Economic Outlook Task Force Update
GLWA Budget Workshop

October 2025

Public Sector Consultants

PSC

Executive Summary: 2025 Q3 in Review

- **Economy:** recent labor data revealed significantly fewer jobs created in past 12 months than previously estimated. Both unemployment and inflation have started rising, indicating risk of stagflation.
- **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
  - Cybersecurity threats

State Spotlight: Michigan Policies to Watch

State Budget

- Budget passed early morning on October 3rd
- 6.9% reduction to EGLE (Michigan Department of Environment, Great Lakes, and Energy)
- $5m reduction for water affordability/assistance from last year

State Revolving Fund

- $34m reduction in ongoing support for the State Revolving Fund program, although replaced this year with one-time funding
- Competing pressures for infrastructure dollars with roads receiving high priority

Household Income

- Unemployment risks and rising costs are putting pressure on households
- Frustration with taxes have resulted in ballot proposals, including Ax MI Tax

National Economy: Key Trends

Federal Reserve

- September meeting announced first rate cut of 2025 to 4-4.25%
- Competing pressures from softening labor market and stubborn inflation make future decisions uncertain
- “There is no risk-free path” ~ Chair Powell on the risk of stagflation

Washington D.C.

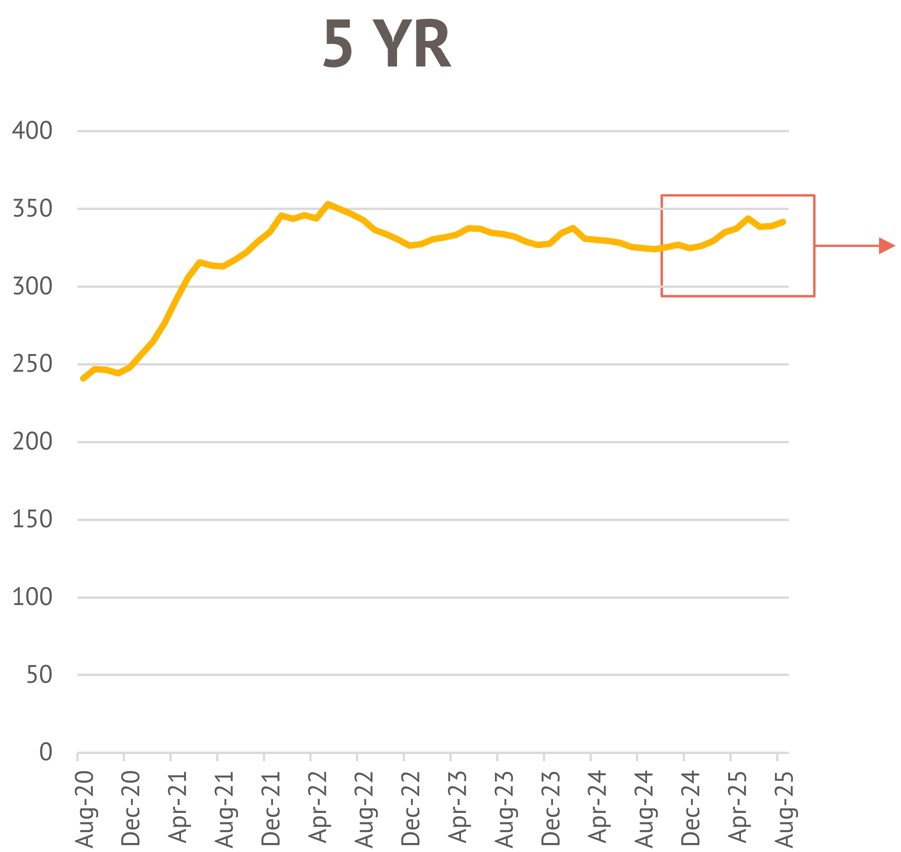
- Inconsistent Executive Orders causing confusion around federal funds and compliance
- First Shut Down in 7 years while Federal Budget negotiations are ongoing over healthcare benefits
- Reductions to federal workforce have caused delays in response in some offices

