



# Economic Outlook Task Force Update

## GLWA Audit Committee

February 2025

Public Sector Consultants

# Executive Summary: 2024 in Review

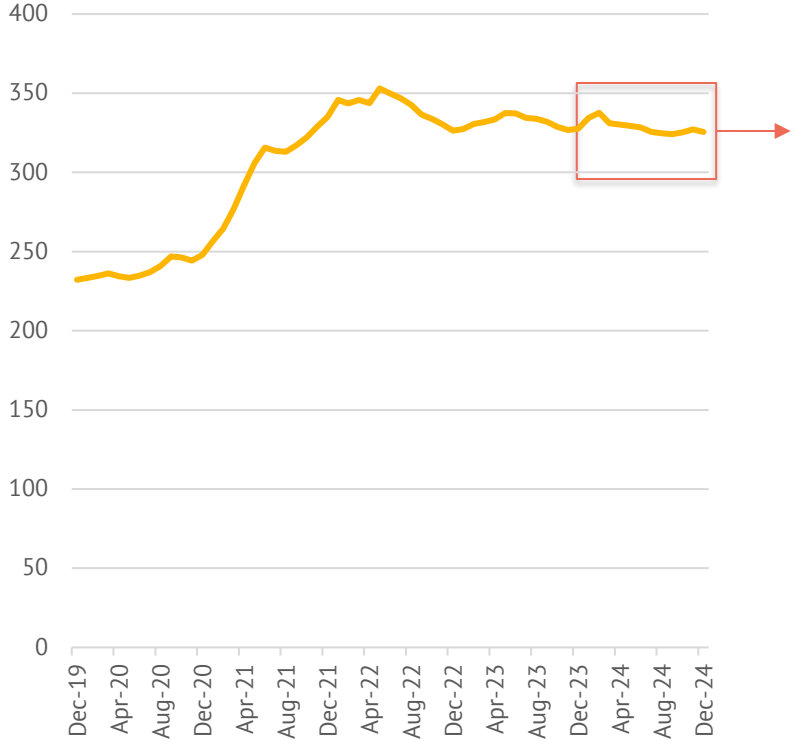
- The economy steadied throughout 2024 with inflation and interest rates reducing albeit at a slower than expected pace. However, the change in federal administration introduced significant uncertainty: proposed economic policies could increase costs of materials (tariffs), decrease funding sources (frozen spending) and slow or reverse interest rate reductions.
- We previously reported inflation would fall below 3% but stay above the Fed target of 2%. As predicted, inflation for 2024 lowered to 2.9%, but a Q4 annualized rate of 3.9% reversed progress achieved in the first three quarters
  - Fed has signaled a wait-and-see approach as it monitors the Trump Administration's policy announcements
  - Proposed tariffs of 25% on Canada and Mexico (delayed for now) and 10% on China will likely increase costs of materials
- Unemployment ended year at 4.1% which is positive
  - Wage growth moderated in 2024 down to 3.9% from 4.3% in 2023, and much lower than its peak in 2022 although remains higher in Detroit area

