U.S. Economic Comment

- Q2 GDP update: Friday data on consumer spending & international trade suggest solid growth
- April inflation: favorable reading with little evidence (yet) of impacts from tariffs

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Resilience Amid Heightened Uncertainty

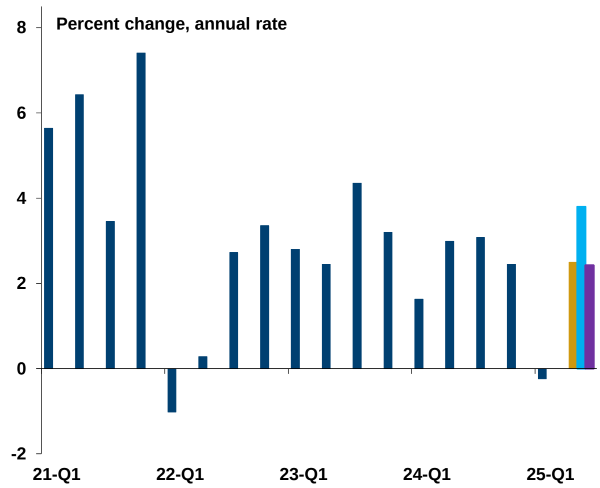
The Trump administration's tariff policies dominated headlines again this week, with a dizzying pace of developments ultimately yielding little additional clarity on the ultimate impacts of announced levies. Early in the week, the U.S. Court of International Trade halted a subset of the administration's duties exercised under the International Emergency Economic Powers Act of 1977 (so-called "reciprocal" tariffs on most trading partners, but those on automobile, steel, and aluminum imports were beyond scope), although the Court of Appeals for the Federal Circuit later stayed the ruling pending further review. Ultimately, the evolving situation cast some doubt on the deadlines of July 9th for the application of reciprocal tariffs on the E.U. and most other trading partners, along with August 12th for mainland China, but the critical headwind to business investment and household consumption remained intact – and will continue to be at least for a time. Meanwhile, April data released throughout the week suggested that the economy remained resilient in early Q2 and that inflation was still easing toward the Federal Reserve's 2 percent target. Thus, absent further clarity on tariffs, we look for additional easing in monetary policy to materialize in the fall at the earliest.

An Early Read on Q2

Entering this week we had anticipated that economic growth in Q2 would rebound from the 0.3 percent annualized contraction registered in the opening quarter of the year, but concerns regarding the highly uncertain outlook contributed to our rather tepid baseline projection of GDP growth of 0.9 percent – a view that has shifted meaningfully in light of Friday's economic reports (The Census Bureau's Advance Economic Indicators – which contains preliminary data on international trade in goods – and the Bureau of Economic Analysis' Personal Income and Outlays data) . We now anticipate growth of 2.5 percent, one tick ahead of the Federal Reserve Bank of New York's latest Nowcast model (which was essentially unchanged from its prior reading on May 23) but lagging the Atlanta Fed GDPNow model that is currently projecting growth of 3.8 percent (versus 2.2 percent as of its previous update on May 27; chart, next page, left).

At the core of the of our updated projection was the real consumer spending data for April, which increased 0.1 percent following a burst of 0.7 percent in March. The strong base effect, along with the latest pickup, suggested that even little change in real outlays over the May-to-June period would still result in quarterly growth in the area of 2.5 percent, annual rate (chart, next page, right). With that said, we remain cautious regarding the consumer even while adjusting our forecast. In the latest month, real outlays for durable goods contracted (-0.8 percent) while those of nondurable items rose modestly (+0.1 percent) – reflecting mostly expenditures on food, gasoline, and other energy goods (i.e., essential items). Additionally, the pickup in service spending (+0.3 percent) was driven in part by outlays for housing, utilities, and healthcare. Moreover, despite the favorable base effect from Q1 generated by the firm March result, data for January and February were revised lower – which had contributed to the second estimate of Q1 GDP published Thursday indicating a downward revision of 0.6 percentage point in growth of real consumer spending to 1.2 percent, annual rate, despite slightly better topline activity (a contraction of 0.2 percent, annual rate, in GDP versus -0.3 percent first reported). Furthermore, depressed readings on various measures of consumer attitudes imply that caution could prevail in household decisions on upcoming purchases. Thus, we remain guarded in our outlook for the balance of 2025.

