U.S. Economic Comment

- Consumer prices: well behaved in 2025 thus far; significant risks remain
- Household spending: tepid in April, with emerging financial stress a possible culprit
- Consumer sentiment: slump to bottom of long-term range on account of inflation expectations

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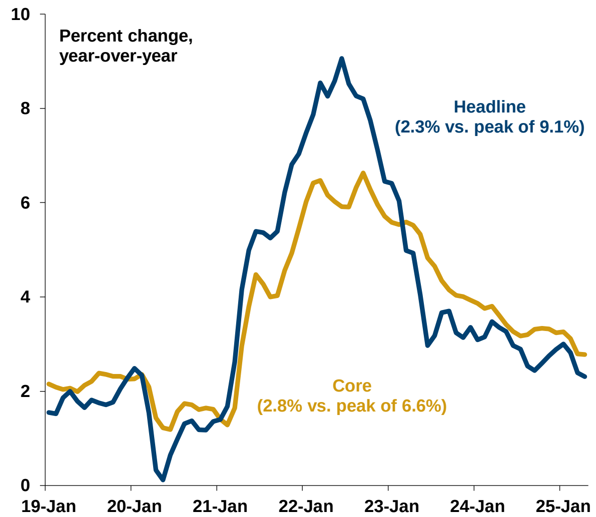
Brief Thoughts on the April Inflation Data

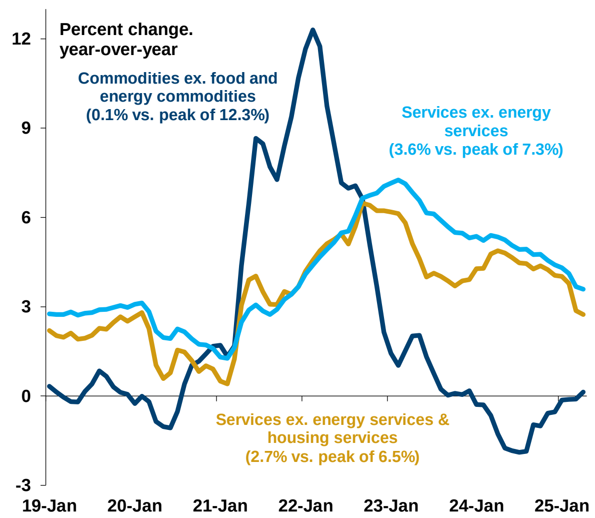
Putting aside for a moment concern about tariff impacts on the future trajectory of consumer prices, we have been pleasantly surprised in 2025 thus far by improvement in realized inflation. A monthly advance of 0.2 percent in the CPI in April (reported Tuesday) translated to a year-over-year increase of 2.3 percent, down from 3.0 percent in January (chart, below left). Additionally, while an increase of 0.2 percent in the core component left the year-over-year advance of 2.8 percent essentially unchanged from the March observation, the latest reading is much improved from the 3.3 percent print in January. Delving a bit further into the data revealed that disinflation in goods prices has stalled, although it remained broadly in line with the subdued pre-pandemic trend (chart, below right). Perhaps more encouraging, the services less energy services area (i.e., core services) has had the year-over-year inflation rate fall from 4.3 percent in January to 3.6 percent in April. Shelter costs have eased as well, with the latest year-over-year advance in primary rents aligned with the pre-pandemic trend, and the change in owners' equivalent rent of residences slowing by 0.3 percentage point to 4.3 percent (still somewhat elevated vis-à-vis pre-COVID norms but trending in the right direction). Moreover, the 12-month advance in core service inflation excluding housing has slowed dramatically from 4.0 percent in January to 2.7 most recently. All this to say, normalization of supply and demand imbalances and moderation of previously tight labor market conditions have facilitated a return to a more sustainable trajectory for prices (at least for now).

