



Economic Outlook and Monetary Policy

Multi-Chamber Economic Outlook Luncheon & Business Expo
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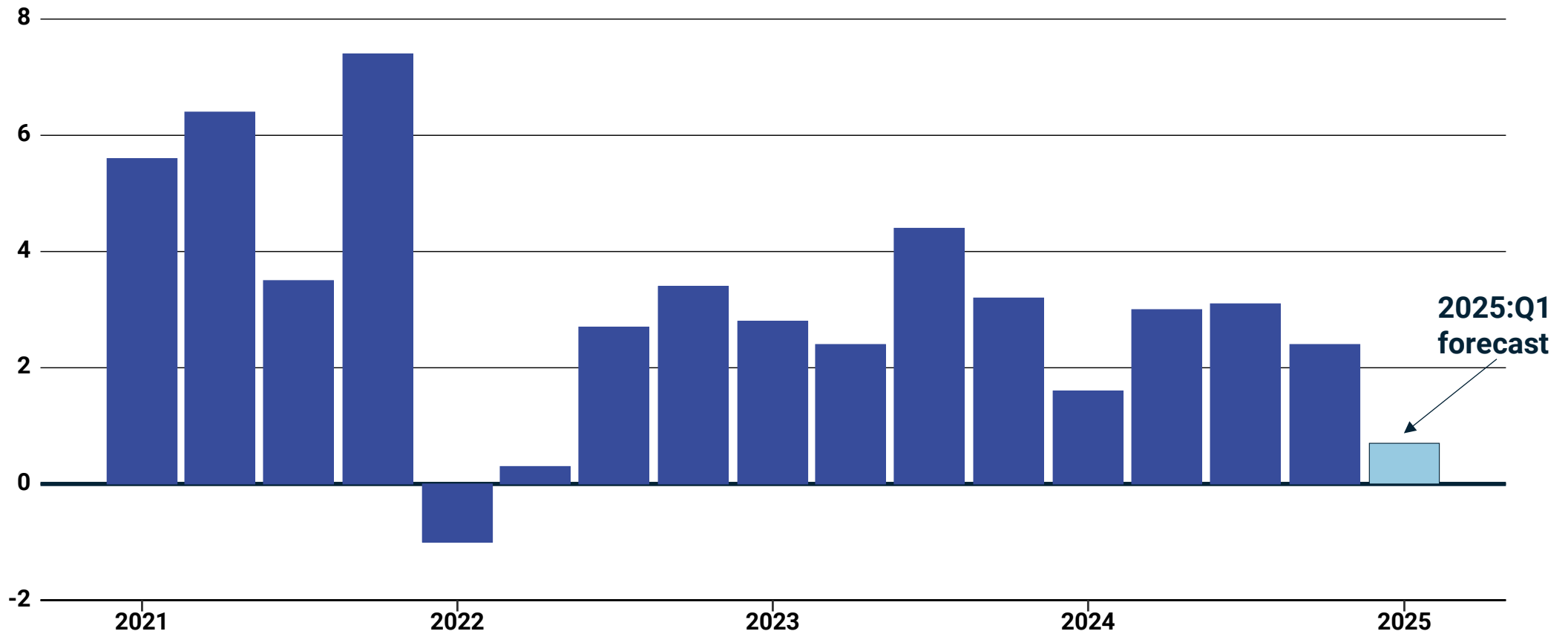
Overview

- **Current economic conditions solid**
- **Elevated business and consumer uncertainty**
- **Trade policy is a key focus**
- **Monetary policy well positioned for a range of scenarios**

Solid growth in 2024; moderating activity in Q1

Real GDP Growth

(Q/Q percent change, SAAR)

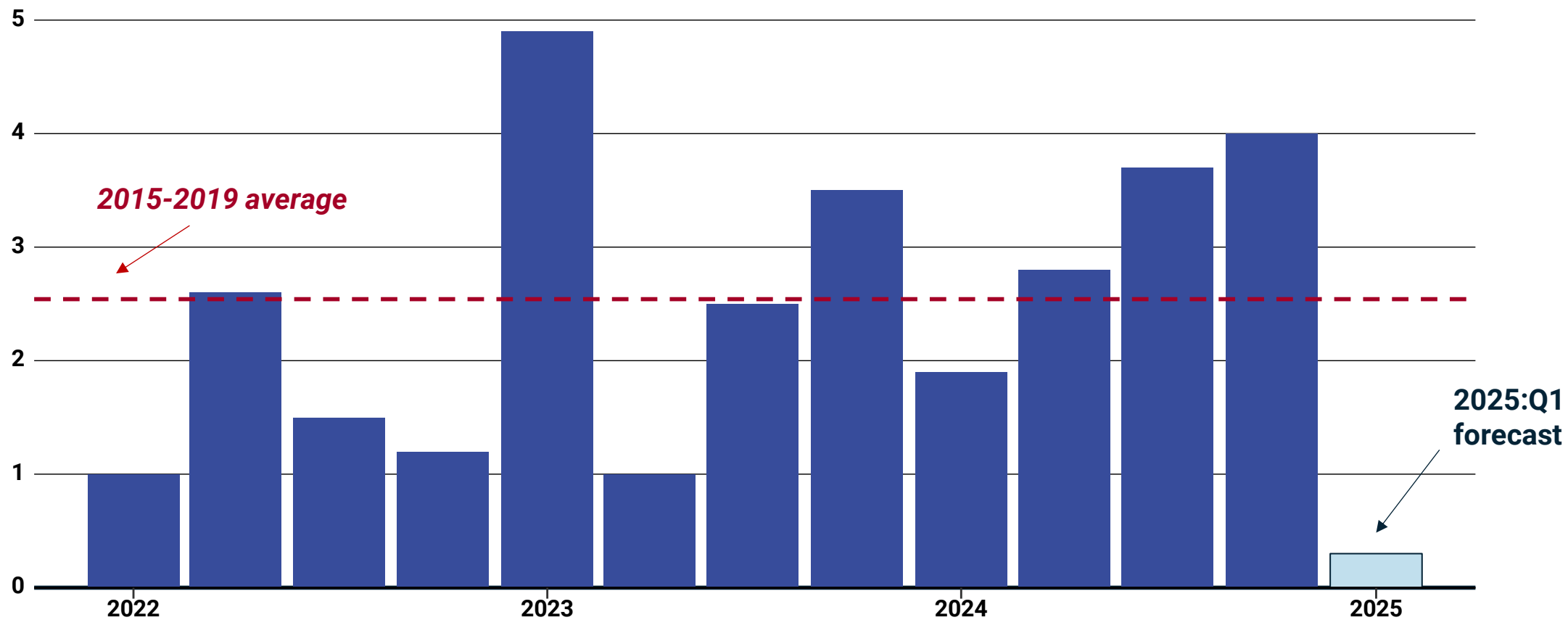


Source: BEA via Haver Analytics; S&P Global forecast as of 4/1

Consumer spending has been strong, looking softer in Q1

Real Personal Consumption Expenditures

(Q/Q percent change, SAAR)