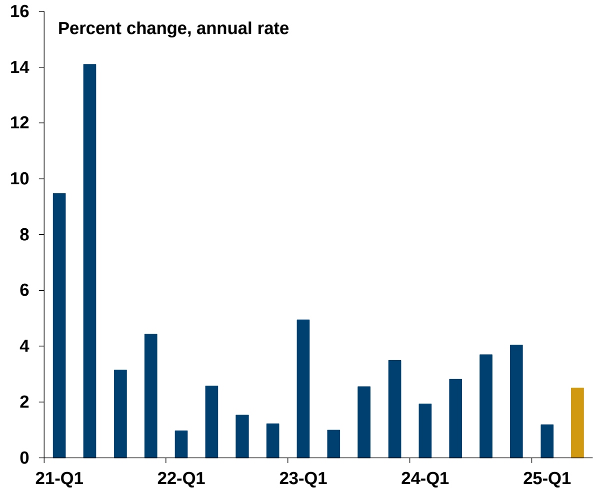
GDP Growth*



** The gold bar, light blue, and purples bars are forecasts from DCMA, the Atlanta Fed's GDPNow model, and the New York Fed's Nowcast, respectively.*

Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America; Federal Reserve Banks of Atlanta and New York

Real Consumer Spending Growth*

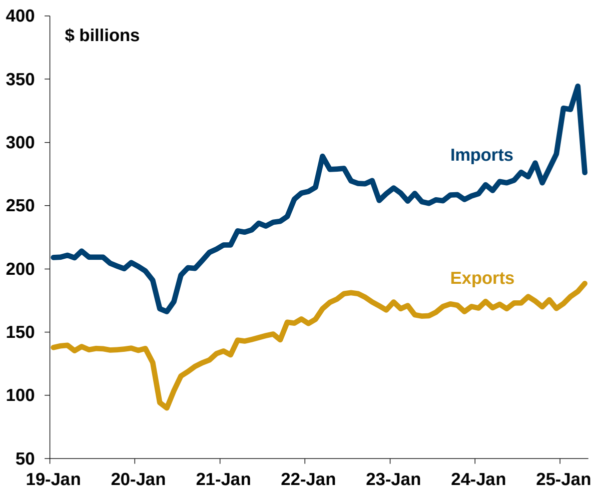


** The gold bar is a forecast for 2025-Q2.*

Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America

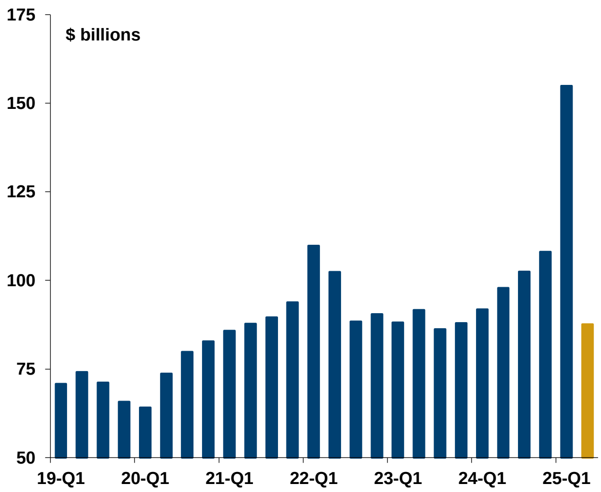
The trade sector also played a key role in our revised view on Q2, with an advance of 3.4 percent ($6.3 billion) in nominal goods exports and a plunge of 19.8 percent ($68.4 billion) in imports contributing to a record narrowing of $74.6 billion in the goods deficit to $87.6 billion (Census basis; charts, below). The latest result not only represented a vast improvement from the $162.3 billion in March but also from the $154.9 billion average in Q1, thus raising the possibility that net exports in Q2 will substantially reverse the constraint of 4.9 percentage points on GDP growth in Q1. Here, too, we emphasize caution in interpretation of the data. Much of the recent volatility in trade flows was the result of firms building inventories via imports ahead of the onset of tariffs (e.g., pharmaceuticals and computers and telecommunications equipment) and payback was expected at some point. Moreover, trade flows for the following two months – along with adjustment for inflation – could change assessments significantly by the end of the quarter. Furthermore, the previous influx of imports was captured in a domestic inventory build that contributed 2.6 percentage points to GDP growth in Q1, which will switch to a drawdown in Q2 (and therefore act as a constraint on growth; we're currently estimating a drag of 1.2 percentage points). All told, the picture for Q2 is looking better than first thought, and we suspect that the economy will remain on a growth trajectory over the balance of the year. However, absent a reversal by the Trump administration on tariffs, it is not yet time to declare "all clear" for the U.S. economy.

