



2026

*The Nation,
Southern California
and Orange County*

ECONOMIC FORECAST

WOODS CENTER FOR ECONOMIC ANALYSIS AND FORECASTING

CSUF

COLLEGE OF
Business
and Economics

NO APPOINTMENTS NEEDED



Some things will always be.

Latte Machine • Real Bankers • White-Glove Service

Come into our office and experience the difference.
4695 MacArthur Court • Suite 130 • Newport Beach, CA 92660

FMB.com



MEMBER FDIC

THANK YOU SPONSORS!

Title Sponsor



Member FDIC

Platinum Sponsors



Gold Sponsors

City of Irvine • Infinity Bank • MemorialCare
Orange County Department of Education • PNC Bank
Rancho Mission Viejo • SchoolsFirst Federal Credit Union

Corporate Sponsors

American Business Bank • Brookfield Residential • Cal State Fullerton Philanthropic Foundation
Chevron • City of Santa Ana • Disneyland Resort • First Pacific Bank
Jamboree Housing • LSA Associates, Inc. • Michael Baker International
The Orange County Register • Rady Children's Health • Slalom
South Orange County Community College District • UCI Chief Executive Roundtable



TABLE OF CONTENTS

WINDS OF CHANGE:
What Business Leaders Need to Know in the Current Environment

Economic Outlook and Forecasts:
The Nation, Southern California and Orange County

Anil Puri, Ph.D., and Mira Farka, Ph.D.

U.S. ECONOMIC OUTLOOK AND FORECASTS

The Winds of Change..... 5

Overview 5

The Trump Doctrine: Thank You for Your Attention to this Matter 38

ORANGE COUNTY, SOUTHERN CALIFORNIA AND CALIFORNIA

California Angst..... 53

The Energy Question: A Step Forward..... 54

California Dreamin’: Healthcare Woes..... 55

California (Tough) Love: The State’s Mounting Challenges 57

California Blue: Employment and Demographics 57

Fits and Starts: Housing and Homelessness 60

In a Holding Pattern: Orange County Business Expectations..... 63

Employment Forecasts..... 66

TABLES

National 67

Orange County..... 68

Southern California..... 69

Los Angeles County 70

Inland Empire 71

Ventura County 72

SPONSOR ADS 73

WINDS OF CHANGE:

What Business Leaders Need to Know in the Current Environment

The Nation, Southern California and Orange County

Anil Puri, Ph.D.

Director, Woods Center for Economic Analysis and Forecasting
Provost Emeritus

Mira Farka, Ph.D.

Co-Director, Woods Center for Economic Analysis and Forecasting
Professor of Economics, College of Business and Economics

THE WINDS OF CHANGE

**“The future’s in the air,
I can feel it everywhere,
Blowing with the wind of change.”**

– *Wind of Change, Scorpions*

Overview

Mayor: “Drebin, I don't want any more trouble like you had last year on the South Side, understand? That's my policy.”

Frank Drebin: “Yes. Well, when I see five weirdos dressed in togas stabbing a guy in the middle of the park in full view of 100 people, I shoot the bastards. That's **my policy.”**

Mayor: “That was a Shakespeare-In-The-Park production of ‘Julius Caesar’, you moron! You killed five actors! Good ones.”

– *The Naked Gun*

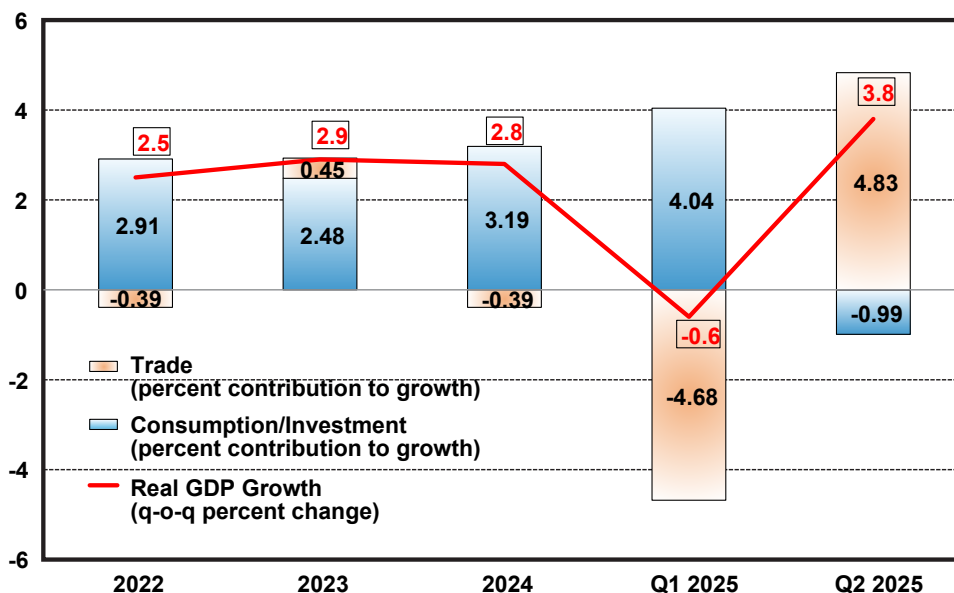
Just when you thought 2025 had exhausted its seemingly endless supply of gut-punches, it had one more surprise in store. No, we don't mean the geopolitical reshuffling of the world order, the muscular rise of realpolitik, or the radical rewiring of global trade. Something far more important: The long-awaited, much-rumored, nostalgia-soaked remake of *The Naked Gun*—the iconic franchise that skewers every cop-movie cliché with a near-religious devotion to pure absurdity, unapologetic slapstick, and gleeful mayhem. At its heart is Lt. Frank Drebin (first Sr., then Jr.), a blissfully unselfconscious hero with a genius for disaster, whose bumbling incompetence somehow transforms nonsense into accidental brilliance. While protecting the queen, battling eco-villains, rescuing the Academy Awards, or stopping tech-bro masterminds, Drebin still manages to reveal the Ayatollah's secret Mohawk, wipe off Gorbachev's birthmark, accidentally deck the pope, get upstaged by Weird Al, and moonwalk behind home plate. Splattered throughout are verbal gaffes (*‘a Panamanian ship,*

out of Caracas'), nonsensical mix-ups ('Cuban? No, Dutch-Irish'), a mangled national anthem ('and the rockets' red glare, bunch of bombs in the air...'), over-the-top blues lyrics ('I get out of bed, wish I was dead, and I hope you do too...'), and goofy wordplay ('he's in the intensive care ward at Our Lady of the Worthless Miracle'). All delivered with the deadpan earnestness of a man who can be deadly serious while doing and saying things that are deadly stupid—where chaos reigns, neighborhoods erupt in fiery plumes, and yet, somehow, somehow, everything still turns out fine.

The Naked Gun may well be the stage on which the U.S.—and global—economy has played out this year: plenty of mayhem (tariffs at Depression-era highs), hair-raising moments (a 23% market swoon), and near-catastrophes (a trade war escalation halted on the brink). Sure, the rogues' gallery of U.S. foes has shifted since the late 1980s, when Frank Drebin vacationed in Beirut—facing down Idi Amin, Yasser Arafat, the Ayatollah, Muammar Gaddafi, Fidel Castro, and Mikhail Gorbachev—to today's strategic competitors on display at the Shanghai Cooperation Organization (SCO): Xi Jinping, Vladimir Putin, and Narendra Modi. But the plot itself hasn't changed much. Alliances are shifting, and strategic partnerships are being redrawn, as America strives to preserve its global leadership and domestic competitive edge by re-jiggering the world order: pressing China to produce less and consume more, seeking more balanced trade flows, and ensuring the U.S. dollar remains the world's reserve currency. Economic policy has morphed into economic statecraft, wielded alongside military and political power to pursue not only economic aims but also foreign policy and national security goals. Reordering the world order is a tall order, but as Drebin would say: 'You take a chance getting up in the morning, crossing the street, or sticking your face in a fan.'

Yet, despite these powerful *Winds of Change*—echoing from Gorky Park to Beijing to Washington—the U.S. economy has muddled through, channeling its own Frank Drebin: bumbling and stumbling, teetering and tottering, and, against all odds, coming out fine—at least so far. Dramatic policy shifts have driven equally wild swings in economic performance, but that is to be expected when uncertainty runs this high. First-quarter real GDP fell by -0.6%, driven largely by an outsized surge in imports, which jumped 38%—the fastest pace in five decades (outside the pandemic)—as firms rushed shipments ahead of the tariffs (Figure 1). Consumer spending wobbled, but business investment surged at an annualized pace of 23%, the strongest since the pandemic.

FIGURE 1
Suddenly, Trade is All that Matters
(contributions to growth, percentage points)



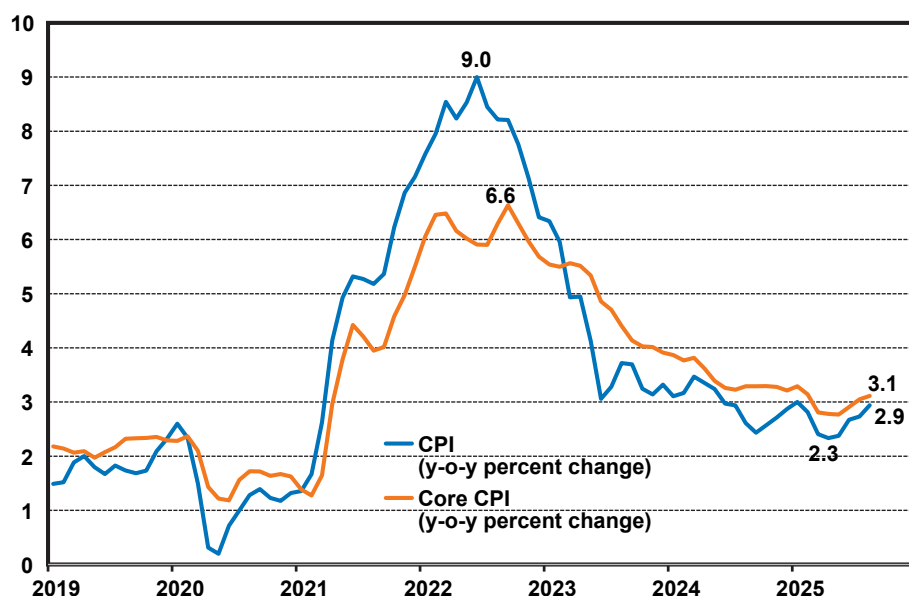
***The Naked Gun* may well be the stage on which the U.S.—and global—economy has played out this year: plenty of mayhem (tariffs at Depression-era highs), hair-raising moments (a 23% market swoon), and near-catastrophes (a trade war escalation halted on the brink).**

Economic policy has morphed into economic statecraft, wielded alongside military and political power to pursue not only economic aims but also foreign policy and national security goals.

Despite these powerful *Winds of Change*—echoing from Gorky Park to Beijing to Washington—the U.S. economy has muddled through, channeling its own Frank Drebin: bumbling and stumbling, teetering and tottering, and, against all odds, coming out fine—at least so far.

In contrast, second-quarter growth proved even stronger than first estimated: a sturdy 3.8% versus an initial (still-healthy) 3.3%. This too was driven largely by swings in net exports—this time, a nearly 30% plunge in imports as tariffs took hold. More encouraging was the resilience of the U.S. consumer: Far from pulling back, as surveys and anecdotal evidence had suggested, household spending rose at a sturdy 2.5%—hardly the behavior of a consumer on the verge of collapse. Even more reassuring, inflation as measured by the consumer price index averaged a 2.6% annual pace in the first eight months of the year, still above the Fed's 2% target, but a welcome slowdown from the 3% pace of 2024 (Figure 2).

FIGURE 2
Inflation is Edging Up, But Still Contained
(y-o-y percent change)

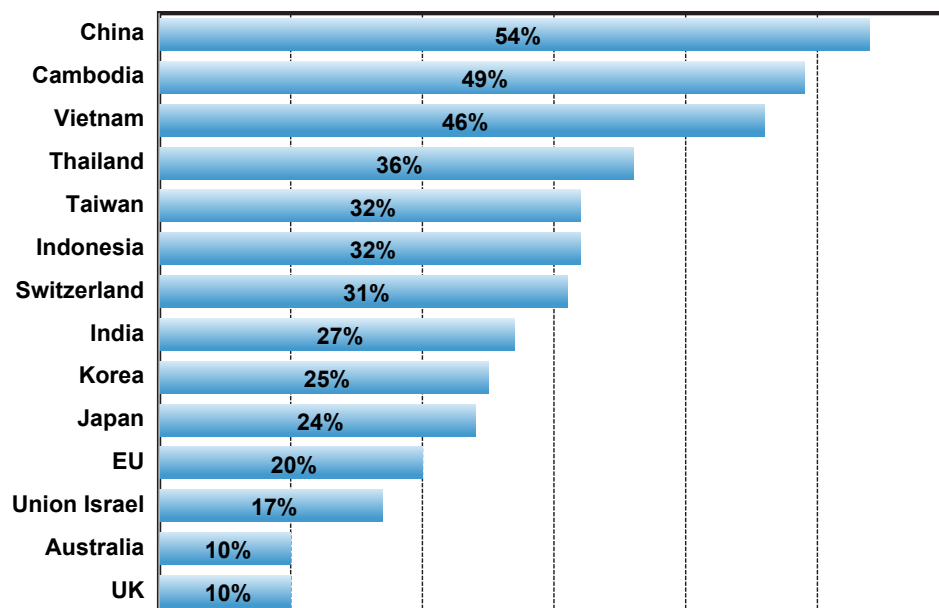


So yes, the economy's path this year has resembled less a steady march forward and more a Drebin-esque moonwalk behind home plate. But awkward though it may be, a moonwalk is infinitely preferable to a stumble.

It's hard to overstate how remarkable this is. "*Après moi, le déluge*," King Louis XV once exclaimed. And *le déluge* did indeed follow Liberation Day tariffs, as the world awoke to the realization that the postwar neoliberal order was nearing its end—a civilization "gone with the wind," swept away in a flood. In a sweeping attempt to rebalance half a century of U.S. trade deficits, tariffs blanketed the globe: 34% on China (on top of the 20% already imposed earlier in the year), 27% on India, 25% on South Korea, 24% on Japan, 32% on Taiwan, and 36% on Thailand. The European Union was hit with a 20% levy, while a universal baseline of 10% applied everywhere else—including countries with which the U.S. actually runs a trade surplus (Figure 3).

The economy's path this year has resembled less a steady march forward and more a Drebin-esque moonwalk past home plate. But awkward though it may be, a moonwalk is infinitely preferable to a stumble.

FIGURE 3
Eye-Watering Tariffs: Liberation Day Tariffs Set a Ceiling
 (statutory tariff rate, percent)



Chaos ensued. In the four harrowing trading days that followed Liberation Day, the S&P 500 plunged 12.5%, erasing \$6.6 trillion in market value. The NASDAQ tumbled into bear-market territory. The VIX index—a gauge of market fear—surged to levels consistent with peak-recessions. The 10-year Treasury yield rose from 3.8% to 4.5% in a two-day span, stoking fears that the very architecture of the U.S. financial system was cracking. Recession calls mounted. Expectations for a full-blown stagflation became standard fare. Yet even those paled beside darker prophecies: that the dollar's era as the world's reserve currency was drawing to a close, that U.S. preeminence was slipping away, and American global leadership was fading. As Drebin would say: *"Cops and women don't mix. It's like eating a spoonful of Drano: sure, it'll clean you out, but it'll leave you hollow inside."* By this telling, we were witnessing the hollowing out of American exceptionalism itself.

We warned back then that these doomsday projections outpaced—by a wide margin and with plenty of melodramatic flair—even the darkest constellation of possible outcomes. In his own wry fashion, Scott Bessent, the U.S. Treasury Secretary, dubbed it “a new version of TDS—tariff derangement syndrome.” Tariffs are a deliberate policy tool, not an act of nature or some unavoidable calamity. Donald Trump's near-religious fervor for them is by now clear, but so too is his ability to shift and adapt, to test and pullback, to prod and pivot when needed. This strategy has even earned an unflattering acronym, TACO—*Trump Always Chickens Out*—which Mr. Trump publicly abhors, but which markets have come to quietly rely on. But catchy as it is, TACO does not seem to quite capture the full strategy and its nuances. A more fitting label might be TAPAS—Trump Always Pushes and Shifts—because he will press the tariff policy as far as markets will allow, before tactically backing off if forced to do so.

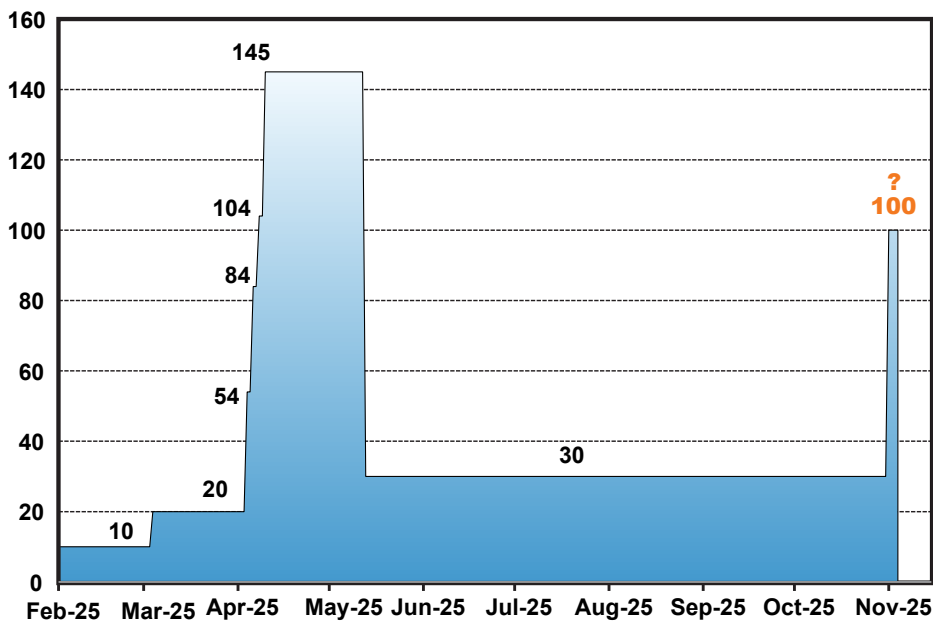
And there have been plenty of TAPAS served since Liberation Day. On April 9, with the new tariffs barely a few hours old, Mr. Trump announced a 90-day delay. Universal levies of 10% stayed in place, but reciprocal tariffs were put on hold. The only exception: China, where the trade war, already brewing as Beijing retaliated, was ratcheted up: tariffs rose from 54% on Liberation Day to 84%, then 104%, and finally a staggering 145% by April 9, amounting to an effective trade embargo. No matter: after the terror, the euphoria. The S&P 500 surged 9.5% in a single day, its

Catchy as it is, TACO does not seem to quite capture the full strategy and its nuances. A more fitting label might be TAPAS—Trump Always Pushes and Shifts—because he will press the tariff policy as far as markets will allow, before tactically backing off if forced to do so.

fastest rise in nearly 17 years, on the realization that Liberation Day had set a ceiling and April 9, a floor on tariffs. And all it took was a dozen words on Truth Social—ending, fittingly, with Drebin-esque deadpan: ‘Thank you for your attention to this matter.’ Thank you indeed.

Since then, the tariff tide has ebbed and flowed. Perhaps the most consequential is the U.S.–China truce reached on May 12: all retaliatory tariffs were suspended and scaled back to a more digestible 10% for 90 days, later extended through Nov. 10. That rate sat atop the 20% fentanyl levy imposed earlier in the year, bringing China’s statutory tariff burden to 30%, while Chinese tariffs on U.S. goods remained at 10%. The truce left untouched the scrapping of the *de minimis* exemption: small-value packages (under \$800) that had once been spared—on the grounds that the revenue wasn’t worth the cost of collection—are now subject to the full 30% tariff (Figure 4).

FIGURE 4
The China Issue: Tariffs on China Have Ebbed and Flowed
(statutory tariff rate, percent)

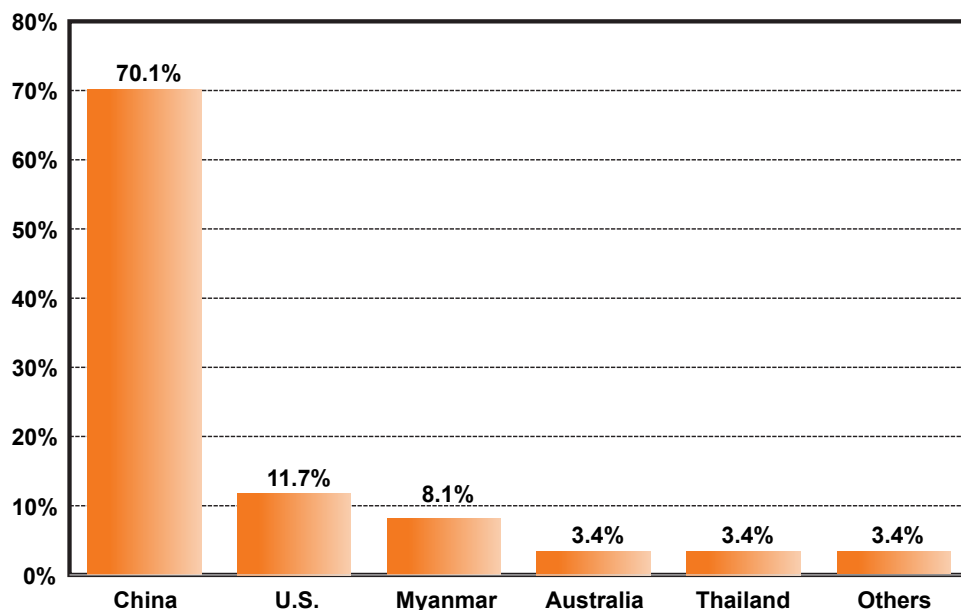


The hope was that a meeting at the APEC summit in South Korea between Mr. Trump and Mr. Xi slated for the end of October would further de-escalate tensions and address several thorny issues—China’s chokehold on rare earth minerals, its refusal (since May) to purchase U.S. soybeans, and America’s export ban on advanced chips.

Alas, those hopes have been put on hold, for now. As of this writing, flashes of April’s pandemonium are back: China has adopted a markedly more militant stance, dramatically tightening controls on rare earth exports, of which it commands roughly 70% of the global supply, and 99% of global processing capacity (Figure 5). Foreign firms must now apply for a license to export any product containing even infinitesimal amounts (0.1%) of rare earths sourced, processed, or manufactured in the country. China also imposed new fees on U.S. vessels docking at Chinese ports and opened an antitrust investigation into Qualcomm, an American company. President Trump promptly retaliated, denouncing the rare earth restrictions as “a very hostile act” and vowing to impose 100% tariffs and export controls on all critical software. While the exact scope of these controls remains unclear, he hinted at potentially extending them to include airplanes and aircraft parts.

China has adopted a markedly more militant stance, dramatically tightening controls on rare earth exports, of which it commands roughly 70% of the global supply, and 99% of global processing capacity

FIGURE 5
A Chokehold: China Produces 70% of Global Rare Earth Minerals
 (percent of total)



The current standoff was inevitable. It's hardly surprising that the world's two dominant powers would jockey for maximum leverage ahead of high-stakes negotiations. In fact, the real surprise is why it took so long. The rare-earth threat is China's "nuclear option" — its most potent card. If deployed aggressively, it could tip the U.S. economy, and with it, the global economy, into recession. Rare-earth minerals, which, despite their name are relatively abundant, are essential to the production of magnets used in nearly everything — from semiconductors and electric vehicles to fighter jets— the very lifeblood of the high-tech economy and, arguably, modern civilization. Think of it as the 21st century equivalent of a 1970s oil embargo.

But the U.S. arsenal is hardly empty. Should it decide to apply maximal pressure — say, by effectively cutting off trade with China or imposing outright bans on advanced chips and aircraft parts — it would deliver a crippling blow to China's economy. *"They have some cards,"* Trump said recently of China. *"We have incredible cards."* The relative value of those cards remains to be seen. But both sides know the stakes: mutually assured destruction.

It is precisely because the stakes are so high that we think a climbdown is almost inevitable. Beijing's punitive measures are set to take effect on Dec. 1, while Mr. Trump's newly escalated tariffs kick in a month earlier, on Nov. 1. The staggered deadlines leave ample room for both sides to find an off-ramp. In other words, get ready for a hefty serving of TAPAS — with a side of TACOs, though not before markets endure a few rounds of gut-wrenching swings.

Aside from the China standoff, relations with other trading partners seem strangely calm. A few trade deals have already been struck. No, not the "90 deals in 90 days" once promised—an outlandish ambition always bound to fall flat—but a trickle. By our count, seven so far. Instead of sweeping, comprehensive traditional agreements that address, among others, thorny issues like labor laws or environmental standards, these have been narrower and more pragmatic—targeting specific sectors, tariff adjustments, trade deficits, investment pledges, and commitments to buy more American goods. For the most part, they remain broad frameworks, with many of the details still under negotiation.

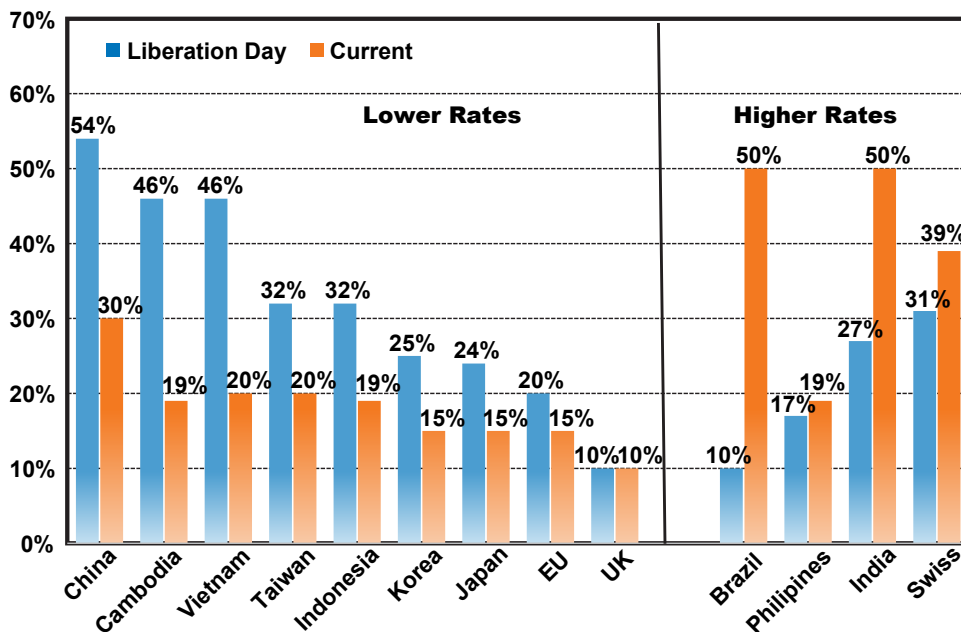
The rare-earth threat is China's "nuclear option" — its most potent card. If deployed aggressively, it could tip the U.S. economy, and with it, the global economy, into recession.

It is precisely because the stakes are so high that we think a climbdown is almost inevitable.

Aside from the China standoff, relations with other trading partners seem strangely calm. A few trade deals have already been struck... By our count, seven so far.

As part of these arrangements, the U.S. tariff rate on Japanese and South Korean goods (including automobiles) has been set at 15%, lower than the threatened 25% (Figure 6). By comparison, Japan's average tariff on U.S. imports is about 4.3%, while South Korea's effective tariff rate on U.S. goods averages just 1%. The tariff on EU goods has also been fixed at 15%, down from the initial Liberation Day rate of 20%, while Brussels has pledged to eliminate tariffs on all U.S. industrial goods, including cars. Vietnam now faces a 20% tariff, higher than the 10% "universal" rate announced on April 9 but still well below the hair-raising 46% threatened on Liberation Day. Imports from Indonesia and the Philippines will be subject to a 19% tariff, in exchange for the two countries eliminating duties on 99% of U.S. industrial and agricultural goods. Britain emerged with the most advantageous outcome by far: a 10% tariff rate, conferring on misty-eyed observers on both sides of the Atlantic the reassurance of a "special relationship"—"with Britain", as Mr. Trump put it, "if not our greatest ally" (lest others take offense), then "one of our greatest allies."

FIGURE 6
TACOs and TAPAS: Tariff Rates Have Fallen for Most Countries
(statutory tariff rate, percent)



Further concessions were also wrung from America's trading partners. Japan pledged to open its markets further to American manufacturing and agricultural goods, including a 75% increase in rice imports. It also agreed to remove additional safety testing requirements for U.S. vehicles, ramp up purchases of American aircraft and defense equipment, and pledge \$550 billion in U.S. investments (though details on this last one remain sketchy). South Korea pledged \$350 billion in investments and an additional \$100 billion in American energy purchases. Vietnam agreed to open its markets to U.S. goods at zero tariffs. Indonesia committed to lifting export controls on critical minerals. The Philippines pledged deeper military cooperation. The EU promised greater access for certain American agricultural and seafood products.

For countries that did not rush to strike a deal, the picture is mixed. For some, the current tariff rate is higher than the 10% "universal" rate but still lower than the punitive levels announced on Liberation Day. Taiwan's rate, for example, now stands at 20%, down from 32%. Thailand and Malaysia face 19%, down from 36% and 24%, respectively.

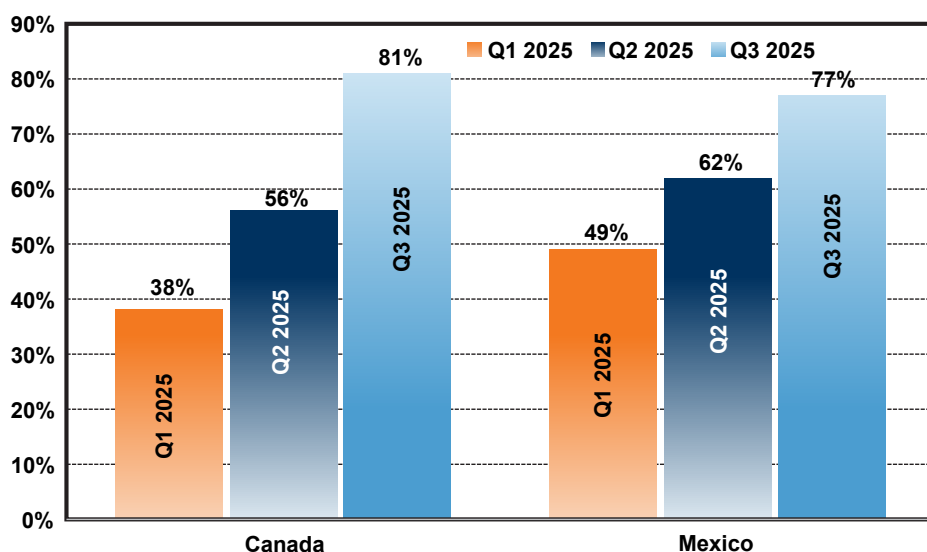
For countries that did not rush to strike a deal, the picture is mixed. For some, the current tariff rate is higher than the 10% "universal" rate but still lower than the punitive levels announced on Liberation Day.

Others have not been so fortunate. Brazil's tariff rate is now 50%, up from 10% on Liberation Day—justified by Washington as a matter of national security and foreign policy but widely seen as retaliation for Brazil's legal actions against former President Jair Bolsonaro and U.S. tech firms (and perhaps also in response to its role in the BRICS). India's original 25% tariff rate has also doubled to 50%, in response to its continued purchases of Russian oil. Switzerland's new tariff rate, announced on *Rütli*schwur—Swiss National Day—has soared to 39% up from 31% on Liberation Day. What irks Mr. Trump is Switzerland's widening trade surplus—a country that ranks 102nd in population but now holds the sixth-largest trade deficit with the United States. The trade deficit reached \$55 billion this year, up from \$38 billion last year, driven largely by exports of gold and pharmaceuticals. Gold—Mr. Trump's favorite metal—and pharmaceuticals are exempt from the 39% tariff, which leaves Switzerland facing an overall effective tariff rate of only 12% for now. But if your tastes run to luxury goods—watches, jewelry, or chocolate, Switzerland's other signature exports—you're out of luck: no sugar to sweeten, no diamonds to last forever, only the sting of a 39% tariff. Or, as Frank Drebin would put it, *“the (Swiss) cows have come home to roost.”*

The fate of America's two largest trading partners—Canada and Mexico—remains unclear. Both were slapped with higher tariff rates this year, largely tied to fentanyl concerns: 25% for Mexico and a steeper 35% for Canada, though these apply only to non-USMCA-compliant goods. Under the USMCA, qualifying goods continue to enter tariff-free. Canada's higher rate came as a response to Ottawa's retaliation against earlier U.S. tariffs and to its support for Palestinian statehood. Yet despite eye-popping headline numbers, the effective tariff rates are much lower—around 10% for Mexico and 11% for Canada—thanks to soaring compliance with USMCA rules. In fact, compliance has jumped from 32% in January to a current 81% in Canada, and from 42% to 77% in Mexico (Figure 7).

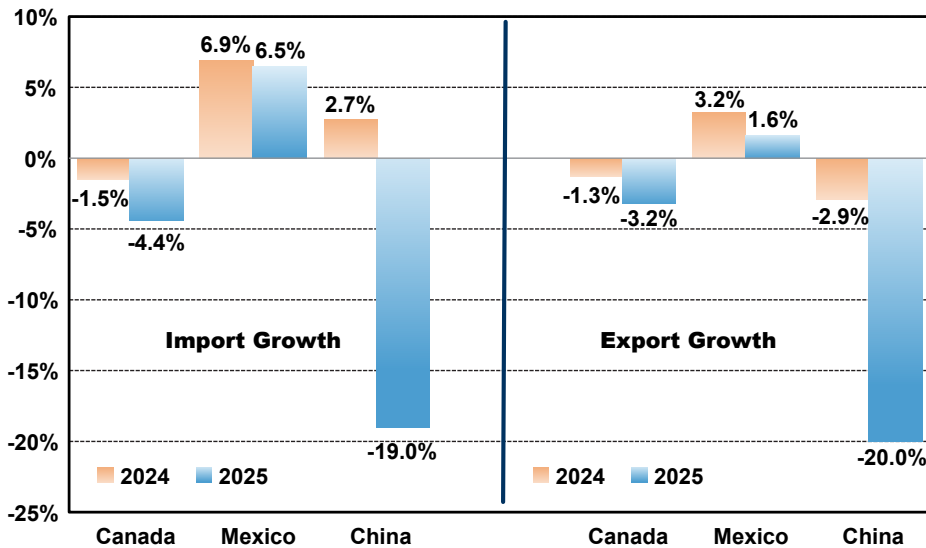
Despite eye-popping headline numbers, the effective tariff rates are much lower—around 10% for Mexico and 11% for Canada—thanks to soaring compliance with USMCA rules.

FIGURE 7
USMCA Compliance Has Skyrocketed
(percent of compliant imports from Mexico and Canada)



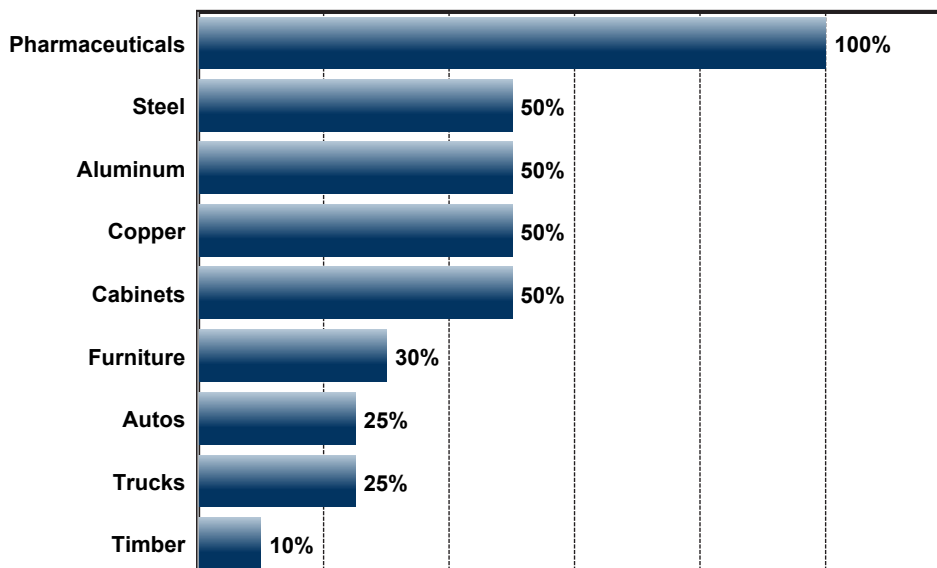
Importantly, tariffs do not appear to have dealt a fatal blow to North American trade. Imports from Mexico are up 6.5% in the first half of the year compared with the same period last year, while U.S. exports to Mexico have risen 1.6% (Figure 8). Trade with Canada has been rockier, after Canadians shunned U.S. goods following Mr. Trump's graceless suggestion that it should become the 51st state—an unusual surge of nationalism in a country better known for maple syrup than for flag-waving. Yet even here, trade is down only 4%, in sharp contrast to China, where trade has plunged 20%. As the South Park movie's irreverent anthem *Blame Canada* cheekily put it: “It seems that everything's gone wrong, once Canada came along.” But in truth, things are not nearly so bleak.

