



A View from the Piedmont: *Our Weekly Commentary on Money, Credit, Exchange Rates & Geopolitics*

Q2 GDP Prospects Surge on Import Collapse

- ▲ Durable goods orders fell 6.3% in April, as aircraft orders fell back after surging the prior month. Core durable goods shipments remained sold.
- ▲ Consumer confidence surged in May following tariff pauses, a rebound in the equity markets and generally less immediate concern about the economy.
- ▲ Q1 GDP (Second Estimate) was revised 0.1 pp higher to -0.2%. Private final domestic demand was revised lower, however.
- ▲ Continuing jobless claims continue to trend higher, rising to a multi-year high this past week, reflecting the greater difficulty job seekers are having finding a new job.
- ▲ Personal income jumped 0.8% in April, with retroactive Social Security payments adding to still solid gains in wages and salaries. Consumer spending rose modestly.
- ▲ Imports collapsed in April, flipping trade from a GDP drag to a substantial tailwind, which helped propel the Atlanta Fed's Q2 GDPNow estimate to 3.8%.
- ▲ ***Interest rates retreated from their recent highs, as strong demand for this week's 5-year and 7-year Treasury auctions helped alleviate bond vigilante fears. The Fed is assumed to be on hold until December, but we expect them to cut rates sooner.***

Markets Digest Crosscurrents in Trade and Growth

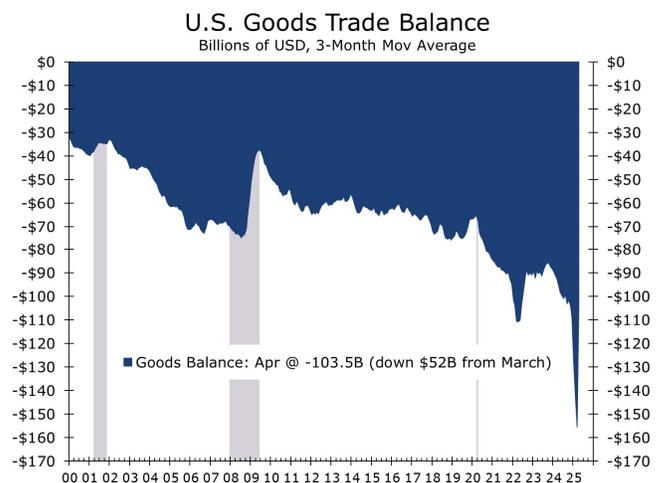
Consumers, businesses and the financial markets continue to grapple with a multitude of macroeconomic and geopolitical crosscurrents. Tariffs and higher interest rates remain the top concern, but there is a growing realization that Trump's tariffs are

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designed to bring about trade deals, promote national security and help reshore key parts of the manufacturing sector rather than to severely restrict trade. The extension of the timeline to reach a deal with the European Union is a prime example, as is the President's post on Truth Social bemoaning China's unwillingness to comply with the terms of the most recent trade truce. The talk rattled the markets late Friday, as Trump said he was readying new remedies.

The trade deficit appears to be swinging back from its first quarter plunge, boosting Q2 GDP.

New court rulings are adding complexity but not reversing the trade negotiation timetable. On May 28, the U.S. Court of International Trade ruled that several of the administration's "Liberation Day" tariffs imposed under the International Emergency Economic Powers Act (IEEPA) were invalid. The Trump Administration has already appealed the decision and was granted a temporary stay, allowing the tariffs to remain in effect for now.



Source: Cesnsu Bureau



Legal experts expect the Supreme Court to ultimately hear the case and likely affirm most of the president’s authority under existing national security-based trade statutes. The tariffs most at risk are the reciprocal tariffs applied to U.S. allies, rather than those targeting strategic rivals such as China. Even if the appeals court upholds the lower court’s decision, the president retains other statutory pathways—such as Section 301 and broader national security provisions—to reimpose similar trade barriers. We expect trade negotiations to continue at their recent pace and look for some deals to be announced in coming weeks.

