Louisiana Corporate Credit Union

ECONOMIC & FINANCIAL DIGEST

3500 N. Causeway, Suite 1510 • Metairie, Louisiana 70002 • (800) 421-7030 • www.lacorp.com

Volume 31 June 2025

The Tariff Shock

A de-escalation of trade tensions is high on the list that most economists believe is necessary to sustain growth in the U.S. On May 12, they got their wish – sort of. On that day U.S. trade officials announced a detente with China – the nation's top adversary in the trade wars – that would temporarily roll back the onerous reciprocal tariffs that had been in effect. We say sort of because the announced tariffs that remain are still higher than any seen since the 1930s. Also, the tariff reduction with China is only sort of encouraging, as it is scheduled to expire on August 12 unless a permanent agreement is secured before then.

Still, it would be misguided to downplay what is undeniably a welcome respite in the trade wars. Both the U.S. and China recognize that the proposed 145% tariff – which was rolled back to 30% — would bring trading between the first and second largest economies in the world to a complete standstill. That, in turn, would be severely disruptive for both nations. What's more, experts on the trade front believe that 90 days is not enough time to forge a deal that has many moving parts and complicated details. Hence, the hiatus is likely to be extended, providing more relief for Main Street and less volatility for the antsy financial markets. Indeed, the announced pause on May 12 buoyed the stock market and lowered fears of a recession, which many believed was highly likely this year because of tariffs.

But it would also be misguided to think that reduced trade tensions have not left ripples in its wake. Even if nothing else happens on the trade front, the higher levies imposed earlier this year are still in effect and leave the U.S. with an effective tariff rate of roundly 15 percent on all imports. That's up from under 5 percent at the start of the year and the highest level in nearly a century. There will be a price to pay for higher tariffs – more inflation and slower growth than otherwise. Still, the near-term recession threat has been put on the back burner; the economy will feel some pain, but it should stay afloat unless the tariff-induced plunge in public sentiment has a corresponding impact on behavior.

Growing Importance of Trade

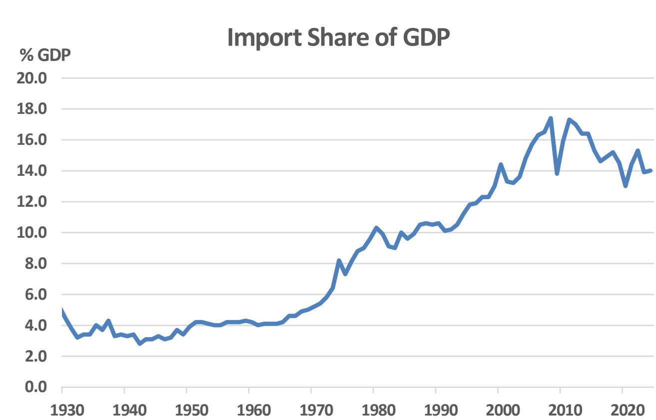
As noted, the current effective tariff rate is the highest since 1930 when the infamous Smoot-Hawley Tariff Act boosted the effective tariff rate to over 20 percent and deepened the historic depression already under way. That protectionist mindset had a devasting impact on trade, cutting U.S. imports and exports by more than 60 percent over the next two years. However, other influences were more responsible for igniting and sustaining the depression of the 1930s, including the wealth-destroying stock market crash in 1929, bad monetary policy and a failing banking system. Tariffs were more of a contributing than the main catalyst behind the ruinous downturn of that era.

The current tariff rate may be lower than it was then, but the impact could be greater. One reason: the U.S. is far more interconnected with the rest of the world than it was in the 1930s. Trade flows, for example, are three times larger as a share of GDP, and imports play a much more important role in greasing the economy's gears. Indeed, they account for 80-90 percent of consumers' clothing and footwear purchases, and 40-60 percent of durable good purchases, including appliances, furniture and electronics. Small wonder that the latest University of Michigan survey noted that "tariff concerns were spontaneously mentioned by nearly three-quarters of consumers" contributing to a 30 percent plunge in household sentiment since the start of the year.

