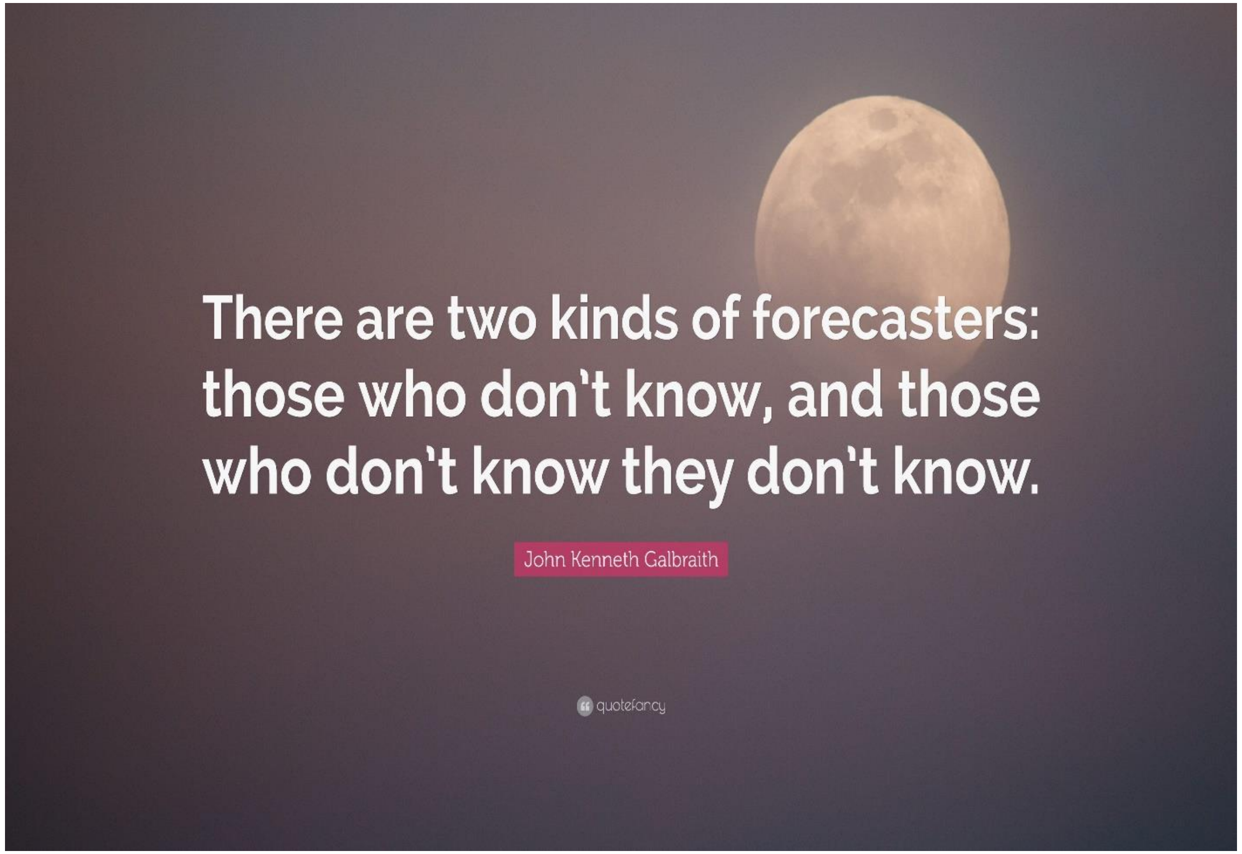
Economic Update for June 17 at about 1:00. No telling what it will be at 5:00



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Crisis of the Week

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- **Israeli/Iranian War**
  - Ostensibly over nuclear capabilities in Iran
  - Is regime change in Iran the real goal
- **Oil Market**
  - $72 a barrel – not as high as was the case earlier in the year
  - Saudi decision to boost production
  - Israel attacking domestic production
  - Straits of Hormuz essentially shut off

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Yikes! Does ANYBODY Have a Clue?

- The United States Court of International Trade, established under Article III of the Constitution, has nationwide jurisdiction over civil actions arising out of the customs and international trade laws of the United States.
- Decisions can be appealed and they already have been but the court can’t be ignored and decisions are enforceable
- USCIT basically created to protect US from discriminatory trade laws and practices by other nations but holds the US to account as well. The key issue is whether Trump can use the International Emergency Economic Powers Act of 1977. The USCIT has held that there is not a sufficient threat. IEEPA is not designed to impose tariffs. It was created primarily to deal with financial attacks
- Appeals process will likely drag on for months and that essentially paralyzes everybody.
- What else can Trump do?

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Options?

- The administration has options that it can use, we just don't know at this point what it will try to execute and how quickly. Options on the table for the administration:
- An appeal has already been filed and could get special provisional reviews at the Supreme Court (but a Supreme Court ruling could take months)
- Invoke Section 122 of the Trade Act of 1974. Does not require a formal investigation – would be the quickest path. Tariffs could be as high as 15% under this provision – but only for 150 days
- Invoke Section 301 of the Trade Act of 1930. Requires a lengthy investigation on key US trading partners and requires bureaucratic wrangling – could take weeks or months to put in place
- Section 338 of the Trade Act of 1930. Allows imposing tariffs of up to 50% on countries that “discriminate against the US”. This has never been used before, and challenges to it could be lengthy

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Most Immediate Changes

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- 90-day deal with China. Tariffs on Chinese goods reduced from 145% to 30% (20% connected to fentanyl plus 10% universal). Tariffs on US goods reduced to 10%.

  New questions emerging daily
- Tariff adjustments on auto industry – good news for Mexico, Canada, Japan and South Korea but details are fuzzy. Now the steel and aluminum tariffs are back – 50%
- New relationship with Canada and Mark Carney?
- Scott Bessent on the rise
- New world allies with influence. Giorgia Meloni from Italy, Claudia Scheinbaum from Mexico
- Serious economic concerns emerging – GDP in negative territory
- Consumer confidence at very low ebb – close to pandemic numbers

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Tariff Scenario 1: Negotiated Non-Tariff Barrier (NTB) Reforms with Moderate Tariffs (highest likelihood)

- **Average tariffs stabilize at 8-12% alongside @$150B in generated US exports driven by NTB removals**
- **Key Drivers:**
  - Midterm pressure: most mid-term senate and house seat growth would likely require US GDP growth >2% and unemployment <4.5%
    - 12 vulnerable GOP districts tied to import-reliant industries.
  - NTB focus: 73% of U.S. export barriers are non-tariff, offering higher ROI per negotiation – which means that **there could be more room for lower tariffs – as long as the NTB's are in place**.

- **US GDP Estimate under this scenario: @1.8% (down from 2.4% estimates prior to the reciprocal tariff announcement) and 2.3% in 2026.**
- **Global GDP Estimate under this scenario: @2.8% (IMF) and 3.0% in 2026**
- **By itself – does not include impact of a tax deal (15% corporate and depreciation on industrial projects), sped up permitting, etc.**

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Tariff Scenario 2: Limited Escalation with Carveouts (moderate Probability)

- **Average tariffs inflated at 15-18% but 40% of imports find exemptions (in 2018/2019 exemptions fell on 30% of all imports)**
  - This is the current average tariff rate with China's still at 145%

- **Many exemptions would be required under this scenario to protect vulnerable industries:**
  - For example: Auto/energy exemptions: Protect Michigan (3.9% unemployment) and Texas oil exports

- **Would likely require more than $300B in farm export protection packages to offset Chinese retaliation (based on a similar experience in the 2018/2019 period and a subsequent $29B bailout package that followed).**

- **US GDP Estimate under this scenario: @1.2% (down from 2.4% estimates prior to the reciprocal tariff announcement) and 0.4% in 2026.**
- **Global GDP Estimate under this scenario: @2.5% (IMF/WTO) and 2.1% in 2026**

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Tariff Scenario 3: Full Rollback (little to no Probability)

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This would only kick-in if there were an extreme economic recession, and data showing dire economic consequences of current US/China tariff pressures. There is very little political support for this and would signal a failure by the Trump Administration – making this very unlikely.

- **Conditions: if Q2 GDP <1% or S&P 500 <4,200**
- **Current Data Showing This Unlikely at the Moment:**
  - Consumer spending growth at 4.2% (Q4 2024)
  - Unemployment rate of <4.6%
  - Job openings of 7.4 million (6 is balanced)
  - Wage growth of >3%
  - US manufacturing and services PMIs still positive
  - Treasury yield linkage: Sub-4.3% rates enable 0.5% higher GDP growth buffer vs April models

- **US GDP Estimate under this scenario: @2.4% after recovery from the initial tariff shocks since this scenario is driven by a sharp recession signal in Q2 and 2.7% in 2026.**
- **Global GDP Estimate under this scenario: @3.1% (OECD) and 3.3% in 2026**

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“Lack of Permanence” Can’t Help Reshoring Decision-Making?

- **Few actions have thus far become legislation.**
  - A swipe of the pen reverses them.
  - Tough to make a long-term, multi-million-dollar decision based on this.

- **Historically, 15-20% of a prior president’s orders were reversed by a new one.**
  - Trump has reversed 33% of Biden’s
  - Biden reversed 40% of Trump’s.

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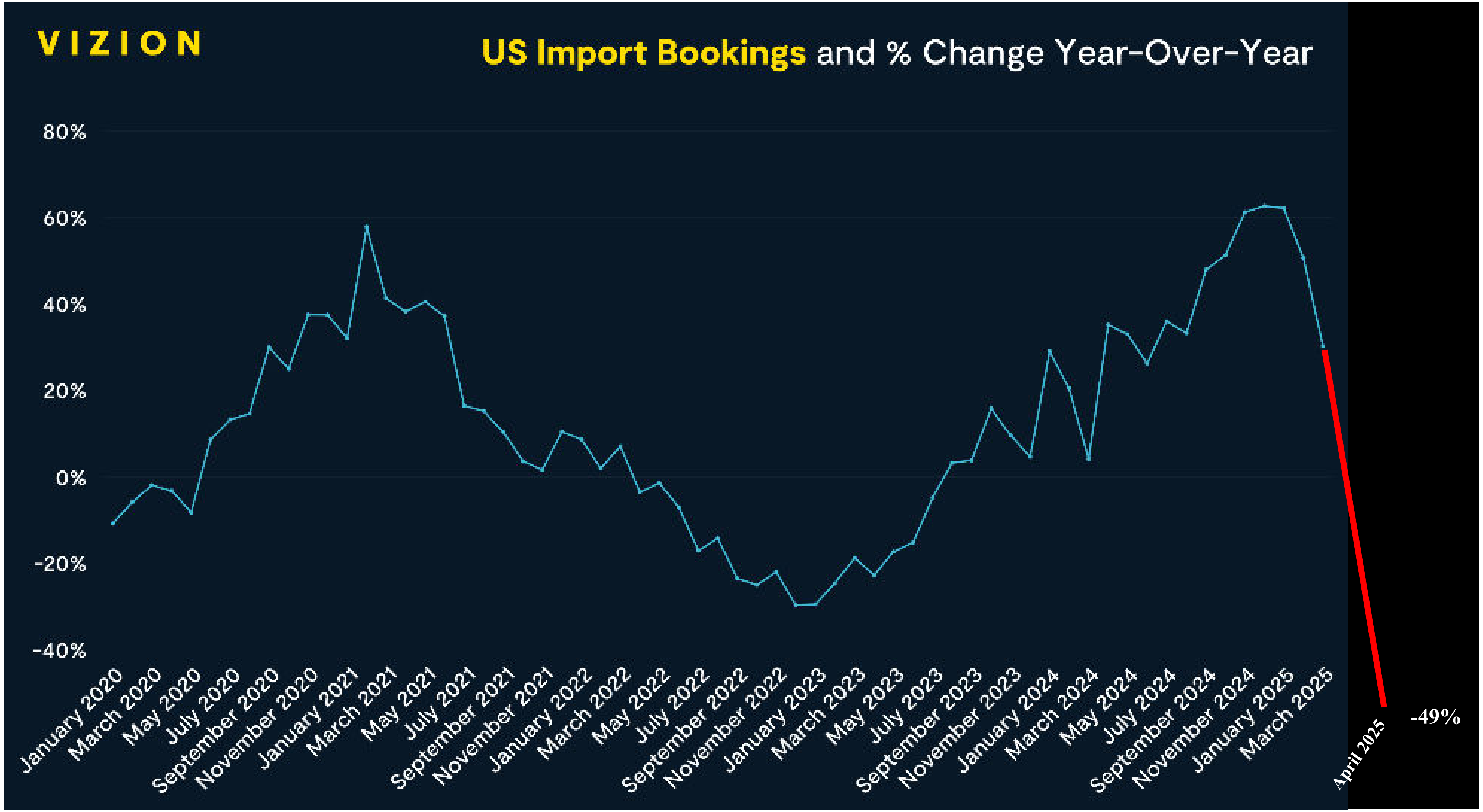
The Damage is Being Done Now



