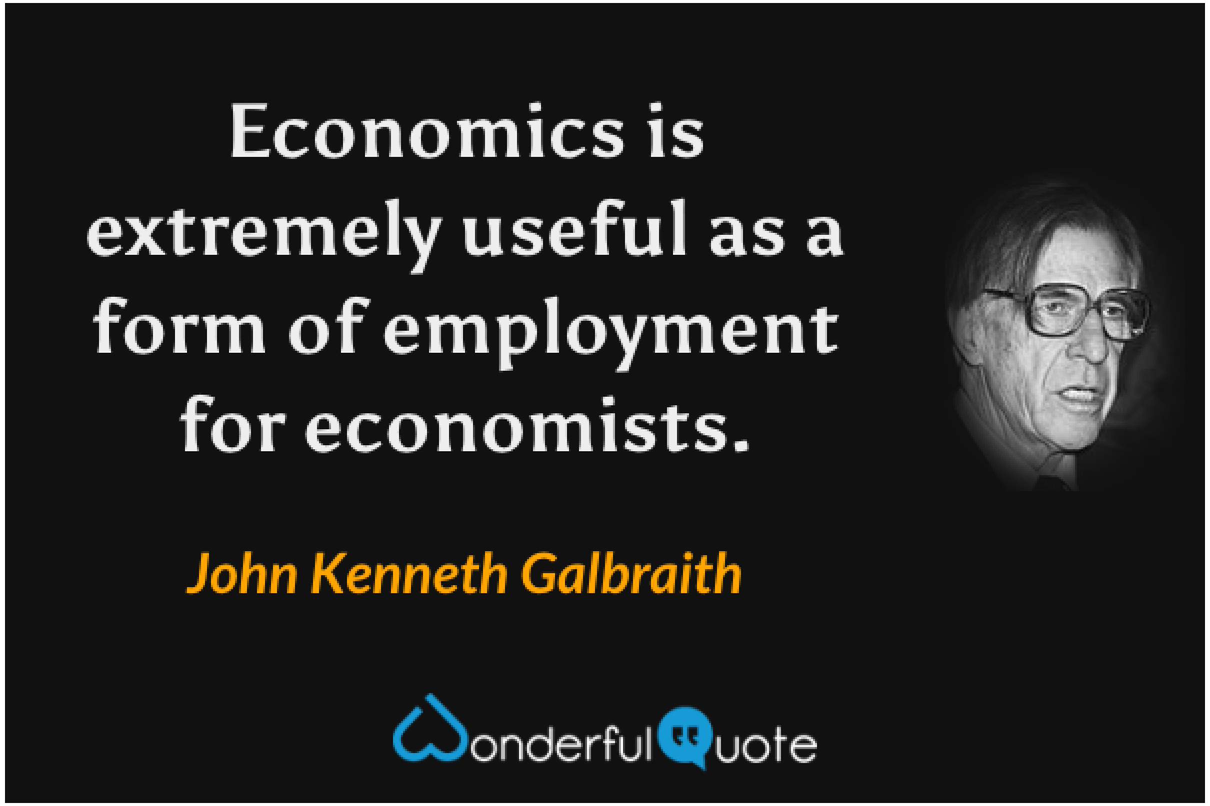
Economic Update (At Least for Today)

SFSA Webinar



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Latest Inflation Measure – CPI and Tariffs

- **Still expect tariff inflation, but it isn't showing in the macro data yet.**
  - Suppliers eating part of it (~10%)
  - Some of it absorbed in supply chain (carriers) (~10%)
  - ~10% being eaten in margin
  - Rest being passed on
  - Not sustainable long term, eventually it will evolve into a one-time price adjustment (by Q4 or Q1 '26)

Material	July 2025 Y/Y
Total CPI	2.7%
Goods Only (Commodities less Food and Energy)	1.2%
Goods Total (Including Food and Energy)	5.0%
Services	3.6%

****Goods only (is a core measure: stripping out food and energy) is the most accurate estimate for those sectors most impacted by tariff pressure.**

Review: Fed Looking at 2-3 Cuts in 2H '25

- **Fed's outlook signals potential stagflation (rising inflation and cooling growth).**
- **First time since 1997 that the Fed was divided on rate policy (2 dissenters)**
- **Based on the latest inflation data, pressure in the housing market and some weaker labor data, most Wall Street odds have bumped the Fed's own expectations for 2 quarter-point cuts to 3.**

Variable	Median[1]			
	2025	2026	2027	Longer run
Change in real GDP	1.4	1.6	1.8	1.8
March projection	1.7	1.8	1.8	1.8
Unemployment rate	4.5	4.5	4.4	4.2
March projection	4.4	4.3	4.3	4.2
PCE inflation	3.0	2.4	2.1	2.0
March projection	2.7	2.2	2.0	2.0
Core PCE inflation[4]	3.1	2.4	2.1	
March projection	2.8	2.2	2.0	
Memo: Projected appropriate policy path				
Federal funds rate	3.9	3.6	3.4	3.0
March projection	3.9	3.4	3.1	3.0

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Current: Q3 GDP Well Ahead of Expectations

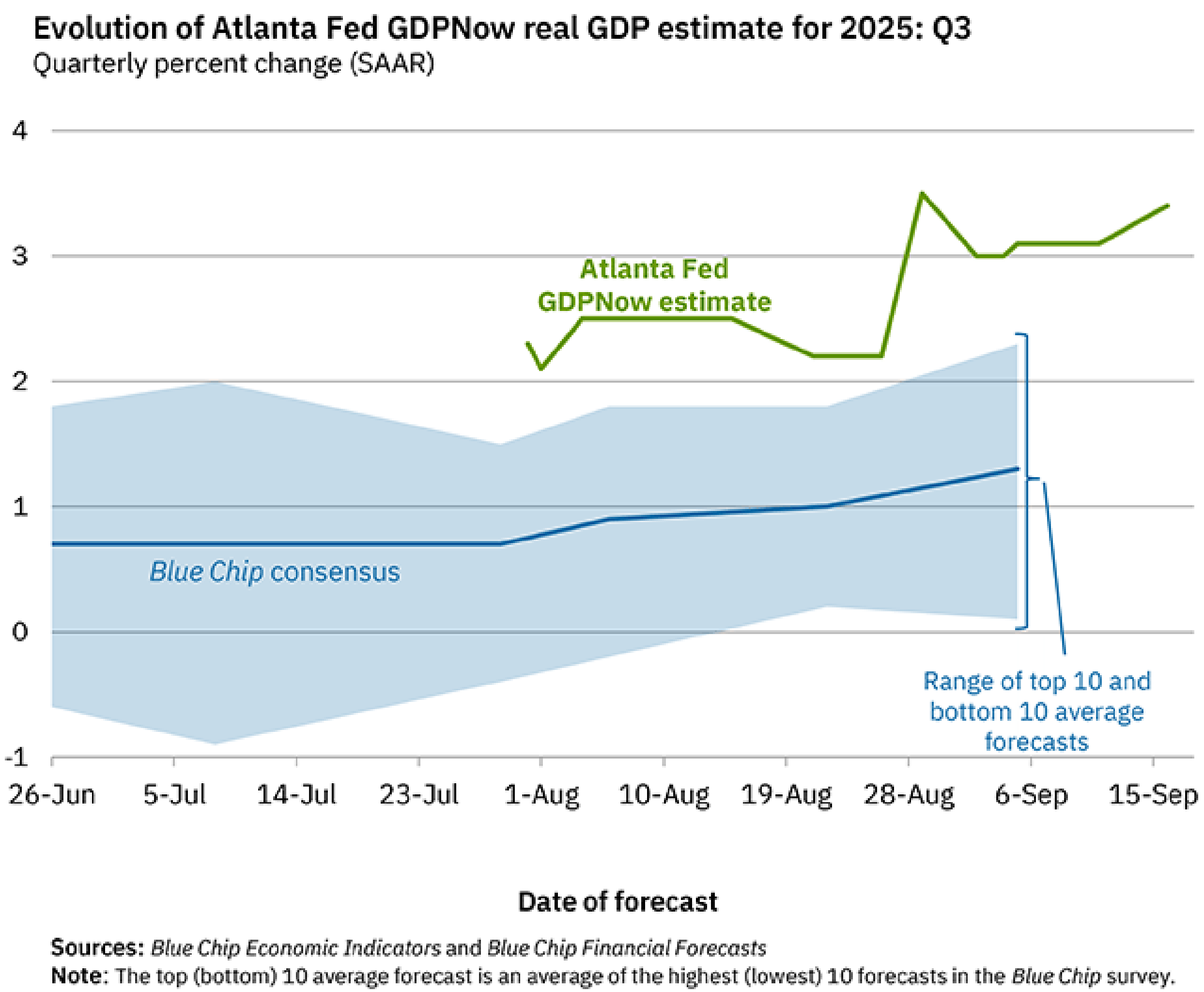
- It's still early, but Q3 data is currently showing GDP trending at 3.4%, well ahead of Blue-Chip expectations of just 1.0%.

- Primary drivers early in Q3 (as a percent of GDP growth):

1.	Consumer spending	54%
2.	Nonresidential fixed investment	29%
3.	Inventory building activity	0%
4.	Residential	-3%
5.	Government	3%
6.	Net exports	17%

  - (Boeing, and LNG to Europe)

- Fed expectations for the third quarter are still pretty low.



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SRC: Atlanta Federal Reserve

Retail Good Upside in August

- **Top line stronger than expected.**
  - Autos,
  - furniture,
  - electronics,
  - food and beverage home and away,
  - clothing (back to school),
  - sporting goods (fall sports).

- **General merchandise in-line – perhaps a bit weaker than expected.**

- **Consumer still finding ways of spending**

Kind of Business	Percent Change Aug. 2025 Advance from --	
	Jul. 2025	Aug. 2024
Retail & food services, total	**0.6**	**5.0**
Retail Less Autos and Fuel	0.6	4.8
Motor vehicle & parts dealers	**0.5**	**5.6**
Furniture & home furn. stores	**-0.3**	**5.2**
Electronics & appliance stores	**0.3**	**3.7**
Building material & garden eq. & supplies dealers....	**0.1**	**-2.3**
Food & beverage stores....	**0.3**	**3.2**
Grocery stores	0.3	3.4
Health & personal care stores	**-0.1**	**5.1**
Gasoline stations	**0.5**	**-0.7**
Clothing & clothing accessories stores	**1.0**	**8.3**
Sporting goods, hobby, musical instrument, & book stores	**0.8**	**4.7**
General merchandise stores....	**-0.1**	**1.9**
Department stores	-0.8	-1.0
Nonstore retailers	**2.0**	**10.1**
Food services & drinking places	**0.7**	**6.5**

