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All Signal, No Noise

MARKET ANALYSIS

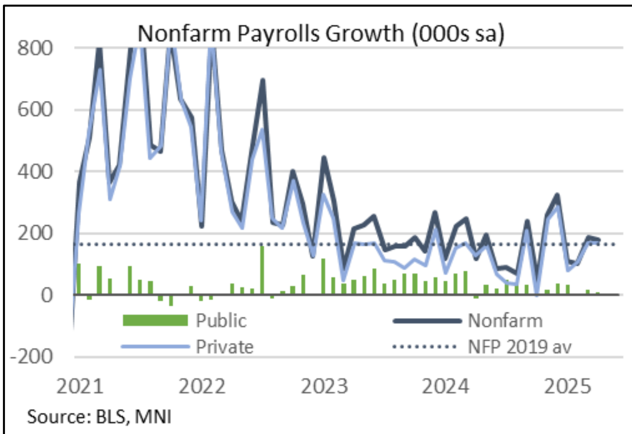
MNI U.S. Macro Weekly

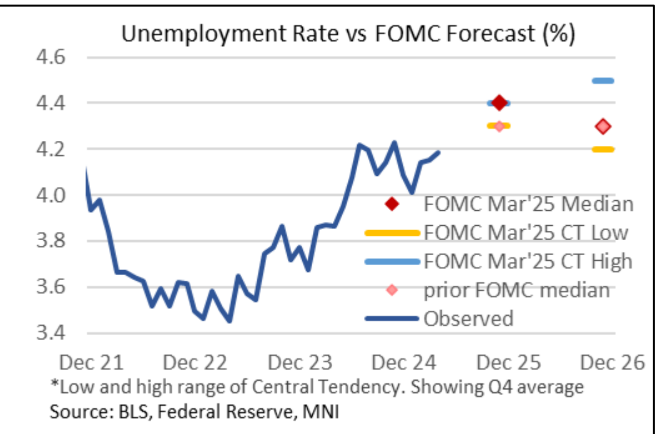
MNI View: Between A Soft And A Hard Place

May 2, 2025 – By Chris Harrison and Tim Cooper

Executive Summary

- As the FOMC heads into its May 6-7 meeting, the economic landscape is no clearer than it was at its previous meeting in mid-March – and in most cases, has become increasingly foggy.
- There have been many developments since then, with plenty of incoming data, an evolution of the outlook, and arguably, a shifting balance of risks. But rather than instigating action on the monetary front, events will have entrenched FOMC participants' view that patience is the best policy and rates are "well positioned" to allow for nimble reactions to shifts in the data.
- The dilemma in the current data dependence was well-encapsulated by the latest data this week, including April's payrolls which were more solid than expected and showed little sign of early tariff disruptions.
- And while Q1 GDP was negative, the Fed may take more signal from solid private demand.
- March's Personal Income and Outlays report showed a strong partly tariff-related pickup in real consumption in March that couldn't offset a weaker quarter as a whole. That said, personal income dynamics were fairly robust at quarter-end, suggesting that despite collapsing sentiment, there is still scope for consumer demand to remain underpinned heading into Q2.
- The changeover from March to April not only provides a neat split between the first and second quarters, but it may also be considered the dividing line between "stale" and more useful, post-tariff data.
- Fed Funds futures lifted sharply off the week's dovish extremes on a not-as-bad-as feared (but still far from strong) ISM manufacturing report before a continuation of the move on nonfarm payrolls.
- A next Fed cut is now only just fully priced for July (26bp vs 35bp pre-NFP and 43bp pre-ISM mfg) whilst there has been an entire 25bp cut priced out by year-end (76bp vs 91bp pre-NFP and 106bp pre-ISM).
- ISM Services data for April will be of note next week, with a modest deterioration expected (especially given regional Fed services surveys), though perhaps it's too early for tariff impact to have fed through.





Labor Market: Hard Data Still Resilient

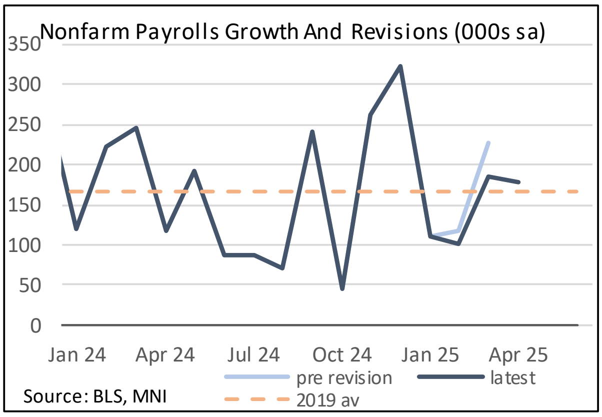
Beat For Latest Payrolls Growth Countered By Two-Month Revisions

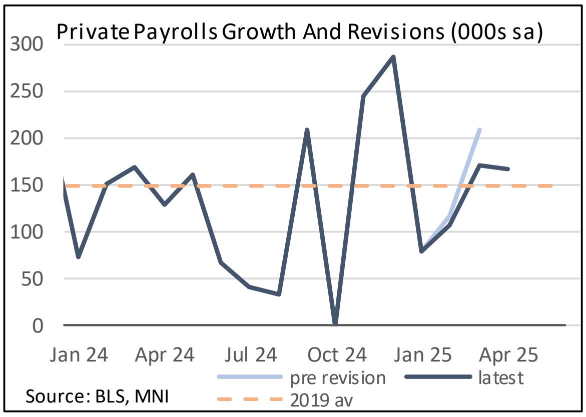
- Nonfarm payrolls were higher than expected in April at 177k (sa, cons 138k) of which private sectors contributed 167k (sa, cons 125k).
- However, two-month revisions of -58k offset the 39k beat for nonfarm payrolls, with a similar story for private (a 42k surprise vs -48k two-month revision).
- Downward revisions were concentrated in March.

Payrolls Growth (000s) - Apr'25 Report

	Actual	Cons.	Surprise	2-mth Rev	Mar	Feb
NFP	177	138	39	-58	-43	-15
Private	167	125	42	-48	-39	-9

Source: BLS, Bloomberg, MNI



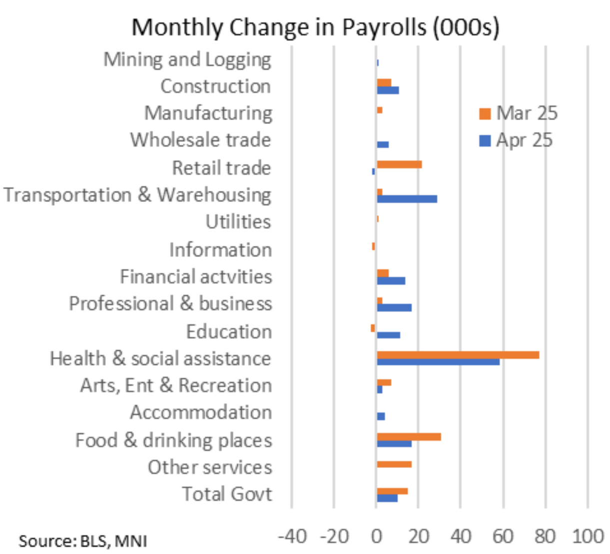


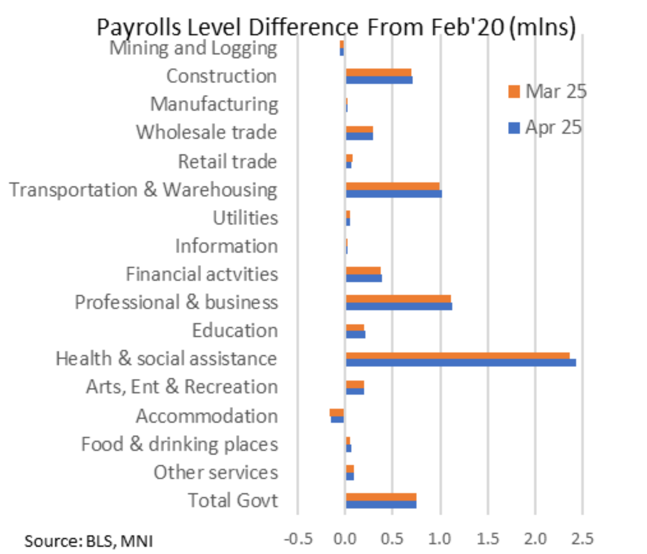
No Sign Of Early Tariff Disruption In Payrolls Industry Breakdown

The breakdown of monthly payrolls growth is one of general resilience, with perhaps the greatest surprise being the strength in transportation & warehousing that shows no sign of adverse impacts from tariffs. Of course, this is still early for job losses to be showing up, especially with the pay period including April 12th being still close to the Apr 2 "Liberation Day" tariff announcements (before the partial backtracking on Apr 9) with companies still assessing how to respond under heightened uncertainty. The below runs through some notable industries this month, all showing seasonally adjusted M/M changes:

- Health & social assistance: still the single largest driver of jobs growth, adding another 58k after 77k in Mar and 57k in Feb.
- Transportation & warehousing: 29k in Apr after 3k in Mar and 18k in Feb. An impressive figure that doesn’t show any imminent signs of net layoffs in tariff-sensitive industries. Note that this is corroborated by Wednesday’s ADP report were trade, transport & utilities was the second strongest sector for hiring on the month.
- Food & drinking places: 17k in Apr after 31k in Mar following an average -33k through Jan-Feb. That’s relatively healthy in April with a monthly profile that looks entirely consistent with adverse weather weighing in Jan-Feb before a warmer than usual March. April was more typical/cooler than average.
- Accommodation: 4k after 0k in Mar and 2k in Feb but these are typical changes for a sector that has been little net job creation in the past eighteen plus months. It does at least rule out some new weakness amidst signs of foreign travel demand to the US waning.
- Retail trade: -2k in Apr after 22k in Mar and -4k in Feb. In the flip side to a particularly resilient transportation & warehousing category, this has seen a more pronounced pullback from strength in Dec/Jan. However, six of the past twelve months saw declines, all of which were larger.

