

# PLAINSCAPITAL BANK ECONOMIC HIGHLIGHTS



Economic Commentary  
July 2025

By Jerrod Dawson, CFA

## Executive Summary

- June 2025 economic indicators point to a slowing but resilient U.S. economy.
- Consumer balance sheets remain strong, but consumer spending stagnated last month, with the savings rate increasing, which indicates caution.
- Recent developments on the Russia/Ukraine front could prolong high geopolitical risk uncertainty, as Trump is willing to send Patriot missiles to Ukraine through NATO and has opened the door for Congress to pass sanctions.
- The labor market remains the primary concern for risk asset investors. Job losses could jeopardize the resilient US economy by reducing consumer spending and affecting the ongoing rise of US equity indices.
- The June M/M CPI matched expectations, ending the streak of four consecutive months of declines.
- Consensus among Wall Street economists has shifted to the view that US inflation is unlikely to remain within the Fed's 2-2.5% mandate without a genuine NBER-style recession.
- The overall impact of tariffs on consumer and business behavior, changes in immigration enforcement, credit easing, and incremental fiscal spending is not fully captured by markets over a two-year or longer horizon; this remains a significant downside risk.
- Fiscal stimulus will substantially boost the economy and markets as we approach 2026, and markets are already factoring in this positive growth surge.
- The eventual impact on the fiscal deficit as a percentage of GDP may be smaller than opponents of OBBA initially feared. For example, tariffs are now reflected in the Treasury budget statement, to the point that the fiscal year-to-date budget deficit has shifted from a \$215 billion year-over-year increase in May to a \$49 billion year-over-year contraction in June.
- The Fed is now divided into two groups: those supporting easing and those who believe the Fed should not cut rates at all in 2025.
- It all depends on how they view tariffs—whether as a one-time price increase, a sign of a larger trend that could cause more serious problems, or a deflationary tax hike.
- Currently, Q2 2025 earnings are projected to increase by 2.47%.
- Second quarter expectations trail behind those of the first quarter.
- Despite the focus on the business outlook so far in 2025, companies anticipate a positive second half of the year.
- Analysts are less optimistic than company management teams. They keep lowering expectations for the growth of the companies they cover, despite receiving positive guidance from management.

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## US Economic Cycle Drivers:

Growth	Latest Value (%)	Value 3mo Ago (%)	Trend q/q	Trend y/y
Bloomberg Economics GDP Now	1.4	2.5	↓	↓
OECD Leading Economic Indicator Index	100.2	100.0	↑	↑

Inflation	Latest Value (%)	Value 3mo Ago (%)	Trend q/q	Trend y/y
Bloomberg Economics US CPI Nowcast	3.0	3.4	↓	↓
US Cleveland Fed Inflation Nowcast y/y	3.2	3.4	↓	↓
Global Supply Chain Pressure	0.0	-0.3	↓	↑

Employment	Latest Value (%)	Value 3mo Ago (%)	Trend q/q	Trend y/y
Unemployment Rate	4.1	3.8	↑	↑
Conference Board Employment Trend	110.3	111.8	↓	↓

Consumer Spending	Latest Value (%)	Value 3mo Ago (%)	Trend q/q	Trend y/y
Johnson Redbook Retail Sales y/y	5.7	4.2	↑	↑
Adjusted Retail & Food Service Sales	2.3	2.1	↑	↑
Conference Board Consumer Confidence	100.4	103.1	↓	↓

Corporate Profitability	Latest Value (%)	Value 3mo Ago (%)	Trend q/q	Trend y/y
S&P 500 Est. Sales NTM Growth Rate	6.0	-	-	↑
S&P 500 Est. EPS NTM Growth Rate	13.5	-	-	↑
Conference Board CEO Confidence	6.7	7.0	↓	↑

Government Policy	Latest Value (%)	Value 3mo Ago (%)	Trend q/q	Trend y/y
Budget/ GDP	-5.9	-6.3	↑	↑
USD Real Effective Exchange Rate	109.6	106.8	↑	↑

