

JOHN E. SILVIA
DYNAMIC ECONOMIC STRATEGY



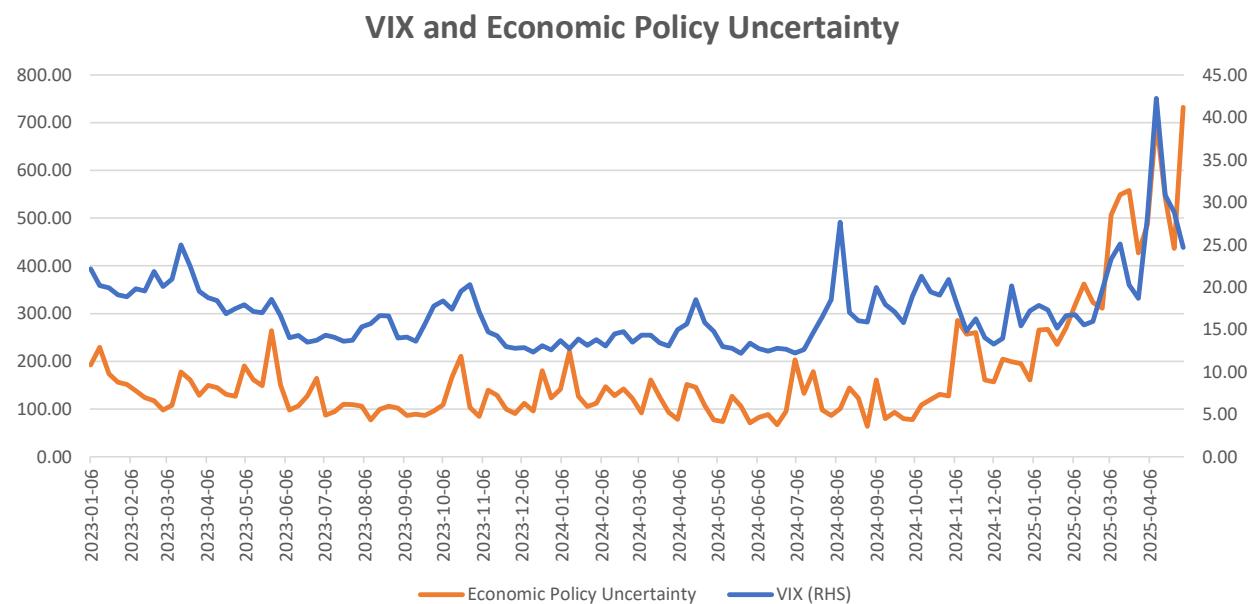
Philadelphia Council for Business Economics
Economic and Financial Outlook

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Dynamic Economic Strategy
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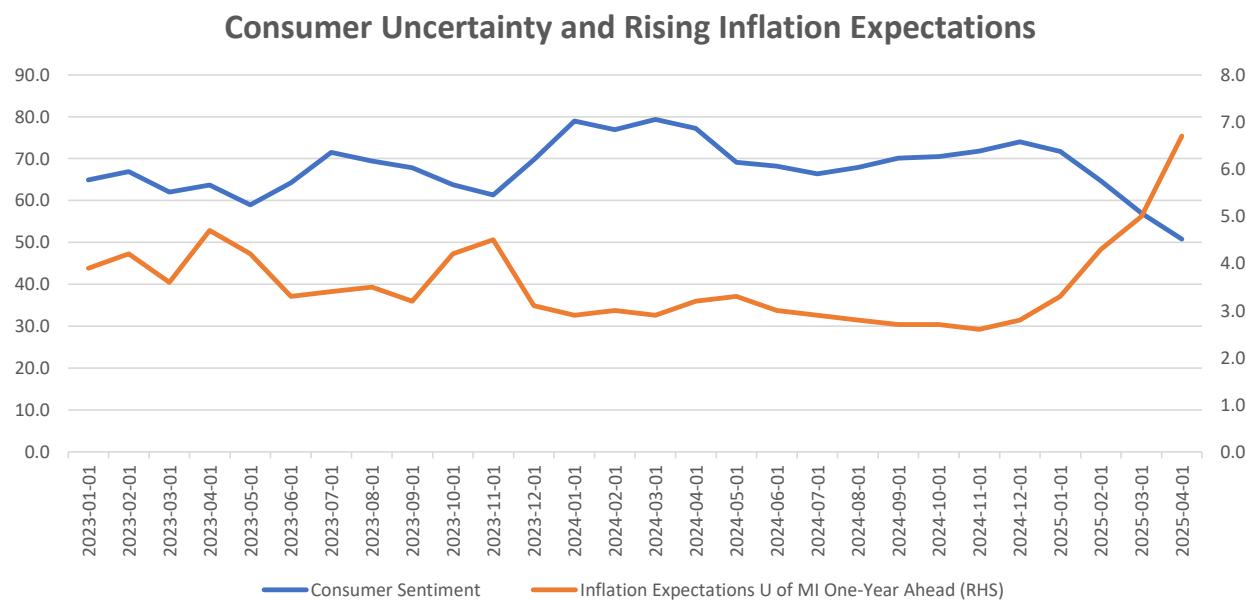
Upfront: The Issues

