

A starfish is positioned in the upper left quadrant of the slide, set against a background of clear, rippling blue water. The starfish is a vibrant orange-brown color with a textured, bumpy surface. The water's surface is covered in intricate, shimmering patterns of light and shadow, creating a sense of depth and movement. The overall aesthetic is clean and natural, evoking a coastal or aquatic theme.

Volunteer Leadership Institute - Hawaii

ECONOMIC OUTLOOK

Byron Gangnes

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Learning Objectives

1. Review US and global economic developments over the past year. How have economic conditions and policies evolved? Has the Fed won its inflation battle without triggering a recession? What can we expect for the next few years?.
2. Learn about factors that will influence the economy, including labor market health, household finances, Federal Reserve policy, the benefits of easing inflation and interest rates, and the results of the 2024 elections.
3. Explore the likely path of the economy in 2025 and beyond. What might that mean for Credit Unions?

Economic Outlook

Healthy, heading into uncertain Trump era

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About the Economy

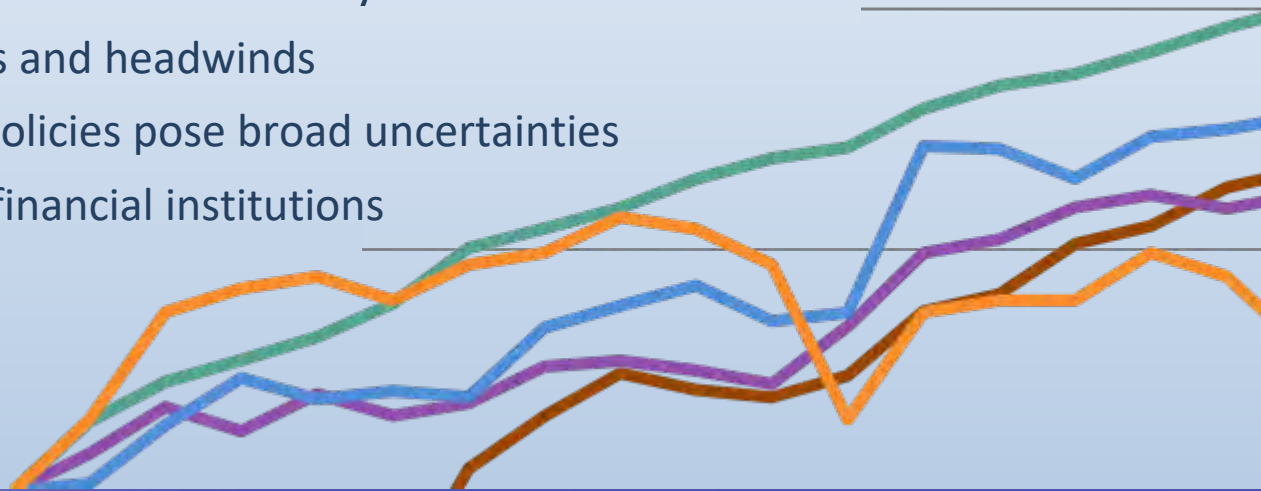
Making Economics Make Sense

ROCHDALE 

Volunteer Leadership Institute
Island of Maui, January 29, 2025

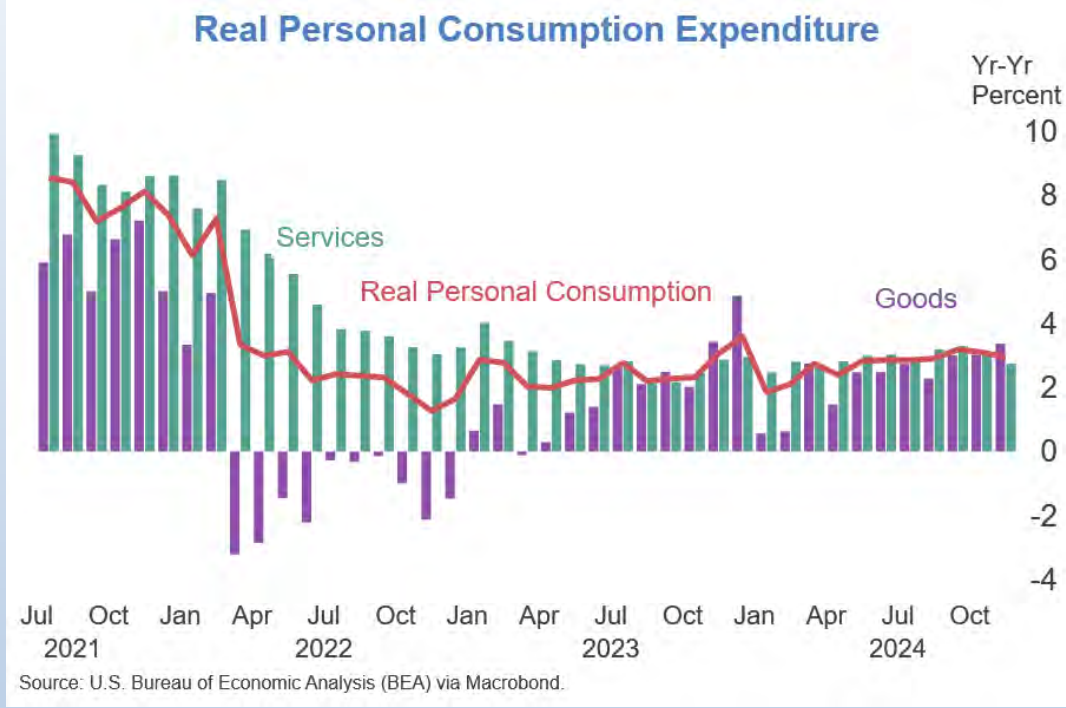
A surprisingly good 2024

- Growth remained buoyant despite interest rate drag
- But Fed saw their way to rate cuts by mid-year
- Some areas were notably stronger or weaker
- What can we expect in 2025 and beyond?
 - Growth tailwinds and headwinds
 - Administration policies pose broad uncertainties
 - Implications for financial institutions



