National Economic Outlook

June, 2025

Job Growth Is Slowing in 2025; Fed On Hold for Now

- U.S. job growth surprised to the upside in June, with an increase in employment of 147,000, based on a survey of employers by the Bureau of Labor Statistics. Expectations were for job growth of 110,000. There were modest upward revisions to job growth in April and May of a combined 16,000. Over the past three months job growth has averaged a solid 149,000. Although this is down from average monthly job gains of above 200,000 in 2023 and around 170,000 in 2024, the labor market remains in solid shape. The unemployment rate fell slightly to 4.1% in June from 4.2% in March through May. The unemployment rate has been between 4.0% and 4.2% since May 2024, after increasing from a cyclical low of 3.4% in 2023. The unemployment rate remains historically low and is consistent with what the Federal Reserve views as its mandate of "maximum employment." However, the breadth of job growth is weakening, a worrisome indicator. More industries have lost jobs than added jobs in two of the past three months. Over the past year almost one-half of all job growth has come from education/health services, and another 14% from leisure/hospitality services. And almost one-half of job growth in June came from the public sector.

- As expected the Federal Open Market Committee kept the federal funds rate unchanged on June 18, in a range between 4.25% and 4.50%. After cutting the fed funds rate by a cumulative 100 basis points between September and December 2024, the FOMC has kept the rate in its current range at the first four meetings of 2025. In its policy statement the committee did not indicate a bias toward easing (fed funds rate cuts) or tightening (rate increases). The statement said that the FOMC is "attentive to risks to both sides of its dual mandate," i.e., either higher inflation or a weaker labor market. The statement also referred to the "extent and timing of additional **adjustments** to the target range" (emphasis added). The committee said that "uncertainty about the economic outlook has diminished" since the last FOMC meeting, in early May, but that it "remains elevated." The committee noted that the economy appears to be expanding "at a solid pace," although it also noted "swings in net exports [that] have affected the data." The statement also said that the "unemployment rate remains low, and labor market conditions remain solid." In discussing inflation, the statement noted that it "remains somewhat elevated."

- The personal consumption expenditures price index rose 0.1% from April to May; PCE inflation was 0.1% in April and 0.0% in March, but ran at 0.3% to 0.4% in each of the three previous months. Energy prices fell 1.0% over the month, contributing to slow headline inflation. The core PCE price index, which excludes volatile food and energy prices and is the FOMC's preferred inflation measure, rose 0.2% in May. Core PCE inflation was 0.1% in March and April, but was 0.5% in February and 0.3% in January. On a year-ago basis overall PCE inflation was 2.3% in May, up from 2.2% in April, but unchanged from March. Overall PCE inflation has slowed since peaking at above 7% in mid-2022, but has been stuck between 2.1% and 2.7% for more than a year. Core PCE inflation was 2.7% in May, up from 2.6% in April, and unchanged from 2.7% in March. Like headline inflation, core inflation has been in a narrow range since the spring of 2024, between 2.6% and 2.9%. Although this is down from a peak of close to 6% in the fall of 2022, core inflation remains stuck above the Federal Reserve's 2% objective.

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Baseline U.S. Economic Outlook, Summary Table*

	4Q'24a	1Q'25p	2Q'25f	3Q'25f	4Q'25f	1Q'26f	2024a	2025f	2026f	2027f
Output										
Real GDP (*Chained 2017 Billions $*)	23542	23528	23668	23760	23837	23923	23305	23698	24065	24528
Percent Change Annualized	**2.5**	**-0.2**	**2.4**	**1.6**	**1.3**	**1.5**	**2.8**	**1.7**	**1.5**	**1.9**
CPI (*1982-84 = 100*)	316.5	319.5	321	325	327	329	313.7	323.2	332.2	340.0
Percent Change Annualized	**3.0**	**3.8**	**2.2**	**4.6**	**3.0**	**4.0**	**3.0**	**3.0**	**2.8**	**2.4**
Labor Markets										
Payroll Jobs (*Millions*)	158.6	159.2	159.6	159.8	159.9	160.0	158.0	159.6	160.3	161.4
Percent Change Annualized	**1.3**	**1.4**	**1.1**	**0.3**	**0.4**	**0.9**	**1.3**	**1.1**	**0.4**	**0.7**
Unemployment Rate (*Percent*)	4.1	4.1	4.2	4.3	4.4	4.4	4.0	4.2	4.5	4.3
Interest Rates (Percent)										
Federal Funds	4.66	4.33	4.33	4.33	4.28	3.92	**5.15**	**4.32**	**3.70**	**3.63**
10-Year Treasury Note	4.28	4.46	4.36	4.35	4.31	4.23	**4.21**	**4.37**	**4.26**	**4.28**

a = actual f = forecast p = preliminary **Please see the Expanded Table for more forecast series.*

