

Social Narratives / Economic Realities

Deficits, Bubbles and the U.S. Outlook



Christopher Thornberg, PhD

Founding Partner, Beacon Economics

October 2025



Beacon Economics

- Economic research firm founded in 2006 with a commitment to letting the *data* determine the *answer*.
-

“It isn’t what we don’t know that gives us trouble, it’s what we know that ain’t so.”

- Will Rogers

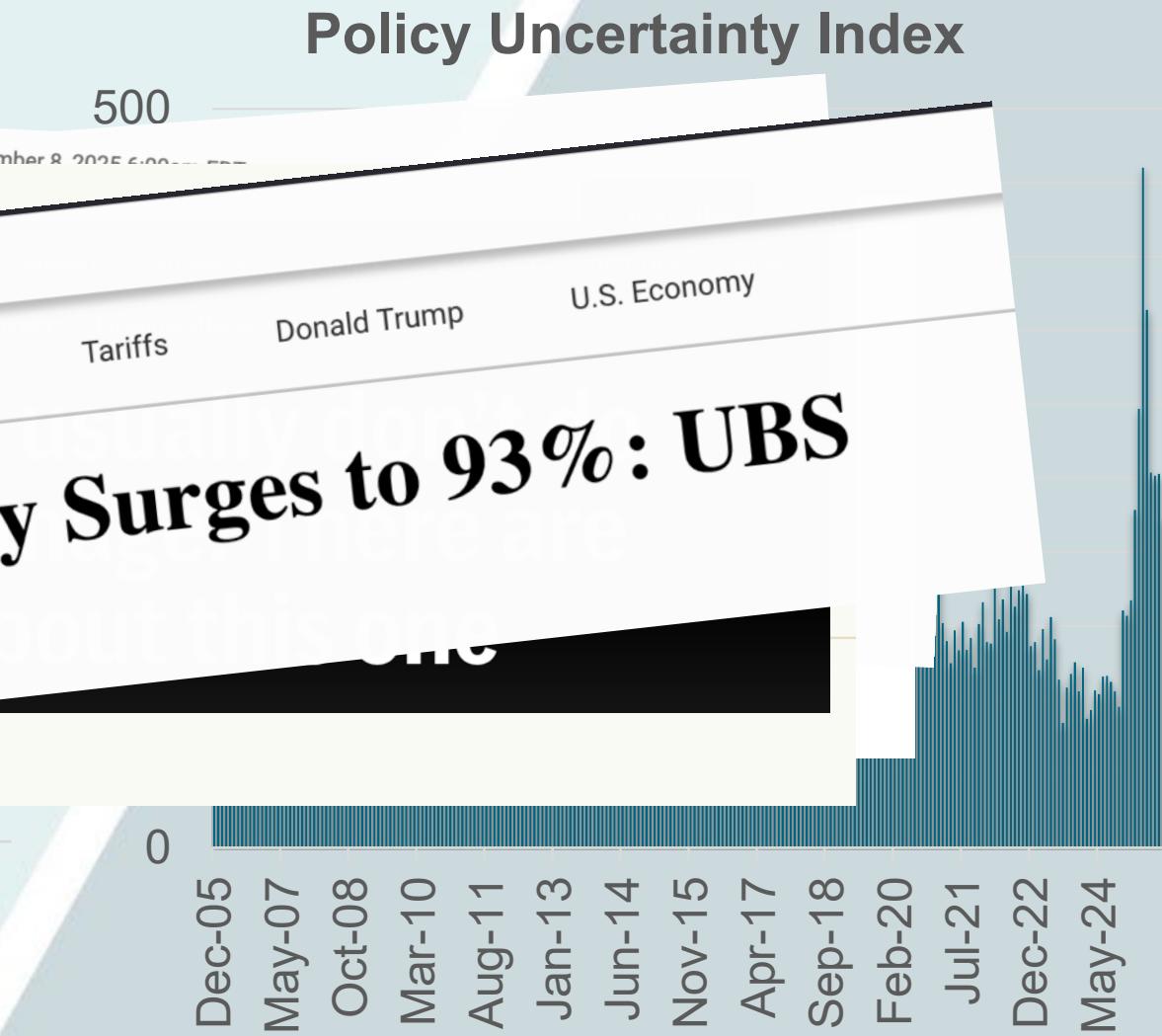
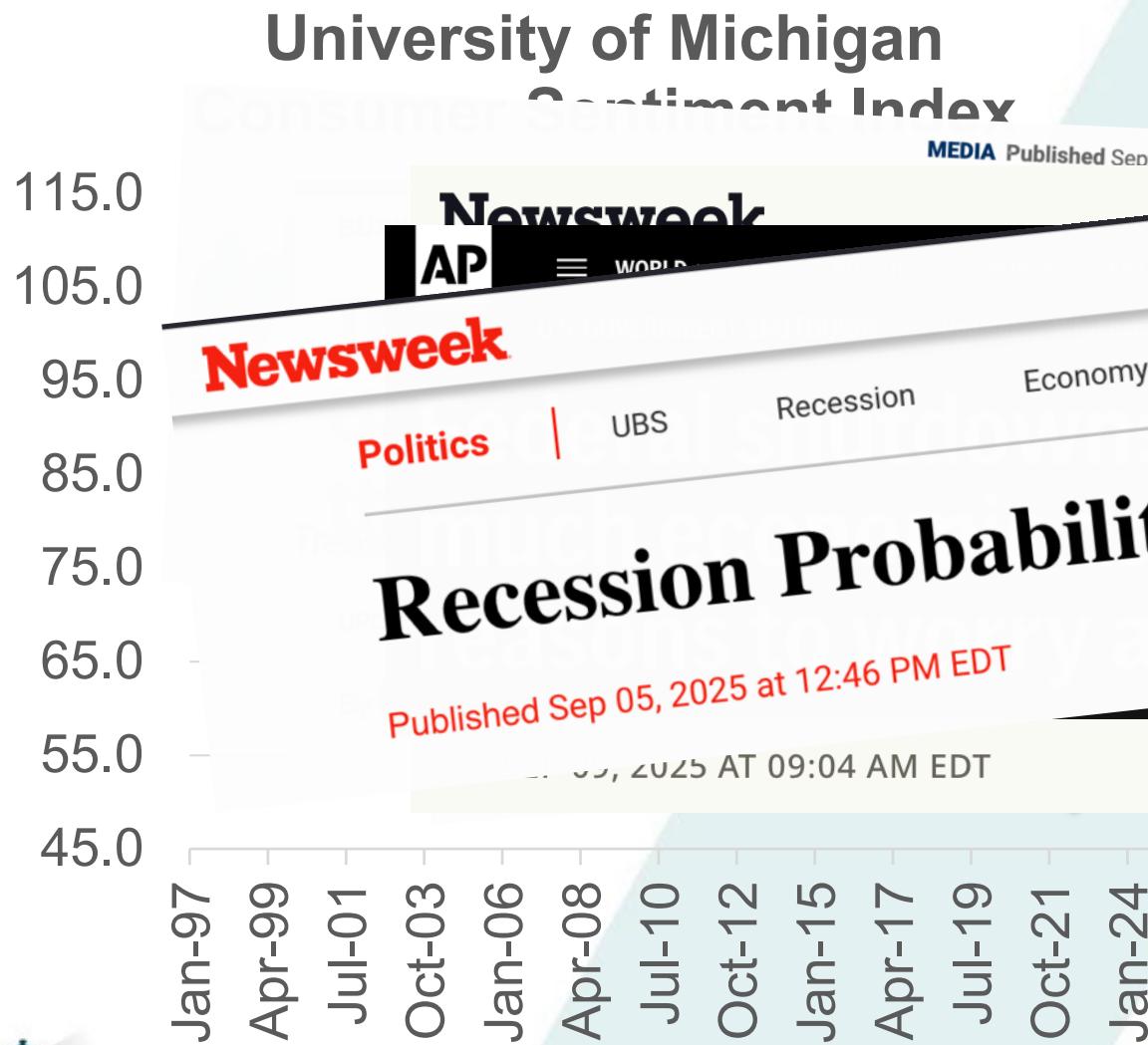


Good choices and smart policies start with the correct narrative.



Slides available by using QR code at end of presentation, or email Kristen@beaconecon.com

The 2025 Economic Narratives



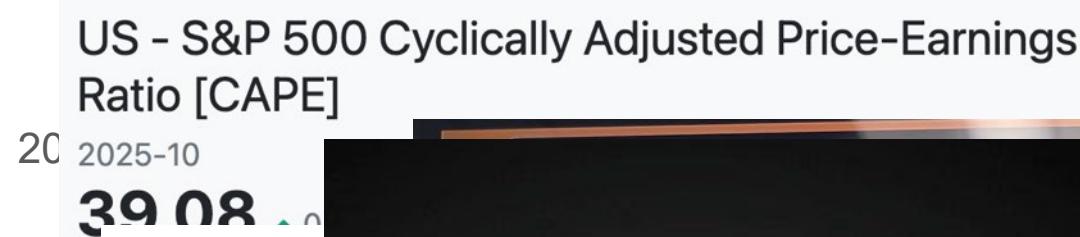
Forecast Accuracy?

**“The only function of election polling
is to make economic forecasting look
respectable.”**

-Christopher Thornberg



Another Economic Narrative



Be fearful when others are greedy,
be greedy when others are fearful.
- Warren Buffett

WI

Rank

Company

Market Cap (approx.)

3.9–4.2 T

\$3.7 T

\$3.2 T

\$2.3 T

2.18 T

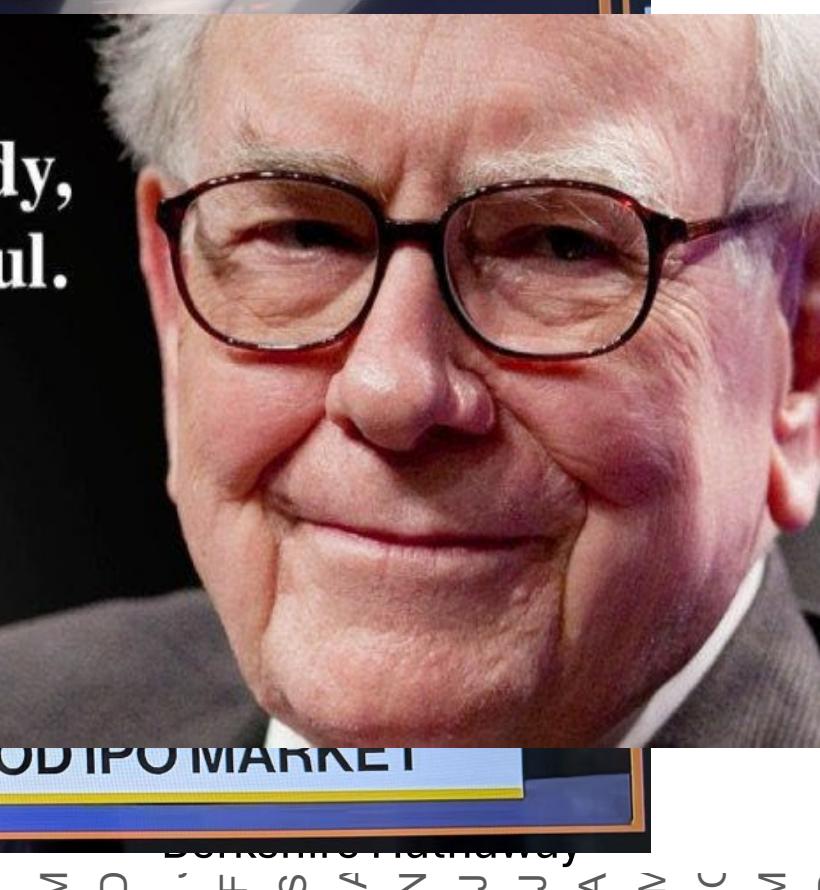
\$1.8 T

1.60 T

1.29 T

~\$1.22 T

~\$1.05 T



BLOOMBERG CRYPTO CRYPTO FIRMS FLOOD IPO MARKET

M D F S A N J A N C M D F

US - S&P 500 Cyclically Adjusted Price-Earnings Ratio [CAPE]



Beacon's Outlook 2024



Out of the Woods?

We were never in the woods.

- Consumer demand is too strong
- Public debt / asset values driving excess spending
- Short run: the US expansion (4+ years old) will continue

Arizona & Phoenix

- Still on forefront of national growth
- Housing Market under-supplied / constrained by rates

Headwinds will intensify

- US Economy is overheating,
- Fed deficits and frothy asset markets, external imbalances growing
- Canary in the coalmine? \$US

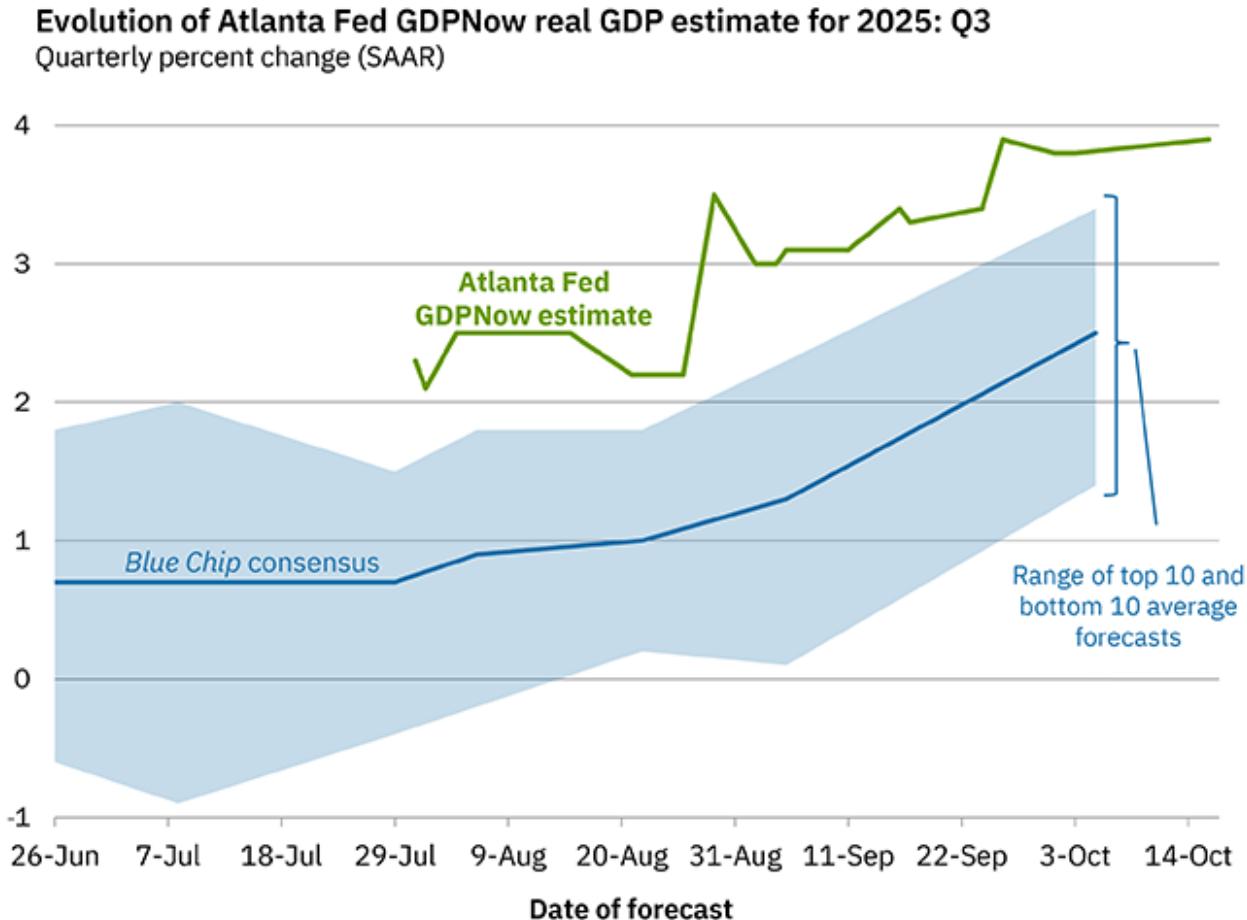
Filtering problems slowing inflow of new residents

2025 Beacon Forecast Highlights

- **GDP Growth: 2.4%**
- **Unemployment Rate: 3.9%**
- **10 Year Treasury: 4.3%**
- **30 Year FR Mortgage: 7.1%**
- **HPI Forecast: -1.7%**
- **Housing Starts: 1.42m**



GDP Slowing, not Stopped

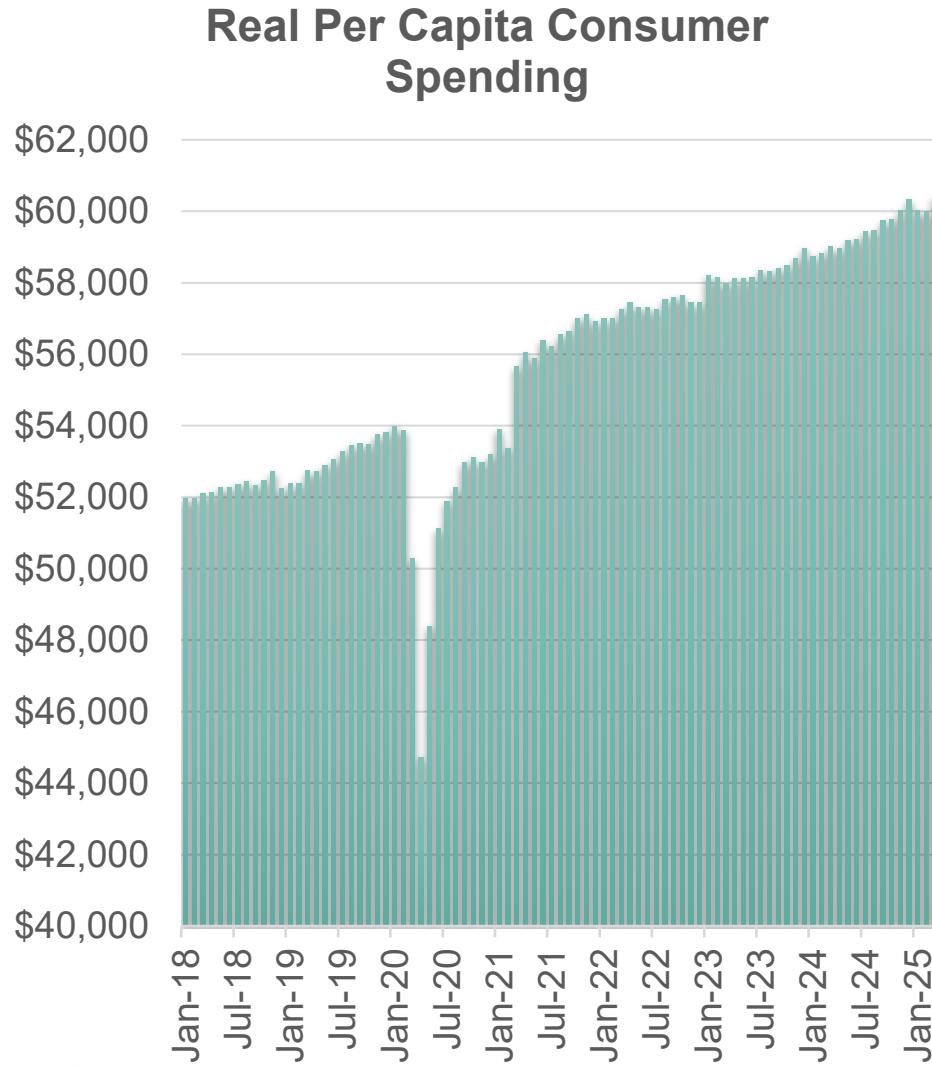


Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the Blue Chip survey.

	2023	2024	2025
Real GDP Growth	3.4	2.4	1.6
Final Demand Growth	3.7	3.1	2.0
Consumption	2.0	2.3	1.1
Fixed investment	1.0	0.2	1.0
Structures	0.5	-0.2	-0.2
Equipment	0.2	0.2	0.7
IPP	0.2	0.1	0.6
Residential	0.1	0.1	-0.1
Inventories	-0.4	-0.2	-0.4
Net exports	0.1	-0.5	0.1
Exports	0.2	0.4	-0.1
Imports	-0.2	-0.8	0.2
Government	0.7	0.6	-0.1
Federal	0.2	0.3	-0.4
State and local	0.5	0.3	0.3

The Recent Consumer Slowdown

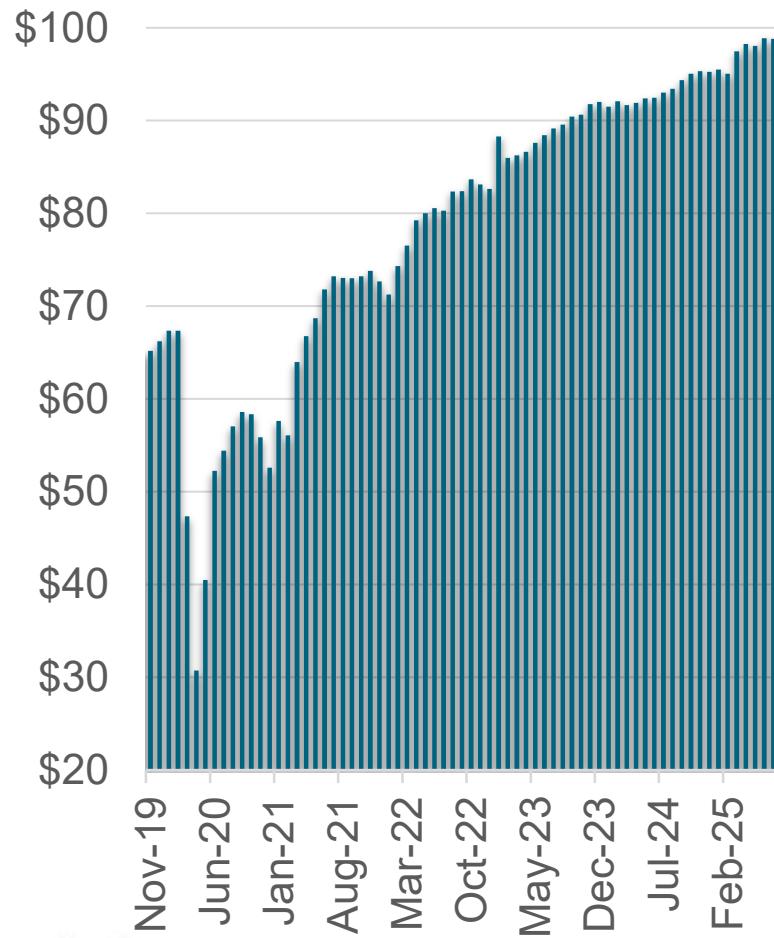


	Jul-25	YOY 24-25	Abs. decel
Real consumption (PCE)	\$16,408	2.1%	-\$102.0
Health care	\$2,931	3.9%	-\$48.0
Nonprofit institutions	\$402	-8.1%	-\$37.5
Transportation services	\$500	0.0%	-\$14.8
Furnishings and durable eq	\$446	0.9%	-\$12.5
Gasoline and energy goods	\$316	-1.5%	-\$11.4
Recreational goods vehicles	\$805	4.9%	-\$10.5
Recreation services	\$623	1.0%	-\$10.0
Financial services	\$1,185	2.4%	-\$8.1
Food services and acc	\$1,083	1.7%	-\$4.7
Motor vehicles and parts	\$612	3.5%	\$5.4
Housing and utilities	\$2,666	1.1%	\$10.7
Other	\$3,118	2.5%	\$11.8
Food beverages	\$1,191	1.7%	\$13.2
Clothing and footwear	\$529	4.9%	\$14.2



Consumers: Still Having Fun!

