

# National Economic Outlook

March 25, 2025

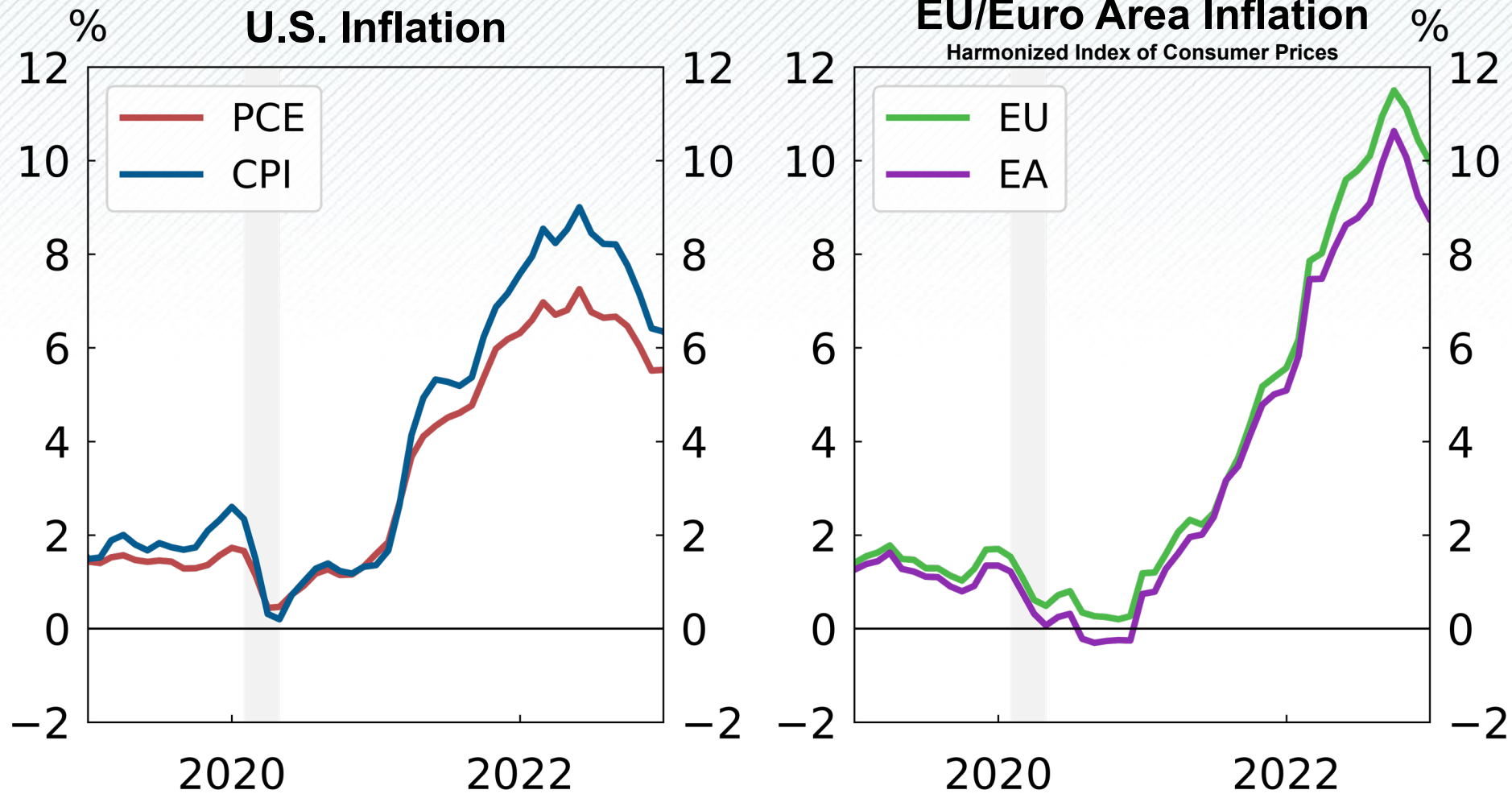
Regional and Community Banking Conference

**Kartik Athreya, Federal Reserve Bank of New York**

*Slides prepared by William Zeng, Jonathan McCarthy, Eric LeSueur*

*The views here are of the presenter and do not necessarily represent those of the Federal Reserve Bank of New York or Federal Reserve System.*

## Where We've Been: Two Years Ago, We Experienced A Pandemic-Induced Burst of Inflation

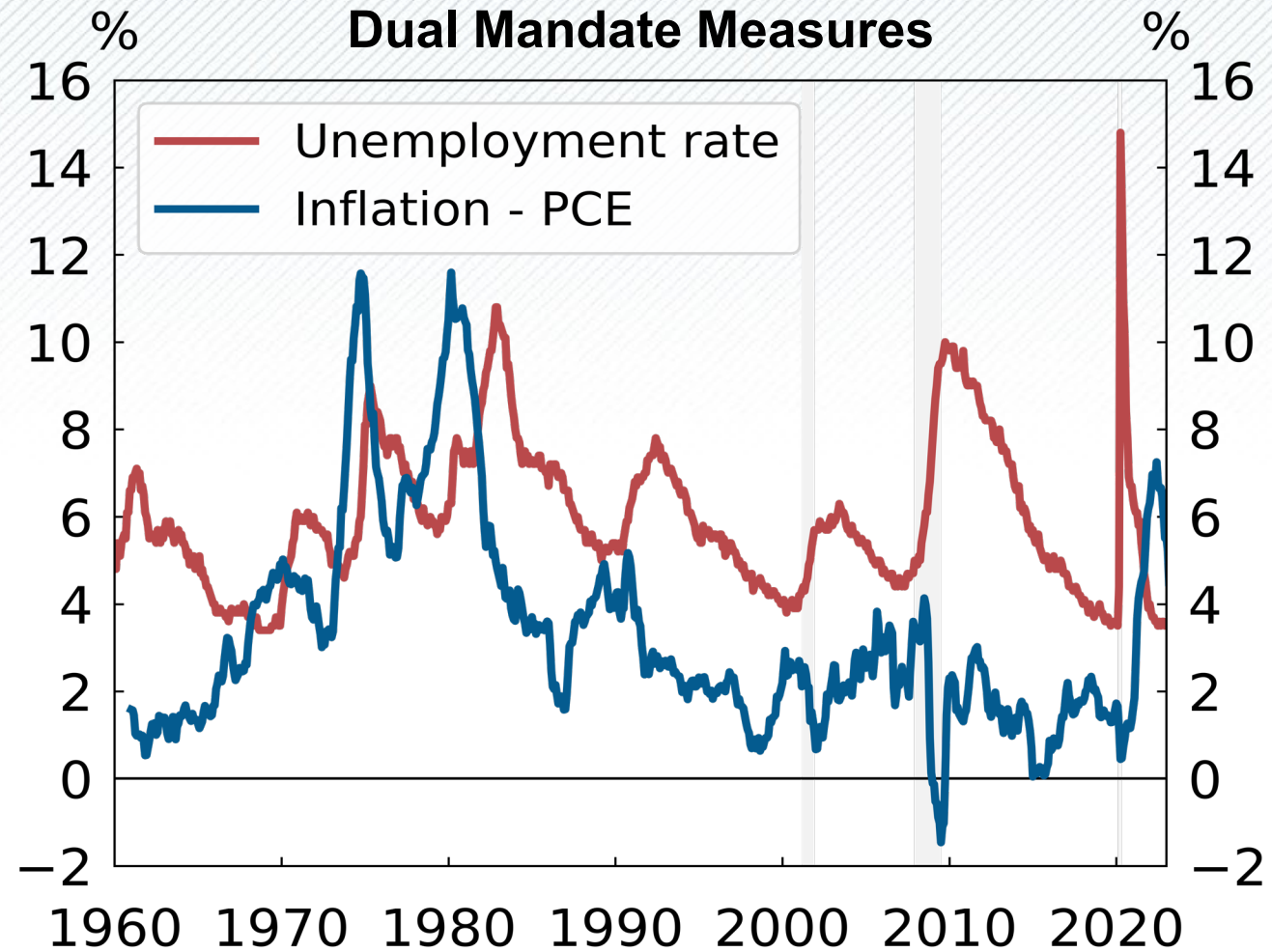


Sources: Haver Analytics, Bureau of Labor Statistics, European Central Bank, Statistical Office of the European Communities