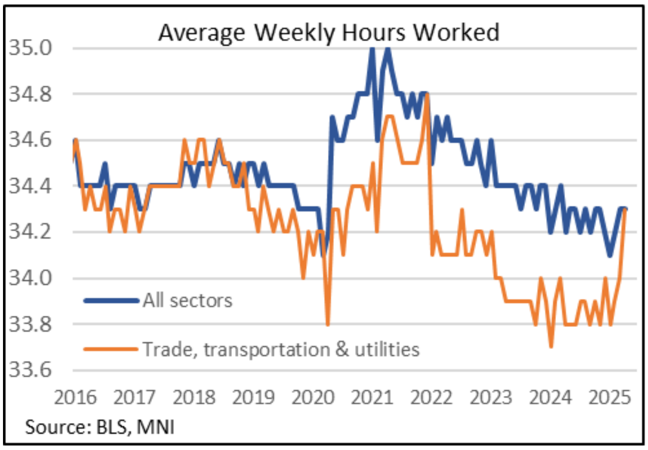
- Away from the private sector, total government jobs increased by 10k in Apr after 15k in Mar, masking a third consecutive decline in federal payrolls (-9k in Apr after -4k in Mar and -13k in Feb) as weakness continues ahead of an expected sharper rise in layoffs in September with deferred resignations.

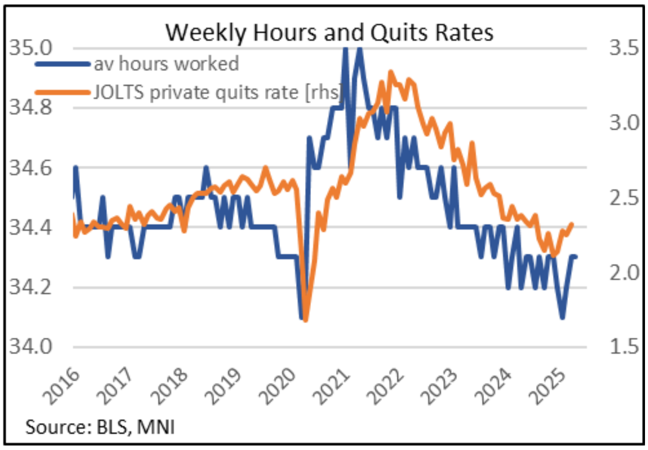




Hours Worked Show A Less Negative Picture

- One thing that is worth emphasizing in the April payrolls report is the beat for average weekly hours worked, to 34.3 (cons 34.2) from an upward revised 34.3 in March (initial 34.2) for a second monthly upward revision.
- It has left a reversal from 34.1 in Jan (joint lowest with Mar 2020 otherwise lows since 2010 in GFC recovery) on particularly adverse weather before 34.2 in Feb and then two months at 34.3.
- These are still low historically (pre-pandemic range primarily 34.4-34.5 but with a few 34.3 and 34.6 readings) but it tentatively sees a second month without signs of companies further tamping down on costs via hours offered.
- One sector particularly of note here is the broad “trade, transportation and utilities” category which has seen a 0.5hr increase to 34.3hrs since January, 0.3 of which came in April. There have been large increases for most of the categories within it such as wholesale trade, retail trade and transportation & warehousing.
- As noted earlier, transportation & warehousing saw a strong uptick in payrolls growth in April. The combination suggests little sign of immediate adverse impacts from tariffs, with likely the opposite as tariff front-running has seen surge in imports and inventories. It's an area that will we watched closely ahead.
- Back to hours worked more broadly, the move off recent, likely weather-induced, lows for hours worked also follows a bottoming in quits rates in Nov-Dec 2024.

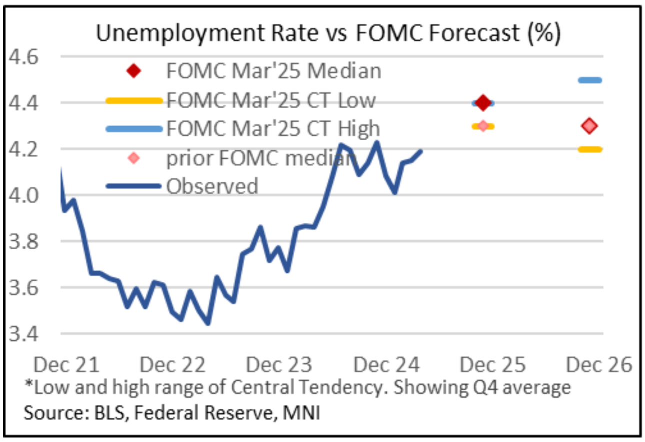


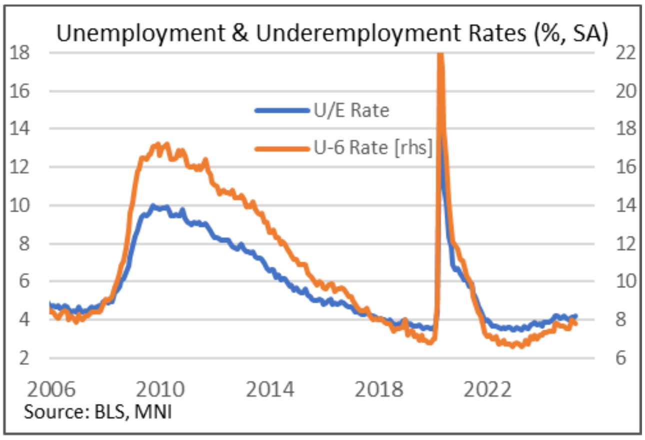


Household Survey Continues To Show Slow, Not Major Deterioration (1/2)

The major indicators in the Household Survey portion of April's employment report contained mostly positive news versus expectations. The general trend remains of a slowly loosening labor market, but there were few signs of any major deterioration at the start of the second quarter. A few observations are below:

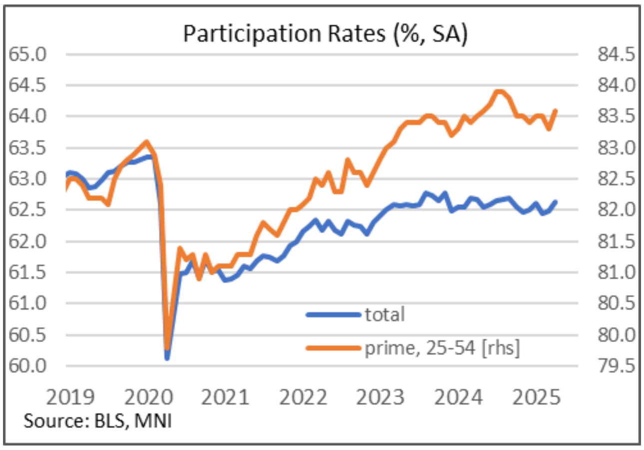
- Starting with the unemployment rate, which met consensus expectations by remaining steady at 4.2% rounded but ticking up slightly to 4.187% unrounded from 4.152% prior. This was the third unrounded increase, but those rises have been incremental and the rate remains within the range of the preceding 10 months. It keeps the rate below the FOMC's March end-year projection of 4.4%.
- Some of the calculations suggest this was a "healthy" rise in the unemployment rate. More specifically, there was an 82k rise in the number of unemployed persons (31k prior) but with the labor force rising by 518k (232k prior). The rise in the labor force was the biggest since August 2023 (excluding annual January benchmarking revisions).
- However, underlying the 82k rise in unemployed was a rise in job losers/those who completed temporary positions jumping by 140k - a 9-month high. 54k were on temporary layoff (9-month high, up from -6k prior), with those not temporarily laid off up 85k (up from 3k prior).
- Job leavers fell for a 3rd month in 4 (-15k), while defying the rise in the labor force was a 38k drop in new entrants (worst in 6 months, vs +77k prior), however there were 60k re-entrants, reversing a 32k drop prior.
- The U-6 underemployment rate ticked lower for a second consecutive month, to 7.8% (7.9% prior), continuing to improve from 8.0% at February's 40-month high.
- Those not at work due to bad weather fell to a 58k from 87k (which had been lowest for a March since 2000), almost identical to the previous April's 55k. This had been an area of some interest after March's unusually low figure but this reading doesn't look out of the ordinary.





In another sign of labor market solidity, the participation rate ticked up 0.1pp to 62.6%, suggesting that participation increased even relative to the solid rise in the labor force (the population grew by an estimated 174k vs the 518k rise in the labor force).

- The increase in the prime-age (25-54) participation rate is of particular note, jumping 0.3pp to 83.6% - a 7-month high (older employees saw slightly higher participation with those younger than prime-age seeing a pullback from March's strong rise).
- Total employment rose 436k for a 2nd consecutive gain (+201k prior) and one of the strongest in the last few years. The last 3 months have seen 49k total employment gains vs 464k in the Establishment survey.
- In a sign of some longer-term damage, though, the percent of the labor force classified as "permanent' job losers stayed at 1.1% but marked a 41-month high on



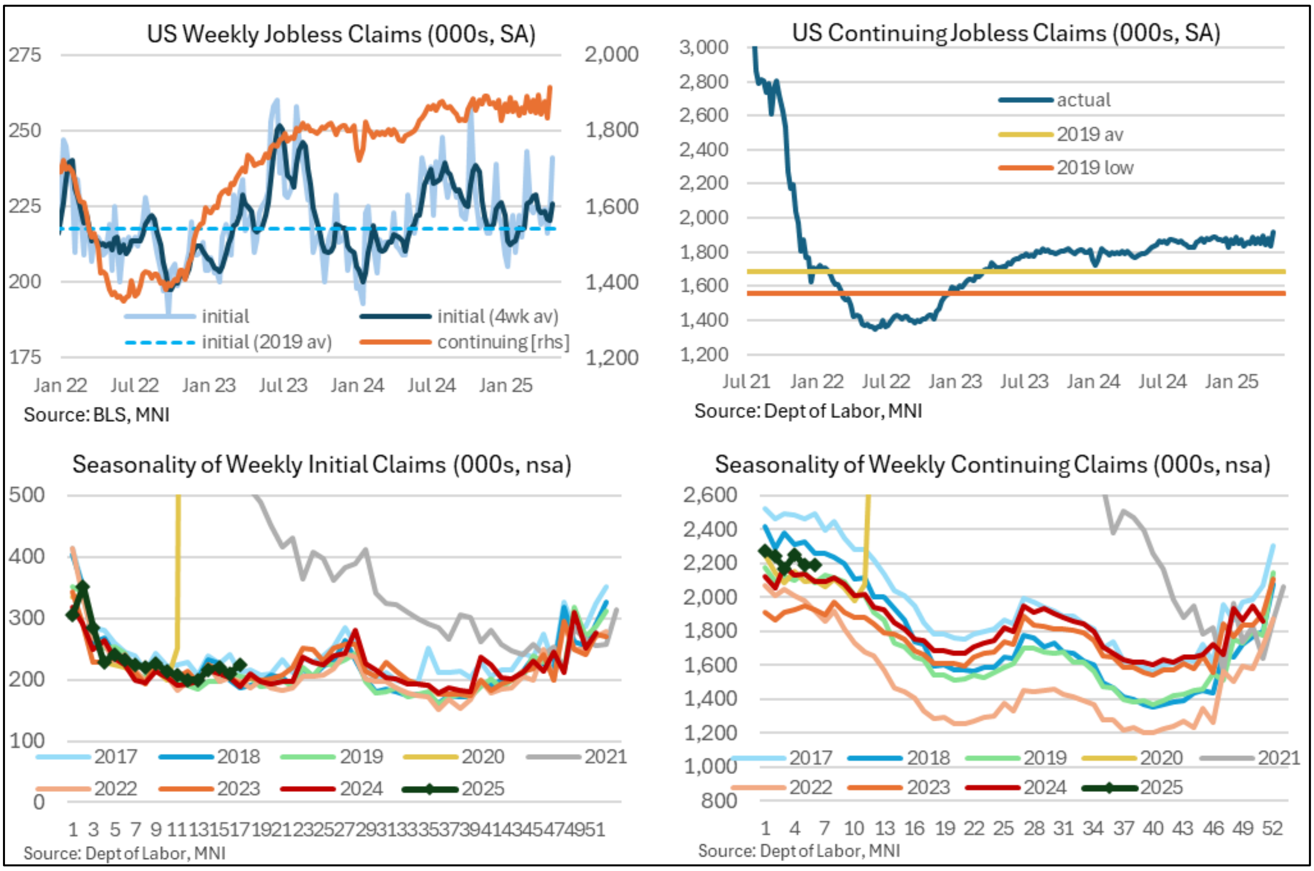
an unrounded basis, with the fourth consecutive monthly rise (+105k, most since Oct 2024).

