ECONOMIC OUTLOOK

Huntington PRIVATE BANK

February 2025 | Hot Inflation and Solid Job Market Raises Odds of Extended Fed Pause

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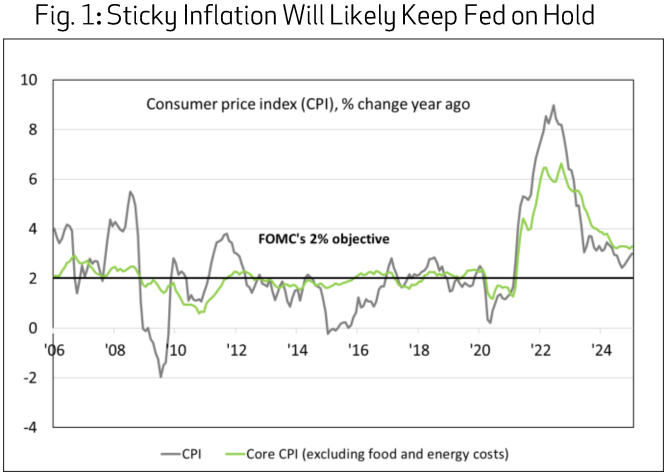
Highlights

- **Consumer prices rose faster than expected in January.**
- **Manufacturing activity expanded in January after two years of contraction.**
- **Sticky inflation combined with a solid labor market will likely keep the FOMC on hold in the near term.**

Consumer prices rose faster than expected in January, according to a report from the Bureau of Labor Statistics (BLS). The consumer price index (CPI) rose 0.5% in January from December, faster than market expectations of an increase of 0.3%. The core CPI, which excludes food and energy costs, was also worse than expected. It grew 0.4% in January from the prior month, faster than market expectations for growth of 0.3%. Shelter accounted for nearly 30% of the increase in the headline CPI. The headline CPI rose 3% in January from a year ago, following a 2.9% increase in December.

Job growth slowed but remained solid in January, despite the Southern California wildfires and extreme weather conditions in many parts of the country. The U.S. economy added 143,000 jobs in January, following job gains of 307,000 (revised from +256,000) in December, according to the establishment survey from the BLS.

Fig. 1: Sticky Inflation Will Likely Keep Fed on Hold

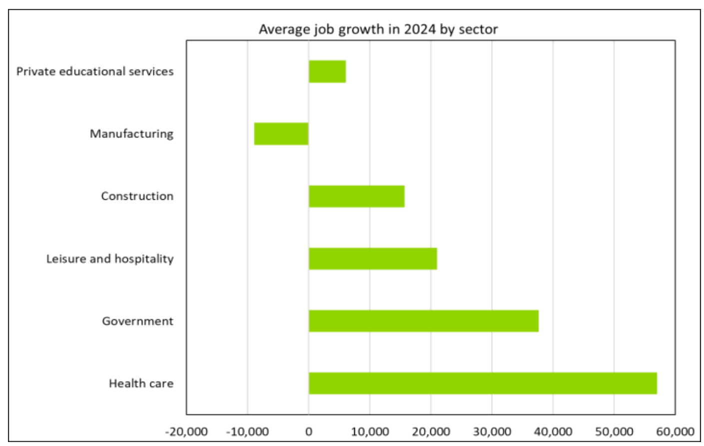


Source: BLS

Job growth was led by health care (+44,000), retail trade (+34,000) and social assistance (+22,000). The household survey showed a slight decline in the unemployment rate. The unemployment rate fell from 4.1% in December to 4% in January, the lowest rate since May. For all of 2024, the U.S. economy added 2 million jobs, down from 2.6 million jobs in 2023.

As expected, the Federal Open Market Committee (FOMC) kept the federal funds rate unchanged at its meeting in

Fig. 2: Health Care and Government Drove Job Growth in 2024



Source: BLS

January. This followed three consecutive rate cuts at the FOMC's meetings in September, November and December. At the January post-meeting press conference, Fed Chair, Jerome Powell, noted that the Committee is "very much in the mode of waiting to see what policies are enacted" before making "a plausible assessment of what their implications for the economy will be."

