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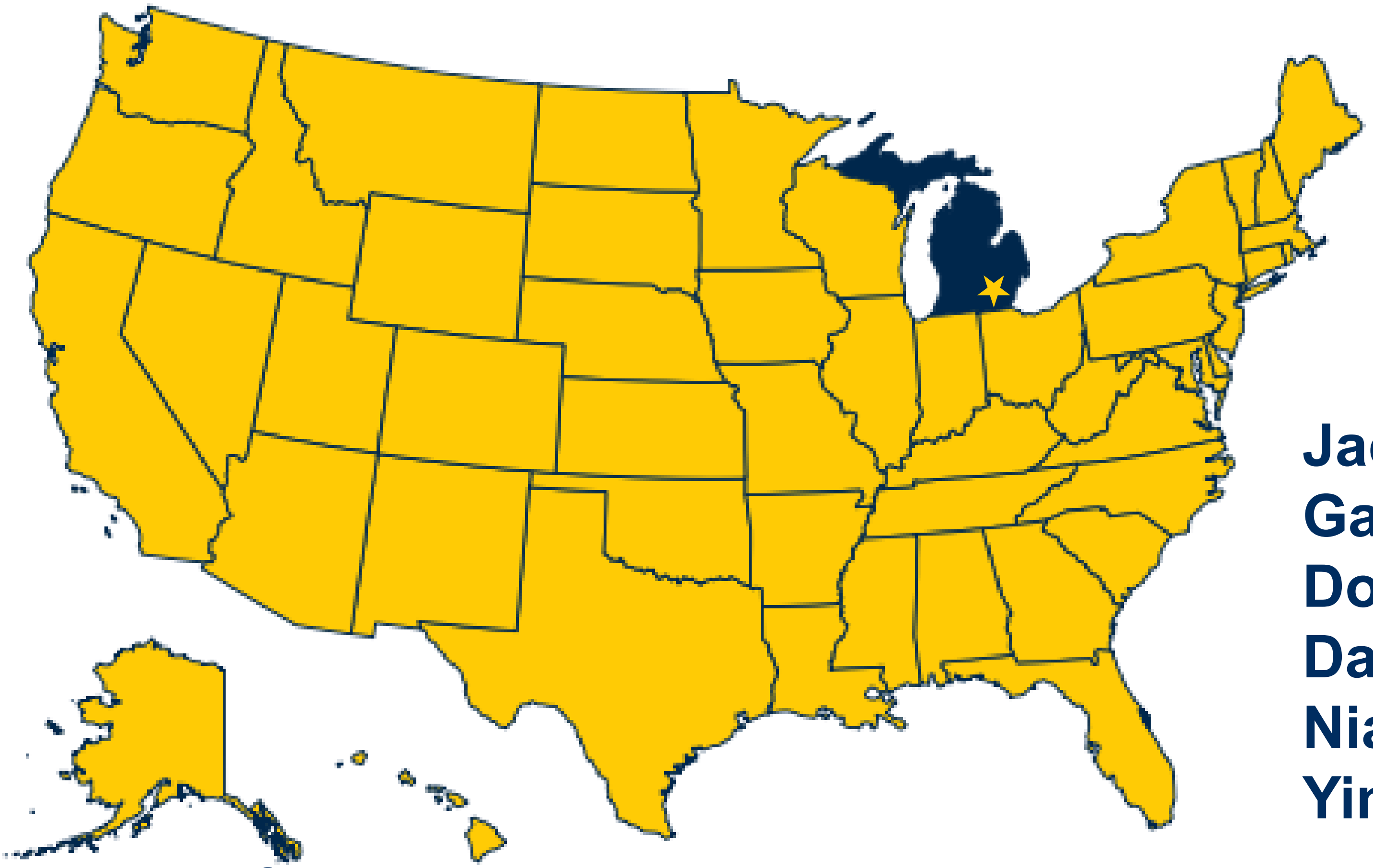
AWECOMM

The U.S. Economic Outlook 2026–2027

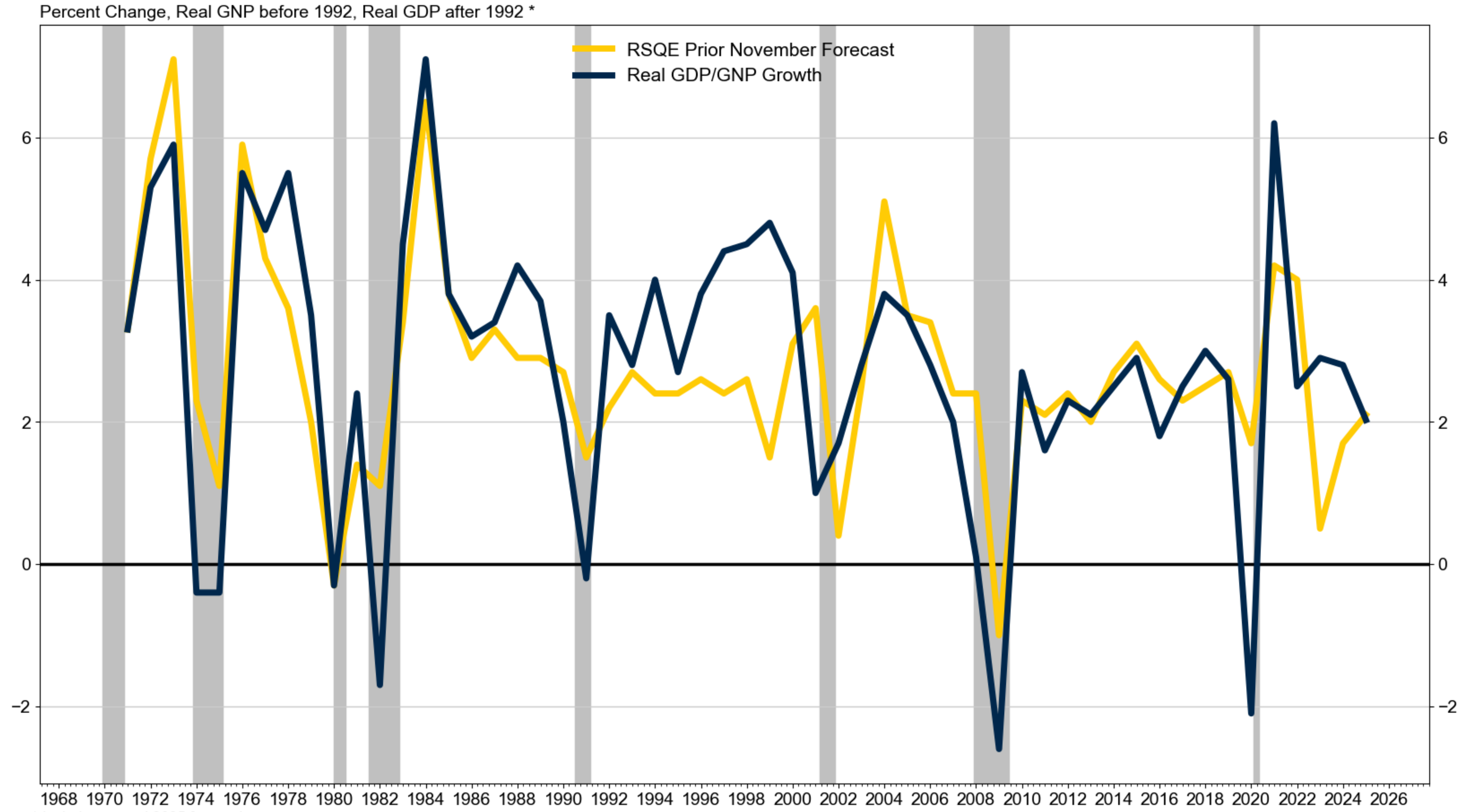
November 20, 2025



Jacob T. Burton
Gabriel M. Ehrlich
Donald R. Grimes
Daniil Manaenkov
Niaoniao You
Yinuo Zhang

