



# U.S. Economic Outlook

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May 2025

**Charlie Dougherty**

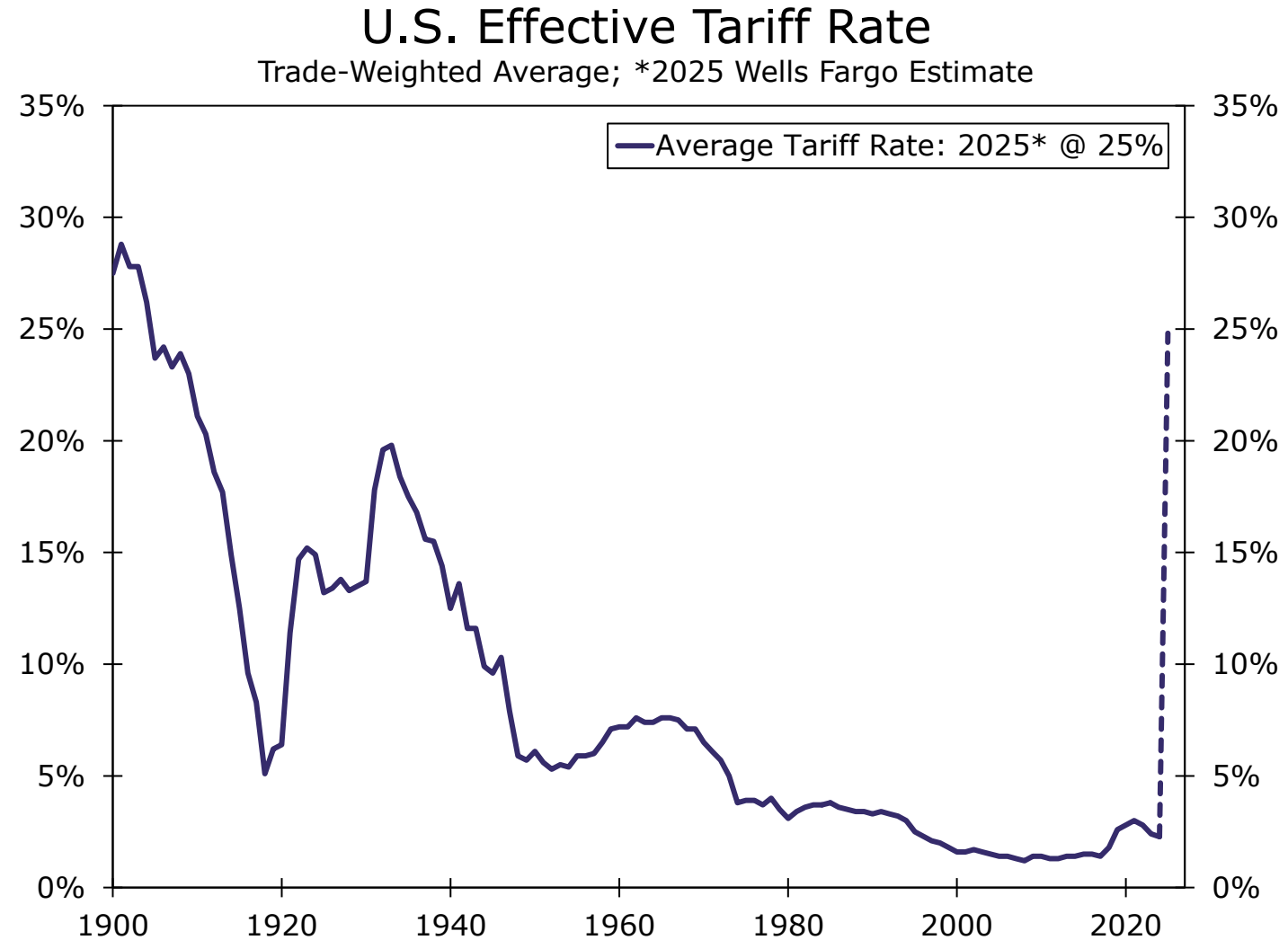
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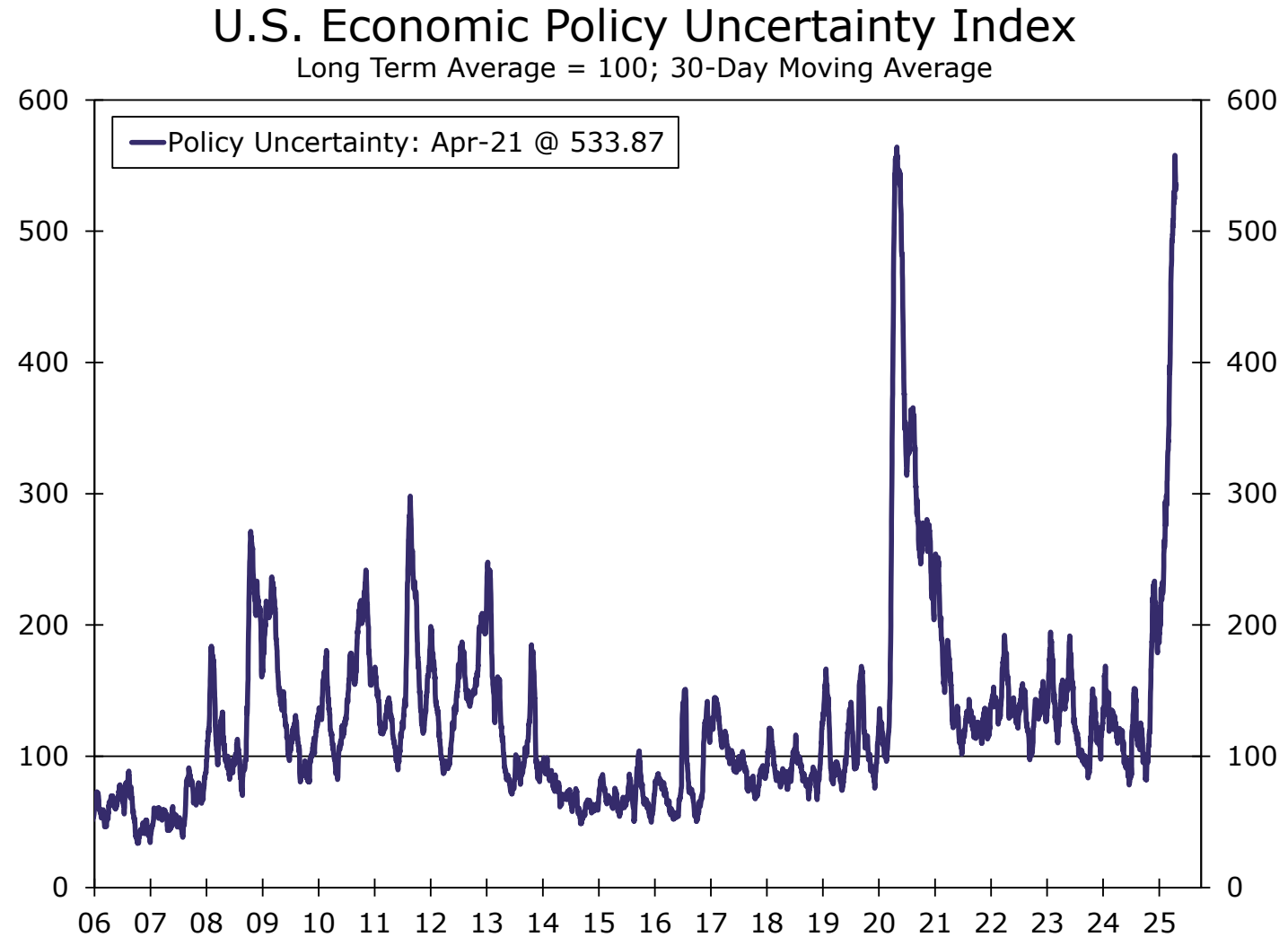
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The effective tariff rate is set to rise to the highest level in many decades.

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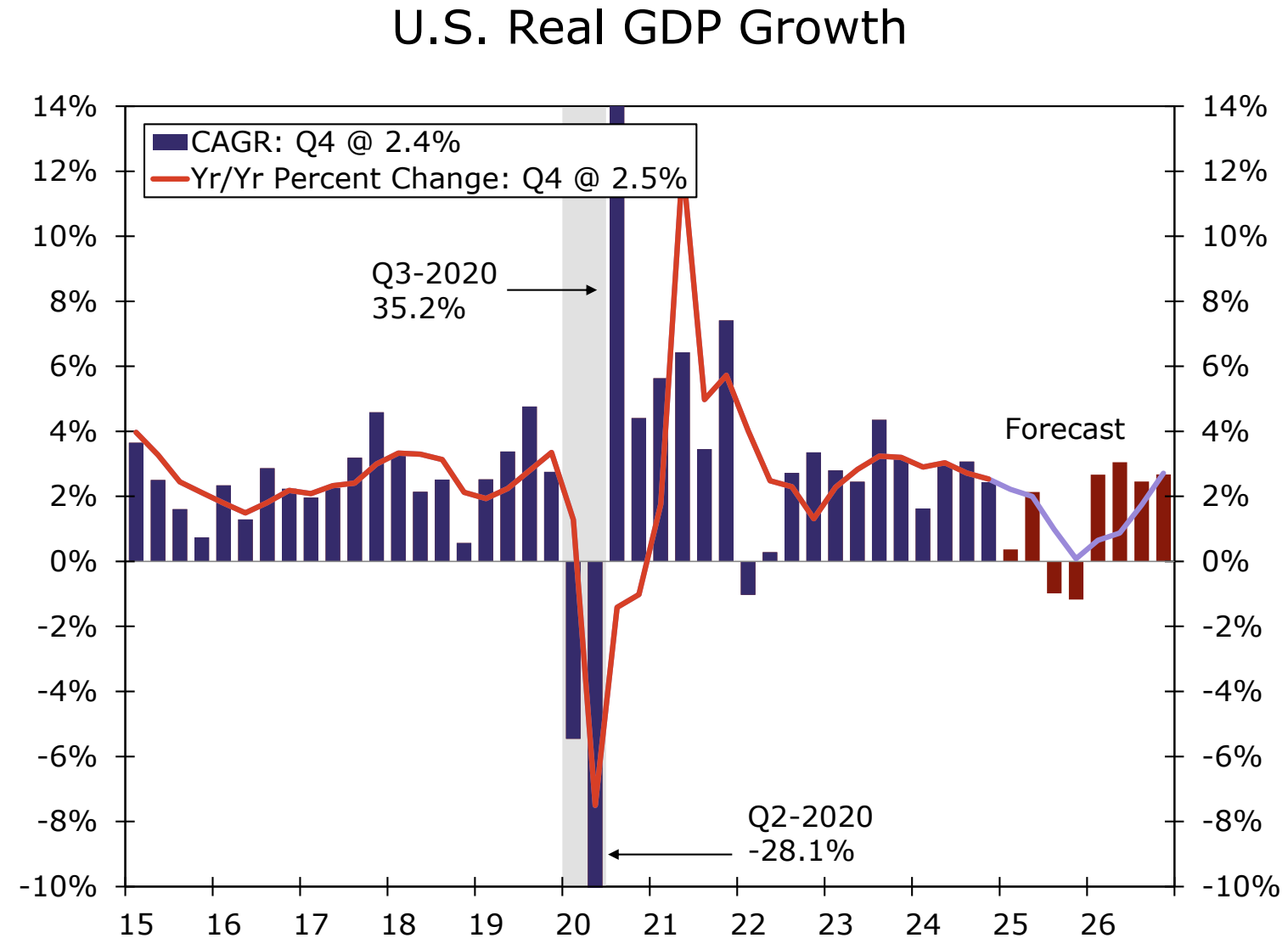


Economic uncertainty has risen to a height not seen since the pandemic.