Central Bank Policy Rate	Latest Value (%)	Value 3mo Ago (%)	Trend q/q	Trend y/y
U.S. Federal Funds Rate Upper Bound	5.5	5.5	→	↑
U.S. Market Implied Policy Rate 1Y Fwd	3.9	4.5	↓	↓

Liquidity	3mo Δ (%)	12mo Δ (%)	Trend q/q	Trend y/y
U.S. Domestic Liquidity	-0.5	-3.3	↓	↓
Global Liquidity Index	-0.8	10.9	↓	↑

Data source: Bloomberg

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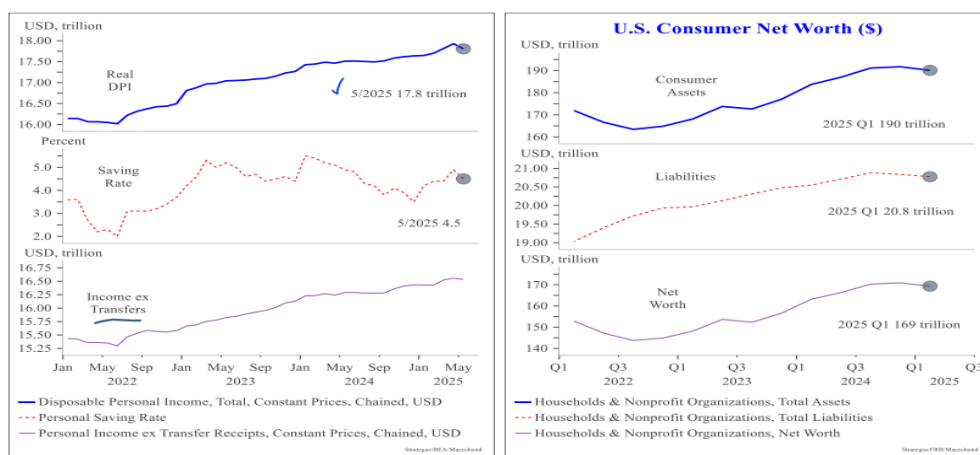
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## US & Global Economic Highlights

June 2025 economic indicators point to a slowing but resilient U.S. economy. Investor optimism is on the rise as labor markets remain resilient, inflation remains subdued, and interest rates are in check.

Q2 2025 GDP estimates remain strong at 2.5–3.0%, supported by a rebound in imports and steady consumer spending. Q1's flat growth (-0.3%) was likely understated due to trade frictions, with underlying growth closer to 2.0–2.5%. June data suggest sustained momentum, although the impacts of tariffs on supply chains warrant continued monitoring.

**Consumer Strength:** Consumer balance sheets remain robust, but consumer spending found itself treading water last month (down ~0.01%) month over month. The personal savings rate was ~4.5%, reflecting a level of caution. Revolving credit growth slowed, signaling potential stress in lower-income households.



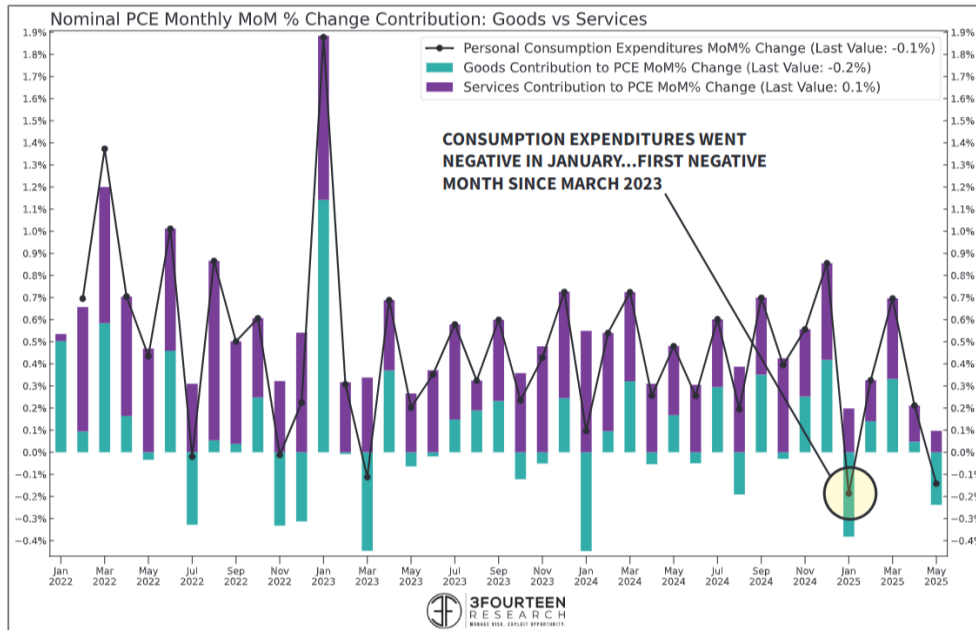
The US economy remains resilient thanks to strong private sector balance sheets, flexible labor markets, and significant deregulation. Although some risk of a growth scare still exists as policy uncertainty settles from historic highs, a slowdown by consumers (which make up 70% of GDP) and the chance of a future recession over the next 1–2 years are much less concerning than the alarmism from media commentators and consensus forecasts.

