

The U.S. Economy: Reflections and a Look Ahead

Economic Outlook Breakfast: 2026 & Beyond

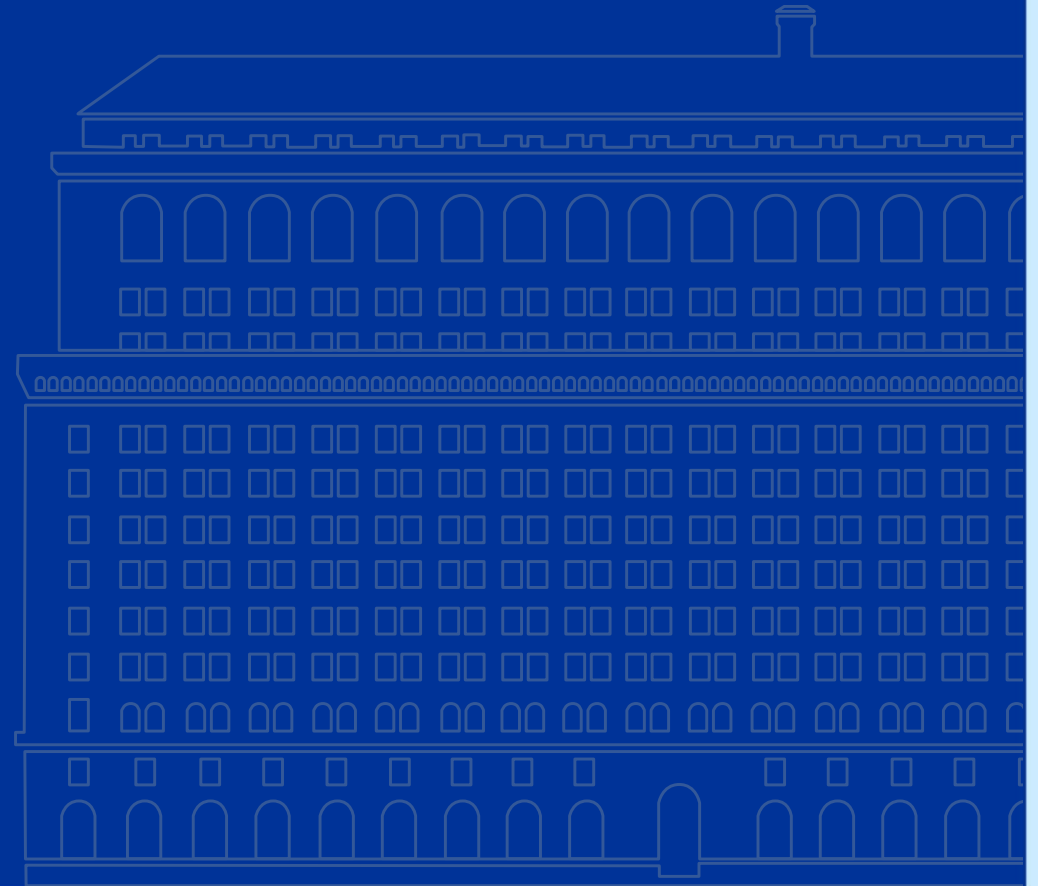
December 19, 2025

Kartik Athreya, Federal Reserve Bank of New York

Slides prepared by Elizabeth Li and William Zeng

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.

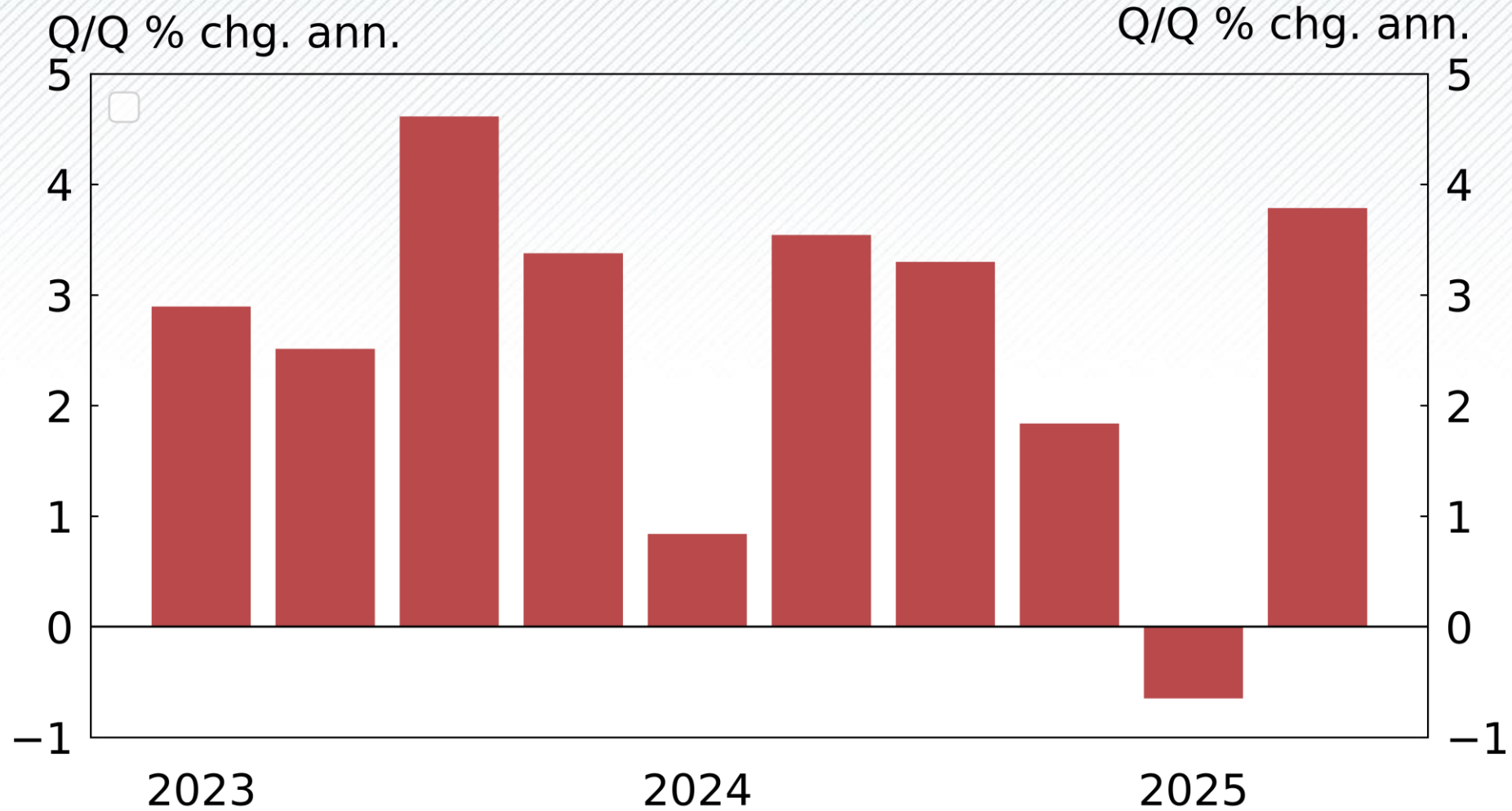
2025: Big Changes, Macro Steadiness So Far



Current U.S. Economy: Strong but Cooling

- **Growth:**
 - Expecting 2025 real GDP growth to come in around 1.7%, slight acceleration in 2026.
- **Labor market:**
 - Conditions remain steady, slight decline (4.56% unemployment as of November 2025).
- **Inflation:**
 - Above target still: median December SEP PCE inflation projected at 2.9% for 2025, and, no, that is not close enough.
- **Economy appears to be *softening*:**
 - Fewer vacancies now than unemployed.
 - Investment soft outside of data centers (and even that is cooling).

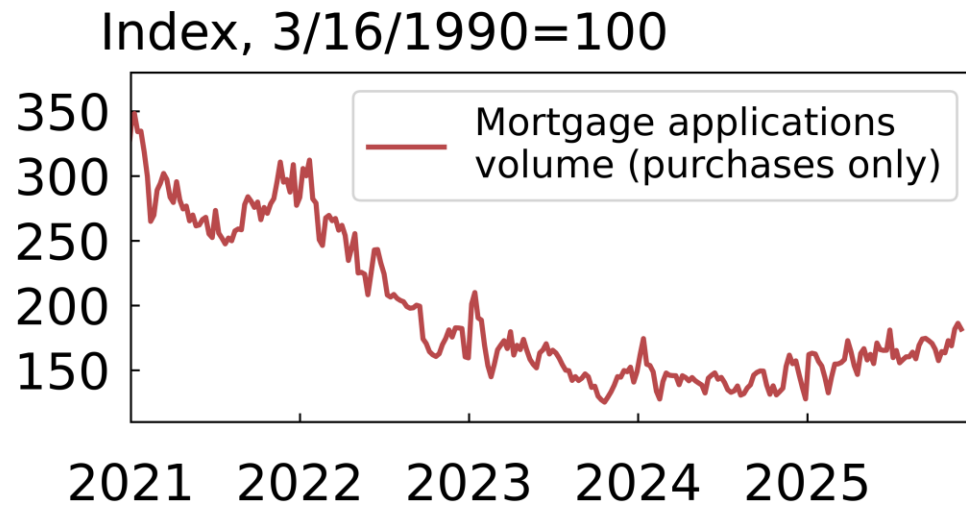
Top Line: So Far, So Good—GDP Not Slowing



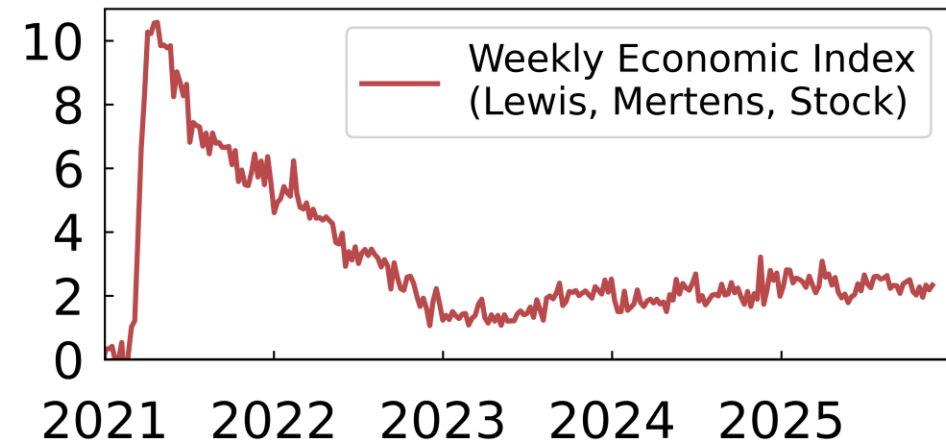
Alternative Data: Spending and Economic Activity



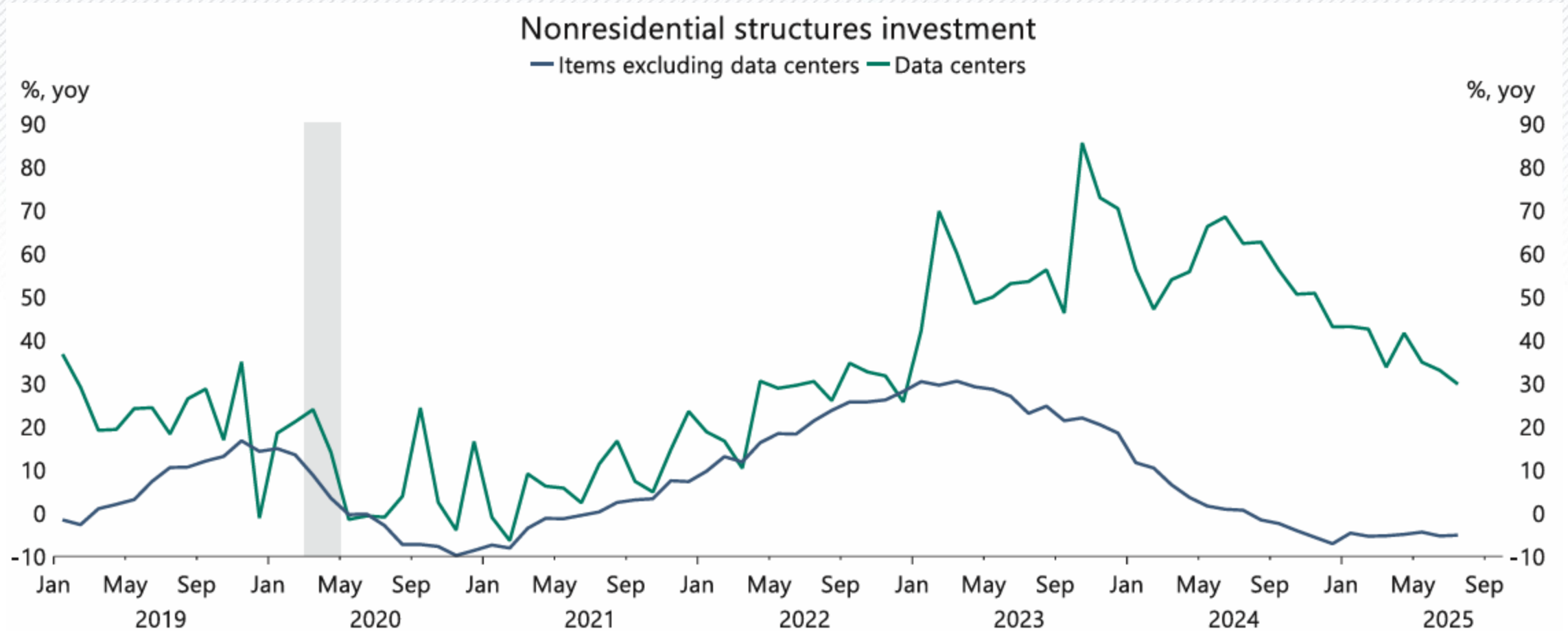
- **Top left:** An index of retail sales—using data from private sources—indicates maintained sales growth in October, with a slight November uptick.
- **Bottom left:** Purchase mortgage applications have risen as mortgage rates declined.
- **Bottom right:** An activity measure—using weekly data from private sources—signals little change in economic growth.



Scaled to yoy GDP growth



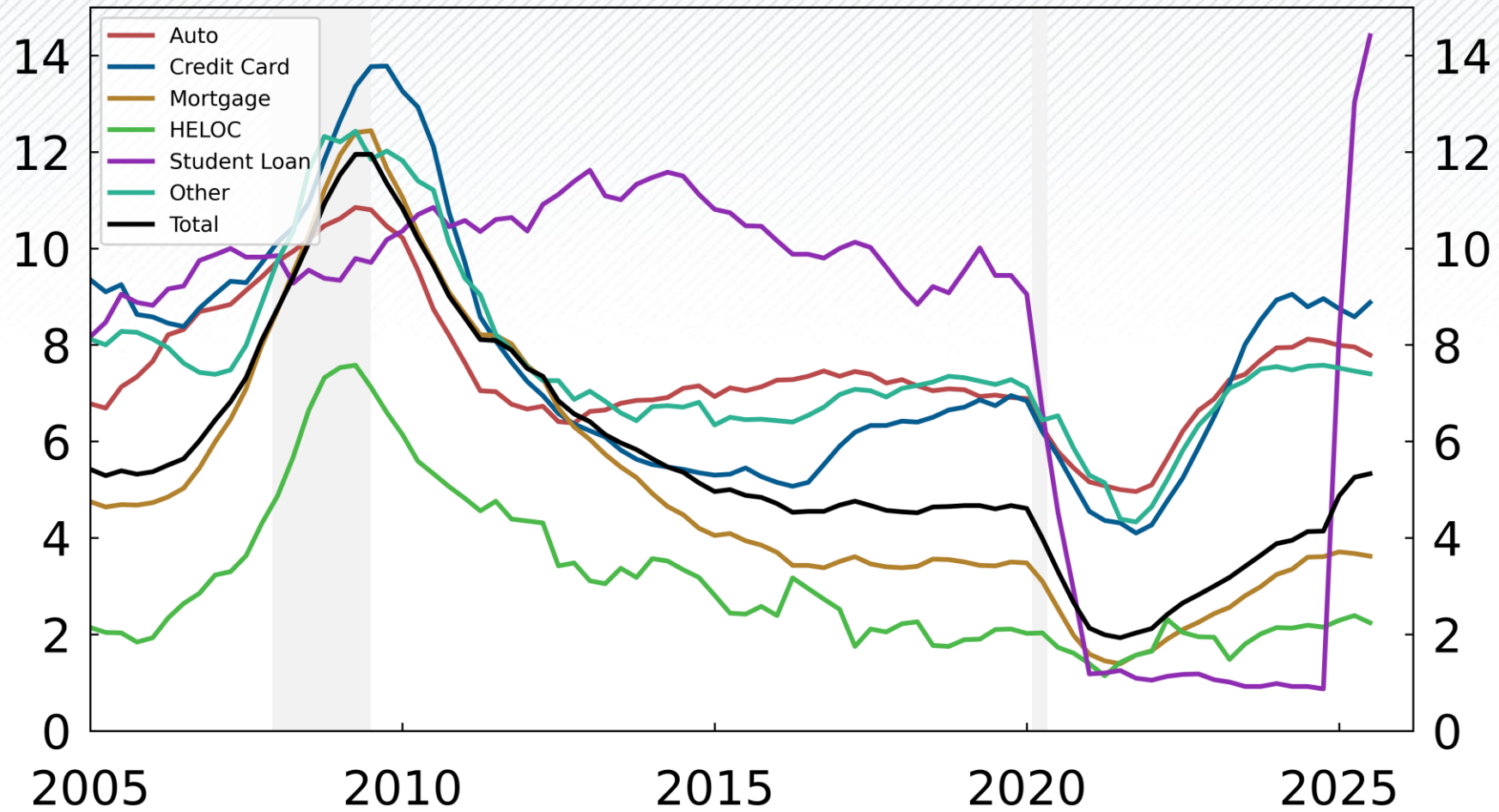
Cooling Investment (Including for Data Centers)