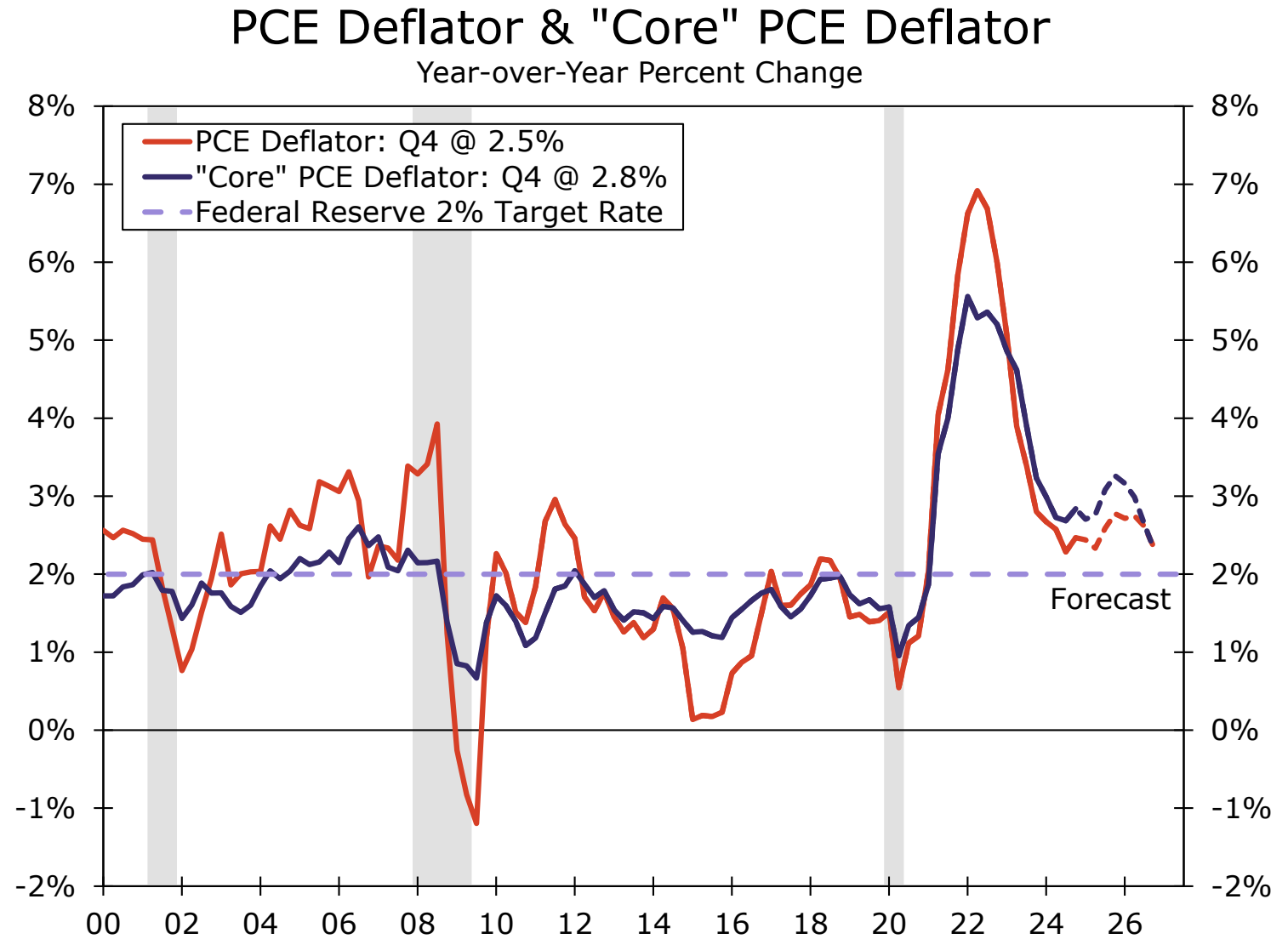


# Economic Growth: Near-Term Weakness Alongside Policy Shifts and Uncertainty

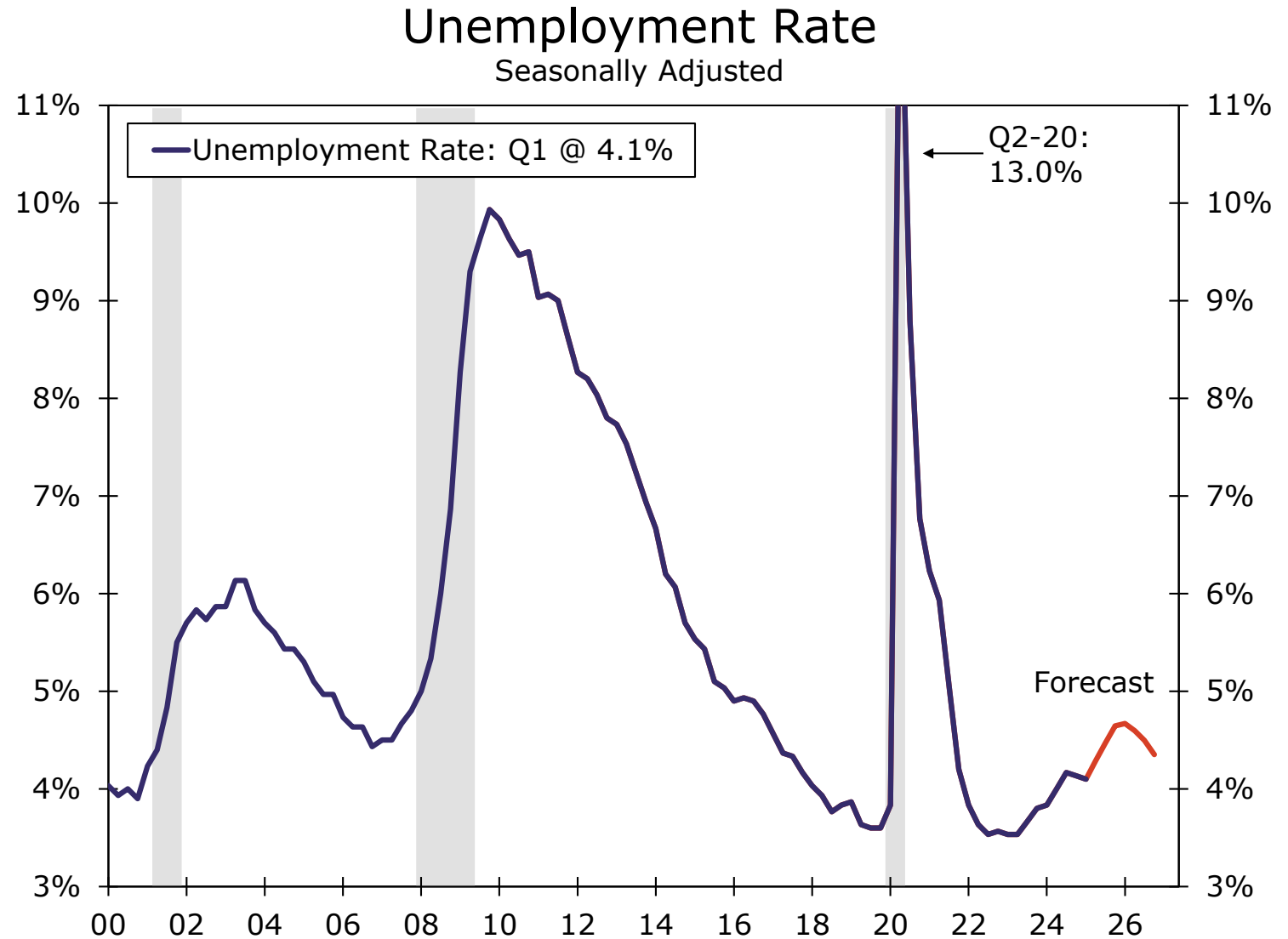
The combined effects of uncertainty and trade policy change will likely lead to weaker economic growth this year.



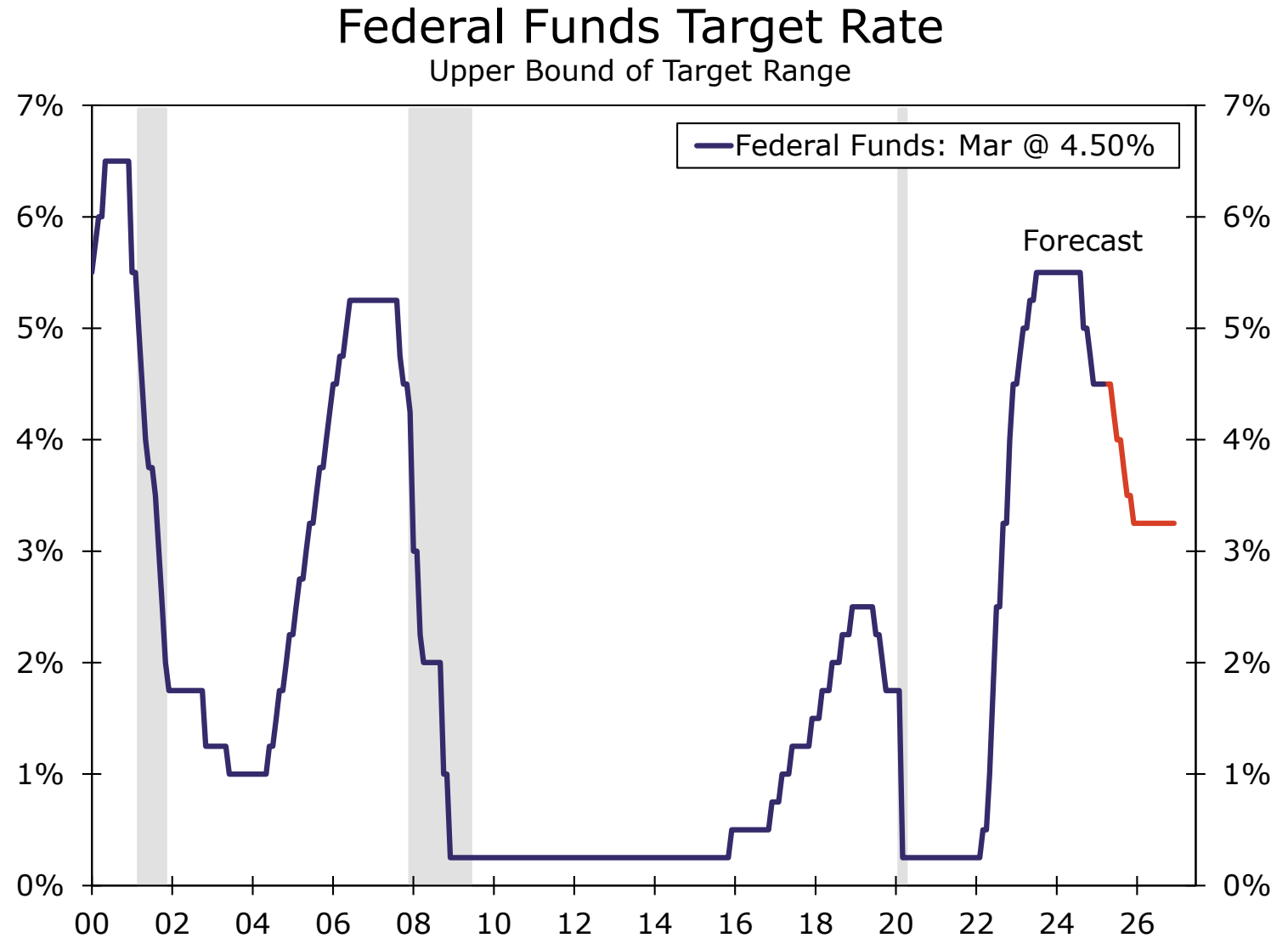
Tariffs will likely exert near-term pressure on overall inflation.



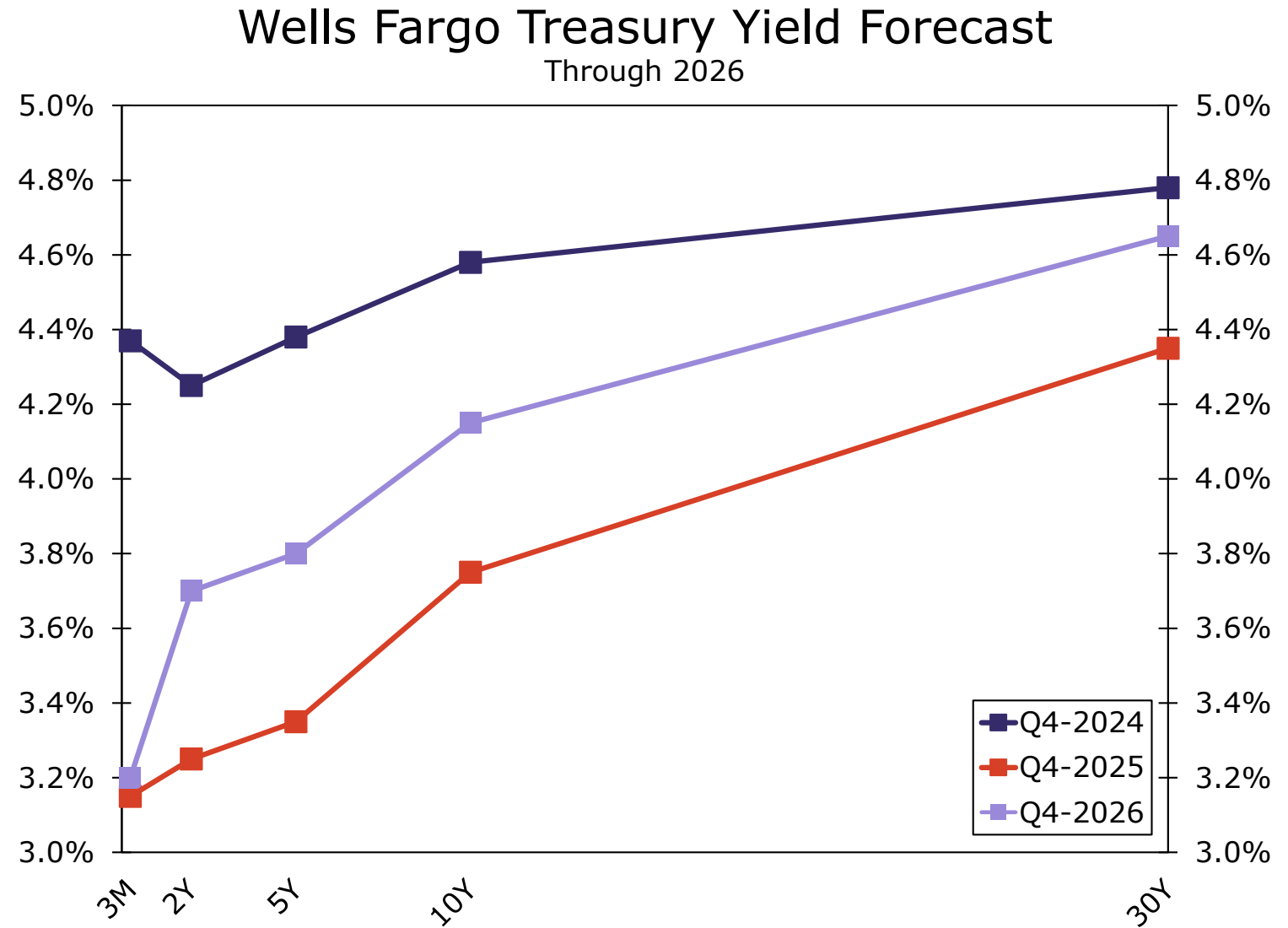
The secondary effects of tariffs include weaker economic growth and slightly higher unemployment.



The Federal Reserve will likely “see through” tariff inflation and focus on protecting the labor market.

