PIEDMONT CRESCENT CAPITAL

Tariffs, Inflation, and Transition: What's Next for the U.S. Economy

2025 ECONOMIC OUTLOOK

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Mark Vitner, Chief Economist

After spending the past 30 years as managing director and senior economist at Wells Fargo's Corporate and Investment Bank, Mark Vitner founded Piedmont Crescent Capital this past year. At his new firm, Mark provides analysis of the macro economy to clients located throughout the country and writes a series of reports on the US economy, local economies, small business, and residential and commercial real estate. He also provides economic content for CAVU Securities, writing their monthly newsletter, The CAVU Compass.

Originally from Atlanta, Mark earned a BBA in economics from the University of Georgia, an MBA from the University of North Florida and completed further graduate work in economics at the University of Florida. Mark is a member of the National Association of Business Economics and completed the NABE Advanced Training in Economics Program at Carnegie Mellon University. He is also a member of NABE's inaugural Certified Business Economist (CBE) class.

Mark is active in the community, co-founding the Charlotte NABE chapter and serving as board chair for the Foundation for the Charlotte Jewish Community. Mark also chaired the Economic Advisory Council for the California Chamber of Commerce and currently serves on the Joint Advisory Board of Economists for the Commonwealth of Virginia. His commentary has been featured in The New York Times, The Wall Street Journal, Bloomberg, and many other publications. Mark also makes frequent guest appearances on CNBC and other major networks.

Economic Growth Has Cooled as Tariffs have Buffeted Business Plans

The Economy Has Lost Considerable Momentum

The **economy has lost considerable momentum** as **uncertainty surrounding Trump's economic policies** has **slowed hiring, capital spending, and consumer outlays.** Concerns over stagflation and recession have resurfaced, with real GDP averaging just 1.2% in the first half of the year. Expectations for growth in the second half have been scaled back to around 1.5%, although the Atlanta Fed's GDPNow currently projects a 2.3% pace for the third quarter. **Uncertainty has subsided more recently and expectations for a Fed rate cut have increased.**

Inflation Fatigue is Waning But Tariffs Trigger PTSD

Inflation and housing affordability remain key concerns for consumers and policymakers. **Higher costs for housing, groceries, transportation, and insurance have left consumers with less to spend on other goods and services.** While consumers remain focused on inflation, the introduction of tariffs has led to a **spike in inflation expectations in consumer surveys**—***unmatched by actual inflation*** or market-based measures. Housing remains out of reach for many first-time buyers, while high mortgage rates continue to keep trade-up buyers locked in their current homes.

Higher Inflation and Home Prices Continue to Fuel an Affordability Migration

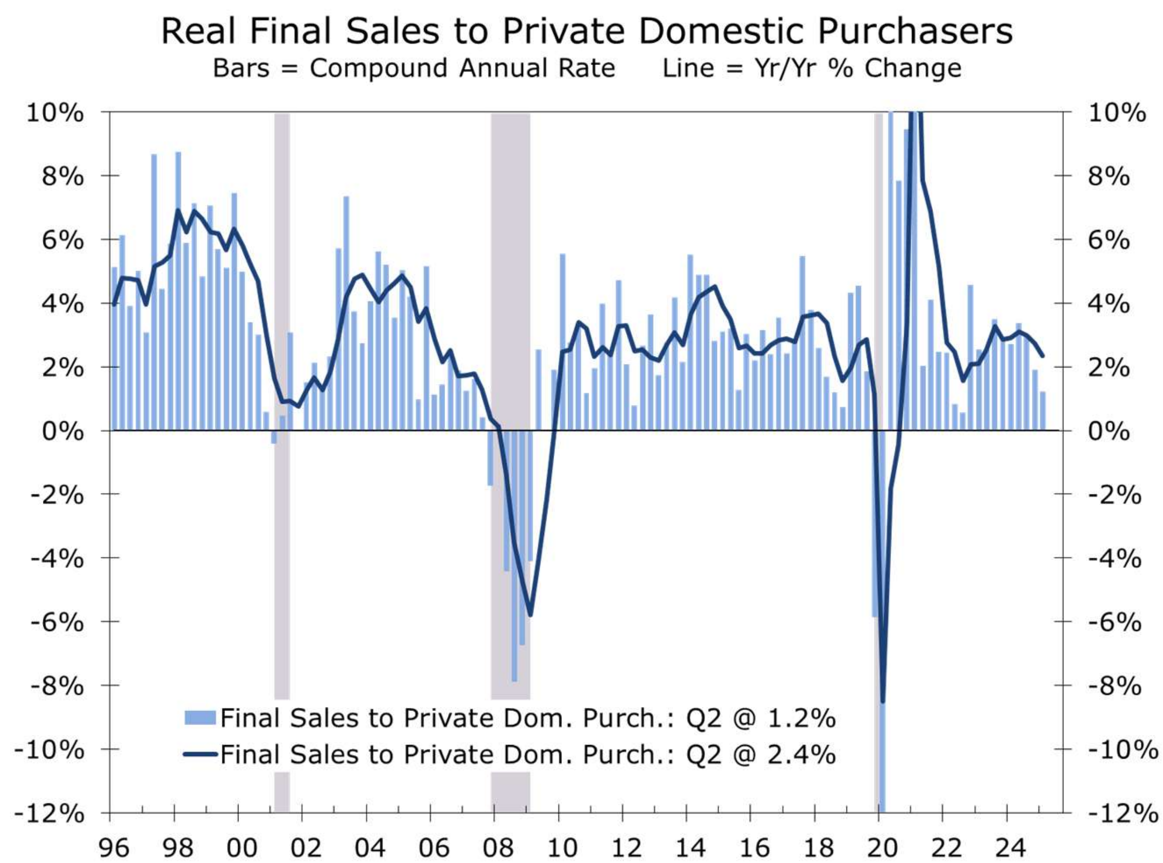
Higher inflation, particularly for housing, has fueled an **affordability-driven migration** to the South, **similar to trends seen in the early 1980s.** Texas, Florida, the Carolinas, Tennessee, and Georgia have been the primary beneficiaries. The influx has been reinforced by business relocations from California, New York, and Chicago, with **Dallas–Fort Worth**, **Nashville**, Atlanta, **Miami/South Florida**, Charlotte, and Raleigh seeing the greatest concentration of new headquarters and industrial development. The South is also riding a wave of Baby **Boomer retirements**, which is helping drive residential growth in Florida, South Carolina, and Tennessee.

Data Centers, AI, Pharma, Aerospace and Defense Remain Bright Spots

In 2025, deal volume has slipped modestly as **tariff and tax uncertainty sidelined many mid-tier expansions.** The projects that did move forward were **blockbuster investments in AI infrastructure**, pharmaceuticals, aerospace, defense, energy, and **reshoring**—driving total capital commitments to record levels despite fewer overall announcements. AI and data center build-outs lead in scale, with major projects from **AWS, Meta, Compass, xAI, Apple, Google, Microsoft, and Digital Realty. AI infrastructure** is also spurring investment at **utilities and power equipment manufacturers, including Eaton, Rolls-Royce, and Mitsubishi. Reshoring** is fueling growth in **pharmaceuticals (AstraZeneca, J&J, Lilly), as well as medical and consumer products (GE Appliances).**

Tariffs and Uncertainty are Masking Weak Underlying Demand

- The implementation of tariffs has led to wide swings in GDP growth this year, subtracting 4.7 ppts from Q1 and adding 5.0 ppts back to Q2.
- Heightened uncertainty has slowed hiring, capital investment, and overall spending.
- Real final sales to private domestic purchasers grew at just a 1.2% pace in Q2 and averaged just a 1.6% pace in the first half of the year.



Source: Bureau of Economic Analysis

July's Employment Report Came in Unexpectedly Weak

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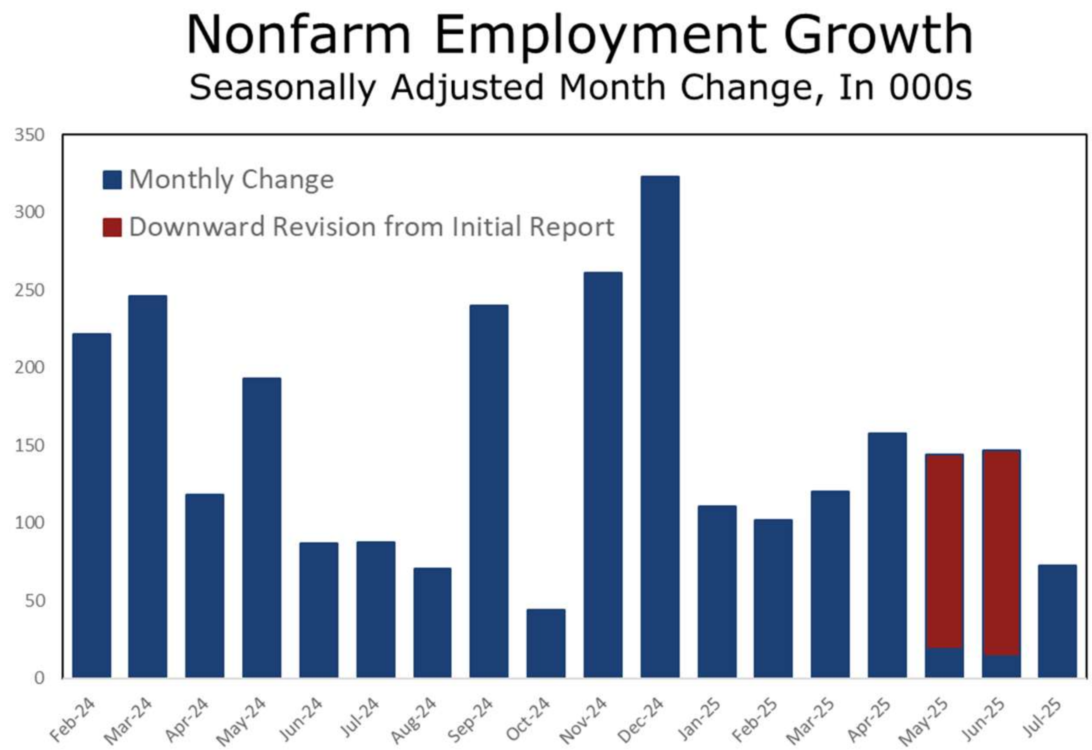
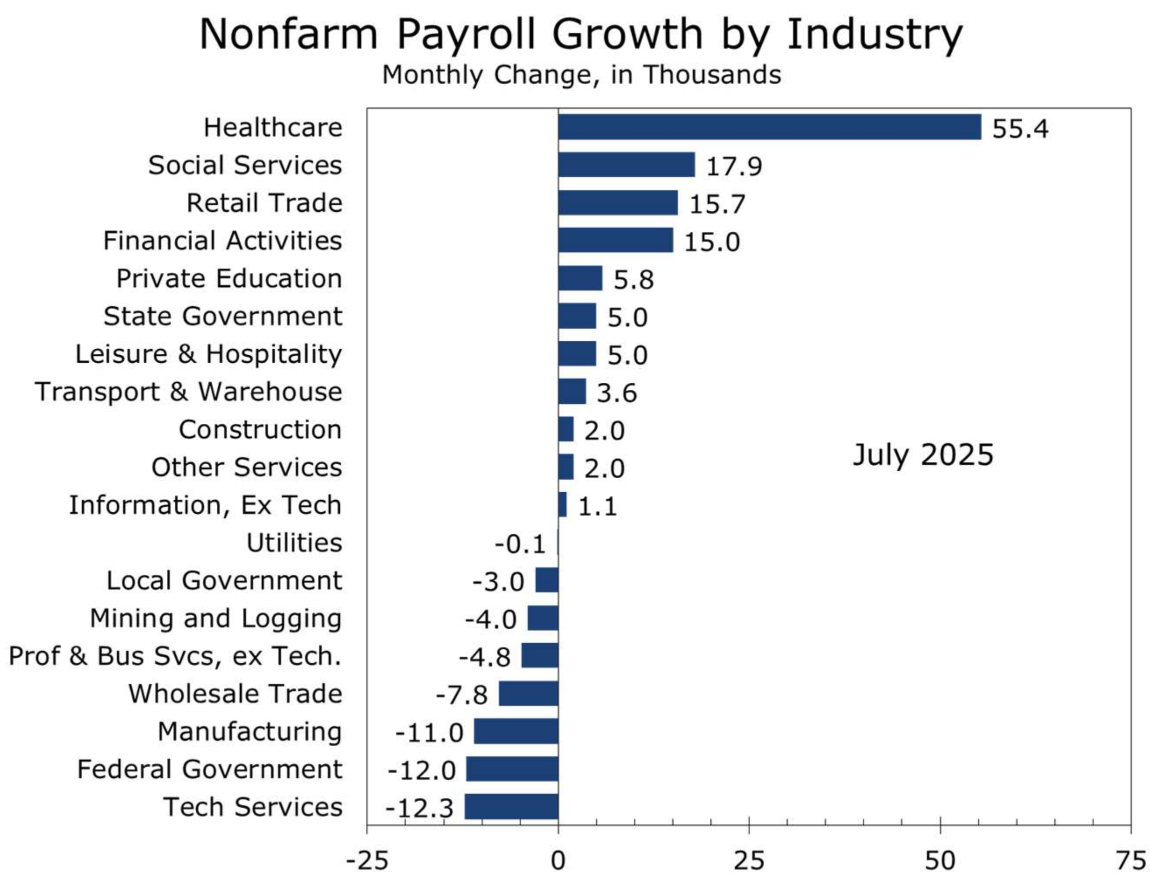
- July job growth came in below expectations (+73K) and data for the prior two months were revised sharply lower.
- Not only is job growth weaker, but fewer industries are adding staff.
- Uncertainty about tariffs and the interest rates has led businesses to cut costs and hold off on hiring or expanding.



Source: Bureau of Labor Statistics

Job Growth Remains Concentrated in a Handful of Industries

- Job gains remain narrowly based.
- Health care & social services, and a handful of other sectors account for the bulk of recent job growth.
- Private sector data (ADP survey) suggest hiring in healthcare has been exaggerated.
- Many of these jobs are also relatively low paying.



