

# US Private Sector Pulse

Macroeconomics Team

May 5, 2025



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## Executive summary: The economy is at risk of a tariff-induced recession

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- Changes in US trade policy are having a profound impact on the global economy and financial markets. The US administration's on-off tariff policy has led to a confidence crisis, with businesses favoring a wait-and-see approach in the face of historically elevated policy uncertainty.
- US consumer sentiment gauges have plunged to their lowest levels since the 1980s while forward-looking business confidence measures are at multiyear lows.
- And while this malaise has yet to precipitate a retrenchment in consumer spending and business investment, massive disruptions to trade flows (with cargo volumes from China down 40% over the past few weeks), persistent policy uncertainty and heightened market volatility pose significant risks to the US economic outlook.
- Real US GDP contracted in Q1 2025 as importers, businesses and consumers rushed to get ahead of tariffs. This front-loading of private sector demand sets the stage for a sharper Q2 demand cliff.
- We have cut our real GDP growth forecast to 1.1% for 2025 and 2026. Importantly, real GDP is expected to approach stall speed in Q4 with growth at only 0.2% year over year (y/y).
- While we see the odds of a recession in the next 12 months around 45%, risks to the outlook are tilted to the downside. The longer tariffs are maintained, the greater the risk of an economic downturn.
- A data-reactive Fed will remain on hold at the upcoming May FOMC meeting, but it may consider a rate cut in June, if the hard data starts reflecting a pronounced growth slowdown. The risk of a further delay in policy easing is real.

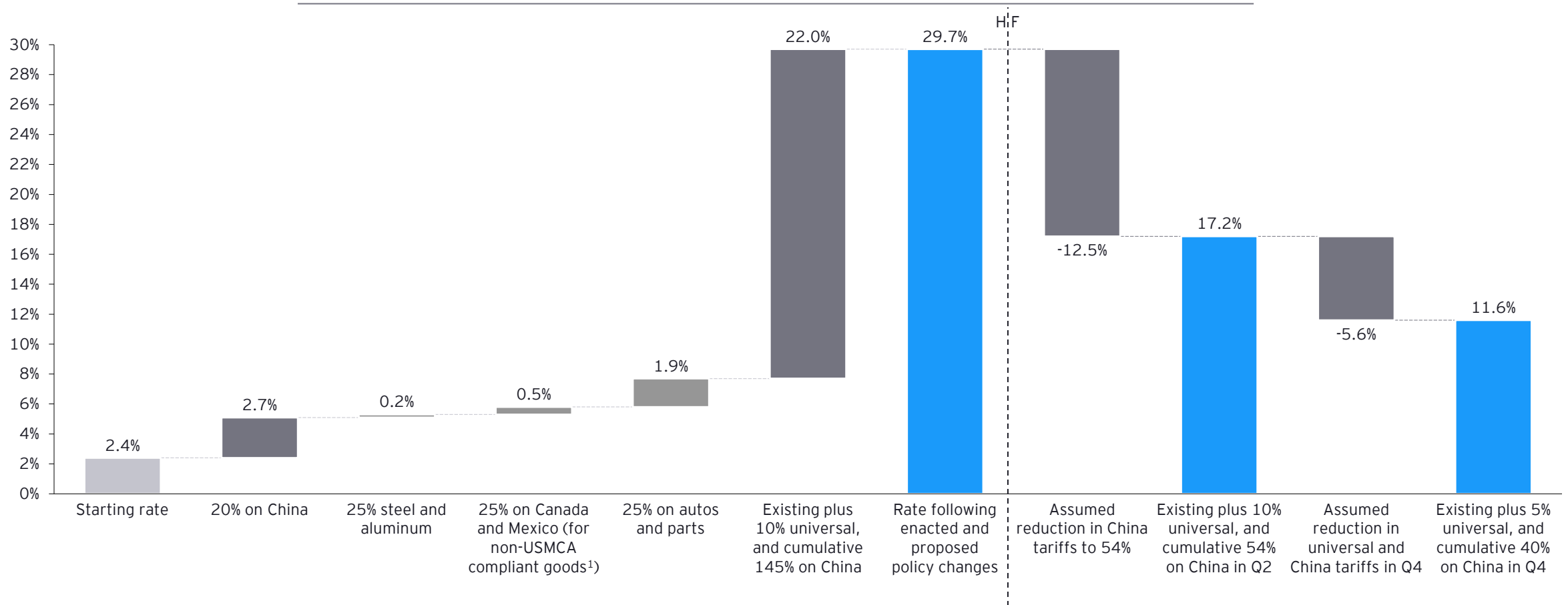
# Agenda

- **US and global outlook**
- Global confidence crisis
- Business sentiment and investment
- Consumer fundamentals, attitudes and spending
- Prices, inflation and profit margins
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# Decomposing the increase in the US average tariff rate into specific policy actions

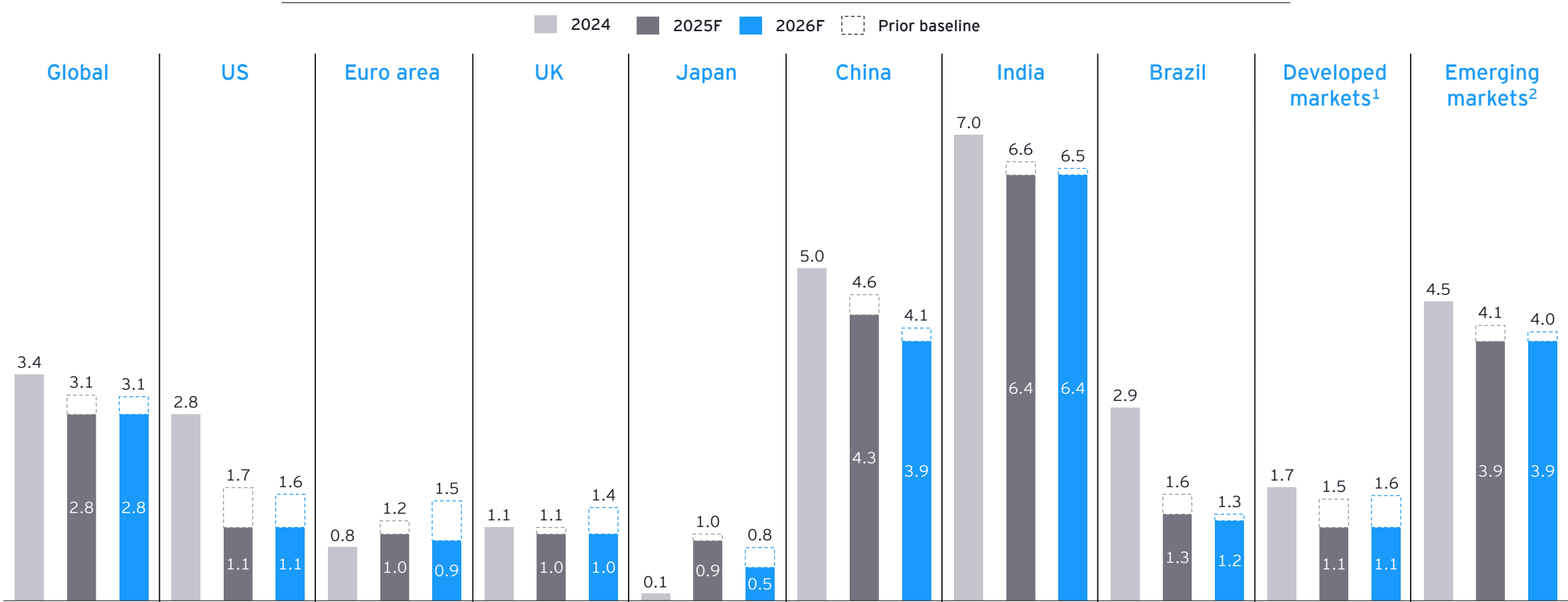
US average tariff rate under proposed policy measures  
(as of May 1, 2025)



1. We assume that eventually 95% of merchandise imports from Mexico and 90% from Canada will be United States-Mexico-Canada Agreement (USMCA) compliant.  
Source: EY-Parthenon

# The global economic outlook has deteriorated sharply, with a pronounced growth slowdown likely amid elevated US tariffs, policy uncertainty and market volatility

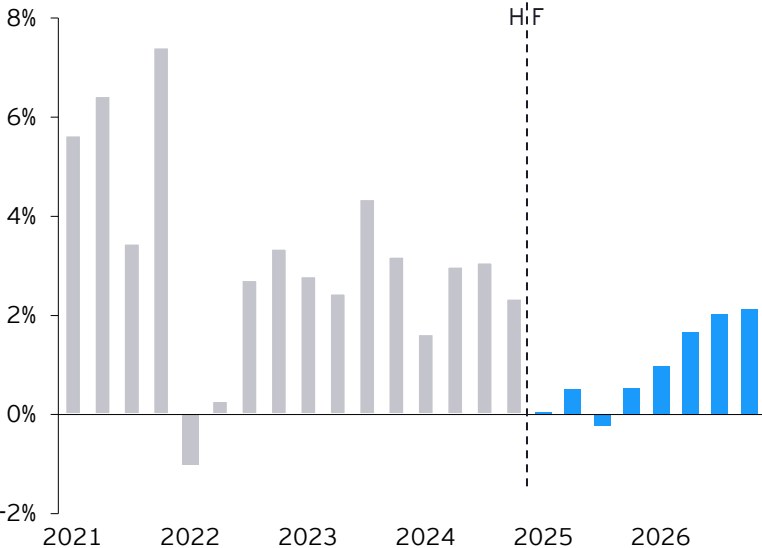
Year-over-year percentage change in real GDP  
Prior vs. updated forecast, 2024-26F



1. Includes the G7, the Euro area, Australia, the Czech Republic, Denmark, Hong Kong, Iceland, Israel, South Korea, New Zealand, Norway, Singapore, Sweden, Switzerland and Taiwan.  
2. Includes China Mainland, India, Indonesia, Malaysia, the Philippines, Thailand, Russia, Poland, Turkey, most economies in Latin America and the Caribbean, the Middle East, Central Asia and sub-Saharan Africa.

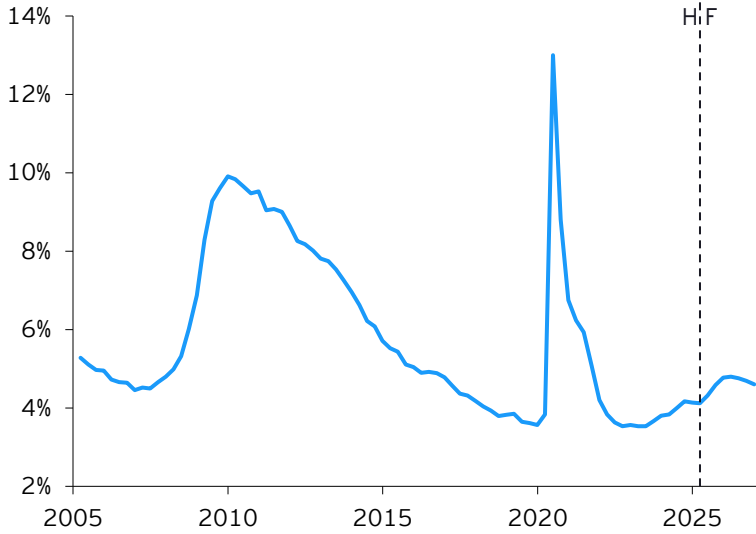
# While we see the odds of a US recession in the next 12 months around 45%, risks to the outlook are tilted to the downside

**US real GDP growth**  
(quarter-over-quarter (q/q) annualized rate)  
2021-26F



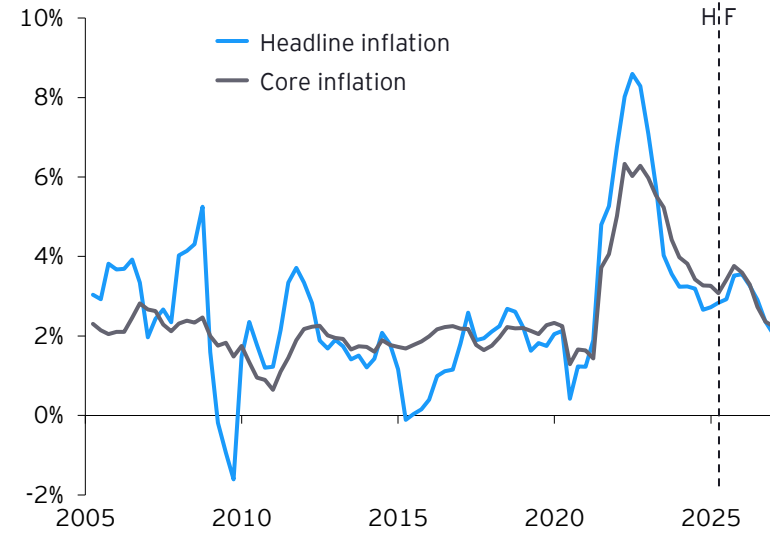
**GDP growth**  
2024: 2.8%  
2025F: 1.1%  
2026F: 1.1%

**US unemployment rate**  
2005-26F



**Unemployment rate**  
March 2024: 4.2%  
Q4 2025F: 4.8%  
Q4 2026F: 4.6%

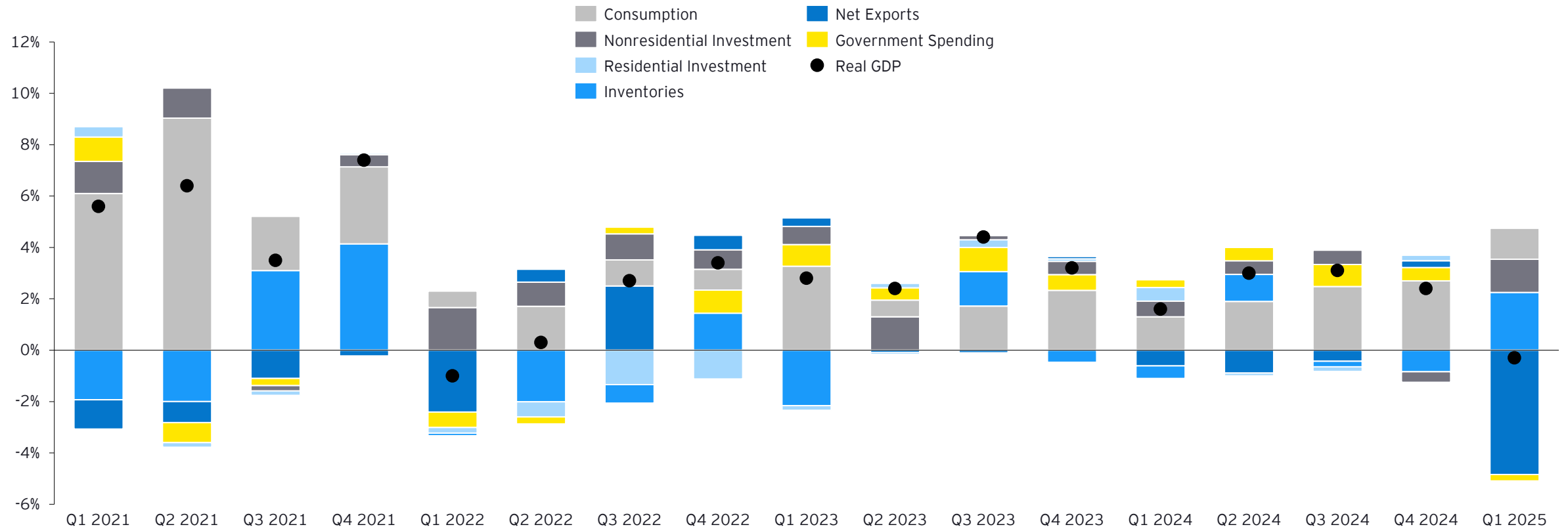
**US y/y percentage change in headline CPI**  
2005-26F



**Headline CPI inflation (y/y)**  
March 2024: 2.4%  
Q4 2025F: 3.6%  
Q4 2026F: 2.1%

# Real US GDP contracted in Q1 2025 as importers, businesses and consumers rushed to get ahead of tariffs – demand front-loading sets the stage for a sharper Q2 demand cliff

US real GDP growth contributions (percentage points, annualized)  
Q1 2021-Q1 2025



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# Macro risks are at the top of our clients' agendas – an era of hyper-protectionism and persistent uncertainty that will reverberate through the global economy

