

# Tariffs and Tax Cuts: What's Next for the Economy?

June 2025

# Run of show today

---

Economic Growth So Far

Businesses

Consumers

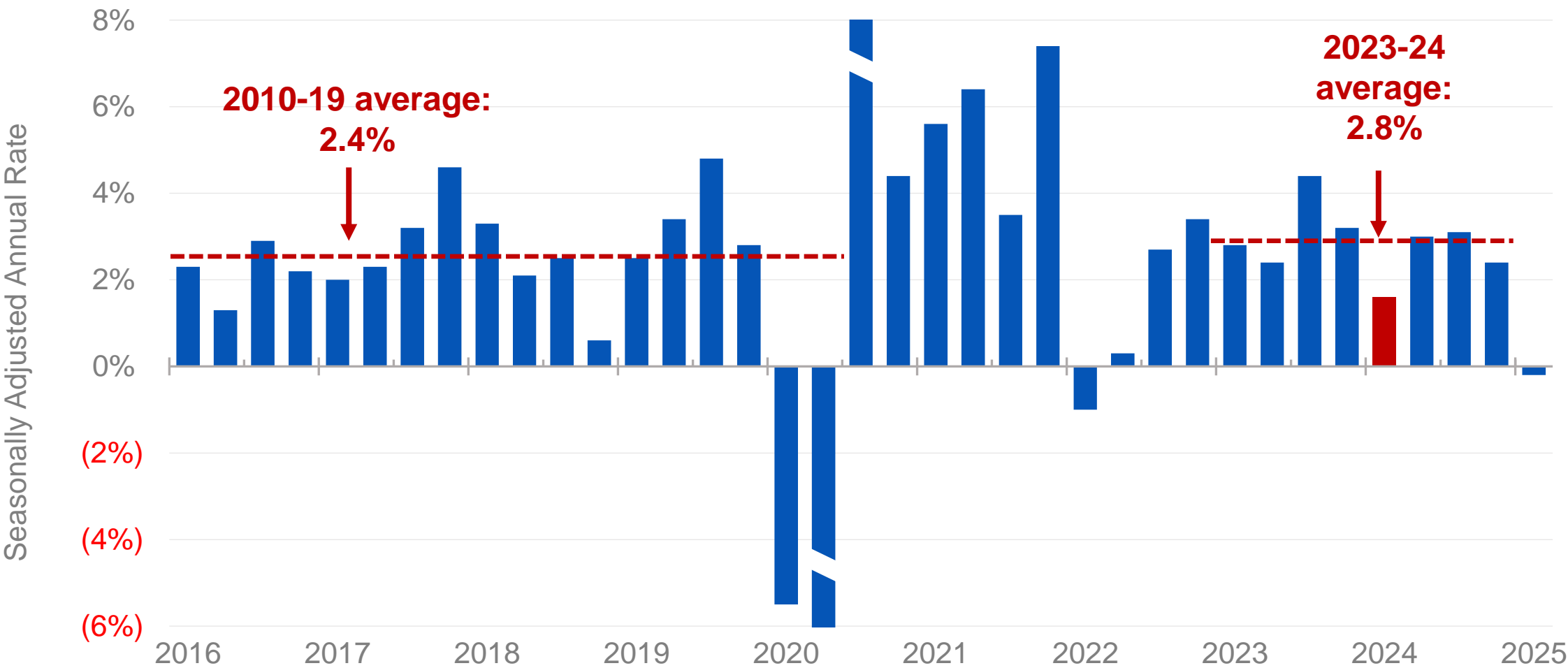
Inflation

Recession Indicators

Forecasts

# Solid momentum coming into 2025

Gross Domestic Product



Source: U.S. Bureau of Economic Analysis

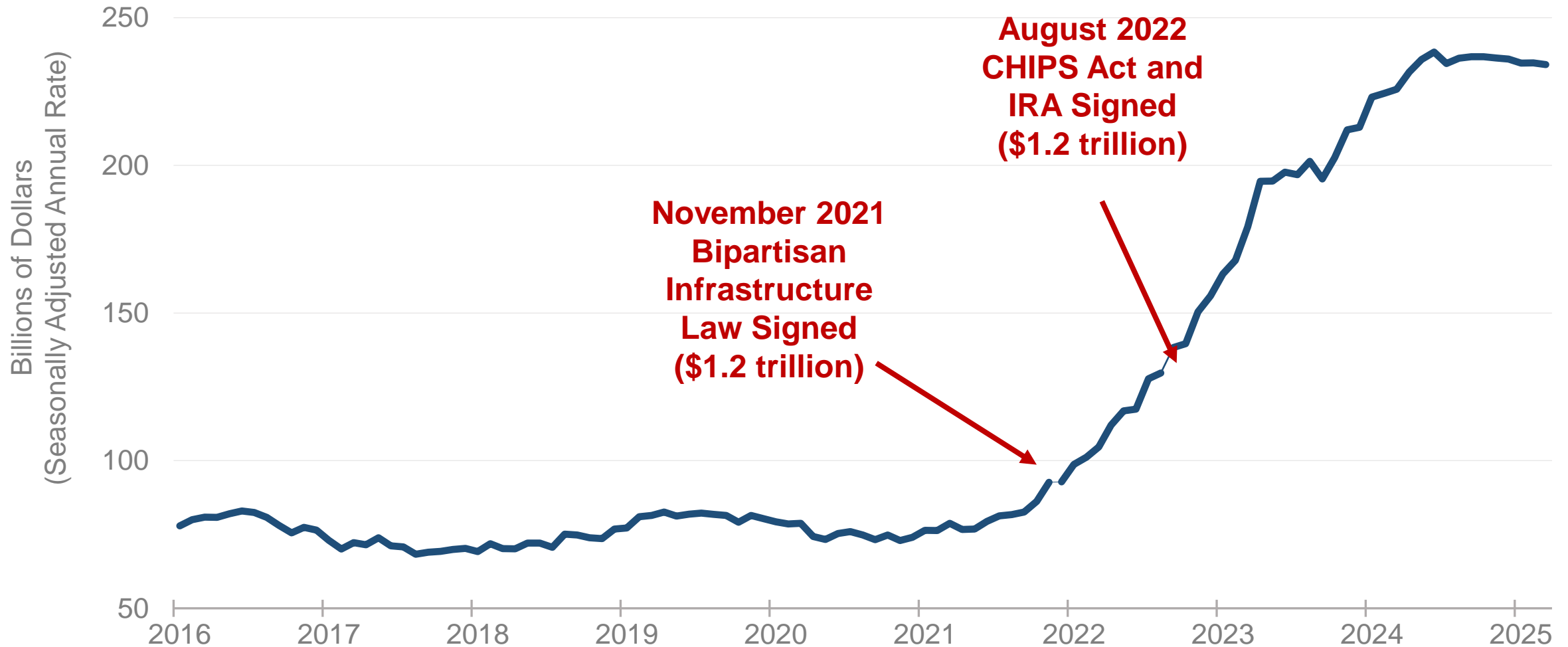


# Business Activity



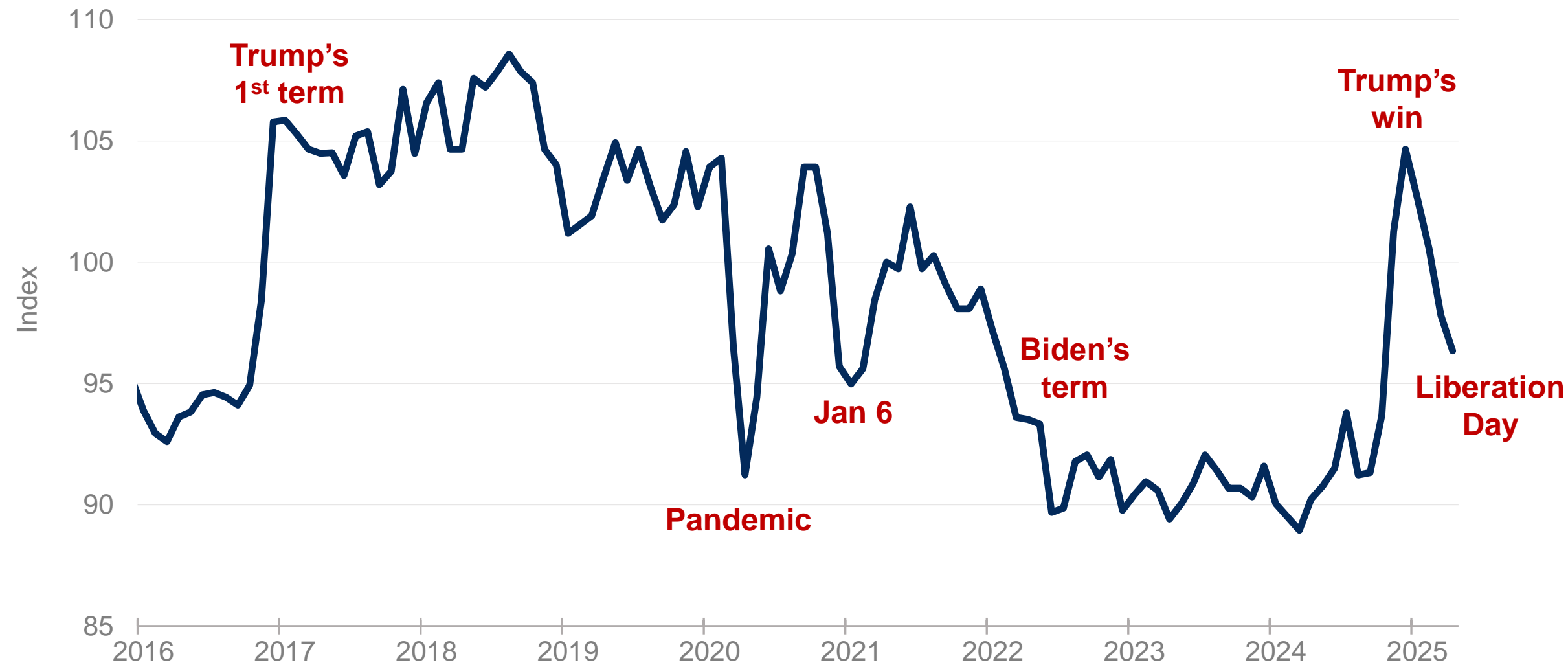
# Growth boosted by ~\$2 trillion fiscal policy