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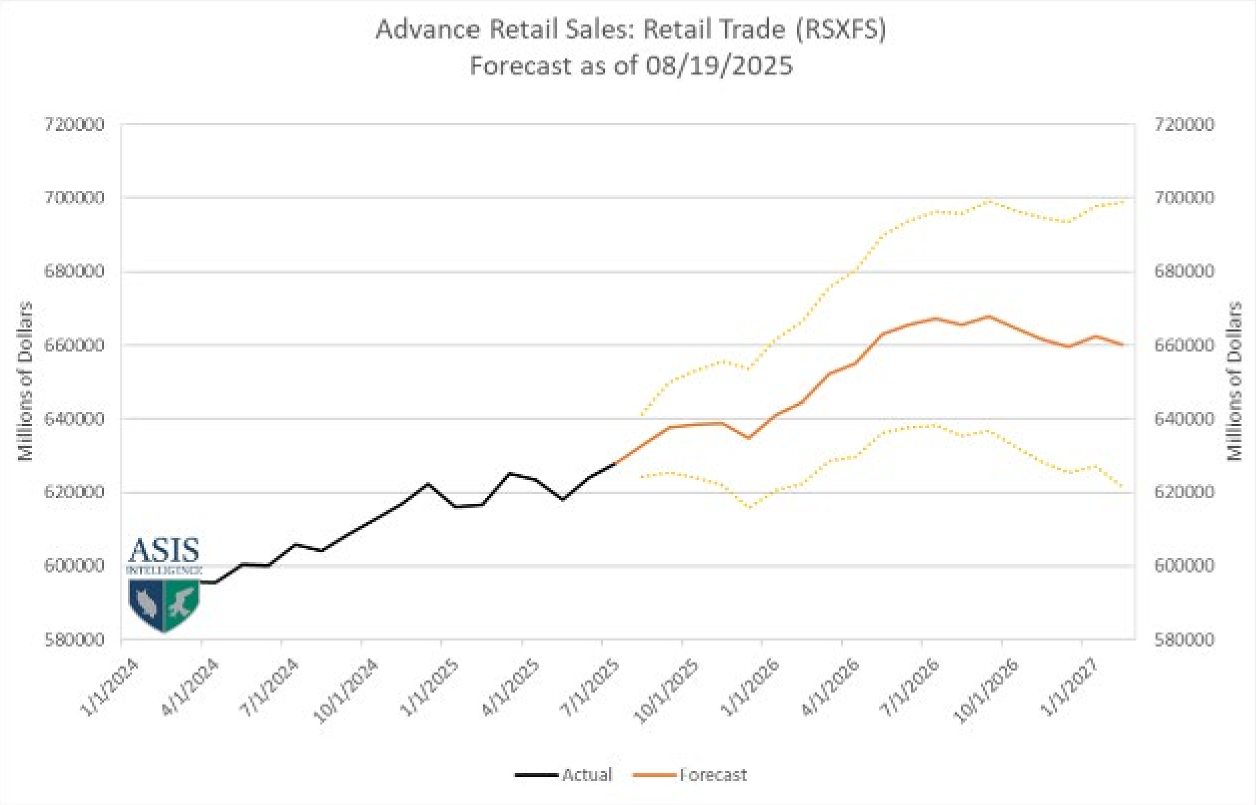
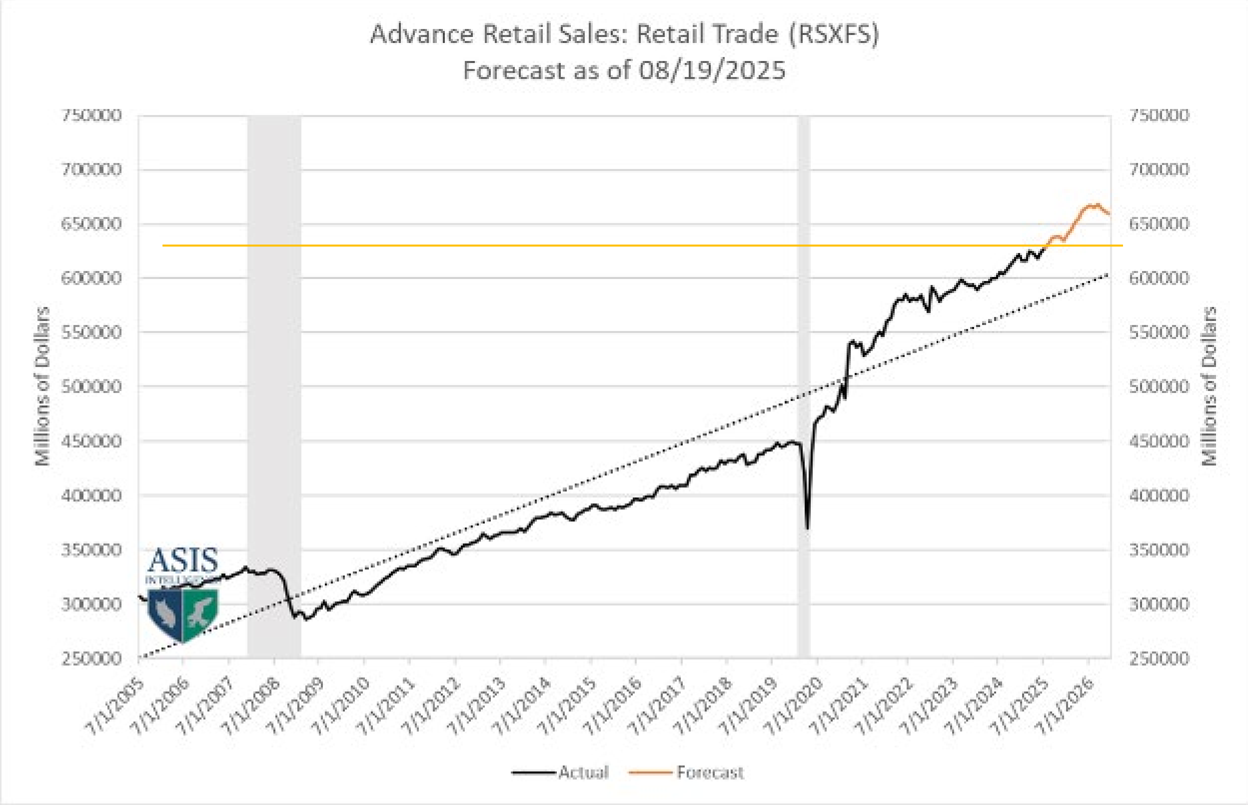
Retail Spending Forecast





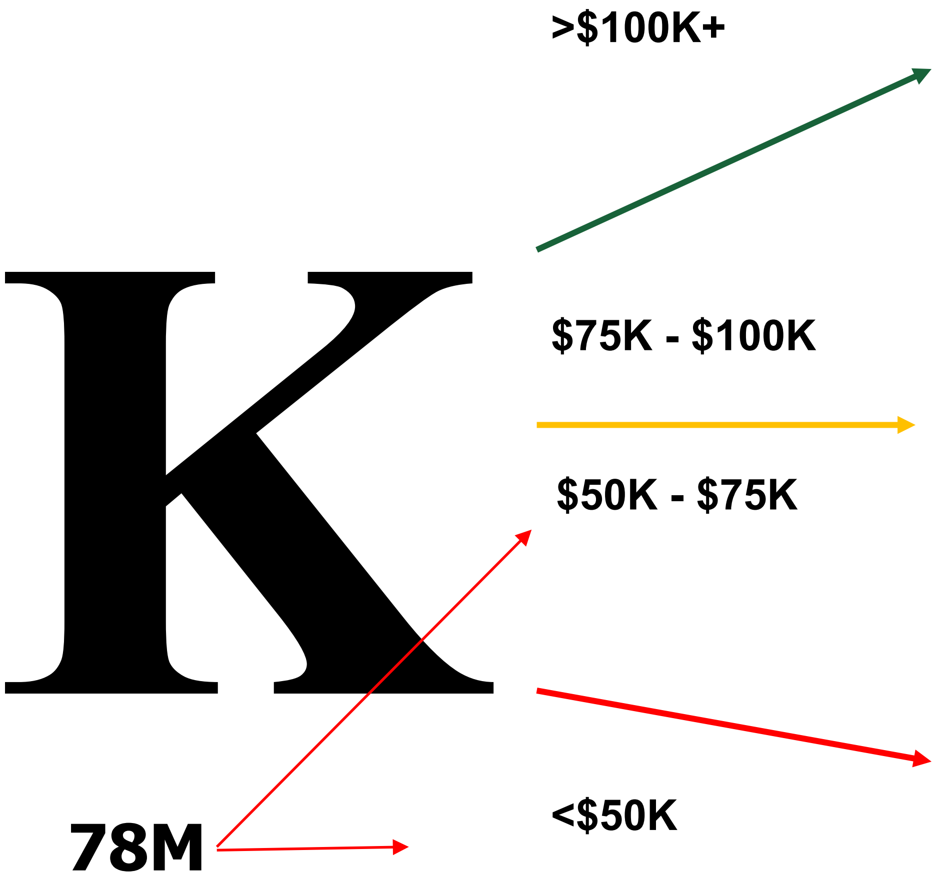
	2023				2024				2025				2023	2024	2025*
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3*	Q4*			
Advanced Retail Sales RSXFS	1.70%	1.70%	1.75%	-0.78%	0.29%	0.67%	1.45%	2.25%	0.44%	-0.20%	2.19%	-0.45%	4.42%	4.74%	1.98%

Source: Armada Forecasts

Accuracy Rates

	3-month	6-month
Advanced Retail Sales RSXFS	96.4%	94.4%

A Fundamental Principle, and How It Affects Everything
The Rare, K Shaped Recovery



- **Upper Income Households doing very, very well**
- **Many companies in various sectors breaking historic profit and revenue thresholds**

- **Middle segments are the question**
- **55% Living Check-to-check**

- **Lower income sectors have always struggled, but are finding it more difficult under the weight of inflation**
- **85% are living check-to-check**

