May 1, 2025

# Dutta's Economic Daily

Labor markets look shaky

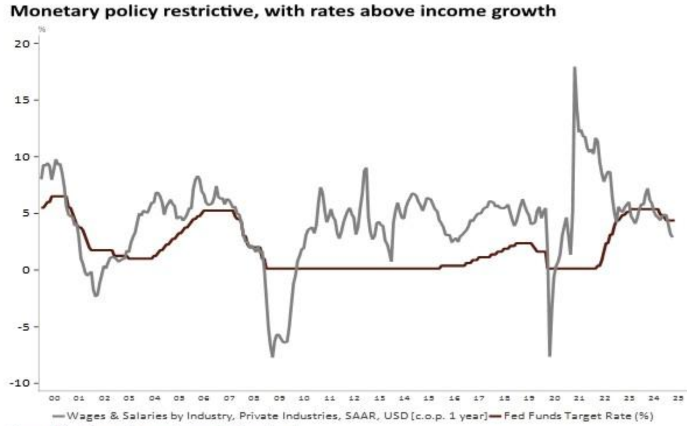
**Neil Dutta**

### Labor markets are cooling ...

The Fed is far to sanguine on the labor market given the incoming data.

- Private sector wages and salaries *already* running below the federal funds rate. Never a good sign. Over the last year, private wages are up less than 3%. That's soft and limits the ability of households to absorb price increases.

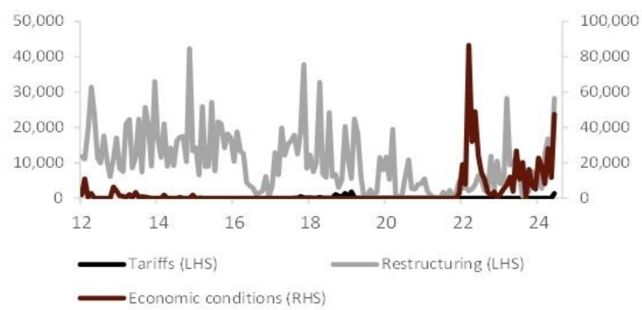
**Monetary policy restrictive, with rates above income growth**




Source: Renaissance Macro Research, Macrobond

- More firms are citing economic conditions as a rationale for layoff announcements, according to the latest data from Challenger. At 47,497 in April this series is at its highest level since March 2023. Corporate restructuring appears to be another reason. DOGE was not much of a factor in April.

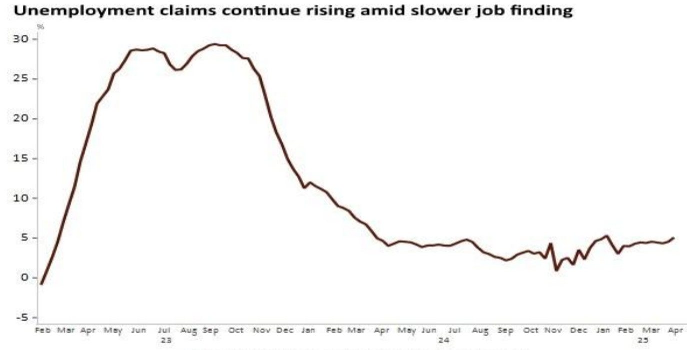
**Economic concerns drive April layoffs to post-2023 high**



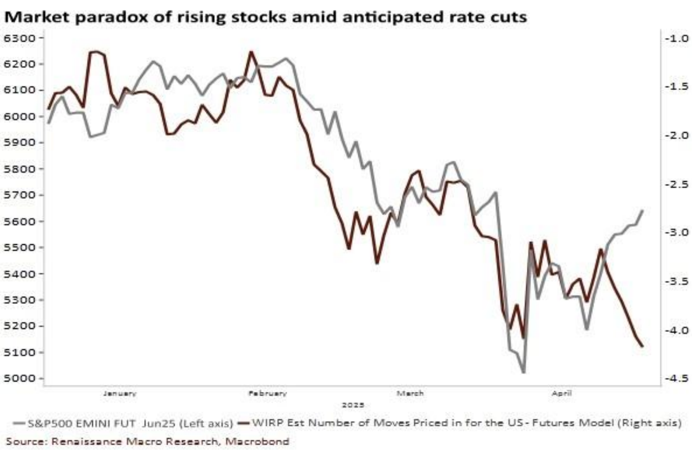

Source: Haver Analytics, Renaissance Macro Research

- Continuing claims rose above consensus expectations, hitting a fresh high of 1.916 million. The bigger story is that continuing claims keep rising roughly 5% yearover-year. As job finding rates remain low, spells of unemployment go up. There was a meaningful increase in initial claims as well, implying that continuing claims might be rising a bit more in the weeks ahead.

