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The U.S. Economic Outlook for 2025–2027

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Executive Summary

Tariff News Whiplash

Over the past several months, the stream of tariff-related policy proclamations, suspensions, exemptions, walk-backs, stock market reactions, and related news has been unrelenting.

Against this backdrop, it is not surprising that some businesses decided to go big on stocking up in advance. Imports jumped in 2025Q1, with net exports subtracting over 4.8 percentage points from growth, the largest ever drag in the history of quarterly national accounts dating back to 1947. In preliminary data, investment in information processing equipment and inventories jumped too, offsetting just over 3.0 percentage points, with future upward revisions likely. As a result, 2025Q1 measured real GDP contracted at a 0.3 annualized pace, likely far below the underlying trend pace.

We currently expect the China tariff rollercoaster to come to rest at an effective rate of about 60 percent. We anticipate the 10 percent broad-based tariff on other countries will stay throughout our forecast horizon, but reciprocal tariffs will not be imposed persistently. Meanwhile, the auto tariffs are likely to be sustained, with the U.S. content exemption applying to USMCA-eligible vehicles and parts.

Bad Vibes Abound

Many economic indicators based on surveys of businesses and consumers have deteriorated considerably in recent months. The majority of regional Federal Reserve Banks' survey measures of expected employment growth over the next 6 to 12 months have slipped dramatically in April. Both the University of Michigan's and the Conference Board's indices of overall consumer sentiment cratered in recent months, in part due to sharply higher expected inflation.

But Few Tangible Signs of post-Whiplash Strain

Outside of the surge of imports, potential early effects of tariffs are quite hard to spot in the official economic statistics. The most recent jobs report's reference week of April 6–12 came shortly after "Liberation Day," amid the stock market rout. Nonetheless, the headline estimate of 177,000 payroll jobs added beat expectations. The unemployment rate held at 4.2 percent in April, flat with July 2024. Higher-frequency indicators available through late April and early May also do not point to an imminent inflection point.

Year-over-year readings for core CPI and PCE inflation, which strip out volatile food and energy prices, have improved early in 2025. Core PCE inflation decelerated to 2.6 percent in March, the lowest since June 2024. Core CPI inflation, at 2.8 percent in April, stood at its lowest rate in 4 years.

A Buyers' Market to Cool Homebuilding

Home sales and construction reflect stable but subdued momentum in the housing market. Recent uncertainty has likely discouraged some buyers while contributing to a measurable increase in for-sale listings of existing homes. More supply may come yet, as the low mortgage rate lock-in effect diminishes and home price growth stabilizes. Months' supply of new homes for sale remained high, averaging an uncomfortable 8.8 months in January–March. The NAHB Housing Market Index hovered around a two-year low in March and April.

The Summer of Reconciliation

To pass "THE ONE, BIG, BEAUTIFUL BILL" that encompasses most of President Trump's fiscal agenda at once, Congress must find middle ground between the seemingly irreconcilable demands of numerous factions within the GOP. Each faction has the power to sink the whole package. On the spending side, the largest

proposed deficit reduction will likely entail deep cuts to Medicaid. On the revenue side, the size of the SALT deduction cap is likely to take center stage. We remain skeptical that the bill can pass soon.

Our forecast includes a 10-year extension of the TCJA, alongside roughly 200 billion dollars in new business and personal tax cuts per year beginning in calendar 2026. From fiscal 2027, we expect slower growth of Medicaid spending and federal transfers to offset some of the deficit impact.

Faster inflation and sizeable import duty revenues help support federal revenue growth. As a result, the federal deficit settles around 6.0 percent of GDP over 2025–27.

The Fed Will Cut, Gingerly

The labor market appears solid, but we think below the surface it is becoming more vulnerable to adverse shocks such as the tariffs. Recent inflation data was trending towards the Fed's objective prior to the tariffs, which we expect to begin passing through to prices in the coming months. The Fed will probably be wary of possible adverse effects on output arising from tariff policy. Yet the Fed will also be cognizant of the risk of tariff-induced price spikes triggering another inflationary wave, as evidenced by recent increases in some survey-based measures of inflation expectations.

We therefore project the Fed to resume cutting rates in July but to proceed at a measured pace. The fed funds rate reaches 3.25–3.5 percent, the terminal range we project for this cycle, by mid-2026.

The 2025–2027 Outlook

We expect the tariffs to start to drag on consumption and investment this summer after the front-running earlier this year. We anticipate the year-over-year pace of economic growth to slip to 0.8 percent in 2025Q4, before rebounding to 2.0 percent in 2026Q4 and 2.3 percent in 2027Q4. The 2026–27 growth reacceleration will be fueled by looser monetary policy and lower personal and business taxes.

The unemployment rate rises from 4.2 percent in April to 4.4 percent in 2025Q3 before reaching 4.9 percent in mid-2026. It then edges down to 4.7 percent by the end of 2027, as population and labor force growth slow. We expect payroll job gains to decelerate throughout 2025, feeling the pinch from higher tariffs. Average monthly job gains bottom at 25,000 per month in 2025Q4. We expect job growth to pick back up by the end of 2026, but to stay below 150,000 per month.

PCE inflation, the Fed's preferred measure, climbs to the 2.8–3.0 percent range year over year in 2025Q3–26Q3, as tariffs filter through the economy. Year-over-year PCE inflation then decelerates to 2.3 percent by 2027Q4.

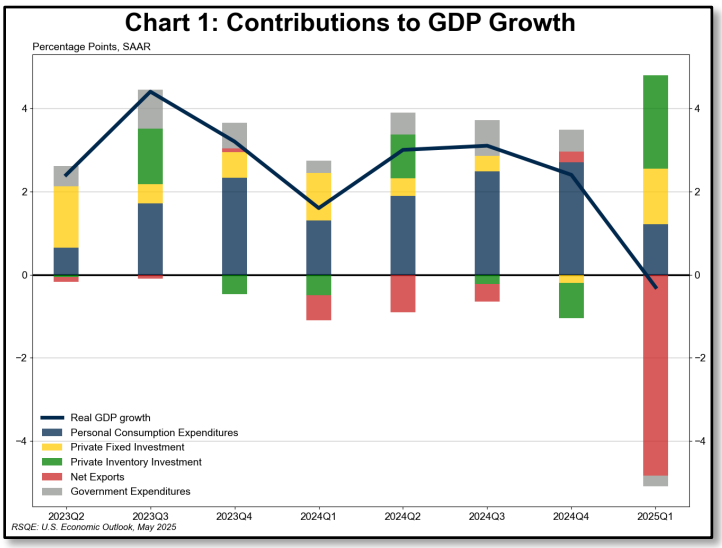
Total housing starts edge down to a 1.4 million unit pace by 2025Q4, stalled by tepid growth, rising unemployment, and an elevated supply of new single-family homes. By early 2026, as the recent supply overhang clears, we expect housing starts to start improving, reaching a 1.5 million unit pace by the end of 2027.

The fear of tariffs helped push the annualized pace of light vehicle sales to 16.5 million in 2024Q4–25Q1. With tariffs on vehicle imports fully in effect, sales are expected to drop sharply in 2025Q3, to a pace of 14.8 million units as the back side of the pull-forward effect arrives. As automakers adjust prices and supply chains in response to tariffs, light vehicle sales linger around 15.2–15.3 million units in 2026–27.

	Actual	RSQE Forecast		
	2024	2025	2026	2027
GDP (billions of current $)	29184.9	30398.6	31846.8	33347.0
Real GDP (billions of 2017 $)	23305.0	23621.6	24003.3	24529.6
% change: year-over-year	2.8	1.4	1.6	2.2
% change: 4th-qtr-to-4th-qtr	2.5	0.8	2.0	2.3
Nonfarm payroll employment (millions)	158.0	159.7	160.6	162.0
Civilian unemployment rate (%)	4.0	4.3	4.8	4.7
Capacity utilization, total industry (%)	77.6	77.2	77.1	77.5
Inflation (private nonfarm GDP deflator, % change)	2.4	2.8	3.1	2.5
Inflation (CPI-U, % change)	3.0	2.9	3.4	3.0
Inflation (core CPI, % change)	3.4	3.4	3.6	3.1
Light vehicle sales (millions)	15.8	15.6	15.2	15.3
Private housing starts (thousands)	1367.8	1377.1	1402.9	1478.0
3-month Treasury bill rate (%)	5.0	4.0	3.4	3.3
10-year Treasury note rate (%)	4.2	4.3	4.1	4.1
Conventional mortgage rate (%)	6.7	6.7	6.3	6.0
Real disposable income (billions of chained 2017 $)	17511.0	17827.8	18252.3	18628.7
% change	2.7	1.8	2.4	2.1
Corporate profits after tax (billions of current $)	3440.6	3350.3	3552.3	3792.7
Value of U.S. $ (FRB broad index), % appreciation	2.3	1.1	-0.9	0.0
Current account balance (NIPA basis, billions of current $)	-1087.6	-1260.9	-1028.7	-1080.1
Federal surplus (FY, NIPA basis, billions of current $)	-1789.5	-1790.3	-1911.3	-1987.4

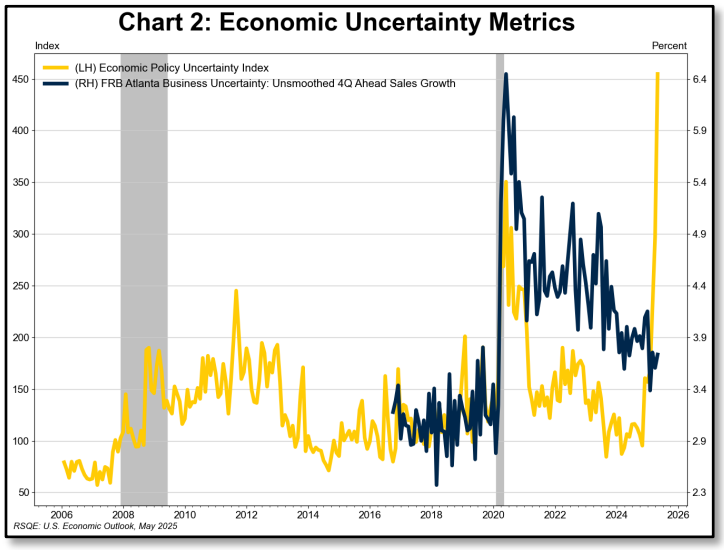
The Current State of the Economy

The initial read of real GDP growth for 2025Q1 indicated a contraction of 0.3 percent at an annual rate. Chart 1 shows the contributions of major sectors of the economy to overall growth. Net exports subtracted a whopping 4.8 percentage points from growth, the largest ever drag in the history of quarterly national accounts dating back to 1947.[1] In a world with perfect data, a surge of imports unrelated to current activity would have no impact on GDP, as it would be offset by an equal increase in inventory investment. In real-world data, inventories did jump, as did some equipment investment components, but the combined offset was just over three percentage points.