Likewise, businesses rely heavily on imports, not only to obtain merchandise that consumers buy but also the critical inputs needed to complete production. The auto sector is probably the poster child of this linkage as more than 50 percent of the parts needed in the assembly process are sourced from overseas. Needless to say, any disruption in the supply chain – something that is highly vulnerable to a trade war – would deeply affect the availability and cost of goods in the U.S. What makes such disruptions even more critical now than in the past is that American companies have widely adopted just-in-time inventory management practices, which requires a predictable and smooth delivery of imports to satisfy demand.

The Economy is in Good Shape – For Now

The temporary roll back of the most onerous tariffs means that global trade is set to resume, reducing the threat of empty



shelves in coming months. However, between the April 2 "Liberation Day" tariff hikes and the May 9 truce with China, trade was brought to a virtual standstill, resulting in empty ships at ports and reduced paychecks among some dockworkers and truckers. Yet neither economic activity nor inflation has yet to show any ill-effects from the tariffs or the temporary shutdown of trade flows.

Indeed, most measures of economic activity portray a resilient economy, with solid job growth, few layoffs and a decent pace of consumer spending, the economy's main growth driver. Importantly, despite headline-grabbing warnings of tariff-induced inflation, the latest batch of price measures has been exceptionally benign; the consumer price gauges all track a lower not a higher inflation rate through April. So, does this signify that all the hoopla over the disruptive effects of tariffs is nothing more than a smoke screen?

Not likely. Keep in mind that there is a lag between changes in the effective tariff rate and when it is passed on to consumers. It takes 4 to 6 weeks for a ship to travel from China to the U.S. and more time for the cargo to be unloaded and trucked to warehouses. Most goods being sold now arrived before tariffs were imposed as U.S. companies raced to build up inventory to beat the expected tariffs. Hence, those goods are being sold at pre-tariff prices. But inventories are being drawn down and shelves won't be restocked until the new merchandise, carrying the higher tariffs, arrive at least several weeks from now.

Summer Blues

That means the main inflationary impact from tariffs will hit sometime by June or July. How much of a hit will depend on several factors. Some of the tariff impact could be offset if exporters lower their prices or if the dollar appreciates, making foreign goods cheaper in dollar terms. Some price concessions may occur, but whatever cost savings that provides is more than offset by the fact that the dollar has been weakening. So far this year, the dollar has fallen by more than 7 percent against the currencies of major trading partners.

Another influence that could blunt the tariff impact on prices would be the willingness of U.S. companies to absorb the tariff. To some extent, that is likely to happen, but profits would take a hit, and public companies would face the wrath of shareholders. Smaller companies really have no choice but to pass the tariffs on to consumers as they operate with much thinner margins than their larger brethren. That's a key reason why small business optimism has fallen so dramatically in recent months. Historically, businesses overall have passed about two-thirds of the cost of tariffs onto consumers, and we expect a similar response this time as well.

That, of course, is when the rubber meets the road. Higher prices will eat into disposable incomes and restrain spending. What's more, the biggest impact will be on lower-income households because they spend more on goods than services, and the tariffs are imposed on goods. The demand destruction that might occur would be greater than what followed the last time tariffs were raised during President Trump's first term. Then, the purchasing power of lower income households was bloated by generous Covid-related stimulus payments and tax cuts. The excess savings from that period has been mostly used up and balance sheets are not nearly as healthy, as evidenced by the sharp rise in delinquency rates this year.

