

# Economic Outlook

## Robert Fry

Robert Fry Economics LLC

Osher Lifelong Learning Institute  
at the University of Delaware  
Wilmington, Delaware  
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[RobertFryEconomics.com](http://RobertFryEconomics.com)

[robertfryeconomics@gmail.com](mailto:robertfryeconomics@gmail.com)

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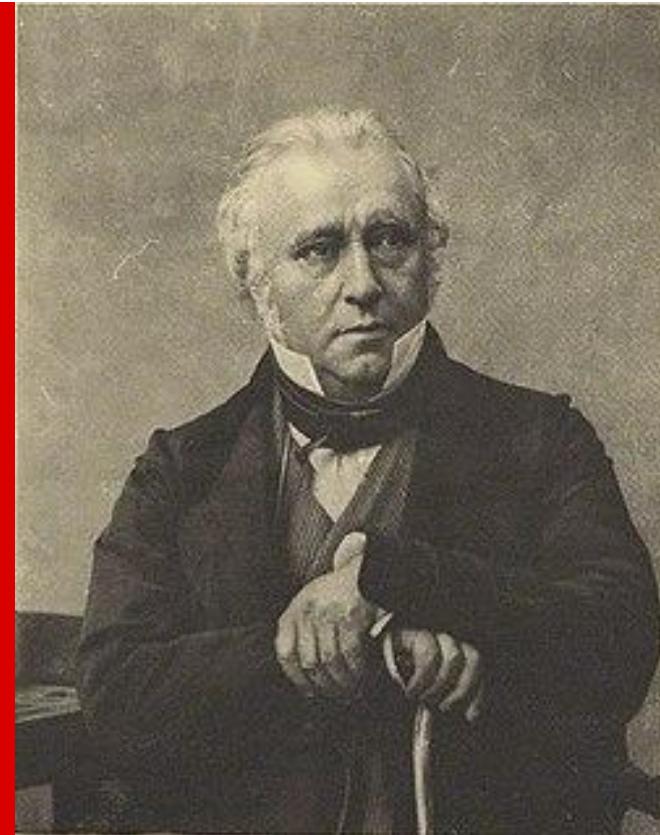
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**“Free trade, one of the greatest blessings that a government can confer on a people, is unfortunately in every country unpopular.”**

Thomas Babington McCauley  
1800-1859



**“I always say 'tariffs' is the most beautiful word to me in the dictionary.”**

Donald Trump  
1946-



# Timeline of Trump Tariff Actions

Won't fit on one slide

## Figure 3. U.S Average Effective Tariff Rate Since January 1, 2025

Policy as of October 17, Pre-Substitution

Percent of goods import



Chart: The Budget Lab • Source: The Budget Lab analysis. • Created with [Datawrapper](#)

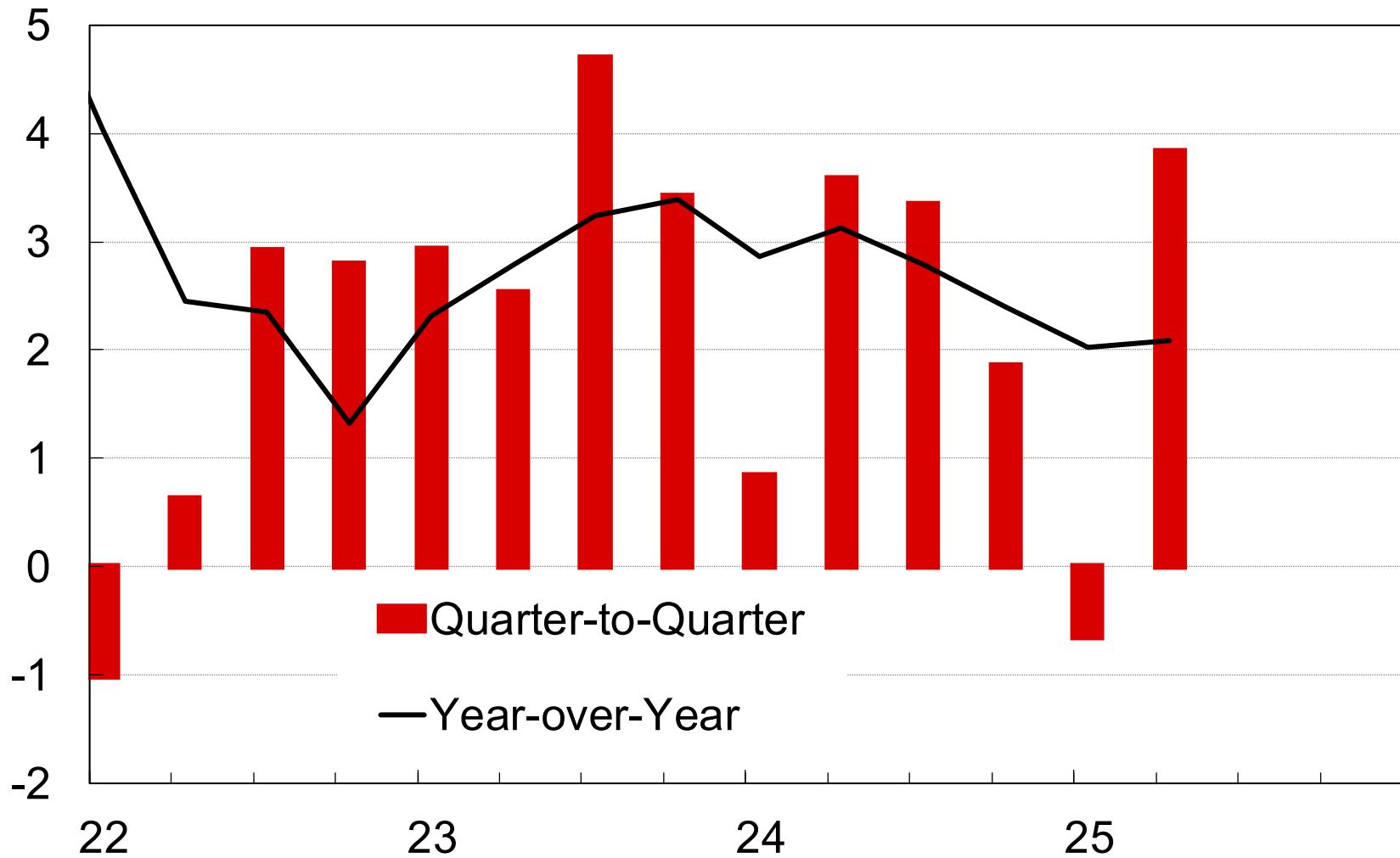
# What We Expected from Tariffs

Tariffs, especially tariffs on inputs, are a negative supply shock (like an oil price hike).

Accordingly, tariffs were expected to raise prices (and MEASURED inflation in the short run) and reduce economic activity.

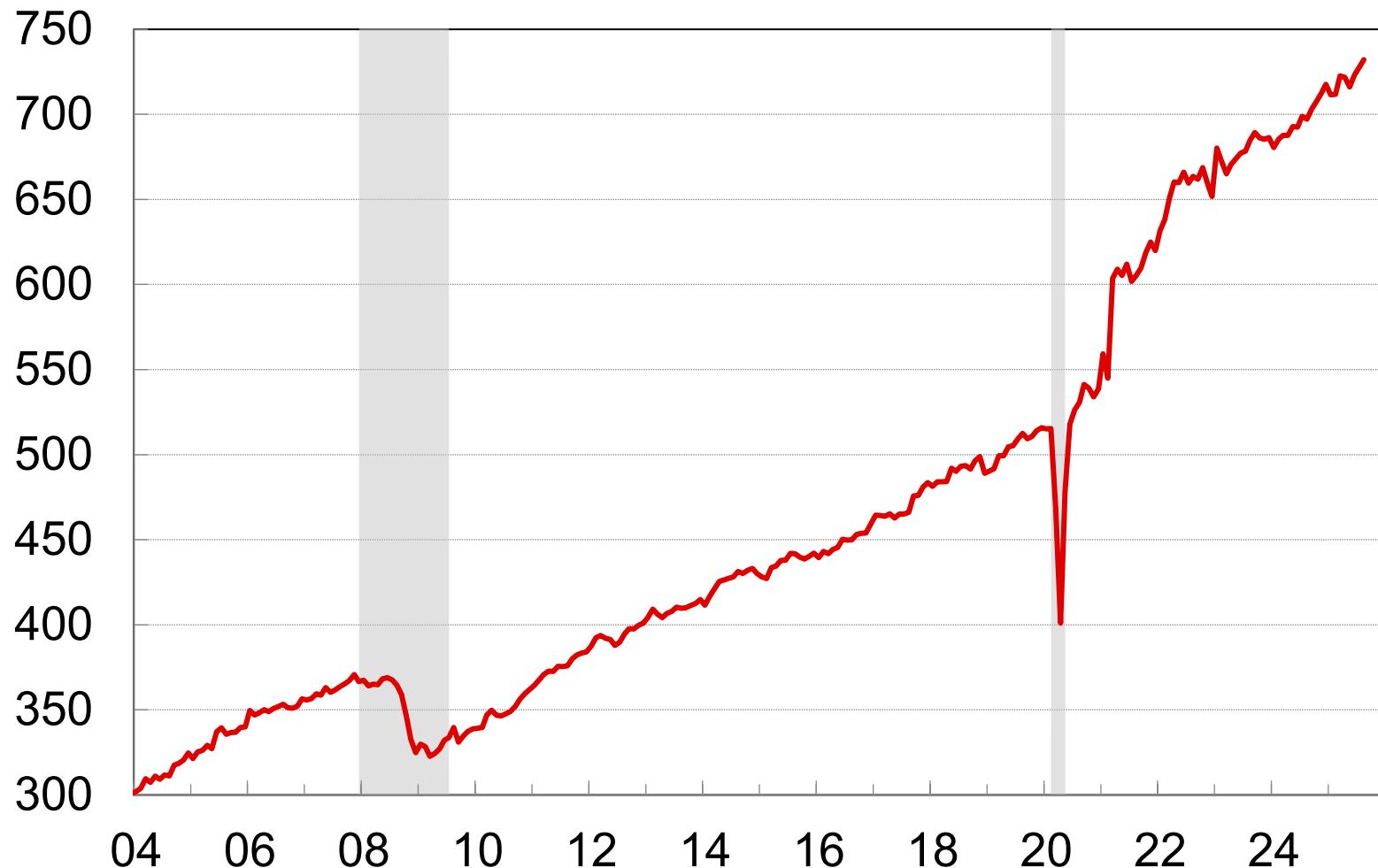
# US Real Gross Domestic Product

## *Annualized Growth Rates*



# Retail Sales: Retail and Food Services

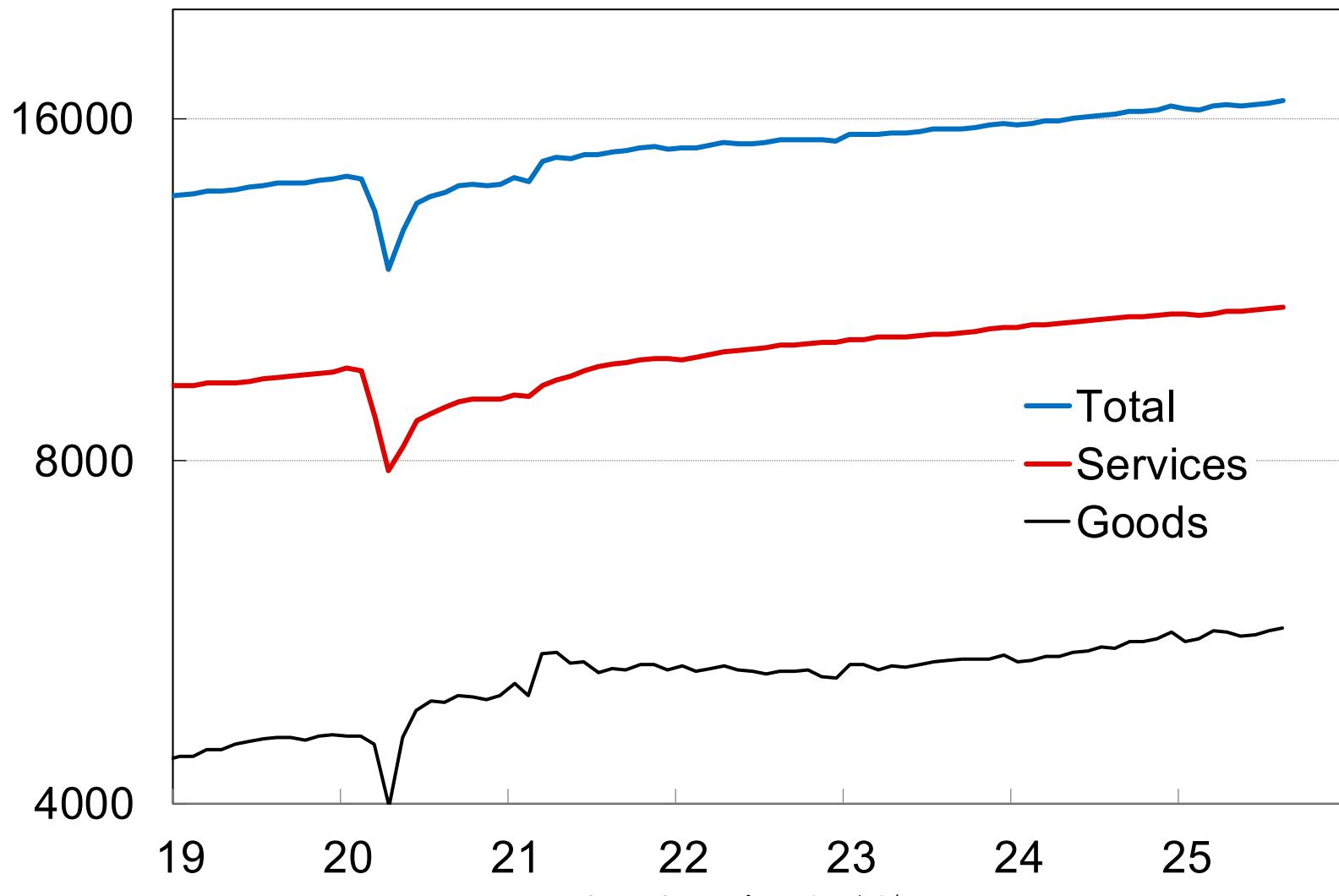
*Billions of \$, Monthly, Seasonally Adjusted*



