

Tariffs and Lower Interest Rates: How Will the Economy Perform?

TGFOA

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UTK Chancellor
Oct 1, 2025

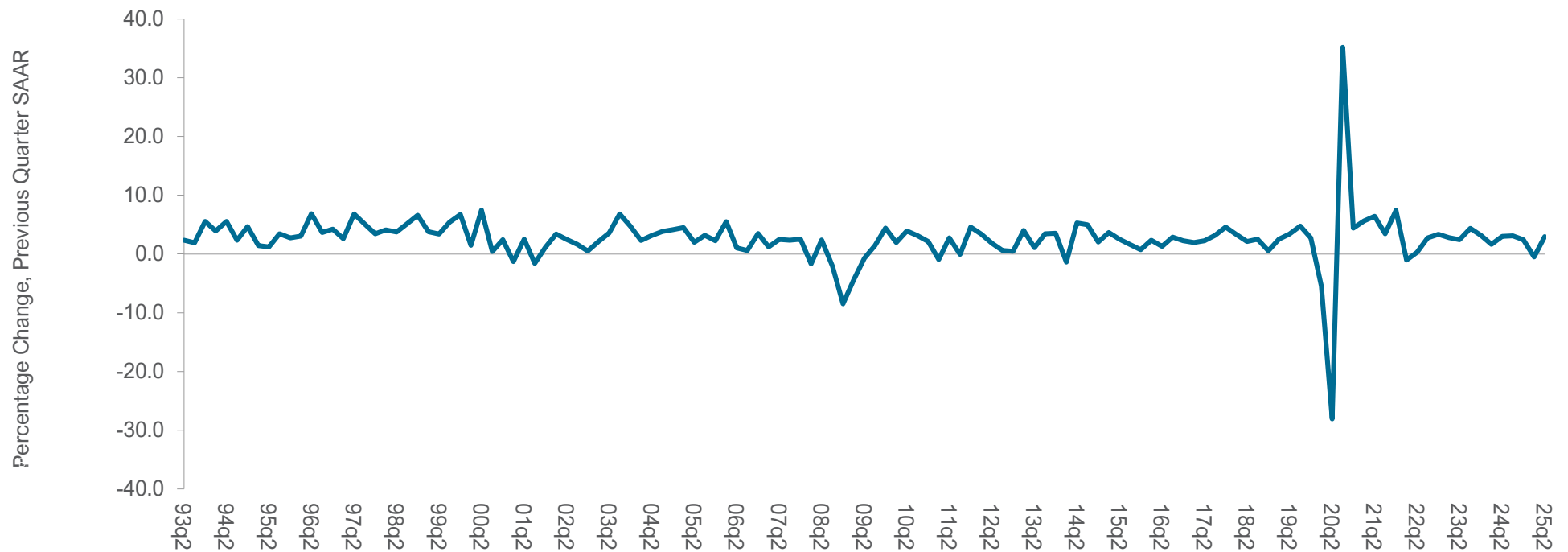


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The National Economy Has Been Strong Since COVID

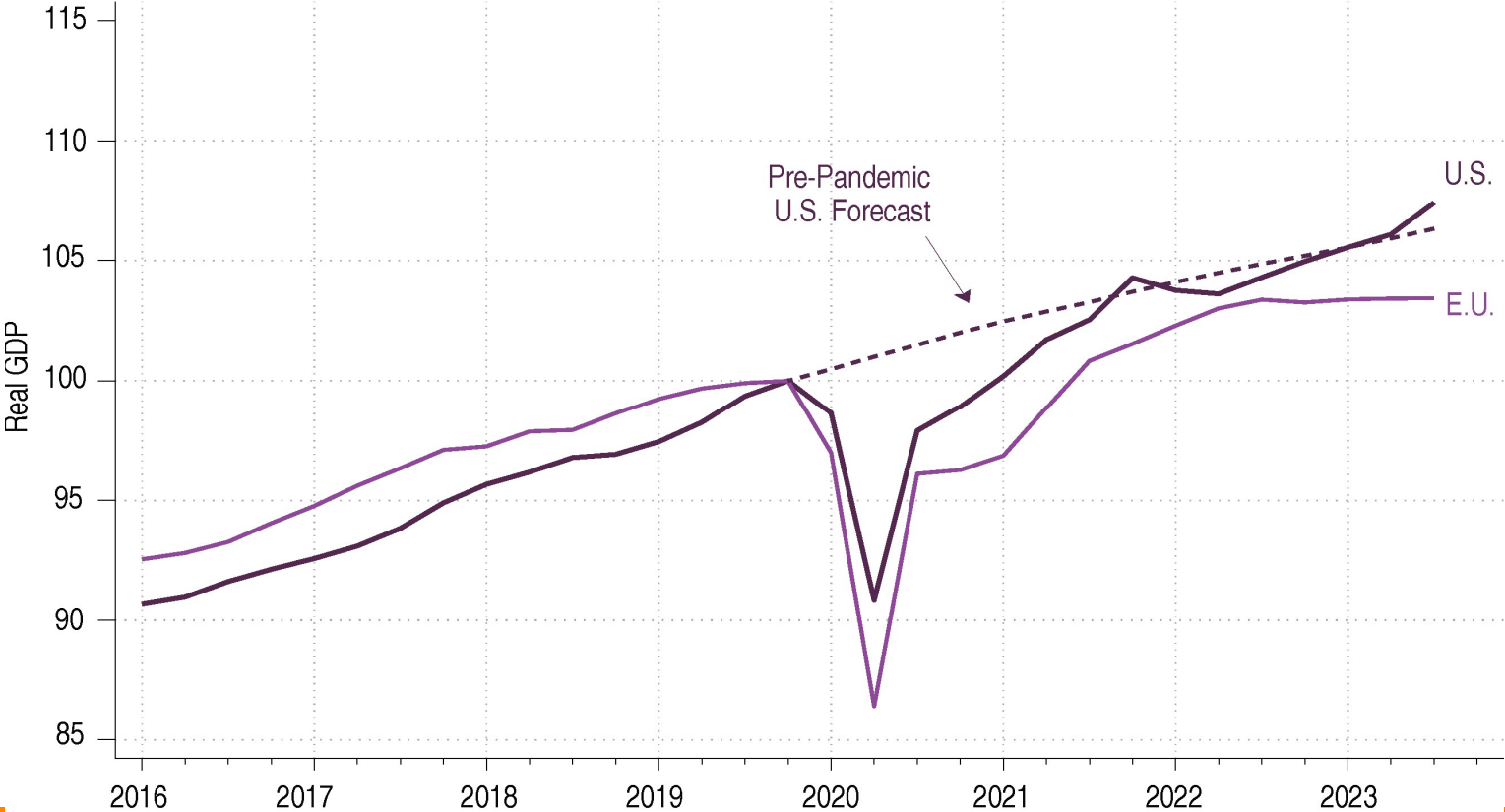
Real GDP Growth Rates



Source: BEA

U.S. GDP Growth Has Surpassed Pre-Pandemic Forecasts; Continues to Outperform Other High-Income Countries

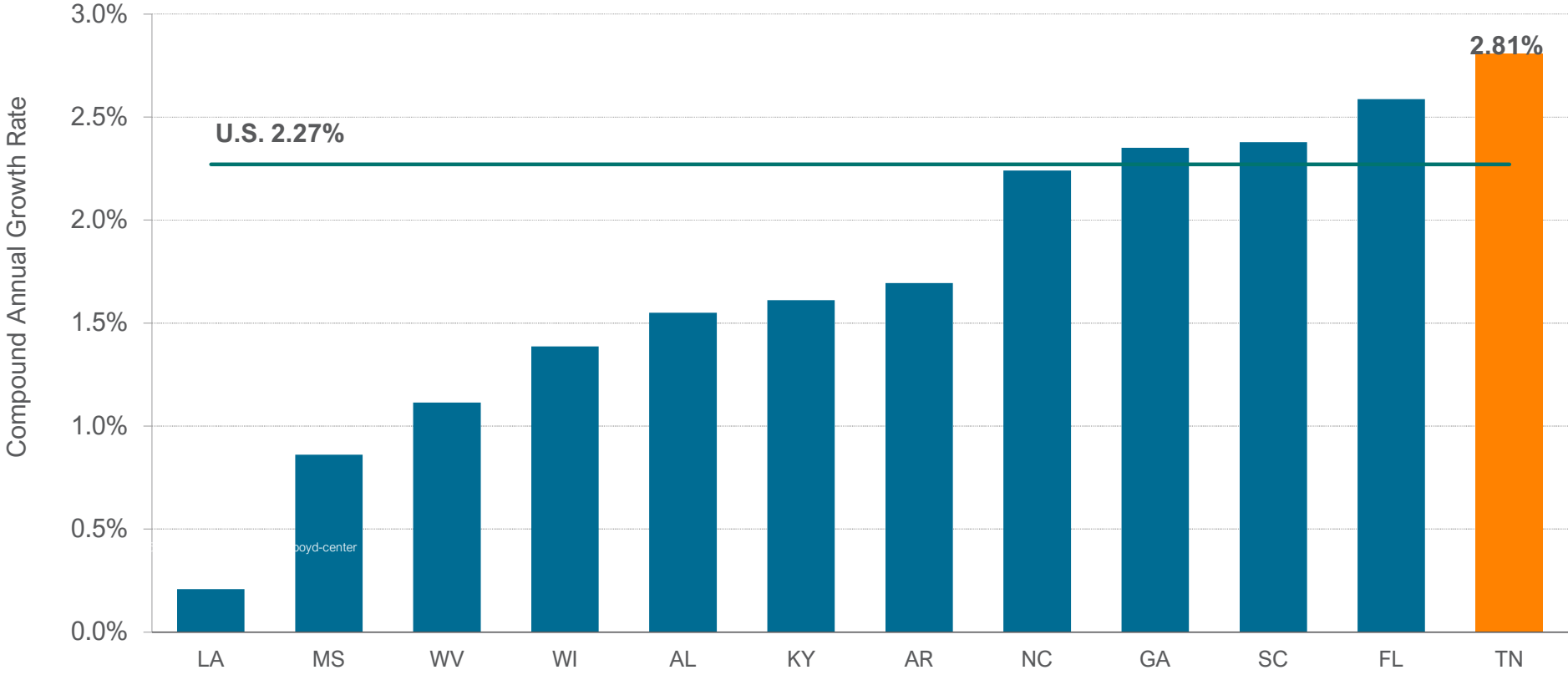
(Q4 2019 = 100)



Sources: Bureau of Economic Analysis, Eurostat, S&P Global Market Intelligence December 2019 Forecast.

Tennessee Is Among the Nation's Economic Leaders

State GDP Growth Rates, 2007 to 2023



Source: BEA

Some Potential Headwinds

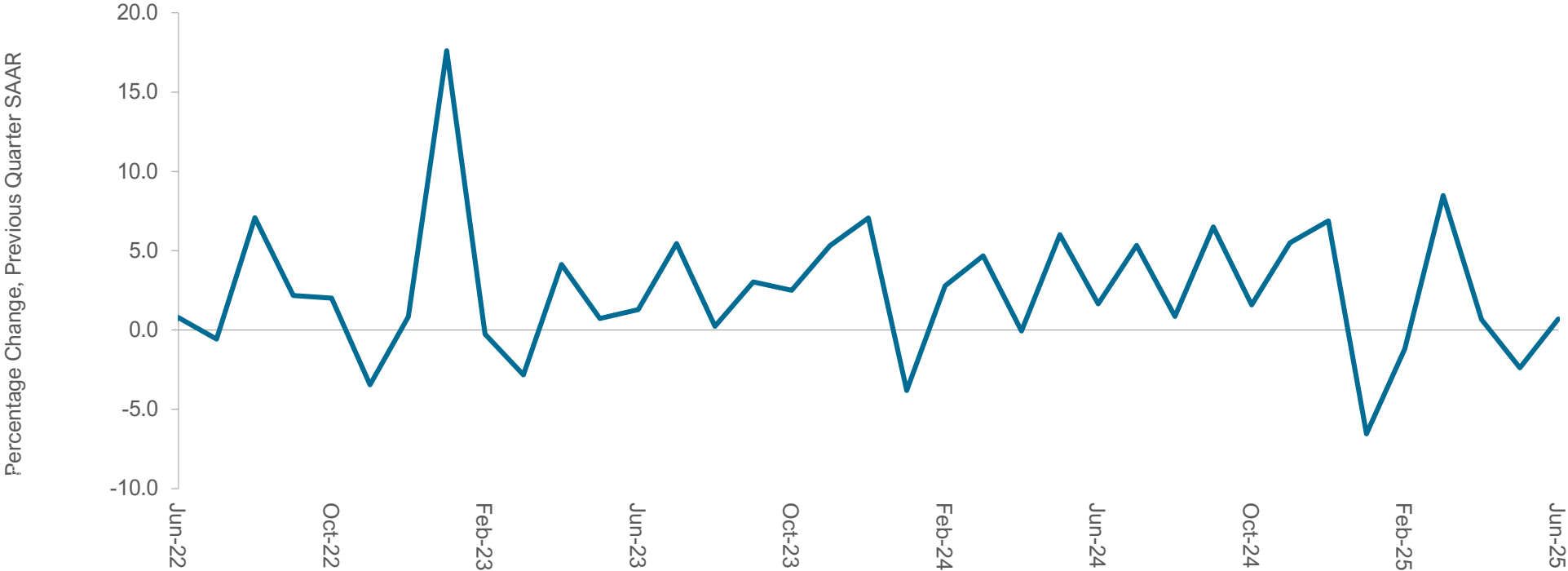
- Tariffs – impact both Investment and Consumption
 - Take 3-6 months to have effect
 - Are companies waiting for more certainty about tariff policy?
- Large Federal Deficits – will the government shutdown?
- Geopolitical Risks
- Immigration Policy
- Uncertainty

Some Potential Stimulus

- Lower interest rates – still moderately restrictive
- Strong Financial Markets
- One Big Beautiful Bill – lower tax rates, less regulation