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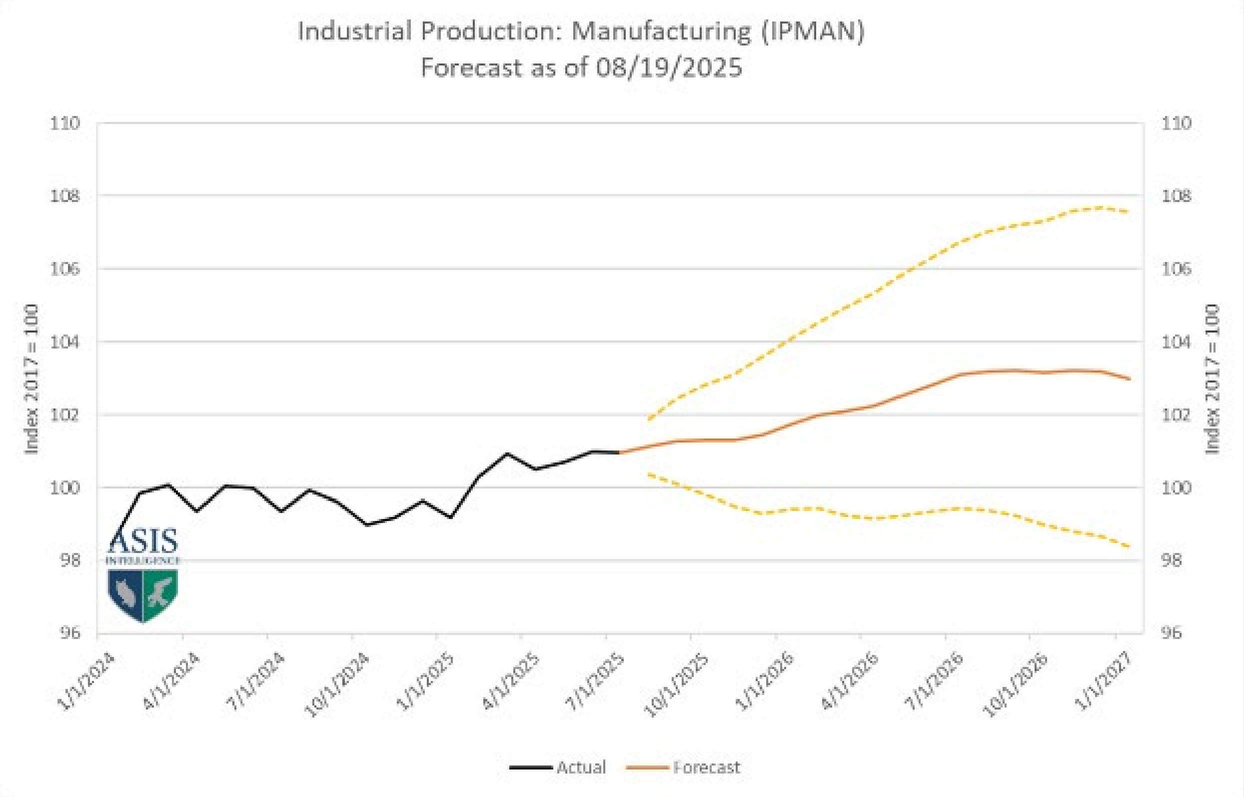
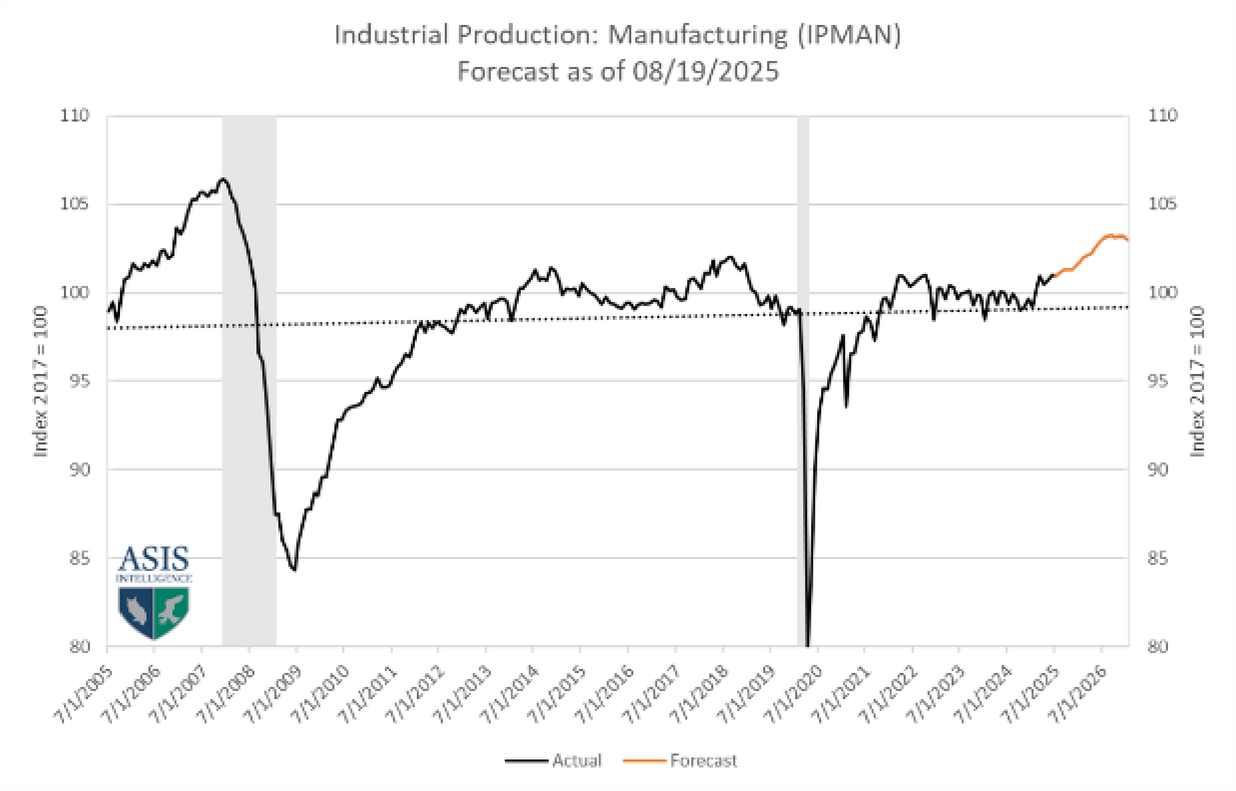
Manufacturing Production Forecast





	2023				2024				2025				2023	2024	2025*
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3*	Q4*			
Industrial Production: Manufacturing	1.22%	0.01%	0.45%	-0.27%	0.24%	-0.07%	-0.38%	0.03%	1.29%	0.07%	0.27%	0.17%	1.41%	-0.18%	1.81%

Source: Armada Forecasts

Accuracy Rates

	3-month	6-month
Industrial Production: Manufacturing IPMAN	99.8%	99.65%

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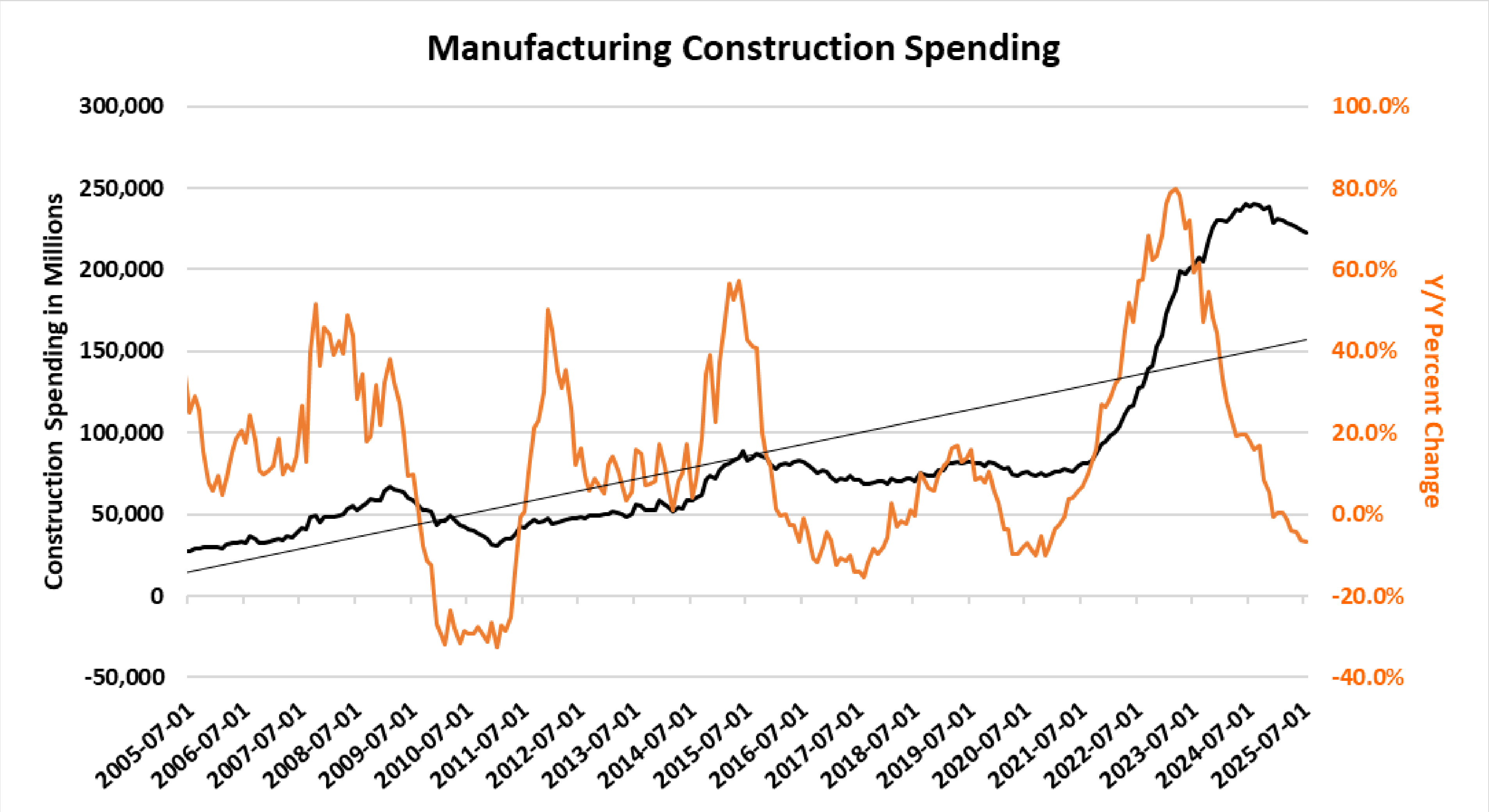
Summary of New Projects Announced in the Past 30 Days

- **For August 2025**:
  - 143 new industrial manufacturing projects announced
  - 400 total planned industrial construction projects
  - 124 new manufacturing/production facilities
  - 42 new construction projects vs 34 expansions
  - 16 projects valued at $100+ million

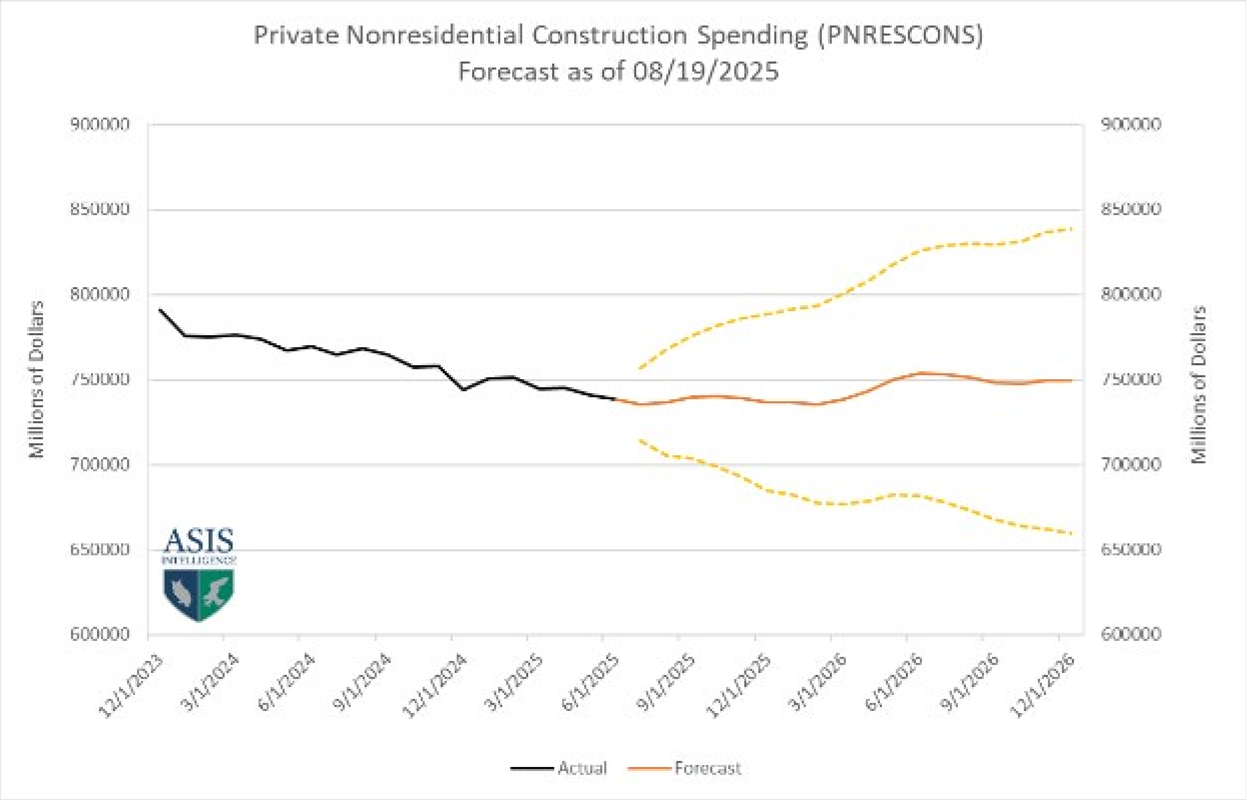
- **Top states by project count**:
  - Texas: 27 projects
  - New York: 26 projects
  - California: 23 projects
  - Michigan: 22 projects
  - Georgia: 20 projects
  - Indiana: 20 projects
  - Ohio: 20 projects