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1

**Confidence crisis**

Wait-and-see posture  
from businesses and  
consumers

2

**Financial dislocations**

Pronounced volatility  
and changing investor  
appetite across  
asset classes

3

**Cost and volume hit**

Inflationary pressures  
and curbs to real  
purchasing power

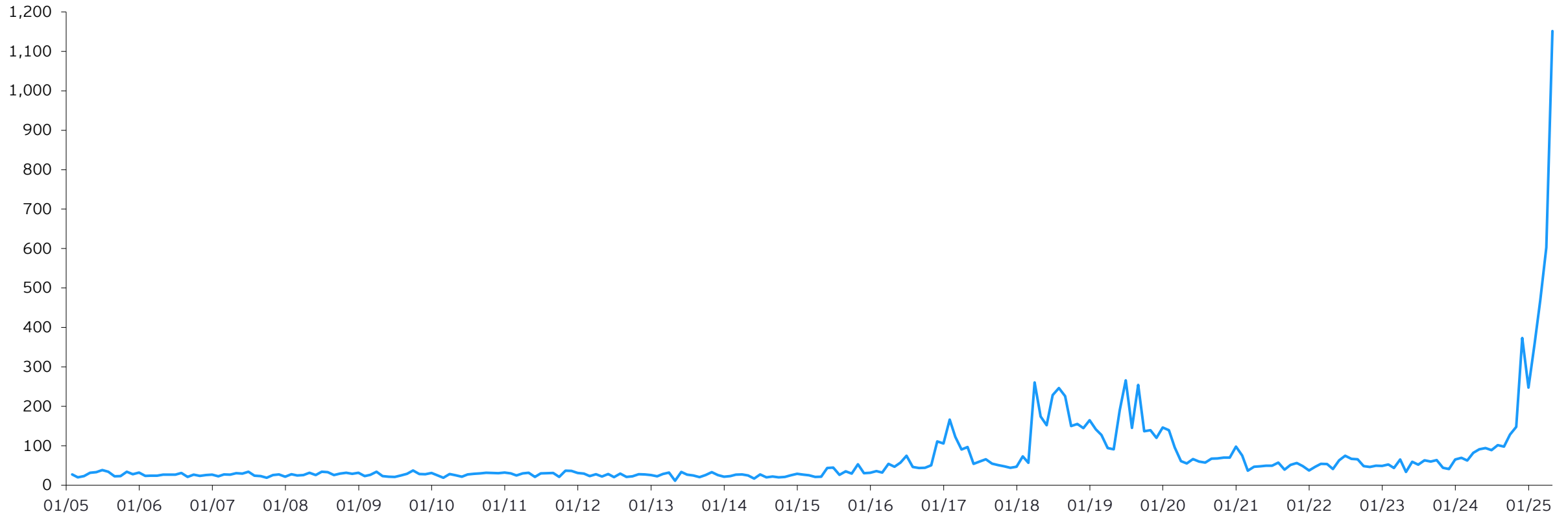
4

**Policy inertia**

Reactive central banks and  
risk of delayed easing

# Much uncertainty remains as to the duration and potential exemptions and exclusions from recent US tariffs, favoring a wait-and-see approach from businesses

US Trade Policy Uncertainty Index<sup>1</sup>  
January 2005-April 2025

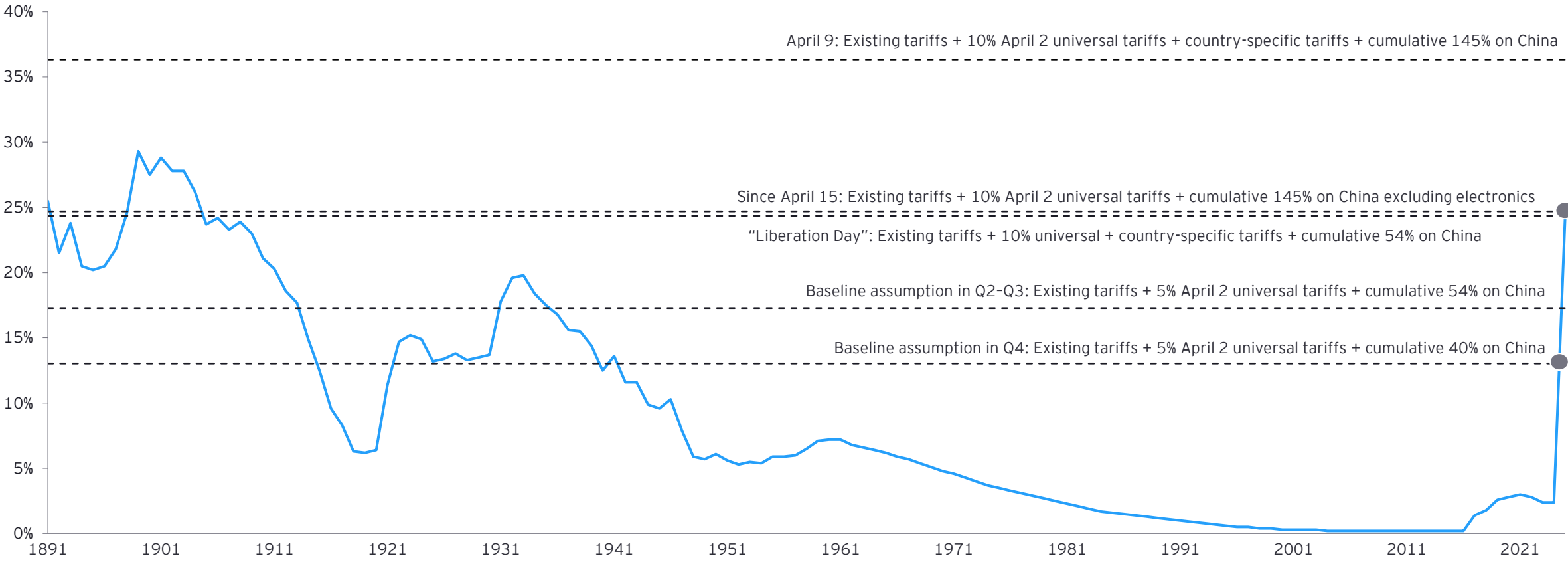


1. The Trade Policy Uncertainty Index is based on automated text searches of the electronic archives of seven newspapers: *The Boston Globe*, *Chicago Tribune*, *Guardian*, *Los Angeles Times*, *The New York Times*, *The Wall Street Journal* and *The Washington Post*. The measure is calculated by counting the monthly frequency of articles discussing trade policy uncertainty (as a share of the total number of news articles) for each newspaper. The index is then normalized to a value of 100 for a 1% article share.

Source: Caldara, Dario; Iacoviello, Matteo; et al, "The Economic Effects of Trade Policy Uncertainty," *Journal of Monetary Economics*, January 2020

# Recently implemented tariffs have raised the average US tariff rate by 23ppt to around 25% – the highest since 1909

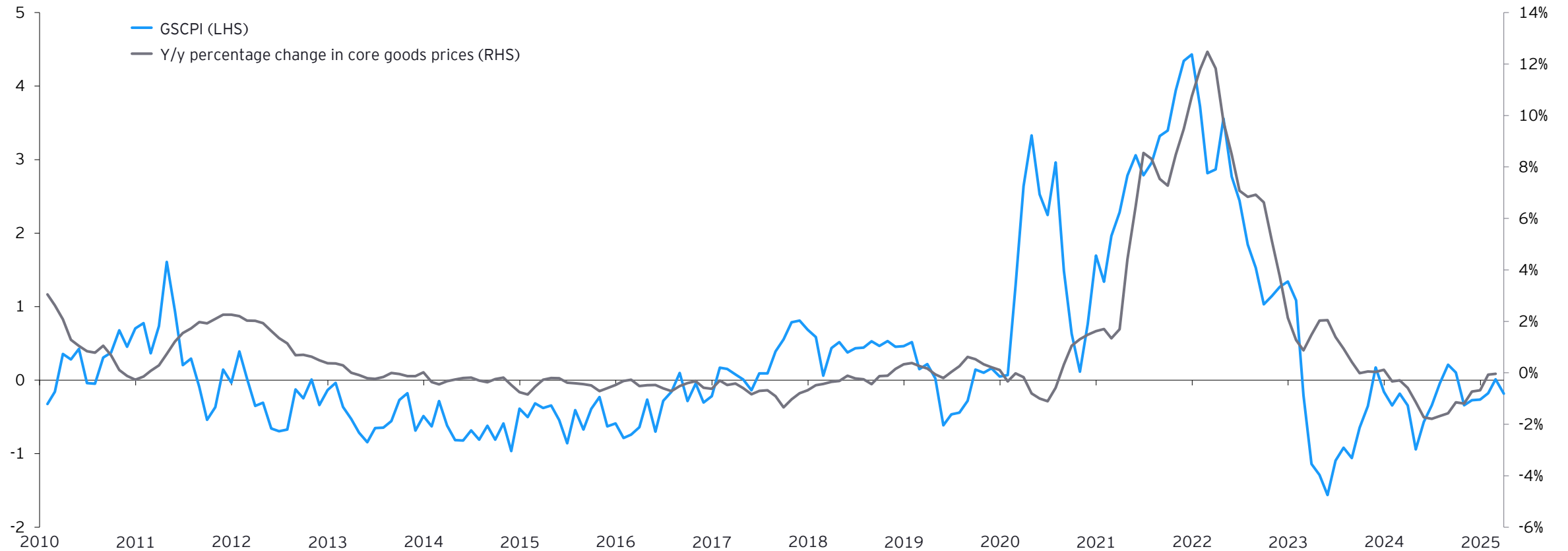
Average US tariff rates (as of May 1, 2025)  
1891-2025



Source: U.S. International Trade Commission; EY-Parthenon analysis

# The Global Supply Chain Pressure Index doesn't indicate any significant global supply chain pressures as of March

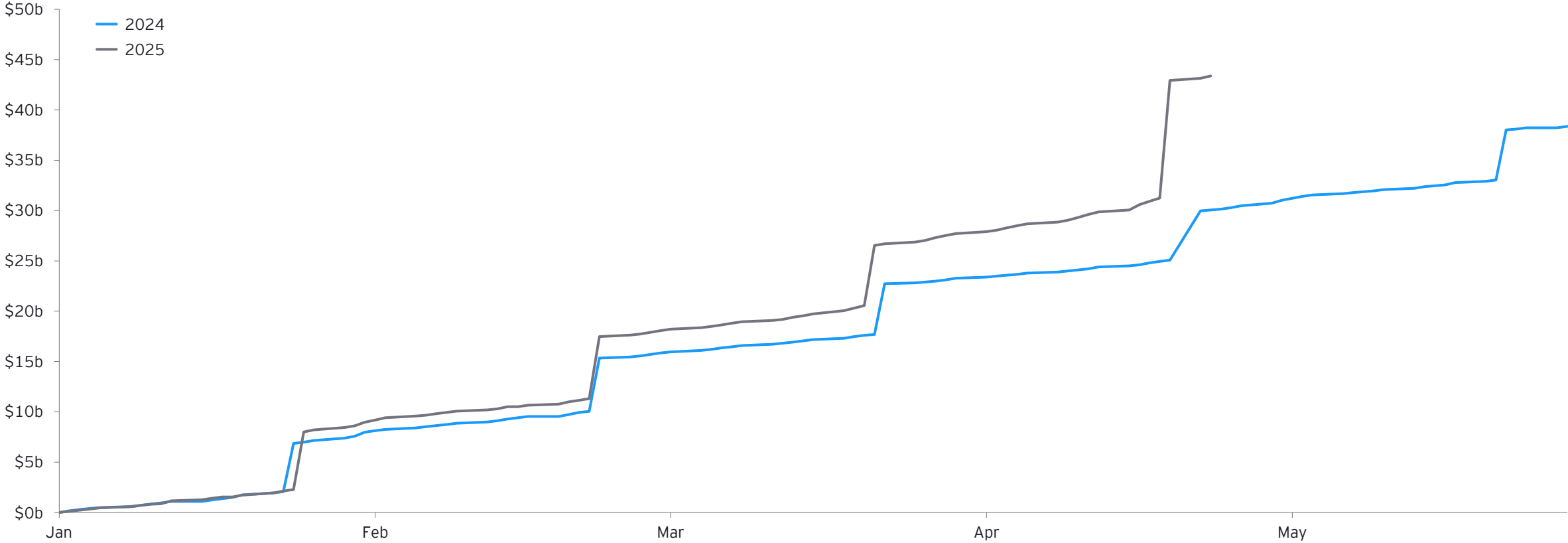
GSCPI<sup>1</sup> and y/y percentage change in US core goods prices  
January 2005-March 2025



1. Global Supply Chain Pressure Index (GSCPI) scaled by its standard deviation (0=average value).  
Source: Federal Reserve Bank of New York; Institute for Supply Management (ISM); EY-Parthenon

# Customs duties indicate tariffs were starting to bite in April, but not yet to their fullest extent

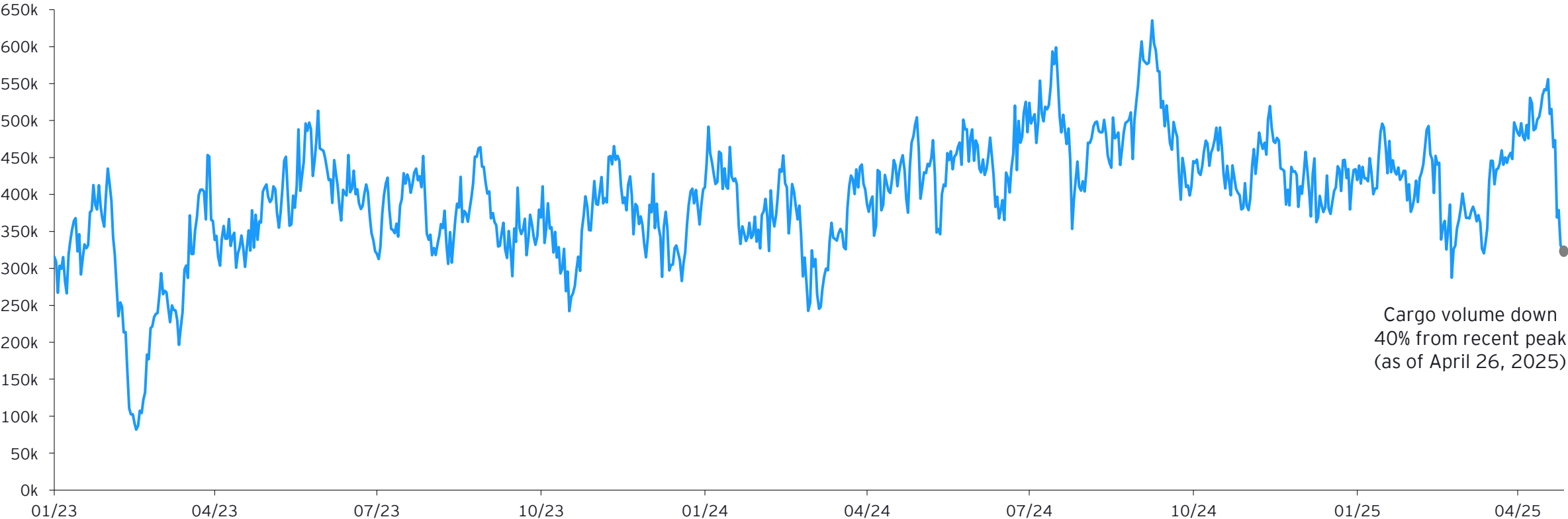
US cumulative year-to-date customs duties<sup>1</sup>  
2024-2025



1. Cumulative sum since January 1; includes certain inseparable excise taxes collected by U.S. Department of Homeland Security.  
Source: Daily Treasury Statement

# Ports are designed to handle stable, predictable flows of goods, not the volatile, on-off cargo volume shifts that increasingly characterize global trade

Container ship departures from mainland China to the US: twenty-foot equivalent units (TEUs)  
January 2023-April 2025



Cargo volume down 40% from recent peak (as of April 26, 2025)

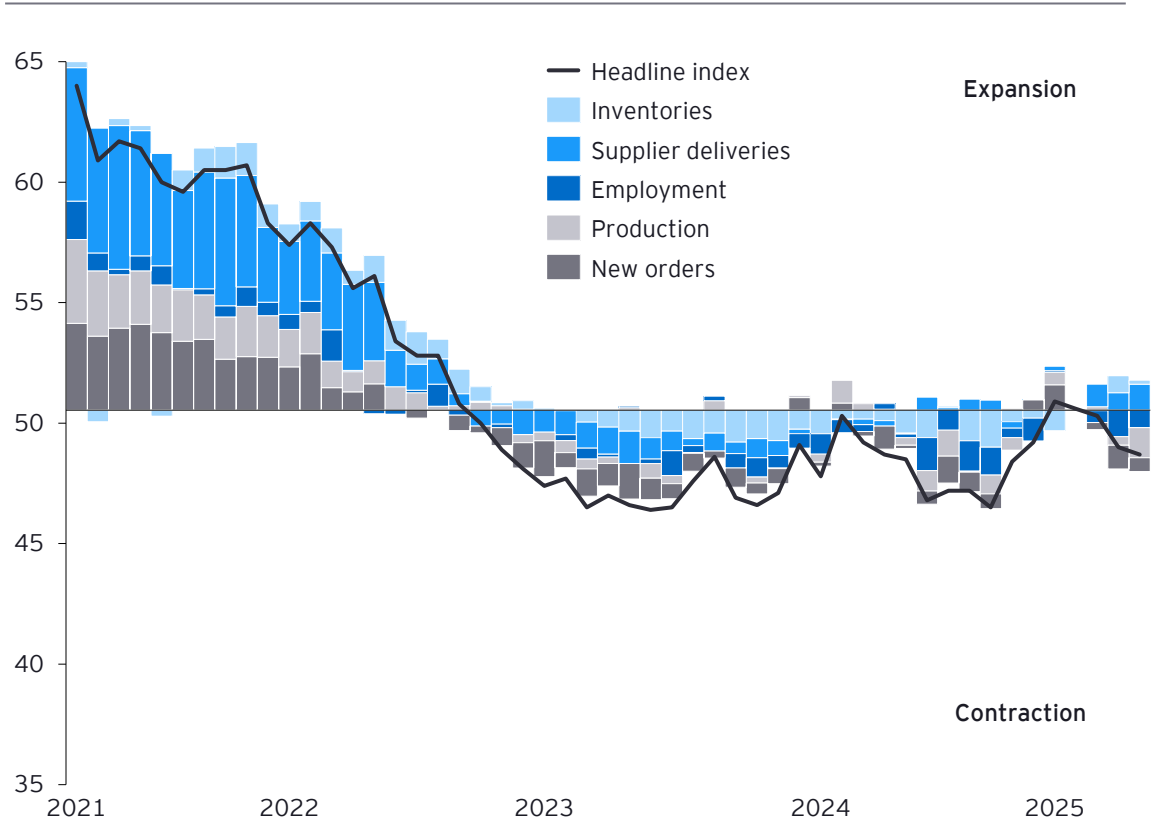
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# The US manufacturing sector outlook is clouded by still-elevated rates, higher input costs stemming from tariffs, policy uncertainty and subdued global trade flows