## The Challenge: Could Disinflation Be Done Without a Recession?

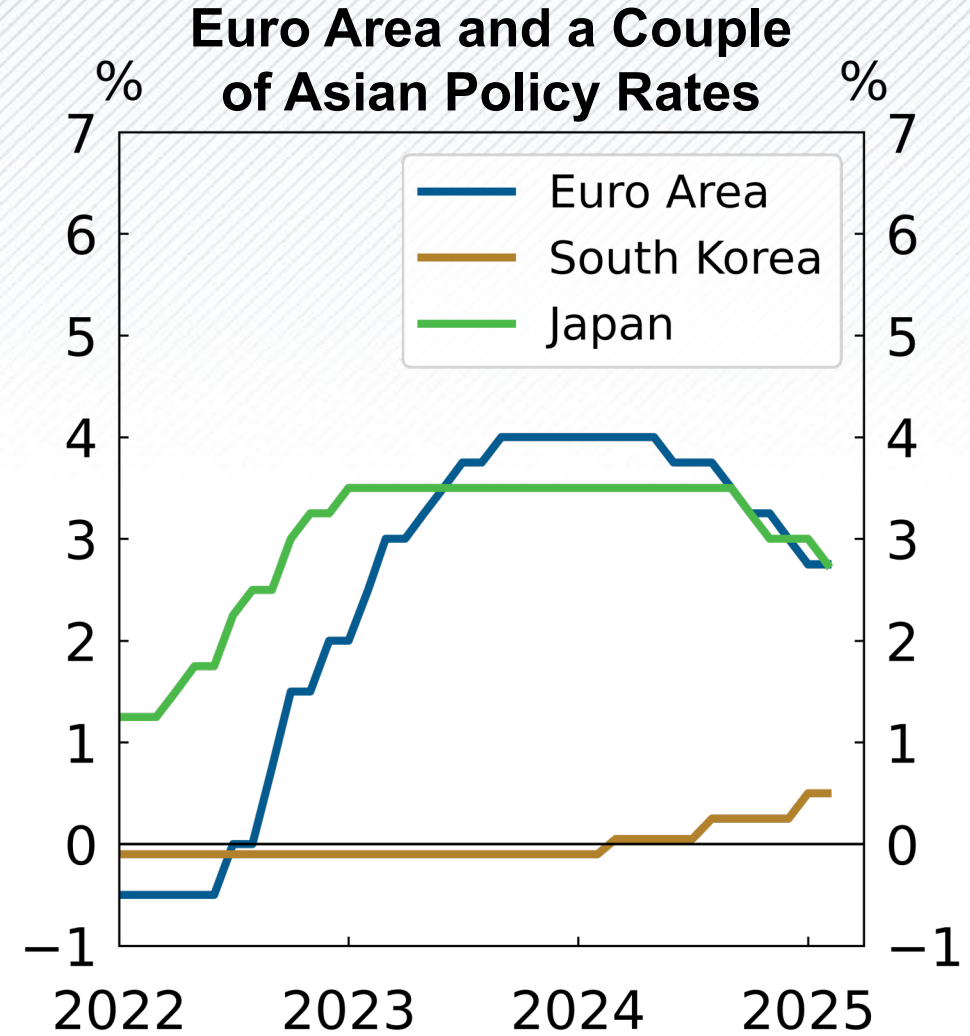
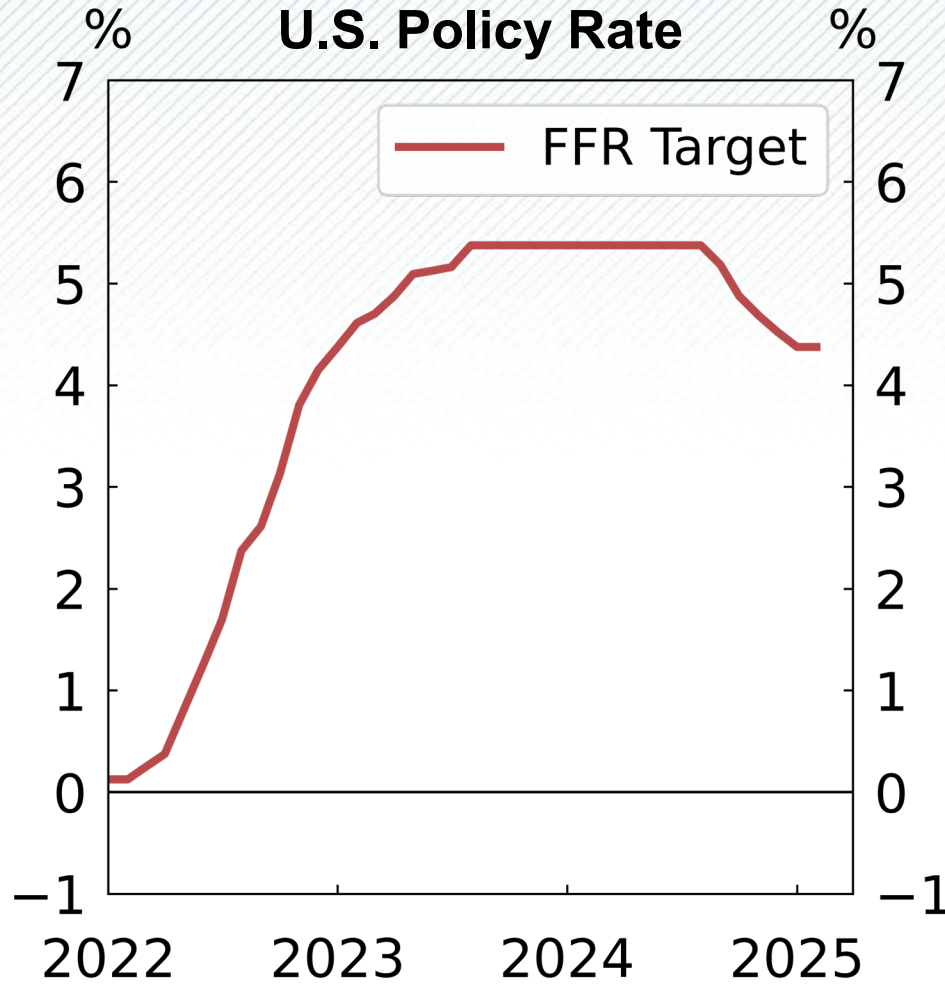
Why was this seen as a challenge?

- Conquests of inflation, or at least, disinflation, have at times been very costly.
- Early 1980s U.S: Inflation lowered, but at the cost of highest unemployment in post-WWII era until COVID hit.