Source: Bureau of Labor Statistics

Reported Job Growth is Now Closer to the True Underlying Trend

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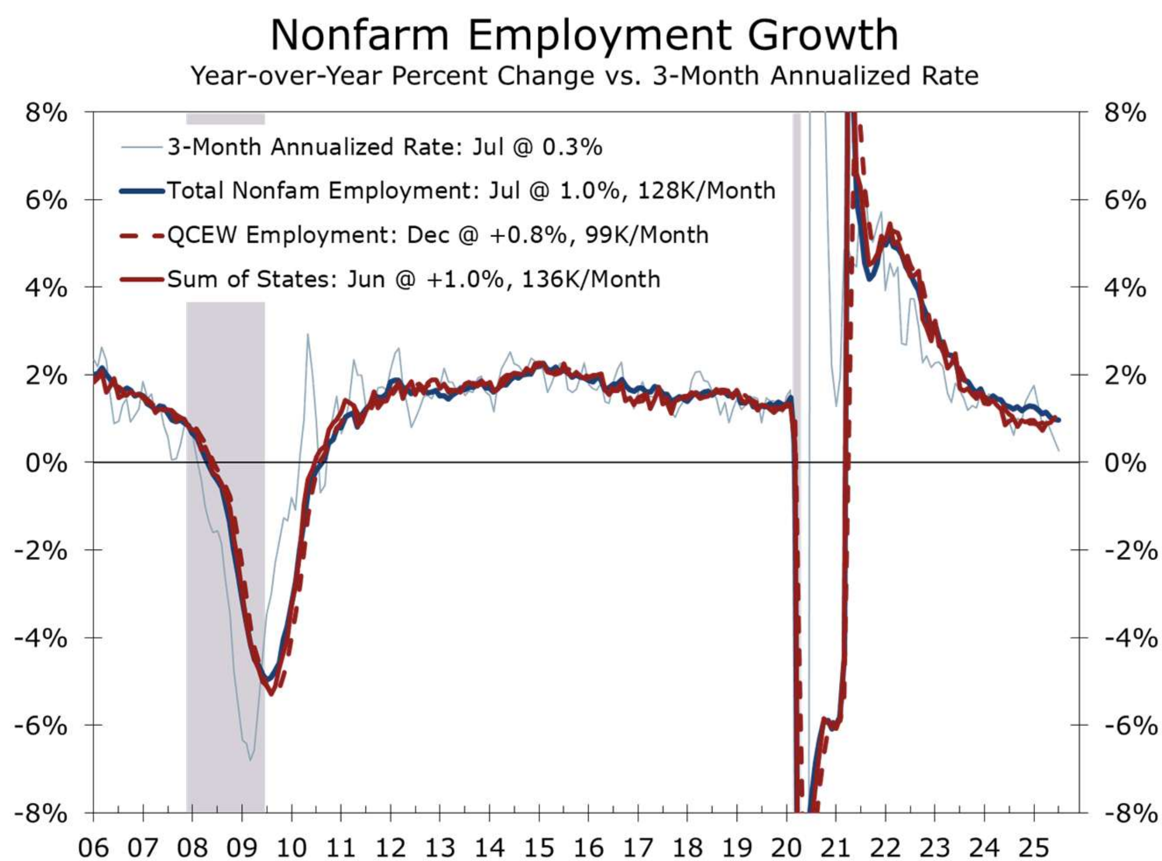
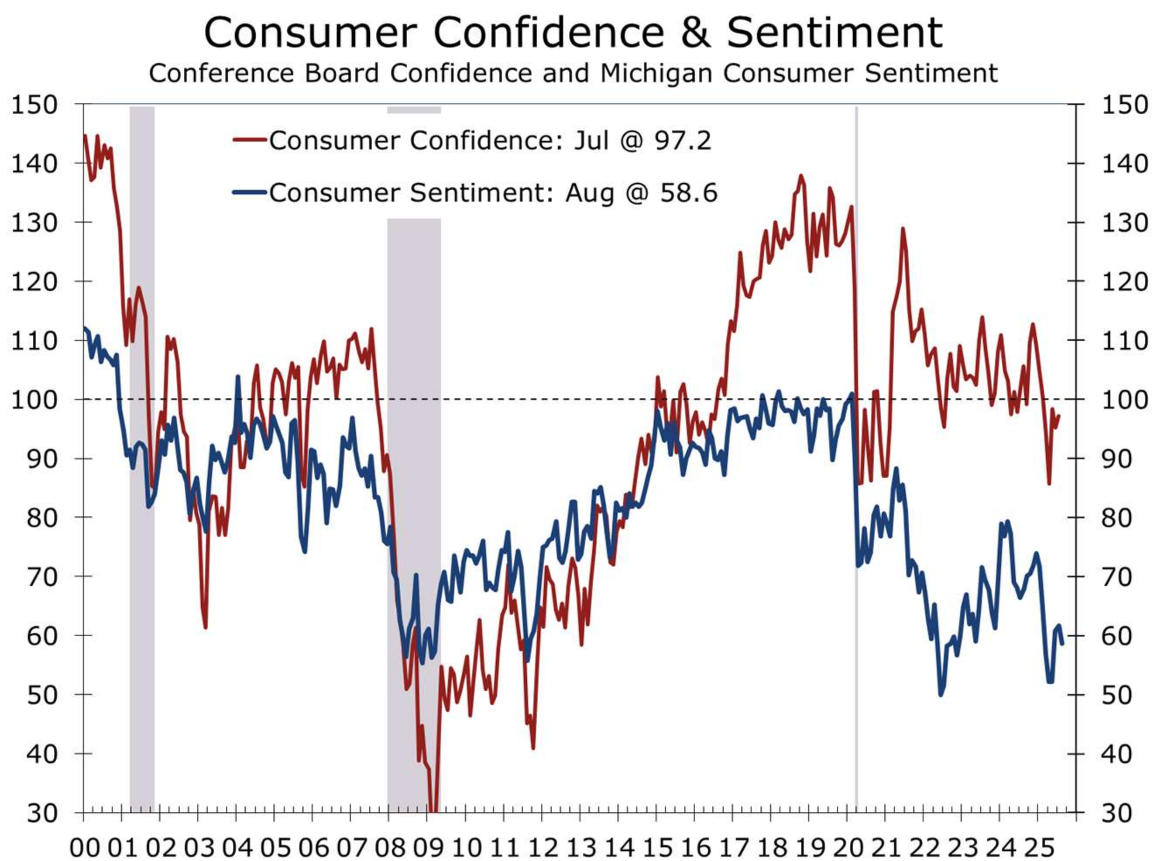
- After years of being overstated, job growth is now close to its underlying trend.
- Nonfarm payrolls were overstated since the February 2024, due to an 'odd' benchmark adjustment.
- The most recent QCEW data (Dec 2024) suggest nonfarm job growth is averaging just under 100k per month.
- Worries about job prospects are weighing on consumer confidence and key economic decisions.



Source: Bureau of Labor Statistics

Confidence is Off the Lows, but Still Signals Weak Underlying Growth

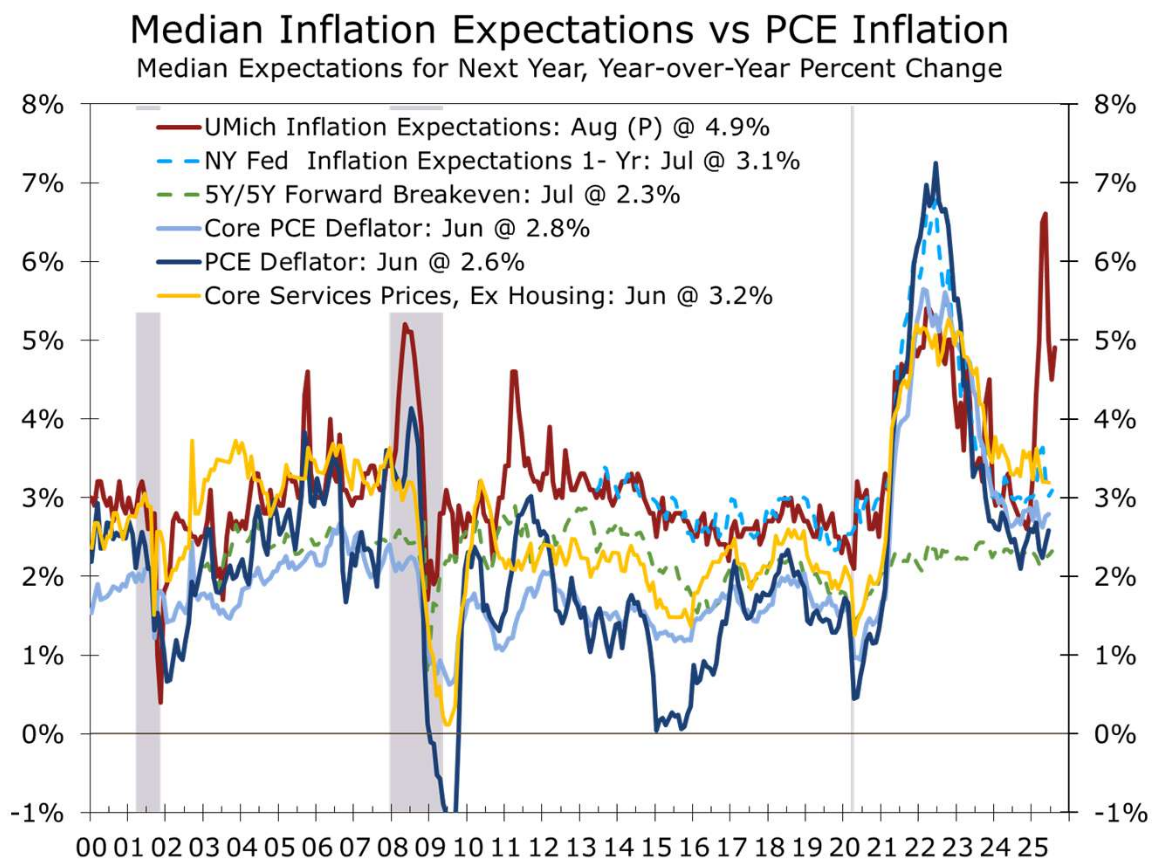
- Years of higher prices for housing, insurance, and groceries have weighed heavily on consumer confidence.
- Uncertainty over tariffs and their impact on prices and hiring has further increased these concerns.
- Confidence has improved from recent lows but remains consistent with slower economic growth—or worse.



Source: The Conference Board, University of Michigan and Refinitiv

Today's Economy is far Less Exposed to Tariffs than Widely Thought

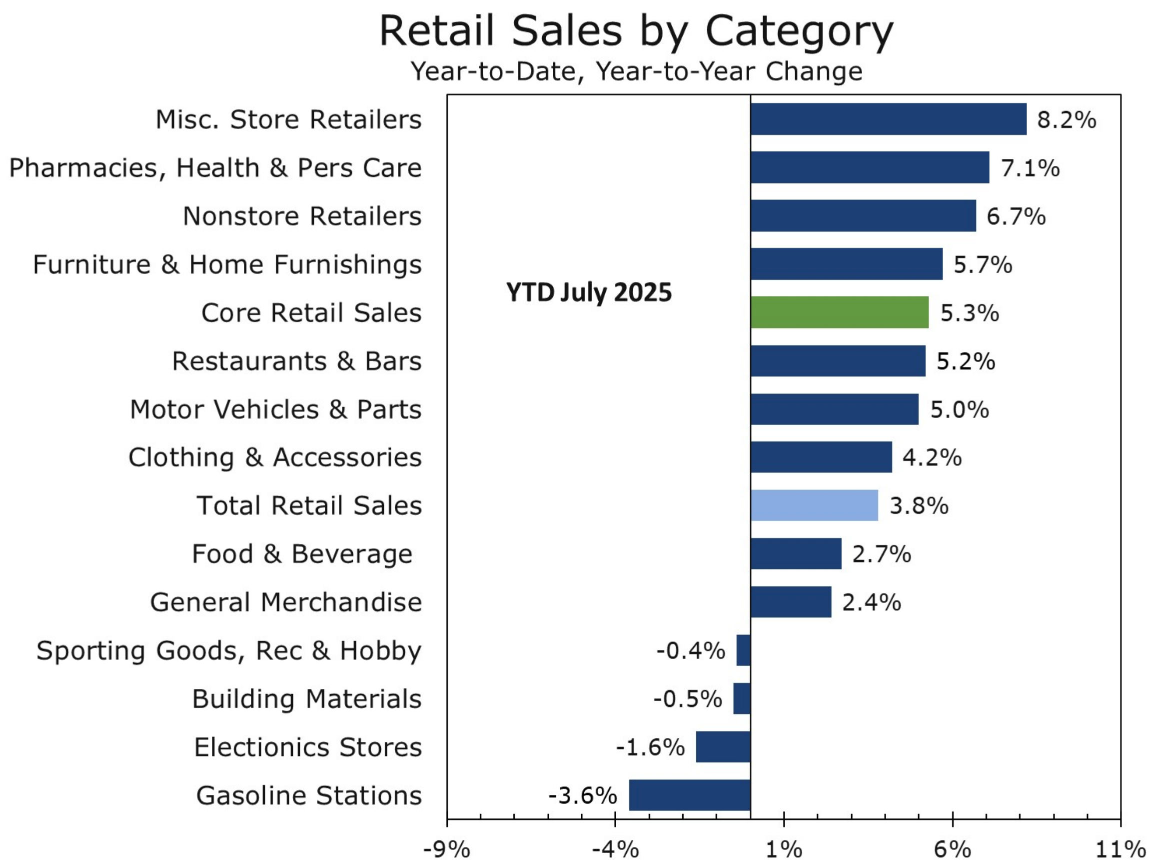
- Inflation expectations spiked following Trump's tariff announcements.
- While tariffs are the highest since the 1930s, the structure of the economy has changed dramatically since then.
- In the 1930s, 75% of consumer spending went to goods; today, more than two-thirds is for services, which are not tariffed.
- Of the remaining one-third spent on goods, only 40% are imported—and only part are subject to tariffs.
- Tariffs are also placed on the manufactured value of goods not the retail price.



Source: University of Michigan and Bureau of Economic Analysis (BEA)

Retail Sales: Resilient but Uneasy

- Consumer spending has held up well, despite slower job and income growth and rising goods prices.
- Some spending was pulled forward ahead of early April tariff enactment.
- With consumers spending more for imported goods, they have recently cut back on discretionary goods and services outlays.