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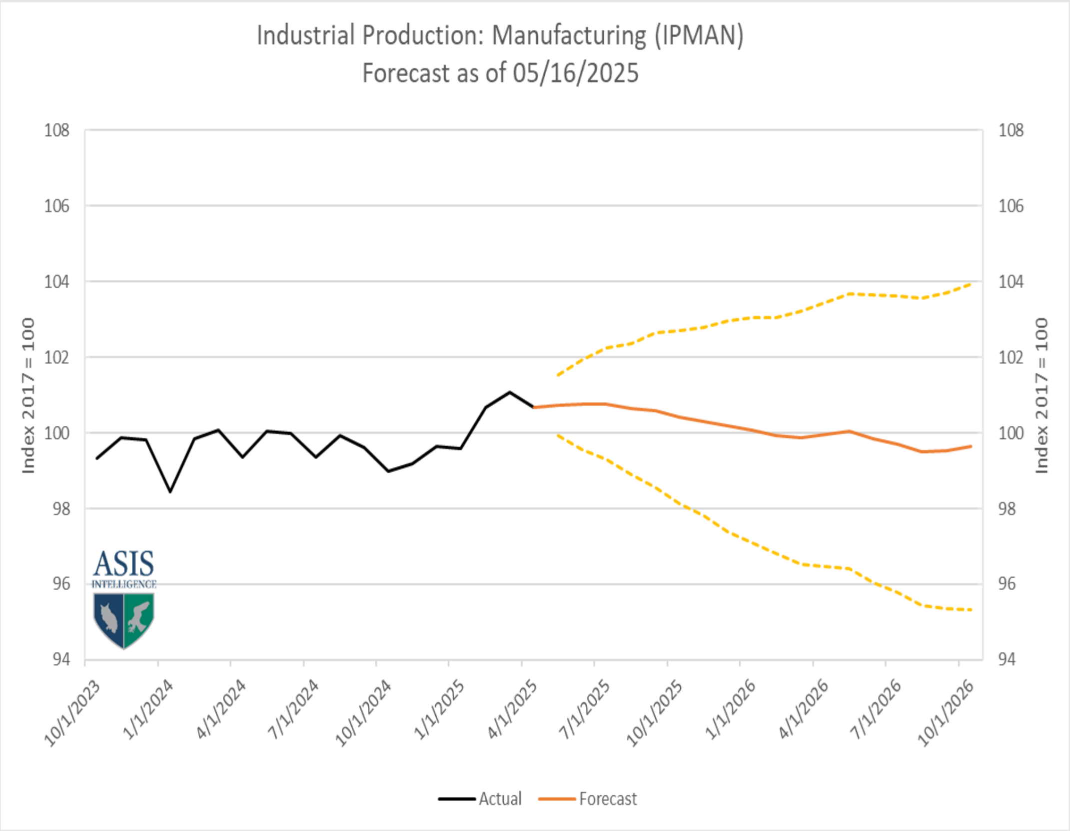
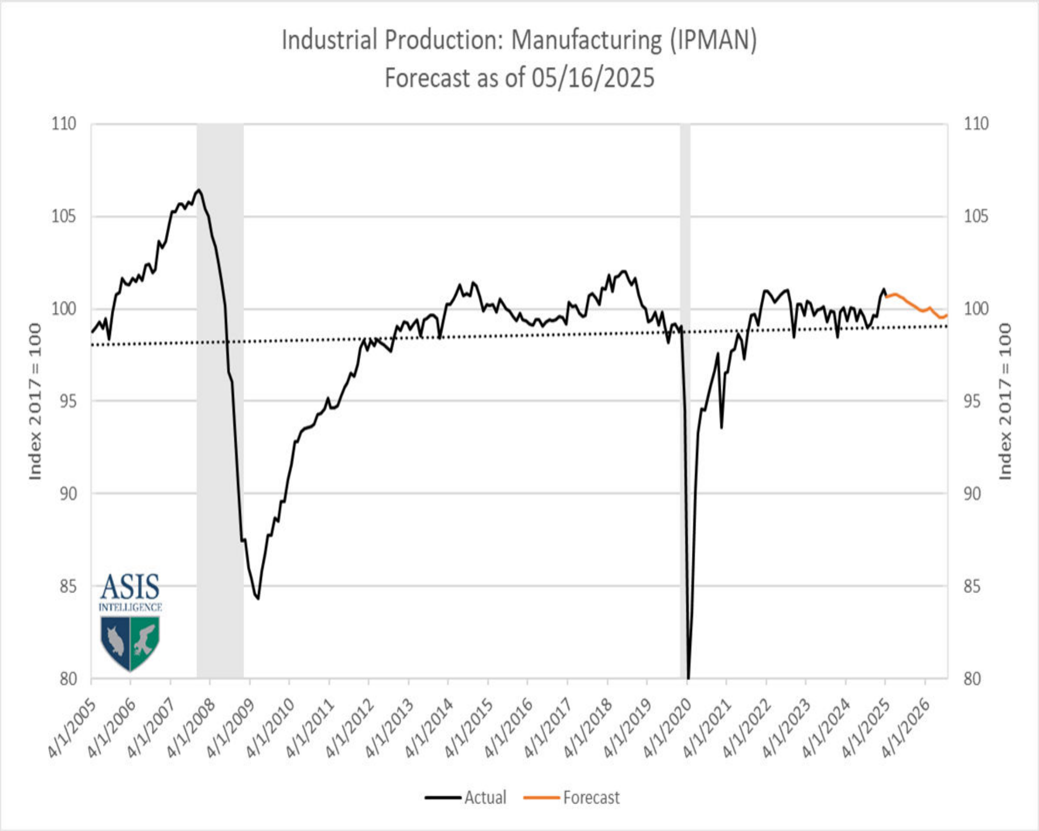
Manufacturing





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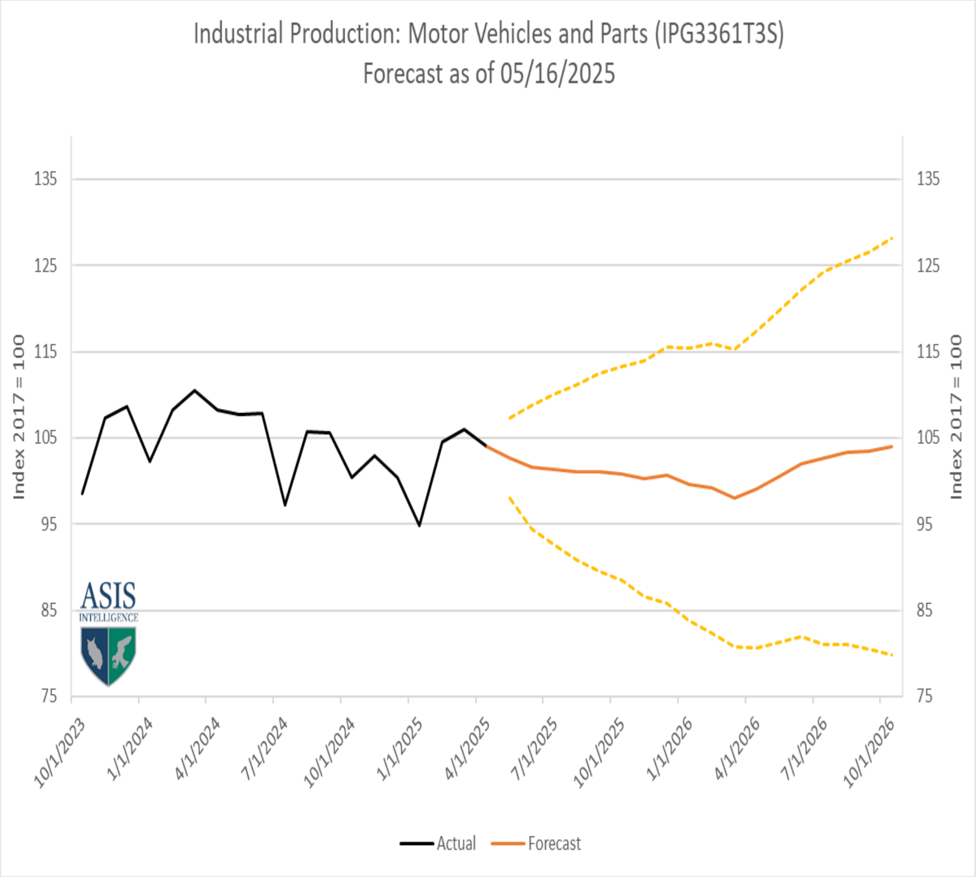
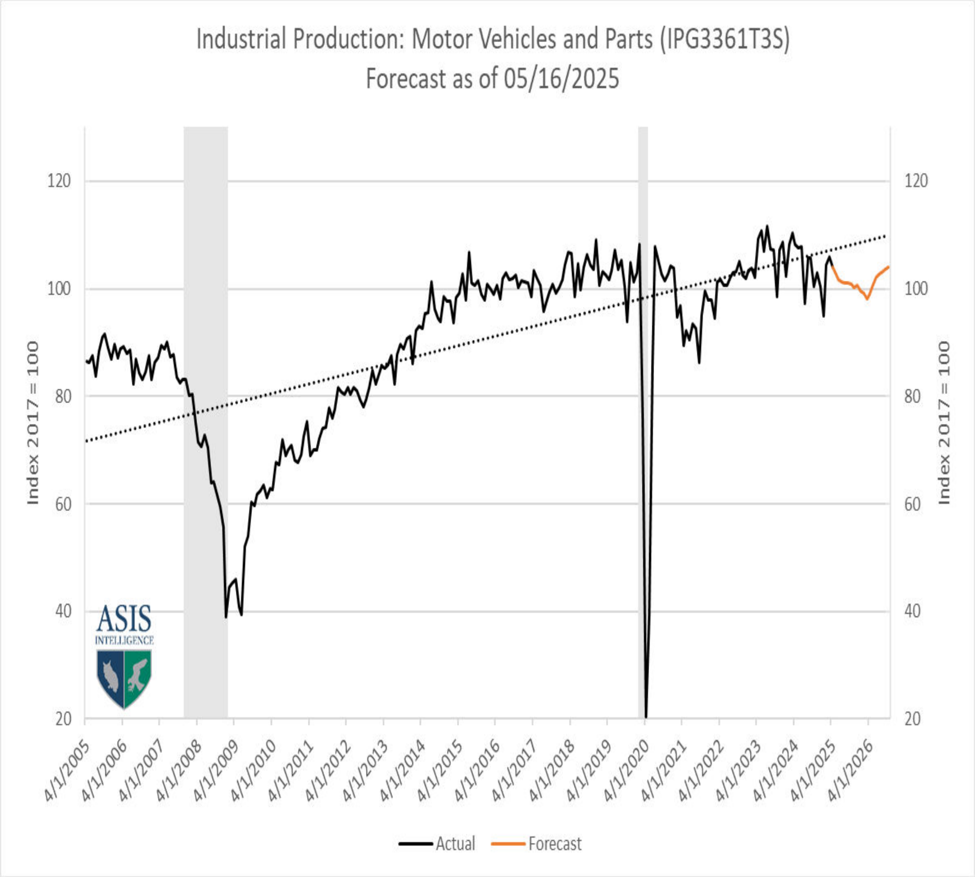
Motor Vehicles





