

Economic Outlook

The Hartford's Global Insights Center



Global Insights Center: In-house research unit, think tank, and advisory team that provides economic and geopolitical views to shape decisions which can maximize global opportunities.

Insights Center Mantra: Look around the corner to provide actionable economic and geopolitical intelligence to our stakeholders

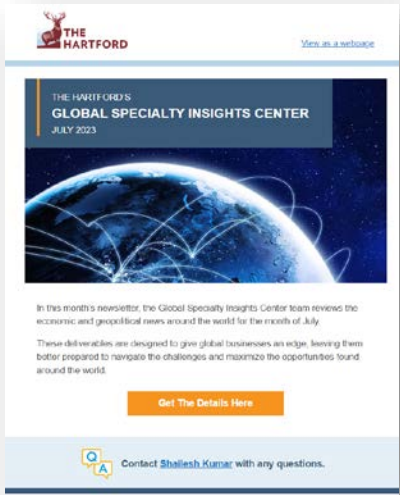
FUNCTIONS



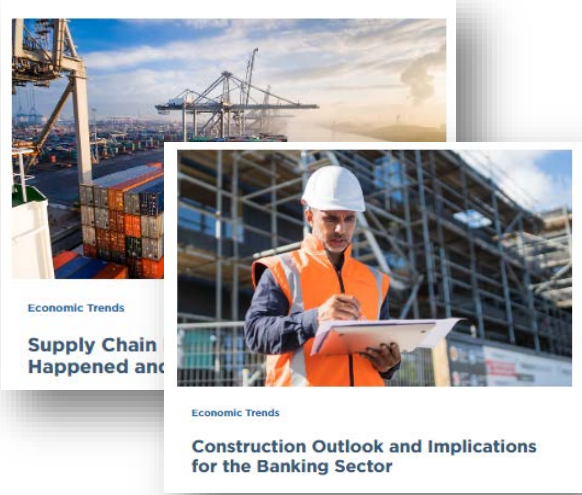
Monthly Dashboard Reports



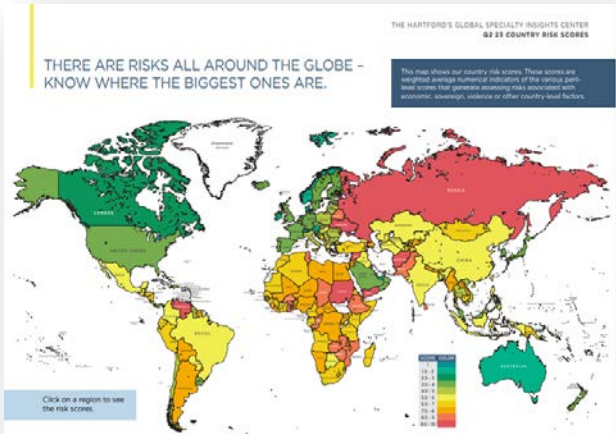
Monthly Broker Newsletter



Thought Leadership Articles



World Analysis



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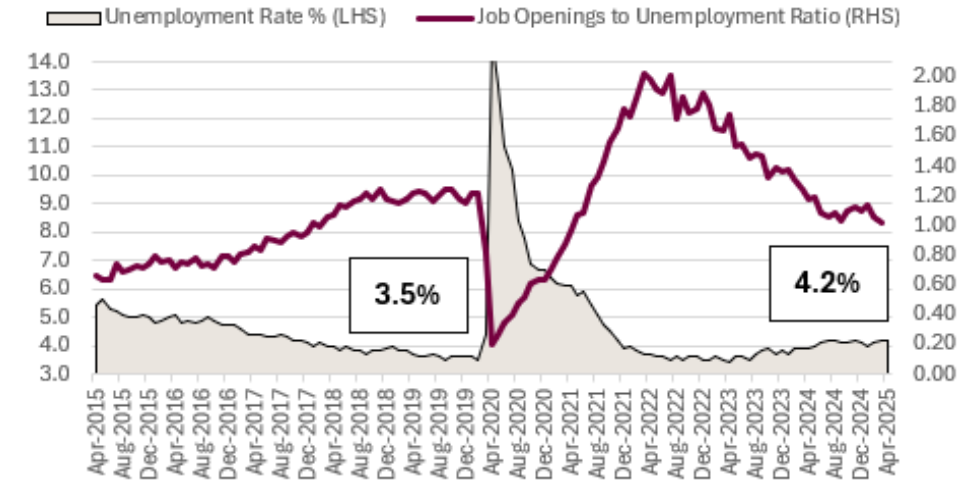
State of the Economy

Labor: Conditions continue to “normalize”

Unemployment is low. The job market now “in balance.”

- Labor market is “in balance” when unemployment is between 4.0% and 4.5%.
- Unemployment rate of **4.2%** in March 2025 is healthy. It was **3.5%** just before and after COVID.
- Wage growth though is elevated at **3.8%**, which is above inflation and 2x its preCOVID rate.
- This is partly due to a shortage of workers, though job openings are falling.
- This trajectory though could change.

Unemployment Rate and Labor Availability



Source: Bureau of Labor Statistics, Haver Analytics, The Hartford's Global Insights Center

US Nominal Wage Growth Vs. Inflation



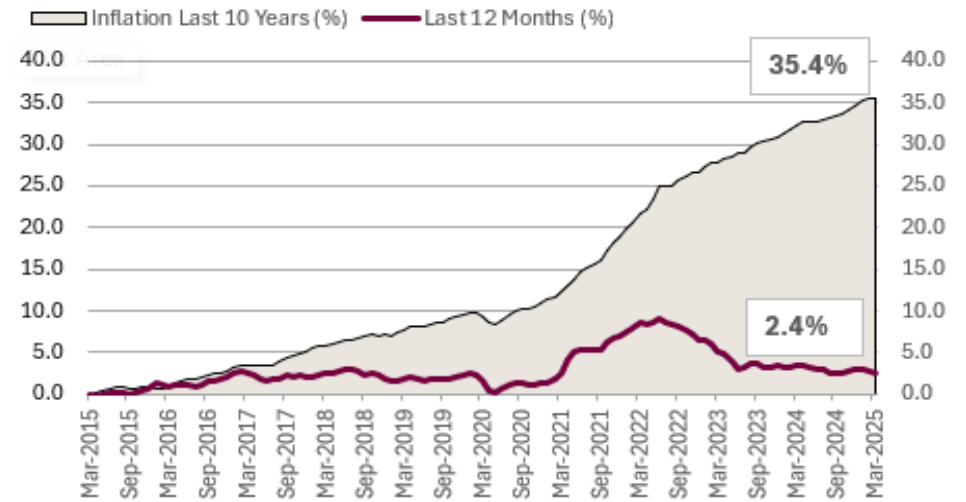
Source: Bureau of Labor Statistics, Haver Analytics, The Hartford's Global Insights Center

Inflation: Annualized inflation has normalized, but cumulative costs are up

Inflation has improved but remains elevated. Tariffs could put upward pressure on inflation.

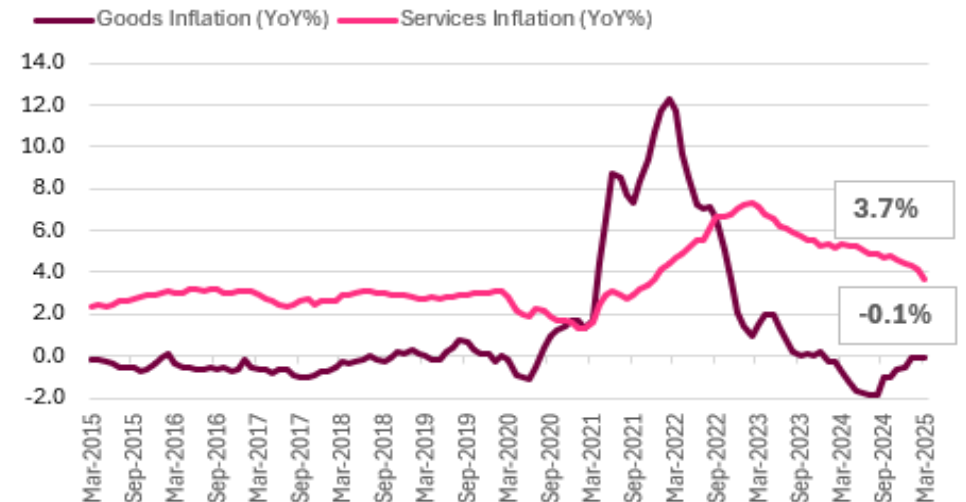
- Headline inflation was **2.4% last month**, a significant improvement from 9.1% peak in June 2022.
- However, cumulative Inflation is **35.1%** during **last 10 years** and **23.3% last 5 years** And this is what consumers feel.
- The Federal Reserve's target is 2.0%, meaning current
- **Goods inflation** (physical products like electronics and furniture) was **-0.1%**, similar to the pre-pandemic norm.
- **Services inflation** is elevated at **3.7%** but it's improving.

Consumer Price Index



Source: US Bureau of Labor Statistics, Haver Analytics

Goods and Services Inflation

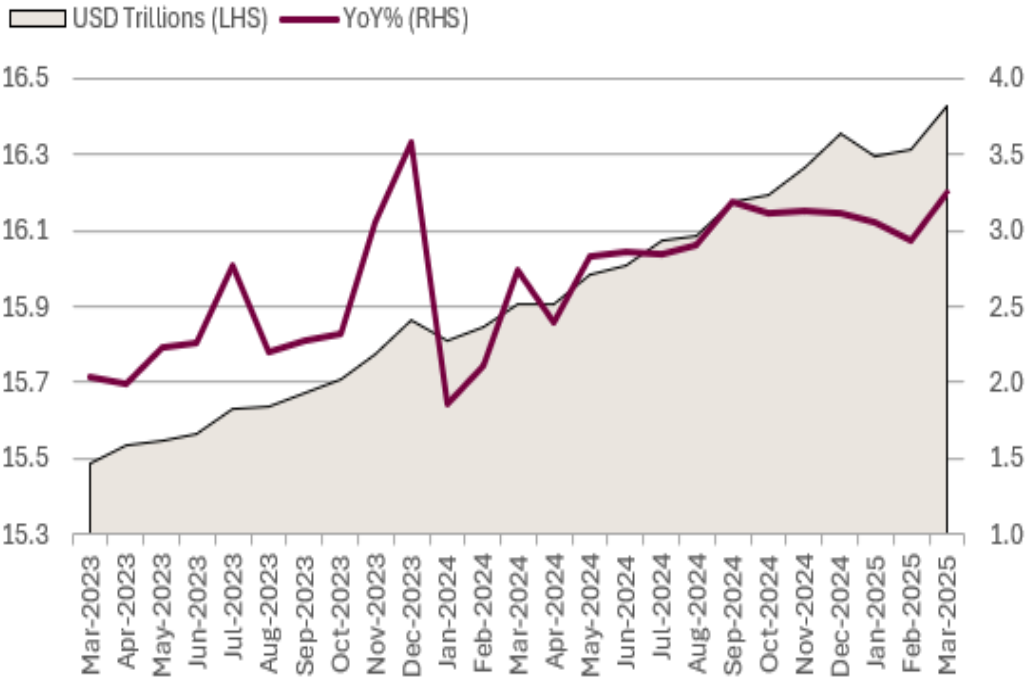


Source: US Bureau of Labor Statistics, Haver Analytics

Consumer & Business Spending

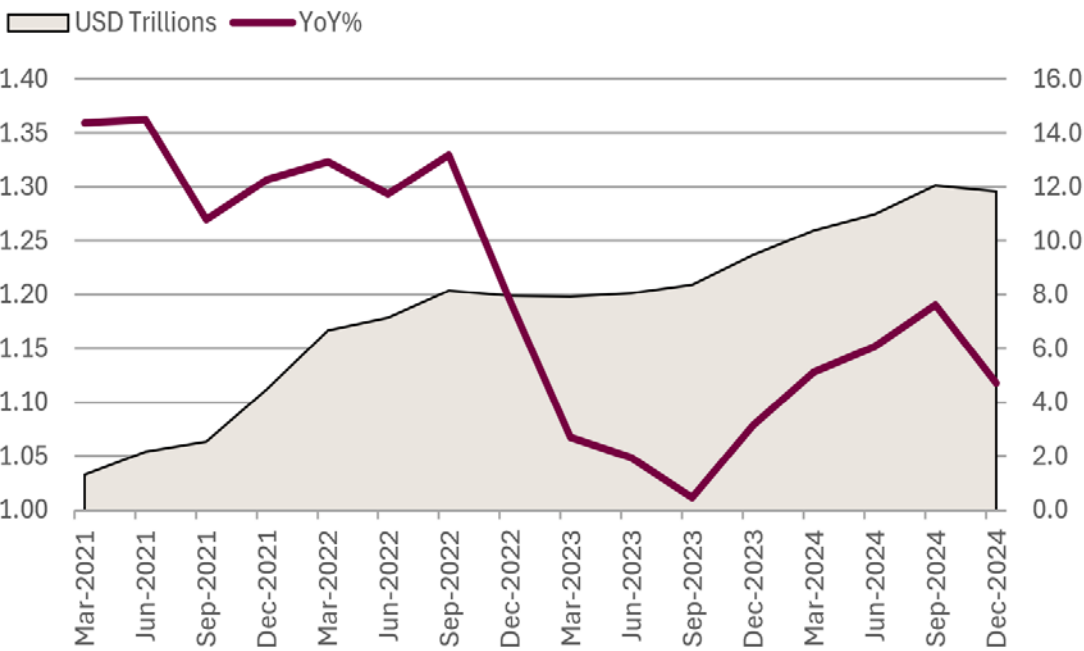
Consumers drove growth, and businesses were investing in the AI infrastructure in 2024

Consumer Spending



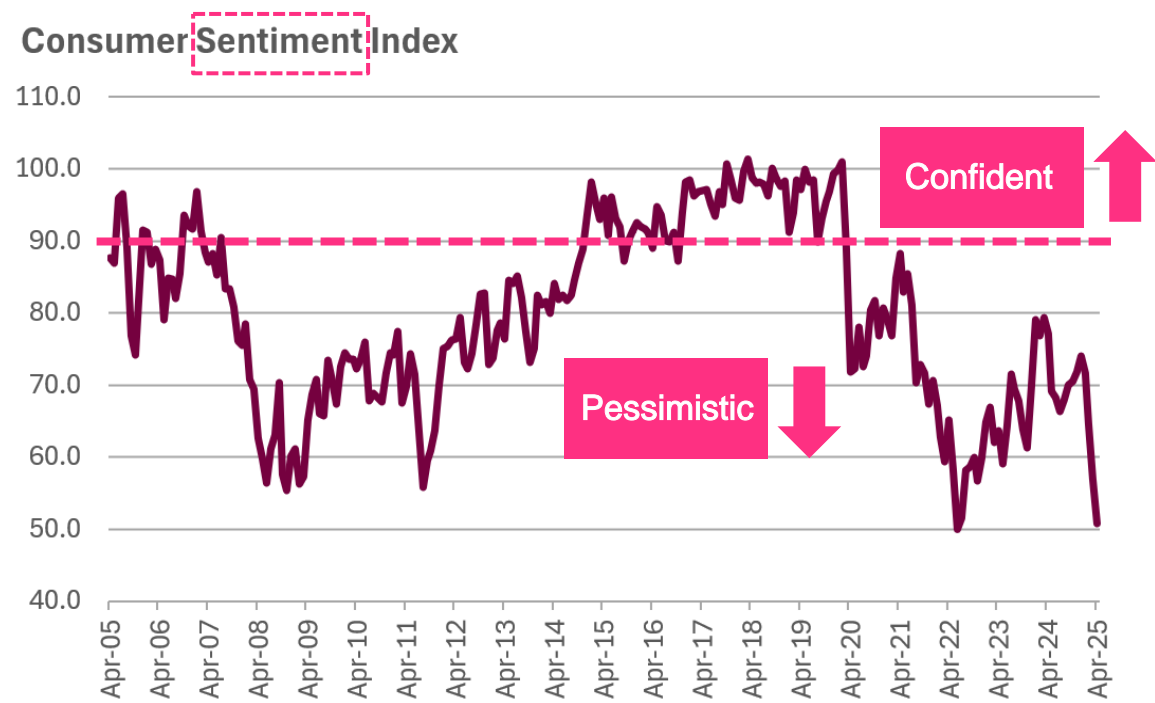
Source: Bureau of Economic Analysis, Haver Analytics

