USA ECONOMIC REVIEW

May 2025

Prepared by:
Research Department

GROSS DOMESTIC PRODUCT

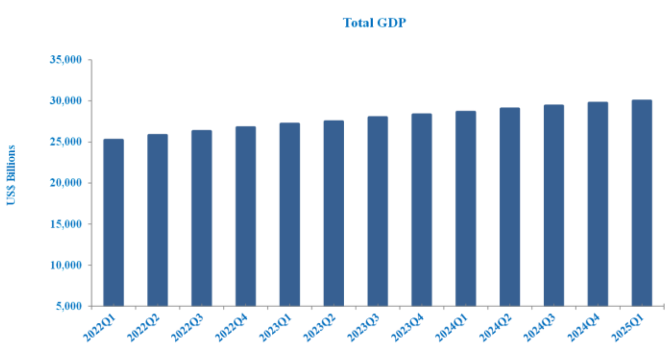
According to the "second" estimate released by the Bureau of Economic Analysis (BEA), real gross domestic product (GDP) decreased at an annual rate of 0.2% in the first quarter of 2025. This marks a reversal from the 2.4% increase recorded in the fourth quarter of 2024. The slight contraction in GDP signals a cooling in economic momentum, despite some areas of resilience within the economy.

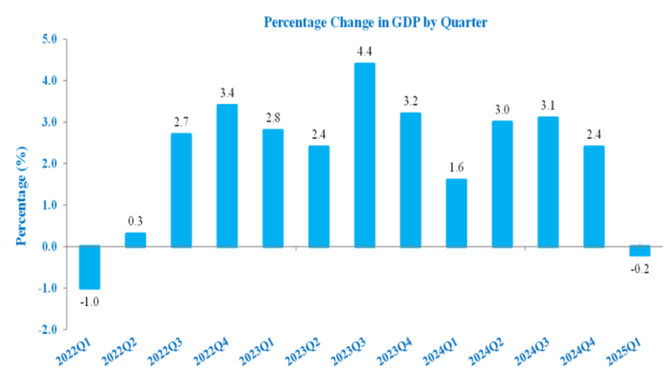
The downturn in real GDP primarily resulted from a significant increase in imports, which are subtracted in the calculation of GDP, and a decrease in government spending. These negative contributions were only partially offset by gains in consumer spending, private investment, and exports. The data suggests that while domestic demand remained relatively stable, external trade dynamics and reduced public sector expenditures weighed heavily on growth.

Compared to the previous quarter, the deceleration in GDP growth was driven by an upturn in imports, a slowdown in consumer spending, and a downturn in government expenditures. However, these were somewhat mitigated by improvements in both private investment and exports, which showed signs of resilience despite broader economic headwinds. Notably, real final sales to private domestic purchasers rose by 2.5%, though this was revised down from the initial estimate of 3.0%.

Inflationary pressures also persisted during the quarter. The price index for gross domestic purchases rose by 3.3%, slightly down from the earlier estimate of 3.4%. The personal consumption expenditures (PCE) price index increased by 3.6%, while the core PCE index—excluding food and energy—rose by 3.4%, revised down from 3.5%. These figures indicate that inflation remains elevated, posing ongoing challenges for policymakers and consumers alike

Corporate profits also reflected the economic slowdown, falling by $118.1 billion in the first quarter, in contrast to a $204.7 billion increase in the previous quarter. Additionally, real gross domestic income (GDI) declined by 0.2%, aligning with the GDP contraction and reinforcing the picture of a softening economic environment.