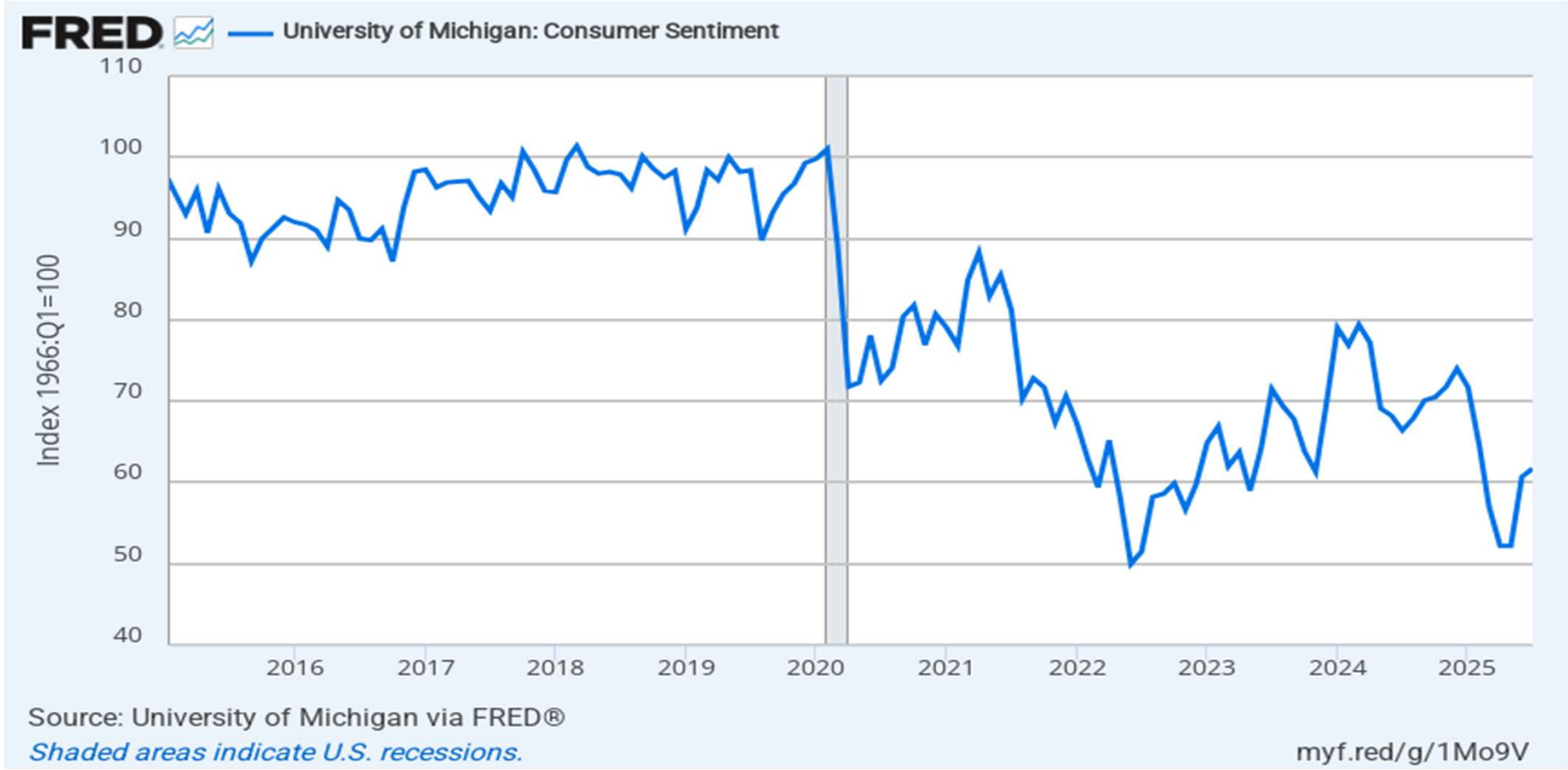
Consumers have sustained economic growth

Real Personal Consumption Expenditures



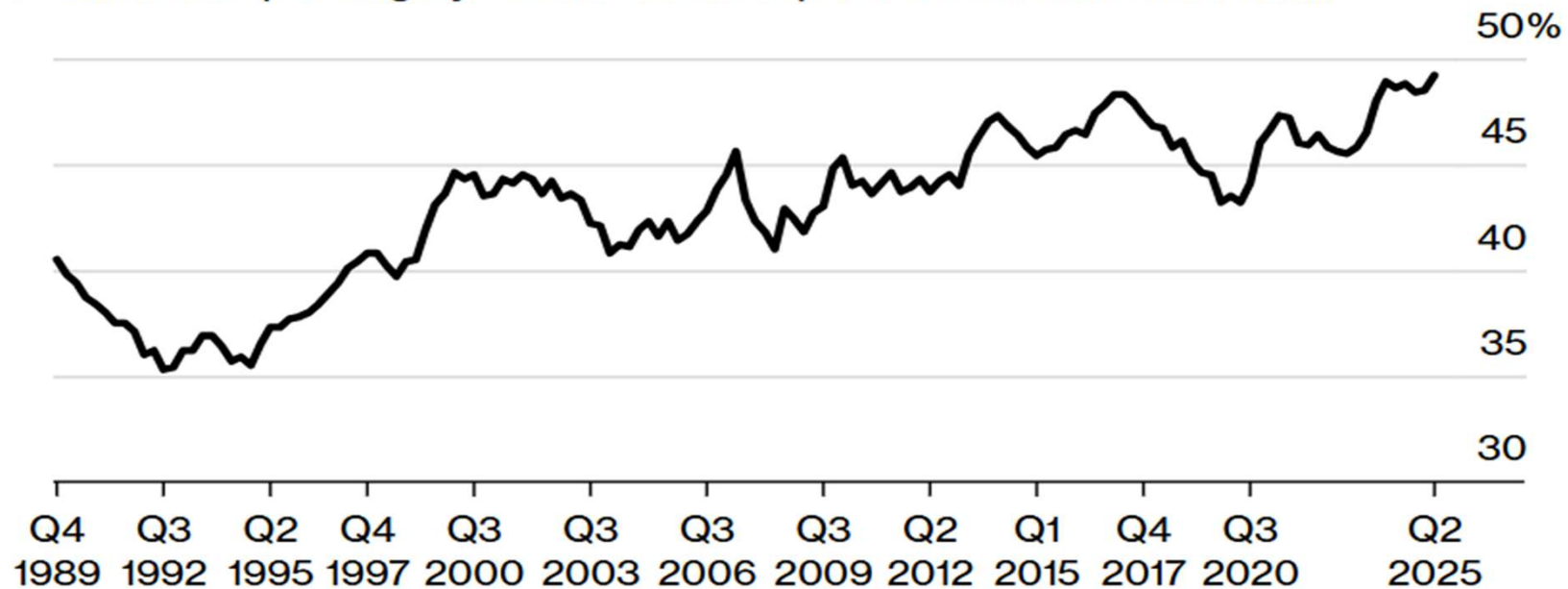
Source: BEA

Consumer Sentiment Much Below Pre-Covid



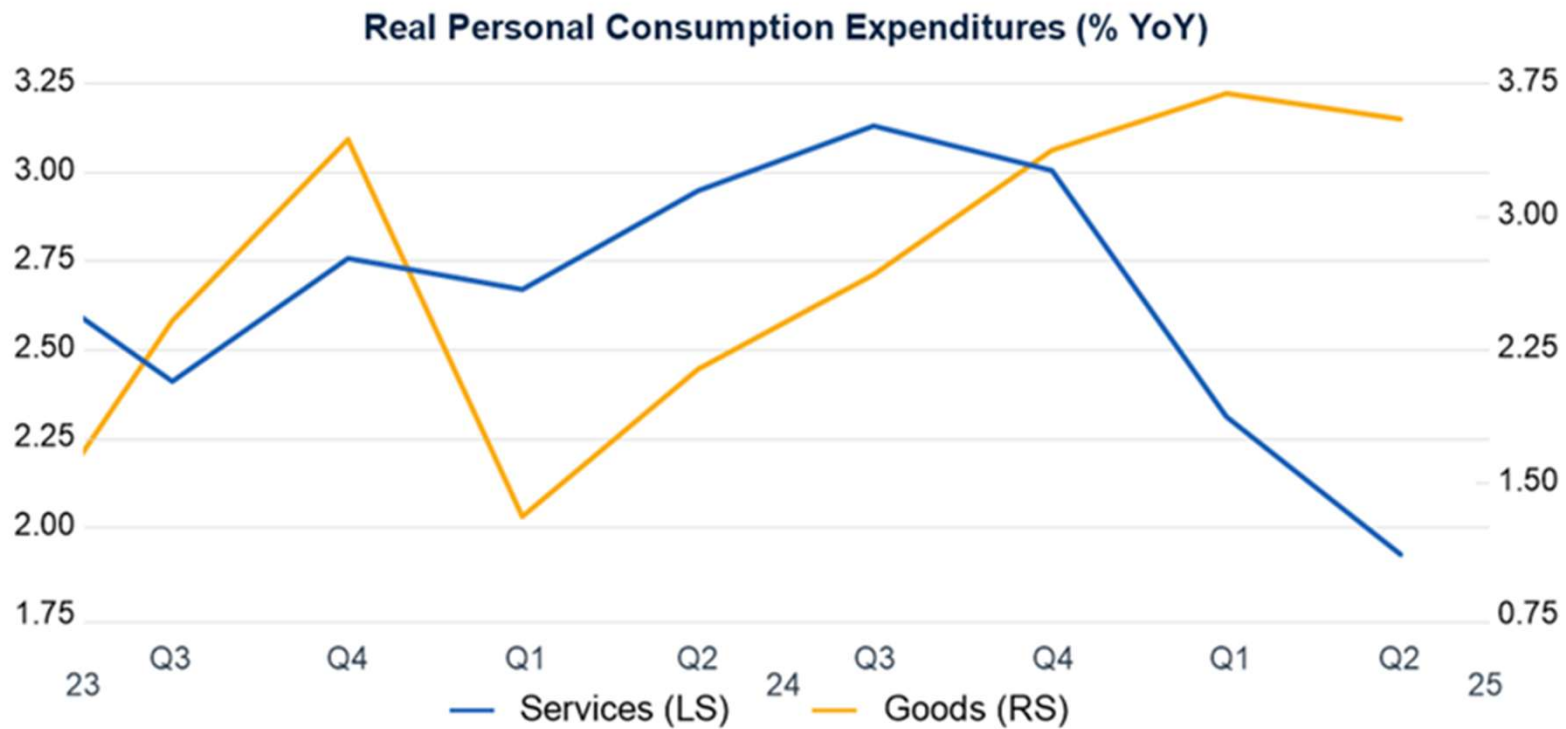
Consumption Buoyed by High Income Spenders

Share of Spending By Consumers in Top 10% of Income Distribution



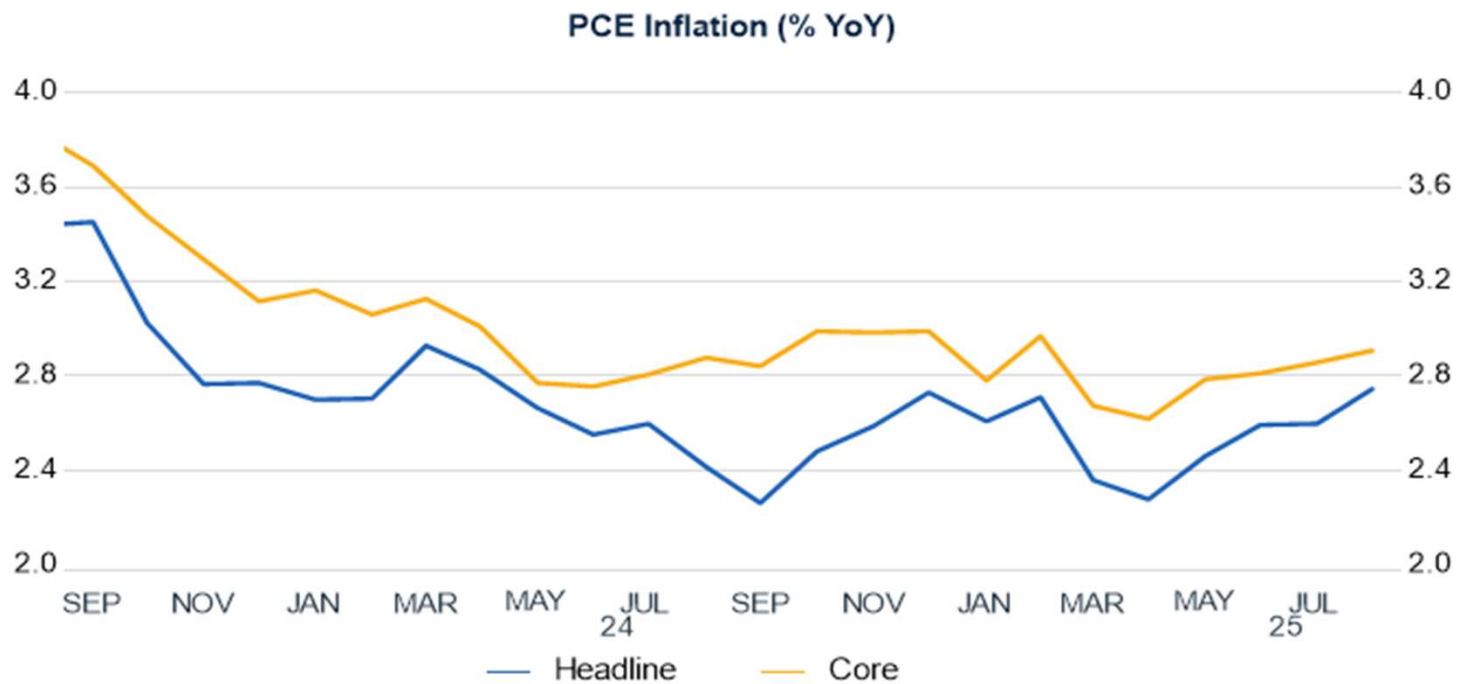
Source: Moody's Analytics review of Federal Reserve data

