U.S. Economic Conditions

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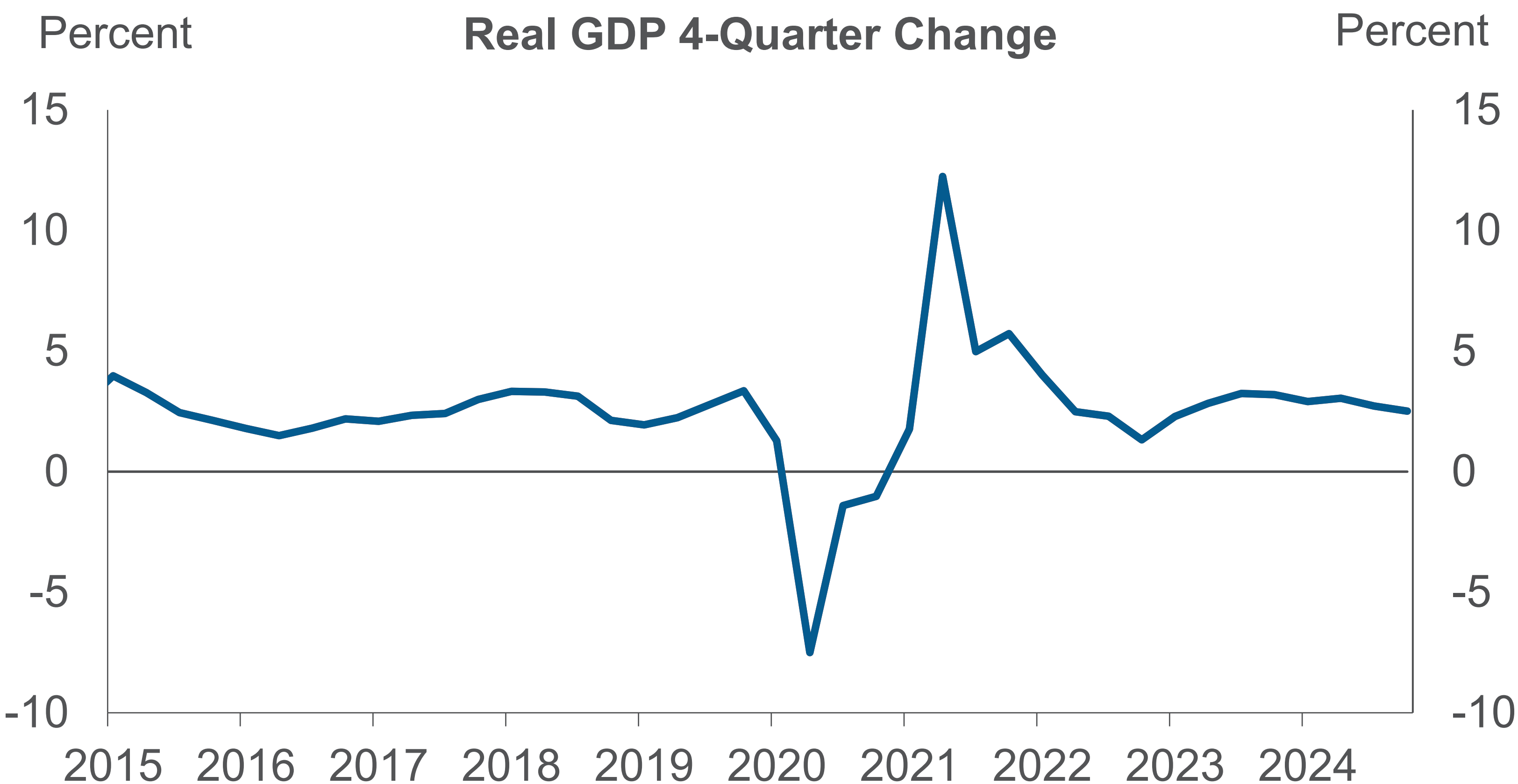
Overview

- The economic outlook is highly uncertain
- **GDP**
  - The economy entered 2025 on a solid footing.
  - But Q1 data so far suggest slower growth.
- **Inflation**
  - A bumpy disinflation path toward 2 percent continued in 2024.
  - But tariffs could lead to higher inflation in 2025.
- **Labor market**
  - Labor market indicators are broadly in balance. So far.

