

Economic Outlook Robert Fry

Robert Fry Economics LLC

Osher Lifelong Learning Institute
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**Excuse me.
Can you tell
me where I
am?**

**You're in
a balloon.**





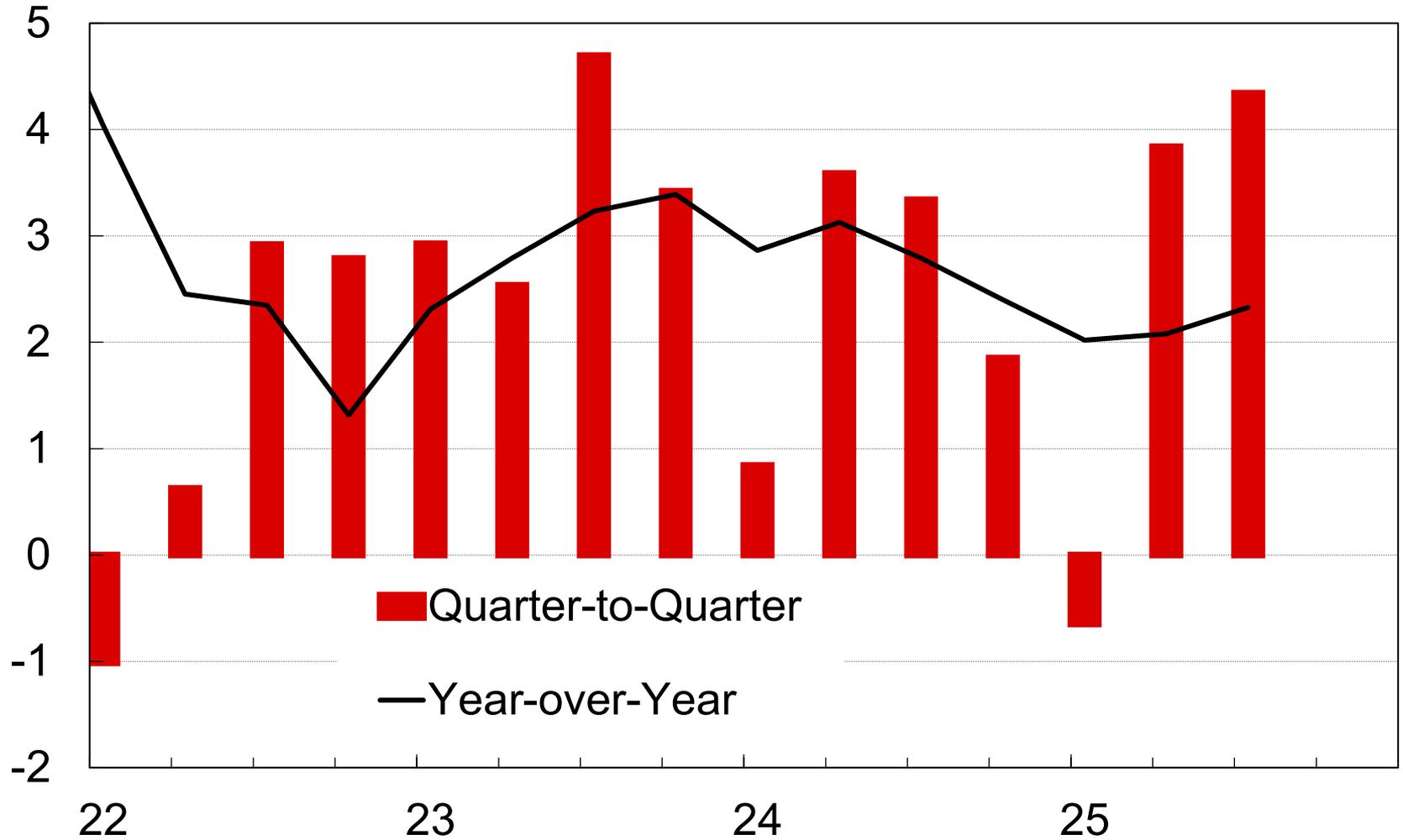
**You must
be a economist.
Your answer is
perfectly correct
and totally
useless.**

**You must be a manager. You
have a great view, but don't
know where you are.**



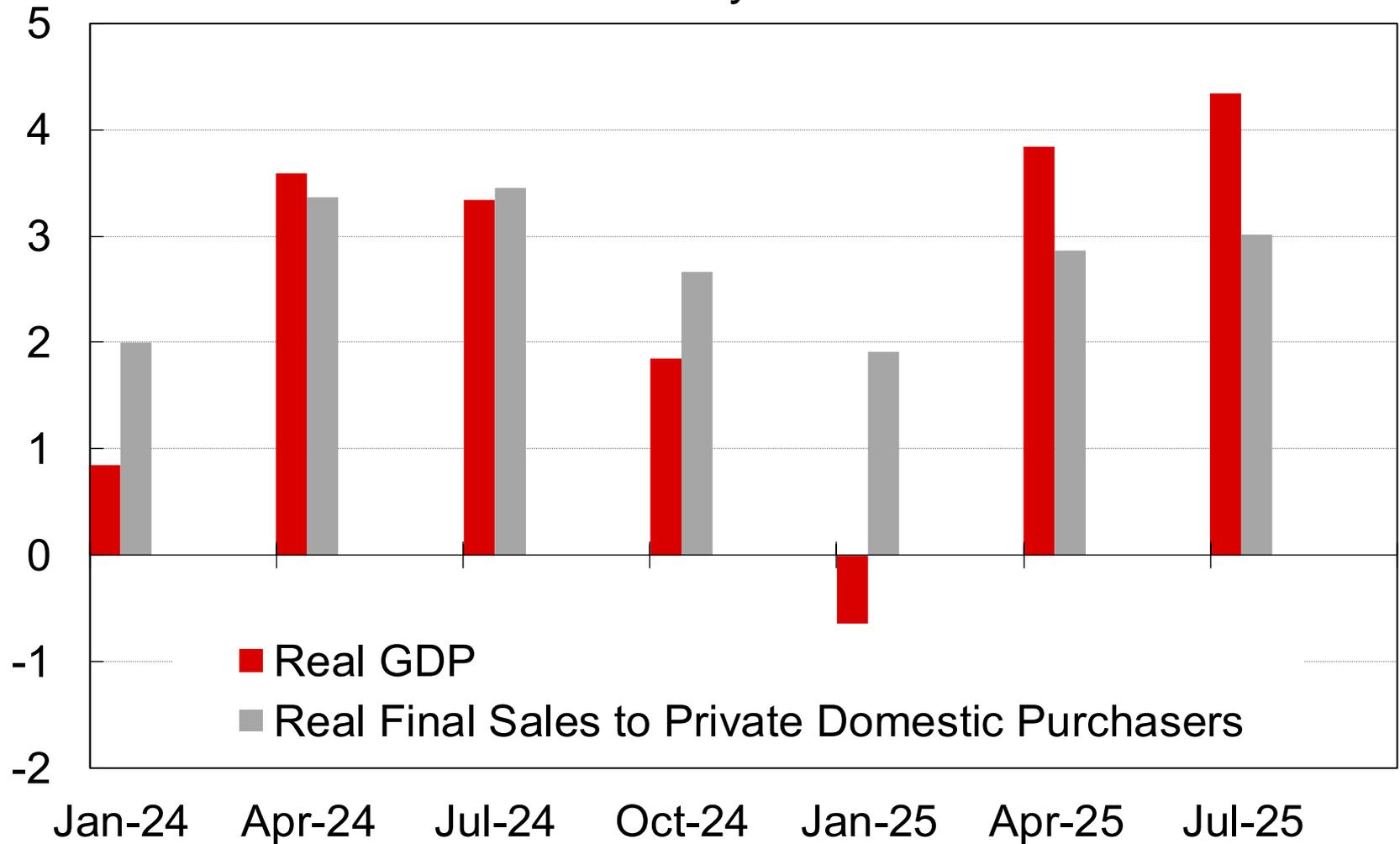
US Real Gross Domestic Product

Annualized Growth Rates



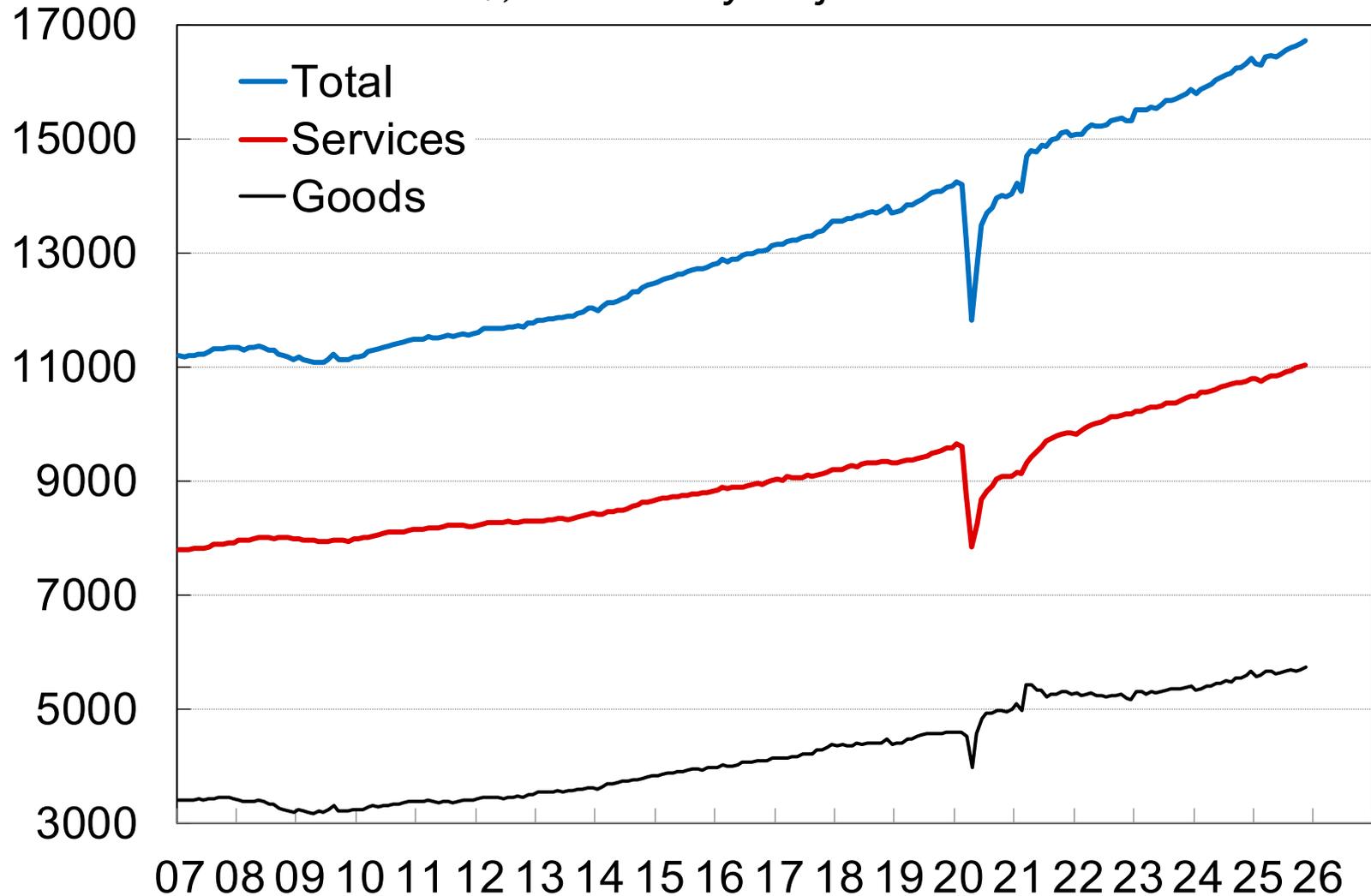
US Real Gross Domestic Product and Final Sales

Annualized Quarterly Growth Rates



US Real Personal Consumption Expenditures

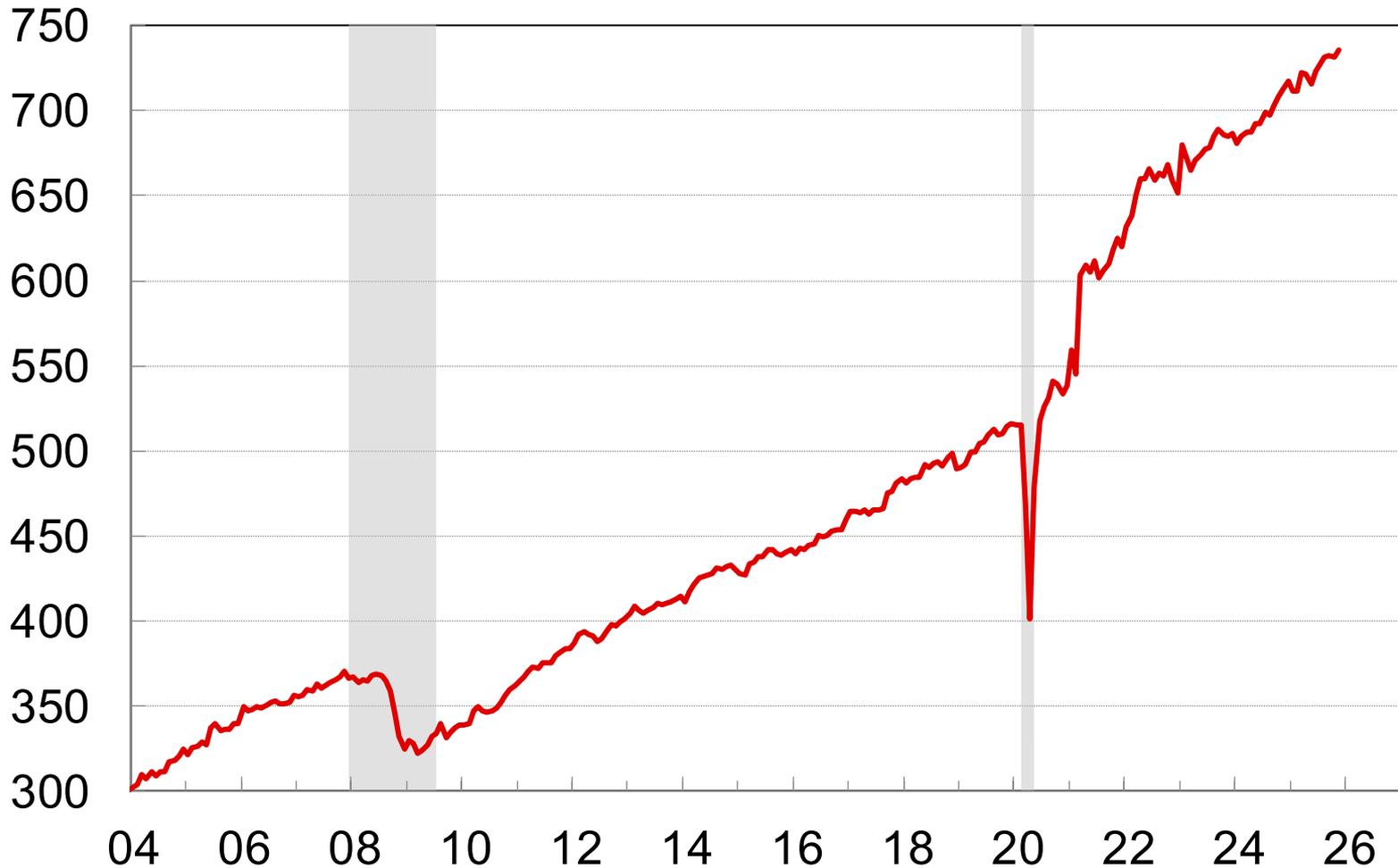
Billion 2017 \$, Seasonally Adjusted Annual Rates