The primary short-term concern is complacency following the passage of the One Big Beautiful Bill Act (OBBBA) and markets at all-time highs. President Trump believes he has more room to exert pressure on trade negotiations, given that the market is at all-time highs. Liquidity is expected to decline as the Treasury needs to rebuild the Treasury General Account (TGA), and there are signs of a retrenching consumer. Lastly, recent developments on the Russia/Ukraine front could keep geopolitical risk uncertainty elevated for longer, as Trump is willing to send Patriot missiles to Ukraine via NATO and has opened the door for Congress to pass

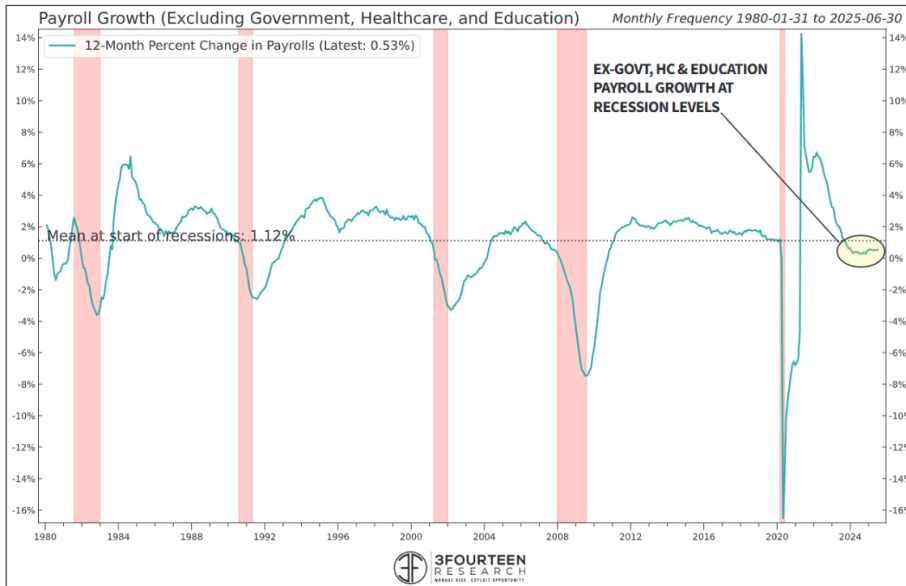
## Critical points for the economy

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- Recent developments on the Russia/Ukraine front could prolong high geopolitical risk uncertainty, as Trump is willing to send Patriot missiles to Ukraine through NATO and has opened the door for Congress to pass sanctions.
- The labor market remains their main concern. Job losses could jeopardize the resilient US economy by reducing consumer spending and affecting the ongoing rise of US equity indices.
- The June M/M CPI matched expectations, ending the streak of four consecutive months of declines.
- Consensus among Wall Street economists has shifted to the view that US inflation is unlikely to remain within the Fed's 2-2.5% mandate without a genuine NBER-style recession.
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sanctions. Sanctions would impose a 500% tariff on imports from countries purchasing Russian commodities, which could significantly impact commodity markets. Oil has so far been an effective counterweight in keeping inflation lower. Still, spikes in oil prices act as a tax on consumers and could further weaken the economy's most significant contributor to US GDP in the short term. These are likely short-term risks that the market is currently shrugging off and looking through. However, they could trigger episodic volatility through the rest of summer and early fall.

