

# Two slowing economies

US and CA Economic Outlook

July 31st, 2025

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**UCLA** Anderson  
Forecast

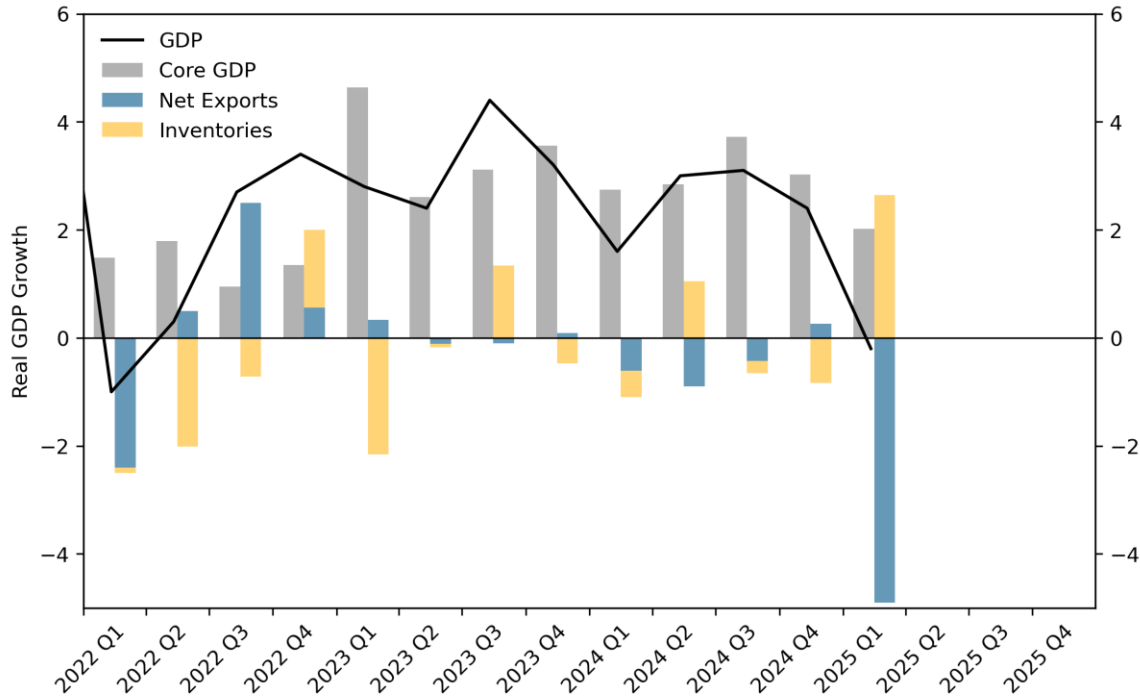


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# US Economy: Current Context

