

The U.S. Macroeconomic Outlook

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Strong economy so far in 2025 but uncertainty looms

Remarkable performance over last several years provides resilience

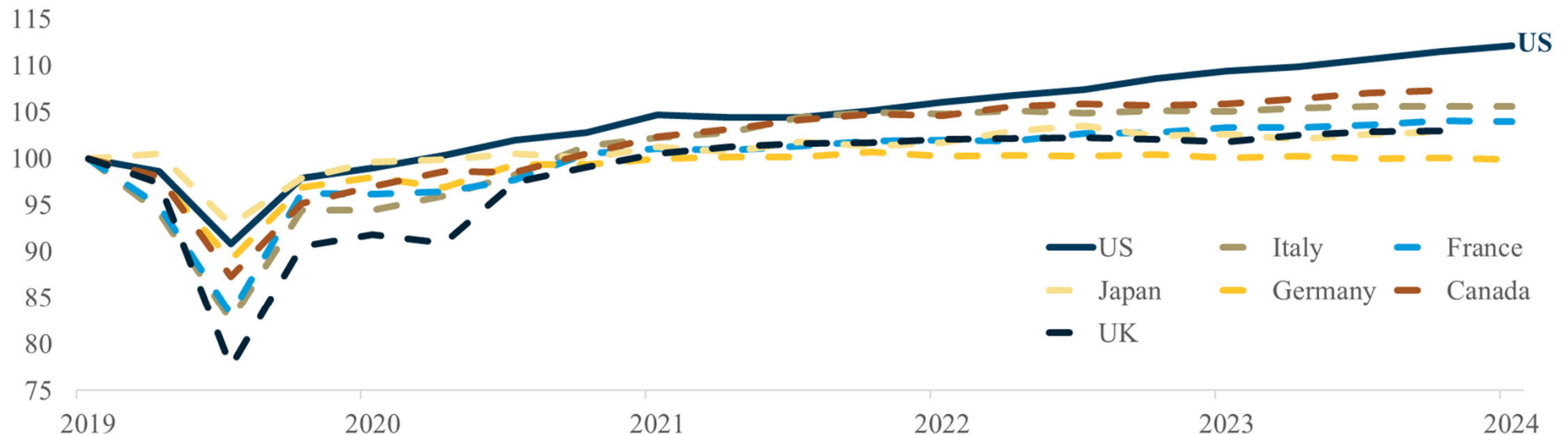
- Broadly healthy macroeconomy based on most recent data
 - GDP growth is strong
 - Unemployment is low
 - Inflation has cooled but is still above Fed's target
- But risks have grown
 - Higher longer-run interest rates
 - Shifts in the housing market
 - Uncertainty about policies from the new administration
 - Potential for disruption from artificial intelligence advances

The U.S. is the global leader in the economic recovery

Our economy is benefitting from stronger demand and stronger supply

Real Gross Domestic Product for the G-7 Economies

Index Q4 2019=100



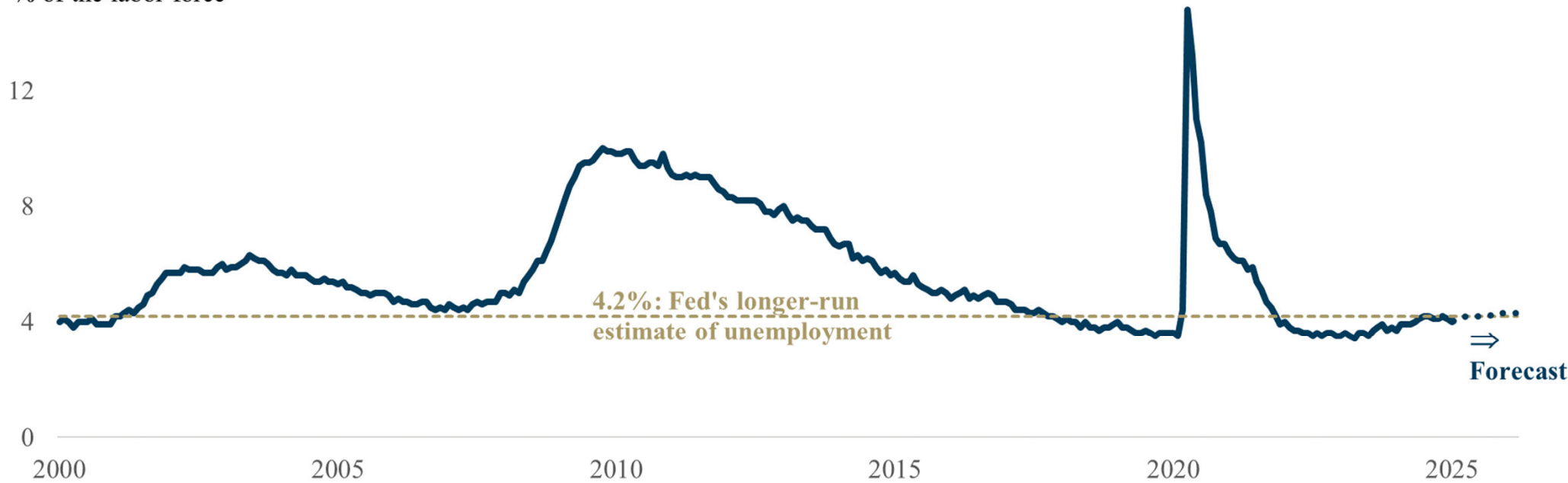
Sources: BEA; IMF; Eurostat; JP. Cabinet Office via FRED, St. Louis Fed

