

U.S. ECONOMIC RECAP

FIRST QUARTER 2025

CURRENT ECONOMIC CONDITIONS COMMENTARY

The Federal Reserve publishes a report (known as the *Beige Book*) eight times per year that summarizes current economic conditions throughout the 12 U.S. Federal Reserve Districts. The second 2025 *Beige Book* publication, which was released on March 5, 2025, highlighted:

- Overall economic activity rose slightly since mid-January;
- Six Districts reported no change, four reported modest or moderate growth, and two noted slight contractions;
- Consumer spending was lower on balance, with reports of solid demand for essential goods mixed with increased price sensitivity for discretionary items, particularly among lower-income shoppers;
- Banking activity was slightly higher on balance among Districts that reported on it;
- Residential real estate markets were mixed, and reports pointed to ongoing inventory constraints;
- Construction activity declined modestly for both residential and nonresidential units; and
- Overall expectations for economic activity over the coming months were slightly optimistic.



CONSUMER CONFIDENCE – THE BACKBONE OF THE U.S. ECONOMY

Consumers influence the U.S. economy immensely through their spending and savings decisions. As such, measures of consumer confidence may provide valuable information in discerning the economic outlook.

In the University of Michigan's March 2025 Survey of Consumers, Chief Economist, Joanne Hsu opined:

“Consumer sentiment slid another 11% this month, with declines seen consistently across all groups by age, education, income, wealth, political affiliations, and geographic regions. Sentiment has now fallen for three consecutive months and is currently down 22% from December 2024. While current economic conditions were little changed, expectations for the future deteriorated across multiple facets of the economy, including personal finances, labor markets, inflation, business conditions, and stock markets. Many consumers cited the high level of uncertainty around policy and other economic factors; frequent gyrations in economic policies make it very difficult for consumers to plan for the future, regardless of one’s policy preferences. Consumers from all three political affiliations are in agreement that the outlook has weakened since February. Despite their greater confidence following the election, Republicans posted a sizable 10% decline in their expectations index in March. For Independents and Democrats, the expectations index declined an even steeper 12 and 24%, respectively.”

CONSUMER PRICE INDEX (CPI)



The March 2025 Consumer Price Index (CPI) fell by 0.1% month-over-month. An EY CPI report states:

“While the March CPI report brought some encouraging news, the relief is likely to be short-lived as upcoming inflation reports will likely reflect some pass-through from recent steep tariff increases. If the universal 10% tariff on all trading partners and 125% tariff on China are maintained, US consumer price inflation could be 0.8 percentage points higher in 2025, with the inflationary impulse concentrated in the second quarter of the year.”

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MONETARY POLICY

Determined by the Federal Reserve's Federal Open Market Committee (FOMC):

In the March 2025 Statement, the FOMC noted:

- Recent indicators suggest that economic activity has continued to expand at a solid pace;
- The unemployment rate has stabilized at a low level in recent months, and labor market conditions remain solid; and
- Inflation remains somewhat elevated.

The FOMC seeks to achieve maximum employment and inflation at the rate of 2% over the longer run. Uncertainty around the economic outlook has increased.

The Committee is attentive to the risks to both sides of its dual mandate and is prepared to adjust the stance of monetary policy as appropriate if risks emerge that may impede attainment of goals. The Committee's assessments will take into account information including labor market conditions, inflation pressures/expectations, as well as financial and international developments.



MARKET IMPLIED INFLATION

The Federal Reserve Bank of St. Louis posts nominal and inflation-indexed constant maturity treasuries. Taking the difference between nominal yield and inflation-indexed yields provides a market-based estimate for inflation compensation over each maturing period. Below are the March 2025 results:

	5-Year	7-Year	10-Year	20-Year	30-Year
Nominal Treasuries	4.06%	4.19%	4.33%	4.69%	4.67%
Treasury Inflation Protected Securities	-1.49%	-1.76%	-1.96%	-2.26%	-2.40%
Market implied Inflation	2.57%	2.43%	2.37%	2.43%	2.27%

Source: FRED: Selected Interest Rates Instruments, March 28, 2025



INTEREST RATES (PRIME RATE)

The prime rate is often used as a base rate to price short-term business loans

As of March 31, 2025, the prime interest rate is 7.5%. The prime rate has held steady at this rate since December 20, 2024. The prime rate is posted by a majority of the top 25 (by assets in domestic offices) insured U.S. chartered commercial banks. The Federal Reserve does not control prime rates, but many banks base their prime rates partly on the target level of the federal funds rate.



PUBLIC MARKETS

In public markets, asset prices fluctuate with changes in future expectations.

Stock indices have generally contracted since the fourth quarter of 2024. The S&P 500 closed March 31, 2025 at -4.6%, 269.78 points lower than last quarter. The DJIA followed suit, falling by 1.3%, or 542.46 points, from Q4 2024. The NASDAQ experienced the most contraction in the 1Q 2025, decreasing by 10.4%, or 2,011.5 points, from the fourth quarter of 2024.

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FORECAST BASED ON ECONOMIC INDICATORS

In March 2025, members of the FOMC submitted projections of the most likely outcomes for real gross domestic product (GDP) growth, the unemployment rate, and inflation for each year from 2025-2027 and over the longer run. These projections were based on information available at the time, assessment of appropriate monetary policy, and assumptions about other factors likely to affect economic outcomes.

