

May 2025 | Consumer Spending Growth Slows; Moody's Downgrade Raises Fiscal Concerns



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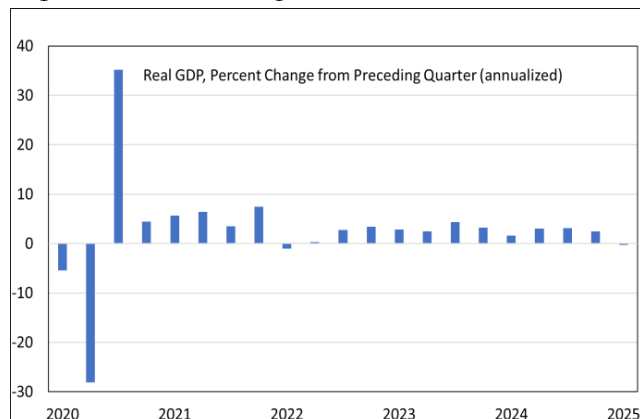
Highlights

- Trade agreements with China and the U.K. reduced tariff-policy uncertainty in May.
- Job gains were stronger than expected in April and the unemployment rate remained at 4.2%.
- Huntington Private Bank expects the FOMC to deliver two 25 basis point cuts this year.

New trade agreements reached by the U.S. and some of its trading partners decreased tariff risks and reduced policy uncertainty. The U.S. and China announced a temporary agreement on May 12 to reduce total China tariffs from 145% to 30% and suspend additional tariffs for 90 days. China agreed to lower its tariff on U.S. good from 125% to 10% during the 90-day period. The U.S.-China agreement followed a trade deal with the U.K. in the previous week.

Economic activity softened in recent months as tariff policy uncertainty, restrictive monetary policy and inflation weighed on consumers and businesses. Real GDP contracted 0.3% in the first quarter of 2025, according to the advance estimate from the Bureau of Economic Analysis. The decline in activity was driven by an increase in imports, which are a subtraction in the calculation of GDP. Imports rose in the prior quarter as consumers and businesses rushed to buy goods from foreign sources ahead of tariffs.

Fig. 1: The U.S. Economy Contracted in the First Quarter



Source: BEA

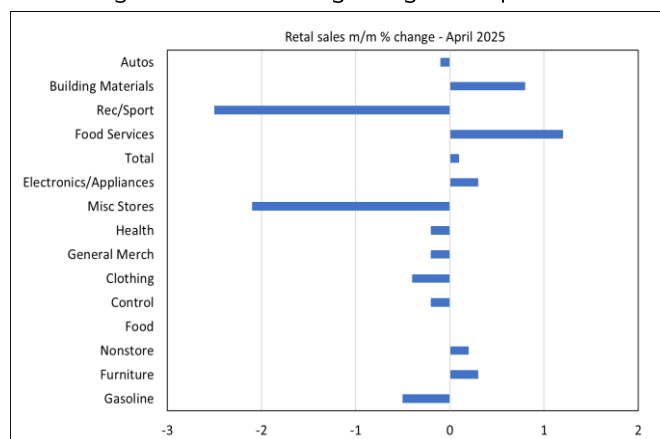


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Consumer spending, private investment and inventory investment contributed to growth, but this was offset by declines in net exports and government spending.

Nominal retail sales edged up 0.1% in April, slightly better than market expectations for no change, after jumping 1.7% (revised from +1.4%) in March. Seven out of 13 categories decreased in April, with notable declines in sporting goods, miscellaneous stores, and gasoline stations. The retail sales control group, which excludes volatile components, declined 0.2% in April.

Fig. 2: Retail Sales Edged Higher in April



Source: Census Bureau

The U.S. labor market showed remarkable resilience in April. Job growth was stronger than expected and the unemployment rate remained at 4.2%. The three-month moving average of job gains increased to 155,000 in April from 133,000 in March. Low layoffs also indicate healthy labor market conditions. Initial claims for unemployment benefits declined 2,000 to 227,000 in the week ending May 17. The four-week moving average edged slightly higher to 232,000 from 231,000.