Recent tariff announcements and front-loading activity skewed April’s durable goods data. Headline orders sank 6.3%, driven by a sharp reversal in commercial aircraft bookings following a March surge. A rebound is likely, buoyed by President Trump’s Middle East visit and a major Qatar Airways deal. Ex-transportation, orders rose 0.2%, showing modest underlying strength. Core capital goods orders (ex-aircraft, ex-defense)—a proxy for business investment—fell 1.3%, while core shipments slipped 0.1%, giving back March’s tariff-fueled gains.

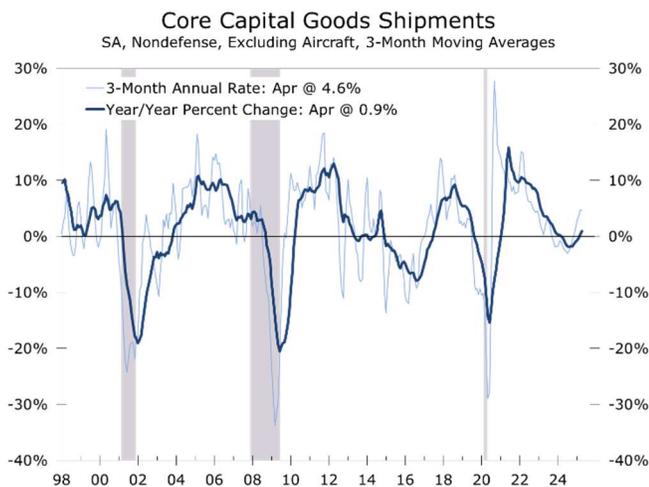
Consumer confidence jumped in May as easing tariff tensions with China and clearer trade policy expectations lifted sentiment. The Conference Board’s Consumer Confidence Index rose 12.3 points to 98.0

Consumers’ assessment of current economic conditions improved modestly, but the expectations component—which tends to influence actual consumer behavior more directly—posted a more substantial rebound. Sentiment was buoyed by equity market gains and a more optimistic outlook for income growth and stock prices.

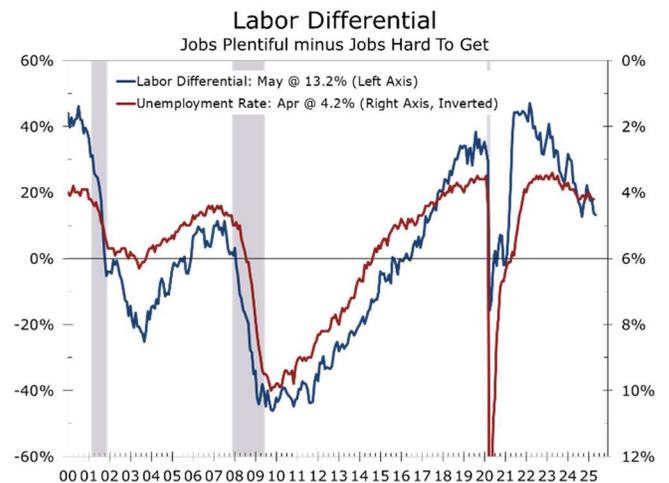
Inflation expectations eased for the first time since late 2024, with year ahead inflation expectations falling from 7.0% to 6.5%. The Conference Board noted that tariffs remain top of mind and labor market perceptions softened further. While fears of a recession have subsided, they remain elevated, and policy volatility will likely keep confidence readings choppy in the months ahead.

With tariffs top of mind, businesses have slowed hiring, making it difficult to land a new job.

The Conference Board’s labor market differential—the difference between the share of consumers stating jobs are plentiful versus those saying jobs are hard to get—narrowed in May, falling 0.6 points to 13.2. This marks the fifth consecutive monthly decline and likely signals a further slowdown in hiring. Businesses have become more cautious amid volatility in policy announcements and market swings, contributing to reduced job postings.