Sources: U.S. Census Bureau; Macrobond; Apollo Chief Economist

Consumers Feel the Cooling Too

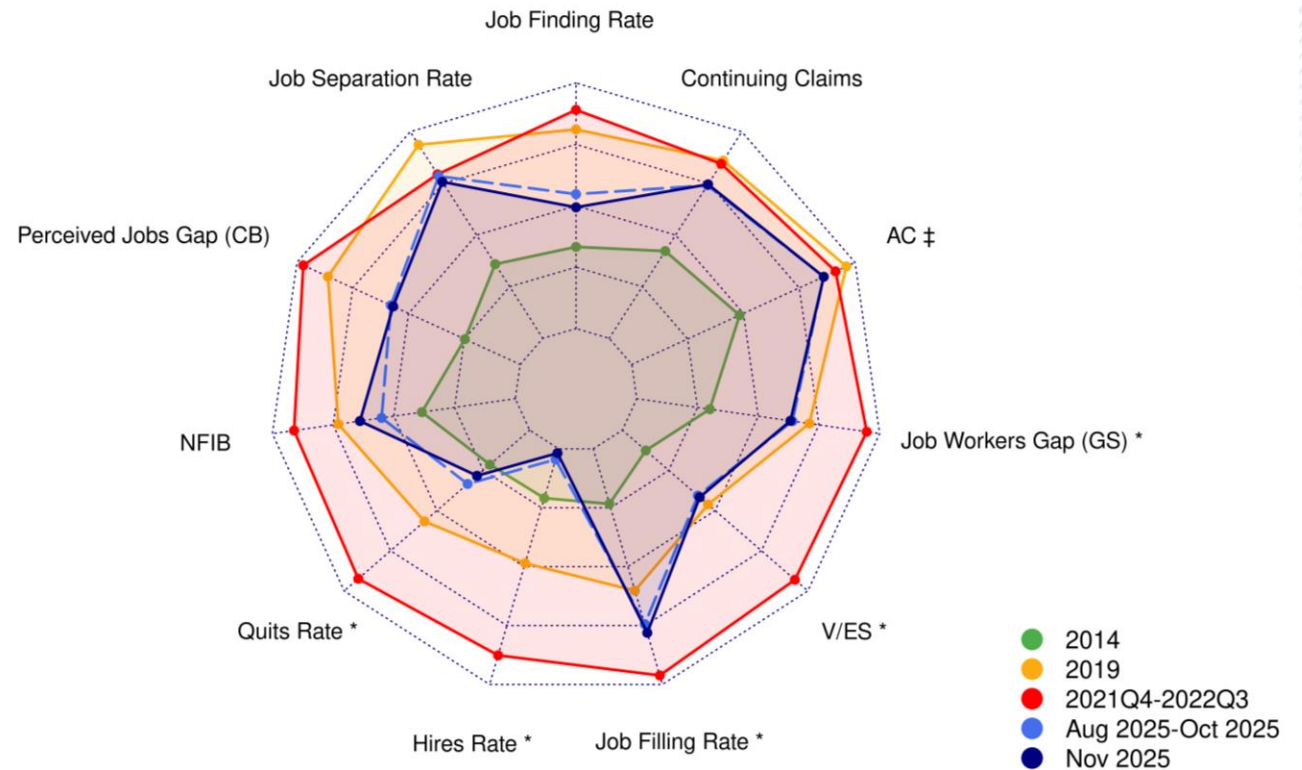
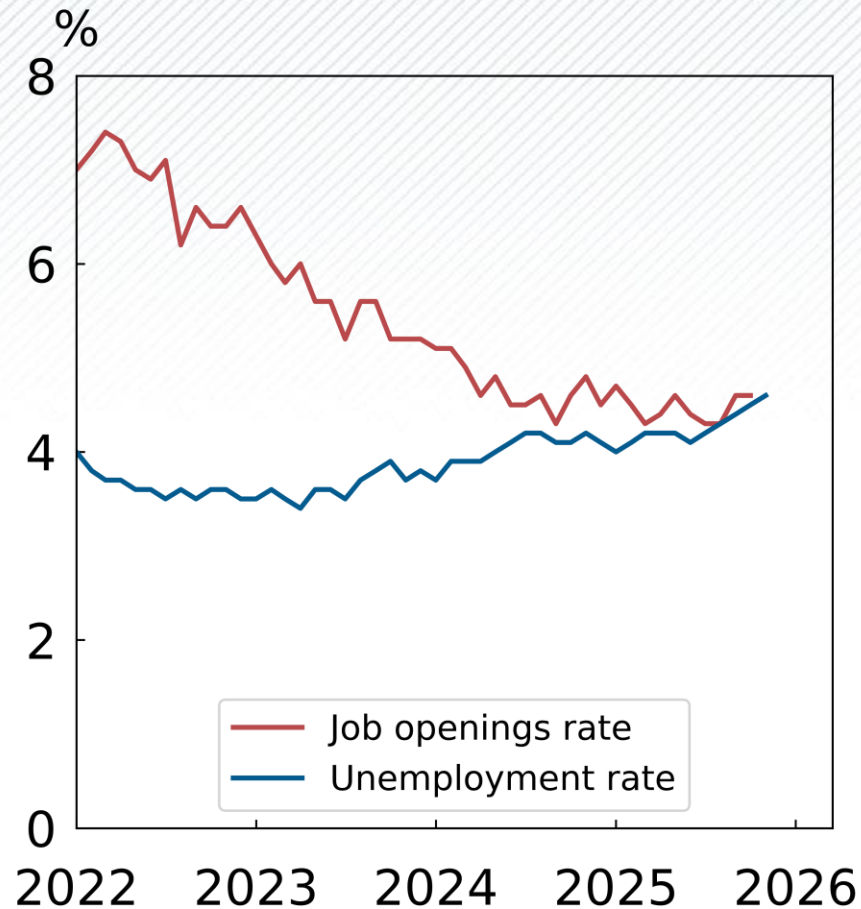
% of bal.



Source: New York Fed Household Debt and Credit Report (Q2)

Note: Early delinquency balances (30+ Days) by loan type

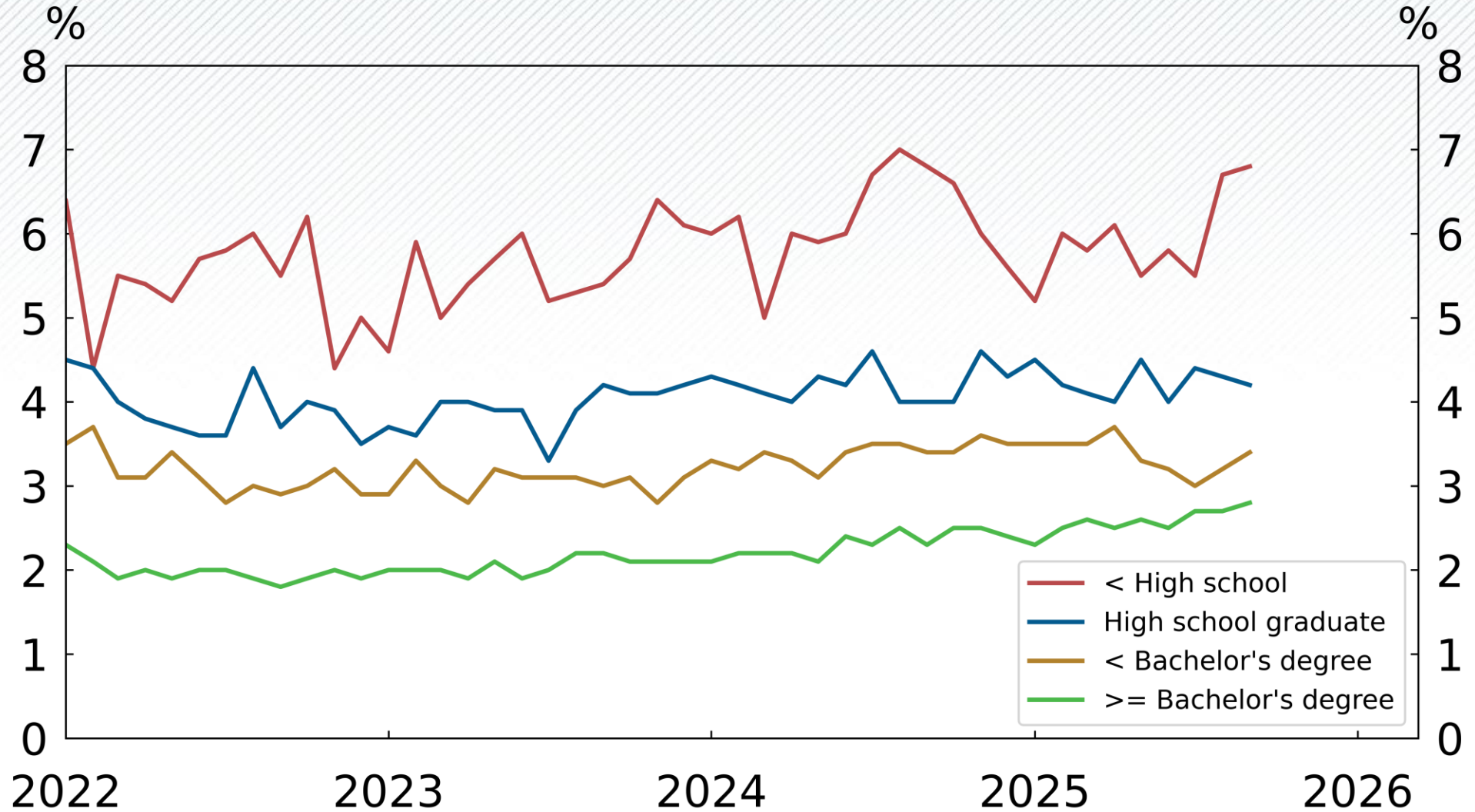
Labor Market Still Strong, But Cooling is Now Evident



Sources: Bureau of Labor Statistics via Haver Analytics; Current Population Survey via Census Bureau

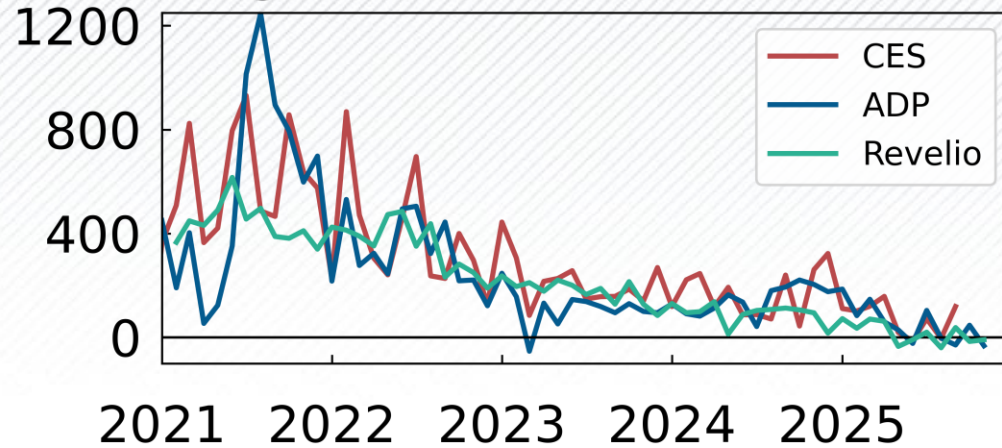
Note: *: Measure is lagged by a month. ‡: Uses CPS microdata. All values are 3-month moving averages. October 2025 unemployment rate interpolated.

And it's Cooling for Many (Unemployment by Education)

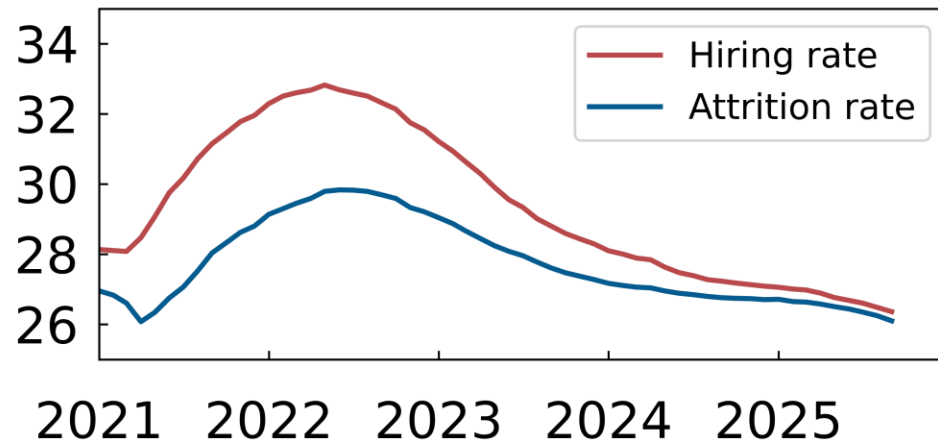


Alternative Data: Labor Market Conditions

m/m change, thous.

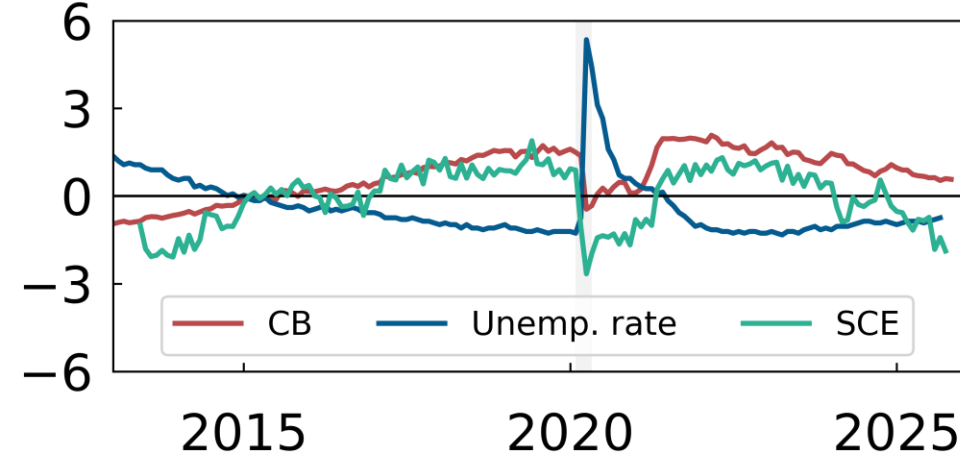


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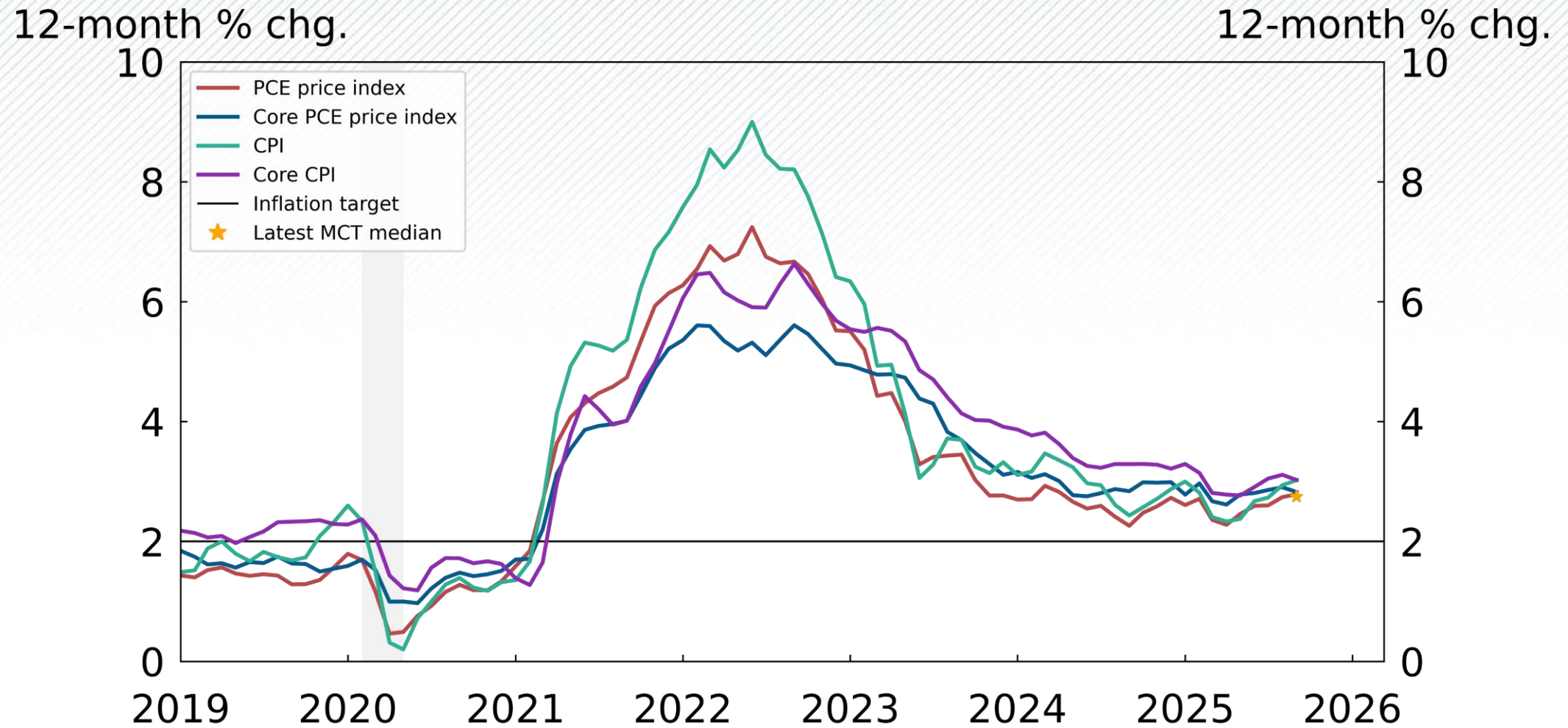


- **Top left:** Private sources indicate that job growth remained subdued in October.
- **Bottom left:** Available data point to continued low rates of hiring and attrition.
- **Bottom right:** Respondents' perceptions from household surveys are consistent with further gradual cooling of labor market conditions.