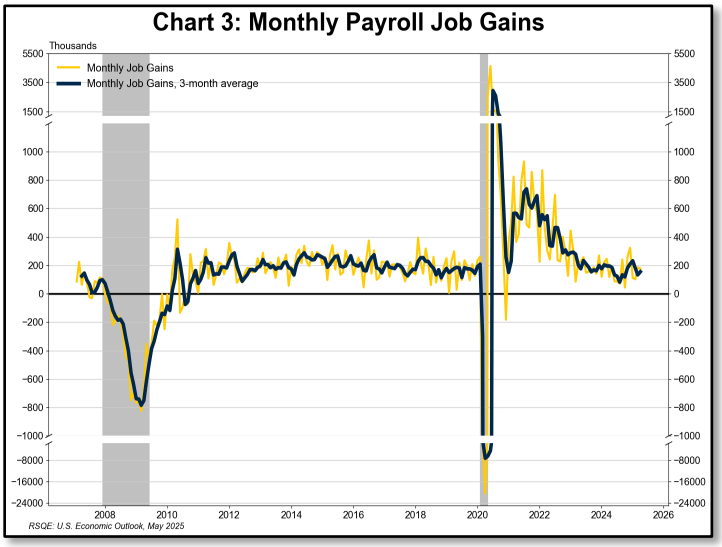
Large run-ups in imports that were partially offset by a jump in inventories have happened before, most recently in 2020Q3. In that instance, the combined growth contribution of imports and inventories was revised upward by about 2.0 percentage points between the initial print and the most recent vintage of the data. We think subsequent upward revisions to the 2025Q1 real GDP print are also likely.

Tariffs have also taken center stage in recent media coverage, likely amplifying the tariff-driven declines in consumer and business sentiment surveys and stock market indices. It is unclear, however, to what extent businesses will alter their behavior. Chart 2 shows the monthly Economic Policy Uncertainty index for the United

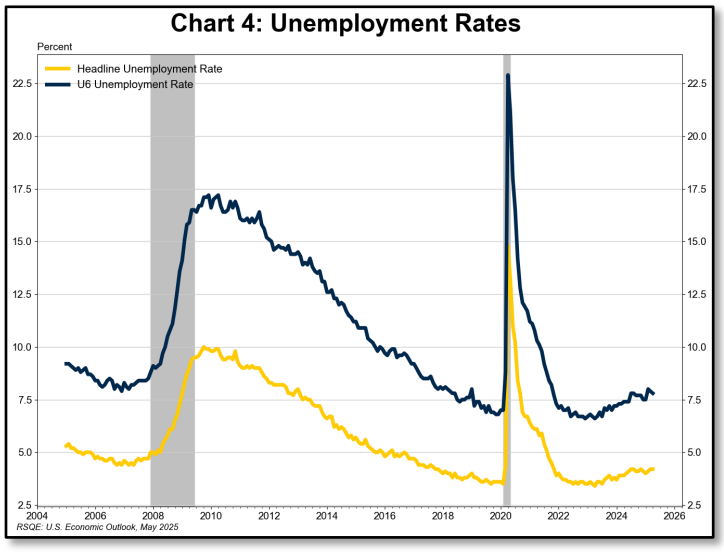


[1] It is worth noting that the jump in imports, while almost certainly related to the threat of higher tariffs, was largely from Canada and the European Union, not China. The bulk of the import run-up in January and February was due to manufacturing products from Canada, while the jump in March was driven by a surge of chemicals and pharmaceutical products from the EU, mainly from Ireland.

States in maize. The index's high-frequency movements are largely driven by the volume of news coverage related to policy uncertainty.[2] The index spiked from February to April. On the other hand, uncertainty over 4-quarter-ahead growth of sales from the Federal Reserve Bank of Atlanta's national Survey of Business Uncertainty, pictured in blue, does not show a meaningful increase through April.[3] Additionally, market-derived measures of financial risk did rise somewhat in early April, but have since moderated.

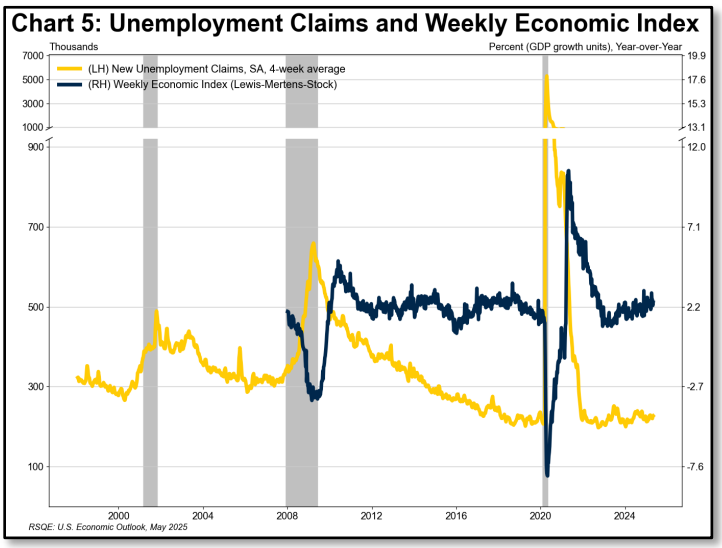


The most recent jobs report's reference week of April 6–12 came shortly after the tariff "Liberation Day," amid the stock market rout and the postponement of most country-specific reciprocal tariffs that followed. Despite that, the headline estimate of 177,000 payroll job gains beat expectations, though previous data was revised somewhat lower. The 3-month average, at 155,000, was on par with the prior 12 months', a solid reading for a late-cycle labor market. Federal layoffs have so far only slowed rather than reversed public sector employment growth, except for February, as most federal workers who took separation incentives remain on payrolls through September. The headline unemployment rate, unchanged in April at 4.2 percent, was up from 3.9 percent a year ago but flat with July 2024. Hence, at least the two key labor market metrics appeared stable through April.

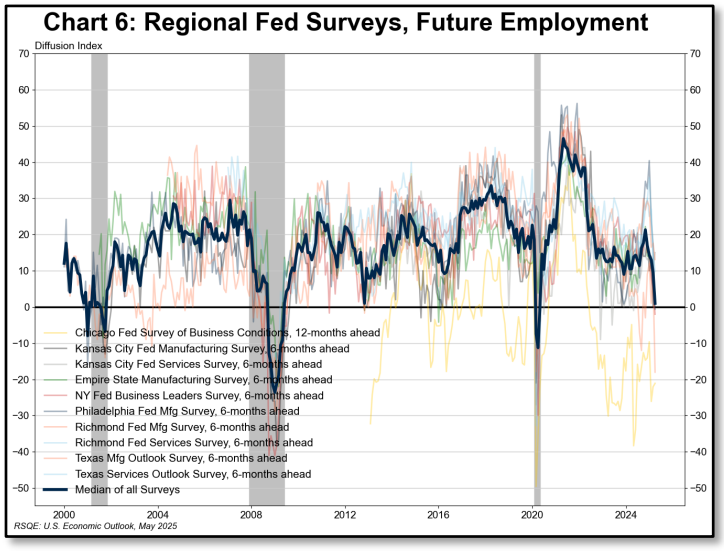


[2] Scott Baker, Steven J. Davis, and Nicholas Bloom, "Measuring economic policy uncertainty," The Quarterly Journal of Economics, 2016, pp. 1593–1636.
[3] David Altig, Jose Maria Barrero, Nicholas Bloom, Steven J. Davis, Brent Meyer, Nicholas Parker, "Surveying business uncertainty," Journal of Econometrics, Volume 231, Issue 1, 2022, Pages 282-303.

The available higher-frequency indicators also do not point to an imminent inflection point. The Indeed.com data on job openings continues to soften largely along the pre-tariff trend. The year-over-year change of the current employment diffusion index we construct using the Census Bureau's Business Trends and Outlook Survey (BTOS) does not show meaningful deviations from its mean through mid-April.[4] Chart 5 plots the 4-week moving average of initial unemployment claims and the Weekly Economic Index published by the Federal Reserve Bank of Dallas, which summarizes ten high-frequency economic indicators such as tax withholding, electricity consumption, and rail traffic. With data available through early May, the economic momentum remained solid, entering the period when the new tariffs began to bite in earnest. While the headline labor market statistics remain respectable, job market churn—the monthly ratio of people being hired and/or separated from jobs to the overall employment—has fallen to a notably low level. As a result, even modest adverse changes in the pace of hiring or layoffs could quickly tip the labor market over.

