Summer 2025 Outlook

SECURITY NATIONAL BANK
PRIVATE CLIENT SERVICES

Current Forecast	2023	2024	2025 Est	2026 Est	2027 Est
GDP Growth	3.2%	2.5%	1.5%	1.3%	1.5%
Change in Consumer Prices	3.3%	2.9%	2.8%	3.0%	2.8%
Fed Funds Target Rate	5.50%	4.50%	4.00%	3.75%	3.75%
5-Year Treasury Yield	3.85%	4.38%	4.25%	4.50%	4.50%
10-Year Treasury Yield	3.84%	4.57%	4.50%	5.00%	5.50%
S&P 500 EPS	$217	$240	$251	$264	$278

Anticipated average tariff rates are lower, leading to faster growth. Lower energy costs will help tamp down inflation, offsetting some of the negative impact of the tariffs. We expect two rate cuts this year, followed by one additional cut next year. We expect the 10-year Treasury to finish 2025 at 4.5%. Inflation, economic growth, and interest rates are expected to remain near neutral levels next year. Next year promises to be a reasonably balanced year economically.

Last Month's Rates and Total Returns

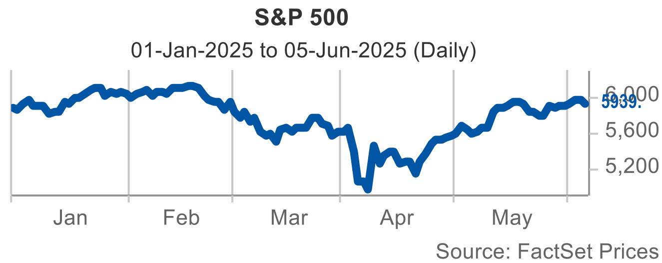
May 31, 2025	Value	One Month	Year to Date	1 Year
Fed Funds Target (Upper)	4.50%	----	----	-100 bp
3-Month Treasury Yield	4.34%	+5 bp	+2 bp	-104 bp
2-Year Treasury Yield	3.90%	+30 bp	-35 bp	-97 bp
5-Year Treasury Yield	3.96%	+24 bp	-34 bp	-54 bp
10-Year Treasury Yield	4.39%	+24 bp	-18 bp	-10 bp
Mortgage News 30-Year	6.95%	+14 bp	-12 bp	-22 bp
S&P SuperComposite 1500	1,326	6.22%	0.59%	12.49%
S&P 500 Index	5,912	6.29%	1.06%	13.52%
S&P 500 Equal Weight Index	7,110	4.35%	1.34%	8.50%
S&P Midcap 400	2,983	5.40%	-3.26%	2.17%
S&P SmallCap 600	1,276	5.23%	-8.18%	-1.75%
S&P 500 Growth	4,181	9.41%	2.37%	20.61%
S&P 500 Value	1,863	3.01%	-0.39%	5.04%
World ex-US, USD	349	4.58%	14.03%	13.75%
Wilshire Liquid Alts	195	1.15%	1.16%	2.21%
BB U.S. Aggregate	92	-0.72%	2.45%	5.46%
Crude Oil – WTI Near Term	$61	4.43%	-15.24%	-21.02%
Gold – Near Term	$3,289	-0.49%	25.09%	41.59%
U.S. Dollar Index	99	-0.14%	-8.44%	-5.10%

Prepared by Damian Howard and Clint Rushing June 6, 2025

Security National Bank's investment services team within its private client services division authors a monthly economic forecast that provides the bank's investment committee and funds management committee with background assumptions for use in investment decisions. We are pleased to share our economic outlook with you. Please be advised that our crystal ball is just as cloudy as other prognosticators and that all forecasters have poor track records. Our projections are based on what we think monetary and fiscal policymakers will do, not what they should do. Commonly used abbreviations and terms are listed at the end of the report.

Stock Market

Stocks continued to rally off Liberation Day lows. Since April 8, the broad-based S&P 1500 has had a total return of 18.7%. The S&P 500 returned 18.9%. Both indices ended the month with slightly positive year-to-date returns. Strong first-quarter earnings results, coupled with significant backpedaling on tariffs, sparked the recovery.



The S&P 1500 rose 6.2% in May, and the S&P 500 rose a slightly greater 6.3%. Larger companies outperformed smaller companies, as the S&P 500 Equal Weighted Index returned 4.4%. Midcap stocks rose 5.4% and small-cap stocks 5.2%. Growth stocks ended the month up 9.4%, while value stocks returned 3.0%. Growth outperformed value by 6.4% in May. Over the last twelve months, growth stocks have outperformed value stocks by 16.6%.

Technology stocks were the best performers, with the sector ETF gaining 10.0%, followed by the Industrials, which rose 8.8%. Healthcare was the worst-performing sector, down 5.6%, followed by Real Estate, up 1.0%. United Healthcare (UNH) was down 26.6%, weighing on Healthcare.

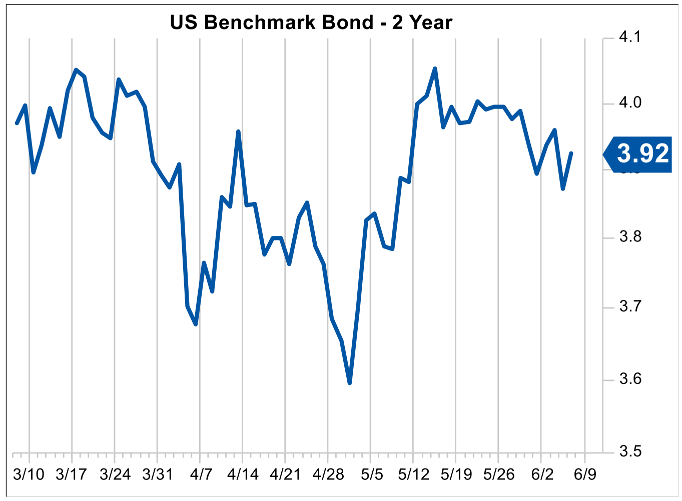
Utilities were the best-performing sector year-to-date, with the sector ETF gaining 9.0%, followed by Industrials, which rose 8.7%. Consumer Discretionary was the worst-performing sector, down 4.5%, followed by Energy, down 4.1%.

International Stock Returns

Last month, international stocks underperformed U.S. markets. International stocks returned 4.3% in local currencies and 4.6% when translated into U.S. dollars. The US dollar fell by 0.1%.

