National Economic Outlook

Fed Will Continue to Ease in 2025, But at a More Gradual Pace

- Job growth rebounded to 227,000 in November, according to a survey of employers from the Bureau of Labor Statistics. Job growth was 24,000 in October (revised higher from 12,000), weighed down by Hurricanes Helene and Milton and the Boeing machinists strike. With the strike settled and rehiring after the storms, job growth was much stronger than in October. Job growth in September was revised higher to a very strong 255,000, from 223,000. In the three months through November job growth has averaged 167,000. This is slower than job growth in 2023, but is roughly consistent with underlying growth in the number of people available for work. The unemployment rate increased slightly to 4.2% in November, from 4.1% in September and October. The unemployment rate has been between 4.1% and 4.3% for the past six months. Although this is up from a decades-long low of 3.4% in 2023, it is still indicative for a very good labor market, and the Federal Reserve views it as consistent with their mandate of "maximum employment."

- Real GDP growth was revised modestly higher in the third estimate from the Bureau of Economic Analysis, to 3.1% at an annualized rate; reported growth was 2.8% in the advance and second estimates. (The third estimate was released after the December baseline forecast was prepared.) Consumer spending, government, and business fixed investment were the major drivers of economic growth in the third quarter. Trade, inventories, and housing investment were drags. Real GDP growth in the second quarter was 3.0% annualized. Growth has been 3% or higher in three of the last four quarters, and 2.4% or higher in eight of the last nine quarters, a remarkable run. On a year-over-year basis inflation-adjusted economic growth in the third quarter was a strong 2.7%. There was a modest downward revision to real gross domestic income in the third quarter, to 2.0% annualized, from 2.1%. Gross domestic income is an alternative measure of the size of the economy based on income going to households and businesses from economic activity. Over the past year real gross domestic income has increased 3.0%.

- As expected, on December 18 the Federal Open Market Committee cut the federal funds rate by 25 basis points, to a range of 4.25% to 4.50%. The December 18 statement was very similar to the previous statement, from November 1. The only substantive change was adding "the extent and timing of" to the sentence "In considering the extent and timing of additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks." This addition suggests that the FOMC is somewhat less confident about the pace of fed funds rate cuts going forward. The latest release also included the Summary of Economic Projections, or "dot plot," showing FOMC participants expectations for the economy and the fed funds rate over the next few years. The median fed funds rate at the end of 2025 in the December 18 SEP was 3.9%, up from 3.4% in the previous projections, from mid-September. This suggests that participants expect to cut the fed funds two times in 2025 (assuming each cut is 25 basis points). In his post-meeting press conference Federal Reserve Chair Powell said that the FOMC is "at or near the point" where it does not need to cut the fed funds rate at every meeting going forward, saying that the committee will "move cautiously."

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Baseline U.S. Economic Outlook, Summary Table*

	2Q'24a	3Q'24p	4Q'24f	1Q'25f	2Q'25f	3Q'25f	2023a	2024f	2025f	2026f
Output										
Real GDP (*Chained 2017 Billions $*)	23224	23387	23500	23585	23684	23804	22671	23291	23753	24276
Percent Change Annualized	**3.0**	**2.8**	**2.0**	**1.4**	**1.7**	**2.1**	**2.9**	**2.7**	**2.0**	**2.2**
CPI (*1982-84 = 100*)	313.2	314.1	316.2	318.4	321	323	304.7	313.6	321.6	329.8
Percent Change Annualized	**2.8**	**1.2**	**2.7**	**2.8**	**2.7**	**2.7**	**4.1**	**2.9**	**2.6**	**2.6**
Labor Markets										
Payroll Jobs (*Millions*)	158.4	158.8	159.3	159.6	159.9	160.1	156.1	158.6	160.0	161.1
Percent Change Annualized	**1.5**	**1.1**	**1.1**	**0.8**	**0.7**	**0.7**	**2.3**	**1.6**	**0.9**	**0.7**
Unemployment Rate (*Percent*)	4.0	4.2	4.2	4.2	4.2	4.2	3.6	4.0	4.2	4.2
Interest Rates (Percent)										
Federal Funds	5.33	5.26	4.66	4.34	4.09	3.88	**5.02**	**5.14**	**4.05**	**3.88**
10-Year Treasury Note	4.44	3.95	4.16	4.04	4.04	4.04	**3.95**	**4.17**	**4.04**	**4.04**

a = actual f = forecast p = preliminary **Please see the Expanded Table for more forecast series.*