**Unemployment claims continue rising amid slower job finding**




Source: Renaissance Macro Research, Macrobond




## Stocks up, cut pricing up

I am confused by the market pricing of cuts. Buoyed by a strong rally in technology stocks, the broad US market has surged. At the same time, the fixed income market is pricing in more interest rate cuts; we're priced for just over four cuts this year.

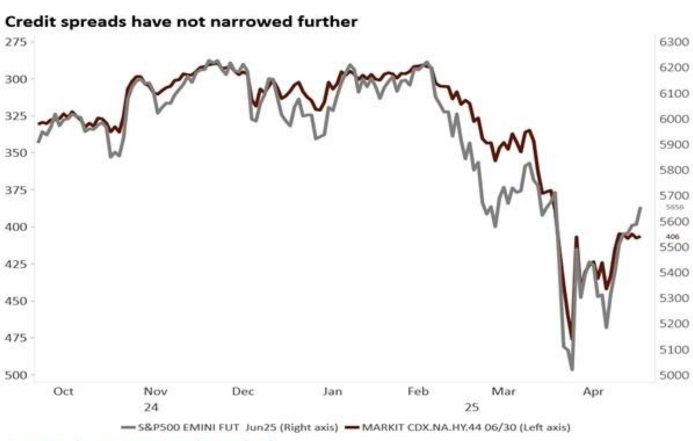
Stagflation would mean fewer cuts and lower stock prices. Recession would imply more cuts and lower stock prices. In recent days, we're seeing benign "soft-landing" cuts – more cuts priced but stock prices are climbing. How do I square this circle?

- Perhaps the bond market understands that the real economy is not in the same place as the technology sector. Financial market conditions being loose hasn't helped keep the economy from slowing over the last year.

- Perhaps the equity market sees President Trump caving on the trade war or backing off; but, it seems harder for him to capitulate if stocks are up at these levels in the first place.

- Credit spreads have not really moved on the run-up in stocks over the last week. Finally, I feel like the economy is innocent until proven guilty. There was a big clearing event earlier this month and bets on recession in years prior have never materialized.

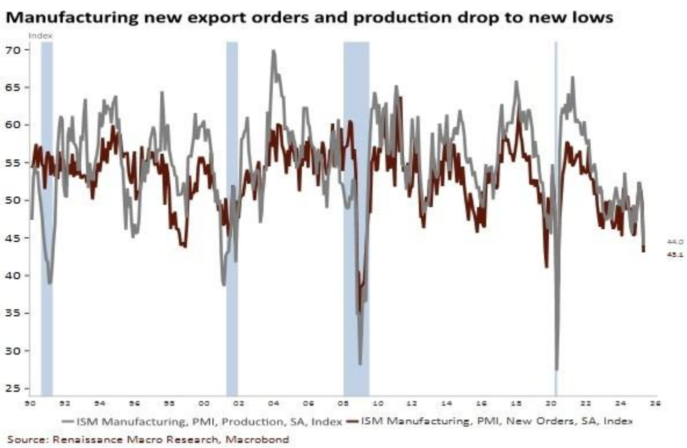
At any rate, the fact that stocks are up and bond yields have declined should, at least for the time being, assuage fears that America is being sold en masse.



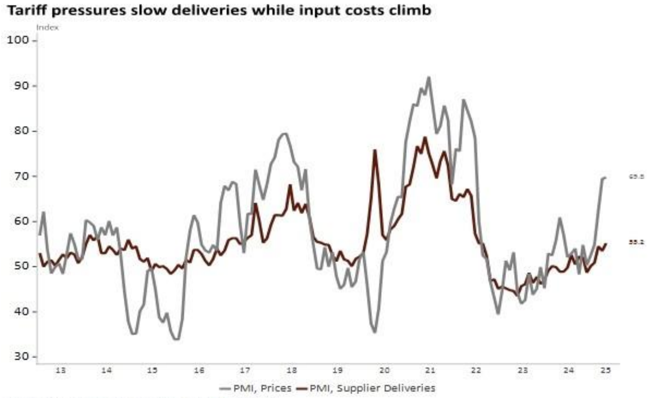
## Manufacturing slump deepens amid trade uncertainty

- The ISM Manufacturing PMI continued its downward slide in April, registering 48.7, a second consecutive month of contraction and a four-month low. This deepening slump raises concerns about the health of the manufacturing sector and the impact of ongoing trade policy. While the headline figure was slightly better than anticipated, the underlying details paint a less optimistic picture.

