



Economic Outlook Task Force Update

GLWA Audit Committee

February 2025

Public Sector Consultants

Executive Summary: 2024 in Review

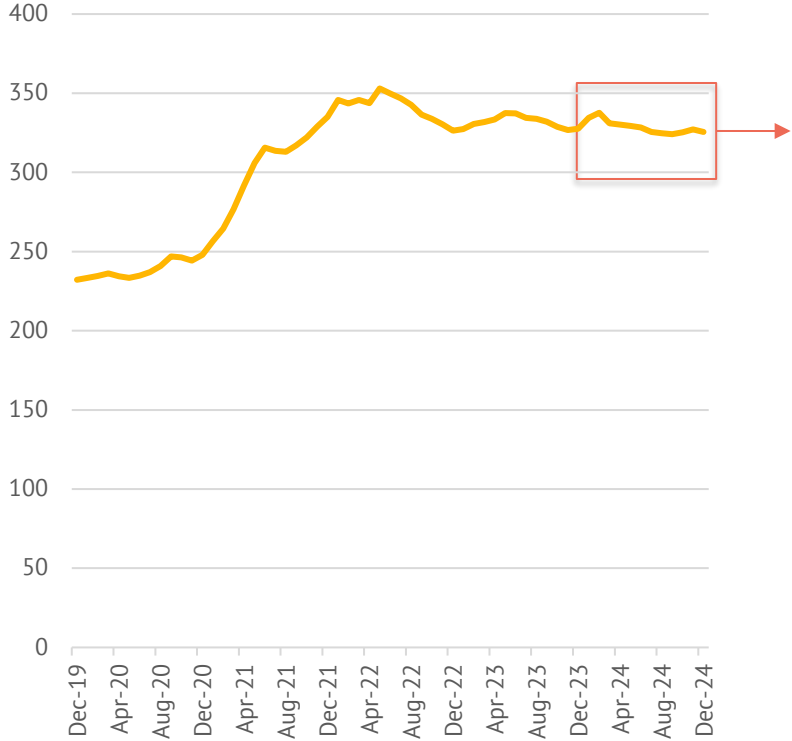
- The economy steadied throughout 2024 with inflation and interest rates reducing albeit at a slower than expected pace. However, the change in federal administration introduced significant uncertainty: proposed economic policies could increase costs of materials (tariffs), decrease funding sources (frozen 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