The dollar weakened following President Trump's inauguration, as asset allocators reduced their overweight positions in U.S. fixed income and equity investments. A weaker dollar helps U.S. exporters and will help the U.S.'s reindustrialization process. The Trump Administration's goal is to weaken the dollar. We suspect the greenback will further weaken from here. Various Wall Street strategists estimate the U.S. dollar is ten to fifteen percent overvalued.

Fixed Income Returns



The 2-year Treasury has been a good gauge of investors' views on monetary policy. The 2-year Treasury yield rose 30 basis points in May, indicating investors expect at least one less rate cut. As shown in the chart, monetary policy expectations have been highly volatile. The 2-Year Treasury tends to lead the FFR by four to six months.

The 20+ year Treasury ETF fell by 3.2% during the month. Tariff uncertainties and fiscal profligacy are prompting bond investors to reassess the additional yield required to hold long-term bonds. Since its low point on September 16, the 30-year Treasury yield rose by over 1%.

Meanwhile, Treasury Inflation-Protected Securities (TIPS) fell 0.6%. High-yield bonds and bank loans returned 1.5% to 1.8% as credit spreads narrowed, as the odds of a recession fell.

The Long View

Over the last 30 years, the U.S. experienced a terrorist attack, presidential impeachments, a global financial crisis, a pandemic, bouts of inflation, trade wars, the release of "Jar of Hearts," the 2008 Detroit Lions, and multiple bear markets. Stock market returns have shown consistency over the longer term. Each report lists the long-term returns for the broad stock and bond markets. This table reminds us to focus on the long term.

	Five Years	Ten Years	Twenty Years	Thirty Years	Forty Years
Stocks	15.7%	12.5%	10.4%	10.4%	10.9%
Bonds	-0.9%	1.5%	3.0%	4.3%	5.7%

Interest Rate Policy

The FOMC will meet on June 18 to set monetary policy. There is less than 1% probability that they will lower the FFR during that meeting. There is only a 15% probability they will cut at the July meeting. A raft of FRB speakers has made it clear that the FRB will aggressively wait to cut rates. We expect the FRB to stand pat until October.

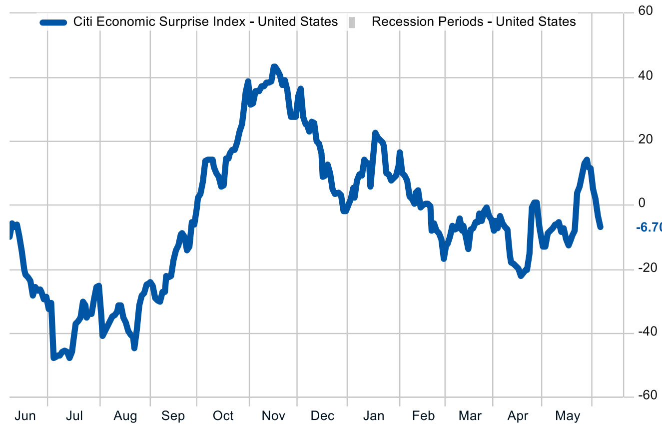
Meeting Date	Futures Market 06/06/25	SNB Forecast
June 18	4.50%	4.50%
July 30	4.50%	4.50%
September 17	4.25%	4.50%
October 29	4.25%	4.25%
December 10	4.00%	4.00%
January 28	4.00%	4.00%
March 18	3.75%	3.75%
April 29	3.75%	3.75%
June 17	3.75%	3.75%

As with the equity market, the futures market has been volatile. First, assuming substantial easing. Currently, it is pricing in two rate cuts by year's end. This is down from five rate cuts in April. We are modeling a rate cut in October, December, and March. As always, we will adjust our forecast as new information becomes available.

Prepared by Damian Howard and Clint Rushing June 6, 2025

Recent Economic Reports

The chart to the right shows that economic reports were better than expected during the second half of May but have recently fallen short of expectations. The Citi Economic Surprise Index compares economic reports with expectations. When the line drops, actual results are less favorable than expectations.



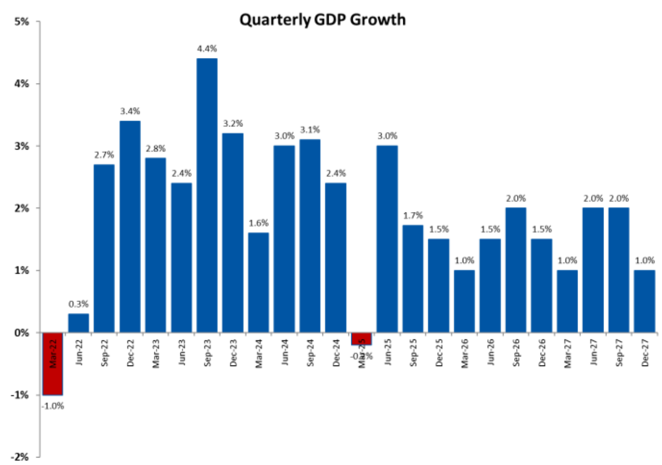
Consumers and Businesses are Cautiously Pessimistic

The soft data, including consumer confidence, small business optimism, and purchasing managers' indices, show widespread negativity. The shift to online surveys has skewed the results. It is easier to respond with extreme answers online than over the phone. The surveys have become infected with the same vitriol that has infected social media. In addition, an unknown percentage of online surveys are answered with bots. The result is an echo chamber at best. At worst, it serves as an avenue for actors to sow discord.

The hard data, expenditures, corporate earnings, and income are more promising. The hard data is always backward-looking. Consumers and businesses have accelerated some activities to get ahead of tariffs. This is evident by the surge in imports. They may also have delayed some activities until the tariff regime becomes clearer. This has made the hard data more volatile.

