

# Economic Outlook Robert Fry

Robert Fry Economics LLC

Osher Lifelong Learning Institute  
at the University of Delaware  
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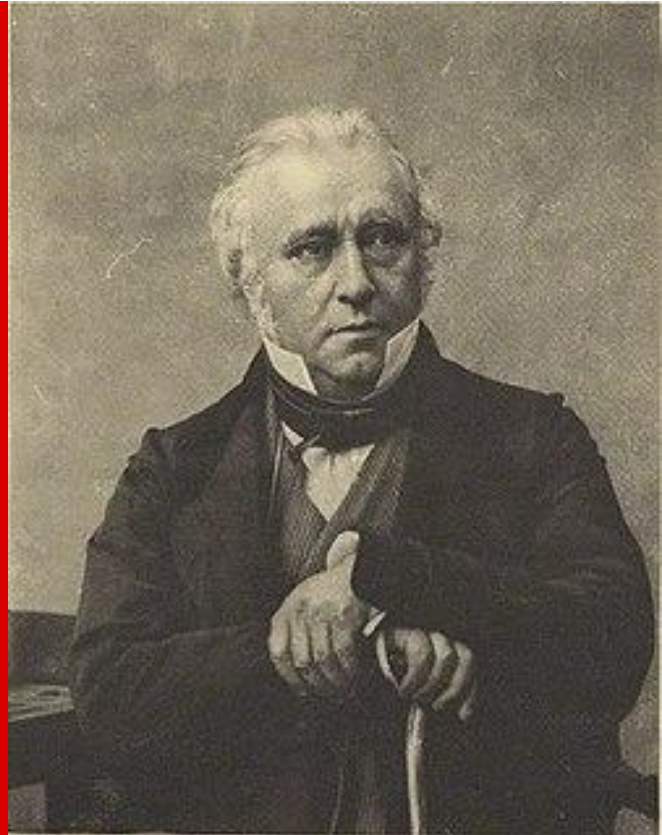
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**“Free trade, one of the  
greatest blessings that a  
government can confer on  
a people, is unfortunately  
in every country  
unpopular.”**

**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

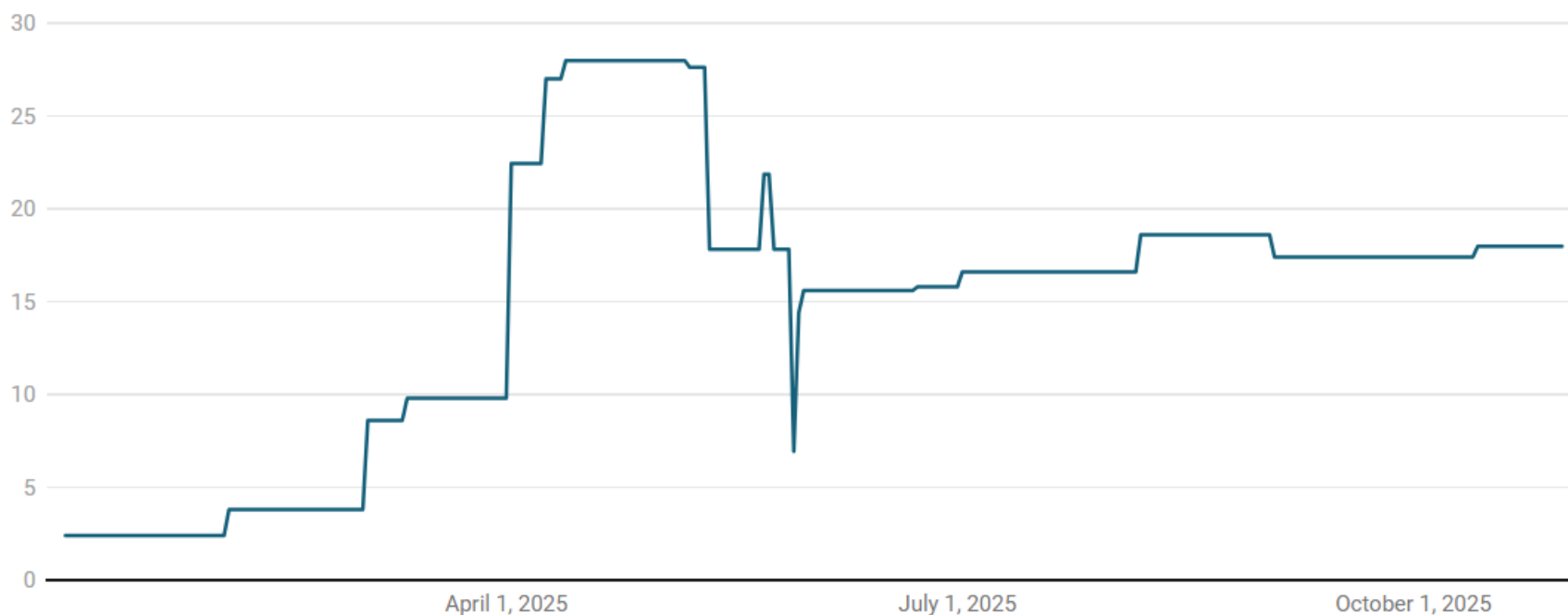


Chart: The Budget Lab • Source: The Budget Lab analysis. • Created with [Datawrapper](#)