Imports & Exports of Goods



Source: U.S. Census Bureau via Haver Analytics

Nominal Trade Deficit in Goods*



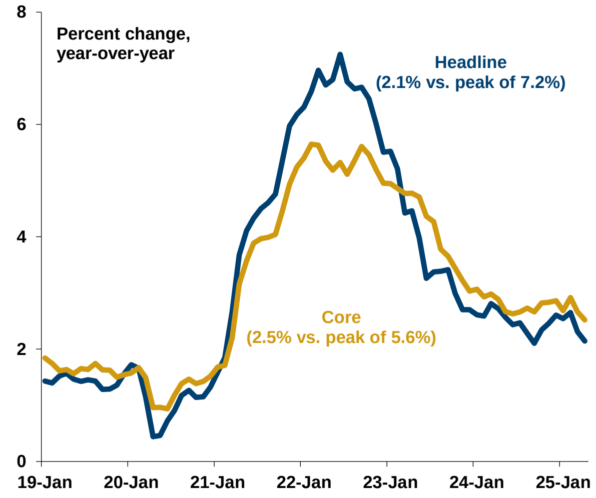
** Quarterly averages of monthly data. The observation for 2025-Q2 (gold bar) is the monthly deficit in April 2025.*

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

Ongoing Moderation in the PCE Price Index

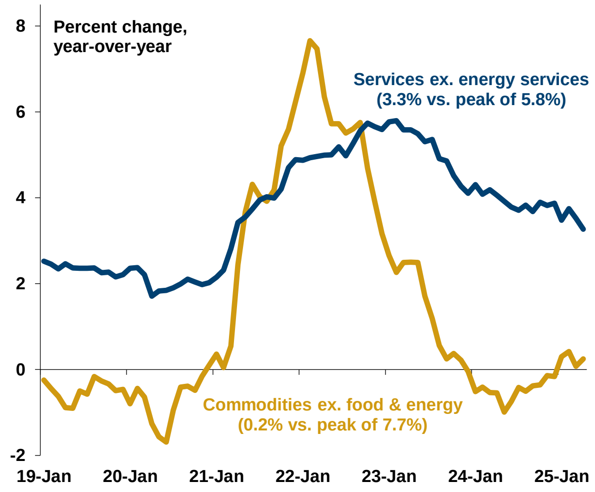
As suggested by previous data from Consumer and Producer Price Indexes, the Price Index for Personal Consumption Expenditures – the FOMC's preferred gauge of consumer inflation – rose modestly in April, with both the headline and core measures increasing 0.1 percent (+0.100 percent and +0.116 percent, respectively, with less rounding). The changes translated to year-over advances of 2.1 percent for the headline index and 2.5 percent for the core (versus 2.3 percent and 2.7 percent, respectively, in March; chart, below left). We would add that absent the risk of a potential future upswing in goods prices from tariffs, or stirring in inflation expectations, we suspect that recent readings on inflation would have already facilitated additional rate cuts by the FOMC. On the point, easing in previously tight labor market conditions has contributed to slowing wage growth, while growth of shelter costs have slowed (better aligning with data on market rents) and goods inflation has been contained by slowing domestic demand.

