Note: Page 8 of this report has been updated as of 12.17.2025.

Economic Outlook Task Force Update
GLWA Budget Workshop
December 2025

Public Sector Consultants

PSC

Executive Summary: 2025 Q3 in Review

While 2025 has been characterized by uncertainty, Q3 was particularly surprising as access to data became limited and constrained. With data delays persisting, it is too early to summarize 2025 but we can infer the following:

- **Economy:** The labor market data has been particularly delayed with the month of October potentially being unrecoverable. The latest information released November 20, 2025, shows that unemployment rose to 4.4%, up from 4.1% a year earlier.
- **Infrastructure Costs:** Construction Materials Produce Prices Index appears steady though is hovering just beneath all-time highs and has shown slight upward movement potentially impacted by tariffs.
- **Budgetary Pressures:** Uncertainty of funding due to ongoing budget negotiations at both federal and state level. Amount of investment from higher levels of government has declined, causing competition for fewer dollars.
- **Risks:**
  - Borrowing costs remain high, in spite of the third Federal Reserve rate cut of 2025
  - Artificial Intelligence costs and risks

National Economy: Key Trends

Federal Reserve

- December meeting announced third rate cut of 2025 to 3.5-3.75%
- Three members of the Board of Governors voted against this action, indicating lack of confidence in decision
- Indications that further cuts are uncertain

Washington D.C.

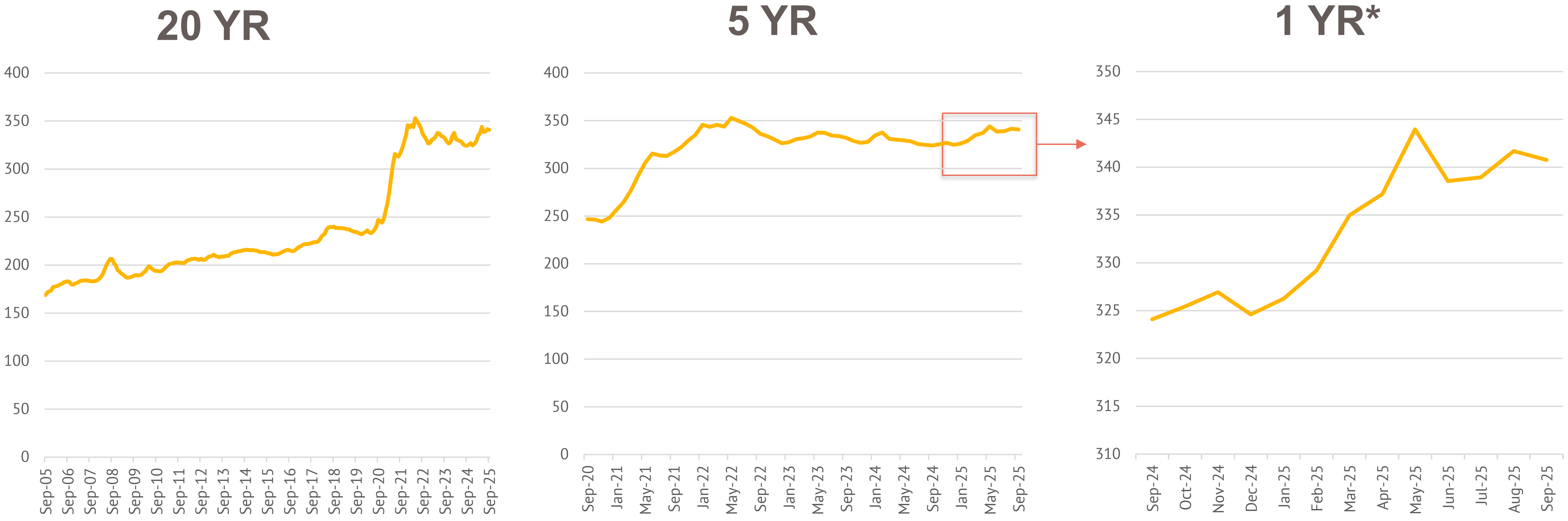
- Inconsistent Executive Orders causing confusion around federal funds and compliance
- Extended federal shut down has caused slow recovery in return to office
- Reductions to federal workforce have caused delays in response in some offices