Business IT Spending



Source: Bureau of Economic Analysis, Haver Analytics

Consumer Mindset: Pessimism could impact spending



Source: University of Michigan, Haver Analytics



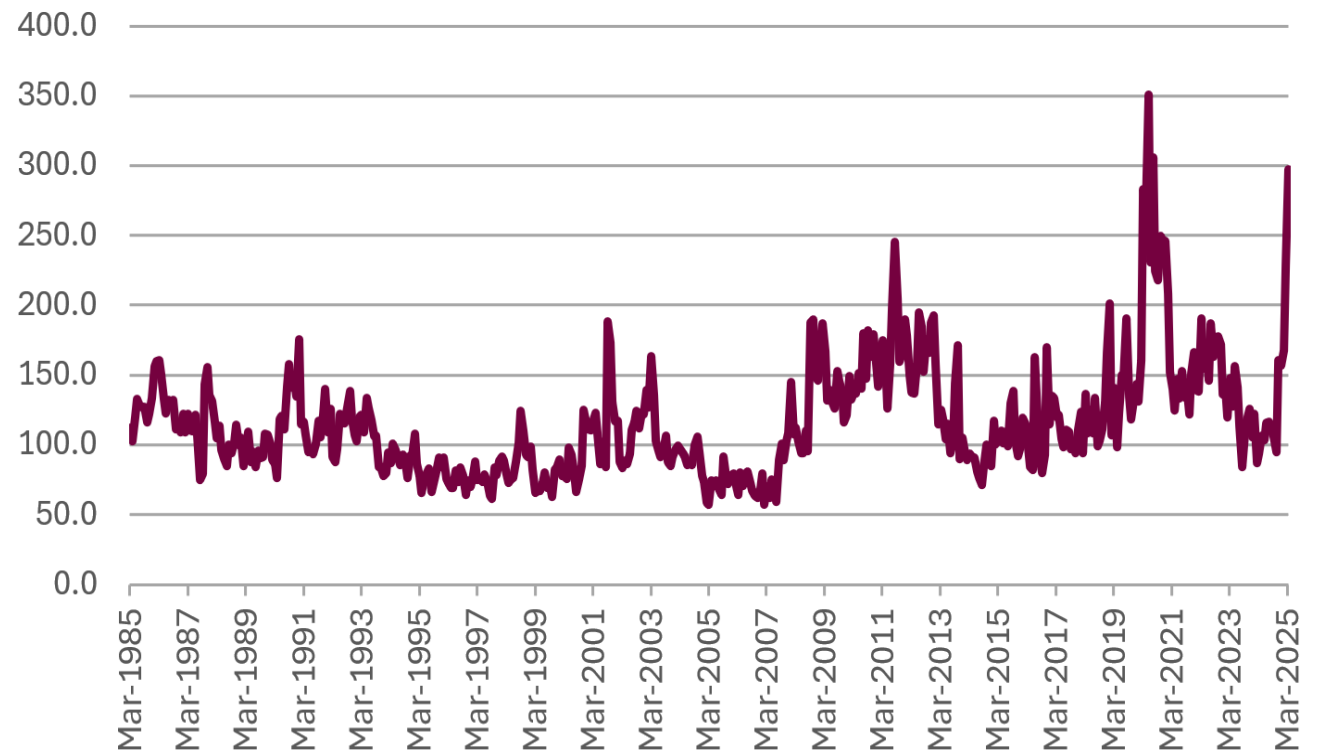
Source: University of Michigan, Haver Analytics

Economic Landscape: Uncertainty is elevated

Uncertainty

- Policy
- Markets
- Costs and inflation
- Business planning
- Household budgeting

Economic Policy Uncertainty Index
(1985 = 100)



Source: [PolicyUncertainty.com](https://www.policyuncertainty.com), Haver Analytics

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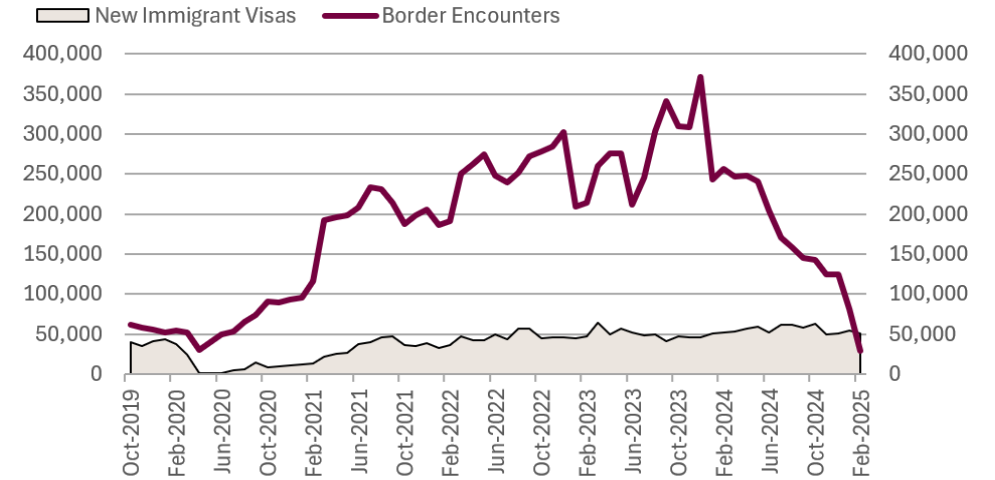
Developing Themes

#1 Tariffs: We'll come back to this one...

#2 Immigration and Retirements: Headwinds to construction labor supply

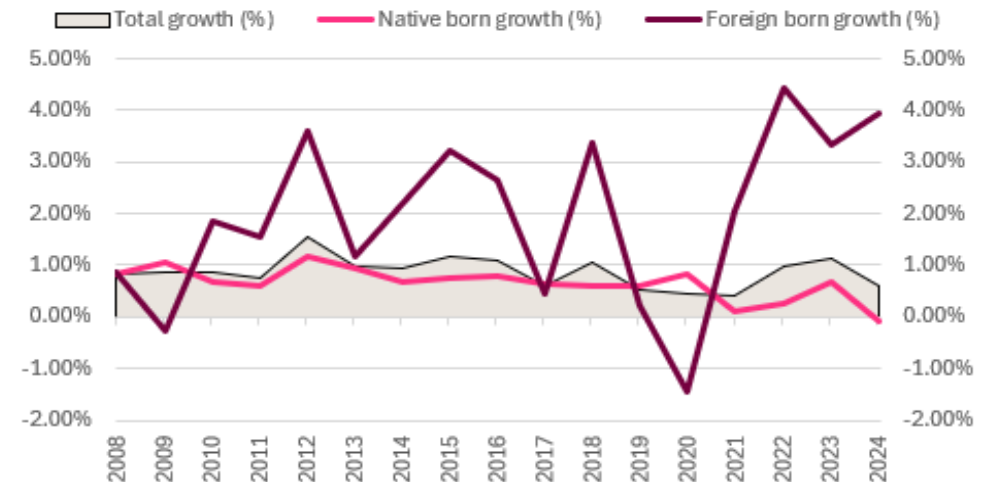
- Documented immigration is stable for now.
- Undocumented immigration has likely diminished .
- Construction workforce:
 - 75% domestic
 - 13% documented
 - 12% undocumented
- Workforce retirements creating staffing challenges .
- 12,000 people turn 65 every day .
- 20% of construction workforce could retire by 2035 .

US Immigrant Visas and Border Encounters



Source: US State Department, US Department of Homeland Security, Haver Analytics

US Civilian Population Growth, Age 16+



Source: US Census Bureau

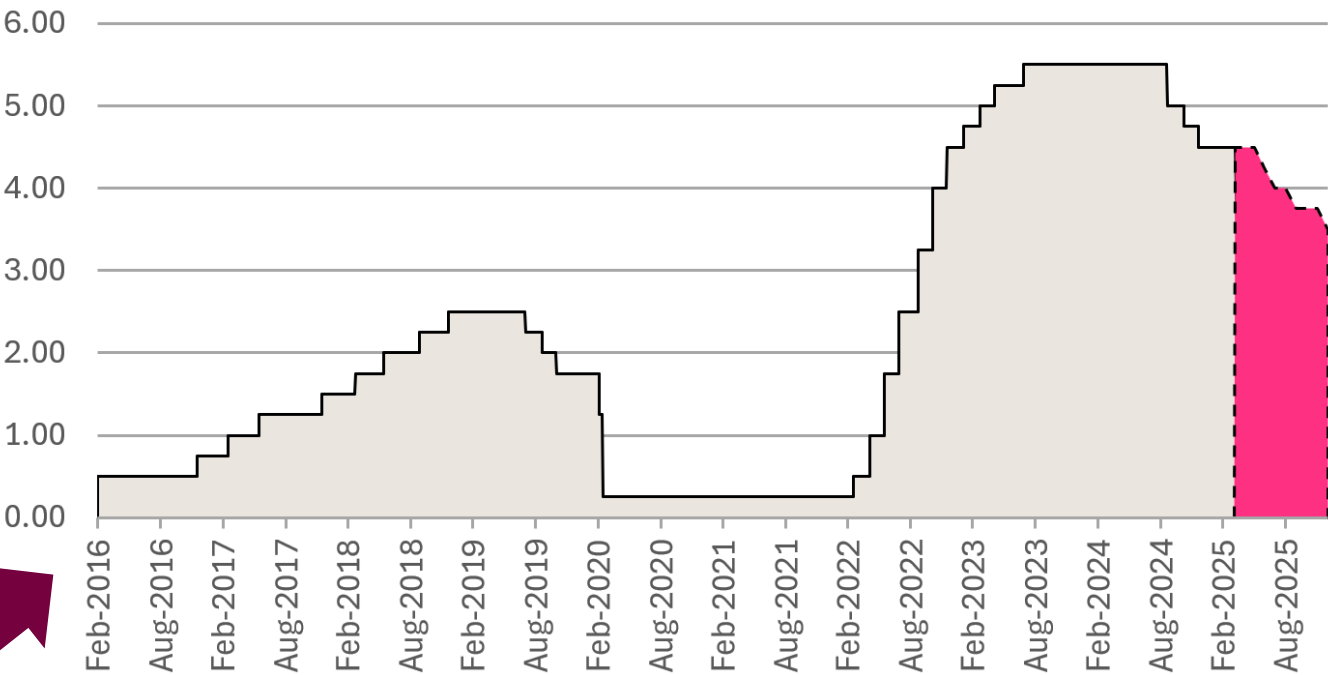
#3 Interest Rates: Path of interest rates could spur or slow the economy

The Federal Funds Rate Averaged:

- Over 40 years: 3.50%
- Over 30 years: 2.60%
- Over 20 years: 1.75%
- Over 10 years: 1.80%

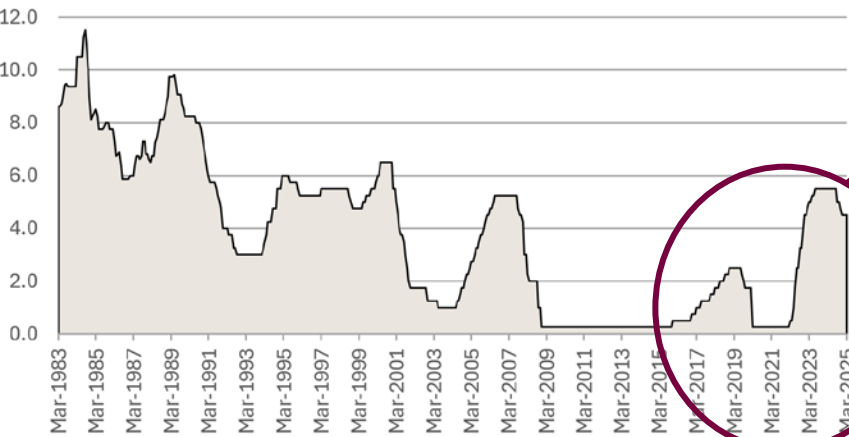
Markets expect the Federal Funds rate to settle at 3.50% by December.

Interest Rate Exepctations (%)



Source: Federal Reserve, Haver Analytics, Bloomberg

40 Years of Interest Rates (%)



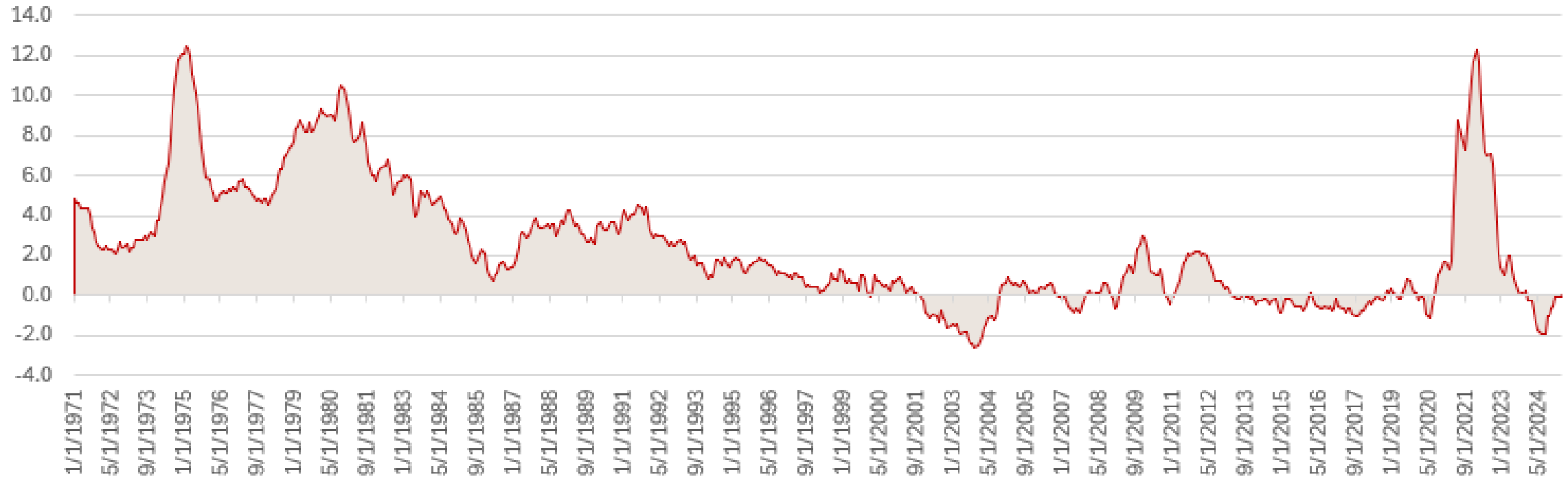
Source: Federal Reserve, Haver Analytics

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Tariffs

Tariffs: A shift in globalization...