Source: Census Bureau



Source: The Conference Board and Bureau of Labor Statistics (BLS)



While hiring has slowed, layoffs remain modest. Initial jobless claims remain low, but continuing claims have climbed steadily, hitting 1.91 million in late May—the highest since November 2021. This suggests increased difficulty re-entering the workforce, confirming what the Labor Market Differential showed and likely signaling widening skill mismatches and weaker hiring in rate-sensitive sectors. The Washington D.C. area saw a sharper rise in jobless claims, reflecting notable public sector cuts.

The University of Michigan’s Consumer Sentiment Index did not rebound anywhere near as much as the Conference Board’s Consumer Confidence Index. The UMich Consumer Sentiment was revised up only slightly to 52.2 from its early-month preliminary reading. While the revision ended a four-month streak of declines, sentiment remains historically low, and Consumer Sentiment is much further below its historic norms than Consumer Confidence is.

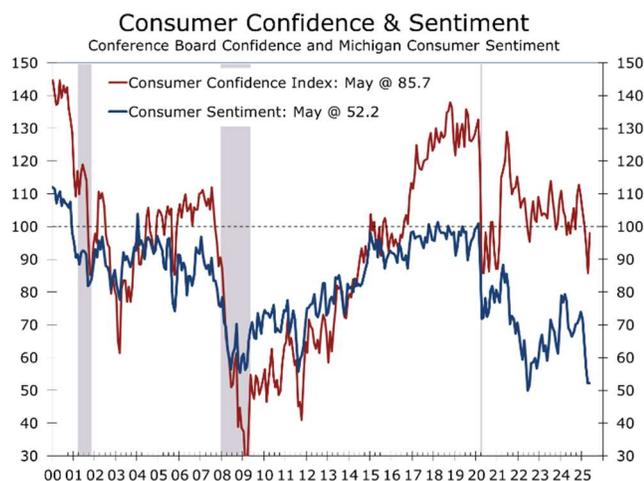
The details of the UMich report were more positive, however. Year-ahead inflation expectations were revised down to 6.6%, and long-run expectations fell to 4.2%—the first drop since December 2024. Consumers were also more optimistic about future personal finances as well as buying conditions for big-ticket items, which suggest consumer spending should remain resilient.

Personal income rose 0.8% in April, beating expectations and reflecting strength across wages and salaries and a significant boost from government transfers, particularly retroactive Social Security payments under the Social Security Fairness Act. Upward revisions to prior months’ data lifted the year-to-date trajectory: on a three-month moving average basis (3MMA), personal income is up 5.5% from last year, while wages and salaries are up 4.2%. Real disposable (after-tax) income rose 0.7% in April alone and is up 1.7% year-to-year, on a 3MMA basis.

Personal income growth has been stellar so far this year, supporting consumer spending.

Personal consumption rose a modest 0.2% in April, with all of the increase coming from services. Spending on goods fell slightly, driven by declines in durable categories like motor vehicles and recreational equipment, reflecting a partial reversal of March’s front-loading ahead of potential tariffs. Spending on services, particularly restaurant dining, rose solidly. Consumer spending is up a solid 5.5% year-to-year. Given easing inflation expectations, we suspect spending regained some momentum in May.

Both the overall and core PCE Deflator—the Fed’s preferred inflation measure—rose 0.1% in April. Inflation is still running well below consumer expectations, which have been hyped by tariff fears.



Source: The University of Michigan and The Conference Board



Source: Bureau of Economic Analysis (BEA)



The U.S. goods deficit was nearly halved in April, plunging from \$162.3 billion to \$87.6 billion, as imports dropped by \$68.4 billion—the steepest monthly decline in recent memory. The reversal reflects the unwinding of front-loaded purchases in Q1, collapsing arbitrage in gold flows, and a near standstill in Chinese imports following tariff hikes that temporarily pushed duties above 100%. The sharp import retrenchment—especially in pharmaceuticals, gold, and consumer goods—flipped net trade from a major Q1 drag to a sizable Q2 tailwind. The Atlanta Fed’s GDPNow tracker surged in response, suggesting trade alone may add more than two percentage points to Q2 GDP.

Although net exports are now boosting headline growth, the gains are unlikely to persist into the second half of the year. While some duties have been reduced, uncertainty surrounding future trade deals, retaliatory measures, and procedural constraints continues to cloud the outlook. For now, collapsing imports are alleviating recession fears prompted by the historic widening in the trade gap during the first quarter.