Source: U.S. Bureau of Economic Analysis/FRED

Retail Sales: Retail and Food Services

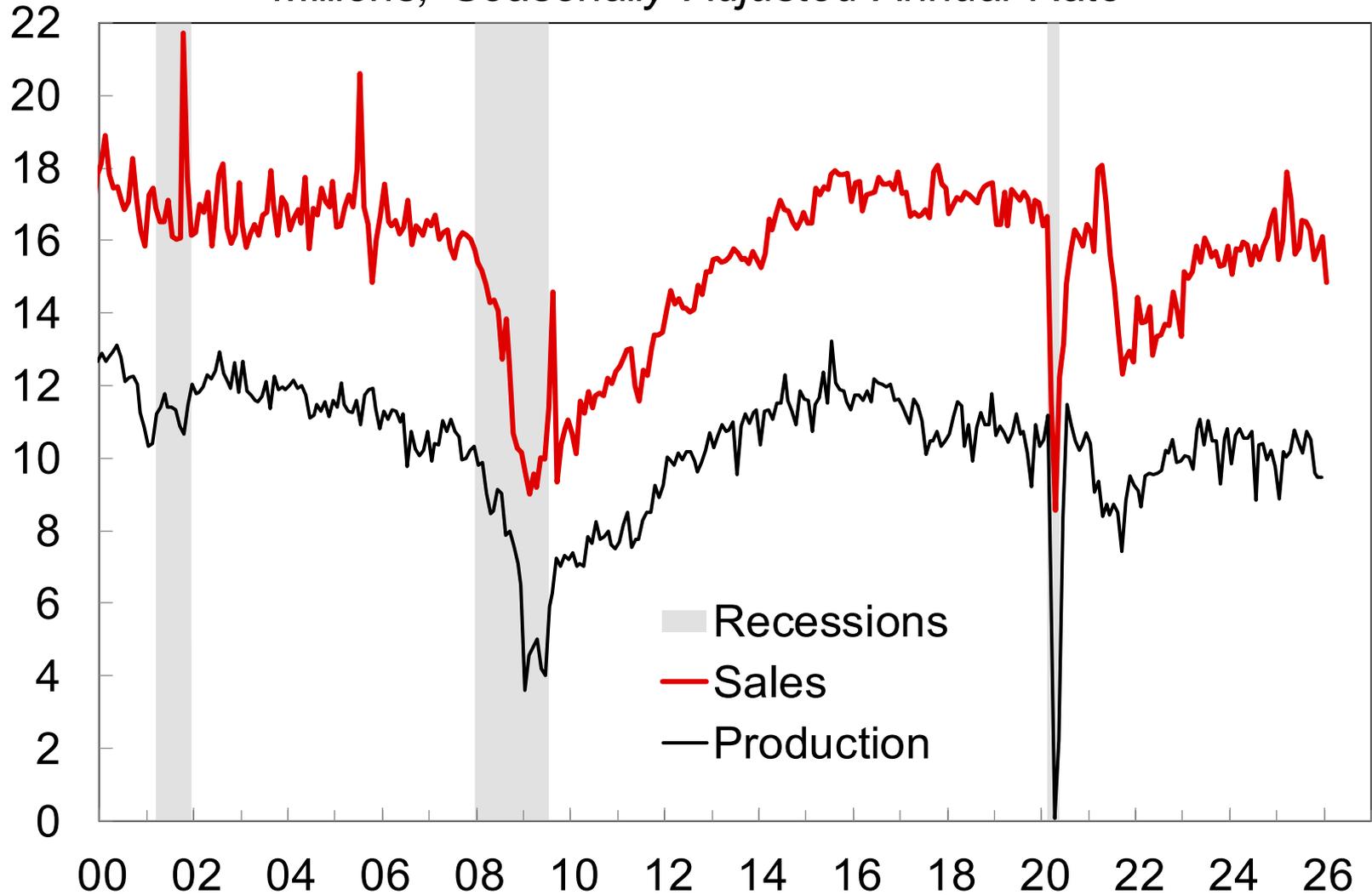
Billions of \$, Monthly, Seasonally Adjusted