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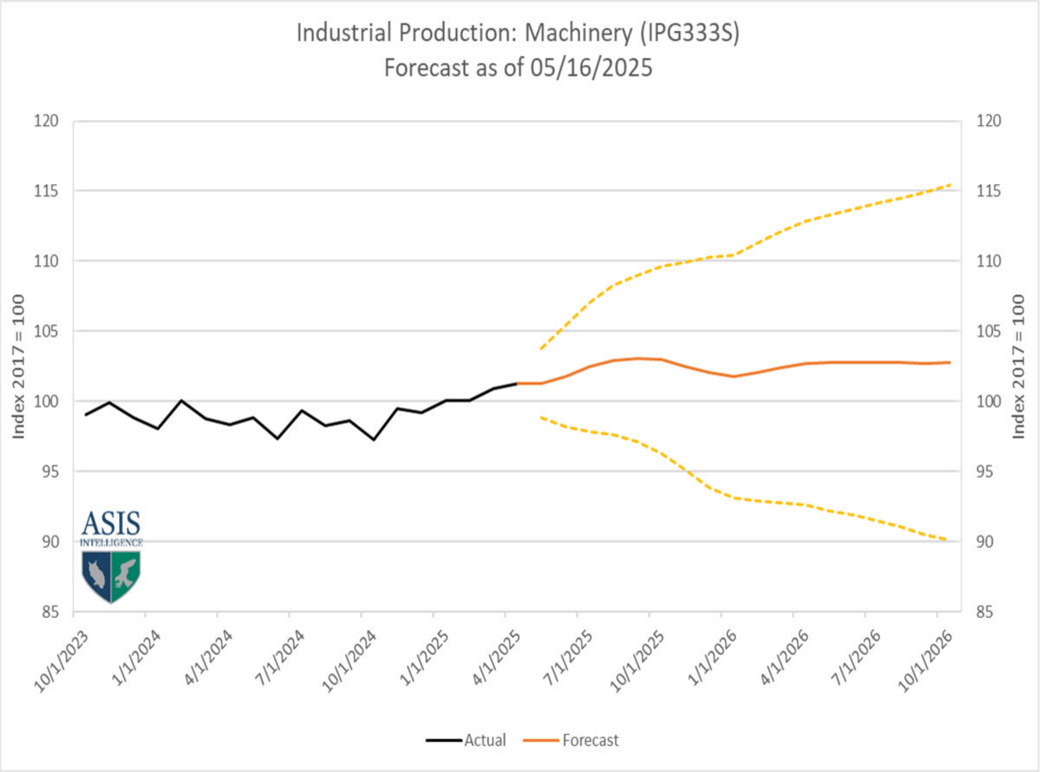
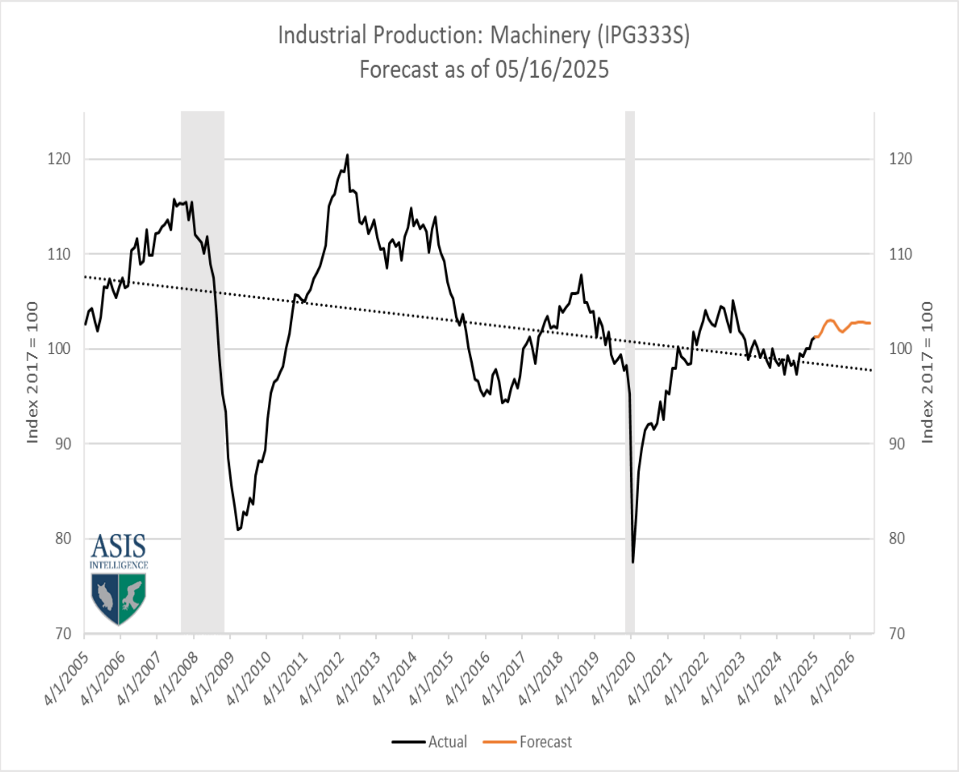
Machinery





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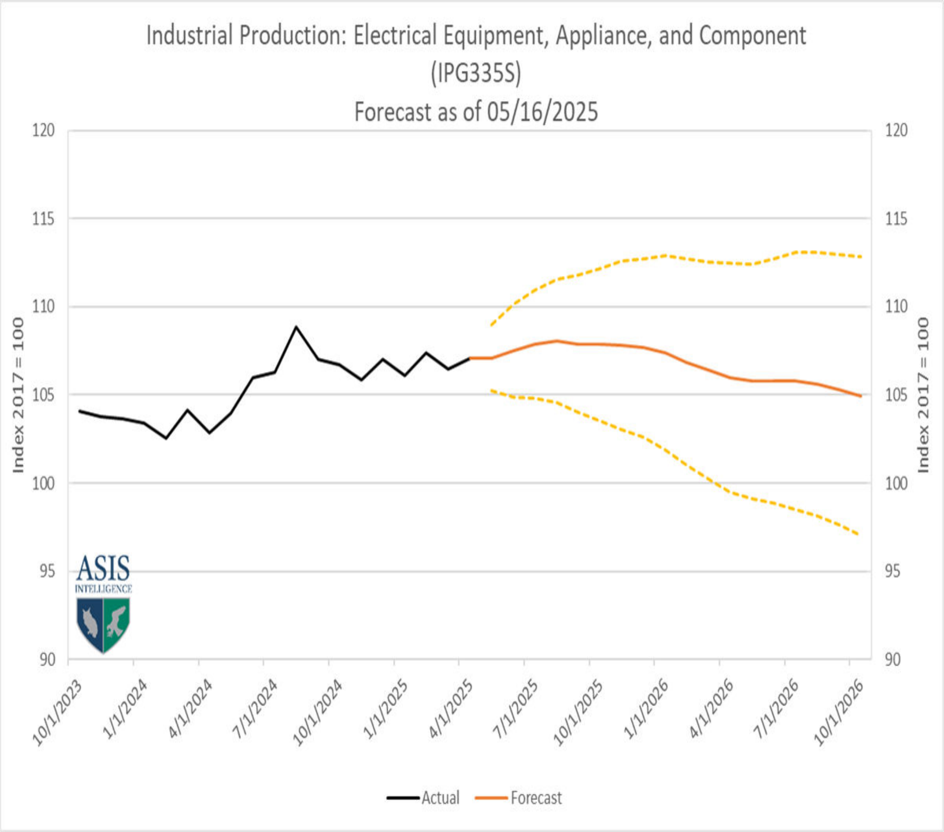
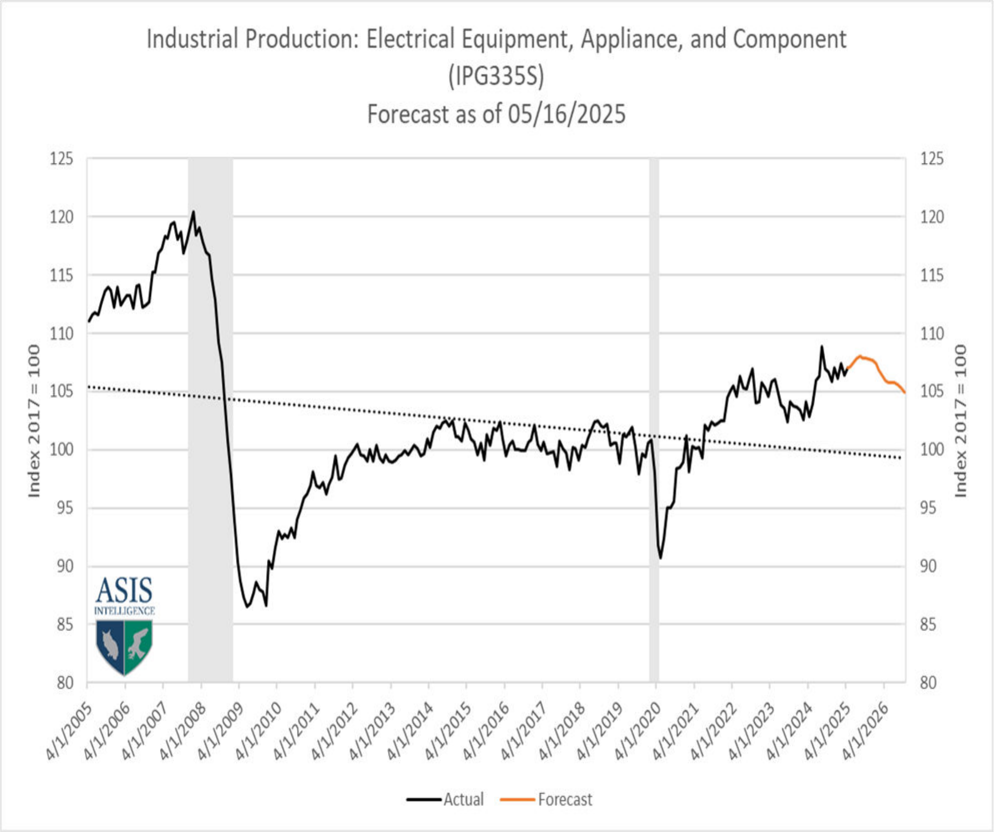
Electrical Equipment and Appliances