GDP grew solidly in 2024

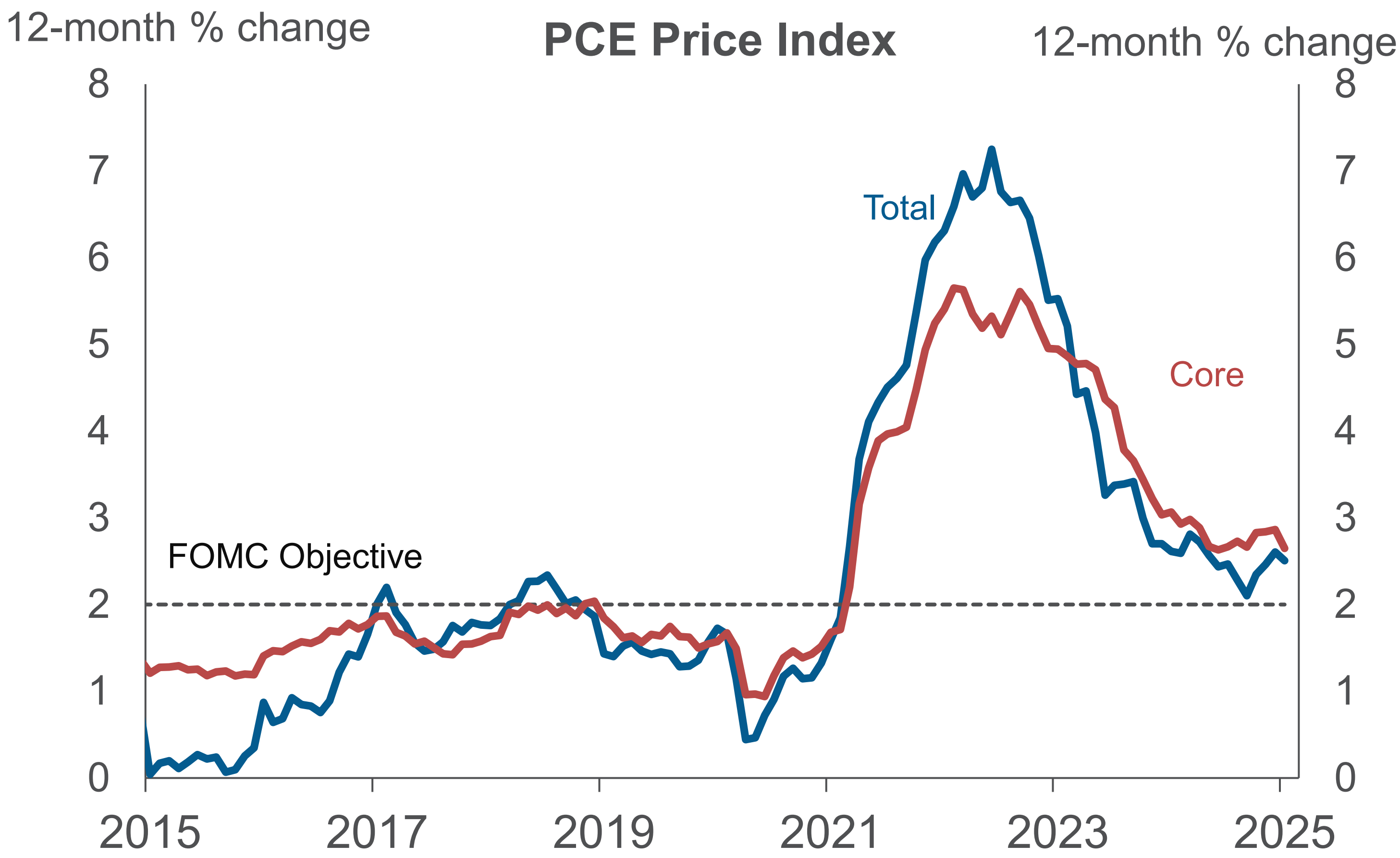
- Real GDP increased at a 2.3% annual rate in 2024Q4, bringing four-quarter growth to a solid 2.5%.
- Retail sales in January and February point to subdued consumer spending in Q1.



Source: Bureau of Economic Analysis.

Disinflation process remains bumpy

- PCE inflation was 2.5 percent in January, lower than in December but higher than in mid-2024.
- *Core* PCE inflation was 2.6 percent in January; it has moved sideways over the past several months.



Source: Bureau of Economic Analysis.

Labor market remains sound

- Unemployment is still low; participation is near its pre-pandemic level.
- Wide range of measures indicate that labor market conditions are in balance. So far no clear sign of weakening.

Source: Bureau of Labor Statistics.

Summary

- The U.S. economy entered 2025 on a solid footing, but data for Q1 so far suggest slower growth in the quarter.
- The FOMC's March Summary of Economic Projections (SEP) show lower expected growth in 2025 compared to December's SEP (1.7 vs 2.1 percent).
- The disinflationary process continued in 2024 on a bumpy path toward the 2 percent longer-run inflation target.
- March SEP shows higher inflation projections in 2025 than in December, partly because of tariffs (2.8 vs 2.5 percent for core PCE inflation).