Consumers are Purchasing More Goods and Fewer Services

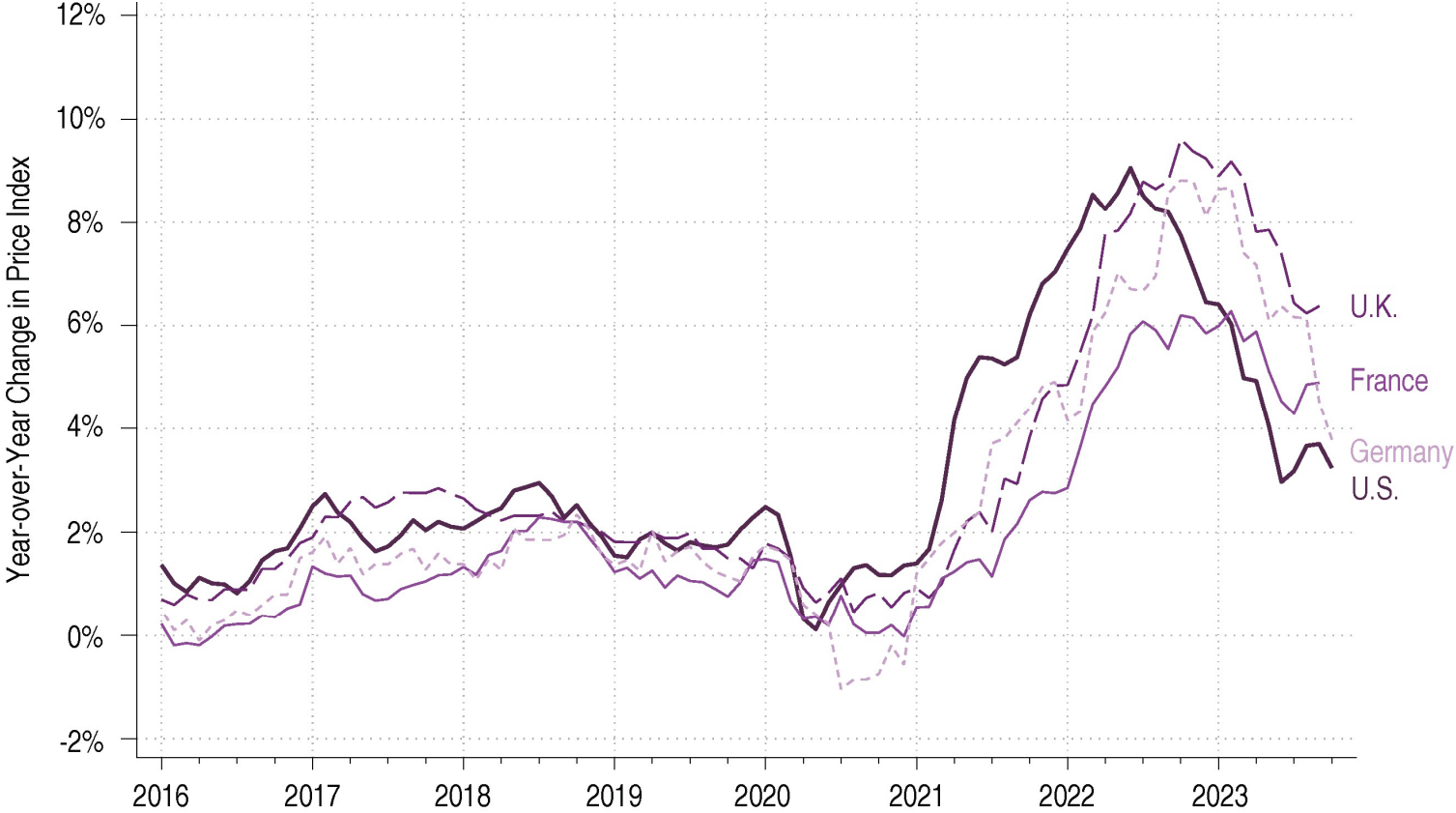


Source: The Conference Board Sept 14, 2025

FED's Preferred Inflation Measure Running Above Target



Inflation in the U.S. is Lower than Global Peers, Despite Stronger Economic Growth



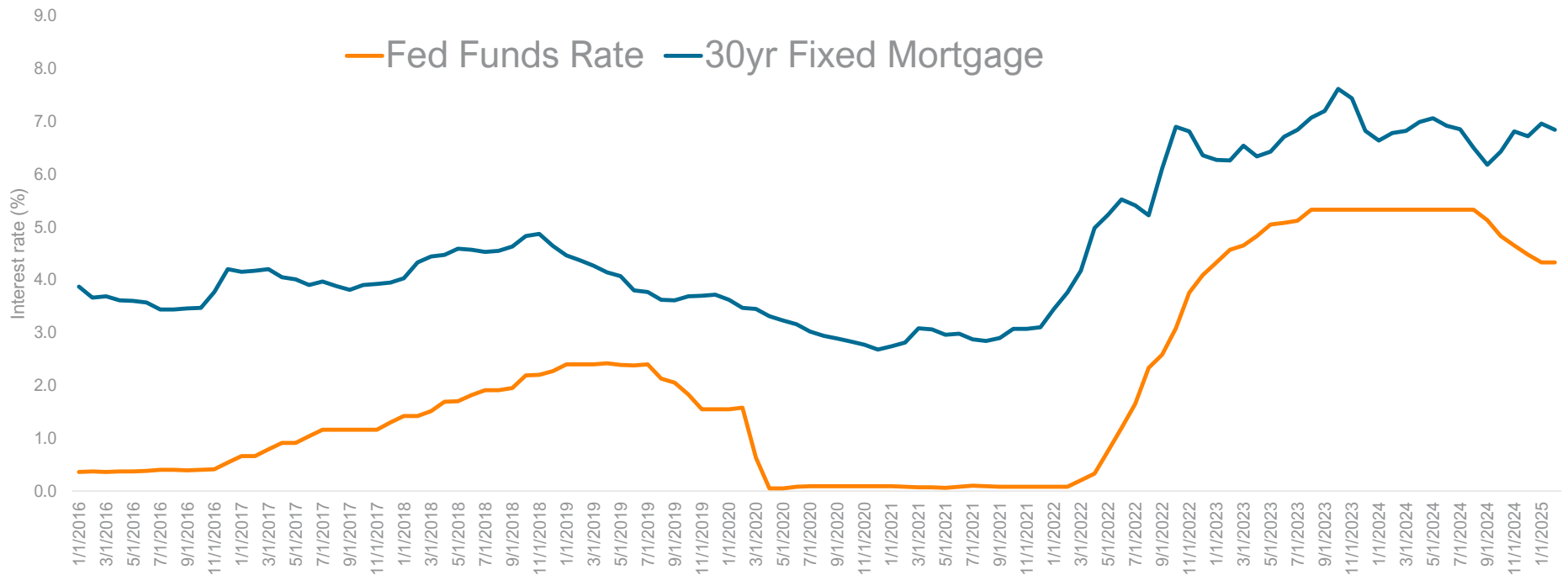
Sources: Bureau of Labor Statistics, Organization for Economic Cooperation and Development.

Housing Starts in the U.S. Have Not Kept Pace with Population Growth and have Slid Over the Past Several Years



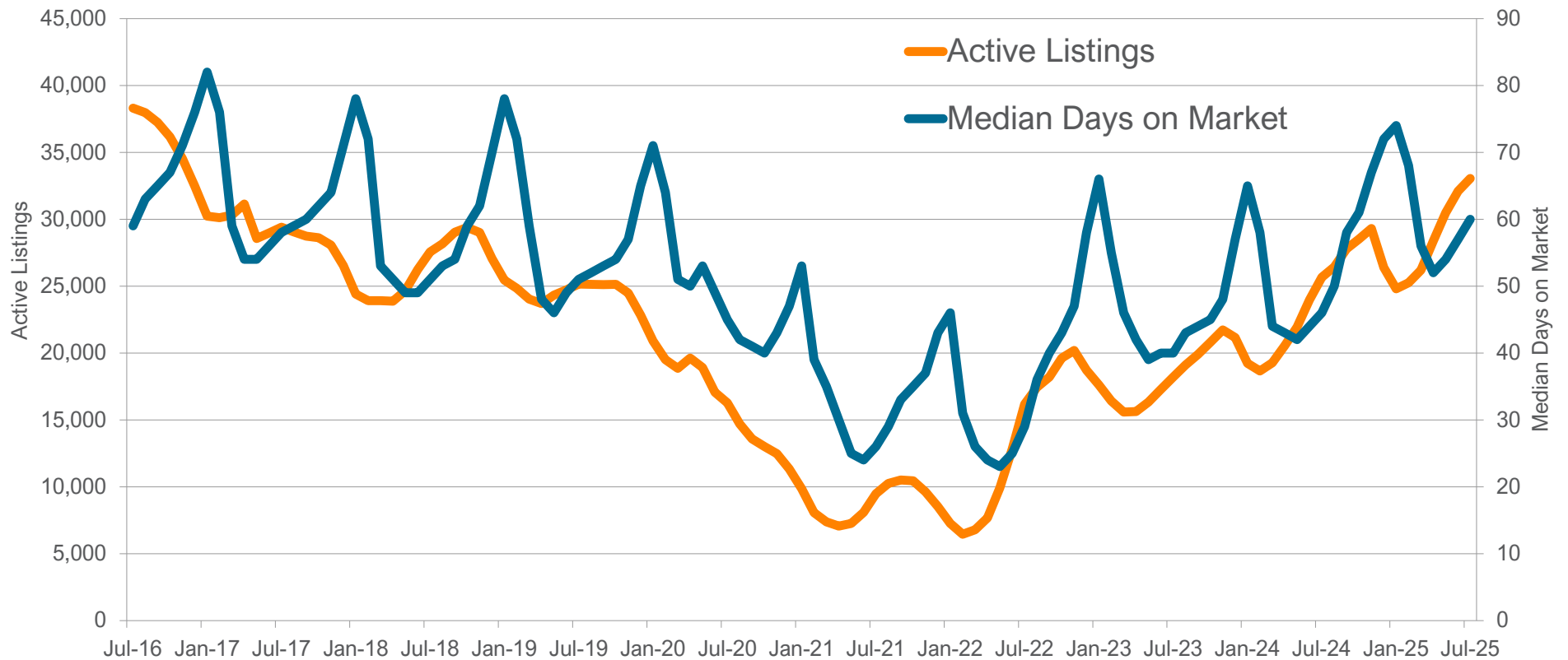
Sources: Bureau of Economic Analysis, U.S. Census Bureau, and U.S. Department of Housing and Urban Development

Some Reductions in the Federal Funds Rate, But Has Limited Effect on Longer Term Rates



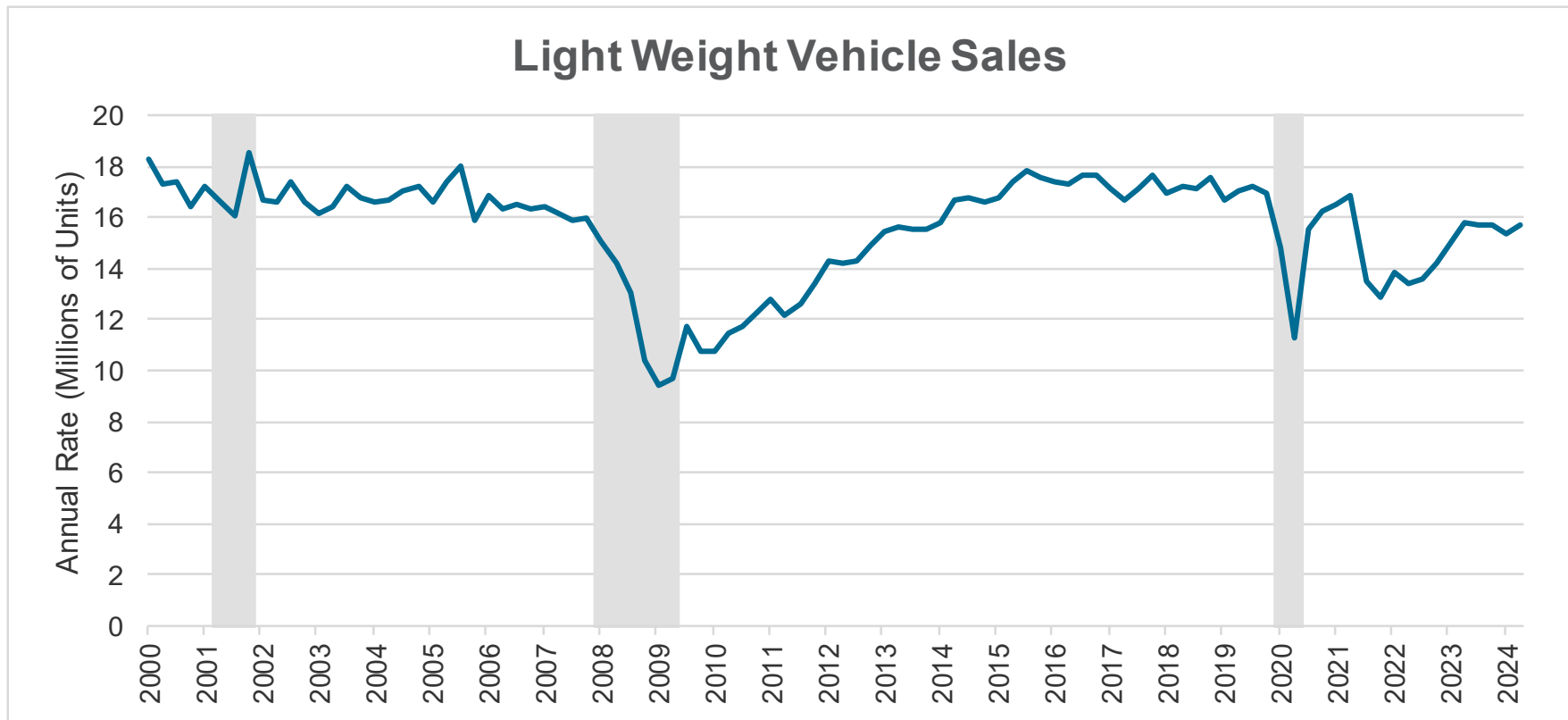
Sources: Federal Reserve Bank of New York and Freddie Mac

