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Economic & Financial Markets Monthly Review | April 2025

Tariffs reset the trade picture

Economic Overview

Where is the economy now?

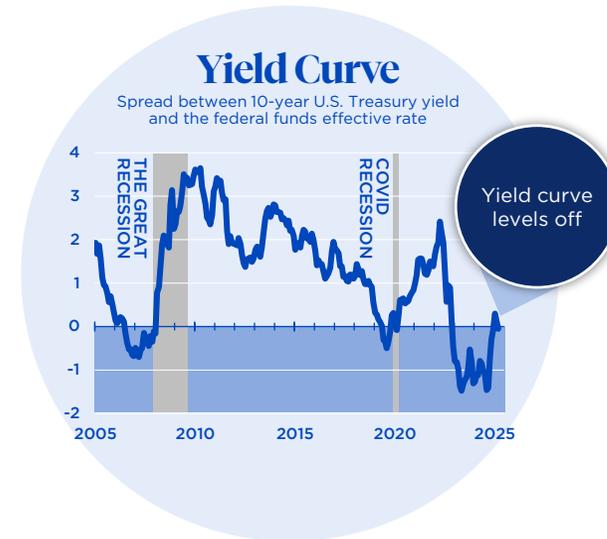
The Trump Administration's tariff announcement on April 2 was larger and more complex than expected. While the highest rates (excluding China) were later paused for 90 days, prices for many imported goods are certain to rise in the near term — dampening the growth outlook and lifting the odds of a recession in 2025. Faster inflation and uncertain policy changes should keep the Fed on hold into the second half of the year, with higher interest rates acting as a further headwind for spending on autos and housing.



Economic growth wobbles

A sluggish start to the year likely extends into mid-2025 as tariff increases and uncertainty weighs on consumer spending and business investment and hiring.

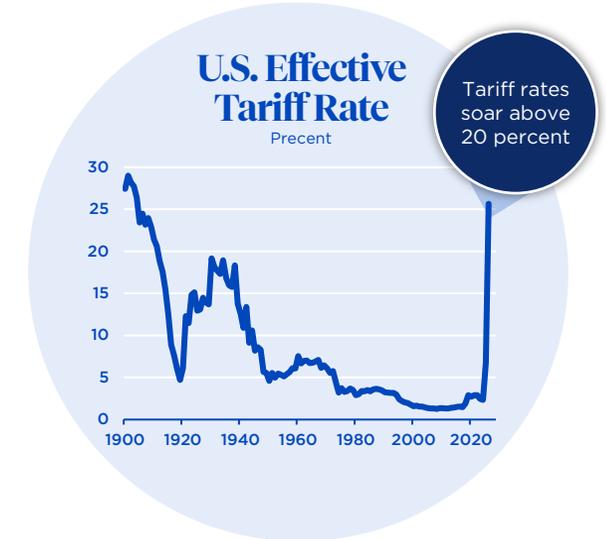
- As of March, hiring remained solid and consumers rushed to car dealerships ahead of tariff increases. However, the pull forward of purchases may turn into a spending freeze as households grapple with rising costs.
- We expect the Fed to keep rates steady until late 2025 as it assesses the economic and inflation landscape given the widespread policy changes and uncertainty. Higher interest rates are another headwind for growth, restricting business investment and purchases of autos and homes.



Tariff volatility hits the bond market

After initially plunging in reaction to the April 2 tariff news, long-term Treasury interest rates rose sharply in a sign of market stress amid the volatile policy environment.

- Shorter term rates have trended lower on expectations of more Fed easing this year with economic growth concerns building. Fed funds futures project three rate cuts from the Fed by year end. As a result, the 10-year less 2-year Treasury yield curve has steepened.
- The FOMC could be on an extended hold if the tariff-induced rise in inflation causes medium to long-term inflation expectations to increase sharply. However, if the economy falters more than we expect, the Fed would move to cut rates earlier and more aggressively.



Highest tariff rate in a century

A 10 percent tariff on all imported goods is now in effect, combined with sectoral tariffs on autos and metals. Even after pausing the highest levies, the effective U.S. tariff rate is still at the highest level since before WWI.

- It's likely that most of the tariff costs for U.S. importers will be passed on to U.S. consumers and businesses. Higher prices for consumer goods could cost thousands of dollars for households this year and drive much slower spending.
- The highest tariff rates have been paused and are expected to be negotiated lower or perhaps reversed. However, some tariffs, like the 10 percent universal rate, may be permanent and the ratcheting-up trade war with China is a negative supply shock that in the near-term hurts growth and boosts inflation.

Where we are this month

What does this mean

March data was solid but weaker trends are emerging

Strong job gains in March indicate the labor market remained on solid footing heading into the turbulence caused by the latest round of tariffs. The early April tariff announcement sent shock waves through the economy and has diminished the importance of the indicators preceding it. Consumers and businesses alike will now have to make quick adjustments, and we expect economic growth to struggle in Q2 and Q3 after stalling out in Q1 on the heightened uncertainty.