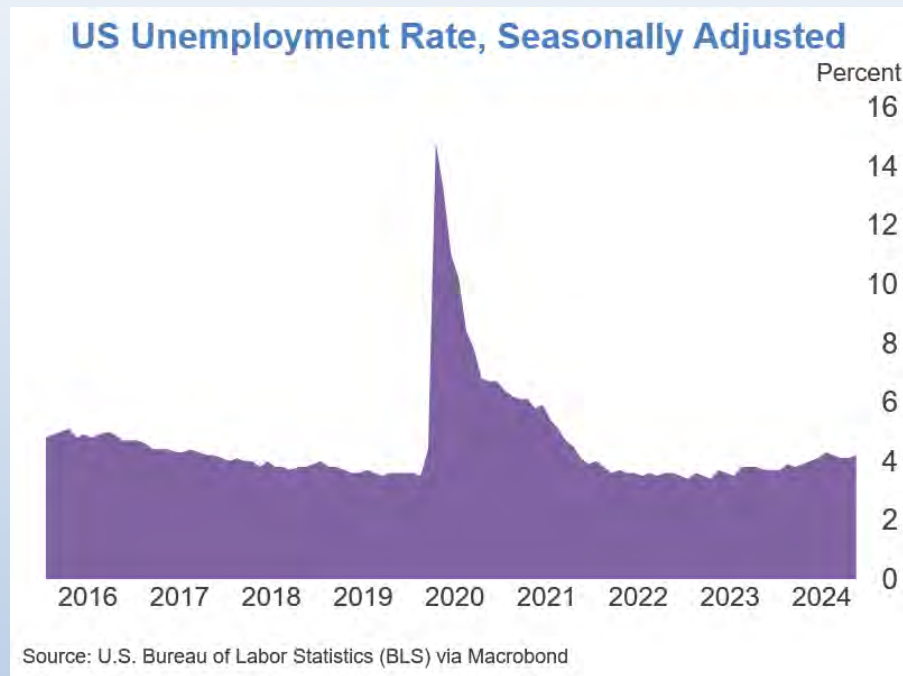
Consumers just won't quit

- Consumers remain willing and able to spend
- The biggest support for economy's resilience
- Other centers of strength play important supporting roles



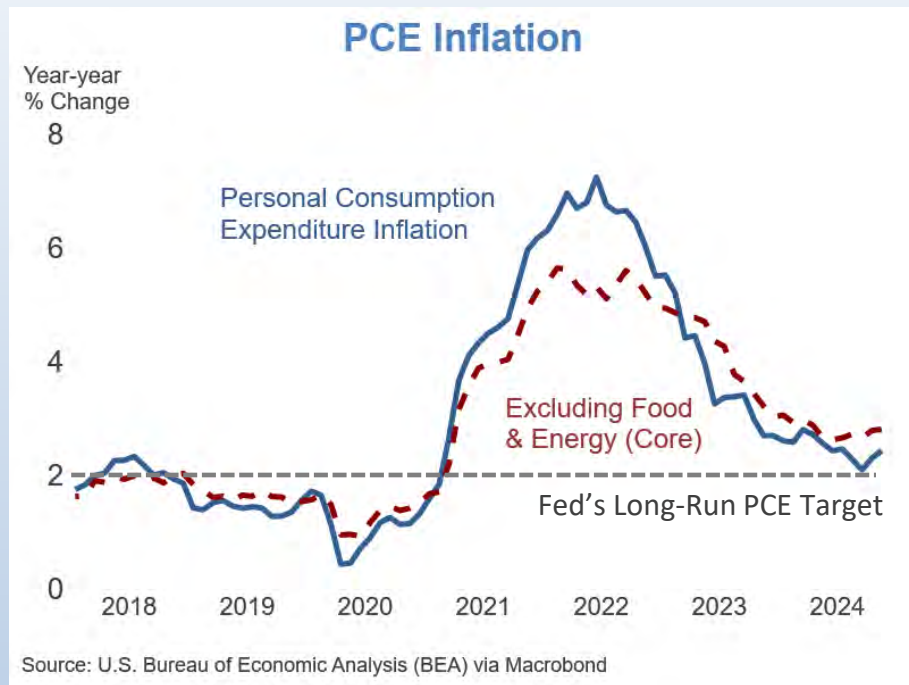
The labor market is softening, but slowly

- The US labor market is easing, not dropping
 - Job growth has slowed
 - Openings & hires have declined
 - But unemployment remains just above 4%
- Wages are now rising faster than inflation



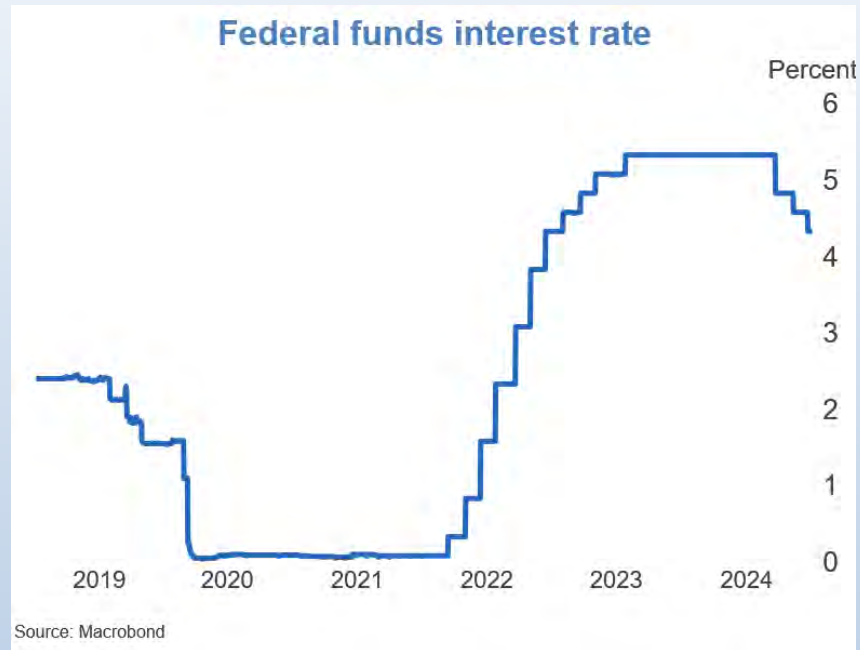
Inflation is down, if not out

- Headline measures of inflation are near Fed's target
- Core service inflation is of some concern
 - Shelter costs
 - But also non-energy services other than shelter
 - Things like health care, insurance, dining out...