US ISM manufacturing index by component contribution<sup>1</sup>  
March 2021-April 2025



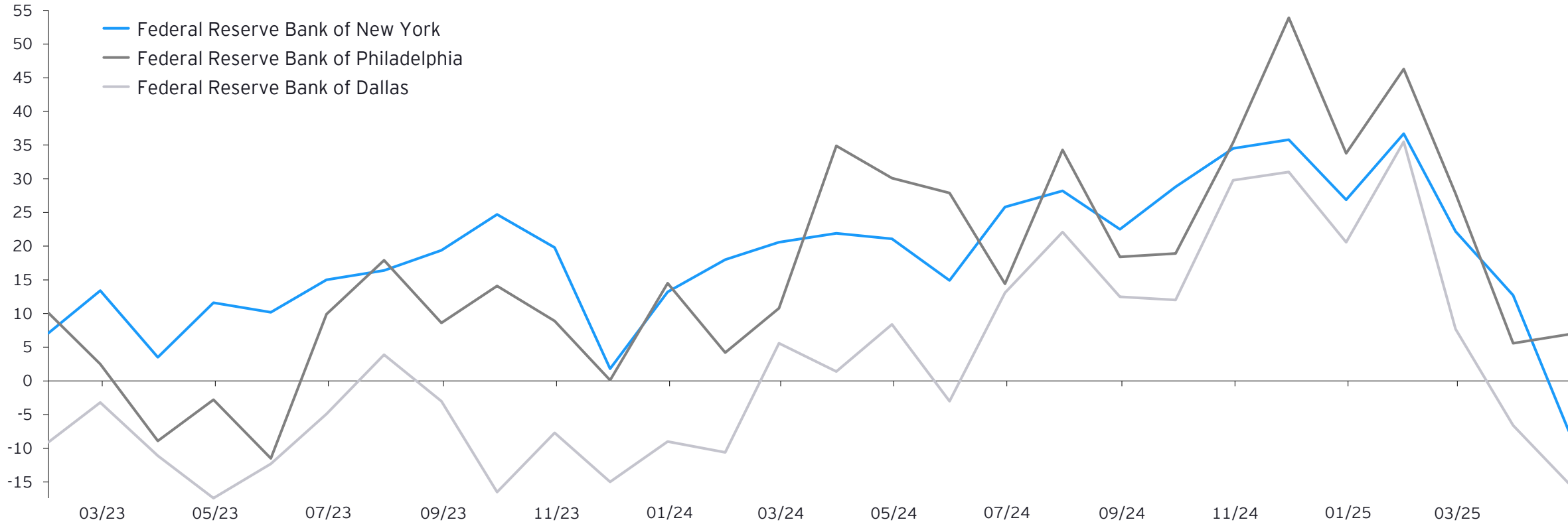
US y/y percentage change in industrial production  
January 2018-March 2025



1. The Institute for Supply Management measures PMI (Purchasing Managers' Index) by surveying manufacturing and service firms on their orders, production, employment, deliveries and inventories. The index indicates business activity in both sectors. This is a diffusion index, with readings above 50 indicating expansion and readings below 50 indicating contraction in activity.  
 2. Includes manufacturing, mining, and electric and gas utilities.  
 3. Refers to production of computers, communications equipment and semiconductors.  
 Source: Federal Reserve; Institute for Supply Management; EY-Parthenon

# Most businesses are adopting a wait-and-see approach as they look for more clarity on the tariff outlook

US Federal Reserve branch general business condition expectations<sup>1</sup>  
January 2023-April 2025



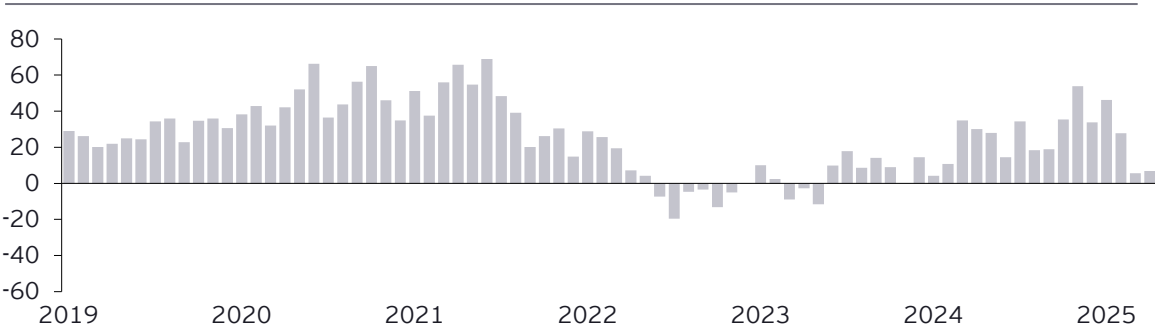
1. Diffusion indexes. Each diffusion index equals the percentage of responding firms reporting increase minus the percentage reporting decrease. An index will be zero when the number of firms reporting an increase or decrease is equal. The Federal Reserve Bank of Dallas has yet to release April data.

Source: Federal Reserve Banks of Philadelphia, New York and Dallas

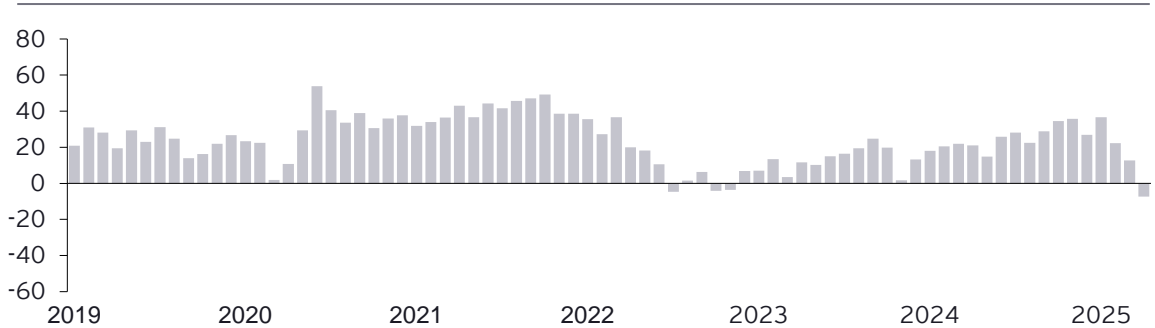
# Most businesses across the country are growing increasingly concerned about the outlook for the economy

## US Federal Reserve branch general business conditions six-month future change<sup>1,2</sup> January 2023-April 2025

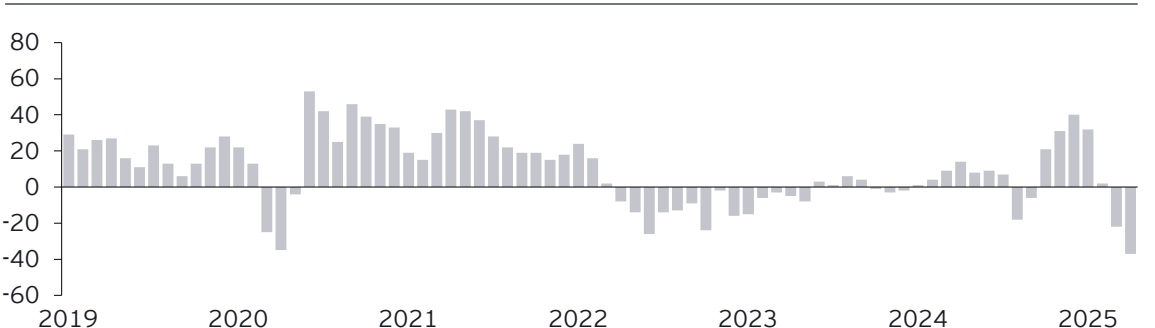
Federal Reserve Bank of Philadelphia



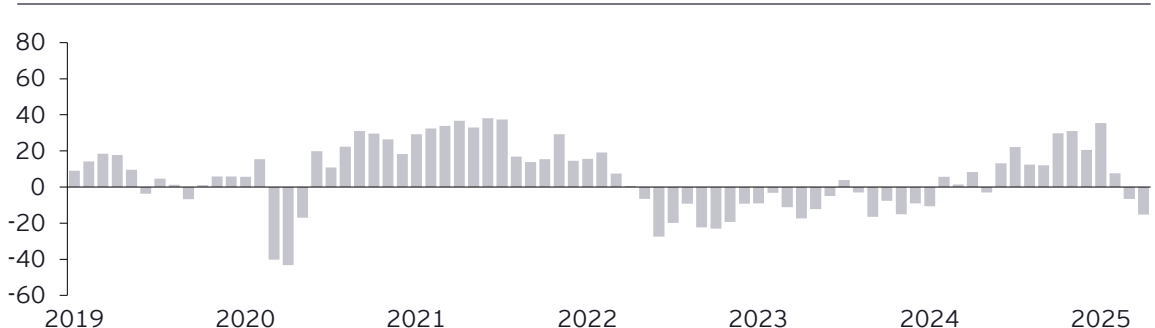
Federal Reserve Bank of New York



Federal Reserve Bank of Richmond



Federal Reserve Bank of Dallas

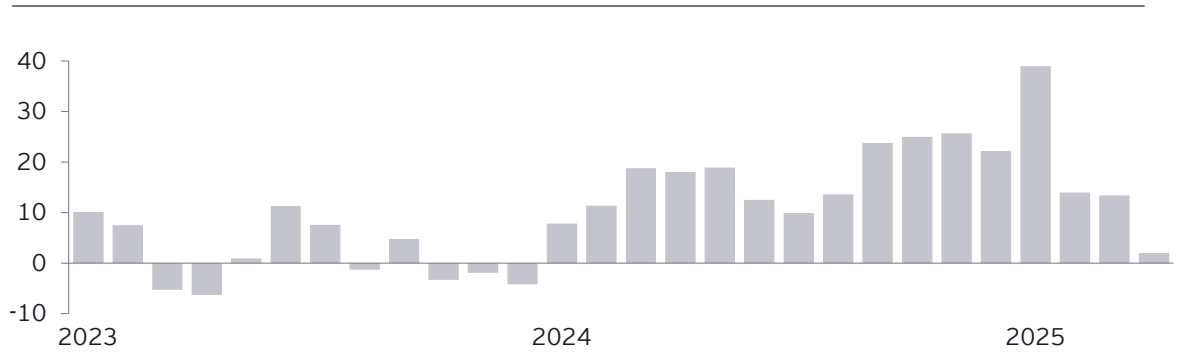


1. Diffusion indexes. Each diffusion index equals the percentage of responding firms reporting increase minus the percentage reporting decrease. Readings above zero indicate growth.  
2. Data sourced from Manufacturing Surveys: General Business Conditions six-month expectations, seasonally adjusted. Only exception is Richmond, for which we show expected shipments.  
Source: Federal Reserve Banks of Philadelphia, New York, Richmond and Dallas

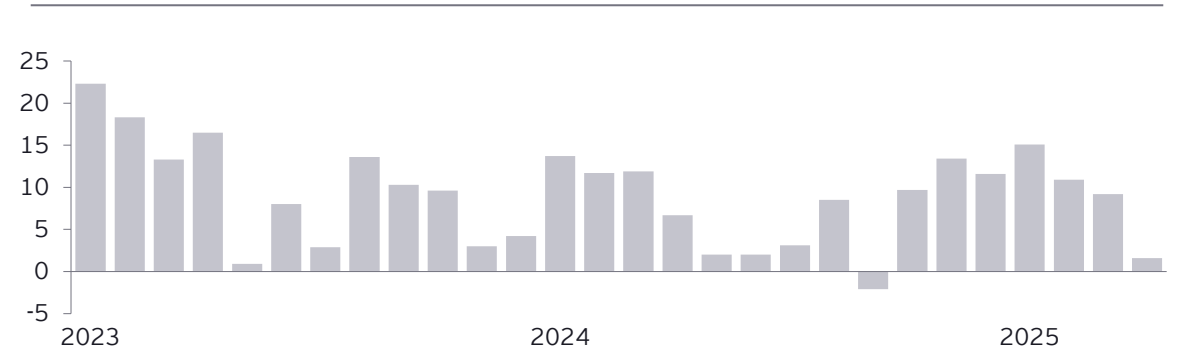
# Policy uncertainty around tariffs is leading many firms to put their investment plans on hold

US Federal Reserve branch capex intentions six-month future change<sup>1,2</sup>  
January 2023-April 2025

