WEEKLY ECONOMICS

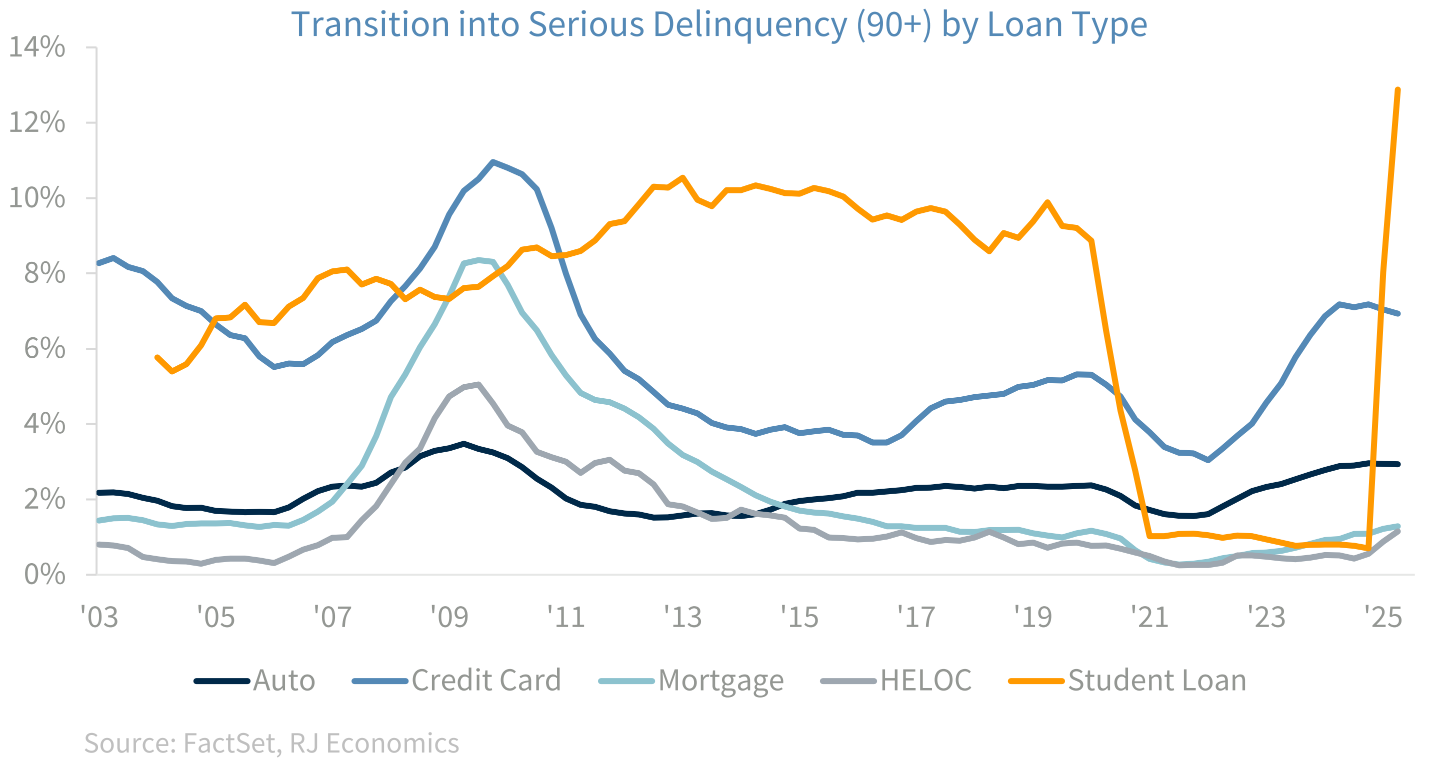
August 15, 2025

Eugenio J. Alemán, PhD, *Chief Economist*
Giampiero Fuentes, CFP®, *Economist*

THOUGHTS OF THE WEEK

Are Student Loan Defaults a Concern for the Economy?

Over 42 million Americans owe more than $1.6 trillion in student debt, yet only 38% are actively repaying their loans, according to the US Department of Education. The remaining borrowers are in default, delinquency, forbearance, deferment, or grace periods. On the other hand, serious delinquencies, defined as being 90 or more days late, rose to nearly 13% in the second quarter of 2025, the highest level since data collection began in 2004, as shown in the chart below. If this trend continues, nearly a quarter of the federal student loan portfolio could fall into default. Currently, 5.5 million borrowers are already in late delinquency, and that number is expected to grow in the coming quarters.