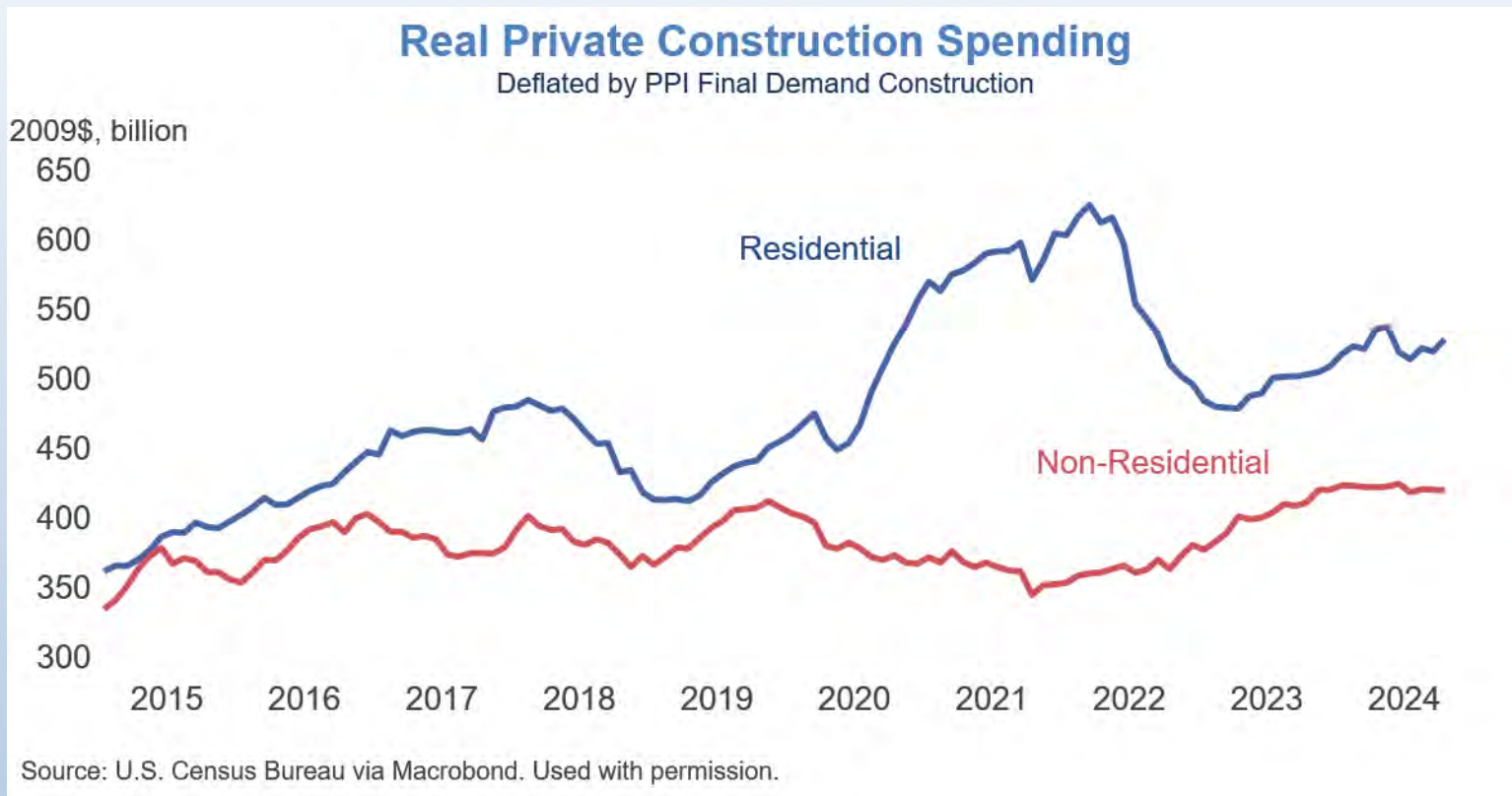


The Fed has begun to cut rates

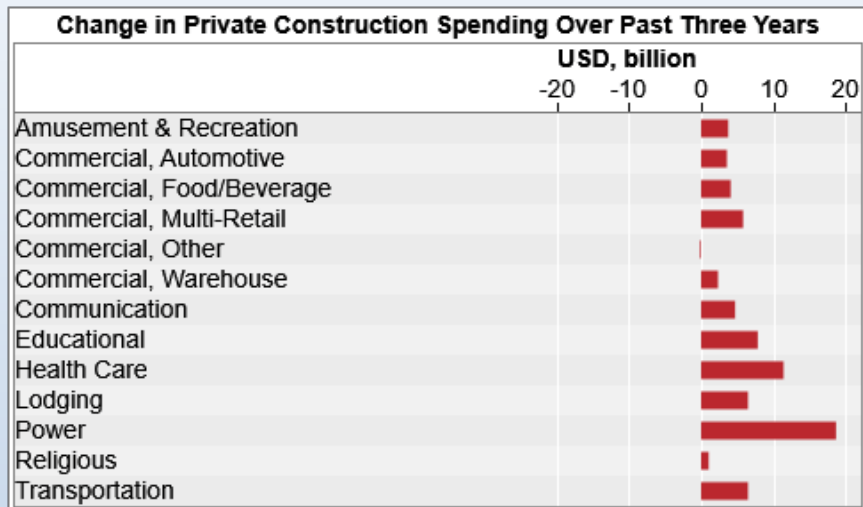
- By summer, the Federal Reserve was seeing
 - Disinflation progress
 - Labor market weakening
- Began federal funds interest rate cuts
 - Half-percent in September
 - Quarter point in November & December
 - Directly reduces short-term rates
- Long-term rates are more complicated and have risen
 - 4-4.7% on 10-year T-bond



Non-residential leads construction activity



Where is all that nonresidential construction?