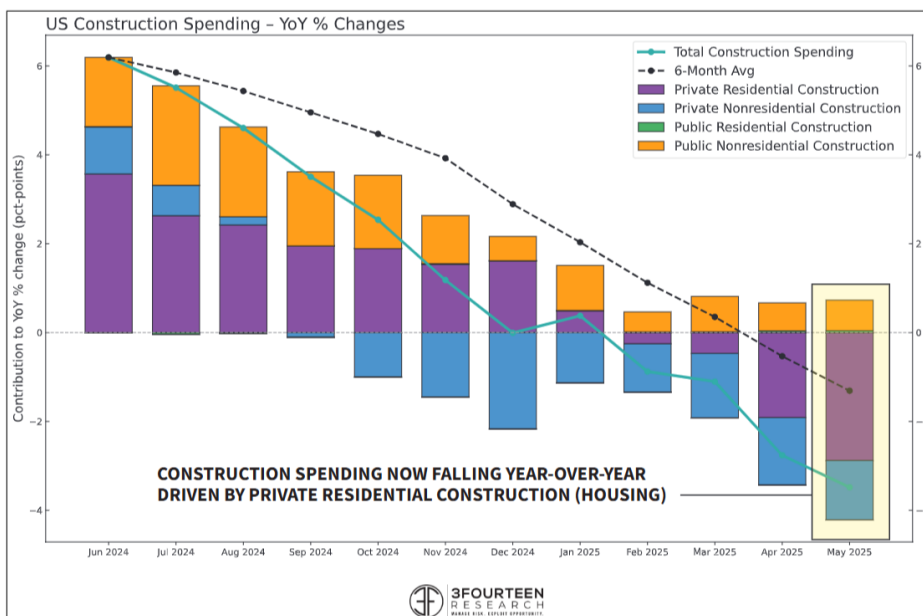


Labor Market: June payrolls (estimated) increased by ~147,000, with unemployment falling to 4.1%. Wage growth continues to rise, but eased slightly to ~3.7%, supporting consumer-driven GDP while adding to service inflation pressures. For risk asset investors, the labor market remains their primary concern. Job losses would threaten the resilient US economy by slowing consumer spending and impacting the continuous rise of US equity indices. Although claims have increased slightly, the trend suggests an increased risk of recession. While the trend is beginning to pick up, claims have increased by only 8% from the cycle's low, which is still well below the typical recession level of 18%.



The labor market is cooling, as demonstrated by slowing payroll growth. Still, the forward-looking Conference Board Employment Trend Index suggests that labor hoarding and immigration policy are likely to cap the unemployment rate, resulting in a more resilient labor market than would otherwise be the case.

The housing market and residential construction payrolls are the canaries in the coal mine for the broader labor market and the entire economy. Housing construction jobs remain at a cyclical high, but some fundamentals are weakening. The key to discerning how weak residential construction is getting is comparing the pace of starts to completions. When completions outpace starts, the number of units under construction decreases. Labor hoarding, immigration policy, and historically significant builder margins are all supporting the housing market and will likely slow any further deterioration.



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Manufacturing: The ISM Manufacturing PMI is likely to have edged down to ~49.0 in June, still indicating a slight contraction (a reading above 50 is considered expansionary). While still below the target 50+ range, this is the best reading in Tariff détente with China, as it supports industrial output; however, potential re-escalation remains a risk.