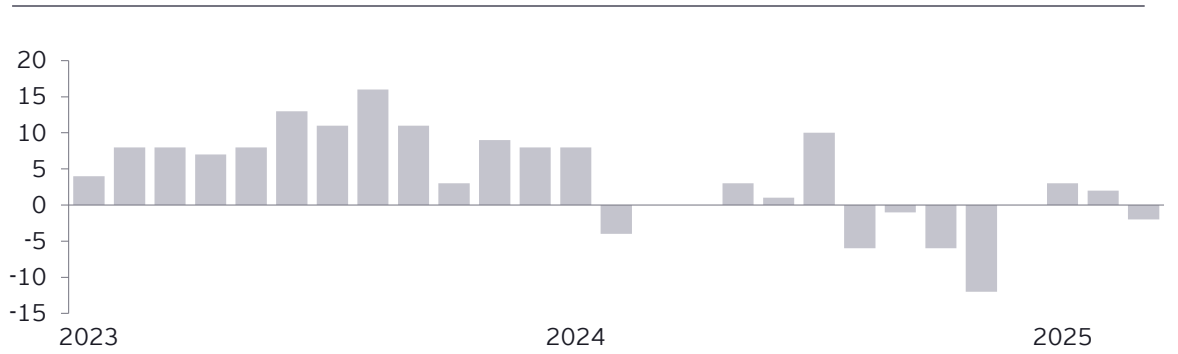
Federal Reserve Bank of Philadelphia



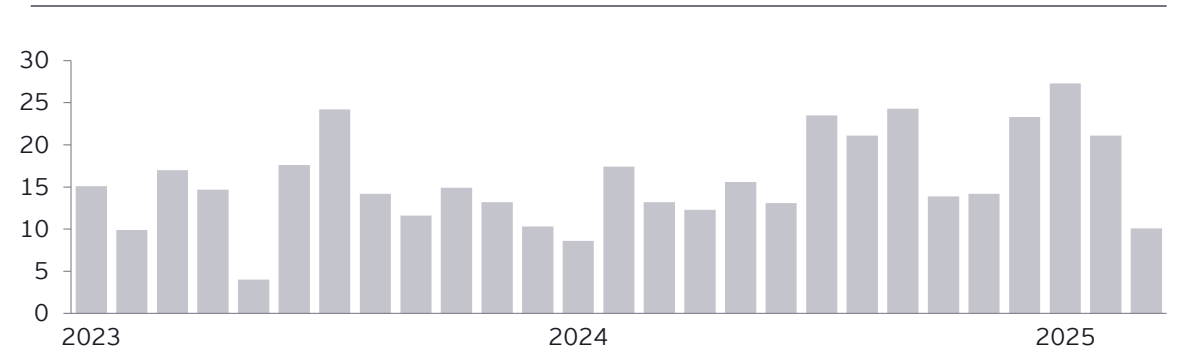
Federal Reserve Bank of New York



Federal Reserve Bank of Richmond



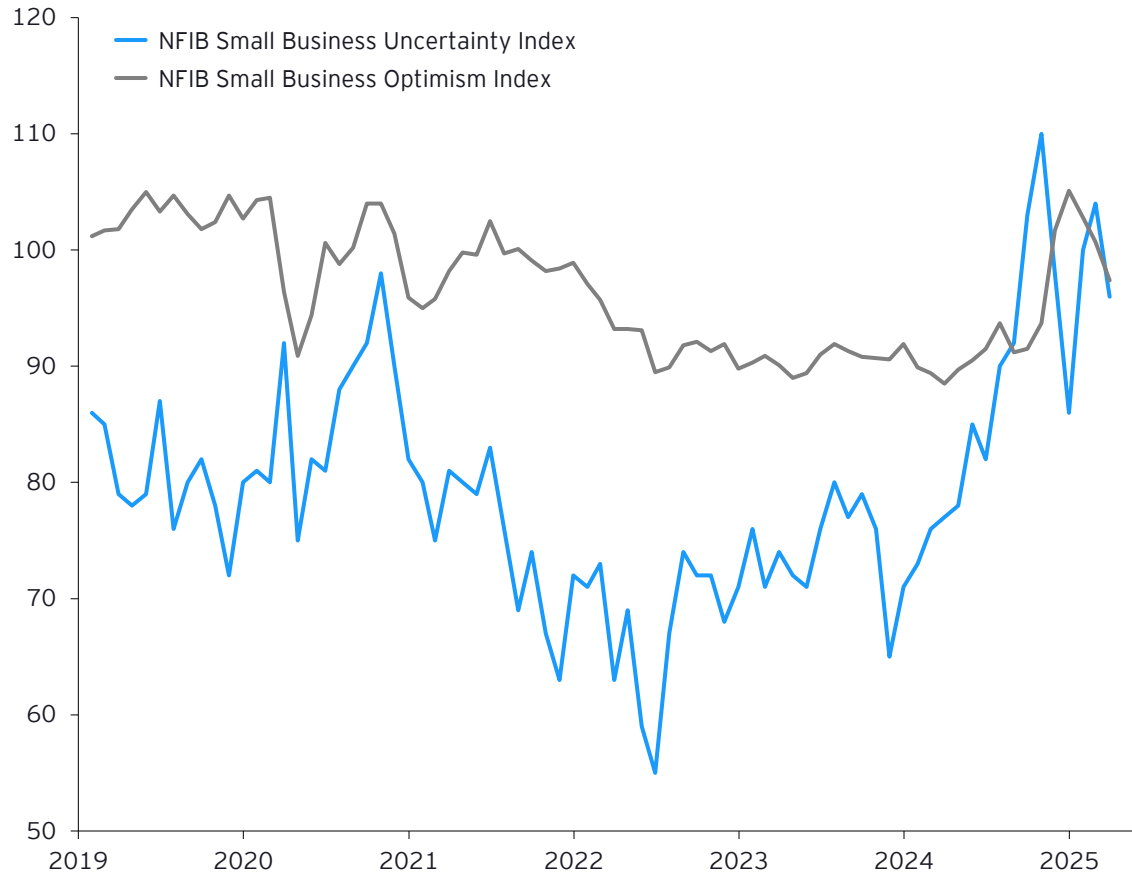
Federal Reserve Bank of Dallas



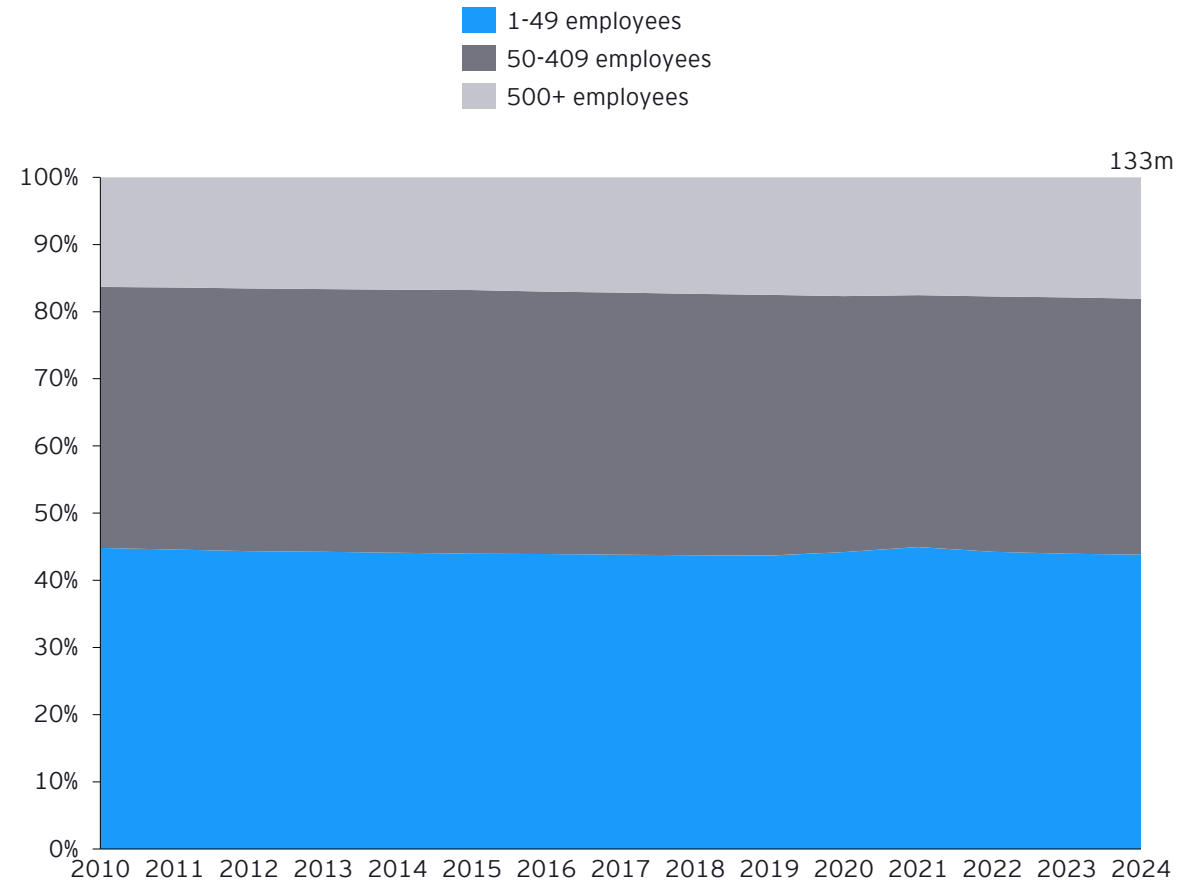
1. Diffusion indexes. Each diffusion index equals the percentage of responding firms reporting increase minus the percentage reporting decrease. Readings above zero indicate growth.  
2. Philadelphia and New York have released April data, whereas Richmond and Dallas have not.  
Source: Federal Reserve Banks of Philadelphia, New York, Richmond and Dallas

# Small businesses are at risk of having to shut down in the face of increased policy uncertainty, market volatility and higher input costs from tariffs

NFIB US Small Business Optimism and Uncertainty Indexes  
January 2019-March 2025, 1986 = 100

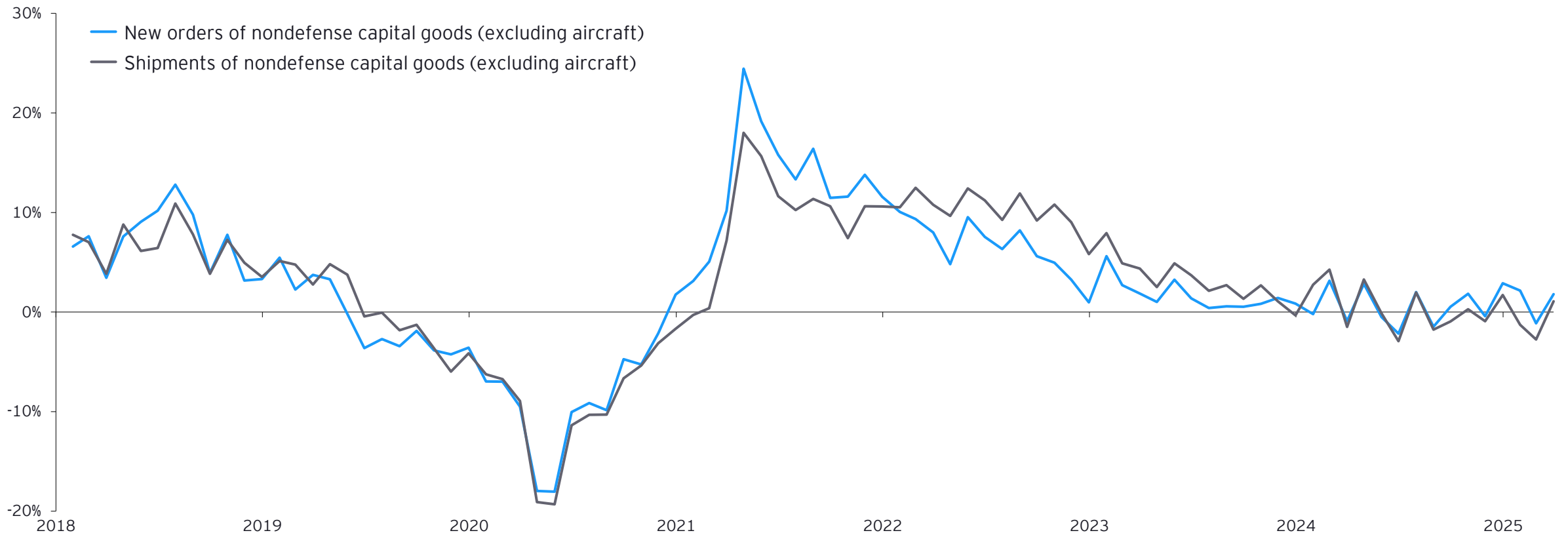


US employment share and total by firm size from ADP  
2010-2024



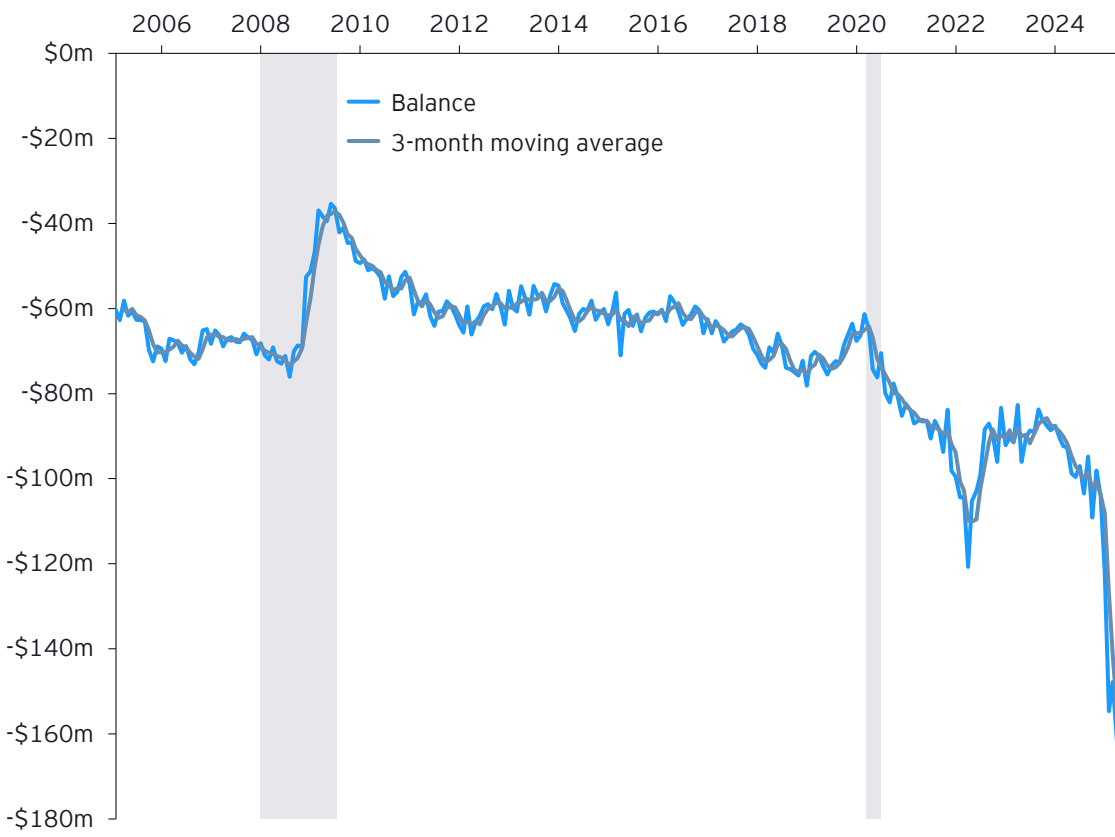
# Business investment is likely to contract in 2025 due to elevated borrowing rates, higher input costs from tariffs, policy uncertainty and restrained global trade flows

US y/y percentage change in new orders and shipments of nondefense capital goods excluding aircraft  
January 2018-March 2025

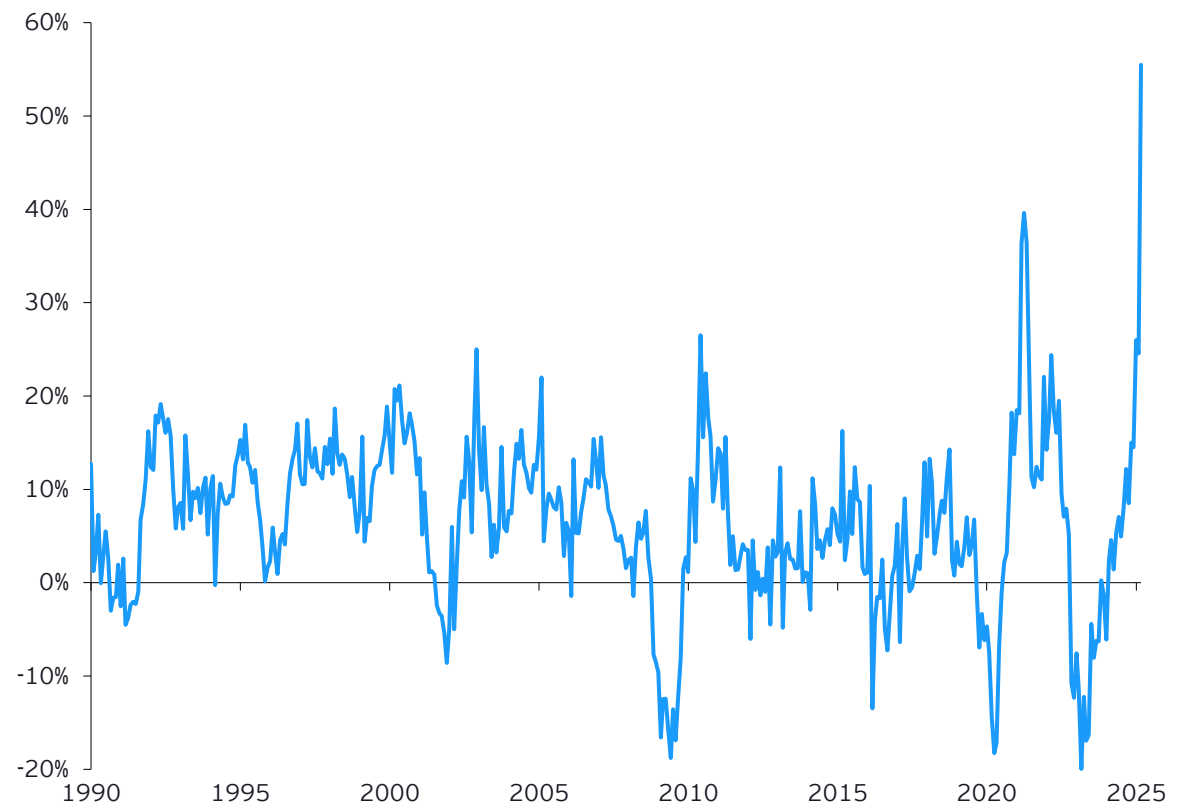


# A front-loading of orders and imports has led to the largest US merchandise trade deficit on record and the most significant surge in consumer goods imports ever

Advanced US merchandise trade balance  
January 2005-March 2025



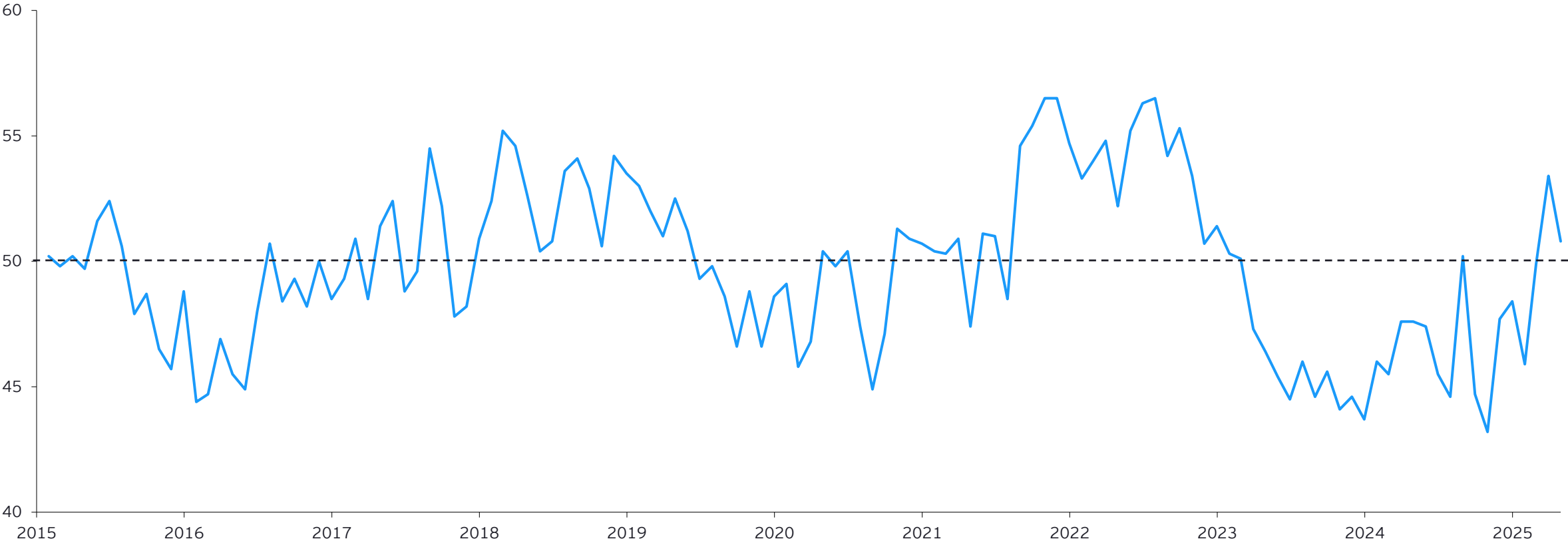
Year-over-year change in US consumer goods imports  
January 1990-March 2025