FIGURE 8
USMCA Trade is Still Holding Up; Trade with China Has Collapsed
 (imports/exports, y-o-y percent change)



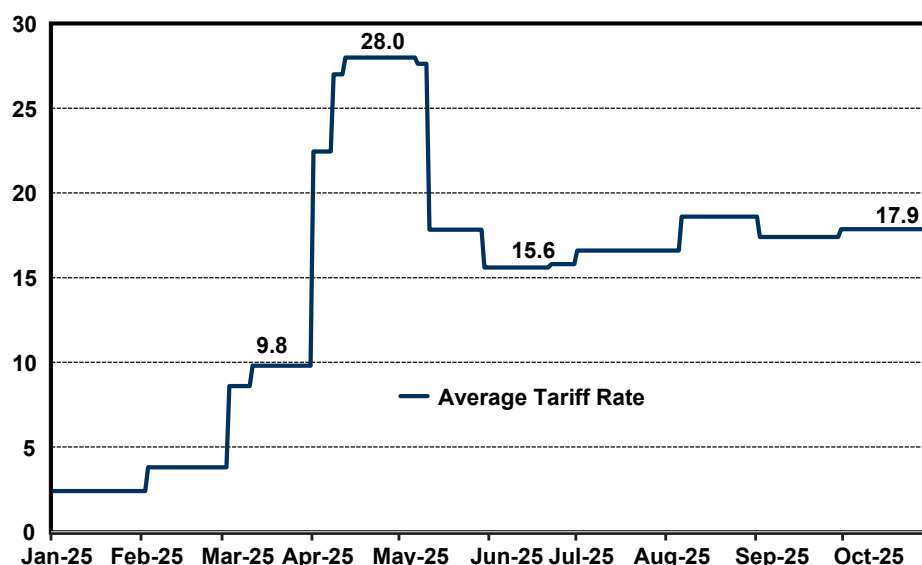
Trump's love for tariffs transcends high-minded geopolitics into the realm of the everyday and the mundane. Indeed, his most punitive levies have been on sector-specific goods: 50% tariff on steel, aluminum, and copper imports; 25% on autos, auto parts, and heavy-duty trucks; and 100% on pharmaceuticals (Figure 9). The last one sounds particularly ominous but is far more benign on closer look: it applies only to branded or patented products (almost 90% of U.S. prescriptions are filled with generics, which are exempt). Companies building manufacturing plants in the United States are also exempted—and many have pledged to move some production in the U.S. A 50% rate will be imposed on kitchen cabinets and bathroom vanities, and 30% on upholstered furniture. All are levied under Section 232 of the Trade Act, which allows the president to enact trade restrictions if products are deemed a threat to national security—because nothing is more perilous to America's safety than IKEA sofas and bathroom sinks (especially if they aren't gold-plated).

FIGURE 9
Tariffs Galore: Sector-Specific Tariffs Have Proliferated
 (statutory tariff rate, percent)



Though tough to keep track, America's average effective tariff rate has lurched along with these changes, resembling the EKG of a patient in varying stages of cardiac distress—much like Nordberg, Frank Drebin's hapless, accident-prone partner. From just 2.4% in January, the tariff rate surged to nearly 28% as the trade war with China escalated, before falling back to around 15% after the truce (Figure 10). Since then, it has crept up slowly, now standing at nearly 18% (not accounting for the most recent China dust-up)—well below the peak but nearly eight times higher than at the start of the year, and matching levels last seen in 1934, when the quick-tempered Donald Duck first waddled onto American screens, the public was charmed by *It Happened One Night*, and Bonnie and Clyde and “Baby Face” Nelson perished in a blaze of gunfire.

FIGURE 10
U.S. Tariff Rate As High as in the 1930s
(average statutory tariff rate, percent)



Of course, the U.S. economy has not emerged entirely unscathed from these developments. It would have been a miracle if it had, given the attempt to engineer nothing less than a radical remake of global trade. The biggest concern, under the long shadow of tariffs, has been stagflation—a state where growth falters even as inflation takes hold. With the benefit of hindsight and nine months' worth of data, the verdict so far is both less dire and more murky: Inflation has edged up, though less than initially feared, while the labor market has slipped to stall speed. This is not the making of a classical stagflation. Rather, it is a weaker strain—call it *snagflation*—where inflation creeps higher and the economy stumbles into a soft patch, a hiccup, a snag, if you will.

Yet, confidence—especially consumer sentiment—has sunk to levels last seen in the early 1980s, when the economy was battered by one of the deepest recessions in the postwar era, inflation raged, and the misery index (the sum of inflation and unemployment) soared to 22% (compared with 7.2% today). What makes the picture even more confounding is that GDP growth has held up, even as the labor market falters and confidence collapses.

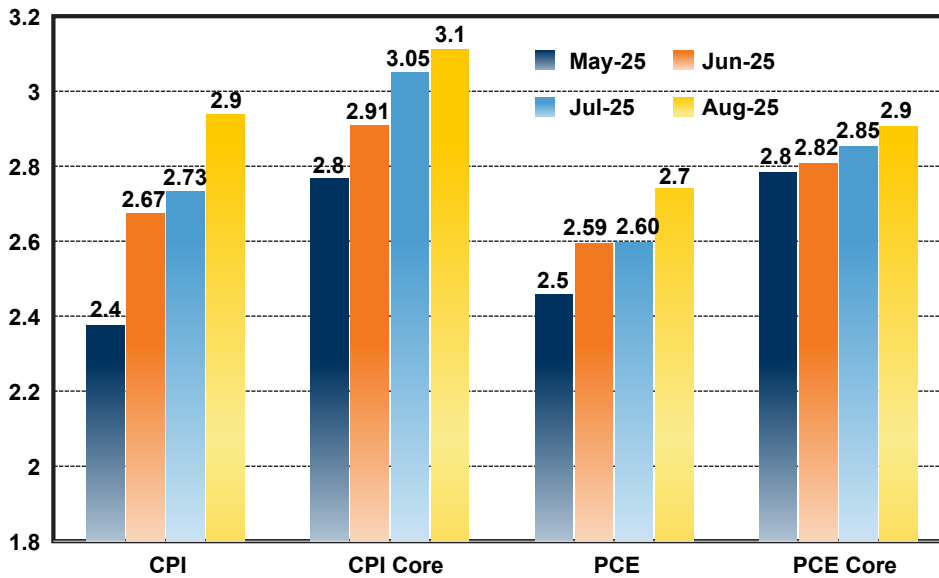
Take inflation first. There's no denying that here things are heating up—not boiling hot but certainly simmering. The consumer price index is running at an annualized pace of 2.9%—roughly the same as at the start of the year, but up from 2.4% in April (Figure 11). PCE inflation, a broader measure of consumer prices, tells a similar story: 2.7% now, in line with the beginning of the year and 0.4 percentage points higher than in the spring. Core inflation, which strips out volatile categories like food and energy, has also firmed up—3.1% for CPI and 2.9% for core PCE, the Fed's preferred

From just 2.4% in January, the tariff rate surged to nearly 28% as the trade war with China escalated, before falling back to around 15% after the truce. Since then, it has crept up slowly, now standing at nearly 18% (not accounting for the most recent China dust-up)—well below the peak but nearly eight times higher than at the start of the year.

This is not the making of a classical stagflation. Rather, it is a weaker strain—call it *snagflation*—where inflation creeps higher and the economy stumbles into a soft patch, a hiccup, a snag, if you will.

measure. More troubling are recent trends. The three-month annualized rate of core CPI jumped to 3.6% in August, suggesting that core prices have accelerated in the past few months from an already stubbornly above-target starting point.

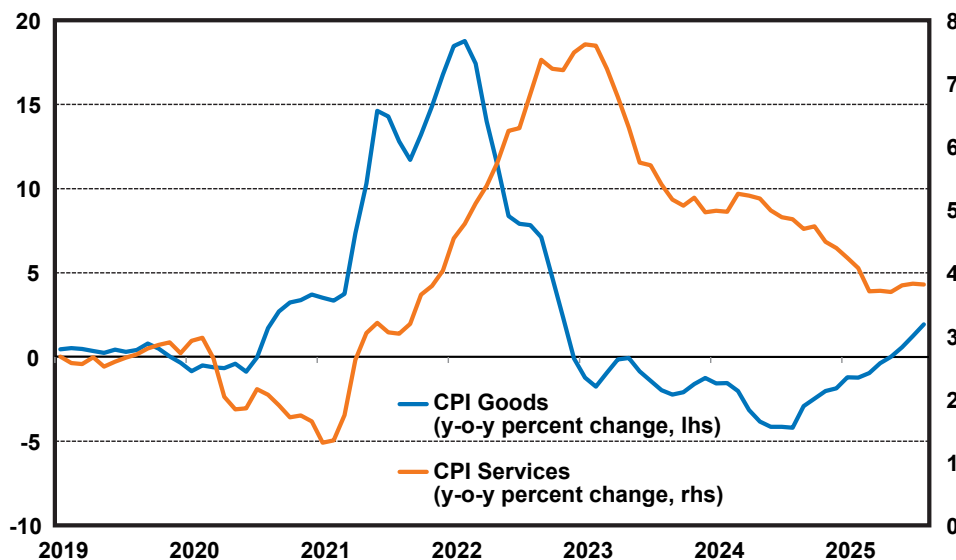
FIGURE 11
On the Rise: Inflation Measures Have Crept Up
(y-o-y percent change)



Blame tariffs for much of what has so far been only a modest uptick in inflation. Indeed, the latest leg up comes almost entirely from goods—hardly shocking, as they’re the ones that typically shoulder the brunt of tariffs. Goods inflation is running at 1.9% year-over-year, the fastest pace in nearly three years, driven by rising vehicle prices (as tariffs squeeze the auto industry), along with higher apparel and food costs, though the latter is likely worsened also by tighter immigration policies (Figure 12). By contrast, service inflation is running at 3.8%, where it has hovered for the past six months, down from 4.1% earlier in the year.

Blame tariffs for much of what has so far been only a modest uptick in inflation. Indeed, the latest leg up comes almost entirely from goods—hardly shocking, as they’re the ones that typically shoulder the brunt of tariffs.

FIGURE 12
Goods, Not Services, Are Pushing Up the Overall Level of Prices
(y-o-y percent change)



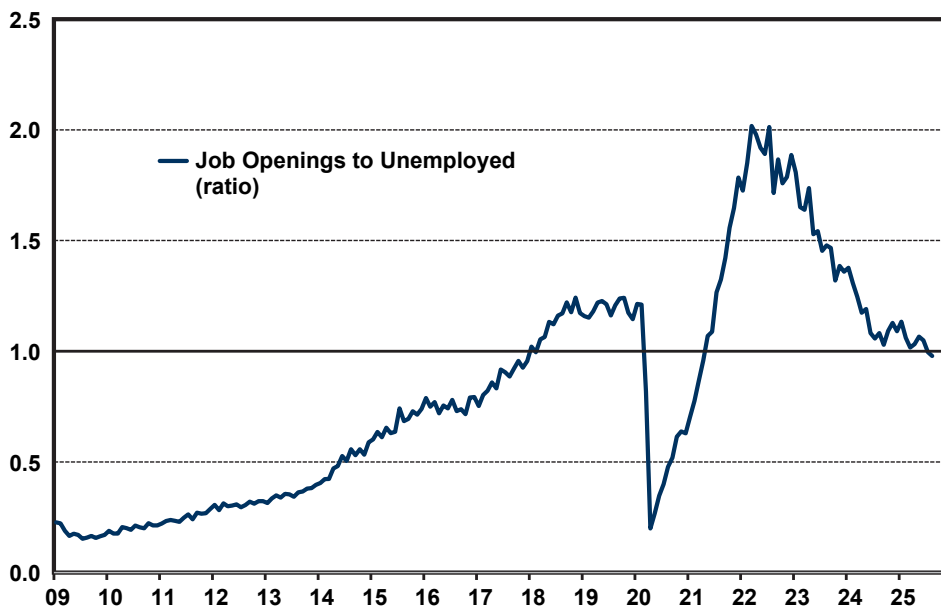
While the uptick in inflation is unsettling, the recent news from the labor market is downright alarming. Job openings, according to the JOLTS survey, are down 5% from a year ago and 3.7% since January. The job-openings-to-unemployed ratio has slipped below 1—meaning there are now fewer openings than job seekers—after holding above that threshold throughout the entirety of Trump's first term (Figure 13). The hiring rate has slipped below levels typical of a mid-cycle expansion, while the quits rate—a key gauge of worker confidence—has dropped to its lowest point in a decade (excluding the pandemic).

While the uptick in inflation is unsettling, the recent news from the labor market is downright alarming.

The hiring rate has slipped below levels typical of a mid-cycle expansion, while the quits rate—a key gauge of worker confidence—has dropped to its lowest point in a decade (excluding the pandemic).

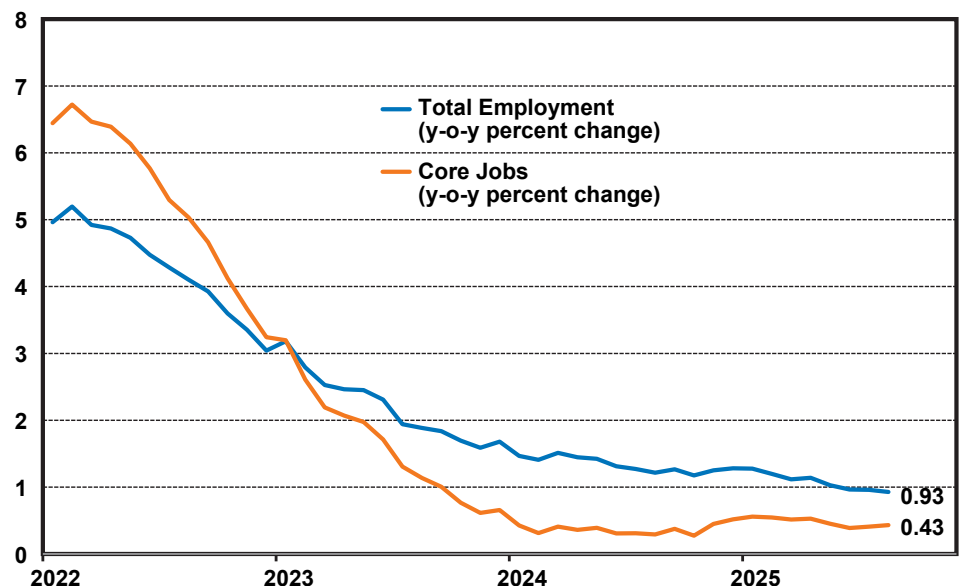
Job growth has slowed to a crawl—running below 1% on an annualized basis, roughly half the historical average.

FIGURE 13
It's Getting Harder to Find Jobs: Fewer Job Openings Than Unemployed (ratio)



Job growth has slowed to a crawl—running below 1% on an annualized basis, roughly half the historical average. Strip out health care and government hiring, and the picture looks even bleaker: core private-sector jobs are barely eking out gains, growing at just 0.4% a year (Figure 14). The manufacturing sector—which the administration is trying desperately to prop up—has lost 38,000 jobs this year. Professional and business services, the largest sector, is down 78,000. Construction has shed around 10,000 jobs in recent months, likely reflecting some pain from tighter immigration enforcement. The labor market diffusion index—a gauge of employment breadth—has remained below 50 for five consecutive months, signaling that more sectors are shedding jobs than

FIGURE 14
Core Job Growth (Outside Health and Government) Has Stalled (y-o-y percent change)



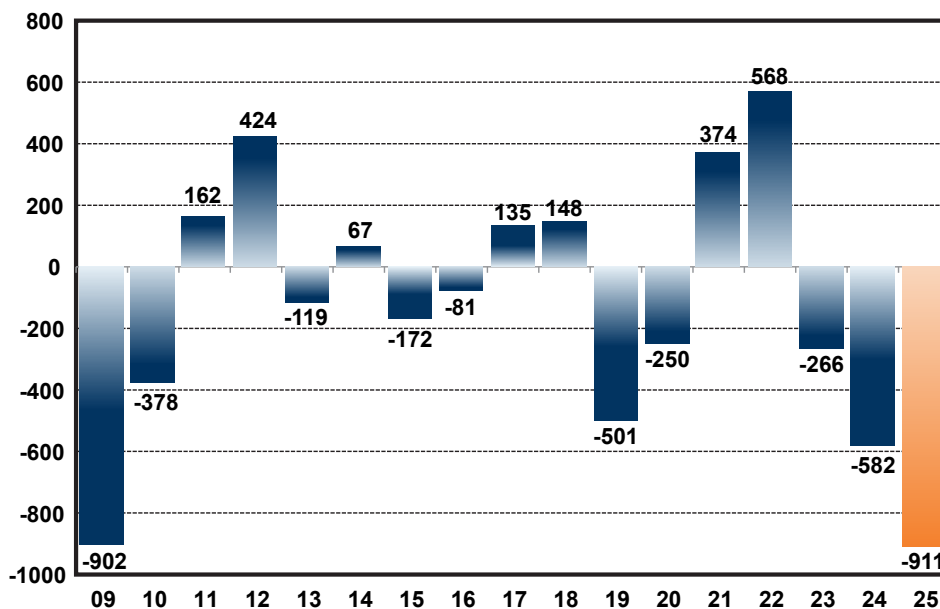
adding them. The unemployment rate has crept up to 4.3% from 4% at the start of the year, and jobless spells are stretching for uncomfortably long periods of time. Long-term unemployment, those out of work for 27 weeks or more, has climbed to its highest level since 2016, suggesting that it has become much harder to find work.

Perhaps the most worrisome development is the torrent of downward revisions to job figures, which have come to define this year even more than the headline numbers themselves. The preliminary annual benchmark revision showed 911,000 fewer jobs between March 2024 and March 2025 than initially reported—the steepest downward adjustment since 2000 (Figure 15). That's on top of nearly 600,000 fewer positions between March 2023 and March 2024. In all, a staggering 1.5 million jobs reported in the final two years of the Biden administration vanished with the stroke of a pen. Recent trends have added to the gloom: Job gains for May and June were revised down by 285,000, the largest two-month adjustment outside a recession since 1968. Never one for mincing words, Mr. Trump denounced the revisions as 'rigged' and 'phony' before promptly firing the Bureau of Labor Statistics (BLS) commissioner—perhaps missing the irony that employment rolls would now have to be revised downward by yet another job (at least temporarily).

Perhaps the most worrisome development is the torrent of downward revisions to job figures, which have come to define this year even more than the headline numbers themselves.

In all, a staggering 1.5 million jobs reported in the final two years of the Biden administration vanished with the stroke of a pen.

FIGURE 15
Largest Negative Job Revision in Decades
(thousands of jobs, level)



Mr. Trump is rightfully indignant at these titanic revisions—though one suspects he would have enjoyed basking in the glory of headline numbers had the figures surprised on the upside. To be fair, there are a number of reasons why revisions have been unusually large in recent years that have nothing to do with “shady practices,” as Mr. Trump suggests. For one, response rates to government labor surveys have fallen sharply since COVID, now running about 20 percentage points lower than a decade ago. Initial payroll releases are also based on incomplete data, since many establishments fail to report on time. This problem becomes especially acute in periods of high uncertainty—such as the present—when partial responses are an especially poor guide to underlying labor market conditions. Another wrinkle may have to do with the surge in illegal immigration in recent years: Benchmark revisions are based on unemployment insurance tax filings, which exclude undocumented workers, while monthly payroll surveys simply count all employees. When the two data sources are ultimately reconciled—usually with a lag of more than one year—large downward adjustments become inevitable since the tax filings (not the surveys) ultimately determine the “final” numbers.

Whatever the reasons, the American public—and this forecast—deserve better from our number-crunchers at the BLS. Revisions three standard deviations above norms should be rare statistical anomalies, not routine occurrences. In one of *Naked Gun*'s most hilariously absurd moments, Frank Drebin gripes about the quality of food at the state prison: “*You call this slop? Real slop has got chunks of things in it! This is more like gruel! And this Château le Blanc '68 is supposed to be served slightly chilled! This is room temperature!*” The BLS has been serving gruel(ish) figures for a while, and our earnest hope is that it swiftly takes appropriate steps to fix these methodological issues and survey shortcomings.

But the real worry is that these revisions may signal something more ominous. Historically, labor market revisions have been unusually large at turning points, precisely because the BLS's imputation methods—heavily reliant on past data patterns—become poor guides to future developments. Employment rolls were revised down by a staggering 902,000 in 2009, in the depths of the financial crisis, and by 500,000 in 2019, as the U.S.–China trade war escalated. Another complication: yet another government shutdown (in its fourth week, as of this writing) has frozen data updates, just as the outlook grows murkier and the Fed's interest-rate decisions turn unusually contentious. As Nobel laureate economist Ken Arrow was told when he discovered that one-month-ahead weather forecasts were no better than random: “The Commanding General is well aware that the forecasts are no good. However, he needs them for planning purposes.” Flawed numbers, it turns out, are still infinitely better than no numbers at all.

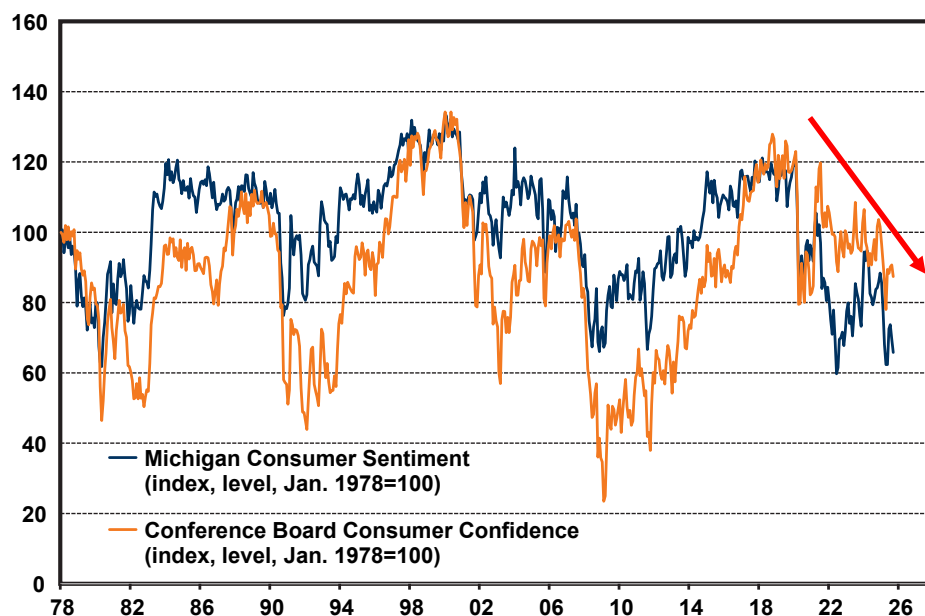
If the labor market is at a standstill, softer indicators paint an even darker picture. Consumer sentiment soured early on, cratering in April—shortly after Liberation Day—then recovering somewhat, but remaining dispiritingly depressed throughout the year. According to the University of Michigan survey—which in recent years has also reflected a heavy dose of partisan bias—U.S. consumers have been this pessimistic only in moments of acute stress: the deep recession of the early 1980s, the ravages of the 2007–2009 financial crisis, and the depths of the pandemic (Figure 16). The Conference Board's measure shows a less dramatic decline, but even here sentiment hovers just above pandemic lows (though still far better than at the height of the financial crisis). Inflation expectations, as captured by the University of Michigan survey, surged to a 45-year high in April; though they have since eased somewhat, they remain elevated and roughly on par with 2022, when inflation actually hit 9%.

All this stands in sharp contrast to the hardest of hard data—U.S. GDP growth. Despite wild swings in the first half of the year, third-quarter GDP is shaping up to be another strong showing, with the Atlanta Fed's high-frequency model pointing to 3.8%. True, Atlanta's estimates often lean rosy, but even the New York Fed's nowcast puts growth at a sturdy 2.5%. Meanwhile, the Dallas Fed's Weekly Economic Activity Index suggests the economy is currently expanding at a solid 2.5% pace.

The real worry is that these revisions may signal something more ominous. Historically, labor market revisions have been unusually large at turning points, precisely because the BLS's imputation methods—heavily reliant on past data patterns—become poor guides to future developments.

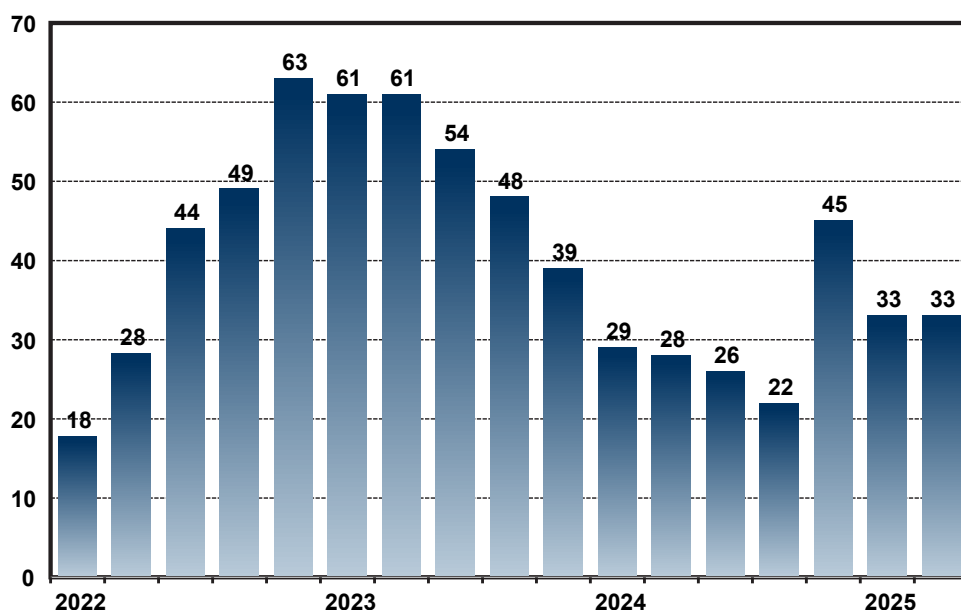
Despite wild swings in the first half of the year, third-quarter GDP is shaping up to be another strong showing, with the Atlanta Fed's high-frequency model pointing to 3.8%.

FIGURE 16
Consumer Sentiment Has Taken a Hit
(index, level, January 1978=100)



Spare a little pity—though only a dollop—for economists trying to divine the fate of the U.S. economy amid this barrage of contradictory signals and policy onslaught. Like Nordberg's floating crime-scene chalk outline in *The Naked Gun*, they were busy sketching calamitous endings back in April—from recession to stagflation or worse—only to see those calls prove wildly off the mark. The consensus outlook is less dire now, but still far from rosy. The *Wall Street Journal's* economist's survey put the probability of recession at 45% back in April. Today it stands at a still elevated 33% (Figure 17). Moody's warns the economy is 'on the brink' and 'on the precipice of recession,' while its own odds of a recession stand at 49%. UBS pegs the risk at 51%—a veritable coin toss. Others speak of an economy "at knife's edge." And in the shortest recession call in history, Goldman Sachs predicted a downturn, only to rescind it 73 minutes later. Now the dismal science and its disciples will be known not only for having predicted 'nine out of the past five recessions,' but also for conjuring forecasts worthy of Schrödinger's cat—where the economy is both alive and dead until we open the box.

FIGURE 17
A Gloomy Bunch: Economists See Elevated Recession Risks
(WSJ survey, percent of respondents, probability of recession)



We are somewhat bewildered—and more than a little amused—by the remarkable degree of certainty about the perceived remarkable degree of uncertainty: if all that's on offer is no better than a coin toss, if the economy is both racing ahead and on the verge of collapse, then a box and a cat may serve just as well. Yet one ought also to recall the adage that a cat has nine lives. The U.S. economy has shown remarkable resilience over the course of this year, outperforming dire predictions, not just barely, but by a wide margin. Our view is that it will continue to do so over the forecast horizon, which means that our outlook is a few shades brighter than the consensus and—with a great dose of humility—a few degrees more certain. The "rolling recession" that unfolded in stages since the Fed began hiking rates—engulfing one sector after another (tech, manufacturing, housing, commercial real estate)—is now poised to turn into a "rolling recovery." Thus, to everyone's 50/50 chance of recession, we add the immortal words of *The Naked Gun*: "there's a 50/50 chance... though only a 10% chance of that."

There are several reasons for this more upbeat outlook. First, and perhaps most importantly, much of the policy uncertainty, especially on trade, has either been resolved or is on track to be resolved. Country-specific tariffs now appear bounded by a 10% floor and the Liberation Day ceiling, with the statutory rate expected to fall somewhere between 15% and 20%. It is likely to be closer to the

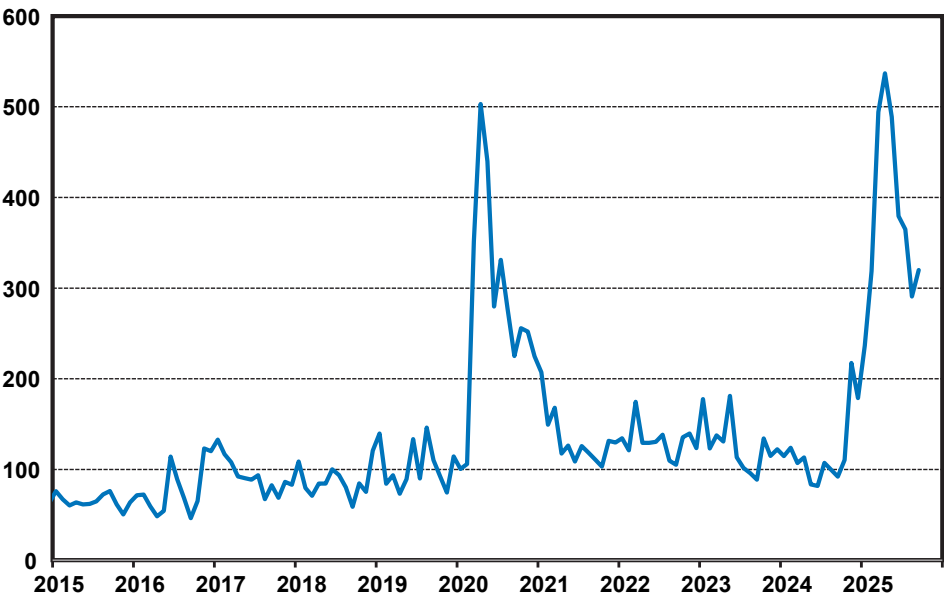
The U.S. economy has shown remarkable resilience over the course of this year, outperforming dire predictions, not just barely, but by a wide margin. Our view is that it will continue to do so over the forecast horizon, which means that our outlook is a few shades brighter than the consensus and—with a great dose of humility—a few degrees more certain.

Thus, to everyone's 50/50 chance of recession, we add the immortal words of *The Naked Gun*: "there's a 50/50 chance... though only a 10% chance of that."

Country-specific tariffs now appear bounded by a 10% floor and the Liberation Day ceiling, with the statutory rate expected to fall somewhere between 15% and 20%.

lower end once the newly renegotiated USMCA takes effect (due for re-signing in 2026), additional trade agreements are concluded, and punitive tariffs—particularly those on India—are relaxed. China will remain a thorny issue, but that was always to be expected given that most of the dispute centers on China itself. Unsurprisingly, given these developments, the Trade Uncertainty Index—which tracks media references linking “trade” or “tariffs” with uncertainty—though still elevated, has eased from its all-time peak reached in March of this year. The broader Economic Policy Uncertainty Index—which captures overall policy-related uncertainty—has followed suit, declining steadily over the past few months after peaking in May (Figure 18).

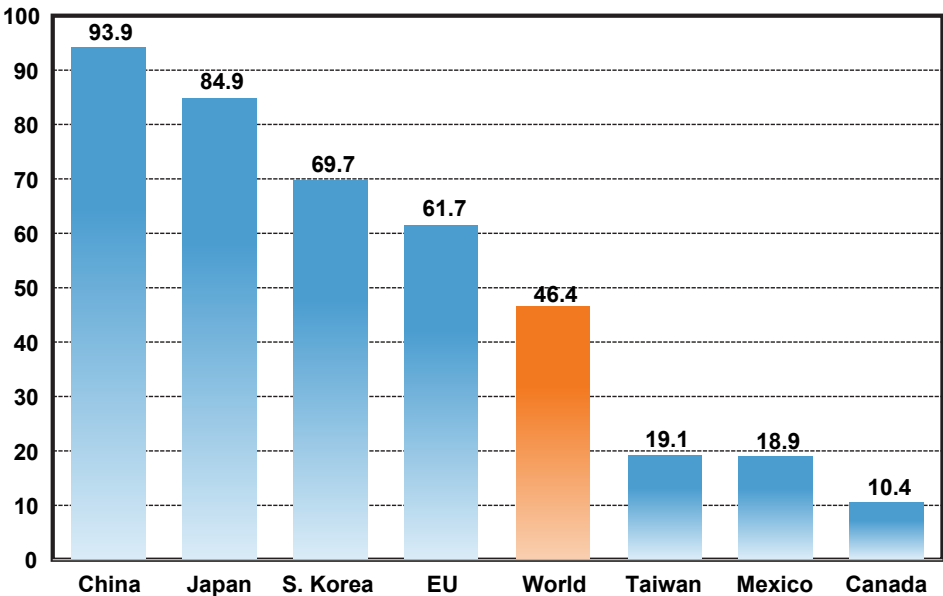
FIGURE 18
Policy Uncertainty Has Declined...Though It's Still Elevated
(policy uncertainty index)



Another reason is that tariffs have proven less punishing than advertised. Nearly 47% of U.S. imports have been exempted from the new tariff regime (Figure 19). USMCA goods enter tariff-free. Sectoral duties are also riddled with loopholes: electronics such as semiconductors, smartphones, and computers are spared entirely, given their importance to AI and high tech. So too are critical minerals, generic pharmaceutical drugs, and even brand-name firms with investment plans in the country.

Tariffs have proven less punishing than advertised. Nearly 47% of U.S. imports have been exempted from the new tariff regime.

FIGURE 19
Tariffs Are Less Damaging than Advertised
(share of imports subject to tariffs)



But it's not all about tariffs. The fundamentals—the nuts and bolts that sustain growth—still point to a generally benign outlook. Consumer balance sheets remain healthy on aggregate—emphasis on *aggregate*—because, as discussed below, there are wide disparities beneath the headline numbers. Nonetheless, what matters for growth and sustainability are the aggregates. Consumer leverage remains low: as a share of GDP, debt has declined markedly since the financial crisis and now sits below its 1990-levels—one of the most prosperous decades in modern U.S. history (Figure 20). Debt service as a share of disposable income is at its lowest point in three decades (outside the pandemic years). Overall delinquency rates remain low, and even the more vulnerable corners—autos and credit cards—have moderated and declined in recent quarters, with the notable exception of student loans, which have surged (Figure 21).

The fundamentals—the nuts and bolts that sustain growth—still point to a generally benign outlook. Consumer balance sheets remain healthy on aggregate.

FIGURE 20
Household Debt is at Levels Last Seen 30 Years Ago
(debt as percent of GDP, ratio)

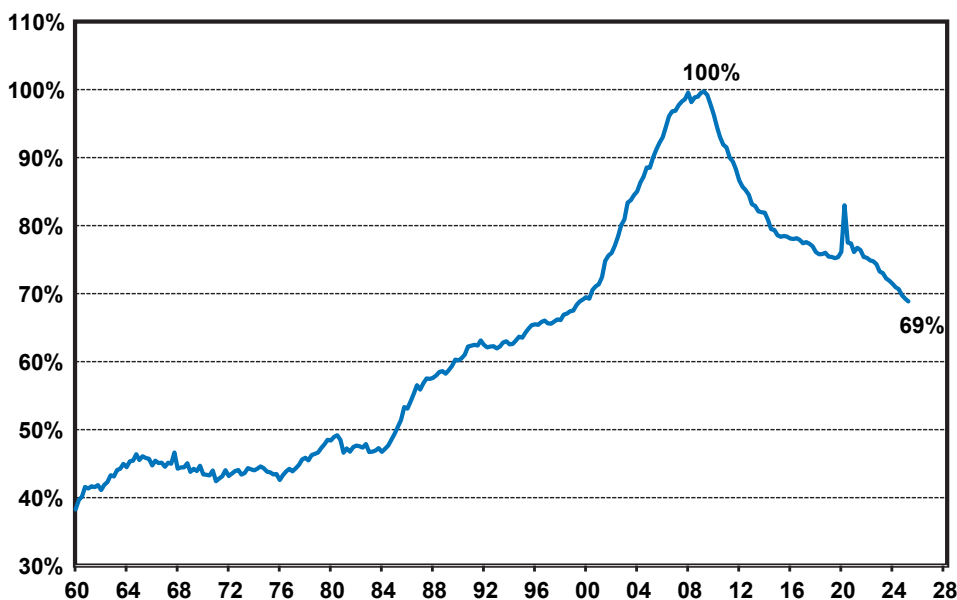
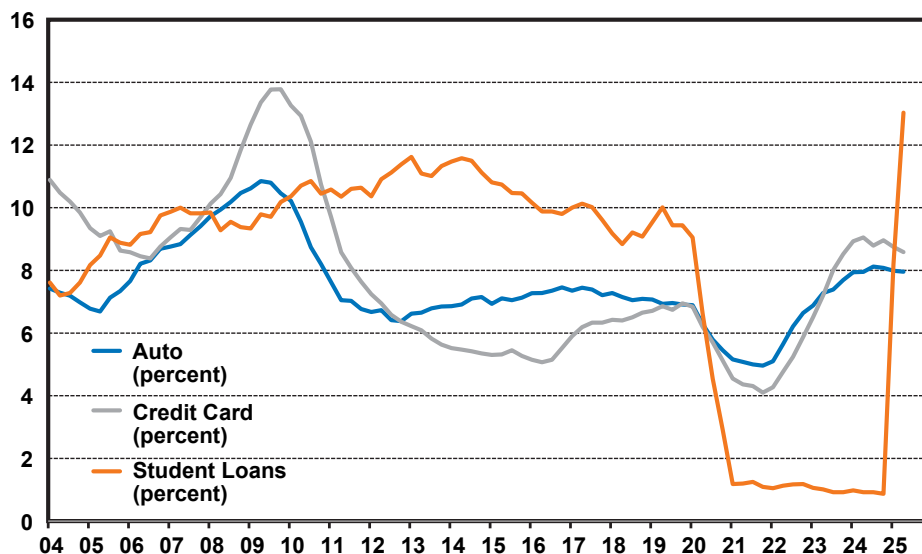
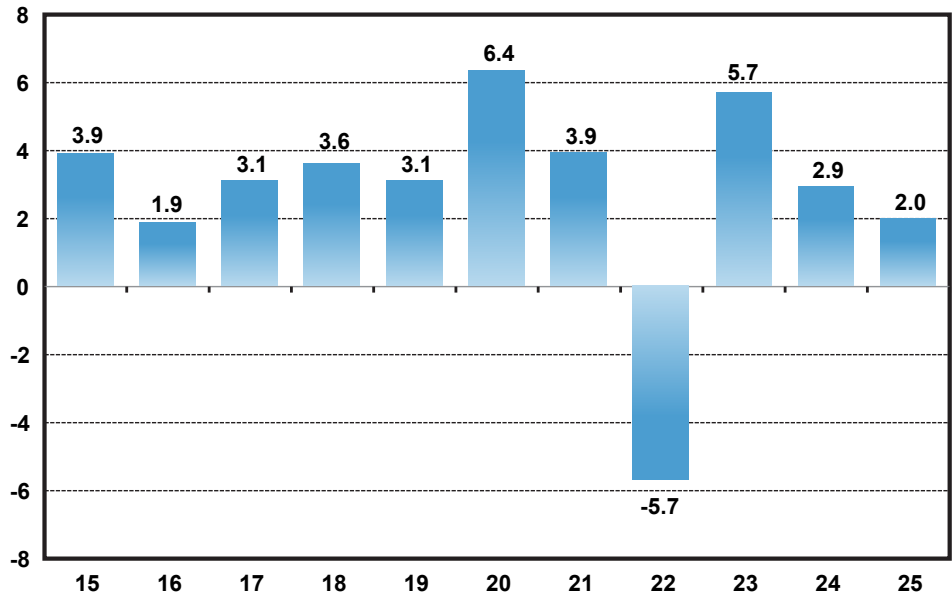


FIGURE 21
Delinquencies Have Plateaued, Except Student Loans Which Have Surged
(percent of total loans)



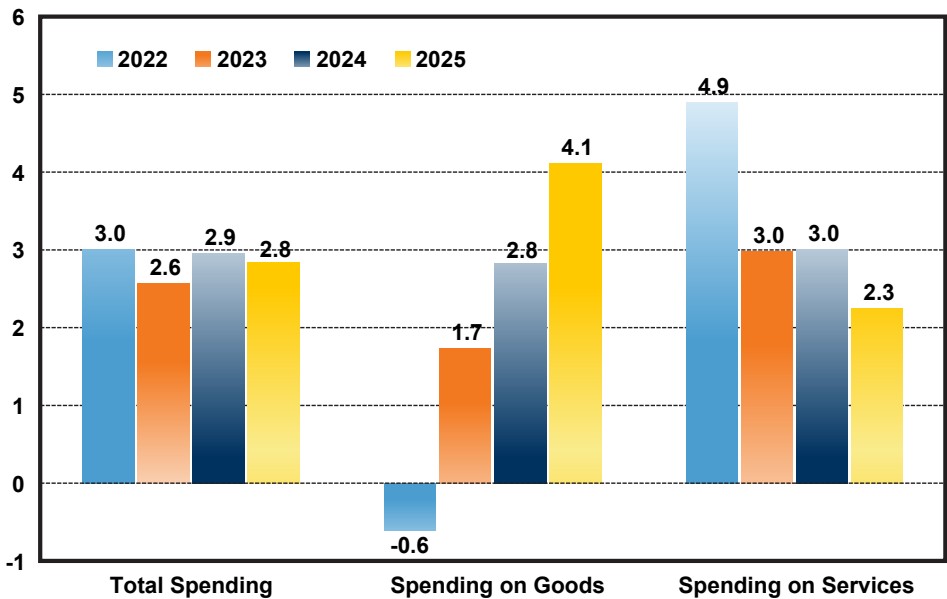
Real disposable income is growing at nearly 2%—below the 3.2% average during the first Trump administration, but well above the pace of 2022–2023, when high inflation eroded purchasing power and real income growth turned negative (Figure 22). Household net worth has risen by nearly \$10 trillion over the past year, despite market wobbles this spring. Compared with pre-pandemic levels, household wealth is up an astonishing \$56 trillion—about \$40 trillion from financial assets, thanks to the stellar performance of equities, and another \$16 trillion from housing appreciation.