From an economic standpoint, the immediate impact of missed student loan payments is limited. Since repayments were paused for several years, the government has not been relying on these funds for spending. However, the continued lack of repayment contributes, albeit not meaningfully, to a growing federal deficit, forcing the government to seek alternative fiscal resources. Despite the resumption of payments, the effect on consumer spending is expected to be relatively small. Most borrowers pay around $200 per month, and if we exclude the 5.5 million borrowers already in default among the 26 million who need to restart payments, about 20 million are expected to restart payments. This would amount to roughly $50 billion in annual payments that could reduce spending in other categories, especially discretionary categories of spending, but only representing a small fraction of the $30 trillion US economy.

Still, the situation is not without consequences. For the 5.5 million borrowers in late delinquency, failure to repay will significantly damage credit scores, reducing access to credit and limiting purchasing power. Discussions around wage garnishment could further reduce disposable income, creating additional headwinds for consumer spending. While credit scores improved during the loan repayment freeze that began in 2020, they are now declining, especially among prime borrowers. Lower credit scores typically lead to smaller credit lines and reduced spending capacity. Although the direct economic impact of student loan defaults may be limited in the short term, the long-term effects, such as weakened credit profiles and reduced consumer activity, could modestly slow overall economic growth.

Estimated Impact of New Student Loan Delinquency On Credit Scores

Credit Score Before New Delinquency	Average Credit Score Change Associated with New Student Loan Delinquency
Less than 620	-87
620-659	-143
660-719	-165
720-759	-165
760 or higher	-171

Source: New York Fed Consumer Credit Panel/Equifax, Liberty Street Economics.
Notes: The table above shows the average change in credit score for borrowers the quarter after they experienced a new delinquency of 90 or more days past due. We limit the sample to borrowers who experienced such an event between 2016:Q1 and 2019:Q4 and isolate to only borrowers' first such event. Liberty Street Economics then computed the average change in credit score separately by credit score bands in the quarter before the delinquency first appeared on the credit report. Credit scores are Equifax Risk Score 3.0.

This represents just one of several headwinds facing the US economy, alongside potentially higher prices from new tariffs and signs of a softening labor market. Still, these developments support our view that the economy is slowing, not contracting. The foundational elements of US economic resilience, such as consumer strength (especially upper-income households), corporate balance sheets, and labor participation, remain intact. We also anticipate that the Federal Reserve will start lowering rates, which should help offset some of the negative effects of declining credit scores, particularly among lower-income households, by easing borrowing costs and supporting access to credit.

Forecast Table

	Actual						Forecast						Actual	Forecast	
	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26	2024	2025	2026
Real Gross Domestic Product [1]	**1.6**	**3.0**	**3.1**	**2.4**	**-0.5**	**3.0**	**0.2**	**-0.6**	**2.0**	**2.4**	**2.6**	**2.5**	**2.8**	**1.4**	**1.5**
Real Gross Domestic Product [2]	2.9	3.0	2.7	2.5	2.0	2.0	1.3	0.5	1.1	1.0	1.6	2.4	2.5		
Consumer Price Index [2]	**3.2**	**3.2**	**2.7**	**2.7**	**2.7**	**2.5**	**2.9**	**3.4**	**3.3**	**3.4**	**3.1**	**2.3**	**3.0**	**2.9**	**3.0**
Ex-food & energy [2]	3.8	3.4	3.3	3.3	3.1	2.8	3.2	3.4	3.3	3.4	3.0	2.3	3.4	3.1	3.0
PCE Price Index [2]	**2.7**	**2.6**	**2.3**	**2.5**	**2.5**	**2.4**	**3.1**	**3.7**	**3.5**	**3.5**	**3.1**	**2.5**	**2.5**	**2.9**	**3.2**
Ex-food & energy [2]	3.0	2.7	2.7	2.8	2.8	2.7	3.0	3.4	3.2	3.2	3.0	2.5	2.8	3.0	3.0
Unemployment Rate	**3.8**	**4.0**	**4.2**	**4.1**	**4.1**	**4.2**	**4.3**	**4.4**	**4.5**	**4.4**	**4.3**	**4.3**	**4.0**	**4.2**	**4.4**
Fed Funds Rate [3]	4.00	5.50	5.00	4.50	4.50	4.5	4.50	4.00	4.00	3.75	3.75	3.50	5.1	4.4	3.8