President-Elect Trump Inherits a Strong U.S. Economy With Slowing Inflation

The economy was a key driver of President-elect Trump's victory in the 2024 election, with voters particularly concerned about inflation. But the economy is actually in solid shape, with a strong labor market, good conditions for consumers, and slowing inflation. With solid fundamentals and the Federal Reserve cutting interest rates, the economy should continue to do well in 2025, with further expansion and a low unemployment rate. But growth will be somewhat weaker than it was this year. And with a new administration coming uncertainties around the forecast are higher than usual.

The biggest reason for optimism about the economy at the start of 2025 is the excellent labor market. The unemployment rate, at 4.2% in November, is up from 3.4% at its lowest in 2023, but is still historically low. Job growth through the first 11 months of 2024 has averaged 180,000 per month, down from 232,000 last year, but still almost double the pace during the decade of the 2010s. And average wages in the economy have been increasing more rapidly than prices for more than two years. The job market should remain strong throughout 2025. Businesses still report difficulties in hiring workers, layoffs are historically low, and initial claims for unemployment insurance are down from mid-2024.

This very strong labor market bodes well for household purchases in 2025. More jobs and rising wages mean higher incomes. With consumer spending making about two-thirds of the US economy, if the labor market and household incomes continue to hold up the broader economy will expand throughout 2025. There are also other positives for consumer spending in 2025. Inflation is slowing, putting less pressure on household budgets. Upper-income households in particular are benefiting from rising home values and a strong stock market, making them more willing to spend. And although consumer debt levels are rising incomes are going up even more quickly, and household debt burdens relative to incomes are lower than they were right before the pandemic, and much lower than they were right before the Great Recession in 2007. That being said, growth in consumer spending next year will be softer than it was 2024, as households need to increase their saving.

Another positive for 2025 is continued strength in business investment. With the tight labor market firms are investing in equipment, workplaces, and technologies to make their existing workforces more productive, supported by good corporate profitability and falling interest rates. And an undersupply of housing for the last fifteen years, along with lower mortgage rates, will support residential construction.

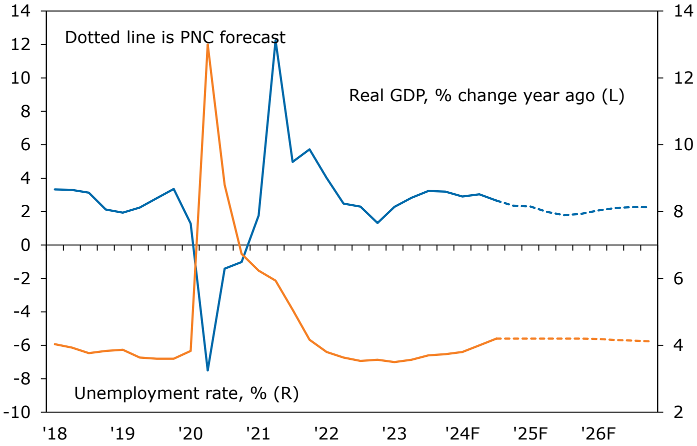
But there are some negatives for the economy next year. After a few years of big increases in government spending thanks to the Infrastructure Investment and Jobs Act, the Inflation Reduction Act, and the CHIPS and Science Act, the government contribution to economic growth will lessen. And as mentioned earlier, consumer spending growth will increase next year, but at a softer pace.

Inflation has slowed dramatically from 2022, when prices increased at the fastest pace in decades. Goods prices are actually down over the past year as supply chain problems have resolved. Higher interest rates in 2022 and 2023 have weighed on demand, particularly for rate-sensitive sectors like housing and manufacturing, contributing to lower inflation. And housing inflation is easing as rent growth has lessened. This lower inflation gave the Federal Open Market Committee the leeway to cut the federal funds rate, their key short-term policy interest rate, starting in September, and further rate cuts in 2025 will support business investment and housing. Progress on inflation in 2025 will depend in large part on whether the incoming Trump administration puts tariffs on imported goods; higher tariffs will make it more difficult to bring inflation lower.

