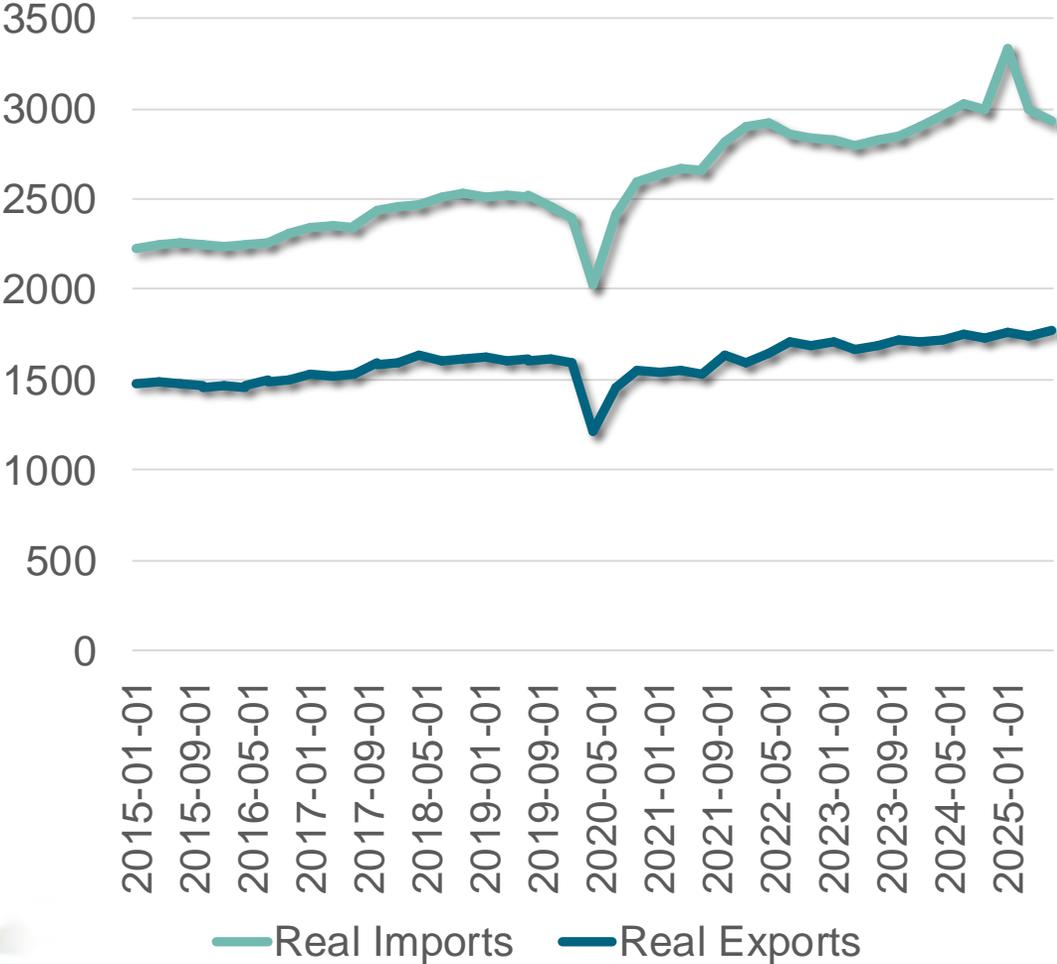


- 
- A photograph of a male worker in a blue uniform and yellow hard hat pushing a blue pallet jack with a wooden pallet in a large warehouse. The warehouse has a high ceiling with metal beams and corrugated metal panels. In the background, there are several tall stacks of wooden pallets. The worker is walking towards the right side of the frame.
1. **Macroeconomic Trends**
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Tariff Impacts?

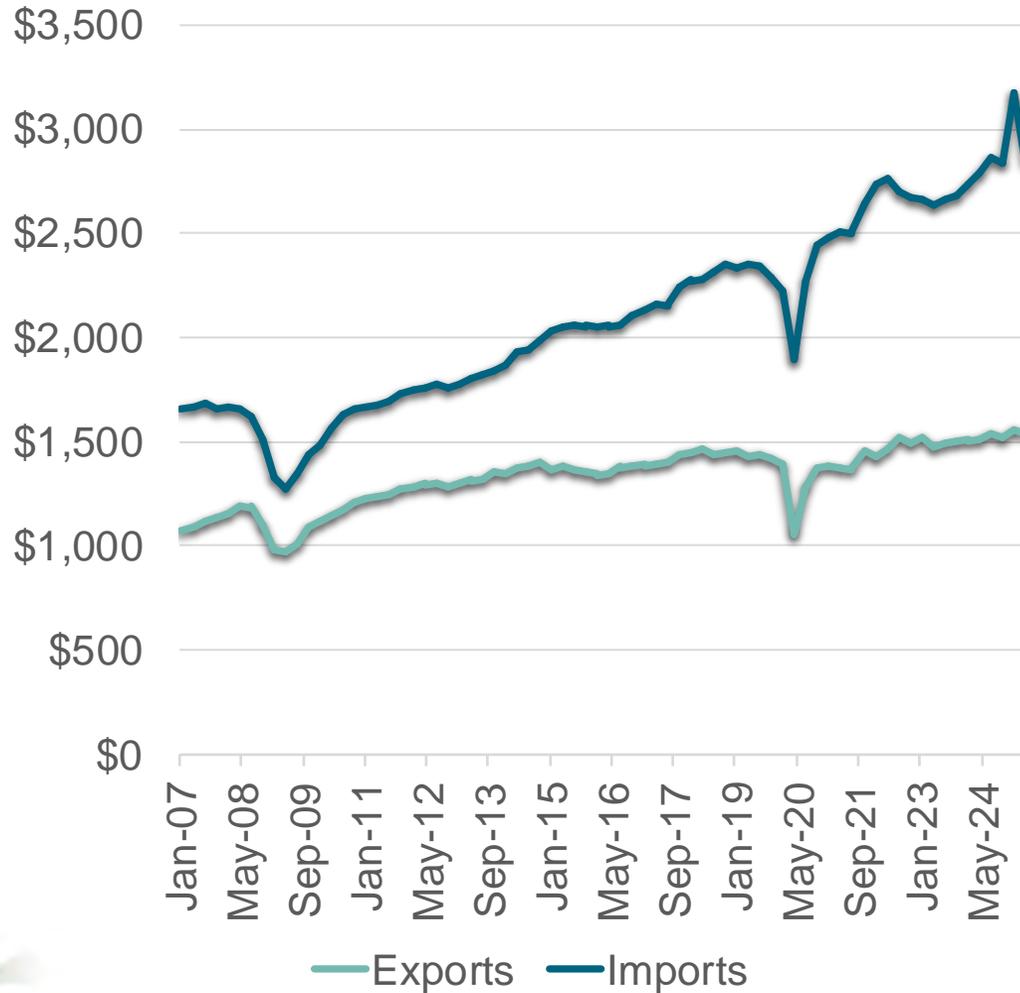
Federal government current tax receipts: Taxes on production and imports: Customs duties

Real Imports and Exports of Goods

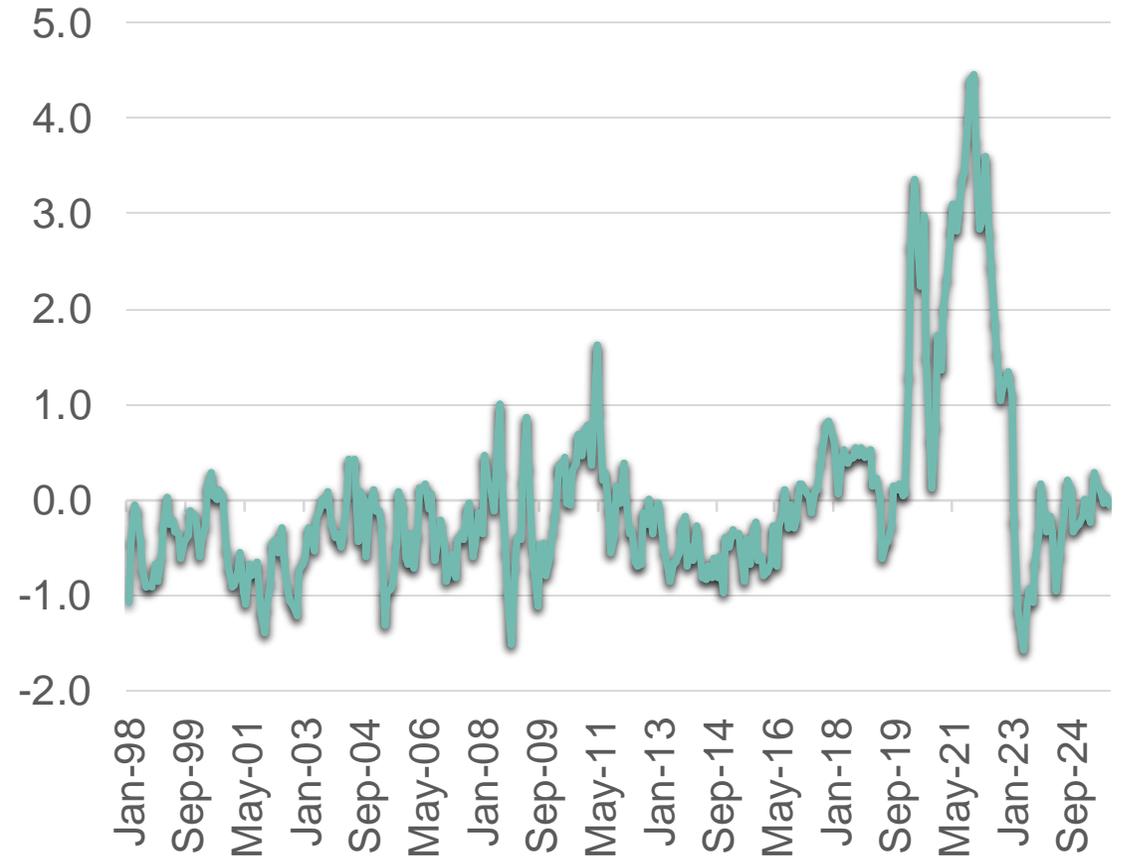


Global Goods Trade

US Trade in-petroleum Goods



Global Supply Chain Pressure Index (GSCPI)