Source: U.S. Census Bureau; EY-Parthenon

# Manufacturing inventories expand as businesses pull forward deliveries of materials in an effort to front-run tariffs

US ISM manufacturing diffusion index: inventories  
January 2015-April 2025



Source: Institute for Supply Management; EY-Parthenon

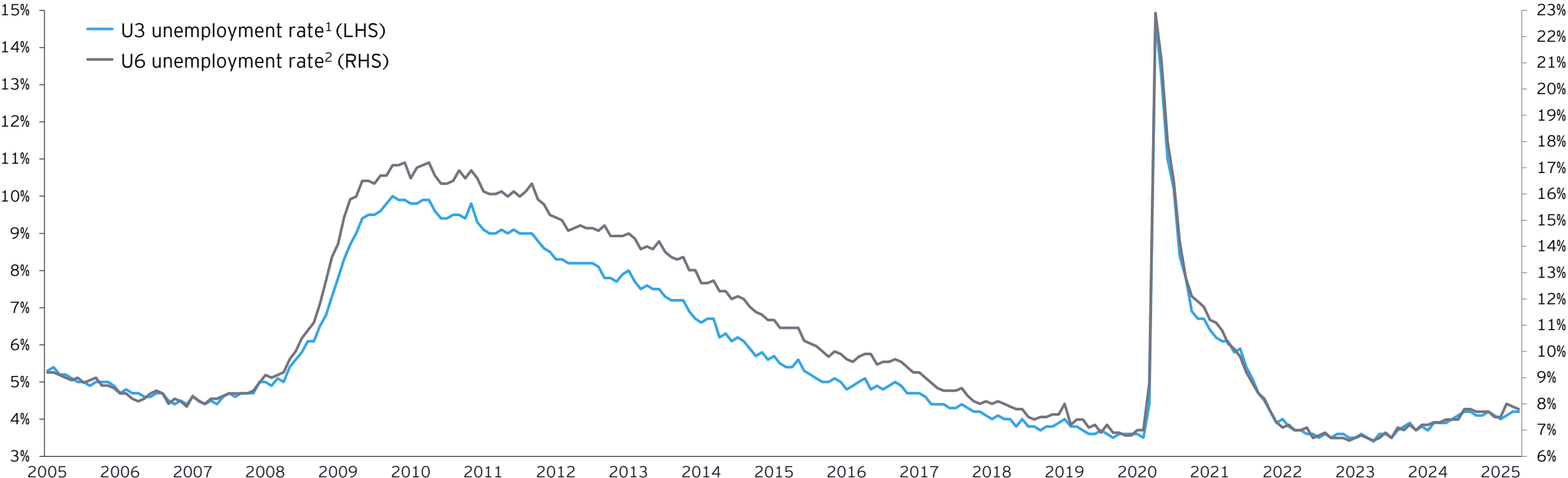
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# Layoffs have crept higher amid cuts to the federal workforce and as business executives use strategic layoffs to manage their workforce

US U3 and U6 unemployment rates  
January 2005-April 2025



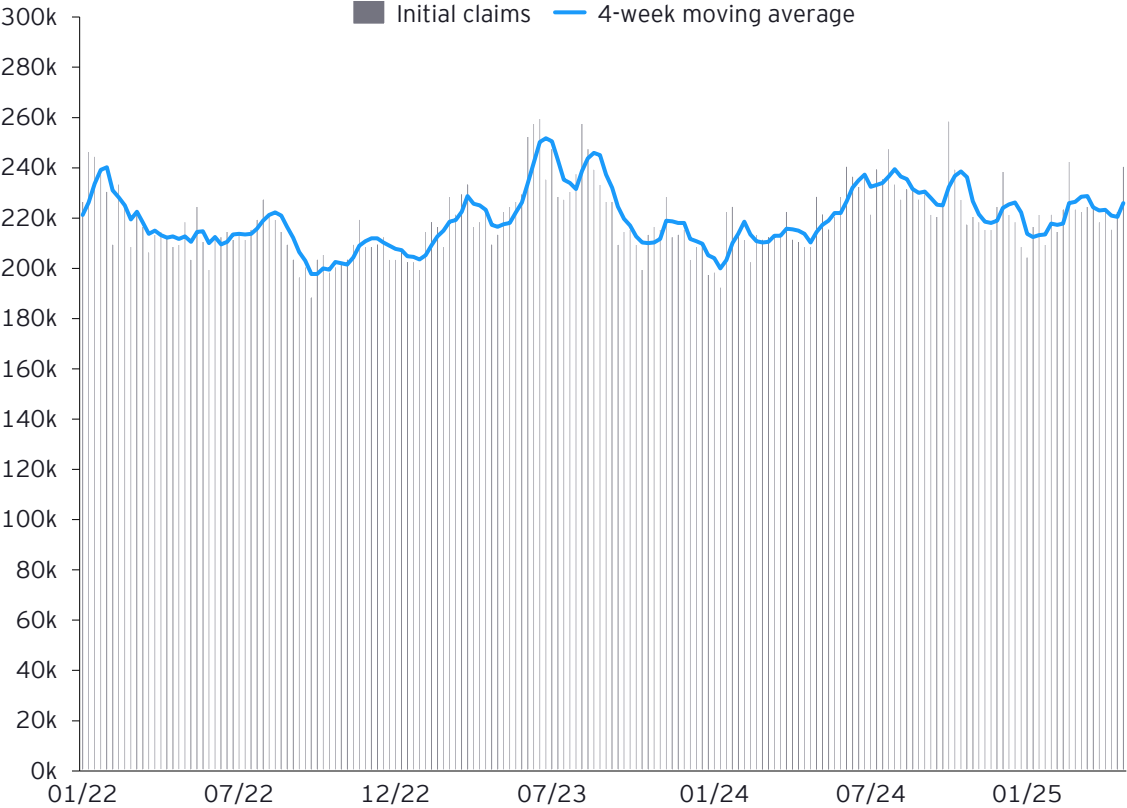
1. U3 = total unemployed, as a percentage of the civilian labor force (official unemployment rate).

2. U6 = total unemployed, plus all people marginally attached to the labor force, plus total employed part time for economic reasons, as a percentage of the civilian labor force plus all people marginally attached to the labor force.

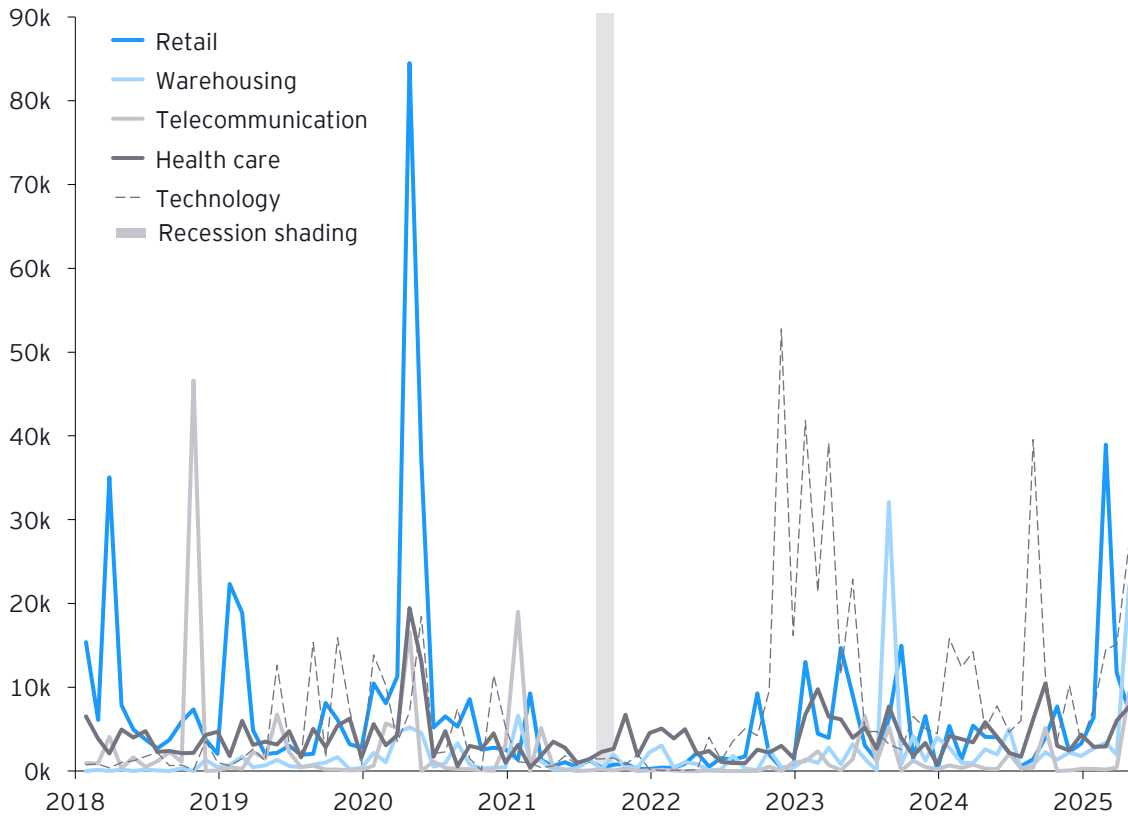
Source: US Bureau of Labor Statistics; EY-Parthenon

# Job cut announcements initially surged due to DOGE cuts, but they increasingly reflect private sector decisions due to growing economic and trade concerns

US initial claims for unemployment benefits  
January 2022-April 2025



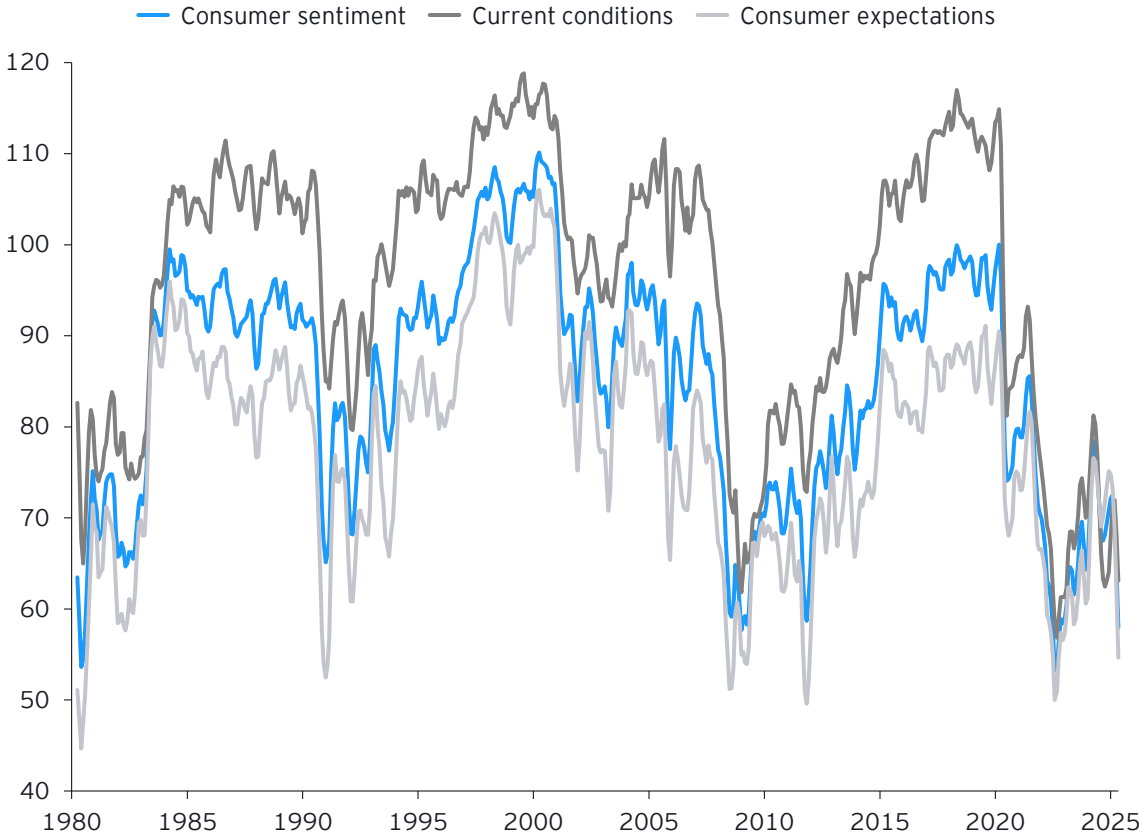
US announced job cuts  
January 2018-April 2025



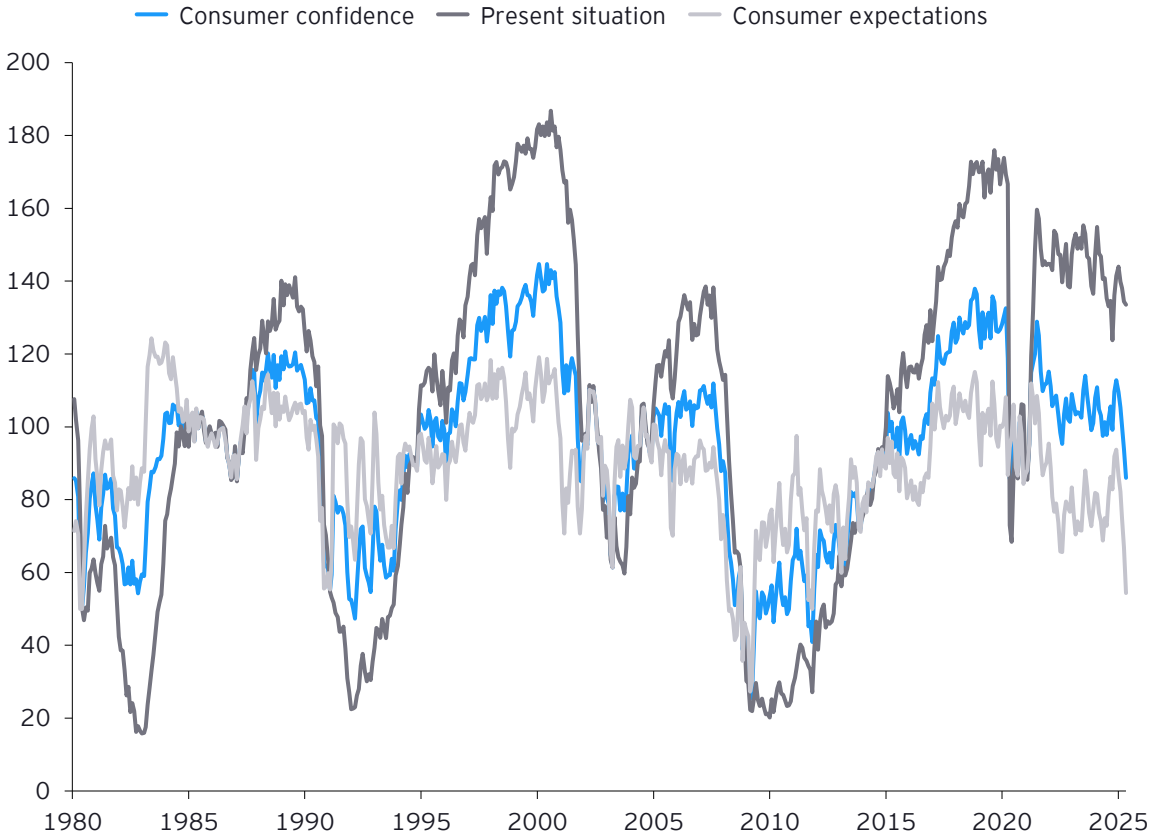
Source: U.S. Department of Labor; Challenger, Gray & Christmas; EY-Parthenon

# Consumer sentiment has plunged across all demographics due to policy uncertainty, inflation fears and labor market concerns while businesses are in wait-and-see mode

University of Michigan US Consumer Sentiment Index  
January 1980-March 2025 (1966Q1 = 100)



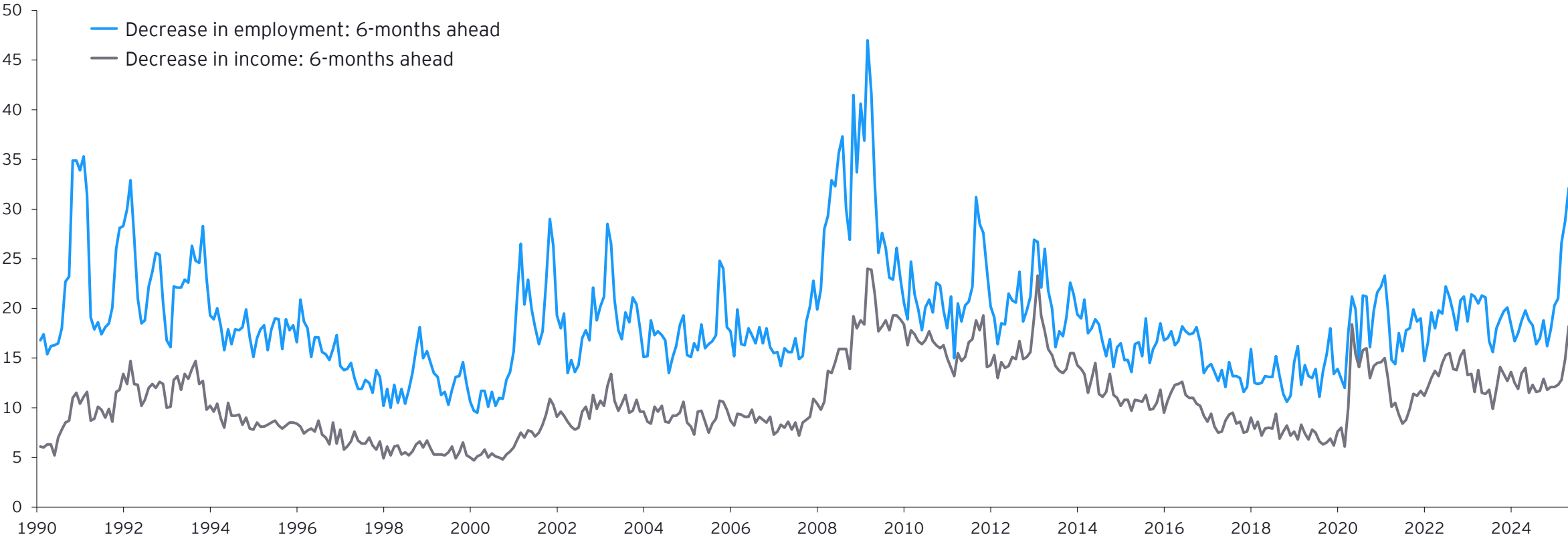
The Conference Board US Consumer Confidence Index  
January 1980-April 2025 (1985 = 100)



