April 2025

Economic Commentary

First Affirmative
FINANCIAL NETWORK
Invest for a Sustainable Future

By Rich Frankel

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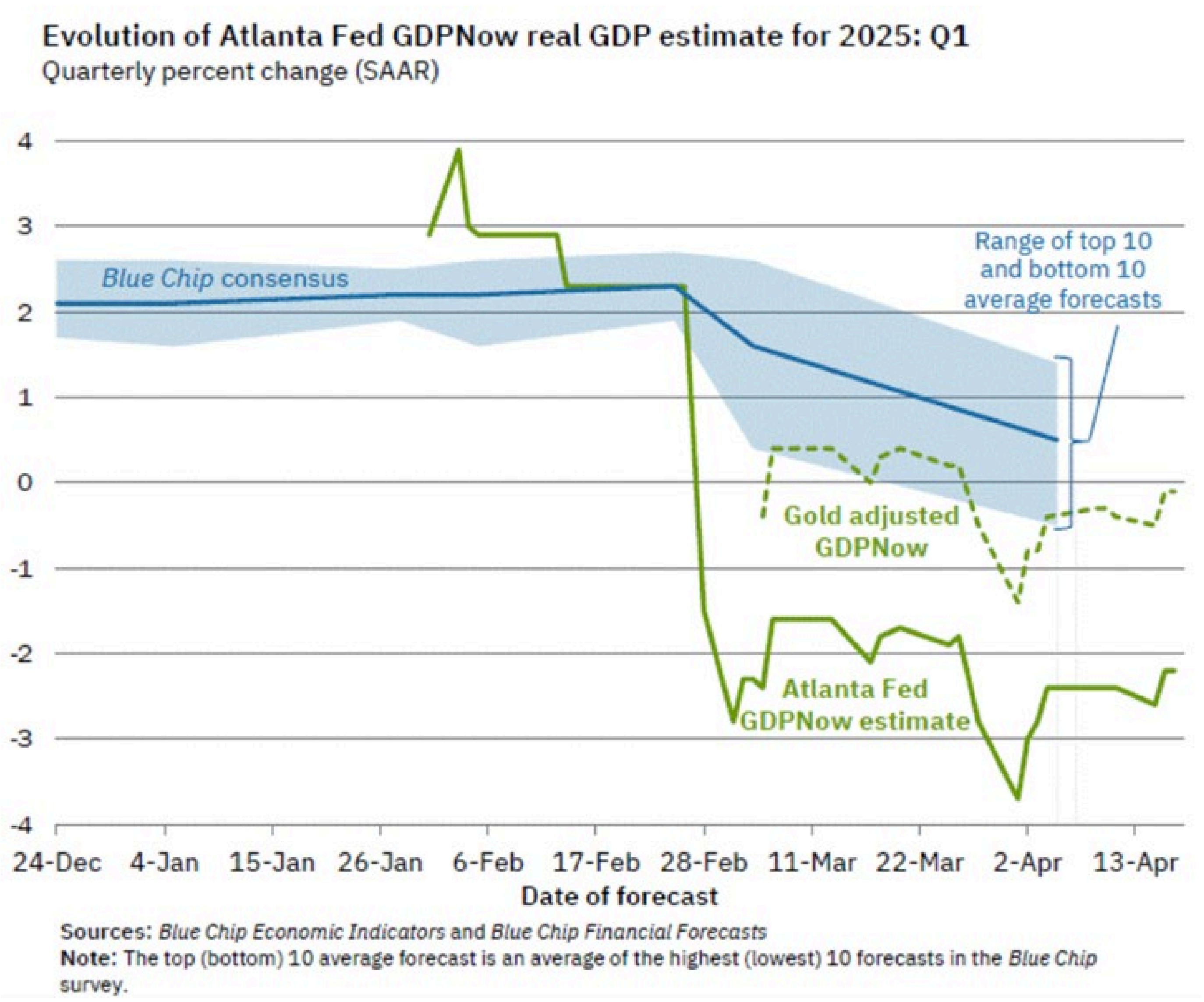
Section 1: US Gross Domestic Product

Before entering the discussion of US GDP, it should be noted that the most recent release from the United States Bureau of Economic Analysis states that in 4Q2024, the growth rate for US GDP is 2.4% from the previous quarter. While this is below the average GDP growth rate for the past ten years (minus 2020 and 2021) of 2.5%, it is remarkably positive when compared to forecasts for GDP for the coming quarter and time following it.

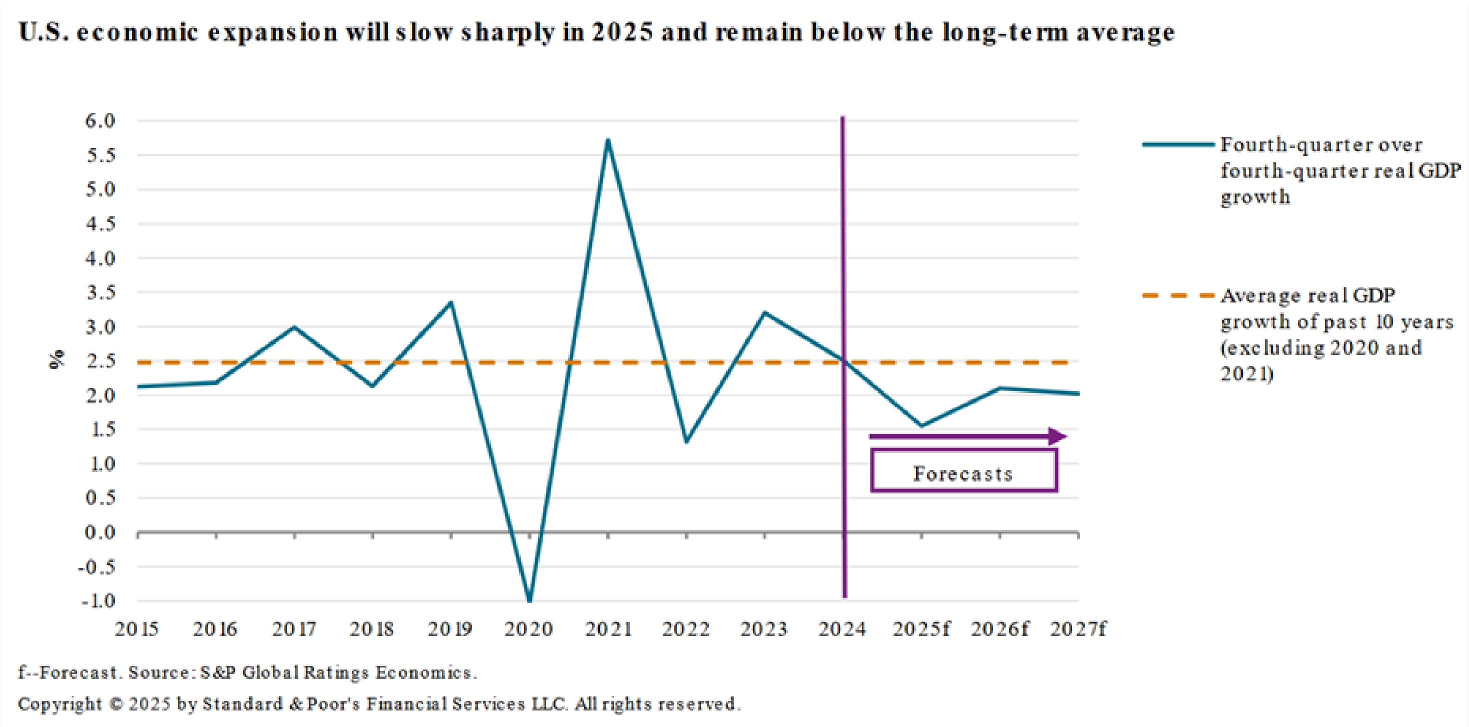
Chart 1: GDP Estimates for 2025 - Atlanta FED GDP Now - April 17, 2025



