Comments on U.S. and New York State Economy and Financial Markets

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Introductory Comment

We are currently anticipating:

- **The U.S. economy will expand 2.3% in 2025 and 2.1% in 2026 after expanding by 2.8% in 2024.**
- **Consumer spending will increase by on average 1.8% (2025) and 2.2% (2026) after increasing by 2.5% in 2024.**
- **Nonfarm payroll employment will increase by a monthly average of 146,000 (2025) and 149,000 (2026) after increasing by a monthly average of 166,000 in 2024.**
- **The unemployment rate will average 4.0% (2025) and 3.9% (2026) after averaging 4.1% in 2024.**
- **The consumer price index will increase by 2.6% (2025), and 2.9% (2026) after increasing by 2.9% in 2024.[1]**
- **The Personal Consumption Price Index will increase by 2.4% (2025) and 2.6% (2026) after increasing by 2.4% in 2024. The Personal Consumption Price Index (excluding food and energy) will increase by 2.6% (2025) and 2.6% (2026) after increasing by 2.8% in 2024.**
- **The Federal Reserve will reduce its target for the federal funds rate one time in 2025 and one time in 2026 from 4.375% (Q4 2024) to 4.125% (Q4 2025) and to 3.875% (Q4 2026).[2]**
- **Short-term interest rates (91-day U.S. Treasury bill) will average 4.01% in 2025 and 3.69% in 2026 after averaging and 4.77% in 2024.**
- **Longer-term interest rates (10-year U.S. Treasury note) will average 4.40% in 2025 and 4.22% in 2026 after averaging 4.24% in 2024.**
- **Stock prices (S&P 500) will average 5735 in 2025 and 6315 in 2026 after averaging 5359 in 2024.**
- **The New York State economy will expand by 1.6% (2025), 1.3% (2026), and 1.6% (2027) after expanding 2.3% in 2024. New York State employment will increase by 1.1% (2025), 1.1% (2026), and 1.5% (2027) after increasing 1.4% in 2024. We estimate employment gains of 108,000 (2025), 110,000 (2026), and 155,000 (2027) after a gain of 140,000 in 2024.**

Summary Update

Since 1890 there have been 24 bear markets and all 24 have been followed by economic contractions which have been accompanied by inflation-interest rate declines. Although there has been one decline in the current bull market between January 4th 2022 and October 13th 2022 the decline was not accompanied by/followed by a contraction in the economy ("a "hard landing") and a decline in

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[1] **Annual average/annual average**

[2] **March 25 basis points, May 25 basis points, June 25 basis points, September 25 basis points.**

interest rates. Hence HJ Economics categorizes the January-October decline a "correction" in stock prices not a "bear market."

Overview

Identifying the turning points in stock market-economic-interest rate cycles remains *the* critical issue for all forecasters and policymakers.

There are two important steps to the HJA methodology for understanding cycles. First, HJ Economics identifies important trends in financial market variables. HJ Economics research concludes that the financial markets perform in very specific ways at the beginning, middle, and end of a stock market-economic-interest rate cycle. Hence, by identifying important trends in financial market variables it is possible to identify where we are in the stock market-economic-interest rate cycle.

Second, HJ Economics identifies the trends in important monetary and economic variables. The purpose of the second step is to determine if the performance of the financial markets is rational. Is the performance of the financial markets consistent with a rational forecast for the economy, earnings, inflation, and interest rates? More specifically, is the performance of the financial markets justified?

Performance of the Financial Markets

Financial market performance has been, on balance, positive. (Q4 2024-Q1 2025).

- **Stock prices have increased 4.8%.**
- **More volatile ("bull market") stock market sectors (Communications Services, technology, industrials, consumer discretionary) have outperformed less volatile ("bear market") stock market sectors. (consumer staples, utilities, healthcare).**
- **Growth equities (higher dividend yield, lower price-earnings ratios) have outperformed value equities (lower dividend yield, higher price-earnings ratios).**
- **Spreads (differences) between yield on AAA-rated investment grade fixed income securities and yield on 10-year U.S. Treasury securities have narrowed. Spreads (differences) between yield on BAA-rated investment grade fixed income securities and yield on 10-year U.S. Treasury securities have narrowed. Spreads (differences) between yield on below investment grade fixed income securities and yield on 10-year U.S. Treasury securities have narrowed. The gradation in performance is important.**
- **Yield curves as measured by the spread (difference) between the yield on a 10-year U.S. Treasury note and the yield on a 91-day U.S. Treasury bill have steepened or become "un-inverted." Based upon the yield curve the probability of a recession beginning in 12 months has declined from 66.01% (July 2024) to 29.40% (December 2024).**