Source: Census Bureau

Industrial Production: Weak Start to H2

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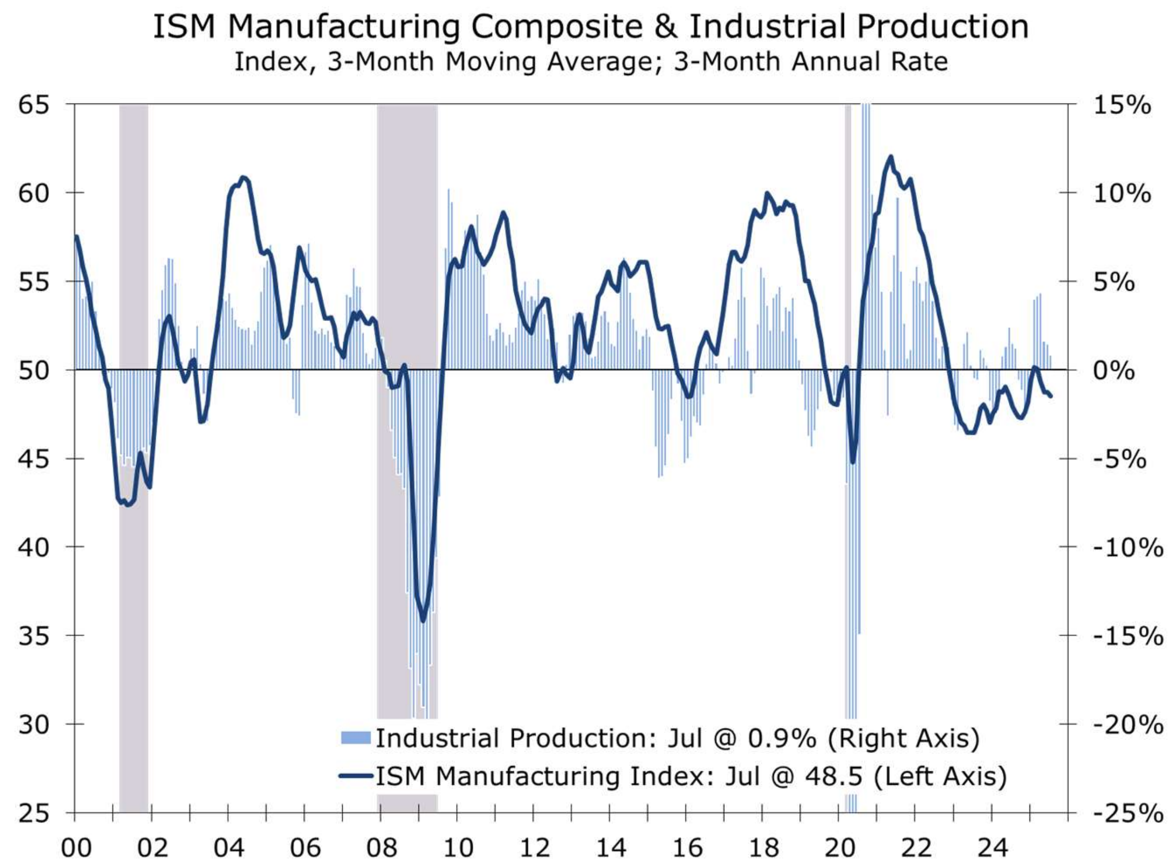
- Industrial output fell 0.1% in July, first decline in four months; utilities (-0.2%) and mining (-0.4%) weighed; manufacturing was flat.
- Manufacturing flat overall; autos down (-0.4%) on tariff costs and affordability headwinds.
- Bright spots: aerospace production rising as Boeing ramps up; high-tech equipment up 1.4% m/m, 14.9% y/y, with semis leading the way.



Source: Federal Reserve Board

The Bond Market is Pricing in Just Two 25 BP Cuts over the Next Year

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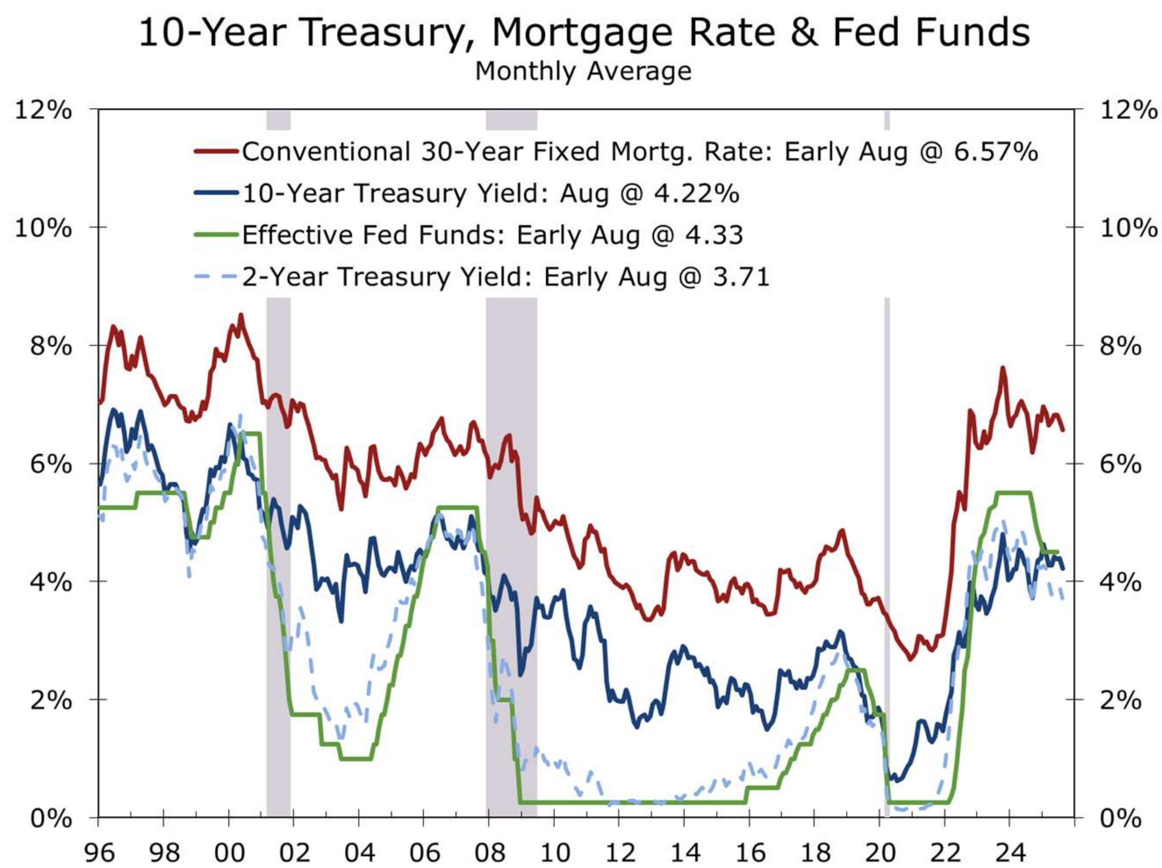
- The 2-Year Treasury tends to the lead the Federal Funds rate and suggest the Fed will likely cut rates by at least 50 BP over the next year.
- The financial markets consensus is likely too optimistic about the economy and too pessimistic about inflation and the dollar.
- We are looking for quarter point cuts in September, October and December, with another cut possible in January.



South: Federal Reserve Board

Buying Sentiment Remains Weak and Selling Sentiment is Falling

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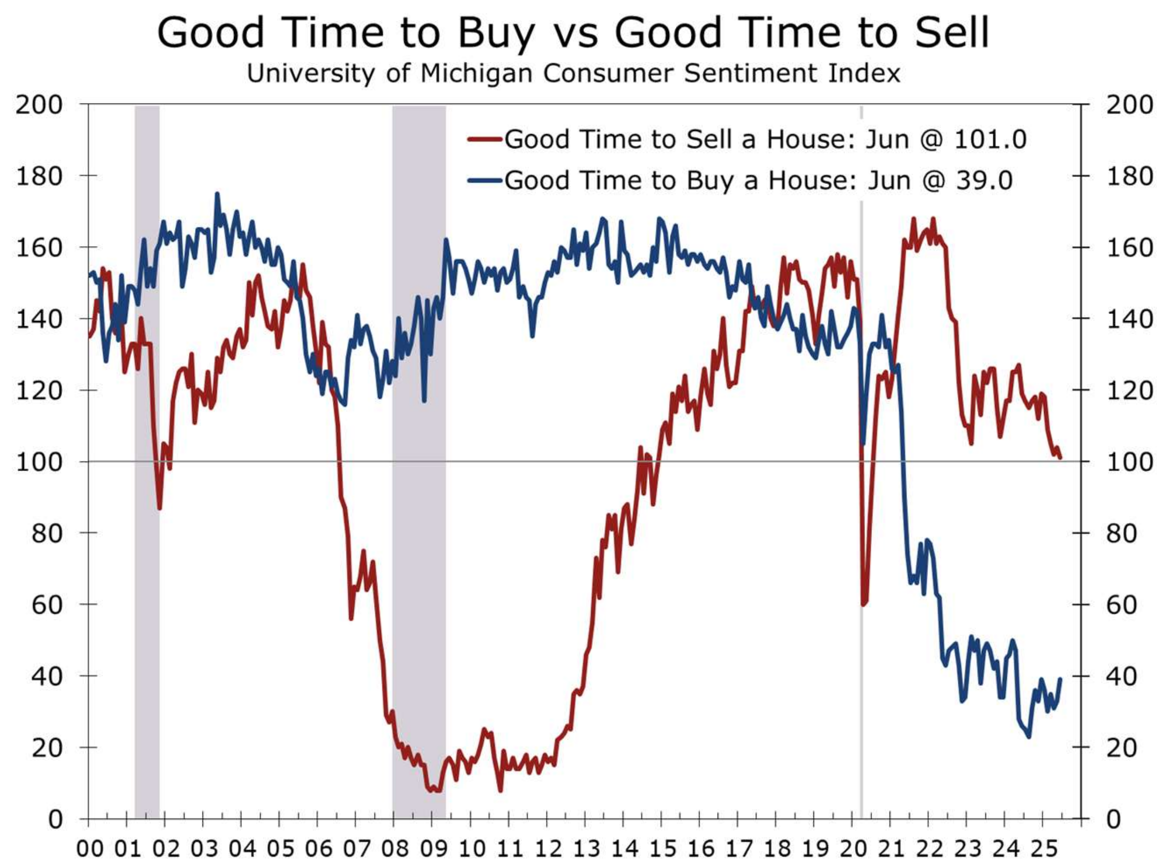
- The lack of affordable homes available for sale and 'high' interest rates have kept potential buyers on the sidelines.
- Fixed mortgage rates below 6.50% are a key signal to bring buyers back, but rates around 6% would produce a more meaningful rebound.
- The hiring slowdown is also weighing on buying plans.



Source: University of Michigan

Higher Rates & Insurance and Prop Taxes Worsen Affordability

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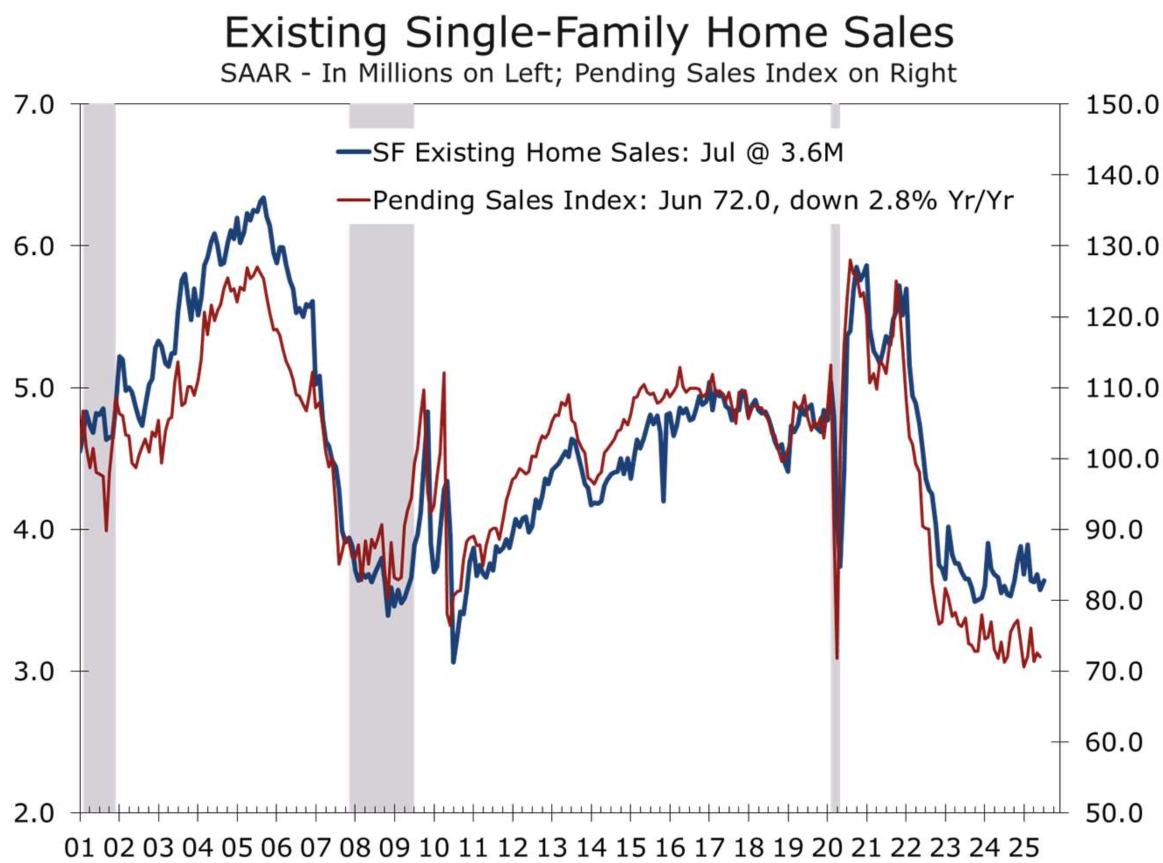
- Pending sales fell 0.8% in June, reflecting continued softness in signed contracts despite rising inventory.
- Pending sales are running well below closings, suggesting more weakness in the pipeline.
- REALTORS® remain cautiously optimistic, citing rising mortgage applications and improving traffic from both buyers (+4% y/y) and sellers (+6% y/y) as early signs of a potential rebound.