# Construction Materials: Producer Price Index

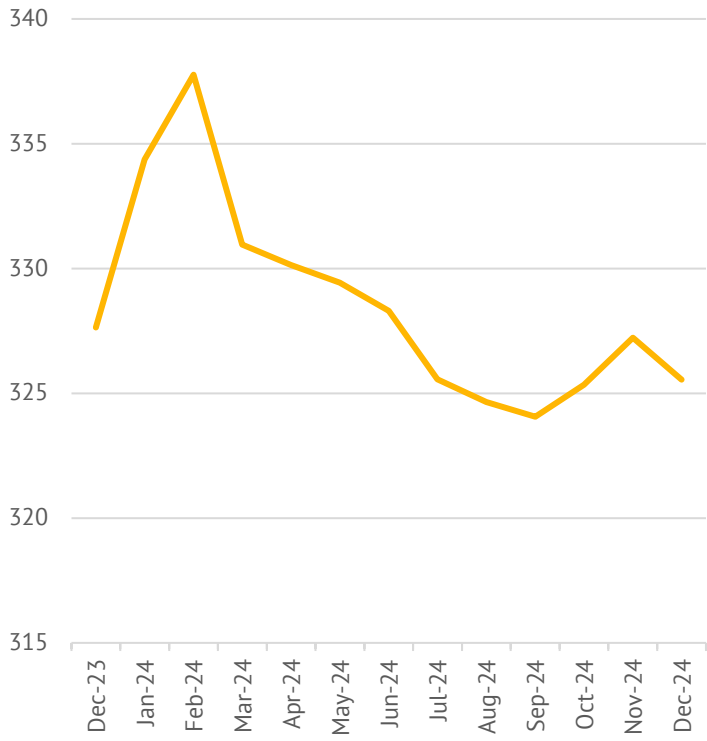
20 YR



5 YR

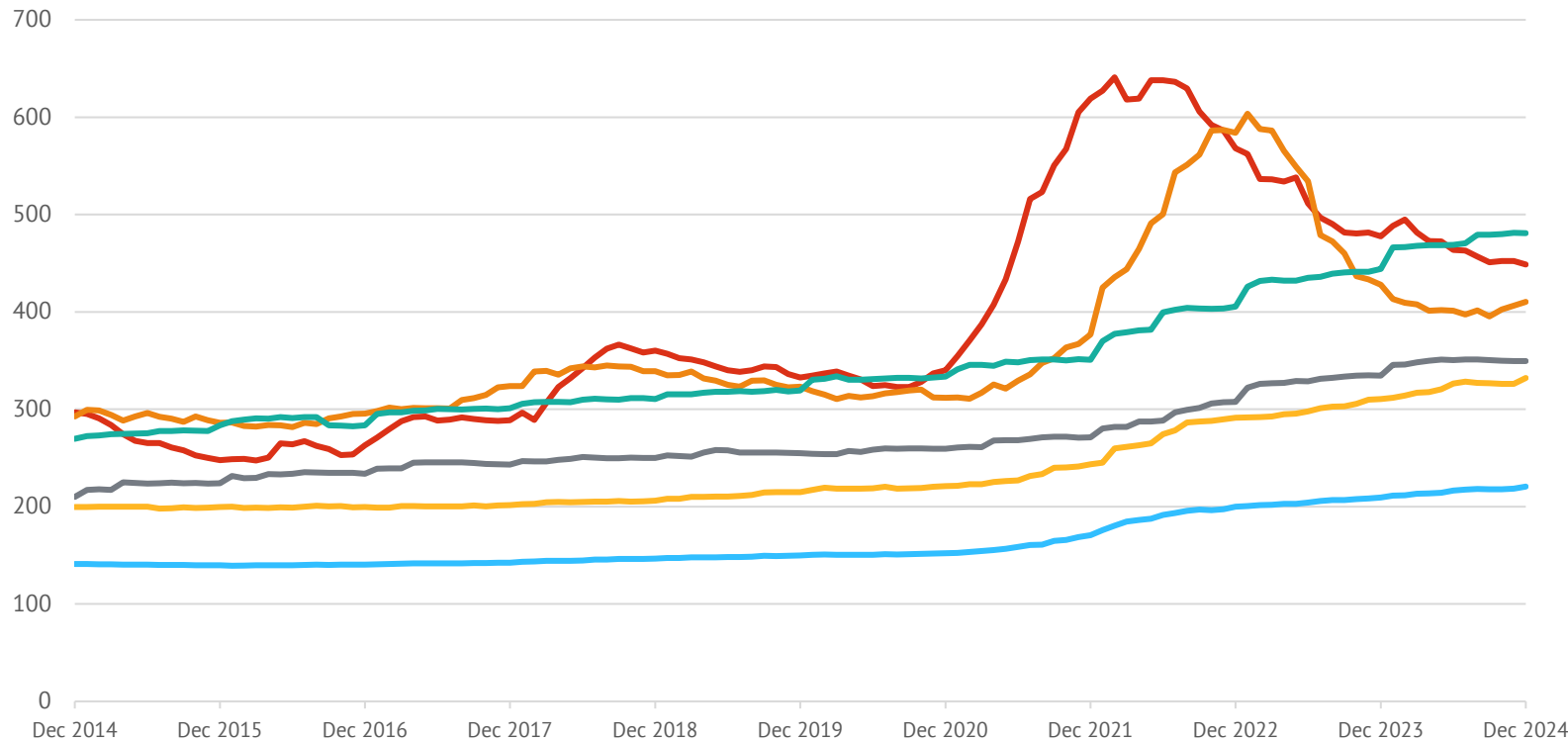


1 YR\*



Source: Bureau of Labor Statistics, Producer Price Index  
 \*Note the different vertical axis for 1YR