Performance of Monetary and Fiscal Policy

Monetary and fiscal policy performance has been, on balance, "positive." (2023, 2024, 2025)

In 2023, 2024, and 2025 monetary policy shifted toward restraint (until September 2024) and fiscal policy has been accommodative. In 2023-2024-2025 monetary policy has leaned toward restraint.

- **The Federal Reserve reduced its holdings of financial assets (Securities held outright) from $8.5 trillion (Q4 2022) to $7.2 trillion (Q4 2023) to $6.6 trillion (Q4 2024) to $6.5 trillion (February 19, 2025).**
- **The growth rate of the money supply has improved from -1.2% (Q4 2022) to -2.5% (Q4 2023) to +3.8% (Q4 2024) to +4.0% (January 6, 2025).**
- **The speed or turnover of the money supply has accelerated. Turnover has increased in part because inflation expectations have moved higher. The consensus forecast for the year-year consumer price index for one year has increased from 2.6% (November 2024) to 3.3% (January 2023).**
- **Domestic liquidity conditions have improved.**
- **The federal government spending has increased from $6.1 trillion (2023) to $6.8 trillion (2024) or 10.0% versus a 1963-2023 average annual increase of 7.1%. The federal budget deficit has increased from $1.7 trillion (6.2% of nominal Gross Domestic Product) to $1.8 trillion (6.4% of Nominal Gross Domestic Product). The 1963-1923 average has been 3.2%.**

Despite the decline in the money supply the U.S. economy has expanded by 2.3% in 2023 and 2024, and consumer spending has increased by 2.4% in 2023 and 2024. (Velocity.)

Forecast Details:

We include two tables. The first summarizes the Hugh Johnson Economics forecast for the U.S. economy. The second set summarizes the Hugh Johnson Economics forecast for the New York State economy.

<u>Forecast for U.S. Economy, Employment, Inflation, Interest Rates, and Stock Prices</u>

Variable	Actual	Actual	Forecast	Forecast	Forecast
	2022	2023	2024	2025	2026
Real GDP	2.5%	2.9%	2.8%	2.3%	2.1%
Consumption	3.0%	2.5%	2.8%	2.5%	1.8%
Investment	6.0%	0.1%	4.0%	1.4%	3.5%
Exports	7.5%	2.8%	3.2%	2.0%	2.2%
Imports	8.6%	-1.2%	5.4%	3.4%	3.7%
Government	-1.1%	3.9%	3.4%	3.8%	3.3%
Federal	-3.2%	2.9%	2.5%	5.0%	4.0%
State	0.2%	4.4%	3.9%	3.1%	2.8%
Personal Income	1.0%	5.9%	5.4%	4.6%	4.8%
Wages & Salaries	6.7%	5.7%	6.0%	5.2%	5.5%
Corporate Profits (ptw)	7.8%	6.9%	6.8%	3.3%	3.3%
Productivity					
Employment	4.1%	2.1%	1.3%	1.2%	1.0%
Unemployment Rate	5.3%	4.5%	3.9%	3.9%	3.7%
CPI-Urban	8.1%	3.7%	2.9%	2.6%	2.9%
S&P 500 Stock Price	-3.9%	4.5%	25.1%	7.0%	10.1%
Treasury Bill Rate (3-Month)	2.5%	5.1%	4.8%	4.0%	3.7%
Treasury Note Rate (10-Year)	3.3%	3.9%	4.2%	4.4%	4.2%

