
The State of the U.S. Economy – June 2025

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1. Growth and Output

The U.S. economy contracted by 0.5% (annualized) in the first quarter of 2025, marking the first quarterly decline in three years. While that raised concern, a deeper look shows real final sales to private domestic purchasers rose by 1.9%, indicating some underlying consumer and business resilience.

For the second quarter, economists expect a mild rebound. KPMG forecasts approximately 1.2% GDP growth in Q2. Full-year projections from institutions like S&P Global and EY suggest GDP growth will land between 1.4% and 1.7% in 2025, a significant deceleration from the 2.8% recorded in 2024.

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2. Inflation and Monetary Policy

Inflation has been easing steadily. Core inflation rates are trending downward, but the Federal Reserve remains cautious. The federal funds rate currently stands at 4.25%–4.50%, and while some Fed members advocate for interest rate cuts later this summer, others urge patience to ensure inflation is under control.

The Fed's most recent Summary of Economic Projections estimates inflation to be around 3.1% by the end of 2025 and eventually declining to 2.1% by 2027.

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3. Labor Market

The labor market remains relatively strong but is beginning to show signs of cooling. Weekly jobless claims have fallen, but overall hiring is more cautious. The unemployment rate is projected to rise slightly to around 4.5% by the end of the year, up from roughly 3.9% in late 2024.

Demographic pressures—especially an aging workforce and declining immigration—are contributing to a slower-growing labor force, complicating the employment picture for many sectors.

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4. Consumer and Business Activity

Consumer confidence has declined, with the Conference Board's index dropping from 98.4 in May to around 93 in June. Consumers are particularly worried about income, job prospects, and the general direction of the economy.

Consumer spending was notably weak in Q1, particularly in areas like recreation and dining. Business investment also showed signs of contraction, with declining demand and rising inventories pushing companies to cut back.

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5. Trade and Tariffs

One of the biggest shocks to the U.S. economy in 2025 has been the re-introduction and escalation of tariffs. In early April, sweeping tariffs caused a 37.9% spike in imports, which significantly dragged on GDP. These tariffs, largely driven by trade tensions with China and other partners, have disrupted supply chains and raised fears of long-term stagflation.

Financial institutions like JPMorgan have warned of an elevated risk of recession. Recent forecasts place the probability of a U.S. recession near 45% for the second half of 2025.

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6. Financial Markets

Despite the economic headwinds, stock markets have remained near record highs. However, many analysts caution this may not last. A strategist at BCA Research has projected a potential 25% drop in the S&P 500 due to weakening fundamentals and continued trade uncertainty.

UBS and other institutions are also warning of potential volatility in the second half of the year, particularly if inflation stays sticky or tariffs escalate further.

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7. Structural and Fiscal Risks

Federal budget cuts led to the layoffs of approximately 275,000 federal workers earlier in 2025. These cuts have affected government services and may have a negative multiplier effect on local economies.

Longer-term challenges remain: the aging U.S. population and low immigration rates continue to strain both the labor force and entitlement programs. Adding to the concern, Moody’s downgraded the U.S. credit rating to Aa1 earlier this year, citing growing fiscal imbalances and political uncertainty.

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8. Overall Outlook

Strengths:

- Consumer demand (though slowing) remains positive
- Inflation is easing
- Fed policy may become more supportive in H2

Risks:

- Q1 GDP contraction
- Rising unemployment
- Weak consumer and business sentiment
- Tariff-related trade disruptions
- Recession and stagflation risks

In summary, the U.S. economy is in a cautious, low-growth phase. While inflation is stabilizing and the labor market hasn't collapsed, sentiment is weakening, investment is slowing, and the risk of recession remains high due to trade disruptions and policy uncertainty. The path ahead hinges on global developments, domestic consumption, and the Fed's response over the coming months.

Let me know if you'd like this broken into a shorter summary, visualized in a slide deck, or exported to a PDF or Word document.