PCE Inflation



Source: Bureau of Economic Analysis via Haver Analytics

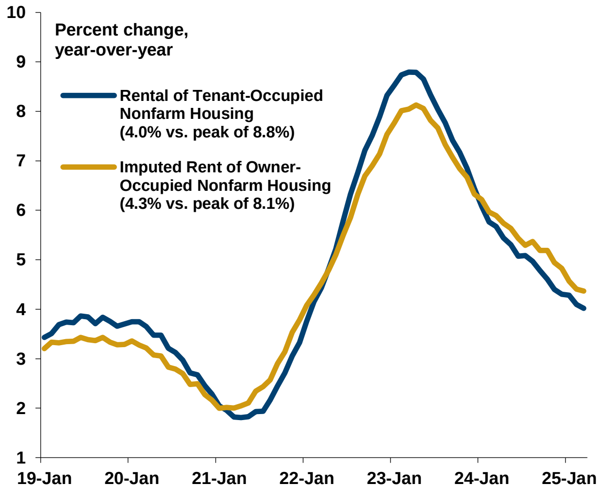
Core PCE Inflation



Source: Bureau of Economic Analysis via Haver Analytics

Further parsing the increase in core inflation, core goods prices rose 0.3 percent (+0.2 percent year-over-year, up from +0.1 percent in March) and services prices excluding energy services increased 0.1 percent (+3.3 percent year-over-year, down from +3.5 percent in March). Hints of possible tariff-related pressure emerged in the goods area (e.g., prices of furniture and home furnishings increased 0.5 percent after an advance of 0.6 percent in the prior month, and costs of household appliances jumped 1.2 percent), although the trend remained subdued (chart, above right). In the core services area, a drop of 3.7 percent in financial service charges, which reflected a decline in the equity market, was a factor (which is likely to reverse in May with the market rebound), as was a drop of 12.2 percent in the cost to attend spectator sporting events. Contrastingly, rents rose 0.3 percent and imputed rent of owner-occupied nonfarm housing increased 0.4 percent – both in line with other recent observations. Year-over-year changes of 4.0 percent and 4.3 percent, respectively, in these areas have left trends modestly above those that prevailed prior to the pandemic but still consistent with a return to 2 percent inflation in the medium term (chart). Again, the Trump administration's policies have complicated the inflation picture, but we remain guardedly optimistic that monetary policy is well calibrated in the current environment and will ultimately contribute to a return to the Fed's price target.

PCE Inflation: Shelter



Source: Bureau of Economic Analysis via Haver Analytics

The Week Ahead

ISM Manufacturing Index (May) (Monday)
Forecast: 48.5% (-0.2 Pct. Pt.)

The factory sector is seemingly in a holding pattern as survey respondents to the Institute for Supply Management's manufacturing survey await the potential effects of the Trump administration's tariffs (both enacted and paused) to feed through to the broad economy. Thus, given the current environment of heightened uncertainty, the index appears poised to remain in contractionary territory for the third consecutive month in May.

Construction Spending (April) (Monday)
Forecast: 0.0%

Choppy results for housing starts in recent months suggest that private residential construction could be restrained. Moreover, with business-related and government-sponsored activity building both moving essentially sideways after previous surges earlier in the expansion, total construction activity could be little changed in April after declining 0.5 percent in the prior month.

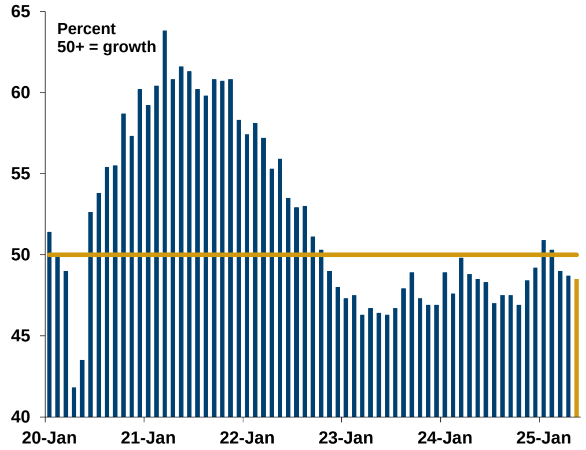
Factory Orders (April) (Tuesday)
Forecast: -3.6%

After advancing 7.6 percent in the prior month, durable goods orders decreased 6.3 percent in April. Recent shifts in headline orders have typically reflected wide swings in the erratic transportation category, with this area declining 17.1 percent in April (influenced importantly by the 51.5 percent drop in the civilian aircraft component after a burst in March). Excluding transportation, orders have tilted marginally higher on balance over the past twelve months. Preliminary shipments data released with the Advance Report on Durable Goods on May 27 indicate a decline of 0.9 percent in the nondurable area.

