April 2025

Monthly Market Update

Economic headlines

Government and consumer spending drives economic growth.

Strong employment and rising real wages helped to propel consumer spending by 2.8% in 2024 and while this is expected to continue into 2025, recent declines in the equity market may have a counterbalancing effect (see paragraph below). Government spending expanded at 3.5% in 2024, but this will likely moderate going forward given recent efforts by the Trump Administration to reduce spending.

Correction in equity markets may have downstream impacts.

Equity markets are currently in correction, which may lead to reduced consumer spending due to wealth effects (consumers are less likely to spend when their net worth declines) and lower interest rates as investors seek safety. Lower interest rates could provide a boost to housing markets.

Government reforms may improve business environment.

The Trump Administration is working to improve business conditions by reducing regulations and applying tariffs. While the World Bank ranks the U.S. as sixth in its Ease of Doing Business Index, several subcomponents rate poorly, including the ability to get electricity, start a business, register property and protect minority investors. Many countries have more stringent trade barriers, and some argue that while tariffs may lead to negative short-term consequences (higher inflation, disrupted supply chains, etc.), they will help to create a more balanced competitive environment in the long-term.

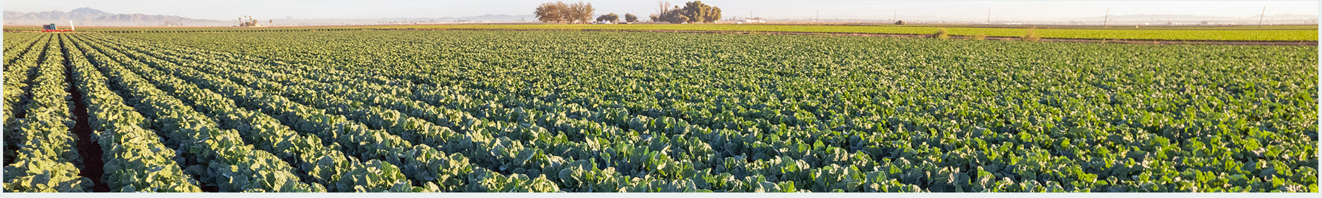
Federal Reserve (Fed) holds monetary policy steady.

Persistently high inflation and generally strong economic data led the Fed to hold rates steady at the last two meetings. Current expectations are for 2-3 more cuts in 2025; however, this is subject to change based on market conditions and economic data.

Job openings fall in February.

In February, U.S. job openings fell by 194,000 due to rising economic uncertainty from tariffs on imports. Layoffs increased by 116,000, despite still being relatively low. Some fear the tariffs will lead to higher inflation, slumped business and consumer sentiment, and higher recession odds. However, the labor market still boasts low jobless claims and a relatively low unemployment rate.

Source: U.S. Bureau of Labor Statistics.



Industry updates

General sentiment – *Commodity producers brace for losses while livestock sentiment is more optimistic.*

Declining sentiment among commodity producers stands in stark contrast to the more optimistic outlook of livestock producers. Commodity producers face low prices and few profitable planting alternatives, leaving even the most skilled producers bracing for financial losses. According to the Purdue University/CME Group Ag Economy Barometer, producer sentiment dropped in March amid uncertainties about the impact from tariffs. However, there is a silver lining: the USDA expects net farm income to rise by 29%, largely due to an additional $37 billion in expected government payments. These payments will be crucial for providing financial assistance during a period of heightened market volatility and challenging economic conditions for commodity producers. Conversely, livestock and dairy producers maintain a more optimistic outlook, supported by tight national supplies and strong consumer demand, despite higher retail prices.

Crop inputs – *Energy and fertilizer prices rise, while transportation rates come in mixed.*

Energy costs rise.

West Texas Intermediate (WTI) crude oil prices reversed a downward trend mid-March, with supply pressures coming from larger than expected inventory draws and President Trump's threat to apply tariffs to countries importing oil from Venezuela. Despite the upward move, several factors will continue to weigh on prices including an expected rise in production from the Organization of Petroleum Exporting Countries (OPEC+), slowing economic growth (particularly in China) and a potential easing of tensions between the U.S. and Russia. Natural gas prices have tripled since mid-November 2024 due to rising electricity demand from cold weather. Working gas in storage (a measure of inventory levels) fell to the lower end of the 5-year range in February but has since recovered. Warmer weather should alleviate price pressures over the coming months.

Transportation costs mixed.

Relatively soft oil prices helped reduce transportation costs overall, though recent gains may stop this trend. Trucking rates are mixed, with flatbeds experiencing increases as companies build inventories of steel, machinery and lumber to avoid potential tariffs and prepare for the 2025 building season. Bulk shipping prices rose notably from mid-February to mid-March on tightening vessel supply and increased demand for coal, mining and minerals. In contrast, container rates declined for the third month in a row as new vessel capacity came online while demand slowed. Many companies front-loaded goods ahead of President Trump's inauguration. President Trump announced wide sweeping tariffs on April 2, and it remains unclear how countries will respond at the writing of this report. Specific tariffs on Chinese-built vessels are creating immense uncertainty within the industry (see Spotlight for more information). Both bulk and container carriers remain reluctant to use the Red Sea route due to continued volatility in the region.

Fertilizer costs rise.

Prices for nitrogen fertilizers are increasing in response to higher input costs (natural gas is the primary feedstock), increased corn acreage estimates and reportedly tight urea ammonium nitrate (UAN) inventories. Phosphate faces tight global inventories due to Chinese export restrictions, higher sulfur/sulfuric acid costs and rising demand. Potassium faces tight inventories and exposure to retaliatory tariffs from Canada. (Canada is the primary supplier of potash to the U.S.). Spring planting will continue to pressure prices across all three nutrients over the coming months.

