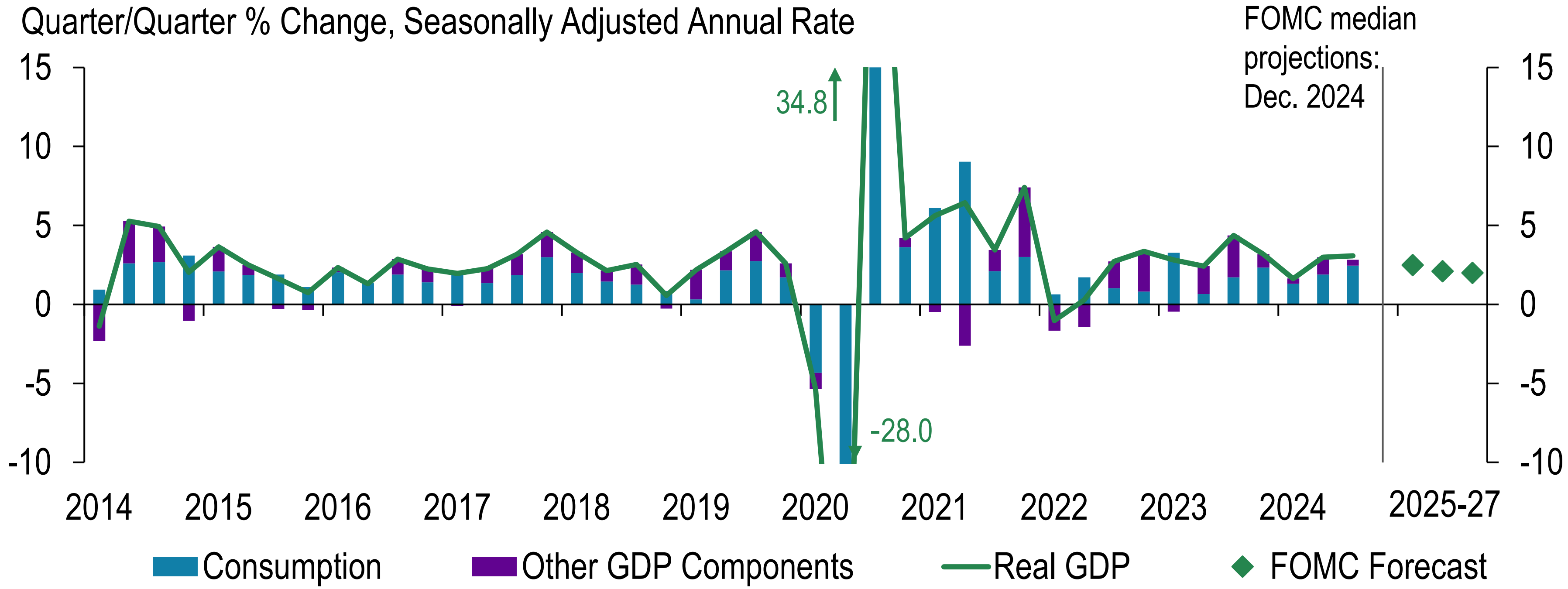
U.S. Economic Outlook

January 2025

Outlook Themes

- U.S. economic growth remains strong, with no signs of an immediate weakening.
- Inflation has moderated substantially over the past two years, but recent data have ticked up slightly suggesting some persistence in inflation.
- Labor markets have moved into balance, and wage pressures have dissipated. Still, conditions remain healthy, and real wage gains are supporting robust consumer spending.
- Markets expect a gradual decline in the federal funds rate. However, given the resiliency of the U.S. economy, uncertainty has increased about the restrictiveness of current monetary policy.

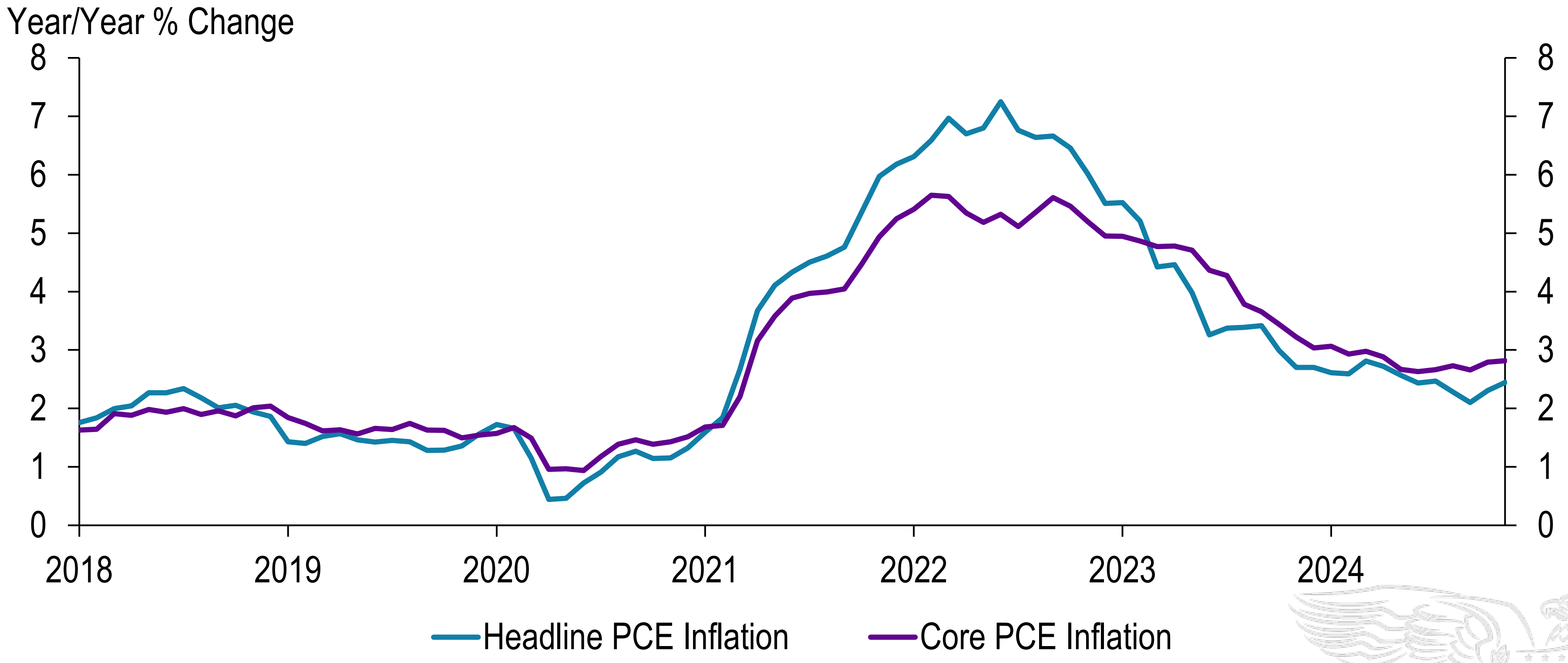
U.S. economic growth remains strong, spurred by robust consumer spending.