Source: National Association of Realtors

Confidence Has Fallen on Less Buyer Traffic and More Inventory

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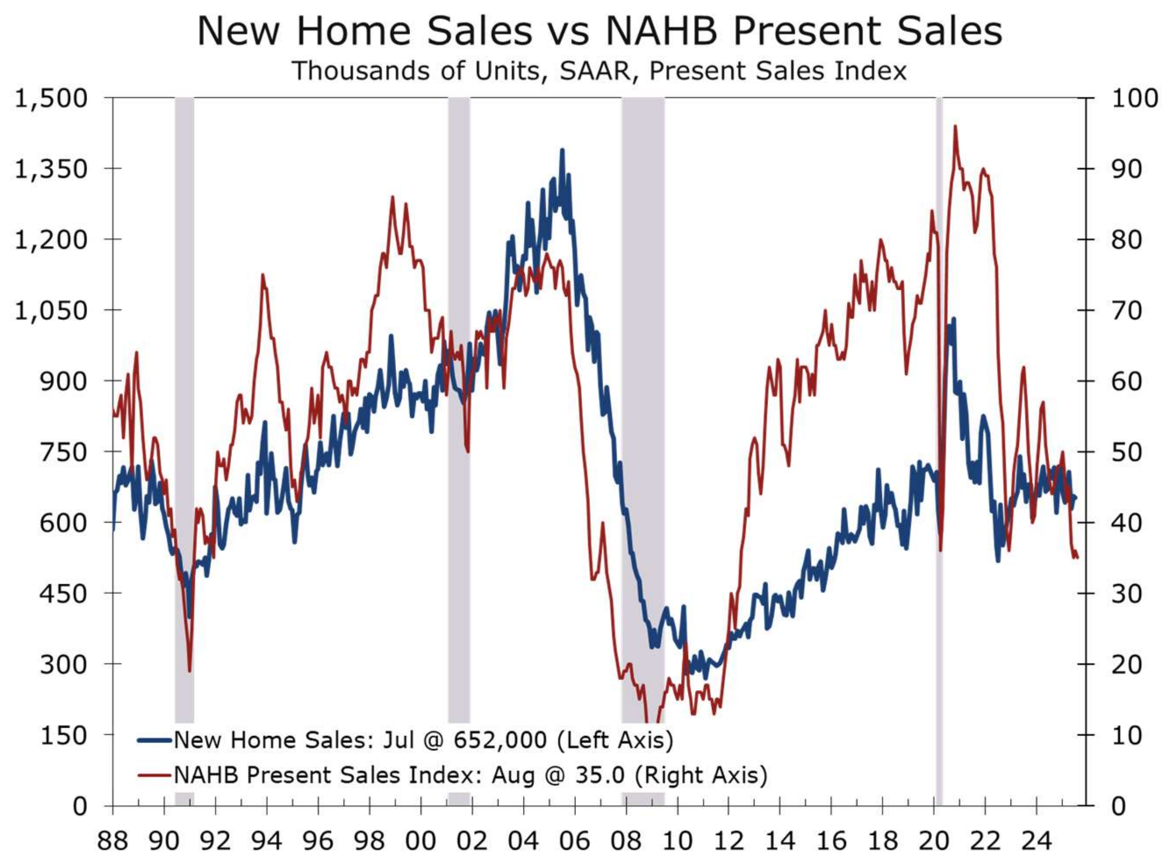
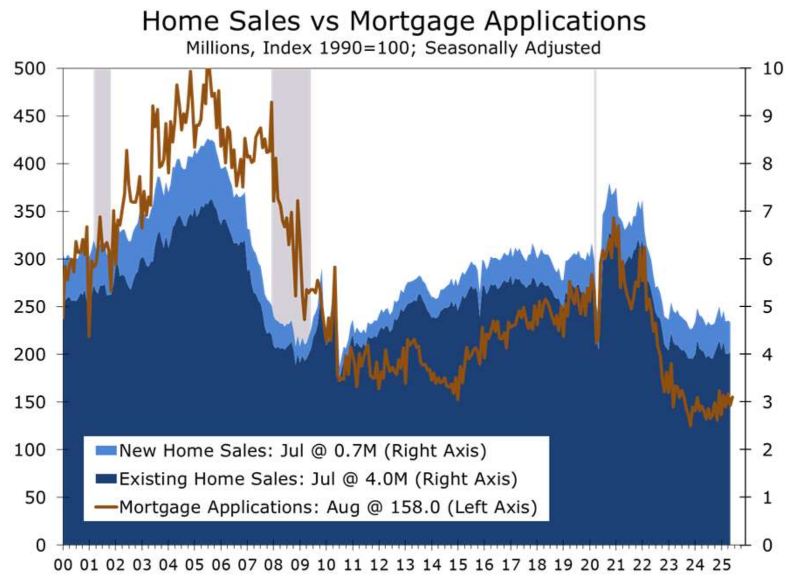
- Home Builder Confidence has fallen as buyer traffic remains sluggish, and inventories are mounting.
- Median existing home prices hit a record high in June and on a three-month average basis in July, suggesting inventories of homes priced around the median or less remain scarce.
- We expect the recent pullback in mortgage rates and increased inventory to lead to a modest uptick this fall.

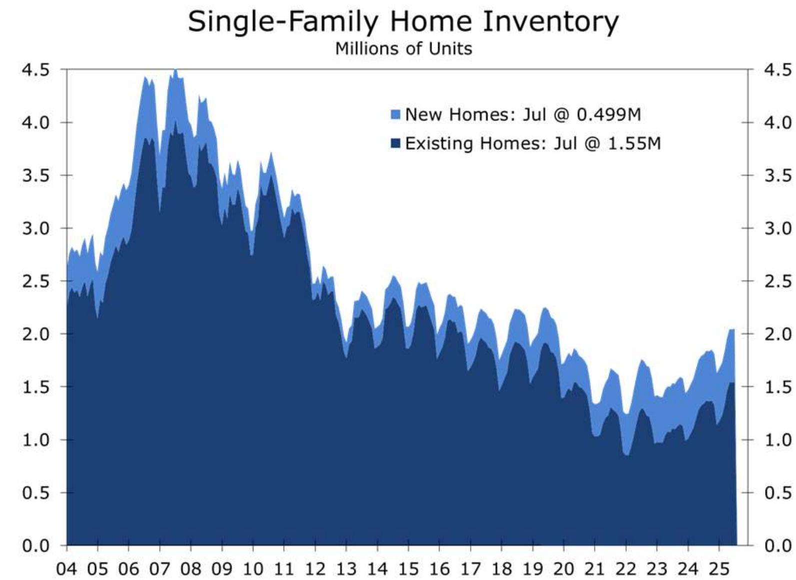


Source: National Association of Realtors

Affordability & Economic Concerns Weigh On Buying

Inventories of homes have continued to rise, although the higher-end accounts for much of the growth in existing homes. Inventories remain scarce around the median price and the upper end of the market is holding better than the overall market. Still, with more inventory to choose from, buyers are likely to come back into the market as mortgage rates move closer to 6% this fall and winter.

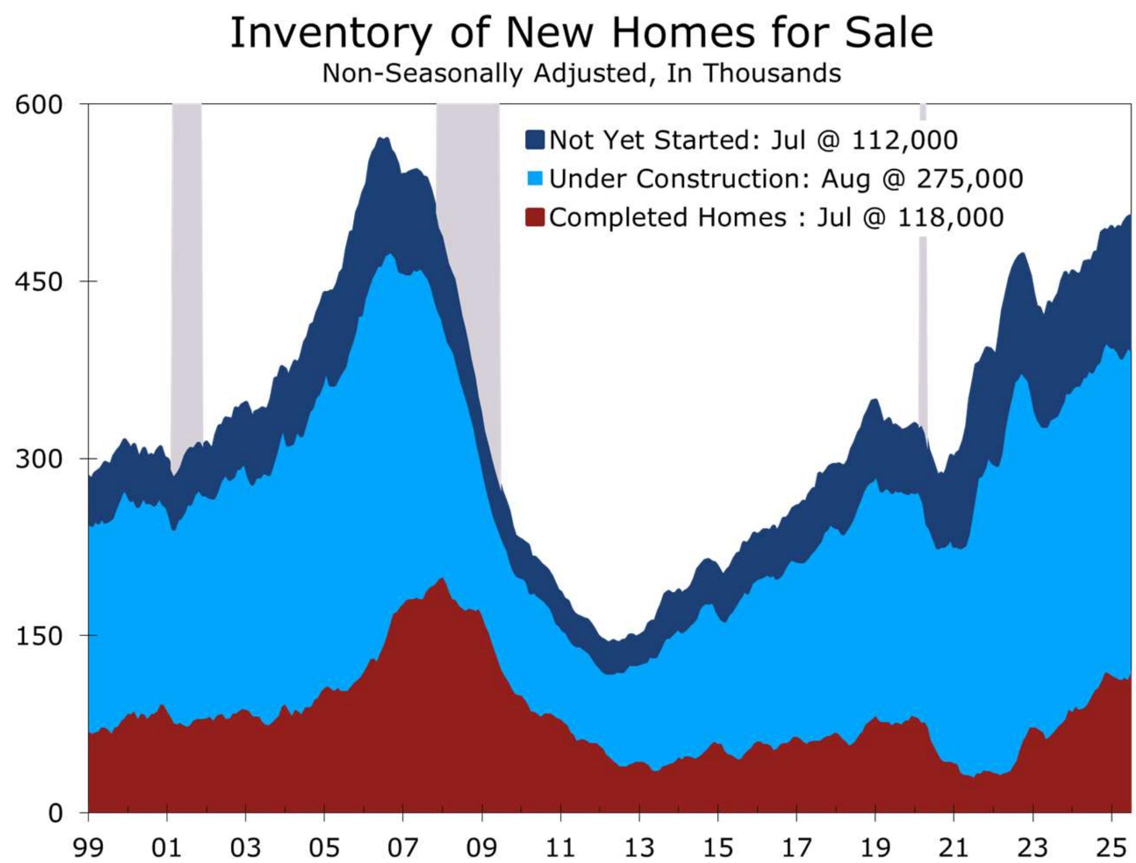




Source: Census Bureau, National Association of Realtors and Mortgage Bankers Association

New Home Inventories Have Increased

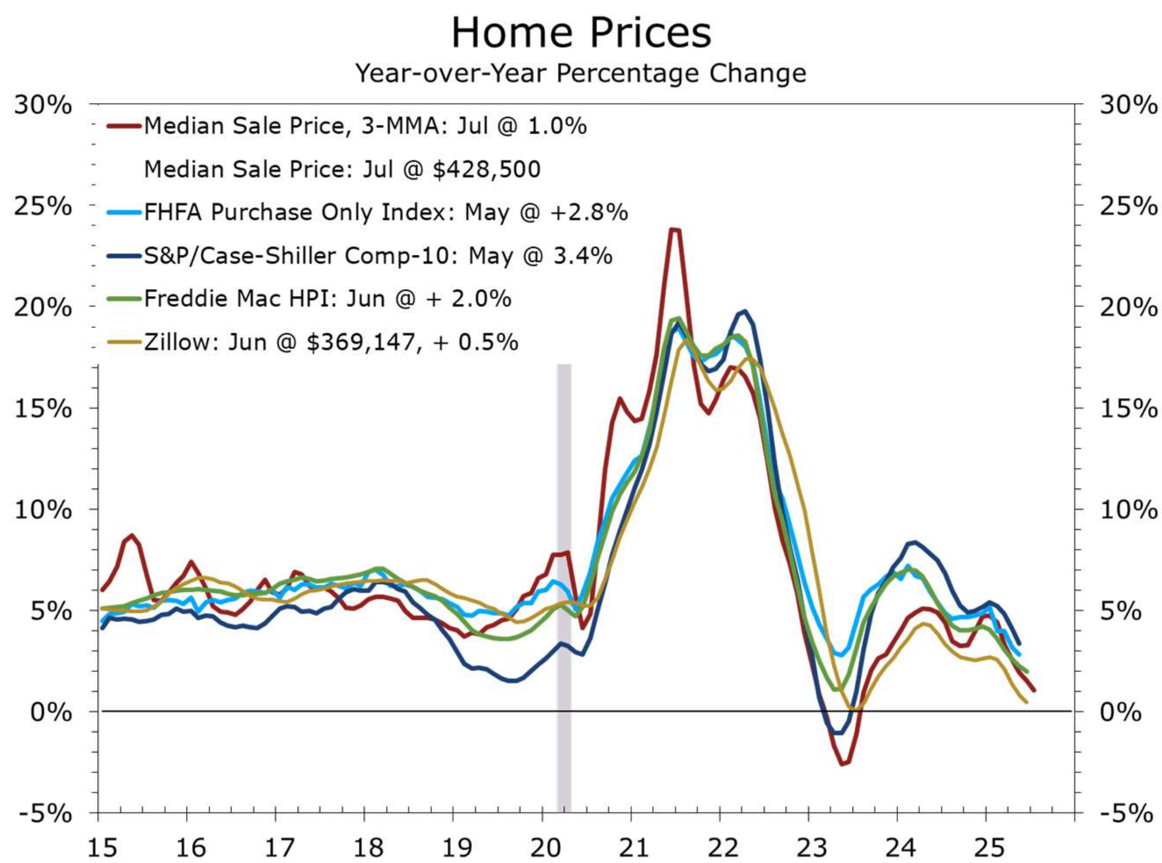
- Inventory fell slightly for the second month in row, sliding bac to 499,000 homes in July, but remain 7.3% higher than a year ago.
- Supply to 9.2 months, down from a high of 9.6 but above its year ago level of 7.9 months.
- Completed, move-in ready homes has risen 17.4% over the past year to 121,000 homes.
- Median new home price fell 0.8% in July to $403,800 and have fallen 5.9% from their year ago level.



Source: The National Association of Realtors

Home Prices Are Moderating

- The Case-Shiller HPI has fallen the past three months, and year-to-year price appreciation has slowed across all price measures.
- The Median Price of Existing Home hit an all-time high due to a shift in the mix of sales.
- Prices are easing the most in markets that had seen sharp appreciation, including Florida and Austin.