Source: U.S. Census Bureau/FRED

# US Real Personal Consumption Expenditures

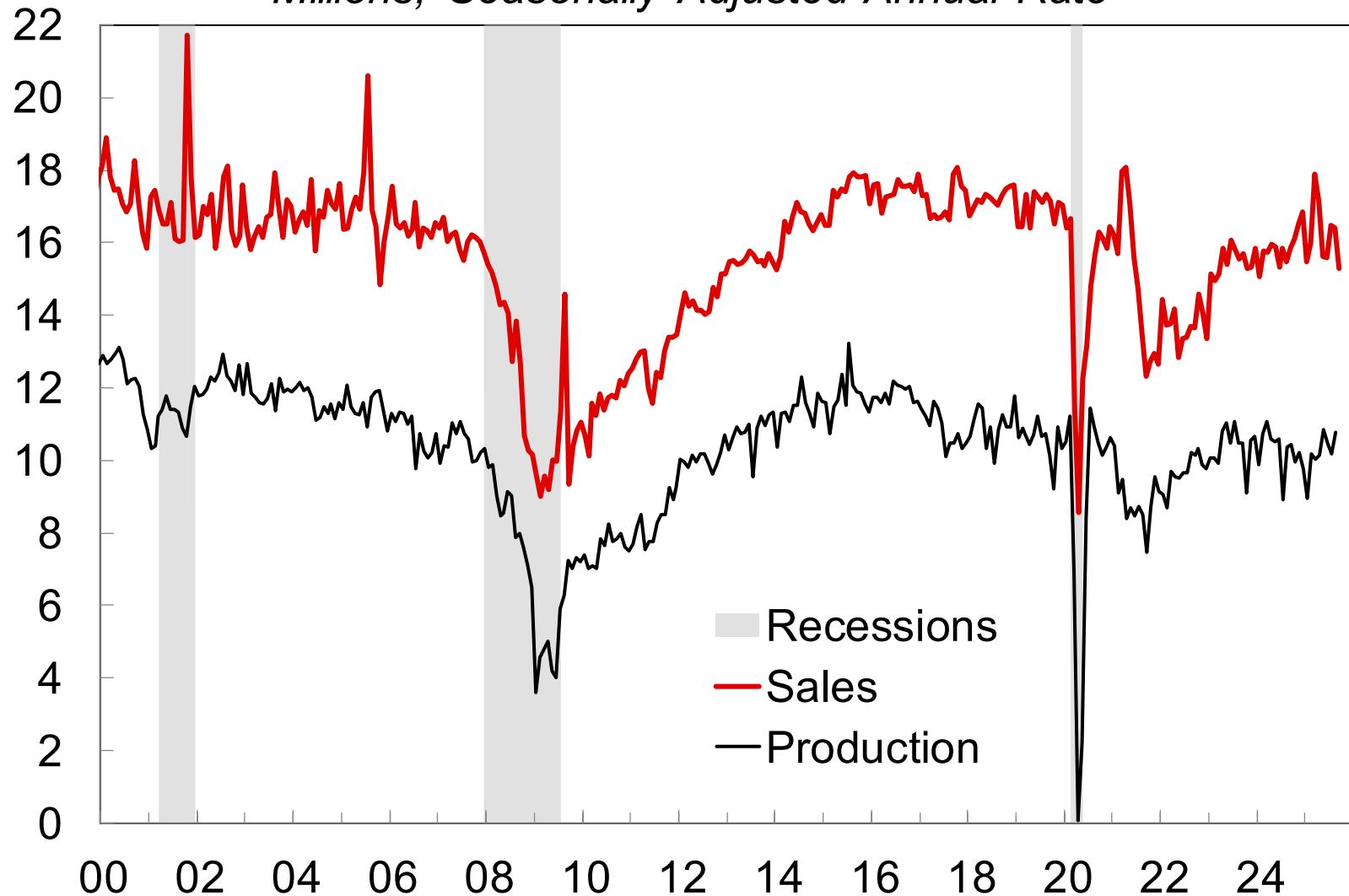
*Billion 2017 \$, Seasonally Adjusted Annual Rates*



Source: U.S. Bureau of Economic Analysis/FRED

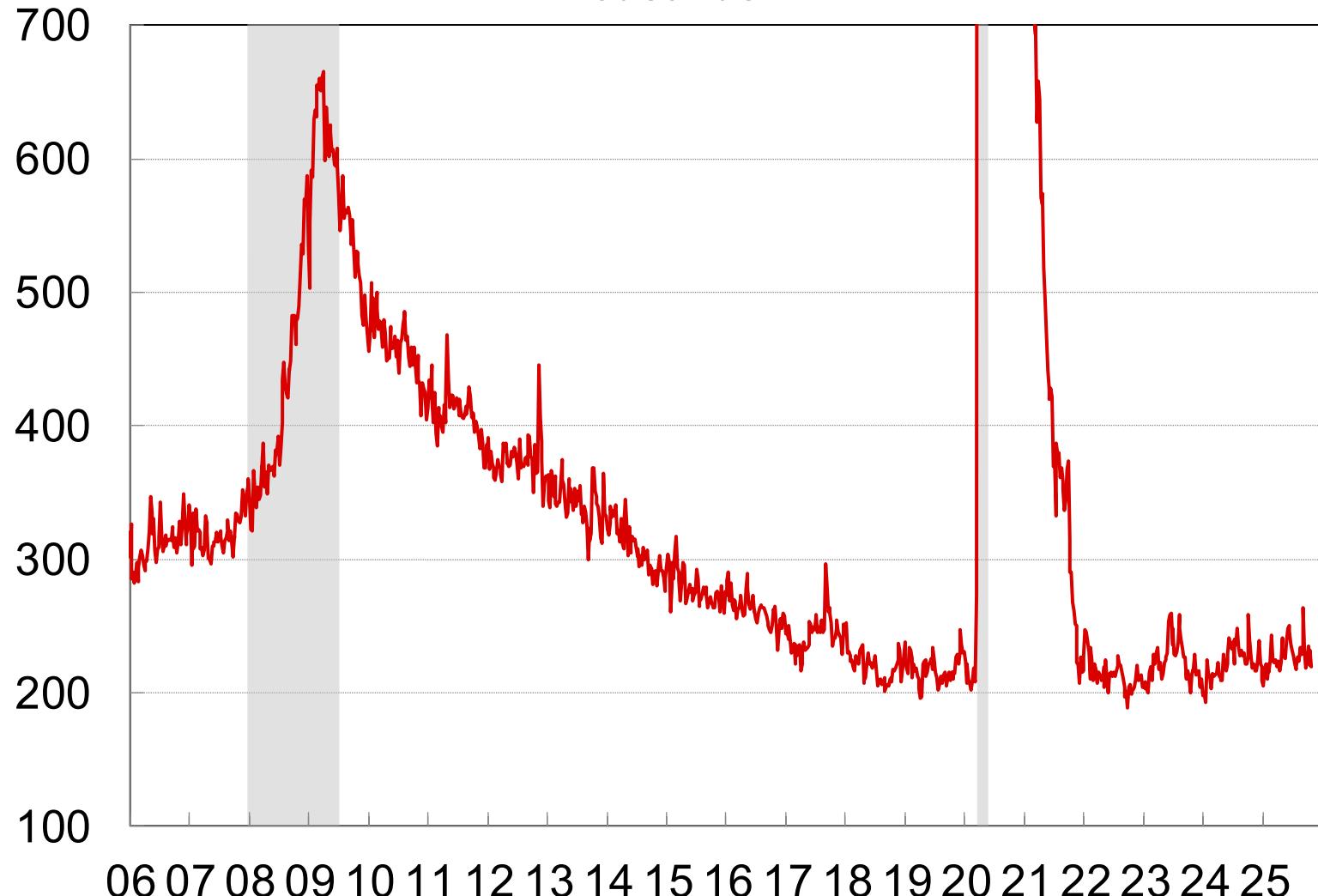
# US Light Vehicle Sales & Production

*Millions, Seasonally Adjusted Annual Rate*



# Initial Claims for Unemployment Insurance

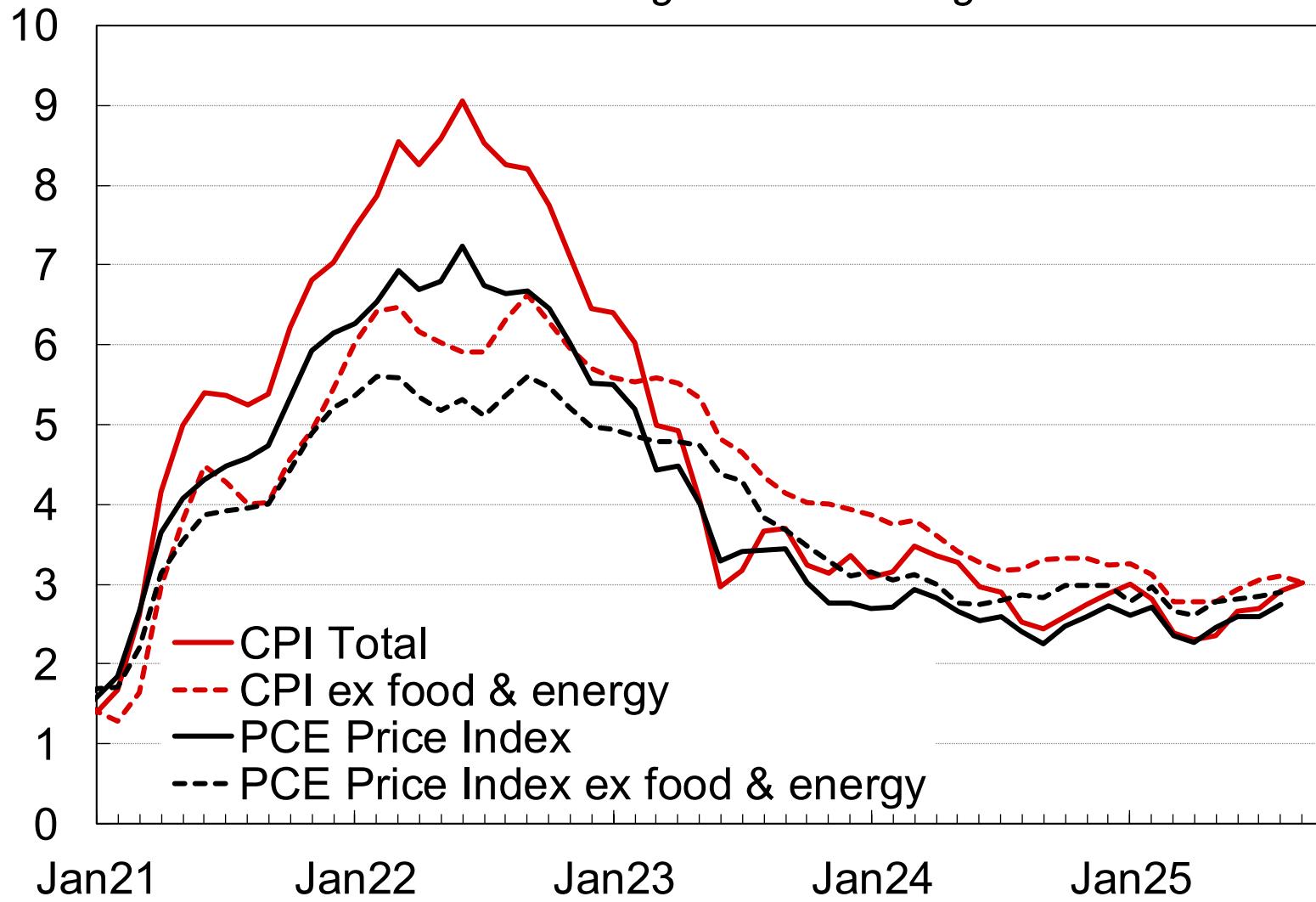
*Thousands*



Source: U.S. Employment and Training Administration/FRED

# US Price Indexes

*Percent Change from Year Ago*



Source: U.S. Bureau of Labor Statistics/FRED

# US economy continues to grow.

**GDP grew at a 3.8% annual rate in the second quarter!**

**Retail sales (through August) indicate that consumers are still spending.**

**Initial claims for unemployment insurance are closer to 55-year lows than to recession levels.**

**Stock prices are at record highs.**

**Inflation has stopped declining, but there's no obvious widespread impact from tariffs.**

# Why haven't tariffs had a bigger impact?

## Maybe the impact of tariffs is smaller than economists thought.

Maybe the negative impact of tariffs has been offset by the positive impact of deregulation and the One Big Beautiful Bill Act.

- Immediate expensing is by far the best part of the OBBBA.
- Even bad tax cuts boost growth in the short run.

## Maybe the negative impact of tariffs has been offset by low oil prices.

- Wall Street and Washington always underestimate the importance of oil prices.