ISM Services Index (May) (Wednesday)
Forecast: 52.5% (+0.9 Pct. Pt.)

Despite headwinds generated by the Trump administration's policy agenda, the ISM services index appears poised to rise further into expansionary territory in May. Specifically, recent sub-50 readings for the employment component, in our view, seem misaligned with current realities in the labor market (e.g., the unemployment rate hovering in the low four percent area, relatively contained layoffs as reported by JOLTS, etc.). Thus, a pickup in this area could nudge the overall index higher.

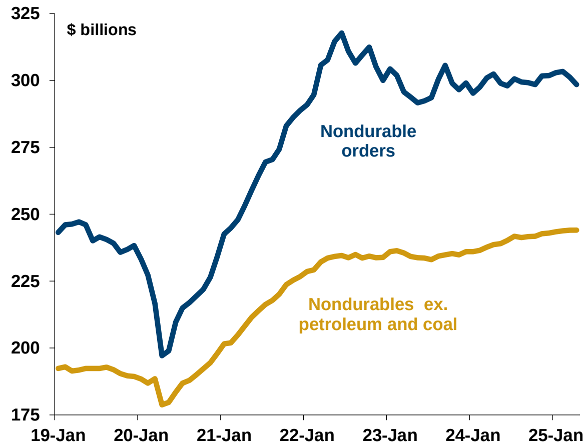
ISM Manufacturing Index*



* The gold bar is a forecast for May 2025.

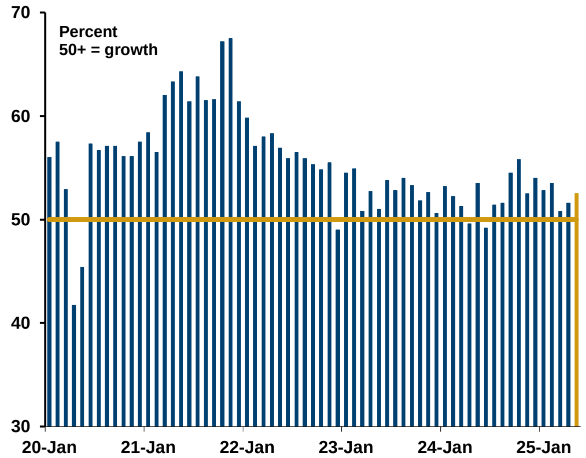
Sources: Institute for Supply Management via Haver Analytics; Daiwa Capital Markets America

New Orders for Nondurable Goods



Source: U.S. Census Bureau via Haver Analytics

ISM Services Index*



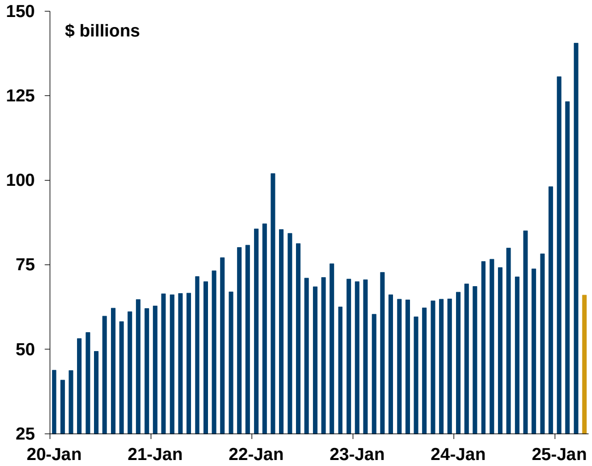
* The gold bar is a forecast for May 2025.

Sources: Institute for Supply Management via Haver Analytics; Daiwa Capital Markets America

Trade Balance (April) (Thursday)
Forecast: -$66.0 Billion ($74.5 Billion Narrower Deficit)

The plunge of $74.6 billion in the goods deficit (published May 30) to $87.6 billion suggests similar narrowing for the total trade shortfall in April. If the forecast is realized, the result would further support the view that the recent surge in imports into the U.S. was tied to firms' efforts to front-run tariffs. With that said, goods flows are likely to remain highly volatile until further clarity is gained on the endgame of the Trump administration regarding trade policy.