CPI



Source: Bureau of Labor Statistics via Haver Analytics

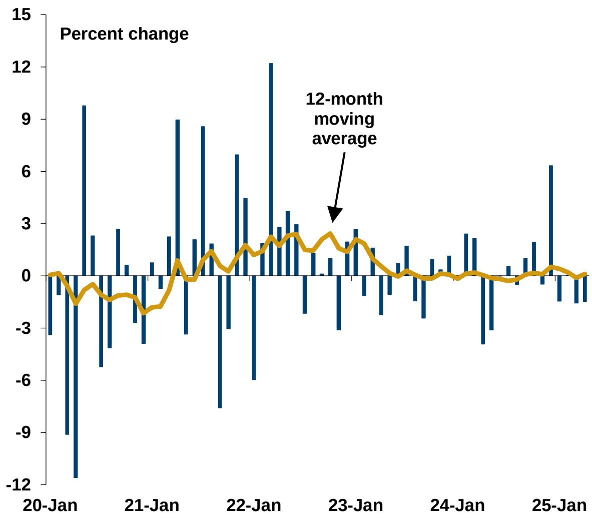
Decomposition of Core CPI



Source: Bureau of Labor Statistics via Haver Analytics

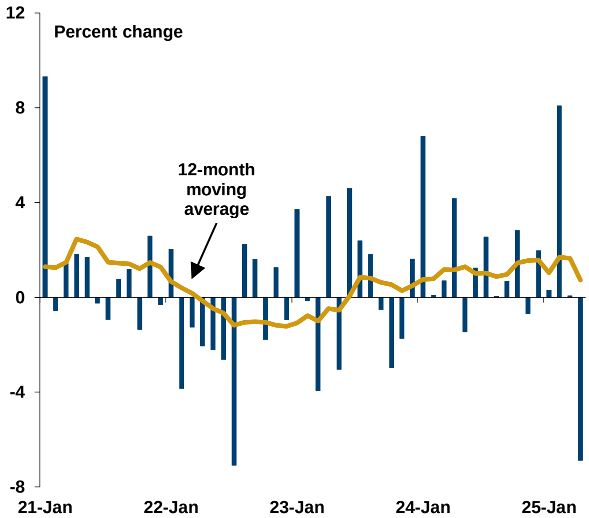
Aforementioned developments in the CPI augmented by PPI data published Thursday suggest that the FOMC's preferred inflation metric, the Price Index for Personal Consumption Expenditures, is on track to register more favorable results when released on May 30 (increases of 0.1 percent for both the headline and core PCE indexes versus +0.2/+0.2 for the CPI, aligned with year-over-year readings of 2.1 percent and 2.5 percent versus 2.3 percent and 2.6 percent, respectively, in March). The headline PPI and prices excluding food and energy fell 0.5 percent and 0.4 percent, respectively, in the latest month (translating to year-over-year increases of 2.4 percent and 3.1 percent, respectively, versus 3.4 percent and 4.0 percent in March). Most important, however, were the readings for key areas that feed through to the PCE index – including costs of airline passenger services and portfolio management fees (off 1.5 percent and 6.9 percent, respectively, in April; charts, below). All told, expect a friendly PCE print later this month.

PPI: Airline Passenger Services



Source: Bureau of Labor Statistics via Haver Analytics

PPI: Portfolio Management*



**Not seasonally adjusted*

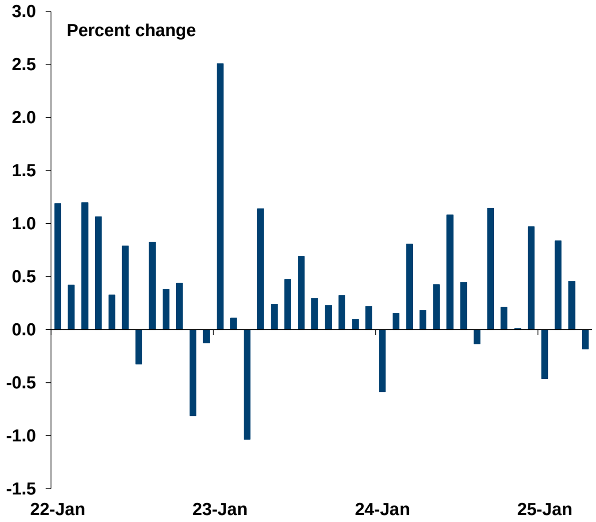
Source: Bureau of Labor Statistics via Haver Analytics

While taking an optimistic view of recent developments, we still urge caution on the inflation front. President Trump appears to be moving toward deescalating his trade war, with further trade deals possible in coming weeks, but we suspect that 10 percent across-the-board levies are likely to stick (along with various tariffs on particular goods). Sellers are likely currently buffering end-consumers from pending price hikes by drawing down current inventories, but those will only last for a time. Even so, the worst-case scenario may yet be avoided, with the price level shift hitting later this year smaller than anticipated and second-round inflationary effects contained by a cautious (prudent) FOMC.