Note: Other GDP components include investments, government spending, and net exports.

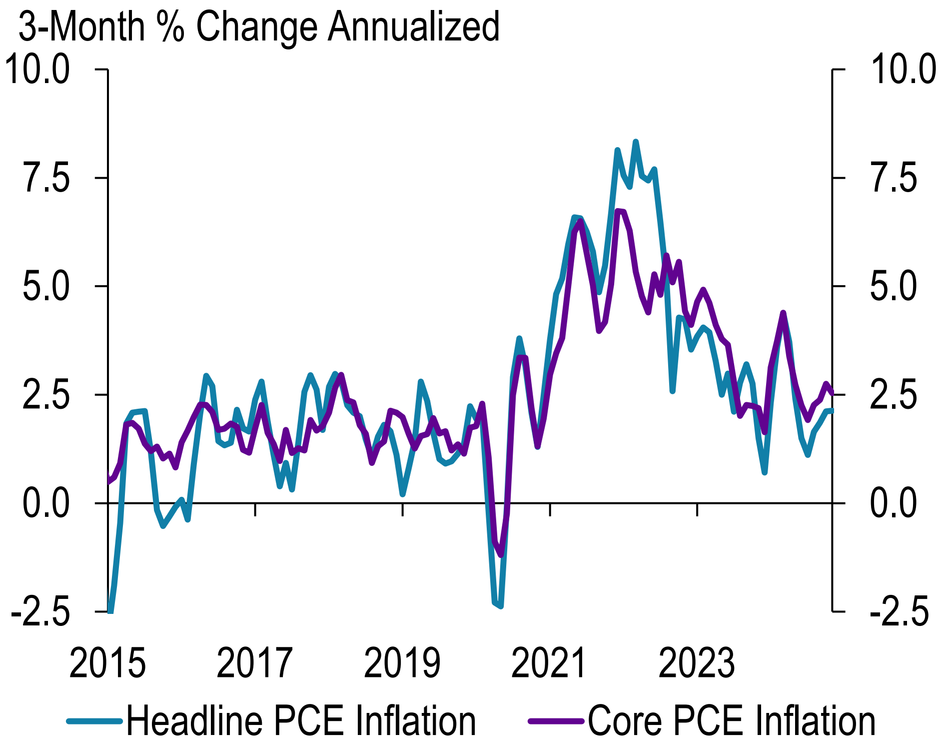
Sources: BEA, NBER, Haver Analytics

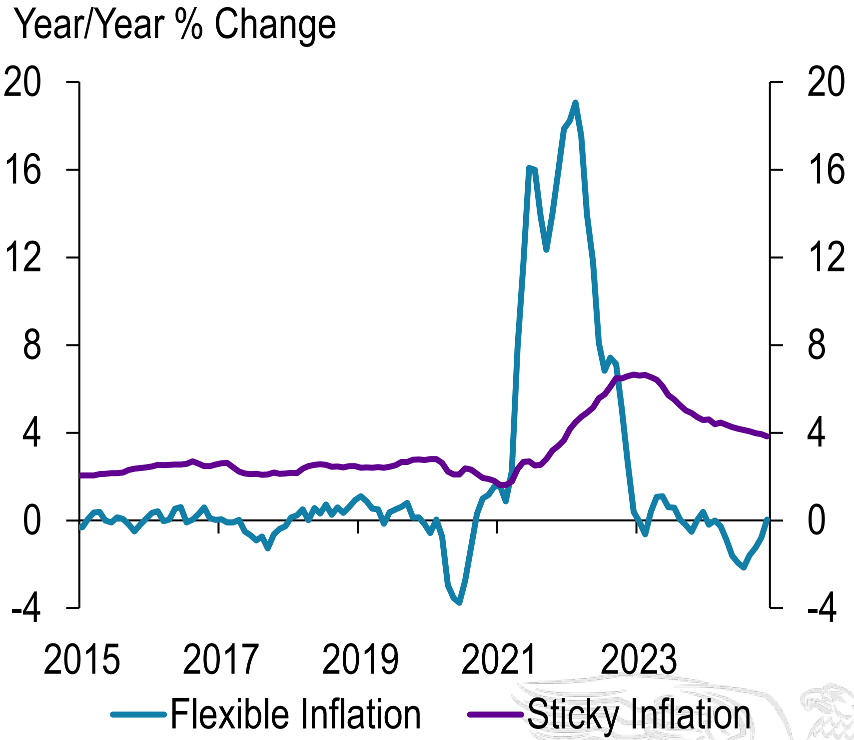
Even as economic growth persists, inflation has fallen considerably and is nearing the FOMC's two percent objective.



Sources: BEA, Haver Analytics

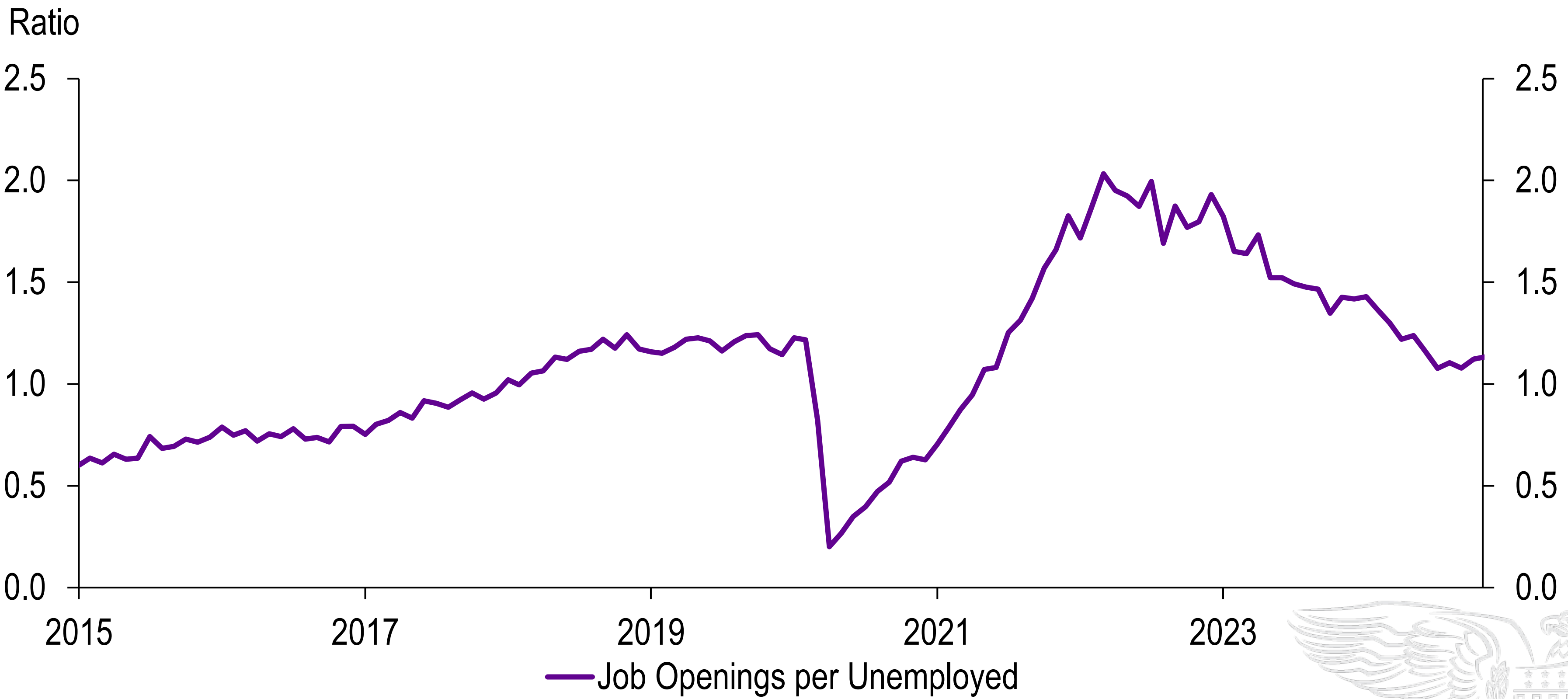
In recent months, inflation has ticked up slightly, reflecting remaining price catchup from items that change prices infrequently.





