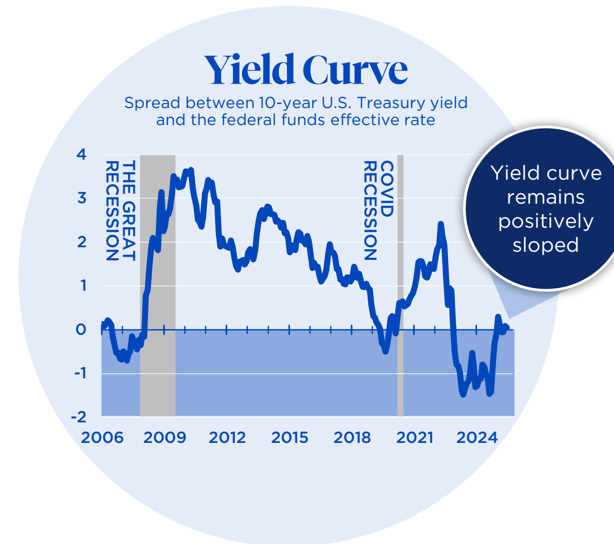
Nationwide®
is on your side

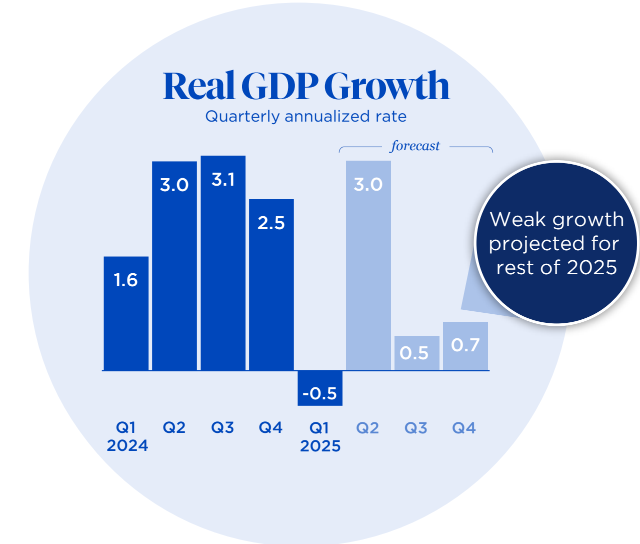
Economic & Financial Markets Monthly Review | July 2025

Softer trends are taking shape

Where is the economy now?

The economy enters the second half of 2025 still under a cloud of uncertainty with fresh tariff announcements and lingering geopolitical tensions. Consumer demand has weakened after the pre-tariff splurge as households adjust to higher prices and a softer labor market, portending slower growth ahead. The Federal Reserve is expected to remain on pause in the near term, but rate cuts could resume in September/October if hiring and spending weakens further.





Where we are this month

What does this mean

Increased headwinds in second half

The economy faces multiple headwinds in the second half of 2025 as policy changes crimp consumer and business activity in the near term. But a recession should be avoided, and headwinds should turn to tailwinds in 2026.

- Growth should remain challenged in coming months with higher prices and uncertainty weighing on activity. But recession odds are lower with peak uncertainty passed and spending and hiring moderating but not collapsing.
- While the Fed remains on hold, the market expects a few rate cuts by year end, easing the drag from elevated interest rates. Moreover, lower tax burdens and business incentives in 2026 from the One Big Beautiful Bill Act and a lessening of trade uncertainty should help propel spending and growth next year.

Steady, positive yield curve

Interest rates across the Treasury yield curve have moved in relative lockstep since May. The bond market digested shifts in Fed policy expectations and economic growth estimates — with the net result leaving the shape of the yield curve little changed.

- The 10-year Treasury yield eased back from its May highs in June as inflation data showed less tariff impact than anticipated. Shorter duration Treasury rates also declined as financial markets price in several Fed rate cuts by year end on expectations of slower growth.
- We expect the Fed to wait until September to lower interest rates as officials assess the impacts of policy changes on consumer spending, the labor market and inflation.