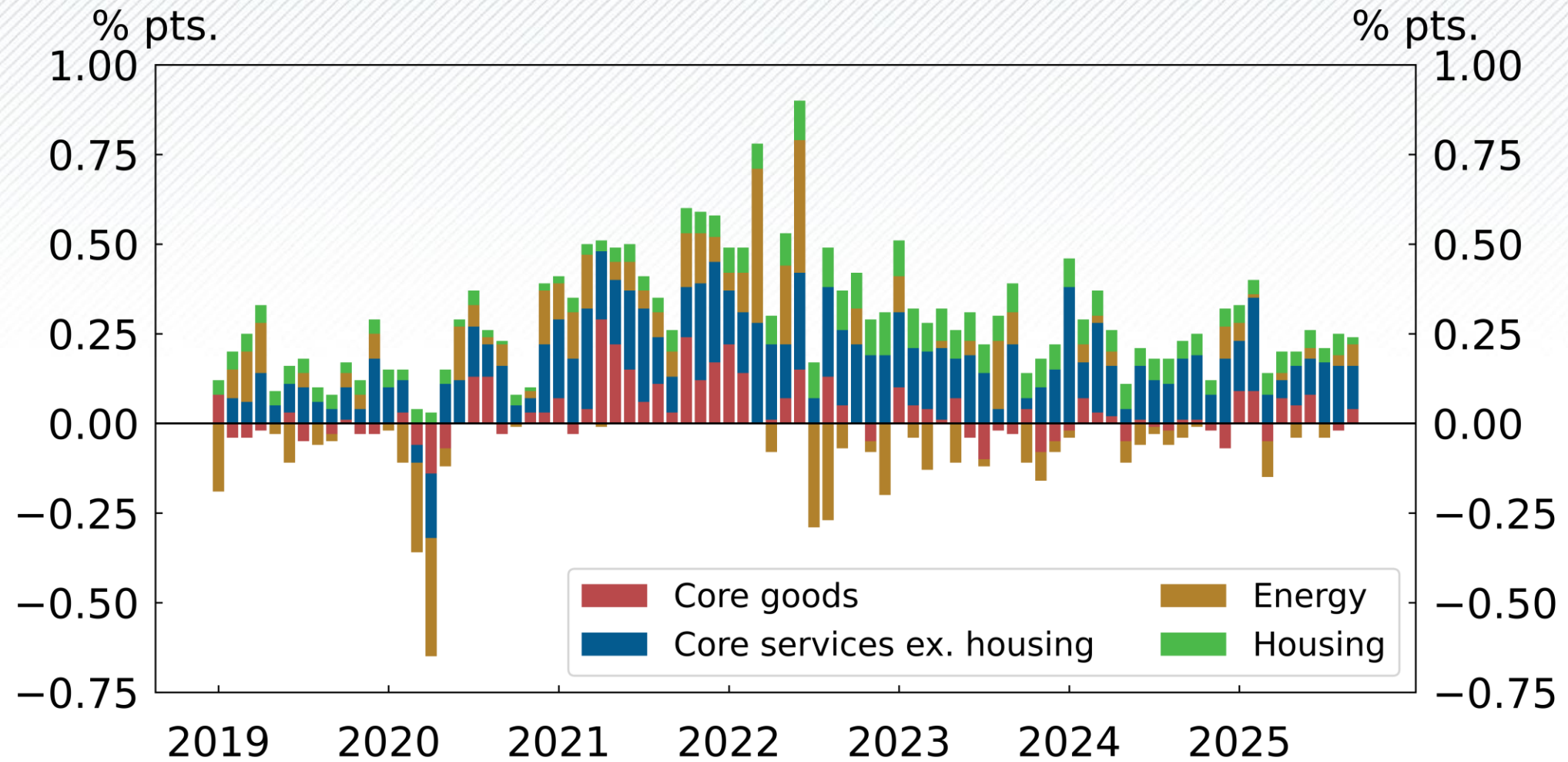
Normalized



Disinflation: Not Yet Complete



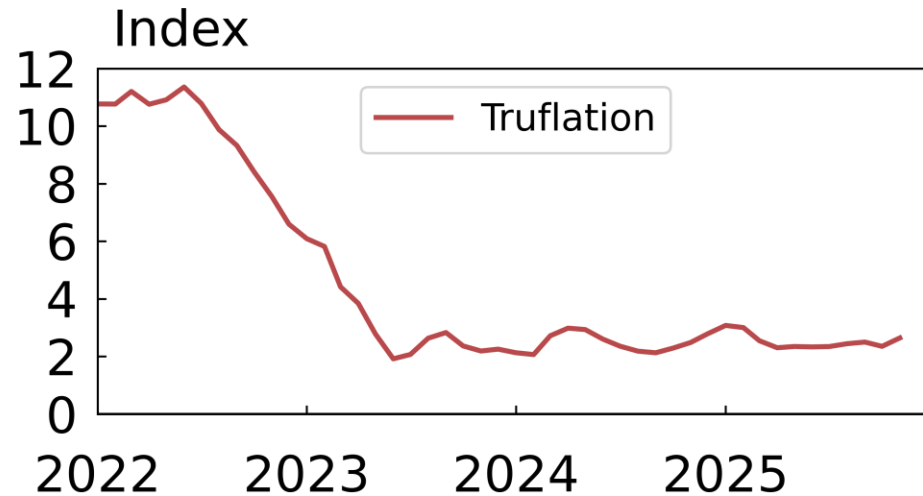
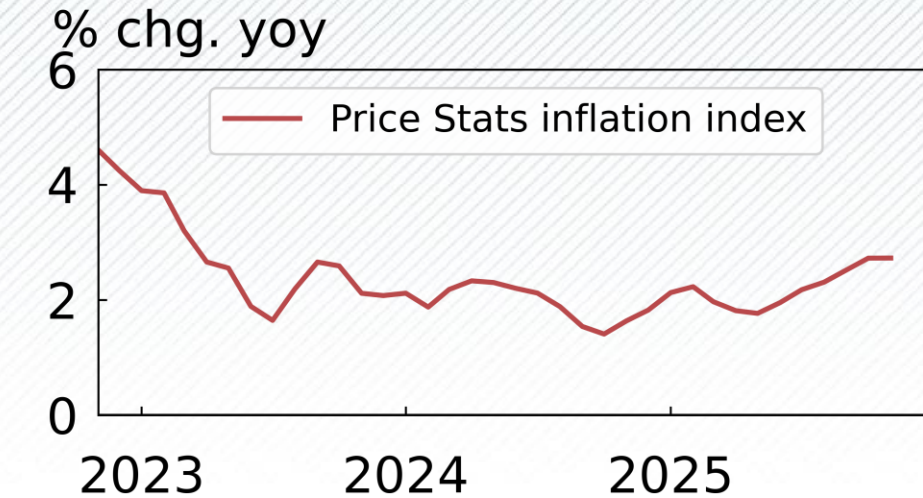
Inflation Components Returning to Historical Norms



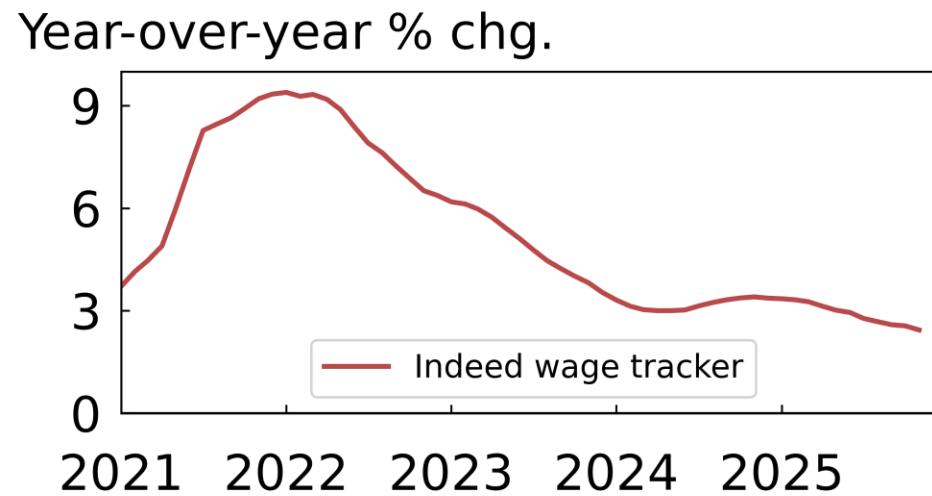
Source: Bureau of Economic Analysis via Haver Analytics

Note: Contribution to monthly PCE price index changes

Alternative Data: Inflation and Wage Growth



- **Top and bottom left:** High frequency data—which largely pull prices from online—are consistent with somewhat elevated inflation.
- **Bottom right:** Wage growth indicators point to some moderation of wage growth. Consistent with the labor market not being a source of price pressures.



Source: State Street (top left); Truflation (bottom left); Indeed (bottom right)

Note: Bottom right graph is smoothed with 3-month moving average

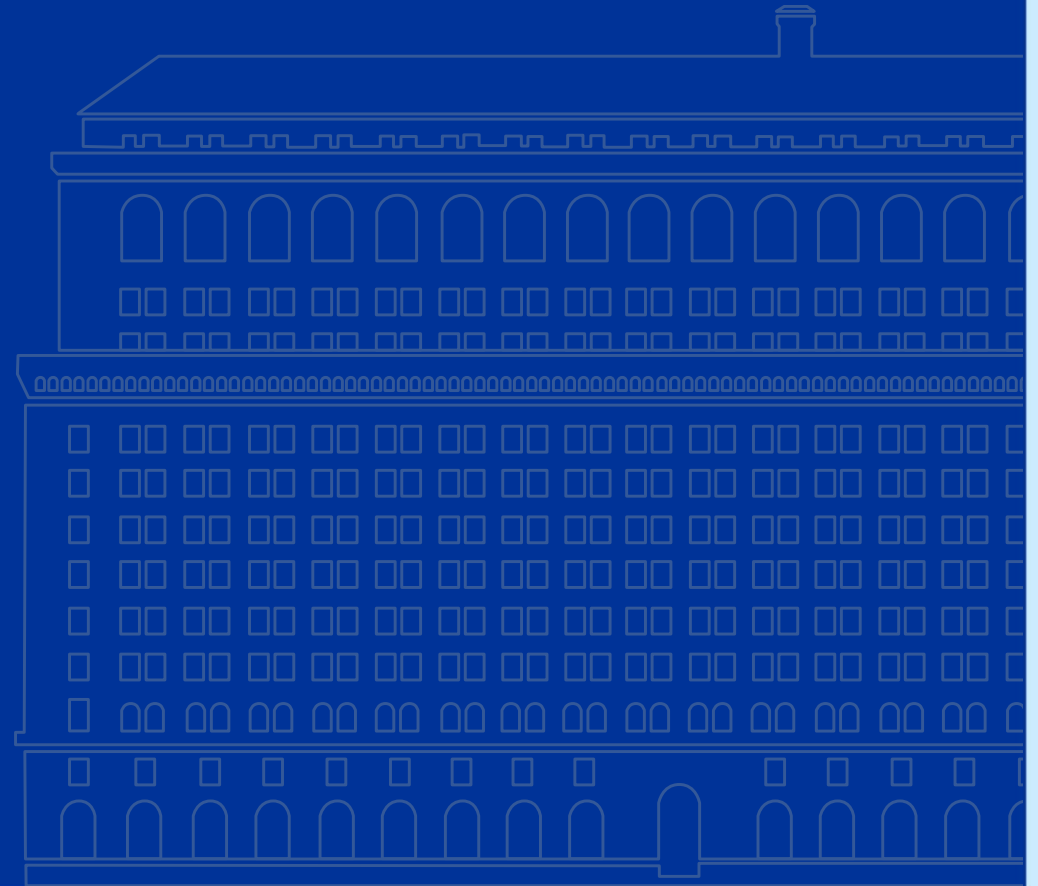
We're Here Today to Look Ahead:



A word cloud of various economic and financial topics. The words are arranged in a roughly circular shape, with some words being larger and more prominent than others. The colors are shades of blue and teal. The words include:

- health
- dollar's role
- energy
- a slowdown now
- supply chains redefined
- USTs as safe-haven assets
- trade policy shifts
- What is to come?
- stock market unfazed
- R&D
- uncertain times
- disinflation
- K-shaped economy
- stablecoins
- AI booming