FIGURE 22
Real Disposable Income is Holding Up
(y-o-y percent change)



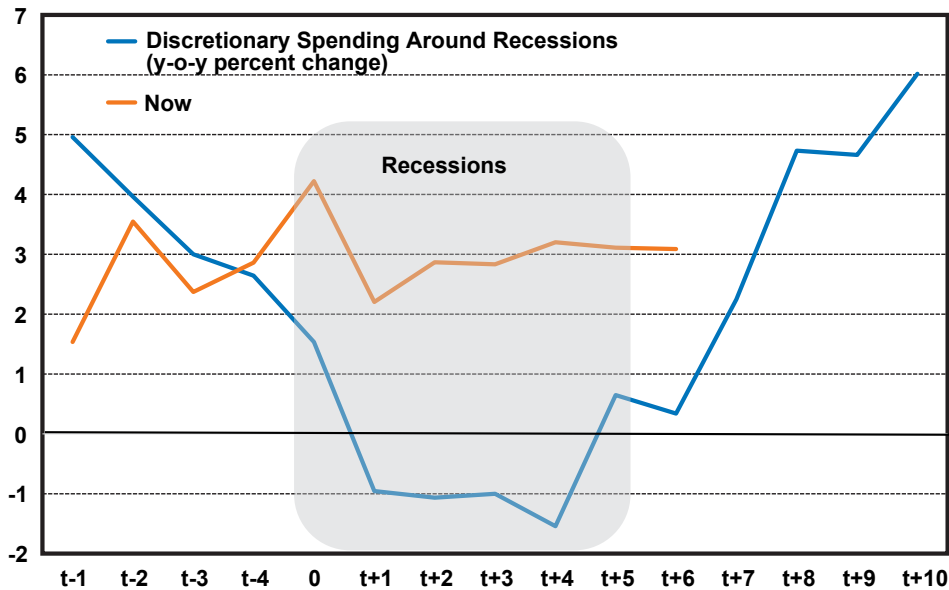
Not surprisingly, despite gloomy sentiment, consumer spending has held up admirably over the past year—brushing off tariffs, a cooling labor market, and persistent worries about the economy. Spending at U.S. retailers came in much higher than anticipated in August, the latest available data. Real spending has averaged a healthy 2.8% this year—only a smidgen below last year’s 2.9% (Figure 23). Much of this strength reflects robust demand for goods, especially durable goods, which grew 1.5 percentage points faster than the previous year, likely front running the imposition of new tariffs. But this goes beyond tariffs: real spending on services has also held up, running at a 2.3% pace.

FIGURE 23
The Teflon Consumer: Spending Has Held Strong
(y-o-y percent change)



Perhaps the most heartening development is real discretionary spending, which grew at above 3% rate in the first half of this year, compared with 2.7% in 2024. In more than 60 years, there has never been a recession without real discretionary spending declining on a year-over-year basis—and the current data are far from collapsing (Figure 24). So yes, much like the Greek god Atlas, the U.S. consumer has carried the heavy burden of successive shocks on its shoulders—and though it may have shrugged at times, it has not buckled.

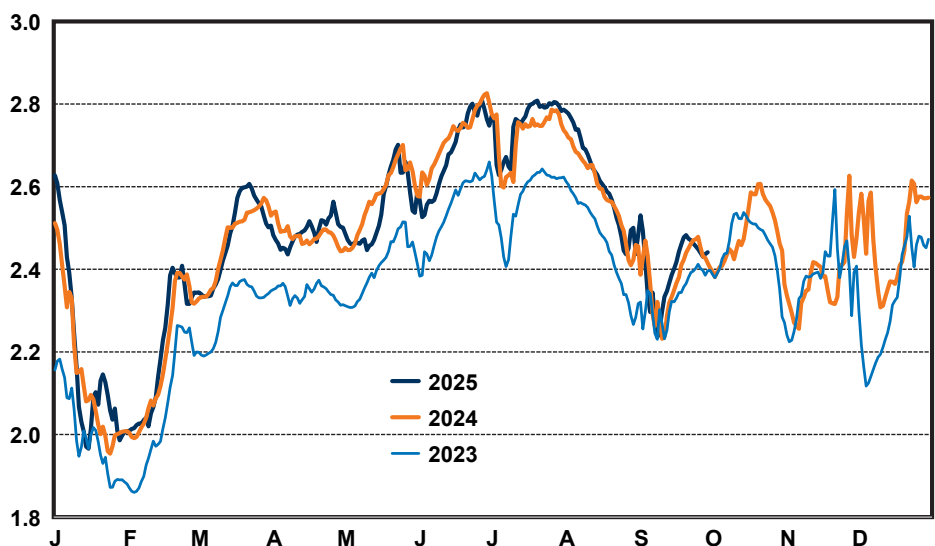
FIGURE 24
Real Discretionary Spending, a True Leading Indicator, Is Holding Up
(y-o-y percent change, quarters before/after recession)



Perhaps the most heartening development is real discretionary spending, which grew at above 3% rate in the first half of this year, compared with 2.7% in 2024. In more than 60 years, there has never been a recession without real discretionary spending declining on a year-over-year basis—and the current data are far from collapsing.

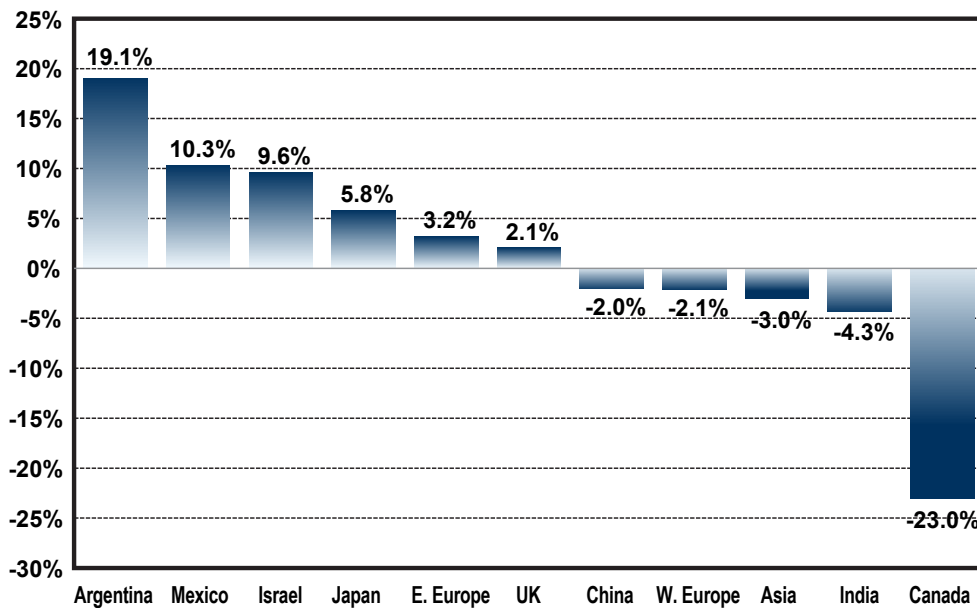
It appears that Atlas will continue to bear the celestial sphere on his shoulders for a while longer. High-frequency data on consumer spending remains remarkably resilient: Weekly Redbook retail sales—a gauge of same-store activity at major retailers—are running at a 6% annualized pace, where they have held for the past two years. OpenTable reservations—an online measure of restaurant dining—are roughly 10% above last year's levels. Airport foot traffic, according to the TSA, is tracking almost perfectly in line with last year's strong rates, and well above 2022 and 2023 levels (Figure 25).

FIGURE 25
Air Travel Has Held Up Well
(millions of passengers, daily, level)



The only blip in the trend is foreign tourism, which has struggled this year—likely reflecting the administration’s tougher immigration stance and a discernibly more America-centric policy tilt. Even so, the data are not as dismal as one might expect given the swirl of headline-grabbing gloom in press coverage. Overseas tourism was down only about 3% year-over-year as of August—the latest available data—hardly a calamity. The drop stemmed largely from Western Europe—which accounts for nearly 40% of visitors—where arrivals fell 2%, and from Asia, which represents just over a quarter of the total and was down 3% (Figure 26). The picture is decidedly more mixed closer to home: travel from Canada plunged 23% in the second quarter, while arrivals from Mexico rose 10% relative to 2024. To which we say, “O Canada!”, and with a grateful nod southward, “Viva México.”

FIGURE 26
International Travel Has Declined...But Not as Much as Advertised
(tourists, y-o-y percent change)

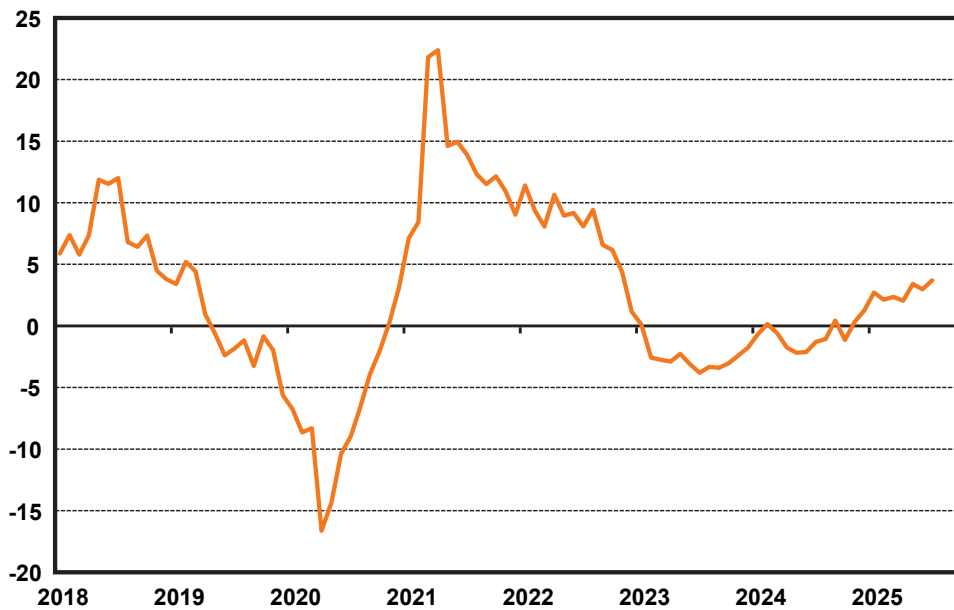


Production has also held up relatively well so far this year, despite persistent woes in the manufacturing sector. Here, too, there is a gulf between hard data and sentiment. The ISM Services Index has threaded the line between recession and expansion—briefly dipping into contraction territory in May and landing right at the demarcation line of 50 in the latest reading, suggesting the sector is stalled. The ISM Manufacturing Index has languished mostly in contraction territory over the past three years, but recent months point to modest improvement, inching closer to expansion.

Hard data, however, tell a more heartening story: industrial production has grown throughout the year, capital goods orders have risen, and core capital expenditures—excluding defense and aircraft—have strengthened (Figure 27). Boeing, which has generated little but unwelcome headlines in recent years, has seen its fortunes turn on a dime thanks to the administration’s push for trading partners to buy its products. In May, it secured the largest contract in its history—\$200 billion from Qatar Airways—following President Trump’s visit to Doha. In June, Korean Air placed an order for 100 planes as part of a broader trade deal, and a new agreement with Britain has brought an additional order from British Airways’ parent company. Boeing’s fortunes, it seems, may yet soar the friendly skies again.

Boeing, which has generated little but unwelcome headlines in recent years, has seen its fortunes turn on a dime thanks to the administration’s push for trading partners to buy its products.

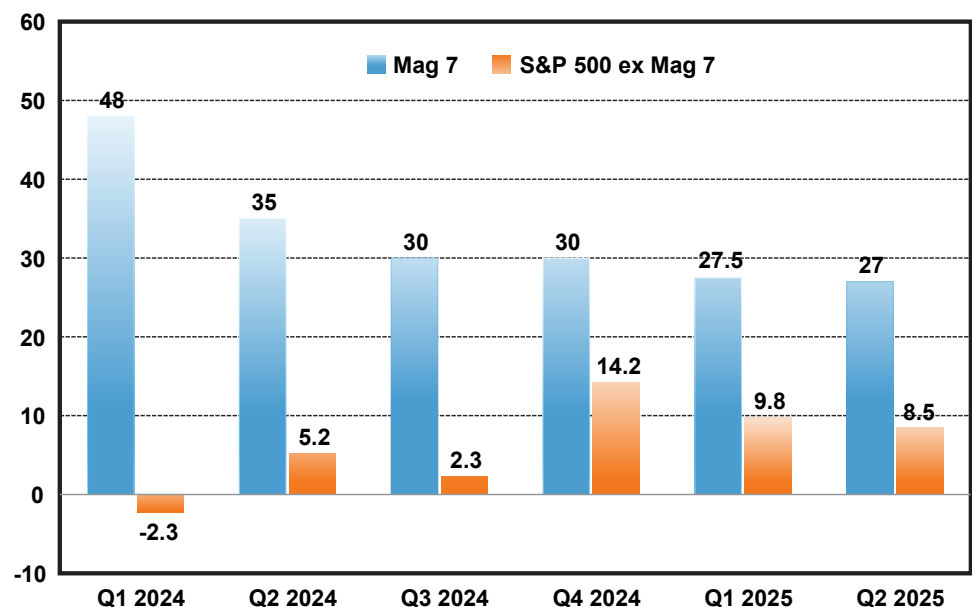
FIGURE 27
Core Capital Spending is Improving
 (capex spending ex-defense and aircraft, y-o-y percent change)



Perhaps the true unsung heroes of this year's remarkable resilience are American businesses. They have proved extraordinarily adaptable to tectonic shifts in world trade, supply chains, tariff onslaughts, and assorted geopolitical disruptions.

But perhaps the true unsung heroes of this year's remarkable resilience are American businesses. They have proved extraordinarily adaptable to tectonic shifts in world trade, supply chains, tariff onslaughts, and assorted geopolitical disruptions. When President Trump first introduced his Liberation Day tariffs, only the most wild-eyed optimists would have expected earnings to surprise on the upside. Yet they did—rising 13.4% in the first quarter and 12% in the second—marking the eighth consecutive quarter of earnings growth and the third straight quarter of double-digit gains. Much of that strength stems from the “Magnificent Seven” and the promise of AI, with earnings up 27%. But the rest of the 493 companies in the S&P 500 also posted a healthy 8% earnings-per-share (EPS) growth in both quarters. More importantly, the strength seems to be broadening out: a year ago, Mag-7's EPS growth was 30% while the rest of the market managed only 4.8% (Figure 28). This year, the rest of the companies have managed to nearly double their profit margins. The outlook has also improved: There were 119 mentions of recessions in the first quarter, versus a mere 13 in the second.

FIGURE 28
Earnings per Share Are Broadening Out...A Bit
 (earnings per share, y-o-y percent)



This is a remarkable feat, particularly when accounting for the fact that U.S. companies are likely absorbing the brunt of the tariffs—at least for now. Some of the healthy headline numbers also reflect the dollar's decline—down roughly 10% for the year—as roughly 40% of revenues come from exports and overseas affiliates. But the gains go well beyond fleeting tailwinds like exchange-rate movements. U.S. corporations have proved remarkably adept at navigating an especially treacherous and shifting tariff landscape—front-loading inventories, renegotiating supply terms, and finding alternative cost-saving sources. Some of the workarounds have been especially creative—such as reclassifying imported goods as items for handicapped use, which enter the country duty-free. As Drebin would say: *“Like a small person in a urinal, American corporations have had to stay on their toes.”* And in doing so, they've managed a few surprisingly graceful pirouettes.

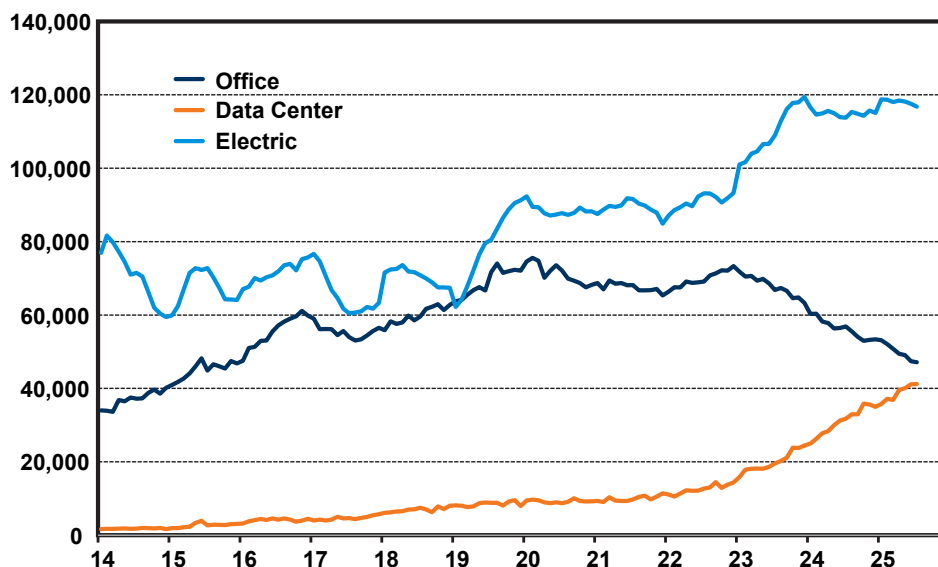
Above all, the administration's quest to reshuffle the global order and reorient international commerce has been remarkably well-timed—though surely not by design. Century-high tariffs might have dealt a far more damaging blow to U.S. growth were it not for their fortuitous overlap with an unprecedented, ongoing boom in artificial-intelligence (AI). Save for an early-year wobble—when DeepSeek, a Chinese startup, briefly rattled global markets with a shoestring-built AI model that seemed to challenge U.S. dominance—AI investment has continued to surge.

And here, the figures are simply eye-popping—enough to make even the most fervent AI evangelist blush. Total investment in AI projects and related infrastructure is projected to reach \$400 billion this year, up from \$280 billion in 2024. For the first time since the Census Bureau began tracking data-center construction in 2014, spending on data centers is close to eclipsing office construction (Figure 29). Investment in electric power grid projects has risen nearly 30% since November 2022, when ChatGPT was first released. Nuclear energy is undergoing a virtual renaissance: tech giants have poured roughly \$2 billion this year into small modular reactors (SMRs)—compact generators that can be built off-site and transplanted directly to data centers. By the end of the second Trump administration, total investment in AI is estimated to reach a staggering \$2.9 trillion.

Century-high tariffs might have dealt a far more damaging blow to U.S. growth were it not for their fortuitous overlap with an unprecedented, ongoing boom in artificial-intelligence (AI).

For the first time since the Census Bureau began tracking data-center construction in 2014, spending on data centers is close to eclipsing office construction.

FIGURE 29
Construction of Data Centers is Booming
(value of construction put in place, millions of dollars)



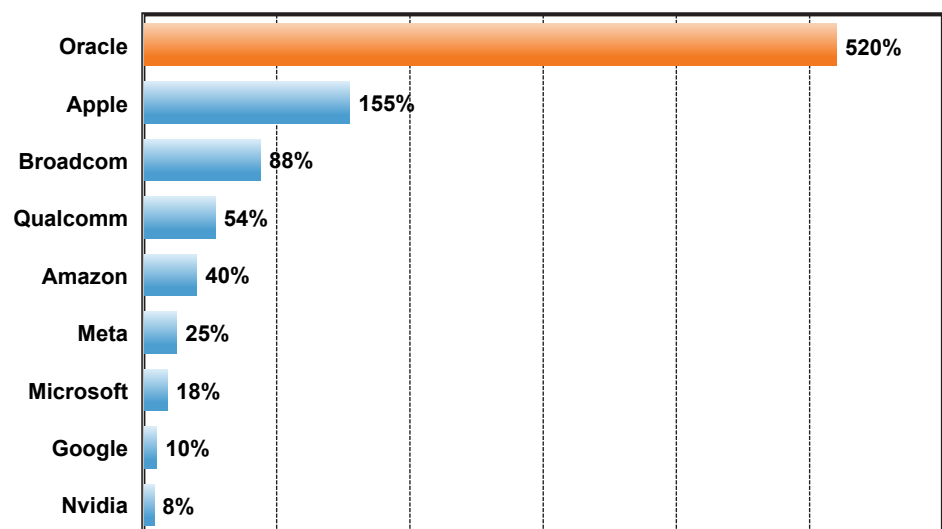
The mania for all-things-AI has mattered greatly for growth—especially this year, when other segments of the economy have stumbled. By one estimate, one-sixth of America's growth over the past year has come from investment in computers, communications equipment, and data centers. Add in upgrades to the grid and intellectual-property valuations, and the tally rises to an astonishing 40% of U.S. growth—a breathtaking figure for a sector that still accounts for only a few percent of total output.

Spectacular run-ups bring equally spectacular concerns. Predictions of an AI bubble are coming thick and fast, partly because widespread adoption is still in its infancy. By our reckoning, total tech revenue for American firms is now around \$50 billion a year—and though it's growing fast, it pales in comparison to the colossal sums of ongoing and planned investment. A recent MIT study finds that 95% of organizations are getting “zero return” from their generative-AI investments. Even enthusiastic cheerleaders such as Sam Altman, OpenAI's CEO, acknowledge the “overexcitement.” Jeff Bezos, Amazon's executive chairman, draws a distinction between *good bubbles*—industrial ones that build real infrastructure, like the present AI boom—and *bad bubbles*, the purely financial kind that led to 2008-09. Others have likened the current moment to 1999, the peak of the dot-com mania, echoing the refrain of Prince's anthem: “*partying like it's 1999*.”

Whether a bubble is brewing in AI depends on a few things. First, size matters: in 2000, the 10 largest stocks traded at a price-to-earning (P/E) ratio of 43, while the rest of the market traded at 21—a premium of more than 100%. Today, the top ten trade at a P/E of 31 versus 21 for the rest of the S&P 500—still elevated, but nowhere near the extremes of a quarter-century ago. Second, and perhaps most importantly, leverage matters: the highly profitable firms at the forefront of AI carry little debt, boast rock-solid balance sheets, and generate ample cash flows (mostly from non-AI businesses) to fund their ventures. Third, it's not just tech anymore: a growing cast of property developers, utilities, and energy producers are being drawn in, broadening the sectoral footprint. And the promise of generative AI is so sweeping—so potentially transformative for growth and productivity—that, as one pundit put it, it “could be as big, if not bigger, than the Industrial Revolution.”

So, while the AI frenzy appears to exhibit many of the hallmarks of bubble-like exuberance, it hasn't yet graduated into a full-blown one. It does appear to be on its way, though—but such is the nature of dramatic and disruptive technological advances. Many investors are fully aware that they may not be backing the right model, which means some degree of *sparkling malinvestment* is already underway. When all is said and done, some of these projects will fail. But if investors spend too slowly and cautiously, the thinking goes, they might as well not bother at all, given the relentless investment race already underway. And things will get even dicier as more leveraged firms are drawn in: witness Oracle's promise to provide cloud computing for OpenAI on the back of increased borrowing, even though its debt-to-equity ratio is already an unfathomable 500% (compared to, say, 40% for Amazon and 18% for Microsoft) (Figure 30).

FIGURE 30
Tech Firms Have Rock Solid Balance Sheets
(debt to equity ratio)



One-sixth of America's growth over the past year has come from investment in computers, communications equipment, and data centers. Add in upgrades to the grid and intellectual-property valuations, and the tally rises to an astonishing 40% of U.S. growth—a breathtaking figure for a sector that still accounts for only a few percent of total output.

While the AI frenzy appears to exhibit many of the hallmarks of bubble-like exuberance, it hasn't yet graduated into a full-blown one. It does appear to be on its way, though—but such is the nature of dramatic and disruptive technological advances.

But those headaches are for another time. So far, the only bubble that has popped is the one of people searching for “AI bubble” (Figure 31). And when everyone is on a look out for a bubble, it’s usually the least likely time for one to burst. What matters for the here and now is that, bubble or not, the AI-driven boom is still in its infancy—it has a few more innings to play and a few more dances left in it yet. In the immortal words of Prince: “*We could all die anyway, but before I let that happen, I’ll dance my life away.*” And for now, the dance is on.

So far, the only bubble that has popped is the one of people searching for “AI bubble”

Not surprisingly, flying on the wings of an AI-driven astral plane, a slightly cooler stew of policy uncertainty, and a markedly brighter earnings outlook, the stock market has lurched from one high to the next. Since the rollback of the Liberation Day tariffs on April 8 and up until mid-October, when tensions with China flared up, the S&P 500 has risen a dizzying 35%, and the Nasdaq an even more remarkable 50% (Figure 32). Though both have lagged the global MSCI ex-U.S. index for much of the year, they’ve outpaced it handily since April.

Until the recent China dust-up, nothing seemed to faze investors—not the June bombing of Iran by the U.S. and Israel, not the re-escalation of tariffs since April, not even the recent government shutdown. Perhaps investors have decided that geopolitical threats are rife with all-or-nothing outcomes that are difficult to price and calamitous headlines that are all too easy to ignore. Either way, this is the “*nothing-ever-happens*” market—a phrase coined more than a decade ago in the depths of 4chan, an online forum, to describe a world where financial markets have managed to brush off every would-be epoch-making event. A more apt analogy, perhaps, is the wry Drebin line: “*Nothing to see here. Please disperse,*” uttered even as chaos reigns—fireballs erupt, buildings crumble, and the city burns behind him. No matter: the heedless stampede into equities has sent market capitalization—and with it, household wealth—soaring by roughly \$17 trillion since the trough of April.

FIGURE 31
A Bubble Has Popped: The People Searching for AI Bubble
(Google searches, index, level)

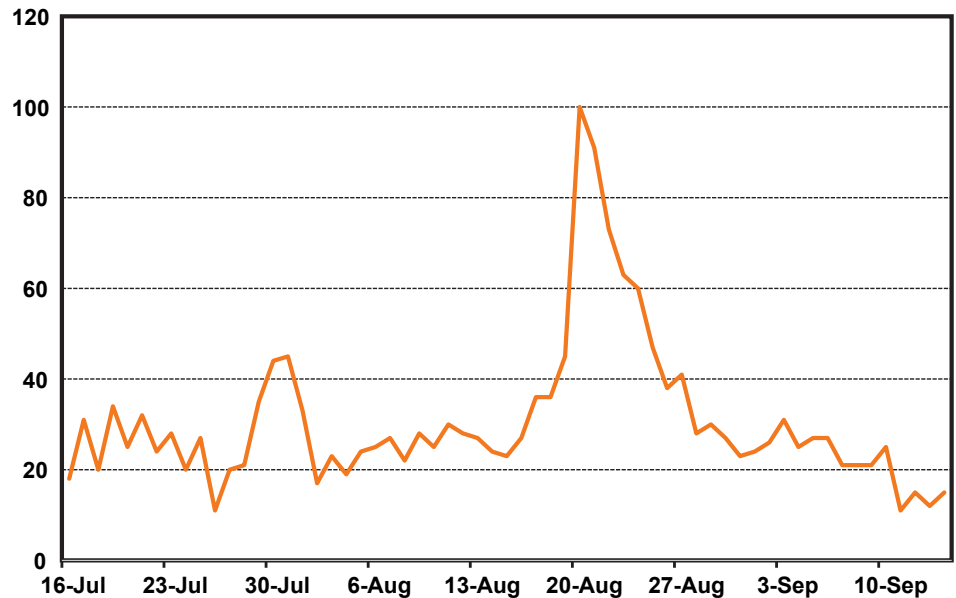
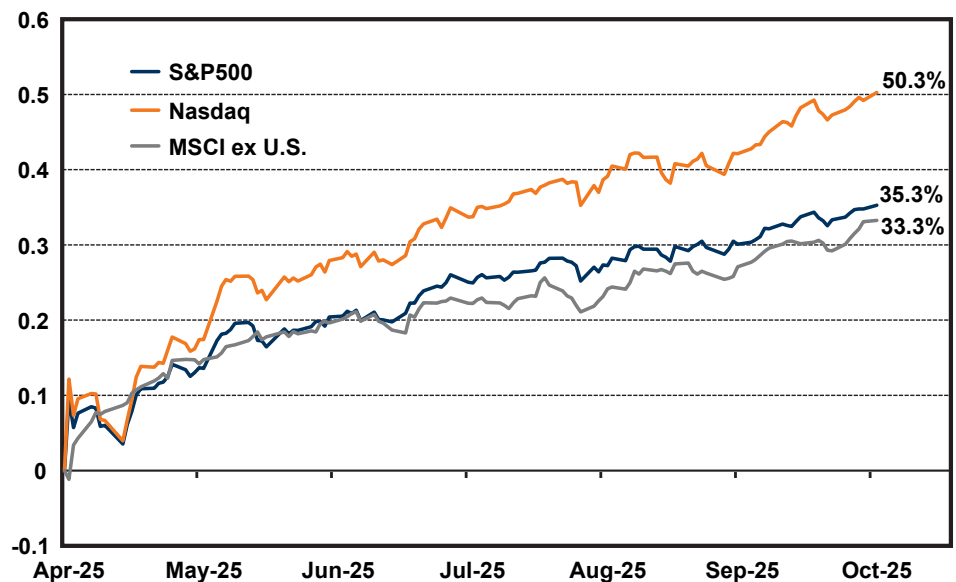


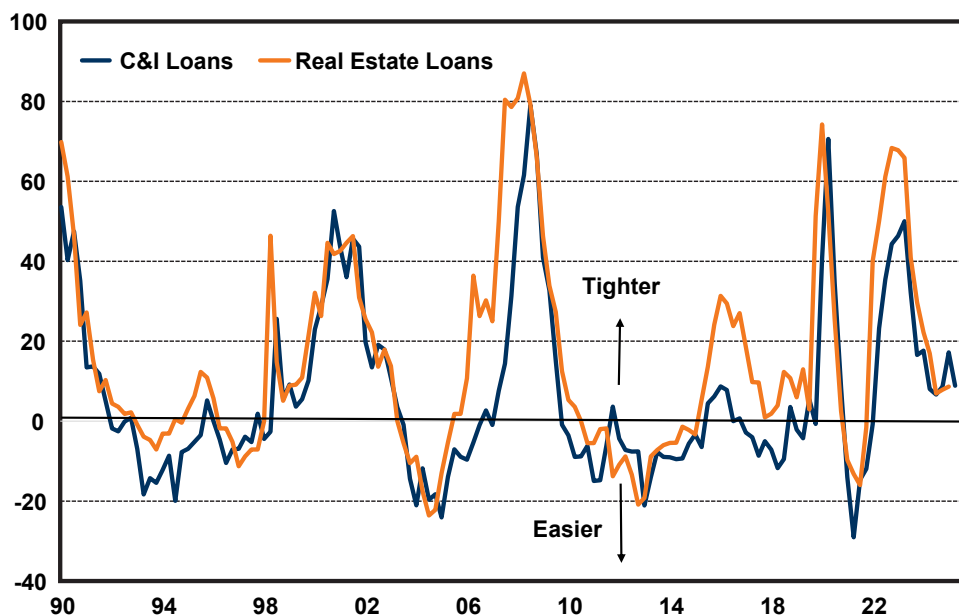
FIGURE 32
Leaving Everyone in the Dust: U.S. Stock Market Has Outperformed Since April
(cumulative growth since April 8)



It turns out there is still one thing that matters to markets: China. On Oct. 10, as the U.S. slapped 100% tariffs on Chinese goods and Trump hinted that his meeting with Xi at APEC might not even take place, the market heaved, selling off in cataclysmic fashion reminiscent of April. The Dow plunged 900 points in a single day; the S&P 500 and Nasdaq suffered their steepest declines since the dark days of April; and the VIX surged to a six-month high. More pain is likely ahead, as the standoff with China may drag on for days — perhaps weeks — given the stakes, before tensions eventually ease. Still, the pullback may not be all bad: the market has, by all accounts, grown far too complacent; valuations are stretched, and a breather is not only needed but, in some ways, welcome.

Aside from the recent hiccup, financial conditions—never tight, even at the height of the tariff onslaught—have eased further. The share of banks tightening lending standards, a key indicator of how difficult it is to obtain credit, has normalized after spiking during the banking panic two years ago and remains at levels consistent with continued expansion (Figure 33). The Chicago Fed's Financial Conditions Index—a broader gauge of market tightness—continues to signal an environment of easy liquidity and ample credit availability. And despite this year's outsized share of drama, commercial and industrial (C&I) loans—bank loans extended to businesses for working capital, inventory, and investment—though still anemic, have been growing at a sturdier pace than in either of the previous two years.

FIGURE 33
Banks Have Eased Lending Standards
(percent of banks tightening/easing)



If financial conditions are already loose and markets exuberant, imagine what the recent rate cut—and the promise of more to come—will do. For the first time since Trump's return to the White House, the Fed has done exactly what he had long wanted: cut rates. Chairman Jerome Powell describes it as a "*management risk cut*"—an insurance policy, if you will, against a sharply deteriorating labor market. Yet it comes at a time when inflation is still simmering, and the next move in prices seems far more likely to be up than down. More cuts are in the offering: by a razor-thin 10–9 margin, the committee now anticipates at least two additional reductions before year-end, broadly in line with market expectations.

More pain is likely ahead, as the standoff with China may drag on for days — perhaps weeks — given the stakes, before tensions eventually ease. Still, the pullback may not be all bad: the market has, by all accounts, grown far too complacent; valuations are stretched, and a breather is not only needed but, in some ways, welcome.

If financial conditions are already loose and markets exuberant, imagine what the recent rate cut—and the promise of more to come—will do.

It is the right call. In fact, a strong case can be made that it is slightly delayed—it could easily have been delivered back in July. The strength of the labor market was in question even before the recent downgrades and benchmark revisions, as the household survey has long painted a far gloomier picture than the payroll survey. With the same earnestness that makes Frank Drebin's most misguided lines sound sincere—*"We would have come earlier, but your husband wasn't dead then"*—the Fed waited until the labor market came to a screeching halt. And the other side of the mandate, inflation, is not as straightforward. That's because the Fed's tools to blunt supply-driven inflation—such as that caused by tariffs—are woefully inadequate. Moreover, as we have argued in these pages before, tariff-induced inflation represents a one-off price-level shock (though not all at once) rather than a rolling inflation wave. It is not transitory—price levels may settle higher permanently—but it is precisely the kind of one-time adjustment the Fed should look past.

The good news is that, unlike last year—when the Fed cut rates by 100 basis points and long yields rose by roughly the same amount (a head-scratcher for sure)—yields have barely budged this time around. The 10-year note, as of early October, is up only 7 basis points from the day the Fed cut rates and down roughly 50 basis points from the start of the year. It's possible that the bond market expects, as we do, that inflation won't get too far out of hand—or that the U.S. fiscal picture looks a smidgen better now that tariff revenues are rolling in. Either way, this is encouraging news. We expect the Fed to deliver two more cuts this year and two additional 25-basis-point reductions at the March and June meetings next year, followed by a long hold. That would put the terminal federal funds rate around 3–3.25%, roughly in neutral territory. Make no mistake: Lower rates will breathe new life into the expansion and are one of the main reasons why the economy is more likely to gather pace—and perhaps even reaccelerate—rather than slide headlong into a recession.