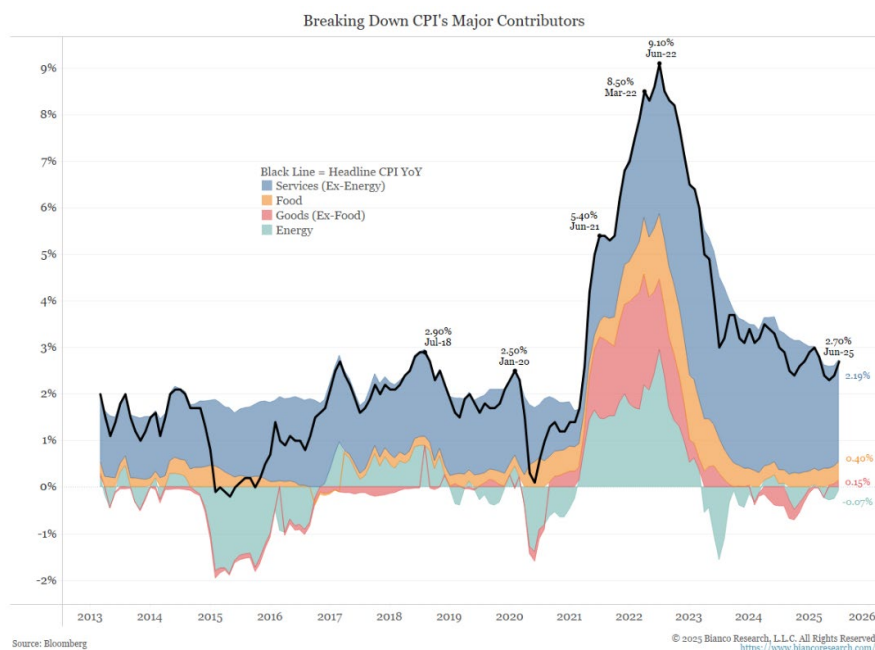
MANUFACTURING AT A GLANCE						
June 2025						
Index	Series Index Jun	Series Index May	Percentage Point Change	Direction	Rate of Change	Trend* (Months)
Manufacturing PMI®	49.0	48.5	+0.5	Contracting	Slower	4
New Orders	46.4	47.6	-1.2	Contracting	Faster	5
Production	50.3	45.4	+4.9	Growing	From Contracting	1
Employment	45.0	46.8	-1.8	Contracting	Faster	5
Supplier Deliveries	54.2	56.1	-1.9	Slowing	Slower	7
Inventories	49.2	46.7	+2.5	Contracting	Slower	2
Customers' Inventories	46.7	44.5	+2.2	Too Low	Slower	9
Prices	69.7	69.4	+0.3	Increasing	Faster	9
Backlog of Orders	44.3	47.1	-2.8	Contracting	Faster	33
New Export Orders	46.3	40.1	+6.2	Contracting	Slower	4
Imports	47.4	39.9	+7.5	Contracting	Slower	3
OVERALL ECONOMY				Growing	Faster	62
Manufacturing Sector				Contracting	Slower	4

Manufacturing ISM® Report On Business® data is seasonally adjusted for the New Orders, Production, Employment and Inventories indexes.  
\*Number of months moving in current direction.

Global Outlook: Global GDP growth is forecast at 3.2% for 2025, with emerging markets (4.2%) outpacing advanced economies (1.8%). China’s growth is expected to dip to around 4.4% amid export slowdowns, while India is likely to remain at around 6.4%. The euro area’s growth forecast weakened to ~0.8% due to struggles in the German industrial sector and the impact of tariffs.

Inflation: Inflation data appears calm enough to allow the Fed to consider cutting interest rates sometime in 2025; however, the labor market currently doesn’t appear weak enough to justify a data-driven rate cut. Still, as discussed in the housing market, it’s hard to convincingly argue that interest rates are not restrictive on housing and construction activity. Dovish-leaning members of the FOMC have noticed this and started to suggest that it alone warrants easing. The timing of this shift in policy stance is conspicuously suspicious. Do the now-cooing FOMC members truly believe that weakening economic and inflation data justify this policy stance, or are they just posturing for the Fed Chair nomination next year? The chart below breaks down various categories of year-over-year inflation, showing that the goods CPI has returned to historical norms. This is also what could be at risk of a re-acceleration due to tariffs and trade policy. Any significant future drops will need to come from services, especially housing, to contribute more to a meaningful year-over-year decline in the headline CPI rate.