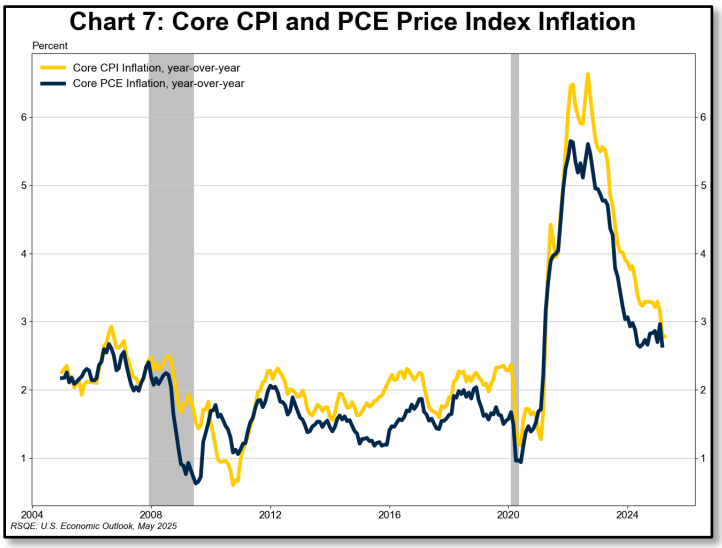


Several forward-looking survey-based labor market indicators have deteriorated considerably in recent months. The year-over-year change of the BTOS diffusion index for employment 6 months ahead has weakened relative to where it was this winter. The vast majority of regional Federal Reserve Banks' outlook survey diffusion indices for expected future employment growth slipped dramatically

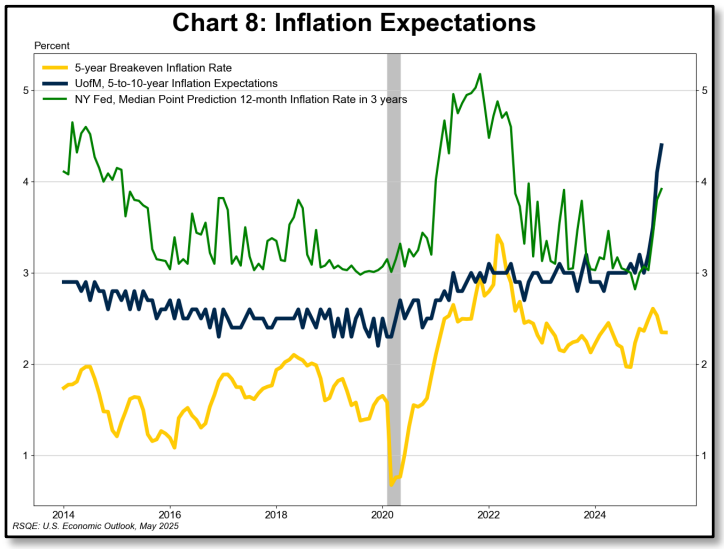


[4] The BTOS is a relatively new survey. The data starts in 2022, with the most recent data covering April 7 through April 20.

in April. Absent a speedy and lasting resolution of the trade uncertainty, we expect considerable pressure on the labor market over at least the next several months.



The prospect of hefty import tariffs coupled with relentless media coverage has widened an already sizeable gap between actual inflation and some measures of inflation expectations. Year-over-year readings for core CPI and PCE inflation, which strip out volatile food and energy prices, have improved early this year. Core PCE inflation declined to 2.6 percent in March, the lowest since June 2024. Core CPI inflation, at 2.8 percent, stood at its lowest rate in 4 years.

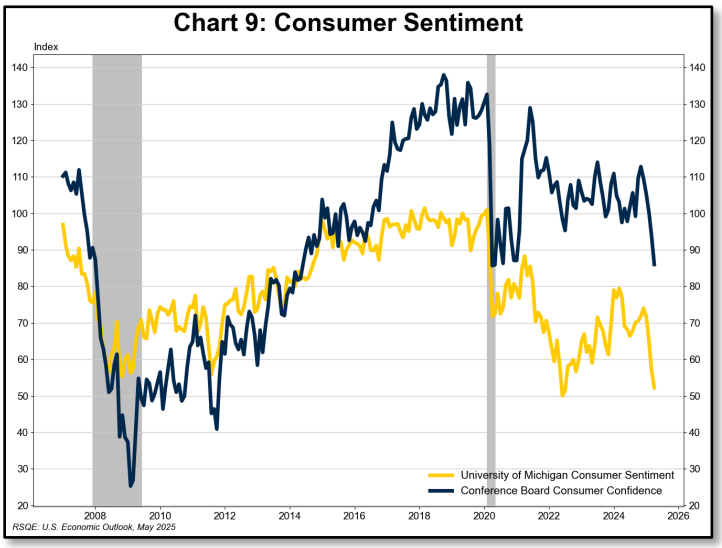


Survey-based inflation expectations, however, moved markedly higher at both short and long horizons. Chart 8 shows longer-term inflation expectations along with the spread between the yields on the 5-year nominal and inflation-protected Treasury debt.[5] While the 5-year breakeven inflation rate on Treasury debt actually decreased in April to a level similar to that of a year ago, survey-based metrics shot up from February to April. The run-up in the University of Michigan Survey of Consumers' 5-to-10-year inflation expectations has so far been much larger compared to other survey-based measures. This metric saw only a moderate increase during the 2021–22 surge of inflation. The increase of the New York Fed survey's expected 12-month inflation 3 years from now has been meaningful, but so far it has been

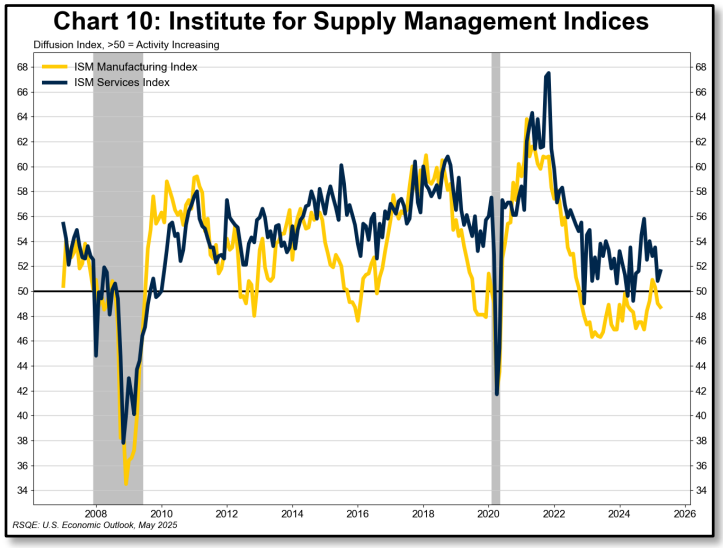
[5] For the NY Fed metric, we are showing the median point prediction, which is more comparable to the University of Michigan readings.

less pronounced than during 2021–22. We are expecting tariffs to fuel a noticeable re-acceleration of inflation over the next year or so but to represent something closer to a one-time shift in the price level rather than a long-term increase in the economy's underlying inflation rate. Yet the run-up in some measures of long-term inflation expectations will complicate the Fed's job of ensuring that inflation expectations stay well-anchored.

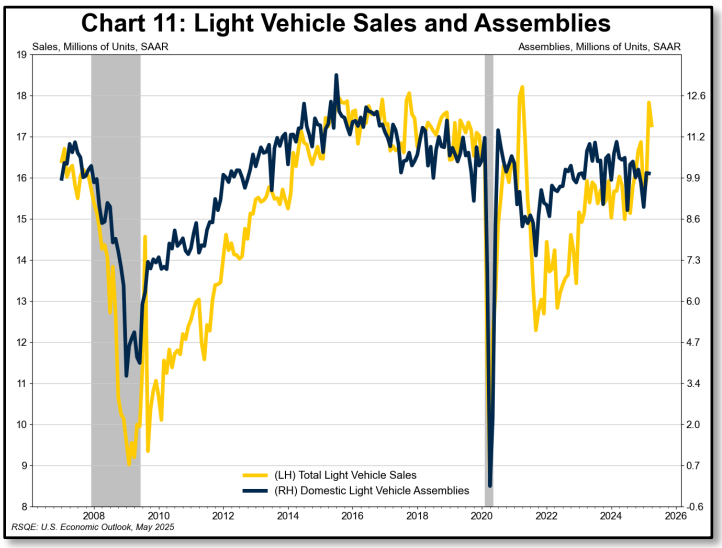
Both the University of Michigan's and the Conference Board's indices of overall consumer sentiment registered steep declines in recent months, as did many other survey data series. While the correlation between consumer sentiment and consumption expenditures growth has been low in recent years, we believe that consumers may have it correct this time. We expect the pace of consumption growth to take a hit over the next several months, as businesses pass tariffs on to consumers at least partially while finding substitutes for inputs from China.



The Institute for Supply Management's (ISM's) Purchasing Manager Indices (PMIs) for manufacturing and services have weakened relative to their respective readings in December–January. After a pair of above-50 readings, the manufacturing index fell below 50 again in March–April, suggesting slowing business activity in the sector. The services index, which represents a much larger share of the economy, remains in expansionary territory at 51.6, about two index points below its December–February average. These weaker PMI readings highlight the economy's vulnerability to slower growth.



One part of the economy where the impact of tariff front-running is readily apparent is the light vehicles sector. The annualized pace of vehicle sales jumped to 16.8 million units in November–December 2024 on the fear of future tariffs, and then again to 17.6 million units in March–April upon the announcement of actual tariffs. The level of production, however, remained relatively steady through March. The resulting lower dealer inventory will likely push prices up even in the absence of manufacturer price hikes. The latter are likely to come as well. Even if MSRP levels stay constant, manufacturers are likely to cut back on incentive spending, which has recently averaged around 7 percent of average transaction prices. Our analysis suggests an increase of more than 10 percent in new vehicle prices in the aftermath of tariffs on imported vehicles and parts, even after accounting for the recent exemptions and credits, although we caution that our estimate is uncertain. As new vehicle prices rise, so will the prices of used vehicles. After months of relative calm, the April Manheim Used Vehicle Value Index jumped by 2.7 percent, reflecting recent auction data. This index typically leads the used vehicle CPI component by a month or two.



Overall, we would characterize the state of the economy as steady but vulnerable. While most backward-looking and available concurrent data remain solid, expectations of future growth have clearly taken a hit. We are expecting the official data on the labor market and real GDP to soften somewhat over the next several months, but the still-respectable momentum should help the economy avoid a tariff-induced downturn.

Next, we detail several key policy and economic assumptions underlying the forecast.

Trade Policy

The past few months brought not only warmer weather but also a fresh crop of new tariffs. We continue to believe one eventual goal of the current tariff tactics is to provide leverage for deals with our

trading partners over issues potentially extending beyond trade. However, some items on the current tariff menu appear likely to stay in place for an extended period, while the final scope of tariffs remains uncertain. As a result, we expect upward pressures on both consumer prices and the unemployment rate, weighing on near-term growth.