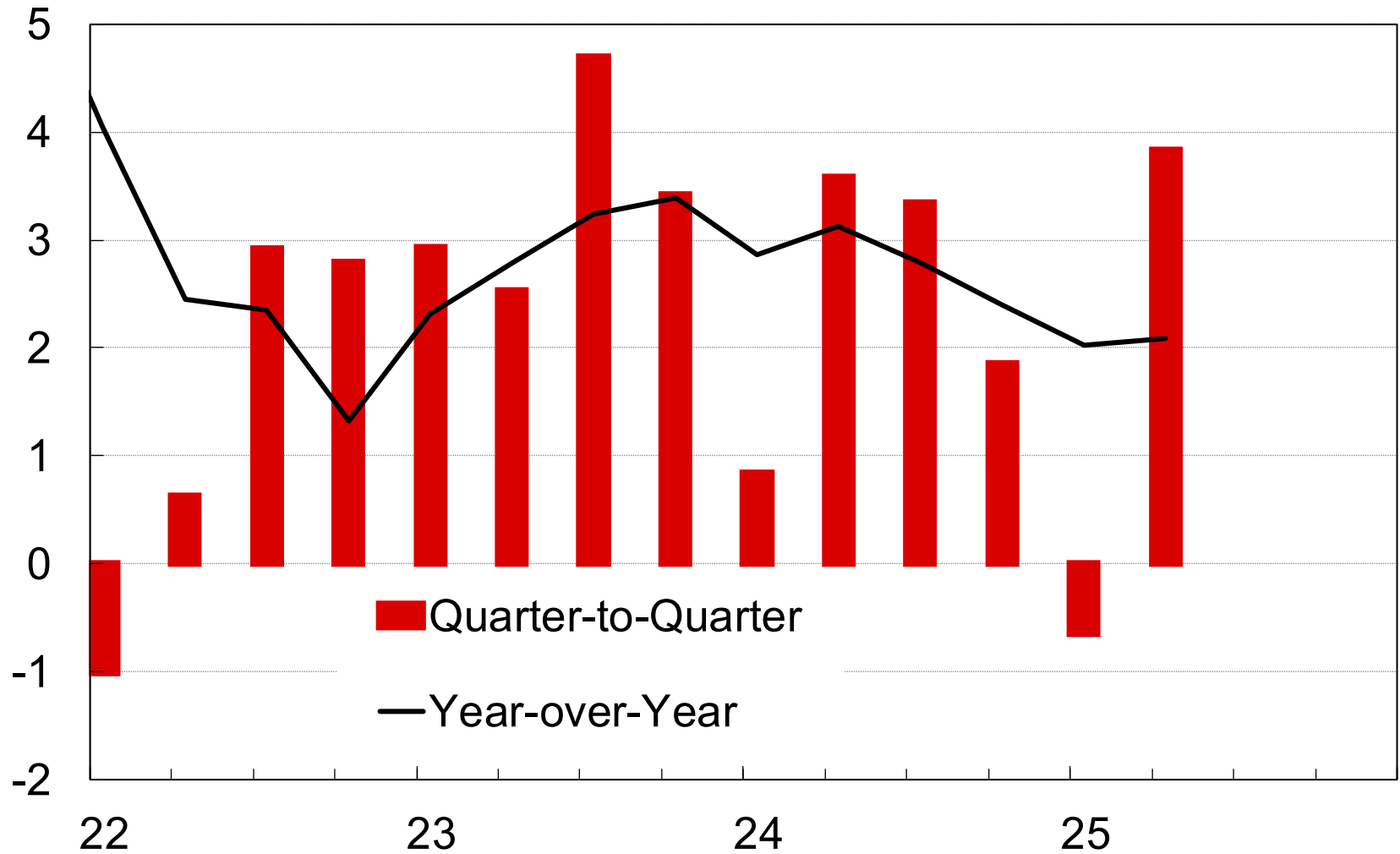
# What We Expected from Tariffs

**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

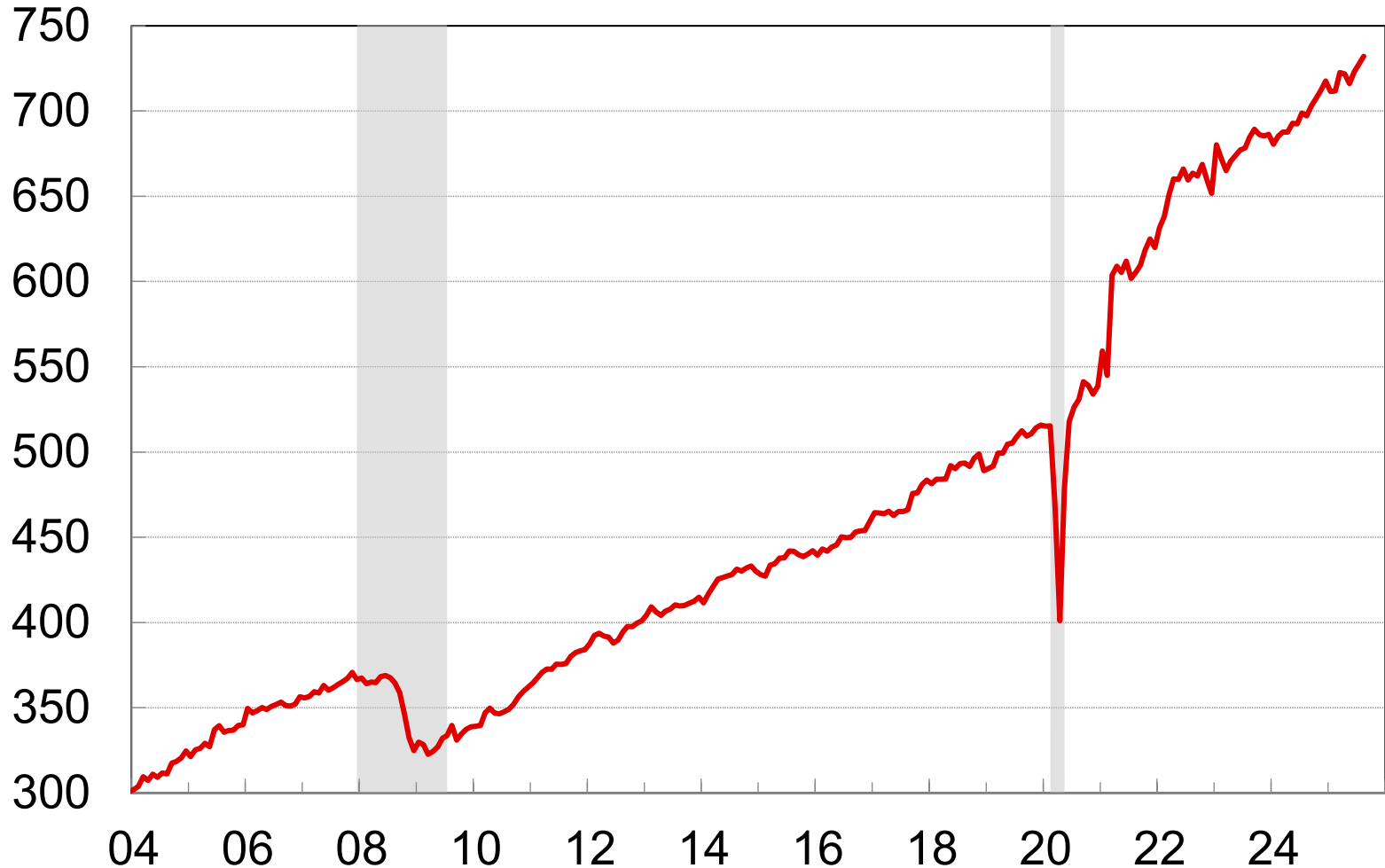
## *Annualized Growth Rates*





## Retail Sales: Retail and Food Services

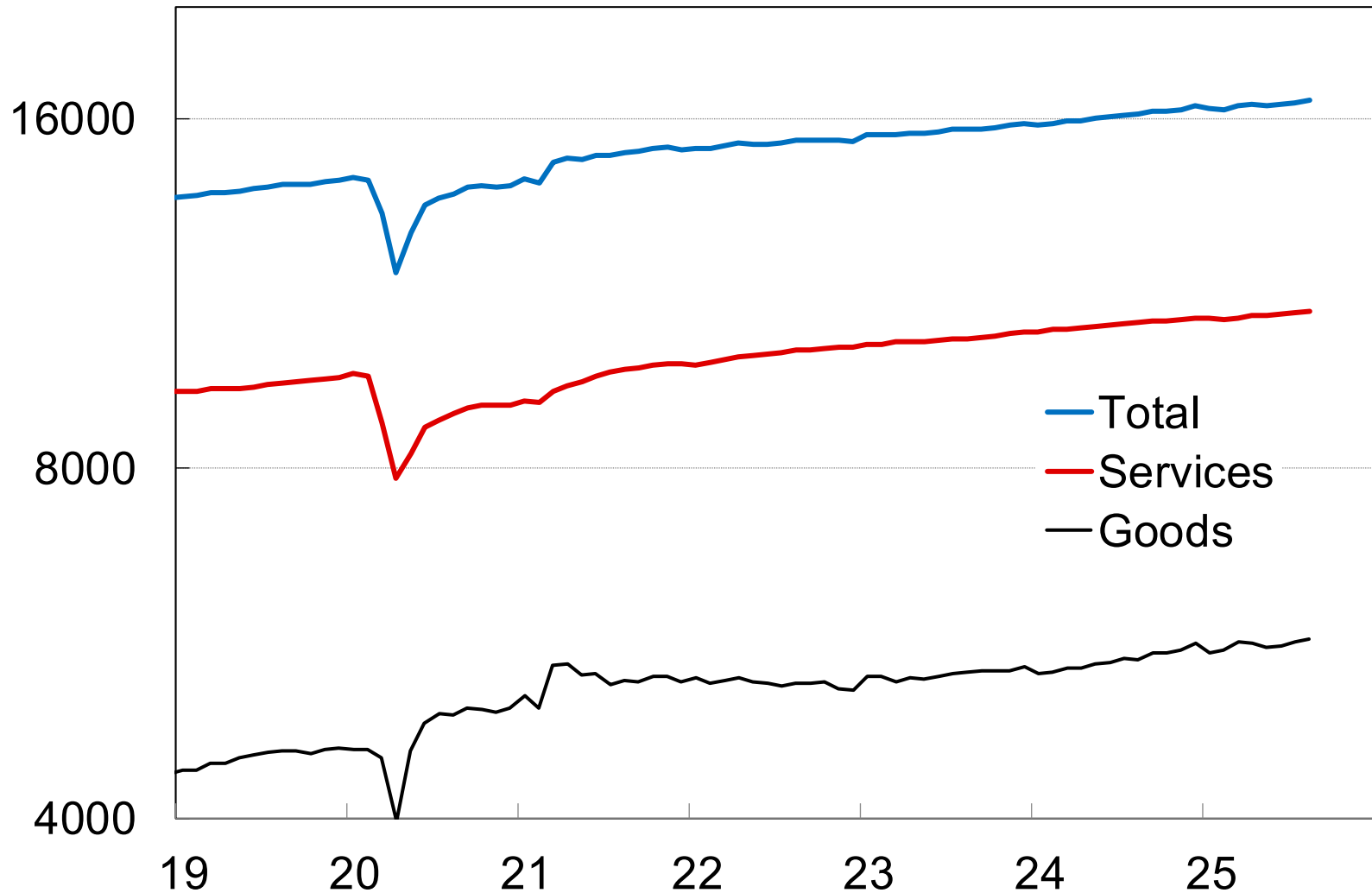
*Billions of \$, Monthly, Seasonally Adjusted*



Source: U.S. Census Bureau/FRED

# US Real Personal Consumption Expenditures

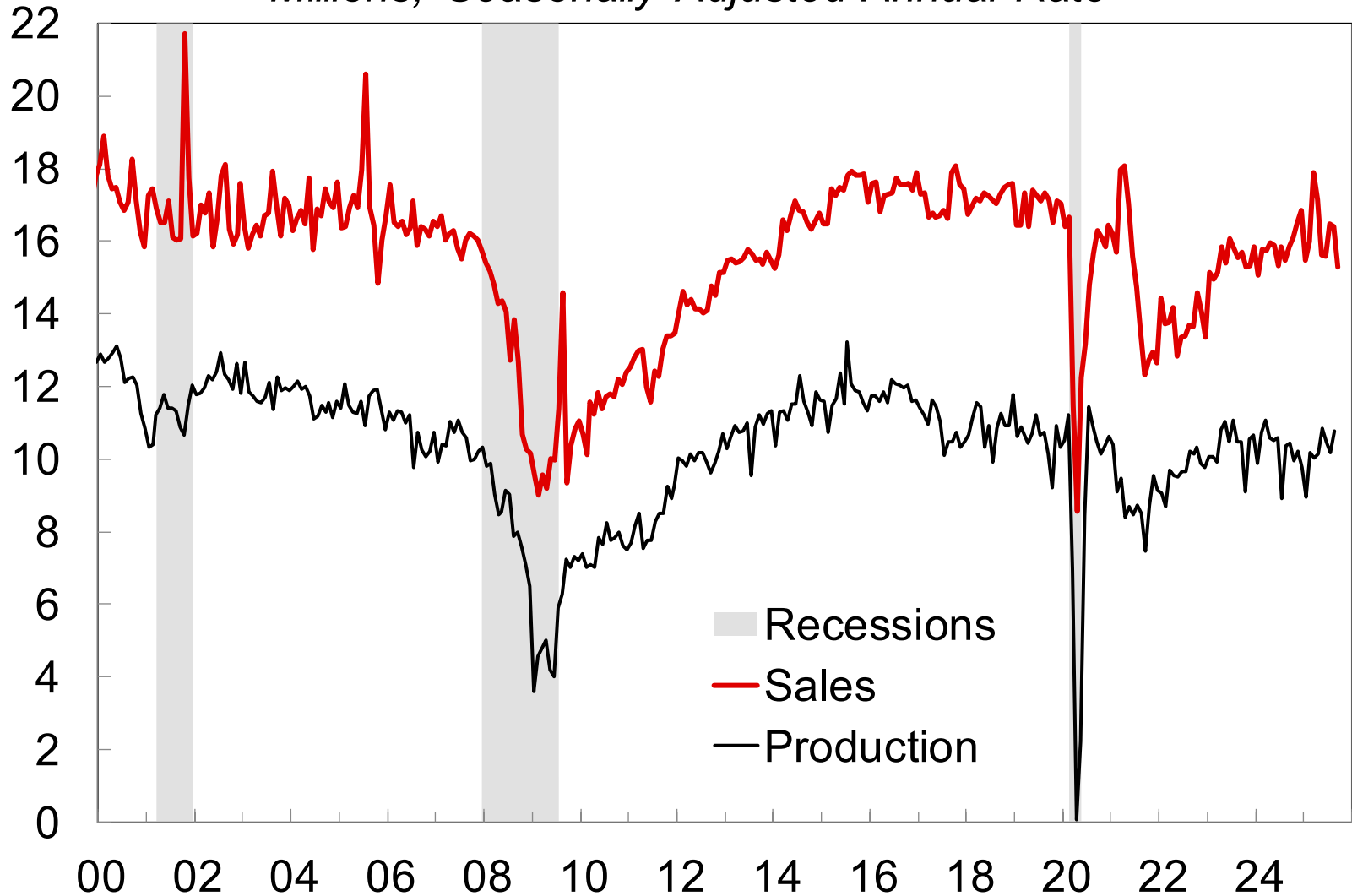
*Billion 2017 \$, Seasonally Adjusted Annual Rates*



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

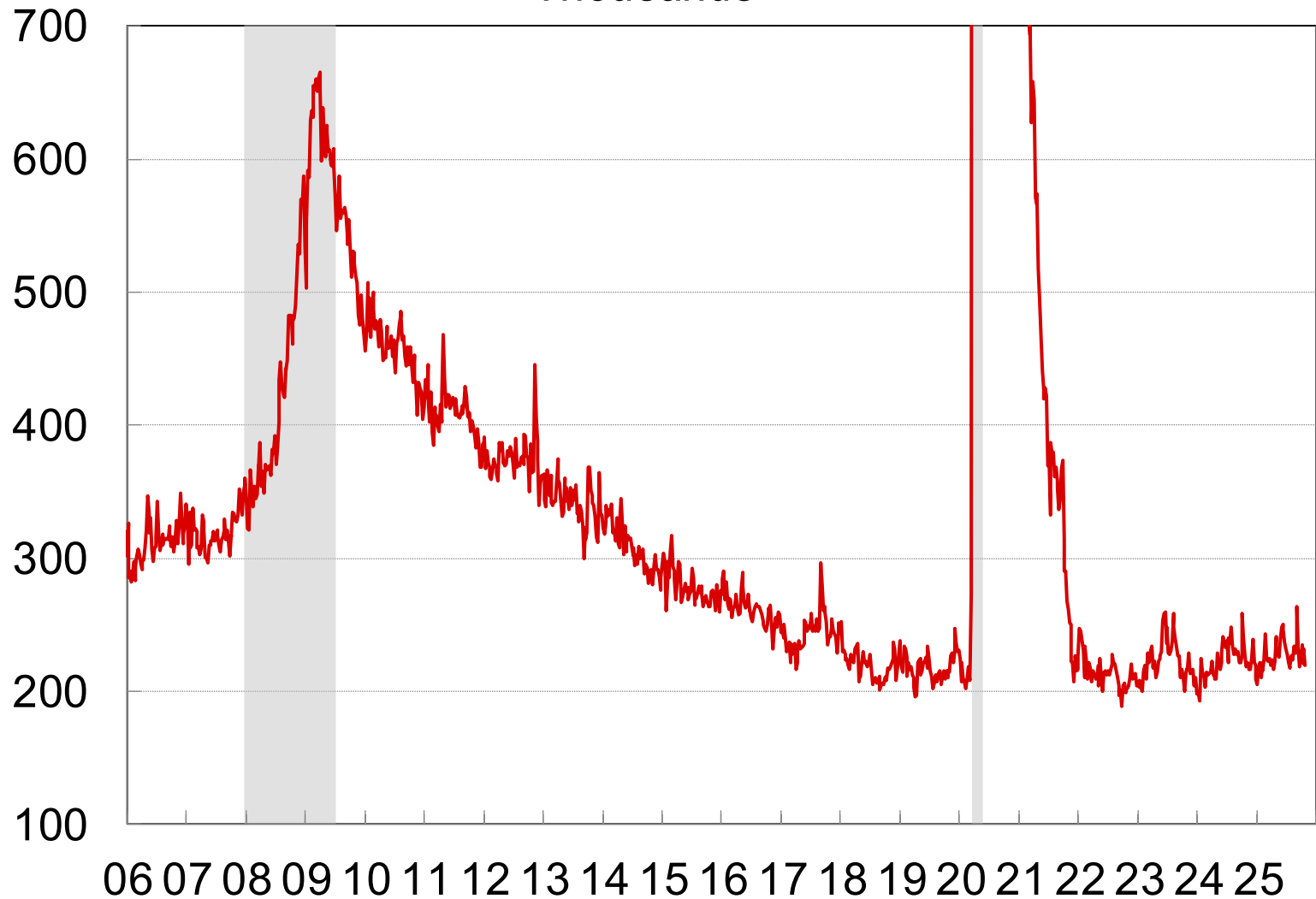
# US Light Vehicle Sales & Production

*Millions, Seasonally Adjusted Annual Rate*



# Initial Claims for Unemployment Insurance

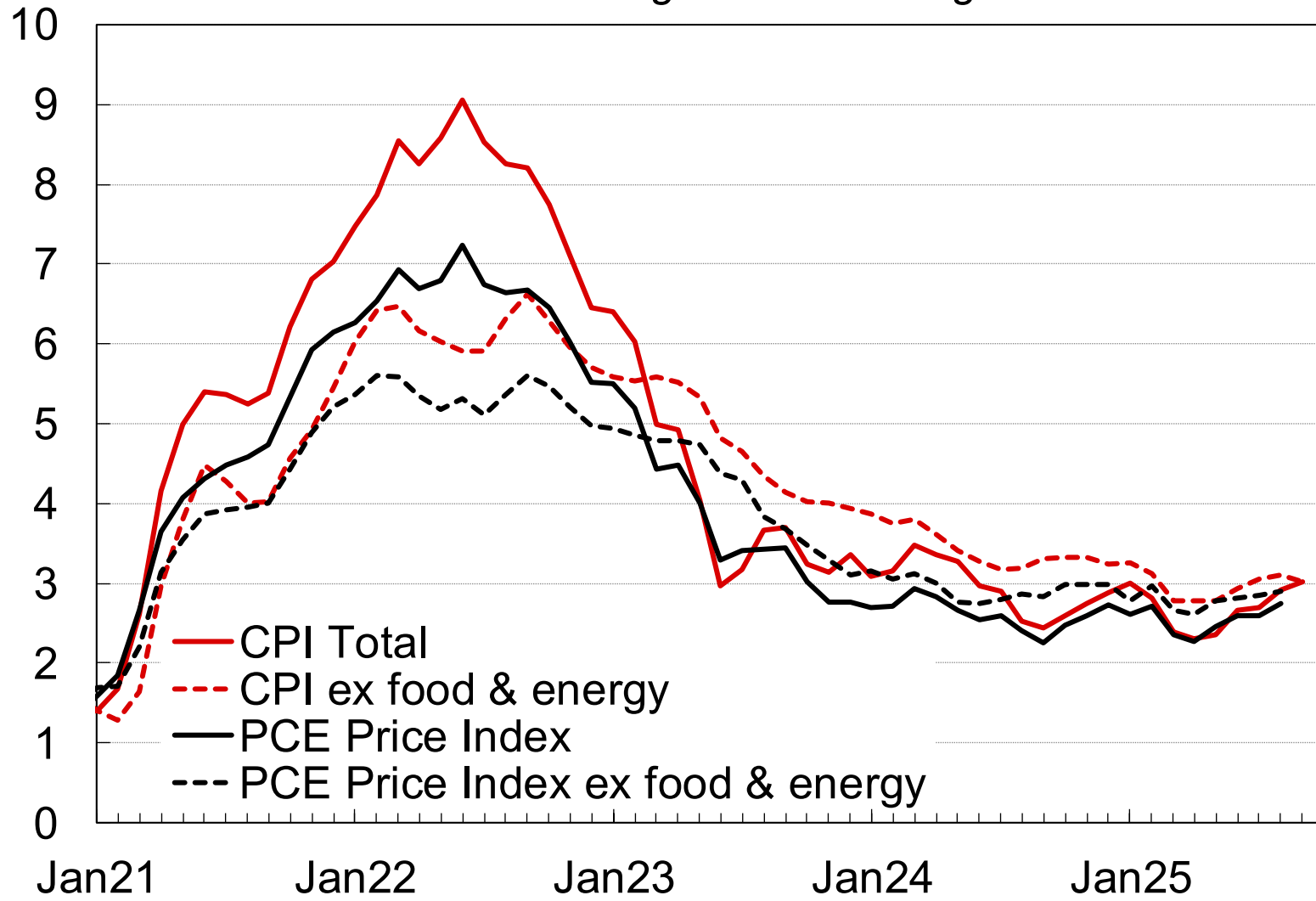
*Thousands*



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 understate the importance of oil prices.