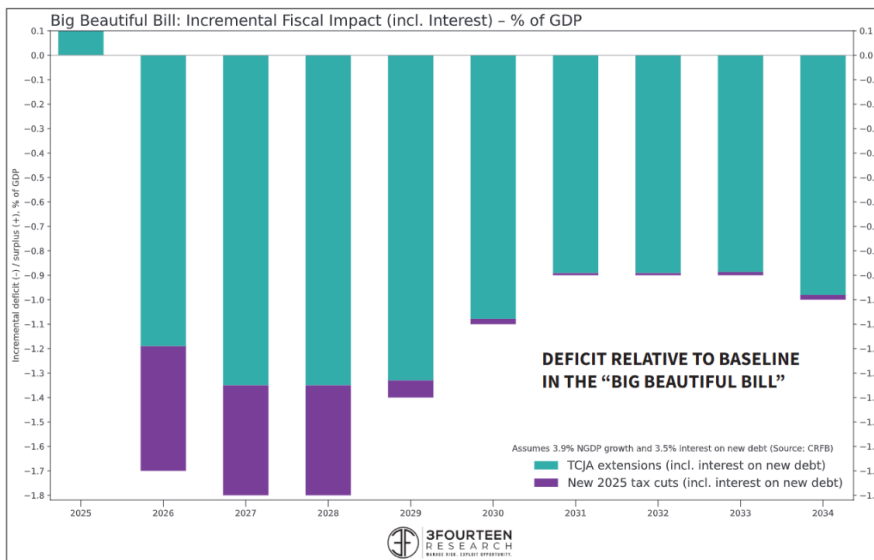




Will tariff-induced goods inflation outpace service/ housing disinflation? The manufacturing sector's share of today's Nominal US GDP is only 14%, and just 10% of the labor market. Basic arithmetic does not support a significant upside risk from tariffs; however, core goods still contributed to a modest 15-basis-point increase in the headline CPI, the largest since July 2023. Consensus among Wall Street economists has shifted to the view that US inflation is unlikely to fall to the Fed's 2-2.5% mandate without a genuine NBER-style recession. This reduces the risk of a negative market impact if the price level is already priced in. Regarding the longer term, the overall effect of tariffs on consumer and business behavior, changes in immigration enforcement, credit easing, and incremental fiscal spending is not accurately reflected by markets over a two-year or longer horizon; this remains a significant left-tail risk.

## Policy Highlights

Fiscal stimulus is expected to be a significant boost for the economy and markets heading into 2026, and markets are already factoring in this positive growth surge. The One Big Beautiful Bill Act (OBBBA) is projected to provide a fiscal boost of about \$500 billion to the US economy in 2026 and 2027. To provide perspective, fiscal stimulus in 2024 was approximately \$250 billion, and around \$325 billion in 2023. Therefore, OBBBA will be roughly twice and one and a half times the amounts from the previous two years. Along with the bill's deregulation provisions, which seem to encourage regional banks to lend, paired with consumer and corporate balance sheets that have extra capacity to leverage up, this creates an enormous tailwind supporting the US economy. Initial austerity efforts failed mainly due to the US's significant net international negative investment position, as evidenced by the sharp bond market reaction that led to the lows on April 9th, early in Q2 2025, and the sudden policy shift by the Trump Administration and Treasury. They now seem focused on running the economy hot, perhaps to try and 'grow' our way out of the fiscal challenge problem. We have our doubts about the likelihood of success but understand the positive economic and market impulse in the short and intermediate term. The most likely next step is to restart some form of quantitative purchasing program and debt monetization.



