

Q1 2025 Economic Overview

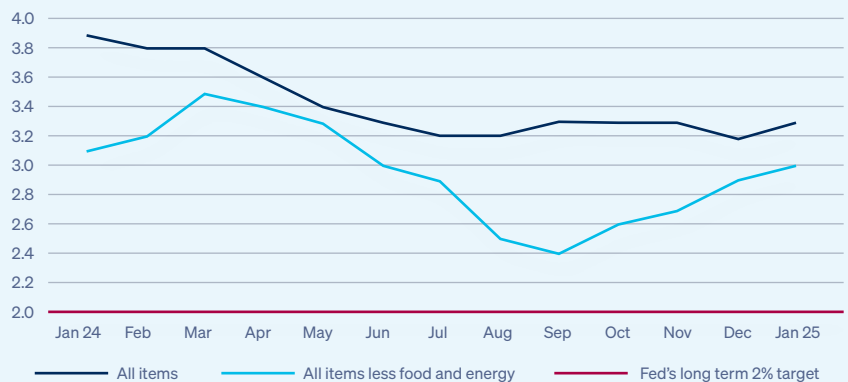
The outlooks for the U.S. and global economies in 2025 remain positive, U.S. consumer confidence weakened significantly in February, weighing on growth forecasts and opening the door for three Fed rate cuts in 2025. Trade and tariff policies also present significant uncertainty and growing downside risks for the U.S. economy and financial markets.

U.S. Real GDP growth decelerated in Q4 2024 to 2.3%, following a strong 3.1% in Q3 2024. A decline in inventories was the main cause of the slowdown in growth. Around 69.2% of Q4 2024 GDP was consumption, which is why solid jobs and consumer data are supporting growth. The U.S. labor market is solid, with low jobless claims, an unemployment rate of only 4.0% in January, and 7.6 million open jobs in December 2024. U.S. consumer debt delinquencies were only 3.6% in Q4 2024.

Inflation and Fed Policy: January 2025 year-on-year inflation rates were 3.0% for Total CPI and 3.3% for Core CPI. Total year-on-year CPI and PCE consumer inflation rates are likely to fall to the Fed's 2% target in 2025. December 2024 Fed projections imply only two rate cuts in 2025. However, the reality will depend greatly on forthcoming inflation and growth data. If growth and inflation slow, the Fed would have the license to cut interest rates more than their December projections imply.

U.S. CPI Year-on-Year Rates +3.0% (Total) and +3.3% (Core)-Jan 2025

12-month percent change in CPI for all urban consumers (CPI-U), not seasonally adjusted, Jan. 2024-Jan. 2025 percent change



Sources: Bureau of Labor Statistics, Prestige Economics

Economic data and economic forecasts

economic forecasts	Quarterly Forecasts				Annual Historical Data						Annual Forecasts		
	25 Q1	25 Q2	25 Q3	25 Q4	2019	2020	2021	2022	2023	2024	2025	2026	2027
Real GDP (Year-over-Year)	2.5	2.2	1.9	2.0	3.2	-1.1	5.4	0.7	3.1	2.8	2.2	2.6	2.7
Real GDP (Quarter-over-Quarter)	1.7	1.7	2.0	2.4									
Unemployment Rate	4.3	4.4	4.4	4.5	3.7	8.1	5.4	3.6	3.6	4.0	4.4	4.6	4.3
Consumer Price Index	2.6	2.2	2.5	2.5	1.8	1.3	4.7	8.0	4.1	2.9	2.4	2.0	2.5
Core Consumer Price Index	2.9	2.5	2.6	2.4	2.2	1.7	3.6	6.1	4.8	3.4	2.6	2.0	2.2
Fed Funds Rate (Upper Limit)	4.50	4.25	4.00	3.75	1.75	0.25	0.25	4.50	5.50	4.50	3.75	3.00	3.00

Sources: Federal Reserve, Bureau of Economic Analysis, Bureau of Labor Statistics, Prestige Economics



Housing overview

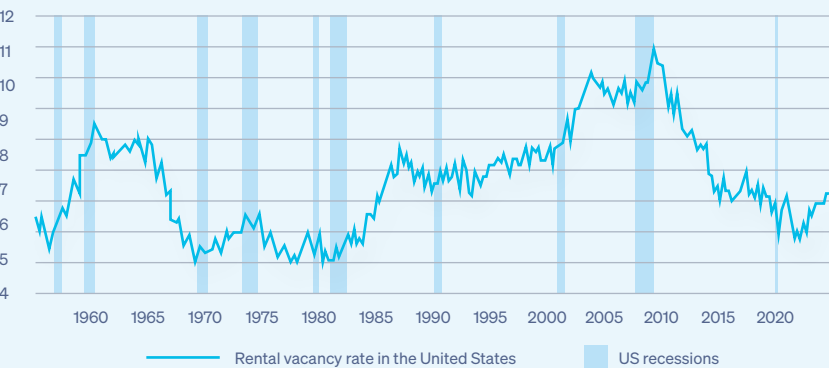
Overall, 2024 reflected a cooling housing market, with lower construction activity, declining multifamily starts, and rising inventories. However, single-family home sales have shown some resilience, suggesting that while demand has softened, it has not disappeared entirely.

Total housing starts in 2024 slowed to an average 1.365 million, marking a continued decline from the 2021 peak of 1.605 million. The slowdown reflects reduced construction activity, likely due to higher interest rates and weaker demand. Similarly, housing starts for multifamily units (5 or more units) have dropped significantly to an estimated 337,000 in 2024, down from 459,000 in 2023 and a high of 530,000 in 2021. The multifamily sector, which had been booming due to demand for apartments, appears to be cooling.

