



# US Economic Prospects: Uncertainty Amid Policy Shifts

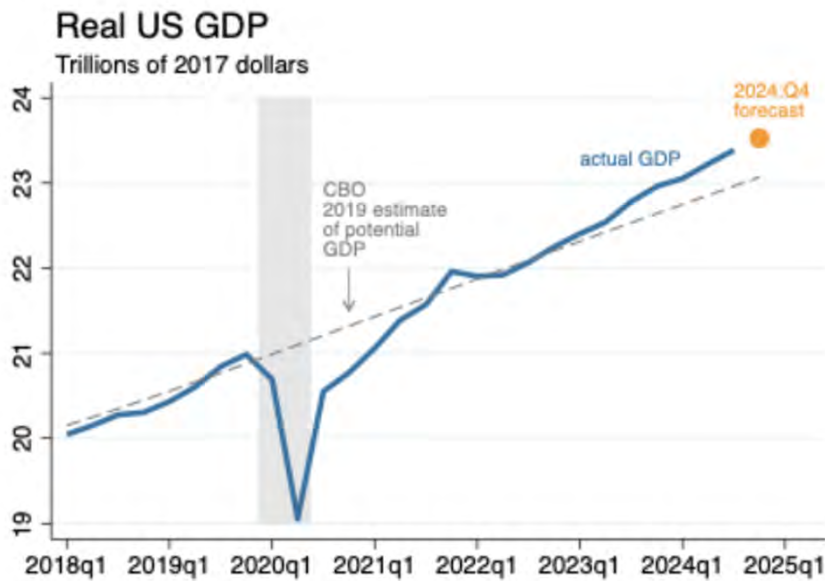
**Karen Dynan**

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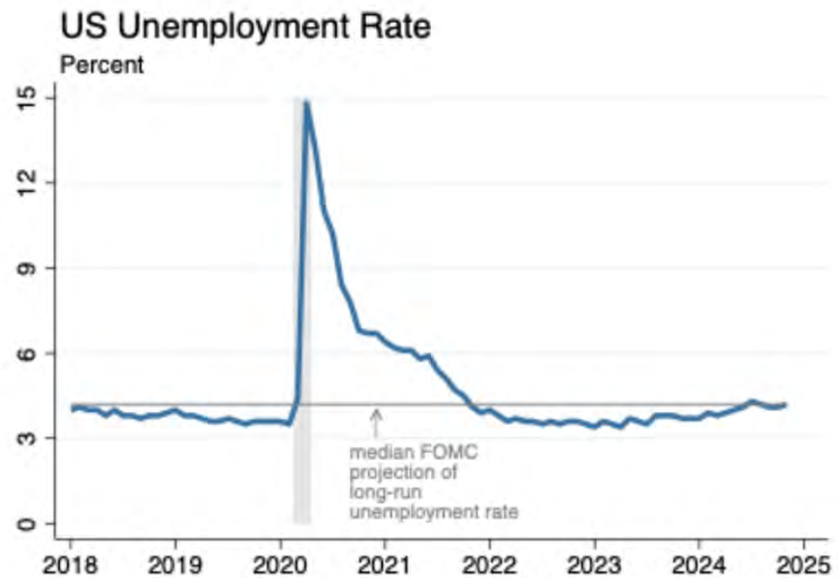
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# The US economy is on very solid footing going into 2025



Source: Author's forecast, Bureau of Economic Analysis, and Congressional Budget Office. Potential GDP series level-adjusted to reflect revisions to GDP since 2019. Shaded area corresponds to recession.



Source: Bureau of Labor Statistics and September 2024 Federal Reserve Survey of Economic Projections. Shaded area corresponds to recession. Last data point: November 2024.

# People and businesses have been expecting US economic activity to remain robust

### Household Expectations for Real Spending Growth over Next Year by Income

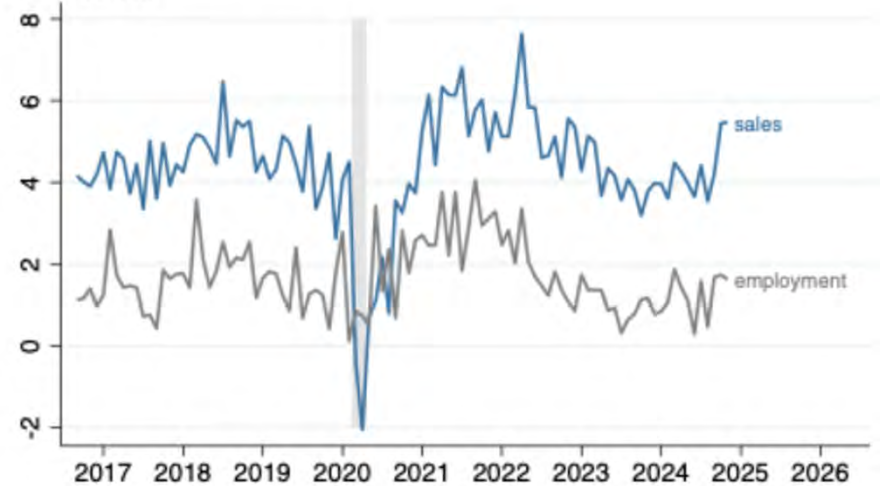
Percent, 3-month moving average



Source: Survey of Consumer Expectations, Federal Reserve Bank of New York. Median expected spending minus median inflation expectations for each group. Shaded area corresponds to recession. Last data point: November 2024.