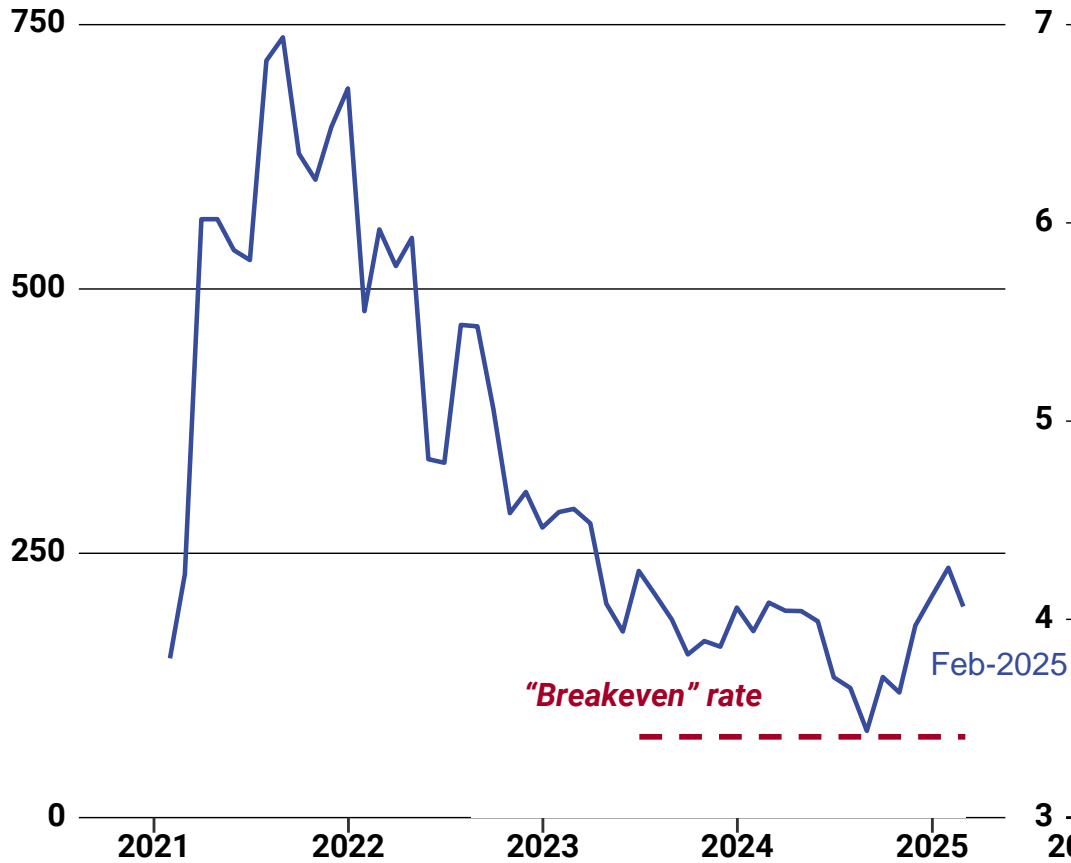


Source: BEA via Haver Analytics; S&P Global forecast as of 4/1

Labor market balanced and stable

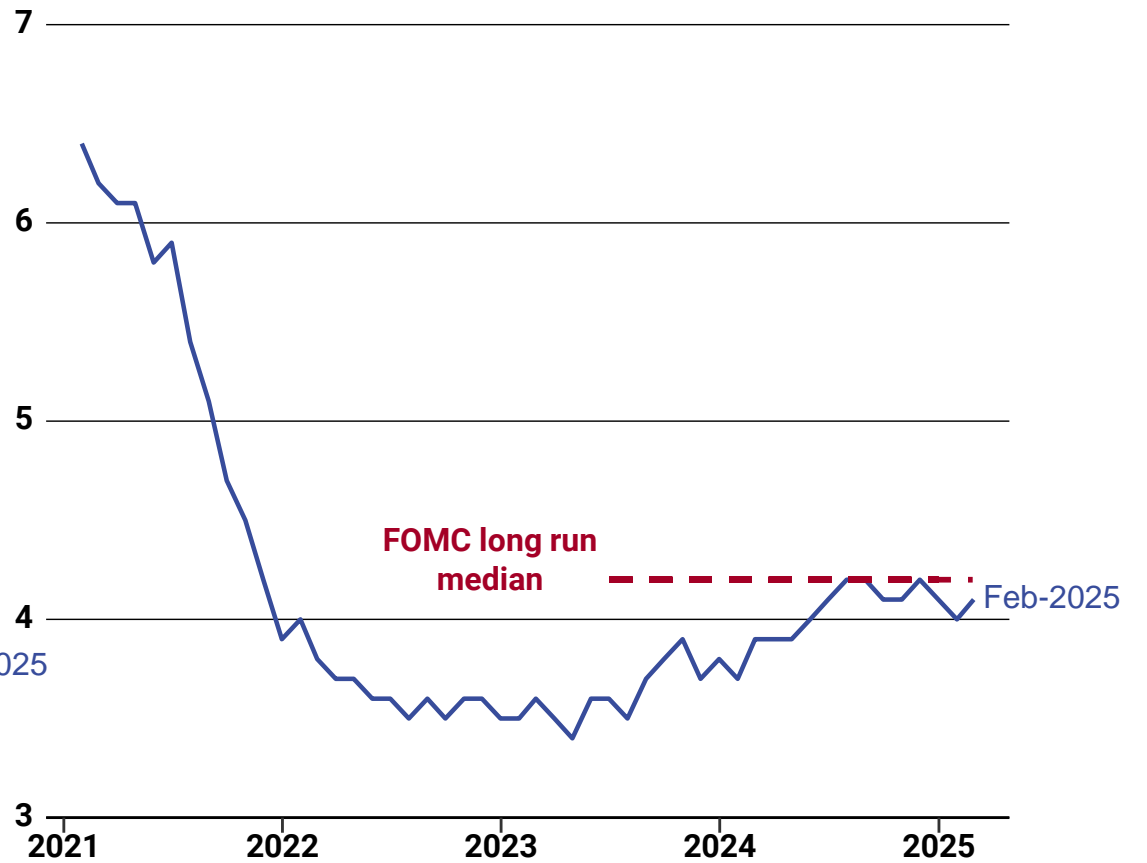
Job Growth

(3-month moving average, thousand persons, SA)



Unemployment Rate

(Percent, SA)

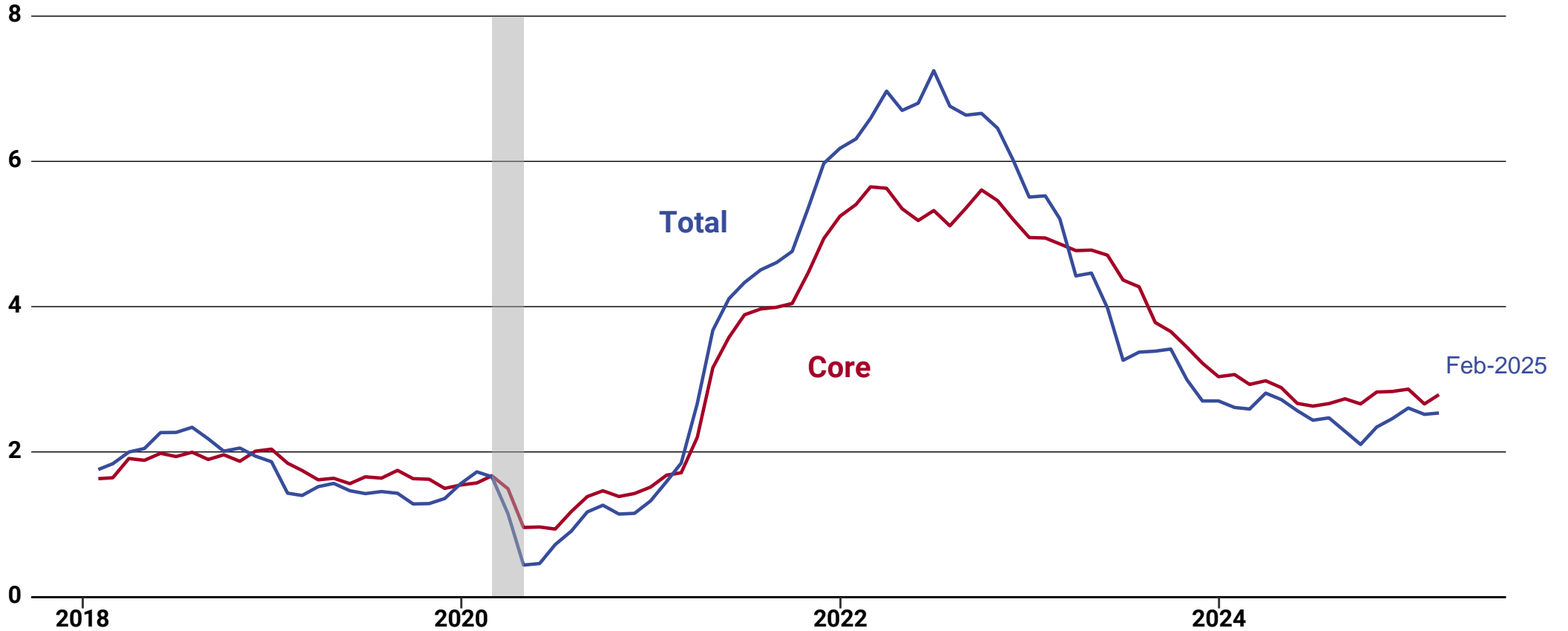


Source: Bureau of Labor Statistics via Haver Analytics

Inflation down a lot, but still above 2 percent

PCE Price Index

(12-month percent change)