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

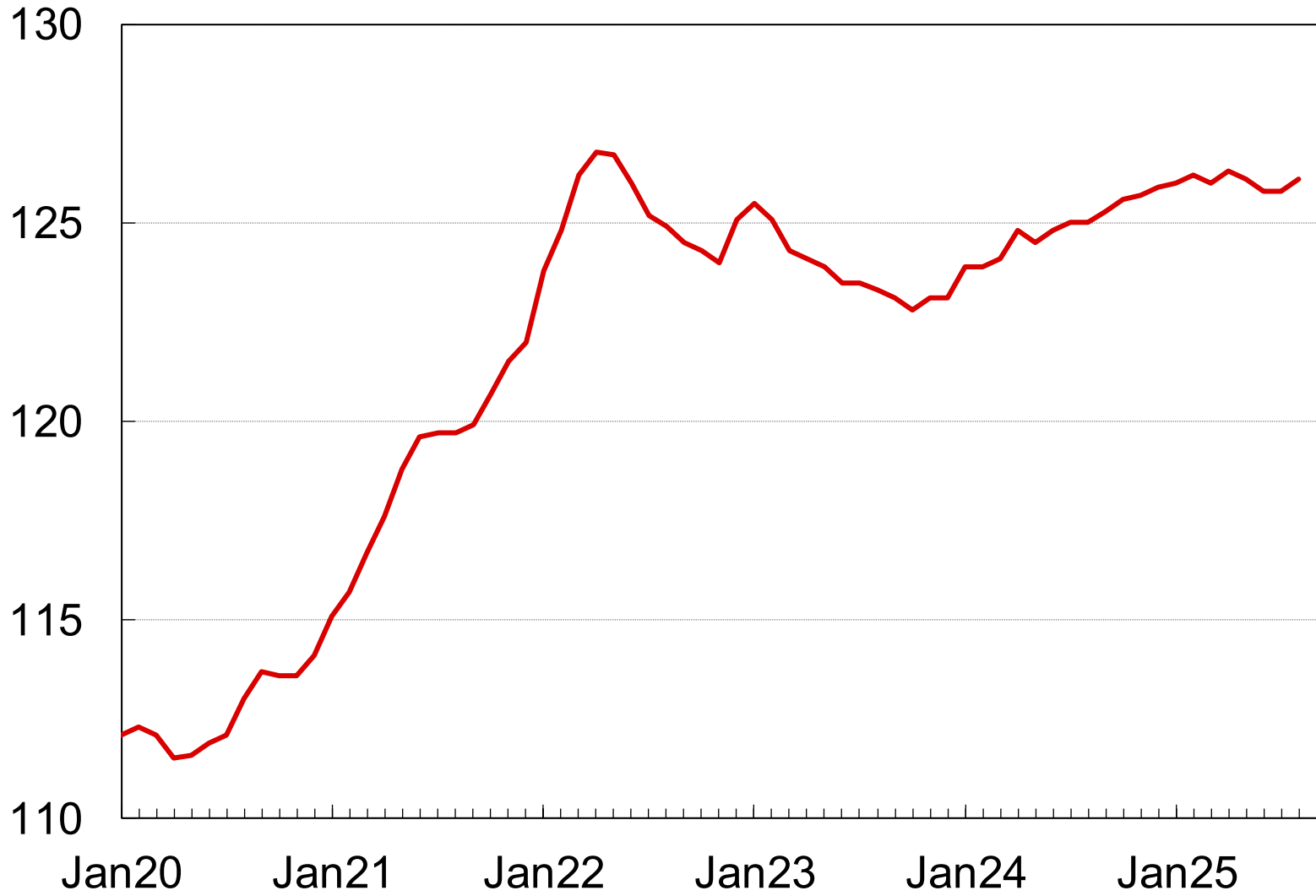
- Pre-tariff inventory build delayed impact.
- Lags are **always** longer than you think.

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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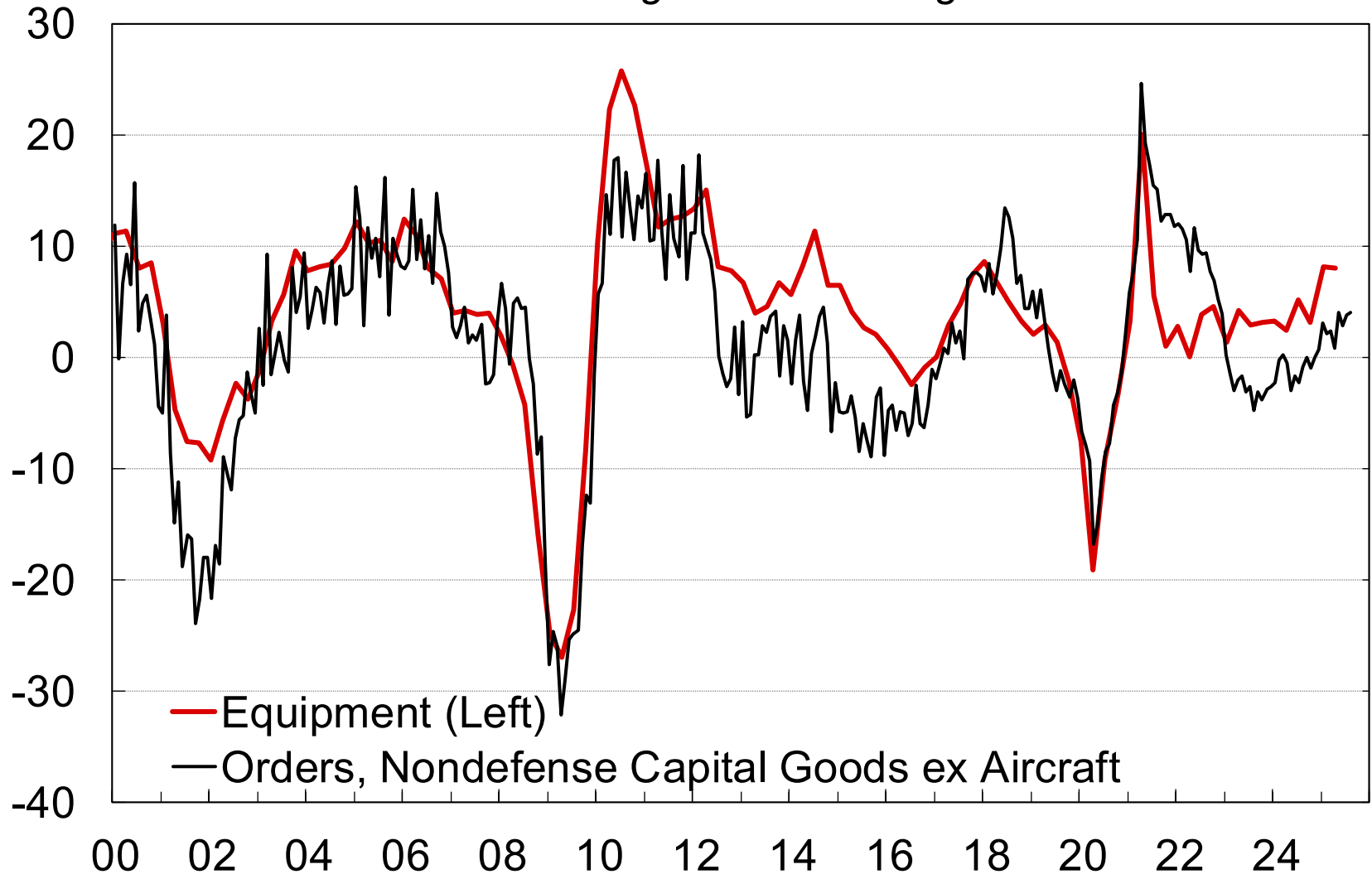
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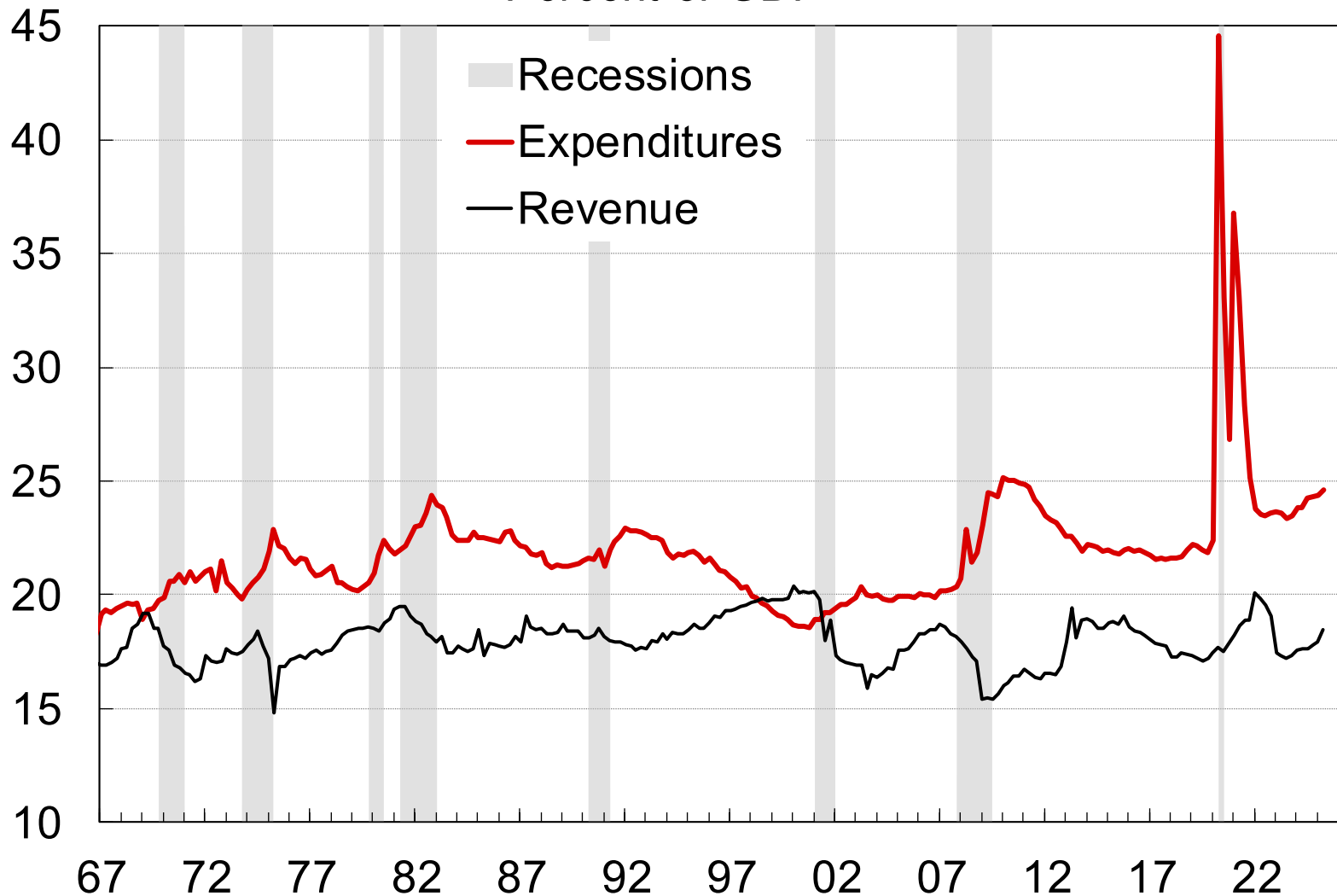
# Real Investment in Equipment vs Capital Goods Orders

