CALLAHAN & ASSOCIATES
the credit union company

Macroeconomics: First-Quarter Trends Or Headwinds?

Six data points showcase key dynamics shaping the U.S. economy that could direct credit union decision-making in the year to come.

Report By

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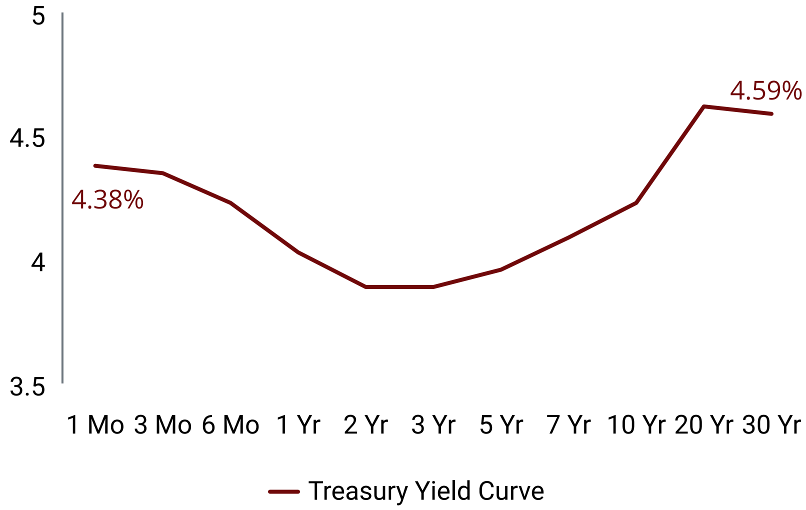
Treasury Yield Curve

In the first quarter, concerns over government deficits, tariffs, and political instability spurred further turmoil in the bond market. As a result, the yield curve inverted, meaning the yield on short term bonds was above the 10-year Treasury rate.

What does this mean for credit unions? For starters, an inverted yield curve can be a warning sign of trouble to come, as recessions are typically preceded by the phenomenon. On the balance sheet, yield changes affect the value of existing bond portfolios, potentially increasing unrealized losses.



Data as of March 31, 2025

Gross Domestic Product

In the first quarter, the American economy shrank 0.2% at an annual rate, driven by cuts in government spending and a surge in imports as Americans rushed to get ahead of tariffs. Consumer spending increased, albeit at a slower rate than the fourth quarter of 2024.

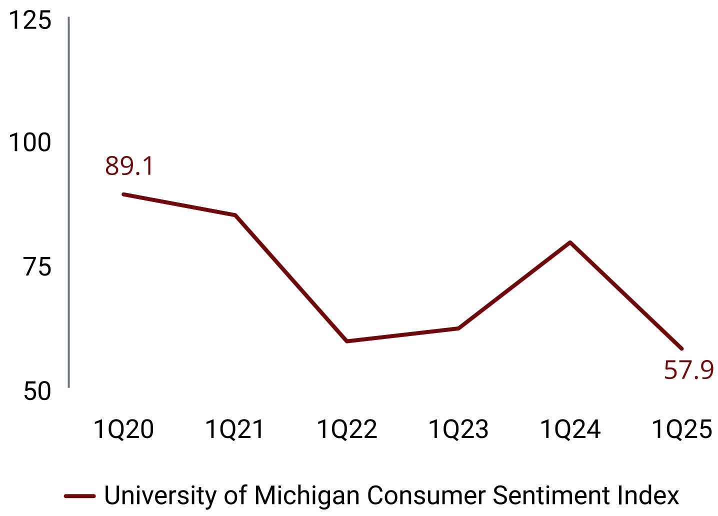
For credit unions, an economic slowdown can be difficult on members. Many may lose their job, fall behind on loan payments, or face other financial hardships. Helping members in hard times is what truly separates credit unions from banks. While economic slowdowns aren't desired, they are an opportunity for credit unions to earn their charter and attract lifelong members.

Data as of March 31, 2025

Consumer Sentiment

Across the United States, consumer sentiment, as measured by the University of Michigan, remains near historic lows. Much like how the yield curve reflects Wall Street's worries around tariffs, the deficit, and the broader economy, the Consumer Sentiment Index reflects Main Street's financial outlook.

Consumer confidence can be a self-fulfilling prophecy in driving actual economic outcomes, as worries often precede hard economic decisions. Credit unions can provide a supportive and reassuring hand to those facing stress.

