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TRANSCRIPT

The U.S. Economy May Be Stronger Than You Think

The U.S. economy is heading into 2025 on strong footing following a year of surprisingly robust growth. But you may not be aware of this if you were only reading the headlines in the news media. Let's talk about why that is and the economic outlook for 2025.

Whenever we talk about how the U.S. economy is covered in the news, it's important to recognize that the media has a "bad news bias" that favors negative stories over positive news. The U.S. economy tends to get covered negatively because bad news grabs people's attention. In fact, you could say the negativity is both a supply and demand issue. Humans, as it turns out, have their own "negativity bias" that focuses our attention on problems rather than what is working well. It may not come as a surprise, then, that the majority of economists had forecast the U.S. to be in a recession starting in 2024. Those forecasts turned out to be completely wrong, as we know, with U.S. economic growth surpassing expectations.

The question is: what impact, if any, will the new incoming administration have on the U.S. economy's current trajectory? Before we answer this question, it's worth noting that presidents are often given too much credit when things are going well and too much blame when things are going poorly. Often times, the impact of a president's policy actions on the economy are not immediate, but rather spread out over several years. In addition, political conditions and circumstances vary from president to president. With that in mind, what may be more important is how a president plays the cards that he or she has

been dealt. So what kind of hand does President Trump have to play?

Let's take a step back and look at the big picture. Over the past three decades, the U.S. economy has left the rest of the rich world in the dust. In 1990, the U.S. accounted for about two-fifths of the GDP of the G7 countries, which consist of the U.S., Canada, France, Germany, Italy, Japan and the United Kingdom. Today, the U.S. economy makes up half. While there may be a tendency to view the GDPs of these countries through a competitive lens, the fact is what is good for the U.S. is good for the rest of the world. Not only is the U.S. the largest economy by far, it's the world's major growth driver. And that is not expected to change in 2025.

The unique factors that allow the U.S. to grow faster than any other country in the developed world will continue to play key roles when the incoming administration takes power. What are some of these unique factors?

One of them is America's size and vast abundance of energy resources. For example, the shale-oil revolution has driven perhaps a tenth of U.S. economic growth since the early 2000s. Speaking of size, let's not forget the financial markets that America benefits from as well. The enormous size of these markets means that innovation in one state can also have a big impact across the other 49 states. During uncertain times, capital flows into the United States and helps keep borrowing costs low compared to other countries that have to raise interest rates to stem the outflow of capital.

Another unique factor is America's long-standing support of the business community, which marries light-touch regulation with speedy and generous spending when a crisis hits. During the Great Recession of 2008–2009, government leaders discovered that a \$787 billion American rescue plan was not large enough for the size of our economy. But that experience informed their response to the pandemic in 2020. Although supersized government stimulus contributed to inflation, it has also helped ensure the U.S. economy could bounce back faster than any other country. One positive data point you don't often hear about in the media is that U.S. GDP has grown by 10% since 2020, three times the pace of the rest of the G7. Other countries that tried to get by on stingier stimulus packages, like Germany, remain mired in a recession for the second straight year.

And lastly, don't forget about the resilient U.S. consumer. Armed with below historic unemployment rates, wage gains faster than CPI, balance sheet appreciation through stocks and

home prices, and strong retail sales and durable goods purchases combined, have consistently delivered solid economic growth despite uncertainty around a presidential election, elevated interest rates and a cooling labor market.

When the dust settles and the final estimate is released, U.S. real GDP in 2024 is expected to come in at 2.6%, more than a half of percentage point faster than the historical growth rate. This is especially remarkable coming four years after the start of the pandemic and the Federal Reserve's aggressive monetary tightening policy.

Looking ahead, U.S. real GDP is expected to grow at or around the 2% threshold in 2025, based on a survey of Bloomberg economists. While this is precisely the kind of positive news that doesn't make the headlines, it speaks volumes about the resilience of the U.S. economy and the unique factors that drive it. ▲