U.S. Policy Outlook and Risks

Christina D. Romer
NABE Session
Global Macroeconomic and Policy Outlook
January 3, 2025

Monetary Policy Outlook

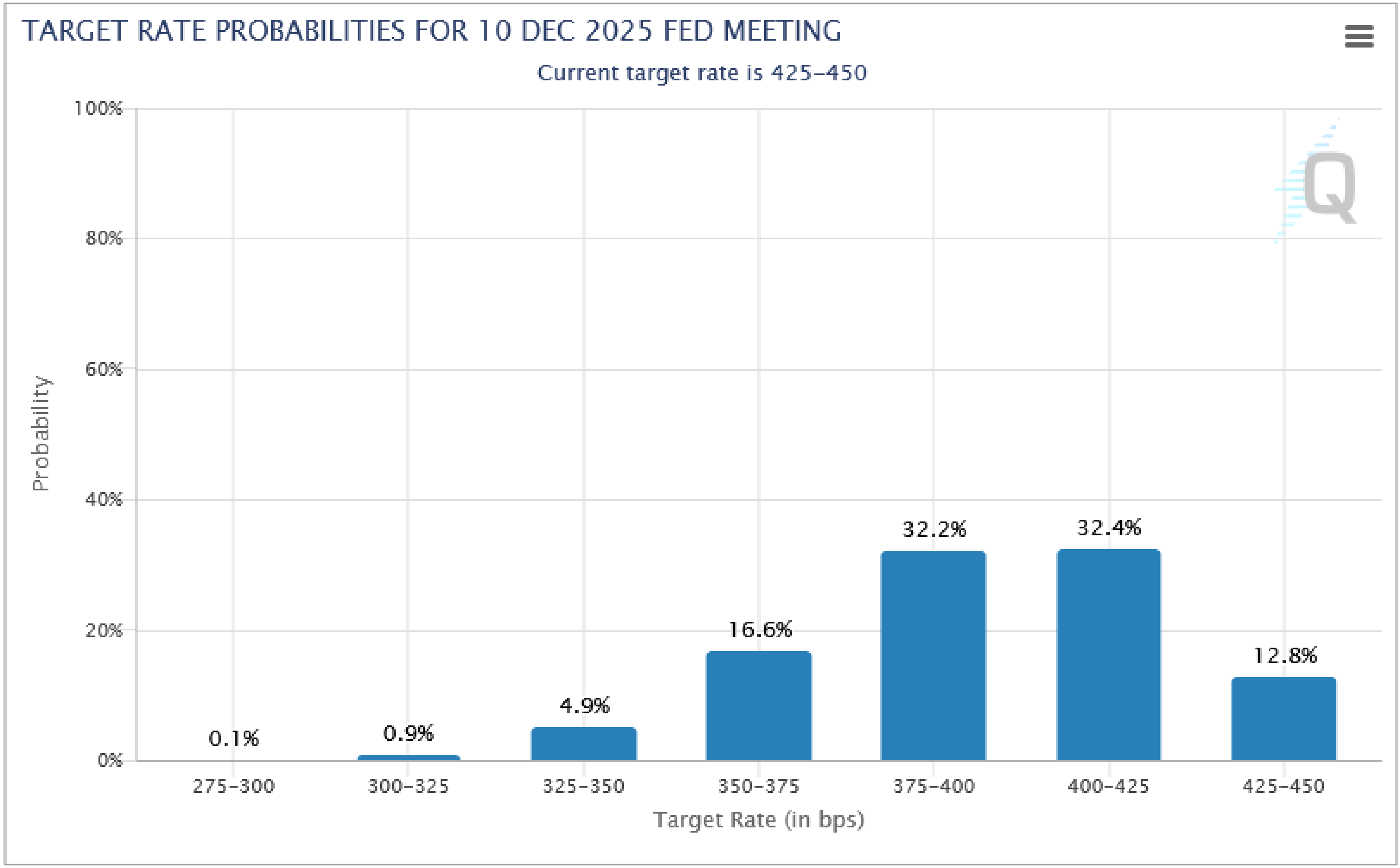
Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, December 2024

