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> **The Transition to Trump 2.0 for the Tampa Bay Economy**

Should Monetary Policy Respond to Supply Shocks?

By Vivekanand Jayakumar, Ph.D.



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Since 2020, both the frequency and the prominence of supply shocks hitting the U.S. and the global economy have increased. Notably, the shocks have been larger, more global, and more overlapping than those observed during the prior four decades. The latest round of supply shocks – associated with the Iran war – has put major global central banks in a tough predicament as the combination of rising prices and slowing economic growth forces monetary authorities to consider awkward but unavoidable trade-offs.

Shocks to the supply-side of the economy can broadly be classified into two broad types. Positive or beneficial supply shocks occur when there is an improvement in the efficiency or capacity of the economy to produce goods and services. This could be due to technological advancements, innovations, a larger or more skilled workforce, or enhanced infrastructure. Such favorable supply-side shocks can increase an economy's potential output and ease inflationary pressures. When positive supply shocks are the primary drivers of economic activity, maintaining both full employment and price stability becomes a relatively straightforward task for central bankers.

At present, however, the limelight is on negative or adverse supply shocks (hereafter referred to simply as supply shocks) and the complications they create for monetary policymakers. Supply shocks are sudden disruptions that affect the ability of an economy to produce goods and services. They either increase the cost of production or directly limit how much can be produced. Supply disruptions can arise from geopolitical events such as conflicts, trade restrictions, or sanctions that interrupt supply chains or limit access to essential

resources, as well as from natural disasters like hurricanes, earthquakes, or droughts that damage infrastructure or reduce resource availability. They may also result from policy changes, including new taxes, regulations, or tariffs that increase production costs or constrain output.

When the economy is hit by a supply shock, output and inflation usually move in opposite directions. In contrast, demand shocks – changes in how willing or able households, businesses, and governments are to spend – tend to push output and inflation in the same direction. Central banks, tasked with keeping prices (and output) stable, lack policy instruments that can directly counter supply shocks; their policy tools are designed mainly to influence aggregate demand. In addition, supply disruptions are often seen as short-lived – such as a temporary surge in oil prices. As a result, monetary authorities have in the past generally chosen to look past these shocks.¹

Raising domestic interest rates will not directly address the root cause of supply shortfalls, such as reduced global oil and natural gas supply and disruptions at key shipping chokepoints. However, it might help stabilize inflation expectations and preserve the credibility of central banks. Monetary tightening does carry some risks, including a potential reduction in overall demand and additional hardship for the most vulnerable groups. Conversely, cutting rates might support aggregate demand but could exacerbate inflationary pressures and increase inflation expectations.

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Tom Barkin, the president of Federal Reserve Bank of Richmond, recently observed ²: “Conventional central bank wisdom says the Fed should look past supply shocks. After all, they typically cause only temporary increases in prices, not sustained elevated inflation. ... Raising rates to weaken demand doesn’t address the root cause behind supply shock-driven inflation. It doesn’t free up trade routes, reopen factories or melt ice. You wouldn’t want to address a bird flu-driven egg shortage by slowing demand across the economy.”

However, recent events have shown that supply-side conditions may shift quickly and often, playing a much more significant role in affecting inflation dynamics than was once assumed. Using monthly data from the 1999 to 2022 period, a recent empirical study examined how global geopolitical risks and global supply chain disruptions influenced global inflation using four inflation indicators: headline, core, food, and energy inflation³. The analysis found that supply chain disruptions were the dominant source of inflationary pressures, accounting for approximately 32% of fluctuations in headline inflation, 30% in core inflation, 22% in food inflation, and 20% in energy inflation. By contrast, oil price shocks significantly affected headline, food, and energy inflation but had little explanatory power for core inflation. Policy rate shocks primarily influenced headline and core inflation, while geopolitical risks contributed only marginally to variations across all inflation measures.

Assessing whether the recent surge in energy prices and the latest global supply chain disruptions (associated with the Iran war and the closure of the Strait of Hormuz) will lead to broader and more persistent inflationary pressures calls for close monitoring of early indications of indirect and secondary effects⁴.

Typically, following an energy shock, direct first-round effects are usually rapid and automatic for

transport fuels, whereas the transmission to electricity and household heating prices may occur more gradually. Indirect first-round effects develop over time as increased energy and transport expenses move through supply chains and raise the prices of non-energy goods and services. Overall, these first-round effects mainly raise the general price level and tend to have only a temporary impact on inflation (see **Figure 1**).

Second-round effects, however, emerge when the initial inflation shock begins to influence wage negotiations, firms’ pricing and profit-margin strategies, and inflation expectations, thereby making inflation more widespread and persistent. These effects are also shaped by strategic factors such as firms’ market-share goals, medium-term profitability targets, and workers’ bargaining power in the labor market.

The strategy of looking through supply shocks may be wise if long-term inflation expectations are well-anchored. Expectations about future inflation play a key role in shaping actual inflation, influencing how workers bargain for wages and how firms determine prices. When inflation expectations are well-anchored, households and businesses recognize that a temporary spike in inflation is unlikely to translate into persistently