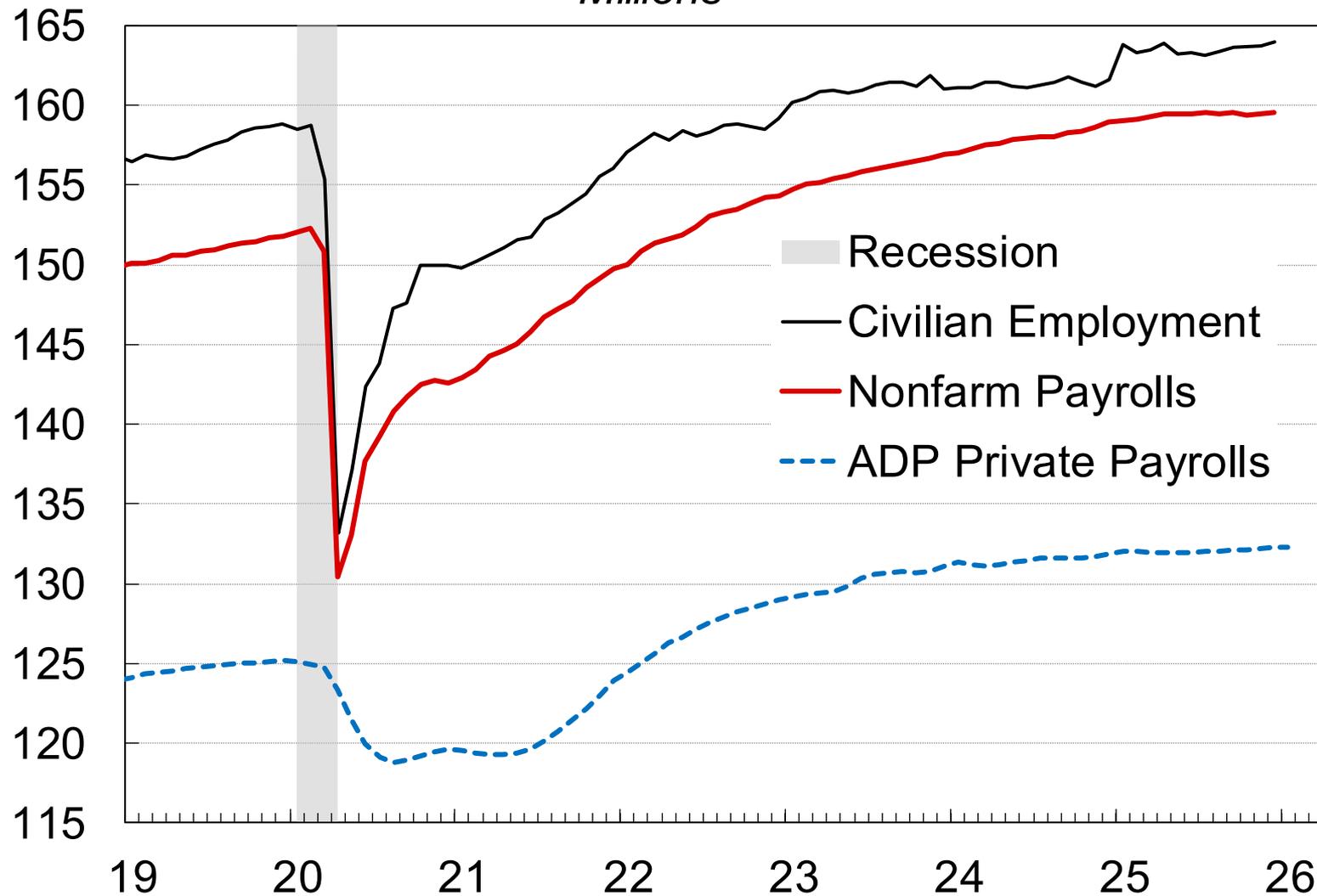
Source: U.S. Census Bureau/FRED

US Light Vehicle Sales & Production

Millions, Seasonally Adjusted Annual Rate

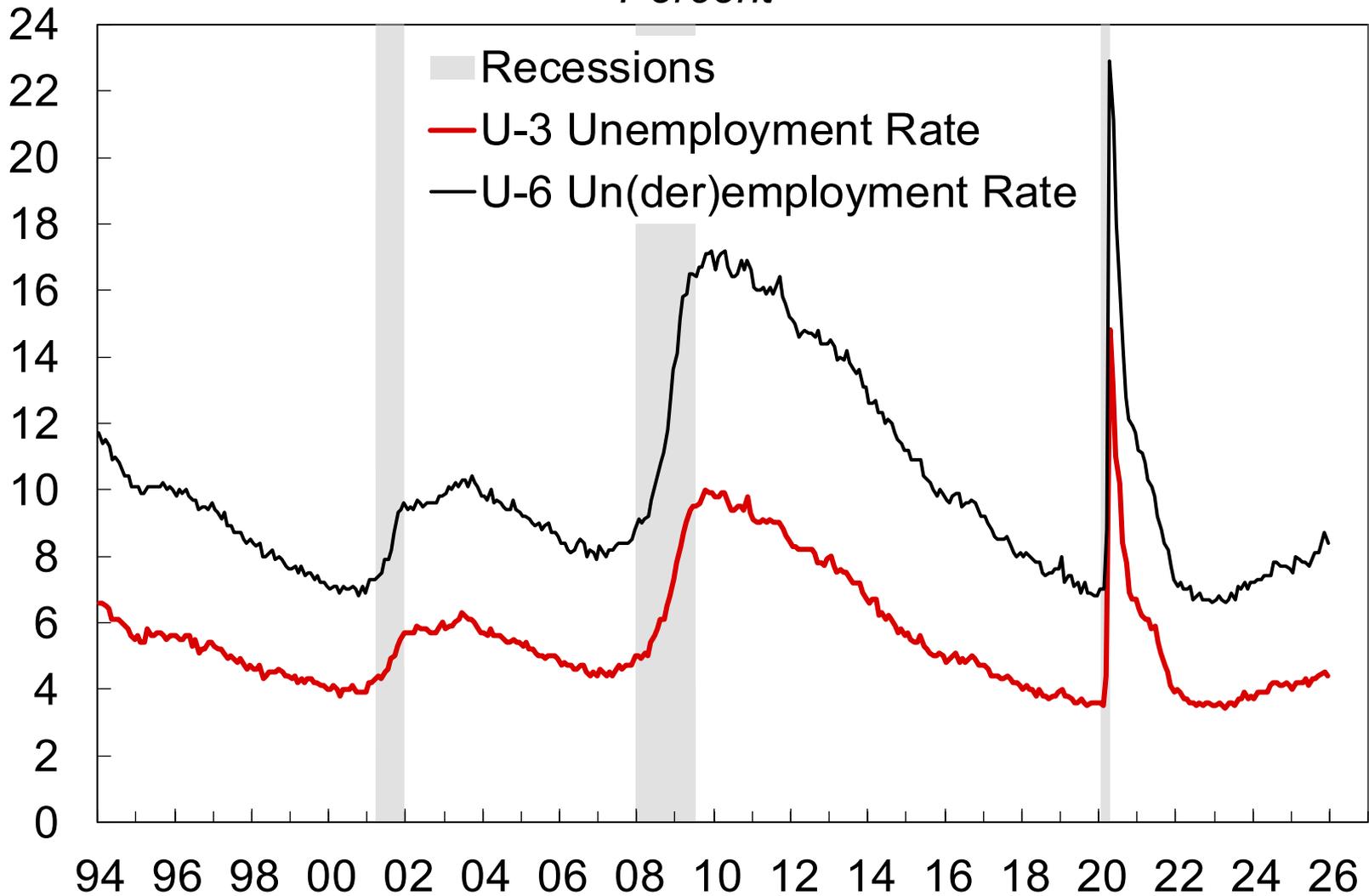


US Employment *Millions*



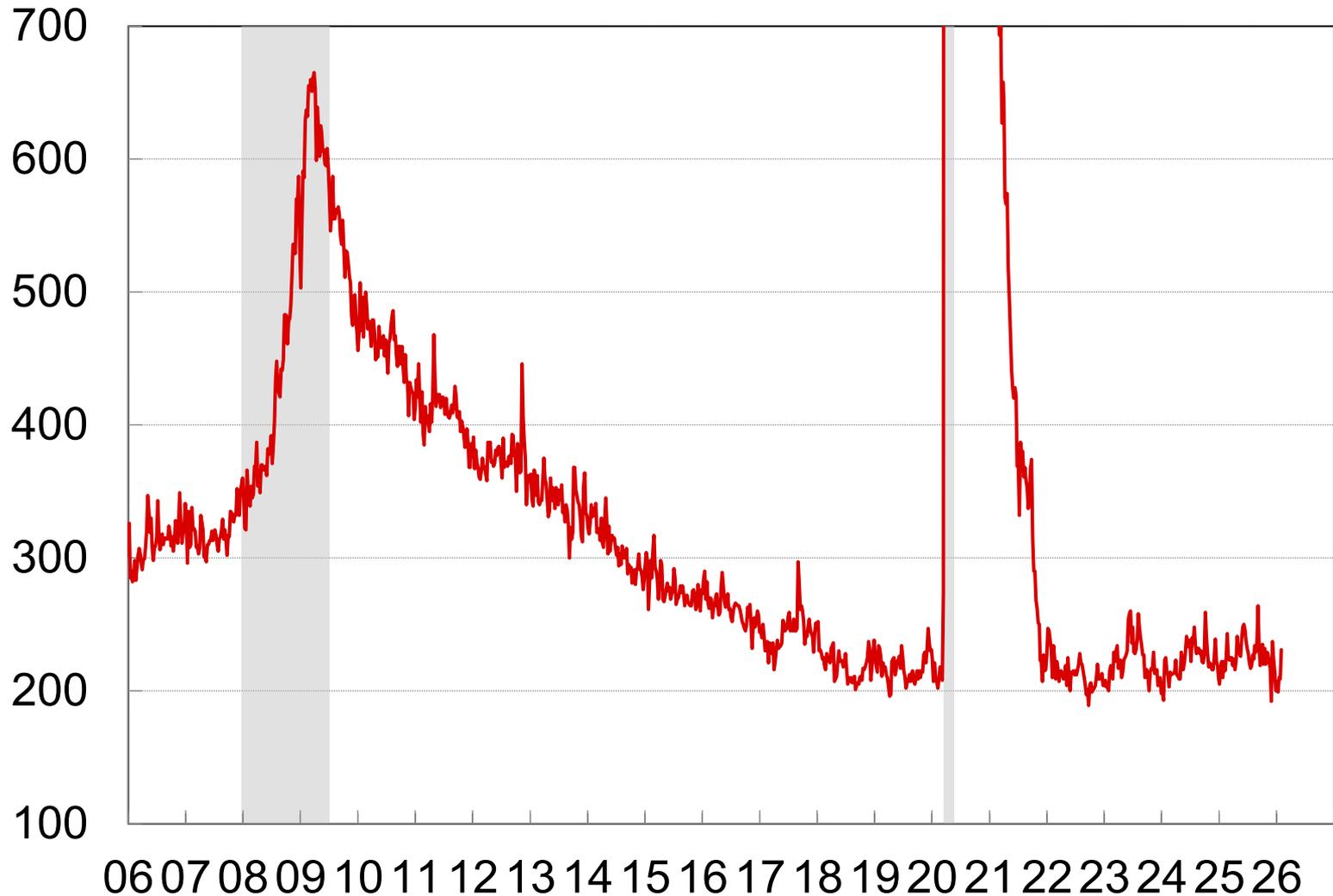
US Civilian Unemployment Rate

Percent



Initial Claims for Unemployment Insurance

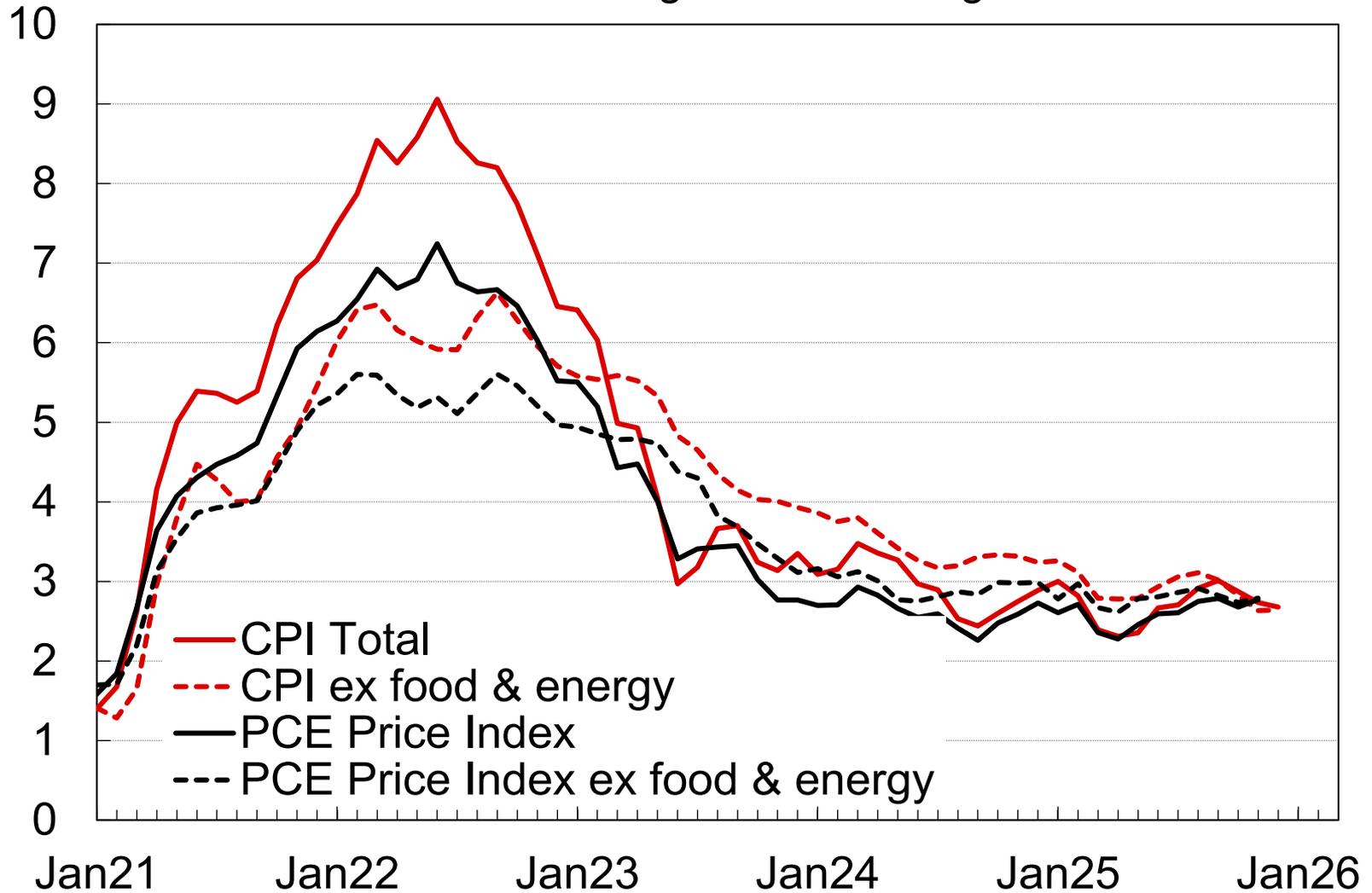
Thousands



Source: U.S. Employment and Training Administration/FRED

US Price Indexes

Percent Change from Year Ago



Source: U.S. Bureau of Labor Statistics/FRED

US economy continues to grow.

GDP grew at a 4.3% annual rate in the third quarter of 2025; maybe even stronger in the fourth quarter!

Consumers are still spending.

Initial claims for unemployment insurance are closer to 55-year lows than to recession levels.

Stock prices are near record highs.

Inflation has stopped declining, but there's no obvious widespread impact from tariffs.

Why has growth exceeded expectations?

Productivity growth has surged.

- Deregulation boosts productivity growth by eliminating unproductive tasks.
- AI boosts productivity growth by replacing some workers, making others more productive.

Crude oil and gasoline prices remain near multi-year lows.

- Wall Street and Washington always understate the importance of oil prices.

Fiscal policy is very stimulative under the One Big Beautiful Bill Act.

- Immediate expensing is by far the best part of the OBBBA.
- Even bad tax cuts boost growth in the short run.

Monetary policy might not be as tight as President Trump thinks it is.

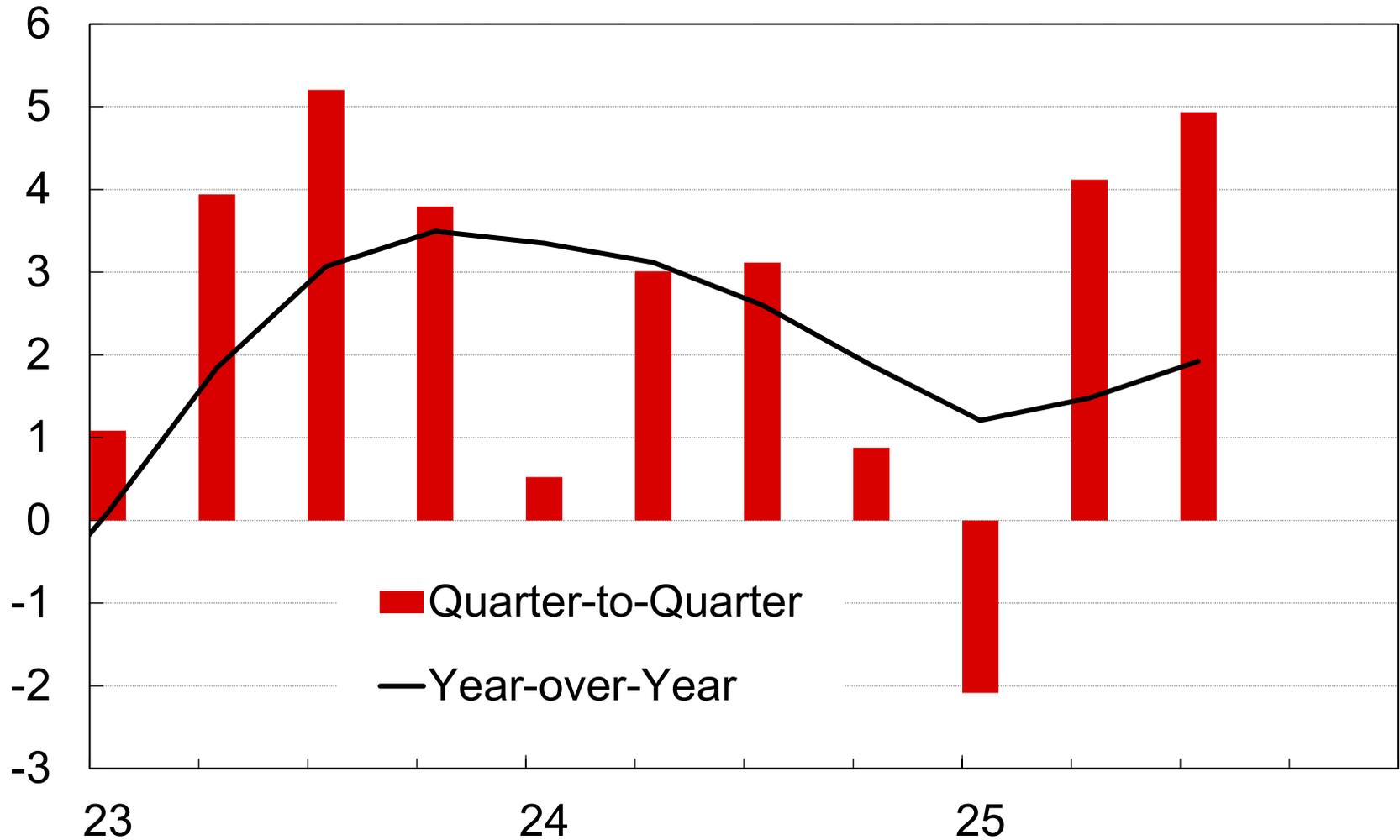
The (SHORT-TERM) impact of tariffs is smaller than economists thought it was.

- Is the impact smaller or just slower?

Or maybe the data are bad.

