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OUTLOOK

The economy is finally stable; is that about to change?

President-elect Donald Trump's proposals on tariffs, immigration, taxes and deregulation may have far-reaching and contradictory effects, adding uncertainty to forecasts. NATE KITCH — THE NEW YORK TIMES

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After five years of uncertainty and turmoil, the U.S. economy is ending 2024 in arguably its most stable condition since the start of the coronavirus pandemic.

Inflation has cooled. Unemployment is low. The Federal Reserve is cutting interest rates. The recession that many forecasters once warned was inevitable hasn't materialized.

Yet the economic outlook for 2025 is as murky as ever, for one major reason: President-elect Donald Trump.

On the campaign trail and in the weeks since his election, Trump has proposed sweeping policy changes that could have profound — and complicated — implications for the economy.

He has proposed imposing steep new tariffs and deporting potentially millions of immigrants who are in the country illegally, which could lead to higher prices, slower growth or both, according to most economic models. At the same time, he has promised policies like tax cuts for individuals and businesses that could lead to faster economic growth but also bigger deficits.

And he has pledged to slash regulations, which could lift corporate profits and, possibly, overall productivity. But critics warn that such changes could increase worker injuries, cause environmental damage and make the financial system more prone to crises over the long run.

No one knows exactly which policies Trump will pursue, or in what order, or how much of his agenda he will get through Congress and the courts. As a result, no one knows what to expect for the economy in 2025 or beyond.

"It is a very uncertain outlook, and most of that uncertainty comes from potential changes in policy," said Michael Gapen, chief U.S. economist for Morgan Stanley.

Many Americans, of course, would dispute that the economy was in good shape. Frustration with high prices, particularly for essentials like food and housing, is a big part of the reason that many people voted to return Trump to office. But consumer sentiment had begun to rebound even before the election, and has continued to improve, suggesting that the public, too, believed the economy was beginning to normalize.

Officially, Gapen and his colleagues are predicting that U.S. gross domestic product, adjusted for inflation, will grow a bit more than 2% next year, roughly in line with forecasts from other Wall Street analysts. That would be a modest slowdown from this year, when the economy grew more than 2.5% according to most estimates, and consistent with the recent cooling after a period of frenetic postpandemic growth.

But Gapen doesn't put much stock in his own forecast this year.

"There's a wide range of potential outcomes, and a baseline outlook isn't quite as useful as it is in normal times," he said.

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Stocks have soared since the election, suggesting that many investors see a rosier picture, with fatter profits and faster growth. Many of them appear to be betting that Trump will focus on cutting taxes and regulations, while taking a moderate approach to trade and immigration policy. Investors particularly cheered his selection of Wall Street executives for key roles — particularly Scott Bessent, a hedge fund manager, as Treasury secretary — believing they will help dissuade Trump from imposing the most aggressive version of his proposed tariffs.

But that could be a risky gamble. On immigration policy, Trump has announced senior-level appointments — including Thomas Homan, his "border czar," and Stephen Miller, his deputy chief of staff — that suggest he plans to take a hard-line stance. And despite the choice of Bessent, Trump has continued to talk about his plans for tariffs since the election. Last month, he announced on social media that he would put 25% tariffs on imports from Canada and Mexico unless they stopped drugs and migrants from entering the United States.

"Markets have a serenity about trade and immigration policy that I think is unwarranted," said Michael Strain, an economist at the American Enterprise Institute, a conservative think tank. "Trade and immigration policy could be extremely disruptive to the economy."

Strain outlined a worst-case outlook for the economy, in which steep new tariffs discourage investment, mass deportations limit employers' ability to find workers and mounting deficits drive up borrowing costs.

If that happens, Americans could face both rising prices and slowing growth — a form of the "stagflation" that the U.S. economy last experienced nearly a half-century ago.

“In this scenario, the price of imported goods, the price of groceries, the price of restaurant meals, the price of homes all shoot up dramatically,” Strain said.

Strain isn’t predicting that all of those things will happen. But he argued that Wall Street was making a mistake by dismissing the possibility of this outcome — particularly because Trump defied similar predictions in his first term and imposed steep tariffs on allies and adversaries. Economic research has found that those policies raised consumer prices and slowed growth, although the effects were modest.

The context is very different this time around. When Trump took office in 2017, the U.S. economy was emerging from the grindingly slow recovery that followed the Great Recession. Inflation and interest rates were both low, and had been for years.

This time, Trump is inheriting an economy that is solid but slowing. Inflation has eased but remains above the Fed’s target of 2%, and memories of the rapid price increases of a few years ago are fresh in consumers’ minds. Interest rates are still high by recent standards, and the Fed has lowered them more slowly than forecasters expected a year ago.

All of that means that both consumers and policymakers are likely to be less tolerant of higher prices than they were during Trump’s first term. The Fed cut interest rates Wednesday for the third straight meeting, but many economists believe the central bank will be reluctant to lower rates further until it becomes clear what effect Trump’s policies are having. That could weigh on growth and possibly lead to higher unemployment.

And while recession fears have faded this year, policymakers still face the central challenge: how to bring down inflation without large job losses. Inflation cooled rapidly in 2023 but has proved more stubborn this year. The unemployment rate, at 4.2% in November, is low but has edged up. It is taking longer for unemployed workers to find jobs — a sign that the job market could be weaker than it appears.

“If there’s one thing you want to be concerned about with the economy right now it’s around the labor market,” said Aditya Bhave, senior economist at Bank of America.

Yet forecasters have consistently underestimated the resilience of the U.S. economy in recent years. And there are good reasons for continued optimism. Households have comparatively little debt relative to their incomes, suggesting that consumers can keep spending. Productivity growth has been strong in recent years, and the spread of artificial intelligence could keep that momentum going.