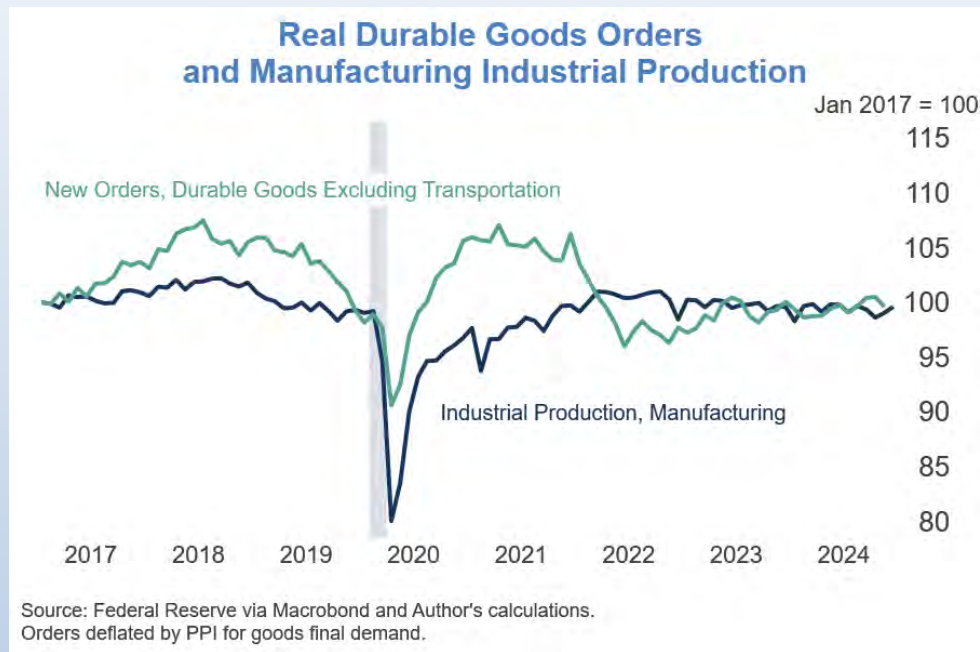


Where's the rest?



Manufacturing moving sideways

- Manufacturing activity remains flat
- New orders have barely budged
- And purchasing managers still see contracting activity, if less widespread



Still nothing happening in home resale market

Mortgage Applications for Purchase, Calendar & Seasonally Adjusted



Source: Bankrate, Mortgage Bankers Association (MBA) via Macrobond.



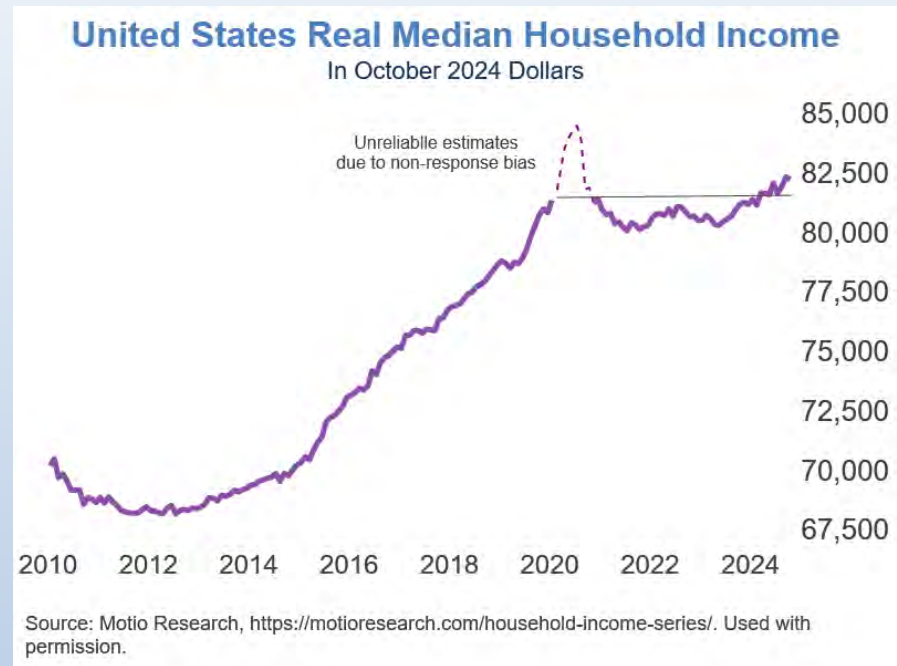
Solid economy meets New Administration uncertainty

- While there are weak spots, the US economy enters 2025 in good shape
 - Growth has remained stronger for longer
 - Disinflation progress with little unemployment rise
- But there are growth headwinds
 - Consumers face more challenging conditions
 - The Fed will slow pace of rate cuts
- The new Trump Administration injects uncertainty
 - And some proposed policies are problematic



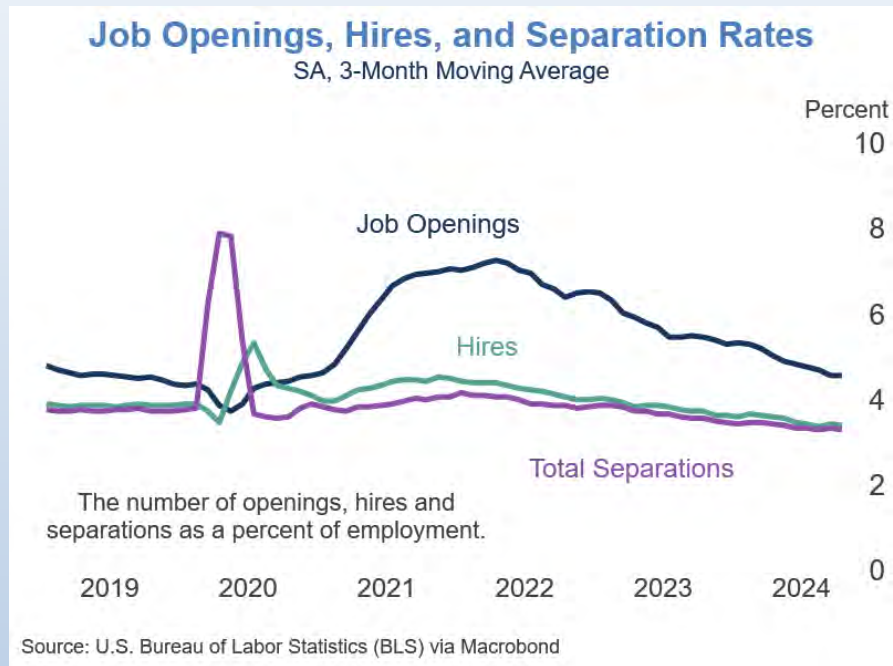
Tailwinds behind consumer remain substantial

- Tailwinds
 - Growing inflation-adjusted real household income
 - Low unemployment
 - Higher housing and stock market wealth
 - Relatively low debt burdens