## Maybe the lag from tariffs to their impact is longer than you think.

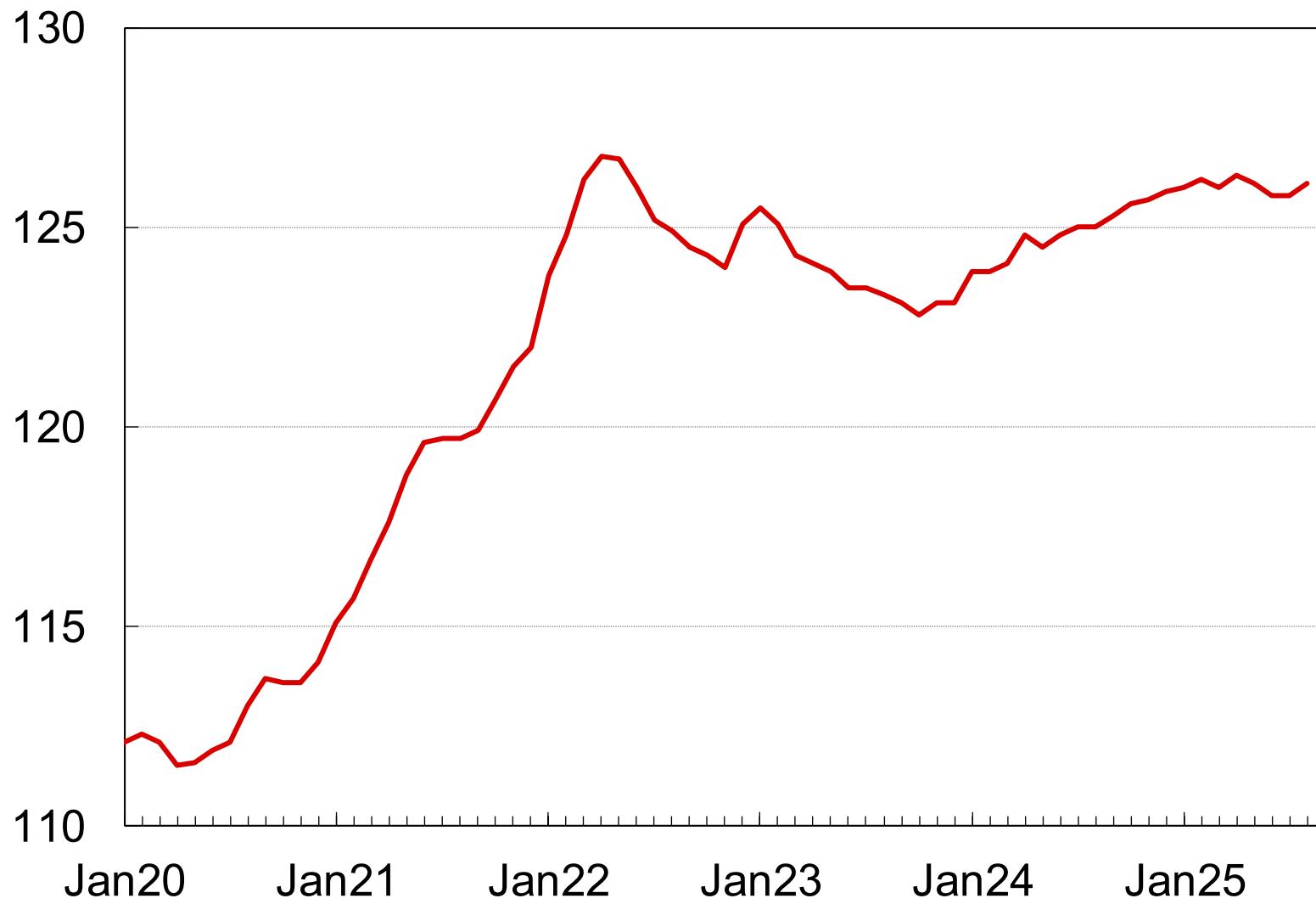
- Pre-tariff inventory build delayed impact.
- Lags are **always** longer than you think.

## Maybe they have had an impact, but we don't see it.

- Impact might not show up until data are revised.
- Have we been cherry-picking the data?

# Import Price Index: All Items Excluding Petroleum

2000 = 100



Source: U.S. Bureau of Labor Statistics/FRED

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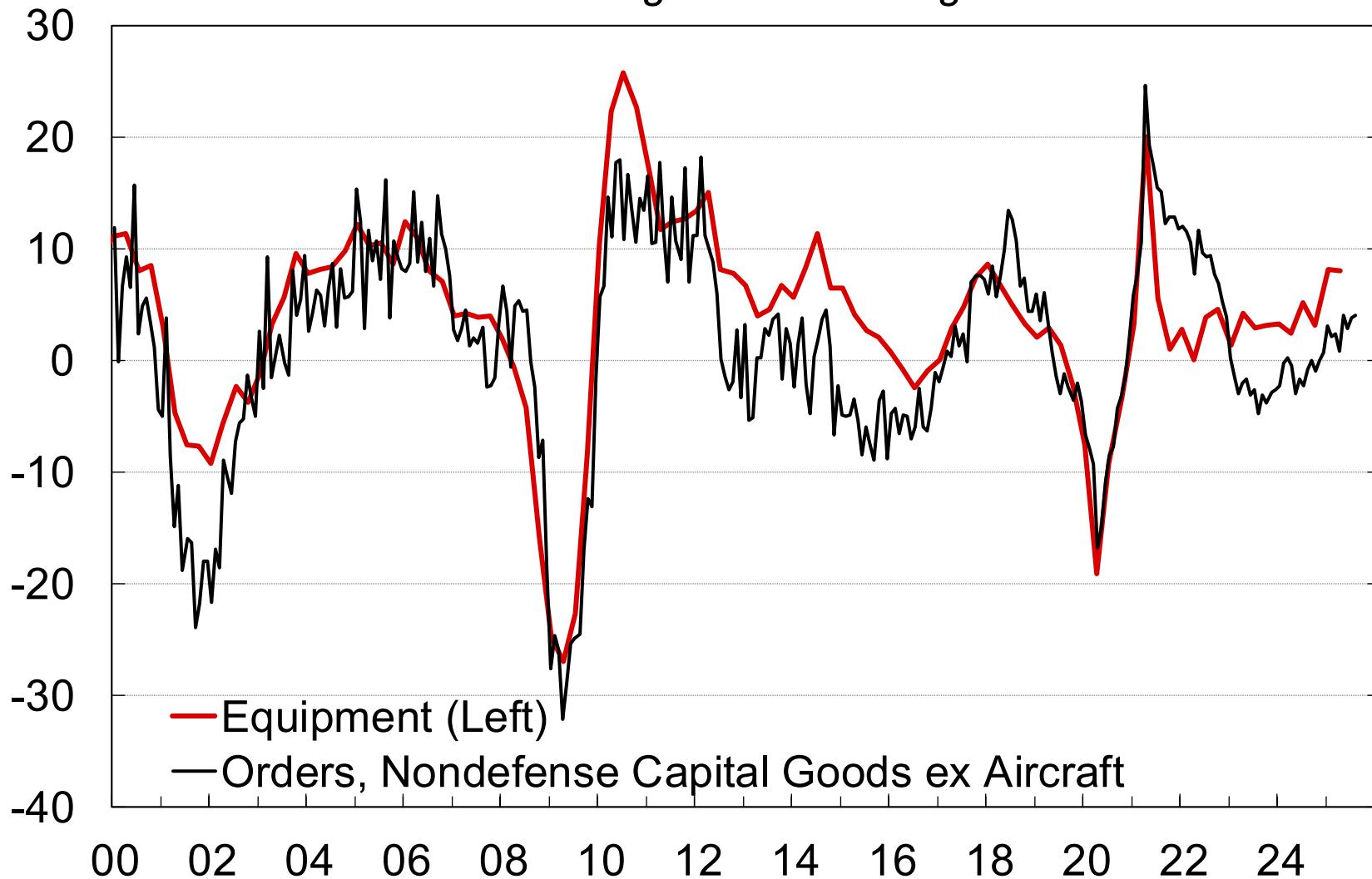
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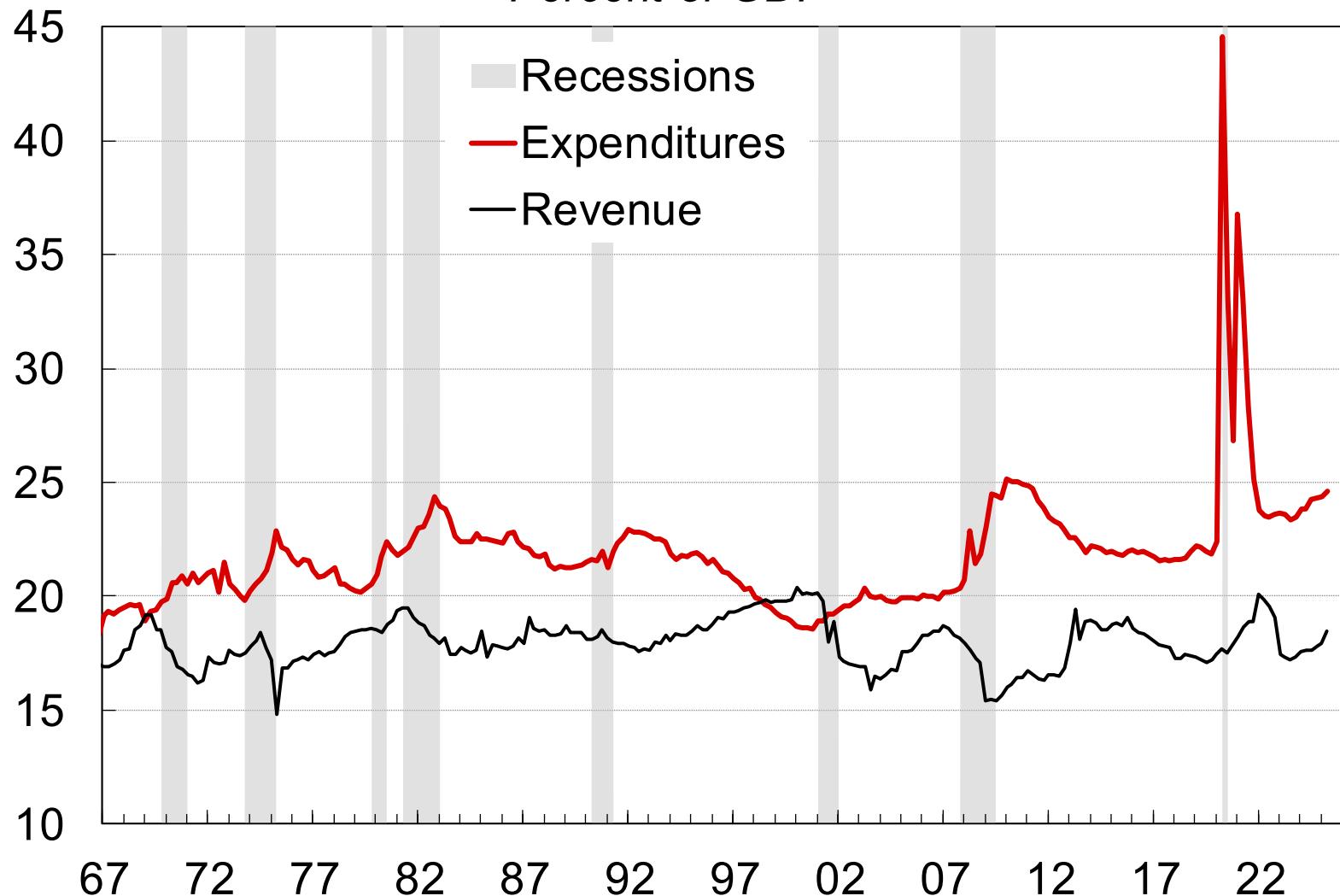
# Real Investment in Equipment vs Capital Goods Orders

*Percent Change from Year Ago*



# US Federal Govt Current Expenditures & Revenue

*Percent of GDP*



Source: U.S. Bureau of Economic Analysis/FRED

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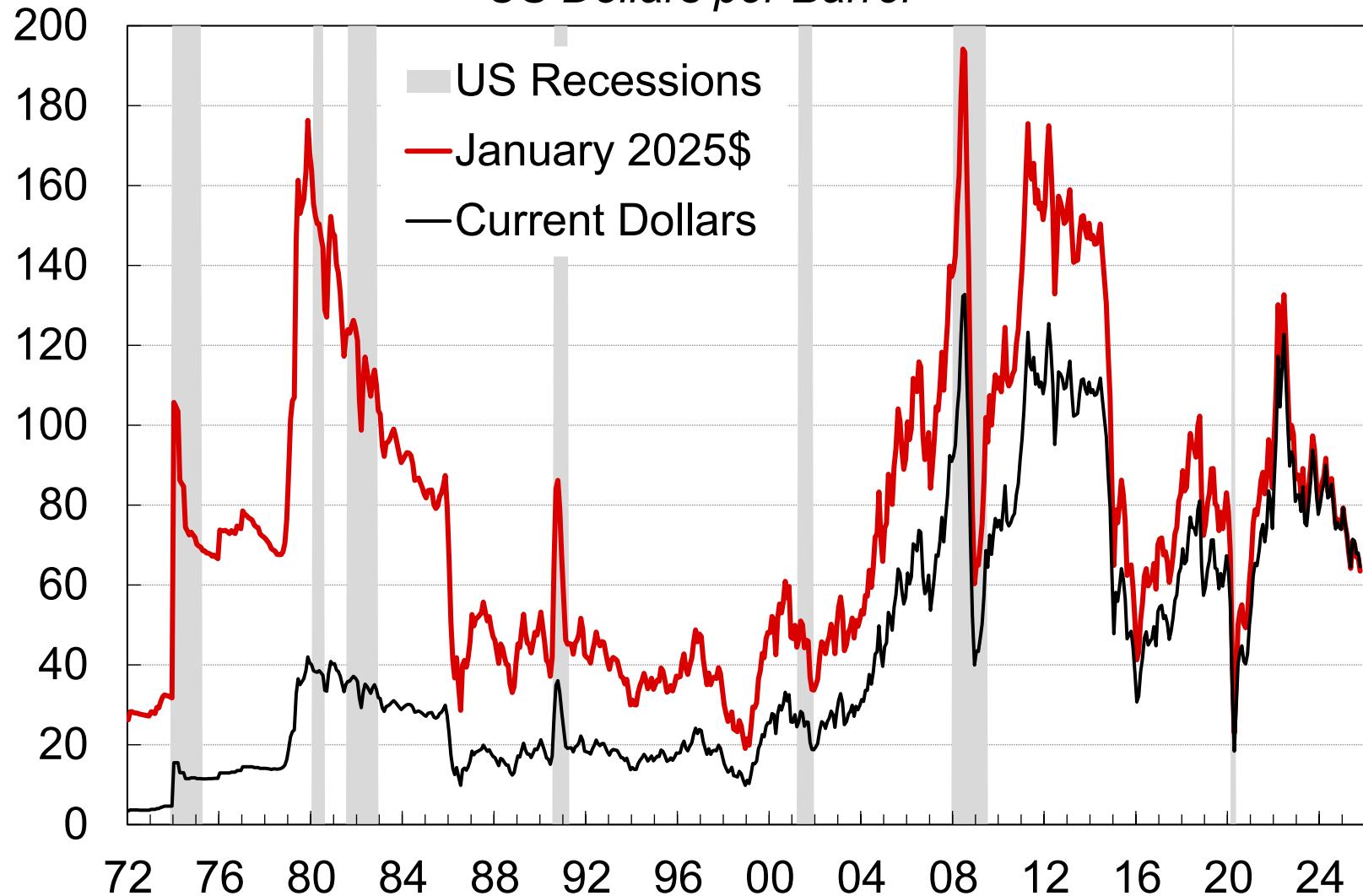
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# Brent Blend Oil Price