An Early Read on Q2 Consumer Spending

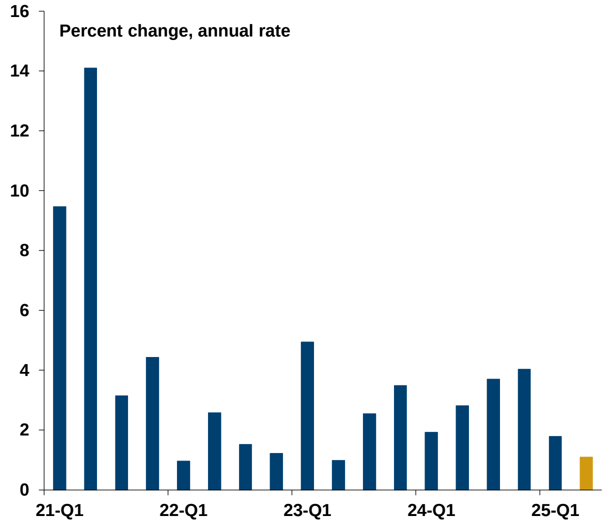
Market participants gained early (albeit limited) insights on household spending in Q2 with the April retail sales report published Thursday. Total activity rose a modest 0.1 percent (+5.2 percent year-over-year), while the retail control group, which provides insights into goods outlays for GDP, slipped 0.2 percent over the month (+4.9 percent year-over-year; chart on monthly growth, next page, left). The internals of the report, in our view, suggested caution. Importantly, sales at sporting goods, hobby, book and music stores dropped 2.5 percent, while outlays at miscellaneous stores fell 2.1 percent and those at clothing and accessory outlets dipped 0.4 percent. Additionally, activity in the furniture and home furnishing category and in electronics and appliance stores rose modestly (both up 0.3 percent), and those shifts could well have represented increased prices in response to looming tariffs rather than gains in real activity. Thus, we are currently projecting only modest growth of real personal consumption expenditures in Q2 (+1.0 percent, annual rate, consistent with GDP growth of less than 0.5 percent; chart, next page, right). However, views may change with the oncoming data; recall, real consumer spending jumped in March after paltry results in the opening months of Q1, contributing to respectable quarterly PCE growth of 1.8 percent.

Retail Sales: Control Group*



* Retail sales excluding sales from motor vehicle dealers, gasoline stations, and building materials, garden equipment, and supply dealers.
Source: U.S. Census Bureau via Haver Analytics

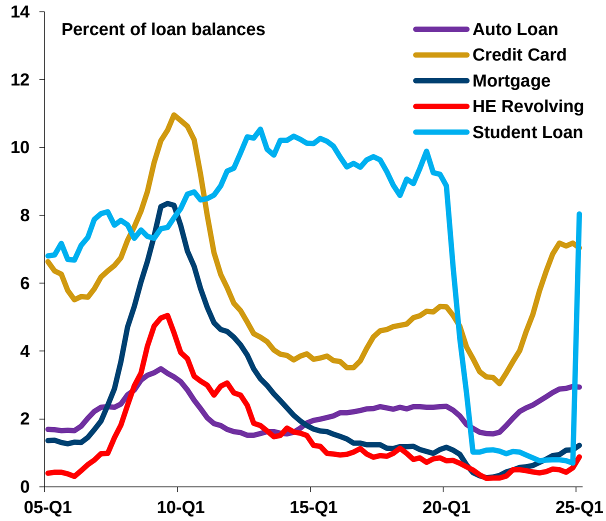
Real Consumer Spending Growth*



* The gold bar is a forecast for 2025-Q2.
Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America

Contributing to recent caution could be factors beyond fear of economic slowdown and higher prices that have been generated by the Trump administration's trade policy. On the point, the Federal Reserve Bank of New York released this week its Quarterly Report on Household Debt and Credit, with the chart to the right illustrating intensifying financial challenges for some households. Seriously delinquent balances for credit cards and auto loans eased slightly, but they have picked up for mortgages (1.22 percent of loan balances versus 1.09 percent in 2024-Q4) and they shot higher for student loans (8.04 percent versus 0.70 percent). Student loan debt represents a relatively small portion of consumer credit outstanding ($1.63 trillion of $18.2 trillion versus $12.8 trillion for mortgages), but these loans are now coming due after 43 months of delayed payments dating back to a COVID-related pause in 2020 through September 2023 and an "on-ramp" of restarting payments. The payment shock does not necessarily portend a broad-based pullback in consumer spending, but it could damage creditworthiness for a subset of delinquent borrowers and curtail future outlays. (For further reading on both the household debt report and the related blog post on student loan delinquencies, see: "Quarterly Report on Household Debt and Credit (Q1 2025)," Federal Reserve Bank of New York, May 2025. https://libertystreeteconomics.newyorkfed.org/2025/05/student-loan-delinquencies-are-back-and-credit-scores-take-a-tumble/ or Haughwout, Andrew F. et al. "Student Loan Delinquencies Are Back, and Credit Scores Take a Tumble," Liberty Street Economics, Federal Reserve Bank of New York, May 13, 2025. https://libertystreeteconomics.newyorkfed.org/2025/05/student-loan-delinquencies-are-back-and-credit-scores-take-a-tumble/)