- Projected Slower Economic Growth
 - Consensus Economics 1.4% 2025 versus 202 @2.8%, Unemployment rate rises to 4.4% from 4.0 % (2024)
 - NABE 0.7%, Unemployment rate rises to 4.3%
- Persistent Inflation Above Fed's Target
 - Consensus Economics Core PCE 3.1%, above 2.8% 2024
 - NABE 3.3%
- Equity Markets Back to Pre-Liberation Day Levels?
 - SPX at 5687.67, April 2 5396.52
 - Higher equity valuations with slower economic growth? With higher ten-year rate?
- Higher Benchmark Treasury Rates in the Face of Higher U.S. debt burden/potential GDP
 - Ten-Year at 4.314%, April 2 4.03%
- Weaker Dollar Solves the Trade Deficit Problem with Higher Tariffs?
 - DXY 100.04 v 102.07 Liberation Day

VIX Moderates but Economic Policy Uncertainty Remains High



A Death Cross in Economics: Consumer Expectations and Rising Inflation Expectations Not Match Investor Optimism



When News Travels Faster Than the Data

“The Bond Market’s Rout Is Bad News for the U.S. Economy.” April 12, 2025 Barron’s

“Time for lenders to insist on more protection in finance deals.” May 1, 2025 FT

“Risky corporate borrowers shut out of bond market since Trump’s tariff blitz.” April 15
2025 FT

“Investors Hope Earnings Season Can Revive Faltering Stock Rally.” January 13, 2025
WSJ

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Economic Growth Slowdown in 2025: Even More so Now

- **Growth:** Slows to Below Trend at 1.4% for 2025, Growth drops in the First Quarter—yes it did.
 - Latest Fed-Atlanta GDPNow estimate at 1.1% for 2Q, U.S. growth (May 1, 2025).
 - Canada GDP (1.3% 2025), U.K. GDP (0.9% 2025)
 - Eurozone (0.9% 2025), Japan (1.2% 2025) (Consensus March Forecasts).
- **Inflation:** Moderation ends, still above target: Core PCE Deflator at 3.5% a.r. last three months
 - 2.6% YOY, Estimate 2.9% for 2025
 - Tariffs raise inflation in short-run, weakens growth over time
- **Central Bank Policy Rates,** Slower Growth, Above-Target Inflation feeds into Fed easing in June
 - Canada cut Jan. to 3.0%, England cuts policy rate to 4.5%, ECB likely to cut,
 - Japan rate rise in January to 0.5%
- **Profits:** Slowdown ahead —slower economic growth and rising input prices
 - Non-financial Profits, (unadjusted) up 4Q, plus 11.28% over Year Ago
- **US Dollar:** Recent weakening of the dollar reflects tariff/economic policy uncertainty

