

# 2025 U.S. Economic Outlook

Fed Eases, Growth Moderates, Government  
Policy Uncertainty Clouds 2025

Olu Sonola  
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# U.S. Economic Growth Expected to Moderate to Trend in 2025

- Solid economic growth in 2024, boosted by consumer and business spending.
  - Labor market and wage growth expected to cool a bit more in 2025.
  - Recent data revisions bolster the sustainability of consumer spending strength.
  - The elephant in the room – government policy uncertainties in 2025.

## U.S. – Forecast Summary

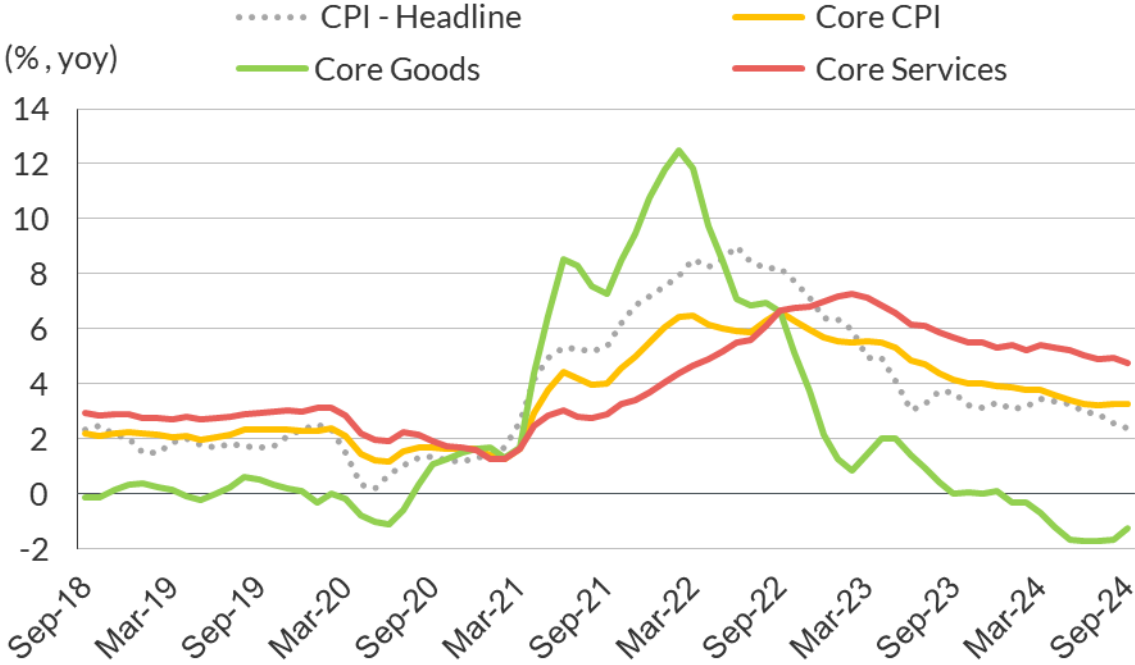
(%)	Annual Avg. 2019-2023	2023	2024	2025F	2026F
GDP	2.1	2.5	2.5	1.6	1.6
Consumer spending	2.5	2.2	2.2	1.4	1.6
Fixed investment	1.9	0.6	3.8	2.9	2.6
Net trade (contribution pp)	-0.3	0.6	-0.3	-0.2	-0.2
CPI inflation (end-year)	4.0	3.4	2.7	2.4	2.4
Unemployment rate	4.9	3.6	4.2	4.8	4.9
Policy interest rate (end-year)	2.05	5.50	4.50	3.50	3.00
US 10-Year Yield	2.26	3.88	4.10	4.00	3.50

F – Forecast

Source: Fitch Ratings, Bureau of Economic Analysis, Bureau of Labor Statistics, Federal Reserve

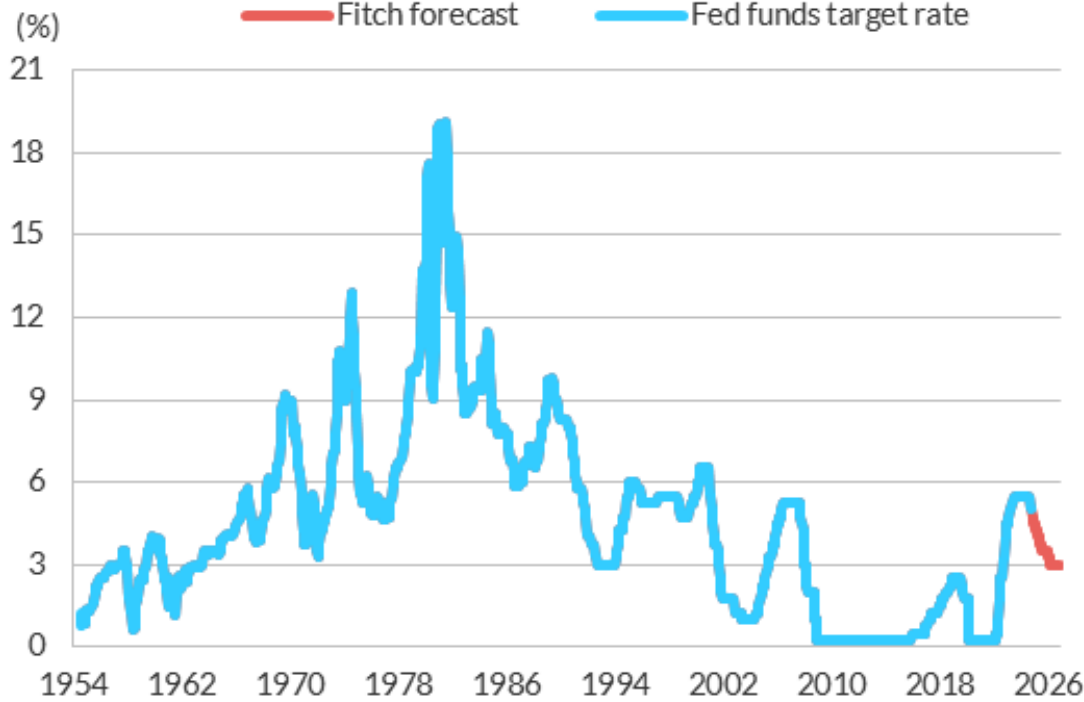
# Getting Closer and Closer to 2%

## U.S. Inflation: CPI



Source: Fitch Ratings, BLS

## US Policy Interest Rate - Fitch Forecast



Source: Fitch Ratings, Fed, Haver Analytics

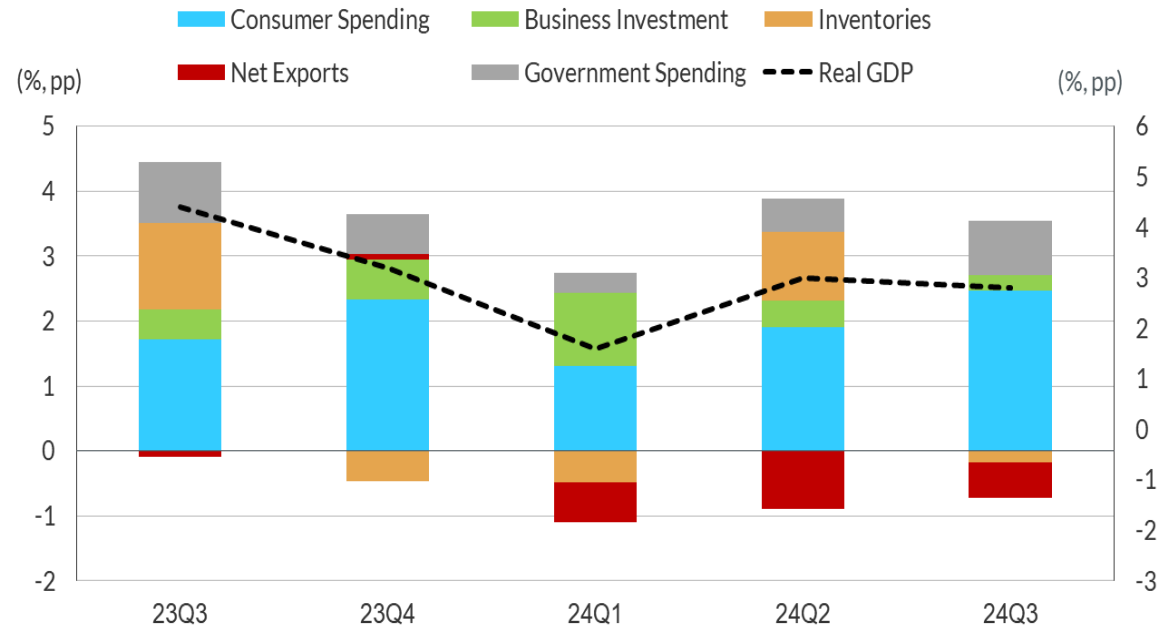
# Economic Growth is Solid and Broad-Based

## U.S. Real GDP & Components Annualized QoQ % Change

	2023:Q3	2023:Q4	2024:Q1	2024:Q2	2024:Q3
Real GDP	4.4	3.2	1.6	3.0	2.8
1_ Consumer Spending	2.5	3.5	1.9	2.8	3.7
Goods Spending	3.5	3.4	(1.2)	3.0	6.0
Durable Goods	4.2	2.9	(1.8)	5.5	8.1
Nondurable Goods	3.1	3.6	(0.8)	1.7	4.9
Services Spending	2.1	3.5	3.4	2.7	2.6
2_ Business Investment	10.1	0.7	3.6	8.3	0.3
Nonresidential Investment	1.1	3.8	4.5	3.9	3.3
Residential Investment	7.7	2.5	13.7	(2.8)	(5.1)
Inventory	269.6	(90.4)	(107.6)	216.0	(46.0)
3_ Government	5.7	3.6	1.8	3.1	5.0
4_ Net Exports					
Exports	4.9	6.2	1.9	1.0	8.9
Imports	4.7	4.2	6.1	7.6	11.2

Source: Fitch Ratings, BEA

## U.S. Real GDP: Contributions Annualized QoQ

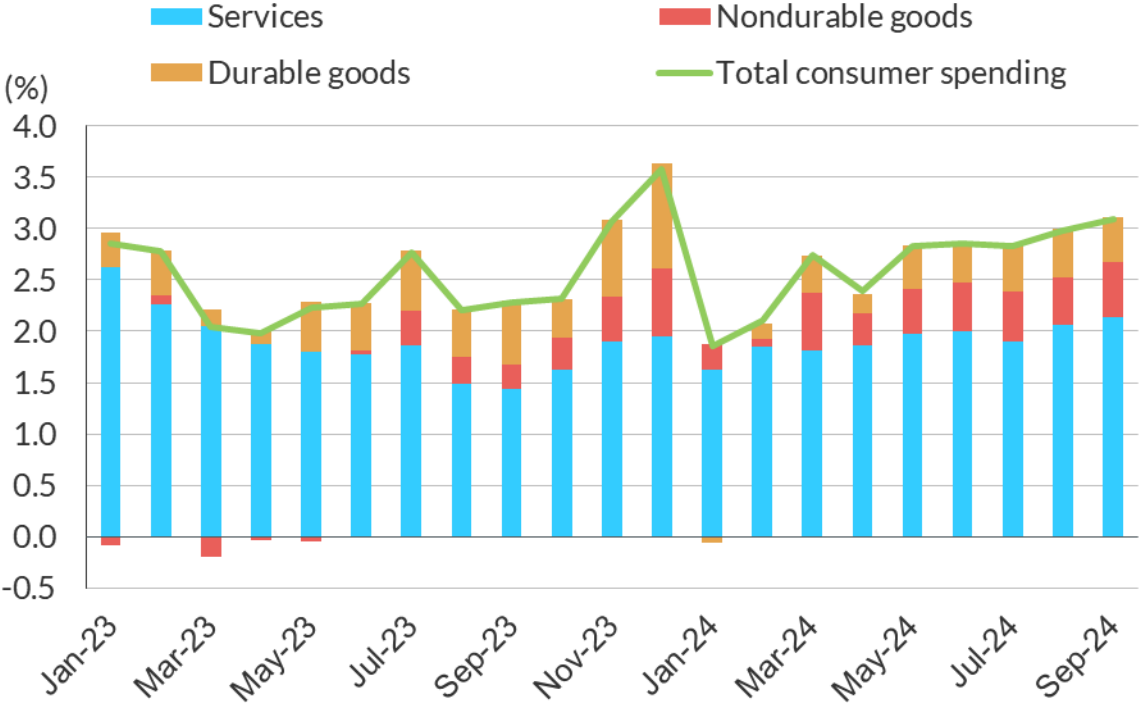


Source: Fitch Ratings, BEA

# Consumer Spending Has been Consistently Strong in 2024

## U.S. Real Consumer Spending

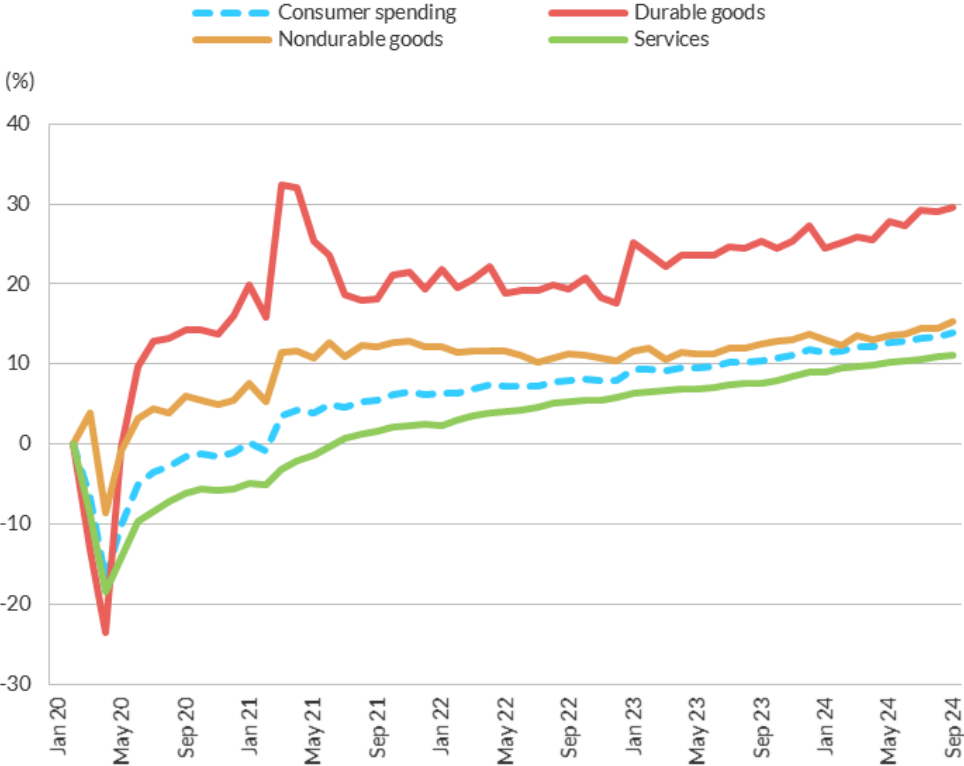
YoY % change, each period indicates last 12 months