https://www.atlantafed.org/cqer/research/gdpnow

The GDPNow estimate for 1Q25 US GDP growth rate from the Atlanta FED is at -2.2% as of April 17, 2025. This rate, after being adjusted for imports and exports of gold, falls at around -0.1%. This forecast considers the following components of GDP in its estimations: consumer spending, nonresidential fixed investment, residential investment, change in private inventories, net exports, and government spending. Based on this estimation, not only is the projected growth rate well below the US GDPs growth trend over the past ten years (minus 2020 and 2021) of 2.5%, but it is also negative, signaling a period of likely economic contraction or very low growth. This is due in large part to the tariffs being put in place/being talked about by the current administration, which will be discussed in greater detail in section 6 of this document.

Chart 2: GDP Forecast 2015-2027 - S&P Global Ratings Group - March 25, 2025

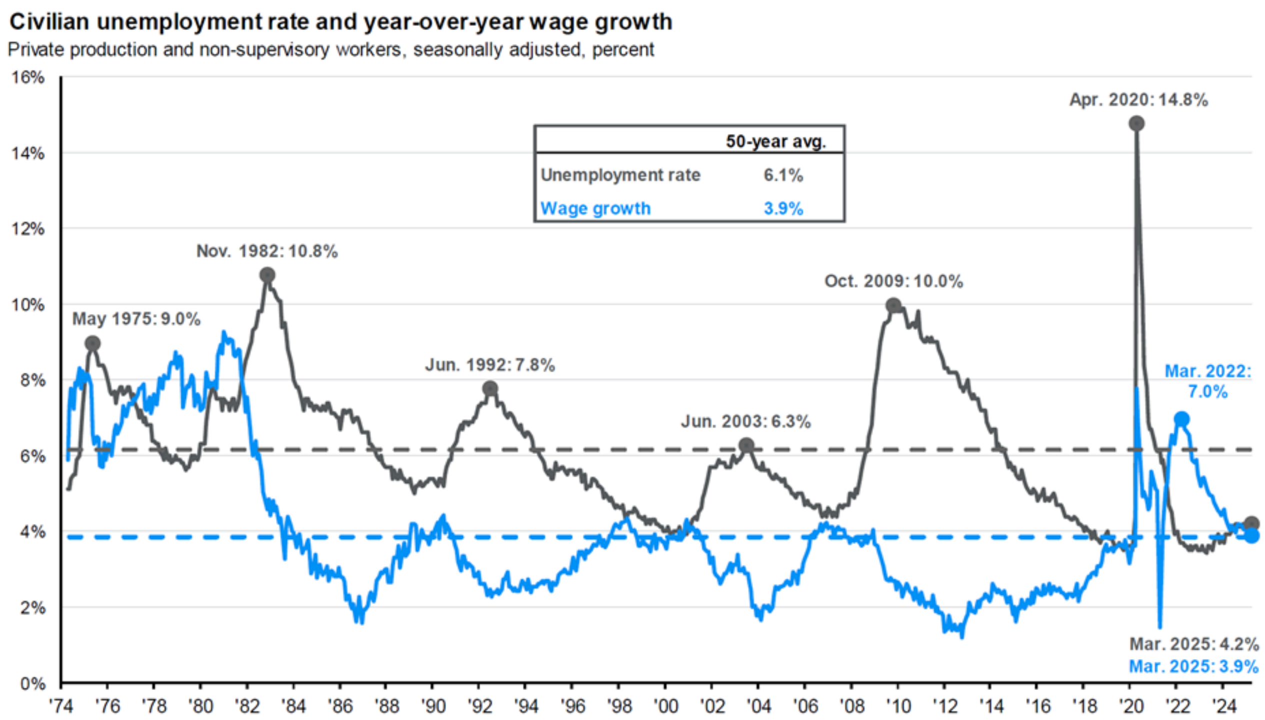


https://www.spglobal.com/ratings/en/research/articles/250325-economic-outlook-u-s-q2-2025-losing-steam-amid-shifting-policies-13450076

Above is the forecast of US GDP growth from Standard and Poor's Global Ratings Group, and it is more optimistic than the Atlanta Fed's estimation of what is likely to occur with US GDP growth rates. The projected growth rates for 2025-2027 are as follows: 1.55% in 2025, 2.1% in 2026, 2% in 2027. While the projected growth rates for 2025-2027 do fall below the average growth over the past ten years (minus 2020 and 2021) of 2.5%, the projections are not negative like the release from GDPNow. They are not ideal, as they are lower than one would expect based on track record, but they at least fall over zero. Should this come to pass, we are likely to enter a period of slow growth, but not an economic contraction.