Importing Less from China, But More Overall



Partner Country	Oct-25 YTD (\$ Bil.)	1-Year YTD Chg. (%)	2019 to 2024 Chg. (%)
Total Imports	2,870.9	6.1	31.1
Mexico	448.0	5.6	42.0
Canada	322.8	-5.8	29.3
China	266.3	-26.7	-2.3
Vietnam	158.1	40.4	105.5
Taiwan	156.5	61.5	114.4
Germany	127.3	-4.8	25.8
Ireland	125.0	46.8	66.9
Japan	122.0	-1.5	3.3
Korea, Republic Of	104.7	-5.2	69.8
Switzerland	97.8	125.3	41.9



Exporting Less to China, But More Overall



Partner Country	Oct-25 YTD (\$ Bil.)	1-Year YTD Chg. (%)	2019 to 2024 Chg. (%)
Total Exports	1,817.3	5.5	25.3
Mexico	283.2	0.2	30.1
Canada	278.9	-5.2	19.5
China	90.9	-23.2	34.5
United Kingdom	79.2	20.5	15.1
Netherlands	79.1	8.4	74.1
Germany	69.1	7.7	25.4
Japan	68.7	4.2	6.0
Korea, Republic Of	57.5	4.1	16.1
Switzerland	56.5	157.3	39.4
Brazil	45.3	11.4	14.6



Canada and Mexico: Key Import Partners, though India's Role Grows

U.S. Wood Pallet Imports



Partner Country	Oct-25 YTD (\$ 000s)	1-Year YTD Chg. (%)	2019 to 2024 Chg. (%)
Total Pallet Imports	115,987	14.7	46.9
Canada	58,783	0.8	26.2
Mexico	33,147	-0.1	274.5
India	10,069	11,967.5	428.4
Vietnam	2,590	3,159.3	825.0
Korea, Republic Of	2,432	682.7	-21.5
Taiwan	1,705	204.7	1,808.6
Sweden	1,358	47.8	38.7
China	1,255	-10.5	-16.9
Italy	1,203	617.0	-53.3
Denmark	816	36.6	3.4



Mexico, Canada, Korea: Key Export Partners, though Canada's Role Shrinks



Partner Country	Oct-25 YTD (\$ 000s)	1-Year YTD Chg. (%)	2019 to 2024 Chg. (%)
Total Pallet Exports	110,482	-3.6	22.8
Mexico	46,366	23.7	98.0
Canada	30,817	-31.5	13.5
Korea, Republic Of	19,489	-0.1	15.0
Belgium	2,059	7.3	-50.6
Germany	1,826	20.6	-29.8
Sweden	1,740	-39.8	-9.5
Kuwait	1,624	335.2	17,075.0
Denmark	565	1,424.5	-19.4
Netherlands	504	29.1	-53.2
Colombia	487	3.8	112.0



The Tariff Inflation Impact?

Percent changes and historical references for select import and export price indexes: November 2024 to November 2025

	YoY Change	Largest	Since	Index Start
Imports				
All commodities	0.1	0.8	Mar. 2025	Sep. 1982
All imports excluding fuels	0.7	0.7	Jul. 2025	Dec. 2001
All imports excluding petroleum	0.9	1.3	May-25	Mar. 1985
Foods, feeds, & beverages	-2	-4.3	Apr. 2020	Sep. 1977
Industrial supplies & materials	0.5	1.9	Mar. 2025	Dec. 1984
Industrial supplies & materials excluding fuels	4.6	6.4	Mar. 2025	Dec. 2001
Industrial supplies & materials excluding petroleum	5.1	6.8	Mar. 2025	Sep. 1982
Fuels & lubricants	-6.6	-9.8	Aug. 2025	Dec. 1984
Petroleum & petroleum products	-8.4	-10.8	Aug. 2025	Jun. 1982
Gas-natural	51.4	64.9	Sep. 2025	Sep. 1981
Capital goods	1.5	1.6	Mar. 2023	Dec. 1979
Automotive vehicles, parts & engines	-1.4	-1.4	Jan. 2016	Jun. 1981
Consumer goods, excluding automotives	-0.3	-0.4	Sep. 2025	Jun. 1982
Exports				
All commodities	3.3	3.9	Sep. 2025	Sep. 1983
Nonagricultural commodities	3.3	3.8	Sep. 2025	Mar. 1985
Agricultural commodities	2.6	3.7	Sep. 2025	Mar. 1985
Foods, feeds, & beverages	3.4	4.5	Sep. 2025	Sep. 1983
Industrial supplies & materials	4.7	6.1	Sep. 2025	Sep. 1983
Capital goods	2.1	2.1	Sep. 2025	Dec. 1978
Automotive vehicles, parts & engines	2.5	2.7	Sep. 2025	Mar. 1980
Consumer goods, excluding automotives	2.4	2.7	Jul. 2023	Sep. 1983

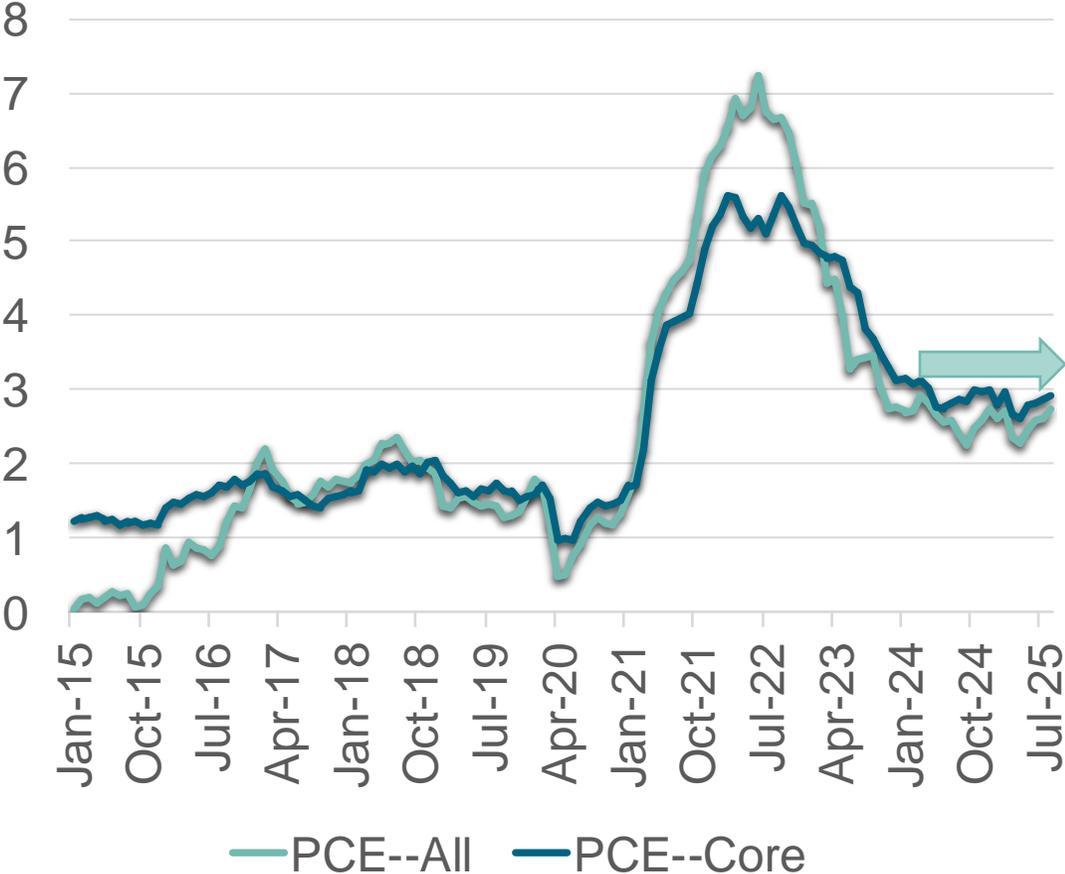
Besides natural gas, most imports have had no price change YoY

Export prices have increased moderately



Inflation?

Y-o-Y % Change Prices



Price Growth by Consumer Spending

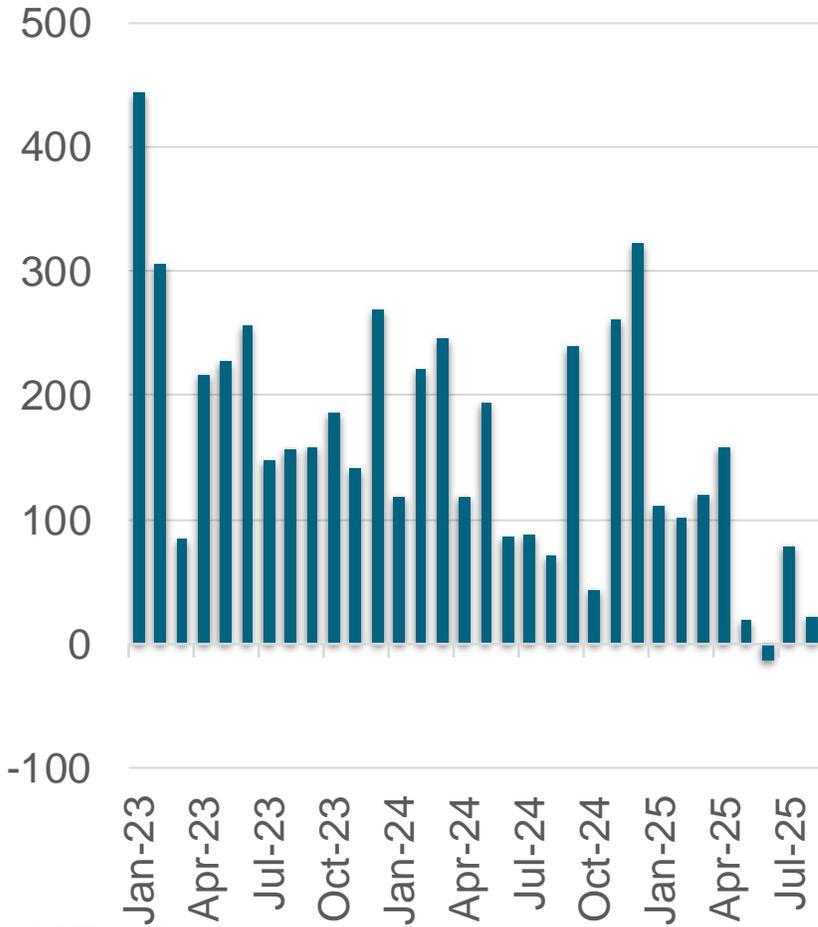
PCE Prices	2.7%
Financial services and insurance	5.3%
Transportation services	4.4%
Housing and utilities	4.3%
Recreation services	3.3%
Food services accommodations	3.1%
Other services	2.9%
Health care	2.8%
Other durable goods	2.8%
Motor vehicles and parts	2.6%
Food and beverages Retail	2.2%
Furnishings and household eq	2.1%
Other nondurable goods	1.4%
Clothing and footwear	-0.3%
Recreational goods and vehicles	-1.8%
Gasoline and other energy goods	-5.9%



