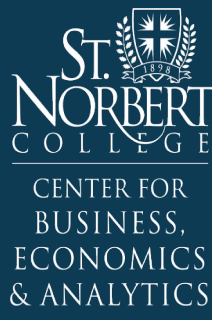


State of the Economy

# Navigating the "Known Unknowns"

February 2025



**BankFirst**  
sponsor

## Program Agenda

7:45 coffee/networking (coffee and pastries are provided)

8:00 program begins with welcome remarks

- Dr. Laurie Joyner, President, St. Norbert
- Dr. Kevin Quinn, Dean, Schneider School, St Norbert
- Aaron Faulkner, Region President, Bank First

8:10 - State of the Economy Presentation

- Dr. Marc Schaffer & CBEA Research Analyst Fellows

9:15 - State of the Economy presentation concludes

State of the Economy

# Navigating the "Known Unknowns"

February 2025



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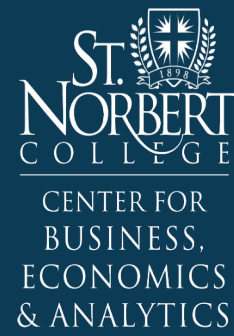
CENTER FOR  
BUSINESS,  
ECONOMICS  
& ANALYTICS

## CBEA RESEARCH ANALYST FELLOWS

**Maille Cannon**  
**Evan Paque**  
**Jaden Propson**

**Marc Schaffer, Ph.D.**  
Professor, Economics & Data Analytics  
Executive Director, CBEA

# Overview



## 1 | Economic growth

The United States Economy grew at 2.8% in 2024. This moderate growth was driven through consumer spending specifically on services & durable goods. This stable growth is expected to continue into 2025

## 2 | Labor Markets

The labor market continue to soften as unemployment was consistent at relatively low rates throughout the year. The labor force participation rate shows signs of a new normal.

## 3 | Inflation

Global and domestic economic factors, including key indicators like housing, wages, supply chains and policy will determine future inflation trends and economic movements in 2025, but for now inflation is near target range, albeit slightly elevated

## 4 | Housing

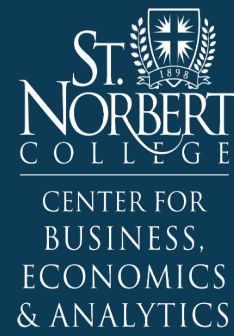
Housing prices likely to remain elevated in the midst of limited supply, vacancy, along with affordability challenges due to elevated mortgage rates.

## 5 | The "Known Unknowns"

Economy is on solid ground according to the Federal Reserve and monetary policy is in a holding pattern with rates in the face of the known unknowns

Fiscal, Trade, and Immigration policies are the key known unknowns that will play a role in shaping the economy in 2025

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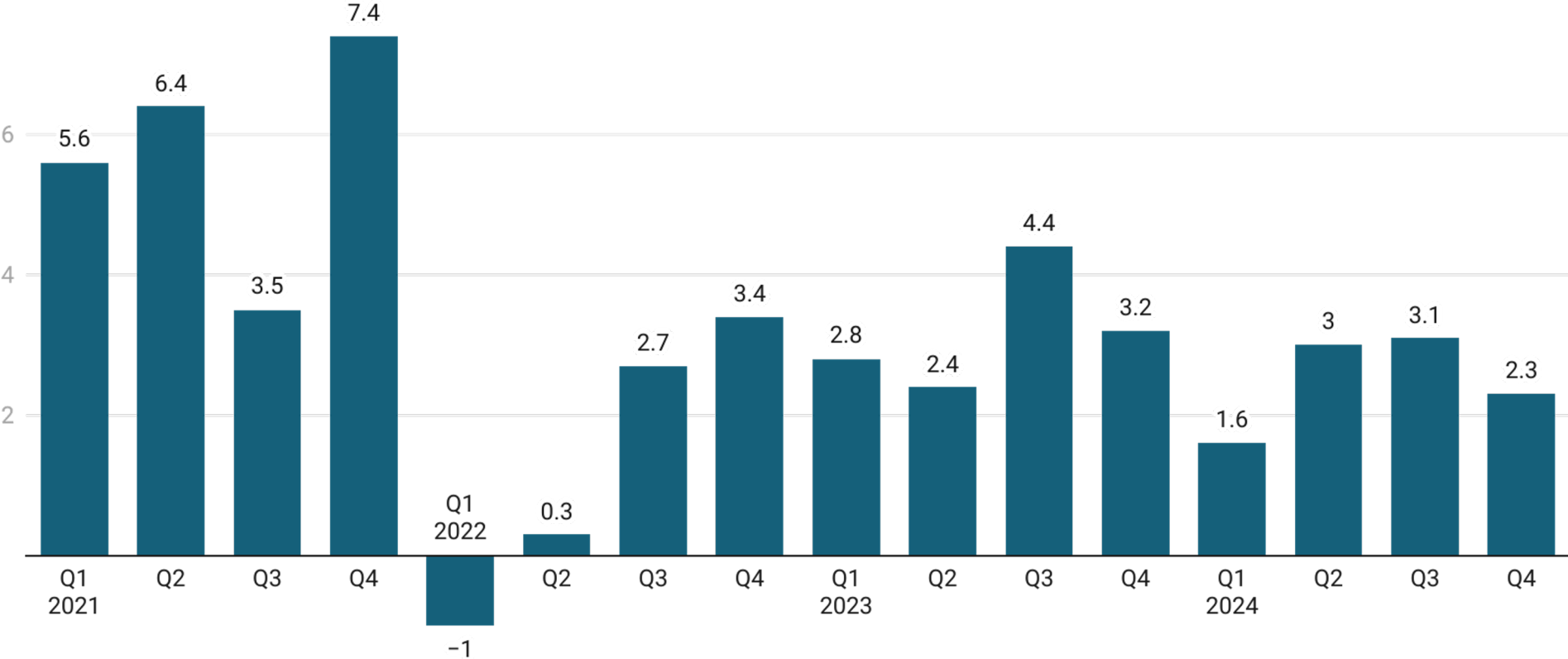
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In spite of headwinds, real GDP has continued its resilient growth and is expected to end 2024 with 2.8% growth for the year.

## Real GDP

Percent Change from Preceding Quarter | Seasonally Adjusted

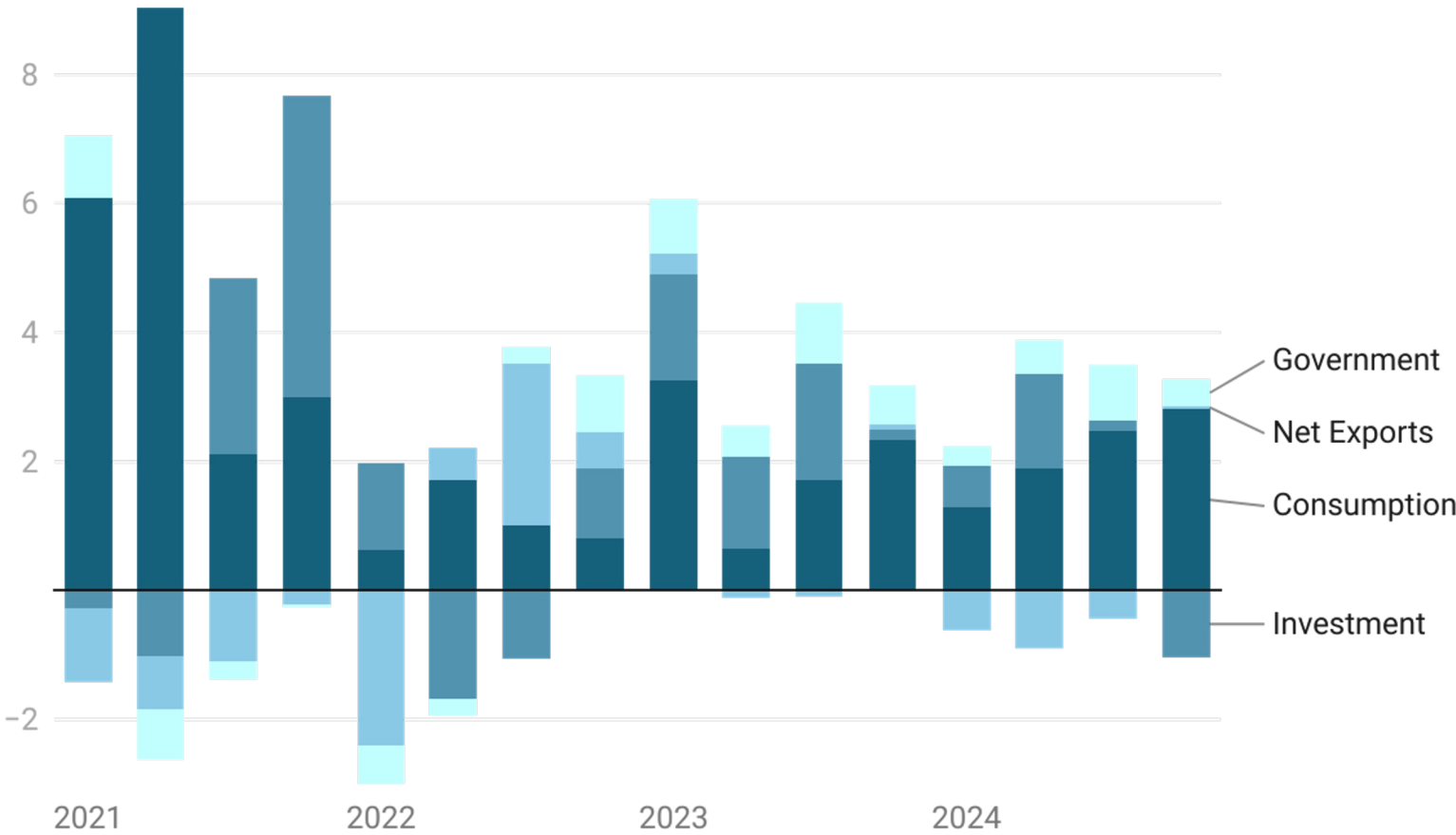


Source: BEA

Consumer resiliency continued to drive the economic growth in 2024...

## GDP Component Contributions

Contribution to Percentage Change | Seasonally Adjusted

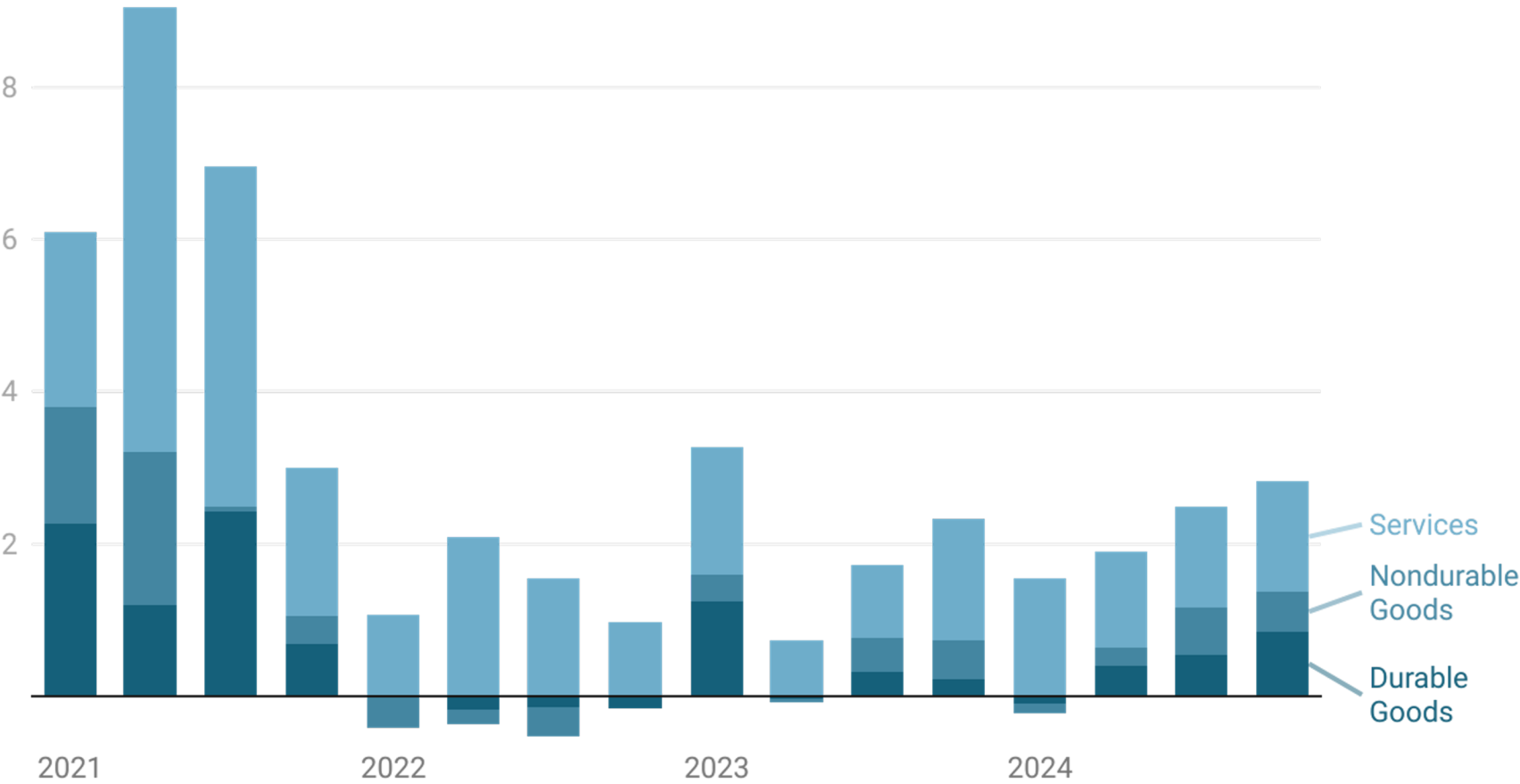


Source: BEA

Consumer spending on services drove this resiliency, while durable and non-durable goods spending increasing throughout the year

## Personal Consumption Contributions

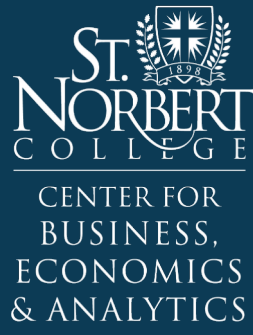
Contribution to Percentage Change | Seasonally Adjusted



Source: BEA

Question

**Is your household better  
or worse off today than it  
was a year ago?**



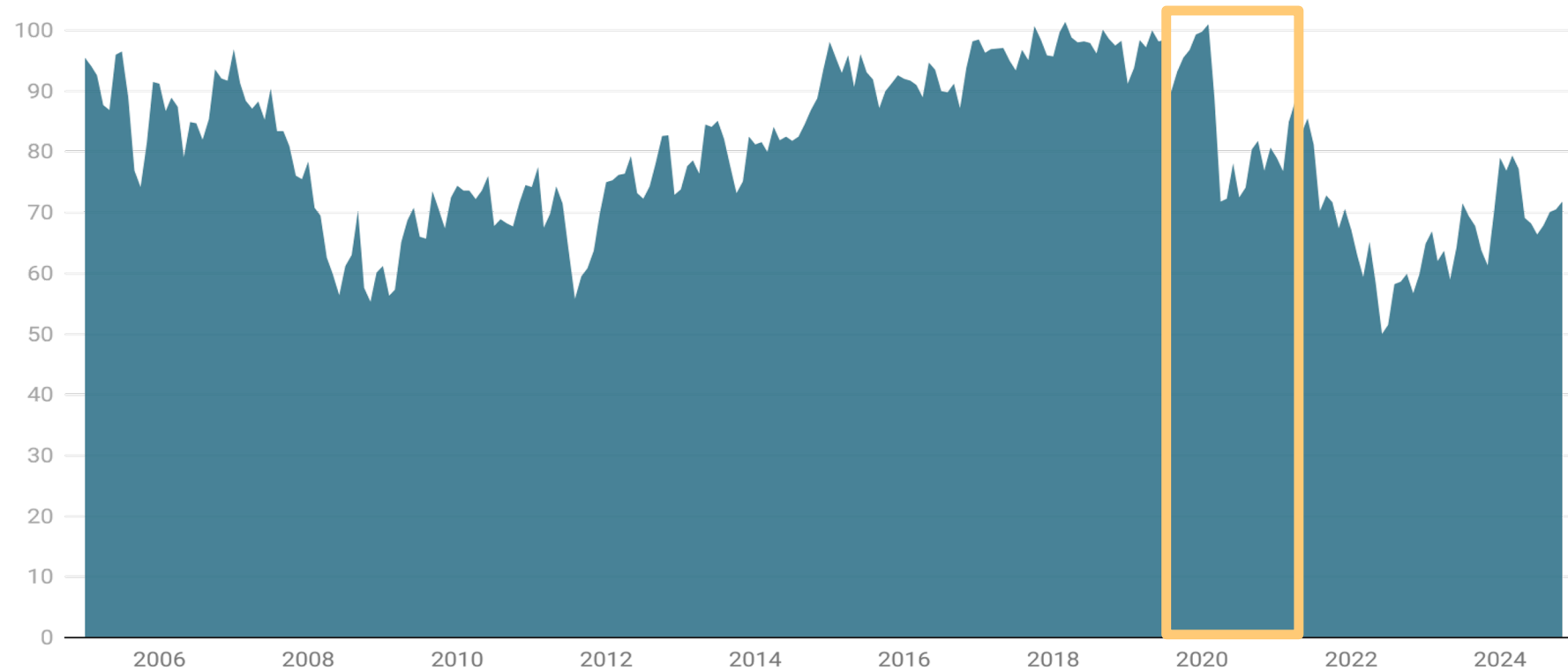


Consumer sentiment shows positive overall trend after falling in the first half of the year suggesting some optimism, but still lagging pre-pandemic sentiment

---

### Consumer Sentiment

Monthly | Not Seasonally Adjusted



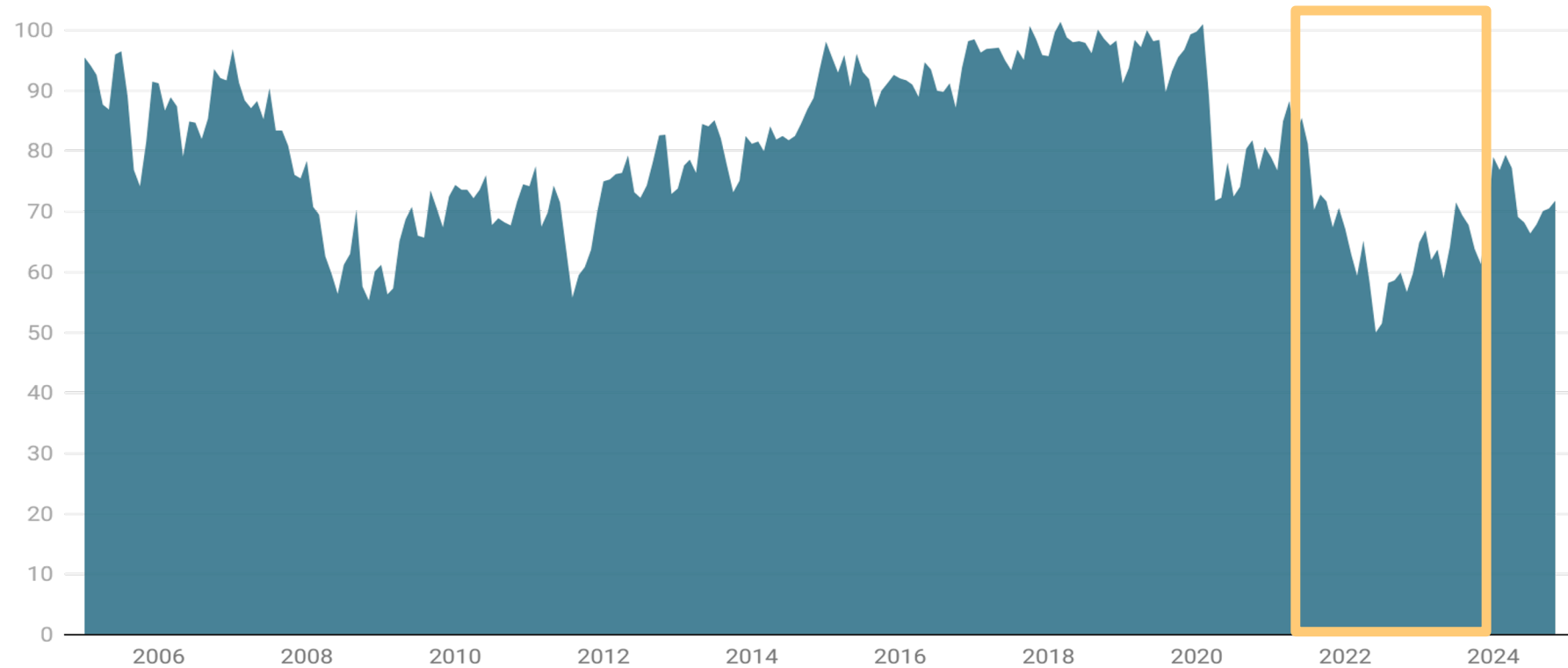
Source: FRED

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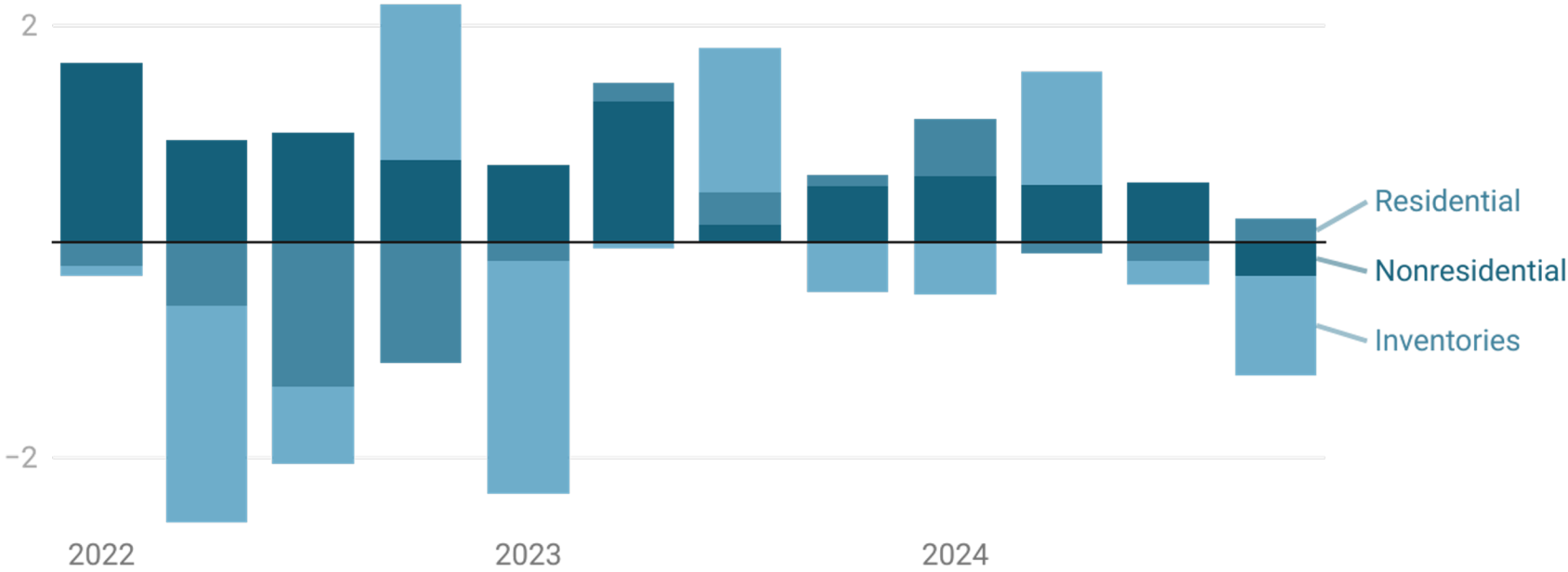


Source: FRED

# Private inventories and residential investment dragged on the GDP investment growth in Q3

## Private Investment Contribution

Contribution to Percentage Change of GDP | Seasonally Adjusted

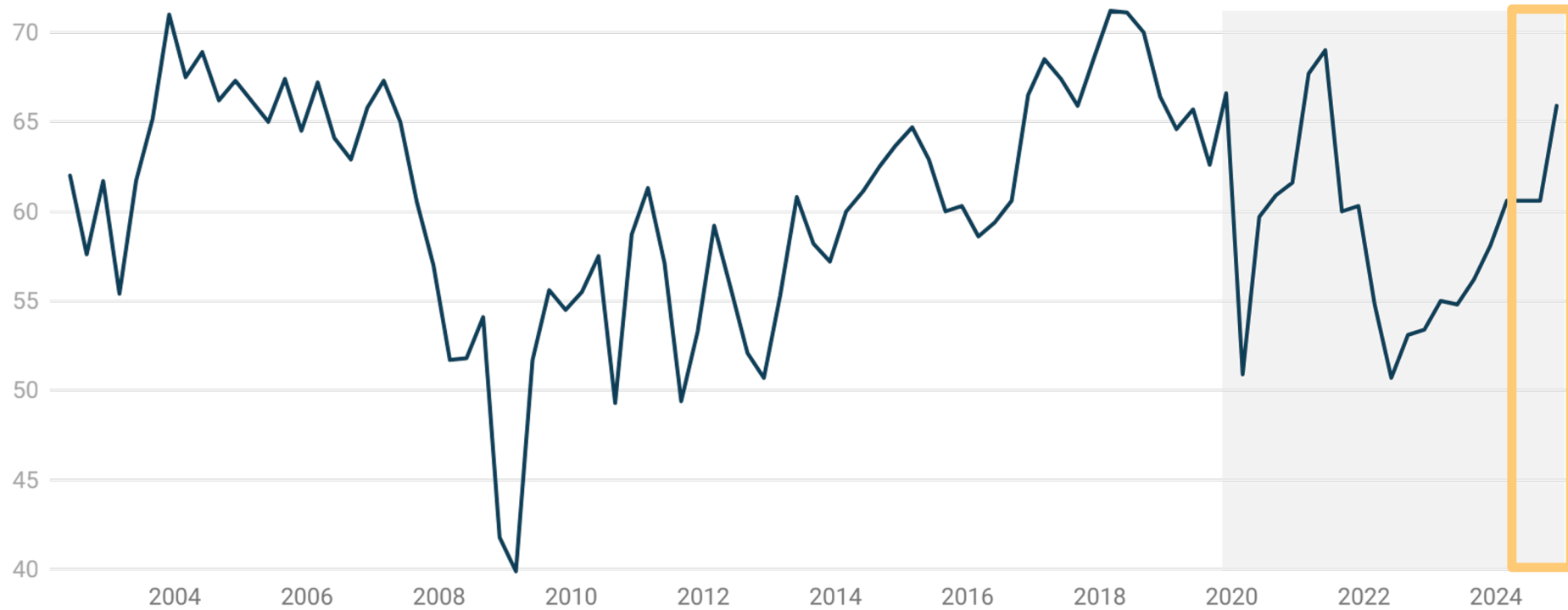


Source: BEA

CFOs continued to gain confidence in the economy...