Slower Economic Growth

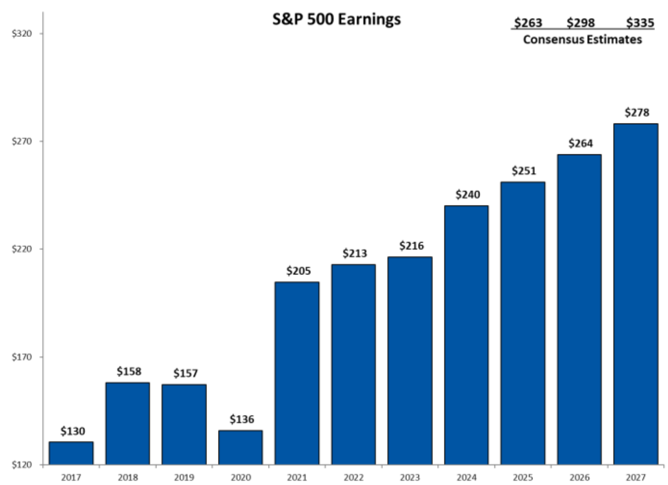
We estimate growth will slow from 2.5% in 2024 to 1.5% in 2025. The slower growth reflects weaker consumer spending, as detailed in subsequent sections, as well as the impact of increased tariffs. At year's end, our 2025 growth forecast was 2.0%, which we reduced by 0.5 percentage points.



First quarter GDP growth was revised up by 0.1% to -0.2%. Core activities contributed 2.2% to growth, down slightly from the previous quarter. Trade subtracted 4.9% from growth. Tariff front-running was substantial. Most of that will unwind in the second and third quarters, artificially boosting headline growth rates. The Atlanta Fed's GDPNow model projects 2Q GDP growth at 3.8%, with trade contributing 2.0% to GDP growth.

We generally view economic growth rates of 1.5% to 2.0% as non-inflationary. The economy should be able to grow at this rate without causing inflation above 3% or leading to a dramatic increase in unemployment.

Stock Earnings Forecast
We expect 2025 estimates to fall further during the upcoming earnings season as analyst and CFOs incorporate the impact of new tariffs on their companies' earnings. Our 2025 estimate is 5% below the consensus. Our forecast incorporates a modest 5.0% growth rate from 2024 to 2027. This is less than half the consensus and below the historical average of 10%.



If you have questions or comments about this Outlook, don't hesitate to contact our Security National Bank Private Client Services team.

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Please see the obligatory disclosures at the bottom of each page and at the end of this report.

Since 1977, the Federal Reserve has operated under a mandate from Congress to "promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates"—commonly referred to as the Federal Reserve's "dual mandate." For this reason, we always start our economic review with employment, followed by inflation.

Employment

The labor market remains balanced, neither a source of inflation nor deflation. The May report was slightly stronger than expected. However, the revisions were large. Total payrolls increased by 139,000 in May, exceeding the expectations of 130,000 new positions. The previous two months' results were revised down by 95,000. It is doubtful that the May jobs report changed any minds on the FRB regarding the timing of the next rate cut.

Wage growth accelerated to 0.40% from 0.19% the previous month. The three-month average (TMA) of 3.8% for wage growth is above the Federal Reserve Bank's (FRB) target of 3.5%. The aggregate payrolls index rose 0.5% M/M and 5.0% Y/Y. The report was strong enough to give the FRB a reason to pause on May 7.

We begin our employment review by examining the JOLTs (Job Openings and Labor Turnover) report published by the Bureau of Labor Statistics (BLS). This gives us an idea of how big a cushion the economy has before employment is impacted. Generally, companies will first cut open positions before laying off current employees. Overall, the JOLTs report suggests that the labor market remains healthy and is not a source of inflation.

JOLTS Report				
	Most Recent	Previous Month	Previous Year	Long-Run
Open Positions	7,391,000	7,200,000	7,619,000	
Open/Unemployed	1.0X	1.0X	1.2X	0.9X
Open Rate *	4.6%	4.5%	4.8%	4.4%
Hire Rate *	3.8%	3.7%	3.9%	4.1%
Lay-Off Rate *	1.3%	1.1%	1.1%	1.4%
Quit Rate *	2.2%	2.3%	2.4%	2.4%
* Private Sector				

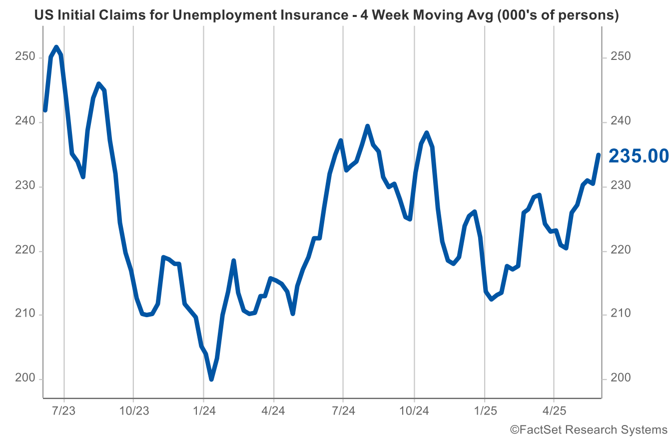
The April JOLTS report was better than expected. The BLS reported 7.4 million open positions versus the consensus of 7.1 million. Open positions increased by 191,000, led by the Healthcare sector (up 102,000) and Professional and Business Services (up 171,000). The Accommodations and Food Service sector shed 135,000 open positions.

The open rate is the number of open jobs divided by the total number of jobs (filled and unfilled). FRB research suggests that unemployment rates tend to increase once they fall below 4.5%. The rate increased to 4.6%, a neutral signal for future unemployment trends.

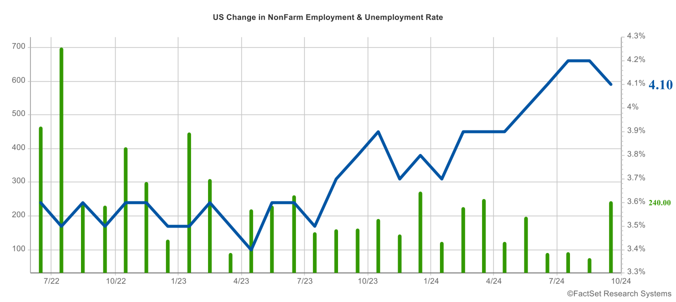
The layoff rate ticked up by 0.2% to 1.3%. The increase was centered in the Professional and Business Services sector, which saw its rate rise from 1.7% to 2.1%. Accommodation and Food Services also saw a 0.4% increase in the Layoff rate. This corresponds to the slowdown in travel, especially international travel into the U.S.

The quit ratio ticked down by 0.1% to 2.2% and is below long-term levels. An elevated quit rate is associated with higher wage growth, as employees usually switch jobs for higher pay. The ratio tends to lead to compensation costs by nine months.

