
May 2, 2025
Commentary

Weekly Economic Perspectives

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Weekly Highlights

Sentiment data remains weak, hard data mixed, as trade negotiations gear up.

US Real GDP (Q1, q/q, saar)

-0.3%

Nearly 5 ppt drag from trade.

US Core PCE Inflation (Mar, y/y)

2.6%

Twin-lowest since 2021.

Eurozone Real GDP (Q1, q/q)

0.4%

No details yet, but welcome!

Canada GDP (Feb, m/m)

-0.2%

Subdued activity.

UK Mortgage Approvals (Mar, thous)

64.3

Slightly lower than expected.

UK Manufacturing PMI (Apr, final)

45.4

Contraction continues.

BoJ Policy Rate (May)

0.50%

On hold, softer guidance.

JP : Consumer Confidence (Apr)

31.2 ↓

Lowest from February 2023.

AU: Retail Volumes (Q1, q/q)

0.0%

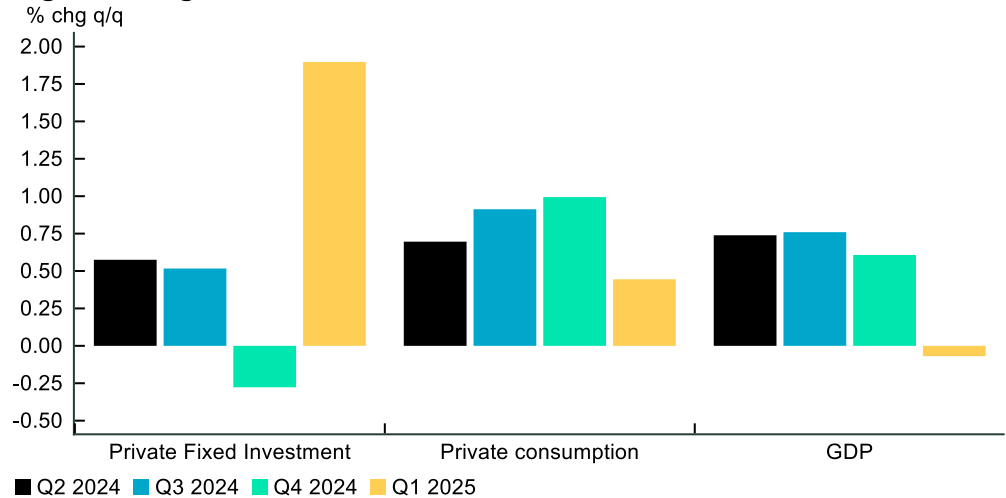
Momentum is stalling.

US: Big Distortions in Q1 GDP

The US economy contracted at a 0.3% seasonally adjusted annualized (saar) pace in the first quarter, the first such decline since the start of 2022. Given the massive crosscurrents at play, the outcome was impressively close to consensus expectations (-0.2% saar). It is, however, a very incomplete story of the underlying dynamics. In a nutshell, private consumption slowed but remained resilient, fixed investment jumped, inventories surged, and net trade collapsed. In contrast to GDP, final sales to private domestic buyers—a less volatile metric that tracks underlying domestic demand conditions—grew 3.0% saar, a tenth faster than in Q1.

Consumer spending—the backbone of the economy—grew 1.8% saar, driven heavily by services. Spending on goods was soft, up just 0.5% saar, suggesting that consumers themselves were not actively bringing forward purchases. However, spending on goods was extraordinarily strong in both Q3 and Q4 so the Q1 moderation must be understood in that context. As for the one area of goods consumption where some tariff front-running had been visible, namely motor vehicles, the surge started in March and was overwhelmed in the quarterly data by the weak January-February readings. This will likely reverse in Q2.