### CFO Confidence in the Economy

survey-based optimism index



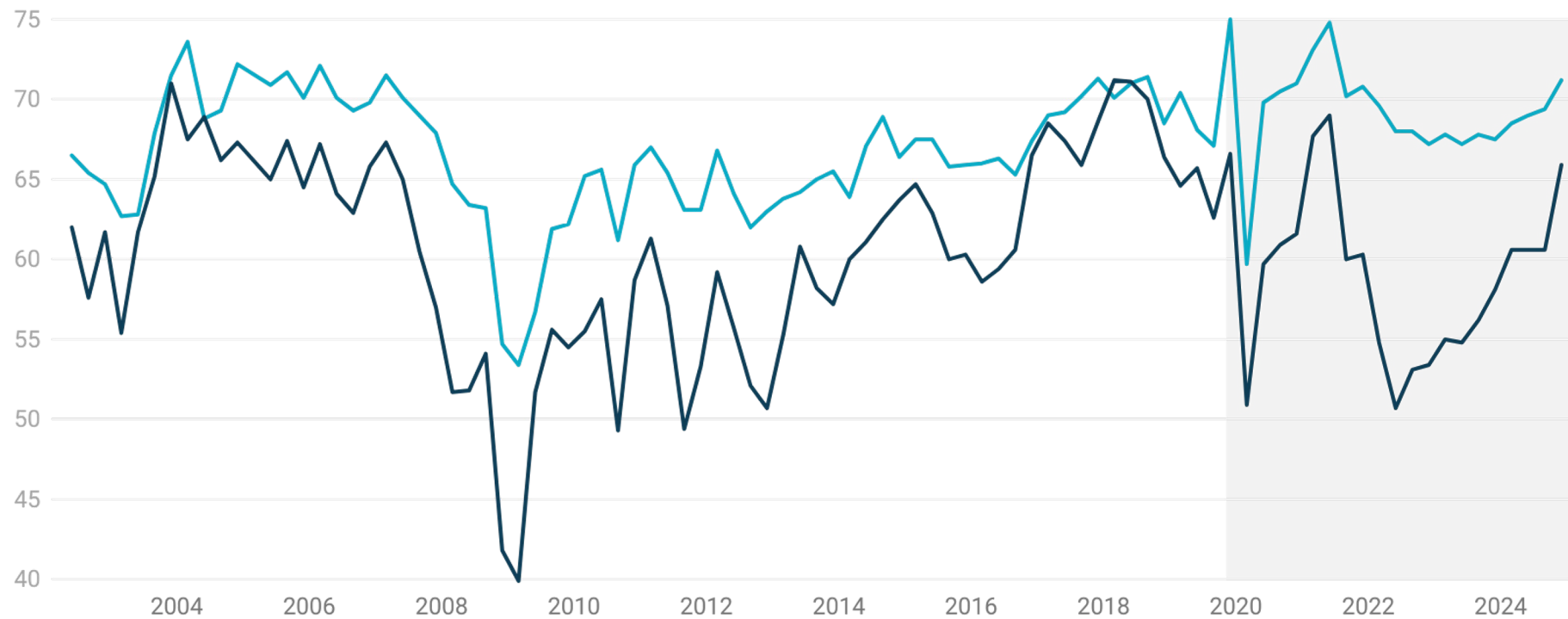
Source: Duke CFO Survey

... as well as optimism in their own firms

## CFO Confidence in the Economy

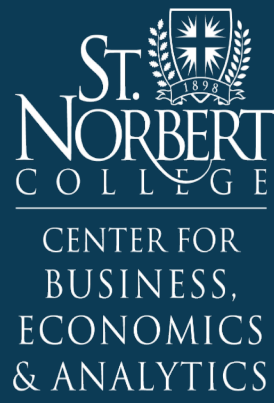
survey-based optimism index

— Optimism about the U.S. economy — Optimism about own company



Source: Duke CFO Survey

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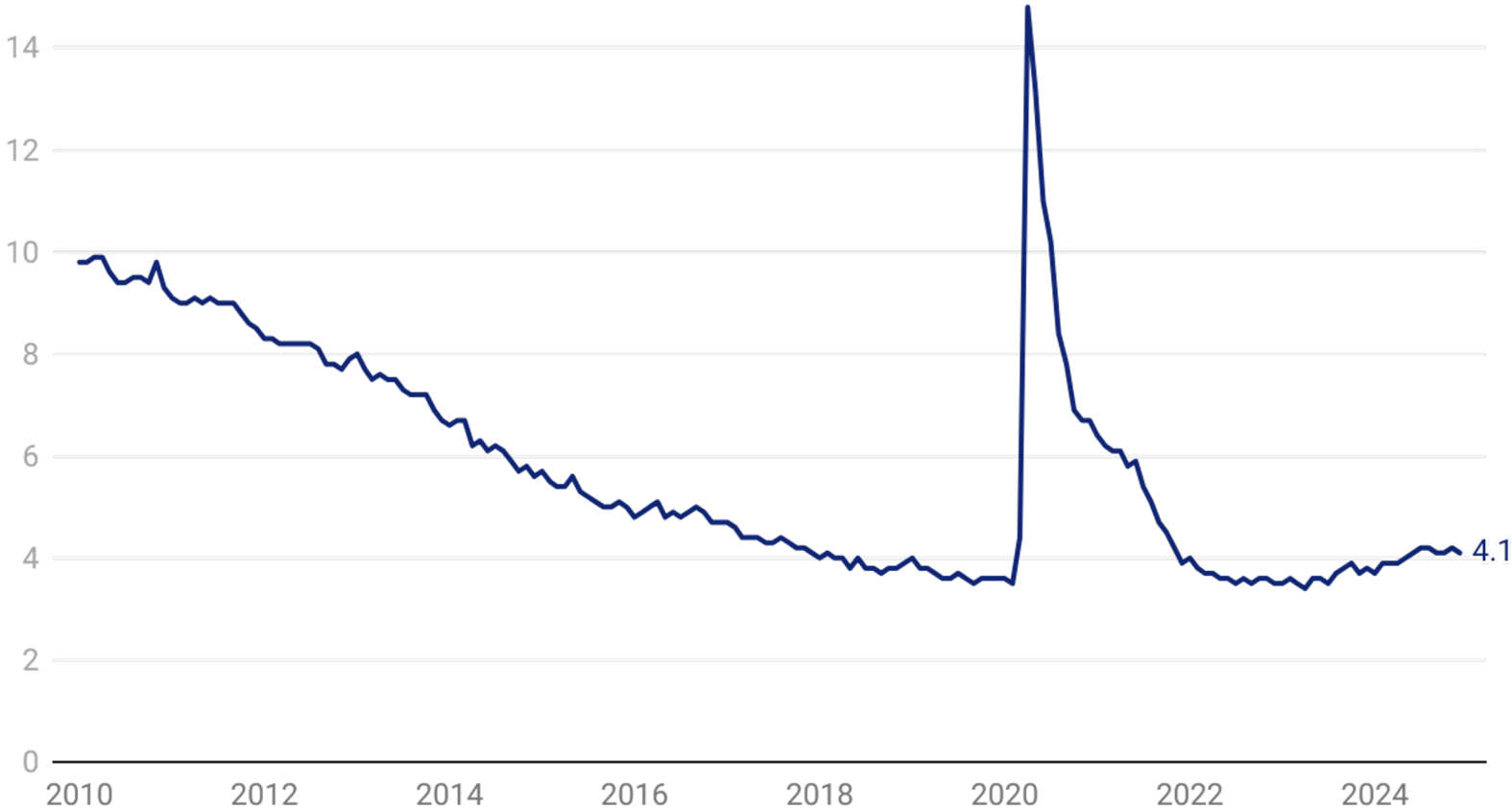
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# Unemployment Consistently Sits Around 4.1% During the Second Half of 2024

## Unemployment Rate

Monthly | Seasonally Adjusted



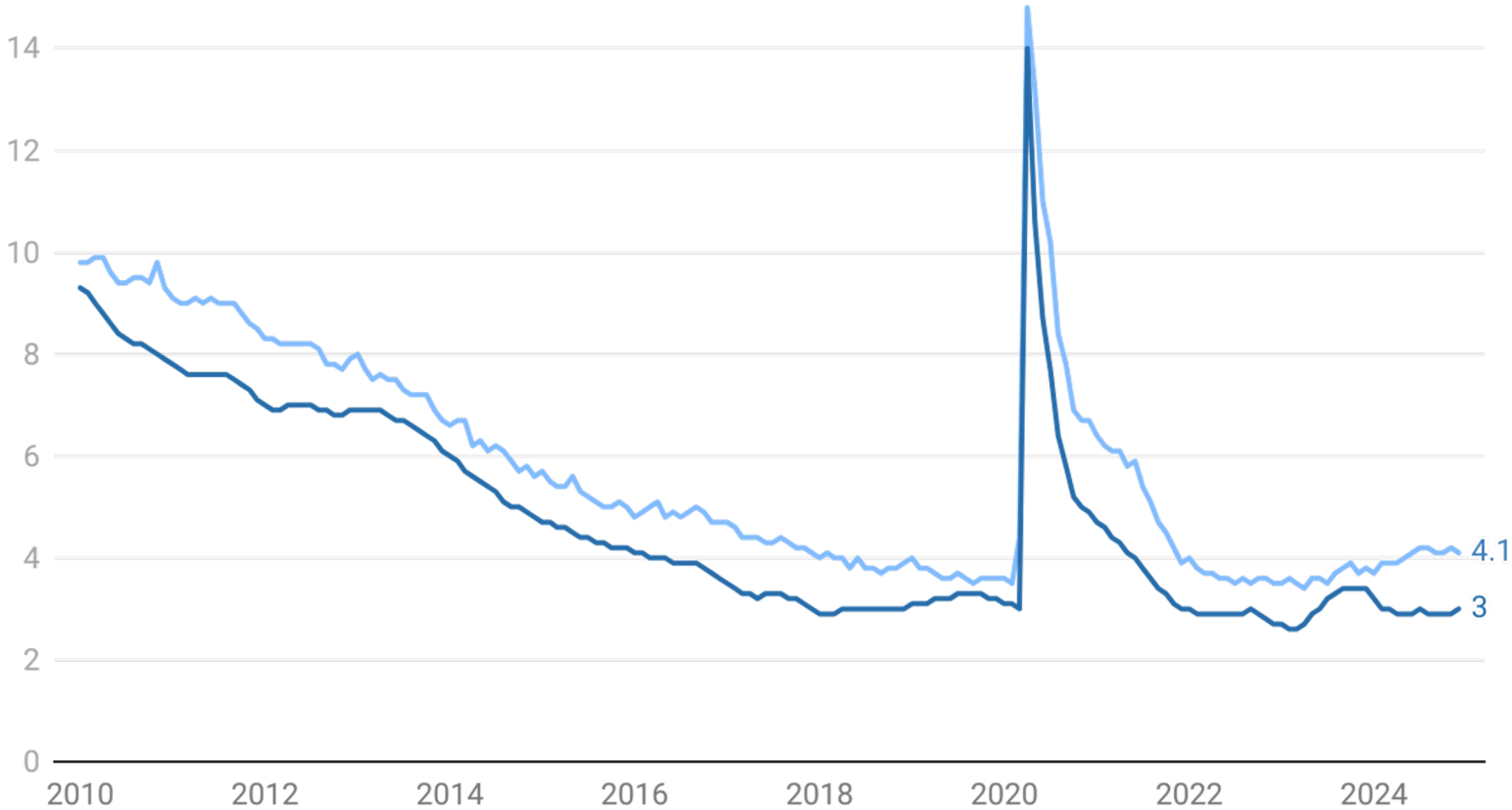
Source: FRED

# Wisconsin Unemployment Remains Significantly Lower than National Unemployment Level

## Unemployment Rate

Monthly | Seasonally Adjusted

— National — Wisconsin



Source: FRED

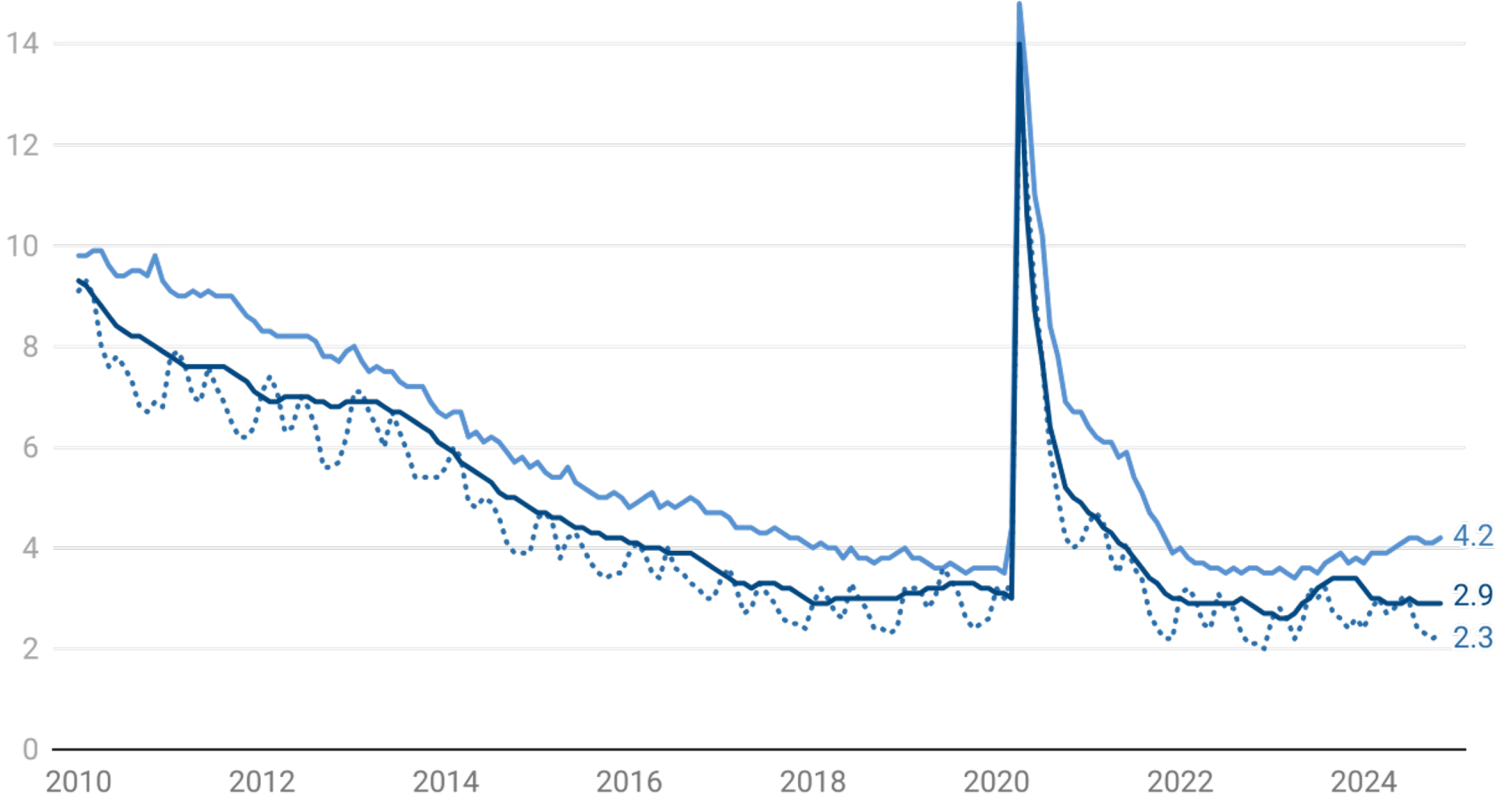


# Unemployment Rate in Brown County Decreased at the End of the Year

## Unemployment Rate

Monthly | Seasonally Adjusted

— National — Wisconsin ... Brown County (NSA)