Infrastructure

- Rising costs in part due to tariffs being enacted, which face legal challenges
- Lower levels of investment straining capital budgets
- Cybersecurity risks heightening and cyber insurance becoming more costly

Construction Materials: Producer Price Index

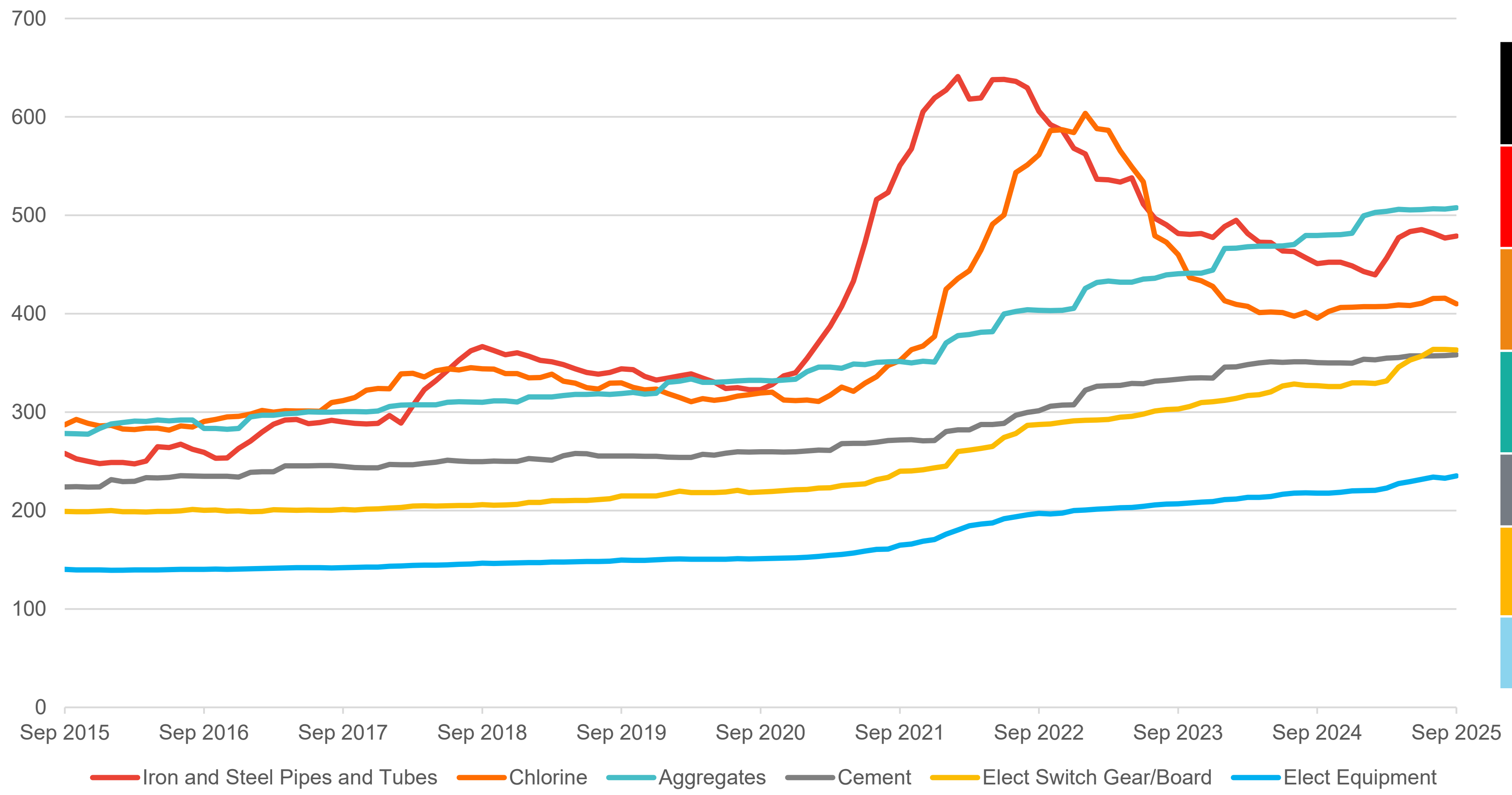
Construction Materials prices appear to have stabilized in comparison to the sharp increase in 2020; 2025 has experienced modest increases which seem to have leveled off.