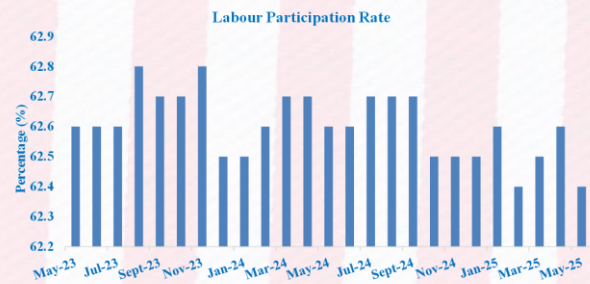


NATIONAL EMPLOYMENT

According to the U.S. Bureau of Labor Statistics, total nonfarm payroll employment rose by 139,000 in May, while the unemployment rate remained unchanged at 4.2%. Employment saw notable increases in health care, leisure and hospitality, and social assistance, whereas federal government employment continued to decline.

Household Survey Data

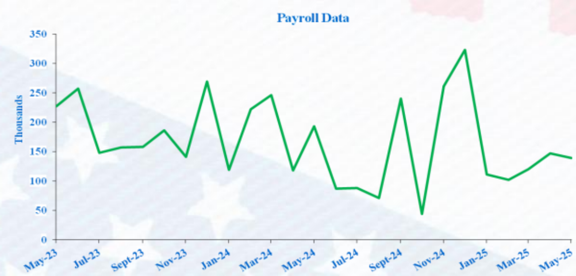
In May, the unemployment rate held steady at 4.2%, with 7.2 million people unemployed. The rates for major worker groups, including adult men (3.9%), adult women (3.9%), teenagers (13.4%), Whites (3.8%), Blacks (6.0%), Asians (3.6%), and Hispanics (5.1%), showed little or no change over the month.



The number of long-term unemployed (those jobless for 27 weeks or more) decreased by 218,000 to 1.5 million, accounting for 20.4% of all unemployed individuals. Meanwhile, the number of people jobless for less than 5 weeks increased by 264,000 to 2.5 million.

The labour force participation rate declined by 0.2 percentage point to 62.4%, and the employment-population ratio fell by 0.3 percentage point to 59.7%. The number of people employed part-time for economic reasons remained little changed at 4.6 million. These individuals preferred full-time jobs but were working part-time due to reduced hours or inability to find full-time employment.

The number of people not in the labour force who wanted a job was little changed at 6.0 million. Among them, 1.6 million were marginally attached to the labour force, and 381,000 were discouraged workers who believed no jobs were available for them.



Establishment Survey Data

In May, total nonfarm payroll employment increased by 139,000, slightly below the average monthly gain of 149,000 over the prior 12 months. Notable job gains occurred in health care, leisure and hospitality, and social assistance. Health care added 62,000 jobs, with growth in hospitals (+30,000), ambulatory health care services (+29,000), and skilled nursing care facilities (+6,000).

Employment in leisure and hospitality rose by 48,000, largely driven by gains in food services and drinking places (+30,000). Social assistance employment increased by 16,000, all of which came from individual and family services.

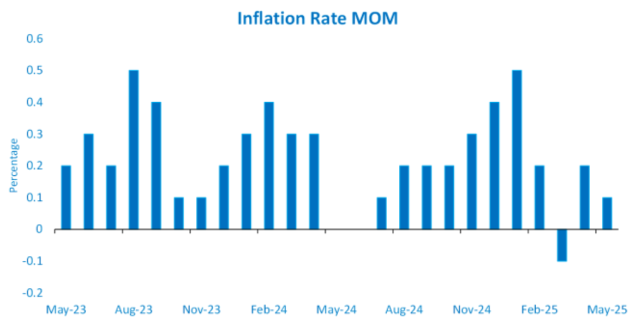
Federal government employment declined by 22,000 in May and has fallen by 59,000 since January. Employment in other major industries—including mining, construction, manufacturing, wholesale and retail trade, transportation and warehousing, information, financial activities, professional and business services, and other services—showed little change over the month.