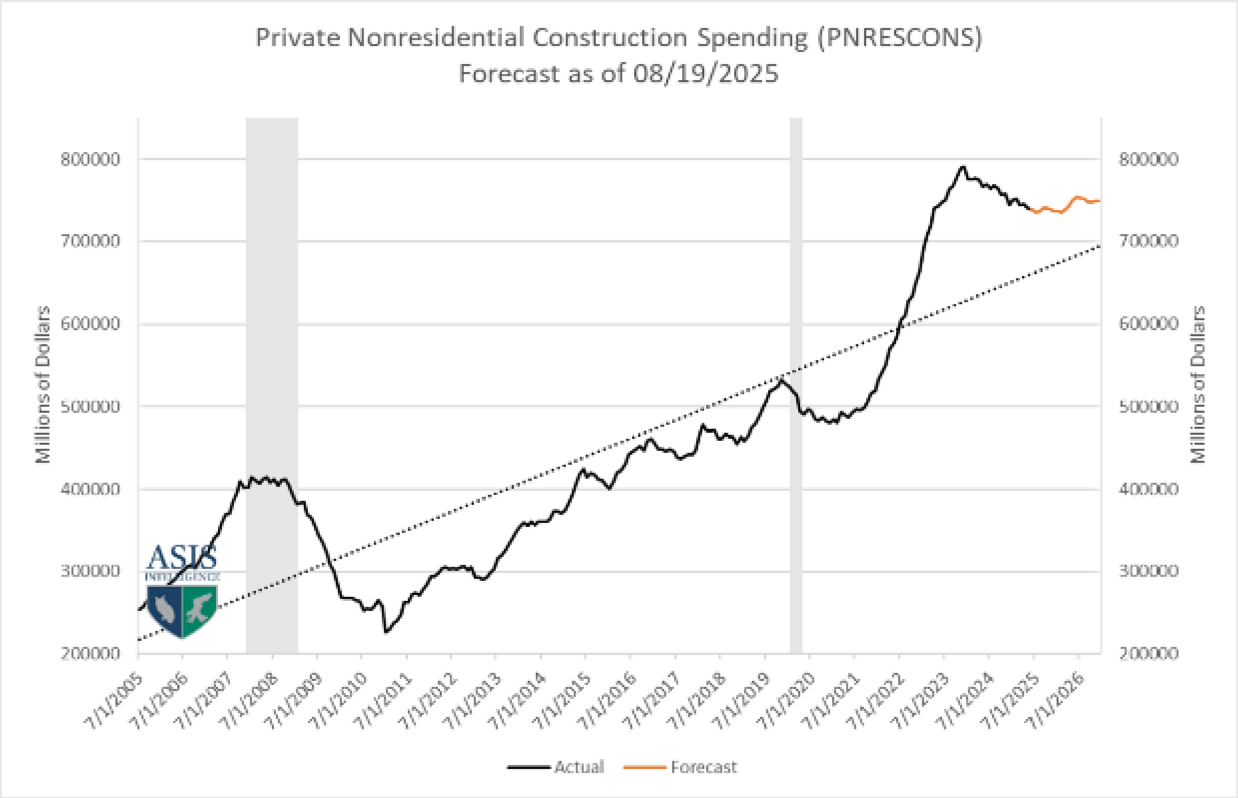
Keep in Mind the Historical Spending Comparison



- $60B average annually prior to pandemic.
- Was $223B in the latest reading and was at a $225B average over past two years
- Reportedly $5T in commitments (Trump Administration touting $8T)
  - After the Saudi Arabia and Qatar meetings: $7T

Nonresidential Construction





	2023				2024				2025				2023	2024	2025*
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3*	Q4*			
Private Nonresidential Construction PNRESCONS	8.56%	3.76%	2.57%	3.19%	-1.87%	-0.89%	-0.63%	-2.69%	0.12%	-0.81%	0.16%	-0.43%	19.22%	-5.97%	-0.97%

Source: Armada Forecasts

Accuracy Rates

	3-month	6-month
Private Nonresidential Construction PNRESCONS	99.088%	97.1%

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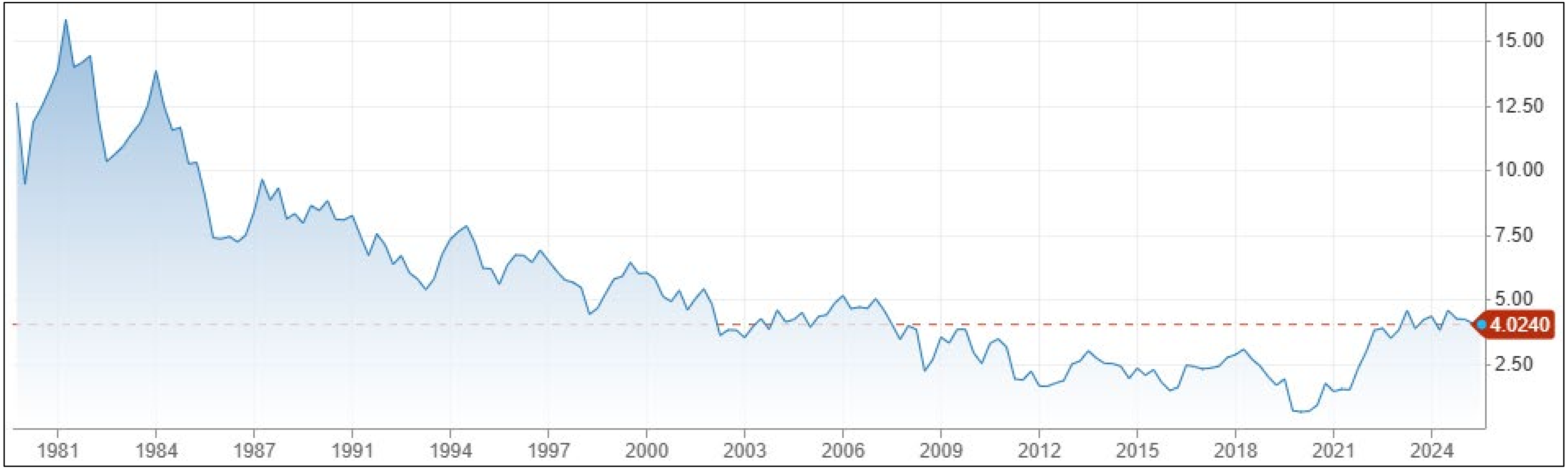
Global Manufacturing Slight Seasonal Turn?

- Only 10 countries had manufacturing sectors in contraction in August (20 in July out of 30 were in contraction)
- Only 5 fell M/M (12 in July).
- Most countries still seeing higher input and output prices, but new orders are still sluggish across most markets.
- Canada at risk with both manufacturing and services sectors in contraction.
- Mexico was starting to report stockouts that held back production. New order volumes were slightly subdued.
- Still many questions about how much inventory was pulled forward over the past several months and what the 90-day softening of tariffs will do to intermediate inbound volumes.

		Manufacturing				Services			
Country PMI	Trade with US (in billions)	Current Month	Latest Month PMI	Prior Month PMI	M/M Change	Current Month	Latest Month PMI	Prior Month PMI	M/M Change
US		Aug	53.0	49.8	3.2	Aug	54.5	55.7	-1.2
Global PMI	$ 4,700	Aug	50.9	49.7	1.2	Aug	53.4	53.5	-0.1
Canada	$ 665	Aug	48.3	46.1	2.2	Aug	48.6	49.3	-0.7
Mexico	$ 661	Aug	50.2	49.1	1.1				
China	$ 655	Aug	50.5	49.5	1.0	Aug	53.0	52.6	0.4
Eurozone PMI	$ 632	Aug	50.7	49.8	0.9	Aug	50.5	51.0	-0.5
ASEAN	$ 369	Aug	51.0	50.1	0.9				
Japan	$ 210	Aug	49.7	48.9	0.8	Aug	53.1	53.6	-0.5
Germany	$ 201	Aug	49.8	49.1	0.7	Aug	49.3	50.6	-1.3
South Korea	$ 161	Aug	48.3	48.0	0.3				
UK	$ 118	Aug	47.0	48.0	-1.0	Aug	54.2	51.8	2.4
Taiwan	$ 114	Aug	47.4	46.2	1.2				
India	$ 113	Aug	59.3	59.1	0.2	Aug	62.9	60.5	2.4
Vietnam	$ 113	Aug	50.4	52.4	-2.0				
Netherlands	$ 88	Aug	51.9	51.9	0.0				
Ireland	$ 88	Aug	51.6	53.2	-1.6	Aug	50.6	50.9	-0.3
Switzerland	$ 87	Aug	49.0	48.8	0.2				
Italy	$ 83	Aug	50.4	49.8	0.6	Aug	51.5	52.3	-0.8
France	$ 80	Aug	50.4	48.2	2.2	Aug	49.8	48.5	1.3
Brazil	$ 78	Aug	47.7	48.2	-0.5	Aug	49.3	46.3	3.0
Singapore	$ 65	Aug	50.0	49.9	0.1				
Thailand	$ 60	Aug	52.7	51.9	0.8				
Australia	$ 39	Aug	53.0	51.3	1.7	Aug	55.8	54.1	1.7
Indonesia	$ 37	Aug	51.5	49.2	2.3				
Russia	$ 36	Aug	48.7	47.0	1.7	Aug	50.0	48.6	1.4
Spain	$ 35	Aug	54.3	51.9	2.4	Aug	53.2	55.1	-1.9
Hong Kong	$ 34	Aug	50.7	49.2	1.5				
Philippines	$ 23	Aug	50.8	50.9	-0.1				
Poland	$ 11	Aug	46.6	45.9	0.7				
Greece	$ 3	Aug	54.5	51.7	2.8				