[1] Annualized Quarter-Over-Quarter Growth
[2] Year-Over-Year SA Percentage Change
[3] Upper Bound of the Federal Funds Target Range

Economic Releases:

Consumer Price Index: Headline inflation held steady in July, largely due to declines in energy prices, while core inflation came in higher than expected, driven by increases in airline fares and used vehicles. Services inflation remained elevated at 3.8% year-over-year, but the main contributor to the rise in inflation in July was core goods, which outpaced the dampening effects of lower energy and shelter costs. Encouragingly, food prices remained flat in July, suggesting that tariffs have yet to impact this category. However, it's important to note that the most significant tariff hikes took effect on August 7, meaning any potential inflationary effects are unlikely to appear until next month’s data at the earliest. Overall, the report was positive and may boost the likelihood of the Federal Reserve cutting rates twice through year-end, with at least two additional cuts possible in 2026.The headline Consumer Price Index (CPI) increased in line with expectations, up 0.2% month-on-month, according to the Bureau of Labor Statistics. On a year-on-year basis, the CPI remained unchanged at 2.7%. The core CPI increased as we expected by 0.3% month-over-month and 3.1% year-over-year. Food prices remained unchanged as food at home decreased by 0.1% while food away from home increased by 0.3%. Energy prices declined by 1.1% as energy commodities decreased by 9.0%, driven by a 9.5% decrease in gasoline prices and a 2.9% decrease in fuel oil prices. Energy services also softened by 0.3% as both electricity and utility (piped) gas services declined by 0.1% and 0.9%, respectively. New vehicle prices remained flat in July, while used car and truck prices were up by 0.5%. Apparel prices and medical care commodities were both up by 0.1%. Services less energy services prices were up 0.4% as prices of transportation and medical care services both increased by 0.8% during the month. Shelter prices remained stable and increased 0.2% during the month, as owners' equivalent rent remained well-anchored with the fourth consecutive monthly increase of 0.3%. In contrast, the 1.1% decline in energy prices helped prevent headline inflation from rising on a year-over-year basis, acting as a key offset to upward pressure in other categories.

Producer Price Index: Today’s PPI report surprised to the upside, with broad-based price pressures across both goods and services. Services inflation outpaced goods, driven by sharp increases in purchased capital equipment, while goods prices rose mainly due to a spike in finished consumer foods, which is a volatile component that may not signal a sustained trend, especially given that crude food prices, which are raw agricultural products, have been negative for four months. The more concerning aspect is that the full impact of tariffs is expected to materialize in next month’s data, potentially pushing goods prices higher. This complicates the Fed’s September decision, where a 25bps cut remains likely, but a 50bps move is most likely off the table.The Producer Price Index (PPI) for final demand increased much more than expected in July at 0.9%, month-on-month, according to the Bureau of Labor Statistics, after remaining unchanged in June. This was the largest monthly increase in the PPI in over three years. On a year-over-year basis, the PPI was up by 3.3% in the 12 months ending in July. The PPI for final demand goods continued to increase, up 0.7% during the month and prices for final demand services increased 1.1% during the month.The PPI for final demand less foods, energy, and trade services increased 0.6% in July. On a year-over-year basis, the PPI for final demand less foods, energy, and trade services was up by 2.8%.The increase in PPI for final demand goods was primarily driven by a 1.4% rise in final demand foods and a notable 2.0% jump in final demand trade services. A key contributor to the upward pressure was the sharp increase in prices for private capital equipment, which surged by 4.5% in the trade of finished goods and an even stronger 5.6% in goods purchased by government entities.