Tariffs Will Boost Inflation and Weigh on the Economy in the Near Term

The U.S. economy is continuing to expand in mid-2025, but growth will be slower this year than it was in 2023 and 2024, and the unemployment rate will rise. A number of factors are weighing on the economy this year, but foremost among them is a large increase in tariffs. Greater tariffs will lead to higher prices for many goods, boosting inflation and weighing on consumer and business demand. As a result inflation-adjusted economic growth will slow and businesses will be more cautious with their hiring. The higher inflation resulting from tariffs will limit the ability of the Federal Reserve to cut interest rates to support economic growth.

Overall economic conditions are currently good in the U.S. The U.S. economy has grown by 2% over the past year, through the first quarter of 2025. Although this is down from above 3% in 2023, it is still solid. The unemployment rate fell to 4.1% in June, up from 2023 but still historically low, and consistent with what the Federal Reserve views as its legislative mandate of "maximum employment." Job growth has slowed over the past couple of years but is still solid and is close to the number of jobs the economy can create over the longer run, especially given that restrictions on immigration are curbing growth in the labor force (the number of people working or looking for work). And inflation is much lower than it was in 2021 through 2023, although it has not slowed much over the past year, remaining somewhat above the Federal Reserve's 2% objective.

But economic growth will slow this year as tariffs create a drag on economic activity. The Trump administration raised tariffs on specific goods in March, including steel, aluminum, and autos and parts. Then on April 2 President Trump announced "Liberation Day," a sweeping increase in tariffs across most imported goods. As trading partners announced retaliatory actions, the administration responded by further increasing tariffs, particularly on imports from China. The reaction was very negative, with the stock market falling by 19% from February to April and oil prices dropping sharply on expectations for much weaker U.S. and global economic growth.

As a result the administration dialed back some of the most onerous tariffs, including tariffs of better than 100% on most goods from China. The administration also announced a 90-day moratorium on many country-specific tariffs. But as of mid-2025 tariffs are much higher than they were at the beginning of the year. In 2024, the effective tariff rate—total tariffs paid as a share of goods imported into the U.S.—was about 2%. As of late June the effective tariff rate is about 15%, according to the Budget Lab at Yale University.

Tariffs are a tax on economic activity, and the increase in tariffs is a tax increase of more than 1% of GDP. With consumers paying higher costs for goods, they will cut back spending in other areas. In addition to the direct negative impact of tariffs, the uncertainty surrounding them is also a drag on the economy. With the administration making regular changes to tariffs, the 90-day moratorium set to expire in mid-July, and the potential for tariffs to be much different in the next administration, it is difficult for consumers to make decisions about purchases of big-ticket items like cars, and for businesses to make important decisions on capital spending and hiring. The negative impacts will greatly outweigh any movement of production from overseas to the U.S. in response to higher tariffs.

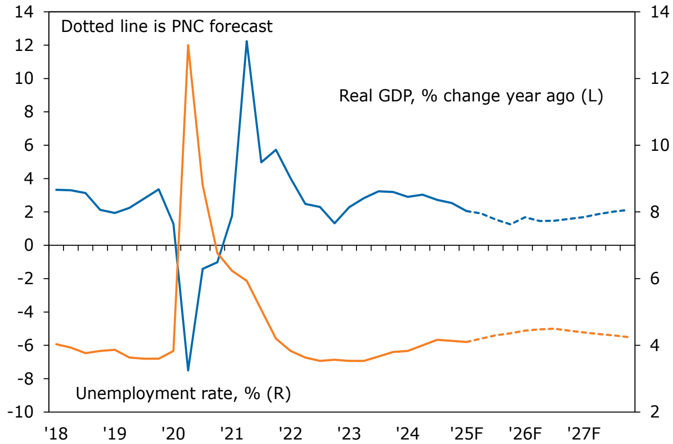
Tariffs will also lead to higher U.S. inflation. Foreign manufacturers and importers are likely to absorb some, but not all, of the tariff costs, and will pass their higher costs along to U.S. consumers and businesses that purchase imports. And the price increases will not be limited to foreign-made goods; U.S. manufacturers are likely to raise prices for many of their products, taking advantage of the higher costs that their foreign competitors are facing. PNC expects core inflation (excluding food and energy), measured using the personal consumption expenditures price index, to move back above 3% toward the end of this year.