Source: University of Michigan; the Conference Board; Institute for Supply Management; National Federation of Independent Business

# Consumers are the most pessimistic about employment and income prospects since 2009

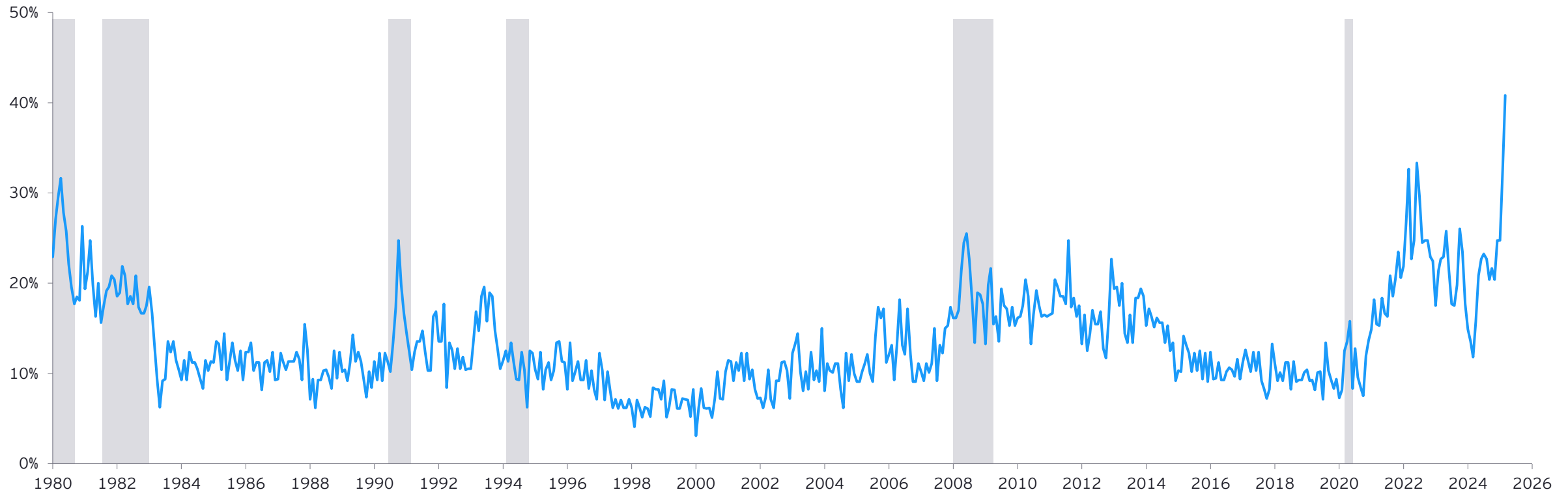
The Conference Board US Consumer Confidence Index  
January 1990-April 2025 (1985 = 100)



Source: The Conference Board; EY-Parthenon

# Record share of consumers expecting to be financially worse off in a year

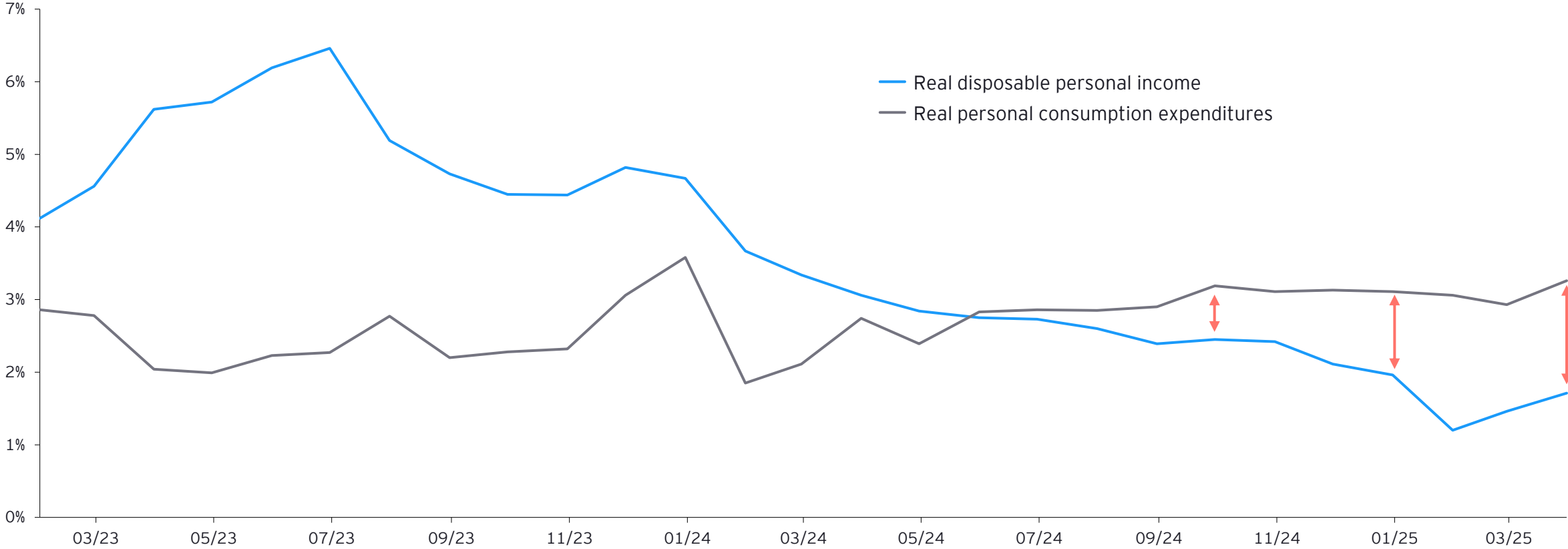
US consumer expectations on change in financial conditions over the next year<sup>1</sup>  
January 1980-March 2025



1. The Michigan Consumer Sentiment Index (MCSI) is a monthly survey of consumer confidence levels in the United States. The survey is based on telephone interviews (minimum 500). The question asked: "Do you think that a year from now you (and your family) will be better off financially, worse off, or just about the same as now?"

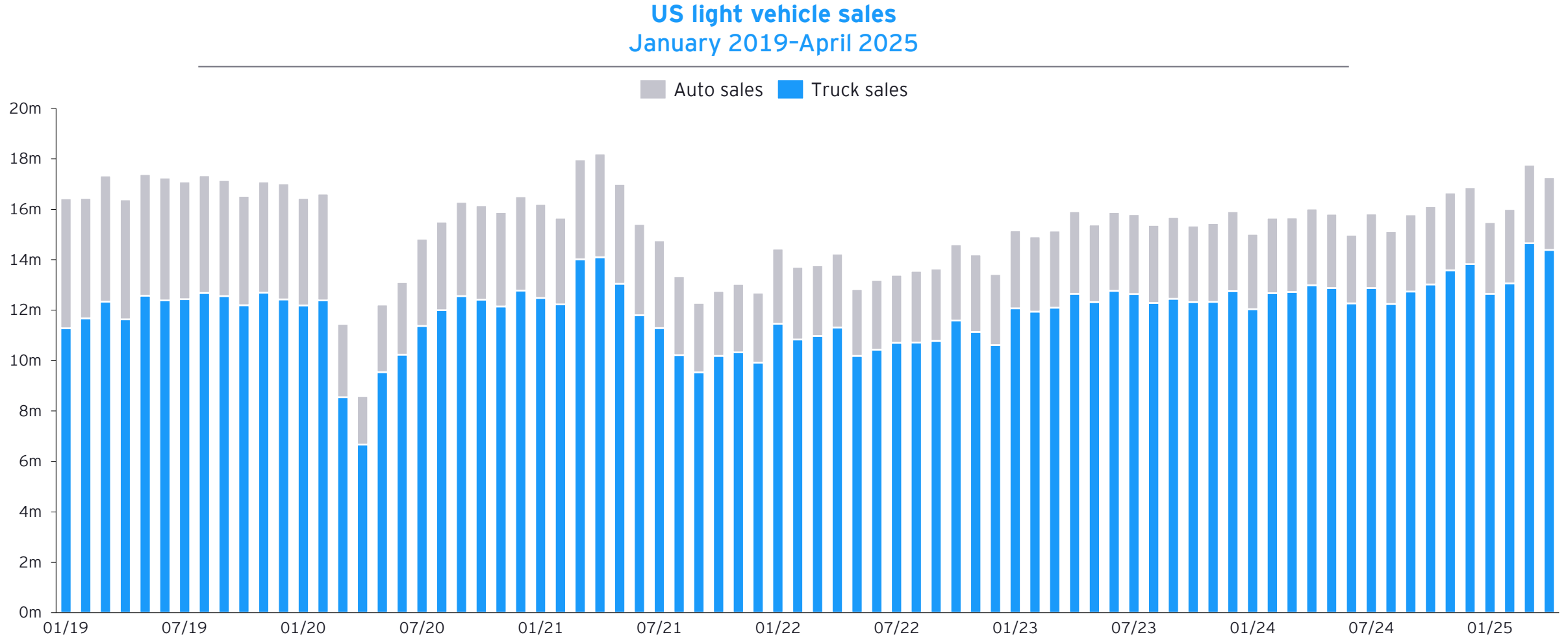
# Price-sensitive consumers are poised to become more judicious with their spending as income growth slows

US y/y percentage change in real disposable personal income and consumption expenditures  
January 2023-March 2025



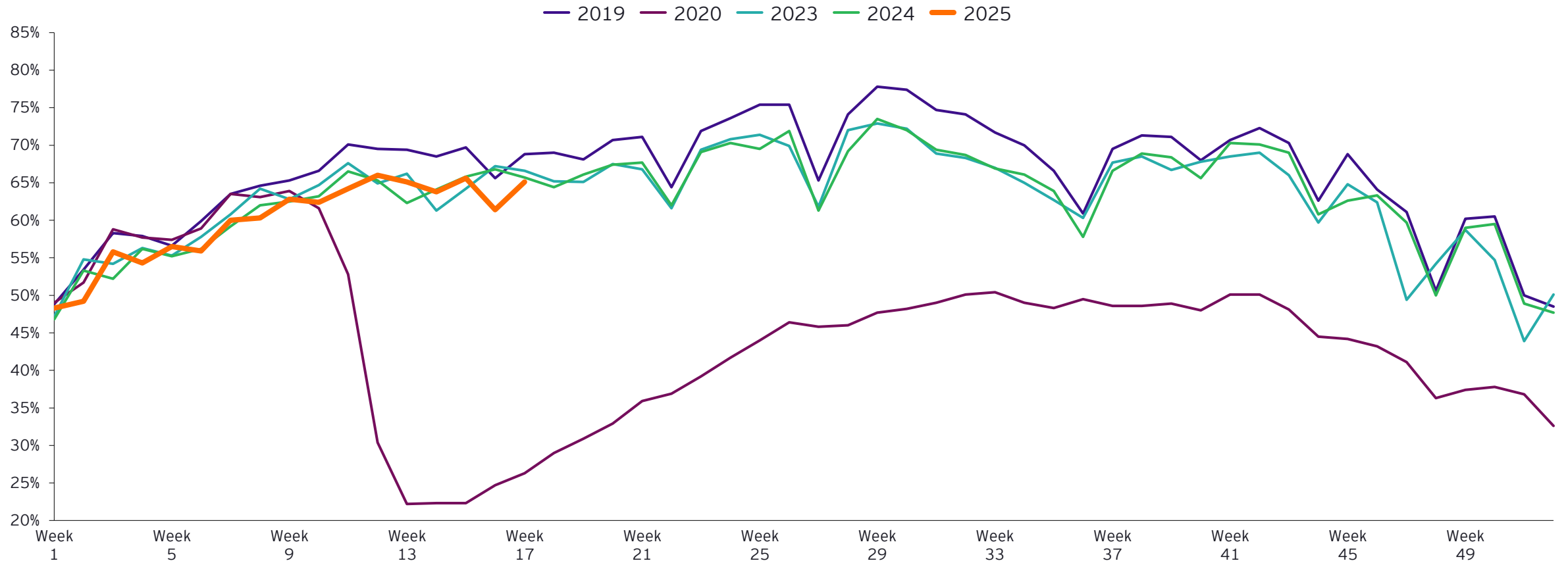
Source: U.S. Census Bureau; U.S. Bureau of Economic Analysis; EY-Parthenon

# Consumers rushed to buy autos and light trucks in March to front-run tariffs



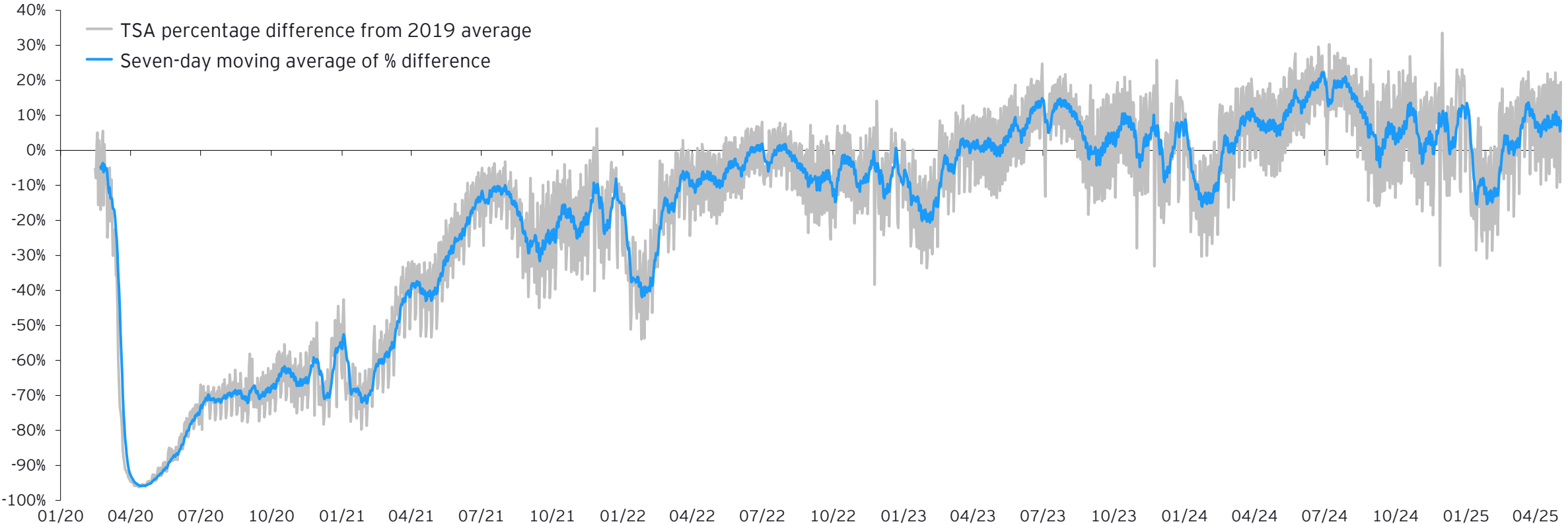
# Hotel occupancy rates do not yet indicate a pullback in leisure and business travel

