ECONOMIC OUTLOOK

APRIL 10, 2025

John Blank, Ph.D.

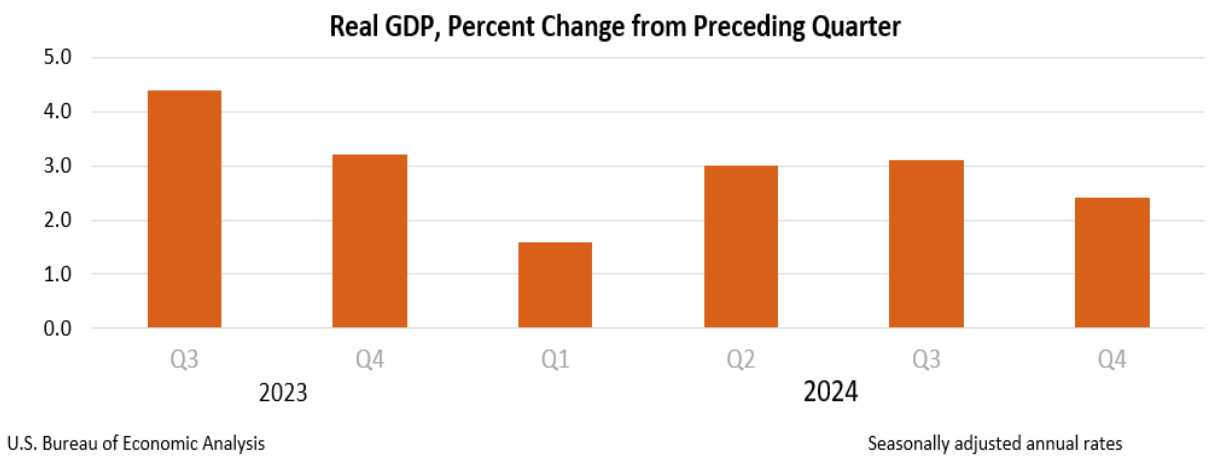
Q4-24 U.S. REAL GDP GROWTH ENDS AT +2.4%. GDPNOW Q1-25? -2.4%.

Note: This report has four sections – Key Points, This Month's Topics, Conclusion(s) and Our Economic Projections

SECTION 1: KEY POINTS

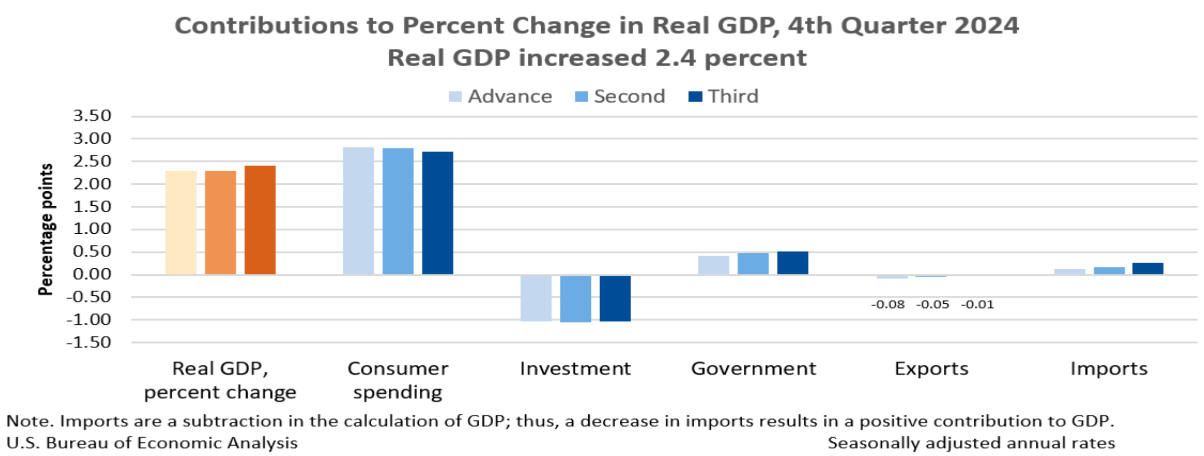
A. Real gross domestic product (GDP) in the USA increased at an annual rate of +2.4% in Q4-24, according to the 3rd and final estimate released by the U.S. Bureau of Economic Analysis. In Q3-24, real GDP increased +3.1%.

The Advance Estimate for Q1-2025 will be released on April 30th, 2025 at 8:30 am ET.



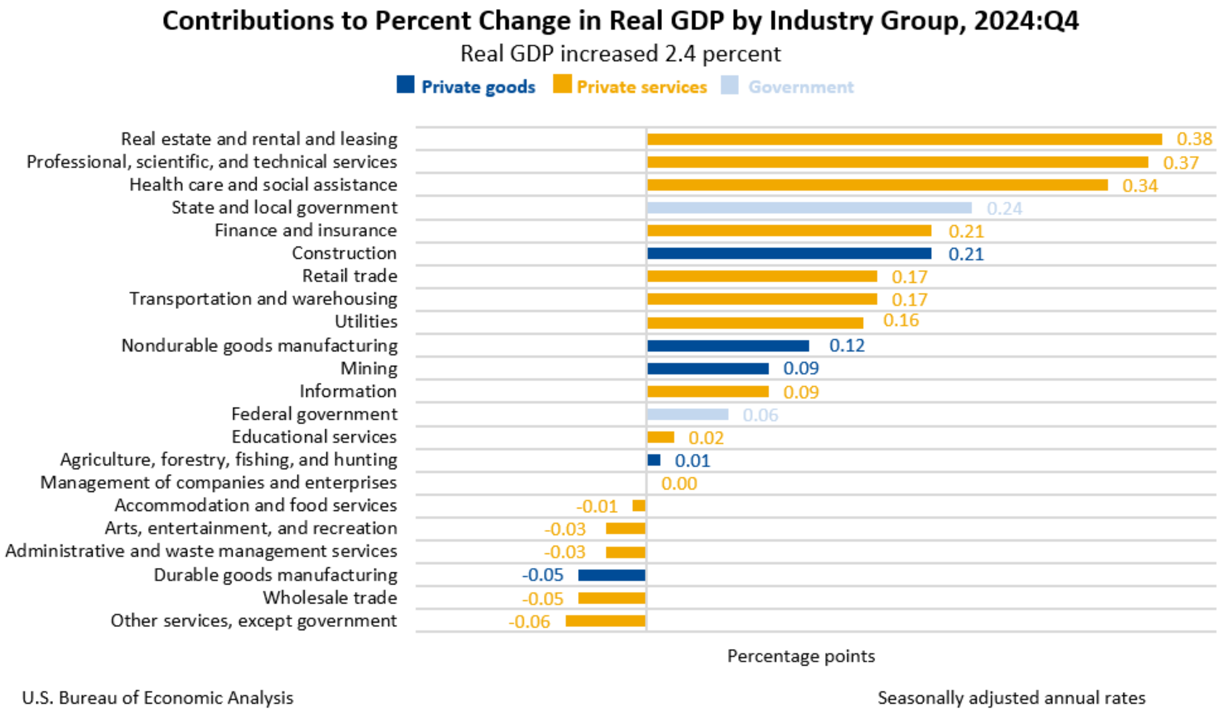
The increase in **real GDP** in Q4-24 primarily reflected increases in consumer spending and government spending that were partly offset by a decrease in investment. Imports, which are a subtraction in the calculation of GDP, decreased.

Real GDP was revised up +0.1% from the 2nd estimate, primarily reflecting a downward revision to imports. (Consult the next chart.)



Compared to Q3, the deceleration in real GDP in Q4 primarily reflected downturns in investment and exports, that were partly offset by an acceleration in consumer spending. Imports turned down.

From an industry perspective, the increase in real GDP reflected an increase of +2.3% in real value added for private goods-producing industries, an increase of +2.4% for private services-producing industries, and an increase of 2.7% for government.



Forward look: April 9th, 2025 Atlanta Fed GDPNow had Q1-25 real GDP growth at **-2.4%.**

Want a credible Wall Street view?

First off, for a 'real time' 2025 Recession probability, let's turn to **Polymarket.**

On April 10th, 2025 **"U.S. Recession in 2025"** odds stood at 49% (down from 65%).

Second, published on Monday, April 7th, 2025 (Reuters) –

Goldman Sachs has raised the odds of a U.S. recession to 45% from 35%, the second time it has increased its forecast in a week, amid a growing chorus of such predictions by investment banks, due to an escalating trade war.

Goldman has raised its estimate from 20% early last week on fears that U.S. President Donald Trump's planned tariffs would roil the global economy. Days later, Trump announced steeper-than-expected duties, which have ignited a sell-off in global markets.

Since then, at least seven top investment banks have raised their recession risk forecasts, with **J.P. Morgan** putting the odds of a U.S. and global recession at 60%, on fears that the tariffs will not only ignite U.S. inflation but also spark retaliatory measures from other countries, as China has already announced.

Goldman, on Sunday, lowered its U.S. economic growth outlook for 2025 to +1.3% from +1.5%. That, though, is higher than **Wells Fargo Investment Institute's (WFII)** +1% growth forecast, while **J.P. Morgan** estimates a -0.3% contraction on a quarterly basis.