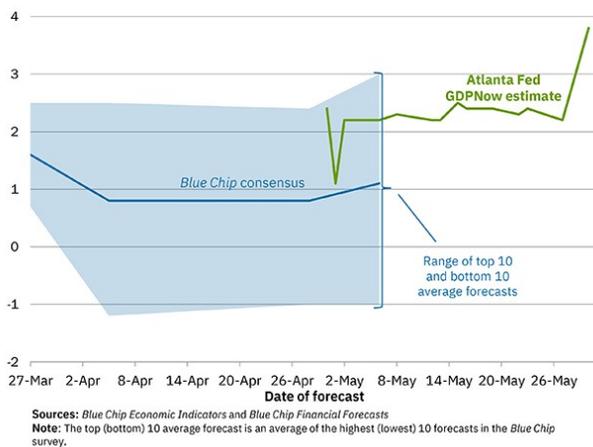
The May FOMC minutes reiterated that policymakers remain in wait-and-see mode. Although inflation has softened at the margin, the Fed is keenly aware that tariff-induced price pressures may re-emerge. Meanwhile, signs of a softer labor market and a strong dollar are providing room to hold policy steady.

The Fed continues to place a great deal of emphasis on the role inflation expectations play in containing inflation. The recent spike in inflation expectations in the consumer confidence surveys has gotten the Fed’s attention, although more reliable measures, such as the 5-year forward breakeven inflation rate and the New York Fed’s consumer survey, do not suggest expectations have deteriorated nearly as much.

The markets appear set that the Fed will remain on hold until December. We suspect the Fed is leaning toward an earlier rate cut, possibly late this summer but certainly sometime this fall. We feel labor market conditions are weaker than the nonfarm data have indicated and eventually that reality will be reflected in the data.

Treasury yields have been unusually volatile. Supply concerns and fiscal uncertainty continue to exert upward pressure on term premiums. The 30-year Treasury briefly rose above 5%, while the 10-Year Note rose above 4.50%, in the aftermath of the Moody’s downgrade and House Reconciliation Bill, which front loads stimulus and pushing budget savings in the out years. Yields peaked following last week’s disappointing 20-Year Treasury auction but have been trending lower ever since. Auctions have also been well bid, including a stellar 7-year Treasury auction this week. Investors appear to be positioning for growth to slow later this year, which aligns with our forecast.

Evolution of Atlanta Fed GDPNow real GDP estimate for 2025: Q2
Quarterly percent change (SAAR)



Source: The Federal Reserve Bank of Atlanta

Median Inflation Expectations vs PCE Inflation
Median Expectations for Next Year, Year-over-Year Percent Change



Source: Univ of Michigan, Bureau of Economic Analysis and FRB St. Louis



Looking Ahead: June 2-6, 2025

The May employment report will headline another busy week of economic reports. We are projecting a middle-of-the-road 145,000-job gain but are also looking for an 0.1 point uptick in the unemployment rate. The labor data can be unusually volatile in May due to the timing of school year end. With hiring slowing, the seasonals could overcompensate, yielding a much weaker number than expected.

- **Monday:** ISM Manufacturing Index (May) – is expected to remain in expansionary territory and may surprise to the upside due to lengthening delivery times.
- **Tuesday:** Factory Orders (April) – look for a decline following weak headline durable goods report.
- **Wednesday:** ISM Services Index (May) – expected to show modest growth; employment and price indexes in focus.
- **Thursday:** Jobless Claims – overall claims remain low but continuing claims have been rising and are currently at multi-year highs.
- **Friday:** Nonfarm Payrolls (May) – we are projecting a 145,000-job rise in nonfarm payrolls; unemployment rate is expected to inch higher to 4.3%.

Market participants will also monitor revisions to productivity and labor costs, plus any policy commentary from Fed speakers. The Fed's Beige Book will also be released on Wednesday and will be closely reviewed for any fallout from tariffs and changes in consumer behavior.

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