Sluggish growth likely in second half

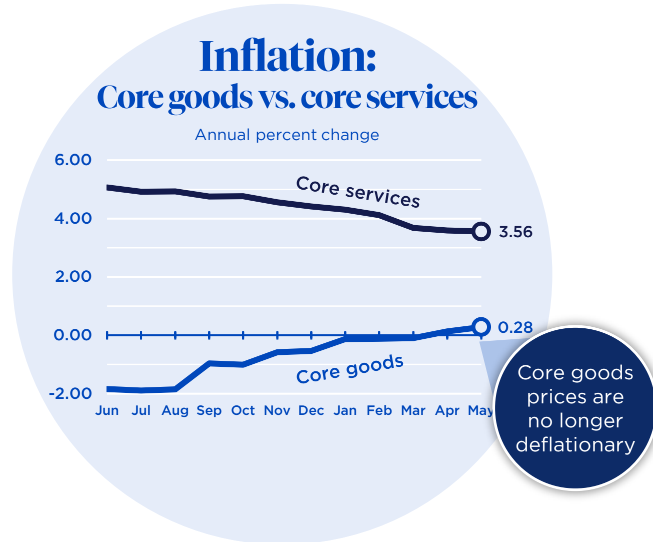
Reversed trade flows from Q1 should boost growth in the second quarter as the pre-tariff import surge subsides. But the outlook for consumer activity remains soft with higher prices and slower hiring a drag on spending.

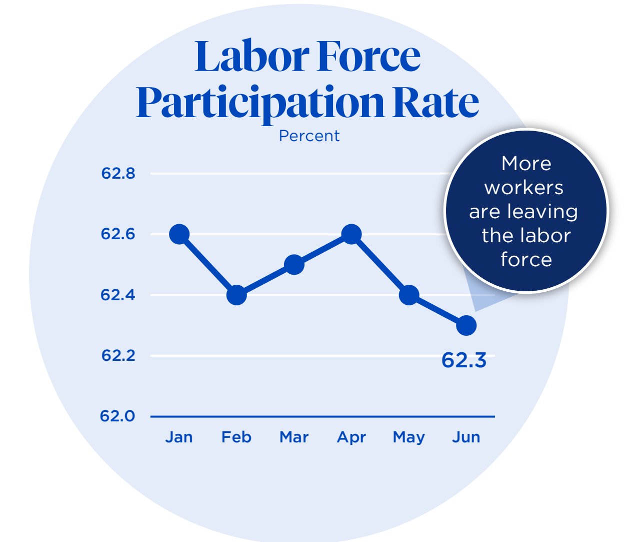
- Peering through the trade disruptions, the pace of consumer purchases and business investment over the first half of 2025 remained solid. However, there were warning signs that more households were cutting expenses as economy uncertainty spiked.
- Weaker spending is expected to broaden out in Q3 as tariff price hikes hit household budgets. While not recessionary, real GDP is projected to run at a sub-1.0 percent pace over Q3 and Q4 as a result. .

Economic Review

Hiring in cyclical sectors has stalled

On the surface, the employment gain in June remained solid, but hiring continues to be highly concentrated in a few sectors. Job gains in cyclical industries have flatlined as companies adopt a cautious posture. While the unemployment rate fell to a low 4.1 percent, it would have been 4.7 percent without the large declines in labor force participation in May and June. Regarding inflation, climbing goods prices in the second half of 2025, as tariff costs are passed on to consumers, could be offset to some degree by continued downward momentum in services inflation.





Where we are this month

Goods prices no longer deflating

Goods inflation has been trending up this year, but that has been offset by the downward momentum for services and housing inflation.

The labor market is softening

Nonfarm payroll posted a solid increase of 147,000 in June but gains were heavily concentrated. In the cyclical sectors, companies have paused their hiring due to uncertainty of how tariffs will impact demand.

Labor force participation falls again

The labor force participation rate fell for a third straight month in June to 62.3 percent — the lowest level since December 2022. The decline was highlighted by a record increase in the number of discouraged workers in June.

What does this mean

- While still mild, core goods inflation has been climbing since hitting a recent low of -1.9 percent last summer. At the same time, core services inflation has been steadily declining for nearly three years and continues to pull overall inflation lower.
- Most of the tariff impacts on inflation will hit the goods side, but a continued downtrend in services inflation should provide some offset and prevent a larger overall rise in consumer prices.

- Headline payroll growth was firm on the surface, but 132,000 of the headline gain were within health care, social assistance, and government; outside of these areas, hiring was very soft. Additionally, the unemployment rate fell to 4.1 percent, but it would have climbed to 4.7 percent if not for declines in labor force participation.
- With input costs rising and consumer demand cooling, we expect labor market data to continue to soften in the coming months.

- New entrants to the labor force and unemployed persons face difficulty in finding new jobs. The rise in discouraged workers and those receiving continued jobless benefits is corroborated by The Consumer Confidence Survey that shows more respondents report that jobs are hard to get.
- Continued outflows from the labor force add to downside concerns for the labor market and economic growth over the second half of 2025.