Delinquencies by Loan Type*

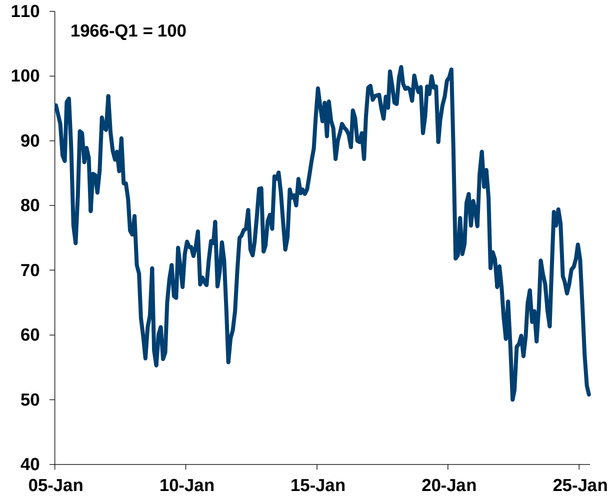


* Seriously delinquent balances, 90+ days past due
Source: Quarterly Report on Household Debt and Credit, Federal Reserve Bank of New York

Consumer Sentiment Deteriorates Further

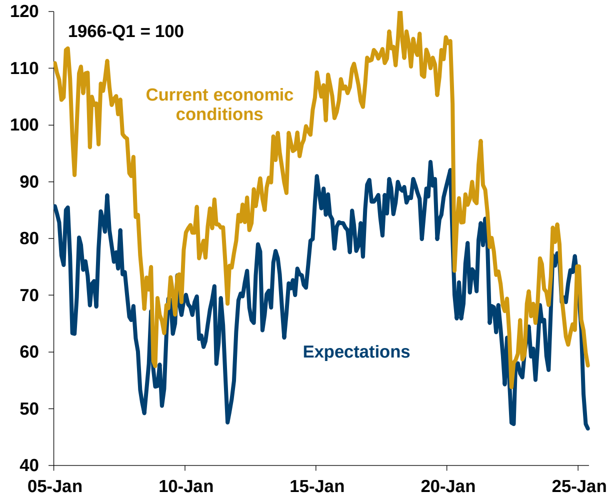
Beyond some evidence of deterioration in household financial positions, trade policy and an uncertain economic outlook currently loom large in the minds of consumers. The consumer sentiment index released by the University of Michigan declined for the fifth consecutive month in early May, falling 1.4 points (-2.7 percent) to 50.8 – softer than the Bloomberg economist survey expectation of an uptick to 53.5. While the latest shift was a moderate one, it still leaves the headline index 23.2 points (-31.4 percent) below the post-election high of 74.0 in December 2024 and only modestly above the record low of 50.0 in June 2022 (chart, below left). Parsing the headline further, current economic conditions dropped 2.2 points (-3.7 percent) to 57.6, an observation also only moderately above the current expansion low of 53.8 in June 2022. The expectations component also worsened, easing 0.8 point (-1.7 percent) to a new cycle low of 46.5 (chart, below right). Broadly speaking, consumers appear to be reaching an inflection point, with caution likely to replace previously brisk spending. While we don't anticipate an all-out retreat by consumers, spending could be pared down as individuals attempt to weather the current storm of uncertainty.