The U.S. labor market remains strong

Forecasters expect continued low unemployment

Unemployment Rate

% of the labor force

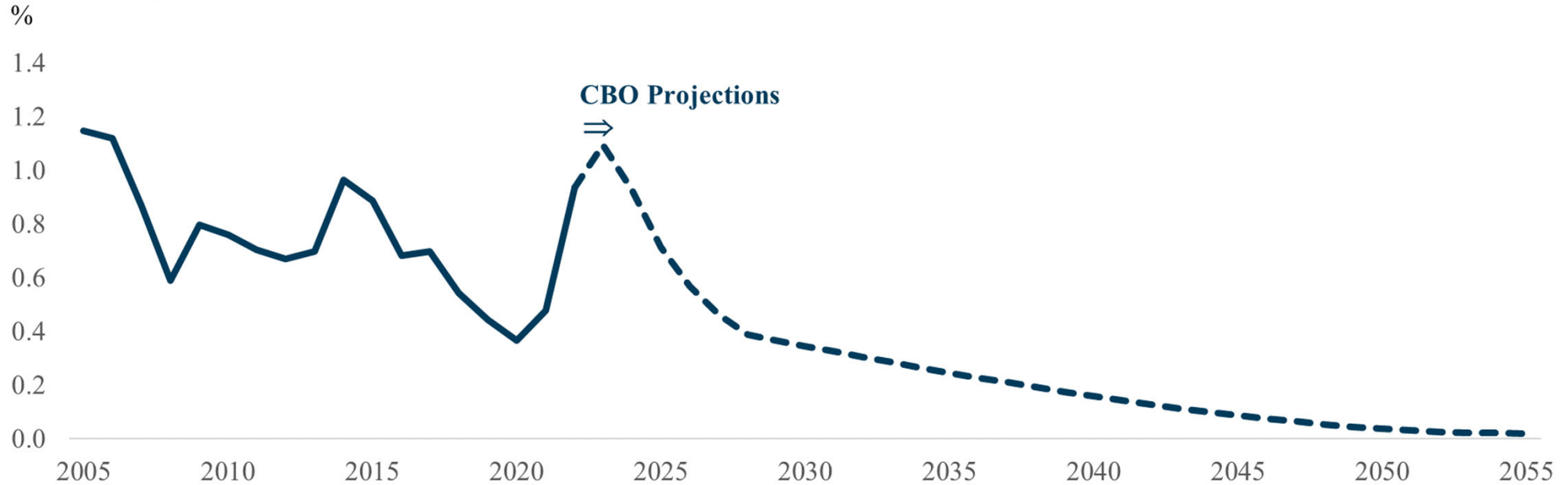


Source: U.S. Bureau of Labor Statistics via FRED, St. Louis Fed, and the Survey of Professional Forecasters, Philadelphia Fed