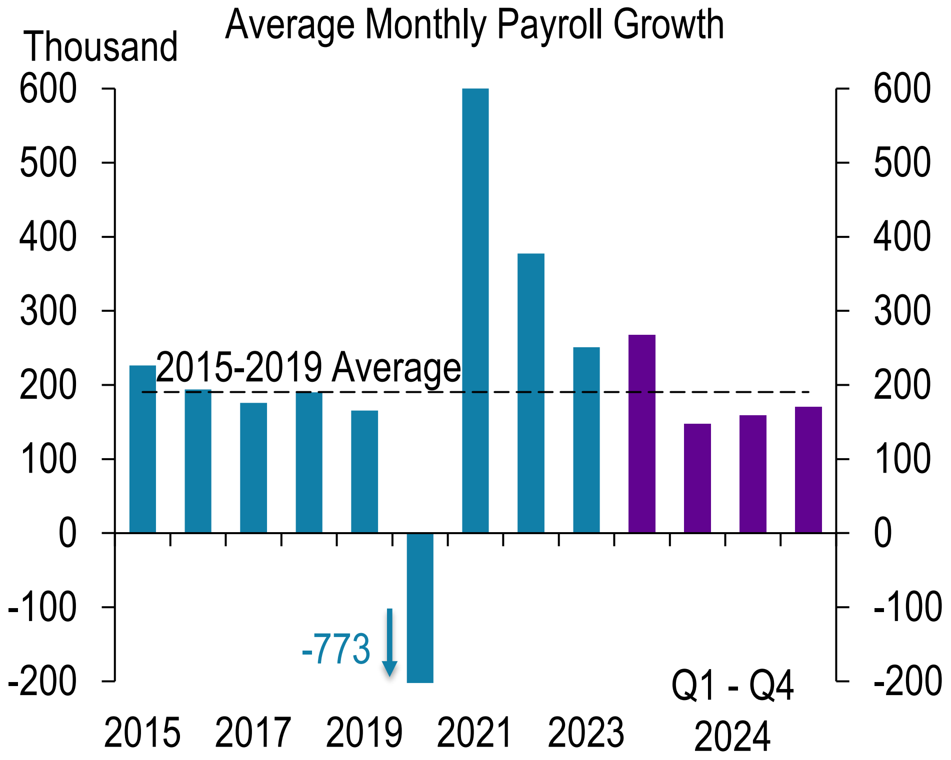
Sources: BEA, FRB Atlanta, Haver Analytics

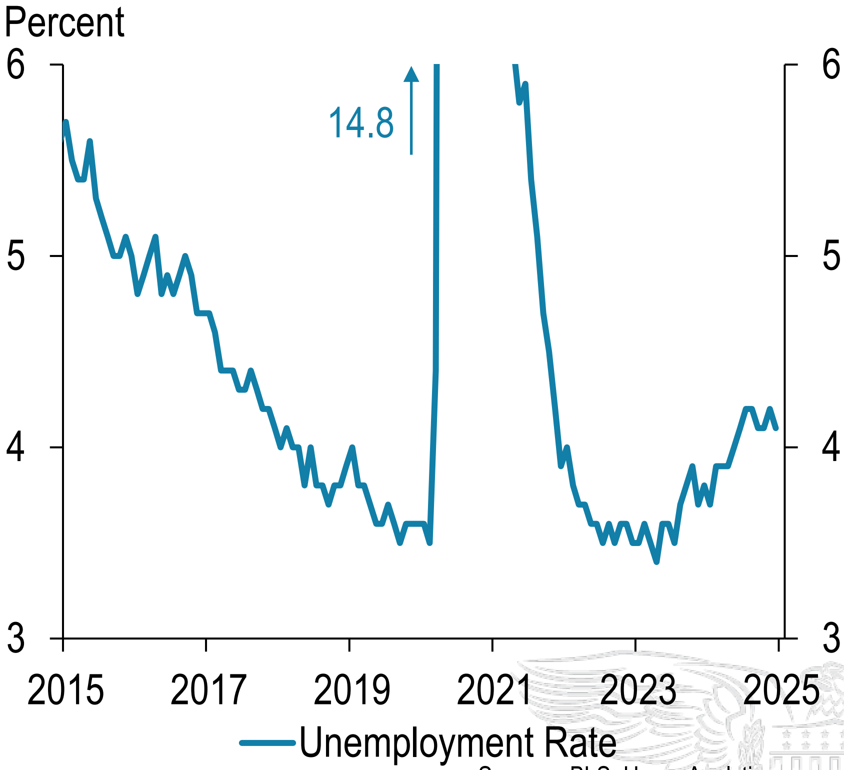
However, labor markets are unlikely to spur additional inflationary pressure as conditions have moved into better balance.