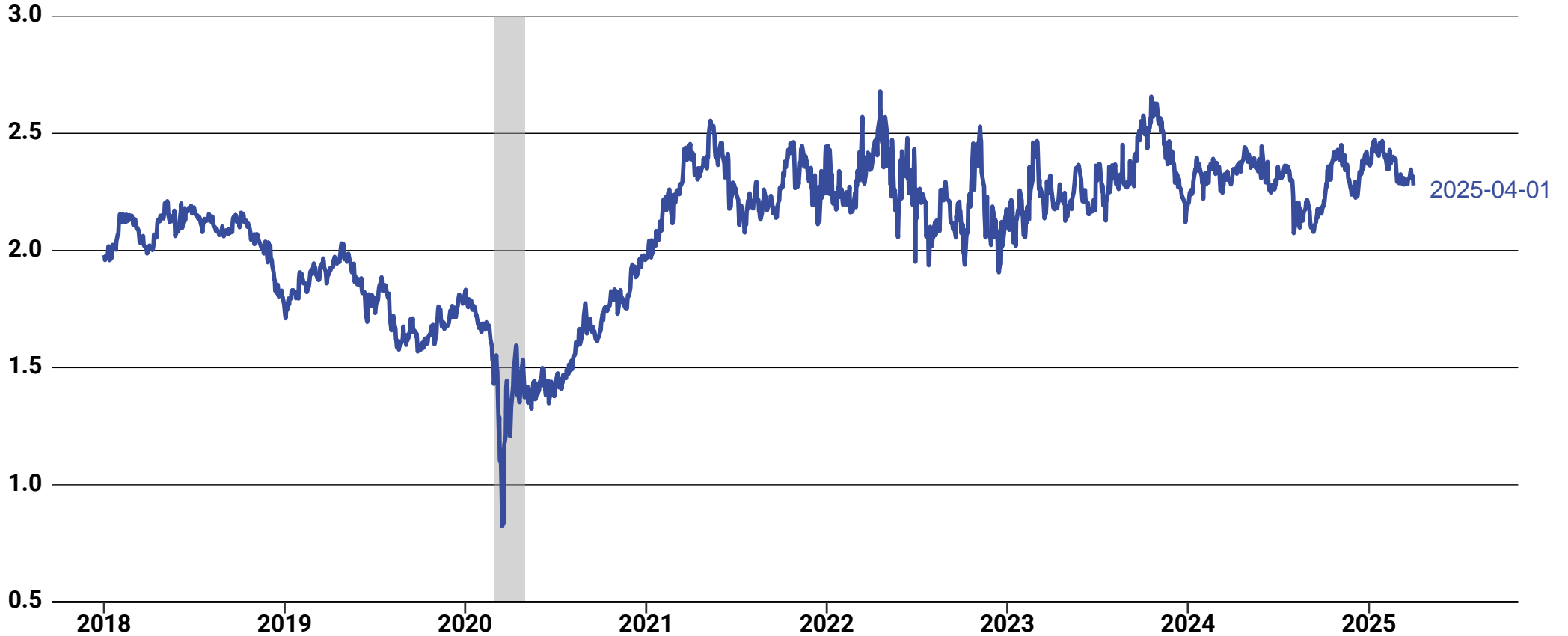


Source: BEA via Haver Analytics

Longer term market inflation expectations are stable

TIPS 5-to-10 Year Inflation Compensation

(Percent)

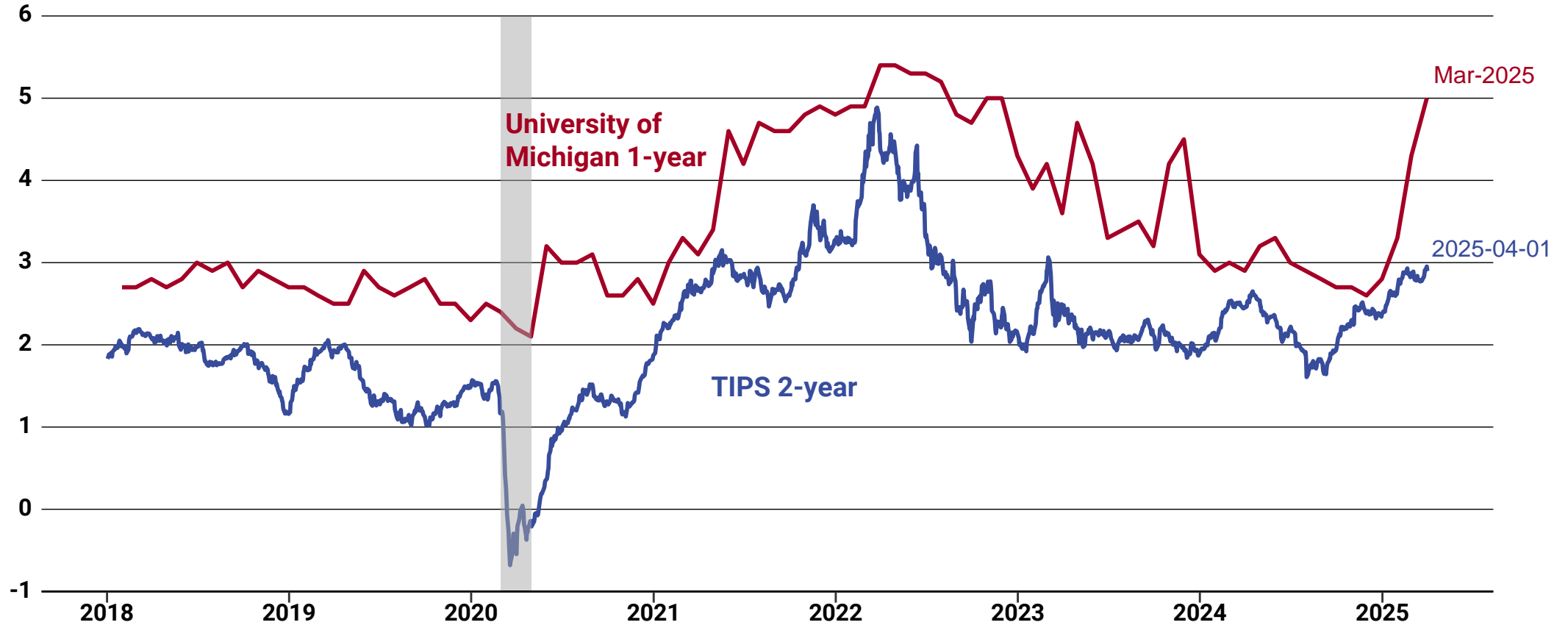


Note: TIPS are Treasury Inflation-Protected Securities
Source: Board of Governors of the Federal Reserve System

But shorter run inflation expectations are up

Shorter-Run Inflation Expectations

(Percent)