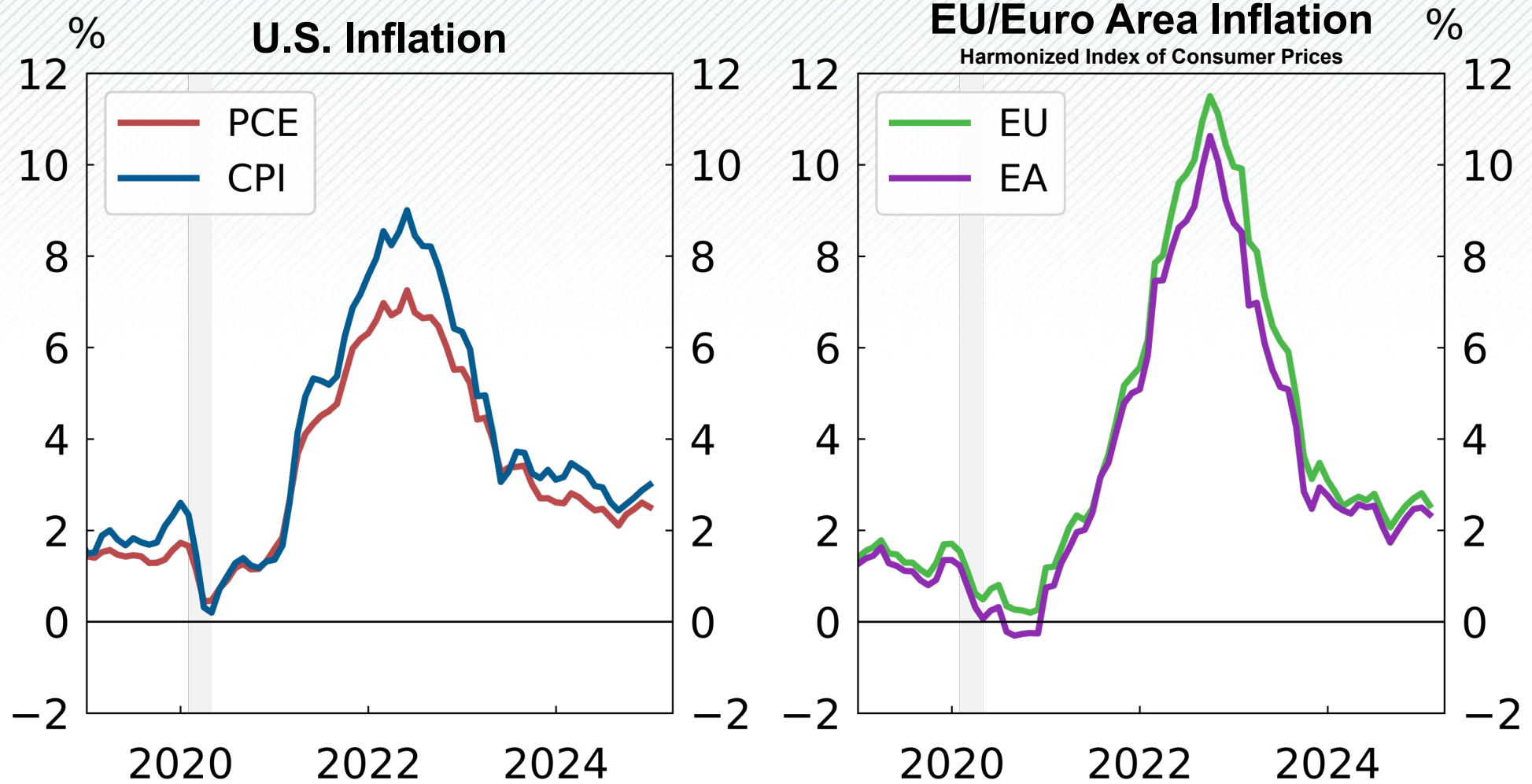
Sources: Haver Analytics, Bureau of Labor Statistics

## Challenge... Accepted



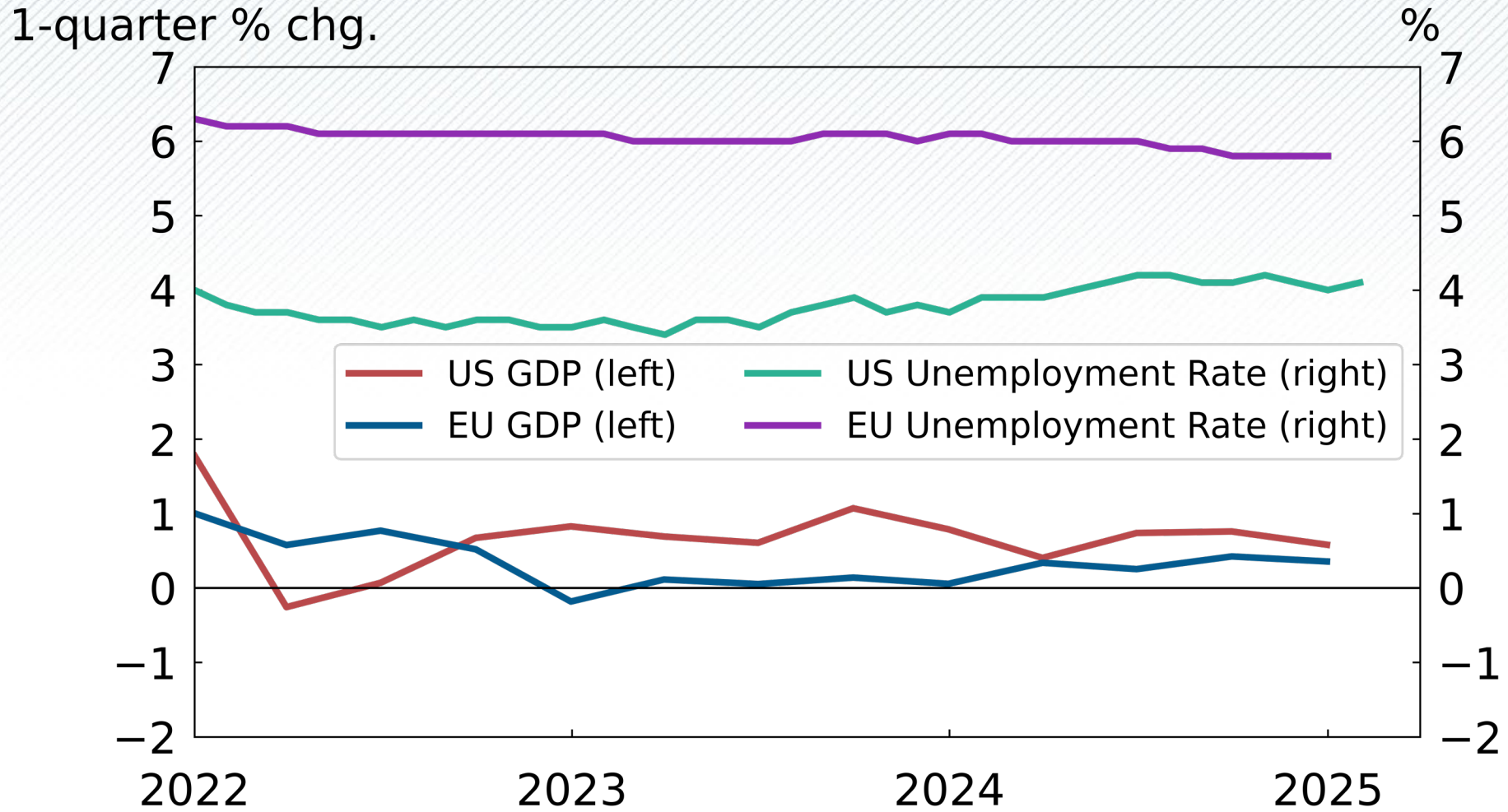
Sources: Haver Analytics, Bureau of Labor Statistics, European Central Bank, Statistical Office of the European Communities