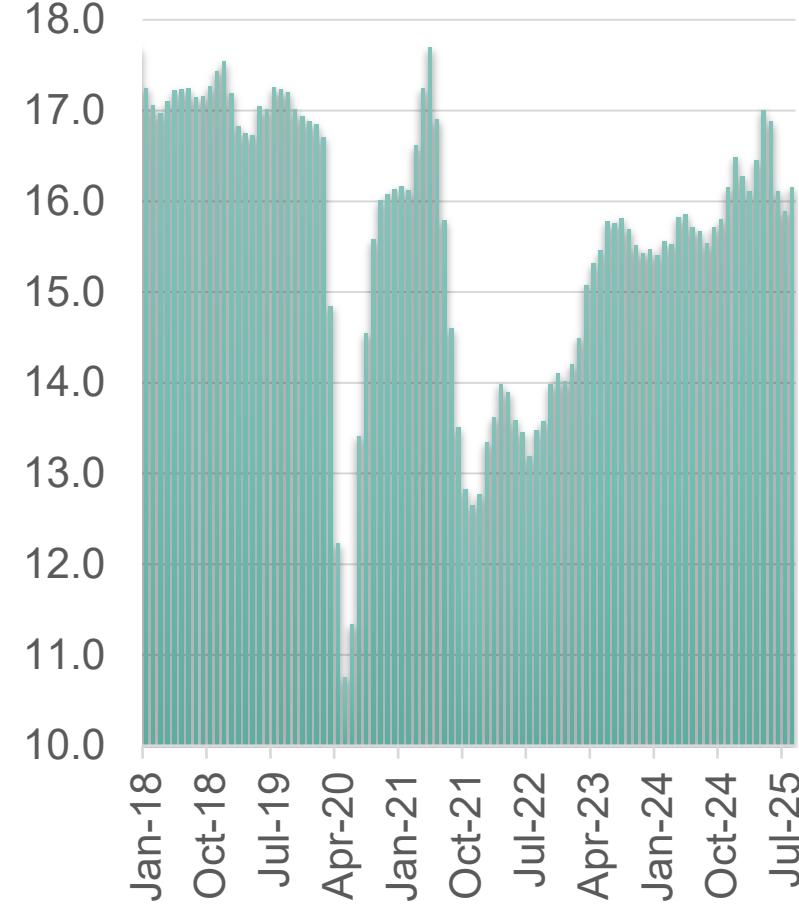
**Restaurant Retail Sales
(\$Mil)**



Las Vegas Gaming Revenues

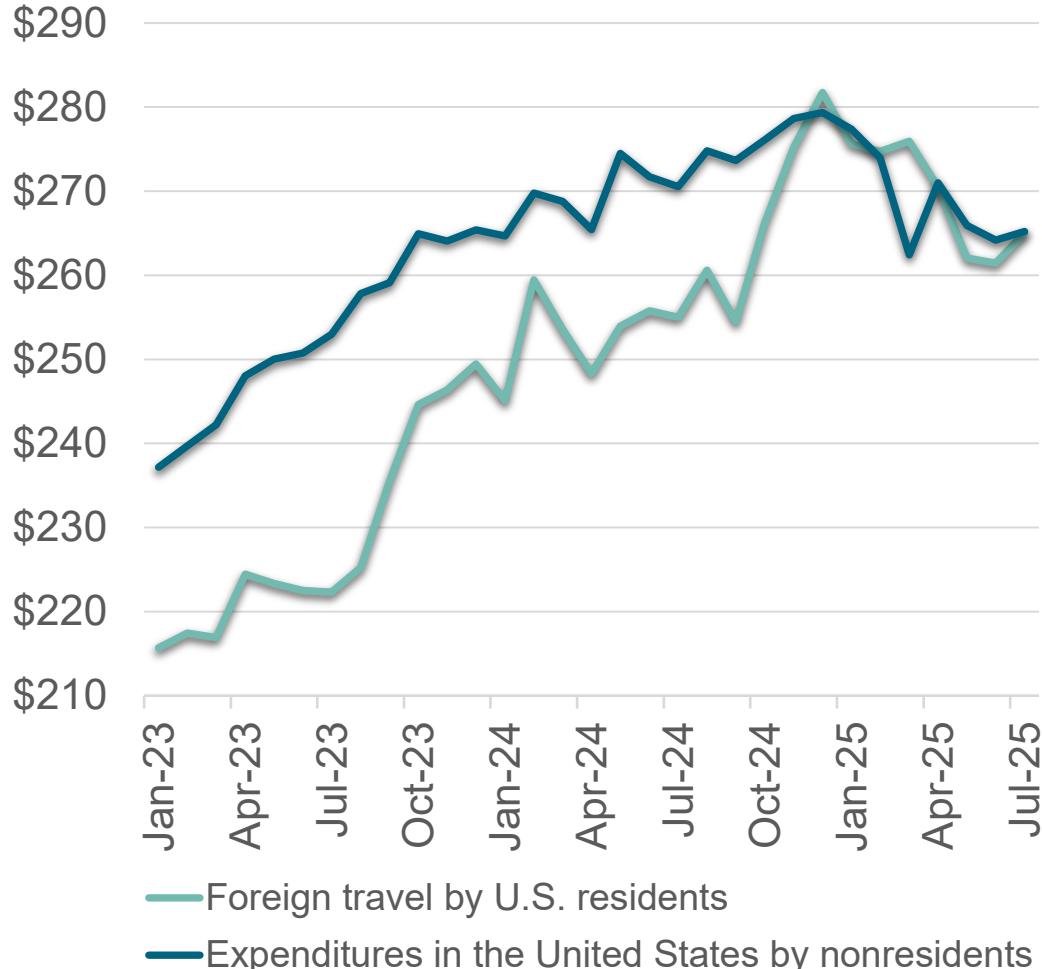


Auto / Light Truck Unit Sales (Mil, SAAR)

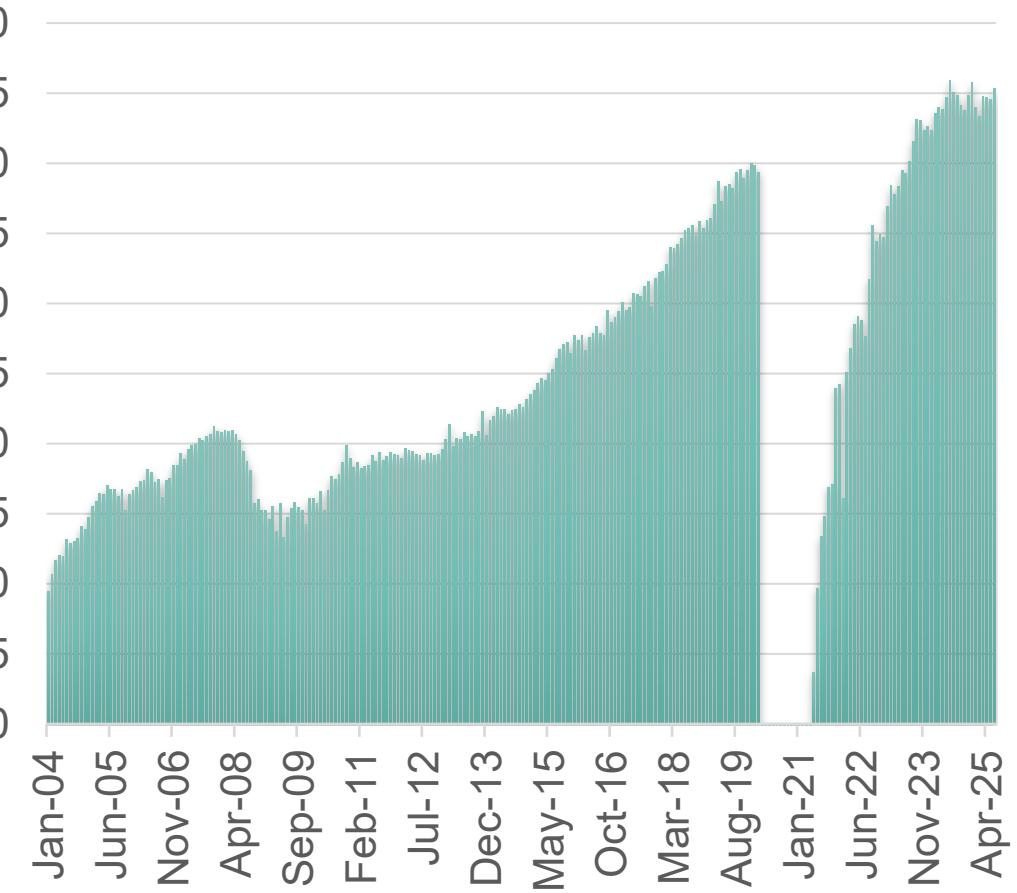


Tourism and Hotels

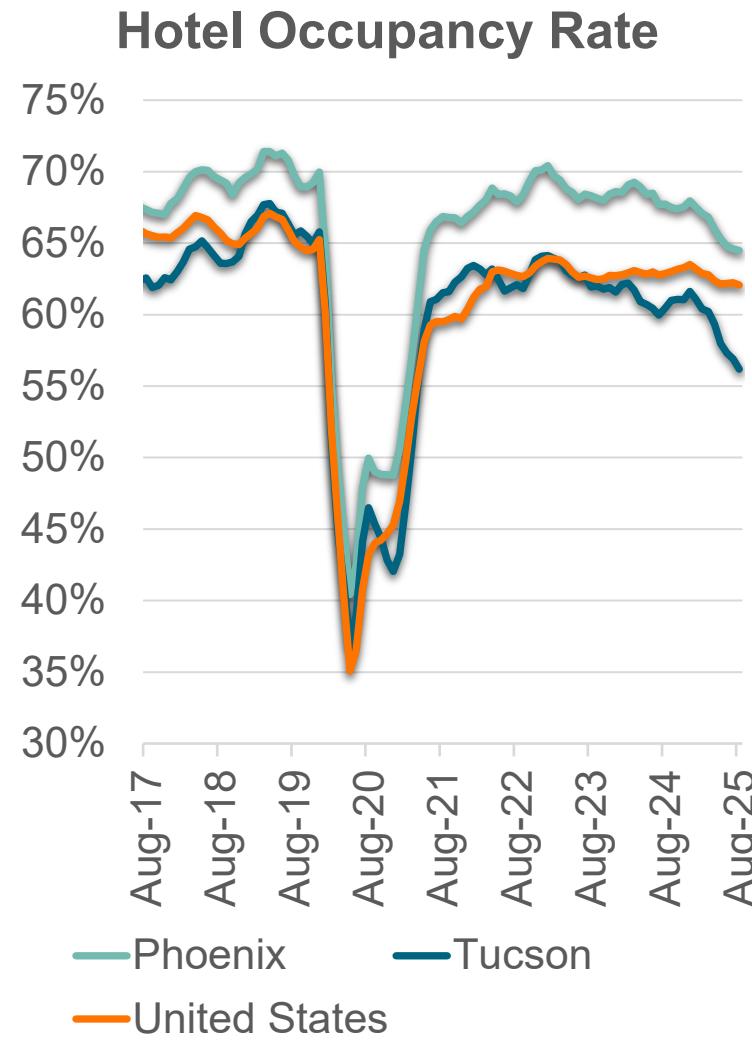
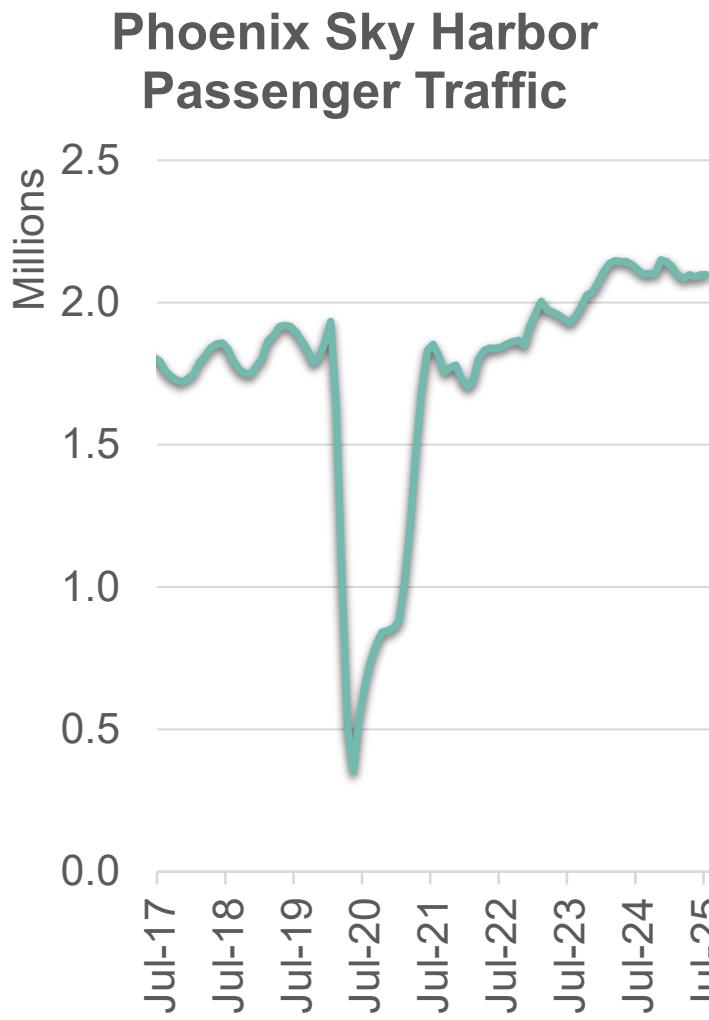
Real Spending on Travels SAAR



US Revenue Passenger Air Miles



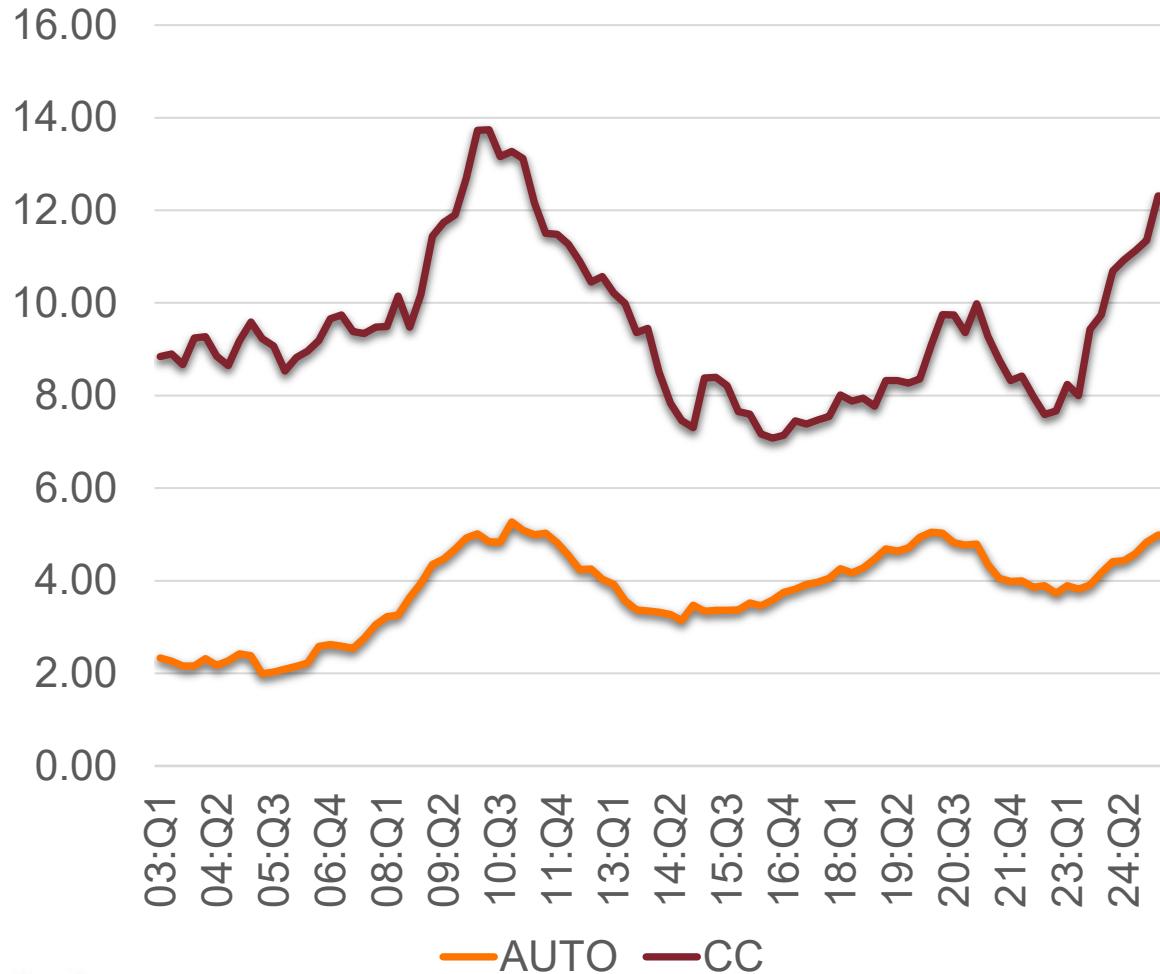
Southwestern Tourism



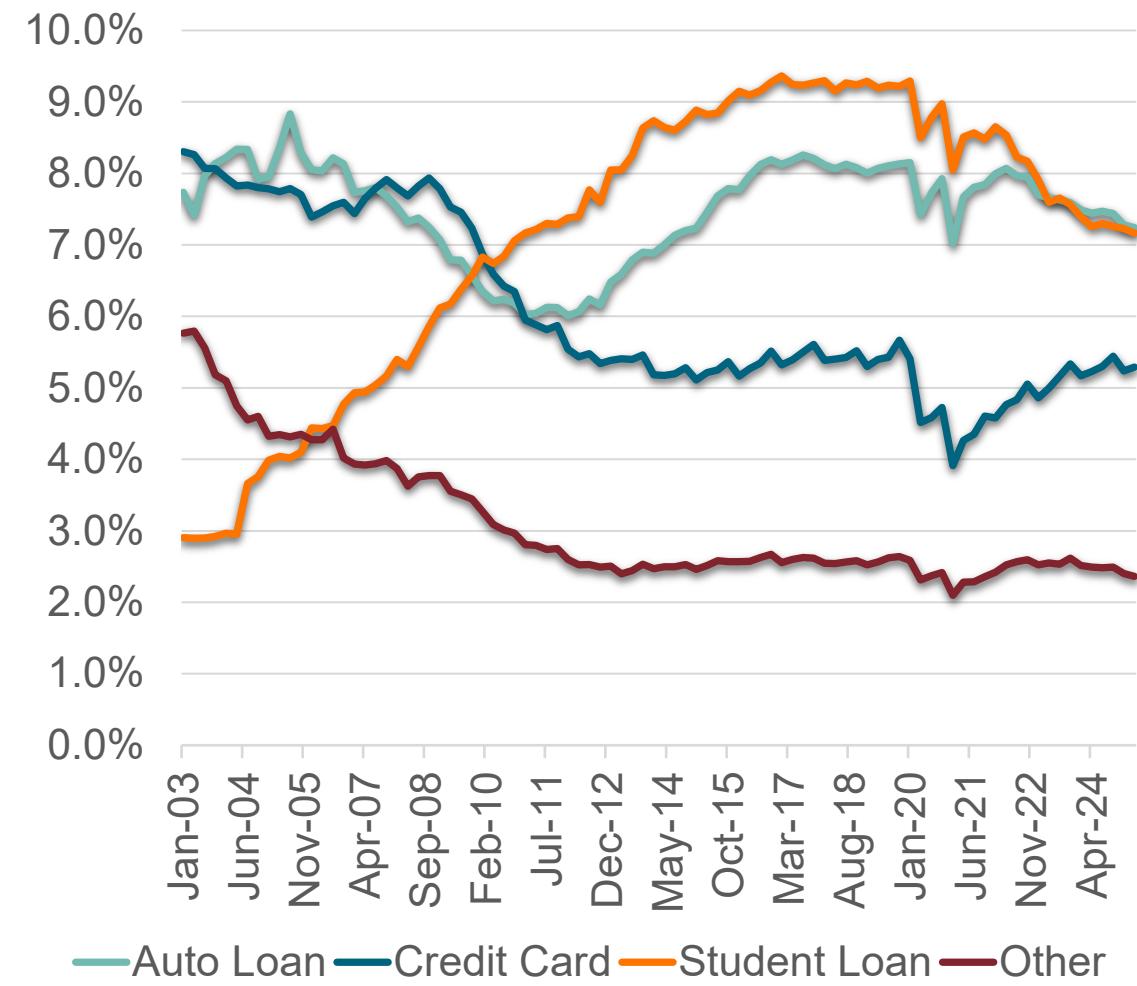
Location	Aug-25 RevPAR (\$)	1-Year Chg. (%)	Chg. since Feb-20 (%)
United States	98.38	-1.4	52.3
Sacramento	106.26	6.5	49.8
Salt Lake City	94.46	-1.6	61.8
Inland Empire	89.96	-2.0	40.6
Albuquerque	70.53	-3.6	58.1
Denver	96.61	-4.6	37.3
Phoenix	108.79	-6.6	54.9
Tucson	81.93	-9.6	37.9
Las Vegas	142.64	-10.8	58.6

Payment Issues, Not Debt Issues

Share of Debt 90+ Days Dq

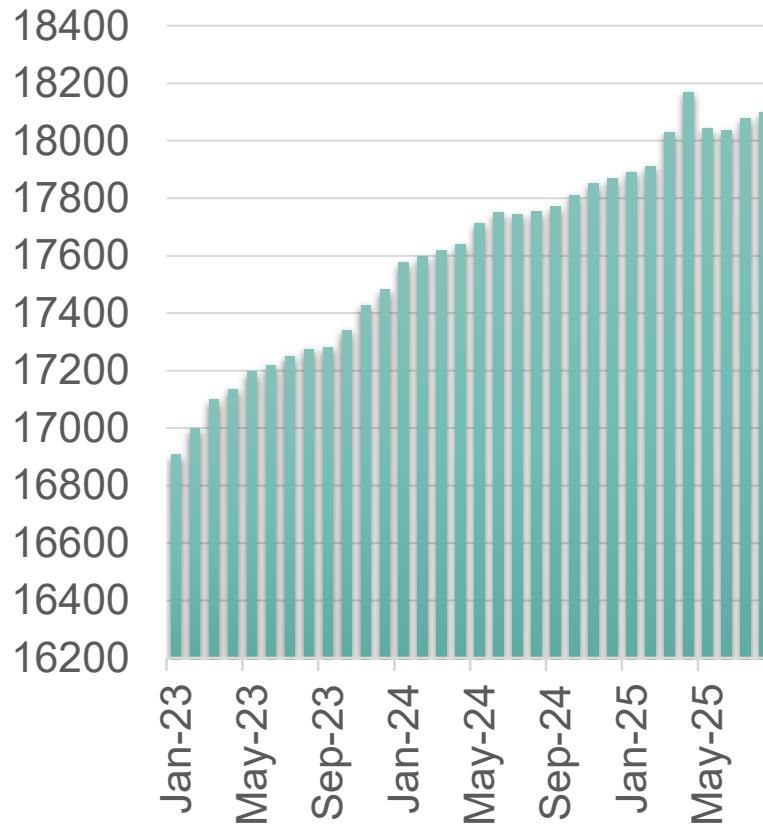


Consumer Debt as % of DPI



Financial Conditions: Still Good

Household Real
Disposable Incomes
(SAAR, Billions)