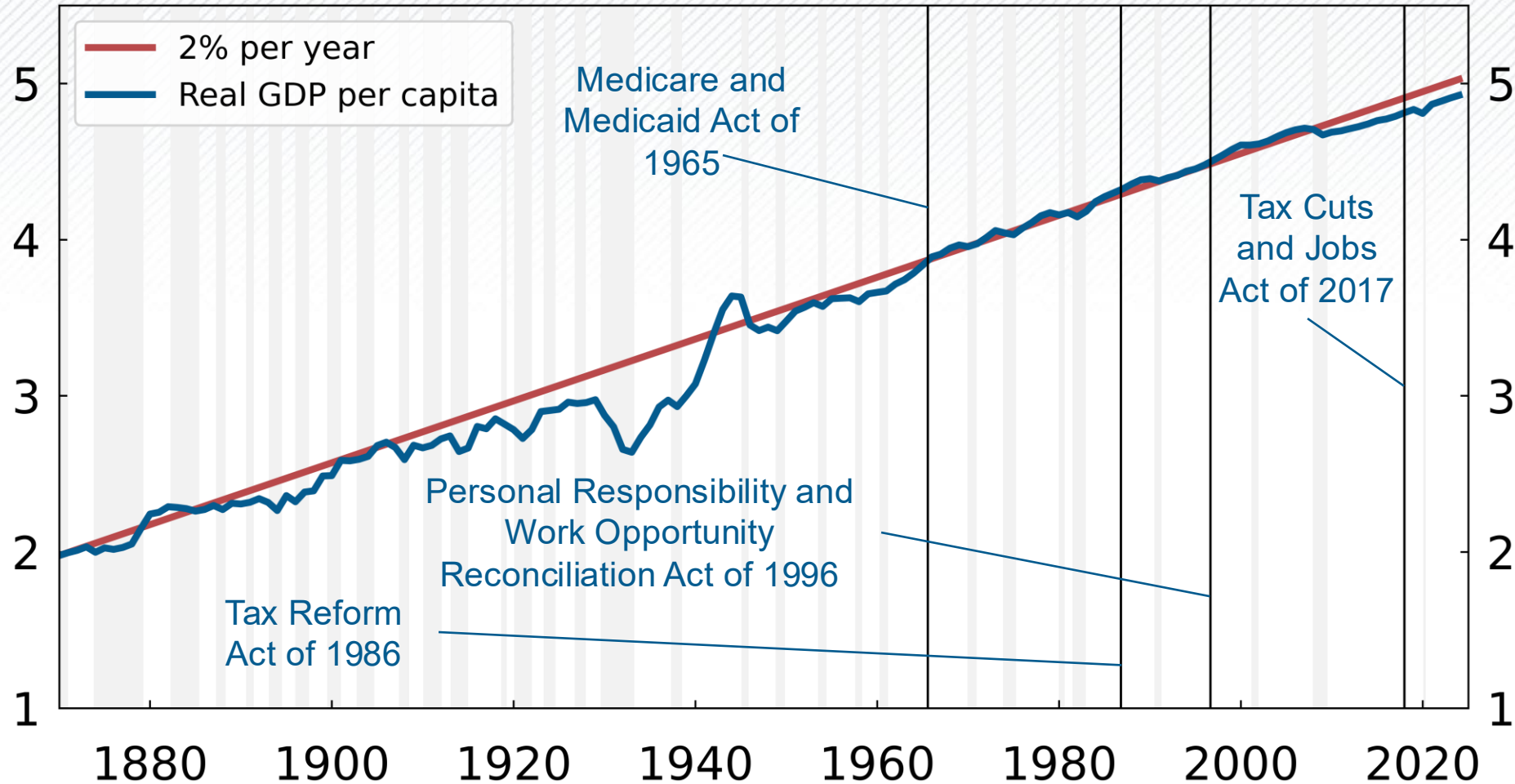
The U.S. Economy: Some Perspective



Try to Spot Some Major Policy Changes

Log index

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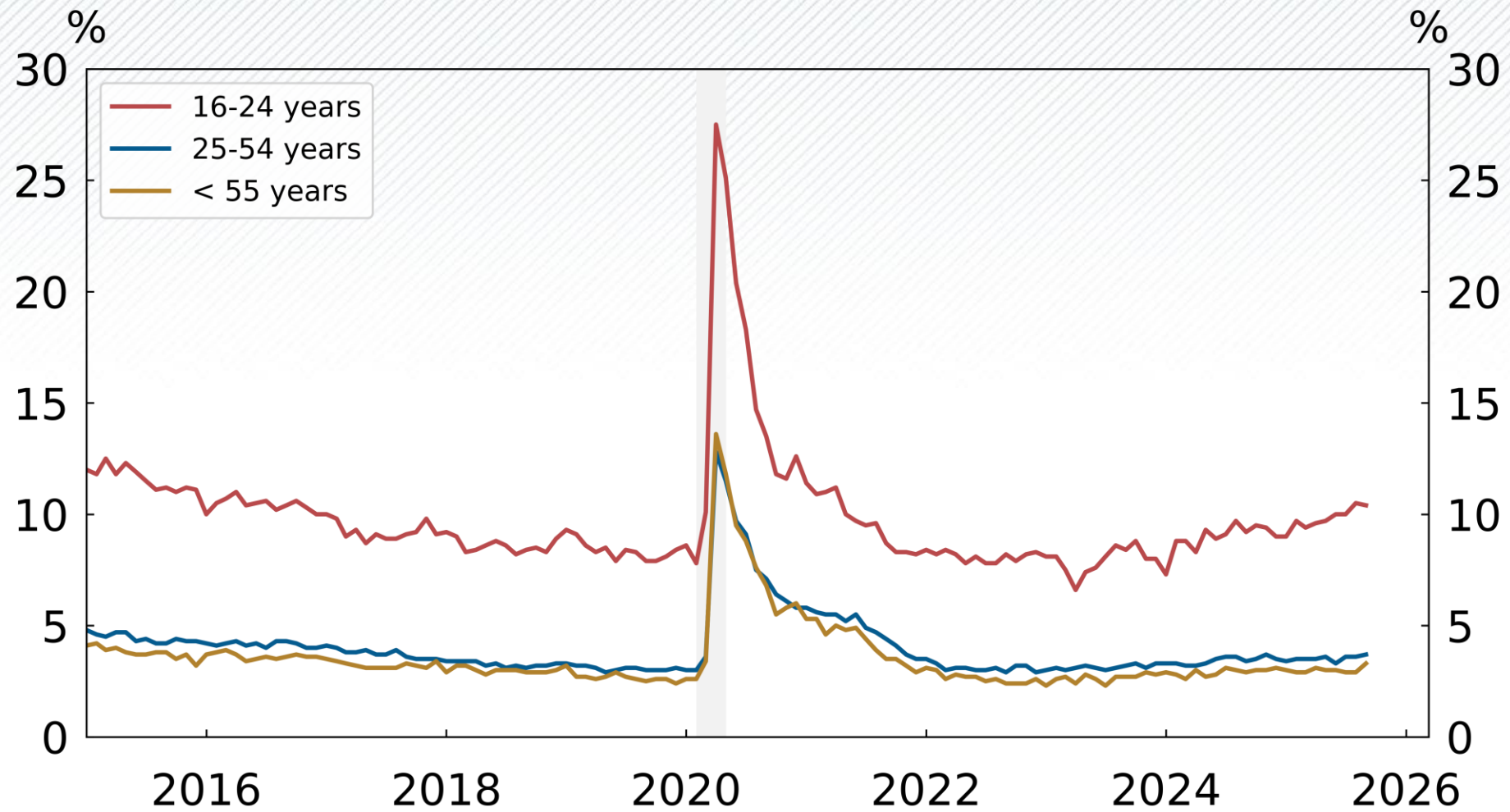


Sources: Chad Jones (2023); Barro and Ursua (2010); Bureau of Economic Analysis and Census Bureau via Haver Analytics

However, “Macro” Stability Hides Household Churn

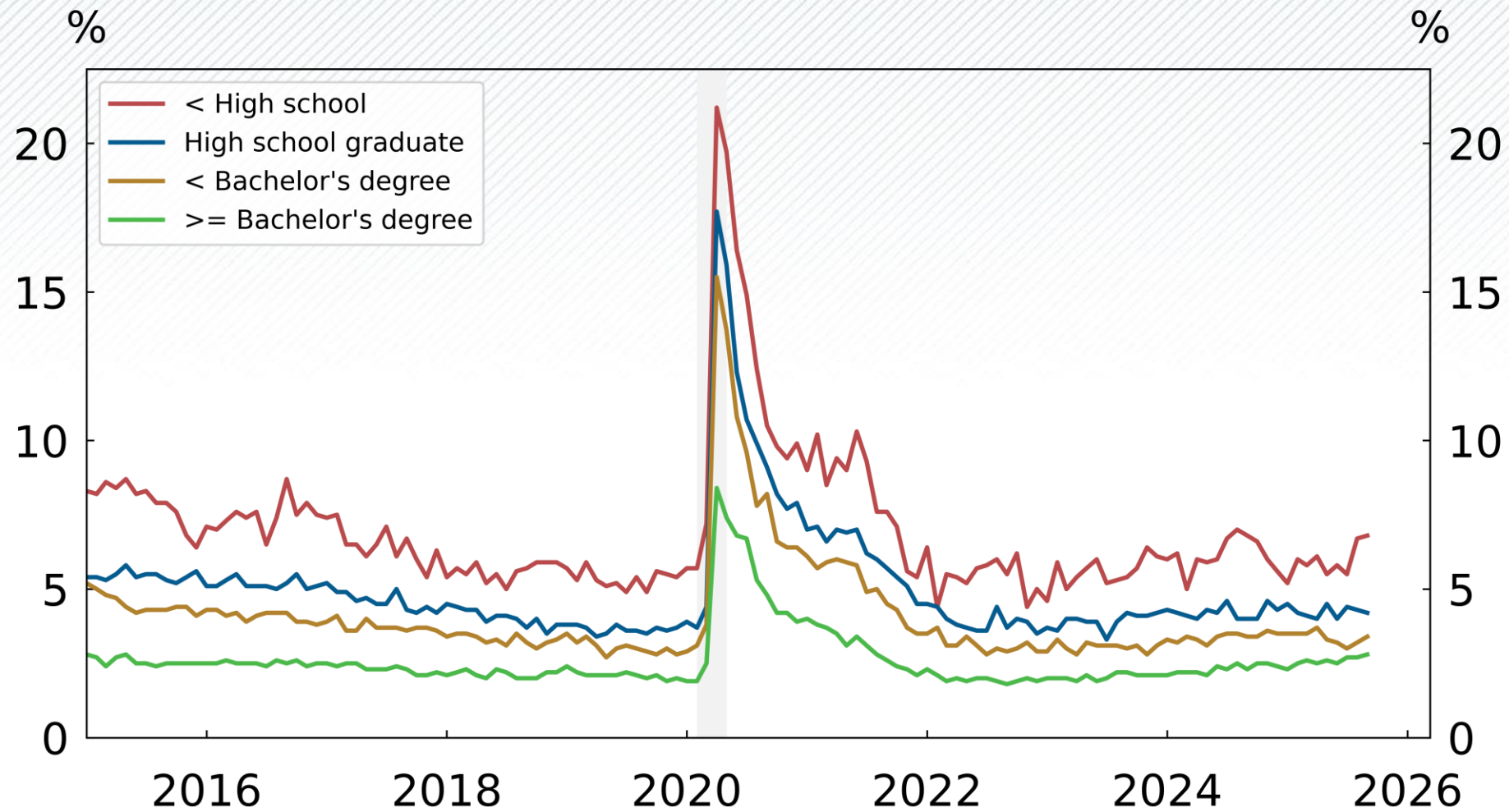
- **Nearly all economic churn and trauma occurs at the “people and household” level.**
 - In a typical year, nearly 20 million job losses occur.
 - In recessions—about 2/3 of the drop in hours is because of job loss, not fewer hours by the employed.
 - Both unemployment and inflation are very hard on people.
- **Recessions (and inflation) are harmful primarily because bad things happen to huge numbers of people.**
 - In typical recent recessions, additional 7-8 million job losses.

Unemployment Can Happen to All of Us (Across Age)



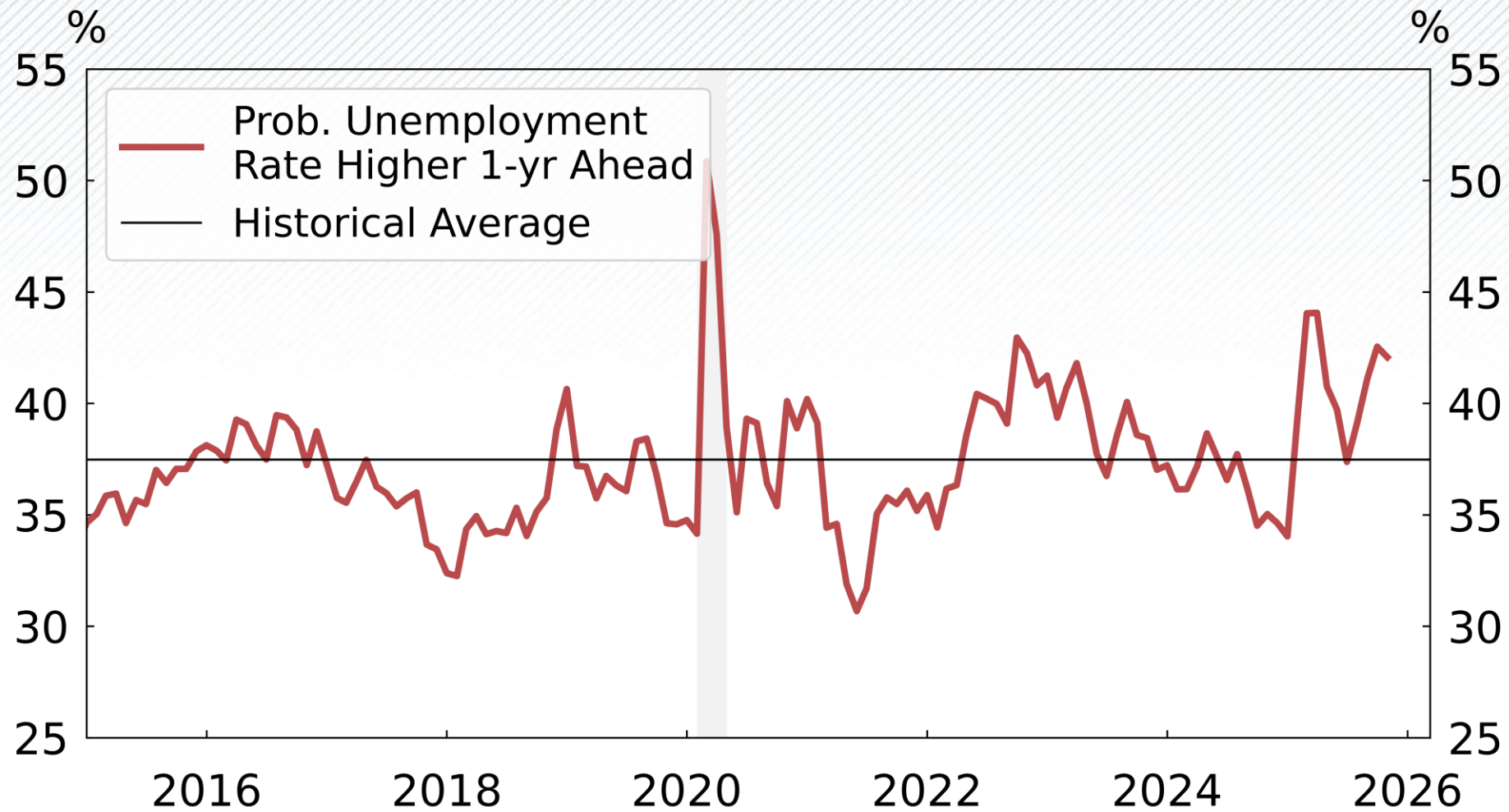
Source: Bureau of Labor Statistics via Haver Analytics

Unemployment Can Happen to All of Us (Across Education)



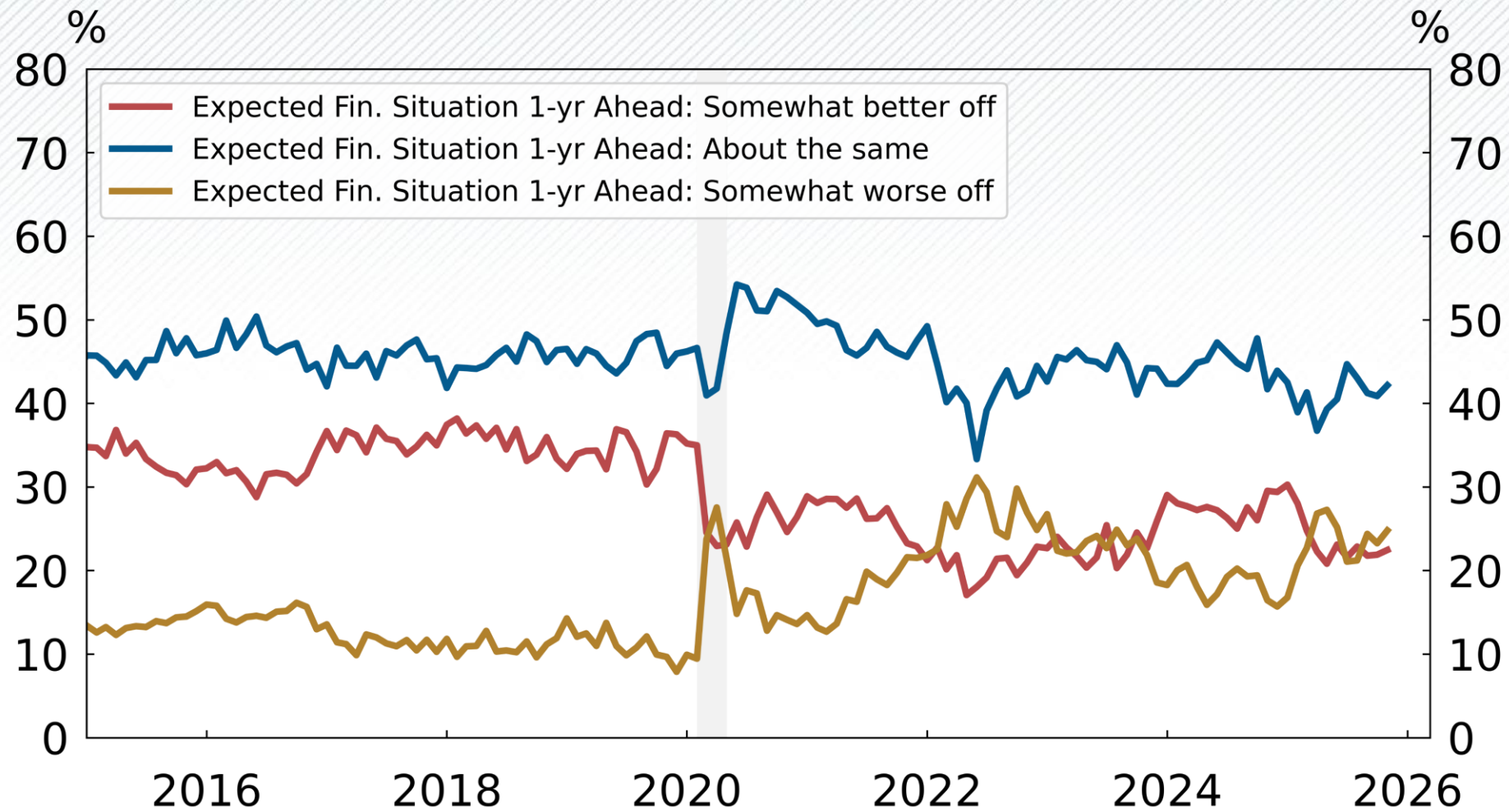
Source: Bureau of Labor Statistics via Haver Analytics