## So Far: Inflation Challenge Closer to Being Met..



Sources: Haver Analytics, Bureau of Labor Statistics, European Central Bank, Statistical Office of the European Communities

## And So Far, No Trauma in the “Real” Economy...

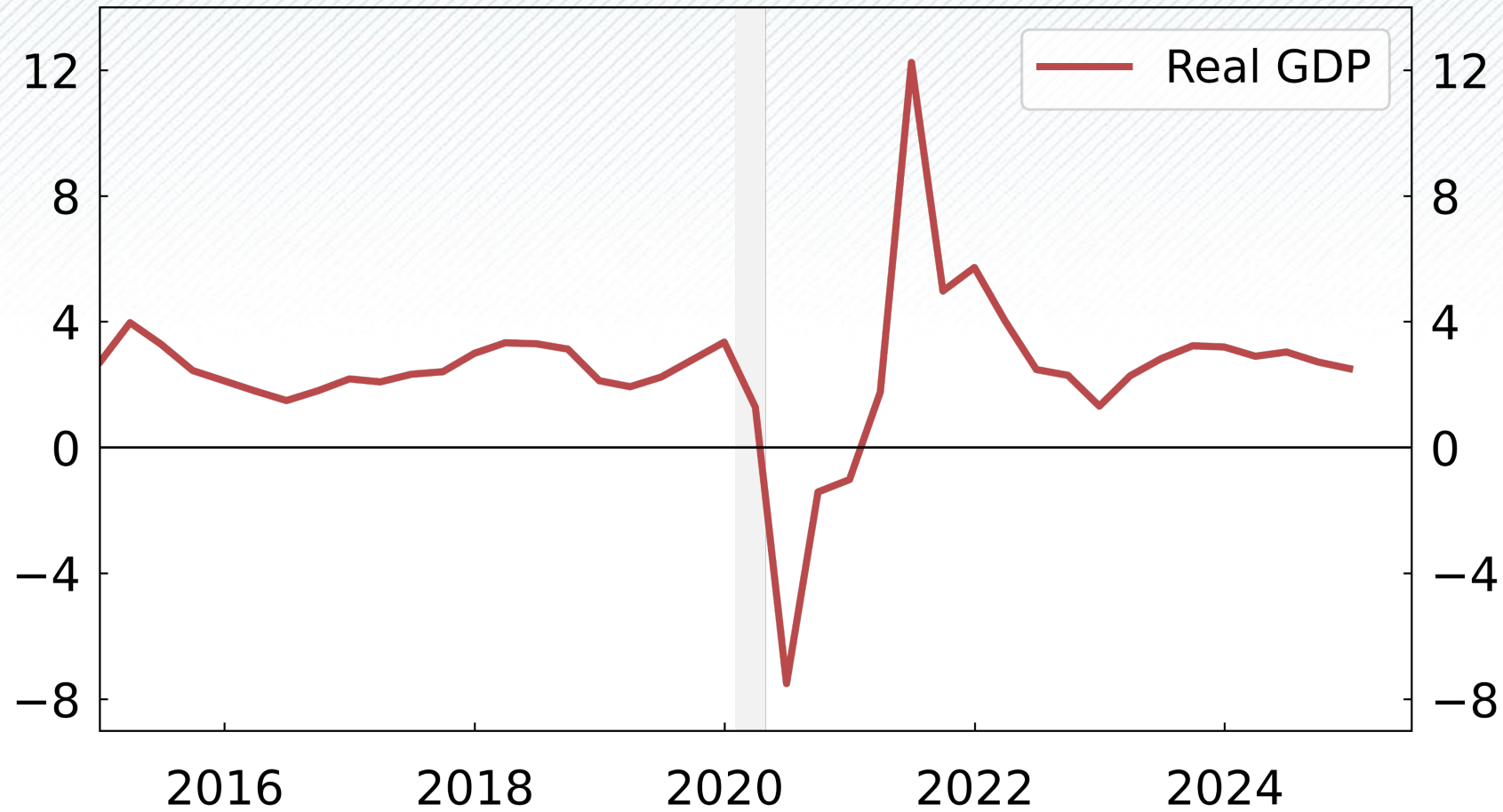


Sources: Haver Analytics, Bureau of Economic Analysis, Bureau of Labor Statistics, Statistical Office of the European Communities

### Zooming Out For More Perspective...

4-quarter % chg.

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Sources: Bureau of Economic Analysis via Haver Analytics

# The FOMC Met Last Week

- *...In support of its goals, the Committee decided to **maintain the target range for the federal funds rate at 4-1/4 to 4-1/2 percent**. 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. The Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities. Beginning in April, the Committee will **slow the pace of decline of its securities holdings** by reducing the monthly redemption cap on Treasury securities from \$25 billion to \$5 billion. The Committee will maintain the monthly redemption cap on agency debt and agency mortgage-backed securities at \$35 billion. The Committee is strongly committed to supporting maximum employment and returning inflation to its 2 percent objective.*