SOONER RATE CUTS

- **Goldman** still expects the Federal Reserve to cut interest rates by 25 basis points each in three consecutive meetings. However, it now expects the first of them to come in June, not July.
- **J.P. Morgan** expects a rate cut in each of the five Fed meetings left in 2025, with another cut in January taking the benchmark policy rate to 3%. It had previously expected the Fed to lower rates twice this year from its current policy rate of 4.25%-4.50%.
- **WFII** now expects three rate cuts this year, instead of one.

Traders, on average, expect 116 bps of rate cuts this year, implying a rate cut in at least four of the remaining five meetings, according to data compiled by LSEG.

Brokerage	U.S. recession odds after tariffs	U.S recession odds before tariffs
J.P. Morgan	60%	40%
Goldman Sachs	45%	35%
S&P Global	30-35%	25%
HSBC	40%	-

B. Update on U.S. Consumer Price Inflation (CPI)

The MAR 2025 CPI data got released on Thursday, April 10th, 2025, at 8:30 A.M. ET.

- Consensus looked for a +0.1% m/m broad MAR CPI and a +0.3% m/m core CPI lift.
- The data came in a touch lower. The U.S. Bureau of Labor Statistics reported the Consumer Price Index for All Urban Consumers (CPI-U) decreased by **-0.1% m/m in MAR** on a seasonally adjusted basis, after rising +0.2 m/m in FEB. The core CPI rose +0.1% m/m.
- Over the last 12 months, the broad All-Items index increased **+2.4% y/y,** before seasonal adjustment.
- The core All-Items less Food and Energy index has risen **+2.8%** the last 12 months.
  - The energy index fell -3.3% y/y over the last 12 months
  - In that series, the gasoline index was down much more, at -9.8% y/y
  - The food index has risen +3.0% y/y,over the last 12 months
  - In that series the food-at-home index was up +2.4% y/y, while food-away-from-home was up +3.8% y/y
- ***In y/y terms, Shelter cost was up +4.0%. In m/m terms? MAR shelter was up +0.2%.***
  - A MAR shelter print of +0.2% m/m shows weakening, the lowest monthly uptick over the last six months.
  - FOMC thinking? A +2.8% core CPI over the last 12 months is still too 'hot.'

- Seven sub-categories rose above the m/m average in MAR:
  - Utility Piped Gas (+3.6% m/m)
  - Electricity (0.9%)
  - Food at Home (+0.5%)
  - Medical Care Services (+0.5%)
  - Apparel (+0.4%)
  - Food Away from Home (+0.4%), and
  - Shelter (+0.2% m/m)

- Two sub-categories rose in the same manner, as the +0.1% m/m core CPI rise in MAR:
  - Medical Care Commodities (+0.1%), and
  - New Vehicles (+0.1%)

- Four sub-categories declined, in MAR:
  - Used Cars and Trucks (-0.7%)
  - Transportation Services (-1.4% m/m)
  - Fuel Oil (-4.2%), and
  - Gasoline (-6.3%)

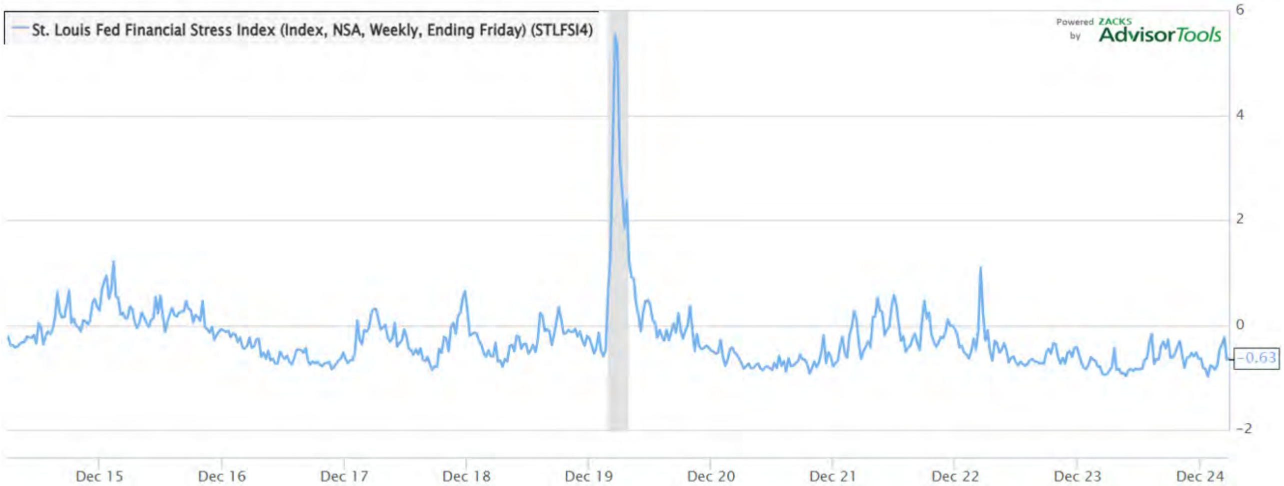
Likely FOMC thinking?

The FOMC meets next, on May 18th to 19th. CME Fedwatch on April 10th shows an 86.2% chance the FOMC leaves their policy rate alone. It is now at 4.33%.

After that, the FOMC meeting calendar shows June 17th-18th and July 29th-30th.

- It is possible for an inter-meeting intervention, with some move other than a Fed Funds policy action. But this has grown much less likely, after the April 9th tariff 'pause.'

- Going forward, think harder about any rise in **Financial Stress** measures, and think about how a more selective FOMC would intervene to relieve that stress.



The (above) FRED chart shows the **St. Louis Fed Financial Stress Index.** It remains low.

- The jump over 1.0 in March 2023 should be recognizable. Watch for something like that.

C. The University of Michigan Consumer Sentiment Index

- U. of Mich. Consumer Sentiment fell -11.9% to 57.0 in MAR, from 64.7 in FEB.
- Year-on-year change in U.S. consumer sentiment is now down -28.2%.

Read MAR 2025 comments from U. of Michigan Survey Director Joanne Hsu:

- "Consumer sentiment confirmed its early month reading and fell for the third straight month, plummeting 12% from February."
- "**The expectations index plunged a precipitous -18% and has now lost more than -30% since November 2024**.
- This month's decline reflects a clear consensus across all demographic and political affiliations; Republicans joined independents and Democrats in expressing worsening expectations since February for their personal finances, business conditions, unemployment, and inflation.
- "Consumers continue to worry about the potential for pain amid ongoing economic policy developments. Notably, **two-thirds of consumers expect unemployment to rise in the year ahead, the highest reading since 2009."**
- "This trend reveals a key vulnerability for consumers, given that strong labor markets and incomes have been the primary source of strength supporting consumer spending in recent years."
- "**Year-ahead inflation expectations jumped up from 4.3% last month to 5.0% this month, the highest reading since November 2022 and marking three consecutive months of unusually large increases of 0.5 percentage points or more.**
- "This month's rise was seen across all three political affiliations."
- "Long-run inflation expectations surged from 3.5% in February to 4.1% in March, reflecting from a large surge among independents plus a sizable rise among Republicans."
- "Here, as is the case for other measures from the Surveys of Consumers, aggregate trends are driven by and align closely with the views of independents, and thus are not being swung by polarization across the two major parties."
- The U of Michigan consumer sentiment time series chart is shown below.

University of Michigan Consumer Sentiment (1996 = 100)

D. Labor Markets

- On April 4th, 2025, the Federal nonfarm MAR 2025 jobs report came in at (+228K). Consensus was looking for +140K.
- The change in total nonfarm payroll employment for January was revised down by -14K, from +125K to +111k, and the change for February was revised down by -34K, from +151K to +117K. With these revisions, employment in January and February combined is -48K lower than previously reported.
- The MAR 2025 Federal BLS report started with: "Total nonfarm payroll employment rose by 228,000 in March, and the unemployment rate changed little at 4.2%."
- "Job gains occurred in Health Care, in Social Assistance and in Transportation and Warehousing. Employment also increased in Retail Trade, partially reflecting the return of workers from a strike."
- "Federal government employment declined."
- "Within government, federal government employment declined by -4K in MAR, following a loss of -11K jobs in FEB."
- **Expecting more, due from DOGE Federal job cuts?**
- **Read this NOTE: "Employees on paid leave or receiving ongoing severance pay are counted as employed in the establishment survey."**

For bulls:

- Over the past 12 months, average U.S. hourly earnings rose +3.8%. This is above a core CPI rising +3.1% thru FEB, displaying real wage improvement.
- Healthcare added +54K jobs in MAR. Job growth in Healthcare averaged +52K over the last 12 months.
- Employment in Social Assistance rose by +24K in MAR, higher than the average monthly gain of +19K over the prior 12 months.
- Retail Trade added +24K jobs in MAR, as workers returning from a strike contributed to a job gain in Food and Beverage retailers. (+21K).
- Transportation and Warehousing Employment rose by (+23K), in MAR, about double the prior 12-month average gain of +12K. (That must be stocking, done in front of tariffs.)

- Lots of other MAR 2025 Federal jobs data supplied a static message.
  - First, the long-term unemployed (jobless for 27 weeks or more) was little changed at 1.5 million. The long-term unemployed accounted for 21.3% of all unemployed
  - Second, the labor force participation rate was 62.5% in MAR. It changed little.
  - Third, among those not in the labor force who wanted a job, the number of persons marginally attached to the labor force, at 1.7M in MAR, changed little.
  - The number of persons not in the labor force who currently want a job was essentially unchanged at 5.9M in MAR. These individuals were not counted as unemployed because they were not actively looking for work during the 4 weeks preceding the survey or were unavailable to take a job.
  - The number of persons employed part-time for economic reasons, at 4.8M, changed little in MAR.