The FOMC's March 2025 Summary of Economic Projections includes the following highlights:

- Real GDP growth is expected to remain between 1.7% and 1.8% from 2025 to 2027;
- Federal fund, unemployment and PCE inflation rates are projected to edge down from 2025 to 2027;
- Long-term real GDP growth is expected to average 1.8%;
- The median projections of Federal Reserve data suggest longer-run PCE inflation is expected to be approximately 2.0% to 3.0%, consistent with the FOMC's inflation target.
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The FOMC will continue to monitor these metrics as they could directly affect the Committee's decision making related to maintaining a 2% inflation rate.



CHANGES IN ADMINISTRATION

On January 20, 2025, Donald Trump was sworn into office for his second term as U.S. President. During his inaugural speech, Mr. Trump noted that tariffs and taxes of foreign countries would be a top priority.

As promised, tariffs have, seemingly, been the primary topic of discussion for the new administration. The table below shows the timeline of tariff actions through March 31, 2025. The tariffs' future economic impact is largely unknown.

1/20/25	Announcement: 25% tariff on Canada, China and Mexico, effective 2/1
1/26/25	Retaliation: Columbia imposes 25% tariff on US
2/1/25	Exec. Order: 10% tariff on China, 25% tariff on Canada and Mexico, effective 2/4
2/3/25	Announcement: 30-day pause on tariffs against Canada and Mexico
2/4/25	Retaliation: China prepares to impose various tariffs on the US starting 2/10
2/10/25	Announcement: Minimum 25% tax on steel and aluminum imports, effective 3/12
2/25/25	Exec. Order: Commerce Dept. to determine if tariffs on tangible imports are reasonable
3/4/25	Announcement: 25% tariff in effect for Canada and Mexico; China tariff increases to 20%
3/5/25	Announcement: US automakers exempt from 25% tariff on Canadian/Mexican autoparts
3/6/25	Announcement: Various Canadian/Mexican imports exempted from tariff until 4/2
3/10/25	Retaliation: China imposes 15% tariff on US agricultural products
3/12/25	Announcement: All steel and aluminum imports are taxed at 25% across the board
3/26/25	Announcement: 25% tariff on auto imports will go into effect on 4/3

Other non-tariff changes enacted by the administration in the first quarter of 2025 include:

- On January 20, a hiring freeze on federal civilian employees was applied, keeping open positions from being filled and banning the creation of new positions in the federal government. The freeze was still in effect as of March 31st
- On February 14, the National Energy Dominance Council was established to provide advice on improving the energy production process to make more energy domestically and to help to achieve long-term energy goals, among other objectives.
- On March 20, the Department of Education was ordered to be closed in order to "provide children and their families the opportunity to escape a system that is failing them."

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CURRENT EMPLOYMENT CONDITIONS – ALL INDUSTRIES

The U.S. labor market, a key indicator of the strength of the economy, remains in a healthy state, but is showing signs of slowing. The FOMC will keep an eye on these trends to review economic conditions.

The Bureau of Labor Statistics (BLS) reported that the March 2025 unemployment rate (4.2%), as well as the number of unemployed persons (7.1 million), changed little from February 2025. The number of people not in the labor force who wanted a job held at 5.9 million.

BLS data showed notable gains in several industries:

- Health Care
- Social Assistance
- Retail
- Transportation & Warehousing
- Government

The Federal Reserve also noted employment levels as flat across Districts. For many sectors and Districts, labor availability improved, though there were occasional reports of a tight labor market in targeted sectors or occupations. Contacts in multiple Districts said rising uncertainty over immigration and other matters was influencing current and future labor demand.

Wages grew at a modest-to-moderate pace, which was slightly slower than the previous report, with several Districts noting that wage pressures were easing.



INDUSTRIAL PRODUCTION & MANUFACTURING

The Institute for Supply Management's (ISM) Purchasing Managers Index (PMI) can be used as an indication as to whether the manufacturing sector of the economy is expanding or contracting. A PMI of 49.0% in March 2025, marked 59 consecutive months of growth. A PMI reading above 42.3% indicates that the manufacturing economy is generally expanding, while an index below 42.3% denotes general contraction.

The Global Supply Chain Pressure Index (GSCPI), which gauges issues by integrating transportation cost data and manufacturing indicators, fell from 0.01 to -0.18 from February to March 2025. However, when compared to year-ago levels, this index shows improvement towards a neutral position in the near future.



HOUSING & NONRESIDENTIAL CONSTRUCTION

The Dodge Momentum Index (DMI) is issued monthly by Dodge Data & Analytics to measure the initial report for nonresidential building projects in planning, which have been shown to lead non-residential construction spending by a full year.

Key statistics for March 2025 include:

- The DMI was up 30% from March 2024. The commercial segment was 32% above year-ago levels, and the institutional segment increased 27% over the same period. Despite year-over-year growth, the DMI receded from February 2025 levels.
- The DMI includes 25 projects valued at \$100 million or more. The institutional projects that entered planning in March 2025 included the Scripps San Marcos Medical Center and Roanoke High School.



Meet the Author: Allison Ezbiarsky

As an Analyst with GYF's Business Valuation & Litigation Support Services team, Allison performs risk identification, financial statement analysis, economic and industry research, and financial modeling. She is involved in the process of valuing privately held companies for various purposes. Allison graduated from Robert Morris University's Honors Program with a BS/BA in Finance and Accounting in May 2024.