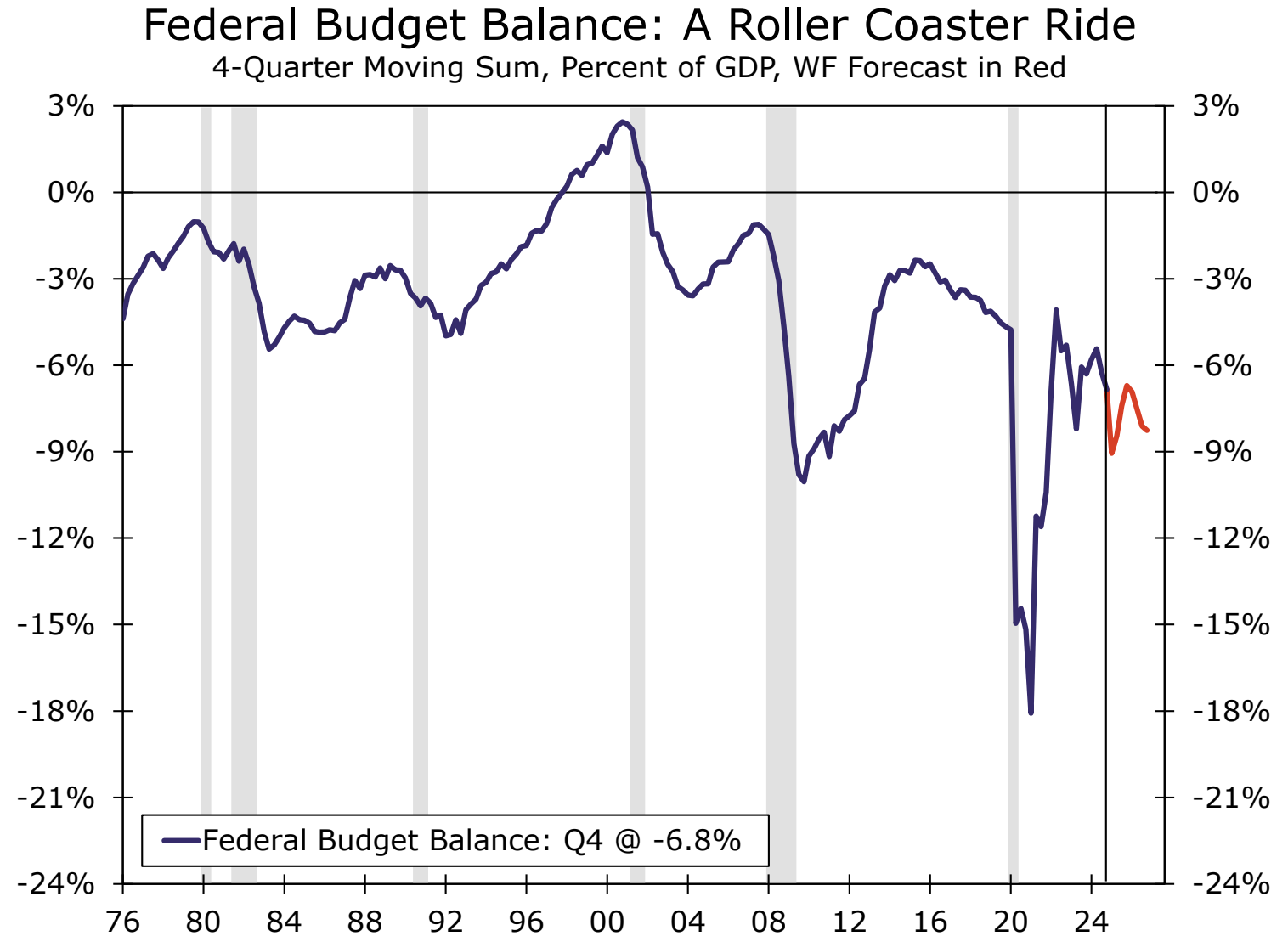


A lower fed funds target rate implies slightly lower long-term rates.

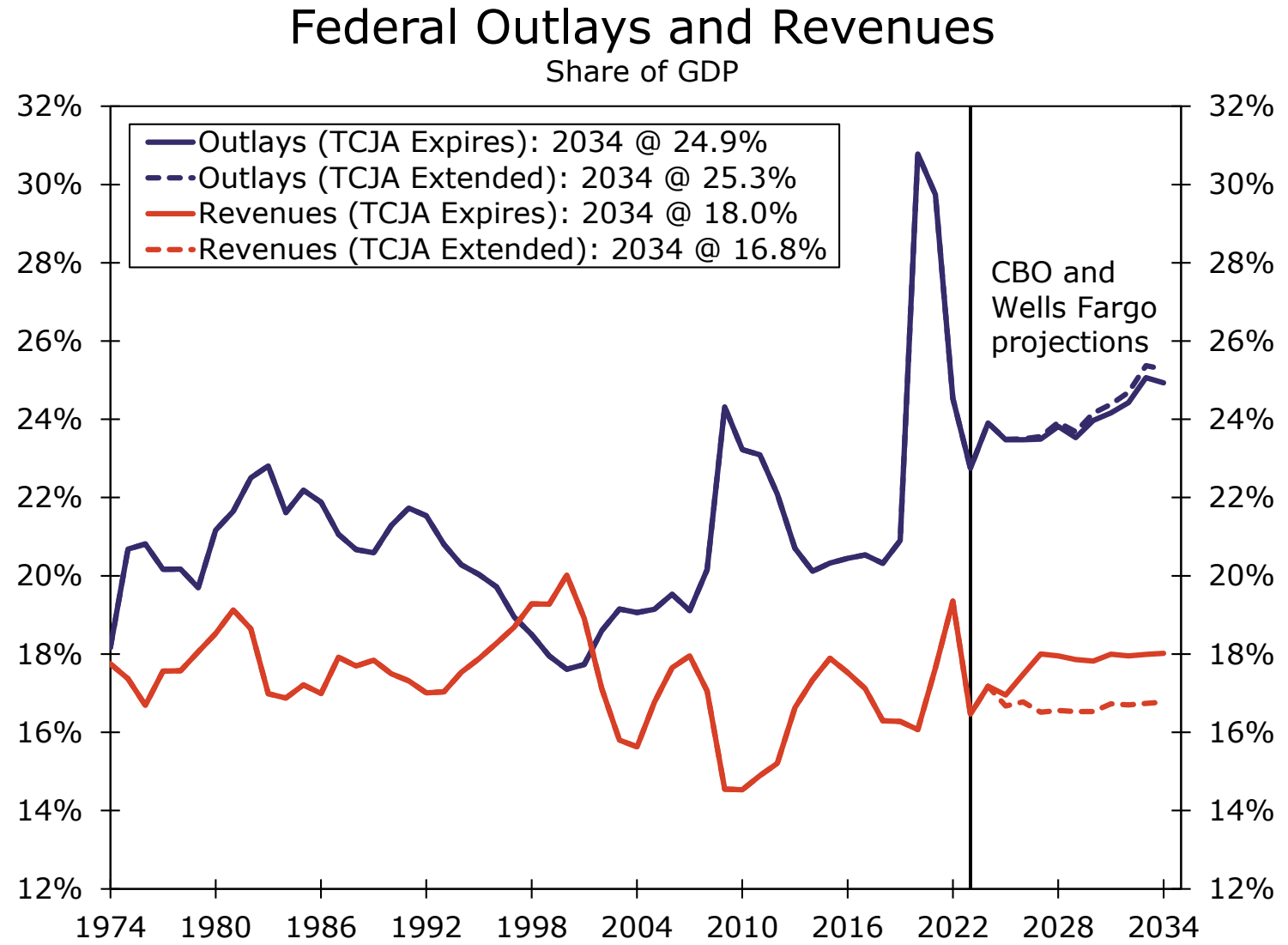




The U.S. fiscal situation looks daunting despite recent cutbacks.



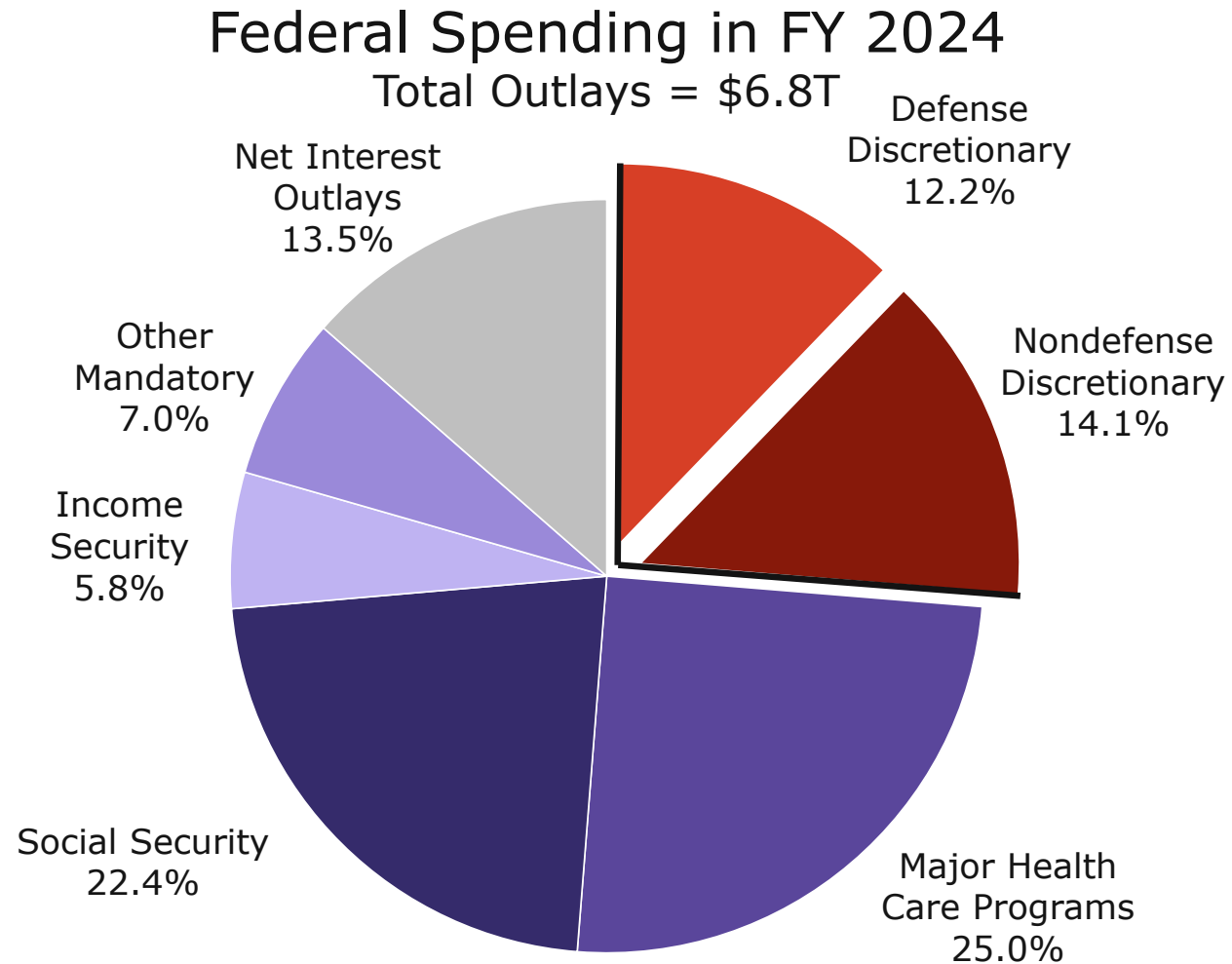
Federal spending looks set to increase as revenues remain flat.



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From where would  
spending cuts  
come?

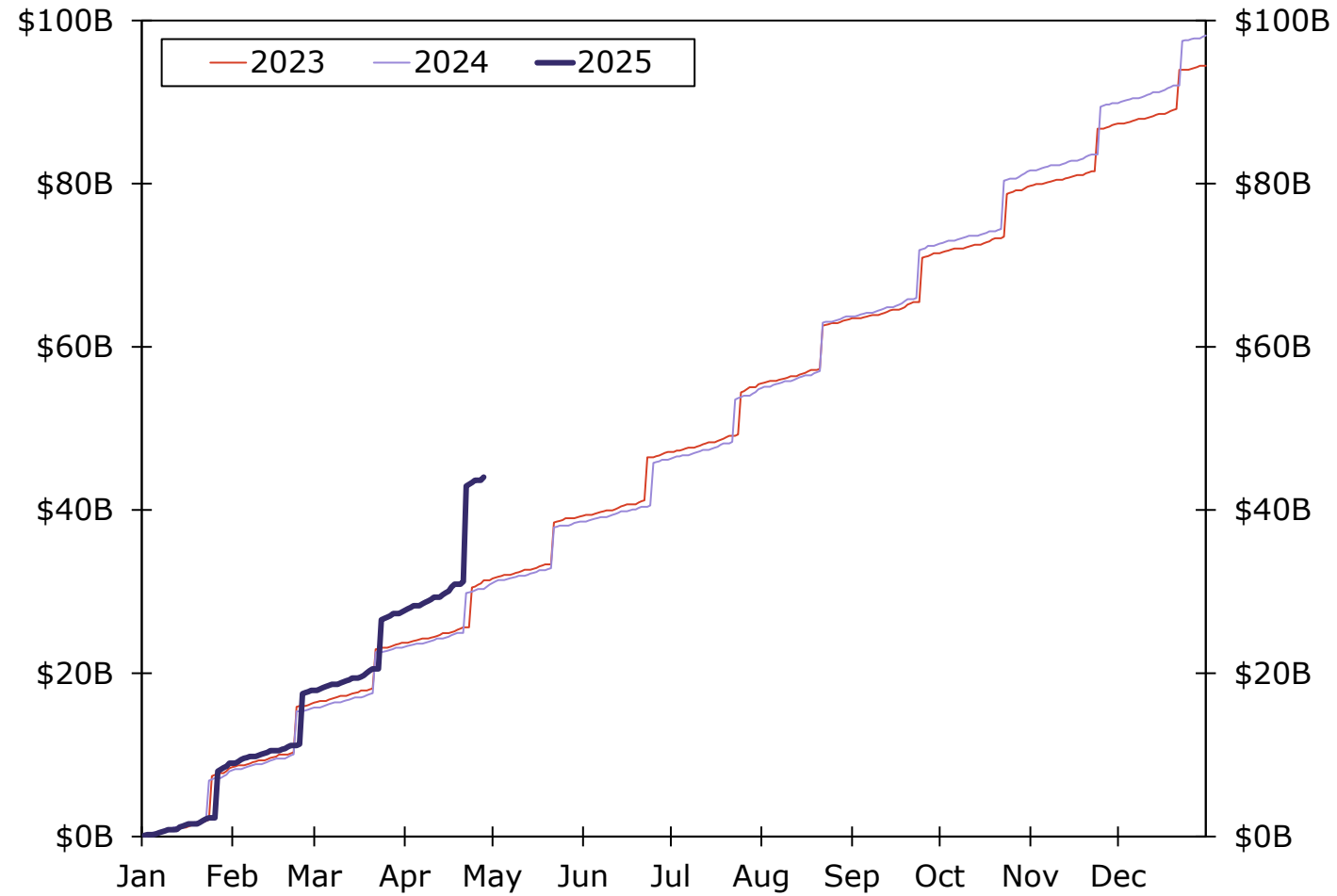
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Federal tariff revenues are set to skyrocket in the months ahead