- In more ambiguous signals from underlying measures: Part-time employment rose 56k, reversing March's 44k drop. And those working part-time for economic reasons fell by 90k after a 157k drop in March, after +460k in February, thus not adding much evidence to labor market loosening.
- From a demographic perspective, one move that stood out was the Bachelors vs non-Bachelors unemployment rate rising to 3.7pp (2.5% vs 6.2%), a 6-month high from 3.2pp prior, though it's hard to make firm conclusions on one month's move.

A Rare Surprise Higher For Initial Jobless Claims, Post-Easter Caveat

Initial jobless claims surprised higher for the first time since Feb, although with caution needed considering it's just one week of data and follows a later than usual Easter. We feel the breaking above a well-established range in continuing claims is of greater note but prior increases have seen some downward revisions.

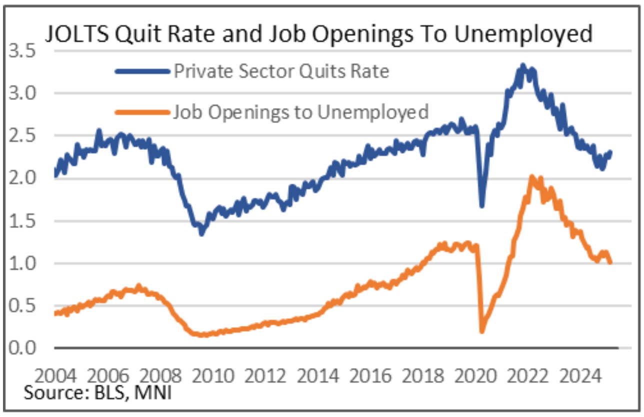
- Initial jobless claims increased to 241k (sa, cons 223k) in the week to Apr 26 after a marginally upward revised 223k (initial 222k).
- That is the first surprise higher since February after an impressive run.
- As always, take single week readings with some caution, especially considering the later timing of Easter this year, whilst noting that the four-week average of 226k. The latter is up from 221k but is still low historically (for example, it averaged 218k without controlling for strong population growth since then).
- Continuing claims meanwhile were more notable as they broke above a range established since late 2024, with 1916k (cons 1865k) in the week to Apr 19 after a downward revised 1833k (initial 1841k).
- These were last above 1900k in Nov 2021 although have had a tendency to being revised lower when probing recent highs.
- One side point ahead of tomorrow's NFP release: the downward revision to continuing claims makes for a more favorable comparison to prior payrolls reference periods. The 1833k compares with 1847k in both Mar and Feb and 1849k in Jan.



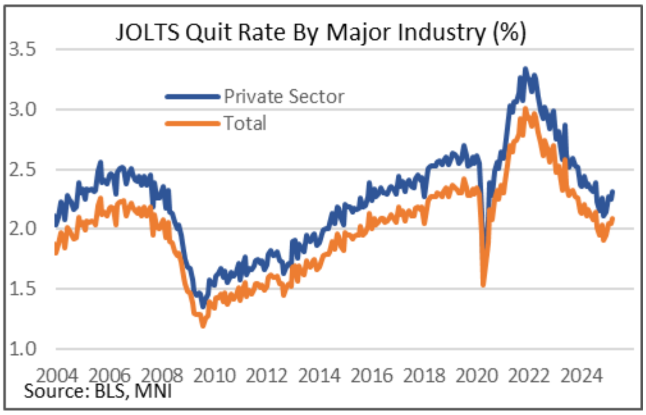
A Conflicting JOLTS Report

The JOLTS report saw a second month with lower-than-expected job openings, and this time by a greater extent in March. However, layoffs fell to their lowest since June and quit rates surprisingly inched higher, the latter still low historically but up nearly 0.2pps from November lows. These two conflicting findings should be viewed in the context of the vacancy to unemployed rate still being higher relatively than quit rates.

- Job openings fell to 7192k (sa, cons 7500k) in March after a downward revised 7480k (initial 7568k) in Feb.
- Ratio of openings to unemployed also fell to 1.02 after a downward revised 1.06 in Feb, inching below the 1.03 in September for technically the lowest since Apr 2021.
- It had averaged 1.1 through Jun 2024-Feb, between the 1.2 in 2019 and 1.0 in 2017-18.
- Hire rates continued to plateau in March, with an overall rate at 3.39% having averaged 3.38% in an extremely narrow range since October. This remains below the 3.9% averaged in 2019 and 3.8% averaged in 2017-18.
- Layoffs fell to 1558k in March from 1780k for their lowest since Jun 2024. Government layoffs edged higher to 107k after 100k in Feb (averaged 83k in 2024), indicating only modest attrition compared to more 'normal' times whilst federal layoffs fell to 8k after 19k (averaged 6k in 2024).
- Quits rates meanwhile saw what to us was a surprising increase albeit it one exaggerated by rounding, lifting to 2.09% after two months at 2.05/2.04%. It's the highest quit rate since Jul 2024, having lifted off a recent low of 1.91 in Nov, although are still low historically vs 2.3% in 2019 and 2.2% in 2017-18.
- The increase in quits was driven by the private sector (2.25 to 2.32%) whilst total government quits held at a rounded 0.8% for a fifth consecutive month. Within the latter, federal quits ticks a tenth higher to 0.5% after three months at 0.4%. That included February being revised up from 0.3% initially at what had bene a fresh low since late 2016.



Source: BLS, MNI



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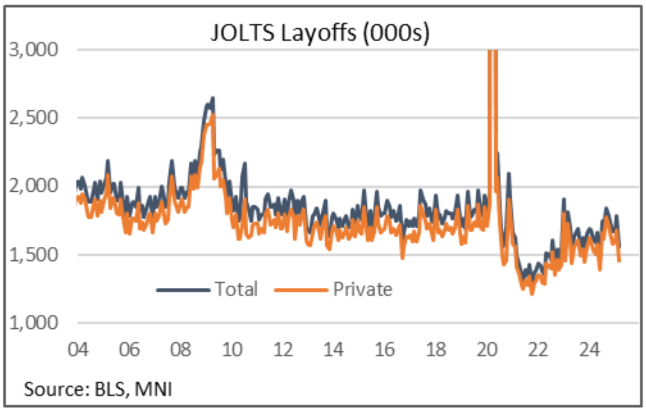
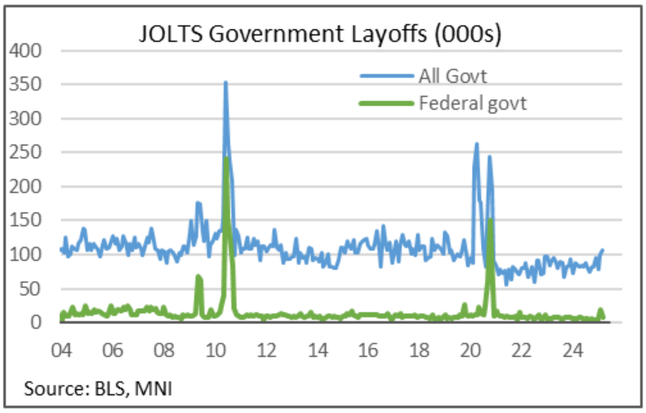


Source: BLS, MNI



Source: BLS, MNI

A more comprehensive review of the latest labor data including the nonfarm payrolls report will follow with the MNI Employment Insight.

Growth: Private Domestic Demand Solid In Q1 Amidst Likely Tariff Front-Running

Real GDP Beats Latest Tracking With Solid Private Domestic Demand

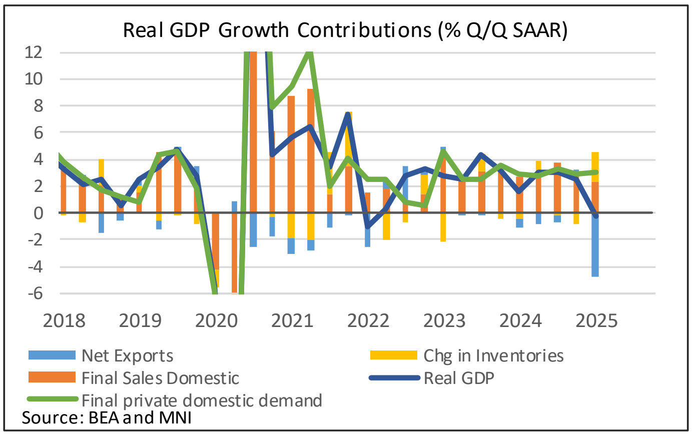
Real GDP was close to expectations in the Q1 advance, although to us that in itself was surprising as there hadn't been enough time for consensus to fully adjust to a sharp increase in consumer imports in March data released the day before on Tuesday. Hiding beneath some significant crosscurrents from net trade and inventories, private domestic demand was surprisingly little changed from its 2024 average but no doubt with question marks over the extent to which it's been boosted by tariff front-running.