# A Messy and Weak 2025Q1 GDP Report



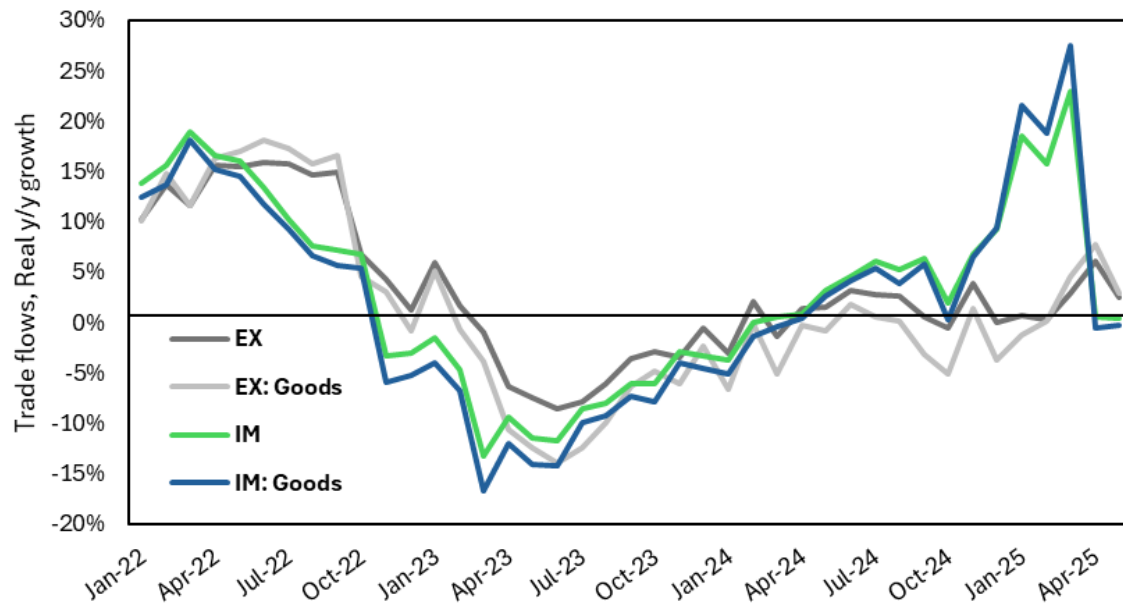
**Headline GDP declined by 0.2%**

- Tariff induced surge in imports and inventories

**Core GDP grew by 2.0%**

- 2/3 of it due to AI related investment

## Large increase in imports ahead of tariffs



### Y/Y growth >20% Jan-Mar 25

- On the order of growth following pandemic
- Especially for goods imports

### Sharp drop off in Apr/May...

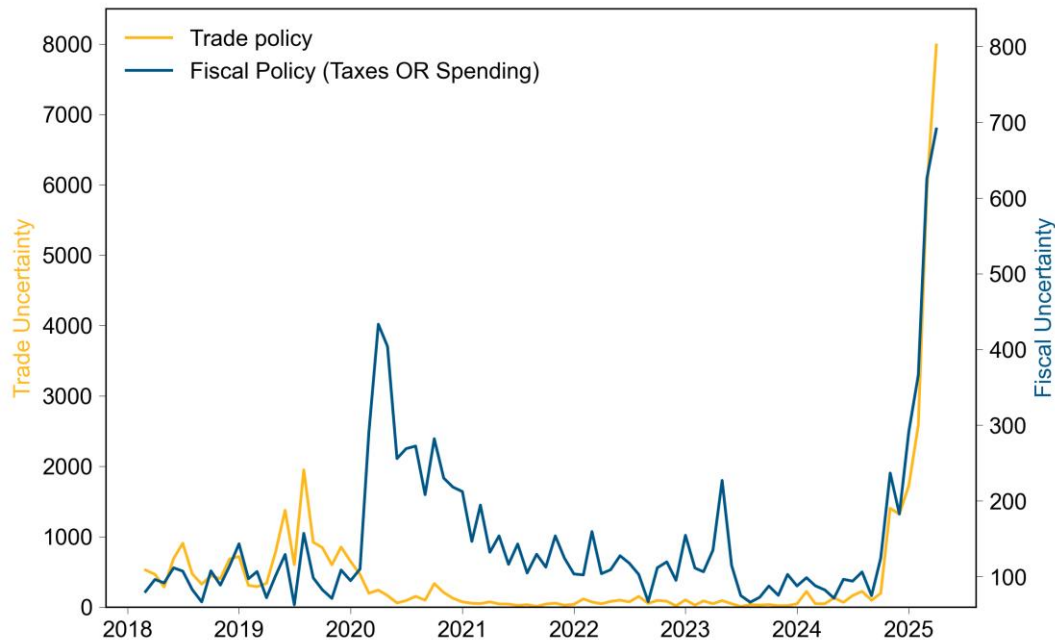
- ~3% increase in nominal terms, 0% in real.

... likely more trade constriction coming.

# The Trump Shock

- Massive tariffs.
- Haphazard implementation of policies
  - **Brief sell-off in Treasury Markets.**
  - **Brief decoupling from China.**
- Uncertain legal foundation of policies
- Irresponsible and uncertain fiscal policy

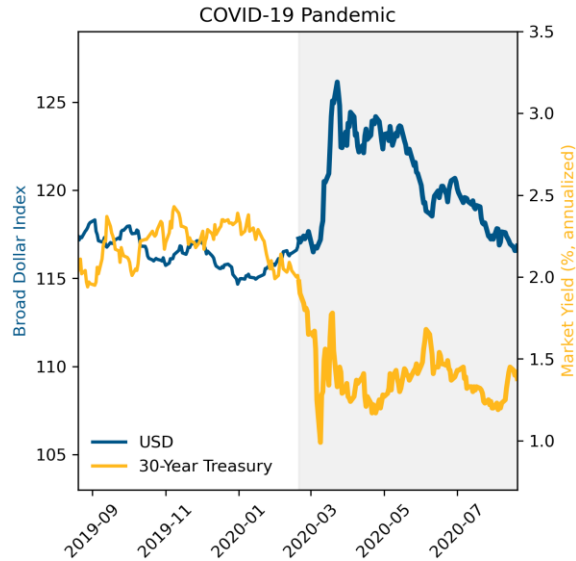
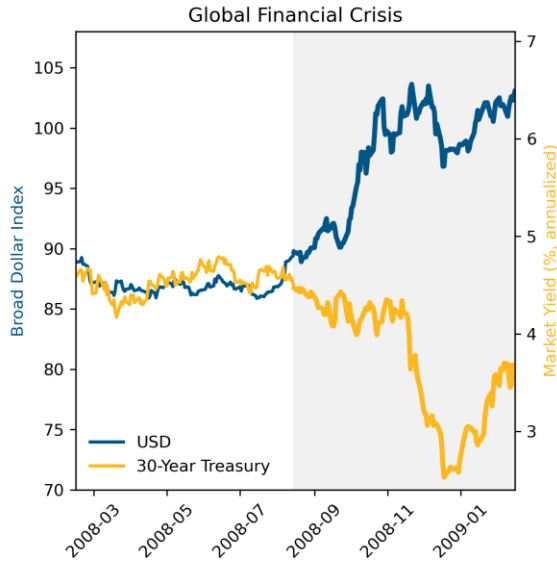
Economic Policy Uncertainty at unprecedented levels



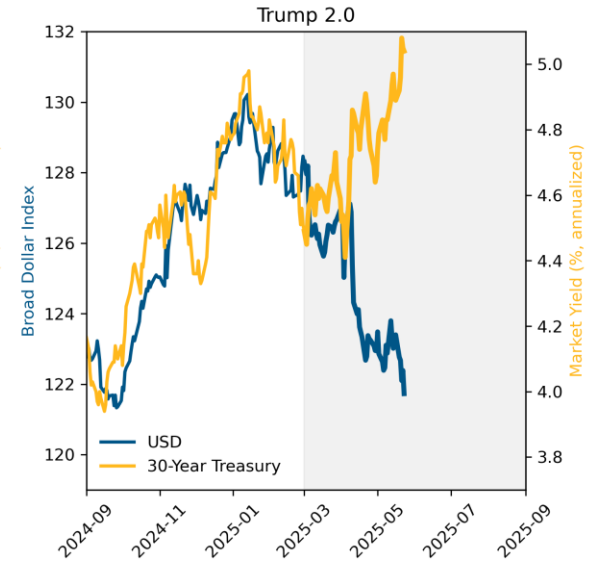
Sources: Baker, Bloom, and Davis: "Measuring Economic Policy Uncertainty"

