

QUEST Economic Update | June 2025

US Economy showing resilience amid tariff and policy uncertainty

Recent reporting suggests that the US economy continues to be resilient in the face of continued concerns around tariffs and policy uncertainty.

Inflation news over the past several months has been relatively encouraging, with the inflation rate continuing to fall and within reach of the Federal Reserve's 2% target. For example, the May Consumer Price Index (CPI) had consumer prices rising only 0.1% for the month and 2.4% from 12 months ago. The April personal consumption expenditure (PCE) price index was 2.1%. While real GDP growth during the first quarter came in at -0.2%, largely driven by a surge in imports (a subtraction from GDP), a rebound in the second quarter is expected. The Federal Reserve Bank of Atlanta's GDPNow forecast sees 3.8% GDP growth during the second quarter (as of June 9), driven largely by continuing strength in consumer spending and a reversal of imports from the first quarter.

Moreover, the University of Michigan's Consumer Sentiment Index for June rose to 60.5 from 52.2 in May. The Conference Board's Consumer Confidence Index increased 12.3 points in May to 98.0 and its Expectations Index, based on consumers' short-term economic outlook, rose 17.4 points to 72.8.

Despite these positive signals, markets still expect the Federal Reserve to hold interest rates steady at its June and July meetings and then begin to reduce interest rates in September, but at a relatively slow pace going forward. Reporting suggests the Federal Reserve will be taking a data-driven approach to interest rates awaiting news on possible softening of labor markets and inflation, as well as how the tariff and trade policy evolves in the coming months.



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 6/13/2025

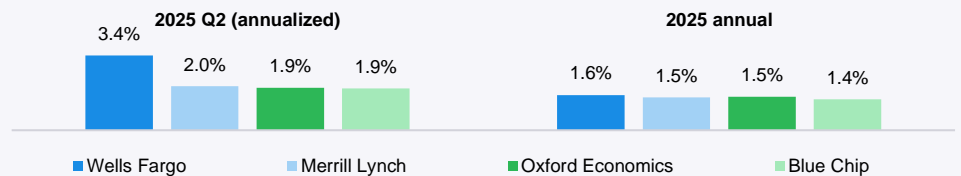
OVERALL US ECONOMY

The hard data continues to indicate that the US economy remains resilient. The -0.2% real GDP growth in the first quarter is largely due to the surge in imports, which are a subtraction from GDP. The Atlanta Fed's GDPNow forecast sees second quarter real GDP growth surging to 3.8% (as of June 9). Economic performance in the coming quarters will undoubtedly depend on how tariffs and trade policy evolve.

Roughly 1.9% to 3.4% growth
expected for 2025 Q2 (annualized)

Roughly 1.4% to 1.6% growth
expected for 2025

US GDP growth forecast



LABOR MARKETS

216k job gain
on average in 2023

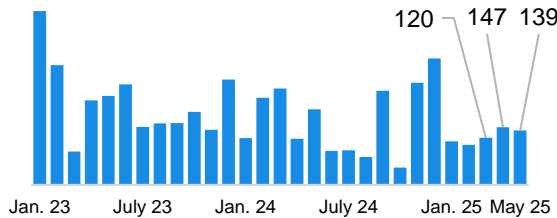
168k job gain
on average in 2024

149k job gain
on average over the last 12 months

The unemployment rate held steady at 4.2% in May, remaining below the 4.3%-4.5% range generally associated with full employment. The US economy added 139,000 jobs in May, roughly in line with the 12-month average of 149,000.

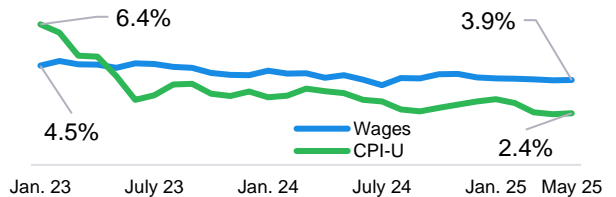
Nonfarm payroll employment

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



Hourly wages and CPI-U

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

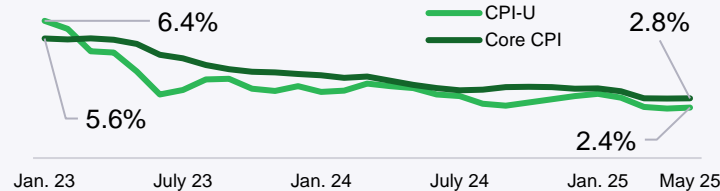


INFLATION / INTEREST RATES

Despite expectations that tariffs would push prices higher, inflation has continued its gradual descent towards the Federal Reserve's 2% target. The May CPI registered 2.4%, with a monthly increase of 0.1%. The April PCE price index rose 2.1%, with a monthly increase of 0.1%. Markets do not expect a rate cut until the September meeting of the Federal Open Market Committee (FOMC).