Sources: JOLTS, BLS, Haver Analytics

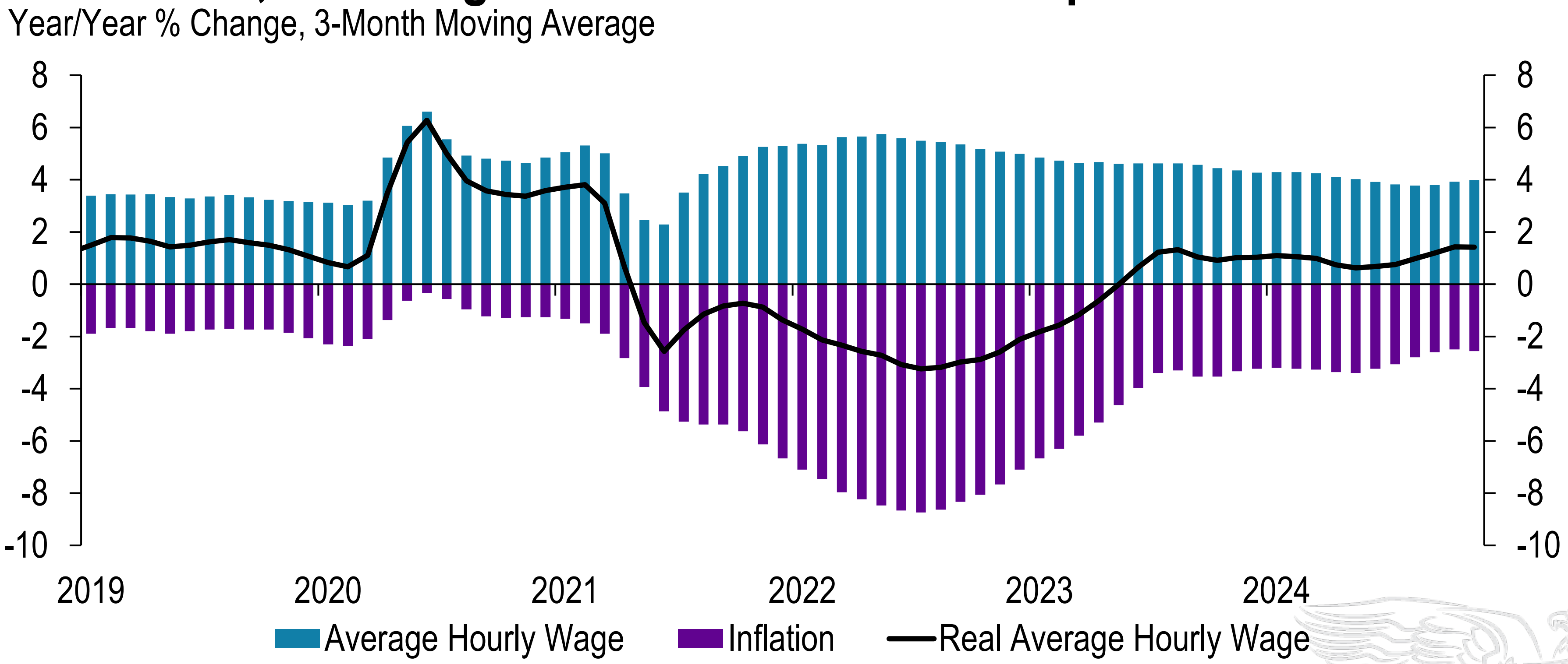
Still, labor markets remain solid, with an unemployment rate just above 4% and payroll gains averaging 186,000 per month in 2024.