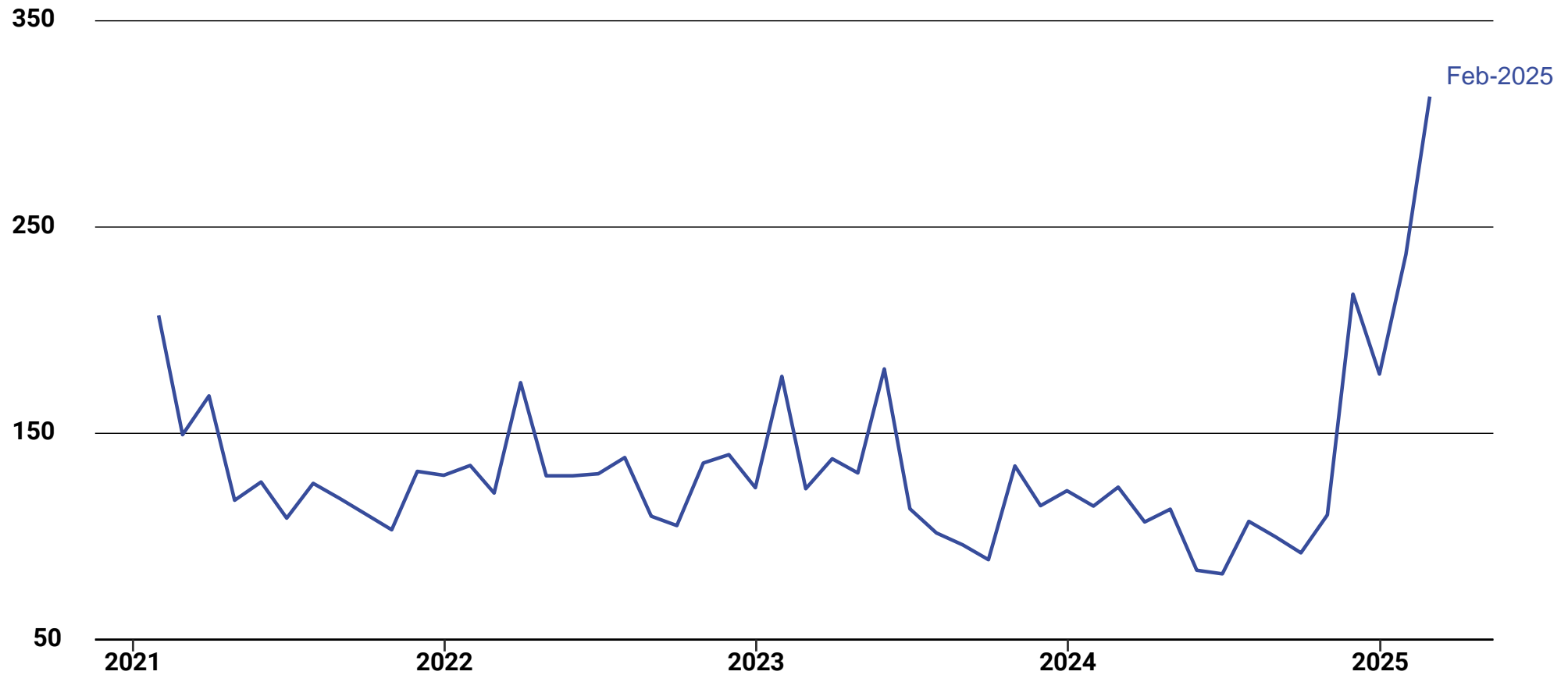


Source: University of Michigan and Federal Reserve Board via Haver Analytics

Uncertainty is elevated

Categorical US Economic Policy Uncertainty Index

(Index, 1985-10 = 100)



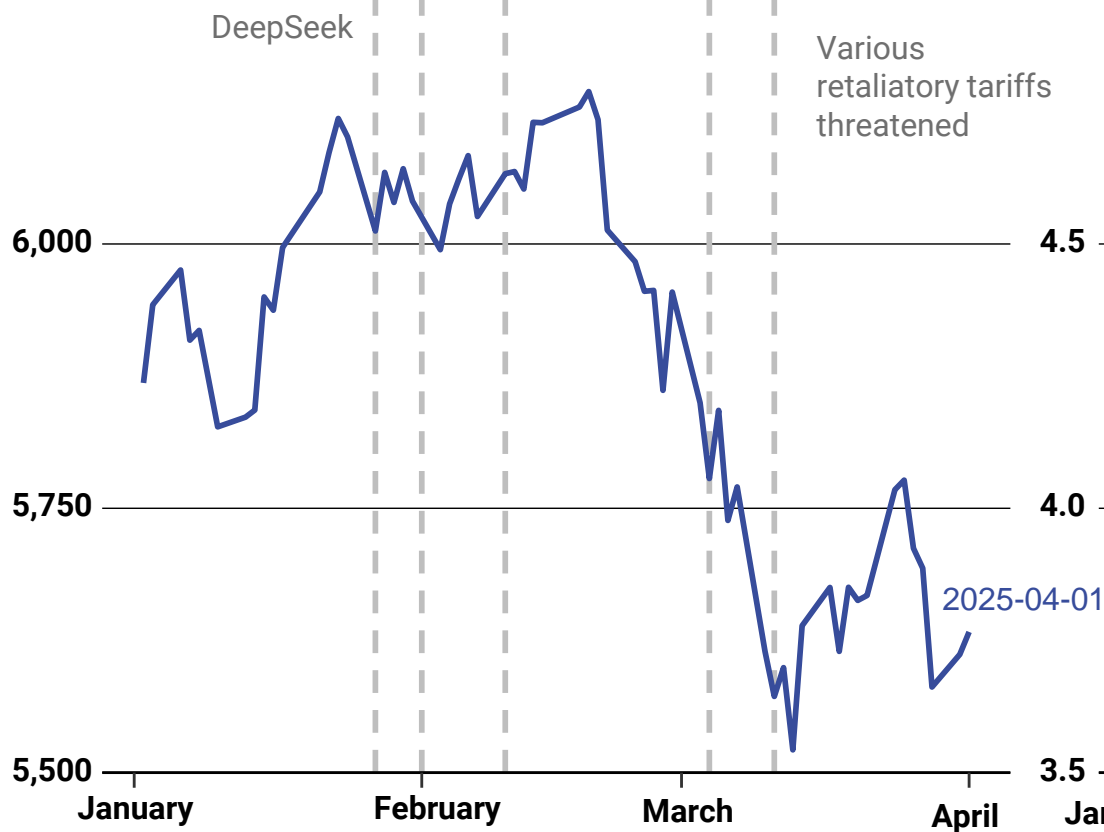
Source: PolicyUncertainty.com via Haver Analytics

Markets sensitive to policy news

S&P 500 Index

(Level)