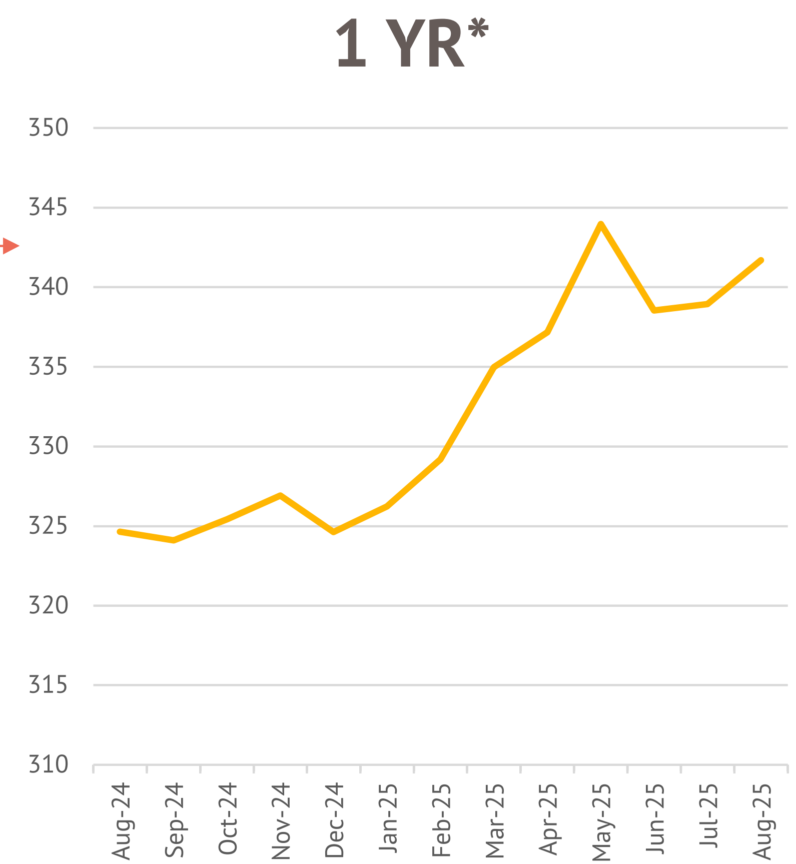
Infrastructure

- 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; however, 2025 has experienced modest increases which may or may not become a trend.

