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U.S. Economic Outlook: At the Precipice

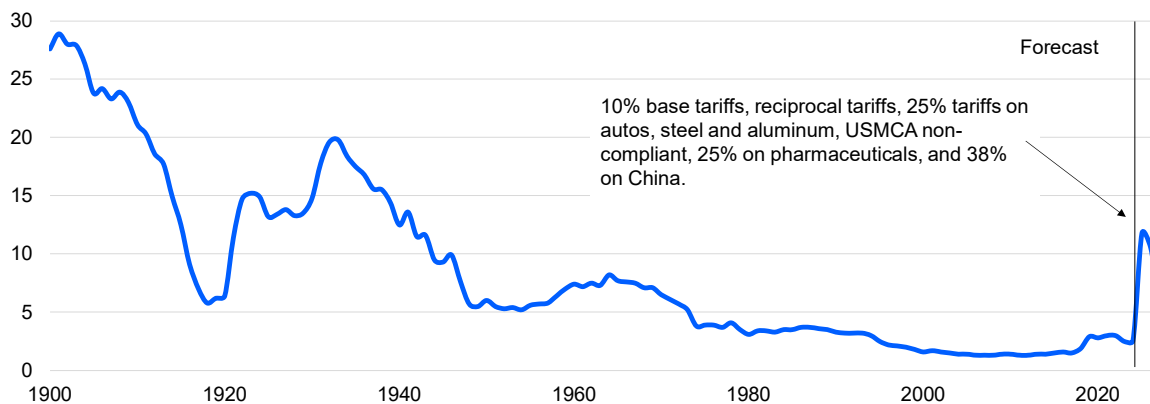
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Shandor Whitcher, Economist, Moody's Analytics

June 2025

The Global Trade War Takes a Dark Turn

U.S. effective tariff rate, import duties as a % of U.S. imports



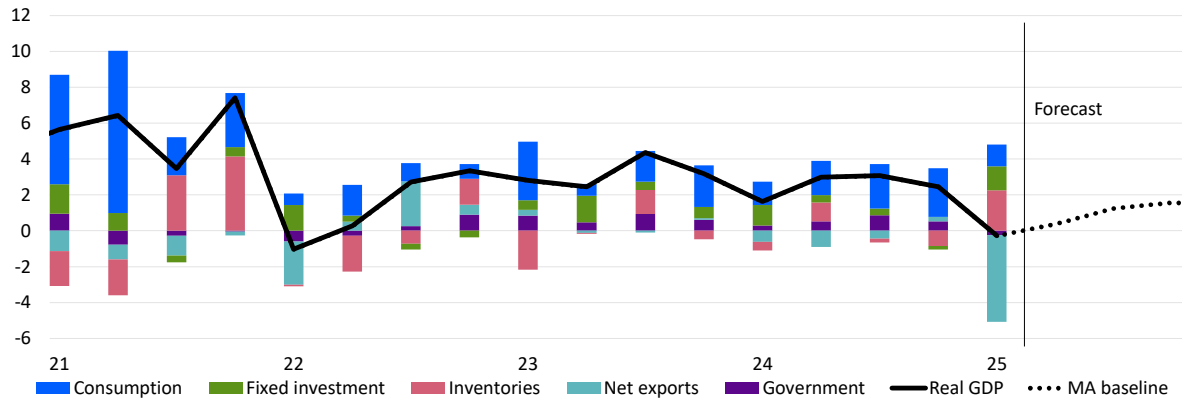
Source: Moody's Analytics

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GDP Turns Negative in 2025 As Business Pull Forward Imports

Real GDP, % annualized growth



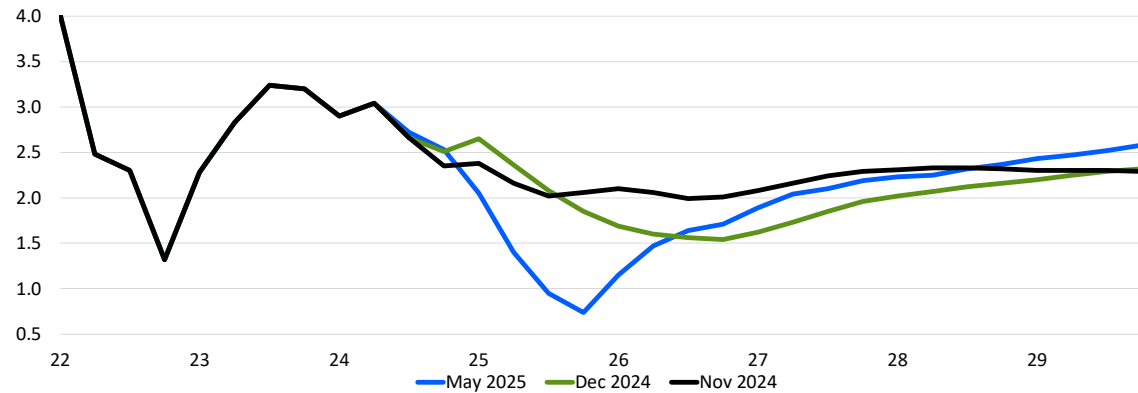
Sources: BLS, Moody's Analytics

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Weak, but No Recession Baseline

Real U.S. GDP growth, % change yr ago, baseline scenarios



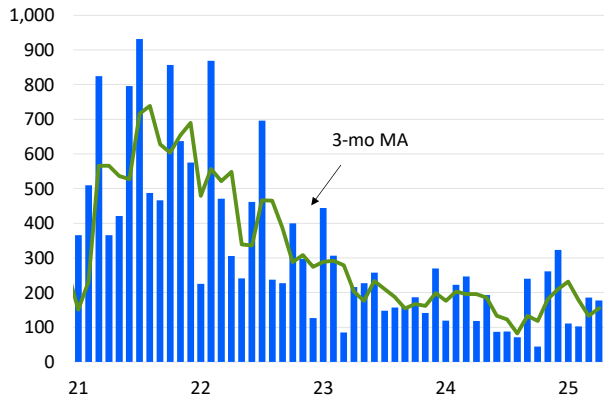
Sources: BEA, Moody's Analytics

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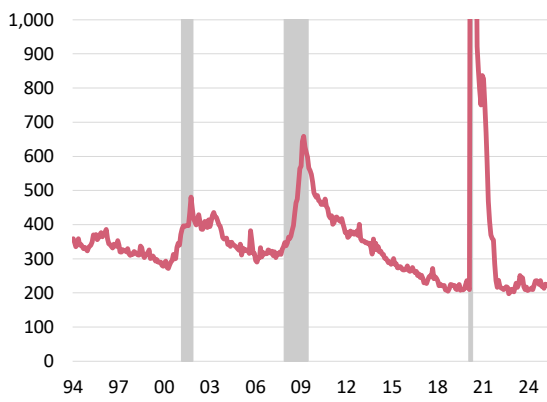
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The Labor Market Remains Intact

Monthly change in payrolls, ths



Weekly unemployment insurance claims, ths



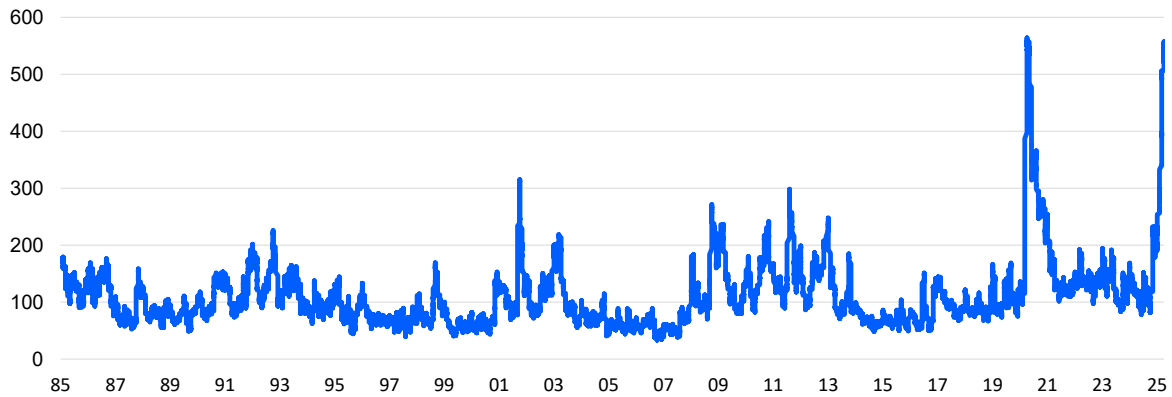
Sources: BLS, Moody's Analytics

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5

Economic Policy Uncertainty Spikes to Near All-Time High...