- The marginal improvement in the new orders index to 47.2 from March's 45.2 offers a glimmer of hope, but it remains firmly in contractionary territory. Furthermore, this potential bright spot is overshadowed by a sharp decline in new export orders, plummeting to 43.1 from 49.6 in March. This weakness in exports underscores the negative consequences of evolving US trade policy and retaliatory tariffs from trading partners. The backlog of orders also contracted at an accelerated pace, falling to 43.7 from 44.5, reflecting persistent uncertainty surrounding the trade environment. Production activity deteriorated significantly, tumbling to 44.0 from 48.3 in March, dragging down the headline index. This marks a concerning development as both production and order backlogs have now been contracting for two consecutive months.



Tariff pressures slow deliveries while input costs climb



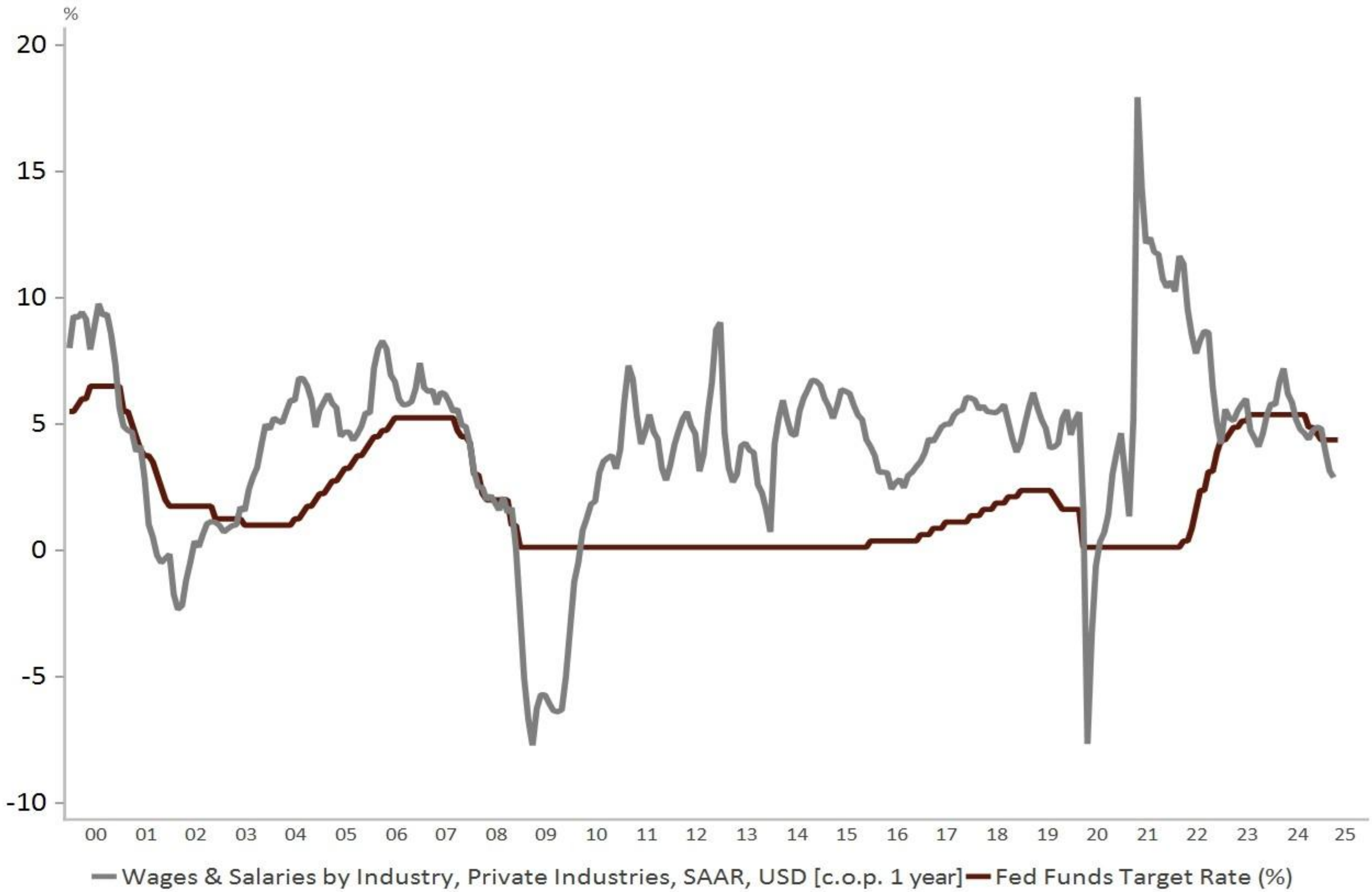

Source: Renaissance Macro Research, Macrobond

- Supply conditions have notably deteriorated. Supplier deliveries are slowing, reflecting mounting tariff pressures on supply chains. The initial rush to build inventories ahead of anticipated tariffs, observed in previous months, appears to have subsided, with the inventory index showing slower growth than in March. Meanwhile, input costs continue to rise, with the prices-paid index reaching 69.8, its highest level since June 2022. This sustained high level of price increases suggests that manufacturers are grappling with inflationary pressures, likely stemming from tariffs and supply chain disruptions.