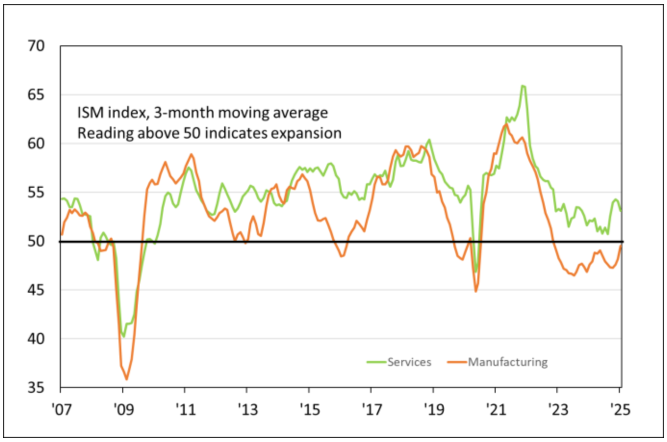
Jerome Powell, in his congressional testimony in mid-February, noted that "the neutral rate has risen meaningfully from what was clearly very, very low before the pandemic." The neutral rate is the interest rate that is neither expansionary nor contractionary, and consistent with a full-employment economy with 2% inflation. The neutral rate has likely risen in recent years due to stronger productivity growth and an aging labor force.

Manufacturing activity expanded in January after 26 consecutive months of contraction, according to a report from the Institute for Supply Management (ISM). The ISM manufacturing purchasing managers' index (PMI), a measure of sentiment in the manufacturing sector, rose to 50.9 in January from 49.2 in December. Despite the improvement in sentiment, concerns are growing about the manufacturing sector. Headwinds facing the manufacturing sector include inflation, tariff policy uncertainty and a weak Chinese economy.

President Trump announced the "Fair and Reciprocal Plan" on February 13, which would impose reciprocal tariffs on all major U.S. trading partners. Tariffs from the newly announced plan are expected to go into effect in early April. The "Fair and Reciprocal Plan" followed tariffs on steel (25%) and aluminum (25%) imports, Canada (25% on all imports excluding energy resources which will be subject to 10%), Mexico (25%) and China (10%). Only Chinese tariffs have gone into effect. Implementation of broad-based tariffs will likely boost consumer prices and weaken economic growth.

Overall, Huntington Private Bank expects real GDP growth of around 2% in 2025. Employment growth is expected to weaken as restrictive monetary policy, higher long-term yields, and slower labor force growth weigh on hiring. Sticky inflation combined with a solid labor market will likely keep the FOMC on hold at its next meeting on March 18 and 19.

Fig. 3: U.S. Manufacturing Faces Headwinds



Source: ISM

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Fig. 4: Baseline Economic Outlook

	2019	2020	2021	2022	2023	2024*	2025*
Real GDP Annual Growth Rates, *2017 Chained Prices*							
Pers. Consumption Expenditures	2.1	-2.5	8.8	3.0	2.5	2.8	2.4
Government Expenditures	3.9	3.4	-0.3	-1.1	3.9	3.4	1.6
Private Investment	3.2	-4.5	8.8	6.0	0.1	4.0	2.7
Exports	0.5	-13.1	6.5	7.5	2.8	3.2	2.3
Imports	1.2	-9.0	14.7	8.6	-1.2	5.4	3.5
Total Real GDP	2.5	-2.2	6.1	2.5	2.9	2.8	2.0
CPI *(1982-1984=100), % Change Annualized*	1.8	1.2	4.7	8.0	4.1	3.0	2.5
Core CPI *(1982-1984 = 100), % Change Annualized*	2.2	1.7	3.6	6.2	4.8	3.4	3.0
PCE Price Index *(2017=100), % Changed Annualized*	1.4	1.1	4.2	6.5	3.8	2.5	2.4
Core PCE Price Index *(2017=100), % Change Annualized*	1.7	1.3	3.6	5.2	4.1	2.8	2.5
Crude Oil *WTI, ($/barrel)*	$57	$39	$68	$95	$78	$76	$74
Effective Federal Funds Rate, *% (Average)*	2.16	0.37	0.08	1.68	5.02	5.14	3.94
10-Yr. Treasury Rate, *% (Average)*	1.92	0.92	1.51	3.88	3.88	4.21	4.75
30-Yr. Fixed Rate Mortgage, *%*	3.86	2.87	3.27	6.66	6.99	6.72	7.20
Industrial Production *(YoY%)*	-0.7	-7.0	4.9	3.4	0.2	0.2	1.0
Payroll Jobs, *Average Monthly Difference, Thousands*	163	-774	606	399	225	166	130
Unemployment Rate, *Annual Average*	3.7	8.1	5.4	3.6	3.6	4.0	4.3
DXY Dollar Index	96.4	89.9	95.7	103.5	101.3	104.2	110.0

*Forecast
Historical data sources: Federal Reserve, BLS, BEA and Bloomberg

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