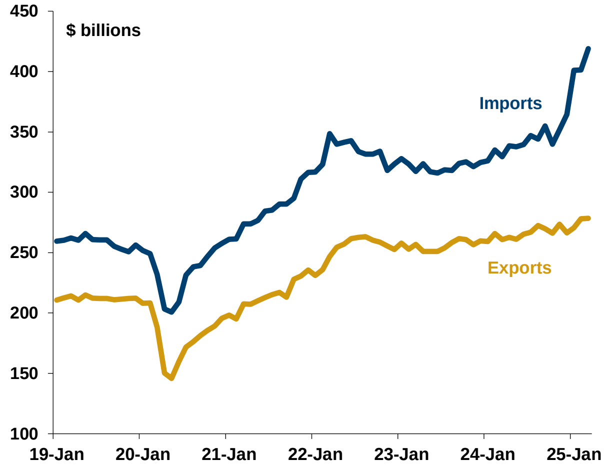
Trade Deficit in Goods & Services*



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

Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America

Imports & Exports of Goods & Services

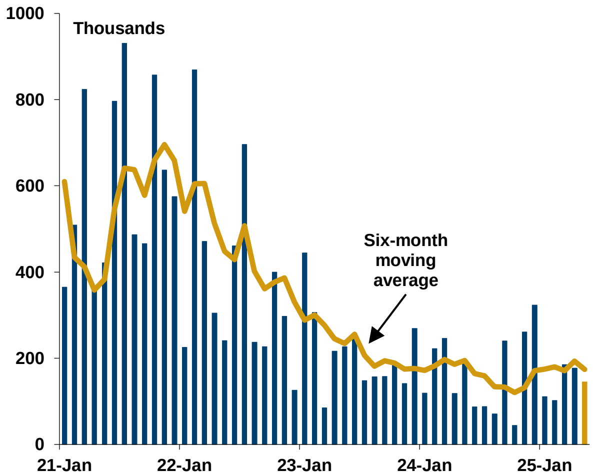


Source: Bureau of Economic Analysis via Haver Analytics

Payroll Employment (May) (Friday)
Forecast: 145,000

The labor market appears to be holding up well, with payroll growth of 177,000 in April broadly in line with the trailing six-month average of 171,000, offering scant evidence of a preemptive slowdown in hiring or uptick in layoffs in response to uncertainty generated by tariffs. Moreover, if growth decelerates to a level consistent with our expectation, underlying job creation will likely still be fast enough to maintain the unemployment rate at 4.2 percent. Growth of average hourly earnings could remain close to its average of 0.3 percent in the past twelve months (associated with a year-over-year increase of 3.7 percent, which would be one tick slower than April's observation).

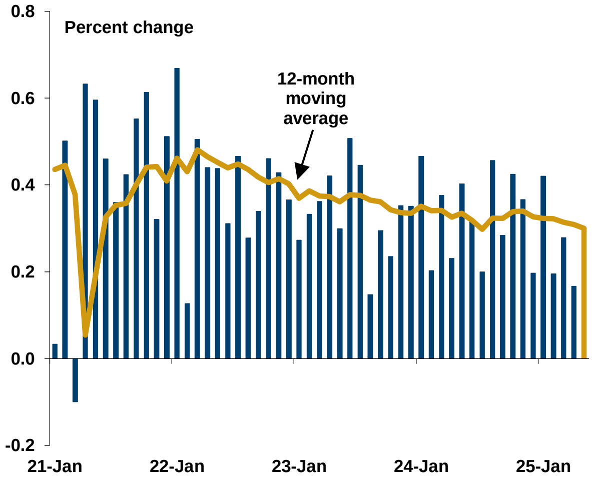
Change in Nonfarm Payrolls*



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

Sources: Bureau of Labor Statistics via Haver Analytics; Daiwa Capital Markets America

Average Hourly Earnings*



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

Sources: Bureau of Labor Statistics via Haver Analytics; Daiwa Capital Markets America