Source: FRED

# Job Openings and Quits Have Previously Shown Signs of the Great Resignation But Have Normalized Since

---

## Job Openings

Total Nonfarm



Source: BLS

## Job Quits

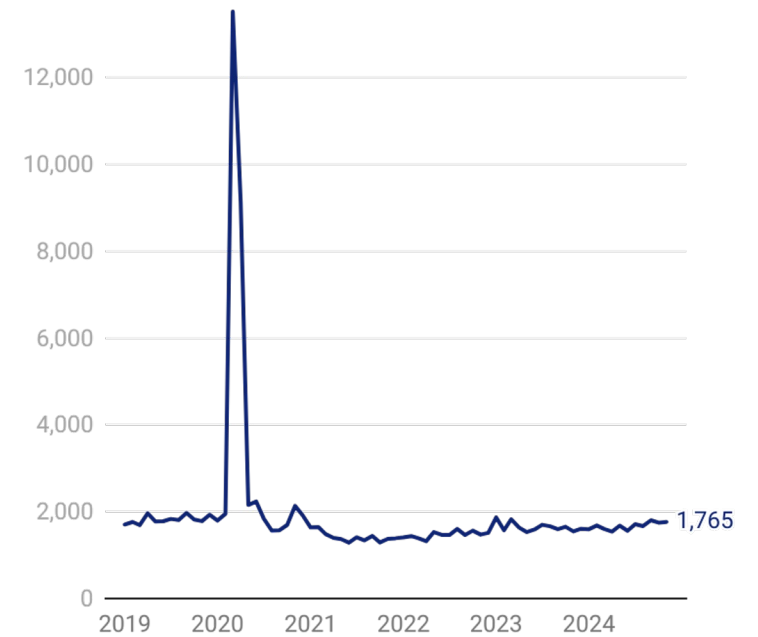
Total Nonfarm



Source: BLS

## Job Layoffs

Total Nonfarm



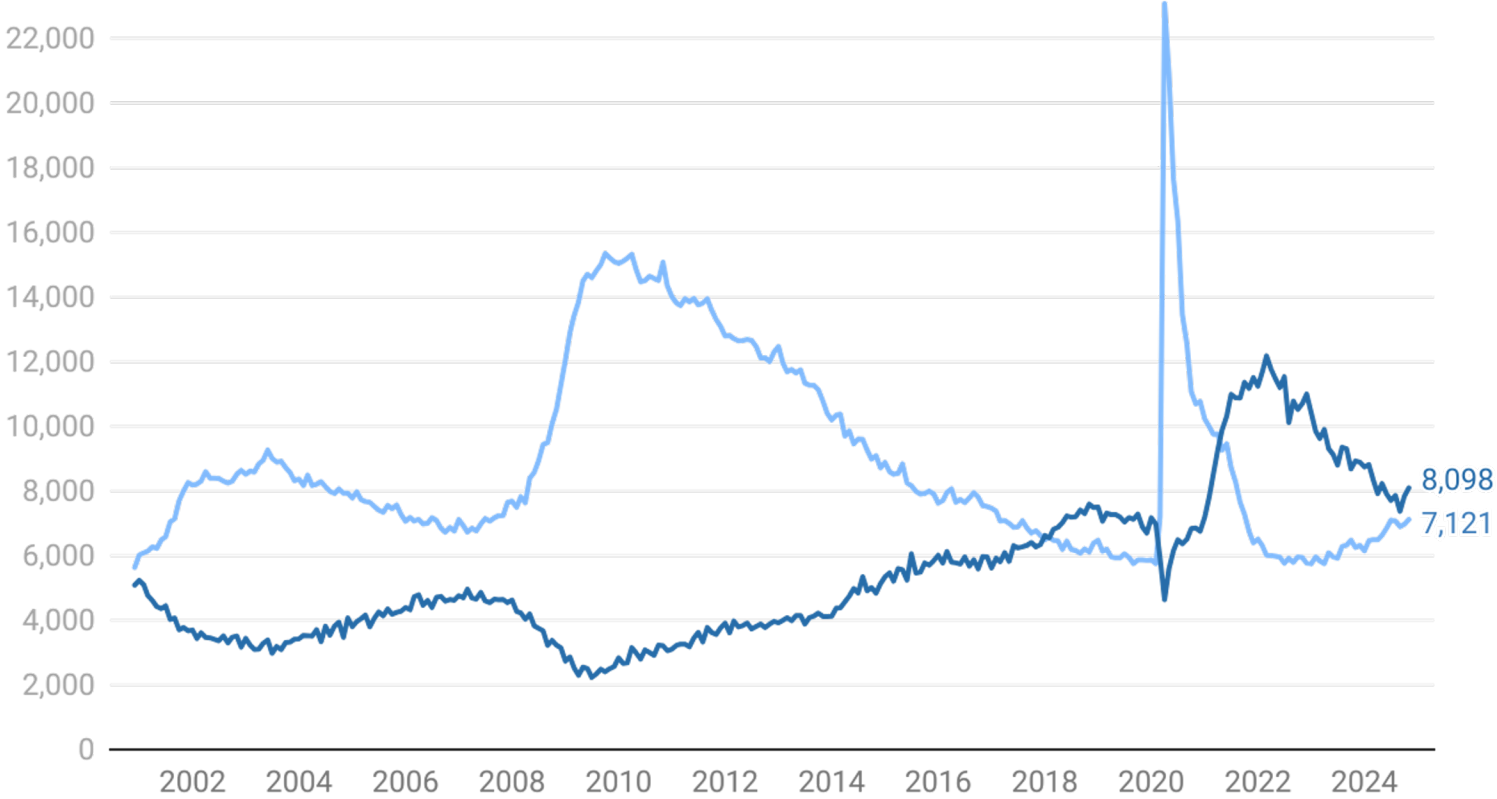
Source: BLS

# Labor Market is Closing Relative to Unemployment and Job Openings Comparison

## Unemployment and Job Openings

Monthly | Seasonally Adjusted

— Unemployment — Job Openings

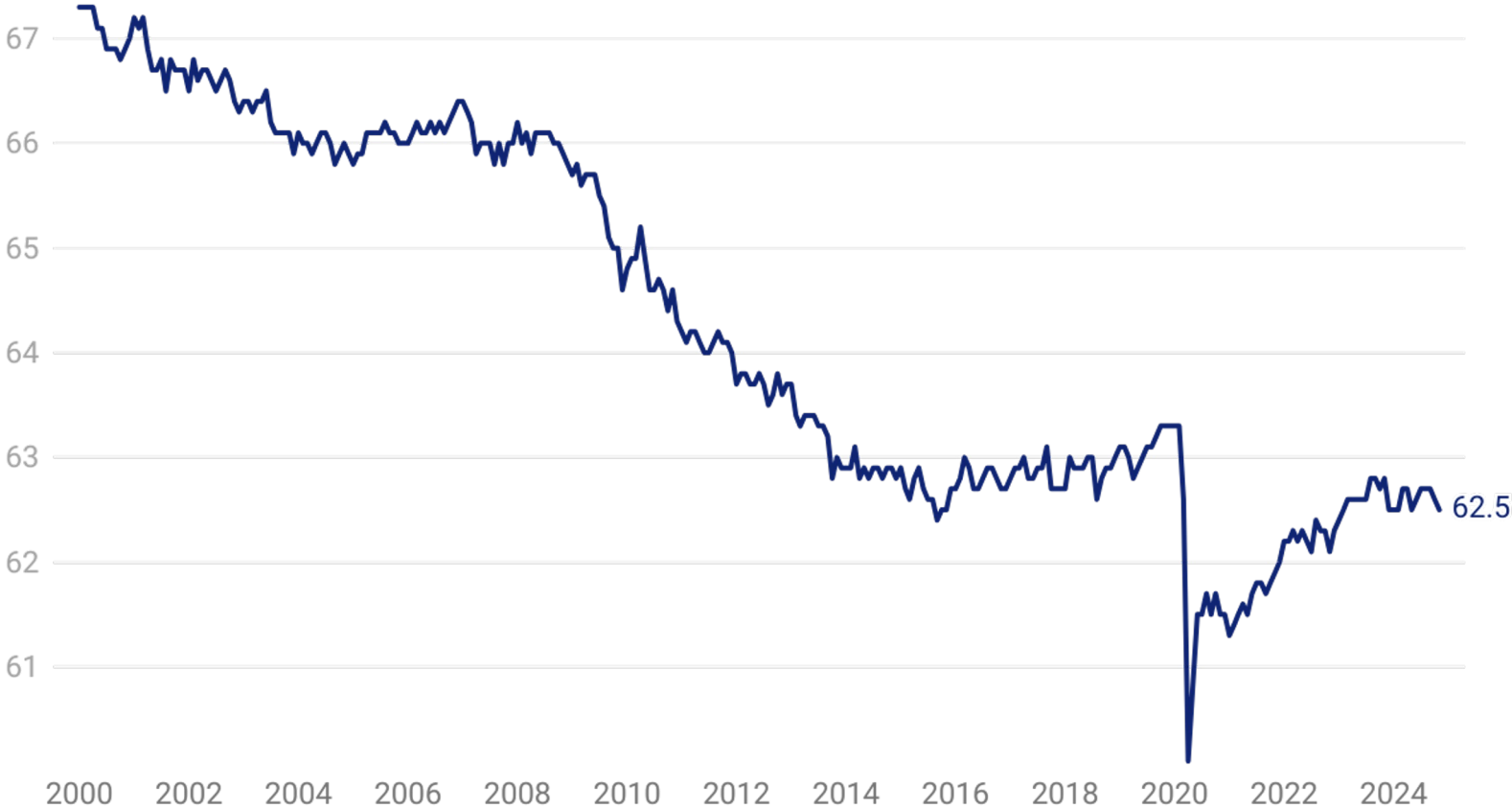


Source: FRED

# Labor Force Participation Rate Shows New Normal

## Labor Force Participation Rate

Monthly | Percent Seasonally Adjusted

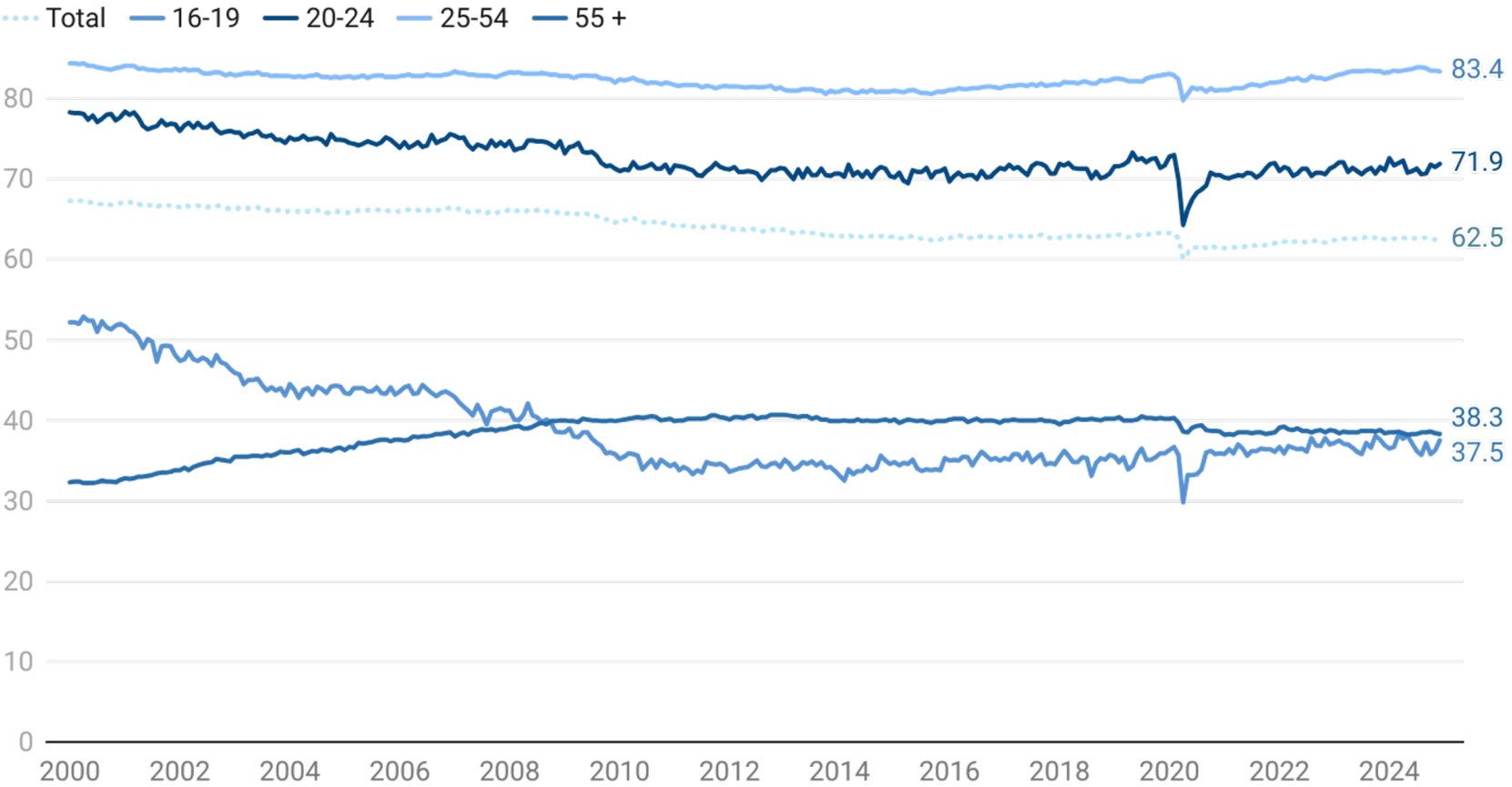


Source: FRED

# Labor Force Participation Rate by Age Group Shows the Varying Levels of Participation

## Labor Force Participation Rate by Age Group

Monthly | Percent

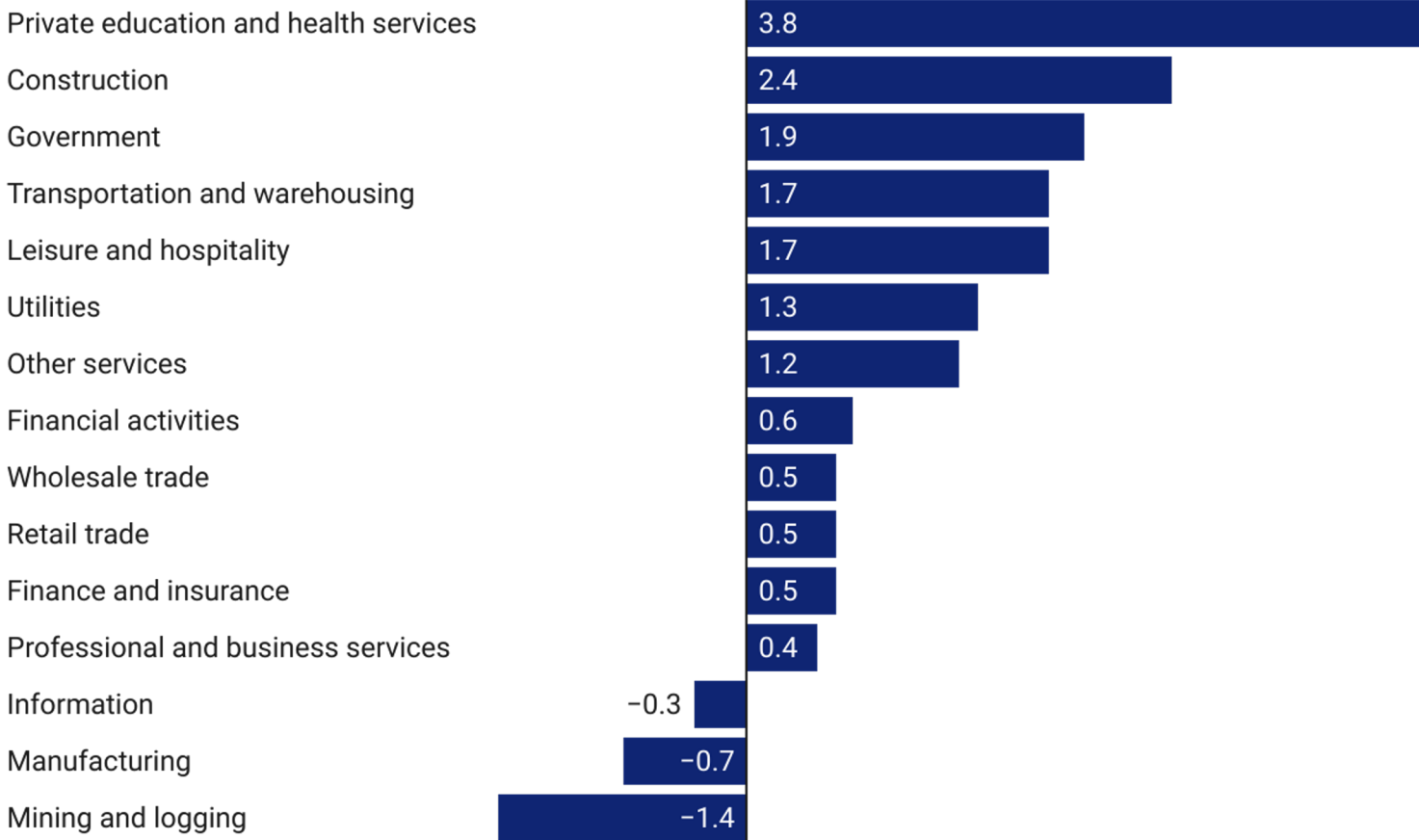


Source: FRED

# Private Education and Construction Sees the Largest Job Growth in 2024

## Employment Change by Industry

12-Month Percent Change | Seasonally Adjusted

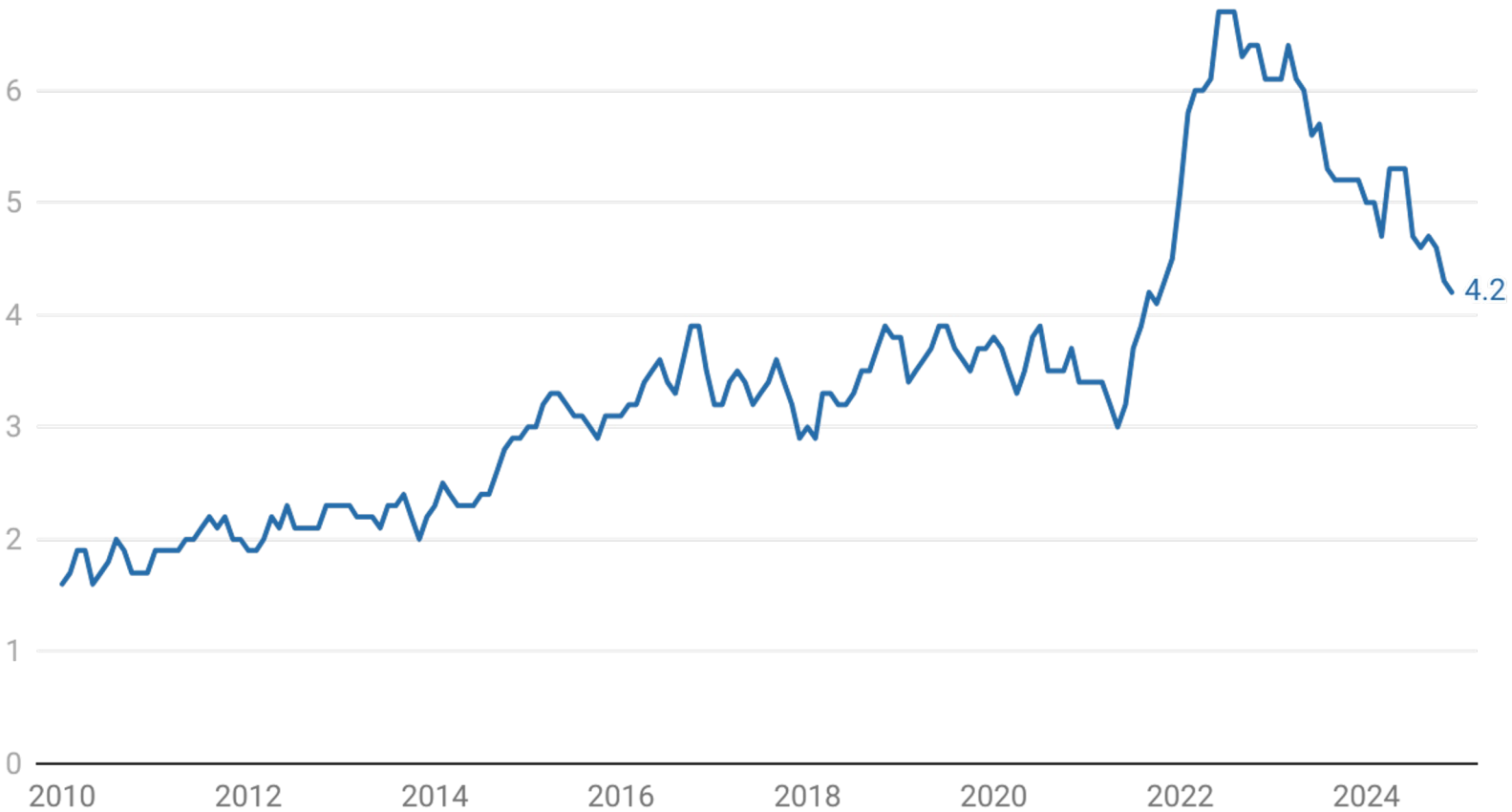


Source: BLS

# Overall Wage Growth has Decreased throughout 2024

## Overall Wage Growth

3 Month Moving Average



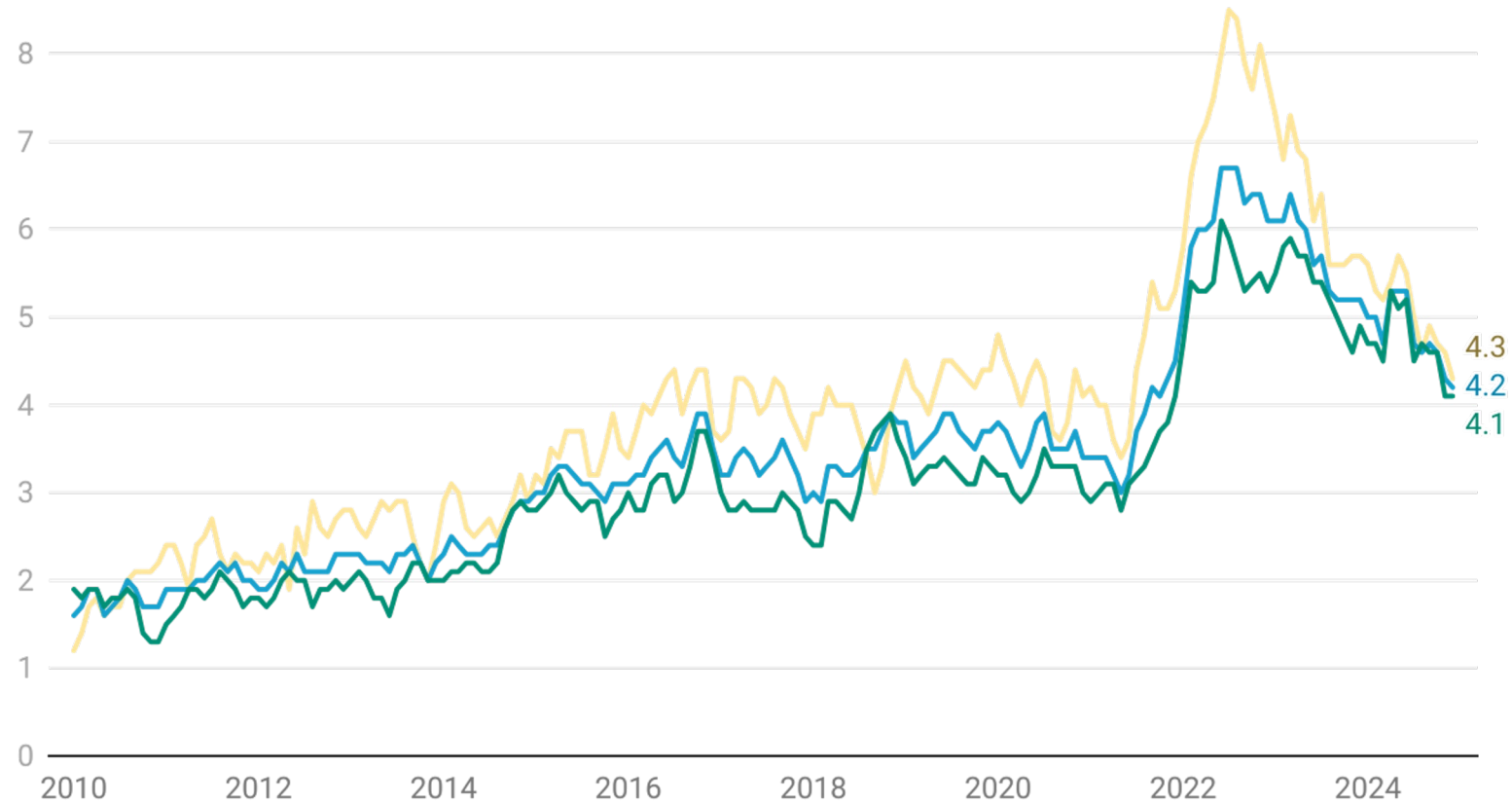
Source: Atlanta Fed

# The Big Stay was Active throughout 2024 as Job Switchers No Longer Receive an Increase in Wage Growth

## Wage Growth

3 Month Moving Average

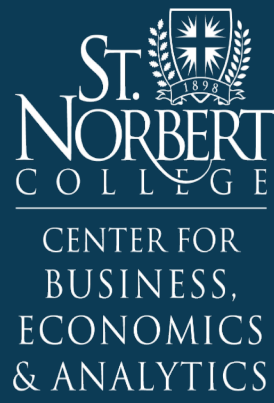
— Overall — Job Stayer — Job Switcher



Source: Atlanta Fed



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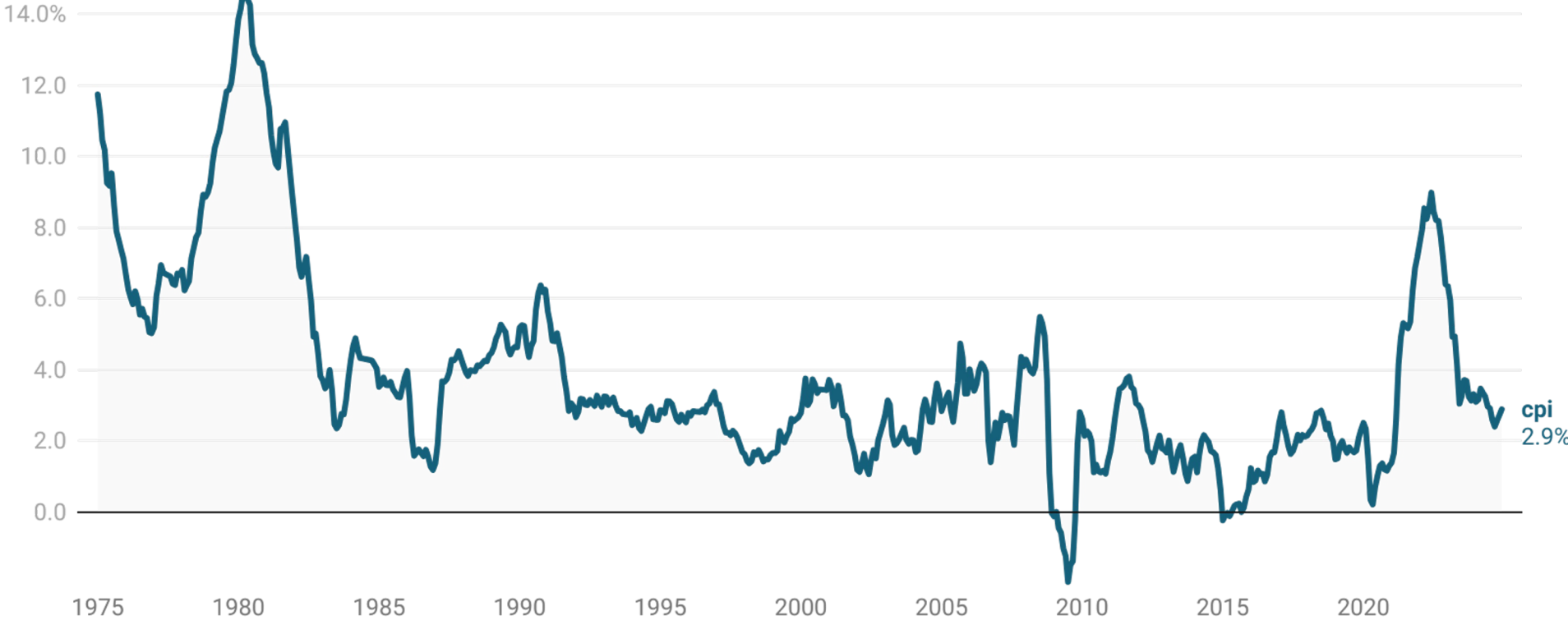
Fiscal, Trade, and Immigration policies are the key known unknowns that will play a role in shaping the economy in 2025

Inflation is down from recent highs, but hovering above pre-pandemic rates

---

### US Inflation

annual percentage change



Source: BLS

Core inflation (excluding food & energy) indicating slightly higher rates over the past year

### US Inflation

annual percentage change



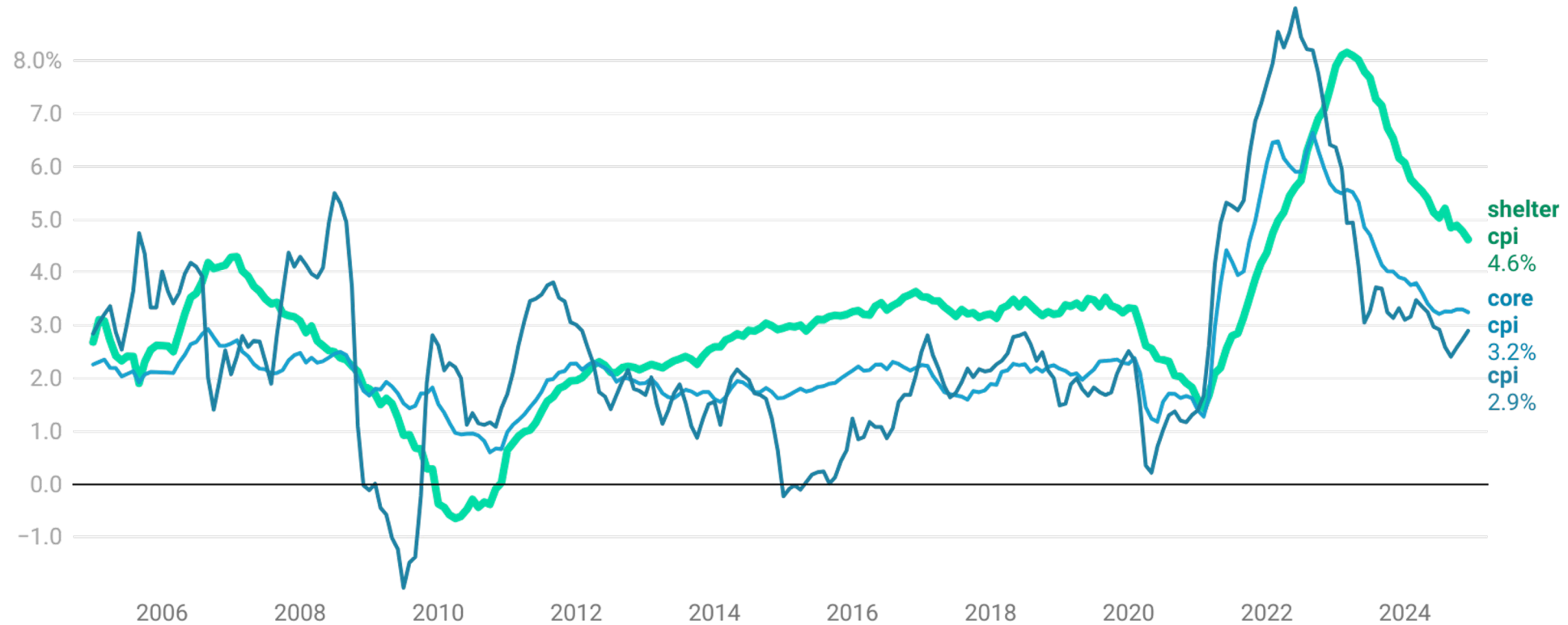
Source: BLS

# The “stickiness” and persistence of shelter inflation has been a challenge in bringing rates down

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## US Inflation

annual percentage change



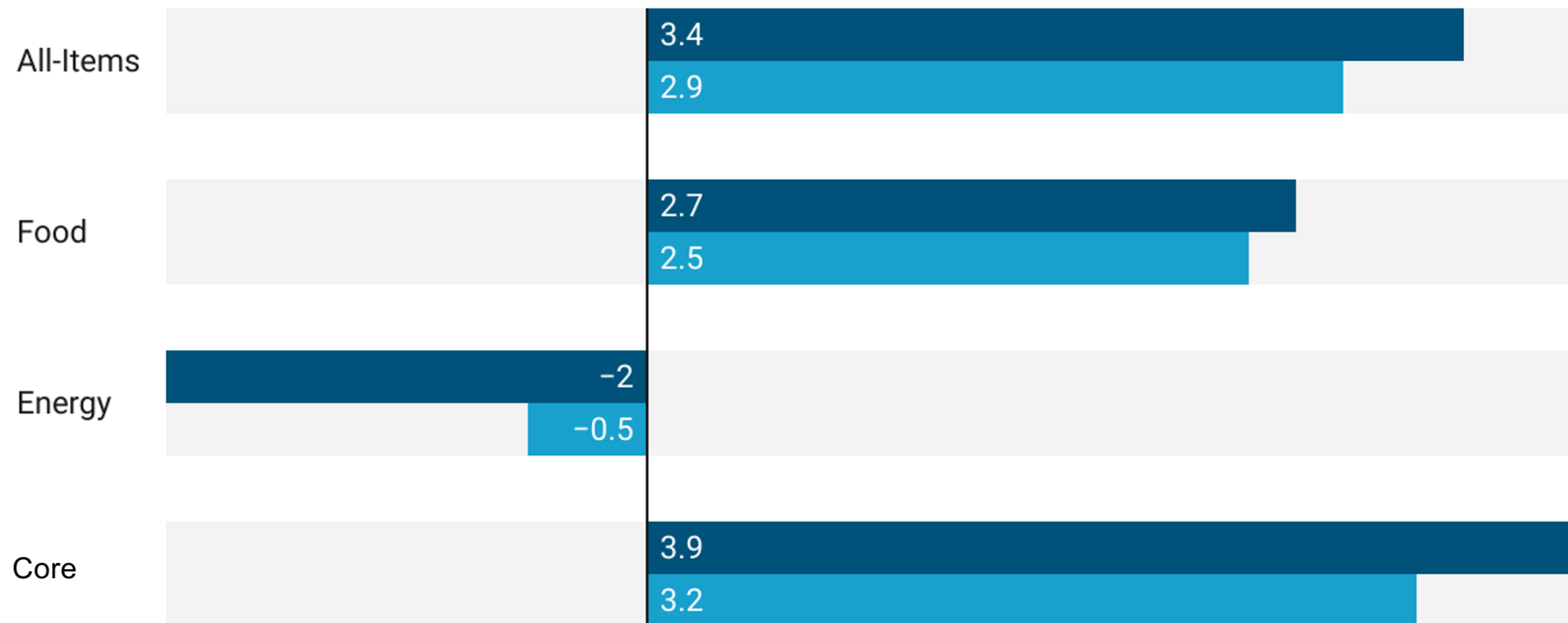
Source: BLS

# CPI Movers Show Less Changes in 2024, Each in Same Direction as 2023

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## 12-Month CPI Inflation

■ Dec 23 ■ Dec 24



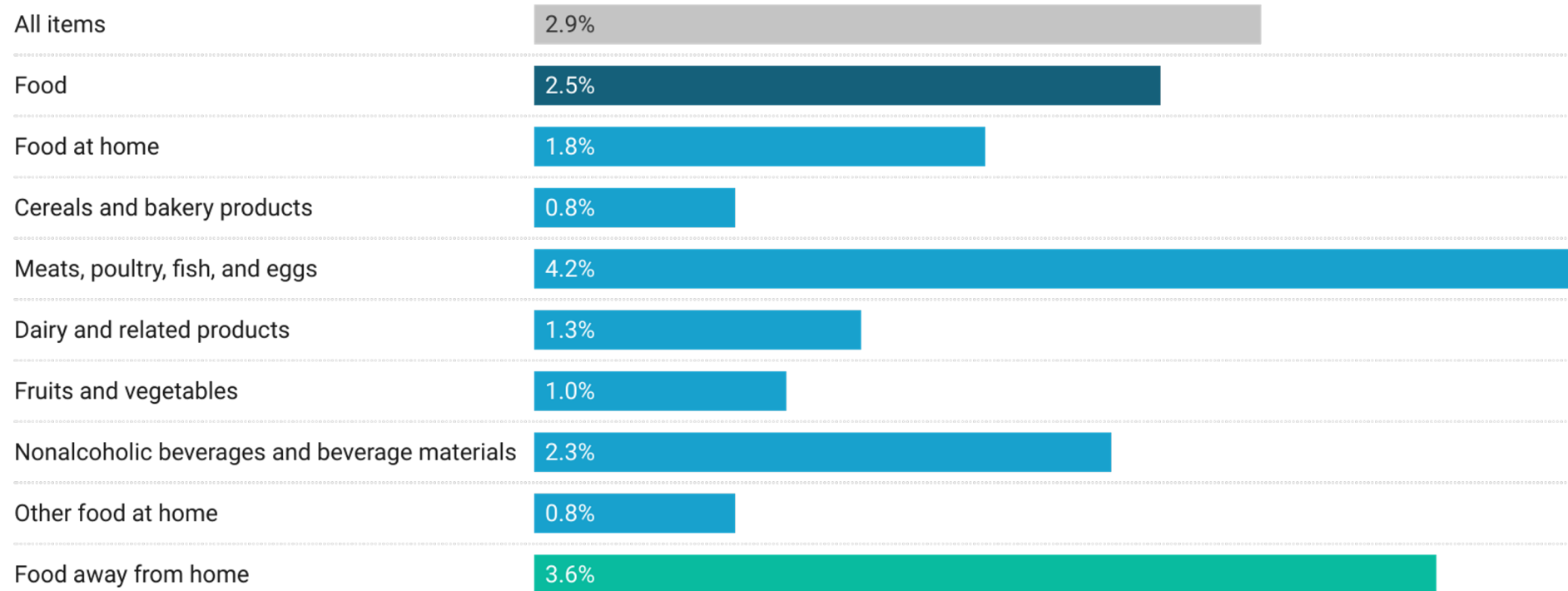
Source: BLS

Food inflation trending slightly below over inflation at 2.5%, however, meat, poultry, fish, and eggs are still running well above trends

---

## Food Inflation

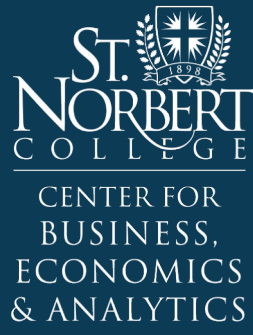
annual percentage change | December 2024



Source: BLS

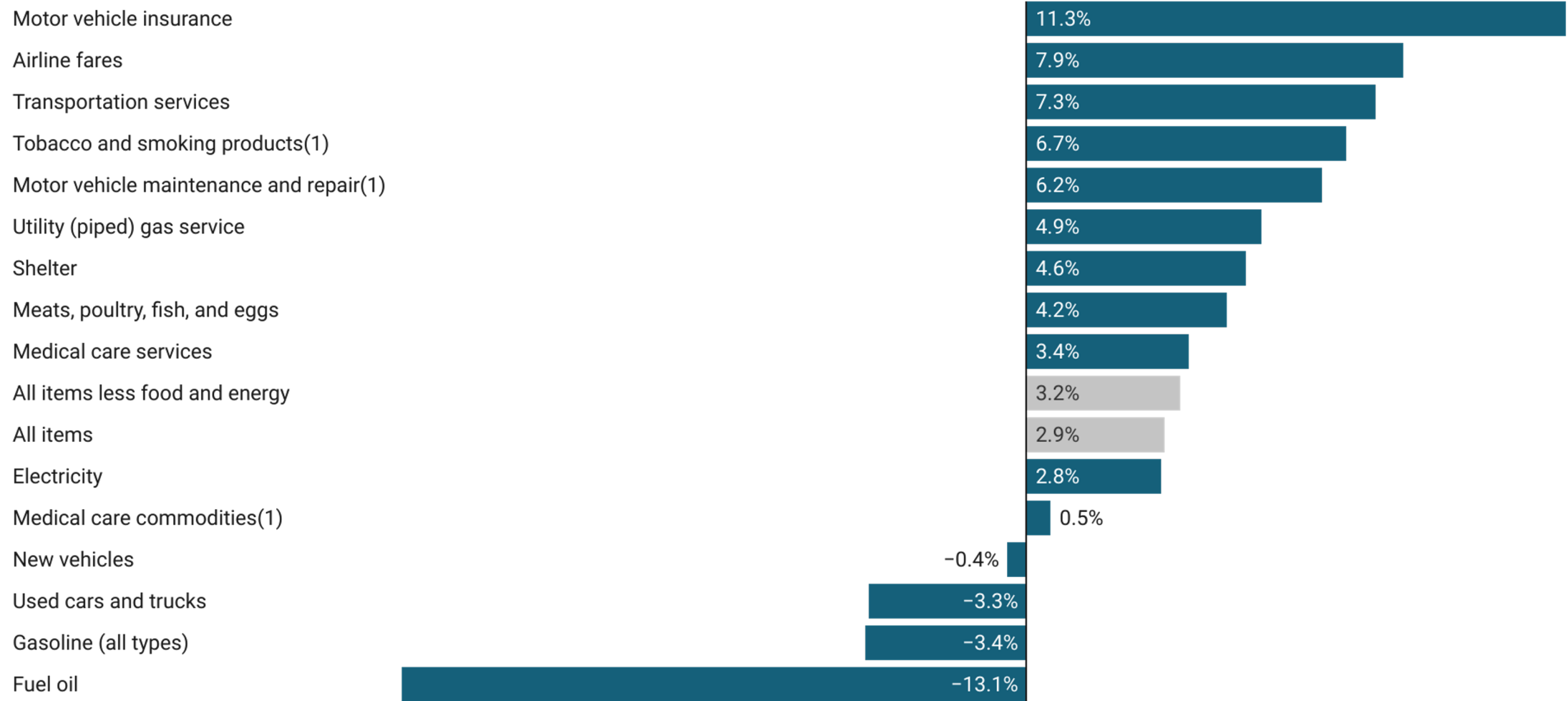
Question

**Of the options, which category had the largest price increase in the past year?**



# Inflation Movers

annual percentage change in subcategories of CPI | Dec. 2024



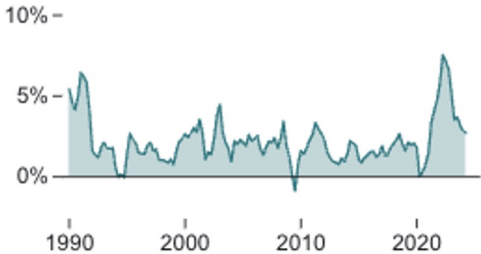
Source: BLS •



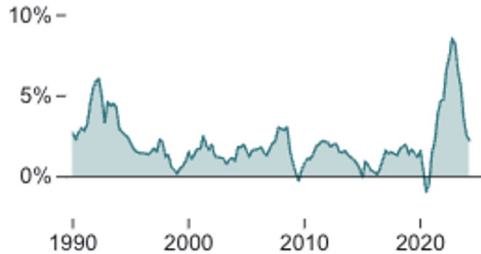
# Inflation is not a US-centric phenomenon in recent years