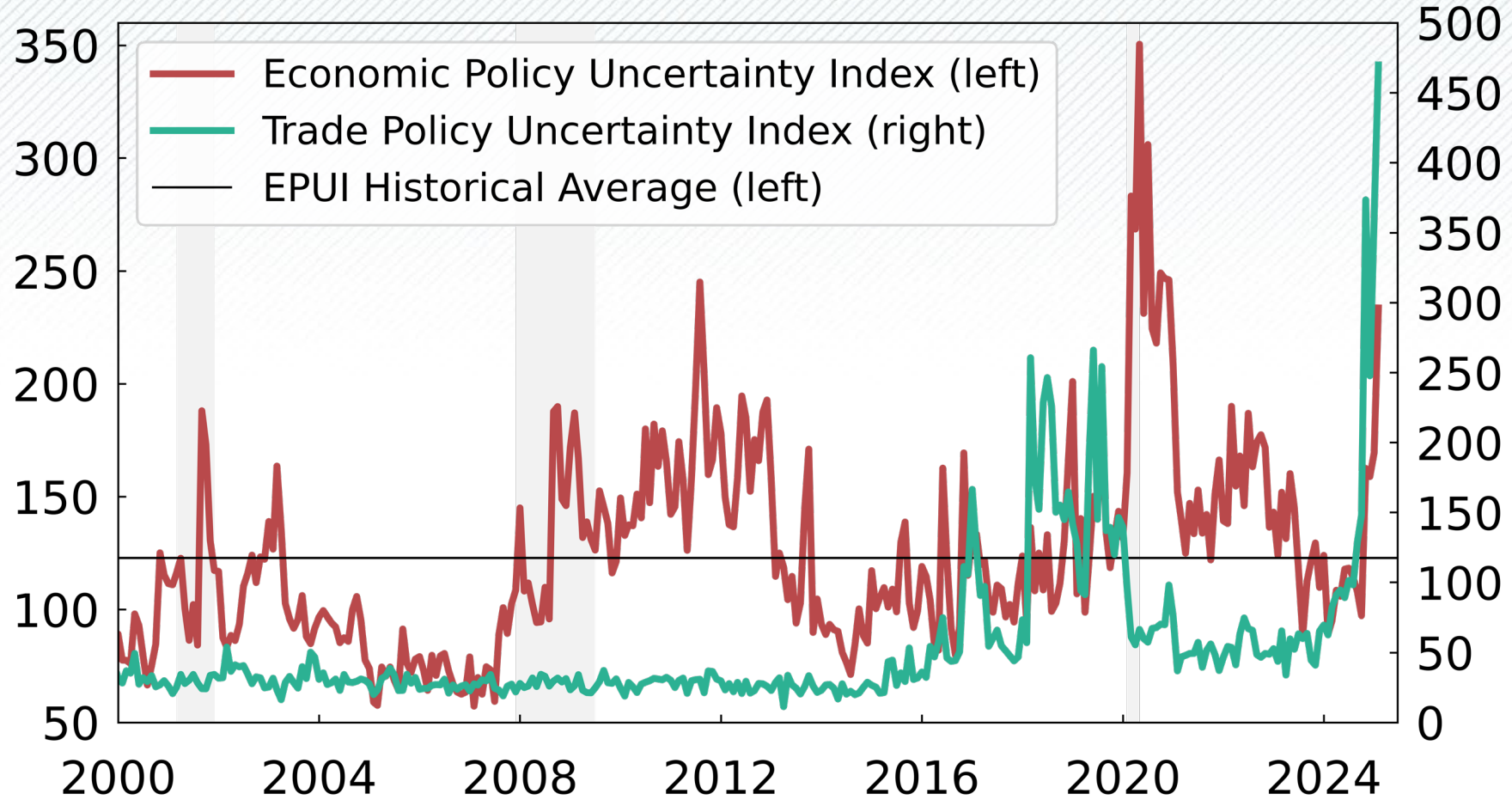


# Where We Are: A Nutshell

- **Growth:**
  - Real GDP grew at a 2.3% annual rate in 2024Q4, SEP suggests mid 1s in Q1
- **Labor market**
  - Conditions remained balanced, but surveys suggest some softening
- **Inflation**
  - Slightly elevated still

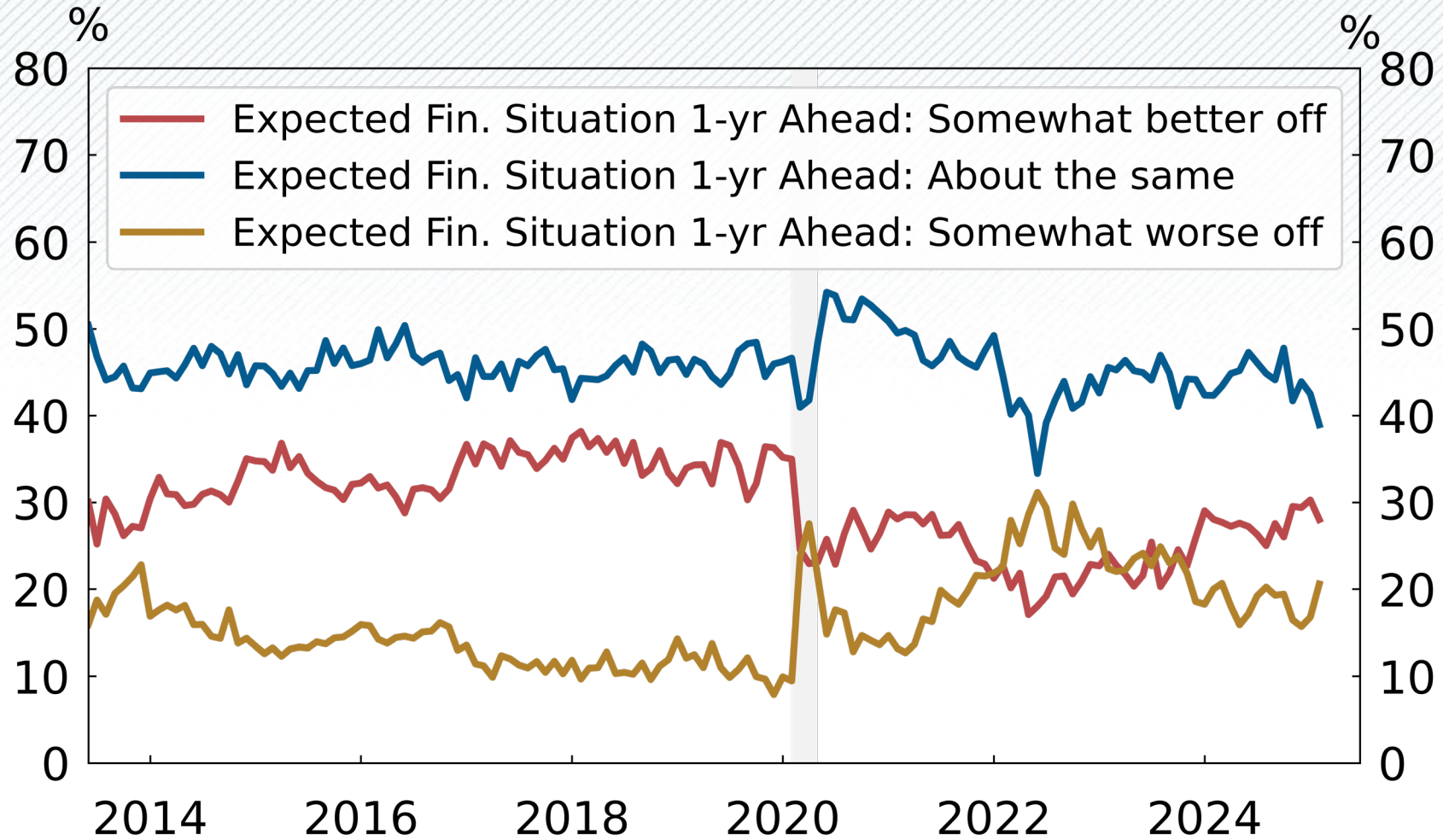
**Ok, so that's all fine, but where to next?**