Households Show Greater Concern Over Unemployment



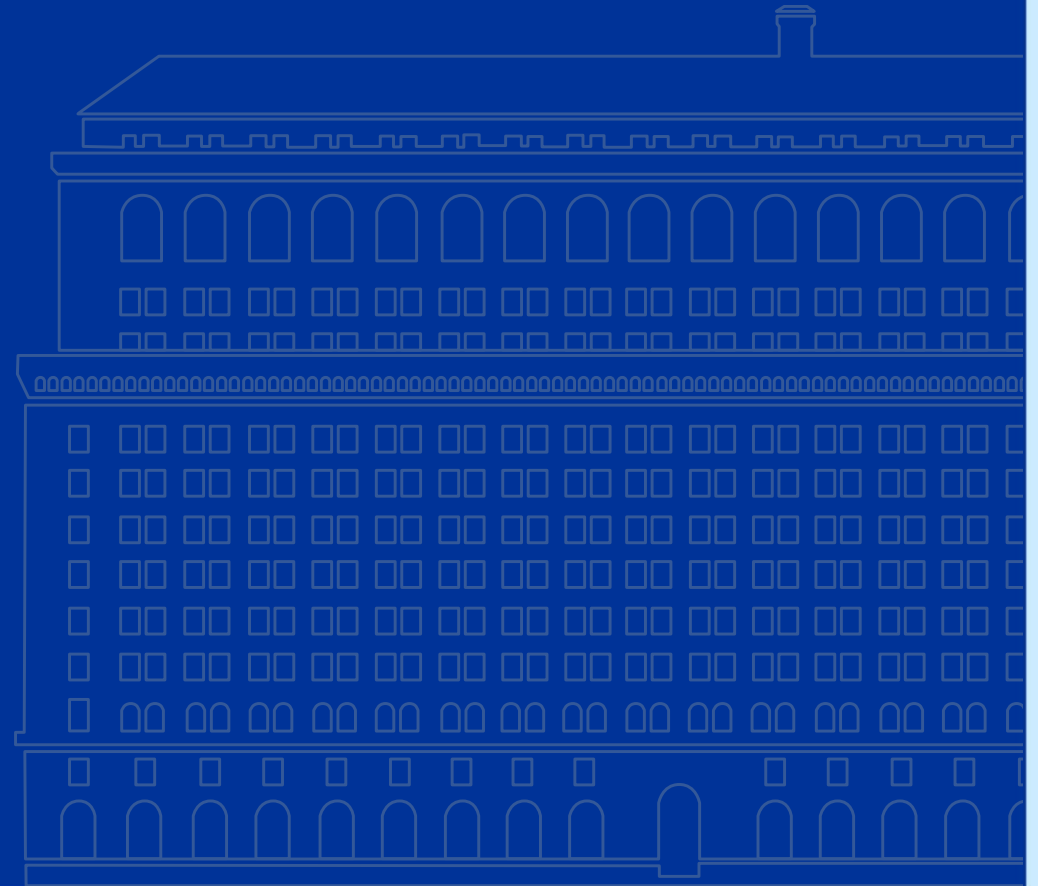
Source: New York Fed Survey of Consumer Expectations via Haver Analytics

Looking Ahead, Households Expect Greater Downside Risk

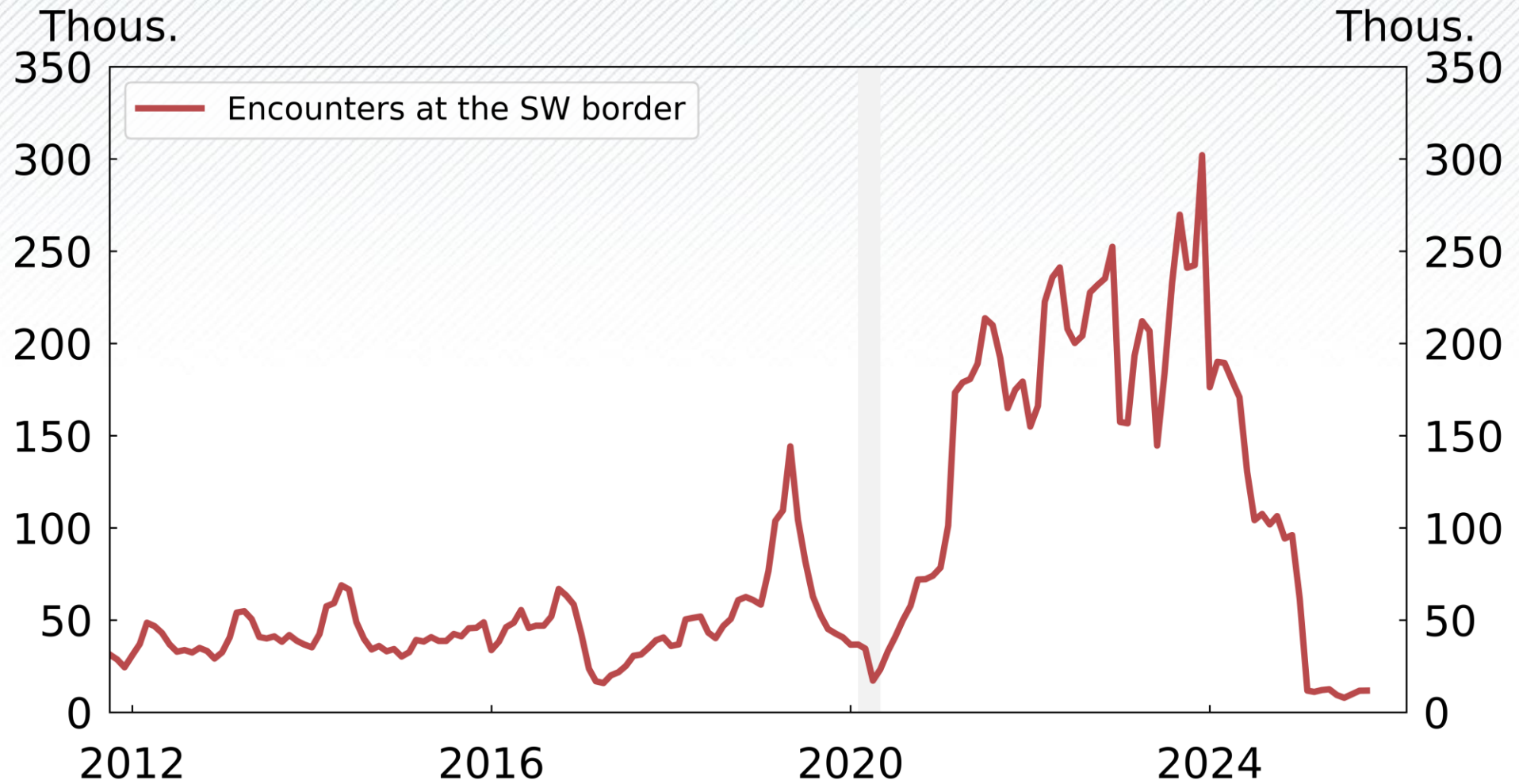


Source: New York Fed Survey of Consumer Expectations via Haver Analytics

2025: Policy Shifts



Shift #1: Large Immigration Changes

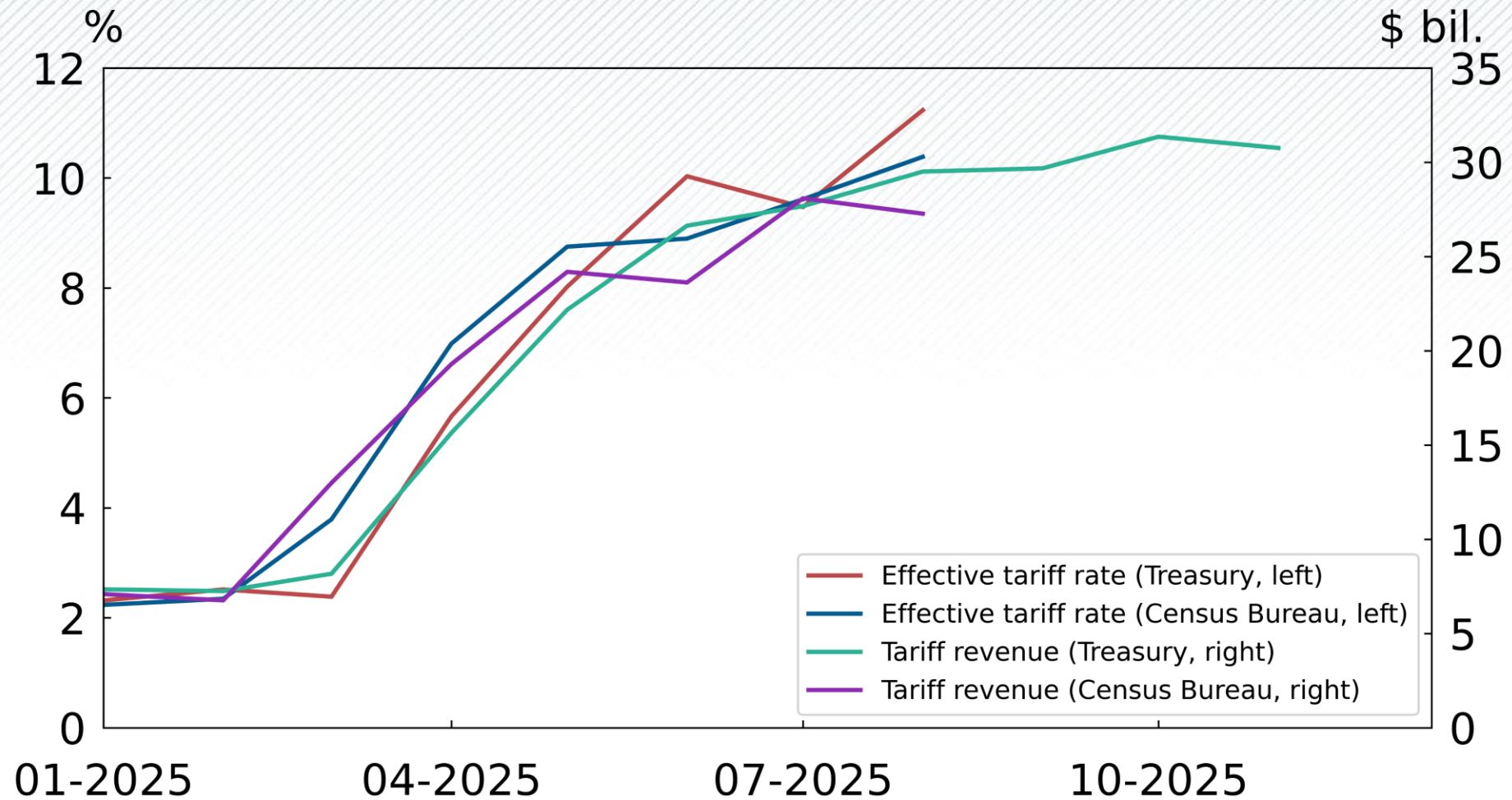


Source: Customs and Border Protection via Haver Analytics

An Aside: What's *Now* a Good Payroll Number?

- The growth rate of the labor force has slowed—a lot.
- If labor “supply” has dropped, so should the “normal” rate of hiring.
- 30K may not be a far-off estimate—but it is *super uncertain!*

Shift #2: Effective Tariff Rates and Revenue



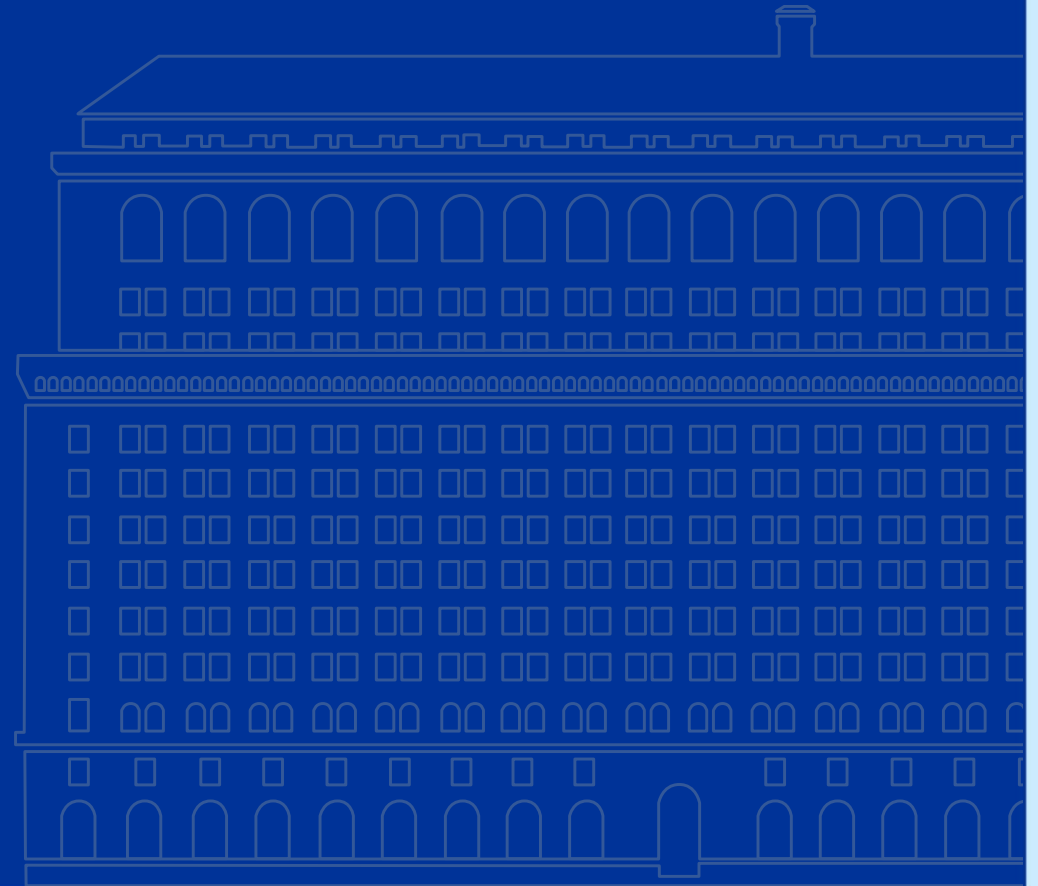
Source: Census Bureau, U.S. Treasury via Haver Analytics

Note: Rate = Duties / Imports

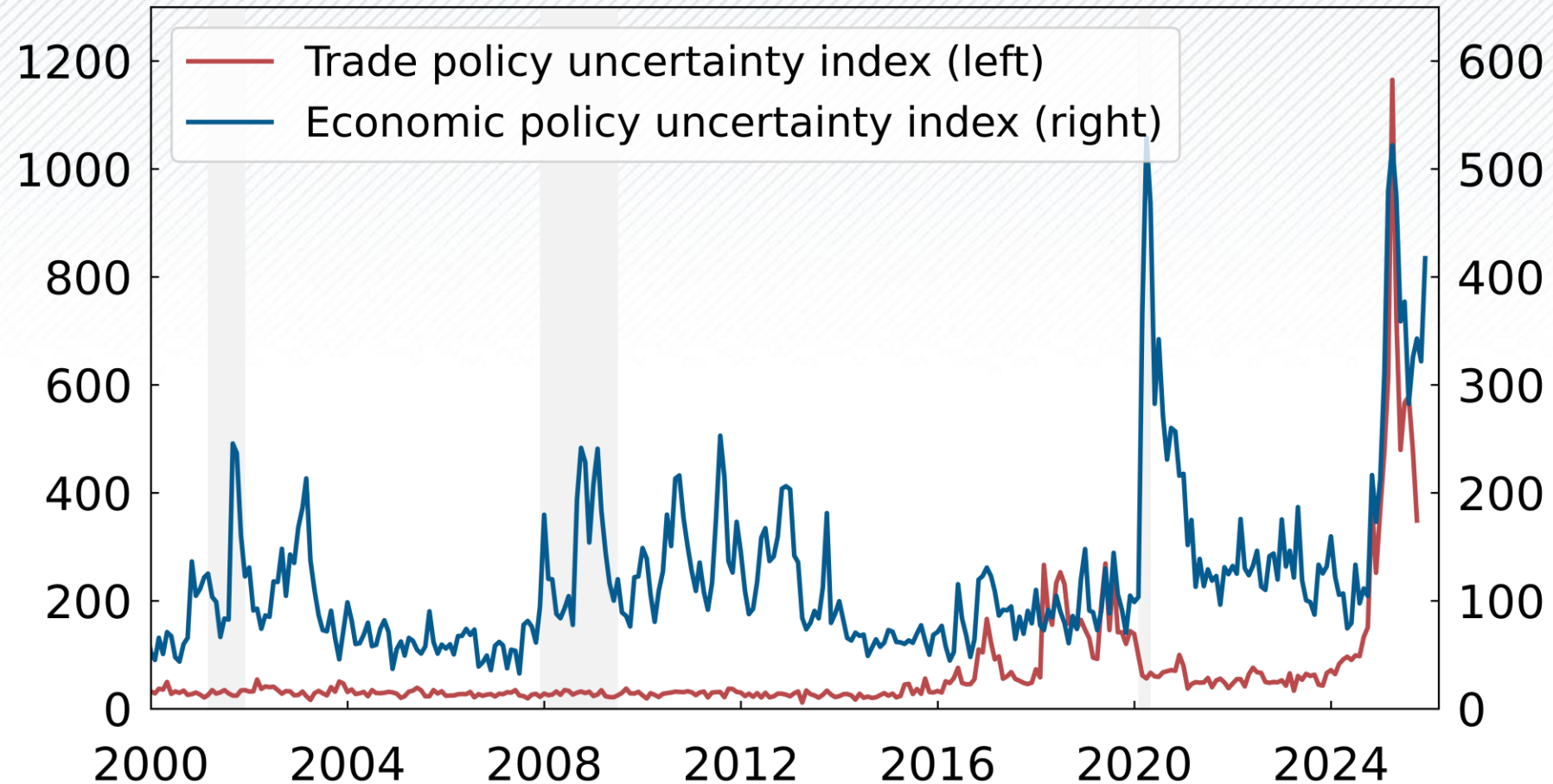
Both Policy Shifts Heavily *Distributional*

- **What does this mean for the macroeconomic outlook?**
- **Recall the “good news” from earlier slide on policy changes and GDP:**
 - Historically, fiscal policy changes are hard to see at the macro level.
 - Supply-side of U.S. is broadly very resilient, and not too sensitive to policy.