Research Seminar in Quantitative Economics

RSQE Forecasting Record 1971–2025



** Includes current 2025 forecast*

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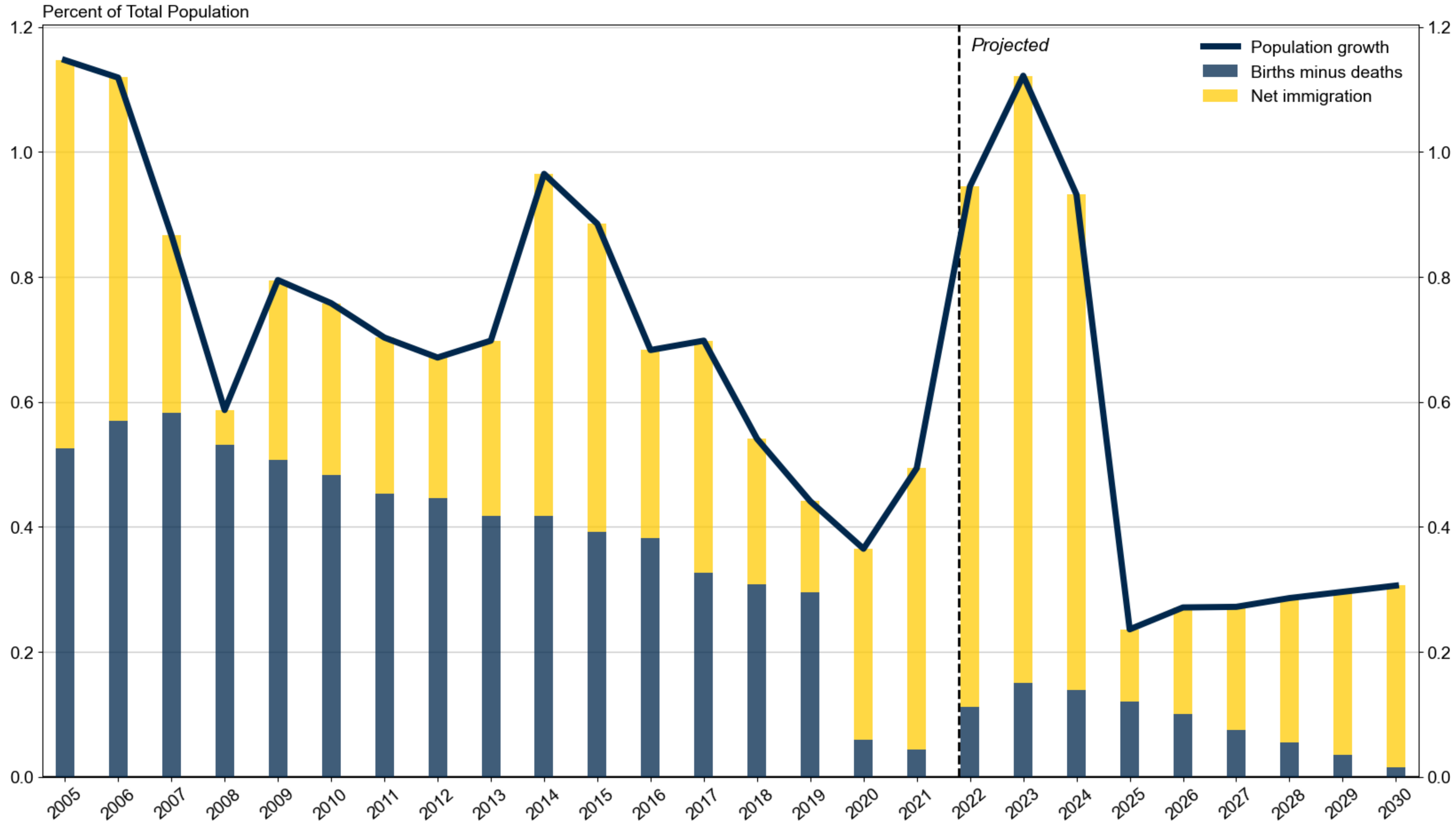
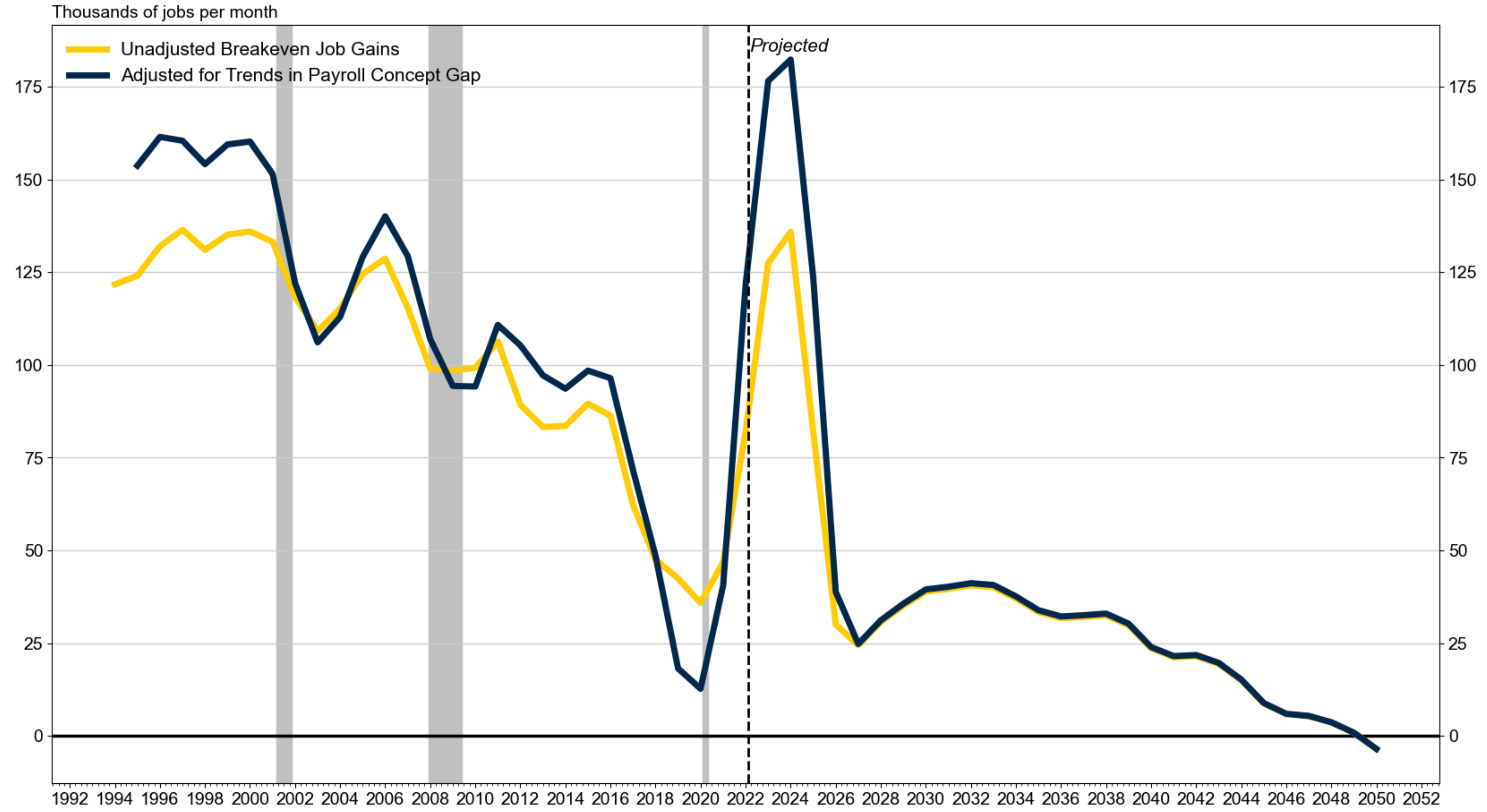
CBO Demographic Outlook



Monthly Breakeven Payroll Employment Gains



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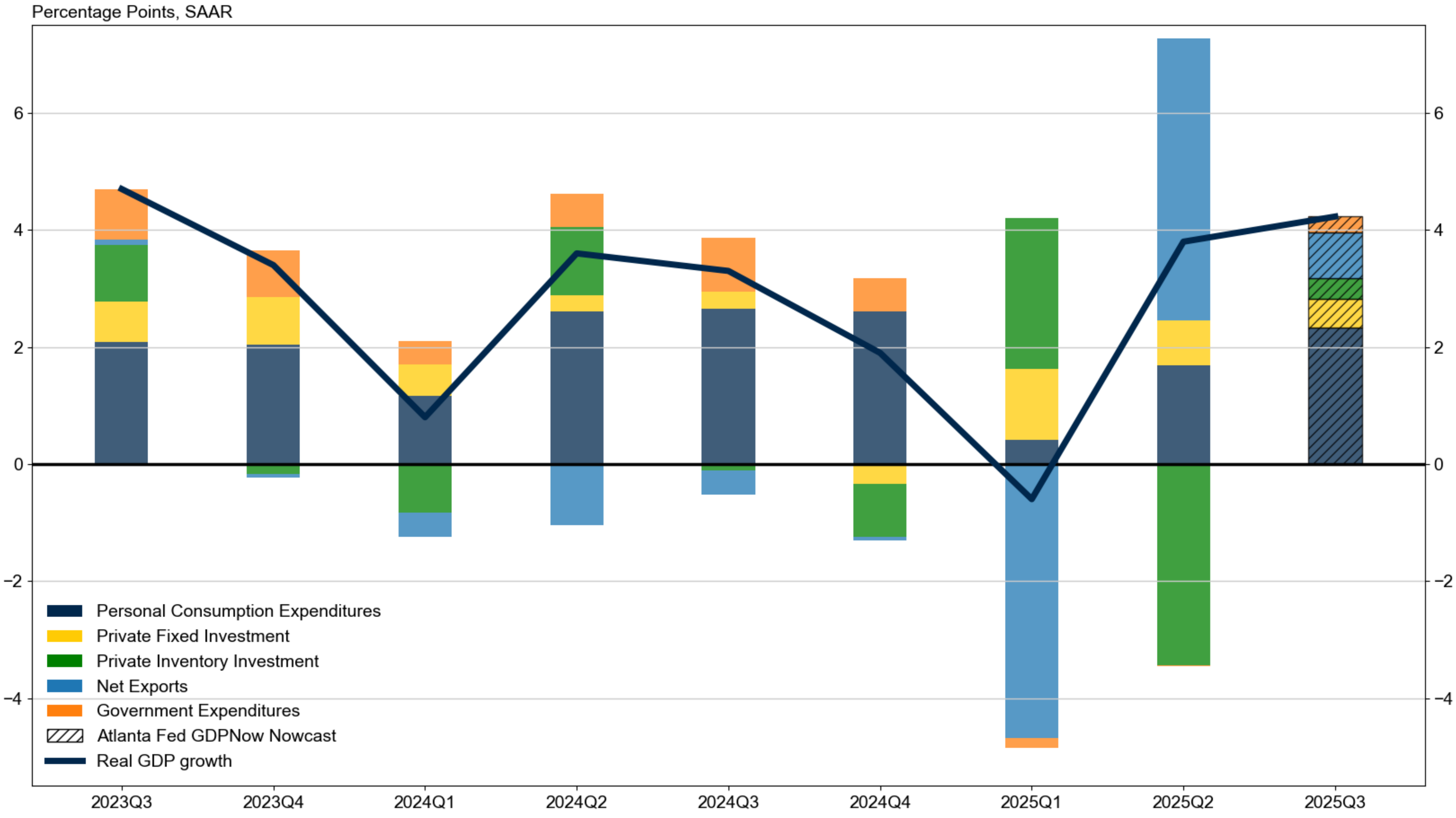
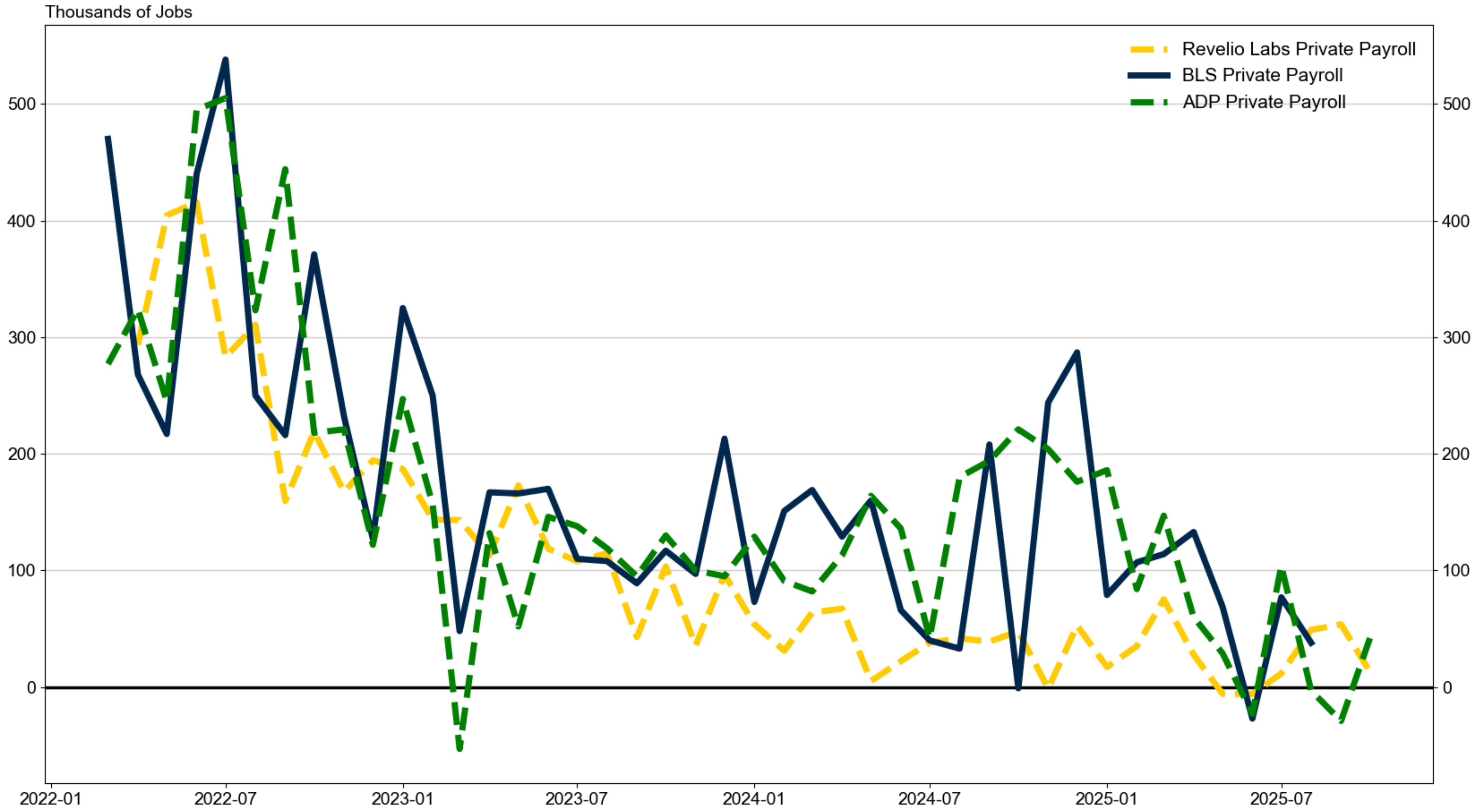
Current State of the Economy