For bears:

- The U.S. showed 7.6M job openings in APR 2025 versus 8.1M in NOV 2024. This data remains in a downtrend from a MAR 2022 peak at 12.027M job openings.
- Pre-COVID job openings came in at ~7M. So, the U.S has 600K extra job openings now.
- The MAR 2022 Job Openings top remains easy to identify (see chart below).

Total Nonfarm Job Openings (2000 to FEB 2025)

- FEB 2025 quits were at 3.2M, well below NOV 2024 at 3.54M. A NOV '21 peak was 4.50M. Importantly, the U.S. quits data is well below its 3.6M pre-COVID level.

Total Nonfarm Quits (2000 to FEB 2025)

- Layoffs and discharges were at 1.79M in FEB 2025, versus 1.80M in NOV 2024.

E. Fixed Income

- The U.S. Total Bond Market Aggregate ETF was up +3.6% YTD in 2025 (this returns data comes from Charlie BiLello, out on April 6th, 2025).
- Biggest Gainers in 2025: Long-duration U.S. Treasuries are up +7.4% YTD in 2025. TIPS were up +4.5% YTD in 2025. Investment Grade bonds were up +3.0% YTD in 2025.
- Emerging Market (EM) bonds (in USD) were up +0.8% YTD in 2025. However, EM bonds in local currency were up +3.3% YTD in 2025.
- High Yield bonds were down -1.0% YTD in 2025.
- Leveraged Loans were down -1.9% YTD in 2025.
- The chart below shows the market yield on the 10-year U.S. Treasury at 4.01%.

Market Yield on U.S. Treasury Securities at 10-year Constant Maturity, Quoted on an Investment Basis (April 7th, 2015 to April 7th, 2025)

- Want a key monetary restraint factor, visible in early APR 2025? The next chart shows the 'real' inflation-indexed U.S. Treasury Long-Term Average 10-year yield.
- This 'real' LT Treasury yield shows an April 1st, 2025 print at 2.29%.
- In addition, a U.S. Treasury 'real' chart shows an inflation-indexed U.S. 10-year Treasury range between +0.5% and +1.0%, running from 2015 to 2020.
- Recent history (pre-COVID) shows the FOMC likes ~1.0% 'real' long-term yields. A pre-COVID 'real' inflation indexed yield peak was seen on Nov. 2nd, 2018 at 1.27%.
- ***Today, 2.29%. That is restrictive monetary policy, based on that. Maybe four 25 bps cuts implied easing are available?***

Treasury Long-Term Average (Over 10 Years),
Inflation-Indexed (from April 7th, 2015 to April 7th, 2025)

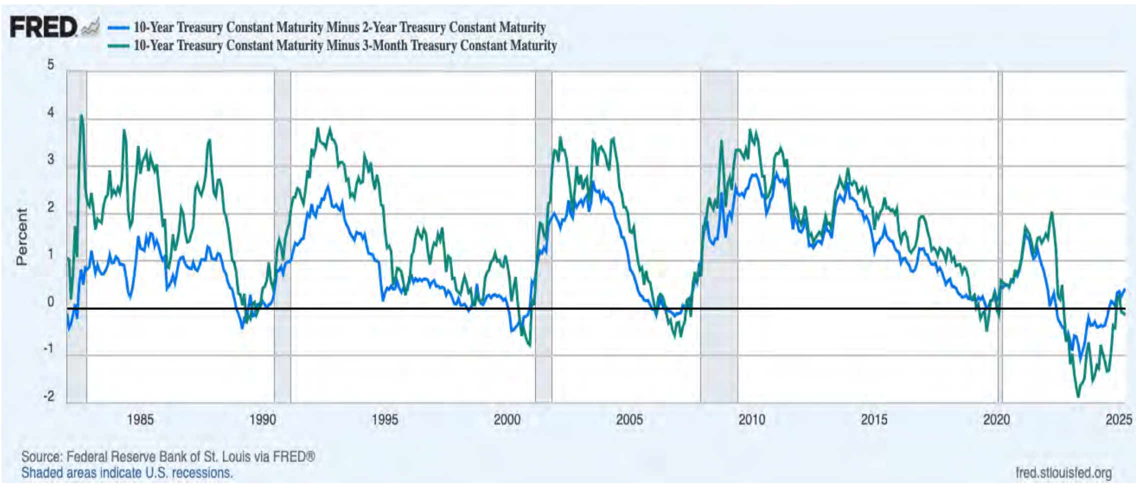
- Bond markets have not seen ‘tight’ ~2.0% or more ’real’ LT Treasury bond levels since 2009, fifteen years ago.
- Can we get into a U.S. recession from +2.29% ‘real’ long-term U.S. Treasury yields? Unlikely. A recession is more likely to come from broad U.S. emergency tariff effects.
- If we had a very stubborn FOMC (we don’t have that), this benchmark real yield could grind above the ~2.6% high on Oct. 20th, 2023.
    - U.S. equities sell-off, when algorithmic asset allocators run their real-time ‘risk-parity’ operations.
    - Recession by the FOMC ‘worry’ tips up, with that selling.
    - Now, recession stock selling was triggered by U.S. tariff announcements.

- Short-term policy rate cuts, one that push long-term ‘real’ bond yields up, have become more likely.
- The FOMC most likely (62.1% on April 8th) lowers their policy rate to between 3.75% to 4.0% by JUL 2025. That is a 25-bps cut.
- A 22.7% chance shows for 50 bps by JUL 2025.
- The DEC 2025 CME Fedwatch probability is 60% on April 8th for more YE 2025 cuts of the FOMC policy rate; to a target range of 3.25% to 3.50% or even below that (4+ cuts).
- The FOMC will be led by a dovish Fed Chair Powell, until his current term ends in 2026.

1. A Signal Portending U.S. Recession: U.S. Treasury Yield Curve Inversion?

- A third chart (below) shows the 10-year Treasury minus the 2-year U.S. Treasury rate spread, along with the 10-year to 3-month U.S. Treasury rate spread.

10-yr Treasury Constant Maturity minus 2-year Constant Maturity (blue)
and **10-yr Treasury Constant Maturity minus 3m Constant Maturity (green)**
Data from April 7th, 1982 to April 7th, 2025.

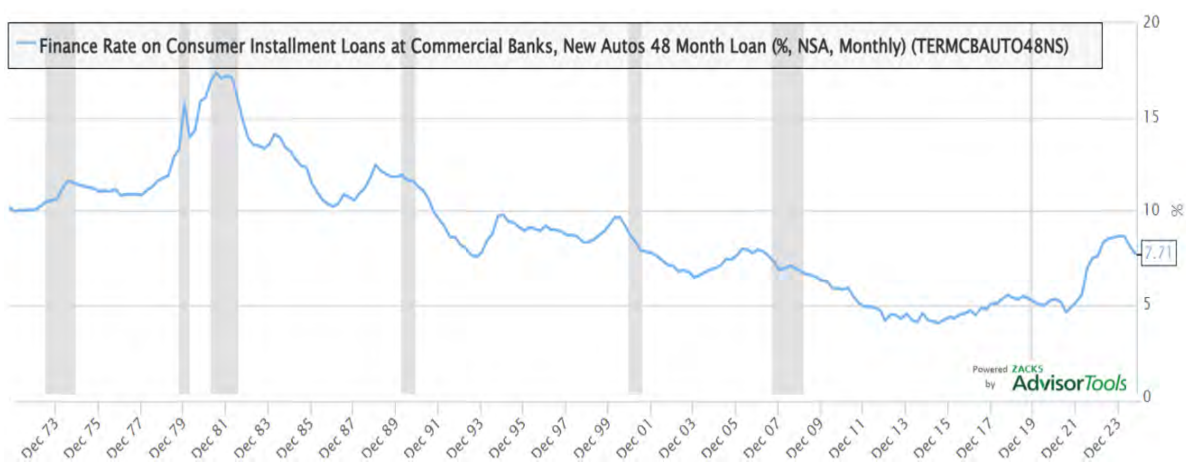


- Over the last month, we have (barely) recovered to no 2-10 U.S. Treasury yield curve inversion. It is borderline, though. This chart bears watching closely, once again.

2. Status of the "Wall of Worry"

- As of April 2025, the average credit card interest rate in the United States is currently around 20.35%
- As of April 2025, the average interest rate for a 48-month new car loan in the United States is around 6.25% to 6.61%

Finance Rate on Consumer Installment Loans at Commercial Banks, New Autos 48-Month Loan



3. The J.P. Morgan Global Manufacturing PMI was 50.3 in MAR 2025.

- IHS Markit posted global manufacturing PMI matters (inc. USA) on April 1st, 2025:
- "Key findings: Output and new orders rise at slower rates. Business Optimism falls to three-month low. Trend in new export orders stabilizes."
- "The global manufacturing sector ended the opening quarter of the year on a lackluster footing. At 50.3 in March, the J.P. Morgan Global Manufacturing PMI® was down from 50.6 in February and signaled only a slight improvement in overall operating conditions for the third month in a row."
- "Four of the PMI sub-components had either a negative or less positive impact on its level. Along with slower growth of production and new orders, employment and stocks of purchases fell marginally. Supplier delivery times provided a slightly stronger positive contribution."
- "Global manufacturing output increased for the third successive month in March, although the rate of growth was the weakest during that sequence."
- "Production rose in the consumer and intermediate goods industries but fell for the ninth time in the past ten months in the investment goods category."
- "Trends varied markedly among the major economies." Especially steep – and deepening – downturns were seen in both Japan and the UK. Output also fell into decline in the US, after two months of expansion.
- "There was better news from the euro area and the Asia (excluding Japan) region. Eurozone factory output rose for the first time in two years as companies reported improving..."