Economic policy uncertainty for the U.S., index, 30-day MA, NSA



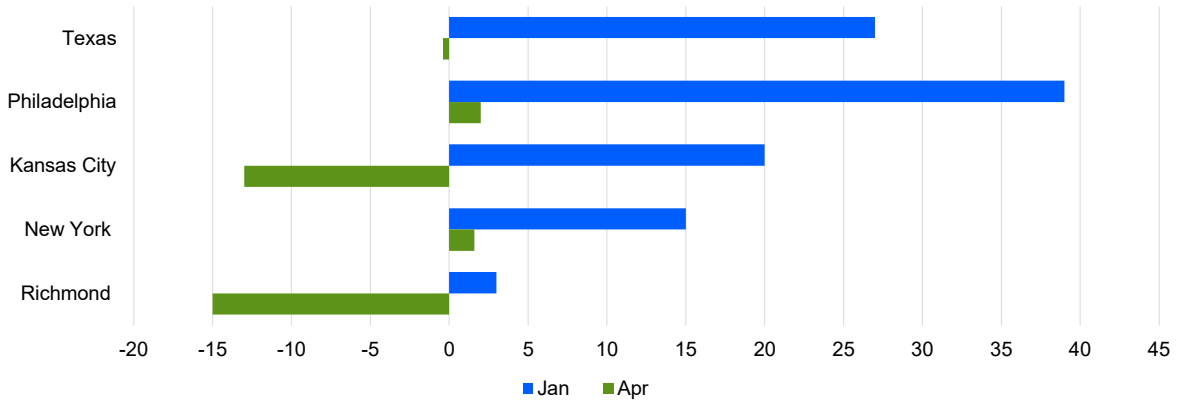
Sources: Baker, Bloom, and Davis; Moody's Analytics

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... Which is Pushing Manufacturers to Pare Back Investment Plans...

Net % of survey respondents expecting to raise capital spending in next 6 mo



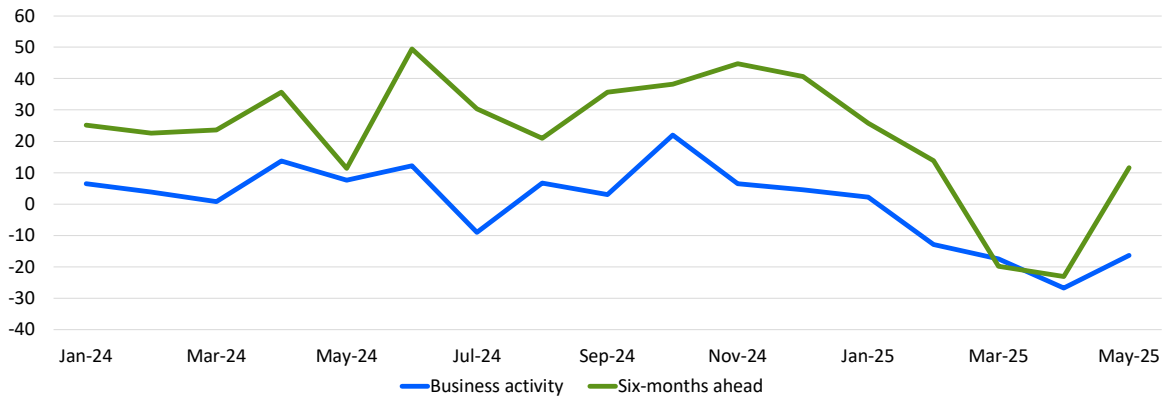
Sources: Federal Reserve banks, Moody's Analytics

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...And Stifling Service Industries

Philadelphia Fed nonmanufacturing survey, >0 is expansionary



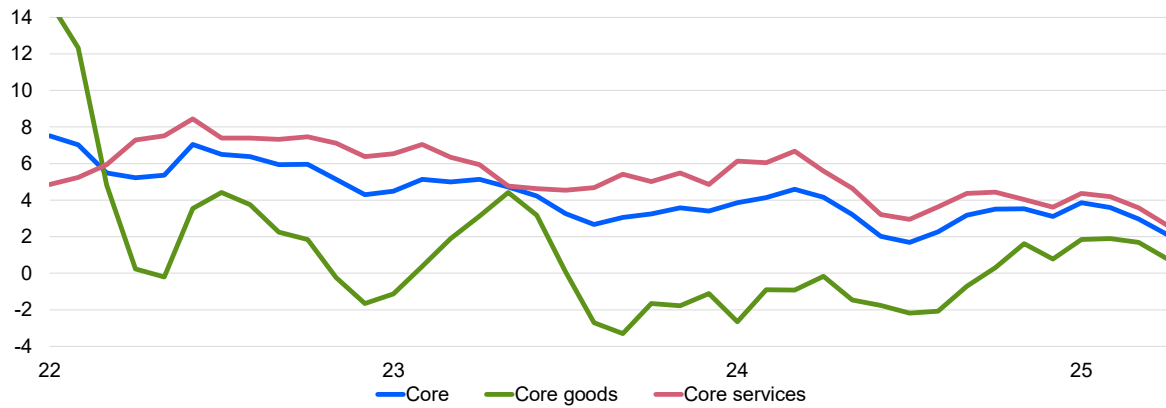
Sources: Philadelphia Fed, Moody's Analytics

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No Sign of Tariffs on Prices...

Consumer price index, annualized % change, 3-mo MA

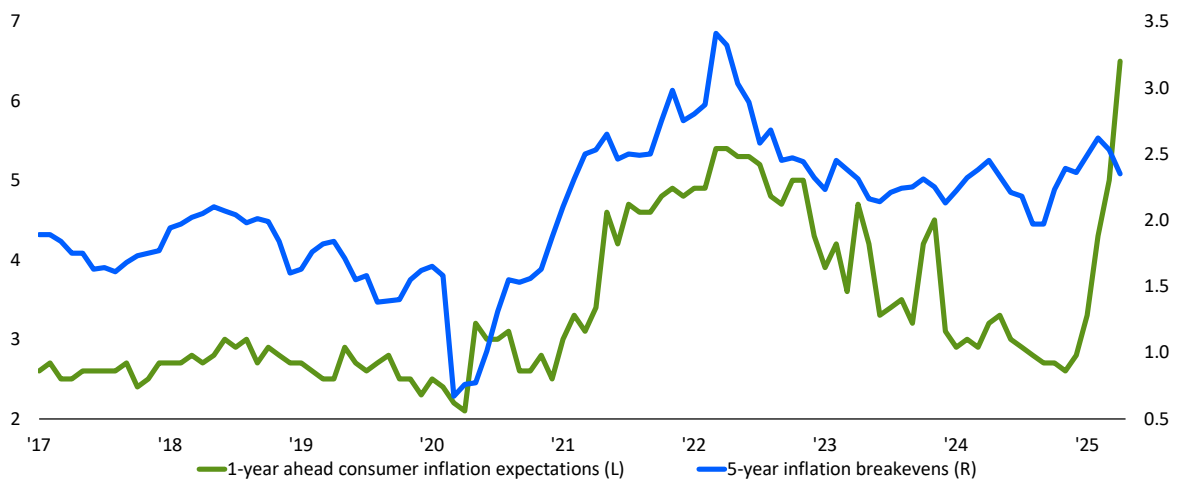


Sources: BLS, Moody's Analytics

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...But Consumers and Markets Anticipate Stronger Inflation...