Overall PNC expects real GDP growth of 1.9% in 2025, down from 2.4% in 2024 and 3.2% in 2023. The unemployment rate will end next year at around its current level of 4.2%, and the labor market will remain solid. Progress on inflation will be limited, and it will not be back to the Federal Reserve's 2% objective until 2026.

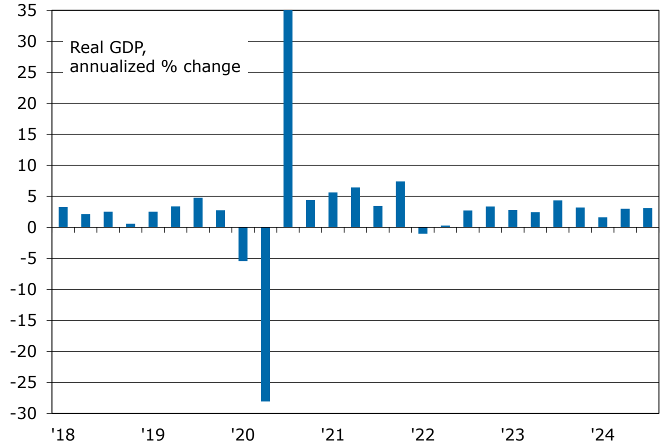
The incoming Trump administration has brought more uncertainty about the outlook. There are some reasons for optimism: tax cuts and reduced regulations could lead to stronger economic growth. But tariffs, which are taxes on imported goods, would be a drag on consumer spending and cause higher prices. And tariffs and tax cuts could lead to higher inflation, complicating the outlook for the Federal Reserve. Fewer fed funds rate cuts, or even more so rate increases, would likely mean a further slowing in economic growth. Higher US tariffs could lead our trading partners to put their own restrictions on US imports, leading to a trade war and slower global and US economic growth. Over the longer run increased restrictions on immigration would be a large hit to the US economy. One way an economy expands is through more workers, and with the US birth rate falling for decades foreign-born workers have been a key source of labor force growth. But fewer immigrants entering the labor force would mean slower long-run economic growth.