Source: S&P Global

Office and Apartment Vacancy Rates Are Showing Signs of Stabilizing

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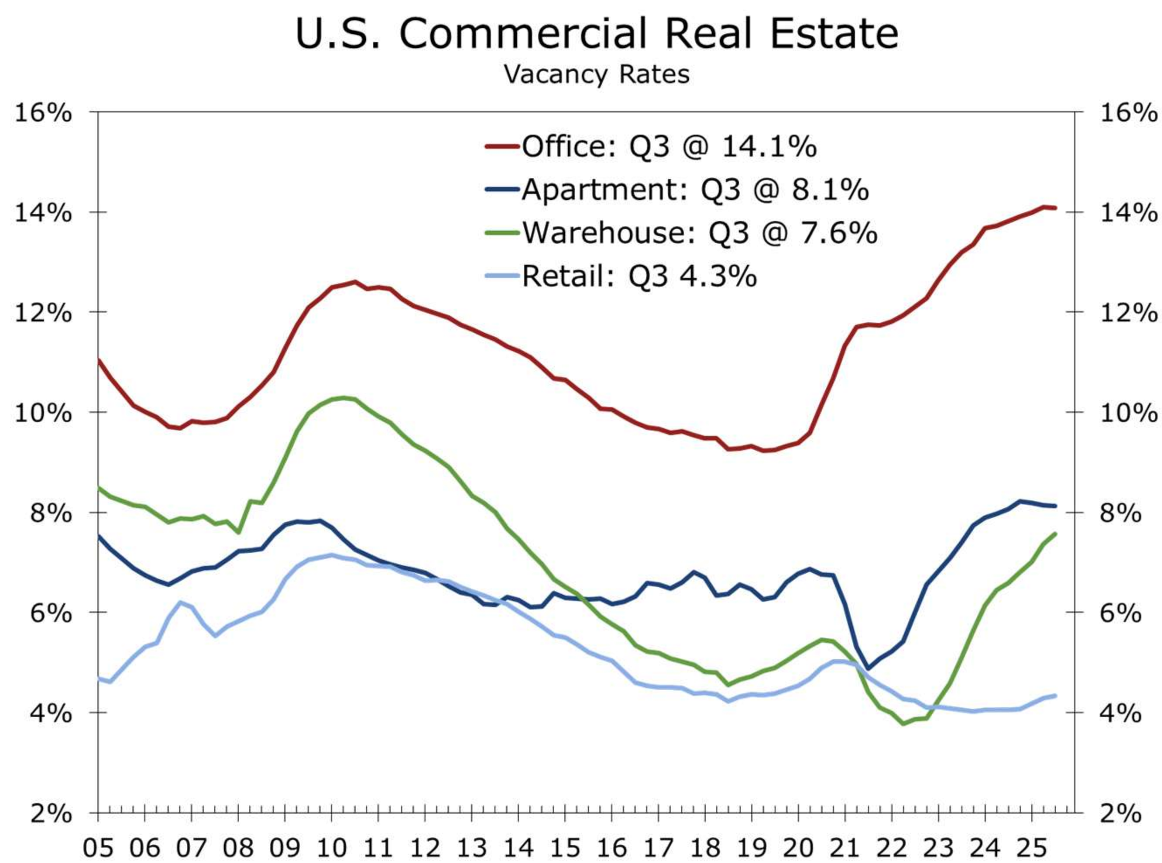
- The U.S. office market remains challenged: with vacancy around 14% and negative absorption despite improving return-to-office trends and limited new deliveries.
- Apartment remain the standout—with stronger than expected demand.
- Industrial real estate is experiencing robust demand as growth slows from peak levels amidst a torrent of new supply.
- With little new supply, the retail market continues to see low vacancy, with strong demand for specialty retail and experiential space and even a modest recovery in enclosed malls.



Source: CoStar

Q2 Signaled a Fragile Rebound, with Income Gains Across All Sectors

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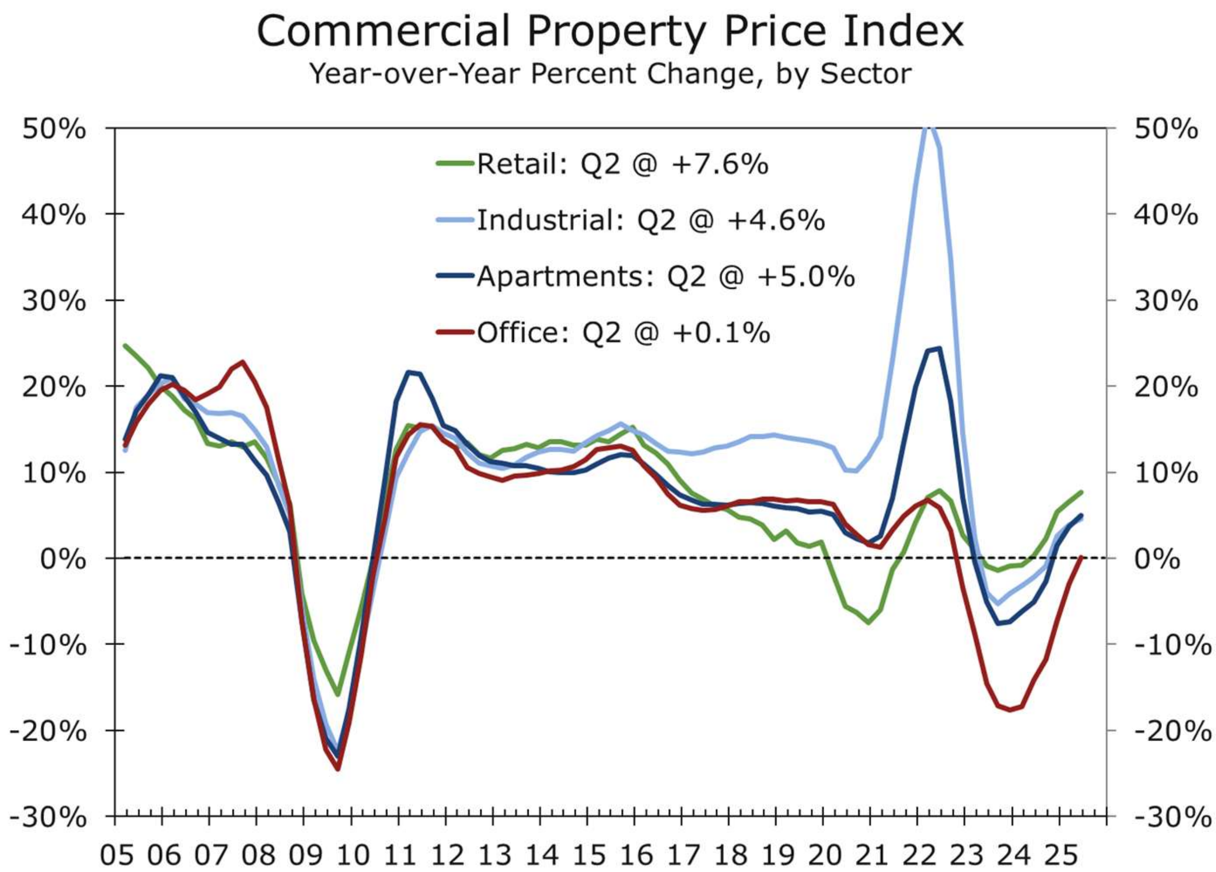
- Total return for Q2 2025 was +1.23%, marking the fourth consecutive quarter of positive returns.
- Income accounted for nearly the entire return, +1.19%, while capital appreciation added a modest +0.04%.
- All property sectors posted positive returns in Q2: seniors housing led with +2.08%, followed by retail (+1.94%); self-storage (+1.62%); apartments (+1.38%); office (+0.78%); and hotel (+0.04%).



Source: NCREIF

The Office Market is Close to Bottoming Out

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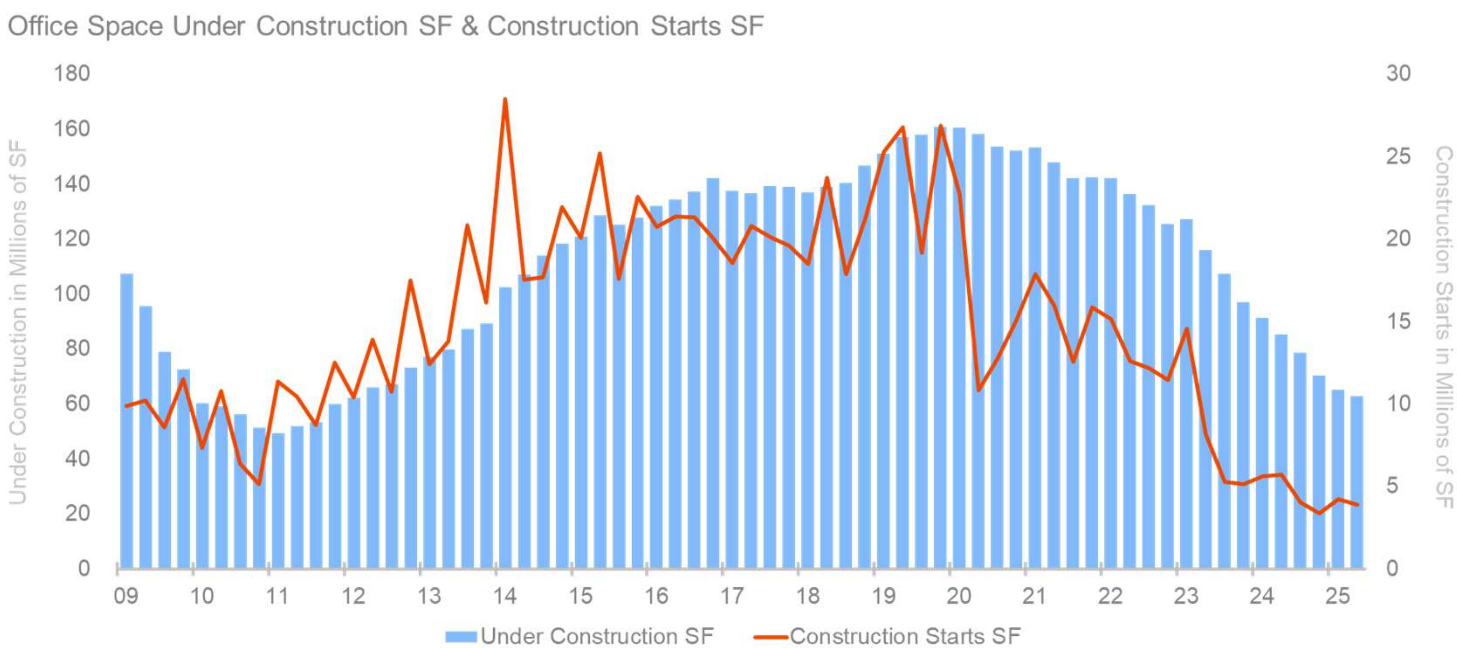
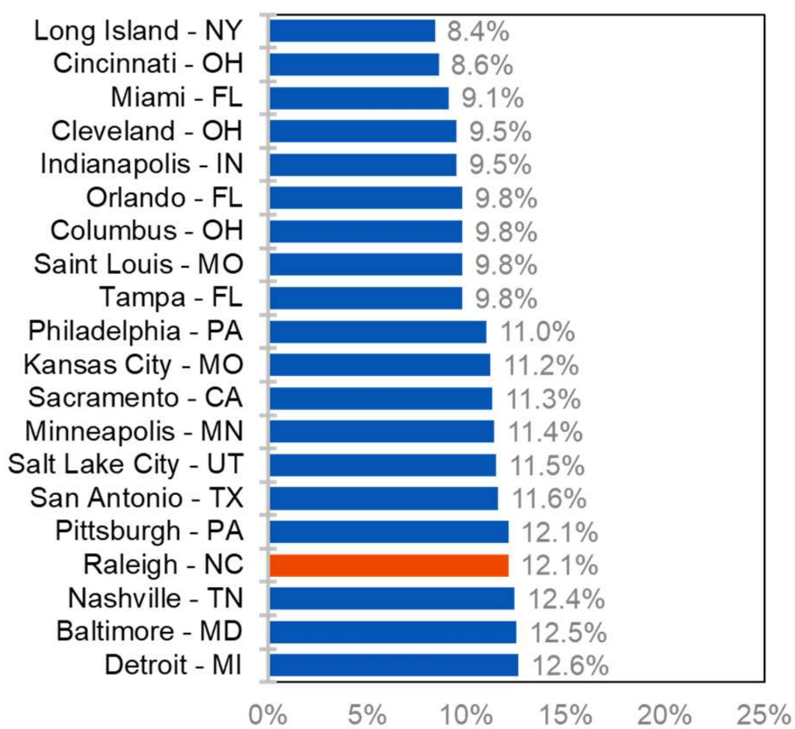
- Office construction totals just 29.3 million square feet, the lowest since 2011 and reflects a sharp pullback in deliveries—helping ease future oversupply risks.
- Vacancy remains high but appear close to topping out—particularly for well-located Class A space.
- Leasing demand has strengthened in large urban markets.
- Suburban markets are also improving but have a larger supply of aging non-class A product that needs to be reinvented (not necessarily repurposed).