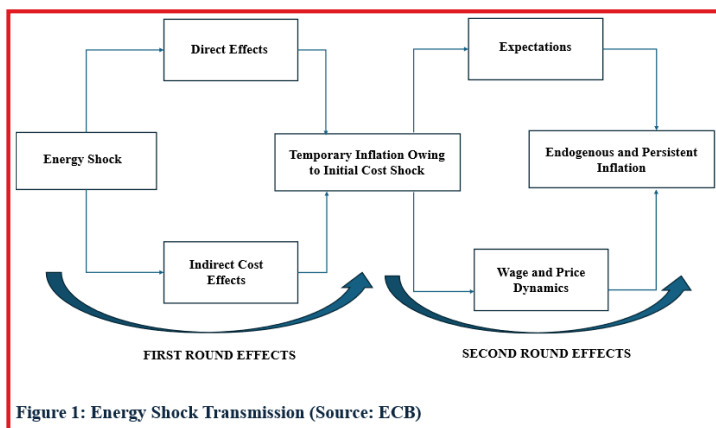
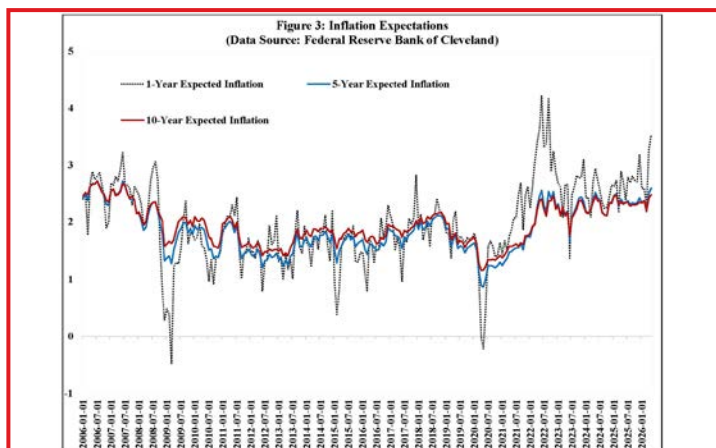
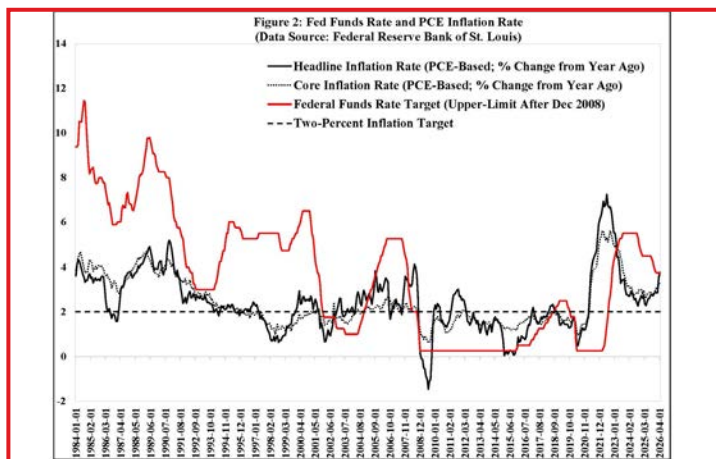
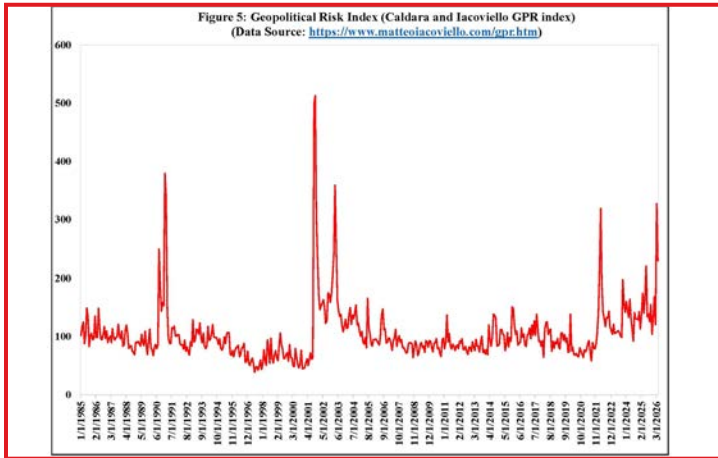
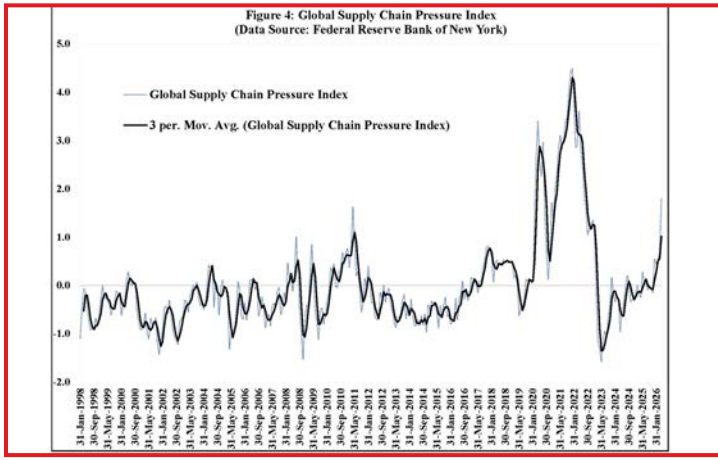


Figure 1: Energy Shock Transmission (Source: ECB)



high inflation over the longer term. As a result, workers are less likely to demand excessively large wage increases, since they do not expect sharp rises in rents, food prices, and other living costs to continue indefinitely. In this way, expectations remain stable and do not themselves contribute to further inflationary pressures.



persistent bottlenecks during the 2021-2023 period (see **Figure 4**).

Heightened geopolitical tensions (see **Figure 5**) have also emerged as a significant source of supply-side disturbances. The Russian invasion of Ukraine in early 2022 disrupted energy and commodity markets, triggering a new wave of global supply shocks. Conflicts in the Middle East created supply-side disturbances during the 2023-2026 period. Attacks on commercial vessels by Yemeni Houthis, following the start of the Gaza conflict in late 2023, caused shipping bottlenecks in the Red Sea and impacted trade flows and logistics. The 2026 Iran war not only strangled

from stimulus checks and expanded unemployment benefits boosted demand for goods and services. At the same time, supply chain disruptions and production bottlenecks limited availability, leading to shortages and rising prices that contributed to the 2022-23 inflation surge. In essence, as fiscal measures overlapped with global supply and labor market disruptions, both demand-pull inflation (driven by stronger demand) and cost-push inflation (caused by constrained supply) were magnified.

As the economy rebounded rapidly, it soon raised concerns about overheating and generated calls for a rapid tightening of monetary policy. Somewhat belatedly, the Federal Reserve (hereafter the Fed) raised interest rates 11 times in a row between March 2022 and July 2023, increasing the federal funds rate target from near zero (0.00-0.25%) to 5.25-5.50%.

As inflationary fears eased somewhat and as focus shifted towards a potential loss of economic momentum, the Fed reduced policy rates three times from September to December 2024. However, price stability concerns were reignited as much higher than anticipated tariff rates were announced by the second Trump administration ("Trump 2.0") in Spring 2025. Fears of a tariff-induced inflation shock limited the Fed's room to maneuver in 2025 and delayed additional rate cuts (rates were ultimately cut three times between September and December of 2025).