Financial Market Review

Investors remain optimistic despite heightened uncertainty

Risky assets extended their rally even as the reciprocal tariff deadline approached, policy uncertainty remained high, and geopolitical risks surged after war broke out between Israel and Iran. Equity investors eagerly await second quarter earnings reports for fresh guidance on how corporate profits are faring. We still expect the Fed to wait until September to cut interest rates and look for a total of 75 basis points of cuts to the policy rate by year-end. We look for Fed officials to support a softening labor market and look past a temporary rise in inflation.

Where we are this month

What does this mean

Stocks add to their gains

Equity prices have reached new all-time highs, as investors assess that peak trade tensions are behind us and that stimulus from the One Big Beautiful Bill will bolster activity.

- The S&P 500 index has rallied robustly since its April 8th low and is up more than six percent year-to-date. A notable development following the sharp downdraft in April. Equity investors will look to second quarter earnings reports for further guidance.
- Recent relative outperformance of cyclical vs. defensive stocks – a barometer of market sentiment – shows investor attitudes are brightening.

Long-term yields move gently lower

After trending higher for most of Q2, long-term Treasury yields have drifted slightly lower as upward pressure from rising deficits is more than offset by other factors, namely less-worrisome inflation concerns.

- A mix of crosscurrents has left the 10-year Treasury yield largely unchanged compared to where it stood a month ago, hovering around 4.35 percent. We expect long-term interest rates to stay well above their post-Global Financial Crisis averages into 2026.
- Upcoming Treasury issuance resulting from passage of the “One Big Beautiful Bill” will place upward pressure on the term premium and keep the key 10-year Treasury yield elevated.

U.S. dollar weakens sharply

The U.S. dollar has lost more than 10 percent of its value since the start of the year — its worst start to a year since 1973. However, on a historic basis remains at a firm level, falling back to just early 2022 level.

- The decline in the dollar reflects several factors, including foreign investors increasing their currency hedges given uncertainties on U.S. economic policies. However, the U.S. dollar securely remains the world’s reserve currency despite fears to the contrary.
- Moreover, the weaker greenback yields positive effects as it makes U.S. exports more competitive, imports more costly, and boosts corporate earnings from abroad. It only modestly adds to inflationary pressures.

Outlook

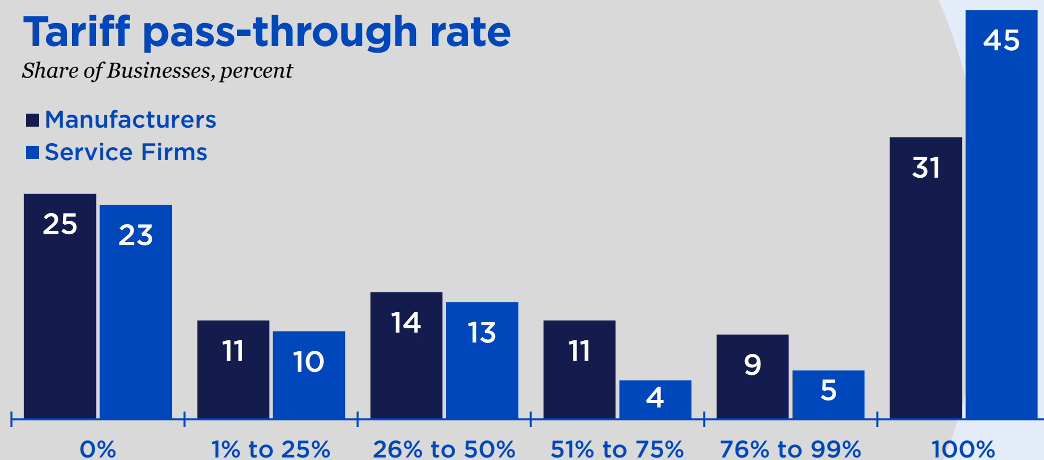
Tariff inflation pass-through has been delayed but is still expected

Direct tariff impacts on consumer prices were limited through May. The surge in imports during the first quarter boosted inventories for retailers and helped to delay the pass through of tariffs to consumers. Some firms have also held off on tariff-related price hikes on hopes of trade deals. As a result, annual inflation for the consumer price index (CPI) settled at a benign 2.4 percent in May.