## Federal Receipts from Customs & Excise Taxes

Cumulative, Billions of Dollars



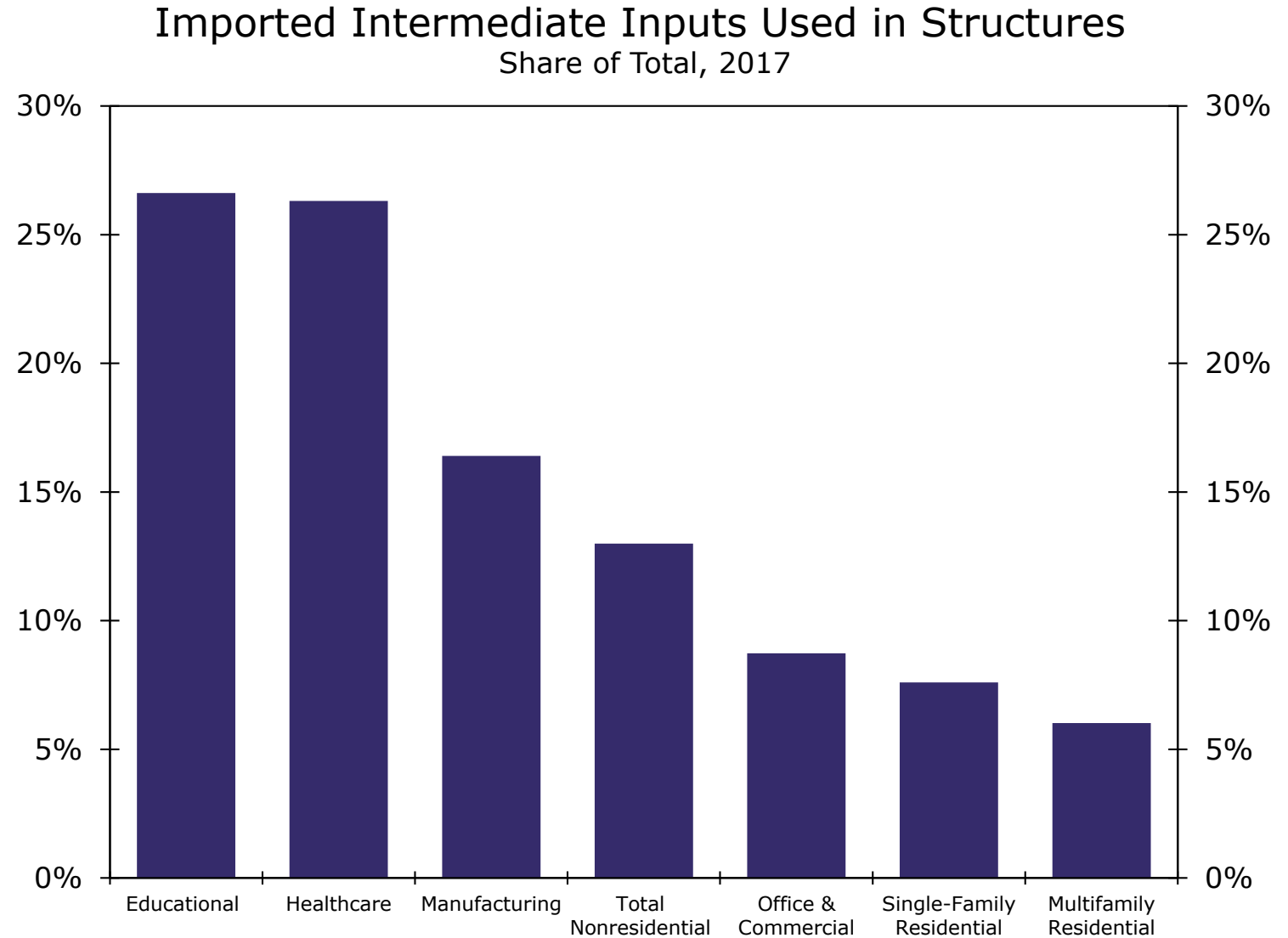
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Although the construction industry is not overly exposed to international trade, many materials and components key to delivering projects are imported.

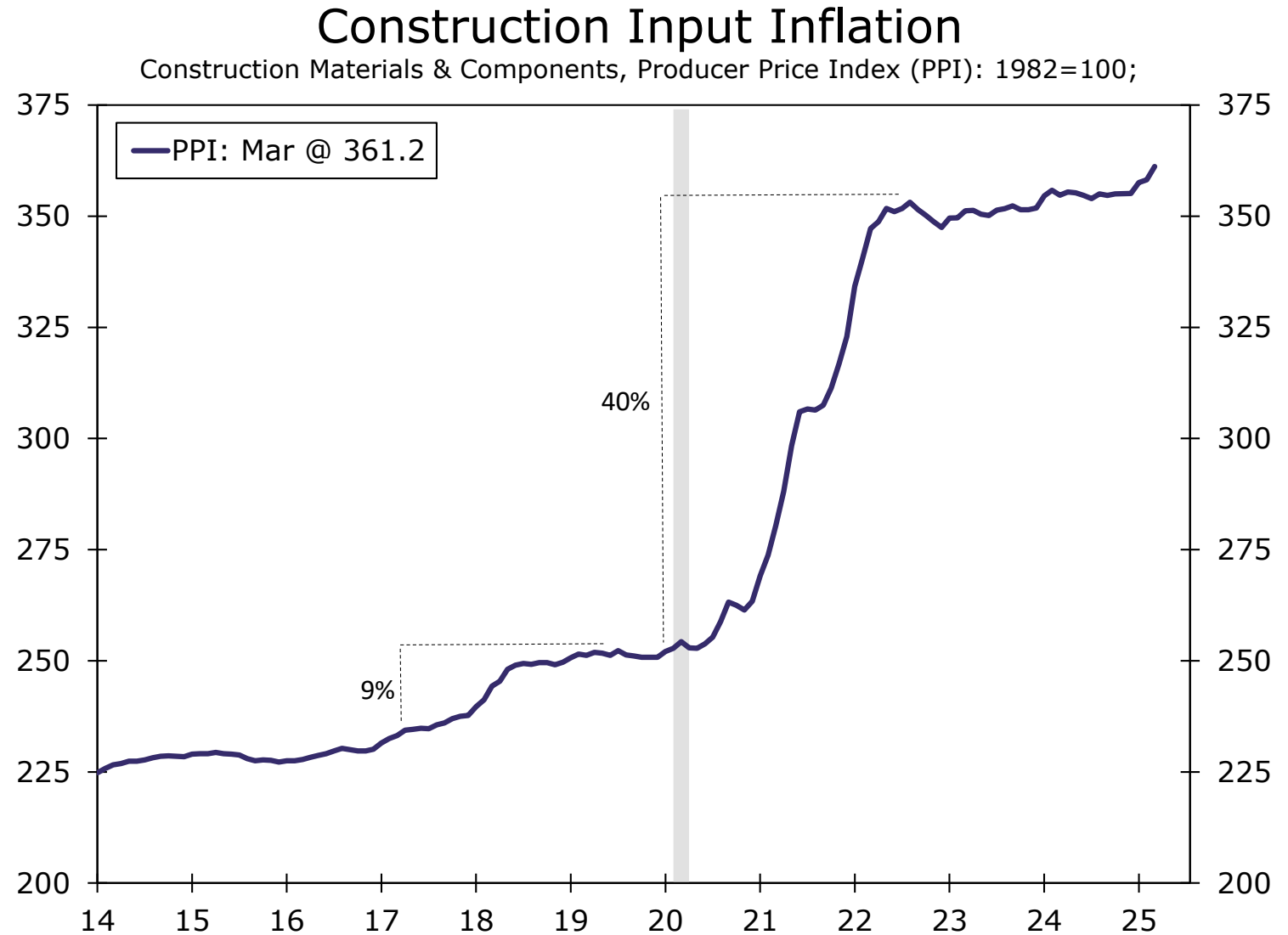
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Construction Exposure to Tariffs	
Import Share of Total Inputs	
<b>All Industry Average</b>	<b>8.9%</b>
Construction	<b>10.0%</b>
<b>High Exposure Industries</b>	
Petroleum and coal products	33.2%
Motor vehicles	23.9%
Computer and electronic products	23.7%
Machinery	21.2%
Chemical products	21.1%
Primary metals	20.5%
Air transportation	20.3%
Electrical equipment/appliances	20.1%
Other transportation equipment	19.3%
Furniture and related products	15.9%

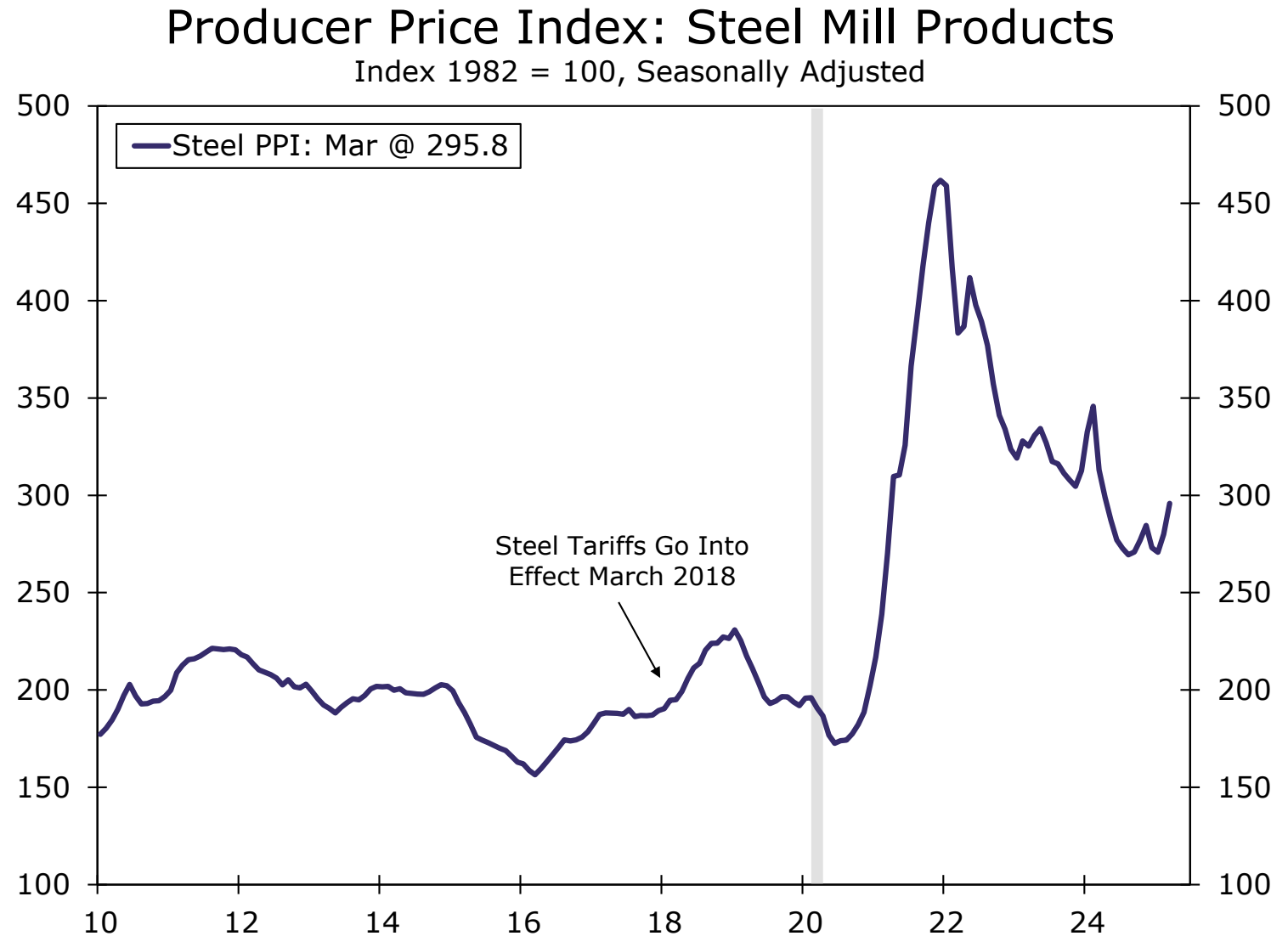
Residential construction has relatively less exposure to tariffs compared to nonresidential structures.



There are sure to be demand effects, however higher construction costs moving forward are a fair assumption given the price pressures observed during Trump 1.0.



In 2018, new tariffs on steel led to higher domestic prices.



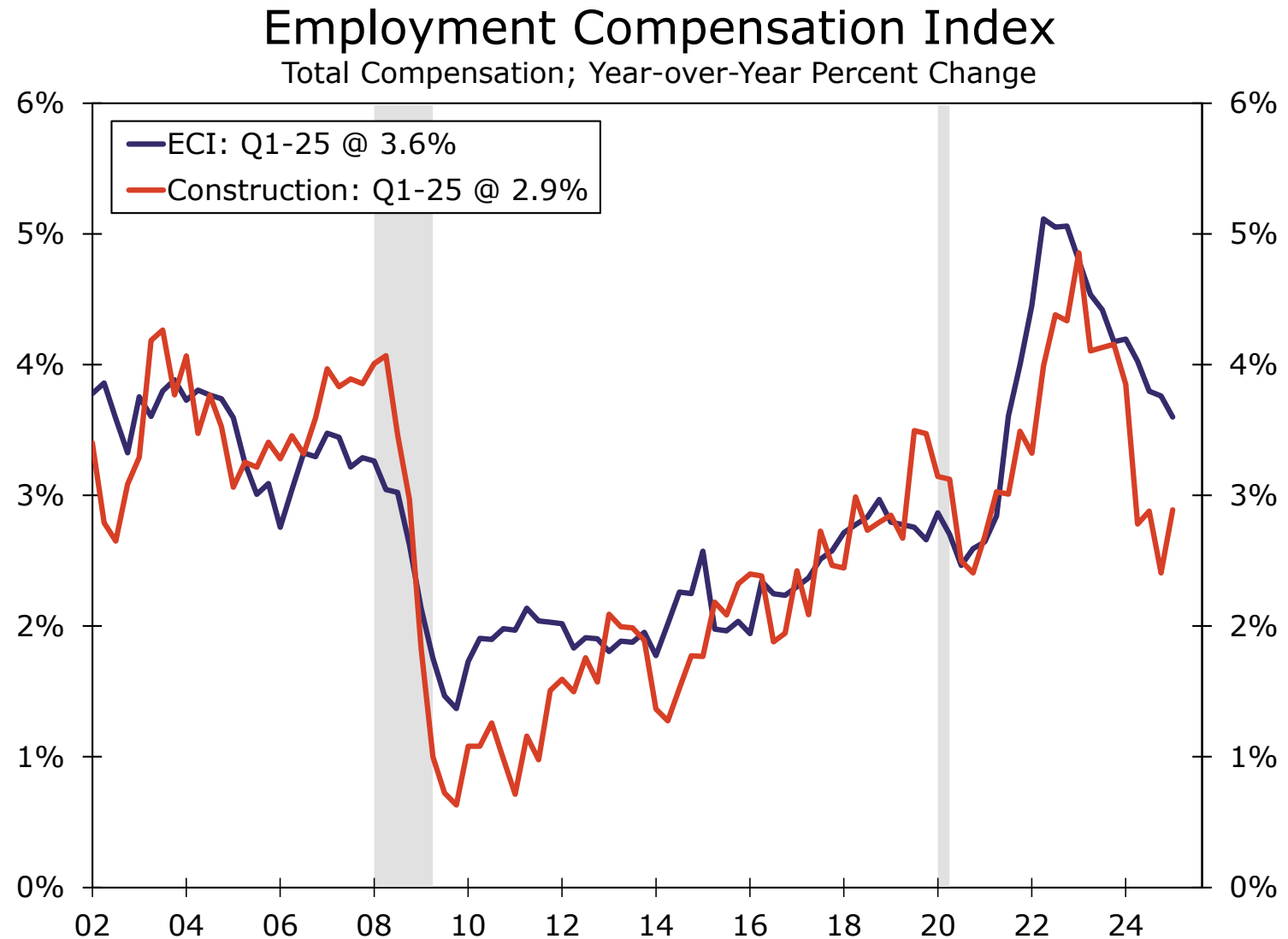


The construction labor force is highly dependent on foreign-born labor.