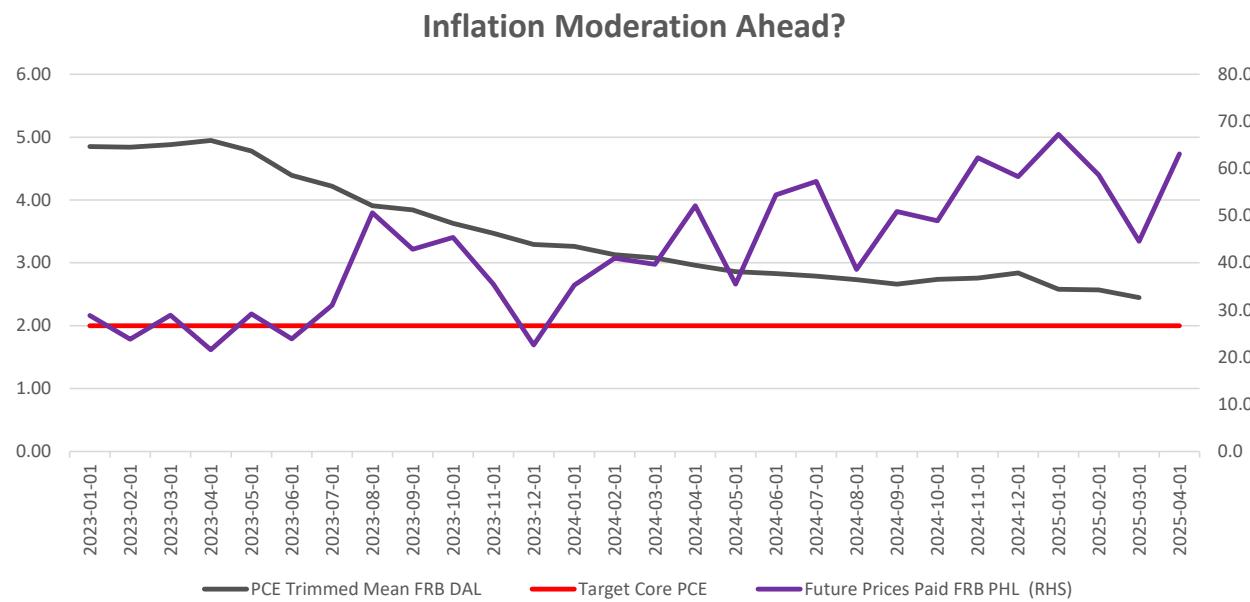


Economic Cycle Signals: Economic Growth Slowdown from Original 2025 Original Forecast

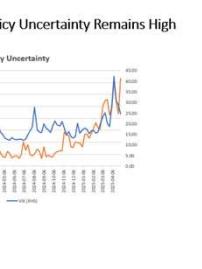
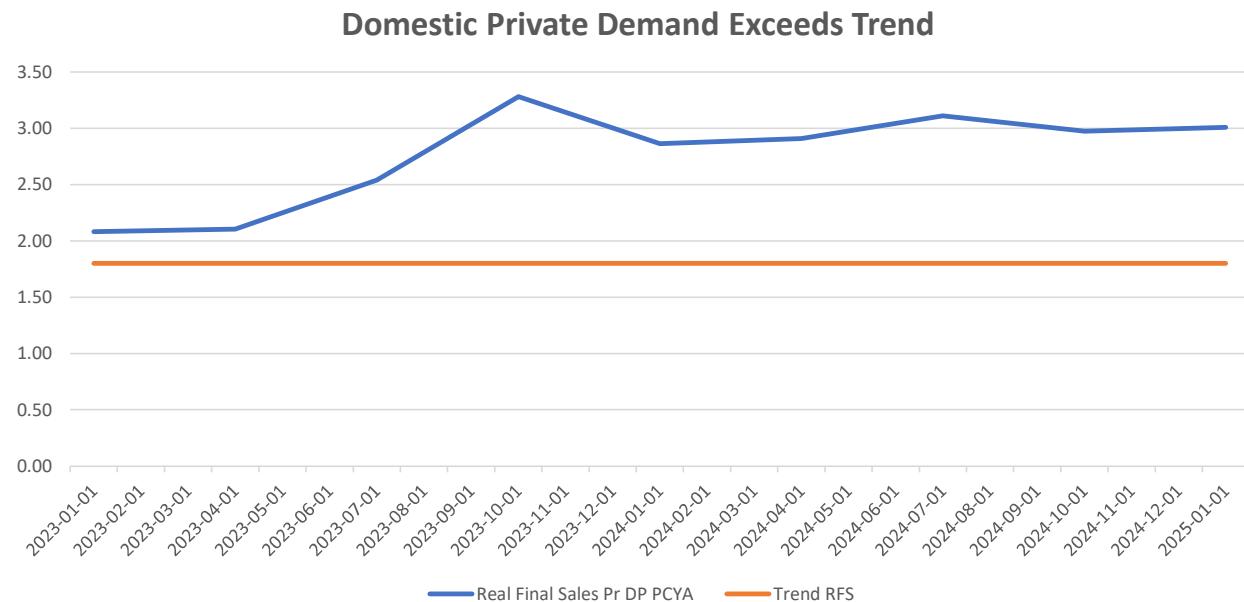
- **Jobless Claims**—Moving Up (week of April 26th)—signal of slower job gains ahead—Tariffs impact.
 - Initial claims, 4Wk MA, above a month ago, continuing claims above a month ago
 - April jobs above three and twelve-months averages, unemployment rate @ 4.2 % above year-ago
- **ISM-Manufacturing**—Conflict: Below Breakeven manufacturing sector; Prices Paid above Breakeven and rising
 - April 48.7, touch below 1Q average; new orders, employment, production below breakeven
 - Supplier deliveries quicker and above 4Q average—delivery lags decline
- **Non-defense, ex-aircraft, core orders and shipments** (March) Shipments and Orders up versus Jan.
 - Unfilled orders up slightly YOY, signals slight demand excess
- **Building Permits**—(March) Multi Family up but Single Family permits down versus 3M ago.
 - Pending Home Sales up in March and flat YOY, Home prices (C-S) up in February, up 4.5% YOY
- **Confidence (Conf Bd)** -April below February, present situation and expectations down
 - Net Jobs Plentiful --- April below February
- **ISM-Services**— March 50.8 below 4Q average, new orders above but employment below breakeven
 - Prices paid @60.9, above 4Q average