Lest this picture seem outlandishly rosy, two thorny issues remain: inflation and the labor market. And here, the outlook is a bit gloomier—at least in the short term. While we expect growth to hold up, we wouldn't be surprised if the remainder of the year is marked by a few more bumps, with payrolls weakening further as firms await clarity on trade deals, the government shutdown, and overall consumer demand. Inflation, by contrast, will likely continue to edge higher into the first quarter of next year, though we do not expect it to get out of hand, anticipating a peak of around 3.5%. In other words, inflation has yet to crest, and the labor market has yet to find its floor—though neither is expected to inflict as much pain as once feared. As Drebin would say: *"The truth hurts, doesn't it? Oh sure, maybe not as much as landing on a bicycle with the seat missing, but it hurts."* So, a bit more pain? Yes. Agony? Likely not.

Ever since tariffs burst onto the national scene this spring, everyone braced for a seismic impact on inflation. Yet six months on, the overall inflation rate—though edging higher—has remained remarkably well behaved, and the tariff effect strikingly muted. Much of this owes to the fact that U.S. firms stockpiled oodles of just about everything in the first quarter, allowing them to sell from inventory rather than raise prices. But those stockpiles are now being drawn down, and the debate over who ultimately bears the cost has flared up. The administration insists it is foreign countries and companies; most economists reckon it will be U.S. consumers. The truth, as always, is a bit more complex—and several degrees more nuanced—with all three actors, foreign producers, American firms, and U.S. consumers, sharing some of the pain.

Tariff-induced inflation represents a one-off price-level shock (though not all at once) rather than a rolling inflation wave.

Lower rates will breathe new life into the expansion and are one of the main reasons why the economy is more likely to gather pace—and perhaps even reaccelerate—rather than slide headlong into a recession.

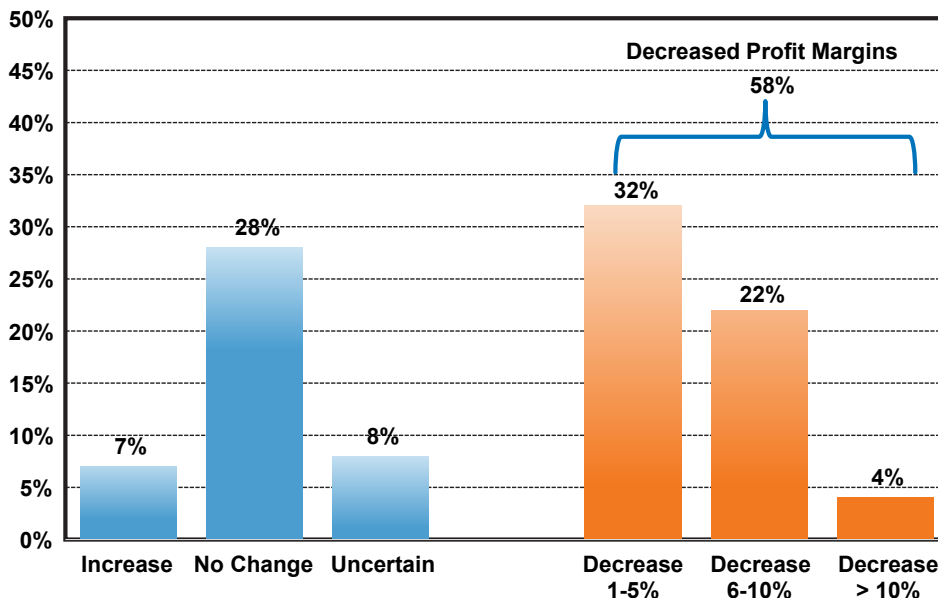
Lest this picture seem outlandishly rosy, two thorny issues remain: inflation and the labor market. And here, the outlook is a bit gloomier—at least in the short term.

In other words, inflation has yet to crest, and the labor market has yet to find its floor—though neither is expected to inflict as much pain as once feared.

By far, in these early innings, it appears that U.S. corporations are shouldering most of the burden. Though the data are tentative and largely survey-based, a recent KPMG poll of 300 large U.S. corporations found that 58% reported reduced gross margins because of tariffs: roughly one-third saw declines of 1–5%, while a quarter experienced a drop of 6–10% (Figure 34). This suggests that most firms have been reluctant to pass on price increases to an already beleaguered American consumer, fearing loss of market share in an environment where households remain stretched and exhausted after nearly half a decade of elevated prices. It is also possible that companies have avoided price hikes to preserve goodwill—and political will—so as not to provoke backlash from the White House. When Amazon briefly considered displaying the cost of tariffs alongside product prices, the administration thundered that such a move was a “hostile and political act.” Amazon promptly backtracked. But spare your sympathies: most U.S. companies—especially large multinationals—have ample cushions to absorb the blow, with profits as a share of GDP still hovering near historical highs. The real concern lies with small businesses, which operate on far thinner margins, are less able to absorb extra costs, and are far more likely to pass them on to consumers.

Most firms have been reluctant to pass on price increases to an already beleaguered American consumer, fearing loss of market share in an environment where households remain stretched and exhausted after nearly half a decade of elevated prices.

FIGURE 34
U.S. Firms Seem to Bear the Brunt of Tariffs so Far
(percent of respondents, gross profit margin change)

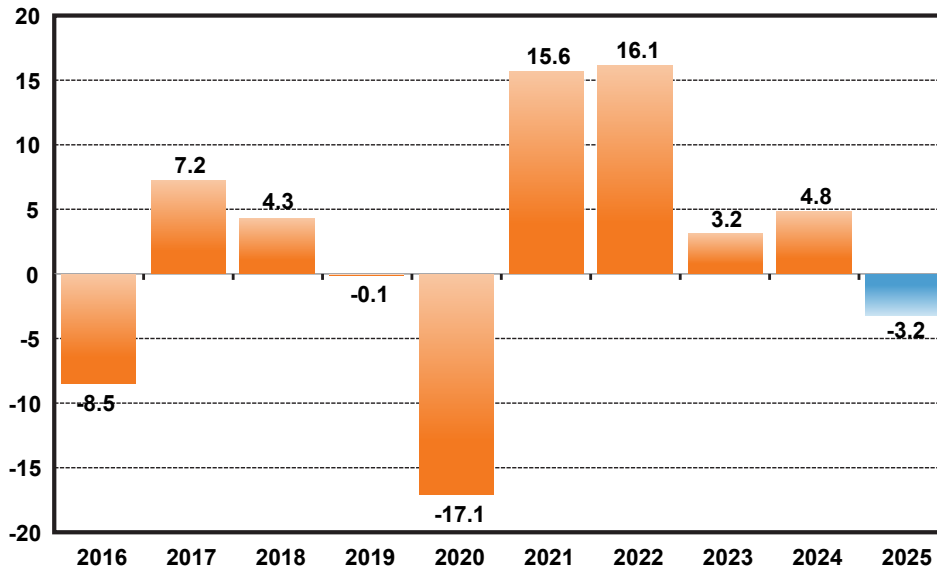


The least affected group so far appears to be foreign governments and producers. The evidence here is mostly anecdotal: some are keeping dollar prices unchanged, even though the greenback has depreciated by about 10% this year, while others are outright absorbing part of the tariff costs. The effect is most evident in car exports: “Some Korean auto exporters are shouldering the cost of higher tariffs—at least for now,” concluded a recent study by Citigroup. The Bank of Japan, which tracks the prices of the country’s car exports to America, reports that in yen terms they have fallen 26% over the past year. There is also limited evidence of mild price reductions in Canada and, to some extent, in the U.K., but the overall effect remains modest. Import prices from China have declined by only about 1%, even as the country’s effective tariff rate has surged to over 30%.

None of this is yet visible in the official U.S. import-price data, which have continued to rise at a subdued—though positive—pace this year, rather than fall as they would if foreign exporters were absorbing a larger share of tariff costs. But import prices may not fully capture reality, partly because of lags between falling export prices abroad and their reflection in U.S. data.

The Economist constructed a broader export-price index covering America's largest trading partners, and found that average local-currency export prices have fallen by 3.6% this year (Figure 35). That's well below the effective tariff rate—but still hints at a sliver of burden-sharing, even though it is so faint it is barely discernible.

FIGURE 35
U.S. Trading Partners Export Price Index Has Declined, Indicating Some Burden Sharing
(average local currency price, y-o-y percent change)

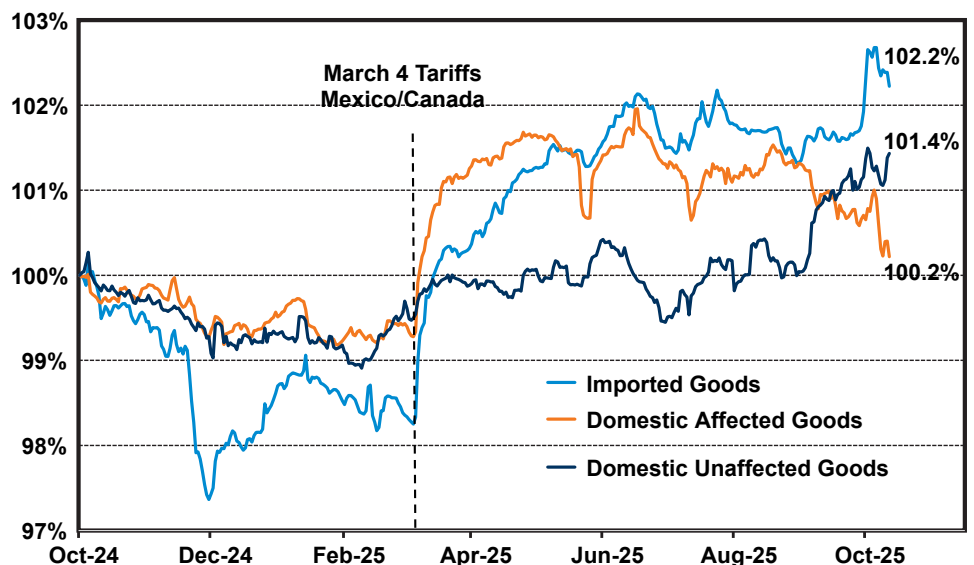


So far, the fallout from tariffs has been limited. Prices of imported goods—the most exposed—are up 3.9% since March 4, when the U.S. first imposed tariffs on Mexico and Canada, while prices of domestic affected goods have risen by almost 1%.

In the hierarchy of burden-sharing, U.S. consumers occupy the uneasy middle ground. Perhaps the most direct effect of tariffs is felt through retail prices—and here, fortunately, the Harvard Price Lab offers some clues. Tracking daily prices on 350,000 products across five major retailers, the Lab distinguishes between three categories: imported goods, domestic goods in tariff-affected sectors, and domestic goods in unaffected ones. The key takeaway is that, so far, the fallout from tariffs has been limited. Prices of imported goods—the most exposed—are up 3.9% since March 4, when the U.S. first imposed tariffs on Mexico and Canada, while prices of domestic affected goods have risen by almost 1% (Figure 36). Interestingly, even domestic goods in unaffected categories have climbed about 2%, suggesting some broader, underlying price pressures. Still, the bottom line is clear: to date, the burden on consumers has remained relatively contained.

This is about to change...a bit. Earlier stockpiles have now been depleted, and firms are once again importing at higher tariff rates. While corporations have thus far had enough room to

FIGURE 36
Prices Have Edged Up, but Are Not Getting Too Out of Hand, Yet
(retailer prices, index, October 2024=100%)

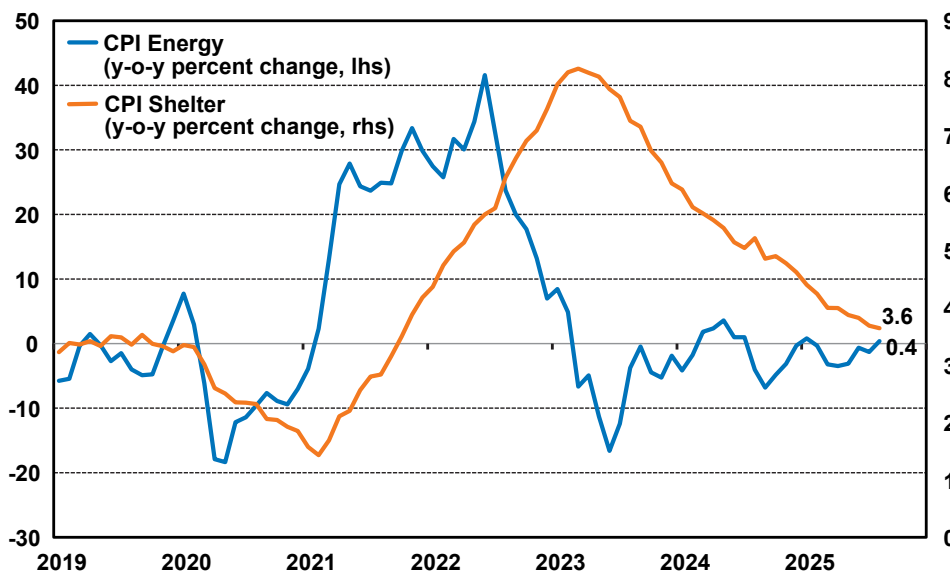


absorb much of the added cost, they are unlikely to do so indefinitely. And although consumers' tolerance for price hikes remains limited, some of the costs will inevitably filter through. Price increases are already visible in the most tariff-sensitive categories, a trend likely to continue as new sectoral tariffs take effect. Prices for home furnishings are up 3.8% year over year—nearly five times the pace recorded in the first quarter. Grocery prices are climbing at an annual rate of 2.7%, more than double last year's pace.

Having said that, the damage ought to be relatively limited. The U.S. is a largely self-sufficient, services-driven economy, which means the potential inflationary pain from tariffs is fairly contained. A study from Boston University found that, in 2024, imports directly consumed by American households accounted for a mere 6% of the core PCE index. Even after including inputs such as steel and aluminum—along with all the goods that use them—the share rises by only another 4%.

Importantly, the categories that make up the bulk of the consumption basket—such as shelter—are moving in the right direction and should help moderate any flare-up in goods prices stemming from tariffs. Shelter inflation is currently running at a 3.6% annualized pace, the lowest in more than four years and the softest since the onset of the recent inflation outbreak (Figure 37). Energy prices should also help: they've remained well anchored for much of the year, supported by ample global supply. Wage growth, as measured by the Atlanta Fed's Wage Tracker, has eased to around 4%—only about half a percentage point above pre-pandemic levels.

FIGURE 37
Shelter and Energy Prices Will Keep Inflation Contained
(y-o-y percent change)



The other side of the Fed's dual mandate—the labor market—looks increasingly precarious. As of this writing, the October data release has been delayed because of the government shutdown, but the private estimates trickling in have revealed a succession of figures, each more hair-raising than the last. The Carlyle Group, the investment manager whose portfolio companies employ more than 700,000 people globally, reckons job growth was a pitiful 17,000 in September—far below the consensus estimate of 54,000. ADP, the payroll processing company, delivered even grimmer news: employment rolls fell by 32,000 in September. The pain, however, is not evenly distributed. On an annual basis, job growth at large companies remains relatively resilient—running at about 2.3%, slightly higher than last year. In contrast, employment at mid-sized firms is expanding by less than 1%, while hiring at small businesses has come to a virtual standstill, barely rising 0.2% (Figure 38).

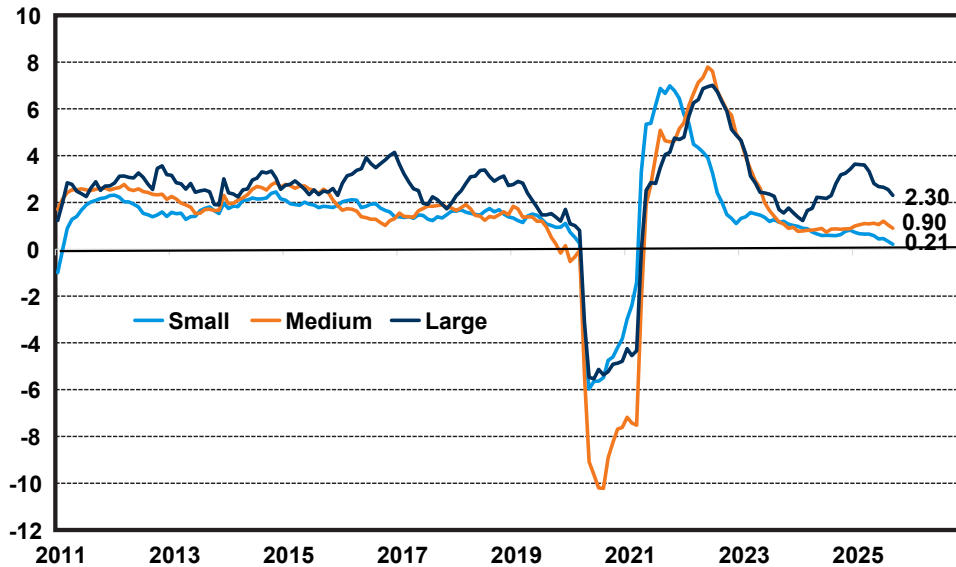
Although consumers' tolerance for price hikes remains limited, some of the costs will inevitably filter through.

Having said that, the damage ought to be relatively limited. The U.S. is a largely self-sufficient, services-driven economy, which means the potential inflationary pain from tariffs is fairly contained.

Importantly, the categories that make up the bulk of the consumption basket—such as shelter—are moving in the right direction and should help moderate any flare-up in goods prices stemming from tariffs.

The other side of the Fed's dual mandate—the labor market—looks increasingly precarious.

FIGURE 38
Job Growth Has Stalled for Small- and Medium-Sized Firms
(y-o-y percent change)



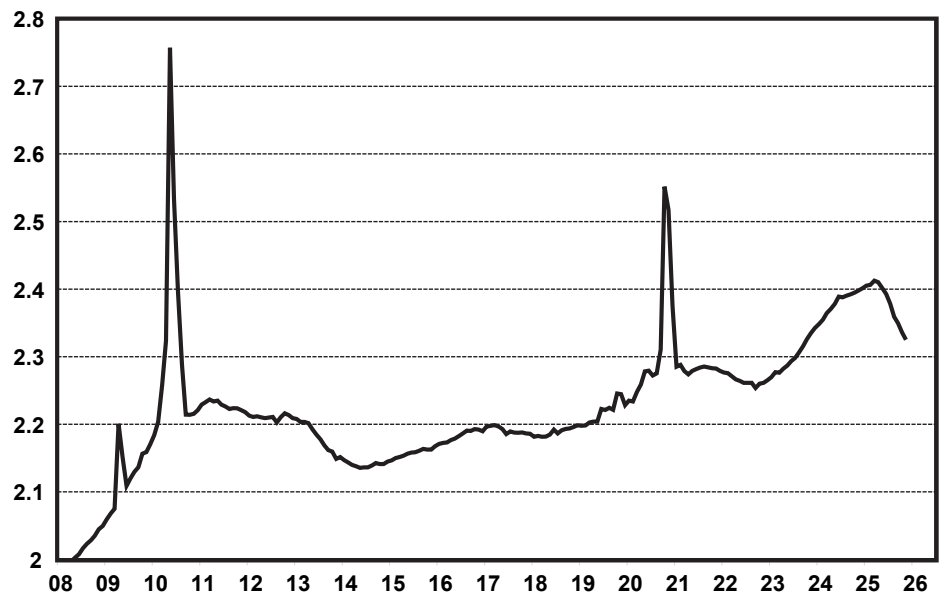
And if the preliminary benchmark revision showing 911,000 fewer jobs last year seemed grim, the Quarterly Census of Employment and Wages (QCEW)—the source data behind that benchmark—indicates an even weaker momentum in the first quarter of this year. Employment rolls in March (the latest available data) are up only 0.4% from a year earlier. This implies that the final revisions may bring even gloomier news.

Our view is that the next few labor-market reports, once the BLS reopens for business, will not be for the faint of heart—they will reflect precisely these dynamics. That's because two things are happening simultaneously: private-sector job formation is in an acute state of stasis—neither expanding nor contracting, caught in a kind of “low-hire, low-fire” equilibrium—while federal employment is set to contract.

Our view is that the next few labor-market reports, once the BLS reopens for business, will not be for the faint of heart... That's because two things are happening simultaneously: private-sector job formation is in an acute state of stasis—neither expanding nor contracting, caught in a kind of “low-hire, low-fire” equilibrium—while federal employment is set to contract.

The federal workforce has already shrunk by nearly 80,000 positions this year, due largely to DOGE's cost-cutting efforts and a wave of retirements (Figure 39). Another 150,000 workers took the Deferred Resignation Program—the now infamous “Fork in the Road” buyout—receiving their final paychecks on the last day of the fiscal year, Sept. 30. These separations should come off employment rolls and appear in the November labor report, assuming the government reopens in time for the reference survey week. The administration has also threatened further layoffs among currently furloughed workers. All told, according to the Office of Personnel Management, federal payrolls are on track to shrink by roughly 300,000 by year-end.

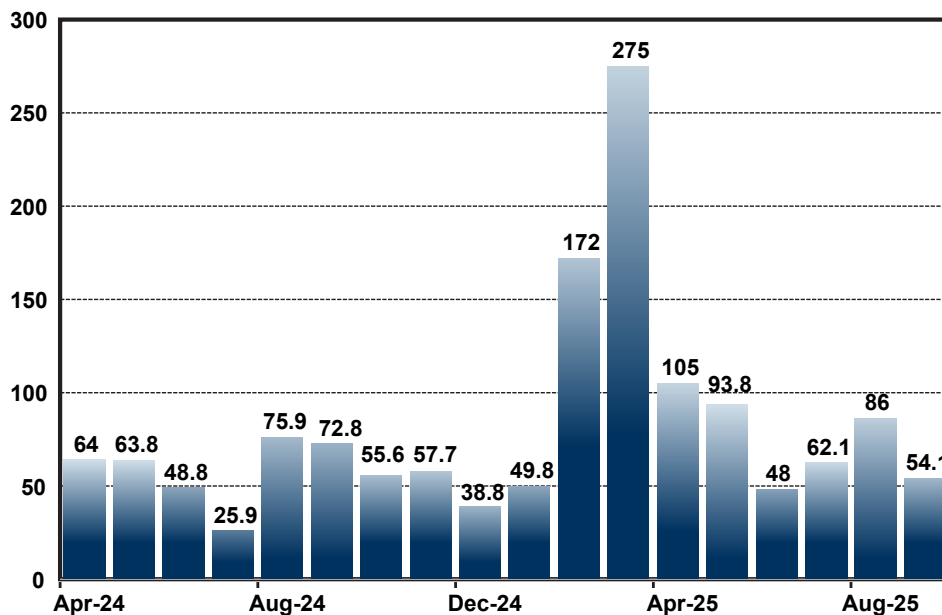
FIGURE 39
The Federal Workforce Has Shrunk this Year
(federal employees, millions of workers)



But this attrition is by design. Stripping out federal employment, the picture that emerges looks less alarming than the headline data might suggest: the labor market, while softening, is hardly unraveling. The unemployment rate remains at 4.3%, a level corroborated by the Chicago Fed's labor-market survey, which is currently serving as a surrogate for official data. Firms are not laying off workers en masse, as one would expect at the onset of a full-blown recession. The early-September jump in initial jobless claims—which briefly sent shivers down investors' spines—turned out to be driven by identity-fraud filings in Texas, not a genuine weakening in labor conditions. The most recent figures (as of Sept. 20) put initial claims at 218,000—among the lowest of this cycle and comfortably below the 300,000 threshold that typically marks the point when recession worries begin to creep in.

Moreover, forward-looking indicators of layoff activity show no signs of renewed deterioration. Challenger job-cut announcements have remained subdued, save for a brief spike in February and March tied to DOGE-related cuts (Figure 40). The latest WARN data—which captures the 60-day advance notices required for large-scale layoffs—likewise indicate that the pace of discharges has slowed in recent months, rather than ramping up as one would expect if the economy were on the brink of a recession. So, while companies are reluctant to add headcount, they are equally reticent to lay off workers—a state of limbo where, much like the housing market, the normal labor market churn is suspended in time and seemingly frozen in place.

FIGURE 40
The Labor Market is Not Unravelling: Layoff Notices Are Low
(thousands, level, Challenger Report)

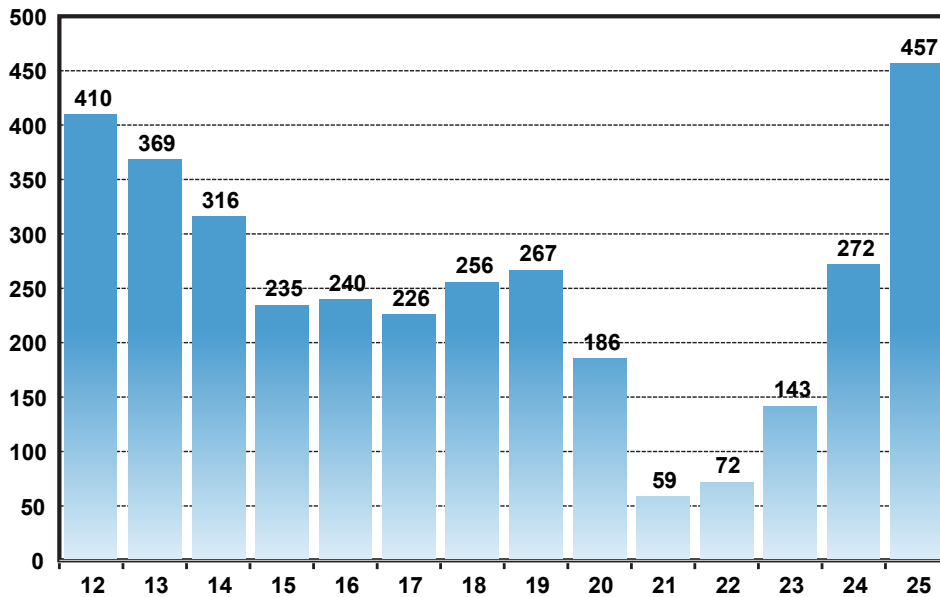


This would be worrisome if labor supply were growing at a healthy clip. But it isn't—held back both by demographics and by the administration's clampdown on immigration. The labor force has expanded by only 34,000 from January through August, according to the household survey—the smallest year-to-date gain since 2013, excluding the pandemic year. Though data are limited, the Department of Homeland Security reports that 457,000 illegal immigrants have been deported so far this year—slightly above the 2012 pace and well above the 142,000 deported in 2023 and 272,000 last year (Figure 41). Throw in an estimated 1.6 million cases of self-deportation, and the numbers start to add up.

While companies are reluctant to add headcount, they are equally reticent to lay off workers—a state of limbo where, much like the housing market, the normal labor market churn is suspended in time and seemingly frozen in place.

Though data are limited, the Department of Homeland Security reports that 457,000 illegal immigrants have been deported so far this year—slightly above the 2012 pace and well above the 142,000 deported in 2023 and 272,000 last year.

FIGURE 41
Deportations Have Skyrocketed
(thousands)

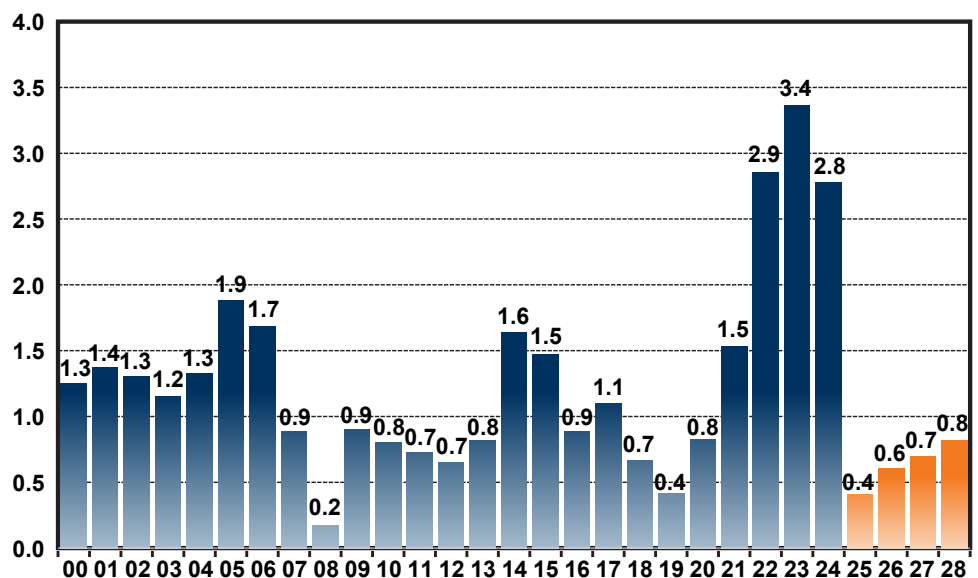


The Congressional Budget Office has cut its estimate of net migration into the country from 2 million in January to just 400,000 as of September (Figure 42). Other researchers put the figure even lower—ranging from minus 100,000 to 500,000 new arrivals. Should the final tally indeed turn out to be negative, it would mark the first such occurrence since the Great Depression. Not surprisingly, the foreign-born labor force—an engine of employment growth over the past three years—has contracted by roughly 1 million workers this year, after swelling by 1.8 million in the bygone era that is 2024.

Slower labor-force growth implies that the “breakeven employment rate”—the pace of job creation needed to keep unemployment steady—is now much lower than in recent years, when immigration was surging. In other words, even modest job gains can be consistent with a healthy labor market. Based on last year’s Census Bureau figures, which assumed net immigration of roughly 2 million, the economy needed to generate about 100,000 jobs per month to maintain the “breakeven” rate. Under the CBO’s latest estimate, which reduced net migration to around 400,000, that breakeven threshold drops to roughly 50,000. And if net migration were to fall to zero, it would decline further—to about 20,000—roughly in line with the current pace of job formation.

Slower labor-force growth implies that the “breakeven employment rate”—the pace of job creation needed to keep unemployment steady—is now much lower than in recent years, when immigration was surging.

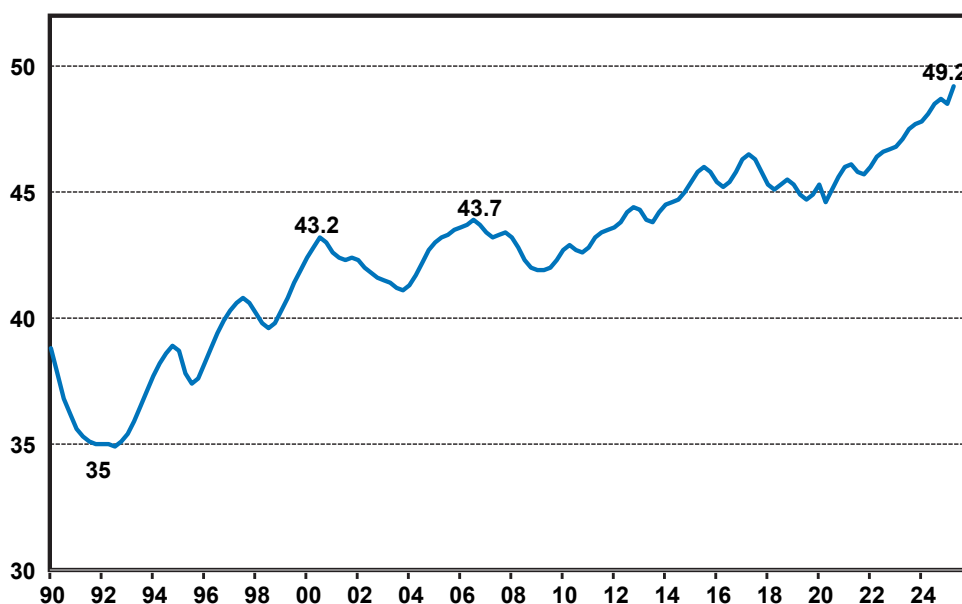
FIGURE 42
CBO Projects Slowest Immigration Growth in Decades Over the Next Four Years
(level, millions)



Thus, we see the labor market as the final shore where the rolling-recession wave—brought to you by the Fed’s tightening cycle—finally breaks. A “mini-recession,” or *jobcession*, feels too gloomy a description, but the labor market is poised to stumble in the short term. Beyond that, we expect the rolling recovery to spread: Just as the tech and banking sectors—the first casualties of the Fed’s hikes—have fully recovered, and commercial real estate has stabilized, so too will other sectors: housing (as the Fed cuts rates), manufacturing (as reshoring gathers pace), and, finally, the labor market itself.

Our biggest concern continues to be the one unsettling feature of this expansion, which we have highlighted consistently over the past few years: its fate is precariously perched on a sliver of U.S. consumers, who depend on a sliver of the market, which in turn depends on a sliver of companies—the fortuitous few touched by the AI sparkle. This is, simply put, the 20% economy. The top 20% of income earners now account for nearly two-thirds of all consumption, up from 54% in 2019. The top 10% alone generate roughly half of total spending, compared with 38% before the pandemic (Figure 43). Wealth is even more concentrated: the top 20% hold about 70% of total wealth. The top 1%, by themselves, own 38%. Housing wealth is somewhat more broadly distributed, yet even here, the top 40% of earners hold roughly three-quarters of it.

FIGURE 43
The Top 10% of Households Account for Half of Spending
(share of total, percent)



The U.S. economy has always been lopsided, with top earners accounting for a disproportionate share of spending and wealth—but rarely to this degree. Thank the AI revolution for that. Since the launch of ChatGPT in November 2022, AI-related stocks have contributed roughly 75% of the S&P 500’s total return, 80% of its earnings growth, and 90% of the increase in capital spending. Top-income households, with their outsized equity holdings, have ridden this wave handsomely. Since 2019, the wealth of the top 20% has surged by 54%. For the top 5%, the gains are an eye-watering 72%—far higher than the 25% cumulative rise in inflation over the same period. In contrast, the bottom 80% has seen its wealth inch up by just 25.5%, barely keeping pace with prices. As the song goes, “Bye-bye, American Pie—drove my Chevy to the levee, but the levee was dry.” The levee, it seems, is indeed running dry for the vast majority of American consumers—leaving this expansion resting uncomfortably on an ever-narrowing base, which makes it precariously fragile and acutely vulnerable to the next shock that comes along.

Thus, we see the labor market as the final shore where the rolling-recession wave—brought to you by the Fed’s tightening cycle—finally breaks.

Its fate is precariously perched on a sliver of U.S. consumers, who depend on a sliver of the market, which in turn depends on a sliver of companies—the fortuitous few touched by the AI sparkle. This is, simply put, the 20% economy.

The levee, it seems, is indeed running dry for the vast majority of American consumers—leaving this expansion resting uncomfortably on an ever-narrowing base, which makes it precariously fragile and acutely vulnerable to the next shock that comes along.

Balanced against this fragility is the policy backdrop, which—tariffs aside—remains broadly supportive of growth and offers one of the main reasons for cautious optimism. The “America First” agenda is unapologetic in its quest to boost growth—from muscular industrial policy and sweeping deregulation, to redirecting foreign investment onshore, revitalizing manufacturing, and expanding domestic production. It is doing so with an increasingly ham-fisted determination. For all its professed faith in free markets, the Trump administration seems to have developed a certain fondness for meddling in them—dabbling in a quasi-lite form of state capitalism with the aim of fortifying supply chains, bolstering national security, and asserting America’s dominance in AI. Witness its “golden share” in the Nippon trade deal, its 10% stake in Intel, or the Pentagon’s emergence as the largest shareholder in rare-earth producer MP Materials.

The One Big Beautiful Bill Act (OBBBA) is poised to lift growth in the short term, though its longer-term effects are more questionable, as it will add to the debt and raise the risk of higher interest rates, larger debt-service costs, crowding out of private investment—or some combination of all three. Still, its near-term impact is unequivocally growth supportive. The legislation aims to boost labor supply by reducing taxes on work and scaling back certain means-tested benefits. Business incentives—including 100% bonus depreciation for equipment spending, R&D, and other qualifying expenses—amount to an effective corporate tax cut from 21% to 15%, providing a true boost to growth.

Other demand-side measures—such as the suspension of taxes on tips, overtime, and Social Security contributions, along with expanded deductions for car loans and higher SALT caps—will also bolster demand over the next couple of years, though all are set to expire by 2028. Some of the more painful offsets, including cuts to Medicaid and food assistance, won’t take effect until much later—2027 at the earliest. Our view is that, even in the long run, the outlook is less dire: many of these temporary tax cuts will likely be extended, and some of the projected savings from Medicaid and SNAP may never fully materialize, as lawmakers have rarely found it easy to roll back benefits once they become law. As Milton Friedman once quipped, “Nothing is so permanent as a temporary government program.” Rarely has that observation rung truer.

“Wind of Change” seemed an apt title for a forecast that grapples the epoch-defining policy shifts sweeping through the U.S. and the global economy. Yet perhaps “Rock You Like a Hurricane”—the irreverent but equally timeless anthem by the same band—would have been even more fitting, for few periods in modern history have brought such a profound reordering of the economic landscape: a once-in-a-century transformation whose full effects are still unfolding. In his earnest declaration of love to Jane—his delightfully scrambled homage to Casablanca—Frank Drebin declares, “It’s a topsy-turvy world, and maybe the problems of two people don’t amount to a hill of beans... But this is our hill, and these are our beans.” In a year when the global script seems rewritten daily, survival—and even success—may depend less on flawless execution than on the stubborn insistence that, beans in hand, the chaos is yours to claim. May our beans sprout strong, grow tall, and sink deep roots! It will be one helluva harvest!

The Trump Doctrine: Thank You for Your Attention to this Matter

Frank: “It’s the same old story. Boy finds girl, boy loses girl, girl finds boy, boy forgets girl, boy remembers girl, girl dies in a tragic blimp accident over the Orange Bowl on New Year’s Day”.

Jane: “Goodyear?”

Frank: “No, the worst.”

— *The Naked Gun*

The “America First” agenda is unapologetic in its quest to boost growth—from muscular industrial policy and sweeping deregulation, to redirecting foreign investment onshore, revitalizing manufacturing, and expanding domestic production.