What's the Policy On How We'll Make Policy?



Currently, Policy Uncertainty Remains Elevated



Sources: Caldara et al. (2020) via matteoiacoviello.com/tpu.htm; PolicyUncertainty.com (Baker, Bloom, and Davis) via Haver Analytics

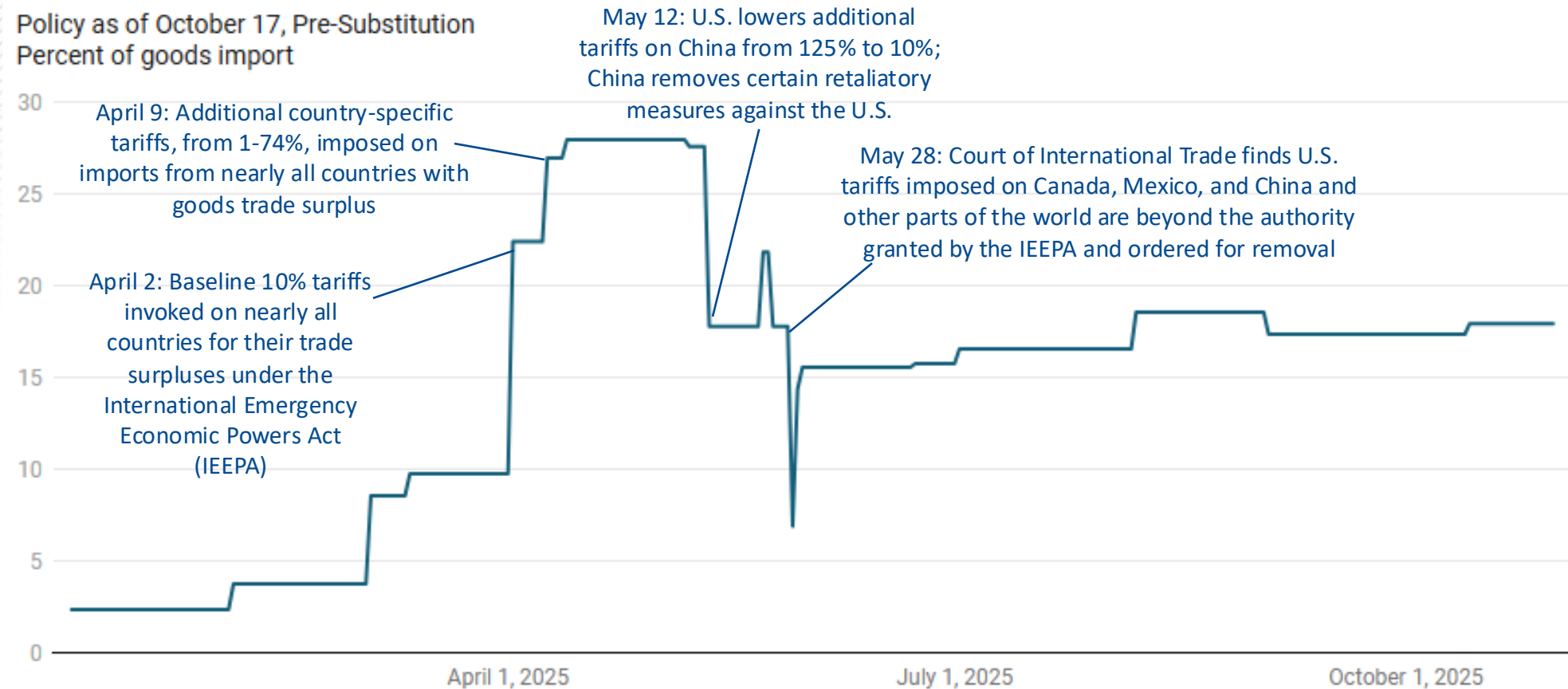
Note: Monthly average of daily data

Thinking About Policy...About Policy

- If policy reversals are easy: Experiments with the rules can yield new and better pathways.
 - *Caveat*: It also makes planning harder.
 - Incentivizes short-term thinking, with an eye to preserving flexibility.
- If not: Experiments with the rules are lotteries with serious downside.
 - *Caveat*: We may be better able to plan.
 - American businesses: “Just tell me the rules, and we’ll figure it out.”

Are Changes to the Changes Possible? (Tariffs)

Policy as of October 17, Pre-Substitution
Percent of goods import



Sources: Yale Budget Lab; Peterson Institute for International Economics

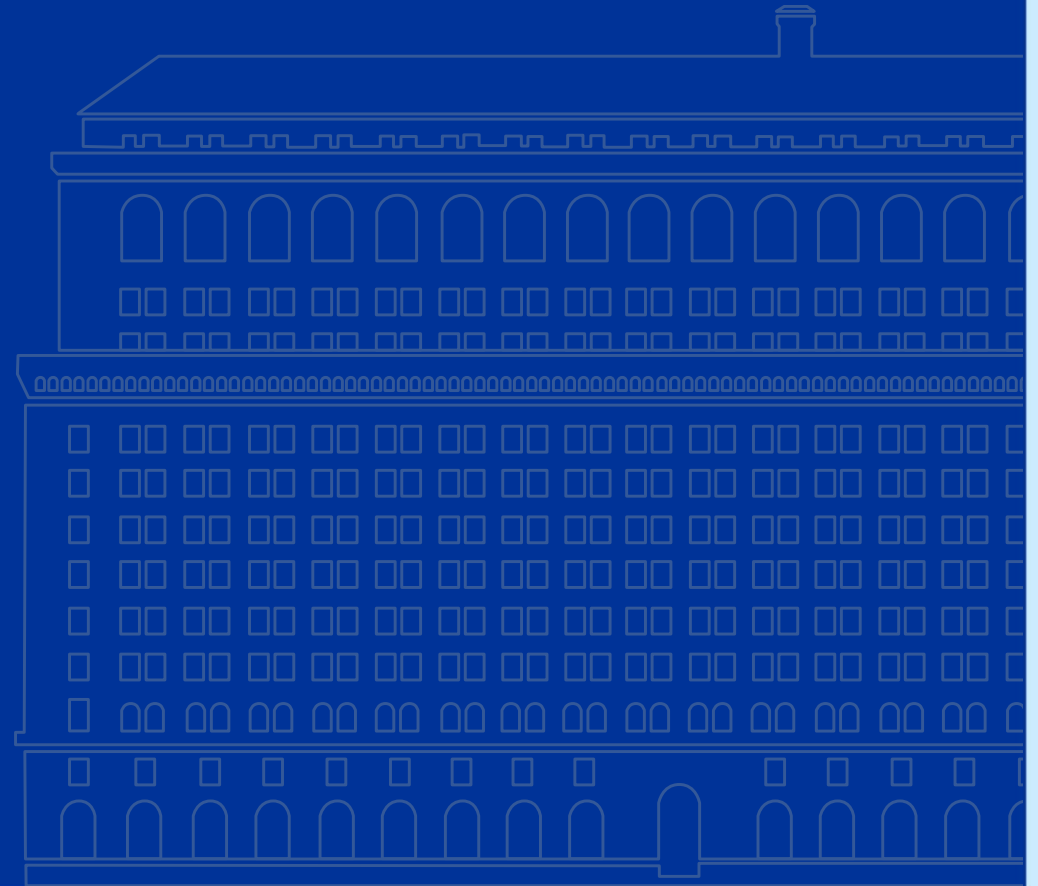
Note: U.S. average effective tariff rate since January 1, 2025

Are Changes to the Changes Possible? (Immigration)

- Immigration policy for highly skilled workers has gone through several iterations.
- International student enrollment projected to decrease by 180,000+ between the 2024-25 and 2025-26 academic years.

**The more novel rule changes are,
the harder it is to predict what will come
next: the past will not be prologue.**

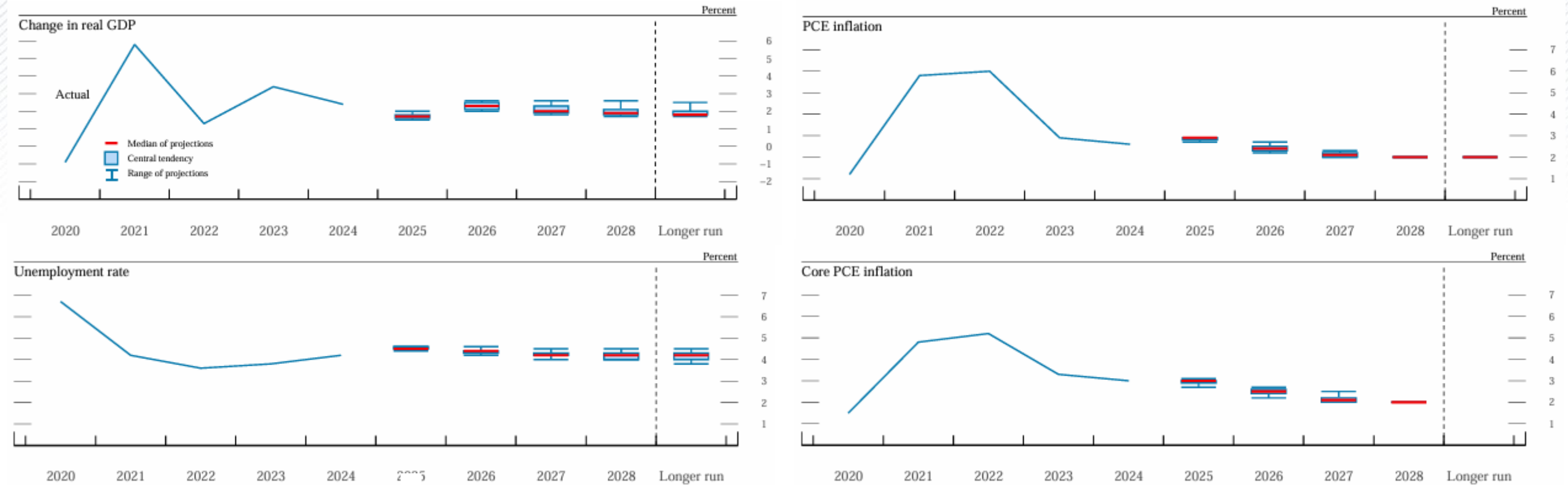
Monetary Policy: Here and Ahead



A Bird's-Eye View of Monetary Policy

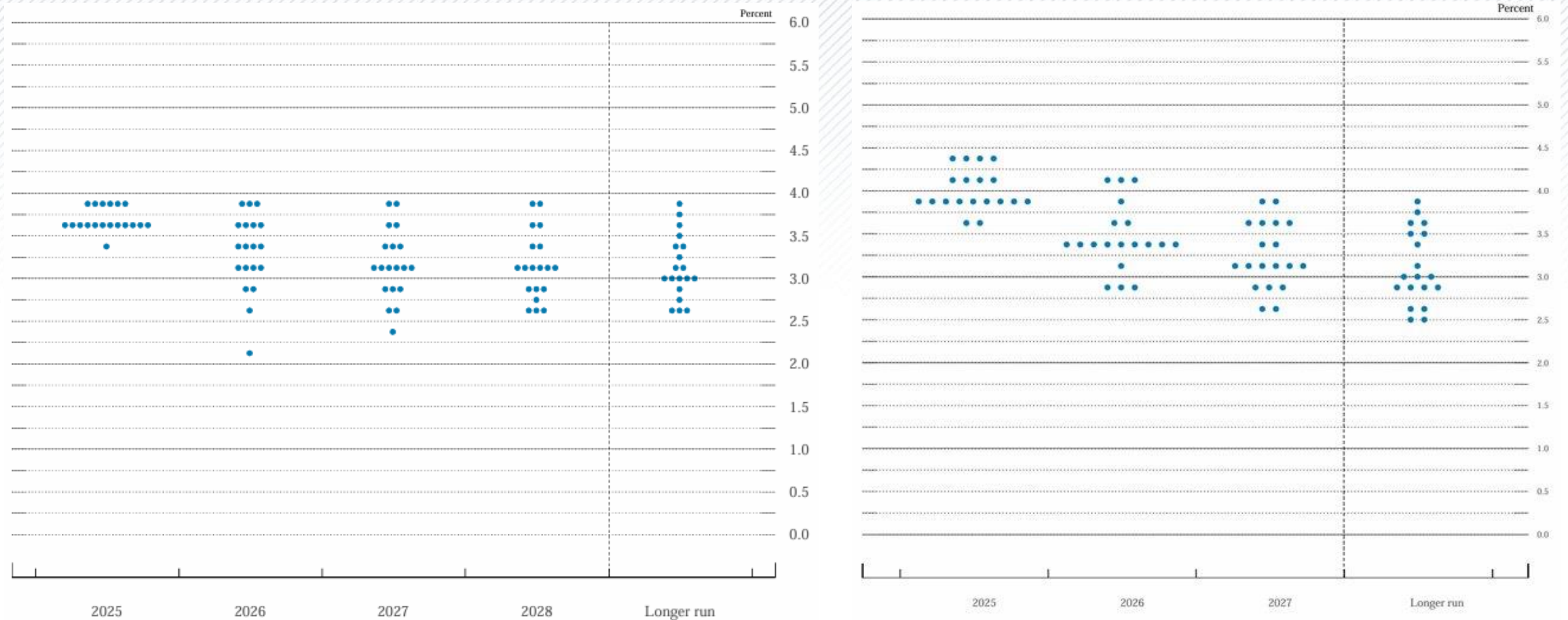
- Two key observations:
 - **Fact 1: Monetary policy can have big real effects in the short-run.**
 - Implication: Use monetary policy to help manage shocks hitting the economy, especially to prevent or soften recessions.
 - **Fact 2: Monetary policy can at best control only inflation in the longer run.**
 - Implications:
 - Do not get carried away in the pursuit of Fact 1.
 - Be very careful not to be a source of macro shocks that cause widespread harm at the micro level.
- **Congress's Dual Mandate to Fed: Conduct monetary policy to attain maximum employment and price stability.**

Per Policymakers: A Quiet Disinflation is Still the Baseline



Source: Survey of Economic Projections from the December Federal Open Market Committee Meeting

FOMC Policymakers' View on Rates Ahead:



Source: Survey of Economic Projections from the December (left) and September (right) Federal Open Market Committee Meeting

December FOMC Statement

- **Fundamentals:**

- “Economic activity has been **expanding at a moderate pace**. **Job gains have slowed** this year, and the **unemployment rate has edged up through September...inflation has moved up** since earlier in the year and **remains somewhat elevated**.”

- **Uncertainty:**

- “**Uncertainty about the economic outlook remains elevated**. The Committee is attentive to the risks to both sides of its dual mandate and judges that downside risks to employment rose in recent months.”
- “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.”