Trump administration's tariff policies created significant supply-side disruptions and added to production costs. Tariffs act as import taxes. When the U.S. imposed duties on steel, aluminum, and a wide range of goods from China (like electronics, machinery, and parts), companies relying on those imports saw their costs rise. Businesses then had to choose between absorbing those higher expenses and reducing their profit margins or seeking out new suppliers. Given how tightly linked global supply chains are, many U.S. firms that sourced from China were forced to explore alternatives (such as onshoring, nearshoring, or friendshoring production facilities), which proved to be a time-consuming and costly endeavor.

President Trump's protectionist policies also

There are, however, growing concerns that the increased frequency of supply shocks and the persistent overshooting of actual inflation above the central bank's two-percent target (see **Figure 2**) will cause expectations to become unanchored. **Figure 3** indicates that there has been an increase in inflation expectations in the post-pandemic era over the 1-year, 5-year, and 10-year time horizon.

To gain a deeper understanding of recent inflation trends, it is important to examine the supply-side disruptions that have affected both the U.S. and global economies since 2020. The Covid-19 pandemic shock saw global trade volumes fall sharply, and production disruptions hit numerous sectors due to lockdowns and labor shortages. The recovery from the 2020 pandemic shock was affected by a series of further supply-side disruptions. Shipping congestion, port delays, labor scarcity, and semiconductor shortages created

cargo flowing through the Strait of Hormuz but also directly affected global energy output as oil and natural gas production facilities were targeted and hit across the entire Persian Gulf region.

Recent series of supply-side shocks have boosted inflation and output volatility. Fiscal policy also contributed to the rise of macroeconomic volatility. In response to the Covid-19 pandemic, the American government rolled out large fiscal stimulus packages, which included direct payments to households, enhanced unemployment benefits, and business support through the Paycheck Protection Program (PPP). These measures were aimed at providing immediate relief and stabilizing the economy amid widespread uncertainty.

They were effective in lifting short-term spending and boosting growth, but they also intensified inflationary pressures. Higher disposable income

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triggered a surge in economic and policy uncertainty during the spring and summer of 2025. Furthermore, the administration's emphasis on curtailing migrant flows led to a sharp drop-off in immigration levels. Trade protectionism and labor supply constraints were expected to push the American economy towards a stagflationary trap and potentially create negative spillovers for the entire global economy.

Yet both the U.S. and the global economy exhibited remarkable levels of resiliency in 2025. Economists and market analysts underestimated the flexibility and adaptability of firms, markets, and entire economies. Experience dealing with the 2020 pandemic shock had primed business leaders and supply chain managers to be nimble and resourceful.

The fact that U.S. fiscal policy remained in an expansionary mode also helped cushion the blow. The passage of the One Big Beautiful Bill Act (OBBBA) and the deregulatory measures pursued by the Trump administration provided some short-term stimulus to the economy. Federal budget deficits have consistently exceeded 5% of GDP every fiscal year (FY) since 2020 (see **Figure 6**). The federal budget deficit was around \$1.8 trillion in FY2025 and is expected to reach \$1.9 trillion this fiscal year⁵.

The absence of tariff retaliation from most major trading partners largely prevented further escalation of trade conflicts. President Trump's penchant for quietly backing down after making over-the-top policy threats led markets to incorporate the so-called TACO (Trump Always Chickens Out) trading strategy and avoid overreacting to White House policy pronouncements.

The Artificial Intelligence (AI) boom provided both direct and indirect support to the U.S. economy. AI-related capex spending became the primary investment driver and a key contributor to

overall GDP growth. Equity market gains underpinned by the AI boom also generated a positive wealth effect and helped sustain aggregate consumption, especially among high-income households.

Following the onset of the Iran war in early 2026, a spike in oil prices and fears of a new round of global supply-chain disruptions cast fresh doubts about the resiliency of the U.S. and the global economy. Thus far, Fed officials have reacted by holding policy rates steady. Monetary authorities, however, appear increasingly uncertain about the future course of action.

For instance, Cleveland Fed President Beth Hammack released a statement explaining her dissenting vote at the April 28–29, 2026 Federal Open Market Committee (FOMC) meeting⁶. In her statement, she observed: "I dissented from the post-meeting statement because I did not believe it was appropriate to include an easing bias around the future path for monetary policy. ... Inflation pressures continue to be broad based, and rising oil prices present an additional source of inflationary pressure. Uncertainty around the economic outlook is elevated, with upside risks to inflation and downside risks to growth and employment".

Meanwhile, Dallas Fed President Lorie Logan

noted the following in her dissenting statement⁷: "Congress charges the FOMC with setting monetary policy to achieve maximum employment and price stability. The FOMC has repeatedly reaffirmed that personal consumption expenditures (PCE) price inflation of 2 percent is most consistent with those mandates. Yet PCE price inflation has exceeded 2 percent for more than five years. ... The conflict in the Middle East raises the prospect of prolonged or repeated supply disruptions that could create further inflationary pressures."

To truly understand the complexities of the ongoing debate over the future direction of monetary policy in the U.S. and other countries, it is important to recognize the inherent limitations and challenges central banks face when responding to exogenous supply shocks.

Since monetary policy primarily influences aggregate demand, it is crucial to determine the type of economic shock affecting the economy⁸. Negative demand shocks reduce economic growth and exert downward pressure on prices, while negative supply shocks tend to raise inflation even as they suppress output. Distinguishing between these two types of shocks is crucial, although identifying the drivers of economic fluctuations in real time is often difficult. This task becomes even more complex because demand and supply forces frequently interact and influence one another.