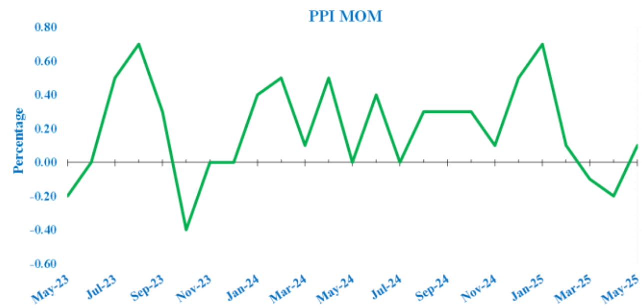
Labour Force in Thousands	Jan-Mar	Apr-Jun	Jul-Sep	Oct - Dec
Year	Q1	Q2	Q3	Q4
2014	413,248	415,631	417,897	420,258
2015	422,318	424,443	426,391	428,464
2016	430,279	431,901	434,149	435,657
2017	437,445	439,137	440,698	442,046
2018	443,994	446,121	447,657	448,952
2019	450,419	452,053	453,472	454,923
2020	455,218	401,135	421,844	427,740
2021	430,581	435,471	441,717	447,556
2022	452,227	455,896	459,848	462,459
2023	465,037	466,872	468,529	470,111
2024	471,837	473,378	474,391	475,919
2025	477,483	318,983		

Average hourly earnings for all employees on private nonfarm payrolls increased by $0.15 (0.4%) to $36.24, marking a 3.9% rise over the past year. For production and nonsupervisory employees, average hourly earnings rose by $0.12 to $31.18.

The average workweek for all employees remained unchanged at 34.3 hours. For production and nonsupervisory employees, the average workweek also held steady at 33.7 hours.

Revisions to previous months' data showed a net decrease of 95,000 jobs. March employment was revised down by 65,000 to +120,000, and April was revised down by 30,000 to +147,000. These revisions reflect additional reports and updated seasonal adjustments.





CONSUMER PRICE INDEX

The U.S. Bureau of Labor Statistics announced that the Consumer Price Index for All Urban Consumers (CPI-U) rose by 0.1% on a seasonally adjusted basis in May 2025, following a 0.2% increase in April. Over the past 12 months, the all items index increased by 2.4% before seasonal adjustment.

The shelter index rose by 0.3% in May, contributing significantly to the overall monthly increase. The food index also increased by 0.3%, with both the food at home and food away from home indexes rising by 0.3%. In contrast, the energy index declined by 1.0%, driven by a decrease in the gasoline index.

Excluding food and energy, the all items index increased by 0.1% in May, following a 0.2% increase in April. Notable increases were observed in medical care, motor vehicle insurance, household furnishings and operations, personal care, and education. The indexes for airline fares, used cars and trucks, new vehicles, and apparel were among the major indexes that decreased in May.

Over the last 12 months, the all items index rose by 2.4%, slightly higher than the 2.3% increase recorded for the 12 months ending in April. The index for all items less food and energy increased by 2.8% over the past year. The energy index decreased by 3.5%, while the food index increased by 2.9% over the same period.

PRODUCER PRICE INDEX

The Producer Price Index (PPI) for final demand in the U.S. rose 0.1 percent in May on a seasonally adjusted basis, according to the U.S. Bureau of Labor Statistics. Final demand prices had declined 0.2 percent in April and 0.1 percent in March. Over the 12 months ended May 2025, the index for final demand increased by 2.6 percent on an unadjusted basis.

In May, the increase in the index for final demand was primarily driven by a 0.1 percent rise in prices for final demand services, while prices for final demand goods increased by 0.2 percent.

Excluding foods, energy, and trade services, the index for final demand edged up by 0.1 percent in May, following a 0.1 percent decline in April. Over the past 12 months, this index has advanced by 2.7 percent.

Final demand goods

A key contributor to the May increase was a 0.9 percent rise in prices for tobacco products. Additional gains were recorded in gasoline, processed poultry, roasted coffee, residential natural gas, and oilseeds. These increases were partially offset by an 8.2 percent decline in jet fuel prices, along with decreases in the indexes for pork and carbon steel scrap.