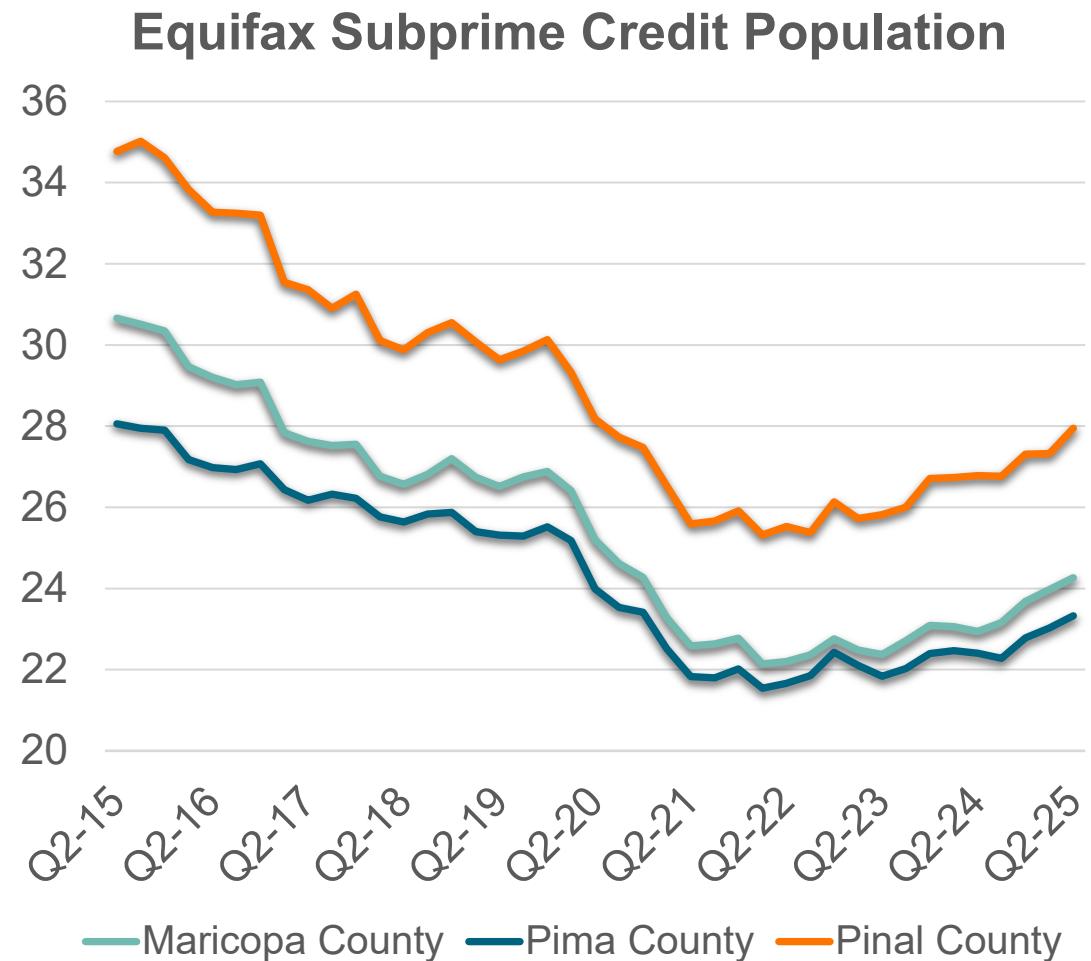
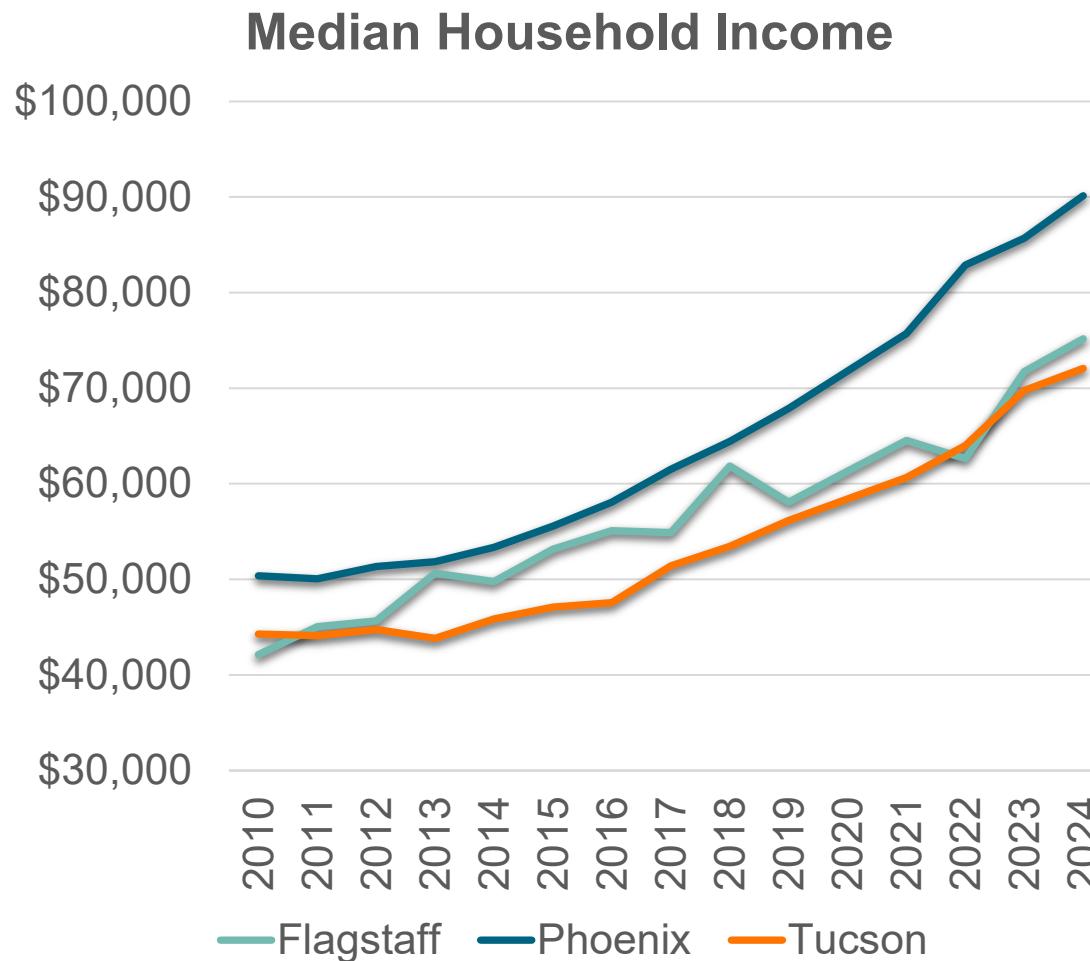
Foreclosures and
Bankruptcies (000s)



Real Household Net
Worth (\$Trillions)

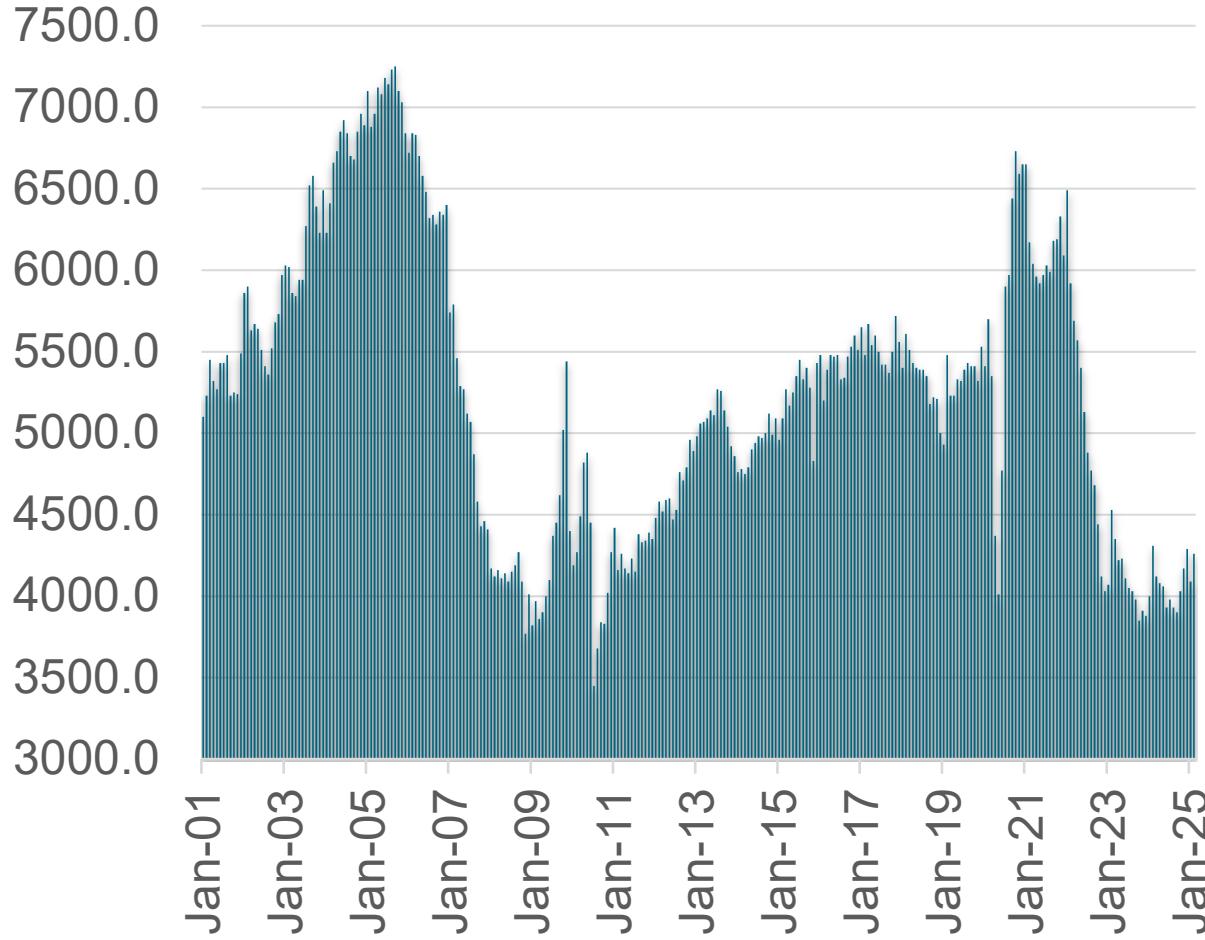


Local Incomes and Credit Conditions



A rate shocked existing home market

Existing Home Sales SAAR (NAR)

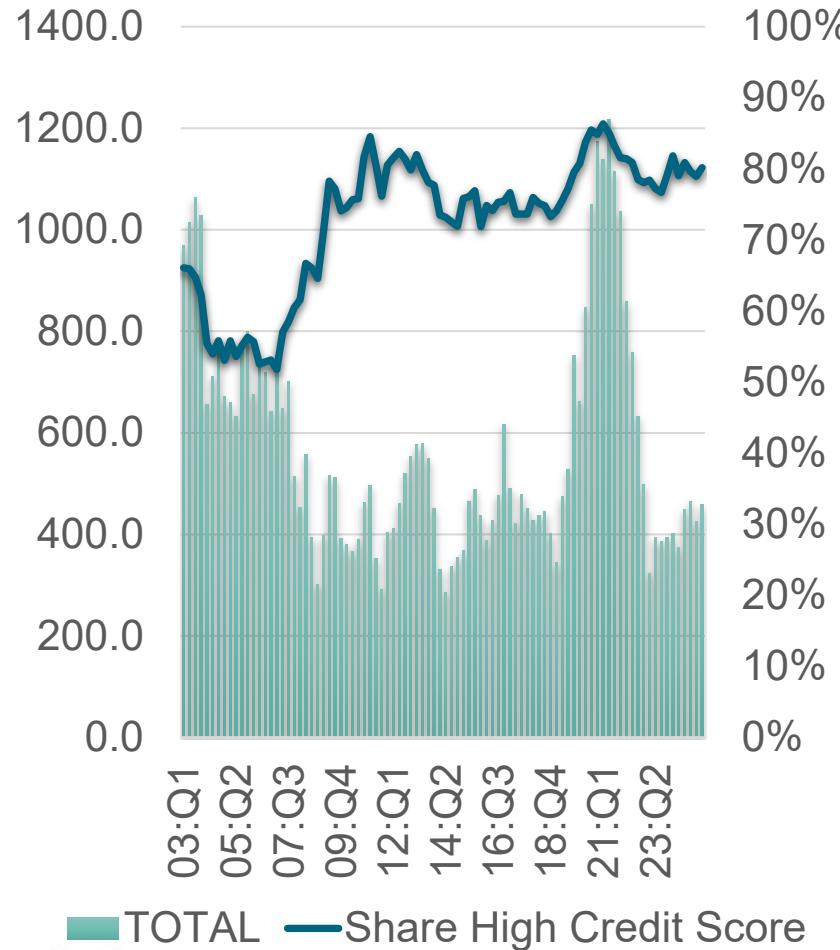


30 Year FR Mortgage Rate

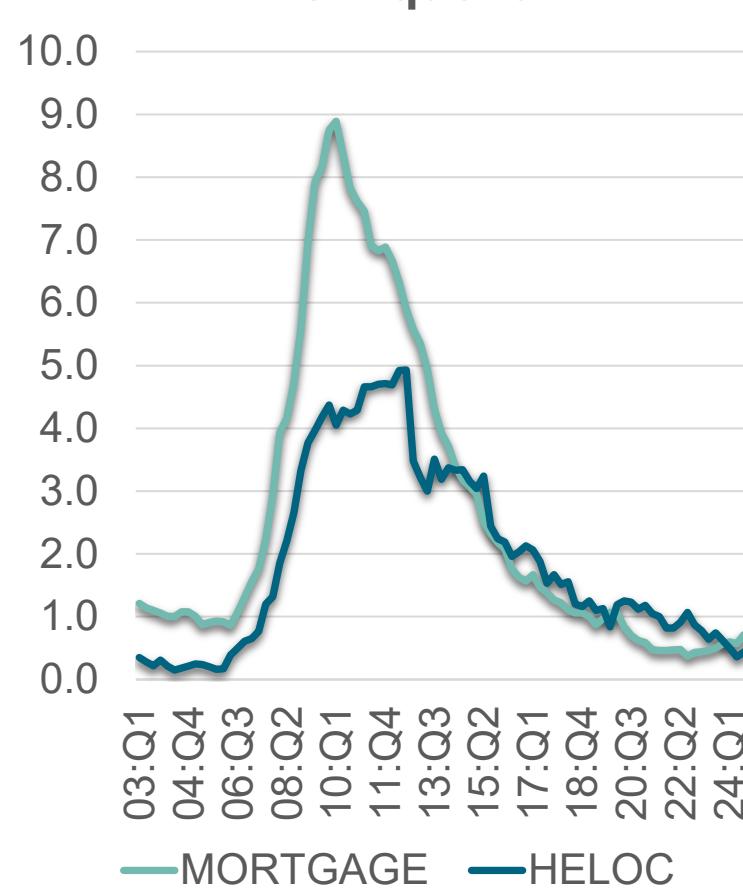


Little topline financial distress

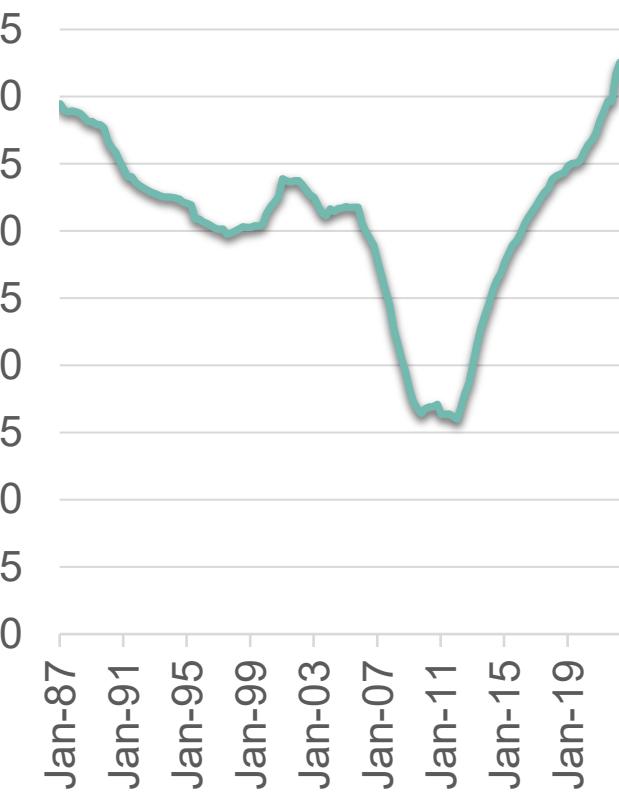
Mortgage Originations



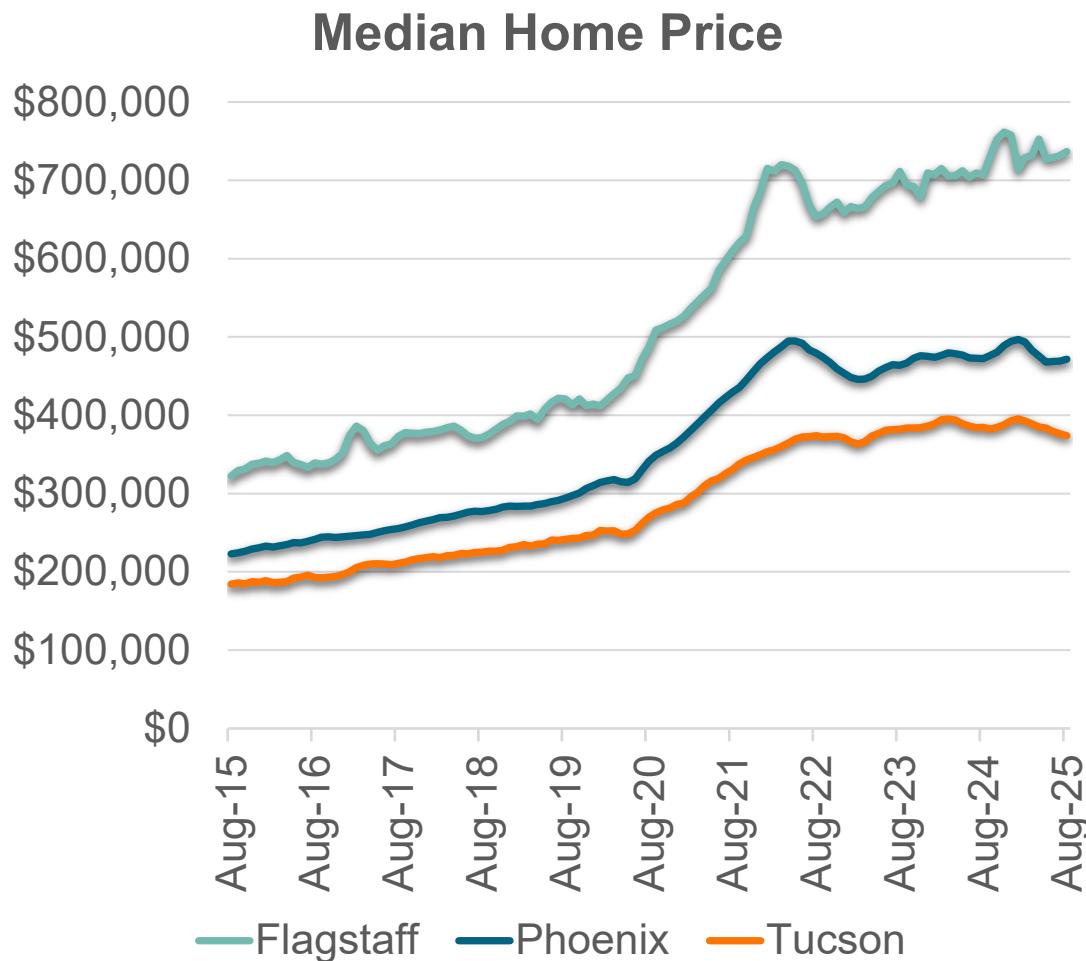
Share of Debt 90 Days+ Delinquent



Equity Share of Household Real Estate Wealth

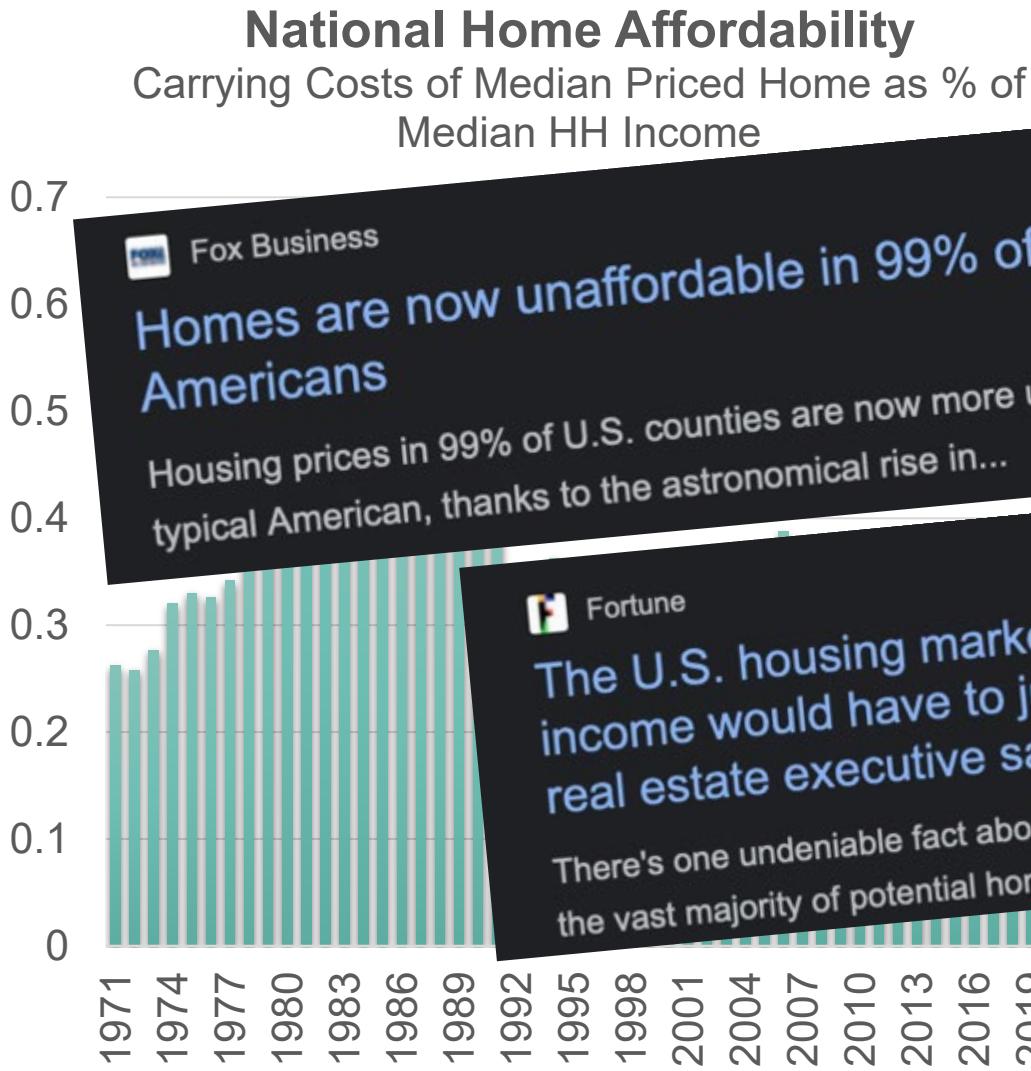


Home Prices



Location	Aug-25 Median Home Price (\$000s)	1-Year Chg. (%)	Chg. since Feb-20 (%)
Flagstaff MSA	736.8	4.2	75.4
Fresno MSA	432.7	2.7	48.6
Las Vegas MSA	481.8	0.4	51.3
Salt Lake City MSA	591.9	0.3	50.6
Inland Empire	593.1	0.0	49.4
Phoenix MSA	471.3	-0.3	49.1
Denver MSA	635.1	-0.9	35.6
Tucson MSA	373.9	-2.8	48.4

An Affordability Problem?