- Real GDP fell -0.3% annualized vs consensus of -0.2%, a median of 26 analyst estimates updated yesterday of -0.8%, and GDPNow gold-adjusted at -1.5%.
- There were some significant crosscurrents relative to GDPNow expectations.
  - In a less positive sign, changes in inventories were much stronger than expected as they added 2.25pps to GDP (GDPNow had 0.3pp) for the largest positive contribution since 4Q21. That should be a large drag going ahead.
  - It was partly offset by an even larger drag from net exports of -4.8pp (GDPNow -4.05pp gold-adjusted). Ordinarily that surprise amidst particularly firm import growth would be a positive development but tariff front-running clouds interpretation.
- Looking through these noisier categories, underlying demand signs were encouraging with resilient consumption growth and a bounce in non-residential investment.
- Personal consumption increased 1.8% (cons 1.2), adding 1.2pp to quarterly GDP growth (GDPNow saw 0.9pp or 1.4%). That said it's still a sizeable moderation from 4.0% in Q4 and 3.1% averaged in 2024 and that's despite some likely tariff front-running.
- Non-residential investment meanwhile saw a large bounce from a weak Q4, rising 9.8% to add 1.3pp to GDP growth (strongest quarter since 2Q23) after -0.4pp.
- Government spending however was surprisingly negative on the quarter, dragging -0.25pp (GDPNow 0.3pp).
- That combination meant that final domestic demand increased 2.3% in Q1 after 3.0% in Q4 but private domestic demand impressively accelerated a touch to 3.0% in Q1 after 2.95% in Q4, having averaged 3.0% in 2024.

US Real GDP Growth and Contributions (%Q/Q SAAR)

	2Q24	3Q24	4Q24	1Q25
Real GDP	**3.0**	**3.1**	**2.45**	**-0.27**
Final Sales Dom. Purchasers	**2.8**	**3.7**	**3.02**	**2.30**
(of which Private)	**2.3**	**2.9**	**2.50**	**2.55**
Personal Cons	1.9	2.5	2.70	1.21
Gov Cons + Invt	0.5	0.9	0.52	-0.25
Fixed Invt	0.4	0.4	-0.20	1.34
non-resi	0.5	0.6	-0.41	1.29
resi	-0.1	-0.2	0.22	0.05
Chg in Inventories	1.1	-0.2	-0.84	2.25
Net Exports	-0.9	-0.4	0.26	-4.83
Exports	0.1	1.0	-0.01	0.19
Imports	-1.0	-1.4	0.27	-5.03

Source: BEA, Bloomberg, MNI



Atlanta Fed Q2 GDPNow Pulls Back On Construction and ISM Mfg

The clearly still very early days for Atlanta Fed's GDPNow estimate for Q2 has dropped sharply to 1.1% Q/Q SAAR from the initial estimate of 2.4% (-0.3% in Q1).

- As we point out below, Thursday's March construction spending report looked weak and of course the April ISM Manufacturing was contractionary.
- The latest nowcast reflects relevant downgrades across categories including sharply negative nonresidential and residential investment.
- Note that there is no longer going to be a "gold-adjusted" estimate, as was the case in Q1, because "the gold-adjusted model replaces what was the standard model with the onset of today's forecast."
- See latest breakdown of GDP growth and its key components from the GDPNow report:

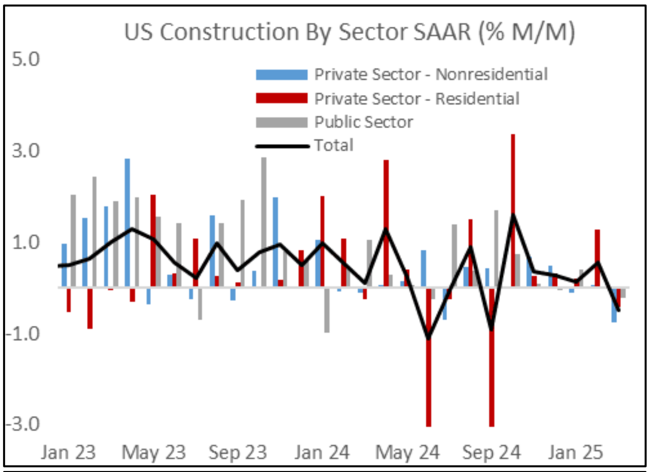
Date	Major Releases	GDP	PCE	Equip-ment	Intell. prop. prod.	Nonres. struct.	Resid. inves.	Govt.	Exports	Imports	Change in net exp.	Change in CIPI
30-Apr	Latest BEA estimate for 24:Q4	2.5	4.0	-8.7	-0.5	2.9	5.5	3.1	-0.2	-1.9	17	-49
30-Apr	Latest BEA estimate for 25:Q1	-0.3	1.8	22.5	4.1	0.4	1.3	-1.4	1.8	41.3	-322	131
30-Apr	Initial GDPNow 25:Q2 forecast	2.4	3.3	5.1	5.2	0.6	-1.0	2.4	1.9	5.4	-41	-15
1-May	ISM Manufacturing, Construction spending	1.1	1.9	2.2	5.0	-2.8	-1.5	2.3	-0.4	2.8	-31	-21

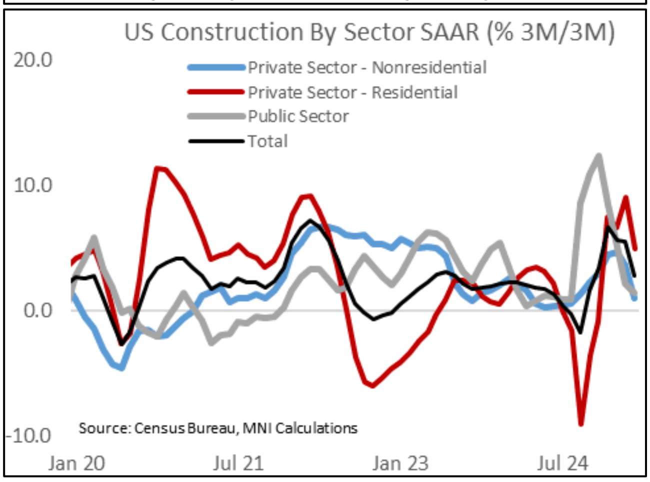
Source: Atlanta Fed

Construction Spending Flashes Slowdown Signal

Construction spending unexpectedly contracted in March, falling by 0.5% M/M (positive 0.2% expected, 0.6% prior) on a seasonally-adjusted, annualized rate basis, and in nominal USD value terms. This was the first drop since September 2024, and brought the 3M/3M rate to 2.8%, a sharp pullback from 5.6% in the prior two months.

- The headline reading was weak, but the breadth of the weakness was particularly noteworthy. There were contractions in both public sector construction, as well as each major category of private sector construction (residential, and within nonresidential both manufacturing and non-manufacturing).
- The last time that this happened was April 2020, and prior to that it was a very rare occurrence, happening just twice in the preceding decade, but before that it happened several times in 2009-10 amid the economic/residential construction collapse.
- In March, private sector construction fell by 0.6% M/M in value terms, driving the drop (it's over three-quarters of overall spend). While residential construction saw its first fall since September 2024, nonresidential remained worryingly moribund, falling the most since February 2021 (-0.8%) as manufacturing construction extended a streak of flat or negative spending to a 6th month. Meanwhile public sector construction has slowed to a 1.4% 3M/3M clip, lowest since summer 2024, and well off the double-digit rises in Oct-Nov 2024.
- On a 3M/3M annual basis, nonresidential construction is rising at just a 1.0% clip, down from 3.7% prior, with manufacturing contracting on that basis (-3.0%) the most since the pandemic in 2020. Residential construction spend remains relatively strong at 5.0% 3M/3M but this is just over half the prior month's rate.
- Note that both residential investment and nonresidential structures saw a sharp slowdown in real terms in Q1 per the advance GDP report out this week, and the trends are pointing to continued weakness into Q2. The Atlanta Fed's GDPNow is penciling in a contraction in real residential investment in Q2 (of -1.0%, after +1.3% in Q1), with nonresidential structures little changed (+0.6% after +0.4% in Q1).

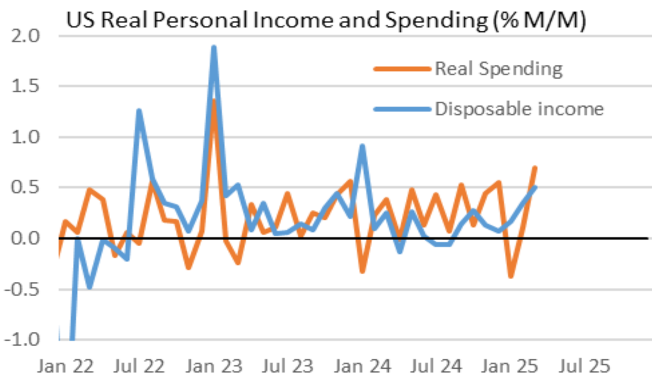




Consumer: Still Solid Numbers Despite Weaker Sentiment

PCE: Solid Income Growth Overshadowed By Tariff Impacts

March's Personal Income and Outlays report showed a strong partly tariff-related pickup in real consumption in March that couldn't offset a weaker quarter as a whole. That said, personal income dynamics were fairly robust at quarter-end, suggesting that despite collapsing sentiment, there is still scope for consumer demand to remain underpinned heading into Q2. The least we can say is that if there is a recession looming, it did not start in March based on these data.