But increasing headwinds as well

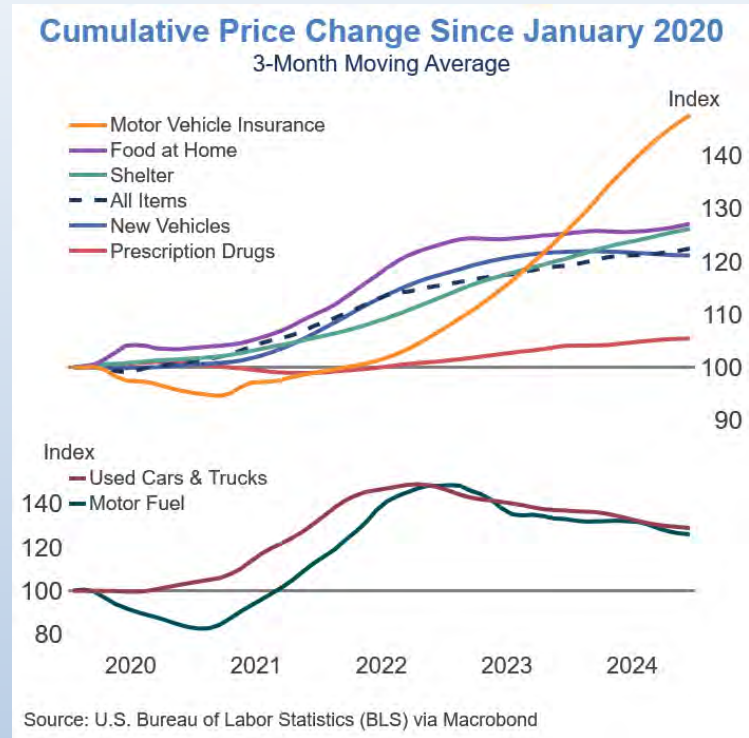
- Headwinds
 - Job openings are no longer unusually high...
 - ...and hiring rates have fallen
(But still low levels of layoffs and discharges)
 - Surveys suggest somewhat more people are dissatisfied with their jobs



Increasing headwinds and the big unknown

- Headwinds
 - Inflation, while much lower now, has left high prices
 - This may impact lower-income families most
 - Limited but growing financial stress

Emergence of these headwinds may partly explain widespread disaffection



Forecasting challenge:

What to assume about Trump Administration policies?

Our UHERO *Limited Implementation* assumptions:

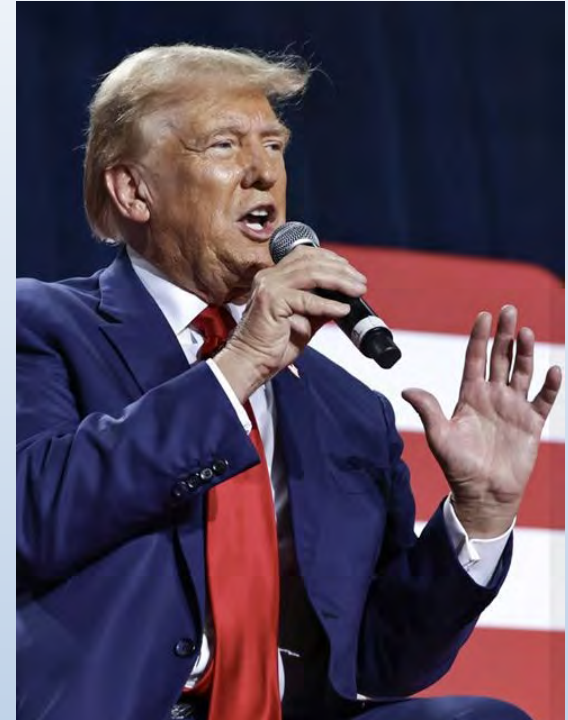
- Fiscal policy: “Trump tax cuts” are extended, corporate tax rate cut from 21% to 15%. Limited cuts to Biden-era programs.
- Trade Policy: 10% tariffs limited to products and countries, with many exceptions. Result is a 5-percentage-point increase in the effective tariff rate.
- Immigration: Reduce unauthorized immigrants in US by 350,000 per year. Hold other net immigration near zero.
 - *The economics of immigration is my Friday talk*



Estimating the effects

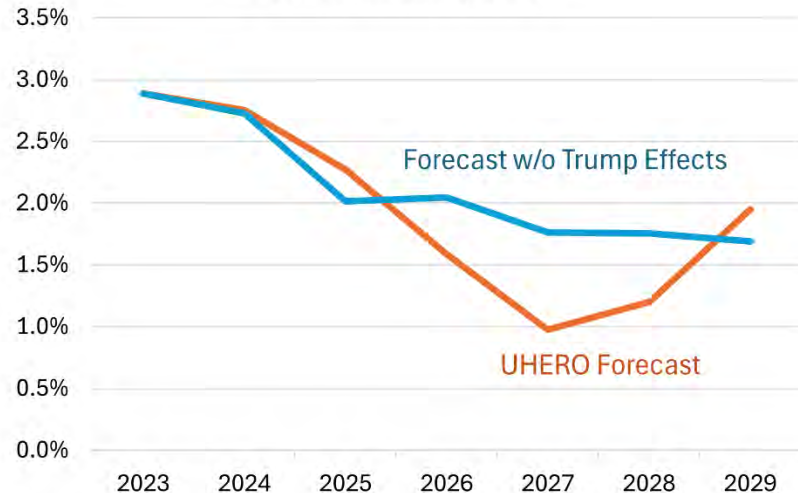
Likely economic effects

- Tax cuts and optimism will raise spending and real GDP in 2025.
 - But beware deficit effects!
- Tariffs and deportations will raise production costs, reduce labor force, dragging growth below prior baseline by 2026.
- Short-term stimulus, and trade & immigration policies will raise inflation.