Final demand services

Leading the increase were margins for machinery and vehicle wholesaling, which surged 2.9 percent. Other notable gains were seen in traveller accommodation services; apparel, footwear, and accessories retailing; alcohol retailing; and system software publishing. Offsetting these gains were declines in airline passenger services (down 1.1 percent), furniture retailing, securities brokerage and investment services, and portfolio management.

U.S. DOLLAR

In May 2025, the U.S. dollar experienced a moderate weakening trend, continuing the broader decline seen earlier in the year. The U.S. Dollar Index (DXY) closed the month at 99.33, down from a monthly high of 100.90, reflecting a 1.57% decline from its peak. This movement was driven by dovish signals from the Federal Reserve, which hinted at potential rate cuts amid softening inflation and slowing job growth. Additionally, geopolitical uncertainties and mixed economic data weighed on investor sentiment toward the greenback.

The U.S. dollar weakened against the Canadian dollar, with the USD/CAD exchange rate ending May near 1.37. This modest decline was supported by seasonal strength in the Canadian dollar, stable oil prices, and a relatively hawkish stance from the Bank of Canada. While political uncertainty ahead of Canada's federal elections added some volatility, the loonie remained resilient. The stronger CAD helped ease import related inflation but posed challenges for exporters.

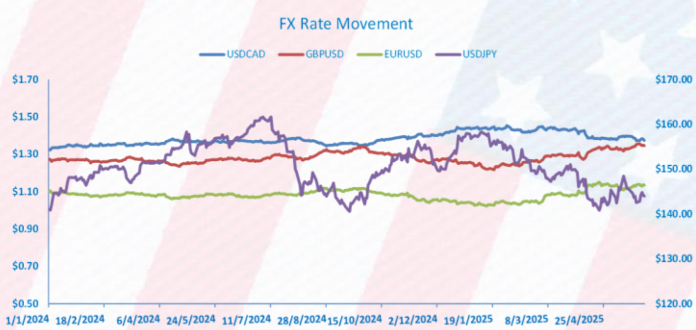
The British pound appreciated against the U.S. dollar, with the GBP/USD rate strengthening to about 1.35 by the end of May. This gain was supported by robust UK employment data and a stable fiscal outlook. Despite speculation about potential Bank of England rate cuts, the pound remained firm, benefiting from broad dollar weakness and investor confidence in the UK's economic resilience. The stronger pound helped reduce inflationary pressures from imports but could weigh on export competitiveness.

The euro also gained ground, with the EUR/USD rate rising to approximately 1.13. The eurozone benefited from steady economic performance, ongoing fiscal support, and a cautious but consistent policy stance from the European Central Bank. Meanwhile, the U.S. faced headwinds from trade tensions and softening domestic indicators. A stronger euro, however, raised concerns about the region's export competitiveness.

The Japanese yen strengthened modestly, with the USD/JPY rate falling to around 144. This movement was driven by safe haven demand amid global uncertainties and narrowing interest rate differentials. The Bank of Japan maintained its cautious approach, but expectations of gradual policy normalization lent support to the yen. A stronger yen helped reduce import costs—particularly for energy—but continued to challenge Japan's export driven economy.

The U.S Dollar last traded on May 30, 2025, at the following rates:

USD/CAD: 1.37	EURO/USD: 1.13
GBP/USD: 1.35	USD/YEN: 144.02



U.S. TREASURY YIELD

In May 2025, the U.S. Treasury yield curve exhibited a noticeable upward shift across all maturities, signalling a change in market sentiment compared to the beginning of the year. This movement reflected evolving expectations around inflation, monetary policy, and long-term economic growth. While short-term yields remained relatively stable, long-term rates rose significantly, suggesting that investors were demanding a higher risk premium for holding longer-duration securities amid growing economic uncertainty.