## Inflation in the G7

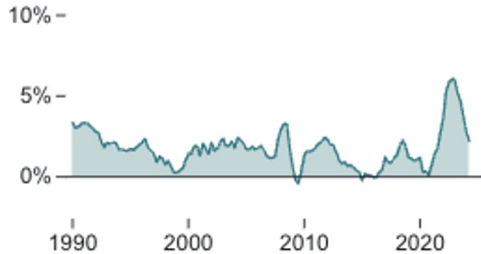
Canada



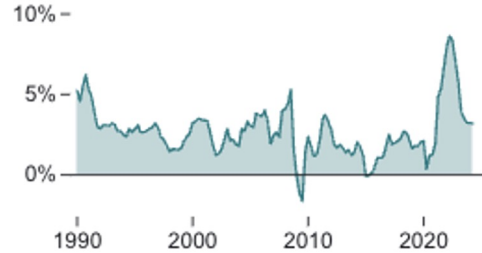
Germany



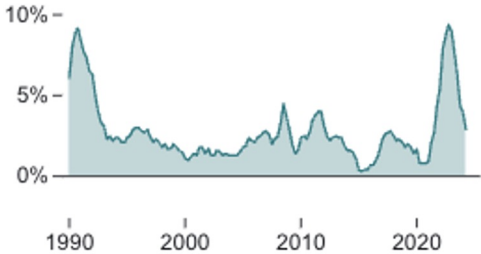
France



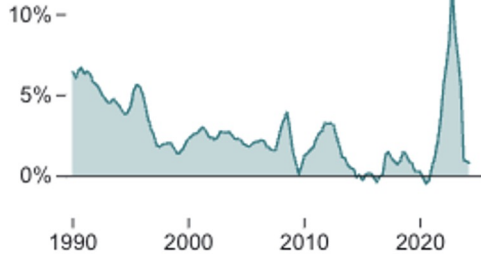
United States



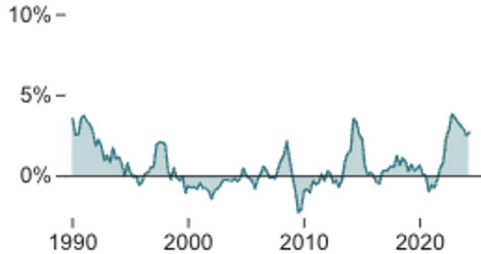
United Kingdom



Italy

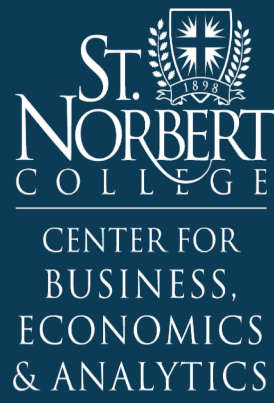


Japan



Source: Council of Foreign Relations

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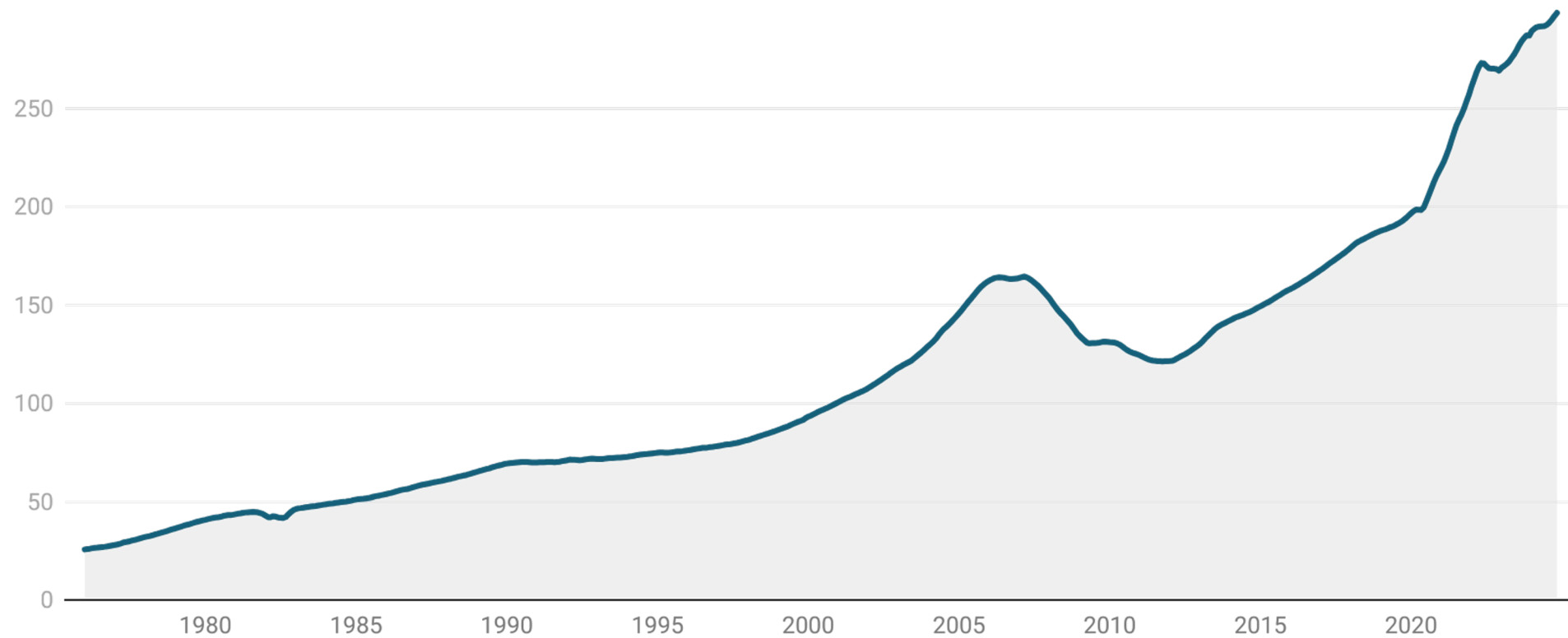
Fiscal, Trade, and Immigration policies are the key known unknowns that will play a role in shaping the economy in 2025

US home prices have experienced rapid increases in the past 4 years...

---

## House Price Index

index value | 2000 = 100



Source: Freddie Mac

However, have slowed in the past year as buyers continue to "wait-and-see"

---

## House Price Index

percent change from year ago



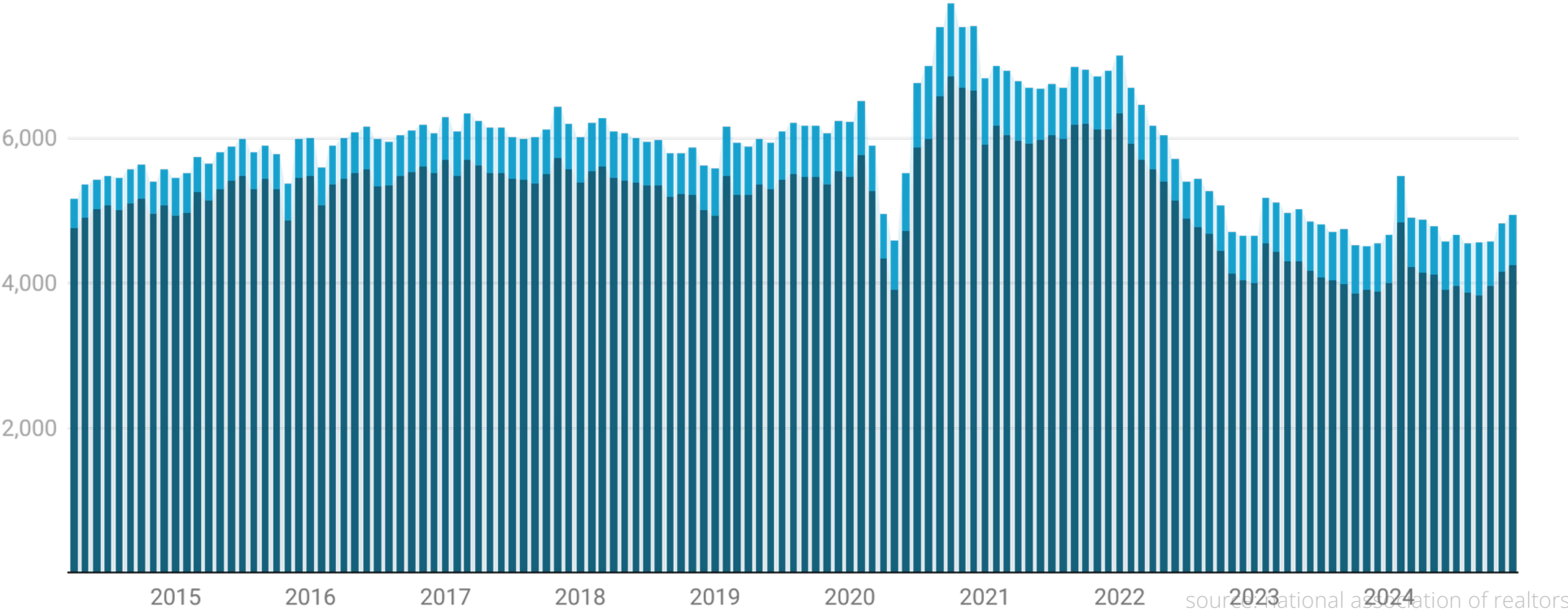
Source: Freddie Mac

# US home sales remain near multi-decade lows in the face of rising costs and reduced affordability

## Total Home Sales

thousands, seasonally adjusted

existing new



Source: national association realtors, census

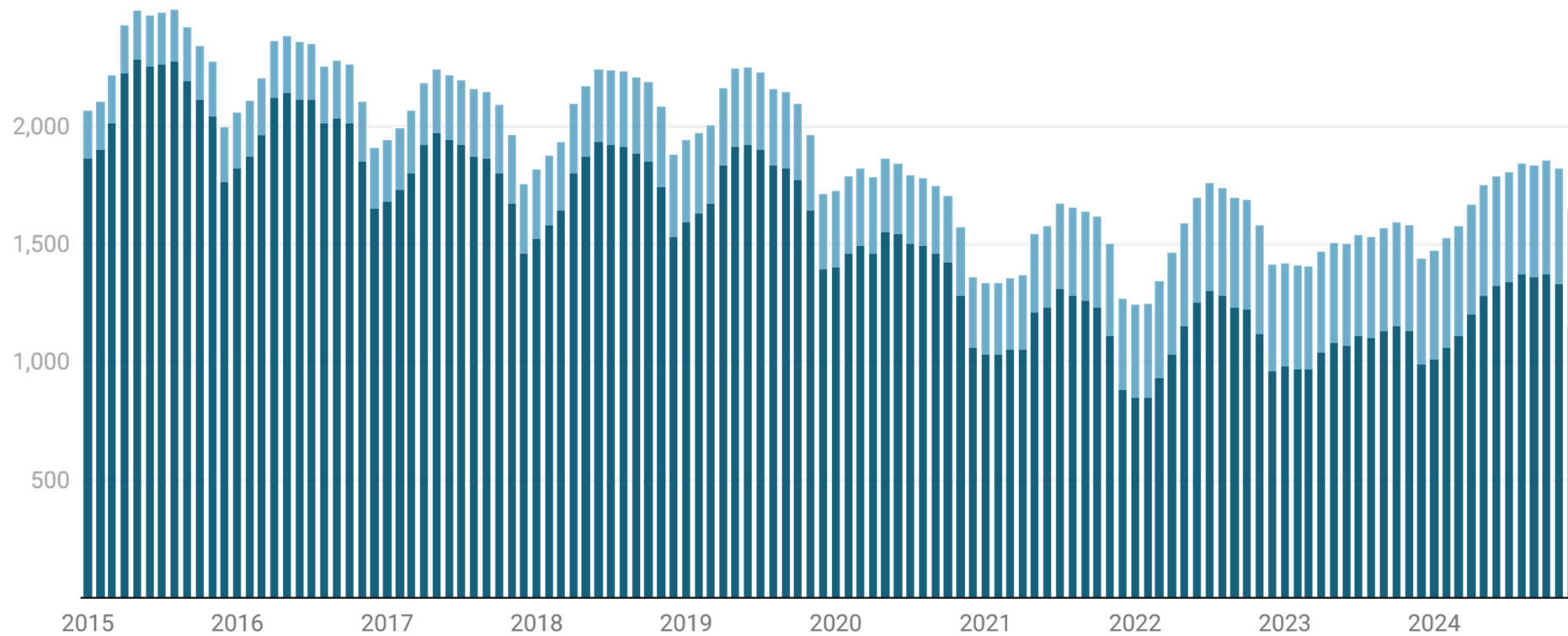
# US housing supply also remains low, largely due to an undersupply of existing home sales

---

## Total Homes for Sale

thousands \$, seasonally adjusted

Existing Newly built

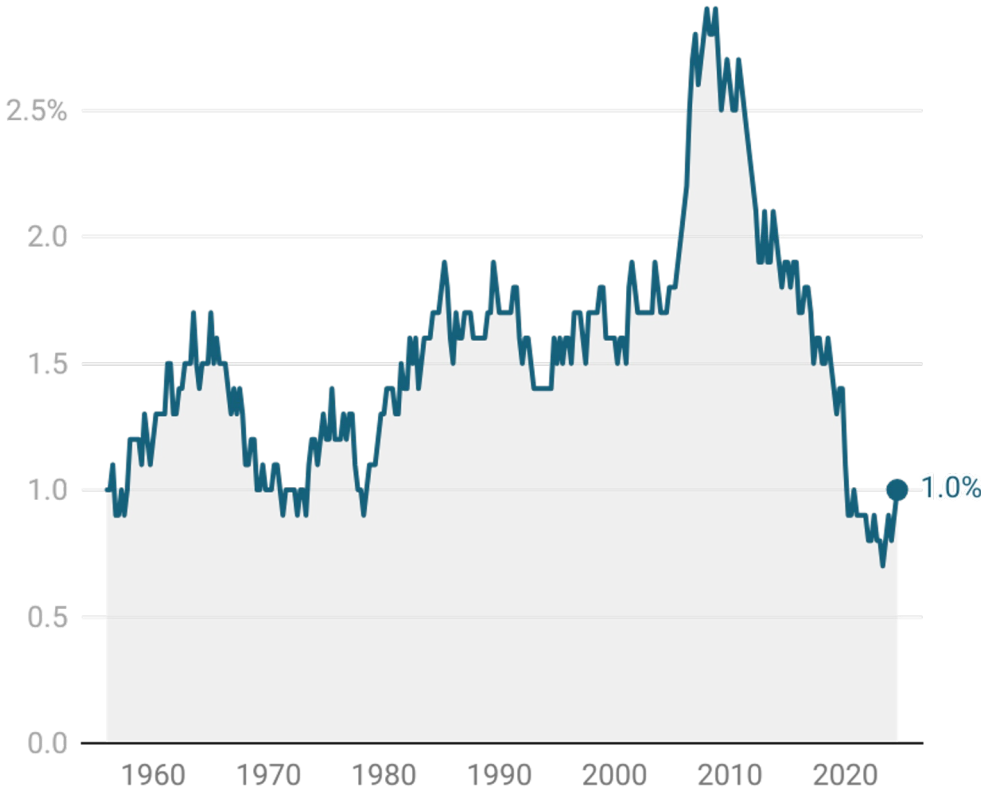


Source: national association of realtors, census

# The limited housing supply has led to collapsing vacancy rates

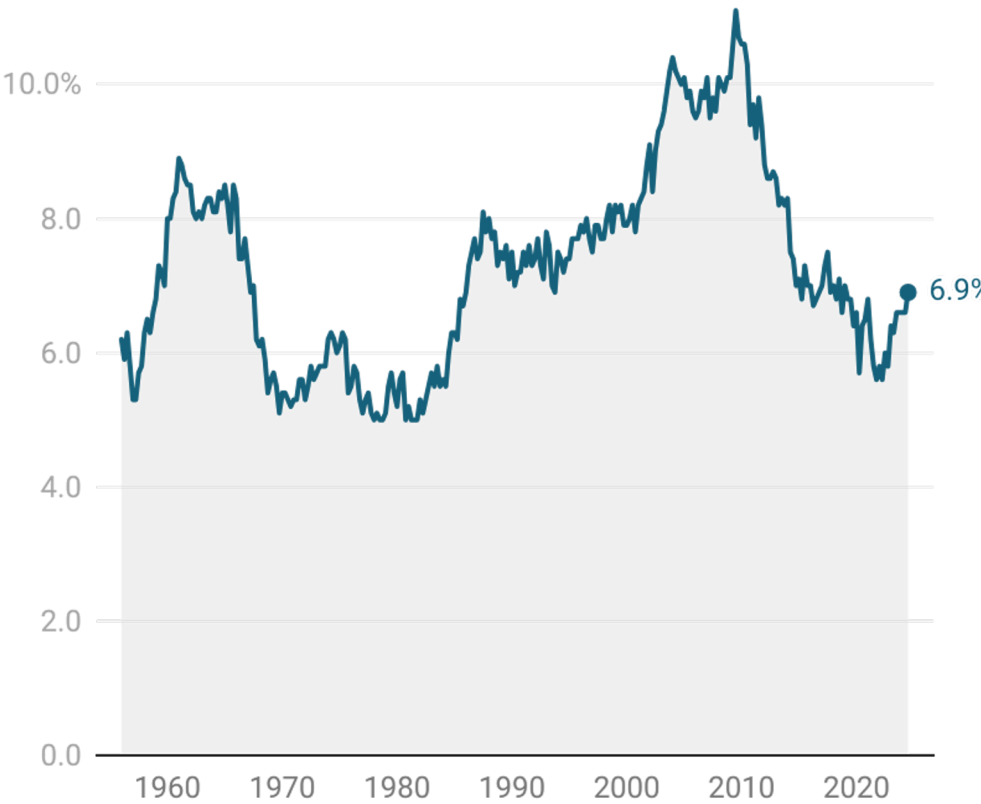
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### Homeowner Vacancy Rate



Source: census

### Rental Vacancy Rate

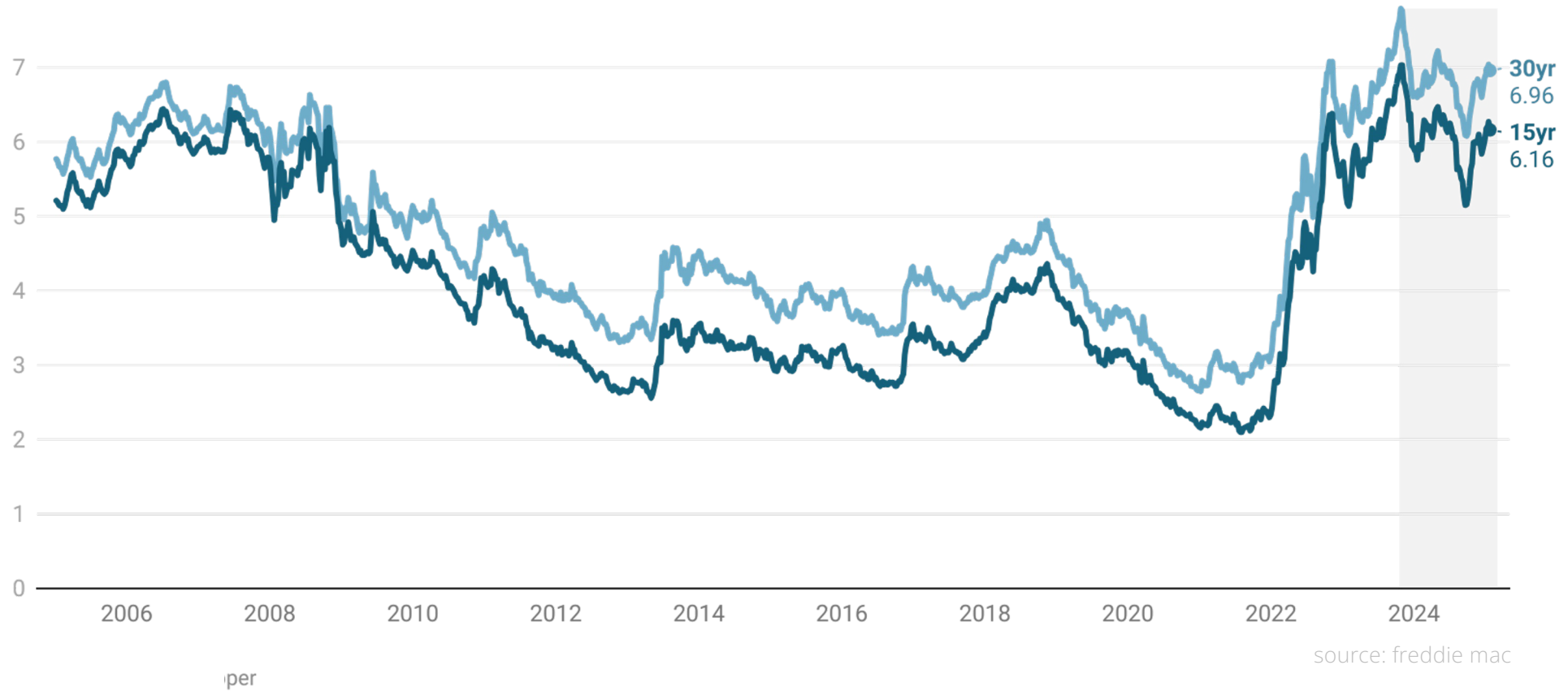


Source: census

# Mortgage rates decline alongside Federal Reserve rate cuts

## Mortgage Rates

Freddie Mac Primary Mortgage Market Survey (PMMS)



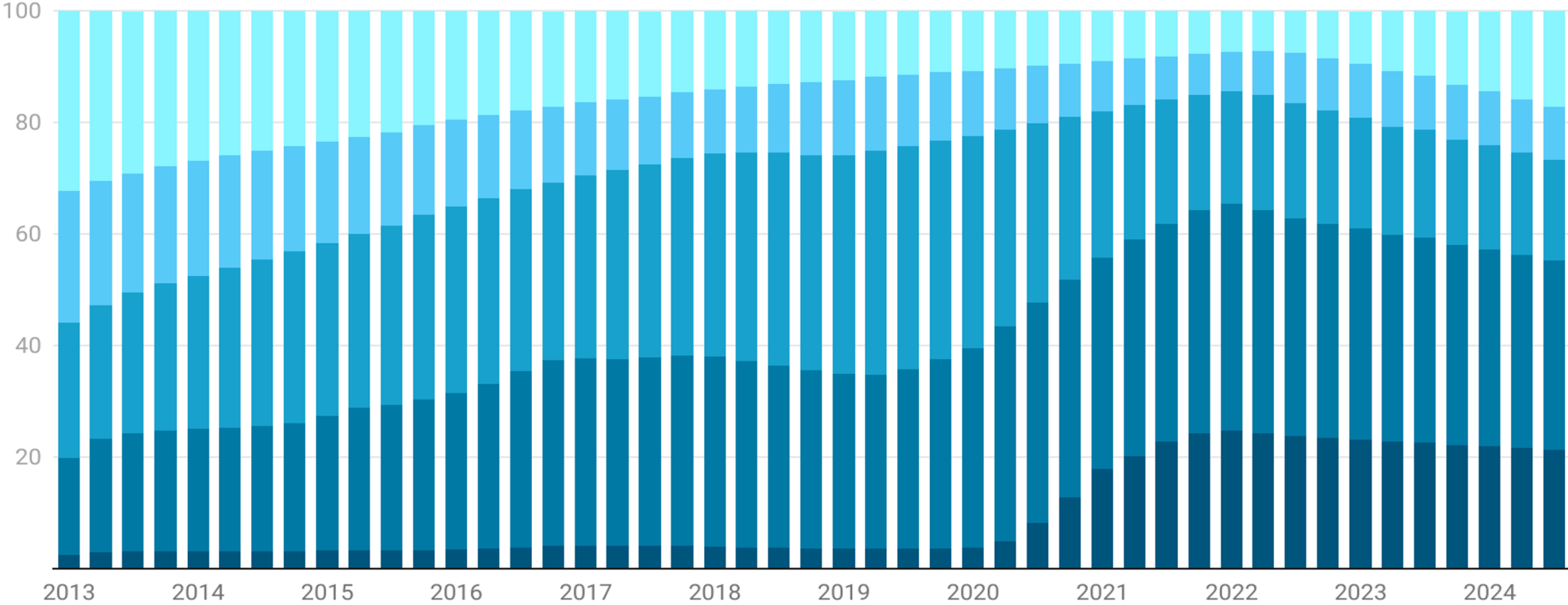


# High Mortgage Rates Contribute to Unaffordability

## Share of Loans Above 6% Rate Continues to Rise

share of mortgage loans outstanding by mortgage rate

Below 3% 3% to 4% 4% to 5% 5% to 6% Above 6%

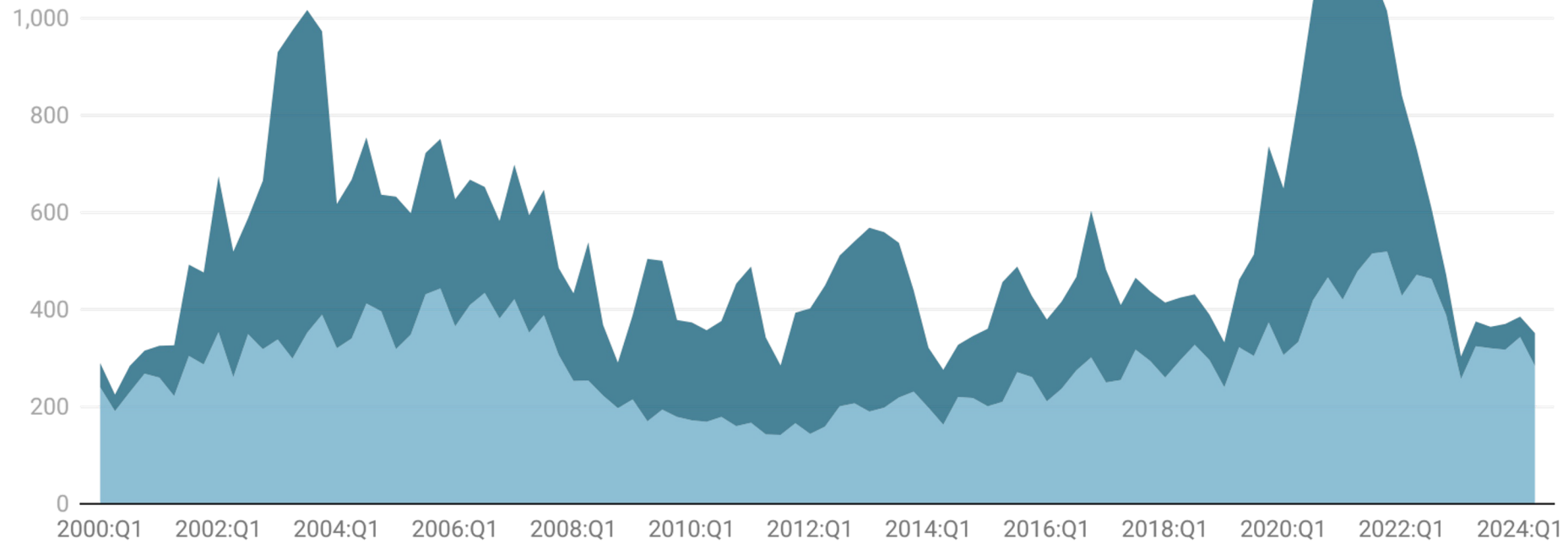


Source: Fannie Mae

Mortgage originations are also near decade lows...

