MONDAY ECONOMIC REPORT

Consumers’ Fears Appear Well-Founded as Manufacturers Are Hit with Higher Input Costs

March 31, 2025 – SHARE

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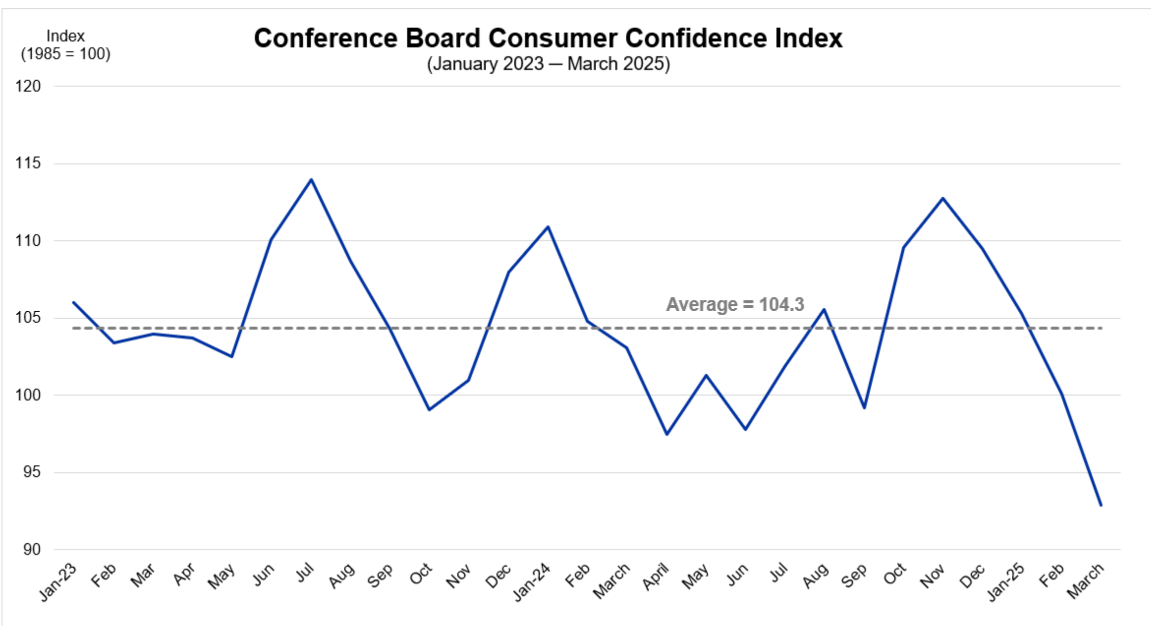
Manufacturing-Focused Weekly Toplines



- **Consumers’ spending plans are mixed amid a decline in confidence:** Consumer confidence fell for the fourth consecutive month and slipped below the expected range that has prevailed since 2022. Meanwhile, the Expectations Index dropped to the lowest level in 12 years and below the recession signal threshold of 80. Buying plans for homes and cars declined, while intentions to purchase other big-ticket items improved, perhaps due to potential higher prices from tariffs.

    - **Why it matters:** Consumers' concern about the impact of tariffs appears to be prompting increased purchasing plans of big-ticket items. Therefore, any boost in manufacturing activity to fulfill those purchasing plans could be short-lived.

- **Manufacturing activity remains sluggish in Kansas City:** Manufacturing activity fell modestly in the Tenth District in March, with the month-over-month composite index decreasing to -2. Meanwhile, expectations for future activity cooled but remained positive.

    - **What it means:** Nondurable manufacturing continued to drive the declines in activity in Kansas City, specifically food, paper and printing manufacturing. After months of contraction, manufacturers in the Kansas City Federal Reserve District still believe activity will turn a corner but are becoming less optimistic each month.

- **Meanwhile, manufacturing activity slowed in Richmond:** The composite manufacturing index returned to -4 from 6 in February in the Fifth District, led by a significant drop in the shipments index. Manufacturers are also less optimistic looking ahead, with the outlook for future local business conditions falling from 2 in February to -22 in March.

    - **Why it matters:** The slight boost in activity in the Fifth District in February was short-lived, and manufacturers continue to become less optimistic looking ahead, which doesn't bode well that an improvement in activity will return.