Contributions to Real GDP Growth



Monthly Private Payroll Employment Gains



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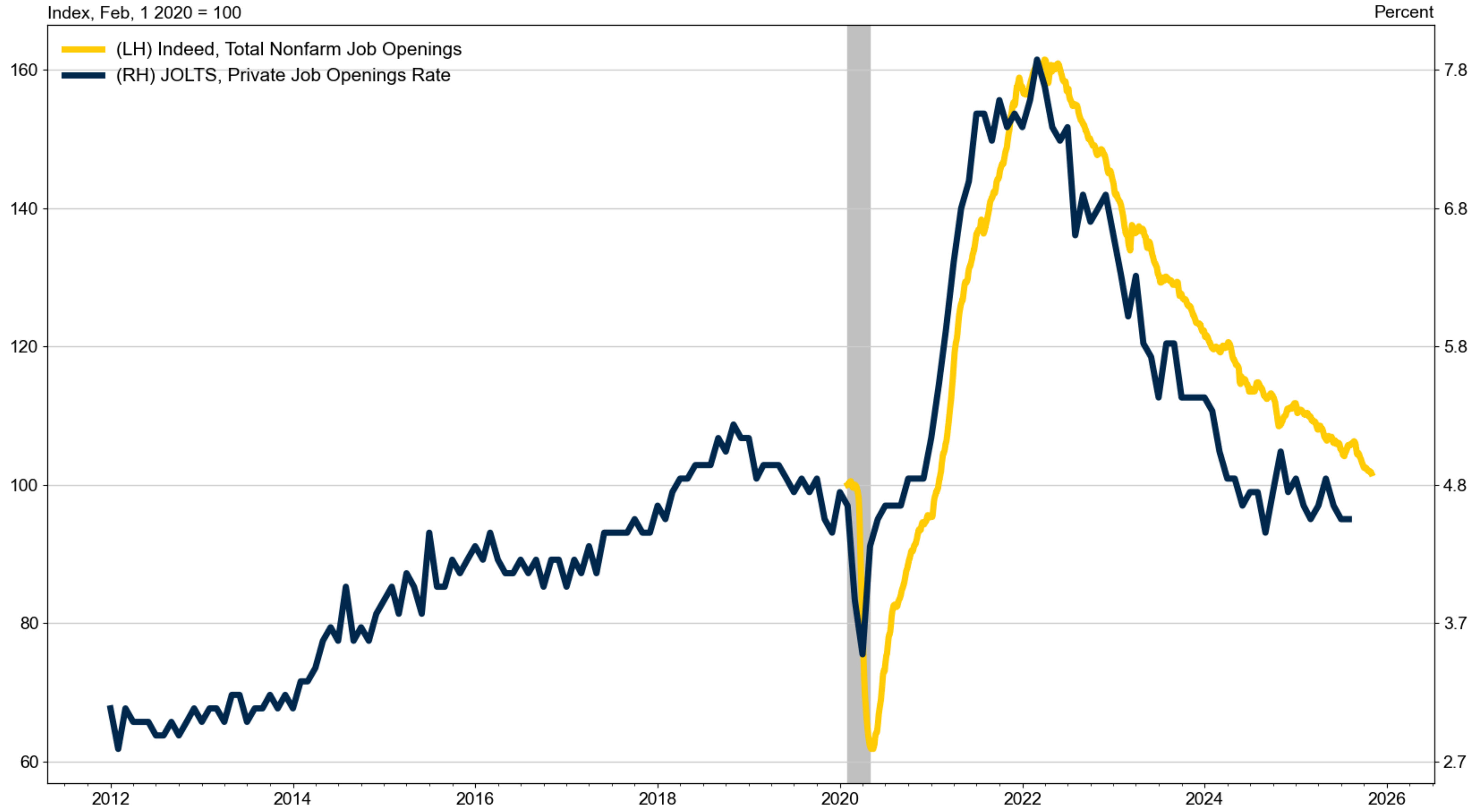
Job Openings