Source: Bureau of Labor Statistics, Producer Price Index, updated November 25, 2025
*Note the different vertical axis for 1YR

Priority Materials: Producer Prices

Prices for priority materials are increasing faster than broader inflation which is hovering around 3%, with the exception of cement.

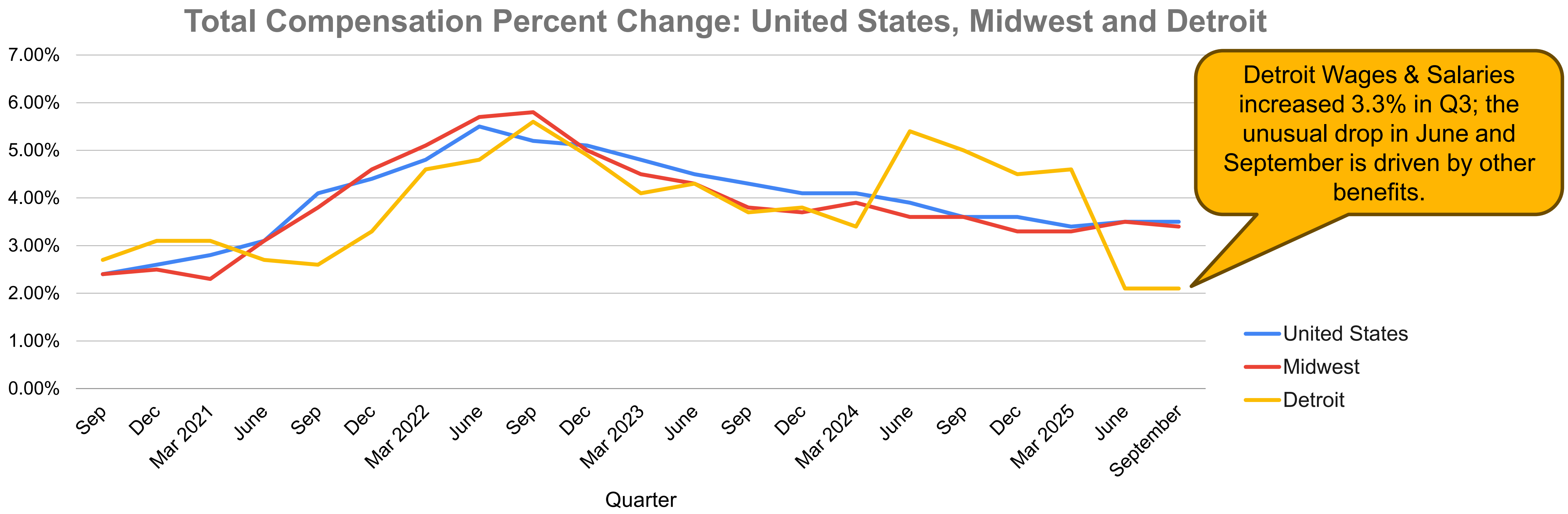


Percent Change	10YR	5YR	1YR
Iron and Steel Pipes and Tubes	86%	48%	6%
Chlorine	43%	28%	4%
Aggregates	82%	53%	6%
Cement	60%	38%	2%
Electrical Switch Gear/Board	82%	66%	11%
Elect Equipment	68%	56%	8%

PSC Source: Bureau of Labor Statistics, Producer Price Index, update November 25, 2025

Wages: Total Compensation

The Employment Cost Index (ECI) measures change in labor cost to employers. The decline in the Detroit and September seems to be driven by a reduction in benefits as wages have held pace at 3.3-3.5%.