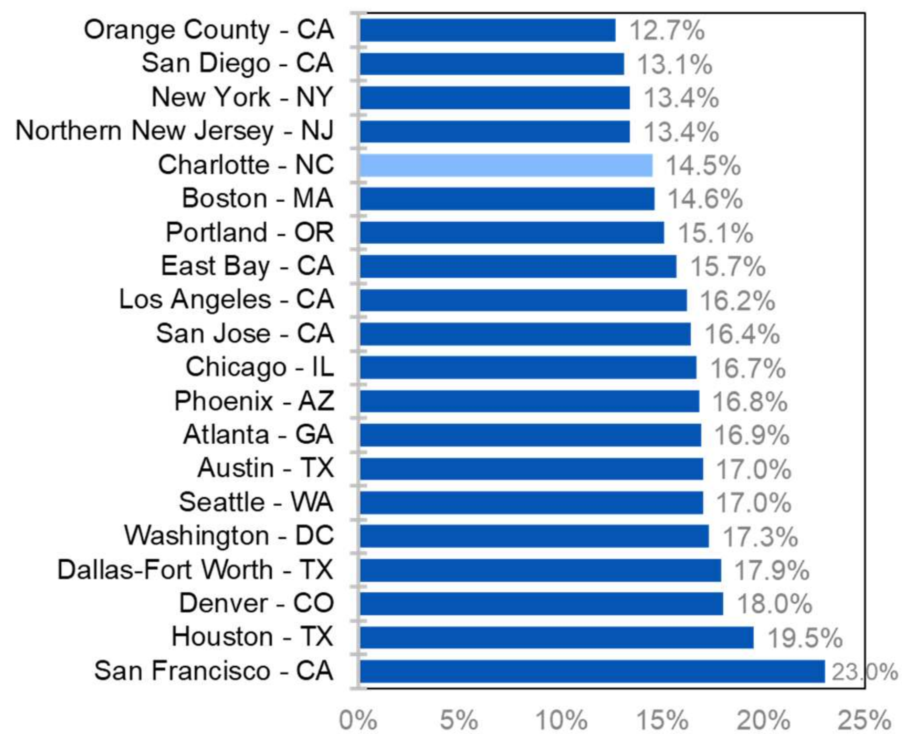


Source: CoStar

Office Vacancy is Highest in Areas With Large Suburban Markets

Office Vacancy Rate





The Return to the Office is Boosting Office Demand

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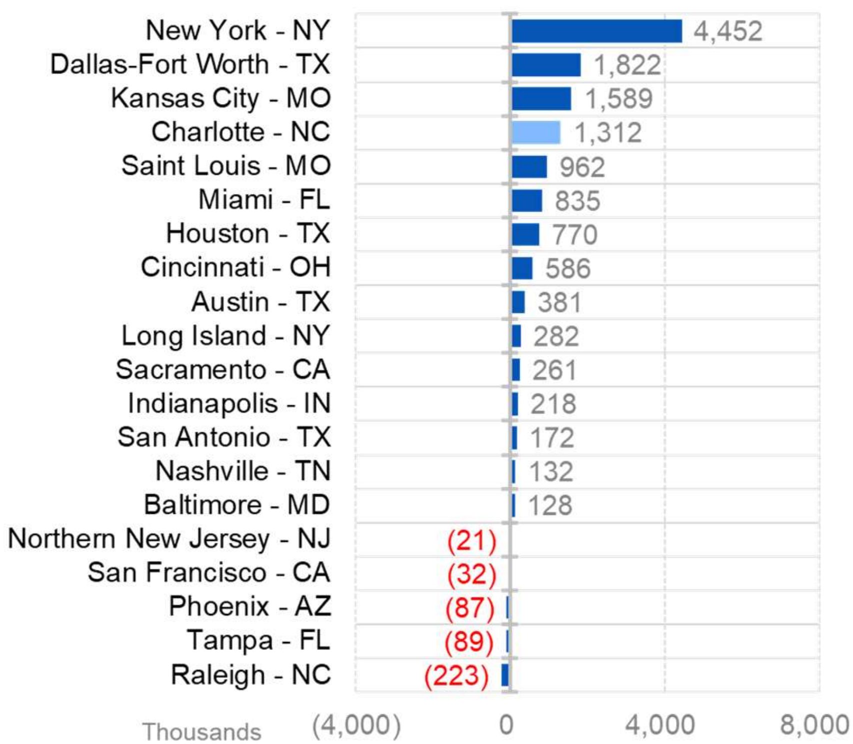
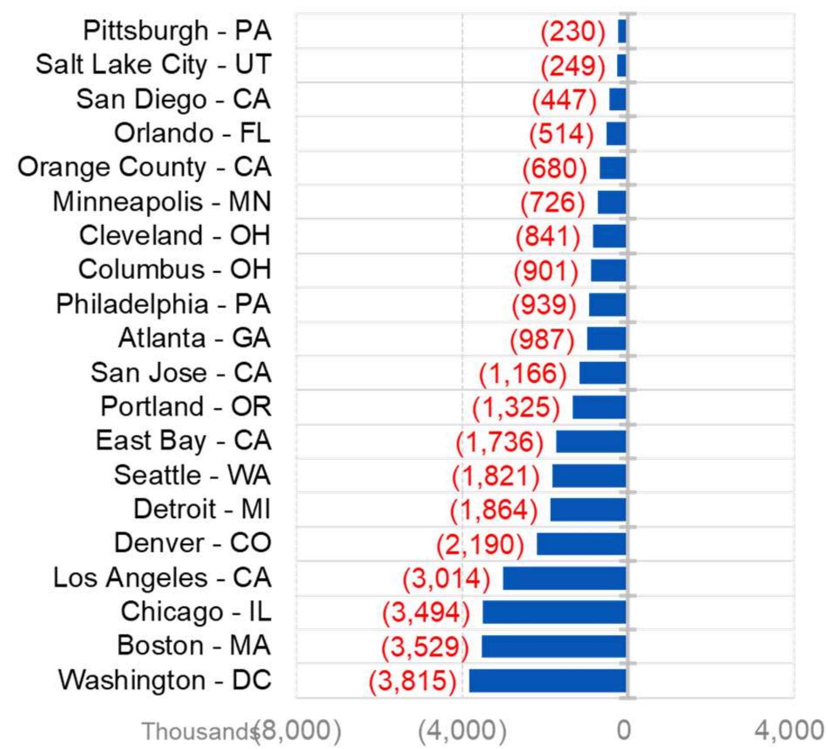
Net Absorption of Office Space SF 12 Mo





Deliveries Have Largely Kept A Step Ahead of Population Growth

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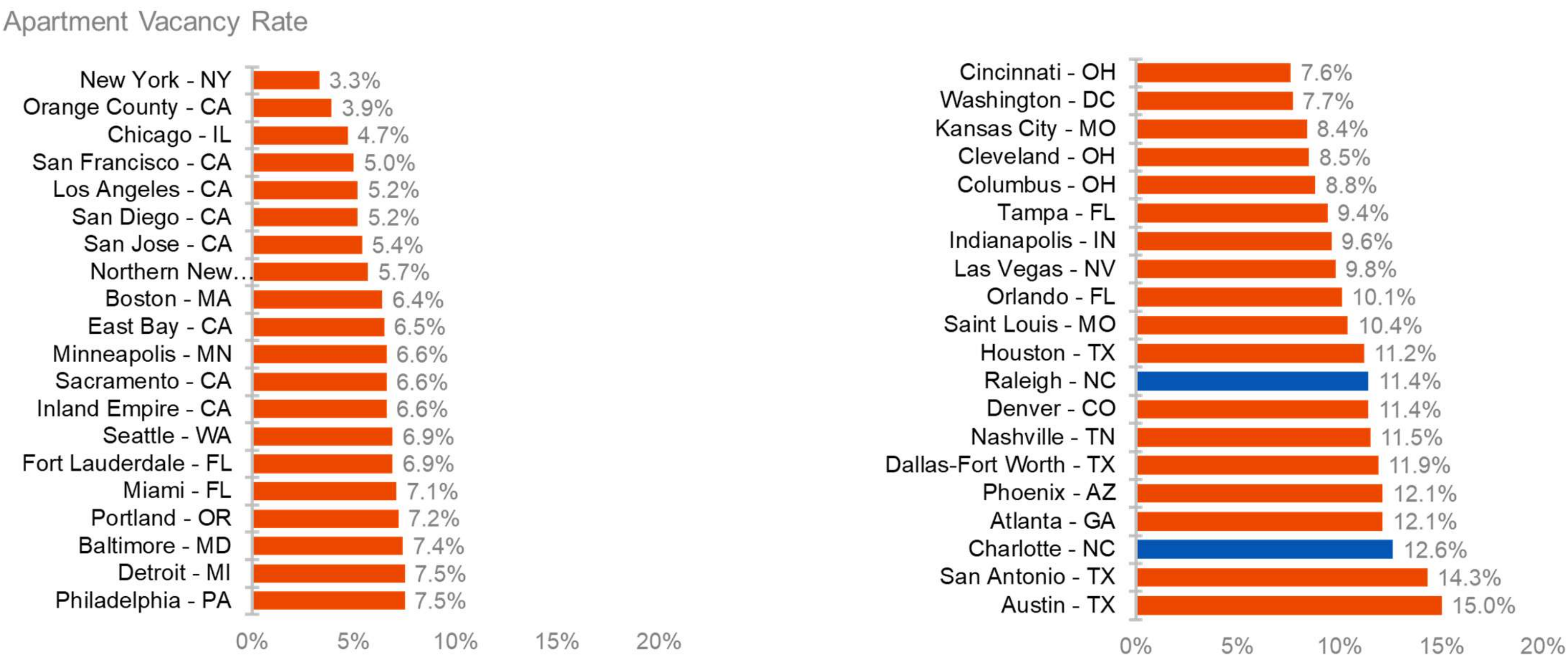
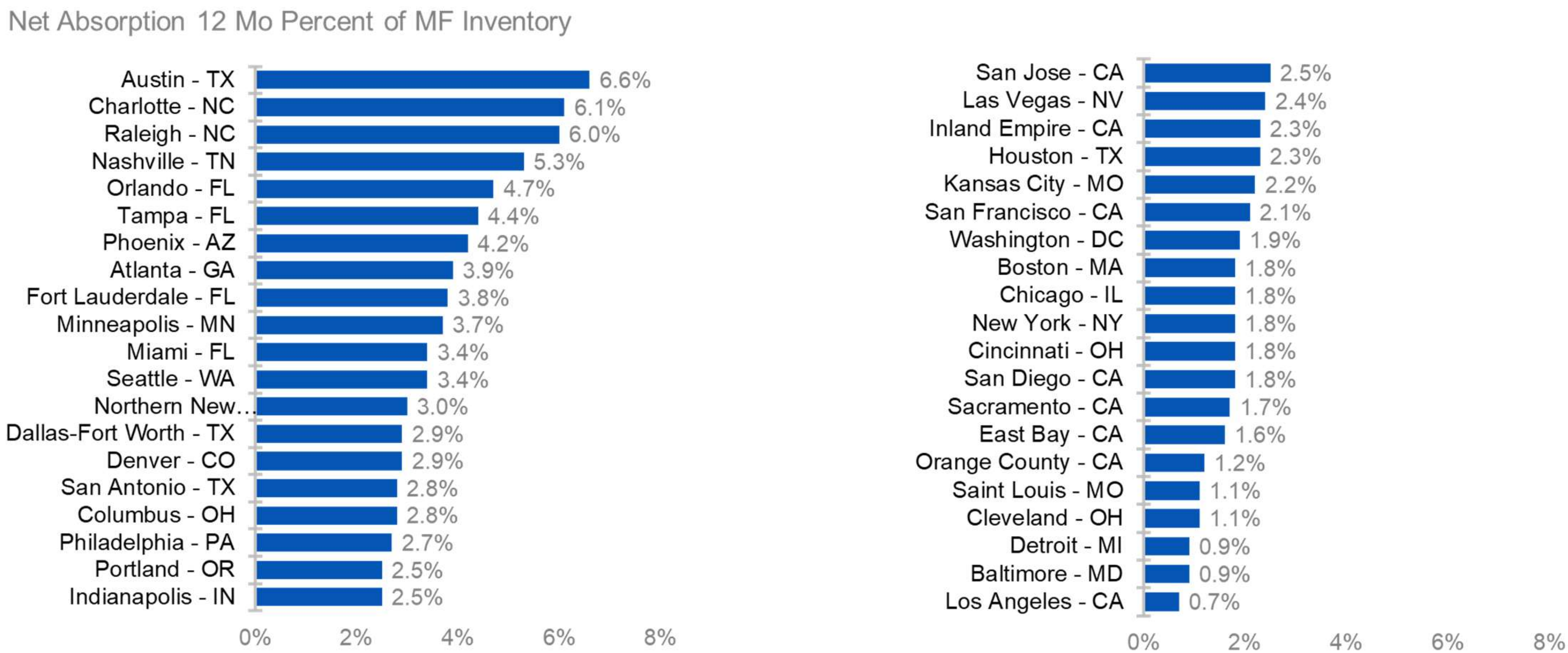
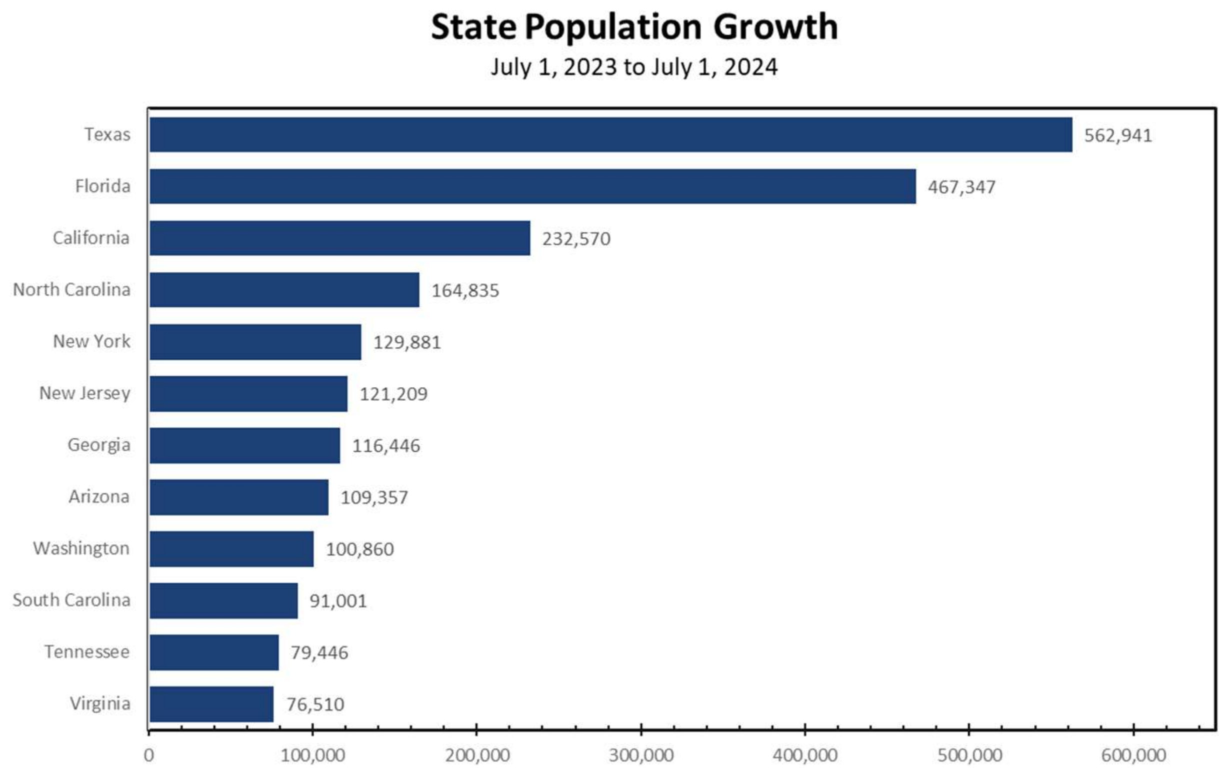


Demand for Apartments Has Been Surprisingly Strong This Year



Immigration Boosted Population Growth the Past Two Years

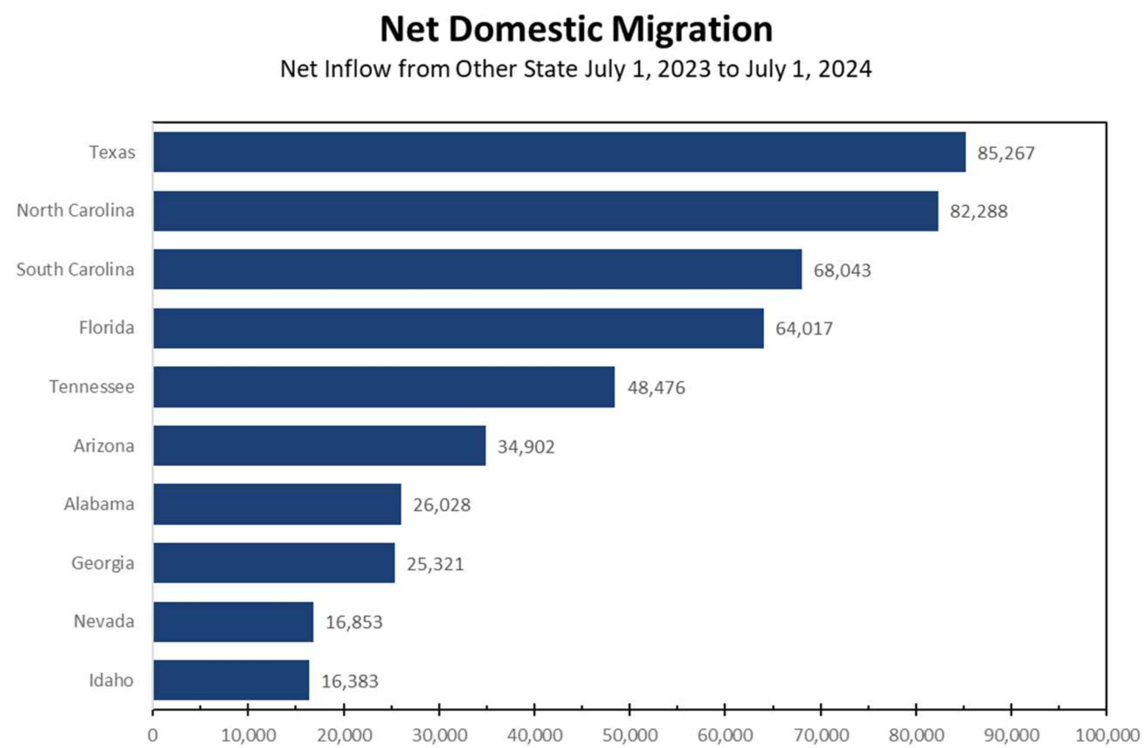
- California, New York and New Jersey saw gains in population this past year, thanks to a surge in immigration.
- Nearly every state saw a jump in net immigration, with gateway states leading the way.
- Natural increase also turned slightly positive this past year and likely improved further this year.



