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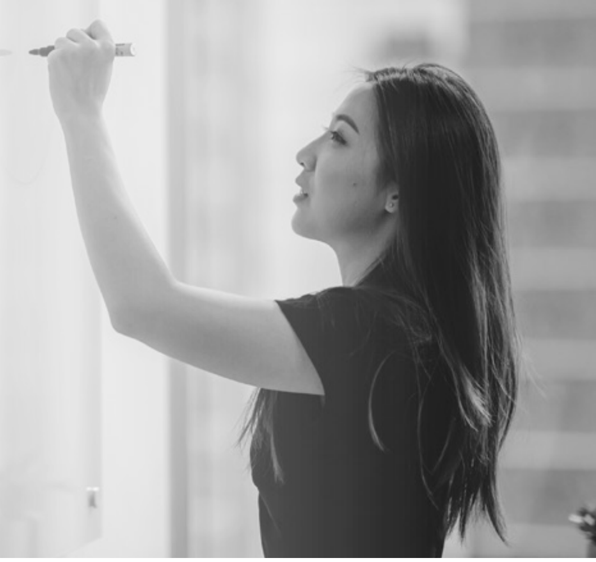


Q2 2025 Economic Overview

Presented by Amwins & Prestige Economics

U.S. consumer confidence weakened significantly over the past three months, weighing on the growth outlook and financial markets. Trade and tariff policies present further uncertainty, downside market risks, and even recession risks. In April 2025, IMF growth forecasts were revised sharply lower. These forecasts reflect expectations that global GDP growth is likely to rise by 2.4% in 2025 and 3.0% in 2026 after growing 3.5% in 2024. Many central banks are likely to cut policy interest rates through the end of 2026 to support growth.

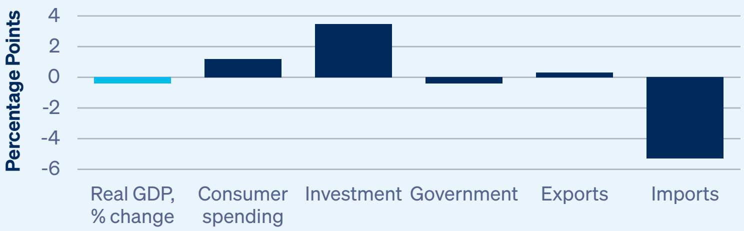
U.S. Real GDP growth contracted slightly in Q1 2025 by -0.3%, driven largely by a surge in imports by companies trying to front-run the U.S. tariff announcements on April 2. A likely drop in Q2 imports seems poised to support Q2 2025 GDP growth. Around 69.5% of Q1 2025 GDP was consumption, which is why solid jobs have been supporting growth. The unemployment rate was a low 4.2% in April, and there were almost 7.2 million open jobs in March. U.S. consumer debt delinquencies rose to 4.35% in Q1 2025, which remains very low historically.

Year-on-year consumer inflation remains elevated.

April 2025 year-on-year inflation rates were 2.3% for Total CPI and 2.8% for Core CPI. Total CPI and PCE inflation rates could fall to the Fed's 2% target, although tariffs present upside risks to inflation. The Fed is taking a wait-and-see approach, as evidenced by the Fed Chair's use of the phrase "wait and see" 11 times in the May Fed decision press conference. FOMC projections imply only two rate cuts in 2025, but the reality will depend greatly on forthcoming inflation data.