*US Dollars per Barrel*

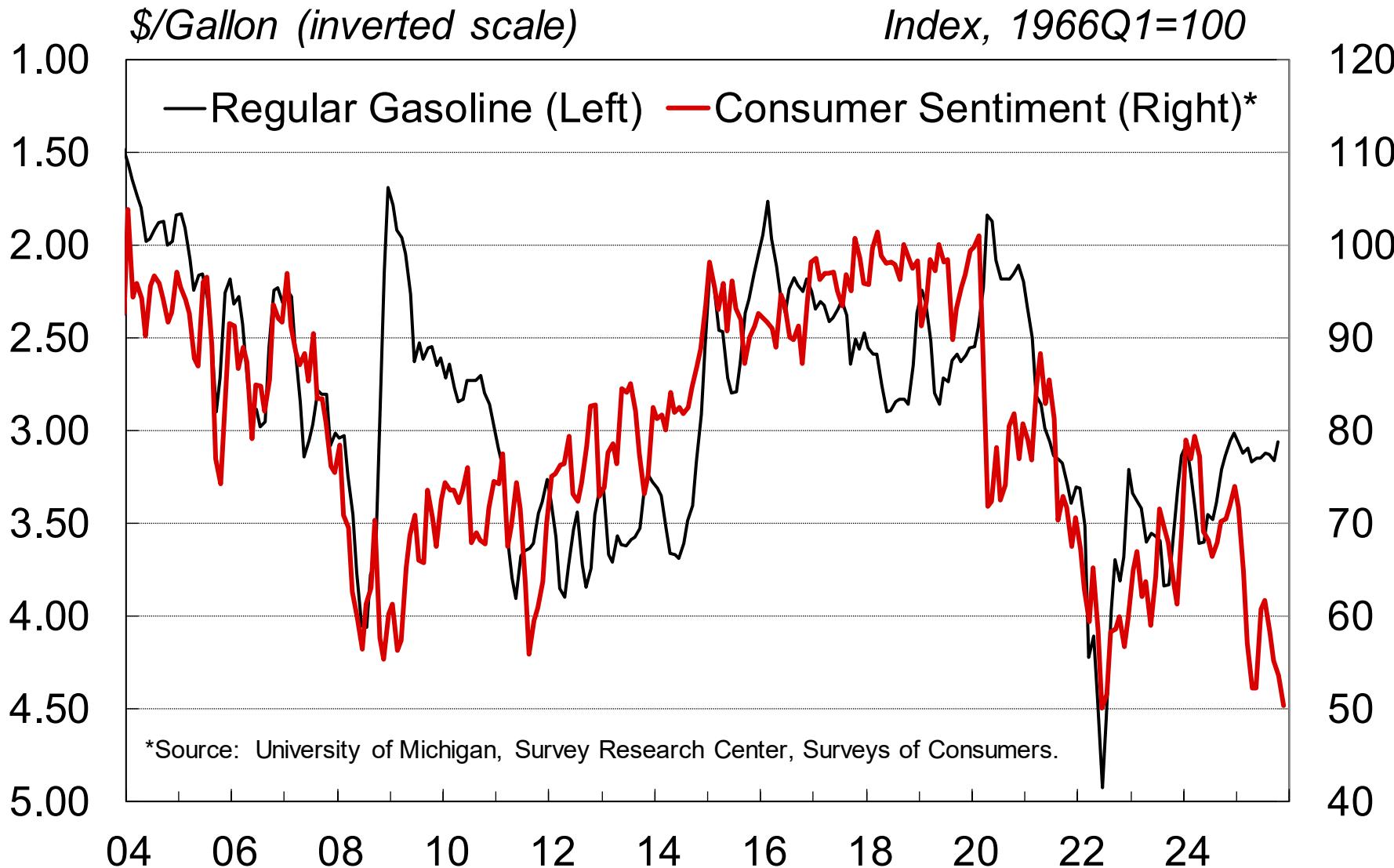


# US Regular Gasoline Price

*Dollars per gallon, Weekly data*



## Gasoline Price and Consumer Sentiment



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**“The crisis takes a  
much longer time  
coming than you think  
and then it happens  
much faster than you  
would have thought.”**

Rudiger Dornbusch  
1942-2002



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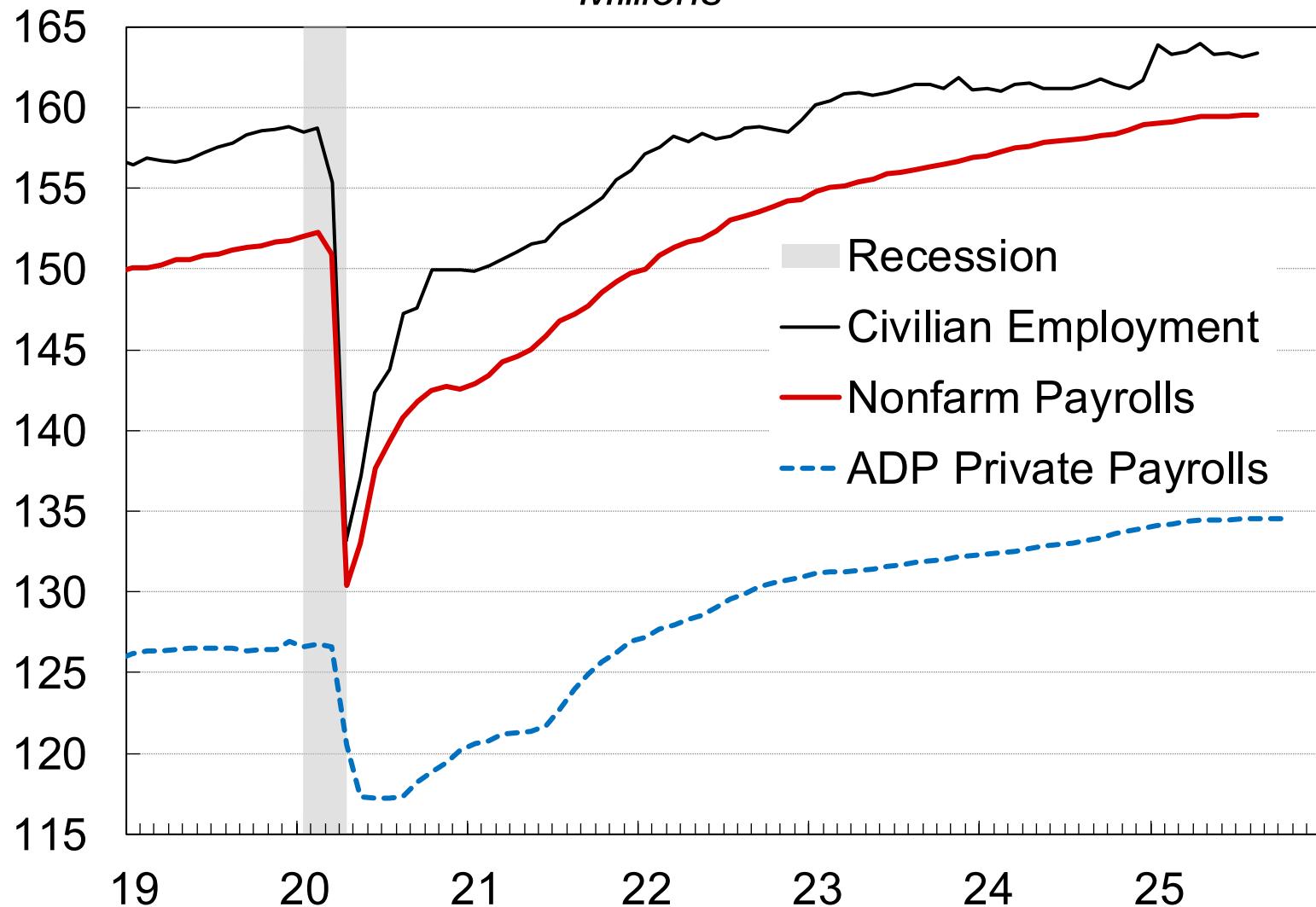
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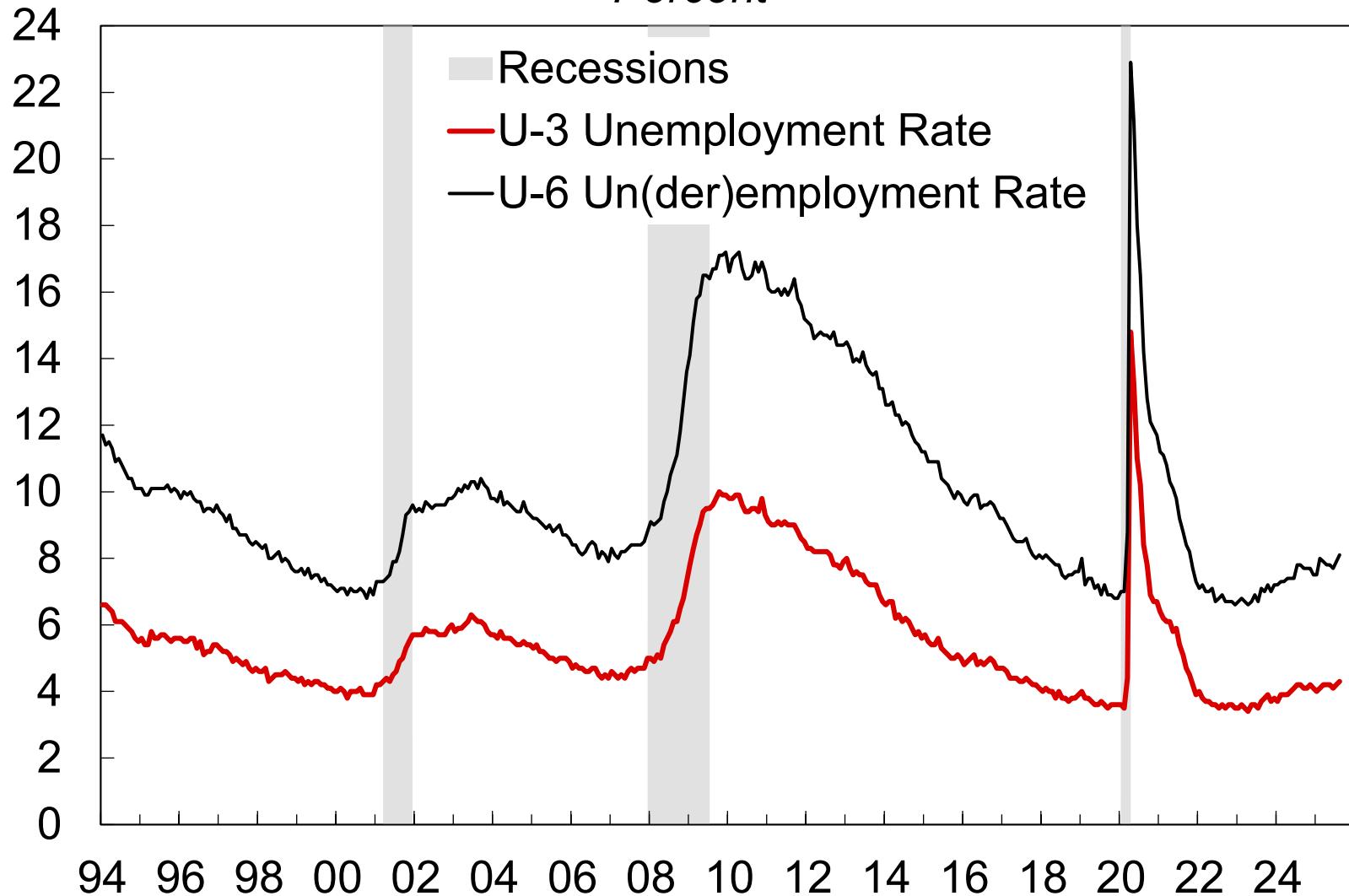
# US Employment