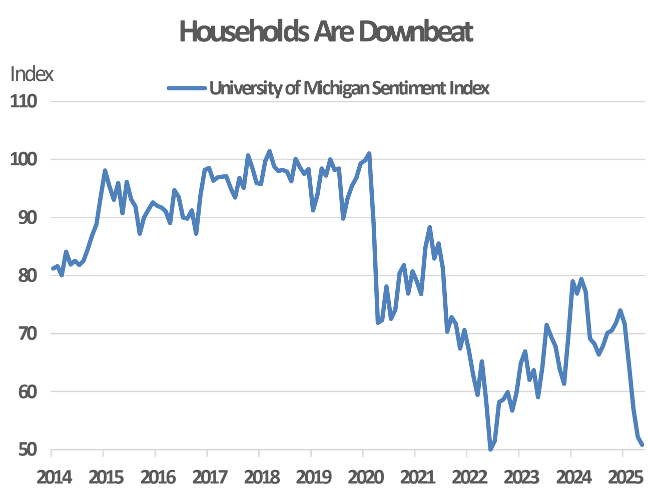
The Fed's Dilemma

Although, as noted, inflation has been behaving well in recent months, that will change as the impact from tariffs feeds through to prices. We suspect that the inflation rate will rise by about 1 percent more than otherwise by the summer months. This is not unexpected, as household inflation expectations have increased dramatically since the tariff blitz got underway, prodding consumers to pull forward purchases to beat the higher prices. That, in turn, has added muscle to the economy's performance in the first quarter.

But the payback is coming just the higher prices from tariffs will be kicking in. As the summer months unfold, the Fed will be facing an old dilemma – whether to lower interest rates to prop up a slowing economy or to raise them to stave off higher inflation. Understandably, it is currently taking a wait-and-see strategy, staying on the sidelines until there is more clarity on which trend is moving faster and requires offsetting action. One question vexing policy makers is whether the expected price hikes from tariffs will be a one-off boost or spark the resumption of a higher inflation trend. Fed chair Powell believes the former is more likely, and that the inflation uptick will be transitory. That assumes, of course, there will not be recurring hikes in tariffs once the pause ends this summer.

At some point the Fed's decision will be determined by which of its dual mandates – achieving maximum employment and stable inflation – is further from its target. Currently, the inflation rate is further away from its 2 percent target than unemployment, which is hovering near historic lows of just over 4 percent. That, in turn, underpins the Fed's current policy of keeping rates steady at their elevated levels until there are clear signs that the job market is weakening. So far, the hard data portrays solid labor conditions; but soft data say otherwise, as surveys reveal increasing anxiety among households that job losses will increase later in the year. That downbeat mindset together with the tariff-induced cut in incomes will lead to a pullback in consumer spending later this year and prod the Fed to resume cutting interest rates to short-circuit a recession.

Indeed, the Fed will be the only game in town to accomplish this mission. Unlike the period following the last round of tariffs in President Trump's first term, Washington will be in no position to step in as the fiscal deficit is already surging to unsustainable levels. That's another headline that will overshadow tariffs as the calendar turns to 2026.



KEY ECONOMIC AND FINANCIAL INDICATORS

Financial Indicators *

	April	March	February	January	December	November	October	12-Month Range High	12-Month Range Low
Prime Rate	7.50	7.50	7.50	7.50	7.65	7.81	8.00	8.50	7.50
3-Month Treasury Bill Rate	4.21	4.20	4.22	4.21	4.27	4.42	4.51	5.25	4.20
5-Year Treasury Note Rate	3.91	4.04	4.28	4.43	4.25	4.23	3.91	4.50	3.50
10-Year Treasury Note Rate	4.28	4.28	4.45	4.63	4.39	4.36	4.10	4.63	3.72
30-Year Treasury Bond Rate	4.71	4.60	4.68	4.85	4.58	4.54	4.38	4.85	4.04
Tax-Exempt Bond Yield	4.40	4.30	4.20	4.19	4.04	4.14	3.96	4.40	3.83
Corporate Bond Yield (AAA)	5.45	5.29	5.32	5.46	5.20	5.14	4.95	5.46	4.68
Conventional 30-Year Mortgage Rate	6.73	6.65	6.84	6.96	6.72	6.81	6.43	7.06	6.18
Dow Jones Industrial average	39876	42092	44209	43524	43656	43717	42494	44209	38904
S&P 500 Index	5370	5684	6039	5980	6011	5930	5792	6039	5235
Dividend Yield (S&P)	1.43	1.34	1.24	1.26	1.24	1.23	1.28	1.43	1.23
P/E Ratio (S&P)	23.8	24.0	25.5	27.2	26.5	27.0	26.0	27.2	23.8
Dollar Exchange Rate (vs. Major Currencies)	124.5	126.5	128.1	129.0	127.8	126.5	123.8	129.0	122.1