Expansion Set to Continue In 2025



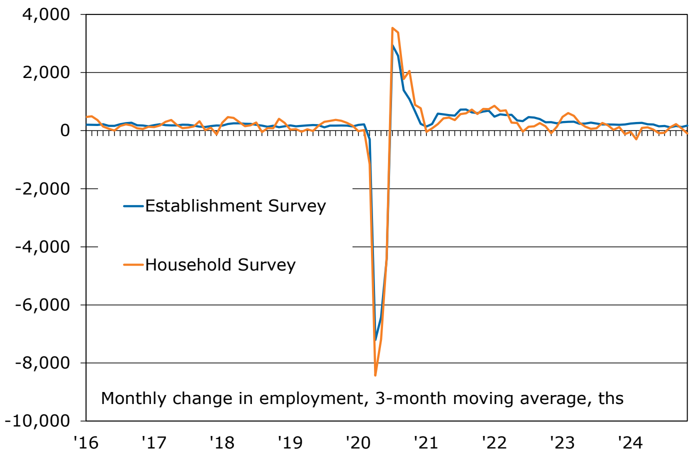
Source: BEA, BLS, PNC

Economy Expanding Strongly in 2024



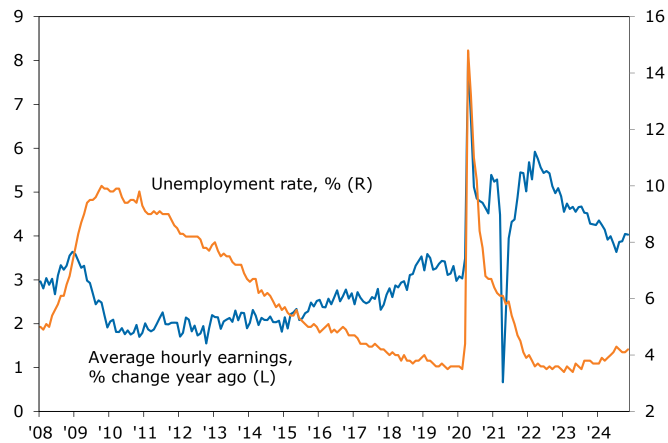
Source: BEA

Job Growth Has Slowed in 2024, But Is Still Solid



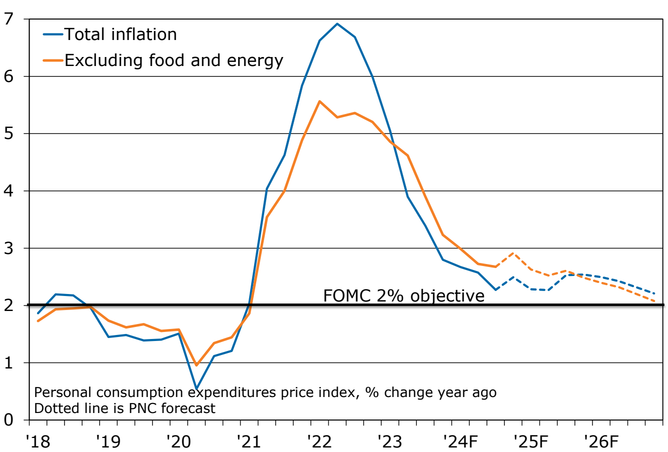
Source: BLS

Wage Growth Has Picked Up Modestly in Recent Months as Unemployment Rate Remains Low



