Louisiana Corporate Credit Union

ECONOMIC & FINANCIAL DIGEST

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

Volume 31 March 2025

The One Certainty This Year is -- Uncertainty

It would be wonderful to say that the economy started 2025 with a bang, setting the stage for another year of solid performance. Sadly, that's not the case, as key data on activity weakened and inflation jumped in January. Happily, one-month does not make a trend, so it would be a mistake to extrapolate early-year numbers into the future. For one, data for January are less reliable than in other months. That's particularly the case since Covid, which greatly disrupted seasonal price and spending patterns and has complicated the task of seasonally adjusting new data. For another, climatic conditions are more unpredictable in January; the presence of devastating wildfires and extreme cold this year made interpreting the data even more of a chore.

Keep in mind too that the onslaught of executive orders and tariff proposals by the Trump administration is still reverberating through the economy. It will take time to process the impact these rapid-fire directives would have, and whether they are just a negotiating ploy or firm commitments that result in real changes. But uncertainty can affect behavior; plans can be put on hold, households can either defer or pull forward spending and, importantly, rate-setting plans by the Federal Reserve can be put in limbo. Indeed, the central bank has already moved to the sidelines, pausing its rate-cutting campaign at the last meeting in January.

There are still compelling reasons to be optimistic about 2025. Most notably, the job market is churning out paychecks at a sturdy pace, providing households with the firepower to sustain spending. Consumers account for about two-thirds of economic activity, so as long as they keep their wallets open there is little risk that the U.S. will fall into a recession. That's not the case for other parts of the world, as growth in Europe and China is sluggish at best and facing much of the same set of uncertain conditions as the U.S. Chief among them is the possibility of an all-out trade war, which would not only throw shade on the already shaky global outlook. It would also have unintended consequences for the U.S., much of which would be negative.

Extensive Tariff Rollout

It's been a little over a month since President Trump took office, but it is hard to identify another post-election period crammed with as many executive actions in so short a time. As promised in his campaign, Trump is determined to use America's economic muscle to reset trade relationships and accomplish other non-trade related goals, such as coaxing trade partners to tighten their borders and stifle the outflow of drugs to the U.S. To this end, the main cudgel being employed is the threat of higher tariffs on the goods Americans purchase from abroad.

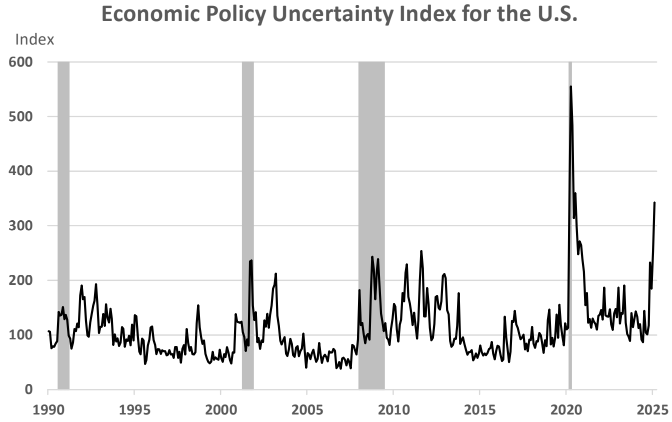
As of this writing, the White House is rolling out an eye-opening roster of tariffs. Chinese imports have been hit with an additional 10 percent tariff on all imported goods; the suspended 25 percent tariff on Mexico and Canada is scheduled to be reimposed on March 1; a 25 percent tariff is set to be imposed on steel and aluminum imports from all sources beginning March 12. Additionally, an official study of reciprocal tariffs, in which the US matches the tariffs imposed on it, is due April 1. The president has also threatened other tariffs, including on the European Union, motor vehicles, and pharmaceuticals.

It's quite possible that some if not most of the dizzying array of tariffs will be reduced, postponed or removed entirely if trading partners make the concessions demanded by the administration. Alternatively, the response by other nations could be hostile, resulting in a tit-for-tat retaliation, leading to a destructive trade war that would have unpredictable consequences on inflation and global growth. One thing is sure: the possibilities are broad, and the uncertainty being generated is huge. An index revealed by the Federal Reserve Bank of Atlanta shows that the current level of uncertainty is higher now than prior to the onset of the past four recessions.

Uncertainty is Problematic

There is an old saying that Wall Street abhors uncertainty. Traders and investors want to have a reasonable understanding of what policies they will be operating under and then assess how those policies will affect profits, inflation and the specific industries or sectors they are paid to follow. Sometimes those assessments are correct; other times they are not, and the people making

Economic Policy Uncertainty Index for the U.S.



the judgements are rewarded or penalized accordingly. But when the rules of the game are unknown, analysts are hard-pressed to put their skills to use, underscoring their abhorrence of uncertainty. In turn, this fog of uncertainty generates heightened market volatility and increases investment risks on Wall Street.