## In Case You Need A Weatherman...



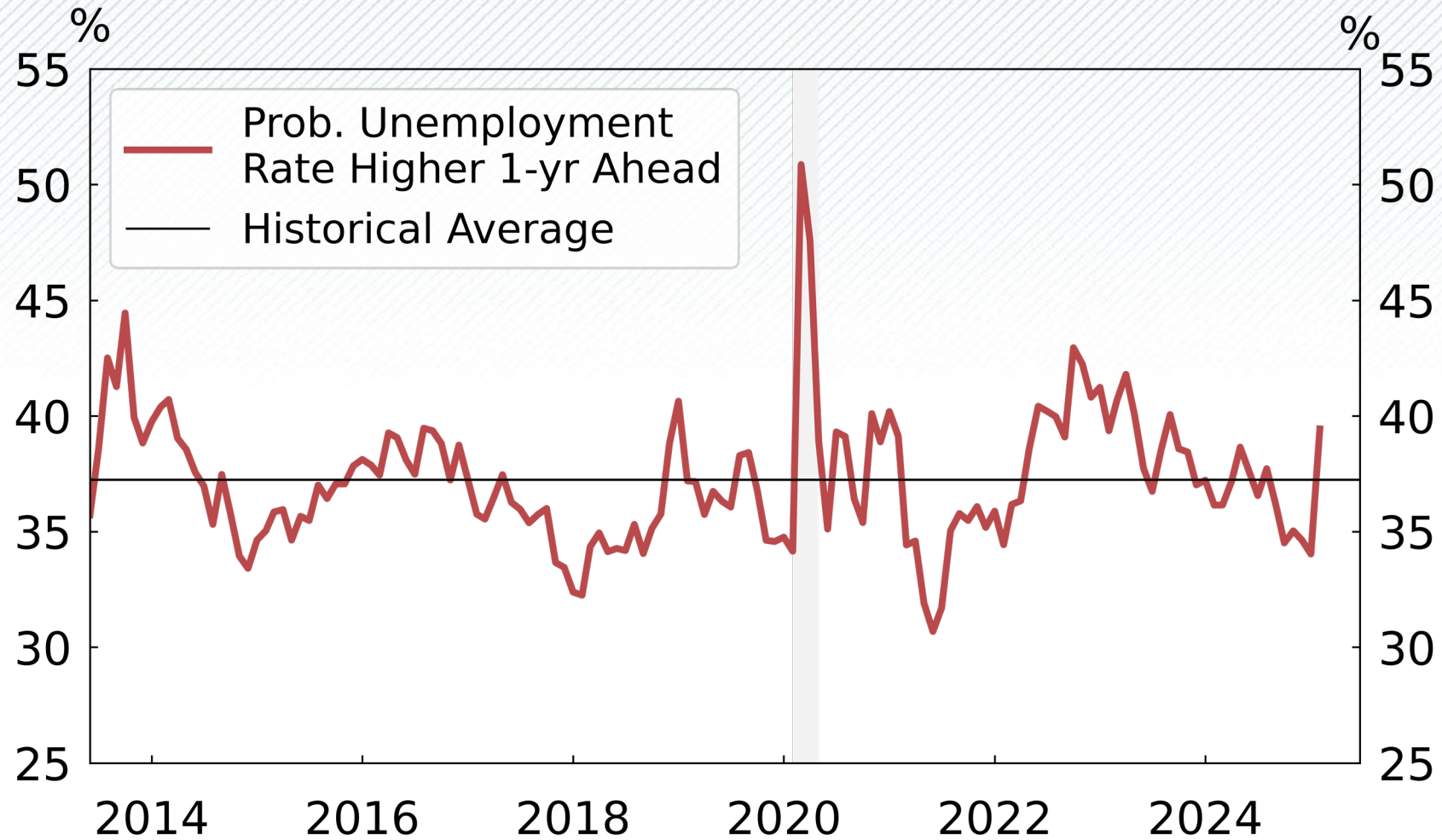
Sources: PolicyUncertainty.com (Baker, Bloom, Davis), Matteo Iacoviello via Haver Analytics

## Households Perhaps Starting to Feel Headwinds...



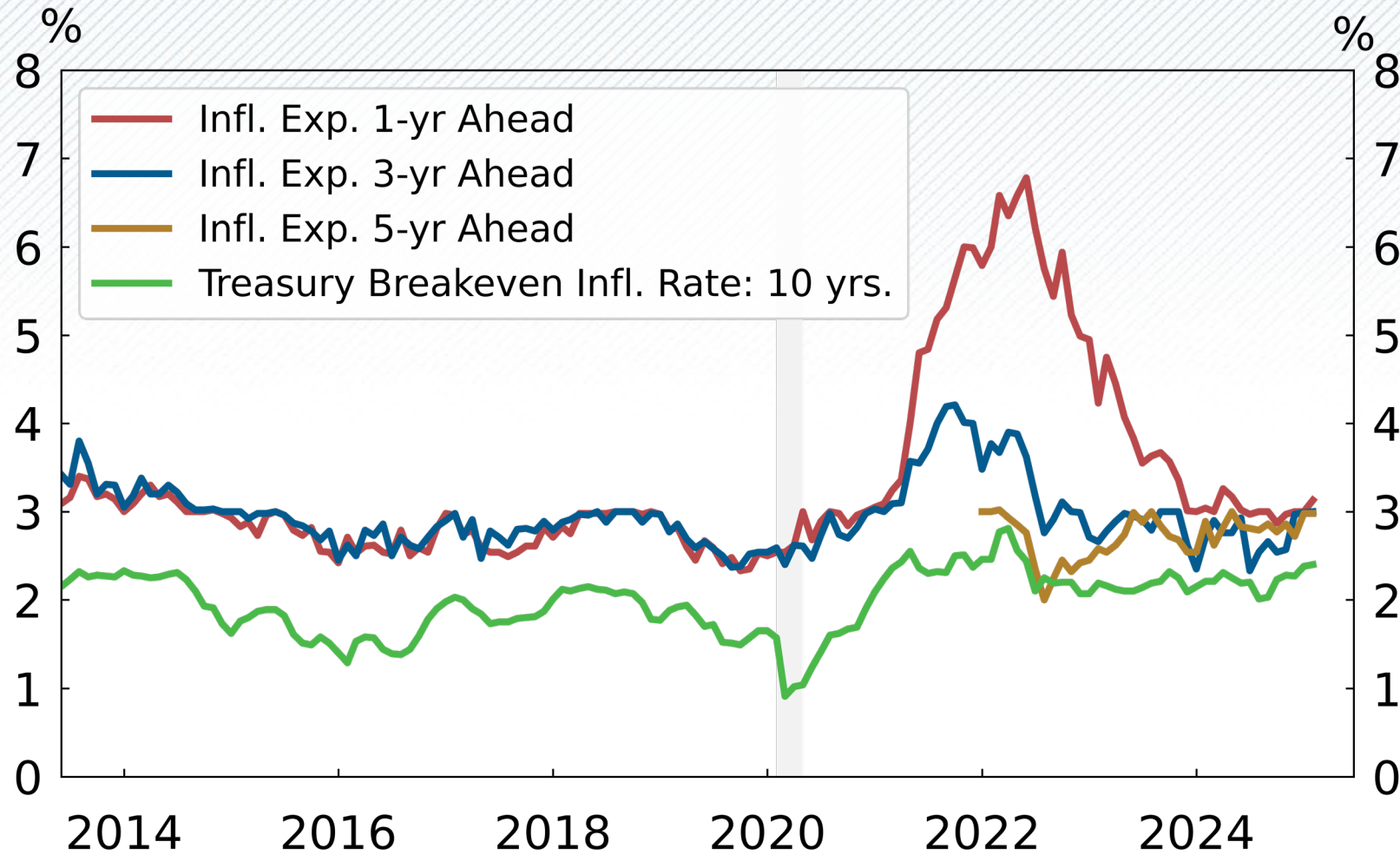
Sources: NY Fed Survey of Consumer Expectations via Haver Analytics