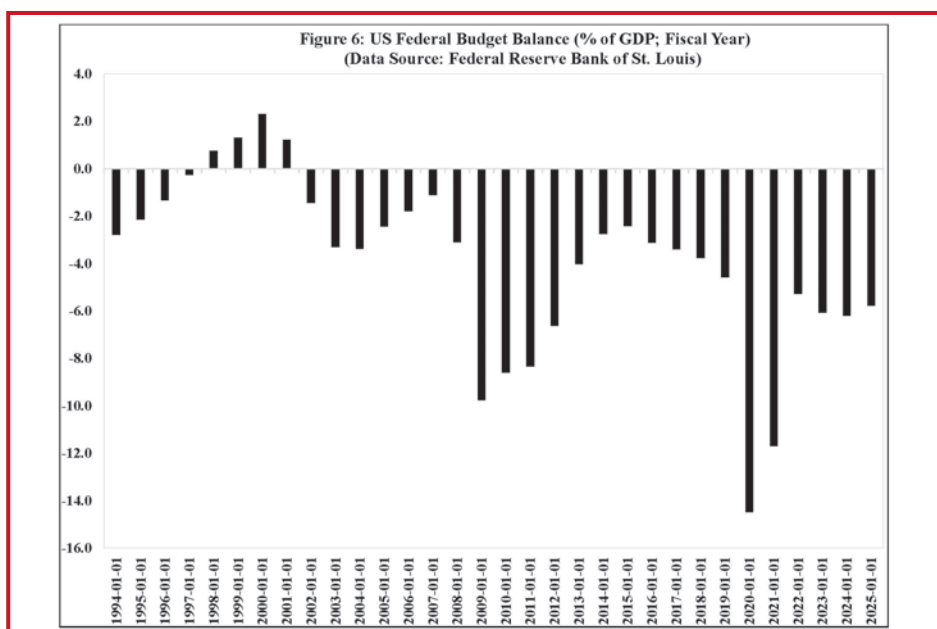
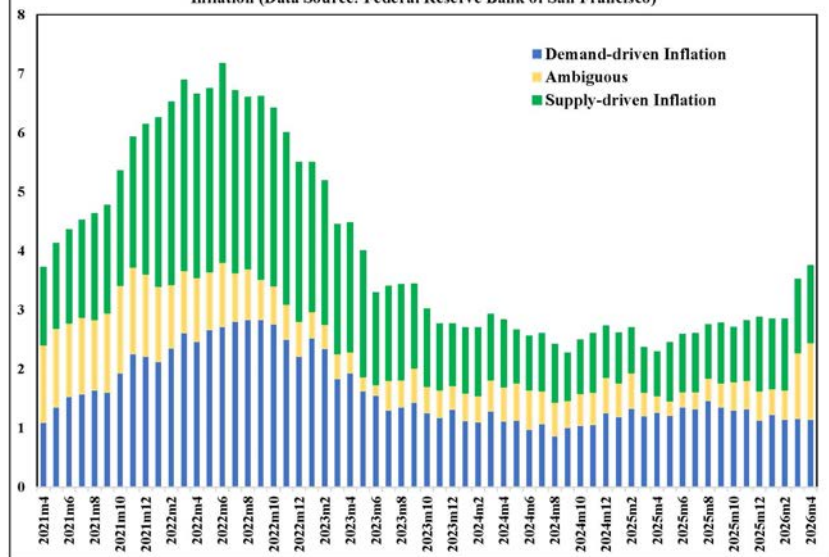


Figure 7: Supply- and Demand-Driven Contributions to Year-over-Year Headline PCE Inflation (Data Source: Federal Reserve Bank of San Francisco)



The Federal Reserve Bank of San Francisco's Supply- and Demand-Driven PCE Inflation measure breaks down personal consumption expenditures (PCE) inflation into components attributable to supply-side and demand-side forces⁹. Categories are identified as demand-driven when unexpected changes in prices and quantities move in the same direction within a given month, while categories are considered supply-driven when unexpected price and quantity movements occur in opposite directions. As illustrated in **Figure 7**, both supply and demand factors have played significant roles in shaping headline PCE inflation since the pandemic. These findings suggest that supply-side shocks remain an important driver of inflation and should be incorporated into analyses of underlying inflation trends.

Supply shocks can drive up domestic production costs. When the price of key inputs like raw materials or energy rises, firms face higher expenses. To protect profit margins or sustain operations, they may pass these costs on to consumers, adding to inflationary pressures. These price increases can spread more widely depending on demand conditions. When aggregate demand stays resilient, firms are better able to pass higher costs on to consumers, leading to broader inflation. Wage-price dynamics can further intensify this process. Businesses may raise prices to maintain

margins or respond to pressure for higher wages as living costs rise. Increased wages can then boost spending, reinforce inflationary pressures, and generate second-round effects.

In such situations, monetary policy may need to step in to prevent the initial inflationary impact from becoming entrenched. If left unchecked, these second-round effects — especially when combined with resilient demand — can make inflation more persistent and widespread. Even without them, noticeable price shocks can unsettle inflation expectations, as firms adjust their pricing behavior in ways that magnify the original increases. This may ultimately require tighter monetary policy to stabilize expectations and contain inflation.

Monetary policy generally tries to “look through” temporary supply shocks, since it has limited ability to influence short-term price movements and operates with a lag (it may take anywhere from 12 to 18 months for changes in short-term policy rates to affect the broader real economy). However, when supply shocks are frequent or long-lasting, they can unsettle inflation expectations, making policy intervention necessary to preserve price stability. This underscores the careful balancing act policymakers currently face. Responding too quickly could unnecessarily

dampen growth, while waiting too long may allow inflation to persist, ultimately requiring more aggressive measures that could have a larger negative effect on output.

Some economists have highlighted the risks associated with the “look through” strategy¹⁰. Under incomplete information, monetary policy decisions also influence expectations by affecting real interest rates and demand. If people initially believe the shock is short-lived but it actually turns out to be persistent, keeping rates low can add demand-driven inflation on top of the original supply shock. This makes a look-through strategy particularly risky in situations where it seems most appealing. When policymakers have full information, committing to look through a temporary cost-push shock usually leads to better outcomes than following a rigid monetary rule (such as the standard Taylor rule). In contrast, under incomplete information, a look-through strategy often performs worse because it can amplify inflation through expectations if the shock proves to be persistent.

Others have emphasized the need for central banks to be nimble and prepared to make sharp turns in their policy stance. Recent research indicates that when economic agents only partially account for how monetary policy shapes their environment, the optimal policy typically resembles a threshold rule¹¹. If inflation rises only modestly above target, policymakers should largely look through supply shocks. But when repeated shocks accumulate beyond a certain point, policy must shift abruptly to a more hawkish stance to anchor inflation expectations. Though this hawkish turn implies a strong response to further inflation, the shift itself, if timed well, can still produce a soft landing. By directly lowering inflation expectations, it helps bring down inflation without requiring a large drop in employment. By contrast, a central bank that adjusts policy too gradually risks higher costs: expectations remain elevated, inflation persists, and restoring stability ultimately requires a much sharper contraction in employment.