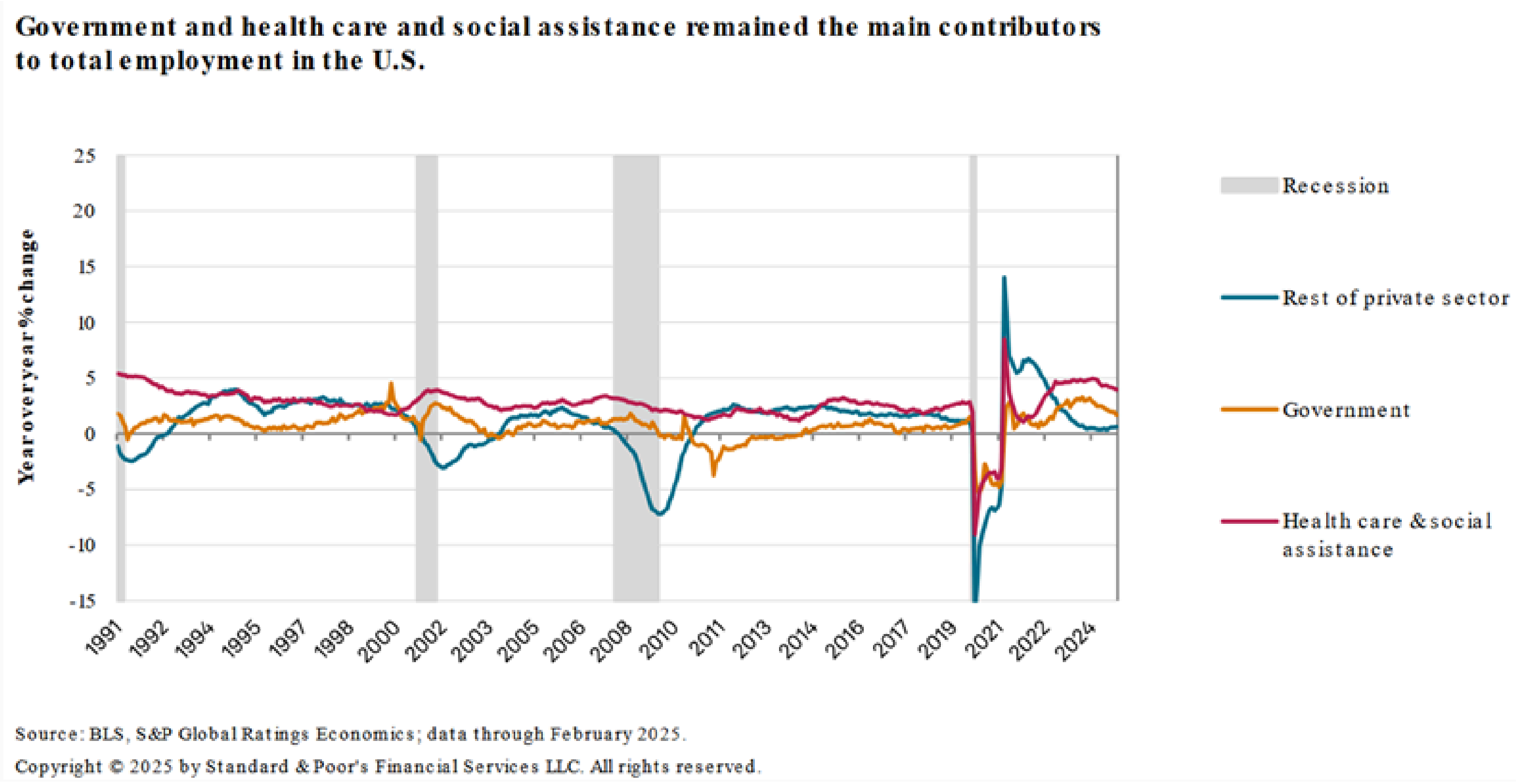
Section 2: US Unemployment

Chart 3: Unemployment - JPMorgan Guide to the Markets - April 22, 2025



As of March 2025, the U.S. labor market appears stable, with unemployment at 4.2% and wage growth at 3.9%—both near their 50-year averages. This balance reflects a post-pandemic normalization, with more people returning to the workforce and inflation easing after the sharp wage spikes of 2022. The Federal Reserve's interest rate strategy has helped slow the economy just enough to reduce inflation without triggering a recession thus far. Strong hiring in sectors like tech and healthcare, along with improved labor supply and productivity, are supporting steady wage gains without overheating the job market.

Chart 4: Contributions To Unemployment 1991-2025 - S&P Global Ratings Group - March 25, 2025

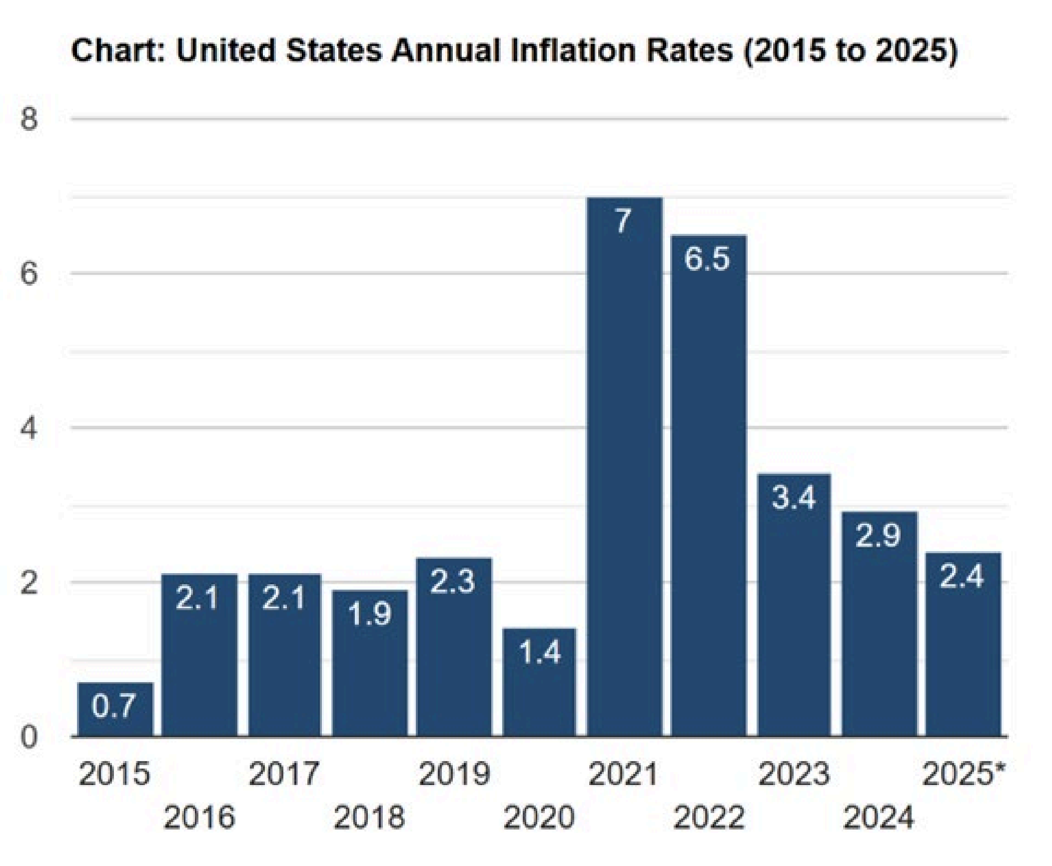


https://www.spglobal.com/ratings/en/research/articles/250325-economic-outlook-u-s-q2-2025-losing-steam-amid-shifting-policies-13450076

Since early 2024, U.S. employment growth has slowed and stabilized, with health care and social assistance continuing to be the strongest contributors due to sustained demand and workforce shortages. In contrast, the rest of the private sector has seen little to no growth, as businesses respond to tighter financial conditions, weaker consumer demand, and a focus on efficiency. Overall, the labor market reflects a soft landing—steady but subdued job gains without a major downturn. Moving into 2025, we are seeing a fall in government employment due to the actions of DOGE (Department of Government Efficiency).