Economic Releases:

Retail Sales: Retail and food services sales were in line with expectations at the start of the third quarter of the year, but most of the strength came from automobile and gas stations sales. Stripping out these two sectors puts total retail and food services sales up by just 0.2%. The good news is that control group sales were up 0.5%, which should contribute to a relatively strong start for GDP growth in the third quarter of the year. Going forward, inflationary effects from tariffs should start making inroads into these nominal retail numbers and we should expect to see weakness in consumer demand during the rest of the year, which tracks with our view of a weakening economy.Retail and food services sales were in line with expectations in July, up 0.5%, month-on-month, after another strong month in June, up 0.9%. Excluding motor vehicle & parts dealers' sales, retail sales were slightly weaker, up only 0.3%. Excluding sales at gas stations, retail sales were up 0.5% while excluding gasoline stations sales and motor vehicle sales, they were up by 0.2%. Retail trade sales were up 0.7%, month-on-month. Control group sales, which are used to calculate consumer demand in GDP were up 0.5% after increasing by 0.8% in June. Sales at motor vehicle & parts dealers were up 1.6% while sales at furniture stores were up 1.4%. Sales at electronics stores were down 0.6% while sales at building materials stores were down 1.0%. Sales at food & beverage stores were up 0.5% while sales at health & personal care stores were up 0.4%. Sales at gas stations were up 0.7%, the same increase as sales at clothing & clothing accessories stores. Sales at sporting goods stores were up 0.8% while sales at general merchandise stores were up 0.4%. Sales at miscellaneous store retailers were down 1.7% while sales at nonstore retailers (on-line sales) were up 0.8%. Finally, sales at food services & drinking places were down 0.4%, all month-on-month.Strong automobile and gas stations sales helped retail sales during the month of July with several sectors bucking the positive trend. If we exclude sales at motor vehicle dealers and gas stations, total retail and food services sales were up just 0.2%.

Import Prices: Import prices rose more than anticipated in July, but the year-over-year rate remained negative for the third straight month, reinforcing the broader disinflationary trend. However, the decline has been largely driven by falling energy costs, which continue to ease inflationary pressures even as tariffs are expected to push inflation higher in the coming months. After stripping out volatile components like food and fuel, import prices remained contained, suggesting that core inflationary pressures remain subdued for now. That said, it's important to clarify that import prices capture the cost of goods upon entry into the country, before the application of tariffs and taxes. As such, they are not a reliable gauge for measuring the direct effects of tariff-related inflation.Import prices surprised to the upside, increasing 0.4% during the month of July after decreasing 0.1% in June, month-on-month. On a year-over-year basis, import prices decreased, declining by 0.2%, according to the release from the Bureau of Labor Statistics. Fuel import prices were up by 2.7% in July after increasing 0.8% during the previous month, month-on-month. Petroleum prices increased by 2.7% during the month, while natural gas prices increased 4.7% during the month. On a year-over-year basis, fuel import prices have declined by 12.1%.The price of all other imports, excluding fuel prices, increased by 0.3% during July after declining by 0.3% in June.Export prices increased 0.1% during July. Agricultural export prices remained flat and non-agricultural export prices increased by 0.1% in July. Export prices were up 2.2% on a year-earlier basis.Import prices were higher than expected in July, but they remained negative on a year-over-year basis, with fuel imports largely contributing to the softness with a 12.1% decline year-over-year.

Economic Releases:

Consumer Sentiment: The preliminary Index of Consumer Sentiment from the University of Michigan posted its first decline in six months, driven by a rise in inflation expectations. Long-term inflation expectations increased for the first time since May, reflecting a shift in sentiment following the implementation of tariffs on August 1. While consumers are no longer anticipating a worst-case scenario as they did after Liberation Day, they remain cautious, expecting both inflation and labor market conditions to worsen in the months ahead. This reinforces our view that consumer strength continues to wane, with the unemployment rate likely to edge higher through year-end and inflation expected to rise toward the low to mid-3% range. The preliminary Index of Consumer Sentiment was lower than expected in August, at 58.6 compared with a print of 61.7 in July, according to the Survey of Consumers from the University of Michigan. Both of the component indices were lower in August versus July, with the Current Economic Conditions index at 60.9 compared to 68.0 in July, while the Index of Consumer Expectations was slightly lower, at 57.2 compared to 57.7 in July. One year-ahead inflation expectations increased to 4.9% in August compared to 4.5% in July, while the more important long-term inflation expectations for the next five years jumped 3.9% in August compared to a print of 3.4% in July. A special report released alongside the University of Michigan Consumer Sentiment report found that “only about 24% of consumers expect to spend as usual in the year ahead on items that have large price increases.” This supports our view that consumer sentiment is weakening, and suggests that rising prices, particularly those driven by new tariffs, could pose an additional headwind to household spending.