Almonds and pistachios – *Almond prices stage a strong rally.*

Almond prices rallied about 10% from mid-February. Demand from buyers in the Middle East has increased significantly as they restock depleted inventories following Ramadan, a religious period in which practitioners fast during the day. (Almonds are often consumed before dawn for their nutritional content). Some international buyers may also be frontloading purchases in anticipation of countervailing tariffs. Inshell supply is tightening both domestically and in India, which may continue to support prices over the next few months. (India is the primary market for inshell almonds). Bloom/pollination peaked mid-March, about a week ahead of normal. Hailstorms in the northern San Joaquin Valley in early March may have led to bloom/stem damage in some orchards, though the full extent remains unclear.

Pistachio prices and shipments to retailers continue at a stable pace. Weather conditions have thus far been favorable during bloom/pollination. With younger acres starting to reach peak production along with it being an 'on' year for alternate bearing, the 2025 crop will likely come in large (1.5 to 1.6 billion pounds).

President Trump announced high tariffs on several key tree nut export markets, including China, India, Europe, Japan, South Korea and others. How these countries respond is not yet clear at the writing of this report. There are reports suggesting India and the U.S. are in negotiation to address import barriers on U.S. fruit and nuts. India makes up about 20% of almond exports and 3.5% of pistachio exports. Currently, U.S. producers are subject to tariffs set at $.66 per pound of unshelled almonds, and $2.58 per pound of shelled kernels. Pistachios are subject to 11% duties for both in-shell and shelled nuts. (The terms duties and tariffs are often used interchangeably and while there is some distinction between the two, their net effect is the same.)

Apples – *Apple industry faces flat prices and an uncertain operating environment.*

Apple prices generally held flat in March. While shipments to retailers and export markets are strong it remains unclear if the crop will clear ahead of the 2025 marketing season. Bud set suggests the 2025 crop could be large; however, late season weather events, lower water availability, reduced spending on management practices (pruning, fertilizer/herbicide application, etc.) and/or orchard removals are likely to have a counterbalancing effect. Reservoirs that support irrigation in the Yakima Valley are well below their historical averages but conditions should improve over the next two months as mountain snowpack melts. (Snow water equivalent levels across the region are at/near median levels.) President Trump announced relatively high tariffs for key export markets, including India (about 8% of total exports), Taiwan (about 8%) and Vietnam (about 5%). How these countries respond is not yet clear as of the writing of this report. No new tariffs were announced for Canada and Mexico, by far the largest export markets. Anecdotal reports suggest India and the U.S. are in negotiation to remove or reduce import tariffs on U.S. fruit and nuts. India currently applies a 50% tariff on apple imports.

Pear prices increased moderately in March. Bud set suggests the 2025 crop will rebound from last season, though it remains too early for accurate estimates.

Cattle – *Fed cattle prices surge as does the need for risk protection.*

Fed cattle markets have surged, with feeder steer prices reaching new highs. In Montana, on March 21, feeder steers were priced above $3.01 per lb, nearly $0.30 higher than a year ago and up $0.05 per lb from the previous week. Similar trends were seen in all western states. In California, Idaho, Oregon and Washington, feeder steer prices exceeded $2.88 per lb, reflecting year-over-year gains of more than $0.20 and monthly increases of $0.10 per lb. In Arizona, feeder steer prices were slightly lower than last year at $2.82 per lb but still saw a $0.15 increase over the past month. Despite these strong cash market prices, live and feeder cattle futures have started to retreat from record highs reached in mid-March, with all contracts after April turning bearish. This is not surprising as seasonally, cattle prices typically dip during the summer months, before rising again in the last quarter of the year.

While the seasonal adjustment is not a surprise, this shift in the futures market could pose challenges for the cattle industry as cattle purchased at today's record prices may have to be sold at lower prices. Breeding stock prices have surged, with replacement heifers reaching up to $2,800 and bred cows exceeding $3,500, raising concerns about producers' ability to sell calves profitably. Producers will need to be able to sell these animals that they purchased at record prices at a profit. The key factor for maintaining strong beef prices is resilient consumer demand. If demand falters, it could have significant negative impacts on the market. That said, the outlook remains optimistic with grilling season approaching, a time when beef demand traditionally peaks. Additionally, strong sales in 2024, which reached a record $104.6 billion, a 5% year-over-year increase, suggest that beef demand has the potential to remain robust.

Packers are grappling with significant challenges as low utilization levels and elevated cattle costs continue to strain operating margins. Packing plant utilization rates are currently below 70%, a level that is unsustainable in the long term. Efforts to adjust, such as reducing slaughter levels and eliminating Saturday shifts, have yet to bring utilization to an economically viable level. Projections suggest that U.S. slaughter utilization will only surpass 80% by the end of 2025, leaving the industry in a precarious position. Meanwhile, feeder cattle prices have added further pressure to packers. This combination of low utilization and high cattle costs is expected to drive continued industry consolidation to an already highly consolidated industry. This places older, underutilized plants at particular risk of closure.

Dairy – *Milk production rises.*

National milk production grew for a second consecutive month in February, signaling renewed optimism for dairy growth for most regions. February's milk production in key milk predicting states was 17 billion lbs, a 0.9% increase from last year. Record income over feed costs in the fall of 2024 set the stage for herd growth in early 2025. The milk cow herd increased to 9.405 million head, up 62,000 head from the previous year. Idaho has seen particularly notable growth, supported by looser quota restrictions from processors. Idaho dairy herd counts were revised upward for three consecutive months, including a 10,000 head revision this month. While Idaho is growing, California and Washington still face challenges. California's milk production is still down, but decreasing at a slower rate, softening from 9.87% to 3.75% year over year. Washington saw a 3% drop in production as milk check withholdings weighed on many producers. In Arizona, dairy herds are entering the "flush season" (period in spring when dairy cows naturally produce more milk). Q1

prices are delivering decent results as production improves. While Q2 prices look challenging for profitability, many producers are expected to maintain stable returns, with increased production helping to offset lower milk checks and price coverage options providing additional support.