# Financial Market Reaction: This Time Really Is Different

## Exorbitant Privilege Behavior



## Emerging Market Behavior

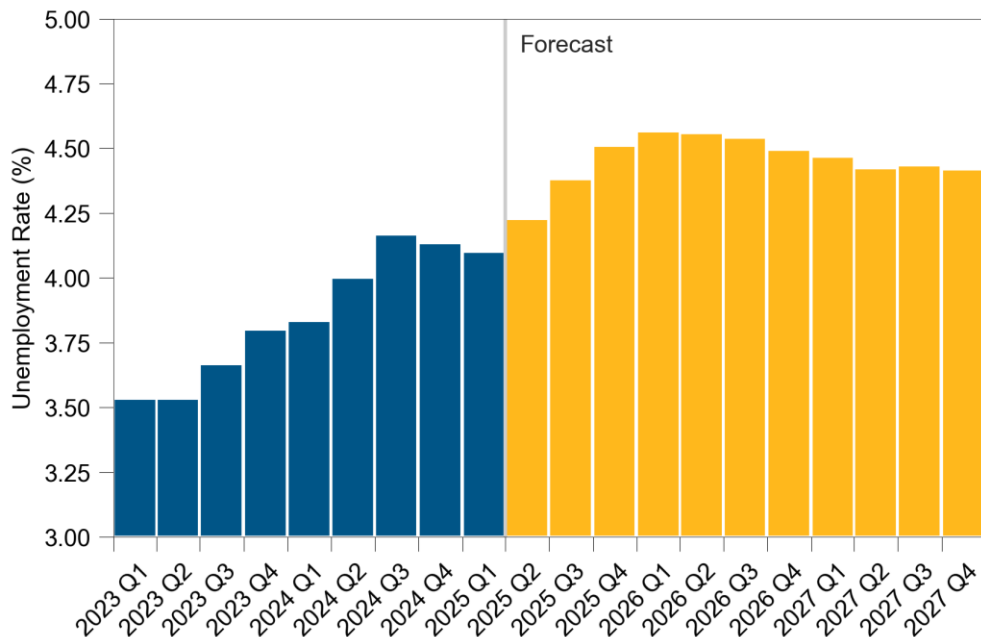


Sources: Federal Reserve Board



# Our Outlook for the U.S. Economy

# Unemployment Will Rise Through 2025

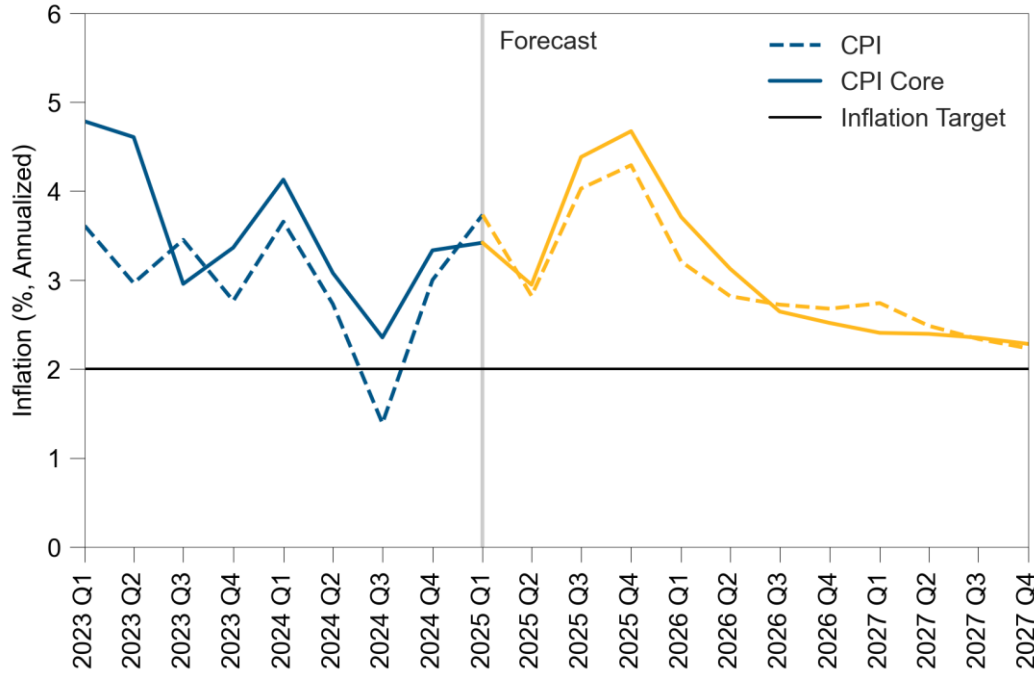


Sources: Bureau of Labor Statistics, UCLA Anderson Forecast

## Unemployment rate to reach 4.6% by 2026

- **tariff costs** will contract manufacturing sector
- **Reduced trade** will contract retail, wholesale, transportation and warehousing sectors.
- **Uncertainty** paralyzes investment and hiring
- Higher **Interest rates** crowd out investment
- Unwinding of build-up in **inventories**

# Inflation Will Spike in Late 2025



Sources: Bureau of Labor Statistics, UCLA Anderson Forecast

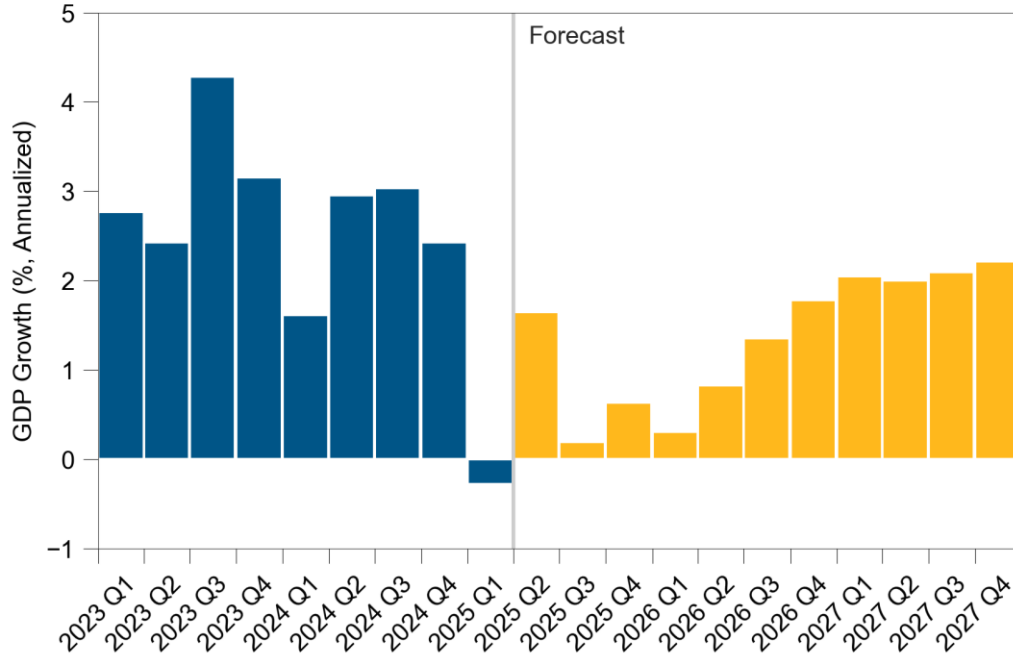
## Inflation to exceed 4% in late 2025

- + Services inflation remains elevated
- + Tariffs
- + Weaker dollar
- Weakening economy
- +/- Oil prices?