# Priority Materials: Producer Prices



Percent Change	10YR	5YR	1YR
<b>Iron and Steel Pipes and Tubes</b>	51%	35%	-6%
<b>Chlorine</b>	40%	27%	-4%
<b>Aggregates</b>	78%	51%	8%
<b>Cement</b>	66%	37%	4%
<b>Electrical Switch Gear/Board</b>	67%	55%	7%
<b>Elect Equipment</b>	56%	47%	5%



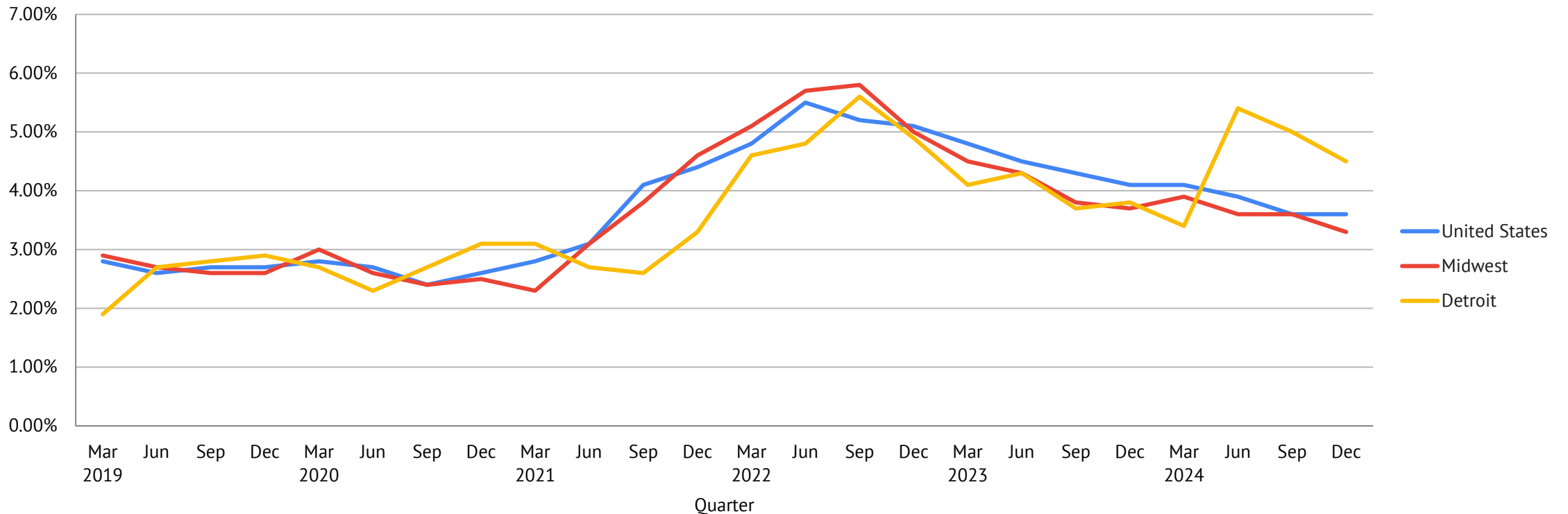
Source: Bureau of Labor Statistics, Producer Price Index