Tennessee's Housing Market is Slowly Returning to Normal

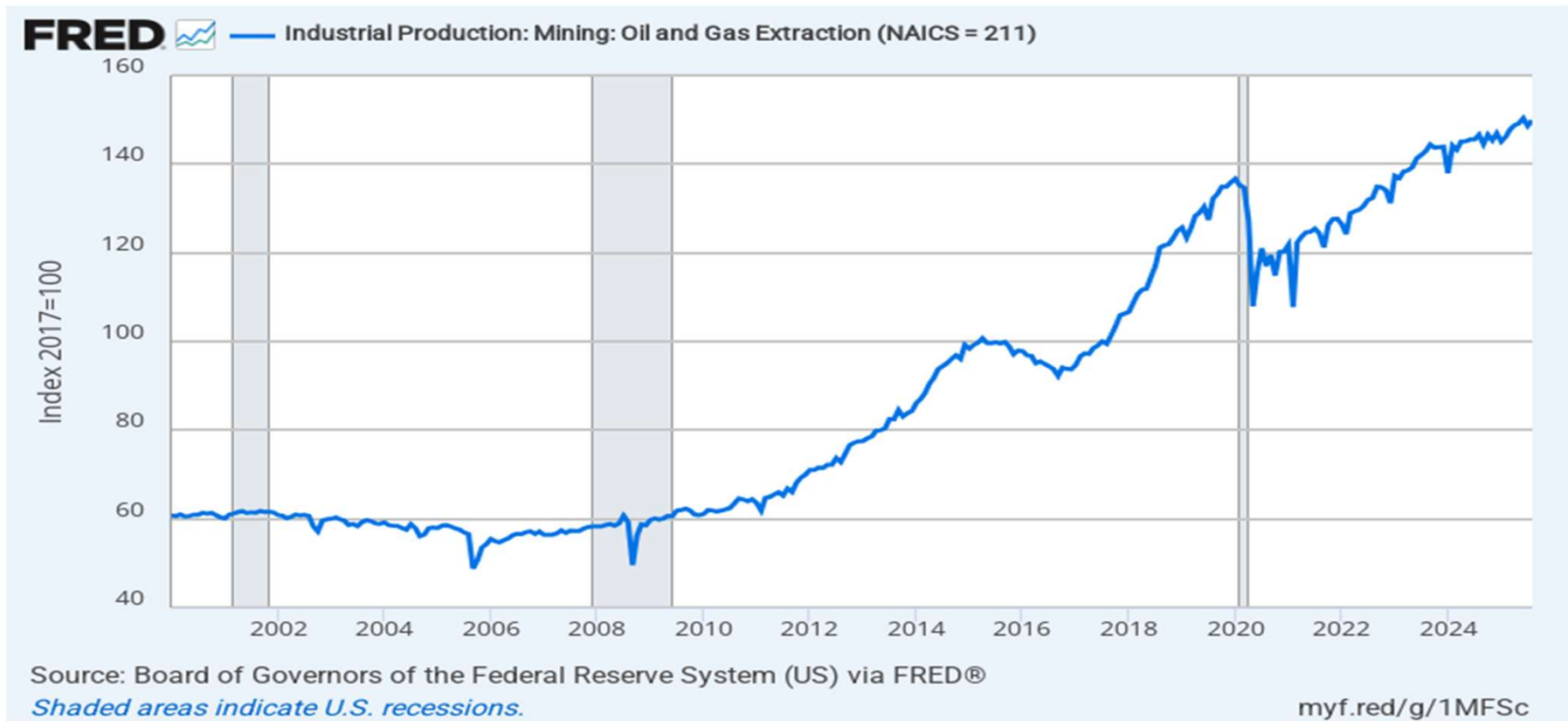


Source: Realtor.com

Vehicle Sales at Lower Levels than in Previous Recoveries



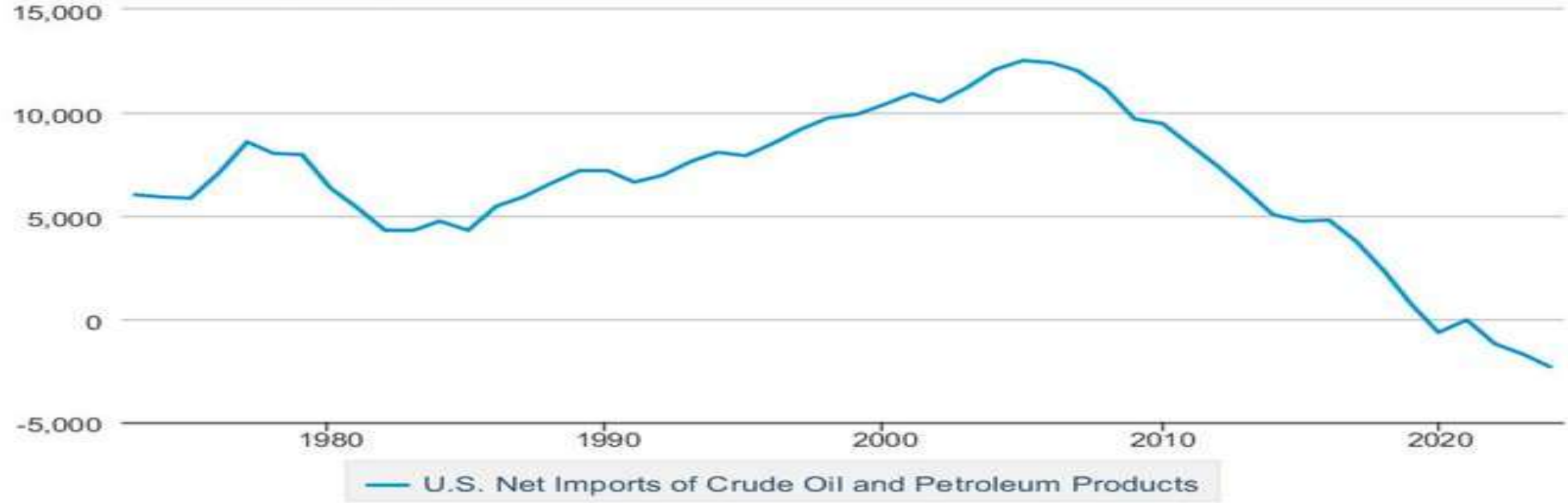
US Oil Production has Skyrocketed over the Past 25 years



US Is Now Self Sufficient in Oil Production

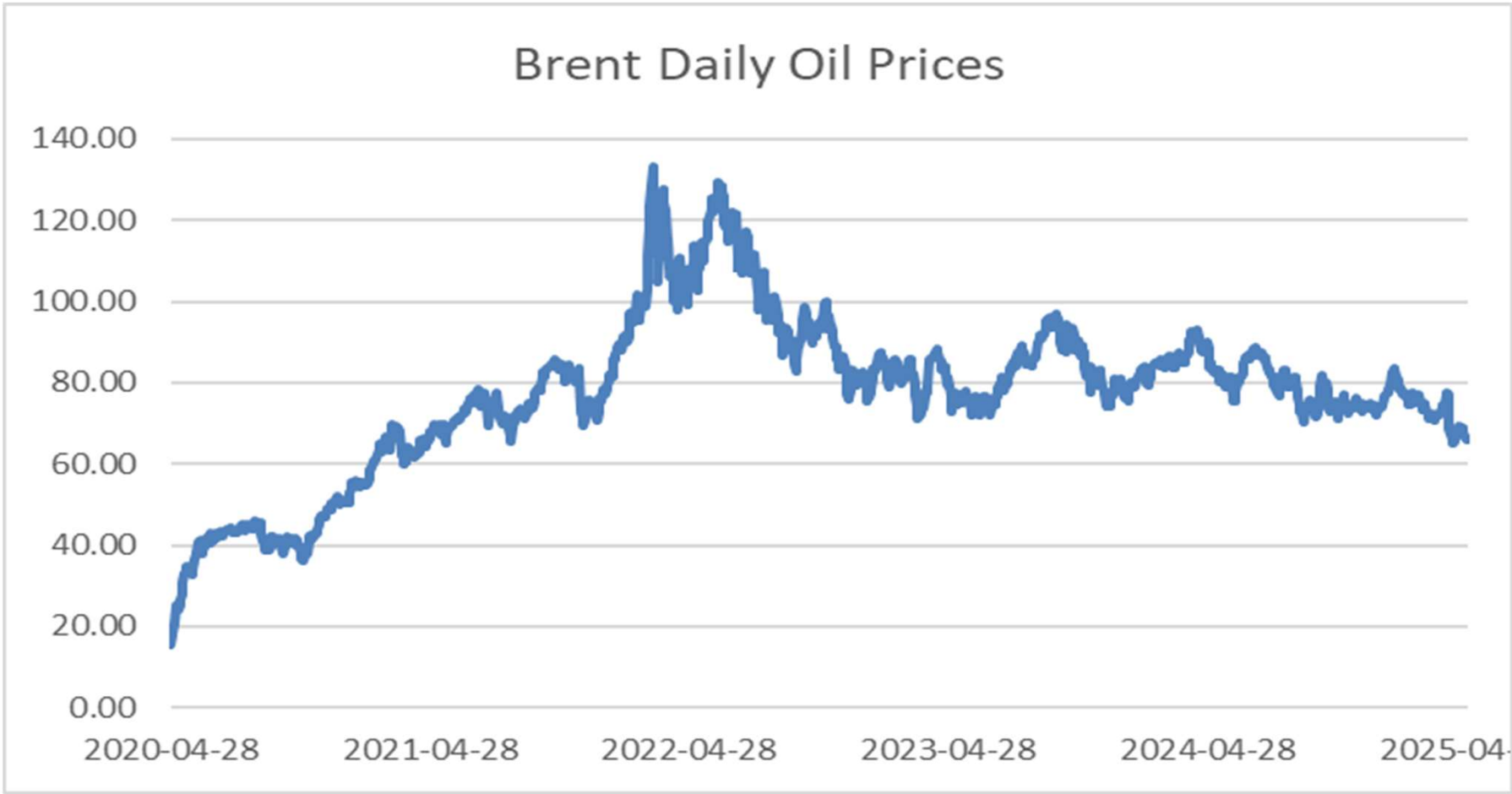
U.S. Net Imports of Crude Oil and Petroleum Products

Thousand Barrels per Day

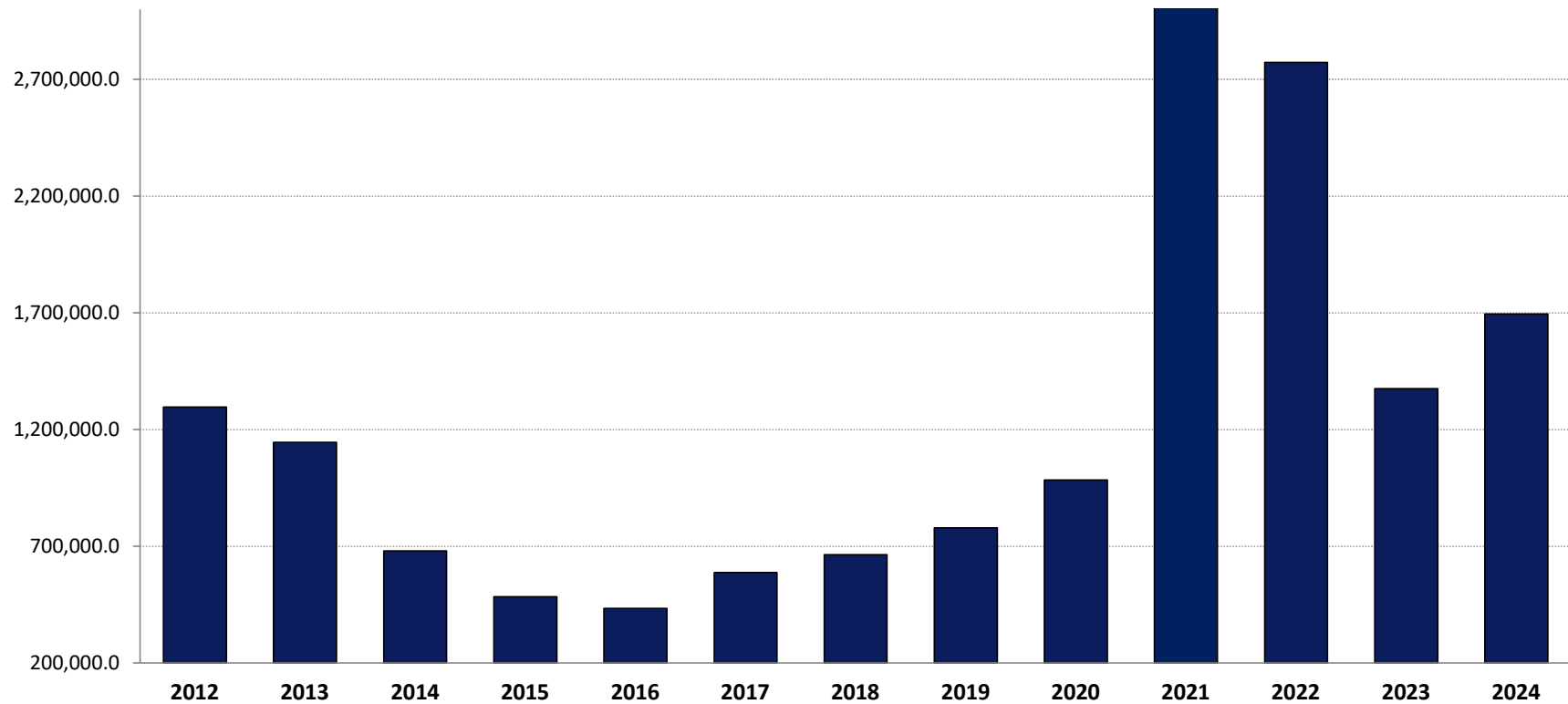


Data source: U.S. Energy Information Administration

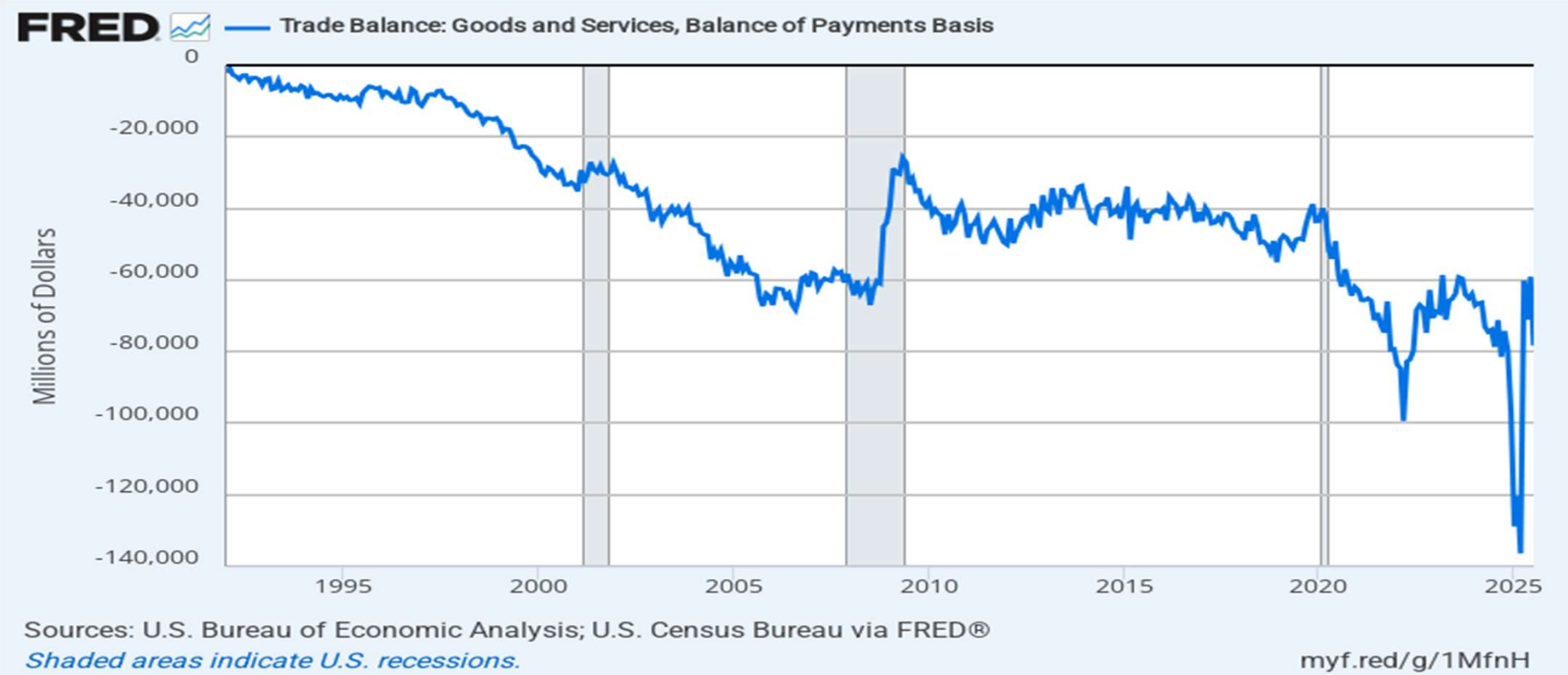
Oil Prices have Fallen Significantly Over the Past 3 Years