But, little room for more employment gains

Limited population growth means slower employment growth

U.S. Population Growth



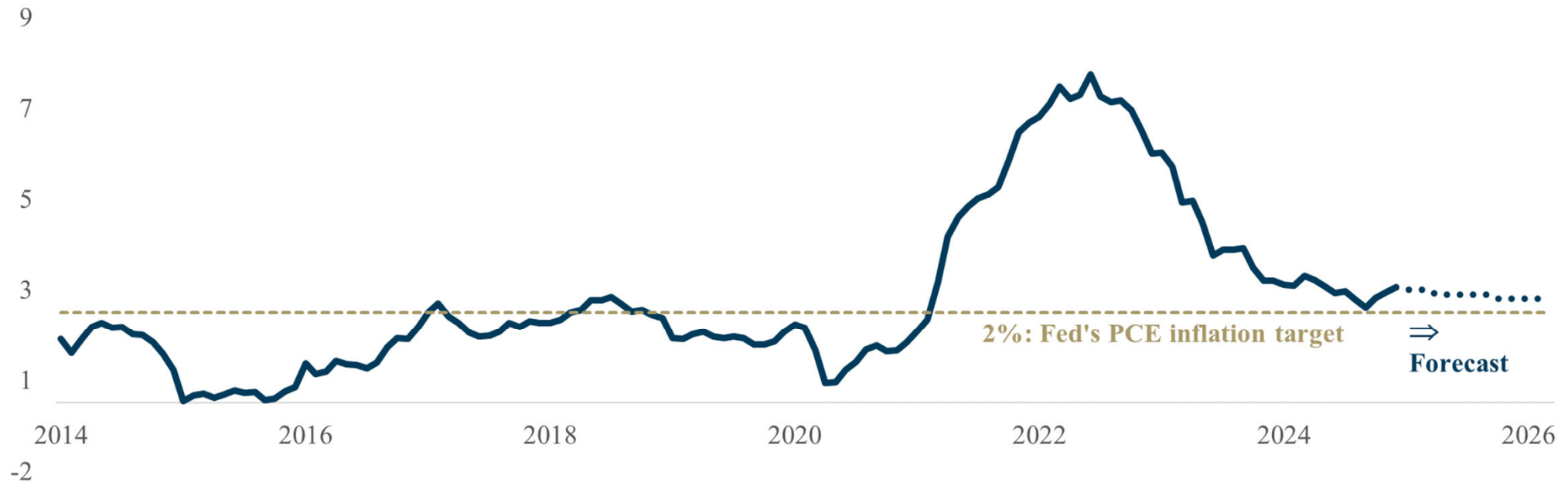
Sources: Congressional Budget Office Demographic Outlook January 13, 2025

Inflation has cooled, although prices remain elevated

Inflation now expected to be above Fed target into 2026

PCE Inflation Rate

Percent change from a year ago



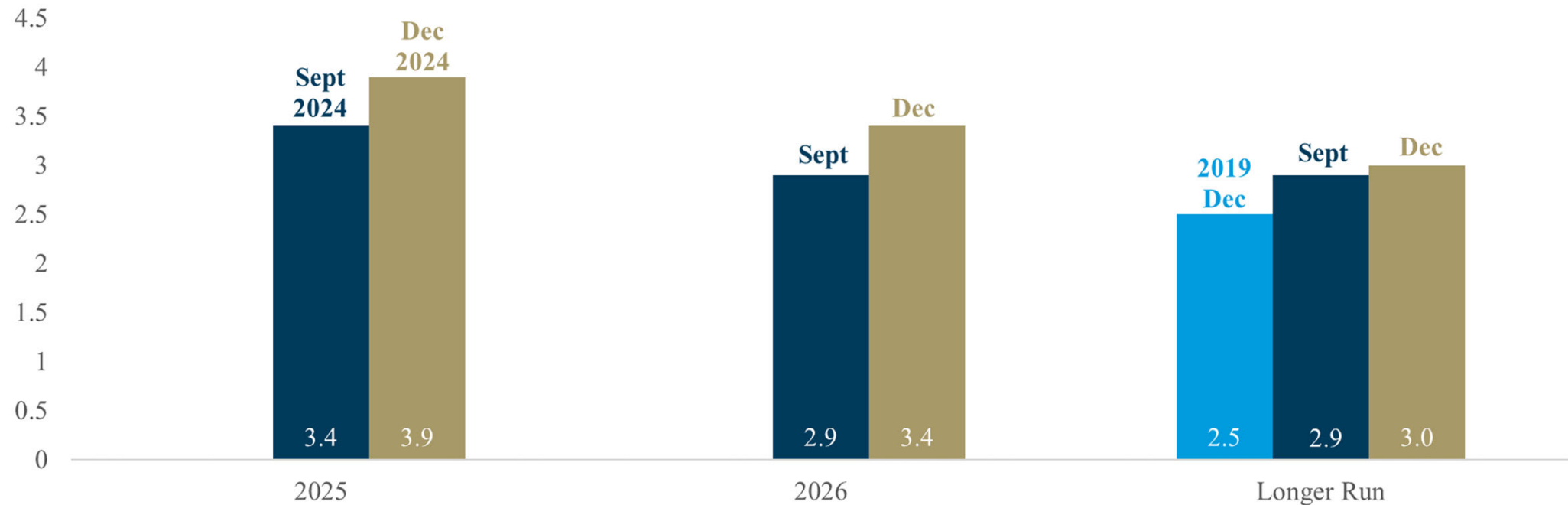
Source: U.S. Bureau of Economic Analysis via FRED, St. Louis Fed, and the Survey of Professional Forecasters, Philadelphia Fed