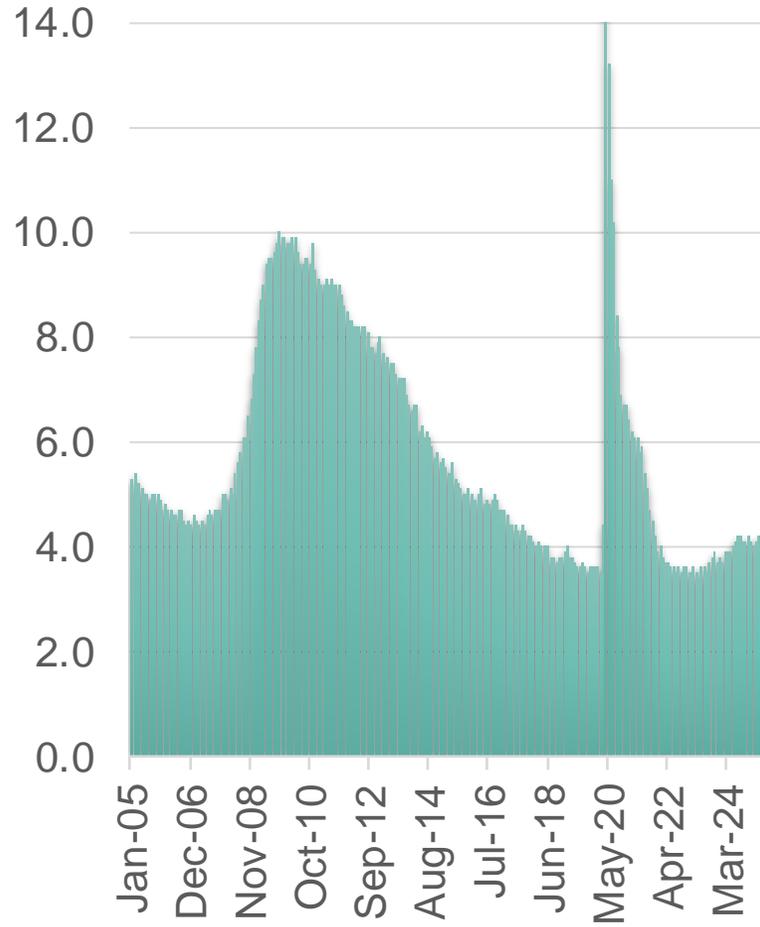
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Slowing Labor Market?