Forecast for New York State Economy, Employment, and Inflation

Variable	Actual	Actual	Estimate	Forecast	Forecast
	2022	2023	2024	2025	2026
Gross State Product (chained 2012 $)	1.7%	1.5%	2.3%	1.6%	1.3%
Employment (CES)	4.7%	2.0%	1.4%	1.1%	1.1%
Unemployment Rate	4.2%	4.2%	4.3%	4.2%	4.1%
Personal Income	1.0%	5.7%	5.5%	3.1%	4.0%
Total Wages (calendar year basis)	7.1%	4.8%	6.3%	2.6%	3.3%
Supplement	0.6%	4.1%	4.8%	2.4%	2.2%
Variable Compensation					
New York Area CPI (1)	6.3%	3.4%	3.9%	3.2%	3.1%
Source: Bureau of Labor Statistics, Bureau of Economic Analysis ; Hugh Johnson Economics					

Comments and Forecast Details:

Forecasts for U.S. Economy, Employment, and Inflation

We include two tables that summarize the Hugh Johnson Economics, and the consensus forecast for the U.S. economy. Both the consensus and HJ Economics anticipate that real Gross Domestic Product, employment, and consumer spending will *slow* in Q1 2025 through Q2 2026. The U.S. economy expanded 2.3%; employment increased 204,000; consumer spending expanded 4.2% in Q4 2024.

Quarter	HJ Economics GDP	HJ Economics Employment (000)	HJ Economics Consumer Spending
2025-Q1	2.2%	168.3	1.8%
2025-Q2	2.1%	152.3	1.7%
2025-Q3	2.0%	136.2	1.6%
2025-Q4	2.0%	128.8	1.6%
2026-Q1	2.0%	124.6	1.8%
2026-Q2	2.0%	122.7	1.8%
2026-Q3	2.4%	166.8	2.2%
2026-Q4	2.4%	183.8	2.2%
2024	2.8%	166.3	2.8%
2025	2.3%	146.4	2.5%
2026	2.1%	149.5	1.8%

Quarter	Consensus GDP (Y/Y)	Consensus Employment (000)	Consensus Consumer Spending
2025-Q1	2.2%	150	2.2%
2025-Q2	2.0%	130	2.1%
2025-Q3	1.9%	124	2.0%
2025-Q4	2.0%	120	2.0%
2026-Q1	2.0%	125	2.0%
2026-Q2	2.0%	125	2.0%
2026-Q3	2.0%	121	2.0%
2026-Q4	NA	NA	NA
2024	2.3%	134	2.7%
2025	2.0%	125	2.0%
2026	2.0%	130	2.1%
Source: Bloomberg Economics; HJ Economics			

HJ Economics forecasts inflation will “edge” higher in 2025-2026. The consensus forecasts that inflation will “edge” lower in 2025-2026.

Quarter	HJ Economics PCE	HJ Economics Core PCE	Consensus PCE	Concensus Core PCE
2025-Q1	2.2%	2.6%	2.4%	2.6%
2025-Q2	2.3%	2.6%	2.3%	2.5%
2025-Q3	2.5%	2.7%	2.6%	2.6%
2025-Q4	2.6%	2.7%	2.6%	2.5%
2026-Q1	2.5%	2.6%	2.5%	2.5%
2026-Q2	2.6%	2.6%	2.4%	2.5%
2026-Q3	2.6%	2.6%	2.3%	2.4%
2026-Q4	2.7%	2.7%	NA	NA
2024	2.5%	2.8%	2.4%	2.6%
2025	2.4%	2.6%	2.3%	2.3%
2026	2.6%	2.6%	2.2%	2.1%
Source: Bloomberg Economics; HJ Economics				

Forecasts for Federal Reserve Policy, Interest Rates, and Stock Prices

Both the consensus and Hugh Johnson Economics forecast that the Federal Reserve will reduce interest rates in 2025 and 2026. Specifically, HJ Economics anticipates that the Federal Reserve will reduce interest rates from 4.375% (February) to 4.125% (September 2025) and to 3.875% (September 2026). In response both the consensus and HJ Economics forecast that yields on short-term U.S. Treasuries (90-day USTs) and longer-term U.S. Treasuries (10-year USTs) will decline.