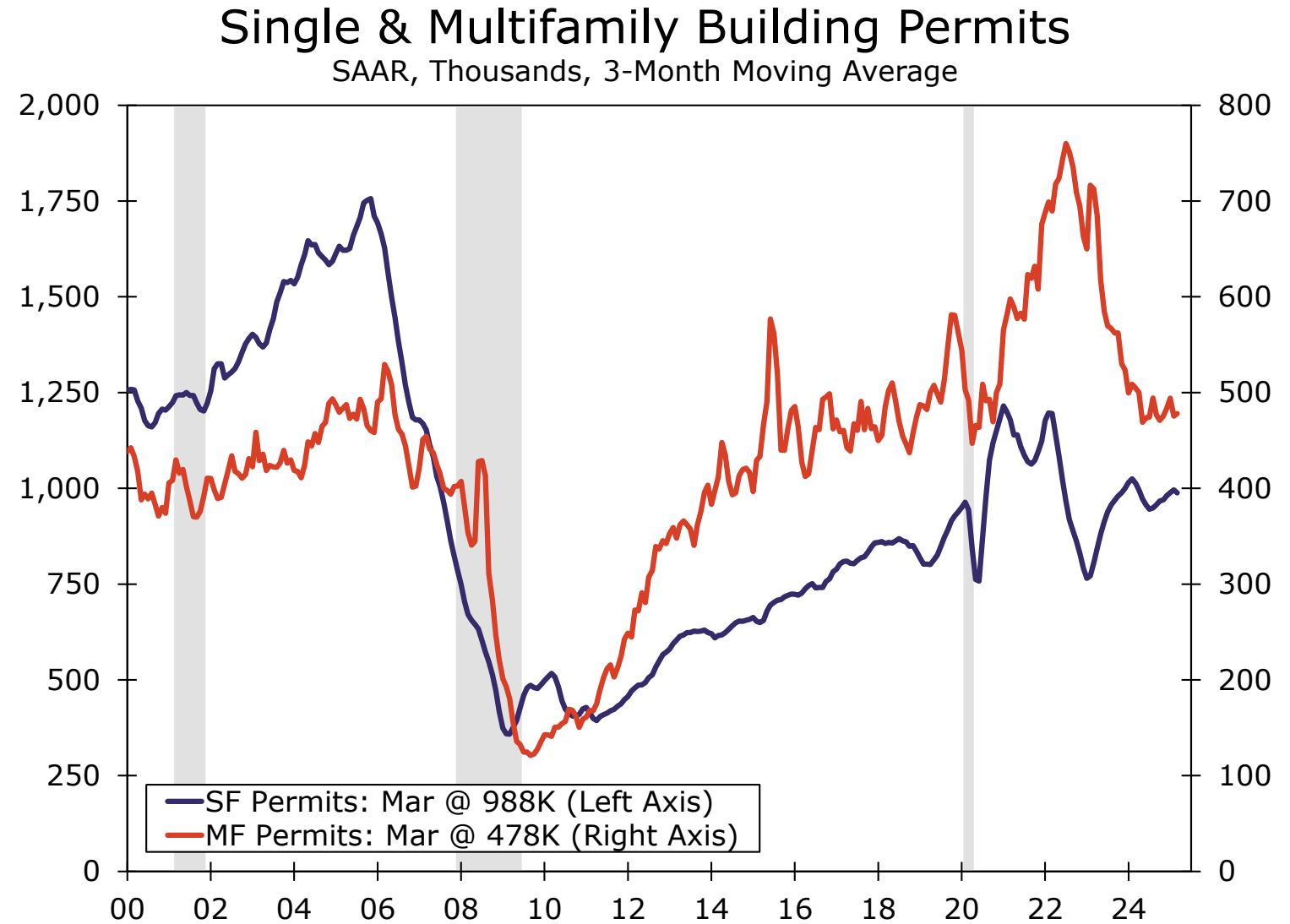
Selected Construction Occupations by Citizenship Status, January 2025			
	Total Workers	Total Noncitizen Workers	Share Noncitizen Workers
<b>All Occupations</b>	<b>163,611,912</b>	<b>16,091,477</b>	<b>10%</b>
<b>All Construction Occupations</b>	<b>9,114,511</b>	<b>2,383,844</b>	<b>26%</b>
Construction Laborers	2,171,946	854,202	39%
Carpenters	1,273,142	418,517	33%
Painters, Construction, Maintenance	454,671	210,621	46%
Pipelayers, Plumbers, Pipefitters, Steamfitters	586,262	124,653	21%
Drywall Installers, Ceiling Tile Installers, Tapers	152,578	98,365	64%
First-Line Supervisors of Construction Workers	702,618	88,716	13%
Roofers	186,972	76,148	41%
Electricians	981,408	74,820	8%
Carpet, Floor, Tile Installers & Finishers	135,336	71,152	53%
Construction Equipment Operators <sup>1</sup>	432,194	64,791	15%
Brickmasons, Blockmasons, Stonemasons	118,765	45,451	38%
Insulation Workers	37,180	22,902	62%
Plasterers and Stucco Masons	32,822	22,043	67%
Helpers, Construction Trades	44,607	19,990	45%
Cement Masons, Concrete Finishers, Terrazzo Workers	42,905	18,213	42%

<sup>1</sup>Except Paving, Surfacing, Tamping Equipment

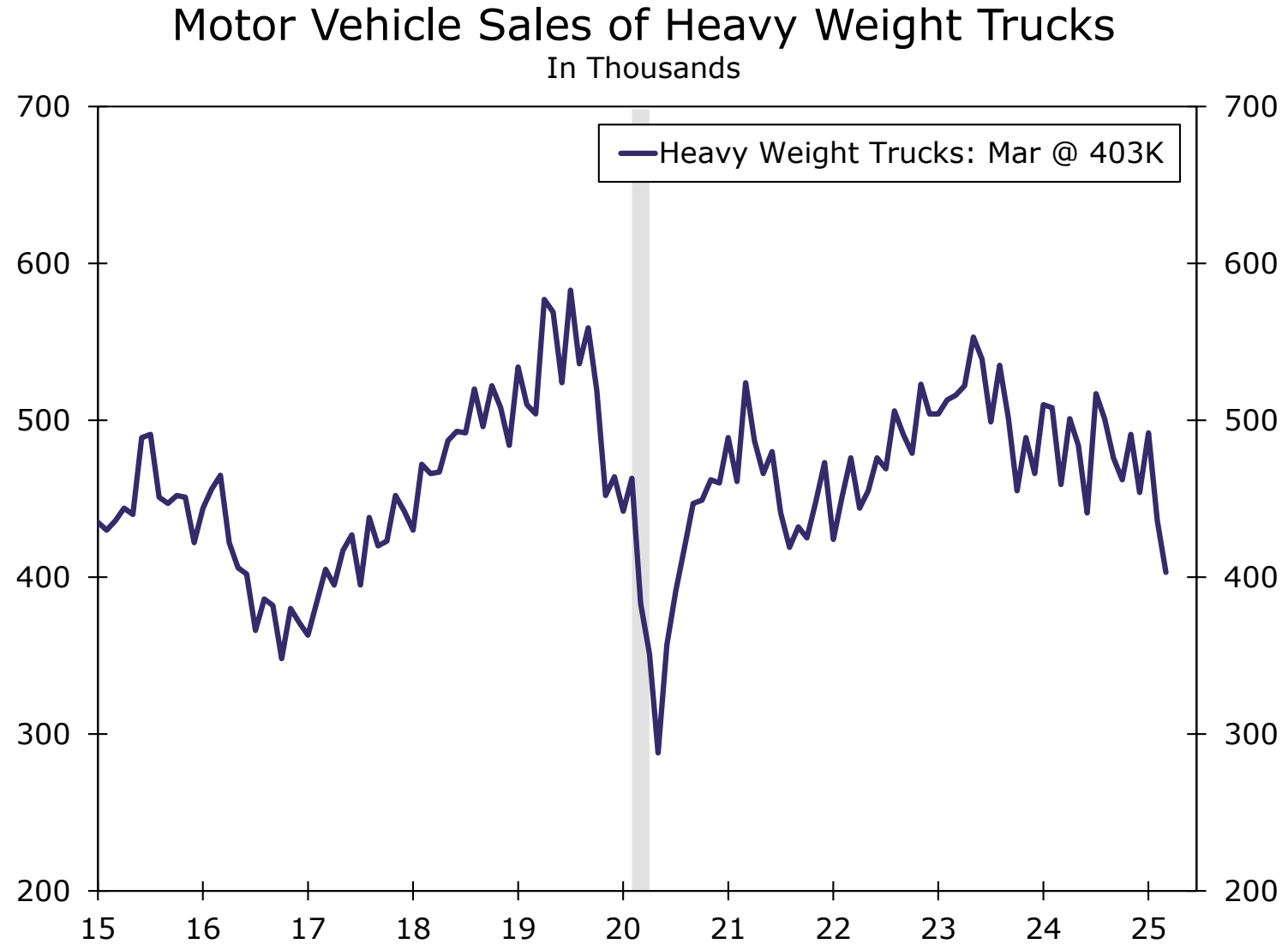
Tighter immigration restrictions could reduce the construction labor force and generate higher labor costs.



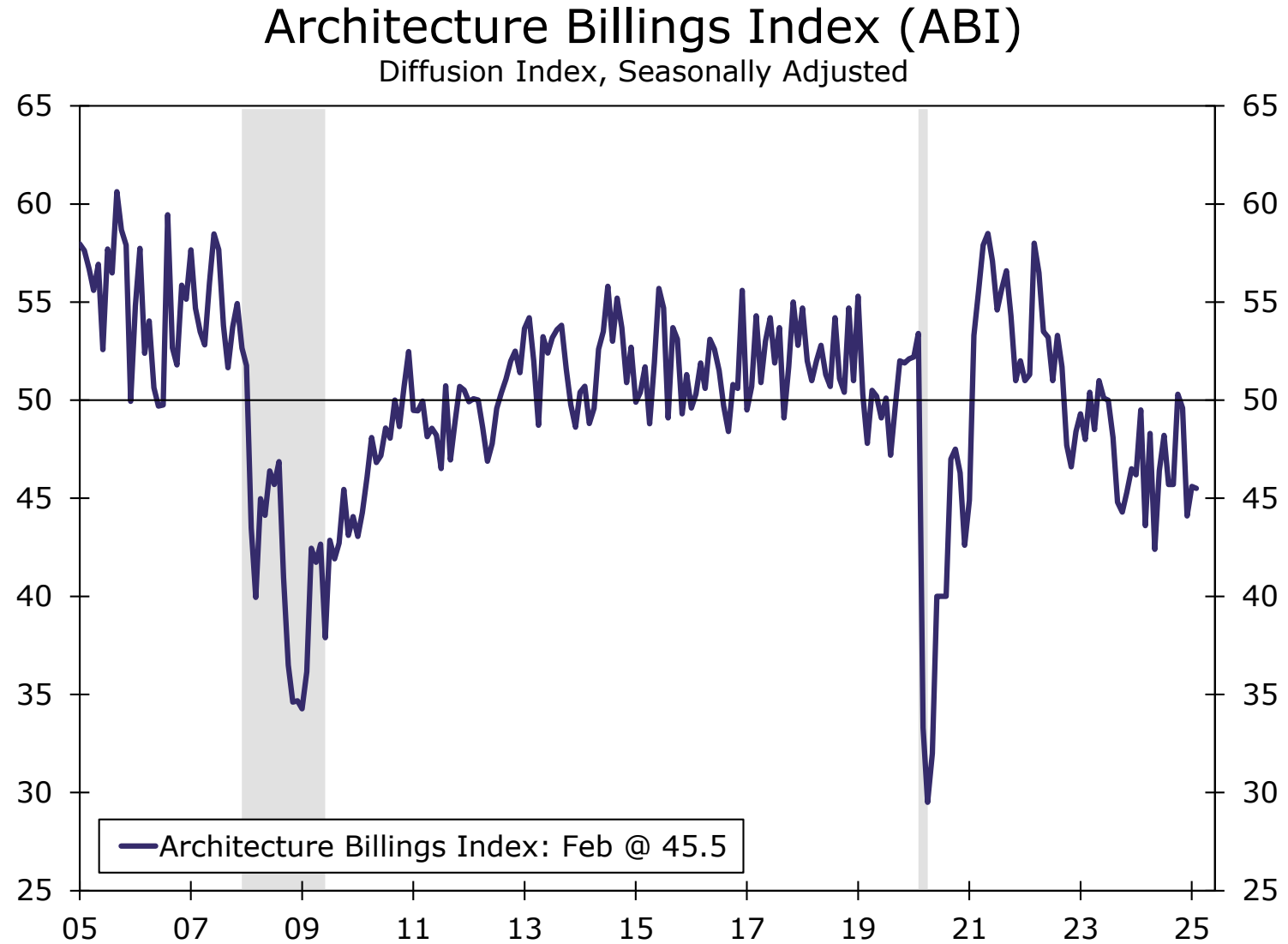
Elevated interest rates are affecting single-family and multifamily construction, though in different ways.



