

*Market Monitor – United States*

## Economic contraction in Q1 masked solid underlying strength



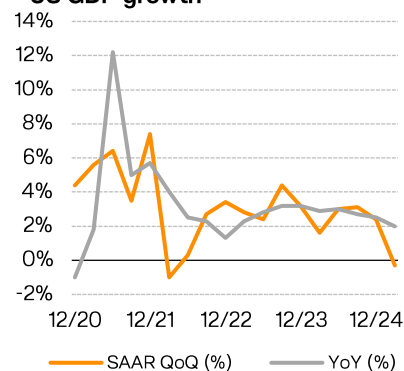
- US economic growth contracted by 0.3% SAAR in Q1 2025, mainly due to higher imports from front-loading.
- The Trump administration reached its first trade deal with the UK, while the progress of other trade deals remains highly uncertain.
- Fed held rate unchanged in May, while PCE inflation moderated in March, and the labour market remained resilient in April.

### The US economy contracted due to higher imports

**The US economy contracted slightly in Q1 2025.** Advance estimates indicated that US real GDP fell at a seasonally adjusted annual rate (SAAR) of 0.3% in Q1 2025 after growing by 2.4% in Q4 2024. The readings probably masked underlying strength, as strong imports due to front-loading became the major drag, while private consumption and investment continued to expand. On a year-on-year (YoY) basis, US real GDP grew by 2.0% in Q1 2025, slowing from the 2.5% growth observed in Q4 2024.

Among the major components of US GDP, exports grew by 1.8% SAAR in Q1 2025 (-0.2%: Q4 2024), whereas a 41.3% SAAR increase in imports led to a sharp rise in trade deficits, with net exports subtracting 4.83 percentage points (ppts) from headline GDP growth. However, domestic demand remained solid. Personal consumption expenditures (PCE) grew by 1.8% SAAR in Q1, adding 1.21 ppts to growth, while investment surged strongly by 21.9% SAAR in Q1 2025, contributing another 3.60 ppts. Government spending retreated by 1.4% SAAR in Q1, reducing growth slightly by 0.25 ppts. The GDP report in Q1 underscored resilient domestic demand in the US. While the impacts from tariff measures have not been fully realised, US trade policies remain highly unpredictable. On balance, the US economy is still expected to grow at a modest pace in 2025.

**US GDP growth**



Source: Bloomberg

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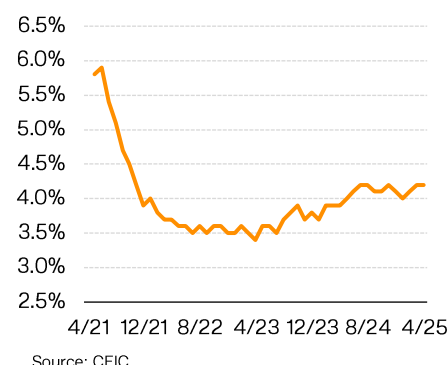
May 2025

### US reached its first trade deal, but outlook remains uncertain

**US trade policy uncertainties eased slightly but remained elevated.** Shortly after announcing widespread reciprocal tariff measures in early April, President Trump paused most of those measures for 90 days to allow time for negotiations while maintaining the 10% universal tariff on all US trading partners. Meanwhile, the US reciprocal tariff on Chinese imports was elevated to 145%, with China imposing retaliation tariffs of 125% on the US. However, in mid-April, Trump announced temporary exemptions on a list of electronic products, which were mostly imported from China. This marked an olive branch amid the tense relations between the US and China. Moreover, on 6 May, the Trump administration announced that there will be high level talks between the two sides soon.

Furthermore, the Trump administration has signalled that trade deals with other counterparties are on the horizon. On 8 May, Trump announced a trade agreement with the UK. The deal maintains the 10% tariff in place for most goods but provides relief from the specific tariffs on autos, steel and aluminium. Meanwhile, South Korea, Japan and India are also reportedly the most likely to sign trade agreements ahead. These trade deals should ease market concerns over price increases and an economic downturn arising from the proposed steep tariffs. Overall, US trade policy uncertainties have remained the major downside risk facing the global economy.