Source: Census Bureau

The Affordability Migration Shifted This Past Year

- The affordability and lifestyle migration from the Northeast, West Coast and greater Chicago slowed this past year, as offices reopened.
- Texas still receives the bulk of net migration from other states.
- The Carolinas have seen an influx of Floridians pushed out by higher costs. The juice was not worth the squeeze.



Source: Census Bureau

Texas & Florida Dominate the List of Fastest Growing MSAs

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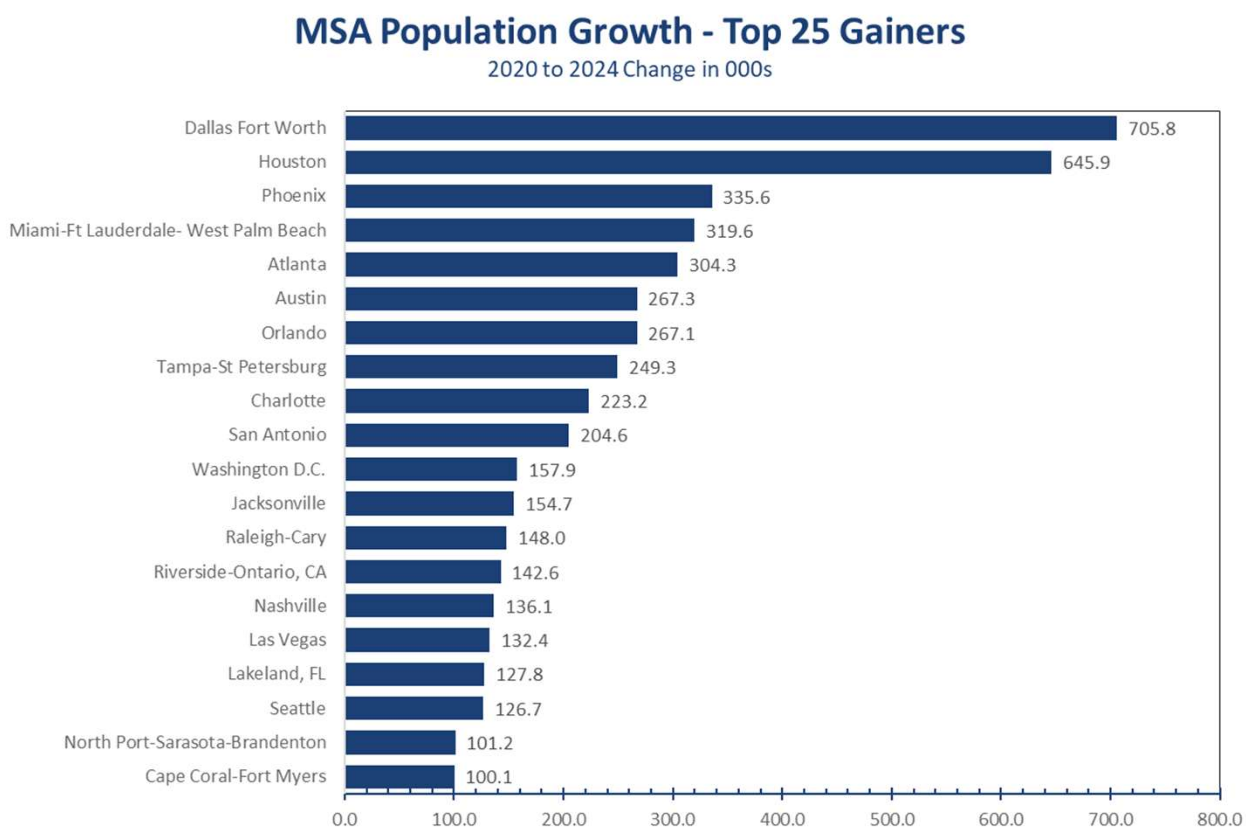
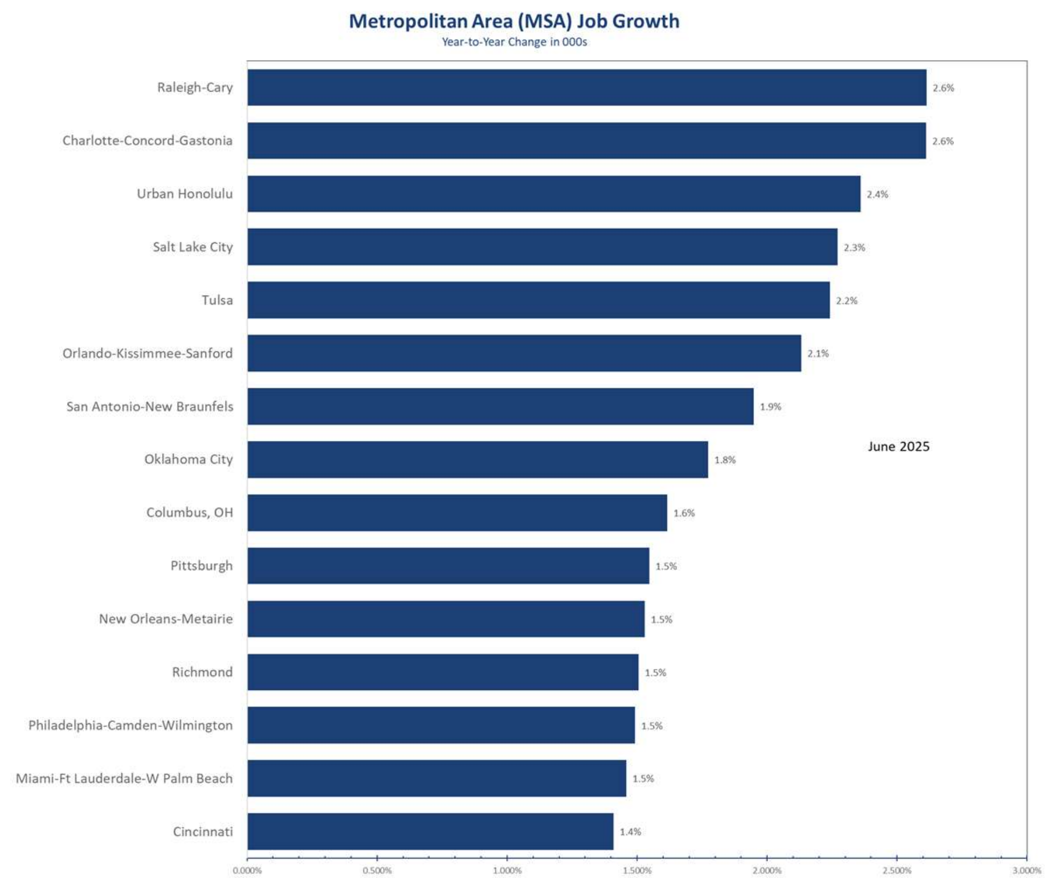
- Sunbelt MSAs account for the bulk of major metro areas population growth.
- Texas and Florida continue to lead the list, although many metros in these states have lost momentum.
- North Carolina is the only other state with 2 metro areas in the top 25 gainers.



Source: Census Bureau

Raleigh and Charlotte Led Job Growth Among Major MSAs

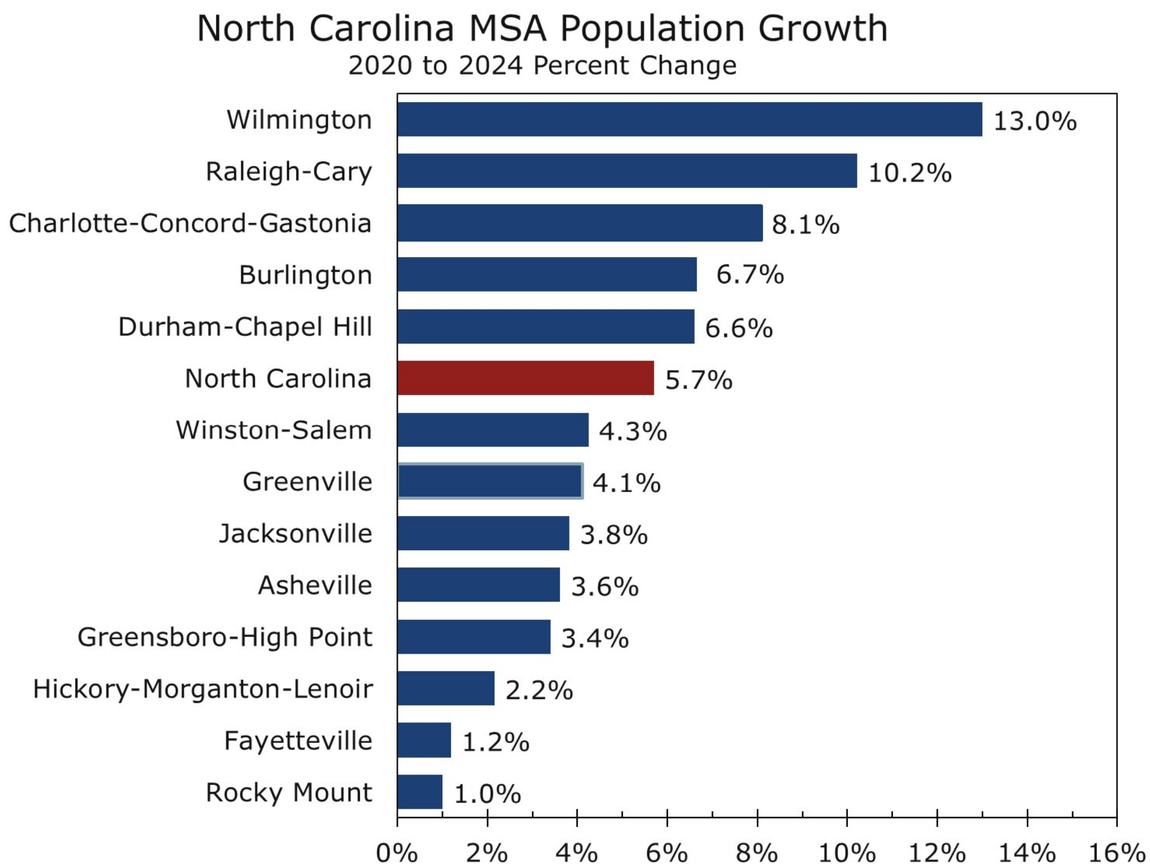
- Charlotte and Raleigh led job growth among MSAs with a population greater than 1 million this past year.
- Hiring is being led by areas that have strong population growth and growing health care and life sciences sectors.
- Return-to-the-office is driving job growth in many large metro areas.



Source: Bureau of Labor Statistics (BLS) *Metropolitan Area Employment and Unemployment – June 2025*

Population Growth Has Picked Up Across the Piedmont

- Raleigh and Charlotte rank among the nation's fastest growing major metro areas.
- Population growth is large driven by a mix of prime working-age adults nearer to the major cities, and retirees in the outer suburbs.
- Affordability concerns and Hurricane Helene have slowed growth in Asheville.