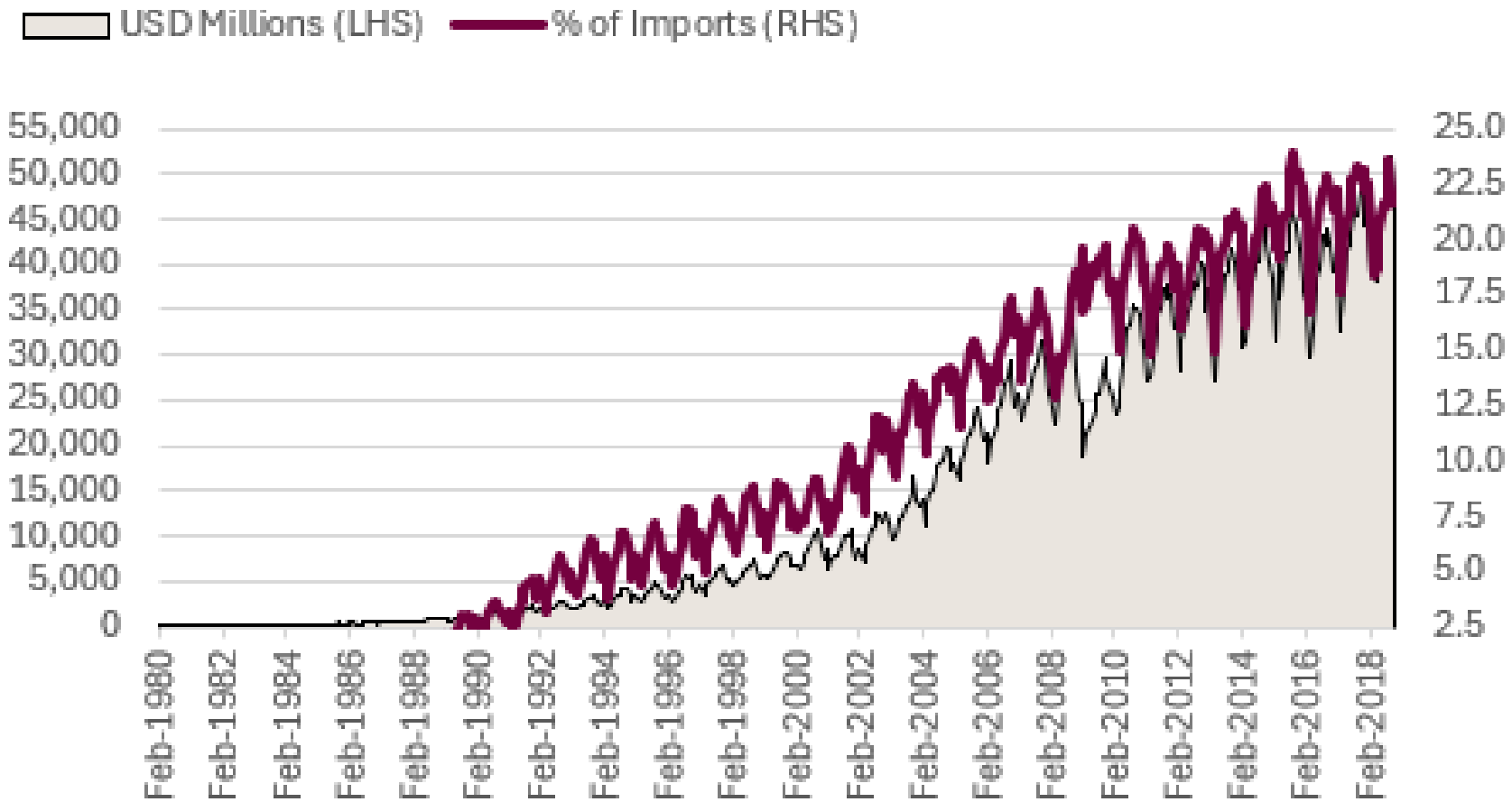
Goods Inflation and Supply Chain Pressures



Source: Bureau of Labor Statistics, Haver Analytics, The Hartford's Global Insights Center

Tariffs: A shift in globalization...

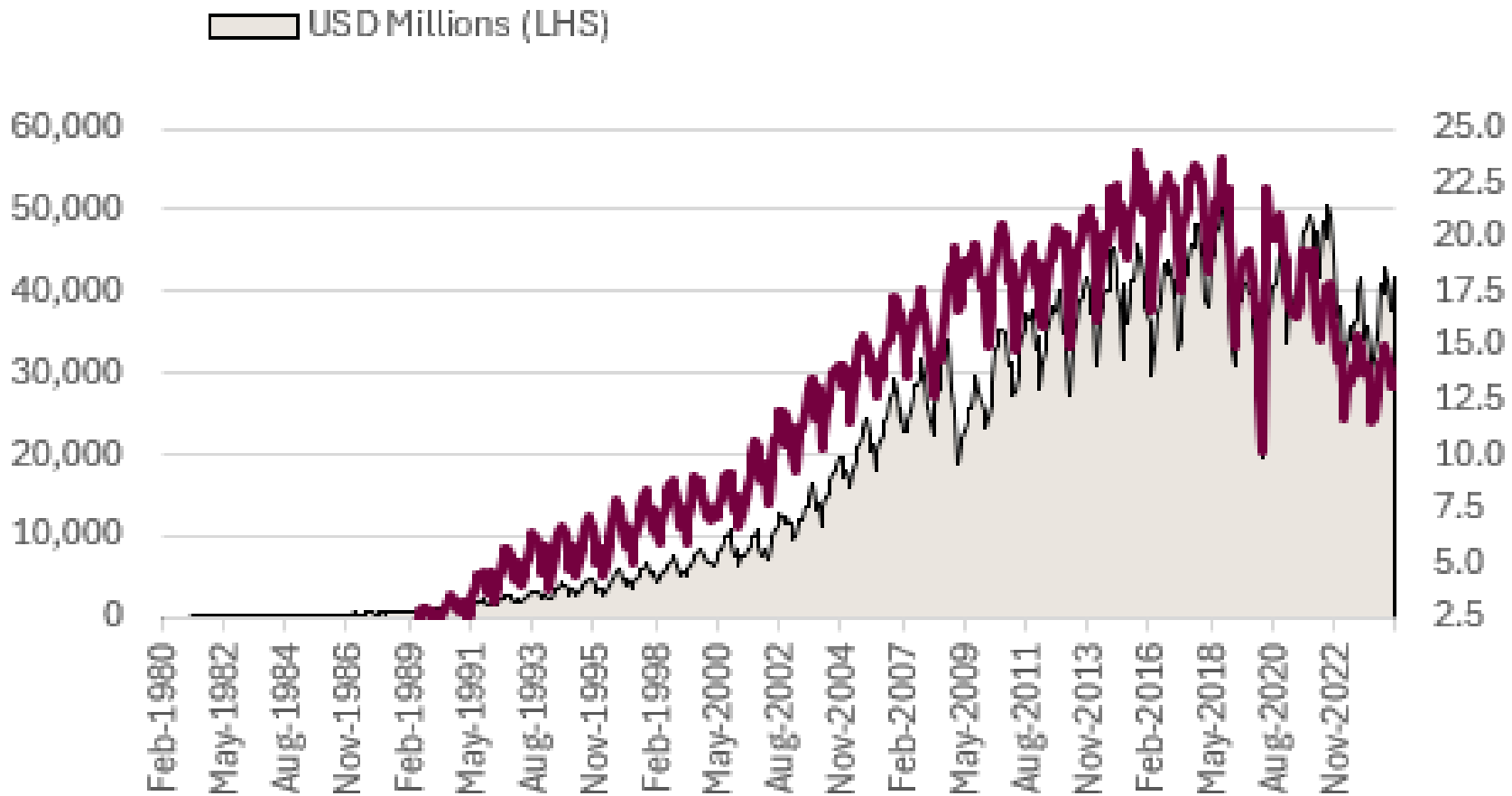
US Imports from China



Source: US Census Bureau, IMF, Haver Analytics, The Hartford's Global Insights Center

Tariffs: A shift in globalization...

US Imports from China



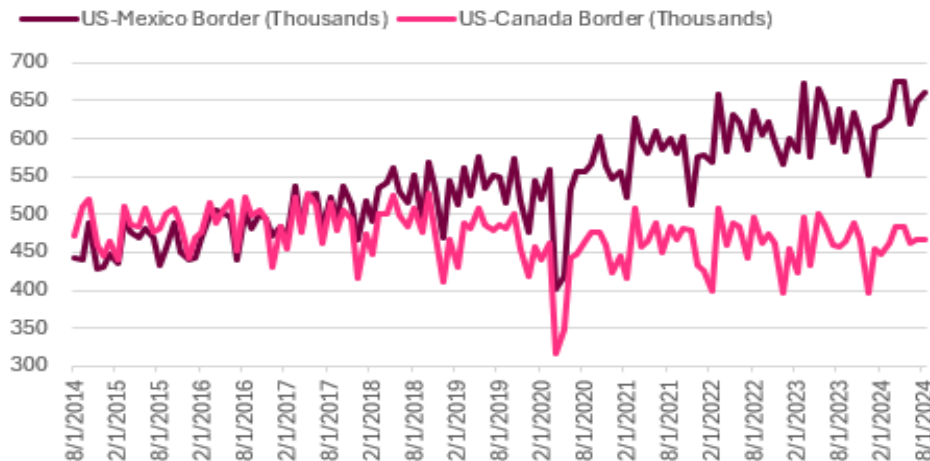
Source: US Census Bureau, IMF, Haver Analytics, The Hartford's Global Insights Center

Tariffs: Where economics and geopolitics collide

Costs vs. Advantages

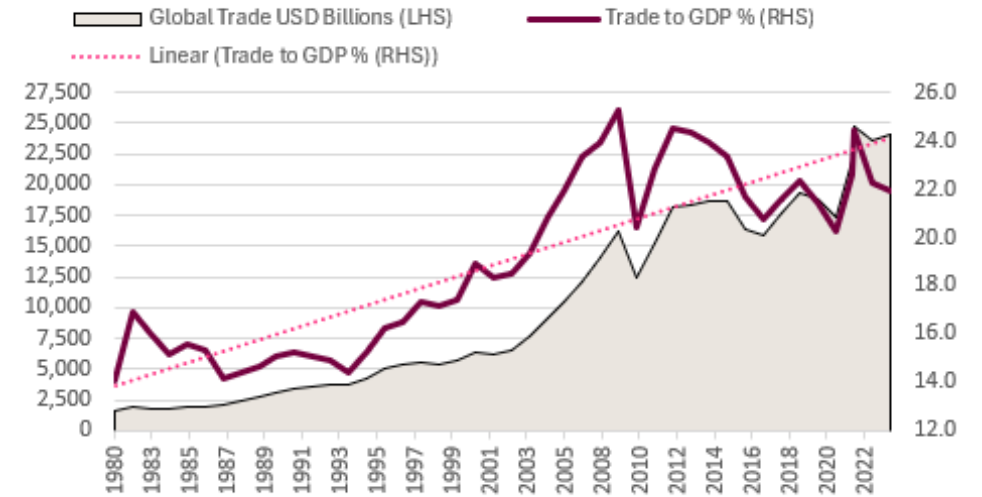
- Protect key industries / reduce competition / national security
- Raise tax revenue
- Enhance international political negotiations
- Reroute trade
- Inflation and economic headwinds

Truck Border Crossings



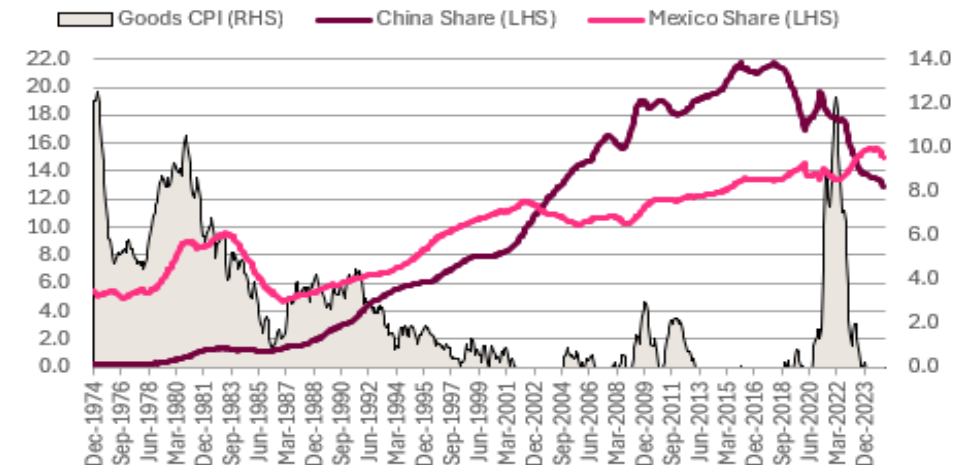
Source: Bureau of Transportation Statistics