Source: Fitch Ratings, Federal Reserve

## U.S. Consumer Spending (Real)

Change since February 2020

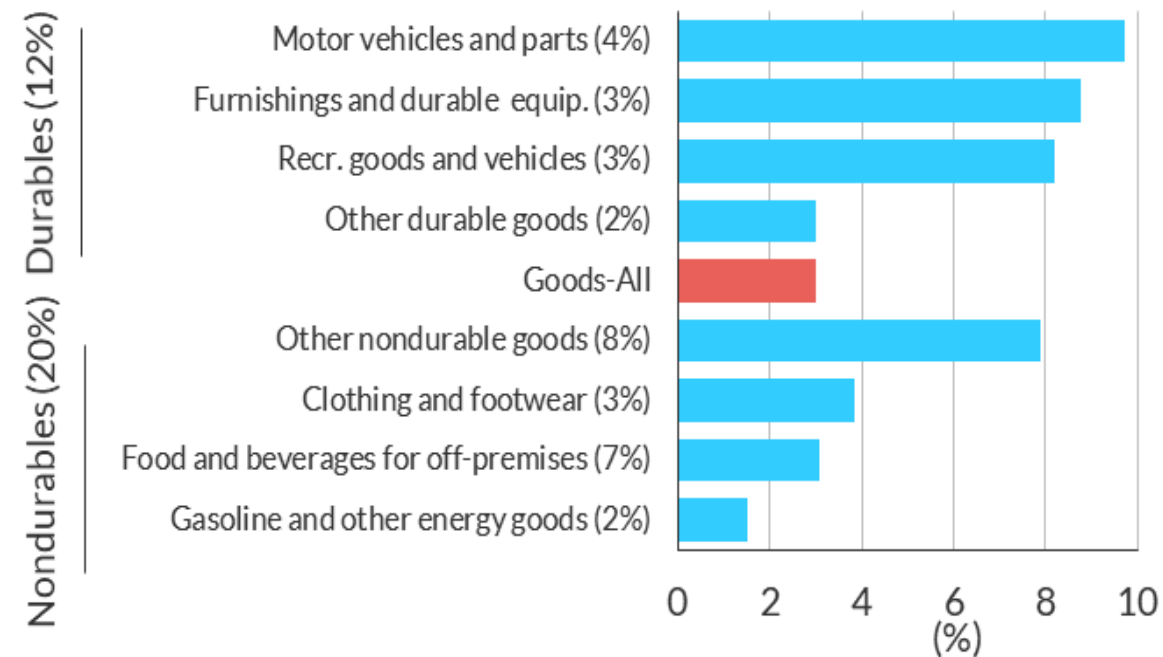


Source Fitch Ratings, Bureau of Economic Analysis

# Broad-based Spending Growth Across all Categories in 3Q24

## U.S. Real Consumer Spending – Goods Spending

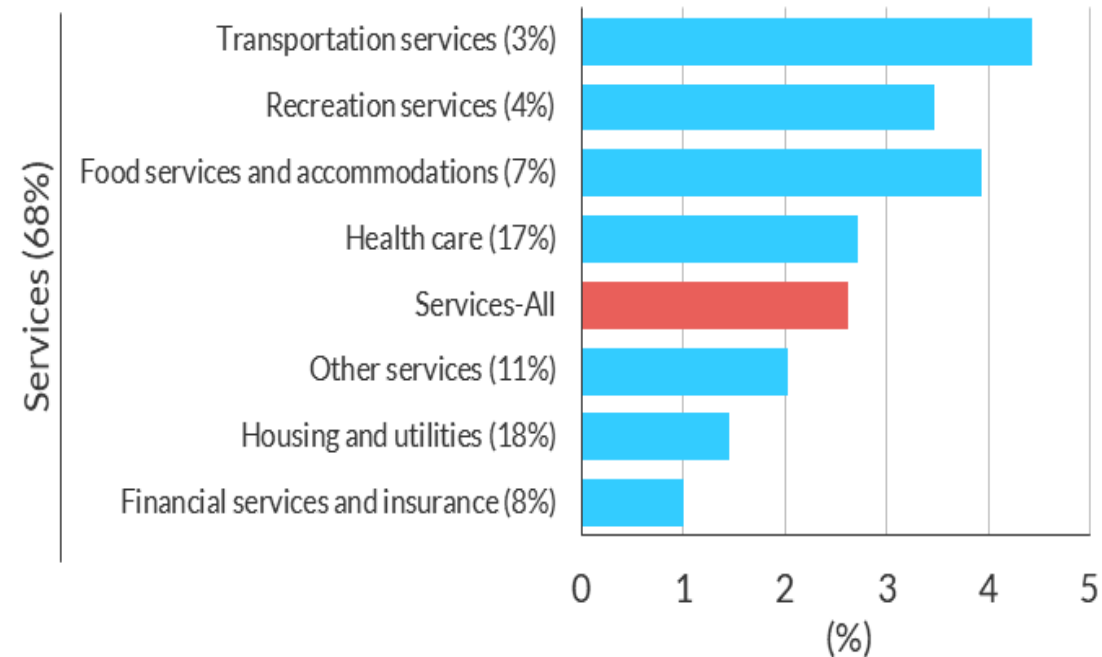
3Q24 - Annualized



Source: Fitch Ratings, Bureau of Economic Analysis

## U.S. Real Consumer Spending – Services Spending

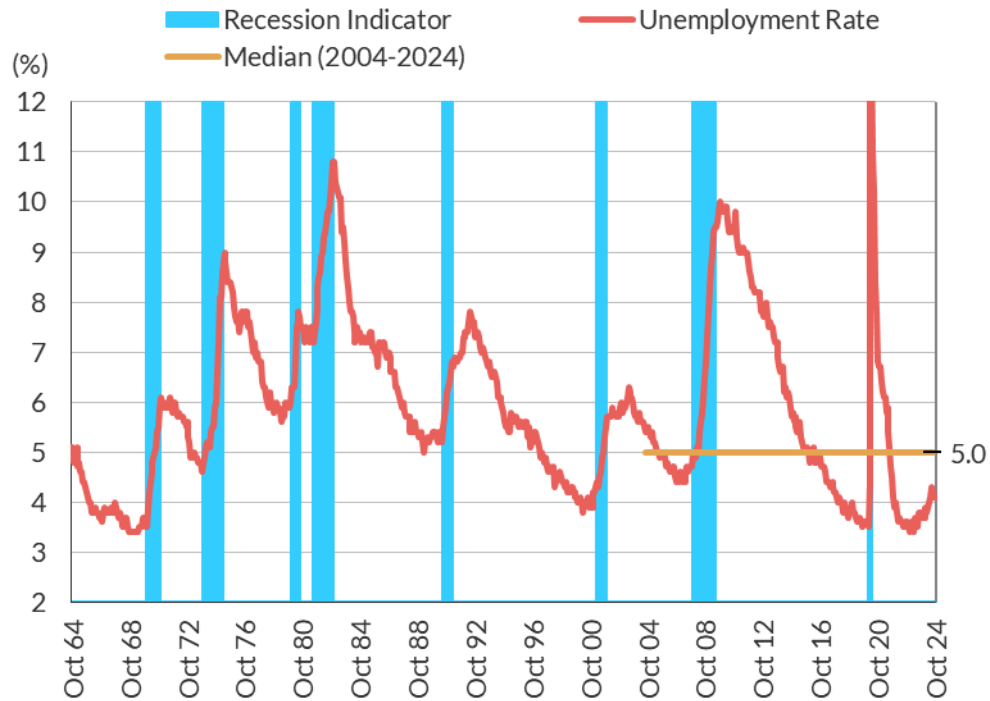
3Q24 - Annualized



Source: Fitch Ratings, Bureau of Economic Analysis

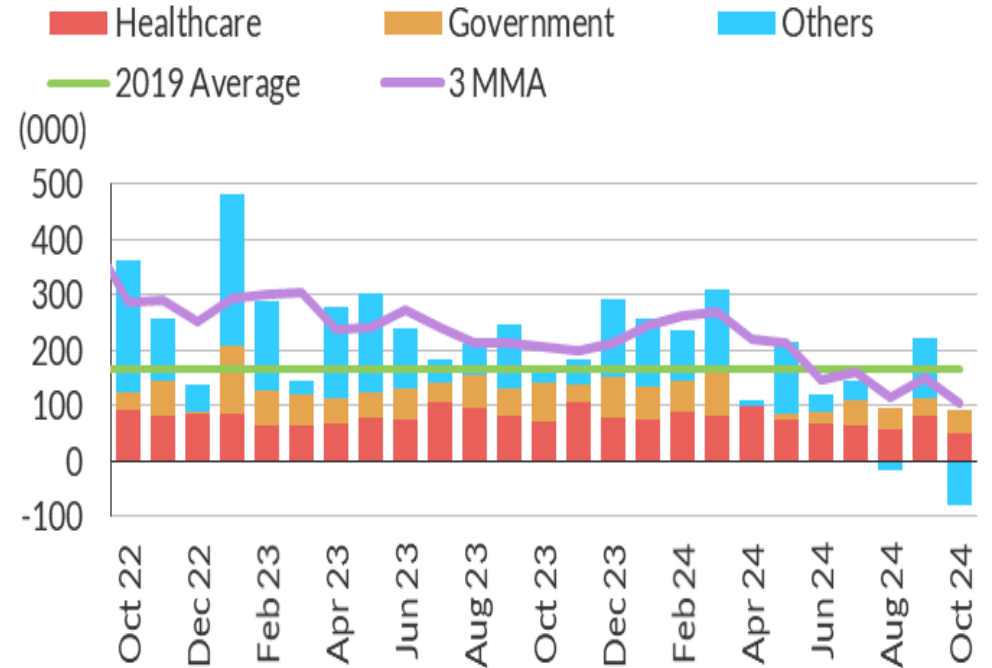
# U.S. Labor Market Conditions Remain Strong, Expected to Moderate Slowly