The argument for cutting rates before the Iran war began was based on two ideas: that tariff-related inflation would gradually pass through the

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economy, and that the labor market was showing signs of weakening. Since then, both assumptions have become more complicated¹². Inflation data released before the Iran war still showed some evidence of tariff pass-through. The war-driven energy shock has now introduced a fresh source of inflationary pressure that is likely to last for several months. Recent data indicate that rising energy costs are feeding into both consumer and producer prices, although the ultimate scale of the pass-through and any secondary inflation effects remain uncertain.

Whether Kevin Warsh, the new chairman of the Fed, will embark on a path towards creating a more dovish U.S. central bank or exhibit the hawkish instincts he has historically displayed will affect central bank credibility and impact inflation expectations¹³. In statements made in the lead up to his Senate confirmation as the next Fed chair, Warsh contended that lower interest rates would not fuel inflation, even with the U.S. economy at near full employment and inflation still well above the Federal Reserve's two-percent target.

Warsh argued that advances in AI technology will eventually reduce inflation by making workers more productive, and that the Fed should anticipate this shift by cutting interest rates now. However, the current AI investment surge has had the reverse impact so far, sharply increasing demand for a wide range of resources¹⁴.

Major companies (including Microsoft and Uber) are discovering a key downside to enterprise AI adoption: at scale, AI can cost more than human labor instead of less. AI tokens (units of compute) are getting cheaper over time. But companies are using vastly more of them, especially with "agentic AI" systems that perform multi-step reasoning and automation. As a result, total spending keeps rising even while unit costs fall. AI can improve productivity, but widespread deployment may create huge ongoing computer bills that offset – or

even exceed – the labor savings companies expected¹⁵.

One could argue that technological transformations can themselves generate supply shocks. The rapid adoption of AI provides a clear example. AI-related demand has surged for specialized semiconductors, high-bandwidth memory, and enterprise-grade NAND storage, creating supply-demand imbalances across the technology ecosystem. As AI data centers consume increasing quantities of CPUs, GPUs, and memory chips, supply shortfalls have emerged elsewhere, contributing to higher prices for personal computers and a range of consumer electronic devices. Clearly, such sudden shifts can alter prices, quantities, or production inputs and generate inflationary pressures in the short to medium run¹⁶.

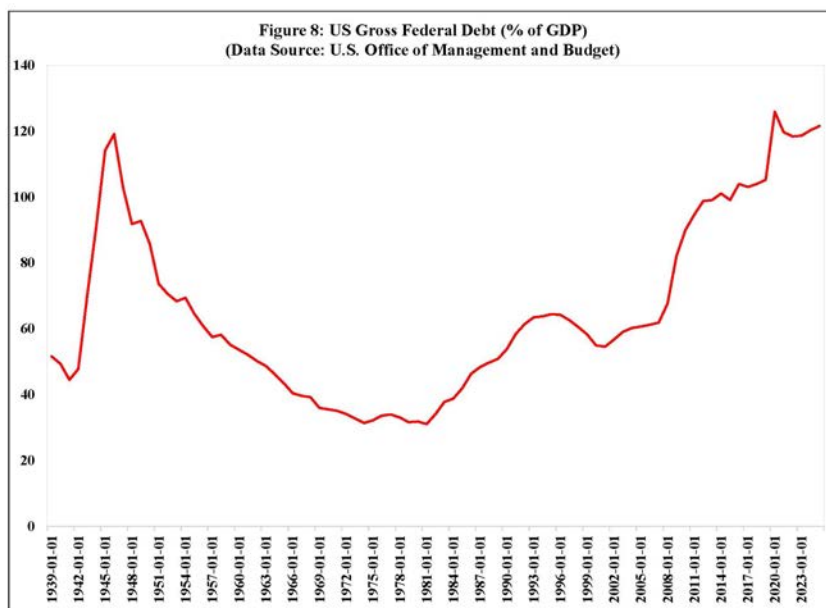
It is evident that the Federal Reserve and other major central banks must exercise caution when assessing inflationary trends given today's domestic and global conditions. Factors such as heightened geopolitical uncertainty, the fragmentation of global trade, demographic changes and limitations on cross-border labor mobility, frequent and overlapping supply shocks, more frequent and costly climate-related disasters, and the large-scale development of physical infrastructure driven by the AI boom are among the

key challenges complicating monetary policy today.

U.S. is also experiencing historically high levels of public debt (see **Figure 8**). These rising debt burdens have fueled concerns that monetary policy could increasingly become subordinate to fiscal pressures, a risk recently highlighted by former Federal Reserve Chair Janet Yellen¹⁷. Fiscal dominance is the reverse of monetary dominance: instead of monetary policy guiding the economy independently, the government's large deficits and debt burden begin to dictate central bank behavior. In this situation, the central bank may face explicit or implicit pressure to keep interest rates artificially low or to buy substantial amounts of government debt – not mainly to control inflation or support employment, but to reduce the government's borrowing costs. Under fiscal dominance, the government's long-run budget constraint becomes the key force determining the price level. If investors lose confidence that future primary surpluses will be sufficient to stabilize the debt, the adjustment ultimately occurs through higher inflation¹⁸.

In the near term, monetary policymakers should, at the very least, signal to markets that the future path of interest rates carries risks in both directions, meaning a rate reduction is as possible as a rate increase. This conveys a neutral policy stance and rate hikes may be called for if

Figure 8: US Gross Federal Debt (% of GDP)
(Data Source: U.S. Office of Management and Budget)



inflationary pressures remain elevated.

Longer term, maintaining and strengthening central bank independence, while also narrowing central bank mandates (via a hierarchical mandate that elevates the price stability goal), may help keep long-run inflation expectations reasonably well-anchored. If not, we may be headed towards an era like the 1970s, where a combination of political interference in monetary affairs and frequent energy and other supply-side shocks lead to an inflationary spiral.