Construction Spending - Manufacturing



# Business optimism soared on election results, soured on trade

Small Business Optimism



Source: National Federation of Independent Business

# Higher rates have weighed on factory activity; services struggle

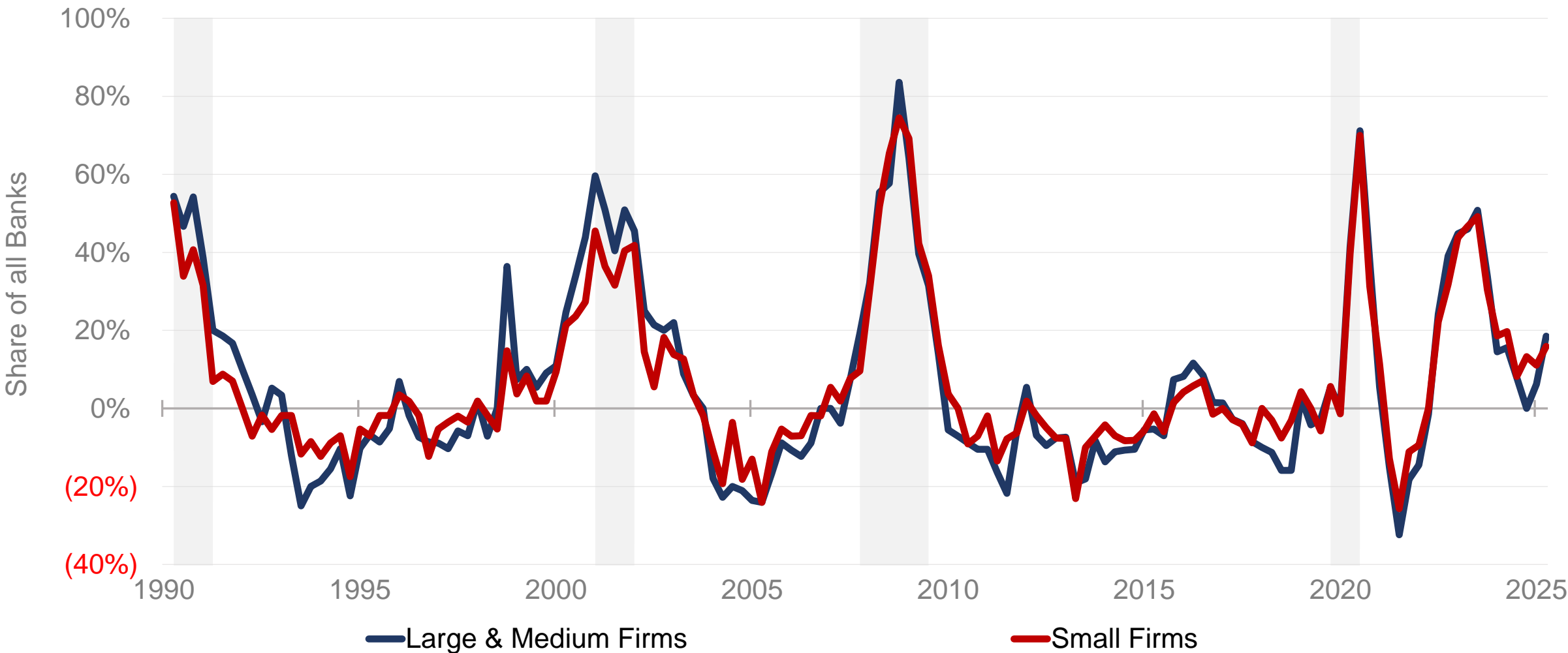
## Purchasing Managers Survey Indices



Source: Institute for Supply Management

# Banks became more cautious this year

## Banks Reporting Tightening Standards



Source: Federal Reserve Board, Senior Loan Officer Opinion Survey, 2025 Q1



# Consumers



# Consumers start to feel stressed

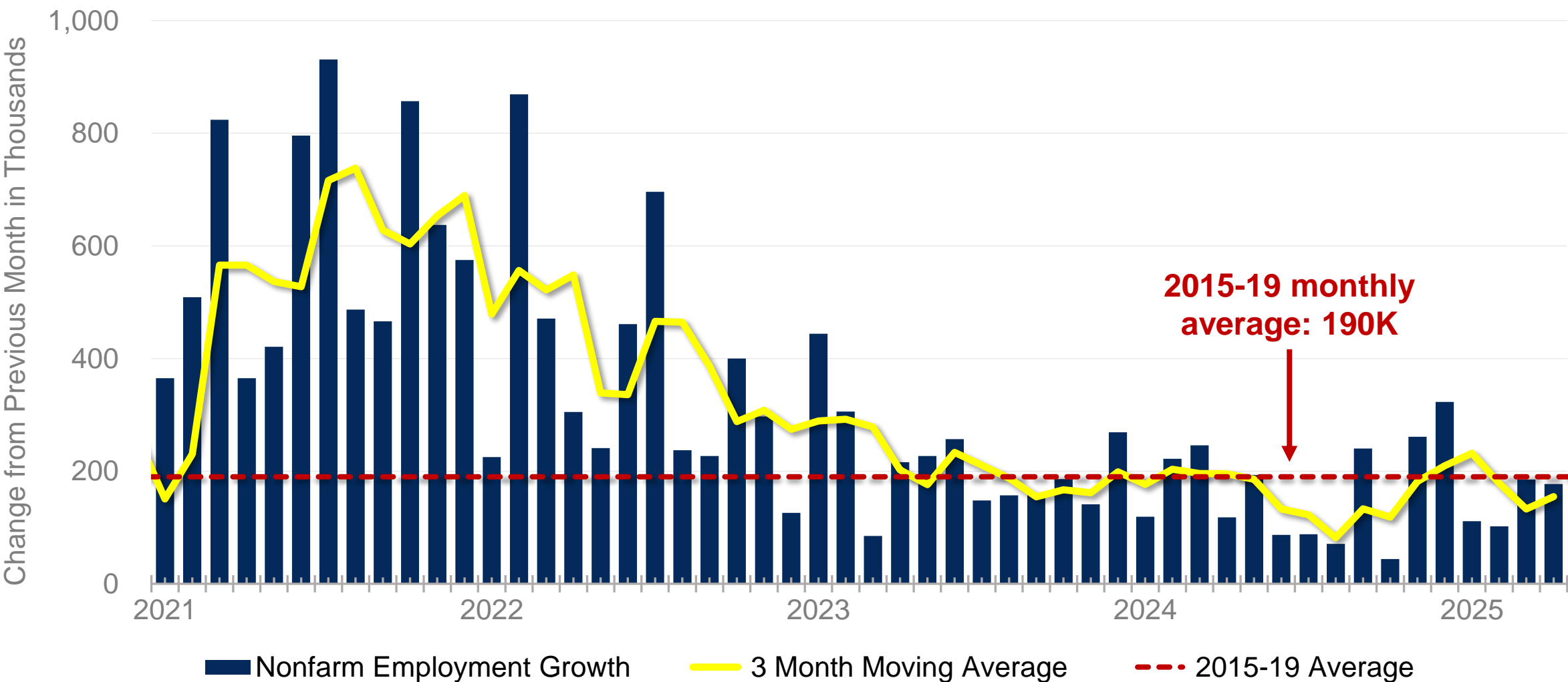
## Consumer Sentiment



Sources: University of Michigan, Federal Reserve Bank of New York

# Labor market remains resilient

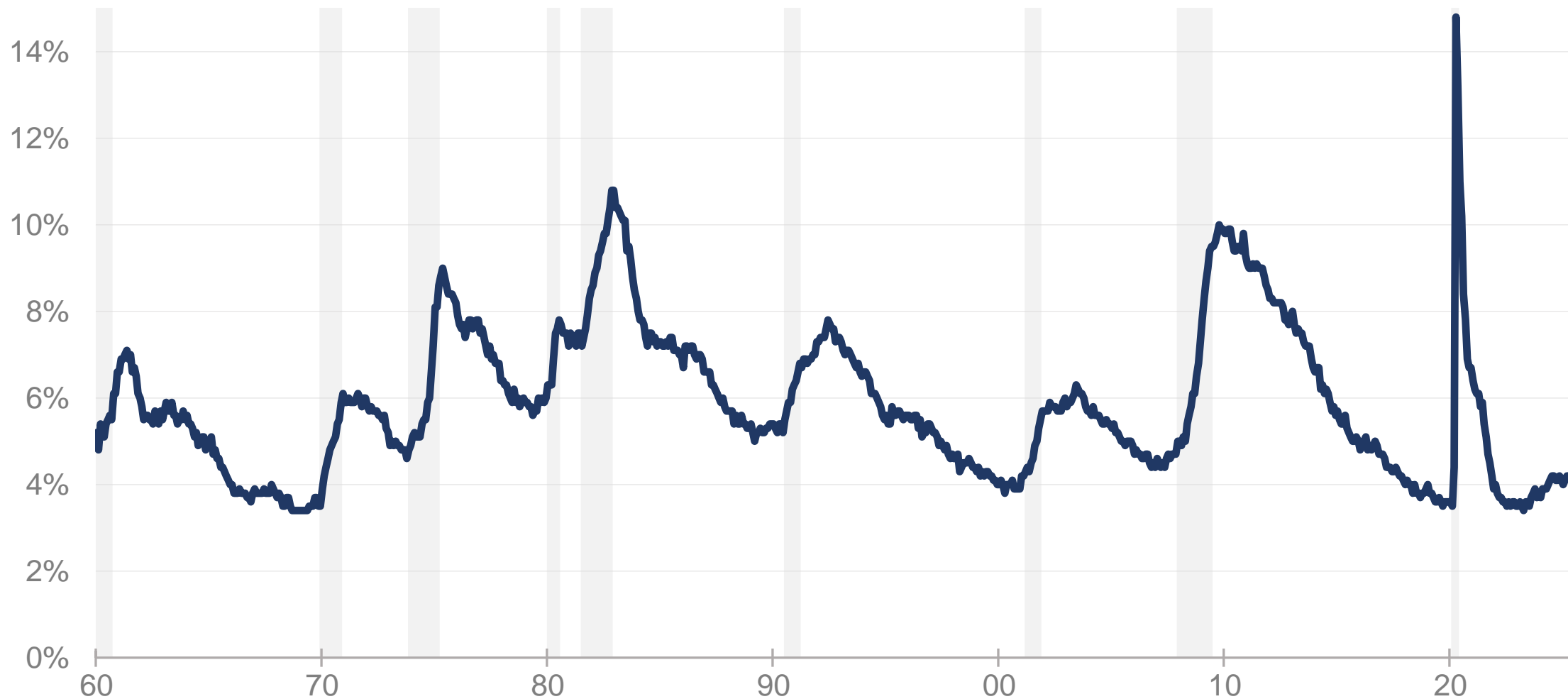