With inflation set to pick back up the Federal Open Market Committee is concerned that near-term cuts to the fed funds rate, the committee's key short-term policy interest rate, could boost demand and push inflation even higher in the second half of this year. Therefore the FOMC will likely keep the fed funds rate unchanged in the near term in its current range of 4.25% to 4.50%. PNC expects that a softening labor market will lead the committee to cut the federal funds rate by 25 basis points at the end of 2025, with additional cuts in early 2026, pushing the rate down to a range between 3.50% and 3.75% by the spring of next year.

With tariffs, higher prices, and uncertainty weighing on the economy, PNC is forecasting real (inflation-adjusted) GDP growth to slow significantly this year, to about 1.3% on a Q4-to-Q4 basis. Growth should pick up next year with support from lower interest rates, to about 1.6%. With slower job growth the unemployment rate will increase over the second half of 2025 to around 4.5% by mid-2026, and then start to fall. The probability of recession over the next 12 months is about 35%, up from 15% in early 2025, due almost entirely to the drag and uncertainty created by higher tariffs.

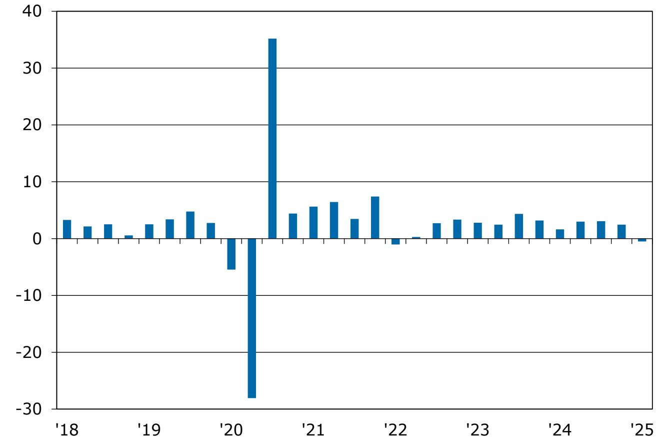
Visit http://www.pnc.com/economicreports to view the full listing of economic reports published by PNC's economists.