Section 3: US Inflation

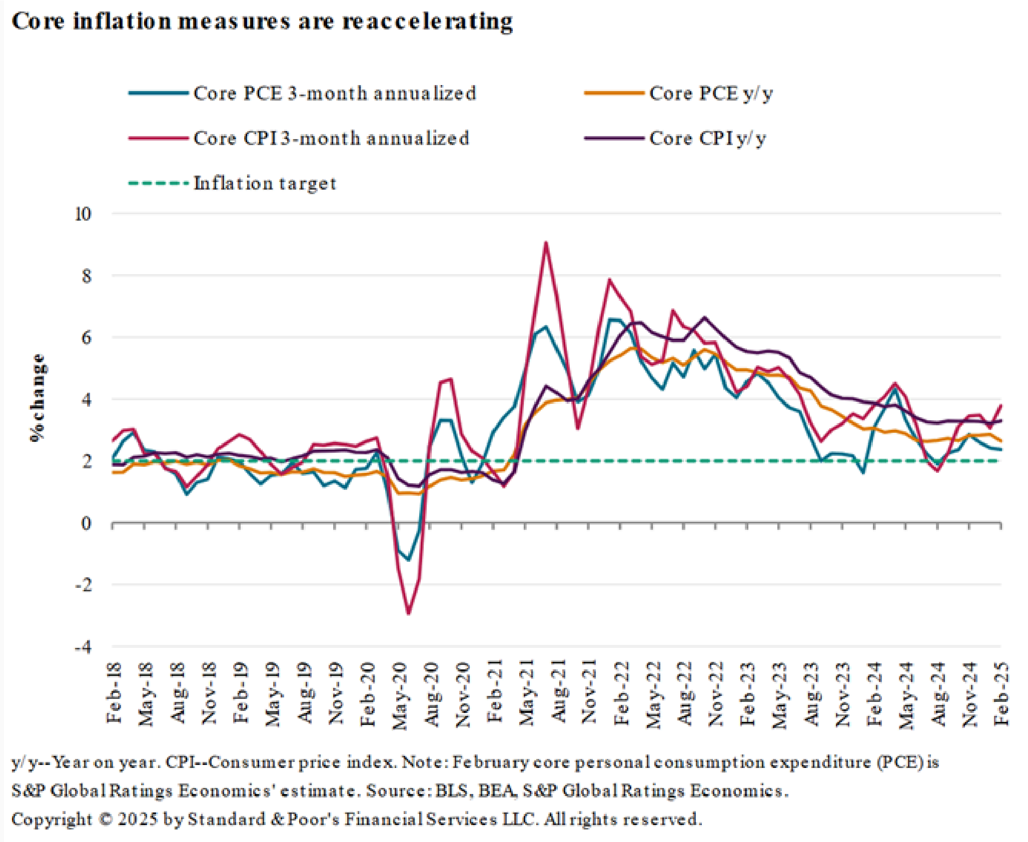
Chart 5: US Inflation Rates - 2015-2025 - US Inflation Calculator - April 10, 2025



https://www.usinflationcalculator.com/inflation/current-inflation-rates/

The estimated U.S. inflation rate for 2025 is 2.4%, based upon recent month's inflation rates and the current trend of inflation, reflecting a continued decline from the post-pandemic highs of 7% in 2021 and 6.5% in 2022. This marks a slight decrease from 2.9% in 2024 and suggests that inflation is gradually stabilizing after the economic disruptions of recent years, assuming minimal further economic disruptions.

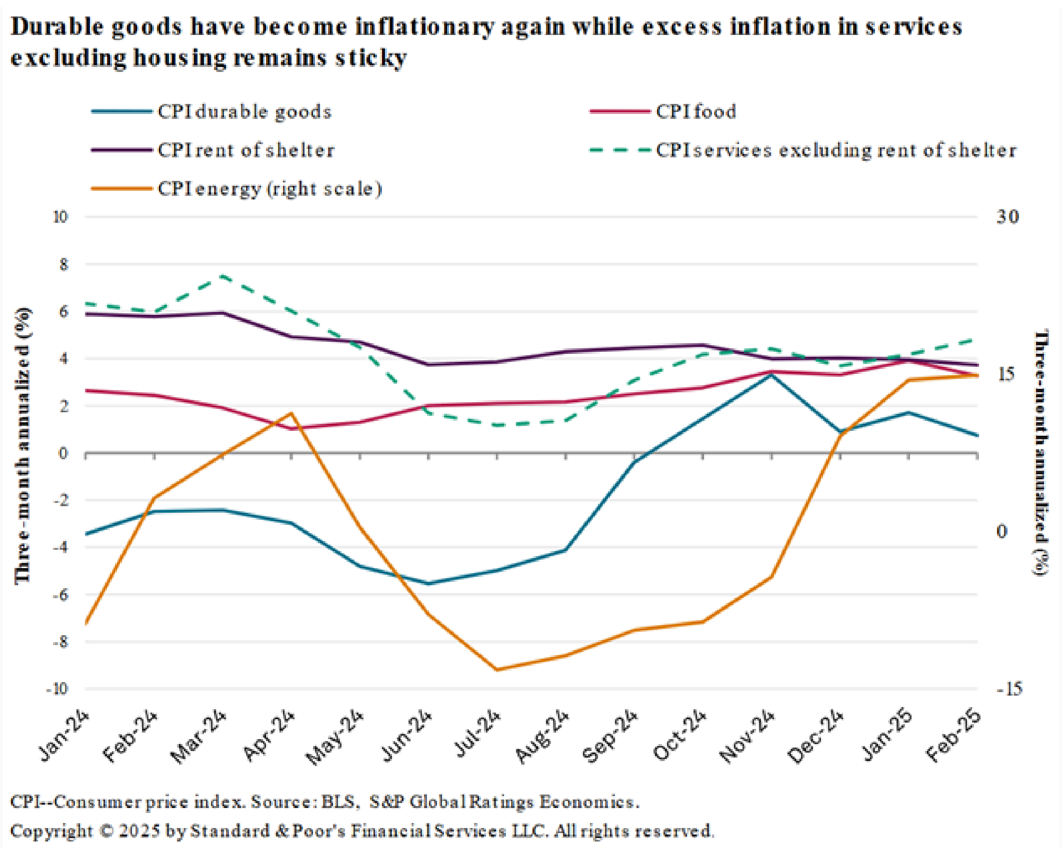
Chart 6: Core Inflation Measures - S&P Global Ratings Group - March 25, 2025



https://www.spglobal.com/ratings/en/research/articles/250325-economic-outlook-u-s-q2-2025-losing-steam-amid-shifting-policies-13450076

Between 2024 and early 2025, core inflation measures in the U.S. have begun to reaccelerate. Year-over-year core CPI and core PCE both edged upward, with core CPI rising slightly above 3% and core PCE staying just under that level, both exceeding the Federal Reserve's 2% inflation target. More notably, the 3-month annualized rates, particularly core CPI, increased sharply, signaling renewed short-term inflation momentum. This trend suggests underlying price pressures are strengthening again after a period of easing, part of which can be explained by Tariffs recently enacted by the current administration, as well as uncertainty around whether they will be added to and by how much.

Chart 7: Consumer Price Index by Category - S&P Global Ratings Group - March 25, 2025