US Output per Hour: Nonfarm Business Sector

Annualized Growth Rates



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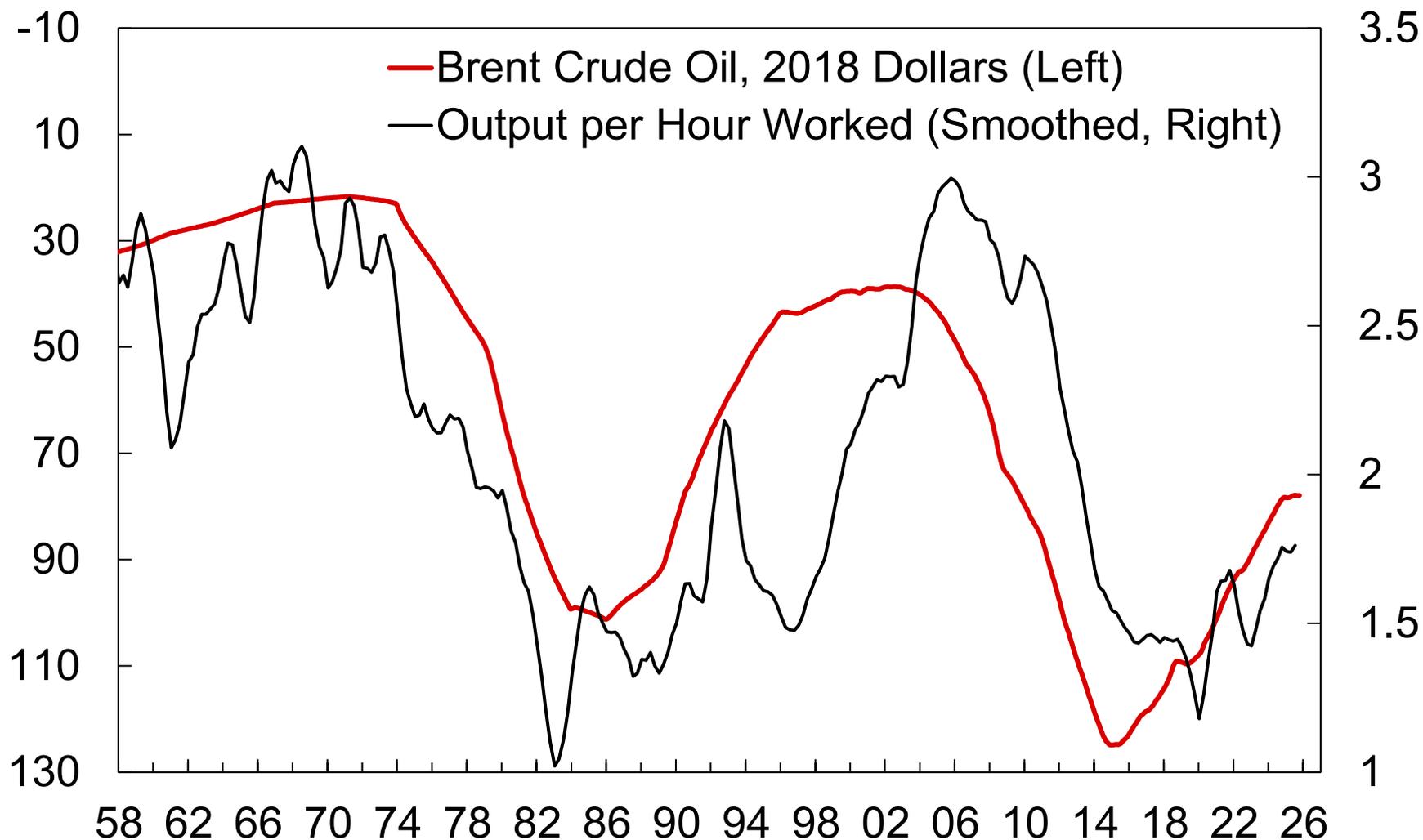
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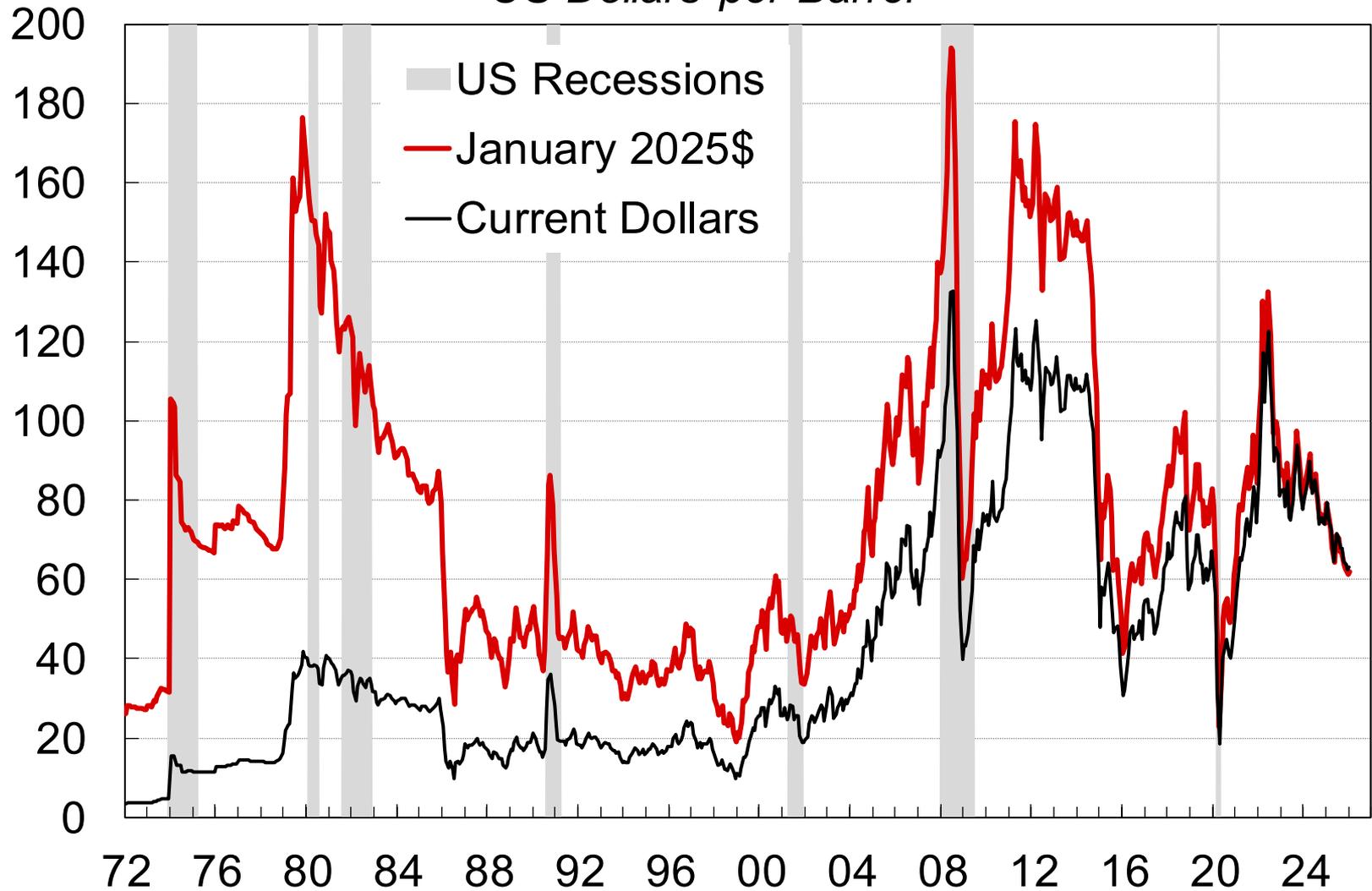
Oil Prices & US Productivity Growth

10-Year Moving Average 10-Year Annualized Growth Rate



Brent Blend Oil Price

US Dollars per Barrel



US Regular Gasoline Price

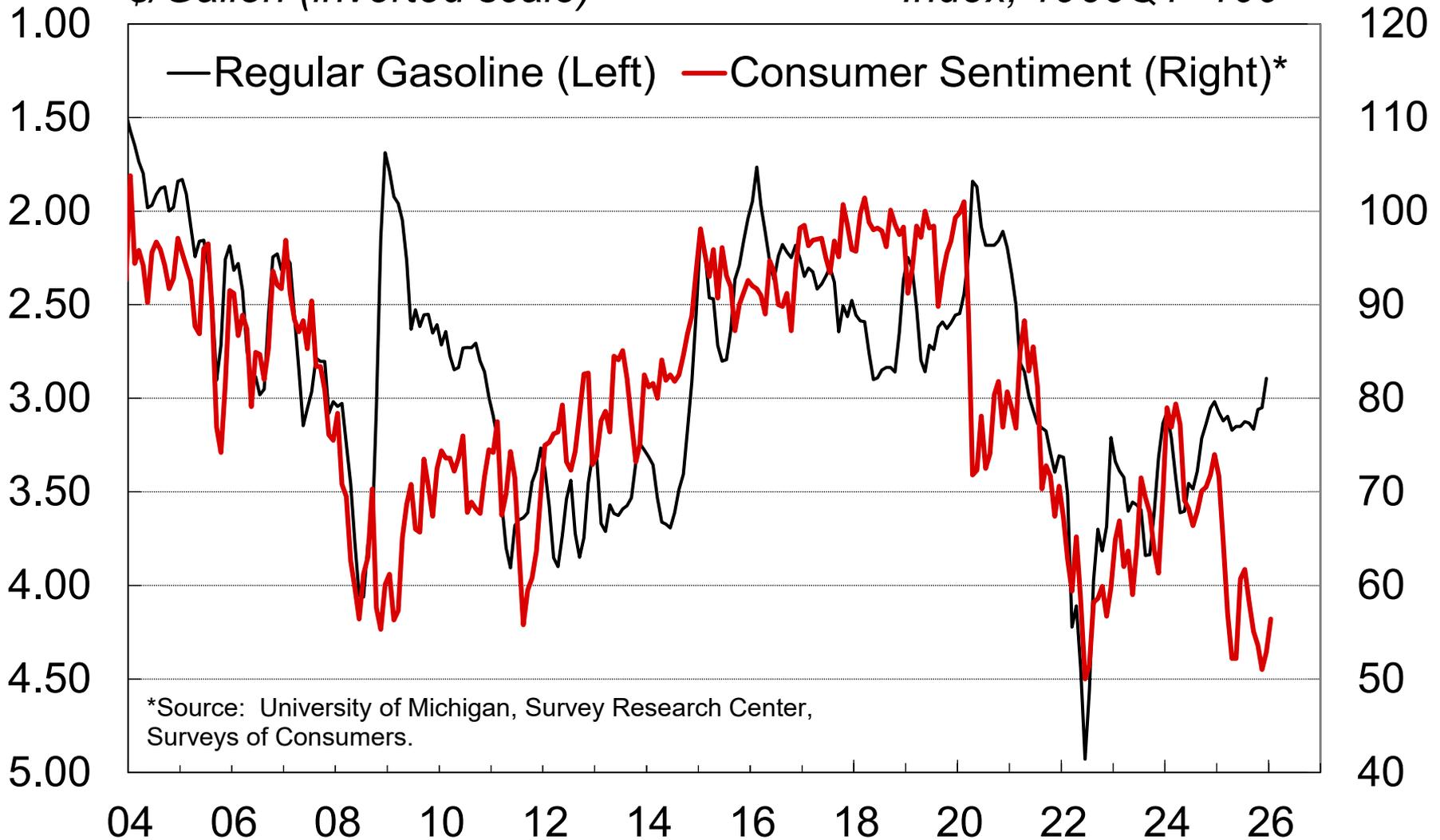
Dollars per gallon, Weekly data



Gasoline Price and Consumer Sentiment

\$/Gallon (inverted scale)

Index, 1966Q1=100



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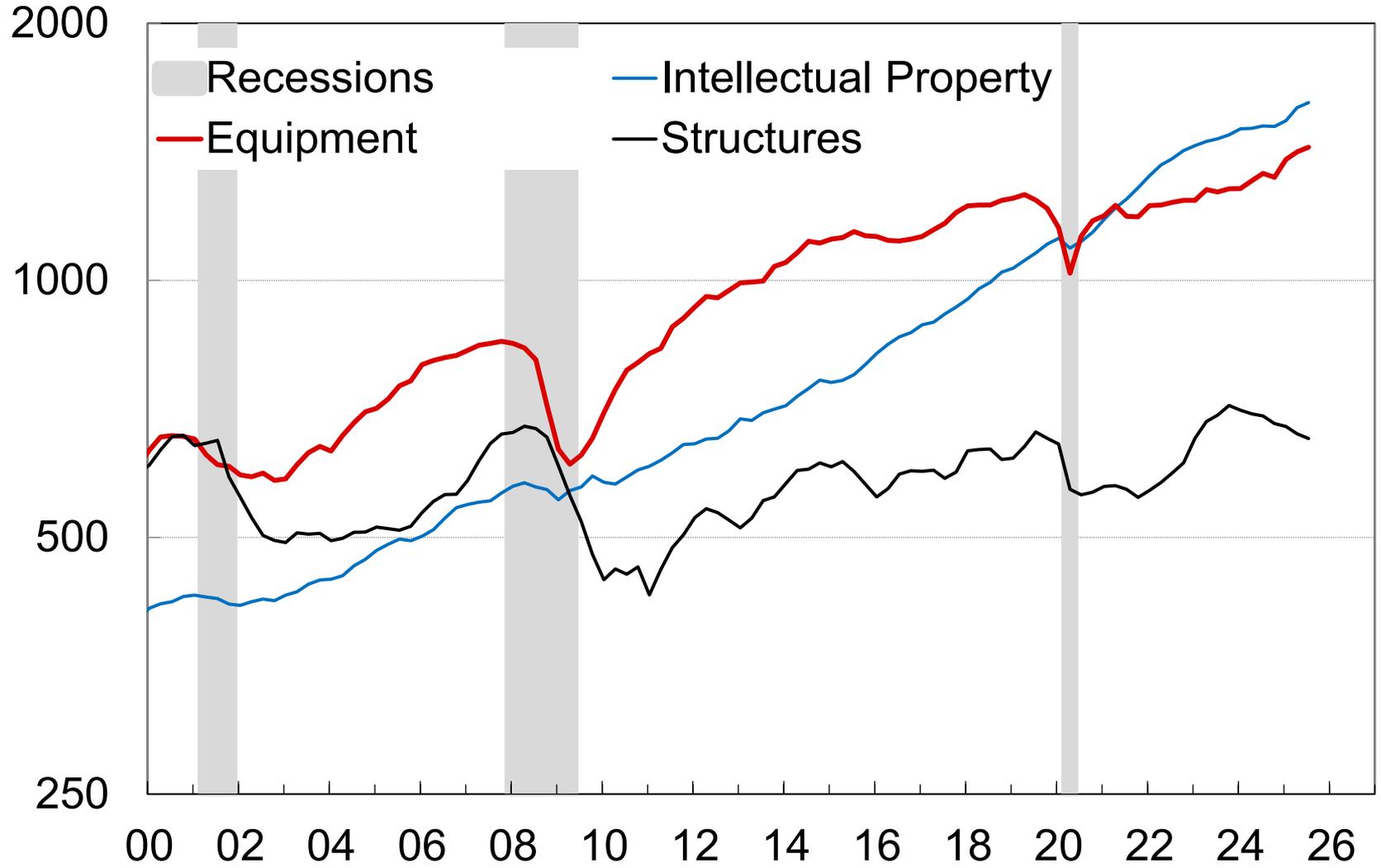
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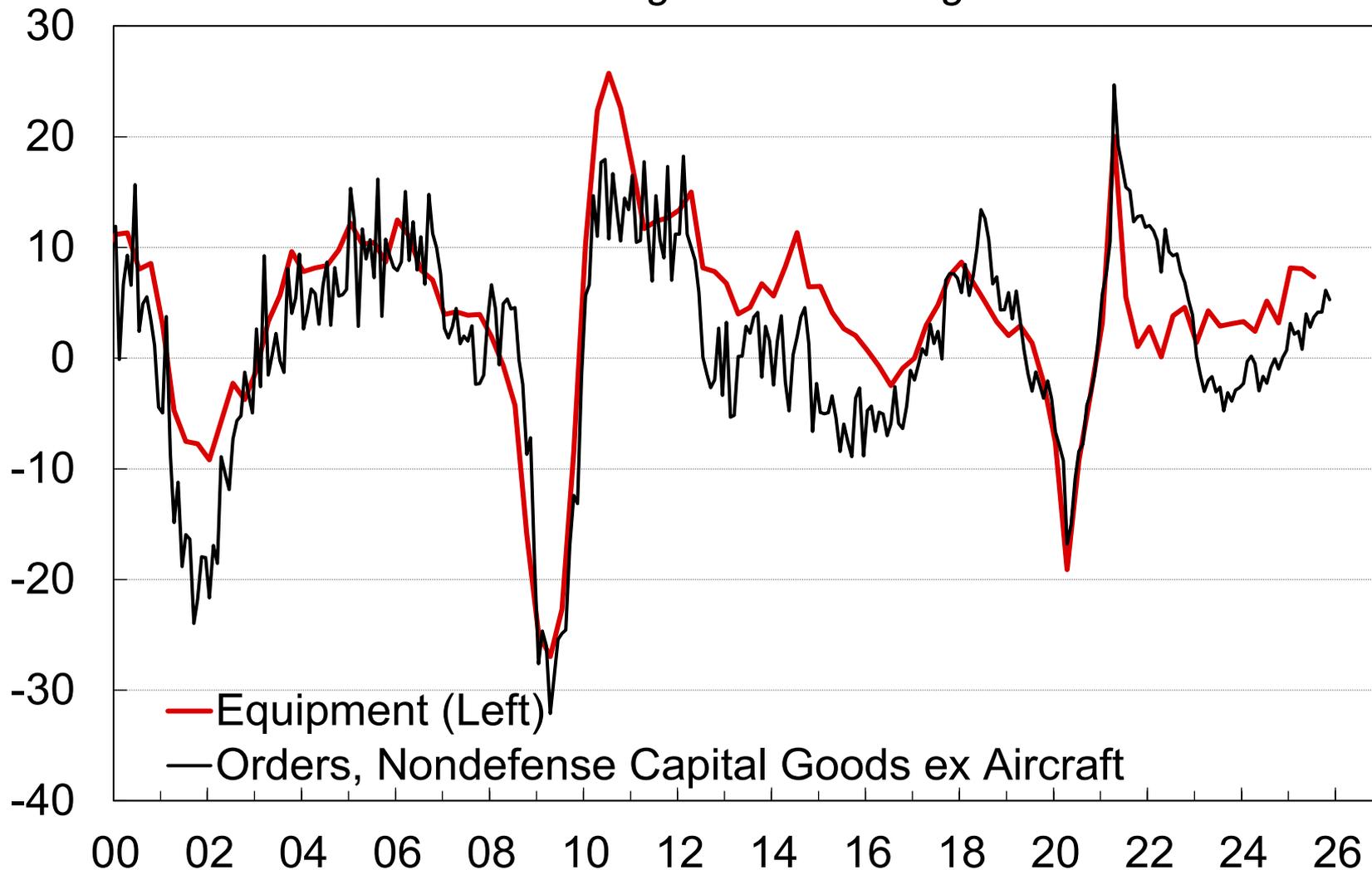
US Nonresidential Fixed Investment