Forest products – *Housing sector starts the season on a flat note.*

Early signs suggest a flat start to housing demand in 2025 despite some softening in mortgage rates. While single family home starts increased in February, permits issued held flat and are near their 10-year average. Inventories for sale and the median days a home stays on the market have gradually increased from mid-2022 lows and are up 28% and 8% from February 2024, respectively. Lumber prices have increased moderately so far in 2025, but remain near break-even levels for West Coast producers. Prices are unlikely to rise significantly until affordability improves for prospective home buyers. Domestic lumber supply dropped by 1.9% year over year in 2024 due to lower production and imports (not including those from Canada). The World Cement Association estimates global cement use could fall 36% by 2050, with 4%-6% of that change the result of timber substitution.

Western log prices have benefited from lower supplies as relatively wet and/or snowy conditions limit harvesting capacity and slow deliveries. Log inventories are reportedly low throughout the region, suggesting prices should remain elevated over the next two to three months. Log demand from China, Japan and South Korea, the three largest export markets for Western log producers, is reportedly weak due to declining economic and/or home construction activity. On April 2, President Trump announced relatively higher tariffs on these countries, and how they will respond is not yet clear as of the writing of this report.

Hay – *Slightly lower hay prices mark the start of the 2025 season.*

Monthly hay prices continue to trend lower in early 2025. Alfalfa prices for the current crop have fallen from around $200 per ton to just above $160 per ton in recent months. All other hay prices have remained stable so far in 2025, although still lower from the previous year. Projected Western hay acreage is slightly down, with modest reductions in California, Idaho, Oregon, and Washington. Montana, however, stands out as an exception, with acreage expected to increase by 5% compared to the previous year.

Arizona – Hay markets in Arizona remain steady as producers begin the first cutting of the 2025 season. Late March precipitation in parts of the state has provided some relief for growing conditions, with most of the crop rated in good-to-excellent condition. Dairy buyers remain active at current prices, driving solid demand. Meanwhile, discussions about new crop are ongoing as some growers hold off planting until they gain price clarity.

California – Hay trade has been steady in California with strong domestic retail demand, but less export demand. Old crop supplies are being cleaned up, and most expect normal hay carryover this year compared to last year's surplus. Some growers in the southern San Joaquin Valley have started first cutting. Significant March rainfall improved livestock feed conditions.

Idaho, Oregon and Washington – Hay movement in the Northwest has slowed slightly as more producers sell out of hay and gear up for the 2025 season. In Idaho, eastern Oregon, and Washington, feeder hay remains in high demand but is becoming harder to find, leading some buyers to turn to higher-quality options. Within the Columbia Basin region of Washington, growers have been selling more hay and are likely to generate more income before the 2025 plantings. Across the region, normal soil moisture, steady precipitation, and strong snowpack levels are expected to support hay production this season.

Montana – Hay sales in Montana have remained steady, with producers actively working through two years of large supplies. Some ranchers hesitate to buy due to their own abundant reserves. Reduced asking prices have sparked some demand (hay prices are down $20 per ton from the previous year), especially from buyers purchasing as insurance against a potentially dry summer. Despite a mild winter, 35% of the state remains in moderate drought or worse. Cattle retention is increasing, which could benefit Montana hay producers in the future.

Lemons and oranges – *Navel season winds down, and lemon prices remain low.*

The navel season is winding down and season-to-date supplies have reportedly come in below estimates. While prices for large fruit are relatively strong, those for medium to small sizes are notably down given excess supply. Growers with large, late season fruit may benefit from strong prices. Orange juice futures have collapsed from historic highs reached mid-2024, though they remain well above their historical averages. Estimates suggest the orange crop in Brazil, the largest U.S. supplier of juice concentrate, will recover by 14% to 30% from last season. Juice supplies fell to historic lows in the 2024-25 season due to Brazil's short crop. USDA expects the 2024-25 U.S. orange crop to decline 12% from the previous season as the combined effects of citrus greening and Hurricane Milton left Florida with the smallest harvest in nearly a century (315,000 tons for Valencias and 207,000 for non-Valencias).

Lemon prices generally held flat in March at slightly unprofitable levels, though larger size fruit experienced moderate price declines on rising supply. Harvest is taking place in both the Central Valley and Coastal regions. USDA projects the 2024-25 lemon crop to come in at 1.1 million tons, a notable increase over the previous season. Higher supplies and weak markets are likely to keep prices down for the foreseeable future.

Potatoes – *Steep acre cutbacks for potatoes.*

Potato growers are grappling with widespread challenges as processors implement substantial cuts to contracted acres. Across the Northwest, reductions average around 10%, with some producers facing cuts as steep as 40% or greater. Contracted organic potato acreage has also seen sharp declines. Contract prices are down by an average of 5% compared to last year. While some growers are looking for alternative uses for their unallocated land, options remain limited. The reduction in contract acres could lead to an increase in open market potatoes in 2025. This could drive open market prices even lower. Against this backdrop, many producers are bracing for ongoing market challenges and striving to maintain stability in an unpredictable environment.

Wheat – *Wheat acres decline, but global market dynamics could shift outlook.*

Western growers are expected to reduce wheat acres in 2025, driven by persistently low wheat prices and challenging planting conditions. USDA projects total wheat acreage for 2025-26 at 45.4 million acres, a 2% decline from the previous year. If this holds, this would be the second smallest crop on record since 1919. Winter wheat plantings remain steady at 33.3 million acres. Spring wheat acreage is expected to drop 6% to 10.0 million acres, continuing a 30-year downward trend. This decline reflects an ongoing shift from spring wheat acres in the Midwest to corn and soybeans acres, supported by biofuel subsidies and higher per-acre returns. Durum wheat acreage is projected at 2.02 million acres, down 2% from the previous year. Arizona, California, and Montana all had significant decreases in durum wheat prospective planted acres.