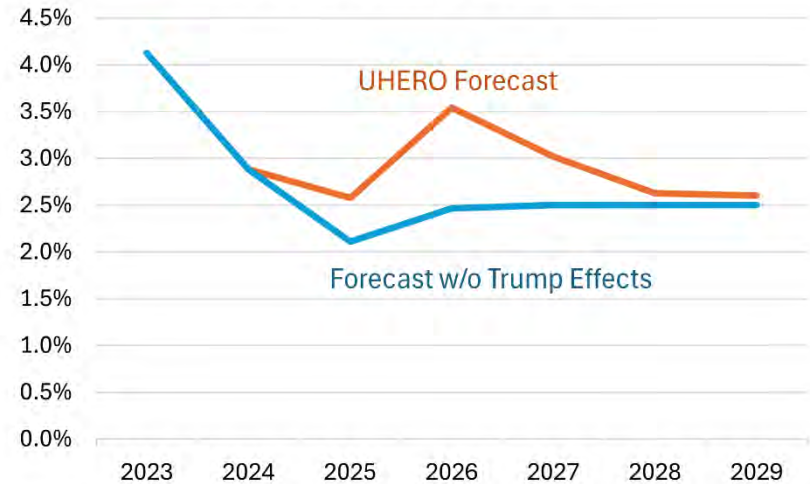


Modest near-term stimulus, Lower growth and higher inflation in the medium term

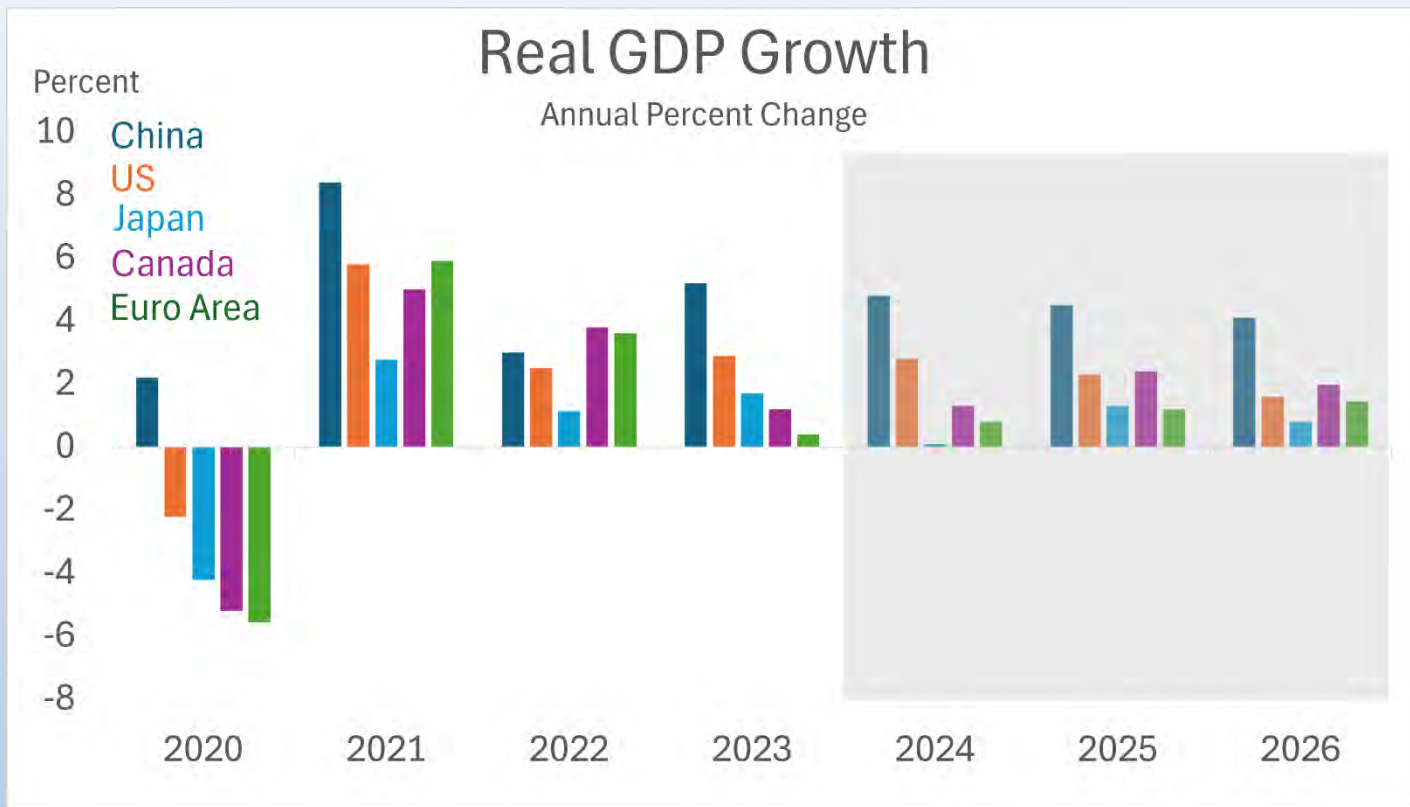
Effect of Trump Policies on US GDP Growth
Limited Assumptions



Effect of Trump Policies on US CPI Inflation
Limited Assumptions



Restrained and risky global outlook



Fed cuts will be slower than many expected

The Fed will have to be confident that inflation is on path to 2%

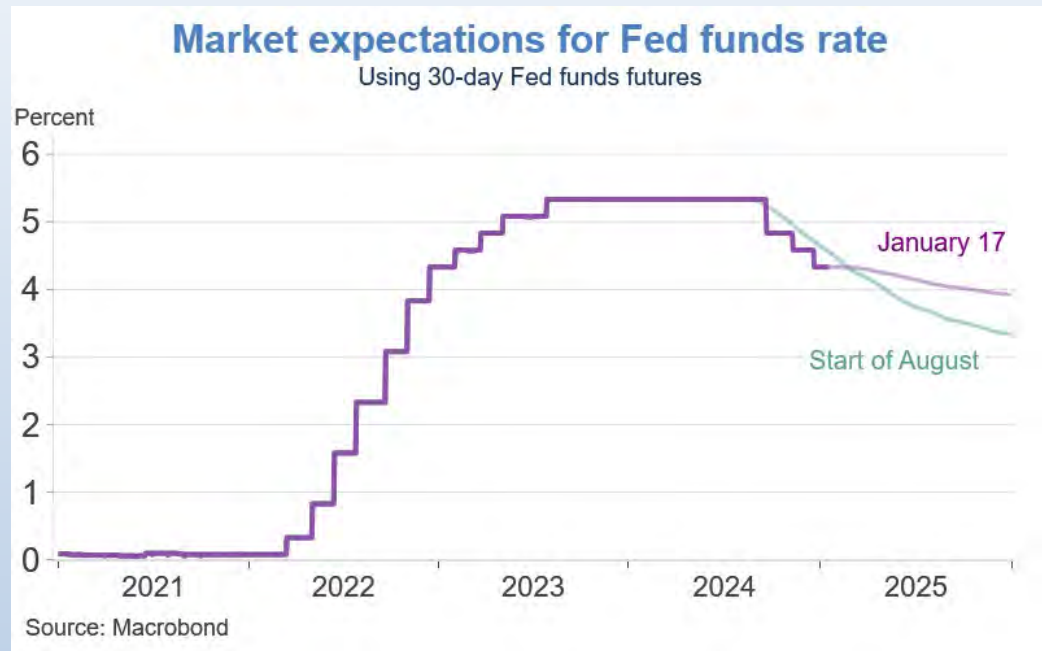
- Powell's cautious tone:

“The economy is not sending any signals that we need to be in a hurry to lower rates.”