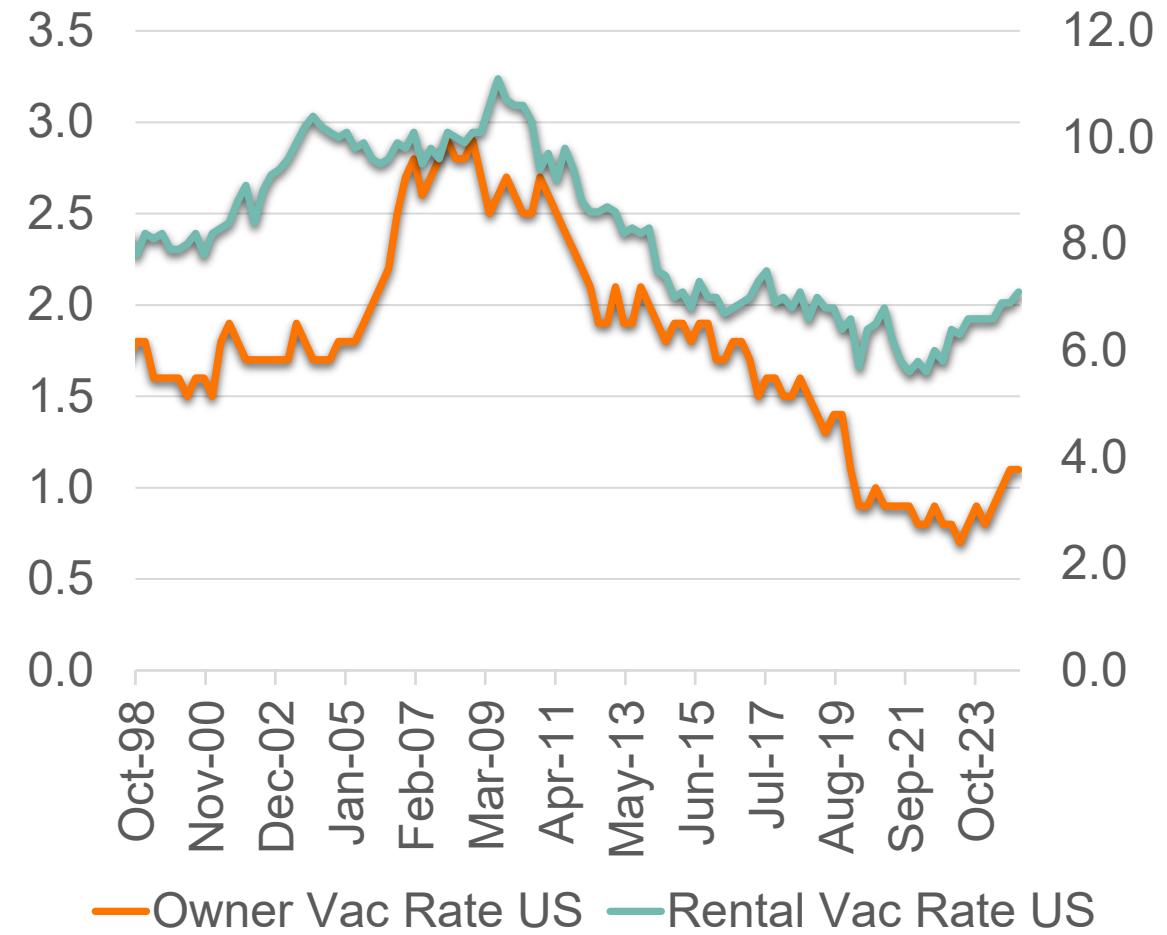


A Supply Problem

Month's Supply of Existing Homes for Sale

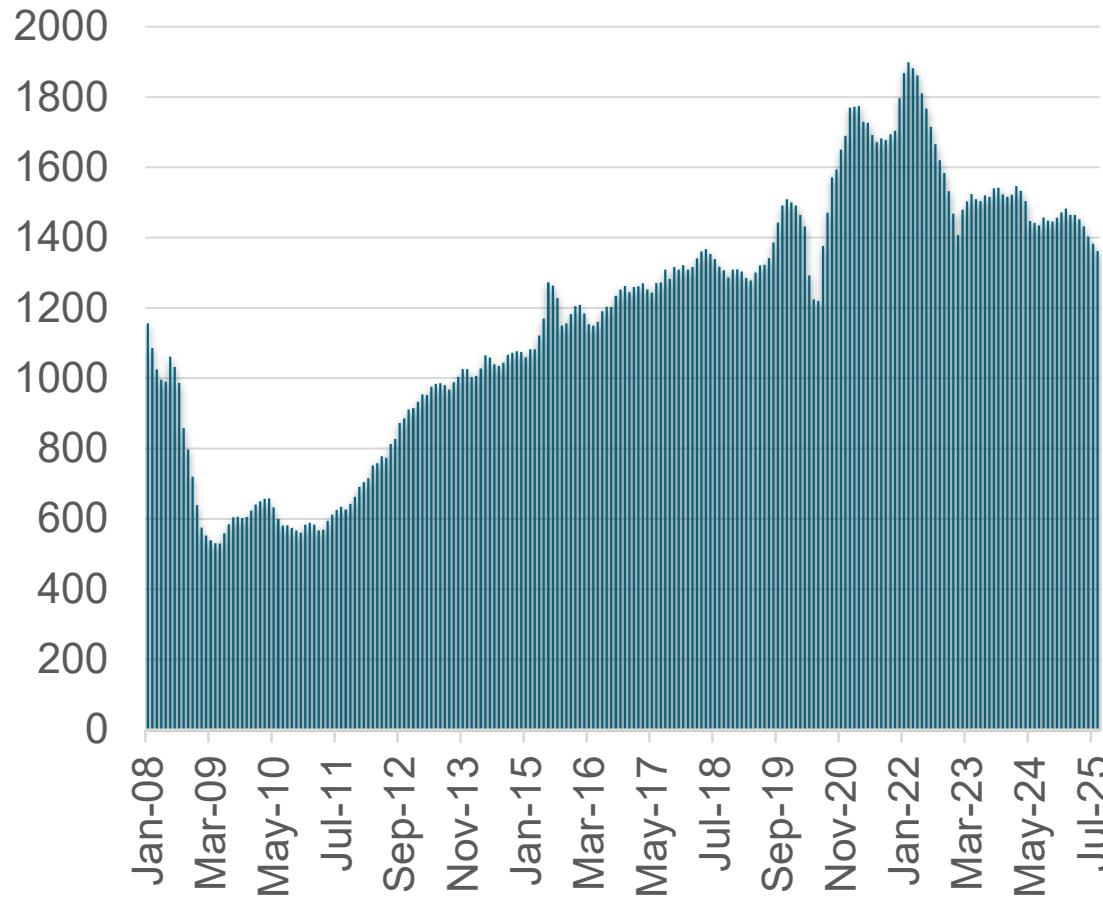


Housing Vacancy Rate % (HVS)

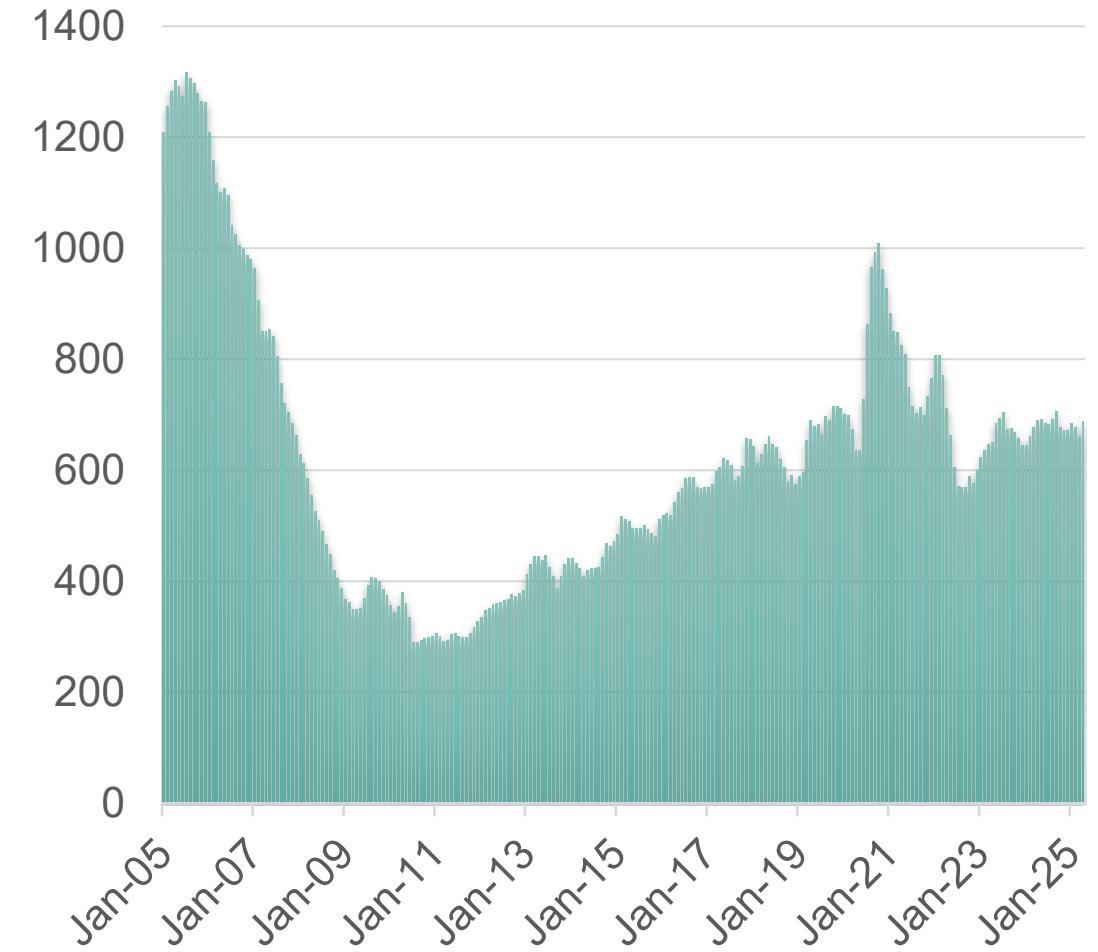


Home Construction Still Moving

US Housing Permits

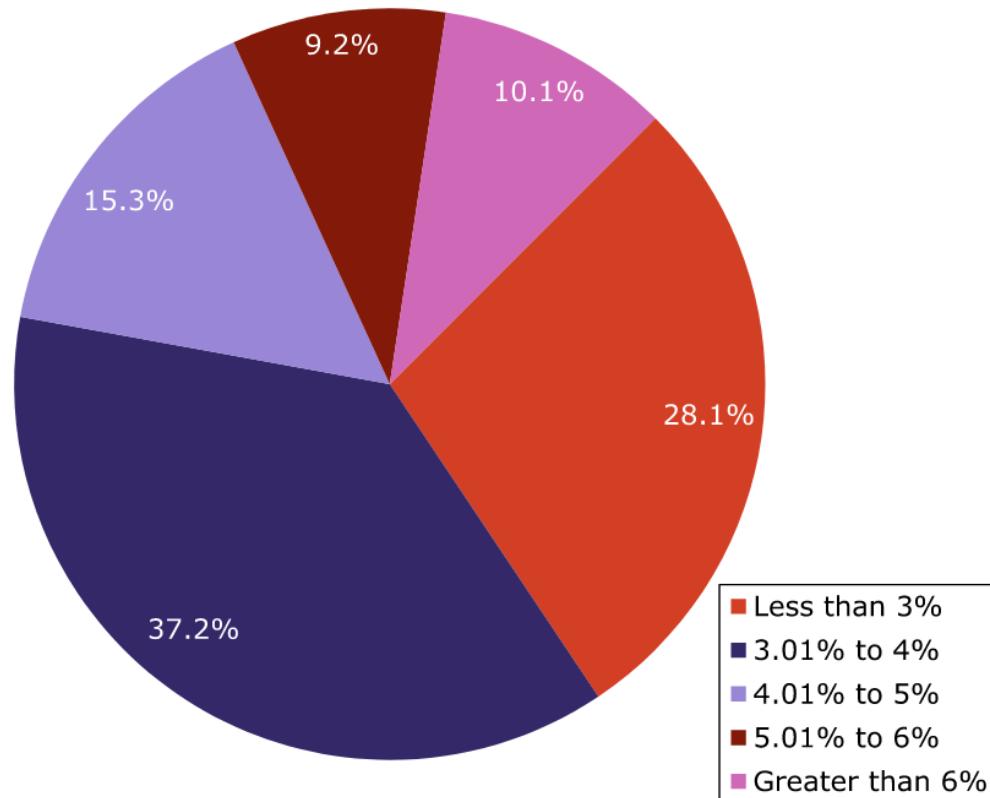


SF Home Sales



The Yin and Yang of New Home Markets

Most Outstanding Mortgages Have a Rate <5%
Share of Outstanding Mortgages by Interest Rate, Q3-2023



Source: FHFA and Wells Fargo Economics

Liquidity
Constrained
Housing
Market

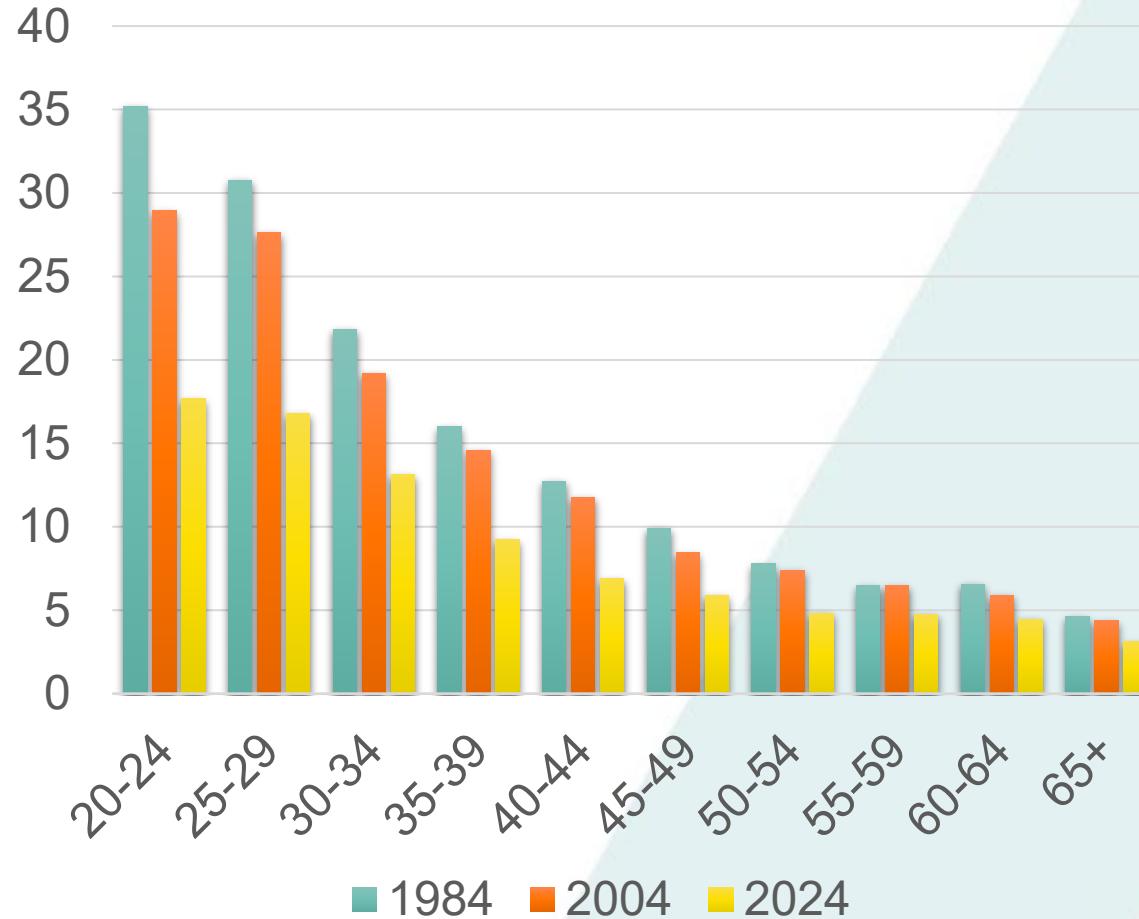


Normal
Housing
Market



Mobility Decline Across Generations

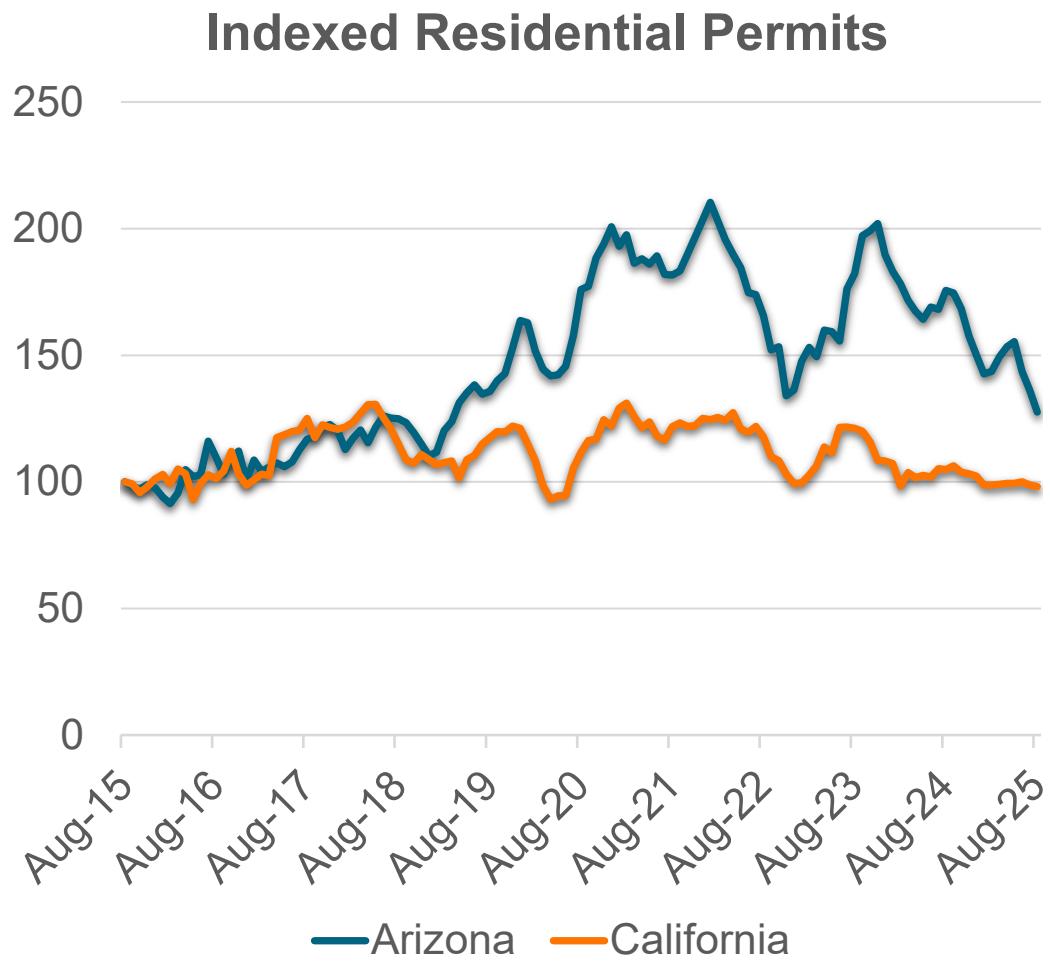
Share Moved in Last Year



Arizona Population Growth



Residential Permits

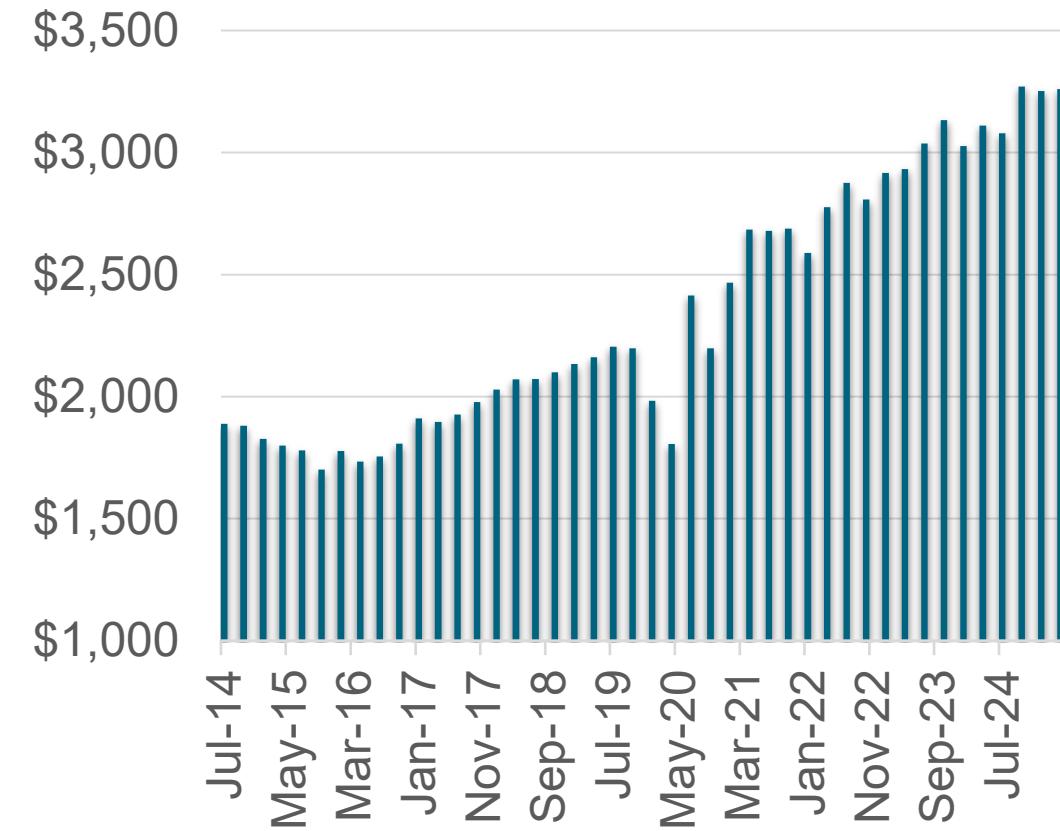


State	2025 YTD Permits (Units)	1-Year Chg. (%)	Chg. Since 2019 (%)
Single-Family			
Alaska	369	-4.2	-54.4
Arizona	23,935	-17.4	8.8
California	38,226	-9.6	-2.6
Washington	12,448	-6.0	-20.3
Multi-Family			
Alaska	266	37.1	-21.3
Arizona	9,854	-18.2	17.3
California	27,555	6.6	-12.3
Washington	9,778	-11.0	-36.8

Business Investment

Real Business Investment	2025	23-24	24-25
	Q2		
Private fixed investment	4380.5	3.2%	2.7%
Information processing eq	615.6	5.2%	20.4%
Software	863.8	7.6%	12.2%
Transportation equipment	322.2	1.4%	6.7%
Industrial equipment	263.6	-0.2%	4.3%
Power and communication	140.4	7.1%	2.9%
Research and development	673.7	0.9%	1.4%
Entertainment / artistic	90.2	-1.0%	-2.3%
Manufacturing Structure	142.2	20.2%	-5.6%
Commercial / health care Str	168.0	-5.7%	-6.2%
Mining exploration	92.2	-8.7%	-14.3%

Corporate Profits (Net Tax, IVA CCA)



How about Manufacturing?