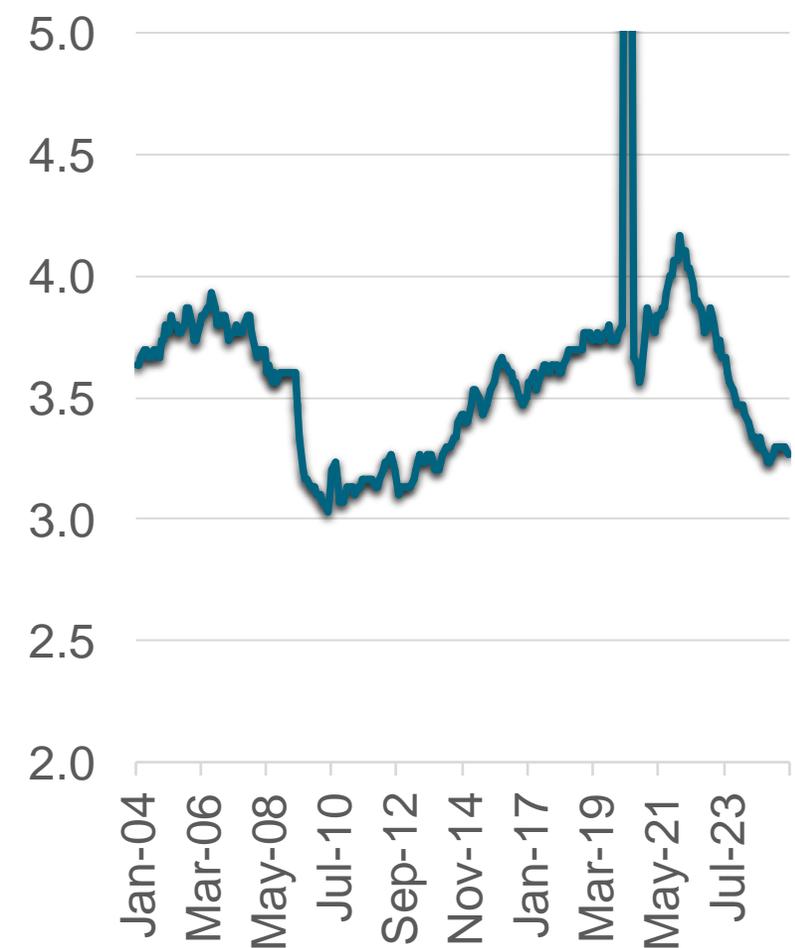
Monthly Change Payrolls



US Unemployment Rate

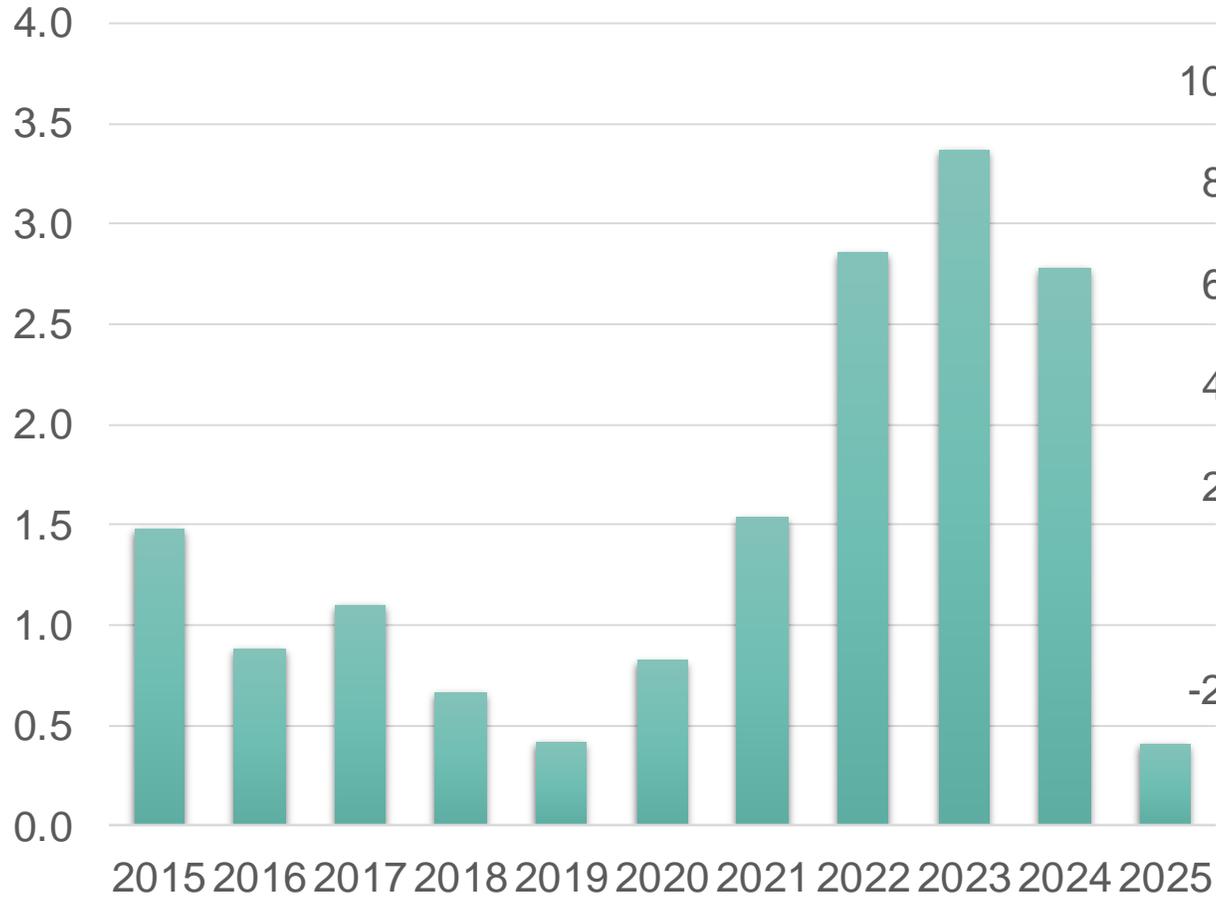


Job Separations Rate

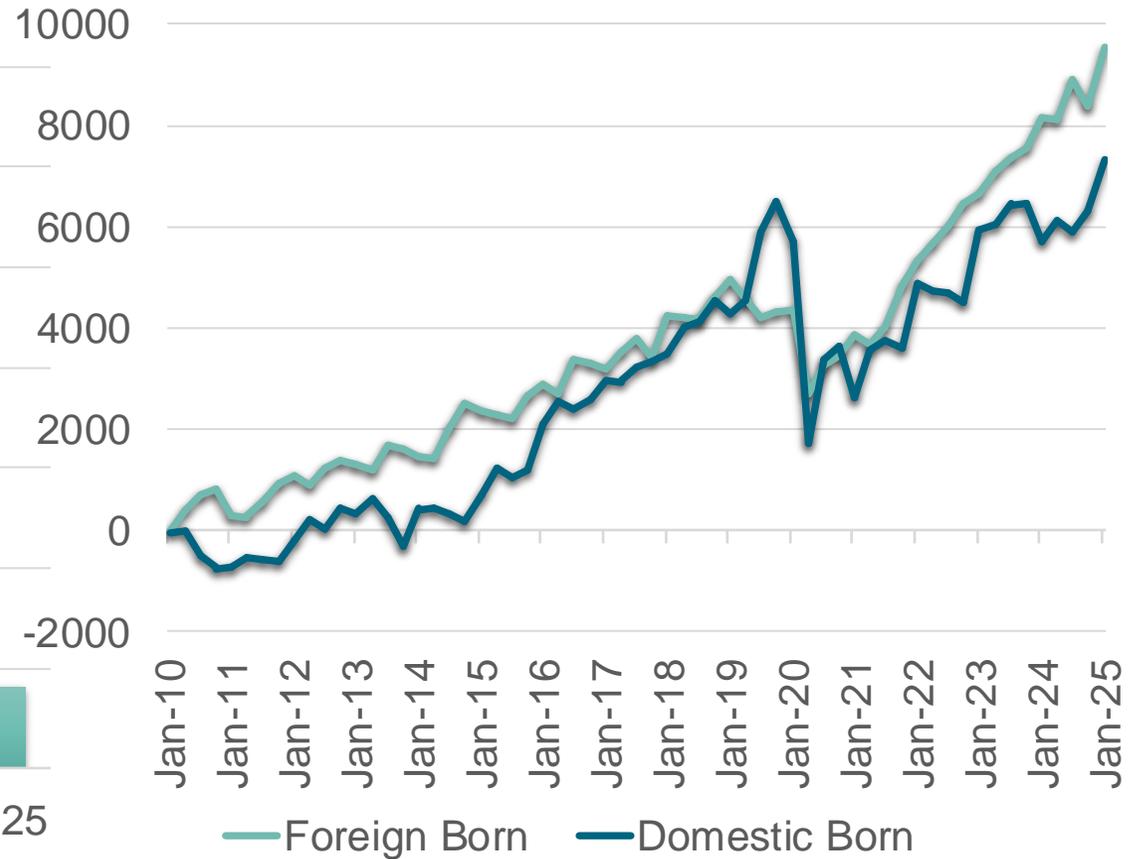


The Immigration Effect

US Net Immigration (CBO Estimates)

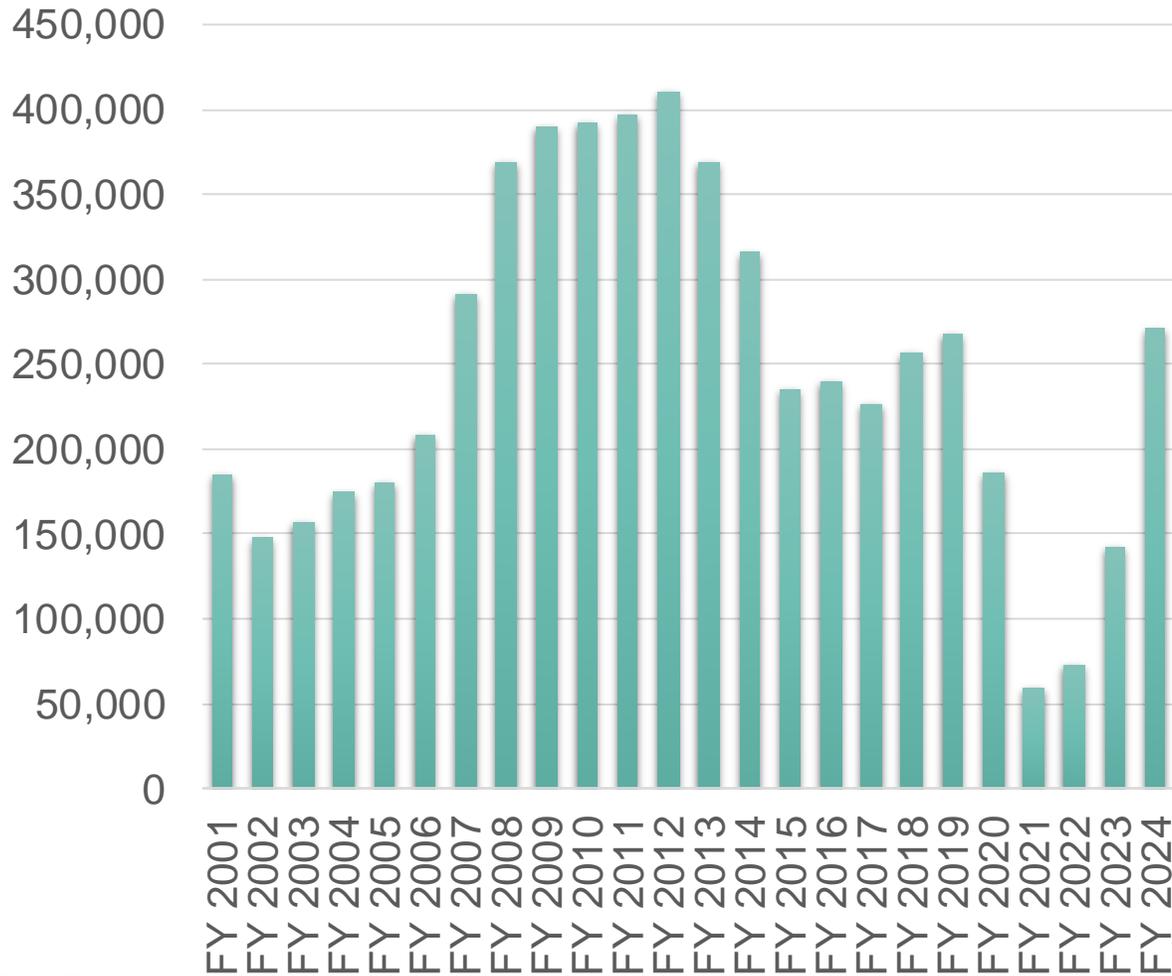


US Labor Force Growth by Nativity (000s)

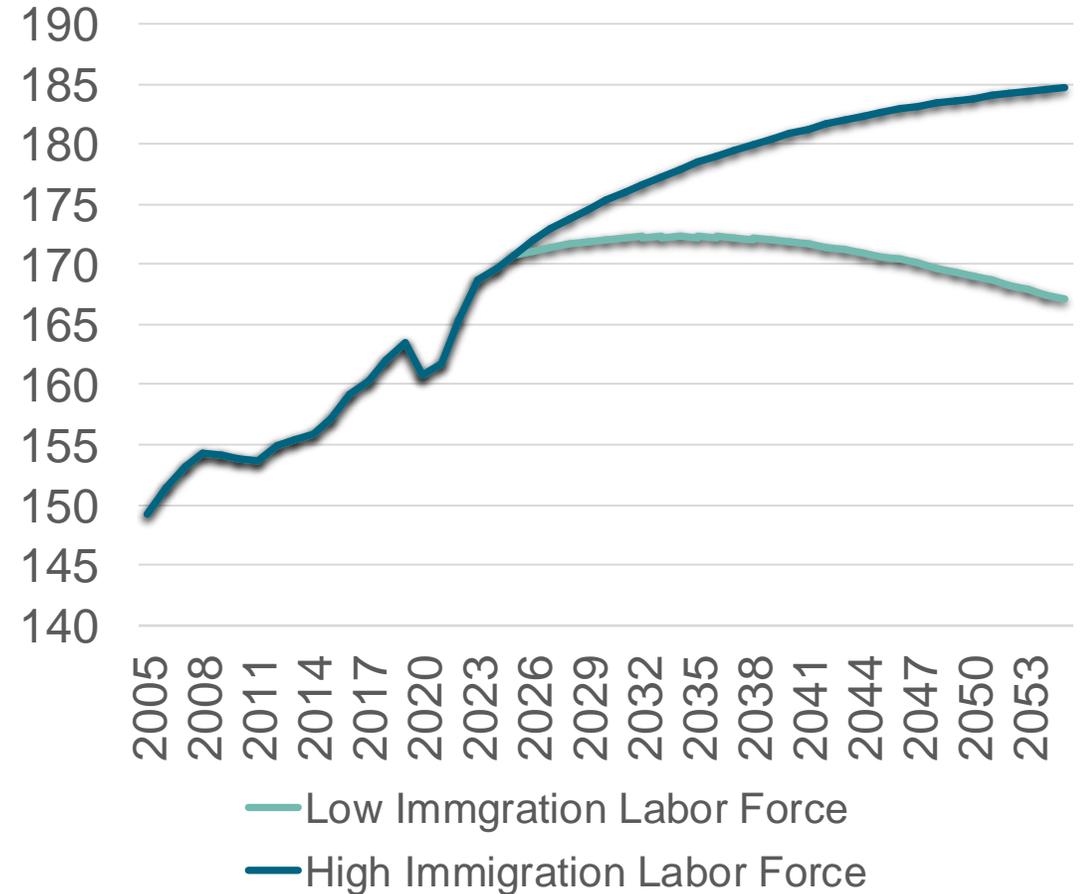


Which is the bigger issue?

Total Removal by Fiscal Year

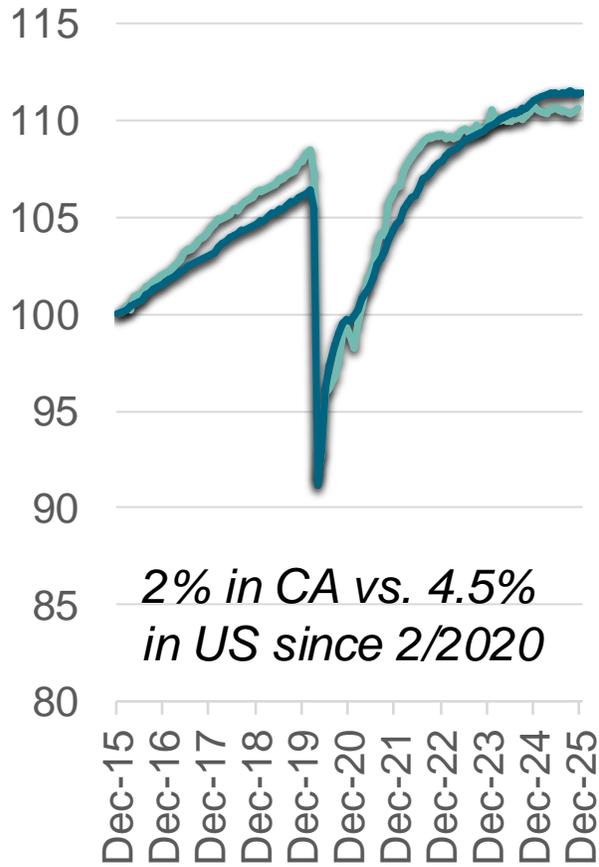


Immigration and Labor Force Levels (Millions workers)