Quarter	HJ Economics Federal Funds Rate	HJ Economics 91-Day UST	HJ Economics 10-Year UST
2025-Q1	4.4%	4.2%	4.5%
2025-Q2	4.4%	4.1%	4.4%
2025-Q3	4.1%	3.9%	4.4%
2025-Q4	4.1%	3.8%	4.3%
2026-Q1	4.1%	3.8%	4.3%
2026-Q2	4.1%	3.8%	4.2%
2026-Q3	3.9%	3.6%	4.2%
2026-Q4	3.9%	3.6%	4.2%
2024	5.0%	4.8%	4.2%
2025	4.3%	4.0%	4.4%
2026	4.0%	3.7%	4.2%
Source: HJ Economics			

Quarter	Consensus Federal Funds Rate	Consensus 91-Day UST	Consensus 10-Year UST
2025-Q1	4.3%	4.3%	4.5%
2025-Q2	4.2%	4.1%	4.4%
2025-Q3	4.0%	3.9%	4.4%
2025-Q4	3.9%	3.8%	4.4%
2026-Q1	3.8%	3.7%	4.3%
2026-Q2	3.6%	3.6%	4.3%
2026-Q3	NA	NA	NA
2026-Q4	NA	NA	NA
2024	2.3%	134	2.7%
2025	2.0%	125	2.0%
2026	2.0%	130	2.1%
Source: Blue Chip Financial Forecasts			

HJ Economics anticipates that the S&P 500 (5955) will average 6023 (Q4 2025) and 6664 (Q4 2026). The HJ Economics forecast implies that the S&P 500 is currently 7.5% overvalued (above the level it "should" average in Q1 2025) and the upside for the S&P 500 through Q4 2026 is 11.9%.

Quarter	S&P 500 Operating Earnings	Y/Y%	10-Year UST	P/E	S&P 500 FCST
2025-Q1	$248.12	9.6%	4.53	22	5538
2025-Q2	$254.72	9.5%	4.44	22	5629
2025-Q3	$262.38	10.6%	4.36	22	5821
2025-Q4	$272.92	12.8%	4.29	22	6023
2026-Q1	$282.27	13.8%	4.22	21	6027
2026-Q2	$291.62	14.5%	4.14	21	6203
2026-Q3	$300.97	14.7%	4.08	21	6430
2026-Q4	$310.32	13.7%	4.03	21	6664
Sources: HJ Economics; Refinitiv Proprietary Research					

Forecast for New York State Economy and Tax Receipts

HJ Economics forecasts that the New York State economy will expand 1.6% in 2025 and 1.3% in 2026 after expanding 2.3% in 2024.

Gross State Product (2023-2026)					
State	2023	2024	2025	2026	2025-26
US	2.9%	2.8%	2.3%	2.1%	2.1%
Connecticut	2.7%	2.6%	1.9%	1.8%	1.8%
Maine	3.0%	3.0%	2.2%	2.1%	2.1%
Massachusetts	1.2%	3.0%	2.0%	1.9%	1.9%
NewHampshire	2.2%	3.2%	2.3%	1.9%	2.0%
NY	1.5%	2.3%	1.6%	1.3%	1.4%
RhodeIsland	1.6%	3.0%	1.3%	1.4%	1.5%
Vermont	1.4%	2.3%	1.8%	1.4%	1.5%
New England	1.8%	2.9%	2.0%	1.8%	1.8%
Bureau of Economic Analysis					

HJ Economics forecasts that New York State employment will increase 1.1% in 2025 and 1.5% in 2026 after increasing 1.1% in 2024. That is, we anticipate that New York State will add 107,870 jobs in 2025, and 110,300 jobs in 2026 after adding 139,570 jobs in 2024.

Employment (2023-2026)					
State	2023	2024	2025	2026	2025-26
US	1.3%	1.2%	1.0%	1.4%	1.1%
Connecticut	0.8%	0.9%	0.6%	0.9%	0.7%
Maine	0.9%	1.3%	1.0%	1.3%	1.4%
Massachusetts	0.8%	0.2%	0.0%	0.6%	0.2%
NewHampshire	1.6%	1.0%	0.9%	1.3%	0.7%
NY	1.4%	1.1%	1.1%	1.5%	1.2%
RhodeIsland	1.2%	0.9%	0.7%	1.1%	0.8%
Vermont	1.5%	1.0%	1.0%	1.4%	1.2%
Bureau of Labor Statistics					

HJ Economics anticipates that New York State quarterly total tax receipts and personal income tax receipts will be statistically consistent with the HJ Economics forecast for New York State real Gross Domestic Product, employment, personal income, and wages. This is a very preliminary estimate and needs substantial additional analysis.