*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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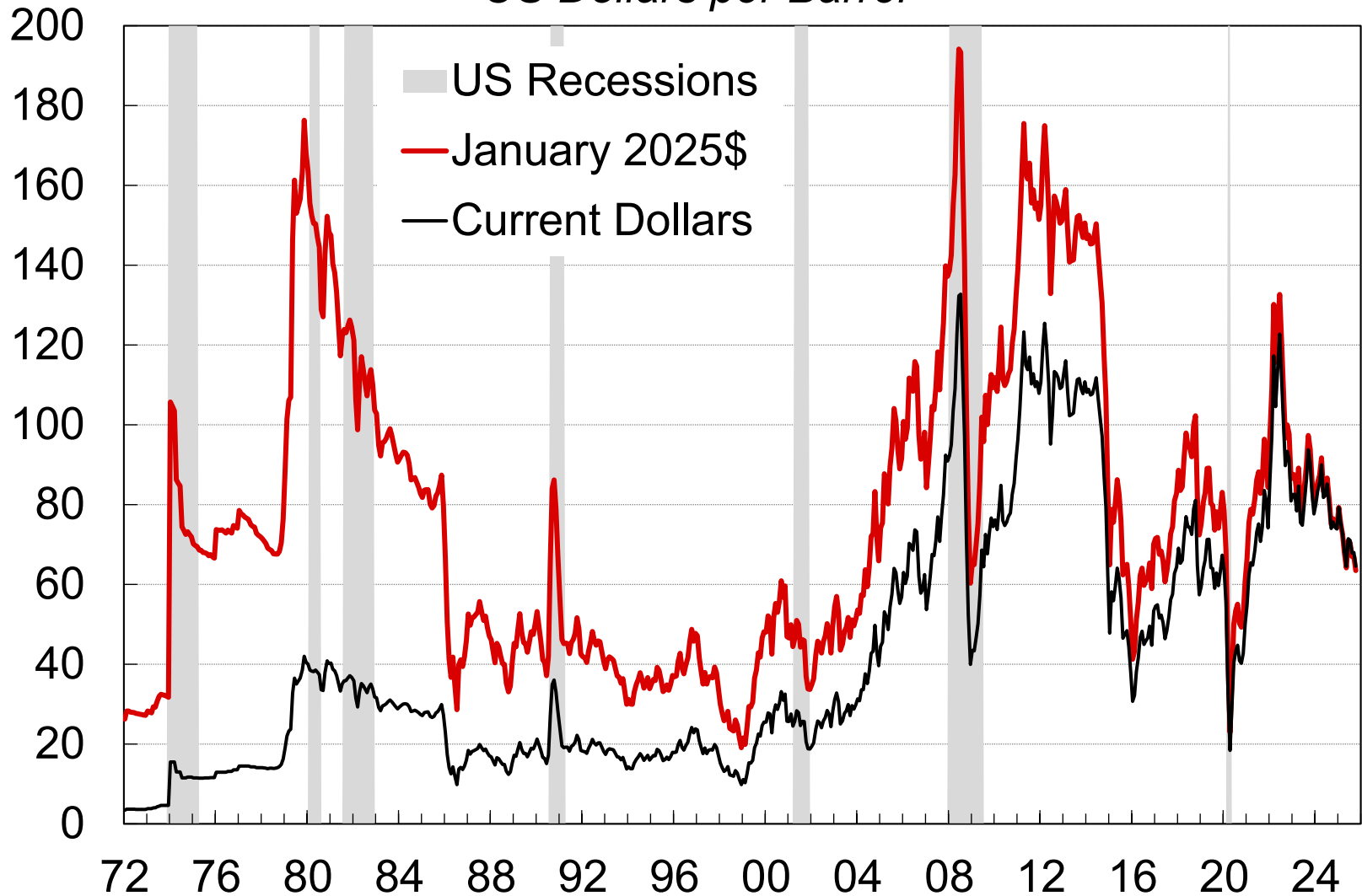
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## Brent Blend Oil Price *US Dollars per Barrel*



# US Regular Gasoline Price

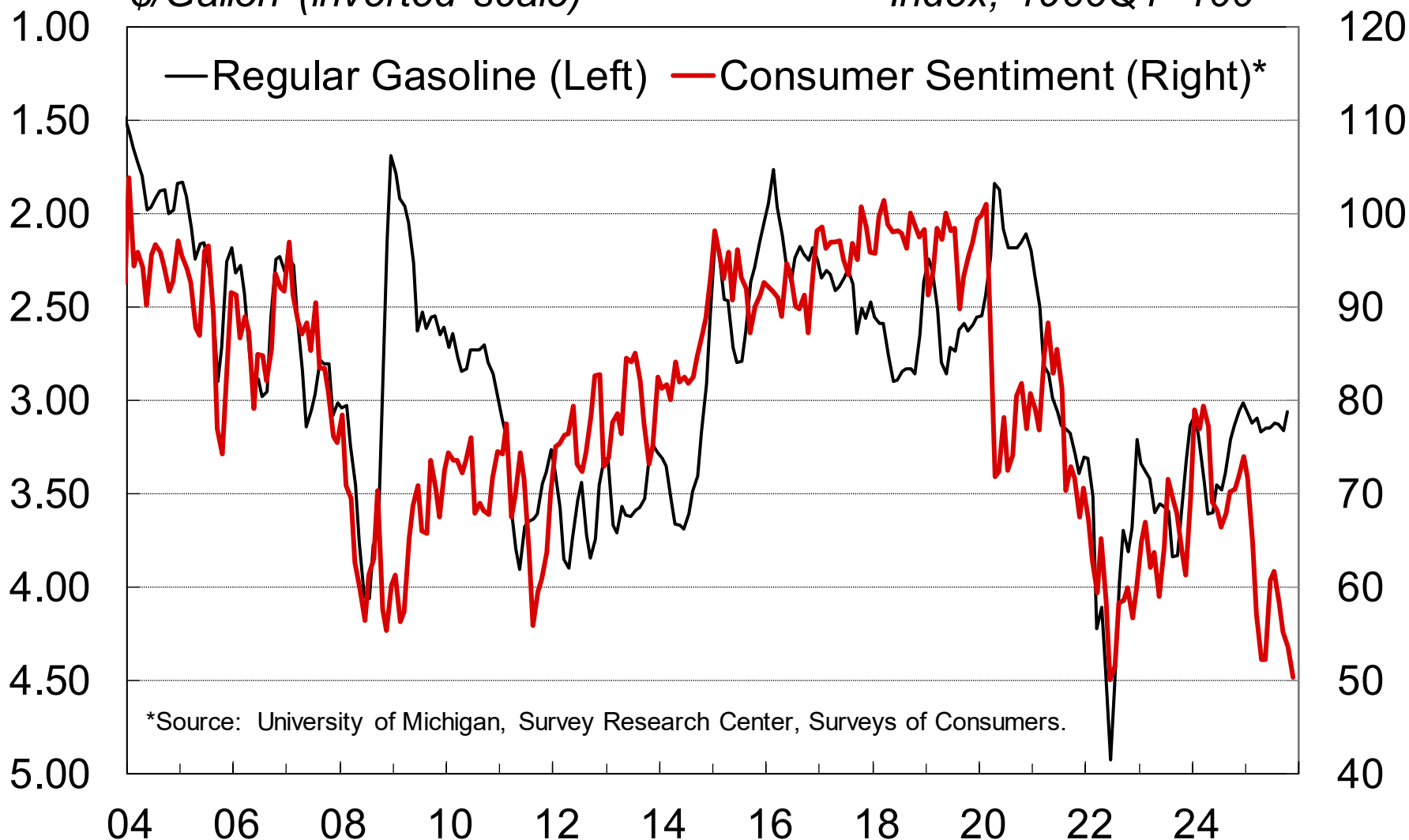
*Dollars per gallon, Weekly data*



# Gasoline Price and Consumer Sentiment

*\$/Gallon (inverted scale)*

*Index, 1966Q1=100*



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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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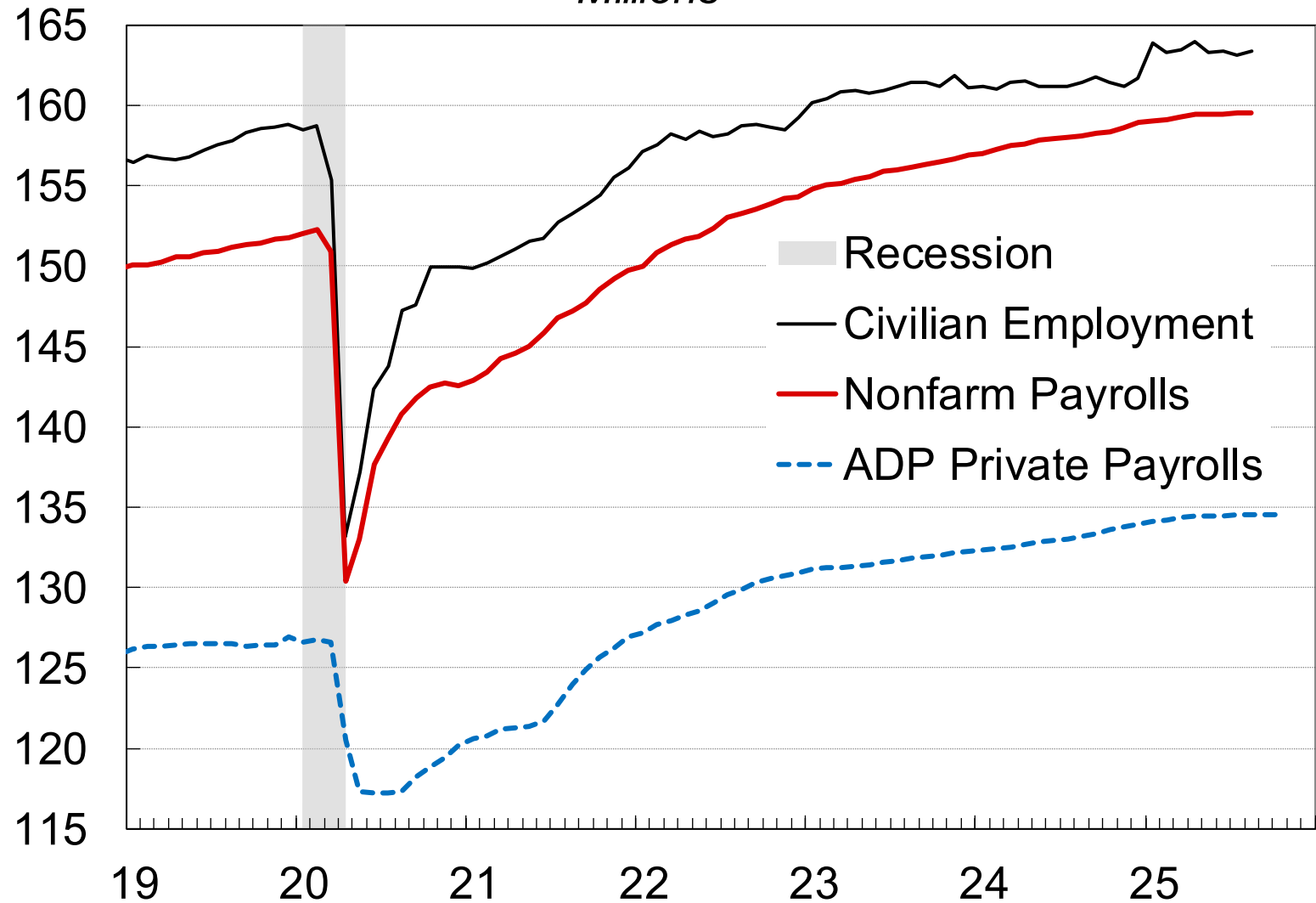
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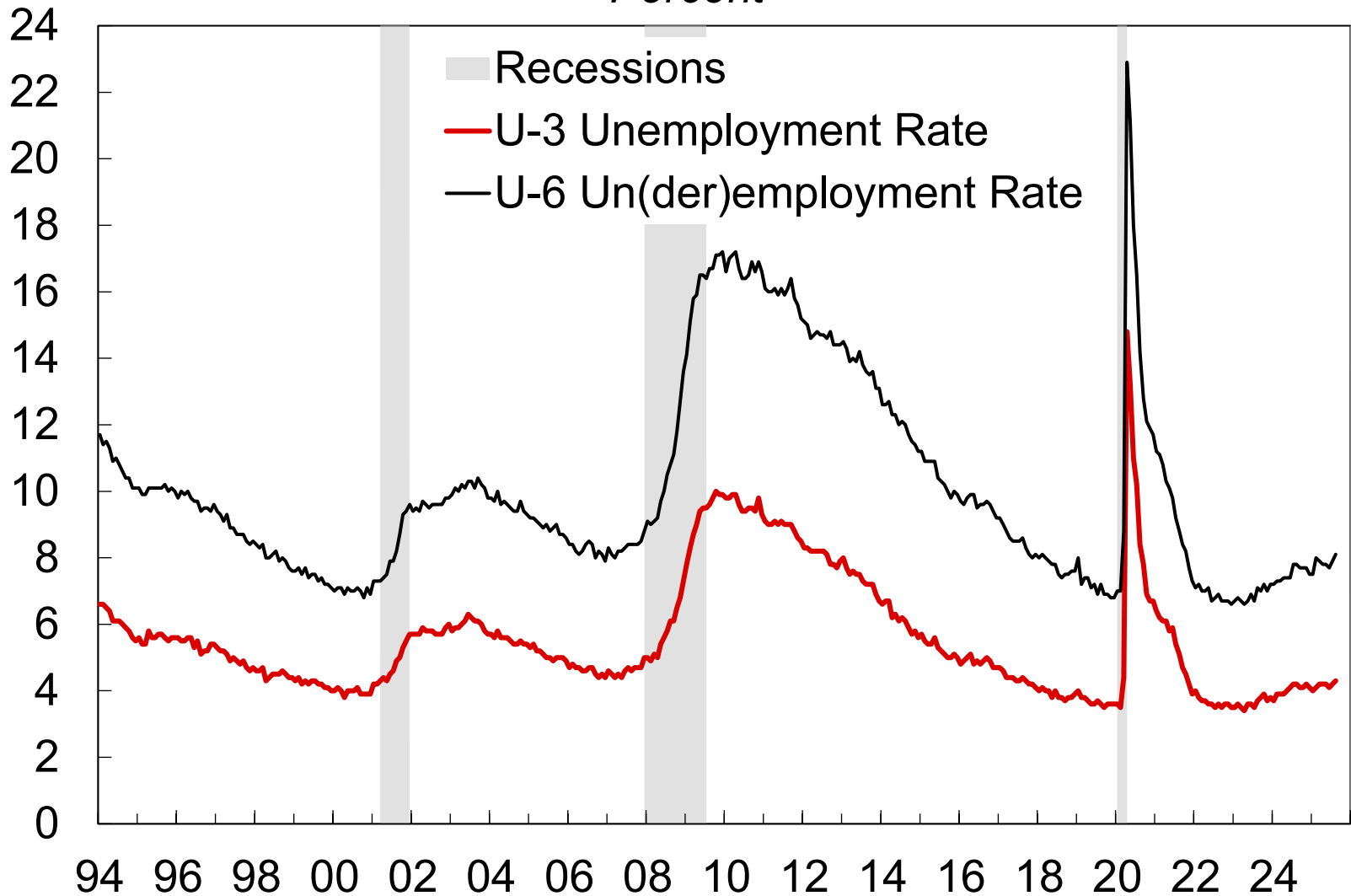
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# US Employment *Millions*