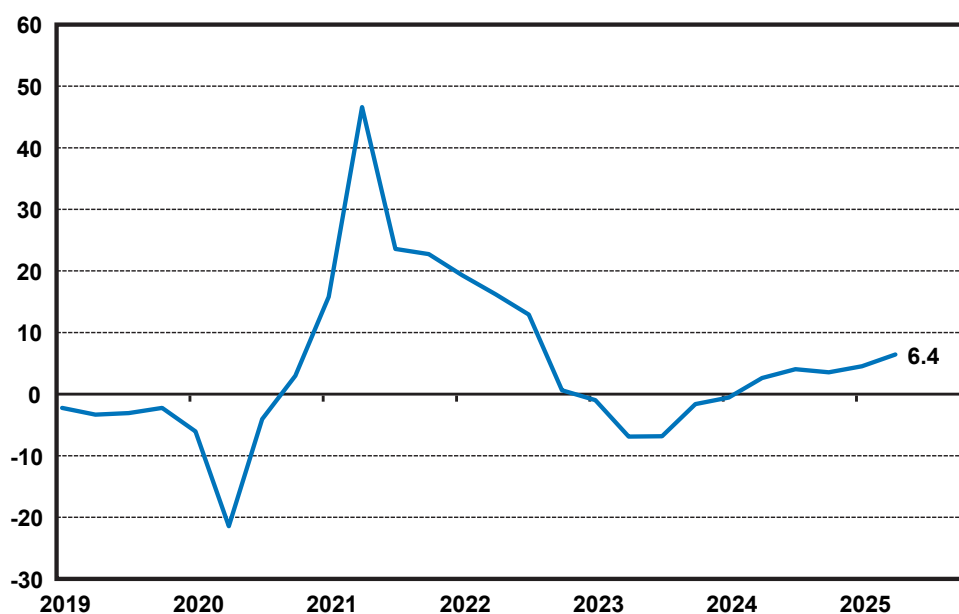
The One Big Beautiful Bill Act (OBBBA) is poised to lift growth in the short term, though its longer-term effects are more questionable, as it will add to the debt and raise the risk of higher interest rates, larger debt-service costs, crowding out of private investment—or some combination of all three.

“Wind of Change” seemed an apt title for a forecast that grapples the epoch-defining policy shifts sweeping through the U.S. and the global economy.

When Mr. Trump unleashed his new tariff regime in April of this year, many rushed to dust off an obscure yet visually arresting chart—the Kindleberger Spiral—an awkwardly scaled spiderweb resembling a swirling whoosh of water being sucked down a drain, representing the collapse of global trade from 1929 to 1933. This, too, was to be “the worst year” for global trade—the year when international commerce, like Drebin’s hapless love story, “died in a tragic blimp accident over the Orange Bowl on New Year’s Day.”

Ten months in, that has not been the case. World exports are up 5.4% in the first half of the year compared with the same period last year, with momentum strengthening in the second quarter, when they rose by 6.4%—even as tariffs began to bite (Figure 44). China’s exports, where most of the tariffs are aimed, rose 6% in the first half; the U.S. by 5%, and the EU by 3.4%. The U.S. trade balance in goods—a perennially sore point for the administration—will still post a gargantuan deficit this year despite its gargantuan efforts to reverse it: −\$840 billion as of July, far larger than the −\$681 billion recorded over the same period last year, owing largely to stockpiling in the first quarter ahead of the tariff onslaught. Both U.S. imports and exports have since eased from the first-quarter surge yet remain above year-ago levels—up 3.8% and 3.5%, respectively.

FIGURE 44
Global Trade is Holding Up Pretty Well, Despite Tariffs
(world exports, y-o-y percent change)



Of course, some rebalancing has occurred as tariffs have begun to reshape trade flows: in the second quarter, U.S. imports from China collapsed 33%, while exports to China fell a more modest 20%. Trade with Canada has also weakened, with imports down 13% and exports 5.8% in the same period. But trade with Mexico has flourished: as of the second quarter, U.S. exports to Mexico are up 11.6%, while imports have risen 2.6%.

In fact, perhaps the most surprising thing about this trade war is that it could hardly have been less warlike. When the Trump administration ramped up tariffs, the fear was that the world would descend into an autarkic abyss reminiscent of the 1930s, when the Great Depression ushered in an era of protectionism, export controls, and retaliatory tariffs that sent global commerce into a Kindleberger-like gloom spiral. Yet to date—save for China—few countries have retaliated. Canada tried, only to be punished with higher rates; it is now quietly rolling back some of its tariffs against the U.S. The EU drew up a list of goods to target, designed to inflict maximum political pain, but

World exports are up 5.4% in the first half of the year compared with the same period last year, with momentum strengthening in the second quarter, when they rose by 6.4%—even as tariffs began to bite.

In fact, perhaps the most surprising thing about this trade war is that it could hardly have been less warlike... Yet to date—save for China—few countries have retaliated.

those are now shelved after the summer trade deal. Brazil and India have pushed back, though even for them, resistance has not taken the form of full-blown retaliation so much as a stubborn recalcitrance to submit.

Others have either held fire, bided their time or come to the table hat in hand. The deals so far have been almost humiliatingly one-sided in favor of the United States—even against partners that rival it economically, such as the European Union. *“Protecting the Queen’s safety is a task that is gladly accepted by Police Squad” an earnest Dreben declared. “No matter how silly the idea of having a queen might be to us, as Americans, we must be gracious and considerate hosts”.* For now, it seems, much of the world has accepted the task of bearing the brunt of U.S. tariffs—no matter how painful, or indeed how silly, it may seem.

A number of factors explain this glaring lack of pushback. Few countries are large enough to inflict real pain on the United States by themselves, and there has been little coordination among them. The Trump administration has applied differential levies to different trading partners, escalating when challenged. The prevailing logic seems to be that it is better to quietly accept the rate and negotiate behind the scenes to reduce it, rather than risk an all-out trade war that few have the heft to win. The differential rates have also blunted the incentive for cooperation, making it harder for foreign partners to pool their leverage or mount a coordinated response against the U.S.

There may also be some hope that legal action will remove the tariff threat once and for all. Two courts—the U.S. Court of International Trade (CIT) and an appellate court—have ruled against Trump’s authority to impose tariffs under the 1977 International Emergency Economic Powers Act (IEEPA). The case is slated for oral arguments before the Supreme Court in November, with a potential ruling as early as year’s end. How the court will rule is a toss-up. Under the “major questions” doctrine—which requires Congress to clearly authorize executive actions with vast economic and political significance—and the “non-delegation doctrine,” which holds that even in the absence of clear language Congress cannot hand over its constitutional power to levy taxes, SCOTUS should, in theory, rule against Mr. Trump. However, members of the court’s conservative majority have also indicated that the major questions and nondelegation doctrines may not apply “in the national security or foreign policy contexts.”

Nonetheless, even if SCOTUS were to rule against it, the administration has shown time and again an inexhaustible capacity for creativity. It has other means to impose tariffs—chief among them Section 232 of the Trade Expansion Act of 1962, which allows the imposition of sector-specific tariffs on imports that “threaten to impair national security,” and Section 301 of the Trade Act of 1974, which authorizes retaliation against countries engaged in “unfair trade practices.” Country-specific duties would then be reimposed under the latter, though this mechanism cannot support a universal baseline tariff and would take time to implement, as the U.S. Trade Representative must publish country-by-country findings, invite public comment, and set a specific time frame. Section 122 of the Trade Act of 1974, which allows the president to impose temporary tariffs or quotas for up to 150 days in cases of “large and sustained trade deficits,” could serve as a bridge while the Section 301 process plays out.

In short, just as in a hilariously deadpan moment in *Naked Gun*, when the doctor tells Mrs. Nordberg, *“I think we can save your husband’s arm—where would you like it sent?”* the administration has plenty of ways to save its much-cherished tariffs.

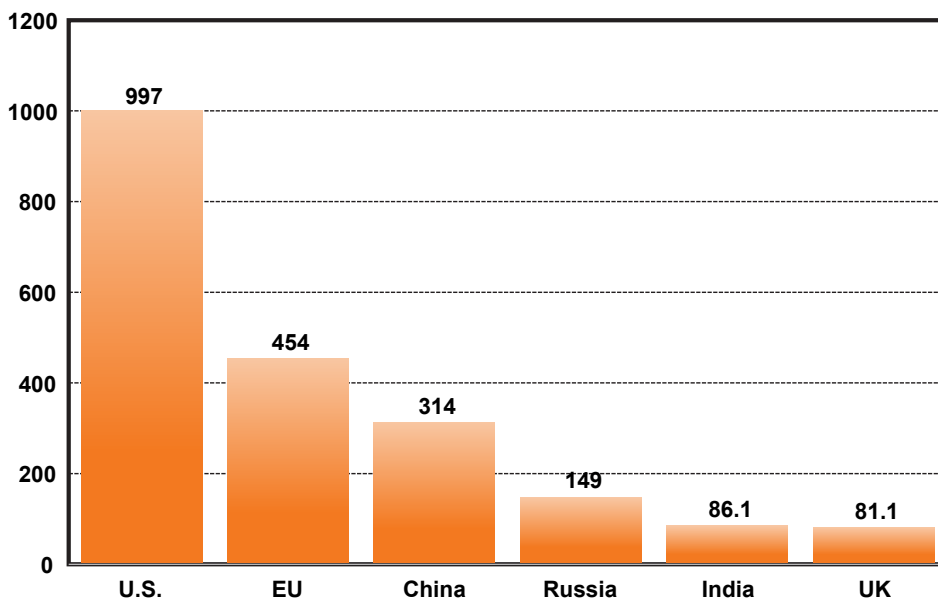
Others have either held fire, bided their time or come to the table hat in hand. The deals so far have been almost humiliatingly one-sided in favor of the United States—even against partners that rival it economically, such as the European Union.

Nonetheless, even if SCOTUS were to rule against it, the administration has shown time and again an inexhaustible capacity for creativity. It has other means to impose tariffs.

Another reason for the lack of retaliation is that many of America's trading partners rely heavily on U.S. security guarantees under the American defense umbrella (Figure 45). Though trade agreements are not explicitly tied to military protection, there has always been a tacit recognition that U.S. allies have benefited enormously from that security shield over the past seven decades—and that they risk far more by jeopardizing it through open antagonism. The United States spends roughly \$9.9 billion annually on the Pacific Deterrence Initiative (PDI), which covers much of the Indo-Pacific, including Southeast Asia. And while America contributes only about 16% of NATO's direct budget (which funds administrative and infrastructure costs), it effectively underwrites roughly 70% of the alliance's overall defense capacity. The humbling asymmetry of the U.S.–EU trade deal is itself a quiet acknowledgment of Europe's need to keep the United States deeply engaged on the military front.

Another reason for the lack of retaliation is that many of America's trading partners rely heavily on U.S. security guarantees under the American defense umbrella.

FIGURE 45
The U.S. Continues to Outspend Everyone in Military Spending
(billions of dollars, level)

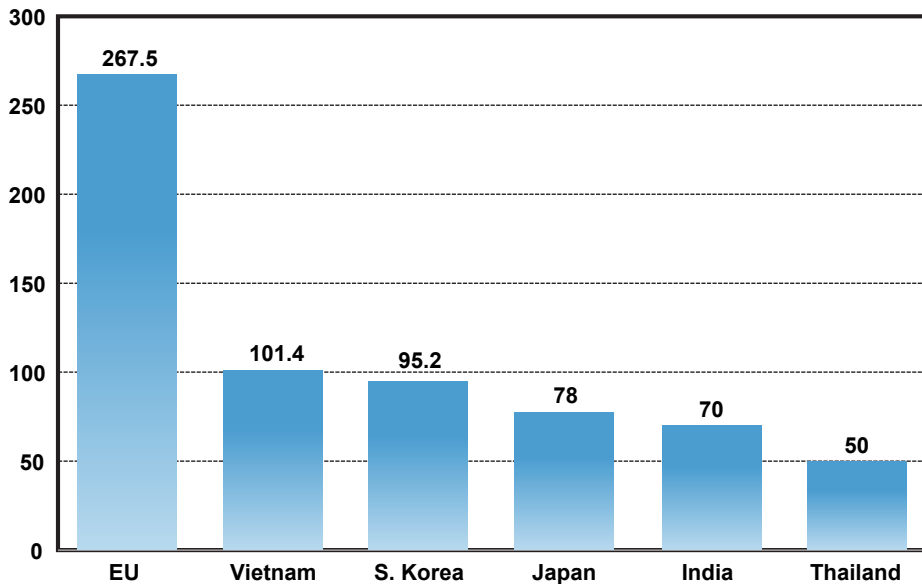


Countries may also fall in line for now, while quietly making plans to diversify, shift away, and seek non-U.S.-centric alternatives. As one South Korean official put it, “The first step is to make concessions to America. The second is to look elsewhere.” Yet this line of thinking contains a glaring omission: the United States imported a staggering \$3.2 trillion worth of goods last year—half a trillion of that from China alone. Unless intergalactic trade is suddenly in the offing, it's hard to see how that kind of heft could be replaced.

Worse still, even as they contend with Mr. Trump's tariffs, Southeast Asian countries are now being swamped with ultra-cheap Chinese goods (Figure 46). In the first eight months of 2025, China exported an astounding \$435 billion worth of products—around 20% of all its exports—to Association of Southeast Asian Nations (ASEAN) countries, up from 13% in 2019. And these are not intermediate goods that feed domestic production in the region; increasingly, China is exporting finished consumer products. The European Union is also straddling a fine line between capitulation and confrontation with China. Chinese overproduction has now reached European shores, prompting Brussels to impose steep tariffs on Chinese electric vehicles and to raise import duties on steel to 50%. For all the quiet hopes of a less U.S.-centric future, it seems America still remains the indispensable nation—at least for now.

The United States imported a staggering \$3.2 trillion worth of goods last year—half a trillion of that from China alone. Unless intergalactic trade is suddenly in the offing, it's hard to see how that kind of heft could be replaced.

FIGURE 46
An Avalanche of Chinese Goods is Blanketing the World
 (exports, billions, Jan.-Aug. 2025)



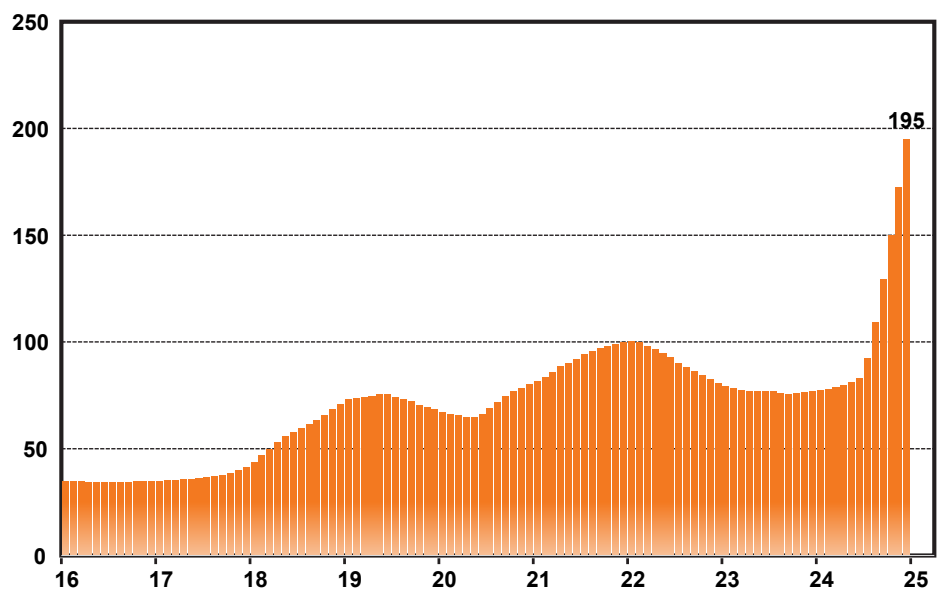
But perhaps the most important reason for the lack of retaliation is a dawning realization that the tariff regime put in place by Mr. Trump will long outlast his administration—and remain in force long after he's retired to play more golf. The rates and structure may well change, but it is hard to see how any successor government—Democratic or Republican—would roll tariff levels back to their 2024 baseline, especially when revenues are projected to add roughly \$3 trillion to government coffers over a ten-year horizon (Figure 47).

In a sense, focusing on tariff revenues misses the larger point: that there are deeper, fundamental reasons why the neoliberal order that prevailed since World War II—underwritten by America—is now on the cusp of radical change, not because Mr. Trump demands it, but because structural forces are set against it. Since World War II, the U.S. was the primary force behind the centrifugal push for radical trade liberalization—ushering in lower tariffs, the removal of export controls, and the dismantling of capital barriers. That worked well early on, when the U.S. was a net exporter. It was also tolerable when the trade balance turned negative but remained small and manageable, as was the case in the 1980s and 1990s. But over the past quarter century, America has run large, persistent, and widening trade deficits, which have eroded its manufacturing base (though some of this reflects productivity gains) and deepened inequality.

Perhaps the most important reason for the lack of retaliation is a dawning realization that the tariff regime put in place by Mr. Trump will long outlast his administration—and remain in force long after he's retired to play more golf.

Focusing on tariff revenues misses the larger point: that there are deeper, fundamental reasons why the neoliberal order that prevailed since World War II—underwritten by America—is now on the cusp of radical change, not because Mr. Trump demands it, but because structural forces are set against it.

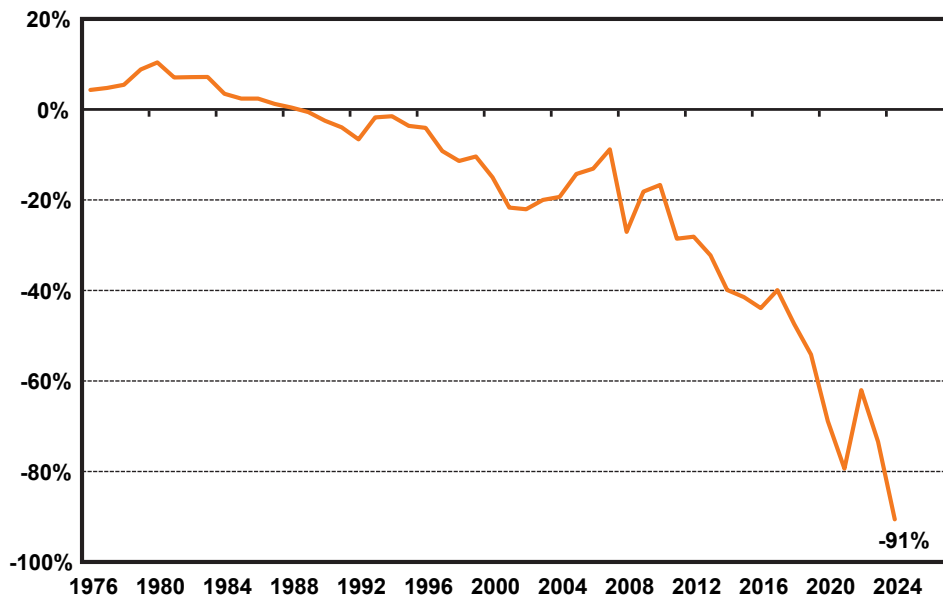
FIGURE 47
Tariff Revenues Are Through the Roof
 (billions of dollars, 12-month cumulative sum)



The flip side of wide trade deficits is large and growing capital inflows. The U.S. imports goods and exports financial claims—leaving the country with deep financial obligations to the rest of the world. As of the second quarter of 2025, the U.S. net international investment position (NIIP)—the difference between U.S.-owned foreign assets and foreign-owned assets in the United States—stood at $-\$26.14$ trillion, or roughly 91% of GDP, up from just 14% in 2000 (Figure 48). No country in modern history has sustained a foreign liability position of this magnitude. Even the Peterson Institute for International Economics, one of the staunchest defenders of free trade, concedes that these figures are troubling: at some point, there must be at least an expectation that the U.S. will move toward surplus to maintain confidence in its ability to service its foreign debts.

As of the second quarter of 2025, the U.S. net international investment position (NIIP)—the difference between U.S.-owned foreign assets and foreign-owned assets in the United States—stood at $-\$26.14$ trillion, or roughly 91% of GDP, up from just 14% in 2000.

FIGURE 48
U.S. Net International Investment Position Has Widened Dramatically
(U.S. foreign assets minus U.S. foreign liabilities as percent of GDP, ratio)



Up until recently, Americans could take comfort in the fact that their earnings on foreign assets far exceeded the payments owed to foreign investors (Figure 49). That's because U.S. assets abroad consist largely of direct investments and equities, while foreign holdings in the United States have been concentrated in low-yielding Treasuries. But last year, for the first time this century, America paid more to foreign holders than it earned abroad—in part because of higher interest rates, and in part because of its own success: the U.S. stock market has outperformed its global counterparts by a wide margin. The fact that the country maintained

FIGURE 49
U.S. Owes More to Foreigners than What it Receives From Abroad
(net investment income, billions of dollars)



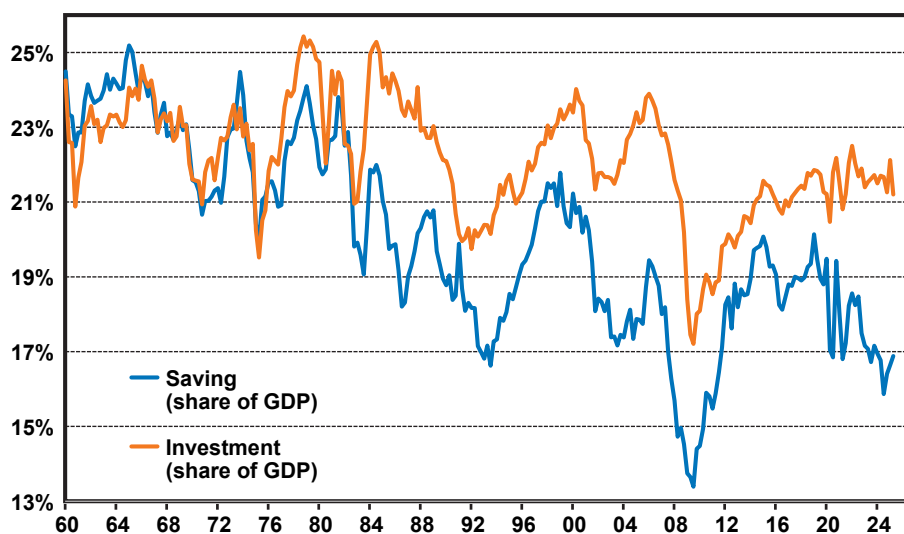
a positive net investment income for decades despite a yawning and growing negative net international position speaks to the “exorbitant privilege” of issuing the world’s reserve currency—it allows the country to borrow at extremely low rates.

But even that “exorbitant privilege” is looking increasingly like an “exorbitant burden.” At the end of World War II, the U.S. accounted for 60% of global output. By 1960, that figure had dropped to 40%. Today, it hovers around 24%. As emerging markets expand, America’s global footprint will likely shrink further, gradually aligning with its share of the world’s population. This shift creates a profound tension at the heart of the global order—and America’s role within it. As the issuer of the world’s reserve currency, the U.S. must supply an ever-expanding global economy with the dollar liquidity it needs to function, even as its relative weight within the global economy shrinks. Doing so requires running persistent trade deficits—just as its capacity to sustain them is eroding.

America consumes too much and saves too little, while much of the rest of the world—China in particular—suffers from the opposite affliction.

At the heart of this fundamental imbalance lies an uncomfortable truth: America consumes too much and saves too little, while much of the rest of the world—China in particular—suffers from the opposite affliction. The United States invests about 22% of GDP, roughly in line with the average for advanced economies. But it saves only 17% of GDP, well below the 23% average for high-income countries (Figure 50). The difference is the capital the country must import—\$1.3 trillion as of the second quarter. Large inflows of foreign investment have underwritten America’s extraordinary growth over the past five decades, but at the cost of mounting foreign liabilities.

FIGURE 50
The Yawning Gap: U.S. Saves too Little
(saving and investment, percent of GDP, ratio)

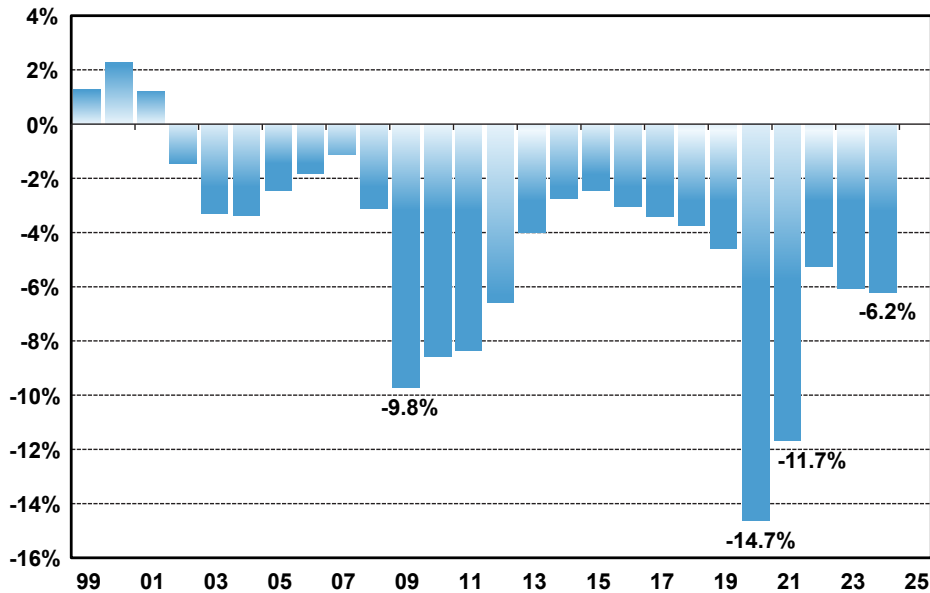


This lopsided outcome should come as no surprise: the financial architecture of the U.S. economy—and its tax code—heavily reward consumption while punishing saving. Savings are taxed heavily, including corporate income, interest, dividends, and capital gains—while consumption is lavishly subsidized. Home mortgages, and now car loans, receive preferential treatment. Direct transfers such as food assistance, farm subsidies, and social programs further encourage spending.

Which brings us to the main culprit: budget deficits. America’s external vulnerability is inextricably linked to its fiscal fragility. The NIIP has widened sharply since 2013, as the federal government seized the chance to borrow cheaply during an era of rock-bottom interest rates—and spend freely, sending checks to households and fueling yet more consumption. Budget deficits have not fallen below 5% of GDP since the pandemic; in fact, they’ve expanded by more than 6% over the past two years, even as the economy remained solid (Figure 51). By most estimates, a one-percentage-point reduction in the fiscal deficit typically narrows the current-account deficit by about half a point—a stark reminder that America’s twin deficits are two sides of the same coin.

America’s external vulnerability is inextricably linked to its fiscal fragility. The NIIP has widened sharply since 2013, as the federal government seized the chance to borrow cheaply during an era of rock-bottom interest rates—and spend freely, sending checks to households and fueling yet more consumption.

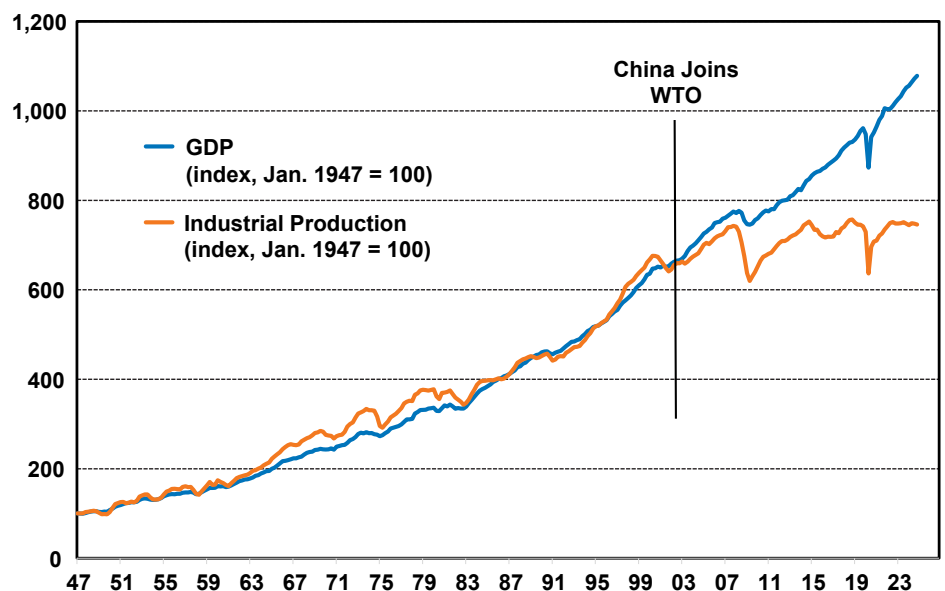
FIGURE 51
The Real Culprit: Fiscal Deficit
(federal budget deficit, percent of GDP, ratio)



So, much of the pain is self-inflicted. But this explanation appears to be woefully inadequate, because it overlooks America's deeper anxiety: the rise of China—which it sees not merely as a strategic competitor, but as a mounting threat to U.S. manufacturing, national security, and, above all, its global hegemony. The two countries are mirror opposites: While the United States overconsumes, China is awash in overproduction. Many of America's economic woes did not originate with China's entry into the World Trade Organization (WTO), but they were deeply exacerbated by it. Since China's accession to the WTO in 2001, America has lost roughly six million manufacturing jobs—about a third of which can be directly attributed to trade with China (the rest largely due to productivity gains). U.S. GDP has continued to rise, but industrial production has flatlined, widening the gulf between returns to labor and returns to capital, and fueling inequality (Figure 52). The trade deficit has remained above 4% of GDP—save for a few brief exceptions—since 2002.

Thus, a reckoning of sorts is now taking place between the two global powers. The U.S. is seeking to preserve its global dominance, uphold the dollar's primacy as the world's reserve currency, rebalance the global order toward greater domestic production, and keep the international system anchored in a U.S.-centric orbit—as it has been for the past seven decades. It can no longer do so through the neoliberal order it built after World War II—premised on open markets, free movement of capital, and rules-based globalization—because

FIGURE 52
The Silence of the Plants
(industrial production and GDP, index, 1947=100)



China, while profiting immensely from that system, has charted a path of its own: neither liberal, nor open, nor free. For decades, American policymakers assumed that economic integration would lead to political convergence—that a wealthier, more globally connected China would eventually come to resemble the liberal democracies of the West in both governance and values. The opposite has occurred. In many respects, the U.S.—the preeminent liberal democracy—is now responding to competition from a state that is neither Western, liberal, nor democratic by mirroring its economic practices back to it: a form of neo-mercantilism, if you will.

Many have dubbed this period the *Fourth Turning*—a term coined by historians William Strauss and Neil Howe to describe the cyclical rhythm of generational change that unfolds roughly every 80 to 100 years. It marks a time when the existing order frays, trust in institutions erodes, and society enters a phase of upheaval and radical reform—an effort to confront the imbalances and unresolved crises accumulated over the previous cycle, which the current order can no longer adequately address.

According to this theory, the current cycle began with the Global Financial Crisis: We are now in its final inning. America's previous Fourth Turnings brought radical transformation: the Revolution, the Civil War, and the Great Depression–World War II era. Each tested a different pillar of the nation's identity: the Revolution tested its birth, the Civil War its unity, and World War II its global role. This time, the struggle centers on America's place in the world—whether it can maintain its dominance and hegemony. It's all a little too neat, for our taste, and perhaps a touch too dramatic—after all, every prior Fourth Turning ended in war. Still, there is something compelling in the notion that the current global trade and financial architecture has outlived its usefulness—and may now be headed for a radical reconfiguration.

Enter the Trump administration. As it unconventionally chops and churns through its second term, its impulse has been to upend what it sees as ossified orthodoxies. It has done so by wielding statecraft in place of conventional economic policy—deploying economic (monetary, fiscal, trade), political, and even military tools to advance not just economic aims but also foreign-policy goals. The objective is not to merely trim a few trade deficits here or spur some investment there, but to pursue a “grand macro strategy” that seeks to address many of the current challenges, chiefly China's rise, though the strategy itself is rife with some inevitable inherent contradictions. Perhaps the closest articulation of a Trump doctrine came from Secretary of State Marco Rubio: “Every dollar we spend, every program we fund, every policy we pursue must be justified by one of three questions: Does it make America safer? Does it make America stronger? Does it make America more prosperous?”

The platform itself is a panoply of distinct American traditions in statecraft—a renewed Monroe Doctrine, a reverse Marshall Plan, and a modern Manhattan Project (not for the atom, but for the algorithm)—all infused with a heavy dose of dirigisme.

Take the Monroe Doctrine first. Originally conceived to keep European powers out of the Western Hemisphere, it has been repurposed to counter China's growing presence in the region. The first front is the creation of a “*Fortress North America*”—though you'd hardly know it from the less-than-friendly language the administration has sometimes reserved for its neighbors. But even here, things are not as dire as they appear. The eye-watering tariff rates—25% on Mexico and 35% on Canada—are only statutory; the effective rates are much lower, averaging around 10% for Mexico and 11% for Canada. And the actual rates, calculated from customs duties, are lower still: 7.6% for Mexico and 6.7% for Canada. More importantly, these tariffs are designed not necessarily to punish, but to renegotiate the USMCA on more favorable terms for the U.S.—chief among them

In many respects, the U.S.—the preeminent liberal democracy—is now responding to competition from a state that is neither Western, liberal, nor democratic by mirroring its economic practices back to it: a form of neo-mercantilism, if you will.

Enter the Trump administration. As it unconventionally chops and churns through its second term, its impulse has been to upend what it sees as ossified orthodoxies. It has done so by wielding statecraft in place of conventional economic policy—deploying economic (monetary, fiscal, trade), political, and even military tools to advance not just economic aims but also foreign-policy goals.

The platform itself is a panoply of distinct American traditions in statecraft—a renewed Monroe Doctrine, a reverse Marshall Plan, and a modern Manhattan Project (not for the atom, but for the algorithm)—all infused with a heavy dose of dirigisme.

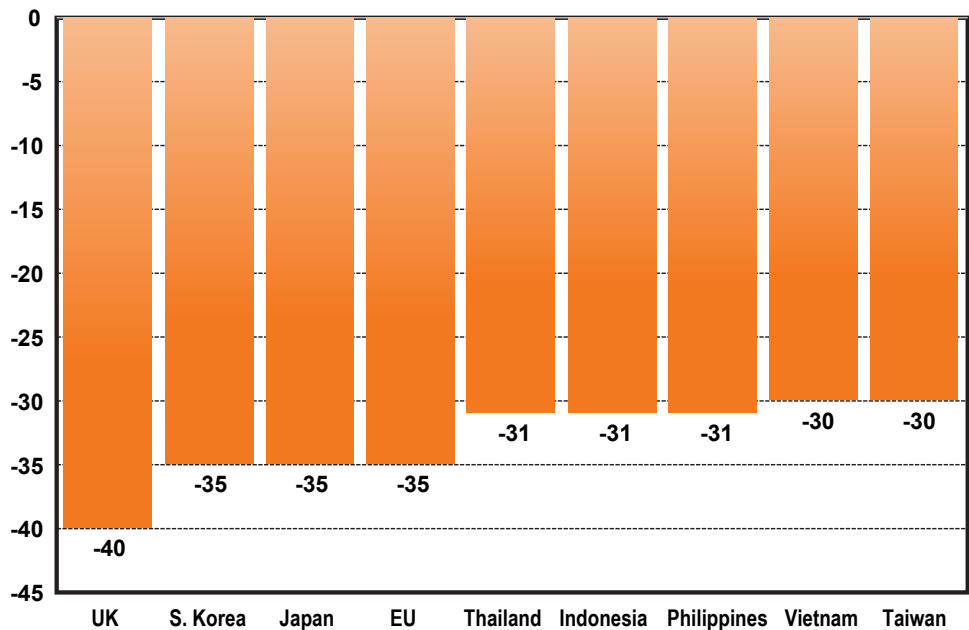
a crackdown on transshipments (mostly from China) and the possible creation of a common external tariff against China. Mexico has already moved in that direction: its Congress is reviewing a proposal to impose a 50% tariff on Chinese imports. Canada has likewise raised tariffs on Chinese steel and aluminum.

Look elsewhere, and the rest of Latin America is also treated with a lighter touch. Most countries face only the 10% universal tariff, in sharp contrast to Southeast Asia, where rates generally range from 19% to 41%. Even “unfriendly” regimes such as Bolivia, and officially “hostile” ones like Venezuela, are subject to tariffs of just 15%. U.S. pressure on Panama recently culminated in a BlackRock-led purchase of its ports from a Hong Kong firm, and Panama has since withdrawn from China’s Belt and Road Initiative. Argentina is getting a lifeline through a \$20 billion currency swap with the nation’s central bank. The lone outlier is Brazil, where the original 10% rate has soared to 50%—likely a reflection of its role within BRICS. Still, recent talks between President Trump and President Lula suggest that those tariffs may soon be renegotiated downward.

Though subtle, the new tariff regime is designed to chip away—bit by bit—at China’s growing role in the global economy and its deep entanglement in global supply chains. When first announced, reciprocal tariffs followed a curious formula ostensibly intended to balance bilateral trade deficits. But over time, they have morphed into more overtly geopolitical fault-lines—levels calibrated to isolate China through a *with-us-or-against-us* trade divide (Figure 53). China still bears the highest tariff rate in the world. Across Asia, all partners—except for India—face tariff rates less than half those imposed on China (sometime by a wide margin). Yet in its new trade deals, the United States has insisted on a 40% tariff on transshipments, aimed primarily at Chinese goods. Its agreement with the European Union goes even further, explicitly committing to ring-fence the transatlantic metals market against the threat of “overcapacity”—a not-so-subtle dig at China.

Though subtle, the new tariff regime is designed to chip away—bit by bit—at China’s growing role in the global economy and its deep entanglement in global supply chains.