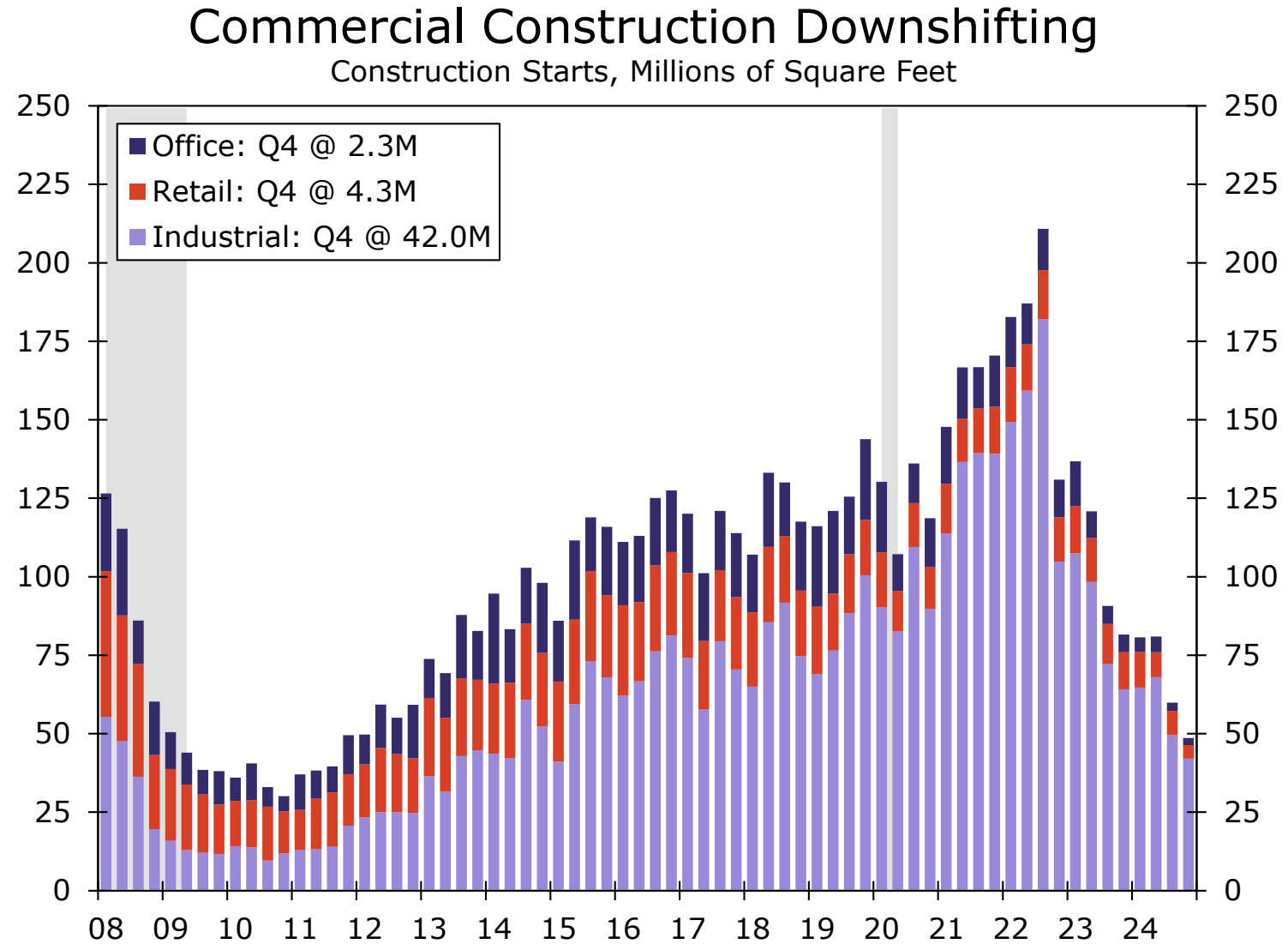
Heavy weight truck sales have declined recently, suggesting weaker construction activity.



The forward-looking ABI also suggests a downshift in construction.



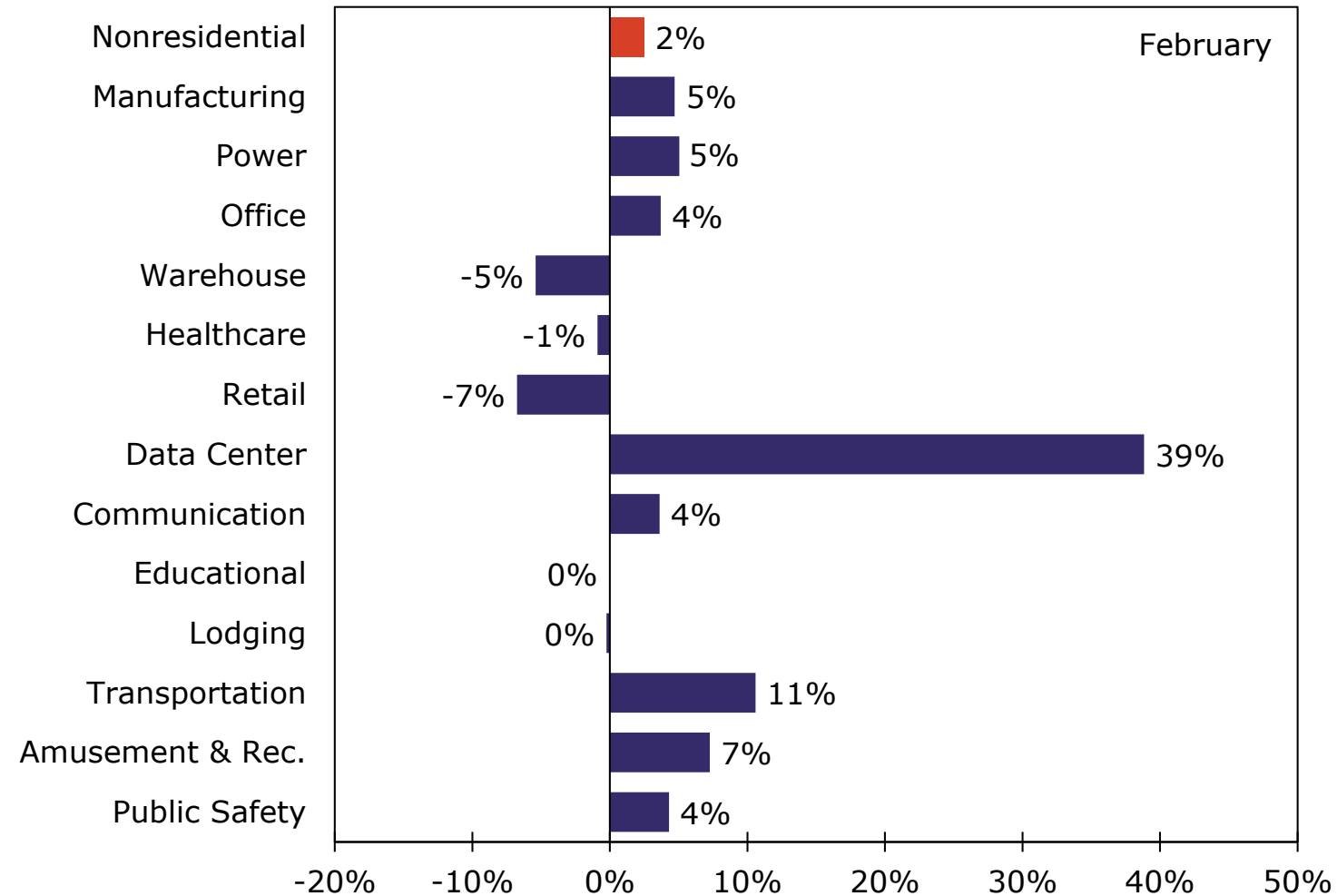
Commercial starts remain low amid high interest rates and increased vacancy rates.



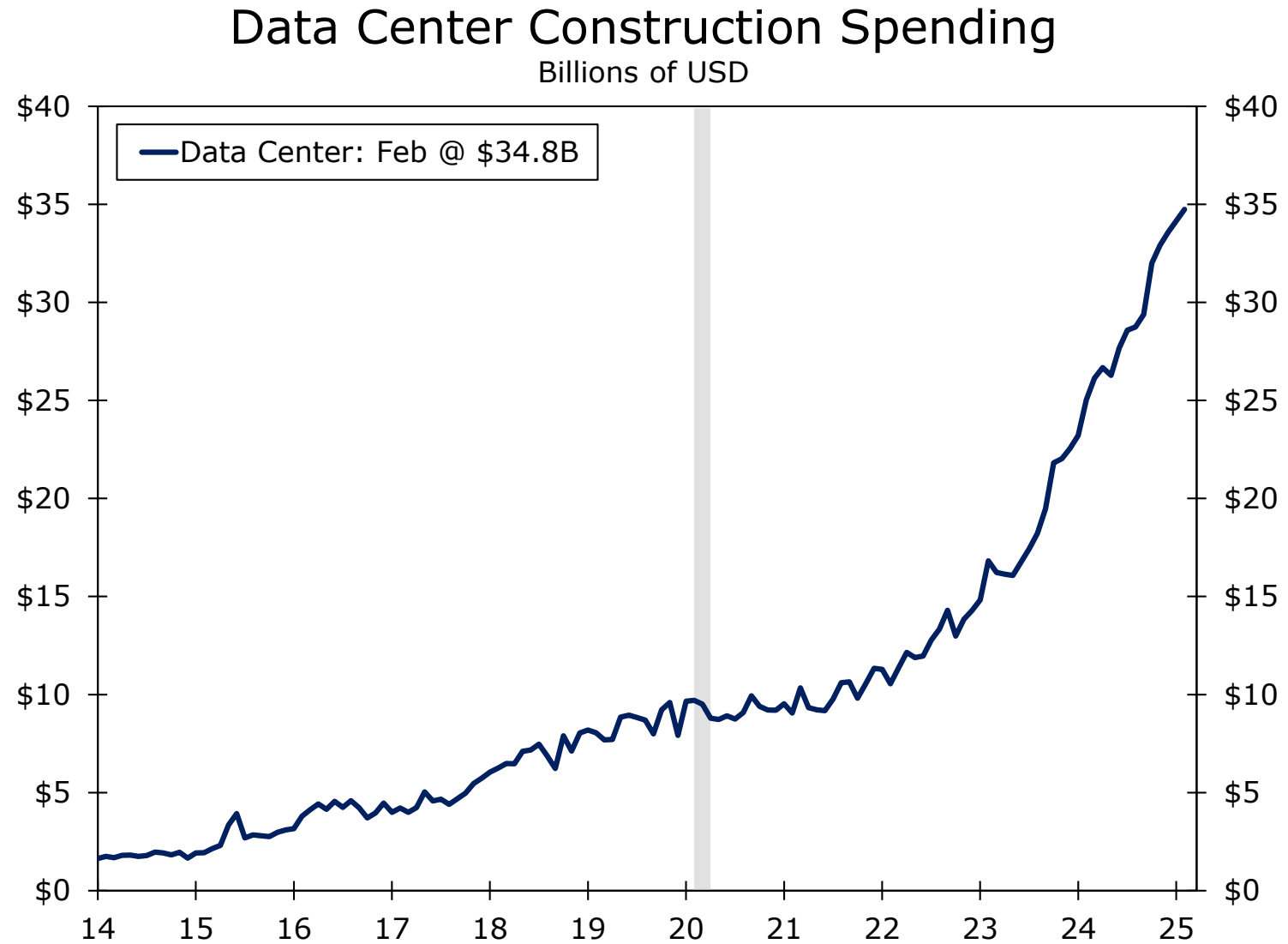
Not every segment  
of nonresidential  
construction is  
contracting.

## Private Nonresidential Construction Put-in-Place

Year-over-Year % Change, Seasonally Adjusted, Ranked by Spending

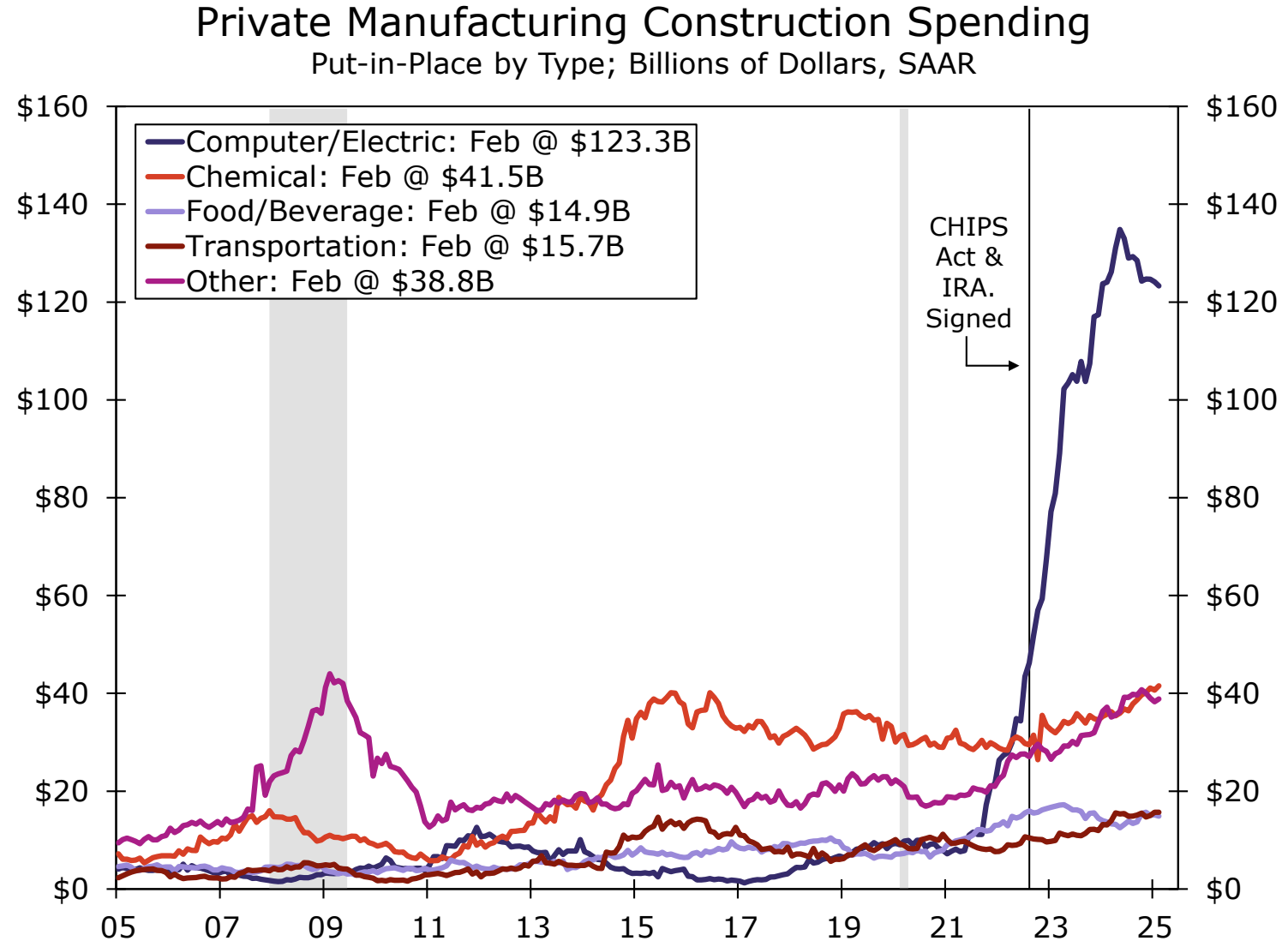


Data center construction remains a growth segment as firms race to expand digital infrastructure.