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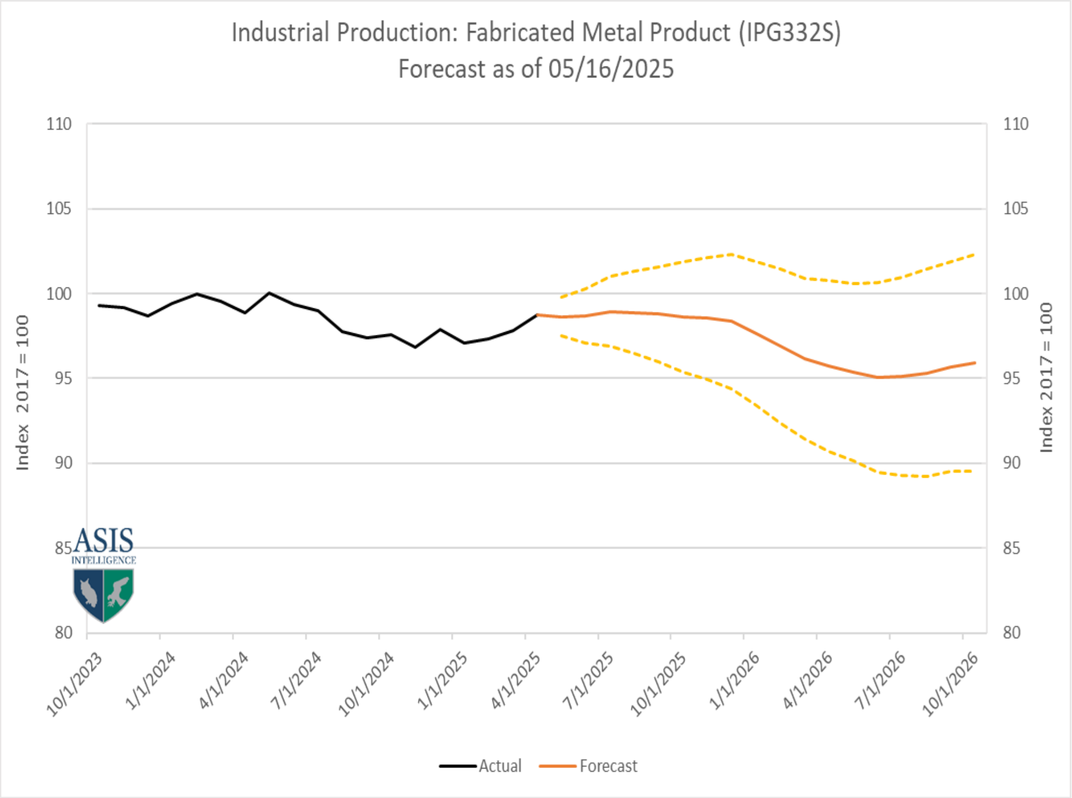
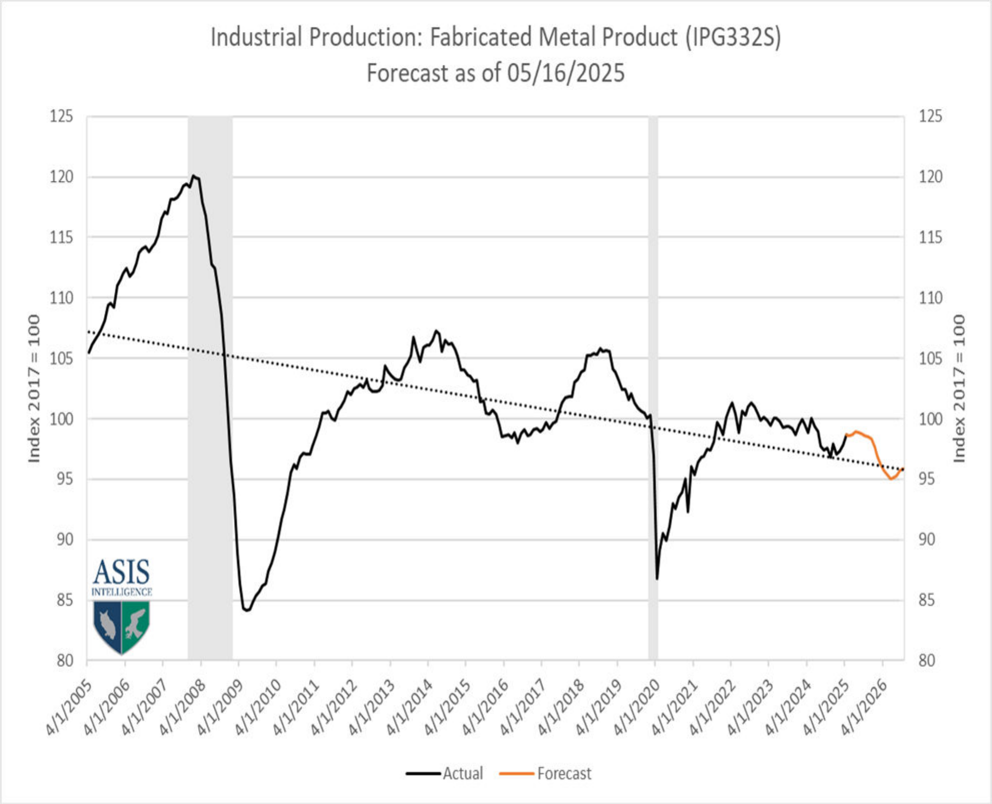
Fabricated Metal





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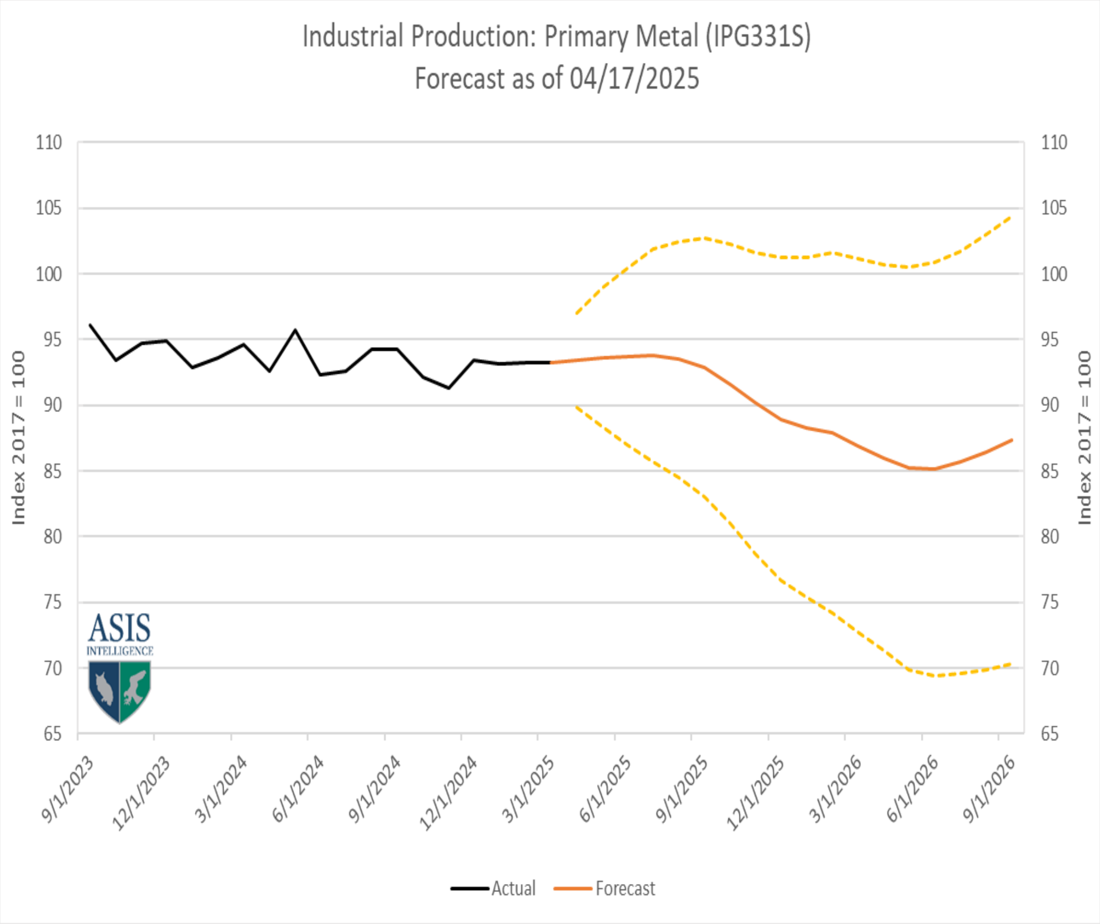
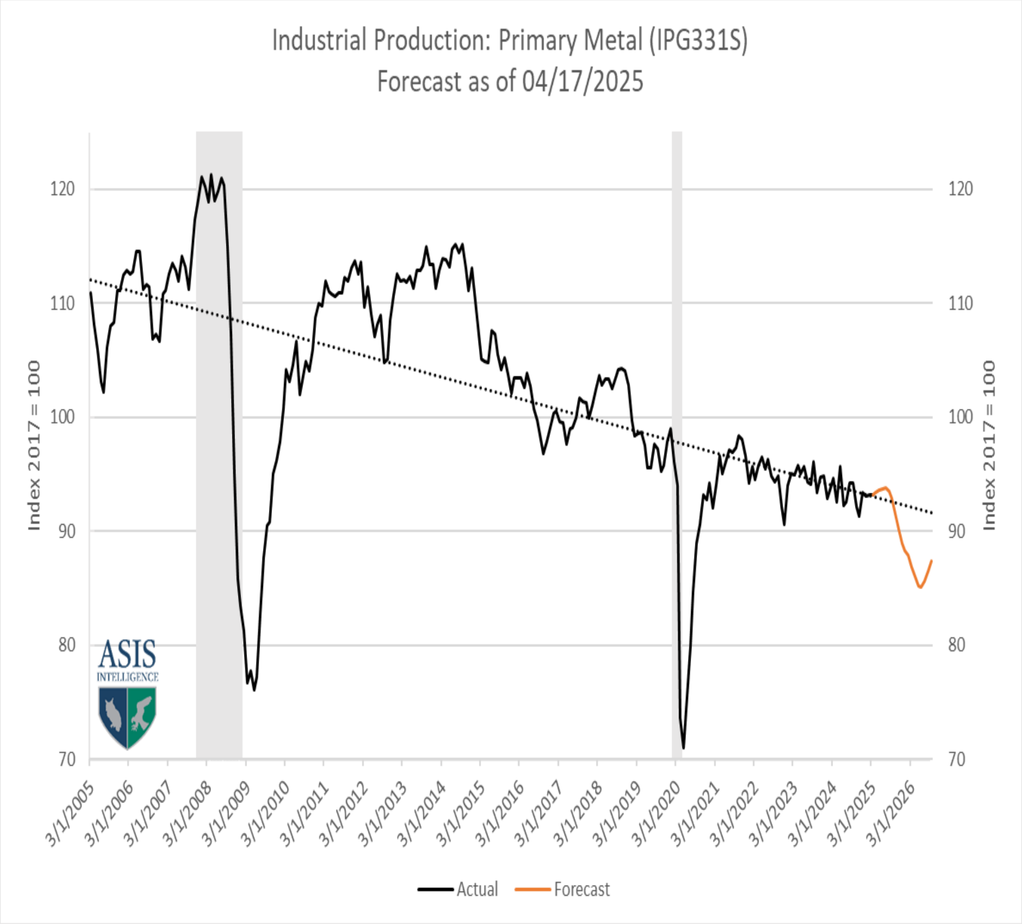
Primary Metals