Business Inventories: Business inventories were up 0.2% month-over-month, following two consecutive months of flat readings, and higher than the expectations for a 0.1% increase during June. The more important inventories-to-sales ratio was slightly lower in June than in May but still pointed to a normal level of inventories compared to sales. This was true for every level of distribution within the business sector—that is, manufacturers, retailers, and wholesalers. Business inventories increased at the fastest pace in four months in June, 0.2% MoM, according to the US Census Bureau. On a year-over-year basis, inventories were up 1.6%. The value of sales from wholesalers, retailers, and manufacturers was up by 0.5% in June compared to the previous month; however, it was up by 3.8% compared to June of last year. The inventories-to-sales ratio for the total business sector, which includes wholesalers, retailers, and manufacturers, was 1.38 in June, down slightly from a 1.39 print and down from a 1.41 print in June of last year. The inventories-to-sales ratio for manufacturers was unchanged in June, at 1.57 compared to May, but slightly lower compared to a year earlier, when it was 1.58.The inventories-to-sales ratio for retailers was unchanged in June, at 1.30 compared to May, while slightly lower compared to a year earlier, when it was at 1.32.The inventories-to-sales ratio for wholesalers was unchanged in June, at 1.30 compared to May, but lower compared to a year earlier, when it was 1.35. Inventories-to-sales ratios have remained in line with normal levels for all the distribution sectors of the economy.

Economic Releases:

Industrial Production: Industrial production was weaker than expected in July but was revised upward in the previous two months, according to the Federal Reserve. Manufacturing production was flat in July, in line with the earlier release of the ISM Manufacturing PMI. Manufacturing production was revised up in June but down in May. Industrial and manufacturing production were both up 1.4% compared to July of last year. The industrial sector remains weak and dependent on the performance of the manufacturing sector. Construction has started to struggle while the production of business equipment continues to outperform the rest of the sectors. Industrial production declined by 0.1% in July, month-on-month, while increasing by 1.4% compared to a year earlier, according to the Federal Reserve. Markets were expecting industrial production to have increased by 0.1% during the month of July. June's original 0.3% increase in industrial production was revised up to a 0.4% increase while May's 0.0% reading was upgraded to a 0.1% increase. Manufacturing production was flat in July while the original 0.1% increase in June was upgraded to a 0.3% increase. May's original 0.3% print was lowered to a 0.2% increase. On a year-over-year basis, manufacturing production was up 1.4%. Mining production was down by 0.4% after declining 0.3% in June while utilities output was down by 0.2% after surging by 1.8% in June. By major market groups, the production of final products increased by 0.2% as consumer products increased by 0.1% while the production of business equipment increased by 0.5%. Nonindustrial supplies declined by 0.3% with construction declining by 0.2% and finally, materials production declined by 0.2%, all month-on-month. Total capacity utilization was down slightly, from 77.7% in June to 77.5% in July, with declines in manufacturing capacity utilization from 76.9% in June to 76.8% in July.

Disclosures

Economic and market conditions are subject to change.

Opinions are those of Investment Strategy and not necessarily those of Raymond James and are subject to change without notice. The information has been obtained from sources considered to be reliable, but we do not guarantee that the foregoing material is accurate or complete. There is no assurance any of the trends mentioned will continue or forecasts will occur. Past performance may not be indicative of future results.

Consumer Price Index is a measure of inflation compiled by the US Bureau of Labor Statistics. Currencies investing is generally considered speculative because of the significant potential for investment loss. Their markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.

Consumer Sentiment is a consumer confidence index published monthly by the University of Michigan. The index is normalized to have a value of 100 in the first quarter of 1966. Each month at least 500 telephone interviews are conducted of a contiguous United States sample.

Personal Consumption Expenditures Price Index (PCE): The PCE is a measure of the prices that people living in the United States, or those buying on their behalf, pay for goods and services. The change in the PCE price index is known for capturing inflation (or deflation) across a wide range of consumer expenses and reflecting changes in consumer behavior.

The Consumer Confidence Index (CCI) is a survey, administered by The Conference Board, that measures how optimistic or pessimistic consumers are regarding their expected financial situation. A value above 100 signals a boost in the consumers' confidence towards the future economic situation, as a consequence of which they are less prone to save, and more inclined to consume. The opposite applies to values under 100.