6,250

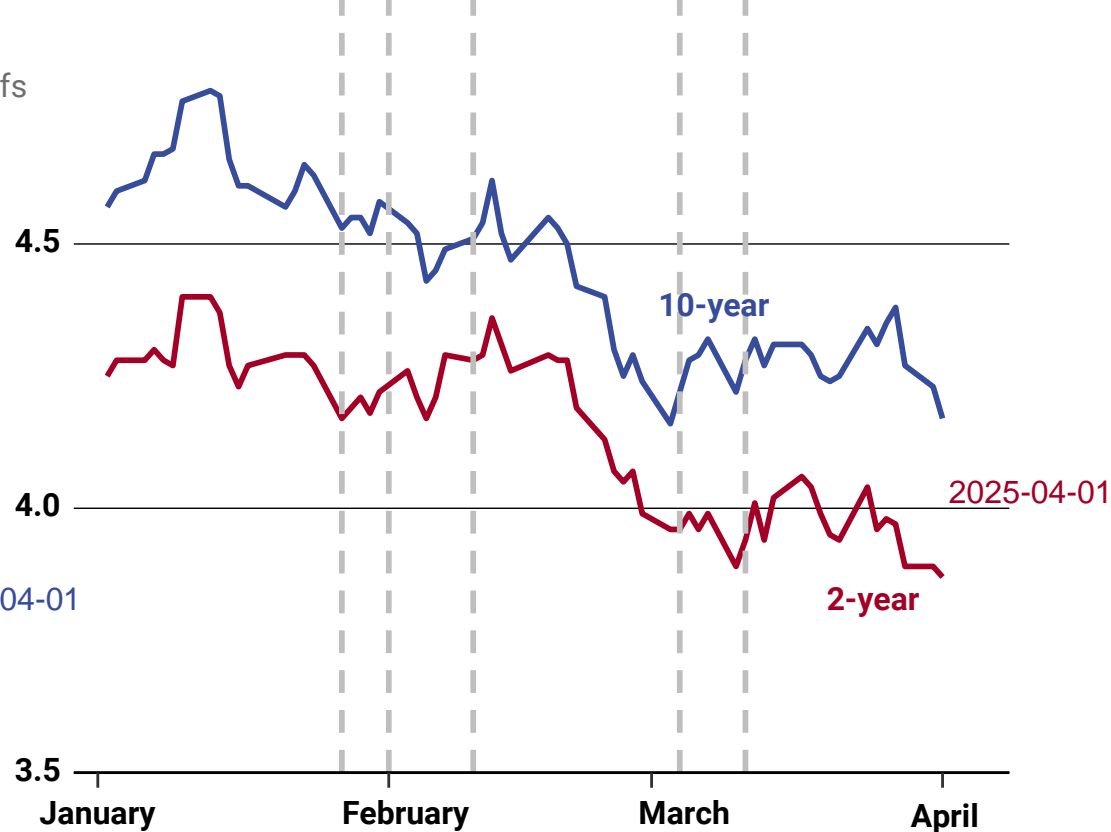


Source: S&P via Haver Analytics

Treasury Yields

(Percent)

5.0

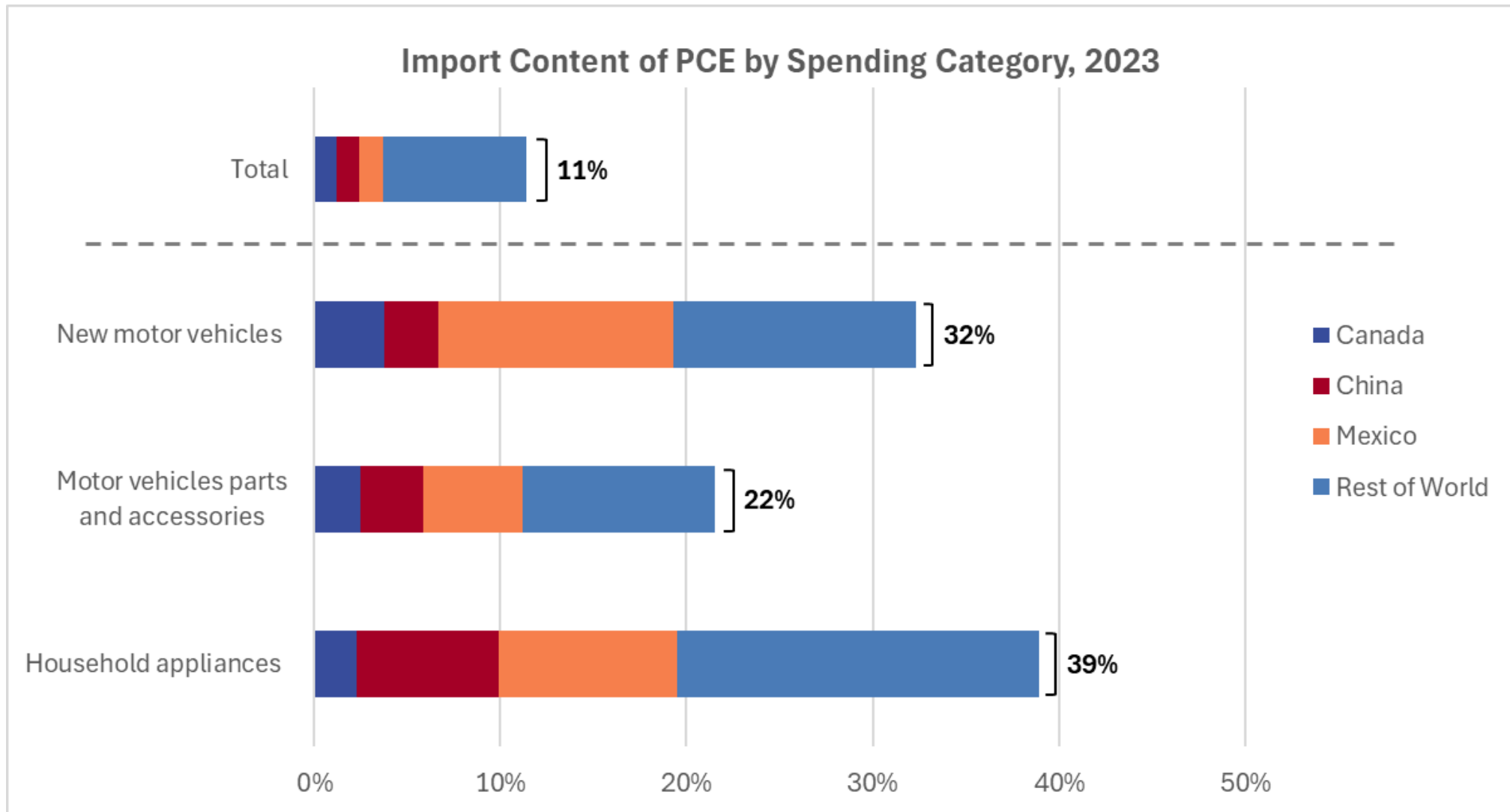


Source: Federal Reserve Board via Haver Analytics

Lots of focus on trade policy and tariffs

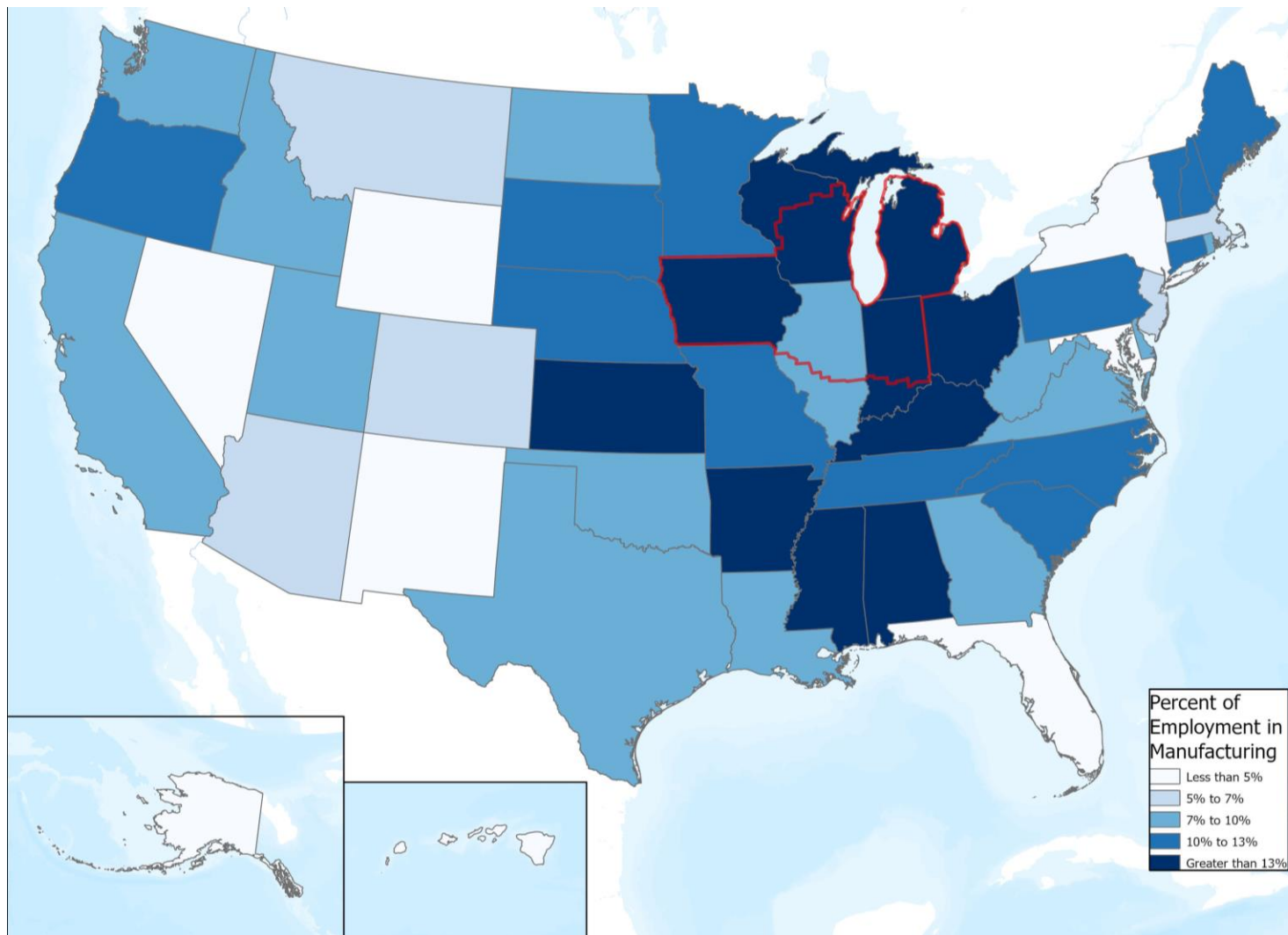
- **Textbook economic theory: Tariffs raise prices and lower growth**
- **Net effect on the economy depends on:**
 - Response of businesses, consumers, trading partners
 - Production, pricing, consumer demand
 - Fiscal policy implications
- **Likely to be winners and losers**
- **Short-run effects may differ from long-run effects**
- **Assessing the net effect: Data, analysis, input from business and community contacts**