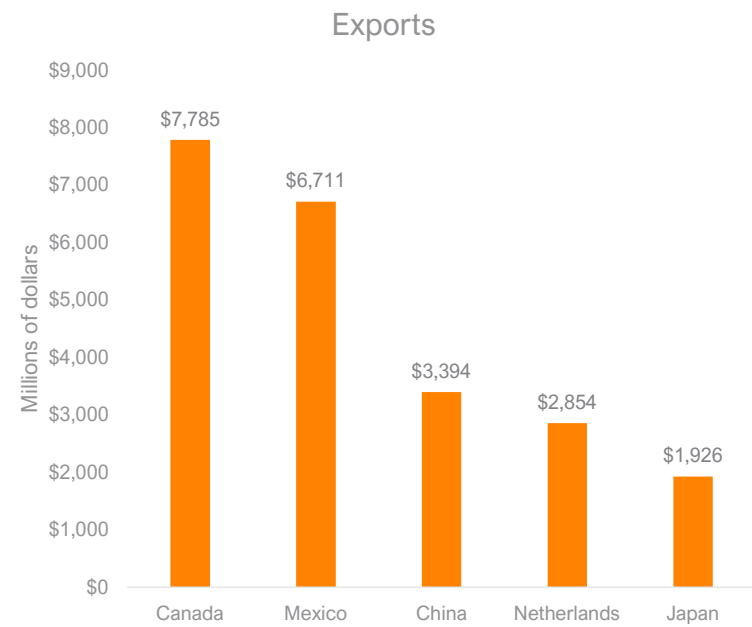
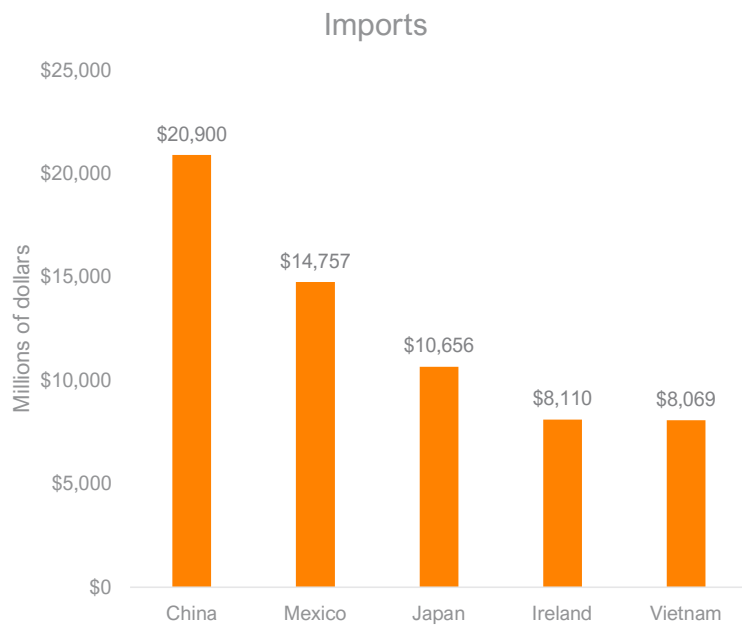
Federal Deficits Fueled the Economy During Covid, but Create Significant Economic Risks Going Forward



US Trade Deficits have Widened Dramatically Since COVID



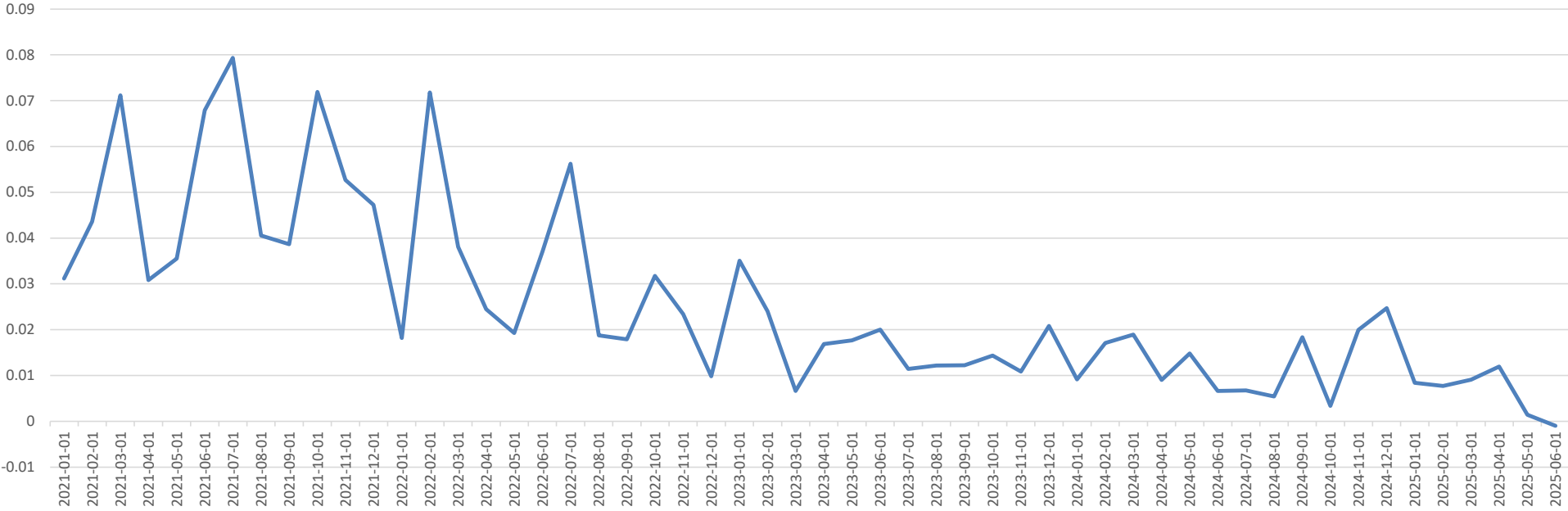
Tennessee Imports More than it Exports with Major Trading Partners, 2024



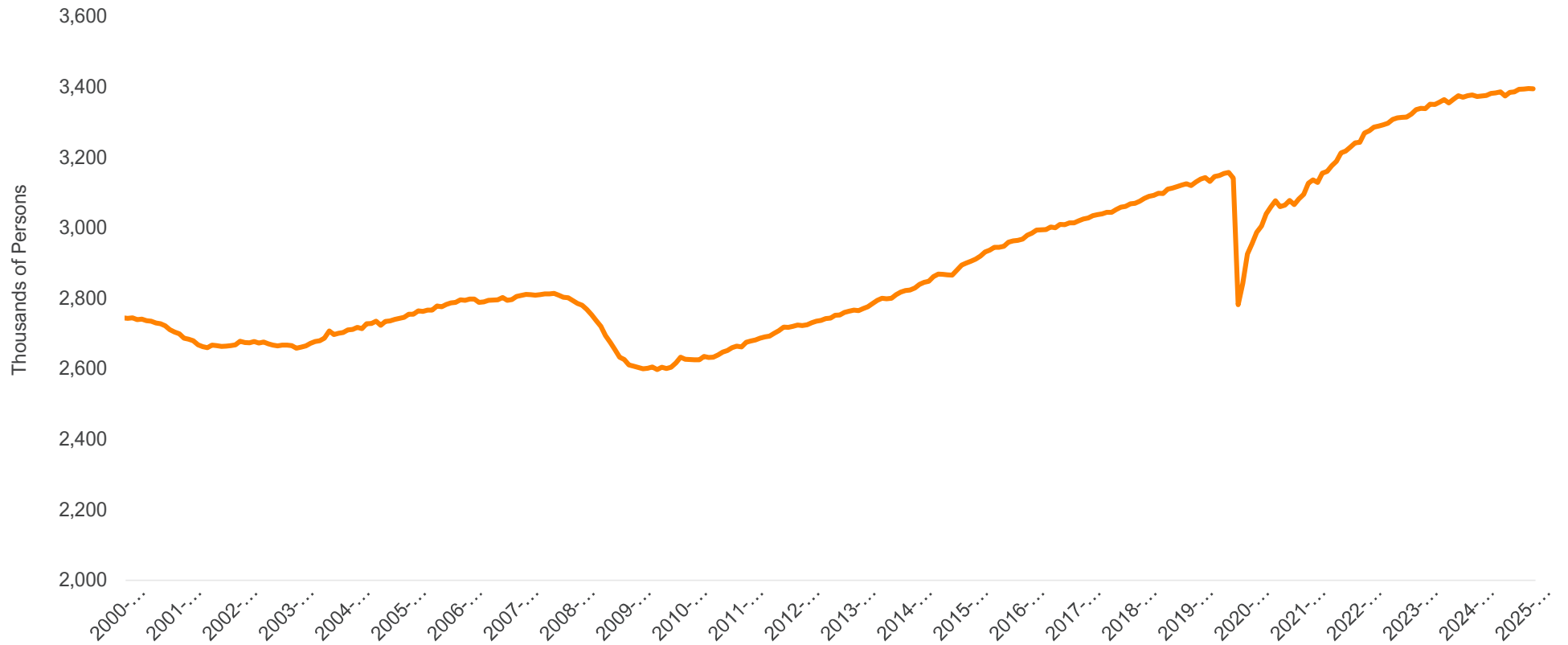
Source: U.S. Department of Commerce International Trade Administration