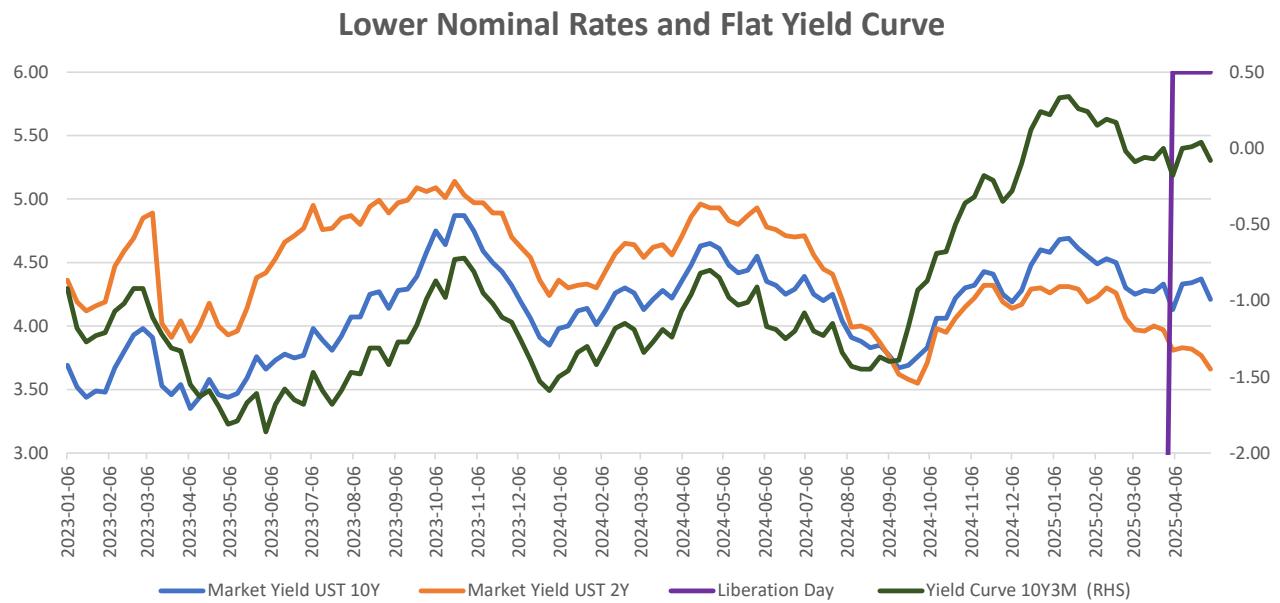
Inflation Exceeds Fed Target: Pre-Tariffs Case for Lower Inflation Post Tariffs?