BENZINGA

80% Of Americans Say The Country Would Be Better Off With More Manufacturing Jobs —But Only 25% Want One Themselves

Adrian Volenik

April 17, 2025 • 4 min read



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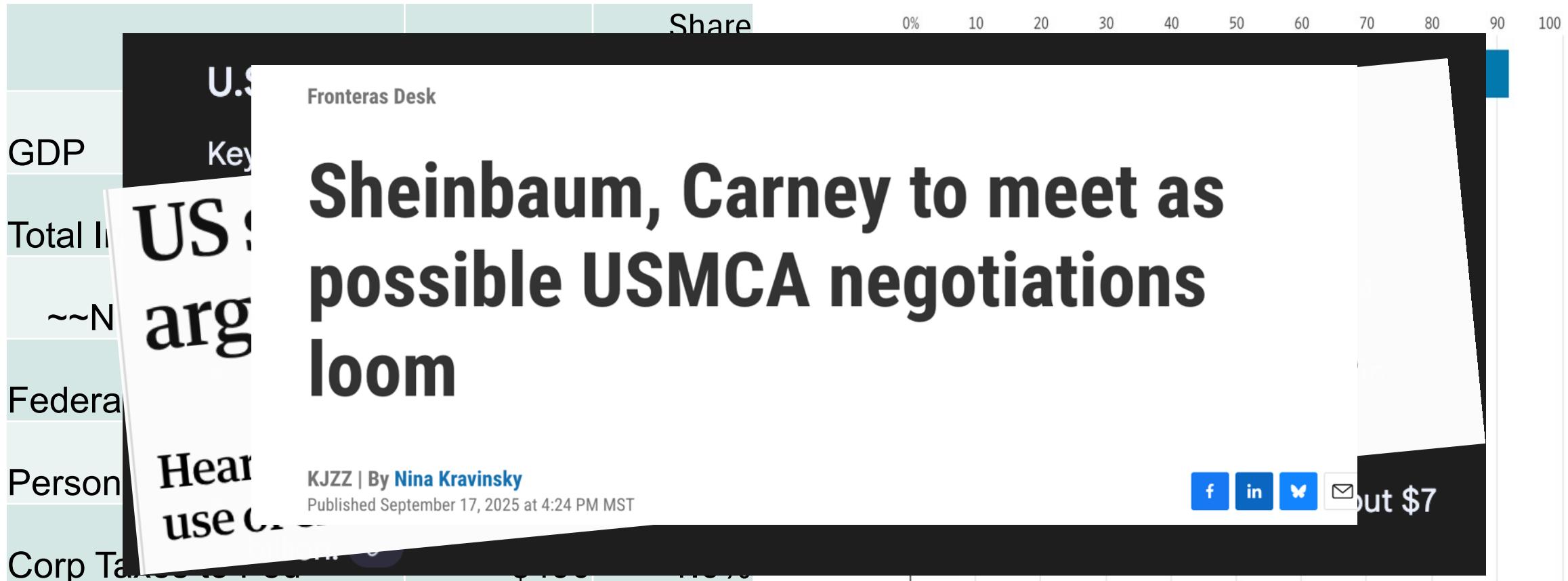
2023Q1
Q2
Q4
Q3
Q4

ter

The Tariff Impact

The Tariff Tax: Context

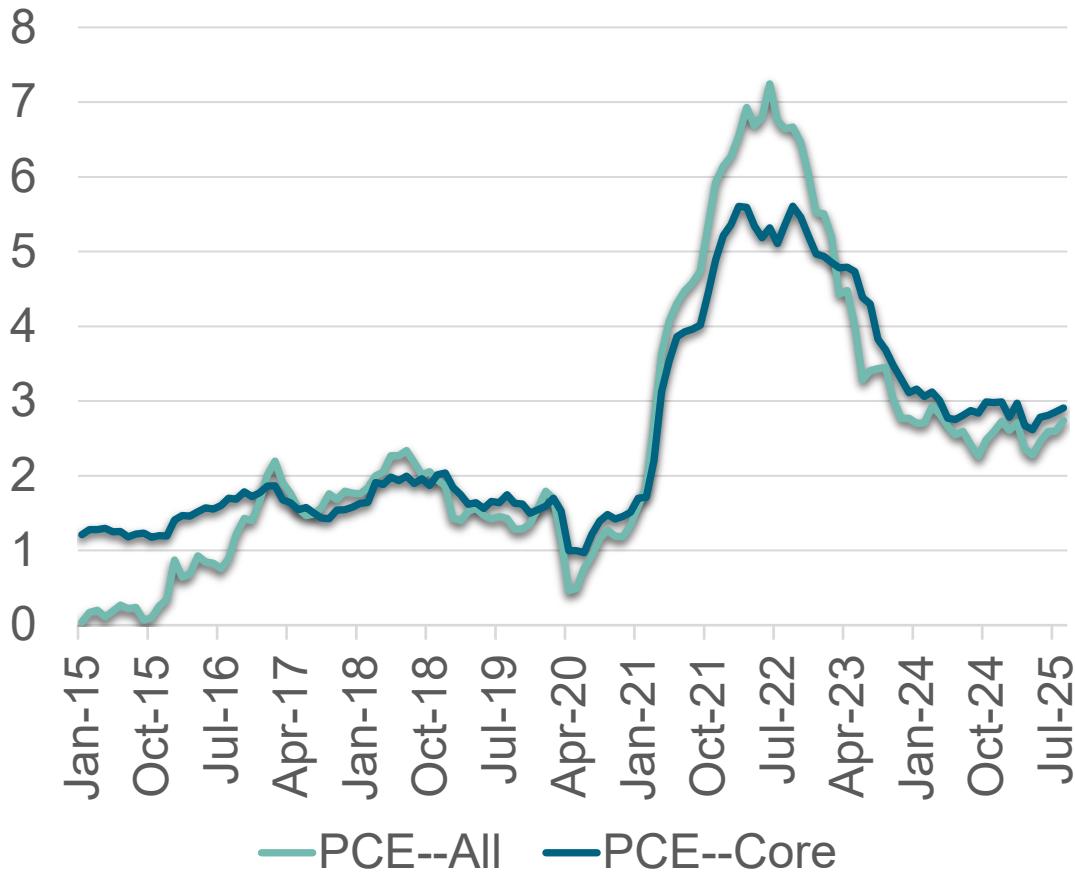
Share of June U.S. imports that were duty-free, by origin



Source: Barclays Research analysis of U.S. Census Bureau data

Inflation Effects?

Y-o-Y % Change Prices



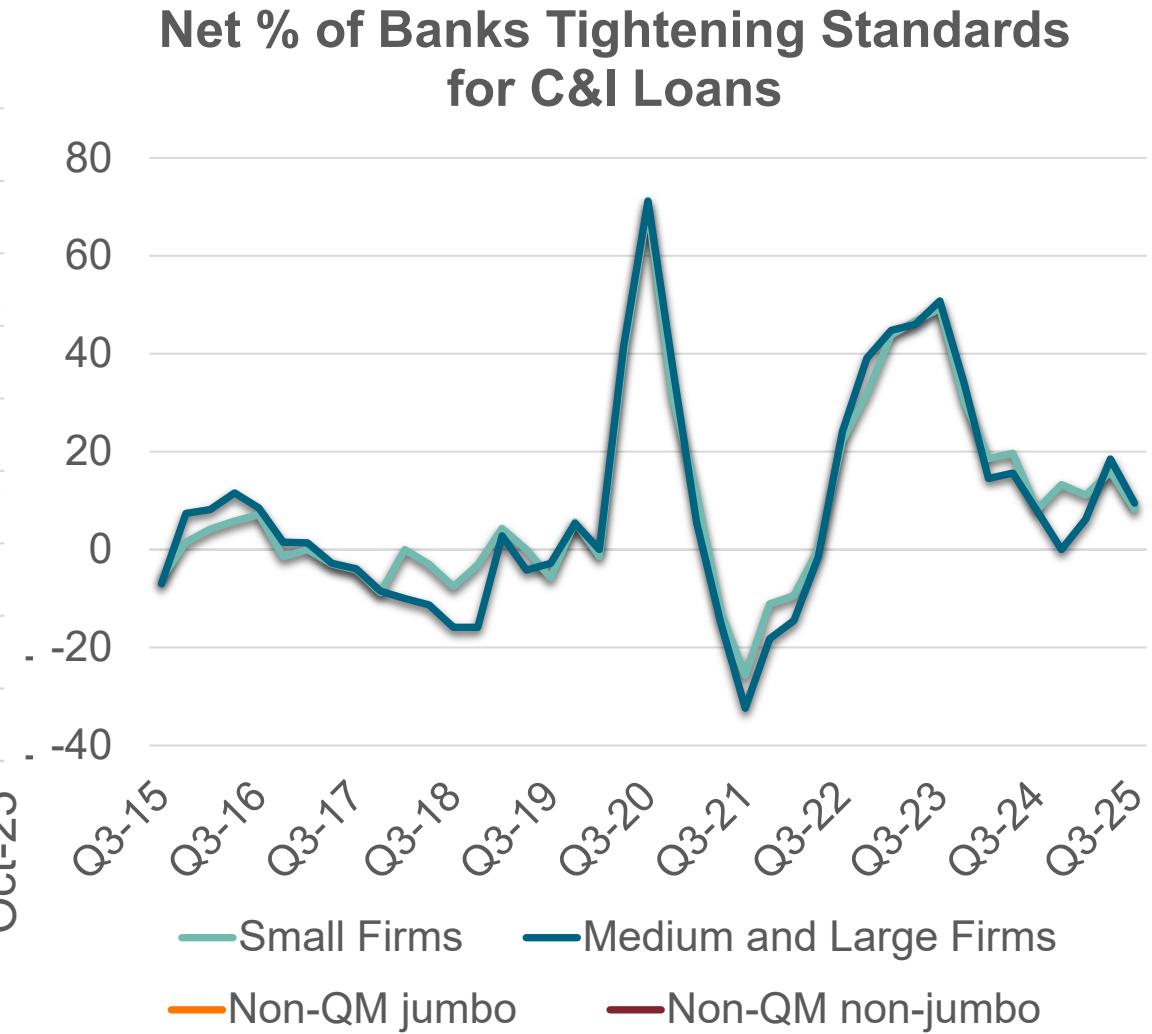
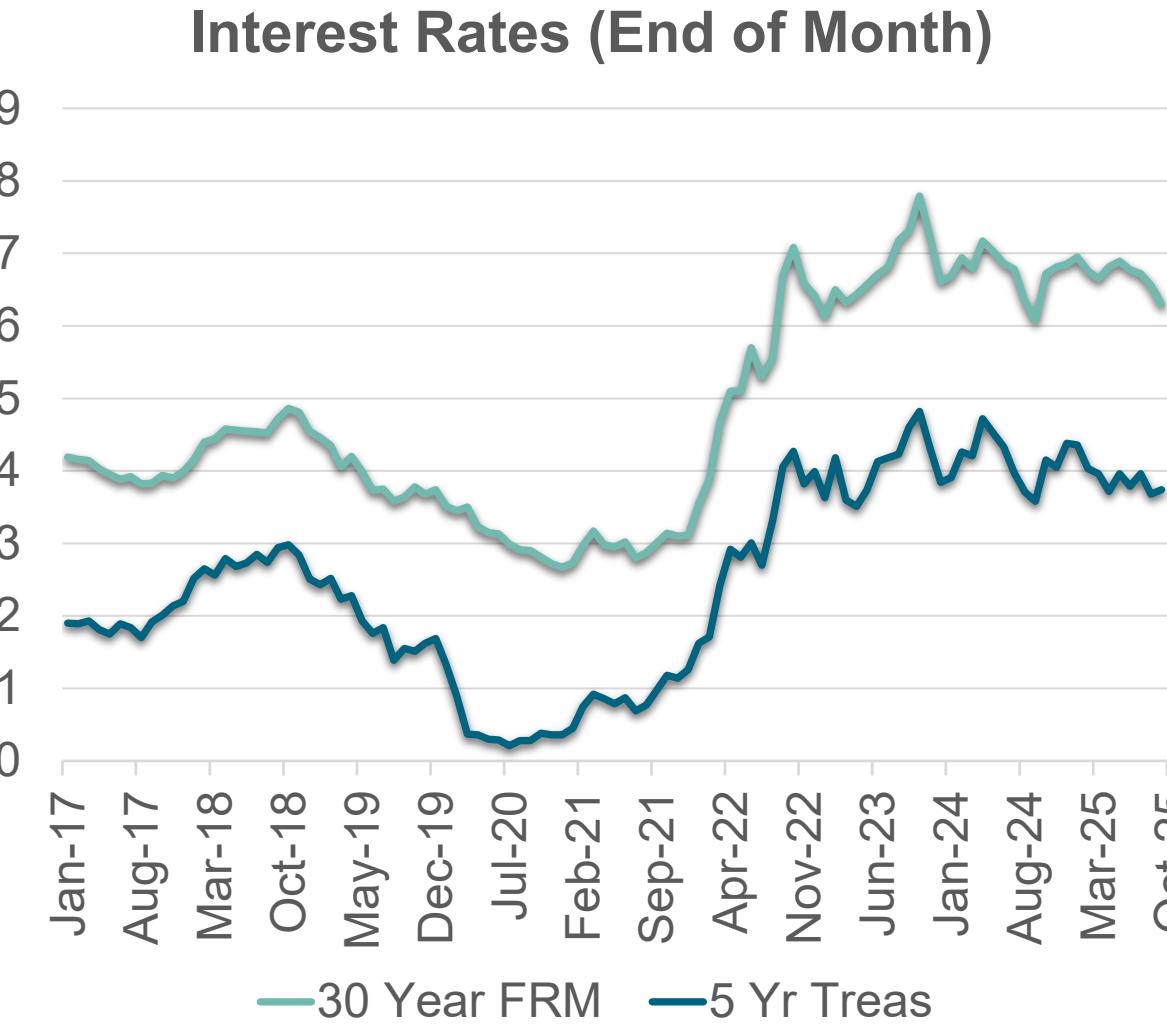
Price Growth by Consumer Spending

Category	Price Growth (%)
PCE Prices	2.7%
Financial services and insurance	5.3%
Transportation services	4.4%
Housing and utilities	4.3%
Recreation services	3.3%
Food services accommodations	3.1%
Other services	2.9%
Health care	2.8%
Other durable goods	2.8%
Motor vehicles and parts	2.6%
Food and beverages Retail	2.2%
Furnishings and household eq	2.1%
Other nondurable goods	1.4%
Clothing and footwear	-0.3%
Recreational goods and vehicles	-1.8%
Gasoline and other energy goods	-5.9%

Inflation and Fed Policy



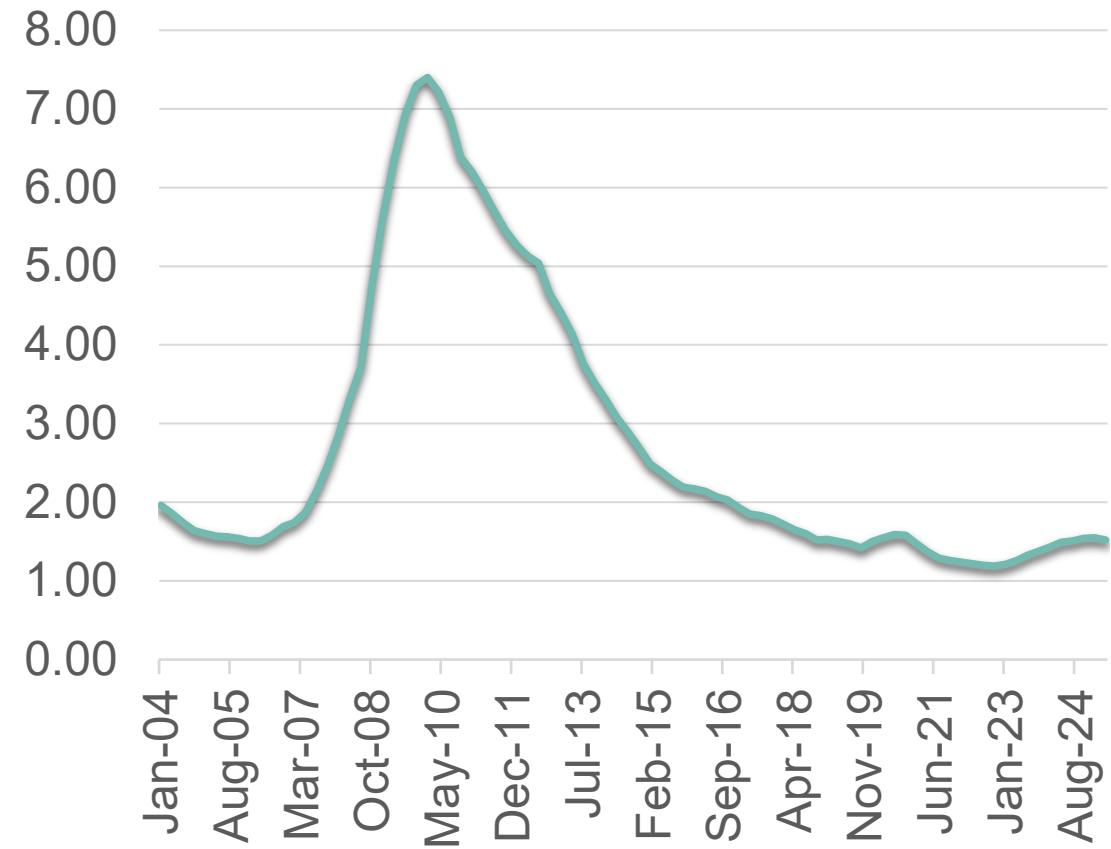
Rates Dropped / Credit Easing



Bank Delinquency Rates

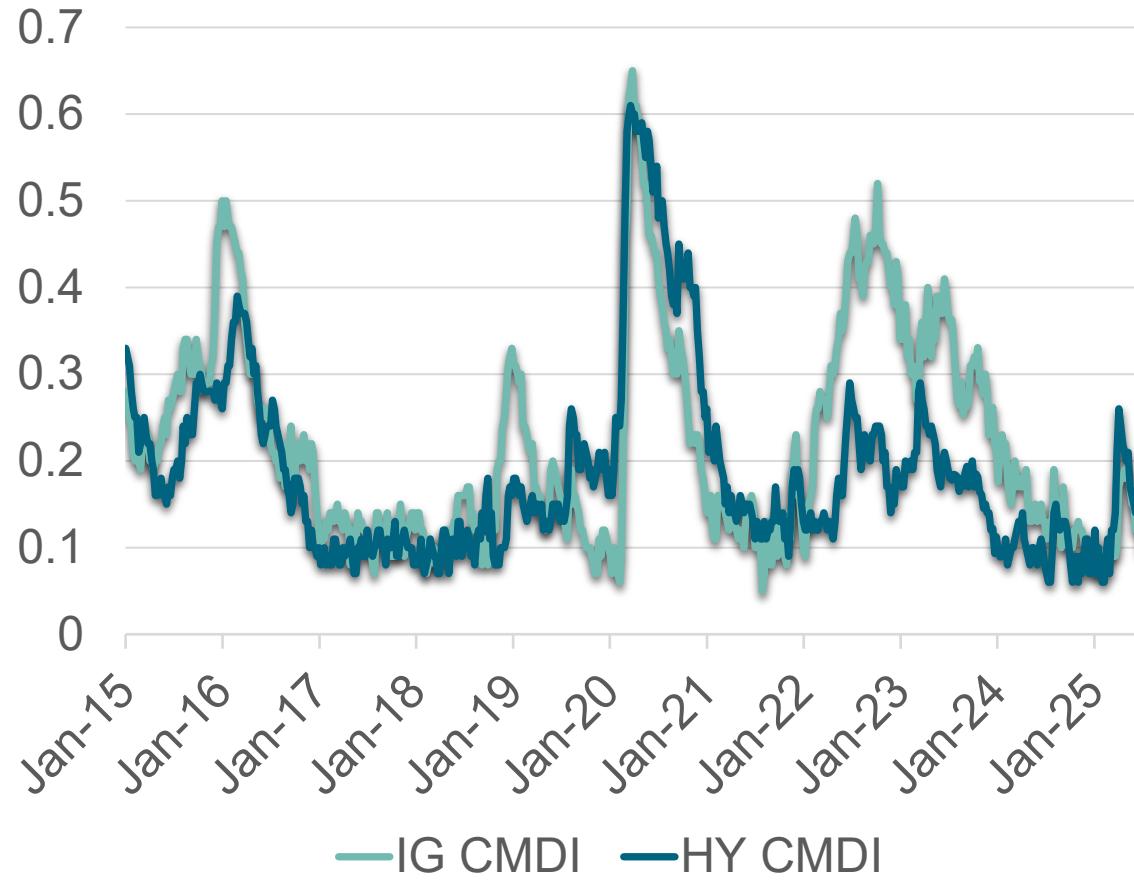
Banking DQ Rates	Q1-19 (%)	Q1-24 (%)	Q1-25 (%)
Total	1.55	1.44	1.56
Real Estate Loans	1.76	1.47	1.71
Residential	2.70	1.73	1.80
Commercial	0.72	1.25	1.62
Consumer Loans	2.28	2.64	2.73
Credit Cards	2.59	3.23	3.10
Other	1.98	2.04	2.28
C&I Loans	1.17	1.13	1.31

Commercial Bank Loan Delinquency Rate

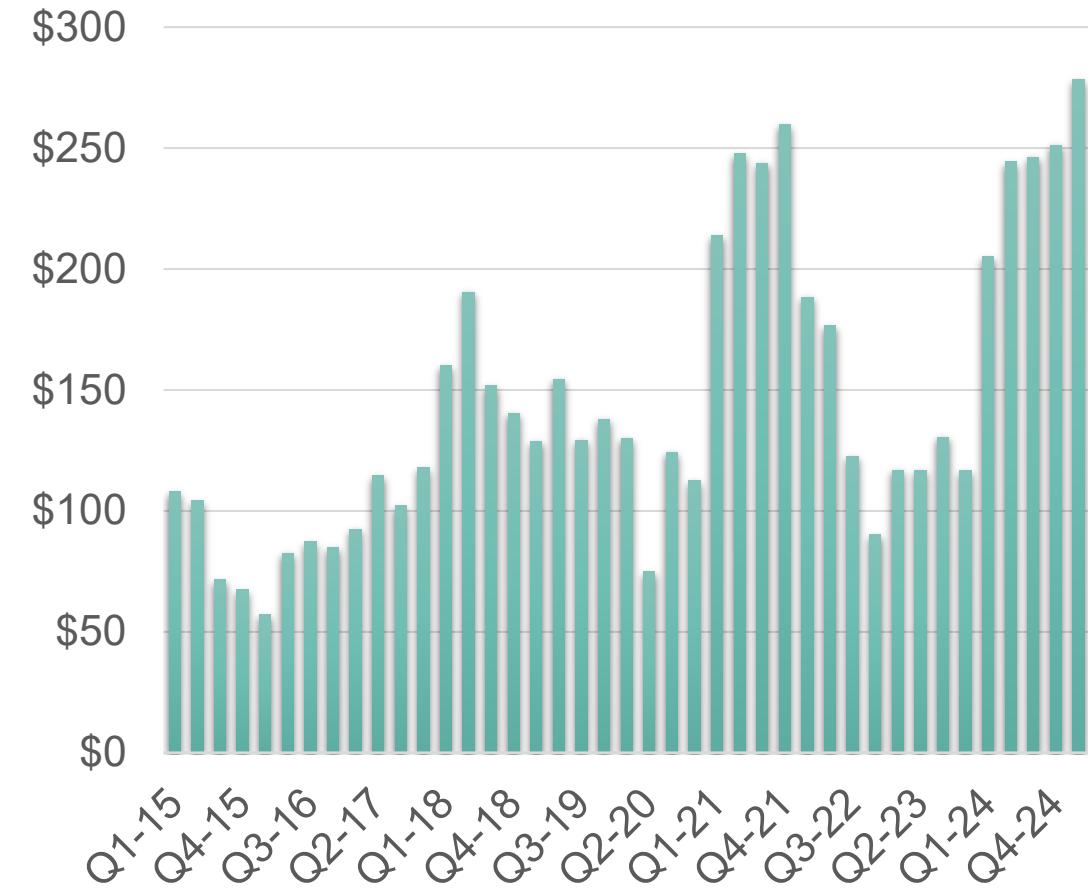


New York Fed Corp Bond Distress

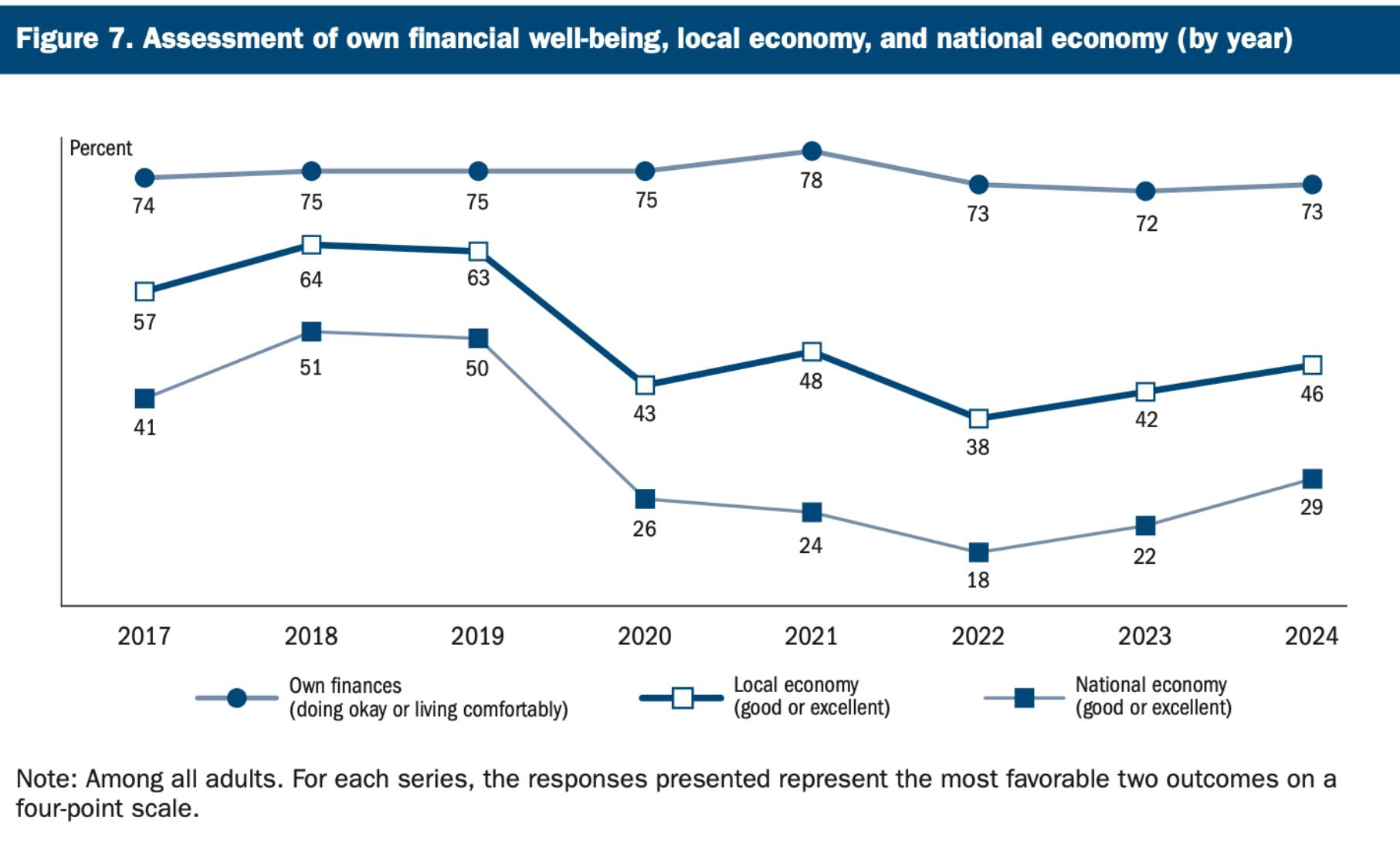
New York Fed Corp Bond Distress



Total ABS Deal (\$ Bil.)