CPI-U and core CPI

Change from a year earlier, not seasonally adjusted

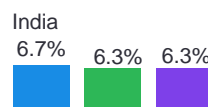
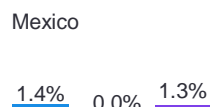
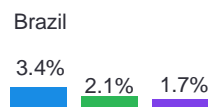
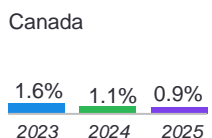
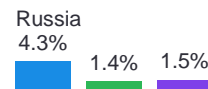
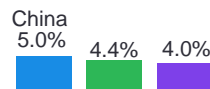
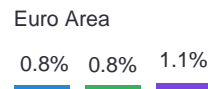
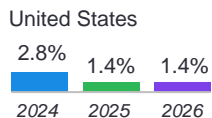


Expected federal funds rate



GLOBAL GROWTH

Forecasts for economic growth abroad are somewhat mixed with tariff-related uncertainty serving as the key backdrop. The Euro Area appears to have regained its footing, while the UK is exhibiting weakness.



Upcoming economic data releases

- ▶ Monthly Retail Trade Report, June 17
- ▶ Interest rates, Federal Open Markets Committee (FOMC) meeting, June 17-18
- ▶ Q1 2025 GDP (third estimate), June 26
- ▶ May PCE price inflation, June 27
- ▶ June employment situation, July 3
- ▶ June Consumer Price Index, July 15

Overall US economy

Despite concerns in January and February that the US economy might be headed toward recession, driven by tariffs and policy uncertainty, the economy appears to remain on reasonably solid ground. The -0.2% real GDP growth during the first quarter was largely the result of a surge in imports, a subtraction from GDP. Consumer spending and investment remained firmly in positive territory and, absent the large tariff-driven swings, real GDP growth would have likely been in the low-1% range.

The Federal Reserve Bank of Atlanta's current GDPNow forecast, which is generally volatile near the beginning of the quarter but becomes more reliable as more data is incorporated, projects real, annualized GDP growth of 3.8% in the second quarter of 2025 (as of June 9), supported by continued strength in consumer spending and a

Labor markets

US labor markets remain solid. The unemployment rate held steady at 4.2% in May, unchanged from April and March. It appears to have settled into a range below the roughly 4.3%-4.5% level many economists consider consistent with full employment.

The US economy added 139,000 jobs in May, down from 147,000 in April. Economists generally view monthly job growth of around 165,000 jobs per month as neutral, meaning neither adding nor subtracting from the unemployment rate. Job gains averaged 111,000 per month in the first quarter of 2025. Average monthly gains were 168,000 in 2024, 216,000 in 2023, and 380,000 in 2022.

Inflation

On a monthly basis, the CPI rose 0.1% in May, as compared to 0.2% in April. The CPI increased by 2.4% from 12 months ago, compared with 2.3% in April (from 12 months prior).

The core CPI, which excludes the more volatile energy and food categories, rose by 0.1% in May and by 2.8% from 12 months ago, the same as 2.8% in April.

The monthly increase in the CPI was driven primarily by shelter, which rose 0.3% in May. The Federal Reserve Bank of Cleveland's inflation nowcast projects a modest uptick in the inflation rate to 2.6% for June (as of June 13).

The PCE price index, the preferred inflation measure of the Federal Reserve, increased by 0.1% in April and by 2.1% from 12 months ago. The core PCE price index also rose by 0.1% in April and was up 2.5% from 12 months ago. The core PCE price index has been increasing at

Global growth

Economic forecasts suggest a gradual moderation in global growth through the remainder of 2025. In the United States and the Euro Area, inflation rates are steadily declining toward central bank targets, approaching 2% in recent months. Inflation remains more persistent in the United Kingdom and Japan, with both reporting year-over-year rates of 3.5% in April.

reversal of imports from the first quarter.

The University of Michigan's Consumer Sentiment Index increased in June for the first time in six months, climbing to 60.5 from 52.2 in May. The Conference Board's Consumer Confidence Index rose 12.3 points to 98.0 in May, up from 85.7 in April.

Market expectations for interest rate reductions by the FOMC have shifted somewhat with the recent data. Rate cuts are now expected in September, December, and March 2026.

Weekly jobless claims have remained below pre-pandemic levels for the past several months but have edged up to near the roughly 250,000 pre-pandemic level. Job openings have generally declined since peaking in early 2022, but remain above the number of unemployed, rising to 7.4 million in April, up from 7.2 million in March.

The labor force participation rate was 62.4% in May, down from 62.6% in April. The underemployment rate held steady at 7.8% in April and May, down from 7.9% in March. The underemployment rate averaged 8.7% from 2015 through 2019. Average hourly earnings rose 0.4% in May and were 3.9% higher than a year earlier.

an annual pace of roughly 2.8% since December 2023. The Federal Reserve Bank of Cleveland's inflation nowcast projects May core PCE to increase by 2.6% (as of June 13).

While recent inflation news has been favorable, market expectations are for the FOMC to hold interest rates steady for June and July and then reduce rates in September, with two additional rate cuts expected in December and March 2026.

Central banks in the Euro Area and the United Kingdom have begun cautiously lowering policy rates to support growth. The Bank of Japan has moved in the opposite direction, raising interest rates for the first time in decades as the yen continues to depreciate. Meanwhile, uncertainty surrounding potential changes to United States trade and tariff policy is contributing to elevated business caution across major economies.

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