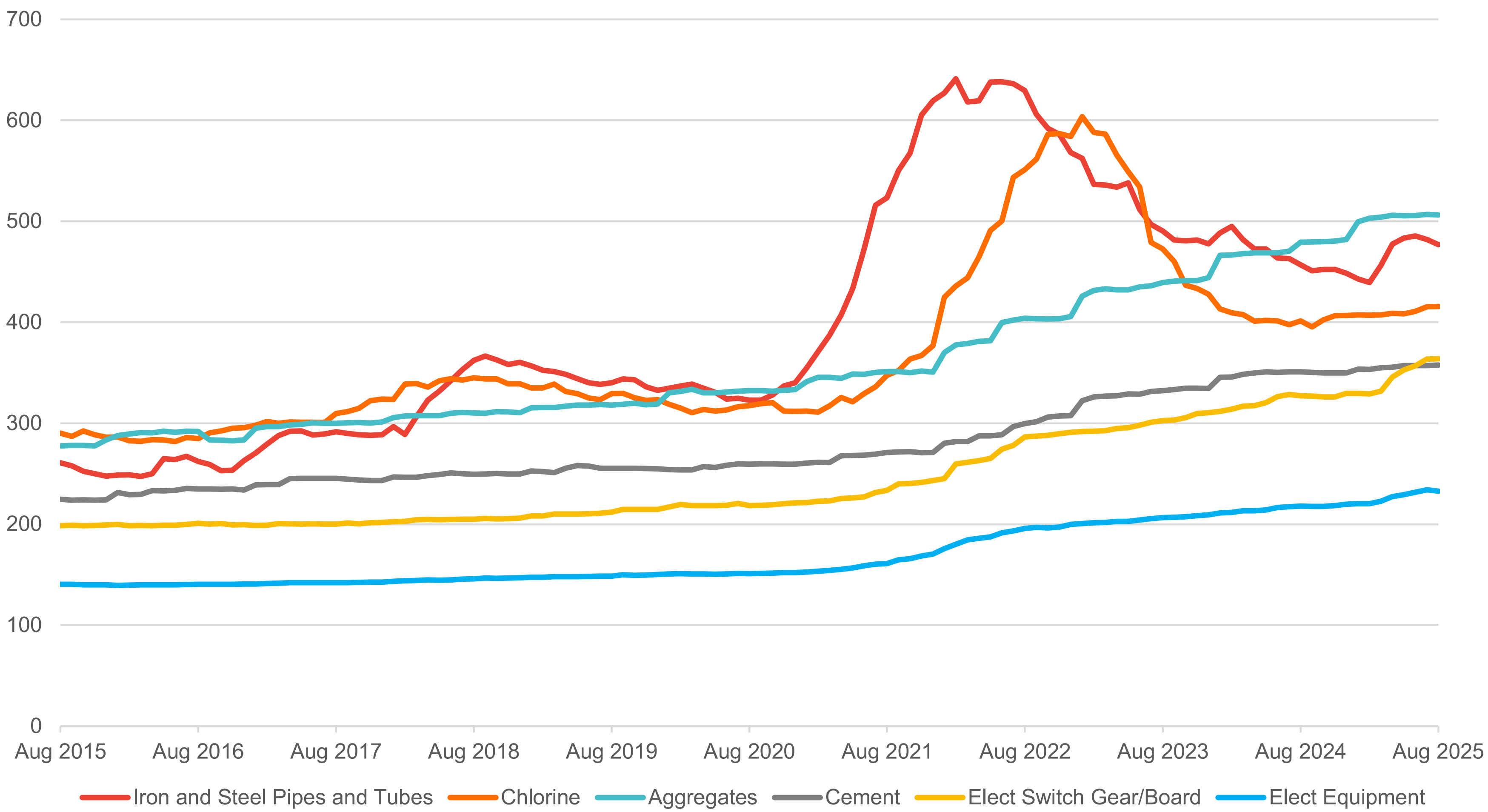




Source: Bureau of Labor Statistics, Producer Price Index
*Note the different vertical axis for 1YR