Nonfarm Employment Growth



Source: Bureau of Labor Statistics

# The unemployment rate lingers near historic low

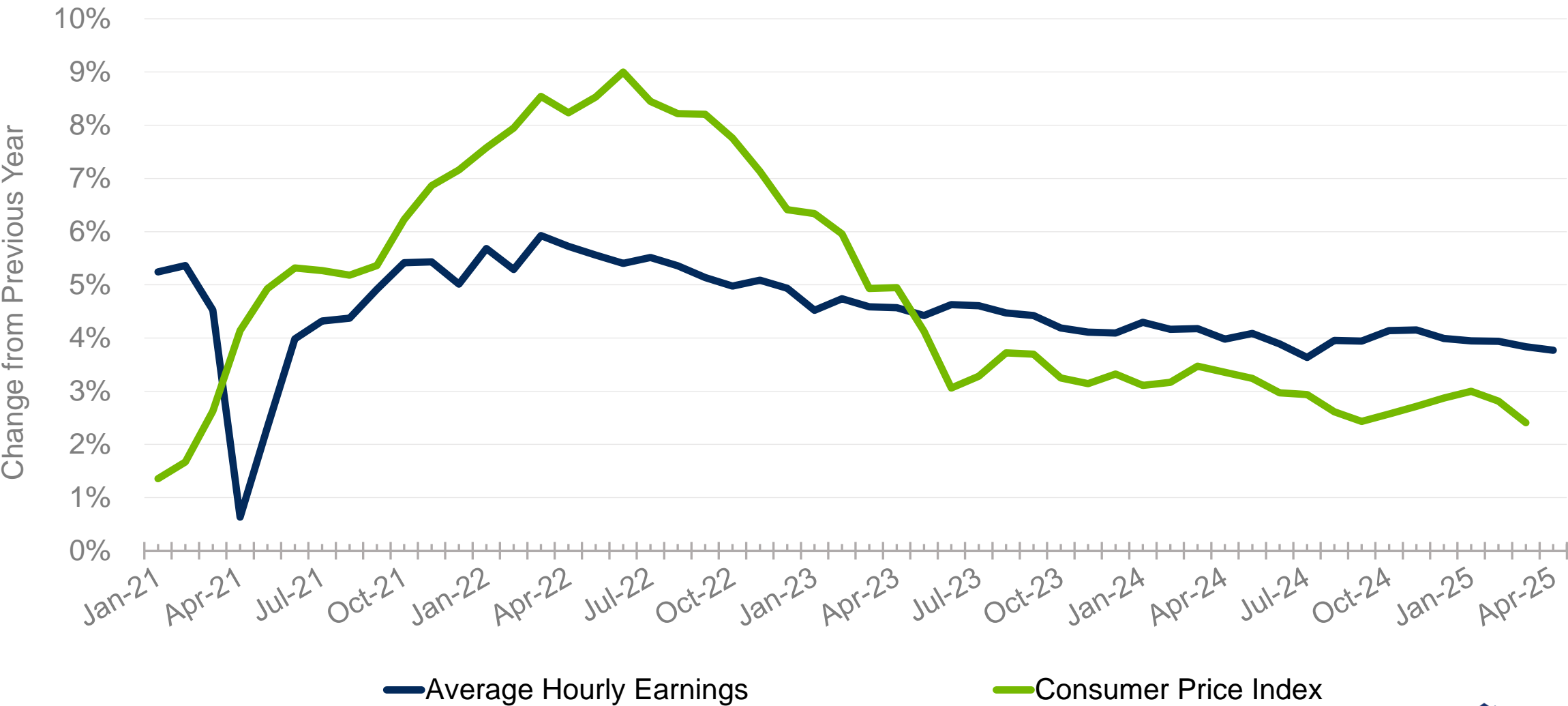
Unemployment Rate



Sources: Bureau of Labor Statistics and National Bureau of Economic Research

# Wage growth has outpaced inflation for two years

Consumer Price Index and Average Hourly Earnings



Source: Bureau of Labor Statistics



# But spending was growing faster than incomes, until recently

Personal Income and Personal Consumption Expenditures



Source: Bureau of Economic Analysis



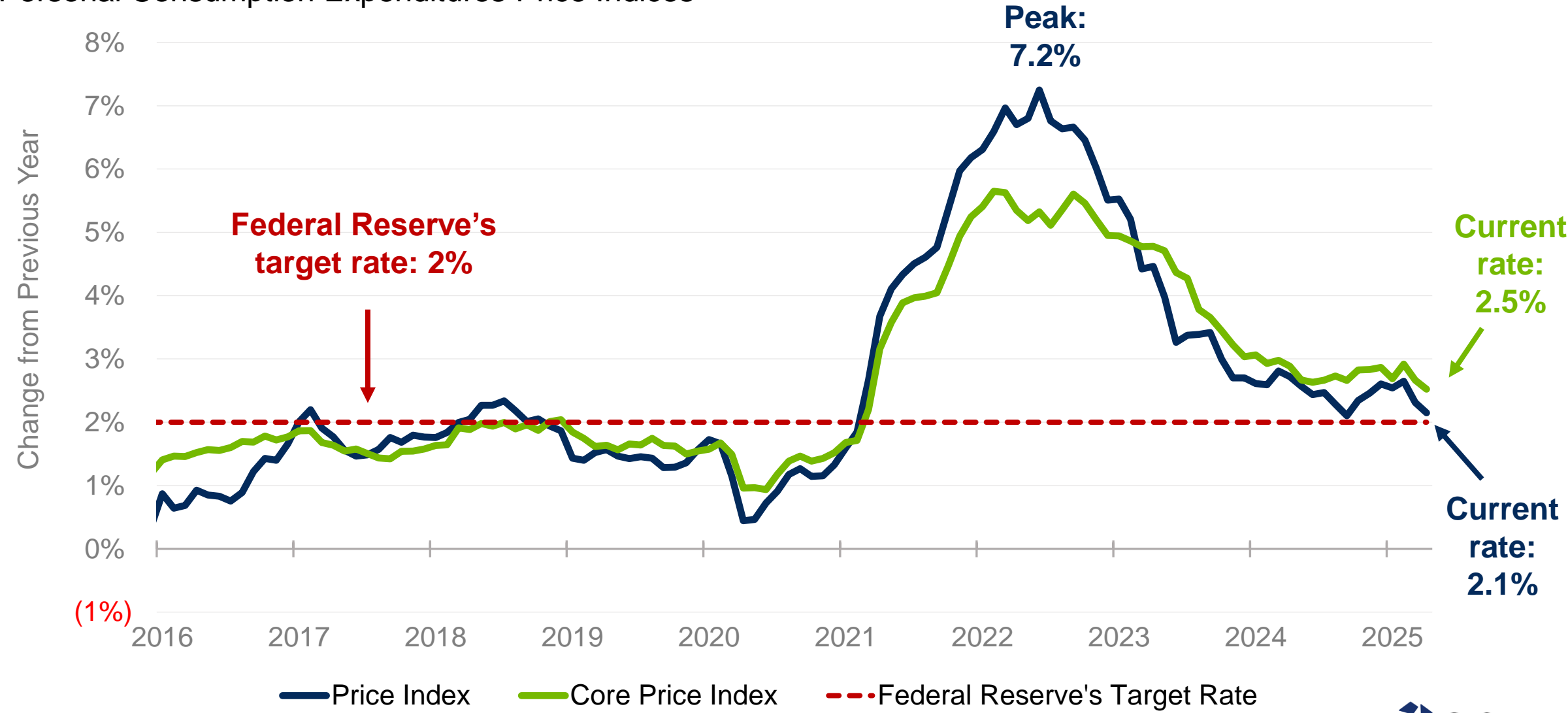
# Inflation





# Progress on inflation battle continues ....

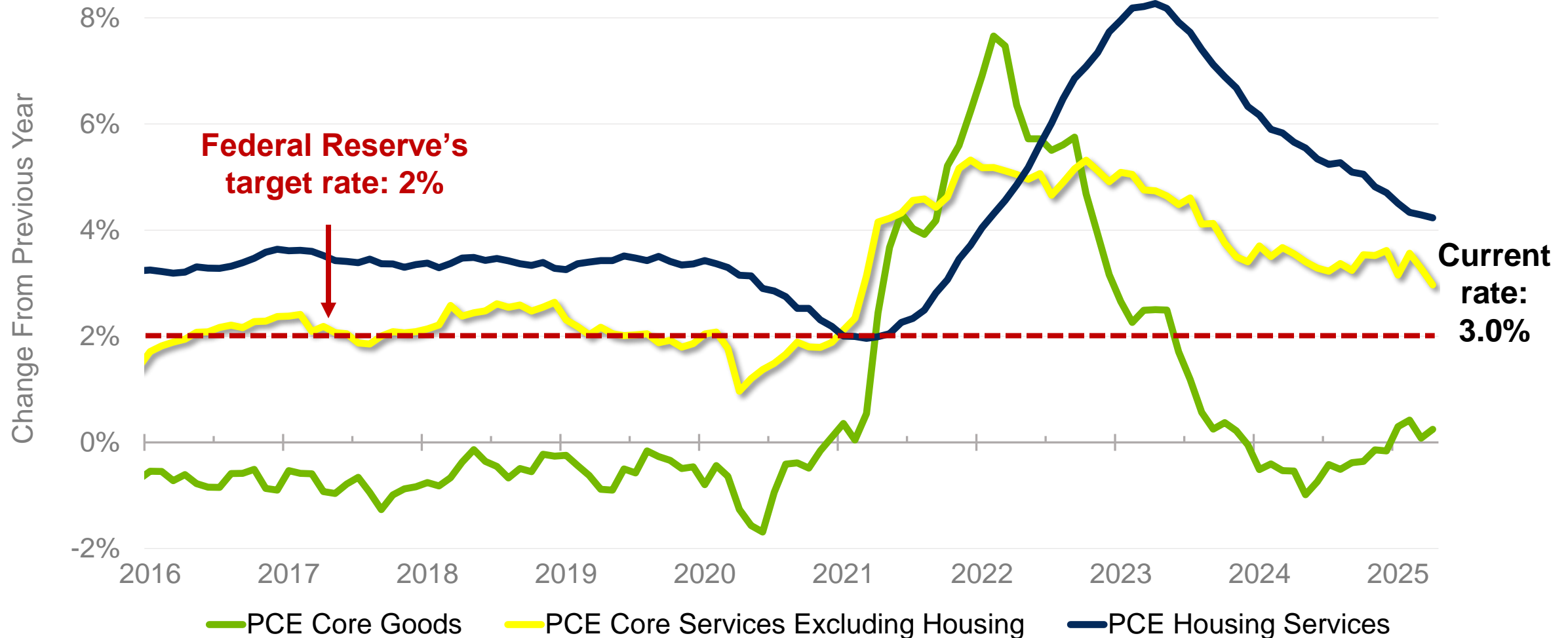
Personal Consumption Expenditures Price Indices