### US Mortgage Originations

purchase refi

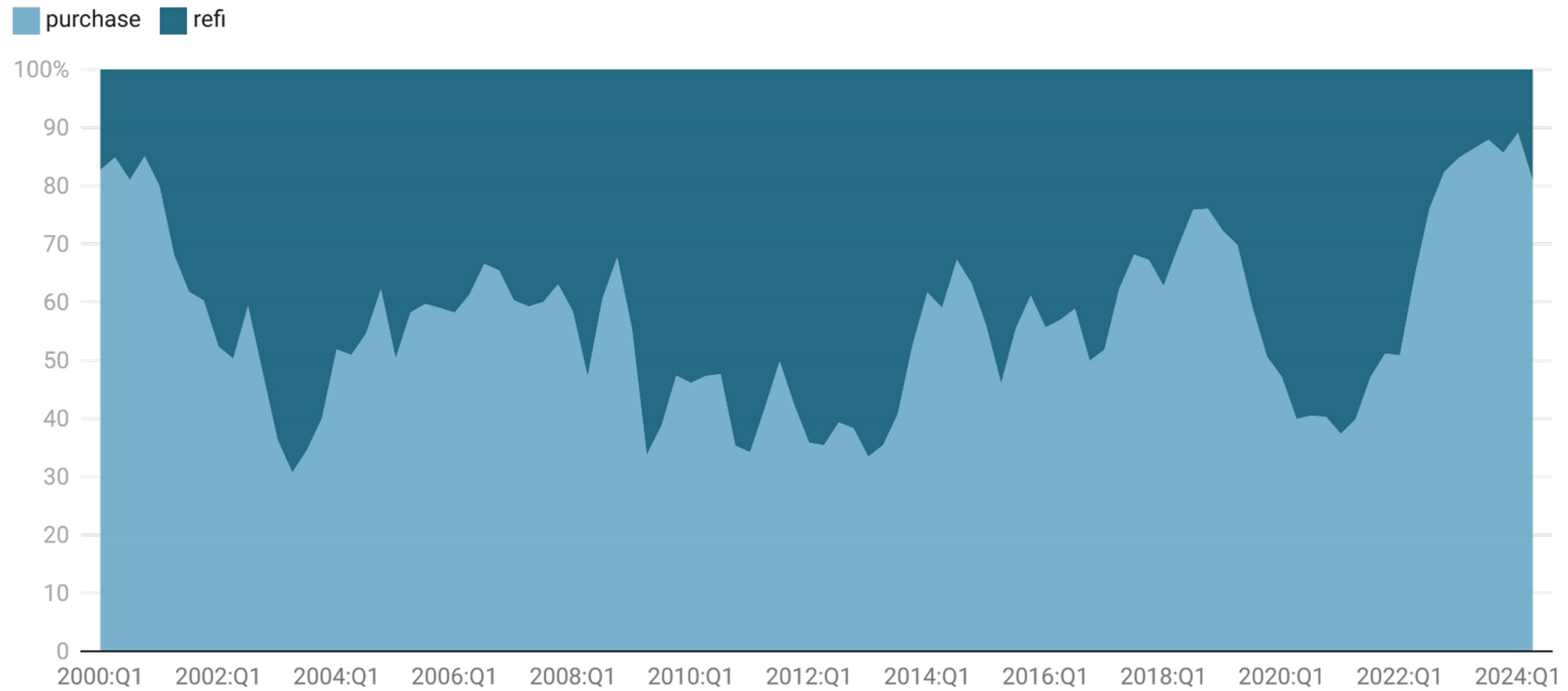


Source: mortgage bankers association

...due to a decline in refinancing

---

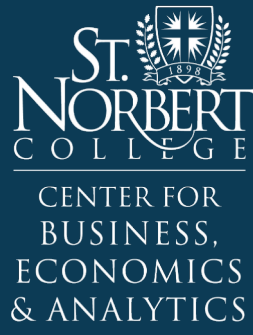
## US Mortgage Originations



Source: mortgage bankers association

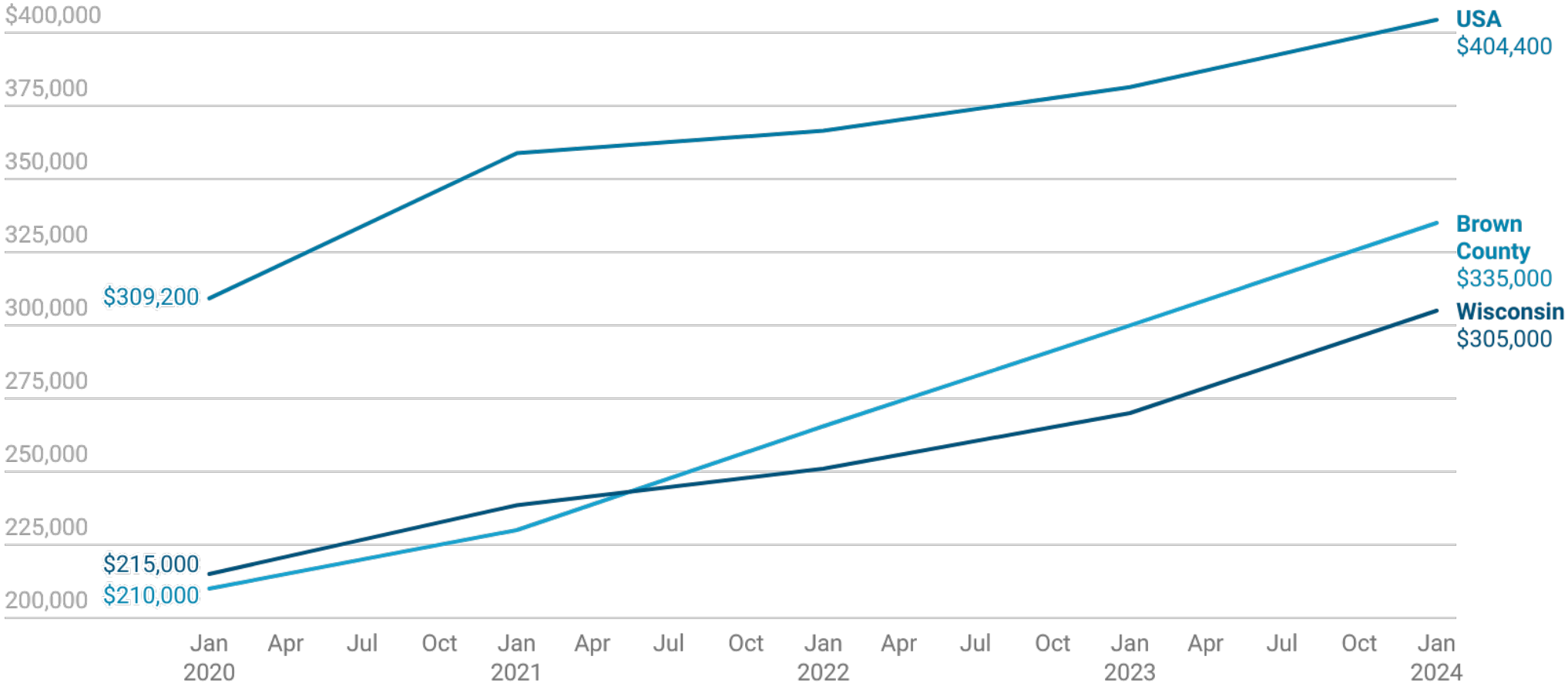
Question

**What do you think the median sales price was for a home in Brown County in 2024?**



# Brown County Prices Remain Relatively Affordable

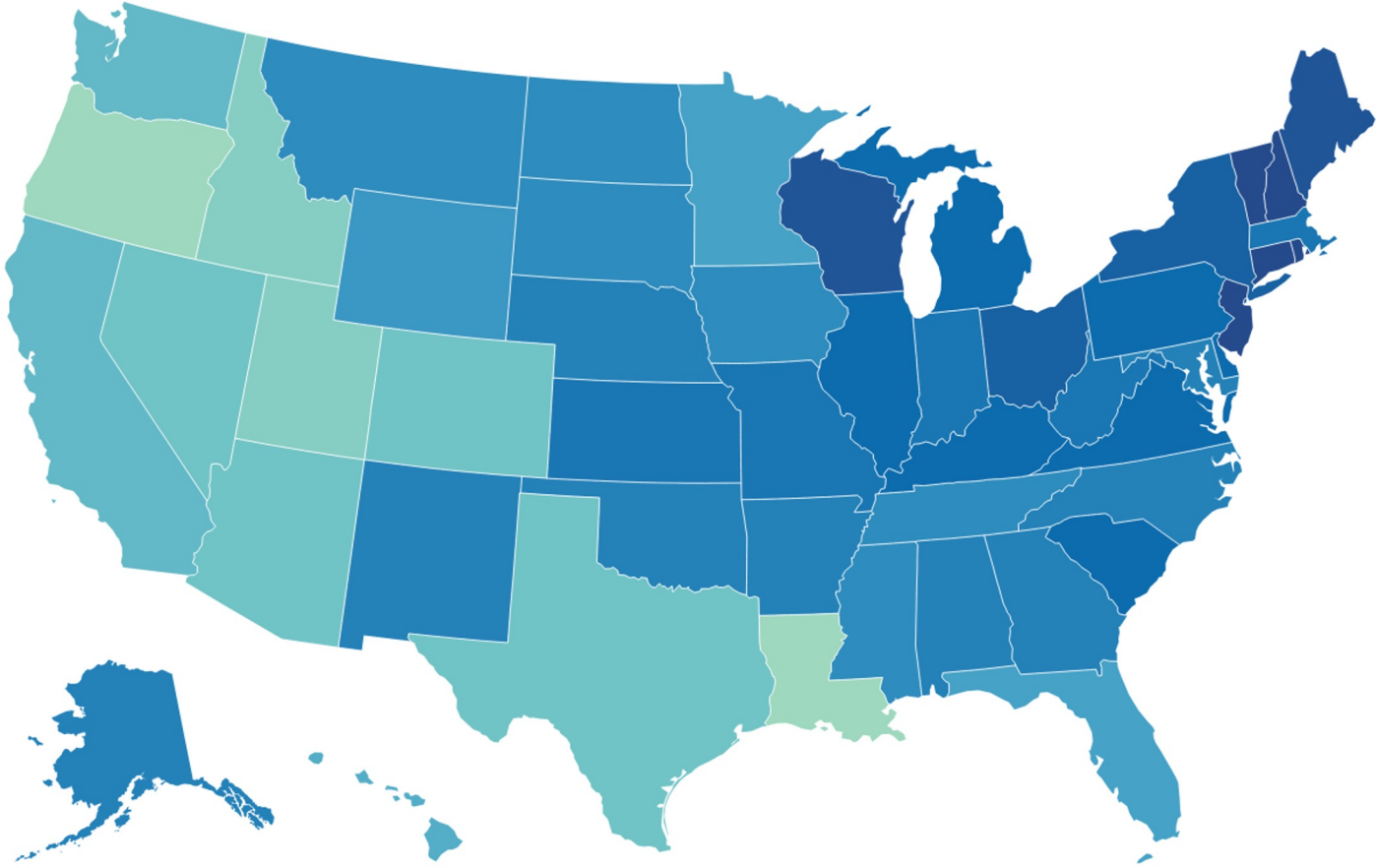
## Median Sales Price for Existing Homes



Source: national association of realtors • Created with Datawrapper

# Shorter-Term Trends Highlight Midwest & Northeast Price Rises, West Coast Falls Behind

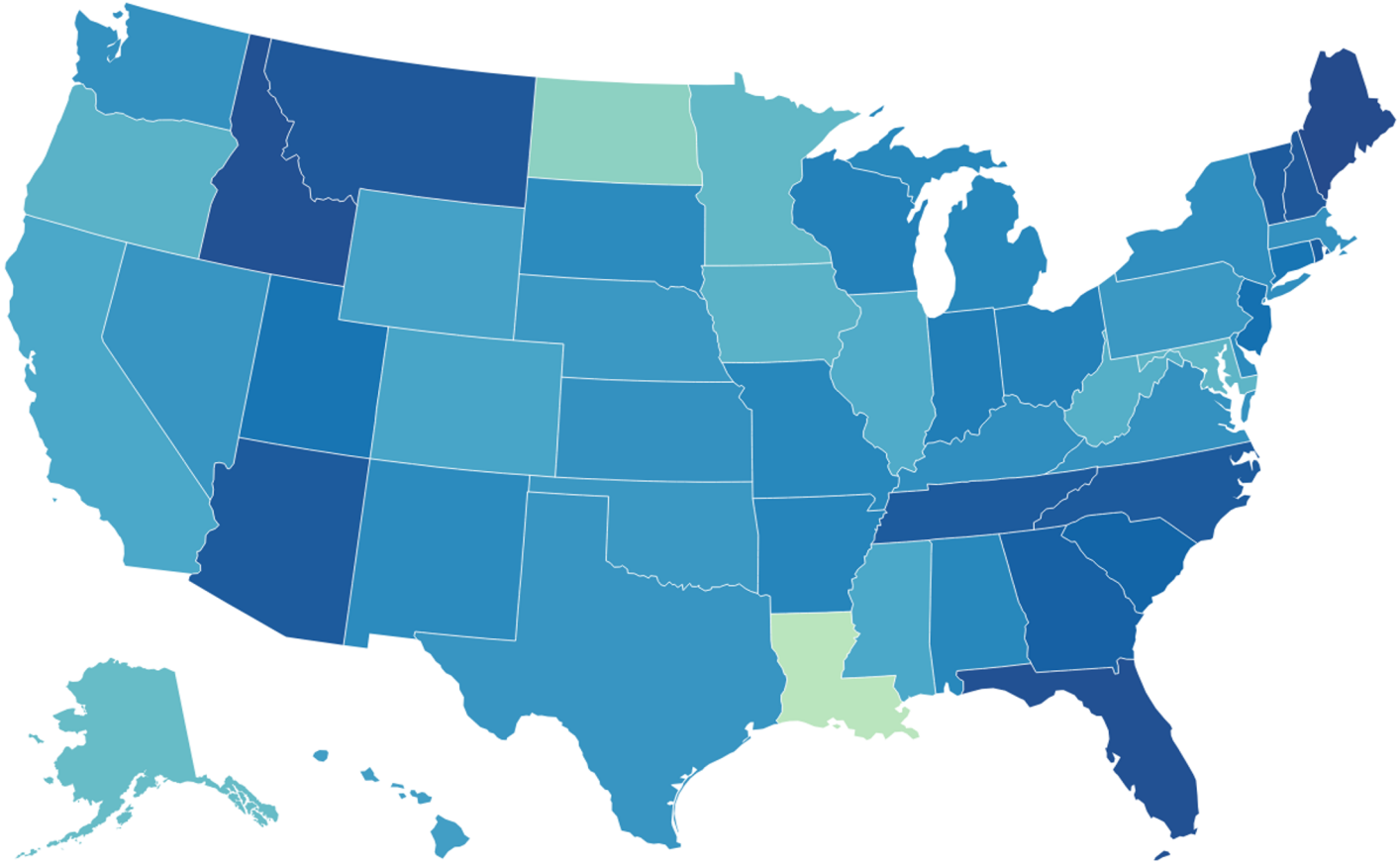
**FHFA All-Transactions Index %Change (Q3 2022-Q3 2024)**



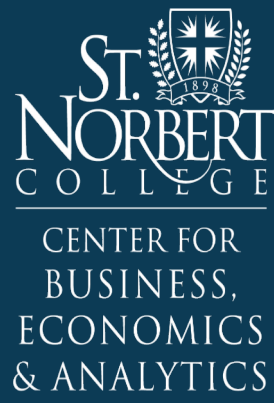
Long-term Trends Suggest Southeast and Far Northeast See Largest Increases, Midwest Growth Fairly High

---

**FHFA All Transactions Index %Change (Q3 2019-Q3 2024)**



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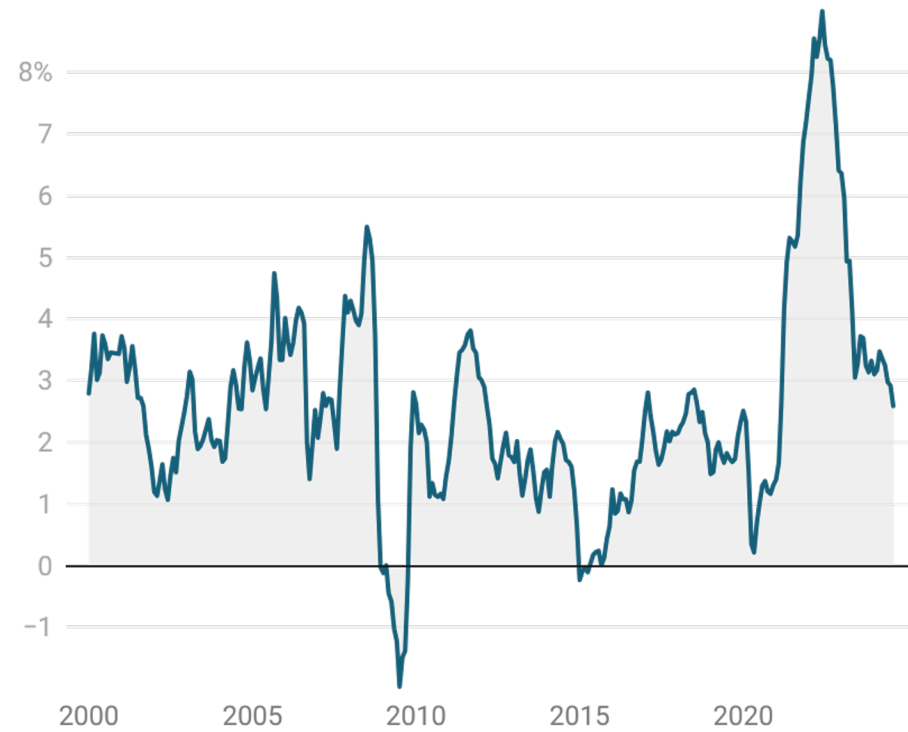


# The balancing act of the Federal Reserve

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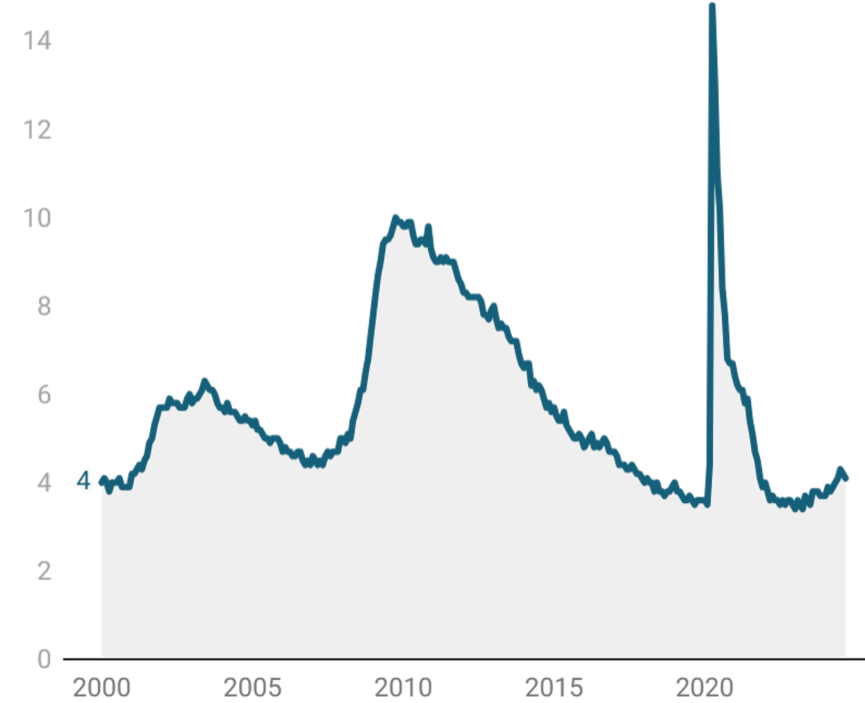
## Inflation

year-over-year growth in all items consumer price index (cpi)



## Unemployment Rate

seasonally adjusted unemployment rate

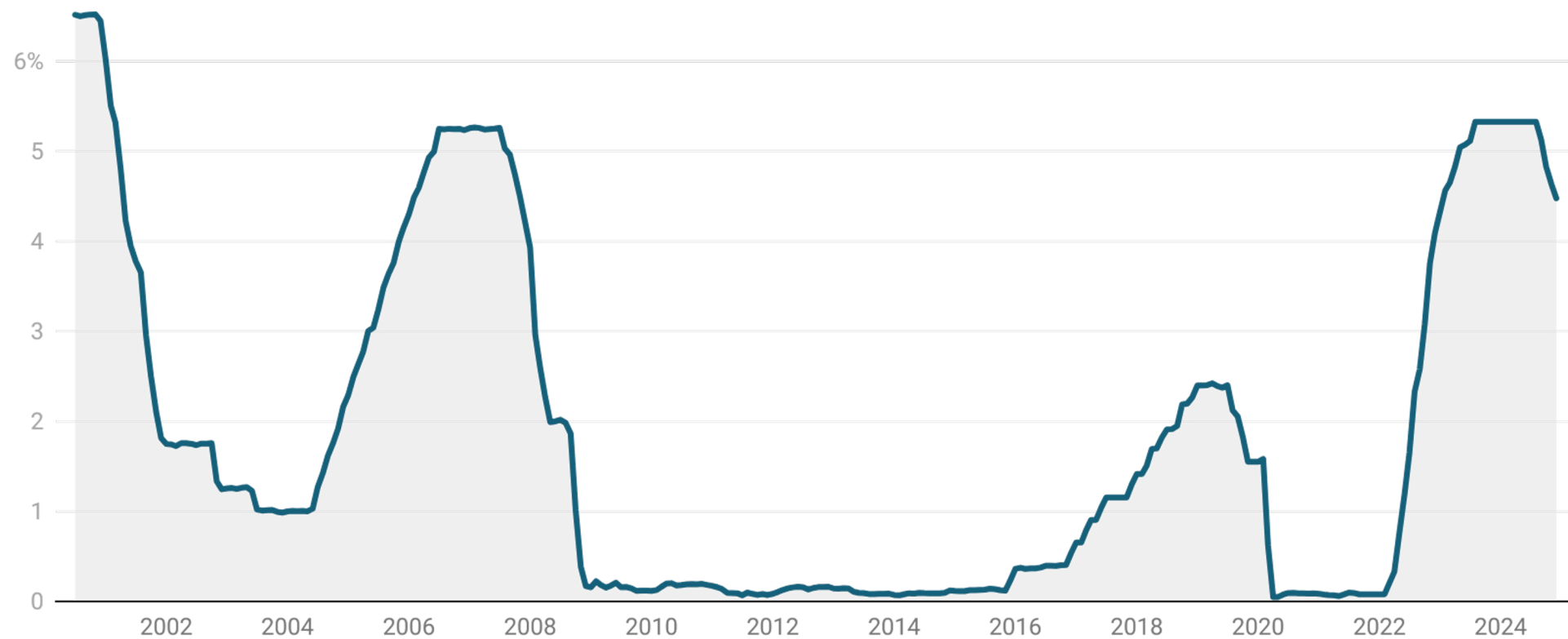


source: BLS

After a series of rate cuts in 2024, the Federal holds rates steady in January

## Interest Rates

effective federal funds rate, monthly



source: Federal Reserve

## FOMC in a holding pattern

Jerome Powell  
January 29<sup>th</sup>, 2025

“ The economy is strong overall and has made significant progress toward our goals over the past two years. Labor market conditions have cooled from their formerly overheated state and remain solid.

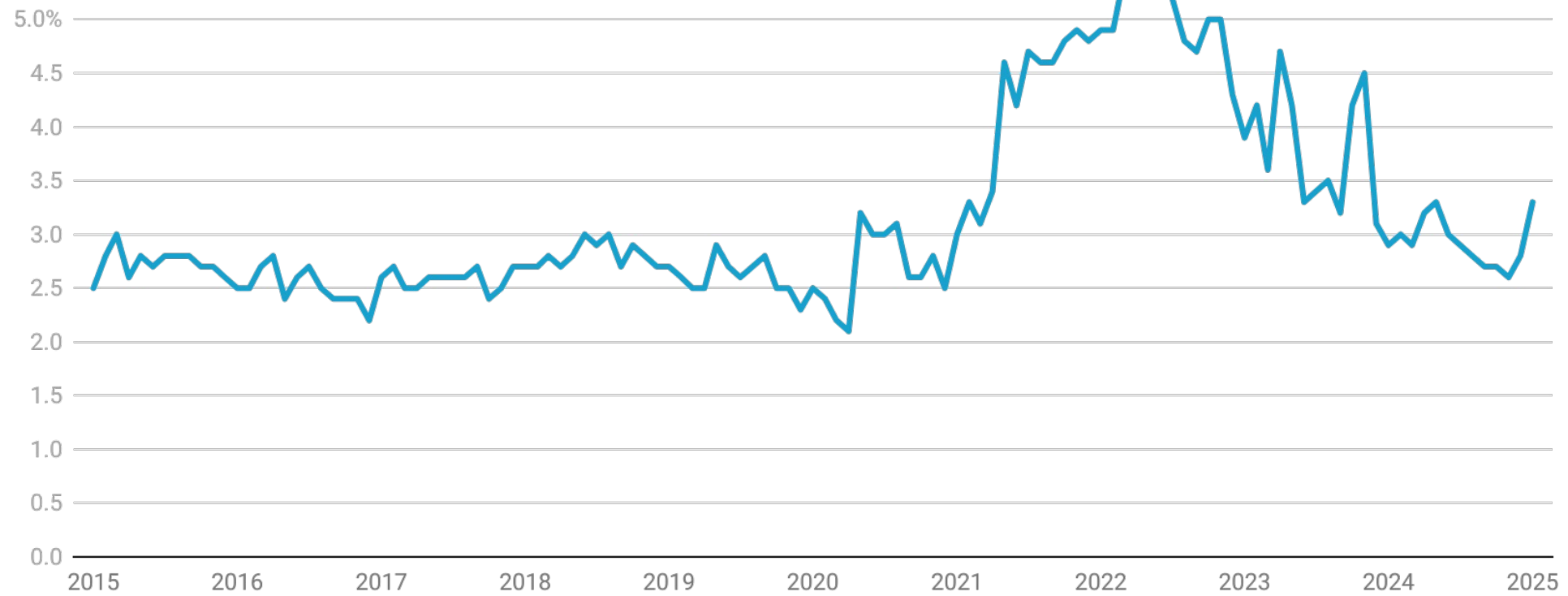
Inflation has moved much closer to our 2 percent longer-run goal, though it remains somewhat elevated.

In support of our goals, today the Federal Open Market Committee decided to leave our policy interest rate unchanged...”

# Is there concern about fiscal policy causing inflationary pressure...

---

One-Year Ahead Inflation Expectations  
consumer sentiment survey

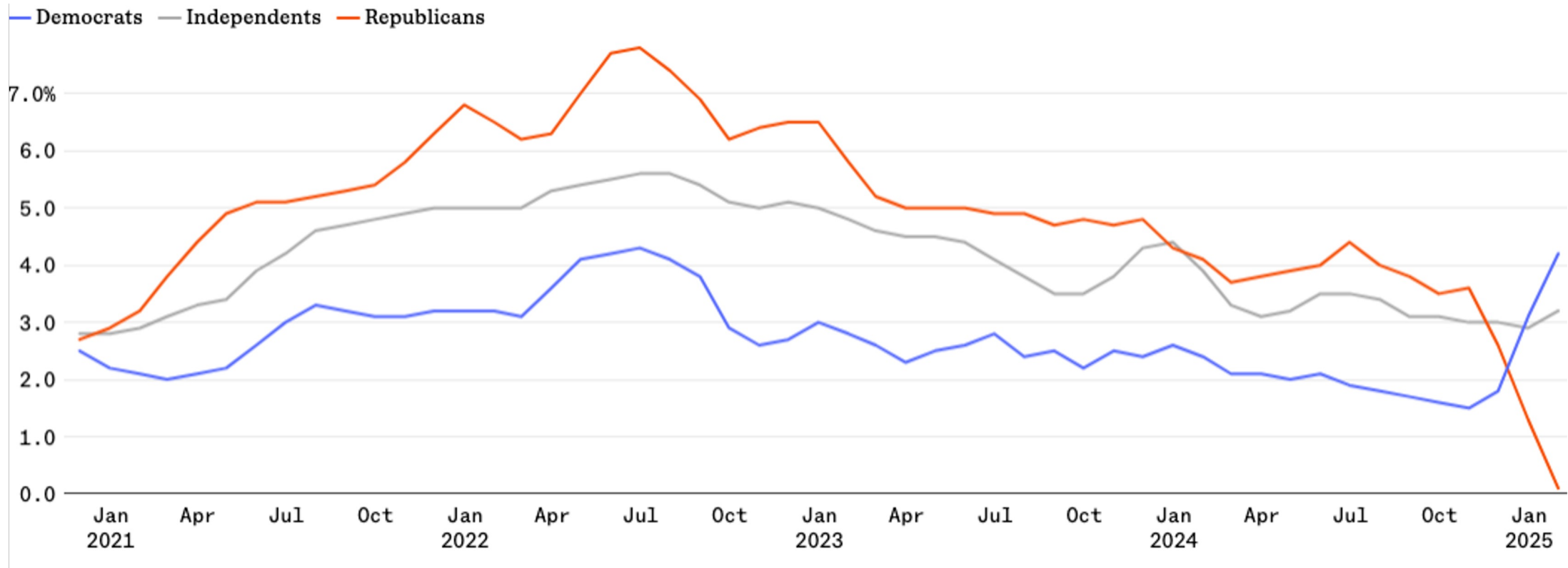


source: University of Michigan

...it depends on who you ask

### One-Year Ahead Inflation Expectations by Political Affiliation

consumer sentiment survey

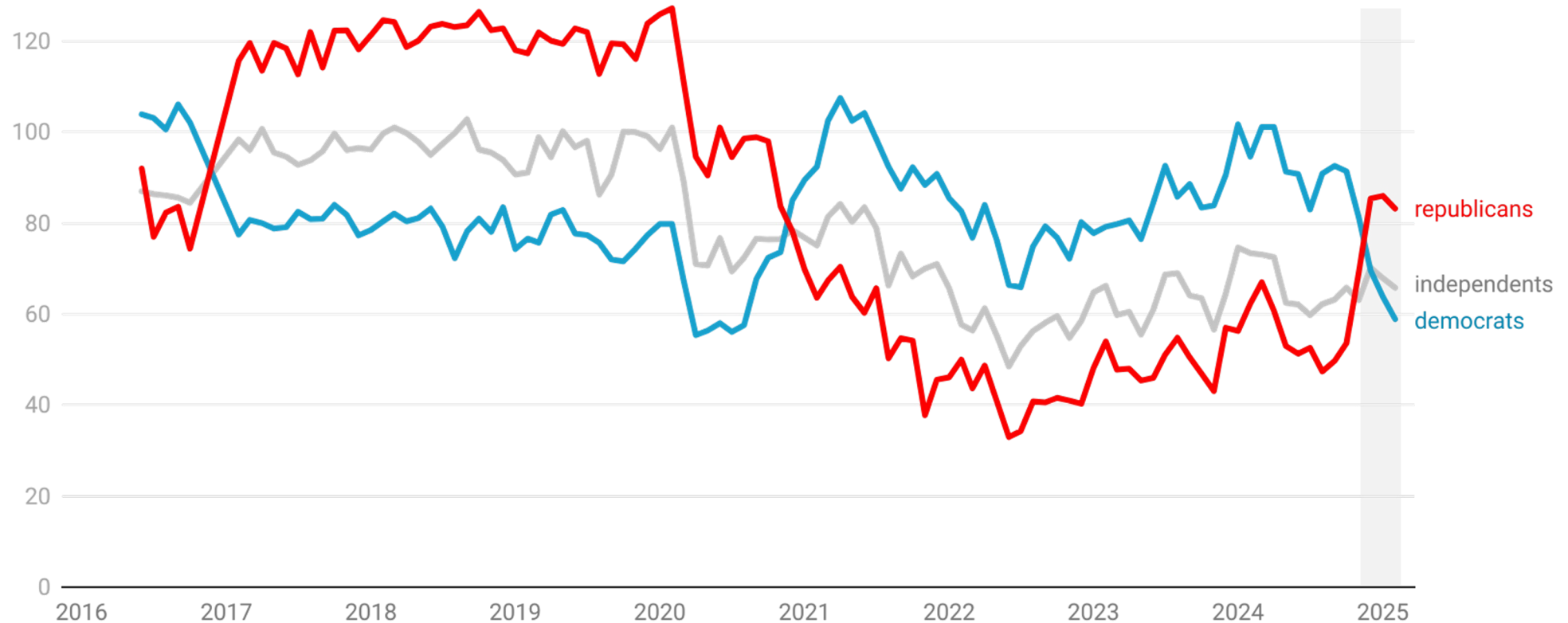


source: University of Michigan, Bloomberg, Sherwood

The same relationship holds true for broader consumer sentiment as well...