More Details from Chair Powell's Press Conference:

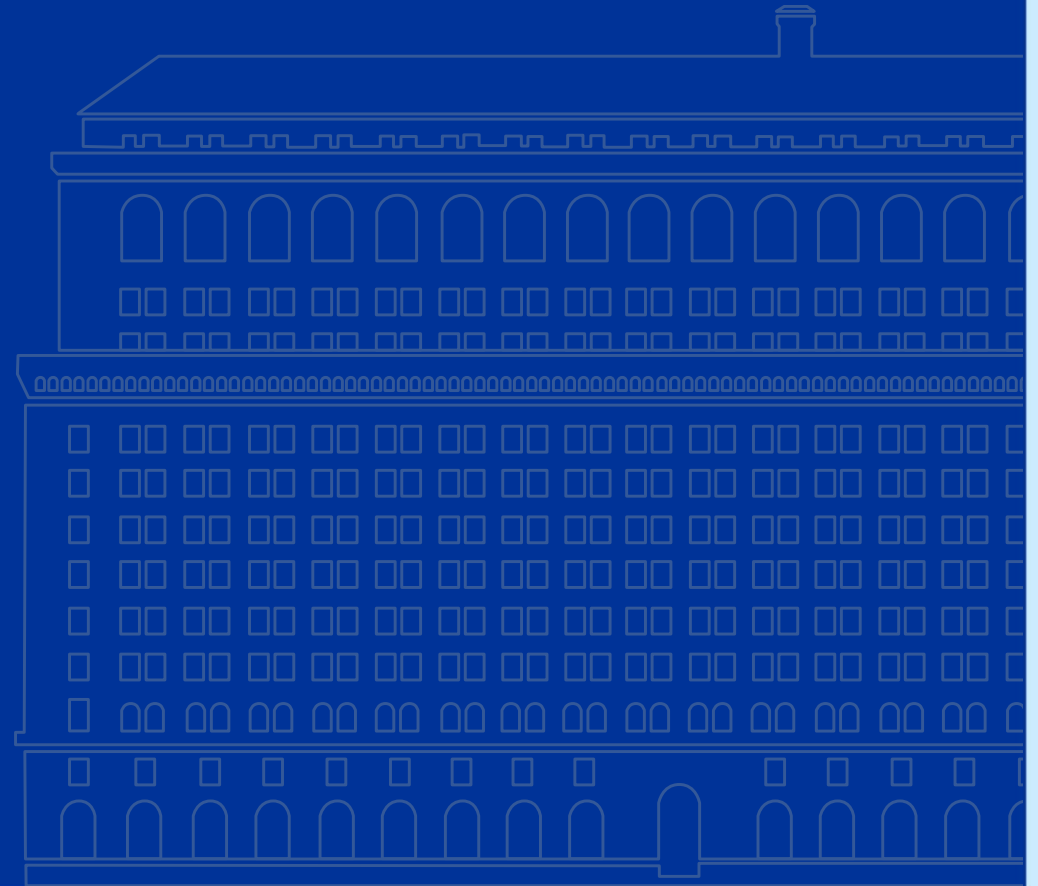
■ A Cooling Labor Market:

- "...payroll jobs averaging 40,000 per month since April. **We think there's an overstatement in these numbers by about 60,000.** So that would be **negative 20,000 per month**...surveys of households and businesses both showed **declining supply and demand for workers**..."

■ Prioritization of Job Creation:

- "Everyone should understand...that **we're committed to 2 percent inflation** and **we will deliver**...but it's a **complicated, unusual, difficult situation** where the labor market is also under pressure, where **job creation may actually be negative**...people care a lot about that."
- "...**It's really tariffs that's causing...most of the inflation overshoot.** And we do think of those as likely to be a **one-time...price increase.**"
- "**We...have risks to both** [the labor market and inflation]...the best thing we can do...is both to support economic activity, but also...make sure that when tariff inflation goes down and disappears, inflation lands around 2%."

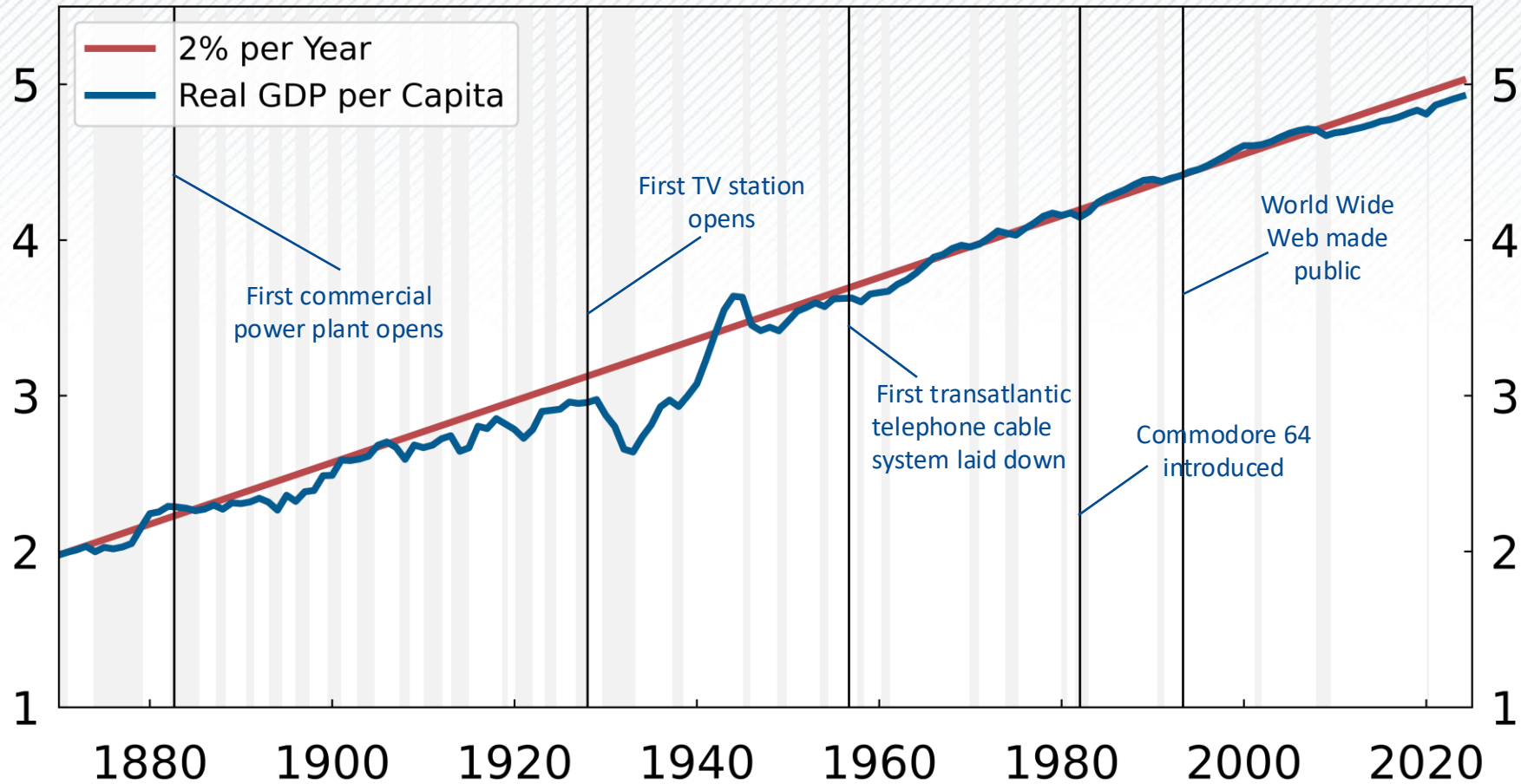
A Longer-Term Outlook: AI's Effects



What Tech Revolution?

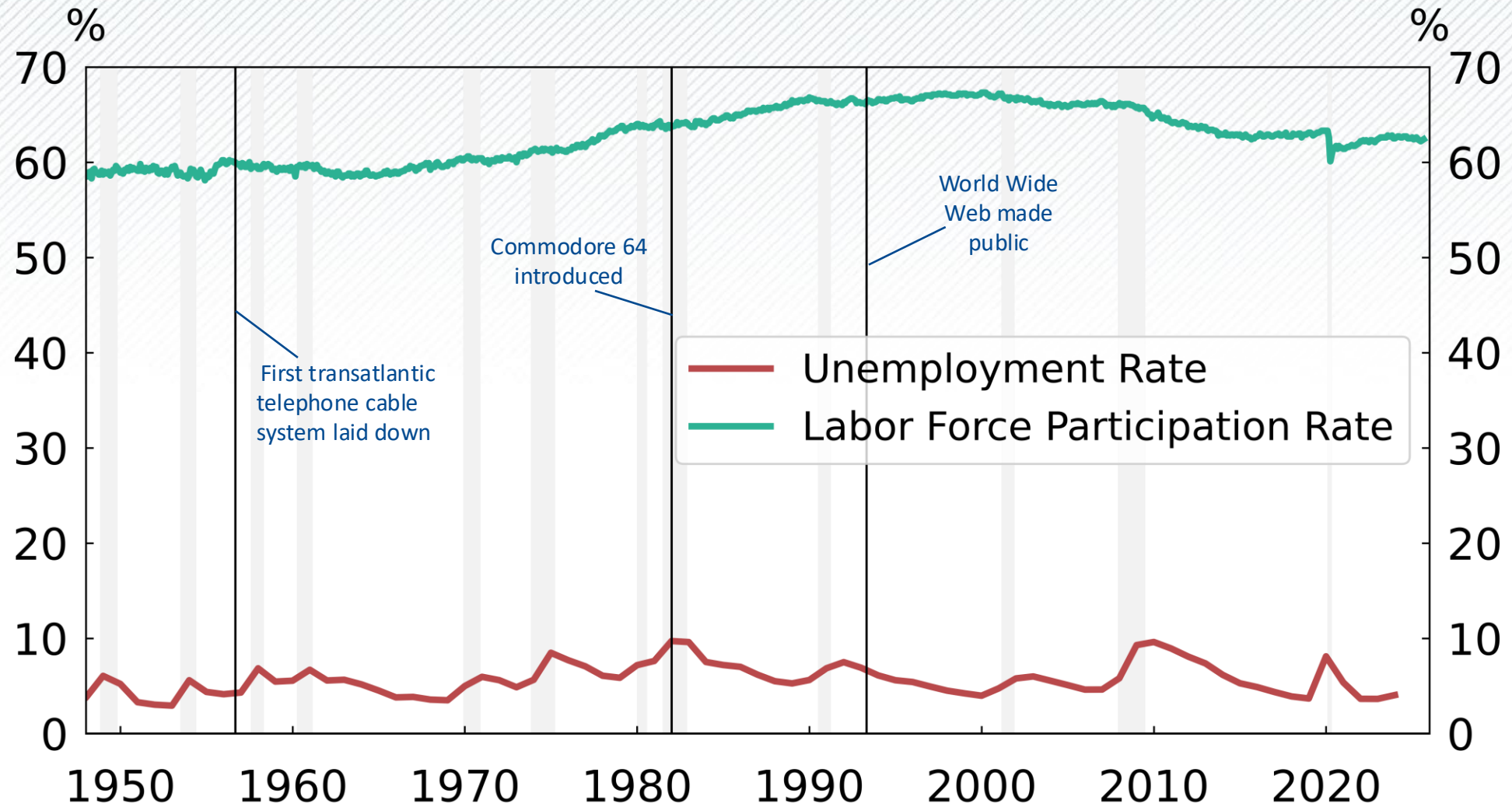
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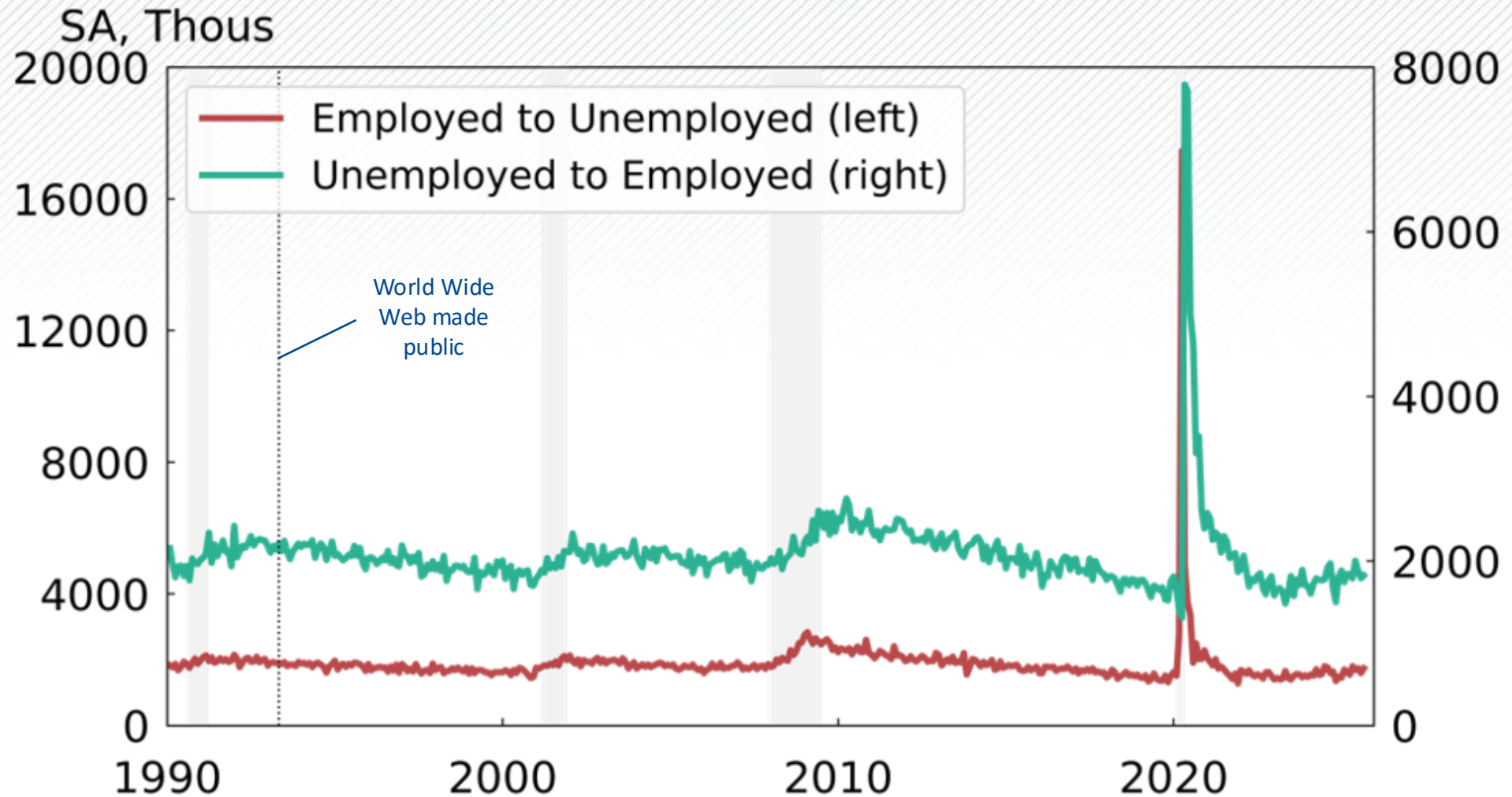
Sources: Chad Jones (2023); Barro and Ursua (2010); Bureau of Economic Analysis and Census Bureau via Haver Analytics; NBER via FRED

We've Never Had Mass Unemployment



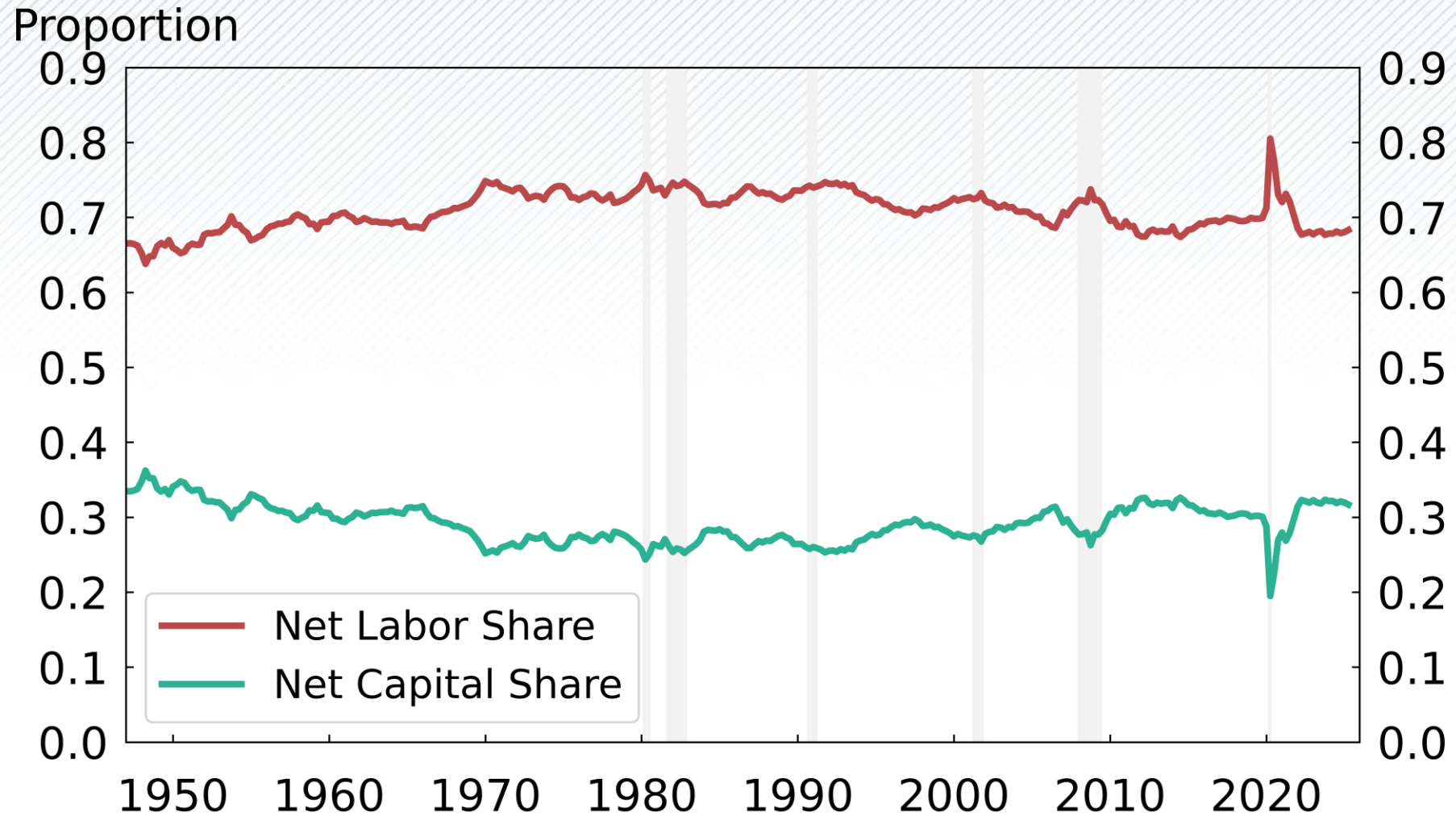
Source: Bureau of Labor Statistics via Haver Analytics and bls.gov