Sources: S&P Global, Caixin, JP Morgan, Jibun Bank, Nevi, BME, CIPS

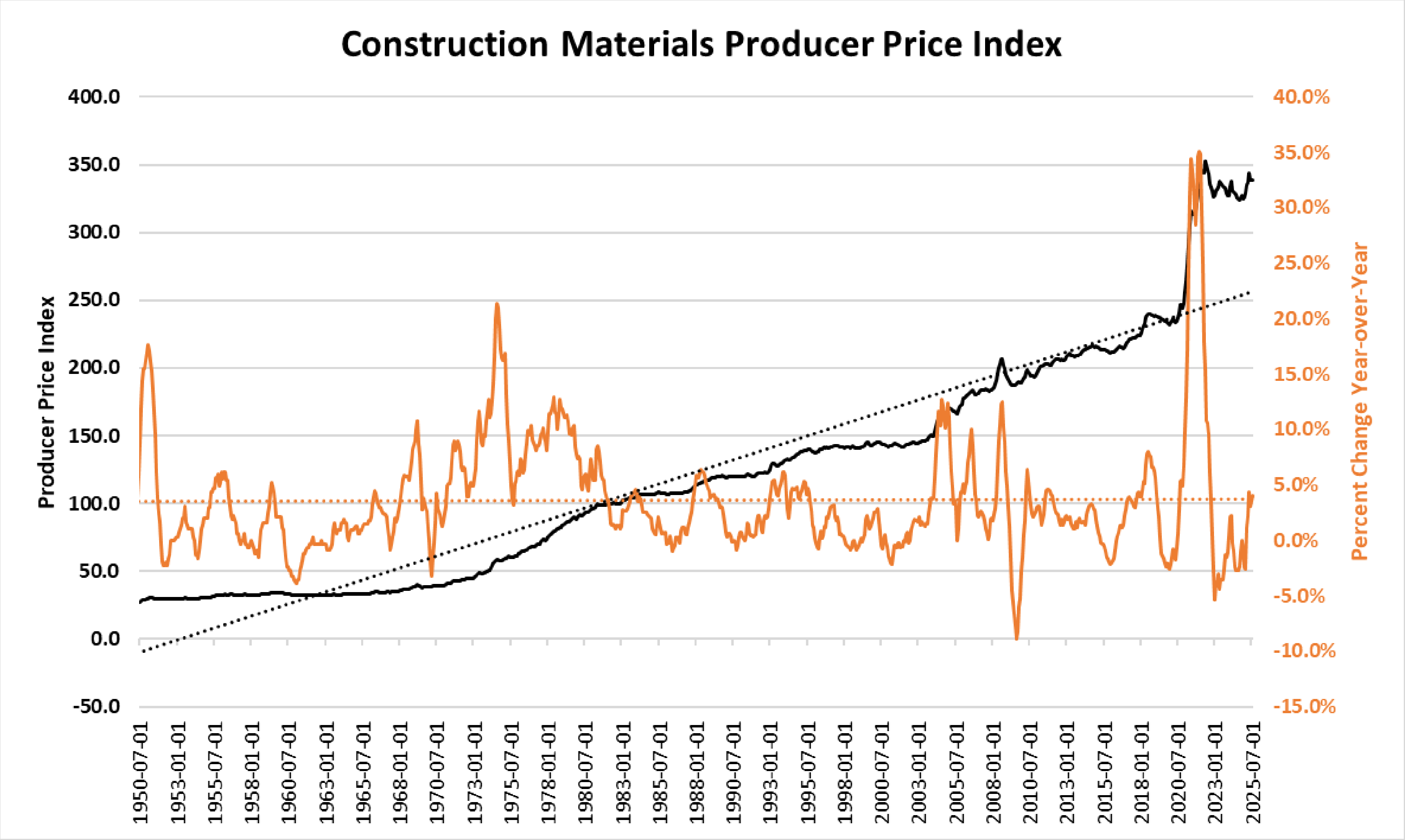
What to Make of the Bond Market? Good and Bad.



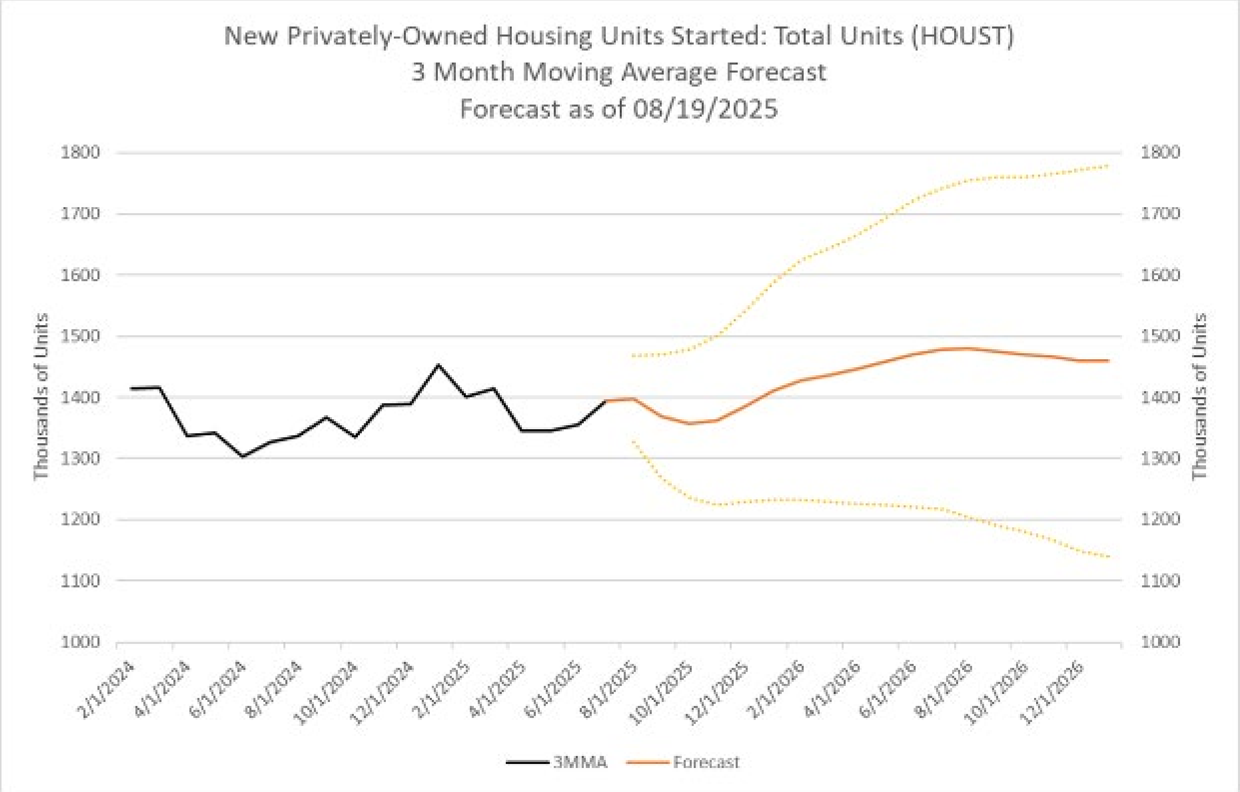
- 4% is reportedly a psychological threshold – but there is no magic historically with 4%.
- Historically still reasonable – but compared to the past decade, still higher than expectations. 3-3.5% is probably the best we will see in the next decade.

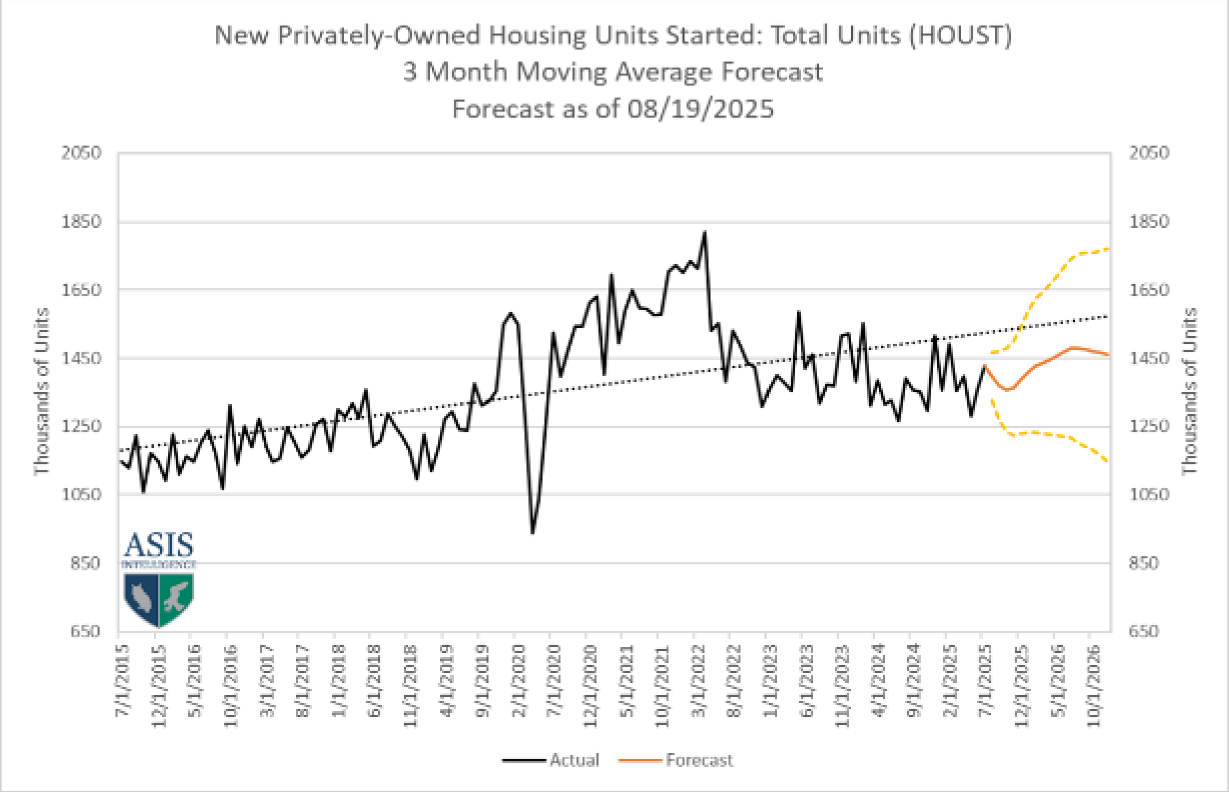
Construction Materials Producer Price Index – No Relief Showing Through July

- Housing affordability is the problem – for the average household. Interest rates and material costs…
- Up 4.1% Y/Y, slightly below May annualized rate.
- Most PMI reports also suggest that input prices were higher in August
- Section 232 tariffs will add more pressure to anything with steel and aluminum components