## Consumer Sentiment by Political Affiliation

sentiment index | February 2025

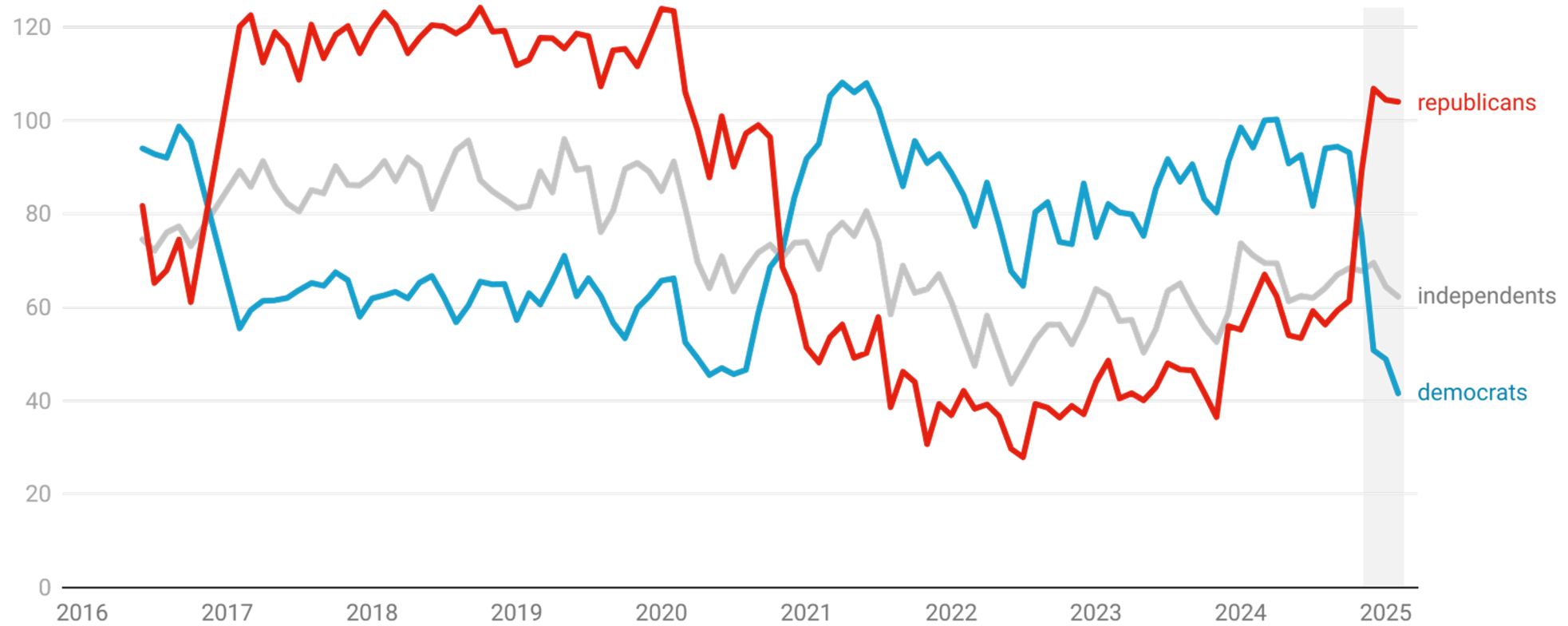


Source: university of michigan

...however expectations some more extreme opinions

## Consumer Sentiment Expectations by Political Affiliation

sentiment expectations index | February 2025

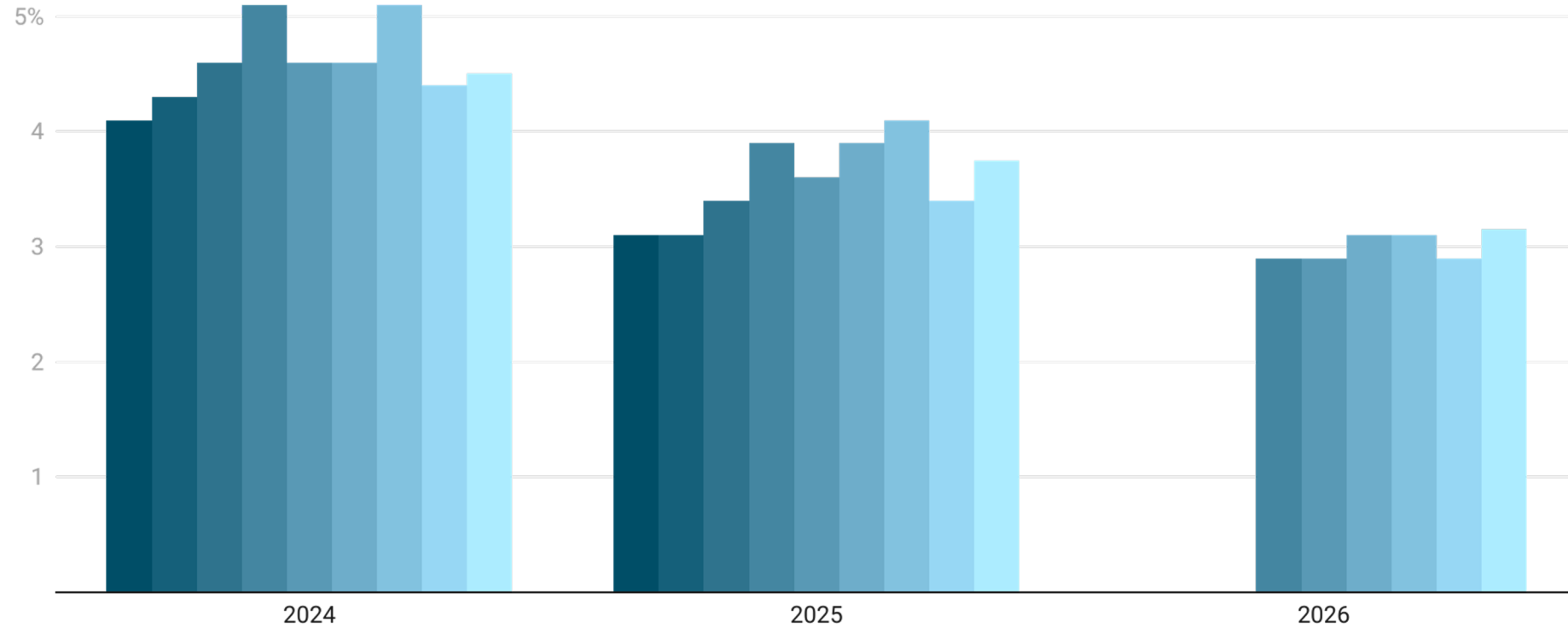


Source: university of michigan

Although recent Fed meetings show some expectations of more stubborn rates

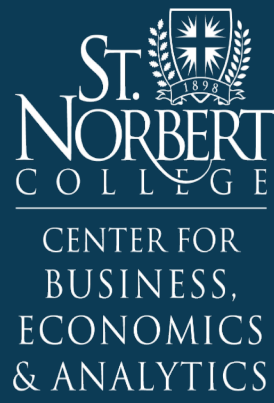
### FOMC Interest Rate Projections

12/22 Vintage 3/23 Vintage 6/23 Vintage 9/23 Vintage 12/23 Vintage 3/24 Vintage 6/24 Vintage 9/24 Vintage 12/24 Vintage





# Overview



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## 4 | Housing

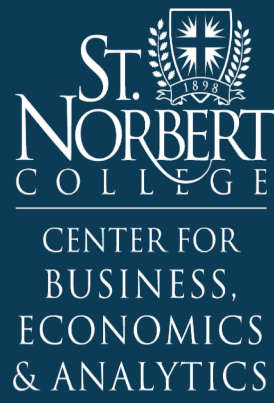
Housing prices likely to remain elevated in the midst of limited supply, vacancy, along with affordability challenges due to elevated mortgage rates.

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Economy is on solid ground according to the Federal Reserve and monetary policy is in a holding pattern with rates in the face of the known unknowns

Fiscal, Trade, and Immigration policies are the key known unknowns that will play a role in shaping the economy in 2025

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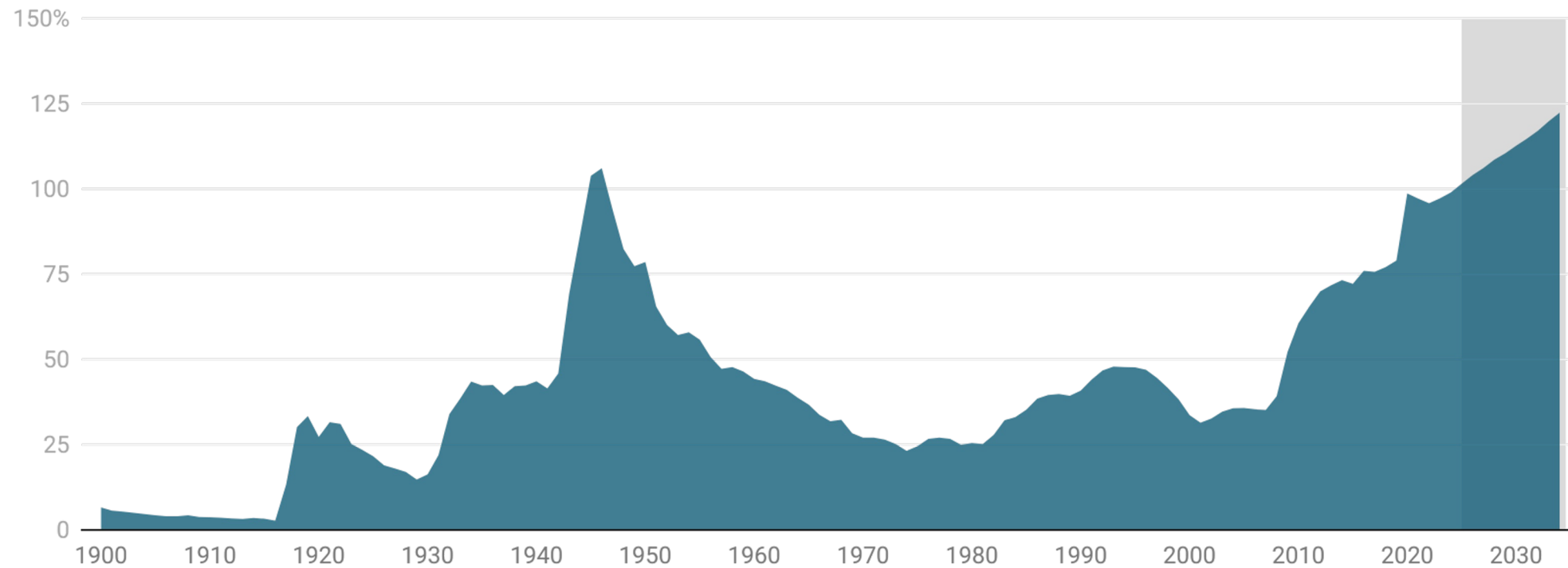
# Fiscal Policy Context

# Federal debt continues to climb...

---

## Federal Debt Held by the Public

as a percentage of GDP

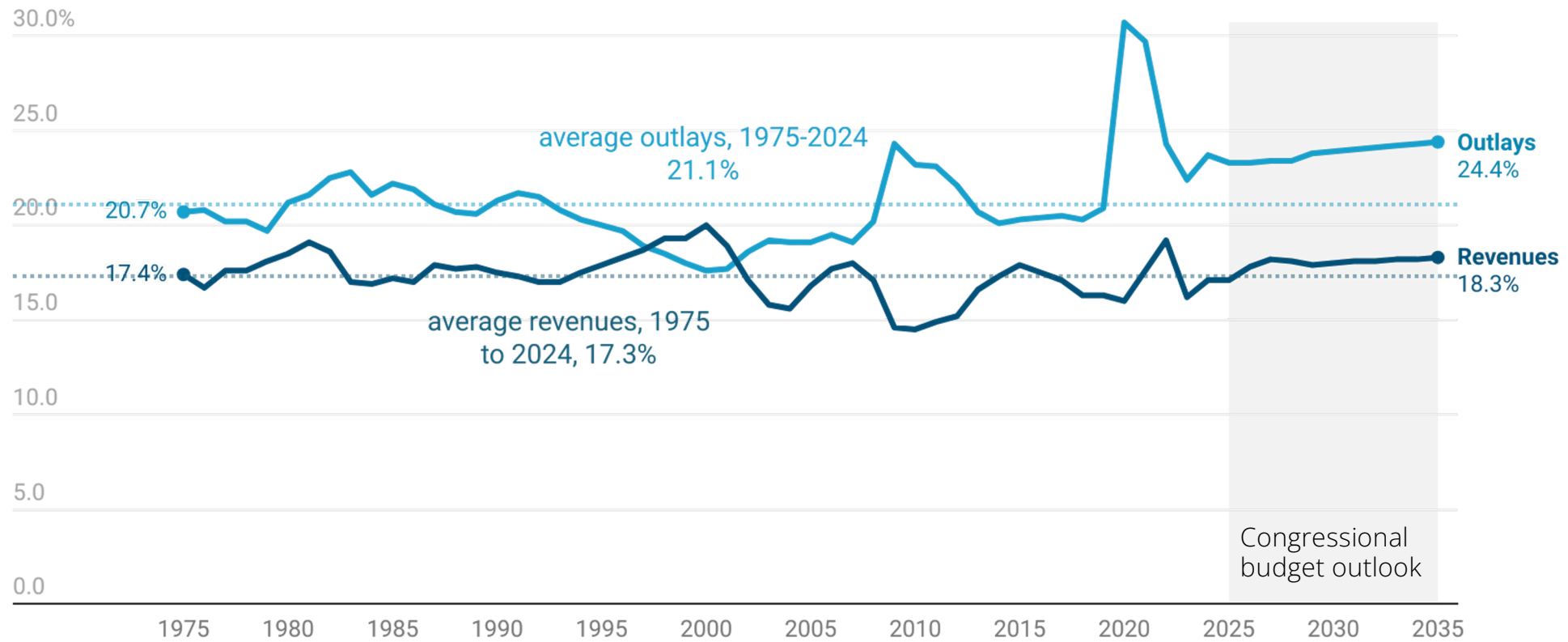


Source: CBO

...this is not a new phenomenon

## Federal Revenues & Outlays

as percentage of GDP

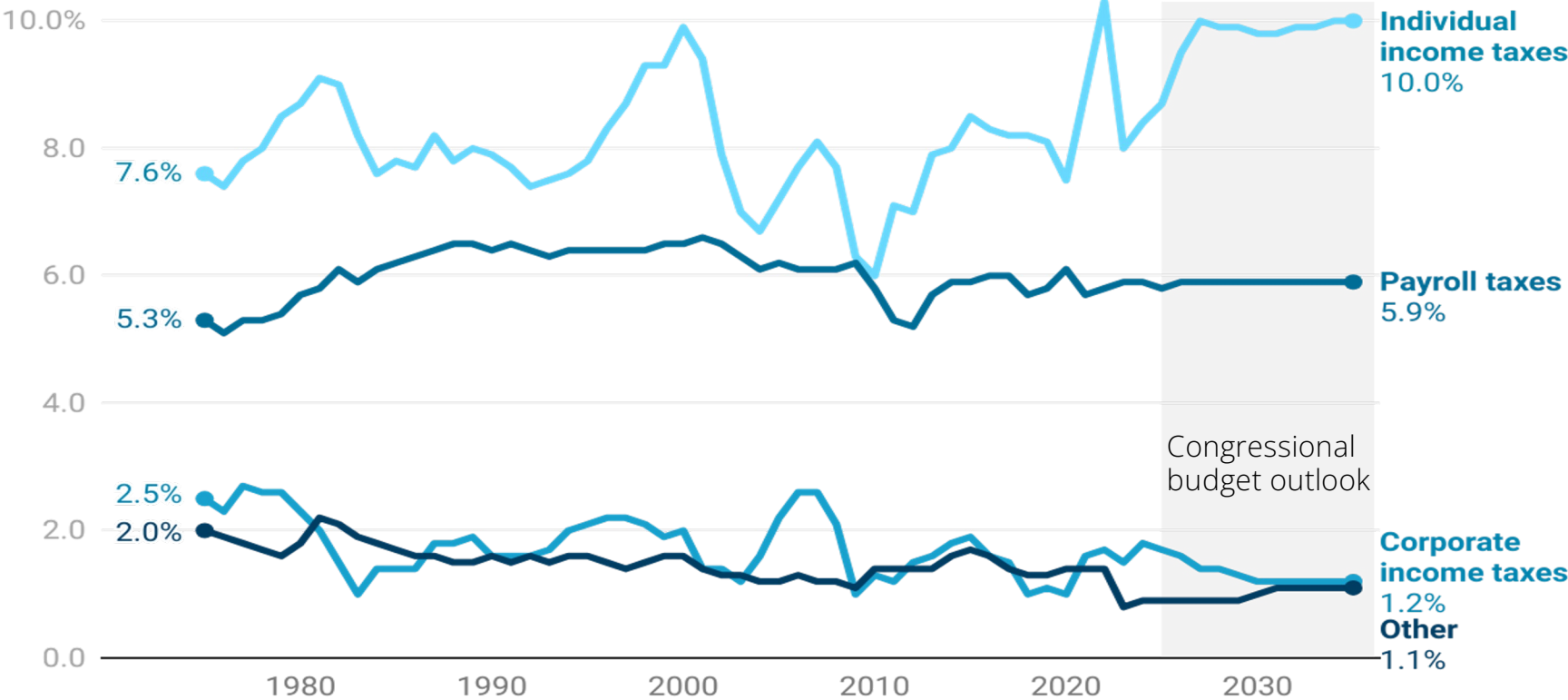


Source: CBO

Revenues: Apart from income taxes, the trends are relatively consistent over time...policy will play a role here (?)

### Federal Revenues | Category

as a percentage of GDP

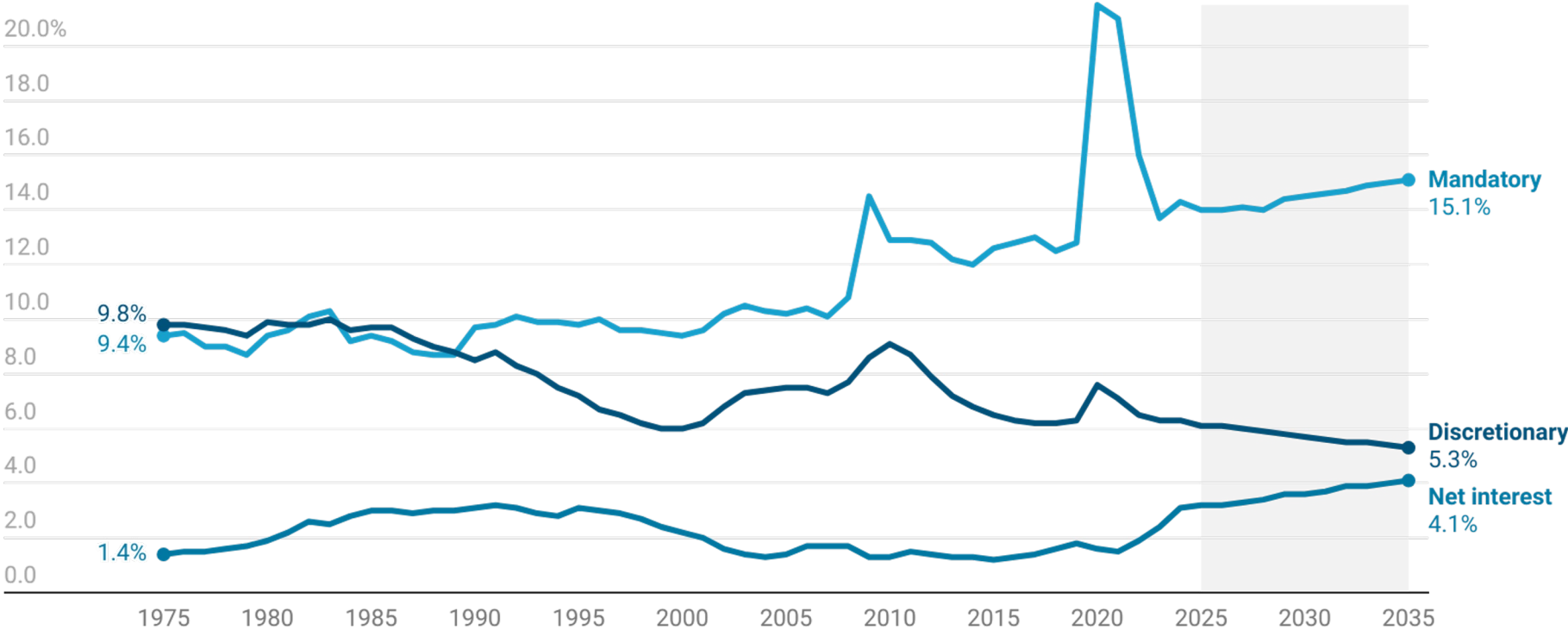


Source: CBO

# Outlays: Mandatory spending continues to drive outlays, with net interest adding increasing budgetary pressure

## Federal Outlays | Category

as percentage of GDP

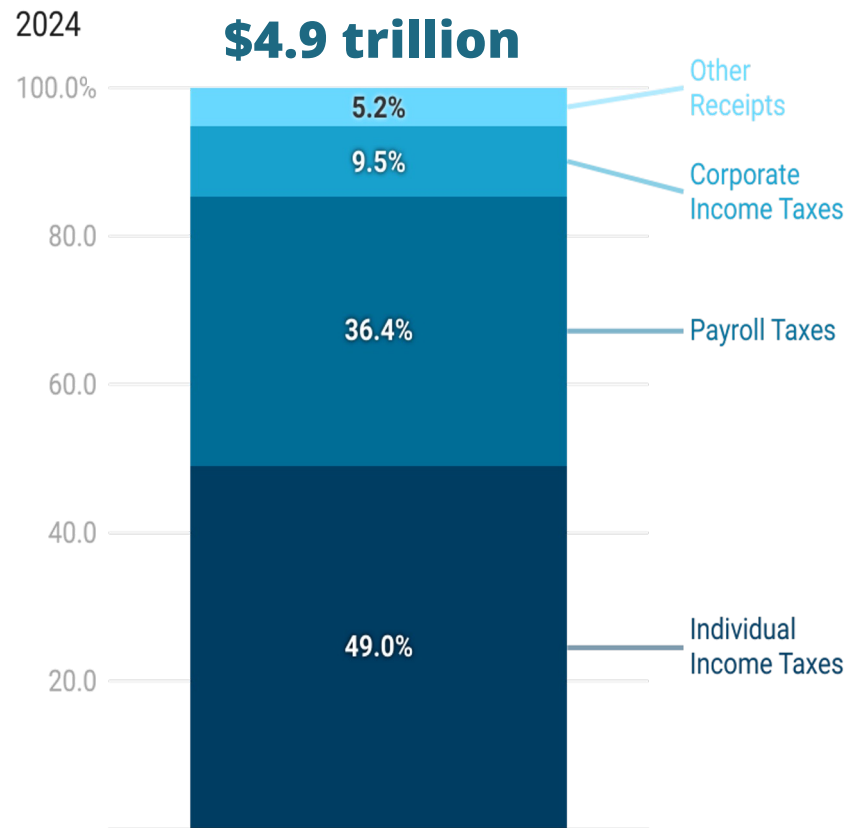


Source: CBO

The most recent federal budget continued the trend with outlays exceeding revenues

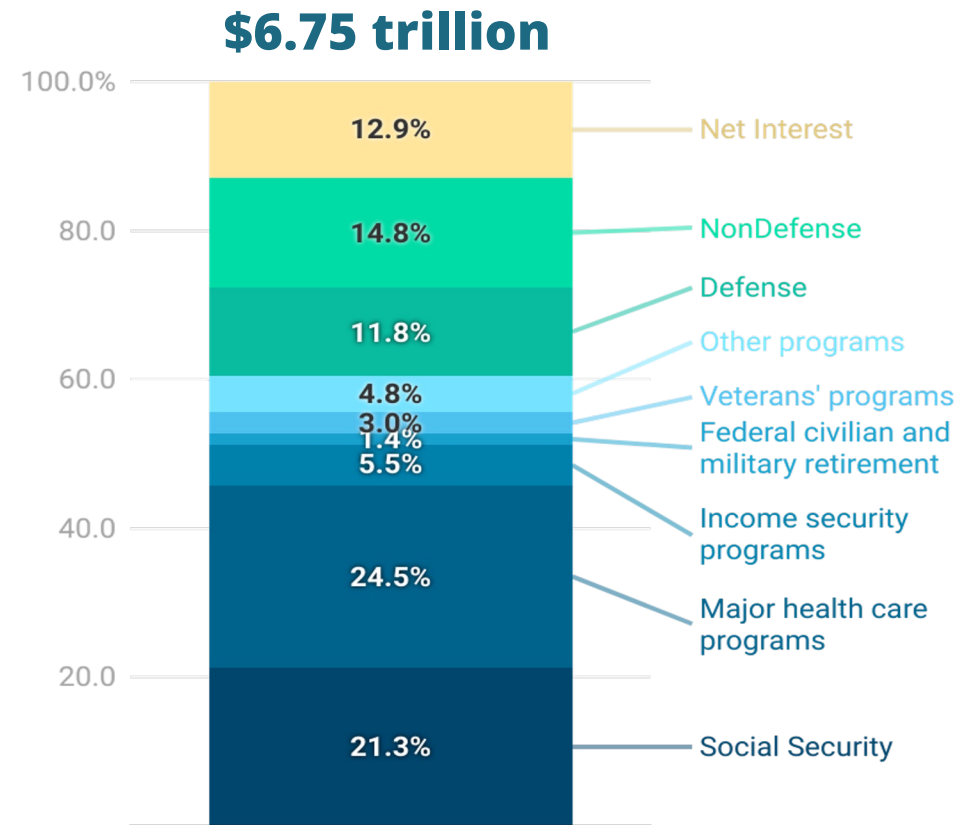
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### Federal Budget Receipts



Source: CBO

### Federal Budget Outlays



Source: CBO

# The most recent federal budget continued the trend with outlays exceeding revenues

## Federal Budget | 2024

billions (\$)

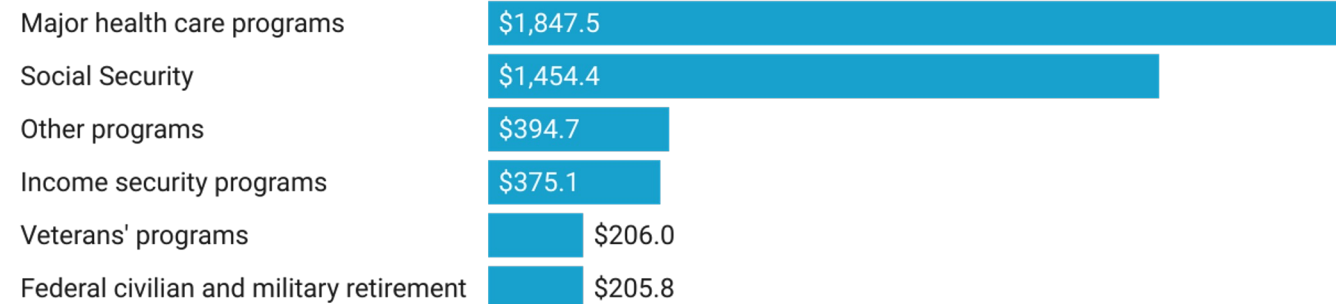
Revenues		
Corporate income taxes		\$530
Individual income taxes		\$2,426
Other		\$253
Payroll taxes		\$1,709
<b>Total</b>		<b>\$4,918</b>
Outlays		
Discretionary		\$1,810
Mandatory		\$4,060
Net interest		\$881
<b>Total</b>		<b>\$6,750</b>
Net		
Total deficit (-)		-\$1,832
<b>Total</b>		<b>-\$1,832</b>

## Federal Outlays

2024 | billions (\$)