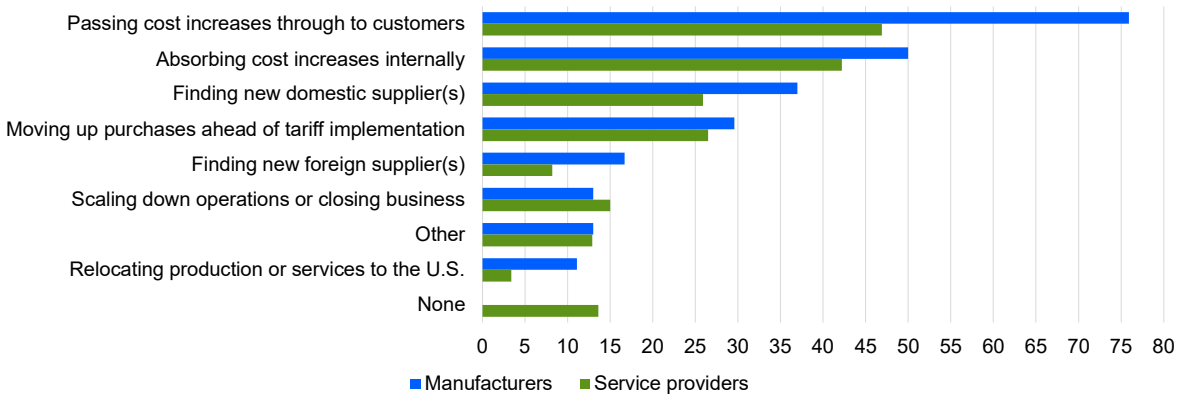
Sources: Federal Reserve, University of Michigan, Moody's Analytics

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...As Firms Pass Costs to Consumers

Actions firms are taking in response to higher tariffs, %



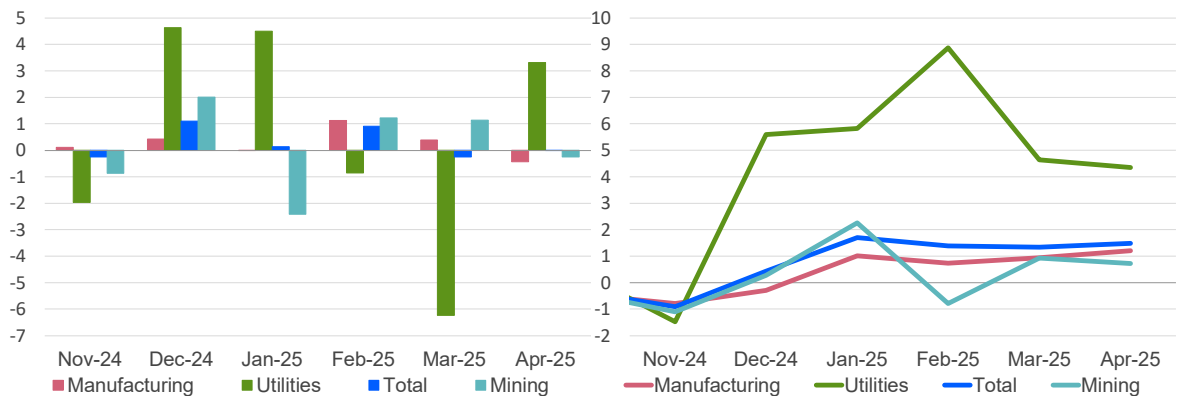
Sources: Dallas Fed, Moody's Analytics

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Production Treads Water as Trade War Progresses

Industrial production, % change (L), % change yr ago (R)



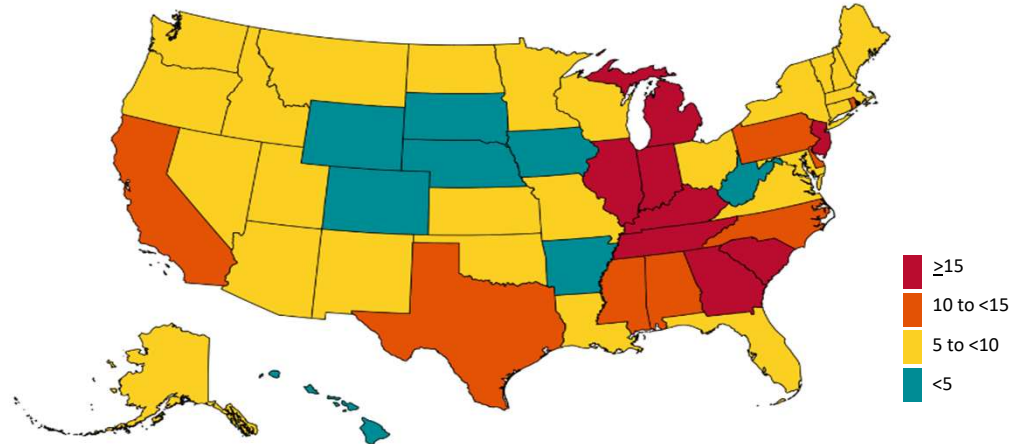
Sources: Federal Reserve, Moody's Analytics

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12

Tariffs Threaten Manufacturing and Logistics-Dependent States

Import share of GDP, %



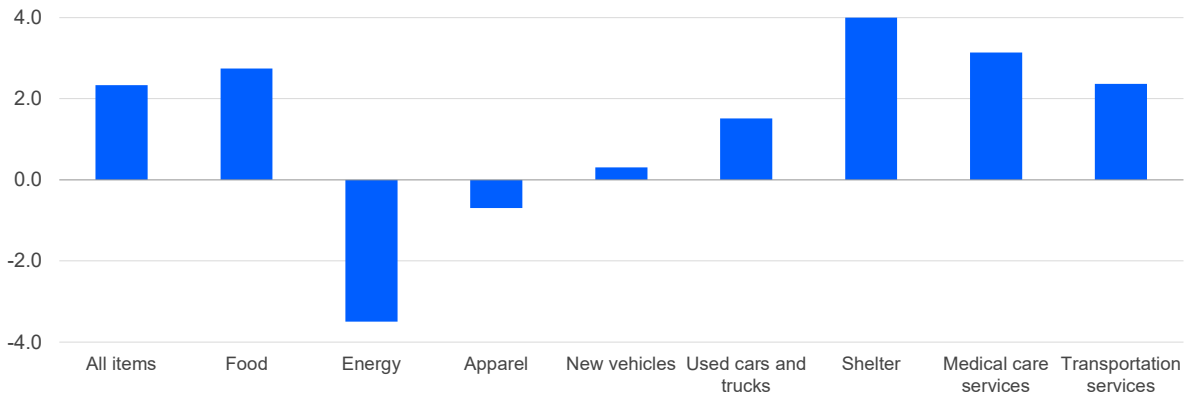
Sources: BOC, BEA, Moody's Analytics

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Energy Is Alleviating Inflation But Other Components Remain Stubborn