Source: Census Bureau

Charlotte & Raleigh Rank as the Fastest Growing Major MSAs

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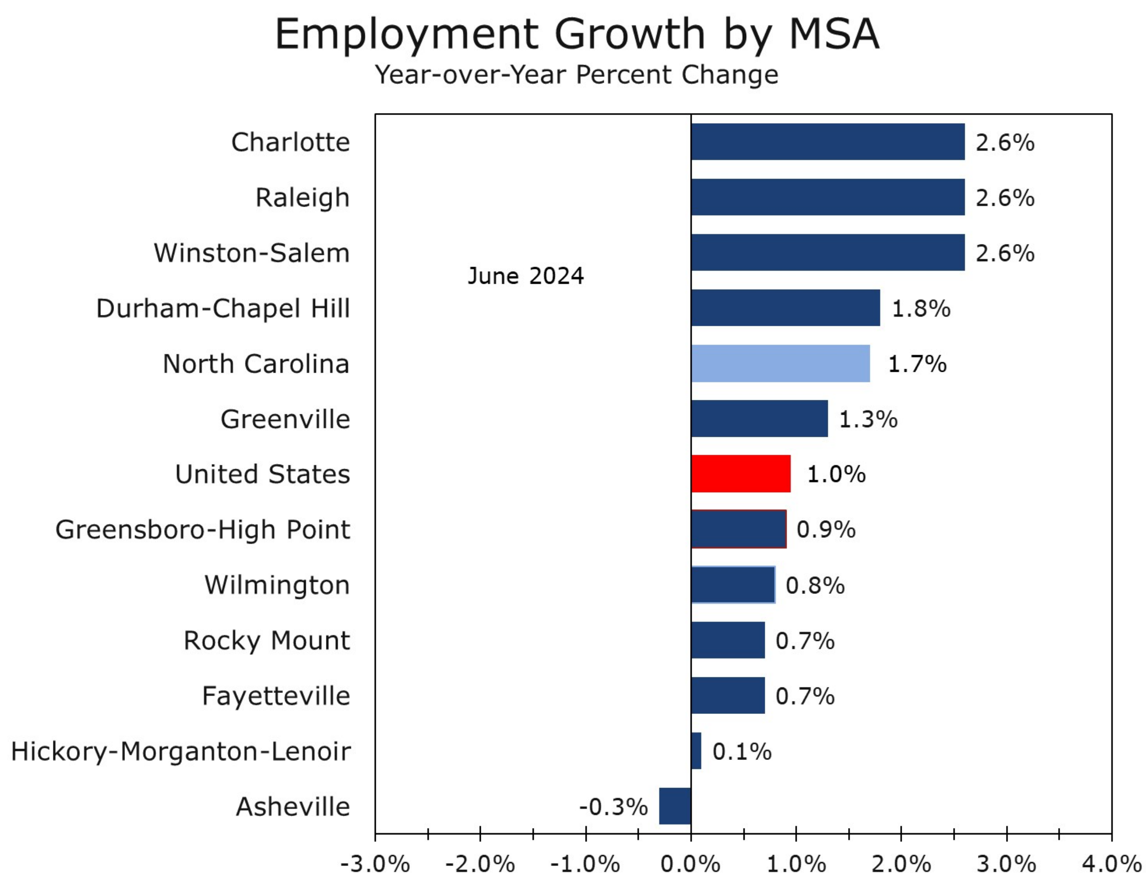
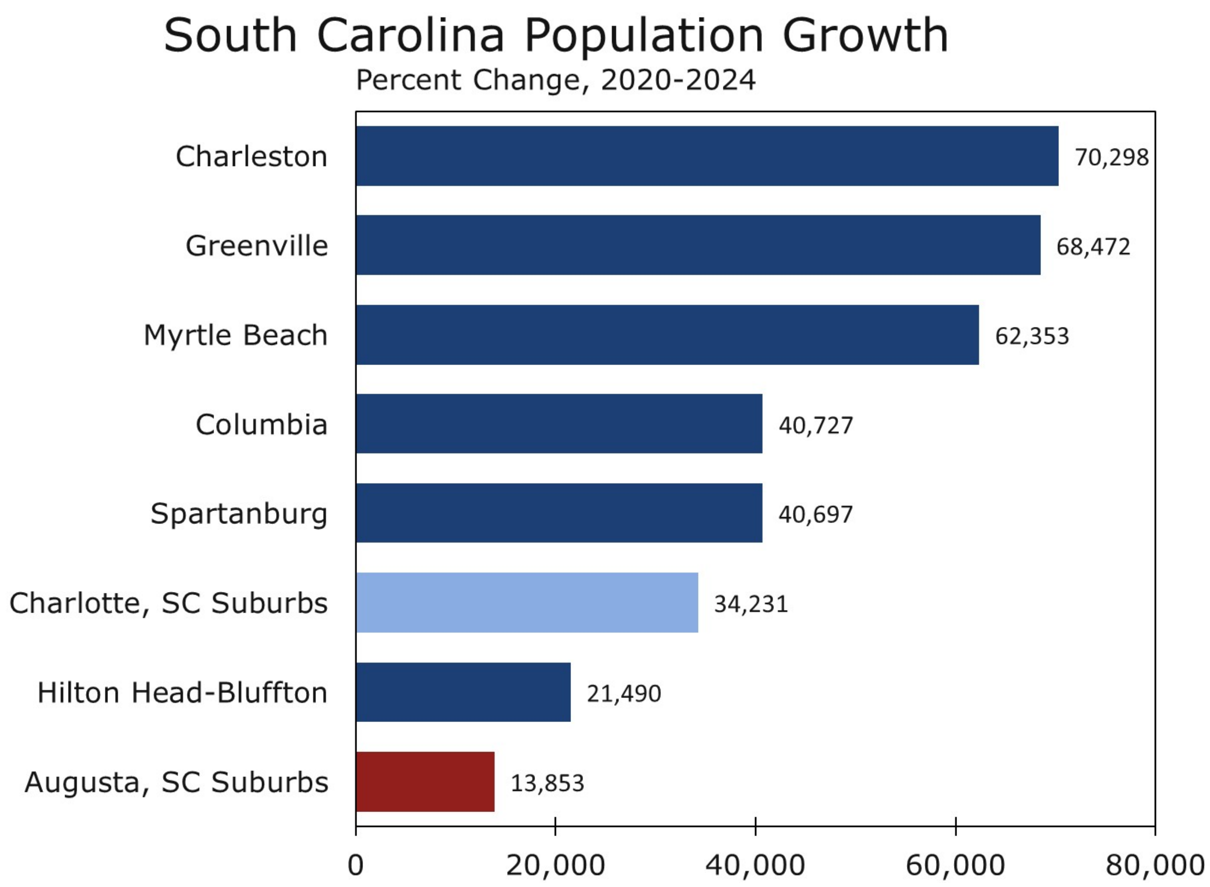
- Charlotte and Raleigh are adding jobs at a rapid clip, with technology, healthcare and education driving growth.
- Durham and Winston-Salem are benefitting from the same mix.
- Greensboro is riding a wave of industrial development, with hiring finally kicking in.



Source: Bureau of Labor Statistics (BLS) *Metropolitan Area Employment and Unemployment – June 2025*

South Carolina Has Seen Massive Population Gains the Past Few Years

- Charleston continues to grow rapidly, benefitting from industrial development and a strong educational and healthcare base.
- Columbia has seen the greatest relative improvement.
- Greenville is one of the top performing mid-sized metro areas and continues to see an influx of new businesses.



Source: Census Bureau

South Carolina's Latest Jobs Numbers Rank Near to Top of all States

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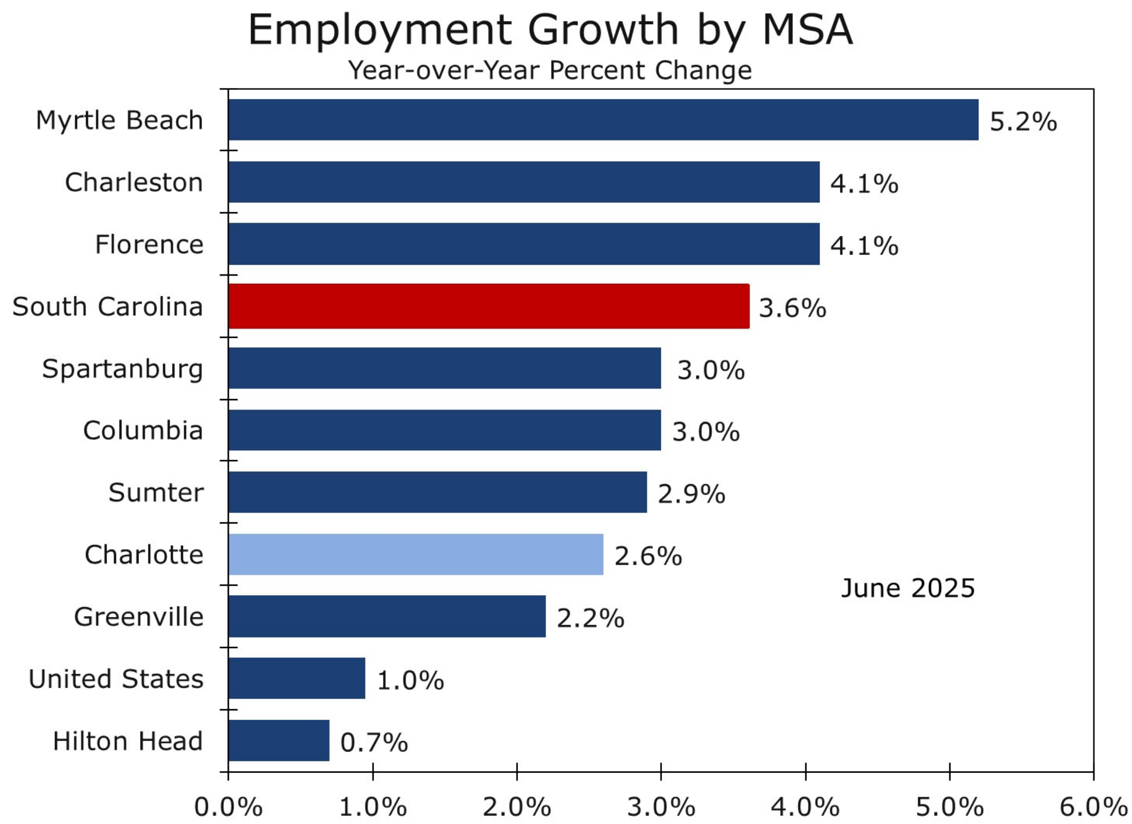
- South Carolina's latest jobs numbers may just be a little too good.
- Seasonal factors likely boosted Myrtle Beach, and a stalled industrial project is not yet reflecting in the Florence data.
- Charleston is still booming, however, and continues to attract new industrial projects and expansions.



Source: Bureau of Labor Statistics (BLS)

Economic Outlook

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US Economic and Financial Outlook

(% change on previous period, annualized, except where noted)

	2024				2025				2026				2023	2024	2025	2026	2027
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Actual	Actual	Forecast	Forecast	Forecast
Output																	
Real GDP	1.6	3.0	3.1	2.5	(0.5)	**3.0**	1.5	1.7	1.9	2.3	2.6	2.5	2.9	**2.8**	2.2	1.8	2.4
Final Sales to Domestic Private Purchasers	2.9	2.7	3.4	2.9	1.9	**1.2**	2.3	2.0	3.2	2.8	2.8	2.8	2.5	**3.0**	2.8	2.4	2.6
Consumer Spending	1.9	2.8	3.7	4.0	0.5	**1.4**	2.4	1.7	1.8	2.1	2.3	2.5	2.5	**2.8**	2.4	2.0	2.4
Nonresidential Fixed Investment	4.5	3.9	4.0	(2.9)	10.3	**1.9**	2.2	2.7	6.0	4.3	3.8	3.5	4.9	**3.5**	3.3	3.8	3.4
Light Vehicle Sales	15.5	15.6	15.6	16.5	16.4	**16.1**	15.5	15.8	16.0	16.2	16.4	16.5	15.5	**15.8**	16.0	16.3	16.6
Industrial Production, Manufacturing (Yr/Yr)	(0.9)	1.4	(0.7)	(1.4)	0.7	**1.0**	1.1	1.5	2.2	2.4	2.6	2.8	(0.4)	**(0.4)**	1.1	2.5	2.8
Unemployment Rate (Qtrly Avg)	3.8	4.0	4.2	4.1	4.1	**4.2**	4.3	4.4	4.5	4.5	4.4	4.3	3.6	**4.0**	4.3	4.4	4.2
Housing Market																	
Housing Starts (Units, thous)	1,415	1,343	1,338	1,387	1,401	**1,327**	1,300	1,280	1,310	1,350	1,380	1,400	1,421	**1,368**	1,350	1,375	1,450
New Home Sales	677	685	707	671	655	**652**	660	670	680	700	720	730	666	**684**	659	710	750
Existing Home Sales	4,143	4,023	3,937	4,163	4,127	**3,990**	4,020	4,060	4,110	4,150	4,170	4,180	4,090	**4,060**	4,049	4,153	4,280
S&P/Case-Shiller Natl Home Prices (Yr/Yr % Change)	6.4	6.0	4.4	3.8	3.8	2.2	2.1	2.2	2.1	2.3	2.4	2.5	2.5	**5.1**	2.6	2.3	3.1
Inflation (Year-to-Year % Change)																	
Consumer Price Index (CPI)	3.2	3.2	2.7	2.7	2.7	**2.5**	2.8	3.0	2.9	2.8	2.6	2.5	4.1	**3.0**	2.7	2.7	2.4
Core CPI	3.8	3.4	3.3	3.3	3.1	**2.8**	3.0	3.1	3.0	2.9	2.6	2.5	4.8	**3.4**	3.0	2.8	2.3
Personal Consumption Deflator	2.7	2.6	2.3	2.5	2.5	**2.4**	2.7	2.9	2.8	2.8	2.7	2.6	3.2	**2.8**	2.6	2.7	2.3
Core PCE Deflator	3.0	2.7	2.7	2.8	2.8	**2.7**	2.9	3.1	3.0	2.9	2.7	2.6	4.1	**2.8**	2.9	2.8	2.3
Employment Cost Index	4.2	4.0	3.8	3.8	3.6	**3.6**	3.5	3.5	3.5	3.4	3.5	3.5	4.5	**3.9**	3.6	3.5	3.7
Interest Rates (Quarter End and Ann Avg)																	
Fed Funds Target Range	5.25-5.50	5.25-5.50	4.75-5.00	4.25-4.50	4.25-4.5	**4.25-4.5**	4-4.25	3.5-3.75	3.25-3.5	3.25-3.5	3.25-3.5	3.25-3.5	5.02	**5.14**	4.12	3.38	3.63
10-Year Treasury Note	4.21	4.33	3.81	4.58	4.23	**4.24**	4.30	4.20	4.20	4.20	4.30	4.40	3.96	**4.21**	4.24	4.28	4.50
Conventional Mortgage Rate (Freddie Mac)	6.79	6.86	6.08	6.85	6.65	**6.77**	6.60	6.40	6.30	6.30	6.30	6.40	6.81	**6.72**	6.61	6.38	6.50

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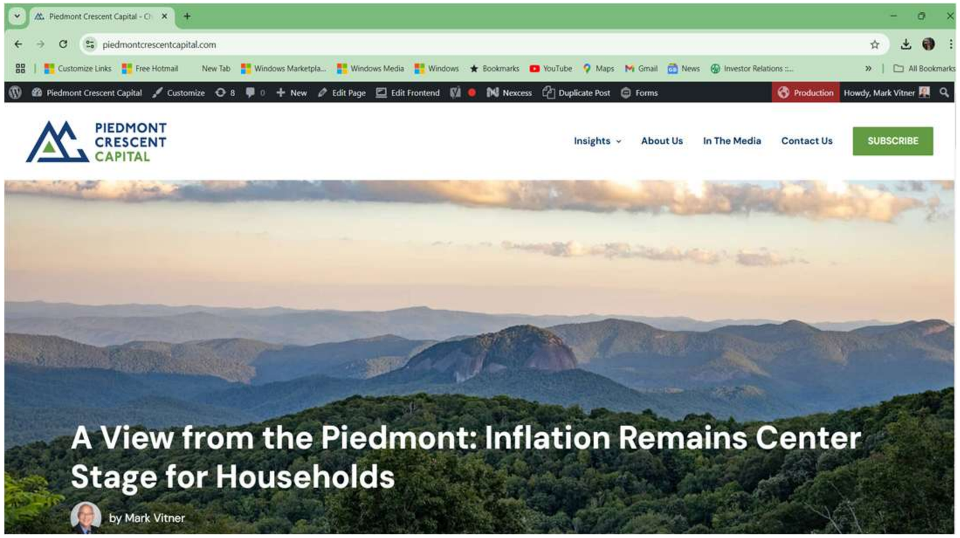

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