## U.S. Unemployment Rate



Source: Fitch Ratings, Bureau of Labor Statistics

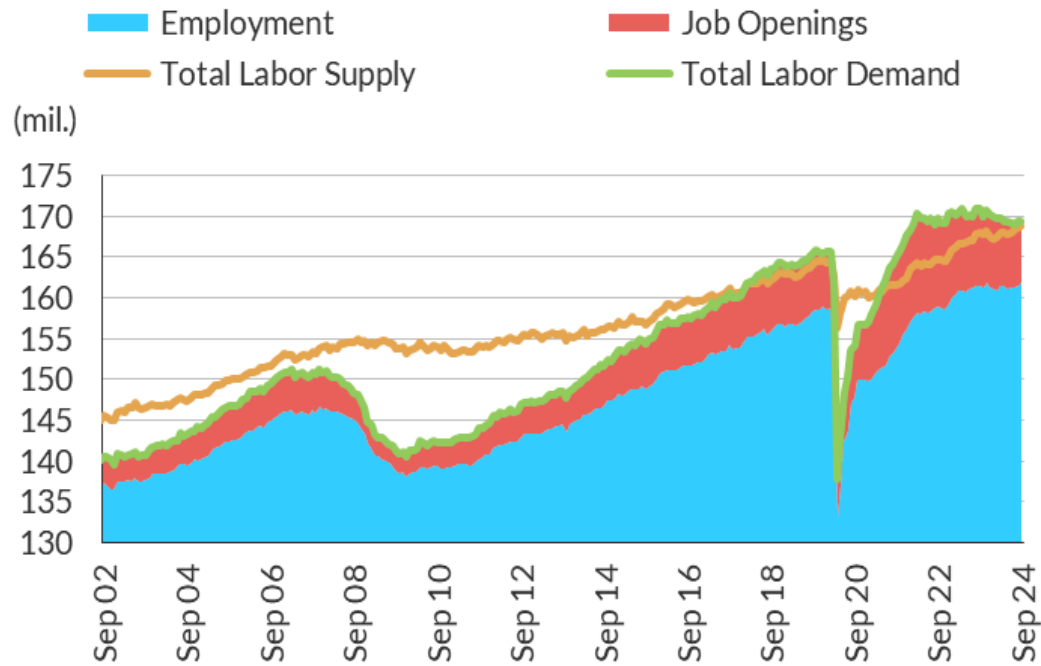
## U.S. Change in Nonfarm Payroll



Source: Fitch Ratings, Bureau of Labor Statistics

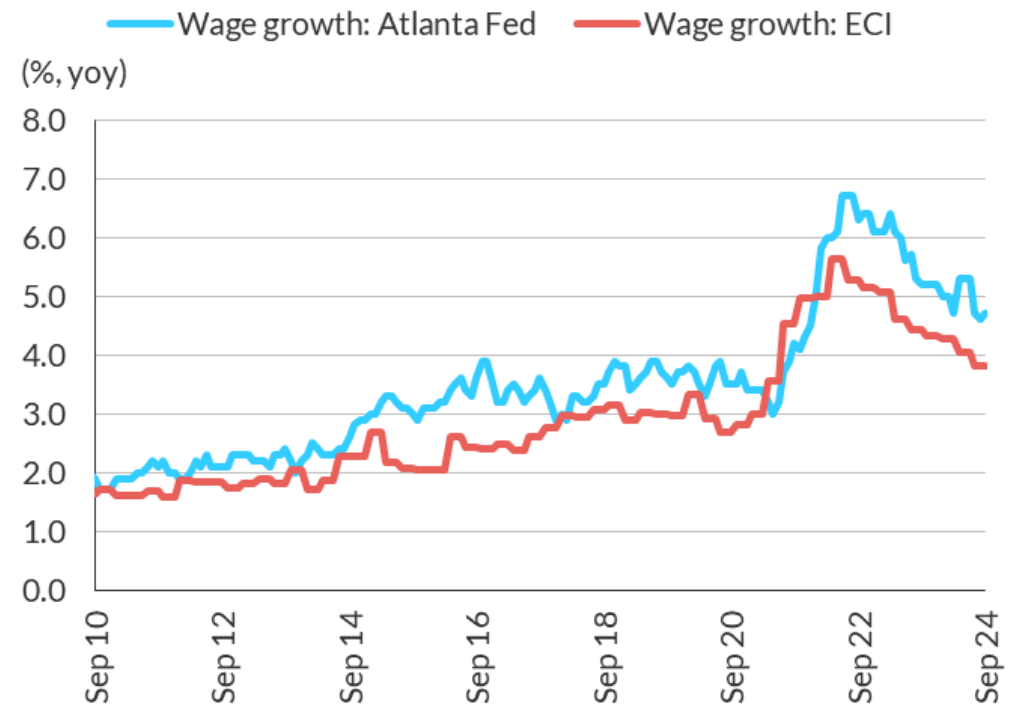
# Labor Market is Fully Rebalanced, Wage Growth Still Elevated

## U.S. Labor Demand and Supply



Source: Fitch Ratings, Bureau of Labor Statistics

## U.S. Wage Growth and Labor Market Tightness



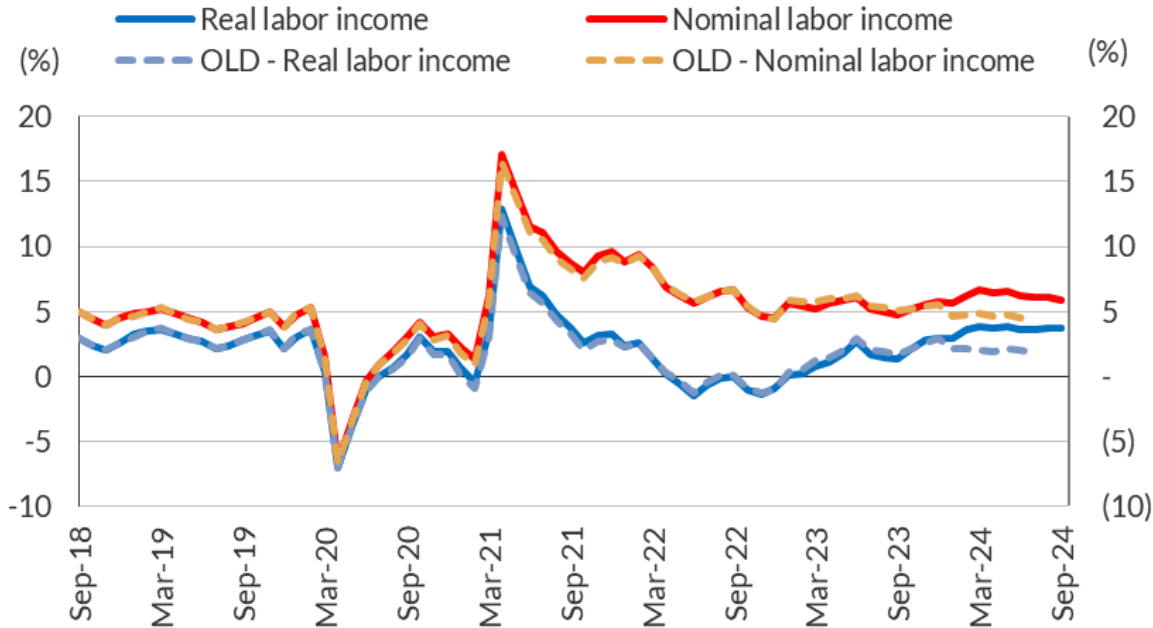
Source: Fitch Ratings, Bureau of Labor Statistics, Atlanta Fed



# Recent Income Revisions Bolster Sustainable Consumer Spending Growth

## U.S. Labor Income – Real and Nominal

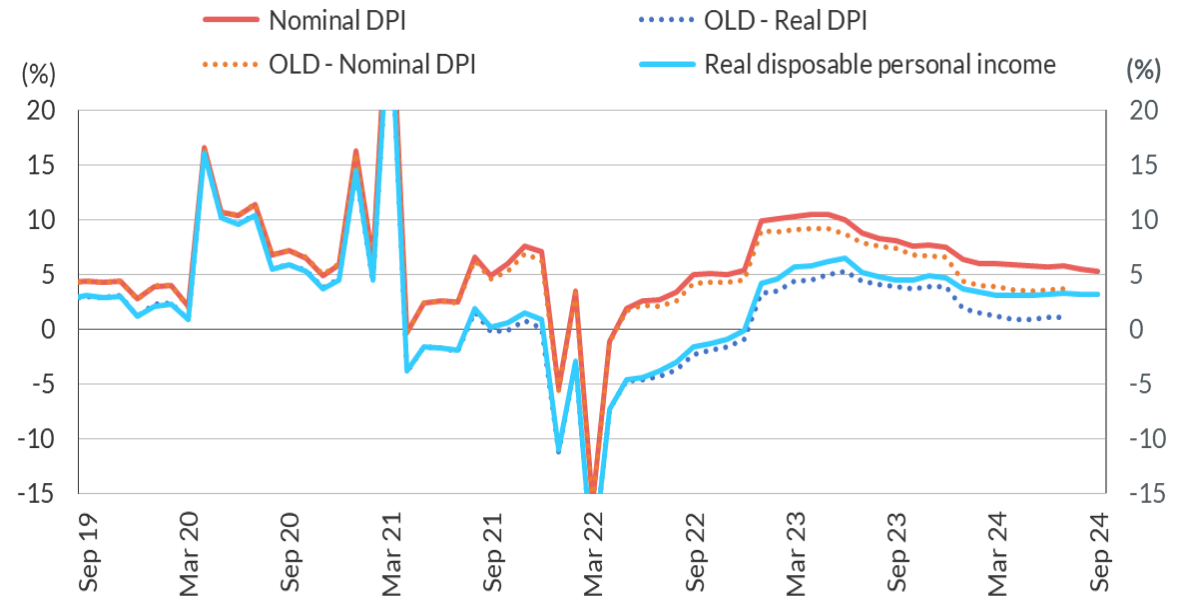
YoY % Change



Source: Fitch Ratings, Bureau of Economic Analysis

## U.S. Disposable Income – Real and Nominal

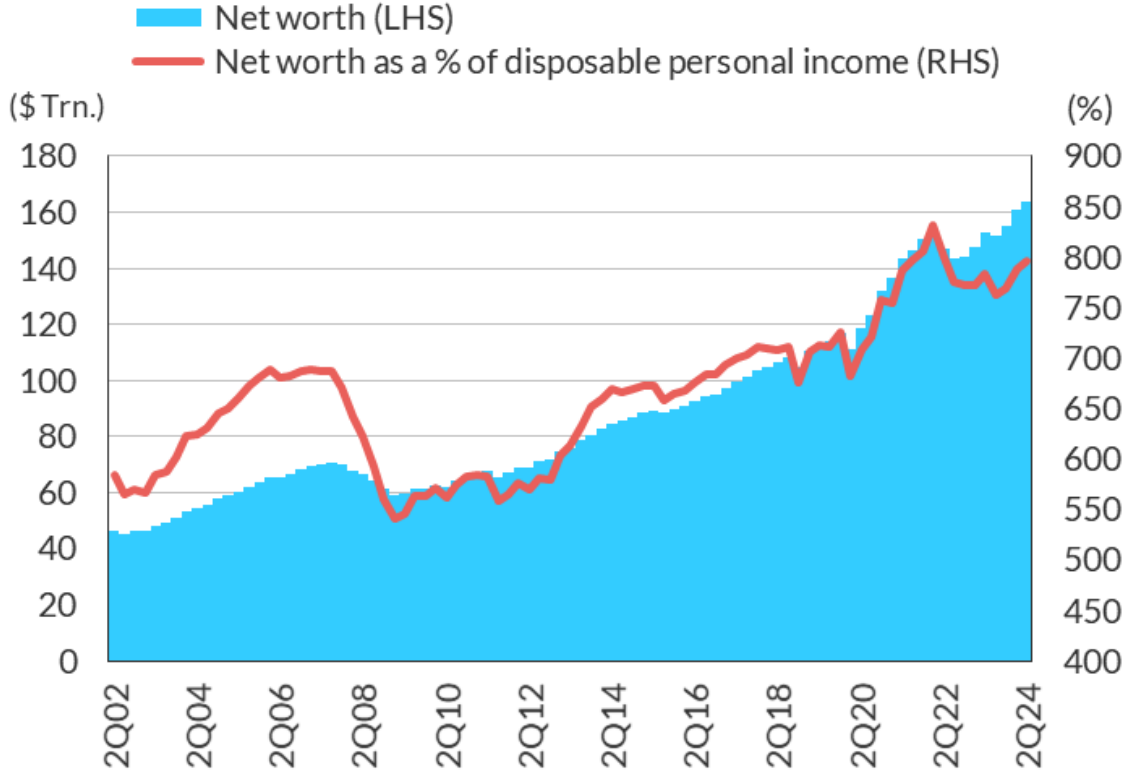
YoY % Change



Source: Fitch Ratings, Bureau of Economic Analysis

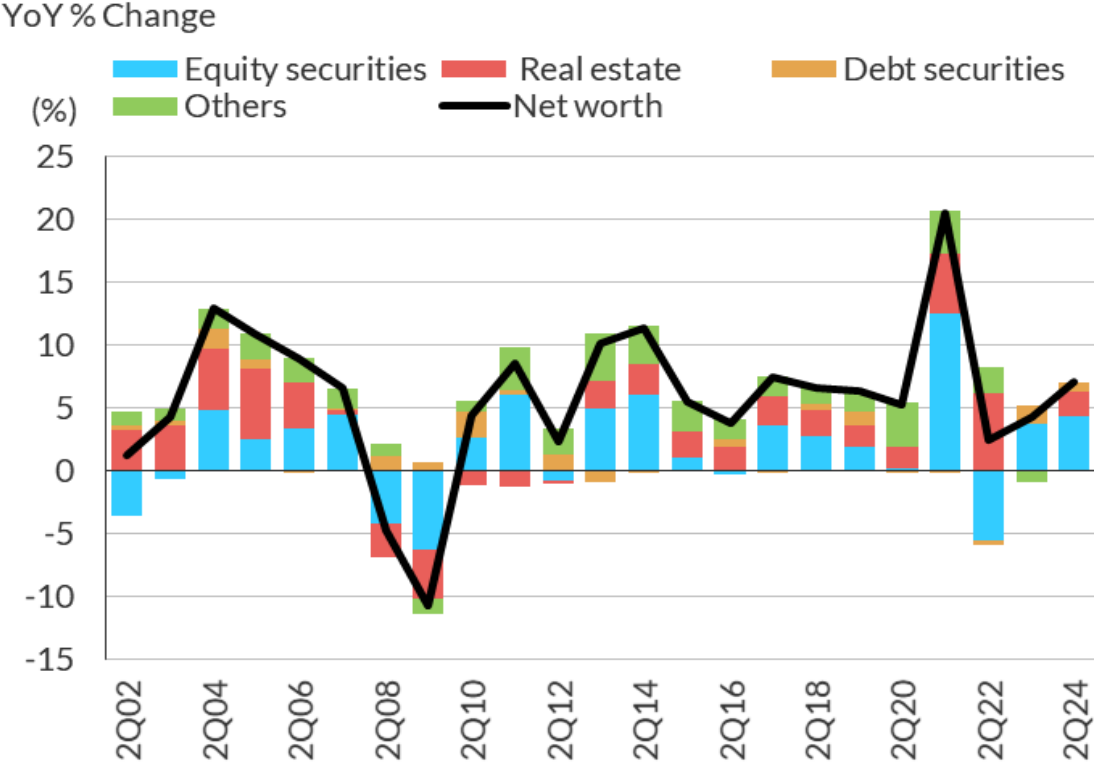
# Household Net Worth Significantly Higher Versus Pre-Pandemic Period