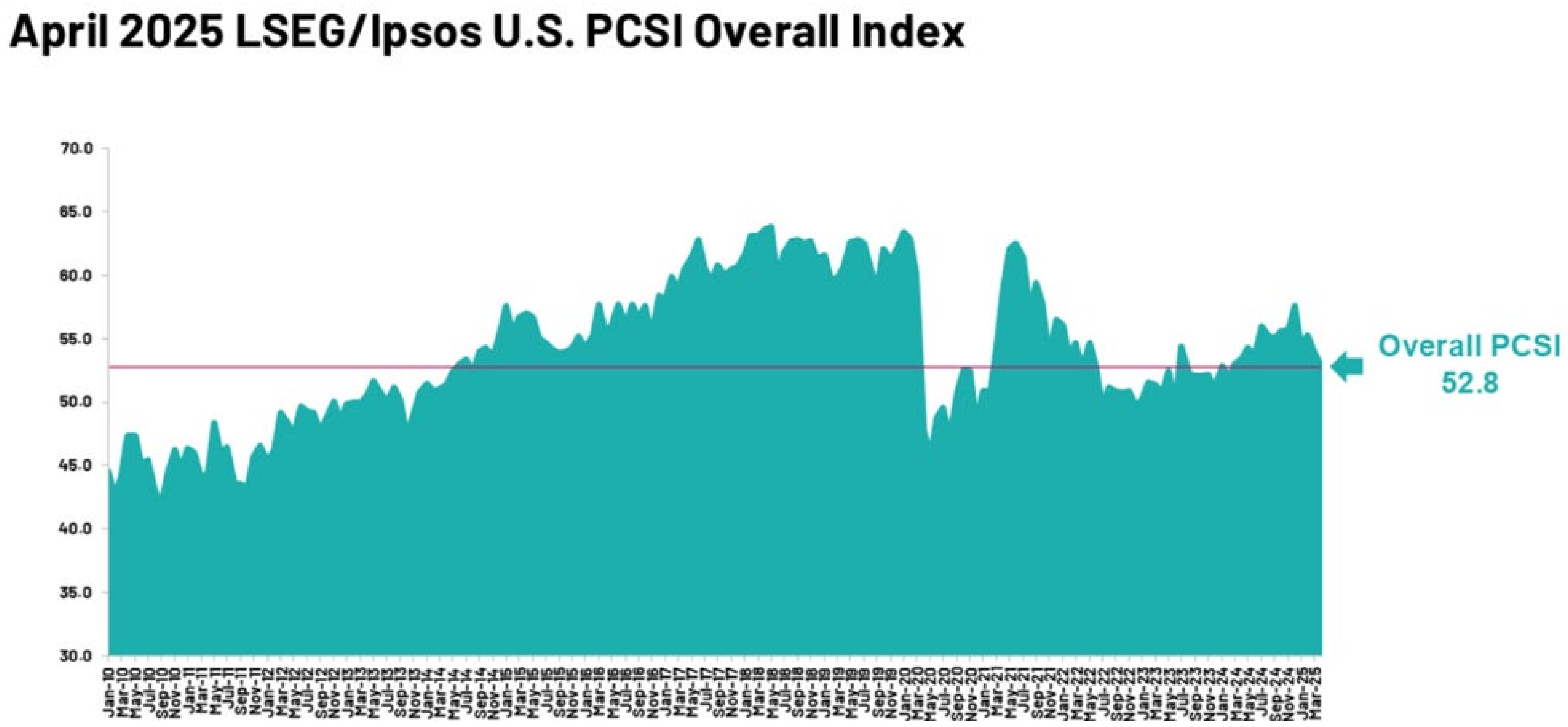


https://www.spglobal.com/ratings/en/research/articles/250325-economic-outlook-u-s-q2-2025-losing-steam-amid-shifting-policies-13450076

Between mid-2024 and early 2025, the chart shows diverging trends in U.S. inflation components. CPI for durable goods (blue line), which had been in negative territory during mid-2024, rebounded significantly in the second half of the year, indicating that durable goods became inflationary again. CPI for energy (orange line) experienced a sharp decline through mid-2024, bottoming out around July, then climbed steadily into early 2025. CPI for services excluding rent of shelter (green dashed line) remained persistently high and stable, suggesting sticky inflation in this category. CPI for rent of shelter (purple line) and CPI for food (red line) showed relatively stable, moderate increases throughout the period. Overall, while energy and goods saw notable swings, services-related inflation remained elevated and consistent, reflecting ongoing pressure in non-housing services.

Section 4: US Consumer Confidence/Sentiment

Chart 8: April 2025 Primary Consumer Sentiment Index - IPOS - April 14, 2025



https://www.ipsos.com/en-us/april-2025-lsegipsos-primary-consumer-sentiment-index

The above chart reflects the U.S. Primary Consumer Sentiment Index (PCSI) for April 2025, with an overall value of 52.8. This places the index just above the neutral mark of 50, indicating a balanced consumer sentiment. The index has shown fluctuations over time, but the trend appears to be relatively stable, remaining within the range of 45 to 55. This suggests that consumer sentiment is neither strongly positive nor negative, reflecting a moderate and steady outlook. It should be noted, however, that this number is currently on a downward slope. This number fell another 2 points in April, which will be shown in Chart 10.

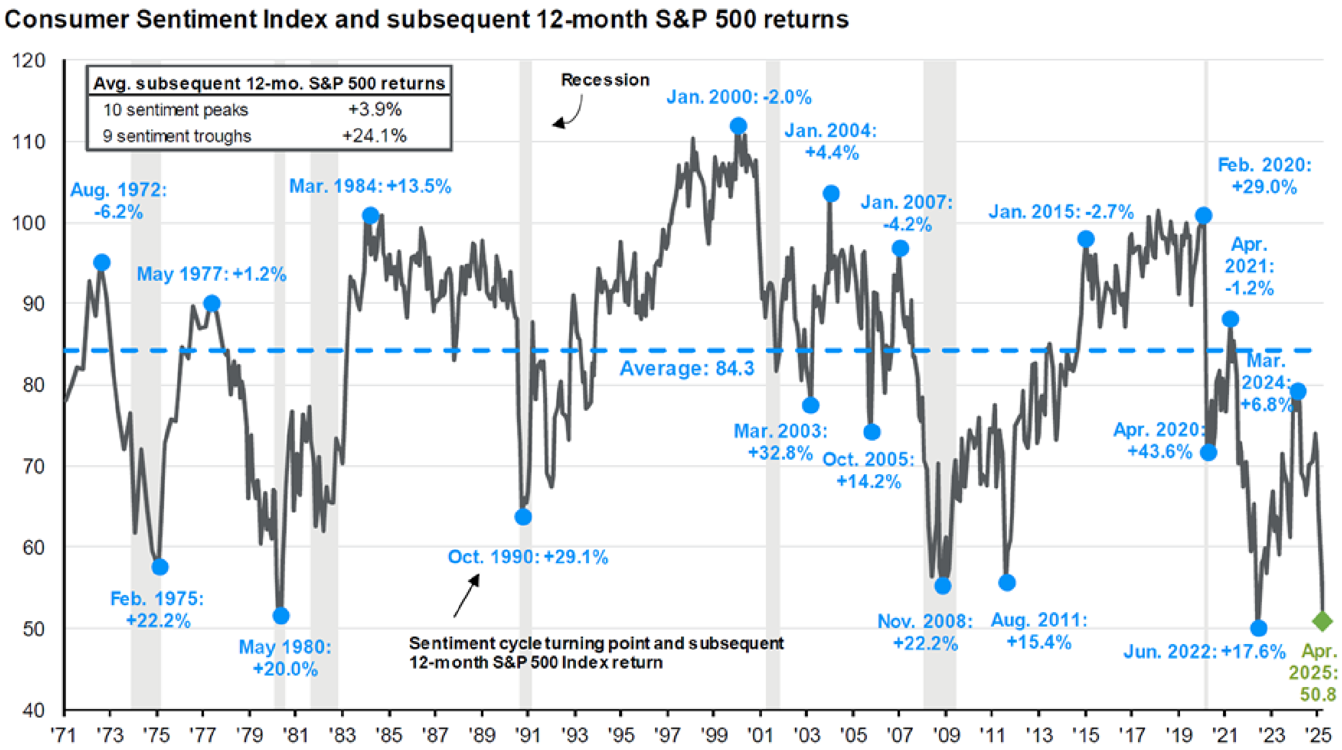
Chart 9: April 2025 Consumer Sentiment Sub-Indices - IPOS - April 14, 2025