- While the pace of employment contraction eased slightly, ticking up to 46.5 from March's low, it remains a point of concern. This aligns with the trend observed since September and continues to suggest weakness in the labor market.

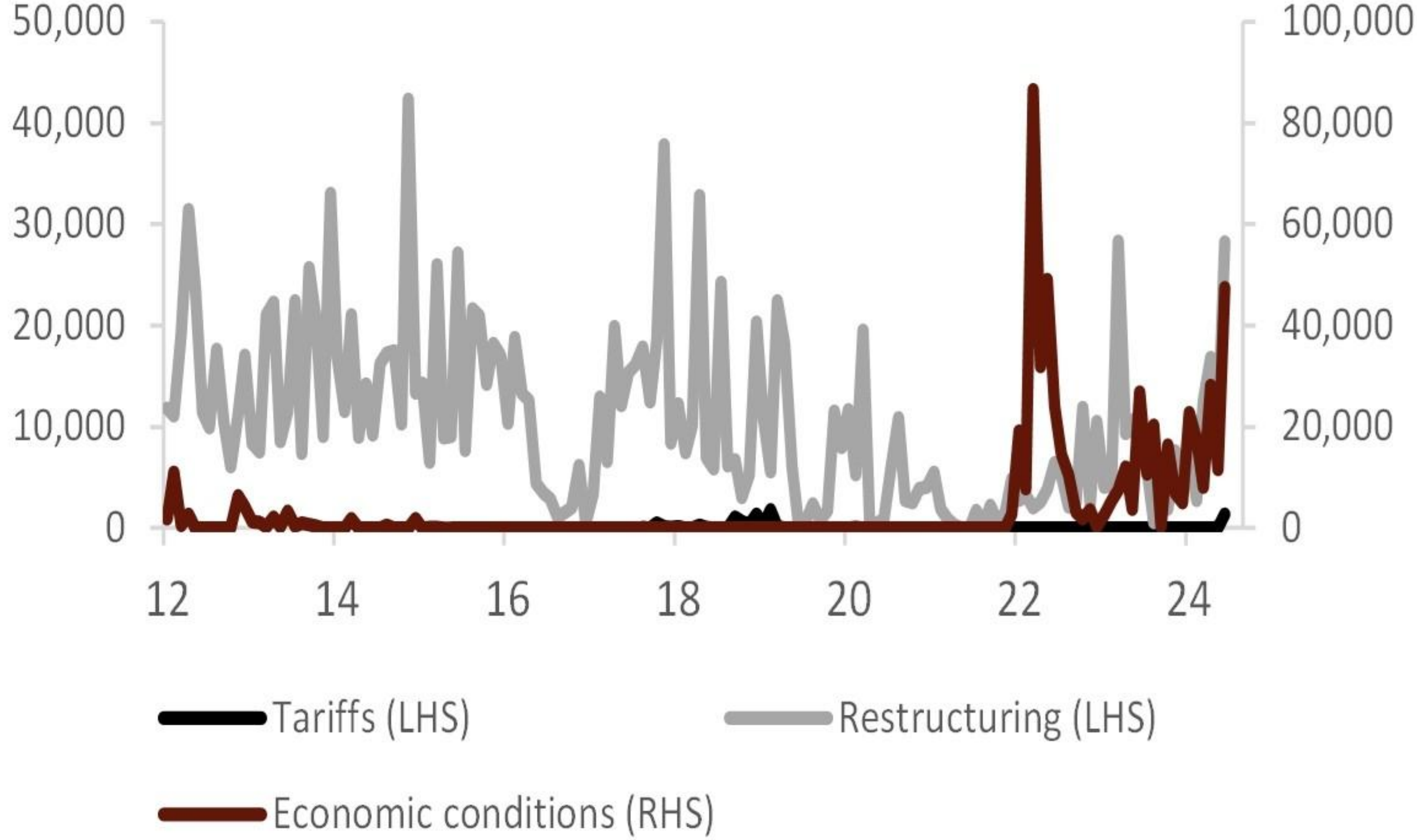
Manufacturers' comments highlight mounting challenges related to US trade policy, particularly increased uncertainty, elevated business risks, rising inflation pressures, and complications in logistics and operations.