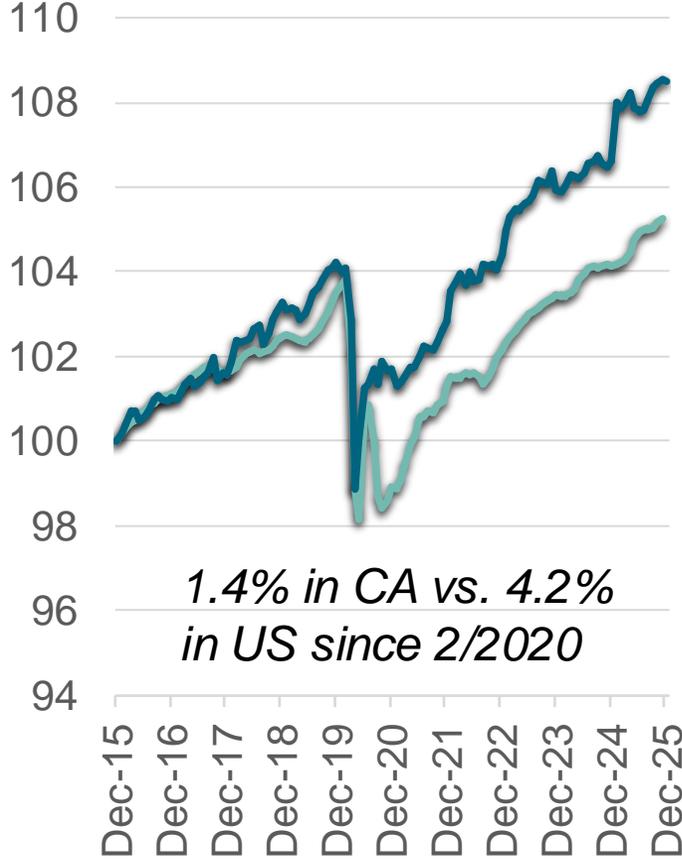


Labor Market in CA Softer than US since Pandemic

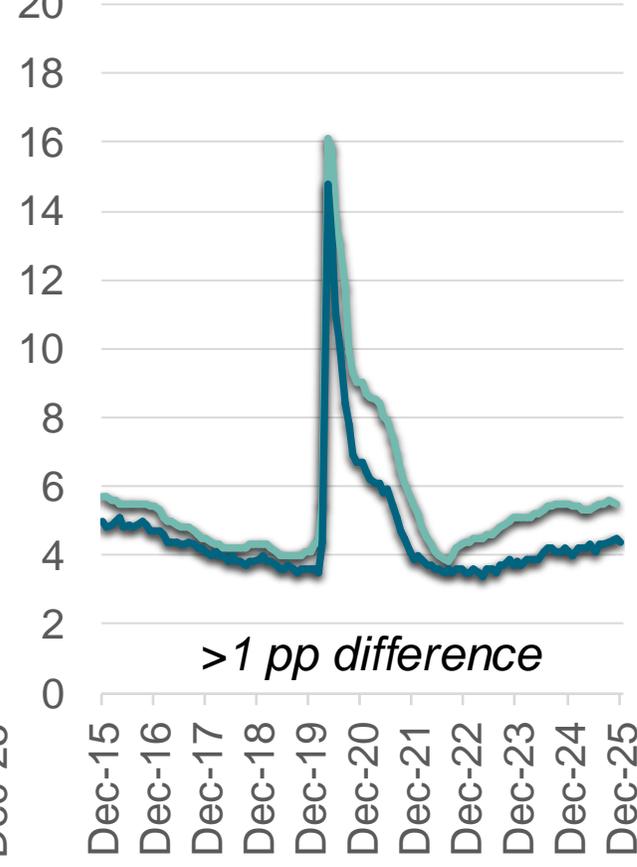
Indexed Nonfarm Employment



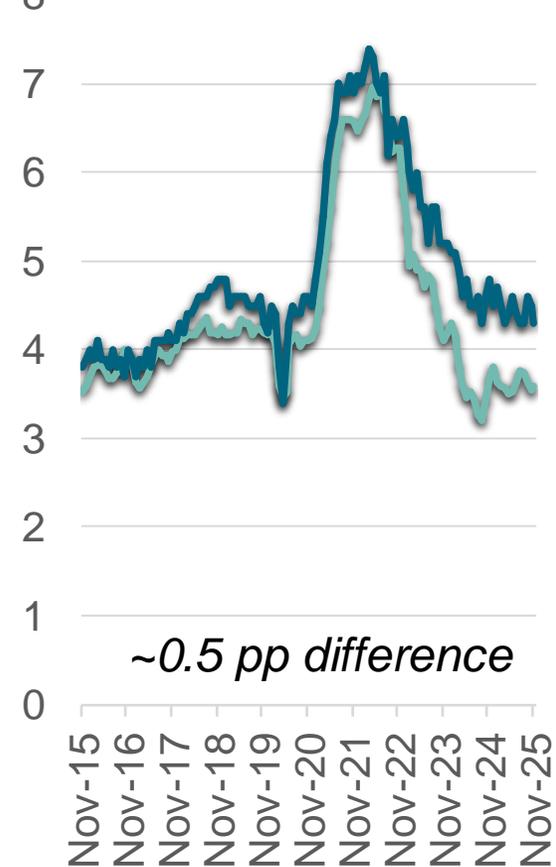
Indexed Labor Force



Unemployment Rate



Job Opening Rate



California
United States

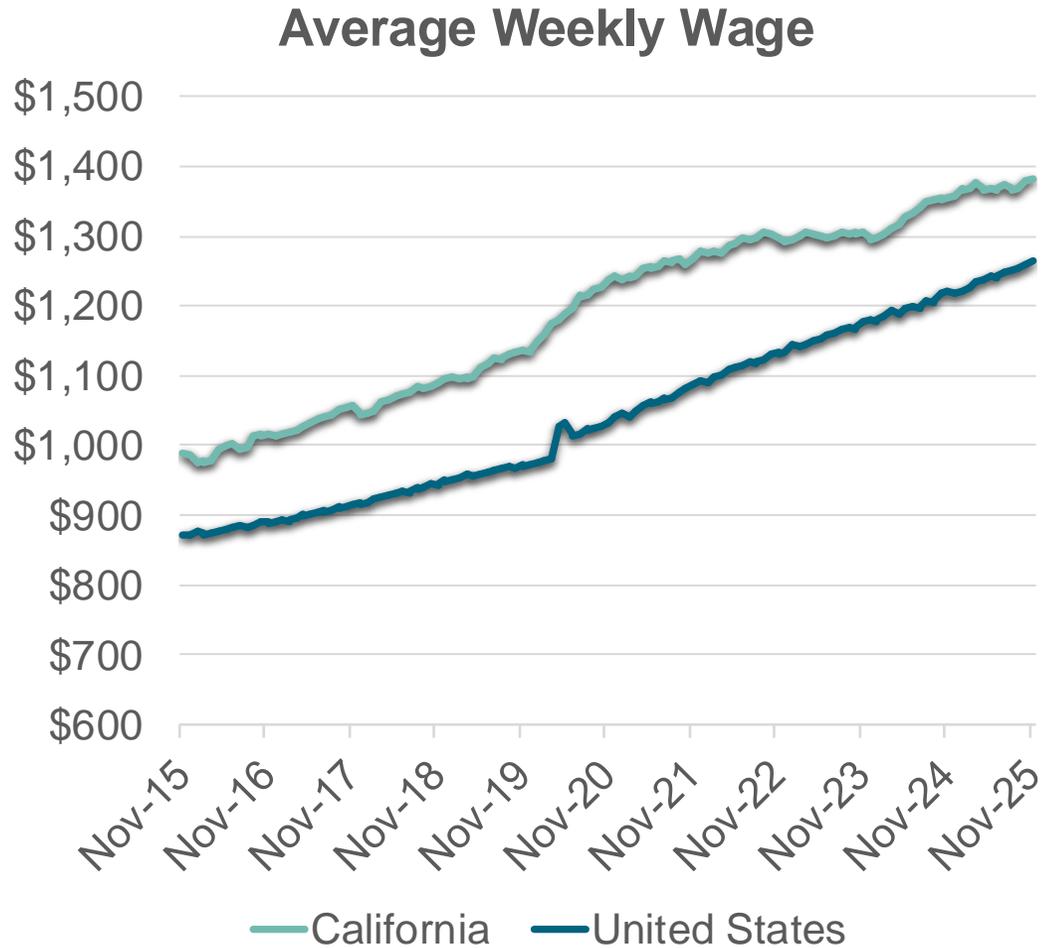
California United States

California United States

California
United States



Though Wages Remain Higher in State



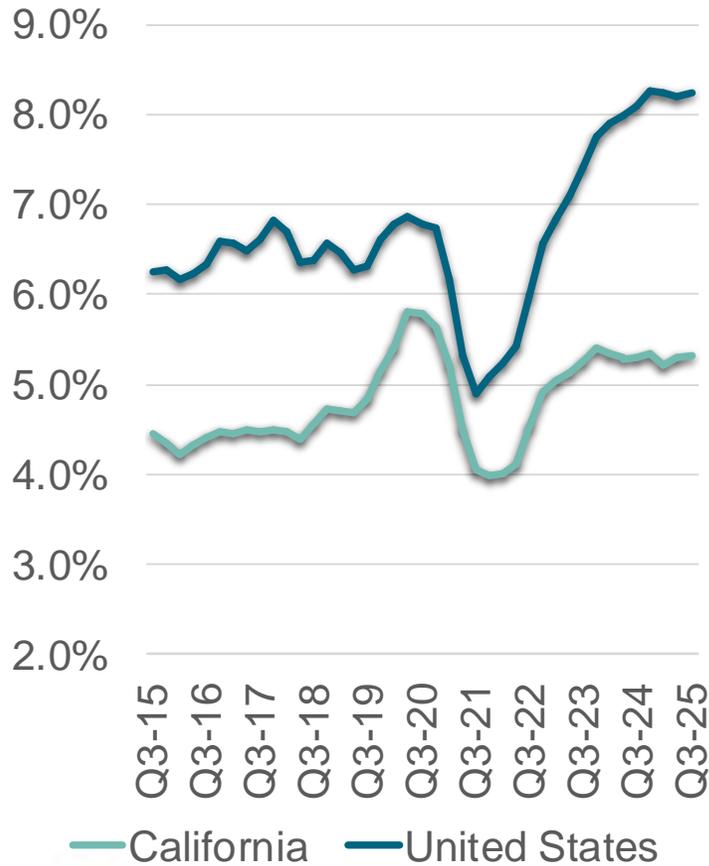
Location	Nov-25 Avg. Weekly Wage (\$)	1-Year Chg. (%)	Chg. since Feb-20 (%)
United States	1,266	3.6	29.3
Virginia	1,311	11.9	25.8
Georgia	1,267	11.7	29.1
Florida	1,230	7.8	28.2
Illinois	1,219	7.4	17.6
Texas	1,289	6.8	25.9
Oregon	1,292	5.1	26.2
Michigan	1,151	4.6	19.9
Arizona	1,234	4.5	22.7
Ohio	1,157	4.2	25.5
California	1,401	3.8	16.7