Current Index	Expectations Index	Investment Index	Jobs Index
Consumers' perceptions of the economic climate and their current purchasing, jobs, and investment confidence	Consumers' expectations about future economic conditions	Consumers' perception of the investment climate	Consumers' perceptions about job security and the jobs market
This month: **44.8** Change vs. Last month: **-0.6** Change vs. Last year: **+0.6**	This month: **57.9** Change vs. Last month: **-2.7** Change vs. Last year: **-2.5**	This month: **47.1** Change vs. Last month: **-0.7** Change vs. Last year: **+0.8**	This month: **62.5** Change vs. Last month: **-1.7** Change vs. Last year: **-4.0**

https://www.ipsos.com/en-us/april-2025-lsegipsos-primary-consumer-sentiment-index

Overall, the above data indicates a mixed consumer sentiment for April 2025, with declines observed in key indices compared to last month. The Current, Expectations, and Jobs Indices have all decreased, particularly the Jobs Index, which saw a significant drop from last year. Despite these monthly declines, the Investment Index showed some improvement over the past year. While consumer perceptions of the economic climate and investment opportunities have seen slight improvements from the previous year, concerns about future economic conditions and job security are becoming more pronounced. This suggests a cautious outlook, with consumers feeling somewhat less confident about the economy and employment prospects moving forward.

Chart 10: Consumer Sentiment Index - JPMorgan Guide to the Markets - April 22, 2025



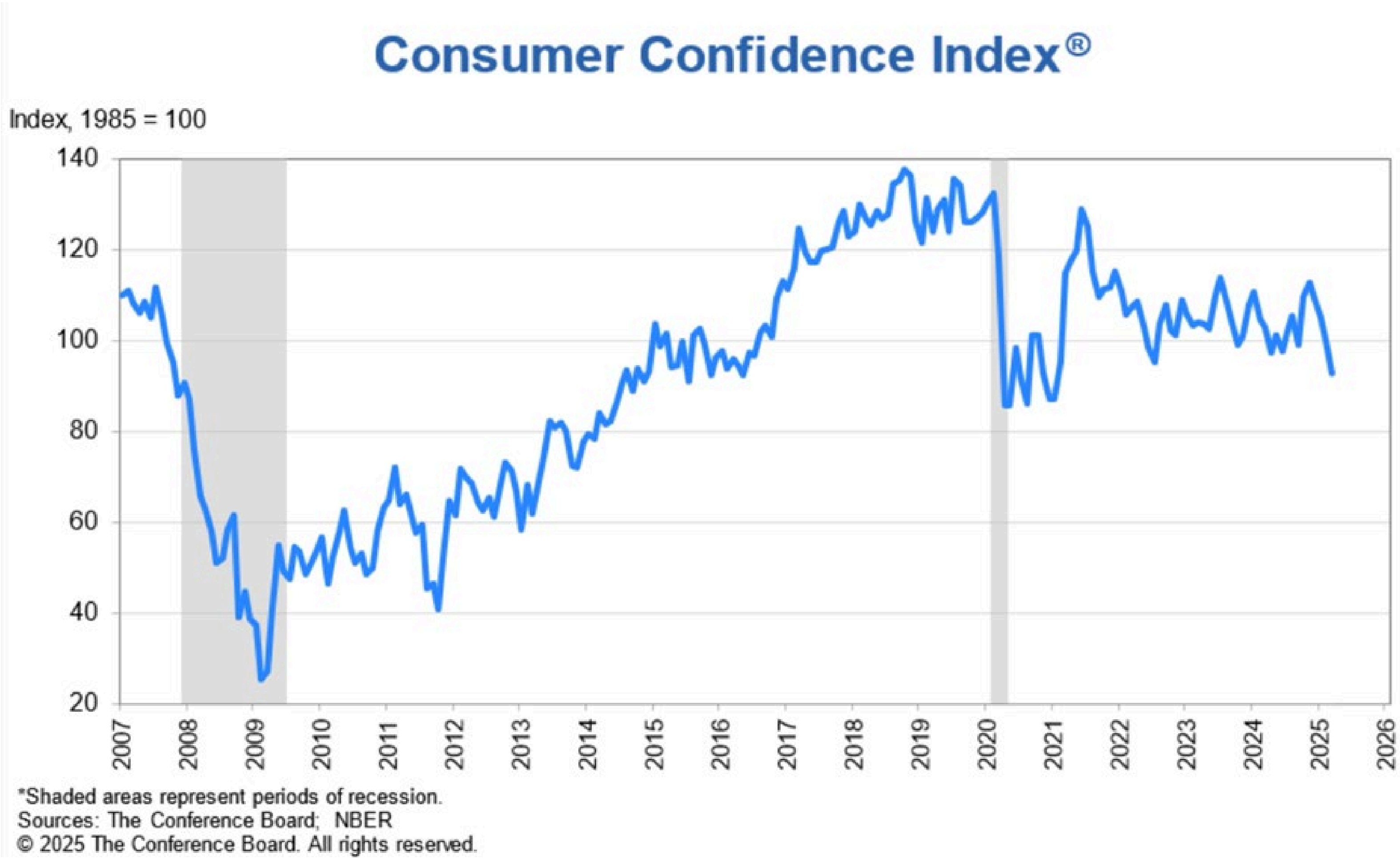
The above chart shows the Consumer Sentiment Index over time and its correlation with the subsequent 12-month returns of the S&P 500. The index fluctuates over the years, with notable peaks and troughs that correspond to significant economic events, including recessions and recoveries.

As of April 2025, the Consumer Sentiment Index stands at 50.8, which is significantly below the historical average of 84.3. This indicates a relatively low level of consumer confidence at the moment. The index is closer to the troughs in the chart, which generally correspond to periods of economic uncertainty or downturns.

Looking at the 12-month S&P 500 returns following similar sentiment levels in the past, there is a broad range of outcomes. For instance, in March 2024, the sentiment index was also low (around 51), and it was followed by a notable recovery of +6.8% in the S&P 500. However, sentiment levels near the current index have been associated with lower or negative market returns in the past, suggesting that lower consumer sentiment often coincides with more subdued or volatile market performance.

In conclusion, the current low sentiment level may reflect consumer caution and concerns about the economic outlook, but history shows that sentiment shifts can lead to various market outcomes, including both downturns and recoveries. Therefore, while the current sentiment index is low, it doesn't necessarily predict a specific market direction.