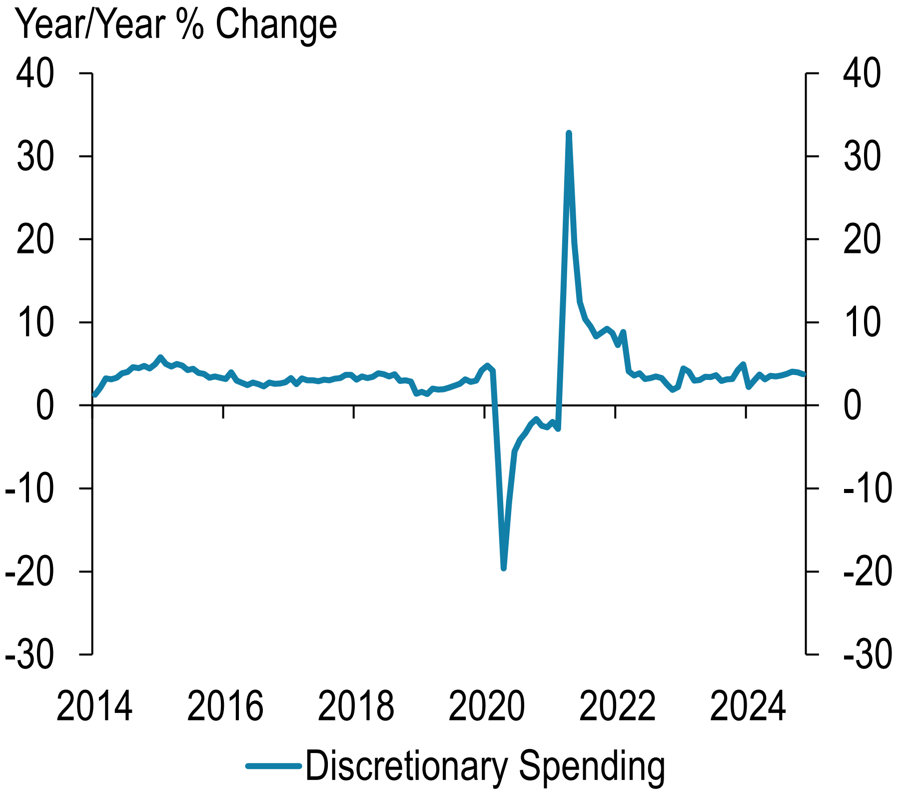
Sources: BLS, Haver Analytics

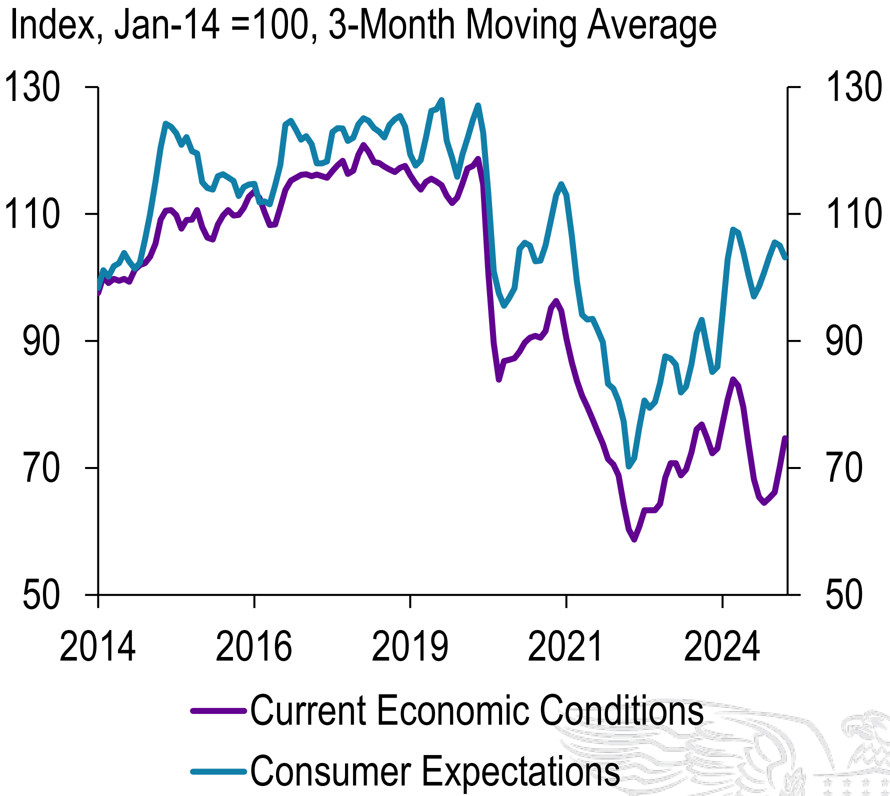
As labor markets moved into better balance, nominal wage gains moderated, but real gains rose as inflation dissipated.



Sources: BEA, BLS, Haver Analytics

Solid real wage gains combined with improved consumer expectations have supported continued strength in discretionary spending.

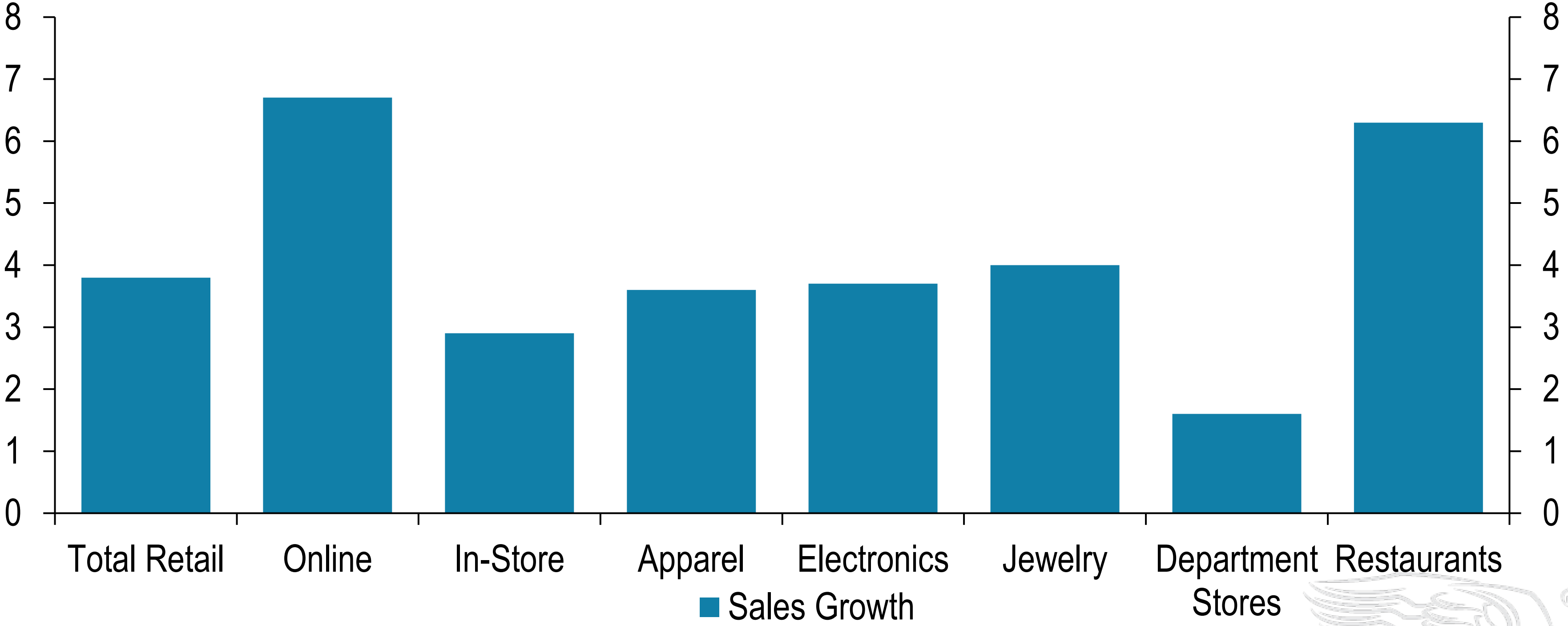




Sources: BEA, University of Michigan, Haver Analytics

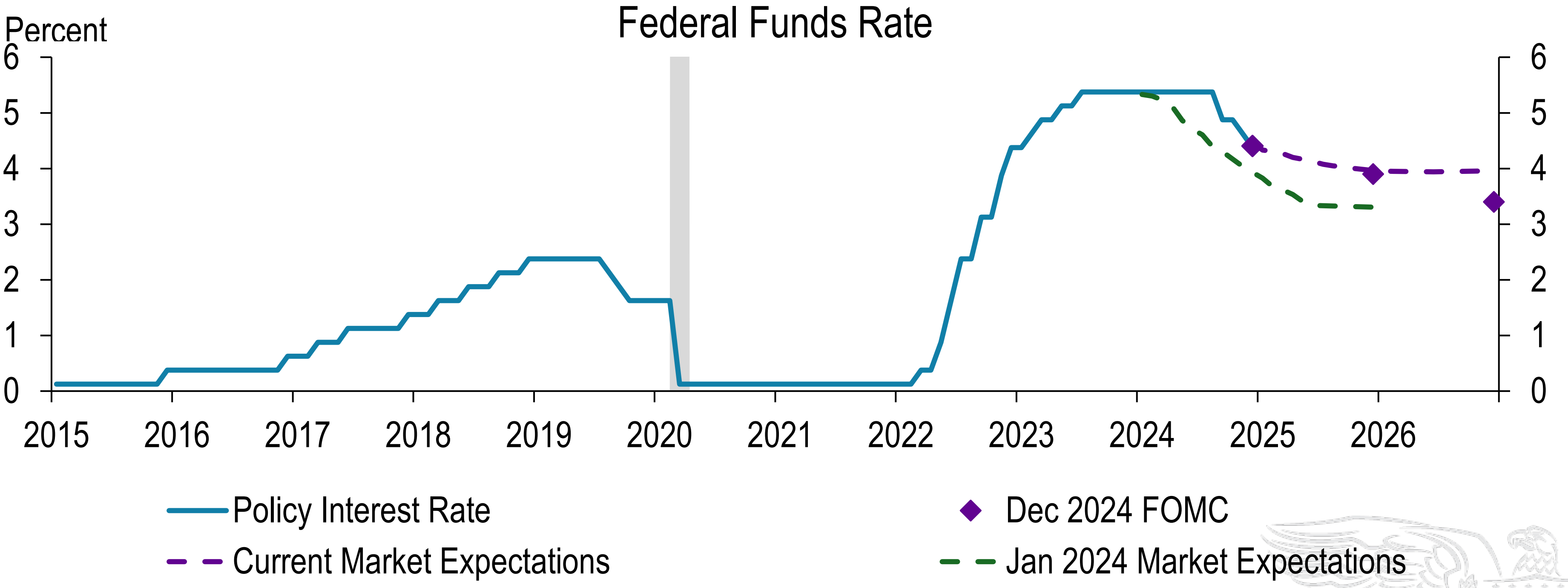
This strength is also reflected in this year's holiday retail sales.

