Economic Outlook Task Force Update
GLWA Audit Committee

August 2025

Public Sector Consultants

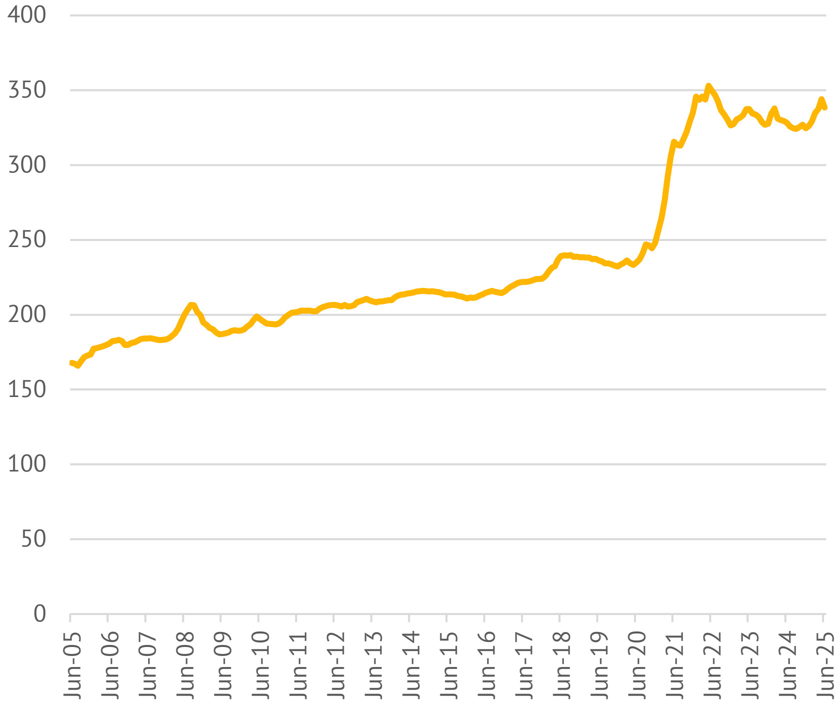
PSC

Executive Summary: 2025 Q2 in Review

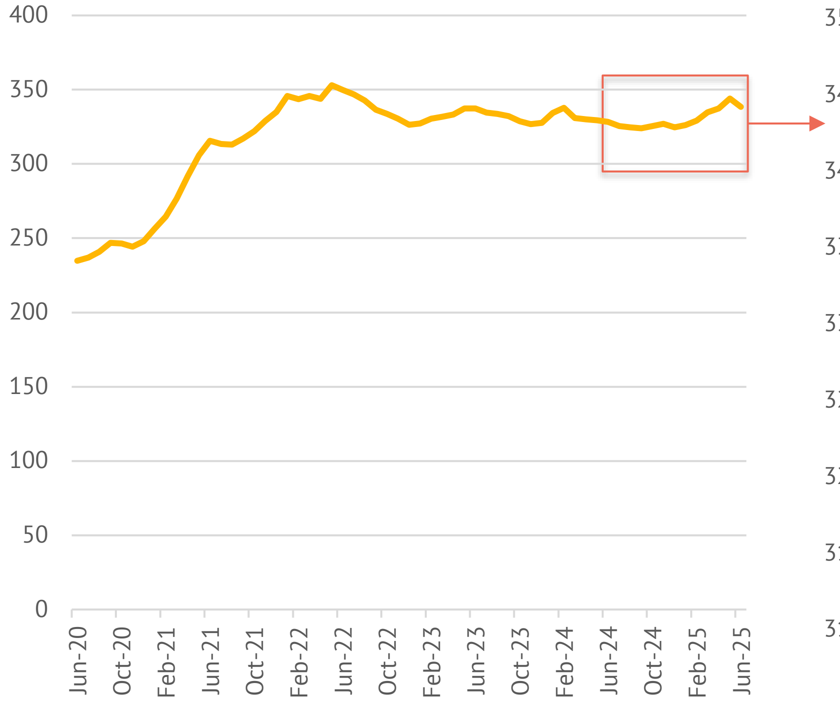
- The first half of 2025 was characterized by uncertainty and volatility that caused economic reports to be at times surprising due to complicated underlying data. The economy is showing signs of stabilizing as federal policies are priced into the market.
- GDP grew at an annualized rate of 1.2% during 2025 YTD, compared to 2.5% over the same period in 2024. After contracting 0.5% in Q1 (largely due to a surge in imports before tariffs took effect—which are subtracted from the total), GDP rose 3.0% in Q2.
- Construction PPI dipped slightly in June 2025, though prices of priority materials remained flat.
- As predicted, the change to federal tariffs has started appearing in inflation data. After falling as low as 2.4% in May 2025, CPI increased to 2.7% in June 2025. Core inflation rose to 2.9% in June.
  - Fed elected to keep interest rates unchanged in July, but two members voted for a rate decrease
  - Trade deals have provided some certainty with tariffs in the 15-25% range
  - Commodity prices and availability will be impacted depending on final trade deals with countries—note that Canada and Mexico trade negotiations are pending at the time of this report