Billion Chained 2017 Dollars



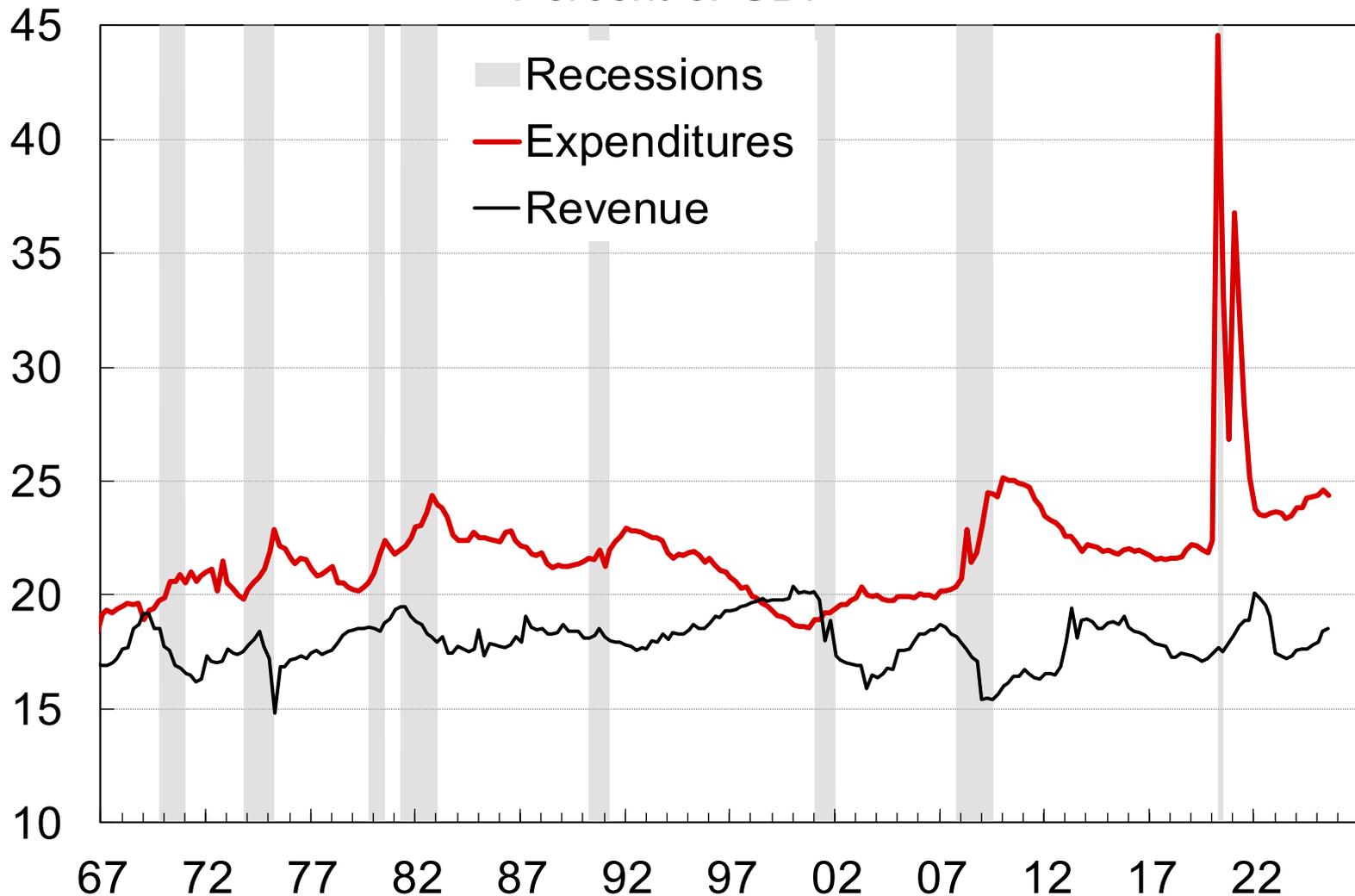
Real Investment in Equipment vs Capital Goods Orders

Percent Change from Year Ago



US Federal Govt Current Expenditures & Revenue

Percent of GDP



Source: U.S. Bureau of Economic Analysis/FRED

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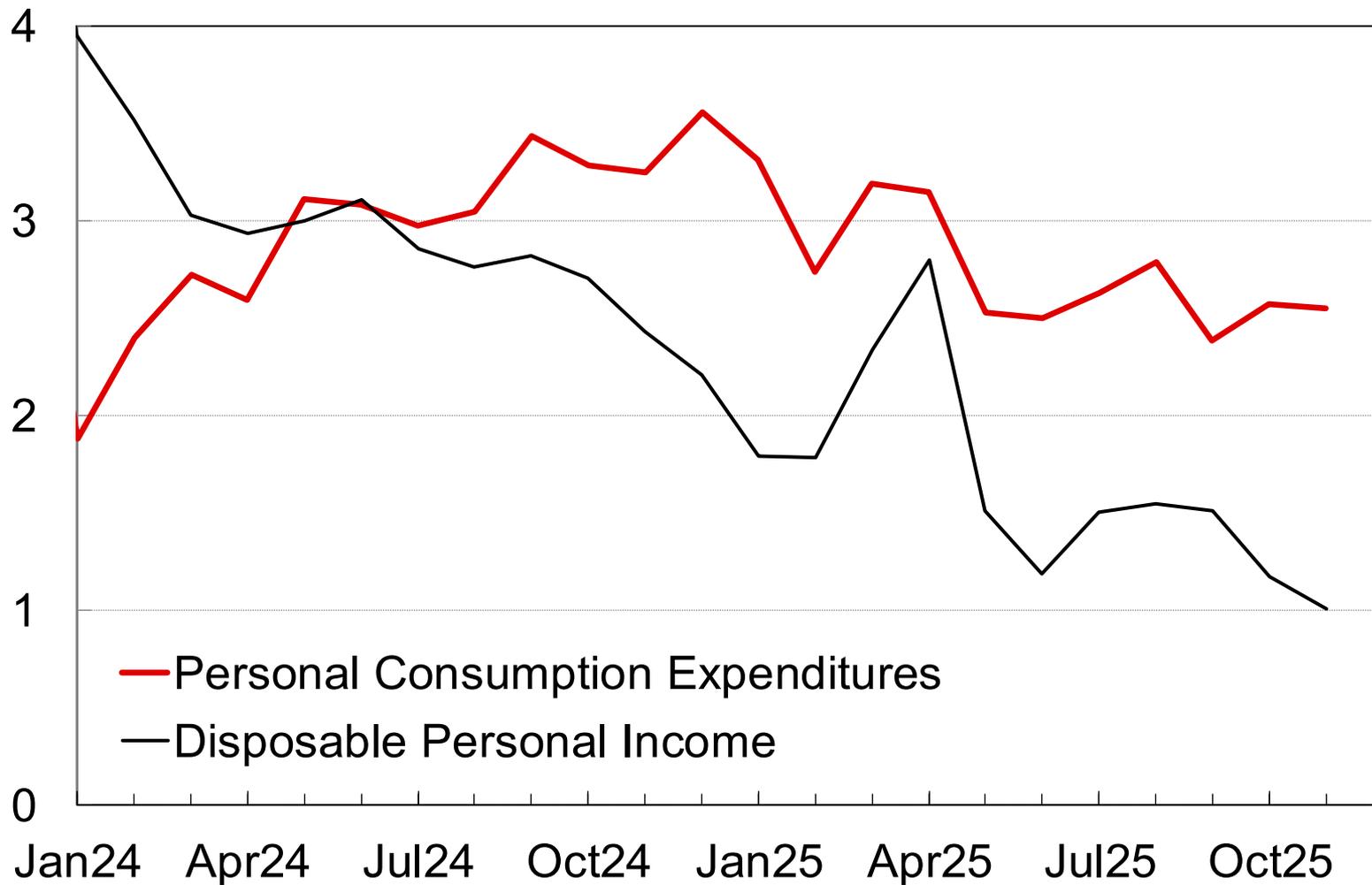
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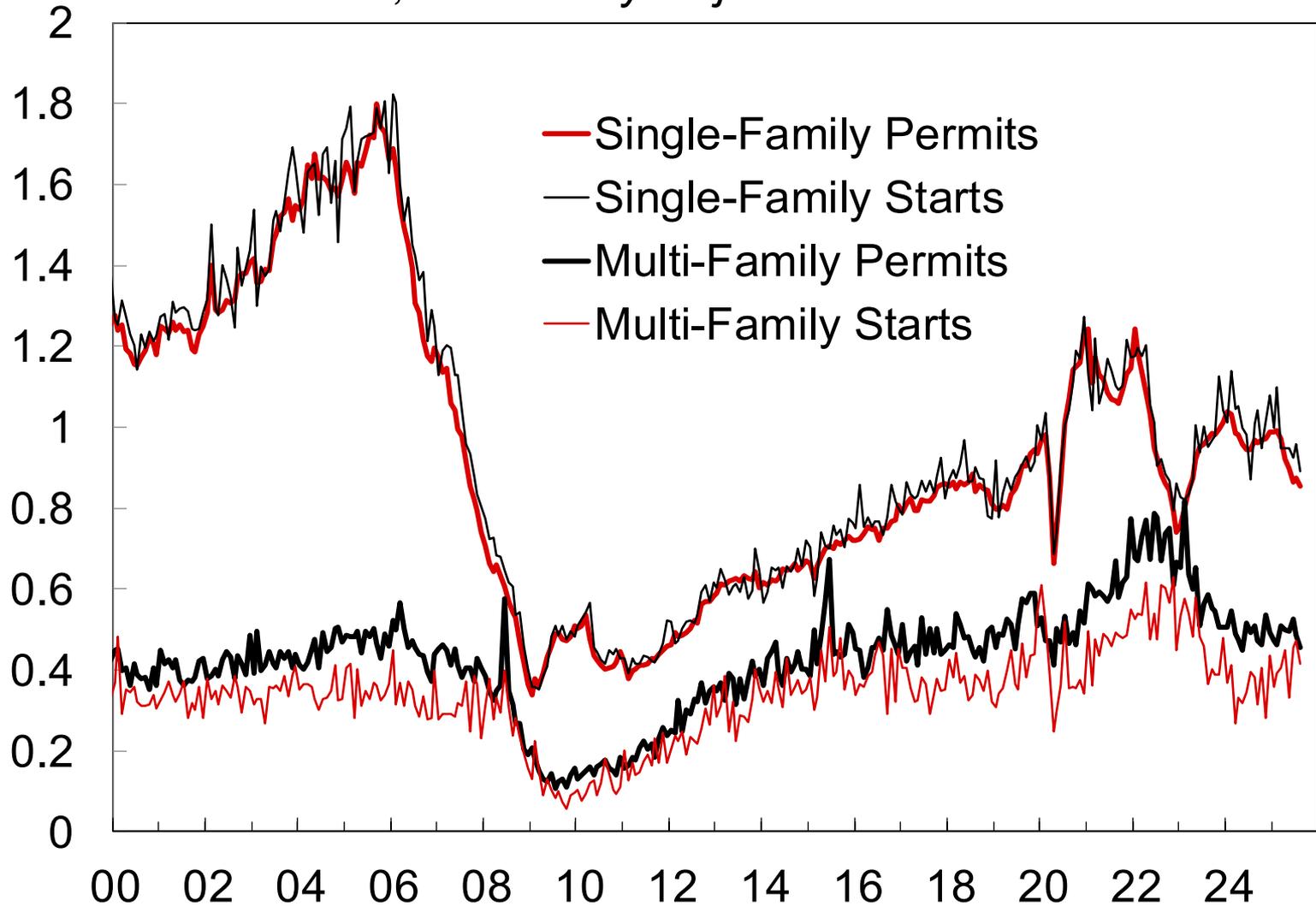
US Real Consumer Spending