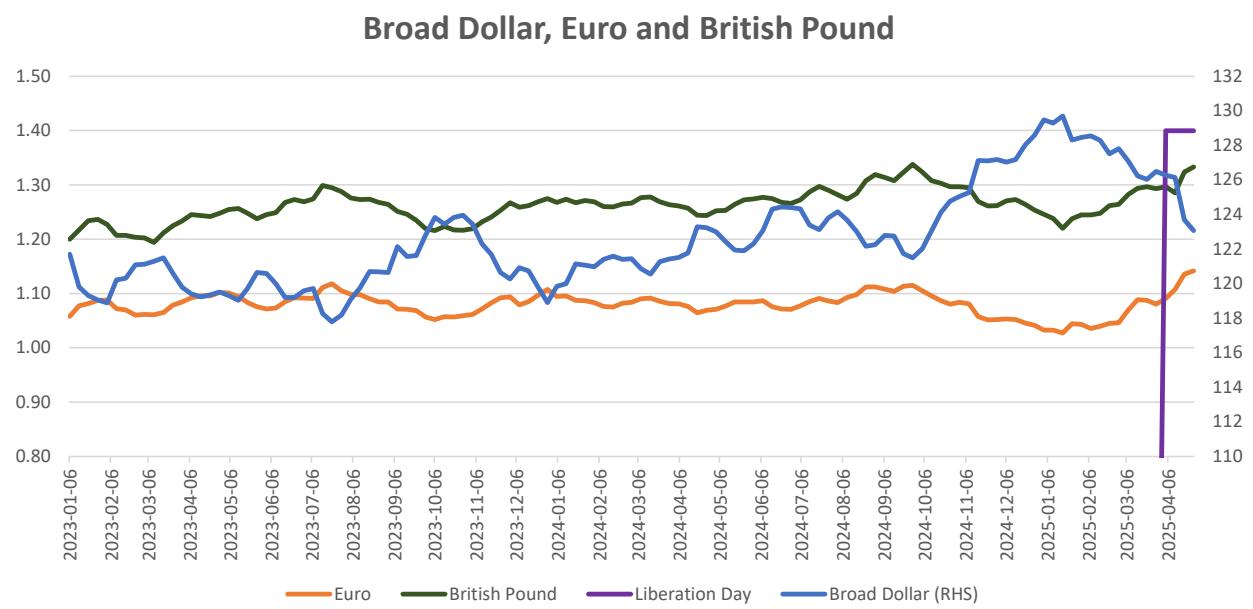
Real Final Sales to Private Domestic Purchasers Continues to Exceed Trend Growth Thereby Putting Upward Pressure on Inflation and Interest Rates—Pre-Tariffs



Signal Continues from January: Lower Interest Rates and Inverted Yield Curve Signals Expectations for Slower Economic Growth