US hotels annual average occupancy rates  
January 2019-April 2025



# Air travel remains steady, even if vacation plans for the coming months have been dialed back

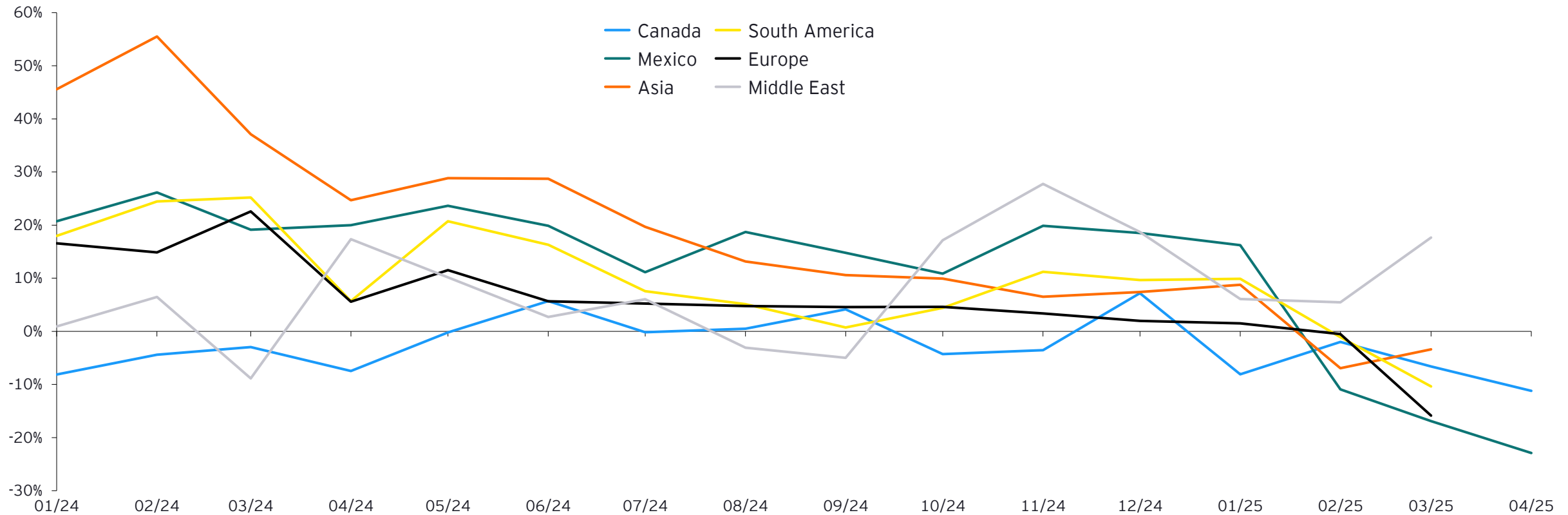
US TSA checkpoint travel numbers percentage difference from 2019  
February 2020–May 2025



Source: U.S. Transportation Security Administration (TSA); EY-Parthenon

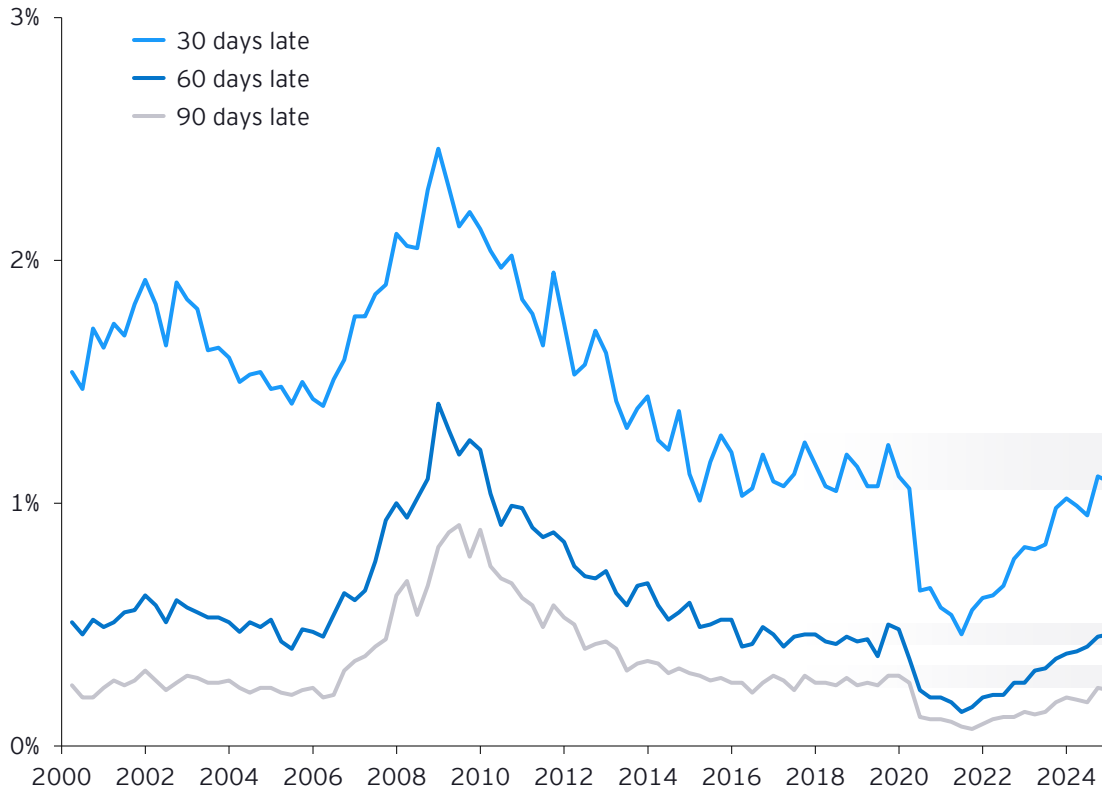
# Inbound tourism activity from Canada, Mexico, Europe and Asia is falling

Year-over-year percentage change in tourist arrivals to the US  
January 2024-April 2025

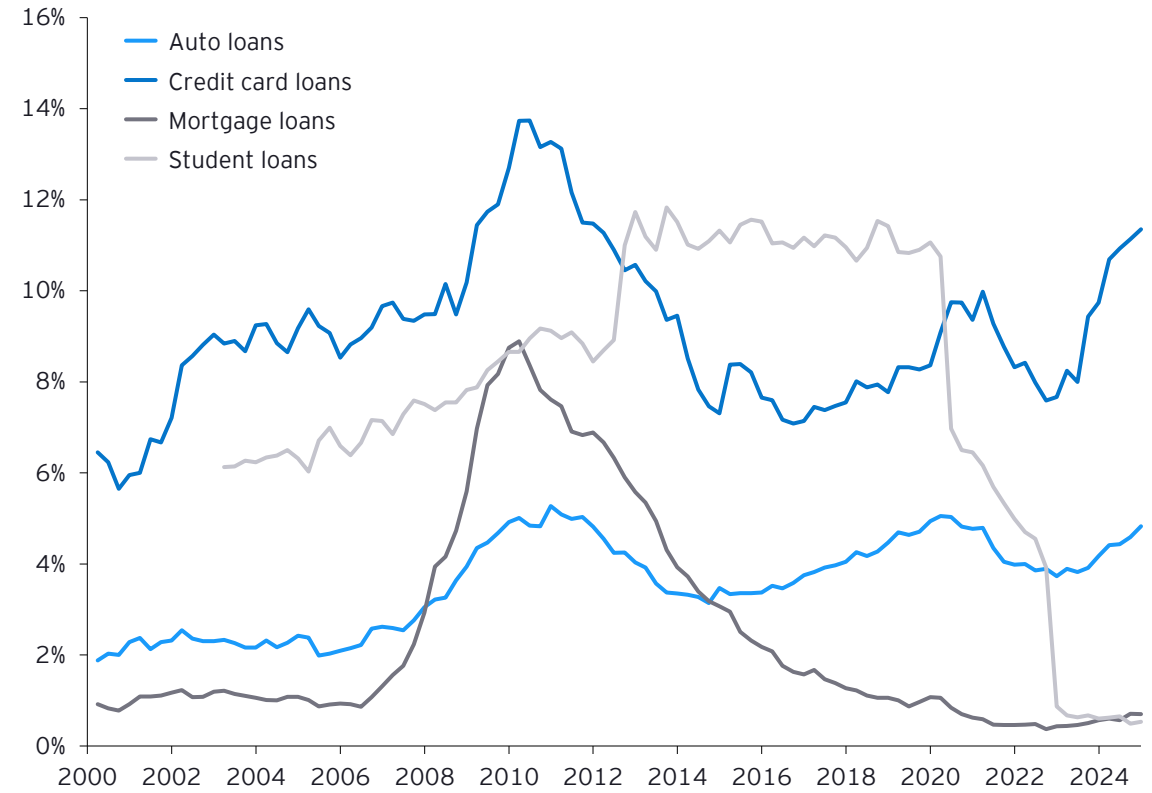


# Household finances were relatively healthy post-pandemic, but have deteriorated for credit card and auto loans, especially for lower-income and younger families

US total balance by delinquency status  
Q1 2000-Q4 2024



US and balance 90+ days delinquent  
Q1 2000-Q4 2024



Source: Federal Reserve Bank of New York

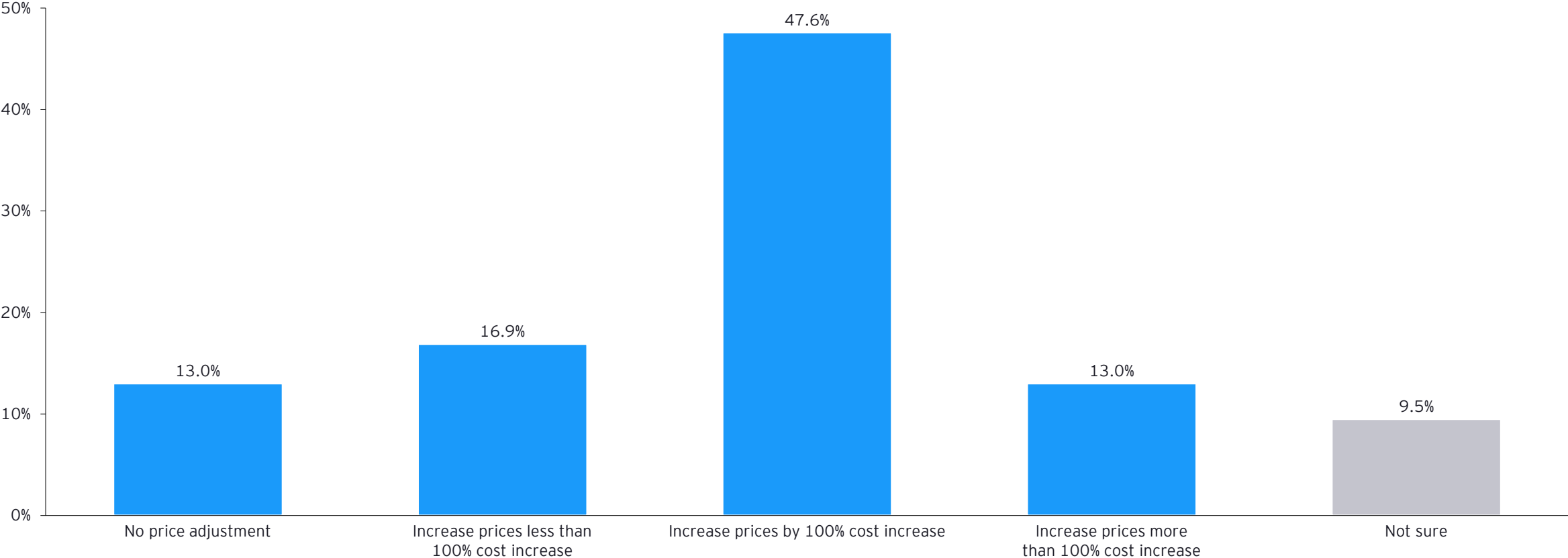
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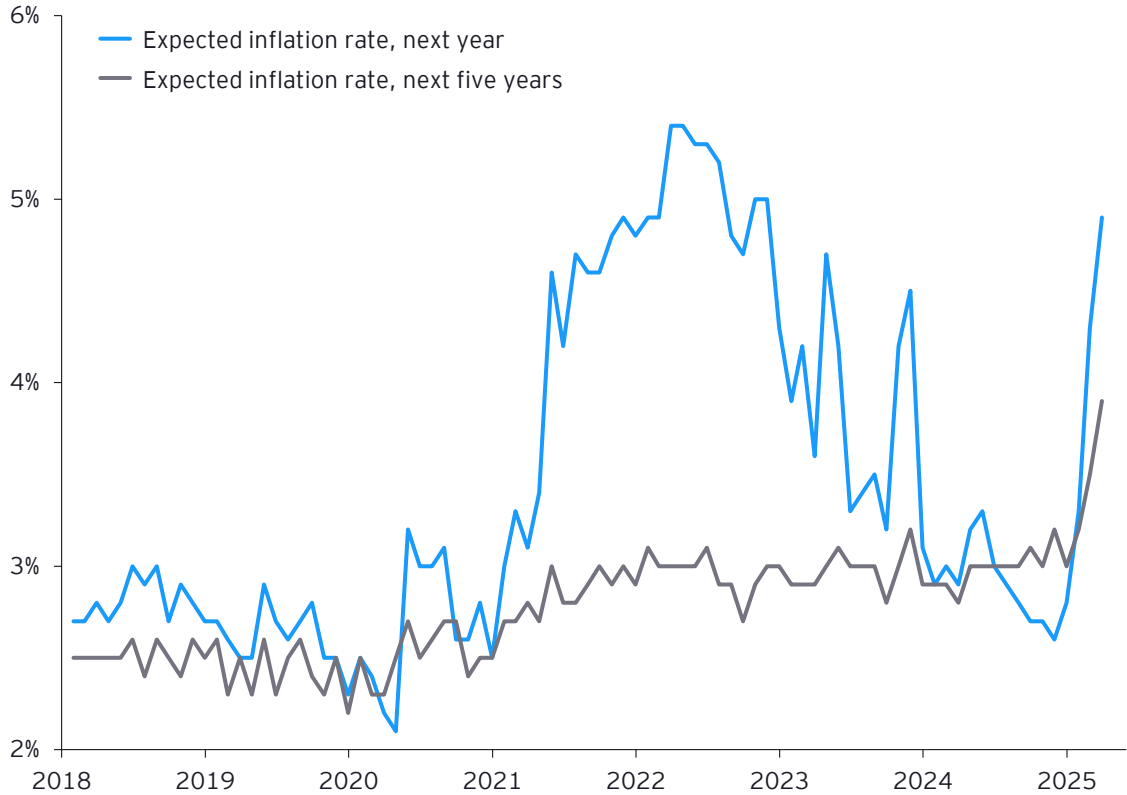
# Many businesses are suffering from preemptive inflation anxiety (PIA) with a desire to rapidly pass on higher prices resulting from tariffs

If your input costs increase more than anticipated, how would your company adjust the prices you charge to customers? (n=231 firms)  
February 2025

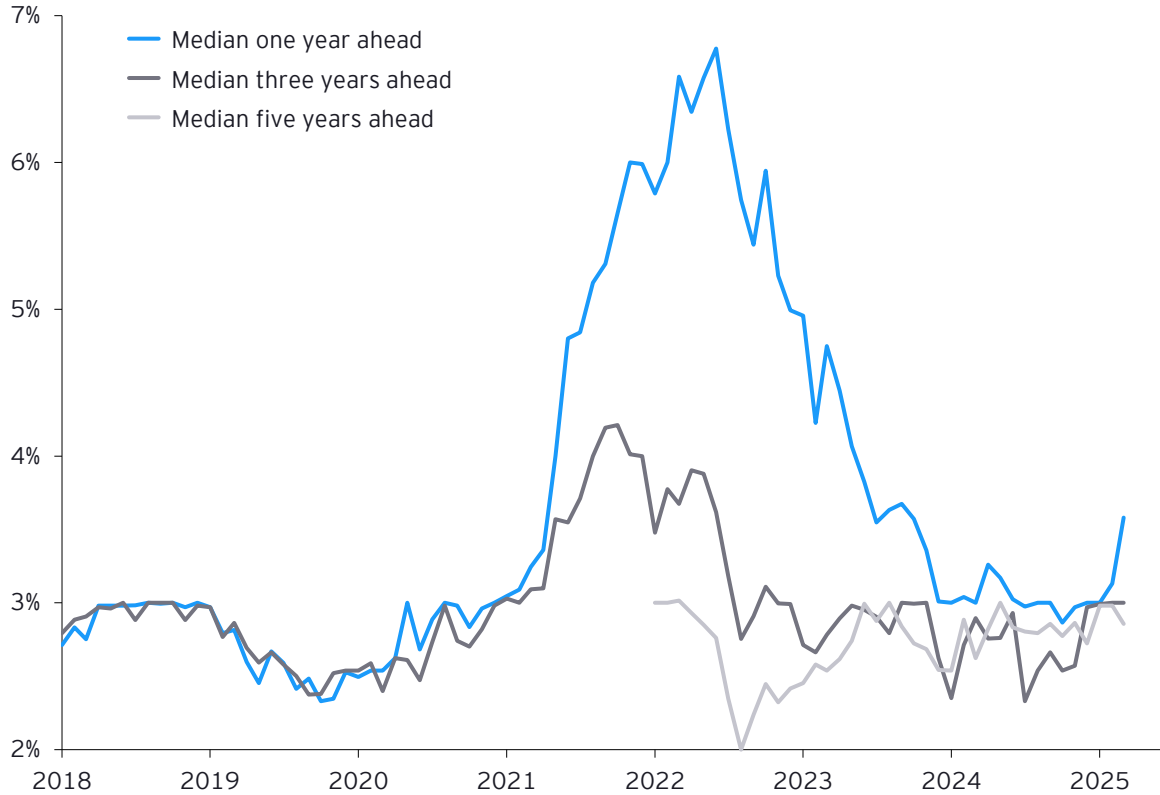


# Consumer inflation expectations gauges have moved sharply higher amid PIA, creating a conflicting headache for Fed policymakers