Figure 1: Big Distortions In US First-Quarter GDP

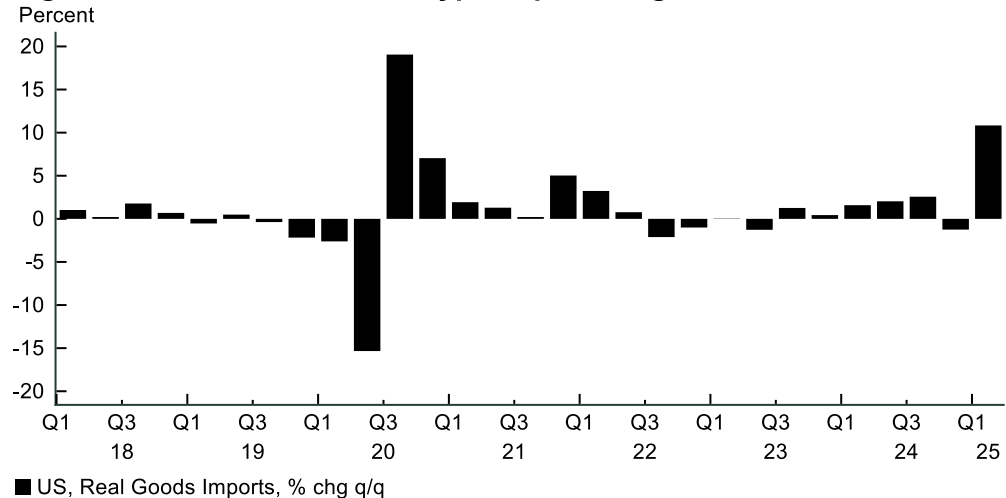


Sources: Macrobond, SSGA Economics, BEA
Updated as of 5/4/2025

In fact, the entire consumer spending dynamic for the year as a whole may prove counter intuitive. The starting point for consumer spending is so elevated that even with meager sequential readings, the 2025 average may betray much less softening than generally expected. It is why we remain materially more upbeat than consensus on 2025 consumer spending (2.4% versus 1.8% consensus) and why our full-year 2025 GDP forecast is similarly above consensus at 1.7%.

Companies, on the other hand, had been in a rush to front-run tariffs, proven by the astonishing 50.9% saar surge in goods imports in Q1 (Figure 2). This had only been topped once in the past, in Q3 2020, right after lockdowns ended.

Figure 2: Tariffs Drive Covid-Type Import Surge In US



Sources: Macrobond, SSGA Economics, BEA
Updated as of 5/4/2025

That US ports have been able to handle such a surge in traffic with no sign of stress demonstrates an admirable degree of operational efficiency that is a world apart from the Covid experience. For example, at the peak in Q4 2021, ships in the port of LA waited about a month at anchor and berth to be unloaded. In Q1 2025, the wait time was under five days; with little indication of any increase as tariffs drew near.

One wonders how Q2 will fare; given the 90-day delay in reciprocal tariffs ex-China, import flows could remain brisk for a while longer. Nonetheless, inventories surged by \$140 billion in Q1, by far the biggest accumulation outside of Covid and with the exception of seasonal consumer goods, a decent inventory cushion has probably already been built.

It is clear given the dramatic extremes witnessed already, that quarterly growth performance could be very uneven over the course of 2025. But we would not be surprised if Q1 actually marks the peak US underperformance relative to the eurozone, whose economy reportedly grew 1.4% saar in Q1.

The labor market resilience so far is welcome and supports our no recession call. The economy added 177k jobs in April, although this was accompanied by a 58k downward revision to the prior two months. There were no real surprises in the sector distribution; the unemployment rate held at 4.2%. Average hourly earnings increased 0.17 m/m, the least since February 2022, and were up 3.8% y/y. In other data, core PCE inflation eased to 2.6% y/y. While we do expect core PCE inflation to rise again towards 3.0% in Q4 as tariffs feed through the economy, we see room for the Fed to calibrate rates lower to defend both sides of the dual mandate. There is little indication of wage-related inflationary pressures and the surge in consumer inflation expectations could subside fairly quickly if trade deals are reached.