% change yr ago, May 2025



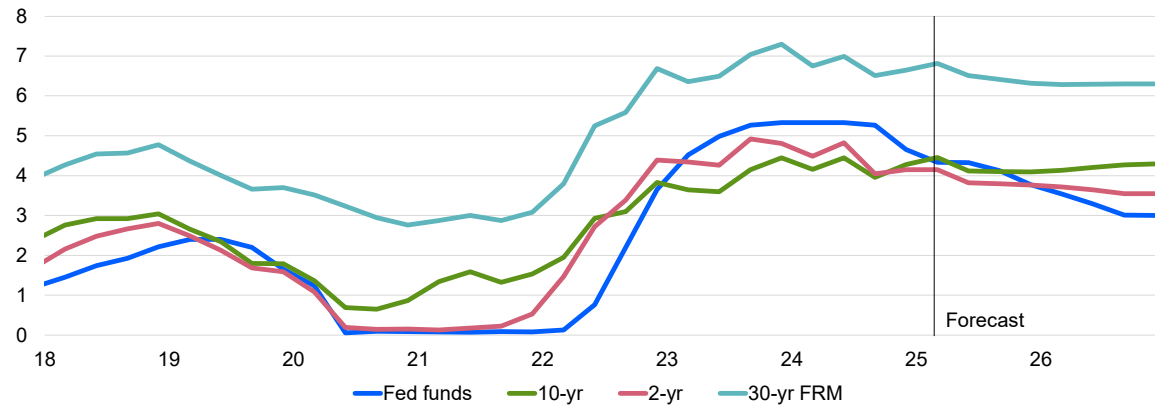
Sources: BLS, Moody's Analytics

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Three Cuts Now in 2025, But Little Improvement in Long-Term Yields

Interest rates, %



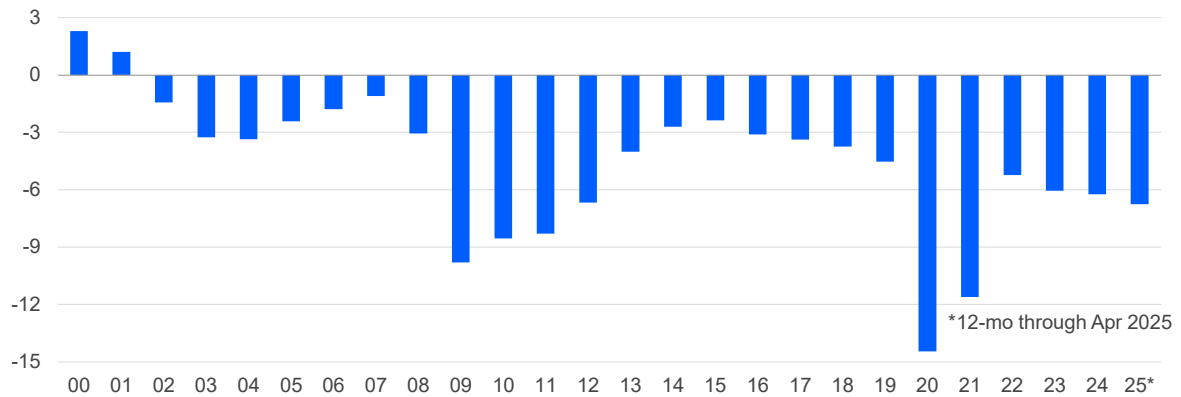
Sources: Federal Reserve, Freddie Mac, Moody's Analytics

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Federal Deficit Expands Despite Efforts to Rein In Spending

Federal budget deficit, % of nominal GDP, by fiscal yr



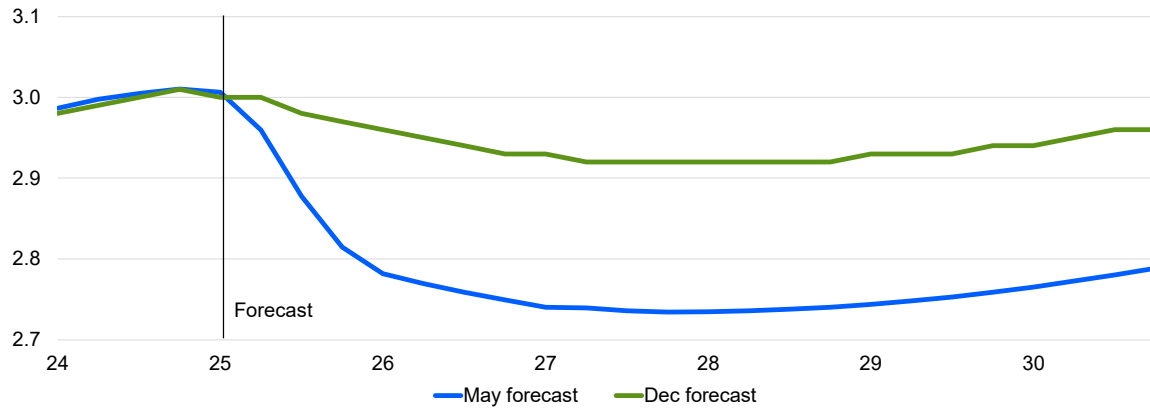
Sources: U.S. Treasury, BEA, Moody's Analytics

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16

Federal Job Losses Will Be Significant...How Low Will Employment Go?

Federal government employment, mil



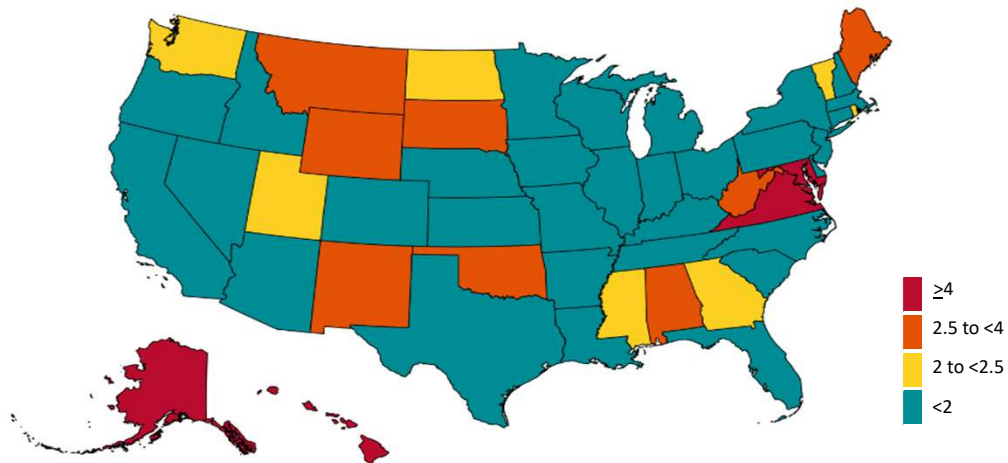
Sources: BLS, Moody's Analytics

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Civilian Government Jobs Are Concentrated in the Beltway, Alaska, and Hawaii

Federal government jobs as a share of total, % 2024



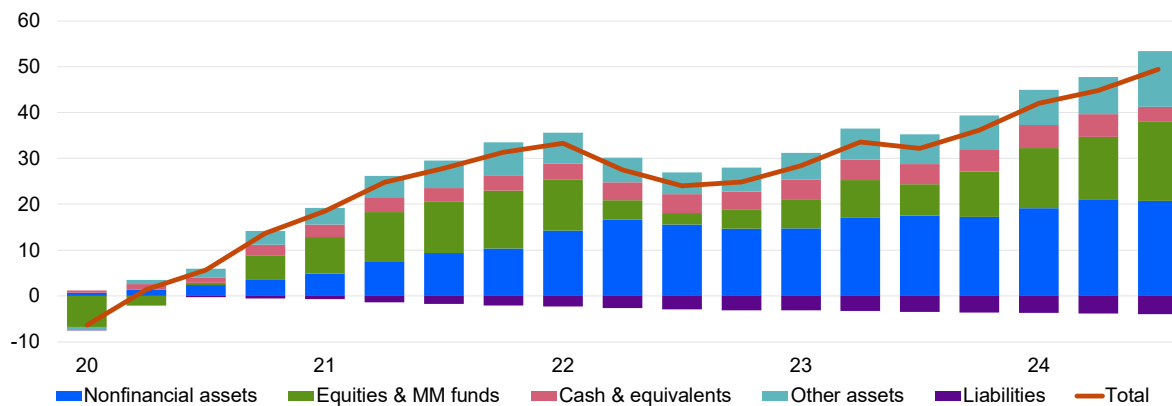
Sources: BLS, Moody's Analytics

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18

Increasing Household Wealth Supercharges Spending...

