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The U.S. economy continues to exhibit resilience, with steady job growth and moderating inflation. However, new challenges have emerged, including the implementation of significant tariffs, signs of slowing economic momentum, and a sharp decline in consumer and business sentiment.

We entered 2025 on solid economic footing, with Q4 2024 GDP growing at an annualized rate of 2.4% — a modest slowdown from 3.1% in Q3. While official figures for Q1 2025 have yet to be released, forecasters expect a sharp deceleration, with the average estimate pointing to around 0.5% annualized growth. This slowdown is largely attributed to a surge in imports that arrived ahead of newly imposed tariffs. Since imports subtract from GDP, this front-loading of trade activity is expected to significantly be a drag on headline growth.

Despite slowing economic growth, the labor market remains resilient. The March jobs report showed a gain of 228,000 jobs — well above expectations of 140,000 and the 12-month average of 158,000. The unemployment rate edged up to 4.2% from 4.1%, reflecting a continued influx of workers into the labor force. Wages rose 0.3% month-over-month and 3.8% year-over-year, comfortably outpacing inflation and supporting consumer purchasing power.

Inflation data from March showed encouraging progress. The Consumer Price Index (CPI) declined by -0.1% — the first monthly decrease since 2020 — and rose just 2.4% year-over-year, down from 2.8% in February. Core CPI, which excludes food and energy, increased 0.1% on the month and 2.8% year-over-year, marking the slowest annual pace since March 2021. The moderation was driven largely by falling energy prices and a pullback in airfare and used vehicle costs, signaling that inflation pressures are continuing to ease across key consumer categories

While headline jobs and inflation data have been mostly positive, a more troubling development is the recent decline in consumer and business sentiment. The University of Michigan's Consumer Sentiment Index fell sharply to 50.8 in the preliminary April reading, down from 57.0 in March, marking the lowest reading since mid-2022. The decline was driven by a rise in inflation expectations, with consumers anticipating one-year ahead inflation at 6.7% — the highest level of expectations since 1981. This pessimism stands in sharp contrast to the trend of moderating actual inflation. On the business side, the ISM Manufacturing Index slipped back into contraction territory at 49.0, while services activity has begun to soften. Together, these indicators suggest that although the economic fundamentals remain firm, deteriorating sentiment may pose a risk to future consumer spending and business investment.

Furthermore, the administration's enactment of new tariffs—including a 10% baseline tariff on all imports, with more punishing tariffs for China—adds another layer of uncertainty. While the situation remains dynamic and policy continues to change, these measures are likely to weigh further on consumer and business sentiment, dampen economic growth in the near term, and put upward pressure on inflation.

Since the announcement of new tariffs in early April 2025, financial markets have experienced renewed volatility across both equities and bonds, prompting notable shifts in the yield curve. Short-term interest rates have been relatively stable, anchored by the Federal Reserve's decision to maintain the federal funds rate at 4.25%–4.50% since its last cut in December. In contrast, long-term yields have surged amid a sharp selloff in Treasuries. The 10-year Treasury yield rose from 4.01% on April 4 to 4.48% as of Friday. This steepening of the curve, while sometimes a signal of improving growth expectations, in this case reflects investor concerns about renewed inflationary pressures stemming from tariff-related policy changes. Market pricing now reflects a more cautious outlook on rate cuts, with expectations for only one to two additional cuts by year-end, depending on inflation dynamics and economic momentum.

Taken together, the data paints a picture of an economy at an inflection point. While core fundamentals remain healthy, mounting policy uncertainty, eroding sentiment, and relatively tight monetary policy threaten to undermine the soft-landing narrative. Much will depend on how consumers, businesses, and policymakers respond in the months ahead. The path forward is still open, but the margin for error is narrowing.

ECONOMIC CHARTS