Interest rates are higher for now and for longer

The next steps for the Fed are downward, but maybe not so far

FOMC Median Projected Appropriate Policy Path

Fed Funds Rate, %



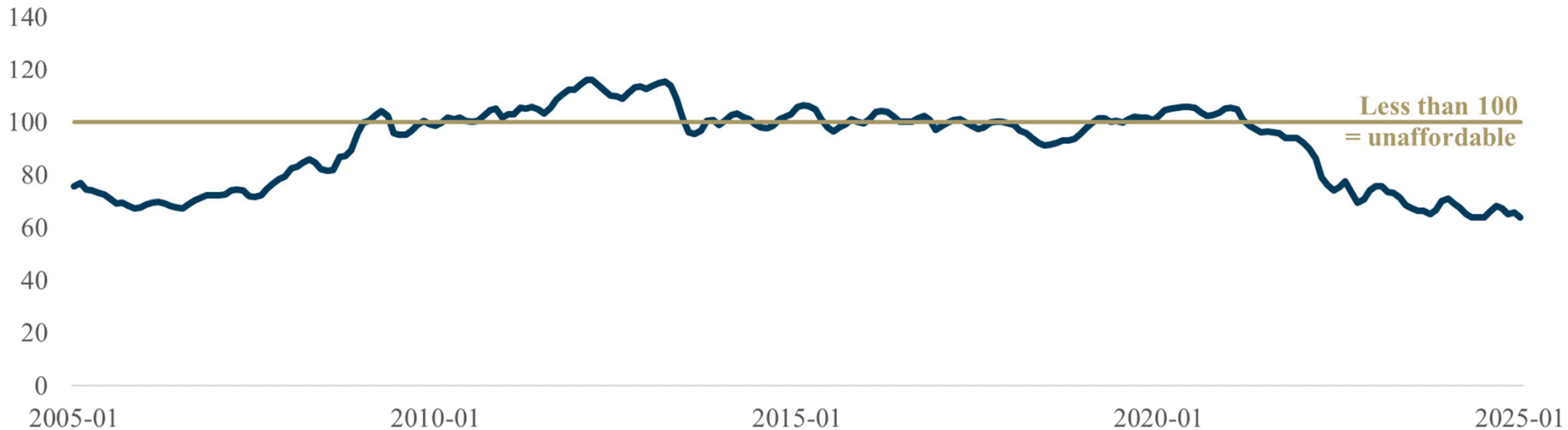
Source: FOMC Summary of Economic Projections