The previously delayed 25 percent tariff on imports from Canada and Mexico that do not fall under the United States-Mexico-Canada Agreement (USMCA) preference took effect on March 4, with a reduced 10 percent rate for Canadian energy and potash exports. Tariffs of 25 percent on steel and aluminum imports were implemented on March 12. Furthermore, a 25 percent tariff on imported automobiles and parts was announced on March 26, taking effect on April 3 for assembled vehicles and May 3 for parts. However, vehicles and parts qualifying for the USMCA treatment remain duty-free until a tracking process to exempt the U.S. content is determined.

The extensive tariff policies announced on "Liberation Day" created significant turmoil in the financial market. On April 2, President Trump announced a universal 10 percent tariff on all imported goods and higher individualized "reciprocal" tariffs on countries with which the U.S. has greater merchandise trade deficits. Since then, the reciprocal tariffs have been postponed until July 9. In early May, the 125 percent tariff on goods from China has been slashed to 10 percent for 90 days, but the announcement came after this forecast was completed. Together with the fentanyl-related duties, tariff rates faced by Chinese imports have increased by 30 percentage points during the second Trump Administration.[6]

Incoming data has shown early evidence of tariff impacts. China's outbound shipments to the U.S. plummeted more than 21 percent year-over-year in April. We are also already seeing the revenue impact from the Treasury's daily collection. Revenue from customs duties is up over 15 billion dollars fiscal year-to-date compared to the prior year, with the bulk of the jump occurring in April.

[6] Several electronic goods, like smartphones and semiconductor manufacturing equipment, are exempt from the 125 percent tariff. They still face the 20 percent tariff attributed to fentanyl. The complete list can be found here: https://www.whitehouse.gov/presidential-actions/2025/04/clarification-of-exceptions-under-executive-order-14257-of-april-2-2025-as-amended/.

The tariff situation remains fluid, with a wide range of plausible outcomes. May 8 marked the first concrete progress made on trade talks in 2025. While the across-the-board 10 percent tariff still stands, steel and aluminum from the United Kingdom will be exempt from the 25 percent tariff, and vehicle imports up to a limit of 100,000 units will face a lower tariff of 10 percent. The trade negotiations between China and the United States on May 11–12 brought substantial improvements to the tariff landscape, which were beyond our expectations. Both countries have temporarily agreed to backtrack on recent tariff rate increases for 90 days. China's imports will now face an additional 30 percent broad-based tariff on top of 2024 levels, while U.S. exports to China will face an extra tariff of 10 percent. This detente may extend the import front-loading to the second quarter. Although these steps offer some initial relief, it remains premature to determine where future trade agreements will settle in a durable way.

While the Administration is engaged in tariff talks with several other countries, the timing of tangible progress toward a global de-escalation remains highly uncertain. In the meantime, we assumed the trade policy trajectory to be broadly consistent with the current dynamic. As a result, tariff revenue is set to reach an unprecedented level, at the cost of higher inflation and slower economic growth.

Specifically, our forecast is based on the assumption that the 10 percent broad-based tariff will stay throughout our forecast horizon, but reciprocal tariffs will not be imposed persistently. We also assumed the tariff rate on goods from China would eventually settle around 60 percent, as discussed during the presidential campaign. Meanwhile, the auto tariffs are likely to be sustained, with the U.S. content exemption applying to USMCA-eligible vehicles and parts. Additional sectors and companies may receive exemptions, even if the stated tariff rates are maintained.

Global retaliation has been relatively measured so far. China has reduced its retaliatory levies on U.S. imports to 10 percent following the trade talks in Geneva. Canada imposed a 25 percent tariff on 40 billion U.S. dollars' worth of goods and additional countermeasures on U.S.-assembled vehicles. We expect some other countries to impose retaliatory tariffs on U.S. auto exports, as well.

All in all, our assumptions result in an average effective tariff rate of more than 15 percent to persist throughout our forecast horizon. The post-substitution effective tariff rate is likely to be lower as consumers shift away from imported goods whose prices increase more due to tariffs, while businesses

reoptimize their supply chains to minimize import duty bills. Nonetheless, we penciled in a significant and persistent increase in annual tariff revenues, ramping up from 94 billion dollars in 2024 to over 360 billion dollars in 2026.

As higher tariffs trickle down to the consumer market, they exert upward pressure of about 3.0 percent on goods prices between 2025 to 2027. Overall CPI inflation is expected to rise substantially, from 2.0 percent in 2025Q2 to 3.7 percent in the fourth quarter, before beginning to recede again. Tariff impacts on inflation readings in the current quarter are likely to be relatively subdued as companies work through their inventories, but inflation accelerates over the following two quarters as the pass-through materializes. Although temporary, this surge pushes the overall price level higher, delaying the path back to inflation normalization. Compared to the pre-tariff trend, the price level rises by over 1.0 percent, while real GDP declines by a similar amount.

Monetary Policy

The Federal Open Market Committee (FOMC) remains committed to its dual mandate of bringing inflation down to its 2.0 percent objective while maintaining full employment. After cutting the federal funds rate by one percentage point total during the final three meetings of 2024, the FOMC has held rates steady in the 4.25–4.5 percent range for the first three meetings of 2025. The labor market appears solid but is potentially vulnerable to tariff shocks. While the tariffs will likely have temporary effects on the price level, recent inflation data shows that underlying momentum seems to be trending toward the Committee's objective. As a result, we project the Fed to move slowly from here, with two 25 basis point cuts in the rest of 2025, one in July and one in October.

The median economic projection for the federal funds rate among March FOMC meeting participants similarly envisioned two cuts in 2025, with another two in 2026. Since the beginning of April, uncertainty surrounding tariff policy pushed markets to price in four or more cuts in 2025, but market expectations have recently returned to their late-March levels.

The Fed will probably be wary of possible adverse effects on output arising from tariff policy, both potential and already implemented. In a speech on April 14, Fed Governor Christopher J. Waller

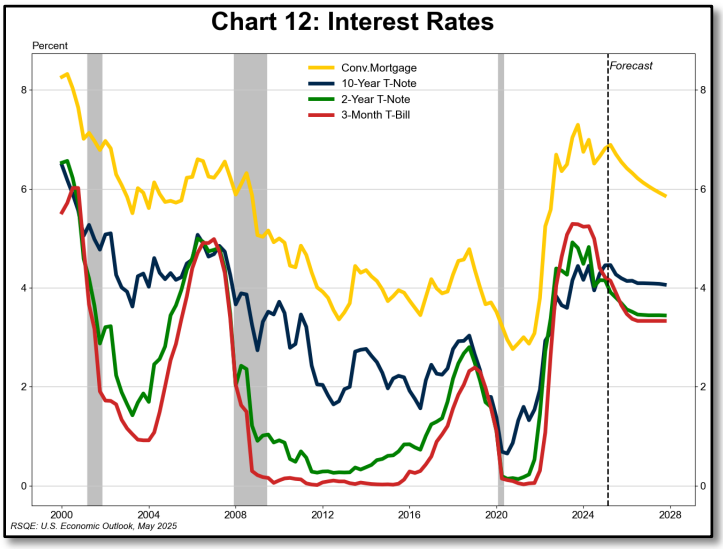
mentioned that in the most likely tariff scenario, he "would support a limited monetary policy response." [7] We similarly believe that the potential for a growth slowdown will discourage the Fed from turning hawkish in the face of tariff-induced price pressures.

The Fed has been reducing the size of its balance sheet since May 2022. At that time, the Fed announced a 95 billion dollar-per-month redemption cap for its securities holdings. The Fed slowed the pace of decline to 60 billion dollars per month last June and 40 billion dollars per month this April. We expect the Fed to maintain this pace until 2027Q2 and then stop reducing the balance sheet by the end of 2027, as the asset-to-GDP ratio approaches its pre-pandemic level.

We believe that our forecast is consistent with a Fed that is now in a more patient phase of its ongoing rate-cutting cycle. As noted, we project the Fed to cut the target range for the fed funds rate by only 50 basis points by the end of 2025. As extra inflation due to tariff policy begins to subside, we expect two more 25 basis point cuts in the first half of 2026. That path brings the fed funds rate to 3.25–3.5 percent, the terminal range we project for this cycle.

Chart 12 shows our projections for selected key interest rates. The 3-month Treasury bill rate declines from 4.1 percent in 2025Q2 to 3.6 percent in 2025Q4 and to 3.3 percent in 2026Q3, where it stays for the rest of our forecast. The 10-year Treasury rate stays at 4.5 percent in 2025Q2, declines gradually to 4.2 percent in 2025Q4, and holds at 4.1 percent from 2026–27. Mortgage rates decline more quickly than longer-term government bond yields as the excess spread between them shrinks in the face of gradually subsiding risks related to the paths of the policy rate and inflation. The 30-year conventional fixed-rate mortgage rate falls from roughly 7.0 percent in 2025Q2 to 6.5 percent in 2025Q4, 6.1 percent in 2026Q4, and 5.9 percent by the end of 2027.

Chart 12: Interest Rates



[7] Governor Christopher J. Waller, "A Tale of Two Outlooks", April 14, 2025: https://www.federalreserve.gov/newsevents/speech/waller20250414a.htm.

Fiscal Policy

Both the House of Representatives and the Senate subscribed to the goal of delivering "one big beautiful bill" in their budget resolutions, a somewhat surprising turn whose shine has been dulled by tariff headlines. The House narrowly passed a Senate-approved budget resolution on April 10. This critical step enables the GOP to advance President Trump's fiscal agenda through the reconciliation process, which circumvents the Senate's 60-vote filibuster requirement with a simple majority vote. The ultimate bill will likely encompass funding for border security infrastructure, the extension of the Tax Cut and Jobs Act (TCJA), and tax reduction on Social Security, overtime, and tip income, among other provisions. However, the path to enacting this ultimate bill remains a thorny question with which Congressional Republicans are still grappling.