Source: Bureau of Economic Analysis

# .... but sticky inflation keeps Fed watchful despite rate cuts

## Personal Consumption Expenditures Price Indices



Source: U.S. Bureau of Economic Analysis

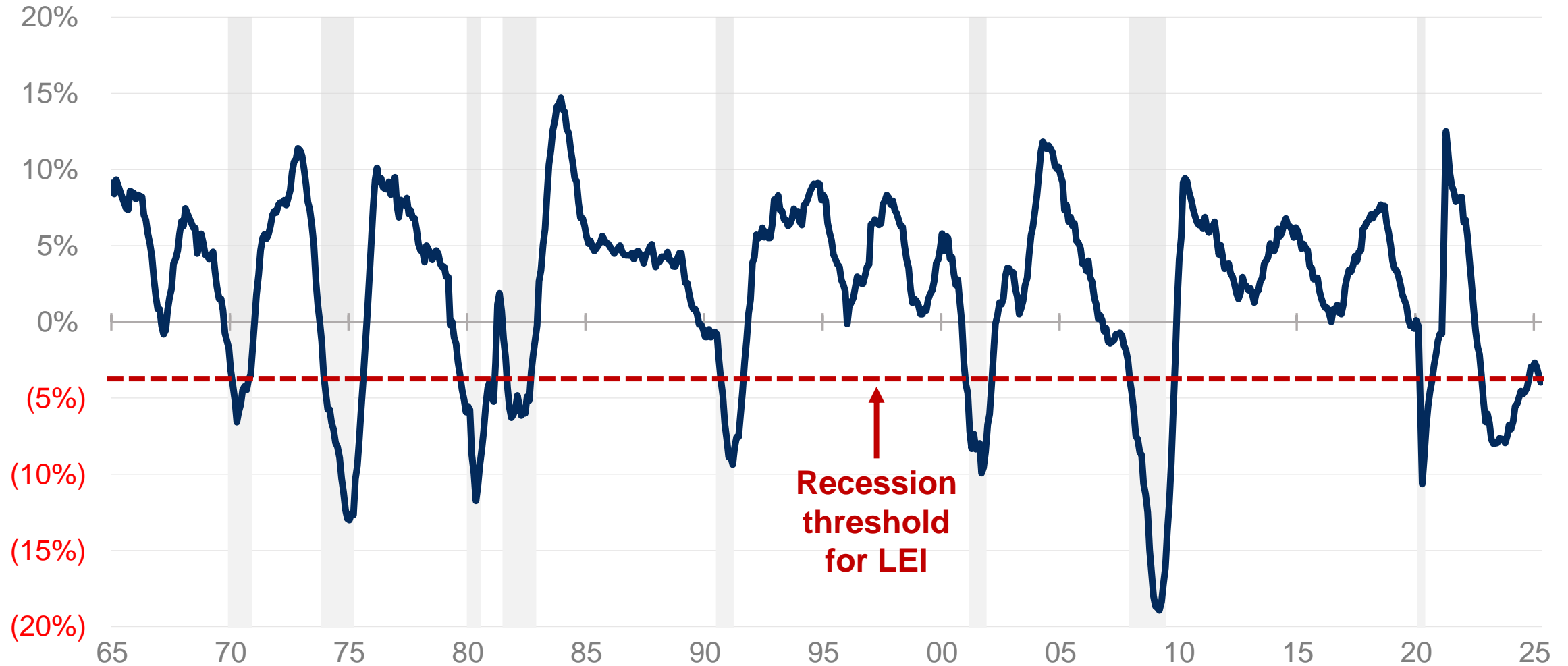
# Recession Indicators





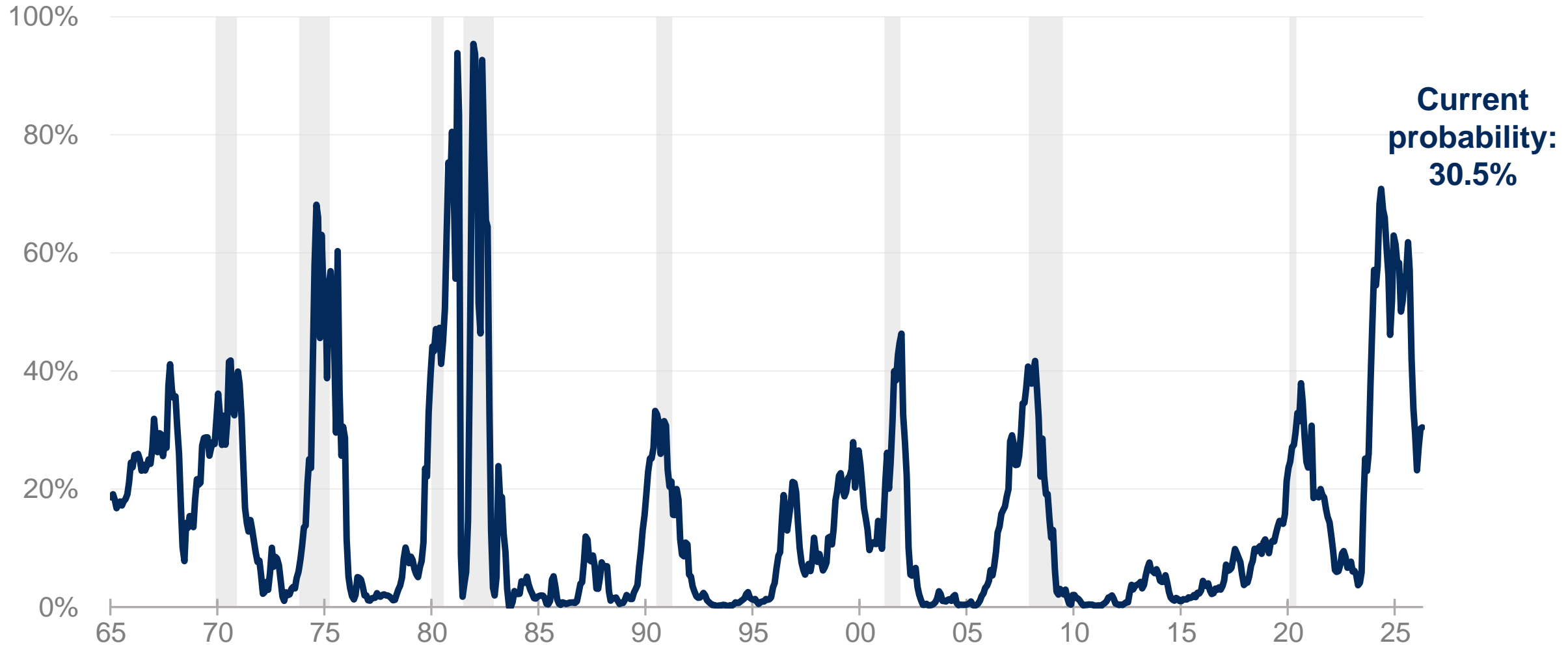
# Leading economic index not sure if a recession lies ahead ....

Leading Economic Indicator



# .... and financial markets have backed off a bit

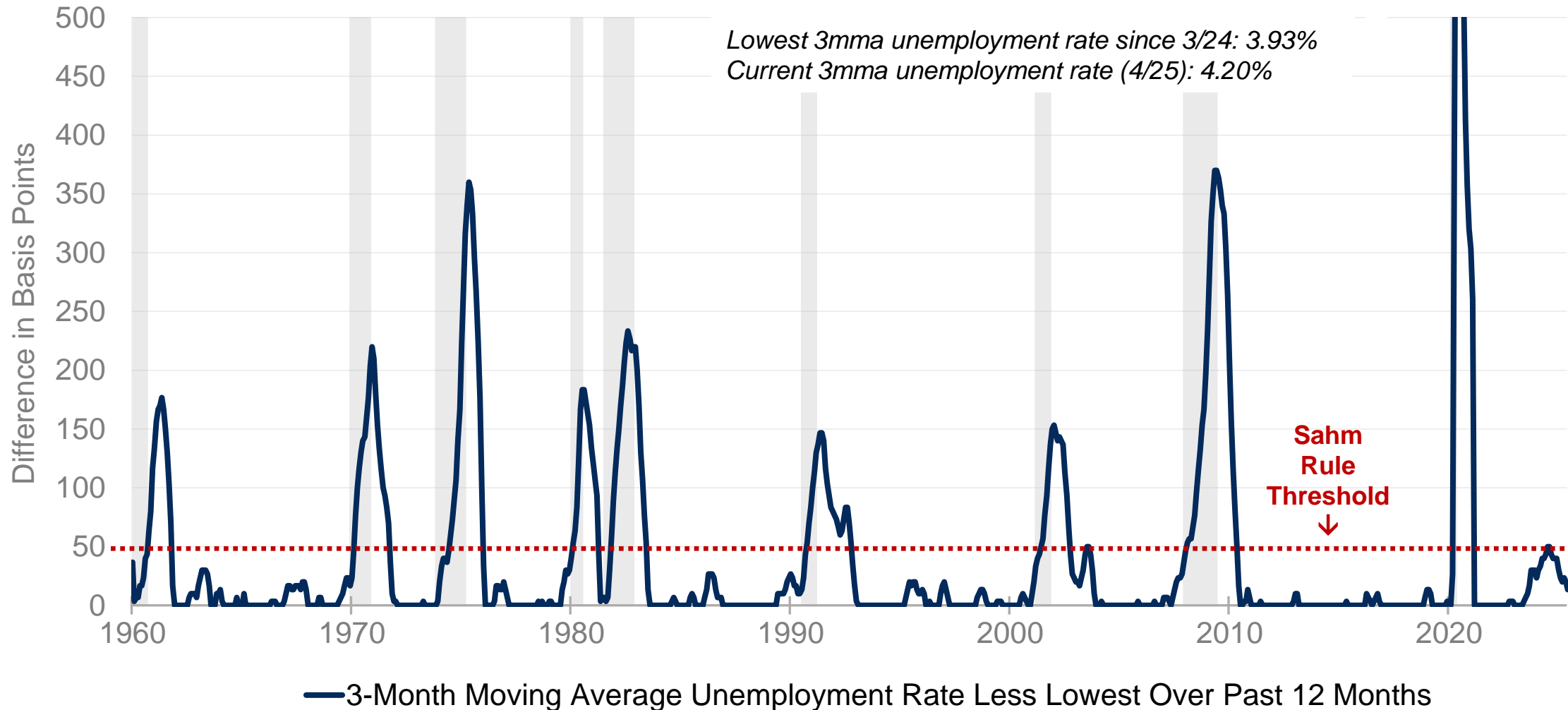
Probability of a Recession in 12 Months