■ Mandatory
 ■ Discretionary
 ■ Net Interest

### Mandatory



### Discretionary



### Net Interest

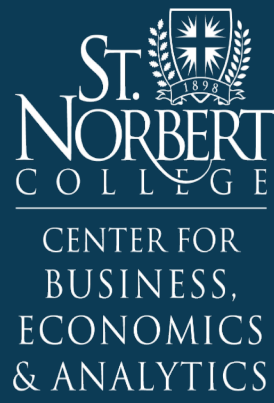


*\*Numbers exclude offsetting receipts and will not align exactly to final categorical totals*

Source: CBO



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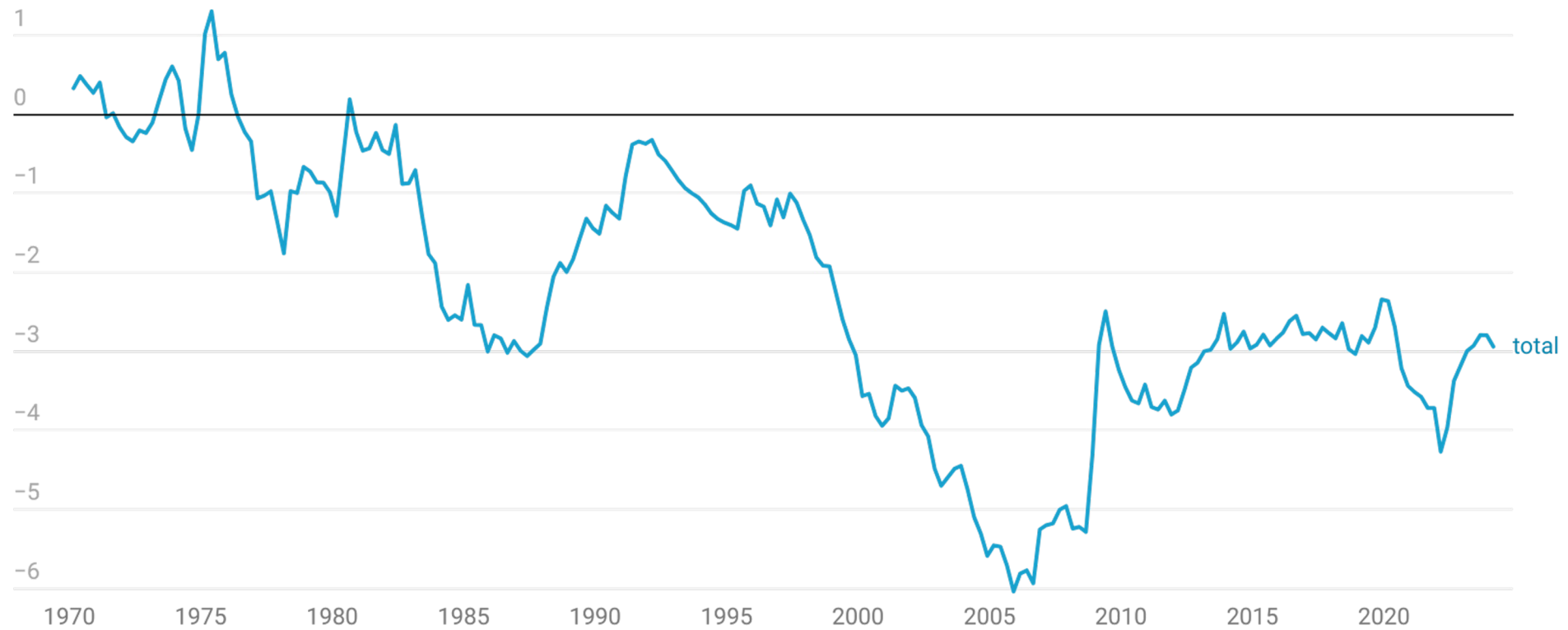
# Trade Policy Context

The US has consistently run trade deficits

---

## US Net Exports of Goods & Services

as a percent of GDP | net exports = exports - imports



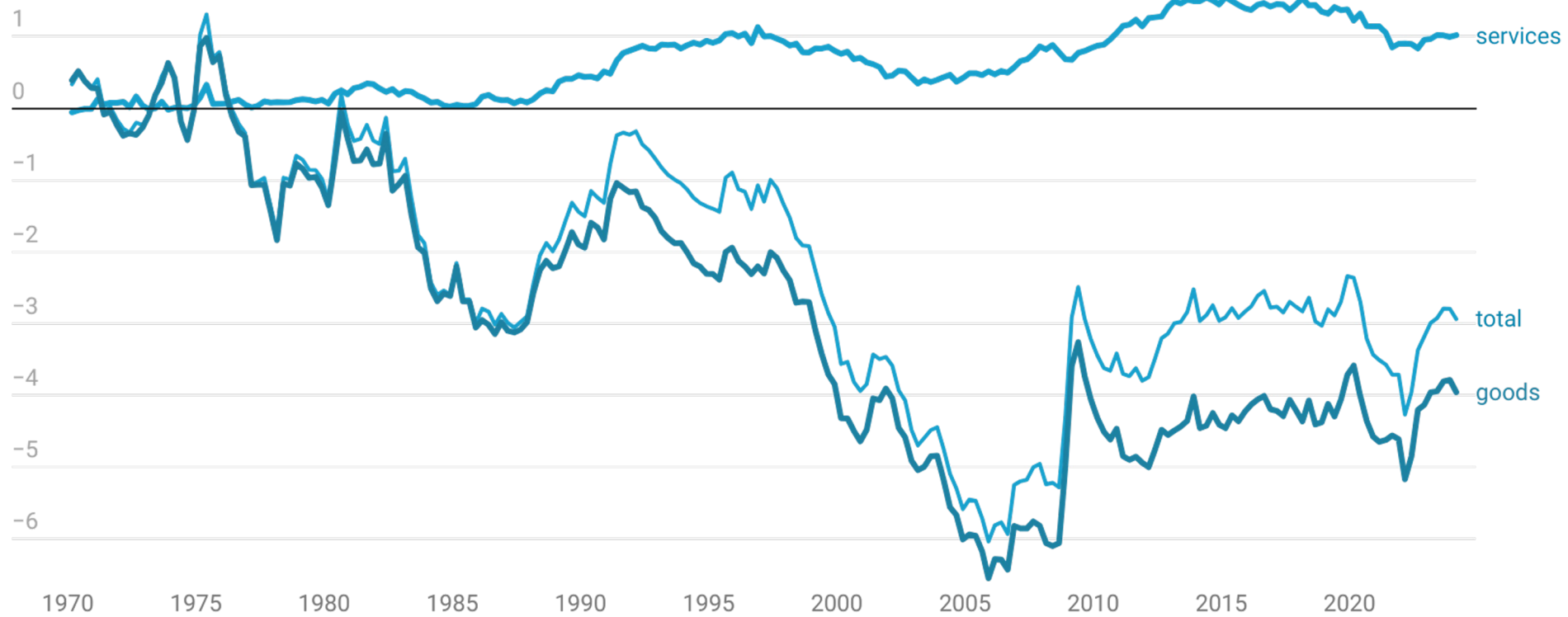
Source: BEA

However, these are really driven by goods, while the US runs trade surplus in services

---

## US Net Exports of Goods & Services

as a percent of GDP | net exports = exports - imports

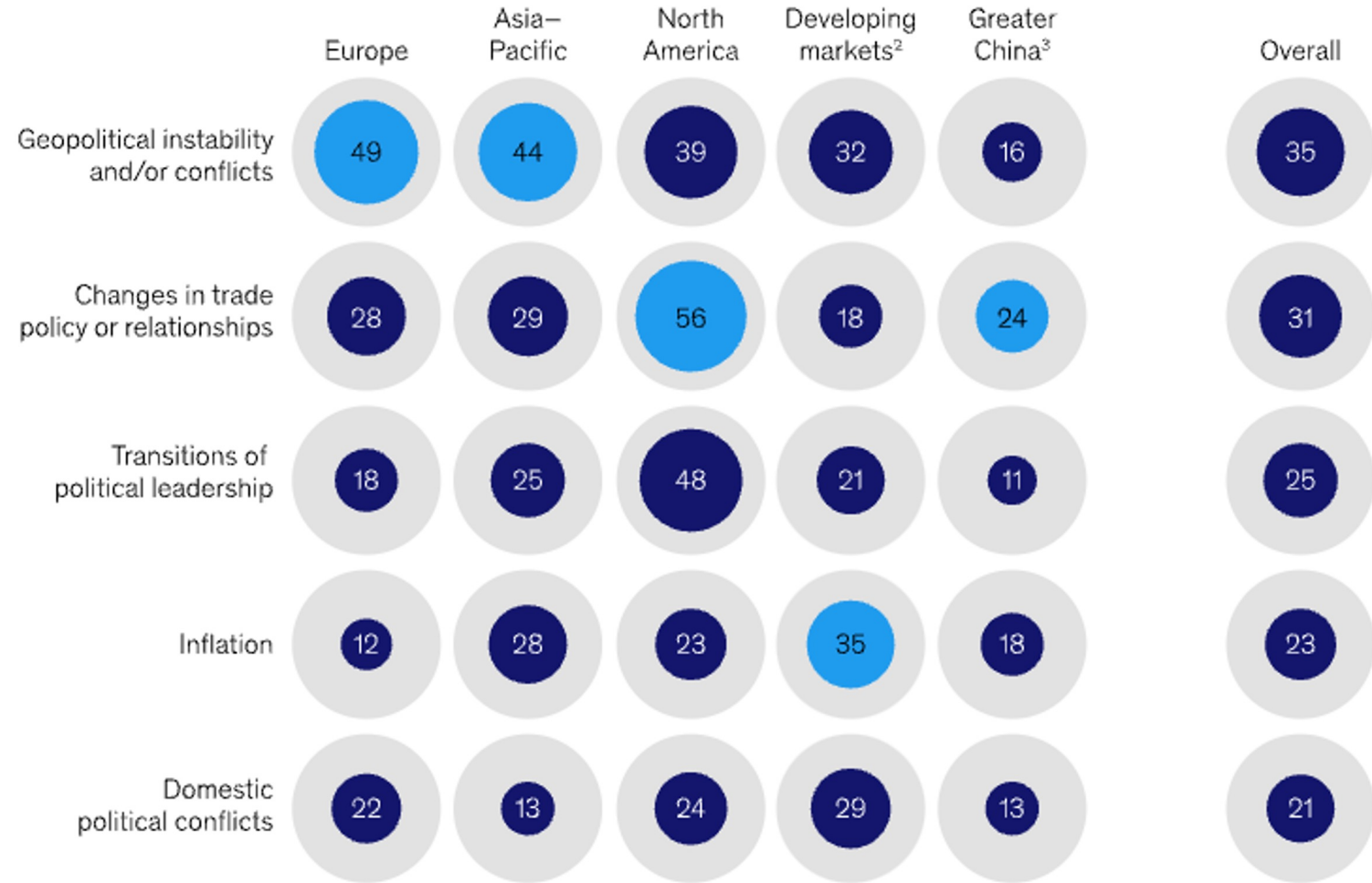


Source: BEA

Trade policy,  
Geopolitics, and  
transition to the  
new administration  
is top of mind

**Biggest potential risks to economic growth in respondents' countries, next 12 months,<sup>1</sup> % of respondents, by office location**

● Gray circle size = 100%  
● Most-cited risk in given region



<sup>1</sup>Out of 17 risks that were offered as answer choices. Total n = 912; Asia-Pacific (excludes Greater China and India), n = 89; developing markets, n = 208; Europe, n = 281; Greater China, n = 127; North America, n = 205.

<sup>2</sup>Includes Central and South America, India, Middle East, North Africa, South Asia, and sub-Saharan Africa.

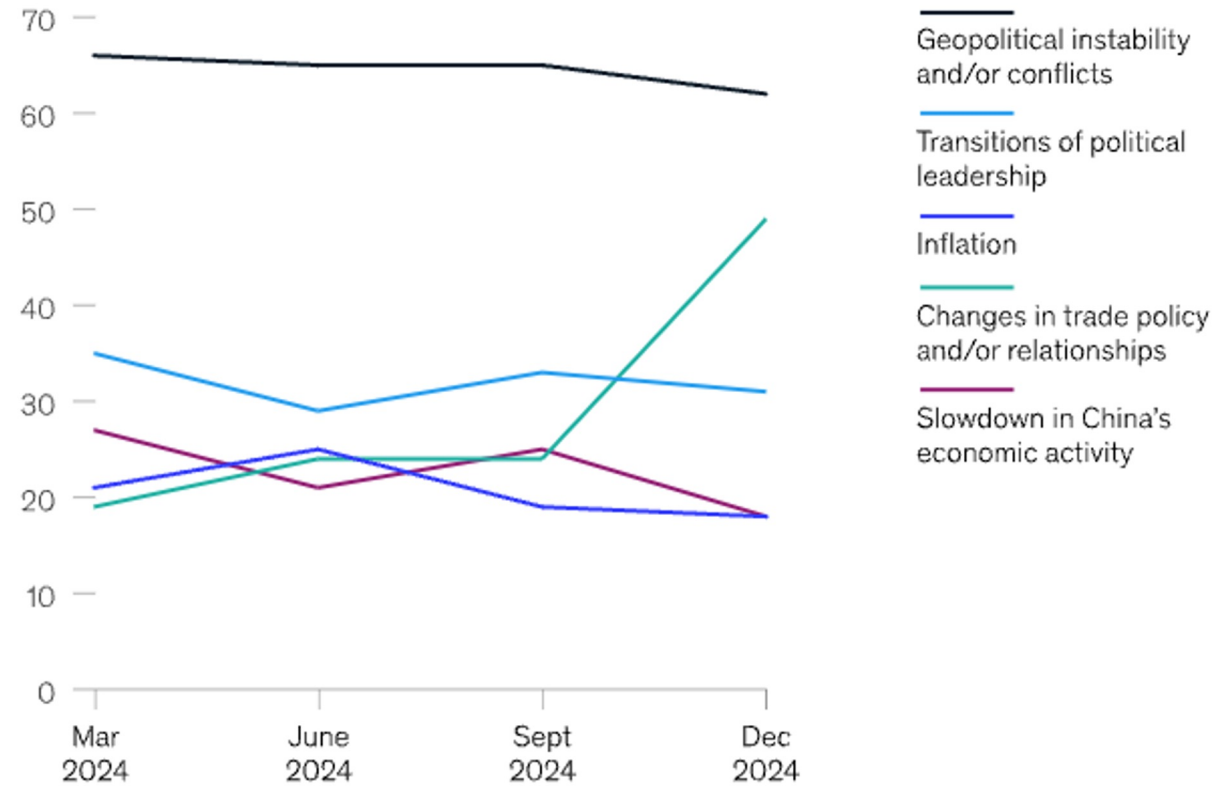
<sup>3</sup>Includes Hong Kong and Taiwan.

Source: McKinsey Global Survey on economic conditions, 912 participants at all levels of the organization, Nov 27–Dec 6, 2024

Trade policy,  
Geopolitics, and  
transition to the  
new administration  
is top of mind

## Trade policy changes are now nearly on par with geopolitical instability as a perceived disruptive force in the global economy.

Biggest potential risks to global economic growth, next 12 months,<sup>1</sup> % of respondents



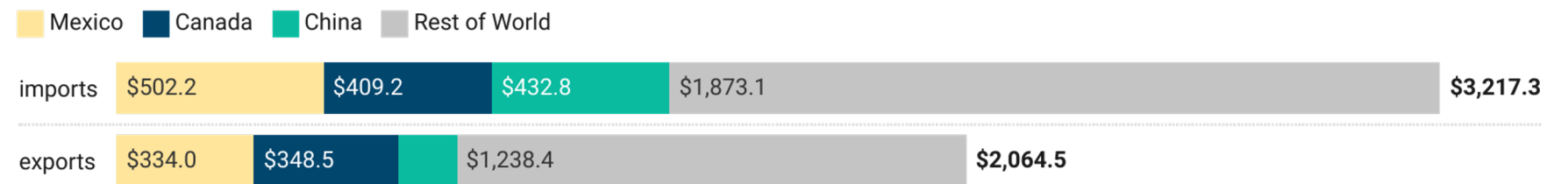
<sup>1</sup>Out of 15 risks that were offered as answer choices. Mar 4–8, 2024, n = 957; June 3–7, 2024, n = 927; Aug 28–Sept 6, 2024, n = 1,203; Nov 27–Dec 6, 2024, n = 912.

Source: McKinsey Global Surveys on economic conditions, 2024

Mexico,  
Canada, and  
China  
comprise our  
largest trading  
partners

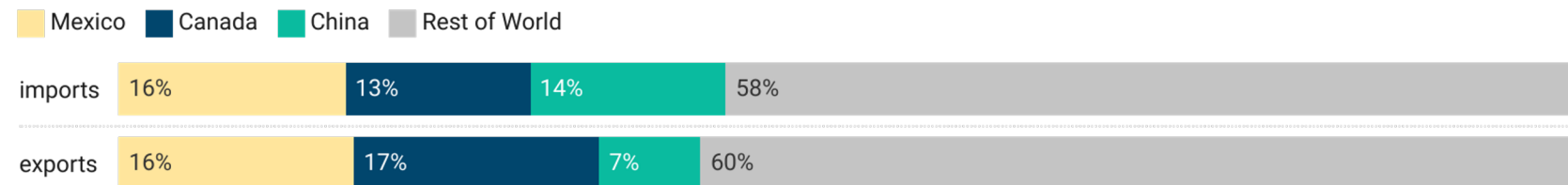
## US Trade in Goods

2024 | billions (\$)



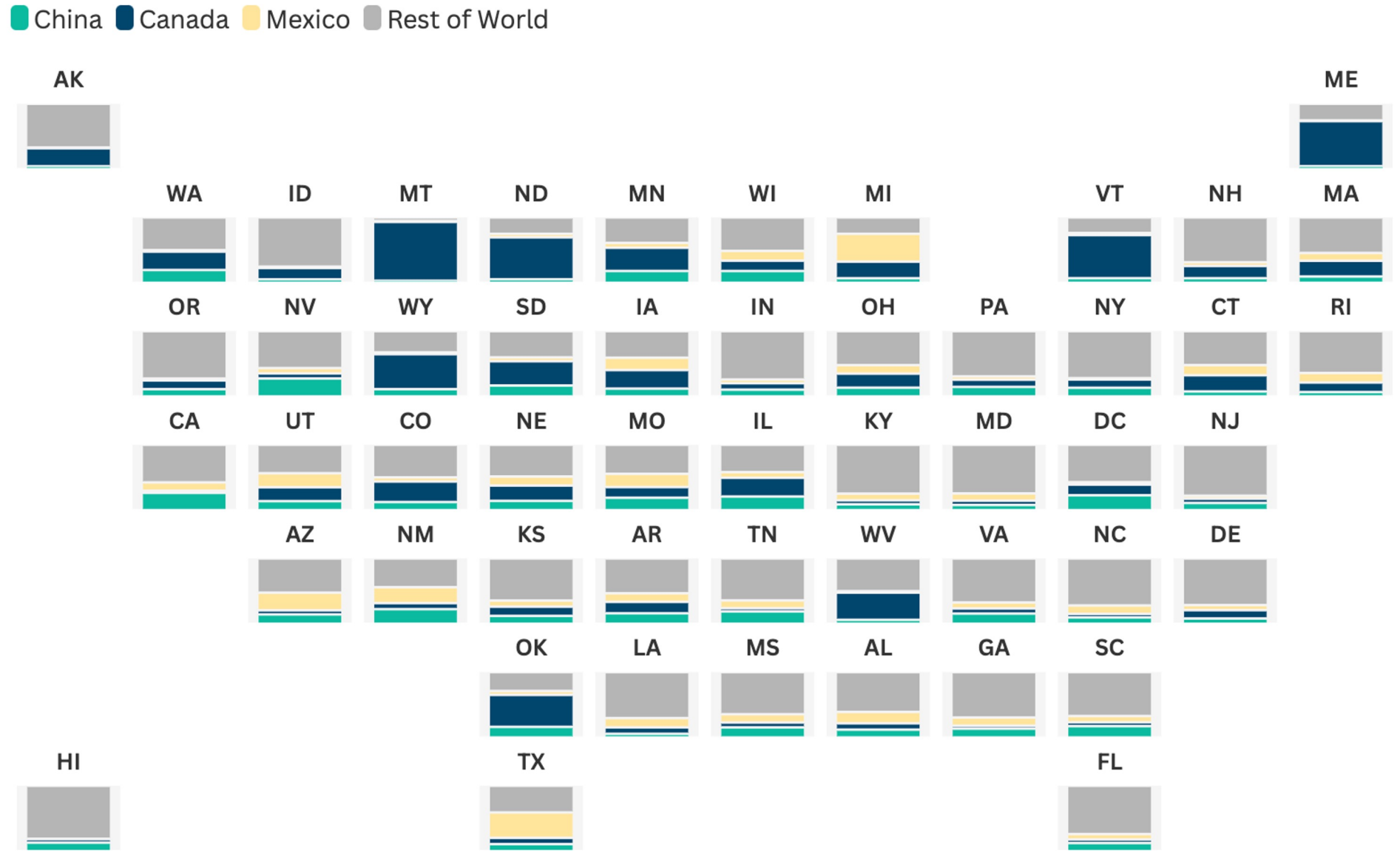
## US Trade in Goods

2024 | %



Dependence on Canada, Mexico, and China for imports varies by state

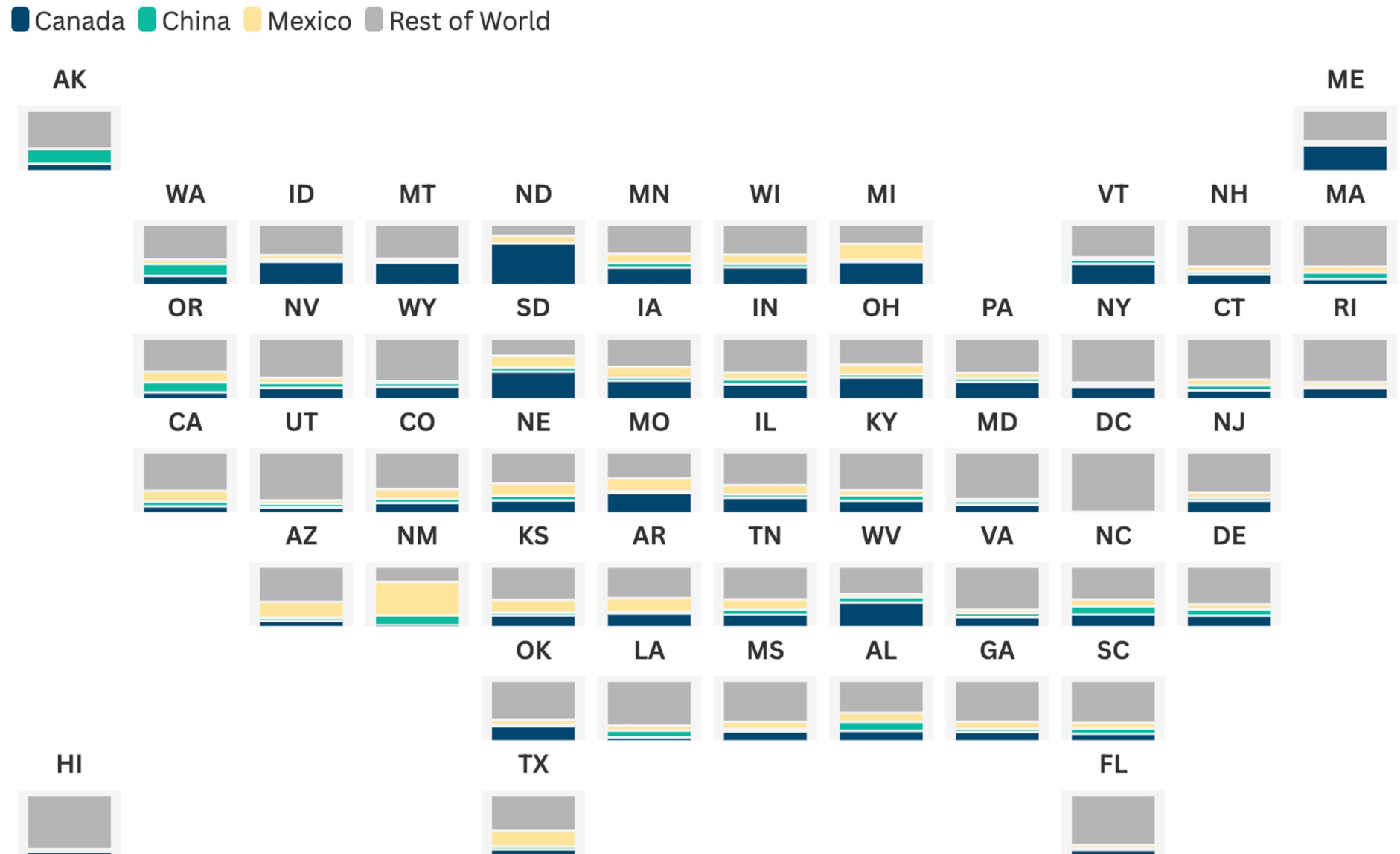
## 2024 State imports by origin country (%)



Source: US Census Bureau

Dependence on Canada, Mexico, and China for exports varies by state

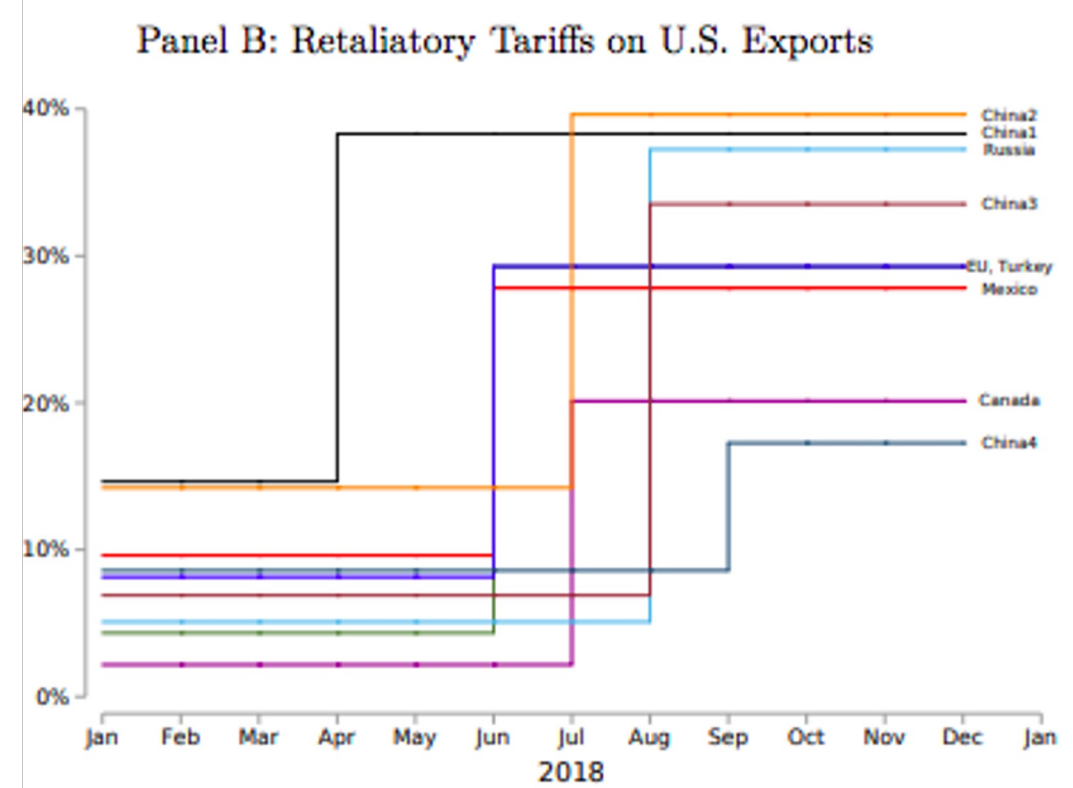
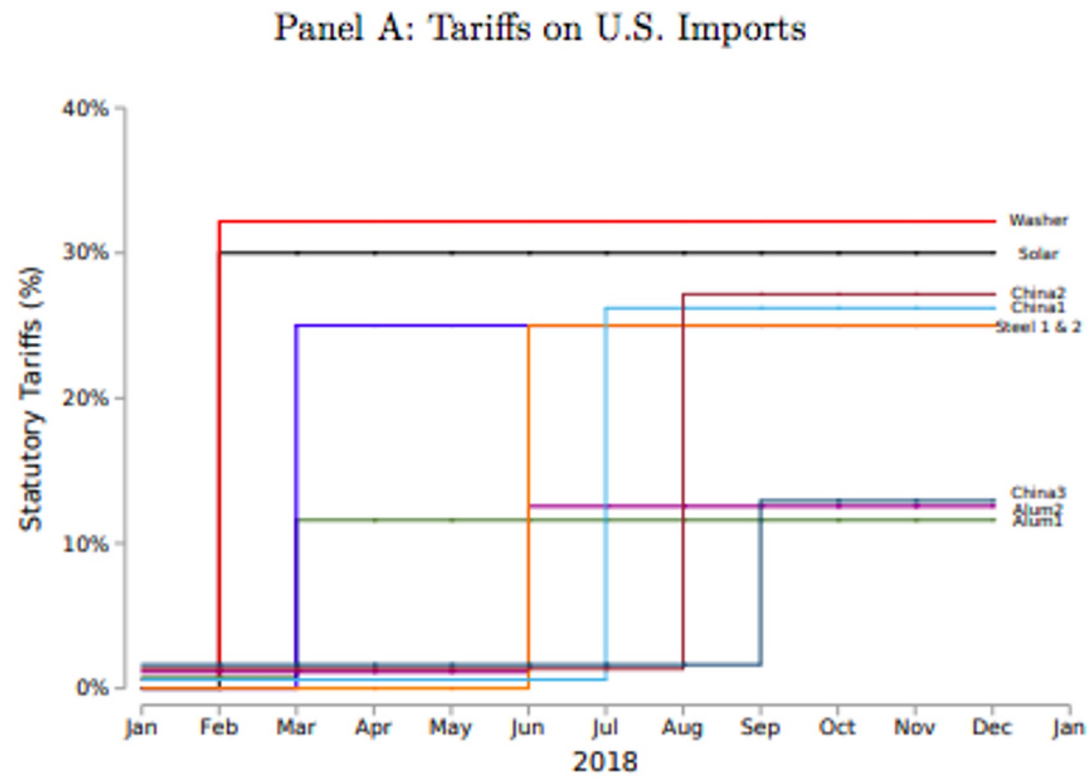
## 2024 State exports by destination country (%)