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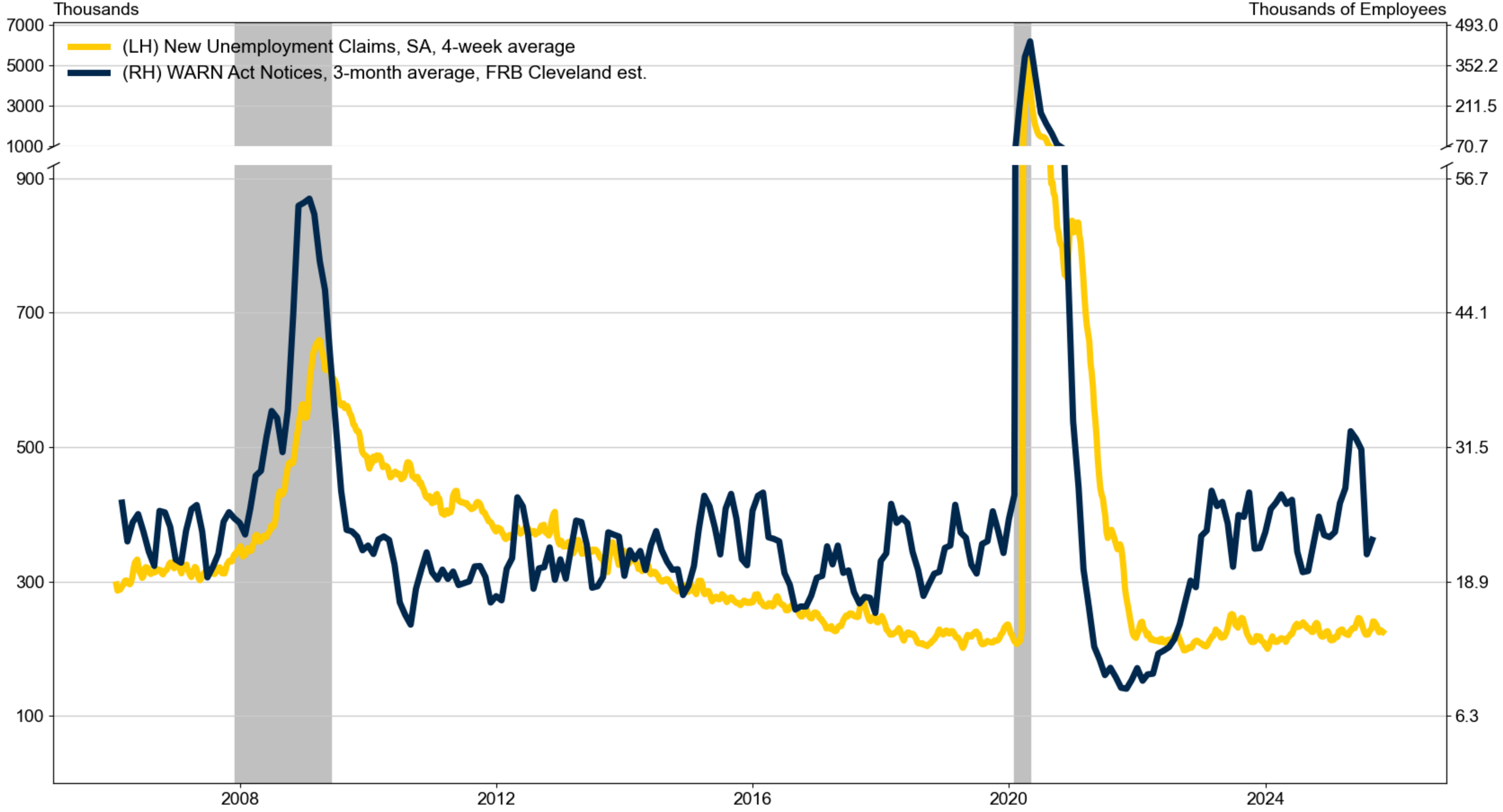
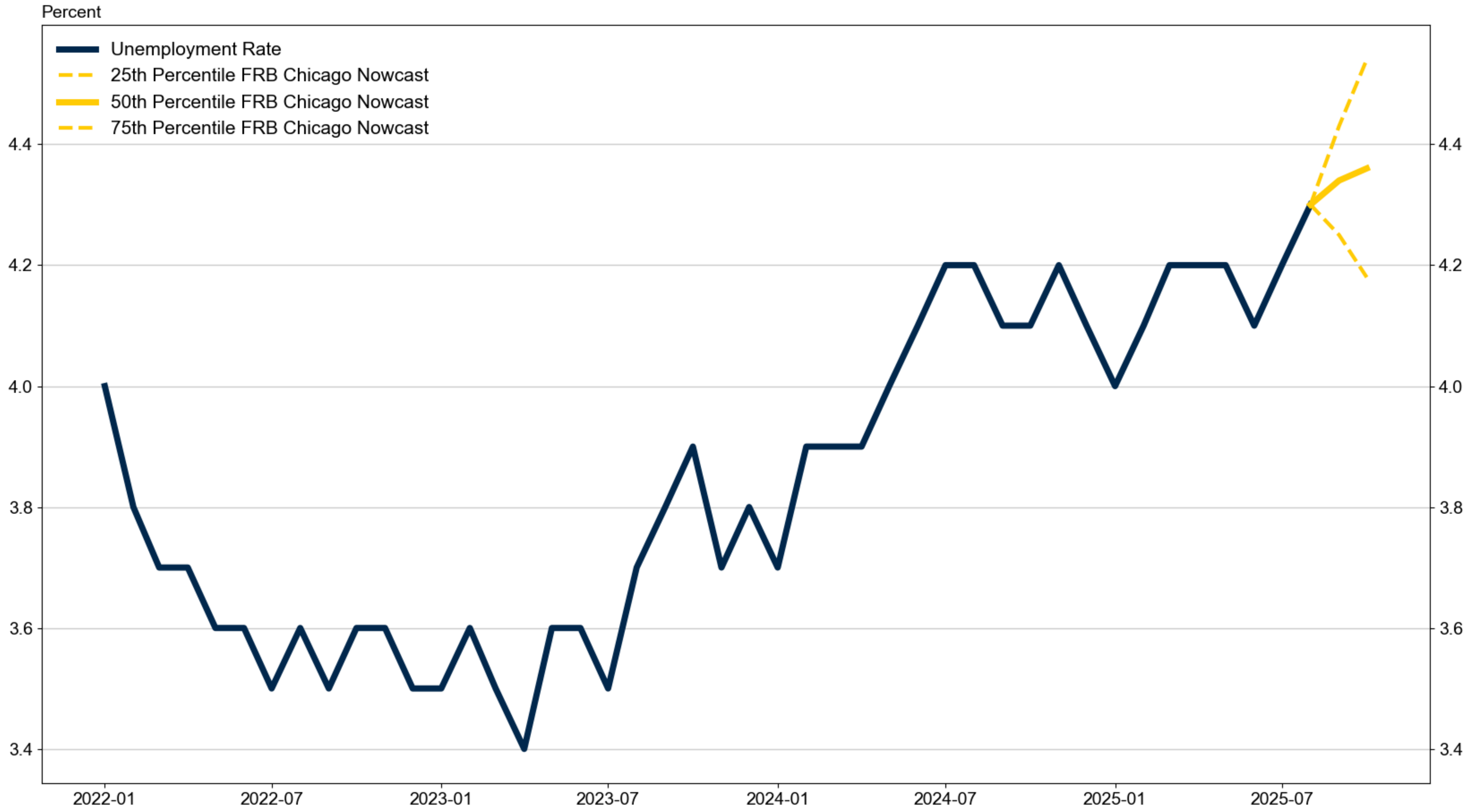
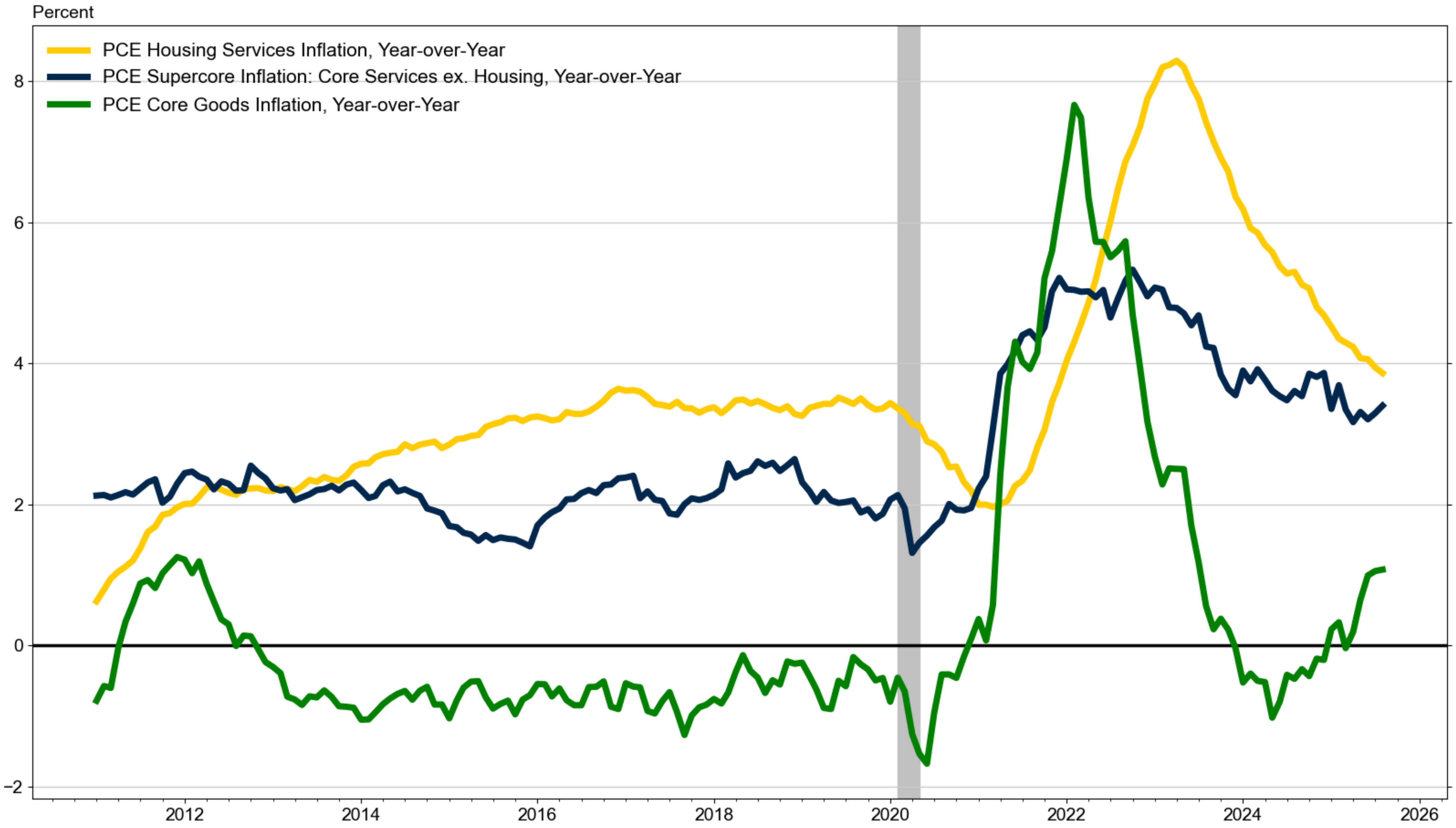
Unemployment Claims and WARN Notices



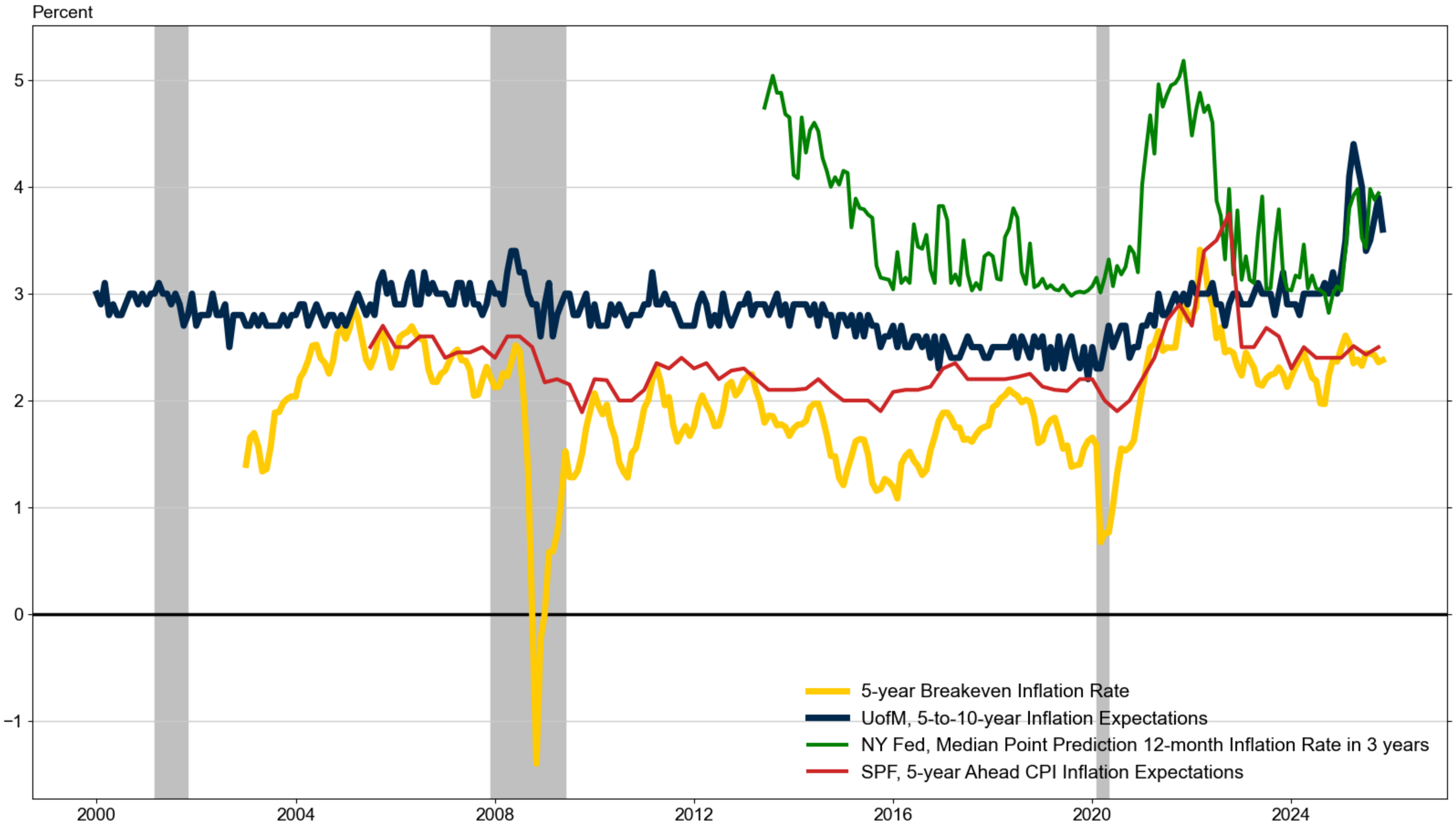
Unemployment Rate and FRB Chicago Nowcast