Initial jobless claims for the week ending May 30, 2025, were 247,000, above the consensus estimate of 236,500, and brought the four-week average to 235,000 compared to 227,250 the previous month. Initial claims have shown some seasonality, rising through early summer, peaking in July. This year appears to hold to the pattern. Claims would need to rise above 300,000 before unemployment increases dramatically. The low level of claims continues to support the view of a slowing but healthy labor market. However, the impact of government layoffs and higher tariffs has yet to be reflected in claims data. We anticipate an increase in claims over the coming months.



According to the Establishment survey, the economy added 139,000 jobs, with 140,000 in the private sector. The consensus was for 130,000 and 120,000 new jobs. Payrolls for the previous two months were revised lower by 95,000. The unemployment rate remained steady at 4.2%, as the number of unemployed individuals increased by 71,000. The participation rate fell to 62.4%. Hourly earnings rose by 0.4%, below the consensus estimate of 0.3%.



Job gains were concentrated in healthcare (62,000 jobs added), leisure and hospitality (48,000 jobs added), and social assistance (16,000 jobs added). Durable goods manufacturers shed 7,000 jobs. Over the last twelve months, this sector shed 91,000 positions. Temporary help services shed 20,000 jobs. Over the previous twelve months, this sector shed 135,500 jobs.

Federal government employment continued to decline in May by 22,000 and is down by 59,000 since January. (Employees on paid leave or receiving ongoing severance pay are counted as employed in the establishment survey.)

The unemployment rate held steady at 4.2%, as officially unemployed people increased by 71,000 to 7,237,000, while the labor force fell by 625,000. The unemployment rate has remained in a narrow range of 4.0% to 4.2% since May 2024. The unemployment rate for the 25-year-old and older cohort held steady at 3.4%. The broader U-6 unemployment rate held steady at 7.8%. The participation rate fell to 62.4%. The employment-to-population ratio fell to 59.7%.

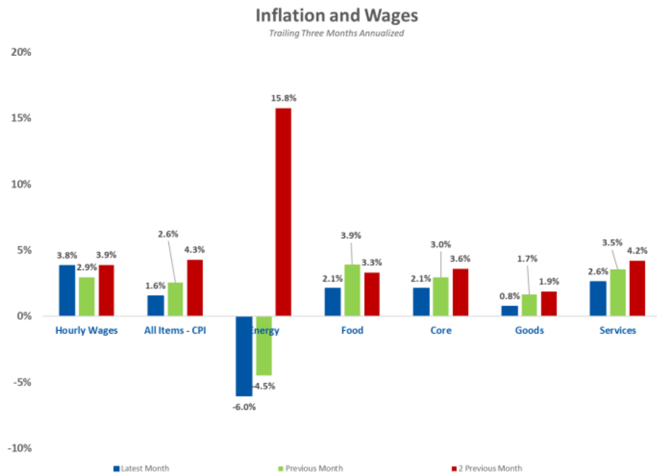
The number of people employed part-time for economic reasons fell by 66,000 to 4,624,000. These individuals would have preferred full-time employment but worked part-time because their hours had been reduced, or they could not find full-time jobs.

Last month's average hourly earnings (wages) increased by $0.15 per hour to $36.24, representing a 0.4% rise, above the consensus estimate of 0.3%. Average hourly earnings increased by $1.35 per hour, or 3.87% year-over-year. Over the last three months, average hourly earnings grew at a 3.8% pace, accelerating from 2.9% the previous month. The FRB aims for wage growth to remain below 3.5% for an extended period.

The average workweek remained steady at 34.3 hours. Average weekly earnings rose by $5.14 (0.4%) from the previous month. Average weekly earnings increased by $46.30 (3.9%) year-over-year.

Inflation

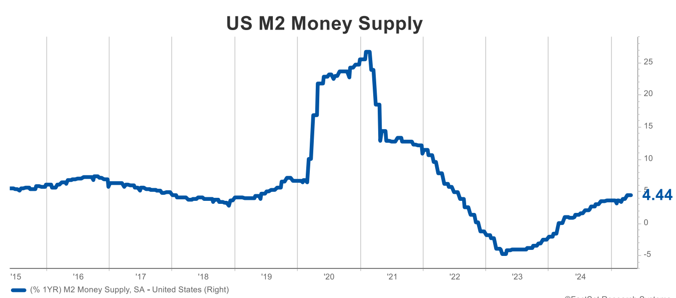
The next CPI report will be released on June 11, before the June 18 FOMC meeting. When setting monetary policy, the FOMC must incorporate the ever-changing tariff regime and its impact on expected inflation.



Over the last three months, prices rose at a 1.6% pace. Core CPI was 2.1%. Despite the threat of tariffs, goods prices rose at a 0.8% pace. Services inflation was only 2.6%. Owners Equivalent Rent (OER) inflation was 4.2%. We expect OER to decelerate as more timely measures show sub-1% inflation in that area.

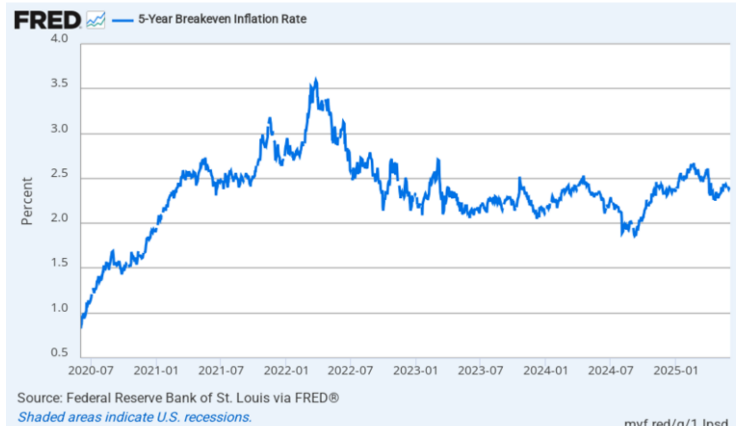
The Federal Reserve Bank (FRB) aims to achieve a 2.0% long-term inflation rate, as measured by the Core Personal Consumption Expenditures (PCE) Price Index. Due to differences in various weightings, the PCE measures tend to be 0.3% lower than the more common Consumer Price Index (CPI). The PCE deflator includes goods and services bought on behalf of households, not just those directly purchased by households, which results in smaller weights for housing and car insurance in this index compared to the CPI. The Core CPI rose 2.7%.