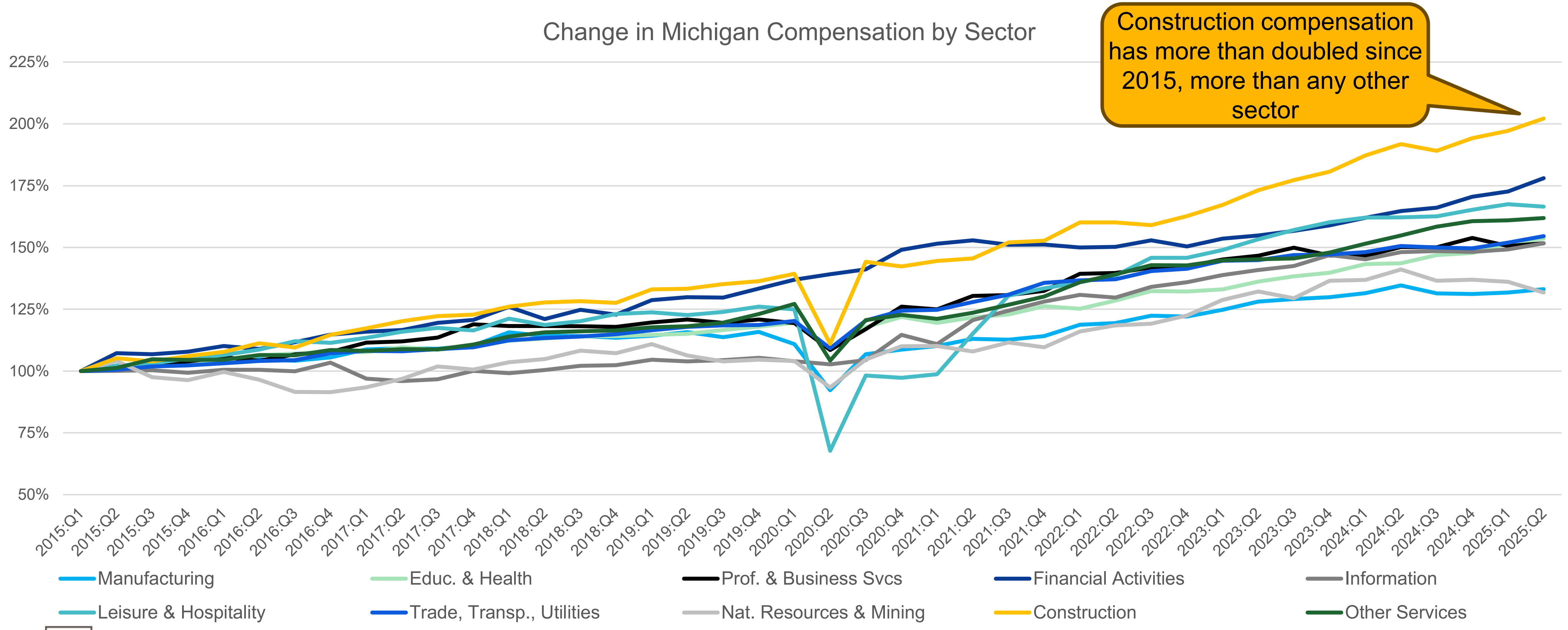


The Employment Cost Index (ECI) uses a fixed "basket" of labor to produce a pure cost change, free from the effects of workers moving between occupations and industries and includes both the cost of wages and salaries and the cost of benefits.