Slower Growth in 2025, But No Recession Expected



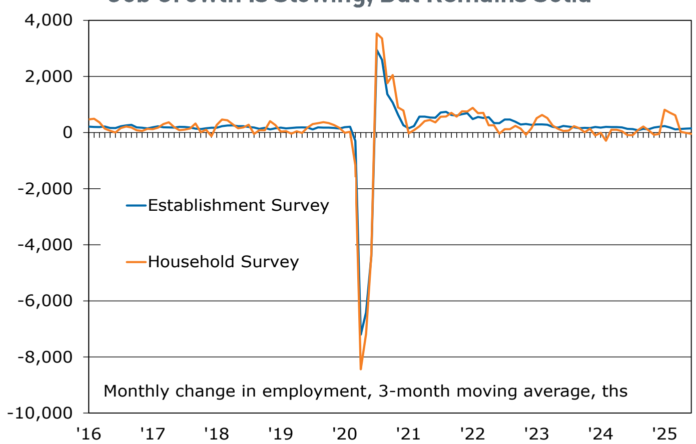
Source: BEA, BLS, PNC

Real GDP Fell Slightly in the First Quarter Even as Demand Remained Strong



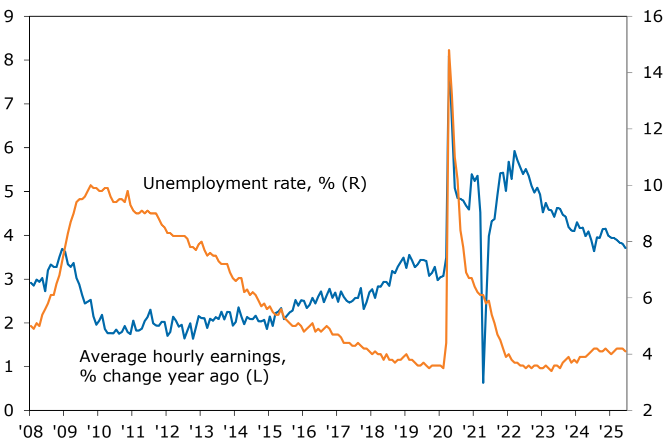
Source: BEA

Job Growth Is Slowing, But Remains Solid



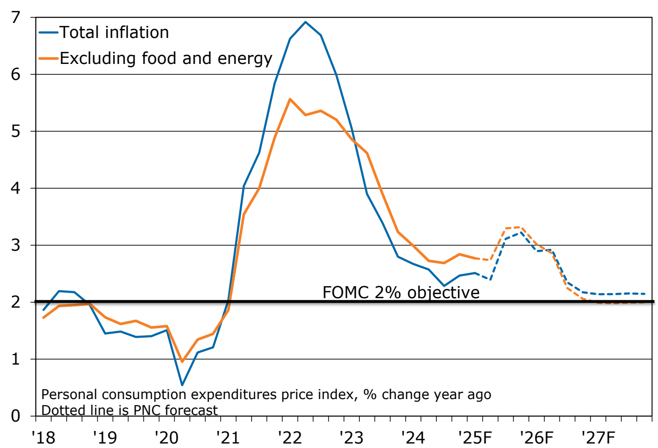
Source: BLS

Fed Does Not Think Inflationary Pressures Are Currently Coming From the Labor Market