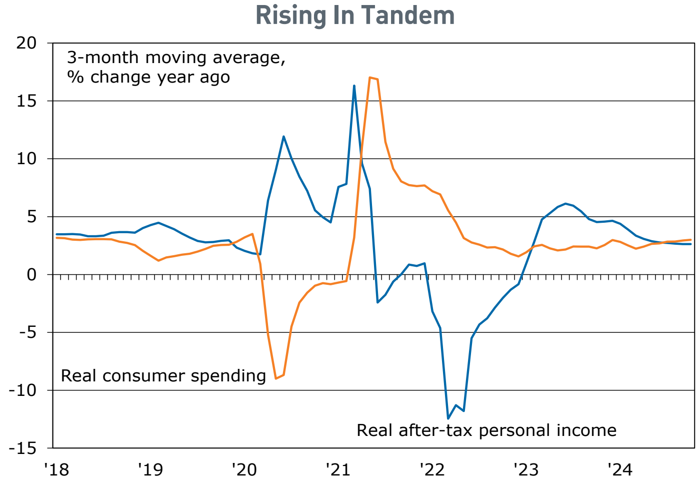
Source: BLS

Tariffs Are a Wildcard for the Inflation Outlook



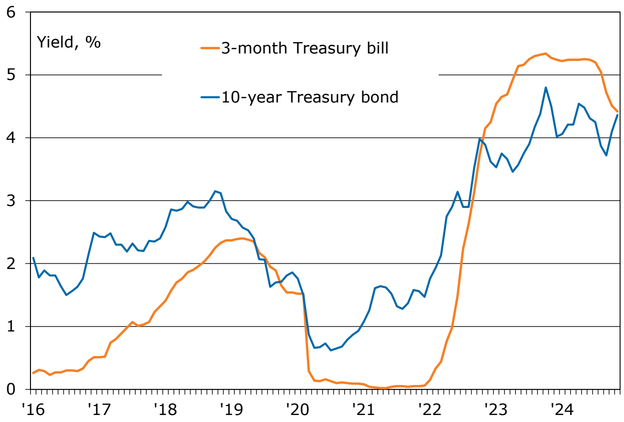
Source: BEA, PNC

Incomes and Consumer Spending Rising In Tandem



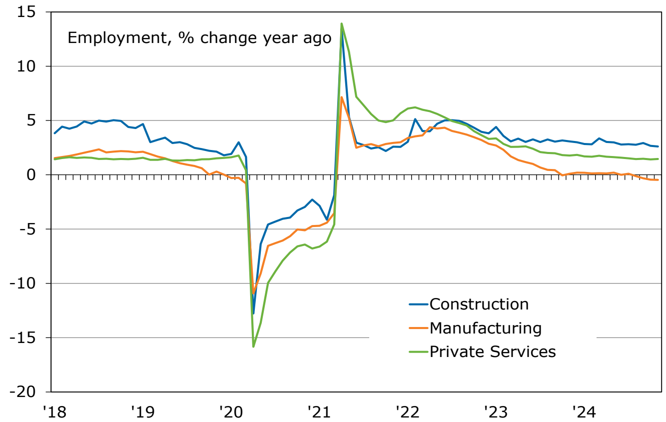
Source: BEA

Short-Term Interest Rates Will Fall Further in 2025 as Fed Continues to Ease



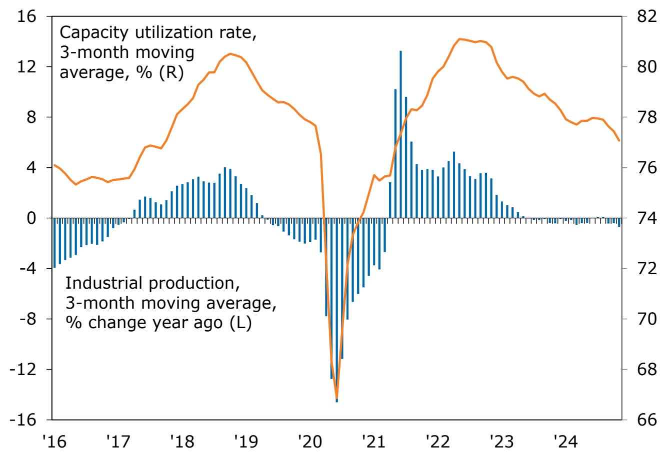
Source: Federal Reserve Board

Manufacturing Employment Continues to Fall, But Construction Is Still Holding Up



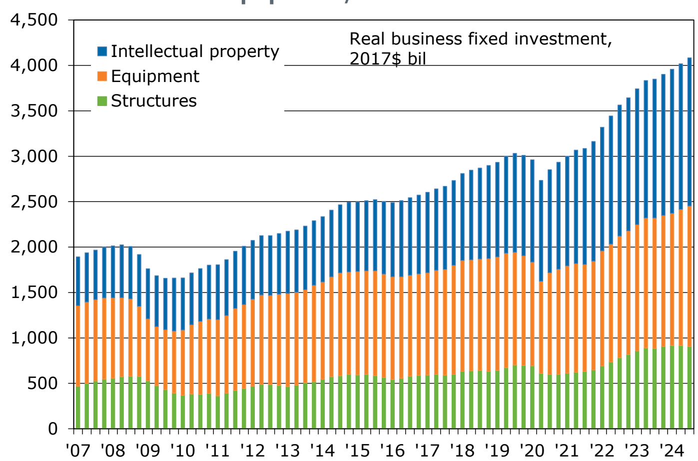
Source: BLS

Industrial Output Should Pick Up in 2025 With Lower Interest Rates



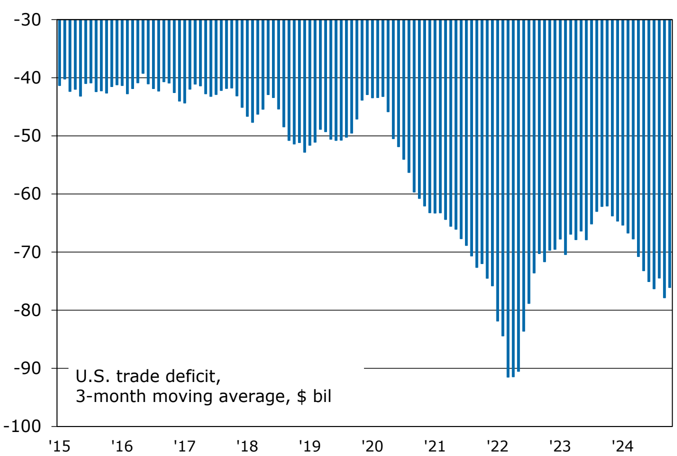
Source: Federal Reserve

Growth in Business Investment Is Coming From Equipment, Software and R&D



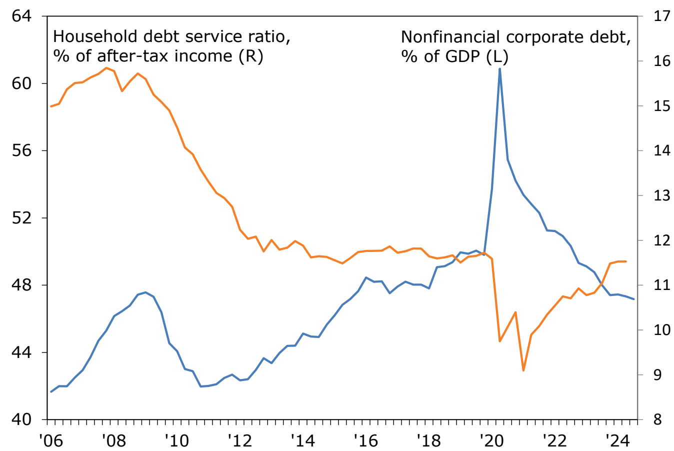
Source: BEA

Trade Has Been a Drag on Growth This Year as Consumers Buy More From Abroad



Source: BEA

Consumer and Business Balance Sheets Remain Strong



Source: Federal Reserve

Baseline U.S. Economic Outlook, Expanded Table, December 2024

	2Q'24a	3Q'24p	4Q'24f	1Q'25f	2Q'25f	3Q'25f	2023a	2024f	2025f	2026f
Output										
Nominal GDP (*Billions $*)	29017	29354	29663	29932	30203	30512	27721	29165	30372	31644
Percent Change Annualized	**5.6**	**4.7**	**4.3**	**3.7**	**3.7**	**4.2**	**6.6**	**5.2**	**4.1**	**4.2**
Real GDP (*Chained 2017 Billions $*)	23224	23387	23500	23585	23684	23804	22671	23291	23753	24276
Percent Change Annualized	**3.0**	**2.8**	**2.0**	**1.4**	**1.7**	**2.1**	**2.9**	**2.7**	**2.0**	**2.2**
Pers. Consumption Expenditures	15967	16106	16192	16270	16345	16426	15622	16031	16388	16717
Percent Change Annualized	**2.8**	**3.5**	**2.1**	**1.9**	**1.9**	**2.0**	**2.5**	**2.6**	**2.2**	**2.0**
Nonresidential Fixed Investment	3504	3537	3553	3568	3590	3619	3385	3516	3607	3741
Percent Change Annualized	**3.9**	**3.8**	**1.8**	**1.7**	**2.5**	**3.2**	**6.0**	**3.9**	**2.6**	**3.7**
