

November 2024 | U.S. Economic Expansion Expected To Continue Through 2025



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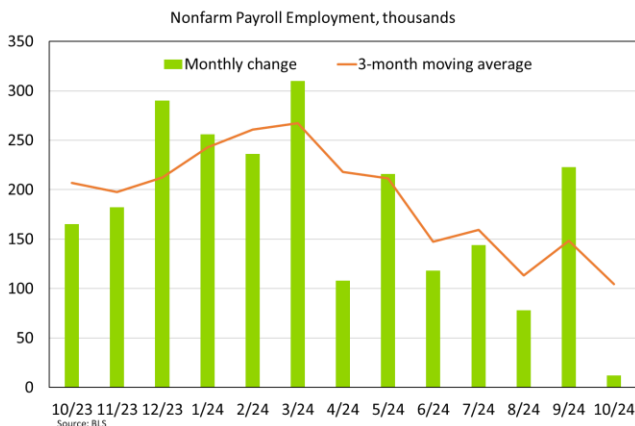
Highlights

- Solid underlying fundamentals will likely be tailwinds for economic growth next year.
- President-elect Trump’s proposed policies are expected to have mixed effects on the U.S. economy.
- Huntington Private Bank expects two to three quarter-percentage-point cuts in 2025.

The U.S. economy has had a remarkable year and recession fears have diminished. Economic growth in 2024 is on track to exceed consensus expectations. Real GDP increased above the longer-run pace in the second and third quarters of this year, and slightly below the longer-run pace in the first quarter. Demand and supply factors contributed to strong economic growth this year. On the demand side, consumer spending, investment, and government spending played big parts. Supply-side shocks such as immigration and productivity growth also had positive effects on the U.S. economy.

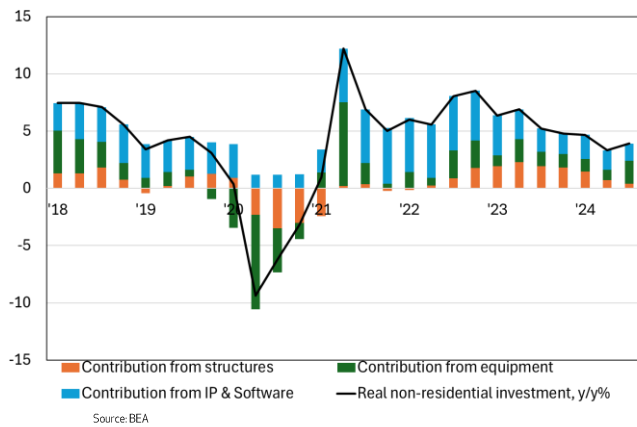
While economic output grew remarkably this year, the labor market shifted into lower gear. Employment gains slowed, the unemployment rate rose, and wage growth weakened. Additionally, solid job growth was limited to a few sectors. On the positive side, the labor force participation rate – the share of the working-age population employed or looking for work – increased, and real wage growth was solid. The U.S. labor market weakened this year but remains strong.

Fig 1: The U.S. Labor Market is Cooling



The key growth drivers this year are expected to persist through 2025. Consumer balance sheets remain in good shape heading into 2025, thanks to a solid labor market and rising household wealth. Nonresidential investment, which includes equipment, structures and intellectual property and software, should also support growth next year. Business capital expenditures grew in recent years despite tight monetary policy. Expectations for lower interest rates should boost nonresidential investment in 2025.

Fig 2: Business Investment Growth Expected to Continue



The implementation of President-elect Donald Trump’s proposed policies will have mixed effects on the U.S. economy. Tariffs implemented during Trump’s first term (limited to Chinese goods, washing machines, steel, aluminum and solar panels) were slightly inflationary, as yearly consumer price index (CPI) inflation rose from 2.1% in 2017 to 2.4% in 2018. The newly proposed tariffs - 60% tariffs on Chinese imports and 10% tariffs on goods imported from all other countries – will likely result in a one-time increase in price levels and disrupt supply chains. The resulting inflationary shock would weigh on consumer spending, the U.S. economy, and could make the Federal Reserve more cautious about lowering the fed funds rate.