Global and domestic market dynamics could, however, reshuffle the wheat planting outlook. A historically tight global wheat stocks-to-use ratio, coupled with crop damage in key regions, could inject volatility into prices. Drought and frost damage to winter wheat in the Black Sea region, alongside a strengthening Russian ruble and slowing Russian exports, may push export demand toward U.S. wheat. Additionally, concerns over drought and potential winterkill impacting the U.S. winter wheat crop in the Central and Southern Plains could drive a recovery in prices and partially limit reductions in spring wheat acres.

Considering alternative crops, barley planting incentives have diminished. With maltsters holding excess inventory, barley acreage is forecasted to decline by 2% to 2.31 million acres. Canola acres are also expected to decline 7% to 2.56 million acres. Meanwhile, pulse crops demonstrate stronger profitability potential, driving increases in acreage. Forecasts show significant growth in flaxseed (up 52% in Montana), chickpeas (up 23% in Montana), lentils (up 8% in Washington and 14% in Montana), and dry edible peas (up 55% in Idaho and 12% in Washington).

Small grains producers stand to benefit from the Emergency Commodity Assistance Program, which offers $9.8 billion in relief payments for 20 crops and is currently open for enrollment. With a payment rate of $30.69 per acre for wheat, this program aims to address financial losses that occurred last year due to low prices. This one-time payment is based on 100% of planted acres and 50% of prevented planting acres for the 2024 crop year. Additional assistance includes $21.76 per acre for barley, $31.83 for canola, $19.30 for lentils, $16.02 for dry peas, $20.97 for flaxseed, $31.45 for small chickpeas, $24.02 for large chickpeas, and $11.36 for mustard seed. Payments are capped at $250,000 for producers who derive more than 75% of their income from farming.

Wine and wine grapes – *California's 2024 Grape Crush Report shows some interesting trends.*

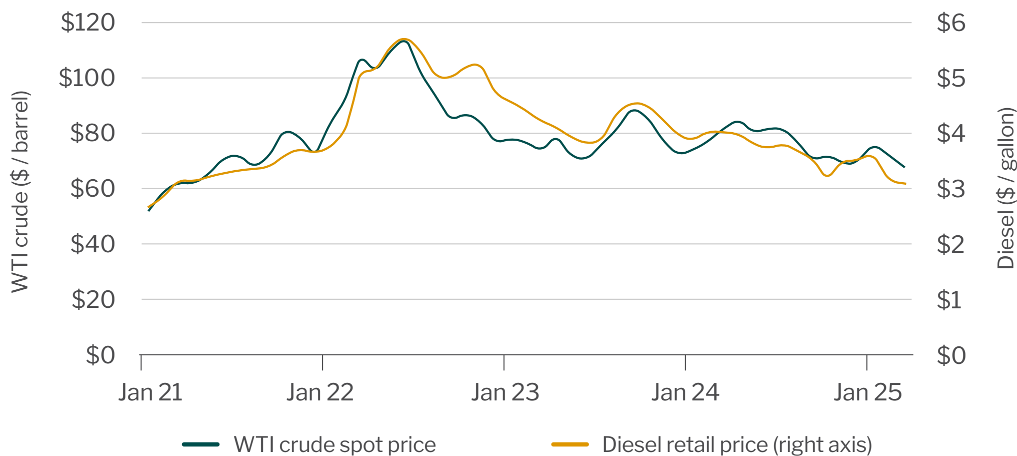
California's 2024 Final Grape Crush Report was released in March. The total crop came in at 2.9 million tons, 22% below the previous season. Returns to growers were down on average 4% for white and 1% for red varieties. Declines were observed across several major varieties including Chardonnay (-1%), French Colombard (-4%), Zinfandel (-9%), Pinot Gris (-6%), Muscat of Alexandria (-2%), Sauvignon Blanc (-2%) and Merlot (-1%). These declines were partially offset by gains in Cabernet Sauvignon (3%) and Pinot Noir (2%), among others. Prices fell broadly across the state, with Mendocino and Lake counties taking the biggest hit. Prices were also down in the Central Valley, the state's largest production area, and mixed in the Central Coast region. While new plantings are favoring red varieties, including Cabernet Sauvignon with 26% of the total, Chardonnay was also a favored variety with 20%.

By value, year-over-year wine sales in February fell for off-premise (-6%), on-premise (-5%) and Direct-to-Consumer (DtC) (-10%) sales. Sauvignon Blanc was the only variety during this period to have an increase in both sales value and volume, while white blends benefited from a bump in sales value only. Weak markets are pressuring producers. Despite some new plantings, reports suggest California and Washington experienced a net loss of 50K and 4k acres in 2024, respectively. President Trump announced relatively high tariffs on key wine export markets, including the European Union (EU), Japan, China, South Korea and others. How these countries will respond is not yet clear as of the writing of this report. No new tariffs were announced for Canada, the largest export market outside of the collective EU.

Data and trends

This section presents select economic indicators to help producers gauge the direction of their business. These metrics reflect current market dynamics and their potential impact on operations. Come back each month to stay informed and adapt swiftly to the ever-changing economic landscape.

WTI crude oil and diesel prices



Source: U.S. Energy Information Agency.

Observation: Oil prices found a floor mid-March on higher-than-expected inventory draws and tariff threats against countries who import Venezuelan oil.