The national mood?



Labor Market Earnings Trends



Earnings by Gender / Education

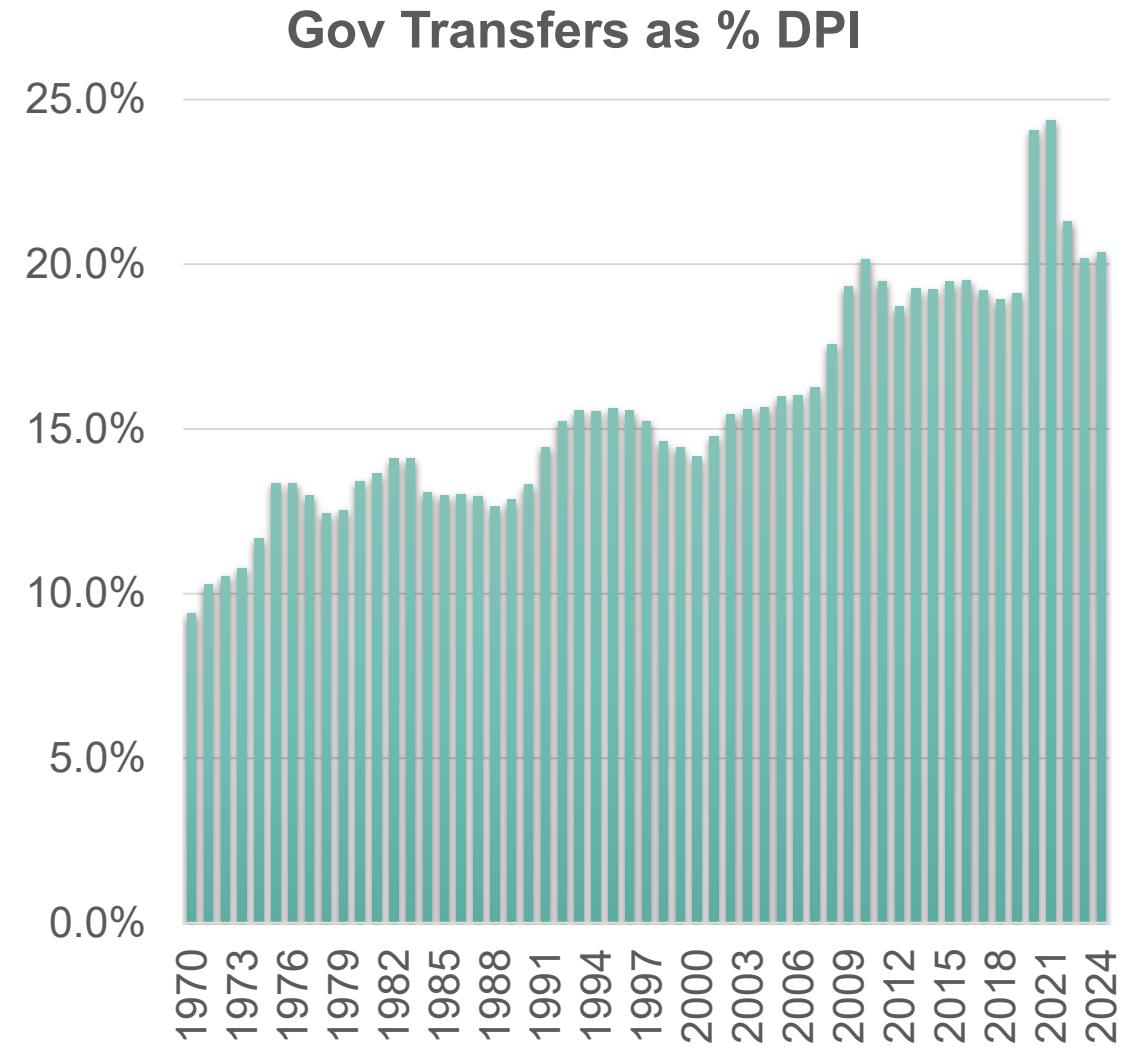
	Males		Females	
	2024 Earnings	Gr 19-24	2024 Earnings	Gr 19-24
All Adults	\$61,262	22.5%	\$46,391	29.8%
< High School	\$37,779	23.0%	\$25,898	29.2%
High School	\$47,079	21.0%	\$32,318	25.1%
Some College	\$57,313	23.0%	\$40,492	28.0%
Bachelor's	\$82,617	19.4%	\$60,287	25.9%
Graduate	\$107,498	14.4%	\$77,319	21.0%



Only gains for the Gilded Class?

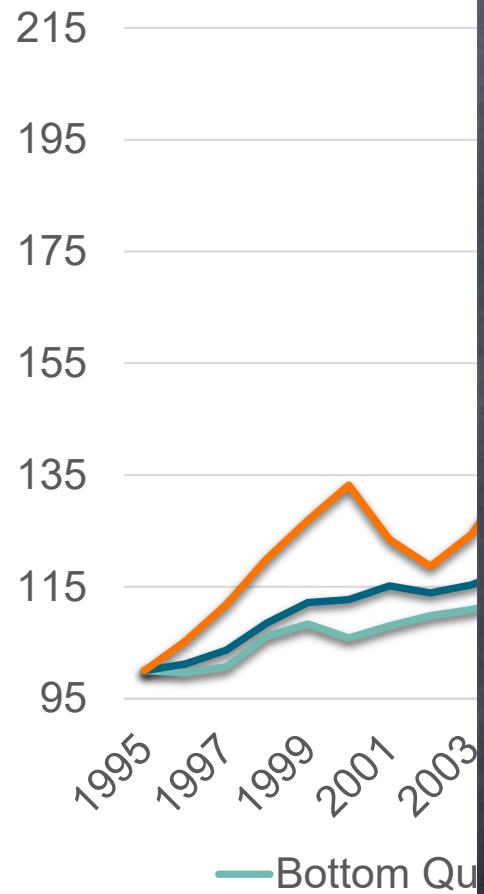
Average Gross Income by Quintile

	2024 Median Gross Income	Real Growth 14-24	Real Growth 04-14
Lowest	\$18,460	22.8%	-7.1%
Second	\$49,380	23.4%	-3.3%
Middle	\$84,390	21.3%	-0.8%
Fourth	\$136,800	21.1%	2.3%
Highest	\$316,100	26.5%	4.5%
Top 5%	\$560,000	30.9%	2.7%



Transfers and Taxes

Index of Real Incomes by Quintile after taxes paid



Estimates of the Share of US Residents



"Give a man a fish and you feed him for a day. Teach a man to fish and you feed him for a lifetime."

- Chinese Proverb



What about Gen Z's income & wealth?

Real Median Income

FORTUNE

Suzy Weis
because
they 'had

Dave Smith

Fri, September 19, 2014

5 min read

1975
\$25,000
\$20,000
\$15,000
Bab
sym
cur
hat

"Give a man a fish and you feed him for a day. Teach a man to fish and you'll lose your non-profit's funding grant."

- Chinese Proverb

Less than 55 55-64

Home Ownership Rates

100%

80%

60%

40%

20%

0%



people should
of Gen Z's
-instead of



Slowing Labor Market?

Monthly Change Payrolls



ECONOMY

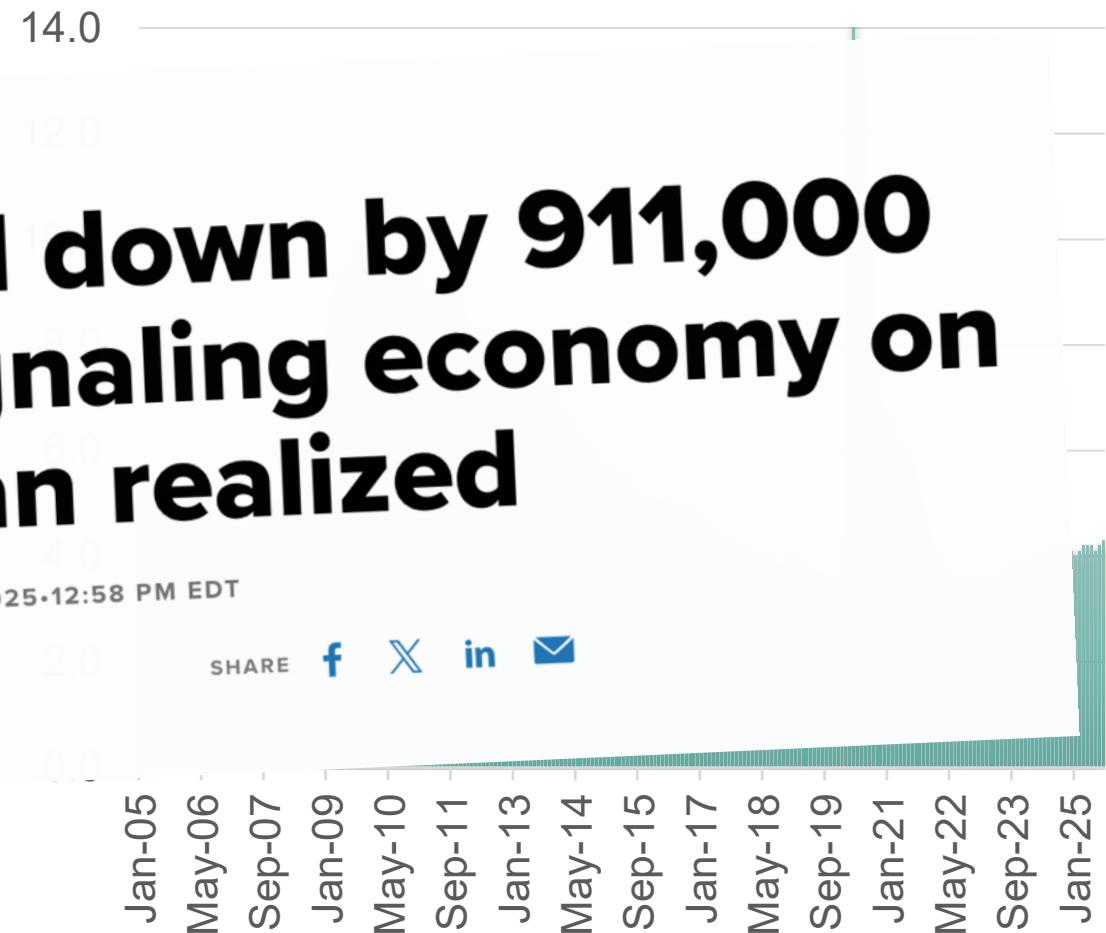
Job growth revised down by 911,000 through March, signaling economy on shakier footing than realized

PUBLISHED TUE, SEP 9 2025 10:00 AM EDT | UPDATED TUE, SEP 9 2025 12:58 PM EDT



Jeff Cox
@JEFF.COX.7528
@JEFFCOXCNBCCOM

US Unemployment Rate

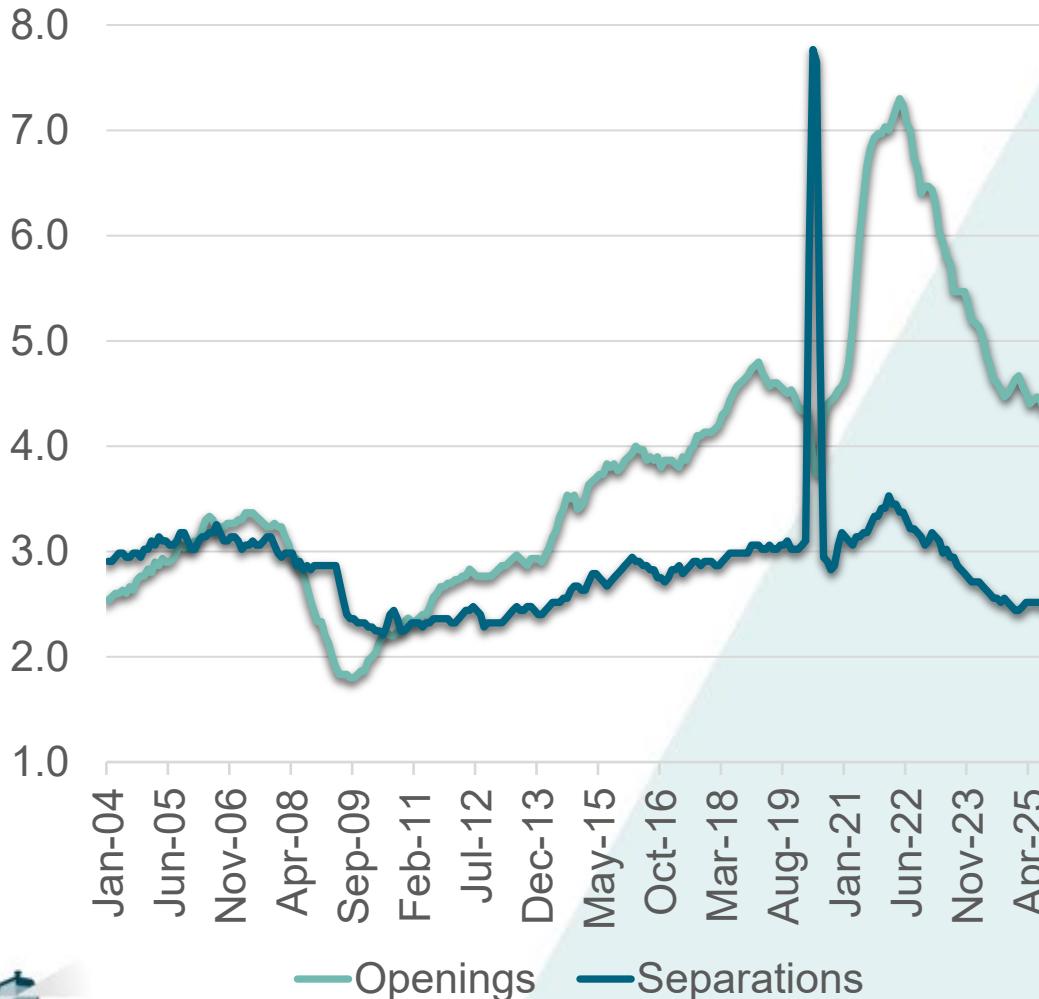


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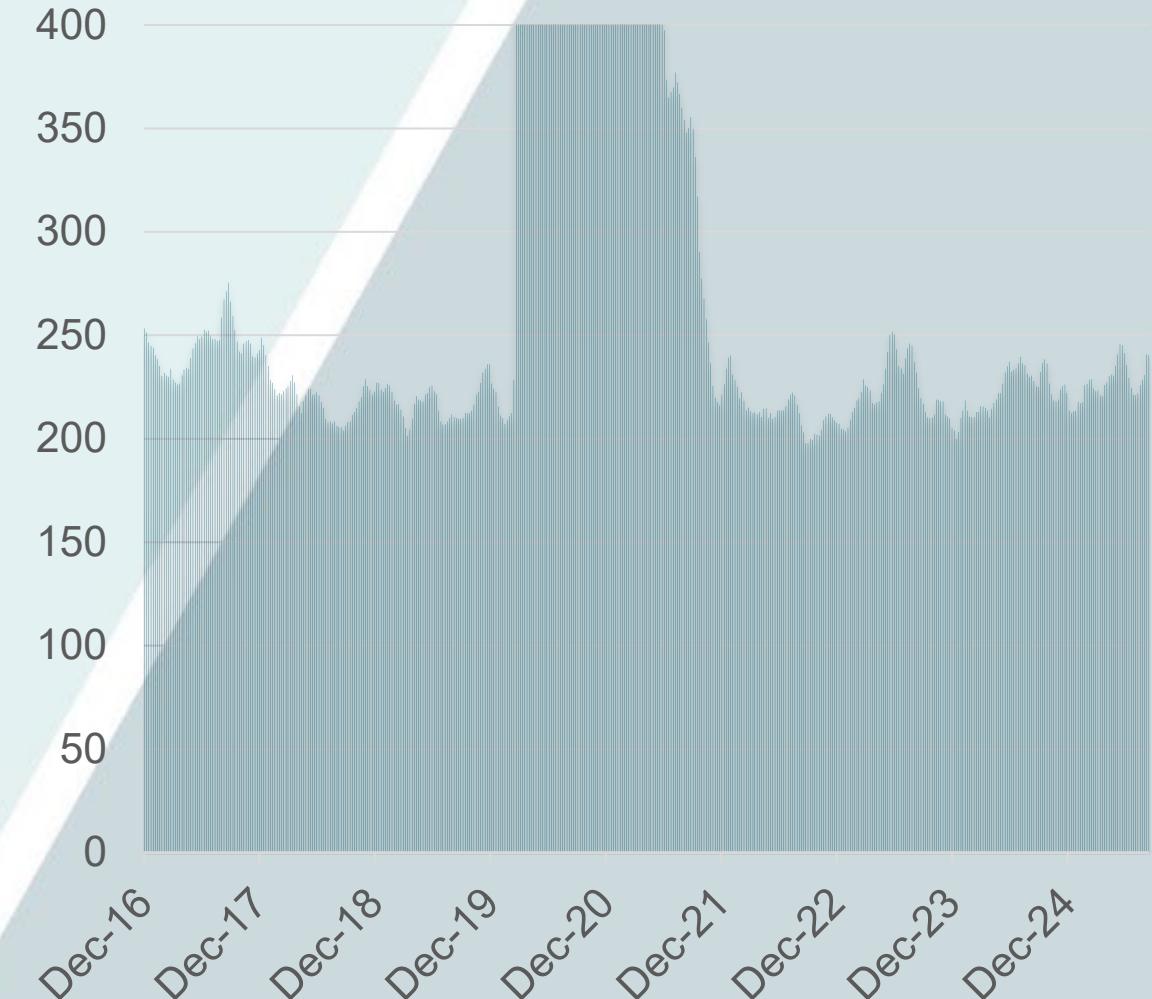


Cooling, not collapsing...

Job Openings and Separations Rate



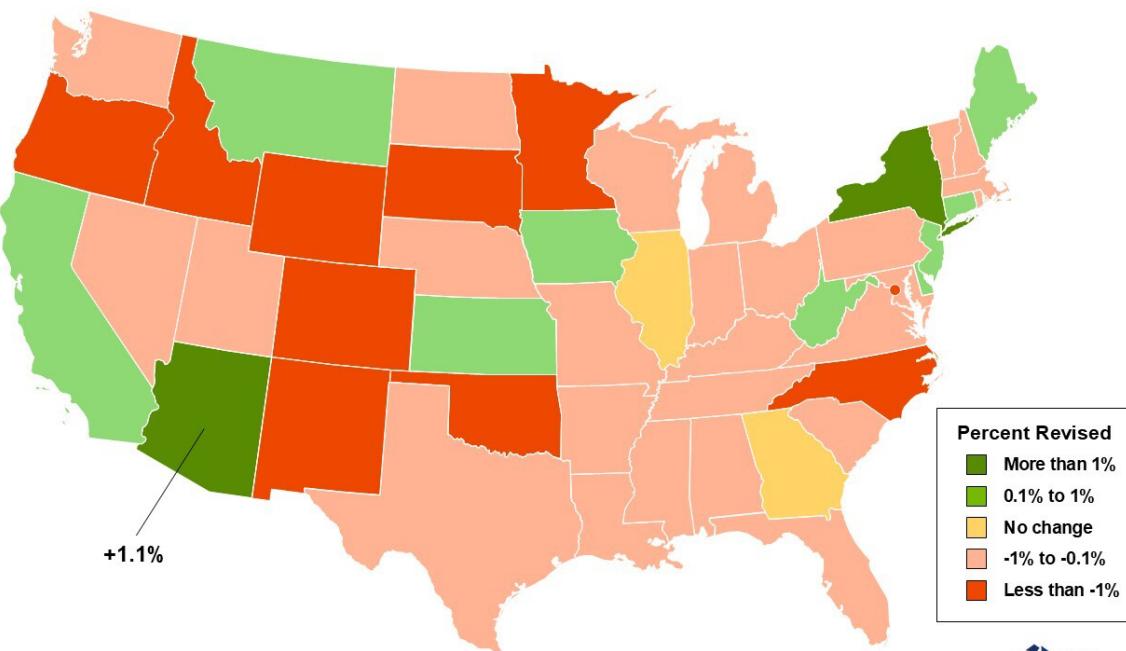
Initial Claims for Unemployment Ins.