Consumer Sentiment



Source: University of Michigan via Haver Analytics

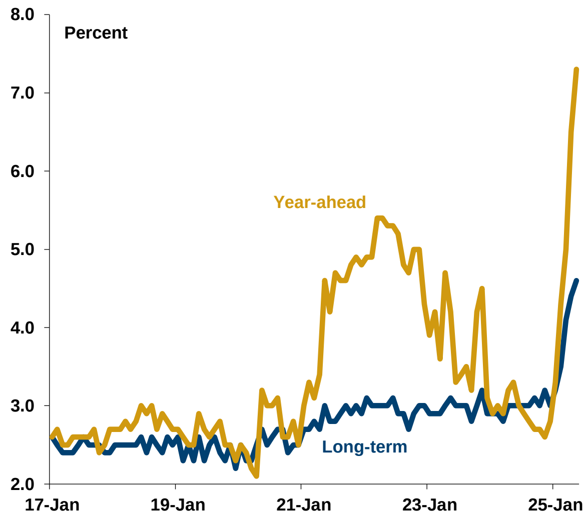
Consumer Sentiment



Source: University of Michigan via Haver Analytics

Factoring importantly into the decline of sentiment, consumer inflation expectations deteriorated further in May. The year-ahead inflation measure climbed higher for the sixth straight month, rising 0.8 percentage points to 7.3 percent, the highest observation since an equivalent read in November 1981. The long-term measure (five-year forward) rose in tandem, increasing 0.2 percentage point to 4.6 percent, its highest read since March 1991 (chart). Once again, angst over tariffs and their anticipated inflationary effects permeated views of survey respondents. On the point, as mentioned by Surveys of Consumers Director Joanne Hsu in the official release: "Tariffs were spontaneously mentioned by nearly three-quarters of consumers, up from almost 60% in April." That said, some analysts have called into question the signal value of the U. Michigan data, and Fed officials have suggested tracking a variety of survey and market-based measures of inflation expectations to gain a more holistic view (which has led policymakers to conclude that longer-term inflation expectations remain "anchored"). Even so, an uncertain outlook, combined with signs of decreased household wherewithal, suggest caution ahead for consumer spending.

Consumer Inflation Expectations



Source: University of Michigan via Haver Analytics

Note to readers:

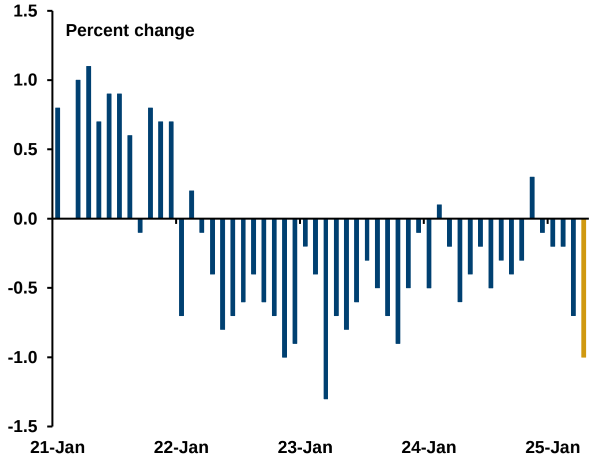
On account of Memorial Day, the next U.S. economic comment will be published on May 30, 2025.

The Week Ahead

Leading Indicators (April) (Monday)
Forecast: -1.0%

A sharp drag from consumer expectations along with additional negative contributions from stock prices and the ISM new orders index point to the Conference Board's Leading Economic Index contracting for the 36th time in the past 38 months. If the forecast is realized, the index would be approximately 17.2 percent below the cycle peak of 120.2 in December 2021. While the easing seen over the past three years would typically be consistent with the economy entering recession, available data still indicate ongoing expansion despite headwinds facing the economy.

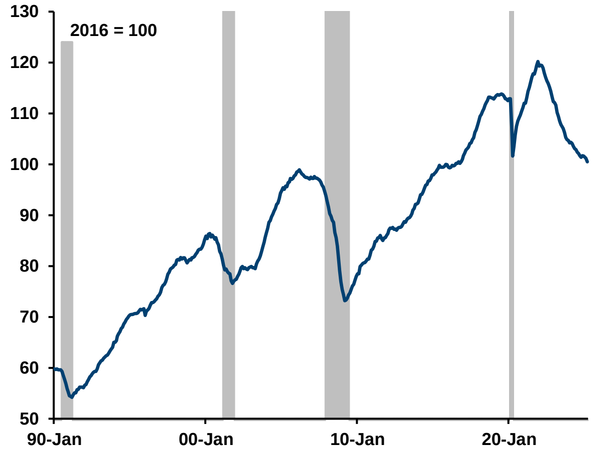
Index of Leading Economic Indicators*



* The gold bar is a forecast for April 2025.