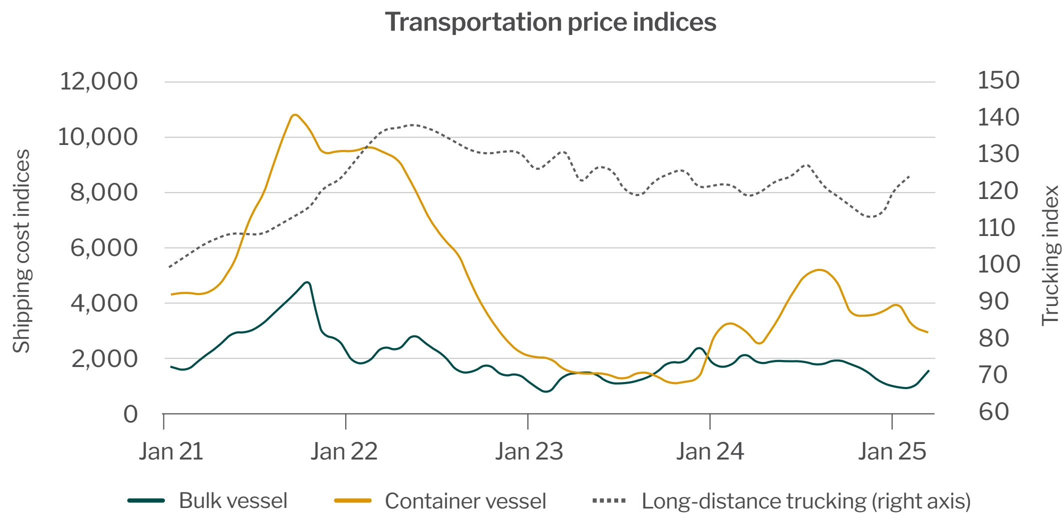
About this indicator: The West Texas Intermediate (WTI) crude oil price is a benchmark for oil pricing and influences the cost of fuels like diesel, which is essential for running farm equipment and transporting goods.

DXY index

Source: Bloomberg.

Observation: The dollar weakened again in March due primarily to the threat and application of tariffs by the Trump Administration.

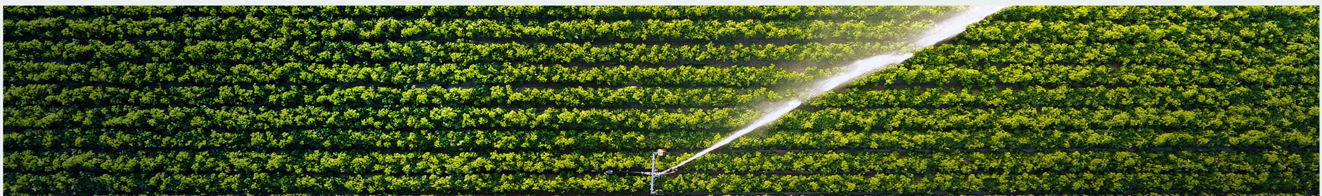
About this indicator: The DXY index measures the strength of the U.S. dollar against a basket of foreign currencies. The strength of the U.S. dollar impacts the competitiveness of agriculture producers in foreign markets. As the dollar strengthens, U.S. producers & exports become less competitive, and vice versa.



Source: Bloomberg. Freightos. U.S. Bureau of Labor Statistics.

Observation: Relatively soft oil prices helped reduce transportation costs overall, though recent oil price gains may stop this trend. Flatbed trucking experienced increased demand as companies sought to build inventories ahead of tariffs. Bulk shipping prices rose notably from mid-February to mid-March on tightening vessel supply and increased demand for coal, mining and minerals. Container rates declined for the third month in a row as new vessel capacity came online while demand slowed.

About this indicator: The long-haul trucking index measures the changes in trucking freight rates over time. The Baltic Dry Index measures the average global cost of shipping bulk materials, including grains, sugar, metals, and others. The container index measures the average global cost of shipping containers. Shipping prices vary by route and carrier size based on market dynamics and may move independently from global averages (i.e., the cost to ship goods from the West Coast to Asia could remain flat even if global rates are increasing.)



Spotlight

The impact of proposed U.S. penalties on Chinese-built ships for agriculture

The U.S. Trade Representative (USTR) is considering implementing penalties on Chinese-built ships, a move aiming to reduce dependence on foreign shipbuilding and promote domestic manufacturing. These measures may help to revitalize U.S. shipbuilding in the long-term, but risk far-reaching repercussions for U.S. agricultural producers who depend on cost-effective and efficient shipping for their exports.

Under the USTR proposal, hefty fines will disincentivize the use of Chinese-built vessels. Ships built in China would face fines of up to $1.5 million per U.S. port stop. Vessels not built in China, but that belong to a shipping company with any Chinese-built vessels in their fleets would face fines of up to $1 million per port entry. Given that China accounts for 75% of new ship construction, these penalties could impact nearly every ship carrying goods into U.S. ports. This proposal also aims to shift domestic exports to ships built in the U.S., which currently produces fewer than 10 ships annually and has a cargo vessel fleet of less than 200 vessels.

Implications for agriculture

- **Increased import costs:** Fines will likely be passed along to shippers and the goods being transported. Many agricultural inputs including fertilizer and machinery parts are imported, which likely have added fees passed along to producers.
- **Reduced global competitiveness:** For agricultural exporters, increased transportation costs could reduce competitiveness in export markets as these costs are passed along to international buyers. A study by Trade Partnership Worldwide estimates that wheat producers could see a reduction in exports ranging from 9% in the best-case scenario to 65% in the worst-case scenario.
- **Limiting ships:** Some vessel owners are increasingly hesitant to provide future shipment contracts due to the proposed fines, which could lead to a reduction in available shipping options and delays. This is particularly concerning for U.S. agriculture, which heavily relies on ocean freight backhauls to export goods efficiently. Without these backhaul opportunities, producers could face higher transportation costs and logistical hurdles, further straining their ability to compete in global markets.
- **Port consolidation:** To minimize fines, shipping companies may bypass smaller ports in favor of larger ones. For instance, a vessel might opt to dock only at Long Beach instead of both Portland and Long Beach, avoiding additional penalties. Agricultural producers near smaller ports may need to transport goods over longer distances, increasing costs and causing logistical bottlenecks.