Bennett Parrish, Global Economist at J.P. Morgan, said:

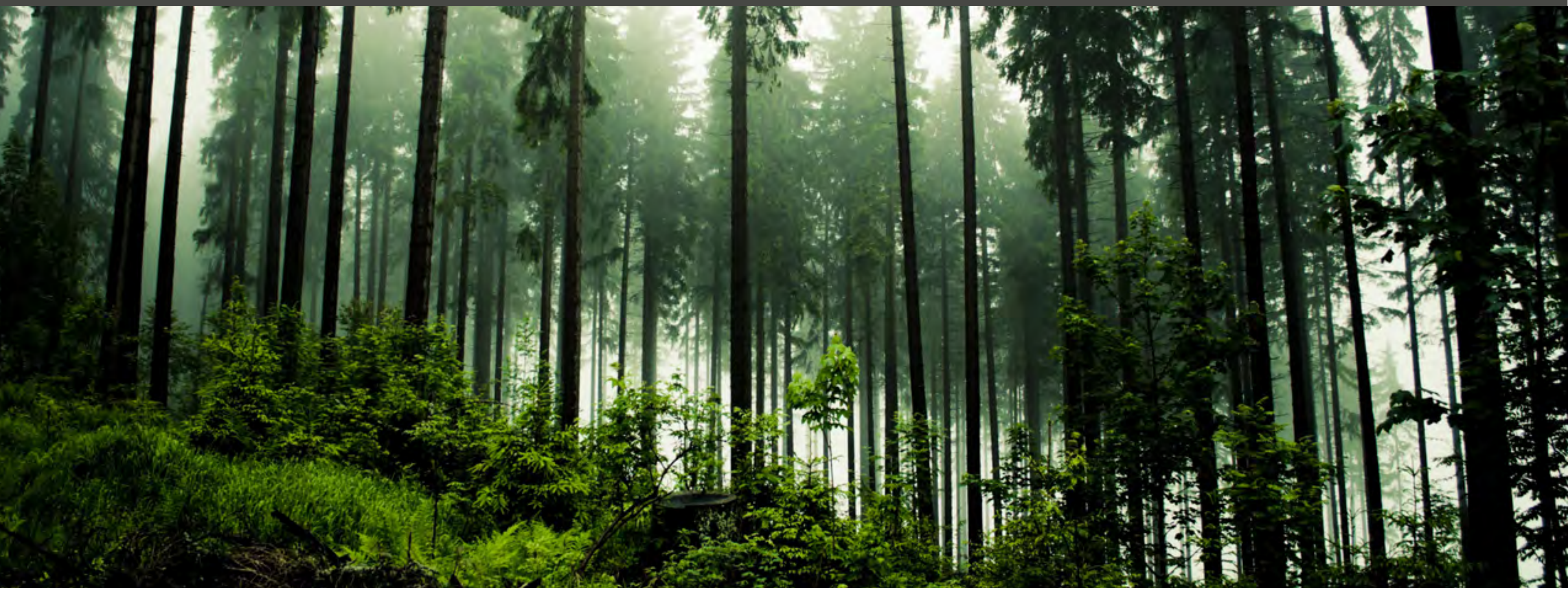
"A 1.0-point decline in the global manufacturing output PMI returned the index back to near its level at the start of the year, and points to very soft sub-1% gains in production. Declines in both new orders (-0.5 pt) and future output expectations (-1.1 pt) provide no evidence growth momentum will improve in the coming months.**"**

"While the PMIs highlighted some encouraging signs of resilience in China and a return to growth in Euro area factory output for the first time in two years, a deepening downturn in Japan and a fall below the 50-mark in the U.S. show the disruptive impact of recent U.S. policy moves."

4. Update on Three Major 10-year Government Bond Yields and One FX Rate.

- Zacks stays on top of sovereign bonds and macro data in Germany, Italy, and Japan.
    - Germany – Its long-term bond yield remains below its recent OCT 2023 peak of 2.89%: **On April 8th, 2025, it was 2.63%.**
    - Italy – On Oct. 1st, 2023, the Italian 10-yr peaked at 4.93%. On **April 8th, 2025, it was 3.86%.**
    - Japan – On Jan. 2nd, 2022, this yield was 0.05%. On Oct 29th, 2023 the 10-yr JGB yield was 0.92%. **April 8th, 2025, it was 1.28%.**

- Divergence between these 10-yr developed country bond yields relative to U.S. 10-yr Treasury yields plays a major role in shifting around bi-lateral USD FX rates.

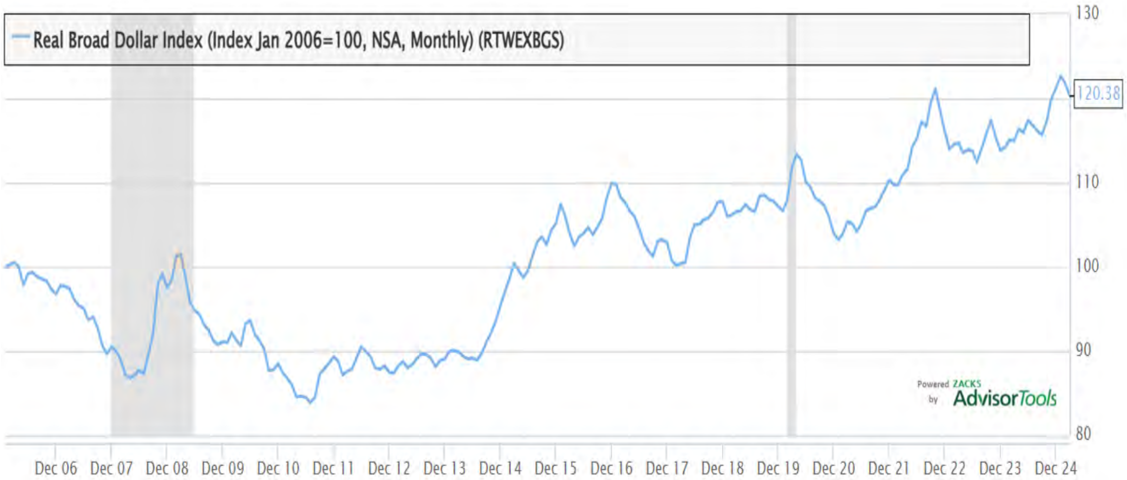


- I do follow one currency pair here, more closely than others: The Japanese yen to USD went from trading at 115 per USD in March 2022 to April 8th, 2025? **At 147.2.**

5. Real Broad U.S. Dollar (USD) Index

- The MAR 2025 real broad USD data? The data was at 120.37. This is a strong USD.

Real Broad U.S. Dollar Index (Jan. 2006 = 100, data thru MAR 2025)



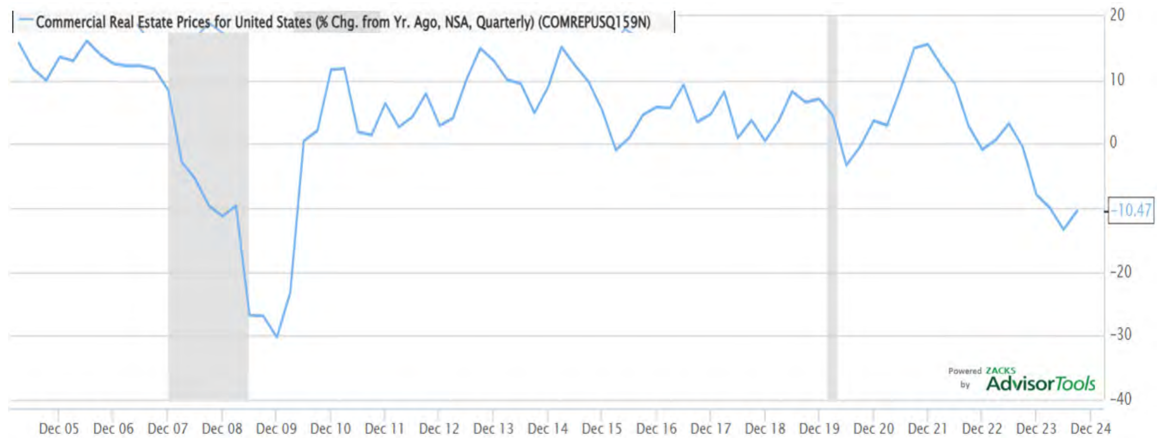
- *An FX Street comment made on April 8th, 2025: "E*UR/USD is holding onto recovery gains near 1.0850 in European trading amid a broadly weaker U.S. Dollar. The recovery in risk sentiment undermines the haven demand for the U.S. Dollar, lifting the pair. Dovish Fed expectations also weigh negatively on the Greenback. Tariff updates eyed."