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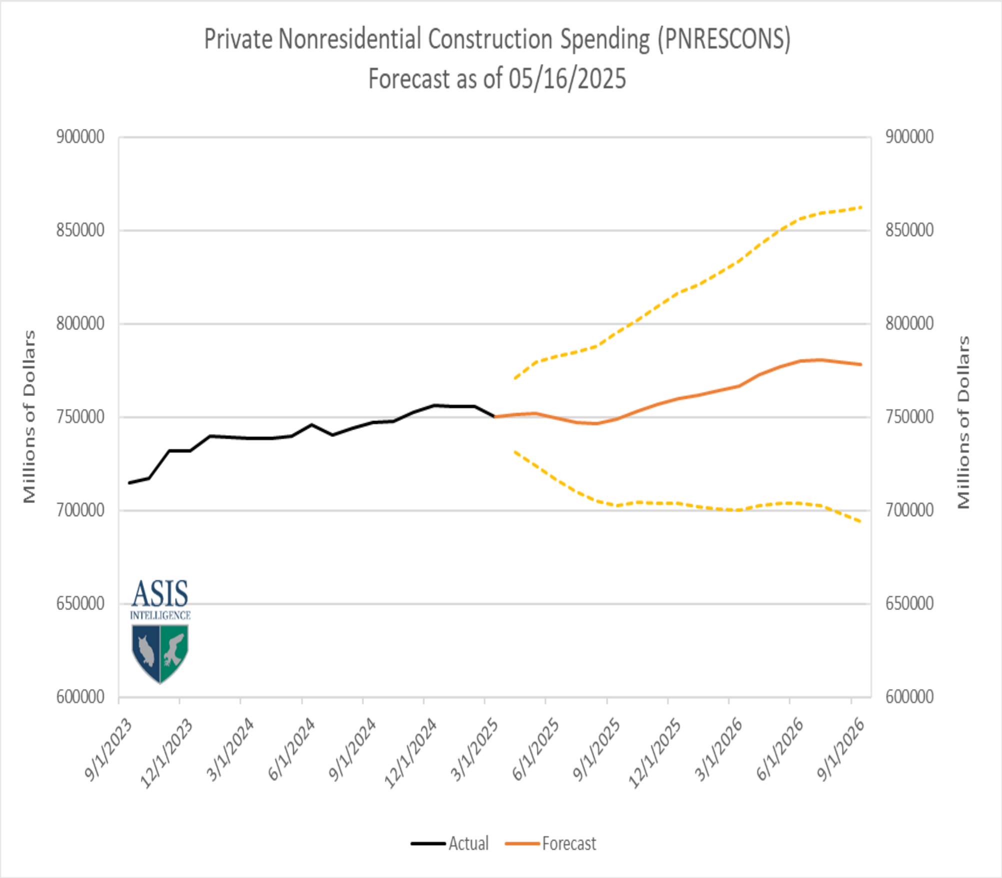
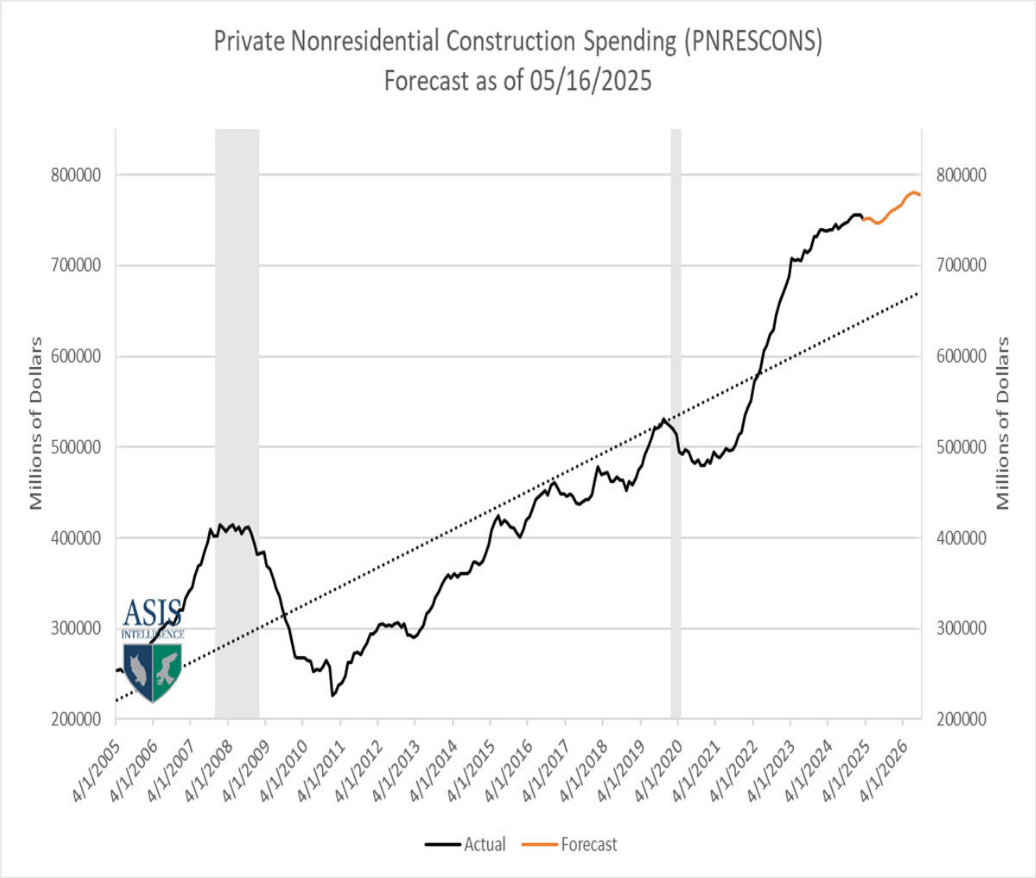
Nonresidential Construction





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Nonresidential Estimates: 11.25% Price Increases Due to Tariff Risk

Nonresidential Material Weight Adjustments

Material	Adjusted Weight	Adjusted Increase	Contribution to Average
Steel	30%	18%	5.4%
Aluminum	20%	9%	1.8%
Lumber	5%	4%	0.2%
Concrete	15%	5%	0.75%
Copper	10%	12%	1.2%
Drywall	5%	6%	0.3%
HVAC Systems	10%	10%	1.0%
Electrical Wiring	5%	12%	0.6%
Total	**100%**	**—**	**11.25%**

Source: Python calculation using adjusted nonresidential weights.

- **Construction Dive: 4-6% increase**
- **Contractor Reports: padding bids by 10-20% preemptively**
- **NAHB: +$9,200 per home (~5.3% to material costs)**
- **Nonresidential construction delays could extend to 8-12 months with 15% of planned projects cancelled if the China tariffs hold at 104%.**
- **Electrical system shortages are expected to get worse.**

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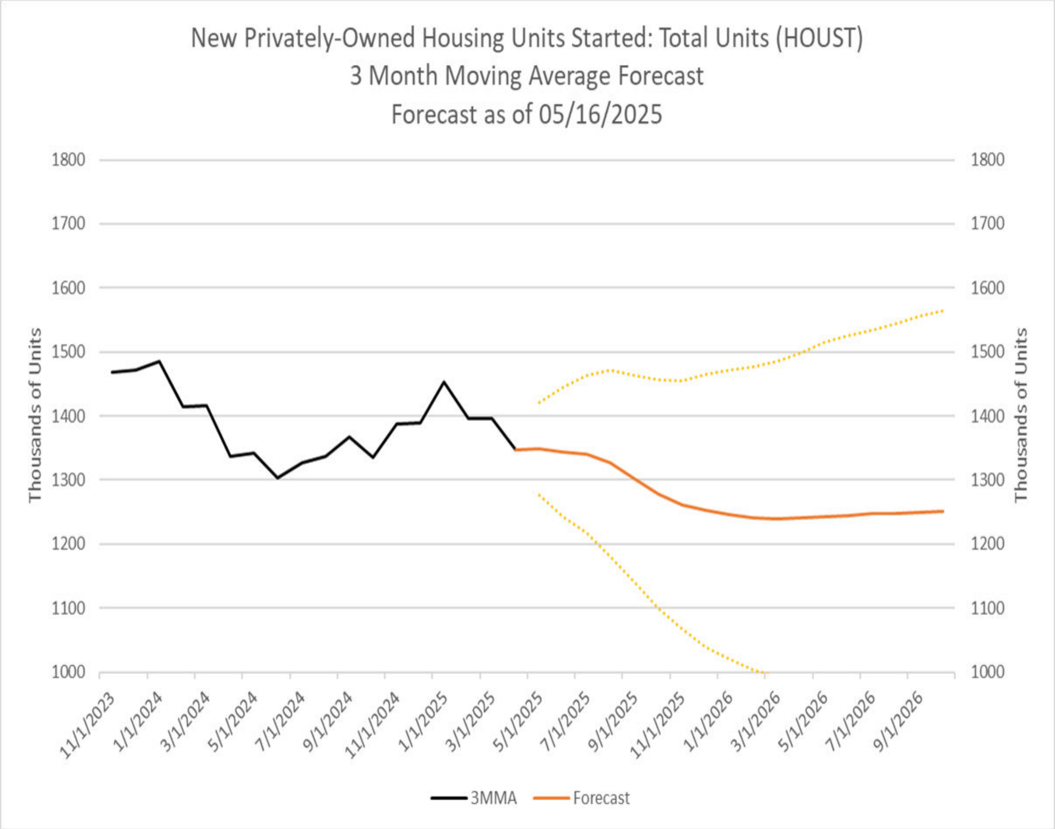
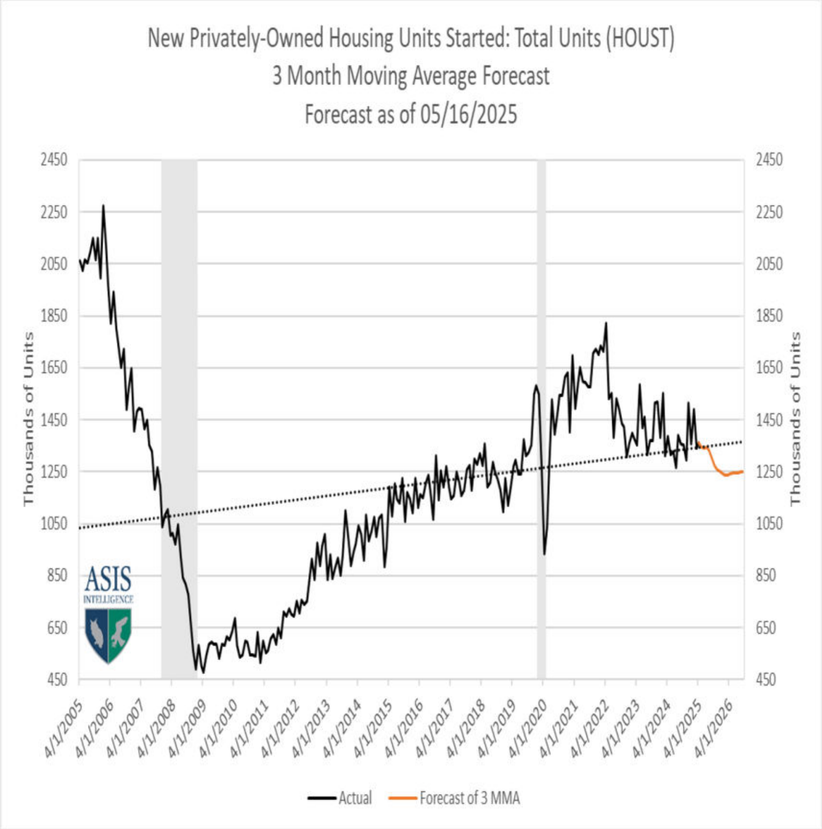
Residential Construction