Residential Construction Forecast





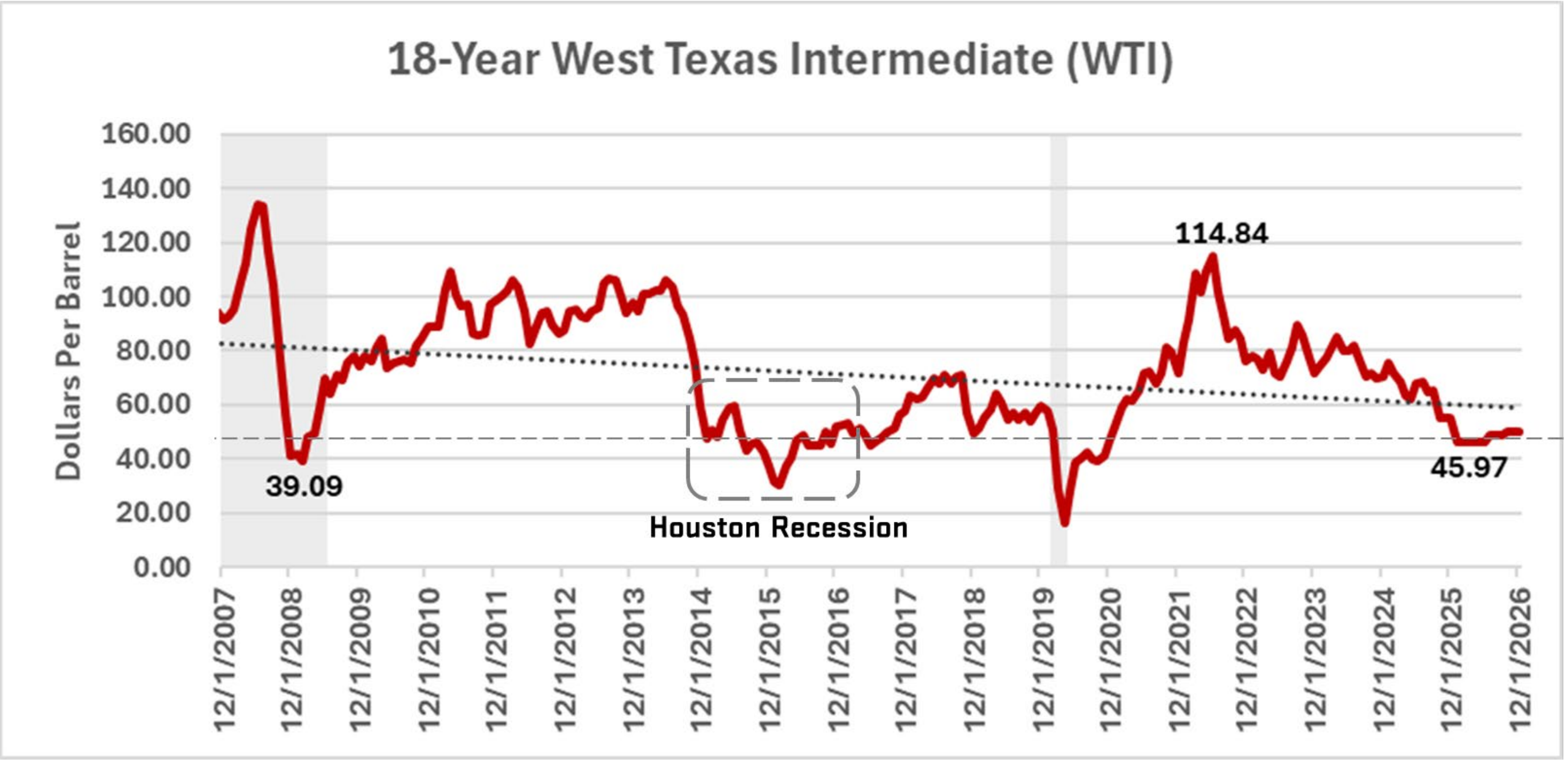
	2023				2024				2025				2023	2024	2025*
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3*	Q4*			
New Privately-Owned Housing Units Started: Total Units HOUST	5.28%	3.20%	-3.52%	10.94%	-13.74%	1.14%	2.26%	11.57%	-10.50%	0.22%	0.85%	1.22%	16.28%	-0.46%	-8.44%

Source: Armada Forecasts

Accuracy Rates

	3-month	6-month
New Privately-Owned Housing Units Started: Total Units HOUST	95.5%	97.5%

Oil Industry Risk in Early 2026



SRC: EIA; St. Louis Fed

- **60K-90K jobs at risk**
  - TX, NM, ND, Col.
- **Small and mid-caps need $48-$55 for breakeven**
- **2015-2016 had 70+ bankruptcies in oil field services**
- **Energy-heavy banks (2016: 10 largest TX bank failures were tied to energy exposure)**
- **Trump Admin could create backstop…**

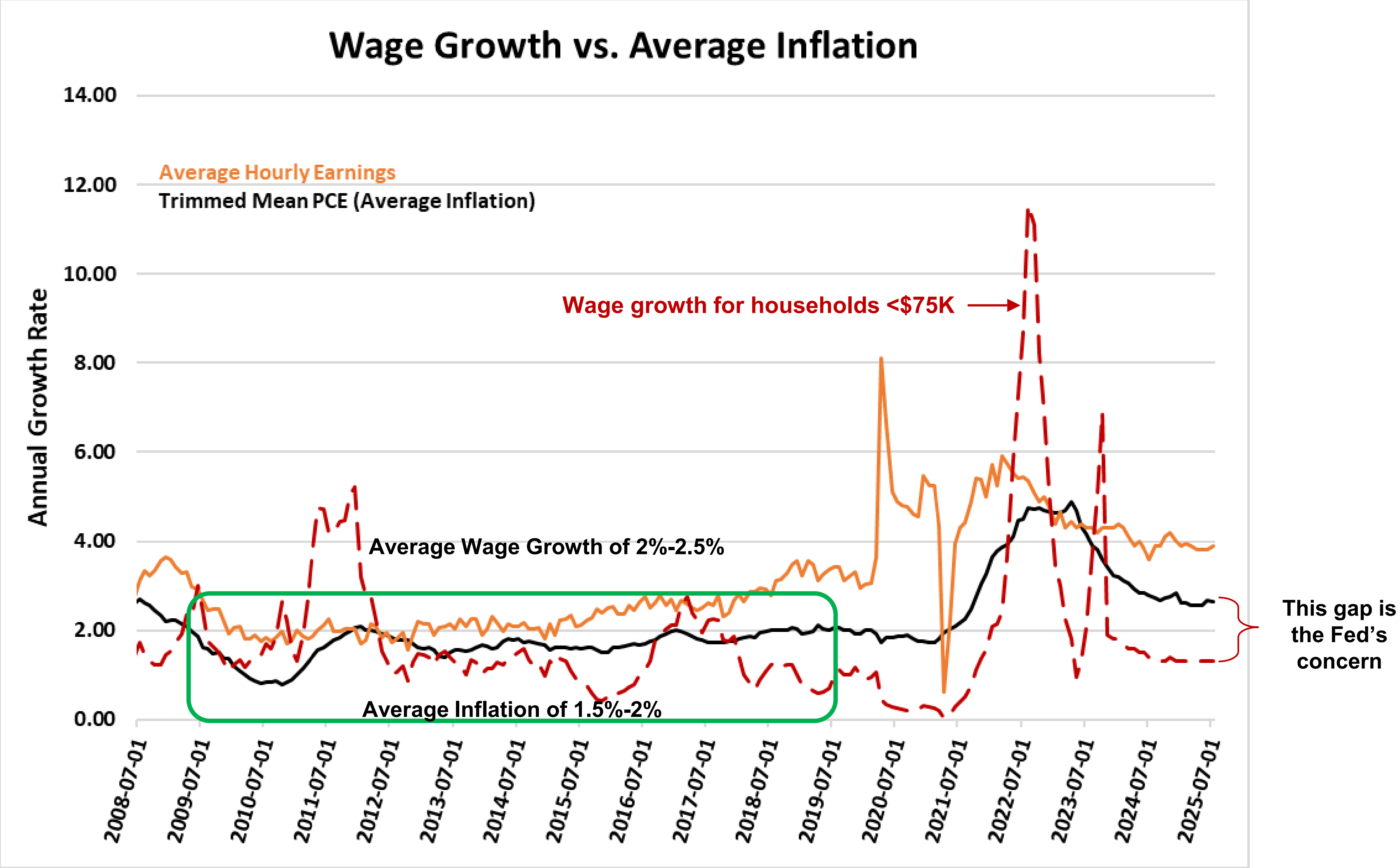
Wages vs. Inflation?

1. Historical wage growth of 2.5%-3.0%

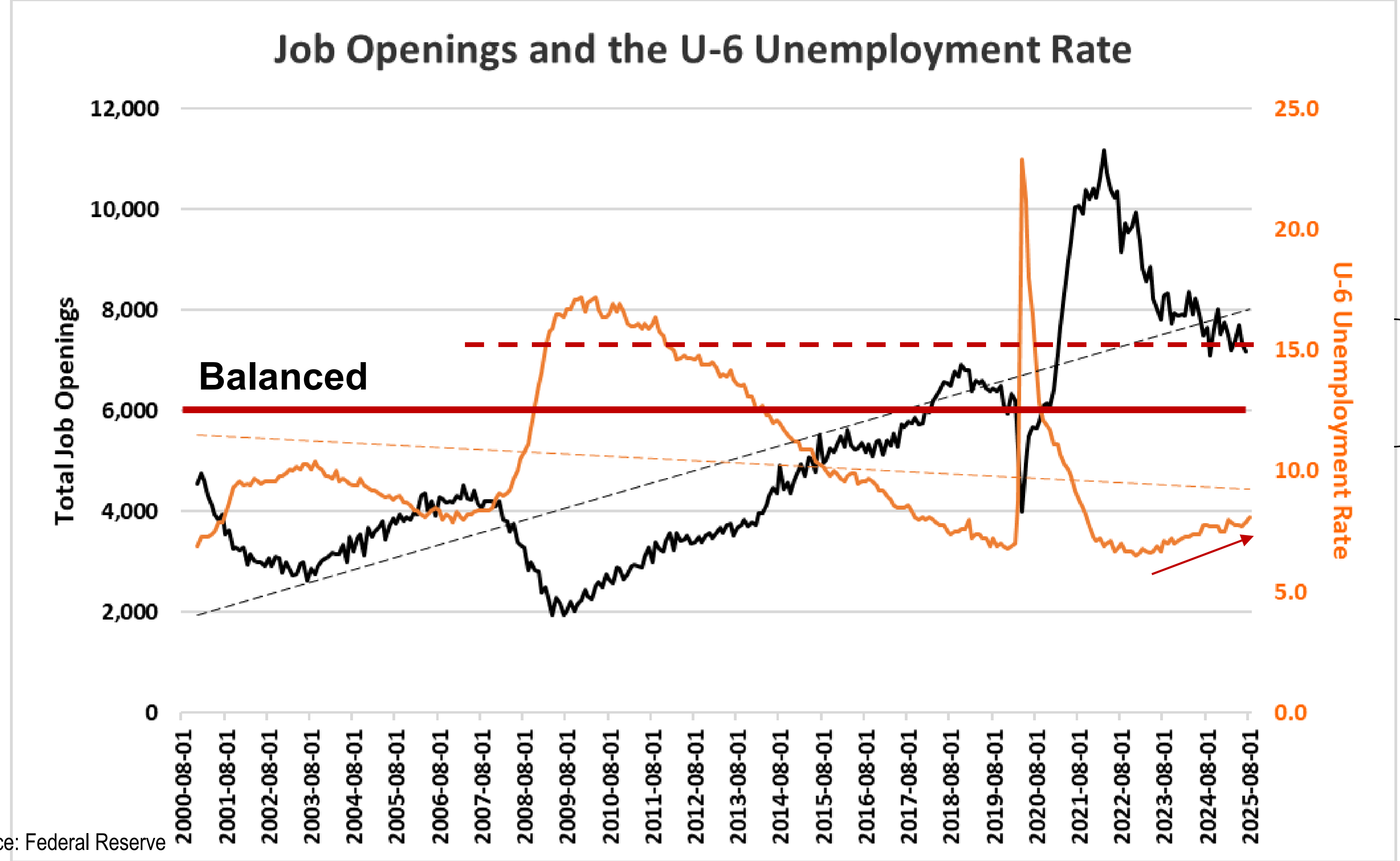
2. Average inflation needs to be 2% in order to allow households to build some “headroom” between income and costs

3. 62% of US households still living check-to-check (28% in higher earning households): <u>78 million households</u>

Lower inflation helps quickly activate the lower half of the K.