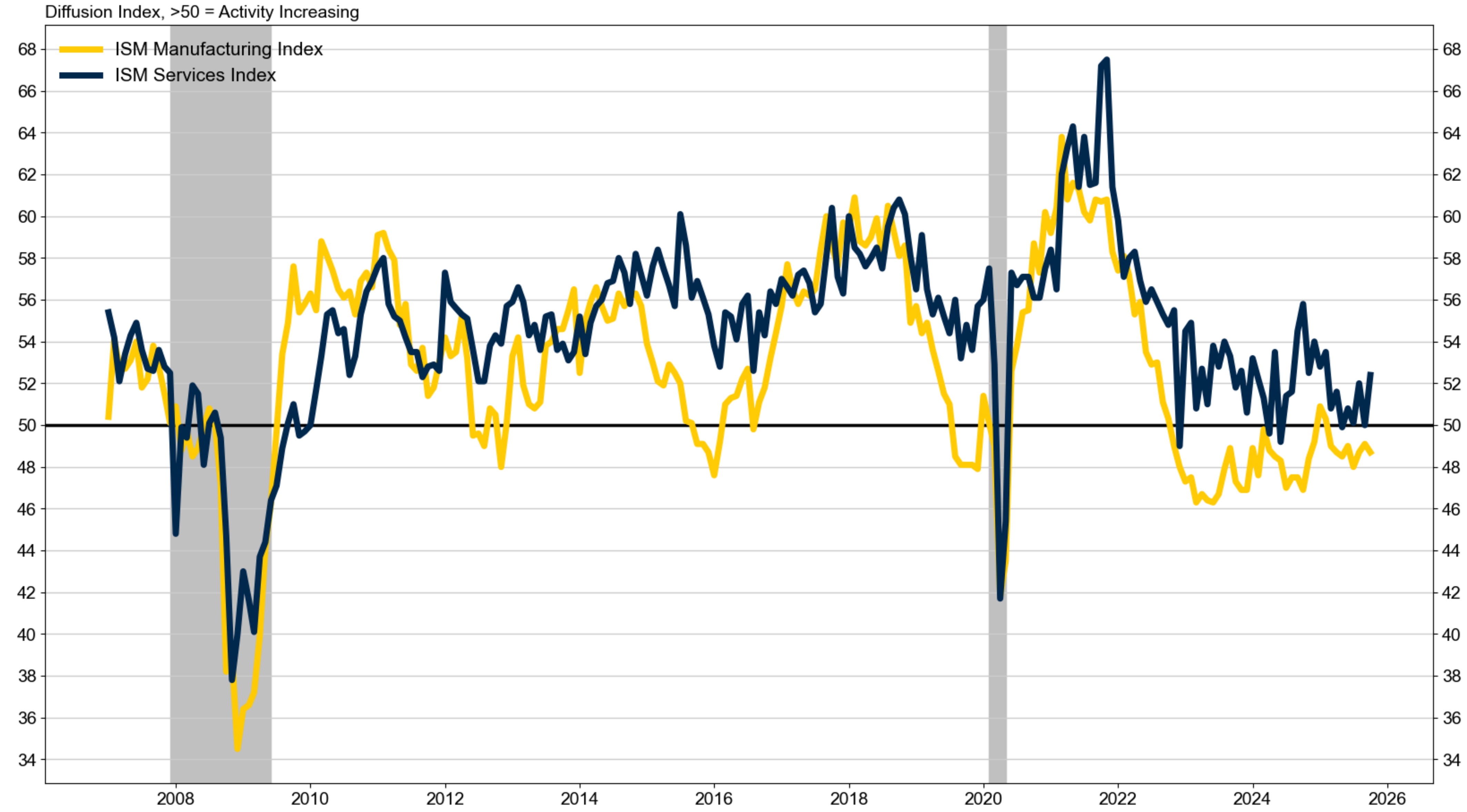
Core PCE Inflation Components



Inflation Expectations



Institute for Supply Management Indices



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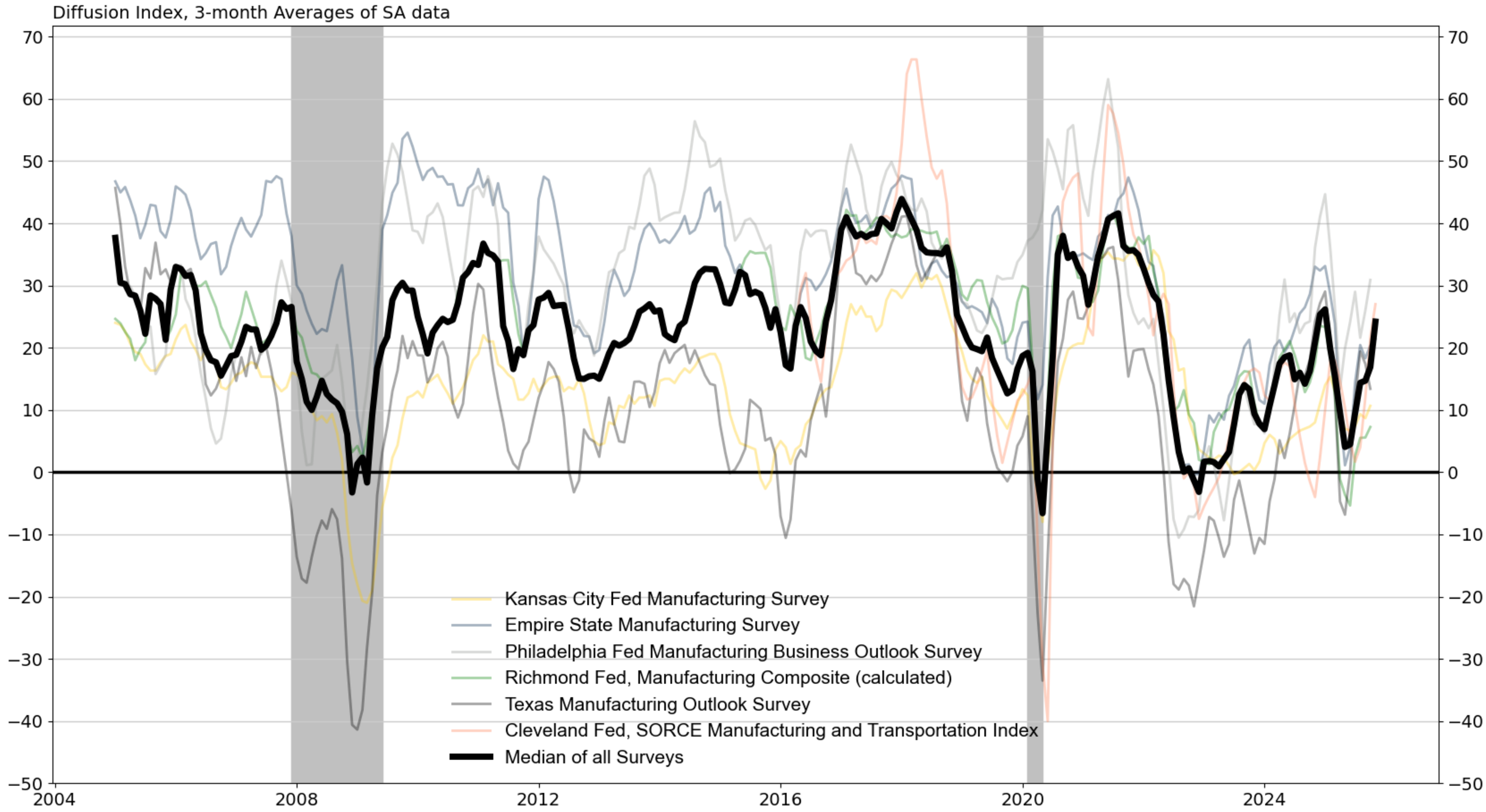
Regional Fed 6-mo Ahead Manufacturing Indices