If the FRB has very nearly achieved its stated goal of 2% core inflation, why the extended pause? Trump 1.0 increased the average tariff rate from 1% to 3%. The FRB viewed the tariffs as a one-time price increase, rather than a source of ongoing inflation that necessitated a monetary policy response. The Trump 2.0 tariff round is substantially larger. Average tariff rates are projected to rise to 14% from 3%. The magnitude of the increase is unprecedented. The FRB cannot be certain that the new tariffs will not spark an inflationary spiral, hence the pause. The risk is that they pause too long and push the economy into a recession. We do not think the difference between current rates and the neutral rate (r*) is significant enough to push the economy over the edge.

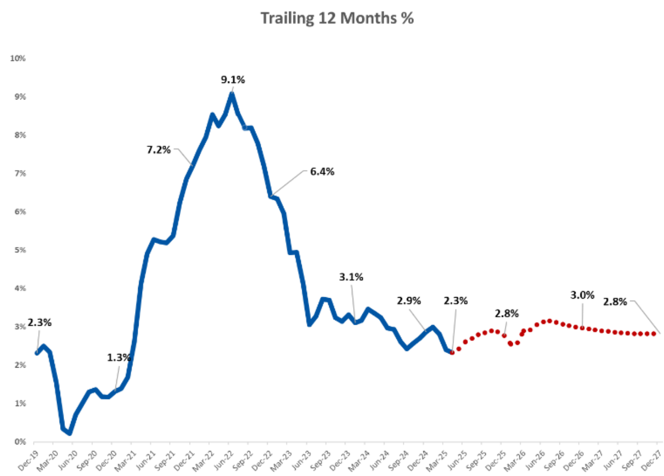


Milton Friedman famously said, “Inflation is always and everywhere a monetary phenomenon, in the sense that it is and can be produced only by a more rapid increase in the quantity of money than in output.” Much of the inflation in 2022 and 2023 was caused by the rapid growth of the monetary supply in 2020 and early 2021. At its peak growth, the money supply expanded at an annual rate of over 27%. The money supply increased faster than output for three consecutive years, resulting in inflation. The FRB slammed on the brakes in 2022. From March 2022 to March 2023, the money supply contracted 3.7%, or $0.8 trillion. It is now growing at a 4.4% Y/Y pace. The money supply should increase by 5% year-over-year (Y/Y) to promote stable, low-inflationary growth. Growth is finally returning to a healthier level. The FRB employs very few Friedman acolytes, so the money supply is ignored when setting monetary policy.

Because inflation statistics are lagging indicators, economists use forward-looking inflation expectations to inform their analysis. The breakeven inflation rate represents what financial market participants expect to be, on average, over the next five years. The 5-year break-even inflation rate reached a peak of 3.6% in March 2022. Inflation expectations have fallen to the current 2.4%. For now, expectations are where we would expect them to be. However, when measuring inflation expectations at the consumer level through surveys, inflation expectations have become unanchored. The soft data from surveys continues to paint a bleaker picture than the hard data.



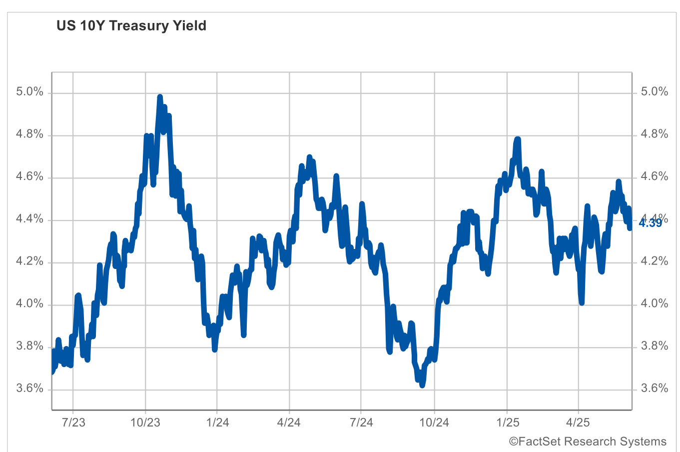
The graph on the right shows our most recent CPI forecast. We have incorporated a modest one-time increase in inflation due to higher tariffs. We expect lower energy prices to offset significantly higher goods inflation. This should limit the damage done by higher tariffs. Core inflation is likely to average 3.5% to 4.0% during the 4th quarter as the full impact of tariffs is felt. Longer-term inflation will likely be 2.8%



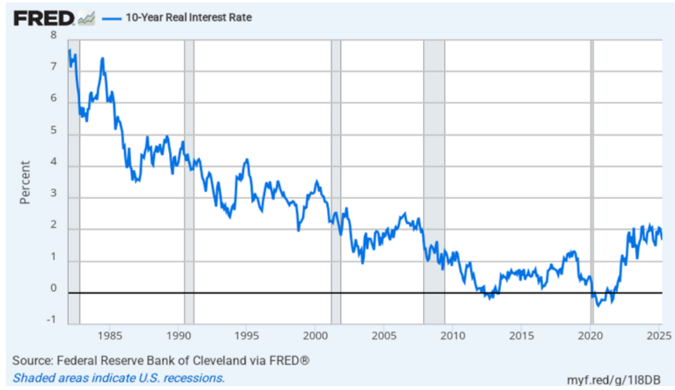
Interest Rates and Credit Markets

The 10-year Treasury yield reached its peak on January 14 at 4.8%. It ended the month at 4.4%, down 0.4% from its peak. The 10-year Treasury rate is currently at our year-end target and our fair value level.

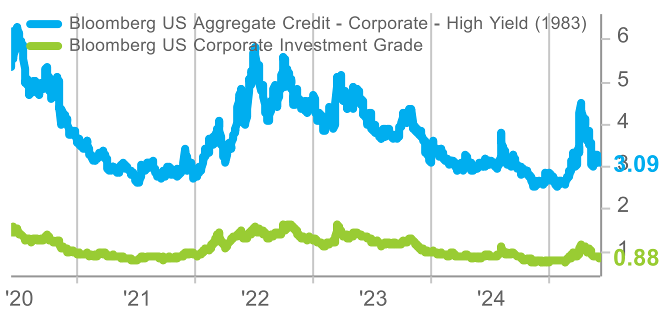
Until fiscal policy improves, long-term interest rates are likely to climb as the Federal debt burden becomes more onerous. We increase our target rate by 0.50% per year to incorporate higher fiscal stress. If Congress finds the courage to cut the deficit, our fair value interest rate would be lower.