Keeping Tabs on the Labor Markets: Trouble Brewing?



Source: Federal Reserve

1.4M job opening buffer at the moment.

U-6 rate is moving up, but still historically low at 7.9% (long-term average was 10.1%; but currently up from the 6.6% trough hit in 2023).

For Now: Real Disposable Personal Income "Just OK"

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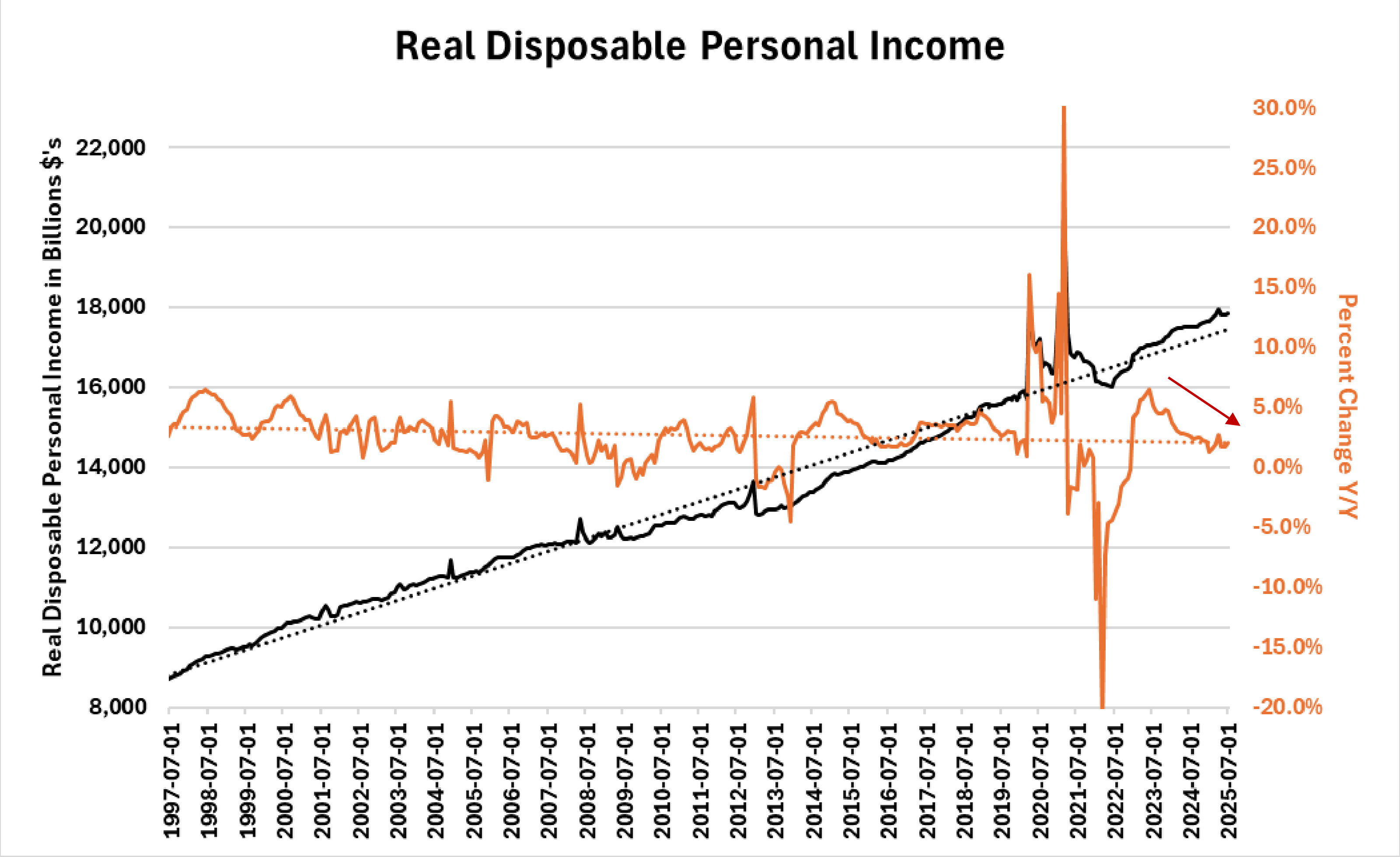
- Inflation-adjusted disposable personal income is now trending at 1.7%.
- This has a direct impact on discretionary spending.

2021:	3.7%
2022:	-5.2%
2023:	5.1%
2024:	2.7%
2025 (June):	2.0%
2026:	2.9% (?)

2019: 3.1%



Decade Averages: 1960s: 4.6% 1970s: 3.5% 1980s: 3.2% 1990s: 3.0% 2000s: 2.6% 2010s: 2.4% 2020s: 2.0%

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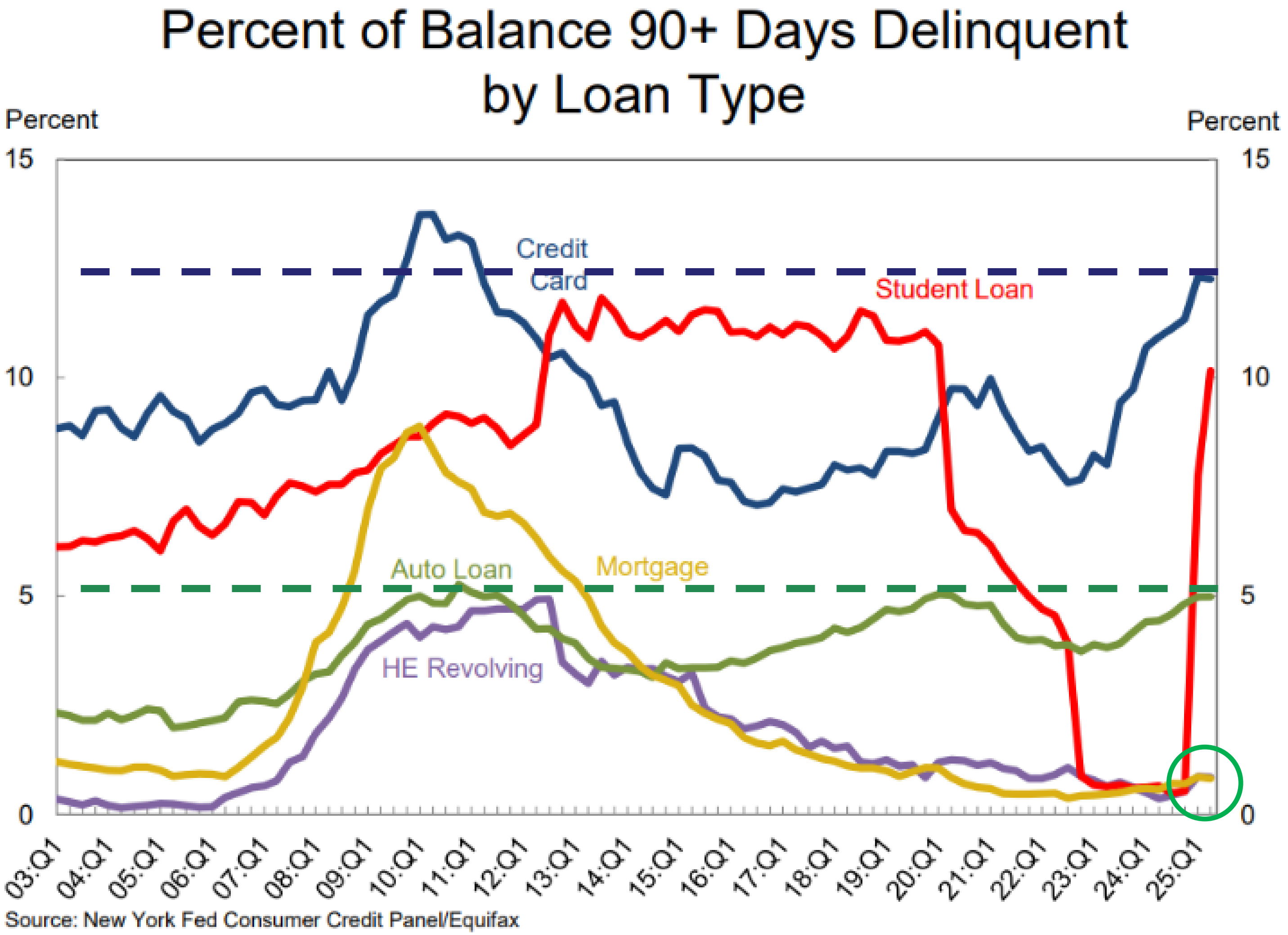
SRC: BEA; DSPIC96