Employment Growth has Slowed Markedly Relative to History and GDP Performance

US Employment Growth

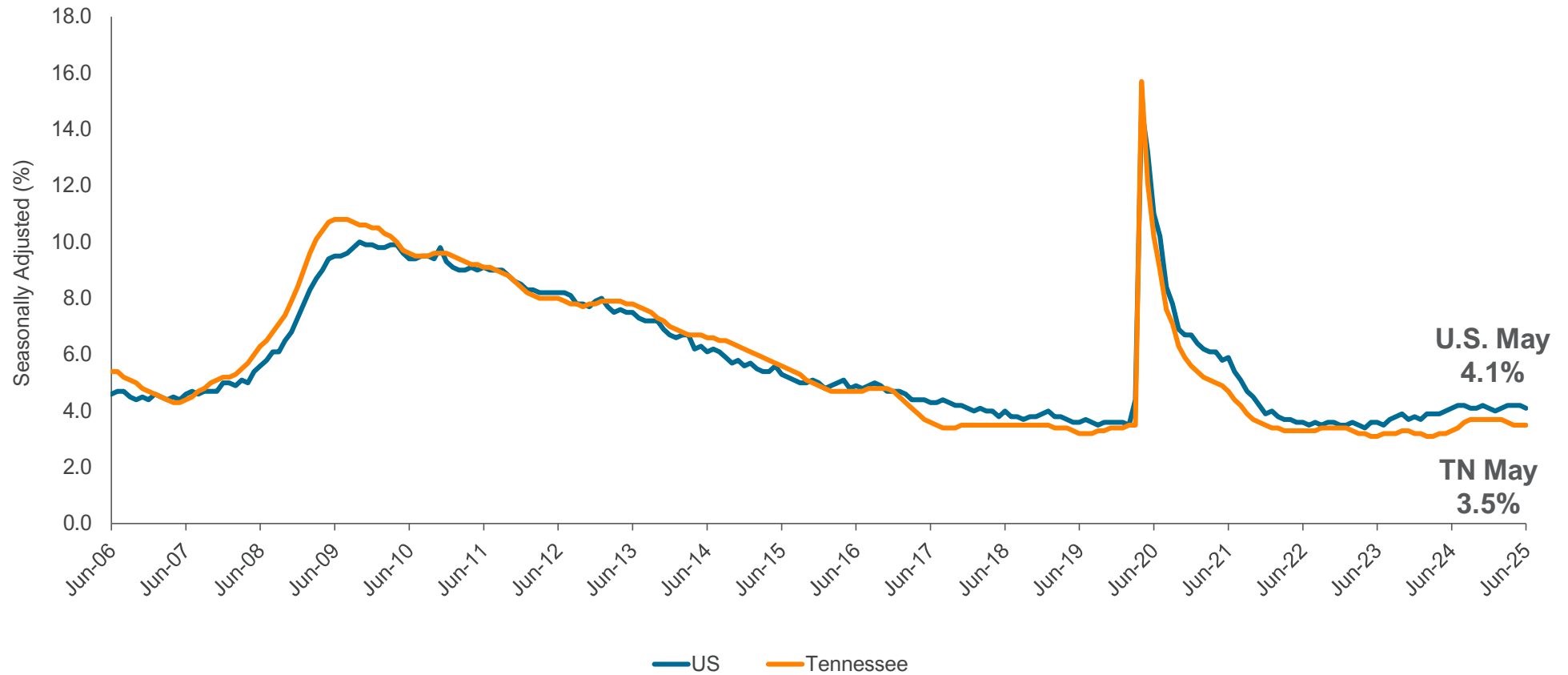


Tennessee Employment at Historic Highs, but Growth Rate is Slowing



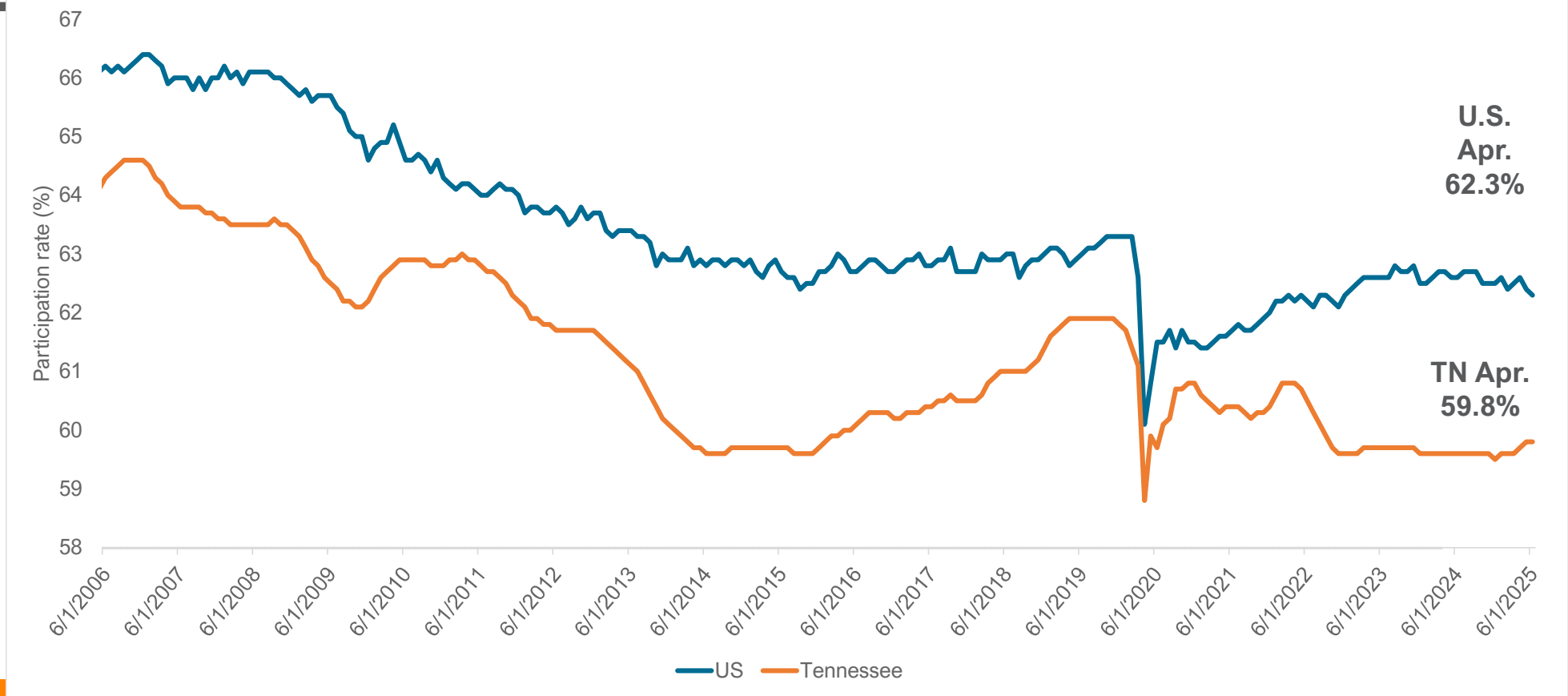
Source: Bureau of Labor Statistics

Unemployment Rates Remain Low, But Have Slowly Risen



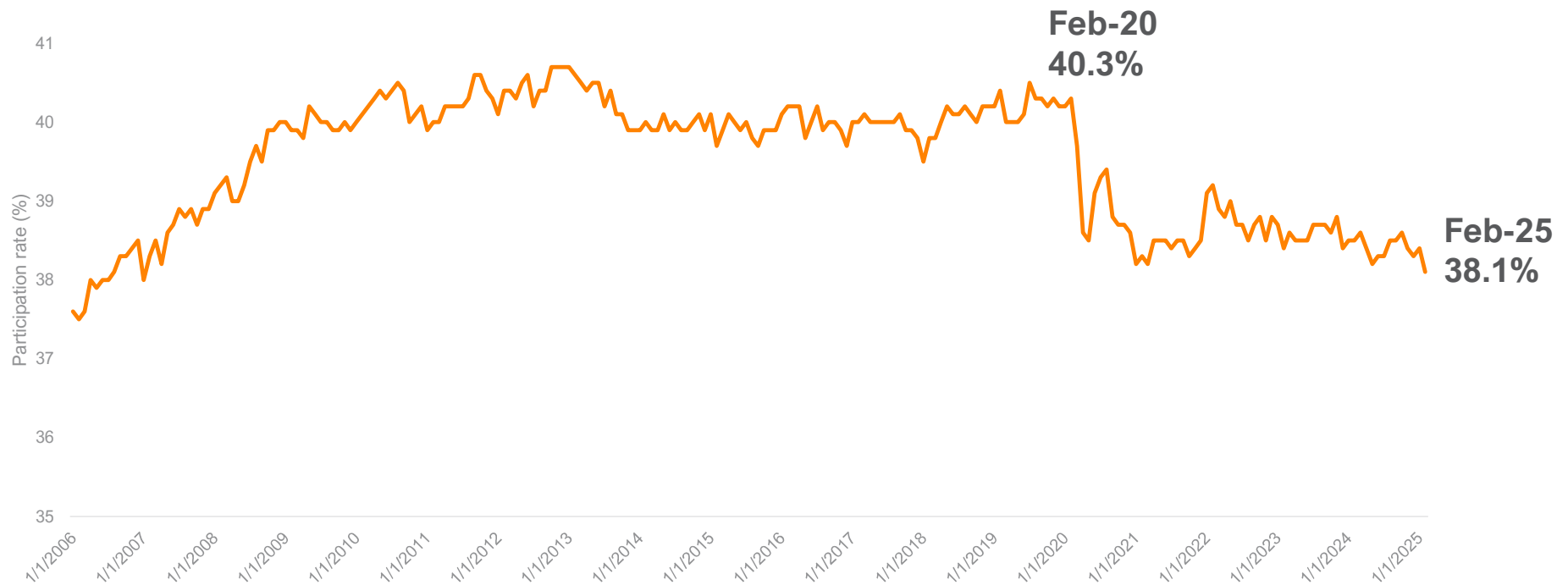
Source: Bureau of Labor Statistics

Labor Force Participation Has Declined Over the Long Term



Source: Bureau of Labor Statistics

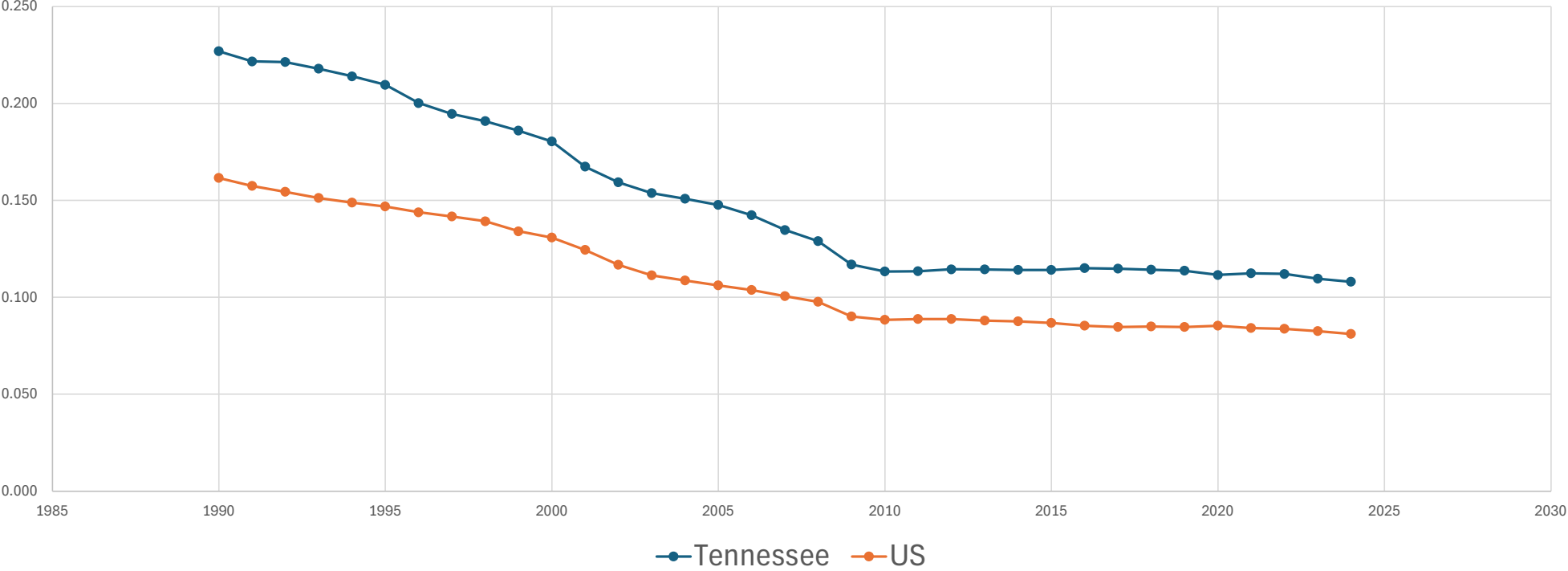
Labor Force Participation Declines Seen in Aged 55+ Population



Source: Bureau of Labor Statistics

US and Tennessee Manufacturing Employment Fell Rapidly During the 1990s and 2000s

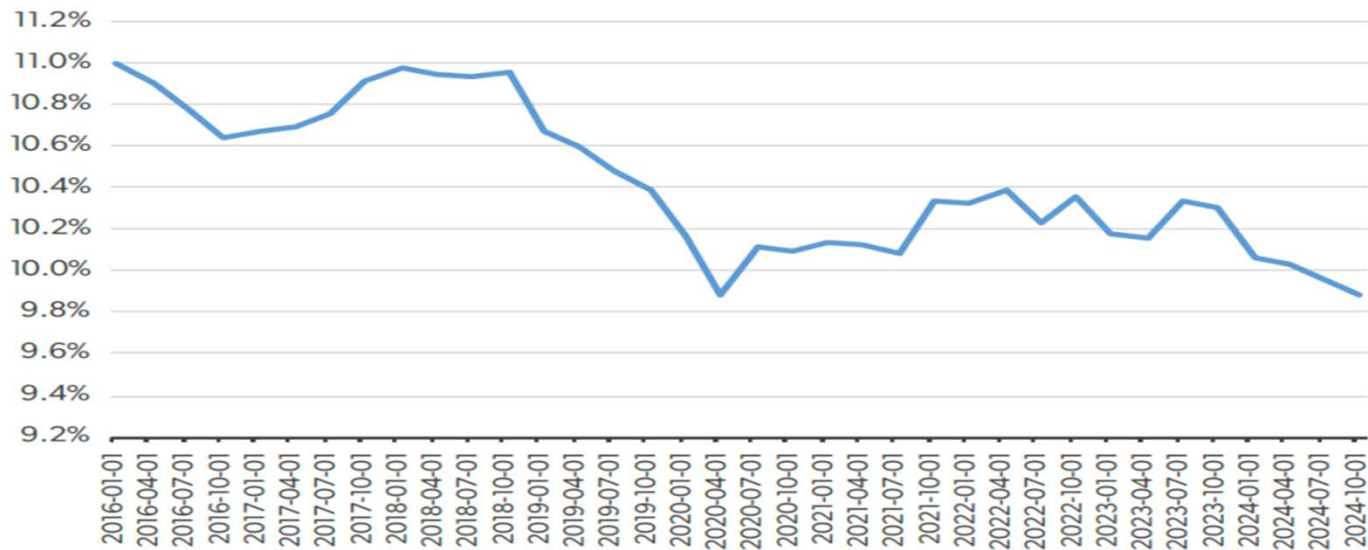
Manufacturing Shares



Source: BEA

Manufacturing Falling as Percent of GDP

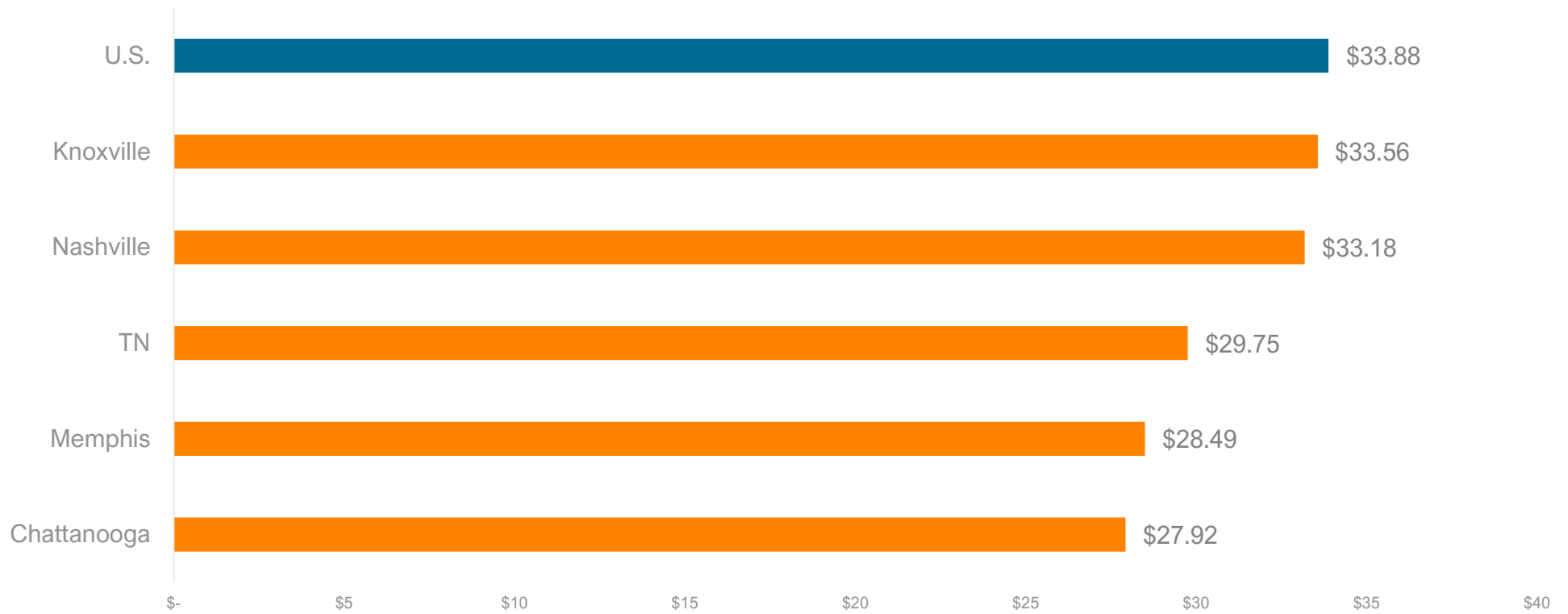
Panel B. US Manufacturing Value Added as a Percentage of GDP, 2016–24



Source: US Bureau of Economic Analysis, Federal Reserve Bank of St. Louis, Federal Reserve of Economic Data, "Value Added by Industry: Manufacturing," June 26, 2025, <https://fred.stlouisfed.org/series/VAMA>; and US Bureau of Economic Analysis, Federal Reserve Bank of St. Louis, Federal Reserve of Economic Data, "Value Added by Industry: Manufacturing as a Percentage of GDP," June 26, 2025, <https://fred.stlouisfed.org/series/VAPGDPMA>.
Note: Data are seasonally adjusted.