## U.S. Household Net Worth



Source: Fitch Ratings, Federal Reserve

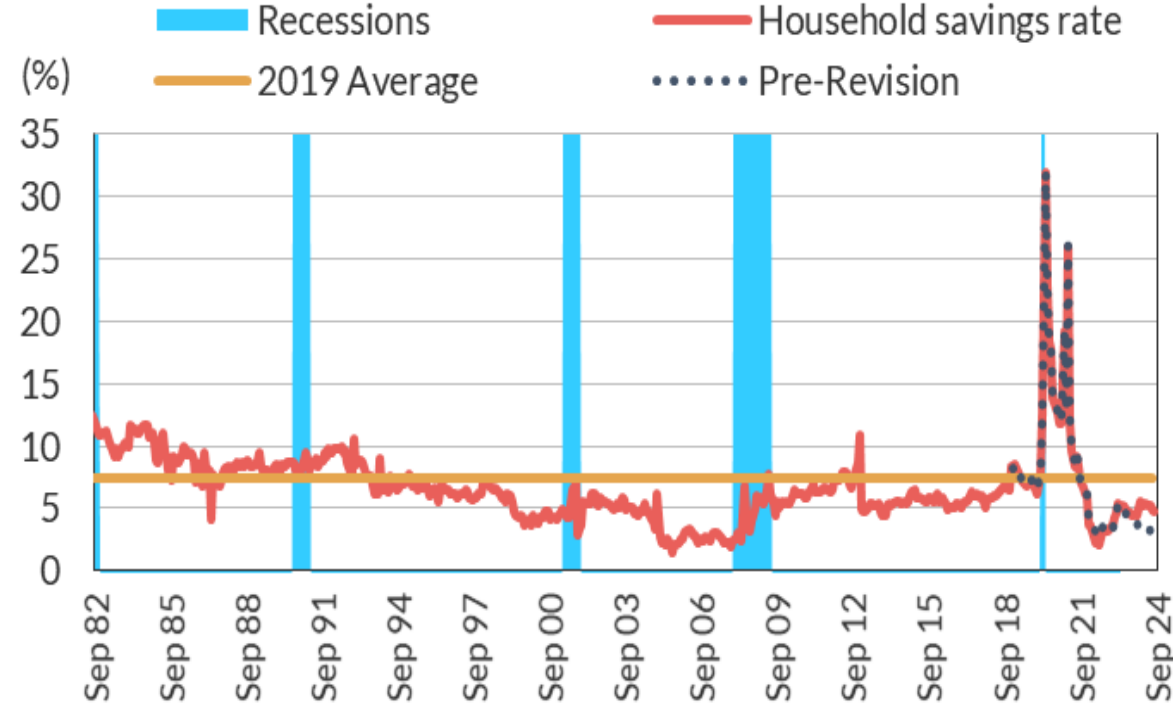
## U.S. Household Net Worth: Contributions



Source: Fitch Ratings, Federal Reserve

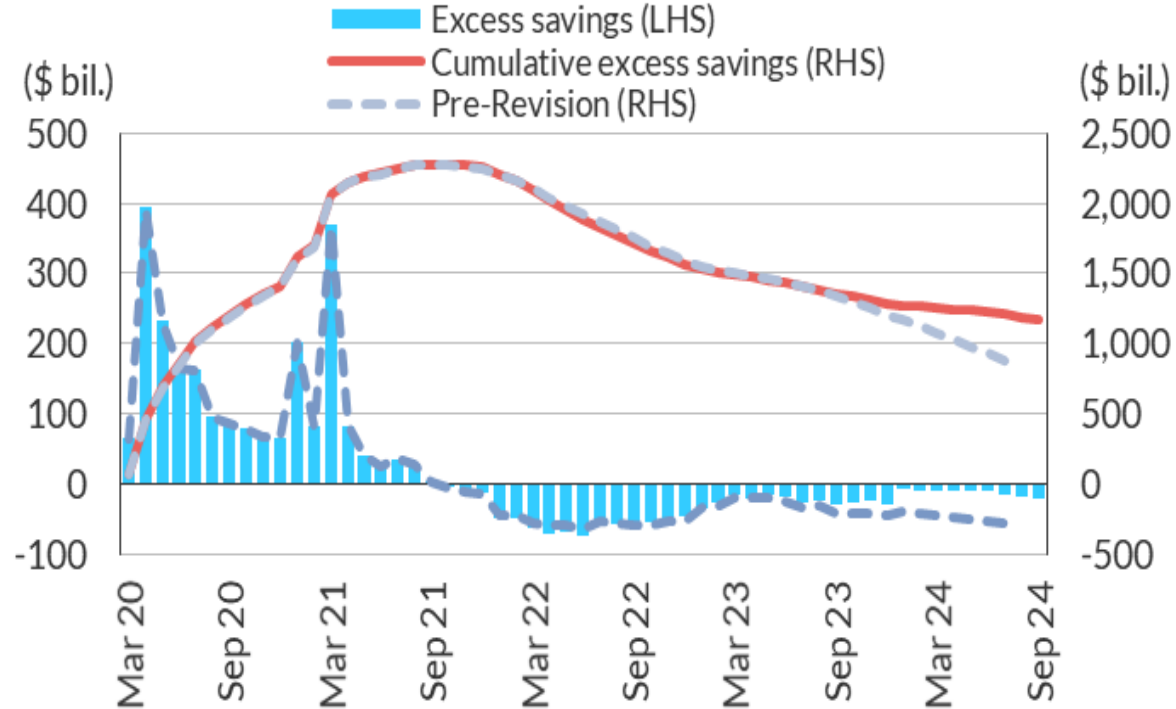
# Households Continue to Use Savings to Support Spending

## U.S. Household Savings Rate



Source: Fitch Ratings, Bureau of Economic Analysis

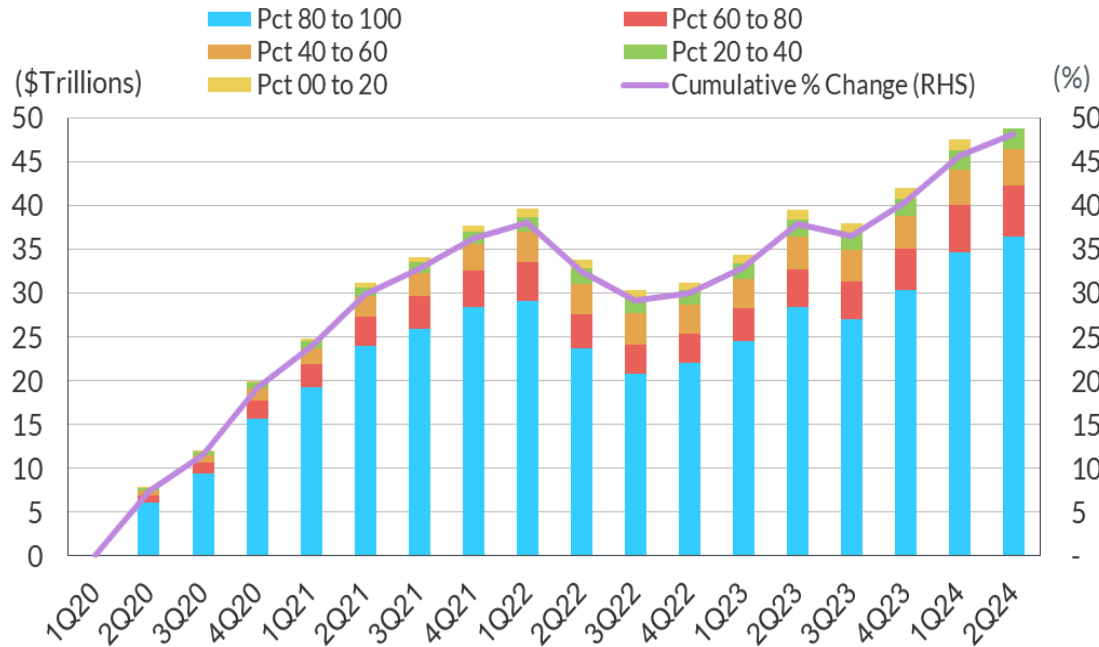
## U.S. Households: Excess Savings Since March 2020



Source: Fitch Ratings, Bureau of Economic Analysis

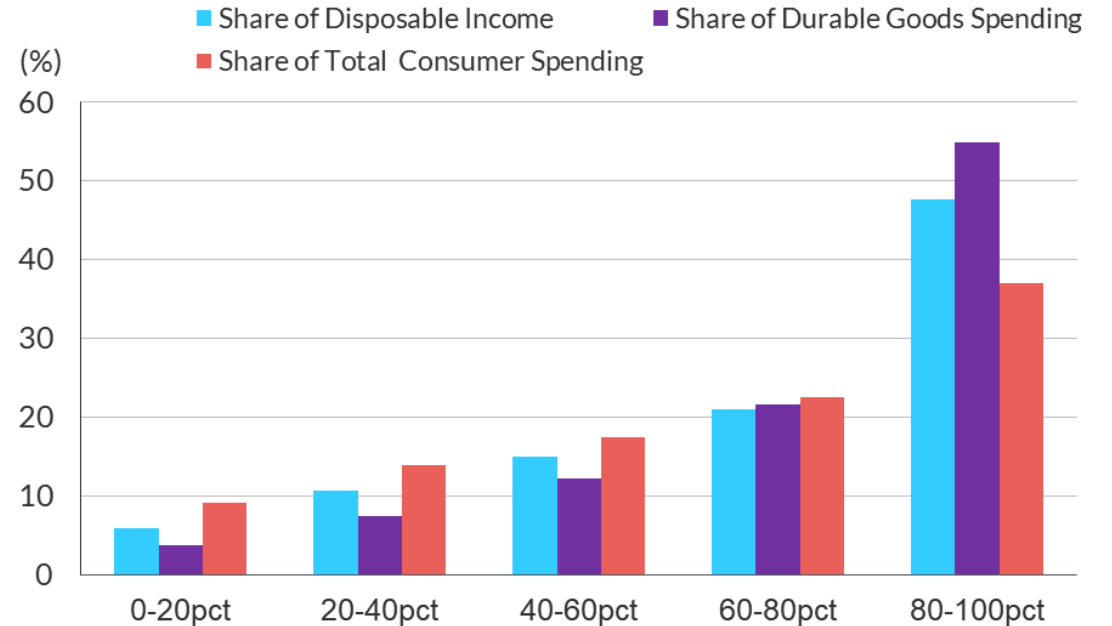
# Significant Wealth Accumulation Bodes Well for Consumer Spending

## U.S. Household Net Worth By Income Percentile Change Since 1Q2020



Source: Fitch Ratings, Federal Reserve

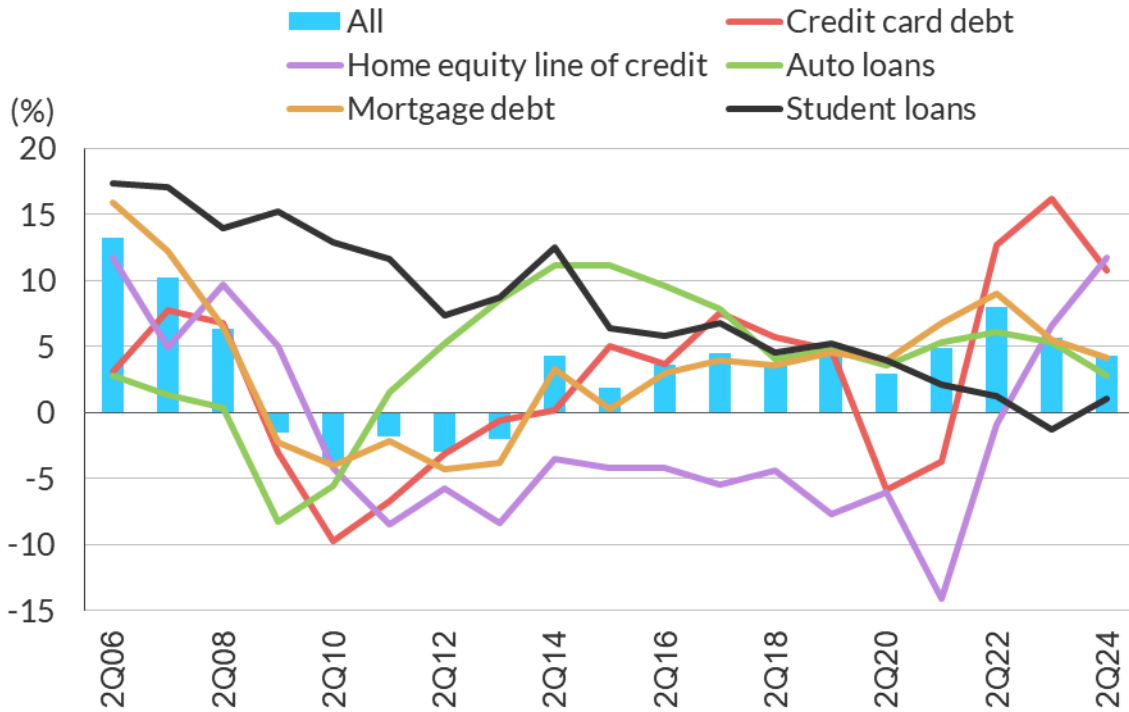
## U.S. Share of Consumption and Income By Income Percentile



