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ECONOMIC RESEARCH – APRIL 2025

INVESTMENT INSIGHT USA

- ✓ U.S. economy slows down since Trump
- ✓ Growth halted in the first half of 2025

TRUMP'S POLICIES ARE KILLING GROWTH

U.S. economic momentum wanes

The U.S. economy, while posting a 2.4% annualized increase in Q4 2024 GDP, has since shown signs of a significant slowdown. This decline is reflected in the Citi Economic Surprise Indicator, which has been signaling a series of disappointments since mid-November. High-frequency data from the Atlanta and Philadelphia Feds also point to a clear reversal in economic activity, with growth forecasts for Q1 2025 being sharply downgraded.

Growth halted in the first half

The first few weeks of the new presidency have brought a high degree of uncertainty, leading to a plunge in household confidence to its lowest level since February 2021. This "organized chaos" has disrupted what was expected to be a period of economic stability. The trade deficit has widened significantly, a trend we believe is linked to consumers and businesses pulling forward spending and inventory building in anticipation of future import tax hikes. We expect this to weigh on economic momentum for the first half of 2025, with a greater than 50% probability of a recession before the summer.

Sources : Bloomberg, BBGI Group

Labor market shows mixed signals

The labor market presents a mixed picture. While the unemployment rate remains low, there are signs of softening, with a slight increase in jobless claims. This development is being closely watched by the Federal Reserve. We expect the labor market to continue to show moderate adjustments, with a potential rise in unemployment later in the year, which could influence the Fed's decisions on monetary policy.

Inflation remains a key focus

Inflation is still a significant concern, with core inflation remaining near the Fed's target. The new administration's tariff policies could have unpredictable effects on prices, potentially causing a temporary spike in imported inflation. However, if these policies lead to a global economic slowdown, it could also dampen inflationary pressures. The Fed is likely to remain cautious, waiting for clear signs of a sustained decline in inflation before considering any monetary easing.

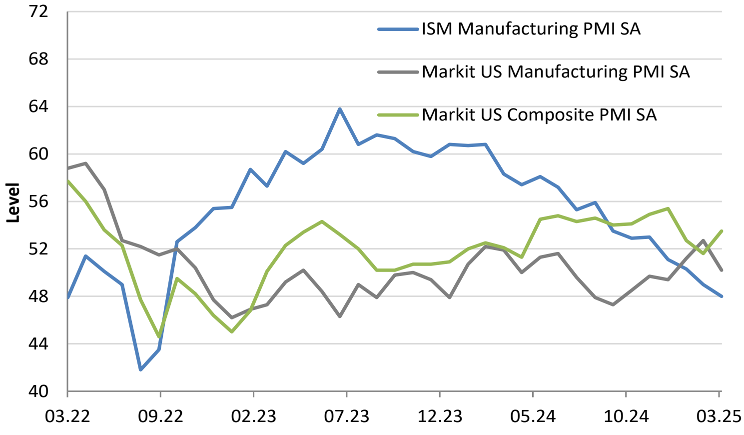
Consumer spending loses momentum

Consumer spending, which was a key driver of economic growth in late 2024, has started to show signs of weakness. This is a critical development, as consumer confidence has plummeted amid growing uncertainties. The resilience of consumer spending despite high interest rates was remarkable, but it is unlikely to be sustainable in the face of widespread concerns over trade policies and potential job cuts.

Federal reserve faces a difficult dilemma

The Federal Reserve is now faced with a significant policy challenge. With a weakening economy and an uncertain political landscape, the Fed must decide how to navigate between its dual mandate of price stability and maximum employment. The risk of an economic shock is increasing, and the Fed's current focus on inflation may cause it to act too slowly in response to a potential recession. We expect the Fed to remain data-dependent, but the current signals are conflicting, which could lead to a delayed or insufficient response, compounding the risks to the economy.

PMI - ISM indicators



Sources : Bloomberg, BBGI Group