University of Michigan inflation expectations  
January 2018-March 2025

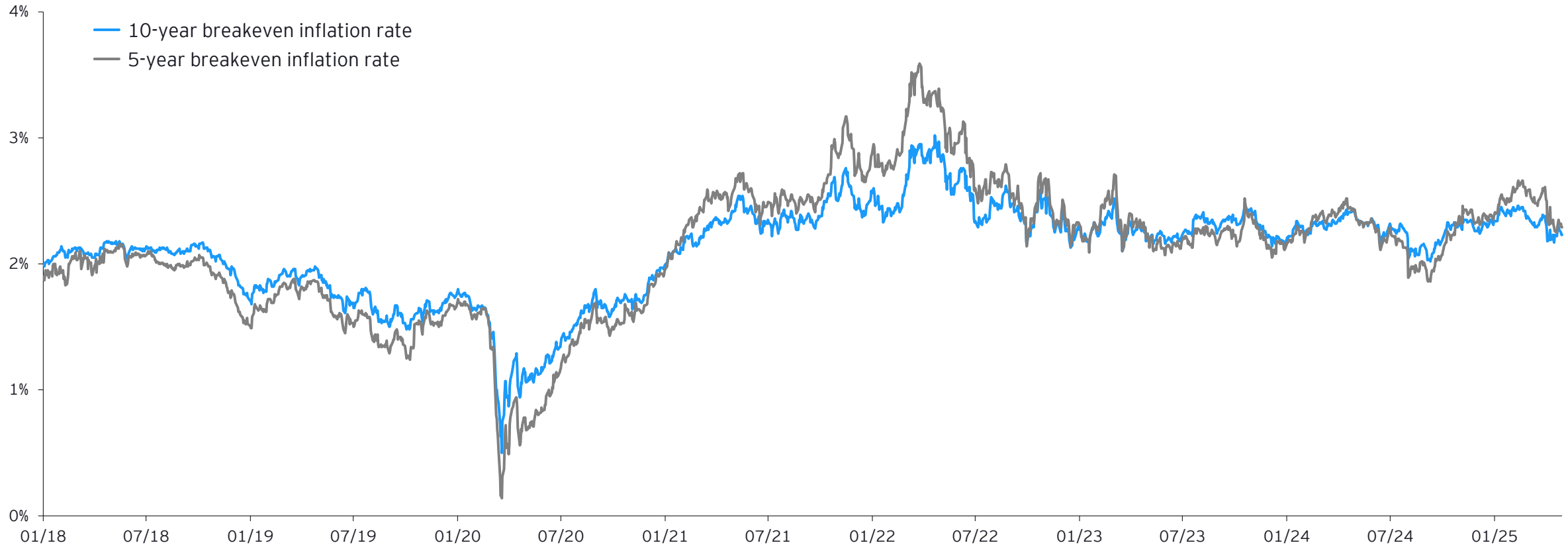


NY Fed consumer inflation expectations  
January 2018-March 2025



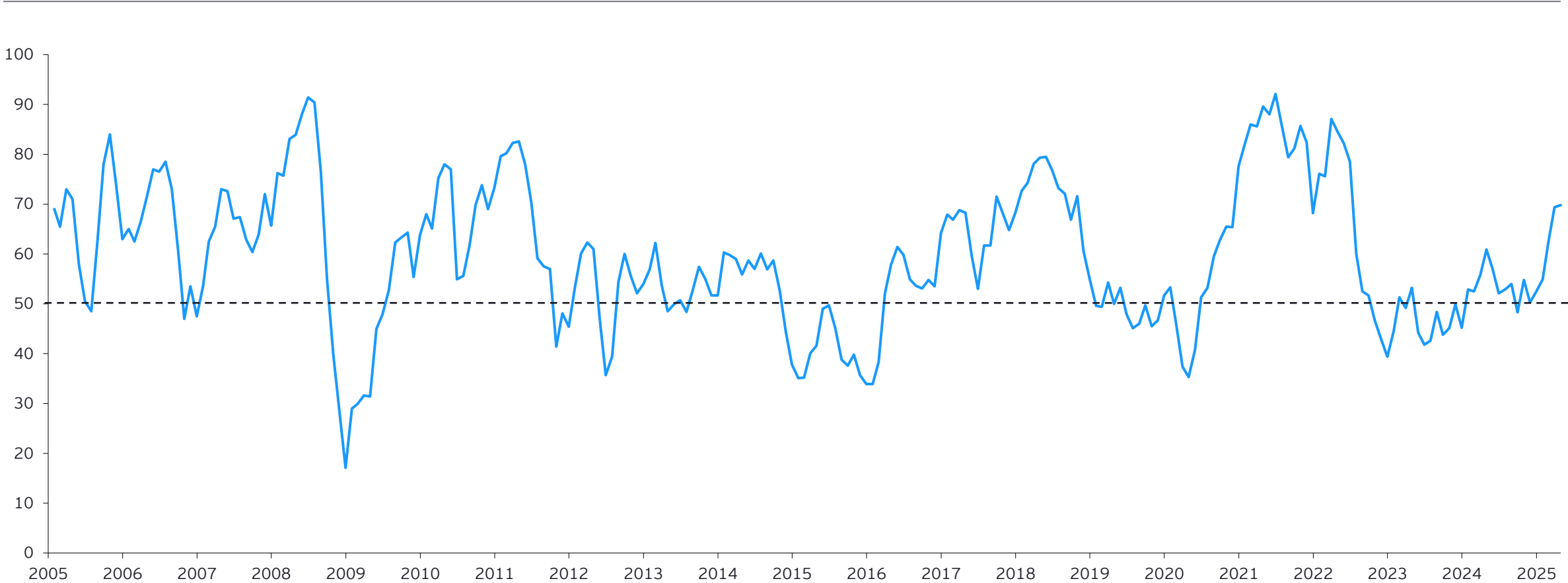
# Long-term, market-based inflation expectations have remained stable just above 2%

US Treasury breakeven inflation rates  
January 2, 2018-April 30, 2025



# Prices paid by manufacturers have risen for seven consecutive months as of April driven by higher input prices from steel and aluminum, China, and universal tariffs

ISM US manufacturing diffusion index: prices paid<sup>1</sup>  
January 2005-April 2025

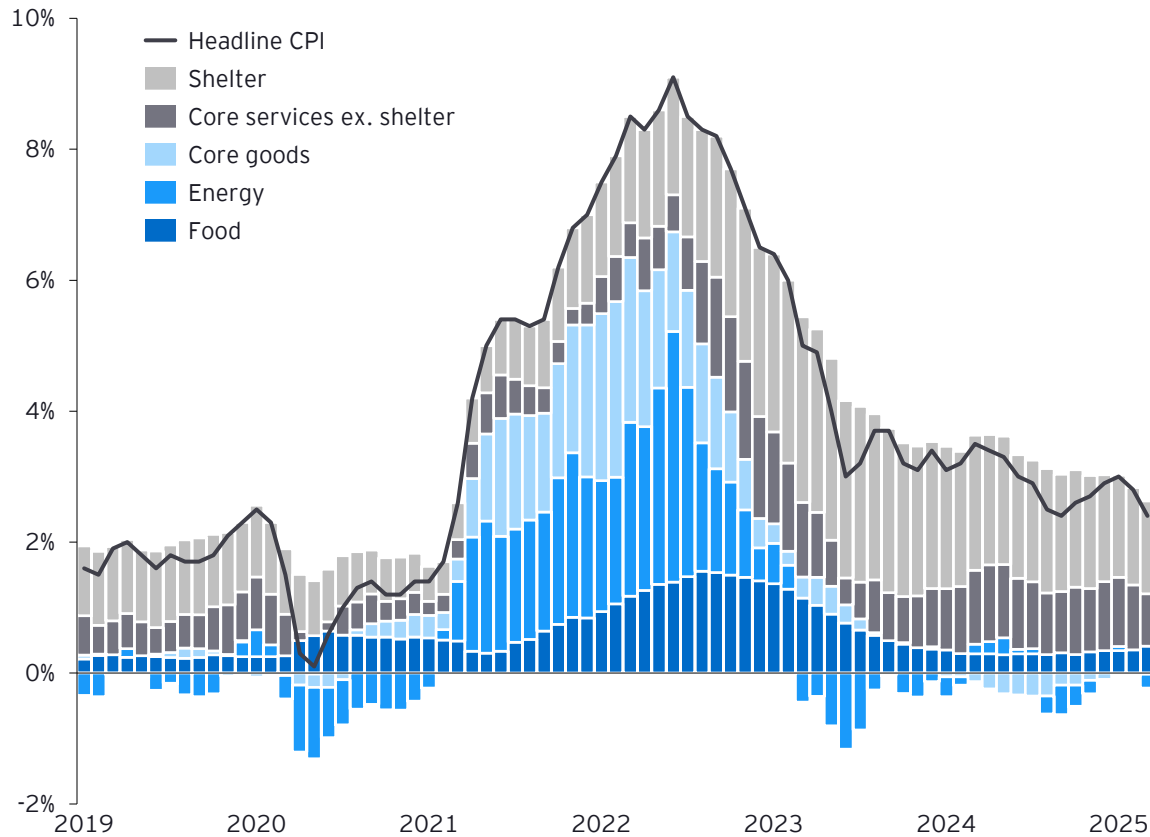


1. The Institute for Supply Management measures PMI (Purchasing Managers' Index) by surveying manufacturing and service firms on their orders, production, employment, deliveries and inventories. The index indicates business activity in both sectors. This is a diffusion index, with readings above 50 indicating expansion and readings below 50 indicating contraction in activity.

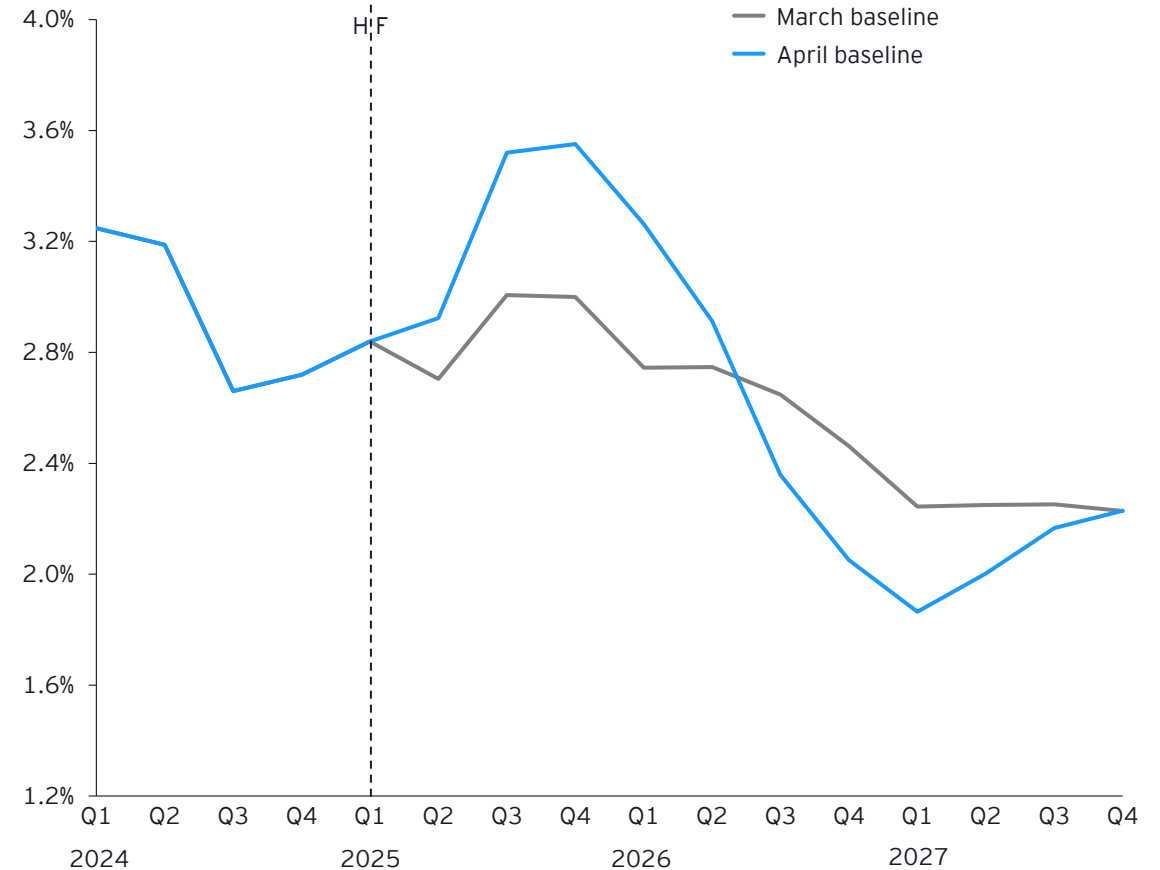
Source: Institute for Supply Management; EY-Parthenon

# While inflation trends cooled markedly in recent months, higher tariffs will lead to a renewed inflation impulse, with core CPI inflation likely to end 2025 around 3.5%-4.0%

US y/y percentage change in headline CPI, contribution by category<sup>1</sup>  
January 2019-March 2025



US Year-over-year headline consumer price index inflation<sup>2</sup>  
2024 Q1-2027 Q4



1. Headline CPI includes the prices on a fixed basket of goods. Core CPI removes the CPI components that can exhibit large amounts of volatility from month to month, such as food and energy.  
2. Inflation is an increase in price levels. Disinflation occurs when inflation persists but at a slower rate (decelerating price increases). Deflation, in contrast, is a decline in price levels (negative growth).

Source: U.S. Bureau of Labor Statistics; EY-Parthenon

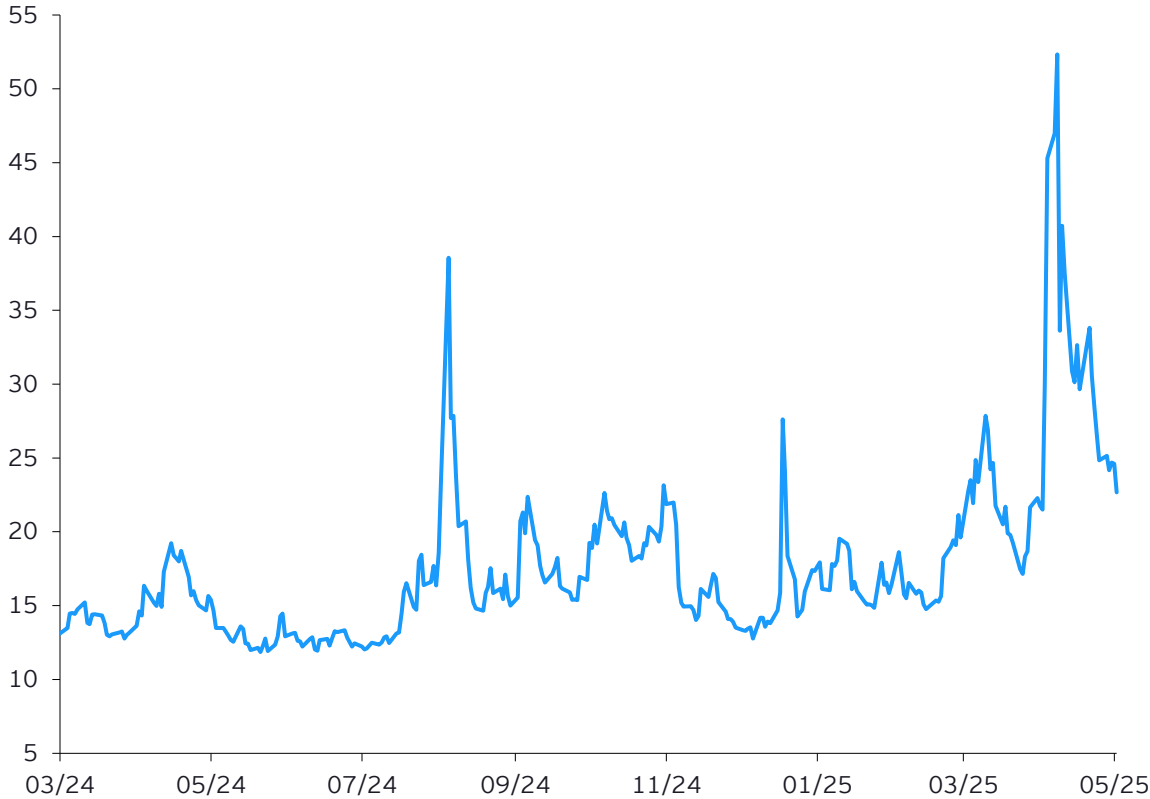
# Agenda

- US and global outlook
- Global confidence crisis
- Business sentiment and investment
- Consumer fundamentals, attitudes and spending
- Prices, inflation and profit margins
- **Market volatility**
- Macroeconomics Team contacts



# A sharp financial market reaction could exacerbate the tariff shock by restraining capex and hiring as well as weigh on Main Street's morale, wealth and spending

CBOE Volatility Index (VIX)<sup>1</sup>  
March 1, 2024-May 2, 2025



S&P 500 index  
March 1, 2024-May 2, 2025



1. The new CBOE Volatility Index is based on the prices of eight S&P 500 index put and call options.  
Source: Federal Reserve Board; Chicago Board Options Exchange (CBOE); EY-Parthenon

# Investors are shunning dollar-denominated assets in favor of gold and other safe-haven currencies as inconsistent trade policy undermines the US' safe-haven status

US nominal broad trade-weighted dollar index<sup>1</sup>  
January 1, 2024-April 25, 2025 (January 2006 = 100)



US 10-year treasury yield  
January 1, 2024-May 2, 2025



1. The trade-weighted dollar is a weighted average of the foreign exchange value of the US dollar against the currencies of a broad group of major US trading partners.  
Source: Federal Reserve Board; EY-Parthenon

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# Meet the EY-Parthenon Macroeconomics Team

## Meet the team



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