Global Trade



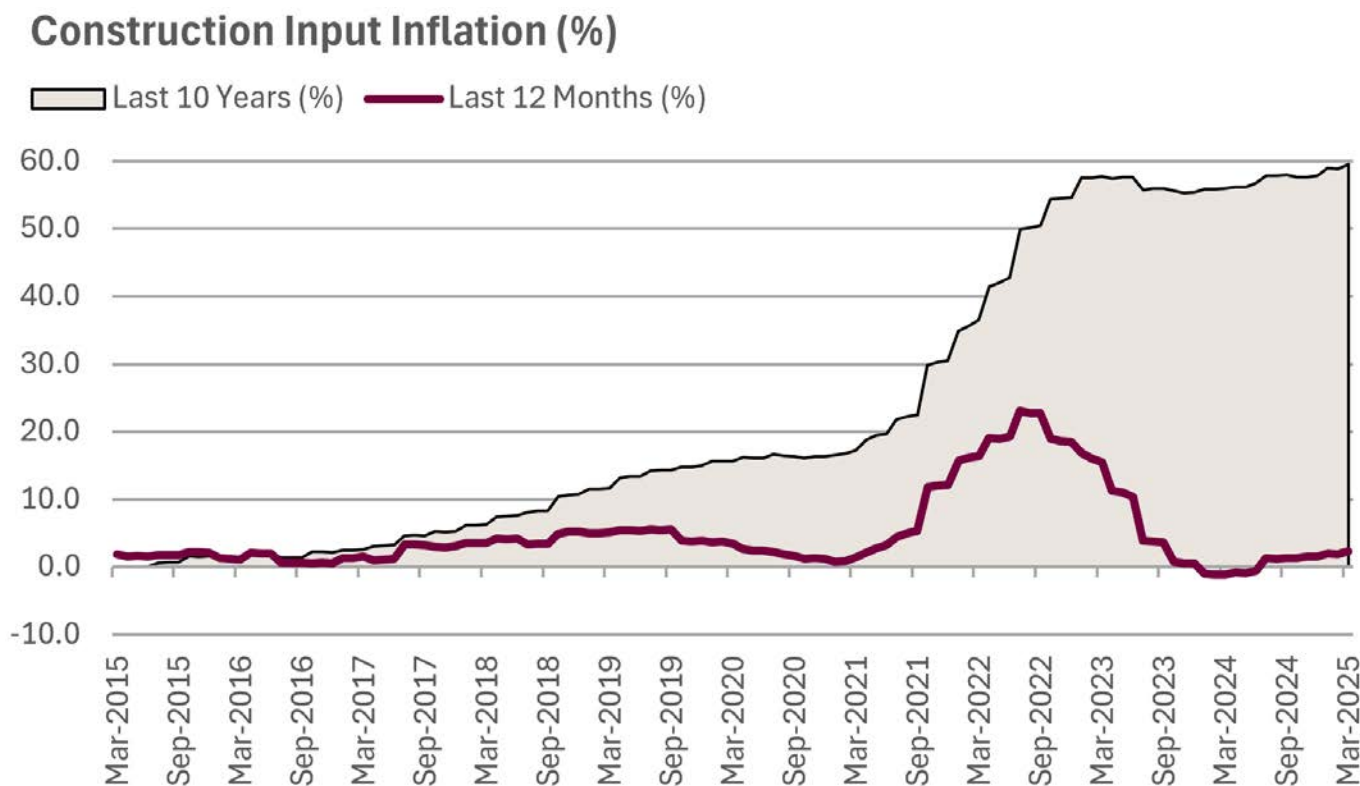
Source: IMF, Haver Analytics, The Hartford's Global Insights Center

Impact of Offshoring on Inflation



Source: US Census Bureau, Bureau of Labor Statistics, Haver Analytics,
The Hartford's Global Insights Center

Construction Equipment & Material Costs: Improvements could be reversed



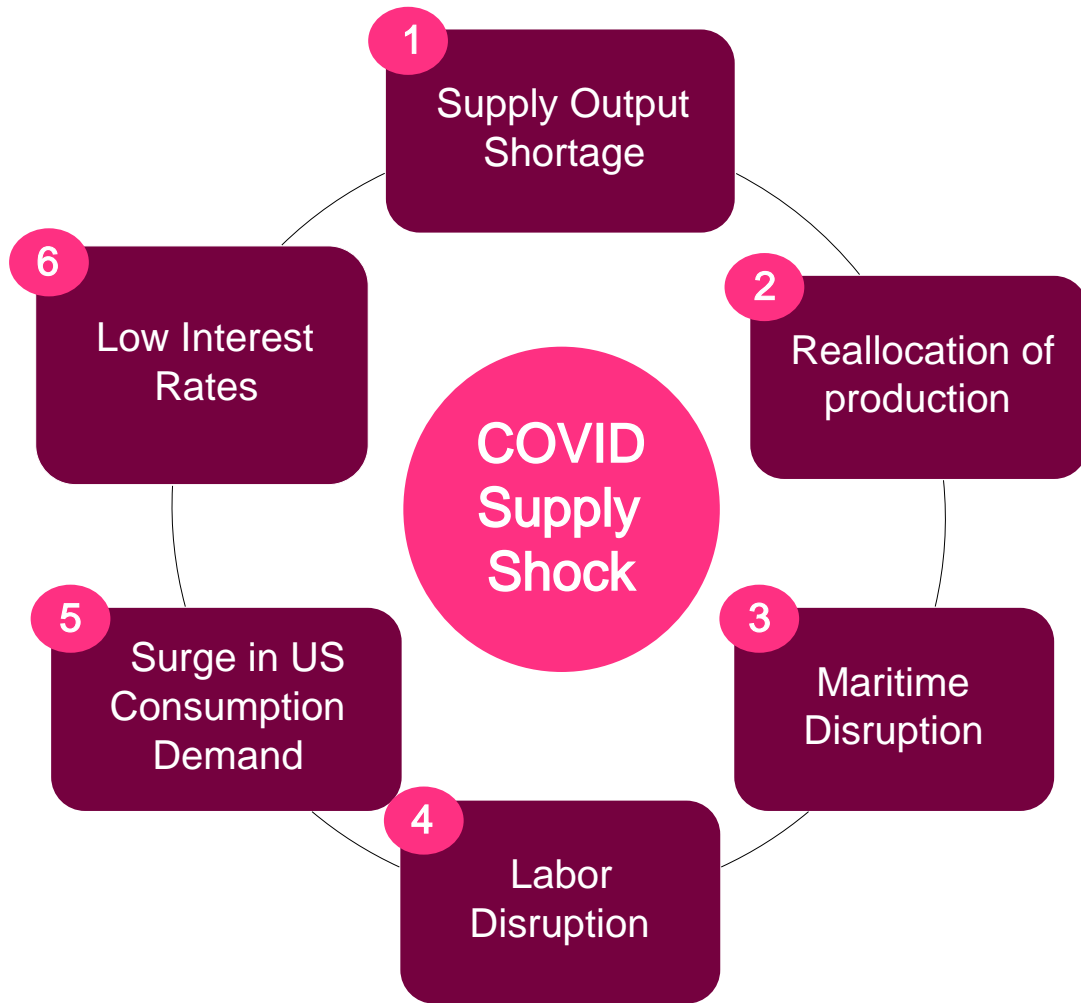
Source: US Bureau of Labor Statistics, Haver Analytics

Construction Input Inflation

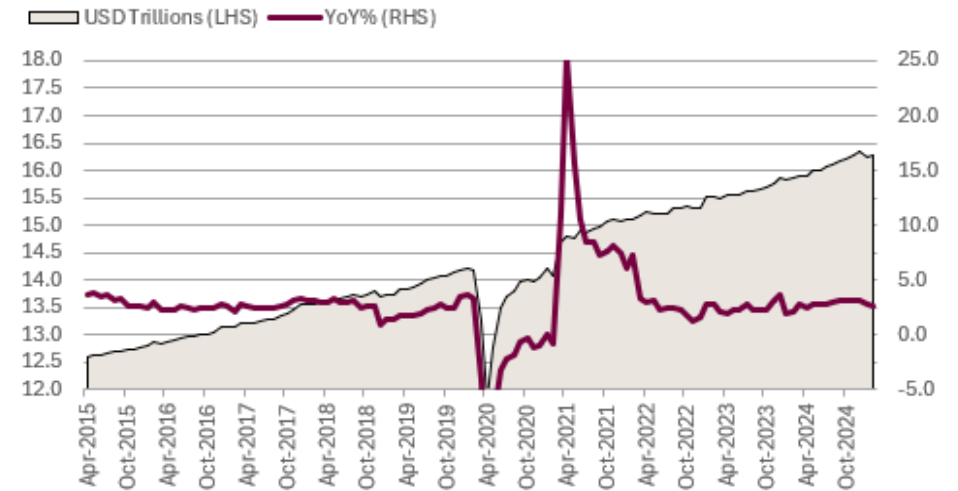
Input	Inflation YoY%
Copper	10.7
Lumber	10.2
Concrete	1.4
Construction Machinery	0.7
Flooring	0.4
Steel	-5.6

Source: Bureau of Labor Statistics, Haver Analytics

Tariffs: What is different this time?

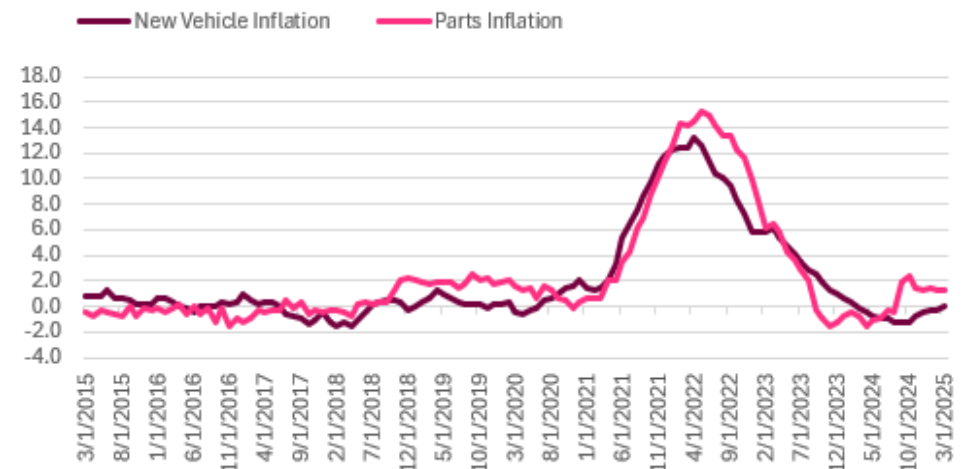


Consumer Spending



Source: Bureau of Economic Analysis, Haver Analytics

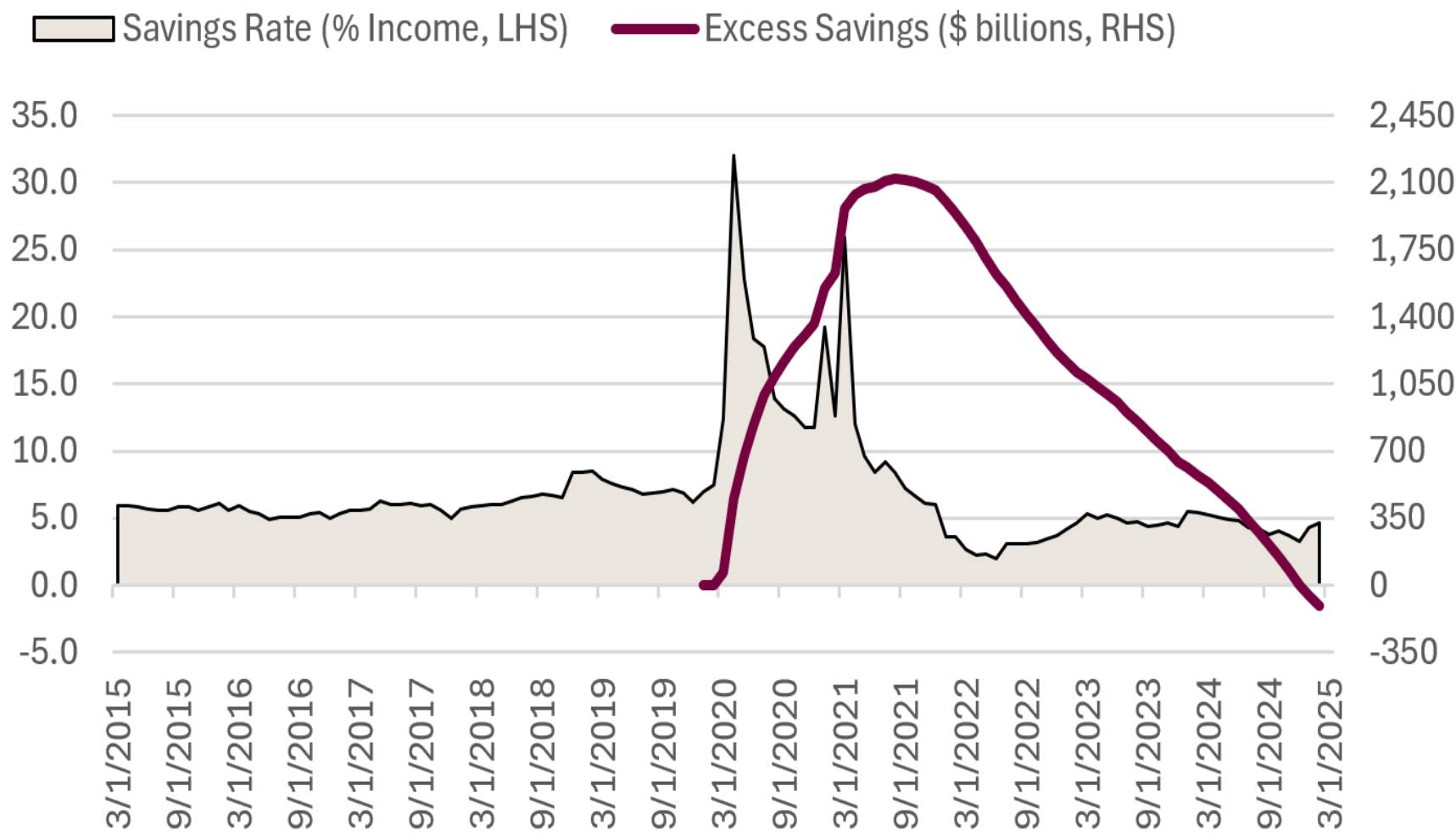
New Vehicle Versus Parts Inflation



Source: US Bureau of Labor Statistics, Haver Analytics, The Hartford's GIC

Tariffs: What is different this time?