The difficulty lies in how much spending can be cut while extending the TCJA without jeopardizing the chances of the bill's passage. The topline instructions in the Senate resolution allow for a 2.0 trillion-dollar increase in the cumulative deficit from fiscal 2025 to fiscal 2034 while using the controversial and unprecedented "current policy" baseline, which essentially assumes a cost-free extension of the TCJA. Under the conventional current law baseline that the Congressional Budget Office (CBO) and the Joint Committee on Taxation must use by statute, the Senate's blueprint would increase the primary deficit by 5.8 trillion dollars through fiscal 2034. This would boost the annual deficit in 2034 to 3.5 trillion dollars, compared with the baseline projection of 2.6 trillion dollars by the CBO.[8]

The divergence among Congress Republicans is clear when comparing these blueprints: the Senate's proposal for a mere 4 billion dollars in spending cuts stands in stark contrast to the House's stated goal of at least 1.5 trillion dollars in deficit reduction. Despite the House's call for substantial savings, its resolution would still increase the primary deficit by a cumulative 2.8 trillion dollars—driven by 4.5 trillion dollars in revenue reductions from tax cuts and 300 billion dollars in additional spending on border security. With a razor-thin majority and no support expected from Democrats, Republicans must reconcile demands from both moderates and fiscal hawks—a balancing act made especially difficult

[8] See https://www.cbo.gov/publication/60870.

given how far apart those factions appear to be. House Republicans face several hurdles. On the spending side, the largest proposed deficit reduction of 880 billion dollars from the Committee on Energy and Commerce instruction will likely entail deep cuts to Medicaid, which risks alienating moderates and could derail the entire package. On the revenue side, GOP representatives in deep blue states are not in a rush to offer concessions to the fiscal conservatives on the state and local tax deduction (SALT) cap. Though not a large group, the SALT Republicans hold just enough votes to potentially tank the bill if they stand firm together.

The reconciliation process allows up to three individual bills each fiscal year—one each dealing separately with spending, revenue, and the debt limit. Even if the "one big beautiful bill" collapses, we believe Congress will still push through at least one measure among these three areas this fiscal year. The debt ceiling will likely be a top candidate. It needs to be raised by the end of fiscal 2025, because CBO projects the Treasury to exhaust its cash reserves by August or September this year.[9]

Intra-GOP tensions aside, reconciliation bills are not obligated to lower projected deficits, and we do not expect the final bill or bills to do so. While the fiscal landscape has been shifting quickly, we anticipate that most of President Trump's tax priorities will ultimately be enacted, with the spending cuts needed to satisfy fiscal conservatives pushed into later years, some likely beyond our forecast horizon. Our forecast includes a 10-year extension of the TCJA, alongside roughly 2.0 trillion dollars in new business and personal tax cuts (spread over a decade) beginning in calendar year 2026, except for the reinstatement of 100 percent bonus depreciation, which we expect to be applied to capital placed in service starting in 2025Q1. Beginning in fiscal 2027, we pencil in a slower Medicaid growth path and some spending reduction in the Supplemental Nutrition Assistance Program (SNAP). Although the total amount of proposed spending cuts appears unlikely to be enacted, we believe less contentious options within the GOP caucus, such as Medicaid work requirements, stand a realistic chance of passage.

Federal workforce growth has been an important driver of the federal government's contribution to GDP growth. Official payroll data has shown the early impact of the Trump Administration's downsizing push, with non-postal federal employment down by 23,000 since January. Data collected from the news

[9] See https://www.cbo.gov/publication/61265.

coverage suggests that 61,000 federal employees were laid off on the recommendation of the Department of Government Efficiency, accounting for roughly 2.6 percent of the non-postal federal workforce.[10] With at least 77,000 employees reportedly accepting the buyout offer, an additional round of buyouts ongoing, and further layoff plans already announced, we project a decline of about 100,000 government employees by the fourth quarter of 2025. We nonetheless expect modest growth in total government employment to continue, driven by state and local government.

Table 1 shows the data and our projections for the federal budget on a National Income and Product Accounts (NIPA) basis for fiscal years 2024 to 2027 by receipts and expenditure categories. Nominal revenue expands at a brisk 7.0 percent in fiscal 2025 owing to rising tariff revenue and the tariff-induced acceleration in general inflation boosting excise and profit tax collections. As tax cuts work their way through the economy, revenue growth decelerates to 2.8 percent in fiscal 2026 before picking up to 4.2 percent in 2027.

Table 1
Federal Budget, NIPA Basis
(Billions of Dollars)

		FY Forecast		
	2024	2025	2026	2027
Current receipts	5037.8	5388.2	5541.0	5774.9
% change	3.3	7.0	2.8	4.2
Current expenditures	6827.3	7178.5	7452.3	7762.3
% change	6.3	5.1	3.8	4.2
Consumption	1380.9	1453.1	1505.6	1560.6
% change	6.2	5.2	3.6	3.7
Transfer payments	4273.3	4499.5	4692.6	4886.3
% change	3.4	5.3	4.3	4.1
Federal subsidies	95.2	107.4	104.8	99.3
% change	-9.4	12.8	-2.4	-5.3
Interest payments	1078.0	1118.5	1149.3	1216.2
% change	21.3	3.8	2.8	5.8
Surplus (+) or deficit (-)	-1789.5	-1790.3	-1911.3	-1987.4
Percent of GDP	-6.2	-5.9	-6.1	-6.0

RSQE: U.S. Economic Outlook, May 2025

Federal current expenditures are set to grow by 5.1 percent this fiscal year. We project that growth will moderate to 3.8 percent in fiscal 2026 and 4.2 percent in fiscal 2027, reflecting cuts implemented through the reconciliation bill. Consumption growth decelerates to a 3.6–3.7 percent pace in fiscal 2026–27, held up mostly by robust defense spending. Transfer payment growth decelerates from 5.3 percent in fiscal 2025 to 4.1 percent in fiscal 2027. This slowdown is driven by a slide in Medicaid enrollment in the near term and by reduced SNAP and Medicaid payments in fiscal 2027. Federal subsidies expand by 12.8 percent in fiscal 2025 owing to agricultural subsidies appropriated by the American Relief Act of 2024. The growth rate of interest payments decelerates from 21.3 percent in fiscal 2024 to 5.8 percent

[10] This estimate comes from the Federal Government Layoffs tab under https://layoffs.fyi/, which tracks data through news reports.

in fiscal 2027 as interest rates decline, but the debt grows and previously issued debt is refinanced at higher rates.

As revenue growth tracks closely with expenditure growth over fiscal 2025–27, the federal deficit settles around 6.0 percent of GDP. Federal debt held by private investors increases from 82.3 percent of GDP in 2025Q1 to 88.8 percent in 2027Q4. Even as the Fed tapers the pace of its rundown of Treasury security holdings, a large amount of Treasury debt remains on the Fed's balance sheet rather than in the hands of the public.

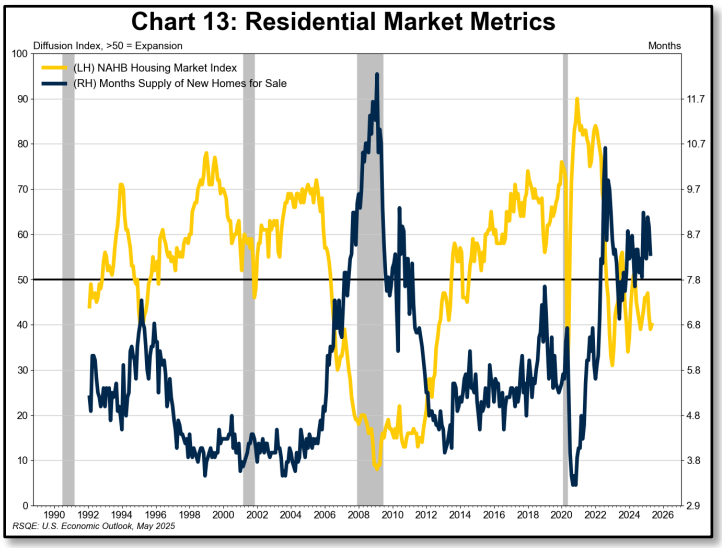
The Housing Market

Macroeconomic uncertainty has been weighing on the housing market so far in 2025. Demand has remained healthy, with both new and existing home sales staying at levels similar to 2024Q4. However, heightened uncertainty in recent months has led to increasing buyer hesitation. As inventory slowly builds with the completion of ongoing construction, both single-family and multi-family housing starts have trended flat. Home price growth has moderated, but the pre-2020 level of low mortgage rates is nowhere to be seen.

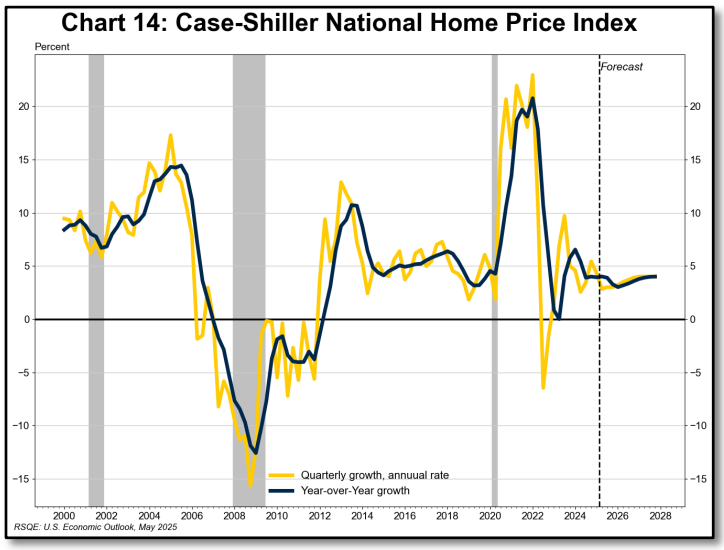
Sales and construction activity continue to track previous trends, reflecting stable but subdued momentum in the housing market. The demand trend remains supported by demographic factors and the low stock of existing homes, but recent uncertainties have discouraged some potential buyers while perhaps contributing to an increase in for-sale listings. The National Association of Realtors' seasonally adjusted months' supply of existing single homes registered a 13-month high of 4.2 in March. On the supply side of the new home market, gradual growth continues as more newly built homes come onto the market. The annualized rate of new single-family homes for sale climbed to 503,000 units in 2025Q1, reaching the highest level since 2007Q4. Correspondingly, the months' supply metric shown in Chart 13 has averaged an uncomfortable 8.8 months in January–March.