Percent Change from Year Ago, Chained 2017 Dollars

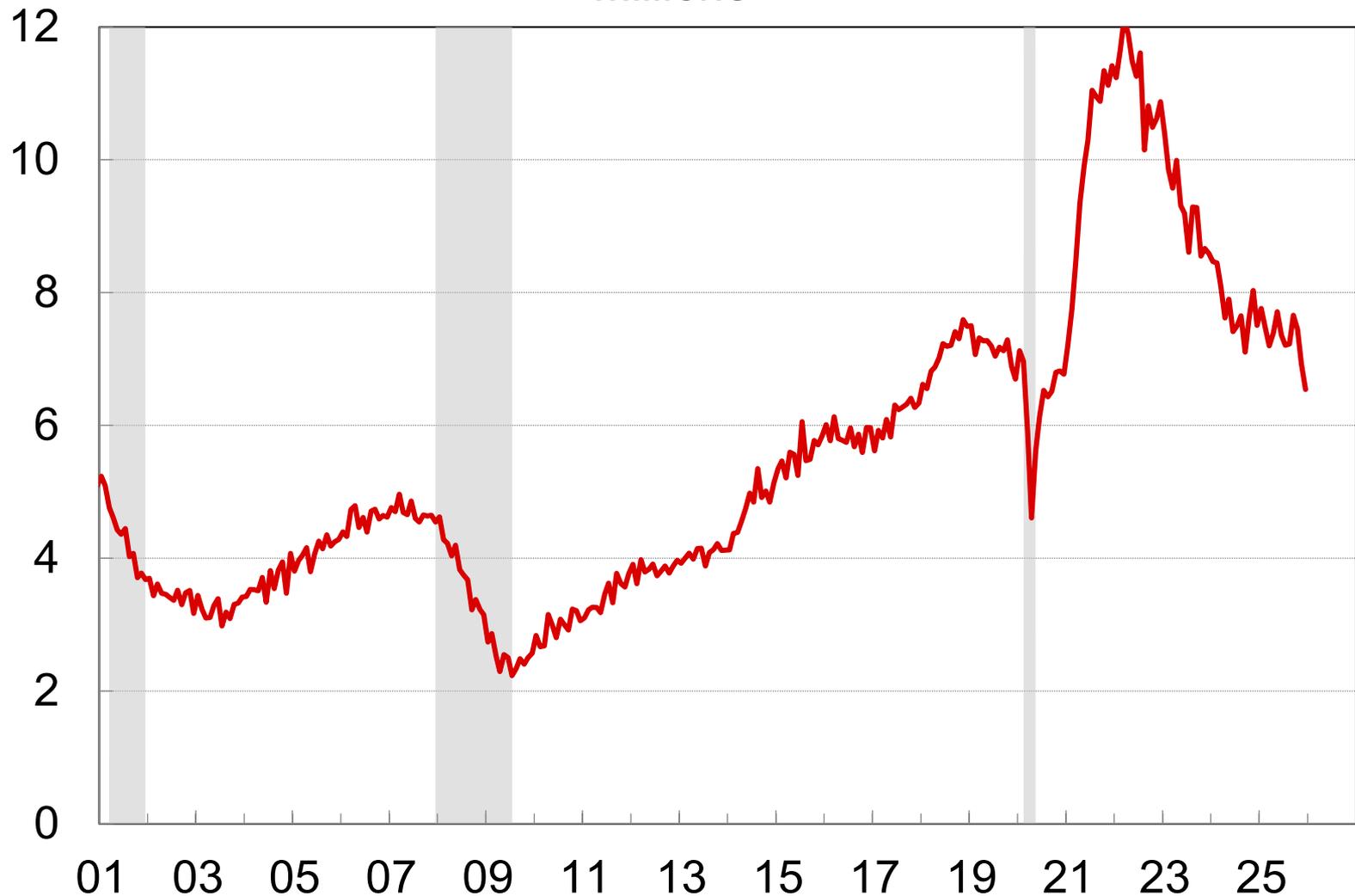


US Housing Starts & Building Permits

Millions, Seasonally Adjusted Annual Rate



US Job Openings: Total Nonfarm *Millions*



Source: U.S. Bureau of Labor Statistics/FRED

There are plenty of cracks in the economy.

Growth in disposable income has slowed. The savings rate has fallen.

Housing market, a leading indicator, remains very weak.

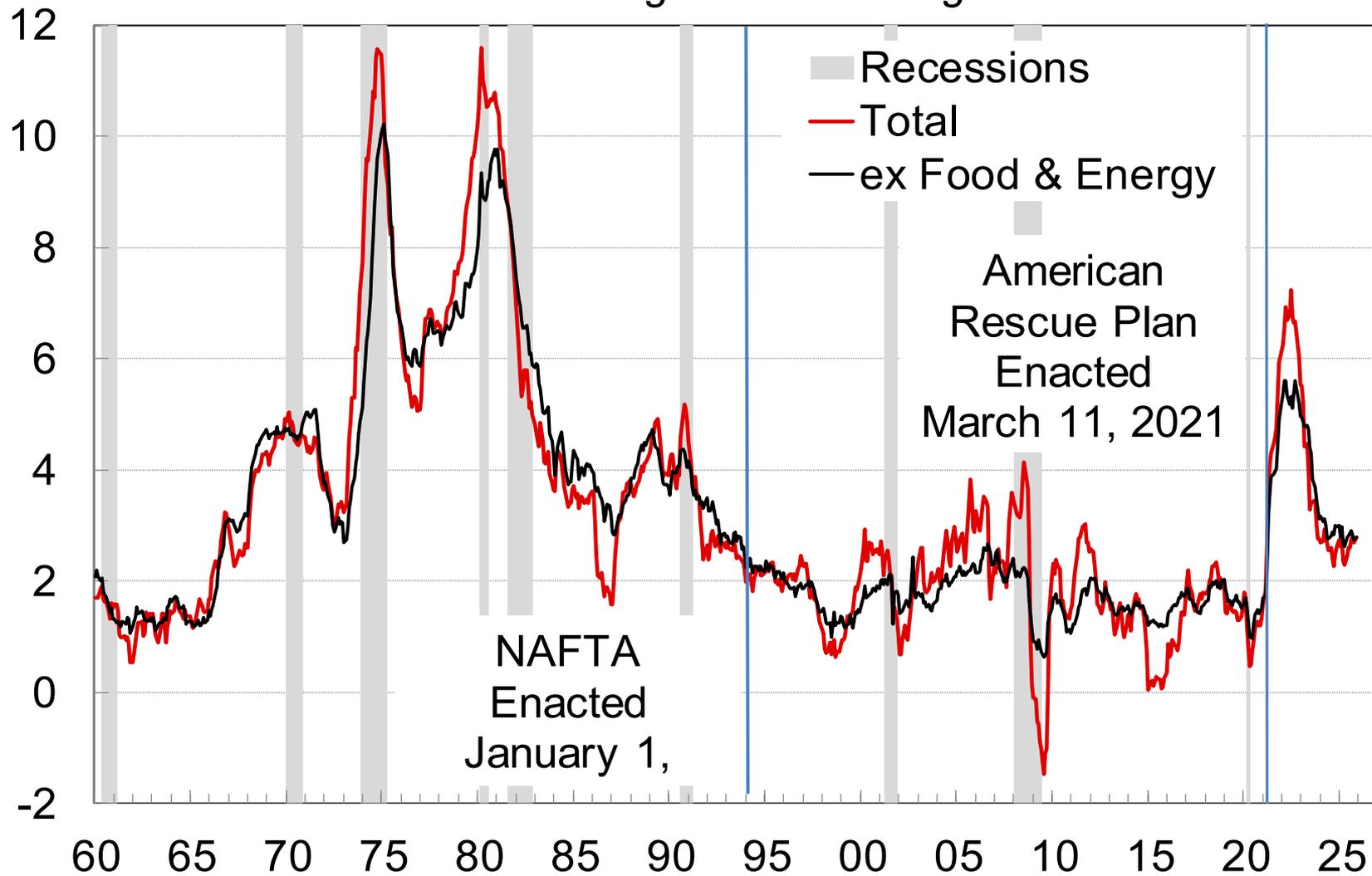
Growth in nonfarm payrolls has slowed. Revisions make it more consistent with ADP. Expected revisions will slow 2024-2025 growth.

Job openings have fallen below the number of unemployed for the first time since early 2021.

Inflation is still well above target.

US Personal Consumption Expenditures Price Index

Percent Change from Year Ago



S&P 500 Stock Price Index



Source: S&P Dow Jones Indices LLC/FRED

What should the Fed do?

Real interest rates are still (slightly) above historical norms.

- Housing market is being hit hard.

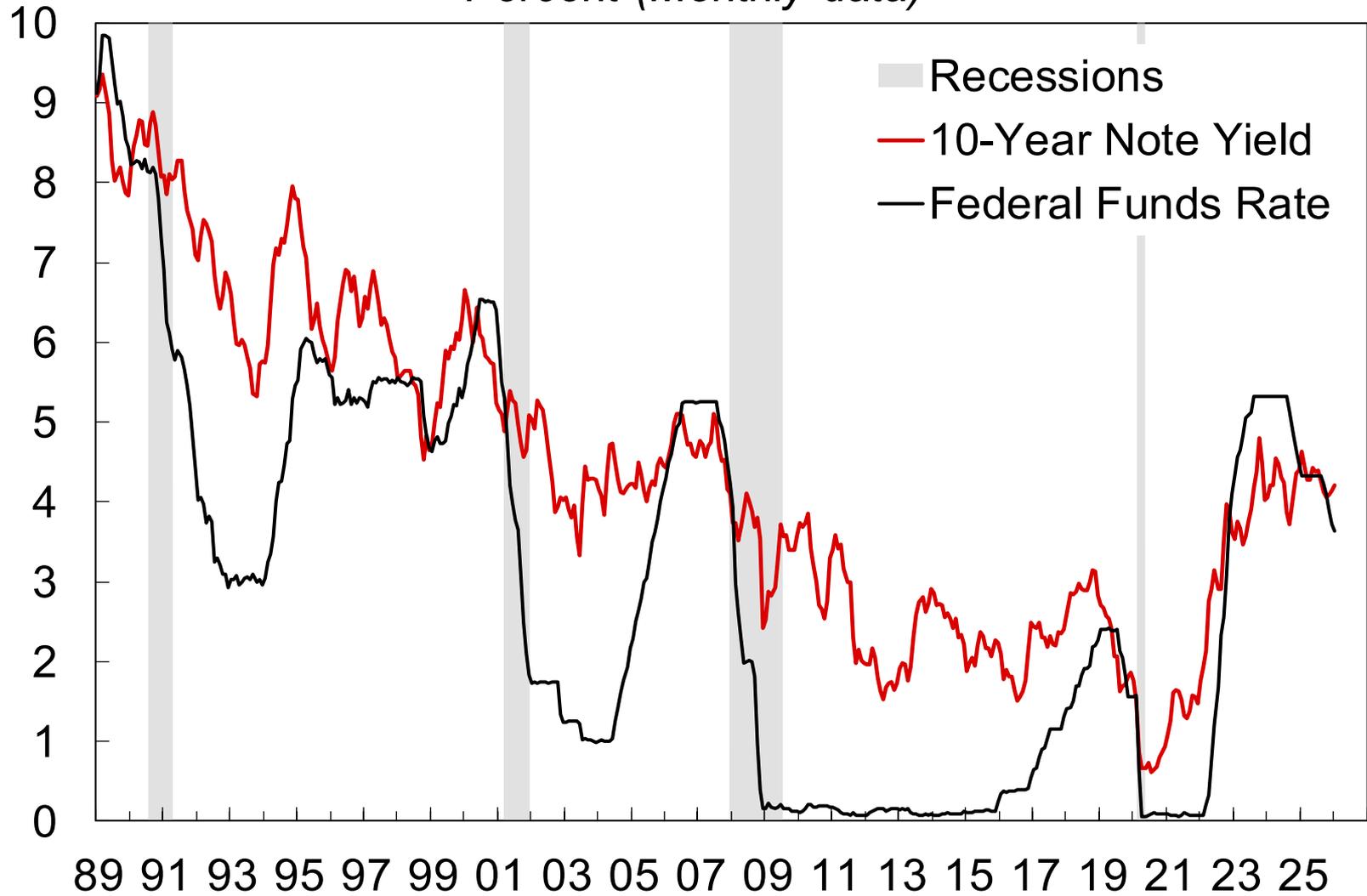
But inflation is still above the Fed's 2% target and no longer falling.

- That suggests policy **should** be restrictive.

Stock prices are near record highs.

US Interest Rates

Percent (Monthly data)



What will the Fed do?

I expect one more rate cut this year, at the June Fed meeting, as a “house-warming gift” or “peace offering” to Fed chair Kevin Warsh.

But maybe it doesn't matter as much as we think.