Sources: The Conference Board via Haver Analytics; Daiwa Capital Markers America

Index of Leading Economic Indicators*



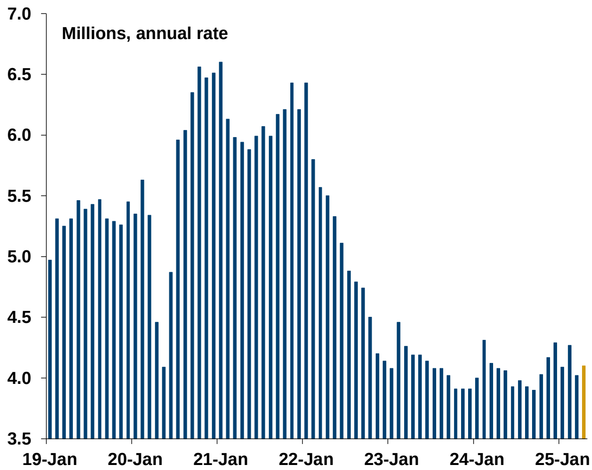
* The shaded areas indicate periods of recession in the United States.

Sources: The Conference Board, National Bureau of Economic Research via Haver Analytics

Existing Home Sales (April) (Thursday)
Forecast: 4.100 Million (+2.0%)

Back-to-back advances in the index of pending home sales raise the possibility of existing home sales increasing in April after a decline of 5.9 percent in March (note that existing home sales are based on closings, with pending home sales usually translating to closings in the next one to three months). That said, despite the anticipated uptick, prevailing conditions are still generally unfavorable, with tight inventories and elevated financing costs contributing to an environment of reduced affordability, thus leaving the current pace of activity in the low end of the longer-term range.

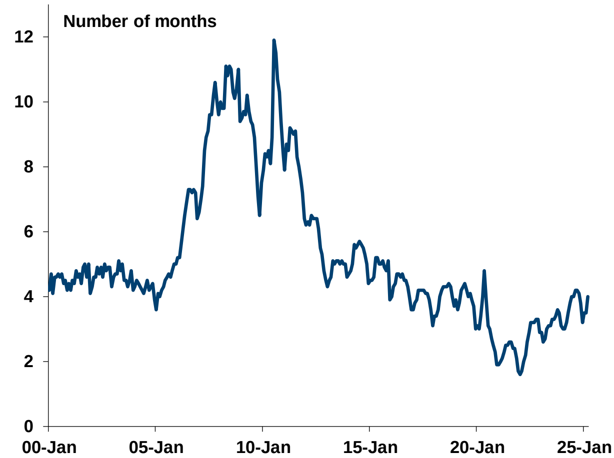
Existing Home Sales*



* The gold bar is a forecast for April 2025.

Sources: National Association of Realtors via Haver Analytics; Daiwa Capital Markets America

Months' Supply of Unsold Homes

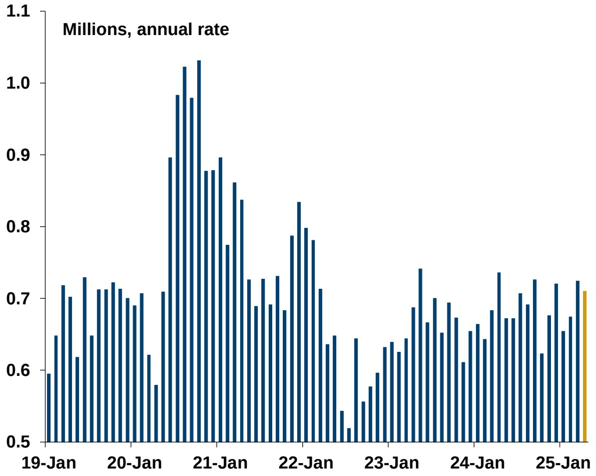


Source: National Association of Realtors via Haver Analytics

New Home Sales (April) (Friday)
Forecast: 0.710 Million (-1.9%)

A pickup in mortgage rates coupled with muted buyer traffic point to a decline in new home sales in April after an advance of 7.4 percent to 0.724 million units, annual rate, in the prior month. If the forecast is realized, the pace of activity would still remain in the upper half of the range displayed over the past two years. Keep in mind, however, that this series can exhibit marked volatility on a month-to-month basis (range of -14.2 percent to +8.5 percent in the past six months), and revisions are often large.