Q1 2025 U.S. Real GDP was weighed down by imports

Contributions to percent change in Real GDP, 1st quarter 2025, Real GDP decreased 0.3%



Sources: Bureau of Labor Statistics, Prestige Economics

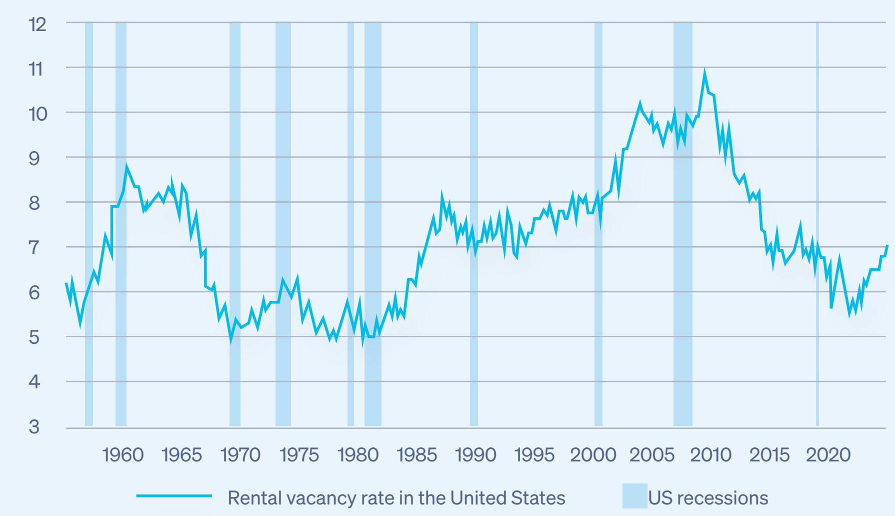
Economic data and economic forecasts

	Quarterly Forecasts					Annual Historical Data						Annual Forecasts		
	25 Q1	25 Q2	25 Q3	25 Q4	26 Q1	2019	2020	2021	2022	2023	2024	2025	2026	2027
Real GDP (Y-over-Y)	2.0	1.6	1.0	0.7	1.4	2.6	-2.2	6.1	2.5	2.9	2.8	1.3	2.0	2.8
Real GDP (Q-over-Q)	-0.3	1.3	0.5	1.4	2.2									
Unemployment Rate	4.1	4.2	4.3	4.4	4.5	3.7	8.1	5.4	3.6	3.6	4.0	4.3	4.5	4.4
Consumer Price Index	2.7	2.0	2.1	2.1	1.6	1.8	1.3	4.7	8.0	4.1	3.0	2.2	2.0	2.5
Core Consumer Price Index	3.1	2.6	2.5	2.4	2.0	2.2	1.7	3.6	6.2	4.8	3.4	2.6	2.0	2.2
Fed Funds Rate (Upper Limit)	4.50	4.50	4.00	3.75	3.50	1.75	0.25	0.25	4.50	5.50	4.50	3.75	3.25	3.25

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

The rental vacancy rate for Q1 2025 rose to 7.1%, the highest rate since Q3 2018. Rental vacancy rates have been on the rise over the past few years, including the annual vacancy rate in 2024 of 6.8%, the highest since 2019. The rise in vacancy rates suggests a stabilization and potential softening for rental markets after a period of lower vacancies in the post-pandemic housing boom. If rental vacancies rise further, as recent data directionally imply, rents are likely to come under additional pressure.

Rental Vacancies at 7.1% in Q1 2025



Source: US Census Bureau via FRED®

Housing overview

Relatively high interest rates and high real estate prices appear to still be holding back the housing sector. The U.S. housing market has been cooling in recent years, although there were some key improvements in Q1 2025.

Total housing starts and building permits improved modestly in Q1 2025, while multifamily housing starts (with five or more units) also improved, along with new single-family home sales. On the downside, multifamily building permits (with five or more units) slowed further in Q1 2025, and the months supply of new single-family homes for sale in inventory rose to 8.8 months. Construction spending increased in Q1 2025 to over $2.2 billion, representing a year-on-year increase of 3.2%, although this pace slowed from 4.6% in Q4 2024.

For multifamily housing (with five or more units), starts and building permits remain relatively low despite the improvement in Q1 2025 multifamily starts. These dynamics reflect that the multifamily housing market appears to have cooled, with low or reduced investment in large projects.