- **Flash PMI signals slight contraction in manufacturing activity:** The S&P Global Flash U.S. Manufacturing PMI fell slightly from 52.7 in February to 49.8 in March, dropping below the 50-point marker that signals deterioration in business conditions. Factory production declined for the first time since October 2024, with companies noting fewer instances of front-running production due to tariff fears. Slowing of new orders after two months of solid gains further depressed the Manufacturing PMI.

    - **What it means:** While Flash PMI is only an early estimate of manufacturing activity, manufacturers are starting to feel the impact of higher costs from tariffs. Furthermore, uncertainty seems to be driving sluggish demand, meaning a fear of tariffs and a return of inflation could threaten that short-lived manufacturing growth from earlier in the year.

This Week's Economic Indicators

Monday, March 31
Texas Manufacturing Outlook Survey

Tuesday, April 1
S&P U.S. Manufacturing PMI
Construction Spending
ISM Manufacturing Index
J.P. Morgan Global Manufacturing PMI
Job Openings and Labor Turnover Survey

Wednesday, April 2
Factory Orders

Thursday, April 3
International Trade

Friday, April 4
Employment Report

Deeper Dive

- **Conference Board Consumer Confidence:** Consumer confidence declined 7.2 points in March to 92.9. The Consumer Confidence Index fell for the fourth consecutive month and slipped below the expected range that has prevailed since 2022. The Present Situation Index and the Expectations Index also decreased.

  What are individual indices telling us about consumer sentiment?

- **Kansas City Fed Manufacturing Survey:** Manufacturing activity fell modestly in the Tenth District in March, with the month-over-month composite index decreasing to -2. Meanwhile, expectations for future activity cooled but remained positive. The Tenth Federal Reserve District encompasses the western third of Missouri; all of Kansas, Colorado, Nebraska, Oklahoma and Wyoming; and the northern half of New Mexico. The month-over-month decrease in activity was due primarily to declines in nondurable manufacturing. Most month-over-month indexes were negative, while improved from last month. Production was relatively flat, and the employee workweek, inventories for materials, prices received and input prices were positive. On the other hand, inventories for finished goods turned negative, declining 10 points from February.

How much did other indexes change?

- **Richmond Fed Survey of Manufacturing Activity:** Manufacturing activity in the Fifth District slowed in March. The Fifth Federal Reserve District consists of Virginia, Maryland, the Carolinas, the District of Columbia and most of West Virginia. The composite manufacturing index returned to -4 from 6 in February, led by a significant drop in the shipments index. Manufacturers are also less optimistic looking ahead, with the outlook for future local business conditions falling from 2 in February to -22 in March.

  How are other components trending?

- **S&P Global Flash U.S. Manufacturing PMI:** The S&P Global Flash U.S. Manufacturing PMI fell slightly from 52.7 in February to 49.8 in March, dropping below the 50-point marker that signals deterioration in business conditions. Factory production declined for the first time since October 2024, with companies noting fewer instances of front-running production due to tariff fears. Slowing of new orders after two months of solid gains further depressed the Manufacturing PMI. Meanwhile, supplier delivery times shortened, indicating slightly less busy supply chains.

  Are manufacturers still optimistic about the future?

- **University of Michigan Consumer Sentiment Index:** Consumer sentiment fell for a third month in a row in March, declining nearly 12% from February to an index reading of 57.0. The expectations index also plunged nearly 18% to 52.6. Sentiment declined across all demographic and political groups, with all groups expressing anxiety over their personal finances, business conditions, unemployment and inflation. Two-thirds of consumers anticipate unemployment will rise in the next year, the highest reading since 2009. This is notable because in recent years, strong labor markets and incomes have been the primary reason for continued durability in consumer spending.

  Read more.

- **S&P CoreLogic Case-Shiller Home Price Index:** In January, the S&P CoreLogic Case-Shiller U.S. National Home Price NSA Index recorded a 4.1% annual gain, up from 4.0% in December. The 10-City Composite saw an annual increase of 5.3% in January, up from 5.2% the previous month, while the 20-City Composite rose 4.7% year-over-year, up from 4.5%. Among the 20 cities, New York again posted the highest annual gain at 7.7%, followed by Chicago at 7.5% and Boston at 6.6%. Tampa again exhibited the lowest annual return, with prices falling 1.5%.