*Millions*



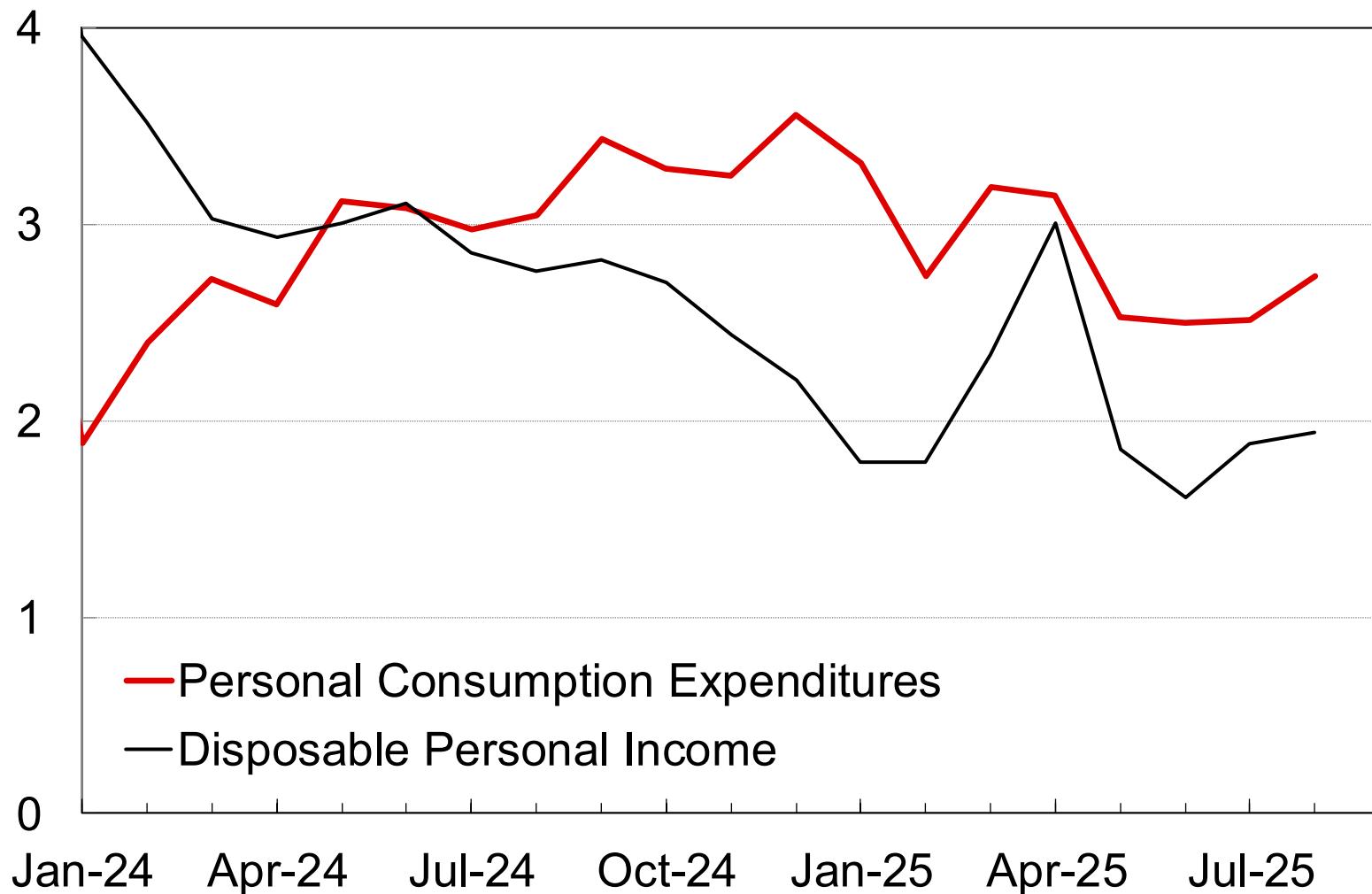
# US Civilian Unemployment Rate

*Percent*



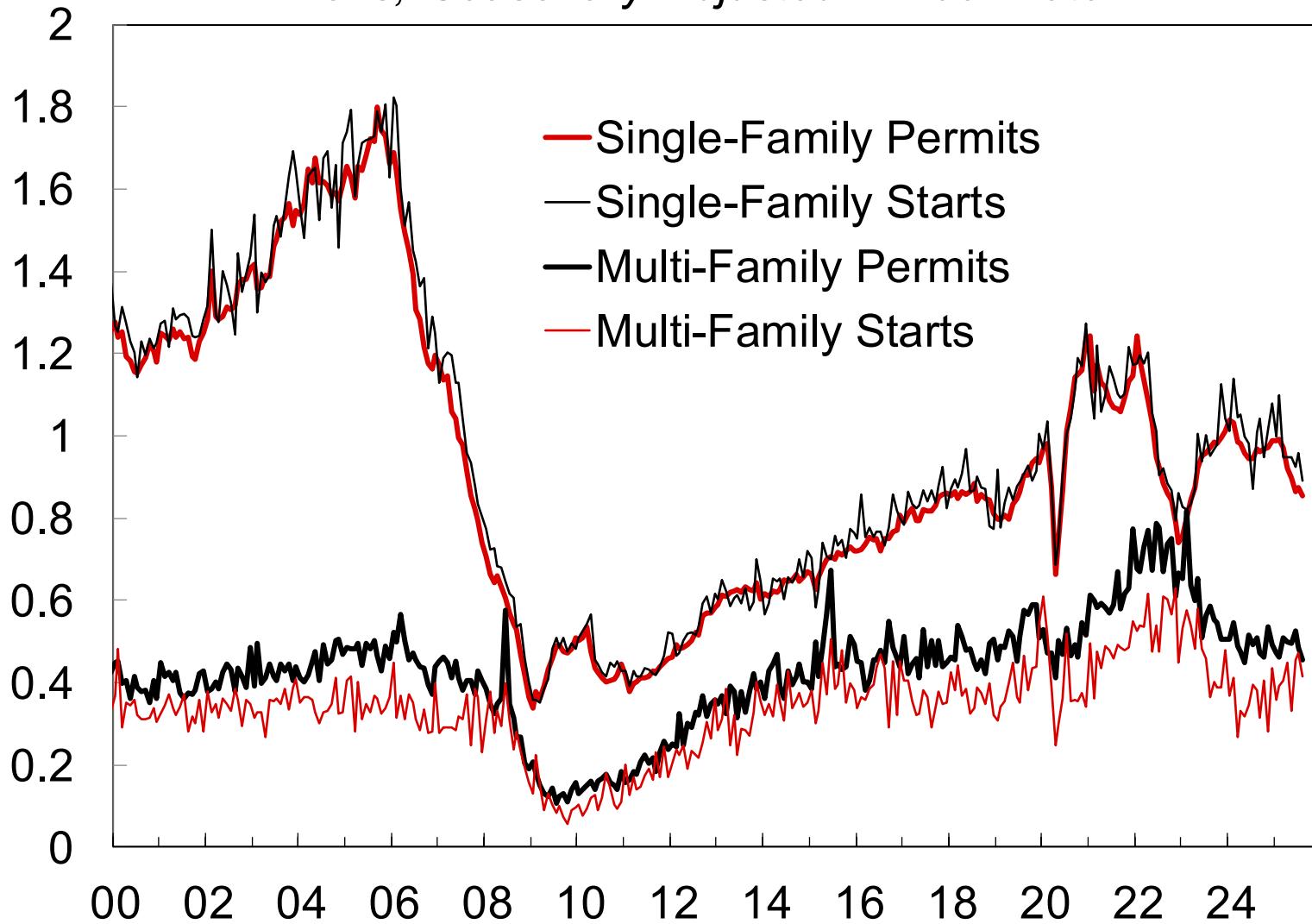
# US Real Consumer Spending

*Percent Change from Year Ago, Chained 2017 Dollars*



# US Housing Starts & Building Permits

*Millions, Seasonally Adjusted Annual Rate*



# **There are plenty of cracks in the economy.**

**Growth in nonfarm payrolls has slowed. Revisions make it more consistent with ADP. Expected revisions will slow 2024 growth.**

**Civilian employment has declined since January, reflecting reduced immigration.**

**Job openings have fallen below the number of unemployed for the first time since early 2021.**

**Growth in disposable income has slowed. The savings rate has fallen.**

**Housing market, a leading indicator, remains very weak.**

**The Fed's last two Beige Books, released September 3 and October 15, were very negative about the economy.**

# What should the Fed do?

**Real interest rates are still high by historical standards. The Fed is still shrinking its balance sheet.**

- The combination means monetary policy is restrictive.
- Housing market is being hit hard.

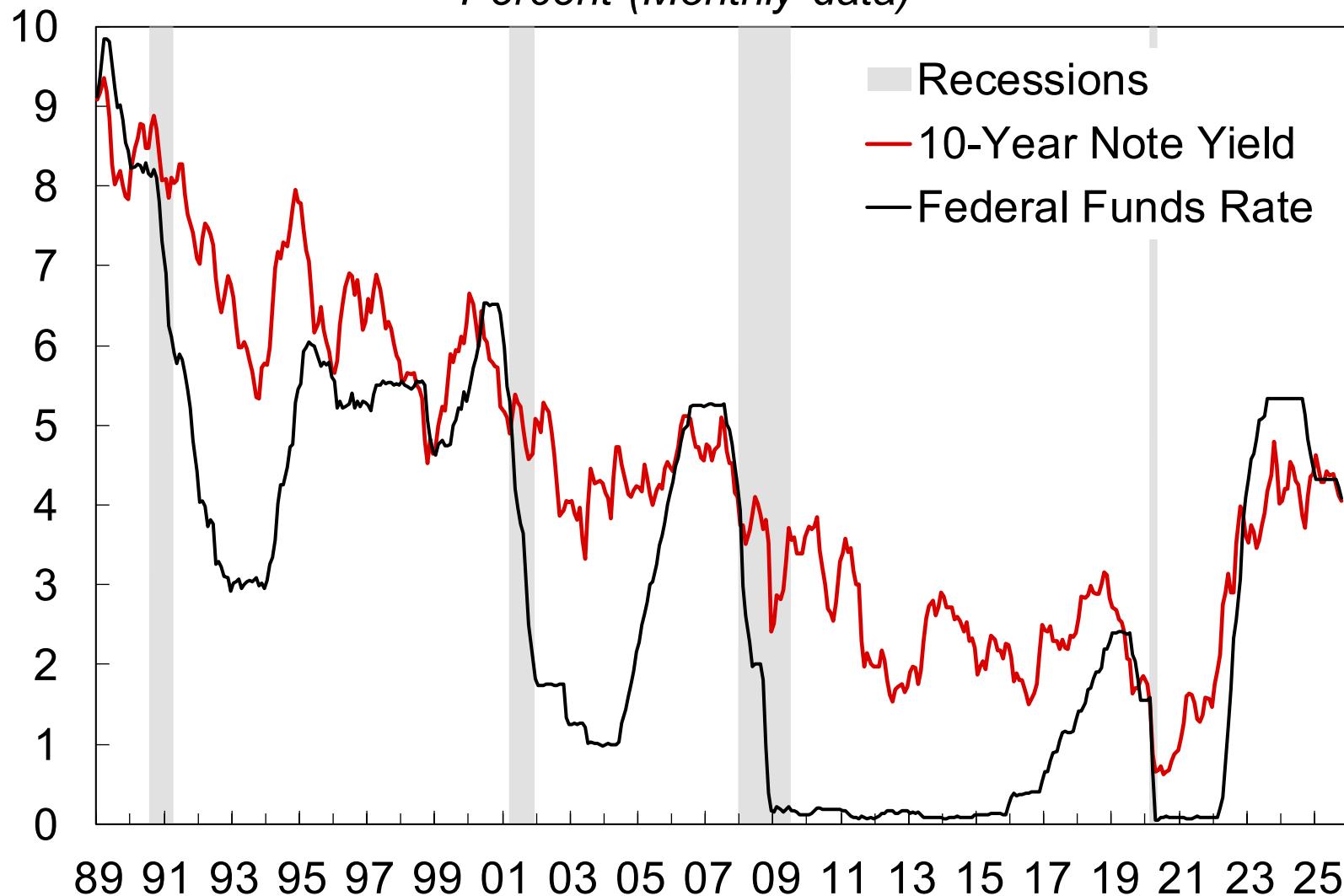
**But inflation is still above the Fed's 2% target and no longer falling.**

- That suggests policy **should** be restrictive.