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# Wages: Total Compensation

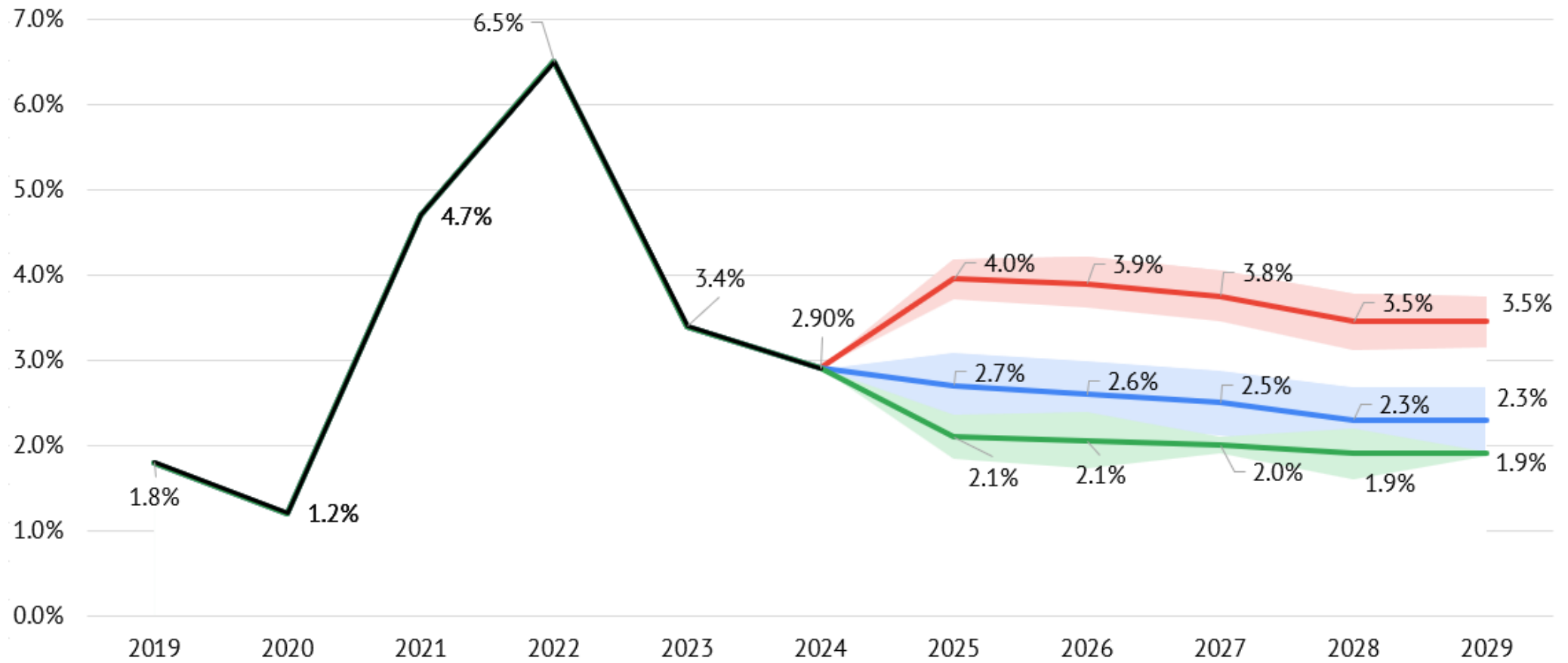
Total Compensation Percent Change: United States, Midwest and Detroit



Source: Employment Cost Index, Bureau of Labor Statistics (BLS)



# Southeast Michigan Inflation Forecast



# Threat of Tariffs – High Uncertainty

## Proposed 25% Tariffs on Canadian and Mexican Imports

- Reached agreements on February 3<sup>rd</sup> to postpone tariffs for 30 days
- Administrations will negotiate terms spanning border security and trade policy

## 10% Tariff imposed on China beginning February 4<sup>th</sup>

- China has announced retaliatory measures

## Uncertain magnitude of impact, but expect price increases if tariffs go into place

- Steel/iron likely highest risk: 23% of market is imported; Canada is #1 and Mexico is #3 importer<sup>1</sup>
- Chlorine and other chemicals lower risk: only 5% of domestic chlorine consumption is imported<sup>2</sup>

# Looking Ahead in 2025

## Key drivers to watch

- Significant uncertainty regarding Trump Administration's policy proposals
- Tariffs on key trading partners (Canada, Mexico, China and the EU)
- Inflationary pressures could delay or reverse interest rate reductions
  - The Fed only lowered rates 100 bps in 2024 and expectations for further cuts in 2025 have evaporated
- Cuts to federal spending programs and staff
- Labor market exhibiting some cautionary indicators: slowdown in hiring and slight decrease in labor force participation
- Consumers spending continues to exceed expectations
- Looming issues:
  - Trade war
  - AI and smart chips
  - Geopolitical conflicts