Source: US Census Bureau



# Tariff Impacts: A Case Study

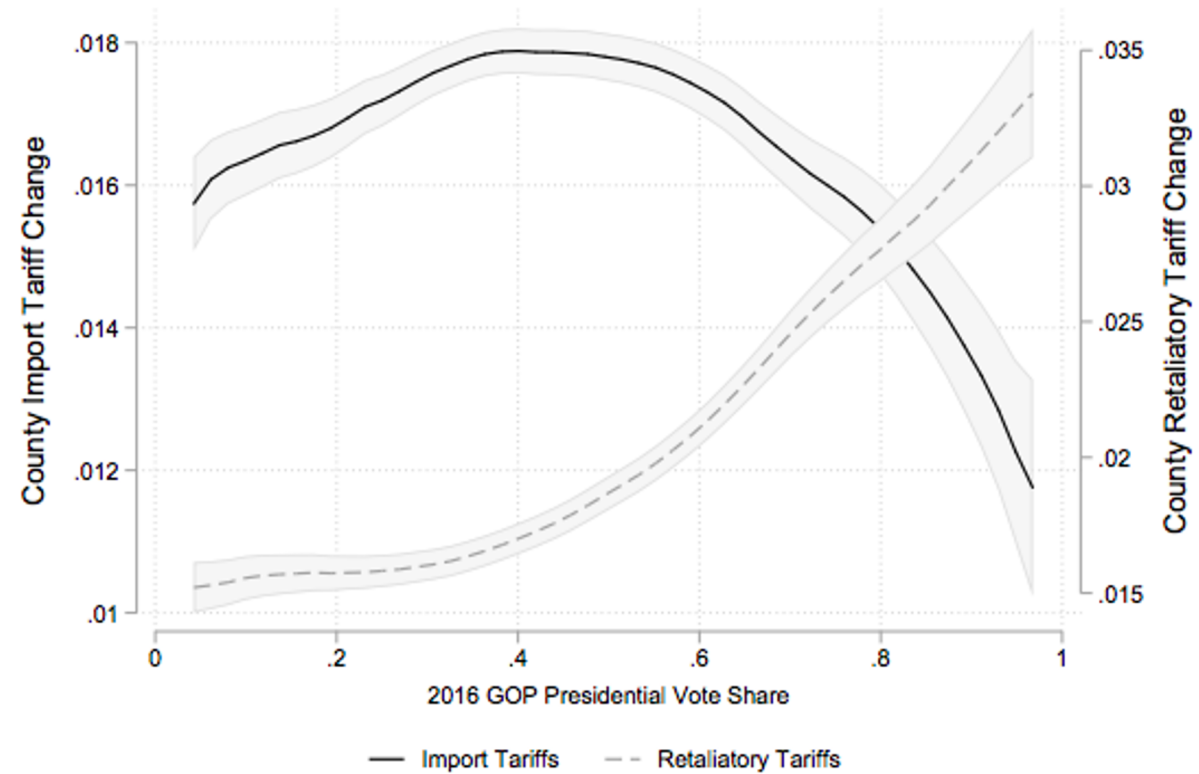


Source: Fajgelbaum et. al (2019), NBER Working Paper

# Tariff Impacts: A Case Study

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Figure VII: Tariff Changes vs. 2016 Republican Vote Share



Source: Fajgelbaum et. al (2019), NBER Working Paper

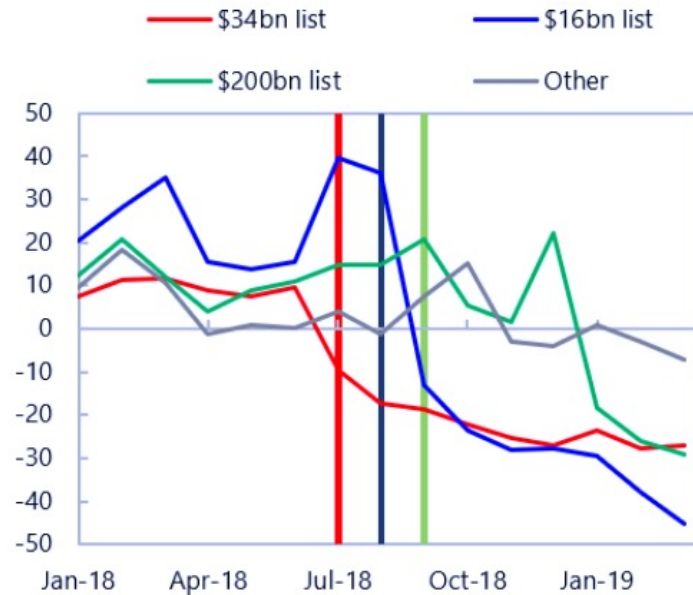
# Tariff Impacts: A Case Study

Decrease in both US imports & exports with China

## Large drop

US imports from China have fallen significantly in all three groups of goods after tariffs were imposed.

(value of imports, year-on-year percent change)



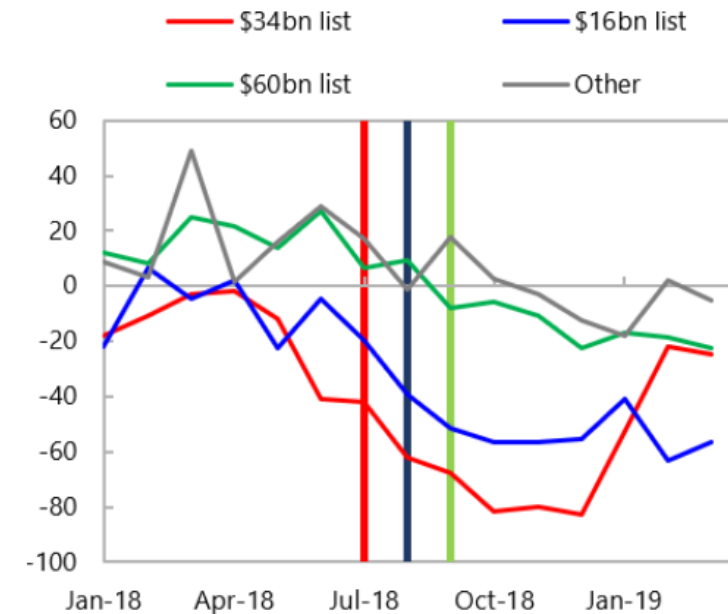
Sources: US Department of Commerce; and IMF staff calculations.

Note: Tariff-effective dates: July 6, 2018, 25% on initial \$34 billion list; Aug 23, 2018, 25% on \$16 billion list; Sept. 24, 2018, 10% on \$200 billion list, rising to 25% on May 10, 2019.

## China retaliates

US exports to China have also declined after China imposed retaliatory tariffs.

(value of exports, year-on-year percent change)



Sources: US Department of Commerce; and IMF staff calculations.

Note: Chinese tariff related dates: \$34bn list announced on June 16, 2018, effective on July 6, 2018; \$16bn effective on Aug 23, 2018; and \$60bn effective on Sept 24, 2018.

Source: international monetary fund

# Tariff Impacts: A Case Study

Searching for new markets

## In different directions

After tariffs were implemented, the price of US soybeans fell while Brazilian soybean prices increased as US soybean exports to China dropped to near zero and Brazilian exports to China increased.

(soybean cash prices, dollars per ton)



Source: Bloomberg, L.P.

Source: international monetary fund

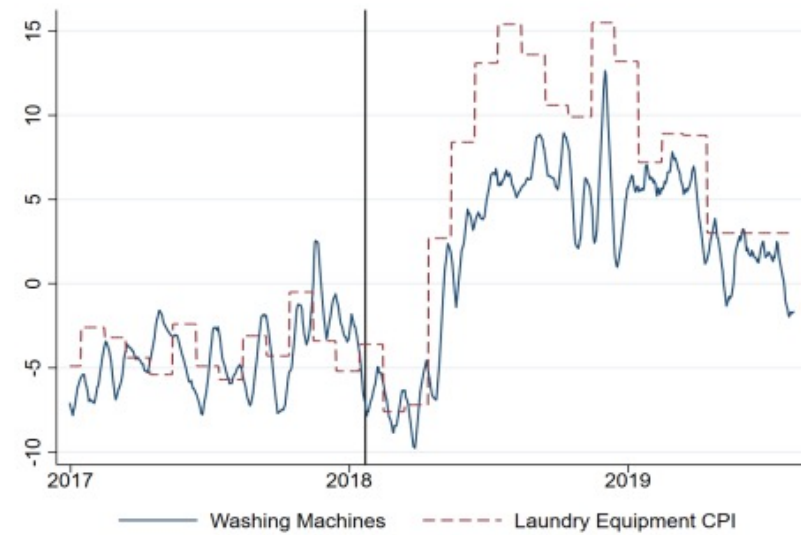
# Tariff Impacts: A Case Study

Are tariffs passed through to the consumer?

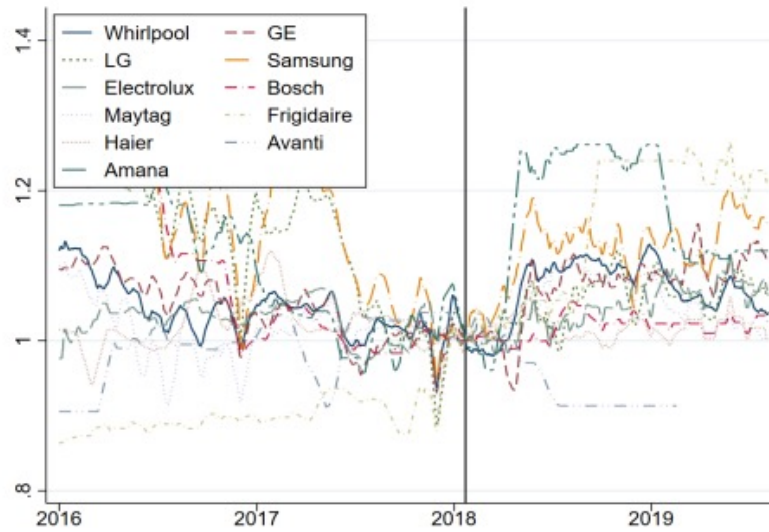
## Washing Machines



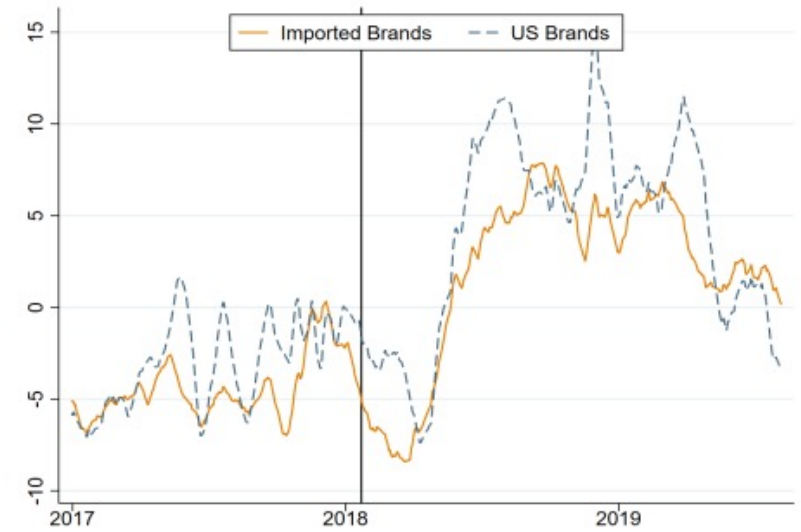
(a) Price Indices



(b) Inflation Rates



(a) Price Indices



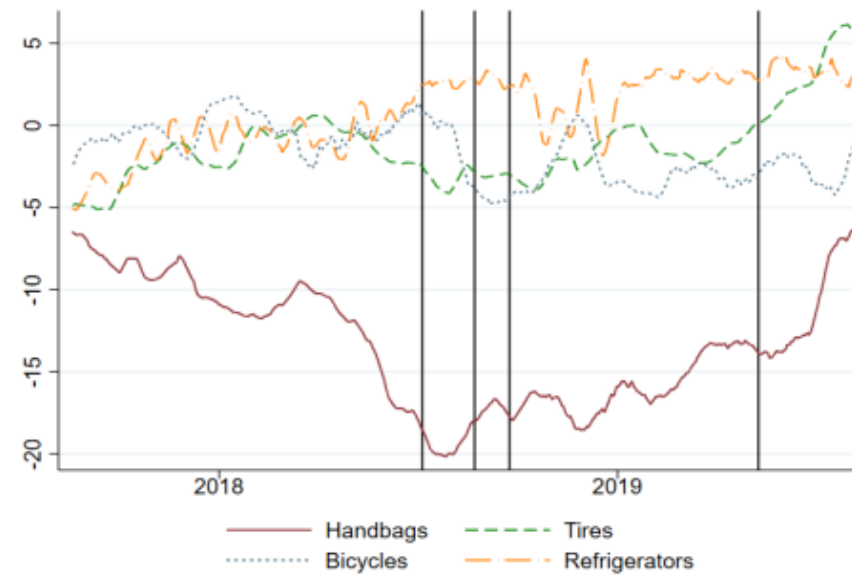
(b) Inflation Rates

Source: Cavallo et. al. (2019)

# Tariff Impacts: A Case Study

Are tariffs passed through to the consumer?

## Other Goods



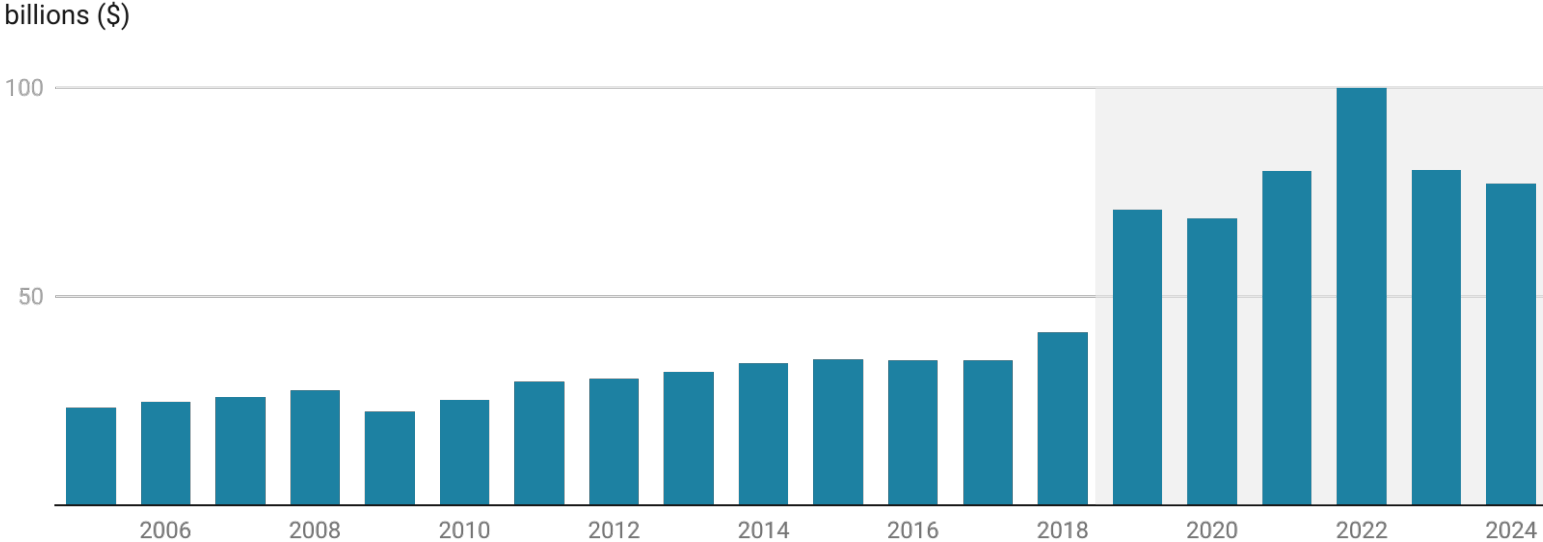
(b) Inflation Rates

Retail Prices from BPP, Multiple Affected Goods

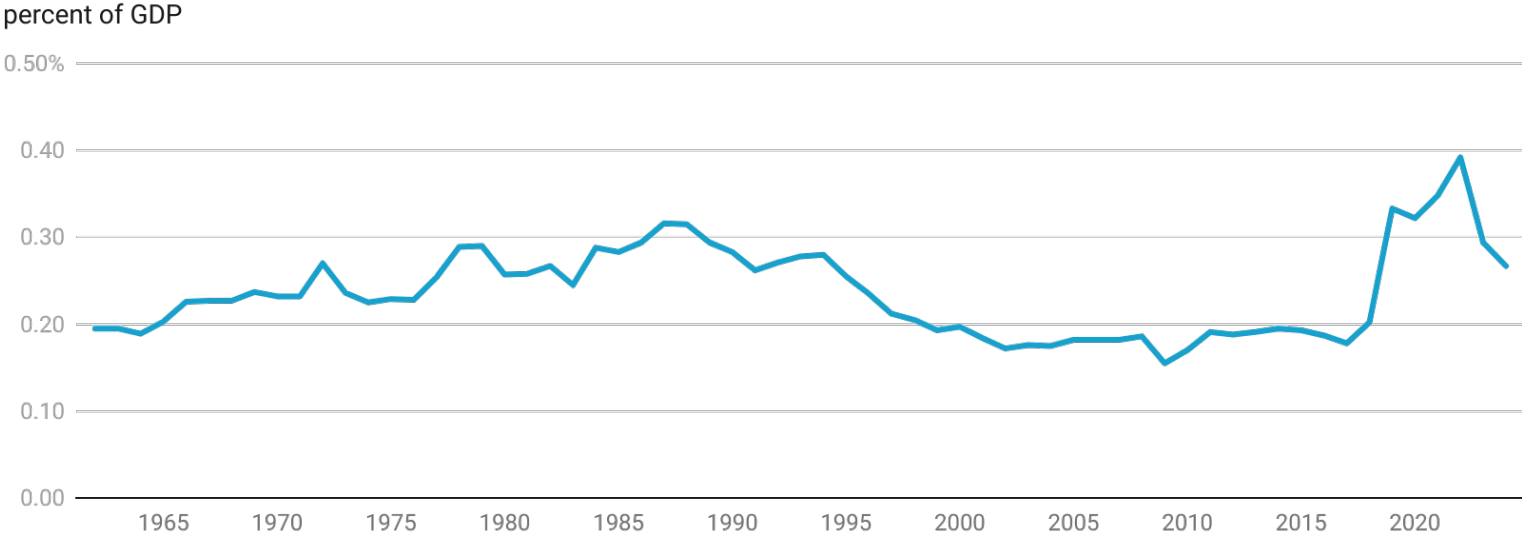
# Tariff Impacts: A Case Study

Do tariffs raise revenue?

## US Custom Duties

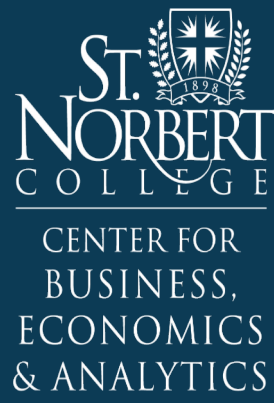


## US Custom Duties



Source: CBO

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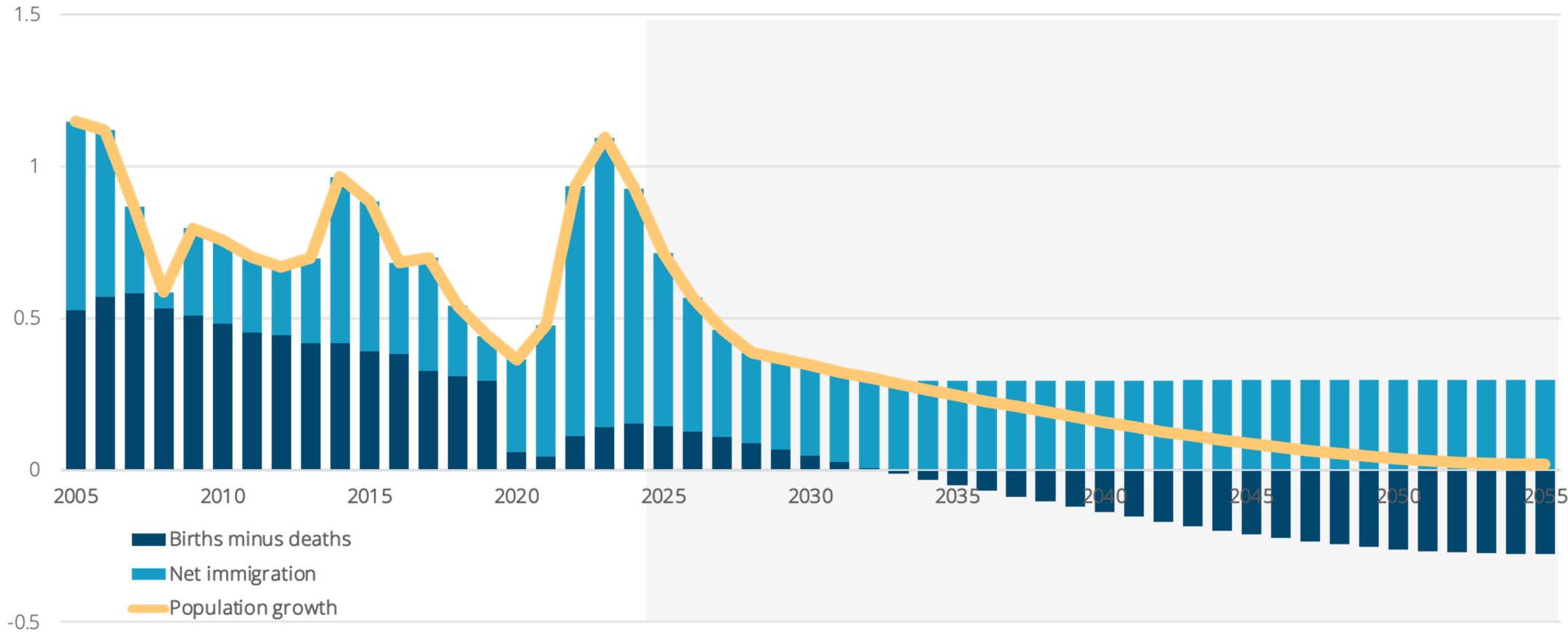
## 5 | The "Known Unknowns"

# Immigration Policy Context



Population trends have been interesting the past two decades

### US Population Growth | percent



Source: CBO

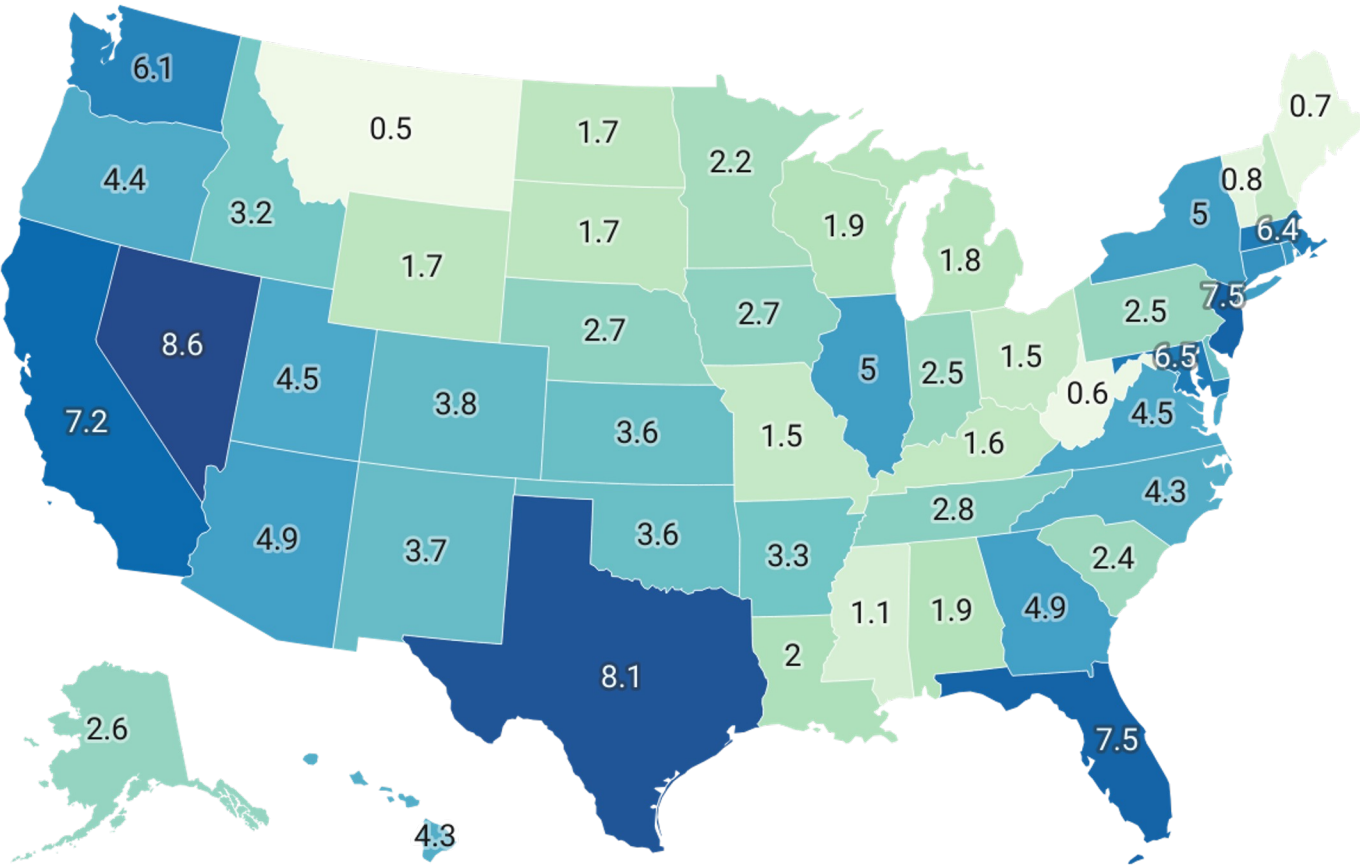
Unauthorized  
immigrant  
impact of the  
labor force

### Unauthorized Immigrants in the Labor Force by State

percent of labor force | 2022



**US: 4.8%**



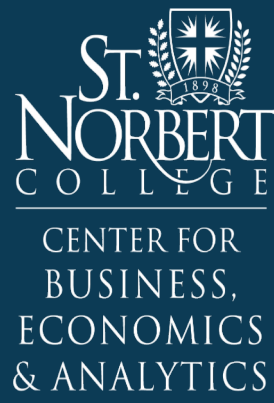
Source: Pew Research

Unauthorized  
immigrant  
(UI) impact of  
the labor  
force

Category	US	WI
UI % of labor force	<b>4.8%</b>	<b>1.9%</b>
Industry with the largest % of workers who are UIs	<b>Construction</b>	<b>Agriculture</b>
Industry with the most UI workers	<b>Construction</b>	<b>Manufacturing</b>
Occupation with the largest % of workers who are UI	<b>Farming</b>	<b>Farming</b>
Occupation with the most UI workers	<b>Service</b>	<b>Service</b>

Source: Pew Research

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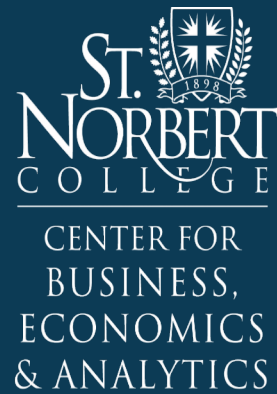
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Short Run  
Known Unknowns:  
A Policy Perspective

- 1 Taxes**  
Tax Cuts & Jobs Act Expiring?
- 2 Government Spending**  
DOGE & Funding Freeze
- 3 Immigration Policy**  
Labor market impacts?
- 4 Tariff Policy**  
What policy will actually be implemented?
- 5 Economic Uncertainty**  
Other economic factors
- 6 Fed Policy**  
Holding to respond as needed to inflation and labor market effects

# Navigating the "Known Unknowns"



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