Economic Indicators

May/June 2025

Monday	Tuesday	Wednesday	Thursday	Friday
26	27	28	29	30
MEMORIAL DAY	**DURABLE GOODS ORDERS** Feb 1.0% Mar 7.6% Apr -6.3% **FHFA HOME PRICE INDEX** Jan 0.3% Feb 0.0% Mar -0.1% **S&P CORELOGIC CASE-SHILLER 20-CITY HOME PRICE INDEX** Jan 0.3% Feb 0.4% Mar -0.1% **CONFERENCE BOARD CONSUMER CONFIDENCE** Mar 93.9 Apr 85.7 May 98.0	**FOMC MINUTES**	**UNEMPLOYMENT CLAIMS** Initial / Continuing (millions) May 3: 0.229 / 1.877 May 10: 0.228 / 1.893 May 17: 0.226 / 1.919 May 24: 0.240 / N/A **GDP** GDP / Chained Price 24-Q4: 2.4% / 2.3% 25-Q1(a): -0.3% / 3.7% 25-Q1(p): -0.2% / 3.7% **PENDING HOME SALES** Feb 2.1% Mar 5.5% Apr -6.3%	**PERSONAL INCOME, CONSUMPTION, AND CORE PRICE INDEX** Inc. / Cons. / Core Feb: 0.8% / 0.4% / 0.5% Mar: 0.7% / 0.7% / 0.1% Apr: 0.8% / 0.2% / 0.1% **INTERNATIONAL TRADE IN GOODS** Feb -$147.9 billion Mar -$162.3 billion Apr -$87.6 billion **ADVANCE INVENTORIES** Wholesale / Retail Feb: 0.5% / -0.1% Mar: 0.3% / -0.3% Apr: 0.0% / -0.1% **MNI CHICAGO BUSINESS BAROMETER** Mar 47.6 Apr 44.6 May 40.5 **REVISED CONSUMER SENTIMENT** Apr 52.2 May(p) 50.8 May(r) 52.2
2	3	4	5	6
ISM MFG. INDEX (10:00) Index / Prices Mar: 49.0 / 69.4 Apr: 48.7 / 69.8 **May: 48.5 / 69.5** **CONSTRUCTION (10:00)** Feb 0.6% Mar -0.5% **Apr 0.0%**	**FACTORY ORDERS (10:00)** Feb 0.5% Mar 3.5% **Apr -3.6%** **JOLTS DATA (10:00)** Openings (000) / Quit Rate Feb: 7,480 / 2.0% Mar: 7,192 / 2.1% Apr: -- / -- **VEHICLE SALES** Mar 17.8 million Apr 17.3 million **May 16.3 million**	**ADP EMPLOYMENT (8:15)** Private Payrolls Mar 147,000 Apr 62,000 May -- **ISM SERVICES INDEX (10:00)** Index / Prices Mar: 50.8 / 60.9 Apr: 51.6 / 65.1 **May: 52.5 / 65.0** **BEIGE BOOK (2:00)** **April 2025:** "Economic activity was little changed since the previous report, but uncertainty around international trade policy was pervasive across reports. Just fiv Districts saw slight growth, three Districts noted activity was relatively unchanged, and the remaining four Districts reported slight to modest declines."	**UNEMP. CLAIMS (8:30)** **TRADE BALANCE (8:30)** Feb -$123.2 billion Mar -$140.5 billion **Apr -$66.0 billion** **REVISED PRODUCTIVITY & COSTS (8:30)** Productivity / Unit Labor Costs 24-Q4: 1.7% / 2.0% 25-Q1(p): -0.8% / 5.7% **25-Q1(r): -0.8% / 5.7%**	**EMPLOYMENT REPORT (8:30)** Payrolls / Un. Rate Mar: 185,000 / 4.2% Apr: 177,000 / 4.2% **May: 145,000 / 4.2%** **CONSUMER CREDIT (3:00)** Feb -$0.6 billion Mar $10.2 billion Apr --
9	10	11	12	13
WHOLESALE TRADE	**NFIB SMALL BUSINESS OPTIMISM INDEX**	**CPI** **FEDERAL BUDGET**	**UNEMP. CLAIMS** **PPI**	**CONSUMER SENTIMENT**
16	17	18	19	20
EMPIRE MFG	**RETAIL SALES** **IMPORT/EXPORT PRICES** **IP & CAP-U** **NAHB HOUSING INDEX** **BUSINESS INVENTORIES** **FOMC MEETING (FIRST DAY)**	**UNEMP. CLAIMS** **HOUSING STARTS** **FOMC RATE DECISION** **TIC FLOWS**	***JUNETEENTH NATIONAL INDEPENDENCE DAY***	**PHILLY FED INDEX** **LEADING INDICATORS**