Quarter	Total Receipts	pit
2025-Q1	$40,678	$17,830
2025-Q2	$37,551	$16,383
2025-Q3	$34,037	$13,109
2025-Q4	$33,393	$11,819
2026-Q1	$41,773	$18,856
2026-Q2	$38,416	$17,192
2026-Q3	$34,614	$13,650
2026-Q4	$33,901	$12,294
2027-Q1	$42,419	$19,461
2027-Q2	$39,020	$17,758
2027-Q3	$35,064	$14,072
2027-Q4	$34,338	$12,704
Fiscal Year		
2023-24	$141,347	$54,926
2024-25	$143,056	$58,554

Risks:

The risks to the above forecast are substantially higher than normal.

> **Before the fight against fascism convinced FDR that it was in his country's interest to help bring order and prosperity to the world, the country was hostile towards immigration, scornful of trade and skeptical of foreign entanglements. In the 1920s and 1930s that led to dark times. It could do so again.**
>
> **The Economist 2024**

Tariff Policy

The following table summarizes the performance of inflation, Federal Reserve interest rate policy, longer-term interest rates, stock prices, real Gross Domestic Product, real imports, and real exports in 2018 and 2019 or during the Trump 2018-2019 trade war.

Quarter	Inflation	federal funds	10-Year UST	S&P 500	real GDP	imports	exports
2017-Q4	2.1%	1.2%	2.4%	2606	4.6%	11.7%	10.8%
2018-01	2.2%	1.4%	2.7%	2737	3.3%	1.7%	2.6%
2018-02	2.7%	1.7%	2.9%	2703	2.1%	0.5%	2.2%
2018-03	2.6%	1.9%	2.9%	2853	2.5%	5.7%	-4.9%
2018-04	2.2%	2.2%	3.0%	2677	0.6%	4.2%	1.7%
2019-01	1.6%	2.4%	2.7%	2721	2.5%	-0.2%	3.8%
2019-02	1.8%	2.4%	2.3%	2892	3.4%	2.2%	-2.0%
2019-03	1.8%	2.2%	1.8%	2963	4.8%	-1.7%	0.1%
2019-04	2.0%	1.7%	1.8%	3094	2.8%	-7.3%	2.5%
Inflation=Year-Year CPI. All=Average for Quarter. Real GDP=Q/Q annualized							

***Generally,* during the first year of the trade war inflation increased, the Federal Reserve raised interest rates, longer-term interest rates increased, the economy slowed, and stock prices declined 7%. During the second year of the trade war inflation declined, the Federal Reserve reduced interest rates, longer-term interest rates declined, the economy recovered, and stock prices appreciated 30.3%.**

Immigration and Deportations Policy

Second, deportations continue. HJ Economics anticipates that legal immigration will decline to 750,000 from the 2000-2023 average of 1.023 million (restrictions on asylum and refugee programs) and the deportation of unlawful immigrants will be 1.0 million. The decline of 1.250 million equals .8% of total employment.[3]

[3] **(Note: States whose labor markets could be disrupted by deportation because they heavily rely on foreign workers include California, Florida, New Jersey, New York, and Texas. Industries impacted include agriculture, construction, and leisure and hospitality.)**

For comparison purposes in 1954 the Eisenhower administration deported 1.1 million immigrants in Operation Wetback. The decline of 1.1 million equaled 2.2% of total employment. The U.S. economy expanded 4.7% in 1953 and then contracted .6% in 1954.

Tax Policy

The Trump Administration has proposed to extend the 2017 Tax Cut and Jobs Act of 2017 beyond the sunset on December 31, 2025. The Congressional Budget Office has estimated that the reduction will increase the federal budget deficit by $3.0 trillion over ten years and will increase federal budget debt service expenses by $467 billion over ten years.

The expectation is that customs duties/tariff revenues will offset the decline of revenues from lower taxes. Customs duties/tariffs equaled $41.3 billion in 2018 and $70.8 billion in 2019.