Percent

Variable	Median[1]				
	2024	2025	2026	2027	Longer run
Change in real GDP	2.5	2.1	2.0	1.9	1.8
September projection	2.0	2.0	2.0	2.0	1.8
Unemployment rate	4.2	4.3	4.3	4.3	4.2
September projection	4.4	4.4	4.3	4.2	4.2
PCE inflation	2.4	2.5	2.1	2.0	2.0
September projection	2.3	2.1	2.0	2.0	2.0
Core PCE inflation[4]	2.8	2.5	2.2	2.0	
September projection	2.6	2.2	2.0	2.0	
Memo: Projected appropriate policy path					
Federal funds rate	4.4	3.9	3.4	3.1	3.0
September projection	4.4	3.4	2.9	2.9	2.9

Source: Federal Reserve, “Summary of Economic Projections, 12/18/2024

Monetary Policy Outlook



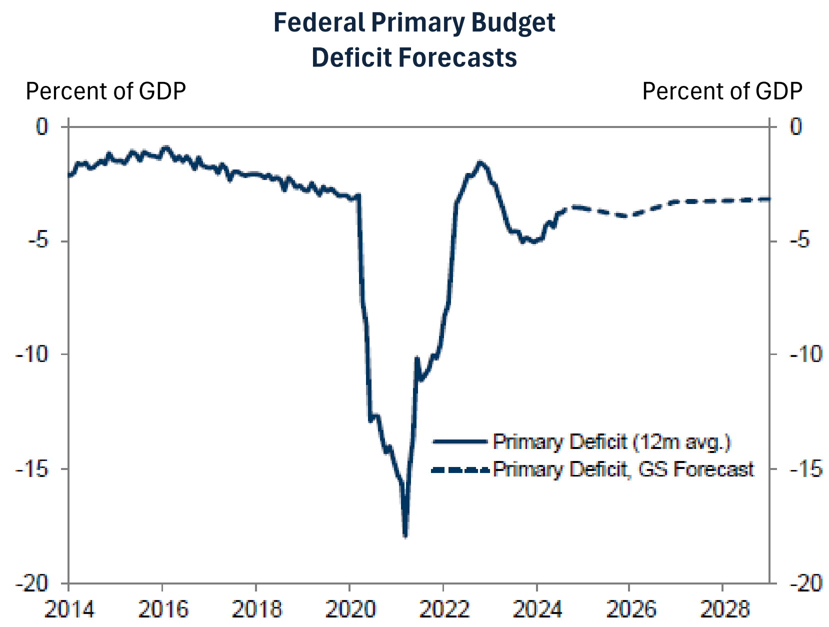
Source: CME Group, FedWatch

Risks to the Monetary Policy Outlook

- Stubborn inflation or economic slowdown
- Loss of Fed independence
- Financial stress

Fiscal Policy Outlook

Expected Fiscal Policy Changes	Impact, per Year
Extension of 2017 Tax Cuts	
Full extension of expiring 2017 Tax Cuts and Jobs Act tax cuts in early 2025	–
Reinstatement of 100% bonus depreciation, research and development expensing, and interest deductibility	$60bn
New Personal Tax Cuts	
Expand state and local tax (SALT) deduction	$30bn
Exclude extra 50% overtime from income tax	$20bn
Exclude tips from income tax	$10bn
New Business Tax Cuts	
Lower corporate tax rate for domestic manufacturers to 15%	$25bn
Other Fiscal Policy Changes	
Allow enhanced ACA subsidies to expire	-$20bn
Limitations on green subsidies	-$15bn



Source: Goldman Sachs Global Investment Research, CBO

Risks to the Fiscal Policy Outlook

- Larger tax cuts, less enforcement
- Fiscal instability or crisis

Executive Actions or Targeted Legislation

- Tariff increases
- Deportations and immigration limitations
- Increased fossil fuel drilling
- Changes to the IRA or environmental regulations
- Changes to the Affordable Care Act (Obamacare)