Forecasts in bold. (a) = advance (1st estimate of GDP), (p) = preliminary (2nd estimate of GDP), (r) = revised

Treasury Financing

May/June 2025

Monday	Tuesday	Wednesday	Thursday	Friday
26	27	28	29	30
MEMORIAL DAY	**AUCTION RESULTS:** Rate Cover 13-week bills 4.255% 3.18 26-week bills 4.160% 2.95 6-week bills 4.235% 3.00 2-yr notes 3.955% 2.57 **ANNOUNCE:** $60 billion 17-week bills for auction on May 28 $75 billion 4-week bills for auction on May 29 $65 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 RESULTS:** Rate Cover 17-week bills 4.220% 3.36 5-yr notes 4.071% 2.39 Margin Cover 2-yr FRNs 0.144% 2.95	**AUCTION RESULTS:** Rate Cover 4-week bills 4.215% 2.92 8-week bills 4.225% 3.07 7-yr notes 4.194% 2.69 **ANNOUNCE:** $144 billion 13-,26-week bills for auction on June 2 $60 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:** $60 billion 6-week bills **ANNOUNCE:** $60 billion* 17-week bills for auction on June 4 $75 billion* 4-week bills for auction on June 5 $65 billion* 8-week bills for auction on June 5 **SETTLE:** $60 billion 17-week bills $75 billion 4-week bills $65 billion 8-week bills	**AUCTION:** $60 billion* 17-week bills	**AUCTION:** $75 billion* 4-week bills $65 billion* 8-week bills **ANNOUNCE:** $144 billion* 13-,26-week bills for auction on June 9 $60 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 $60 billion 6-week bills
9	10	11	12	13
AUCTION: $144 billion 13-,26-week bills	**AUCTION:** $60 billion* 6-week bills $48 billion* 52-week bills $58 billion* 3-year notes **ANNOUNCE:** $60 billion* 17-week bills for auction on June 11 $75 billion* 4-week bills for auction on June 12 $65 billion* 8-week bills for auction on June 12 **SETTLE:** $60 billion* 17-week bills $75 billion* 4-week bills $65 billion* 8-week bills	**AUCTION:** $60 billion* 17-week bills $39 billion* 10-year notes	**AUCTION:** $75 billion* 4-week bills $65 billion* 8-week bills $22 billion* 30-year bonds **ANNOUNCE:** $144 billion* 13-,26-week bills for auction on June 16 $60 billion* 6-week bills for auction on June 17 $13 billion* 20-year bonds for auction on June 16 $23 billion* 5-year TIPS for auction on June 17 **SETTLE:** $144 billion* 13-,26-week bills $60 billion* 6-week bills $48 billion* 52-week bills	
16	17	18	19	20
AUCTION: $144 billion* 13-,26-week bills $13 billion* 20-year bonds **SETTLE:** $58 billion* 3-year notes $39 billion* 10-year notes $22 billion* 30-year bonds	**AUCTION:** $60 billion* 6-week bills $23 billion* 5-year TIPS **ANNOUNCE:** $60 billion* 17-week bills for auction on June 18 $75 billion* 4-week bills for auction on June 18 $65 billion* 8-week bills for auction on June 18 **SETTLE:** $60 billion* 17-week bills $75 billion* 4-week bills $65 billion* 8-week bills	**AUCTION:** $60 billion* 17-week bills $75 billion* 4-week bills $65 billion* 8-week bills **ANNOUNCE:** $144 billion* 13-,26-week bills for auction on June 23 $60 billion* 6-week bills for auction on June 24 $69 billion* 2-year notes for auction on June 24 $70 billion* 5-year notes for auction on June 25 $44 billion* 7-year notes for auction on June 26 $28 billion* 2-year FRNs for auction on June 25	***JUNETEENTH NATIONAL INDEPENDENCE DAY***	**SETTLE:** $144 billion* 13-,26-week bills $60 billion* 6-week bills

**Estimate*