Job Openings Rate

Copper State's payrolls saw nation's largest upward revision

Preliminary revision to total employment for March 2025

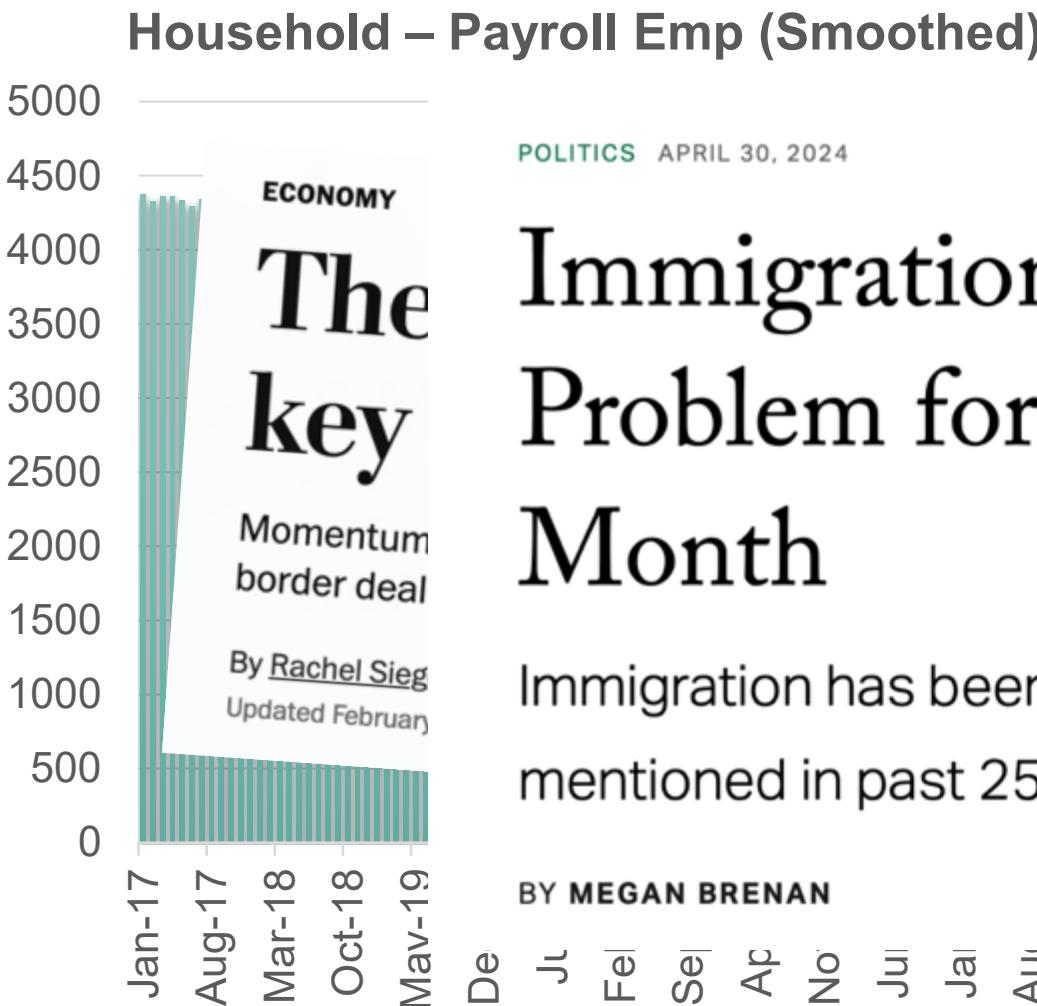


Source: CoStar, Bureau of Labor Statistics, September 2025

Note: Preliminary benchmark revisions to total nonfarm employment for March 2025, not seasonally adjusted; No change represents revisions of less than +/- 0.05%

Location	Jul-25 Job Openings Rate (%)	1-Year Chg. (pp)	6-Year Chg. (pp)
United States	4.5	-0.2	-0.1
Georgia	5.2	0.3	-0.3
North Carolina	4.8	-0.3	0.1
Arizona	4.5	-0.5	-0.3
Illinois	4.2	-0.7	0.1
Ohio	4.2	-0.6	0.1
New York	4.1	0.1	-0.1
Pennsylvania	4.0	-0.5	-0.6
California	4.0	0.5	-0.5
Washington	3.8	0.0	0.2
Florida	3.7	-1.0	-0.7
Texas	3.7	-0.2	0.3

The Immigration X Factor



US Net Immigration (CBO Estimates)

Immigration Named Top U.S. Problem for Third Straight Month

Immigration has been the most politically polarizing issue mentioned in past 25 years

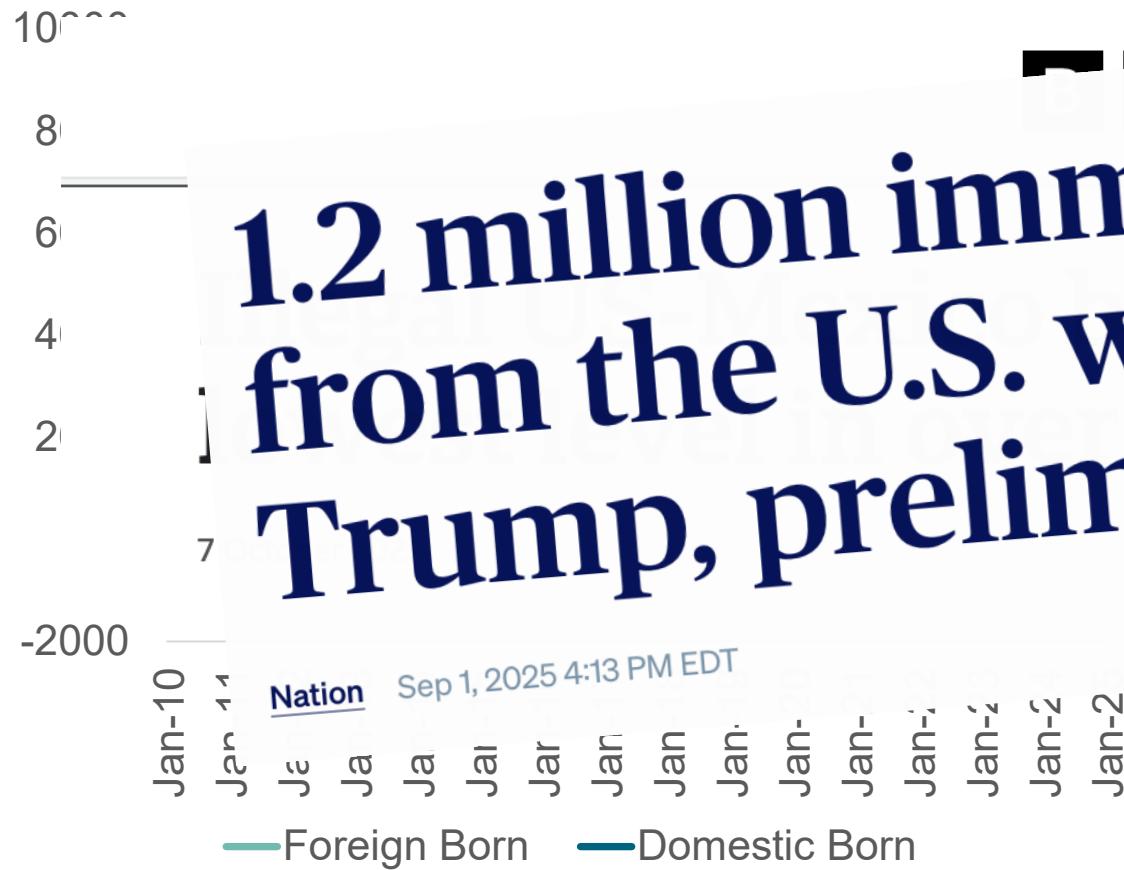
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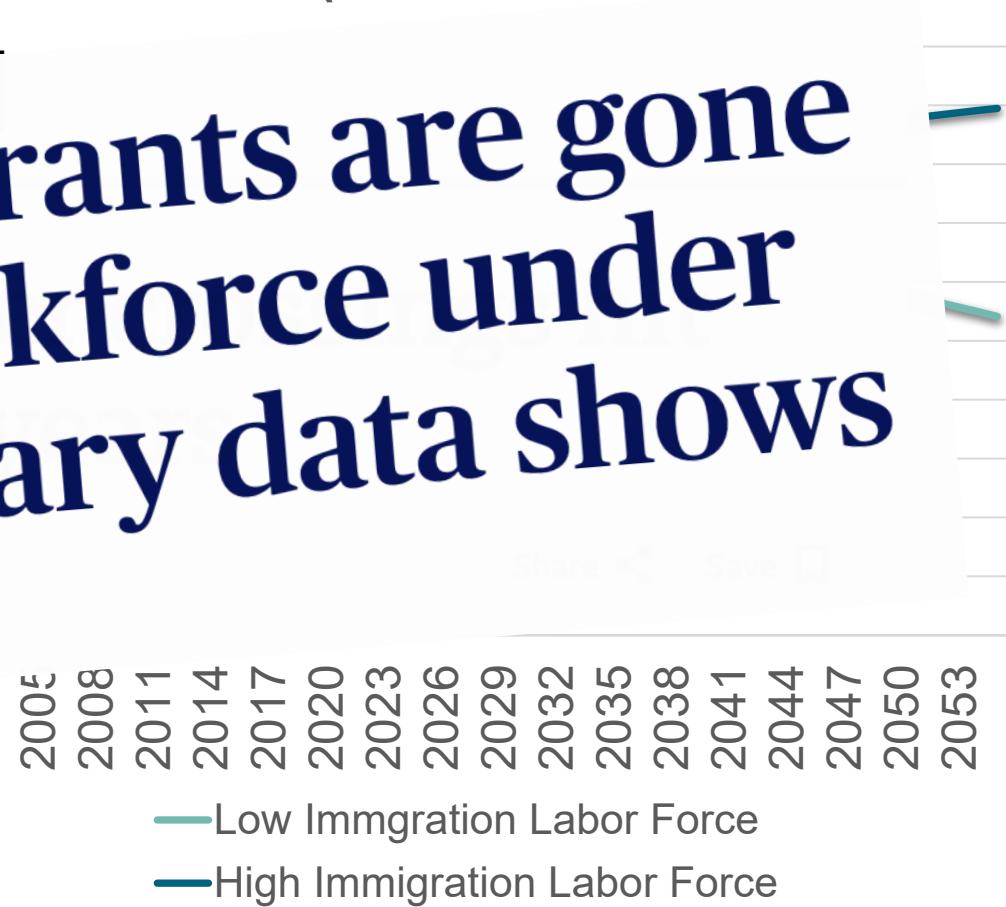
2023 2024 2025

Migration and the US Labor Force

US Labor Force Growth by Nativity
(000s)



Immigration and Labor Force
Levels (Millions workers)

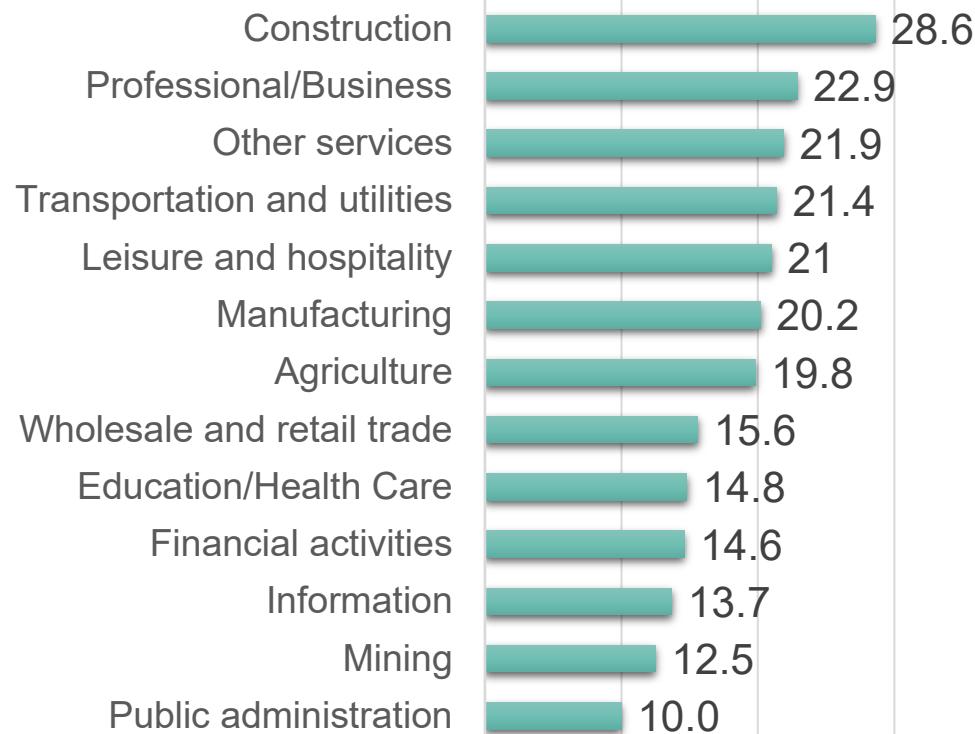


1.2 million immigrants are gone
from the U.S. workforce under
Trump, preliminary data shows

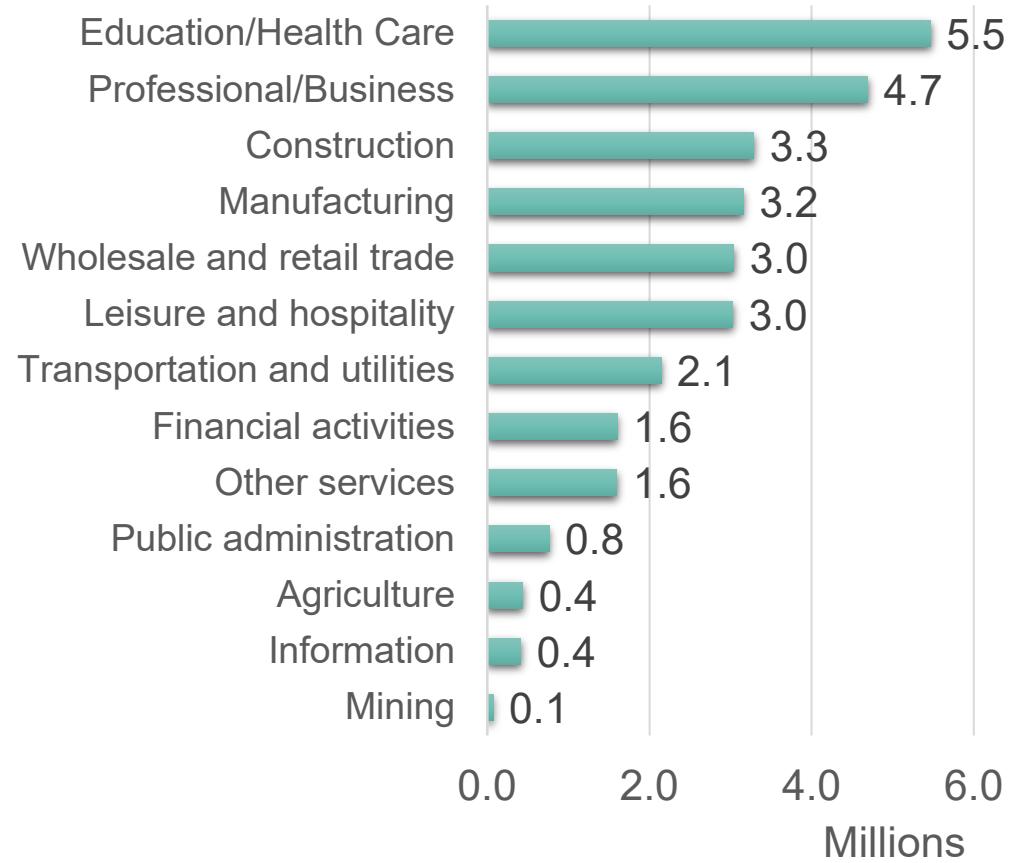


Foreign Born Workers

Share of Industry that is Foreign-Born



Foreign-Born Workers by Industry



Artificial Intelligence



■ Generative AI ■ Other AI



Source: CB Insights

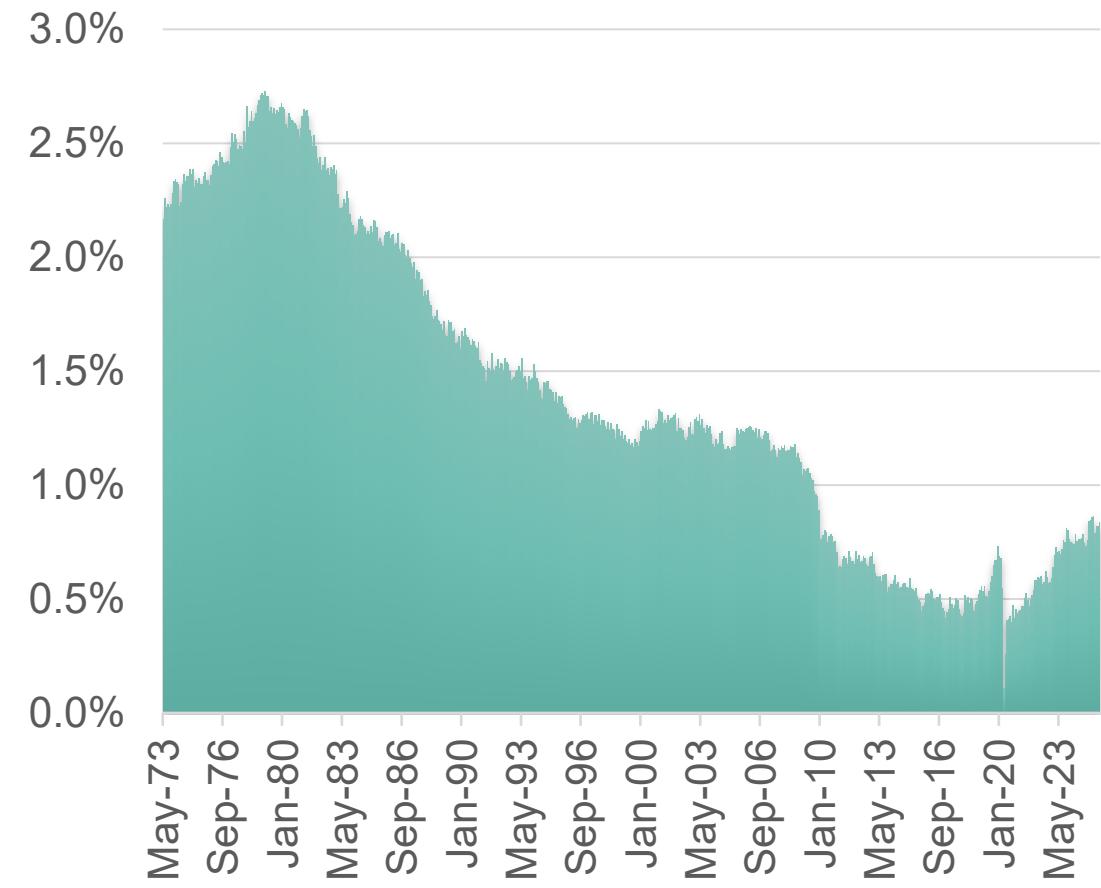


The Longer Run Effect?

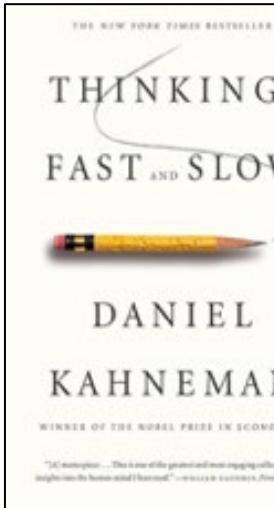
Long Run (10 Yr) Worker Productivity Growth



US Long Run Labor Force Growth (10 Year)

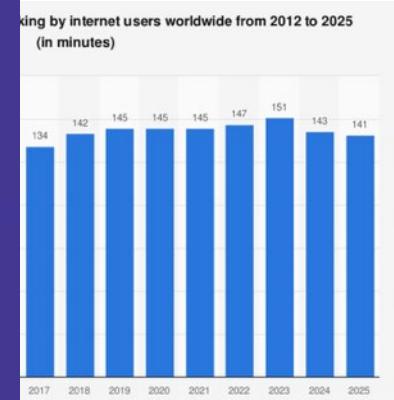
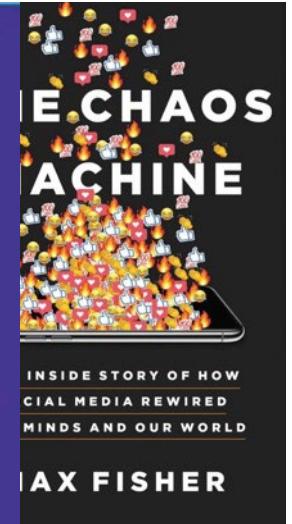


How do narratives go astray?

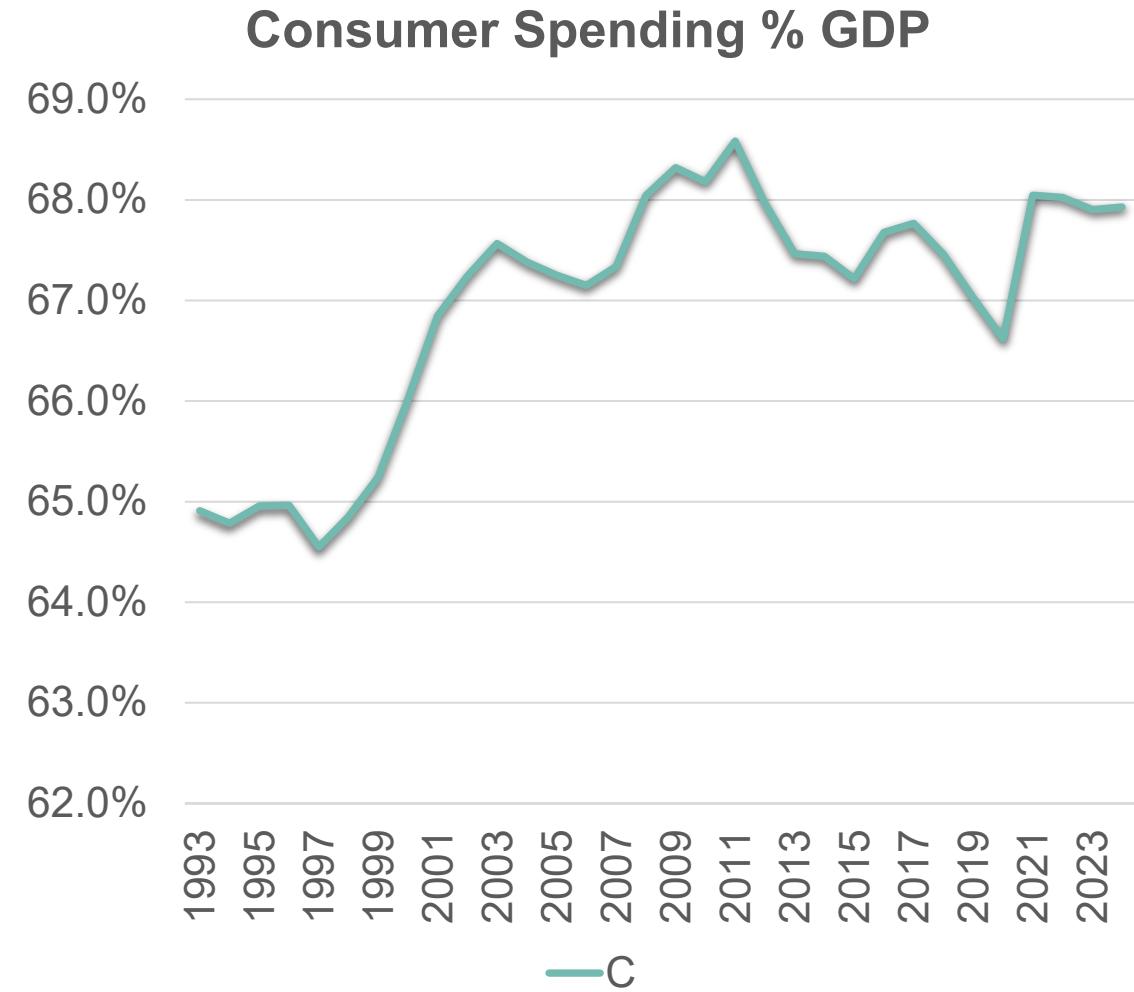
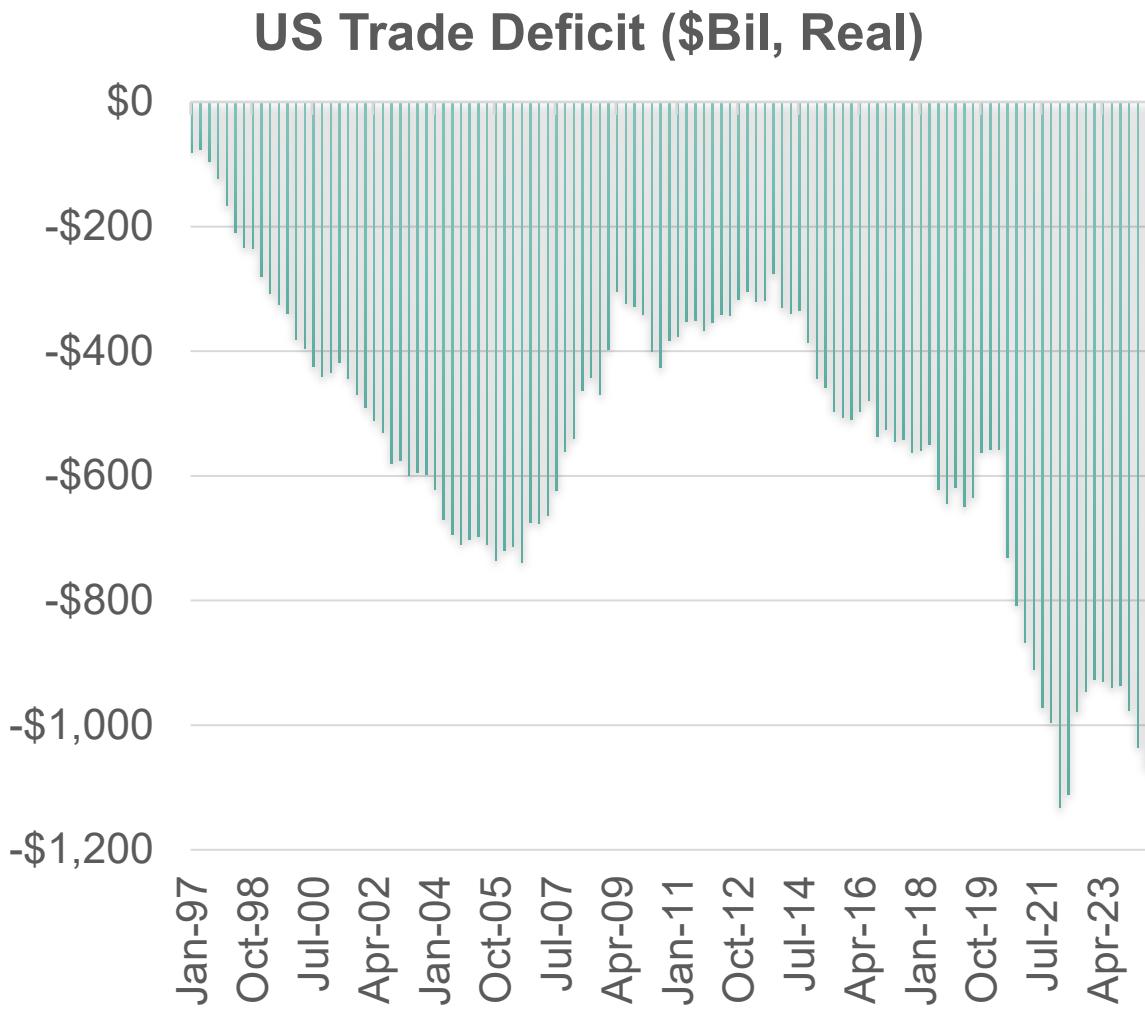