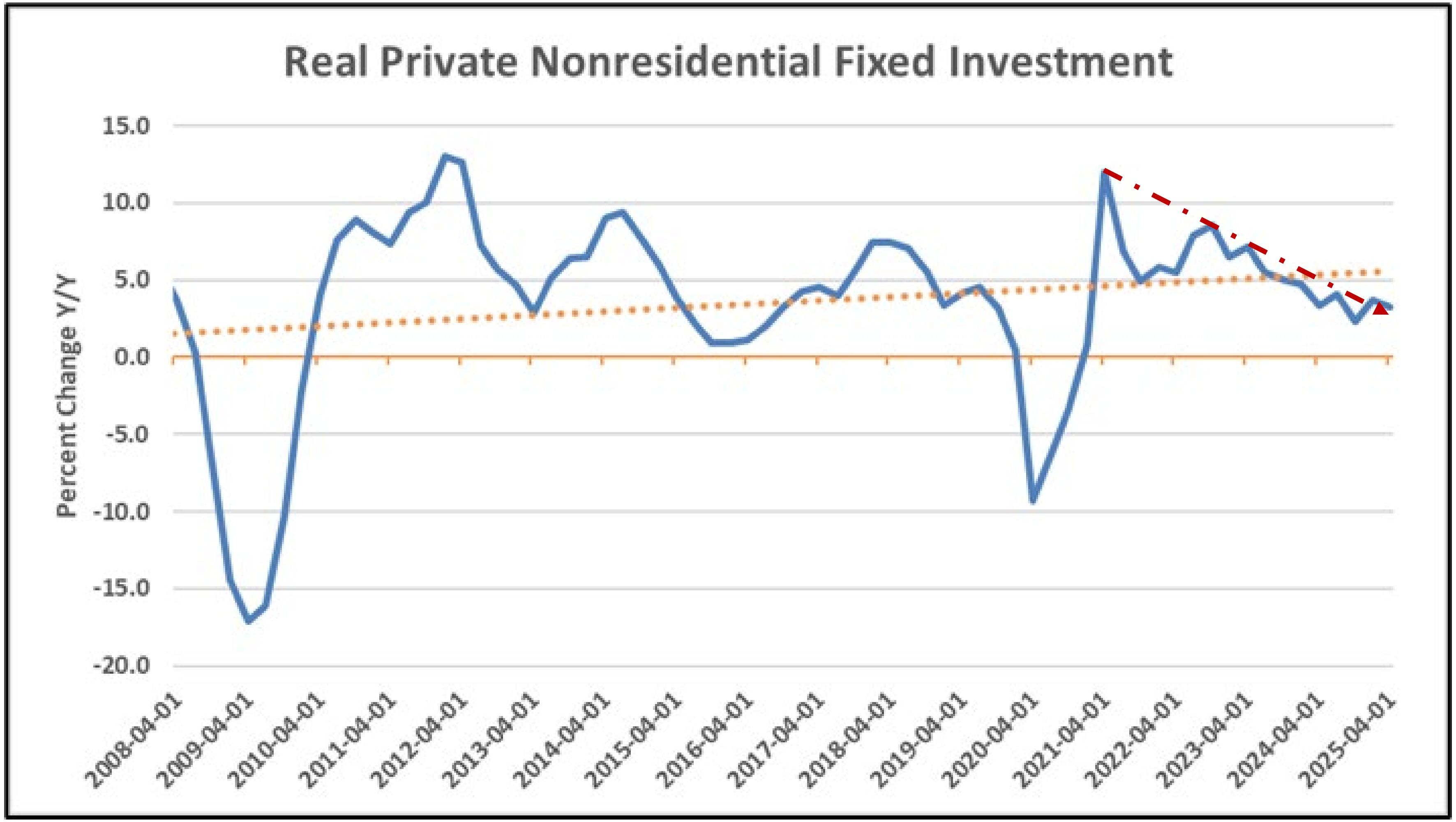
Delinquency by Loan Type

- **Credit card and auto loan delinquency rates are near 2009 highs.**
- **But mortgage and HE Line delinquencies are still low.**
- **Final reporting of student loan debt catching up to "normal". Some delays likely still here.**
- **New data shows:**
  - 46.7% think credit will be harder to get than last year (highest since 6/24)
  - 8.5% were not applying because they didn't think they would get approved (highest in history of the survey – 10/13)
  - 33.5% probability of rejection rate for big-ticket loans (auto, home, etc.), highest in history of the survey.
  - Being able to come up with $2,000.00 62.7%, lowest in the history of the survey.



Some Concerns About Corporate Investment and Spending; Announcements Mentioned Earlier Not Showing Yet?

- Growing at 3.2% Y/Y through Q2, but the trend has been sliding since the peak hit in 2021. This data lags by a quarter – other measures show that it could be accelerating.
- Was only moderately higher by 0.5% Q/Q
- Monthly data shows that it might be running at 4.1% - which would be a modest improvement over this measure.



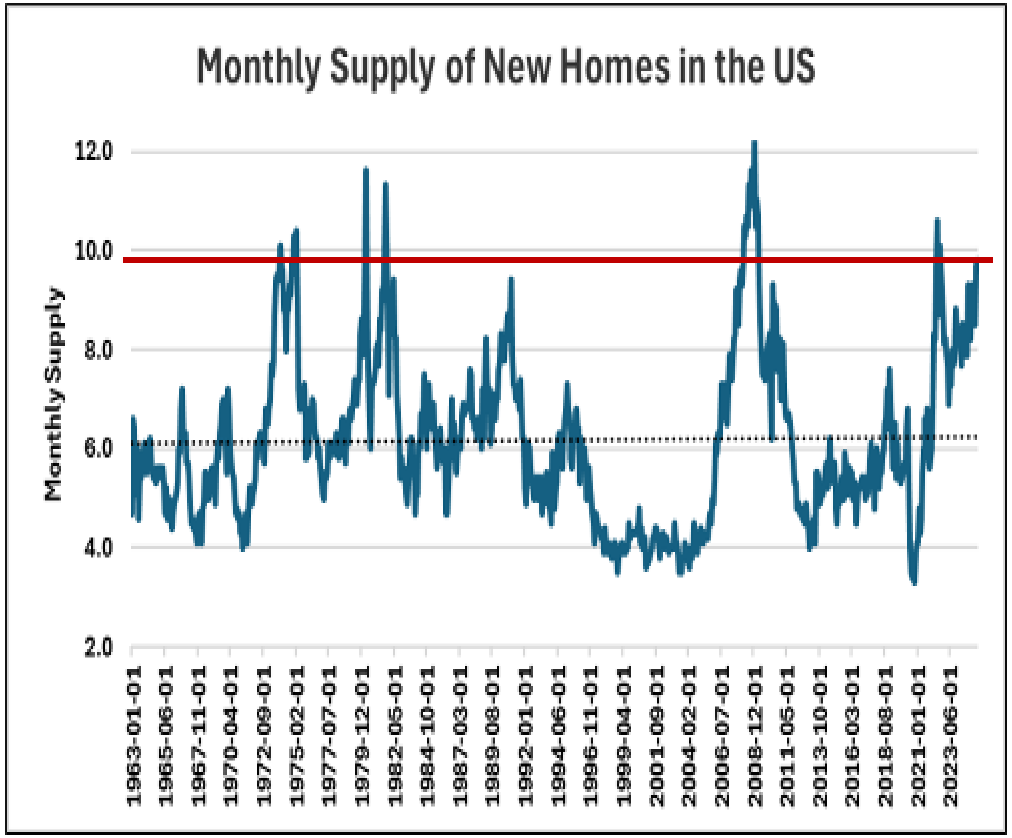
The Big Risk: US Housing

- **US Residential Housing sector accounts for 16% of GDP – and as goes the US housing market so goes the economy.**

- **The Monthly Supply of Homes is currently trending at 9.8 months of inventory on hand.**
  - Other than a dramatic crisis period (the pandemic lockdown or the Great Recession), this is the highest level since 1981.

- **Impact beyond the obvious: Estimates show one new single-family home creates 7 full truckloads of equivalent volume for the inside of the home alone, does not include the exterior or foundation materials.**

- **Builder sentiment inched up by one point this month to 33, up from 32 last month but still 19% lower than this time last year.**
  - Input costs are still a concern for many builders – and mortgage rates are still not dropping at sufficient rates
  - For context:
    - Historic average is 51.6
    - All time high was 90 in November 2020
    - All time low was 8.0 in January of 2009 during the Great Recession



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Container Prices Still Showing the Stall, But Some Hints of Sequential Improvement

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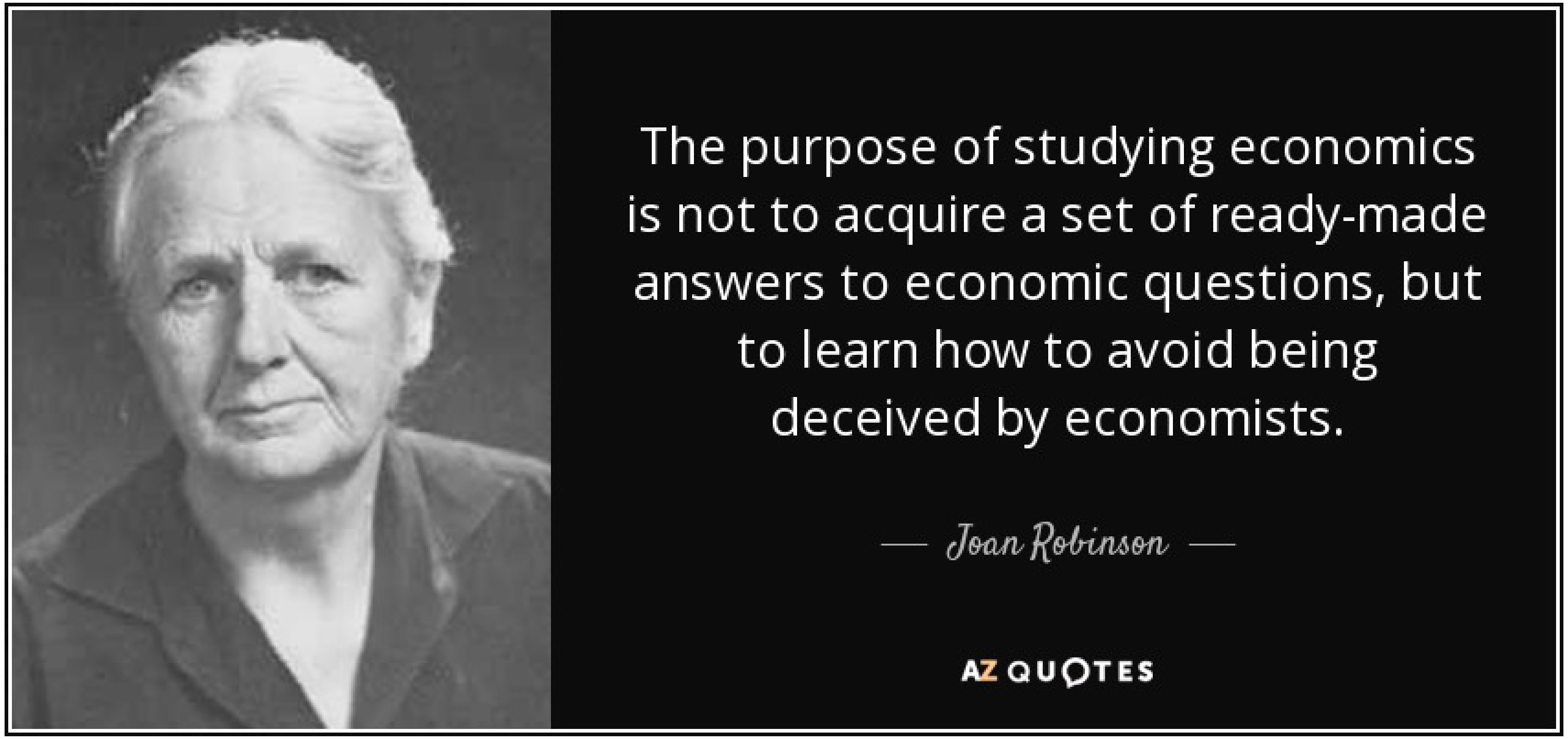
ROUTE	Route code	28 Aug 2025	4 Sept 2025	11 Sept 2025	Weekly change (%)	Annual change (%)
Composite Index	WCI-COMPOSITE	$2,119	$2,104	$2,044	-3% ▼	-51% ▼
Shanghai - Rotterdam	WCI-SHA-RTM	$2,661	$2,385	$2,143	-10% ▼	-58% ▼
Rotterdam - Shanghai	WCI-RTM-SHA	$467	$461	$455	-1% ▼	-25% ▼
Shanghai - Genoa	WCI-SHA-GOA	$2,842	$2,653	$2,342	-12% ▼	-55% ▼
Shanghai - Los Angeles	WCI-SHA-LAX	$2,332	$2,522	$2,678	6% ▲	-52% ▼
Los Angeles - Shanghai	WCI-LAX-SHA	$714	$720	$723	0%	1% ▲
Shanghai - New York	WCI-SHA-NYC	$3,291	$3,677	$3,743	2% ▲	-44% ▼
New York - Rotterdam	WCI-NYC-RTM	$845	$839	$856	2% ▲	22% ▲
Rotterdam - New York	WCI-RTM-NYC	$1,956	$1,950	$1,938	-1% ▼	-4% ▼

Some Specific Discussions



Summary

- Economic risks are still prevalent – especially in the labor market; despite what looks like some decent momentum being built in some sectors.
- Automotive had a nice uptick in August, total unit sales breached 16M annually again.
- New industrial projects on the way (many setting pre-2028 project launch dates).
- Residential construction still struggling – but some Fed easing and recent downshifting in the 10Y will help spur some regional spurts of growth
- But concerns brewing in the petroleum sector and a sharp downshift as early as Q1/Q2 if current conditions hold. Something to watch…