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Recession Risk. Q1 GDP Plummeted but Q2 Recovered Goldman Sachs Still Worried About Risk

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- Q1 GDP heavily impacted by imports of Gold. My, how things can change in a hurry.

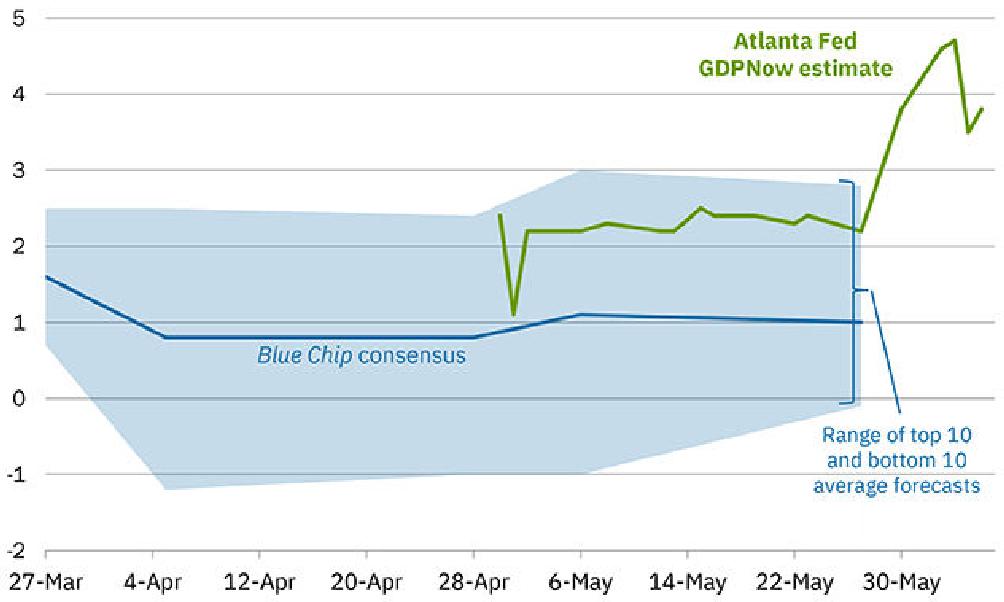
- Painful transition in spending from Government to the private sector (using Q4 as the example):

  1. The largest contributor was still consumer spending at 2.21 points (**81.9% of GDP** this quarter).
  2. Government spending 0.49 (18.1%)
  3. Net exports 0.11 (4.1%)
  4. Residential fixed investment was 0.18 (6.7%)
  5. Nonresidential fixed investment 0.07 (2.6%)
  6. Change in private inventories -0.37 (-13.7%)

Objective: shift spending

- Q1 2025: -2.4% vs. 1.3% in 2024

- Nonresidential (stripping out mining and wells) was showing positive growth in late Q1.



Sources: *Blue Chip Economic Indicators* and *Blue Chip Financial Forecasts*
Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the *Blue Chip* survey.

SRC: Atlanta Federal Reserve

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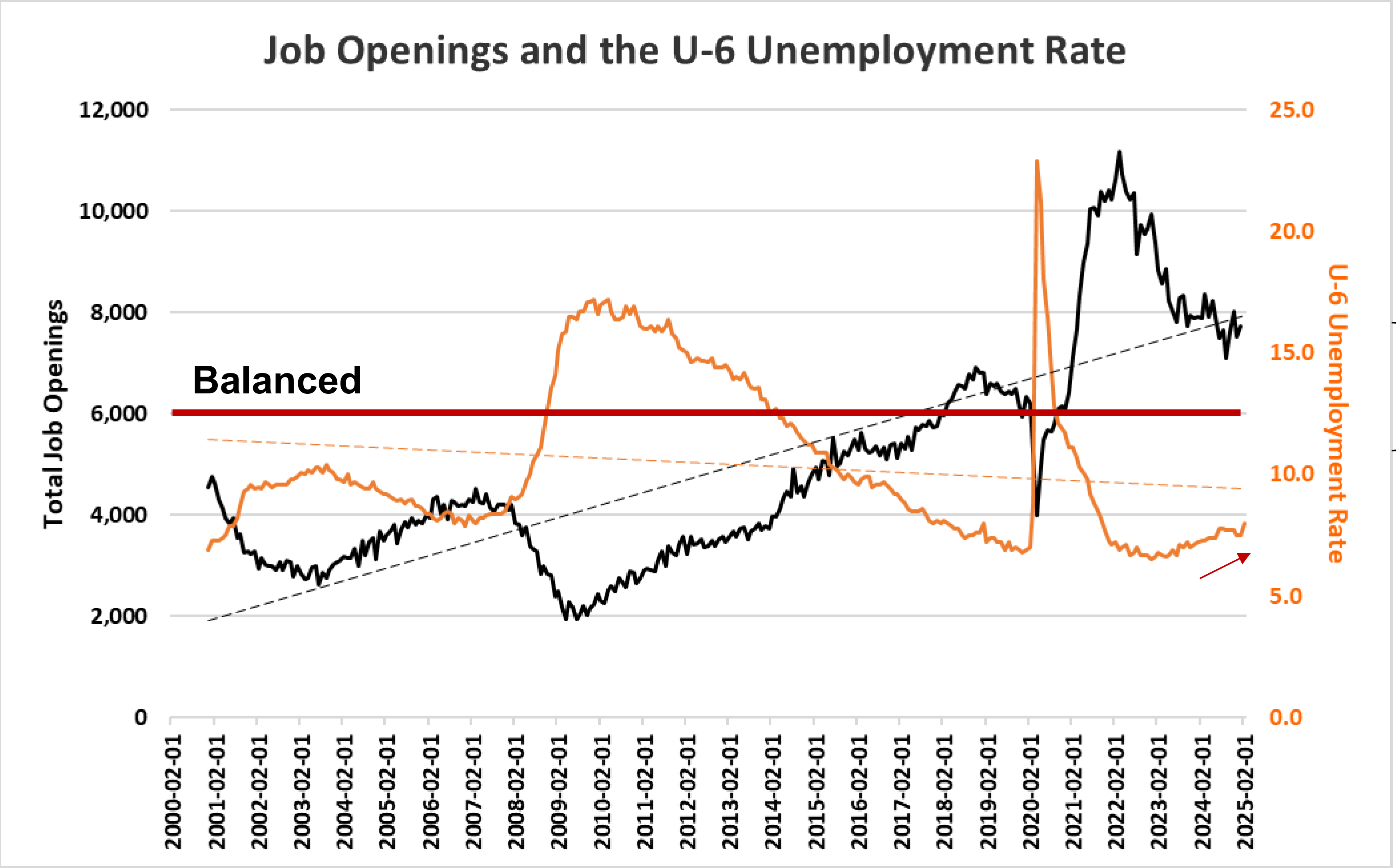
Labor Availability a Key Concern – Barring Recession



2.0M job opening buffer at the moment.

~1 million higher than the peak job openings in 2018.

U-6 rate is climbing, but still historically low at 8.0% (but up from the 6.6% trough rate hit in 2023).