**Stock prices are at record highs.**

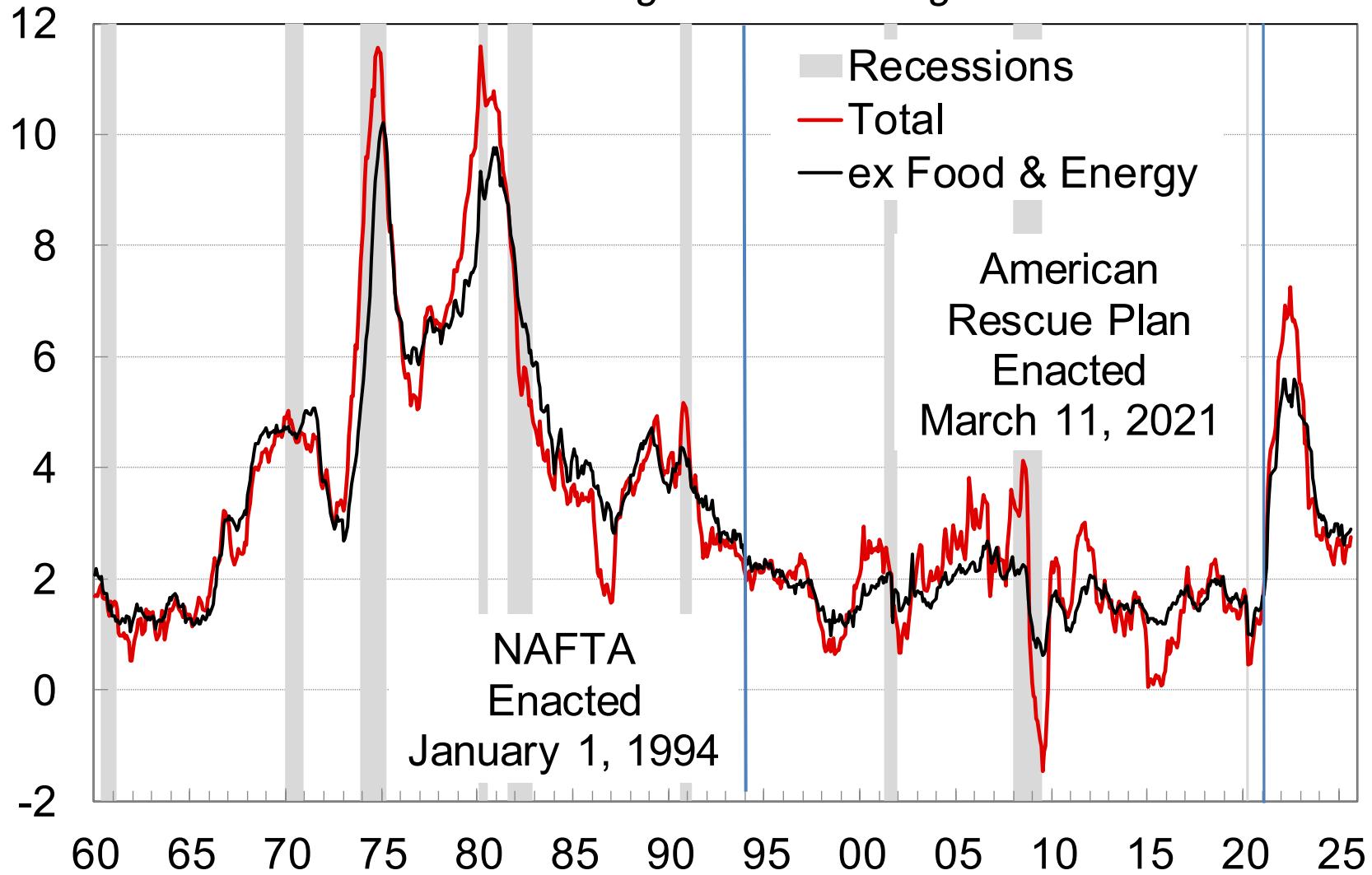
# US Interest Rates

*Percent (Monthly data)*

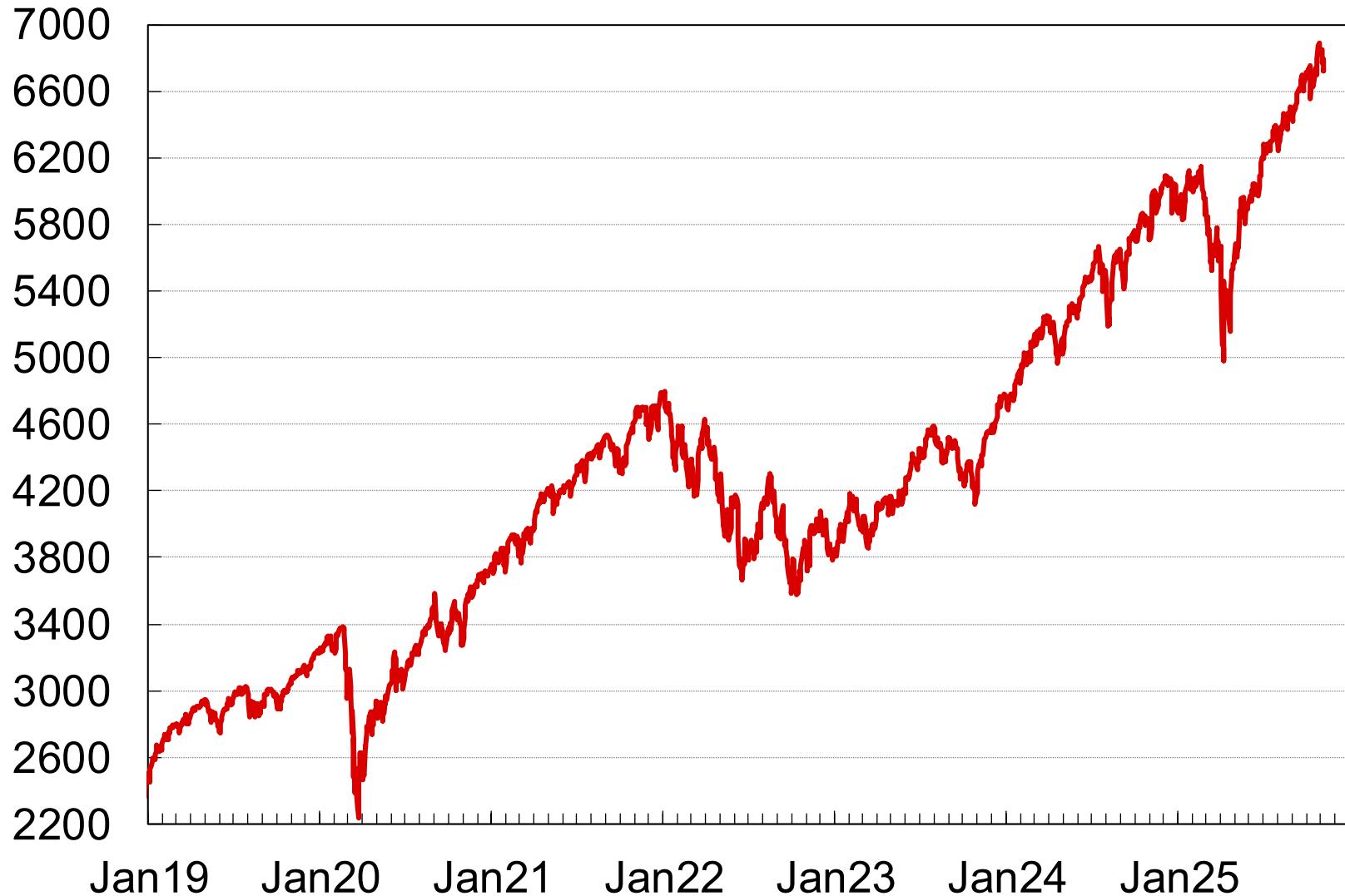


# US Personal Consumption Expenditures Price Index

*Percent Change from Year Ago*



## S&P 500 Stock Price Index



Source: S&P Dow Jones Indices LLC/FRED

# What will the Fed do?

**Fed cut its federal funds rate target by a quarter point in September and another quarter point in October.**

**Two more cuts are likely unless inflation rises & labor market firms.**

**Rate cuts might not result in lower mortgage rates.**

- When Fed cut short-term interest rates in 2024, long-term interest rates rose.
- If that happens again, that's a signal to stop cutting rates.

**There isn't much the Fed can do to address negative supply shocks.**

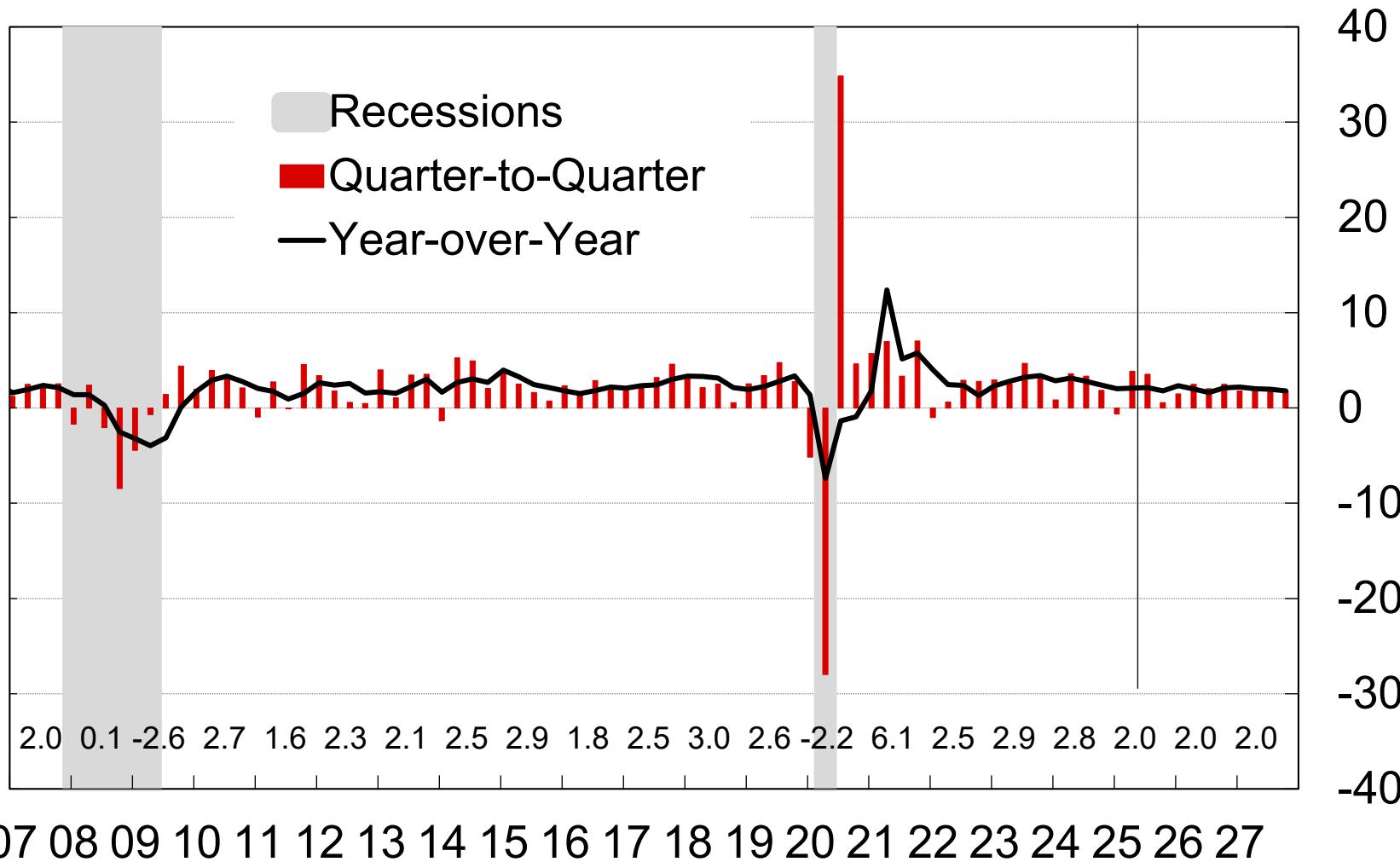
**“Prediction is very difficult, especially about the future.”**

Niels Bohr, 1885-1962  
Nobel Laureate, 1922



# US Real Gross Domestic Product

## Annualized Growth Rates



# US Macroeconomic Summary

**Employment growth has slowed (more and earlier than we thought).**

- Reduction in immigration has limited impact on unemployment.
- We're in a no-hire, no-fire economy.

**Tariffs will temporarily boost MEASURED inflation.**

**Tariffs will have bigger impact on growth than on inflation.**

- Slowing growth will put downward pressure on inflation.

**Income growth has slowed; consumer spending will follow.**

**Growth will slow, but I hesitate to forecast a recession.**

- "Once bitten, twice shy" after forecasting a recession that never came.

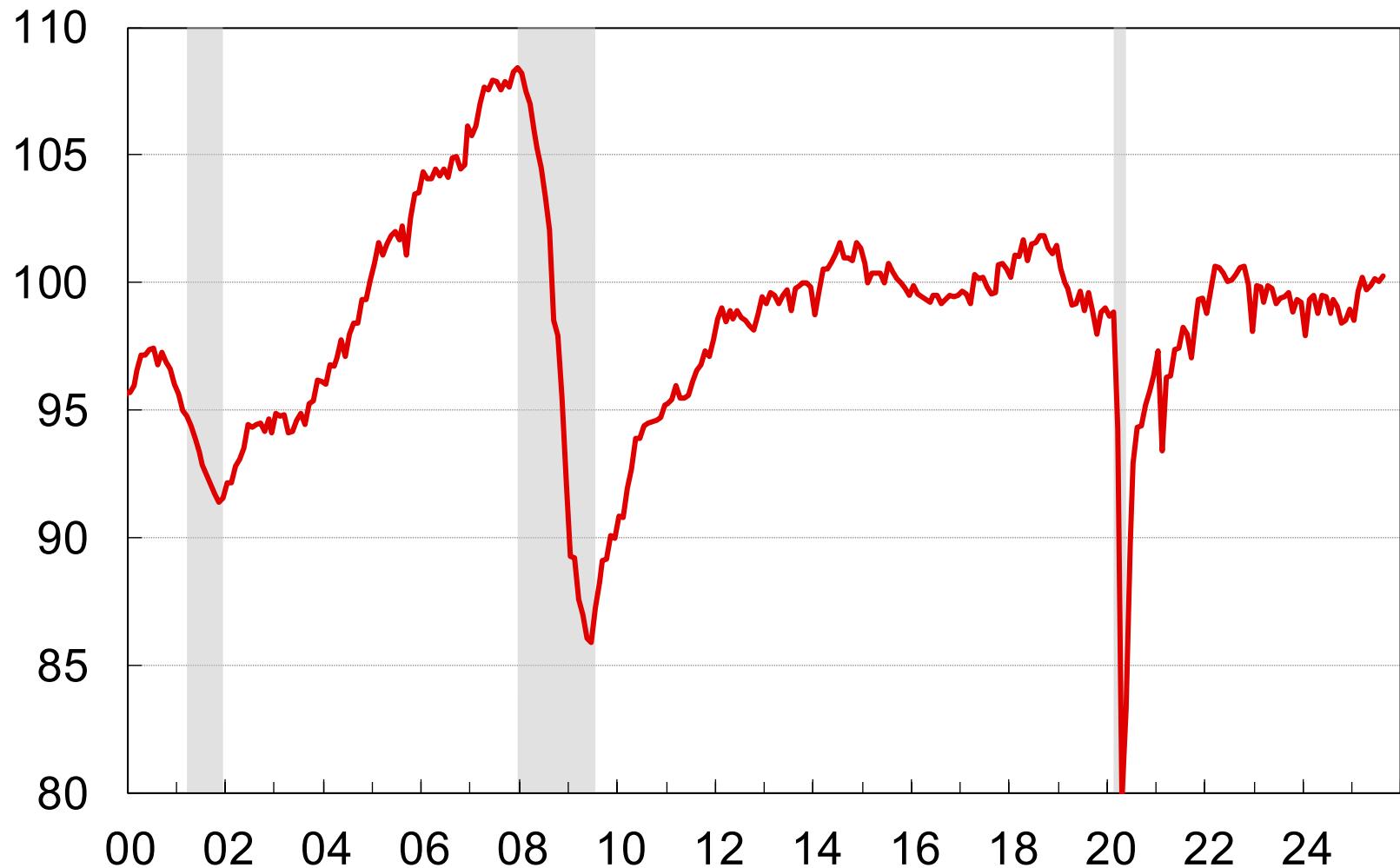
**Uncertainty, the word of the year, remains elevated.**

- Consider multiple scenarios. Don't rely on a point forecast.
- Government shutdown adds to uncertainty.