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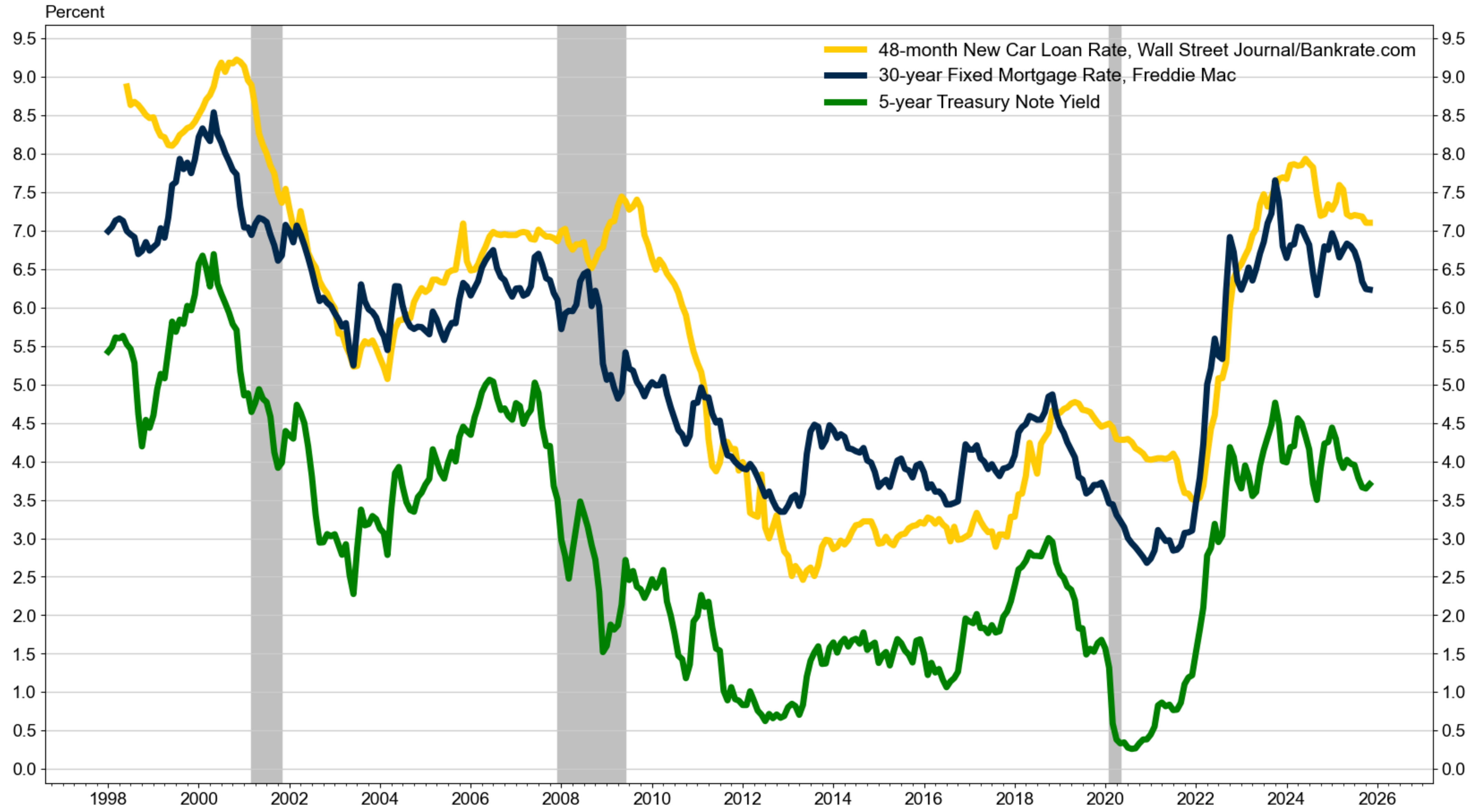
Selected Interest Rates



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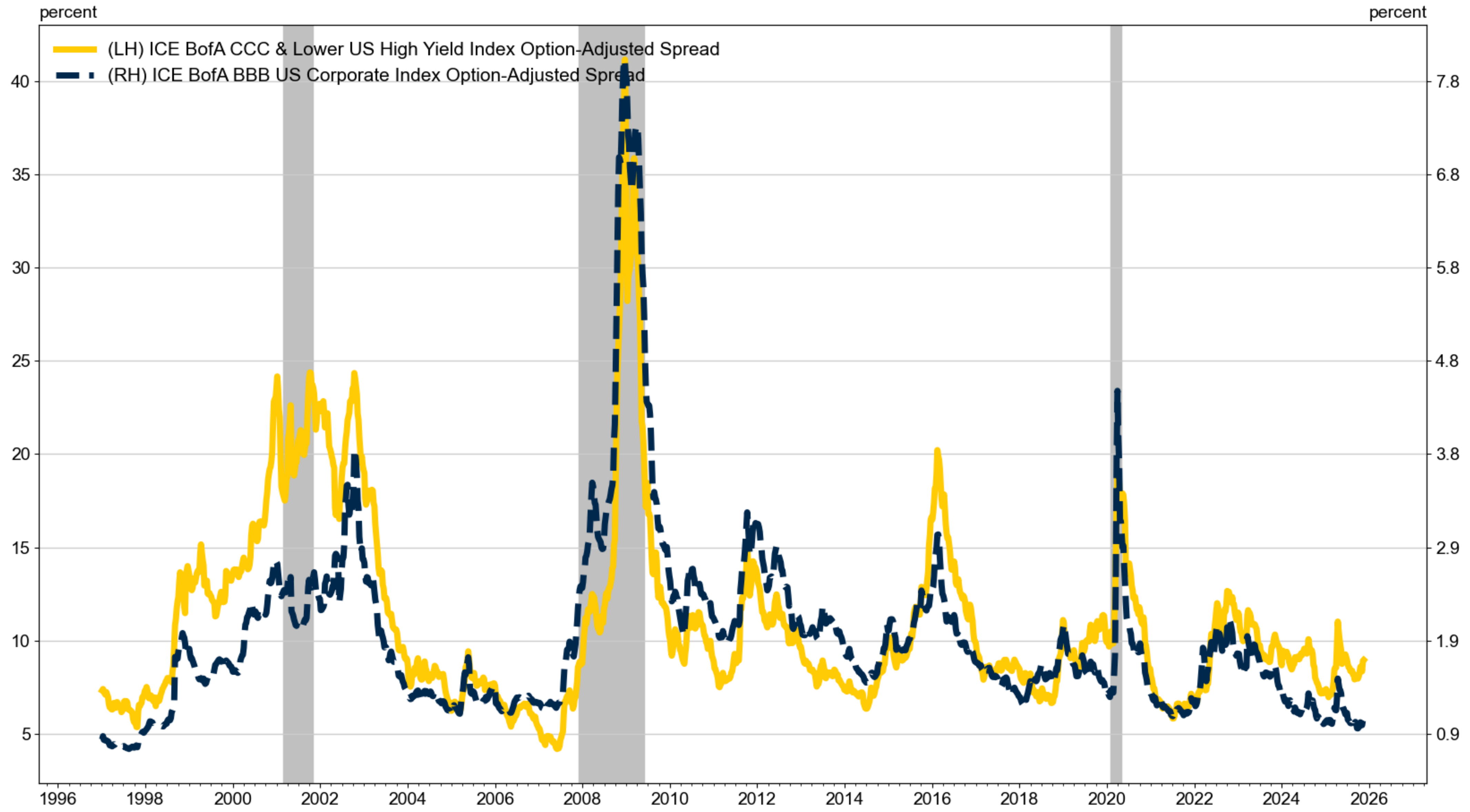
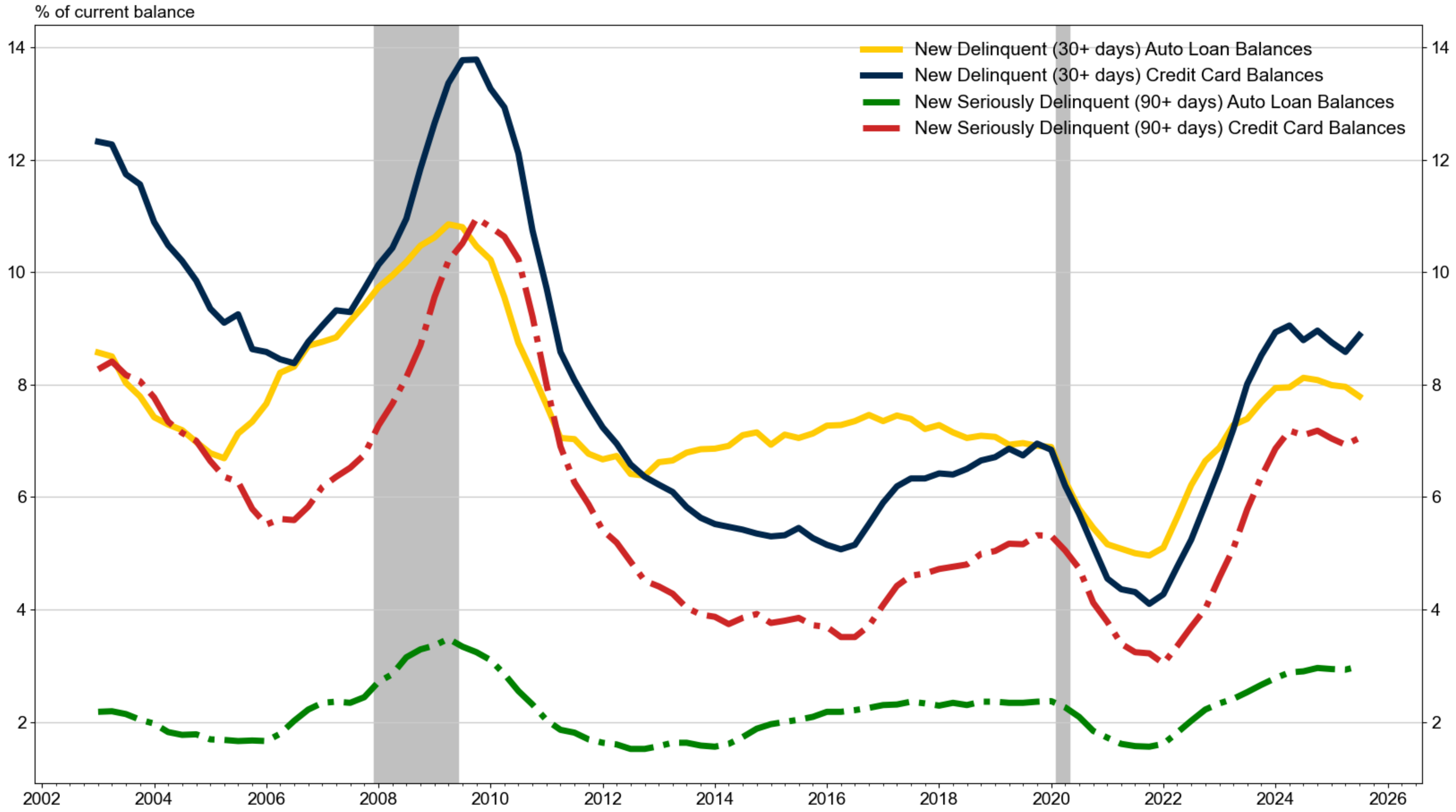
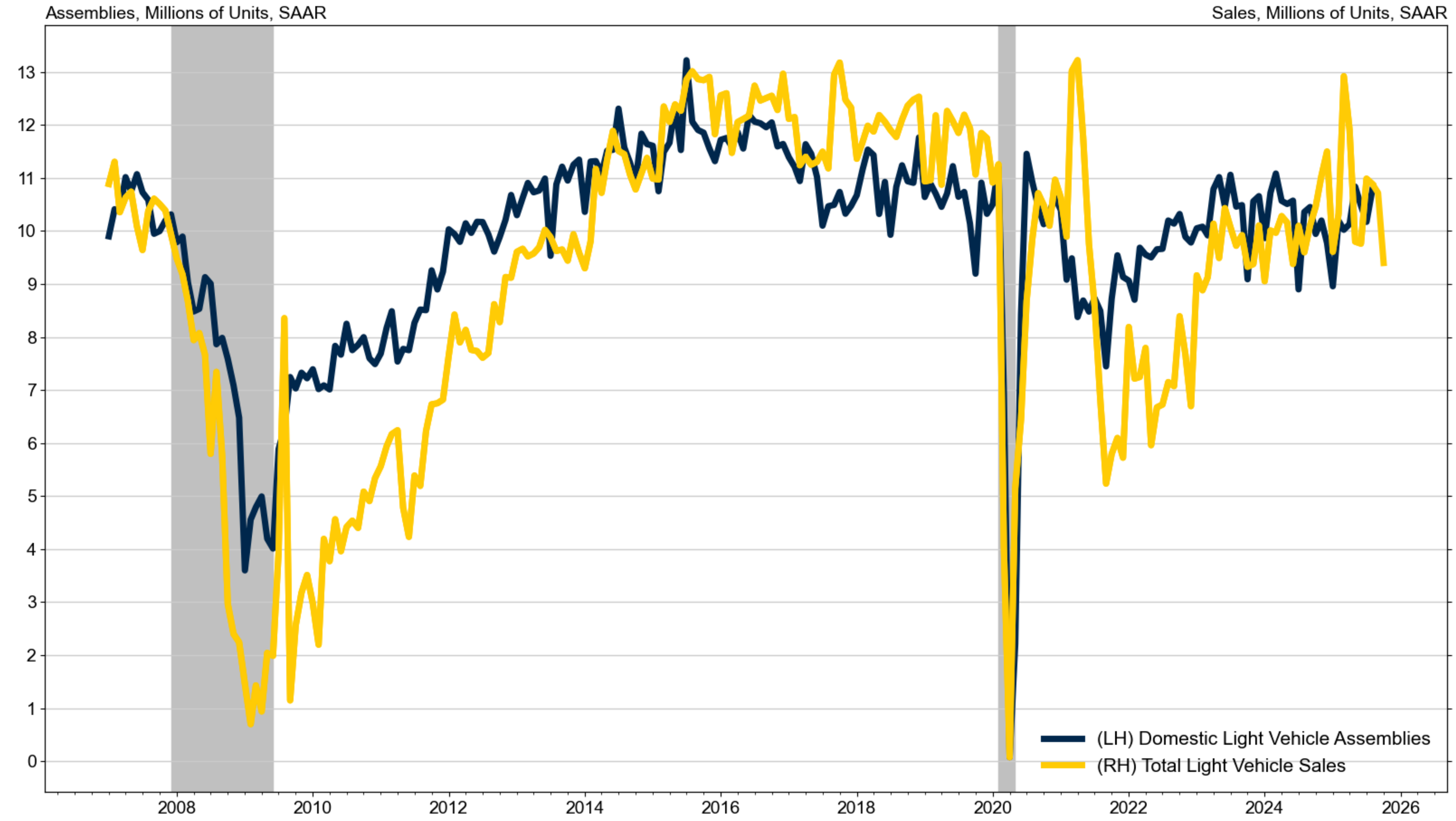
Risk Measures