Inflation slowed further in March

The headline CPI inflation rate fell in March to 2.4 percent, while the core rate slowed to 2.8 percent. Both readings were the lowest since early 2021.

- Headline CPI fell 0.1 percent in March, while the core index posted a modest 0.1 percent gain. Much of the deflationary pressure came from falling gasoline and airline prices, while shelter inflation was modest due to a large decline in hotel rates.
- The cool March CPI report was a positive surprise, but much of the encouraging news is likely to be unwound in coming months due to tariffs and related trade policy uncertainty affecting supply chains.



Hiring was strong in March

Nonfarm payroll advanced at a solid clip in March, expanding by 228,000, while the unemployment rate ticked up to 4.2 percent.

- Headline payroll growth was sharply higher than the prior 12-month average of 158,000, though it was again highly concentrated with about half of the gain coming from health care, education, and local governments.
- In this case, the strong employment report is a lagging indicator which tells us little about the labor market following the administration's tariff announcement in early April. We will be watching the response from businesses in a substantially altered environment.



Auto sales surge ahead of tariffs

At 17.8 million units, March's pace of light vehicle sales was among the strongest in the last 10 years and nearly a million units higher than any other month since June 2021.

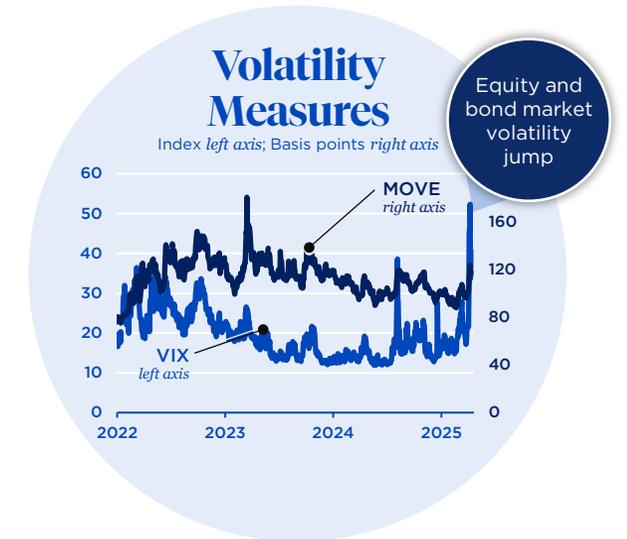
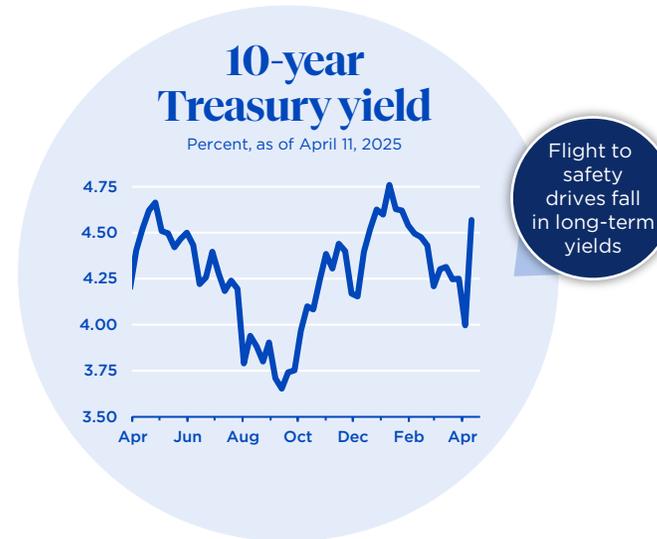
- There was a rush to purchase vehicles in March ahead of the autos tariffs which took effect on April 3. Sales for unaffected auto inventory should remain elevated in April and into May but, barring a carve-out for the industry, higher auto prices are expected to heavily tamp down consumer demand. Further the rush to buy now, lowers purchases in the future.
- Tariffs are expected to have an outsized impact on the auto industry as nearly half of all autos and auto parts consumed in the U.S. are imported. We look for prices for some imported brands to climb up to the full tariff rate of 25 percent.

Where we are this month

What does this mean

Tariff shock hits financial markets

The stock market has dropped precipitously, and investors are seeking refuge in safe-haven assets after the April 2 tariff announcement sparked worries that the trade policy shock will significantly dim the economic outlook. Moreover, uncertainty remains high since it is unclear what the final tariff rates will be, how long they will last, and how much countries will retaliate. The inflationary impact of tariffs will likely keep the Fed on the sidelines until Q4, but then we anticipate a sizeable 50-basis point rate cut.



Where we are this month

What does this mean

Stocks tumble after tariff announcement

The S&P 500 benchmark equity index plummeted close to a bear market correction as investors recalibrate their expectations. Share prices have bounced back moderately after the announced pause but remain lower and volatile.