Housing affordability down dramatically since 2021

A median-income family can no longer afford a median-priced home

Home Ownership Affordability Index

Index based on median income \div qualified income $\times 100$



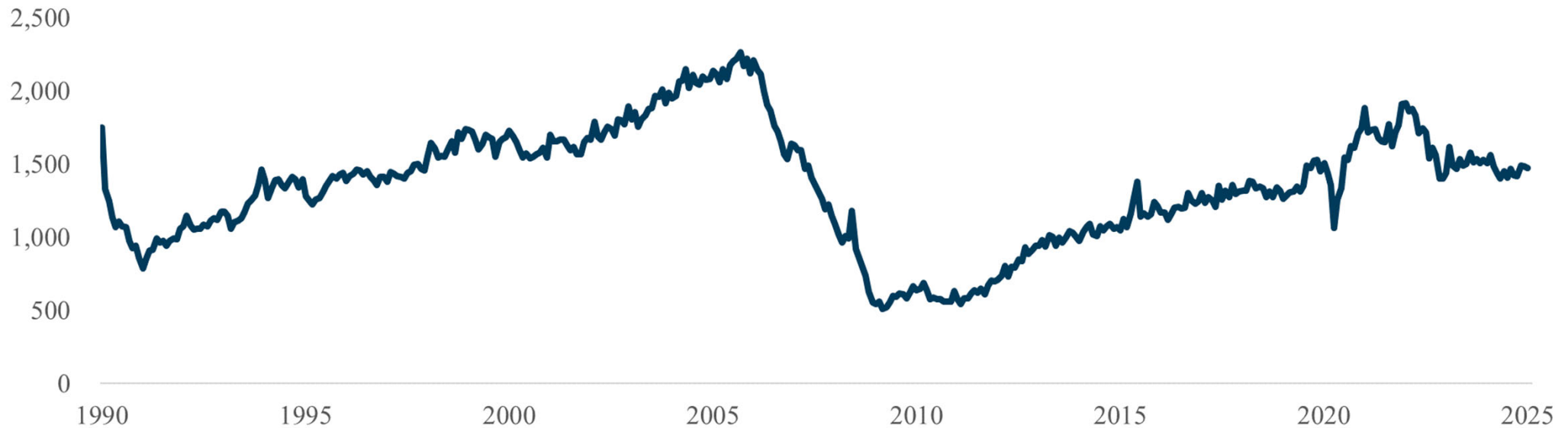
Source: Federal Reserve Bank of Atlanta's Home Ownership Affordability Monitor (HOAM)

Housing supply is a long-run problem

It would take a lot to build our way to affordability

New Residential Construction

Thousands of units of new privately-owned housing authorized in permit-issuing places, seasonally adjusted annual rate



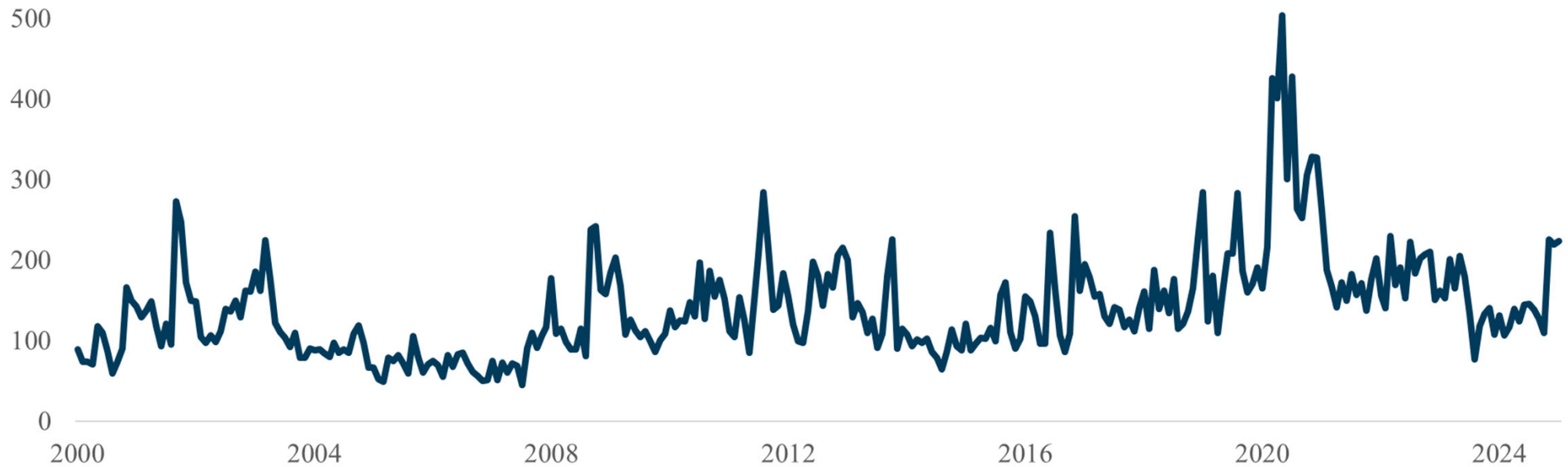
Sources: U.S. Census Bureau; U.S. Department of Housing and Urban Development via FRED