Source: Federal Reserve Bank of New York

# Sahm Rule brushed late last year, but has retreated

Probability of a Recession in 12 Months



Sources: Bureau of Labor Statistics, National Bureau of Economics Research

Shaded areas denote recessions.

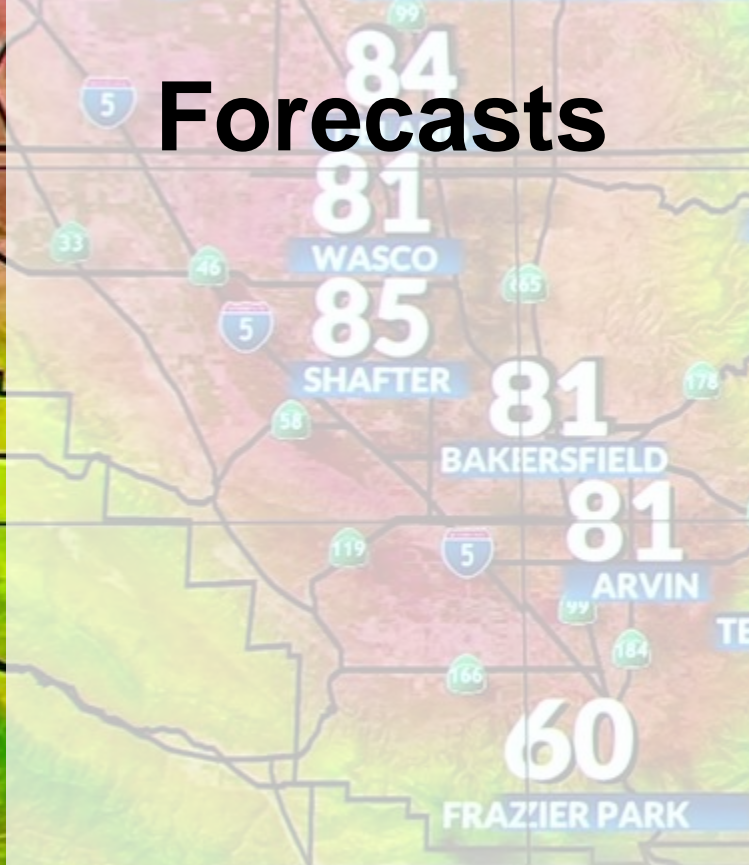


YOUR LOCAL PINPOINT FORECAST

AROUND KERN COUNTY

WWW.KGET.COM

# Forecasts



## Monday

5 PM		NW 11	83°
6 PM		NW 11	83°
7 PM		NW 12	81°
8 PM		NW 9	77°
9 PM		NW 6	74°
10 PM		NW 5	72°
11 PM		N 5	70°
12 AM		NE 4	69°
1 AM		ENE 3	67°
2 AM		ENE 3	65°
3 AM		ENE 3	64°
4 AM		ENE 4	63°