Source: Fitch Ratings, Bureau of Labor Statistics

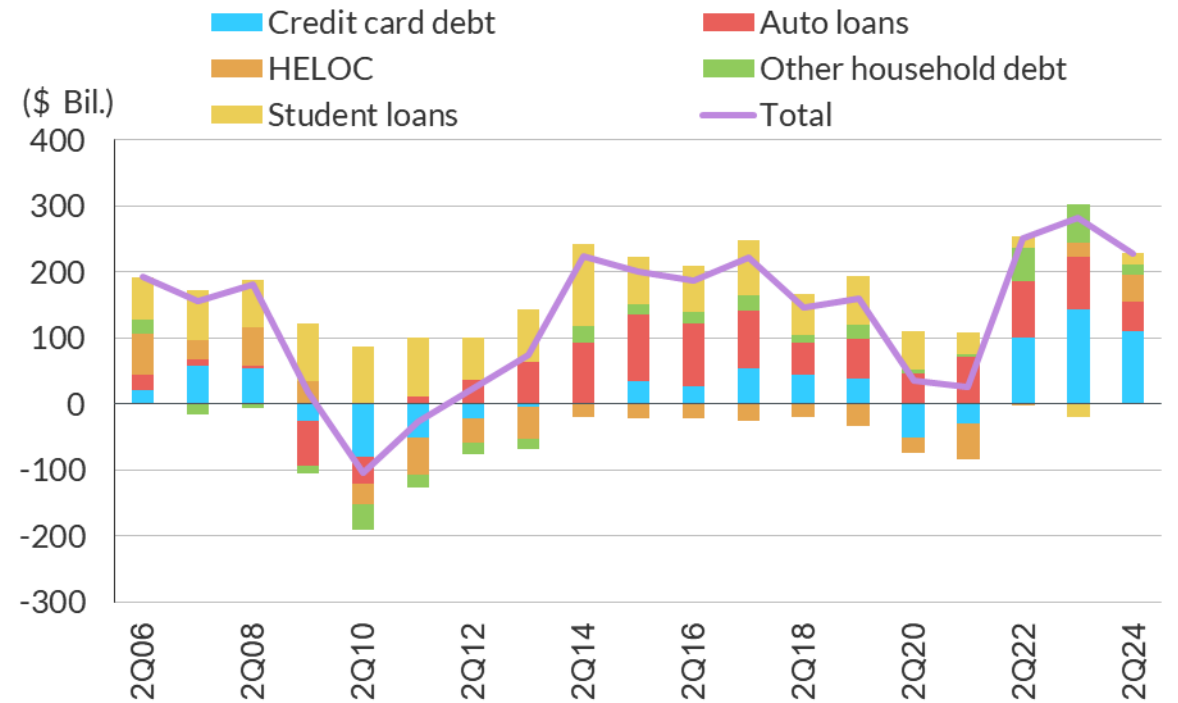
# Mortgages, Credit Card Debt Fuel Liabilities Growth

U.S. Consumer Debt (Mortgage and Non Mortgage)  
YoY % Change



Source: Fitch Ratings, Federal Reserve

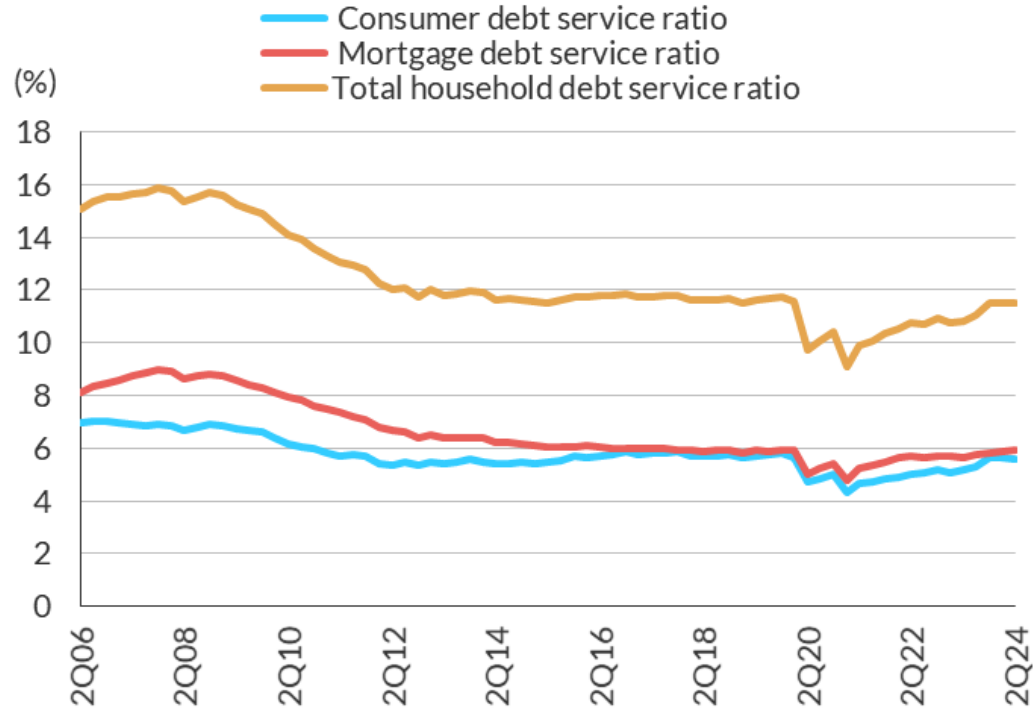
U.S.: Changes in Household Debt Excluding Mortgage Debt  
YoY \$ Change



Source: Fitch Ratings, Federal Reserve

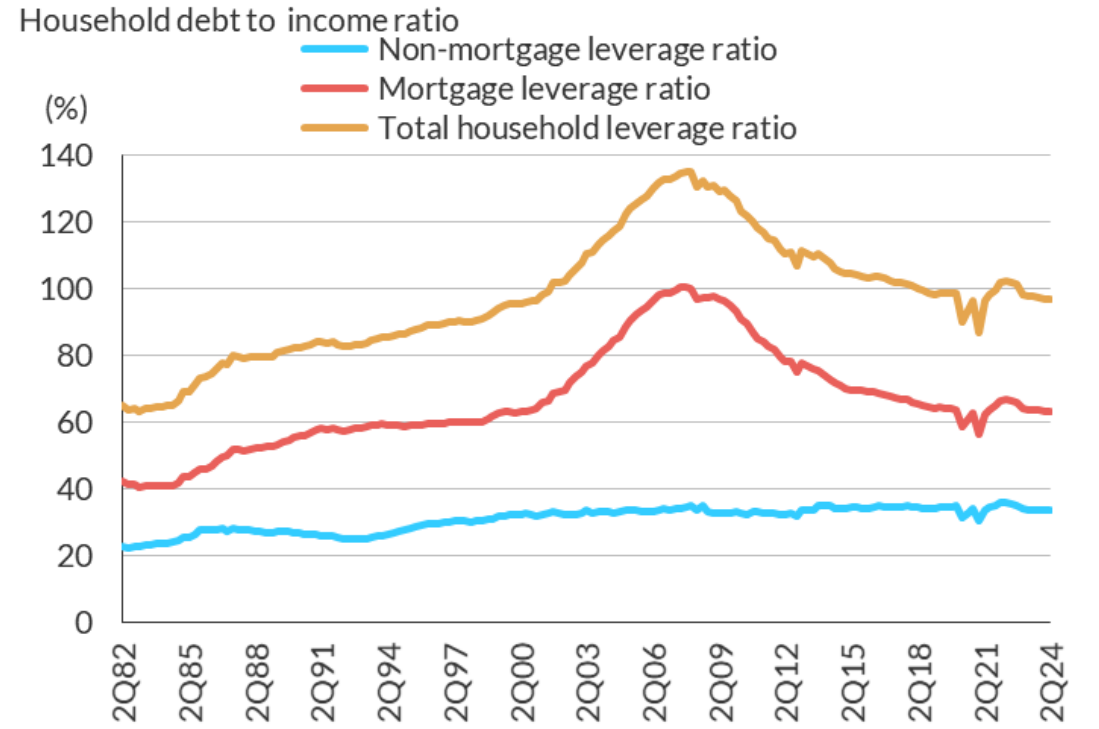
# U.S. Consumer Debt Service and Debt Burden Has Stabilized

## U.S. Aggregate Debt Service Ratio



Source: Fitch Ratings, Federal Reserve

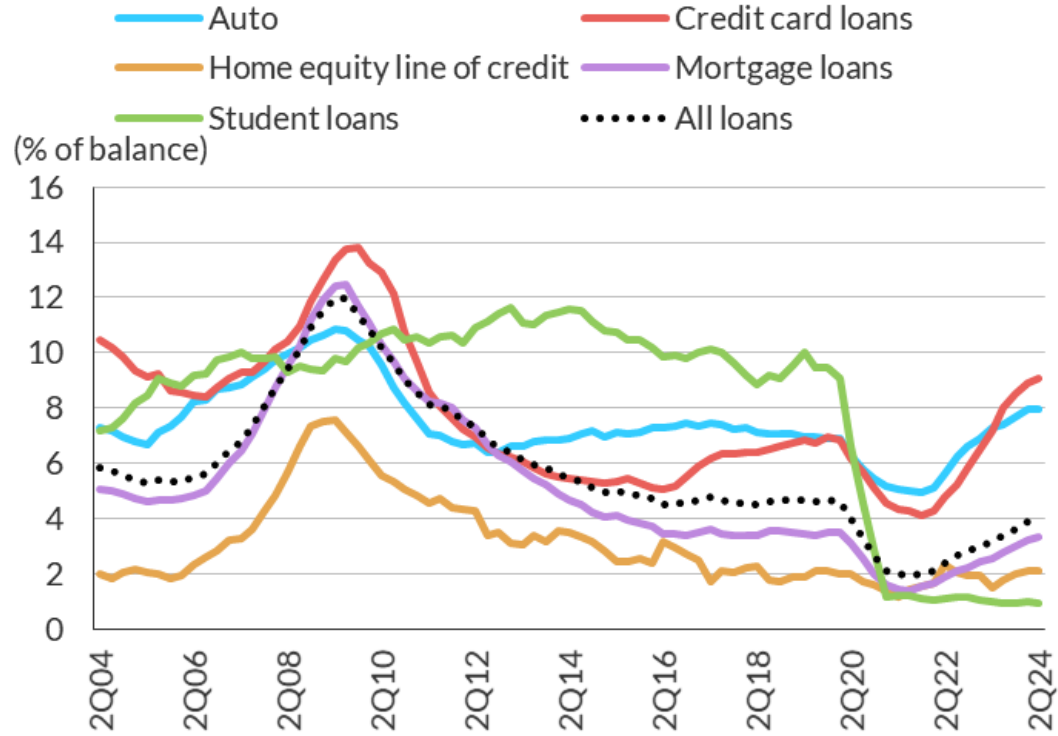
## U.S. Aggregate Household Leverage



Source: Fitch Ratings, Federal Reserve

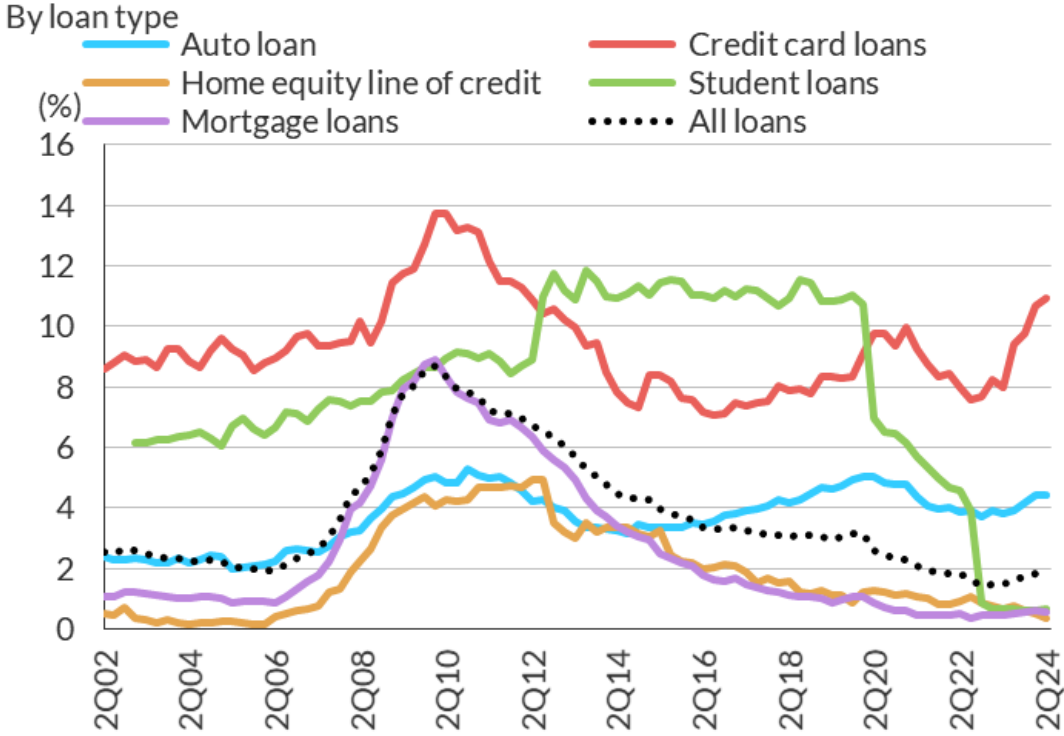
# Delinquencies Continue to Slowly Move Higher