Household net worth, change from 2019Q4, \$ tril



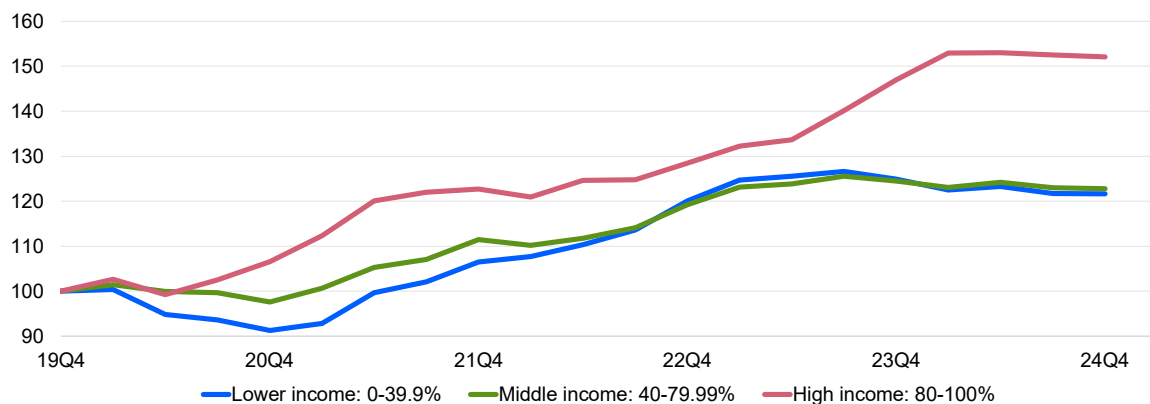
Sources: Federal Reserve, Moody's Analytics

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19

...Particularly for the Well-to-Do

Personal outlays by income group, 2019Q4=100



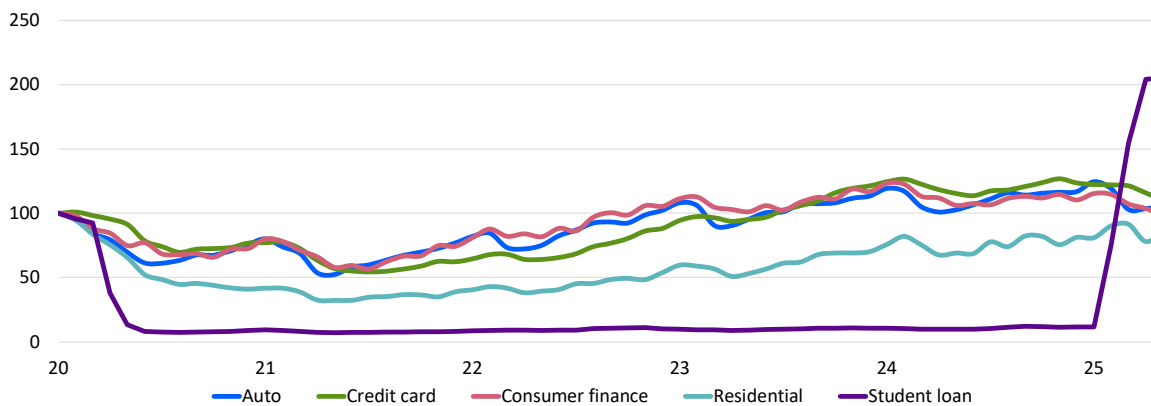
Sources: Federal Reserve Board, Moody's Analytics

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20

Delinquencies Stabilize Across Most Consumer Credit Segments

Delinquency rates, Jan 2020=100



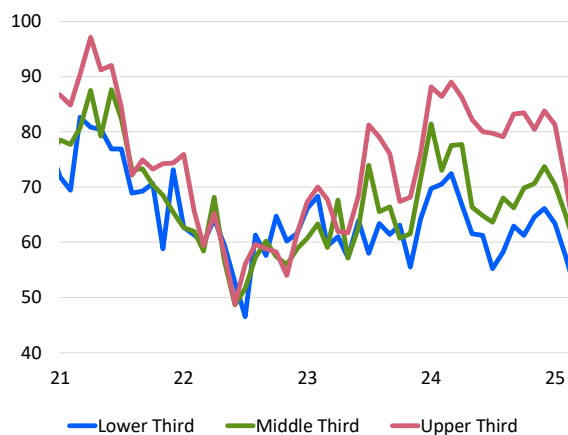
Sources: Equifax, Moody's Analytics

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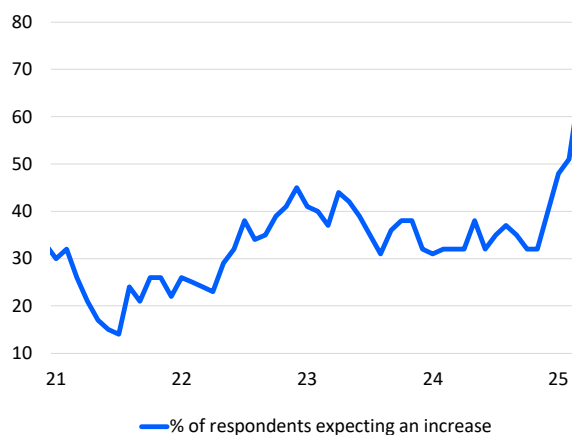
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Should We Trust Consumer Sentiment This Time?

Consumer sentiment by income tercile



Expectations for unemployment rate in next 12-mo



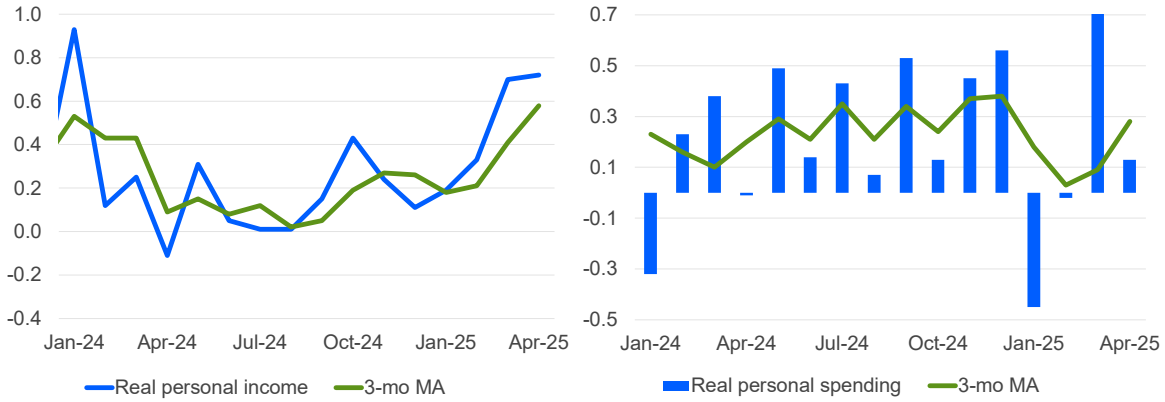
Sources: University of Michigan, Moody's Analytics