Real rates remain range bound. The 10-year interest rate has oscillated between 1.5% and 2.0% since the fall of 2022 and is currently 1.7%. We view real rates of 1.7% to 2.3% as sustainable. We base our fair value ten-year rate (4.8%) on 2.0% real rates plus 2.8% CPI inflation.

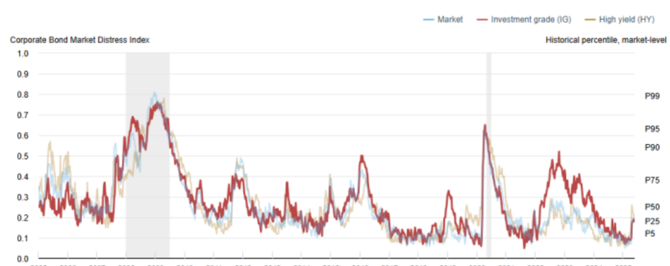


During periods of financial stress, investment-grade spreads often widen to more than 200 basis points. During periods of exuberance, they fall below 0.8%. Investment-grade spreads ended the month at 0.9%. At this level, investment-grade bonds do not forecast a pending recession or stress in large corporate America.



High-yield spreads narrowed to 3.1% during the latest month. During periods of economic stress, high-yield spreads often widen to above 8.00%. During periods of exuberance, they fall below 3.7%. We currently classify high-yield spreads as within the exuberant sector.

The Federal Reserve Bank of New York calculates the Corporate Bond Market Distress Index (CMDI), a unified measure quantifying joint dislocations in the primary and secondary corporate bond markets. The index incorporates various indicators, including primary market issuance and pricing, secondary market pricing and liquidity conditions, and the relative pricing between traded and nontraded bonds. The CMDI for both the investment-grade and the high-yield sectors rose substantially post-Liberation Day but have since given up some of their gains. The CMDI for the high-yield sector is at its historical 50th percentile, and the investment-grade CMDI is just below its historical 35th percentile.



Prepared by Damian Howard and Clint Rushing June 6, 2025
This report reflects the author’s current opinion and is subject to change without further notice.
There can be no assurance that any of the projections cited will occur.
Investment and Insurance Products are:
Not FDIC Insured * Not a Bank Deposit * Not Bank Guaranteed * May Lose Value * Not Insured by Any Federal Government Agency

The Consumer Sector

Personal Income and Expenditures				
	M/M		Y/Y	
	Nominal	Real	Nominal	Real
Private Sector Wages	0.5%	0.4%	4.1%	1.9%
Government Transfer Payments	2.8%	2.7%	11.4%	9.2%
Disposable Personal Income	0.8%	0.7%	5.3%	3.2%
Durable Goods	-0.3%	-0.8%	6.4%	6.8%
- Motor Vehicles and Parts	-0.6%	-0.6%	10.5%	9.8%
Non-Durables	-0.0%	0.1%	2.8%	3.2%
- Gas and Other Energy	2.0%	2.2%	-10.5%	3.0%
Services	0.4%	0.3%	6.1%	2.7%
- Utilities	2.1%	1.0%	6.8%	1.4%
- Health Care	0.6%	0.3%	6.9%	4.4%
- Food Service & hotels	0.9%	0.5%	5.4%	2.4%
Total	**0.2%**	**0.1%**	**5.4%**	**3.2%**

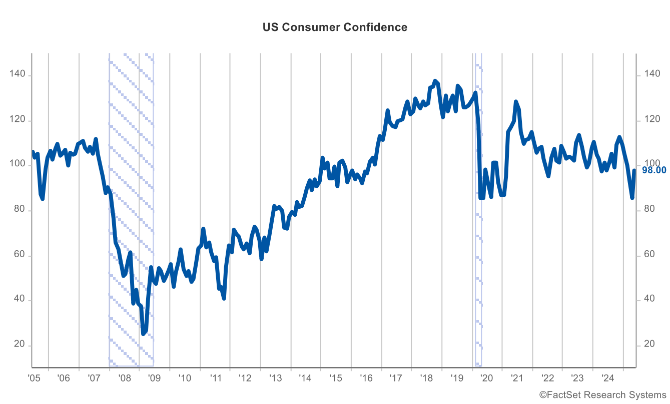
During April, personal income increased by 0.8%, and private sector wages and salaries by 0.5%. Transfer payments (Social Security, Medicare, and Medicaid) increased 2.8%. Disposable personal income (DPI) increased by 0.8%. Rapidly rising transfer payments put significant stress on the budget deficit but boost disposable income.

Consumption rose a scant 0.2%. Consumers saved more as consumption growth lagged behind income growth. The savings rate improved to 4.9%. While improved, the savings rate remains significantly below the pre-pandemic level of 7.0% to 7.5%. We expect consumption to trail earnings growth until the savings rate approaches 7.0%, which will slow economic growth.

Slower goods purchases are likely the residual effect of tariff pre-buying. We expect goods consumption to be weak for the next couple of months. Tariffs have a more minor impact on the consumption of services. Services consumption remained on trend. Households spent more on utilities as the weather was generally cooler across the country. The delayed spring impacted home improvement stores, including Home Depot and Lowe's.

Confidence

Consumer confidence rebounded smartly in May. Lower gasoline and egg prices, higher stock prices, and less tariff friction bolstered confidence. This was the largest increase in four years.



The Consumer Confidence Index rose by 12.3 points to 98. The present situation index, based on current business and labor market conditions, rose by 4.8 points. The forward-looking expectation index, based on a short-term outlook for business and labor market conditions, rose by 17.5 points.

"Consumer confidence improved in May after five consecutive months of decline," said Stephanie Guichard, Senior Economist, Global Indicators at The Conference Board. "The rebound was already visible before the May 12 US-China trade deal but gained momentum afterwards. The monthly improvement was largely driven by consumer expectations as all three components of the Expectations Index—business conditions, employment prospects, and future income—rose from their April lows. Consumers were less pessimistic about business conditions and job availability over the next six months and regained optimism about future income prospects. Consumers' assessments of the present situation also improved. However, while consumers were more positive about current business conditions than last month, their appraisal of current job availability weakened for the fifth consecutive month."

"May's rebound in confidence was broad-based across all age groups and all income groups. It was also shared across all political affiliations, with the strongest improvements among Republicans. However, on a six-month moving average basis, confidence in all age and income groups was still down due to previous monthly declines."

