ECONOMIC OUTLOOK

Huntington PRIVATE BANK

January 2025 | Shallow Fed Cuts Expected As U.S. Economy Ends 2024 on a High Note

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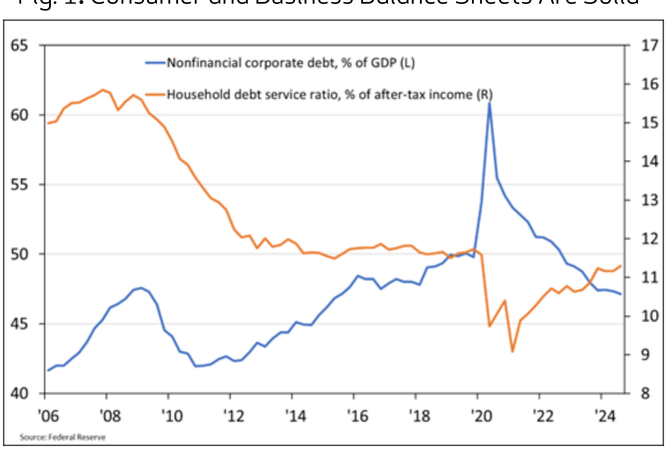
Highlights

- The U.S. economic expansion is expected to continue through 2025.
- Risks to the 2025 economic outlook are tilted to the downside.
- Huntington Private Bank expects two to three quarter-percentage-point Fed rate cuts in 2025.

2024 was another remarkable year for the U.S. economy as real GDP grew above the longer-run pace for the fourth consecutive year. The U.S. economic expansion is expected to extend through 2025, but risks to the outlook are higher than normal due to the uncertainties around economic policies in 2025. Nevertheless, economic fundamentals are on solid footing. The labor market is in good shape, inflation is closer to the Federal Reserve's 2% target and monetary policy normalization is expected to continue through 2025. Consumer spending, business investment, and government spending are expected to drive economic growth again in 2025.

Consumer spending fundamentals are healthy —thanks to solid equity market gains in recent years, rising house prices, a solid labor market, and low household debt burdens. Business investment fundamentals are also good. Lower interest rates, fiscal support, easing lending standards, and improved housing conditions are expected to be tailwinds for business investment in 2025.

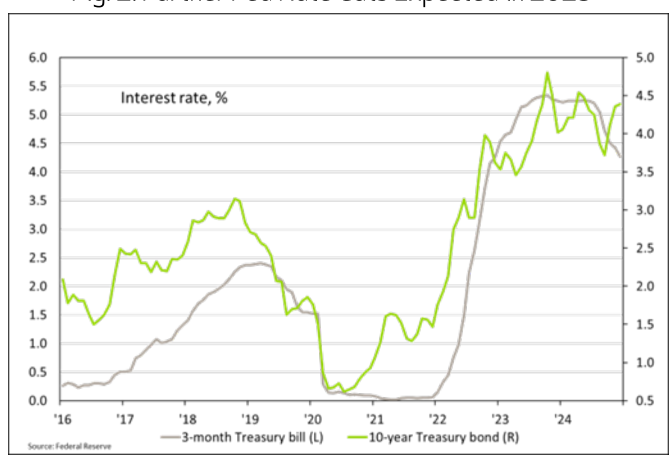
Fig. 1: Consumer and Business Balance Sheets Are Solid



Also, capital outlays from initiatives such as the Infrastructure Investment and Jobs Act (IIJA), the CHIPS and Science Act, and the Inflation Reduction Act (IRA) should support manufacturing activity in 2025.

As expected, the Federal Open Market Committee (FOMC) lowered the target range of the federal funds rate by 25 basis points to a range between 4.25% and 4.50%. This was the third consecutive interest rate cut by the Fed and followed a 25-basis-point reduction at the November meeting and an aggressive 50-basis-point reduction at the September meeting.

Fig. 2: Further Fed Rate Cuts Expected in 2025



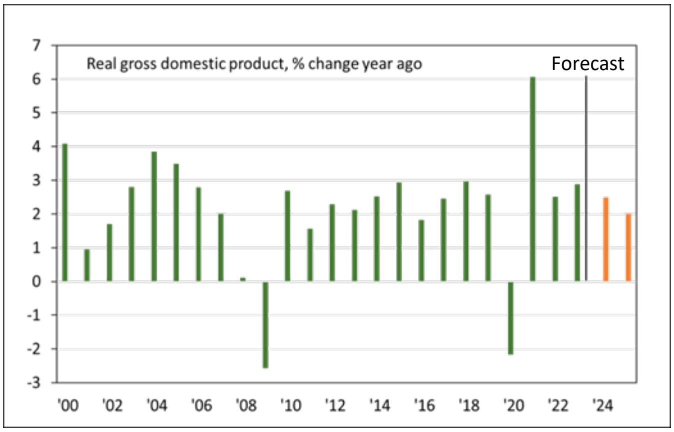
The Summary of Economic Projections (SEP) showed that the median FOMC participant expects two 25-basis-point cuts in 2025, down from four 25-basis-point cuts at the September meeting. The inflation outlook worsened compared to the September SEP while the growth outlook improved. Inflation is forecasted to be stronger in 2024, 2025, and 2026 and the real GDP forecasts for 2024, 2025, and 2026 were revised higher, both compared to the September SEP.

Despite the Fed lowering its benchmark rate by 100 basis points since September, the 10-year Treasury yield has risen by about 100 basis points since then. While the fed funds rate tends to have a direct impact on short-term rates, the 10-year Treasury yield is driven by many factors including expectations for the Fed policy cycle, expectations for the long-run neutral rate, inflation expectations, term premia (compensation that investors require for bearing the risk that interest rates may change over the life of the bond), economic conditions and fiscal policy. The recent rise in the 10-year Treasury yield likely reflects updated market expectations for stronger economic growth and sticky inflation in the near term.

Against the backdrop of solid economic fundamentals and policy normalization, Huntington Private Bank's forecast calls for 2.0% real GDP growth (on a year-over-year basis) in 2025, down from 2.5% so far in 2024 and 2.9% in 2023. Payroll gains are expected to slow further with the unemployment rate edging slightly higher. Inflation is expected to be sticky and remain above the Fed's 2% target through 2025. The FOMC is expected to cut the fed funds rate by 50 to 75 basis points in 2025.

Risks to the outlook are tilted to the downside. Implementation of tariffs by president-elect Donald Trump would weigh on U.S. and global economic growth. Massive deportations and restrictive immigration policies will likely lead to weaker potential economic growth. Tax cuts implemented in 2025 will likely not have any impacts on the U.S economy until 2026. Deregulation will likely help businesses reduce costs and spur economic growth. A protracted breach of the U.S. debt ceiling would likely have significant impacts on the U.S. economy.

Fig. 3: Cooler Economic Growth Expected in 2025



Sources: BEA, Huntington Private Bank Forecasts

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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	4.75
30-Yr. Fixed Rate Mortgage, *%*	3.86	2.87	3.27	6.66	6.99	6.72	7.20
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	104.2	110.0

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

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