## Labor Market Concerns Have Risen...



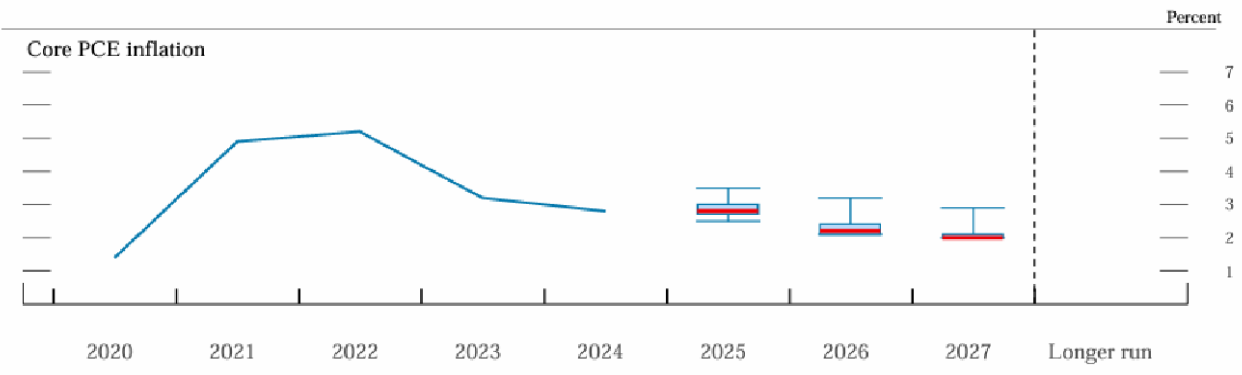
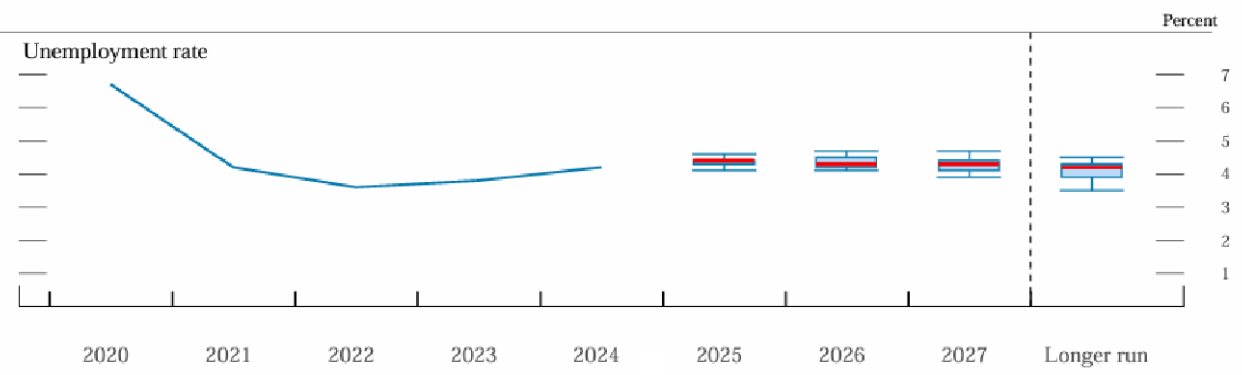
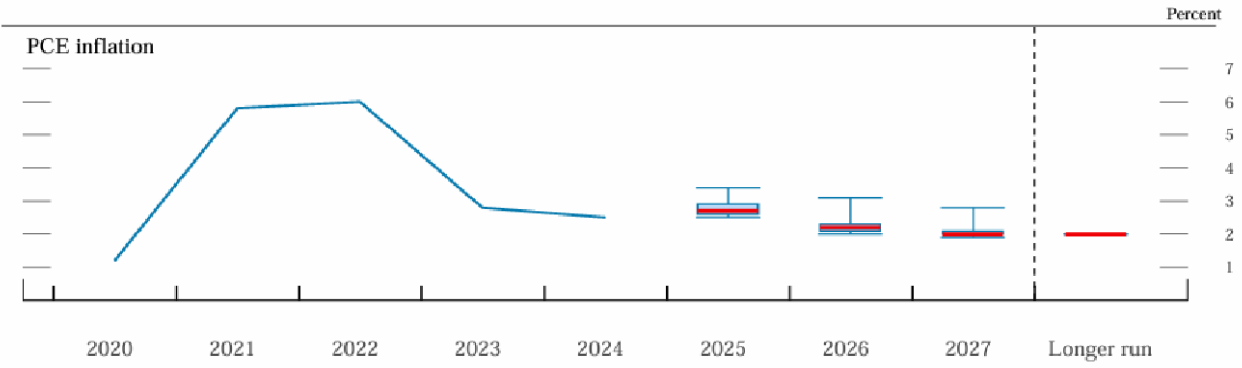
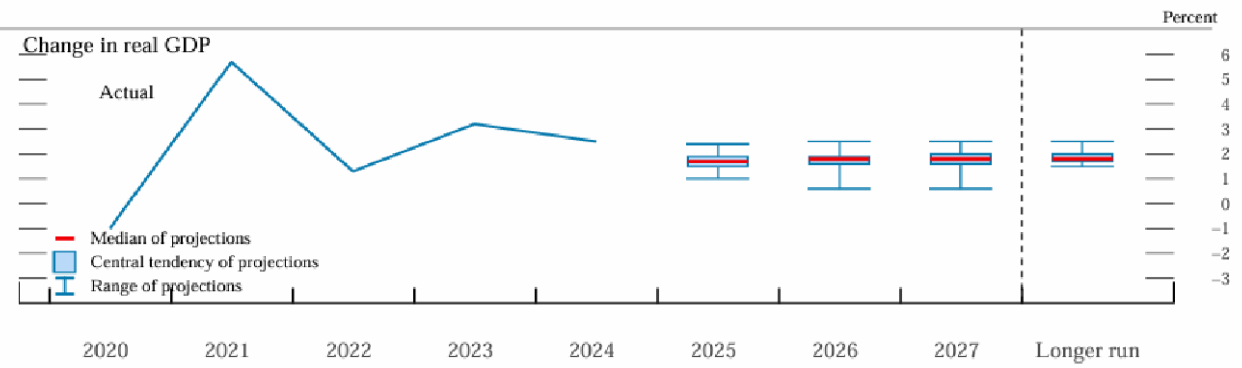
Sources: NY Fed Survey of Consumer Expectations via Haver Analytics

## But, Critically, Inflation Expectations Remain Anchored...



Sources: NY Fed Survey of Consumer Expectations, U.S. Treasury via Haver Analytics

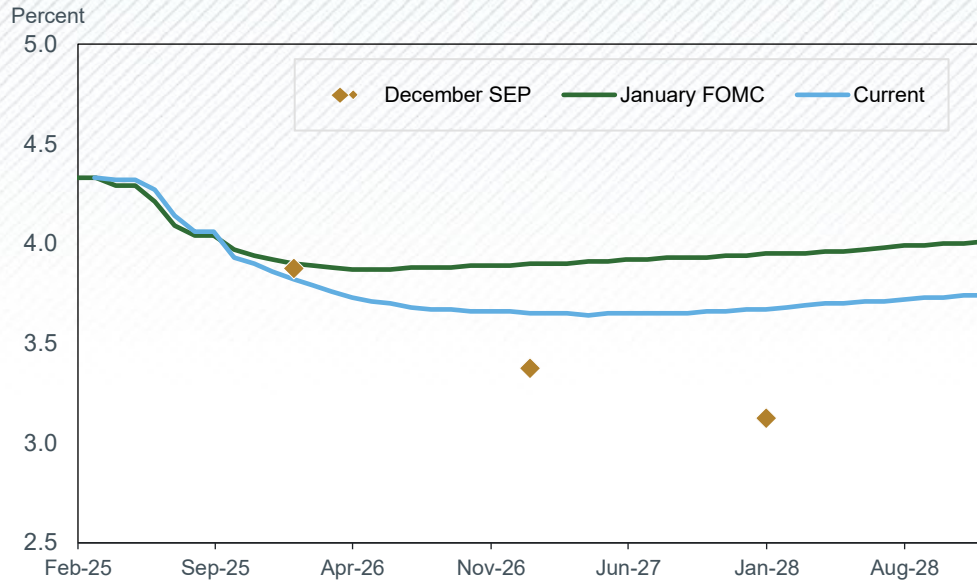
# The FOMC Members' Economic Projections