17 KGET

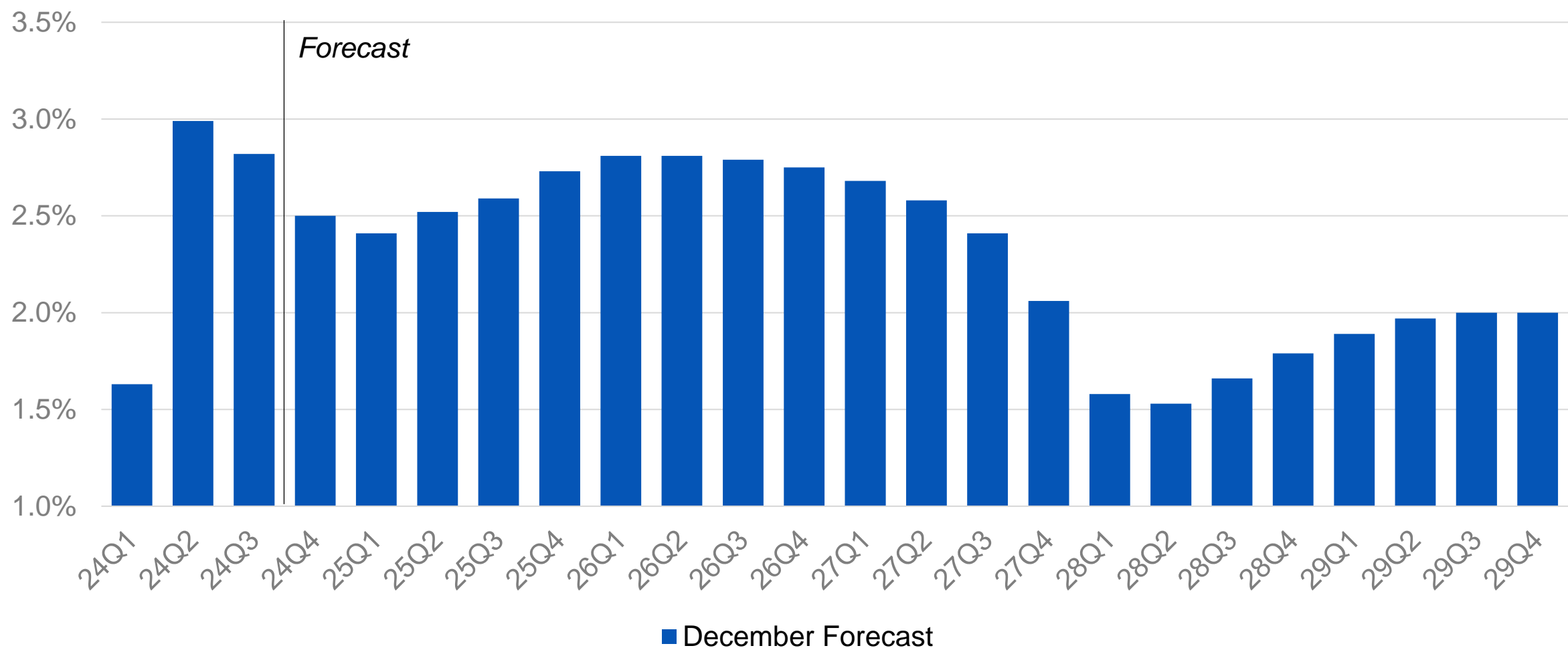
5:44 PM | 81°





# Forecast is much stronger on expansionary fiscal policy

Gross Domestic Product Change from Previous Quarter

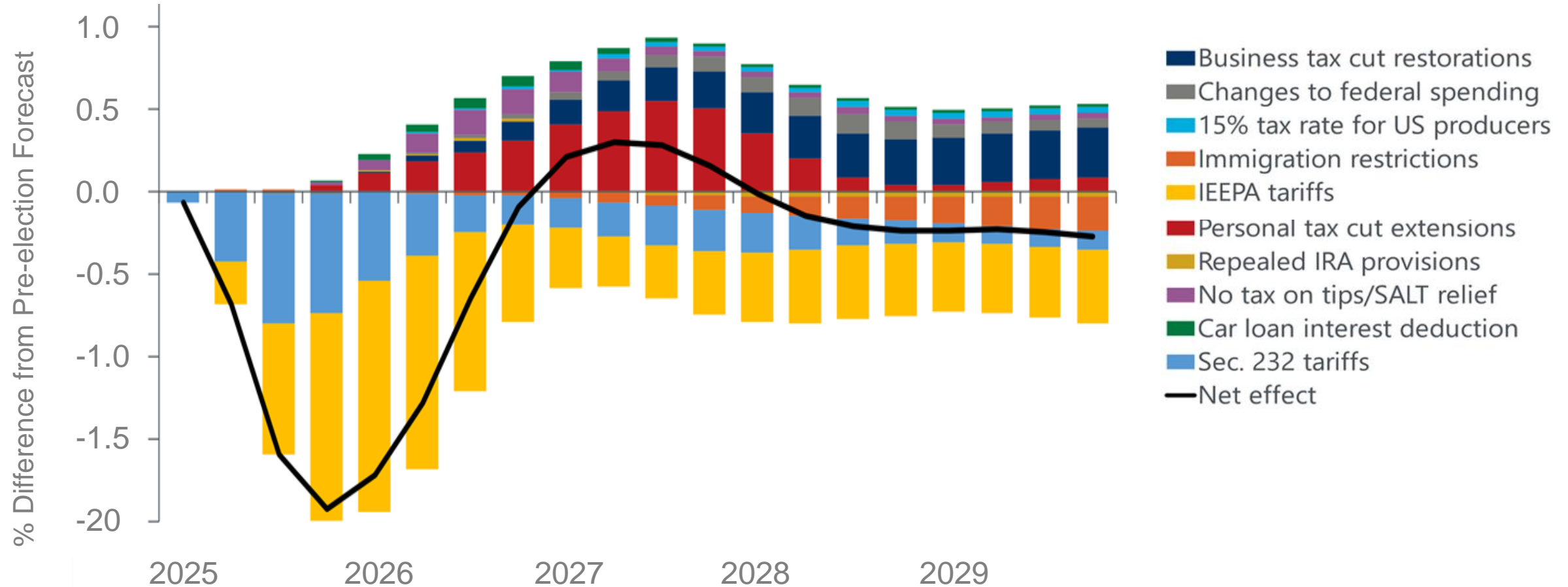


Sources: Bureau of Economic Analysis, Oxford Economics, December 10, 2024



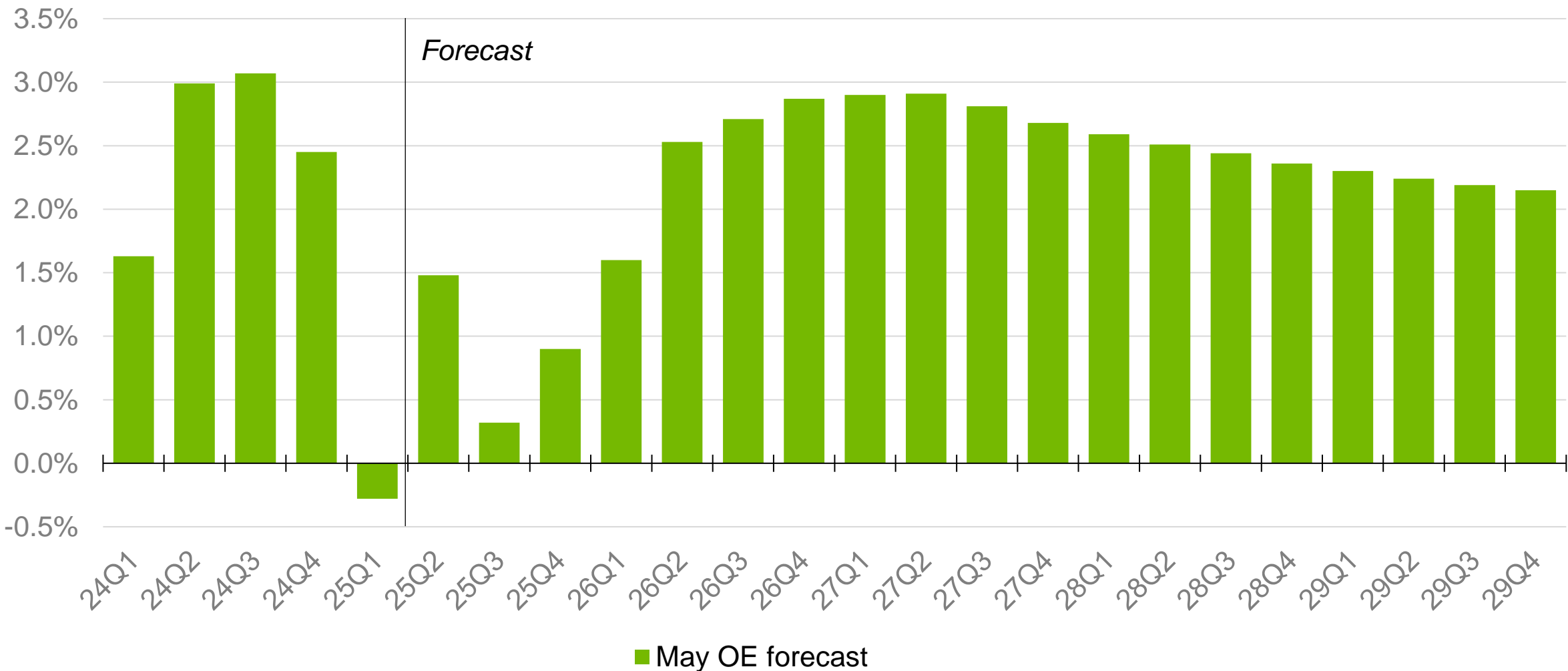
# Expected impacts of fiscal, trade and immigration policies

## Impact on Real GDP



# Contraction