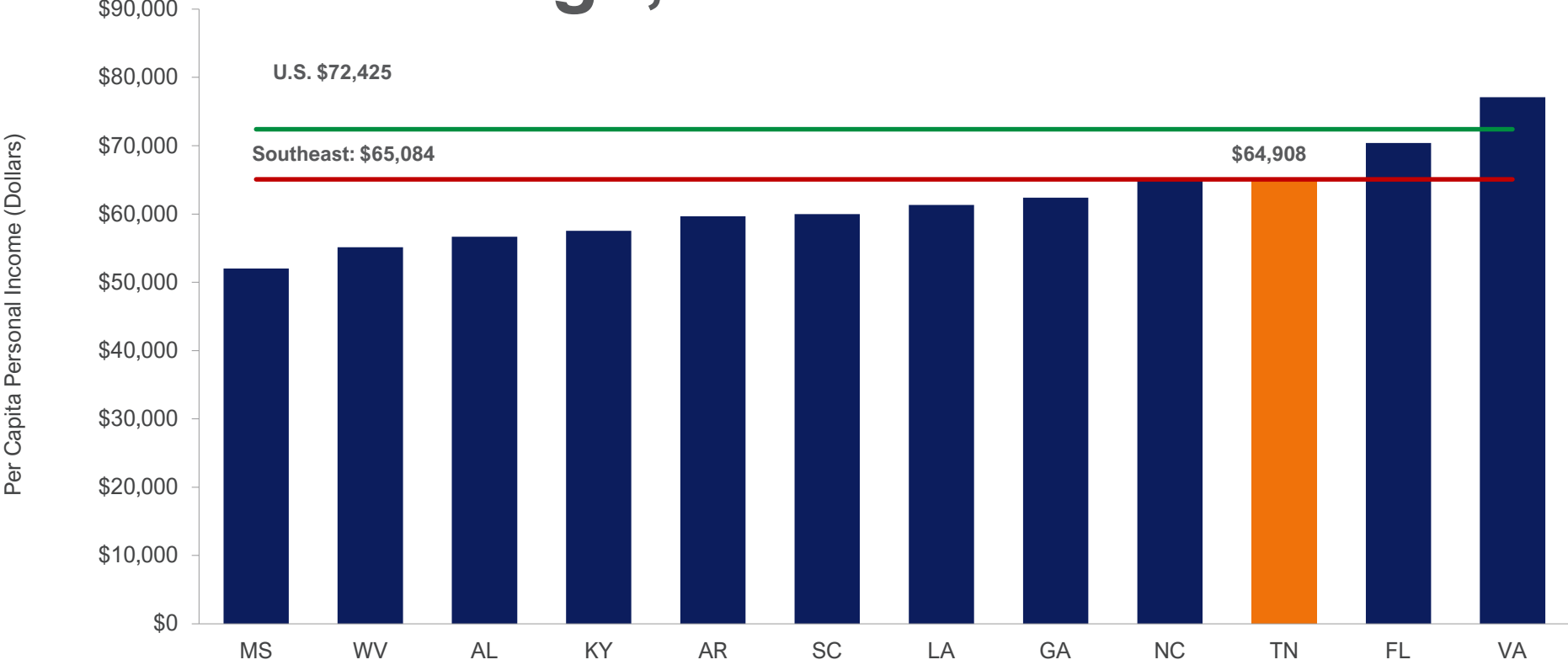
Source: AEI 9/24/25

TN Wages Are Catching Up to the US



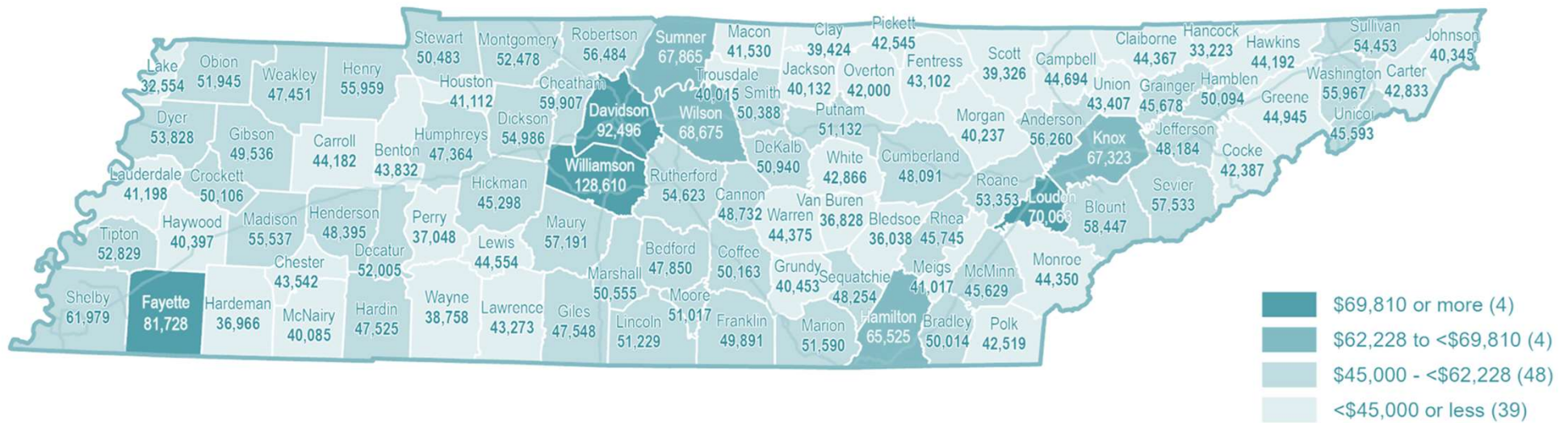
Source: Bureau of Labor Statistics

Per Capita Personal Income Now at the Southeast Average, 2024



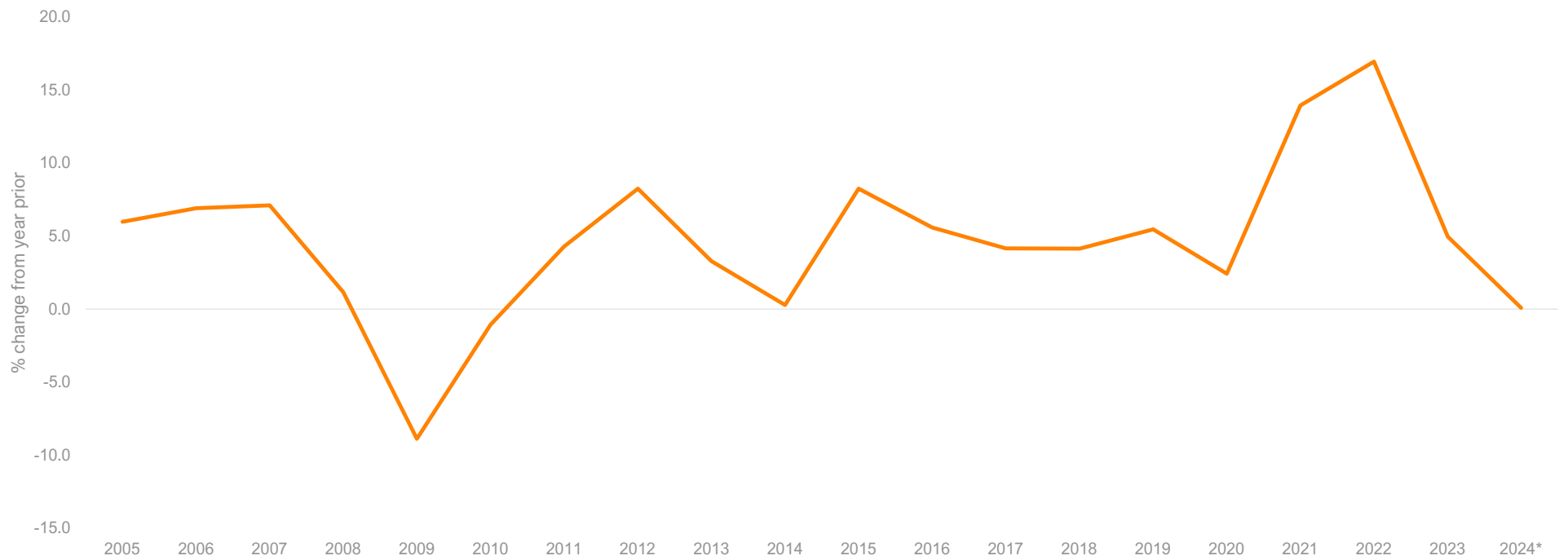
Source: Bureau of Economic Analysis

Williamson County Incomes Are More than Three Times Greater than Some Counties

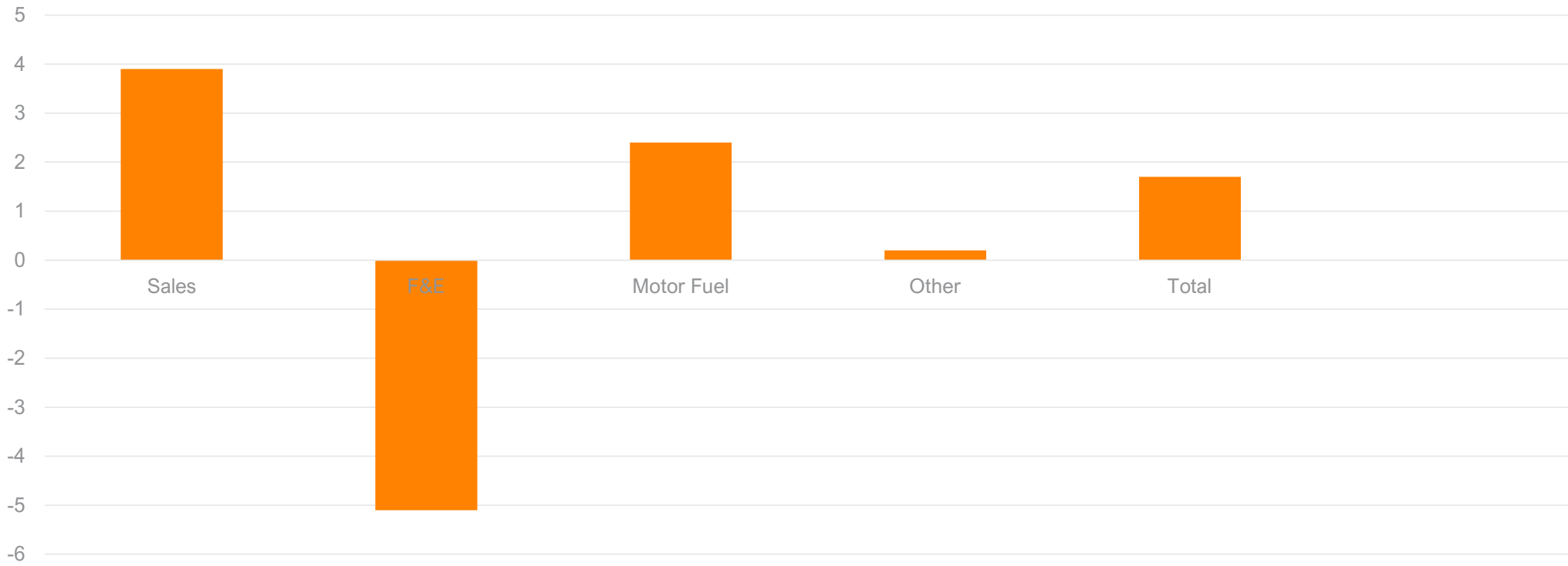


Source: UT Boyd Center/Tennessee State Data Center

Tennessee Tax Revenue Growth Has Slowed



TN Tax Collections Rising Slower than Inflation, 2025-26



Recent Economic Transitions Driven by Emerging Technologies

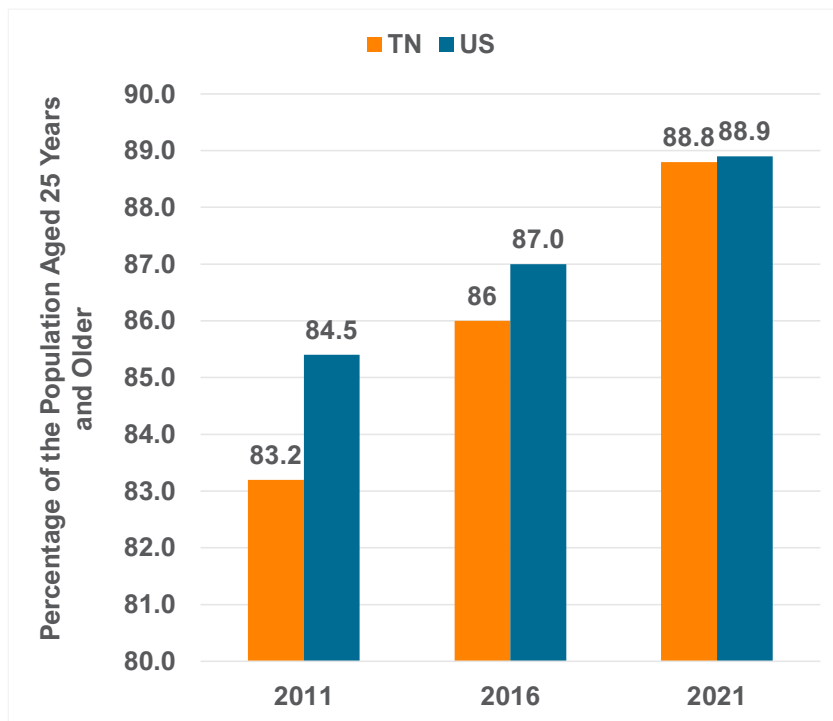
- What we buy
- How we acquire goods and services
- The form of goods and services - digitized
- How they are produced – AI, robots
- How goods and services are monetized – digital currencies, advertising
- Where we Work – work-from-home
- Is the Tennessee economy and workforce ready to prosper?

Larger Places and Higher Telework Places Have Seen Relative Tax Declines

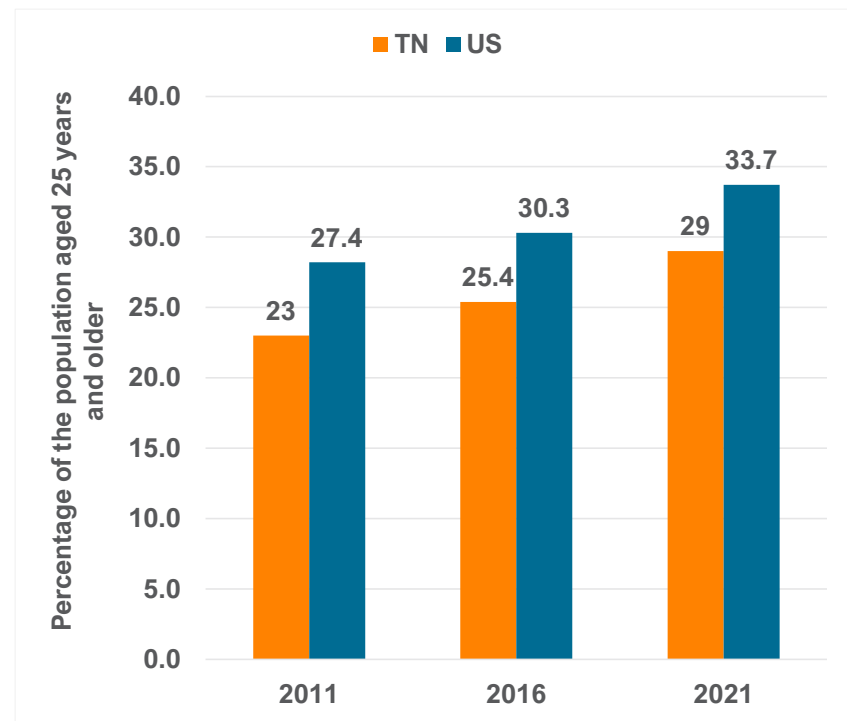
- Growing Remote sales shift sales tax revenues from commercial centers to suburban/rural communities
- Remote work reduces sales tax revenues in larger towns
 - General Merchandise Stores, food except grocery store sales
 - Little effect on accommodations, restaurants and big-ticket items
 - Effects more pronounced for non-food than food sales
- Effects on property taxes small so far
 - Some declines in commercial/industrial property in larger places
 - Small increases in residential property in smaller places