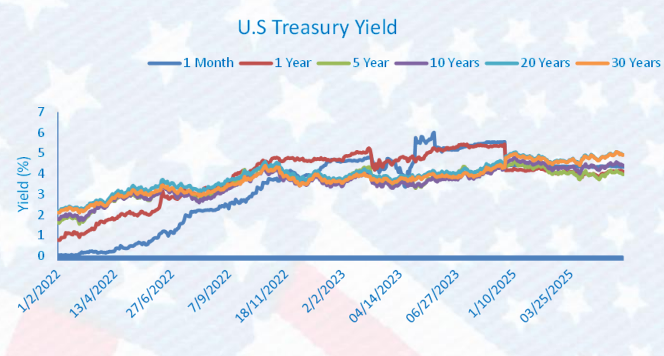
Short-term yields—covering maturities from 1 month to 1 year—showed modest increases. The 1-month yield edged up from 4.35% in January to 4.38% in May, while the 3-month and 6-month yields rose slightly to 4.32% and 4.23%, respectively. The most notable change was in the 1-year yield, which climbed from 3.85% to 4.03%. These relatively mild movements suggest that market participants still expected the Federal Reserve to maintain a cautious stance in the near term, with inflation and economic conditions perceived as manageable.

In contrast, long-term yields—spanning from 2 years to 30 years—experienced more pronounced increases. The 2-year yield rose from 3.60% to 3.89%, while the 10-year yield jumped from 4.01% to 4.42%. The 30-year yield saw one of the largest moves, increasing from 4.41% to 4.91%. These shifts indicate that investors were increasingly concerned about long-term inflation risks, fiscal imbalances, and the broader economic outlook. The average increase in long-term yields ranged from 0.29% to 0.50%, reflecting a growing demand for compensation against future uncertainties.

The shape of the yield curve at the end of May was more steeply upward-sloping than it was at the start of the year. This steepening suggests a market that is beginning to price in higher long-term inflation or a more volatile economic environment, even as short-term expectations remain anchored. Such a curve can have significant implications: higher long-term rates may raise borrowing costs for consumers and businesses, potentially slowing investment and spending, while also signalling a shift in investor preference toward shorter-term instruments.

Treasury Par Yield Curve Rates closed on May 30, 2025, at the following rates:

· 1 year: 4.11%	· 10 years: 4.41%
· 2 years: 3.89%	· 20 years: 4.93%
· 3 years: 3.87%	·30 years: 4.92%



The Congressional Budget Office estimates that the federal budget deficit in the first eight months of fiscal year 2025 was $1.4 trillion, which is $160 billion more than the deficit recorded during the same period last fiscal year. Outlays increased by $357 billion (or 8%), and revenues increased by $196 billion (or 6%).

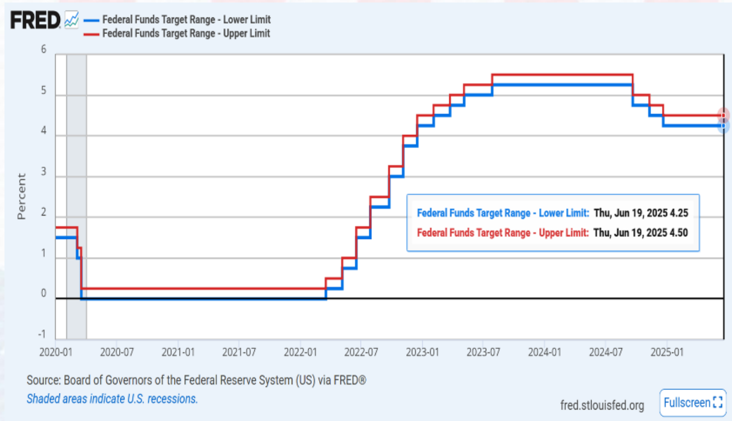
The timing of outlays significantly influenced the year-over-year change. In fiscal year 2024, payments due on October 1, 2023 (a Sunday), were made in September, reducing outlays for the first eight months of that year. Similarly, in both fiscal years 2024 and 2025, payments due on June 1 (which fell on weekends) were made in May, increasing outlays in those months. Without these timing shifts, the deficit so far in fiscal year 2025 would have been $84 billion (or 7%) more than the shortfall at the same point last year