Main Street also abhors uncertainty, and this is where it can induce real changes in behavior. If businesses are uncertain what their costs will be in the future – something that is clearly impacted by tariffs – they might put investment plans on hold and freeze hiring. The potential for such altered behavior has already appeared in numerous quarterly earnings calls over the past several weeks; that includes the nation's largest retailer and private employer, Walmart, whose Chief Financial Officer noted that "We are one month into the year, and there's a lot that we don't know," regarding tariffs and how shoppers might react.

Importantly, small firms are just as vulnerable – if not more so – to policy uncertainty than their larger counterparts. Those that are reliant on imports have fewer options when trade tensions escalate as larger corporations can more easily relocate their product sourcing to other countries that aren't in the crosshairs of newly imposed tariffs. Nor are tariffs the only policy uncertainty small businesses face. The prospect of mass deportations would cut deeply into the labor supply and pose a major problem, particularly for the construction industry, which is a dominant small business employer and is heavily reliant on unauthorized immigrant workers.

Who Let the Doge Out?

To be sure, resetting trade relationships through tariffs is only one of the top priorities of the incoming administration. Getting a handle on the burgeoning fiscal deficit – and reducing the monumental $36 trillion in Treasury debt – is also high on the list, with President Trump and his advisors hoping to cut the red ink dramatically during his term. The revenues expected from tariffs are part of the plan, as some of it would be used to pay for planned tax cuts. However, the main thrust behind the deficit-reducing effort is coming from the spending side of the ledger, as the administration is hoping to slash $2 trillion from the $6.7 trillion in annual Federal outlays.

The responsibility of finding those savings has been given to the newly created Department of Government Efficiency (DOGE). Despite headline-grabbing headlines – eliminating government agencies, slashing federal payrolls, canceling contracts, among others – very little in the way of savings has so far been accomplished. Importantly, very few budgetary experts believe that so much can be saved without cutting into sacred entitlement programs that most lawmakers are loathe to touch.

Recently, the administration suggested the potential of a "DOGE Dividend" if the $2 trillion target is met, in which 20 percent of the DOGE savings would be used to provide a direct payment to taxpayers. The aim is to inject stimulus into the economy that would offset the growth drag that $2 trillion in spending cuts would bring about. However, if the use of previous stimulus disbursements is any indication, most of the estimated $40 billion in dividends (20% of $2 trillion) would be used to pay down debt or saved. Still, if only 25 percent of the payments were spent (similar to the last round of stimulus) with the economy at nearly full employment the main effect would be to add to inflation and widen the trade deficit, sabotaging a key objective of tariffs.

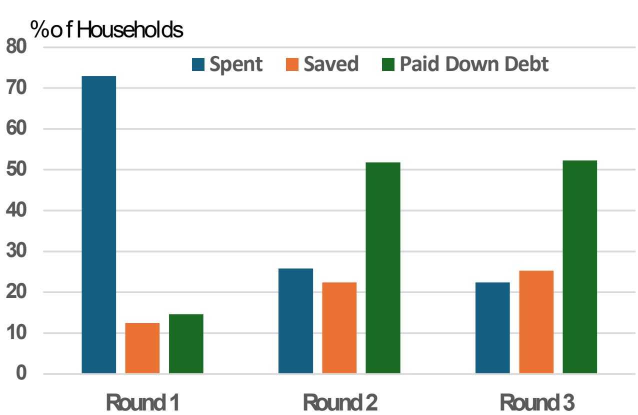
Cloudy Crystal Ball

Needless to say, trade and fiscal policies are wild cards in the outlook for 2025, and beyond. The betting is that the full package of tariffs and spending cuts being proposed has little chance of coming to fruition. But that has not stopped speculation nor stemmed the upsurge in uncertainty that is resonating though the financial markets, corporate board rooms, and households, whose inflation expectations have started to climb sharply. In the latest University of Michigan Survey, household long-term inflation expectations – expected inflation five years out – surged to the highest level in thirty years in February.

Granted, the direct impact from tariffs and fiscal actions regarding spending and taxes would not hit the economy until late this year and 2026. But indirect effects will happen more quickly — and may already have. Some consumers pushed up purchases of big-ticket goods to beat price hikes linked to tariffs. Those purchases may have boosted overall spending in December but left a void in January, when retail sales slumped, reinforcing the distortions in the seasonally adjusted data noted earlier. Meanwhile, the increase in inflation expectations may be giving businesses cover to raise prices more than they otherwise might, boosting actual inflation.