# Industry Detail

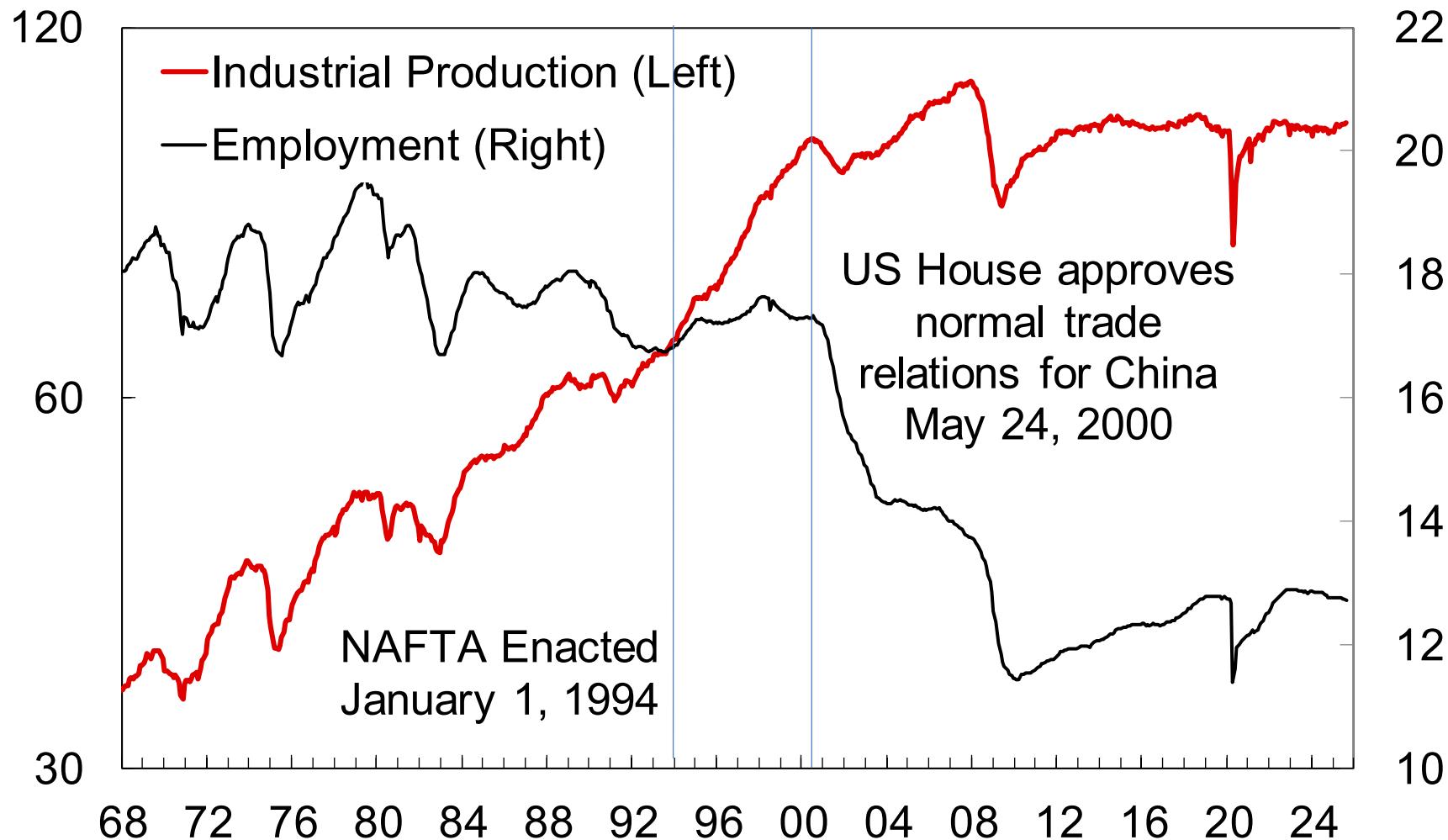
# US Industrial Production: Manufacturing

*Index, 2017=100*



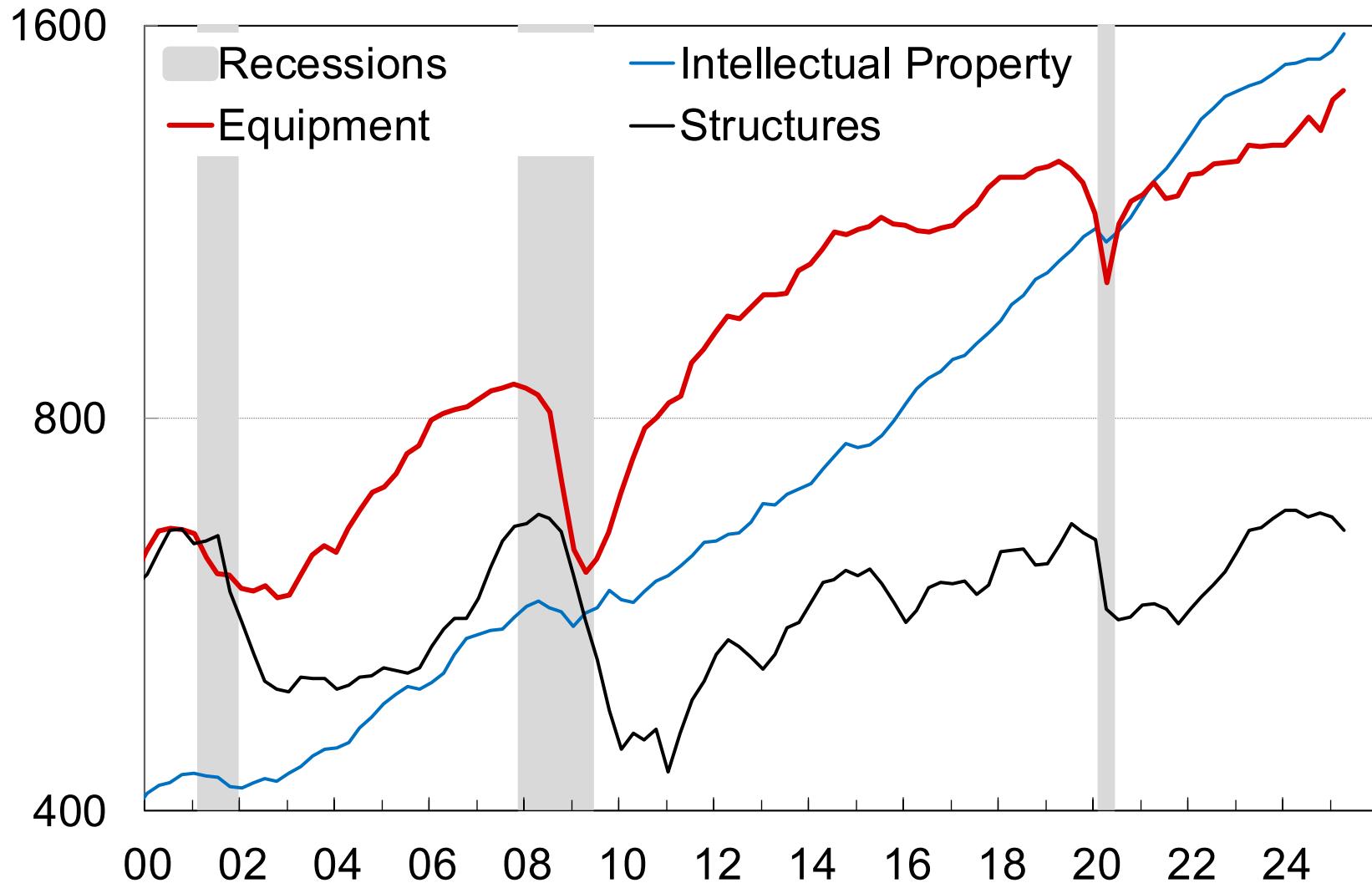
# US Industrial Production & Employment: Manufacturing