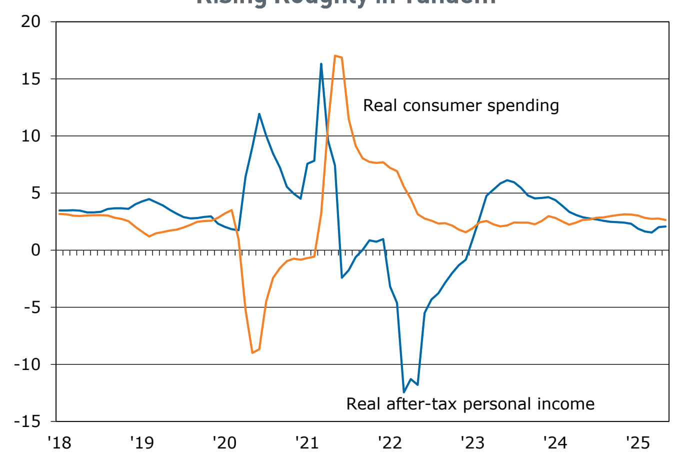
Source: BLS

Tariffs Will Cause Inflation to Reaccelerate in the Second Half of This Year



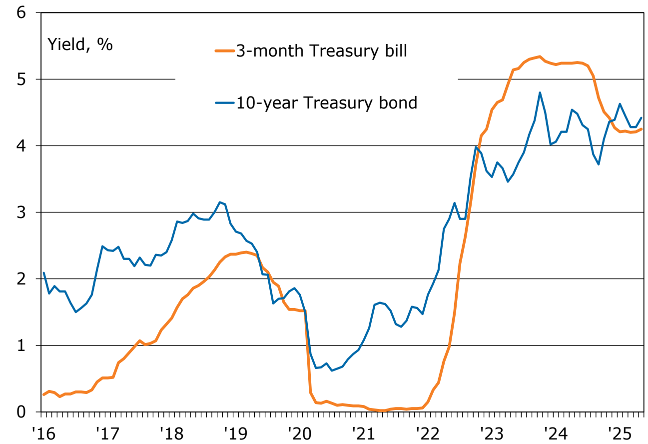
Source: BEA, PNC

Incomes and Consumer Spending Rising Roughly in Tandem



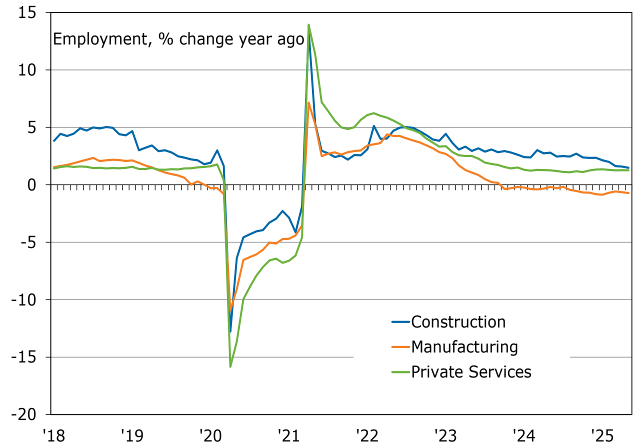
Source: BEA

Short-Term Interest Rates Not Expected to Fall Until Fed Eases Later This Year



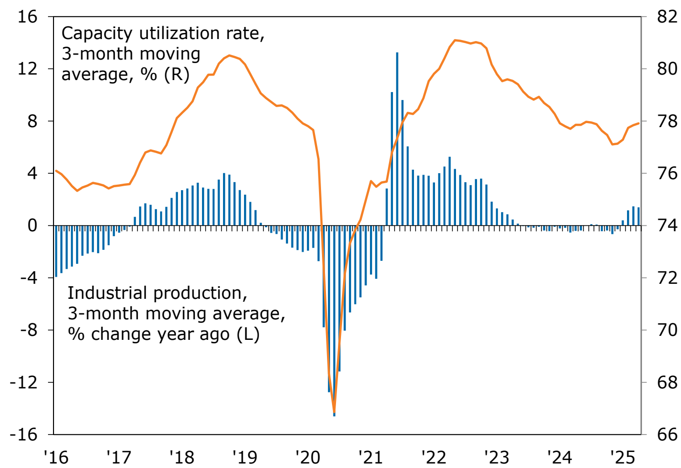
Source: Federal Reserve Board

Most Private Services Sector Job Growth Is Coming From Healthcare



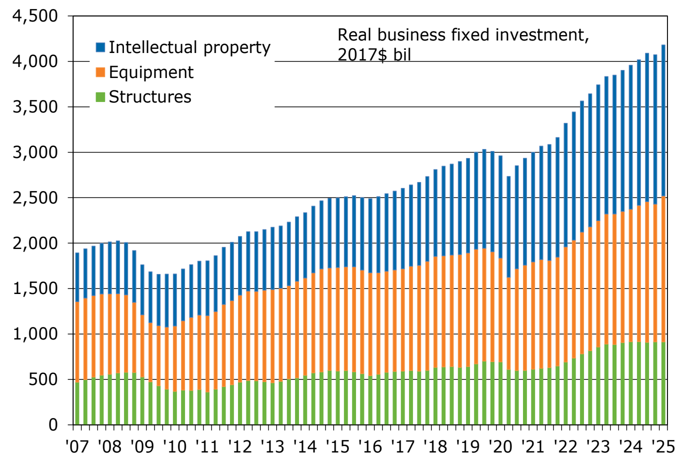
Source: BLS

Fed Rate Cuts Have Supported Modest Growth in the Industrial Sector in the First Half of 2025



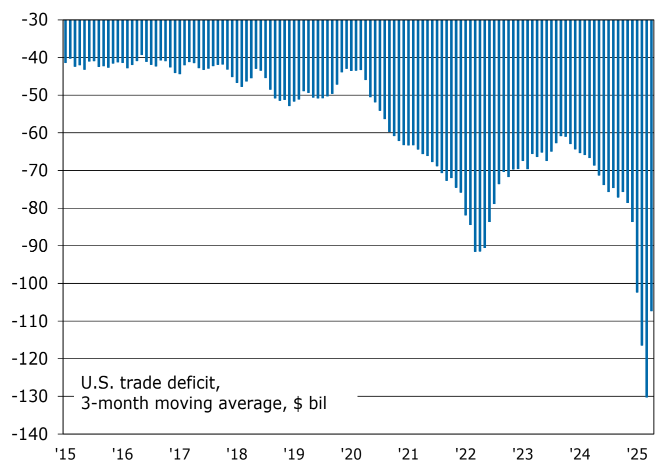
Source: Federal Reserve

Big Jump in Business Investment in Q1 2025 as Firms Tried to Get Ahead of Tariffs