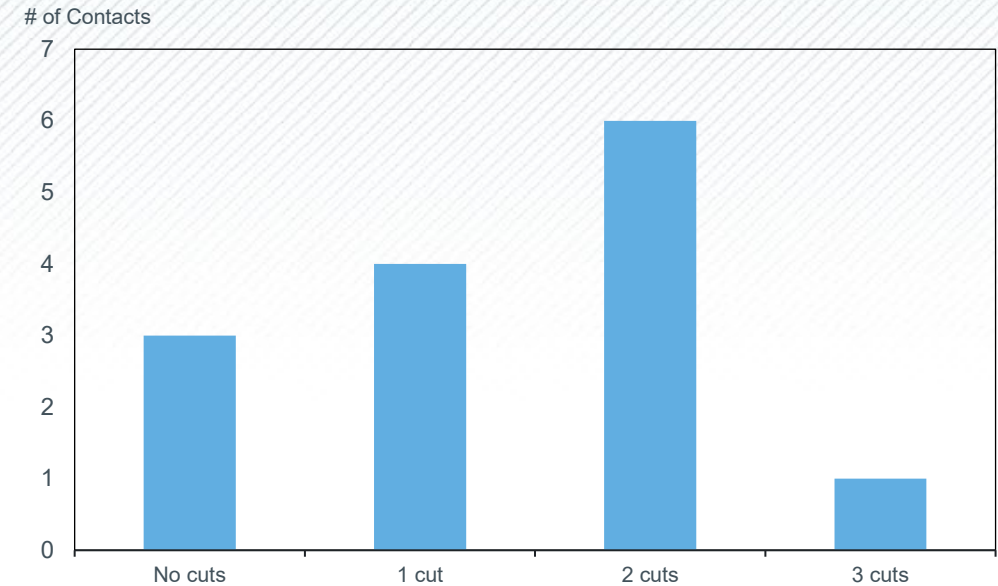
Sources: Federal Reserve Board

# Where To? Market-implied Rate Path has Shifted Lower Since the January FOMC; Baseline Expectations Remain Dispersed

Federal Funds Rate Path (From Futures)



Expected 25 Basis Point Rate Cuts in 2025



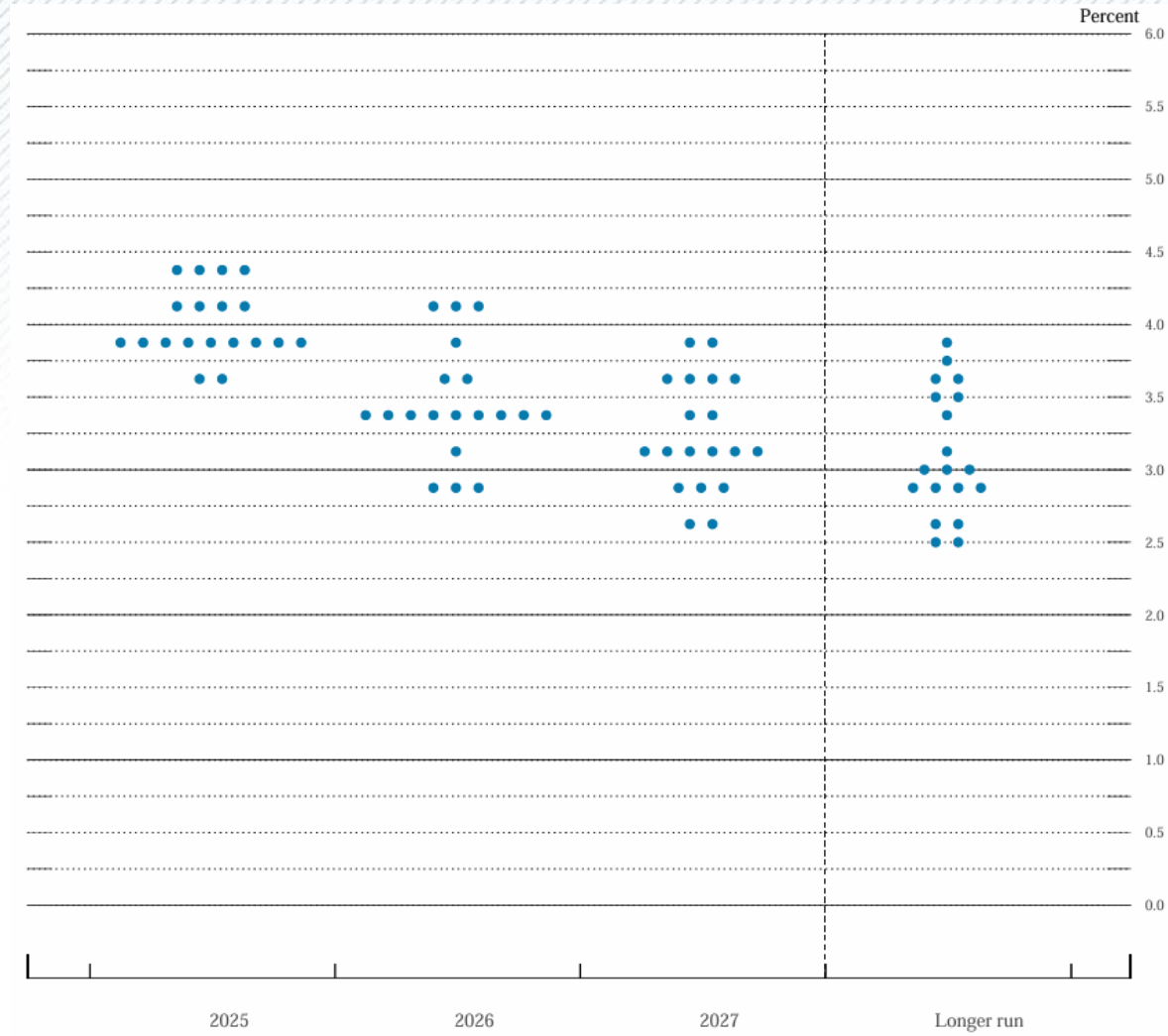
- The futures-implied policy rate path currently indicates about two rate cuts by year-end 2025.
- Among contacts who have updated their 2025 policy rate expectations since the January CPI report, there is no clear consensus.

Sources: Bloomberg

Notes: Market-Implied path derived from fed funds and SOFR futures, adjusted for SOFR-FF basis



# Some Stick Figures (SEP Funds Rate Projection)...



Sources: Federal Reserve Board

# In Conclusion

- **Recession-free disinflation still underway, remarkable in US history so far.**
- **Our models, Fed policymakers expect slowing growth, continued move to target inflation over time, rate path directionally down.**
- **Uncertainty is clearly elevated.**

# New York Fed Content That I Hope You Check Out

- Monetary Policy
  - Why Do Forecasters Disagree about Their Monetary Policy Expectations?
  - The Federal Reserve and its Monetary Policy Implementation Framework
  - Firms' Inflation Expectations Have Picked Up
- The Kitchen Table
  - Borrower Expectations for the Return of Student Loan Repayment
  - Do Veterans Face Disparities in the Labor Market—And What Accounts for Them?
  - When the Household Pie Shrinks, Who Gets Their Slice?
- Banking Risks
  - Flood Risk Outside Flood Zones — A Look at Mortgage Lending in Risky Areas
  - The Adverse Effect of “Mandatory” Flood Insurance on Access to Credit