in Q1 reverses in Q2, but annual growth slows to 1.5%

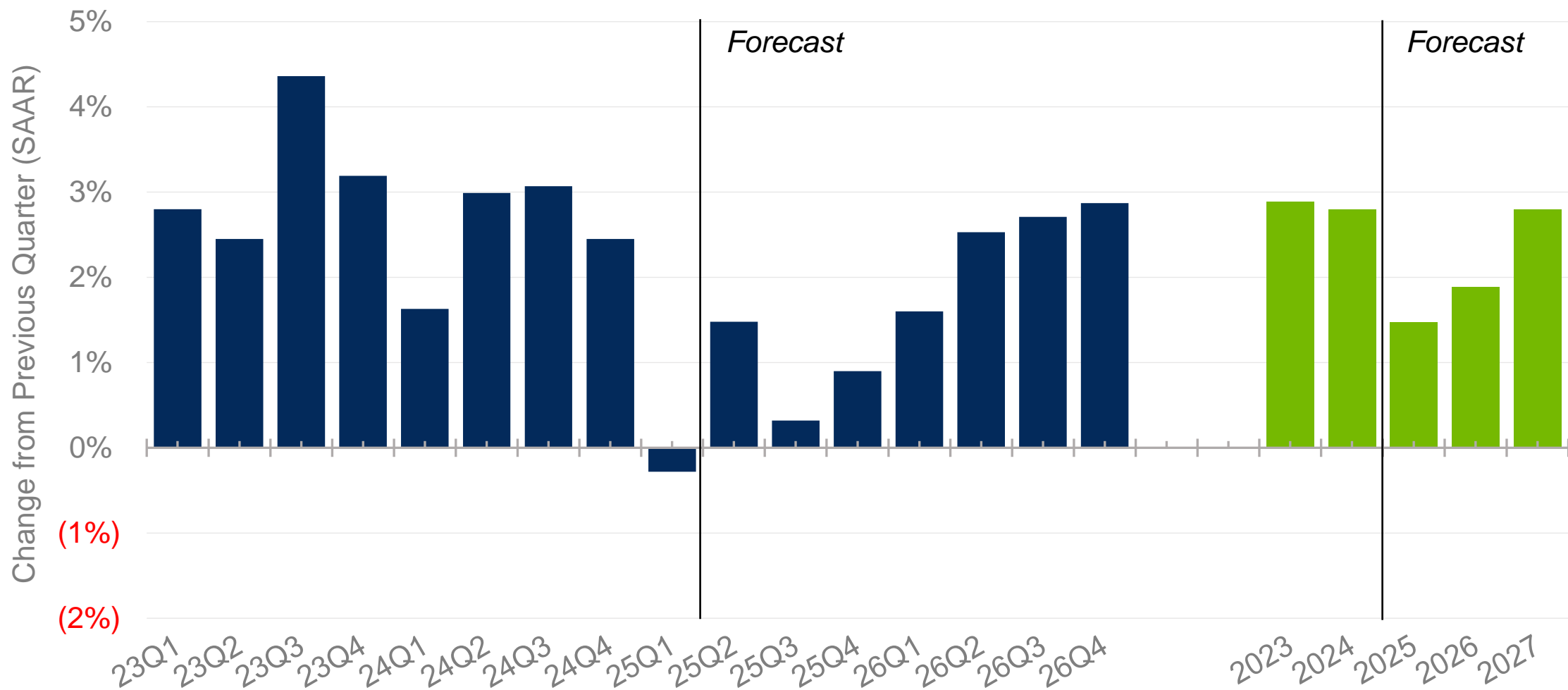
Gross Domestic Product Change from Previous Quarter (saar)



Sources: Bureau of Economic Analysis, Oxford Economics, May 2025

# Uncertainty and tariffs to weigh on the economy

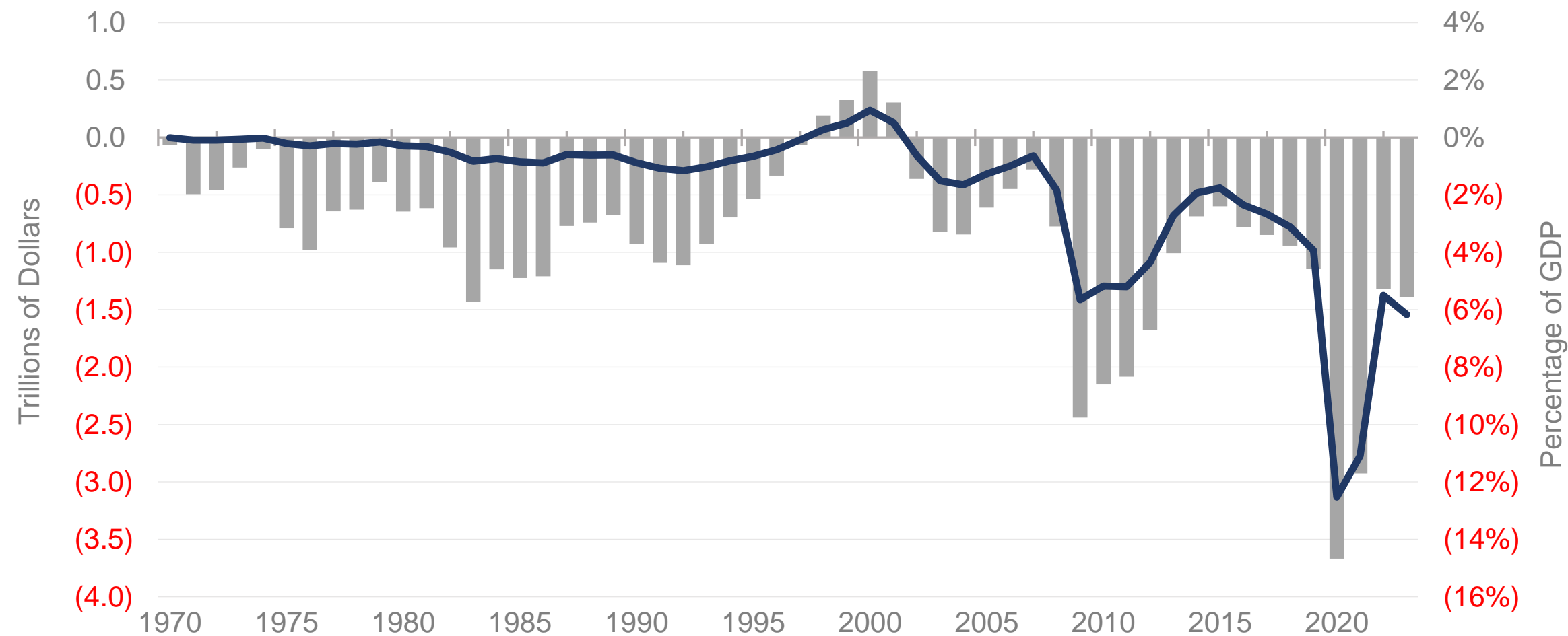
Real Gross Domestic Product



Sources: Bureau of Labor Statistics, Oxford Economics Global Economic Model (May 2025)