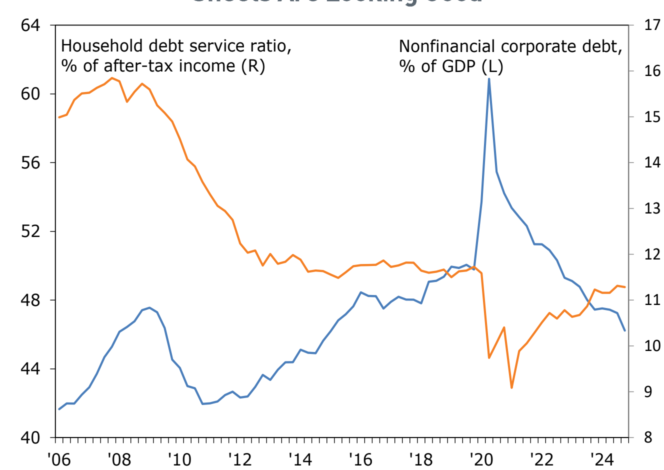
Source: BEA

A Huge Trade Deficit in Early 2025 as Firms Rushed to Import More Ahead of Higher Tariffs



Source: BEA

Consumer and Business Balance Sheets Are Looking Good



Source: Federal Reserve

Baseline U.S. Economic Outlook, Expanded Table, June 2025

	4Q'24a	1Q'25p	2Q'25f	3Q'25f	4Q'25f	1Q'26f	2024a	2025f	2026f	2027f
Output										
Nominal GDP (*Billions $*)	29724	29978	30271	30658	30925	31175	29185	30458	31564	32742
Percent Change Annualized	**4.8**	**3.5**	**4.0**	**5.2**	**3.5**	**4.9**	**5.3**	**4.4**	**3.6**	**3.7**
Real GDP (*Chained 2017 Billions $*)	23542	23528	23668	23760	23837	23923	23305	23698	24065	24528
Percent Change Annualized	**2.5**	**-0.2**	**2.4**	**1.6**	**1.3**	**1.5**	**2.8**	**1.7**	**1.5**	**1.9**
Pers. Consumption Expenditures	16273	16321	16419	16457	16506	16563	16053	16426	16658	16953
Percent Change Annualized	**4.0**	**1.2**	**2.4**	**0.9**	**1.2**	**1.8**	**2.8**	**2.3**	**1.4**	**1.8**
Nonresidential Fixed Investment	3512	3600	3579	3547	3537	3544	3507	3566	3568	3664
Percent Change Annualized	**-2.9**	**10.3**	**-2.3**	**-3.5**	**-1.1**	**0.9**	**3.6**	**1.7**	**0.1**	**2.7**
Residential Investment	797	796	796	797	798	800	795	797	808	836
Percent Change Annualized	**5.5**	**-0.6**	**0.0**	**0.4**	**0.6**	**0.3**	**4.2**	**0.2**	**1.5**	**3.5**
Change in Private Inventories	9	163	3	-19	-17	1	39	32	25	61
Net Exports	-1053	-1379	-1156	-1046	-1009	-1010	-1034	-1148	-1028	-1059
Government Expenditures	3996	3989	3989	3986	3984	3987	3942	3987	3997	4034
Percent Change Annualized	**3.1**	**-0.7**	**-0.1**	**-0.2**	**-0.2**	**-0.2**	**3.4**	**1.1**	**0.2**	**0.9**
Industrial Prod. Index (*2012 = 100*)	102.4	103.8	103.9	103.8	103.9	104.1	102.6	103.9	104.8	107.5
Percent Change Annualized	**-1.1**	**5.5**	**0.3**	**-0.3**	**0.3**	**1.6**	**-0.3**	**1.3**	**0.9**	**2.6**
Capacity Utilization (*Percent*)	77.1	77.9	78.0	77.8	77.7	77.8	77.6	77.8	78.0	78.7
Prices										
CPI (*1982-84 = 100*)	316.5	319.5	321	325	327	329	313.7	323.2	332.2	340.0
Percent Change Annualized	**3.0**	**3.8**	**2.2**	**4.6**	**3.0**	**4.0**	**3.0**	**3.0**	**2.8**	**2.4**
Core CPI Index (1982-84 = 100)	322.5	325.3	328	331	334	336	319.0	329.4	338.3	345.7
Percent Change Annualized	**3.4**	**3.5**	**2.8**	**4.6**	**2.9**	**4.0**	**3.4**	**3.3**	**2.7**	**2.2**
PCE Price Index (*2017 = 100*)	124.5	125.6	126.2	127.6	128.5	129.2	123.5	127.0	130.3	133.0
Percent Change Annualized	**2.4**	**3.6**	**2.1**	**4.4**	**2.8**	**3.8**	**2.5**	**2.8**	**2.6**	**2.1**