## Inflation to moderate in 2026

- + Indirect effects of tariffs
- Weak economy

# No Recession But GDP Growth Will Slow



## Growth to stall in late 2025

- Tariffs, uncertainty, interest rates, inventories
- + AI investment

## Growth to mostly recover by 2027

- More deportations and less immigration
- Higher interest rates
- + Artificial Intelligence
- + Deregulations
- +/- Tax cuts and FDI

Sources: Bureau of Economic Analysis, UCLA Anderson Forecast

# Conclusion

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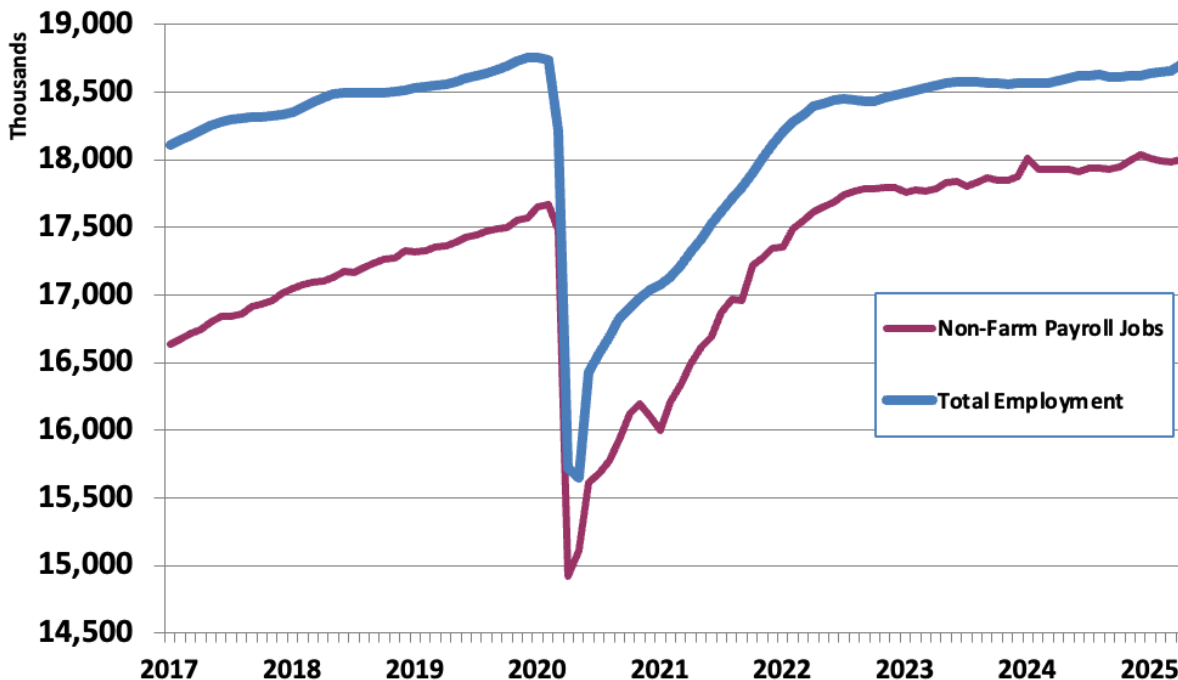
- The Trump 2.0 Shock is here
  - Expect higher inflation and lower growth in the near term
- Risks to the forecast are large
  - Tariffs...
  - Geopolitics...
  - Financial stability...