Priority Materials: Producer Prices

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

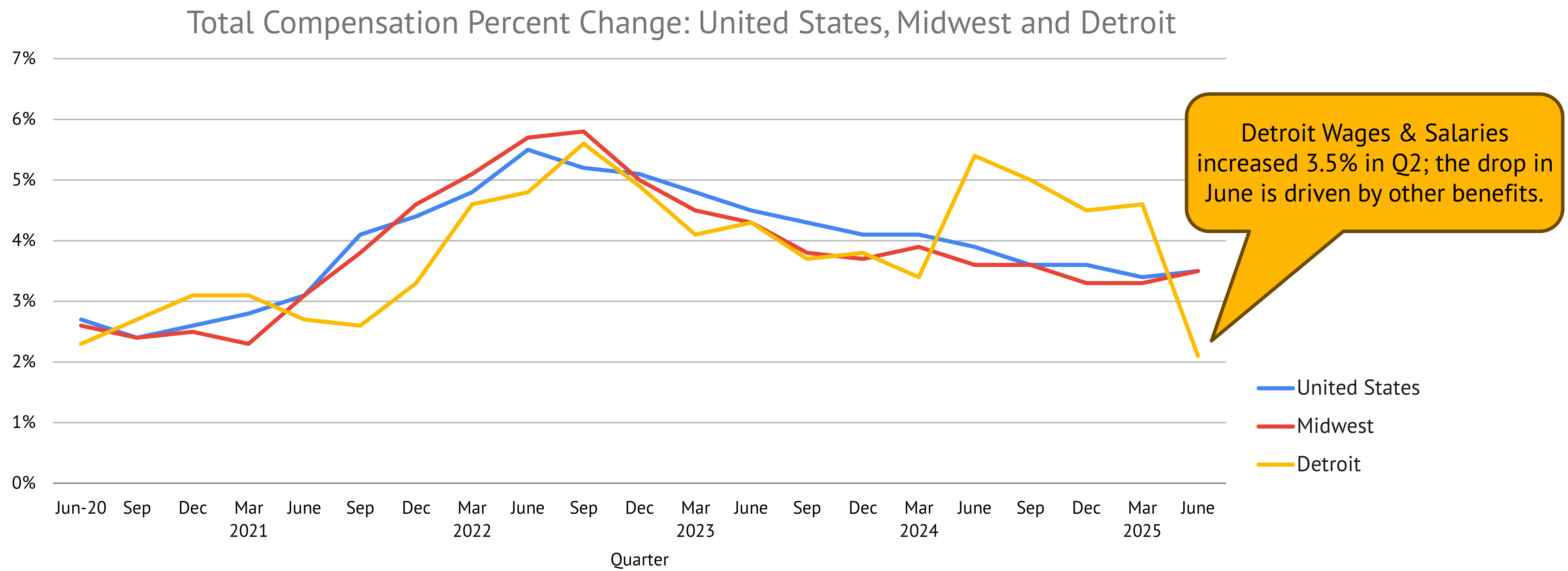


Percent Change	10YR	5YR	1YR
Iron and Steel Pipes and Tubes	83%	48%	4%
Chlorine	43%	31%	4%
Aggregates	82%	52%	6%
Cement	59%	38%	2%
Electrical Switch Gear/Board	83%	67%	11%
Elect Equipment	66%	54%	7%

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.

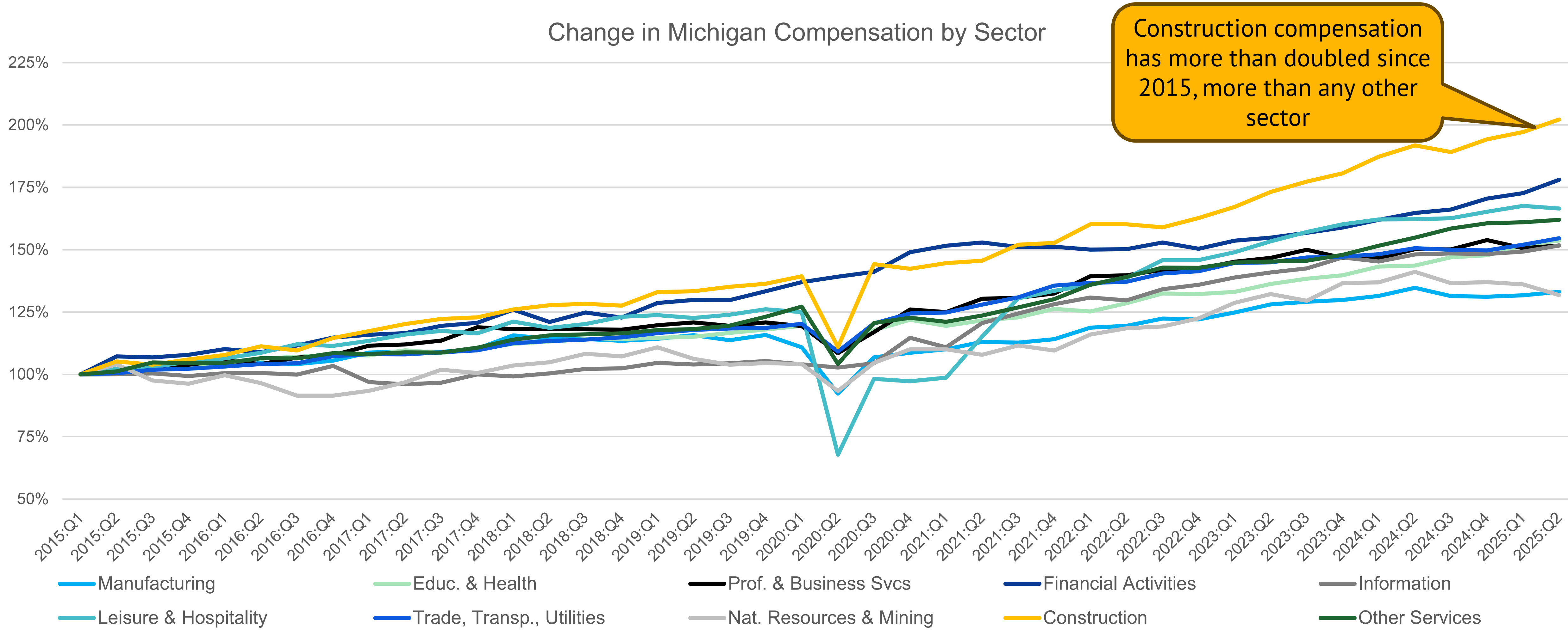


The Employment Cost Index (ECI) uses a fixed "basket" of labor to produce a pure cost change, free from the effects of workers moving between occupations and industries and includes both the cost of wages and salaries and the cost of benefits.