Long-term considerations

The prospect of shifting trade dynamics raises questions about the long-term feasibility of these penalties. Can domestic shipyards build the infrastructure in time to support U.S. exporters? Does the U.S. want to dedicate the land space needed for new shipyards, requiring more than 25 square miles each, to produce these vessels? Will agricultural producers continue to remain competitive if they face higher costs and reduced access to shipping routes? These are concerns that will need careful consideration as the USTR evaluates the potential ripple effects of this policy.

Quarterly Economic Update

Executive Summary

The U.S. economic landscape in April 2025 is characterized by resilience and growth, driven by consumer and government spending. Despite recent equity market corrections, consumer behavior remains strong, supported by low unemployment and rising wages. The Trump Administration's efforts to reduce regulations and implement tariffs aim to improve business conditions, although these initiatives add uncertainty to the economic outlook. The Federal Reserve (Fed) maintains a steady monetary policy, forecasting interest rate adjustments and ongoing quantitative tightening. Various risks, including geopolitical conflicts, rising consumer debt, and potential weakening of the U.S. dollar, pose challenges to the economy. Inflation is projected to remain above the Fed target, influenced by housing and labor costs.

Economic Drivers

Government and consumer spending drives economic growth.

In 2024, the U.S. economy proved much more resilient than forecasters expected. Real Gross Domestic Product (GDP) expanded by 2.8%, which nearly matched the growth rate of 2.9% for 2023. Consumer spending and government spending fueled much of the growth, expanding by 2.8% and 3.4%, respectively. Consumer spending accounts for nearly 70% of GDP while government spending is around 17% (6.5% for federal and 10.5% for state and local).

For 2025, moderately low unemployment and rising wages should enable consumer spending to drive GDP growth despite inflation concerns. The Trump Administration's efforts to reduce government spending may prove a counterbalance, though its impact may be limited given the smaller role federal spending has in the economy. Recent policy initiatives on foreign trade and tariffs, fiscal policy, regulation and enforcement of immigration laws have added uncertainty to the economic outlook raising investor caution and weakening consumer confidence. A sustained period of weaker confidence will weigh on consumer spending and GDP growth.

Government reforms may improve business environment.

The Trump Administration is working to improve business conditions by reducing regulations and applying tariffs. While the World Bank ranks the U.S. as sixth in its Ease of Doing Business Index, there are multiple subcomponents that rate poorly, including the ability to get electricity, start a business, register property and protect minority investors, among others. Lowering the regulatory burden may help to improve these factors. Many countries currently have more stringent trade barriers than the U.S. and many argue this leads to an unbalanced competitive environment. The Trump Administration is using tariffs to improve the competitiveness of U.S. businesses both at home and abroad as well as increase leverage in trade negotiations. Trump's efforts will take time to implement as his initiatives work through the legislative process and judicial challenges.

Correction in equity markets may have downstream impacts.

The recent correction in equity markets may translate into reduced spending for a few quarters as the wealth effect (people are more willing consume goods and services when their net worth is higher) we've seen for the past two years loses momentum: the top 10% of earners in the U.S. account for nearly half of all consumer spending. However, a typical byproduct of equity market corrections is lower U.S. Treasury yields as investors and traders seek the safety of government securities versus the volatility of equity prices. Treasury yields have fallen significantly since mid-January. If the correction deepens, yields could continue trending lower and at some point provide a boost to the housing market due to falling mortgage rates. The 30-year fixed mortgage rate is down 70 basis points from mid-January to 6.7%.

Federal Reserve holds monetary policy steady.

The Federal Open Market Committee (FOMC) has held rates unchanged for the first two policy meetings of the year. Officials forecast the federal funds target range will finish the year at 3.75-4.0%, which equates to two 25 basis point rate decreases from the current target range of 4.25-4.5%. Federal funds futures are very reactive to market conditions and the equity market turmoil. Futures now indicate the market is looking for four 25 basis point rate cuts, currently slated for June, July, September and December. As futures respond to changing market conditions and developments, the number and timing of rate cuts are fluid.

The most recent policy statement indicated policymakers believe economic activity has been expanding at a solid pace and labor market conditions are firm. However, inflation remains above their 2% target and officials see more risk to the outlook and ability to achieve their inflation and employment goals.

The FOMC announced a change in the pace of quantitative tightening beginning in April. The Fed will continue reducing its holdings of Treasury securities, but at a slower pace of $5 billion per month versus the current level of $25 billion. Monthly redemptions of agency debt and agency mortgage-backed securities will continue at the current rate of $35 billion per month.

Fed officials recently updated their forecast for the economy and monetary policy for 2025-2027. There were modest updates to the projections which reflected increased uncertainty around their economic outlook. The forecast was revised to show slightly weaker real GDP and an uptick in unemployment and inflation. There were no changes to projections for policy rates (federal funds rate).

Federal Reserve projections

Indicator	2024	2025	2026	2027
Real GDP growth	2.00%	2.00%	2.00%	2.00%
Unemployment rate	4.40%	4.40%	4.30%	4.20%
PCE inflation	2.30%	2.10%	2.00%	2.00%
Federal funds rate	4.50%	3.50%	3.00%	3.00%

Data as of April 2, 2025. Source: Federal Reserve Board.

Risks to the economy

The following present risks to the economic outlook:

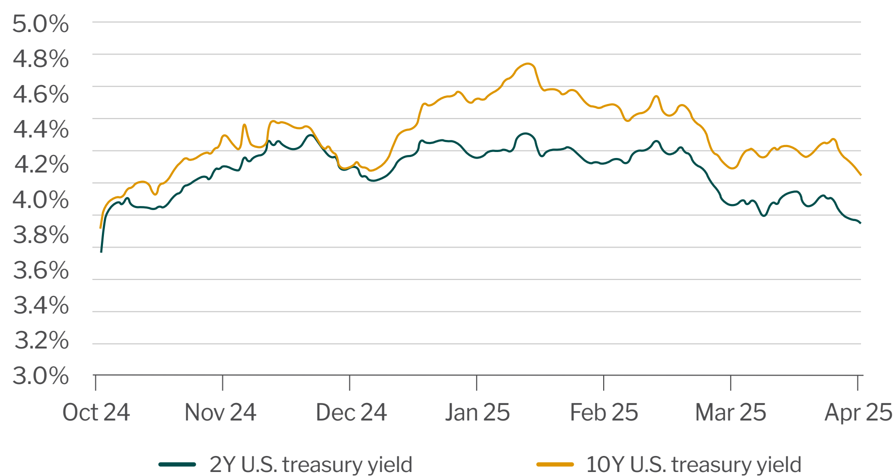
- The implementation of President Trump's policies is disjointed, and the Administration could begin losing the support of Congress and the American people.
- The application of tariffs disrupts international trade and supply chains.