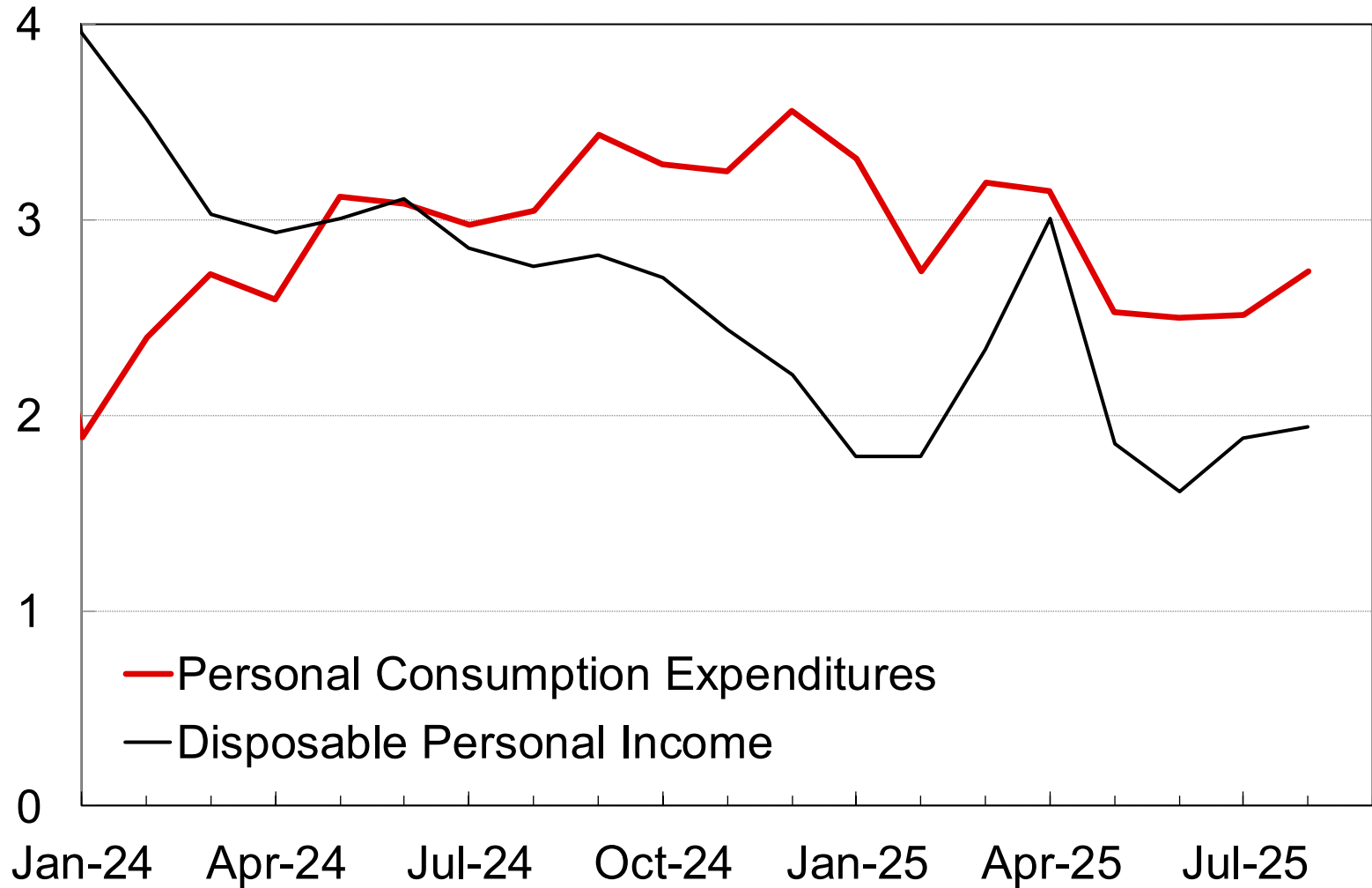
# US Civilian Unemployment Rate

*Percent*



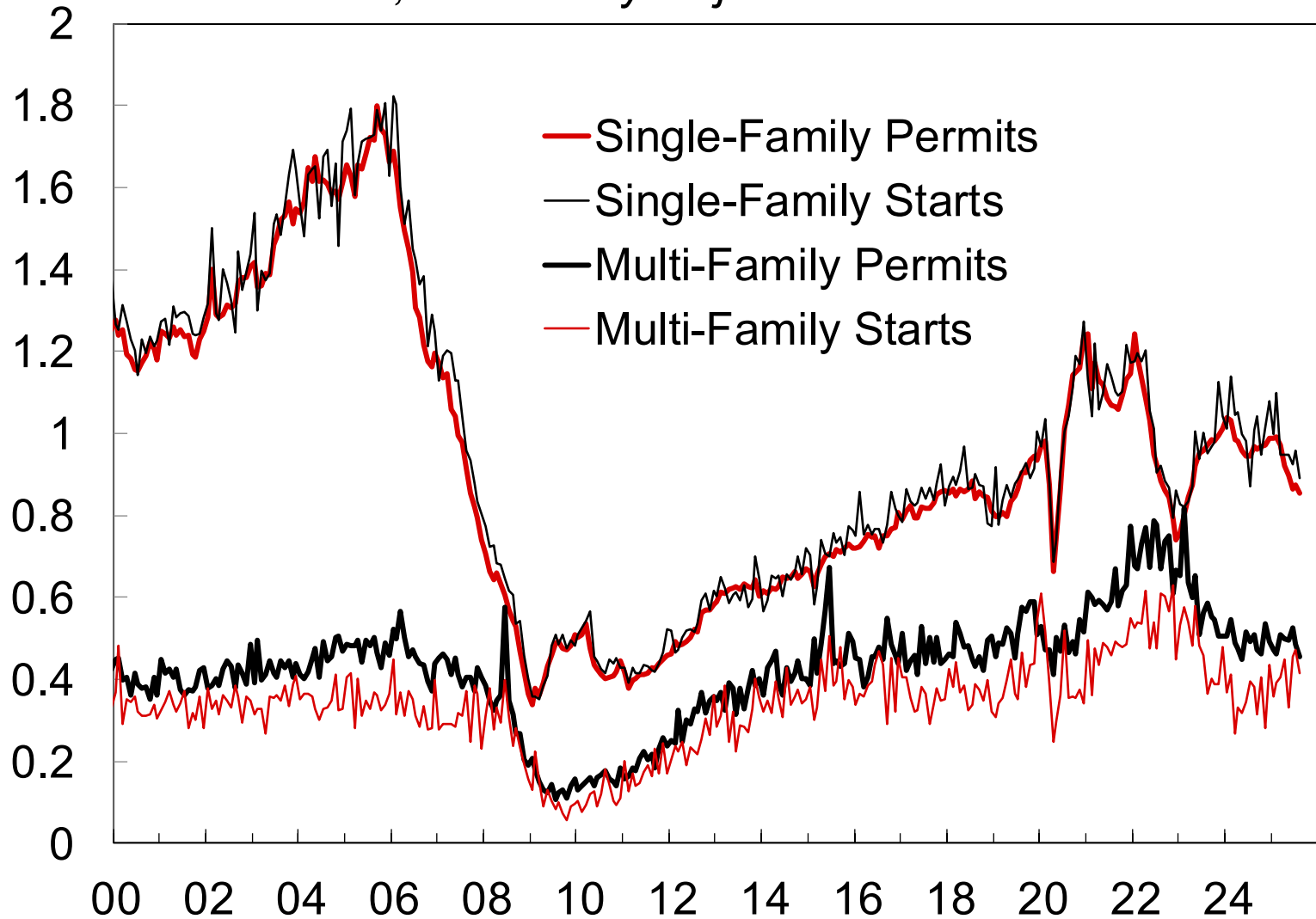
# US Real Consumer Spending

*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.**

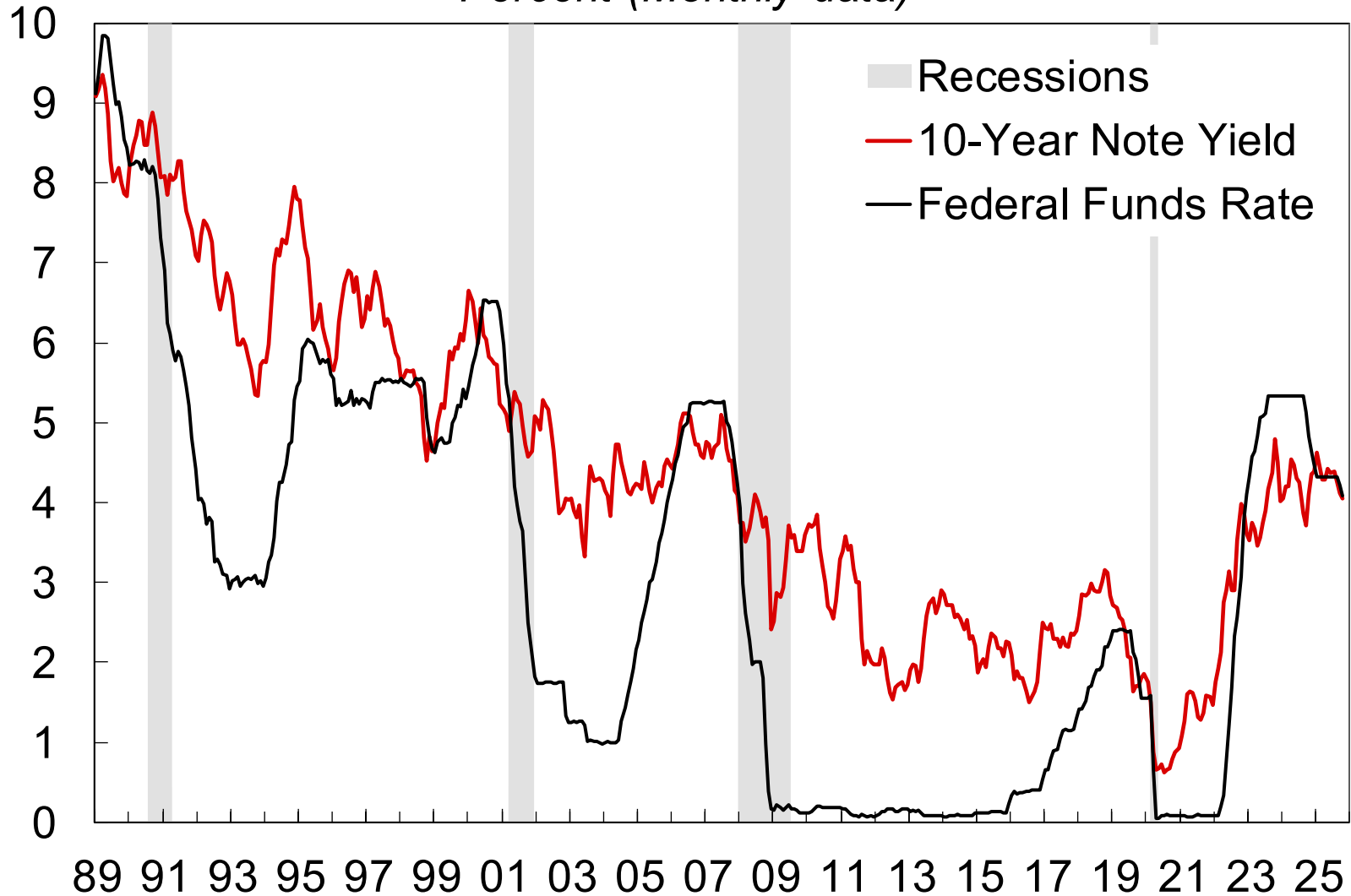
- That suggests policy **should** be restrictive.