Construction Materials: Producer Price Index

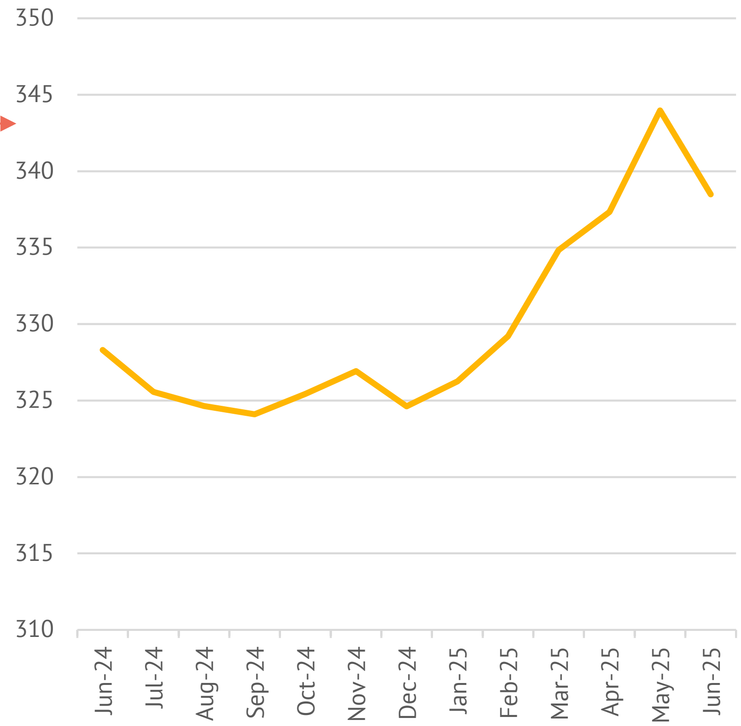
20 YR



5 YR

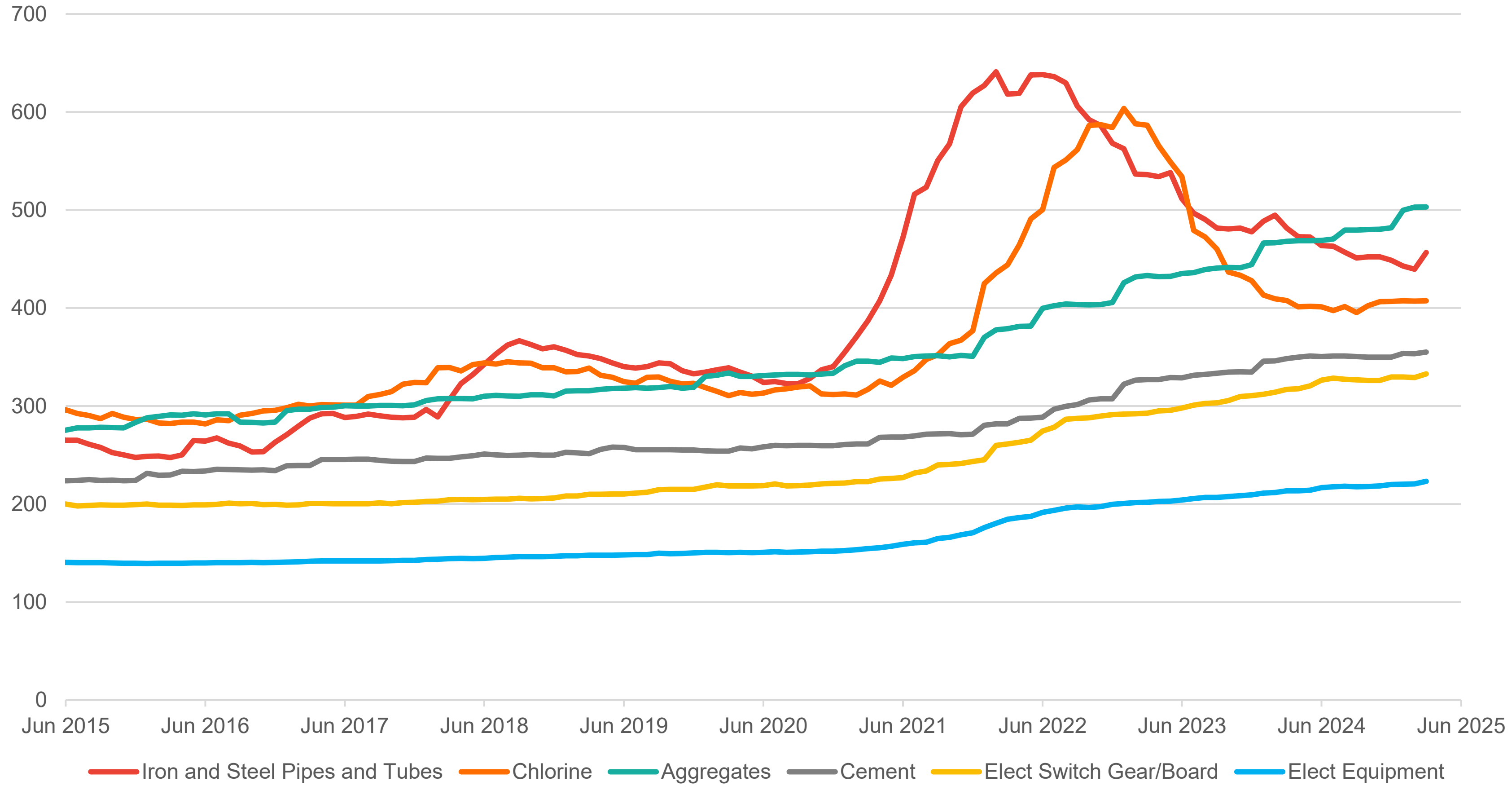


1 YR*



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

Priority Materials: Producer Prices

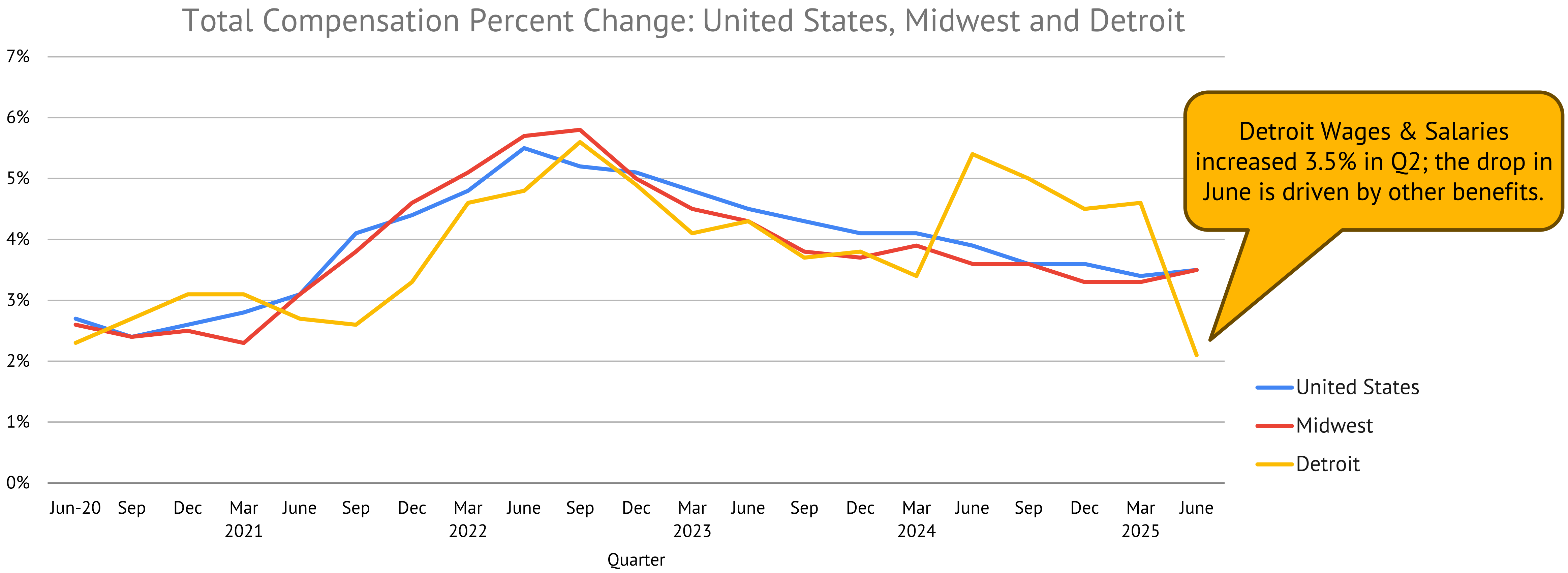


Percent Change	10YR	5YR	1YR
Iron and Steel Pipes and Tubes	83%	50%	5%
Chlorine	39%	31%	2%
Aggregates	83%	52%	8%
Cement	60%	38%	2%
Electrical Switch Gear/Board	78%	63%	9%
Elect Equipment	65%	54%	7%

Source: Bureau of Labor Statistics, Producer Price Index

Wages: Total Compensation

The Employment Cost Index (ECI) measures change in labor cost to employers. The decline in the Detroit June data is likely caused by local volatility and may be an anomaly rather than indicative of a trend.