Transition into Delinquency (30+) by Loan Type



Source: Fitch Ratings, Federal Reserve Bank of New York

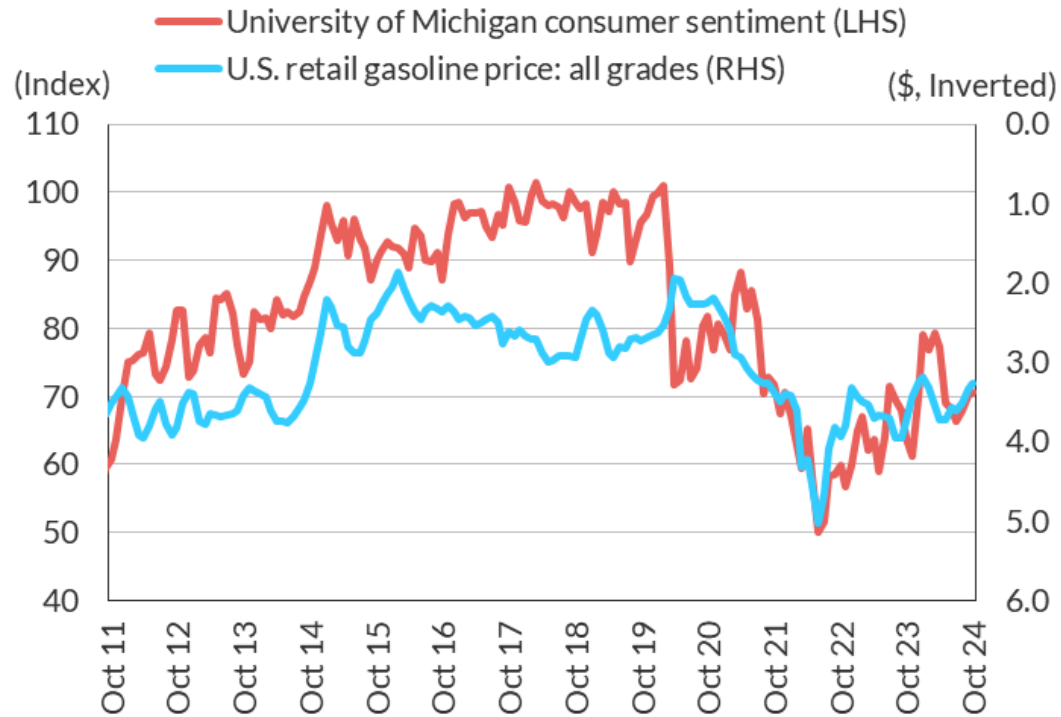
Percentage of Balance 90+ Days Delinquent



Source: Fitch Ratings, Federal Reserve Bank of New York

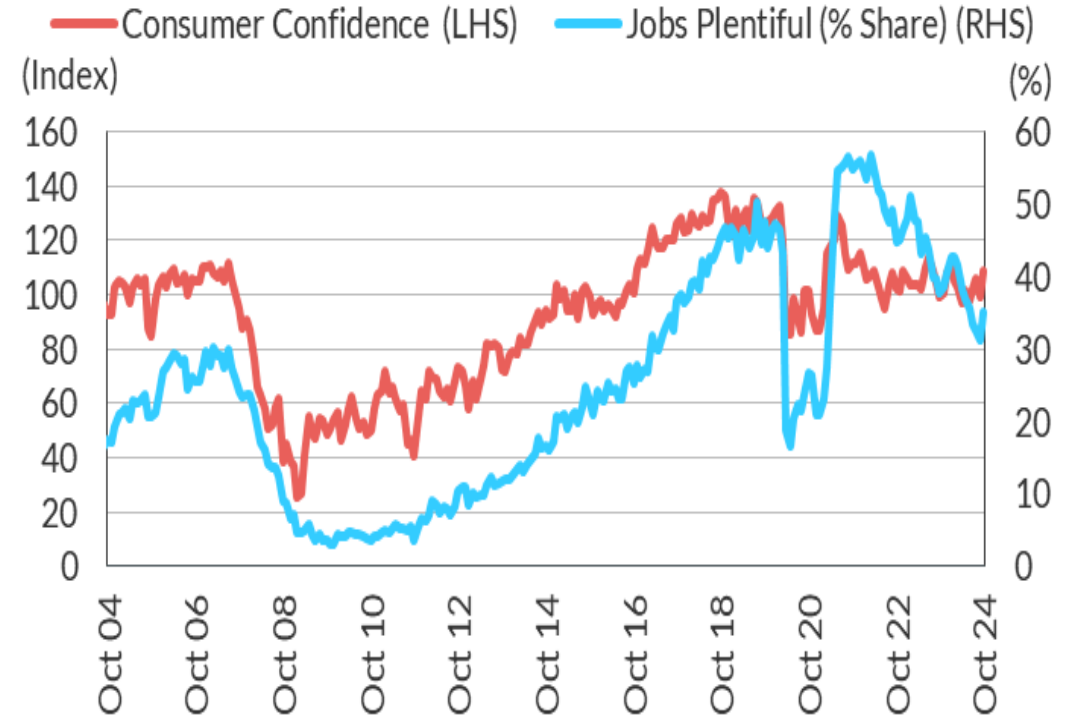
# Consumer Sentiment and Confidence Are Showing Mixed Trends

## U.S. Consumer Sentiment and Gas Prices



Source: Fitch Ratings, Bureau of Labor Statistics

## U.S. Consumer Confidence

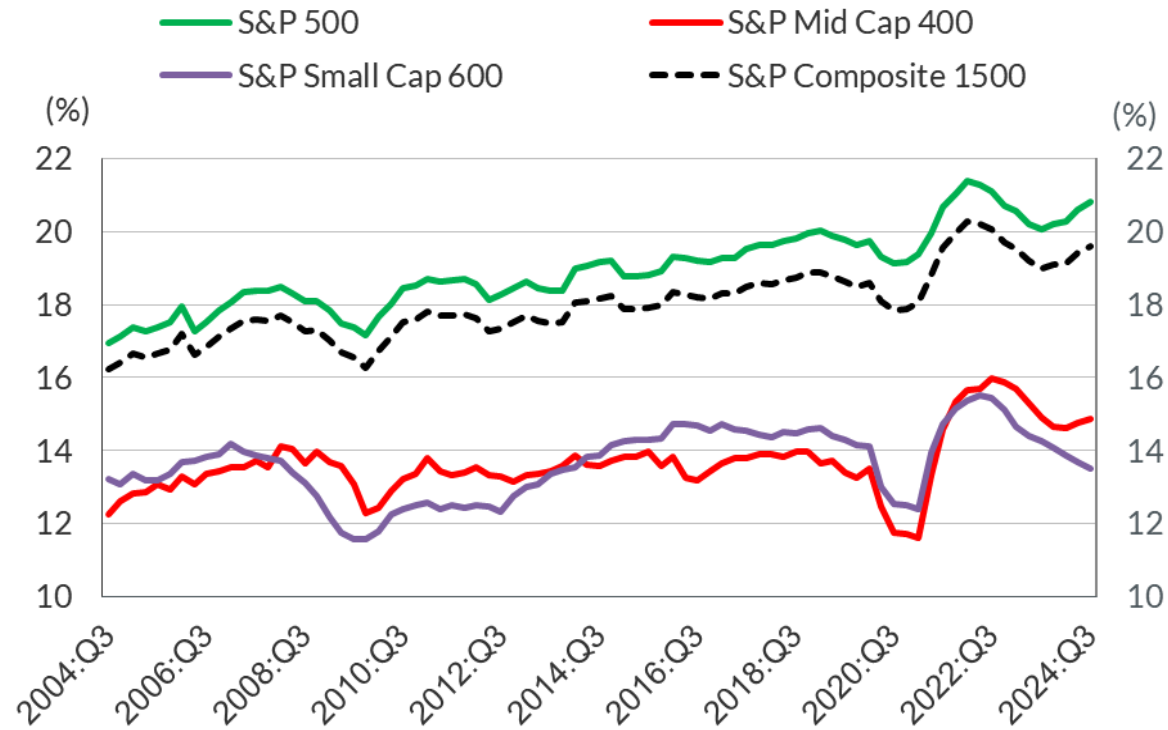


Source: Fitch Ratings, The Conference Board



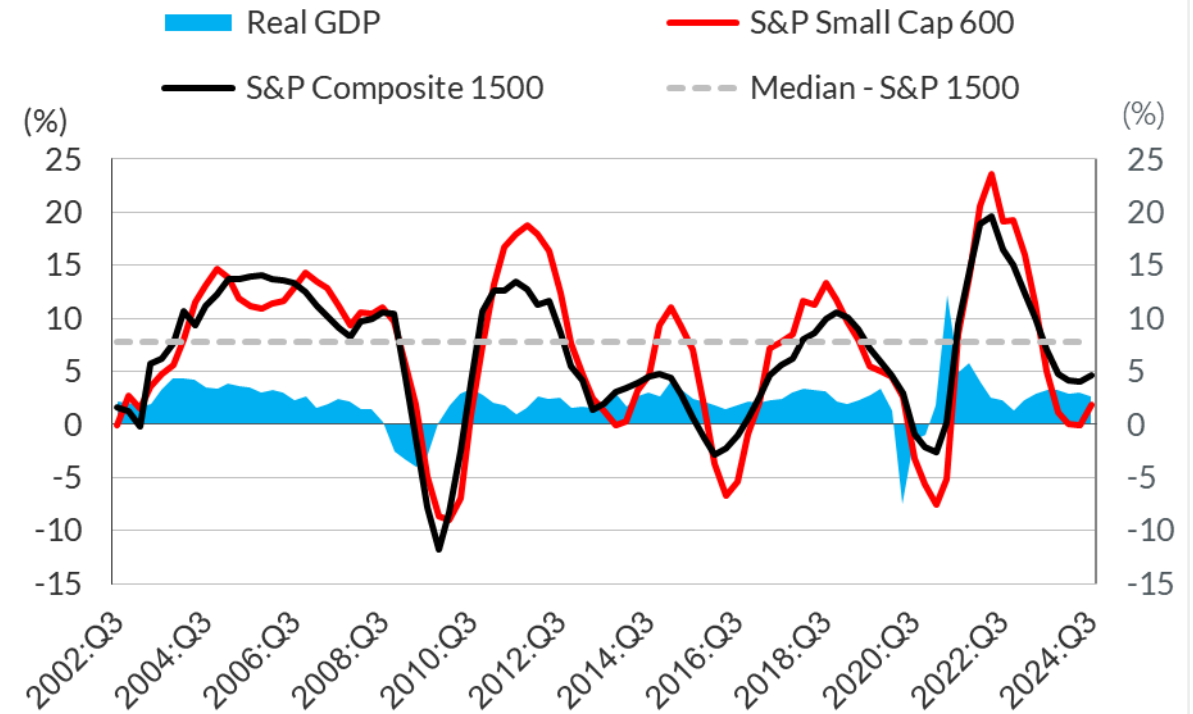
# Corporate Profitability Remains Near Record Highs as Revenue Growth Moderates