Type	1	2
Style	Emotional	Didactic
Rules	Heuristics	Rules
Speed	Fast	Slow
Energy	Low	High

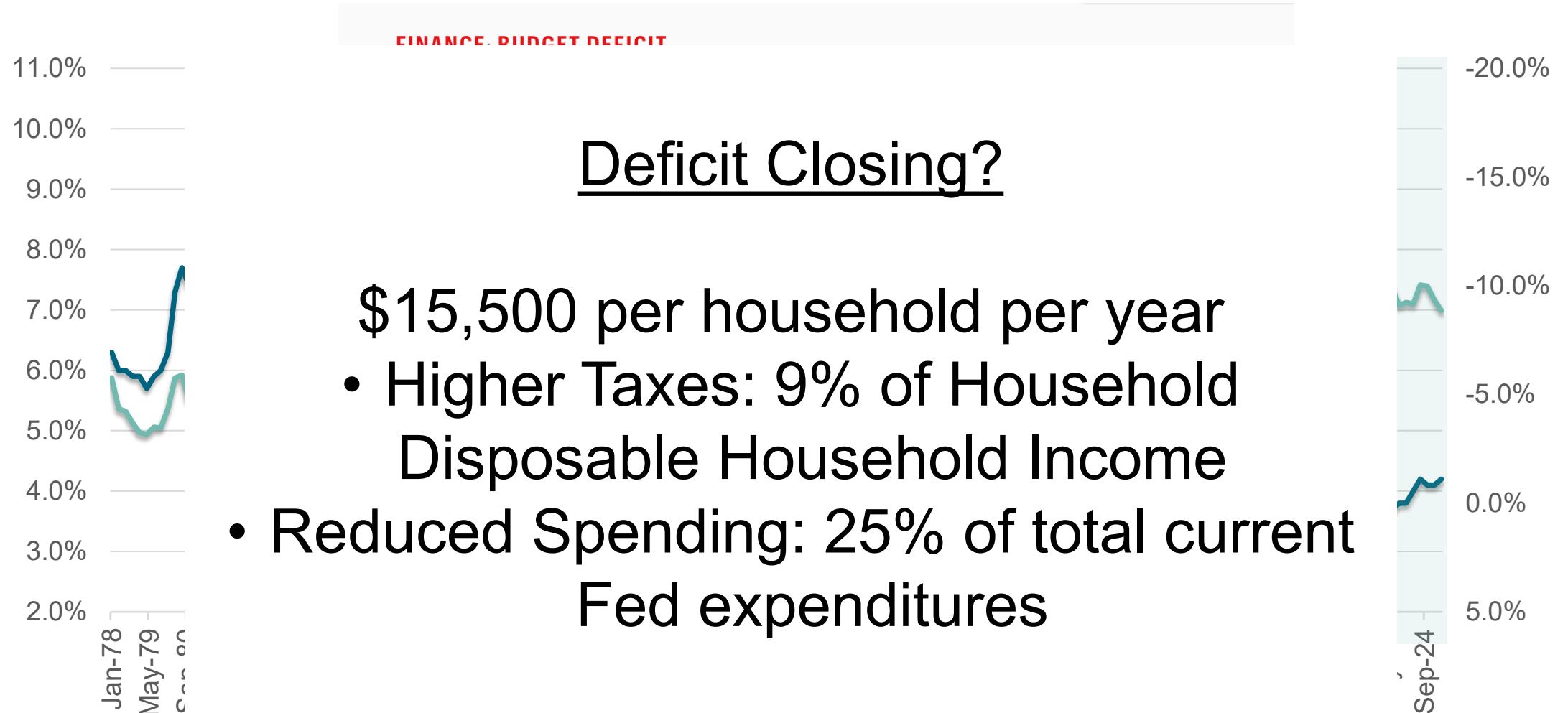
We don't think as much as we think we think.



An Over-Consumption Problem...

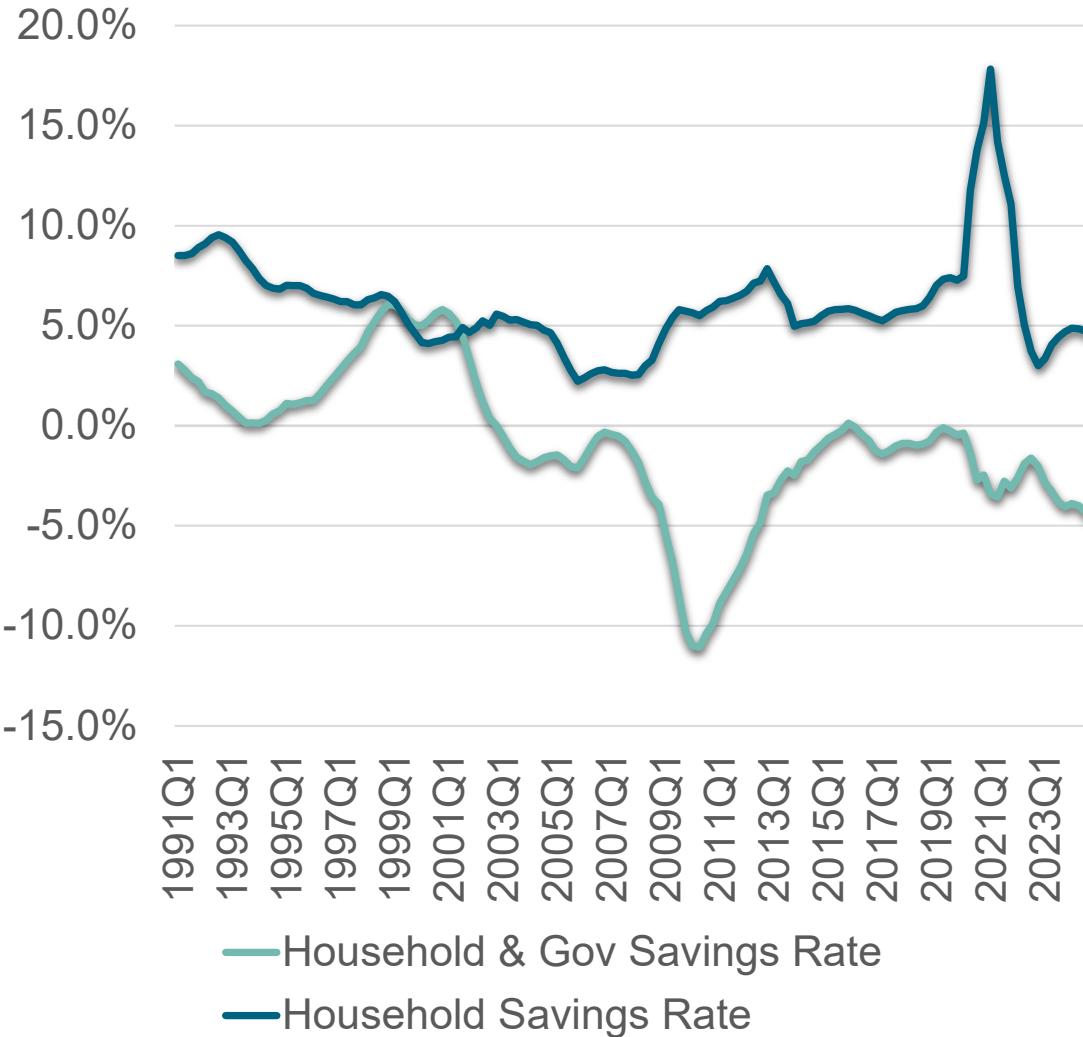


Keynesianism Breaks Down...

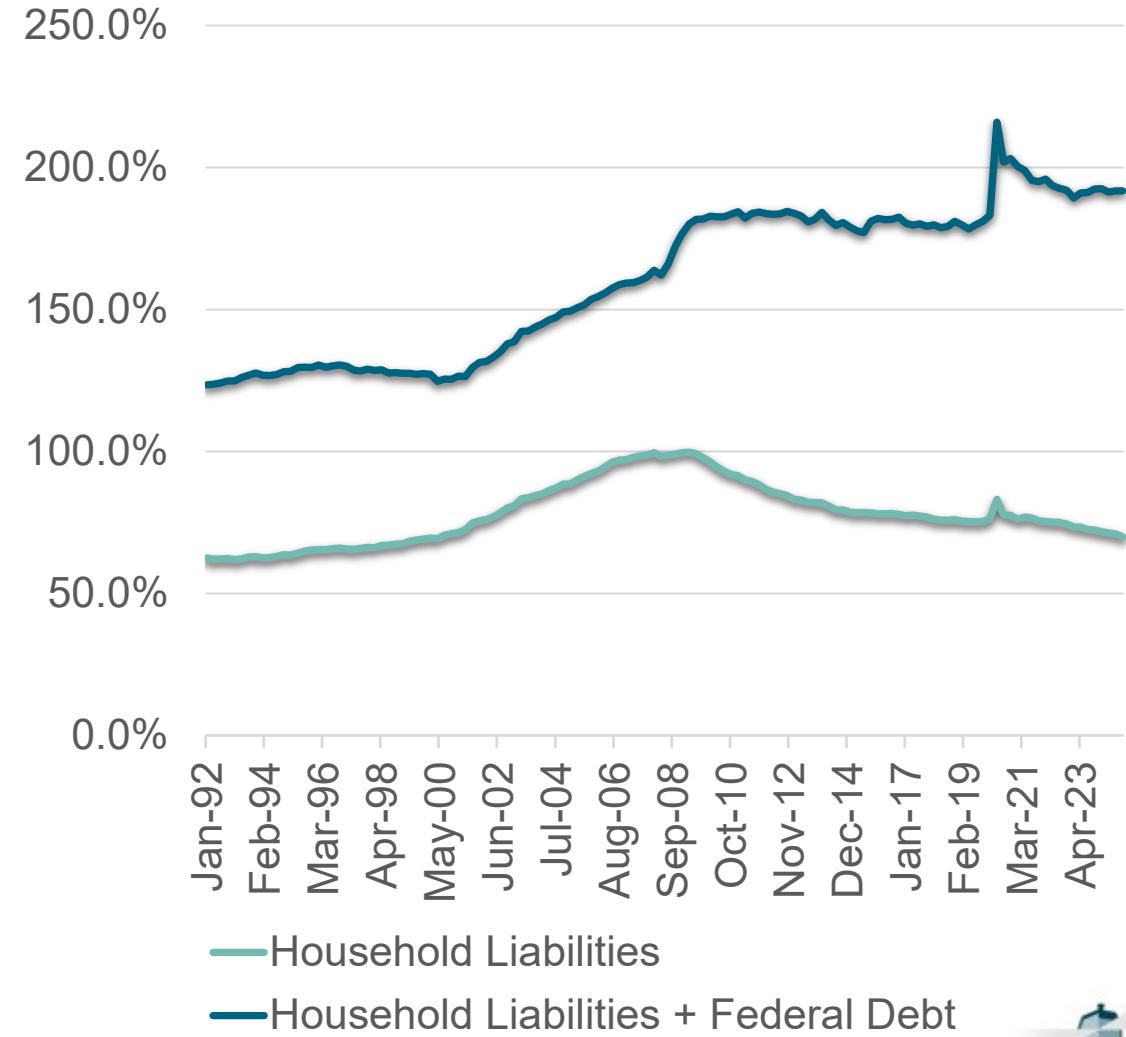


The Wealth / Income Mirage

Household Savings as % of DPI



Household Debt as % of GDP



Who is Paying the Bills?

Financial Inflows - Financial Outflows
as % GDP (4 Quarter MA)

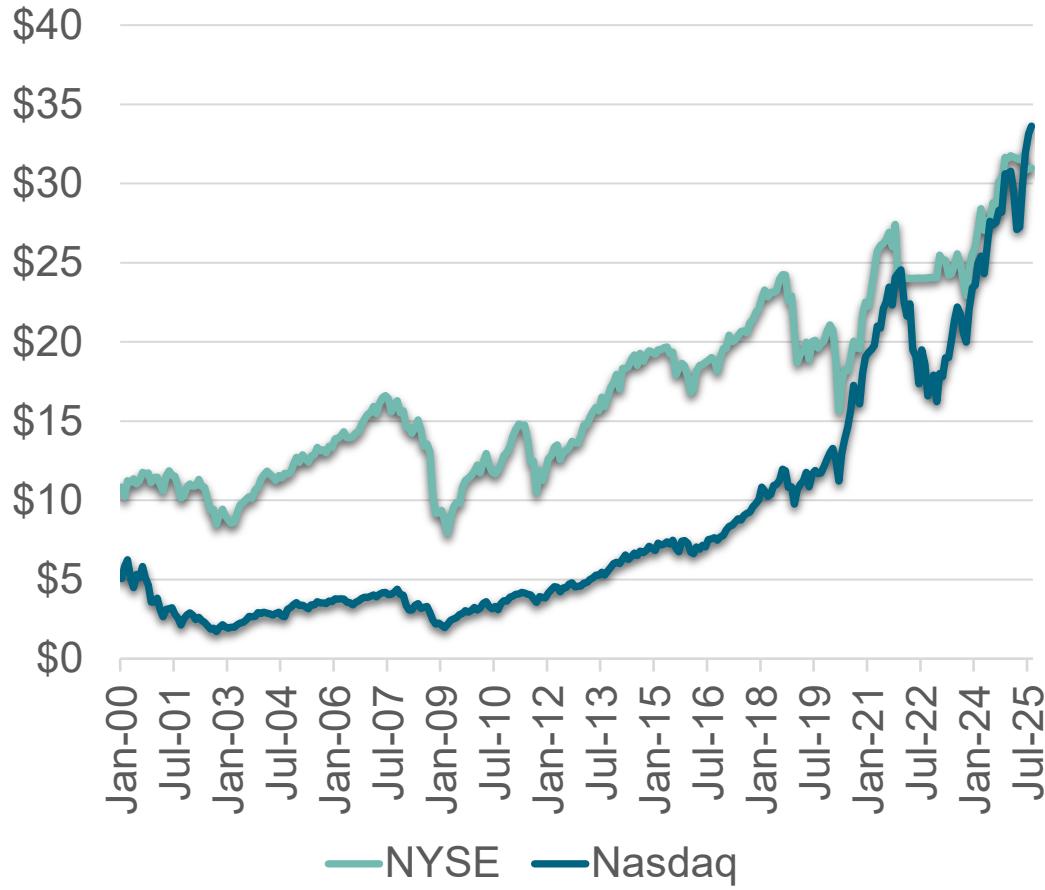


Real Value \$US (Index)



US Equity Market Dominance

U.S. Market Cap



US Share of Global Capitalization



The Recent Reactions to Turbulence

S&P 500 Daily Close



10 Year Treasure Rate



Dollar Index



How does it break?

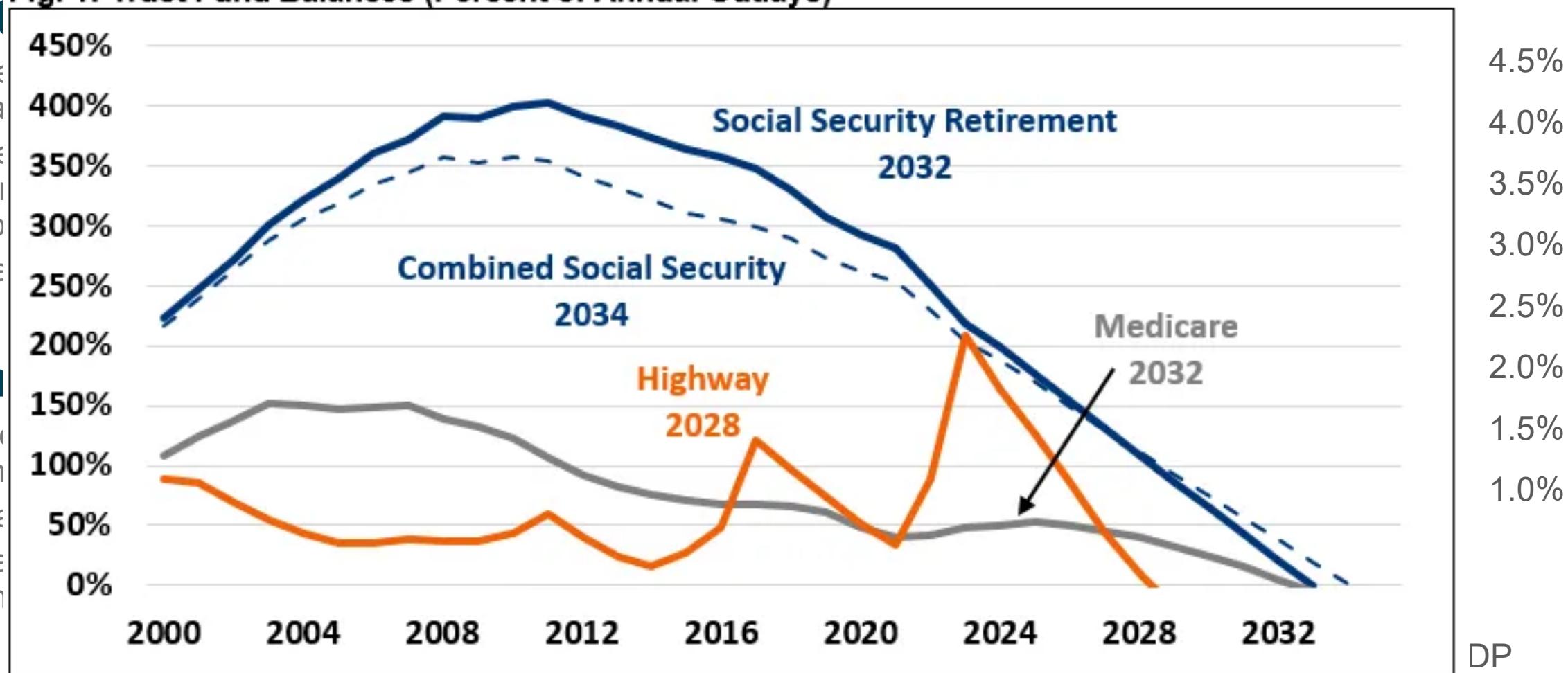
Fig. 1: Trust Fund Balances (Percent of Annual Outlays)

Rate

- Decreasing
- Reversing
- Stabilizing
- Falling

Why

- Increasing
- Continuing
- Continuing
- Falling



Sources: Congressional Budget Office, Social Security Trustees, Medicare Trustees, Social Security Administration, Office of the Chief Actuary, Committee for a Responsible Federal Budget.



The Narrative / Reality Gap

	Q4 12	Q4 16	Q4 20	Q4 24
Obama	Trump	Biden	Trump	
Real GDP Growth YoY Gr	1.6%	2.2%	-1.0%	2.5%
Unemployment Rate	7.8%	4.8%	6.8%	4.1%
Real Per Capita DPI	\$42,342	\$43,846	\$49,476	\$51,637
Household Debt (% GDP)	84.5%	77.9%	77.5%	70.0%
Household Net Worth (% GDP)	413.9%	469.3%	562.3%	539.5%
UM: Consumer Sentiment	79.4	93.1	79.8	72.1
Federal Deficit % GDP	-6.5%	-3.1%	-16.2%	-6.9%
Federal Debt: % GDP	100.1%	104.6%	125.7%	121.9%
Current Account (% GDP)	-2.3%	-2.0%	-3.3%	-4.0%
Net Int Investment (% GDP)	-27.8%	-43.3%	-66.7%	-88.3%
\$Dollar (Broad Real)	87.9	108.0	105.7	119.5
Shiller P/E Ratio	21.24	27.08	32.51	37.22



Growing Risks

Still Economic Momentum

- Consumer finances / spending remains solid
- Credit constraints lifting, rate shock passing
- OBBB Extends deficit spending

US Capital inflow Dependence

- US economy is overheated, driven by deficits and bubbles
- Important #s: The \$US, HH Savings, 10 Year Bond
- Recession starts when / if turbulence hits household finances

The Real Issue?

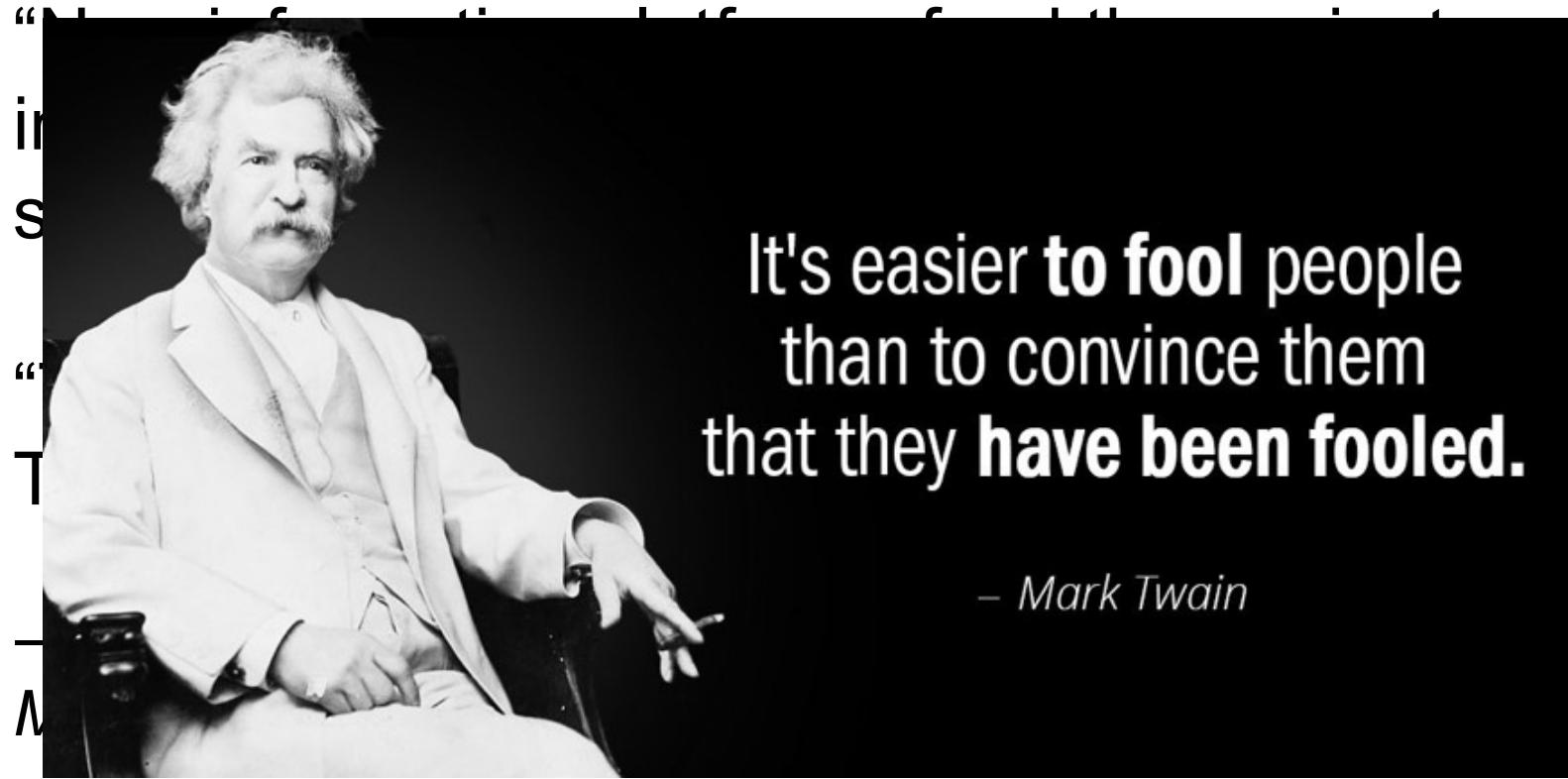
- The narrative is running amuck
- Political chaos in its wake leaving US policy rudderless

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**Or contact:
Kristen@beaconecon.com**

Welcome to the Age of Confirmation Bias!



**It's easier to fool people
than to convince them
that they have been fooled.**

– Mark Twain

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