But as pre-tariff inventories are exhausted, more businesses are expected to raise prices due to pressure on profit margins from tariffs. According to survey results from the Federal Reserve Bank of New York more than 50 percent of manufacturers and service companies planned to pass along at least half of import levies to end consumers, with 100 percent pass-through for many firms. We expect CPI inflation to climb, but not spike, this summer as tariff impacts build, moving above 3.0 percent again by the fall. With inflation top of mind for many households, spending activity is projected to weaken under the weight of higher prices — dampening the growth outlook for the second half of 2025.

Tariff pass-through rate

Share of Businesses, percent



Hear more in our podcasts PLAY

FIND **ECONOMIC INSIGHTS BY NATIONWIDE** WHEREVER YOU LISTEN TO PODCASTS

Latest Forecast

Data as of July 2025

	2024	2025	2026	2027	2028
	ACTUAL	ESTIMATE	FORECAST		
REAL GDP	2.8%	1.6%	1.8%	2.4%	2.3%
UNEMPLOYMENT RATE	4.0%	4.4%	4.4%	4.2%	4.2%
INFLATION [1] (CPI)	2.7%	3.1%	2.6%	2.0%	2.0%
TOTAL HOME SALES	4.75	4.65	5.00	5.82	5.95
S&P/CASE-SHILLER HOME PRICE INDEX	3.7%	3.1%	3.2%	3.0%	3.0%
LIGHT VEHICLE SALES	15.8	15.3	14.7	15.0	15.0
FEDERAL FUNDS RATE [2]	4.25%	3.50%	3.50%	3.00%	3.00%
5-YEAR TREASURY NOTE [2]	4.38%	3.85%	3.70%	3.55%	3.55%
10-YEAR TREASURY NOTE [2]	4.58%	4.25%	4.10%	4.00%	4.00%
30-YEAR FIXED-RATE MORTGAGE [2]	6.91%	6.60%	5.60%	5.00%	5.00%
MONEY MARKET FUNDS	4.96%	4.03%	3.53%	3.15%	3.03%

Faster inflation but not a spike

The worse case scenarios for tariffs have faded but prices for goods are still expected to climb in coming months. While cooling service costs should provide an offset, CPI inflation is projected to rise above 3.0 percent later in 2025, with lingering price pressures into 2026.

Elevated long-term rates into 2026

Delayed Fed easing, higher inflation, and fiscal deficit concerns should keep the 10-year Treasury rate near current levels through year-end. The 10-year yield is expected to remain above 4.0 percent.

[1] *Percent change Q4-to-Q4*
[2] *Year end*
[a] *Actual*

Contributors

Kathy Bostjancic
SVP & Chief Economist

Ben Ayers, MS
AVP, Senior Economist

Oren Klachkin
AVP, Financial Market Economist

Daniel Vielhaber, MA
Economist

Brendan Taggart
Economics Specialist

Brian Kirk
Communications Consultant

Sources

Page	Section / Item	Source
Page 1 |	**Where is the economy now?**	
	Business Cycle	*Nationwide Economics*
	Yield Curve	*Bloomberg; National Bureau of Economic Research*
	Real GDP growth and forecast	*Bureau of Economic Analysis; Nationwide Economics*
2 |	**Economic Review**	
	Consumer Price Index	*Bureau of Labor Statistics*
	Nonfarm payroll gains	*Bureau of Labor Statistics*
	Labor force participation rate	*Bureau of Labor Statistics*
3 |	**Financial Markets Review**	
	S&P 500	*Standard & Poor's*
	10-year Treasury yield	*Federal Reserve Board*
	Nominal, trade-weighted U.S. dollar index	*Federal Reserve Board, Haver Analytics, Nationwide Economics*
4 |	**Outlook**	
	Tariff pass-through rate	*Federal Reserve Bank of New York*
	Latest Forecast	*Nationwide Economics*

The information in this report is provided by Nationwide Economics and is general in nature and not intended as investment or economic advice, or a recommendation to buy or sell any security or adopt any investment strategy. Additionally, it does not take into account the specific investment objectives, tax and financial condition or particular needs of any specific person.

The economic and market forecasts reflect our opinion as of the date of this report and are subject to change without notice. These forecasts show a broad range of possible outcomes. Because they are subject to high levels of uncertainty, they may not reflect actual performance. We obtained certain information from sources deemed reliable, but we do not guarantee its accuracy, completeness or fairness.

Nationwide, the Nationwide N and Eagle and Nationwide is on your side are service marks of Nationwide Mutual Insurance Company. ©2025 Nationwide

NFM-11356AO.3