Tennessee Has Lower Post-HS Educational Attainment than the US Average

High School Graduates or Higher

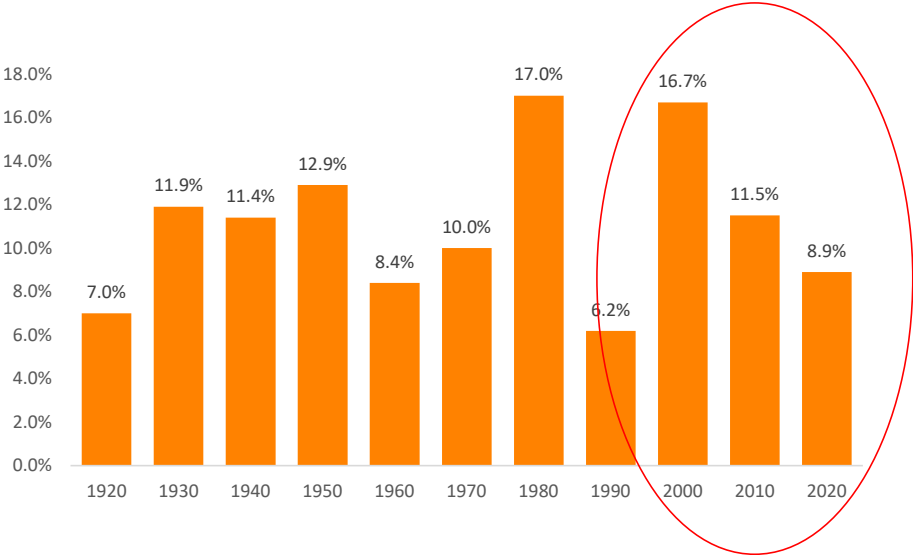


Bachelor's Degree or Higher

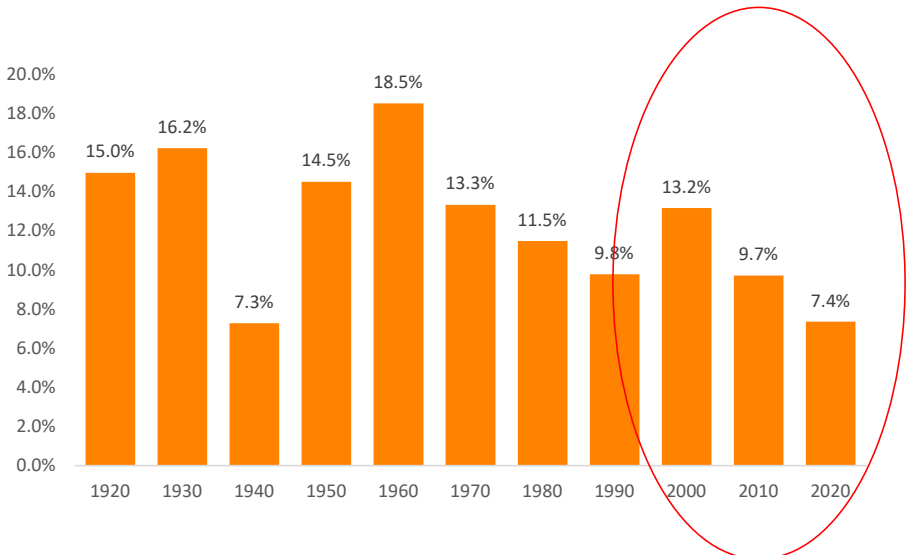


Both Tennessee and the U.S. Population Growths have Slowed

Panel A: Tennessee Population Growth



Panel B: U.S. Population Growth

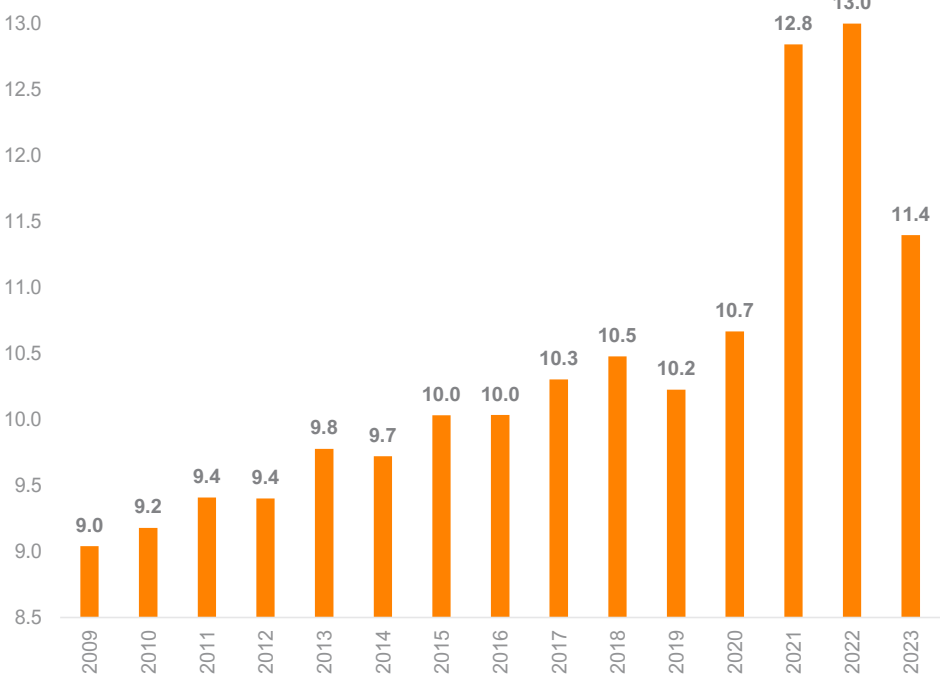


Source: U.S. Census Bureau

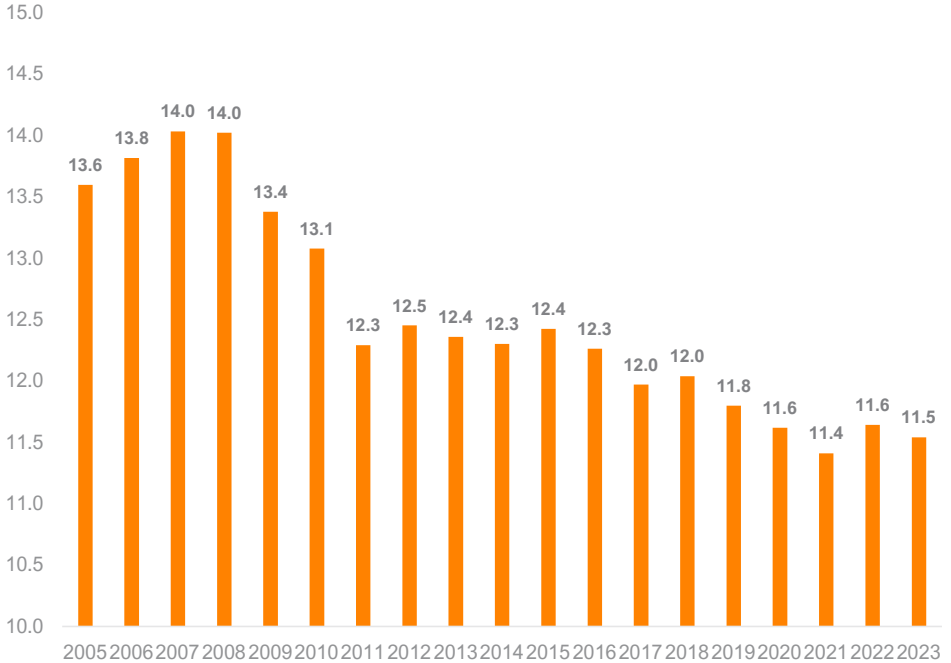
Note: Growth rates represent population changes as compared to the previous decennial Census

Birth rates are Falling and Death Rates are Rising, Tennessee

Deaths per 1,000 people

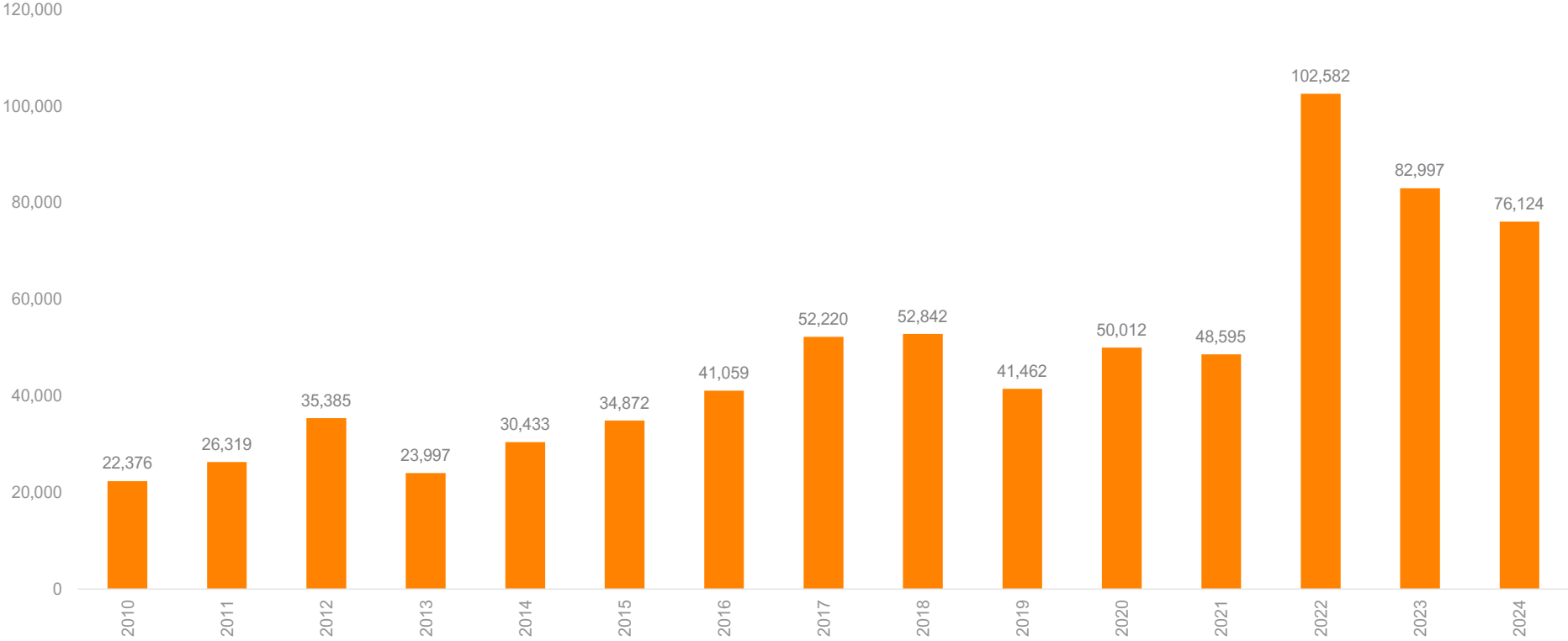


Births per 1,000 people



Source: U.S. Census Bureau

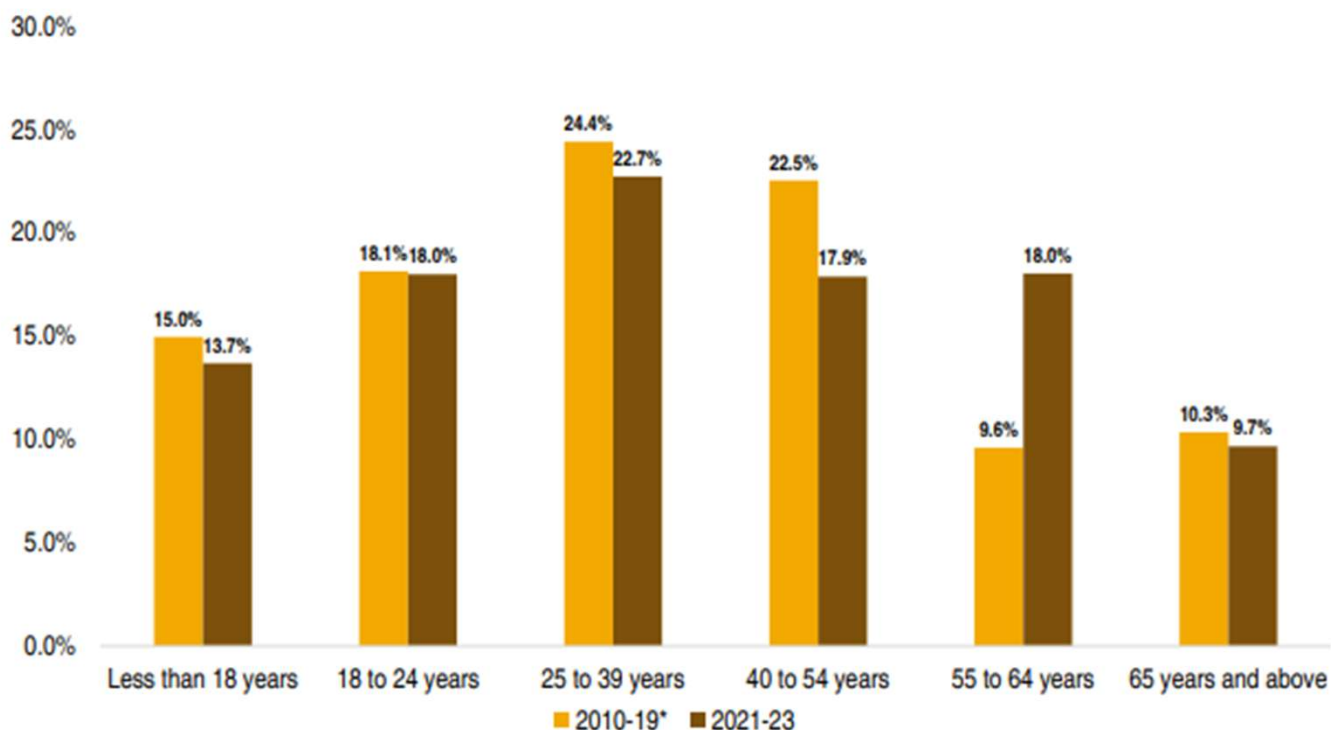
Domestic Net Migration Into Tennessee has Been Strong



Source: U.S. Census Bureau

A Larger Share of People Aged 55 to 64 Have Moved to Tennessee Over the Last Three Years Than During the Previous Decade

Percentage of Net Migrants by Age, 2010-2019 versus 2021-2023



Source: U.S. Census Bureau Source: Bureau of Labor Statistics.

Note: *Migration data from 2016 are removed due to a seemingly spurious one-year fluctuation that is inconsistent with the rest of the data series, and are also inconsistent with the population estimate net migration components from the same year. However, the same general trend persists even with the 2016 data included.