Housing sentiment has softened in recent months, down from the relative highs corresponding to lower mortgage rates in the fall of 2024. The University of Michigan Survey of Consumers' sentiment index of home buying conditions remains near its historic lows. Chart 13 shows the National Association

of Home Builders/Wells Fargo Housing Market Index (HMI). The HMI hovered around a two-year low in March and April, reflecting a slowdown in current and six-month forward single-family sales, as well as lower traffic from prospective buyers. Builders estimate a 6.3 percent average increase in costs due to tariffs on building materials, which is likely to hurt buyers, sellers, and builders in the short term.[11] Given this backdrop of newly cautious buyers and slowly growing supply, the housing market is expected to remain relatively flat through 2025 before regaining traction in the second half of 2026.



Affordability has improved slightly as the growth of home prices has moderated, but buyers remain stretched by stubbornly high mortgage rates. The 30-year conventional rate is expected to stay above 6.0 percent through the end of 2026 before dipping to 5.9 percent by the end of 2027. Chart 14 shows the historical and forecast paths of year-over-year and quarterly annualized rates of home price growth, measured by the seasonally adjusted S&P CoreLogic Case-Shiller Home Price Index. With buyer hesitation in a slightly looser housing market, home price growth is expected to remain modest in 2025H2, averaging a 3.0 percent annualized pace, before reverting to its 4.0 percent long-run pace by 2027Q1.



[11] National Association of Home Builders, "Builder Confidence Levels Indicate Slow Start for Spring Housing Season," April 2025. https://www.nahb.org/news-and-economics/press-releases/2025/04/builder-confidence-levels-indicate-slow-start-for-spring-housing-season.

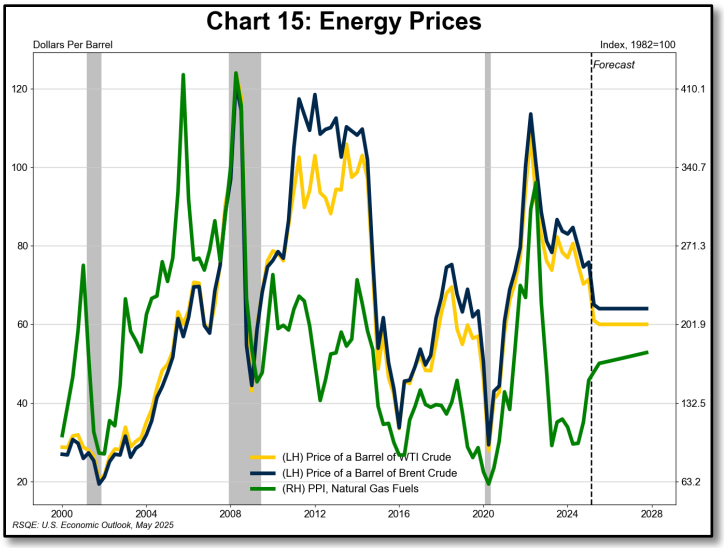
Energy Markets

The price of West Texas Intermediate (WTI) crude oil averaged roughly 75 dollars per barrel in January 2025. After declining modestly through March, prices experienced a sharp decline in early April, largely driven by the Organization of the Petroleum Exporting Countries and its allies (OPEC+) announcing plans to increase output by 411,000 barrels per day starting in June. Recession fears and weakening demand amid the Trump Administration's ongoing trade war have led to additional softness in the oil market. As of early May, WTI crude oil prices have fallen by roughly 20 percent relative to the beginning of the year, as concerns about oversupply and slowing demand persist.

India overtook China as the leading source of global oil demand growth in 2024, driven by rising transportation fuel use. However, China is working to strengthen demand through fiscal policy measures, at least in the short run. In its May Short-Term Energy Outlook, the U.S. Energy Information Administration anticipates that both countries will remain key sources of global demand growth in the years ahead. Despite their contributions, though, global demand growth for liquid fuels is expected to remain modest. It is projected to increase by nearly one million barrels per day in both 2025 and 2026, or roughly one-third slower than the average annual growth between 2010 and 2019.

Global oil supply is projected to exceed demand in the coming years, driven by steady increases in production. Total liquid fuels production is expected to rise by 1.4 million barrels per day in 2025 and by 1.3 million barrels per day in 2026, with the United States accounting for 30 percent of the total increase over this period. However, U.S. production growth could be at risk if WTI crude oil prices fall significantly below 61 dollars per barrel—the lower end of the average breakeven range for new wells reported by the Federal Reserve Bank of Dallas. While we do not currently expect prices to decline much further, the risk remains, depending on how much oil OPEC+ ultimately brings to market.

Chart 15 shows our forecast for WTI and Brent crude prices in maize and blue, alongside the Producer Price Index (PPI) for natural gas fuels in green. We expect the price of WTI to average 61 dollars per barrel in the second quarter of 2025, before edging down to 60 dollars per barrel in the second half of 2025 and remaining at that level through the end of 2027. We believe that persistent global tensions will likely prevent oil prices from declining further, despite the risk of oversupply during our



forecast. We also forecast the Brent–WTI spread to remain relatively stable at 4 dollars per barrel through 2027.

Natural gas prices, as measured by the Producer Price Index (PPI) for natural gas fuels, surged in late 2024 and early 2025 due to a cold snap and increased demand for liquefied natural gas (LNG). Ultimately, that spike pushed prices up by 57 percent from the third quarter of 2024 to the first quarter of 2025. Despite high natural gas production in 2023–24 and increasing output during the forecast, we expect prices to continue rising over the next two and a half years, as global LNG demand remains robust. Although China has halted LNG imports from the United States, we anticipate that strong international demand will allow U.S. shipments to find alternative buyers. As a result, we forecast natural gas prices to increase by 16 percent from the first quarter of 2025 through the end of 2027, almost twice as fast as cumulative inflation over the same period.

The Forecast for 2025–2027

Coming into 2025Q2, the underlying economic momentum appeared to remain solid, despite the negative real GDP growth print for 2025Q1. In a few months, however, tariff front-running will be largely in the rearview mirror, while medium-term effects on domestic activity will begin to set in. Sizeable new tariffs on vehicle imports, Chinese imports, and a base 10 percent on the rest of the world will likely linger. With that, U.S. businesses and consumers will now face additional import taxes, likely exceeding 250 billion dollars per year. While Congress is working on a fiscal package that would put about 200 billion dollars back into the private sector's pockets, the odds are slim that it will arrive before calendar year 2026. While we expect the Federal Reserve to resume cutting rates this summer, we think it will do so gradually to ensure tariff-induced price jumps do not turn into lasting inflation. With sizeable policy offsets not due until 2026, we expect economic growth to take a meaningful hit later this year. The range of plausible estimates of the slowdown from various trade models, statistical correlations between activity, uncertainty, and various "soft data" indices is quite wide. We expect the tariffs to reduce real GDP by somewhat more than 1 percent, an effect that will largely set in by the middle of next year. With tighter immigration controls, the labor force, and hence potential GDP growth, will slow over the medium term. Yet these factors are also likely to push the unemployment rate down beginning in mid-2026.

Chart 16: GDP Growth Rates

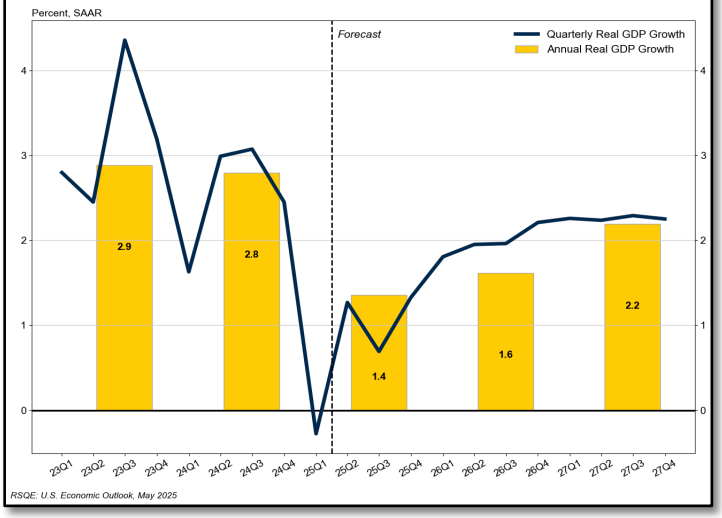
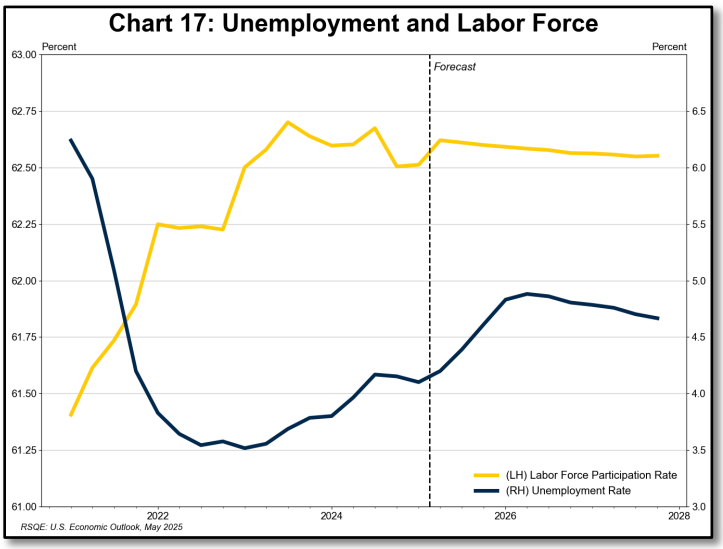


Table 2
Contributions to the Growth of Real GDP
(Average quarterly contributions, percentage points at annual rate)