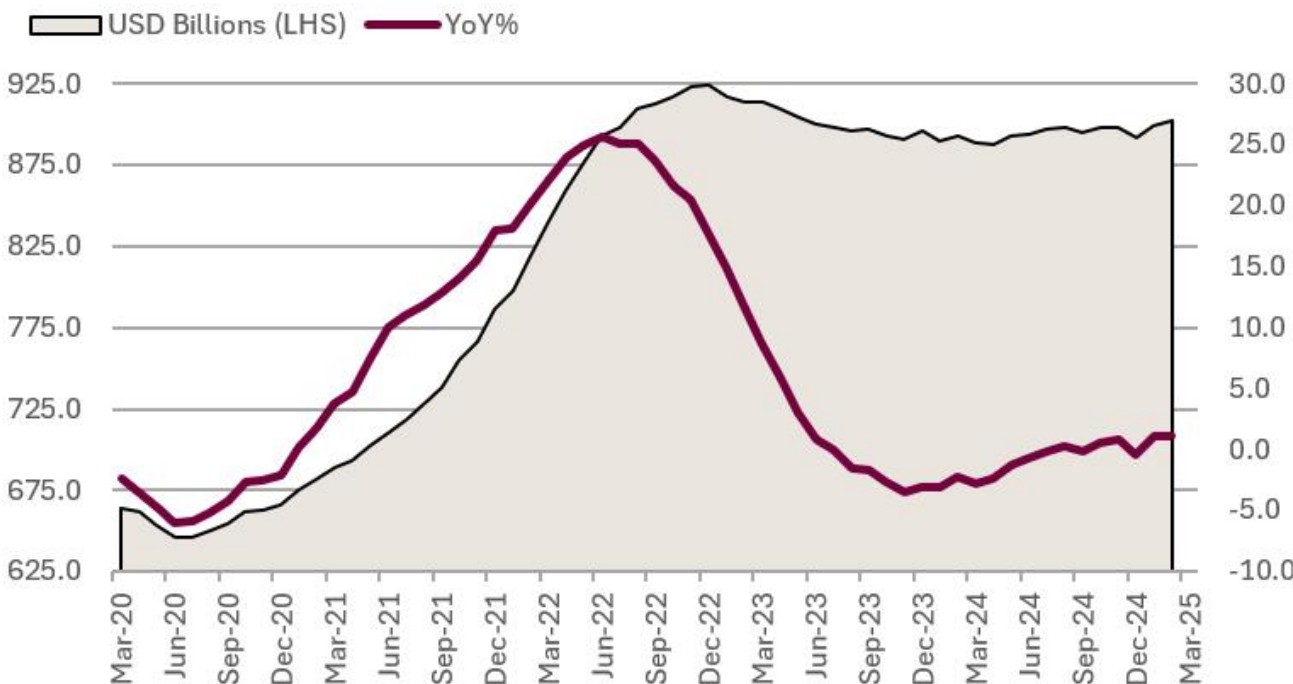
Household Savings



Source: Bureau of Economic Analysis, Haver Analytics, Hartford GLC

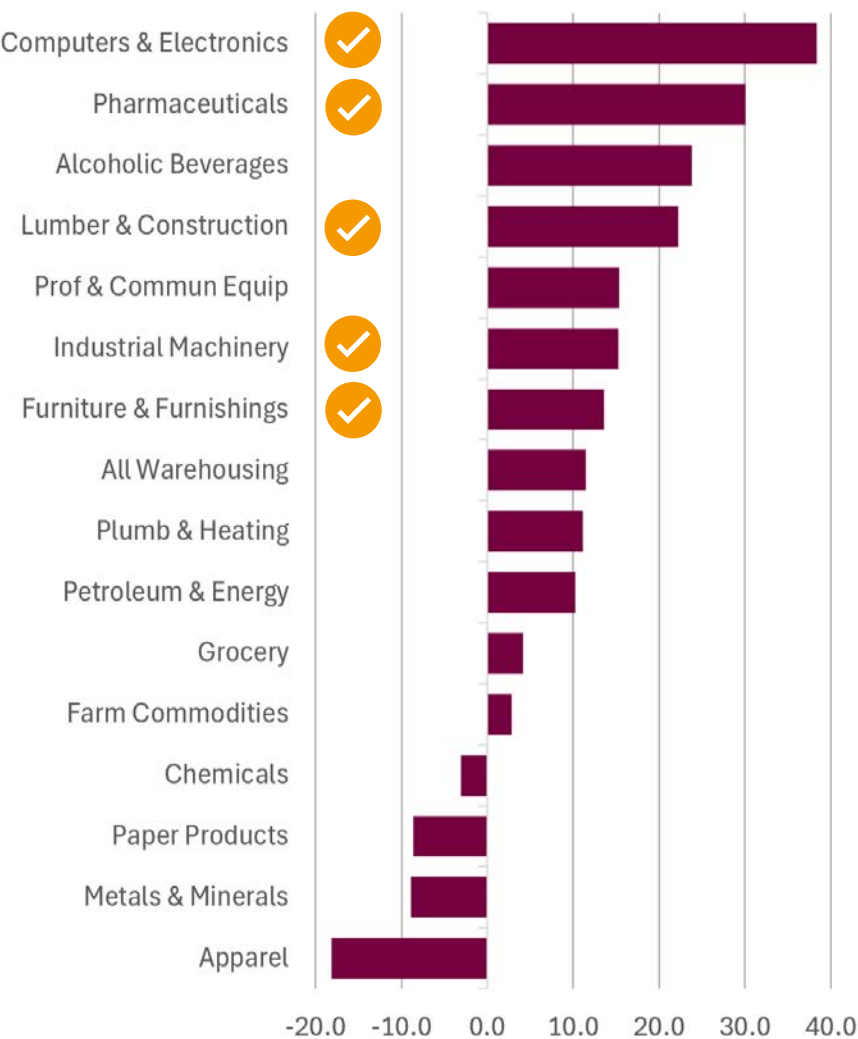
Availability of Goods: Inventories up from prepandemic norm, flat in last year

Value of Warehouse Inventories



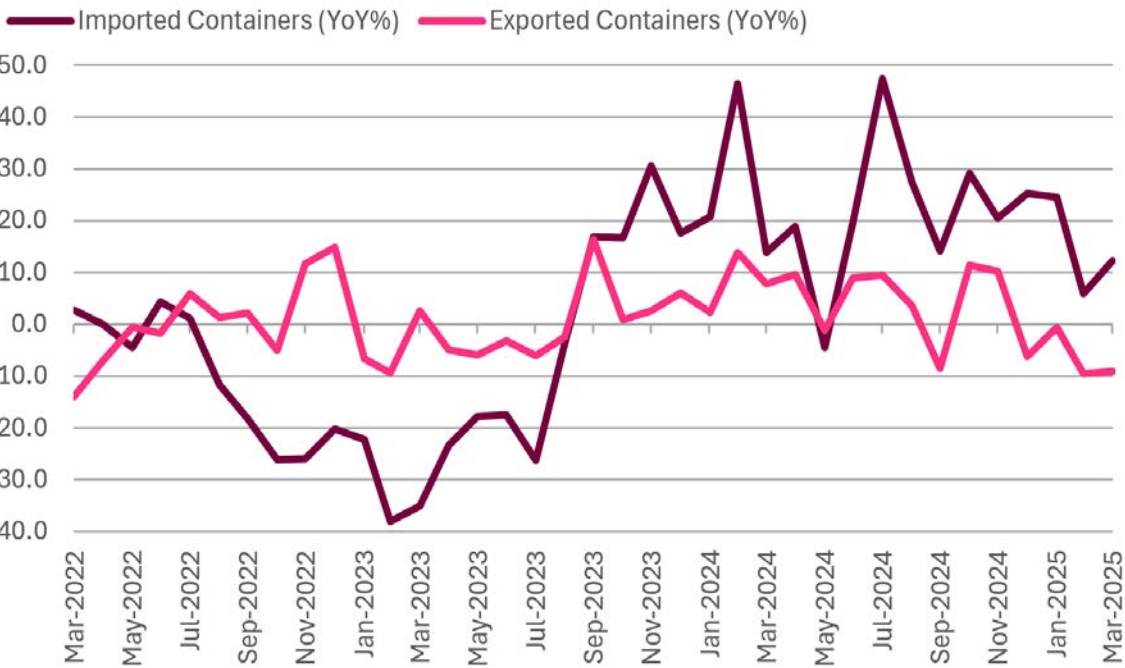
Source: US Census Bureau, Haver Analytics

Warehouse Inventories
Growth last 5 Years (%)



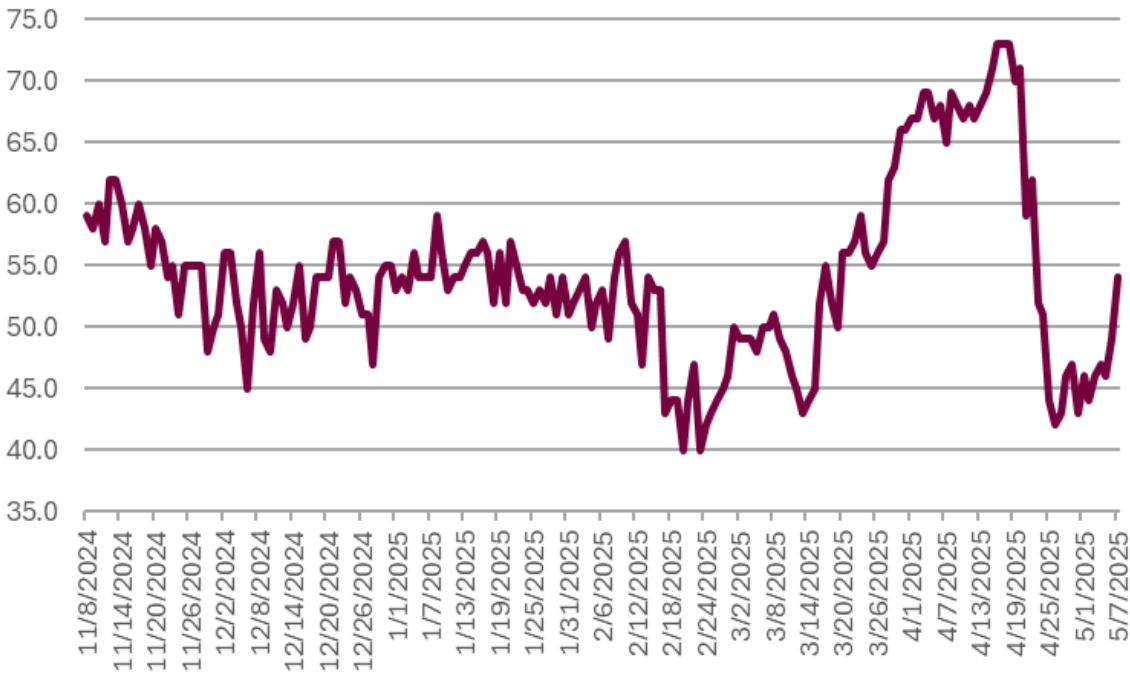
Trade Outlook: Headlines have been misleading

Ports of LA and Long Beach (YoY%)



Source: Port of Los Angeles, Port of Long Beach, Haver Analytics

Ships Departing from China to US



Trade Outlook: Headlines have been misleading

Shipping Cost (USD per 40 Foot Container)



Source: Drewry World Container Index, Haver Analytics

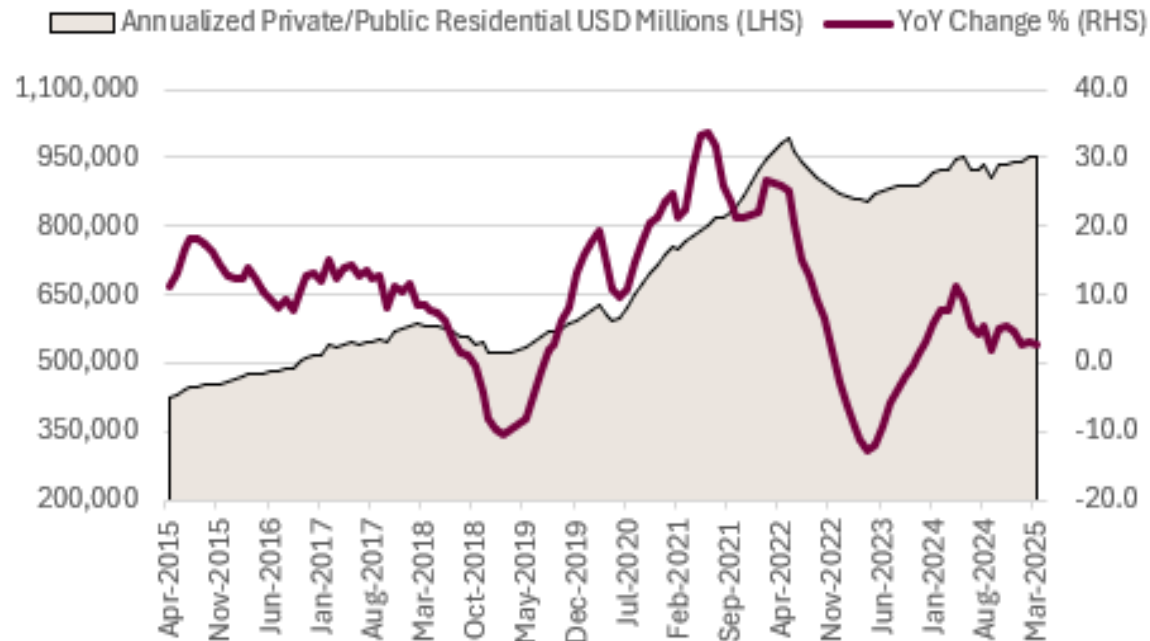
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Construction Outlook

Residential and Nonresidential: Growth plateauing

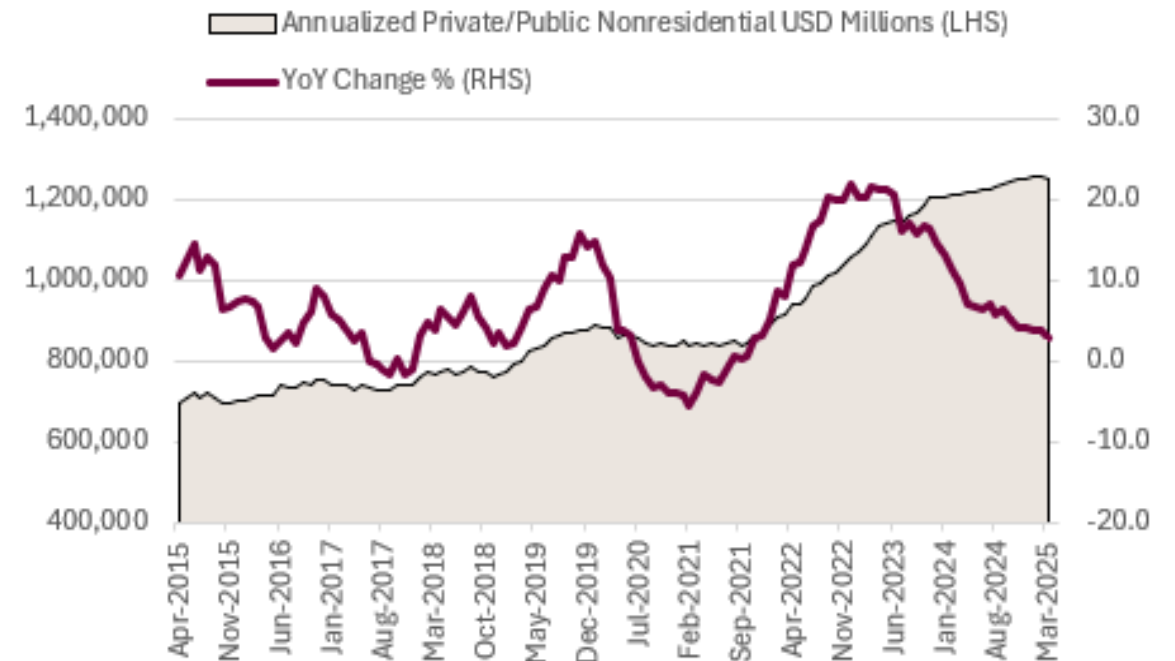
For the first time in 7 years, residential and nonresidential growth is similar.