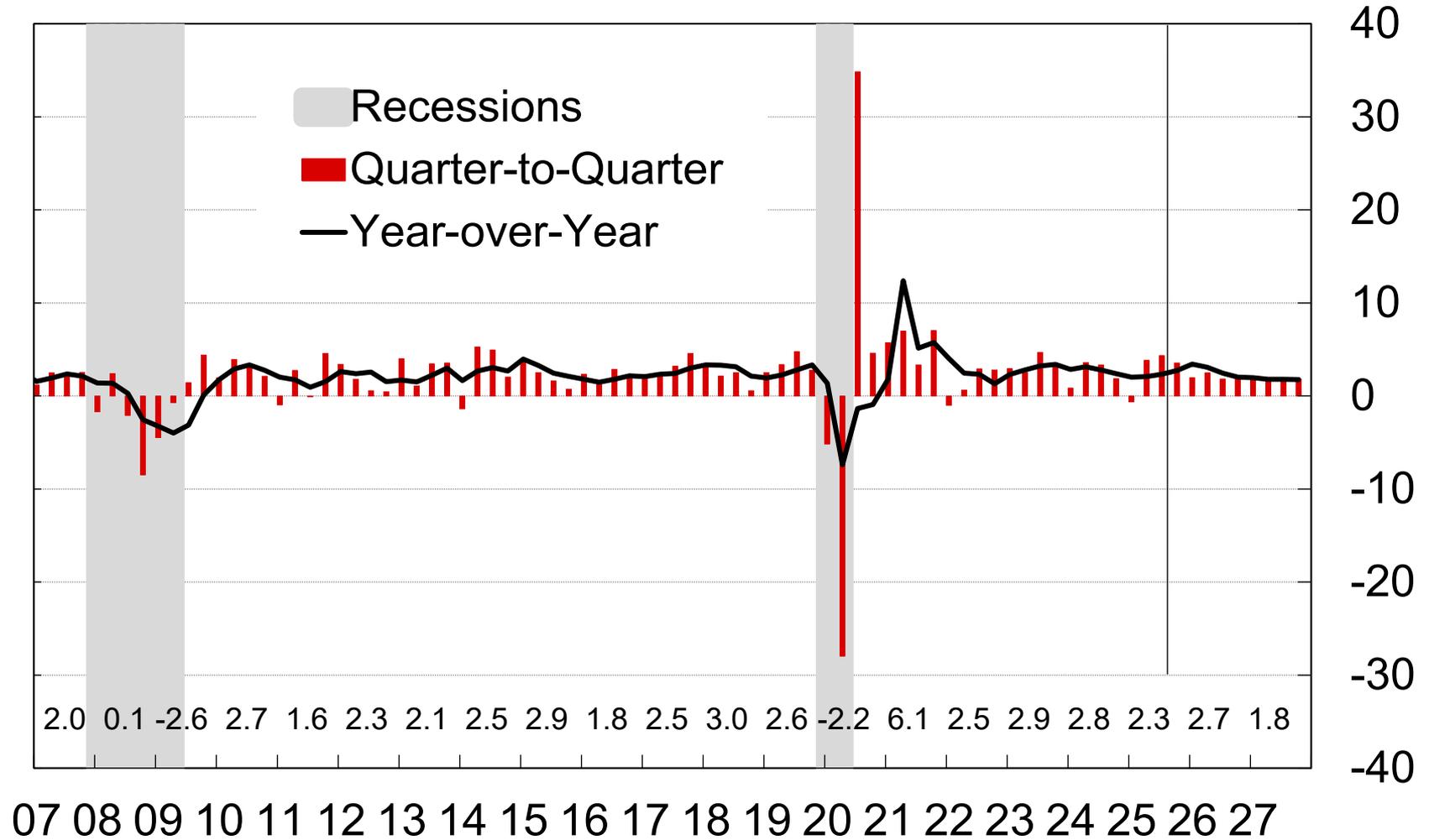
- When Fed cut short-term interest rates in 2024, long-term interest rates rose.
- The household sector is a big net creditor; rate cuts reduce interest income.
- The nonfinancial business sector is now a net creditor. Berkshire-Hathaway and six of the Mag-7 have huge cash hordes; rate cuts reduce earnings.
- As a result, rate cuts aren't as stimulative as they once were; **they might even be contractionary.**
- Interest rates still matter for individual sectors and for financial markets but not so much for overall economic growth.
- Monetary policy isn't as effective as it once was. We're more dependent on fiscal policy for fighting both recessions and inflation.

“Prediction is very difficult, especially about the future.”

**Niels Bohr, 1885-1962
Nobel Laureate, 1922**



US Real Gross Domestic Product *Annualized Growth Rates*



US Macroeconomic Summary

GDP growth remains strong even though employment growth has slowed.

- Reduction in immigration has limited employment growth.
- We're in a no-hire, no-fire economy.

Mathematically, this implies strong productivity growth.

Inflation remains above the Fed's 2% target.

- Inflation in goods prices has risen because of tariffs.
- Inflation in services prices remains stubbornly high.
- Tax cuts/refunds from OBBBA could boost growth AND inflation, especially in 2026Q2.

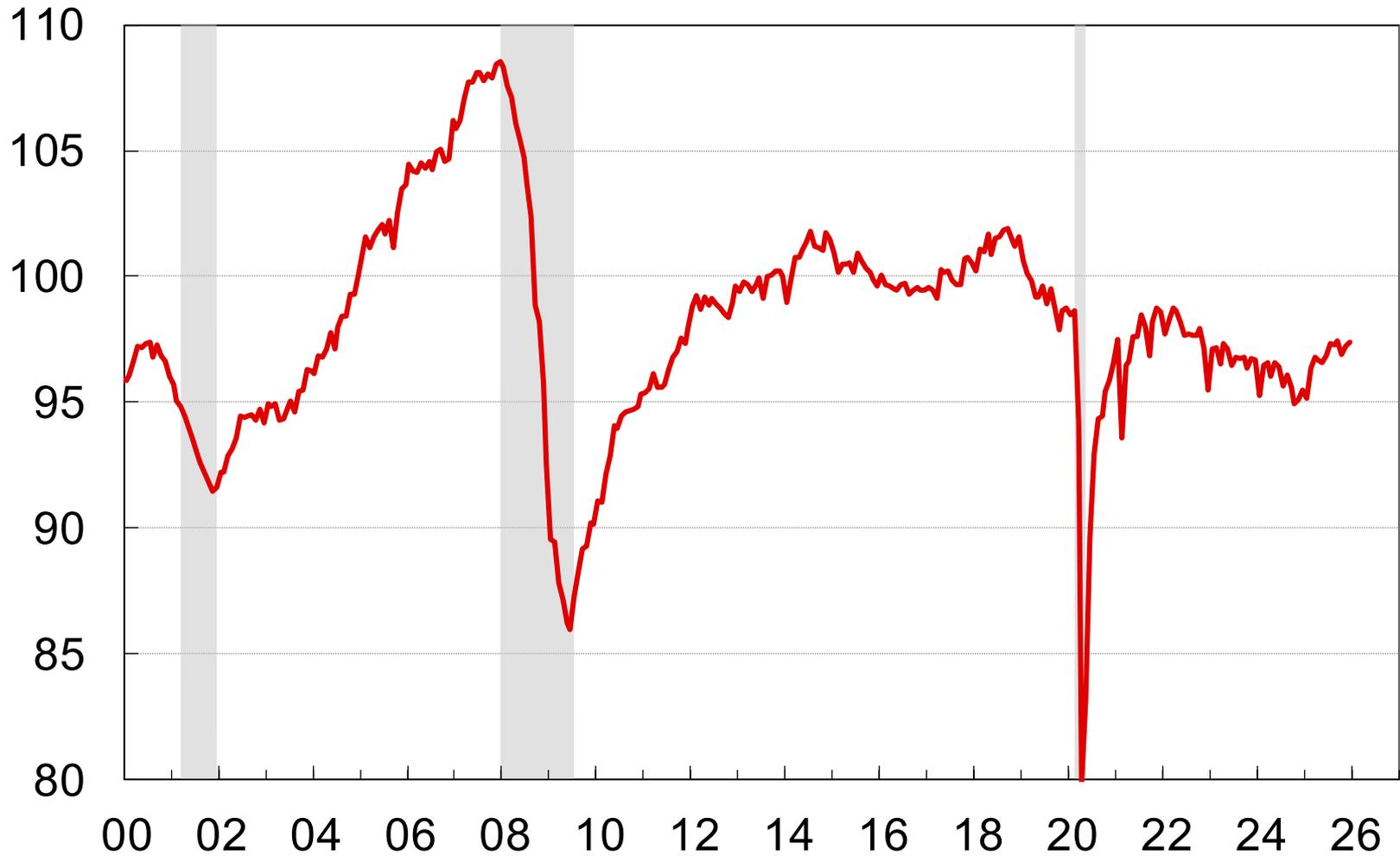
Getting inflation down to 2% might still require a recession, but the Fed won't intentionally engineer a recession to achieve its target.

- We'll need either a positive supply shock or a negative demand shock to get inflation down to 2%.