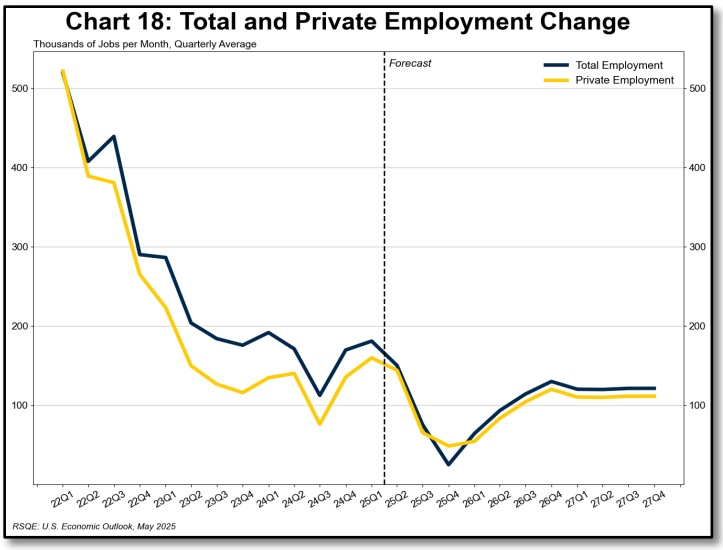
	'25Q1	'25Q2	'25H2	'26	'27
Real GDP (% change, AR)	-0.3	1.3	1.0	2.0	2.3
Contributions to real GDP growth					
Final sales to domestic purchasers	2.3	1.6	0.1	1.7	2.3
Consumption	1.2	1.7	0.5	1.2	1.4
Nonresidential fixed investment	1.3	-0.3	-0.4	0.4	0.6
Residential investment	0.1	0.0	-0.0	0.1	0.2
Government purchases	-0.2	0.2	0.0	0.0	0.1
Net exports	-4.8	0.4	1.7	0.2	-0.0
Inventory investment	2.3	-0.7	-0.8	0.1	0.0

RSQE: U.S. Economic Outlook, May 2025

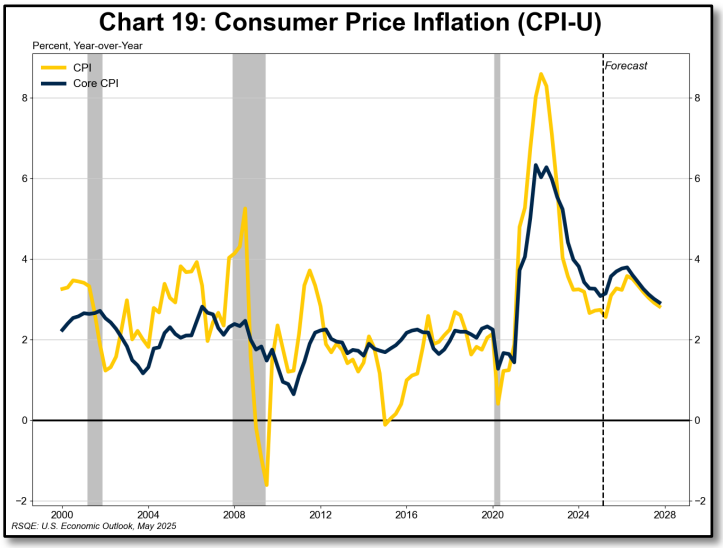
- We think that economic growth will return in 2025Q2, with real GDP projected to expand at a 1.3 percent annualized pace. We expect the tariffs to start weighing on consumption and investment this summer after the front-running earlier this year. We anticipate the annualized pace of economic growth to slip to 0.7 percent in 2025Q3, before rebounding to 1.3 percent in 2025Q4.
- We project the pace of growth to ramp back up to 2.0 percent by mid-2026, and then to accelerate to the 2.2–2.3 percent range in 2027. The 2026–27 growth reacceleration will be fueled by looser monetary policy and lower personal and business taxes.
- In 2025, calendar year real GDP growth halves compared to 2024. Calendar 2026 growth only rebounds marginally, with 2027 growth picking up to 2.2 percent.
- Consumption's contribution to growth in 2025Q1 was held back by a dip in spending early in the quarter after a surge late in 2024. We expect solid growth in 2025Q2 before the tariff pain sets in for 2025H2. In 2026–27, consumption's contribution rebounds, but stays below its 2.1 percentage-point average over 2023–24.
- The 1.1 ppt growth contribution of equipment investment in 2025Q1 was likely due to tariff front-running. For the rest of the year, business fixed investment is projected to subtract from growth. Over 2026–27, with the return of investment tax incentives, business fixed investment contribution ramps up to about 0.6 ppt.
- Residential investment largely stalls this year, as inventories of new homes for sale remain high while the existing homes market gradually unfreezes. In 2026–27, home building contributes slightly to growth.
- Government purchases contribute little to growth over our forecast, as cuts to federal non-defense and state and local spending offset rising federal defense expenditures.
- The effects of the 2025Q1 surge in imports and inventories gradually unwind over the rest of 2025.



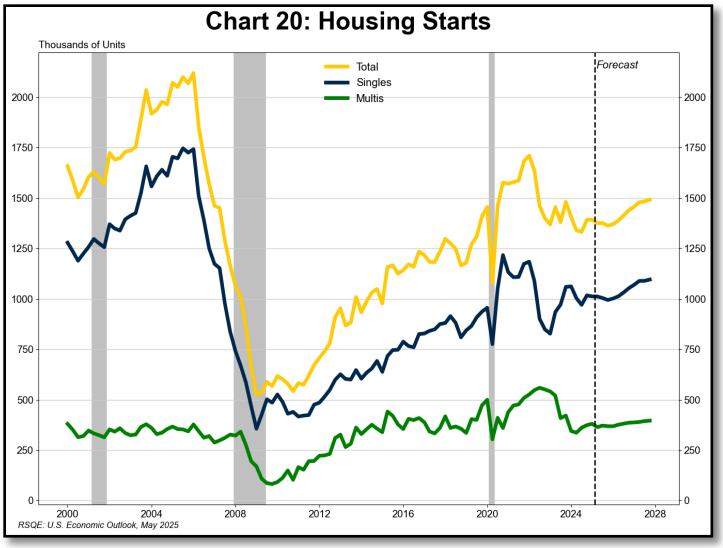
- The labor market has held up so far this year. The headline unemployment rate has hovered between 4.0 and 4.2 percent since last May.
- Similarly, the labor force participation rate has held relatively steady between 62.4 and 62.8 percent since February 2023, with April's reading at 62.6 percent.
- We expect the labor market to start showing signs of stress soon, as the pace of economic growth slows while laid-off federal government workers continue entering the unemployed pool. The unemployment rate rises from 4.4 percent in 2025Q3 to 4.9 percent in 2026Q2, then edges down to 4.7 percent by the end of 2027. Slowing population growth contributes to the tightening of the labor market in 2026H2 and 2027.
- We expect the participation rate to decline gradually throughout our forecast, as the baby boom generation continues to retire, the pace of immigration slows, and the labor market softens.



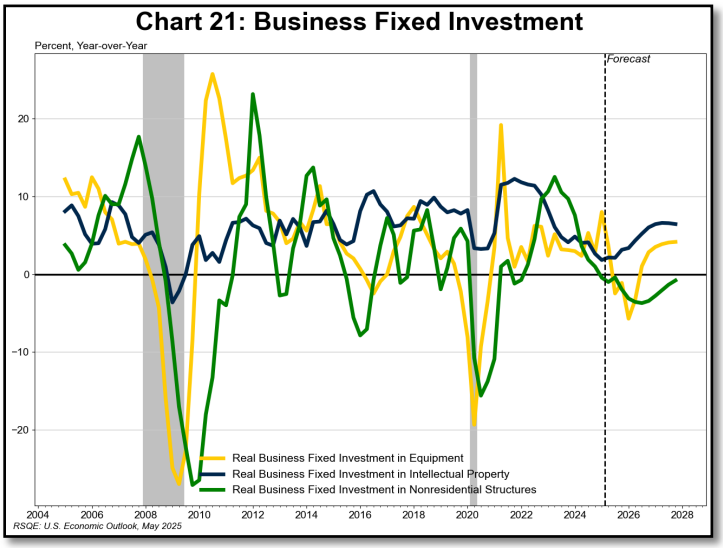
- Payroll employment remains solid. The six-month average pace of job gains reached 193,000 in April, up from 121,000 in October 2024.
- However, we expect private sector job gains to decelerate throughout 2025, reeling from higher tariffs. Average monthly private sector job gains bottom out at 49,000 per month in 2025Q4. We expect private job growth to pick back up by the end of 2026, but job gains do not exceed 130,000 per month.
- The pace of government job gains will generally slow to a crawl over the forecast horizon, as local government employment tops its pre-pandemic count and federal civilian government employment remains flat due to layoffs and the ongoing efforts to reduce the size of the federal workforce. In 2025Q4, around 100,000 federal workers who took separation incentives will be removed from payrolls, pushing the overall monthly job gains to just 25,000 per month.



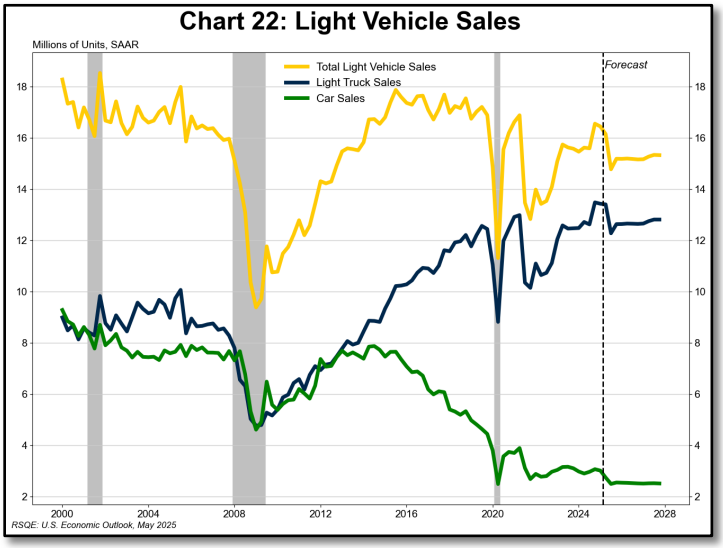
- CPI inflation generally continued to moderate in 2025Q1, with the headline index holding at 2.7 percent year over year and the core index slowing further to 3.1 percent. Headline inflation slowed to 2.3 percent in April with the core steady at 2.8 percent.
- However, broad-based tariffs are expected to drive up inflation soon. The quarterly pace of core inflation jumps up in 2025Q3 and then gradually settles down through the rest of the forecast. Year-over-year core CPI inflation jumps to 3.6 percent in 2025Q3 and peaks at 3.8 percent in 2026Q2. Core inflation moderates to 2.9 percent by 2027Q4. Headline CPI inflation runs persistently behind the core, with energy and food inflation subdued.
- PCE inflation, the Fed's preferred measure, rebounds to the 2.8–3.0 percent range year over year in 2025Q3-26Q3 from about 2.5 percent recently, as tariffs filter through the economy. Year-over-year PCE inflation then decelerates to 2.3 percent by 2027Q4.