Core PCE Price Index (*2017 = 100*)	123.8	124.8	125.6	127.0	127.9	128.6	122.6	126.3	129.5	132.1
Percent Change Annualized	**2.6**	**3.5**	**2.7**	**4.4**	**2.7**	**3.9**	**2.8**	**3.0**	**2.5**	**2.0**
GDP Price Index (*2017 = 100*)	126.3	127.4	127.9	129.0	129.7	130.3	125.2	128.5	131.2	133.5
Percent Change Annualized	**2.3**	**3.7**	**1.5**	**3.6**	**2.2**	**3.2**	**2.4**	**2.6**	**2.1**	**1.8**
Crude Oil, WTI (*$/Barrel*)	70.8	71.8	62.0	64.0	65.0	67.8	76.6	65.7	70.7	77.8
Labor Markets										
Payroll Jobs (*Millions*)	158.6	159.2	159.6	159.8	159.9	160.0	158.0	159.6	160.3	161.4
Percent Change Annualized	**1.3**	**1.4**	**1.1**	**0.3**	**0.4**	**0.9**	**1.3**	**1.1**	**0.4**	**0.7**
Unemployment Rate (*Percent*)	4.1	4.1	4.2	4.3	4.4	4.4	4.0	4.2	4.5	4.3
Average Weekly Hours, Prod. Works.	33.7	33.7	33.7	33.6	33.6	33.6	33.7	33.7	33.7	33.7
Personal Income										
Average Hourly Earnings (*$*)	30.6	30.9	31.1	31.4	31.6	31.9	30.1	31.3	32.2	33.2
Percent Change Annualized	**4.1**	**4.1**	**3.3**	**3.2**	**3.1**	**4.2**	**4.2**	**3.8**	**3.1**	**3.0**
Real Disp. Income (*2017 Billions $*)	17589	17706	17852	17833	17896	17978	17511	17822	18116	18487
Percent Change Annualized	**1.9**	**2.7**	**3.3**	**-0.4**	**1.4**	**2.2**	**2.7**	**1.8**	**1.6**	**2.1**
Housing										
Housing Starts (*Ths., Ann. Rate*)	1392	1393	1378	1369	1378	1393	1368	1380	1421	1502
Ext. Home Sales (*Ths., Ann Rate*)	4163	4127	4251	4297	4286	4333	4067	4240	4577	4952
New SF Home Sales (*Ths., Ann Rate*)	673	684	665	670	676	685	684	674	698	736
Case/Shiller HPI (*Jan. 2000 = 100*)	326.0	329.8	331.4	331.4	331.4	331.4	326.0	331.4	333.9	337.2
Percent Change Year Ago	**3.8**	**3.8**	**3.6**	**2.8**	**1.6**	**1.6**	**3.8**	**1.6**	**0.7**	**1.0**
Consumer										
Auto Sales (*Millions*)	16.5	16.4	16.1	15.6	15.3	15.2	15.8	15.9	15.2	15.4
Consumer Credit (*Billions $*)	4989	5016	5062	5109	5155	5201	4989	5155	5349.5	5577
Percent Change Year Ago	**2.1**	**2.1**	**2.8**	**3.1**	**3.3**	**4.3**	**2.1**	**3.3**	**3.8**	**4.3**
Interest Rates (Percent)										
Prime Rate	7.82	7.50	7.50	7.50	7.44	7.04	**8.32**	**7.49**	**6.82**	**6.75**
Federal Funds	4.66	4.33	4.33	4.33	4.28	3.92	**5.15**	**4.32**	**3.70**	**3.63**
3-Month Treasury Bill	4.49	4.30	4.33	4.32	4.08	3.66	**5.09**	**4.26**	**3.56**	**3.53**
10-Year Treasury Note	4.28	4.46	4.36	4.35	4.31	4.23	**4.21**	**4.37**	**4.26**	**4.28**
30-Year Fixed Mortgage	6.63	6.83	6.81	6.71	6.56	6.42	**6.72**	**6.73**	**6.39**	**6.38**

a = actual f = forecast p = preliminary