**BoE: Balance of Risk Is
More Dovish**

Given the headwinds that the UK is currently facing including major tax hikes and US tariffs, we expect that economy to build some spare capacity this year. The weaker demand outlook and trade-related disinflationary shock will allow the Bank of England (BoE) to take a more proactive approach to easing policy. We continue to expect 5 rate cuts in total this year, including one next week. Over the past few weeks, markets have also become more dovish and currently price in 4 cuts in 2025.

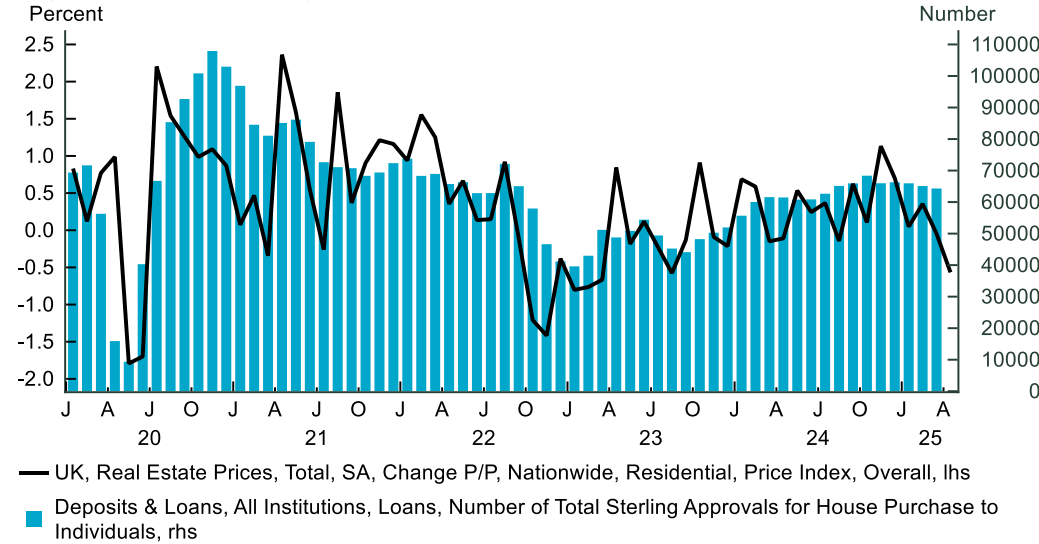
The UK economic outlook looks increasingly challenging. Government policies that increase the size of public sector are also crowding out the private sector. Major tariff announcements are denting global goods demand, with the UK seeing a sudden drop in demand from key export markets including EU, China, and US. As such, UK manufacturing activity continued to slow sharply, with the final April manufacturing PMI at 45.4, little changed from 44.9 the previous month. Businesses have reduced investments and hiring plans in anticipation of higher taxes, rising cost pressures, and lower domestic and export demands.

As a result, households have become more cautious on spending, reflecting concerns over employment outlook. Households' savings to income ratio remained elevated at 10% while consumer confidence tumbled. March data showed a strong increase of £7.4bn in households' bank deposits, although part of that rise was due to flows into cash ISA deposits on the back of speculation around the Chancellor

considering slashing the cash ISA tax-free allowance. Consumer credit also rose by £0.9bn, less than expected.

Meanwhile, the end of the increase in stamp duty thresholds triggered a surge in lending and transactions in March as buyers brought forward purchases. As such, net mortgage lending surged to £13.0 bn in March from £3.3bn previous month. We expect to see softer housing activity and prices in coming months. But longer-term, we expect the market will get healthier as lower mortgage rates and high wage growth will support housing affordability.