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Income Up, Spending Volatile

% chg



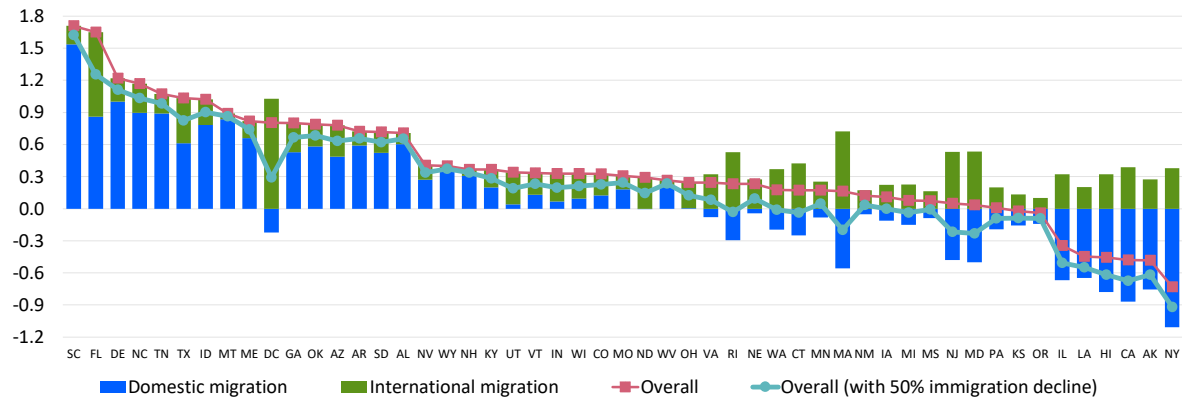
Sources: BEA, Moody's Analytics

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Restrictive Immigration Policy Weighs on Coastal States

Migration share of total, %



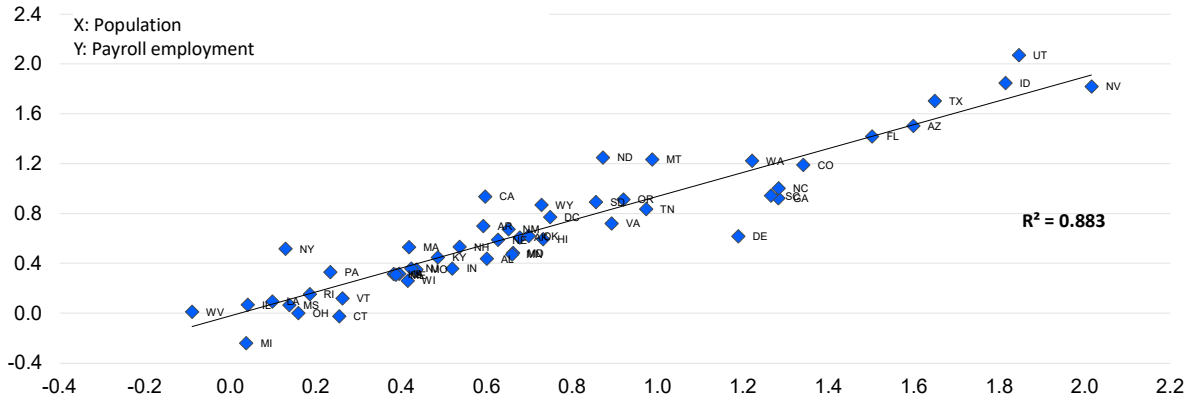
Sources: Census Bureau, Moody's Analytics

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24

Demographics Is (Still) Destiny

Annualized % change from 2000 to 2024, each point represents a state



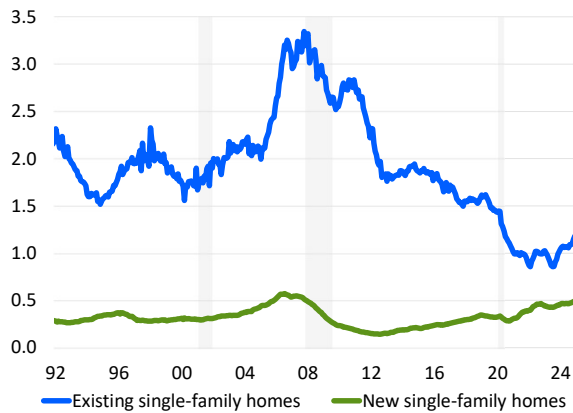
Sources: BLS, Census Bureau, Moody's Analytics

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25

Is the Interest Rate Lock-In Fading?

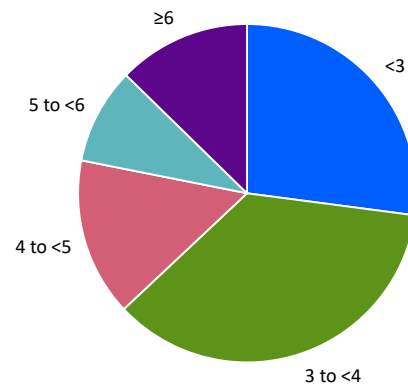
Inventory of homes available for sale, # mil, SAAR