Value of Residential Construction in Place



Source: US Census Bureau, Haver Analytics

Value of Nonresidential Construction in Place

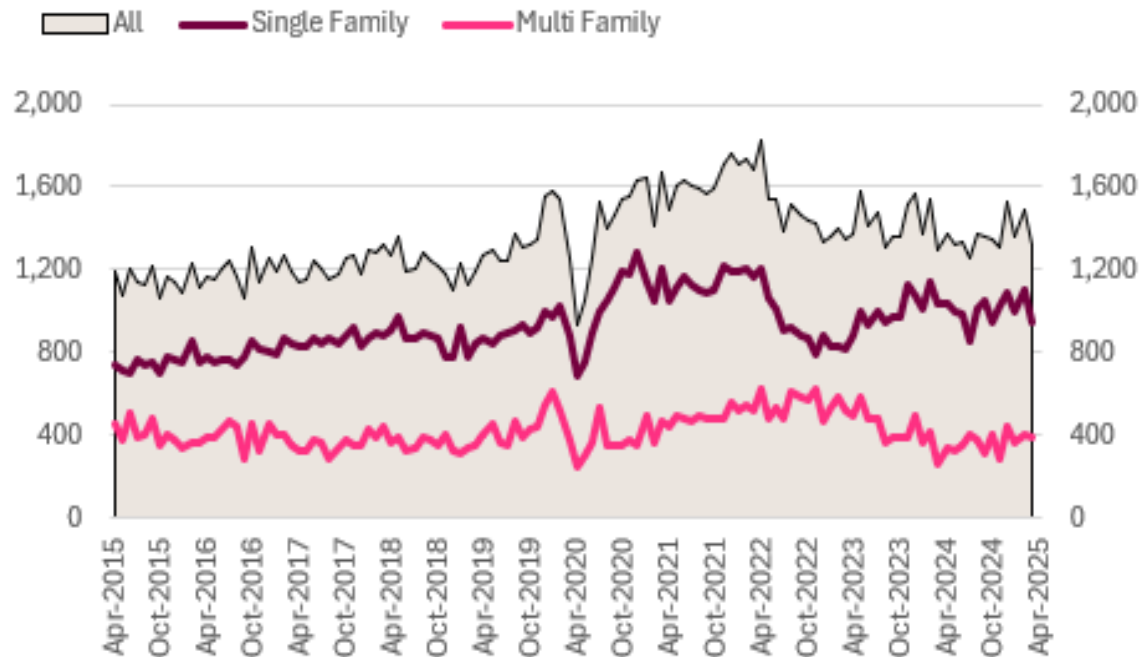


Source: US Census Bureau, Haver Analytics

Residential Construction: Single family steady with some weakness

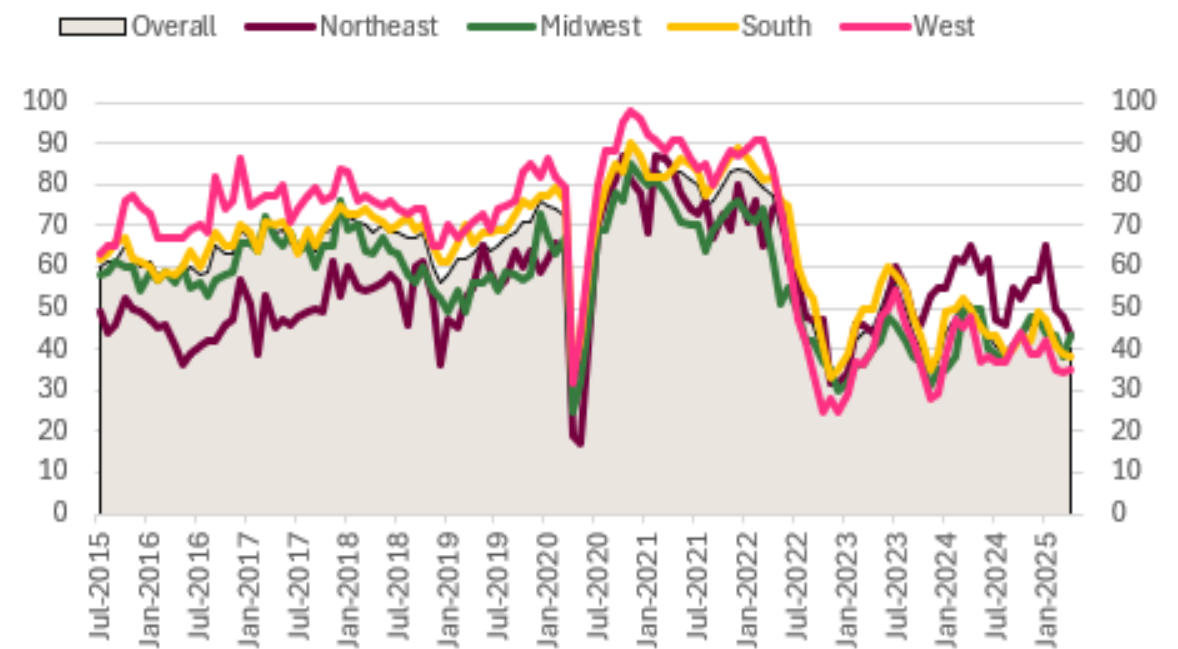
Housing starts are stable but shifting towards single family while builder confidence weakens further.

Housing Starts (Thousands)



Source: US Census Bureau, Haver Analytics

Home Builders Confidence Index

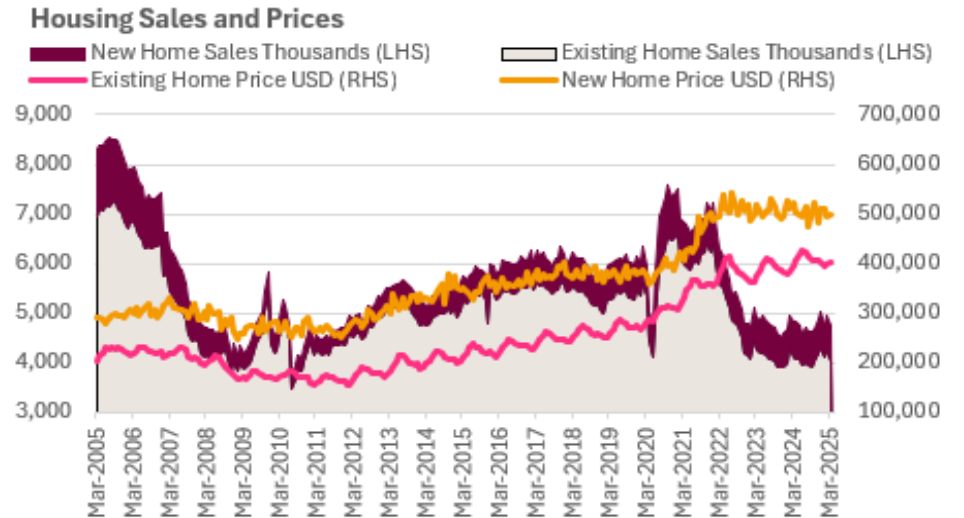


Source: National Association of Home Builders/Wells Fargo, Haver Analytics

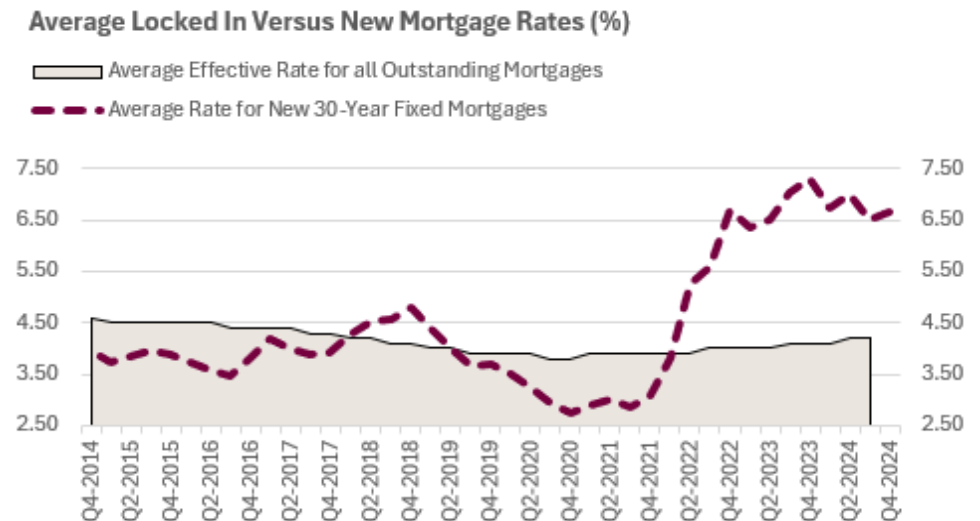
Housing Affordability: Cause for concern

Home prices are high, mortgage rates are elevated, and many homeowners aren't selling.

- New and existing home prices **increased significantly** after the pandemic.
- New home sales levels have remained steady at higher price levels.
- Existing home sales are **down** from pandemic and pre-pandemic levels.
- Many current homeowners bought or refinanced at record low mortgage rates in 2020/2021. With rates now much higher, many are reluctant to sell, reducing supply.



Source: US Census Bureau, National Association of Realtors, Haver Analytics



Source: Freddie Mac, Federal Housing Finance Administration

Demand for Housing: Slowdown likely on the way as America ages

United States Age Distribution



Source: United Nations, Haver Analytics, The Hartford's Global Insights Center

China Age Distribution



Source: United Nations, Haver Analytics, The Hartford's Global Insights Center

Germany Age Distribution



Source: United Nations, Haver Analytics, The Hartford's Global Insights Center

India Age Distribution

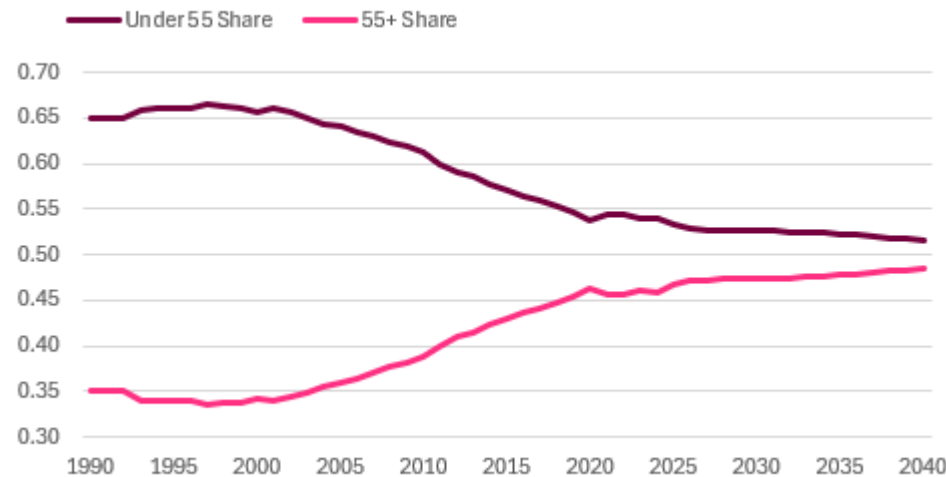


Source: United Nations, Haver Analytics, The Hartford's Global Insights Center

Demand for Housing: Slowdown expected

- Demand for new housing is driven in large part by the growth in the number of households.
- Household growth is expected to slow as population growth slows.
- The share of households headed by individuals aged 55 and above grew rapidly from 2000 to 2020 as the baby boomers aged.
- By 2040, nearly half of households will be 55 and above.

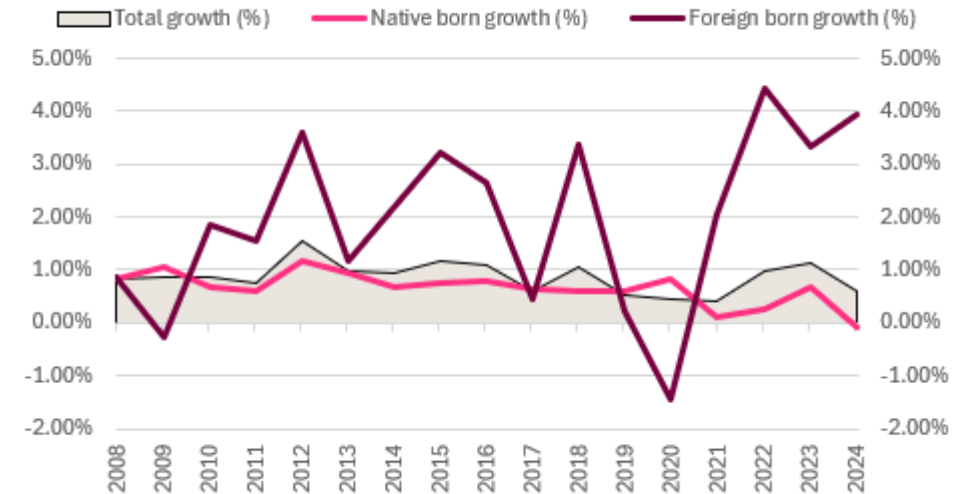
Household Share by Age



Source: Bureau of Labor Statistics, The Hartford's Global Insights Center, Haver Analytics

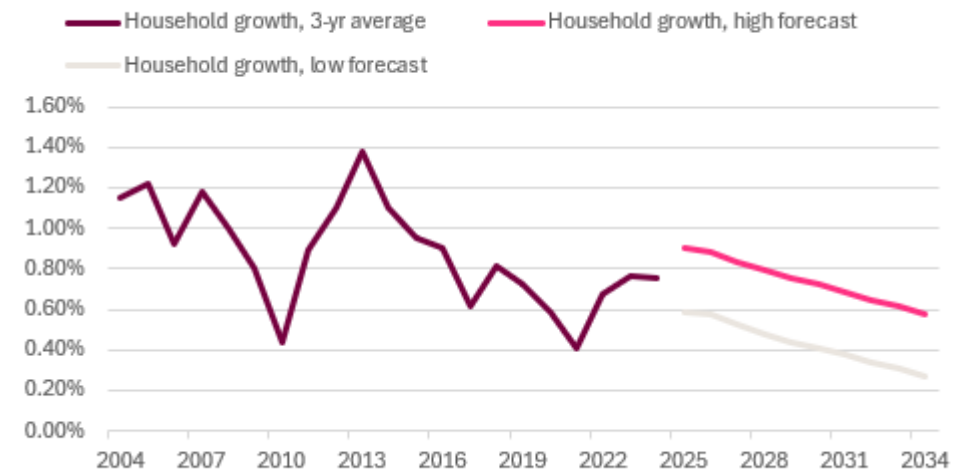
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US Civilian Population Growth, Age 16+



Source: US Census Bureau

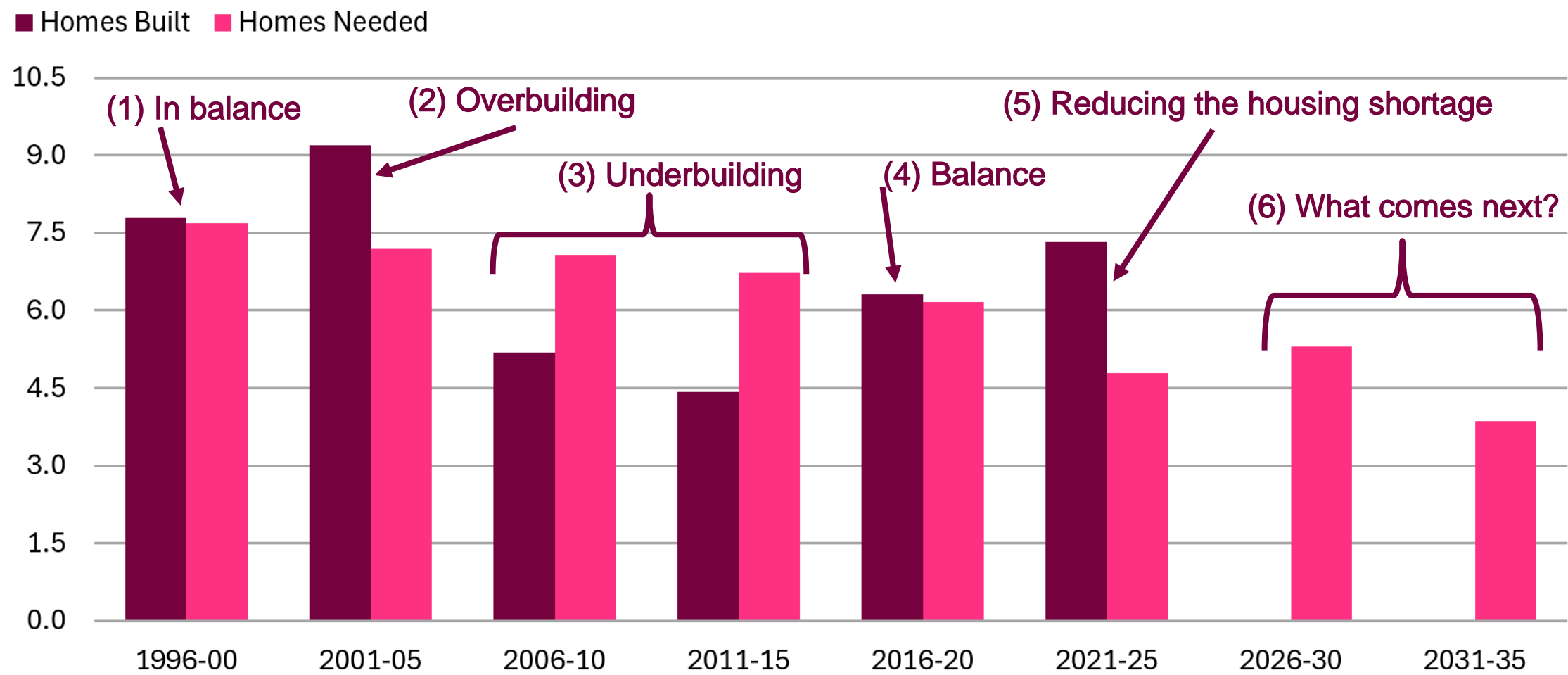
Household Growth Rate



Source: Bureau of Labor Statistics, The Hartford's Global Insights Center, Haver Analytics