Residential Investment	795	785	779	775	783	796	763	790	792	847
Percent Change Annualized	**-2.8**	**-5.0**	**-3.0**	**-2.0**	**4.0**	**7.0**	**-8.3**	**3.6**	**0.3**	**6.9**
Change in Private Inventories	72	64	85	82	79	77	33	60	78	68
Net Exports	-1036	-1078	-1108	-1127	-1140	-1151	-933	-1050	-1144	-1174
Government Expenditures	3917	3965	3992	4009	4020	4030	3812	3940	4025	4070
Percent Change Annualized	**3.1**	**5.0**	**2.8**	**1.7**	**1.1**	**1.0**	**3.9**	**3.4**	**2.1**	**1.1**
Industrial Prod. Index (*2012 = 100*)	102.9	102.7	102.5	103.0	103.5	104.2	102.9	102.6	103.9	106.6
Percent Change Annualized	**2.5**	**-0.6**	**-1.0**	**2.0**	**2.2**	**2.7**	**0.2**	**-0.3**	**1.3**	**2.6**
Capacity Utilization (*Percent*)	78.0	77.6	77.7	78.1	78.3	78.6	79.0	77.8	78.4	79.5
Prices										
CPI (*1982-84 = 100*)	313.2	314.1	316.2	318.4	321	323	304.7	313.6	321.6	329.8
Percent Change Annualized	**2.8**	**1.2**	**2.7**	**2.8**	**2.7**	**2.7**	**4.1**	**2.9**	**2.6**	**2.6**
Core CPI Index (1982-84 = 100)	318.0	319.8	322.4	324.7	327	329	308.4	319.0	327.9	336.0
Percent Change Annualized	**3.2**	**2.2**	**3.3**	**2.9**	**2.6**	**2.7**	**4.8**	**3.4**	**2.8**	**2.5**
PCE Price Index (*2017 = 100*)	123.3	123.7	124.5	125.3	126.1	126.9	120.5	123.5	126.5	129.5
Percent Change Annualized	**2.5**	**1.5**	**2.5**	**2.6**	**2.5**	**2.5**	**3.8**	**2.5**	**2.4**	**2.4**
Core PCE Price Index (*2017 = 100*)	122.3	122.9	123.9	124.7	125.4	126.2	119.3	122.6	125.8	128.6
Percent Change Annualized	**2.8**	**2.1**	**3.0**	**2.6**	**2.4**	**2.5**	**4.1**	**2.8**	**2.6**	**2.2**
GDP Price Index (*2017 = 100*)	124.9	125.5	126.2	126.9	127.5	128.2	122.3	125.2	127.9	130.3
Percent Change Annualized	**2.5**	**1.9**	**2.3**	**2.2**	**2.0**	**2.1**	**3.6**	**2.4**	**2.1**	**1.9**
Crude Oil, WTI (*$/Barrel*)	81.8	76.4	71.5	73.0	74.5	76.0	77.6	76.8	75.4	82.1
Labor Markets										
Payroll Jobs (*Millions*)	158.4	158.8	159.3	159.6	159.9	160.1	156.1	158.6	160.0	161.1