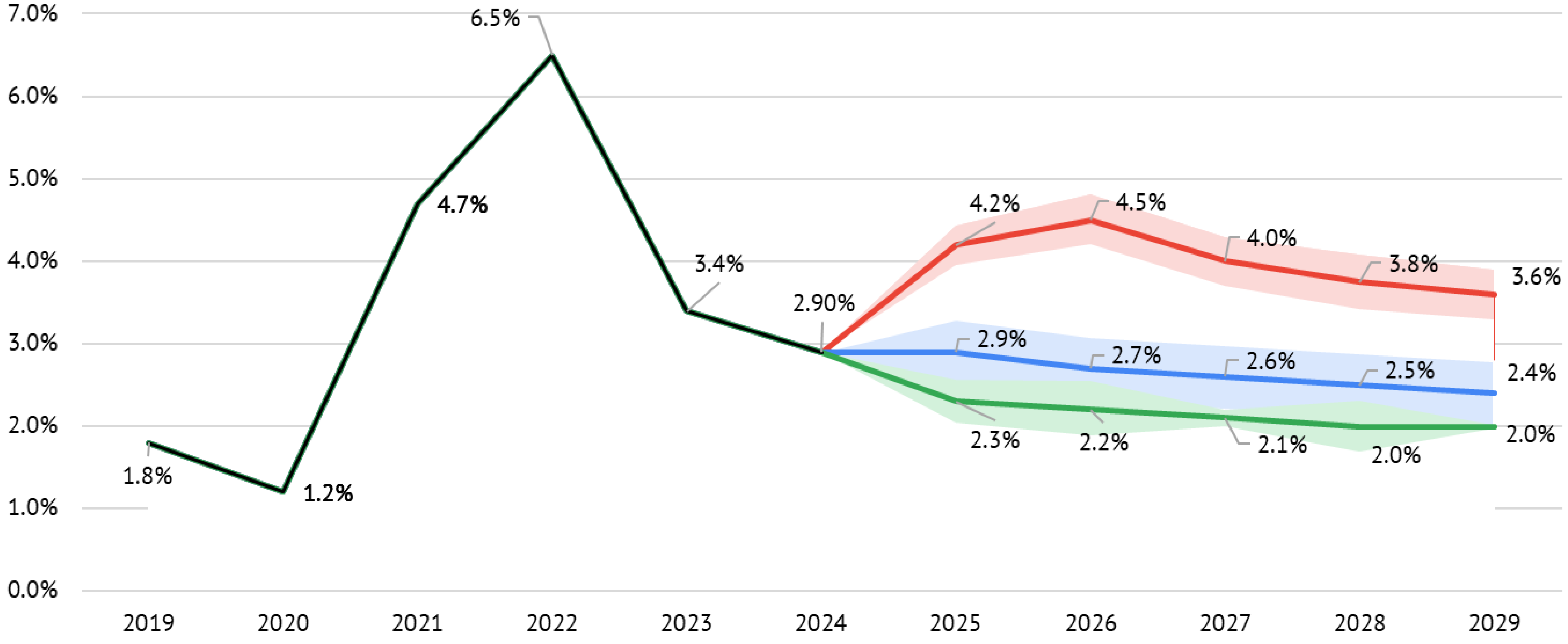


The Employment Cost Index (ECI) uses a fixed "basket" of labor to produce a pure cost change, free from the effects of workers moving between occupations and industries and includes both the cost of wages and salaries and the cost of benefits.

PSC

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

Southeast Michigan Inflation Forecast



Looking Ahead in 2025: Key Drivers to Watch

- Continued uncertainty around key economic drivers
- Tariff rates settling at 15-25% and expect to exert upward pressure on inflation
- Canada, Mexico and China trade negotiations ongoing
- Federal Reserve Interest Rate decisions hinging on competing labor markets and inflationary pressures
  - BLS Nonfarm payroll employment revealed a sharp slowdown in hiring: July added just 73k jobs and May/June numbers were drastically revised downward a combined 258k
  - The Fed lowered rates 100 bps in 2024 and have expected one or two cuts in 2025, but those decisions remain uncertain as the Fed weighs recessionary risk versus inflation
- Federal budget cuts to federal spending, Medicaid, and clean energy tax credits, while locking in reduced income tax rates
- Consumer sentiment has recovered modestly after dropping to historic lows
- Local economy more exposed than national economy due to concentration of the auto industry