F. Zacks Expectations for Fed Policy

1. Chair Powell and the FOMC target a 'dual mandate': Getting core consumer price inflation expectations to +2.0% annually, with a steady frictional unemployment rate.

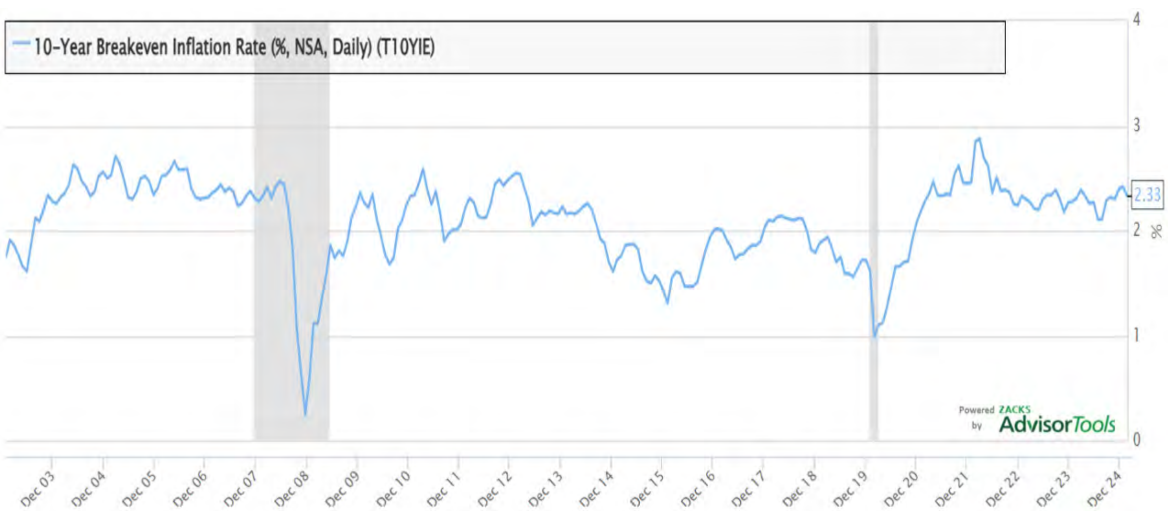
- Other concerns? Commercial Real Estate lending (with those prices currently down -10.47% y/y) remains a secular Fed concern, particularly on Office lending.

U.S. Commercial Real Estate values for the United States (01/05 to 04/25)



- A following chart shows how the <u>much broader</u> consumer price inflation battle looks.
- Zacks provides the **U.S. 10-Year Breakeven Inflation Rate** across the last 20 years.

USA 10-Year Breakeven Inflation Rate (Jan. 2nd, 2003 to April 7th, 2025)



- On April 7th, 2025 this **Breakeven U.S. Consumer Inflation Rate** was 2.19%.
- An April 22nd, 2022 breakeven U.S. 10-year rate at **2.98%** was the 20-yr chart high.
- With an April 7th breakeven inflation rate at 2.19%; this is 19 basis points above the Fed's +2.0% statutory mandate for expected core CPI (best thought of as core PCE), and only slightly above pre-COVID 2019 levels.
- In 2025, tariff hikes, especially the ones announced by President Trump, are expected to significantly increase inflation, potentially leading to a higher core inflation rate and a weaker economic outlook, with the Federal Reserve Bank of Boston estimating a potential +0.8% increase in core inflation.

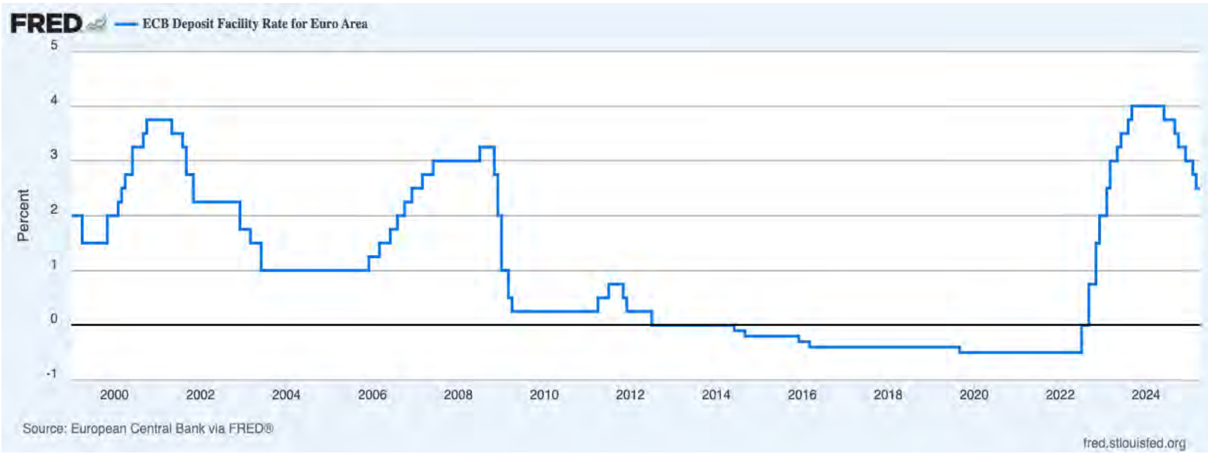
2. Current Fed Funds rate, vis-à-vis Peer Central Bank Rates.

- The FOMC – at April 8th, 2025 – has cut the Fed Funds effective rate 100-bps, from 5.33% to 4.33%, starting in Sept. 2024. They meet again May 6th-7th, 2025.
- Is this a path to a 'neutral' real rate? The FEB 2025 core PCE rate was +2.8%.
- The FOMC (more or less) likes a +1.0% 'real' rate.
- The latest data computes a current +1.53% 'real' Fed Funds policy rate.

U.S. Federal Funds Effective Rate (1955 to April 1st, 2025)

- With a Fed Funds at 4.33%, here are regional monetary policy rates (tracked by Charlie BiLello). These global policy rates got published on March 28th, 2025.
    - The U.S. Fed Funds policy rate stands at 4.33%
    - The U.K.'s BoE is at a 4.50% policy rate
    - In Europe, ***the Eurozone's ECB is at a 2.50% deposit rate*** after a recent cut (with Euro-USD FX trading ~1.09 on April 8th, 2025)
    - A broader European list has: the Czech Republic (3.75%, MAR hike), Poland (5.75%), Norway (4.50%), Sweden (2.25%, JAN cut), and Russia at (21.00%, OCT hike)
    - In Latin America: Argentina (29.0%, JAN cut), Brazil (14.25%, JAN hike), Columbia (9.50%, DEC cut), Mexico (9.00%, MAR cut), Chile (5.00%, DEC cut), and Peru (4.75%, JAN cut)
    - In Asia: Indonesia (5.75%, JAN cut), Australia (4.10%, FEB cut) and South Korea (2.75%, FEB cut), while
    - Mainland China shows a Loan Prime Rate at 3.10% (After an OCT cut)
- The European Central Bank (the ECB) rates has cut its policy rate 150 bps, from a 4.0% policy rate in June 2024 to 2.50% in March 2025.

ECB Deposit Facility Rate for the Euro Area (Jan. 1999 to April 2025)



3. On March 19th, 2025, the Fed Issued their Latest FOMC Statement.

- The next FOMC meeting is: May 6th-7th.
- The other 1H-25 FOMC meetings are scheduled for: June 17-18th, and July 29-30th.
- "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. Inflation remains somewhat elevated."
- "The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent 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."
- "In support of its goals, the Committee decided to maintain the target range for the federal funds rate at 4-1/4 to 4-1/2 percent. In considering the extent and timing of additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. The Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities. Beginning in April, the Committee will slow the pace of decline of its securities holdings by reducing the monthly redemption cap on Treasury securities from $25 billion to $5 billion. The Committee will maintain the monthly redemption cap on agency debt and agency mortgage-backed securities at $35 billion. The Committee is strongly committed to supporting maximum employment and returning inflation to its 2 percent objective."
- "In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on labor market conditions, inflation pressures and inflation expectations, and financial and international developments."

4. A Post-FOMC Meeting Fed Chair Jerome Powell Comment.

WASHINGTON DC, April 7th, 2025 (via Reuters) –

"U.S. Federal Reserve Chair Jerome Powell has sent strong messages when he felt they were needed, going on television to pledge maximum support for the economy when the COVID-19 pandemic struck, using a terse 2022 speech for a stern message about inflation, and jumping in to backstop financial markets after the 2023 failure of Silicon Valley Bank."

"But with Powell and the Fed left guessing just as much as the rest of the world about where President Donald Trump is taking the economy, the Fed chair indicated on Friday April 4th this is not the moment for a 'Fed put' – Wall Street's term for actions to shore up free-falling stock markets - even as household wealth evaporates with real risks to economic activity."

"There's a lot of waiting and seeing going on, including by us, and that just seems like the right thing to do at a time of elevated uncertainty," Powell said, making it apparent the Fed won't be rushing to cut interest rates as it would if there was a crisis calling for an obvious central bank response.

Indeed job growth in March remained strong, data out on Friday showed, though Powell was careful to note the figures were tallied before Trump's tariff announcements.

"It's not clear at this time ... the appropriate path for monetary policy," he said.
"We're going to need to wait and see how this plays out."