UCLA Anderson Forecast

# CALIFORNIA OUTLOOK

## California Employment and Jobs (2017-2025, SA)



### In Total And not in Payroll

Farm Workers

Independent  
Contractors

Family business

Gig Workers

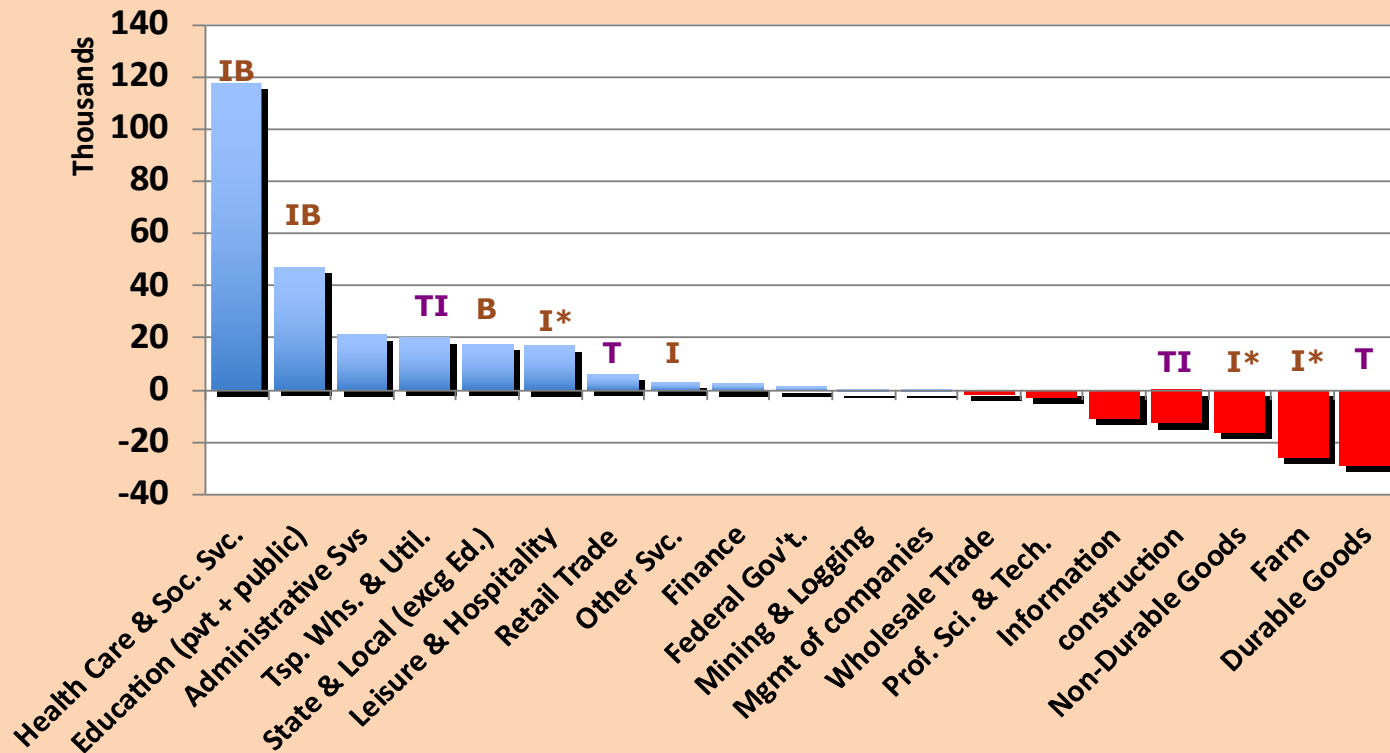
### In Payroll And not in Total

Remote  
Workers  
Living Out  
Of State