Employment Confidence Improved

The current conditions net employment sub-index (plentiful minus hard to get) fell slightly by 0.5 points. Consumers' outlook for future employment improved substantially as the net sub-index (the difference between more jobs and fewer jobs) rose by 11.1 points. Consumers remain confident that the labor market is solid and will remain so over the next six months.

Business Confidence Improves

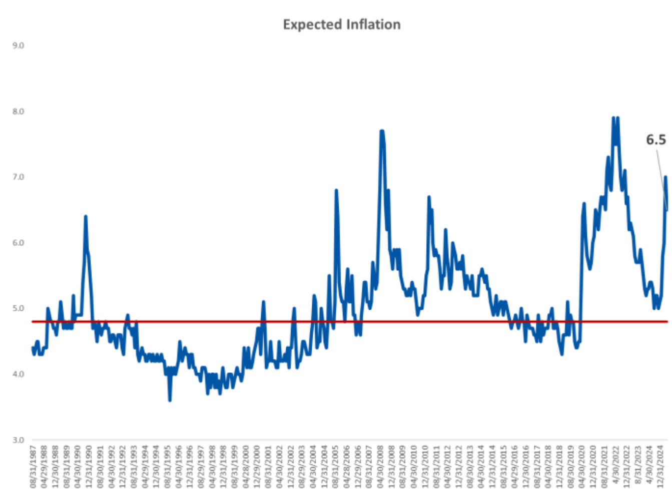
Consumers' perception of current business conditions strengthened, as the net sub-index (good minus bad) rose 5.0 points. Consumers' outlook for future business conditions also improved, as the net sub-index (better minus worse) rose 12.0 points.

Outlook Regarding Income Rises

Consumers' outlook for their income six months hence improved, as the net sub-index (increase minus decrease) rose 6.0 points.

Inflation Expectations are Rising

The Conference Board started asking consumers about inflation expectations in 1987. Last month, consumers' expectations for inflation for the next 12 months moderated. Consumers forecast inflation will be 6.5% in 12 months, up from 5.1% at year's end and the long-term average of 4.8%.



Survey data for inflation expectations have become unanchored. It is much easier to forecast higher inflation during a survey, especially an online survey, than when there is no money at stake.

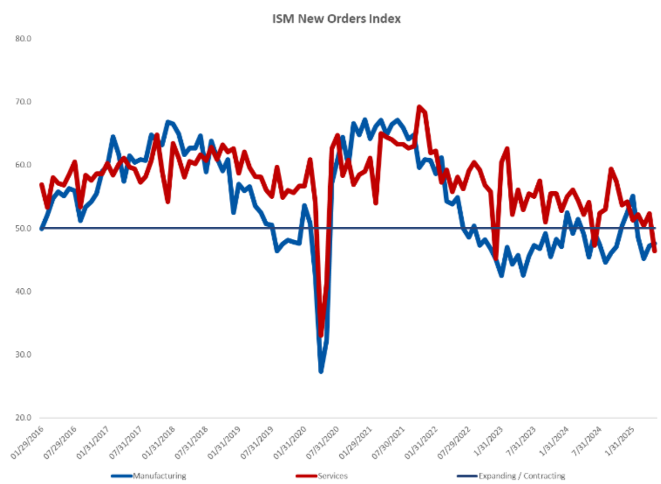
The Trump Administration acted quickly to lower stock prices and faltering consumer confidence when it announced its tariff pause and rolled back Chinese tariffs. We shall see if the increased confidence is warranted when the pause expires.

The Business Sector

The Institute for Supply Management (ISM) reports monthly on manufacturing and non-manufacturing (service) sector activity. The reports are sentiment-driven and can be influenced by current events. Nonetheless, they do provide real-time clues to what is happening.

The New Orders Index is a leading indicator for the ISM Activities Index and the economy. This chart suggests that tariff chaos is impacting both the service and manufacturing sectors. We shall see if this index rebounds as tariff uncertainty wanes.

As a frame of reference, readings above 50 indicate expansion; readings below 50 indicate contraction. Readings approximating 50 indicate the same level of activity. A Manufacturing PMI above 42.5 generally indicates an expansion of the overall economy.



Activity in the service sector contracted for the first time since June 2024. The Services Index fell 1.7 points to 49.9. The breadth of growth narrowed, as ten industries reported growth while eight reported contraction. Comments from the ISM included: "May's PMI® level is not indicative of a severe contraction, but rather uncertainty that is being expressed broadly among ISM Services Business Survey panelists. The average reading of 50.8 percent over the last three months still indicates expansion in that time period, but it is a notable shift of 2 percentage points below its average of 52.8 percent over the previous nine months.

The New Orders Index moved into contraction territory for the first time in nearly a year. Tariff impacts are likely elevating prices paid by services sector companies, with the Prices Index hitting its highest level since November 2022, when the Bureau of Labor Statistics' CPI indicated that prices had increased 7.1 percent as compared to November 2021. Respondents continued to report difficulty in forecasting and planning due to longer-term tariff uncertainty and frequently cited efforts to delay or minimize ordering until impacts become clearer."

Non-Manufacturing Sector	Direction	Rate of Change
Business Activity / Production	Unchanged	From Growing
New Orders	Contracting	From Growing
Backlog of Orders	Contracting	Faster
Employment	Growing	From Contracting
Prices Paid	Increasing	Faster
Supplier Deliveries	Slowing	Faster
Service Sector	**Contracting**	**From Growing**
Industries Expanding	10	-1
Industries Contracting	8	-

Prepared by Damian Howard and Clint Rushing June 6, 2025

Employment returned to expansion. The employment index rose by 1.7 points to 50.7. 13.2% of respondents reported reducing their employment, while 14.3% reported increasing their employment. Comments from respondents included: “Higher scrutiny is being placed on all jobs that need to be filled, whether it be a new position or backfill for an existing role” and “Taking advantage of large company layoffs to hire or promote highly experienced staff to fill knowledge gaps.”

Prices paid for materials and services rose at a faster pace. Prices have risen for 96 consecutive months. The price component rose by 3.6 points to 68.7. 45.3% of respondents reported higher prices, while only 3.3% reported lower prices. Inflationary pressures remain a concern. Inflationary pressures were widespread as sixteen of eighteen service industries reported an increase in prices paid.