Figure 3: UK Housing Market As A Downside Risk



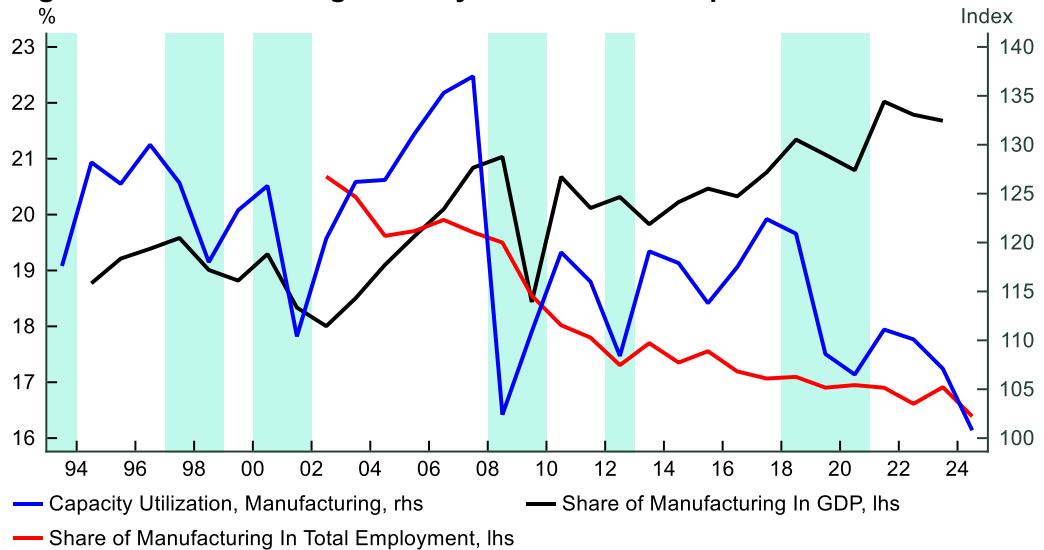
Sources: SSGA Economics, Nationwide, BoE
Updated as of 5/4/2025

BoJ: Optimism Is Underpriced

Japan's outlook is deeply intertwined with the evolving trade policy and, therefore, highly uncertain. Optimism has been building on a deal with the US that will help Japanese manufacturers (especially automakers on whom the 25% tariff applies from May 03) lessen the tariff burden.

Given how serious the US administration has been on restoring the US auto industry, Japanese automakers may be asked to move some of their production to the US for them to be exempt from auto tariffs. That may not be a bad idea in the long run, as the share of manufacturing in total employment has been declining, despite its rising share in overall GDP, justifying the also declining capacity utilization (Figure 4).

Little information has been officially confirmed but we suspect optimism is underpriced as negotiations are ongoing. Interestingly, Japan's government had pushed back on reports that FX was discussed during negotiations. However, Finance Minister Katsunobu Kato said that Japan might use its over \$1 trillion holdings of US Treasuries in negotiating, while maintaining that Japan's intentions are to ensure sufficient liquidity to conduct yen interventions if necessary.

Figure 4: Manufacturing Industry Is Critical For Japan


Sources: Macrobond, SSGA Economics, CAO, SBJ, METI
 Updated as of 5/4/2025

The Bank of Japan (BoJ) met maintained policy as widely expected at its meeting this week. However, the Outlook Report lowered growth projections but the new forecasts were in line with our recent changes. GDP is now projected to rise by 0.5% y/y this year (down from 1.1%) and 0.7% (1.0%) in 2026. The slowing growth momentum is also expected to pull inflation lower, as core CPI (excluding fresh food) is now seen rising by 1.7%, instead of 2.0% in FY 2026. At the same time, the Bank expects the global metric (excluding fresh food and energy) to rise 2.3% in 2025, up 0.2 pp from January and then slow to 1.8% next year, down 0.3 pp. The Bank acknowledged the uncertainty around these forecasts, as footnote 2 of the outlook report mentioning that future forecasts may change by large magnitude.

As our forecasts already accommodated the impact of tariffs, we maintain them. For clarity, we see our 1.1% growth forecast for 2025 has 0.2-0.5 pp downside risk, so in the worst case scenario we think growth could fall to 0.6%, a touch above the BoJ. The 2026 numbers are unchanged: 0.8% growth and 2.5% inflation. In the same vein, we also maintain our call that the BoJ may hike just once this year (more likely in Q4 now) and stay the normalization course next year, assuming a soft landing.