After the global financial crisis, the U.S. and other major advanced economies dealt with challenges largely stemming from weak demand, which dominated the 2009–2019 period. In contrast, the post-pandemic period seems to present a different challenge, as these economies now increasingly face constraints on the supply side. The relatively rapid shift from a demand-constrained to a supply-constrained environment and the resultant impact on underlying inflation dynamics need to be acknowledged by monetary authorities and financial markets. 🍷

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The Transition to Trump 2.0 for the Tampa Bay Economy

By John R. Stinespring, Ph.D.

It is June 2026, and we are a year and a half into the second Trump administration, Trump 2.0. The Republican-controlled Congress and recent court decisions have afforded the president greater discretion over international and national security and economic policies than he possessed during his first term. The expanded security powers range from military interventions in Venezuela and Iran to city-wide I.C.E. raids and the imposition of sanctions against private companies and public universities. Greater economic policy freedom led to the passing and implementation of the 2025 tax bill (a.k.a., One Big Beautiful Bill Act) and allowed tariff impositions at the president's discretion culminating in the April 2, 2025 "Liberation Day" when the average effective tariff rate was raised above 20%. Though his powers are significantly more expansive, the president's playbook is similar to his first term. In it, he restricted immigration to the U.S. and threatened warfare with various countries including North Korea (where he sent a U.S. naval battleships in response to their ballistic missile tests and nuclear ambitions). On the economic front, he implemented the \$1.3 trillion 2017 tax cut and spending bill (a.k.a. Tax Cuts and Jobs Act) and imposed punitive tariffs and other trade restrictions at his discretion. As in Trump 1.0, economic policy uncertainty has contributed to wide asset market gyrations and higher supply chain costs. In this update, we examine the Tampa Bay economic performance in the 1.5 years under Trump 2.0 compared to the final 1.5 years of the Biden administration and what we might expect going forward given the similarities to Trump 1.0. We assess the local economy over the period by examining labor, retail, and housing markets of the Tampa Bay metropolitan area (consisting of Hernando, Hillsborough, Pasco, and Pinellas counties combined).

Let us first consider inflation, the economic scourge of the Biden administration. **Figure 2.1** shows data

over both Trump terms (TT), in red and the Biden Term (BT), in blue. It shows that year-over-year inflation spiked to 11.3% in Tampa Bay (TB), and 8.5% in the U.S. in May 2022. Inflation declined following the Federal Reserve's aggressive rate increases from March 2022 to July 2023 when they implemented 11 federal funds rate hikes. These hikes started from a low federal funds rate of 0-0.25% to 5.25-5.5%. Inflation had declined in the BT to 2.2% and 3% in the last period of 2024 for TB and U.S., respectively. After a year and a half into Trump 2.0, these rates had risen in May 2026 to 3.2% and 4.2%, respectively. Pricing pressures from tariffs, economic policy uncertainty, and the Iran war all contributed to the increase by raising supply costs.

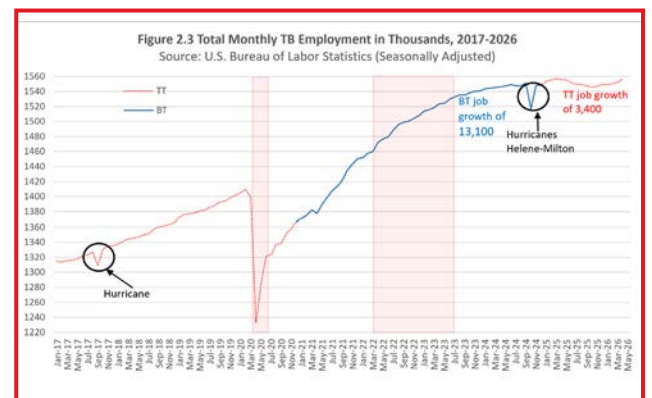
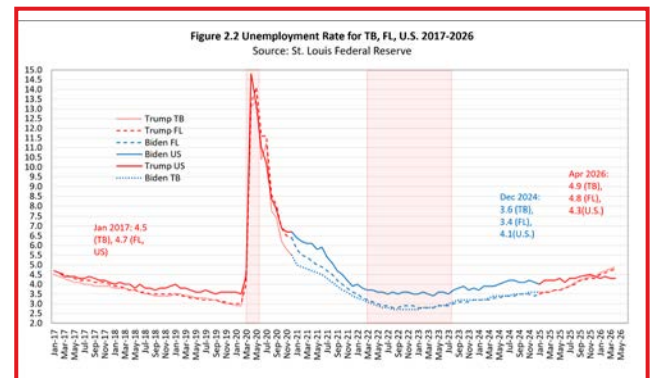
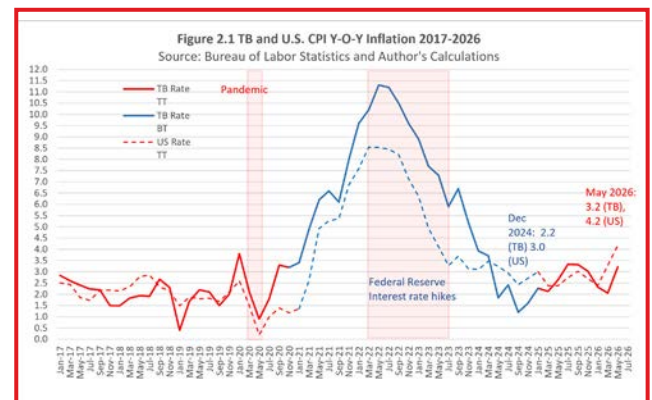
The economic policy uncertainty under Trump 2.0 may also have contributed to a rise in unemployment during the first year and a half of his second term as shown in **Figure 2.2**. At the end of December 2024, the unemployment rate was 3.6% for TB, 3.4% for Florida and 4.1% for the U.S. The most current readings of April 2026 show those values have risen to 4.9%, 4.8%, and 4.4%, respectively. While potentially regressive economic policies under Trump 1.0 may have been overwhelmed by the stimulative effects of the 2017 tax cuts, the currently lackluster labor market suggests the 2025 tax cuts have been unable to counteract the

other policies at this point.

Our current "low-hire, low-fire" labor market is



John R. Stinespring, Ph.D.