Retail Sales from November 1 – December 24, Percent Change from Year Ago



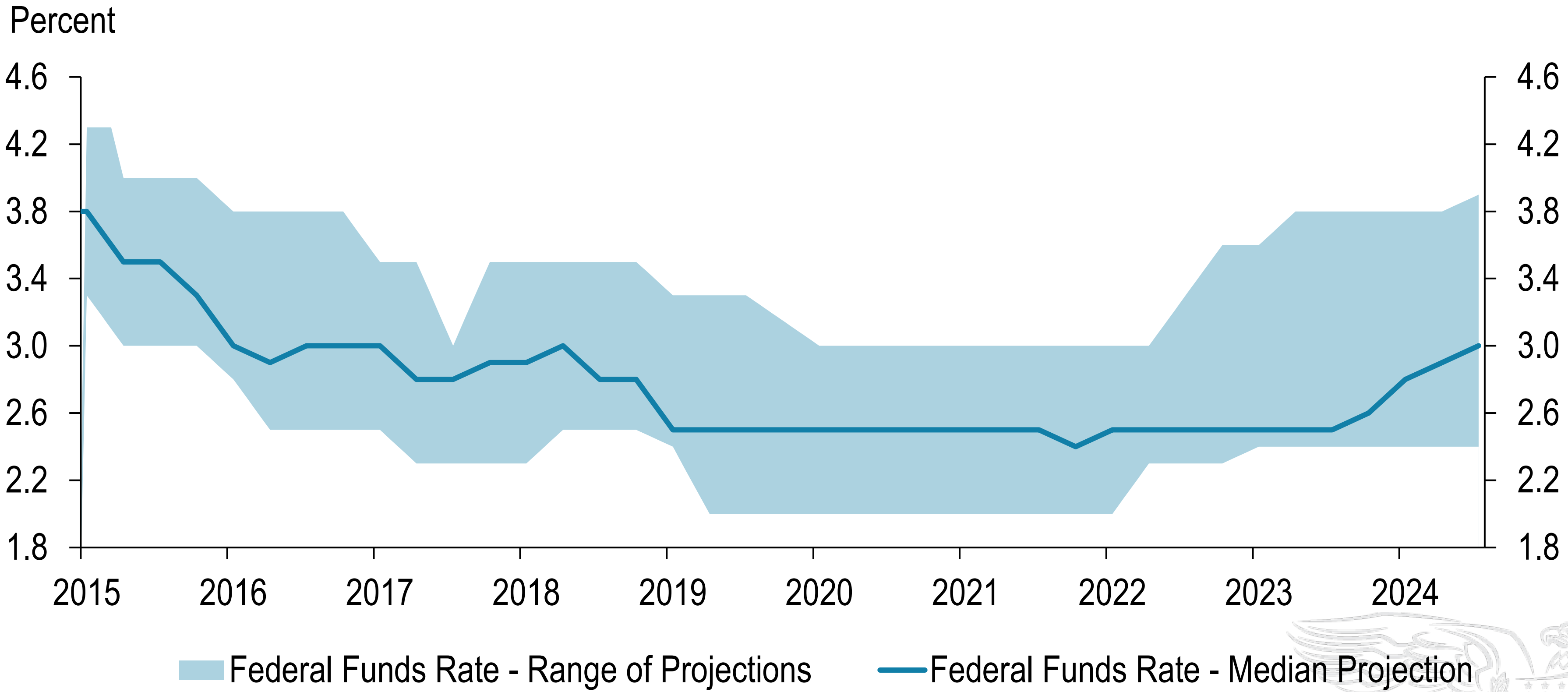
Source: Mastercard

As data continues to point to a resilient economy with above-target inflation, market participants have pulled back their expectations for rate cuts.