### Business Expectations for Sales and Revenue Growth over Next Year

Percent



Source: Atlanta Fed Survey of Business Uncertainty (unsmoothed series). Shaded area corresponds to recession. Last data point: November 2024.

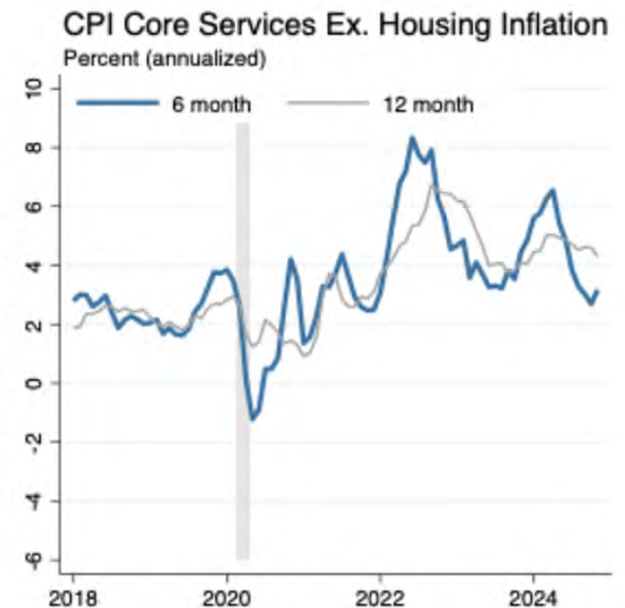
# US inflation has come down toward its pre-pandemic range (consistent with Fed target)



Source: Bureau of Labor Statistics (via FRED).  
Shaded area corresponds to recession. Last data point: November 2024.



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Source: Bureau of Labor Statistics and authors' calculations (via FRED).  
Shaded area corresponds to recession. Last data point: November 2024.

# Interpreting US economic developments over the last several years

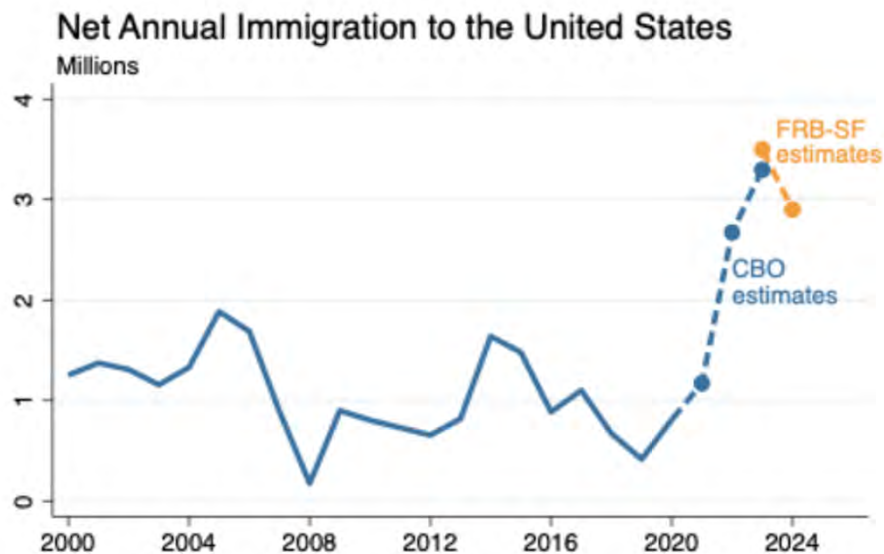
The available evidence is consistent with the inflation surge arising primarily from US demand increasing to levels beyond what the economy could produce—i.e., **the economy moving onto a steeper part of the aggregate supply curve** (Dynan and Elmendorf, forthcoming)

More recently the combination of robust activity and disinflation primarily reflects:

**Some ebbing of demand** from tighter monetary policy and dwindling pandemic savings

**And favorable supply developments** (elevated immigration, increases in labor force participation)

# Changes with the new Administration—immigration policy



Source: Congressional Budget Office 2024 Demographic Outlook and Duzhak (FRBSF Blog, November 2024). Points on dashed lines are estimates.