— Jerome Powell, November 14, 2024

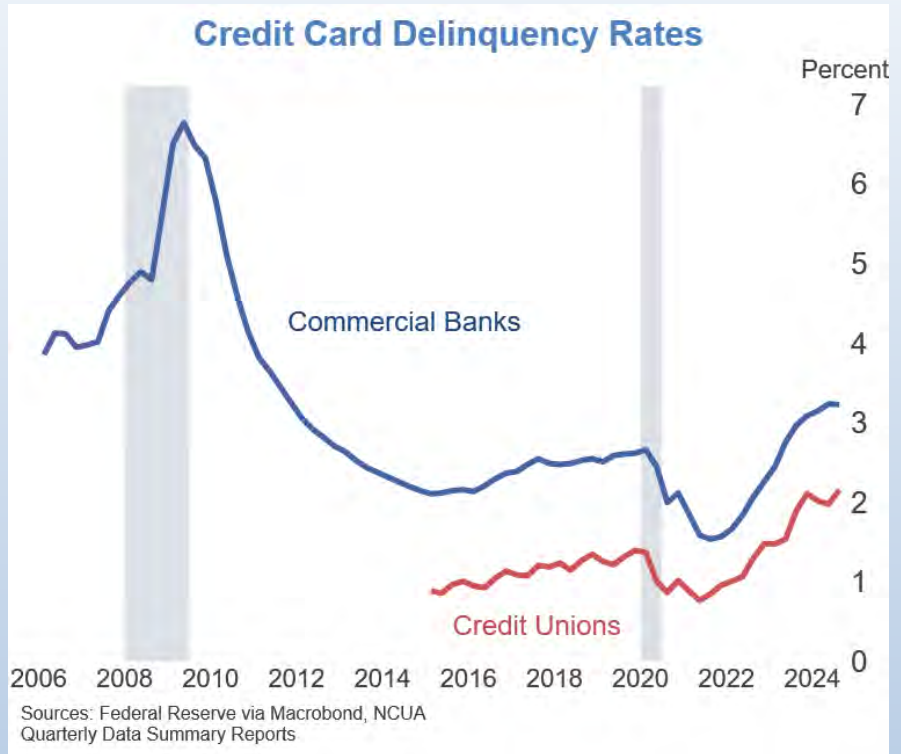
“...we are at or near a point at which it will be appropriate to slow the pace of further adjustments.”

— Jerome Powell, December 18, 2024

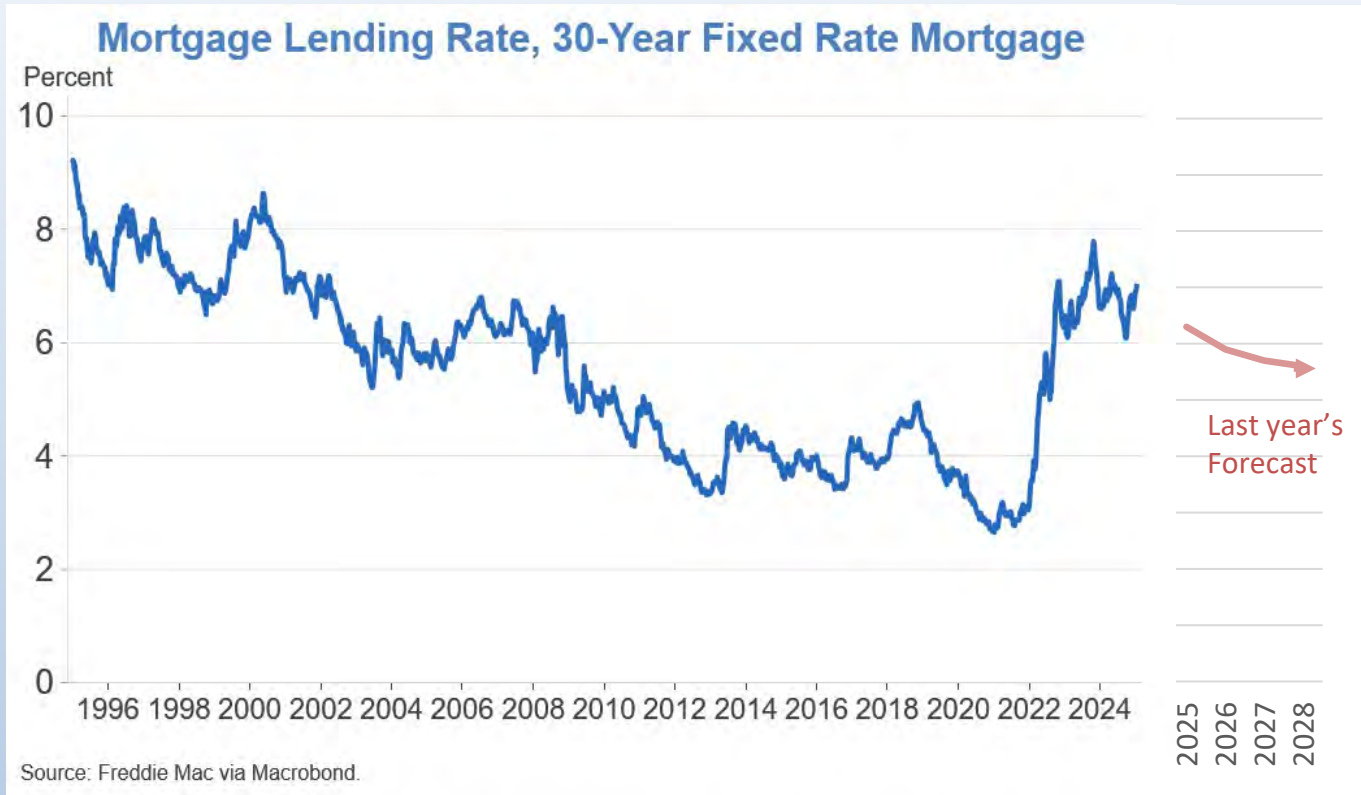


Financial markets and institutions

- Challenges for credit unions
 - Mortgage lending recovery delayed
 - Delinquencies are low but have risen
 - Higher interest costs and lower fee income have reduced net income
 - Effects of declining cost of funds?
- For banks and financial markets
 - Credit quality
 - Stock market WAY over-priced



Mortgage rates: Higher forever?