MONTHLY BUDGET REVIEW: MAY 2025

Budget Totals, October - May Billions of Dollars			
	Actual FY 2024	Preliminary FY 2025	Estimated Change
Receipts	3,288	3,484	196
Outlays	4,490	4,847	357
Deficit (-)	-1,202	-1,363	-160

FEDERAL RESERVE PRESS RELEASE

On June 18, 2025, The Federal Open Market Committee (FOMC) decided to maintain the federal funds rate target range at 4.25% to 4.50%, reaffirming its commitment to maximum employment and 2% inflation over the long term. While net exports have shown recent volatility, broader indicators point to continued solid economic growth and a strong labour market, with low unemployment and steady job gains. Inflation remains somewhat elevated, though uncertainty around the economic outlook has lessened. The Committee will continue reducing its balance sheet and emphasized a data-dependent approach, stating it will closely monitor economic developments and adjust policy as needed to support its dual mandate.



The Federal Reserve has made the following decisions to implement the monetary policy stance announced by the Federal Open Market Committee in its statement on June 18, 2025:

- The Board of Governors of the Federal Reserve System voted unanimously to maintain the interest rate paid on reserve balances at 4.4 percent, effective June 20, 2025.
- As part of its policy decision, the Federal Open Market Committee voted to direct the Open Market Desk at the Federal Reserve Bank of New York, until instructed otherwise, to execute transactions in the System Open Market Account in accordance with the following domestic policy directive:

"Effective June 20, 2025, the Federal Open Market Committee directs the Desk to:

- Undertake open market operations as necessary to maintain the federal funds rate in a target range of 4-1/4 to 4-1/2 percent.
- Conduct standing overnight repurchase agreement operations with a minimum bid rate of 4.5 percent and with an aggregate operation limit of $500 billion.
- Conduct standing overnight reverse repurchase agreement operations at an offering rate of 4.25 percent and with a per-counterparty limit of $160 billion per day.
- Roll over at auction the amount of principal payments from the Federal Reserve's holdings of Treasury securities maturing in each calendar month that exceeds a cap of $5 billion per month. Redeem Treasury coupon securities up to this monthly cap and Treasury bills to the extent that coupon principal payments are less than the monthly cap.
- Reinvest the amount of principal payments from the Federal Reserve's holdings of agency debt and agency mortgage-backed securities (MBS) received in each calendar month that exceeds a cap of $35 billion per month into Treasury securities to roughly match the maturity composition of Treasury securities outstanding.
- Allow modest deviations from stated amounts for reinvestments, if needed for operational reasons."

- In a related action, the Board of Governors of the Federal Reserve System voted unanimously to approve the establishment of the primary credit rate at the existing level of 4.5 percent.

GLOBAL ECONOMIC REVIEW

World Economic Outlook at a Critical Juncture

The April 2025 edition of the IMF's World Economic Outlook (WEO), titled "A Critical Juncture amid Policy Shifts," presents a sobering assessment of the global economy, emphasizing the challenges posed by trade tensions, demographic shifts, and technological disruption. The report forecasts a significant slowdown in global growth, with world output expected to expand by just 2.8% in 2025 and 3.0% in 2026, down from 3.3% in 2024 and well below the pre-pandemic average of 3.7%. This deceleration is attributed to rising geopolitical risks, policy uncertainty, and structural headwinds.

Advanced economies are projected to grow at a modest 1.4% in 2025, with the United States slowing to 1.8%, reflecting a sharp downgrade due to trade disruptions and policy ambiguity. The euro area is expected to grow by only 0.8%, while other major economies like Canada, Japan, and the UK also face downward revisions. Emerging market and developing economies are forecast to grow at 3.7%, with regional disparities. Emerging Asia is projected to grow at 4.5%, though China's outlook has been revised down to 4.0% due to property sector weaknesses and trade pressures. India, however, remains resilient at 6.2%. Latin America and the Caribbean are expected to slow to 2.0%, particularly due to a downgrade for Mexico, while other regions like emerging Europe, the Middle East, and sub-Saharan Africa also face softer growth due to tighter global financial conditions.

