



Economic Update

 **SVN** | RESEARCH

MAY 15, 2025

1. FED INTEREST RATE DECISION

- The Federal Reserve's FOMC held rates unchanged at 4.25%-4.50% during its May policy meeting, aligning with market expectations leading up to the decision.
- While markets and experts largely expected the FOMC to keep rates steady in May, some expressed concern about leading anecdotal data, such as the Beige book, recently pointing to deteriorating conditions in the labor market, arguing that there could be room for a pre-emptive rate cut.
- However, despite Fed Chair Jerome Powell referencing the "great deal of uncertainty" around tariffs during his post-meeting press conference, he said that policymakers need not "be in a hurry to adjust its monetary policy" and that to wait-and-see remains "the appropriate thing to do."
- Notably, within a few days of the May FOMC meeting, the Trump administration announced a 90-day pause on its 'reciprocal tariffs' against China. As a result, the CME fed futures markets are, on average, forecasting delayed and fewer rate cuts in 2025 relative to before the announcement of a tariff pause.

2. CPI INFLATION

- CPI inflation eased on an annual basis to 2.3% in April, its lowest annual reading since February 2021. Prices climbed 0.2% on the month.
- Core CPI prices increased 0.2% month-over-month and 2.8% year-over-year.
- While monthly readings edged higher compared to March, they largely fell short of market expectations and were seen as a positive sign in the face of fear of potential tariff-induced inflation.
- Shelter costs rose 0.3% during the month, accounting for more than half of the monthly gain in headline CPI.
- Energy prices rose by 0.7% month-over-month, driven by a rise in natural gas and electricity costs, while gasoline prices declined. Meanwhile, food prices fell by 0.1% in March.

3. SMALL BUSINESS OPTIMISM

- Small business optimism declined in April, according to seasonally adjusted data from the National Federation for Independent Businesses (NFIB).



Economic Update



- Optimism remained below its historical average for a second consecutive month as fewer owners expect to increase business investments in the near term.
- The net share of small business owners who expect better business conditions fell six points to a net 15% in April, its lowest share since October 2024.
- 34% of business owners expressed doubt in their ability to fill existing job openings, down percentage points from March. Interestingly, job openings are at their lowest level since January 2021.
- A net -4% of owners plan inventory investment in the coming months, down three points from March and its lowest reading since June of last year.
- 18% of owners are planning capital outlays in the next six months, down three points from March and its lowest since the depth of the COVID-19 pandemic in 2020.
- The most recent survey, conducted in April, does not capture the effect of the Administration's announcement of a pause in its China tariff policy, which could meaningfully boost sentiment in the coming weeks.

4. CONSUMER CONFIDENCE

- According to data from the Conference Board, consumer confidence fell by 7.9 points in April to an index level of 86.0, its fifth consecutive monthly decline.
- Both consumers' assessment of current business conditions and their short-term outlook for conditions shifted toward the downside, with the expectations index reaching a 13-year low.
- Forward-looking expectations deteriorated across the board, including expectations regarding future business conditions, employment prospects, and future income.
- Further, the share of consumers who expect fewer jobs in the next six months sits at 32.1%, roughly as high as in the middle of the Great Recession.
- The fall in consumer confidence was also broad demographically, falling amongst all age and most income groups and shared across all political affiliations.
- The decline was sharpest among consumers 35-55 years old and those making more than \$125,00 per year.



Economic Update



5. CONSTRUCTION SPENDING

- US construction spending shrank by a seasonally adjusted 0.5% month-over-month in March, according to the latest available data from the US Census Bureau.
- High mortgage rates and tariffs on imports contributed to both a supply and demand-driven increase in construction costs, constraining homebuilding activity during the month.
- Private sector spending fell 0.6% in March, driven by pull-backs in both non-residential investment (-0.8%) and residential investment (-0.4%).
- Public sector spending fell 0.2%, primarily due to a fall in non-residential investment and reduced spending on power, commercial, and amusement and recreation construction. Office and transportation construction experienced some of March's most significant spending increases.
- Annually, US construction spending is up 2.8% through March.

