

March 26, 2025

An economic Equinox in the US

On Thursday March 20th, the Northern Hemisphere marked the Spring Equinox. During this phenomenon, we experience an identical amount of daylight and night-time hours due to the Earth's position in its orbit around the Sun.

In some sense, it feels like the US economy is experiencing its own Equinox. On the bright side, resilient hard data and the prospect of business-friendly policies continue to offer reasons for optimism. Yet looming over this is a darker cloud of policy uncertainty, trade tensions and deteriorating sentiment. Will the light win out as we are experiencing here with the first days of Spring? Much depends on the next steps taken by the White House.

An encroaching shadow

For some investors, it is becoming increasingly difficult to ignore ominous headlines about the health of the US economy, volatility in survey data and the resultant decline in stock markets.

On the corporate side, executives are growing increasingly wary of the escalating trade dispute. Surveys show hesitation on capex and investment decisions, with many firms adopting a wait-and-see approach. The April 2 trade announcement may bring clarity, but continued uncertainty risks bleeding into hard economic data. Some companies are already hiking prices preemptively—bracing for potential tariffs and adding to inflationary pressures.

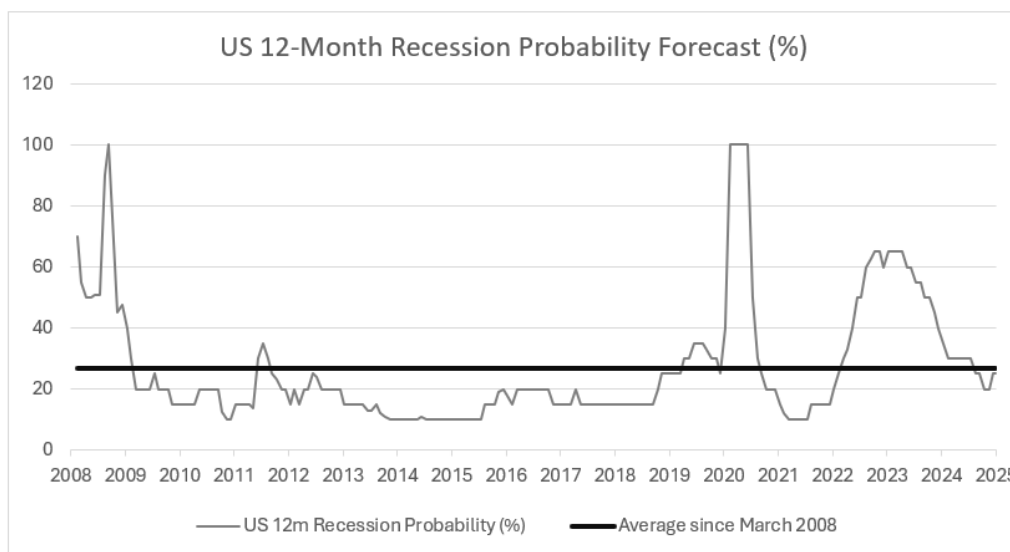
Consumers, too, are on edge. The memory of post-pandemic inflation lingers, and tariffs—essentially a tax on households—have reignited fears of rising costs. The latest University of Michigan survey showed the sharpest monthly rise in long-term inflation expectations since 1993. Soaring prices for staples like eggs are only perpetuating these fears.

Adding to the unease are layoffs linked to Elon Musk's Department of Government Efficiency. Although President Trump has urged a more measured approach—favouring a “scalpel rather than a hatchet” when it comes to jobs cuts—some of the impact is already visible in the data,

especially on labour market perceptions.

Residual strength in the US economy

However, when it comes to hard economic data, the US is still outpacing other major regions. Growth is expected to come in at a still-respectable 2.2% this year, while consensus recession expectations remain modest, hovering around 25% - below the long-run average.

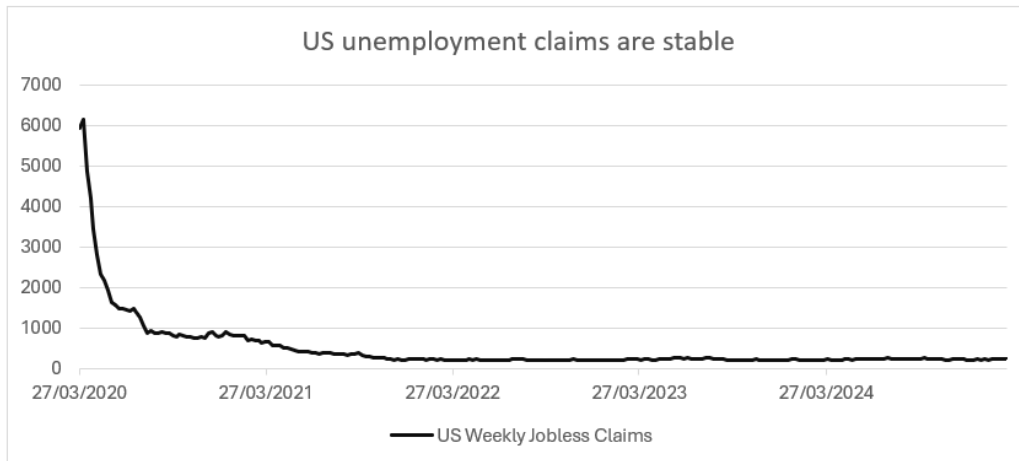


Source: Bloomberg, BIL as of 21st March 2025

Consensus Expectations for Real GDP Growth (% YoY)		
	2025	2026
US	2.2	2.0
Eurozone	0.9	1.2
China	4.5	4.2
Japan	1.2	0.9
UK	1.0	1.4
Germany	0.3	1.0
France	0.7	1.1

Source: Bloomberg, BIL as of 21st March 2025

Consumer spending remains the primary engine of growth and the continuation of this largely depends on the strength of the labour market. Insofar as now, we are only seeing a gradual cooling therein. Job openings rose to 7.74 million in January, and the unemployment rate sits at 4.1%, comfortably below the long-run average of 5.68%. Moreover, wages continue to outpace inflation, providing households with modest real income growth.



Source: Bloomberg, BIL as of 21st March 2025

Elsewhere in the economy, data on home sales points to an improvement in the real estate market, while industrial production has gained pace since Trump took office. Durable goods orders hint that this could continue in the near-term.

All this is before many of the President's "pro-business" agenda items, such as tax reform, have been fully enacted; most are yet to pass through Congress. Notably, this week saw the activation of the Defense Production Act, aimed at bolstering domestic mineral production. The executive order mandates streamlined permitting and access to federal financing for mining projects—moves intended to strengthen strategic supply chains.

A Balancing Act

Insofar as now, while we are seeing volatility in survey data, the hard data implies that the US economy remains anchored on relatively solid foundations. Trade policy will be a key factor as to whether that can continue. Persistent uncertainty could tip the economy toward instability, while a more predictable approach, alongside planned tax cuts, could bolster growth.

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