

QUEST Economic Update | March 2025

US economy may be slowing, inflation remains somewhat elevated

Recent economic data has suggested that some weakness may be appearing in the US economy. Retail sales appear to have weakened, and consumer confidence has been falling. Policy uncertainty and concerns over tariffs and inflation appear to be the source of some of the economic worries. That said, US labor markets remain solid with a relatively low February unemployment rate of 4.1%, job gains remaining at a reasonably healthy level, and weekly UI claims not raising any concerns.

Retail sales fell 1.2% in January and rose by only 0.2% in February, suggesting some softening of consumer spending. Several consumer confidence gauges have also been falling over the past several months. The Conference Board's consumer confidence index, for example, fell 7.2 points to 92.9, the fourth consecutive monthly decline and its lowest level since January 2021. The Federal Reserve Bank Atlanta's current GDPNow forecast sees first quarter GDP falling 2.8% (real, annualized), driven largely by a surge in imports, which is a subtraction from GDP.

The US economy added 151,000 jobs in February, up from 125,000 in January, but down from the average of 168,000 in 2024. The 4.1% February unemployment rate is slightly below the 4.3% to 4.5% range many economists associate with full employment and weekly unemployment insurance claims remain below prepandemic levels.

Markets have consistently expected the next interest rate cut by the Federal Open Markets Committee (FOMC) to be in June, but, perhaps in response to some of the recent economic data, it is now expected that there could also be rate cuts at the July/September and October/December meetings.

While economic forecasts generally see some weakening of US economic growth, there does not appear to be a concern for recession.



Ernst & Young LLP's Quantitative Economics and Statistics (QUEST) group's Economic Update summarizes the latest US economic trends and significant global developments.
Current as of 3/31/2025

OVERALL US ECONOMY

Roughly 1.0% to 1.6% growth
expected for 2025 Q1 (annualized)

Roughly 1.9% to 2.0% growth
expected for 2025

Recent data suggest that the US economy may be softening somewhat, but it may be too early to say with confidence. Retail sales and consumer spending showed some weakness in January and February. The Federal Reserve projects GDP growth of 1.7% in 2025, as compared to 2.8% in 2024.

US GDP growth forecast

Source	2025 Q1 (annualized)	2025 annual
Wells Fargo	1.0%	1.9%
Merrill Lynch	1.5%	2.0%
Oxford Economics	1.0%	2.0%
Blue Chip	1.6%	2.0%

LABOR MARKETS

216k job gain
on average in 2023

168k job gain
on average in 2024

138k job gain
on average in the 2025 (Jan – Feb)

The February unemployment rate ticked up to 4.1% from 4.0% in January, remaining below the 4.3%-4.5% generally viewed as consistent with full employment. The US economy added 151,000 jobs in February, following gains of 125,000 in January and a monthly average of 168,000 in 2024.

Nonfarm payroll employment

Month-over-month change (in thousands), seasonally adjusted

Month	Change (thousands)
Jan. 23	323
Jan. 24	125
Feb. 25	151

Hourly wages and CPI-U

Change from a year earlier, CPI - not seasonally adjusted, Wages – seasonally adjusted

Month	Wages (%)	CPI-U (%)
Jan. 23	4.5%	6.4%
Jan. 24	4.5%	2.8%
Feb. 25	4.0%	2.8%

INFLATION / INTEREST RATES

CPI-U and core CPI

Change from a year earlier, not seasonally adjusted

Month	CPI-U (%)	Core CPI (%)
Jan. 23	6.4%	5.6%
Jan. 24	3.1%	2.8%
Feb. 25	3.1%	2.8%

Expected federal funds rate over 2025

Month	Expected federal funds rate (%)
Current	4.25%
May-25	4.25%
Jun-25	4.00%
Jul-25	4.00%
Sept-25	3.75%
Oct-25	3.50%
Dec-25	3.50%

GLOBAL GROWTH

Country	2023	2024	2025	2026
United States	2.8%	2.0%	1.9%	
Euro Area	0.7%	0.8%	1.1%	
China	5.0%	4.4%	4.1%	
Russia	3.7%	1.8%	1.5%	
Canada	1.5%	1.7%	1.6%	
Brazil	3.1%	2.0%	1.8%	
Mexico	1.5%	0.8%	1.5%	
India	6.7%	6.4%	6.5%	

Source: Blue Chip Economic Indicators (Vol. 50, No. 3, March 10, 2025).