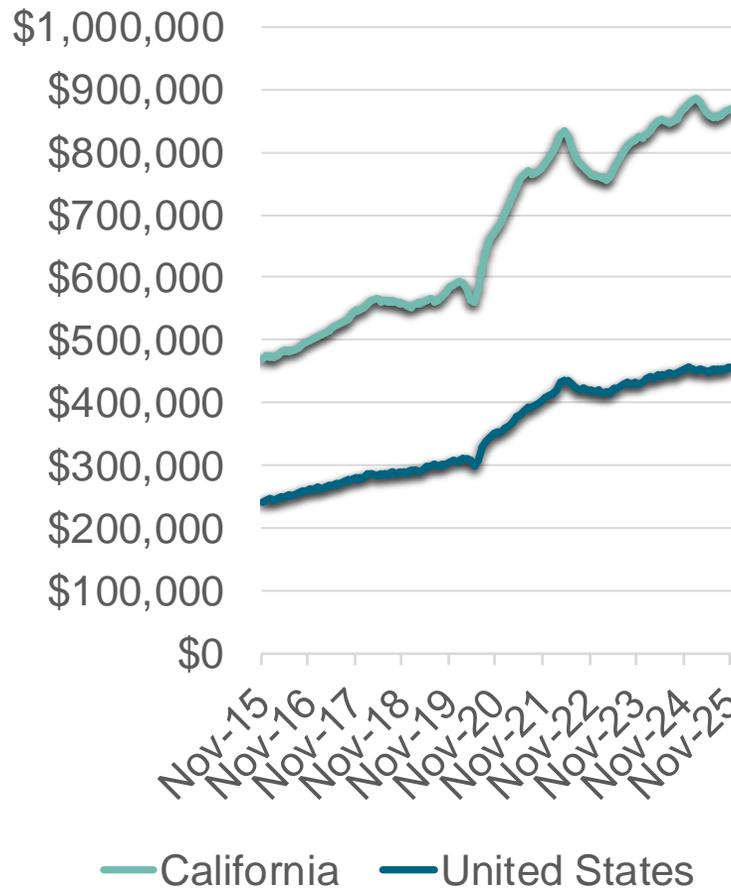
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Need to Build More Homes, Especially in California