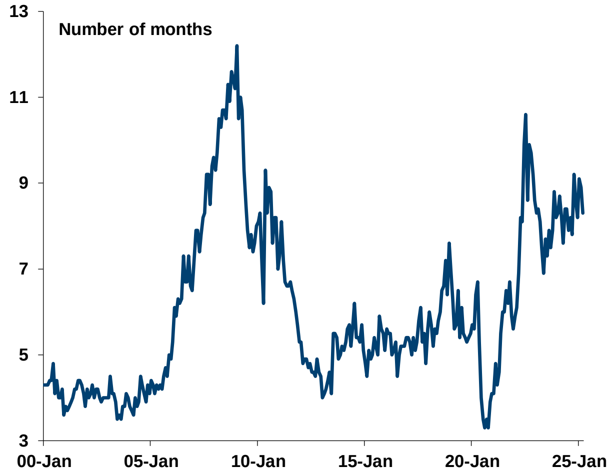
New Home Sales*



** The gold bar is a forecast for April 2025.*

Sources: U.S. Census Bureau via Haver Analytics; Daiwa Capital Markers America

Months' Supply of Unsold Homes



Source: U.S. Census Bureau via Haver Analytics

Daiwa Capital Markets

Economic Indicators

May/June 2025

Monday	Tuesday	Wednesday	Thursday	Friday
12	13	14	15	16
FEDERAL BUDGET FY2025 / FY2024 Feb -$307.0B -$296.3B Mar -$160.5B -$236.6B Apr $258.4B $209.5B	**NFIB SMALL BUSINESS OPTIMISM INDEX** Feb 100.7 Mar 97.4 Apr 95.8 **CPI** Total / Core Feb 0.2% 0.2% Mar -0.1% 0.1% Apr 0.2% 0.2%		**UNEMPLOYMENT CLAIMS** Initial / Continuing (millions) Apr 19 0.223 1.908 Apr 26 0.241 1.872 May 3 0.229 1.881 May 10 0.229 N/A **PPI** Final Demand / Ex. Food & Energy Feb 0.2% 0.2% Mar 0.0% 0.4% Apr -0.5% -0.4% **RETAIL SALES** Total / Ex.Autos Feb 0.0% 0.4% Mar 1.7% 0.8% Apr 0.1% 0.1% **EMPIRE MFG** Mar -20.0 Apr -8.1 May -9.2 **PHILADELPHIA FED MFG BUSINESS OUTLOOK** Mar 12.5 Apr -26.4 May -4.0 **IP & CAP-U** IP / Cap.Util. Feb 0.9% 78.1% Mar -0.3% 77.8% Apr 0.0% 77.7% **NAHB HOUSING INDEX** Mar 39 Apr 40 May 34 **BUSINESS INVENTORIES** Inventories / Sales Jan 0.4% -0.6% Feb 0.2% 1.0% Mar 0.1% 0.6%	**HOUSING STARTS** Feb 1.490 million Mar 1.339 million Apr 1.361 million **IMPORT/EXPORT PRICES** Non-Petrol Imports / Nonagri. Exports Feb 0.2% 0.6% Mar -0.2% 0.1% Apr 0.4% 0.1% **CONSUMER SENTIMENT** Mar 57.0 Apr 52.2 May 50.8 **TIC FLOWS** Long-Term / Total Jan -$42.1B -$54.8B Feb $112.9B $248.9B Mar $161.8B $254.3B
19	20	21	22	23
LEADING INDICATORS (10:00) Feb -0.2% Mar -0.7% **Apr -1.0%**			**UNEMP. CLAIMS (8:30)** **CHICAGO FED NATIONAL ACTIVITY INDEX (8:30)** Monthly / 3-Mo. Avg. Feb 0.24 0.12 Mar -0.03 -0.01 Apr -- -- **EXISTING HOME SALES (10:00)** Feb 4.270 million Mar 4.020 million **Apr 4.100 million**	**NEW HOME SALES (10:00)** Feb 0.674 million Mar 0.724 million **Apr 0.710 million**
26	27	28	29	30
MEMORIAL DAY	**DURABLE GOODS ORDERS** **FHFA HOME PRICE INDEX** **S&P CORELOGIC CASE-SHILLER 20-CITY HOME PRICE INDEX** **CONFERENCE BOARD CONSUMER CONFIDENCE**	**FOMC MINUTES**	**UNEMP. CLAIMS** **REVISED Q1 GDP** **PENDING HOME SALES**	**PERSONAL INCOME, CONSUMPTION, AND CORE PRICE INDEX** **INTERNATIONAL TRADE IN GOODS** **ADVANCE INVENTORIES** **MNI CHICAGO BUSINESS BAROMETER** **REVISED CONSUMER SENTIMENT**
2	3	4	5	6
ISM MFG. INDEX **CONSTRUCTION**	**FACTORY ORDERS** **JOLTS DATA** **VEHICLE SALES**	**ADP EMPLOYMENT** **ISM SERVICES INDEX** **BEIGE BOOK**	**UNEMP. CLAIMS** **TRADE BALANCE** **REVISED PRODUCTIVITY & COSTS**	**EMPLOYMENT REPORT** **CONSUMER CREDIT**

Forecasts in bold.