Source: Bloomberg, MNI

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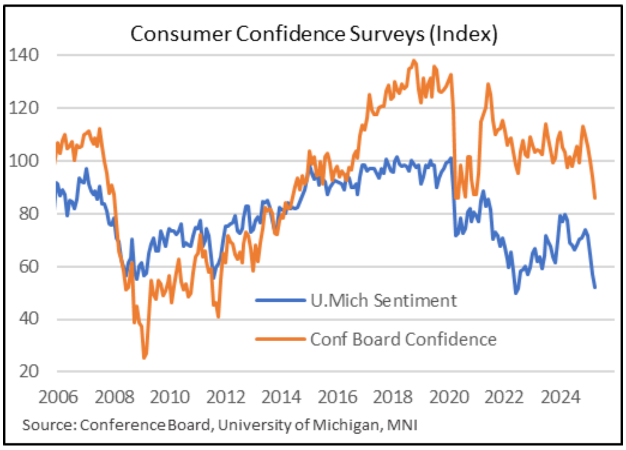
- The Q1 advance GDP report out earlier in the session already showed the slowdown in real spending in goods (0.5% 3M/3M annualized in March, slowest since April 2024) and services (2.4%, slowest since October 2023).
- However, both categories actually accelerated on a monthly basis in March, particularly goods which jumped to 1.3% M/M from 0.4% for the fastest pace since January 2023 (up from 0.4% in Feb), with services spending up from flat in Feb to +0.4% (joint-best on an unrounded basis since November 2023). Durable goods led gains (3.2% M/M after 0.5% prior, with nondurables 0.4% nominal 0.4%), in turn led by motor vehicles and parts purchases (+10.4%) - a clear sign of tariff front-running.
- The real goods figures were boosted vs the nominal gains by deflation across both durables (-0.1% M/M) and nondurables (-0.7%).
- Overall, the Q1 weakness was due to poor performances in January and February (March merely brought spending back to December 2024 levels). To put this into perspective: real spending was +1.8% Q/Q in Q1, and if the next two months come in at zero growth M/M, May's quarterly real spending growth rate will be 2.8% as Jan and Feb drop out.
- Of course as March's real vs nominal readings suggest, the big question will be how quickly and by what magnitude tariffs feed through into prices, particularly for goods.
- In the meantime, real disposable income was solid, rising by 0.5% M/M in March (0.4% prior), a 14-month best, and boosting the 3M/3M annual rate to 2.7%, an 11-month high. Nominal disposable income growth actually slowed, but as noted elsewhere inflation was benign vs Feb.
- Nominal income growth slowed to 0.5% M/M (0.7% prior), despite a pickup in employee compensation (0.5% from 0.4% prior, a 4-month best), with personal current transfer receipts pulling back to -0.3% M/M from +2.1% prior. Ex-transfer receipts, real personal income rose 0.7%, up from 0.0% prior.
- As usual we take great caution with the household savings ratio, which dipped to 3.9% in March from 4.1% prior - but the prior figure was revised down substantially from 4.6% prior, in keeping with the volatility in this series. The prior 6-month average is 3.8% so while this has fallen from 2023-24 levels, it appears to have stabilized.

Conference Board Confidence Report Sends Recessionary Warning

US consumer confidence dropped for a 5th consecutive month in April following the November peak per the Conference Board's survey, with the Composite to 86.0 (88.0 expected, 93.9 prior upwardly revised from 92.9).

- That was the lowest since May 2020, so clearly indicative of weak activity (the "present situation" index dipped just 0.9 points, to 133.5).
- But more concerning was the Expectations index falling 12.5 points to 54.4 which was the lowest level since October 2011. The report notes that this is "well below the threshold of 80 that usually signals a recession ahead".

- The report noted "the three expectation components—business conditions, employment prospects, and future income—all deteriorated sharply, reflecting pervasive pessimism about the future", with the percentage of respondents expecting fewer jobs in the next six months rising to nearly April 2009 levels (32.1%).
- On that topic, the closely-watched differential between jobs perceived as "plentiful" vs "hard to get" fell to 15.1 points (plentiful 31.7%, 2nd highest since March 2021, with hard to get 16.6%), down for the 4th consecutive month and indicative of a continued tick-up in the unemployment rate (see chart).

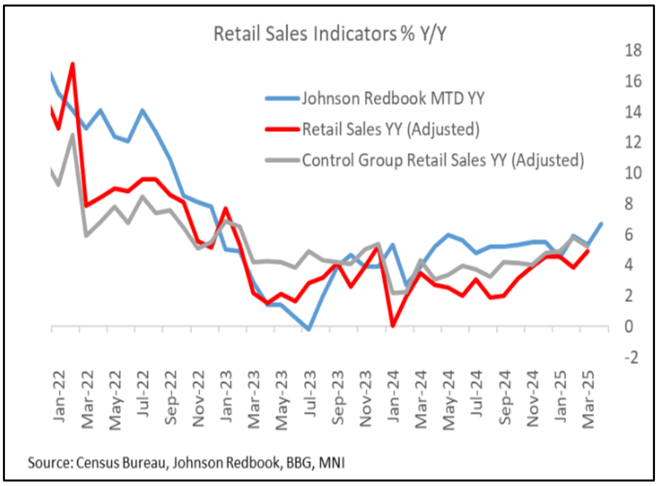


- The survey also points out that "expectations about future income prospects turned clearly negative for the first time in five years", and purchase plans deteriorated.
- It's little surprise why: "tariffs are now on top of consumers' minds, with mentions of tariffs reaching an all-time high. Consumers explicitly mentioned concerns about tariffs increasing prices and having negative impacts on the economy. Inflation and high prices remained important for consumers' views about the economy: while the majority complained about the high cost of living, there were also some references to declines in the prices of gas and some food items. There were also numerous mentions of stock prices and uncertainty."
- As such this is a report showing a very clear deterioration in expectations, though the actual current situation isn't quite as negative. The degree to which the soft data translates into the hard data over coming months is the key question, but it's clear that sentiment is consistent with recession.

Solid Redbook Retail Sales Continue To Defy Soft Survey Data

Johnson Redbook retail sales slowed slightly in the latest week, but growth remained robust overall, telling a more positive story than the "soft" survey data showing an ongoing collapse in consumer sentiment (including April's UMichigan and Conference Board reports).

- On a Y/Y basis, retail sales were up 6.1% in the week ending April 26 - a slowdown from 7.4% the week prior, but that still kept overall month-to-date sales up 6.7% (vs retailers' targeted rise of 6.4%).
- Redbook Research comments: "Sales results were impacted by the closure of some stores on Easter Sunday, leading to a comparison of six shopping days this year versus seven last year. Now that Easter has passed and with warmer weather settling in across much of the country, there are early signs of "spring fever" in sales of lawn and garden items, as well as spring apparel. Weather conditions have varied greatly; some regions enjoyed sunny and warm weather, while others experienced rain and storms. Stores relying on spring-driven apparel sales reported mixed results for the week, depending on their specific regional circumstances."



- We will wait until the coming week's sales data for a full March-April retail growth assessment (which helps mitigate the shifting Easter calendar effect), but in general it looks as though retail sales were solid through the first month of the second quarter.
- We don't get April retail sales data from the Census Bureau until May 15 (Redbook says their index captures 80% of the "official" series).

Inflation: Core PCE Confirms Moderation After Robust Jan-Feb, Expectations Continue Climb

Core PCE inflation was a little softer than expected in March at 0.03% M/M (unrounded analysts estimates had averaged 0.07) but there were upward revisions to both Feb (mostly expected after PPI but on the high end) and Jan. It left what's now a particularly strong 0.50% M/M in Feb (initial 0.365%) and 0.34% M/M in Jan (initial 0.30%).

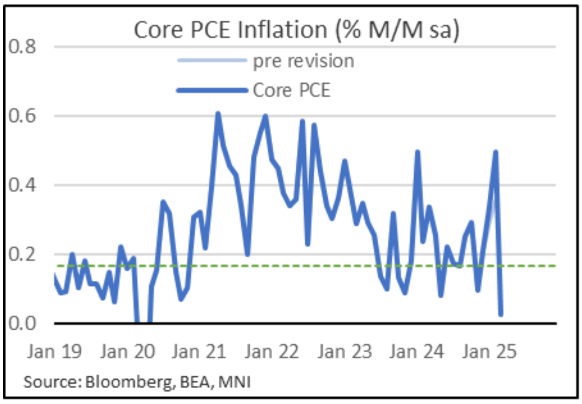
- Within the details, core services non-housing moderated to 0.044% M/M in March after a strong upward revision to 0.60% (initial 0.37) in Feb as well as 0.31% M/M in Jan (initial 0.24%). This category is hardest to estimate based off CPI/PPI/import price inputs owing to a larger degree of BEA composite calculations for some smaller series.
- The below trends show still firm recent run rates, comfortably above those of the latest Y/Ys:

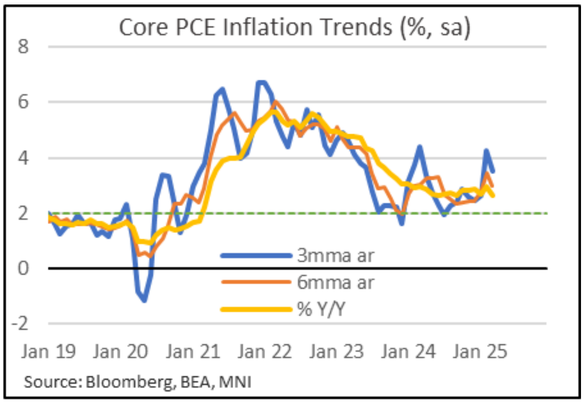
Core PCE:

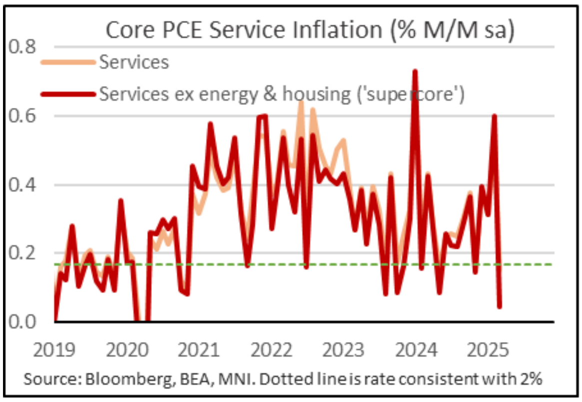
- 2.65% Y/Y drops from 2.96% in Feb for lowest since Jun 2024. However:
- 3.5% annualized over three months vs 2.4% in Dec
- 3.0% annualized over six months

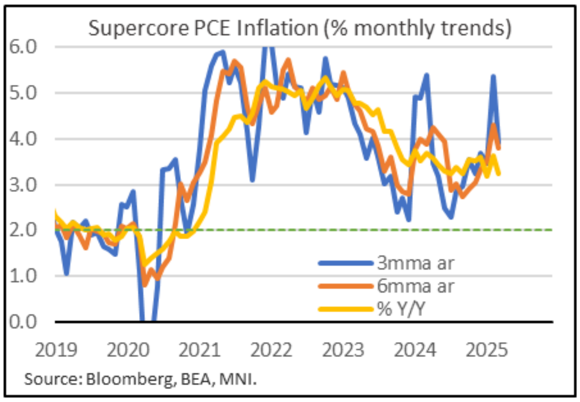
Supercore PCE:

- 3.25% Y/Y from 3.65% in Feb for lowest since Jan. Recent trends also running hotter:
- 3.9% annualized over three months vs 3.7% in Dec
- 3.8% annualized over six months



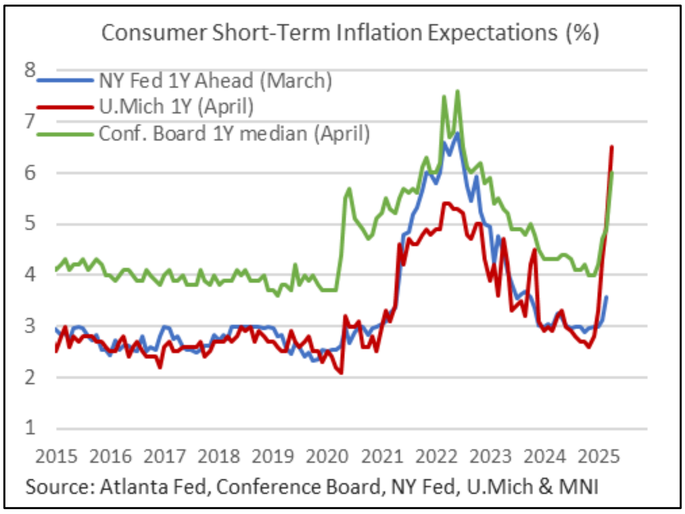






Consumers See Higher Inflation, Higher Rates, Lower Stocks

The Conference Board consumer survey suggested rising near-term inflation expectations in April, alongside an uptick in interest rate expectations and weaker equities.



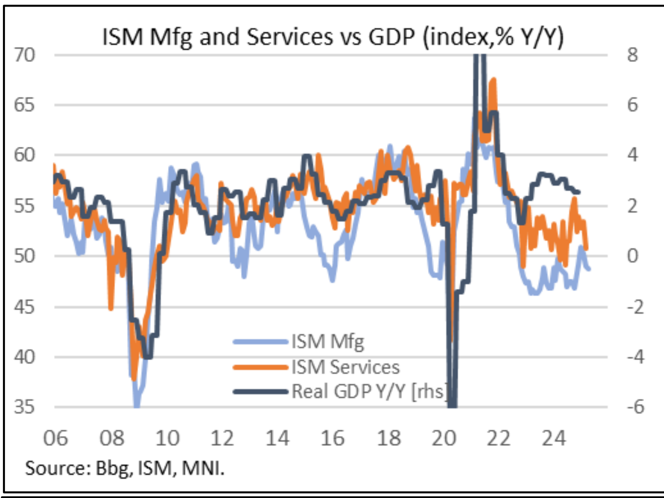
- It showed 1Y average expectations rising to 7.0%, up 1ppt from April for the highest since November 2022 (the Conference Board's survey only asks about 12-month ahead expectations). For comparison, the pre-pandemic decade average was 5.1%, so this may overstate the "actual" level of CPI expected. The median expectation was 6.0%, up 1.1ppt from March and likewise a post-Nov 2022 high.
- This was more or less in line with the 1Y UMichigan multi-decade high reading of 6.5% (up 1.5pp from Mar). That was less benign than the Conference Board's in relative terms (UMich 1Y inflation averaged 2.9% in the decade pre-pandemic).
- But clearly there has been a continued uptick in expectations, and we await the April data from the NY Fed's survey out on May 8.
- Higher inflation expectations may help explain why consumers see fewer interest rate cuts ahead. The differential between those seeing interest rates higher in 12 months (56.1%) minus lower (21.4%) was the highest (34.7pp) in 11 months (was 12.2pp at Sep 2024's 50 month low, coinciding with the Fed's 50bp cut to start the easing cycle). Note that this is still not a particularly high reading - as the chart below suggests, consumers rarely if ever see rates going lower as opposed to higher.
- In another gauge of sentiment, though potentially a contrarian one that tends to be more backward looking, the % seeing stocks higher vs lower in 12 months fell to -12.4pp, lowest since September 2022 (which proved to be the start of a prolonged rise in equities).

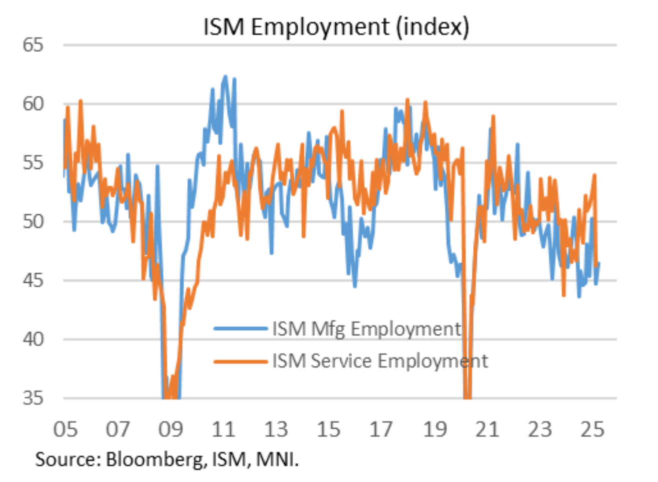
Business Sentiment: Manufacturing Contractionary But Not As Bad As Feared

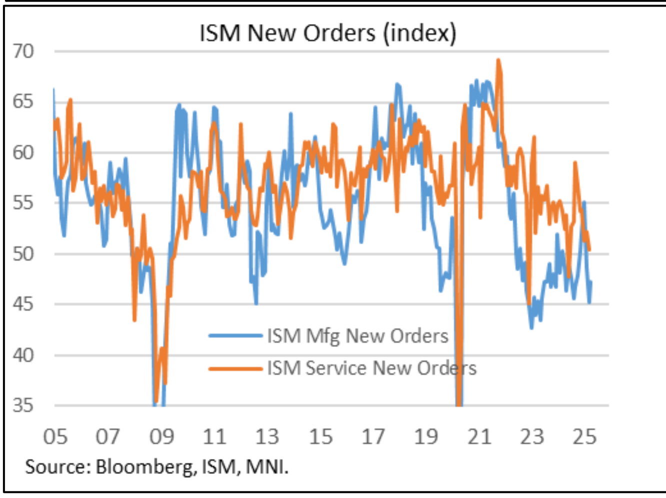
ISM Manufacturing Index Not As Bad As Feared, But Details Are Weak

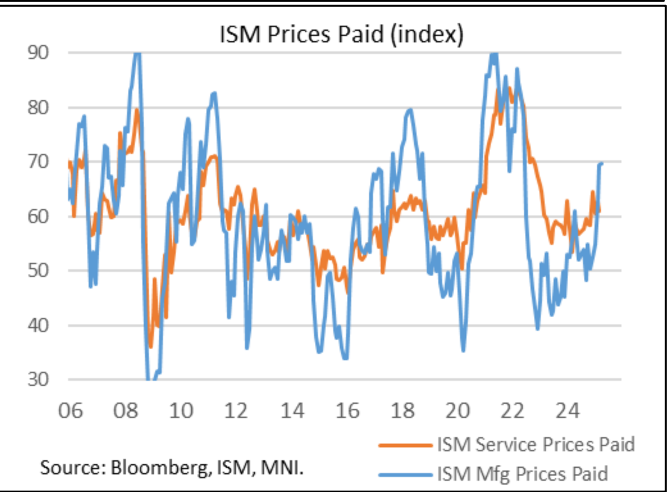
First, the good news from April's ISM Manufacturing report: the headline reading was slightly better than expected at 48.7 (47.9 expected), only a slight downtick from 49.0 in March. There were surprising improvements in both new orders (47.2 vs 45.0 expected, 45.2 prior) and employment (46.5, vs 44.6 expected and 44.7 prior).

- And price pressures didn't rise as much as expected, with the Prices Paid gauge ticking up to 69.8 from 69.4 in March (73.0 had been expected). Indeed the Regional Fed manufacturing gauges had suggested a slightly weaker headline index, with Prices Paid in the 70s.
- But beyond that, this was a very weak report that is consistent with recessionary conditions in the manufacturing sector amid policy uncertainty and a giveback of tariff-front loading production in Q1.
- While the headline index beat expectations, it was flattered by an acceleration in Supplier Deliveries (55.2 vs 53.5 prior) and a still-positive reading in Inventories (50.8 vs 53.4 prior), the 2 categories of the 5 that make up the ISM index, and as the report put it: "Slower supplier deliveries and slightly expanded inventories in April are not considered positives for the economy: Both conditions figure to be temporary and are driven by tariff concerns, either delaying buyer/seller negotiations or advancing material deliveries that will be reversed after tariffs are deployed, leading to a drawdown of manufacturing inventory."
- Inventories in particular still look like they have a large overhang after being in contractionary territory for much of 2023-24. The report notes "Inventory growth is not a positive sign when demand is moving in the opposite direction; the recent expansion is considered a temporary move to avoid tariffs, and levels will decline when such trade issues are resolved. " New Orders less inventories may have picked up from March's lows but they remain contractionary.
- The ISM overall assesses both output and demand as having "weakened" in the month. Production (-4.3 points to 44.0) and New Export Orders (-6.5 to 43.1) fell the most of any categories, both at post-May 2020 lows (ex-Covid period, export orders were the weakest since the Global Financial Crisis), while Backlogs also declined and customers' inventories remained in "too low" territory.
- On employment, the report noted somewhat ominously that "Companies generally opted for layoffs because they are quicker to implement than attrition." And prices, while not increasing as much as expected, were still the highest since June 2022.









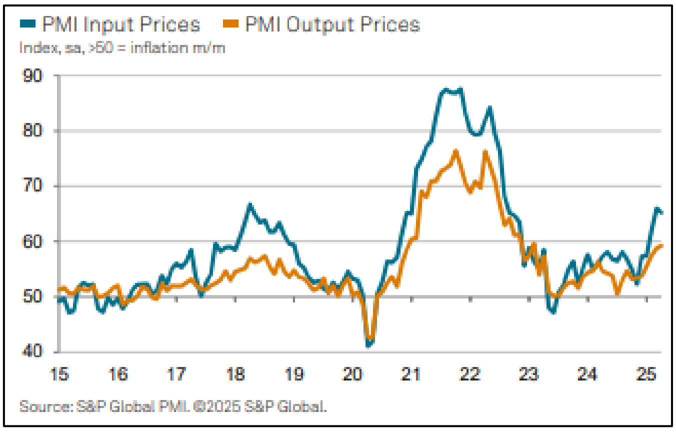
PMI Mfg Confidence Lowest Since June, Highest Inflation In >2 Years

The final manufacturing PMI for April was revised lower to leave no improvement from March, with a second month of only just >50. That does however still look more optimistic than the ISM manufacturing counterpart, at 49.0 in March and due its April release imminently. Confidence is the lowest since June whilst price pressures are clear with the fastest output charge inflation in over two years.