Sources: NAR, Census Bureau, NMD, Moody's Analytics

Moody's Analytics

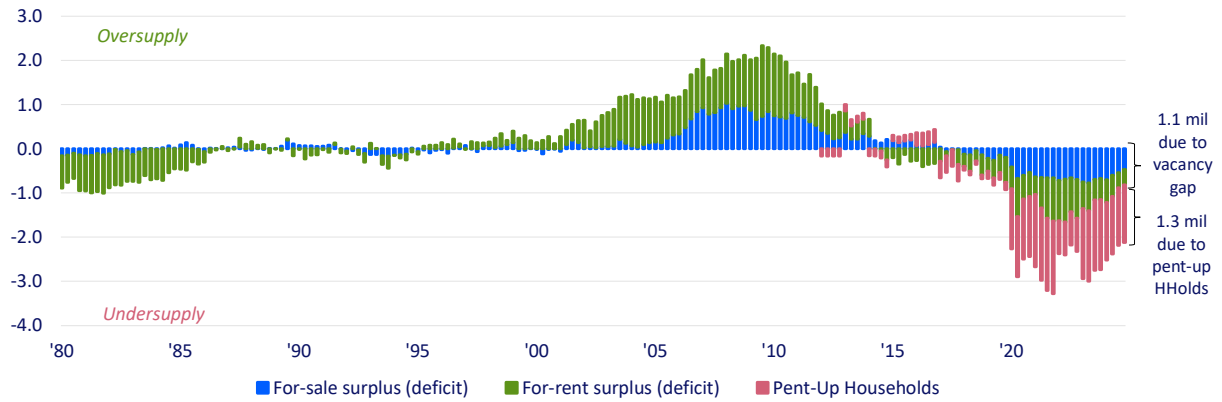
Mortgage rates on outstanding loans, %



26

A Housing Deficit of 2.4 Million Homes

Over/undersupply of housing units, mil



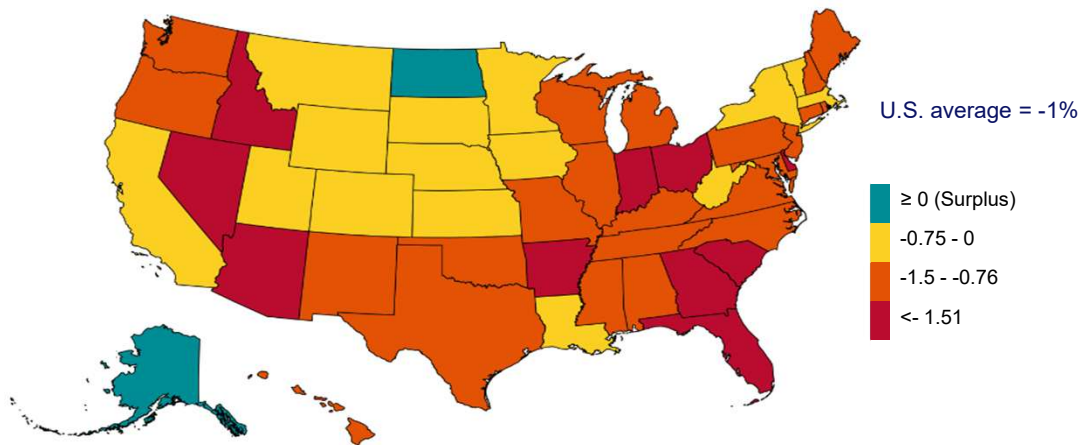
Sources: Census Bureau, Moody's Analytics

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27

Deficits Highest in Southeast and Mountain West

Housing surplus (deficit), % of active housing stock



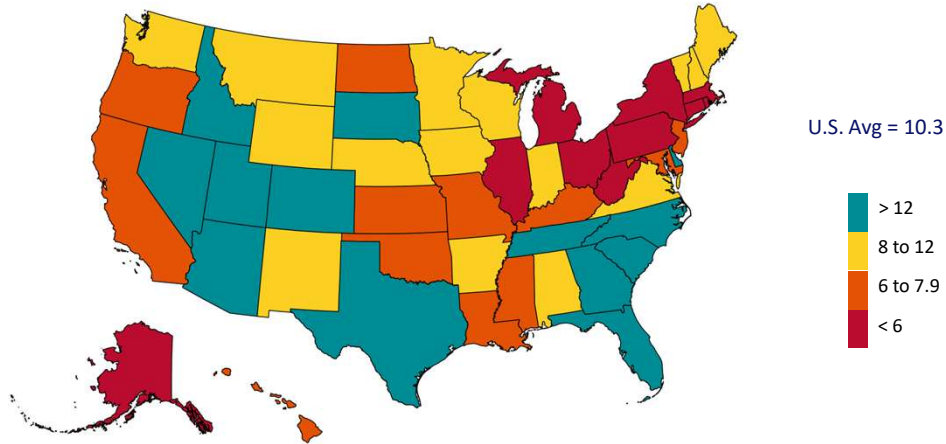
Sources: BOC, Moody's Analytics

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28

Residential Construction Trails in the Northeast

Total housing starts per 1000 residents, 2024



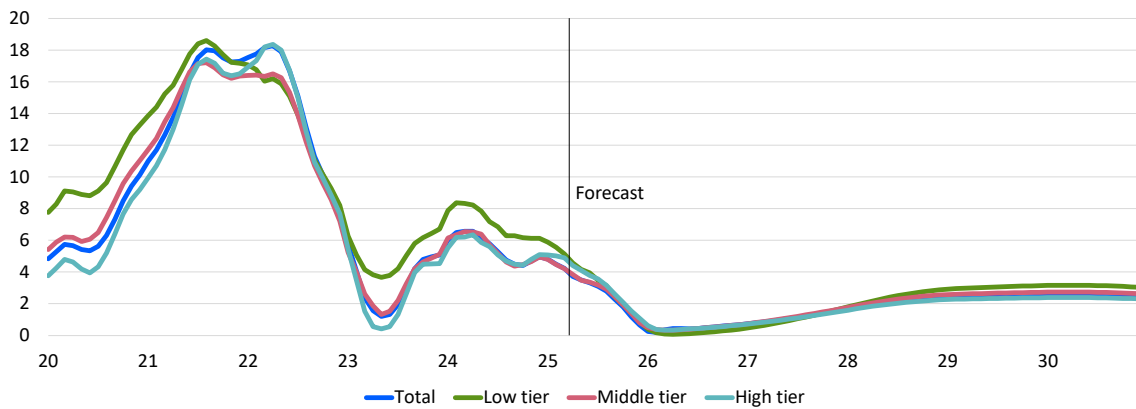
Sources: Census Bureau, Moody's Analytics

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29

U.S. House Prices Expected to Flatten, Allowing Incomes to Catch Up

Moody's Analytics house price indexes, % change yr ago



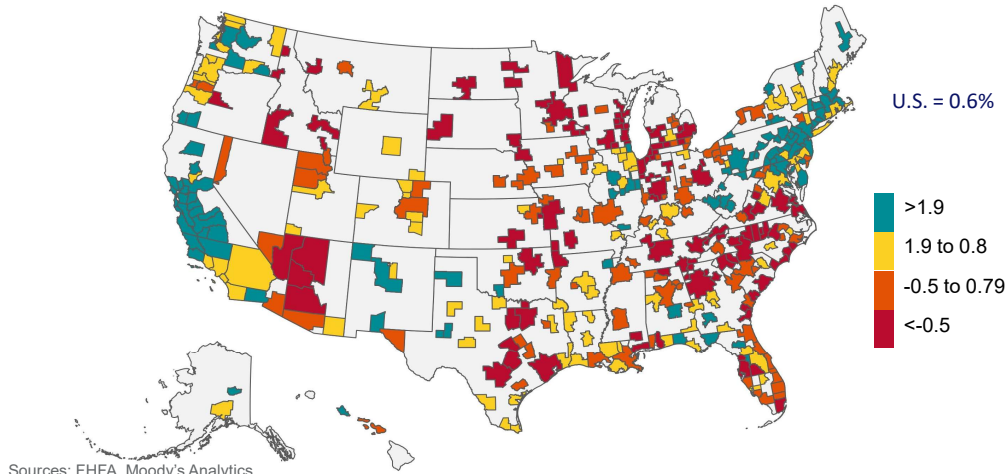
Source: Moody's Analytics

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30

Price Appreciation Lags in Southeast and Mountain West

Moody's Analytics house price indexes, annualized % change, 2025Q1 to 2027Q1

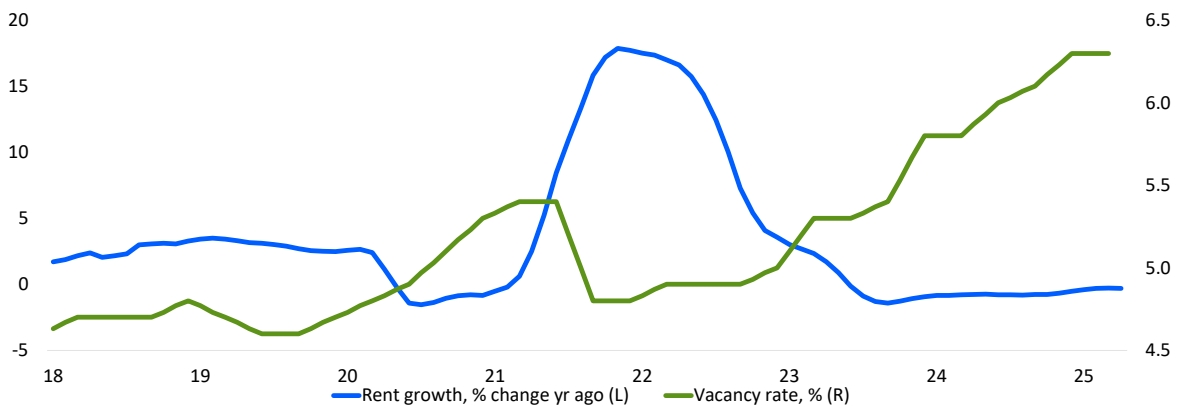


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31

Apartment Rents Soften Amid Climbing Vacancy...