6. SPECIAL SERVICING RISES IN APRIL

- According to Trepp, the special servicing rate for CMBS loans rose six basis points (bps) to 10.17% in April.
- While April's increase was relatively modest, the industry-wide special servicing rate sits well above the 8.11% charted one year ago and the 5.62% registered in April 2023.
- There were significant variations in sector-level performance during the month. Lodging continued to chart the most significant increase, climbing 126 bps to 10.21% in April and following a 64 basis point jump in March.
- Multifamily and Retail also saw special servicing rates climb during the month, rising roughly 30 basis points each. Industrial rose just nine bps.
- Office saw some relief as its rate dropped by 68 basis points, a repeat of March, to 14.91%.

7. LOGISTICS MANAGERS' INDEX

- Logistics activity rose in April following a slowdown in March, according to the latest reading of the Logistics Managers' Index.
- Logistics activity was elevated to start the year as North American firms attempted to front-run a potential



Economic Update



trade war before snapping back in March. April's rebound reflects a growth level more consistent with logistics sector performance before the 2024 Presidential Election.

- Inventory levels rose but at a much slower pace compared to activity experienced during the first quarter, reflecting a more normal seasonal inventory buildup.
- Despite lower inventory growth, warehousing prices and inventory costs climbed faster than the previous month, suggesting that much of the first-quarter inventory buildup remains sitting in storage facilities.

8. COMMERCIAL PROPERTY PRICES

- Commercial property prices rose 0.6% year-over-year in March as commercial real estate gradually edges into a faster pace of annualized growth. Further, a quarter-over-quarter gain of 0.5% during Q1 puts the pace of annualized growth at 1.8%.
- According to the monthly update by MSCI-Real Capital Analytics, CRE prices have not yet responded to the spike in uncertainty that has accompanied recent trade negotiations and policy rollouts.
- Rather, CRE still exhibits the uneven price performance across sectors that has persisted since 2022.
- Retail led all sectors during Q1, rising 1.8% from Q4 2025 and 4.6% year-over-year.
- Industrial, which has typically seen the strongest price growth of any sector during the post-pandemic period, followed Retail with a 2.3% year-over-year increase during Q1 but declined 0.2% from Q4.
- Apartment prices declined 0.9% year-over-year during Q1 but climbed 0.4% quarter-over-quarter, its second consecutive quarter of growth, suggesting that price stagnation is gradually thawing in the sector.
- CBD office prices were down just 1.5% year-over-year in Q1, a significant turnaround from the more than 30% recorded one year ago. Suburban office prices rose 0.5% year-over-year during Q1.

9. GDP

- Real US GDP contracted at an annualized rate of 0.3% during the first quarter of 2025, based on the advance estimate from the US Bureau of Economic Analysis.
- The first-quarter decline was primarily due to a sharp increase in imports, which is a negative factor in the GDP calculation. GDP's other components—consumer spending, investment, and exports—each also



Economic Update



increased, partly offsetting the downside effect of imports.

- Beneath the surface, the US economy still exhibits strong fundamentals. The rise in imports during the first quarter was significantly driven by US firms and consumers, who front-loaded their purchases of goods in anticipation of the Trump Administration's tariffs.
- It reflects robust consumer spending despite softening consumer sentiment. Nonetheless, the first-quarter numbers indicate that consumers and producers significantly adjusted their activities in anticipation of heightened trade tensions.

10. APRIL JOBS REPORT

- The US Economy added 177k payrolls in April, above consensus estimates of 130k, according to the Bureau of Labor Statistics (BLS). The unemployment rate was unchanged at 4.2%.
- It was a strong showing for firms despite being a month headlined by heightened economic uncertainty and volatility. April's job growth slightly edged out the average monthly increase of 152k over the previous 12 months.
- Payrolls grew the most in the healthcare sector (+51k), transportation and warehousing (+29k), and financial activities (+14k). The increase in transportation and warehousing employment comes after little change in March and arrives after an uptick in logistics activity, including imports and inventories, to start the year. Federal government employment continued to decline (-9k).

Economic Update



SUMMARY OF SOURCES

- (1) <https://www.federalreserve.gov/newsevents/pressreleases/monetary20250507a.htm>
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