Manufacturing Sector	Direction	Rate of Change
Production	Contracting	Slower
New Orders	Contracting	Slower
Backlog of Orders	Contracting	Slower
Employment	Contracting	Slower
Prices Paid	Increasing	Slower
Supplier Deliveries	Slowing	Faster
Inventories	Contracting	From Growing
Manufacturing Sector	**Contracting**	**Faster**
Industries Expanding	7	-2
Industries Contracting	7	-

Activity in the manufacturing sector contracted at a slower pace in May. The manufacturing index fell by 0.2 points to 48.5 points, below the consensus estimate of 49.5. Growth dispersion narrowed as seven industries reported growth and seven reported economic contraction. A Manufacturing PMI above 42.3 generally indicates an expansion of the overall economy.

Most measures showed contraction at a slower rate. Manufacturer inventories fell rapidly as some of the tariff-prebought goods were used in current production.

Comments from the ISM included, “In May, U.S. manufacturing activity slipped further into contraction after expanding only marginally in February. Contraction in most of the indexes that measure demand and output has slowed, while inputs have started to weaken:

- **Demand** indicators were mixed, with the New Orders and Backlog of Orders indexes contracting at slower rates, while the Customers’ Inventories and New Export Orders indexes contracted more strongly. However, a ‘too low’ status for the Customers’ Inventories Index is usually considered positive for future production.
- Regarding **output**, the Production Index increased from an alarmingly low reading the previous month, but factory output continued to contract in May, indicating that panelists’ companies are still revising production plans downward amid economic uncertainty. The Employment Index ticked up for a second consecutive month but remained in contraction, as head-count reductions continued. Companies generally opted for layoffs because they are quicker to implement than attrition.
- Finally, **inputs** are defined as supplier deliveries, inventories, prices and imports. The Inventories Index, as expected, entered contraction territory after expanding as companies completed pull-forward activity ahead of tariffs, while the Supplier Deliveries Index indicated continuing slow performance, reflecting ongoing delays in clearing goods through ports of entry. Tariffs-induced prices growth slowed slightly, while the Imports Index contracted significantly, down 7.2 percentage points compared to April.

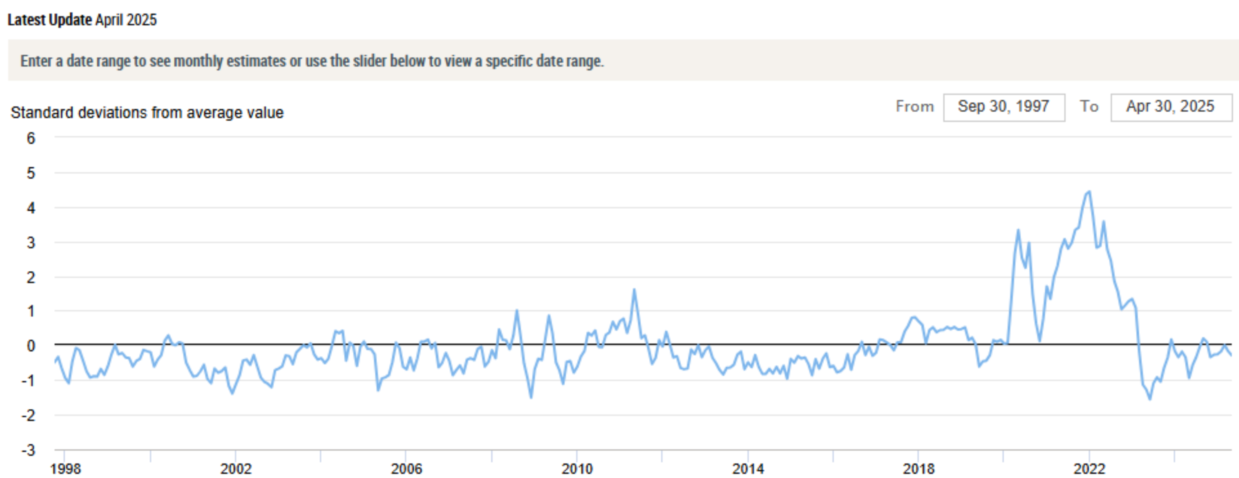
"Looking at the manufacturing economy, 57 percent of the sector's gross domestic product (GDP) contracted in May, up from 41 percent in April. The share of manufacturing GDP registering a composite PMI® calculation at or below 45 percent is a good metric to gauge overall manufacturing weakness; in May, this figure was 5 percent, a 13-percentage point decrease compared to the 18 percent in April. Of the six largest manufacturing industries, two (Petroleum & Coal Products and Machinery) expanded in May, compared to four in April," says Spence.

The employment index rose 0.3 points to 46.8. 17.7% of respondents reduced their employment, while 14.1% increased their employment. The vast majority (68.2%) of respondents reported no change in employment levels. Labor turnover remains sluggish.

Prices paid for materials and services rose at a slower pace. The Prices Index fell by 0.4 points to 69.4. Only 6.4% of respondents reported paying lower prices, while 45.1% reported paying higher prices.

Manufacturing activity continues to contract but at a slower rate. The second growth derivative is improving. We are a long way from the Trump Administration's goal of reindustrializing America.

The Federal Reserve Bank of New York tracks supply chain disruptions with its Global Supply Chain Pressure Index (GSCPI). Supply chain pressures have eased slightly and remain within normal ranges; any supply chain issues are modest and isolated. The tariff disruptions are not evident in this index.



Abbreviations and Other Terms Used
This report will utilize the following acronyms: FRB for the Federal Reserve Bank, FOMC for the Federal Open Market Committee, and BLS for the Bureau of Labor Statistics. The FOMC is part of the Federal Reserve Board (FRB), which meets eight times a year to set monetary policy. The primary tool for monetary policy is the Federal Funds Rate (FFR). FFR is the rate set by the FOMC and is the rate at which banks borrow and lend their excess reserves to each other overnight. It forms a floor for short-term interest rates.

We will use the following abbreviations for various governmental agencies.
BEA = U.S. Bureau of Economic Analysis
BLS = U.S. Bureau of Labor Statistics

We will use the terms nominal and real. Nominal values are measured in terms of money or things that are counted in the real world. Retail sales, personal income, expenditures, and corporate earnings are usually reported in nominal dollars. Real values are adjusted for inflation (nominal minus inflation). Real values enable comparisons that are not distorted by inflation. GDP numbers are usually reported as real growth.

Other abbreviations are commonly used.
QTD = Quarter-to-date
YTD = Year-to-Date
M/M = Month Over Month
TMA = Trailing Three-Month Annualized
Y/Y = Year Over Year
MBPD = Million Barrels per Day

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