Certified Financial Planner Board of Standards Center for Financial Planning, Inc. owns and licenses the certification marks CFP®, CERTIFIED FINANCIAL PLANNER®, and CFP® (with plaque design) in the United States to Certified Financial Planner Board of Standards, Inc., which authorizes individuals who successfully complete the organization's initial and ongoing certification requirements to use the certification marks.

Links are being provided for information purposes only. Raymond James is not affiliated with and does not endorse, authorize or sponsor any of the listed websites or their respective sponsors. Raymond James is not responsible for the content of any website or the collection or use of information regarding any website's users and/or members.

GDP Price Index: A measure of inflation in the prices of goods and services produced in the United States. The gross domestic product price index includes the prices of U.S. goods and services exported to other countries. The prices that Americans pay for imports aren't part of this index.

Employment cost Index: The Employment Cost Index (ECI) measures the change in the hourly labor cost to employers over time. The ECI uses a fixed "basket" of labor to produce a pure cost change, free from the effects of workers moving between occupations and industries and includes both the cost of wages and salaries and the cost of benefits.

US Dollar Index: The US Dollar Index is an index of the value of the United States dollar relative to a basket of foreign currencies, often referred to as a basket of U.S. trade partners' currencies. The Index goes up when the U.S. dollar gains "strength" when compared to other currencies.

The FHFA HPI is a broad measure of the movement of single-family house prices. The FHFA HPI is a weighted, repeat-sales index, meaning that it measures average price changes in repeat sales or refinancings on the same properties.

Disclosures

Import Price Index: The import price index measure price changes in goods or services purchased from abroad by U.S. residents (imports) and sold to foreign buyers (exports). The indexes are updated once a month by the Bureau of Labor Statistics (BLS) International Price Program (IPP).

ISM Services PMI Index: The Institute of Supply Management (ISM) Non-Manufacturing Purchasing Managers' Index (PMI) (also known as the ISM Services PMI) report on Business, a composite index is calculated as an indicator of the overall economic condition for the non-manufacturing sector.

The ISM Manufacturing Index: The GDP Now Institute of Supply Management (ISM) Manufacturing Measures the health of the manufacturing sector by surveying purchasing managers at manufacturing firms. The survey asks about current business conditions and expectations for the future, including new orders, inventories, employment, and deliveries.

Consumer Price Index (CPI) A consumer price index is a price index, the price of a weighted average market basket of consumer goods and services purchased by households.

Producer Price Index: A producer price index (PPI) is a price index that measures the average changes in prices received by domestic producers for their output.

Industrial production: Industrial production is a measure of output of the industrial sector of the economy. The industrial sector includes manufacturing, mining, and utilities. Although these sectors contribute only a small portion of gross domestic product, they are highly sensitive to interest rates and consumer demand.

The NAHB/Wells Fargo Housing Opportunity Index (HOI) for a given area is defined as the share of homes sold in that area that would have been affordable to a family earning the local median income, based on standard mortgage underwriting criteria.

Conference Board Coincident Economic Index: The Composite Index of Coincident Indicators is an index published by the Conference Board that provides a broad-based measurement of current economic conditions, helping economists, investors, and public policymakers to determine which phase of the business cycle the economy is currently experiencing.

Conference Board Lagging Economic Index: The Composite Index of Lagging Indicators is an index published monthly by the Conference Board, used to confirm and assess the direction of the economy's movements over recent months.

New Export Index: The PMI New export orders index allows us to track international demand for a country's goods and services on a timely, monthly, basis.

Gold is subject to the special risks associated with investing in precious metals, including but not limited to: price may be subject to wide fluctuation; the market is relatively limited; the sources are concentrated in countries that have the potential for instability; and the market is unregulated.

The Conference Board Leading Economic Index: Intended to forecast future economic activity, it is calculated from the values of ten key variables.

Source: FactSet, data as of 8/15/2025

RAYMOND JAMES®

INTERNATIONAL HEADQUARTERS: THE RAYMOND JAMES FINANCIAL CENTER
880 CARILLON PARKWAY // ST. PETERSBURG, FL 33716 // 800.248.8863 // RAYMONDJAMES.COM