*Index, 2017=100* *Millions*



# US Nonresidential Fixed Investment

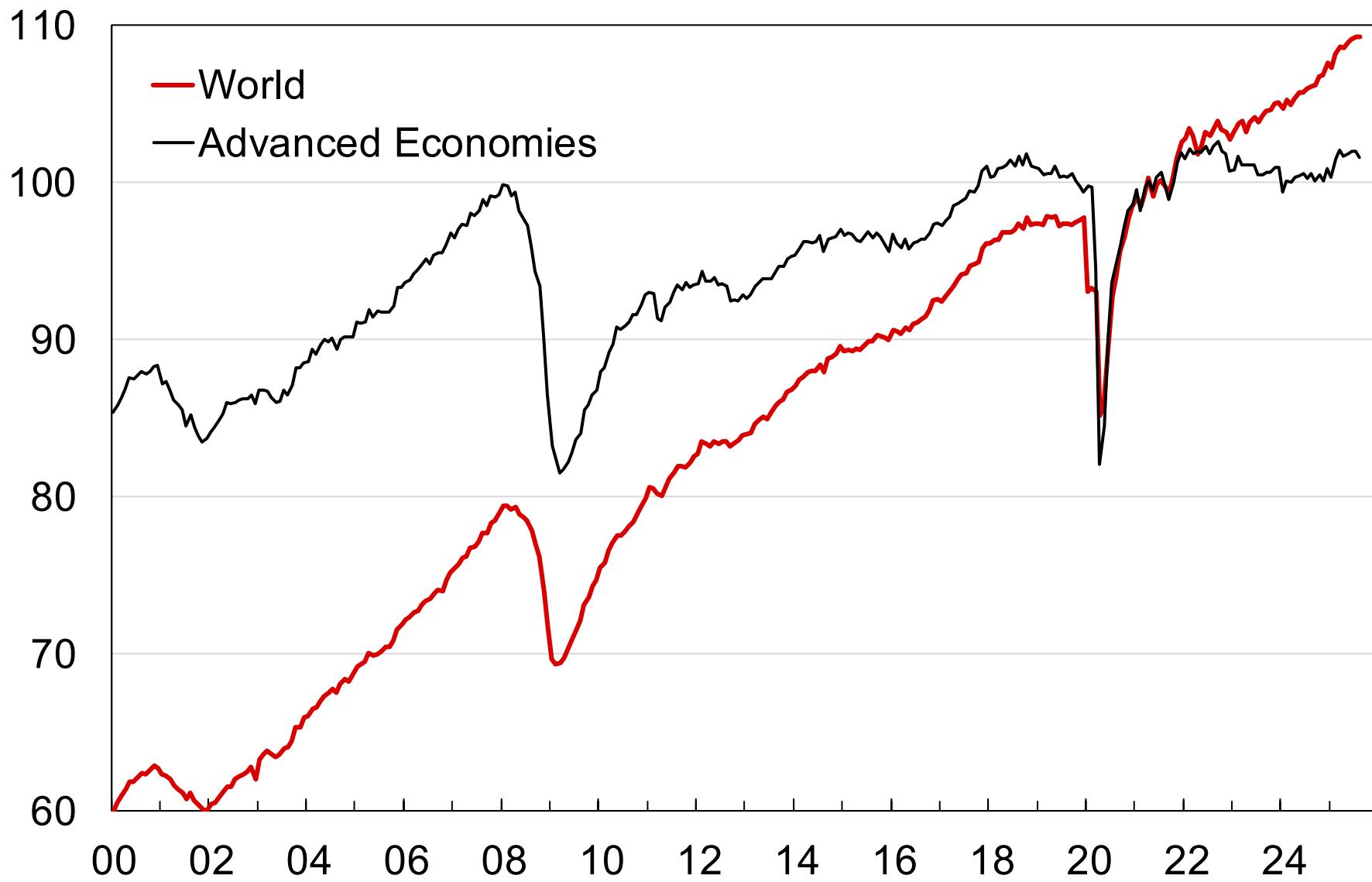
*Billion Chained 2017 Dollars*



# Global Overview

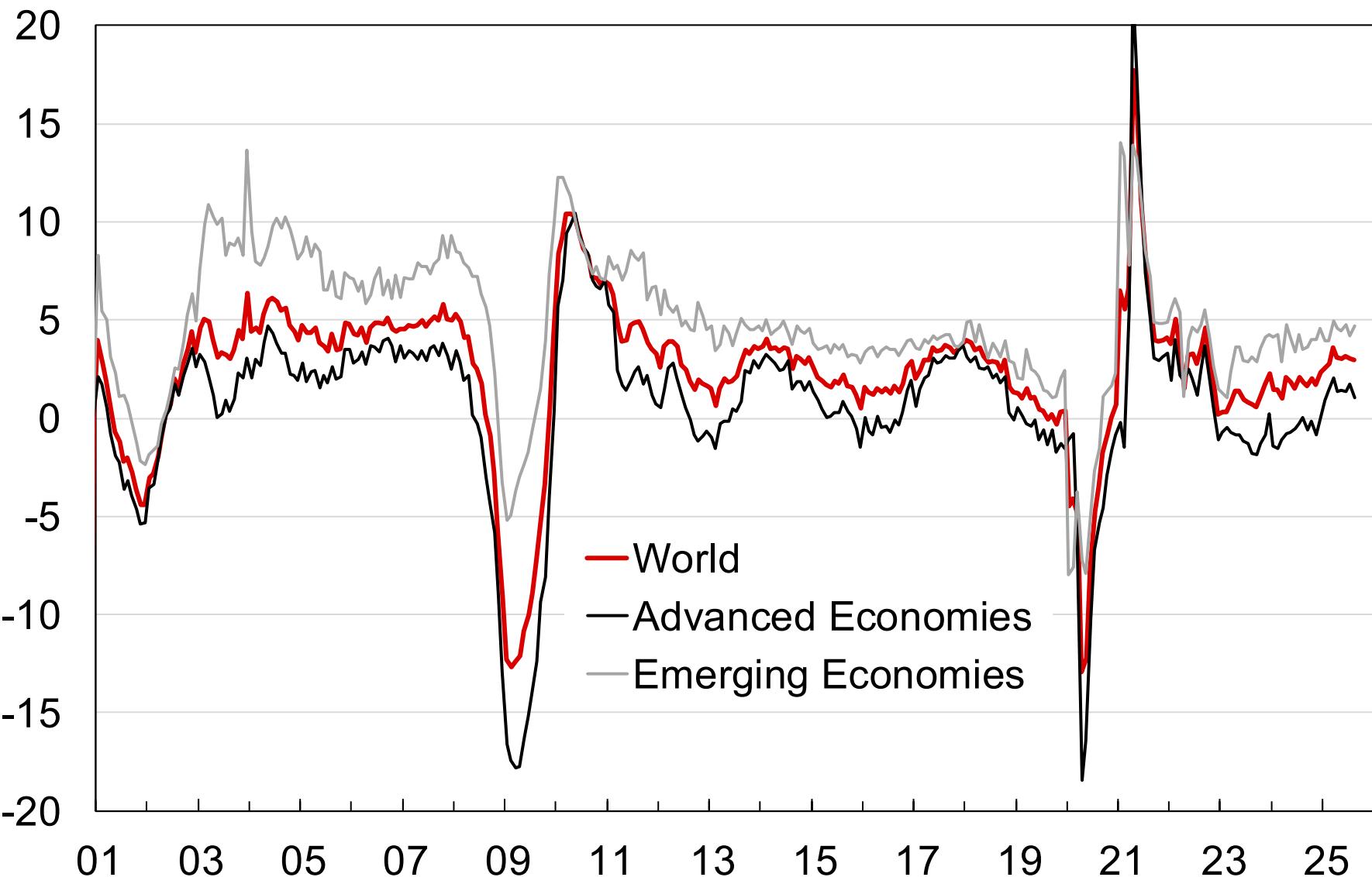
# Industrial Production ex Construction

*Index, 2021 = 100*



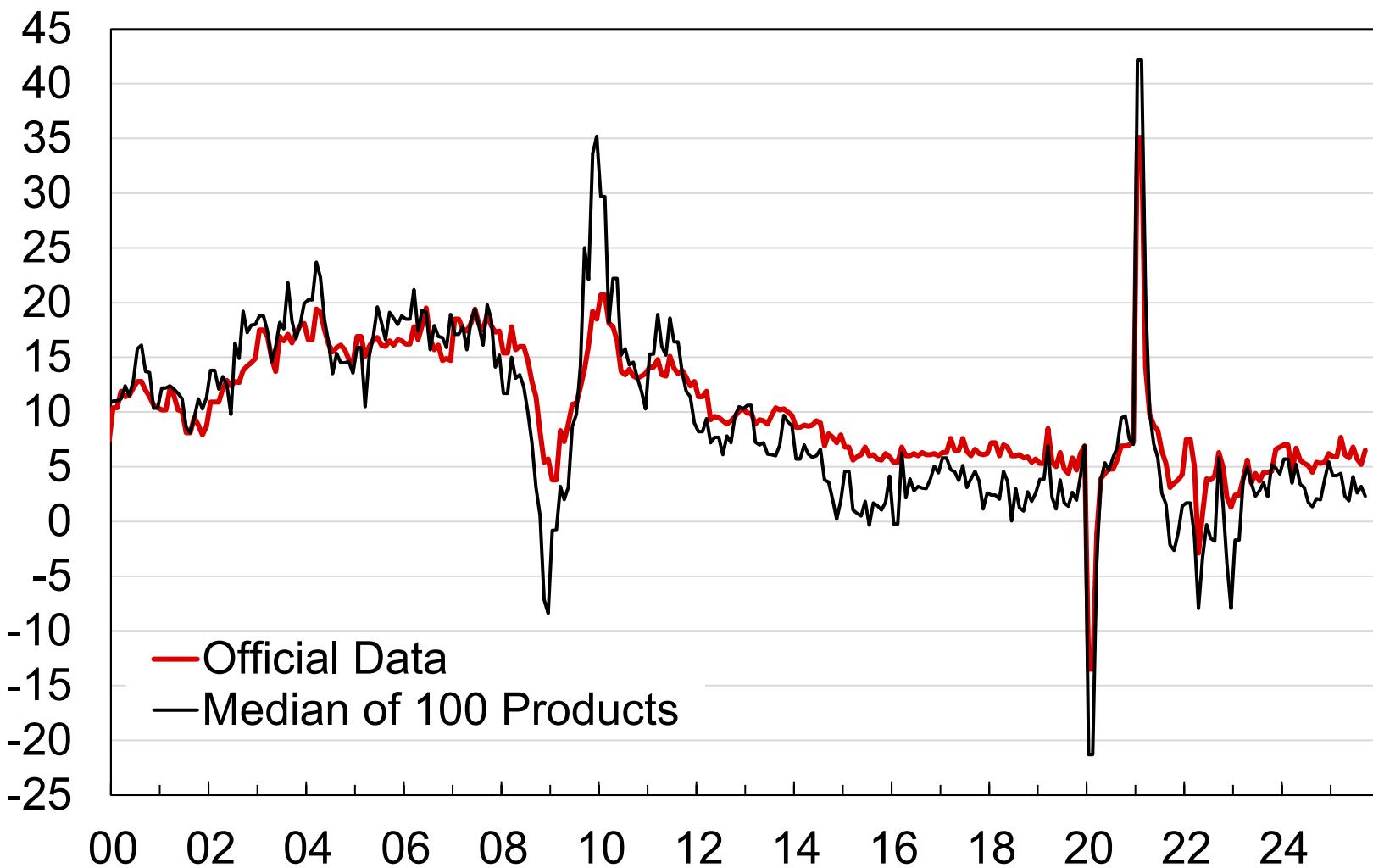
# Industrial Production ex Construction

*Percent Change from Year Ago*



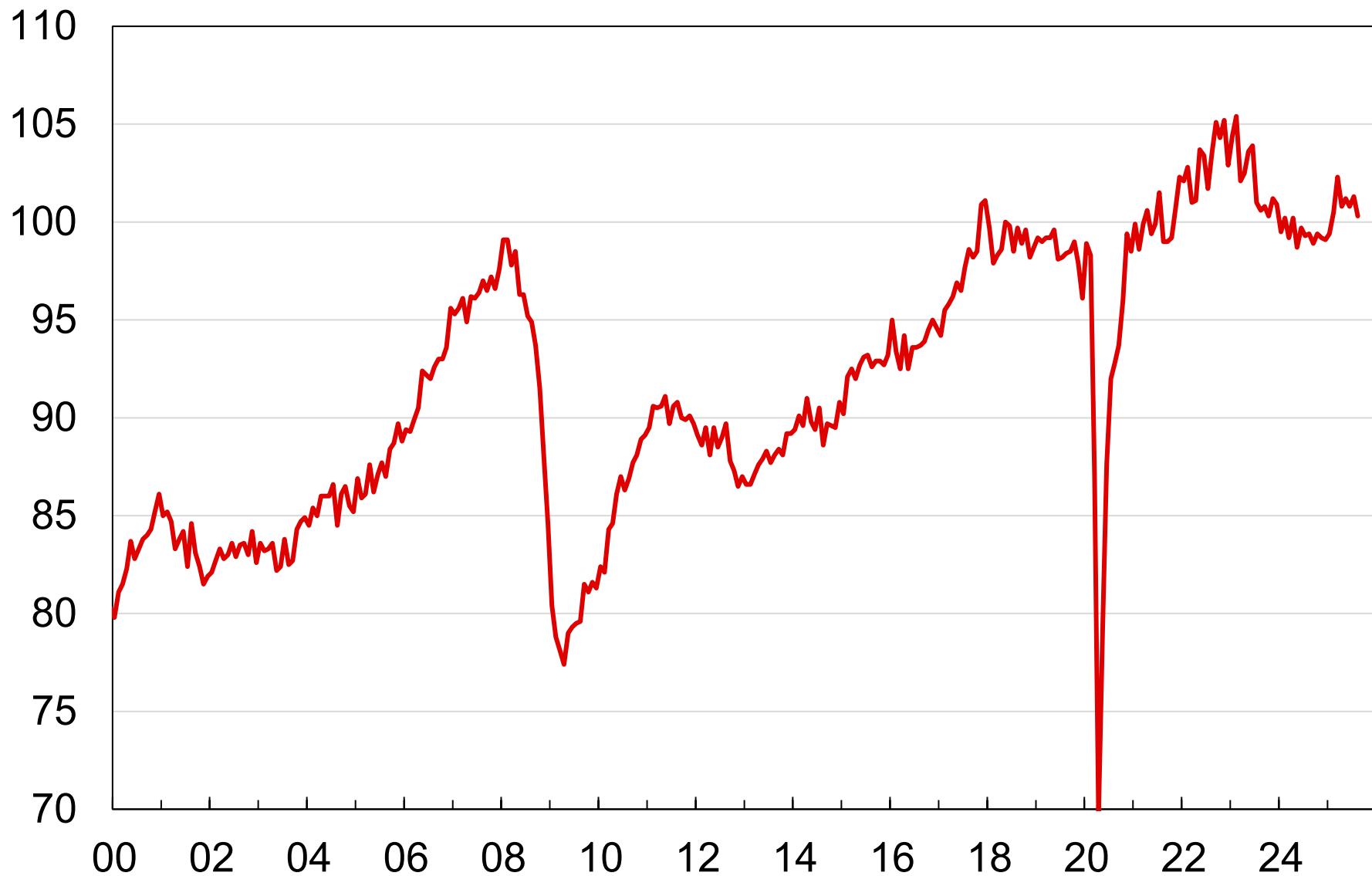
# Value Added of Industry (Industrial Production): China

*Percent Change from Year Ago*



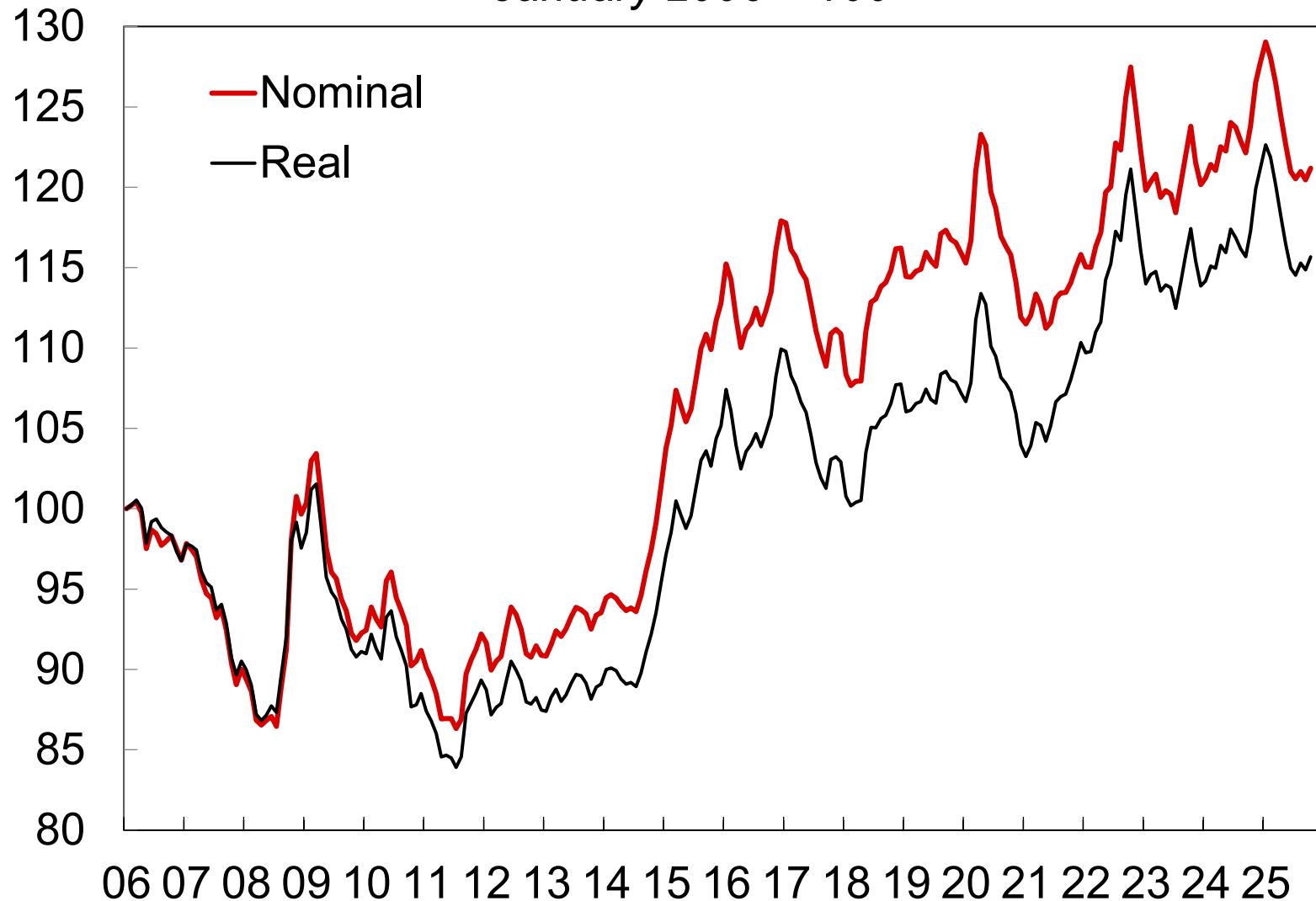
# Industrial Production, Manufacturing: European Union

*Index, 2021 = 100*



# Federal Reserve Broad Dollar Index

January 2006 = 100



# Key takeaways

**The US economy grew strongly in the second and third quarters, but . . .**

- Employment growth has slowed.
- Inflation remains stubbornly above the Fed's 2% target.

**Trump tariffs haven't had big impacts on inflation and growth . . . yet.**

**China is growing but not as fast as in the past.**

**Manufacturing in the rest of the world is stagnant.**

**“For decades, our country  
has been looted, pillaged,  
raped and plundered by  
nations near and far, both  
friend and foe alike.”**

Donald Trump  
1946-



**“We should beware of the demagogues who are ready to declare a trade war against our friends . . . all while cynically waving the American flag. The expansion of the international economy is not a foreign invasion; it is an American triumph, one we worked hard to achieve.”**

Ronald Reagan  
1911-2004



# Robert Fry Economics LLC

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# Winners and Losers

**Employees and shareholders of companies that compete with tariffed goods (e.g., steel and aluminum workers)**

**Investors in the stock market**

**(Older) people who own houses**

**Consumers**

**Businesses that use tariffed goods as inputs**

**Risk-averse savers who hold their money in bank accounts and unindexed bonds**

**(Younger) people who want to buy houses**