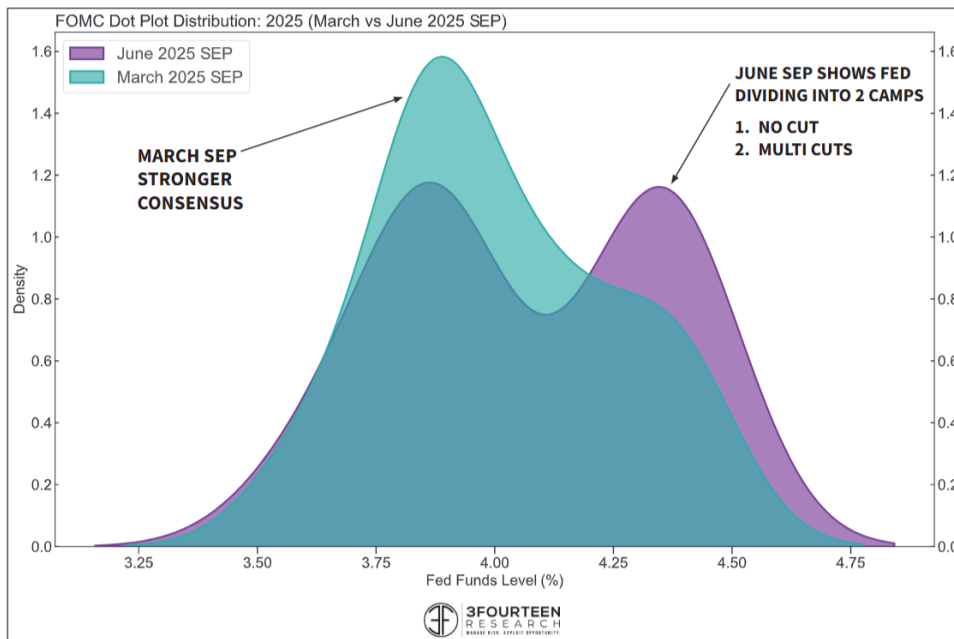
Despite vehement opposition from fiscal hawks and congressional brinksmanship, the eventual impact on the fiscal deficit as a percent of GDP may ultimately be less than opponents to OBBBA had feared. Case in point, tariffs are showing up in the treasury budget statement, so much so that the fiscal YTD budget deficit has swung from an expansion of \$215Bn y/y in May to a \$49Bn y/y contraction in June.

## Critical points for policy

- Fiscal stimulus will substantially boost the economy and markets as we approach 2026, and markets are already factoring in this positive growth surge.
- The eventual impact on the fiscal deficit as a percentage of GDP may be smaller than opponents of OBBA initially feared. For example, tariffs are now reflected in the treasury budget statement, to the point that the fiscal year-to-date budget deficit has shifted from an increase of \$215 billion year-over-year in May to a \$49 billion year-over-year contraction in June.
- The Fed is now divided into two groups: those supporting easing and those who believe the Fed should not cut rates at all in 2025.
- It all depends on how they view tariffs—whether as a one-time price increase, a sign of a larger trend that could cause more serious problems, or a deflationary tax hike.



Monetary Policy: The Fed is now split into two groups: those supporting easing and those who believe the Fed should not cut at all in 2025. The aqua distribution presented below represents policymakers' views in March this year, while the purple distribution reflects the June SEP changes. This means that, by 2025, more Fed voting members are signaling that there will be no cuts. It all comes down to how they see tariffs—whether as a one-time price hike or a sign of a bigger trend that could lead to more serious issues, or lastly, as a deflationary tax.