**Stock prices are at record highs.**



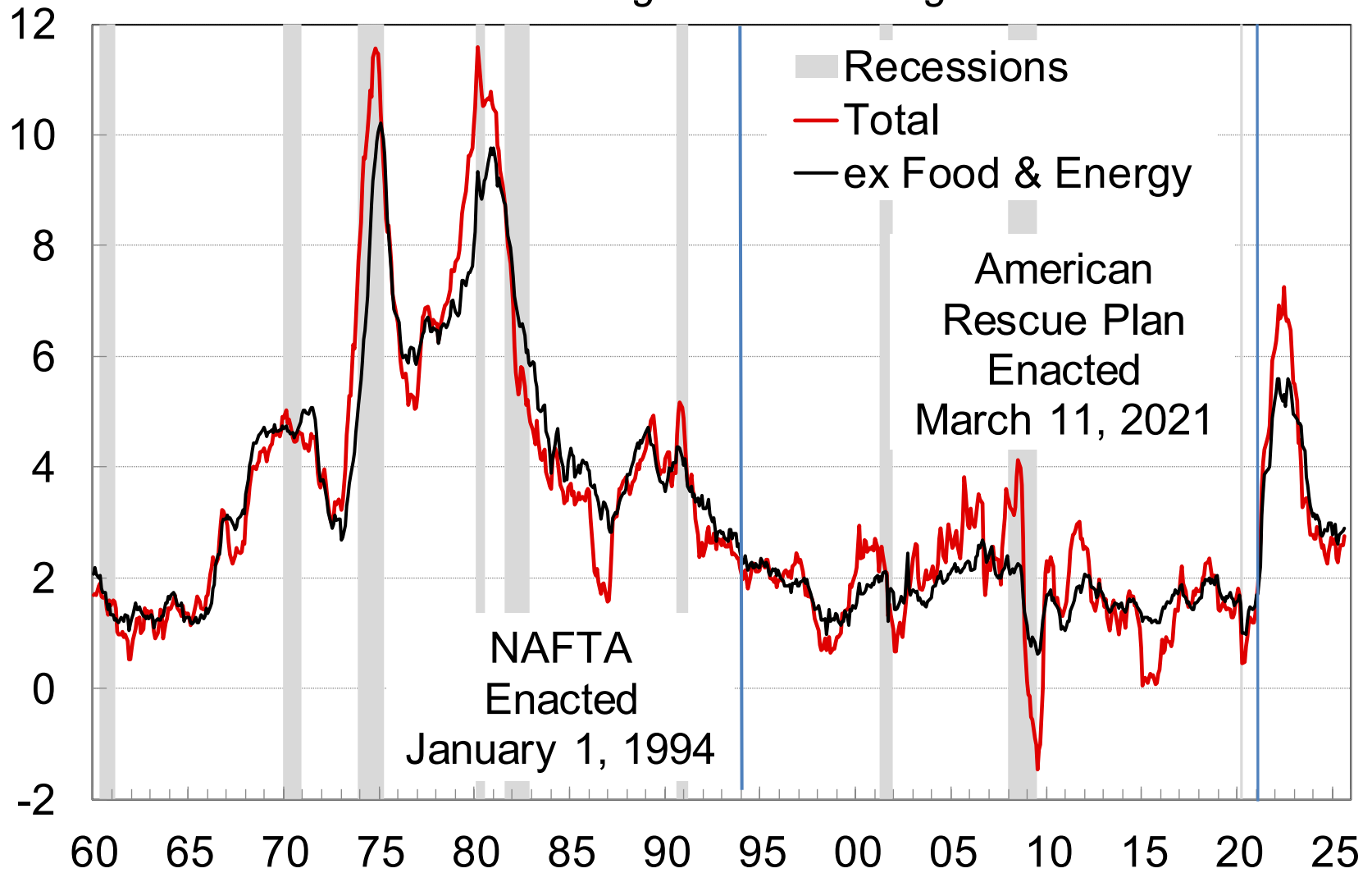
## US Interest Rates

*Percent (Monthly data)*

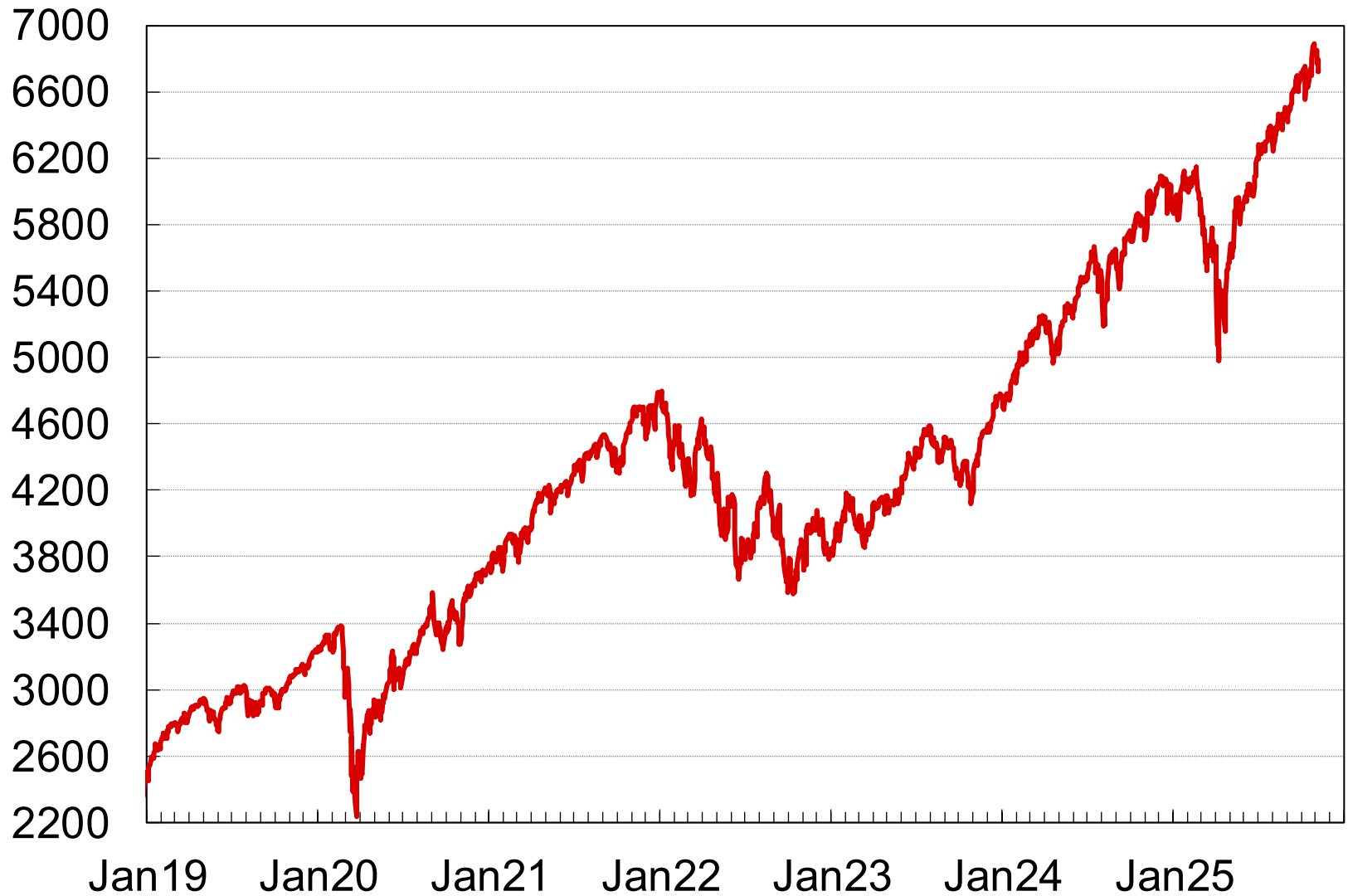


# US Personal Consumption Expenditures Price Index

*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.**

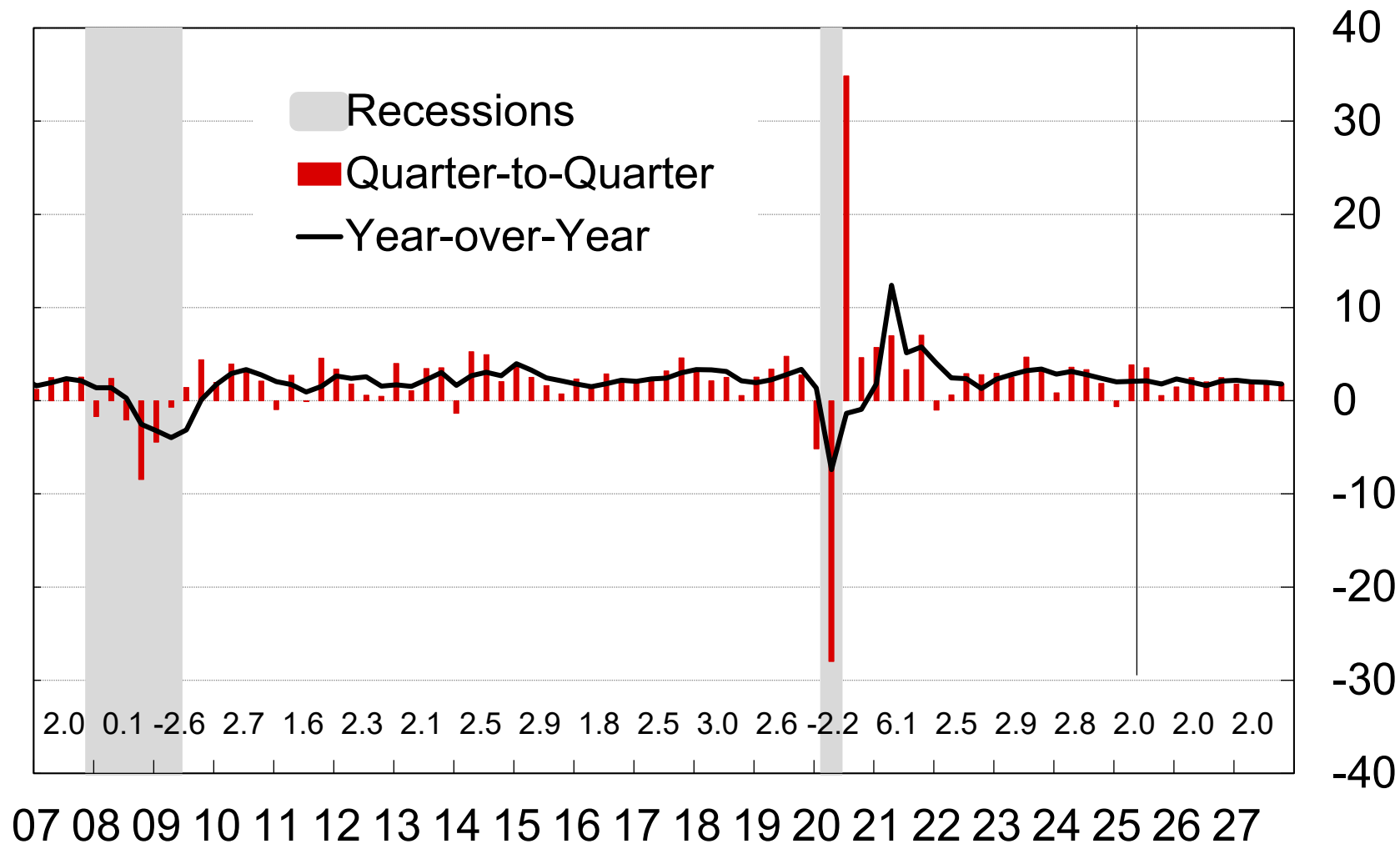
**“Prediction is very  
difficult, especially  
about the future.”**

**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.**

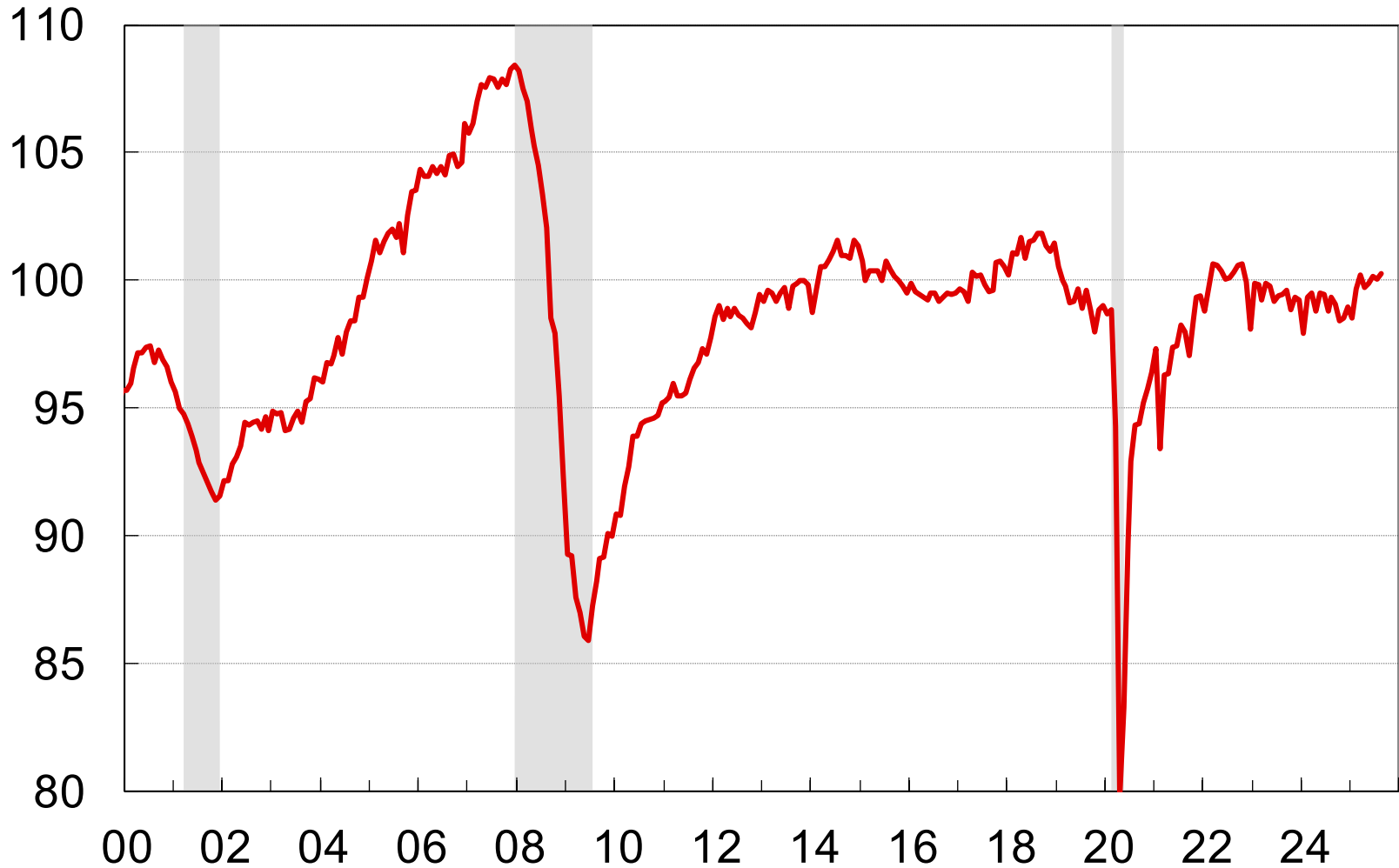
- Consider multiple scenarios. Don't rely on a point forecast.
- Government shutdown adds to uncertainty.