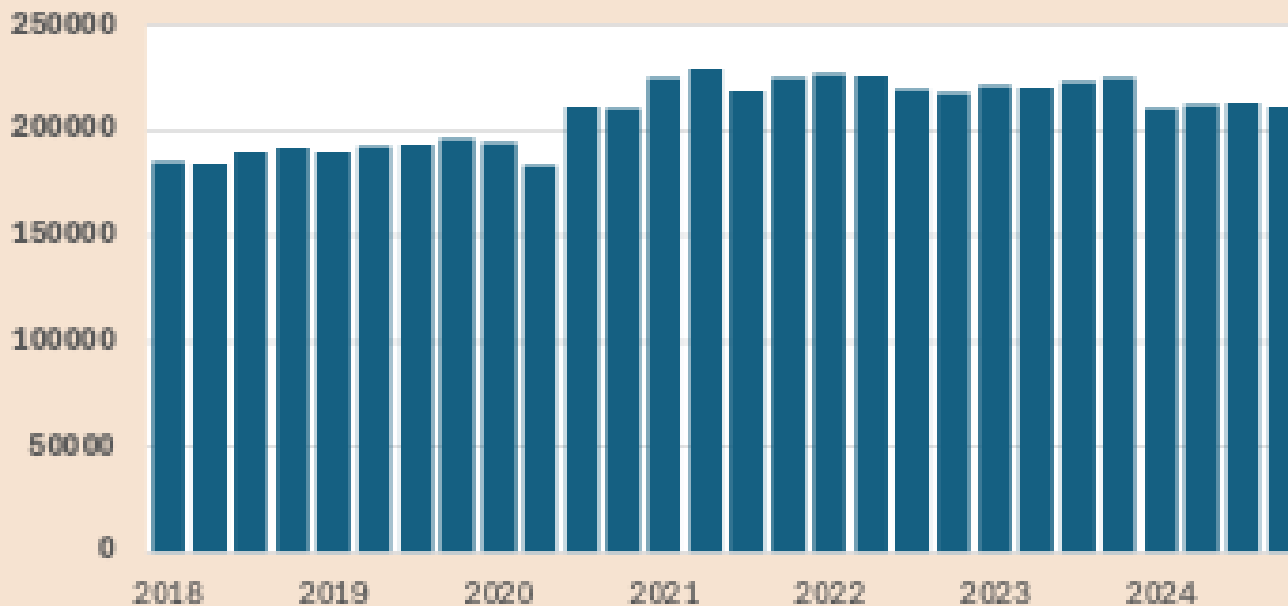
Undocumented  
With fake  
documents

# CHANGE IN NO. OF JOBS BY SECTOR

## Dec. 2023 to Dec 2024, SA

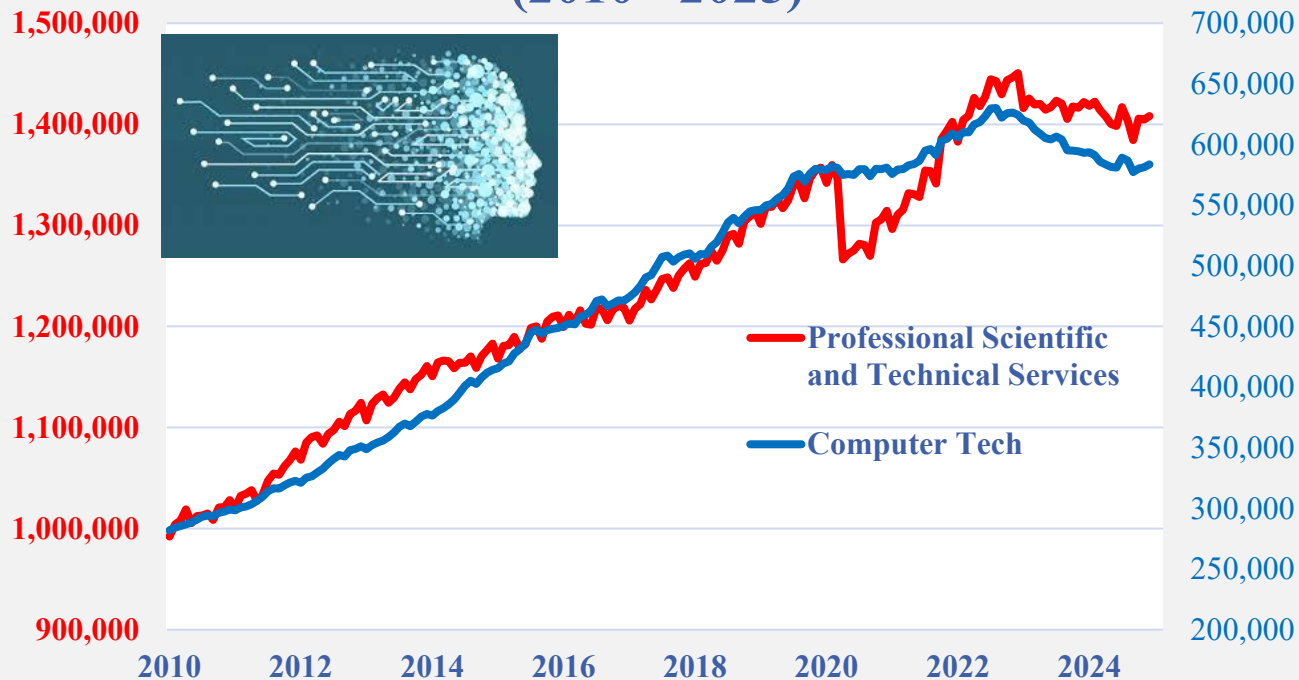


## Real Durable Goods Manufacturing Output (\$M, 2017\$, 2018-2024)

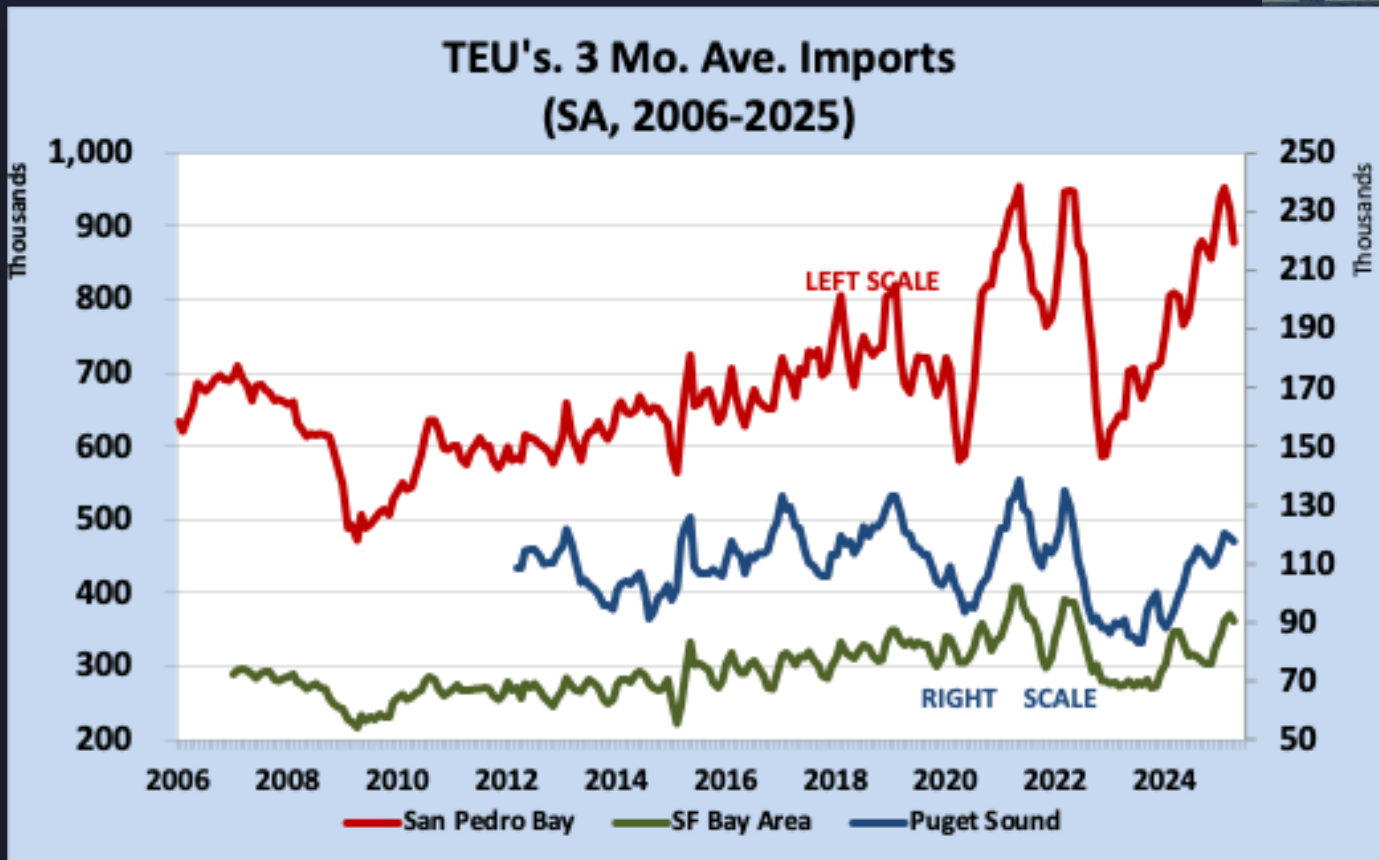