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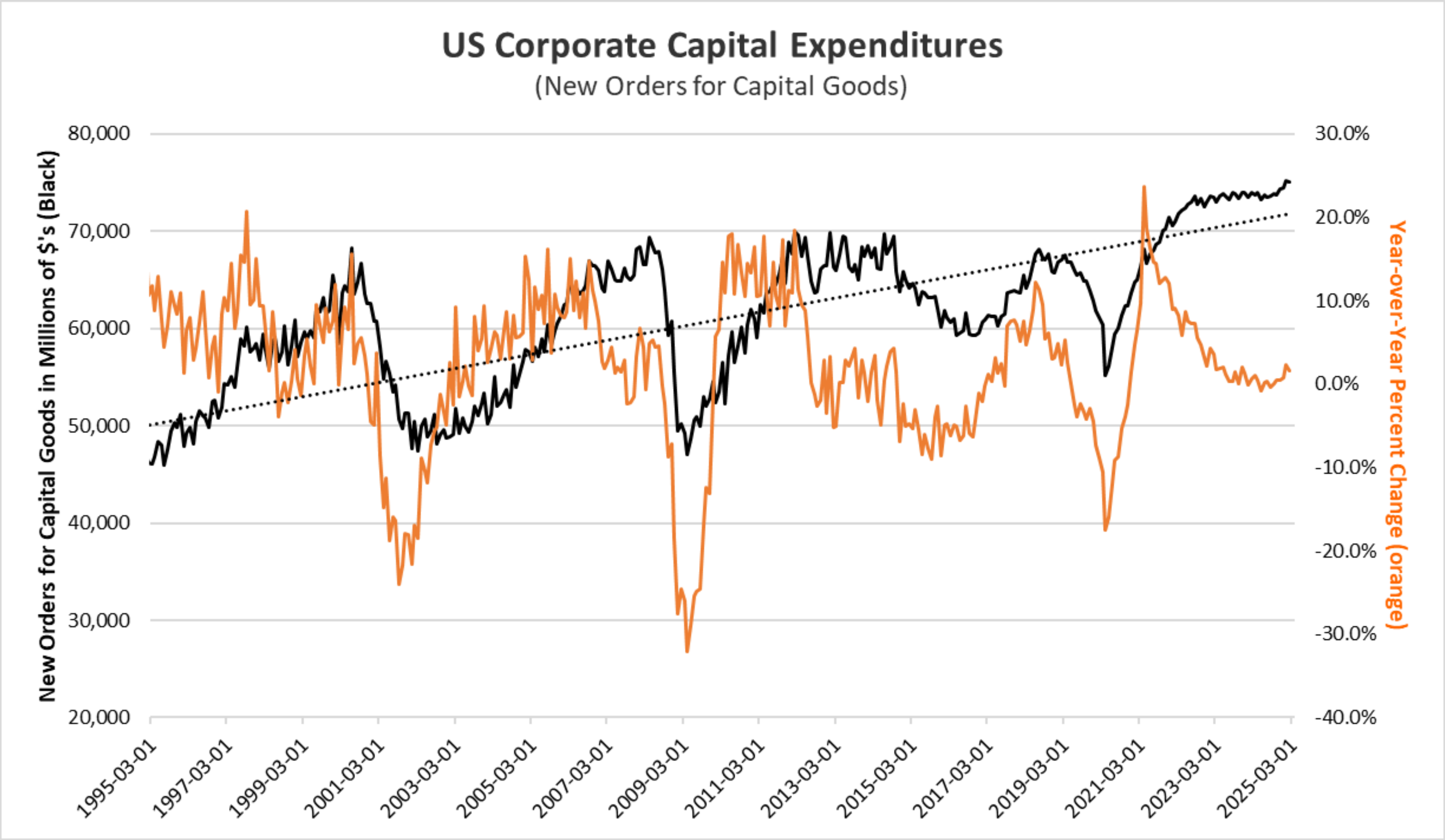
Source: Federal Reserve

Capital Investment (Equipment and Facility Expansion)



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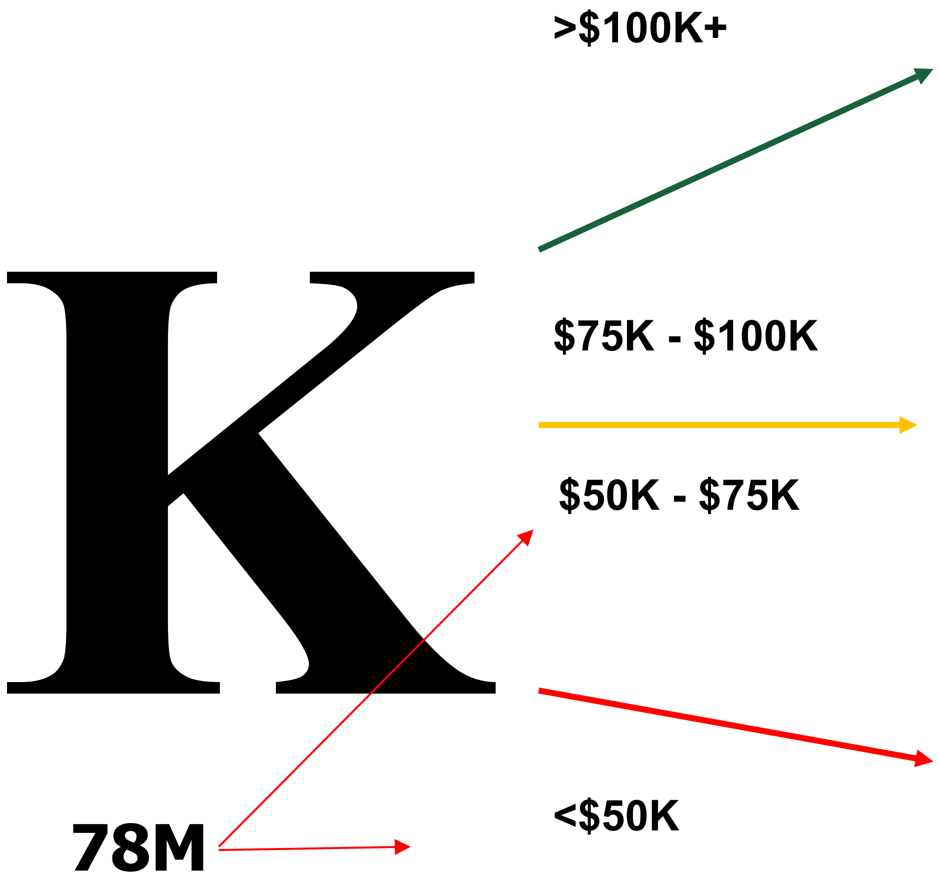
Your Employees and Something Critical To Keep In Mind Over the Next Two Years



- 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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Retail Strong in March – Pulled Forward?

- **Retail sales pretty good in March**
  - Perhaps some pull-forward spending

- **Noticeable Y/Y slowdown in e-commerce…**

- **Autos surge**

- **Furniture and other heavily tariff-impacted sectors surged on pull-forward effect**

- **Makes us wonder what happens in the out months in Q2…**

Kind of Business	Percent Change Mar. 2025 Advance from --	
	Feb. 2025	Mar. 2024
Retail & food services, total	**1.4**	**4.6**
Retail	1.4	4.6
Motor vehicle & parts dealers	**5.3**	**8.8**
Furniture & home furn. stores	**-0.7**	**7.7**
Electronics & appliance stores	**0.8**	**1.8**
Building material & garden eq. & supplies dealers	**3.3**	**2.6**
Food & beverage stores	**0.2**	**3.6**
Grocery stores	0.1	3.7
Health & personal care stores	**0.7**	**7.2**
Gasoline stations	**-2.5**	**-4.3**
Clothing & clothing accessories stores	**0.4**	**5.4**
Sporting goods, hobby, musical instrument, & book stores	**2.4**	**2.7**
General merchandise stores	**0.6**	**3.8**
Department stores	-0.3	-2.5
Miscellaneous store retailers	**0.7**	**4.7**
Nonstore retailers	**0.1**	**4.8**
Food services & drinking places	**1.8**	**4.8**

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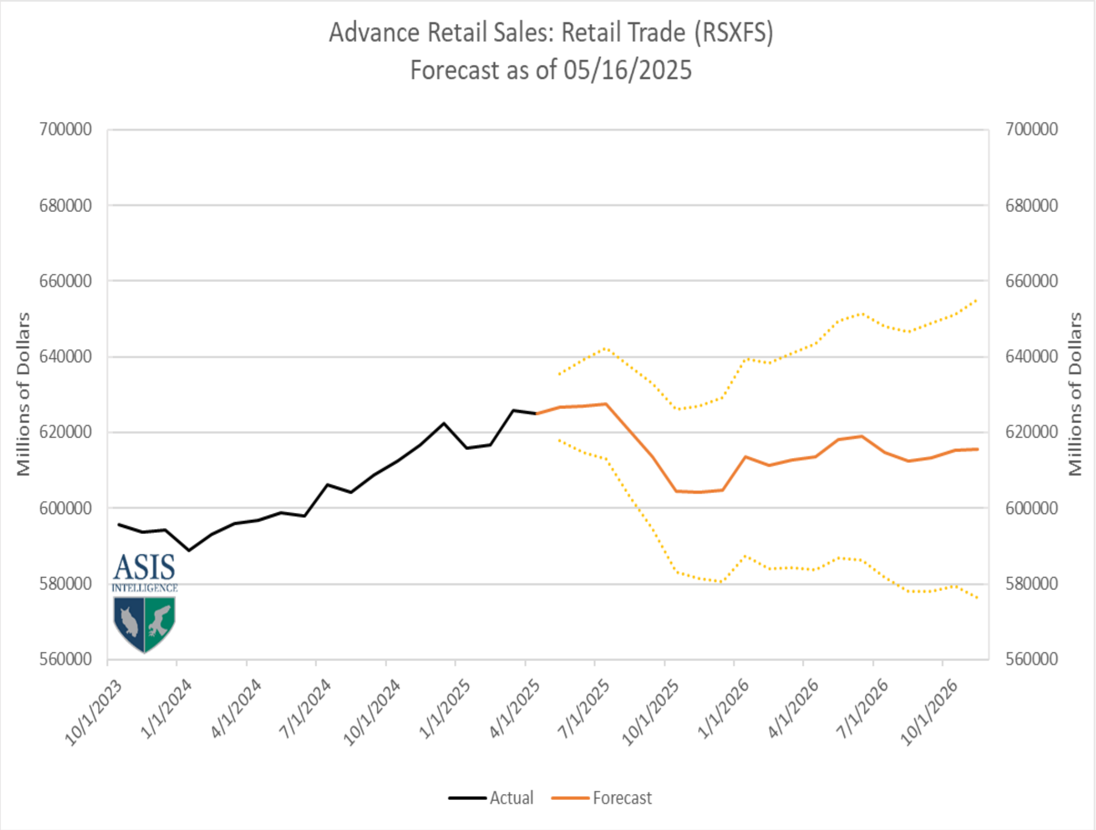
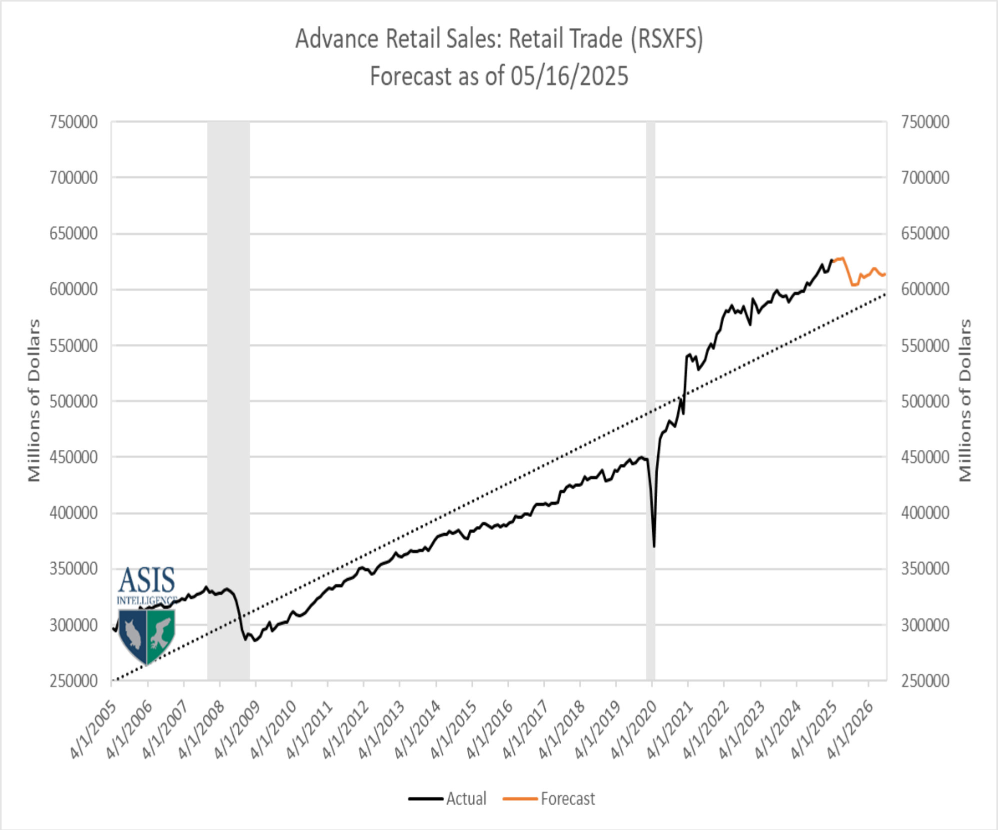
Retail Sales





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Good Signals in Manu.?