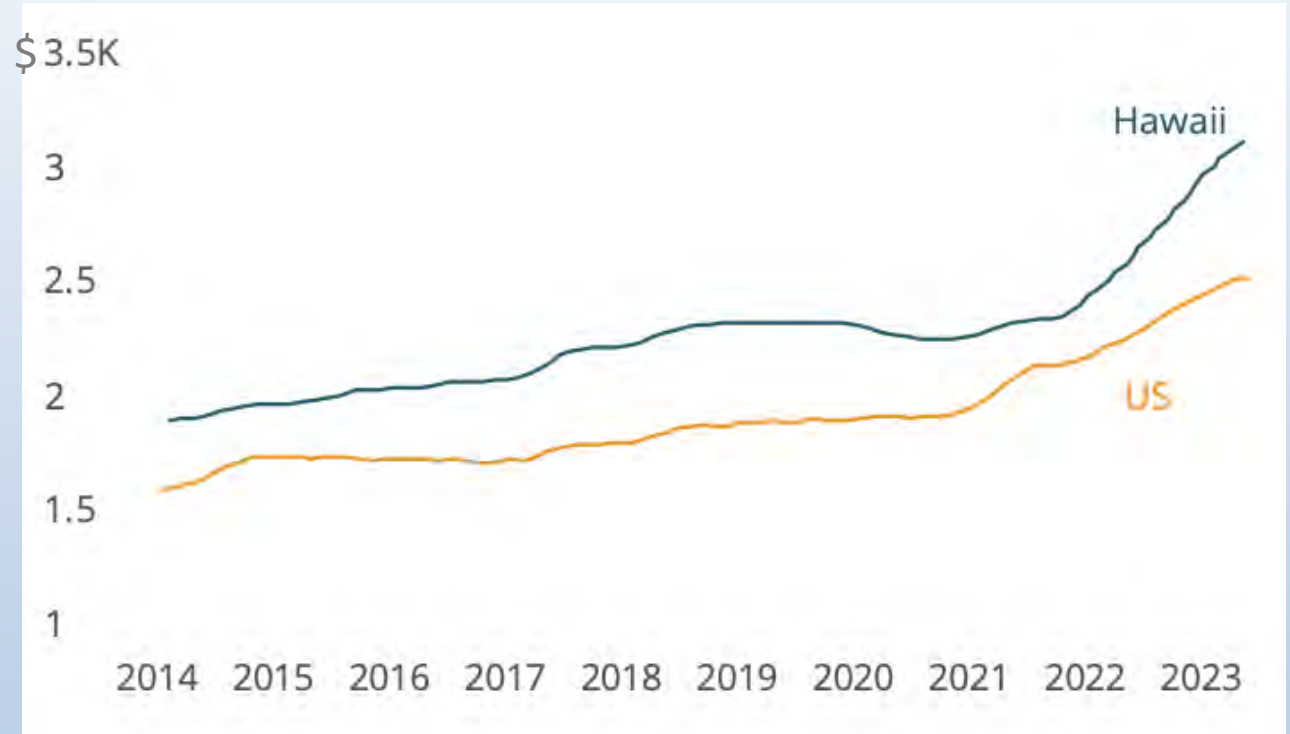


Source: Forecast is UHERO, December

www.about-the-economy.com

Housing: A new threat to affordability

Average Annual
Home Insurance
Premiums



Effects of the LA fires?

- The LA fires have had a devastating cost. As of January 15
 - At least 25 people killed, 80,000+ people displaced, at least 12,000 structured damaged or destroyed
- Among the costliest wildfires in US history
 - Preliminary damage estimates \$30-40 b. Some are much higher.
- What will be the cost of economic disruption? Health impacts?
- What will be the cost of rebuilding, hurdles to be faced?



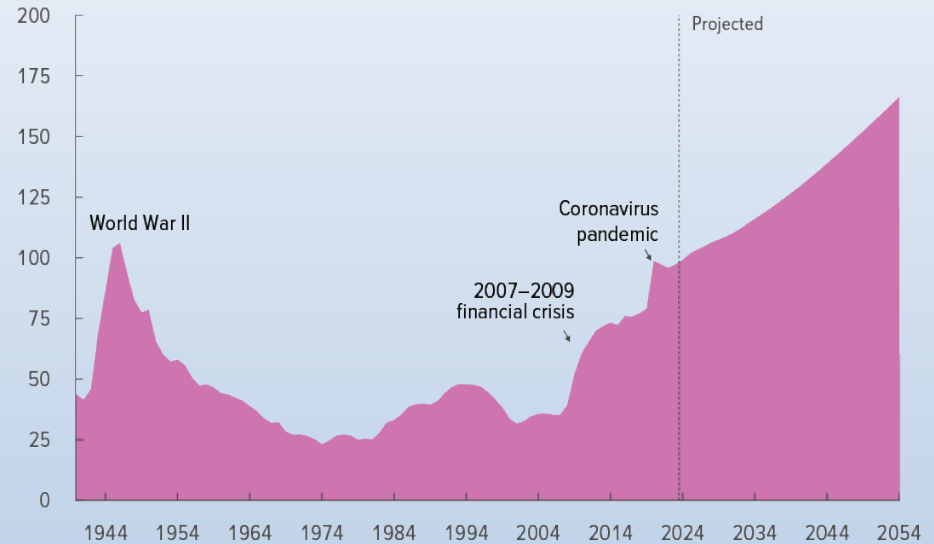
Public domain photo by CAL
FIRE



The most uncertain outlook since Great Recession?

- The Fed has nearly achieved a “no landing” outcome
- But there are tons of risk
 - Scope and scale of Trump Admin policies are unknown
 - How will Federal Reserve respond to economic developments?
 - How will financial markets?
 - Ukraine and Mideast Geopolitics
 - Risky failure by Dems and Repubs to address government debt

Federal debt held by the public





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Thank you

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About the Economy

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