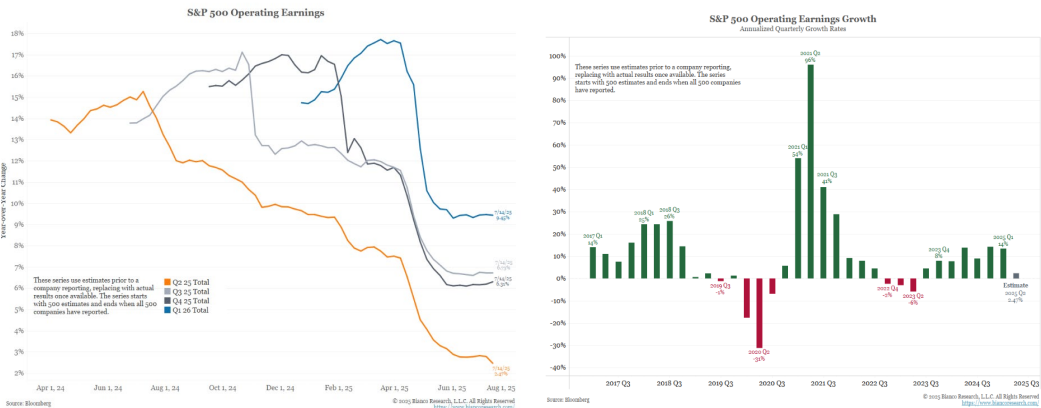


The opposing view to higher long-term policy rates is that tariffs act like a tax, and tax effects tend to reduce inflation. If Trump continues to employ aggressive negotiating tactics, inflation data could increase, prompting the Fed to respond hawkishly, which could likely harm the economy. This might lead to declines in both stocks *\*and bonds*. It's now crucial to acknowledge that as the economy weakens, tax revenues will also decline, exacerbating the deficit. The country can no longer afford a recession, which is why we believe that procyclical high fiscal deficits are a permanent feature of policy until an external mechanism is found to reduce or eliminate the high sovereign debt.

Primarily to avoid bond market dysfunction the base case is that the FOMC doves prevail and side with the markets, resulting in three cuts in 2H 2025. Odds are greater than 50% of a September cut.

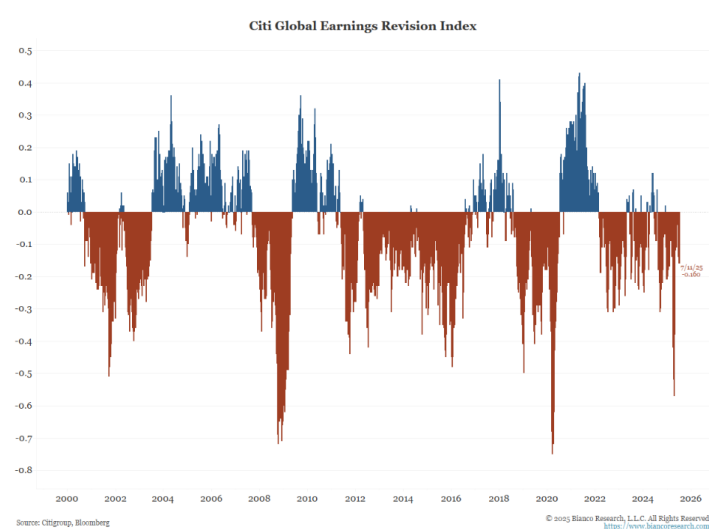
# Corporate Profitability Highlights

The chart below shows year-over-year S&P 500 forecasted earnings growth by quarter. It uses median estimates from Wall Street analysts before a company's report and updates them with actual reports as they become available. Currently, Q2 2025 earnings are expected to grow by 2.47%. It is common for expectations before earnings season to be underestimated, and as companies report their quarterly earnings, the growth rate often gets revised upward.



Second-quarter expectations are not as favorable as recent history suggests. Q1 2025 earnings remained strong, at an annualized quarterly rate of 14%, consistent with the past several quarters; however, Q2 2025 forecasts are notably lower than this level. On a positive note, despite the challenges faced by the business outlook so far in 2025, companies anticipate a positive second half of the year. It is also important to note that companies update their guidance during earnings calls, so these estimates will continue to evolve throughout the Q2 earnings season.

Unfortunately, analysts are less optimistic than company management teams. The Citi Global Earnings Revision Index indicates that analysts continue to lower their growth forecasts for the companies they cover, despite management's positive guidance.



## Critical points for profitability

- Currently, Q2 2025 earnings are projected to increase by 2.47%.
- Second quarter expectations trail behind those of the first quarter.
- Despite the focus on the business outlook so far in 2025, companies anticipate a positive second half of the year.
- Analysts are less optimistic than company management teams. They keep lowering expectations for the growth of the companies they cover, despite receiving positive guidance from management.

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Investment Takeaway: Investors should balance growth-focused equities (such as tech and financials) with defensive sectors (including utilities and healthcare) and closely watch tariff developments. With legislative uncertainty temporarily settled, investor attention will shift back to the tariff dispute with US trading partners and underlying earnings growth. This dynamic, especially the stability of the U.S.-China trade agreement and shifts in Fed policy, is likely to influence H2 2025 performance.