Housing data

	Quarterly Historical Data				Annual Historical Data					
	24 Q2	24 Q3	24 Q4	25 Q1	2019	2020	2021	2022	2023	2024
Rental Vacancies Percentage Vacant	6.6%	6.9%	6.9%	7.1%	6.8%	6.3%	6.1%	5.8%	6.5%	6.8%
Total Housing Starts Thousands, seasonally adjusted annual rate	1340	1332	1392	1393	1292	1394	1605	1552	1421	1365
Housing Starts, 5 units or more Thousands, seasonally adjusted annual rate	323	337	354	359	390	381	462	530	459	337
Building Permits Thousands, seasonally adjusted annual rate	1431	1434	1465	1466	1387	1478	1738	1682	1518	1462
Building Permits, 5 Units or More Thousands, seasonally adjusted annual rate	420	422	430	421	480	442	566	653	541	431
New Single-Family Home Sales Thousands, Seasonally Adjusted Annual Rate	693	708	673	684	685	831	770	637	666	682
New Single-family home sales inventories Monthly supply	8.1	8.0	8.7	8.8	5.8	4.6	5.5	8.5	7.9	8.3

Sources: U.S. Census Bureau, Prestige Economics

Spending & cost overview

Personal spending was solid in Q1 2025, rising by 5.7%. This was the same solid pace seen in the prior quarter and higher than the average 5.3% year-on-year pace for all of 2024. This solid pace of consumer demand is supported by a solid labor market and positive wage growth.

Personal Income was up by a solid 4.3% year on year in Q1 2025. This pace represented a significant slowing from 5.0% in Q4 2024, although 4.3% is still quite positive.

Average hourly wages continued rising in Q1 2025 to $35.91 per hour for all private sector workers. Despite the continued rise in absolute wages, there was a deceleration in the year-on-year pace of wage growth, which slowed to 3.9% year on year in Q1 2025 from 4.1% in Q4 2024.

Construction materials costs (PPI) fell by -1.4% year on year in Q1 2025, a quicker pace of decline from the -0.6% year on year cost drop in Q4 2024. Following significant volatility in cost pressures in recent years, price pressures in the construction sector have stabilized and fallen slightly. However, price dynamics could change swiftly depending on trade policy and tariffs.

Despite the decline in Q1 2025 GDP, there were critical positive contributions to Q1 growth from consumption and investment categories. Trade policy and tariff uncertainties present significant risks. On the one hand, tariffs present upside risks to prices and inflation, while tariff fears present downside risks to the economy and consumption. This is likely to remain an evolving situation.

Spending and cost data

	Quarterly Historical Data				Annual Historical Data					
	24 Q2	24 Q3	24 Q4	25 Q1	2019	2020	2021	2022	2023	2024
Personal Spending Year-on-year percent change	5.3%	5.3%	5.7%	5.7%	3.6%	-1.5%	13.3%	9.8%	6.4%	5.3%
Personal Income Year-on-year percent change	5.5%	5.0%	5.0%	4.3%	4.8%	6.8%	9.2%	3.1%	5.9%	5.5%
Average Hourly Wages, Total Private US Dollars	$34.88	$35.21	$35.59	$35.91	$28.00	$29.36	$30.62	$32.27	$33.70	$35.06
Average Hourly Wages, Total Private Year-on-year percent change	4.0%	3.8%	4.1%	3.9%	3.3%	4.9%	4.3%	5.4%	4.4%	4.0%
Construction Spending Billions, seasonally adjusted annual rate	$2.16	$2.15	$2.18	$2.20	$1.39	$1.50	$1.65	$1.90	$2.02	$2.16
Construction Spending Year-on-year percent change	7.5%	5.2%	4.6%	3.2%	4.2%	7.9%	10.3%	14.9%	6.4%	6.6%
30-Year Mortgage Fixed Rates Average Percent	7.00%	6.51%	6.63%	6.83%	3.94%	3.11%	2.96%	5.34%	6.81%	6.72%
Construction Materials Costs (PPI) Year-on-year percent change	-2.0%	-2.6%	-0.6%	-1.4%	0.0%	1.5%	26.9%	12.6%	-2.9%	-1.0%

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

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