FIGURE 53
It Was Always About China: Tariff Differentials with China
(statutory tariffs, difference against China)



Some of the realignment away from China is unfolding organically, driven by the vacuum created as the United States imports fewer Chinese goods. As the avalanche of Chinese products floods European and Southeast Asian markets, countries are being forced to respond by erecting their own tariff walls. Many have imposed higher duties on Chinese exports and expanded the scope of anti-dumping measures. The European Union—long the preeminent defender of the liberal trading order—is now buffeted by both Chinese mercantilism and Trump’s tariffs. Yet while the latter grab headlines, it is the former that poses the far greater threat. Recognizing this, Brussels raised tariffs on steel to 50% this month, following its 100% duties on Chinese EVs last year. And more is likely to come. As French President Emmanuel Macron put it: *“What we started with the Chinese EVs, what we follow with steel today, we have to do sector by sector.”*

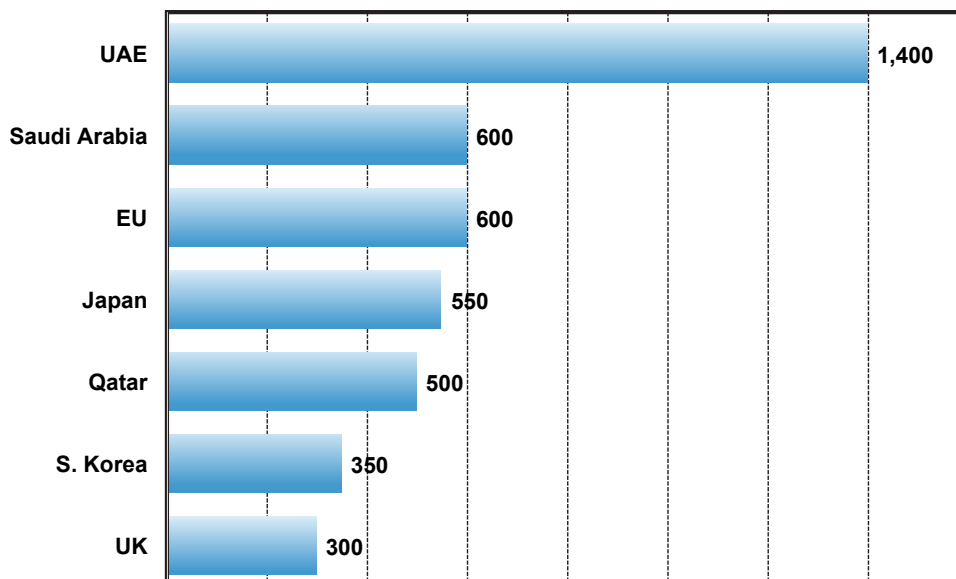
As the avalanche of Chinese products floods European and Southeast Asian markets, countries are being forced to respond by erecting their own tariff walls.

Not all has gone according to plan. Efforts to peel Russia away from China—and to bring an end to the war in Ukraine—have been painfully obvious and also painfully unsuccessful. The 50% punitive tariffs on India and Brazil, intended to draw them closer into the U.S. orbit, have clearly backfired, instead strengthening the BRICS bloc. The \$100,000 H-1B visa fee, which disproportionately affected Indian applicants, along with Washington’s handling of the brief India–Pakistan conflict earlier this year—which displeased India—have further soured relations between the two countries. Nonetheless, relations with Brazil and India are likely to improve going forward. We are far less sanguine, however, about the prospects for ending the war in Ukraine.

The second plank of the agenda— a kind of Marshall Plan in reverse— rests on the notion of “once we built you, now you build us.” Mr. Trump has extracted a series of extraordinary investment pledges from America’s key trading partners, all explicitly aimed at building in America. The UAE has committed \$1.4 trillion over the next decade to AI infrastructure, semiconductors, energy, and manufacturing. Saudi Arabia has pledged \$600 billion; the European Union, another \$600 billion; Japan, \$550 billion; South Korea, \$350 billion; and the United Kingdom, \$300 billion (Figure 54).

The second plank of the agenda— a kind of Marshall Plan in reverse— rests on the notion of “once we built you, now you build us.”

FIGURE 54
A Bonanza of Pledged Investments
(billions of dollars)



Some of these are loose commitments, others involve private firms backed by public funds. It's likely that far fewer will materialize than the headline figures suggest. No matter: even if only a fraction comes to fruition, it would still deliver a meaningful boost to U.S. growth. After all, direct foreign investment is a far more potent engine than merely holding U.S. Treasuries— which finances debt but does little to expand the nation's productive capacity.

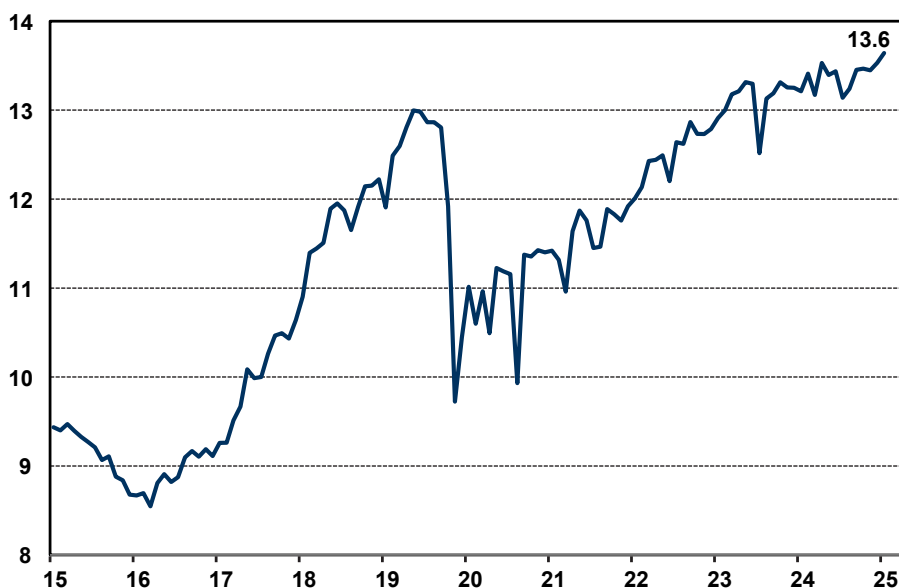
A modern Manhattan Project for AI is also aimed squarely at China, which has made artificial intelligence the centerpiece of its “Made in China 2030” strategy. It has become painfully clear that whoever leads in AI will shape the global balance of power for decades—not only because of its enormous economic potential, but also because it has become a national security imperative. The Trump administration has wholeheartedly embraced the AI revolution, in a sharp break from its predecessor. It has streamlined regulations for data center construction and directed the Federal Trade Commission to dismantle rules that impede AI development and deployment. It also rescinded a Biden era executive order requiring companies to notify the government when developing models posing health, economic, or national-security risks, and lifted restrictions on the number of advanced chips U.S. firms can export abroad. The logic is straightforward: if friendly nations depend on American chips and software, they will, in turn, rely on American ecosystems—not Chinese ones—for their own AI needs.

Energy lies at the backbone of the AI revolution. Training and running large-scale AI models—alongside the rapid expansion of hyperscale data centers—require copious amounts of electricity, orders of magnitude greater than traditional cloud computing. Energy production, accordingly, sits at the center of the administration's “grand macro strategy,” encapsulated in Treasury Secretary Bessent's 3-3-3 plan: 3% growth, 3% budget deficits, and 3 million additional barrels of oil per day. The first target remains uncertain, but the administration is clearly falling short on the other two. As of January, domestic oil production is up by just 200,000 barrels per day—a far cry from the original goal—due in part to lower oil prices, which, while a boon for consumers and the broader economy, are incompatible with ramping up U.S. production (Figure 55).

But there is cause for optimism. Though the administration has largely shunned traditional green energy sources such as solar and wind, the OBBBA is unexpectedly generous toward other forms of clean power—most notably nuclear, geothermal, fuel cells, and linear generators. Nuclear energy, in particular, is undergoing a virtual renaissance: Trump has called for quadrupling domestic capacity to 400 GW by 2050—an extraordinarily ambitious and likely unrealistic goal. The OBBBA showers the industry with generous tax credits and subsidies. Both red states and blue states are embracing the push: New York, which shuttered a nuclear plant in 2021, wants the state-owned utility to build a new one.

A modern Manhattan Project for AI is also aimed squarely at China, which has made artificial intelligence the centerpiece of its “Made in China 2030” strategy.

FIGURE 55
U.S. Oil Production is Constrained by Oil Prices
(crude oil production, millions of barrels per day)



Though the administration has largely shunned traditional green energy sources such as solar and wind, the OBBBA is unexpectedly generous toward other forms of clean power—most notably nuclear, geothermal, fuel cells, and linear generators.

The administration is also intent on preserving the dollar's primacy as the world's reserve currency. It has threatened to impose 100% tariffs on BRICS nations that continue to pursue de-dollarization, develop an alternative reserve asset, or promote non-dollar trade. At the same time, it argues that America has borne a disproportionate cost in supplying dollars and Treasuries to the world—assets that underpin the global financial system—even as its own heft (as share of global output has shrunk over time. The result, in its view, has been a persistent currency overvaluation, which in turn has fueled chronic trade deficits and hollowed out the manufacturing base. This, of course, is only a partial reading of the story—given the structural imbalances discussed earlier—but it helps explain why the administration believes some form of burden-sharing is both justified and long overdue.

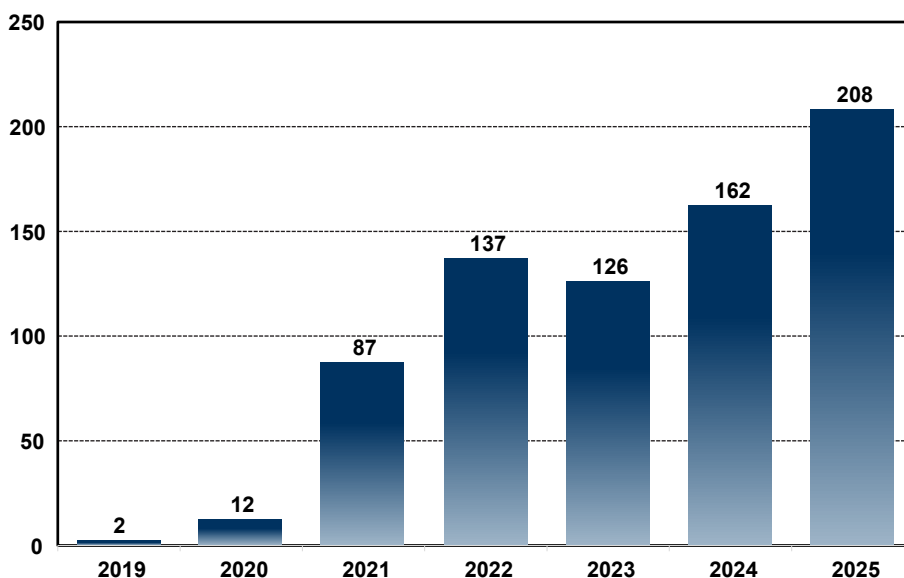
The most straightforward path would be a “Mar-a-Lago Accord”—a grand bargain reminiscent of the 1985 Plaza Accord, under which America's partners, in exchange for U.S. security guarantees and continued access to U.S. markets, agreed to strengthen their currencies against the dollar. It is hard to see, however, how China would agree to such a deal, as it would strike at the very core of its growth model—export-led expansion. China also knows its history: Japan, the main target of the original rebalancing, fell into a decades-long stagnation soon after the Plaza Accord. What remains, then, is a different form of burden-sharing—one built on increased purchases by foreigners of American goods and investment in U.S. factories—precisely what the tariff framework and its accompanying trade deals aim to accomplish. Whether all will work out to plan, remains to be seen.

But perhaps the most potent instrument of economic statecraft aimed at securing dollar supremacy lies in dollar stablecoins (Figure 56). This summer, Congress passed the Guiding and Establishing National Innovation for U.S. Stablecoins (GENIUS) Act. “*They named it after me,*” joked Mr. Trump as he signed it. Stablecoins—cryptocurrency tokens backed by safe assets such as short-term Treasury bills or U.S. dollars—have the potential to boost global demand for Treasuries and lower U.S. borrowing costs. That would be a boon for America's fiscal position—but only if demand comes from abroad as domestic demand reshuffled from, say, money markets merely transfers funds from one vehicle invested in short term bonds to another. Moreover, if stablecoins were used to settle U.S. imports, or adopted by Arab Gulf states for energy transactions, it would further cement the dollar's global dominance while making America's fiscal deficits easier to finance.

What remains, then, is a different form of burden-sharing—one built on increased purchases by foreigners of American goods and investment in U.S. factories—precisely what the tariff framework and its accompanying trade deals aim to accomplish.

Stablecoins—cryptocurrency tokens backed by safe assets such as short-term Treasury bills or U.S. dollars—have the potential to boost global demand for Treasuries and lower U.S. borrowing costs.

FIGURE 56
StableCoin Surge
(average supply of Stablecoins in circulation, billions)



The Grand Agenda is infused with a heavy dose of dirigisme—a revival of state-guided capitalism, a not-so-subtle meddling in free markets, and an unabashed wading into the corporate world. The low-touch government of the Reaganites and the wholehearted faith in free markets of the Friedmanites are decidedly on the outs; a strong executive hand on the tiller of nearly every sector of the economy is very much in. China calls its hybrid model “socialism with Chinese characteristics.” What’s on offer these days in America is a softer version—call it “managed capitalism, star-spangled edition.”

Examples of Trump-style “managed capitalism” are everywhere. The U.S. government now holds a “golden share” in Nippon Steel; takes a 15% cut of Nvidia and AMD’s chip sales to China; and owns a 10% stake in Intel. The Pentagon has become the largest shareholder in rare-earth producer MP Materials, investing \$400 million in the company, and the newly rechristened Department of War has issued a \$150 million loan to expand rare-earth mining at Mountain Pass, California. Just last week, the administration took an equity stake in Lithium Americas, restructuring its federal loan to fund the company’s Nevada mining project.

Mr. Trump has also waded into pharmaceuticals. The administration recently negotiated lower prices with Pfizer in exchange for tariff relief on its imported drugs, and launched *TrumpRx*—a new federal website through which the public can purchase discounted medications directly. Corporate intimidation has become a feature, too: Coca-Cola quietly changed its sugar source after being singled out by the president, and Cracker Barrel abandoned its new logo following a public rebuke.

But Mr. Trump is no socialist. He seems to have a genuine admiration for capitalism and a wholehearted embrace of profits. He simply believes capitalism works best when he’s the one telling CEOs and shareholders what to do. And some degree of state meddling can be tolerable when markets fail to deliver optimal outcomes or when supply chains—especially those tied to national security—are at risk.

On this basis, investing in domestic chipmaking is justified; at this stage, it may be too late to rely on market forces alone. The U.S. also urgently needs its own rare-earth mining and processing capabilities, having fallen dangerously behind and become heavily dependent on China—a vulnerability the latest trade escalation has laid painfully bare. Moreover, American firms that mine and process critical minerals must compete against Chinese counterparts operating under far looser environmental standards. Surviving in a world of mercantilist adversaries may well require a different playbook—but the scope of government entanglement must remain exceedingly narrow. Otherwise, America risks sliding down a very slippery slope.

As one would expect given its expansive scope, this grand agenda is riddled with some contradictions. The Trump administration insists that China should produce less and consume more, while America should produce more. But there’s a final corollary to this logic—one that would truly rebalance the savings-investment gap that has plagued the U.S. economy for half a century: Americans, too, would have to consume less. Perhaps this is what Trump had in mind when he quipped that “*maybe children will now have two dolls instead of thirty.*” But as current-account and fiscal deficits are deeply intertwined, what’s blowing out America’s external balance isn’t the number of dolls in children’s playrooms—it’s Uncle Sam’s own spending spree.

But Mr. Trump has shown little interest in fiscal discipline—now or during his first term. America’s budget deficit is projected to remain above 5% of GDP for the entirety of his time in office. The OBBBA will add roughly \$3.4 trillion to the deficit over the next decade, and even after accounting for tariff revenues—assuming current rates hold—the shortfall is still expected to run between \$500 billion and \$700 billion. A simultaneous aversion to trade deficits and wholehearted embrace of government deficits are fundamentally inconsistent.

The Grand Agenda is infused with a heavy dose of dirigisme—a revival of state-guided capitalism, a not-so-subtle meddling in free markets, and an unabashed wading into the corporate world.

What’s on offer these days in America is a softer version—call it “managed capitalism, star-spangled edition.”

Surviving in a world of mercantilist adversaries may well require a different playbook—but the scope of government entanglement must remain exceedingly narrow. Otherwise, America risks sliding down a very slippery slope.

But Mr. Trump has shown little interest in fiscal discipline—now or during his first term. America’s budget deficit is projected to remain above 5% of GDP for the entirety of his time in office.

A simultaneous aversion to trade deficits and wholehearted embrace of government deficits are fundamentally inconsistent.

Other contradictions abound. The United States wants a weaker dollar to rebalance trade, boost domestic production, and increase exports—but at the same time, it needs a strong (or at least not collapsing) dollar to preserve its global status as the world's reserve currency. The administration also wants low energy prices—which it has largely achieved in its nine months in office—but that very success undercuts domestic energy production, which it is simultaneously trying to promote. U.S. producers in the Permian, Bakken, and Eagle Ford basins are already cutting back, as breakeven prices at these production sites hover around \$57–\$64 per barrel.

In one of the most brilliantly chaotic scenes of *The Naked Gun*, the city is literally overrun by animals set loose from a local zoo—thanks to Frank Drebin's own bumbling incompetence. The mayor, exasperated, scolds him: "Drebin, do you know that because of you, the city is being overrun by baboons?" To which Drebin, in his trademark deadpan that exposes both his and the world's comic disorder, replies, "Yes, but isn't that the fault of the voters?" Well, the voters have spoken—and the current administration seems determined to take its mandate seriously, even as it stretches its boundaries, adding its own flamboyant, expansive flair in the process.

Whether it will succeed in molding a new world order remains to be seen. But one can always hope. In the ever-memorable words of a love-stricken Drebin: "Jane, since I've met you, I've noticed things that I never knew were there before... birds singing, dew glistening on a newly formed leaf, stoplights." Let's hope that when the dust finally settles, the U.S. economy emerges with something resembling that improbable, almost euphoric jubilation—with every stoplight flashing green.

ORANGE COUNTY, SOUTHERN CALIFORNIA AND CALIFORNIA

California Angst

If the U.S. economy is being buffeted by powerful “Winds of Change” as our narrative above lays out, California is weathering hurricane-force gusts. The state’s challenges are extensive—some self-inflicted, others driven by seismic shifts in federal policy. Long known for its heavy regulatory hand, California now finds the weight of that system increasingly visible—and ever harder to ignore—across multiple sectors.

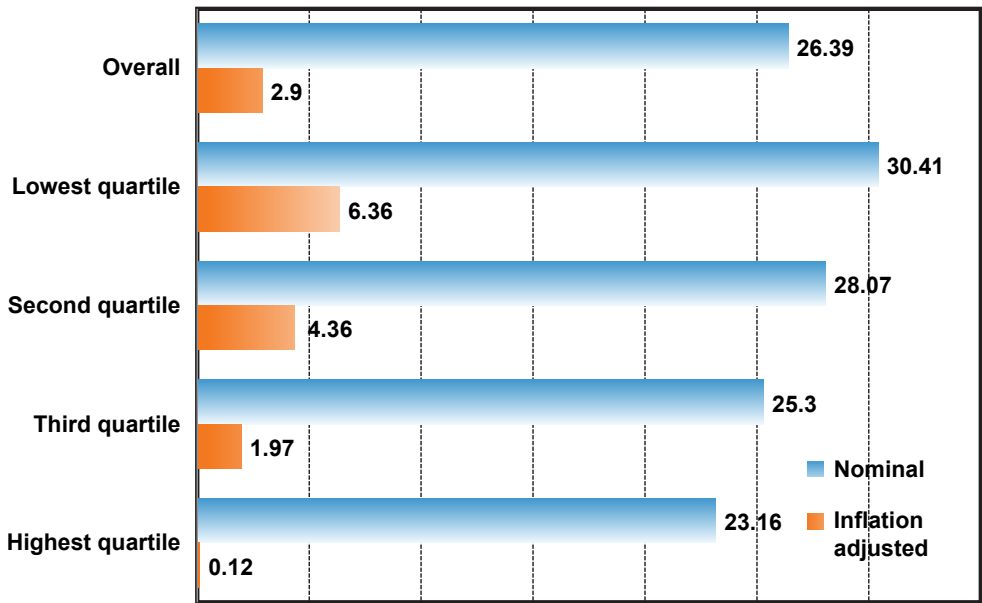
The recent departure of several large corporate headquarters—modest in number relative to the state’s vast business base—underscores a broader unease about the cost and complexity of doing business in California. Indeed, it reflects a growing sense of dissatisfaction among firms and residents alike. In the latest *Public Policy Institute of California Statewide Survey*, 69% of Californians said they expect bad economic times over the next year, and a majority believe the state is headed in the wrong direction. The top concerns are the cost of living, economic growth, inflation, and housing—essentially, everything that truly matters.

Given the sizeable pay hikes secured in recent years—thanks in large part to tight labor markets—one would be forgiven for thinking that most Californians feel better about their finances. Alas, that is not the case—and for good reason. Adjusted for inflation, the picture looks far less rosy. Over the past five years, real wages have risen by only 2.9% overall, though gains have been somewhat stronger in the lower income quartiles—6.4% for the bottom 25% and 4.4% for the next quartile (Figure 57). Meanwhile, food prices are roughly 25% higher than before the pandemic, and Californians now spend more on groceries than residents of nearly every other state.

If the U.S. economy is being buffeted by powerful “Winds of Change” as our narrative above lays out, California is weathering hurricane-force gusts.

Over the past five years, real wages have risen by only 2.9% overall, though gains have been somewhat stronger in the lower income quartiles—6.4% for the bottom 25% and 4.4% for the next quartile.

FIGURE 57
Not So Stellar After All: CA Wages Have Barely Kept Pace with Inflation
(percent change January 2020 - January 2025)



Household utility bills—particularly for electricity—have surged, even though Californians use less power than the national average. California gasoline prices also remain among the highest in the nation, reflecting a mix of elevated taxes, higher refinery costs for cleaner fuels, supply-chain constraints, and regulatory limits on oil production. These higher prices weigh especially heavily on lower-income households, which devote a larger share of their income to fuel than higher-income groups.

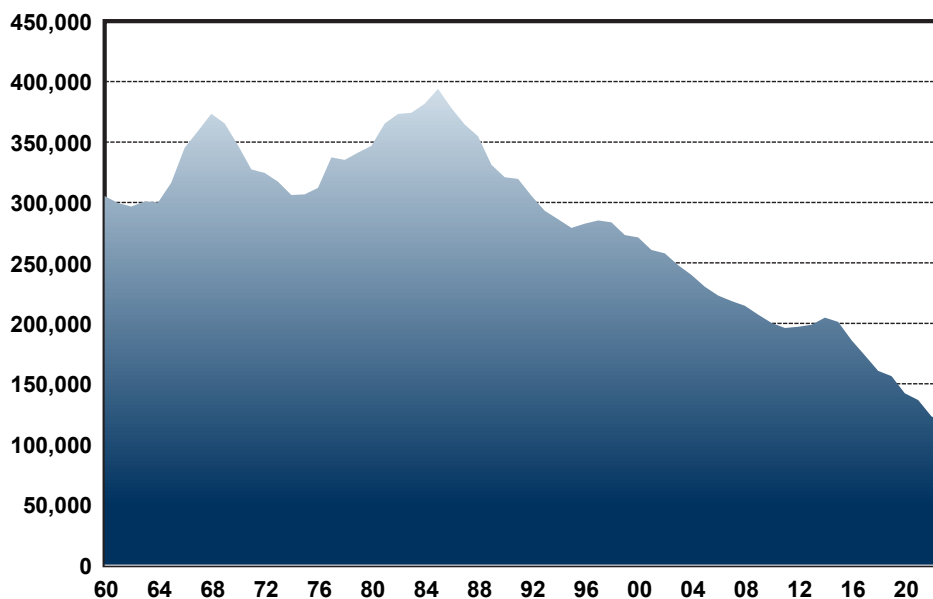
While California has made impressive strides in renewable energy, its traditional fuel supply—oil refining—is under mounting pressure. Two major facilities—Valero in the San Francisco Bay Area and Phillips 66 in Los Angeles County’s South Bay—are slated to shut down, largely due to rising operating costs. California gasoline prices already average about a dollar per gallon above the national level, and these closures are expected to cut the state’s refining capacity by roughly 20%, potentially leading to further price increases and heightened volatility.

The state’s problems are not isolated incidents: they are deeply interconnected. This nexus spans climate change, wildfires, high insurance costs, elevated oil prices, constrained energy supplies, and strict environmental regulations. Over several decades, California has managed to improve air quality while steadily expanding energy production—from fossil fuels and, increasingly, from renewable sources. But that balance is coming under growing strain. Recent federal policy shifts have relaxed environmental rules on auto emissions and industrial pollution, while actively promoting fossil fuel use and scaling back support for renewables.

The Energy Question: A Step Forward

Confronted with this array of energy-related challenges, the state managed a modest—yet remarkable, by California standards—feat of political horse-trading. In September, lawmakers hurriedly enacted a comprehensive package of six bills allowing expanded oil exploration in Central California in exchange for tougher limits on offshore drilling and related activities. The new laws authorize up to 2,000 additional oil wells annually in the San Joaquin Valley over the next decade, even as they impose tighter restrictions on offshore production (Figure 58).

FIGURE 58
On a Downslide: CA Oil Production
(crude oil production, barrels per day)



California gasoline prices also remain among the highest in the nation, reflecting a mix of elevated taxes, higher refinery costs for cleaner fuels, supply-chain constraints, and regulatory limits on oil production.

Lawmakers hurriedly enacted a comprehensive package of six bills allowing expanded oil exploration in Central California in exchange for tougher limits on offshore drilling and related activities.

A central element of the package was a 15-year extension of California's landmark cap-and-trade program. Launched in 2013, the carbon-trading system puts a price on greenhouse gas emissions—the main drivers of climate change—by setting a strict cap on total emissions and allowing companies to buy and sell a limited number of permits. Large polluters can trade unused allowances at quarterly auctions, creating market incentives to reduce emissions. The program will now be renamed “Cap and Invest.” Its extension is critical to meeting California's ambitious climate goals—including carbon neutrality by 2045—while continuing to generate billions in revenue for climate initiatives.

Also included in the package was AB 825, which allows California to participate in a regional electricity market, expanding the state's ability to buy and sell clean power with other Western states. This strategic shift could enhance grid reliability and lower costs for ratepayers. Other provisions increase the climate credit on utility bills and strengthen wildfire safety by expanding oversight and enlarging the dedicated fund for wildfire readiness. In addition, the state energy commission has delayed until 2030 a previously approved cap on refiners' profits, while it continues to determine how best to implement last year's law requiring refiners to maintain minimum inventory levels and coordinate with regulators on monthslong maintenance schedules. Together, these measures represent a notable shift in the state's stance toward the oil industry, though they are unlikely to quickly ease California's acute gasoline challenges.

California's quest to “greenify” is also being thwarted by Washington. The state had adopted a ban on sales of gas-powered cars by 2035, but Congress blocked the measure earlier this year. While electric vehicles already account for one-quarter of new car sales in California, federal policies now make it unlikely that the state will achieve the full transition it once envisioned. As a result, gasoline demand in the near term will remain higher than state projections. This reality persists despite California's remarkable progress in renewable energy: The state ranks second only to Texas in total electricity generation from renewable sources, and it leads the nation in solar and geothermal power.

California's multi-pronged energy strategy will bear fruit over time, but electricity demand is surging—particularly in the high-tech sector. The state now finds itself in fierce competition with other regions for a share of the multi-billion-dollar infrastructure boom fueled by the explosion in AI-related demand. Yet this surge does little to diminish California's unmatched advantage: the concentration of intellectual property and innovation anchored primarily in Northern California.

California's budget remains weighed down by a structural deficit—a foundational problem the state has long papered over with patchwork fixes. But as the economic and policy landscape shifts, particularly at the federal level, those stopgaps are wearing thin. The state will soon be forced to make difficult choices, especially around the Medi-Cal program (its version of Medicaid program) and health insurance subsidies.

California Dreamin': Healthcare Woes

California has long prided itself on meeting the health needs of its residents—especially those at the lower end of the income scale and among immigrant communities, including the undocumented. Two years ago, buoyed by a budget surplus, the state expanded Medi-Cal coverage to undocumented residents. Over time, it has also broadened healthcare benefits for low-income and elderly populations.

California's quest to “greenify” is also being thwarted by Washington. The state had adopted a ban on sales of gas-powered cars by 2035, but Congress blocked the measure earlier this year.

California's multi-pronged energy strategy will bear fruit over time, but electricity demand is surging—particularly in the high-tech sector.

California's budget remains weighed down by a structural deficit—a foundational problem the state has long papered over with patchwork fixes.

The state will soon be forced to make difficult choices, especially around the Medi-Cal program (its version of Medicaid program) and health insurance subsidies.

Two years ago, buoyed by a budget surplus, the state expanded Medi-Cal coverage to undocumented residents.

The recently enacted federal “One Big, Beautiful Bill” Act (OBBBA) is poised to deliver a significant shock to California’s Medi-Cal program, potentially resulting in coverage losses for millions of residents and substantial funding cuts. The bill’s reductions and new requirements will fall most heavily on low-income individuals, people with disabilities, and immigrant communities.

The federal funding cuts alone amount to a staggering \$1 trillion reduction in Medicaid spending nationwide over 10 years, according to the Congressional Budget Office (CBO). California’s share of the loss is projected at \$28.4 billion annually (\$280 billion on a 10-year horizon). The bill also limits states’ ability to generate federal matching funds through taxes on managed care organizations (MCOs) and other healthcare providers—a change that could effectively eliminate California’s MCO tax and deliver a serious blow to the financial stability of its healthcare system. These cuts risk forcing hospital and clinic closures, especially in rural areas that rely heavily on Medi-Cal reimbursements (though hospital closures present a much higher risk in the heartland rather than in California). Furthermore, providers will face a sharp rise in uncompensated care costs.

The OBBBA introduces new mandatory requirements, including an 80-hour-per-month work or community engagement requirement for able-bodied adults without dependents. It also mandates semiannual eligibility reviews, requiring individuals enrolled through the Affordable Care Act (ACA) expansion to reverify their eligibility every six months instead of annually. These administrative hurdles are widely expected to cause many eligible individuals to lose coverage. In addition, a provision restricting the use of state funds for non-emergency care for undocumented immigrants is projected to reduce federal funding for California by \$4.4 billion.

The CBO estimates that the bill’s provisions could cause 10 to 12 million people to lose Medicaid coverage nationwide. In California, the governor’s office projects that as many as 3.4 million residents could lose Medi-Cal coverage. With less federal funding to fill the gap, the state may be forced to scale back optional benefits such as home- and community-based services (HCBS). Other provisions will weaken the Affordable Care Act (ACA) marketplace, driving up the state’s uninsured population. California’s already constrained budget leaves little room to offset the gaps created by OBBBA.

To comply with the new rules, California faces a series of difficult choices. The state may need to restructure its managed care organization (MCO) tax and other healthcare financing provisions or invest in enrollment systems to minimize coverage losses stemming from new work and eligibility verification requirements. It could also scale back optional benefits—such as dental, vision, hearing, and home- and community-based services—to reduce program costs. Another option would be to revisit recent coverage expansions, including Medi-Cal eligibility for low-income immigrants regardless of status. Finally, California could lower payment rates for providers and hospitals serving Medi-Cal patients, though this would likely reduce access to care, particularly in rural areas.

The health system faces a second, simultaneous threat: the potential expiration of enhanced federal health insurance subsidies at the end of 2025, which is the central issue in the current government shutdown. The enhanced premium tax credits, extended under the Inflation Reduction Act of 2022, are scheduled to expire on Dec. 31, 2025. If Congress fails to act, the lapse would trigger significant premium increases for many of the nearly 2 million Californians in the individual market who rely on Covered California for their insurance.

The state has a long history of offering unusually generous health insurance subsidies for lower-income groups. In 2020, it pioneered its own premium-assistance program to supplement federal subsidies, becoming the first state in the nation to do so. That program extended aid to middle-income consumers earning up to 600% of the federal poverty level (FPL). It was paused in

The federal funding cuts alone amount to a staggering \$1 trillion reduction in Medicaid spending nationwide over 10 years, according to the Congressional Budget Office (CBO). California’s share of the loss is projected at \$28.4 billion annually (\$280 billion on a 10-year horizon).

A provision restricting the use of state funds for non-emergency care for undocumented immigrants is projected to reduce federal funding for California by \$4.4 billion.

The CBO estimates that the bill’s provisions could cause 10 to 12 million people to lose Medicaid coverage nationwide. In California, the governor’s office projects that as many as 3.4 million residents could lose Medi-Cal coverage.

The health system faces a second, simultaneous threat: the potential expiration of enhanced federal health insurance subsidies at the end of 2025, which is the central issue in the current government shutdown.

2022 when the American Rescue Plan Act and later the Inflation Reduction Act introduced more generous federal subsidies, rendering the state's program temporarily unnecessary. But even with the enhanced federal support in place through 2025, California has continued to use state funds to provide additional affordability assistance. In 2024 and 2025, the state allocated substantial resources to reduce out-of-pocket costs for lower income Covered California enrollees. But with a budget already weighed down by structural deficits, California will be in no position to absorb the loss of federal subsidies once they expire.

California (Tough) Love: The State's Mounting Challenges

Beyond the high price of gasoline, rising electricity costs, and looming healthcare cutbacks, Californians now face another blow: soaring home insurance premiums in the wake of recent wildfires. Until recently, the state's home-insurance burden—the ratio of insurance cost to the total annual cost of homeownership—was among the lowest in the nation. But in recent years, insurers' costs have climbed sharply, and since 2022, seven of the 12 largest providers have scaled back coverage or exited the state altogether. The California FAIR Plan, the “insurer of last resort,” is typically more expensive and offers less coverage than private-market plans. Enrollment in FAIR has surged 115% since 2021, particularly in fire-prone regions of the Sierra Nevada and along the coast. Yet the plan itself is under severe financial strain and has recently requested a 36% rate increase.

Adding to this litany of troubles, the administration's deportation policies—discussed later in this report—are causing severe disruptions across California's agriculture, construction, and retail sectors. In short, the state faces difficult choices and will need strong leadership to weather the swarm of challenges ahead.

California Blue: Employment and Demographics

The post-pandemic recovery in the state and local economies has not been for the faint of heart. Since 2020, the state—and particularly Southern California—has struggled to regain its earlier growth momentum, falling behind the nation's stronger pace of job creation (Figure 59). U.S. payroll employment grew by 12.1% between 2020 and August 2025, compared with 10.9% for California and 10.0% for Orange and Los Angeles Counties. Within Southern California, only the Inland Empire surpassed the national rate, posting a robust 13.7% increase.

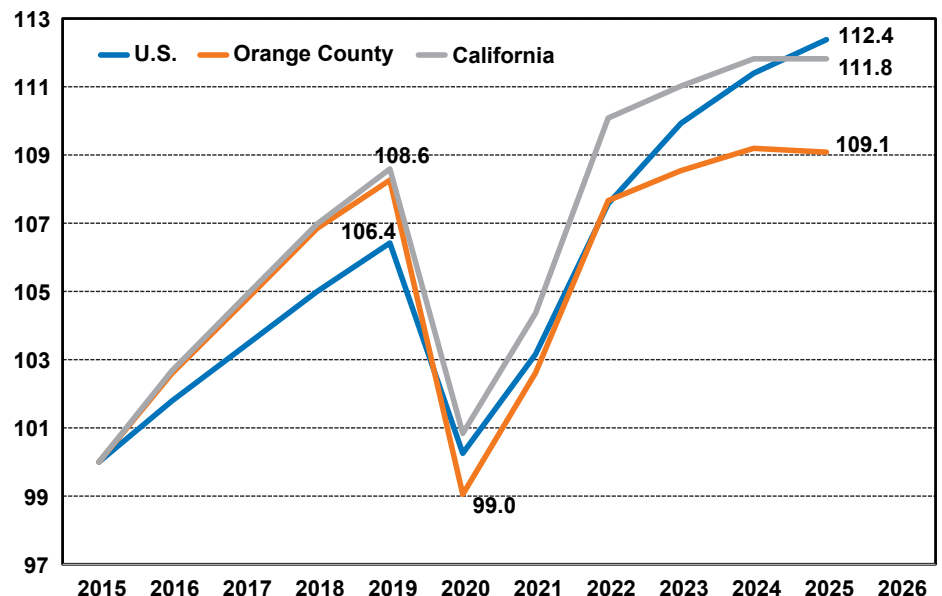
California's slower recovery over the past five years stands in sharp contrast to the robust growth seen before the pandemic. Between 2015 and 2019, U.S. employment expanded by 8.6%, while Orange County

Even with the enhanced federal support in place through 2025, California has continued to use state funds to provide additional affordability assistance.

Until recently, the state's home-insurance burden—the ratio of insurance cost to the total annual cost of homeownership—was among the lowest in the nation.

The post-pandemic recovery in the state and local economies has not been for the faint of heart. Since 2020, the state—and particularly Southern California—has struggled to regain its earlier growth momentum, falling behind the nation's stronger pace of job creation.

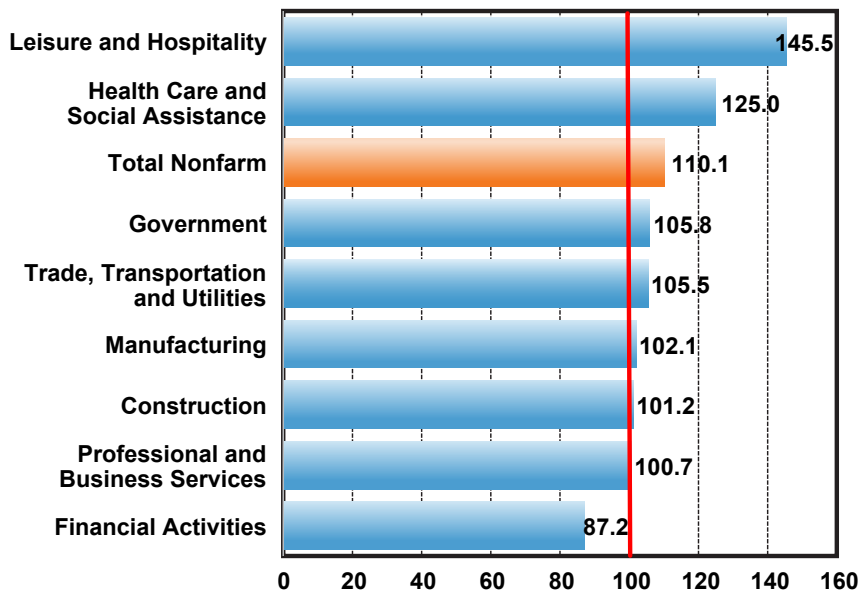
FIGURE 59
Falling Behind: OC and Lately CA Has Fallen Behind US on Job Creation
(cumulative job growth, Jan. 2015=100)



and California added a much stronger 11.9%. Los Angeles County, at 8.8%, roughly matched the national pace, but the Inland Empire was the standout performer with an astounding 20.4% gain in jobs (Figure 59).