Residential Construction: Long-term outlook

Homes Built vs. Homes Needed (Millions)



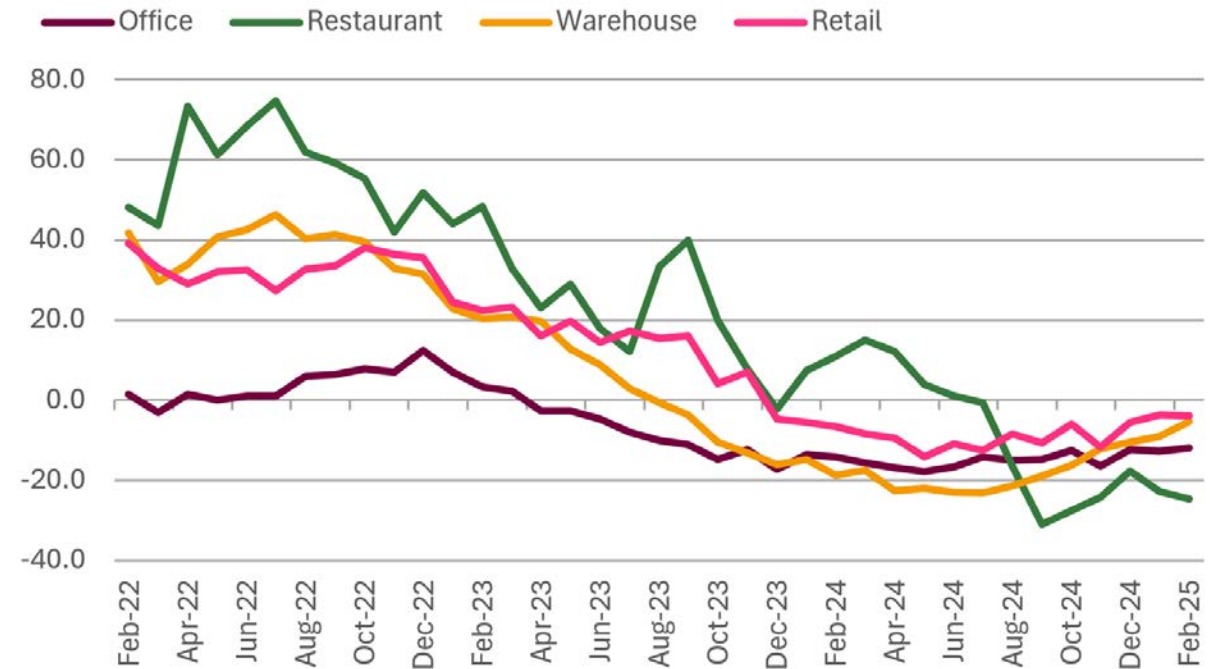
Source: US Department of Commerce, US Census Bureau, The Hartford's Global Insights Center

Nonresidential Construction: Headwinds emerging in some asset classes

Headwinds

- **Office**: Work from home
- **Warehouse**: Global trade slowdown
- **Retail**: Ecommerce
- **Restaurant**: Saturation reached

Construction Spending (YoY%)



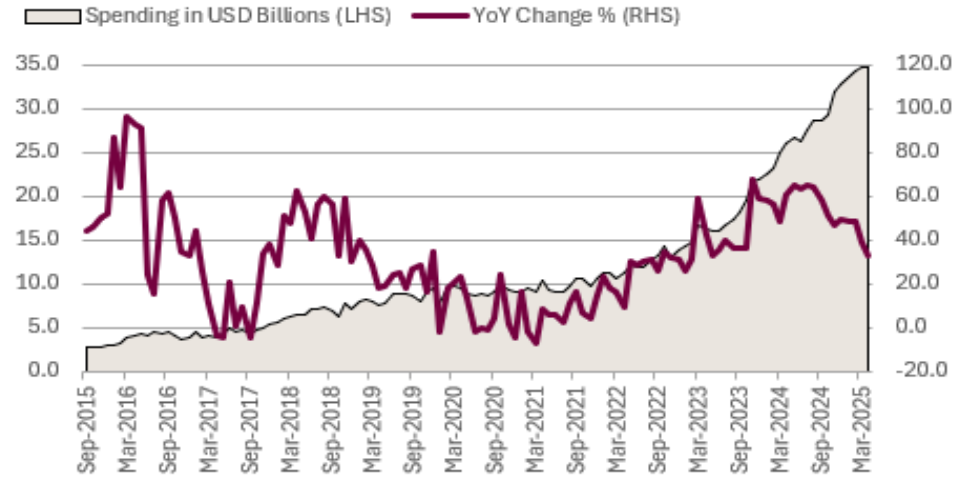
Source: Department of Commerce, Haver Analytics

Nonresidential: Computers and AI sector are strong, but there is some uncertainty

The CHIPS act and developments in AI spurred growth in data center and semiconductor manufacturing.

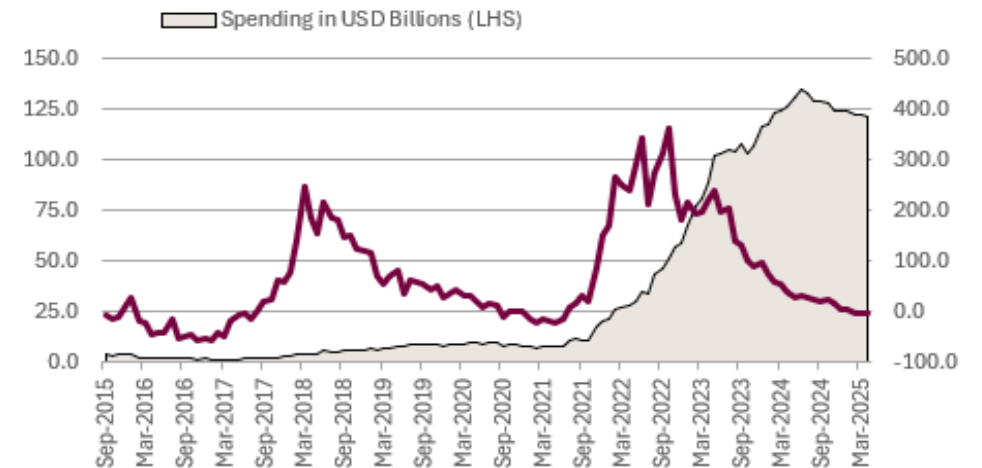
- From nearly nothing, spending on construction of computer-related (mostly semiconductor) manufacturing plants has grown to **\$125 billion** per year.
- TSMC, the world's largest chip manufacturer, began construction of its first US fab in 2021 and has \$165 billion in planned investment in the US.
- Congress passed the CHIPS and Science Act in 2022, which provided incentives for **domestic manufacturing** of semiconductors, although the future of these incentives is uncertain.

Data Center Construction



Source: US Census Bureau, Haver Analytics

Private Spending on Computer, Electronics, Electrical Manufacturing Construction (Annualized)

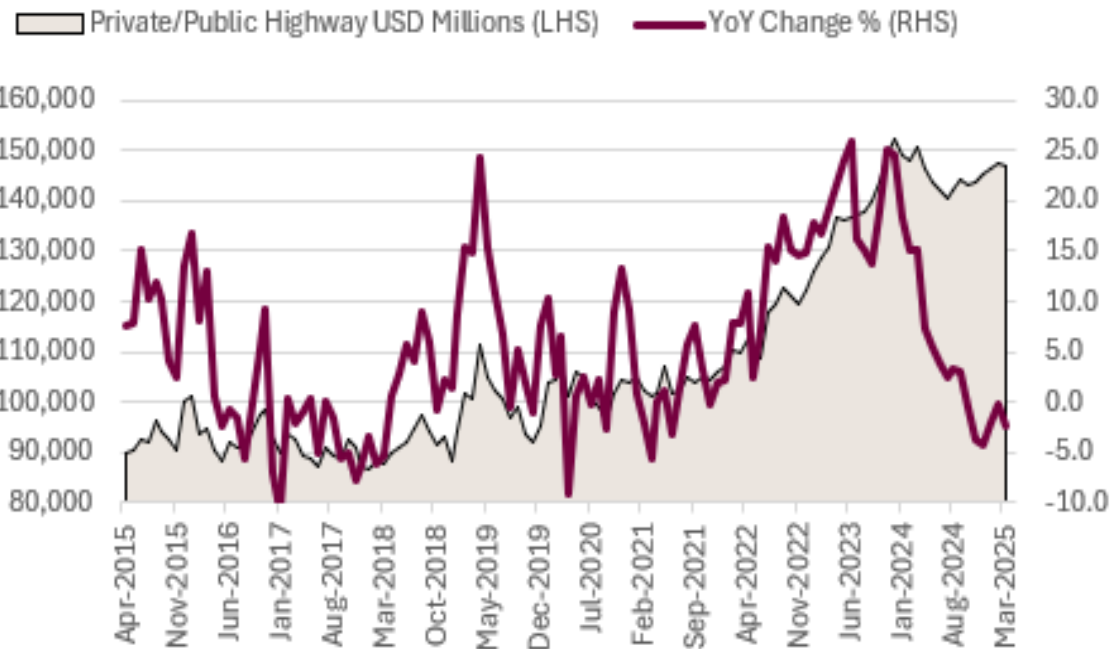


Source: US Census Bureau, Haver Analytics

Nonresidential: Infrastructure growth is lagging

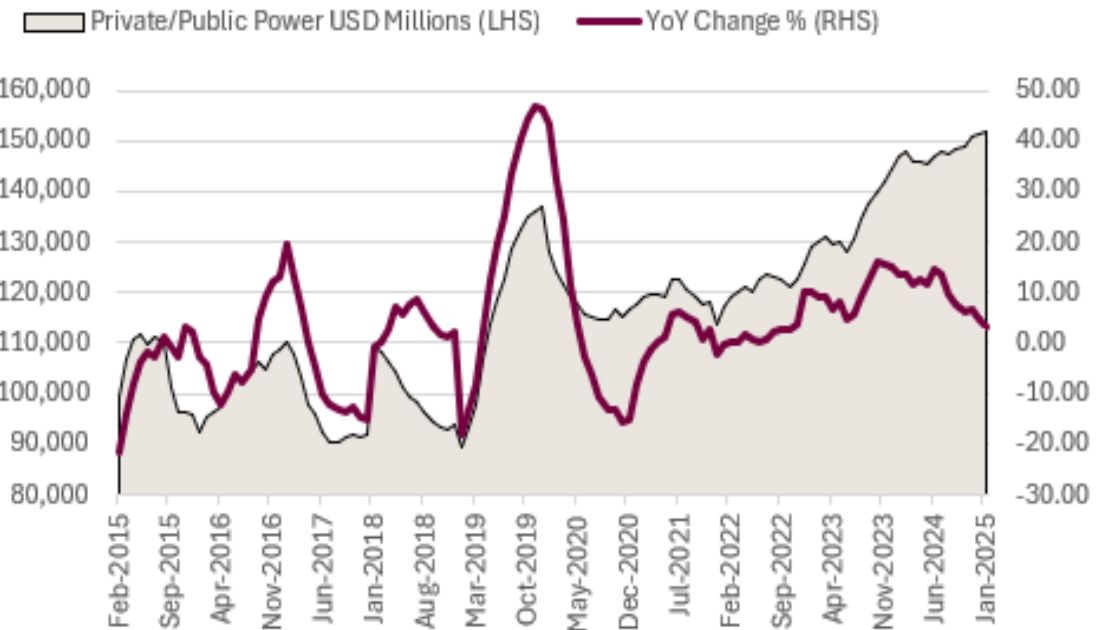
Fiscal stimulus provided a boost to infrastructure spending, but the outlook is cloudy.

Value of Highway Construction in Place (Annualized)



Source: US Census Bureau, Haver Analytics

Value of Power Construction in Place (Annualized)



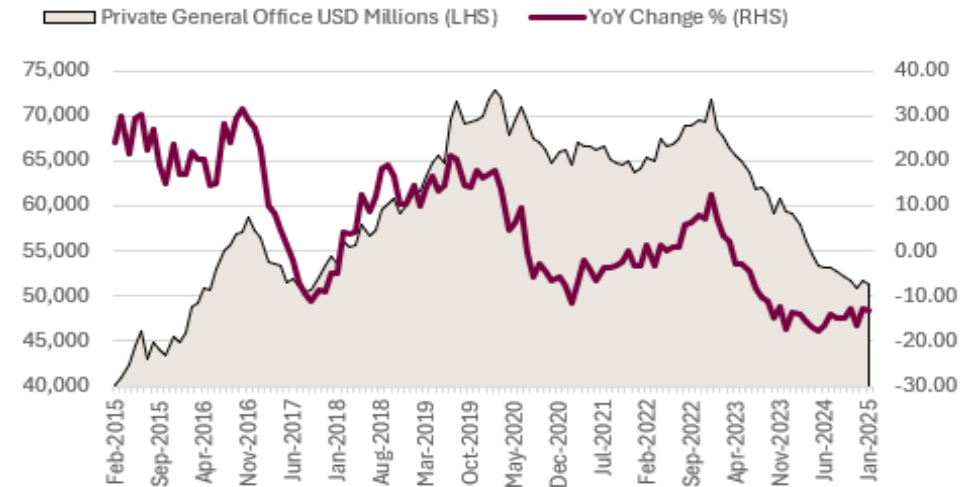
Source: US Census Bureau, Haver Analytics

Nonresidential: Office and warehouse exhibit weakness

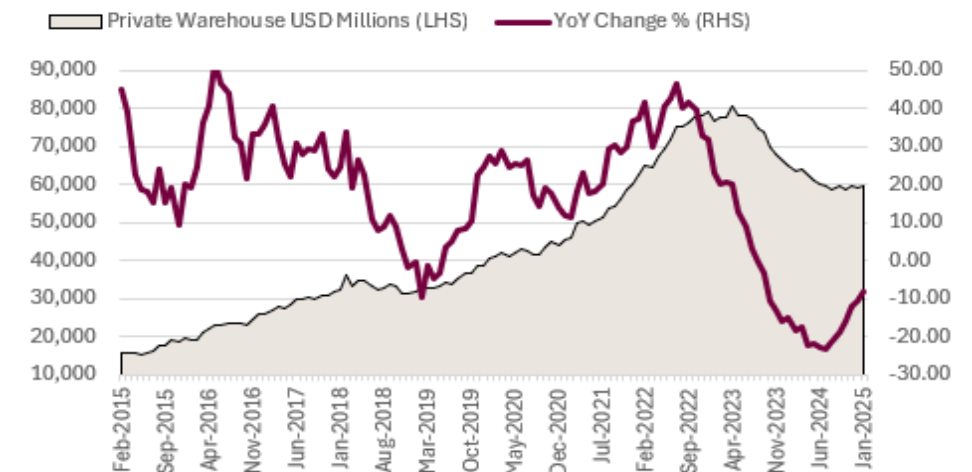
Weakness in office and warehouse construction showcases nonresidential volatility.