- US S&P Global mfg PMI: 50.2 (cons 50.5, prior 50.7) in April after 50.2 in March.
- Note that the final survey period was 9-25 Apr, for only a slight difference to the 9-22 Apr in the flash release published Apr 23.

Highlights from S&P Global press release:

- The US manufacturing sector expanded only marginally in April, amid subdued growth in new work and a further fall in output.
- Although order books were supported by domestic demand, tariffs resulted in heightened uncertainty and a noticeable drop in new export sales. Confidence in the outlook fell to its lowest since last June, while job losses were recorded for the first time in six months.
- On the price front, tariffs reportedly led to steep increases in both input costs and selling prices. Output charges notably rose to the greatest degree in over two years.



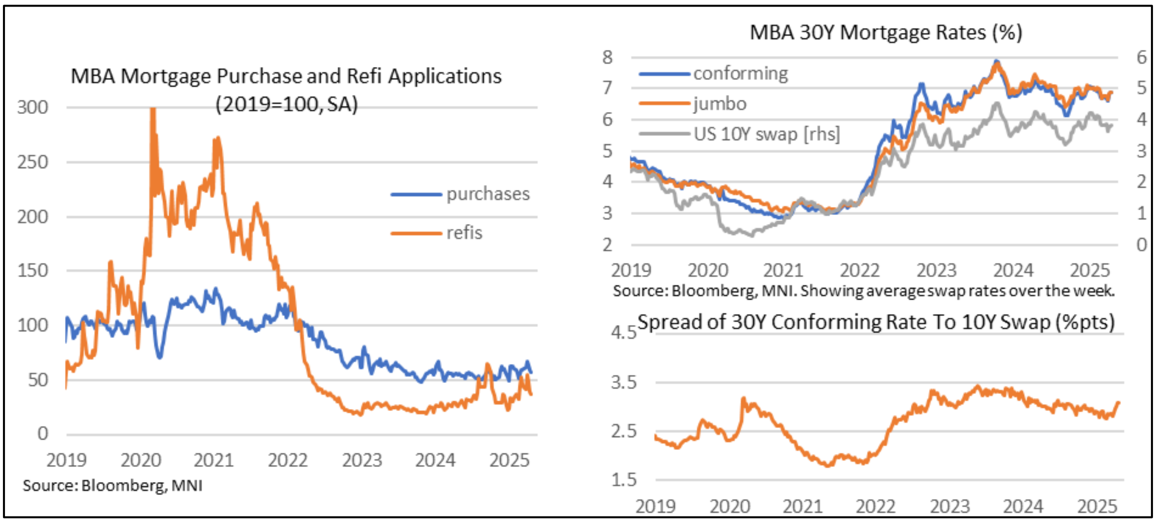
Additional comment on tariffs:

- “Tariffs were also reported to have led to some modest supply-side disruptions. Average lead times lengthened for a seventh successive month in April, and to the greatest degree for two-and-a-half years. This was despite a reduction in demand pressure as purchasing activity declined for a second month running. Some firms preferred to utilize their existing inventories in production, which helped to explain a second successive monthly reduction in stocks of purchases.”

Housing/Credit: Unsurprisingly Still Tepid Mortgage Demand

Mortgage Activity Continues To Adjust Higher Rates, Some Relief Ahead

- MBA composite mortgage applications fell -4.2% (sa) last week as they continued to adjust to higher mortgage rates.
- It follows -12.7% and -8.5% after +20% in previous weeks, leaving the level of composite applications at the lowest since January.
- Purchases led declines in latest data for once (-4.4% after -6.6%) to leave them 57% of 2019 levels, whilst refis moderated after some heavy declines (-3.7% after -20%) at 37% of 2019 levels.
- The 30Y conforming rate only dropped 1bp to 6.89% from the previous week's 6.90% being the highest since mid-Feb. It saw a low of 6.7% in the interim, driving a brief uptick in mortgage activity in the process.
- The little change in mortgage rates came as 10Y swap rates, although volatile, also saw little change on average across the week at 3.815%. It follows what has been a sizeable widening in mortgage rate swap spreads since April tariff announcements, widening from 282bps in late March to a little under 310bps in the latest two weeks.
- With 10Y swap rates currently at 3.64%, there could be some mortgage rate relief ahead.

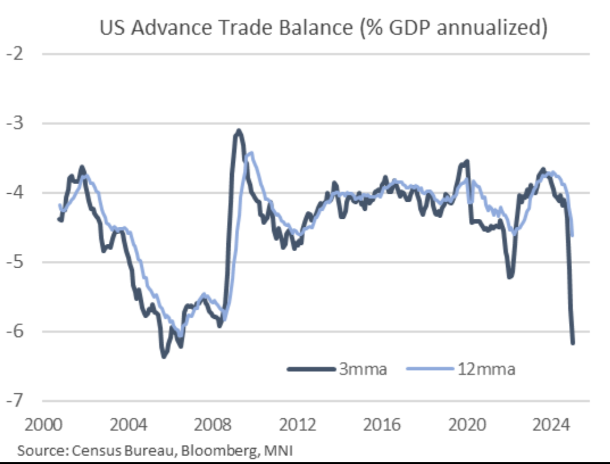


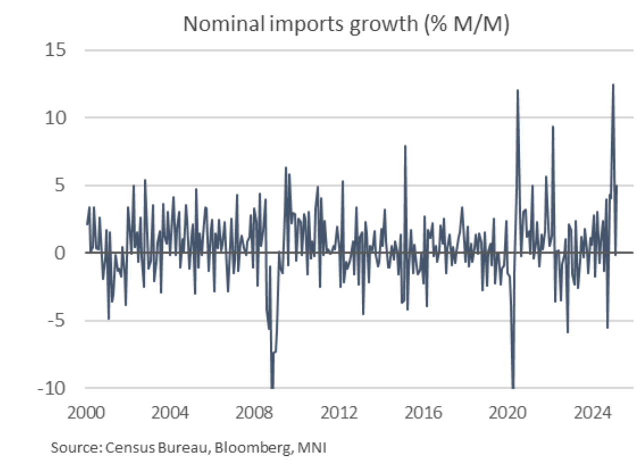
External: Another Blowout For The Trade Deficit Pre-Reciprocal Tariffs

Goods Trade Deficit Largest As % GDP Since 2006 [1/2]

- March saw a third consecutive blowout for a goods trade deficit relative to expectations, at a record $162.0bn (cons $145bn).
- It follows January’s $153.3bn (cons 116.6) and February’s $147.9bn (cons 139.0) when looking at figures at the time of release.
- The deficit stands at circa 6.2% GDP in Q1 from 4.4% GDP in Q4 and having averaged 4.0% GDP in 2024.
- The US last saw a larger deficit in 3mth % GDP terms (and only just) in the imbalances of 2005-06 ahead of the GFC.
- As there has been much focus on, a large part of this had been down to monetary gold transfers, in part from arbitrage flows, that shouldn’t show up in official GDP data.

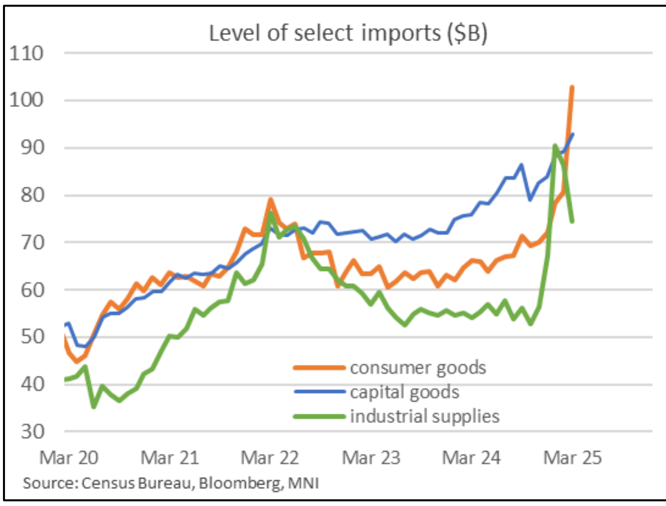
- That said, today's release also shows other signs of significant import strength in likely signs of a ramping up of tariff front-running ahead of the Apr 2 "Liberation Day" announcements that had been well touted ahead of time.

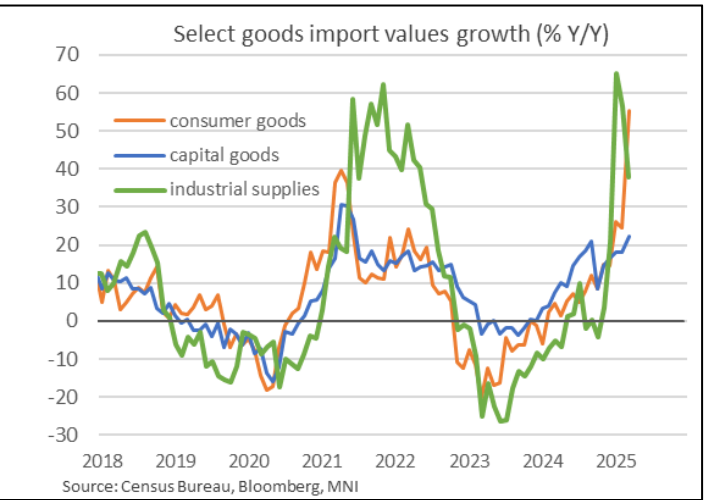


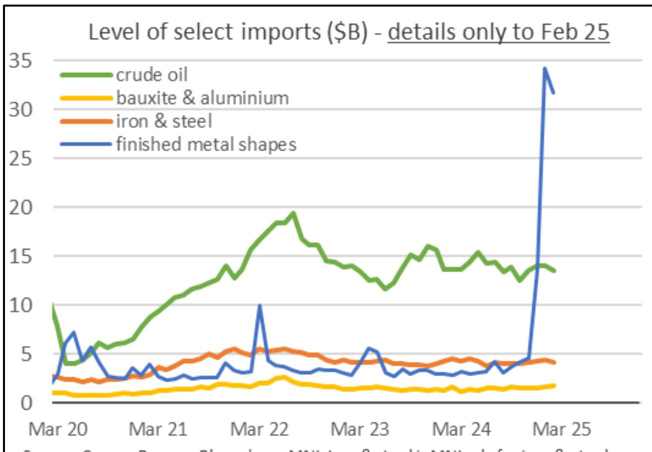


Significant Consumer Tariff Front-Running Could See GDP Tracking Slide Further [2/2]