# Industry Detail



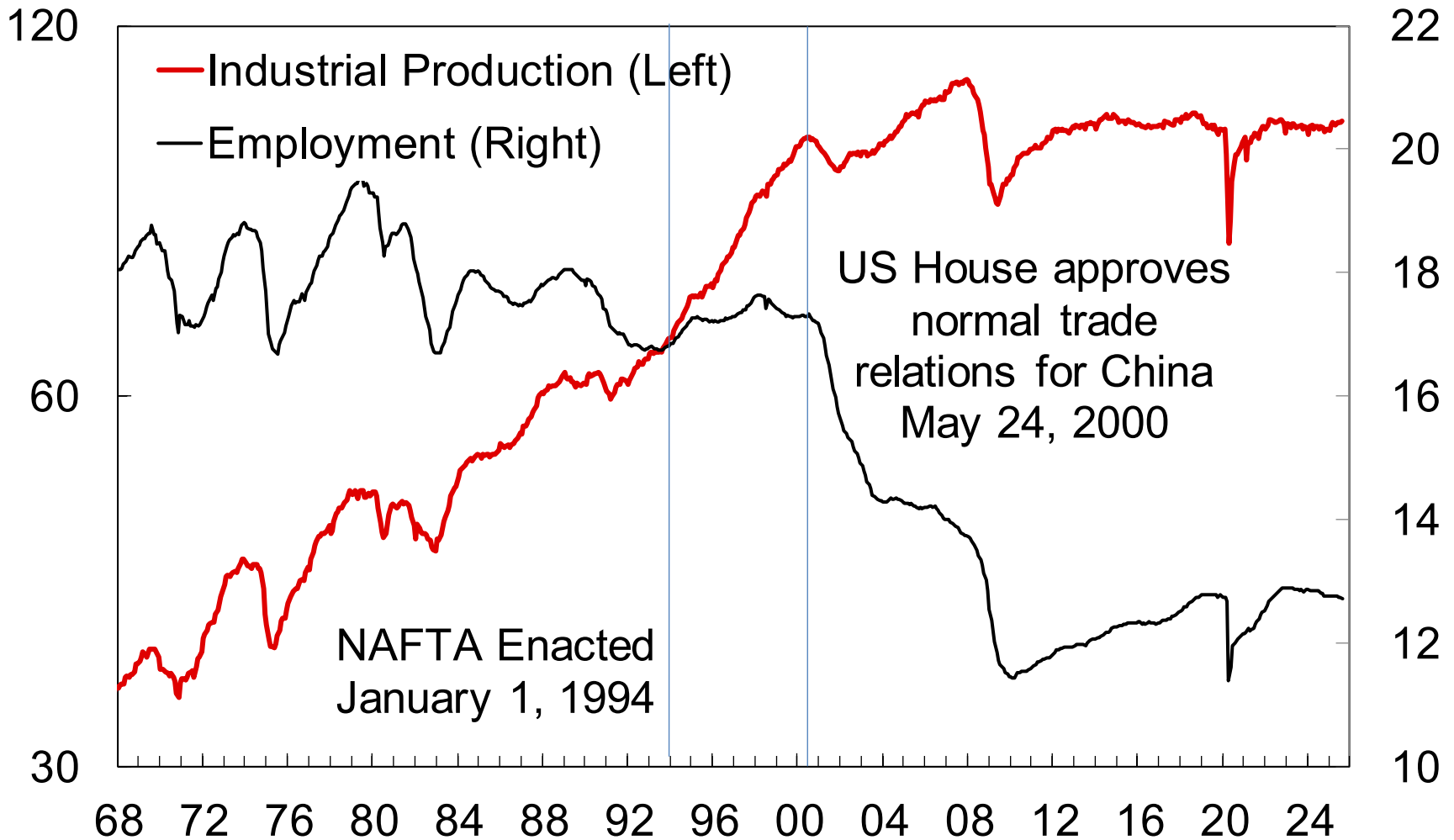
# US Industrial Production: Manufacturing

*Index, 2017=100*



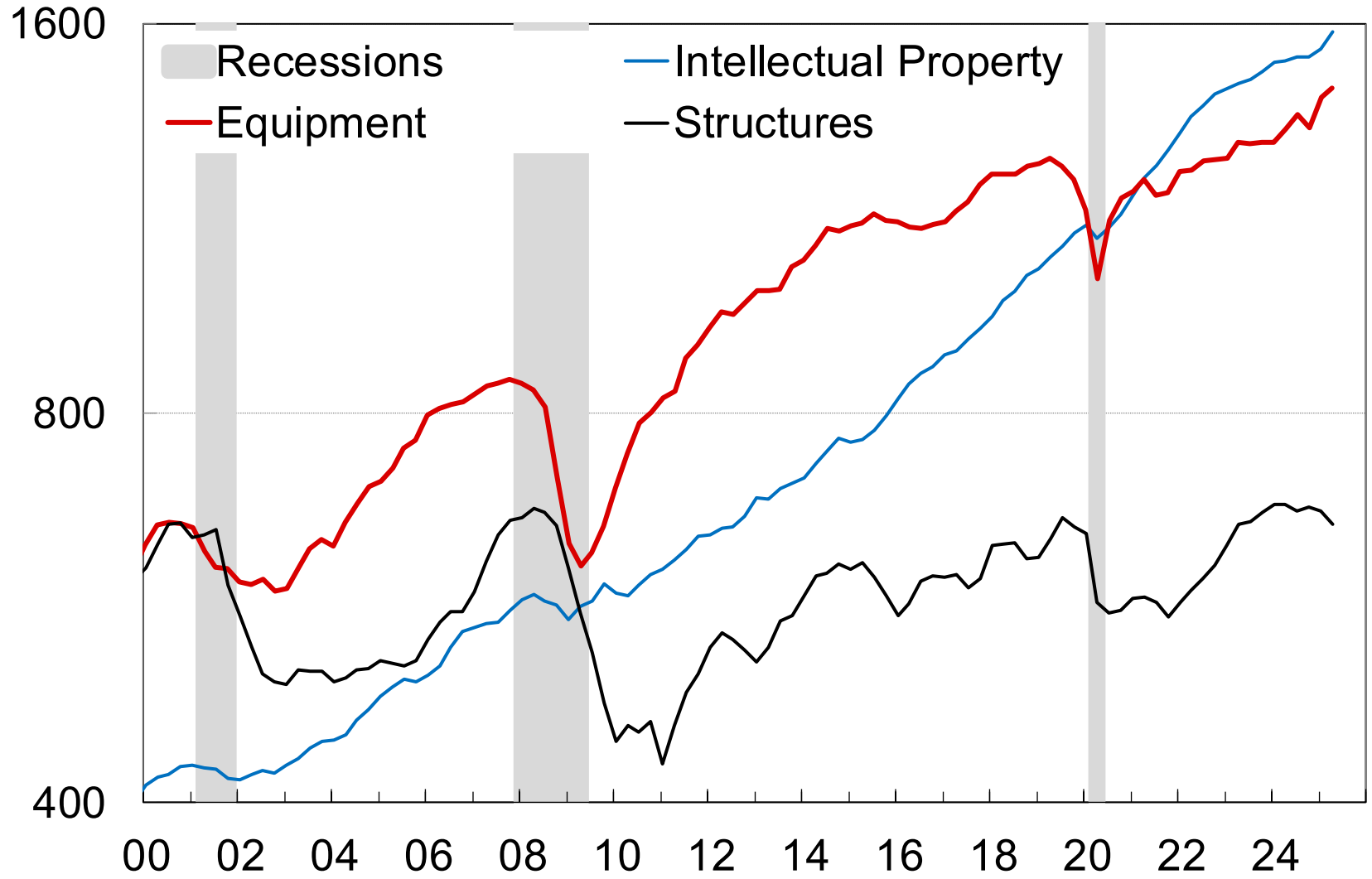
# US Industrial Production & Employment: Manufacturing