- The increased tariffs have effectively reversed all post-election optimism in the equity market and dissuaded some investors from the notion the Trump administration is using tariffs only as a tool to bring countries to the negotiating table.
- It's best not to underestimate the dynamism and fundamental strength of the U.S. economy. However, the substantial tariff shock on top of policy uncertainty places downward pressure on corporate earnings this year and weight on equities in the near term.

Investors seek safe haven in U.S. Treasuries

The tariff announcement flared worries over a potential recession in 2025 and caused investors to aggressively shed risk assets such as equities and corporate bonds.

- The key 10-year Treasury yield initially fell sharply as investors sought refuge in the safety of U.S. Treasury debt. However, long-term Treasury rates have atypically reversed direction and have risen in a sign of market stress amid the volatile policy environment.
- Higher inflation and uncertainty about prospective policy changes should keep the Fed on the sidelines until Q4. Then we expect 50 basis points of rate cuts as policymakers look to eventually ameliorate the negative impacts to growth.

Financial market volatility skyrockets

The severity of the tariff announcement sparked a surge in equity and bond market volatility. The VIX equity index touched its highest level since the pandemic, and the MOVE bond market index also jumped.

- There is great uncertainty regarding what the final level of the import tariff rates will be and how long they will be in place. The levies are already causing trade and economic disruptions and a fundamental restructuring of global supply chains.
- We assume the minimum 10 percent universal portion is expected to remain, while the pause in the so-called reciprocal tariffs could become a permanent reversal. However, high tariff rates probably remain against China, though they too could be negotiated lower.

Outlook

Wide range of potential DOGE impacts on employment

Efforts to reduce federal government spending and to promote greater efficiency could have a significant impact on the labor market in 2025. Beyond the immediate cuts to federal agencies, there are many federal contractors and private sector jobs within health care, social services, and education that are tied to government grants and expenditures. The latest Challenger Report counted more than 280,000 announced layoffs to federal workers and contractors due to DOGE actions in February and March. We estimate the total job losses associated with a 10 percent reduction in the federal workforce in 2025 could range from a low of 500,000 workers to more than 1.5 million.

While this could represent up to a 1.0 percent hit to the national workforce, the market for highly-skilled workers remains solid. Job openings for professional business services are still elevated and there are many jobs available within local and state governments. But the overall turnover in federal jobs adds a further downside concern for personal income and spending ahead.

Direct & indirect job loss estimates from DOGE efforts

Thousands

LOW RANGE: 505k total (0.3% share of nonfarm employment)



MIDDLE RANGE: 772k (0.5%)



HIGH RANGE: 1,546k (1.0%)



Federal Workers

Contractors

Private Sector

Latest Forecast

Data as of April 2025

	2024 ACTUAL	2025 ESTIMATE	2026 FORECAST	2027 FORECAST	2028 FORECAST
REAL GDP	2.8%	1.0%	1.0%	2.0%	2.0%
UNEMPLOYMENT RATE	4.0%	4.6%	4.7%	4.2%	4.2%
INFLATION¹ (CPI)	2.7%	4.0%	2.4%	2.0%	2.0%
TOTAL HOME SALES	4.75	4.61	5.19	5.96	6.10
S&P/CASE-SHILLER HOME PRICE INDEX	3.7%	3.2%	3.5%	3.1%	3.0%
LIGHT VEHICLE SALES	15.8	14.6	14.4	14.9	15.0
FEDERAL FUNDS RATE²	4.25%	3.75%	3.25%	3.00%	3.00%
5-YEAR TREASURY NOTE²	4.38%	3.80%	3.60%	3.55%	3.55%
10-YEAR TREASURY NOTE²	4.58%	4.00%	4.00%	4.00%	4.00%
30-YEAR FIXED-RATE MORTGAGE²	6.91%	6.40%	5.50%	5.00%	5.00%
MONEY MARKET FUNDS	4.96%	4.22%	3.53%	3.03%	3.03%

Tariff actions to hurt near-term growth

We now project GDP growth to essentially flatline over 2025 as rising costs and uncertainty weigh on spending by consumers and hiring by businesses. Recession odds are high, but the pause in the reciprocal tariffs reduces the odds of a deeper downturn this year.

Higher prices should reduce auto sales

Hefty tariffs on imported vehicles and parts should increase new car prices sharply this year. Additionally, elevated financing rates could deter future auto purchases.

¹ Percent change Q4-to-Q4

² Year end

^a Actual

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Sources

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Business Cycle
Yield Curve
Effective tariff rate

Nationwide Economics
Bloomberg; National Bureau of Economic Research
Congressional Research Service, Census Bureau

2 | Economic Review

Consumer Price Index
Nonfarm payroll gains
Light vehicle sales

Bureau of Labor Statistics
Bureau of Labor Statistics
Bureau of Economic Analysis

3 | Financial Markets Review

S&P 500
10-year Treasury yield
Volatility measures

Standard & Poor's
Federal Reserve Board
Bloomberg

4 | Outlook

DOGE employment impacts
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