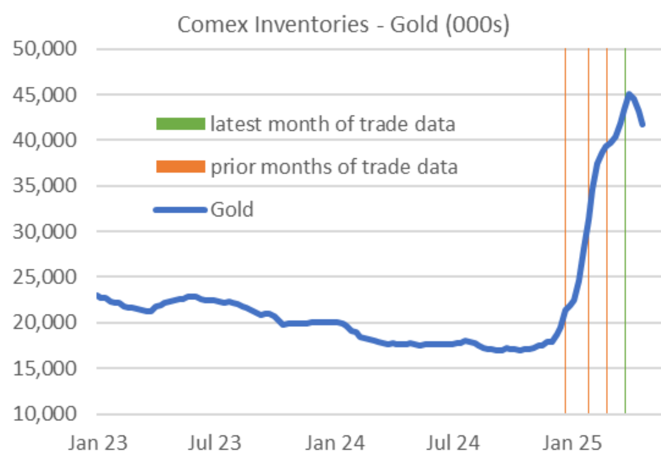
- The release details with this advance release show nominal imports jumped 5.0% M/M amidst some large conflicting flows but ones that should have negative implications for underlying GDP tracking.
- Consumer goods were the most notable, surging 27.5% M/M, which in $ terms for a cleaner comparison was $103bn in Mar after $81bn in Feb, $78bn in Jan and $67bn in 2024 (with a 2024 range of $62-72bn).
- Unless we're missing something, this should see a significant mark lower in even gold-adjusted estimates of the Atlanta Fed's GDPNow, even if only temporary if this is largely tariff front-running. GDPNow is due its final update for the quarter later today ahead of tomorrow's advance Q1 GDP release.
- Imports of autos meanwhile, a category that was harder to front-load imports earlier this year under rising threats of tariffs, also increased 6.6% M/M in March to $41bn (highest since Apr 2024).
- Imports of industrial supplies on the other hand fell -13.5% M/M but are still historically elevated. This is a broad category that includes monetary gold (which shows under finished metal shapes only available with the full release, due May 6). Industrial supply imports stood at $74.6bn in Mar, pulling back from $86.2bn in Feb and $90.4bn in Jan but still far above the $56.3bn averaged in a tight range through 2024.
- The latter doesn't appear too surprising, as the surge in Comex gold inventories slowed last month. Gold inventories increased 10% in March after 25% in Feb, 46% in Jan and 19% in Dec. Expect further moderation in this industrial supplies category ahead, with inventories -4% lower in latest data to Apr 25.
- Nominal exports meanwhile increased 1.2% M/M after 3.6% in February, with a firmly mixed bag across categories. The largest saw industrial supplies, which also includes oil, rising 3.0% M/M vs -2.5% for capital goods.







Source: Census Bureau, Bloomberg, MNI. Iron & steel is MNI calc for iron & steel advanced, mill products and products



Source: Bloomberg, MNI

STIR: Significant Hawkish Reversal After Rallying Into Major Releases

- Fed Funds futures lifted sharply off the week's dovish extremes on the not as bad as feared (but still far from strong) ISM manufacturing report before a continuation of the move on nonfarm payrolls.
- Trade talk hopes have also increased. Between the two reports, China said it is assessing US trade talks and the WSJ has subsequently said it is considering a fentanyl deal to kickstart talks.
- A next Fed cut is now only just fully priced for July (26bp vs 35bp pre-NFP and 43bp pre-ISM mfg) whilst there has been an entire 25bp cut priced out by year-end (76bp vs 91bp pre-NFP and 106bp pre-ISM).
- Barclays and Goldman Sachs both shift back calls for a next Fed cut from June to July after the payrolls report.
- Further out the curve, SOFR futures point to an implied terminal yield of 3.20% vs sub-2.9% at one point on Thursday, in the Sep 2026 contract throughout.

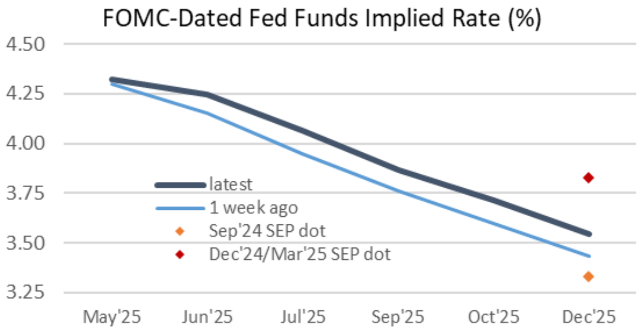
Cumulative cuts for Dec 2025 FOMC. Source: Bloomberg (Times as BST)

FOMC-dated Fed Funds futures implied rates

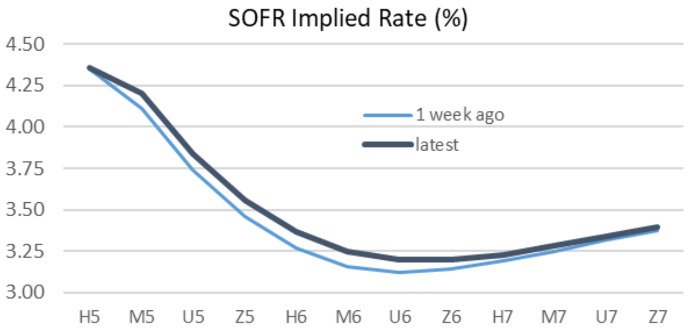
Meeting	Latest			pre NFP (May 2)			*chg in rate*	pre ISM mfg (May 1)			*chg in rate*
	%	step (bp)	cum. (bp)	%	step (bp)	cum. (bp)	*bp*	%	step (bp)	cum. (bp)	*bp*
Effective	4.33			4.33				4.33			
May'25	4.32	-1	-0.8	4.31	-2	-1.8	*1.0*	4.31	-2	-2	*1.6*
Jun'25	4.25	-8	-8.4	4.18	-13	-14.7	*6.3*	4.15	-16	-18	*9.6*
Jul'25	4.07	-18	-26.2	3.98	-21	-35.3	*9.1*	3.90	-25	-43	*16.6*
Sep'25	3.87	-20	-46.3	3.76	-22	-57.2	*10.9*	3.66	-24	-67	*20.9*
Oct'25	3.71	-15	-61.7	3.60	-16	-73.2	*11.5*	3.46	-20	-87	*25.0*
Dec'25	3.54	-17	-78.8	3.42	-18	-90.9	*12.1*	3.27	-20	-106	*27.4*

Source: Bloomberg, MNI.

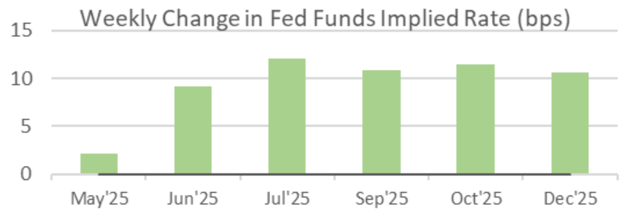
Whilst the week-on-week moves have still been large, they mask the magnitude of the intra-week shift.

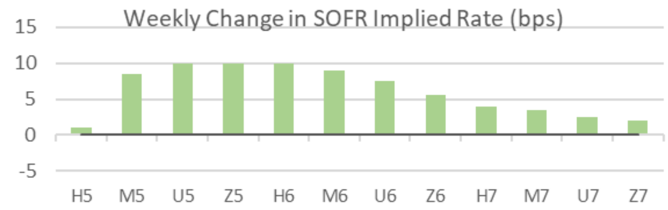


Source: Bloomberg, MNI. SEP median dot shows implied effective basis with current spread to lower bound



Source: Bloomberg, MNI.





The US Macro Week Ahead: FOMC Decision and ISM Services

The FOMC will extend its series of rate holds to a third meeting in May, keeping the Fed funds target rate at 4.25-4.50% while maintaining its forward guidance in the Statement. It has been an eventful six weeks since the prior decision which included escalation and subsequent partial backtracking in US tariff policy, and the impact of uncertainty on economic sentiment (if not yet the "hard" data). As the FOMC awaits clarity in both government policy and the data on the degree to which one if not both dual mandate targets will be missed, most participants will continue to support a holding pattern until there is a clearer signal to act. At the press conference, Chair Powell is likely to warn about the risks to both sides of the dual mandate, while saying something along the lines of "For the time being, we are well positioned to wait for greater clarity before considering any adjustments to our policy stance. We continue to analyze the incoming data, the evolving outlook, and the balance of risks." Don't anticipate any meaningful changes in the Statement, though any signal that the Fed is looking seriously at "soft" survey data to assess the outlook could be significant.

MNI's preview is here: https://media.marketnews.com/Fed_Prev_May20251_3b6325bf75.pdf

ISM Services data for April will also be of note, with a modest deterioration expected (especially given regional Fed services surveys), though perhaps it's too early for tariff impact to have fed through.

Date	ET	Impact	Event
05/05/2025	0945	***	S&P Global Services Index (final)
05/05/2025	0945	***	S&P Global US Final Composite PMI
05/05/2025	1000	***	ISM Non-Manufacturing Index
06/05/2025	-		FOMC Meeting
06/05/2025	0830	**	Trade Balance
06/05/2025	0855	**	Redbook Retail Sales Index
07/05/2025	0700	**	MBA Weekly Applications Index
07/05/2025	1000		Treasury Secretary Scott Bessent

07/05/2025 1400 ***	FOMC Statement
07/05/2025 1500 *	Consumer Credit
08/05/2025 0830 ***	Jobless Claims
08/05/2025 0830 **	Preliminary Non-Farm Productivity
08/05/2025 1000 **	Wholesale Trade
09/05/2025 0615	New York Fed's John Williams
09/05/2025 0645	Fed Governor Michael Barr
09/05/2025 0830	Fed Governor Adriana Kugler
09/05/2025 1130	New York Fed's John Williams
09/05/2025 1130	Fed Governor Christopher Waller