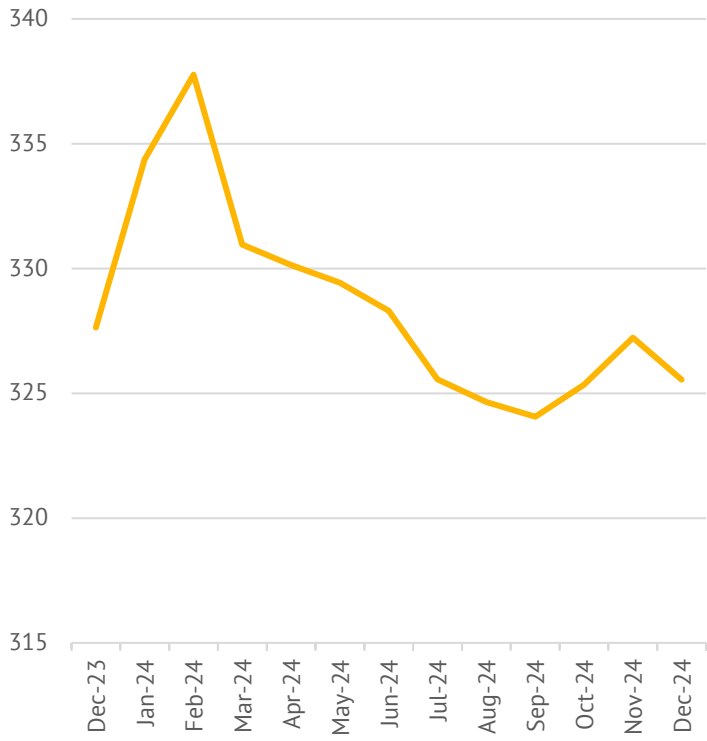
20 YR



5 YR

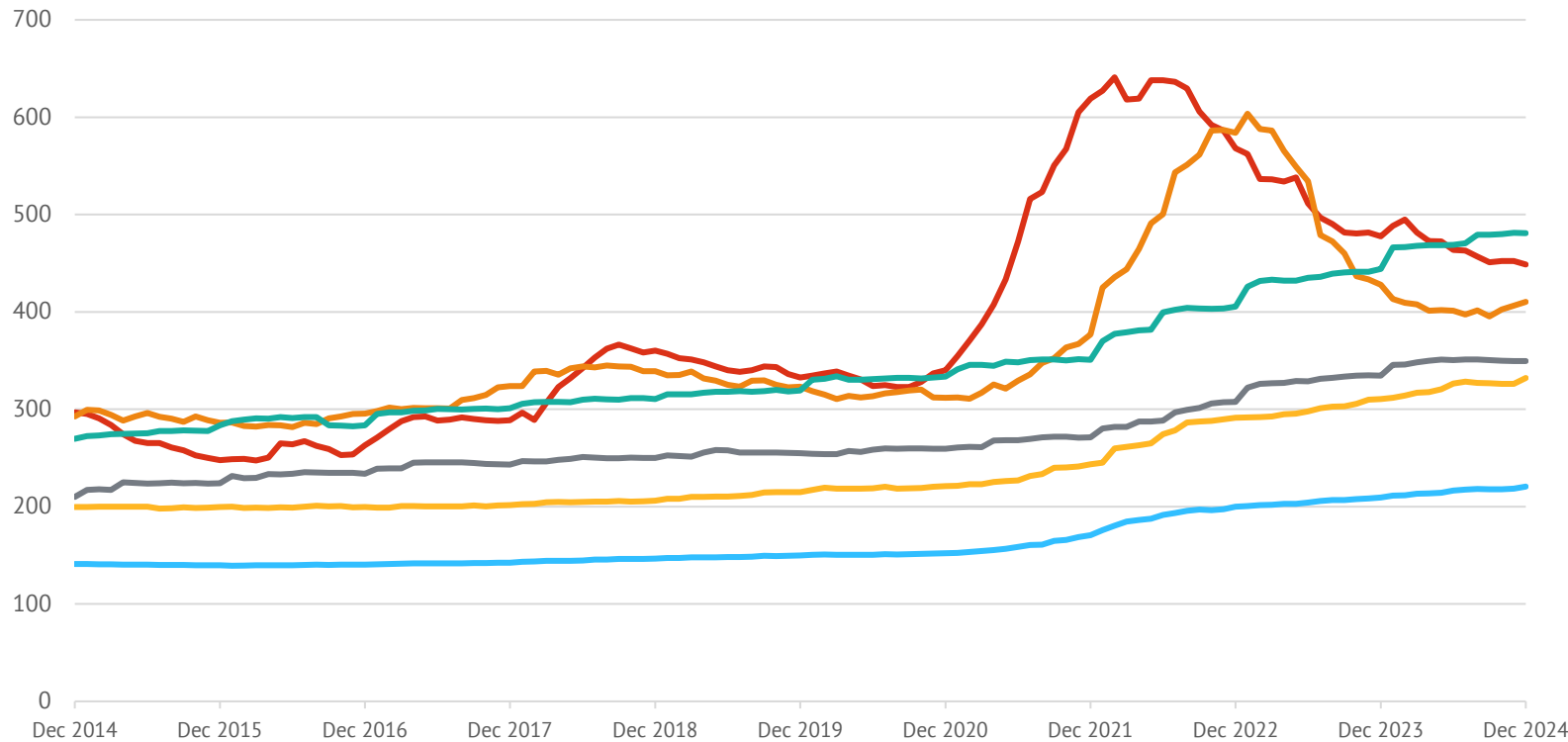


1 YR*



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

Priority Materials: Producer Prices



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



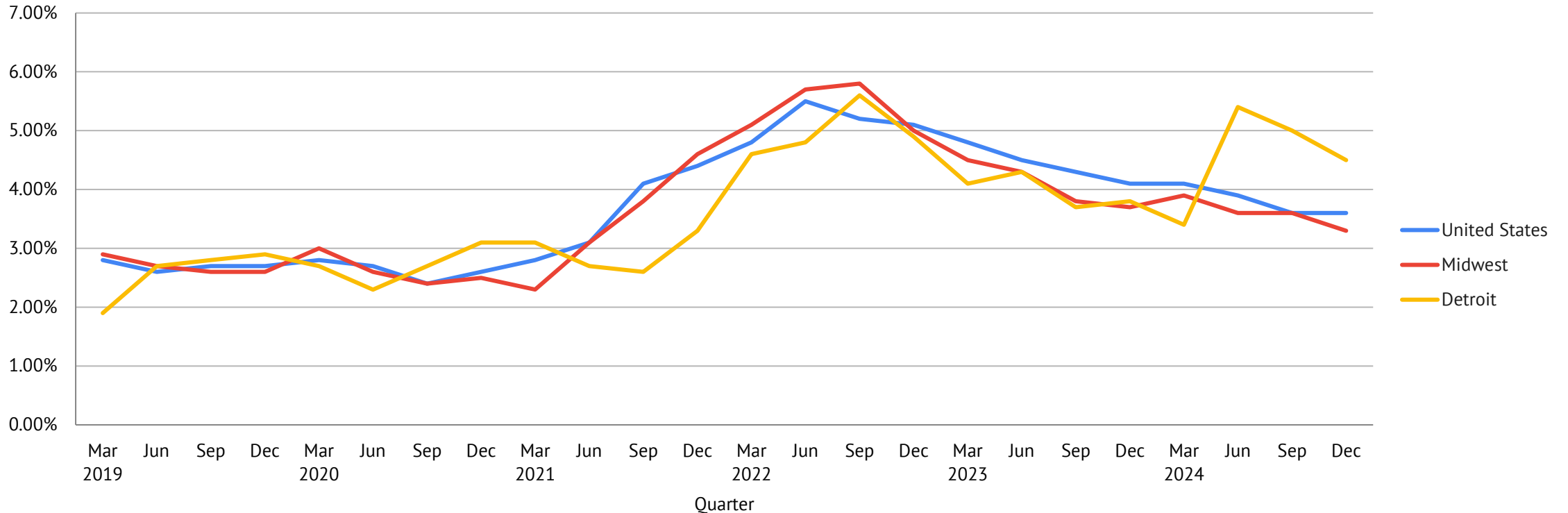
Source: Bureau of Labor Statistics, Producer Price Index