THE TAMPA BAY ECONOMY

A UNIVERSITY OF TAMPA ANNUAL REVIEW

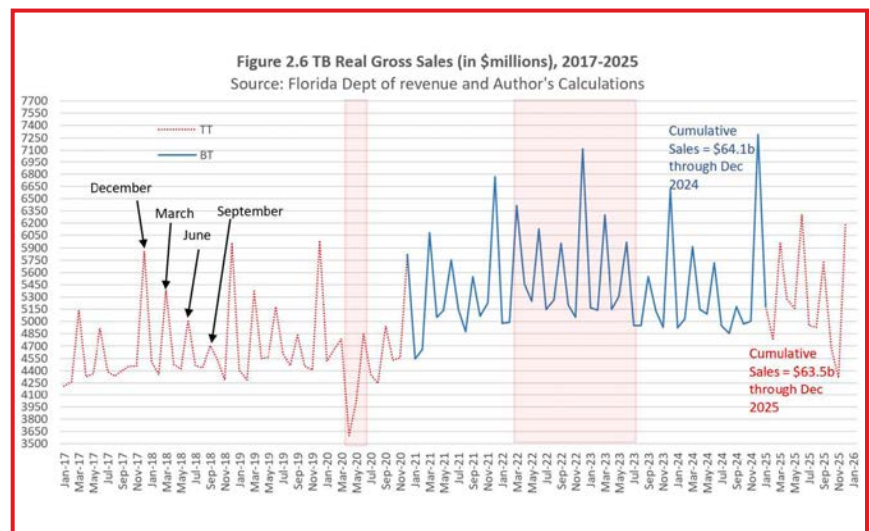
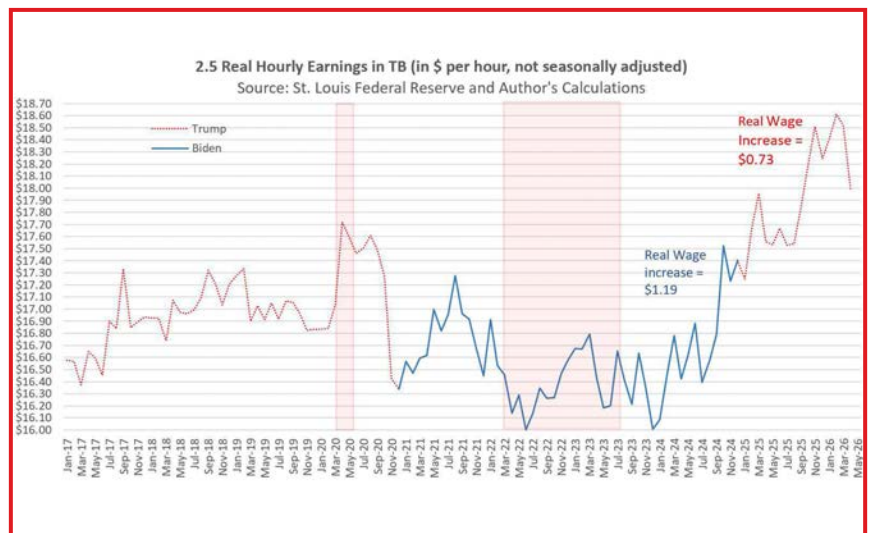
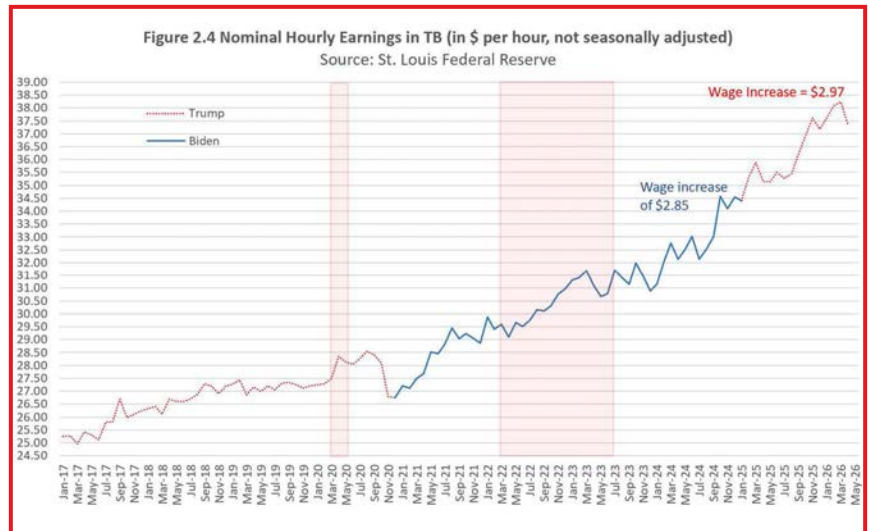
overwhelmed by the stimulative effects of the 2017 tax cuts, the currently lackluster labor market suggests the 2025 tax cuts have been unable to counteract the other policies at this point.

Our current “low-hire, low-fire” labor market is also evident in TB payrolls data. **Figure 2.3** shows a long increase in monthly payrolls throughout the period (with exceptions for pandemics and hurricanes). Trump 2.0 started with 1.553 million on TB payrolls but by April 2026 had 1.557 million, a growth of only 3,400 jobs. For comparison, the last 1.5 years of the BT saw 13,100 jobs created.

Figure 2.4 reveals how the sluggish labor market has affected wages. Under Trump 2.0, average hourly earnings have risen \$2.97 compared to a lower increase of \$2.85 in the final 1.5 years of the BT. Yet real earnings—that is, nominal earnings adjusted for the price level—tell a less favorable story. **Figure 2.5** shows that Trump 2.0 has seen a 39% lower increase in real wages compared to the previous Biden period; a \$0.73 increase compared to \$1.19, respectively.

These variations in employment and wage growth affected aggregate demand within our local economy as shown in **Figure 2.6** where real TB gross sales is depicted in millions of inflation-adjusted dollars. Real gross sales in TB is our measure of overall demand and is useful as a *coincident indicator* that reveals the local economy’s current position in the business cycle. Sales decline during recessions and growth during expansions allowing for seasonal spikes in December, March, June, and September for each year. Real gross sales for the first year of Trump 2.0 – the time period for which we have data – totaled \$63.5 billion compared to \$64.1 billion under the last year of the BT, a \$600 million difference.