## Monetary policy restrictive, with rates above income growth



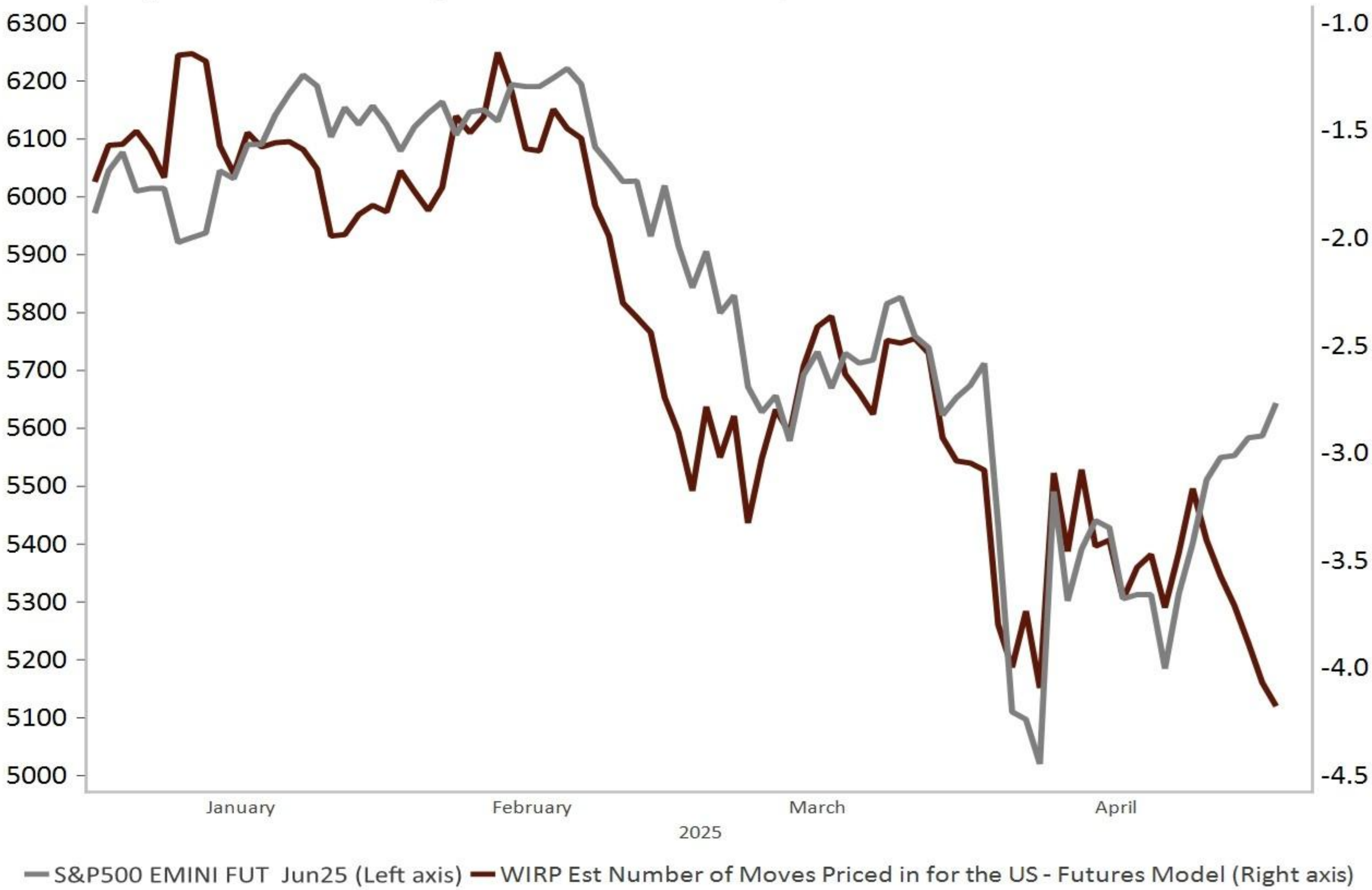

Source: Renaissance Macro Research, Macrobond

## Economic concerns drive April layoffs to post-2023 high



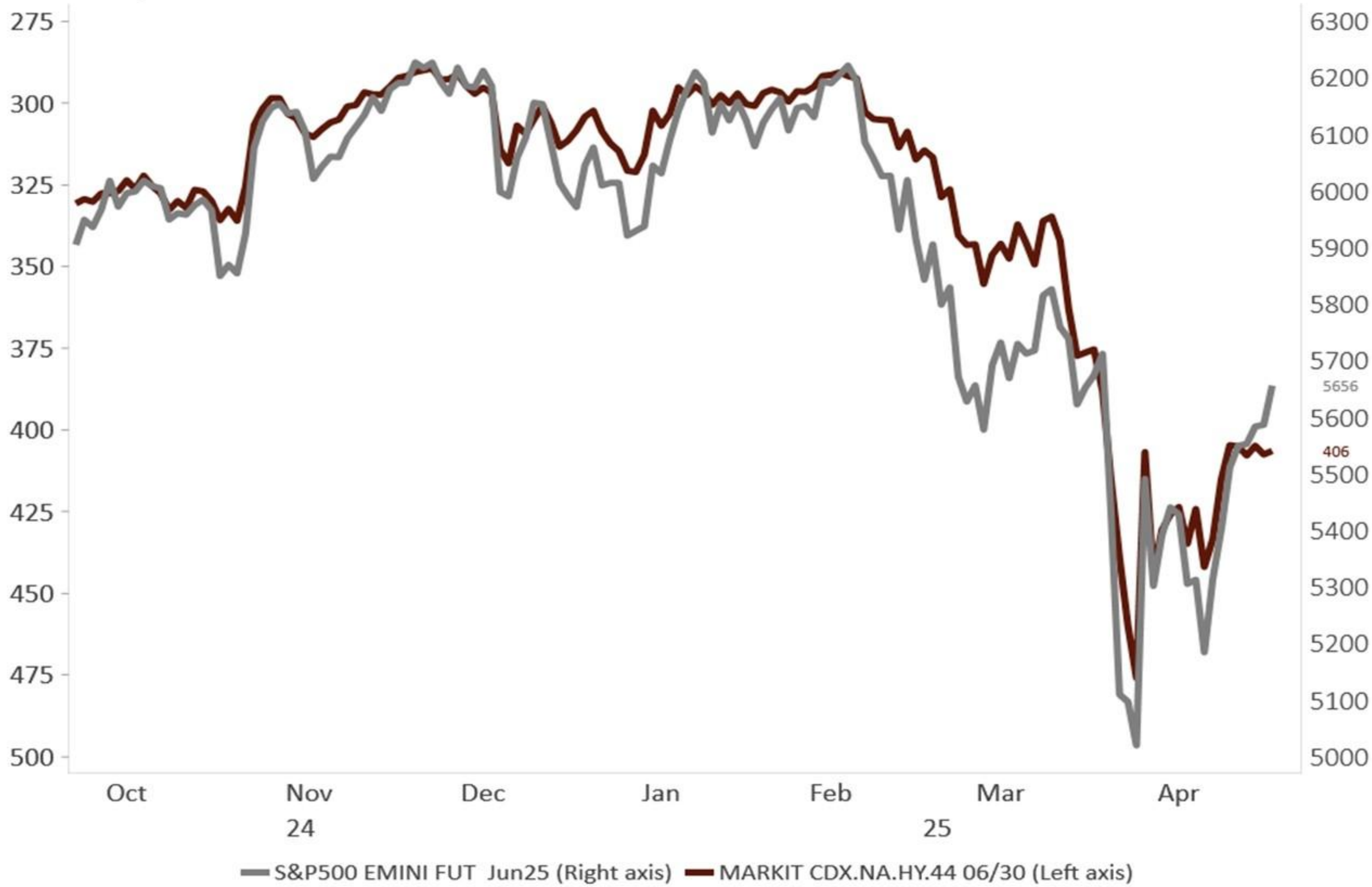

Source: Haver Analytics, Renaissance Macro Research

## Market paradox of rising stocks amid anticipated rate cuts



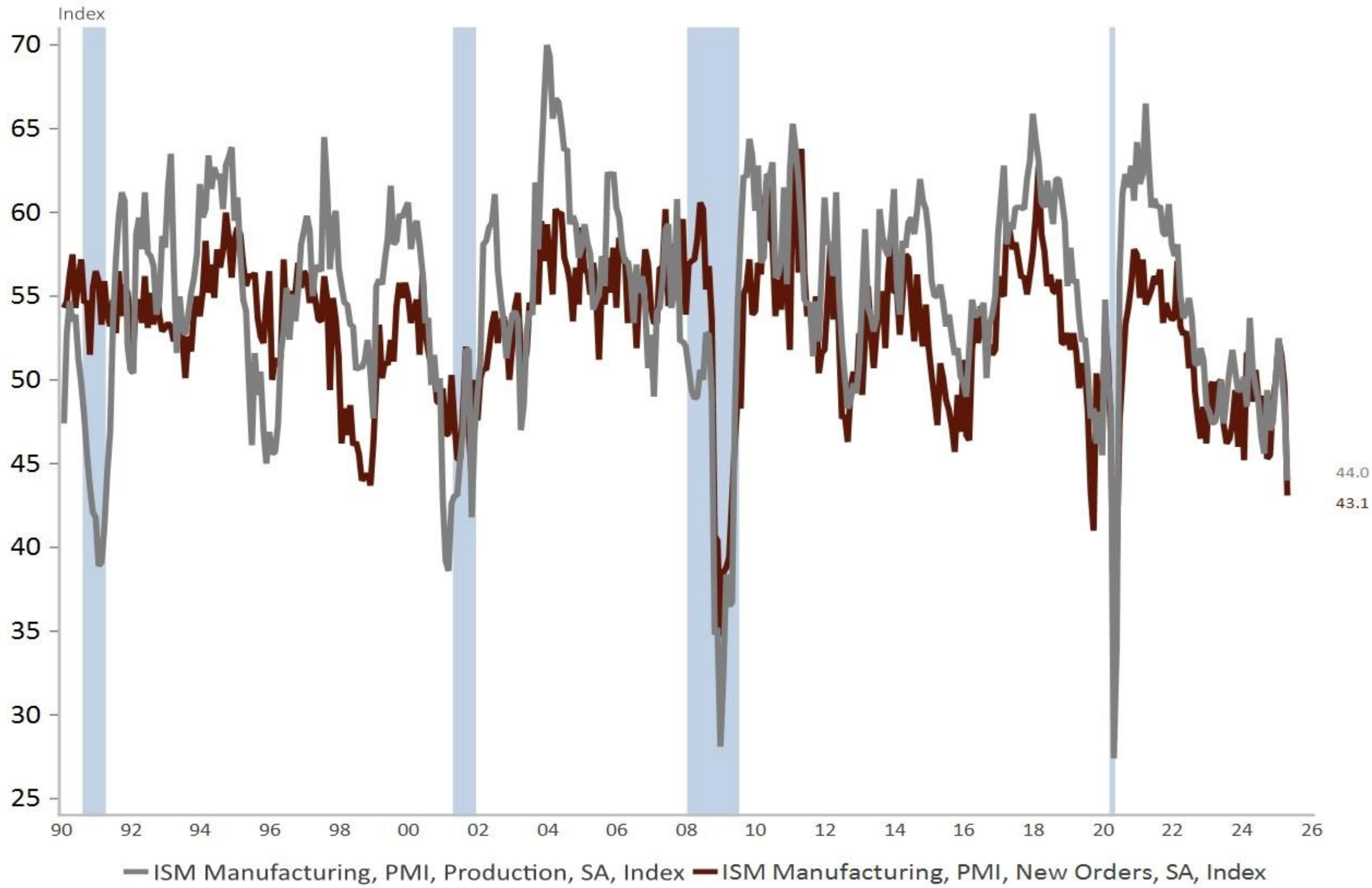

Source: Renaissance Macro Research, Macrobond

## Credit spreads have not narrowed further



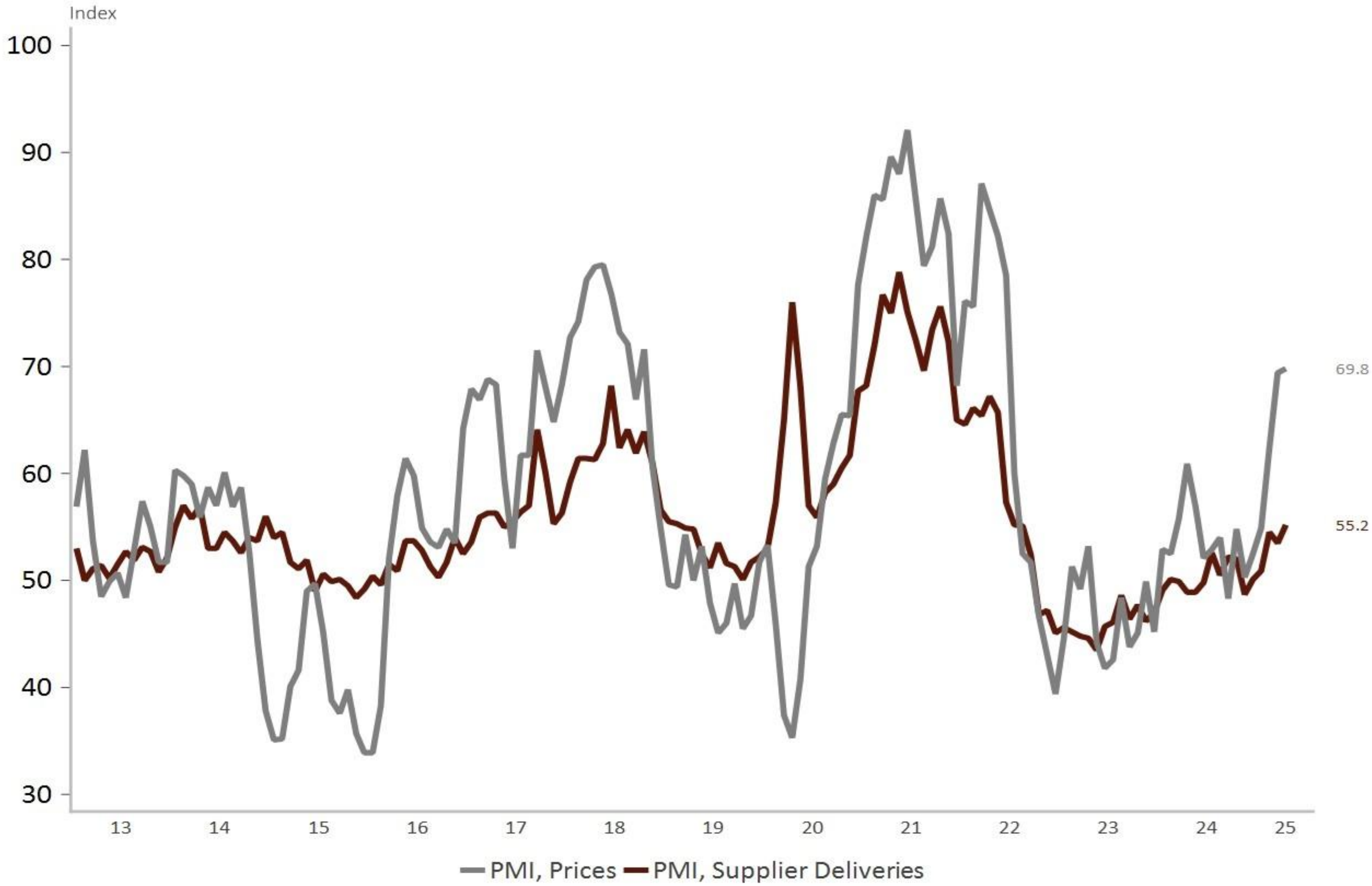

Source: Renaissance Macro Research, Macrobond

## Manufacturing new export orders and production drop to new lows




Source: Renaissance Macro Research, Macrobond

## Tariff pressures slow deliveries while input costs climb




Source: Renaissance Macro Research, Macrobond

# WHAT RESPONDENTS ARE SAYING

- "Uncertainty over tariffs is providing a big challenge from both Tier-1 suppliers we will have to pay tariffs on directly and Tier-2 suppliers that will try to pass tariffs through to us in the form of price increases and tariff surcharges." [Chemical Products]