Building permits, a forward-looking indicator of construction activity, are also on a downward trend, falling from 1.738 million in 2021 to 1.462 million in 2024. While still above pre-pandemic levels, this suggests a continued slowdown in new construction planning. Similarly, building starts for multifamily units dropped to 431,000 in 2024, reflecting reduced investment in large projects.

Rental vacancy rates in 2024 rose 6.8%, representing an acceleration from the 2023 rate of 6.5% and the 2022 low of 5.8%. Moreover, the 2024 vacancy rate is the highest since 2019. This suggests a stabilization in rental markets after a period of lower vacancies during the post-pandemic housing boom. If rental vacancies fall further, as data in the second half of 2024 directionally imply, rents are likely under additional pressure.

Rental Vacancies at 6.9% in Q4 2024



Source: US Census Bureau via FRED®

Housing data

	Quarterly Historical Data				Annual Historical Data					
	24 Q1	24 Q2	24 Q3	24 Q4	2019	2020	2021	2022	2023	2024
Rental Vacancies Percentage vacant	6.6%	6.6%	6.9%	6.9%	6.8%	6.3%	6.1%	5.8%	6.5%	6.8%
Total Housing Starts, Total Thousands, seasonally adjusted annual rate	1407	1340	1332	1379	1292	1394	1605	1552	1421	1365
Housing Starts, 5 units or more Thousands, seasonally adjusted annual rate	331	323	337	356	390	381	462	530	459	337
Building Permits Thousands, seasonally adjusted annual rate	1519	1431	1434	1465	1387	1478	1738	1682	1518	1462
Building Starts, 5 units or more Thousands, seasonally adjusted annual rate	451	420	422	430	480	442	566	653	541	431
New Single-family home sales Thousands, seasonally adjusted annual rate	663	693	708	662	685	831	770	637	666	682
New Single-family home sales inventories Monthly supply	8.4	8.1	8.0	8.9	5.8	4.6	5.5	8.5	7.9	8.3

Sources: U.S. Census Bureau, Prestige Economics



Spending & cost overview

Overall, 2024 was a year of steady but moderate economic growth. While personal spending, income, and wages rose, their growth rates stabilized compared to previous years. Construction spending remained strong but expanded at a slower pace, and material costs rebounded after a decline in 2023. The economy appears to be transitioning to a more sustainable growth pattern.

In 2024, there was steady consumer demand and income growth, albeit at a more moderate pace than in the years following the pandemic. Personal spending grew by 5.3%, a slight slowdown from the 6.4% increase in 2023 but still stronger than the pre-pandemic rate of 3.6% in 2019. Personal income rose by 5.5%, slowing slightly from 5.9% in 2023 and well below the 9.2% peak seen in 2021.

Wages in the private sector continued to rise, with average hourly earnings rising to \$35.06 in 2024, up from \$33.70 in 2023. However, the pace of wage growth slowed to 4.0% year-over-year, down from 5.4% in 2022. While wages have increased over the years, the pace of growth is stabilizing.

Construction materials costs (PPI) fell by 1.0% in 2024, a slowing pace of decline from 2.9% in 2023. This follows significant volatility in prior years, including a sharp 26.9% rise in 2021. While price pressures in the construction sector appear to be stabilizing, materials costs remain an important factor for builders and developers. Construction spending was also strong at \$2.16 trillion in 2024, continuing an upward trend from \$2.02 trillion in 2023. However, the year-over-year growth rate of 6.6% reflects a continued moderation from the rapid 14.9% surge seen in 2022.

Spending and cost data

	Quarterly Historical Data				Annual Historical Data					
	24 Q1	24 Q2	24 Q3	24 Q4	2019	2020	2021	2022	2023	2024
Personal Spending Year-on-year percent change	5.0%	5.3%	5.3%	5.7%	3.6%	-1.5%	13.3%	9.8%	6.4%	5.3%
Personal Income Year-on-year percent change	5.9%	5.5%	5.2%	5.4%	4.8%	6.8%	9.2%	3.1%	5.9%	5.5%
Average Hourly Wages, Total Private US Dollars	\$34.56	\$34.88	\$35.21	\$35.60	\$28.00	\$29.36	\$30.62	\$32.27	\$33.70	\$35.06
Average Hourly Wages, Total Private Year-on-year percent change	4.2%	4.0%	3.8%	4.1%	3.3%	4.9%	4.3%	5.4%	4.4%	4.0%
Construction Spending Billions, seasonally adjusted annual rate	\$2.13	\$2.16	\$2.15	\$2.18	\$1.39	\$1.50	\$1.65	\$1.90	\$2.02	\$2.16
Construction Spending Year-on-year percent change	9.4%	7.5%	5.2%	4.6%	4.2%	7.9%	10.3%	14.9%	6.4%	6.6%
30-Year Mortgage Fixed Rates Average percent	6.75%	7.00%	6.51%	6.63%	3.94%	3.11%	2.96%	5.34%	6.81%	6.72%
Construction Materials Costs (PPI) Year-on-year percent change	1.4%	-2.0%	-2.6%	-0.6%	0.0%	1.5%	26.9%	12.6%	-2.9%	-1.0%

Sources: U.S. Bureau of Economic Analysis, U.S. Census Bureau, U.S. Bureau of Labor Statistics, Prestige Economics



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