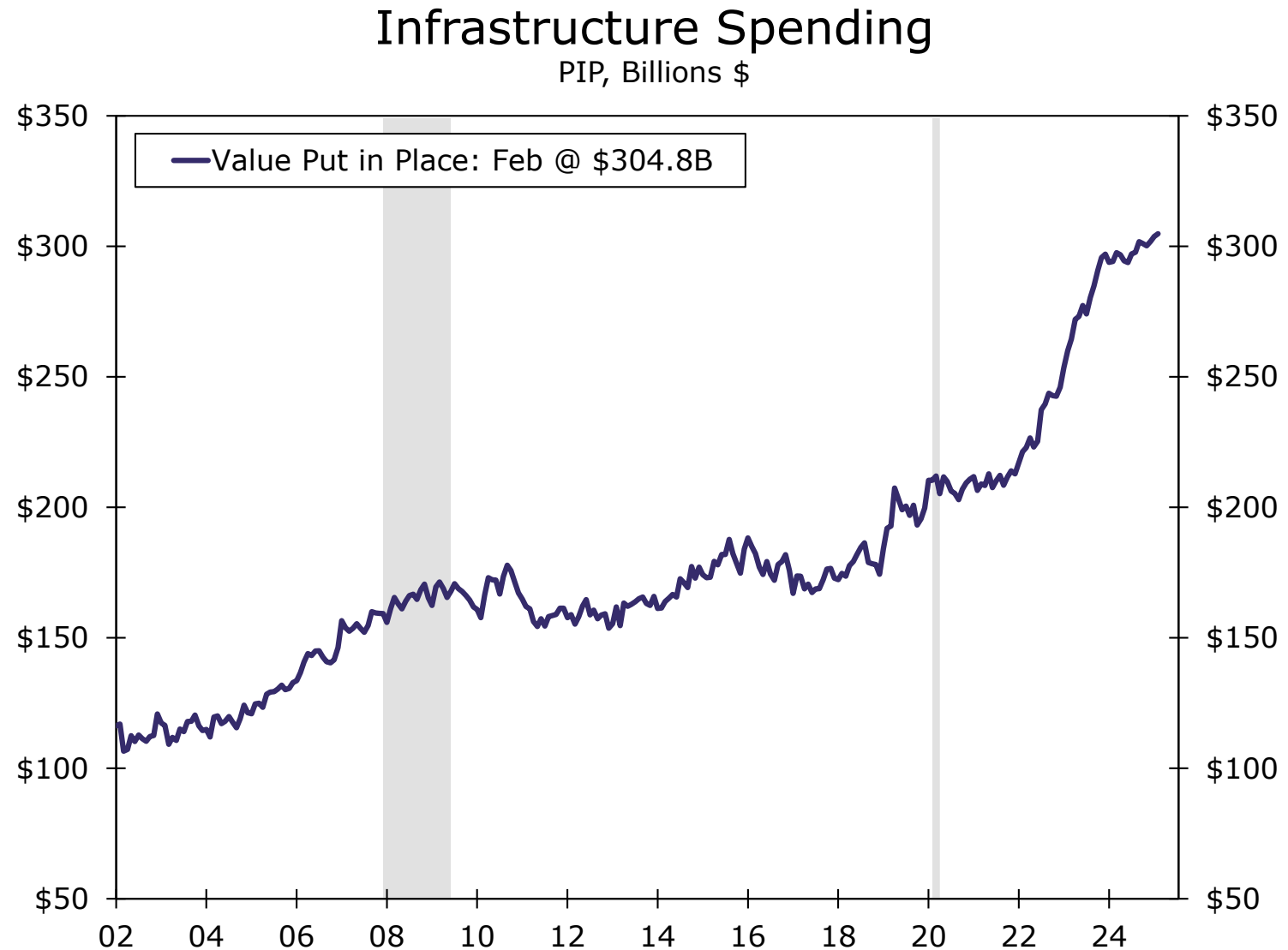




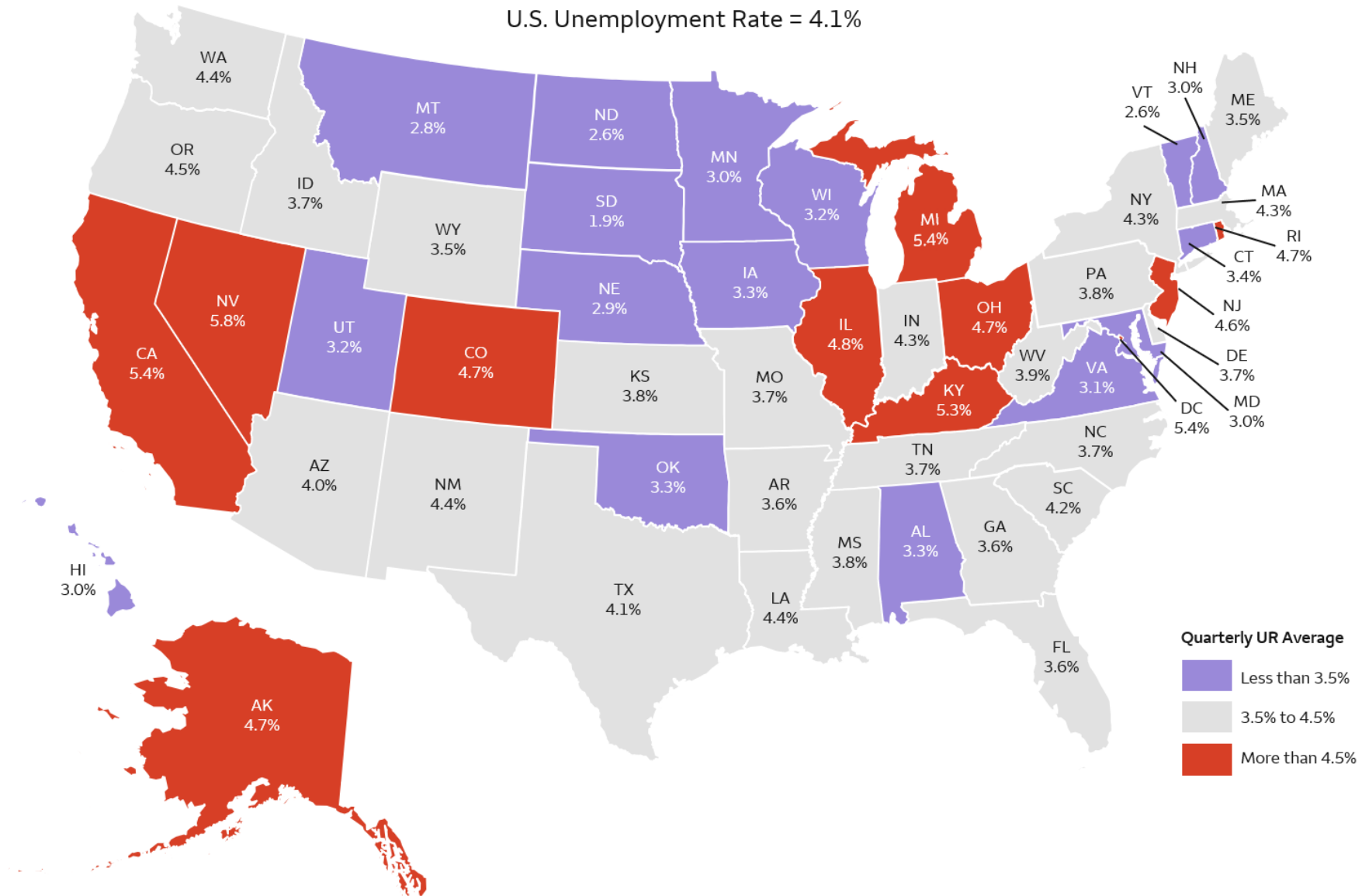
Factory construction is downshifting somewhat after rising sharply in recent years.



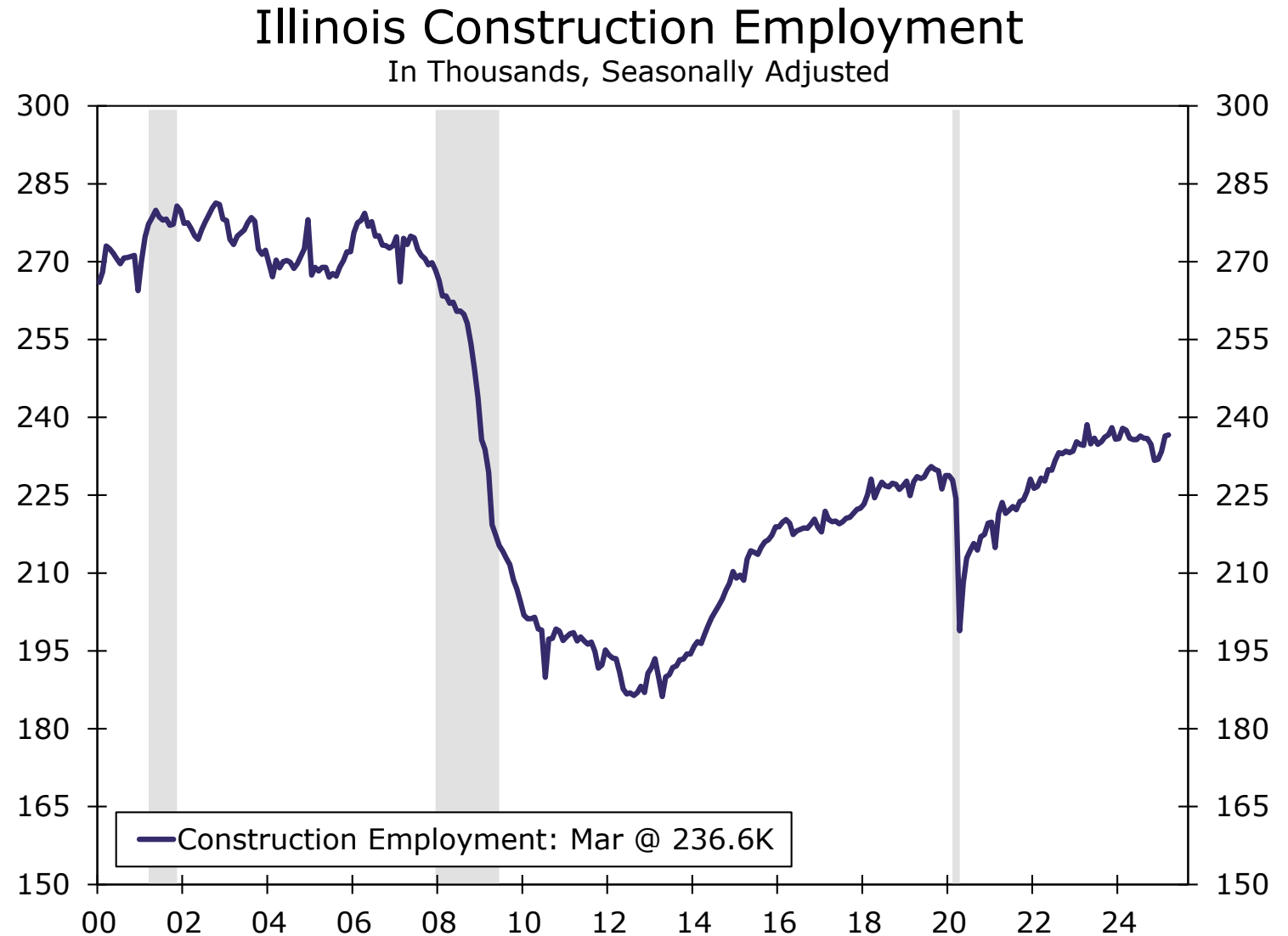
Updating the nation's infrastructure has been a focus for policymakers.