* Monthly Averages

Economic Indicators

	April	March	February	January	December	November	October	12-Month Range High	12-Month Range Low
Housing Starts (Thousands of Units)	1361	1339	1490	1358	1514	1295	1352	1514	1265
New Home Sales (Thousands of Units)		724	674	654	720	676	623	736	623
New Home Prices (Thousands of Dollars)		404	412	431	423	398	426	431	398
Retail Sales (% Change Year Ago)	5.2	5.2	3.9	4.6	4.6	3.9	3.1	5.20	2
Industrial Production (% Change Year Ago)	1.5	1.3	1.4	1.7	0.4	-0.9	-0.3	1.7	-0.9
Operating Rate (% of Capacity)	77.7	77.8	78.2	77.7	77.6	76.8	77.1	78.2	76.8
Inventory Sales Ratio (Months)			1.35	1.36	1.35	1.37	1.37	1.38	1.35
Real Gross Domestic Product (Annual % Change)		-0.3			2.4			3.0	-0.3
Unemployment Rate (Percent)	4.2	4.2	4.1	4.0	4.1	4.2	4.1	4.3	4.0
Payroll Employment (Change in Thousands)	177	185	102	111	323	261	44	323	44
Hourly Earnings (% Change Year Ago)	3.8	3.8	4.0	4.0	4.0	4.2	4.1	4.2	3.6
Personal Income (% Change Year Ago)		4.3	4.5	4.2	4.9	5.0	5.1	5.9	4.2
Savings Rate (Percent of Disposable Income)		3.9	4.1	3.9	3.3	3.7	4	5.1	3.3
Consumer Credit (Change in Blns. Of Dollars)		10.2	-0.6	9.4	-110.3	-5.9	10.6	17.6	-110.3

SimpliCD Issuance

Share Certificate Program

Fourth Quarter 2024 - By the Numbers

$5.9 billion	Total credit union issuance outstandings.
1,598	Number of credit unions that have issuance agreements in place, prepared to issue share certs, should the need arise.
441	Number of credit unions that currently have custodial share certificate issuance balances through SimpliCD.
$100 million	Largest issuance in a single transaction to date.

Generate Liquidity Quickly and Easily with SimpliCD.

Nearly 70% of the nation's credit unions have an investing relationship with SimpliCD. **With one phone call, your credit union can issue up to $50 million or more in share certificates in a single transaction to our network of more than 3,000 credit union investors across the country.** If you are looking for an exceptionally large deposit, are low-income designated, or you are simply interested in a larger audience of investors, access public funds, other institutions, and potentially all US credit unions with SimpliCD DTC Issuance.

For more information on issuing share certificates through SimpliCD, please call or email Erin Byrd at Louisiana Corporate 800-421-7030 erinb@lacorp.com. You may also visit our website at

https://www.simplicd.org

SimpliCD is owned and operated by Primary Financial Company LLC, a credit union service organization owned jointly by Louisiana Corporate and corporate credit unions nationwide.

SimpliCD Issuance complements or provides a competitive alternative to FHLB advances and other funding alternatives and is an effective solution for credit unions looking to add a secondary liquidity source.

It's quick. It's easy. It's SimpliCD.

Benefits of issuing through SimpliCD include:

- No subscription, broker, or transaction fees with custodial program
- A centralized way to raise funds and generate liquidity
- Access to the largest network of credit union investors nationwide
- The ability to aggregate investors into one certificate of deposit
- The safety of working with a credit union owned entity
- As easy as opening any other customer account

Please inquire about current rates.