Upcoming economic data releases

- ▶ March Employment Situation, April 4
- ▶ March Consumer Price Index, April 10
- ▶ Monthly Retail Trade Report, April 16
- ▶ Q1 2025 GDP (first/advance estimate), April 30
- ▶ March PCE price inflation, April 30
- ▶ Interest rates, Federal Open Markets Committee (FOMC) meeting, May 6-7

Overall US economy

The US economy may be hitting a rougher patch. Recent data suggests a falloff in consumer confidence and weakness in consumer spending. That said, labor markets appear to be solid. Economic forecasts are being lowered, but while suggesting weaker growth, recession worries have not appeared.

The Conference Board's consumer confidence index fell 7.2 points to 92.9, the fourth consecutive monthly decline and its lowest level since January 2021. The University of Michigan's consumer sentiment index fell to 57.0 in March, down 11.9% from February and 28.2% from a year ago. Retail sales fell 1.2% in January and rose 0.2% in February. Personal consumption expenditures fell by 0.3% in January and rose 0.4% in February. The January drop was largely attributable to a 4.3% decrease in durable goods.

Labor market

US labor markets remain solid. The February unemployment rate was 4.1%, up from 4.0% in January and the same as the 4.1% in December. The unemployment rate appears to have settled in a range below the roughly 4.3%-4.5% unemployment rate many economists view as consistent with full employment.

The US economy added 151,000 jobs in February up from 125,000 in January. Economists generally view the addition of 165,000 jobs per month as neutral, meaning neither adding nor subtracting from the unemployment rate. Average monthly job gains were 168,00 in 2024, 216,000 in 2023, and 380,000 in 2022.

Inflation

The February CPI inflation saw prices increasing 2.8% from 12 months ago, since December of last year, compared with 3.0% year-over-year in January.

The monthly February CPI increased by 0.2%, as compared to 0.5% in January. The core CPI, which excludes the more volatile energy and food prices, rose by 3.1% (y/y) in February, down from the 3.3% year-over-year growth in January. The monthly core CPI rose by 0.2% in February, as compared to 0.5% in January.

The monthly change was driven by shelter costs, accounting for nearly half of the monthly increase in the overall CPI. The Federal Reserve Bank of Cleveland's inflation nowcast forecasts the increase in the CPI for March at 2.5% (as of March 31).

The PCE price index, the preferred inflation measure of the Federal Reserve, increased by 0.3% in February, and by 2.5% from 12 months

Economic forecasts for first quarter growth have moved down with these recent data. The Federal Reserve's March update to their economic projections sees economic growth of 1.7% in 2025, down from 2.1% in their December projections. The Federal Reserve Bank Atlanta's current GDPNow forecast, which is generally volatile near the beginning of the quarter but becomes more reliable as the quarter progresses and more data is reflected, sees the US economy contracting by 2.8% (real, annualized) in the first quarter. This decline in its first quarter forecast is largely driven by a surge in imports, which is a subtraction from GDP.

Market expectations for interest rate reductions by the FOMC have shifted somewhat with the recent data. Expectations are now for rate cuts in June, July or September, and October or December.

Weekly jobless claims have been below pre-pandemic levels for the past several months. Job openings have been generally falling since their high in early 2022 but have remained above unemployment.

The labor force participation rate of 62.4% was down from 62.6% in January. The underemployment rate increased to 8.0% in February, up from 7.5% in January and December. The underemployment rate averaged 8.7% from 2015 through 2019. Average hourly earnings increased by 0.3% in February and are 4.0% higher than 12 months ago.

ago. The core-PCE price index increased by 0.4% in February and by 2.8% from 12 months ago. The core PCE price index has been increasing by around 2.8% since December 2023. The Federal Reserve Bank of Cleveland's inflation nowcast expects the March core PCE to increase by 2.7% (as of March 31).

Although inflation remains elevated, the economic weakness suggested by some of the recent data has shifted market expectations for interest rate cuts by the FOMC. Whereas only one reduction was expected several months ago, now three interest rate cuts are expected in 2025, one at the June FOMC meeting followed by cuts at the July or September meetings and then at the October or December meetings.

Global growth

Forecasts generally suggest economic growth leveling off and perhaps tailing off somewhat in 2025. Recent data from the Euro area, UK and Germany indicate that inflation is settling at the 3% range and many central banks are reducing their policy rates to support economic growth.

The Bank of Japan appears to be an outlier as it has raised its rate to levels not seen in decades as the Japanese yen depreciated. China's economy continues to face headwinds with consensus forecasts suggesting economic growth falling in 2025 and 2026. All countries seem to be paying close attention to possible tariff policy changes coming out of the United States and the significant policy uncertainty.

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