# A sea of red ink, with no end in sight

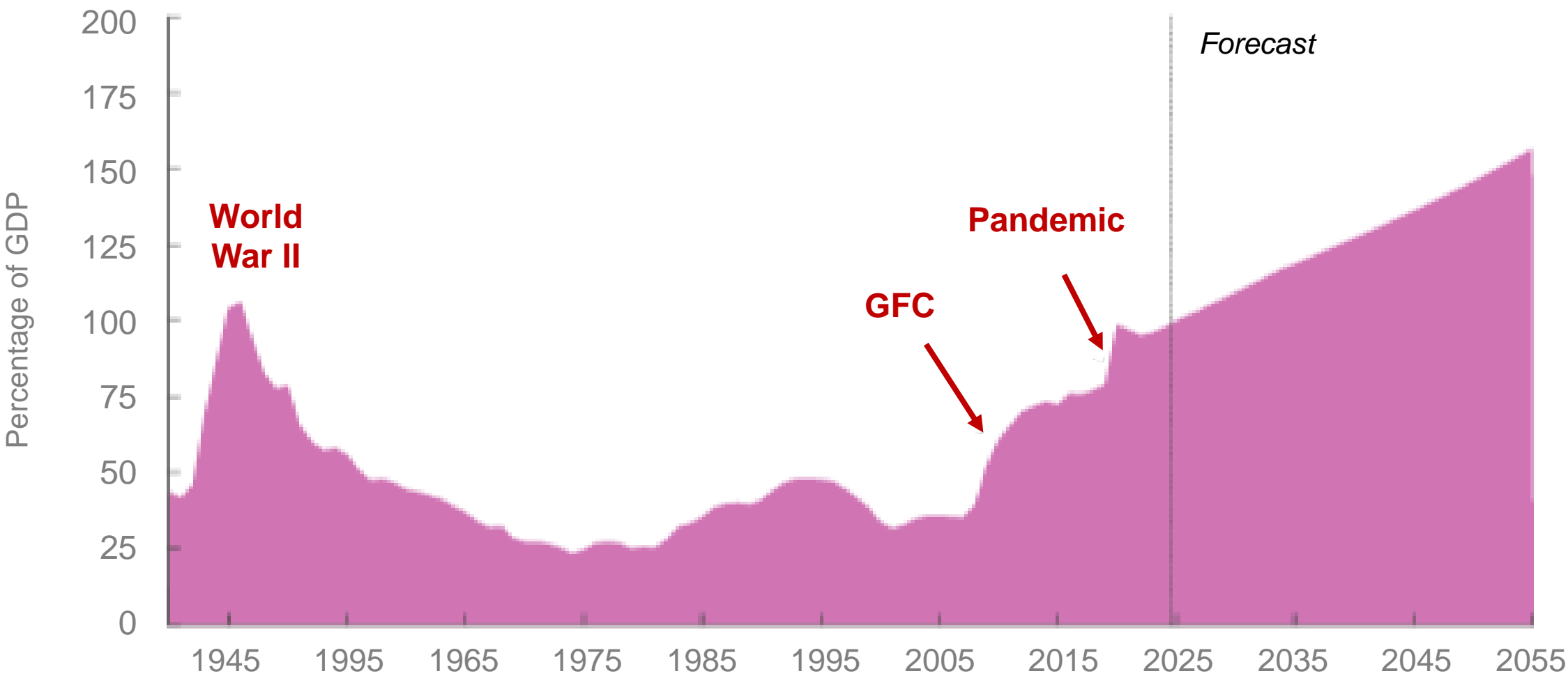
Federal Budget



Sources: Office of Management and Budget

# Federal debt becomes unsustainable

Federal Debt

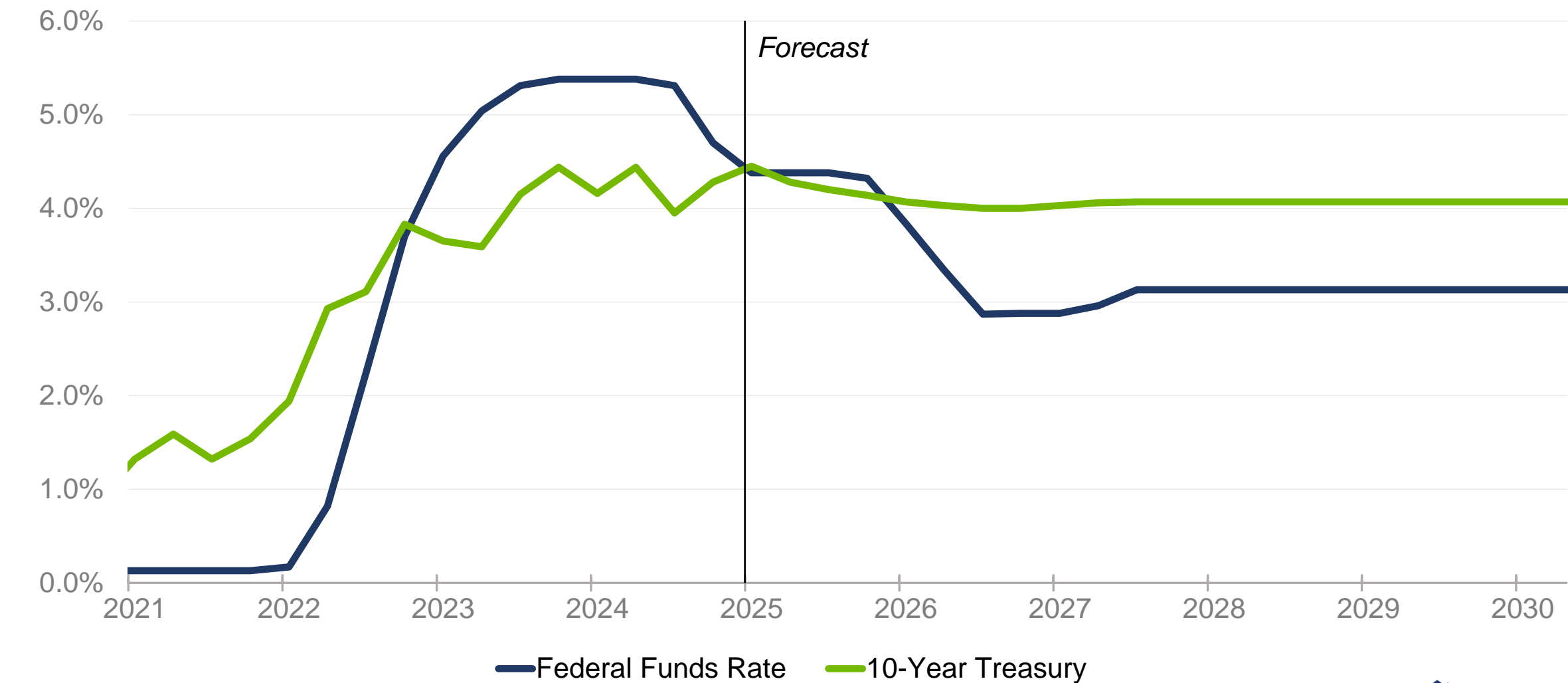


Source: Congressional Budget Office, March 2025



# Rates to stay aloft

## Rates and Yields



Sources: Oxford Economics, Department of the Treasury, Federal Reserve Bank

# Takeaways

---

- ▶ Tariffs threaten higher costs for businesses and consumers, weakening the economy
- ▶ So far, hard data have not registered much worry ahead, but forecasts do
- ▶ Consumers have been resilient, with a still solid labor market
- ▶ Inflation has eased meaningfully but remains a bit too high for comfort
- ▶ The Federal Reserve is in no rush to cut rates further and awaits more data
- ▶ Fiscal plans will boost the economy, but also increase the deficit and debt
- ▶ Risks are tilted to the downside:
  - ↓ Hiring and consumer spending can slow more quickly than expected
  - ↓ Immigration restrictions and retirements will limit labor supply growth
  - ↓ Bondholders may send a message



---

## PRESENTED BY:

Christine Cooper, Ph.D.  
Managing Director and Chief U.S. Economist  
[ccooper@costar.com](mailto:ccooper@costar.com)

These materials contain financial and other information from various public and proprietary sources. CoStar Group, Inc. and its affiliates (collectively, "CoStar") have assumed and relied upon, without independent verification, the accuracy and completeness of such third-party information in preparing these materials. The modeling, calculations, forecasts, projections, evaluations, analyses, simulations, or other forward-looking information prepared by CoStar and presented herein (the "Materials") are based on various assumptions concerning future events and circumstances, which are speculative, uncertain and subject to change without notice.

CoStar does not represent, warrant, or guarantee the accuracy or completeness of the information provided herein and shall not be held responsible for any errors. Any user of the information provided herein accepts the information "AS IS" without warranties. To the maximum extent permitted by law, CoStar disclaims any liability if any information provided herein proves to be inaccurate, incomplete or unreliable.