Unemployment rate



### Early data showed economic activities held up in Q2

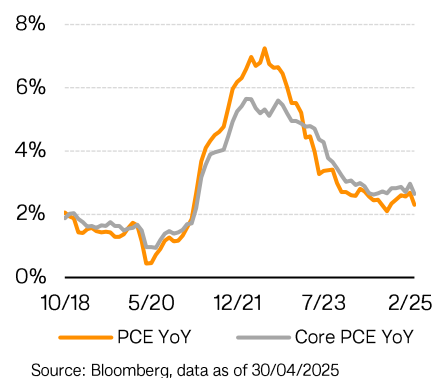
**Business activity held up in April.** Both manufacturing and services business surveys were better than expected. Despite the tariff measures, the Institute of Supply Management (ISM) manufacturing purchasing managers' index (PMI) only decreased slightly to 48.7 in April, while the S&P Global US manufacturing PMI held steady at 50.2. In the meantime, the ISM and S&P Global services PMIs remained in expansionary territory at 51.6 and 50.8 in April, respectively. On the contrary, consumer sentiment continued to decline in April. The University of Michigan's Consumer Sentiment Index fell further to 52.2 in April from 57 in March. Meanwhile, the US Conference Board's Consumer Confidence Index fell from 93.9 in March to 86 in April, its lowest level since May 2020.

**The US job market stayed resilient in April.** The US job market performed better than expected in April, with total nonfarm payrolls increasing by 177,000, compared to March's revised figure of 185,000. Moreover, the unemployment rate was unchanged at 4.2%, and the average hourly earnings grew slightly slower at 0.2% MoM in April (3.8% YoY). April's jobs report indicated that the US labour market is largely stable, pushing off concerns for an immediate recession.

### Fed remains patient for its next move

**Fed Chairman Powell reiterates wait and see approach.** During May's FOMC meeting, the Committee decided to hold the federal funds rate unchanged at 4.25-4.50%, as anticipated. The meeting highlighted that, first, the risks of higher

US PCE Inflation



## Economic Research

unemployment and higher inflation have risen; second, the FOMC is waiting for more clarity from upcoming data before altering monetary policy. This underscores the Fed's wait and see approach, evident by Powell referencing "waiting" over 20 times in the post-meeting press conference. Despite the Fed's cautious stance, trade-related uncertainties are likely to negatively impact the US economy and job market going forward, which will open the door for rate cuts in 2H 2025.

**PCE inflation slowed in March.** Headline PCE inflation rose by 2.3% YoY in March, slowing by 0.4 ppts compared to February. Core PCE inflation, which excludes food and energy, rose by 2.6% YoY in March, also slowing by 0.4 ppts compared to February. On a monthly basis, headline and core PCE indices were both flat in March, after rising by 0.4% MoM and 0.5%, respectively, in February. March's readings helped ease market concerns over growing inflationary pressures. However, there is still great uncertainty over the inflation outlook, as the full impacts of Trump's tariff policies have yet to feed into the data.

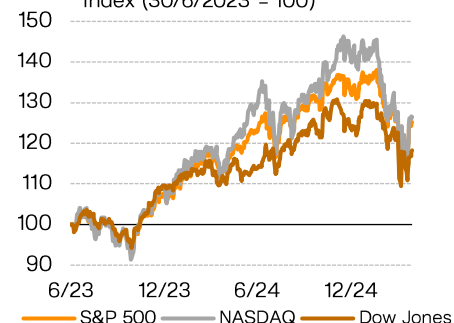
## Major stock markets recouped the losses from tariff fears

**Major US equity indices were volatile in April.** At the end of April, the S&P 500 and Dow Jones Industrial Average fell by 0.8% and 3.2% MoM, respectively, while the Nasdaq rose by 0.9%. During the month, the announcement of reciprocal tariffs and retaliation measures by China heightened fears of a global economic recession and sparked considerable volatility in global financial markets. At one point in April, the S&P 500, Nasdaq, and Dow Jones closed down by 15.3%, 20.9%, and 11.5% year to date (YTD), respectively. Subsequently, the US decision to pause certain reciprocal tariff measures, alongside potential progress in trade negotiations and resilient economic data enabled stock markets to bounce back toward the end of April, thus eliminating most of their previous losses. Meanwhile, the reduced confidence in US-based assets prompted a large sell-off in US treasury bonds, causing the 10-year US treasury yields to once climb to 4.592%, before falling to 4.163% by the end of April. It also led to a weaker US dollar, as firms and foreign countries shifted to other safe haven assets such as gold. In April, the US dollar index was down by 4.6% MoM.

## May 2025

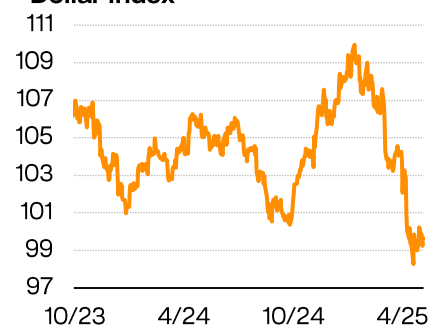
### US Equity Indices

Index (30/6/2023 = 100)



Source: Bloomberg, data as of 30/04/2025

### Dollar Index



Source: Bloomberg, data as of 30/04/2025

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