- Rising federal debt levels have the potential to increase inflation and treasury yields, weaken the U.S. dollar and reduce the capacity of the U.S. government to respond to an economic crisis and war. The debt to GDP ratio is now at about 124% and continuing to grow. Sustained growth in debt will eventually lead to crisis and hardship for the American people. Congress is unlikely to respond until a crisis arises or it creates significant hardship on the American people.
- Rising prices and debt loads are leading to financial stress, particularly among low wage earners. Coupled with a weaker equity market and deterioration in the wealth effect, and this may eventually slow consumer spending. Delinquencies for consumer credit cards and auto loans are trending higher.
- Conflicts in the Middle East and Ukraine are disrupting global trade flows and dampening economic growth. An escalation of either would worsen conditions, however, President Trump appears committed to ending both wars.

Economic data and trends

Interest rates

U.S. Treasury yields have been in a downward trend since President Trump was inaugurated in mid-January. The 2-year yield is down about 50 basis points to 3.85% while the 10-year yield is off about 65 basis points to 4.15%. During this same time the 30-year fixed mortgage rate is down nearly 60 basis points to 6.75%. Rates have moved lower on elevated concern that the economy will expand at a slower rate. However, further rate declines may be a challenge as inflation is expected to hover near current levels for a period. Given this backdrop, look for yields to gradually trend lower over the next 6-12 months. Short-term yields will likely respond to expected monetary policy while longer term yields will move with the outlook for inflation and growth. The primary driver of these factors is President Trump's ability to reform government and the effectiveness of the Administration to execute on trade policy.

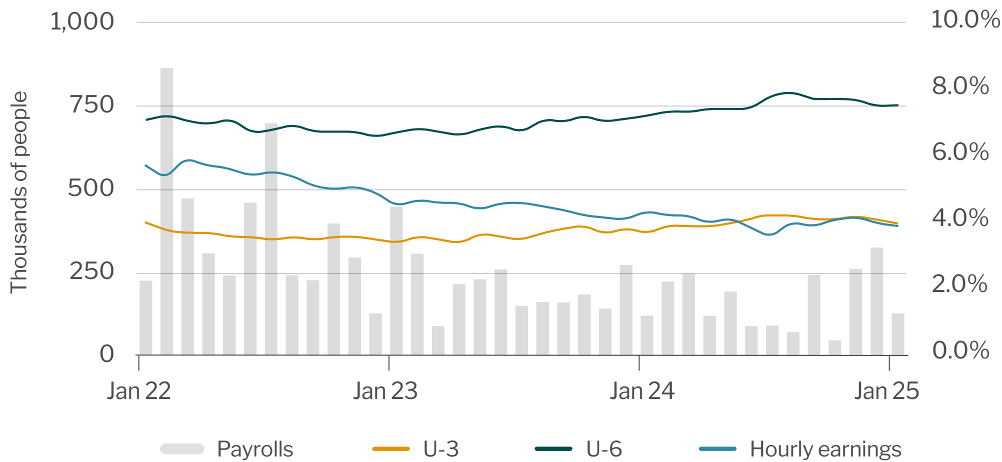


Data as of April 2, 2025. Source: U.S. Department of the Treasury.

Employment

Nonfarm payrolls for February rose 151,000, which fell short of expectations. Revisions to the prior two months added a combined 2,000 jobs. The unemployment rate rose by 0.1 percentage points to 4.1% as the decrease in employment exceeded the decline in the labor force. The report also indicated a net reduction of 10,000 federal government jobs, which was likely due to President Trump's hiring freeze. (The normal turnover is about 30,000 Federal employees per month.) Payrolls have increased an average 200,000 per month for the past three months and 162,000 for the past 12-months. Meanwhile, average hourly earnings rose 0.3% for February and 4.0% over the past year. The U-6 unemployment rate, a broader measure that includes marginally attached and discouraged workers, unexpectedly increased 0.5 percentage points to 8.0%.

Weekly jobless claims data confirms the Fed's view that labor market conditions remain firm and should continue for the near-term. Weekly initial claims for jobless benefits have averaged 225,000 for the past 12-months. An increase to 300,000 to 350,000 in weekly claims would signal material weakness in employment with rising unemployment and the possible onset of a recession.



Data as of April 2, 2025. Source: Bureau of Labor Statistics.