Industry Detail

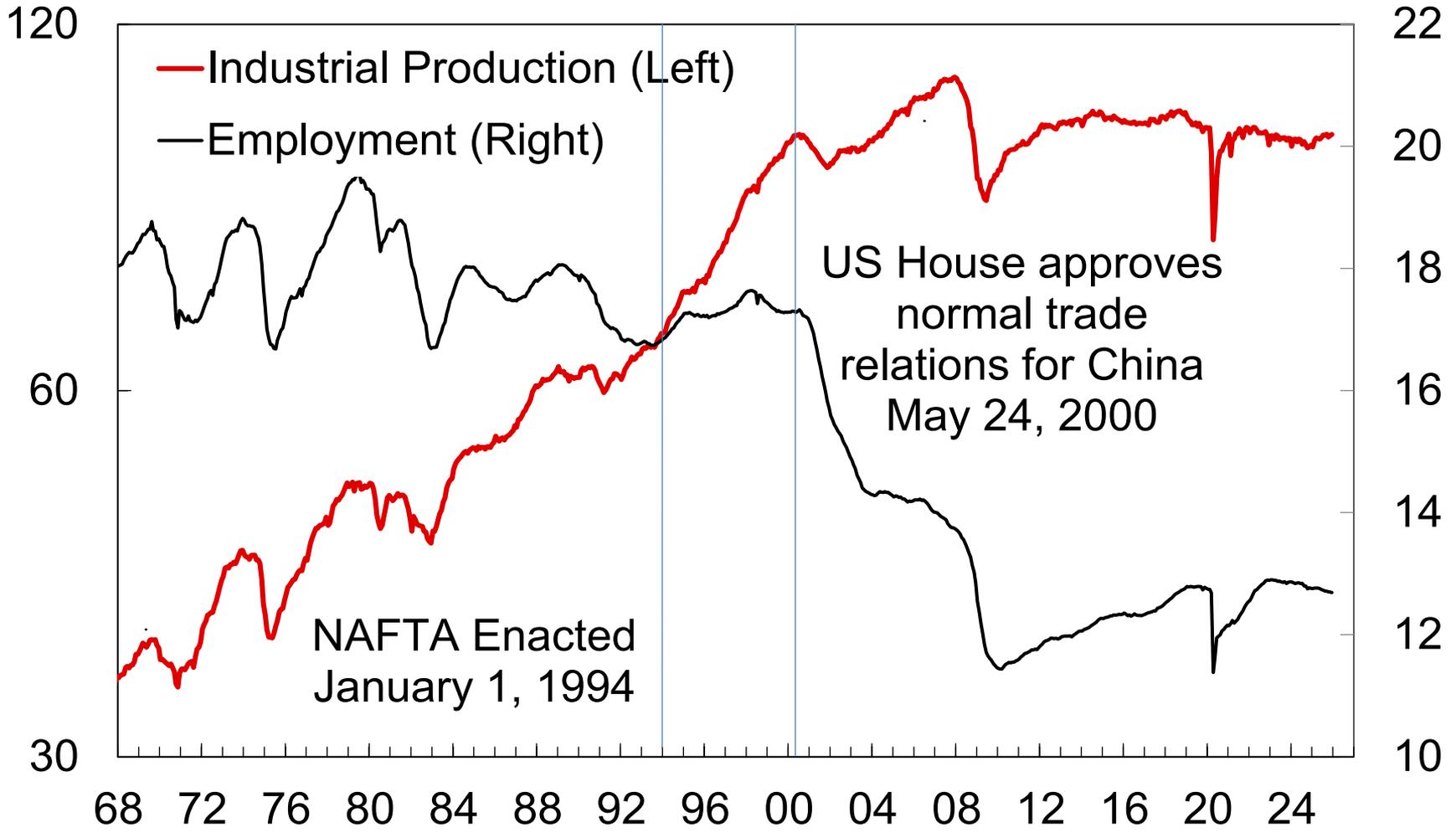
US Industrial Production: Manufacturing

Index, 2017=100



US Industrial Production & Employment: Manufacturing

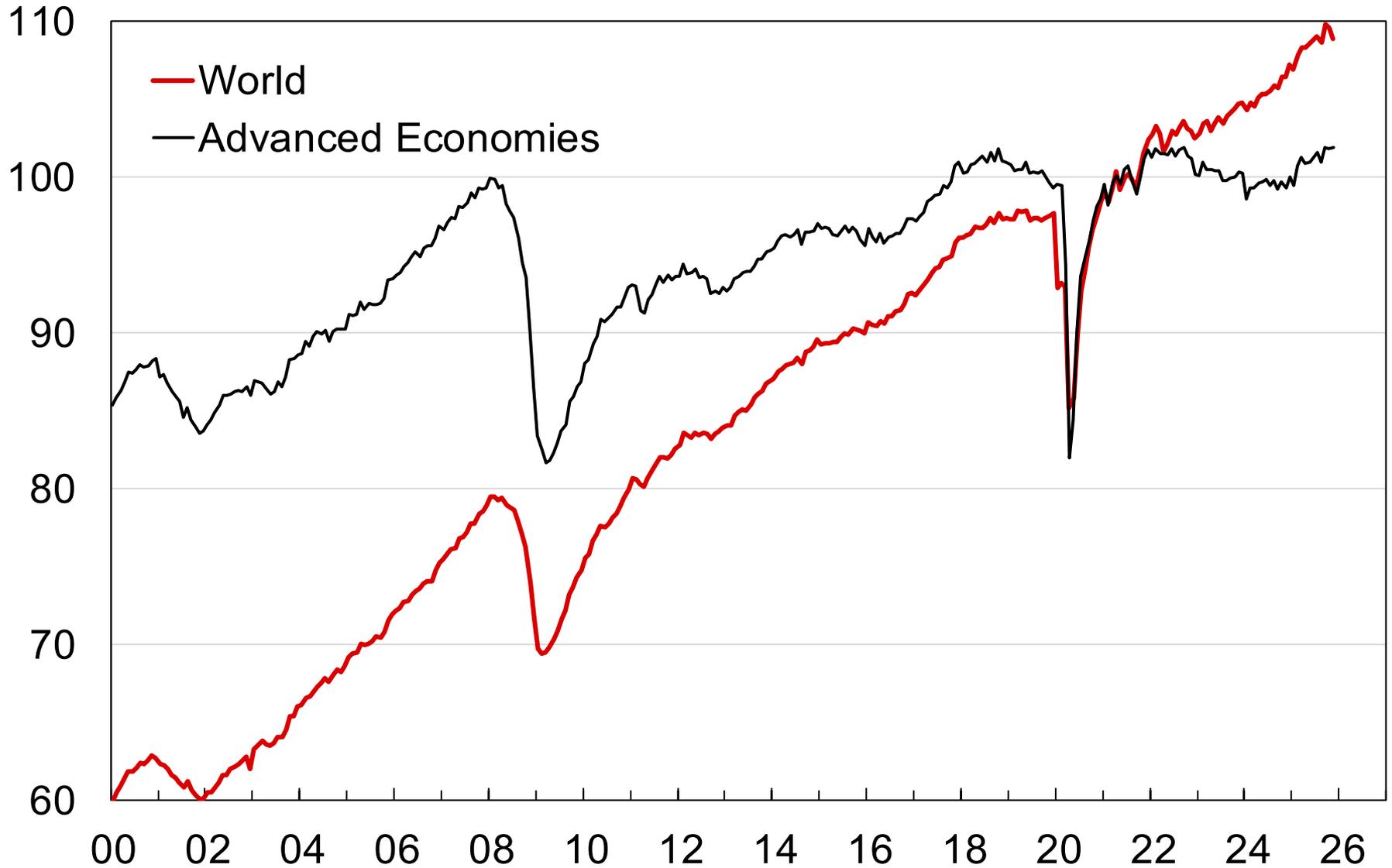
Index, 2017=100 *Millions*



Global Overview

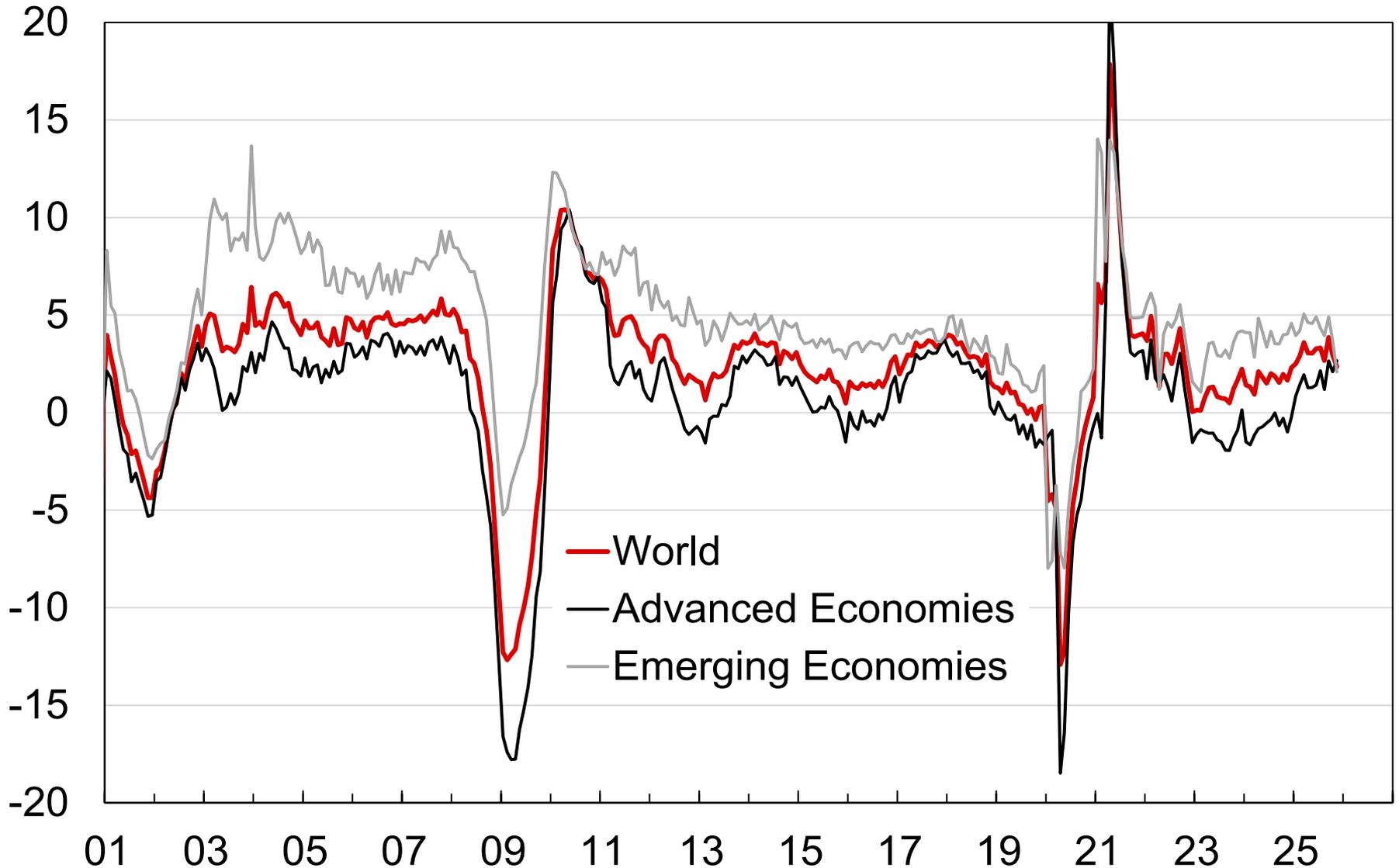
Industrial Production ex Construction

Index, 2021 = 100



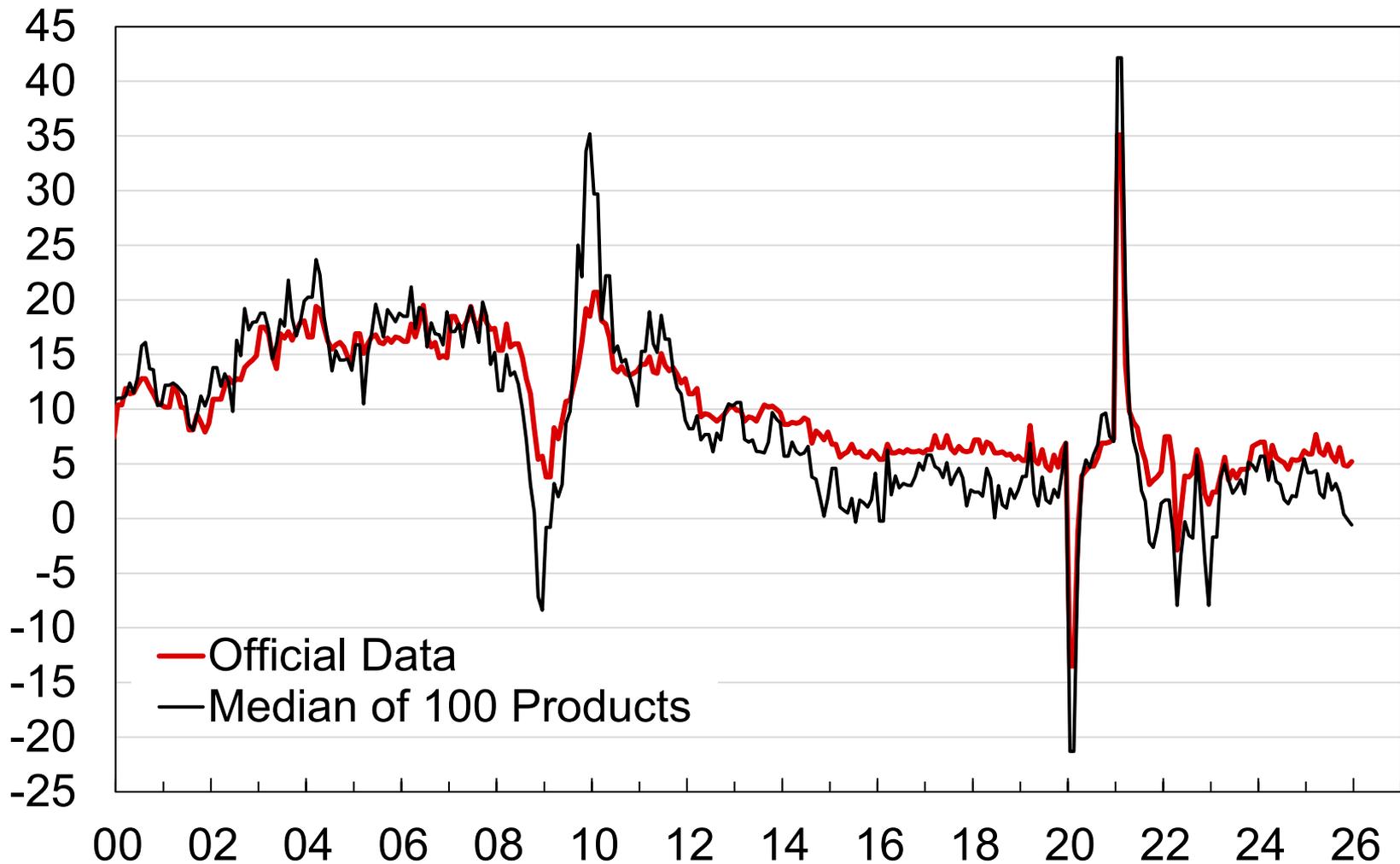
Industrial Production ex Construction

Percent Change from Year Ago



Value Added of Industry (Industrial Production): China

Percent Change from Year Ago



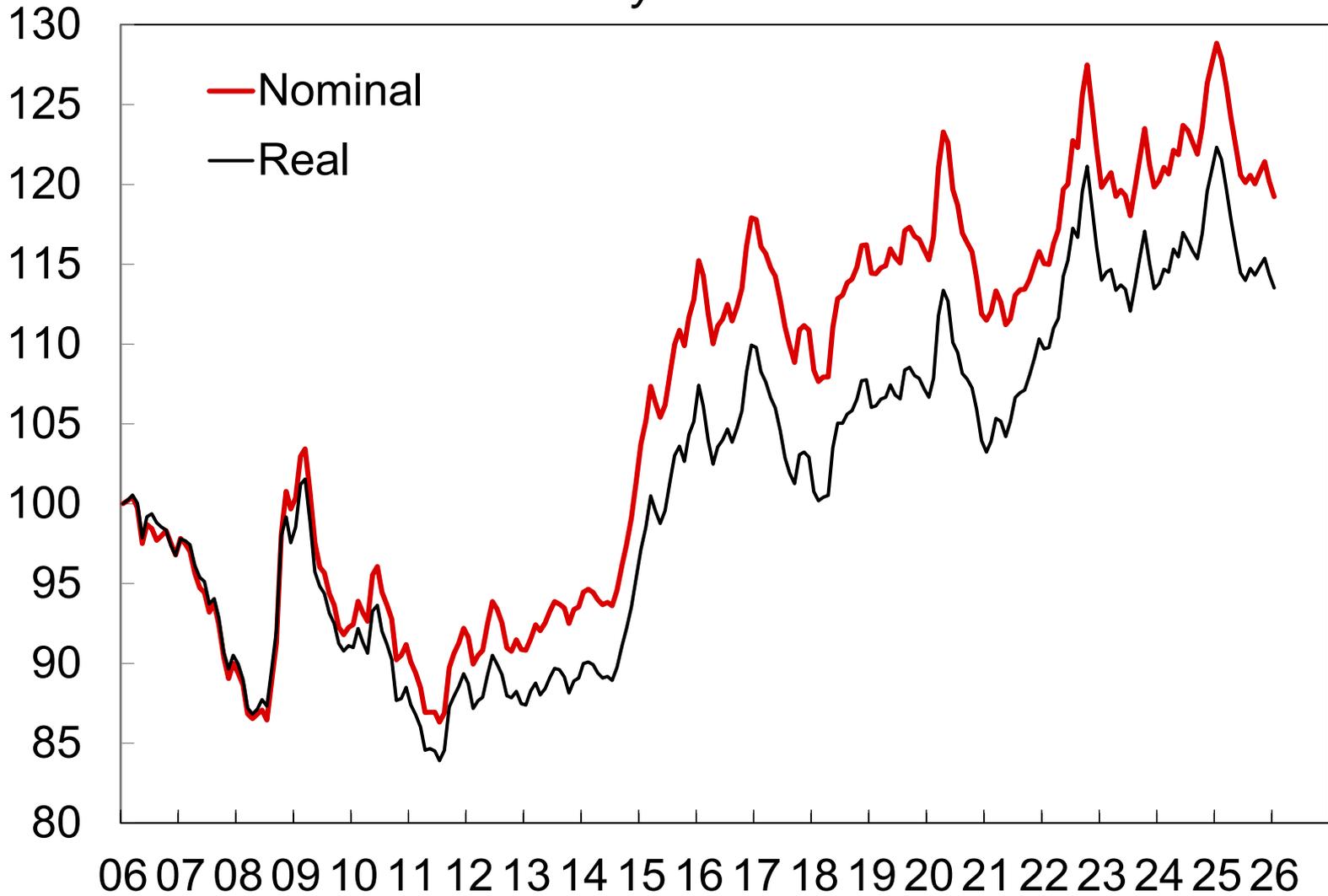
Industrial Production, Manufacturing: European Union

Index, 2021 = 100



Federal Reserve Broad Dollar Index

January 2006 = 100



Key takeaways

The US economy grew strongly in the second and third quarters of 2025 (and probably the fourth quarter), but . . .

- Employment growth has slowed.
- Inflation remains stubbornly above the Fed's 2% target.

Trump tariffs haven't had big impacts on inflation and growth . . . yet.

Chinese economy not growing nearly as fast as in the past.

Manufacturing in the rest of the world is stagnant.

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robertfryeconomics@gmail.com

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