*Index, 2017=100* *Millions*



# US Nonresidential Fixed Investment

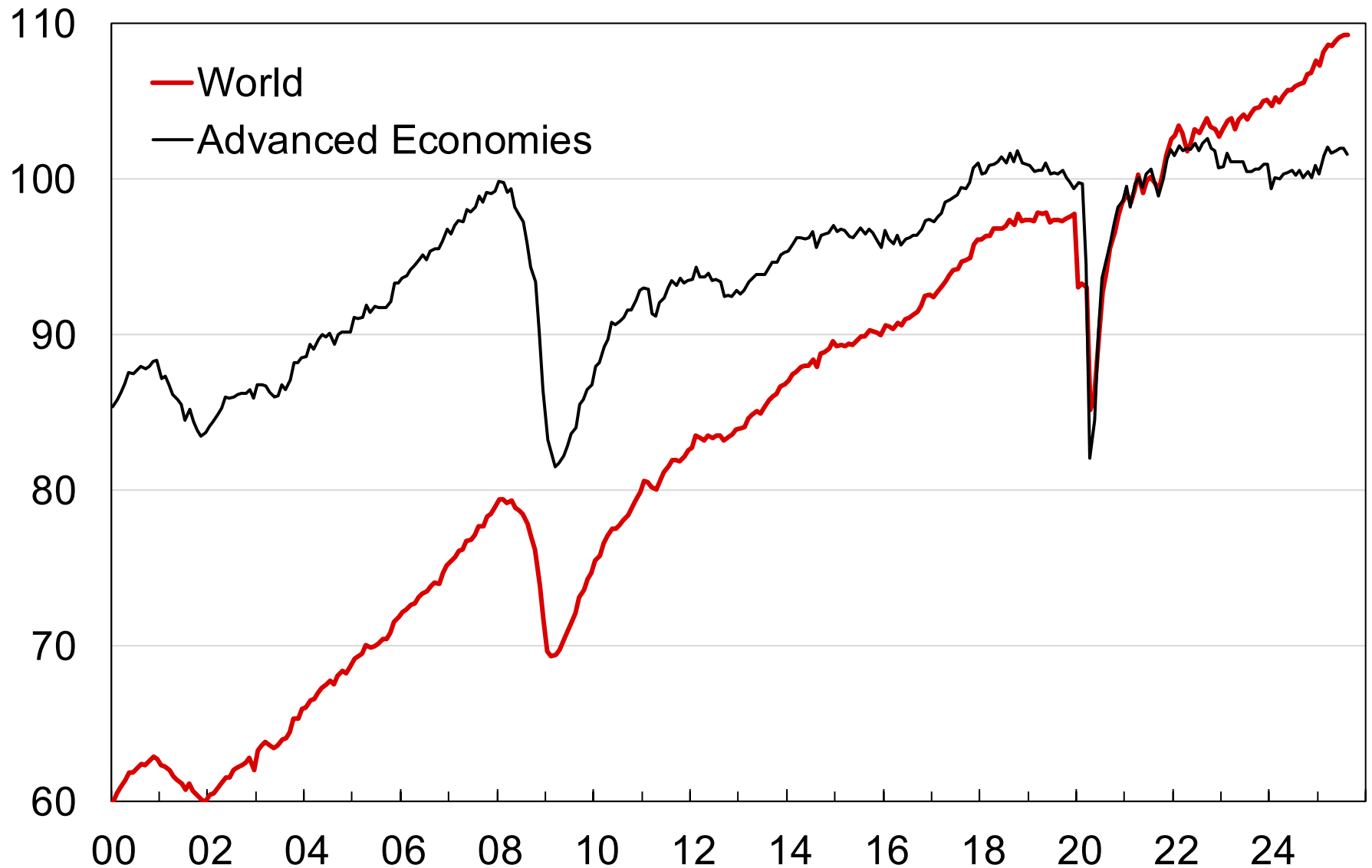
*Billion Chained 2017 Dollars*



# Global Overview

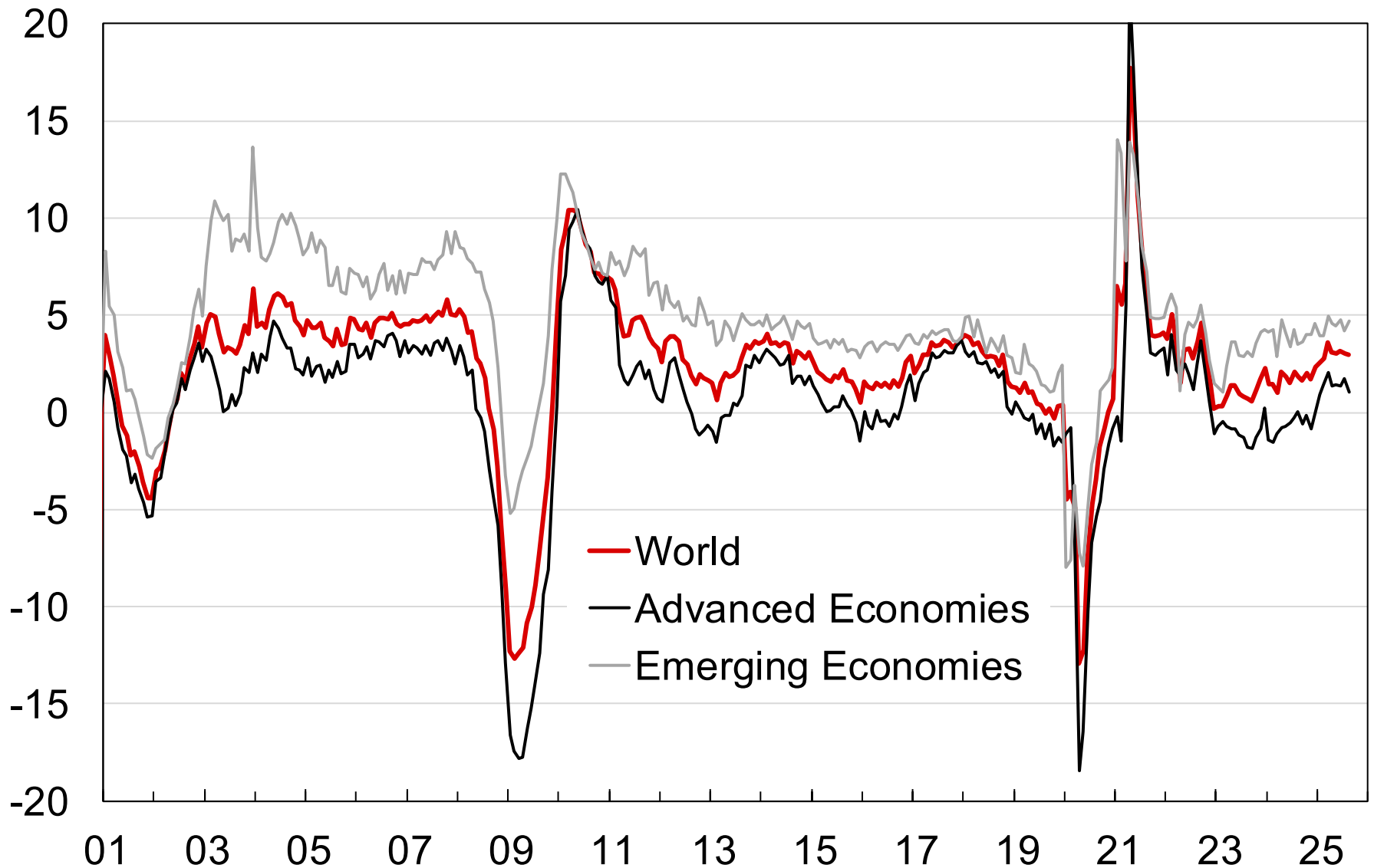
# Industrial Production ex Construction

*Index, 2021 = 100*



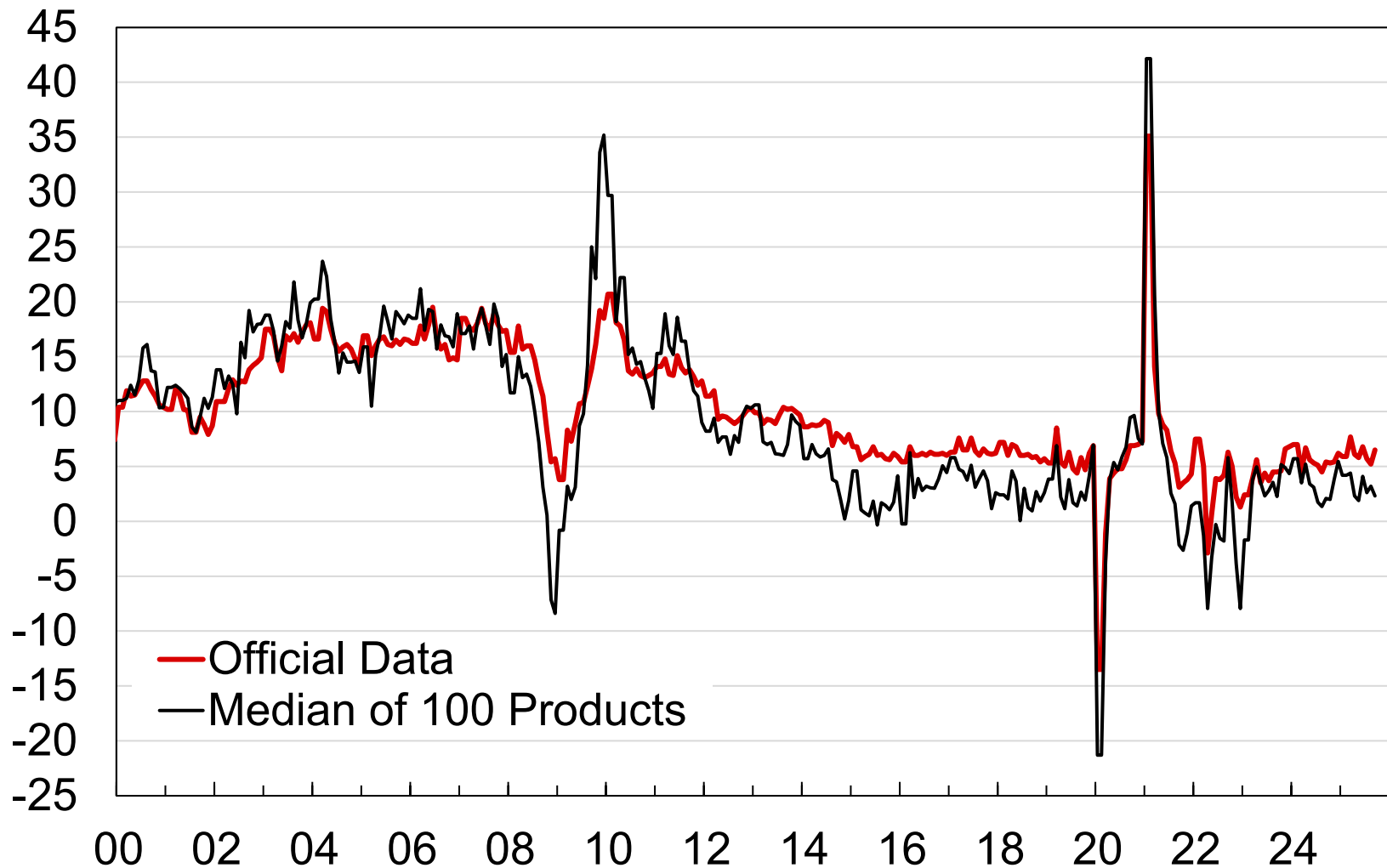
# Industrial Production ex Construction

*Percent Change from Year Ago*



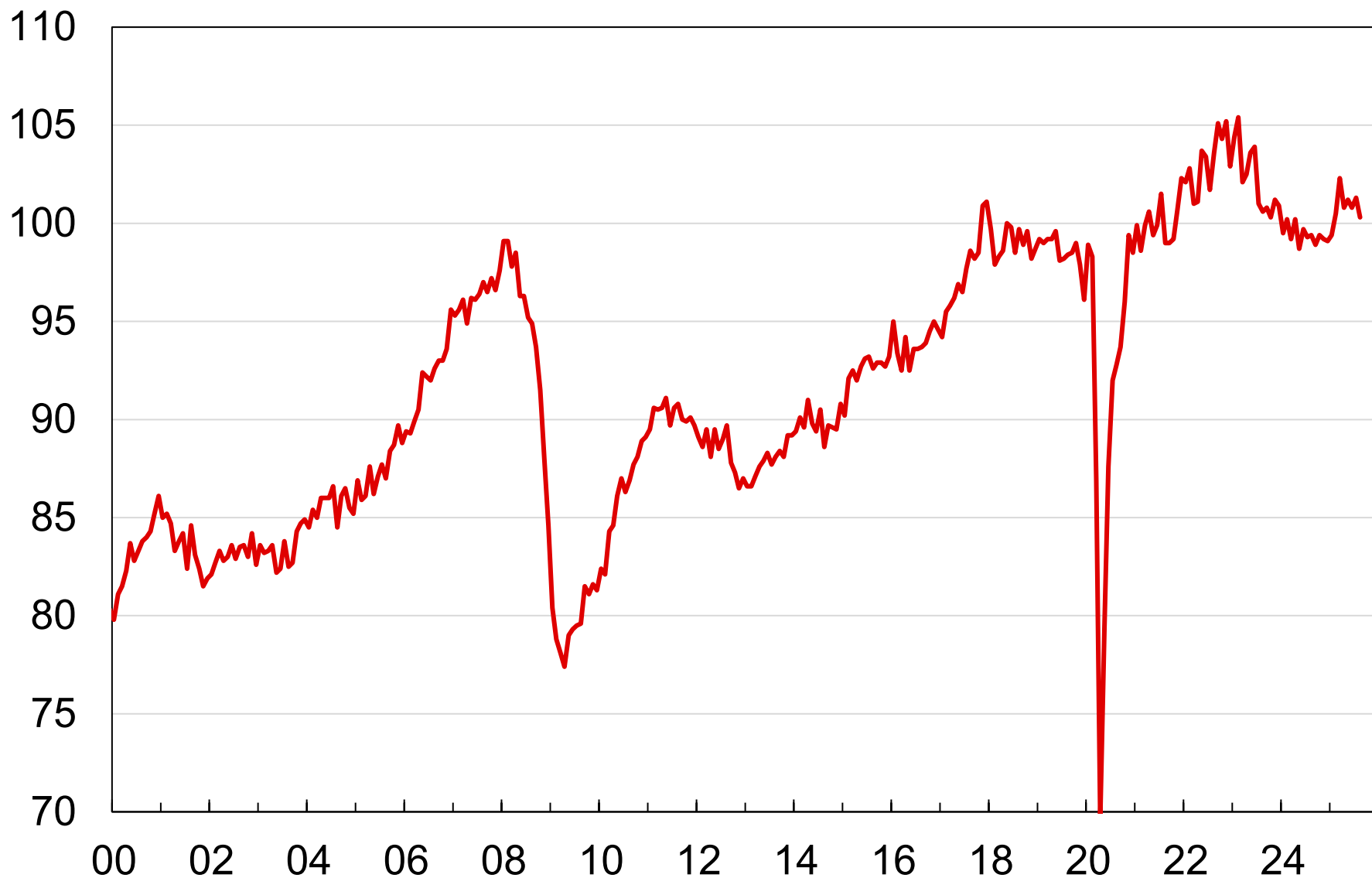
## Value Added of Industry (Industrial Production): China

*Percent Change from Year Ago*



# Industrial Production, Manufacturing: European Union

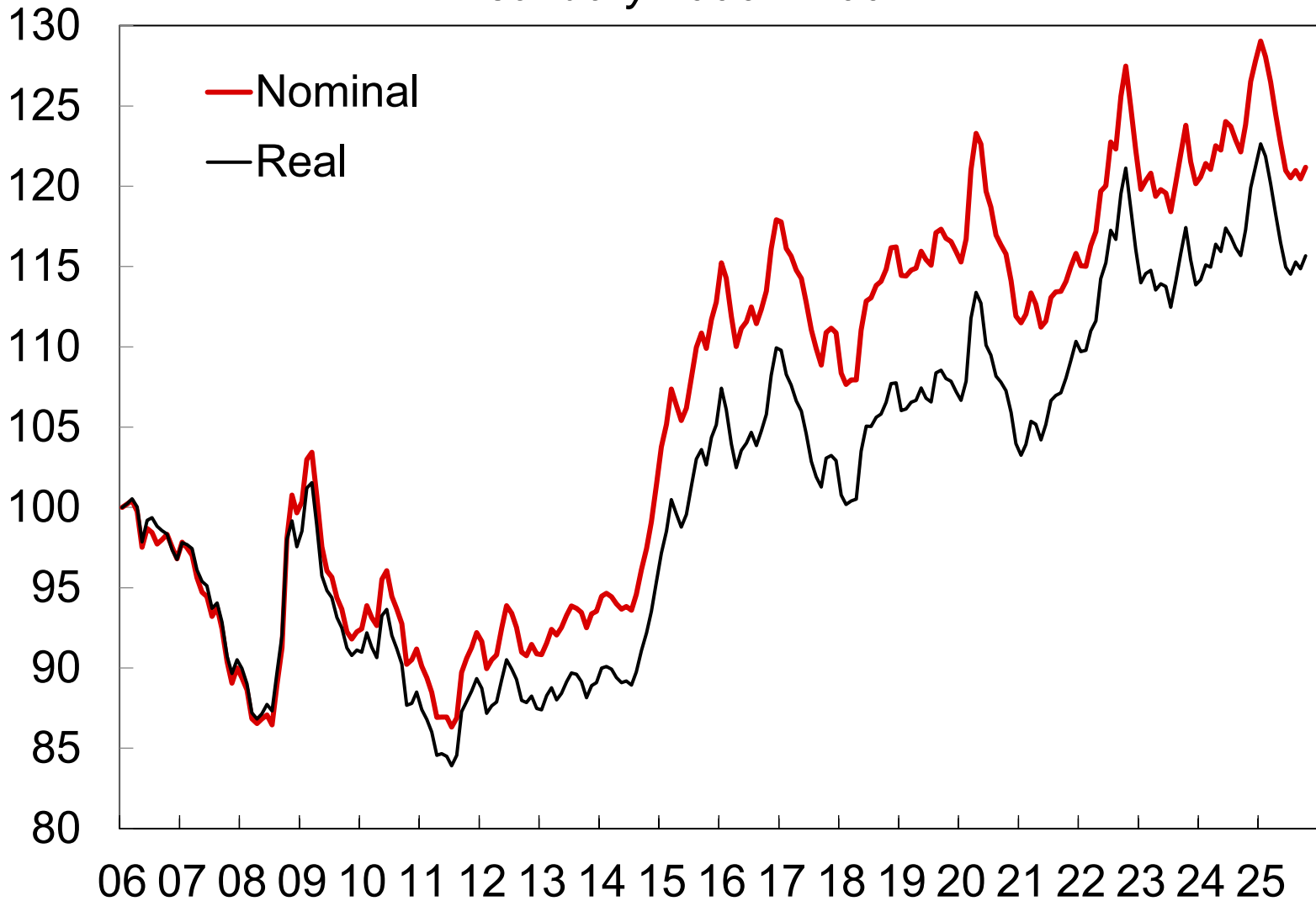
*Index, 2021 = 100*





# 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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**[RobertFryEconomics.com](http://RobertFryEconomics.com)**

# **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**