We agree with the BoJ that it is unwise to hike during periods of volatility, but also are optimistic that a fair trade deal may be achieved. We think the BoJ may be behind the curve and optimism on the US-Japan trade deal is underpriced. For example, Kyodo reported that the two sides will hold intense ministerial level discussion from mid-May and aiming for a June deal. With this, attention will be on the negotiations and Q1 GDP data, to be released on May 16.

Week in Review

Our summary of the key global data releases from the past week.

Country	Release (Date, format)	Consensus	Actual	Last	Comments
Monday, May 02					
No major data releases.					
Tuesday, April 29					
US	Conf. Board Consumer Confidence (Apr)	88.0	86.0	93.9	Plunging.
IT	Consumer Confidence Index (Apr)	94.1	92.7	95	Softer.
Wednesday, April 30					
US	GDP (Q1, annualized q/q, advance)	-0.2%	-0.3%	2.4%	Huge drag from imports.
US	Personal Income (Mar)	0.4%	0.5%	0.7%	Solid income, strong spending.
US	Personal Spending (Mar)	0.6%	0.7%	0.5%	Core PCE inflation down to 2.6% y/y.
CA	GDP (Feb, m/m)	0.0%	-0.2%	0.4%	Not a surprise.
UK	Nationwide House Price (Apr, m/m)	0.1%	-0.6%	0.0%	Downside risks to growth.
EC	GDP (Q1, q/q, advance)	0.2%	0.4%	0.2%	Broad geographical gains.
GE	Unemployment Rate (Apr)	6.3%	6.3%	6.2%	Closing in on Covid peak.
GE	CPI (Apr, y/y, prelim)	2.0%	2.1%	2.2%	Modest.
FR	GDP (Q1, q/q, prelim)	0.1%	0.1%	-0.1%	Weak, but at least not contracting.
FR	CPI (Apr, y/y, prelim)	0.7%	0.8%	0.8%	Soft.
IT	GDP WDA (Q1, q/q, prelim)	0.2%	0.3%	0.2%	OK.
JN	Industrial Production (Mar, m/m, prelim)	-0.4%	-1.1%	2.3%	No major disruptions due to tariffs reported.
Thursday, May 01					
US	Initial Jobless Claims (Apr 26, thous)	223	241	223	Notable rise, but will it be sustained?
US	ISM Manufacturing (Apr)	47.9	48.7	49	Soft, but not terrible.
UK	Mortgage Approvals (Mar, thous)	64.5	64.3	65.1	Buyers front-loaded purchases.
UK	Manufacturing PMI (Apr, final)	44	45.4	44.9	A slump in business confidence.
JN	Jibun Bank Japan PMI Mfg (Apr, final)	n/a	48.7	48.4	Good data!
JN	BOJ Target Rate	0.50%	0.50%	0.50%	Dovish pivot, but likely water under the bridge.
Friday, May 02					
US	Change in Nonfarm Payrolls (Apr, thous)	135	177	185 (↓)	Solid read, but sizable downside revisions.
US	Unemployment Rate (Apr)	4.2%	4.2%	4.2%	Steady, for now...
US	Factory Orders (Mar)	4.5%	4.3%	0.5% (↓)	Front-running tariffs?
US	Durable Goods Orders (Mar, final)	9.2%	9.2%	0.8%	Front-running tariffs?
GE	Manufacturing PMI (Apr, final)	48.0	48.4	48.3	Soft but not terrible.
FR	Manufacturing PMI (Apr, final)	48.2	48.7	48.5	Soft but not terrible.
IT	Manufacturing PMI (Apr)	47	49.3	46.6	Soft but not terrible.
JN	Jobless Rate (Mar)	2.4%	2.5%	2.4%	One of the lowest in the world.
AU	Retail Sales (Mar, m/m)	0.4%	0.3%	0.2%	Volumes stalled in Q1, downside risk to growth.

Source: for data, Bloomberg®; for commentary, SSGA Economics.

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* Pensions & Investments Research Center, as of December 31, 2023

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