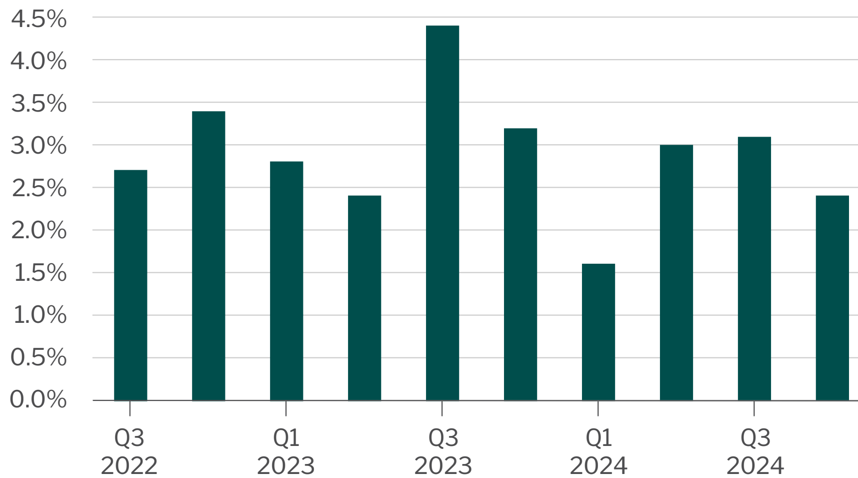
Gross Domestic Product

The third estimate for real growth in Q4 2024 indicated GDP expanded by 2.4% which was weaker than Q3 2024 GDP growth of 3.1%. Consumer spending and expansion in housing investment for the fourth quarter was stronger than the third quarter, but weakness in business and government spending pulled the overall growth rate lower. Increases in the price indexes were also a drag on real growth.

Uncertainty related to the Trump Administration policies on trade is likely pulling forward imports for manufacturers and producers as they attempt to beat the implementation of tariffs. This will result in a larger Q1 net exports number on a sharp increase in imports, which will drag overall GDP lower. However, growth for the second and third quarters is expected to accelerate as net exports data is more positive.

Provided wage growth continues, consumer spending maintains moderate momentum and unemployment is modest, economic growth during the second half of the year could be closer to the 2.0-2.5% range. Watch retails sales reports, initial jobless claims data, confidence surveys and energy prices for indicators of economic activity. It will take time for the tariffs to be fully implemented so benefits of trade policy will take longer to impact economic growth. The initial impact is expected to add upward pressure on products where there are no substitutes for the imported item(s). Housing activity will be influenced by mortgage rates.

Forecasts for Q1 and Q2 GDP growth vary greatly. The Federal Open Market Committee (FOMC) members and staff expect GDP to expand by an average of 1.7% for 2025. The New York Fed is projecting Q1 growth of 2.8% and Q2 growth of 2.6%. Meanwhile, the Federal Reserve Bank of Atlanta forecasts Q1 2025 real GDP growth to contract by -1.4%.



Data as of April 2, 2025. Source: U.S. Bureau of Economic Analysis.

Inflation

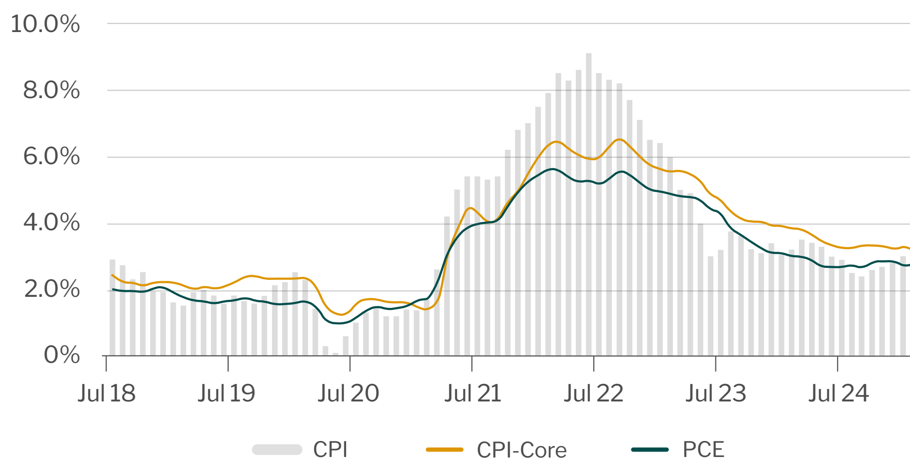
The CPI index for January rose by 0.5%, the largest month-over-month increase since January 2023. The increase was largely due to higher food and energy costs (gas prices rose 1.8%) while prices for used autos jumped 2.2%. During February, the rate of increase slowed as food prices rose by 0.2% and gas prices actually fell 1.1%. Used auto prices continued to increase, but at a slower pace of 0.9%.

The year-over-year consumer price inflation rate was 2.8% for February. Over the past twelve months the year-over-year consumer inflation rate has ranged between 2.5-3.5%. A history of various inflation measures is shown in the graph below. The bars reflect the year-over-year total CPI index. Other measures of inflation include the CPI Core rate, which looks at the inflation rate excluding food and energy prices, and the Core PCE (personal consumption expenditures) price index. Core PCE is the Fed's preferred measure of inflation.

The primary drivers of inflation over the past few years have been housing costs and services costs. The rate of increase for both items is slowing and expected to remain in a gradual downward trend. While food and energy prices can be volatile, the impact on the total CPI indexes can be muted as food and energy make up about 14% and 6%, respectively, of the total index. Shelter prices comprise about 35% of the index.

If you divide the total CPI index by commodity-based and service-based categories, year-over-year commodity-based inflation for February was -0.1% while service-based inflation rose by 4.1%. A large component of services is labor costs. To slow the rate of service-based inflation, the rate of increase in hourly and weekly earnings will need to slow. From 2009-2018 average hourly earnings rose 2-3% annually. Starting in 2018 many states dramatically increased their minimum wage rates, which saw annual increases of about 6%. Since mid-2022 average hourly earnings have trended back down to 4%, which is where it's been for most of 2024. Keep in mind, hourly earnings and wages have not gone down, just the rate of increase.

Core-CPI (CPI less food and energy) has decreased from a high of 6.6% in September 2022 to 3.1% for February. Meanwhile, the rate of core PCE has fallen from 5.65% in February 2022 to 2.8%. Federal Reserve policymakers would like the core PCE rate to decline to 2.0%, but elevated home prices, higher labor costs and tariffs may make it difficult for the economy to achieve the Fed's target inflation rate for the near-term.



Data as of April 2, 2025. Source: U.S. Bureau of Labor Statistics. U.S. Bureau of Economic Analysis.