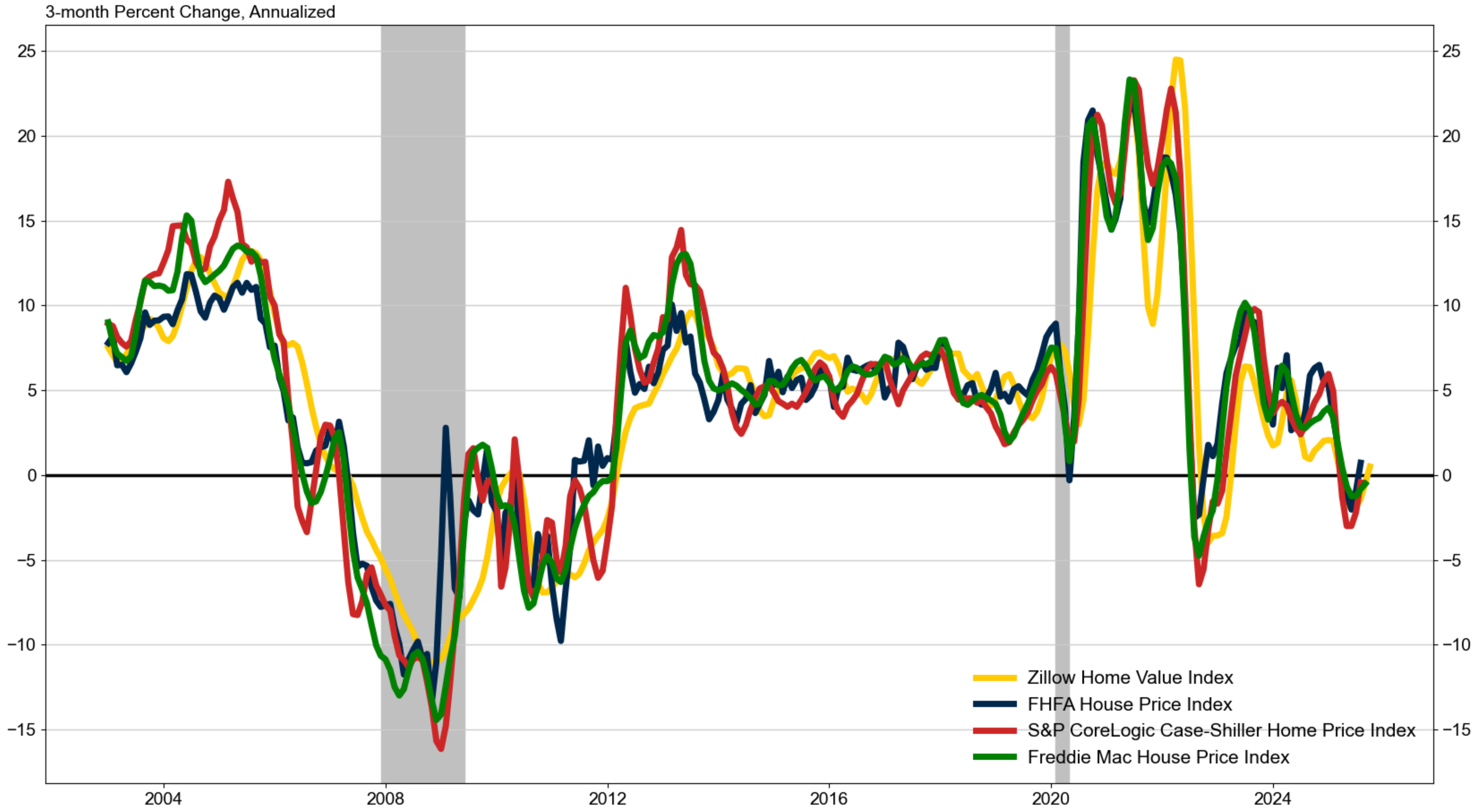
NY Fed Consumer Credit Panel



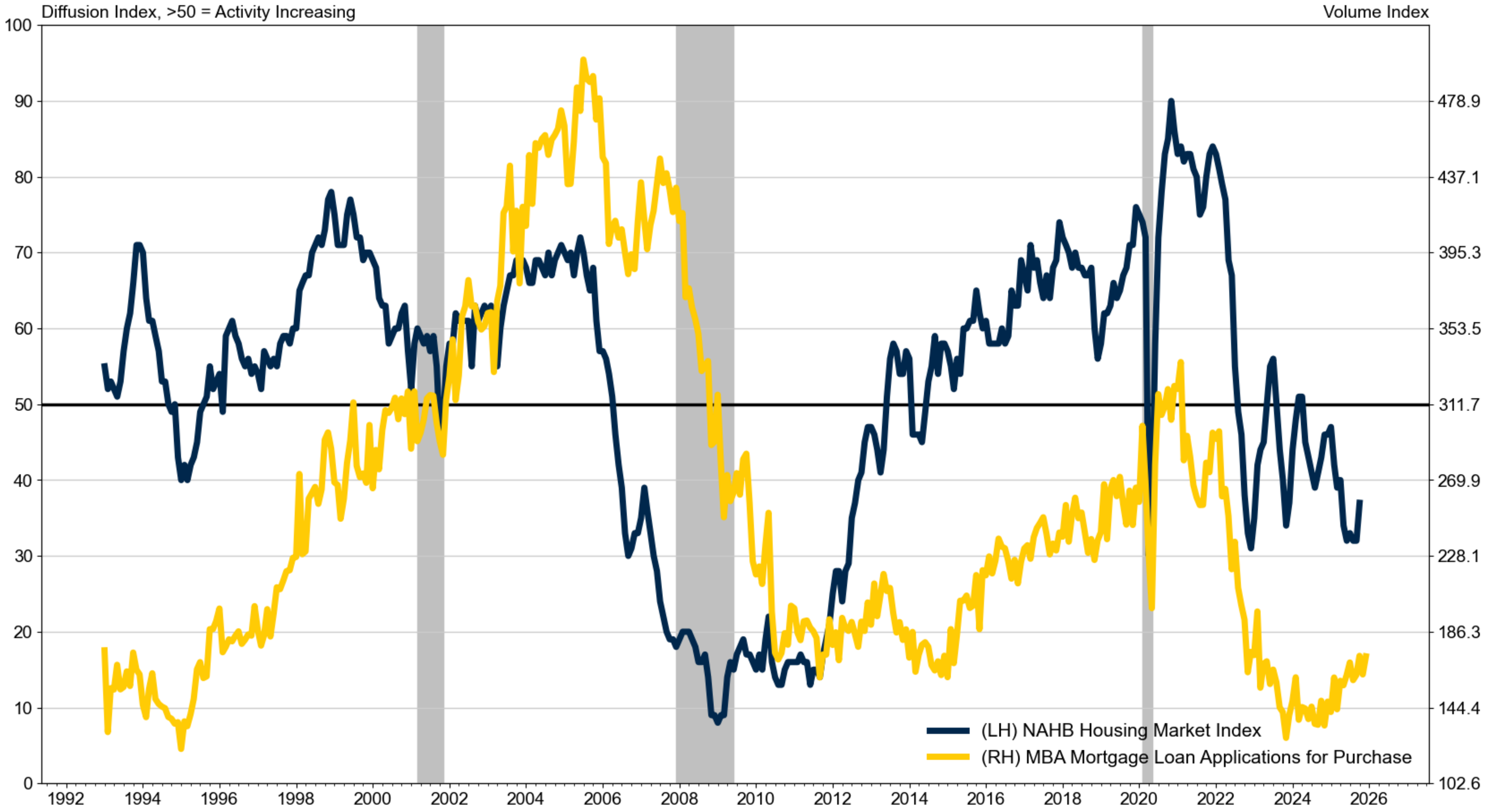
Light Vehicle Sales and Domestic Assemblies