- Spending on general office building construction has **fallen significantly** since 2022 as vacancy rates remains high.
- Warehouse construction saw tremendous growth through 2023, driven by **e-commerce**.
- While still high historically, warehouse spending is 25% below peak levels.
- Warehousing is a sector of concern as tariffs may cause consumption of goods to fall.

Value of General Office Construction in Place (Annualized)



Value of Warehouse Construction in Place (Annualized)

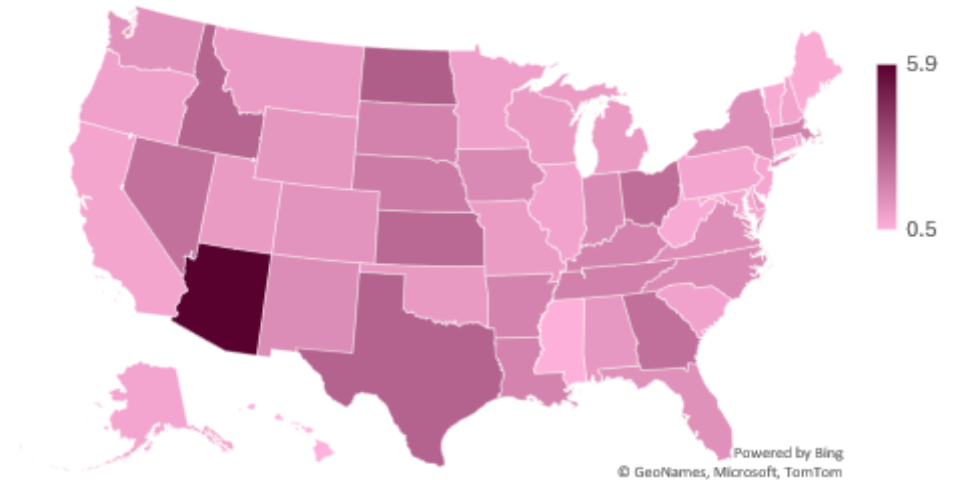


Regional Differences: Location matters

Construction intensity differs markedly across the country.

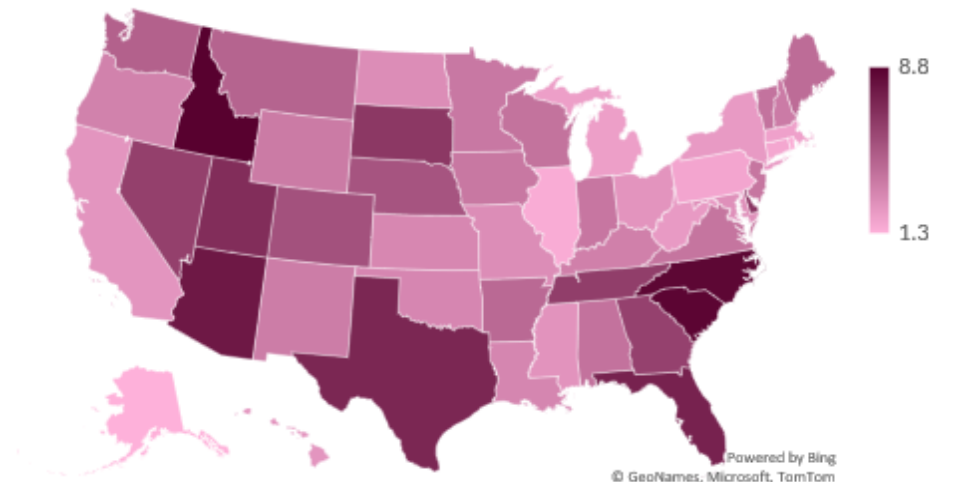
- While Texas and Florida are building the most housing, on a per capita basis, Idaho, North Carolina, and South Carolina are top builders.
- Nonresidential construction is more uniform than residential but is driven by **megaprojects** : semiconductors in Arizona and Ohio, autos and batteries in Georgia.
- Texas, with 9% of US population, accounts **15%** of building permits and **16%** of private nonresidential construction spending.

Private Nonresidential Construction: Thousand USD per capita



Source: US Census Bureau, The Hartford's Global Insights Center

Residential Building Permits per Thousand People



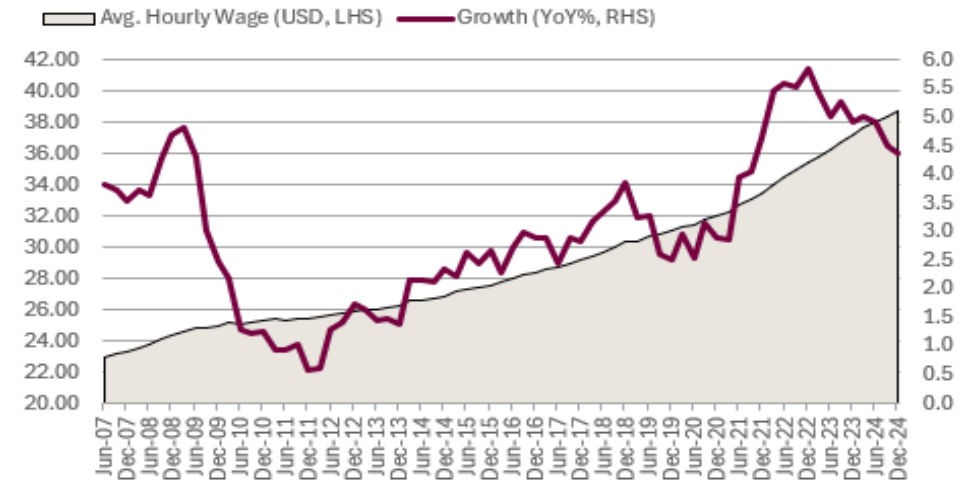
Source: US Census Bureau, The Hartford's Global Insights Center

Construction Labor: Wages for construction workers have stabilized

Labor costs have stabilized but immigration restrictions loom.

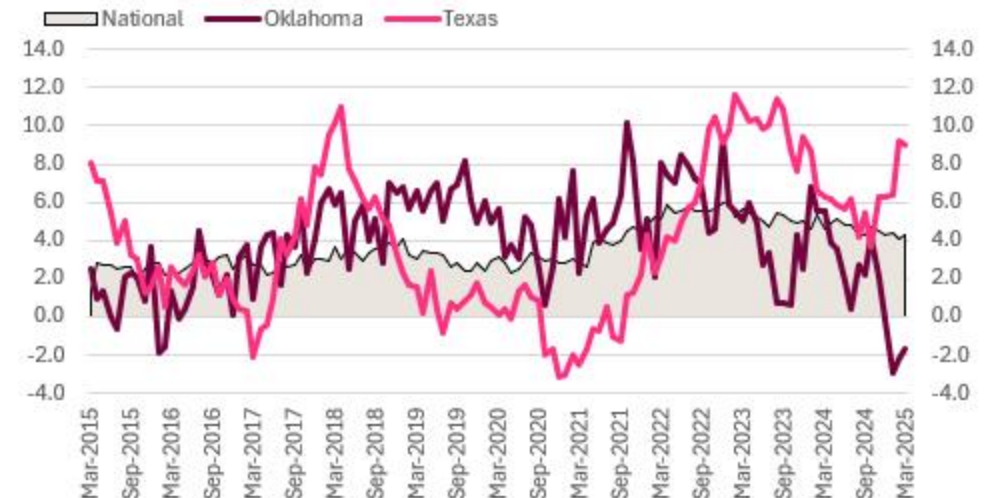
- Wage inflation has started to come down and **4.0%** YoY is now running at the economywide average.
- 28.6% of workers in the construction industry are **foreign born**, the highest share of any industry. **Policy changes that limit the supply of new workers could stoke wage inflation**.
- Unlike in the broader economy, labor productivity in construction has been **declining**.
- When higher wages are not offset by higher productivity, companies must pass costs on to customers or suffer lower profits (or both).

Construction Wages



Source: Bureau of Labor Statistics, Haver Analytics, The Hartford's Global Insights Center

Construction Wage Growth, YoY%

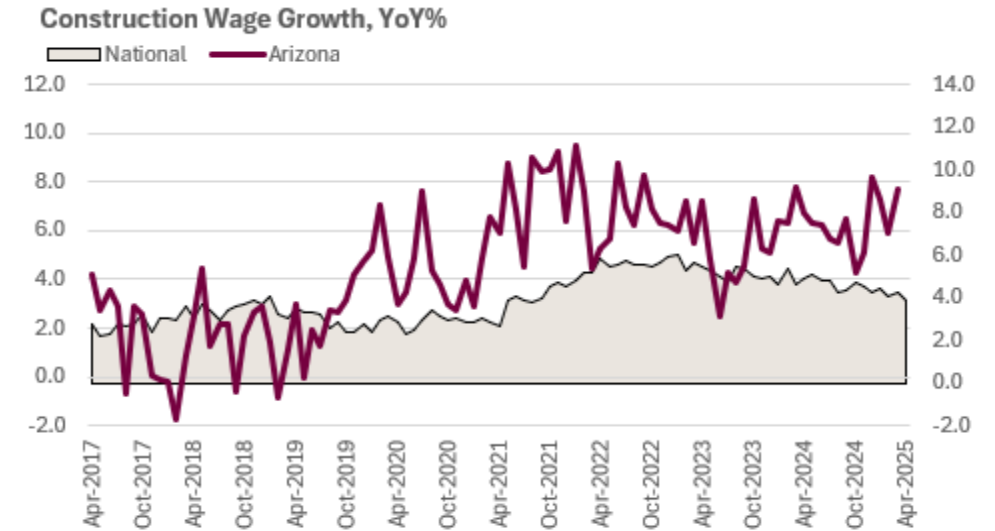


Source: US Bureau of Labor Statistics, Haver Analytics

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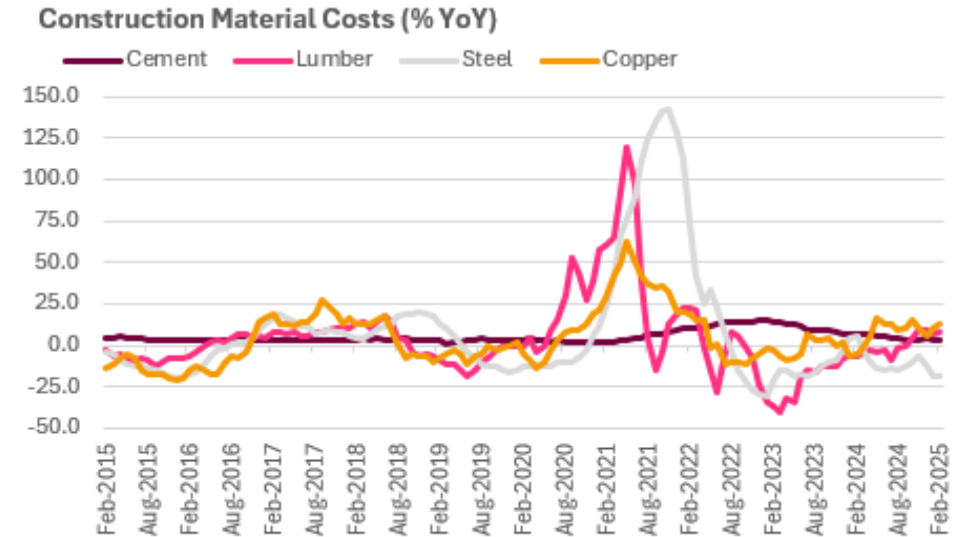


Source: US Bureau of Labor Statistics, Haver Analytics

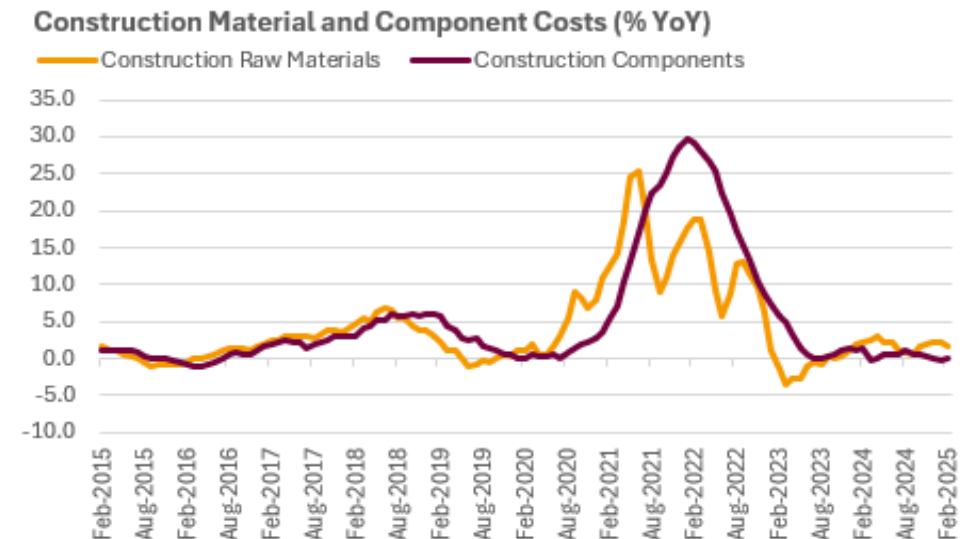
Construction Materials: Prices in check for now

Materials costs have stabilized but tariffs loom.

- Construction material costs spiked in 2021, particularly for lumber and steel, but have stabilized.
- Raw material inflation is running ahead of component inflation.
- Canada and Mexico are major suppliers of construction materials, making the industry susceptible to **tariffs**.
- While tariffs may cause material prices to rise, they are unlikely to cause significant supply chain disruptions.



Source: US Bureau of Labor Statistics, Haver Analytics



Source: US Bureau of Labor Statistics, Haver Analytics

Your Global Insights Center Team



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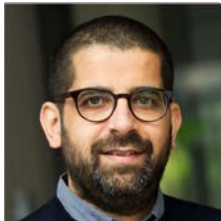
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