Source: Employment Cost Index, Bureau of Labor Statistics (BLS); updated December 10, 2025

Growth in Compensation by Sector

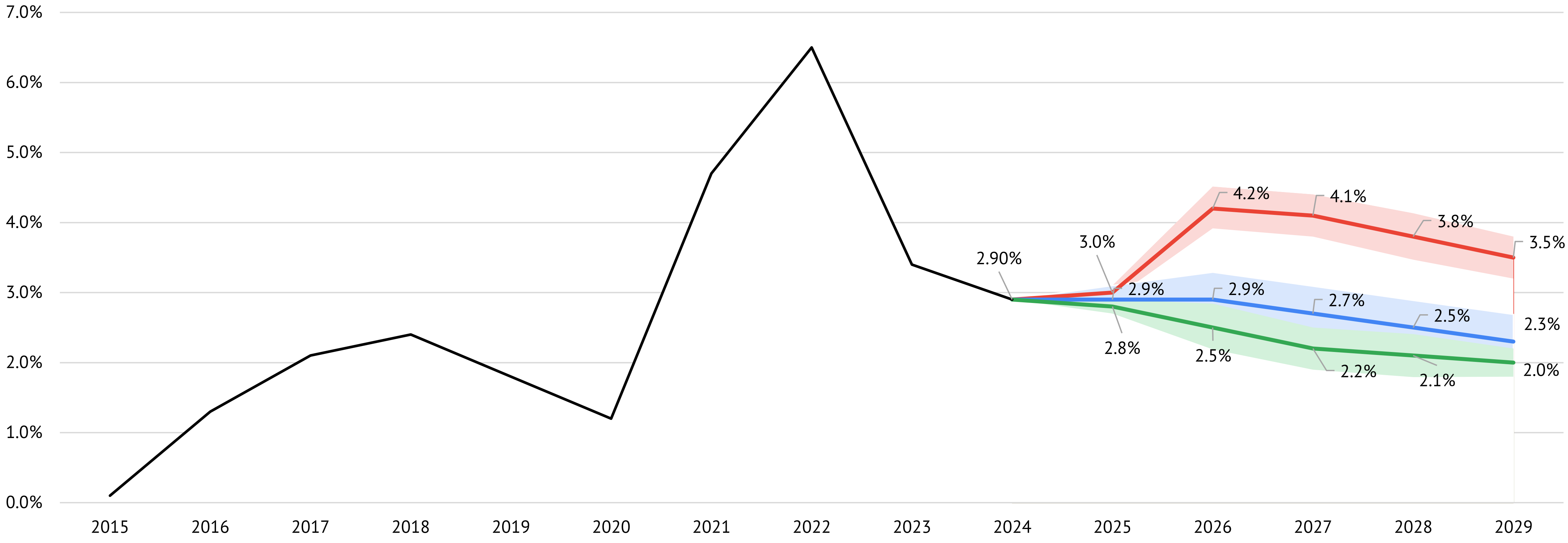
Note: This data has not been updated due to the federal government shutdown. While all sectors have increased through a combination of higher labor costs and more jobs, Construction has increased the fastest.



Source: Compensation of employees by NAICS industry, Bureau of Labor Statistics (BLS); updated August 8, 2025. 2025 Q3 Data should be released December 22, 2025.

Southeast Michigan Inflation Forecast

Our 2025 Forecast has been proven accurate at 2.9% with the latest inflation data suggesting a potential increase to 3%. The Federal Reserve will struggle to combat inflation while also supporting the labor market in 2026, and thus we have revised all our expectations upwards.



Looking Ahead to 2026: Key Drivers to Watch

- Continued uncertainty around key economic drivers and the longevity of US Tariff policy hinging on a Supreme Court ruling
- Federal Reserve Interest Rate decisions have indicated lower than normal confidence, hinting at pauses in rate changes in 2026
- Expanding investments in Artificial Intelligence may change the labor market through shifting values of certain skillsets, and Data Centers will put pressure on utilities
- Potential for labor costs to rise slower or even decline if the labor market continues to soften
- Spotlight on healthcare subsidies will have important impact in benefit costs
- Local economy facing heightened pressures due to federal policy changes (EV tax credits, tariffs), although blue collar jobs expected to be more resilient to AI impacts