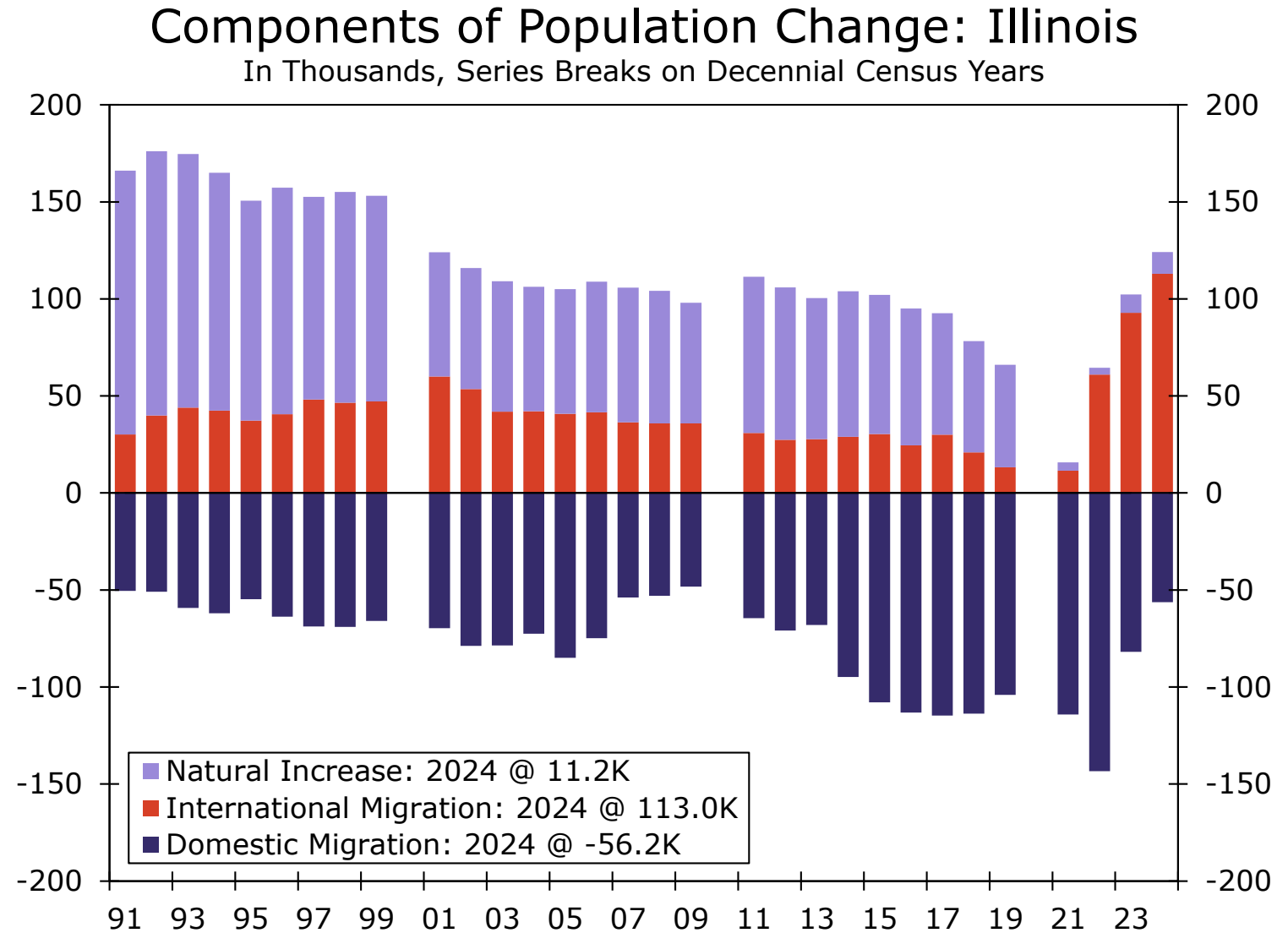
# State Unemployment Rates – Q1 2025



Construction employment remains buoyant, indicating a steady pace of construction in the state.



Population growth is normalizing in Illinois thanks to more immigration and fewer resident outflows.



## Wells Fargo U.S. Economic Forecast

	Actual				Forecast								Actual		Forecast	
	2024				2025				2026				2023	2024	2025	2026
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Real Gross Domestic Product <sup>1</sup>	1.6	3.0	3.1	2.4	-0.3	1.7	-0.9	-1.1	2.6	3.0	2.4	2.6	2.9	2.8	1.1	1.5
Personal Consumption	1.9	2.8	3.7	4.0	1.8	2.0	-1.2	-0.3	2.3	2.9	2.7	2.7	2.5	2.8	2.0	1.5
Business Fixed Investment	4.5	3.9	4.0	-2.9	9.8	-0.2	-5.0	-3.0	5.9	5.4	4.4	4.6	6.0	3.6	1.6	2.0
Equipment	0.3	9.8	10.8	-8.7	22.5	-0.9	-7.9	-3.5	8.2	7.3	5.1	5.3	3.5	3.4	3.9	2.5
Intellectual Property Products	7.5	0.7	3.1	-0.5	4.1	2.0	-2.9	-2.7	5.8	5.1	4.3	4.4	5.8	3.9	1.2	2.4
Structures	6.3	0.2	-5.0	2.9	0.4	-3.8	-3.4	-2.9	1.5	2.1	3.3	3.7	10.8	3.5	-1.3	0.2
Residential Investment	13.7	-2.8	-4.3	5.5	1.3	-2.4	-2.7	-1.9	1.2	2.1	3.2	3.4	-8.3	4.2	-0.3	0.4
Government Purchases	1.8	3.1	5.1	3.1	-1.4	0.7	1.5	1.5	1.6	1.6	1.6	1.7	3.9	3.4	1.4	1.5
Net Exports <sup>2</sup>	-0.6	-0.9	-0.4	0.3	-4.8	2.3	0.9	0.4	-0.5	-0.9	-0.8	-0.6	0.5	-0.4	-0.9	-0.1
Inventories <sup>2</sup>	-0.5	1.1	-0.2	-0.8	2.3	-2.0	-0.4	-1.0	0.3	0.7	0.3	0.2	-0.4	0.0	-0.1	-0.1
Nonfarm Payroll Change <sup>3</sup>	196	133	133	209	152	50	-40	-62	35	80	123	160	216	168	25	100
Unemployment Rate	3.8	4.0	4.2	4.1	4.1	4.3	4.5	4.6	4.7	4.6	4.5	4.4	3.6	4.0	4.4	4.5
PCE Deflator <sup>4</sup>	2.7	2.6	2.3	2.5	2.5	2.4	2.6	2.8	2.7	2.7	2.6	2.3	3.8	2.5	2.6	2.6
Quarter-End Interest Rates <sup>5</sup>																
Federal Funds Target Rate <sup>6</sup>	5.50	5.50	5.00	4.50	4.50	4.25	3.75	3.25	3.25	3.25	3.25	3.25	5.23	5.27	3.94	3.25
Secured Overnight Financing Rate	5.34	5.33	4.96	4.49	4.41	4.15	3.65	3.15	3.15	3.15	3.15	3.15	5.01	5.15	3.84	3.15
Prime Rate	8.50	8.50	8.00	7.50	7.50	7.25	6.75	6.25	6.25	6.25	6.25	6.25	8.23	8.27	6.94	6.25
Conventional Mortgage Rate	6.82	6.92	6.18	6.72	6.65	6.35	6.15	6.00	6.10	6.20	6.20	6.25	6.80	6.72	6.29	6.19
3 Month Bill	5.46	5.48	4.73	4.37	4.32	3.90	3.35	3.15	3.15	3.15	3.15	3.20	5.28	5.18	3.68	3.16
6 Month Bill	5.38	5.33	4.38	4.24	4.23	3.65	3.25	3.15	3.15	3.15	3.20	3.25	5.28	5.00	3.57	3.19
1 Year Bill	5.03	5.09	3.98	4.16	4.03	3.50	3.20	3.20	3.30	3.35	3.40	3.45	5.08	4.69	3.48	3.38
2 Year Note	4.59	4.71	3.66	4.25	3.89	3.50	3.30	3.25	3.45	3.60	3.65	3.70	4.58	4.37	3.49	3.60
5 Year Note	4.21	4.33	3.58	4.38	3.96	3.65	3.45	3.35	3.50	3.65	3.75	3.80	4.06	4.13	3.60	3.68
10 Year Note	4.20	4.36	3.81	4.58	4.23	4.00	3.85	3.75	3.90	4.05	4.10	4.15	3.96	4.21	3.96	4.05
30 Year Bond	4.34	4.51	4.14	4.78	4.59	4.50	4.40	4.35	4.45	4.55	4.60	4.65	4.09	4.41	4.46	4.56

Forecast as of: April 08, 2025

<sup>1</sup> Compound Annual Growth Rate Quarter-over-Quarter

<sup>4</sup> Year-over-Year Percentage Change

<sup>2</sup> Percentage Point Contribution to GDP

<sup>5</sup> Quarterly Data - Period End; Annual Data - Annual Averages

<sup>3</sup> Average Monthly Change

<sup>6</sup> Upper Bound of the Federal Funds Target Range

Tariff Tracker: U.S. Tariffs On...					
Estimates Based on 2024 Annual Trade Levels; Billions of USD					
Country	Date Effective	Effective Tariff Rate	Tariff Details	Tariff Revenue	Dutiable Share of U.S. Imports
Implemented					
Various	Jan-2018	1%	15% Solar Panels	\$0.2	1%
Various	Mar-2018, Mar-2025	25%	25% Steel	\$6.0	1%
Various	Mar-2018, Mar-2025	25%	25% Aluminum	\$4.6	1%
China	2018 & 2019, Sep-2024, Feb, Mar, Apr-2025	113%	25% Intermediate Inputs & Capital Equipment, 7.5% Consumer Goods, 125% Reciprocal Baseline Tariff, Additional 20% All Goods	\$496.9	10%
Mexico	Mar-2025	9%	25% All Non-USMCA Goods, ex Autos (1)	\$46.2	6%
Canada	Mar-2025	12%	25% All Non-USMCA non-energy Goods, ex Autos (2), 10% on Energy Goods	\$48.2	4%
Various	Apr-2025, May-2025	20%	25% Autos & Parts, non-USMCA (3)	\$68.7	8%
Various	Apr-2025	10%	10% Baseline All Countries (4)	\$112.1	34%
Avg. U.S. Trade-Weighted Tariff Rate:		24.8%			
Total Annual Tariff Revenue Collected & Share of U.S. Imports:				\$783.0	65%
Proposed					
Various	Jul-2025	28%	11-50% Reciprocal Baseline Tariffs	\$0.0	28%
Mexico	Apr-2025	7%	25% All USMCA Goods, ex Autos (1)	\$35.7	4%
Canada	Apr-2025	4%	25% All USMCA non-energy Goods, ex Autos (2)	\$17.2	2%
Various			Copper		1%
Various			Lumber Articles		
Various			Pharmaceuticals		
Total Annual Tariff Revenue Collected & Share of U.S. Imports:				\$52.9	35%
Implemented & Proposed					
Avg. U.S. Trade-Weighted Tariff Rate:		26.4%			
Total Annual Tariff Revenue Collected & Share of U.S. Imports:				\$835.9	72%

As of 4/14/2025

**Notes:** Estimates represent upper bounds as they rely on 2024 trade data and do not account for future change in trade flows. Dutiable share of imports represent estimated share of 2024 total U.S. imports subject to tariffs. Sectoral tariffs (Steel, Aluminum, Autos, etc.) per country fall within the sectoral tariff line and are removed from the individual country calculations. Individual country calculations also exclude products detailed in Annex II of the April 2, 2025 White House Executive Order and those detailed in CSMS #64724565 (April 11, 2025).

(1) We estimate 38% of Mexican goods imports (ex autos/parts) were compliant with USMCA in 2024.

(2) We estimate 30% of Canadian goods imports (ex autos/parts) were compliant with USMCA in 2024.

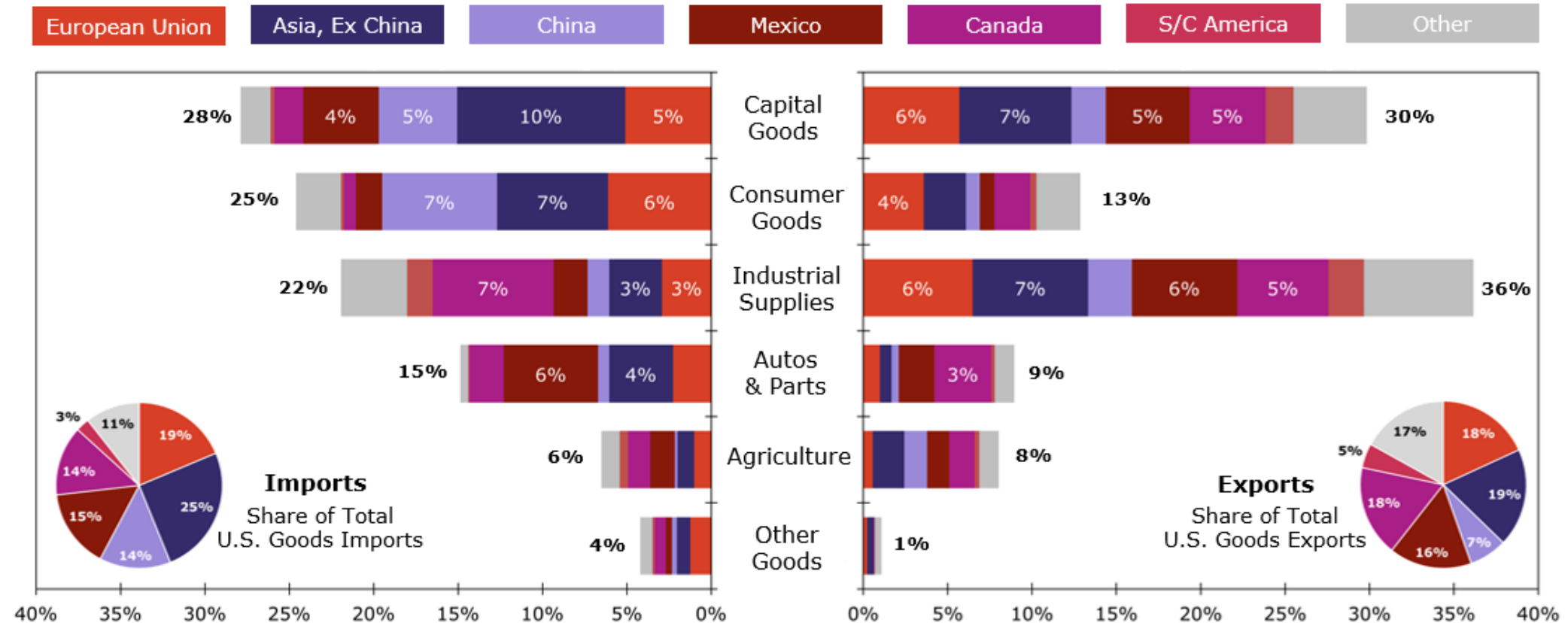
(3) 41% of autos & parts imports came from MX and CA in 2024, of which 92% of MX/CA autos and 68% of MX/CA parts were USMCA compliant in 2024. The tariff is also set to apply to non-US content in USMCA autos/parts. We utilize AAPC estimates that ~35% of MX autos and 50% of CA autos are US content, which in addition to non-USMCA compliant autos, suggests ~64% of MX/CA autos will be tariffed. For now, we assume all USMCA parts are duty free.

(4) 10% baseline applied to all countries other than Mexico, Canada, and China. Products detailed in Annex II and CSMS #64724565 (April 11, 2025) are excluded from the calculations.

Tariff exposure depends on which countries and goods are exposed.

## U.S. Goods Trade Deconstructed

Share of 2023 Total U.S. Goods Imports & Exports by End-Use Category & Trade Partner; Ranked by Import Shares





# Wells Fargo Economics

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