A central theme of the report is the escalation of trade tensions, especially between the U.S. and China. The imposition of sweeping tariffs—raising the effective U.S. tariff rate on Chinese goods to 115%—and retaliatory measures from China have disrupted global supply chains, dampened investment, and heightened market volatility. The IMF warns that if trade wars intensify, global GDP could shrink by up to 1.9% in 2026 compared to the baseline.

The WEO also explores demographic transformations, highlighting the aging global population. The average global age is projected to rise by 11 years by century's end. While this trend poses challenges such as slower growth and labour shortages, the report emphasizes the potential of "healthy aging." Improved cognitive and physical health among older adults is enabling longer working lives and higher labour force participation. The IMF recommends policies that promote lifelong health and education, raise retirement ages, and close gender gaps in labour markets. These measures could boost global output growth by up to 0.6 percentage points annually over the next 25 years, offsetting much of the demographic drag.

The report also addresses the macroeconomic implications of AI, particularly its impact on energy demand. As AI adoption accelerates, electricity consumption is expected to surge, potentially rivalling that of entire nations like India by 2030. This raises concerns about energy prices, emissions, and infrastructure needs. The IMF calls for targeted energy policies and investments in renewables to align technological progress with environmental goals.

In conclusion, the IMF underscores the need for coordinated policy responses, structural reforms, and international cooperation. It urges clarity in trade policy, vigilance from central banks, and fiscal prudence. The report paints a picture of a global economy at a crossroads, where prudent choices today will shape the economic landscape for decades to come.

U.S. Economic Outlook 2025: Slowing Growth, Rising Stakes

The United States is confronting a notable slowdown in economic activity, shaped by elevated trade barriers and policy uncertainty. Real GDP growth is set to decelerate to roughly 1.6% in 2025, down from 2.8% in 2024. The reimposition of broad-based tariffs—particularly on Chinese imports—has weighed on household consumption and business investment, while retaliatory measures by key partners have further clouded the trade and investment climate.

In monetary policy, the Federal Reserve on June 18, 2025, maintained the federal funds rate at 4.25%–4.50%, signalling a data-dependent stance as it balances slowing growth against persistent inflation risks. Policymakers still project two quarter-point rate cuts by the end of the year, though additional easing has been pushed into next year. Meanwhile, consumer prices rose 2.4% year-over-year in May, with core inflation (excluding food and energy) up 2.8%, underscoring that underlying price pressures remain just above the Fed's 2% target.

On the geopolitical front, Washington has deepened its strategic engagements—from reinforcing partnerships in the Indo-Pacific to bolstering NATO ties in Europe—and has simultaneously stepped-up military support to Israel amid the Israel–Iran conflict. In the eastern Mediterranean and Red Sea, U.S. naval forces have surged additional guided-missile destroyers to enhance missile defence for regional allies, while the administration has backed Israel in recent G7 communiqués and is weighing possible strikes on Iran's nuclear sites—a decision now deferred amid threats from Iran-aligned militias against U.S. bases and commercial shipping.

In technology and energy, the rapid expansion of AI infrastructure is driving unprecedented demand for electricity. Commercial sector consumption—including data centers—will rise by an estimated 3% in 2025 and 5% in 2026, reflecting the power-hungry nature of modern AI workloads. This surge is raising concerns over grid capacity and sustainability, prompting calls for accelerated investment in both renewable generation and grid modernization.

Globally, these U.S. developments are contributing to a more fragmented economic environment. Trade partners are recalibrating supply chains in response to higher tariffs, investors are adjusting risk models around slower growth and persistent inflation, and central banks worldwide are fine-tuning their monetary policies to manage capital flows. While the United States remains central to shaping global trends, its current blend of protectionism, strategic competition, and technological acceleration is redefining the contours of globalization and testing the resilience of international cooperation.