Trade is small share of U.S. economy, bigger in some sectors

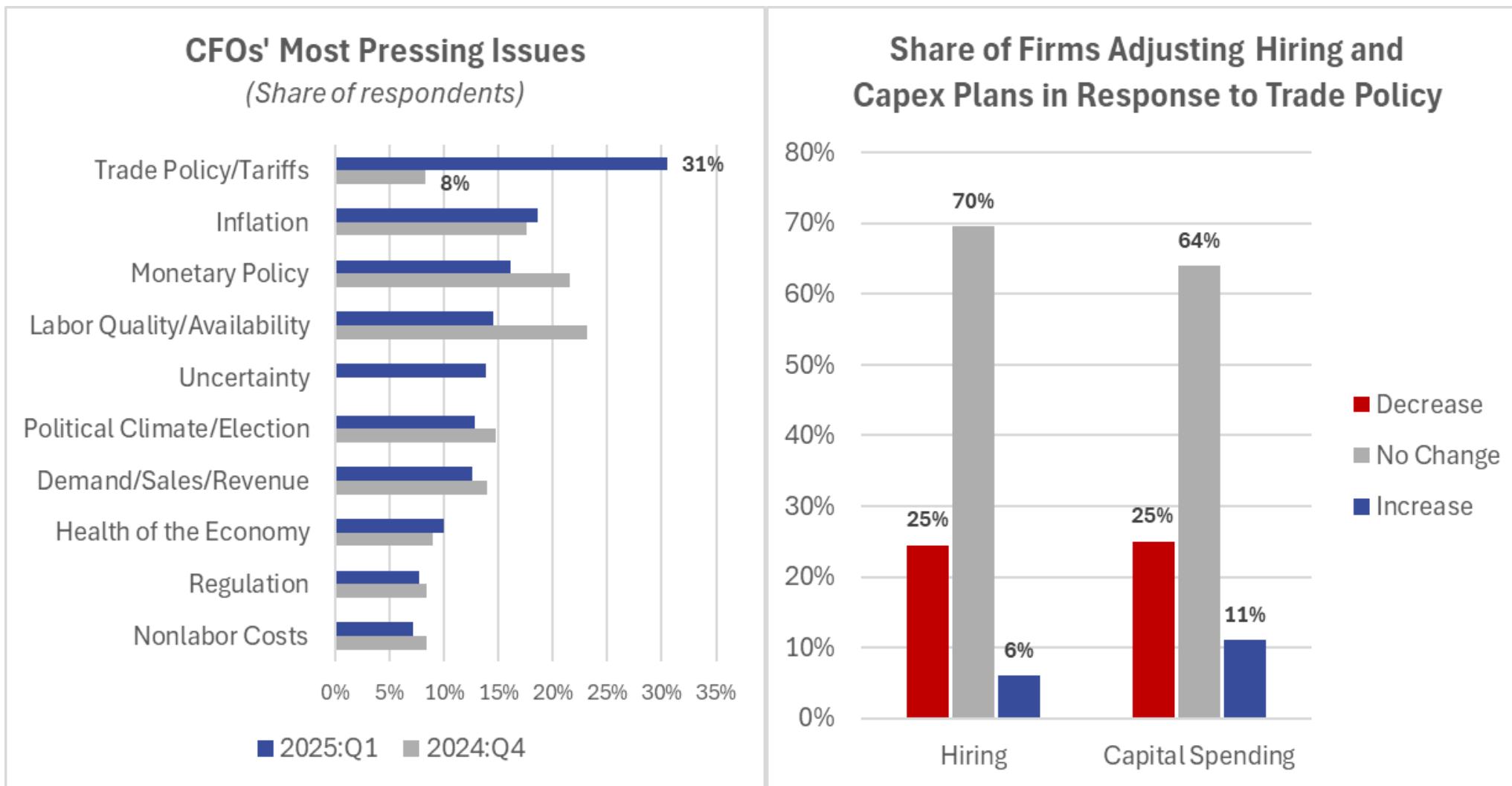


Role of trade for employment, production varies: Manufacturing

Manufacturing Share of Employment, by State

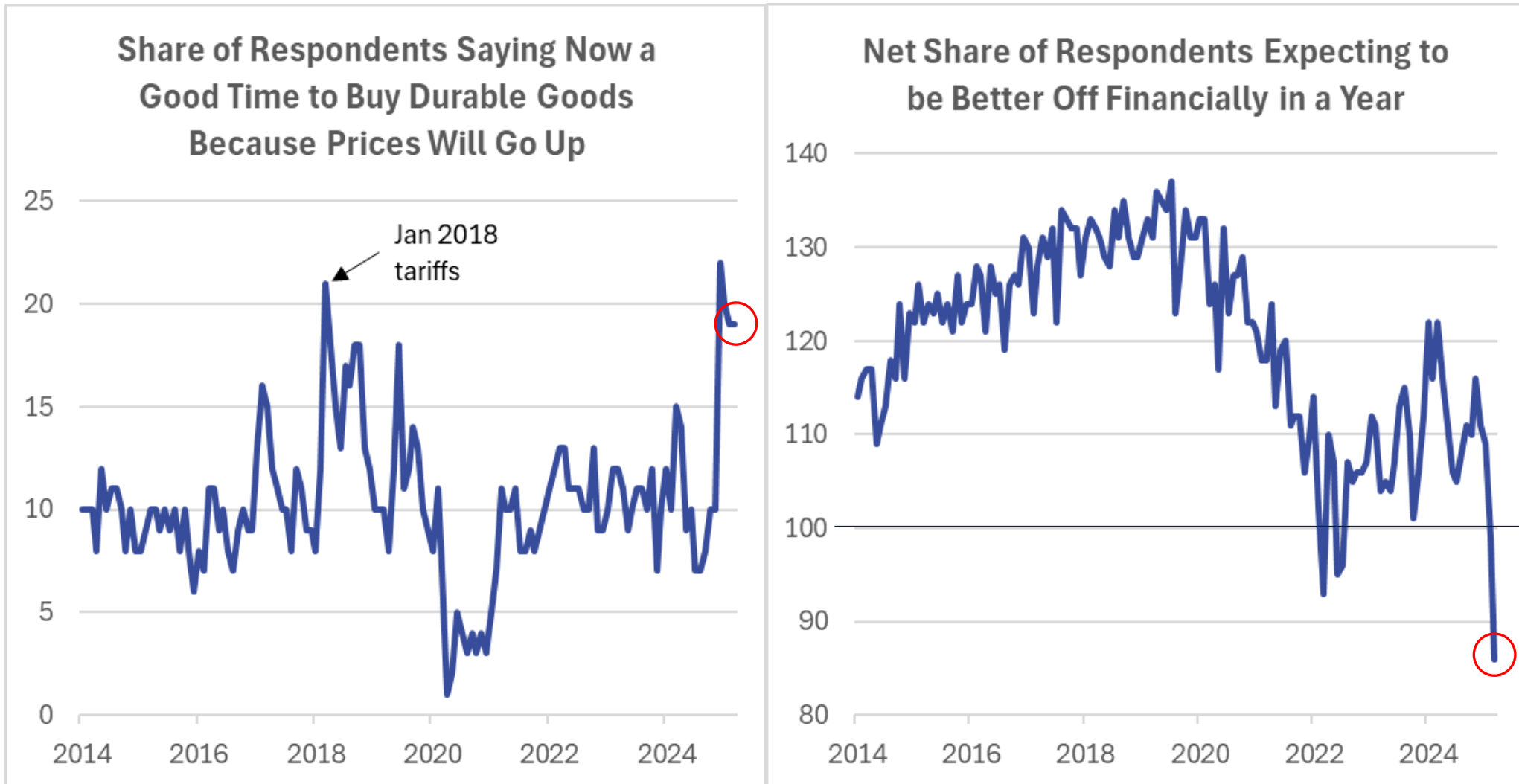


Trade policy is top business concern



Source: Duke University, FRB Richmond and FRB Atlanta, The CFO Survey – Q1 2025 (February 18 – March 7, 2025)

News is affecting consumers



Source: University of Michigan Survey of Consumers

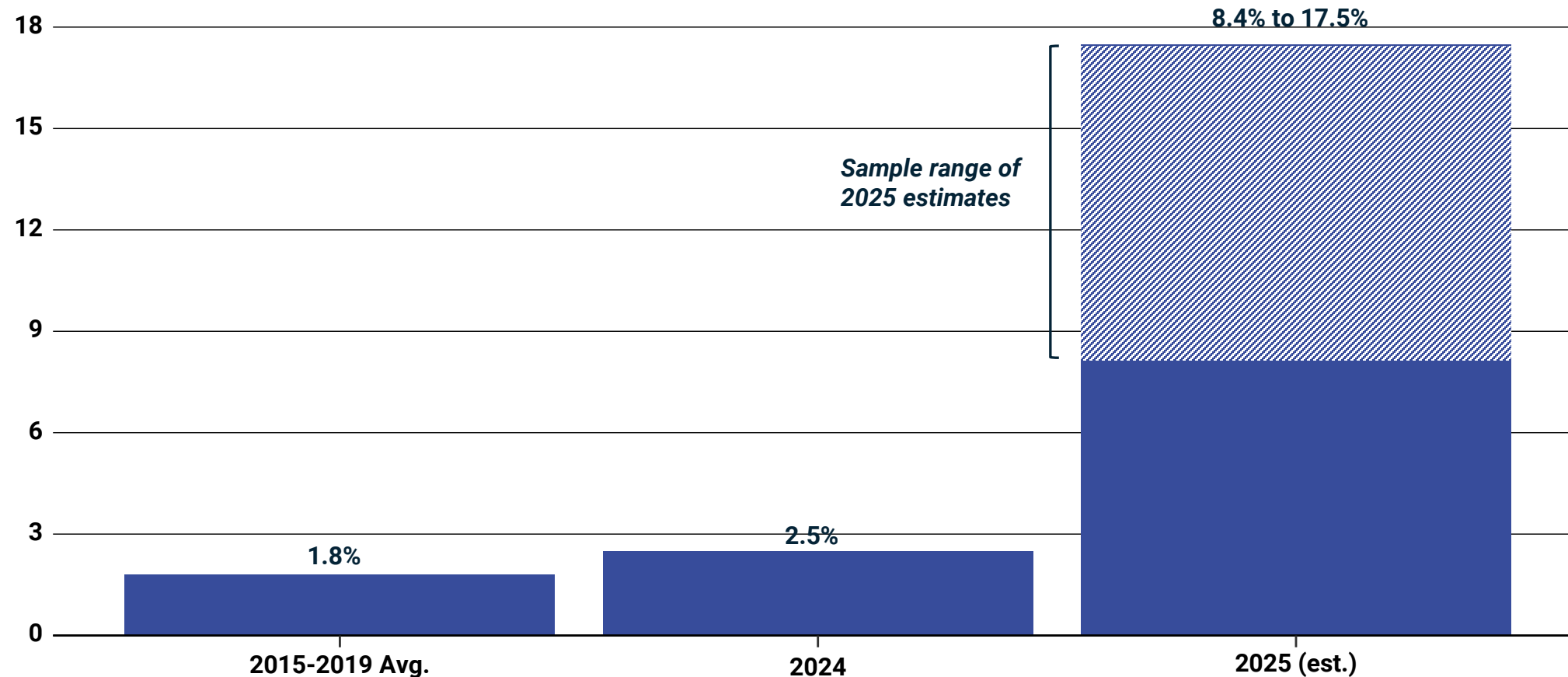
What is the economic impact?

- **What tariffs will be enacted in the US and abroad; for how long?**
- **How much revenue do the tariffs generate and how is it used?**
- **How does uncertainty around the policies affect economic activity?**
- **What happens to inflation expectations?**
- **What are the implications for economic growth and inflation?**

U.S. average effective tariff rate expected to rise sharply

U.S. Average Effective Tariff Rate

(Percent)



Note: Sample range of 2025 estimates accounts for assumptions made about 4/2 announcements prior to the announcement itself
Source: Staff analysis of Tax Foundation, Yale Budget Lab, and investment bank newsletter reports

Illustrative impacts on 2025 growth and prices

Possible Tariff Impacts on 2025 Growth and Inflation

Indicator	Estimated Impact*
Real GDP Growth	-0.4 to -1.2 pp
Inflation	+0.6 to +1.3 pp

** Estimated impacts vary depending on the modeled scenario. Lower-end impacts generally correspond to more limited tariff assumptions comprising only the tariffs announced or implemented as of 3/31, including a 20pp tariff increase on China, 25% tariffs on Mexico and Canada, and sector-specific tariffs on steel/aluminum and autos/auto parts. Higher-end impacts generally incorporate these measures as well as assumptions about “reciprocal” tariffs.*

Source: Staff analysis of Tax Foundation, Yale Budget Lab, S&P Global, and investment bank research reports

What does this mean for monetary policy?

- **What is the net impact on the FOMC's dual mandate goals of stable prices (2 percent inflation) and maximum employment?**
- **Key questions:**
 - How long will it take for price impact of tariffs to be fully realized?
 - What happens to longer-run inflation expectations?
 - What happens to prices of non-import-heavy goods and services?
 - How are businesses and consumers responding?