Rising uncertainty is a cost for consumers and firms

Policy uncertainty can lead to decreased investment, hiring, spending

U.S. News-Based Economic Policy Uncertainty Index

Index normalized to an average value of 101.8 from January 1985 through December 2009



Source: 'Measuring Economic Policy Uncertainty' by Scott Baker, Nicholas Bloom and Steven J. Davis at www.PolicyUncertainty.com

U.S. dollar index near record highs

The strong dollar may curb corporate earnings, particularly in tech

Nominal Broad U.S. Dollar Index

Index Jan 2006=100, Monthly (end of period), Not Seasonally Adjusted



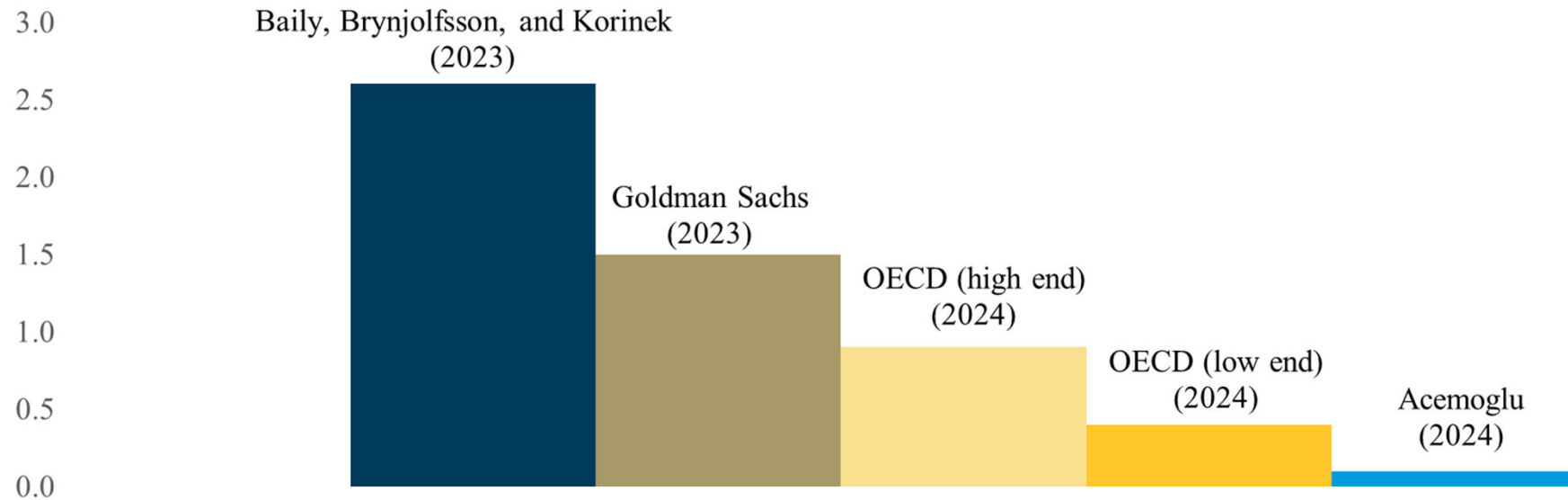
Source: 'Measuring Economic Policy Uncertainty' by Scott Baker, Nicholas Bloom and Steven J. Davis at www.PolicyUncertainty.com

AI macro impact estimates vary widely

Artificial intelligence innovations bring uncertainty

AI's Predicted Macro-Level Productivity Gains

% predicted increase in annual labor productivity over a 10-year horizon due to AI



Source: Filippucci, F., P. Gal and M. Schief (2024) OECD Artificial Intelligence Papers.

Base case remains slow cooling

But notably wide risks to the outlook on both sides

- Remarkable U.S. economic performance over the last several years puts the U.S. economy in a better position to weather future shocks
- But we're facing growing uncertainty along with financial, demand, and supply-side risks going forward:
 - Economic policy uncertainty
 - Short-run inflation risks and long-run interest rate risks
 - Financial risk from commercial real estate, fiscal sustainability concerns, deregulation
 - Lurking recession risk
 - Supply-side risks from AI, climate, health, and geopolitical tensions