Gross Employment Flows Historically Stable



Source: Bureau of Labor Statistics via Haver Analytics

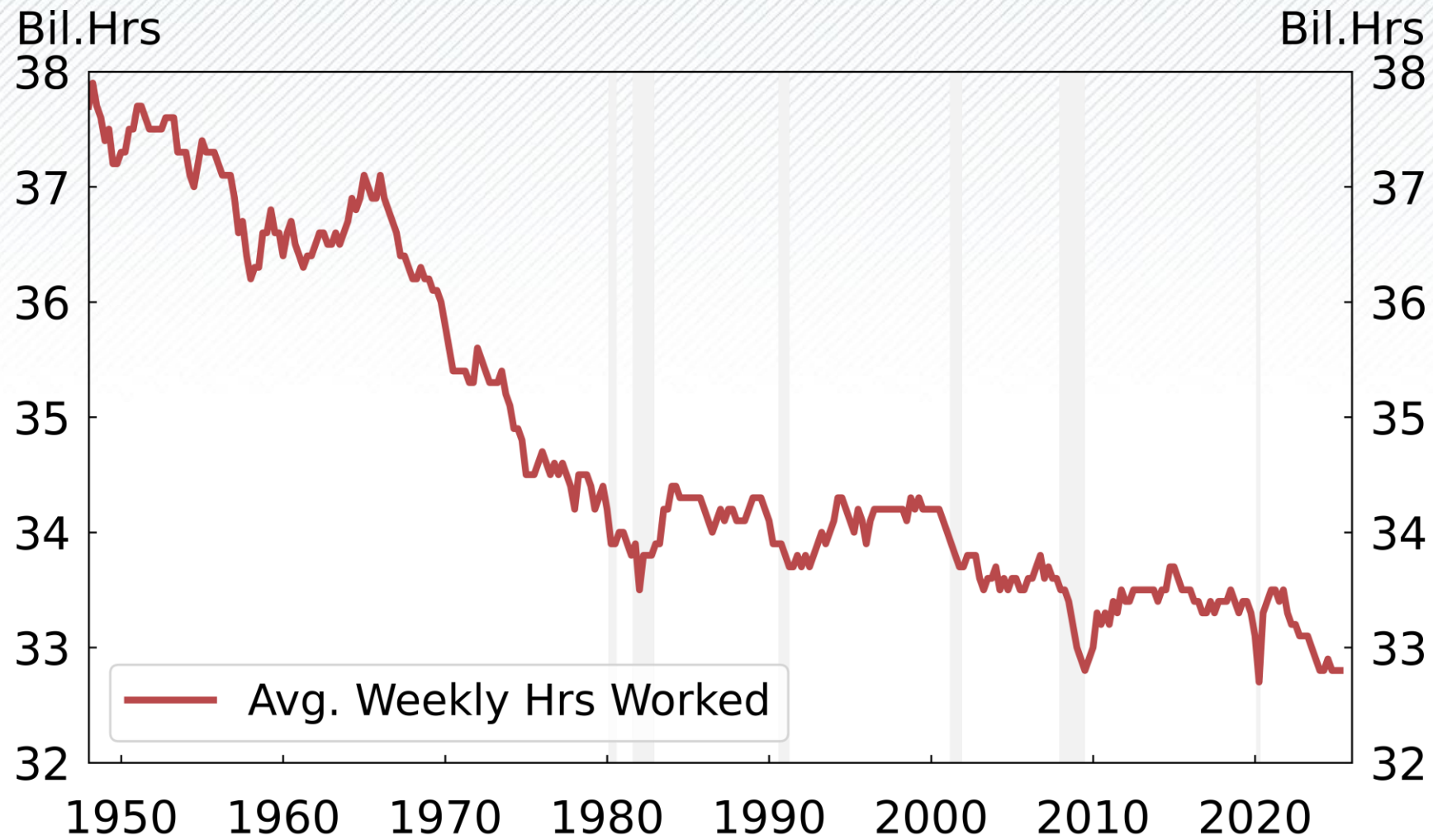
Labor and Capital as Shares of National Income Also Steady



Source: Bureau of Economic Analysis via Haver Analytics

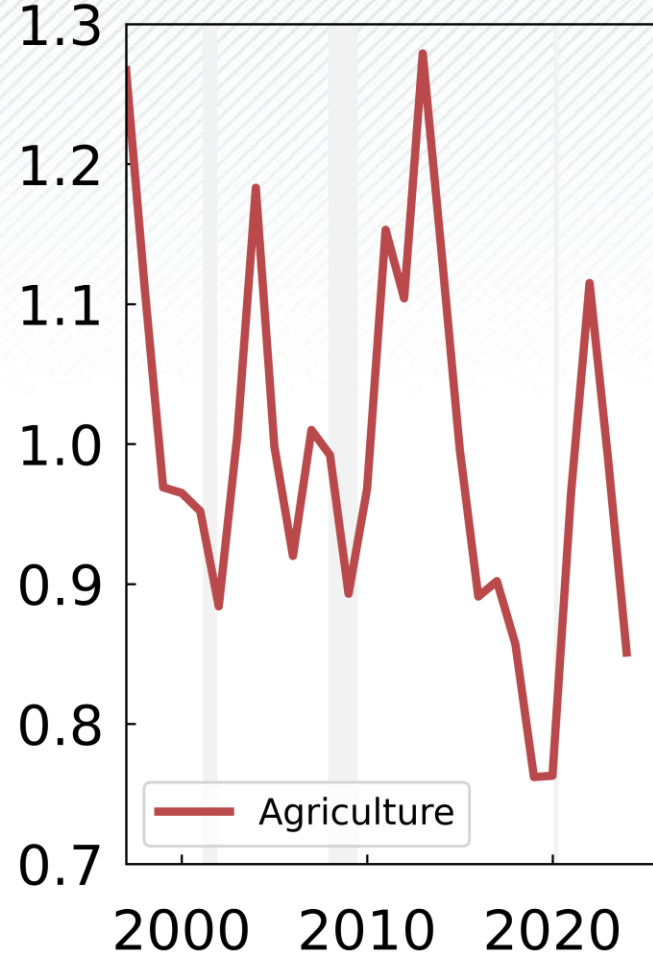
Note: Net Labor Share = Compensation / (Gross Domestic Income – Consumption of Fixed Capital – Tax on Production and Imports Less Subsidies). Net Capital Share = 1 – Net Labor Share.

Total Economy: Average Weekly Hours Worked Drops

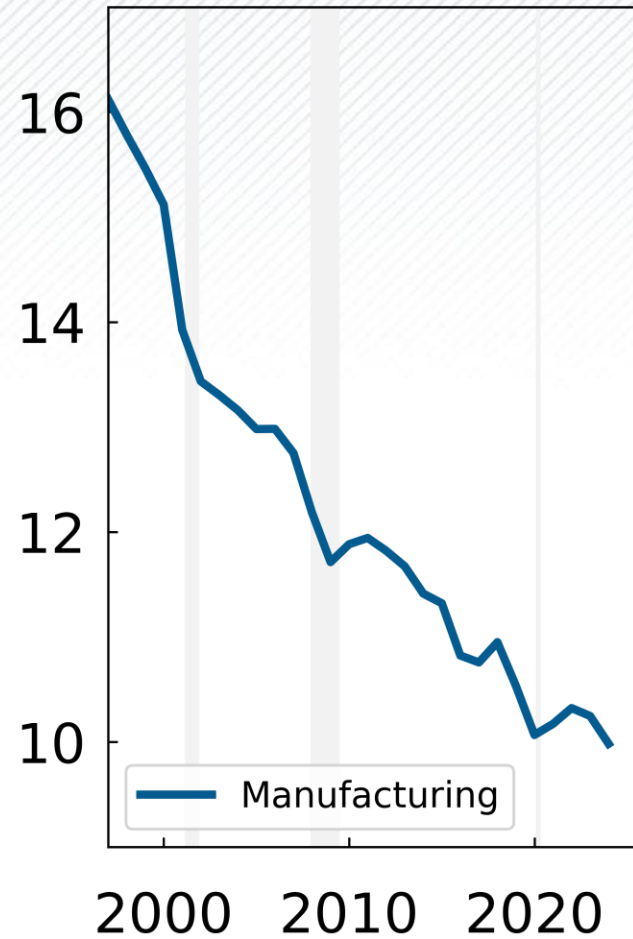


Agriculture, Manufacturing, and Services as Shares of GDP

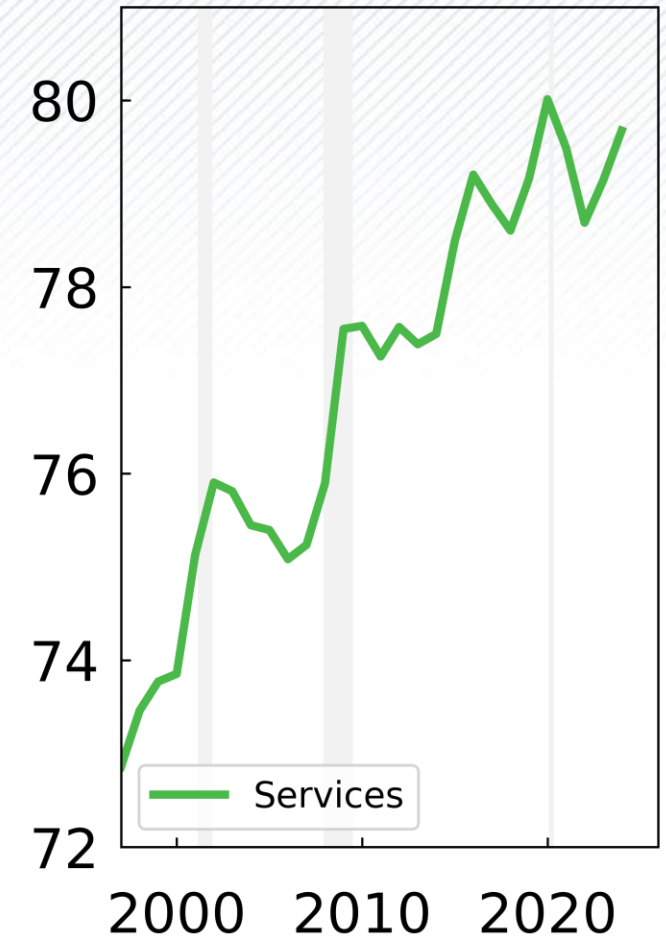
% of GDP
1.3



% of GDP



% of GDP



AI is Here. What Next?

- **If AI's implications are disruptive, what then?**
 - We meaningfully curtailed the use of nuclear power. Is this going to happen with AI?
 - How will electricity demand be met?
 - Power generation is intensely political—local politics matter a lot!
 - Will nuclear come back in the conversation if power demand balloons?
 - Deterioration of not only verbal, but now physical (visual—Sora, etc.) truth.
 - How do you convey credible information when fakes are so good?
 - How closed can your fact bubble be/get?
 - If everything allows wildly varying interpretations, look out.
 - Increased discussion on which services are human-intrinsic and thus difficult to replace.
- **More broadly, AI innovation happens globally, so how can the U.S. ensure talent wants to come here?**
- **What are the implications for AI policy and meta-policy?**

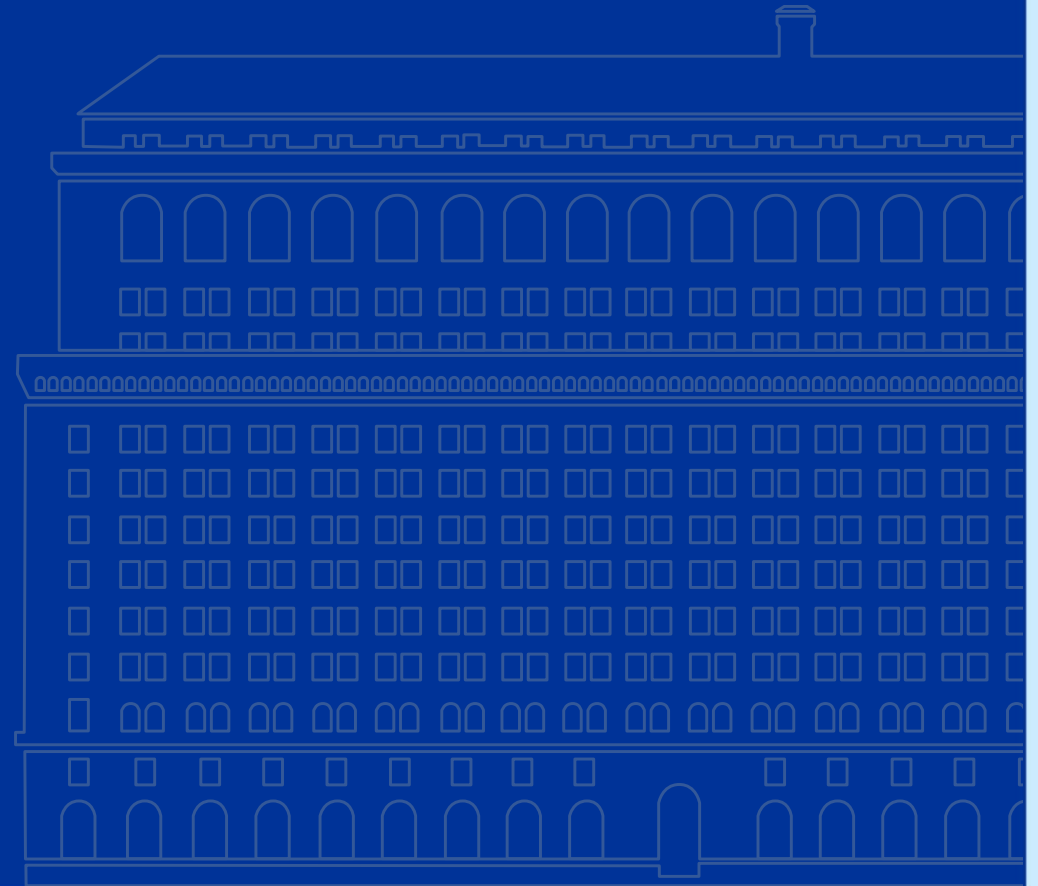
Resting on Our Laureate: Kenneth Arrow in 1972

“As technology improves exogenously, through innovations, **the labor force made redundant does not become permanently unemployed, but finds its place in the economy.** It is truly amazing that the lessons of both theory and over a century of history are still so misunderstood.”

“On the other hand, **a growing accumulation of instruments of production in turn induces a rise in the prices of labor-intensive commodities** relative to those which use little labor.”

“...**the economic system adjusts with a considerable degree of smoothness** and indeed of rationality to changes in the fundamental facts within which it operates.”

Three Takeaways



#1: As Usual, Macro Steady

- **The U.S. economy is steady at the macro level, and continued *macro steadiness* is my base case.**
 - A century of data—and SEP—suggest continued 2% per-capita growth (with headwinds outside AI).
 - Labor market cooling, but not icing: mid-4s unemployment.
 - Inflation closer to 3% this year, but SEP expects closer to target as 2026 ends.
 - Fed policy: SEP modal view—heading gradually to around 3%.
- **However...**

#2: As Usual, Macro Masks Micro Turbulence

- **Micro (household and business-level) uncertainty is unusually high.**
 - Labor market cooling.
 - Consumer debt repayment is showing stress.
 - Path ahead for conditions less optimistic.

#3: As **Unusual**, This is a time of Policy and Meta-Policy Uncertainty

- Policy change has been large:
 - Trade and immigration, above all.
 - AI is advancing.
 - Meta-policy change maybe even larger—currently unclear.
- Meta-policy change can bring **risk** and **upside**:
 - “Policy changes” and AI “tech disruption” ask us to gauge how and when policies will flex as circumstances change.

Relevant New York Fed Content

- **Trade**
 - A Country-Specific View of Tariffs
 - Do Import Tariffs Protect U.S. Firms?
 - Does Trade Uncertainty Affect Bank Lending?
 - The Global Supply Side of Inflationary Pressures
 - The Impact of Import Tariffs on U.S. Domestic Prices
 - Do Import Tariffs Help Reduce Trade Deficits?
- **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
- **AI**
 - Are Businesses Scaling Back Hiring Due to AI?
- **Household Issues**
 - Borrower Expectations for the Return of Student Loan Repayment
 - When the Household Pie Shrinks, Who Gets Their Slice?
- **Banking Matters**
 - Flood Risk Outside Flood Zones — A Look at Mortgage Lending in Risky Areas
 - The Adverse Effect of “Mandatory” Flood Insurance on Access to Credit
- **Treasury Market**
 - Measuring Treasury Market Liquidity