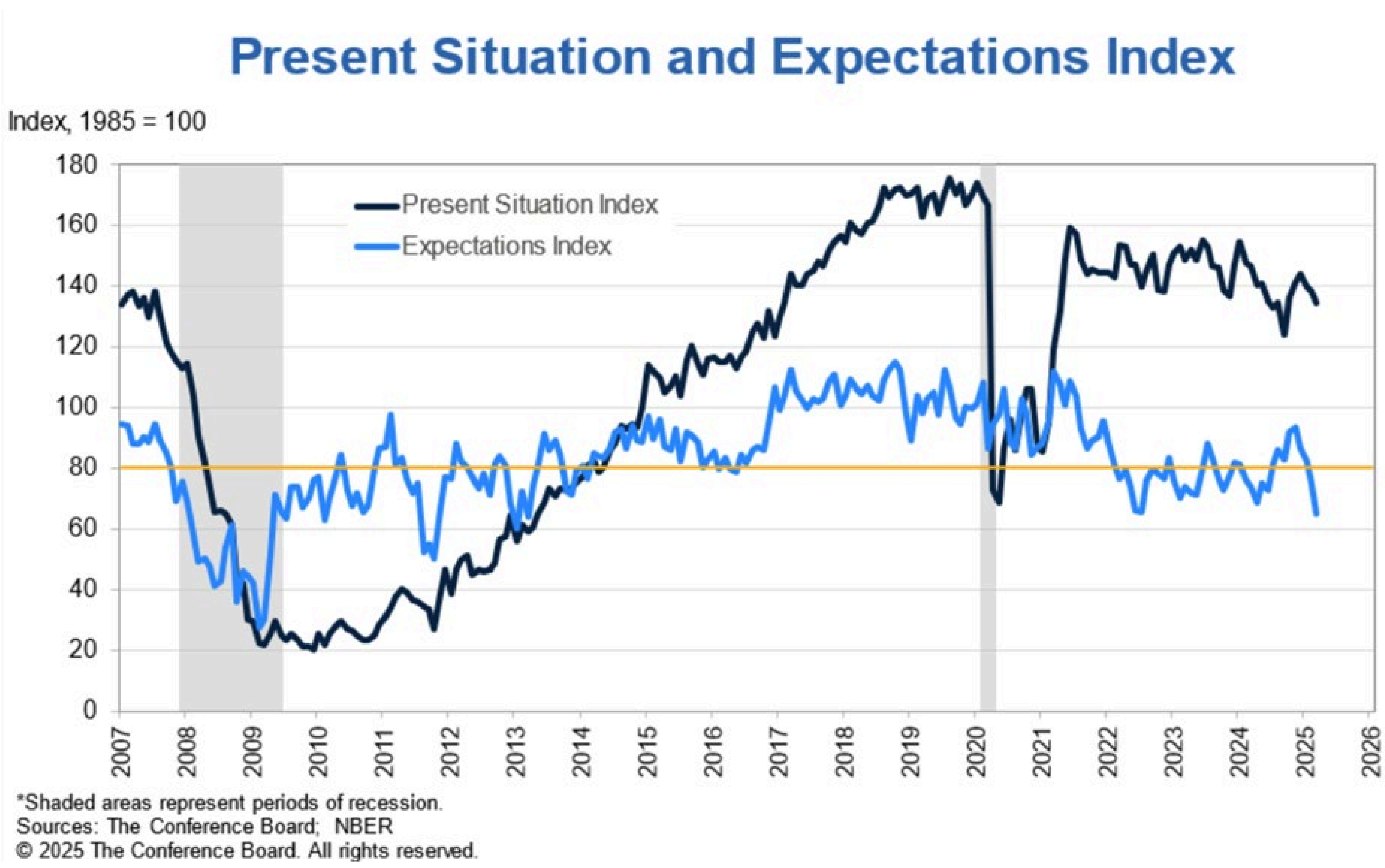
Chart 11: Consumer Confidence Index - The Conference Board - March 25, 2025



https://www.conference-board.org/topics/consumer-confidence

The consumer confidence index, as measured by The Conference Board, represents consumer's outlook on future economic outlook and spending plans, and is essentially a measure of economic optimism/pessimism. This differs from Consumer Sentiment, as the Consumer Sentiment index focuses on consumers' outlooks on current economic conditions. The Consumer Confidence Index (light blue line in chart 12) in the US fell by 7.2 points in March to 92.9. For Reference, in 1985 the index was at 100. This is the lowest level this index has been at since the recession in 2020.

Chart 12: Present Situation and Expectations Indices - The Conference Board - March 25, 2025



https://www.conference-board.org/topics/consumer-confidence

The Present Situation Index (dark blue line in chart 13), which is based on consumers' assessment of current business and labor market conditions, decreased 3.6 points to 134.5 in March. The Expectations Index (light blue line in chart 13), which is based on consumers' short-term outlook for income, business, and labor market conditions, dropped 9.6 points to 65.2. This is the lowest level it has been viewed at in 12 years, and this is well below the threshold of 80 that usually signals a recession ahead (seen in Chart 12 as a yellow line).

Section 5: US Economic Overview Forecasts

Chart 13: Economic Forecast 2024-2026 - The Conference Board - April 4, 2025

	2024				2025				2026				2024	2025	2026
	IQ*	IIQ*	IIIQ*	IVQ*	IQ	IIQ	IIIQ	IVQ	IQ	IIQ	IIIQ	IVQ			
Real GDP	1.6	3	3.1	2.4	1	0.5	1.4	1.6	1.2	1.5	1.8	2	2.8	1.6	1.4
Real GDP (YoY)	2.9	3	2.7	2.5	2.4	1.7	1.3	1.1	1.2	1.4	1.5	1.6	2.8	1.6	1.4
Real disposable income	5.6	1	0.2	1.9	2	2	1.7	1.7	1.5	1.5	1.5	1.5	2.7	1.6	1.7
Real consumer spending	1.9	2.8	3.7	4	0.5	0.2	0.8	1.2	1.9	1.9	1.9	2	2.8	1.7	1.5
Residential investment	13.7	-2.8	-4.3	5.5	0.5	-3.0	-2.0	-1.0	3	4	5	4.5	4.2	-0.5	1.7
Nonresidential investment	4.5	3.9	4	-3.0	3.9	1.5	1.8	2.6	3.6	3.4	3.4	3.6	3.6	1.8	3
Inventory change (bln chn '17$)	18	72	58	9	150	-15.0	-10.0	40	10	5	5	10	39	41	-1.0
Total gov't spending	1.8	3	5.1	3.1	2	1.1	0.4	0	0	0.2	0.2	0.2	3.4	2.1	0.2
Exports	1.9	1	9.6	-0.2	2.5	2	0	0	1	1	2	2	3.3	2.2	0.9
Imports	6.1	7.6	10.7	-1.9	20	-15.0	-3.0	3	2	3	3	3	5.3	2.7	0.7
Unemployment rate (%)	3.8	4	4.2	4.1	4.1	4.3	4.5	4.7	4.6	4.6	4.5	4.5	4	4.4	4.5
Labor Force Participation Rate (%)	62.6	62.6	62.7	62.5	62.4	62.4	62.3	62.2	62.2	62.2	62.2	62.1	62.6	62.3	62.3
PCE Inflation (%Y/Y)	2.7	2.6	2.3	2.5	2.5	2.9	3.1	3	2.8	2.6	2.4	2.3	2.5	2.9	2.9
Core PCE Inflation (%Y/Y)	3	2.7	2.7	2.8	2.8	3	3.2	3.1	2.9	2.7	2.4	2.3	2.8	3	3
Fed Funds (%, Midpoint, Period End)	5.375	5.375	4.875	4.375	4.375	4.375	3.875	3.625	3.375	3.125	3.125	3.125	4.375	3.625	3.125

https://www.conference-board.org/contenthub/newpublicationContentHub.cfm?parent=us-forecast

The Conference Board's U.S. economic forecast from April 2025 suggests moderate growth through 2025 to 2026. Real GDP grew by 2.9% in 2024, slowing to 2.4% in 2025 and 1.6% in 2026. Consumer spending saw strong growth in 2024 (1.9%), but this will slow significantly in 2025 (0.5%) and 2026 (1.5%). Residential investment is expected to decline by 3.0% in 2025 and 1.0% in 2026, after solid growth in 2024. Nonresidential investment will also decrease in 2025 (-3.0%) and 2026 (-1.8%). Both exports and imports are set to slow in 2025 and 2026. Unemployment is expected to rise slightly, from 3.7% in 2024 to 4.5% by 2026, while the labor force participation rate remains stable at 62.6%. Inflation is projected to remain controlled, with PCE inflation moderating from 2.9% in 2024 to 2.3% in 2025 and 2.4% in 2026. The Federal Funds rate began high in 2024 (5.37%) but is expected to decrease gradually through 2026. Overall, the forecast shows slowing but steady economic growth with manageable inflation and a slight increase in unemployment.