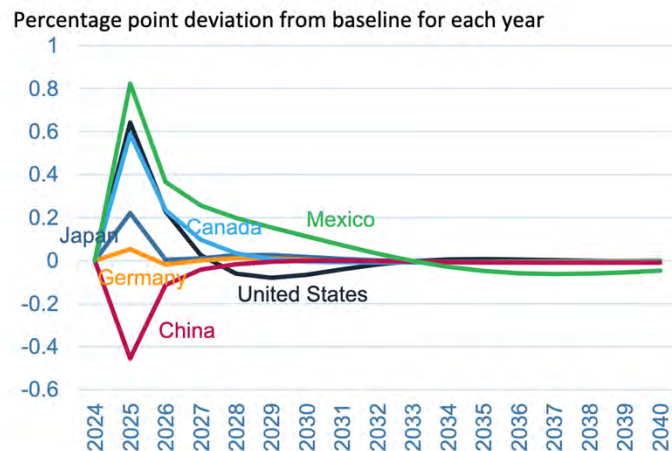
**Immigration has already fallen** from its 2023 peak

Some people are skeptical that deportations will be as large as promised during the election

But, even with less-aggressive deportations, there may be a **significant “chilling effect”** on would-be immigrants and businesses that hire undocumented immigrants

# Changes with the new Administration— trade policy

Projected Change in Inflation from an  
Additional 10pp Increase in US Tariffs  
on Imports from All Trading Partners



Screenshot from [McKibbin, Hogan, and Noland \(2024\)](#)

**Direct effects:** higher inflation, higher interest rates, lower growth, supply chain disruptions

**Further effects:** retaliation from other countries, more uncertainty and disruptions due to likely variation across targets and over time in response to domestic pressures and international bargaining

Albeit with **some revenue raised**

# Changes with the new Administration— deregulation

## Key Targets for Easing of US Regulation and Enforcement

Energy production  
Environmental protection  
Permitting of infrastructure building  
Financial (including crypto)

A business-friendly deregulatory agenda might have **positive effects via confidence**

But **uncertainty** about what will change and whether changes will stick may stall business action

**Hard evidence is lacking** on whether deregulation can significantly boost GDP growth

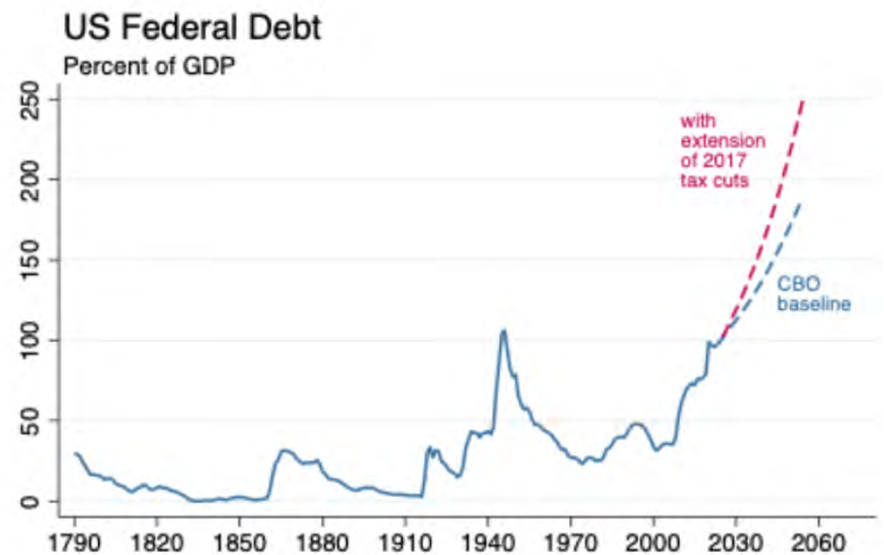


# Changes with the new Administration—fiscal policy

Extending the 2017 tax cut alone would just maintain the current level of fiscal support: **no direct effects on activity**

Of course, more might be done

Even just extending the tax cut **would significantly raise the path of federal debt** from already high levels so a big question is how much the changes will push up interest rates



Source: Author's calculations and supplementary data files for Congressional Budget Office Budget and Economic Outlook documents. Dashed line shows the March 2024 projection adjusted to be consistent with the June 2024 revisions to the 10-year outlook. Alternative calculation assumes only tax cut extension (no other policy changes). Last data point: 2054.

# Taking stock

An important **lesson from the recent inflation surge**: need to be very careful about putting in place policies that risk pushing aggregate demand in territory where supply is very constrained

On the demand side, 2025 will bring still-strong fundamentals, along with **potential new tailwinds** (via confidence, stimulus) and **potential new headwinds** (via uncertainty, lower real income)

On the supply side, 2025 will bring **new constraints** from deportations and supply chain disruptions but **possible boosts** from productivity (via AI) and deregulation

## Different scenarios for 2025

**Policy results in cross-currents that leave US economy largely on track (75%)**

Policy does not change as much as might be expected; confidence remains strong; good realizations on the supply side with from AI and deregulation

**Policy changes move US economy toward slower growth, possible stagflation (25%)**

Policy changes induce meaningful adverse supply shocks; fiscal changes erode market confidence; inflation and interest rates pick up, momentum stalls with elevated risk of recession



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