**MFG. EMPLOYMENT DEC. '24 TO APRIL '25 -0.9%**

# TECHNOLOGY EMPLOYMENT IN CALIFORNIA (2010 - 2025)



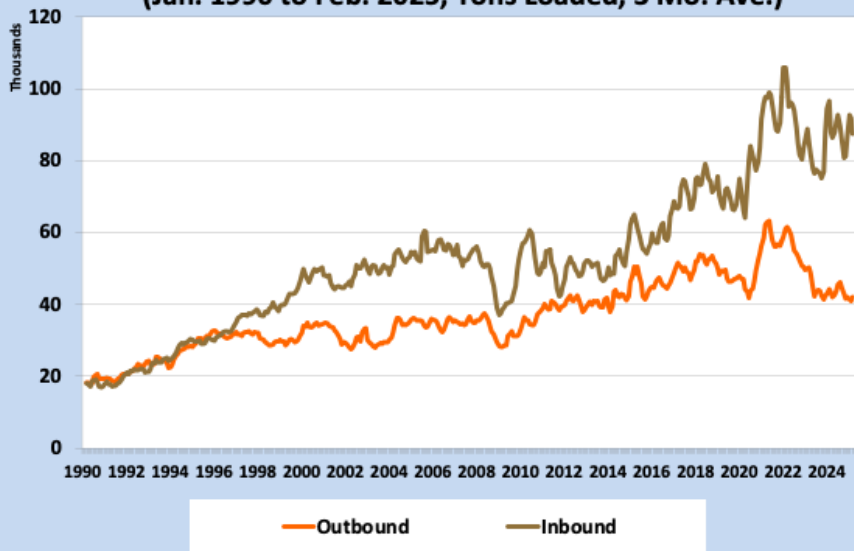
# Logistics -- Seaports



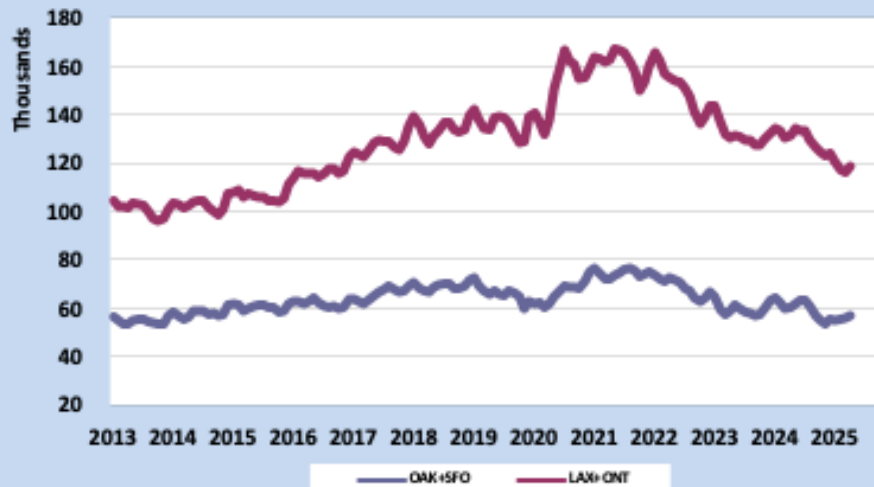
# Logistics – Air Cargo



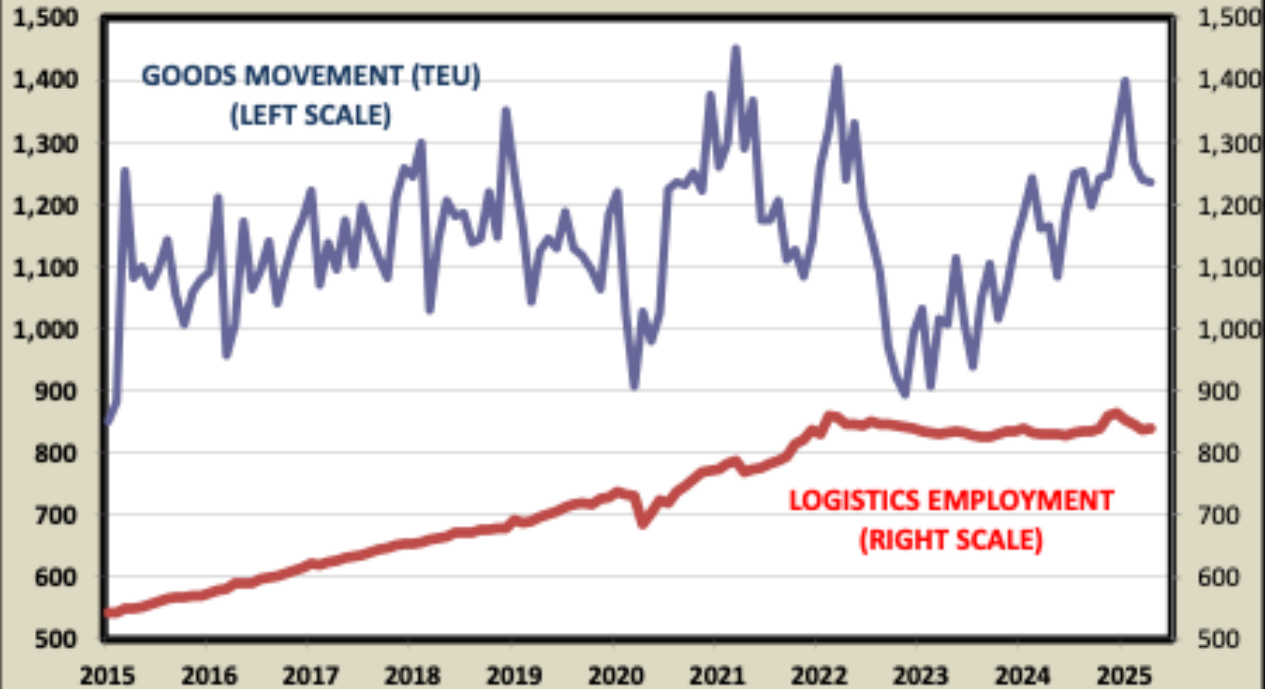
**LAX International Air Cargo**  
(Jan. 1990 to Feb. 2025, Tons Loaded, 3 Mo. Ave.)