Rent growth vs. vacancy rate



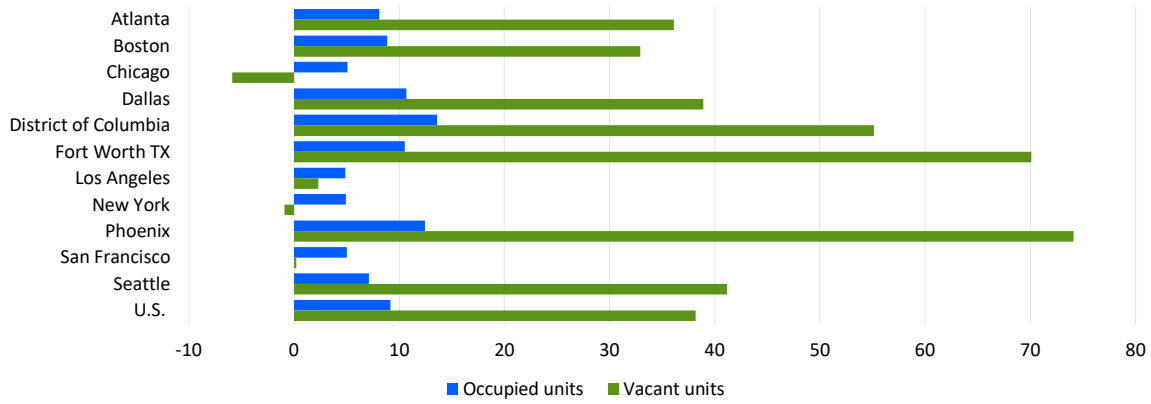
Sources: Apartment List, Moody's Analytics

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32

...But Weakness Is Concentrated In The Sun Belt

Change in units from 2020Q1 to 2025Q1, %



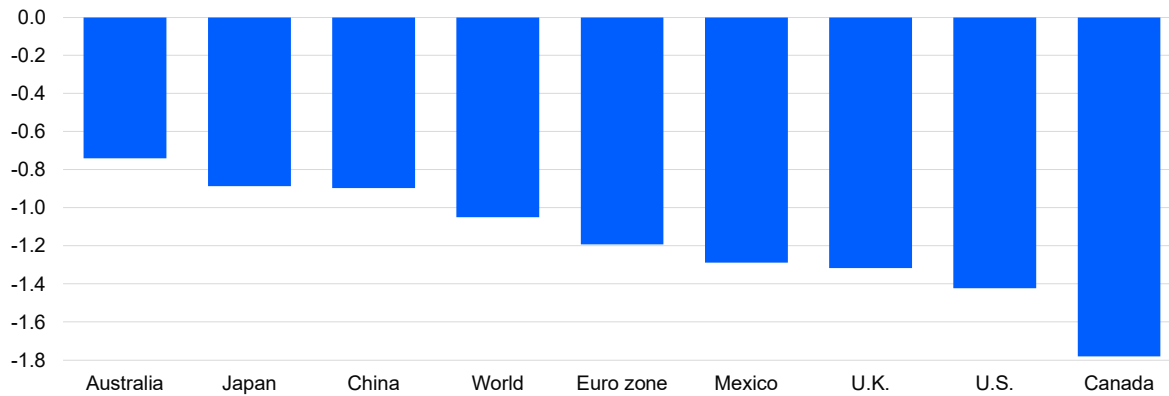
Source: Moody's Analytics

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33

Lose-Lose for the Global Economy

Baseline trade war impact on real GDP growth in the yr ending in 2025Q4



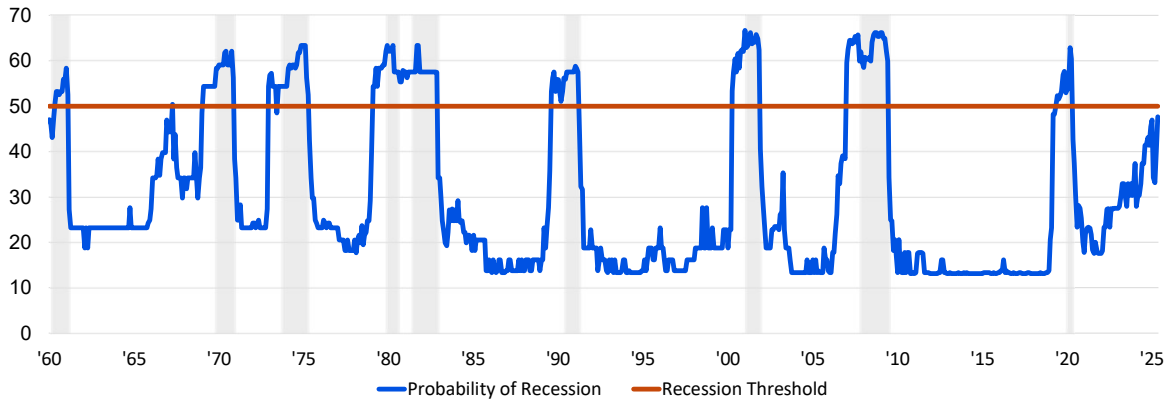
Source: Moody's Analytics

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34

Recession Odds Mounting

Estimated probability of recession in next 12 months, %

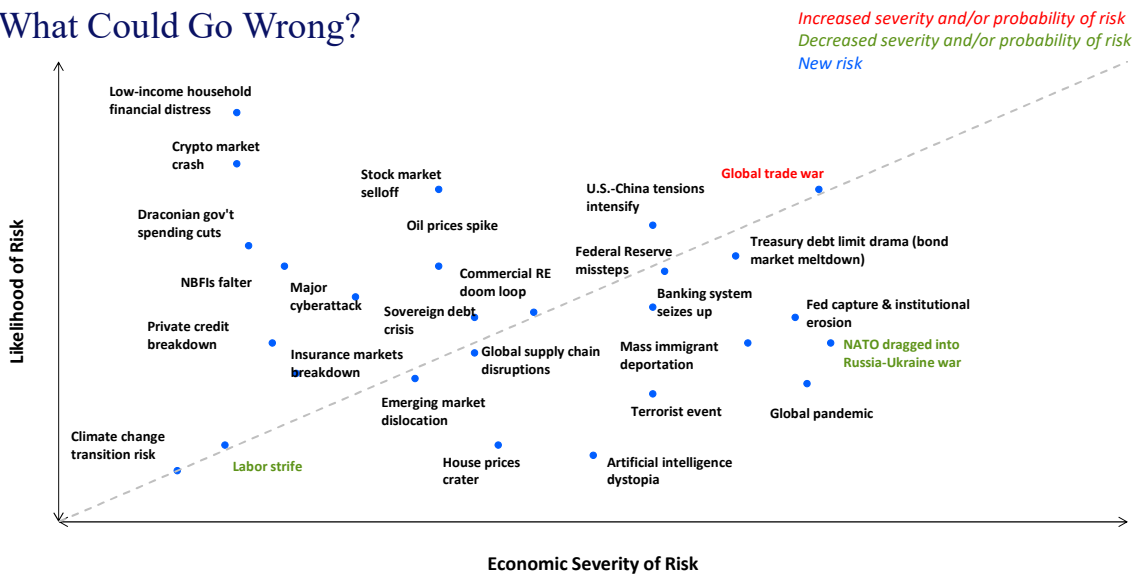


Sources: Moody's Analytics

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35

What Could Go Wrong?



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36

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