



CIO expects somewhat more moderate GDP growth in the quarters ahead; Fed rate cuts should help to keep the expansion going. (UBS)

# Why the US economy expansion remains on course

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**Overall economic conditions are good and growth continues at a solid pace, the rising tide is not lifting all boats, and some segments are much stronger than others.**

Tepid global demand has more impact on manufacturing industries than on domestically focused services. High borrowing costs are a problem for many small businesses, while large businesses are being helped by strong capital markets. Rising home prices may be welcomed by existing homeowners, but not by people looking to buy their first house. In the labor market, layoffs are still low, but hiring has slowed, and it is taking the unemployed longer to find new jobs.

## Growth

GDP growth should end up just a bit below 3% in 2024, led by robust consumer spending. AI-related activity is also providing a strong tailwind. The labor market remains on a softening trend. This reflects strong growth in labor supply, driven mainly by immigrant workers, but this flow has already slowed sharply and could slow further in 2025 if policy changes espoused on the campaign trail are actually implemented. We still expect enough new workers to allow payrolls to rise by at least one million in 2025. While we expect somewhat more moderate GDP growth in the quarters ahead, Fed rate cuts should help to keep the expansion going.

## Inflation

Recent inflation data have been mixed. While the data show broad-based disinflation, some categories have surprised to the upside. Headline CPI inflation stood at 2.6% in October, not far from its average in the pre-pandemic period, while core inflation was higher at 3.3%. Shelter remains the biggest driver of inflation and has taken longer to slow than we expected, but it does appear that the data have finally turned, which should help constrain overall inflation over the next 12-18 months. Excluding shelter, inflation was only 1.3% in October. One risk to the outlook is potential tariff increases,

most of which we would expect to be passed along to consumers. However, we would expect tariffs to cause a one-time increase in the price level rather than triggering sustained higher inflation over the medium term.

## Policy

With the new administration taking over on 20 January, policy uncertainty is unusually high. Republicans will have only a narrow majority in both chambers of Congress, and it remains to be seen whether they can successfully pass major fiscal policy changes under the reconciliation process. Meanwhile, the ordinary budget will require 60 votes in the Senate and therefore can only pass with bipartisan support. In our view, the large structural budget deficit will limit the scope of any fiscal stimulus measures. Proposed policy changes that can be implemented under executive authority are more likely to actually happen, but these include mass deportations and tariff hikes, which we would expect to be negative for growth.

Regarding monetary policy, the market has priced out some Fed rate cuts recently, but we still expect the Fed to cut rates a total of 125 basis points by the end of 2025, bringing its target range to 3.25-3.5%, in line with our estimate of neutral. However, if inflation proves to be stickier than we expect, then the Fed would likely end up leaving rates closer to 4%.

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Original report - [Expansion remains on course, 25 November 2024.](#)

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