Get more context.

- **Pending Home Sales:** In February, pending home sales improved 2.0% over the month but fell 3.6% over the year. The Pending Home Sales Index, which predicts home sales through contract signings, edged up to 72.0 from 70.6. Breaking it down by region, the Northeast experienced a decrease of 0.9% over the month and 2.5% over the year. The Midwest saw a 0.7% monthly increase, and the index decreased 4.7% year-over-year. The South had a 6.2% jump month-over-month but a 3.4% annual decline, while the West slipped 3.0% over the month and 3.5% from February 2024. With slower economic growth expectations for 2025, mortgage rates might fall slightly, but the current high national debt will prevent major declines. Home price growth should also moderate due to supply increasing throughout the year.

- **New Home Sales:** New single-family home sales rose 1.8% in February and 5.1% over the year. The median sales price for new homes sold in February was $414,500, a 3.0% increase from the previous month and 1.5% higher than in February 2024. The average sales price was $487,100, down 4.1% from January and 4.4% from February 2024. The inventory of new homes available for sale was estimated at 500,000, an increase of 0.8% from January and 7.5% over the year. The supply for new homes for sale rose to 8.9 months at the current sales pace, down slightly from January.

- Durable Goods (Advance)**:** New orders for manufactured durable goods rose 0.9% in February, up $2.7 billion to $289.3 billion. Transportation equipment drove the increase, rising 1.5%, with defense aircraft and parts and motor vehicles and parts up 9.3% and 4.0%, respectively. When excluding transportation, new orders increased 0.7%.

- **PCE Price Index:** The PCE price index, the preferred inflation gauge for the Federal Reserve, rose 0.3% over the month and 2.5% over the year in February, in line with expectations. While the same as the previous month, the PCE price index remains elevated from September 2024 when the index was up 2.1% over the year.

Prices for goods rose 0.2% over the month, while services prices increased 0.4%. Within the goods category, food prices stayed the same in February, while energy prices ticked up 0.1%. Over the year, food prices are 1.5% higher, while energy prices are down 1.1%. When excluding food and energy, the core PCE price index rose 0.4% over the month and 2.8% over the year, remaining higher than the overall inflation rate and coming in above expectations.

- **GDP (Q4 2024 and Year 2024 Third Estimate):** Real GDP growth in the fourth quarter was 2.4% in the third estimate, revised up by 0.1% from the second estimate. In the third quarter, real GDP increased 3.1%. The update primarily reflected upward revisions to consumer and government spending that were partly offset by downward revisions to investment. The deceleration in GDP compared to the third quarter was due largely to decreases in investment and exports that were partly offset by increases in consumer spending. Current-dollar GDP rose 4.8% at an annual rate in the fourth quarter, while the price index for gross domestic purchases increased 2.2%, a downward revision of 0.1 percentage point from the prior estimate.

- **Personal Income Outlays:** Personal income increased $194.7 billion, or 0.8%, in February. Disposable personal income, which is personal income after taxes, rose $191.6 billion, reflecting a 0.9% increase. Meanwhile, personal consumption expenditures increased $87.8 billion, a 0.4% rise. The personal saving rate, which is personal saving as a percentage of disposable personal income, was 4.6%, up from 4.3% the previous month.

- Corporate Profits (Q4 2024 Revised Estimate)**:** Economy-wide corporate profits rose 5.4% in the fourth quarter but are up 6.9% from Q4 2023. Domestic industry profits grew 3.6% from the previous quarter and are up 7.2% in the past year. Profits for domestic nonfinancial corporations increased $56.0 billion, up from the $28.7 billion rise in the third quarter. Profits for domestic financial corporations grew $71.0 billion in the fourth quarter, after increasing $5.6 billion in the prior quarter. Profits from the rest of the world saw an 18.8% increase from the third quarter.

- Wholesale and Retail Inventories (Advance)**:** In February, wholesale inventories rose 0.3% over the month and 1.1% over the year to an end-of-the-month level of $902.9 billion. Meanwhile, retail inventories for February increased 0.1% over the month and 4.6% over the year to $823.0 billion.