- **17 countries had manufacturing sectors in contraction in March (of 30 countries being monitored)**
- **20 out of 30 countries surveyed fell M/M.**
- **After tariffs, all options are on the table.**
- **Canada at risk with both manufacturing and services sectors in contraction.**
- **Some concern over "pulled forward" activity and a potential swoon in March or early in Q2.**
- **Services sectors typically account for 50-60% of most developed country's GDP, and most were still doing well**
  - This seems to be a global phenomenon that services and experiential spending continues to grow while product spending remains sluggish

		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		Mar	50.2	52.7	-2.5	Mar	54.4	51.0	3.4
Global PMI	$ 4,700	Mar	50.3	50.6	-0.3	Mar	52.7	51.5	1.2
Canada	$ 665	Mar	46.3	47.8	-1.5	Mar	41.2	46.6	-5.4
Mexico	$ 661	Mar	46.5	47.6	-1.1				
China	$ 655	Mar	51.2	50.8	0.4	Mar	51.9	51.4	0.5
Eurozone PMI	$ 632	Mar	48.6	47.6	1.0	Mar	51.0	50.6	0.4
ASEAN	$ 369	Mar	50.8	51.5	-0.7				
Japan	$ 210	Mar	48.4	49.0	-0.6	Mar	50.0	53.7	-3.7
Germany	$ 201	Mar	48.3	46.5	1.8	Mar	50.9	51.1	-0.2
South Korea	$ 161	Mar	49.1	49.9	-0.8				
UK	$ 118	Mar	44.9	46.9	-2.0	Mar	52.5	51.0	1.5
Taiwan	$ 114	Mar	49.8	51.5	-1.7				
India	$ 113	Mar	58.1	56.3	1.8	Mar	57.7	59.0	-1.3
Vietnam	$ 113	Mar	50.5	49.2	1.3				
Netherlands	$ 88	Mar	49.6	50.0	-0.4				
Ireland	$ 88	Mar	51.6	51.9	-0.3	Mar	55.3	53.2	2.1
Switzerland	$ 87	Mar	48.9	49.6	-0.7				
Italy	$ 83	Mar	46.6	47.4	-0.8	Mar	52.0	53.0	-1.0
France	$ 80	Mar	48.5	45.8	2.7	Mar	47.9	45.3	2.6
Brazil	$ 78	Mar	51.8	53.0	-1.2	Mar	52.5	50.6	1.9
Singapore	$ 65	Mar	52.7	51.0	1.7				
Thailand	$ 60	Mar	49.9	50.6	-0.7				
Australia	$ 39	Mar	52.1	50.4	1.7	Mar	51.6	50.8	0.8
Indonesia	$ 37	Mar	52.4	53.6	-1.2				
Russia	$ 36	Mar	48.2	50.2	-2.0	Mar	50.1	50.5	-0.4
Spain	$ 35	Mar	49.5	49.7	-0.2	Mar	54.7	56.2	-1.5
Hong Kong	$ 34	Mar	48.3	49.0	-0.7				
Philippines	$ 23	Mar	49.4	51.0	-1.6				
Poland	$ 11	Mar	50.7	50.6	0.1				
Greece	$ 3	Mar	55.0	52.6	2.4				

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

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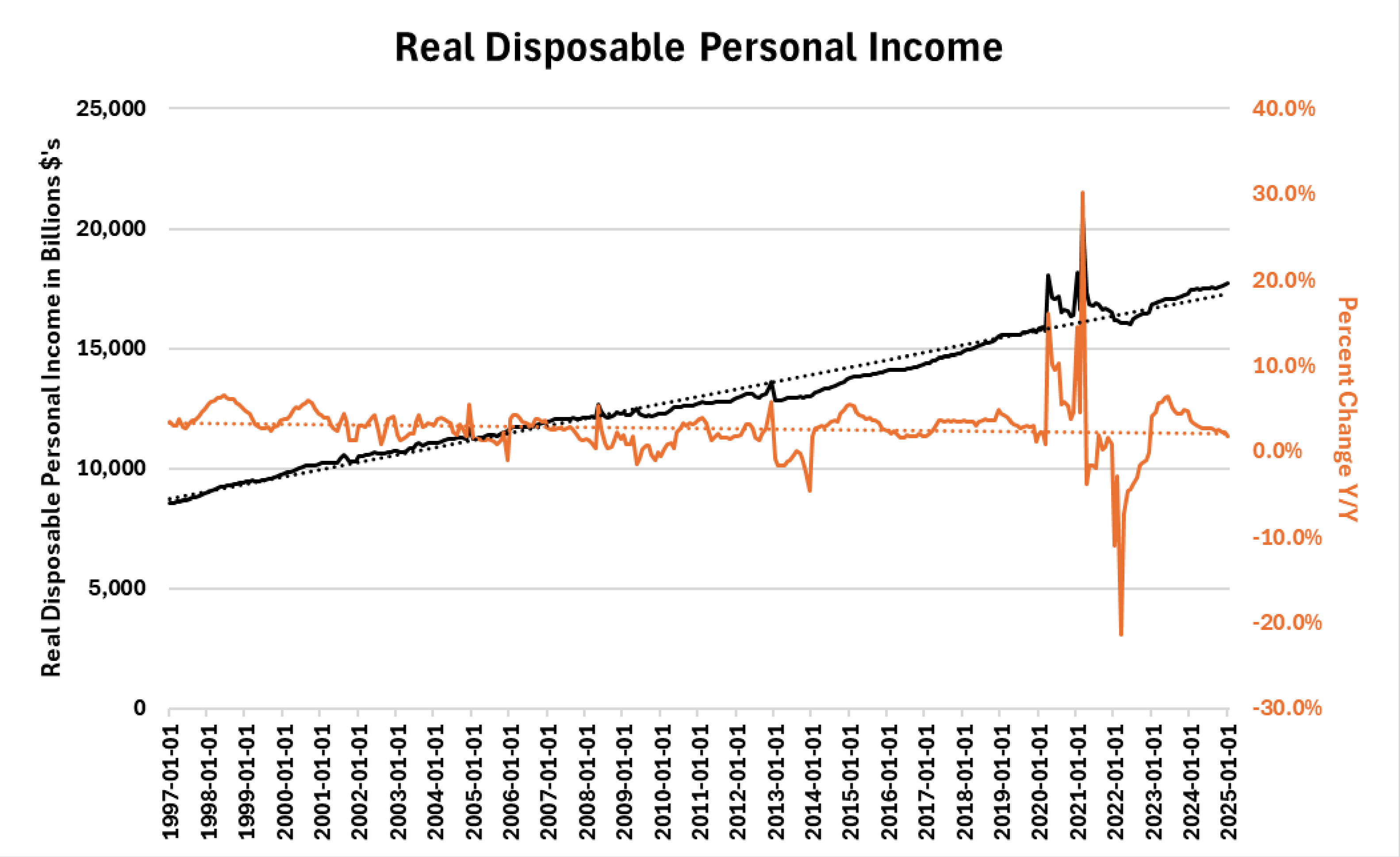
Updated Forecast for Real Disposable Personal Income

ARMADA

- Inflation-adjusted disposable personal income is now trending at 1.8%, weaker than expected.
- This has a direct impact on auto sales and other big ticket durable goods spending.

2021:	3.5%
2022:	-5.6%
2023:	5.1%
2024:	2.7%
2025 (Jan):	1.8%
2026:	2.0% (F)

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

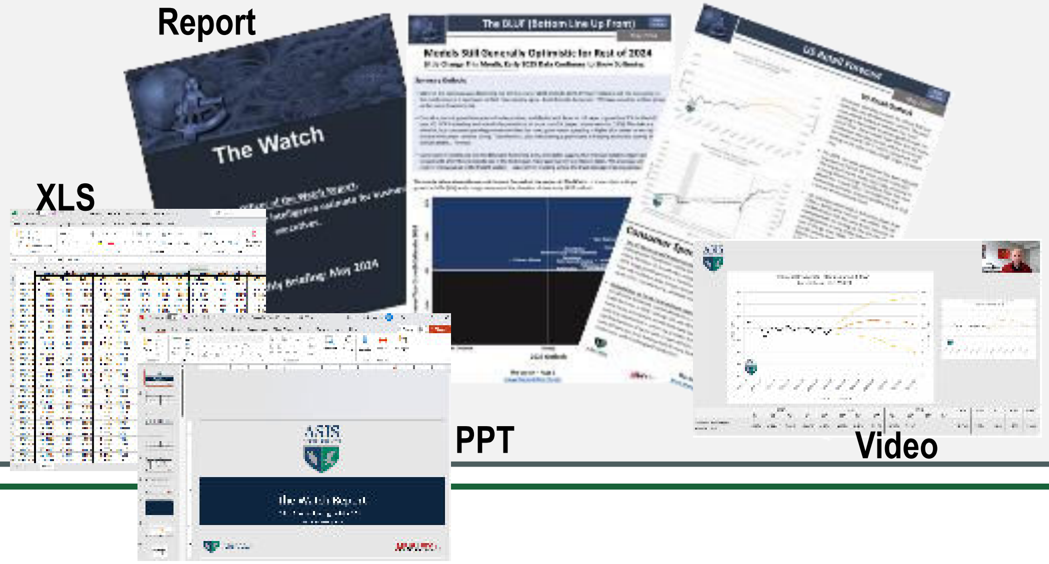
Questions?

- **Like this content? Check out the ASIS: all of it for <u>about the price of a cup of coffee</u>.**

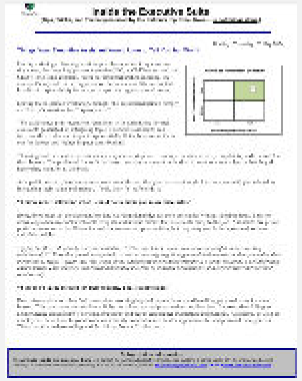
Armada Strategic Intelligence System (ASIS): All This Below for Just $7 / Month

The Flagship – <u>3 Days a Week</u>.

The Watch – <u>Once a Month</u>.



Inside the Executive Suite – <u>Once a Week</u>.



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