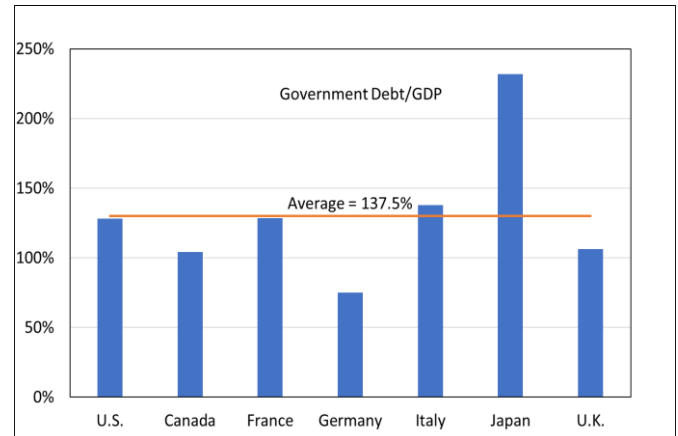
The Federal Open Market Committee (FOMC) kept the federal funds rate unchanged at its meeting on May 6 and 7, as forecasted by Huntington Private Bank. FOMC officials are likely to remain on hold until they get more clarity on the impact of tariffs on inflation, the labor market, and the broader U.S. economy. FOMC officials noted that the risks of higher inflation and higher unemployment had risen since the March FOMC meeting.

Risks to the downside have increased in recent weeks. Moody's Ratings downgraded U.S. government debt on May 16 to Aa1 from Aaa noting "the increase over more than a decade in government debt and interest payment ratios." Additionally, fiscal concerns rose in financial markets in late May as President Trump's "One Big Beautiful Bill" advanced through Congress.

While Trump's bill could be stimulative for the U.S. economy, rising deficits and debt levels increase the risk of default. An elevated debt-to-GDP ratio could reduce global appetite for U.S. debt, resulting in higher bond yields. Elevated bond yields could weigh on the U.S. economy, particularly the housing sector, and result in lower valuations in equity markets.

The U.S. economy remains in good shape, and it could take a couple of quarters for higher import prices to pass through to consumer prices. The FOMC is expected to remain on hold at its next meeting on June 17 and 18. Softer labor market conditions and weaker economic activity later this year should put the FOMC in a position to deliver two 25 basis point cuts.

Fig. 3: Moody's Downgraded U.S. Debt by One Notch



Source: Bloomberg

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Fig. 4: Baseline Economic Outlook

	2020	2021	2022	2023	2024	2025*	2026*
Real GDP Annual Growth Rates, 2017 Chained Prices							
Pers. Consumption Expenditures	-2.5	8.8	3.0	2.5	2.8	2.0	1.8
Government Expenditures	3.4	-0.3	-1.1	3.9	3.4	1.6	1.2
Private Investment	-4.5	8.8	6.0	0.1	4.0	1.4	1.7
Exports	-13.1	6.5	7.5	2.8	3.2	1.5	1.0
Imports	-9.0	14.7	8.6	-1.2	5.4	6.0	3.0
Total Real GDP	-2.2	6.1	2.5	2.9	2.8	1.6	1.8
CPI (1982-1984=100), % Change Annualized							
CPI (1982-1984=100), % Change Annualized	1.2	4.7	8.0	4.1	3.0	2.8	2.9
Core CPI (1982-1984 = 100), % Change Annualized	1.7	3.6	6.2	4.8	3.4	3.2	3.4
PCE Price Index (2017=100), % Changed Annualized							
PCE Price Index (2017=100), % Change Annualized	1.1	4.2	6.5	3.8	2.5	2.9	3.0
Core PCE Price Index (2017=100), % Change Annualized	1.3	3.6	5.2	4.1	2.8	3.0	3.0
Crude Oil WTI, (\$/barrel)	\$39	\$68	\$95	\$78	\$76	\$65	\$62
Effective Federal Funds Rate, % (Average)	0.37	0.08	1.68	5.02	5.14	4.17	3.69
10-Yr. Treasury Rate, % (Average)	0.92	1.51	3.88	3.88	4.21	4.38	4.20
30-Yr. Fixed Rate Mortgage, %	2.87	3.27	6.66	6.99	6.72	7.20	6.80
Industrial Production (YoY%)	-7.0	4.9	3.4	0.2	0.2	1.0	1.6
Payroll Jobs, Average Monthly Difference, Thousands	-774	606	399	225	168	130	105
Unemployment Rate, Annual Average	8.1	5.4	3.6	3.6	4.0	4.4	4.4
DXY Dollar Index	89.9	95.7	103.5	101.3	104.2	100.0	97.5

*Forecast

Historical data sources: Federal Reserve, BLS, BEA and Bloomberg

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