## U.S. Corporate EBITDA Margins



Source: Fitch Ratings, Factset

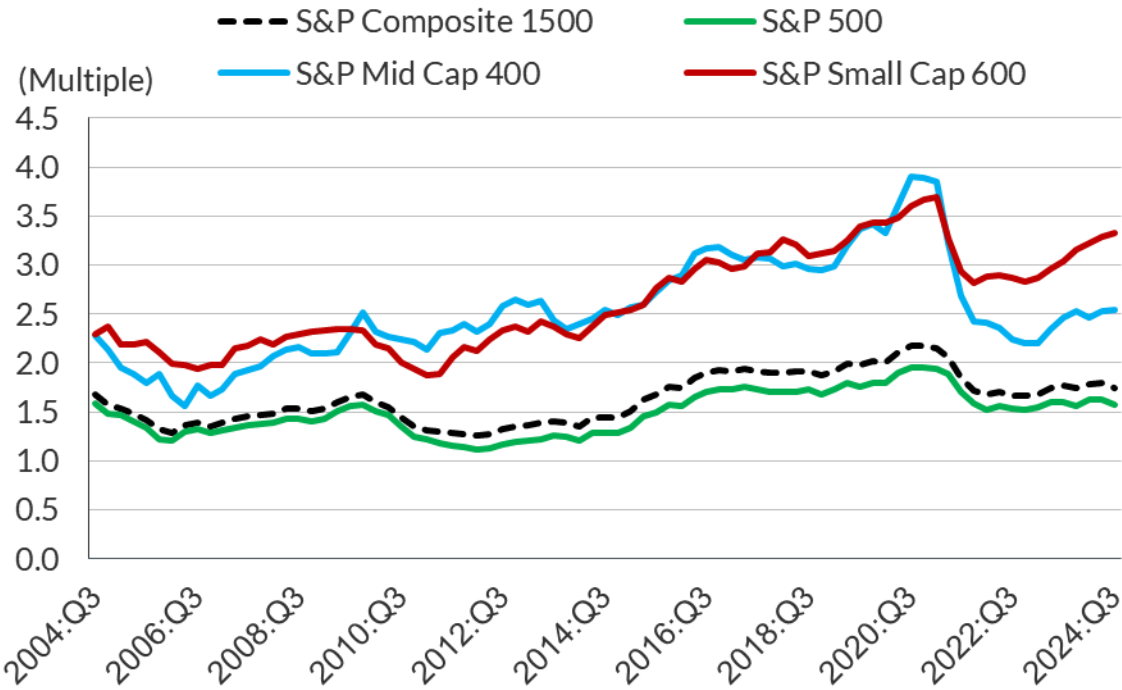
## U.S. Corporate Revenue Growth



Source: Fitch Ratings, Factset

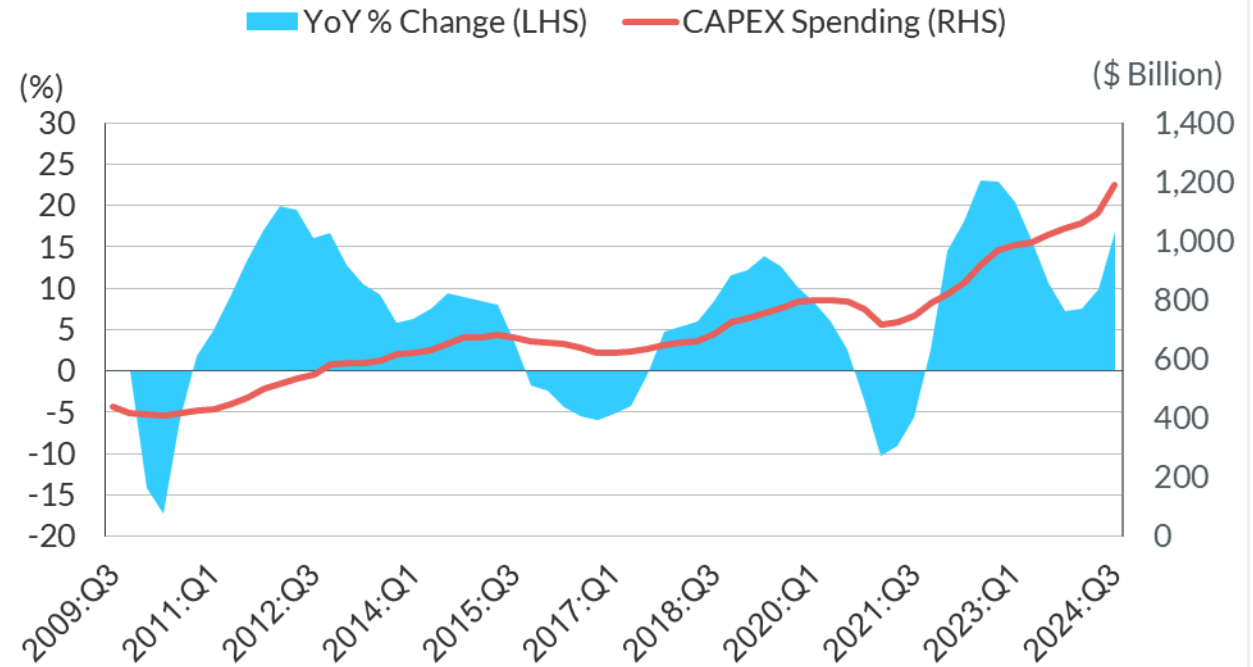
# U.S. Corporate Balance Sheet Remains Healthy Amid CAPEX Reacceleration

## U.S. Corporates: Leverage Ratio Net Debt/EBITDA



Source: Fitch Ratings, Factset

## U.S. Corporates: Capital Expenditures



Source: Fitch Ratings, Factset

# Key Takeaways

- Solid U.S. economy underpinned by strong consumer spending.
- Inflation continues to moderate, with some bumps along the way.
- Income growth, higher wealth levels and savings contributed to strength.
- Deceleration in income and employment growth likely to weigh on economic growth.
- Interest rate environment still restrictive, rate cut cycle could be another tailwind in 2025.

## Key Risks

- Government policy uncertainty in 2025
  - Tariffs, immigration, fiscal policy
- Fed action/inaction
- Geo-politics

An aerial photograph of a city, likely Singapore, showing a complex network of roads, buildings, and green spaces. A large, semi-transparent red geometric shape, consisting of several overlapping triangles, is overlaid on the right side of the image. The text is positioned on the white background on the left side.

**Fitch**Ratings

# **2024 U.S. Presidential Elections**

## A Macro Perspective

Olu Sonola  
November 2024

# FIRST Things First – What will a Trifecta Bring?

	Republican Sweep
<b>Fiscal policy</b>	Permanent extension of Tax Cuts and Jobs acts and lower corporate tax rates. Tariffs provide some offset for lost revenue.
<b>Immigration policy</b>	Risk of a sharp tightening in immigration policies.
<b>Regulation</b>	Likely significant deregulation. Financial services, oil and gas, large-scale climate change regulation rollbacks
<b>Sentiment (Investor &amp; Consumer)</b>	Investor expectation of dollar strength, equities and fixed income uncertain. Consumer sentiment uncertain
<b>Trade &amp; tariff policy</b>	Priority is large-scale re-alignment in global trade. Risk of broad-based tariffs (60% import tariffs on China and 10% on imports from all other trading partners) possible

# Fiscal Policy

- Debt ceiling brinksmanship in January.
- Large deficits and rising public debt likely.
- Longer term, deficits will likely raise long-term interest rates.
- Mixed economic effects.

## The Trump Plan (billions, 2026-2035)

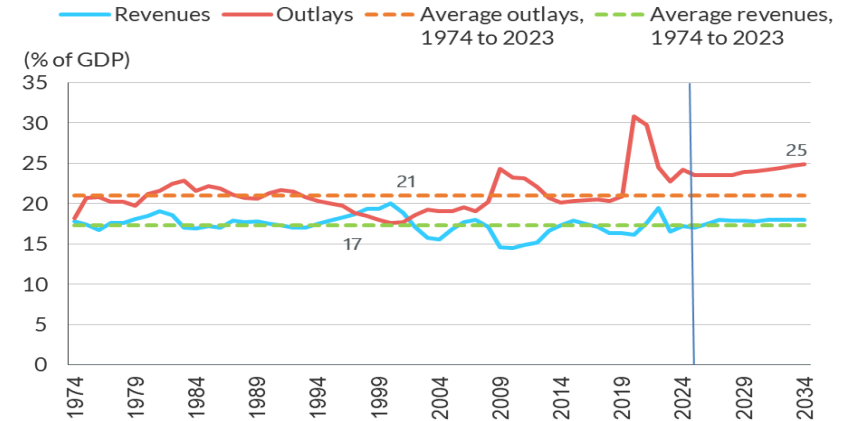
Policy Proposals	Central
Extend and Modify the Tax Cuts & Jobs Act (TCJA)	-\$5,350
Exempt Overtime Income from Taxes	-\$2,000
End Taxation of Social Security Benefits	-\$1,300
Exempt Tip Income from Taxes	-\$300
Lower Corporate Tax Rate to 15% for Domestic Manufacturers	-\$200
Enact or Expand Other Individual and Small Business Tax Breaks	-\$200
Strengthen and Modernize the Military	-\$400
Secure the Border and Deport Unauthorized Immigrants	-\$350
Enact Housing Reforms, Including Credits for First-Time Homebuyers	-\$150
Boost Support for Health Care, Long-Term Care, and Caregiving	-\$150
<b>Subtotal, Tax Cuts and Spending Increases</b>	<b>-\$10,400</b>
Establish a Universal Baseline Tariff and Additional Tariffs	\$2,700
Reverse Current Energy/Environment Policies and Expand Production	\$700
Reduce Waste, Fraud, and Abuse	\$100
End the Department of Education and Support School Choice	\$200
<b>Subtotal, Revenue Increases and Spending Reductions</b>	<b>\$3,700</b>
<b>Net Interest</b>	<b>-\$1,050</b>
<b>Total, Net Deficit Impact</b>	<b>-\$7,750</b>

Source: Committee for a Responsible Federal Budget

Economic Effects - Trump	
Gross domestic product	-0.4
Capital stock	-0.4
Hours worked	-0.3
Average wage	0
Consumption	2.2
Debt held by the public	9.3

Source: Penn Wharton Budget Model

## U.S. Total Outlays and Revenues



Source: Fitch Ratings, CBO

## U.S. Federal Debt



Source: Fitch Ratings, CBO

# Trade and Tariffs

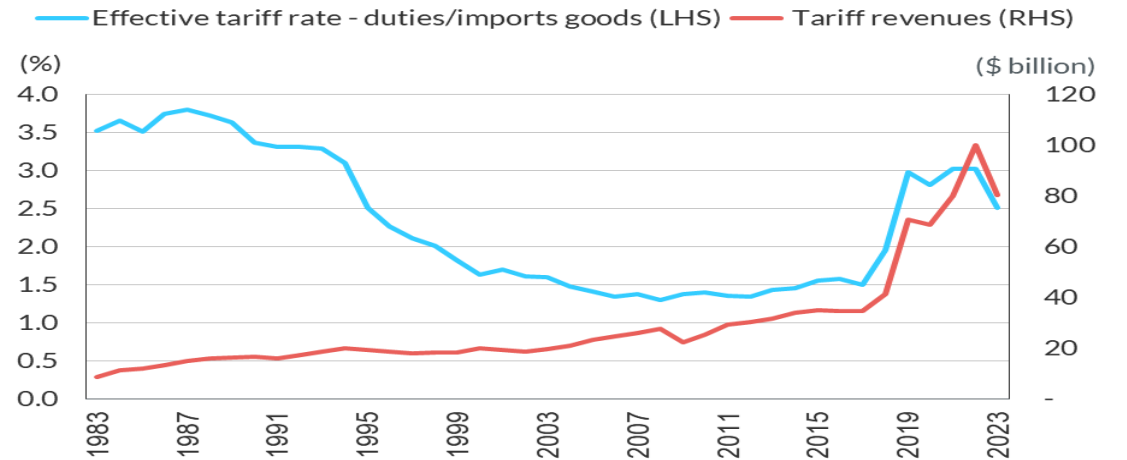
- Trump tariffs
  - Negative for growth
  - Inflationary
  - Lower funds rate – lower growth offsets higher inflation
  - Stronger dollar
  - Higher revenues – lower economic activities to offset some tariff revenue windfall

## Blanket U.S. Tariffs with Retaliation Would Mean Sharp Growth Slowdown

% difference from baseline	2025	2026	2027	2028
U.S.	-1.1	-1.1	-0.8	-0.6
Eurozone	-0.2	-0.7	-0.8	-0.8
China	-0.4	-0.9	-1.1	-1.2
Mexico	-0.8	-1.9	-1.9	-1.9
Canada	-1.1	-1.9	-1.5	-1.6
World (Fitch 20)	-0.4	-0.7	-0.7	-0.7

Notes: Scenario is based on sharp U.S. tariff increase (22pp above baseline) on China and 10% on the rest of the world, with equivalent retaliatory tariffs by China, the EU, Canada and Mexico.  
 Source: Fitch Ratings, Oxford Economics GEM

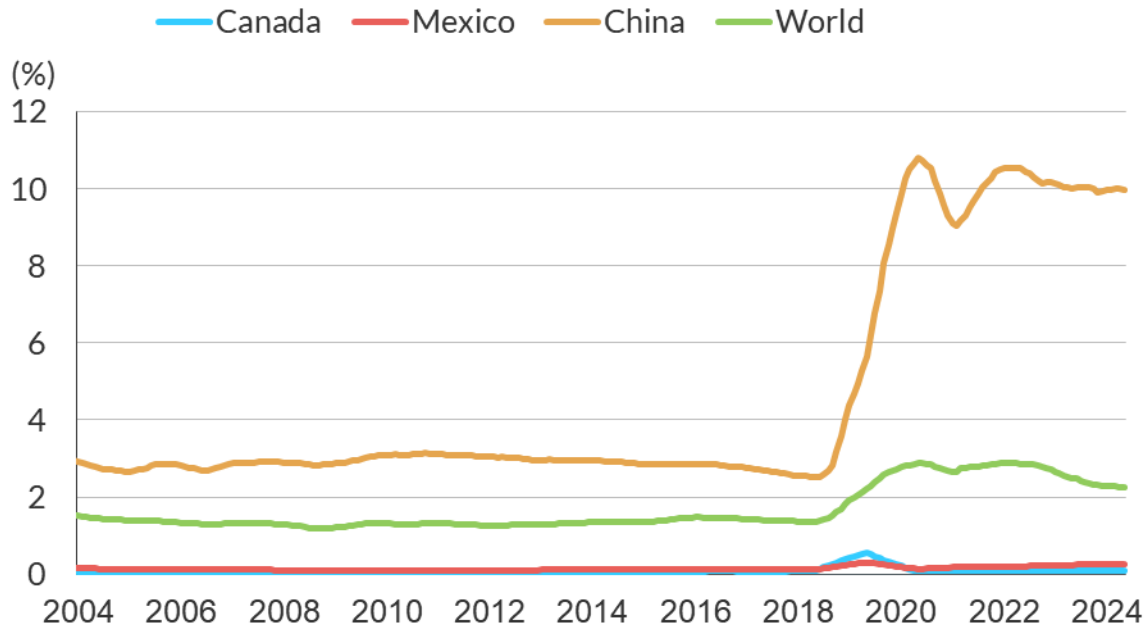
## US Customs Duties and Effective Tariff Rate