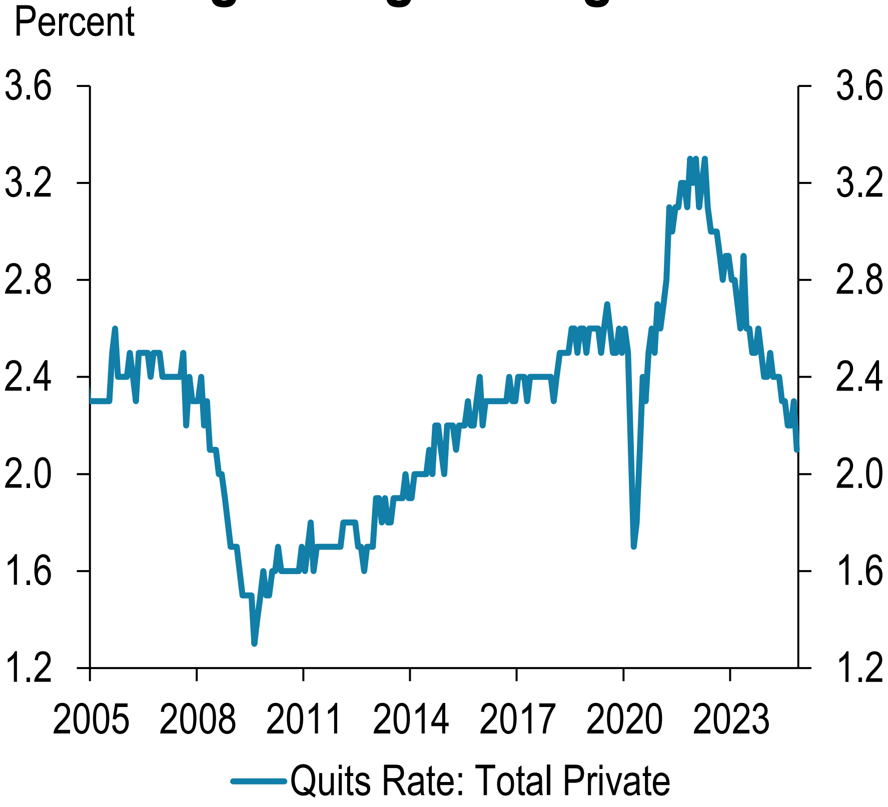
Sources: FRB/Haver Analytics, CME Group

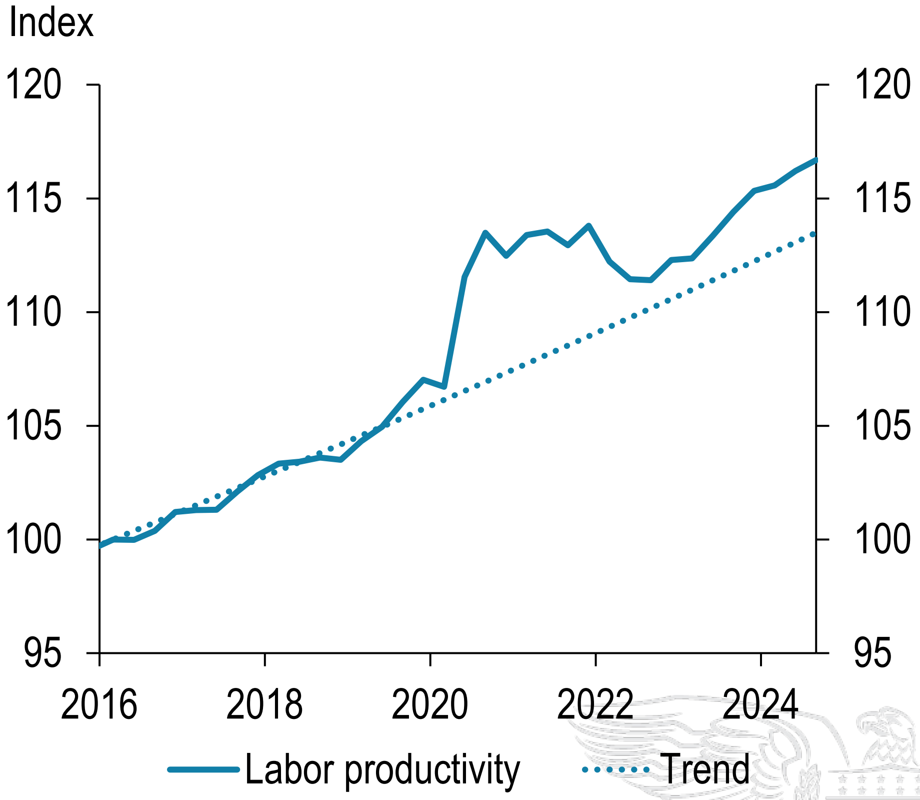
Over the last year, FOMC participants have also raised their expectations for the longer-run value of the federal funds rate.



Source: FRB/Haver Analytics

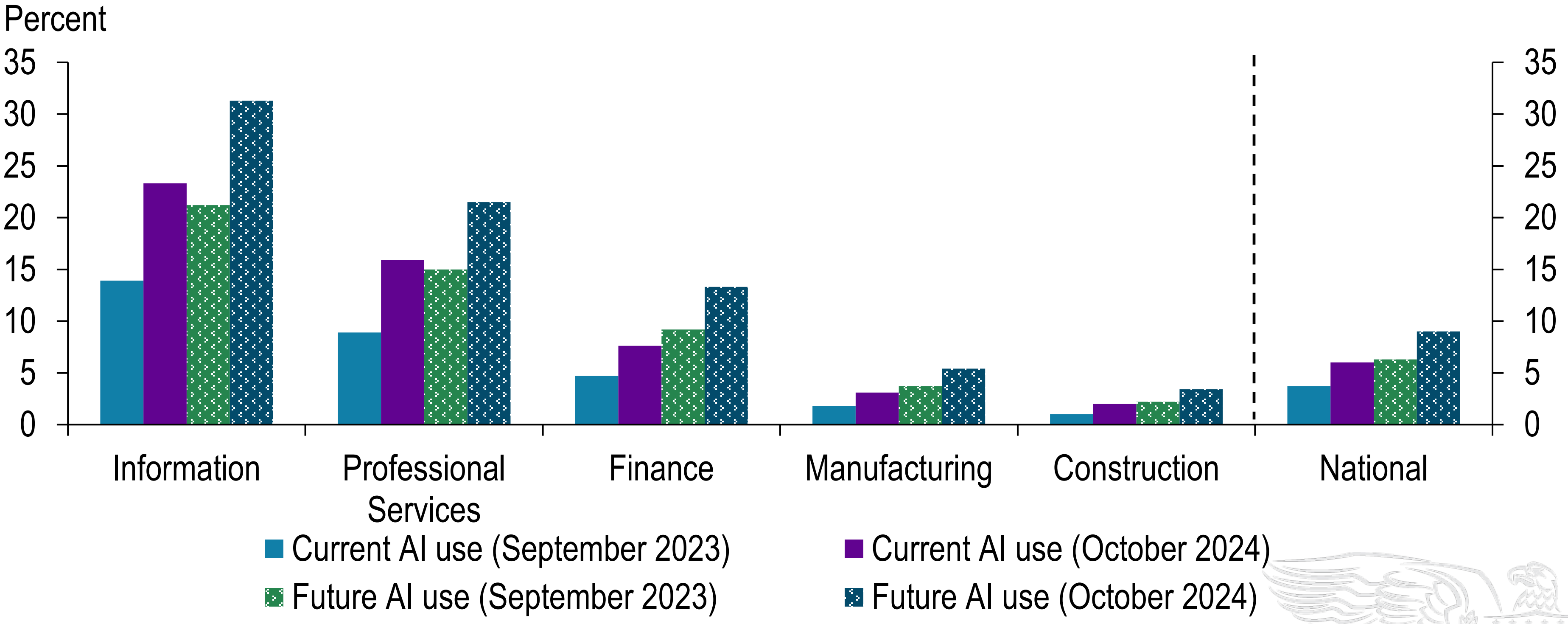
Productivity growth picked up last year, lifting expectations for stronger longer-run growth and higher longer-run interest rates.