PUBLICSECTORCONSULTANTS.COM

Wages: Total Compensation

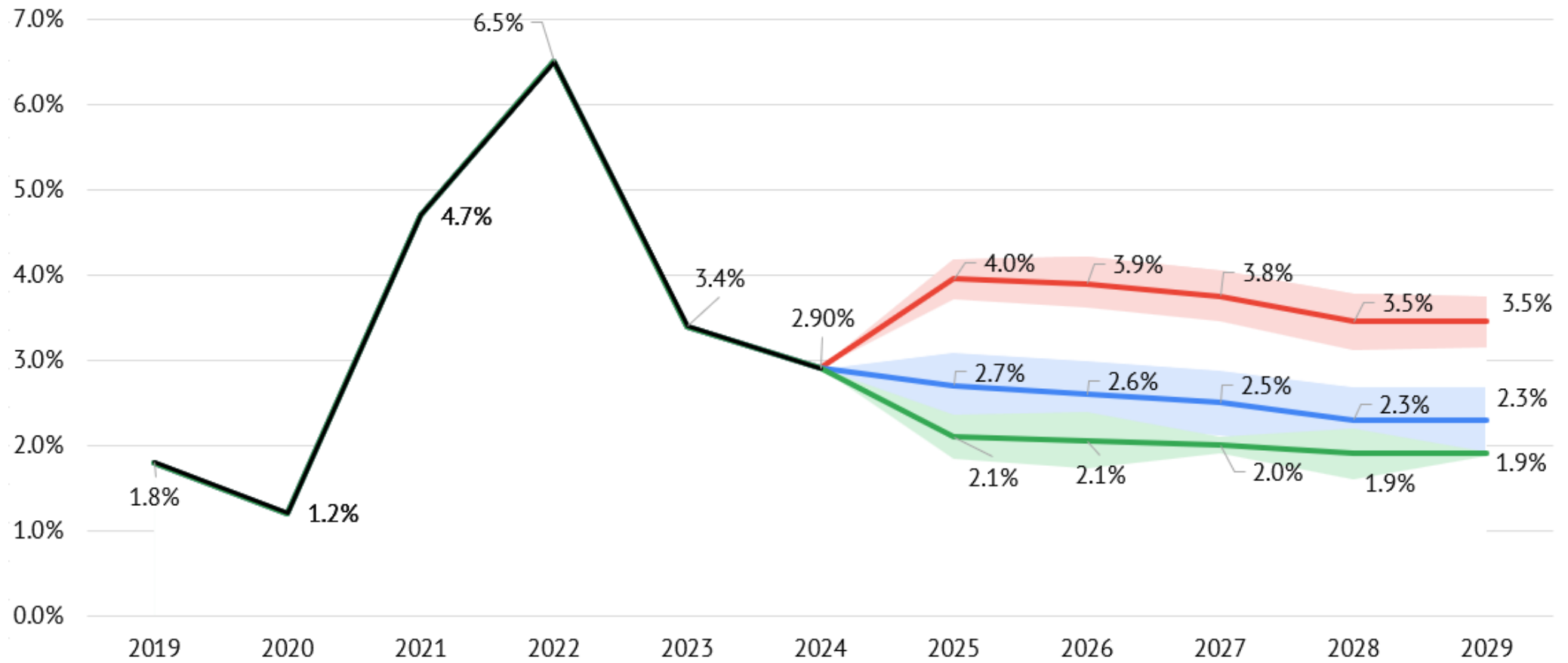
Total Compensation Percent Change: United States, Midwest and Detroit



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 3rd to postpone tariffs for 30 days
- Administrations will negotiate terms spanning border security and trade policy

10% Tariff imposed on China beginning February 4th

- 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 importer¹
- Chlorine and other chemicals lower risk: only 5% of domestic chlorine consumption is imported²

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