Tighter immigration policies will weigh on the U.S. labor market and the broader economy. Massive deportations and restrictive immigration policies would result in slower labor force growth, worsen the imbalance in the labor market, put upward pressures on wages, and lead to weaker potential

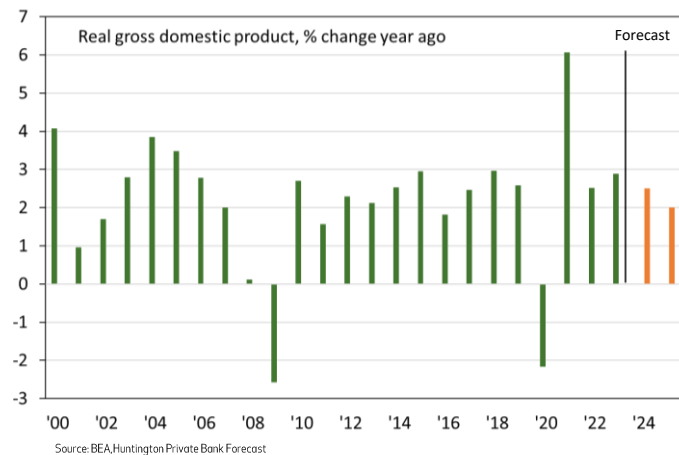
economic growth. Also, a plunge in immigration will weigh on near-term economic growth.

Tax policy changes are unlikely to have a major impact on the U.S. economy in 2025. Huntington Private Bank assumes that most or all the expiring provisions from the Tax Cuts and Jobs Act will be renewed. Tax policy reform will likely take some time to work its way through Congress. Also, there is a lag between the time fiscal policy is implemented and when it affects the economy. Any new tax cuts implemented in 2025 will likely boost investment in 2026, and potentially offset the negative impacts from tariffs and restrictive immigration policies.

Given the surprisingly positive performance of the U.S. economy so far this year, and the strong underlying fundamentals, we have revised our expectations for real GDP growth in 2024 and 2025 higher. Huntington Private Bank now expects annual real GDP growth of 2.5% in 2024 and 2% in 2025, up from 2% and 1.7% in the prior forecast. The Federal Reserve is expected to lower the fed funds rate by a quarter-percentage point in December, to the range between 4.25% and 4.5%. Two to three additional quarter-percentage-point cuts are expected in 2025. Economic policies implemented by the incoming administration could

be inflationary, and lead to less rate cuts in 2025.

Fig 3: Solid Economic Growth Expected Through 2025



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Fig. 4: Baseline Economic Outlook

	2019	2020	2021	2022	2023	2024*	2025*
Real GDP Annual Growth Rates, 2017 Chained Prices							
Pers. Consumption Expenditures	2.1	-2.5	8.8	3.0	2.5	2.6	2.4
Government Expenditures	3.9	3.4	-0.3	-1.1	3.9	3.2	1.6
Private Investment	3.2	-4.5	8.8	6.0	0.1	4.0	2.7
Exports	0.5	-13.1	6.5	7.5	2.8	3.0	2.3
Imports	1.2	-9.0	14.7	8.6	-1.2	5.0	3.5
Total Real GDP	2.5	-2.2	6.1	2.5	2.9	2.5	2.0
CPI (1982-1984=100), % Change Annualized	1.8	1.2	4.7	8.0	4.1	2.7	2.3
Core CPI (1982-1984 = 100), % Change Annualized	2.2	1.7	3.6	6.2	4.8	3.2	2.6
PCE Price Index (2017=100), % Changed Annualized	1.4	1.1	4.2	6.5	3.8	2.3	2.1
Core PCE Price Index (2017=100), % Change Annualized	1.7	1.3	3.6	5.2	4.1	2.6	2.3
Crude Oil WTI, (\$/barrel)	\$57	\$39	\$68	\$95	\$78	\$76	\$74
Effective Federal Funds Rate, % (Average)	2.16	0.37	0.08	1.68	5.02	5.10	3.94
10-Yr. Treasury Rate, % (Average)	1.92	0.92	1.51	3.88	3.88	4.30	4.00
30-Yr. Fixed Rate Mortgage, %	3.86	2.87	3.27	6.66	6.99	7.20	6.80
Industrial Production (YoY%)	-0.7	-7.0	4.9	3.4	0.2	0.2	1.5
Payroll Jobs, Average Monthly Difference, Thousands	163	-774	606	399	225	180	130
Unemployment Rate, Annual Average	3.7	8.1	5.4	3.6	3.6	4.1	4.3
DXY Dollar Index	96.4	89.9	95.7	103.5	101.3	105.0	100.0

*Forecast

Historical data sources: Federal Reserve, BLS, BEA, and Bloomberg

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