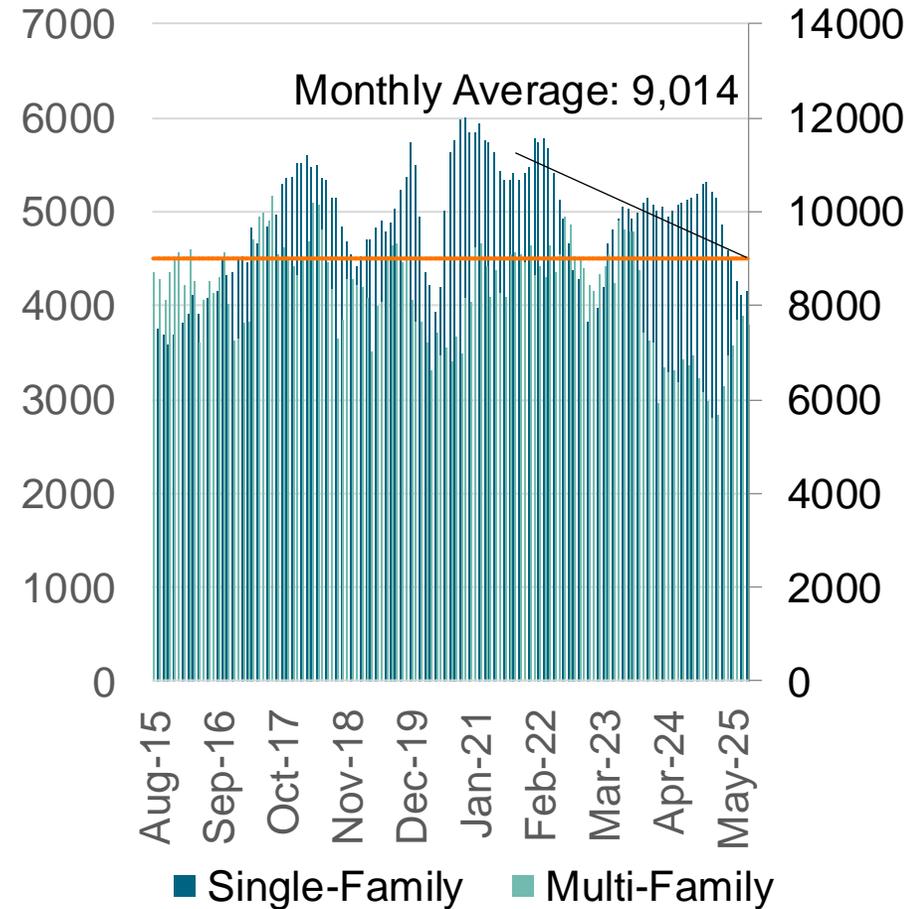
Apartment Vacancy Rate



Median Home Price

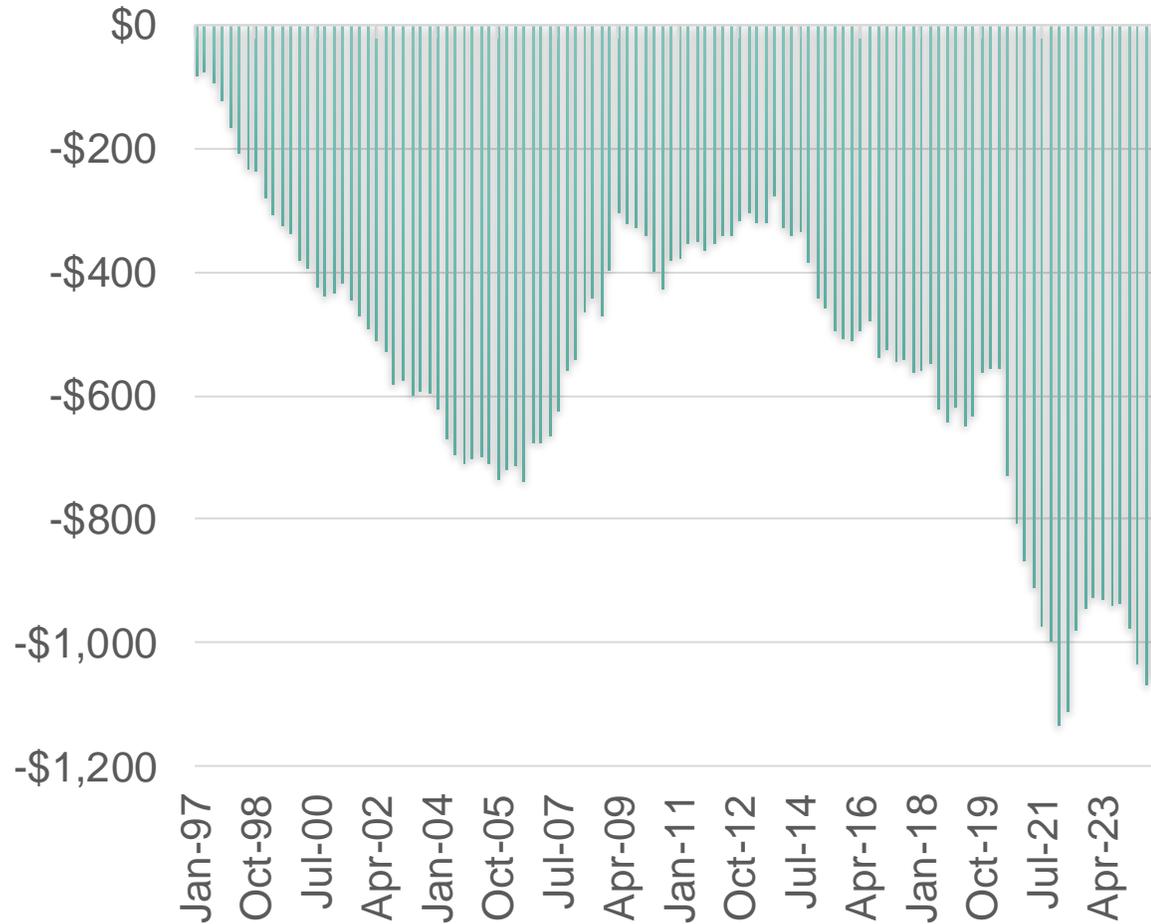


Housing Permits, California

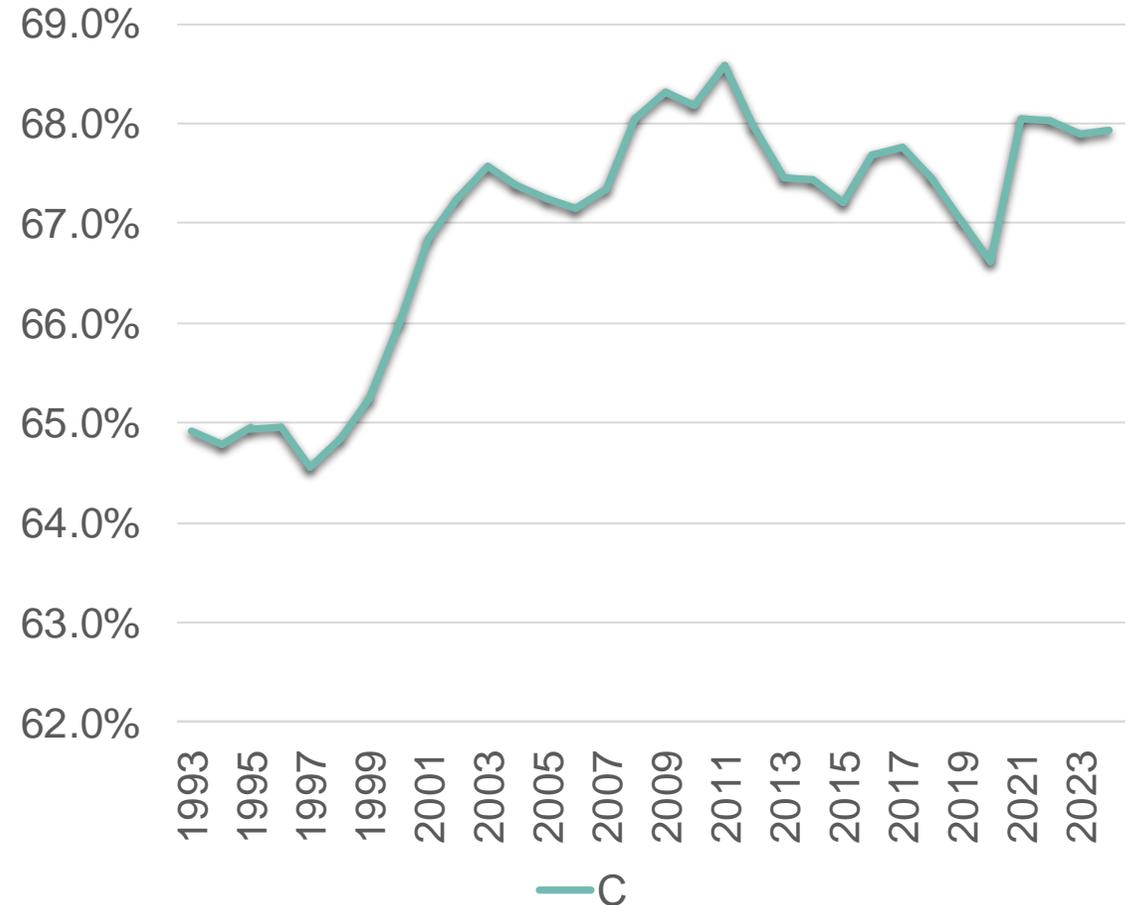


An Over-Consumption Problem...

US Trade Deficit (\$Bil, Real)

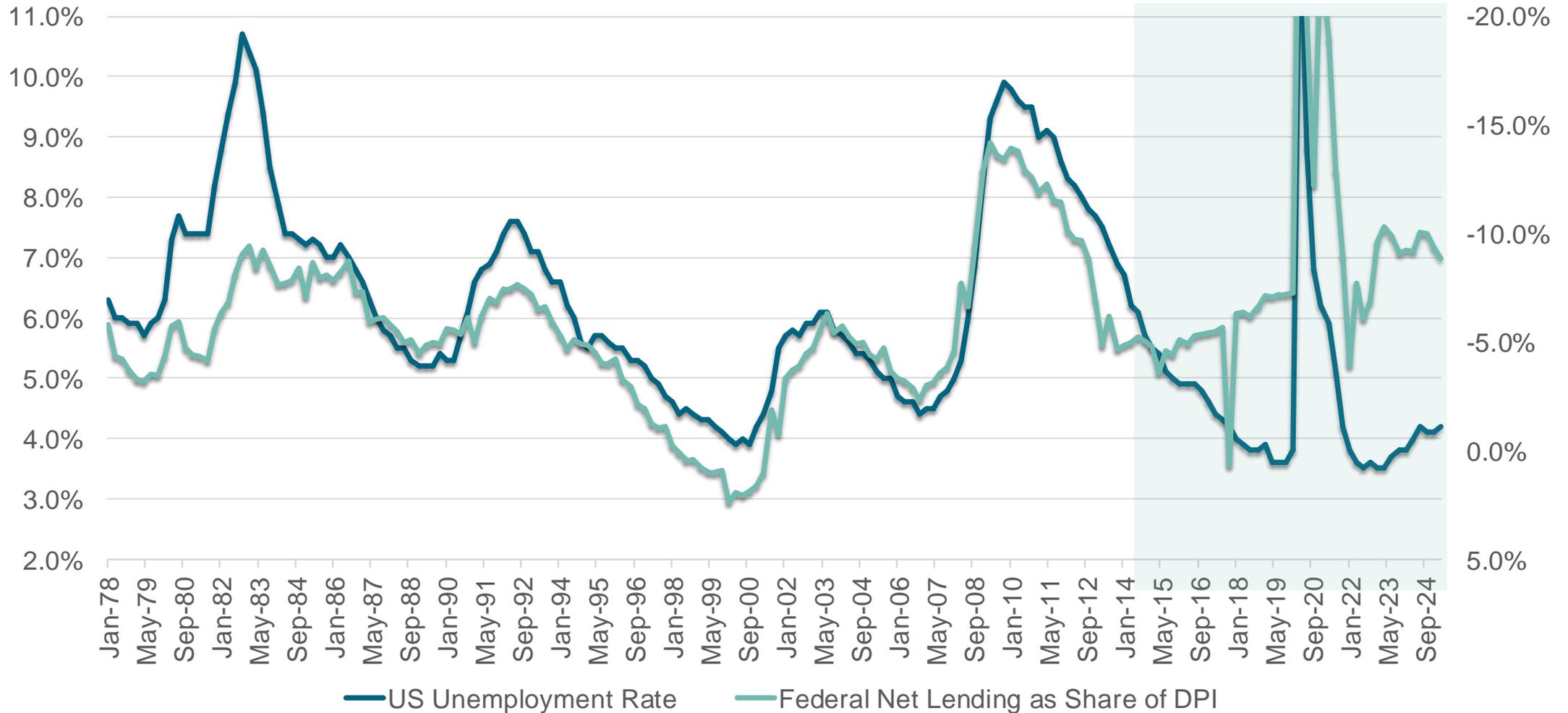


Consumer Spending % GDP



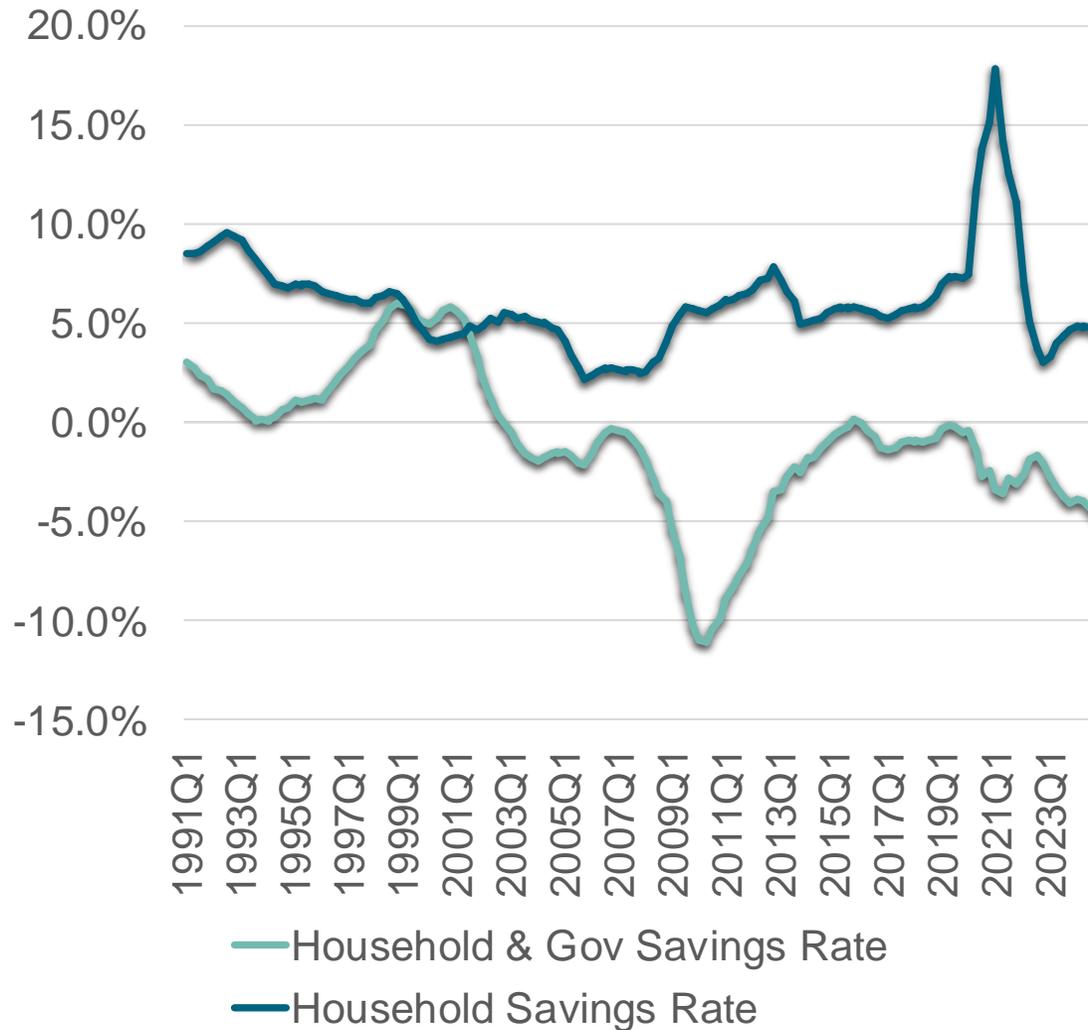
Keynesianism Breaks Down...