- "Tariffs impacting operations — specifically, delayed border crossings and duties calculations that are complex and not completely understood. As a result, we are potentially overpaying duties. Unsure of potential drawbacks. Implementation of tariffs and their application is sudden and abrupt. The business is taking countermeasures." [Transportation Equipment]
- "Business climate is apprehensive, and with tariff costs implemented, all inbound Chinese shipments are on hold. It is not feasible for our business or customers to sustain the pricing required to provide an acceptable margin." [Computer & Electronic Products]
- "The most important topic is tariffs. Risks include margin erosion due to rising operational costs and freight delays disrupting delivery timelines. Supplier relationships are strained by pain-share negotiations, and competitors are gaining share by importing from lower-tariff regions." [Food, Beverage & Tobacco Products]
- "Tariff whiplash is causing us major issues with customers. The two issues we are seeing: (1) customers are holding back orders to understand what is happening with tariffs on their products or (2) they are forcing us to accept the tariffs, which causes us to 'no quote' the job as we cannot take on that type of risk for an order." [Machinery]
- "There is a lot of concern about the inflationary impacts from tariffs in our industry. Domestic producers are charging more for everything because they can." [Fabricated Metal Products]
- "Tariff trade wars are incredibly volatile, quickly changing, and disrupting a ton of our current work. We are 90 percent sourced out of China, and the cost models keep changing every week. We are flying to visit suppliers in a few weeks to negotiate current terms and pricing, as well as develop more long-term, strategic plans to reduce risk in the region." [Apparel, Leather & Allied Products]
- "Demand is slightly lower than plan, but it has been steady amid tariff concerns. Significant time has been spent quantifying the impact of changing tariff rates. Our costs will increase, and we are discussing how to share that impact across suppliers and customers." [Electrical Equipment, Appliances & Components]
- "The recently imposed 145-percent tariff rate on Chinese imports is significantly affecting our 2025 profitability. Due to the complexity of our parts and the lack of alternate sources, we are unable to find any alternate suppliers — especially at a reasonable cost — to our current Chinese sources. Incoming orders have slowed due to market volatility and uncertainty." [Miscellaneous Manufacturing]
- "Strategic procurement and the supply chain are paralyzed in a world that changes daily due to tariffs." [Nonmetallic Mineral Products]

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