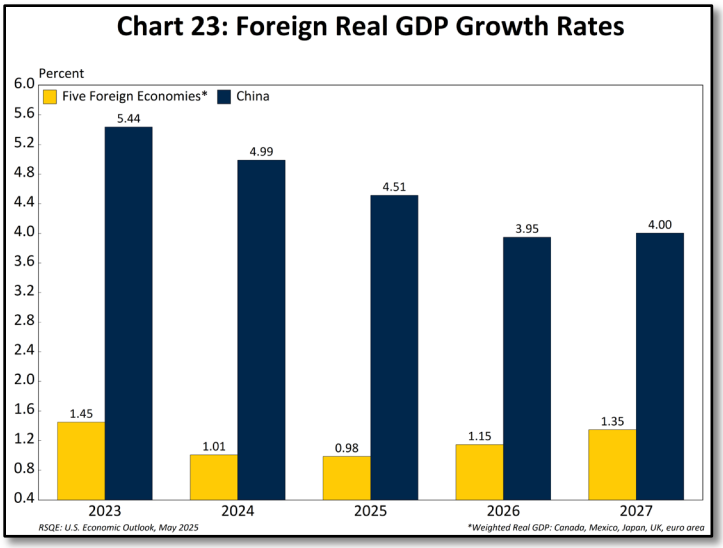
- New single-family housing starts slid to an annualized pace of 1,012,000 units in 2025Q1. Starts dip to 995,000 units by 2025Q4 amid a tough macroeconomic environment and elevated supply of homes for sale, before gradually picking up to 1,096,000 units by 2027Q4.
- Multi-family starts edged higher to an annualized pace of 381,000 units in 2025Q1. We expect them to soften modestly over the next few quarters as unemployment edges up, while still exceeding the 2024 pace. By 2027Q4, starts recover to 396,000 units.
- Over 2025, total housing starts edge down to 1,363,000 units in 2025Q4, stalled by tepid growth and elevated uncertainty. In the medium term, as the recent supply overhang clears, poor affordability of existing homes should help lift starts above their 2019Q4 pace by 2026Q3. We expect housing starts to climb to 1,492,000 units by the end of 2027.



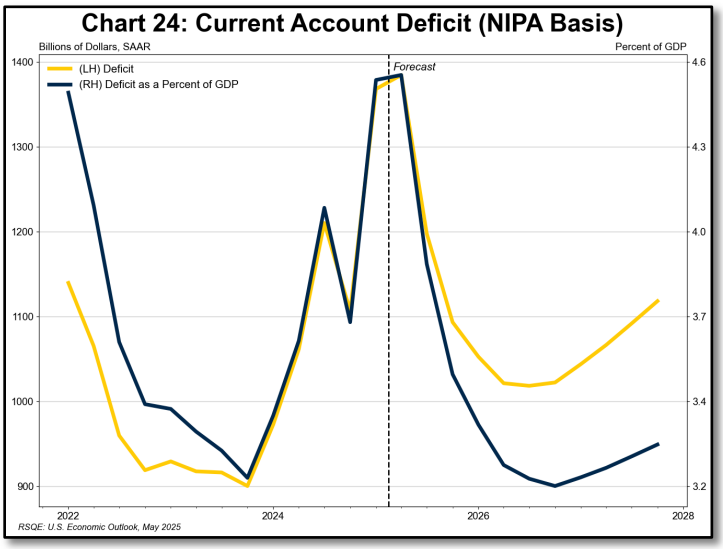
- The growth rate of real investment in equipment ramped up to 8.0 percent year over year in 2025Q1. Information processing equipment investment contributed most of the gains, as firms accelerated purchases ahead of anticipated tariffs. Growth collapses as tariffs start to bite, turning into a nearly 6.0 percent contraction in early-2026 before rebounding to above 3.0 percent growth year over year in early 2027.
- Intellectual property investment expanded by 1.8 percent year over year in 2025Q1. Despite the uncertainty regarding federal health and science funding, we project healthy growth in intellectual property to persist throughout our forecast window, accelerating to 6.5 percent year over year by 2027Q4.
- Nonresidential structure investment subtracts from growth throughout our forecast horizon as the massive jump in construction activity tied to microchip factories turns into a drought as factories approach completion. Given the subdued oil price outlook, mining and well drilling are expected to stay sluggish as well.



- The annualized pace of light vehicle sales posted another solid reading of 16.4 million units in 2025Q1. March sales pace, at 17.8 million units, was the strongest in four years, largely driven by pull-ahead volume in anticipation of tariffs.
- Light vehicle sales remain solid in 2025Q2, supported by additional front-running in April. With tariffs on vehicle imports fully in effect, sales are expected to drop sharply in 2025Q3, to a pace of 14.8 million units as the back side of the pull-forward effect arrives.
- Tariff negotiations are still ongoing, but regardless of the outcome, we expect some realignment of the economic geography for the North American auto industry. As automakers adjust prices in response to tariffs and the resulting cost pressures, light vehicle sales linger around 15.2–15.3 million units in 2026–27.



- To forecast demand for U.S. exports, we construct a trade-weighted index of real GDP for five of our major export markets: Canada, Mexico, Japan, the United Kingdom, and the euro area. We also track China's economy, but we show it separately because it tends to grow more quickly.
- China's economic growth is likely to fare relatively well, as April trade data showed that a sharp drop in exports to the United States was offset by exports to the rest of the world. The annual pace of real GDP growth moderates to 4.5 percent in 2025 before stabilizing around 4.0 percent throughout 2027, according to survey projections from the IMF and Bloomberg.
- The five-economy composite calendar year growth rate holds roughly steady around 1.0 percent in 2025, weighed down by trade disruptions. Mexico's economy is particularly vulnerable to a more aggressive U.S. trade policy and is projected to contract in 2025. Calendar year growth gradually rebounds across all countries in 2026–27, with the exception of Japan.



- Strong growth in goods imports fueled by tariff front-loading pushed the current account deficit-to-GDP ratio up to 4.6 percent in 2025Q1, exceeding the recent pandemic-driven peak in 2022Q1.
- The deficit-to-GDP ratio improves significantly to 3.2 percent in 2026Q4, reaching its lowest level since 2020Q4. As businesses wind down their import frenzy amid shifting U.S. trade policy, goods imports fall more sharply than exports through the first half of 2026.
- In nominal terms, the current account deficit registers an annualized pace of 1.4 trillion dollars in 2025Q2, before declining by approximately 290 billion dollars over the following two quarters. The deficit then bottoms out around 1.0 trillion dollars in mid-2026 before gradually widening again throughout 2027 as trade patterns adjust to the new policy environment.

Risks to the Forecast

Economic uncertainty remains elevated. The trajectory of trade policy and the economy's response to it, coupled with the monetary response, poses the primary near-term risk to our forecast. The evolving fiscal outlook is a close contender. The balance of risks appears largely neutral, but with a wide range of plausible outcomes.

Trade policy remains a wildcard throughout our forecast horizon. As noted, we believe that an important goal of the currently announced tariffs is to provide negotiating leverage on trade and non-trade issues. However, the situation remains fluid, and the resolution timeline is unclear. Near-term

supply chain adjustments could be very disruptive, while a quick policy shift could lift our outlook in the medium term, depending on how negotiations unfold. The recent U.S.-China trade talk breakthrough, which lowered tariffs on Chinese imports significantly for 90 days, came too late to incorporate into this outlook. A lower level of longer-run tariffs on China presents a potential upside risk to our forecast. A longer period to stock up on imports from China before higher tariffs eventually kick in could skew near-term import dynamics.

The mercurial nature of recent trade policy announcements likely fueled growing pessimism about the economic outlook and price pressures, as indicated by numerous surveys of businesses and consumers. However, it remains to be seen how much of that forward-looking trepidation will filter into the real economy. Sentiment measures have become more erratic and harder to interpret since the pandemic, as consumption growth had largely been holding up despite depressed sentiment. Although we expect consumers to tighten their belts this time, the post-pandemic pattern may hold instead. Additionally, some academic research suggests that heightened uncertainty could dampen business investment.[12] We will closely watch for signs of softer sentiment spilling into real economic activity.

Federal Reserve Chair Powell's term expires in May 2026, and at the moment it appears unlikely that President Trump will re-nominate him. The expectation of a more dovish Fed Chair could lead to looser financial conditions far in advance of the actual change at the helm of the FOMC. However, the risk of future monetary policy regime change could also unsettle financial markets.

While overall employment remains robust, the labor market's underlying dynamism is waning, leaving it more vulnerable to shocks. Hiring rates have been running lower than their pre-pandemic levels for a while, and the wage growth of job switchers now lags that of job stayers. Together, these recent developments suggest that displaced workers would struggle to find new positions in the event of large-scale layoffs. This situation reduces the Fed's margin for error in policy setting. Given its data-dependent approach, the Fed risks missing the optimal timing for policy adjustments due to noisy data.

[12] For example, see Gulen, Huseyin, and Mihai Ion. "Policy uncertainty and corporate investment." The Review of Financial Studies 29, no. 3 (2016): 523-564.

The fiscal situation continues to be challenging to forecast. President Trump has demonstrated significant influence in rallying fiscal conservatives at critical junctures. With Congress Republicans currently facing long odds of passing "THE ONE, BIG, BEAUTIFUL BILL" before the end of this fiscal year, the President could tap in. Should GOP unity prevail at the last minute, tax cuts might materialize earlier than we have assumed. The scope of spending cuts that will accompany those tax cuts remains quite uncertain. Conversely, there is the possibility that disagreements within the GOP prove to be intractable, although the implications for fiscal policy are hard to decipher in that scenario.

The recent conflict between Pakistan and India highlights the layer of geopolitical risks to our forecast. Further escalation between two nuclear-armed nations or perhaps in other volatile regions could increase volatility in commodity markets, placing upward pressure on prices of globally traded commodities. Against the backdrop of already elevated global uncertainty, further deterioration would make the near-term economic outlook even more precarious.