**California Domestic Air Cargo**  
(000 TONS, SA, 3 Moving Ave)

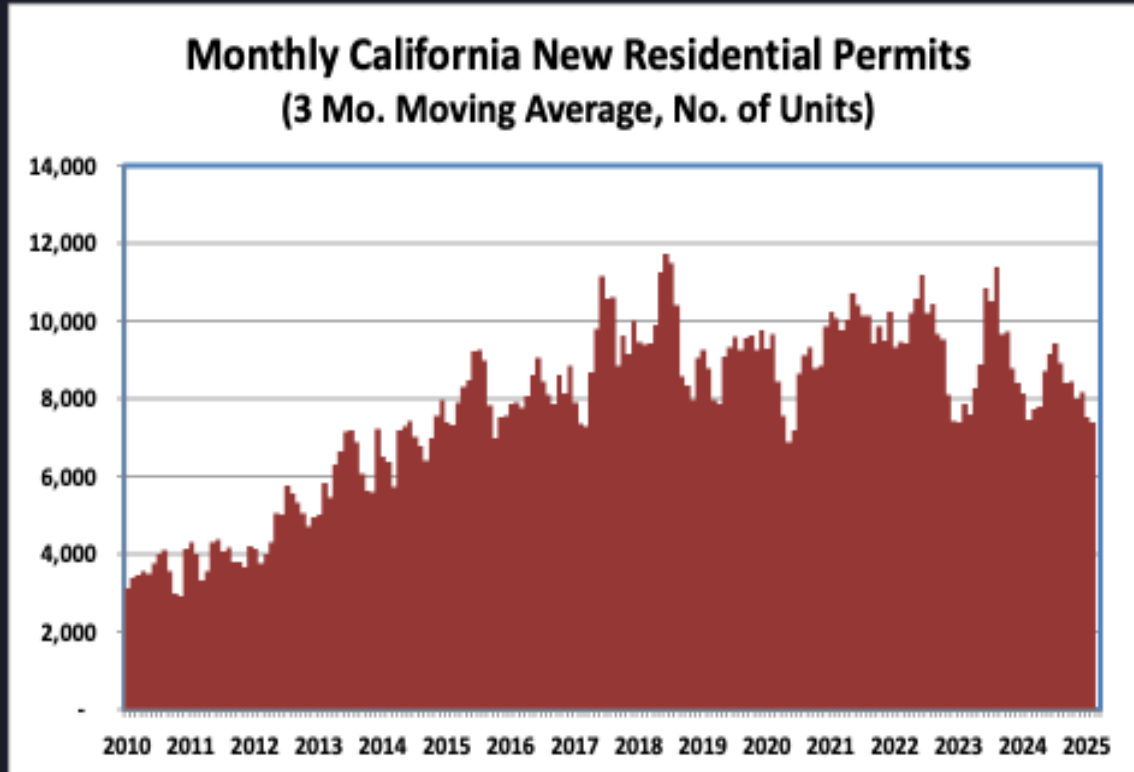


## Logistics and CA Ports (000, SA, Jan 2015 to April 2025)



## High Prices, Low Inventory, Low Building

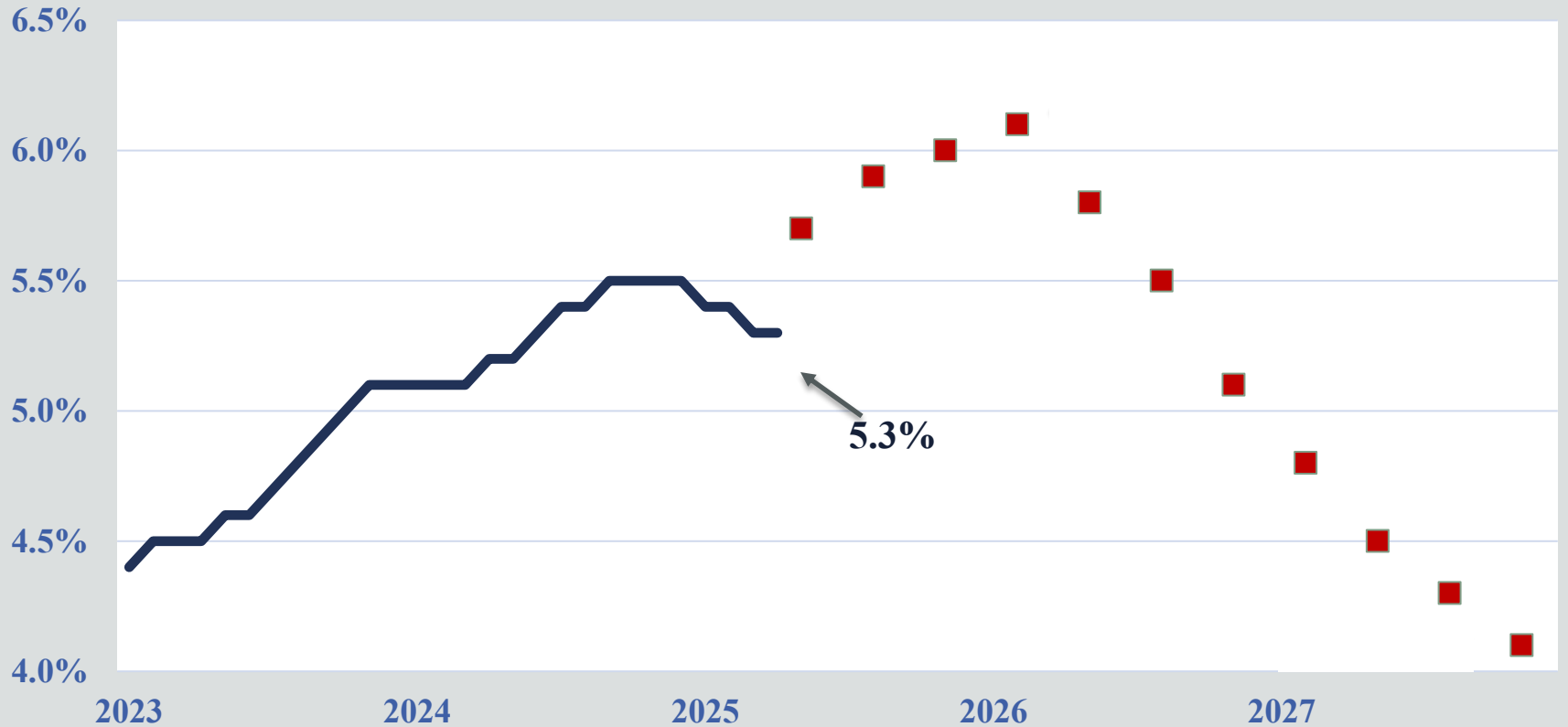
- Uncertain costs
- High interest rates
- Labor shortages
- Relative prices



# HOW TO MAKE A FORECAST WITH THIS MUCH UNCERTAINTY?



# CA UNEMPLOYMENT RATE -- ACTUAL & FORECAST



# SUMMARY

- Negative employment growth 2025
- Manufacturing, Finance, & Tech recovering in 2026
- Agriculture & Construction ?
- 2027 Return to superior growth

## **RISKS TO THE FORECAST**

Size and Timing of Deportations  
More Extensive Tariffs and Retaliation  
Geopolitical  
Disruption in the Federal Government

# THANK YOU