5. Zacks Fed Policy Rate Outlook.

- As of April 10th, 2025, Fed Funds policy rate stands at 4.33%.
- Will the FOMC, under Chair Powell, cut again in 2025?
    - On April 10th, JULY '25 shows a 7.4% change of 3.63% (75-bps in total cuts), a 51.6% chance of 3.87% (50-bps in total cuts), a 35.0% for 4.13% (a 25-bps cut), and 6.0% for no cut.
    - DEC '25 shows a 30.4% median chance for the FOMC policy rate to remain between 3.25% and 3.50% (four 25 bps cuts across 2025). There is a nearly equal 33.5% chance of 3.50% to 3.75%. (three 25 bps cuts).

- Stay consistent in your U.S. 2024 policy rate outlook. Use both CME and FOMC.
    - The FOMC March 19th, 2025 'dot plots' revealed 2 25 bps cuts to YE 2025:
        - A median 3.9% Fed Funds rate at YE 2025 (after 2 25 bps cuts), then
        - A 3.4% median policy rate for 2026 (2 more 25 bps cuts), and
        - A 3.1% policy rate for 2027 (1 final 25 bps cut to reach their 'neutral' rate).
    - *The CME FedWatch tool at **DEC 2025** showed the following probabilities for the Fed Funds rate cuts, running out to DEC 2025. Done on April 10th, 2025:*
        - A 1.3% chance of 2.75% to 3.00% (6 25 bps cuts)
        - A 11.9% chance of 3.00% to 3.25% (5 25 bps cuts)
        - A 30.4% chance of 3.25% to 2.50% (4 25 bps cuts)
        - A 33.5% chance of 3.50% to 3.75% (3 25 bps cuts)
        - A 17.9% chance of 3.75% to 4.00% (2 25 bps cuts)
        - A 4.6% chance of 4.0% to 4.25% (1 25 bps cut)
        - A 0.6% chance of 4.25% to 4.50% (no cut)

6. Conclusion(s).

- In brief, after the April 9th 90-day tariff pause, CME traders are betting on fewer Fed cuts, with **three (maybe 4) 25 bps FOMC rate cuts most likely to YE 2025.**
- April 10th, 2025 CME Fed Funds futures to DEC-25 show the FOMC most likely makes 75ps (maybe 100 bps) in total policy rate cuts to YE 2025.
- The FOMC March 19th, 2025 median projections for **YE 2026**? 3.4%. That is four 25 bps cuts. 100 bps in total. But the implied policy rate cuts happen over the next 2 years.
- The FOMC Summary of Economic Projections on March 19th (made weeks before the initial April 2nd tariff announcement) marked a lower two 25 bps Fed Funds cuts for 2025.
- That March 19th, 2025 policy rate-cutting outlook from the FOMC is, surely, different now.
- CME traders are at three 25-bps cuts. The FOMC is at two 25 bps cuts. Not much difference.
- This amounts to a 'soft' landing consensus. For now.

SECTION 2: THIS MONTH'S KEY TOPIC

Sizing Up 2025 U.S. Inflation

It's time to review the U.S. Consumer Price Inflation (CPI) landscape.

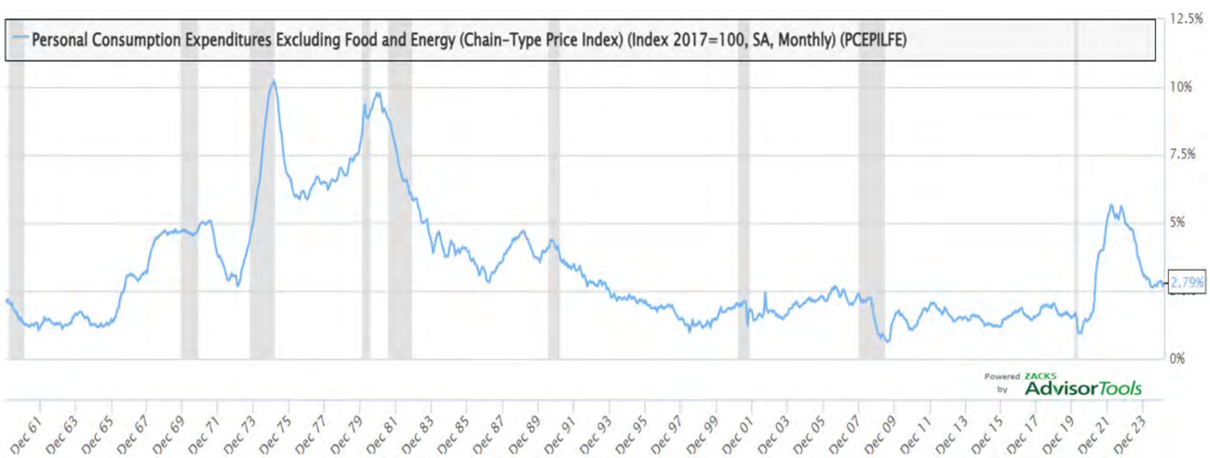
In this piece, I explore six U.S. inflation measures, using Percent Change from a Year Ago.

We do a look-back over the last year's progress. In order to evaluate the progress made, in restraining Consumer Price Inflation.

Stable prices (hovering around +2.0% annually) is a statutory target, undertaken by the U.S. Fed.

I. The Personal Consumption Expenditures (PCE) Price Index is a measure of the prices that people living in the United States, or those buying on their behalf, pay for goods and services.

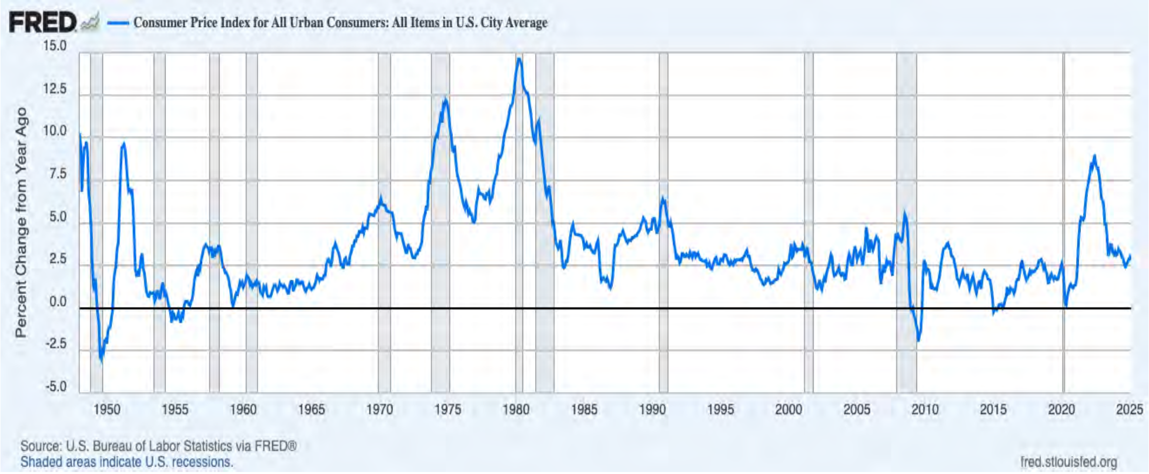
The change in the PCE price index is known for capturing inflation (or deflation) across a wide range of consumer expenses and reflecting changes in consumer behavior. For example, if car prices rise, car sales may decline while bicycle sales increase.



The PCE Price Index is produced by the Bureau of Economic Analysis (BEA), which revises previously published PCE data to reflect updated information or new methodology, providing consistency across decades of data that's valuable for researchers.

They also offer the series as a Chain-Type index and excluding food and energy products, as above. The PCE price index less food excluding food and energy is used primarily for macroeconomic analysis and forecasting future values of the PCE price index.

- The PCE Price Index is similar to the Bureau of Labor Statistics' consumer price index for urban consumers (CPI-U)
- The two indexes, which have their own Federal government purposes and uses, are constructed differently, resulting in different inflation rates



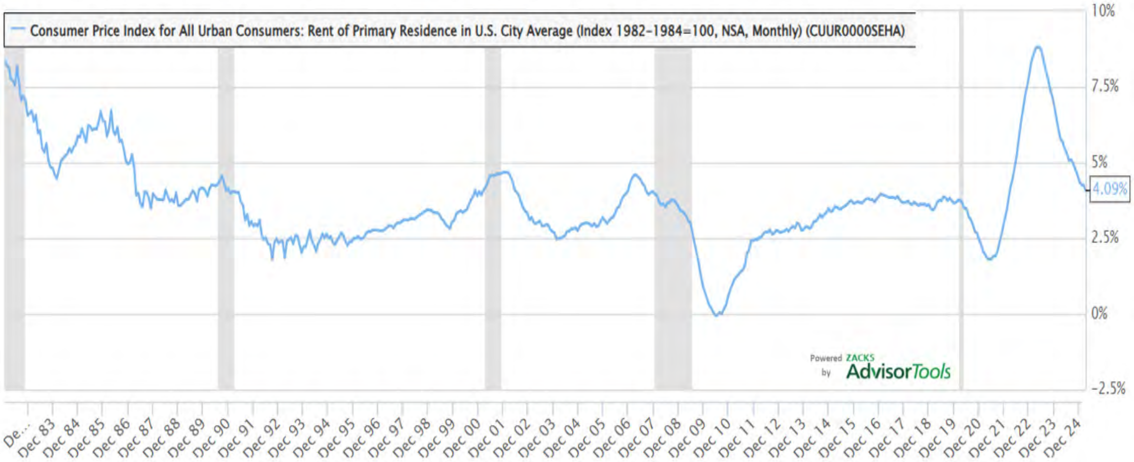
Progress?