Even housing, typically the most resilient market in Tampa Bay and the U.S., appears vulnerable under Trump 2.0. This is bad news as housing serves as a leading indicator to predict the future direction of the economy. Sustained increases in construction lead economic expansions while recessions are presaged by sustained declines.



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The Transition to Trump 2.0 for the Tampa Bay Economy

Figure 2.7 shows TB building permits rebound from a steep decline in the BT's last two quarters. The recovery was short-lived, however, so that the first 1.5 years of Trump 2.0 had 730 fewer permits issued (at 18,344) than the last 1.5 years of the BT (at 19,074). In addition, the average monthly permits are also lower at 1147 in Trump 2.0 compared to 1192 in the last 1.5 years of the BT.

The decline in housing prices is even more pronounced in Trump 2.0. **Figure 2.8** shows the Case-Shiller housing price index for low-, medium-, and high-tier home prices in TB (where index = 100 for year 2000). All tiers of TB homes have experienced a significant price decline in Trump 2.0 with prices falling 2.2, 4, and 3.2 percent below their January 2025 levels for high-tier, mid-tier, and low-tier, respectively. Over the commensurate 1.5 years at the end of the BT, prices were basically flat with a 0.16% decline for the high-tier and 0.72% for the low-tiers, while the mid-tier rose 0.38%. The plot shows prices rose consistently in Trump 1.0 through the BT until they plateaued during the Fed monetary tightening in March 2022 through July 2023. Afterward, they rose slightly before plateauing at the end of the BT. The persistence of their current decline is atypical historically and of some concern given the lower level of permits.

This update has detailed the economic transition from the last year and a half of the Biden term to the first year and a half of Trump 2.0 (see **Table 2.1** for a summary). The initial results are higher inflation and unemployment and a decline in payroll growth, real wages, real gross sales, monthly housing permits, and housing prices. Though a comparison between the first and second Trump terms reveals many similarities, the current U.S. fiscal and monetary situations pose greater challenges. U.S. debt-to-GDP is significantly higher now implying the military interventions combined with the Trump 2.0 tax cuts will likely increase U.S. borrowing and constrain the effects of any fiscal stimulus. Inflation remains well-above the Federal Reserve's 2% target implying lower interest rates are unlikely to occur in the near term. 📉

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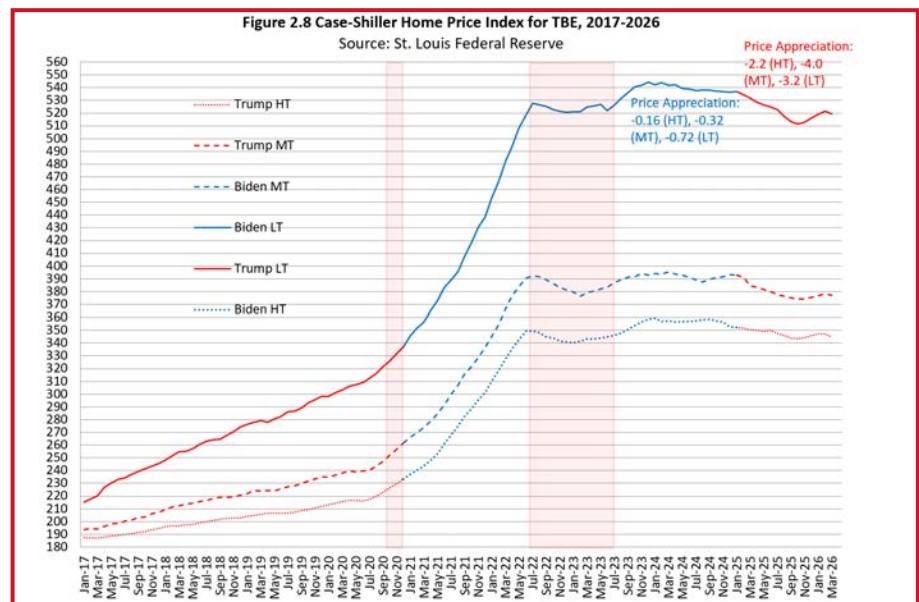
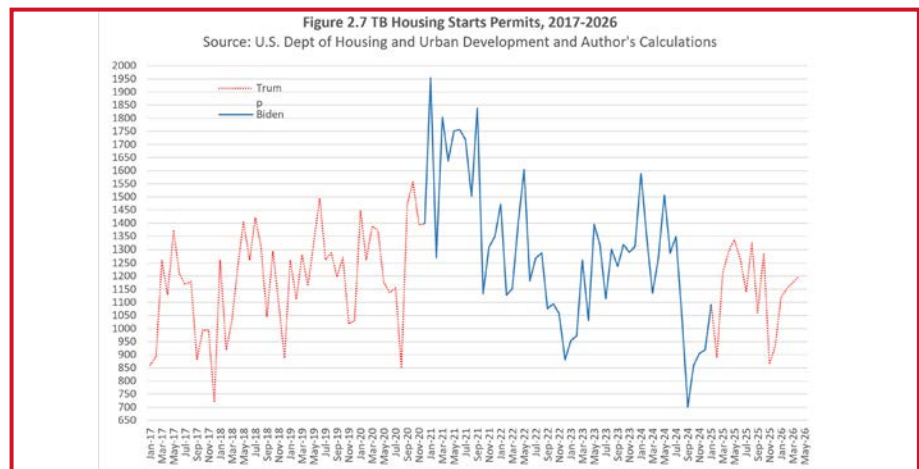


Table 2.1		
TB Variable	Beginning of Trump 2.0 Term	End of Biden Term
Average Monthly Inflation (1.5-year periods)	3.2%	2.2%
Unemployment rate at end of period	4.9	3.6
Increase in Payrolls	3,400	13,100
Increase in Nominal Wages	\$2.97	\$2.85
Increase in Real Wages	\$0.73	\$1.19
Real Gross Sales	\$63.5b	\$64.1b
Average Monthly Permits	1147	1192
Real Home Price Appreciation	-2.2; -4; -3.2	-0.16; 0.38; -0.72
High-Tier; Mid-Tier; Low-Tier (%)		

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