Deficits and Unemployment

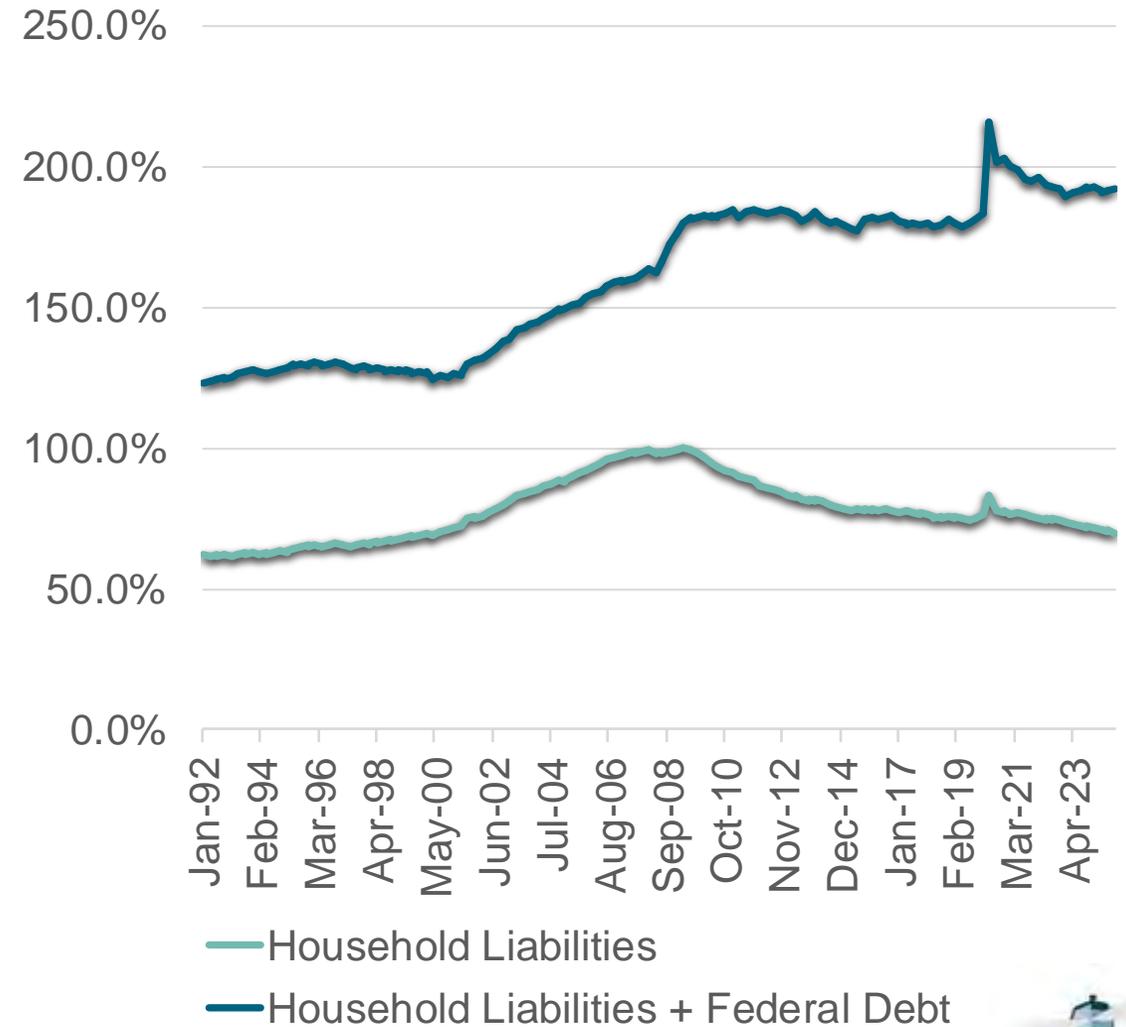


The Wealth / Income Mirage

Household Savings as % of DPI



Household Debt as % of GDP



Who is Paying the Bills?

Financial Inflows - Financial Outflows as % GDP (4 Quarter MA)

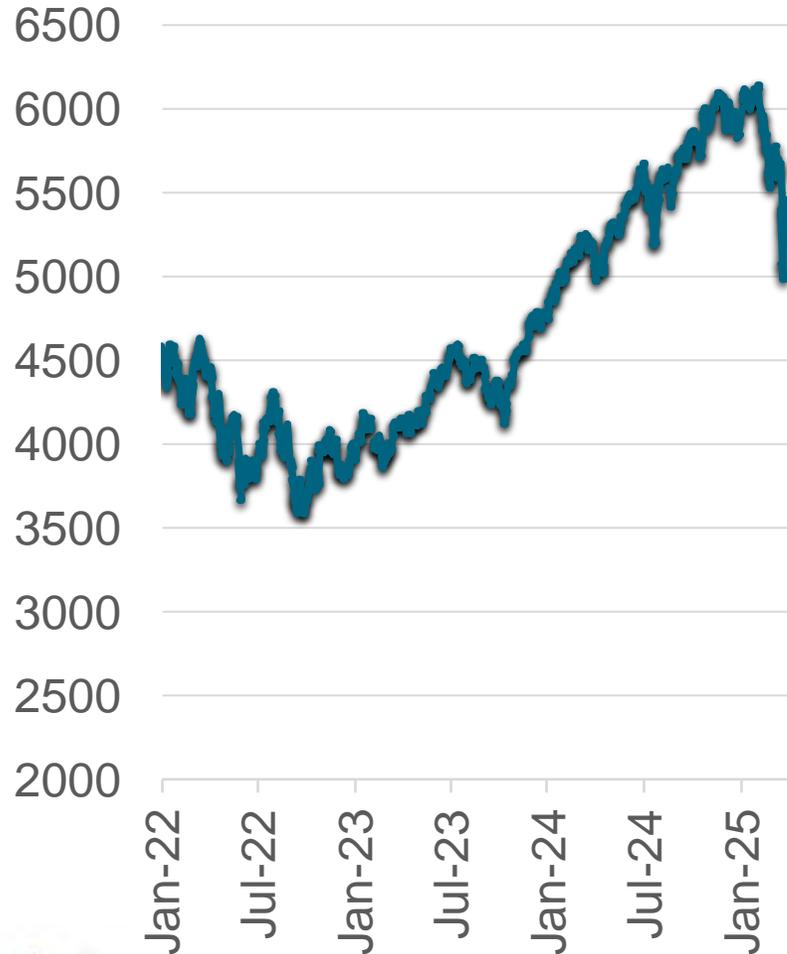


Real Value \$US (Index)



The Recent Reactions to Turbulence

S&P 500 Daily Close



10 Year Treasury Rate (%)



Dollar Index



How Does it Break?

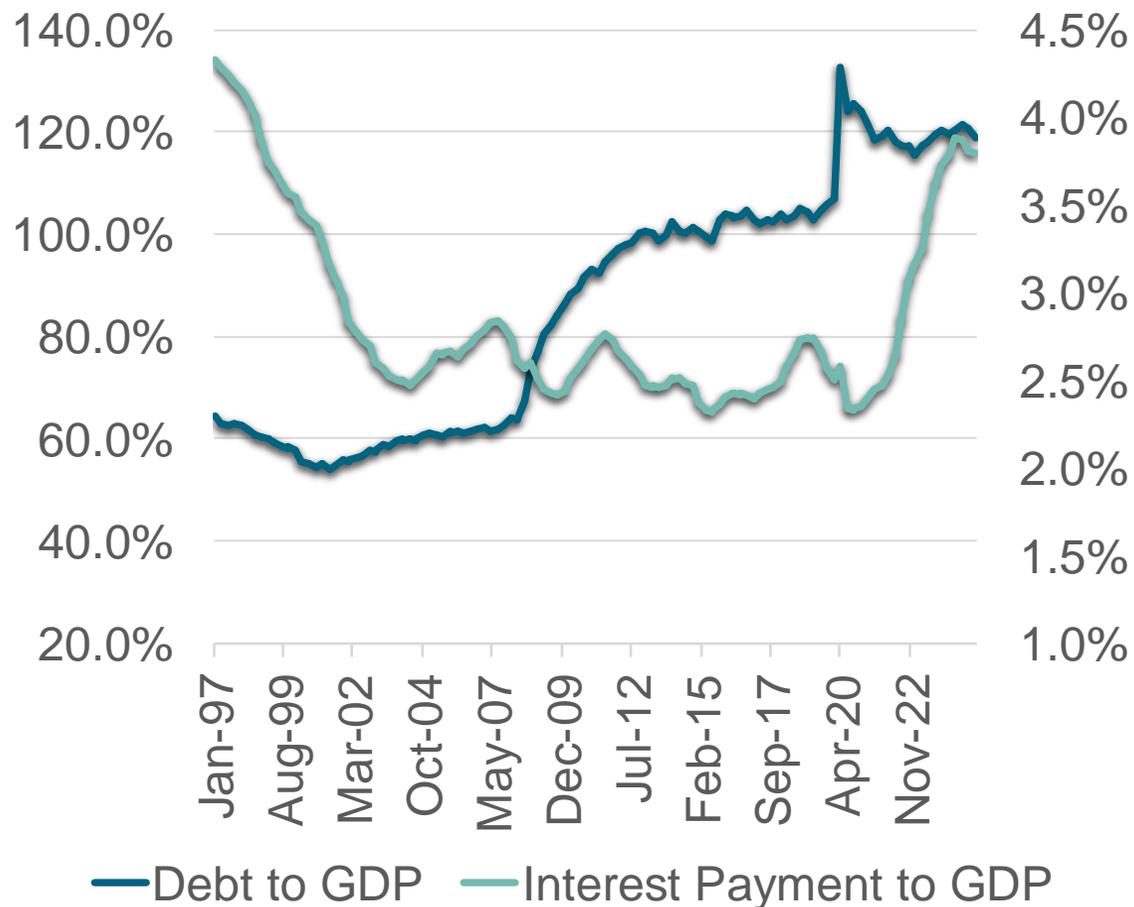
Rates Rise

- Decline in equity markets spurs retraction of foreign capital
- Resultant impact causes deficit to increase just through interest payments—the public debt death spiral
- Fed impact: negligible

What then?

- Increase taxes / Cut spending popping household financial strength
- Cascades through state and local governments
- Federal Reserve rides to the “rescue” with more QE and inflation?

Debt and Interest Payment



The Narrative / Reality Gap

	Q4 12	Q4 16	Q4 20	Q4 24
	Obama	Trump	Biden	Trump
Real GDP Growth YoY Gr	1.6%	2.2%	-1.0%	2.5%
Unemployment Rate	7.8%	4.8%	6.8%	4.1%
Real Per Capita DPI	\$42,342	\$43,846	\$49,476	\$51,637
Household Debt (% GDP)	84.5%	77.9%	77.5%	70.0%
Household Net Worth (% GDP)	413.9%	469.3%	562.3%	539.5%
UM: Consumer Sentiment	79.4	93.1	79.8	72.1
Federal Deficit % GDP	-6.5%	-3.1%	-16.2%	-6.9%
Federal Debt: % GDP	100.1%	104.6%	125.7%	121.9%
Current Account (% GDP)	-2.3%	-2.0%	-3.3%	-4.0%
Net Int Investment (% GDP)	-27.8%	-43.3%	-66.7%	-88.3%
\$Dollar (Broad Real)	87.9	108.0	105.7	119.5
Shiller P/E Ratio	21.24	27.08	32.51	37.22



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Kristen@beaconecon.com
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