To better understand this pattern, we took a closer look at sectors driving Orange County's job growth over the past five years. The results show that some of the county's largest industries have been notable laggards (Figure 60). Compared with overall payroll growth of 10.1%, the county's largest sector—Professional and Business Services, which accounted for 20.2% of total payroll jobs in 2020—expanded by only 0.7% between 2020 and 2025. The weakness was concentrated in the Administrative and Support Services, Waste Management and Remediation, and Management of Companies and Enterprises subsectors, which together explain much of the slowdown. The second-largest sector, Trade, Transportation, and Utilities (representing 15.9% of total jobs), added a modest 5.5% over the same period.

FIGURE 60
Many of the Orange County Top Sectors Have Added Fewer Jobs Since the Pandemic
(cumulative job growth, index, 2020=100)



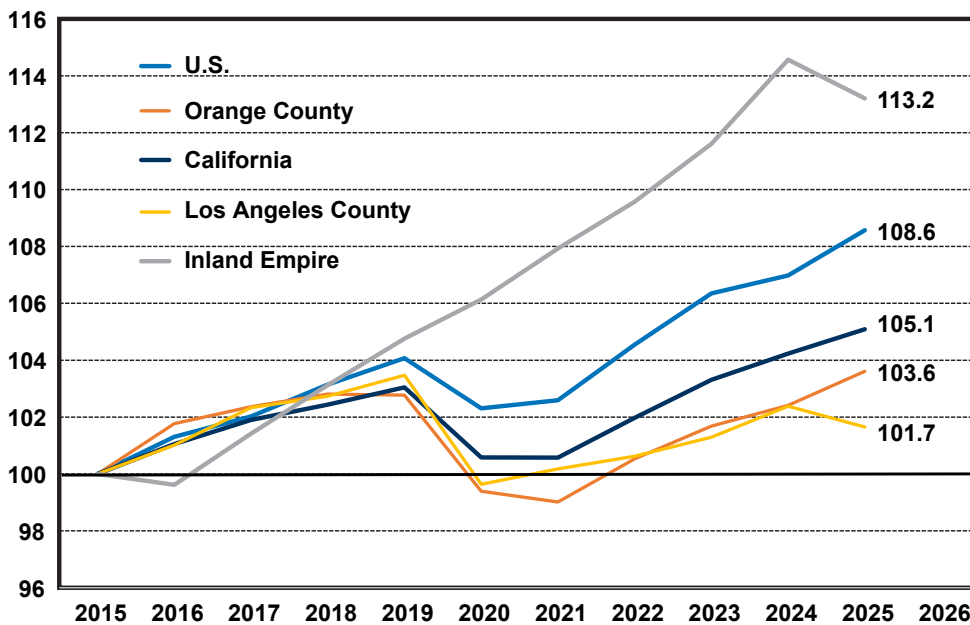
However, this weakness was partially offset by gains in other sectors. The third-largest industry, Health and Social Services (12.9% of total jobs in 2020), grew by 25%, while the fourth-largest, Leisure and Hospitality (10.6% in 2020), mounted a powerful rebound—expanding 45.5% as it recovered from the pandemic's severe blow. Both sectors now rank second and third, respectively, reflecting this astounding growth. Yet these impressive gains were tempered by the continued sluggishness in Manufacturing, Finance, and Government. This pattern of uneven growth was mirrored across Los Angeles County and the state as a whole. The Inland Empire, by contrast, stands out once again with an overall 13.7% increase, driven by solid gains across nearly all major sectors except Manufacturing and Financial Activities.

Labor market woes in the region extend to the labor force (Figure 61). The labor force—defined as the total number of people working or looking for work—shows a troubling divergence. Over the past decade, the U.S. labor force expanded by 8.6%, compared with only 3.6% in Orange County and 1.7% in Los Angeles County. It is worth noting that, before 2020, labor force growth rates were broadly similar across these areas: between 2015 and 2019, the U.S. labor force grew by 4.1%, Orange County by 2.8%, Los Angeles by 3.5%, the Inland Empire by 4.8%, and California overall by 3.0%.

Compared with overall payroll growth of 10.1%, the county's largest sector—Professional and Business Services, which accounted for 20.2% of total payroll jobs in 2020—expanded by only 0.7% between 2020 and 2025.

Over the past decade, the U.S. labor force expanded by 8.6%, compared with only 3.6% in Orange County and 1.7% in Los Angeles County.

FIGURE 61
Labor Force Growth is Also Languishing
(cumulative labor force growth, 2015=100)



California lost roughly 412,000 residents between July 2020 and July 2023, along with early retirements, changing occupational structures, and broader socioeconomic forces.

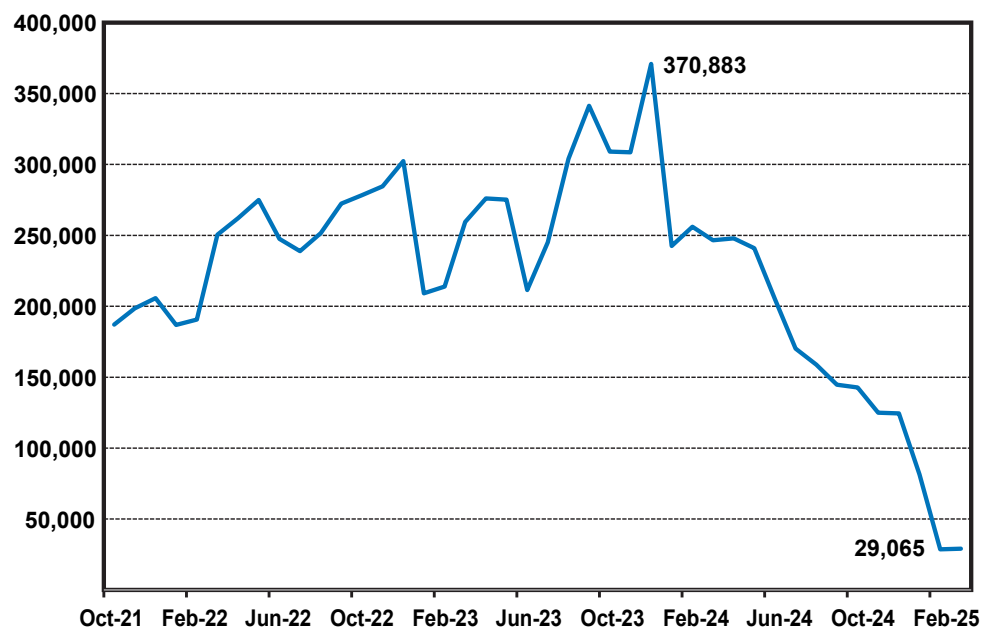
However, Southern California's labor force rebound since the pandemic has been notably anemic. Between 2019 and 2025, the U.S. labor force grew by 4.3%, compared with only 0.8% in Orange County and a 1.8% decline in Los Angeles County. California managed just 2.0% growth. Once again, the Inland Empire defied the trend, expanding its labor force by 8.1%, with only a slight dip during the pandemic.

After a surge in illegal immigration during the final three years of the Biden administration, the flow at the Mexican border has slowed to a trickle.

Though a full explanation remains elusive, several factors likely contributed: population and demographic shifts. California lost roughly 412,000 residents between July 2020 and July 2023, along with early retirements, changing occupational structures, and broader socioeconomic forces.

Labor force woes are likely to intensify as new immigration policies take effect and further restrict the inflow of workers. After a surge in illegal immigration during the final three years of the Biden administration, the flow at the Mexican border has slowed to a trickle (Figure 62). Monthly Border Encounters—an official term for apprehensions at the border—peaked at 269,735, with more

FIGURE 62
Border Crossings Have Slowed to a Trickle
(border encounters, level)



than 2 million encounters annually over each of the past three years. Under the current Trump administration crackdown, the flow has dropped to a fraction of those levels, with only 9,740 encounters recorded in August 2025. Even accounting for other crossings, overall immigration inflows remain at historic lows, and some projections suggest net migration could turn negative for the first time since the 1930s.

It is not only the near elimination of border immigration that will weigh on the labor force. The administration is also making it significantly more expensive for skilled workers to enter the U.S. The recently enacted \$100,000 annual fee for H-1B visas—a system that is in desperate need of reform—will nonetheless deter many of the roughly 130,000 new entrants each year. The impact will be particularly severe for universities and research institutions, where post-doctoral hires often earn modest salaries and are least able to absorb such costs.

These policies mark a dramatic shift in America’s approach to immigration—one that, if sustained, will have far-reaching effects on innovation and growth. Of the Magnificent Seven tech giants, four CEOs were born abroad, and three came to the U.S. through student or skilled-worker visa programs. More than half of farmworkers and a quarter of construction workers are migrants, many of them undocumented. In the near term, as deportation efforts intensify, many workers are reportedly failing to show up for work.

Interestingly, just as the immigrant influx of 2022–2024 helped produce the economy’s “soft landing,” bringing inflation down without triggering a recession, the current decline in immigration could keep unemployment low by offsetting weakening demand with tighter labor supply. Over the longer run, however, slower immigration will carry heavier costs: as the native population ages and expands more slowly, the economy risks losing both innovative capacity and productivity growth.

The recently enacted \$100,000 annual fee for H-1B visas—a system that is in desperate need of reform—will nonetheless deter many of the roughly 130,000 new entrants each year.

Fits and Starts: Housing and Homelessness

Beyond the labor market, California continues to grapple with its long-standing housing and homelessness crises. Housing remains the single largest expense for most residents, and home prices have soared as supply remains constrained, and the cost of ownership far exceeds that in much of the country. With homeownership increasingly out of reach, a greater share of Californians are renters—44%, compared with 35% nationally—and rents, particularly in coastal cities, are among the highest in the U.S. First-time buyers face steep monthly payments (Table 1), with housing costs consuming nearly half of their income. We have highlighted this issue for years—almost like a broken record—and there is still little relief in sight as supply stays tight and mortgage rates, though slightly lower than last year, continue to keep homeownership beyond reach for many young families.

With homeownership increasingly out of reach, a greater share of Californians are renters—44%, compared with 35% nationally—and rents, particularly in coastal cities, are among the highest in the U.S.

TABLE
First Time Buyer Housing Affordability Index
Q2:2025

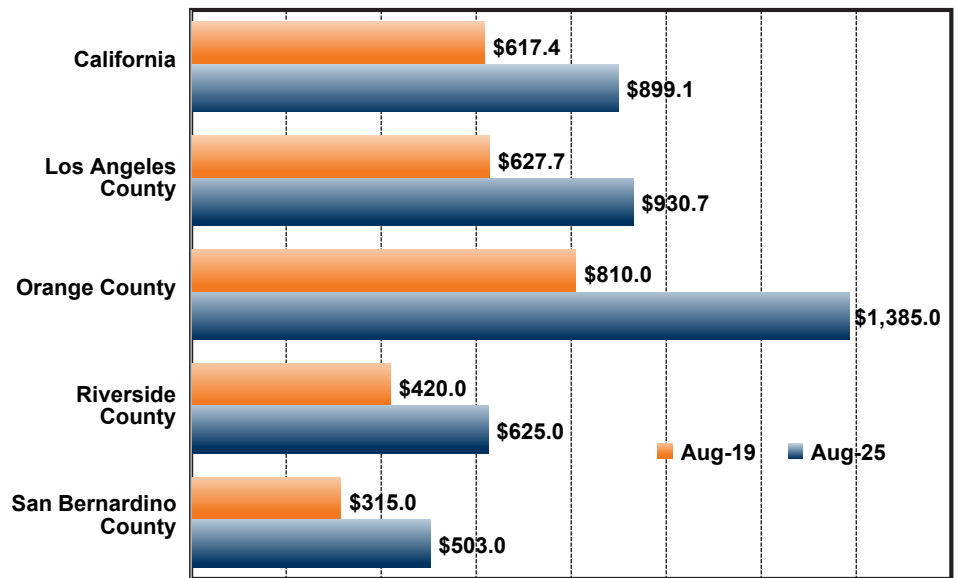
REGION	MEDIAN HOME PRICE	MONTHLY PAYMENT INCLUDING TAXES AND INSURANCE	MINIMUM QUALIFYING INCOME
California	\$417,350	\$2,760	\$82,800
Los Angeles County	\$769,830	\$5,100	\$153,000
Orange County	\$747,920	\$4,950	\$148,500
Riverside County	\$1,216,780	\$8,060	\$241,800
San Bernardino County	\$544,000	\$3,600	\$108,000
U.S.	\$364,990	\$2,420	\$72,600

In August 2025, the median price for a single-family home reached \$1,385,000 in Orange County, \$930,700 in Los Angeles County, \$625,000 in Riverside County, \$503,000 in San Bernardino County, and \$899,100 statewide (Figure 63). Since August 2019, these prices have risen by 71.0%, 48.3%, 48.8%, 59.7%, and 45.6%, respectively. By comparison, the average nominal wage in California over the past five years has risen only by a pitiful 26%.

There are, however, tentative signs that California's housing market is slowly edging toward a more balanced state. In Orange County, for instance, the median number of days on the market reached 32.5 in August 2025, about 8.5 days longer than it took to sell

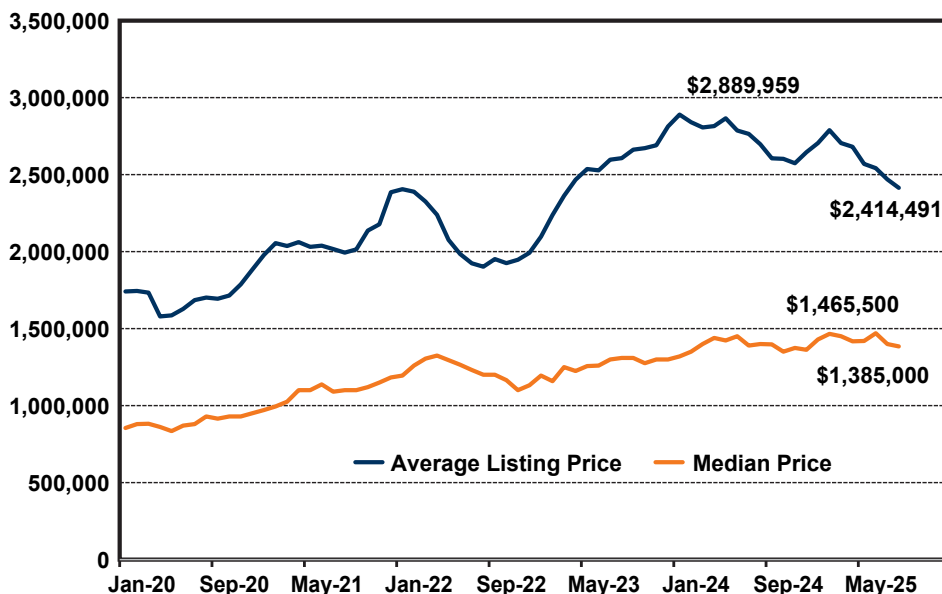
a home six years earlier, in 2019. Trends in both the median home price and the average listing price suggest that the county's market may be cooling after a five-year surge (Figure 64). Although the two measures come from different sources—Realtor.com for listing prices and the California Association of Realtors for median prices—and are not strictly comparable, together they indicate a clear moderation. The median home price fell 6.5% between February and August 2025, while the average listing price was 16.5% lower in August 2025 than at its peak in January 2024. A gradual increase in housing inventory accounts for part of this adjustment.

FIGURE 63
Up and Away: Median Home Prices Have Risen Dramatically Since COVID
(median price, thousands of dollars)



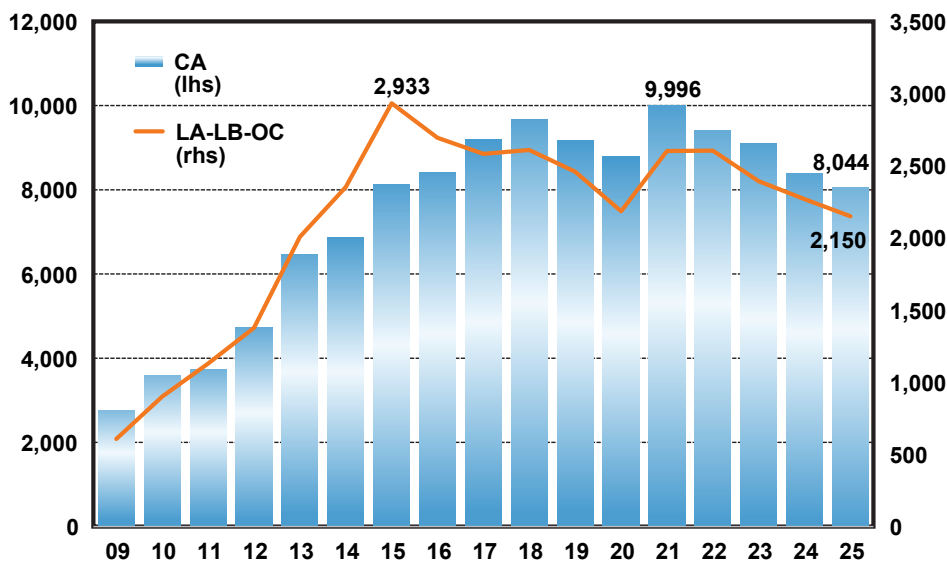
There are, however, tentative signs that California's housing market is slowly edging toward a more balanced state.

FIGURE 64
Clear Moderation in Orange County Home Prices in Recent Months
(listing and median price, level)



Housing construction in California—and particularly in Southern California—remains weak. After hitting bottom during the Great Recession of 2008–2009, building activity rebounded through 2016 in Southern California and 2018 statewide, though never regaining the highs of the late 1990s (Figure 65). A brief post-pandemic recovery followed, but the longer-term trend has been downward over the past decade. In Southern California, average monthly building permits for private housing fell from 2,933 in 2015 to 2,130 in 2025—a 27.4% decline. While complex building regulations have long constrained construction, high interest rates have also weighed on activity. More recently, tariffs on Canadian lumber and restrictions on immigrant labor have further added to builders' costs.

FIGURE 65
Housing Construction is Woefully Inadequate
(building permits, level)



California's fitful efforts to boost housing construction have recently shown some glimmers of hope. Building on last year's package of bills that eased California Environmental Quality Act (CEQA) requirements, the governor signed SB 79 on Oct. 10, permitting high-rise housing near major transit stops. By upzoning local regulations, the bill—effective July 1, 2026—allows construction of six- to nine-story buildings, depending on their distance from transit hubs such as subways, light-rail stations, and bus stops with dedicated lanes. Its provisions are narrowly targeted, applying to only eight counties: Los Angeles, Orange, San Diego, Alameda, San Francisco, San Mateo, Santa Clara, and Sacramento. The largest impact will likely be in Los Angeles County, which has about 150 transit stops expected to qualify. The bill still lacks many details, and its ultimate impact will depend on how implementation timelines and regulations are finalized. Still, ever hopeful, the state is betting that a series of small steps like this one may eventually amount to a much larger leap.

Despite oodles of cash—\$24 billion and counting, to be precise—spent in recent years, California's homelessness crisis—particularly in Los Angeles County—has shown only modest improvement. The county's homeless count fell by 4% last year, marking what some have called a “two-year trend,” yet more than 75,000 people remain homeless. Management of the crisis has undergone a major overhaul: Los Angeles County and the City of Los Angeles recently ended their 30-year

Housing construction in California—and particularly in Southern California—remains weak.

More recently, tariffs on Canadian lumber and restrictions on immigrant labor have further added to builders' costs.

California's fitful efforts to boost housing construction have recently shown some glimmers of hope.

By upzoning local regulations, the bill—effective July 1, 2026—allows construction of six- to nine-story buildings, depending on their distance from transit hubs.

Los Angeles County's homeless count fell by 4% last year, marking what some have called a “two-year trend,” yet more than 75,000 people remain homeless.

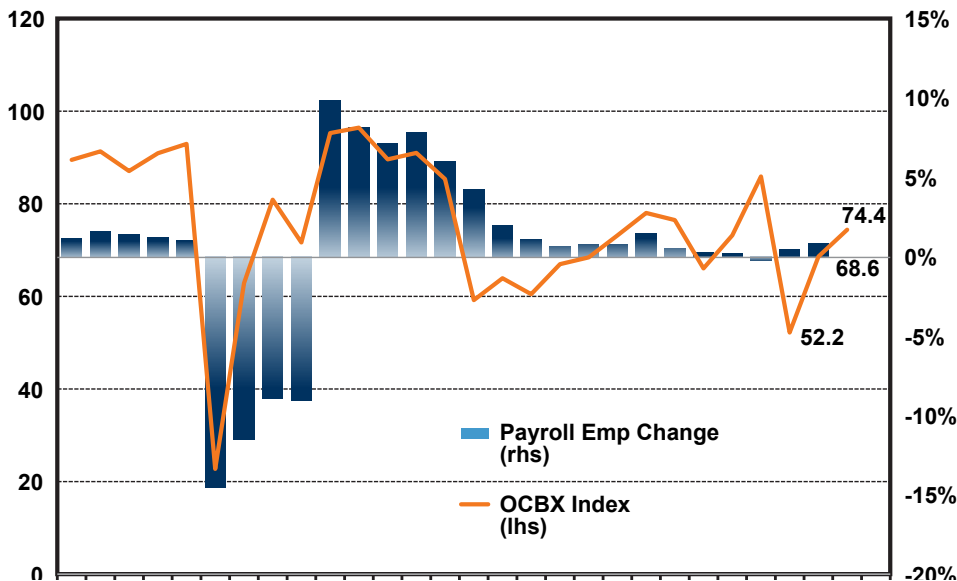
partnership after scathing audits of the Los Angeles Homeless Services Authority (LAHSA)—the joint agency they oversaw—revealed serious accountability failures, a rupture that will likely delay meaningful action for at least a year. In Orange County, the next homeless census is scheduled for January 2026. The county experienced a 28% increase in overall homelessness from 2022 to 2024, and a 7% rise compared with 2019.

In a Holding Pattern: Orange County Business Expectations

The Woods Center has conducted a quarterly survey of Orange County business executives since the early 2000s, gauging their expectations for the economy. The survey provides a timely read on the local business climate and serves as an important input for our forecasts. From the responses, we construct an index—the Orange County Business Expectations (OCBX)—that captures the overall economic outlook. For Q4 2025, the OCBX rose to 74.4, up from 68.6 in the previous quarter, reaching its highest level since early 2024 (Figure 66). A reading above 50 signals expectations of future economic growth. The latest survey suggests that Orange County executives anticipate improvement in both national and regional economies in the coming quarter.

The latest survey suggests that Orange County executives anticipate improvement in both the national and regional economies in the coming quarter.

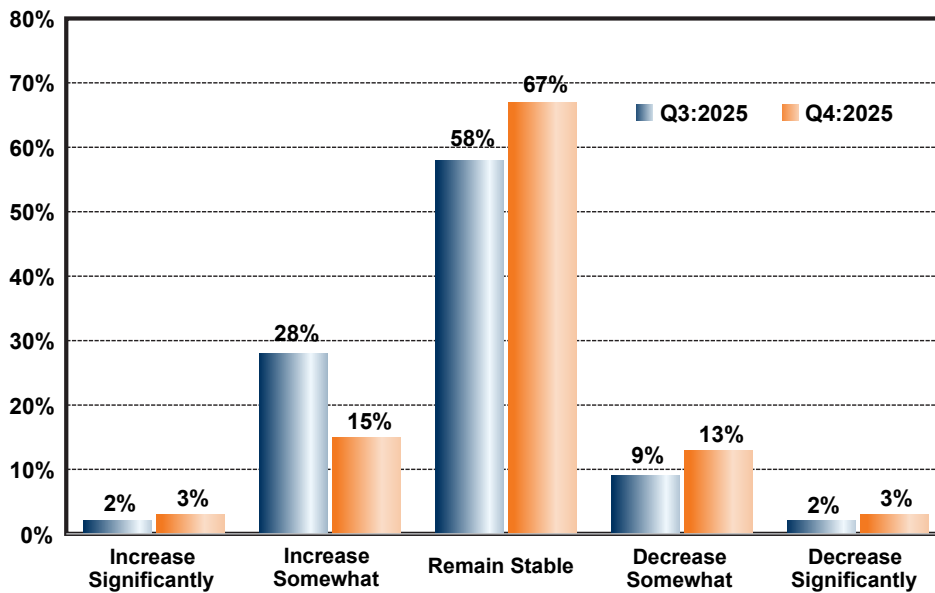
FIGURE 66
OC Business Sentiment Has Improved...A Bit
(OCBX index and job growth, level and y-o-y percent change)



Yet a closer look at the responses reveals a more nuanced picture. Rather than buoyant, firms seem guarded. For instance, 28% of respondents expect their sales to increase this quarter (down from 38% in the previous survey), while 51% anticipate little change (up from 42%) and 20% expect a decline (compared with 21%). Overall, more firms have moderated their sales expectations, extending the trend from the prior quarter. When asked about hiring plans, 18% intend to expand their workforce (down from 30%), 67% expect no change (up from 58%), and 16% anticipate job cuts (up from 11%) (Figure 67). So, much like the national picture, firms appear to be scaling back hiring intentions but not firing en masse, with roughly two-thirds planning to maintain current staffing levels.

A closer look at the responses reveals a more nuanced picture. Rather than buoyant, firms seem guarded.

FIGURE 67
Frozen: OC Firms Plan to Neither Hire nor Fire
(OCBX, percent of respondents)



When asked about their most important concern, inflation returned to the top of the list, replacing interest rates, which had ranked first in the previous quarter. With the recent fed rate cut, worries about borrowing costs appear to have eased. Tariffs and geopolitical risks ranked third and fourth, followed by government deficits. Several respondents also cited concerns about federal-level uncertainty and instability, government cutbacks, California taxes, and difficulty hiring qualified talent.

We asked respondents to share their forecasts for inflation in December 2025. Thirty one percent expect inflation rate to fall between 2.5% and 2.75%, and another 31% anticipate it between 2.75% and 3.0%. Only 8% foresee it exceeding 3%, while 31% expect inflation to decline below 2.5%. Clearly, most business leaders—92% in total—expect inflation to remain contained (below 3%), broadly consistent with our own outlook.

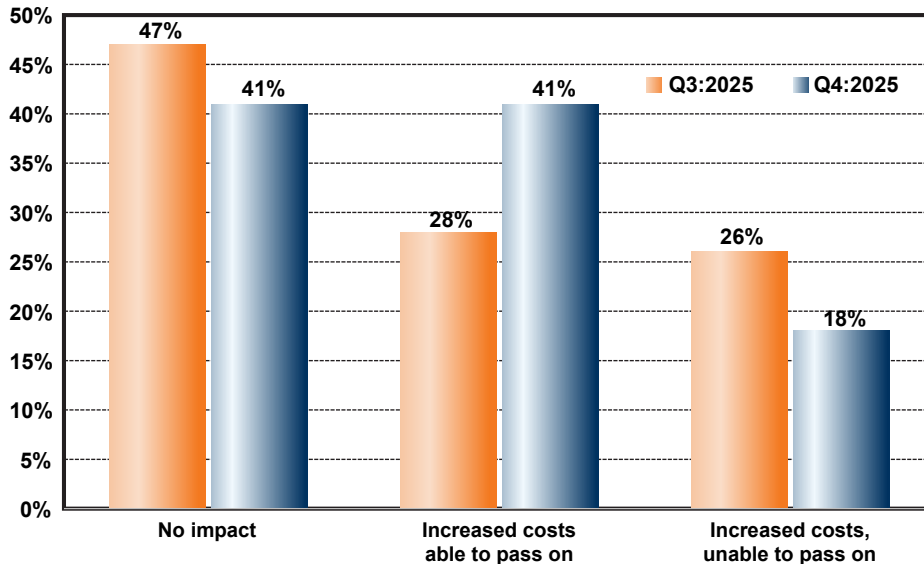
There has been little change in how business executives view the inflationary effects of tariffs. When asked about the impact of the Trump tariffs on inflation, 15% (down slightly from 17% last quarter) said they expect a significant increase in the inflation rate, while only 5% (unchanged from last quarter) think tariffs will have no impact. About 38% (39% last quarter) believe tariffs will raise inflation somewhat, but that the effect will be temporary, whereas another 38% (34% last quarter) expect a persistently negative but modest impact. In short, 85% of respondents believe tariffs will have either a temporary or small, lasting effect on inflation, while only 15% foresee a large and persistent one.

When asked about the impact of tariffs on their own businesses, 41% of respondents said they do not expect any negative effects (Figure 68). An equal share expects some cost increases, but believe they can pass these costs on to customers or suppliers. Only 18% anticipate higher costs that they cannot absorb or shift. Compared with the previous quarter, a greater share of firms now expects to be affected by tariffs—and more of them expect to offset those costs through price adjustments further along the supply chain.

When asked about their most important concern, inflation returned to the top of the list, replacing interest rates, which had ranked first in the previous quarter.

In short, 85% of respondents believe tariffs will have either a temporary or small, lasting effect on inflation, while only 15% foresee a large and persistent one.

FIGURE 68
A Larger Share of Firms Are Reporting Increased Costs from Tariffs
 (OCBX, percent of respondents)



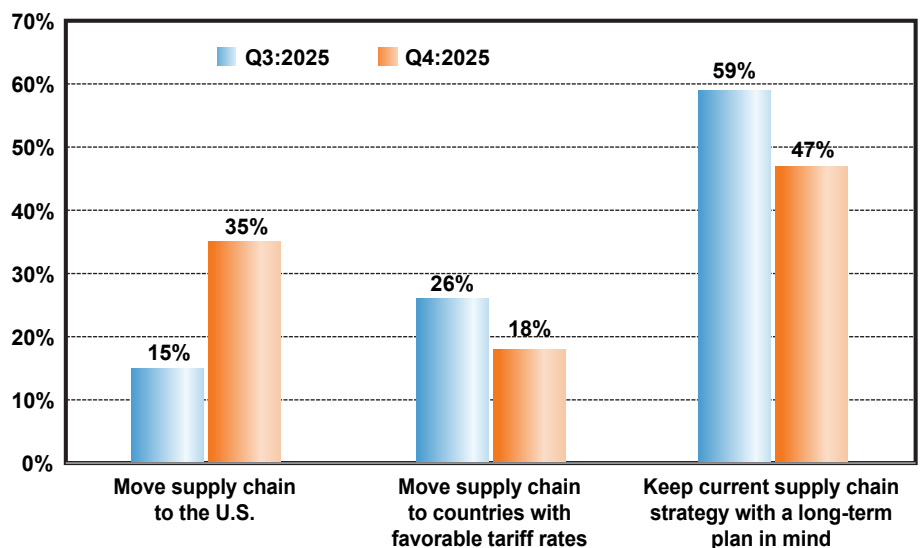
Given the tectonic policy shifts under the Trump administration, we asked business executives about their expectations for the economy over the next two years. The responses were strikingly divided. Only 15% expect solid growth with lower inflation, while 28% foresee continued growth but persistent inflation. Another 23% anticipate slower growth in the near term, followed by a later rebound. About one-quarter (26%) see stagflation—a combination of slow growth and rising prices—on the horizon, and a final 8% brace for a recession within the next two years. Overall, the stagflation/recession camp represents roughly one-third of respondents, while two-thirds expect some form of growth, even if accompanied by moderate inflation.

The stagflation/recession camp represents roughly one-third of respondents, while two-thirds expect some form of growth, even if accompanied by moderate inflation.

A growing share of firms, it seems, are at least contemplating a gradual reshoring of production. Dare we say it, are tariffs having their intended impact?

The administration's strategy of using punitive tariffs to spark a domestic manufacturing renaissance hinges on firms relocating their supply chains to the U.S. When asked about this, 47% of respondents (down from 59% last quarter) said they plan to maintain their current strategy with a long-term view (Figure 69). Another 18% (down from 26%) expect to shift sourcing to countries with more favorable tariff rates, while 35% (up from 15%) said they would move their supply chains to the U.S. A growing share of firms, it seems, are at least contemplating a gradual reshoring of production. Dare we say it, are tariffs having their intended impact?

FIGURE 69
Are Tariffs Having Some Effect at Redirecting Supply Chains?
 (OCBX, percent of respondents)



The current administration has stepped up deportation efforts targeting undocumented immigrants. When asked about the potential business impact, a majority—59% (essentially unchanged from 60% last quarter)—said they expect no discernible effect. Likewise, the share of firms anticipating a negative impact is 36% (a slight increase from 34% last quarter), while only 5% (down from 7%) foresee any positive effects from the policy.

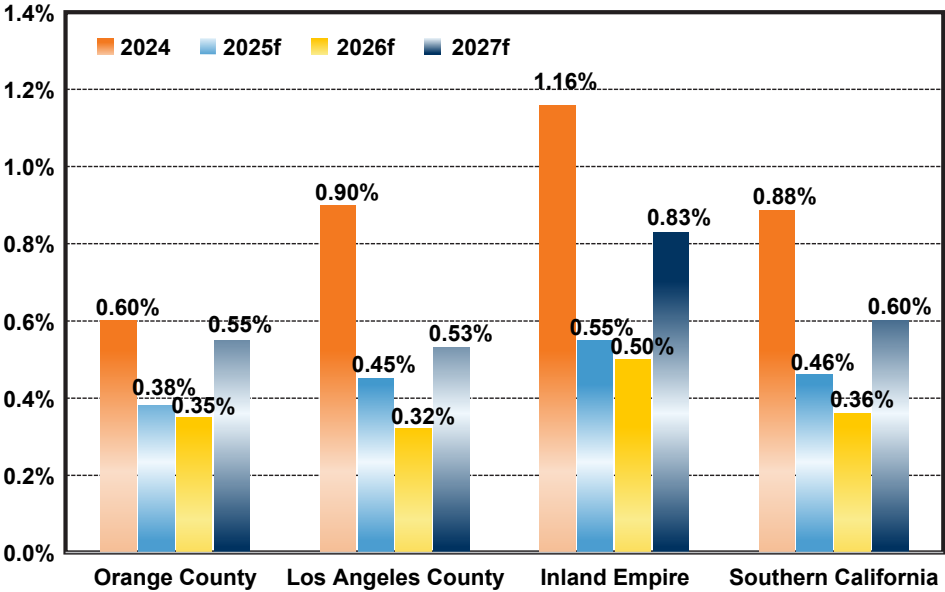
Employment Forecasts

In terms of employment, California's economy continues to lag the nation, as discussed above. Southern California—Orange County and Los Angeles County, in particular—have struggled to recover from the pandemic's damage and are expanding at a much slower pace than before. As the U.S. labor market shows signs of cooling, California is likely to mirror that trend. Moreover, as outlined earlier in this report, the state's current challenges make it difficult to sustain its historical rate of growth in the non-tech sectors of the economy.

Orange County's payroll employment is expected to rise by only 0.38% this year, followed by increases of 0.35% in 2026 and 0.55% in 2027. Jobs in Los Angeles County are projected to grow by 0.45% in 2025, 0.32% in 2026, and 0.53% in 2027. The Inland Empire—traditionally the growth leader in Southern California—will likewise grow at a subdued pace, with employment rising by just 0.55% in 2025, 0.50% in 2026, and 0.83% in 2027 (Figure 70). For the broader Southern California region, which also includes Ventura County, job growth is projected at 0.46% this year, 0.36% in 2026, and 0.60% in 2027.

Orange County's payroll employment is expected to rise by only 0.38% this year, followed by increases of 0.35% in 2026 and 0.55% in 2027.

FIGURE 70
Slower Growth Ahead, Due Mostly to Labor Force Challenges
(projections, employment growth, y-o-y percent change)



Unemployment rates in the region are expected to rise moderately through the remainder of this year and into 2026, before improving in the latter half of 2026. If the labor force were to expand at its historical pace, unemployment would be considerably higher.

Unemployment rates in the region are expected to rise moderately through the remainder of this year and into 2026, before improving in the latter half of 2026. If the labor force were to expand at its historical pace, unemployment would be considerably higher. However, with weaker demand for labor due to firms' "low-fire/low hire" stance and labor-saving productivity gains, joblessness is likely to increase only modestly. This is partly because the supply of workers is also projected to contract amid tighter immigration policies and declining birth rates. Detailed forecasts are presented in the tables at the end of the report.