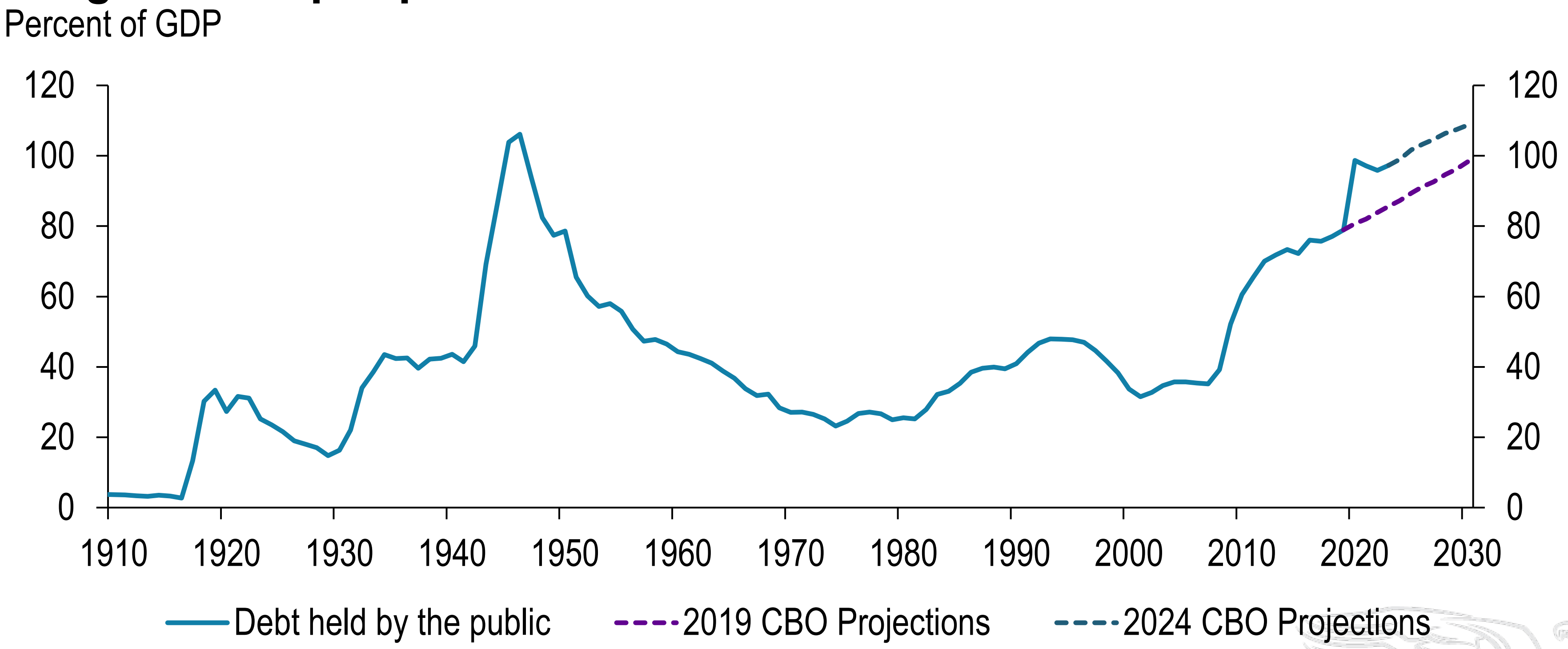
Sources: Cakir Melek and Gallin (2024), BLS, JOLTS, Haver Analytics

If AI boosts productivity growth sustainably, economic growth could accelerate and raise longer-term interest rates.



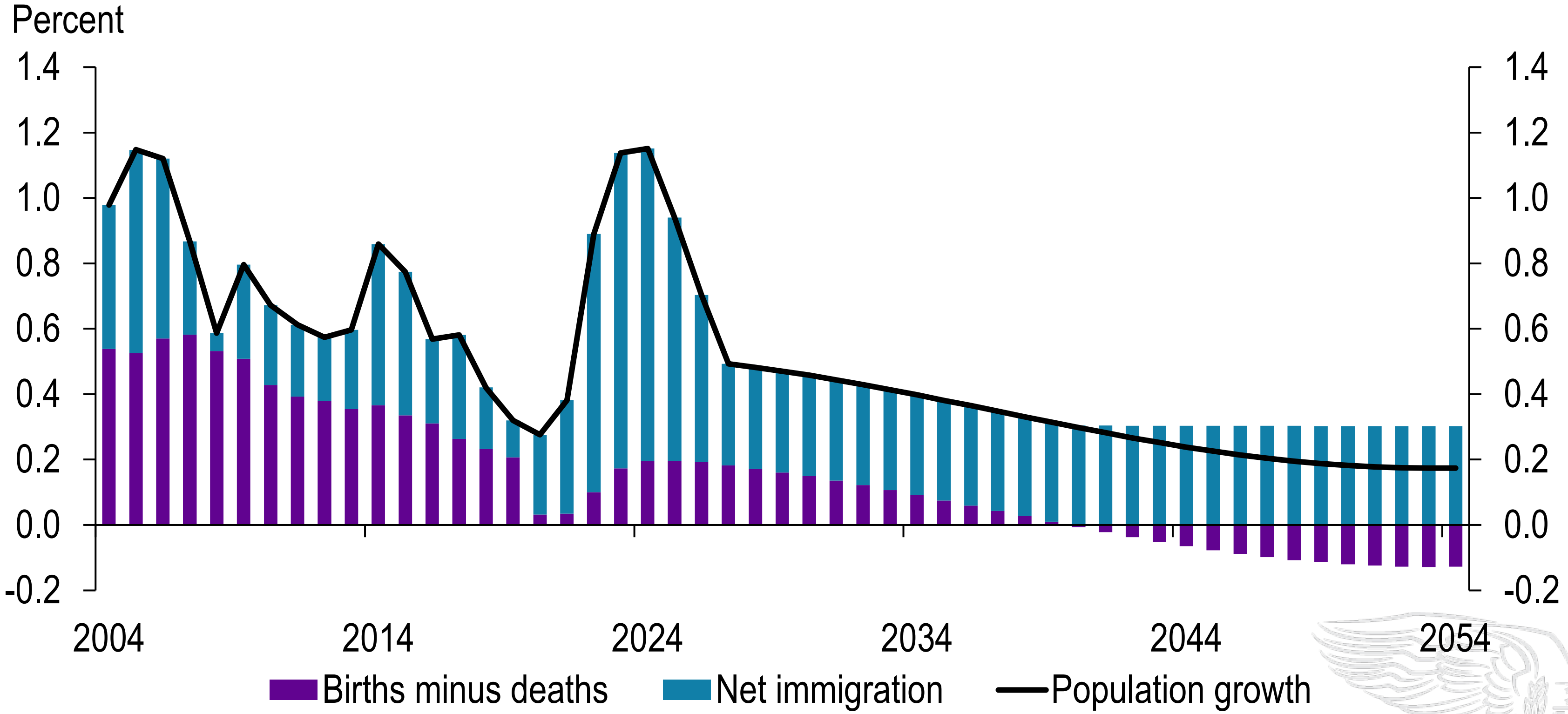
Sources: U.S. Census Bureau

Higher levels of government debt could also keep interest rates higher than pre-pandemic.



Sources: Congressional Budget Office, Haver Analytics

However, slowing population growth and an aging demographic could weigh on economic growth and hold down interest rates.



Source: CBO

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