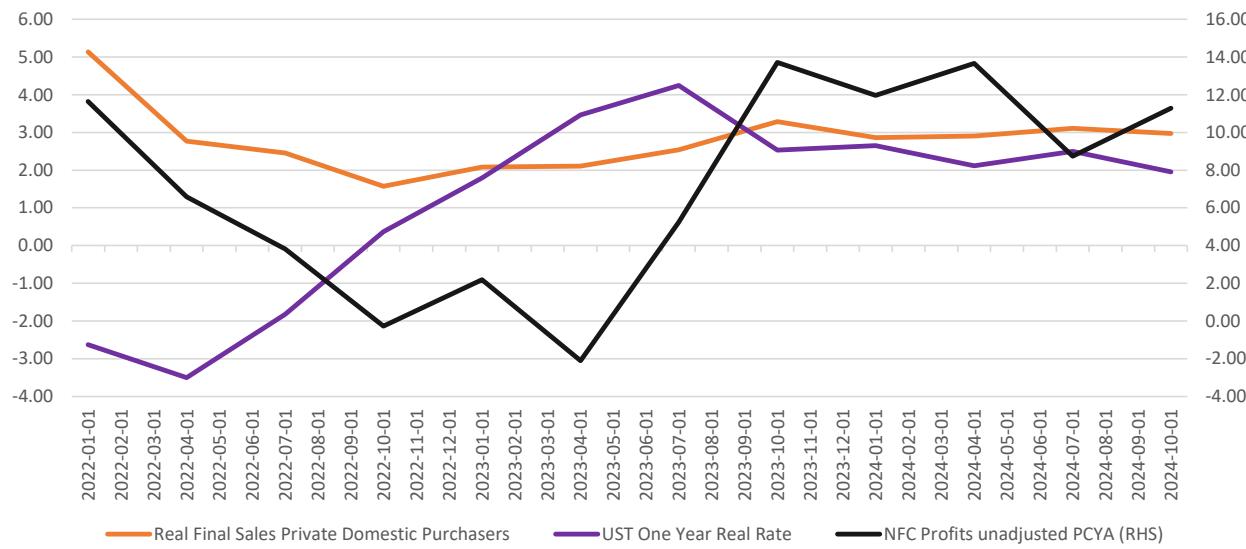


Dollar Weakness Since Start of the Year Continues Post-Liberation Day

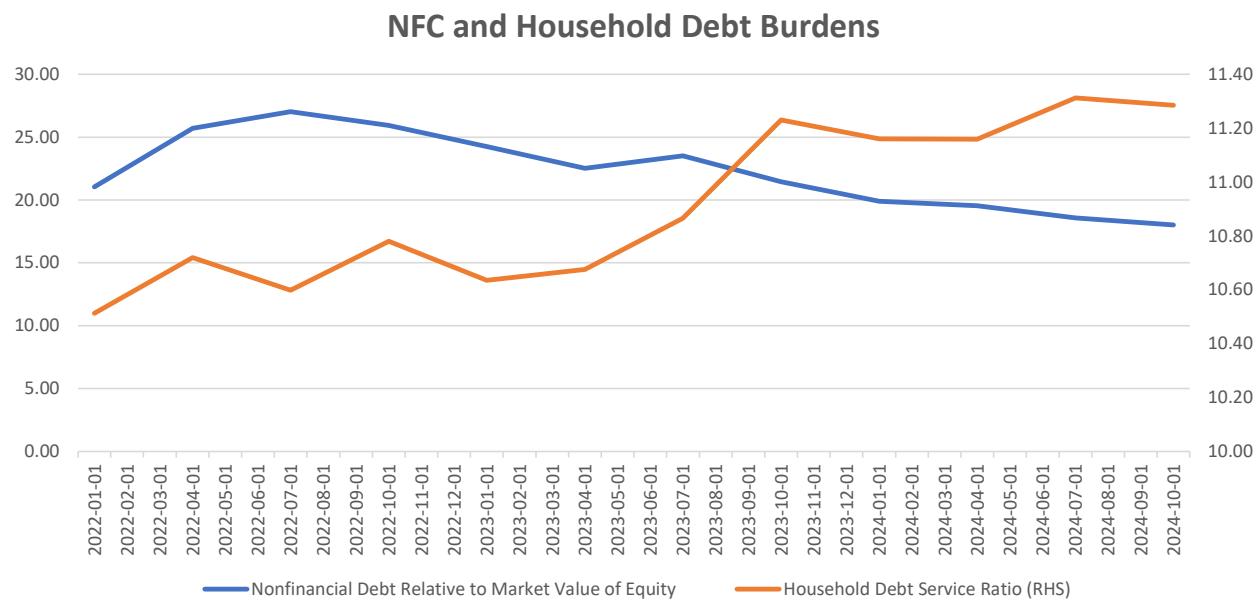


As Real Final Sales Slow—How Sustainable is Profit Growth at 10% Plus?

Profit Growth, Final Sales and Real One-Year Rate



How Resilient are Balance Sheets/Income Statements to Slower Growth, Higher Inflation?



Consumer Credit Detail

Time Ran Out		Slower Growth, Higher Rates, Higher Unemployment Rates		
	Ages	18-29	30-39	40-49
Serious Delinquencies				
Credit Cards	1Q 2024	9.90%	9.47%	6.96%
	2Q 2024	10.46%	9.65%	7.41%
Auto Loans	1Q 2024	4.92%	3.67%	2.53%
	2Q 2024	5.05%	3.62%	2.84%

Takeaways

- Context Matters: The Economy Slows
- Tariffs Resolutions: How Long? How detailed?
 - Evade, Delay, Repeat Evade, Delay
 - Hamburger today for 25 cents tomorrow?
- Equity Valuations: Slower Economic Growth and Higher Nominal Interest Rates?
- Consumer Credit Quality: Time Ran Out—Slower Growth/Higher Unemployment Rates Ahead
- Why are Phillies in Second Place?
- “The Fed Has 3 tools to Fight Tariff-Related Inflation. All Have Drawbacks.” May 02 2025 Barron’s