Treasury Financing

May/June 2025

Monday	Tuesday	Wednesday	Thursday	Friday
12	13	14	15	16
AUCTION RESULTS: Rate Cover 13-week bills 4.300% 2.51 26-week bills 4.105% 3.26	**AUCTION RESULTS:** Rate Cover 6-week bills 4.245% 2.77 52-week bills 3.930% 3.31 **ANNOUNCE:** $60 billion 17-week bills for auction on May 14 $85 billion 4-week bills for auction on May 15 $75 billion 8-week bills for auction on May 15 **SETTLE:** $60 billion 17-week bills $85 billion 4-week bills $75 billion 8-week bills $25 billion 16-day CMBs	**AUCTION RESULTS:** Rate Cover 17-week bills 4.240% 3.28	**AUCTION RESULTS:** Rate Cover 4-week bills 4.220% 2.91 8-week bills 4.235% 2.85 **ANNOUNCE:** $144 billion 13-,26-week bills for auction on May 19 $70 billion 6-week bills for auction on May 20 $16 billion 20-year bonds for auction on May 21 $18 billion 10-year TIPS for auction on May 22 **SETTLE:** $144 billion 13-,26-week bills $70 billion 6-week bills $48 billion 52-week bills $58 billion 3-year notes $42 billion 10-year notes $25 billion 30-year bonds	
19	20	21	22	23
AUCTION: $144 billion 13-,26-week bills	**AUCTION:** $70 billion 6-week bills **ANNOUNCE:** $60 billion* 17-week bills for auction on May 21 $85 billion* 4-week bills for auction on May 22 $75 billion* 8-week bills for auction on May 22 **SETTLE:** $60 billion 17-week bills $85 billion 4-week bills $75 billion 8-week bills	**AUCTION:** $60 billion* 17-week bills $16 billion 20-year bonds	**AUCTION:** $85 billion* 4-week bills $75 billion* 8-week bills $18 billion 10-year TIPS **ANNOUNCE:** $144 billion* 13-,26-week bills for auction on May 27 $70 billion* 6-week bills for auction on May 27 $69 billion* 2-year notes for auction on May 27 $70 billion* 5-year notes for auction on May 28 $44 billion* 7-year notes for auction on May 29 $28 billion* 2-year FRNs for auction on May 28	**SETTLE:** $144 billion 13-,26-week bills $70 billion 6-week bills
26	27	28	29	30
MEMORIAL DAY	**AUCTION:** $144 billion* 13-,26-week bills $70 billion* 6-week bills $69 billion* 2-year notes **ANNOUNCE:** $60 billion* 17-week bills for auction on May 28 $85 billion* 4-week bills for auction on May 29 $75 billion* 8-week bills for auction on May 29 **SETTLE:** $60 billion* 17-week bills $85 billion* 4-week bills $75 billion* 8-week bills	**AUCTION:** $60 billion* 17-week bills $70 billion* 5-year notes $28 billion* 2-year FRNs	**AUCTION:** $85 billion* 4-week bills $75 billion* 8-week bills $44 billion* 7-year notes **ANNOUNCE:** $144 billion* 13-,26-week bills for auction on June 2 $70 billion* 6-week bills for auction on June 3 **SETTLE:** $144 billion* 13-,26-week bills $70 billion* 6-week bills	**SETTLE:** $18 billion 10-year TIPS $28 billion* 2-year FRNs
2	3	4	5	6
AUCTION: $144 billion* 13-,26-week bills **SETTLE:** $16 billion 20-year bonds $69 billion* 2-year notes $70 billion* 5-year notes $44 billion* 7-year notes	**AUCTION:** $70 billion* 6-week bills **ANNOUNCE:** $60 billion* 17-week bills for auction on June 4 $85 billion* 4-week bills for auction on June 5 $75 billion* 8-week bills for auction on June 5 **SETTLE:** $60 billion* 17-week bills $85 billion* 4-week bills $75 billion* 8-week bills	**AUCTION:** $60 billion* 17-week bills	**AUCTION:** $85 billion* 4-week bills $75 billion* 8-week bills **ANNOUNCE:** $144 billion* 13-,26-week bills for auction on June 9 $70 billion* 6-week bills for auction on June 10 $48 billion* 52-week bills for auction on June 10 $58 billion* 3-year notes for auction on June 10 $39 billion* 10-year notes for auction on June 11 $22 billion* 30-year bonds for auction on June 12	**SETTLE:** $144 billion* 13-,26-week bills $70 billion* 6-week bills

**Estimate*