Percent Change Annualized	**1.5**	**1.1**	**1.1**	**0.8**	**0.7**	**0.7**	**2.3**	**1.6**	**0.9**	**0.7**
Unemployment Rate (*Percent*)	4.0	4.2	4.2	4.2	4.2	4.2	3.6	4.0	4.2	4.2
Average Weekly Hours, Prod. Works.	33.7	33.7	33.7	33.7	33.7	33.7	33.8	33.7	33.7	33.7
Personal Income										
Average Hourly Earnings (*$*)	30.0	30.3	30.6	30.8	31.1	31.3	28.9	30.1	31.2	32.2
Percent Change Annualized	**3.3**	**4.2**	**4.2**	**3.4**	**3.3**	**3.2**	**5.0**	**4.1**	**3.6**	**3.1**
Real Disp. Income (*2017 Billions $*)	17497	17532	17599	17692	17779	17860	17052	17520	17818	18186
Percent Change Annualized	**1.0**	**0.8**	**1.6**	**2.1**	**2.0**	**1.8**	**5.1**	**2.7**	**1.7**	**2.1**
Housing										
Housing Starts (*Ths., Ann. Rate*)	1340	1331	1335	1362	1395	1454	1421	1354	1431	1583
Ext. Home Sales (*Ths., Ann Rate*)	4050	3890	3983	4224	4497	4849	4101	4031	4658	5262
New SF Home Sales (*Ths., Ann Rate*)	693	712	687	693	704	731	666	689	722	786
Case/Shiller HPI (*Jan. 2000 = 100*)	320.4	322.4	322.4	322.4	322.4	322.4	313.9	322.4	323.2	326.4
Percent Change Year Ago	**5.9**	**4.3**	**2.7**	**1.6**	**0.6**	**0.0**	**5.3**	**2.7**	**0.2**	**1.0**
Consumer										
Auto Sales (*Millions*)	15.7	15.6	16.0	16.1	16.2	16.3	15.5	15.7	16.3	16.6
Consumer Credit (*Billions $*)	5062	5093	5122	5184	5245	5307	5024	5122	5379	5697
Percent Change Year Ago	**1.5**	**2.0**	**2.0**	**2.7**	**3.6**	**4.2**	**2.6**	**2.0**	**5.0**	**5.9**
Interest Rates (Percent)										
Prime Rate	8.50	8.44	7.82	7.47	7.22	7.00	**8.19**	**8.31**	**7.17**	**7.00**
Federal Funds	5.33	5.26	4.66	4.34	4.09	3.88	**5.02**	**5.14**	**4.05**	**3.88**
3-Month Treasury Bill	5.38	5.12	4.50	4.06	3.77	3.68	**5.16**	**5.09**	**3.80**	**3.68**
10-Year Treasury Note	4.44	3.95	4.16	4.04	4.04	4.04	**3.95**	**4.17**	**4.04**	**4.04**
30-Year Fixed Mortgage	6.99	6.51	6.61	6.49	6.39	6.31	**6.80**	**6.71**	**6.36**	**6.23**

a = actual f = forecast p = preliminary