Chart 14: US Economic Forecast 2019-2027 - S&P Global Ratings Group - March 25, 2025

S&P Global Ratings' U.S. economic forecast (summary)

March 2025

	2019	2020	2021	2022	2023	2024	2025F	2026F	2027F
Key indicator									
(annual average % chg)									
Real GDP	2.3	(2.2)	6.1	2.5	2.9	2.8	1.9	1.9	2.2
change from Nov (ppt.)	0.0	0.0	0.0	0.0	0.0	0.1	(0.1)	(0.1)	0.5
Real GDP (Q4/Q4)	3.4	(1.0)	5.7	1.3	3.2	2.5	1.6	2.1	2.0
change from Nov (ppt.)	0.0	0.0	0.0	0.0	0.0	0.2	(0.4)	0.2	0.1
Consumer spending	2.2	(2.5)	8.8	3.0	2.5	2.8	2.6	2.1	2.4
Private nonresidential fixed investment	3.8	(4.6)	6.0	7.0	6.0	3.6	2.1	3.2	3.5
Private residential investment	(0.9)	7.7	10.9	(8.6)	(8.3)	4.2	0.8	0.1	2.3
Government spending	3.9	3.4	(0.3)	(1.1)	3.9	3.4	1.3	(0.6)	(0.1)
CPI	1.8	1.3	4.7	8.0	4.1	3.0	2.8	2.2	2.3
Core CPI	2.2	1.7	3.6	6.2	4.8	3.4	3.3	2.7	2.3
Core PCE (Q4/Q4)	1.4	1.5	4.9	5.2	3.2	2.8	2.8	2.3	2.1
Labor Productivity (real GDP/ total employment)	1.2	3.9	3.0	(1.7)	0.7	1.4	0.9	1.3	1.5
(annual average levels)									
Unemployment rate %	3.7	8.1	5.4	3.7	3.6	4.0	4.3	4.5	4.1
Housing starts (mil.)	1.3	1.4	1.6	1.6	1.4	1.4	1.4	1.4	1.4
Light vehicle sales (mil.)	17.0	14.5	15.0	13.8	15.5	15.8	15.8	15.7	15.8
10-year Treasury %	2.1	0.9	1.4	3.0	4.0	4.2	4.2	3.6	3.6
Federal funds rate %	2.2	0.4	0.1	1.7	5.0	5.1	4.3	3.6	3.2
Federal funds rate % (Q4 average)	1.6	0.1	0.1	3.7	5.3	4.6	4.2	3.4	3.1

Note: All percentages are annual averages, unless otherwise noted. Core CPI is consumer price index excluding energy and food components. Core PCE is personal consumption expenditures price index excluding energy and food. f--forecast. Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, The Federal Reserve, S&P Global Market Intelligence Global Link Model, S&P Global Ratings Economics forecasts.

https://www.spglobal.com/ratings/en/research/articles/250325-economic-outlook-u-s-q2-2025-losing-steam-amid-shifting-policies-13450076

The S&P Global Ratings U.S. economic forecast for 2019-2027 shows a gradual recovery from the pandemic's economic impact. Real GDP growth, which fell sharply in 2020, is projected to grow at 1.9% in 2025 and reach around 2.2% by 2027. Consumer spending, which surged in 2020, is expected to moderate to 2.8% in 2025 and stabilize at 2.6% by 2027. Private nonresidential fixed investment is projected to experience a significant decline in 2024 but recover at a more modest pace in subsequent years. Residential investment, after fluctuating in the past few years, is expected to see a moderate increase in 2025. Government spending is expected to decline significantly over the forecast period. Inflation, as measured by the CPI, is forecast to be 3.0% in 2025 and will moderate in the following years. The unemployment rate, which peaked at 8.1% in 2020, is expected to steadily decrease to 4.5% by 2025 and stabilize at 4.1% by 2027. Housing starts and light vehicle sales are projected to stabilize, and the 10-year Treasury yield and federal funds rate are expected to rise gradually, signaling a return to more normal economic conditions. Overall, while some sectors show volatility, the economy is forecast to experience steady growth in the coming years, assuming minimal government intervention.

Section 6: Tariffs

On April 2, 2025, the White House declared it to be "Liberation Day", a day when reciprocal tariffs would be put in place on every US trade partner. This was the first time in nearly a century that tariffs of this size and scope were introduced. However, on April 9, the date when the tariffs were set to go into effect, the current administration said they would suspend the reciprocal tariffs going into effect for 90 days. Instead, there would be a 10% tariff rate imposed on all global imports. This was likely a strategy to attempt to open negotiations with US trade partners. The only tariff that is currently fully in place is the one on China, which as of April 25, stands at 145% or higher depending on the good. Whether the higher tariff rates promised on April 2 go into effect or not, GDP growth could slow, and inflation could rise due to the actions taken by the current administration. This is due to the already-in-place 10% tariff rate imposed across the board. However, should the reciprocal tariffs promised on Liberation Day go into effect, the effect on the economy will be far more dramatic, leading to much higher inflation and much lower GDP growth. No matter what, the economy will be impacted by these moves by the US government, but the question is: by how much? Unfortunately, the outcome is currently uncertain as it seems no one can predict the current administration's next moves on the matter. The only thing that is currently certain about this situation is the uncertainty surrounding it.

Section 7: Things to Watch Out For

- **U.S. GDP Growth:**
  - A slowdown from the average growth rate of 2.5% in the past decade, signaling a period of slow growth.
- **Unemployment:**
  - The labor market is showing a soft landing with stable job gains.
- **Inflation:**
  - PCE inflation forecast to be 2.3% in 2025 and 2.4% in 2026, a decline from the post-pandemic highs.
  - Core inflation measures are showing slight reacceleration but remain manageable.
- **Consumer Sentiment:**
  - The Primary Consumer Sentiment Index is April 2025 stands at 52.8, indicating a neutral outlook but o a downward slope.
  - Job security and expectations have declined, suggesting a more cautious consumer sentiment.
- **Tariffs:**
  - The 10% tariffs put in place by the current administration could cause inflation to rise and GDP to slow.
  - Should the administration's reciprocal tariffs go into effect, they are likely to cause inflation to rise and cause GDP growth to slow far more dramatically than the current tariffs.
- **Economic Outlook:**
  - The U.S. economy is expected to experience steady but slower growth with manageable inflation and modest unemployment increases.
  - The overall economic recovery will continue at a slower pace, and challenges remain in sectors like housing and investment.

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