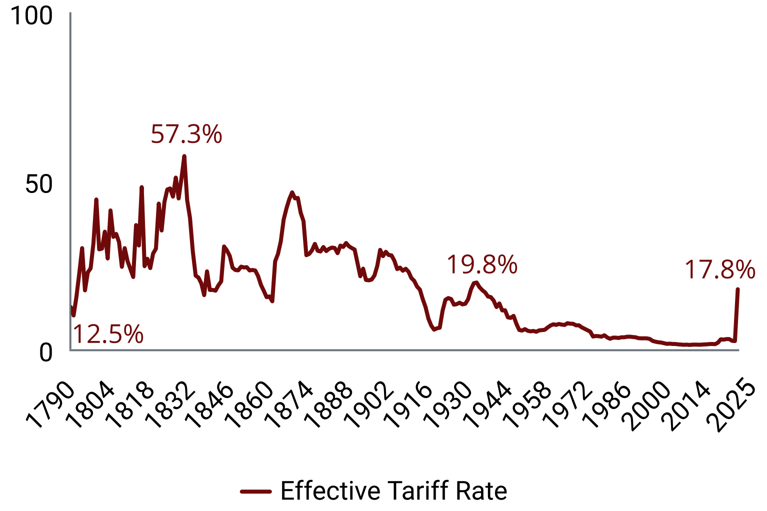


Data as of March 31, 2025

Effective Tariff Rate

While the "Liberation Day" tariffs announced by the Trump administration occurred a few days into the second quarter, tariff anticipation permeated the first quarter. As of May 12th, the 17.8% tariff rate is the highest charged on average imports since the Smoot-Hawley Tariff Act of the 1930s.

For members, applied tariffs will be felt in the budget, especially on imported goods. This could be painful for many Americans who have already struggled through high inflation. If higher importing costs spark companies to reopen manufacturing in the United States however, it could help the working class to the upside.



Data as of May 12, 2025

Unemployment Rate

The unemployment rate rose slightly in the first quarter, up three basis points year-over-year. While it's too early to reflect any effects of tariff policy, for now this remains in a range many economists acknowledge is healthy.

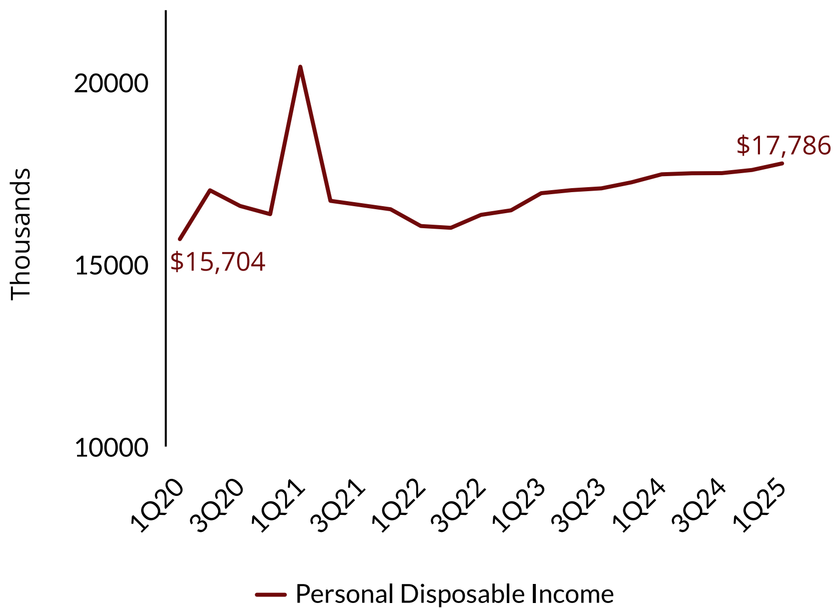
For credit unions, this should come as a sigh of relief. With many economic headwinds on the horizon, knowing that your members are largely still employed may ease some anxieties. However, the ratio of open jobs to unemployed Americans is 1 to 1, suggesting that perhaps there is a bit more friction in the labor market than previously thought.

Data as of March 31, 2025

Personal Income

In the first quarter, Americans' median personal disposable income (that is net of taxes) increased to $17,786, up $300 from one year ago and more than $2,000 higher than pre-pandemic. This is a blessing for members, given the rise in the price level over the last few years.

However, with tariffs potentially on the horizon, much of this gain may quickly evaporate as the price charged for imported goods increases. For credit unions, being aware of this possibility and anticipating the subsequent member pain points could go a long way.



Data as of March 31, 2025