Source: Fitch Ratings, US BEA, US Treasury

# Trade and Tariffs – 10/60 Takes Effective Tariff Rate to 17%

U.S. Imports: Effective Tariff Rate



Source: Fitch Ratings, U.S. Census

US IMPORTS OF GOODS, IMPORT DUTIES & EFFECTIVE TARIFF RATES

USDbn, 2023

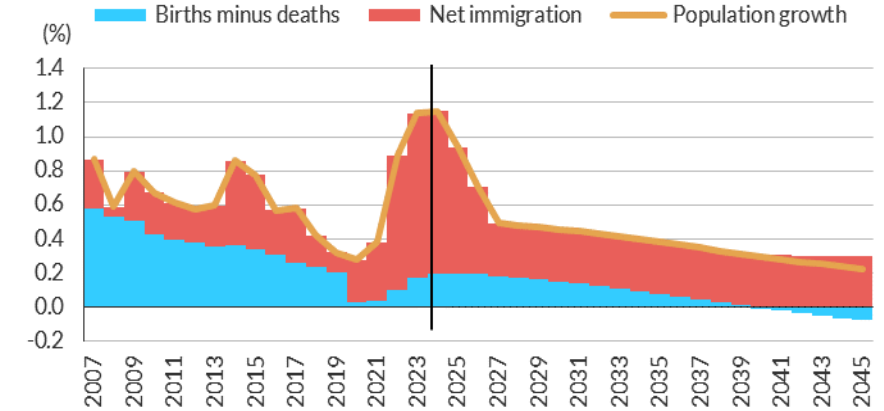
	Imports Goods	Duties	Effective Tariff Rate (%)	Dutiable Imports	Dutiable Rate (%)
	(1)	(2)	(3) = (2/1)	(4)	(5) = (2/4)
World	3,168	72.5	2.3	979	7.4
Mexico	480	1.2	0.3	54	2.3
China	448	44.5	9.9	258	17.2
Canada	430	0.4	0.1	89	0.4
Germany	163	2.2	1.4	71	3.2
Japan	152	2.3	1.5	77	3.0
Korea	120	0.2	0.2	8	2.8
Vietnam	119	4.6	3.9	41	11.2
Taiwan	90	1.1	1.2	21	5.0
India	87	2.1	2.4	35	5.8
Ireland	83	0.1	0.2	2	6.3
Other	998	13.8	1.4	323	4.3
EU	589	7.5	1.3	206	3.7
World exc. China	2,720	28.0	1.0	721	3.9
World exc China, Mexico & Canada	1,810	26.4	1.5	578	4.6



# Immigration

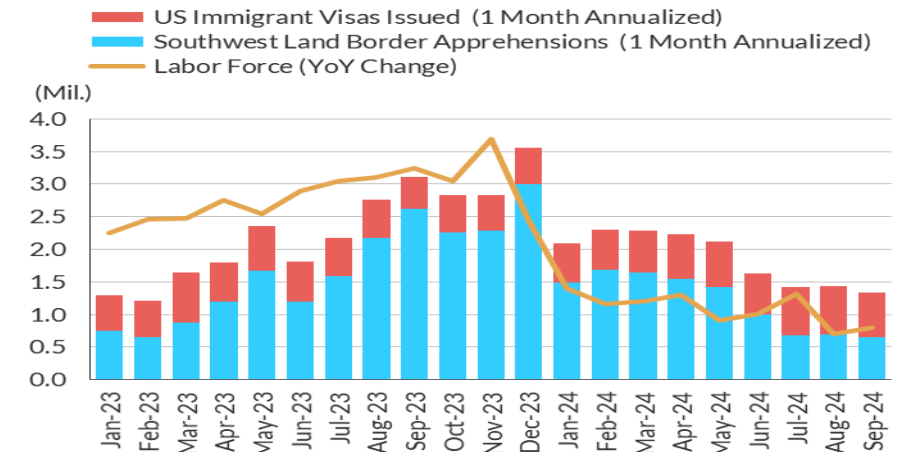
- Trump campaign proposals
  - Mass deportations of undocumented immigrants – 11 million plus
  - Increased border security
- Negative for economic growth, if deportation threat is executed
- Labor market tightness – renewed services inflation
  
- Immigration surge has normalized
  - Likely no significant impact on the labor market in the near term
  - Given demographic headwinds, hurt labor market longer-term

**U.S. Population: Actual and Forecast**



Source: Fitch Ratings, Congressional Budget Office

**U.S. Labor Force vs Immigration**



Source: Fitch Ratings, Bureau of Labor Statistics

# Immigration – Undocumented Migrants Could Be Up To 15 Million

Unauthorized Immigrant Population Estimates by Period of Entry

Period of Entry	2022
1980–1990	1,460
1990–1999	3,360
2000–2009	3,860
2010 or later	2,310
<b>Total</b>	<b>10,990</b>

Source: Department of Homeland Security

Unauthorized Immigrant Population Estimates by Age (thousands)

Age	2022
Under 18	1,230
18–24	760
25–34	2,120
35–44	3,380
45–54	2,420
55 and over	1,080
<b>Total</b>	<b>10,990</b>

Source: Department of Homeland Security

Estimates of the Unauthorized population by State of Residence

State (000)	2022	% of LF	% of Pop.
California	2,600	14%	7%
Texas	2,060	14%	7%
Florida	590	6%	3%
New Jersey	490	10%	5%
Illinois	420	7%	3%
New York	410	4%	2%
North Carolina	360	7%	3%
Georgia	340	7%	3%
Washington	340	9%	4%
Arizona	290	8%	4%
<b>All others</b>	<b>3,090</b>	<b>4%</b>	<b>2%</b>
<b>Total</b>	<b>10,990</b>	<b>7%</b>	<b>3%</b>

Source: Department of Homeland Security

Estimates of the Unauthorized population by Country of Birth

Country (000)	2022
Mexico	4,810
Guatemala	750
El Salvador	710
Honduras	560
Philippines	350
Venezuela	320
Colombia	240
Brazil	230
India	220
China	210
All others	2,600
<b>Total</b>	<b>10,990</b>

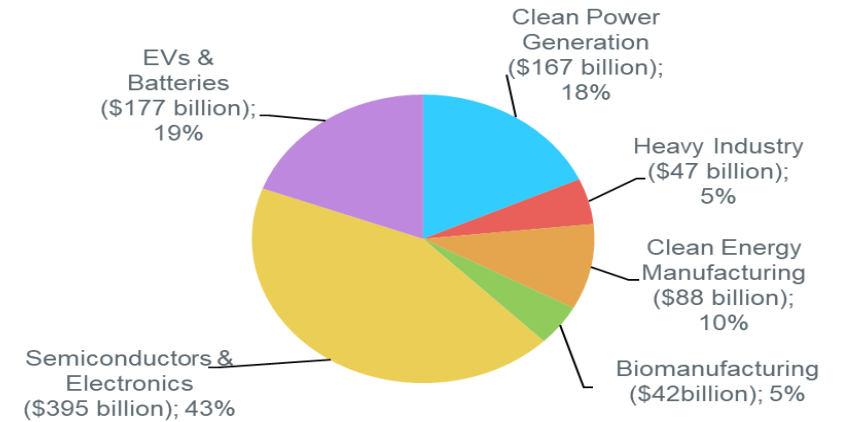
Source: Department of Homeland Security

# Regulation

## Trump campaign proposals

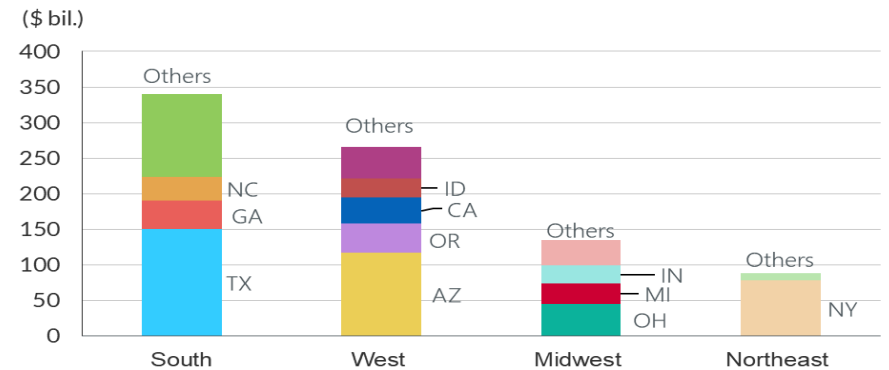
- Healthcare - Obamacare
- IRA - Medicare drug price provisions
- Softening of climate regulations
  - Partial repeal of IRA
- Financial deregulation
- Oil & gas
  - Expand fossil fuel production
- Federal reserve independence

U.S. Investment Announcements  
Per CHIPS Act and Inflation Reduction Act



Source: Fitch Ratings, Invest.gov

Announced Investments per CHIPS Act & IRA  
By Region Through May 2024

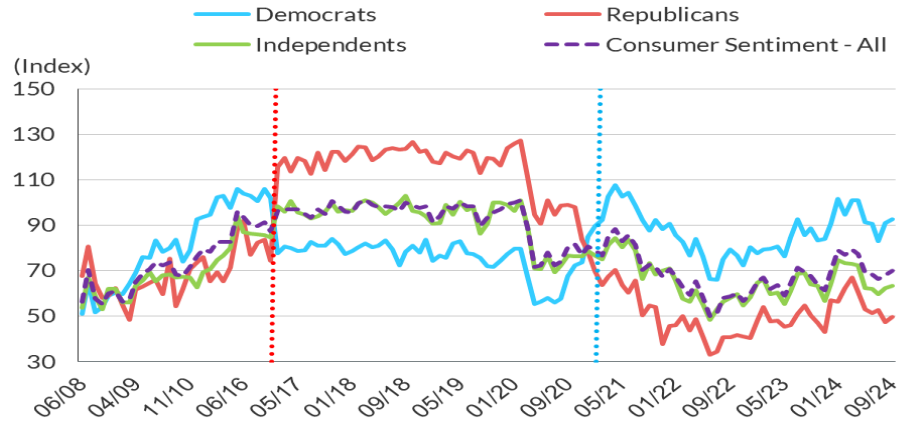


Source: Fitch Ratings, Invest.gov

# Sentiments – Consumers & Investors

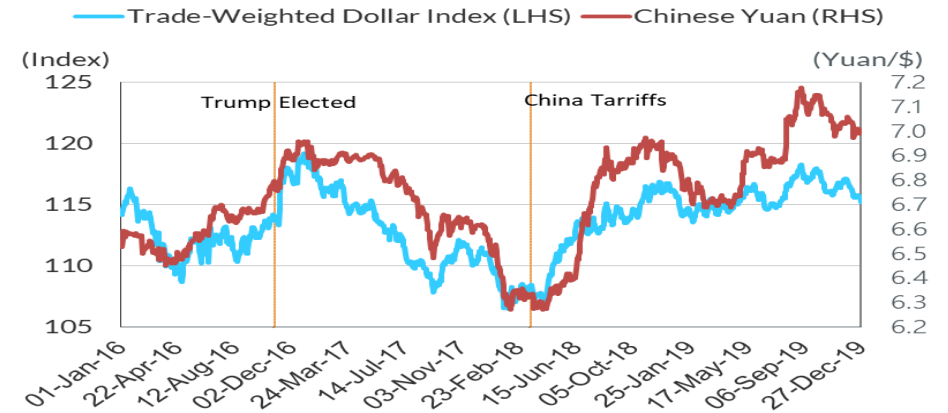
- Consumer sentiment now disconnected from spending
- Tariffs – Likely stronger dollar
  - USD strength could be offset by any effort to devalue
- Corporate tax cuts - Good for margins and stocks
- Treasuries – Higher deficits, potentially higher yields

U.S. Consumer Sentiment by Polical Affiliation



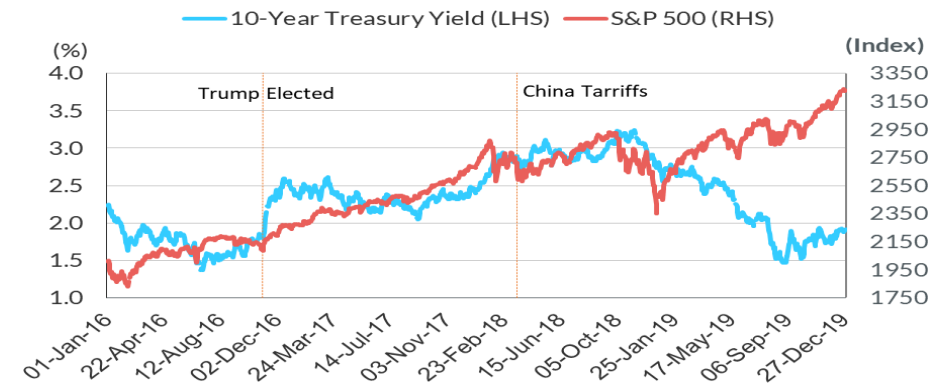
Source: Fitch Ratings, University of Michigan

U.S. Dollar Index and Chinese Yuan



Source: Fitch Ratings, Federal Reserve

U.S. Treasury Bonds & Stock Market



Source: Fitch Ratings, Federal Reserve

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