Finally, the Federal Reserve has acknowledged that the prospect of higher tariffs is seeping into rate-setting decisions. The decision to pause the rate-cutting campaign had more to do with the ongoing strength in the job market and stubbornly high inflation data in recent months. But some officials admit that their subjective thinking of inflation has increased because of the tariffs and reaffirmed their view that fewer cuts are in the cards than was intended a few months ago. The prospect that interest rates – and hence borrowing costs – are likely to stay higher for longer portends more of a drag on the economy later this year than expected. Slower growth and higher inflation Is a combination dreaded by policymakers. The Fed has a dual mandate: to pursue maximum employment and maintain a stable, targeted, inflation rate. Achieving one side of the mandate is hard enough but a policy dealing with both when they are moving in opposite directions has rarely been accomplished without causing a recession. Let's hope the fog of uncertainty clears up soon so one obstacle in the way of a healthy economy is 2025 is removed.

How Households Used Past Stimulus



KEY ECONOMIC AND FINANCIAL INDICATORS

Financial Indicators *

	January	December	November	October	September	August	July	12-Month Range High	12-Month Range Low
Prime Rate	7.50	7.65	7.81	8.00	8.30	8.50	8.50	8.50	7.50
3-Month Treasury Bill Rate	4.21	4.27	4.42	4.51	4.72	5.20	5.20	5.25	4.21
5-Year Treasury Note Rate	4.43	4.25	4.23	3.91	3.50	4.16	4.16	4.56	3.50
10-Year Treasury Note Rate	4.63	4.39	4.36	4.10	3.72	4.25	4.25	4.63	3.72
30-Year Treasury Bond Rate	4.85	4.58	4.54	4.38	4.04	4.46	4.46	4.85	4.04
Tax-Exempt Bond Yield	4.19	4.04	4.14	3.96	3.83	3.87	3.94	4.19	3.53
Corporate Bond Yield (AAA)	5.46	5.20	5.14	4.95	4.68	5.12	5.12	5.46	4.68
Conventional 30-Year Mortgage Rate	6.96	6.72	6.81	6.43	6.18	6.85	6.85	7.06	6.18
Dow Jones Industrial average	43524	43656	43717	42494	41491	40086	40086	43717	38401
S&P 500 Index	5980	6011	5930	5792	5621	5538	5538	6011	5012
Dividend Yield (S&P)	1.26	1.24	1.23	1.28	1.31	1.31	1.31	1.42	1.23
P/E Ratio (S&P)	27.2	26.5	27.0	26.0	26.3	25.7	25.8	27.2	24.1
Dollar Exchange Rate (vs. Major Currencies)	129.0	127.8	126.5	123.8	122.1	123.7	123.7	129.0	121.0

* Monthly Averages

Economic Indicators

	January	December	November	October	September	August	July	12-Month Range High	12-Month Range Low
Housing Starts (Thousands of Units)	1366	1515	1305	1344	1355	1379	1262	1546	1262
New Home Sales (Thousands of Units)		698	674	615	726	691	707	736	615
New Home Prices (Thousands of Dollars)		427	403	425	421	406	429	436	403
Retail Sales (% Change Year Ago)	4.2	4.4	4.0	3.0	2.0	2.0	2.9	4.40	2
Industrial Production (% Change Year Ago)	2.0	0.3	-0.9	-0.4	-0.7	-0.1	-0.5	2.0	-0.9
Operating Rate (% of Capacity)	77.8	77.4	76.8	77.0	77.4	77.9	77.6	78.2	76.8
Inventory Sales Ratio (Months)		1.35	1.37	1.37	1.37	1.38	1.37	1.38	1.35
Real Gross Domestic Product (Annual % Change)		2.3			3.1			3.2	1.6
Unemployment Rate (Percent)	4.0	4.1	4.2	4.1	4.1	4.2	4.3	4.3	3.8
Payroll Employment (Change in Thousands)	143	307	261	44	240	71	88	307	44
Hourly Earnings (% Change Year Ago)	4.1	4.1	4.2	4.1	3.9	4.0	3.6	4.2	3.6
Personal Income (% Change Year Ago)		5.3	5.3	5.5	5.1	5.2	5.4	6.0	5.1
Savings Rate (Percent of Disposable Income)		3.8	4.1	4.3	4.1	4.4	4.4	5.5	3.8
Consumer Credit (Change in Blns. Of Dollars)		40.8	-5.4	17.5	3.0	4.3	23.7	40.8	-5.4
Consumer Prices (% Change Year Ago)	3.0	2.9	2.7	2.6	2.4	2.5	2.9	3.5	2.4
CPI Less Food & Energy (% Change Year Ago)	3.3	3.2	3.3	3.3	3.3	3.2	3.2	3.8	3.2
Wholesale Prices (% Change Year Ago)	3.5	3.5	2.9	2.7	2.1	2.1	2.4	3.5	1.6

Louisiana Corporate Credit Union

SimpliCD

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.