FOMC expects lower growth and higher inflation this year

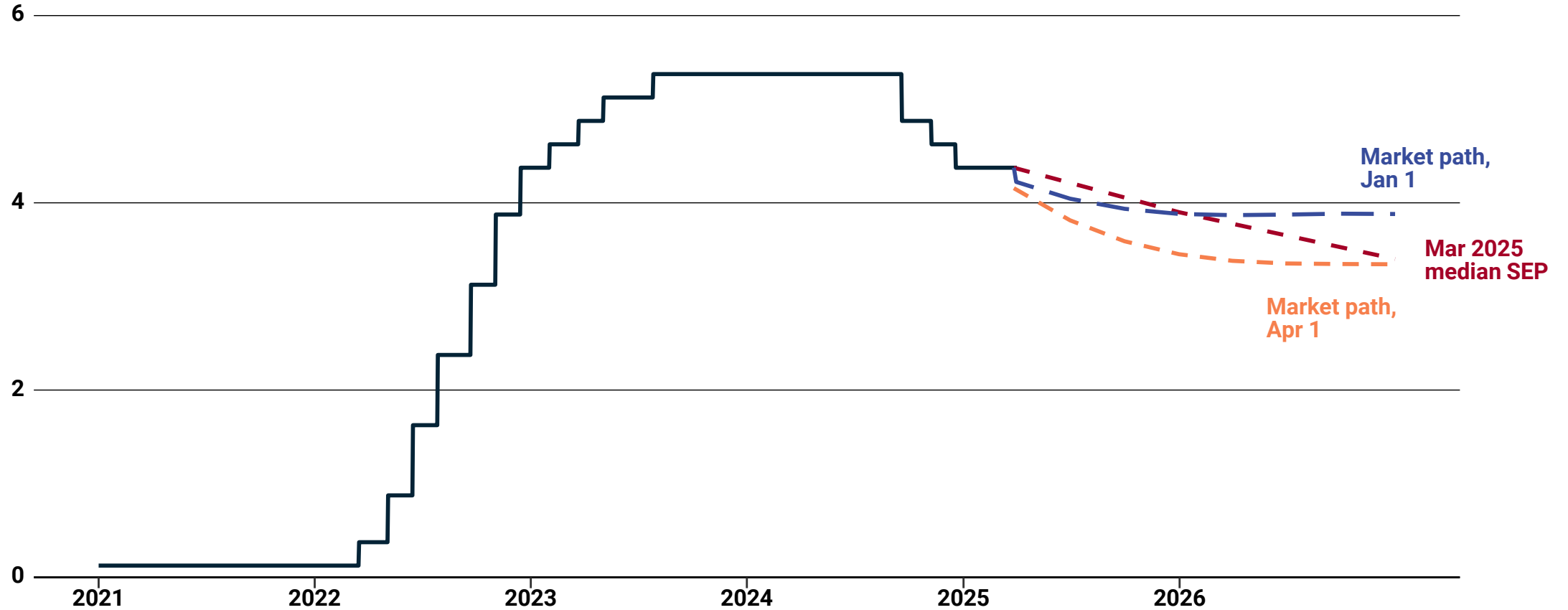
Projection	2025	2026	2027	Long run
GDP	1.7	1.8	1.8	1.8
<i>December</i>	<i>2.1</i>	<i>2.0</i>	<i>1.9</i>	<i>1.8</i>
Unemployment Rate	4.4	4.3	4.3	4.2
<i>December</i>	<i>4.3</i>	<i>4.3</i>	<i>4.3</i>	<i>4.2</i>
Core PCE	2.8	2.2	2.0	-
<i>December</i>	<i>2.5</i>	<i>2.2</i>	<i>2.0</i>	-

Source: FOMC Summary of Economic Projections, Dec 2024 and Mar 2025

Markets and FOMC see gradual reduction in the fed funds rate

Federal Funds Rate Expectations

(Percent)



Source: Federal Reserve Board via Haver Analytics; Federal Reserve Board Division of Monetary Affairs

Summing up

- **Trade is about 11% of overall economy, but a bigger deal for some sectors and communities**
- **Hard data is solid, but uncertainty is elevated**
- **FOMC focused on implications for path for inflation and maximum employment**

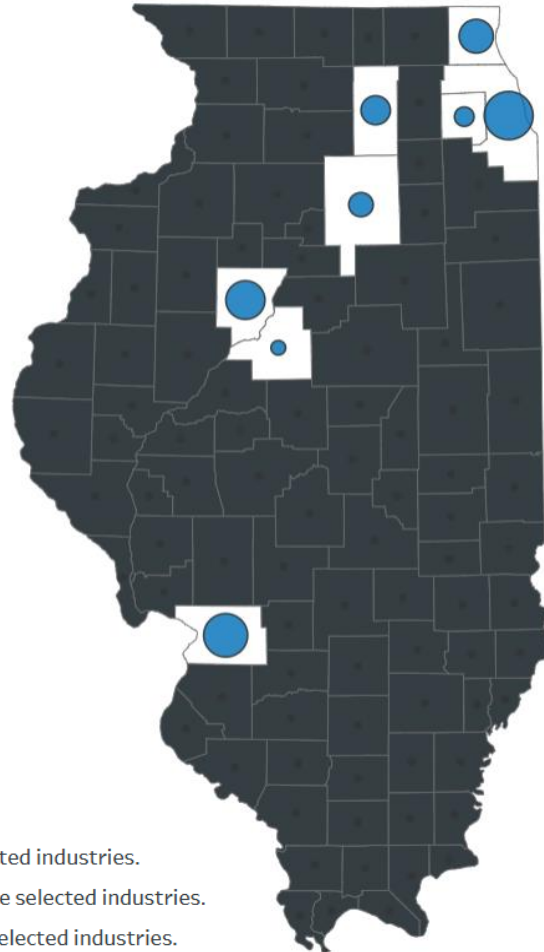


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Appendix

Example: primary metals

Primary Metal Manufacturing Revenue, Illinois



Data Availability

- Data available for all selected industries.
- Data not available for some selected industries.
- Data not available for all selected industries.

- **Example: Primary steel and aluminum producers**

- 25% tariffs on imported steel and aluminum benefits domestic producers
- With less competition, they are likely to increase prices
- In long run, tariffs might bring more domestic supply online

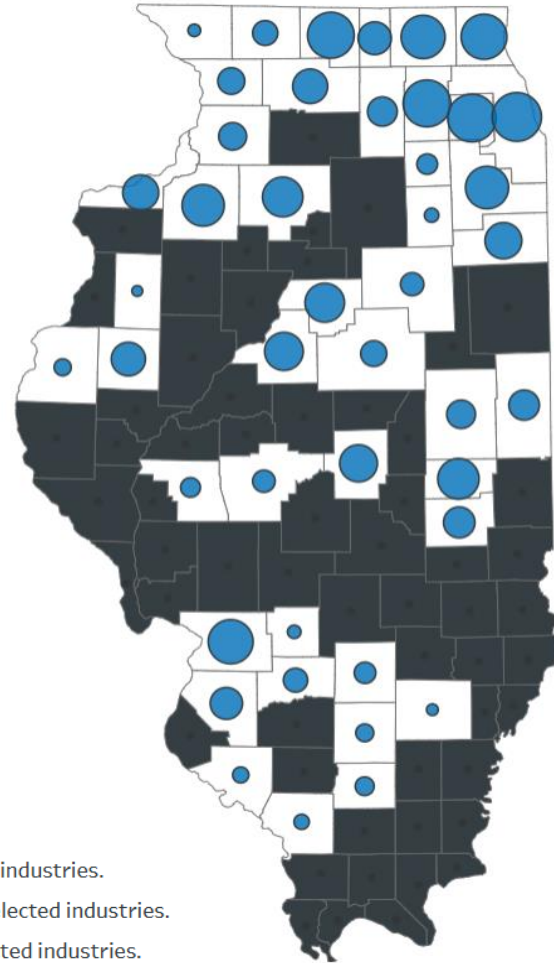
2022 Revenues, Primary Metals Mfg.

Illinois	\$14.6 billion
DuPage County	\$409 million

Source: 2022 Economic Census from US Census Bureau

Example: fabricated metals

Fabricated Metal Product Revenue, Illinois



Data Availability

- Data available for all selected industries.
- Data not available for some selected industries.
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Source: 2022 Economic Census from US Census Bureau

- **Example: Fabricated metals producers**

- Use steel and aluminum as inputs to production (e.g., inputs into building structures)
- International competitors now face tariffs
- Steel and aluminum costs are up (tariffs + response of domestic producers)
- Can they pass along higher costs?
- Will they face retaliatory tariffs?

2022 Revenues, Fabricated Metals Mfg.

Illinois	\$27.3 billion
DuPage County	\$3.2 billion