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

Growth in Compensation by Sector

Total compensation shows the growth in total wages and benefits paid. While all sectors have increased through a combination of higher labor costs and more jobs, Construction has increased the fastest.



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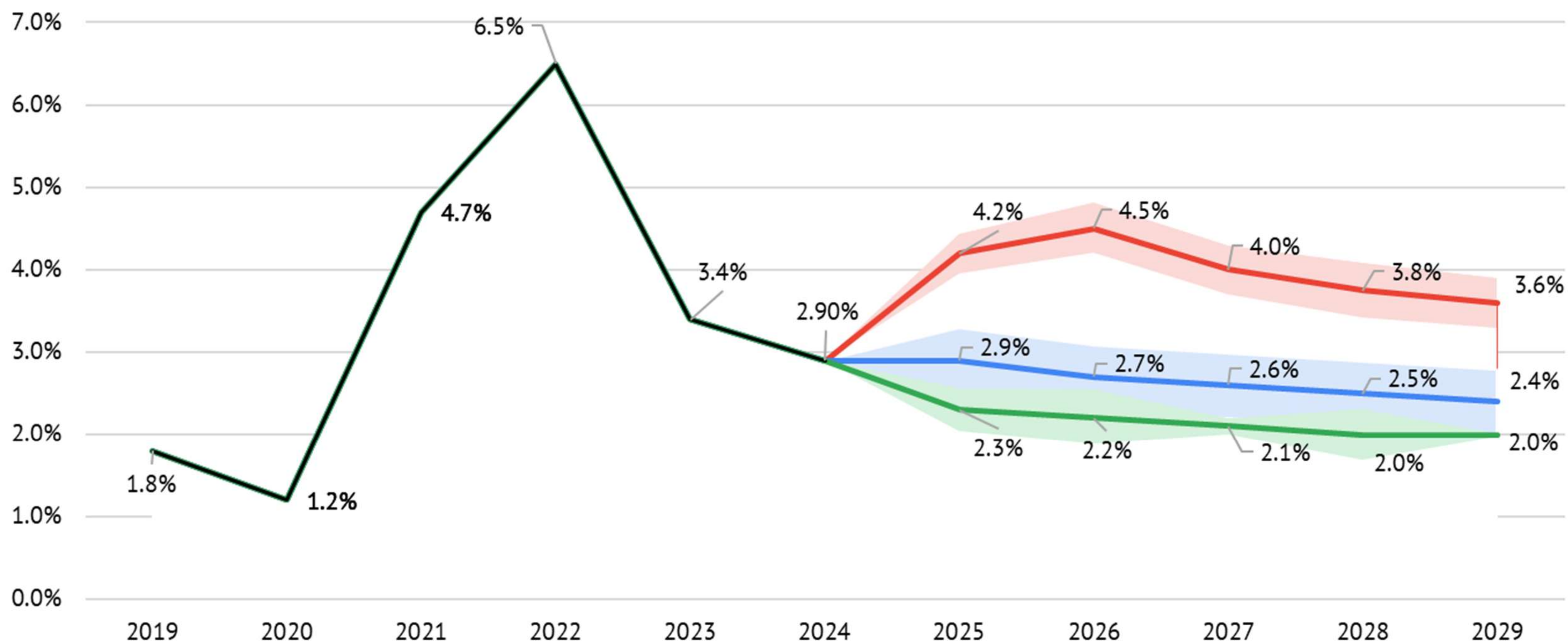
Source: Compensation of employees by NAICS industry, Bureau of Labor Statistics (BLS)

Southeast Michigan Inflation Forecast

While our forecast remains unchanged since Q1, Augusts' inflation report revealed the Consumer Prices Index ticked back up to 2.9% from 2.7% in July, in line with our annualized expectations.



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Looking Ahead to 2026: Key Drivers to Watch

- Continued uncertainty around key economic drivers
- Federal Reserve Interest Rate decisions hinging on competing labor markets and inflationary pressures
- Federal budget cuts to federal spending, Medicaid, and clean energy tax credits, while locking in reduced income tax rates
- Low- and Middle-Income Households are seeing their real income decrease due to costs rising faster than their wages
- Local economy more exposed to federal policy changes than national economy due to concentration of the auto industry
- Potential for labor costs to rise slower or even decline if the labor market continues to soften