(1) In Q4-24, the **core PCE index** was rising +2.6% y/y.

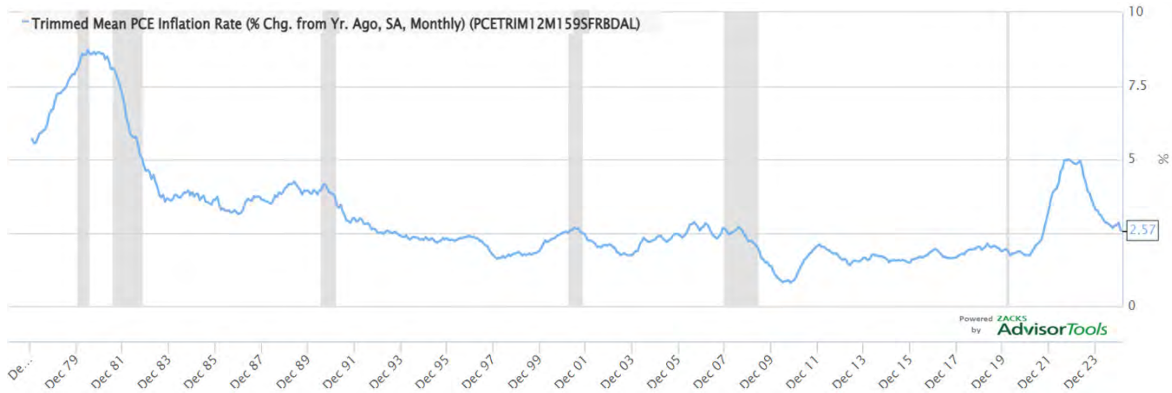
(2) In Feb. 2024, the **CPI – All Urban Consumers** was +3.17%. In Feb. 2025, it was +2.81% y/y.

The primary sticky price struggle is arriving from the sub-index (**Rent of Primary Residence**). This was rising +4.1% y/y in Feb. 2025.

Consult that data below:



II. The Trimmed Mean PCE inflation rate produced by the Federal Reserve Bank of Dallas is an alternative measure of core inflation in the price index for personal consumption expenditures (PCE).



The data series is calculated by the Dallas Fed, using data from the Bureau of Economic Analysis (BEA). Calculating the trimmed mean PCE inflation rate for a given month involves looking at the price changes for each of the individual components of personal consumption expenditures.

The individual price changes are sorted in ascending order from "fell the most" to "rose the most," and a certain fraction of the most extreme observations at both ends of the spectrum are thrown out or trimmed. The inflation rate is then calculated as a weighted average of the remaining components.

The trimmed mean inflation rate is a proxy for true core PCE inflation rate.

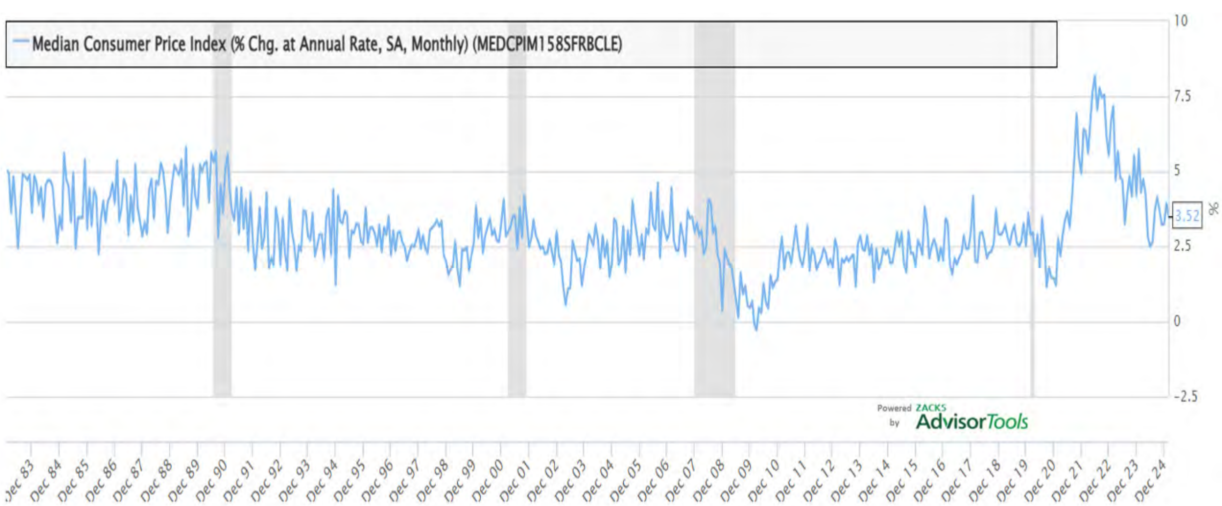
The resulting inflation measure has been shown to outperform the more conventional "excluding food and energy" measure as a gauge of core inflation.

Progress?

In Feb. 2024, **Trimmed Mean PCE Inflation** was +3.13% y/y. In Feb. 2025, it was +2.57% y/y.

III. The Median Consumer Price Index (CPI) is a measure of core inflation calculated the Federal Reserve Bank of Cleveland and the Ohio State University.

Median CPI was created as a different way to get a 'Core CPI' measure, or a better measure of underlying inflation trends.



To calculate the Median CPI, the Cleveland Fed analyzes the median price change of the goods and services published by the BLS. The median price change is the price change that's right in the middle of the long list of all of the price changes.

This series excludes 49.5% of the CPI components with the highest and lowest one-month price changes from each tail of the price-change distribution resulting in a Median CPI Inflation Estimate.

According to research from the Cleveland Fed, the Median CPI provides a better signal of the inflation trend than either the all-items CPI or the CPI excluding food and energy.

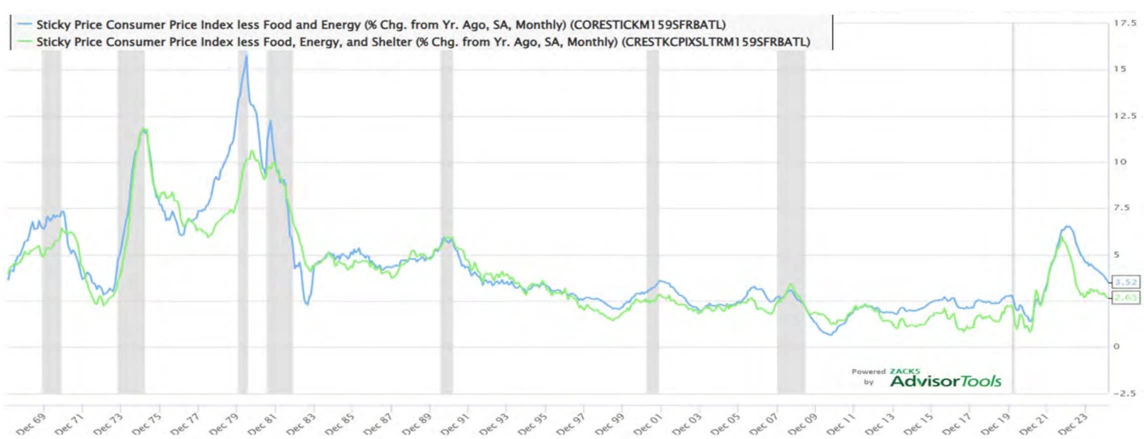
According to newer research done at the Cleveland Fed, the Median CPI is even better at PCE inflation in the near and longer term than the core PCE.

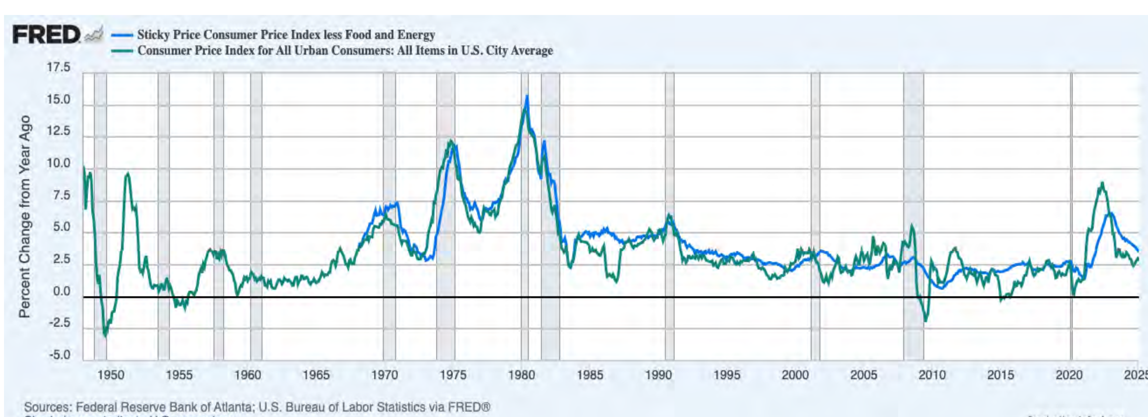
Progress?

(1) In Feb. 2024, the **Median Consumer Price Index** was +4.30% y/y. In Feb. 2025, it was a much lower +2.52% y/y.