TABLE 1 - NATIONAL

	2020	2021	2022	2023	2024	2025f	2026f	2027f	3-Year Average 2025-2027
GDP									
Real GDP (Bil. \$)	20,285	21,532	22,076	22,724	23,358	23,849	24,421	24,959	24,410
% change RGDP	-2.1	6.2	2.5	2.9	2.8	2.1	2.4	2.2	2.2
Nominal GDP (Bil. \$)	21,375	23,726	26,055	27,812	29,298	30,734	32,332	33,819	32,295
% change Nominal GDP	-0.8	11.0	9.8	6.7	5.3	4.9	5.2	4.6	4.9
RGDP Components									
Personal Consumption (% change)	-2.5	8.8	3.0	2.6	2.9	2.2	2.5	2.3	2.3
Business Fixed Investments (% change)	-1.9	7.3	2.5	3.4	3.0	4.2	4.5	3.8	4.2
Residential Investments (% change)	7.4	10.6	-8.1	-7.8	3.2	-3.1	1.9	3.5	0.8
Exports (% change)	-12.6	6.5	7.6	2.8	3.6	2.8	3.1	4.2	3.4
Imports (% change)	-8.8	14.6	8.5	-0.9	5.8	1.2	2.8	3.7	2.6
Net Exports (Bil. \$)	-656	-926	-1024	-925	-1033	-1058	-986	-911	-985
Federal Deficit (Bil. \$)	-3,142	-2,724	-1,361	-1,666	-1,772	-1,875	-1,625	-1,843	-1,781
Labor Sector									
Unemployment Rate (%)	8.1	5.4	3.6	3.6	4.0	4.3	4.4	4.2	4.3
Payroll Employment (% change)	-5.8	2.9	4.3	2.2	1.3	0.9	0.5	0.7	0.7
Average Weekly Hours (saar)	34.6	34.8	34.6	34.4	34.3	34.2	34.3	34.4	34.3
Labor Productivity (% change)	5.3	2.0	-1.5	1.8	2.8	2.1	2.5	2.7	2.4
Prices and Wages									
CPI (% change)	1.3	4.7	8.0	4.1	3.0	2.8	3.0	2.6	2.8
Core CPI (% change)	1.7	3.6	6.2	4.8	3.4	3.0	3.0	2.5	2.8
PCE Deflator (% change)	1.1	4.1	6.5	3.8	2.6	2.6	2.7	2.4	2.6
Core PCE Deflator (% change)	1.4	3.6	5.3	4.2	2.9	2.9	3.0	2.5	2.8
Employment Cost Index (% change)	2.9	4.0	5.3	4.6	3.9	3.6	3.4	3.3	3.4
Income/Profits									
Personal Income (% change)	7.5	8.2	0.6	9.7	5.6	4.7	4.4	4.5	4.5
Real Disposable Income (% change)	6.4	3.9	-5.7	5.7	2.9	1.9	2.3	2.4	2.2
Savings Rate (% of disp. income)	15.1	11.3	3.4	5.6	5.4	4.8	4.4	4.7	4.6
After-Tax Profits (% change)	6.4	31.0	3.8	7.8	7.9	1.2	4.5	5.5	3.7
Financial Markets (year-end)									
Federal Funds Rate (Upper range) (%)	0.25	0.25	4.50	5.50	4.50	3.75	3.25	3.00	3.33
3-Month T-bill rate (%)	0.09	0.06	4.30	5.20	4.23	3.68	3.11	2.87	3.22
10-Year Treasury Note (%)	0.93	1.52	3.88	3.88	4.58	4.23	3.96	4.12	4.10
30-Year Fixed Mortgage Rate (%)	2.67	3.11	6.42	6.61	6.85	6.50	6.05	6.15	6.23
Exchange Rate, Major Trading Partners (% change)	-2.9	3.6	5.3	-2.2	9.0	-8.9	-2.1	1.9	-3.03
Other Key Measures									
Crude Oil - Brent (\$ per Barrel)	42.0	70.9	100.9	82.5	80.5	67.3	65.5	70.1	67.6
Industrial Production (% change)	-7.1	4.4	3.4	0.2	-0.3	1.1	2.8	3.2	2.4
Housing Starts (Mill. Units, saar)	1.39	1.60	1.55	1.42	1.37	1.38	1.42	1.50	1.4
Light Vehicle Sales (Mill. Units, saar)	14.5	14.9	13.8	15.5	15.9	16.3	15.8	16.5	16.2

TABLE 2 - ORANGE COUNTY

	2020	2021	2022	2023	2024	2025f	2026f	2027f	3-Year Average 2025-2027
<i>Levels in Thousands</i>									
Household Employment									
Labor Force	1,575.4	1,569.4	1,593.4	1,611.7	1,623.3	1,633.6	1,643.8	1,650.4	1,642.6
Total Employment	1,436.0	1,476.0	1,542.4	1,555.7	1,559.6	1,564.5	1,571.4	1,581.0	1,572.3
Total Unemployment	139.3	93.4	51.1	56.0	63.6	69.1	72.3	69.3	70.2
Unemployment Rate	8.8%	6.0%	3.2%	3.5%	3.9%	4.2%	4.4%	4.2%	4.3%
Wage and Salary Employment									
	-142.6	55.1	78.2	13.6	10.1	6.4	6.0	9.3	
Total Nonfarm	1,532.7	1,587.8	1,666.0	1,679.6	1,689.7	1,696.2	1,702.2	1,711.5	1,703.3
Goods Producing	251.7	252.3	261.1	261.5	261.1	258.5	260.1	258.0	258.8
Mining and Logging	0.4	0.4	0.3	0.3	0.4	0.4	0.4	0.4	0.4
Construction	101.3	102.2	105.3	104.6	105.5	104.9	107.8	104.4	105.7
Manufacturing	150.1	149.8	155.4	156.6	155.3	153.1	151.9	153.2	152.8
Durable Goods	112.4	111.4	116.1	117.8	117.3	116.2	116.2	115.7	116.0
Nondurable Goods	37.7	38.3	39.4	38.8	38.0	36.9	35.7	37.6	36.7
Service Providing	1,281.0	1,335.5	1,404.9	1,418.2	1,428.6	1,437.7	1,442.1	1,453.5	1,444.4
Trade, Transportation and Utilities	244.1	252.0	258.3	262.5	261.0	260.0	261.7	259.4	260.4
Wholesale Trade	76.8	77.5	79.0	81.1	80.8	80.3	82.2	79.3	80.6
Retail Trade	137.6	143.4	145.5	145.8	144.8	144.8	145.3	145.3	145.1
Transportation, Warehousing and Utilities	29.6	31.1	33.8	35.7	35.4	35.0	34.2	34.9	34.7
Information	24.1	24.0	24.3	22.7	21.5	21.0	21.5	21.1	21.2
Financial Activities	115.9	117.1	112.3	103.7	103.1	100.9	99.0	102.2	100.7
Professional and Business Services	309.2	321.7	331.5	320.1	315.1	312.7	312.1	307.9	310.9
Educational and Health Services	225.8	237.3	249.2	263.6	274.0	283.8	289.8	285.3	286.3
Leisure and Hospitality	161.8	180.4	217.9	229.8	234.5	237.9	236.1	256.1	243.4
Other Services	44.1	47.5	53.1	55.2	56.0	56.5	56.5	56.6	56.5
Government	156.1	155.7	158.2	160.5	163.2	164.8	165.5	164.8	165.0
<i>Percentage change</i>									
Total Nonfarm	-8.5%	3.6%	4.9%	0.8%	0.6%	0.4%	0.4%	0.5%	0.4%
Goods Producing	-5.6%	0.2%	3.5%	0.2%	-0.1%	-1.0%	0.6%	-0.8%	-0.4%
Mining and Logging	-20.4%	7.0%	-15.2%	-7.7%	33.3%	-0.2%	0.3%	-0.8%	-0.2%
Construction	-4.5%	0.8%	3.1%	-0.6%	0.8%	-0.5%	2.7%	-3.2%	-0.3%
Manufacturing	-6.2%	-0.2%	3.8%	0.7%	-0.8%	-1.4%	-0.8%	0.9%	-0.4%
Durable Goods	-5.4%	-0.8%	4.1%	1.5%	-0.4%	-0.9%	0.0%	-0.4%	-0.5%
Nondurable Goods	-8.6%	1.6%	2.7%	-1.5%	-2.0%	-2.8%	-3.3%	5.3%	-0.3%
Service Providing	-9.1%	4.3%	5.2%	0.9%	0.7%	0.6%	0.3%	0.8%	0.6%
Trade, Transportation and Utilities	-6.6%	3.2%	2.5%	1.6%	-0.6%	-0.4%	0.6%	-0.9%	-0.2%
Wholesale Trade	-5.5%	0.9%	1.9%	2.7%	-0.4%	-0.7%	2.4%	-3.5%	-0.6%
Retail Trade	-8.6%	4.2%	1.5%	0.2%	-0.7%	0.0%	0.4%	0.0%	0.1%
Transportation, Warehousing and Utilities	0.4%	4.9%	8.9%	5.4%	-0.7%	-1.1%	-2.3%	2.0%	-0.5%
Information	-7.2%	-0.3%	1.0%	-6.6%	-5.2%	-2.3%	2.3%	-1.8%	-0.6%
Financial Activities	-1.5%	1.0%	-4.0%	-7.7%	-0.6%	-2.2%	-1.9%	3.3%	-0.3%
Professional and Business Services	-5.8%	4.0%	3.1%	-3.4%	-1.6%	-0.8%	-0.2%	-1.3%	-0.8%
Educational and Health Services	-3.1%	5.1%	5.0%	5.8%	4.0%	3.6%	2.1%	-1.6%	1.4%
Leisure and Hospitality	-29.0%	11.5%	20.8%	5.5%	2.0%	1.4%	-0.8%	8.5%	3.0%
Other Services	-15.1%	7.5%	12.0%	3.9%	1.5%	0.8%	0.0%	0.2%	0.4%
Government	-4.0%	-0.3%	1.6%	1.4%	1.7%	1.0%	0.4%	-0.4%	0.3%

TABLE 3 - SOUTHERN CALIFORNIA

	2020	2021	2022	2023	2024	2025f	2026f	2027f	3-Year Average 2025-2027
<i>Levels in Thousands</i>									
Household Employment									
Labor Force	8,422.4	8,636.9	8,918.1	9,008.0	9,065.8	9,048.1	9,065.7	9,105.2	9,073.0
Total Employment	4,288.4	4,257.8	4,239.3	4,289.6	4,352.1	4,350.3	4,378.1	4,397.6	4,375.3
Total Unemployment	4,134.0	4,379.1	4,678.8	4,718.4	4,713.6	4,697.9	4,687.6	4,707.7	4,697.7
Unemployment Rate	49.1%	50.7%	52.5%	52.4%	52.0%	51.9%	51.7%	51.7%	51.8%
Wage and Salary Employment									
Total Nonfarm	7,529.6	7,749.1	8,097.4	8,155.7	8,230.0	8,271.9	8,306.6	8,353.8	8,310.7
Goods Producing	2,145.4	2,191.9	2,279.4	2,288.4	2,282.3	2,273.8	2,245.9	2,262.8	2,260.9
Mining and Logging	143.3	97.4	55.3	60.1	67.9	73.3	76.5	73.7	74.5
Construction	268.3	276.4	283.9	284.6	285.0	277.0	269.1	285.6	277.2
Manufacturing	437.2	435.7	449.0	444.0	433.5	414.4	401.2	391.8	402.5
Durable Goods	127.4	319.4	347.9	282.9	273.2	259.5	258.4	256.5	258.2
Nondurable Goods	1,700.0	1,759.3	1,845.3	1,854.4	1,860.0	1,857.5	1,850.9	1,856.1	1,854.8
Service Providing	5,496.6	5,716.1	6,028.0	6,072.8	6,145.2	6,187.4	6,248.4	6,279.6	6,238.5
Trade, Transportation and Utilities	1,244.9	1,313.2	1,356.0	1,337.6	1,325.9	1,317.9	1,301.1	1,313.8	1,310.9
Wholesale Trade	379.9	384.5	391.7	385.3	380.3	373.5	379.2	369.5	374.1
Retail Trade	729.5	759.3	778.4	780.8	773.7	772.8	746.2	768.7	762.6
Transportation, Warehousing and Utilities	498.9	532.4	562.3	550.1	549.6	545.4	551.1	548.6	548.4
Information	245.2	263.6	291.2	249.0	244.4	244.9	261.9	262.9	256.6
Financial Activities	1,554.0	1,609.9	1,682.7	1,689.3	1,696.5	1,697.7	1,715.7	1,716.7	1,710.0
Professional and Business Services	1,039.8	1,093.0	1,143.3	1,127.2	1,124.2	1,112.6	1,091.9	1,085.7	1,096.7
Educational and Health Services	1,195.6	1,225.8	1,269.2	1,343.2	1,413.7	1,479.7	1,506.9	1,571.9	1,519.5
Leisure and Hospitality	702.8	770.5	876.0	905.7	905.4	893.5	924.0	891.7	903.1
Other Services	206.9	219.2	243.6	252.2	254.3	252.0	253.5	255.7	253.7
Government	887.1	870.7	890.4	912.1	930.4	946.9	956.5	954.5	952.6
<i>Percentage change</i>									
Total Nonfarm	-6.5%	2.9%	4.5%	0.7%	0.9%	0.5%	0.4%	0.6%	0.5%
Goods Producing	-7.9%	2.2%	4.0%	0.4%	-0.3%	-0.4%	-1.2%	0.8%	-0.3%
Mining and Logging	186.8%	-32.0%	-43.2%	8.7%	12.9%	8.0%	4.4%	-3.7%	2.9%
Construction	-2.1%	3.0%	2.7%	0.2%	0.1%	-2.8%	-2.9%	6.2%	0.2%
Manufacturing	-6.8%	-0.3%	3.0%	-1.1%	-2.4%	-4.4%	-3.2%	-2.4%	-3.3%
Durable Goods	-55.6%	150.7%	8.9%	-18.7%	-3.4%	-5.0%	-0.4%	-0.7%	-2.1%
Nondurable Goods	-8.5%	3.5%	4.9%	0.5%	0.3%	-0.1%	-0.4%	0.3%	-0.1%
Service Providing	-7.6%	4.0%	5.5%	0.7%	1.2%	0.7%	1.0%	0.5%	0.7%
Trade, Transportation and Utilities	-4.3%	5.5%	3.3%	-1.4%	-0.9%	-0.6%	-1.3%	1.0%	-0.3%
Wholesale Trade	-6.9%	1.2%	1.9%	-1.6%	-1.3%	-1.8%	1.5%	-2.6%	-0.9%
Retail Trade	-8.0%	4.1%	2.5%	0.3%	-0.9%	-0.1%	-3.4%	3.0%	-0.2%
Transportation, Warehousing and Utilities	2.9%	6.7%	5.6%	-2.2%	-0.1%	-0.8%	1.0%	-0.5%	-0.1%
Information	-11.2%	7.5%	10.5%	-14.5%	-1.8%	0.2%	6.9%	0.4%	2.5%
Financial Activities	-8.3%	3.6%	4.5%	0.4%	0.4%	0.1%	1.1%	0.1%	0.4%
Professional and Business Services	-6.3%	5.1%	4.6%	-1.4%	-0.3%	-1.0%	-1.9%	-0.6%	-1.2%
Educational and Health Services	-2.1%	2.5%	3.5%	5.8%	5.2%	4.7%	1.8%	4.3%	3.6%
Leisure and Hospitality	-23.0%	9.6%	13.7%	3.4%	0.0%	-1.3%	3.4%	-3.5%	-0.5%
Other Services	-15.1%	6.0%	11.1%	3.5%	0.8%	-0.9%	0.6%	0.9%	0.2%
Government	-3.7%	-1.8%	2.3%	2.4%	2.0%	1.8%	1.0%	-0.2%	0.9%

TABLE 4 - LOS ANGELES COUNTY

	2020	2021	2022	2023	2024	2025f	2026f	2027f	3-Year Average 2025-2027
<i>Levels in Thousands</i>									
Household Employment	-569.1	188.4	220.1	27.3	13.6	-19.0	-5.7	19.8	
Labor Force	4,972.6	4,999.7	5,021.8	5,055.3	5,109.8	5,099.5	5,109.7	5,119.9	5,109.7
Total Employment	4,363.2	4,551.6	4,771.8	4,799.0	4,812.6	4,793.6	4,787.8	4,807.6	4,796.3
Total Unemployment	609.4	448.1	250.1	256.3	297.2	306.0	321.9	312.3	313.4
Unemployment Rate	12.3%	9.0%	5.0%	5.1%	5.8%	6.0%	6.3%	6.1%	0.1
Wage and Salary Employment									
Total Nonfarm	4,168.1	4,305.1	4,532.1	4,549.1	4,589.9	4,610.4	4,625.4	4,649.7	4,628.5
Goods Producing	463.7	463.8	474.7	471.3	463.3	456.8	432.9	427.5	439.1
Mining and Logging	1.7	1.6	1.7	1.7	1.7	1.7	1.9	2.0	1.9
Construction	146.6	149.0	151.3	151.2	150.9	146.2	150.4	153.6	150.1
Manufacturing	315.4	313.1	321.7	318.4	310.8	295.0	280.6	271.9	282.5
Durable Goods	190.3	186.0	189.5	190.2	186.1	177.7	173.3	171.4	174.1
Nondurable Goods	125.1	127.1	132.2	128.3	124.7	117.3	107.3	100.6	108.4
Service Providing	3,704.4	3,841.3	4,057.4	4,077.7	4,126.6	4,153.7	4,192.5	4,222.2	4,189.4
Trade, Transportation and Utilities	784.6	814.0	833.5	822.9	814.0	808.1	800.9	798.1	802.3
Wholesale Trade	201.1	202.6	204.4	200.2	195.3	189.3	185.3	184.2	186.3
Retail Trade	375.7	396.1	405.5	404.9	400.1	399.5	394.7	394.5	396.2
Transportation, Warehousing and Utilities	207.9	215.2	223.6	217.9	218.6	219.3	220.9	219.3	219.8
Information	191.1	208.8	234.9	193.1	189.8	191.9	209.0	209.1	203.3
Financial Activities	213.2	213.2	215.7	210.9	208.7	203.1	204.3	205.7	204.4
Professional and Business Services	601.0	630.8	666.9	656.8	657.8	647.8	625.6	620.4	631.3
Educational and Health Services	821.7	844.4	871.1	920.3	969.4	1,014.6	1,068.3	1,098.1	1,060.3
Leisure and Hospitality	393.7	434.2	512.4	534.1	537.4	532.5	522.2	526.0	526.9
Other Services	128.8	135.7	153.0	157.4	158.4	156.4	158.9	160.0	158.4
Government	570.2	560.2	570.0	582.2	591.1	599.3	603.3	604.7	602.4
<i>Percentage change</i>									
Total Nonfarm	-8.6%	3.3%	5.3%	0.4%	0.9%	0.4%	0.3%	0.5%	0.4%
Goods Producing	-5.9%	0.0%	2.4%	-0.7%	-1.7%	-1.4%	-5.2%	-1.2%	-2.6%
Mining and Logging	-10.7%	-6.7%	3.6%	0.0%	0.0%	1.5%	10.1%	6.3%	6.0%
Construction	-2.2%	1.7%	1.6%	-0.1%	-0.2%	-3.1%	2.9%	2.1%	0.6%
Manufacturing	-7.6%	-0.7%	2.7%	-1.0%	-2.4%	-5.1%	-4.9%	-3.1%	-4.4%
Durable Goods	-5.7%	-2.2%	1.9%	0.3%	-2.1%	-4.5%	-2.5%	-1.1%	-2.7%
Nondurable Goods	-10.3%	1.6%	4.0%	-3.0%	-2.8%	-5.9%	-8.5%	-6.3%	-6.9%
Service Providing	-9.0%	3.7%	5.6%	0.5%	1.2%	0.7%	0.9%	0.7%	0.8%
Trade, Transportation and Utilities	-7.5%	3.7%	2.4%	-1.3%	-1.1%	-0.7%	-0.9%	-0.3%	-0.7%
Wholesale Trade	-9.4%	0.8%	0.9%	-2.1%	-2.4%	-3.1%	-2.1%	-0.6%	-1.9%
Retail Trade	-9.2%	5.4%	2.4%	-0.2%	-1.2%	-0.1%	-1.2%	0.0%	-0.5%
Transportation, Warehousing and Utilities	-2.4%	3.5%	3.9%	-2.5%	0.3%	0.3%	0.7%	-0.7%	0.1%
Information	-11.3%	9.3%	12.5%	-17.8%	-1.7%	1.1%	8.9%	0.1%	3.4%
Financial Activities	-4.9%	0.0%	1.2%	-2.2%	-1.0%	-2.7%	0.6%	0.7%	-0.5%
Professional and Business Services	-7.3%	5.0%	5.7%	-1.5%	0.1%	-1.5%	-3.4%	-0.8%	-1.9%
Educational and Health Services	-2.2%	2.8%	3.2%	5.7%	5.3%	4.7%	5.3%	2.8%	4.2%
Leisure and Hospitality	-28.1%	10.3%	18.0%	4.2%	0.6%	-0.9%	-1.9%	0.7%	-0.7%
Other Services	-18.7%	5.4%	12.7%	2.9%	0.6%	-1.3%	1.6%	0.7%	0.3%
Government	-2.8%	-1.8%	1.7%	2.1%	1.5%	1.4%	0.7%	0.2%	0.8%

TABLE 5 - INLAND EMPIRE (RIVERSIDE AND SAN BERNARDINO COUNTIES)

	2020	2021	2022	2023	2024	2025f	2026f	2027f	3-Year Average 2025-2027
<i>Levels in Thousands</i>									
Household Employment	-94.6	83.4	98.2	28.2	15.8	-16.7	3.8	17.1	
Labor Force	2,073.4	2,108.4	2,140.5	2,180.3	2,209.1	2,198.1	2,209.1	2,220.1	2,209.1
Total Employment	1,868.3	1,951.7	2,049.9	2,078.1	2,093.8	2,077.2	2,080.9	2,098.0	2,085.4
Total Unemployment	205.1	156.7	90.7	102.3	115.3	120.9	128.1	122.1	123.7
Unemployment Rate	9.9%	7.4%	4.2%	4.7%	5.2%	5.5%	5.8%	5.5%	0.1
Wage and Salary Employment									
Total Nonfarm	1,495.8	1,575.1	1,660.2	1,681.0	1,700.4	1,709.7	1,718.3	1,732.5	1,720.2
Goods Producing	202.2	207.7	216.3	215.3	212.9	206.7	208.0	209.6	208.1
Mining and Logging	1.3	1.4	1.5	1.5	1.6	1.5	1.5	1.4	1.5
Construction	104.9	110.1	114.7	115.4	116.2	112.7	113.7	115.0	113.8
Manufacturing	96.0	96.1	100.0	98.5	95.2	92.7	92.9	93.1	92.9
Durable Goods	61.2	60.0	61.3	60.0	57.9	56.6	56.7	56.9	56.7
Nondurable Goods	34.8	36.2	38.7	38.4	37.3	36.1	36.2	36.2	36.2
Service Providing	1,293.7	1,367.4	1,443.9	1,465.7	1,487.5	1,503.0	1,510.2	1,523.0	1,512.1
Trade, Transportation and Utilities	406.9	443.2	464.9	457.9	456.4	454.1	456.7	460.8	457.2
Wholesale Trade	65.6	67.4	69.5	68.9	68.6	68.6	69.0	69.8	69.1
Retail Trade	168.8	177.0	181.0	183.0	182.6	184.0	184.6	185.8	184.8
Transportation, Warehousing and Utilities	172.5	198.8	214.4	206.0	205.2	201.5	203.0	205.2	203.3
Information	12.4	12.5	13.0	13.3	13.0	12.7	12.6	12.6	12.6
Financial Activities	44.1	45.2	46.0	44.9	44.1	42.6	42.5	42.4	42.5
Professional and Business Services	152.1	166.6	173.9	164.4	161.8	161.5	161.9	162.5	162.0
Educational and Health Services	248.8	254.3	267.9	287.8	306.0	322.6	327.1	334.3	328.0
Leisure and Hospitality	141.3	160.2	180.9	187.6	185.3	180.6	179.5	178.8	179.6
Other Services	40.2	43.6	47.4	49.4	50.7	50.7	50.8	51.0	50.9
Government	248.0	242.0	250.0	260.2	270.2	278.3	279.1	280.5	279.3
<i>Percentage change</i>									
Total Nonfarm	-3.7%	5.3%	5.4%	1.3%	1.2%	0.5%	0.5%	0.8%	0.6%
Goods Producing	-3.6%	2.7%	4.1%	-0.5%	-1.1%	-2.9%	0.6%	0.7%	-0.5%
Mining and Logging	6.2%	10.4%	8.8%	-4.9%	6.8%	-5.4%	-1.1%	-2.1%	-2.9%
Construction	-2.1%	5.0%	4.2%	0.5%	0.7%	-2.9%	0.8%	1.2%	-0.3%
Manufacturing	-5.3%	0.2%	4.0%	-1.6%	-3.3%	-2.6%	0.2%	0.2%	-0.7%
Durable Goods	-6.9%	-2.1%	2.3%	-2.1%	-3.6%	-2.2%	0.3%	0.3%	-0.5%
Nondurable Goods	-2.3%	4.1%	7.0%	-0.8%	-2.8%	-3.3%	0.1%	0.2%	-1.0%
Service Providing	-3.7%	5.7%	5.6%	1.5%	1.5%	1.0%	0.5%	0.8%	0.8%
Trade, Transportation and Utilities	3.0%	8.9%	4.9%	-1.5%	-0.3%	-0.5%	0.6%	0.9%	0.3%
Wholesale Trade	-3.2%	2.8%	3.1%	-0.9%	-0.5%	0.0%	0.7%	1.2%	0.6%
Retail Trade	-6.6%	4.9%	2.2%	1.1%	-0.2%	0.7%	0.4%	0.6%	0.6%
Transportation, Warehousing and Utilities	17.7%	15.2%	7.9%	-3.9%	-0.4%	-1.8%	0.8%	1.1%	0.0%
Information	-12.5%	1.1%	3.9%	2.7%	-2.4%	-2.8%	-0.1%	-0.2%	-1.0%
Financial Activities	-2.2%	2.5%	1.8%	-2.3%	-1.8%	-3.5%	-0.2%	-0.4%	-1.3%
Professional and Business Services	-2.1%	9.5%	4.4%	-5.4%	-1.6%	-0.2%	0.2%	0.3%	0.1%
Educational and Health Services	-0.6%	2.2%	5.4%	7.4%	6.3%	5.4%	1.4%	2.2%	3.0%
Leisure and Hospitality	-19.7%	13.3%	12.9%	3.7%	-1.2%	-2.6%	-0.6%	-0.4%	-1.2%
Other Services	-13.0%	8.4%	8.9%	4.2%	2.6%	0.0%	0.2%	0.4%	0.2%
Government	-5.1%	-2.4%	3.3%	4.1%	3.8%	3.0%	0.3%	0.5%	1.3%

TABLE 6 - VENTURA COUNTY

	2020	2021	2022	2023	2024	2025f	2026f	2027f	3-Year Average 2025-2027
<i>Levels in Thousands</i>									
Household Employment									
Labor Force	410.4	407.5	412.4	417.0	420.8	422.9	425.0	427.1	425.0
Total Employment	374.7	382.2	397.0	399.6	401.4	402.6	403.8	406.2	404.2
Total Unemployment	35.7	25.3	15.4	17.4	19.4	20.3	21.3	20.9	20.8
Unemployment Rate	8.7%	6.2%	3.7%	4.2%	4.6%	4.8%	5.0%	4.9%	0.0
Wage and Salary Employment									
Total Nonfarm	290.3	299.6	311.6	314.0	316.4	318.1	319.2	321.2	319.5
Goods Producing	43.5	44.5	46.0	46.1	46.4	45.8	33.5	44.7	41.3
Mining and Logging	0.9	0.9	1.0	1.0	1.0	1.0	0.9	1.0	0.9
Construction	16.8	17.1	17.8	18.0	17.9	18.0	4.9	16.9	13.3
Manufacturing	25.8	26.5	27.3	27.1	27.5	26.8	27.7	26.8	27.1
Durable Goods	18.4	18.3	18.9	19.1	19.2	18.8	22.4	18.9	20.1
Nondurable Goods	7.4	8.2	8.4	8.1	8.3	8.0	5.3	7.8	7.0
Service Providing	246.8	255.1	265.6	267.9	270.0	272.3	285.6	276.5	278.1
Trade, Transportation and Utilities	53.0	55.7	57.3	56.5	55.1	55.3	43.2	54.5	51.0
Wholesale Trade	12.0	12.3	12.5	11.6	10.9	10.7	17.1	11.0	13.0
Retail Trade	34.9	36.4	36.5	36.4	35.7	36.3	15.0	35.1	28.8
Transportation, Warehousing and Utilities	6.1	7.0	8.3	8.4	8.5	8.4	11.0	8.4	9.3
Information	4.0	3.9	4.0	3.8	3.6	3.4	4.5	3.6	3.8
Financial Activities	15.7	16.1	16.1	15.3	15.0	14.2	26.8	15.2	18.8
Professional and Business Services	42.6	43.6	44.3	43.4	43.5	43.3	42.6	43.4	43.1
Educational and Health Services	48.3	49.6	51.2	54.0	57.5	62.3	29.4	60.2	50.6
Leisure and Hospitality	30.2	32.8	37.2	38.3	37.9	35.6	77.0	41.6	51.4
Other Services	8.3	8.9	9.4	9.7	9.7	9.8	9.5	9.8	9.7
Government	44.7	44.5	46.1	47.0	47.6	48.3	52.6	48.2	49.7
<i>Percentage change</i>									
Total Nonfarm	-7.0%	3.2%	4.0%	0.8%	0.8%	0.6%	0.3%	0.6%	0.5%
Goods Producing	-2.5%	2.3%	3.4%	0.1%	0.7%	-1.3%	-26.8%	33.3%	1.7%
Mining and Logging	-1.8%	-3.6%	9.3%	2.6%	0.0%	-0.4%	-13.4%	13.4%	-0.1%
Construction	-2.0%	2.3%	3.6%	1.0%	0.0%	0.5%	-72.7%	244.7%	57.5%
Manufacturing	-2.9%	2.6%	3.1%	-0.5%	1.2%	-2.5%	3.6%	-3.5%	-0.8%
Durable Goods	-5.0%	-0.7%	3.2%	0.8%	0.6%	-2.0%	19.4%	-15.6%	0.6%
Nondurable Goods	2.7%	10.8%	2.7%	-3.6%	2.7%	-3.8%	-33.6%	47.8%	3.5%
Service Providing	-7.7%	3.3%	4.1%	0.9%	0.8%	0.9%	4.9%	-3.2%	0.9%
Trade, Transportation and Utilities	-7.2%	5.0%	2.9%	-1.4%	-2.5%	0.4%	-22.0%	26.3%	1.6%
Wholesale Trade	-3.7%	2.6%	1.1%	-6.6%	-6.3%	-1.7%	59.9%	-35.5%	7.6%
Retail Trade	-9.0%	4.3%	0.5%	-0.3%	-2.0%	1.5%	-58.6%	133.9%	25.6%
Transportation, Warehousing and Utilities	-3.3%	14.0%	19.0%	1.4%	0.6%	-1.4%	32.0%	-24.1%	2.2%
Information	-24.2%	-1.5%	2.3%	-5.4%	-5.5%	-4.2%	31.2%	-20.6%	2.1%
Financial Activities	-0.9%	2.5%	-0.3%	-4.8%	-1.8%	-5.2%	88.2%	-43.2%	13.3%
Professional and Business Services	-3.9%	2.4%	1.4%	-1.9%	0.3%	-0.7%	-1.5%	1.8%	-0.1%
Educational and Health Services	-2.6%	2.6%	3.3%	5.4%	6.5%	8.4%	-52.9%	104.8%	20.1%
Leisure and Hospitality	-21.6%	8.6%	13.4%	2.8%	-1.0%	-5.9%	116.1%	-46.0%	21.4%
Other Services	-14.2%	7.2%	5.8%	3.4%	0.0%	1.0%	-2.8%	3.1%	0.4%
Government	-5.1%	-0.6%	3.7%	1.8%	1.4%	1.4%	8.9%	-8.4%	0.6%

One. And only one name.

Some things will always be.

We are honored to support the Orange County Business Council
31st Annual Economic Forecast Conference

FMB.com



MEMBER FDIC



**CSUF • 2026
ECONOMIC &
INTERNATIONAL
TRADE FORECAST**

SoCal, the U.S. and Beyond

SAVE THE DATE

April 2026

Anil Puri and Mira Farka,
Director and Co-Director, Woods Center
for Economic Analysis and Forecasting

CSUF | COLLEGE OF
Business
and Economics

► To learn more about this and other center events, please visit
business.fullerton.edu/woodscenter



Happy, healthy neighbors. That's our mission.

Kaiser Permanente is a proud supporter
of the Orange County Business Council.

At Kaiser Permanente, we continuously strive to
improve the conditions for health and equity in our
communities. Our doors, hearts and minds are
always open to help you thrive.

Learn more at kp.org



KAISER PERMANENTE®

BUILD YOUR FUTURE...

With a career education from an Orange County community college.

Why Choose an Orange County Community College?

California Community College students pay the lowest fees in the nation and credits are fully transferable to all public, 4-year universities in California. By staying local, students can save money and be job-ready in two years or less!

Career Education programs...

- Provide practical and professional skills training in high-demand fields.
- Are designed to lead directly to high-paying careers.
- Can be completed in two years or less.

Great Support Systems

From financial aid and scholarships to career counseling and internship opportunities, Orange County's community colleges are committed to making our student's journey a success.

FREE Tuition...it's a Promise!

In Orange County, many first-time college students are eligible for two years of free tuition, textbooks, and more! That's right, it is possible to attend college for zero dollars! Find out more about California's Promise Program at occommunitycolleges.org.



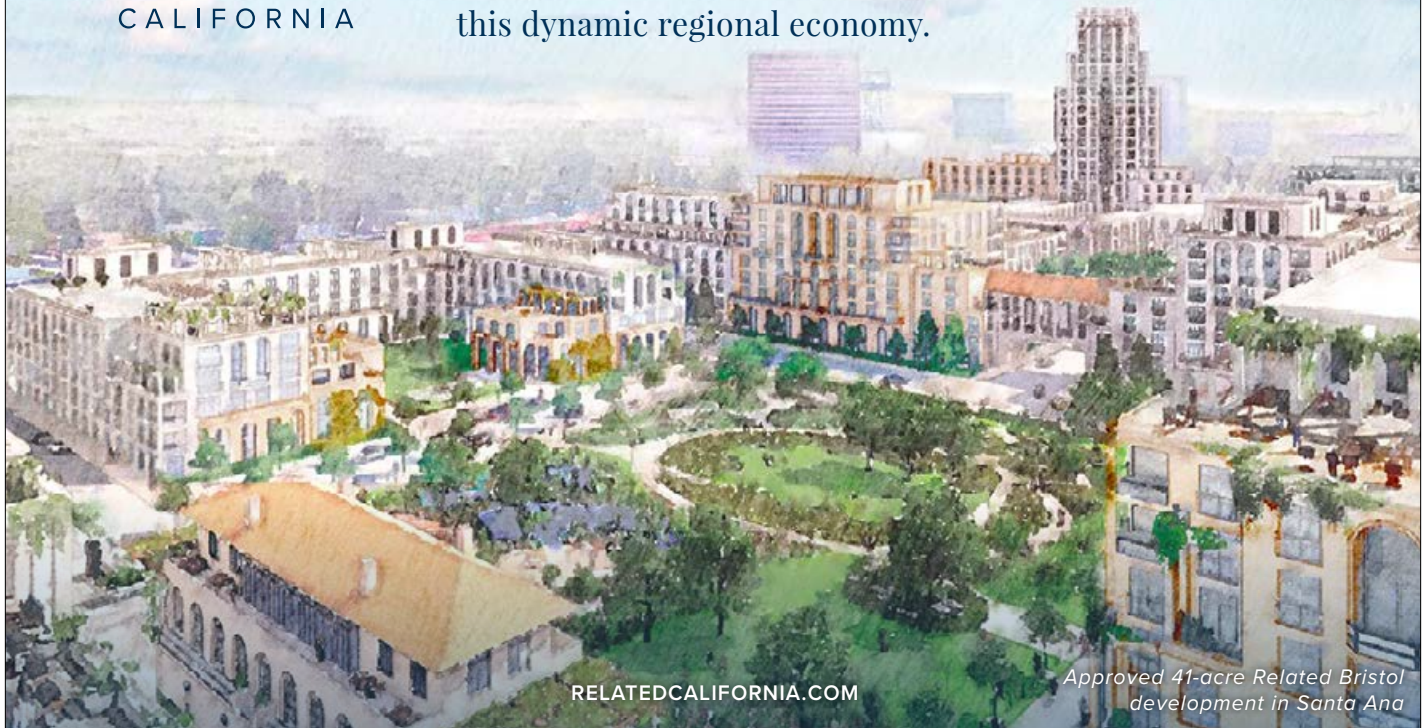
**ORANGE COUNTY
REGIONAL CONSORTIUM**

**WORKFORCE
DEVELOPMENT ALLIANCE**



RELATED
CALIFORNIA

Related California is a proud member of the Orange County Business Council and a longtime investor in the growth of this dynamic regional economy.



RELATEDCALIFORNIA.COM

Approved 41-acre Related Bristol development in Santa Ana

SCHOOLSFIRST 
FEDERAL CREDIT UNION

The #1 Credit Union for Member Banking Satisfaction.

**Satisfaction Isn't a Perk —
It's Our Promise.**



JOIN OVER 1.5 MILLION
SATISFIED MEMBERS.

Visit schoolsfirstfcu.org/jdpower.



Insured by NCUA.
For J.D. Power 2025 award information, visit jdpower.com/awards.

531

Strategic Plan for Educational Success

Stefan Bean, Ed.D.
Orange County
Superintendent of Schools



LEARN MORE »

LINK.OCDE.US/531



CITY OF IRVINE

CALIFORNIA



The City of Irvine is committed to fostering an innovative and thriving business community.

Join us for exclusive events designed to support, connect, and empower local businesses like yours.



Stay Connected!
Receive the latest news, updates, and opportunities from our Economic Development Division.

cityofirvine.org/economicdevelopment

**You have the tools
to practice confidently**



**INFINITY
BANK**

**We have the business solutions
you need to bank confidently**

www.infinity.bank

Reputation you can trust. Access you'll love.

Click, Call or Visit **24/7**

- ✓ Virtual Urgent Care
- ✓ QuickCare Visit
- ✓ Online Chat
- ✓ Ask a Nurse
- ✓ Call Us
- ✓ In-Person Urgent Care
(Hours may vary)



MemorialCare[™]



Rancho Mission Viejo is a proud supporter of the 2025 OCBC/CSUF Economic Forecast and its mission to advocate for communities where business flourishes, a wide range of housing is supported and economic growth is promoted.


RANCHO MISSION VIEJO[®]
RanchoMissionViejo.com

Keep your money boring, so your life doesn't have to be.

See what boring banking can do
for you at pnc.com/brilliantlyboring

 **PNC BANK** | **BRILLIANTLY BORING**[™]

Brilliantly Boring is a service mark of The PNC Financial Services Group, Inc.
©2025 The PNC Financial Services Group, Inc.
All rights reserved. PNC Bank, National Association. Member FDIC.

Developing Orange County's
workforce.

 **ORANGE COUNTY
BUSINESS COUNCIL**

At the center of Orange County's
economic development.

ocbc.org

WOODS CENTER FOR ECONOMIC ANALYSIS AND FORECASTING

California State University, Fullerton
College of Business and Economics
800 N. State College Blvd.
Fullerton, CA 92831

business.fullerton.edu/woodscenter