IV. The Sticky Price Consumer Price Index (CPI) is calculated from a subset of goods and services included in the CPI that change price relatively infrequently.

Because these goods and services change price relatively infrequently, they are *thought to incorporate expectations about future inflation to a greater degree than prices that change on a more frequent basis.* One possible explanation for sticky prices could be the costs firms incur when changing price.





Progress?

(1) The Sticky Price Consumer Price Index, less Food and Energy? It was +4.40% y/y in Feb. 2024. This was +3.52% in Feb. 2025.

(2) The Sticky Price Consumer Price Index, less Food and Energy and Shelter? It was +2.88% y/y in Feb. 2024. This was +2.65% in Feb. 2025.

The substantive difference, between a +3.52% current Sticky Price CPI rate, less Food and Energy; and a +2.65% Sticky Price CPI rate; is composed by that Sticky Shelter Cost Inflation.

V. The U.S. Breakeven Inflation Rate represents a measure of expected inflation derived from 10-Year Treasury Constant Maturity Securities and 10-Year Treasury Inflation-Indexed Constant Maturity Securities.

The latest value implies what market participants expect inflation to be in the next 10 years, on average.

I put the 5-year U.S. Treasury breakeven up against the 10-year breakeven too.

Progress?

(1) The **10-year Breakeven Inflation Rate** was +2.38% on April 8th, 2024 versus +2.22% on April 8th, 2025.

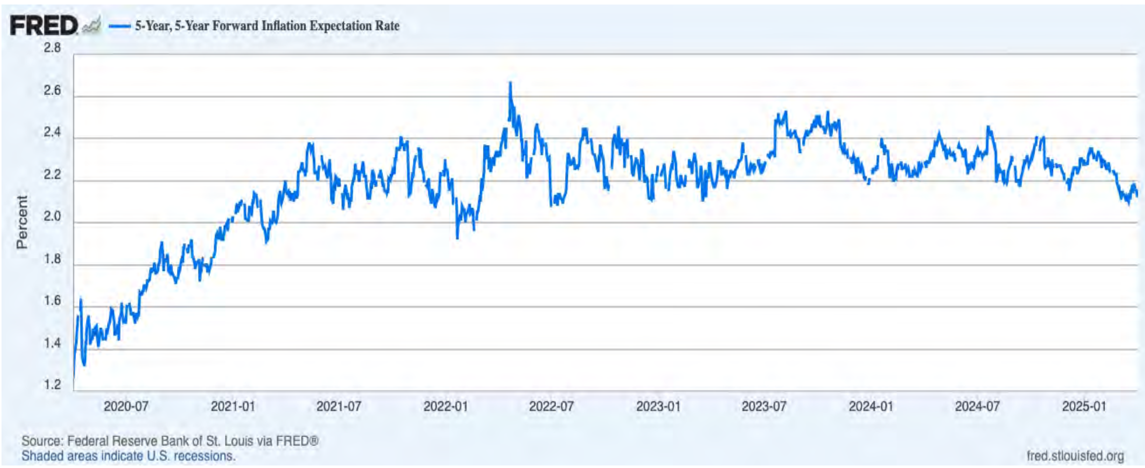
(2) The **5-year Breakeven Inflation Rate** was +2.48% on April 8th, 2025 versus +2.35% on April 8th, 2025.

A **Breakeven Inflation** reduction of -0.16% from the first measure, and -0.13% from the second.

Even with 5-years of time's passage, the FOMC is still not currently seen as making it to its +2.0% y/y inflation target…

VI. 5-Year Forward U.S. Inflation Expectation Rate

This final FRED inflation series I present? It is a measure of expected inflation (on average) over the five-year period that begins five years from today.



VII. A Current Summary of 2025 Inflation Results

Here is the rank-order, showing all of these major U.S. consumer price inflation time series.

- The **Sticky Price CPI, less Food and Energy**? +3.52% in Feb. 2025.
- The **CPI – All Urban Consumers** was rising +2.81% y/y in Feb. 2025.
- The **Sticky Price CPI, less Food and Energy and Shelter?** +2.65% in Feb. 2025.

- In Q4-24, the **Core PCE Index** was rising +2.60% y/y.
- The **Trimmed Mean PCE Inflation** was +2.57% y/y in Feb. 2025.
- The **Median Consumer Price Index** was +2.52% y/y in Feb. 2025.

- The **5-year Breakeven Inflation Rate** was +2.35% on April 8th, 2025.
- The **10-year Breakeven Inflation Rate** was +2.22% on April 8th, 2025.

In short?

Yes, Fed-driven progress was made in restraining U.S. Consumer Price Inflation (CPI) over the last year. Something like -0.3% to -0.5% y/y in core disinflation was achieved.

The core PCE measure gets well-backed up, by both the Trimmed Mean and Median CPI efforts.

Shelter Costs stand out, as the major remaining 2025 sticky price struggle.

An FOMC struggle to lower U.S. inflation could still be with us in 5 years, even 10 years from now.

SECTION 3: CONCLUSIONS

(1) Having put underlying macro model data in Q1 mostly to bed, as of April 9th, the Atlanta Fed GDPNow real GDP growth rate, at -2.4% y/y for Q1-25, should be considered a solid proxy, for the advance Q1-25 U.S. real GDP growth rate estimate.

The Federal Q1 release date is April 30th, 2025. When executives put out that the U.S. may well already be in recession in Q1, this is the data that will be widely referenced.

(2) On top of that, the University of Michigan Consumer Expectations index has plunged a precipitous -18% and has now lost more than -30% since the November 2024 Presidential Election.

"This month's (U of Michigan Consumer Sentiment) decline reflects a clear consensus across all demographic and political affiliations; Republicans joined independents and Democrats in expressing worsening expectations since February for their personal finances, business conditions, unemployment, and inflation."

(3) Were you expecting more MAR 2025 U.S. non-farm job losses, arriving from DOGE Federal job cuts? Read this U.S. BLS March note again: "Employees on paid leave or receiving ongoing severance pay are counted as employed in the establishment survey."

We can do better to gauge this:

The latest private "Challenger Report" came out on April 3rd, 2025. It showed that Federal cuts dominated their March 2025 total of 275,240. Announced job cuts were 216,670 from direct DOGE Actions.

"Job cut announcements were dominated last month by Department of Government Efficiency [DOGE] plans to eliminate positions in the federal government. It would have otherwise been a fairly quiet month for layoffs," said Andrew Challenger, Senior Vice President and workplace expert for Challenger, Gray & Christmas.

Over the last two months, DOGE actions have been attributed to 280,253 layoff plans of federal workers and contractors impacting 27 agencies, according to Challenger tracking.

Another 4,429 job cuts have come from the downstream effect of cutting federal aid or ending contracts, impacting mostly Non-Profits and Health organizations.

March's total is the third-highest monthly total ever recorded by Challenger.

JP Morgan recession in 2025 odds came out at 60%.

Goldman Sachs' respected economics team returned to a 45% 2025 recession odds call, after the 90-day tariff 'pause' was announced.

The chance of a meaningful U.S. recession in 2025 is high. At least a slowdown happens?

SECTION 4: ECONOMIC PROJECTIONS

Zacks APRIL 2025 Forecasts

+2.4% Q4-24 growth, and a -2.4% Q1-25 Atlanta Fed Nowcast, get built into this forecast.

The Conference Board still does not forecast a 2025 recession. It is close, though They show +1.0% in Q1-25, and +0.5% in Q2-25. *The 2nd half of 2025?* +1.4% in Q3-25 and +1.6% Q4-25.

The Q1-25 Philly Fed survey "risk of a negative quarter" was 15% in Q2-25, 20% in Q3-15.

April 2025 London economist consensus showed a +3.0% consumer inflation rate in 2024. This rises to +3.2% in 2025 and then recedes to +2.7% in 2026.

The April 2025 London Consensus Economics Fed Funds mode has 4.26% at June, & 4.04% at Sept. (a 25-bps Fed Funds cut) and 3.79% in December (another 25 bps cut)

- **For real GDP growth updates?** Zacks mixes four outside outlooks.
- The April 9th Atlanta Fed GDPNow shows **-2.4% growth for Q1-25.** NY Fed has **+2.6%.**
- April '25 Conf. Board has a +1.0% in Q1-25, **+0.5% in Q2**, **+1.4% in Q3**, & **+1.6% in Q4.**
- April '25 Consensus Econ. real GDP growth has **+1.4% across 2025,** and **+1.7% in 2026**.
- Old Q1-25 Philly Fed consensus showed Q1 at +**2.5%,** Q2 at +**1.8%,** and **Q3-25 at +2.2%.**

	Real GDP	**Unemployment Rate**	**Payroll (000s/ month)**	**Core PCE**
2024:Q1	+1.6%	3.8%	236	3.0
2024:Q2	+3.0%	4.0%	200	2.7
2024:Q3	+3.1%	4.2%	148	2.7
2024:Q4	+2.4%	4.1%	150	2.8
2025:Q1	-2.4%	4.1%	152	2.8
2025:Q2	+0.5%	4.3%	20	3.2
2025:Q3	+1.4%	4.5%	80	3.2
2025:Q4	+1.6%	4.7%	80	3.2
2024	+2.8%	4.0%	210	2.8
2025	+1.4%	4.4%	82	3.2
2026	+1.7%	4.5%	70	2.7