Home Price Inflation



Residential Market Metrics



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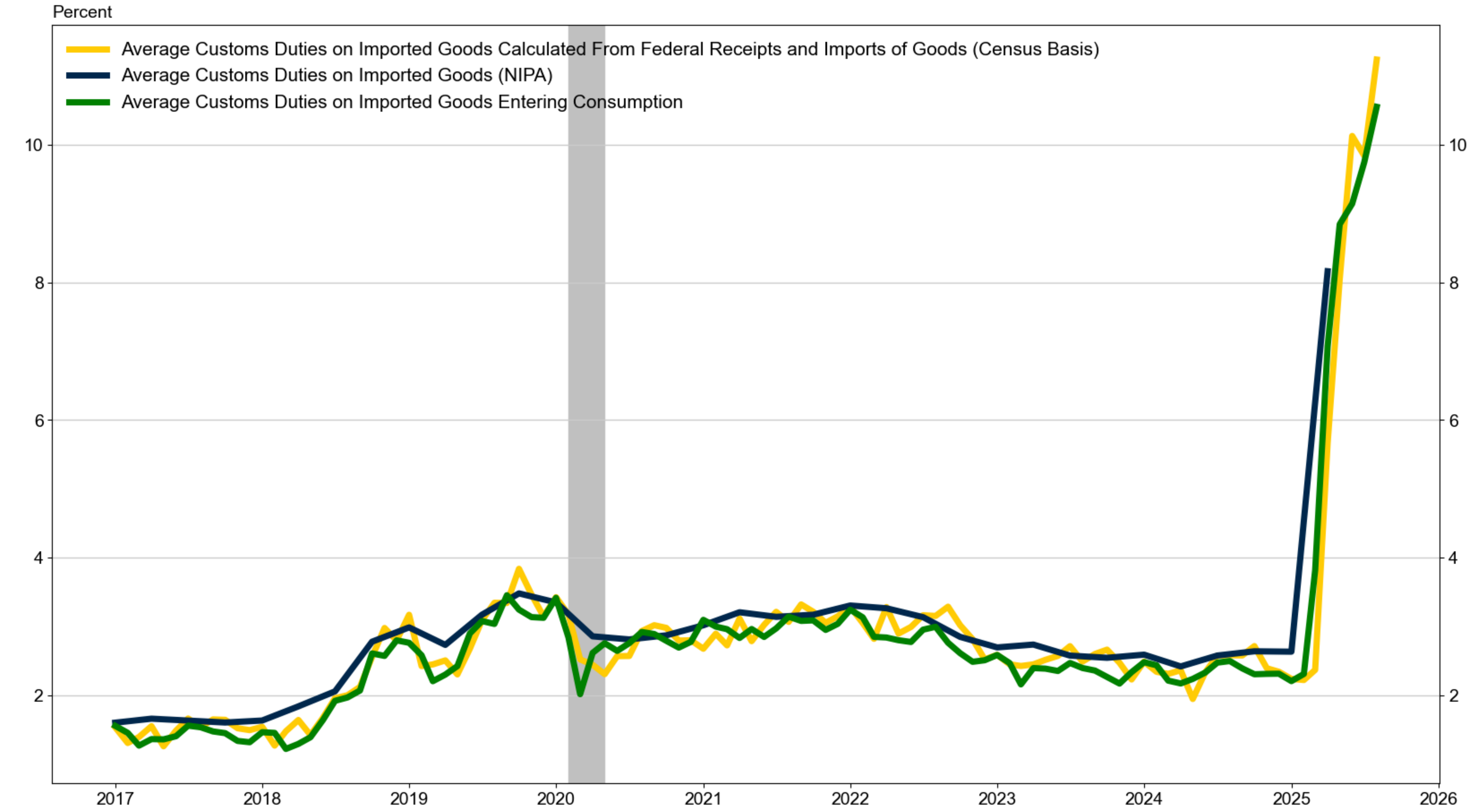
Inputs

Trade Policy

- Hopefully more predictable now
- Further deals/rate reductions possible, more exemptions likely
- Further Sect.232 investigations could result in sectoral tariffs
  - Pharmaceuticals, semiconductors, jet engines
- Effective tariff rate so far substantially below weighted averages of statutory rates
  - Businesses likely quickly reoptimized import flows and also fully took advantage of exemptions and tariff differentials
- We expect effective tariff rate to stay roughly flat

Average Effective Tariff Rate on Imported Goods



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Monetary Policy

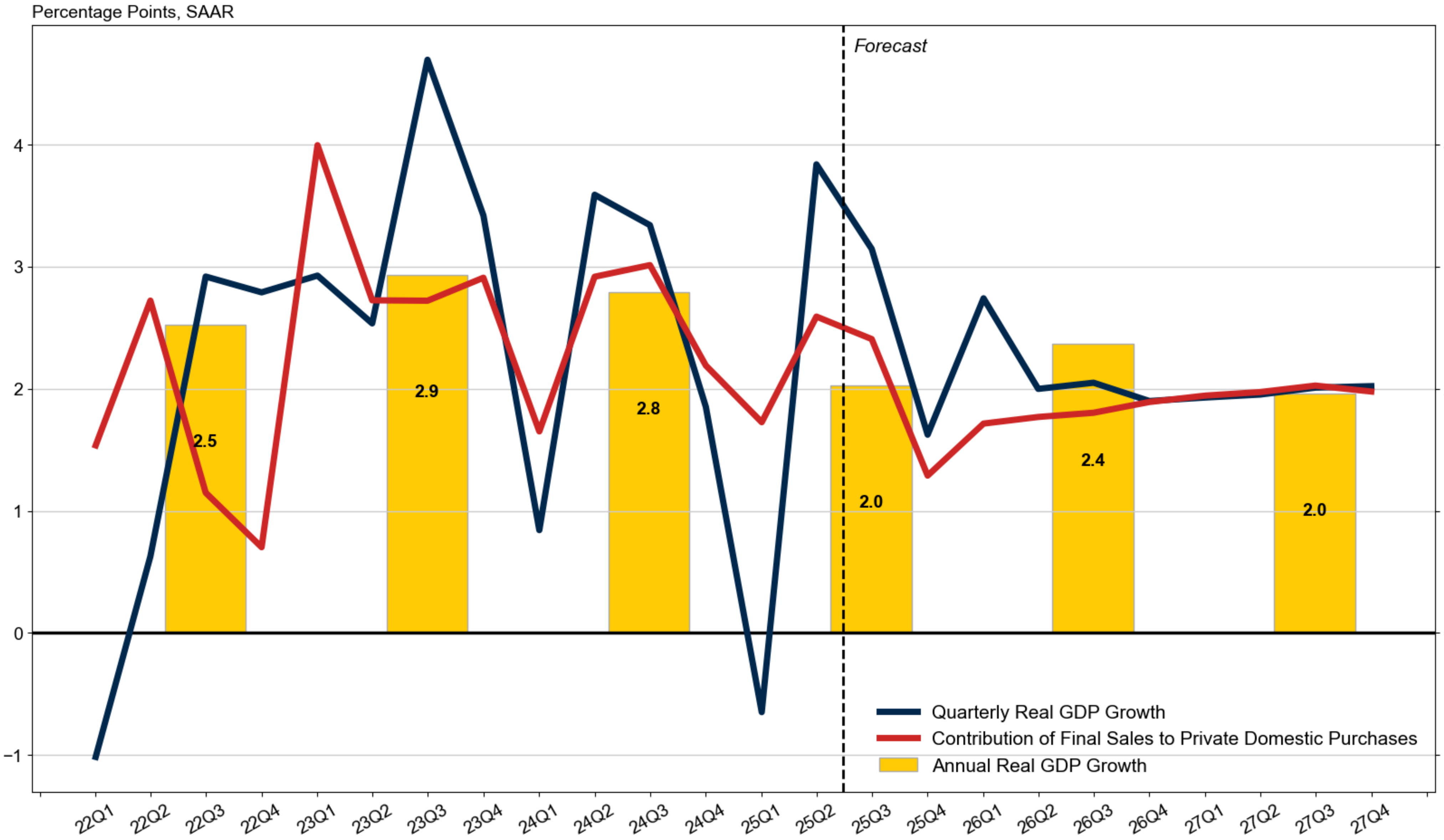
- Monetary policy stance likely still somewhat restrictive
- The Fed is in risk-management mode
  - Labor market risk vs. Inflation risk
  - October assessment: labor risk dominates
  - Dissents on both sides
  - Few new releases to sway FOMC in either direction
- We expect a gradual return to neutral (3.00–3.25) percent by mid-2026
  - Three more 25bps cuts

Fiscal Policy

- Little fiscal actions since OBBBA
- Federal shutdown – a 0.6 percentage point drag on 25Q4 real GDP
  - Largely due to missing real value added of furloughed workers, measured by real compensation
  - Back on trend in 2026Q1
  - We do not project another shutdown
- Unclear if Congressional Republicans will attempt another reconciliation bill
  - No clear goal yet
- Divided government may return in 2027

U.S. Forecast

Economic Growth Forecast



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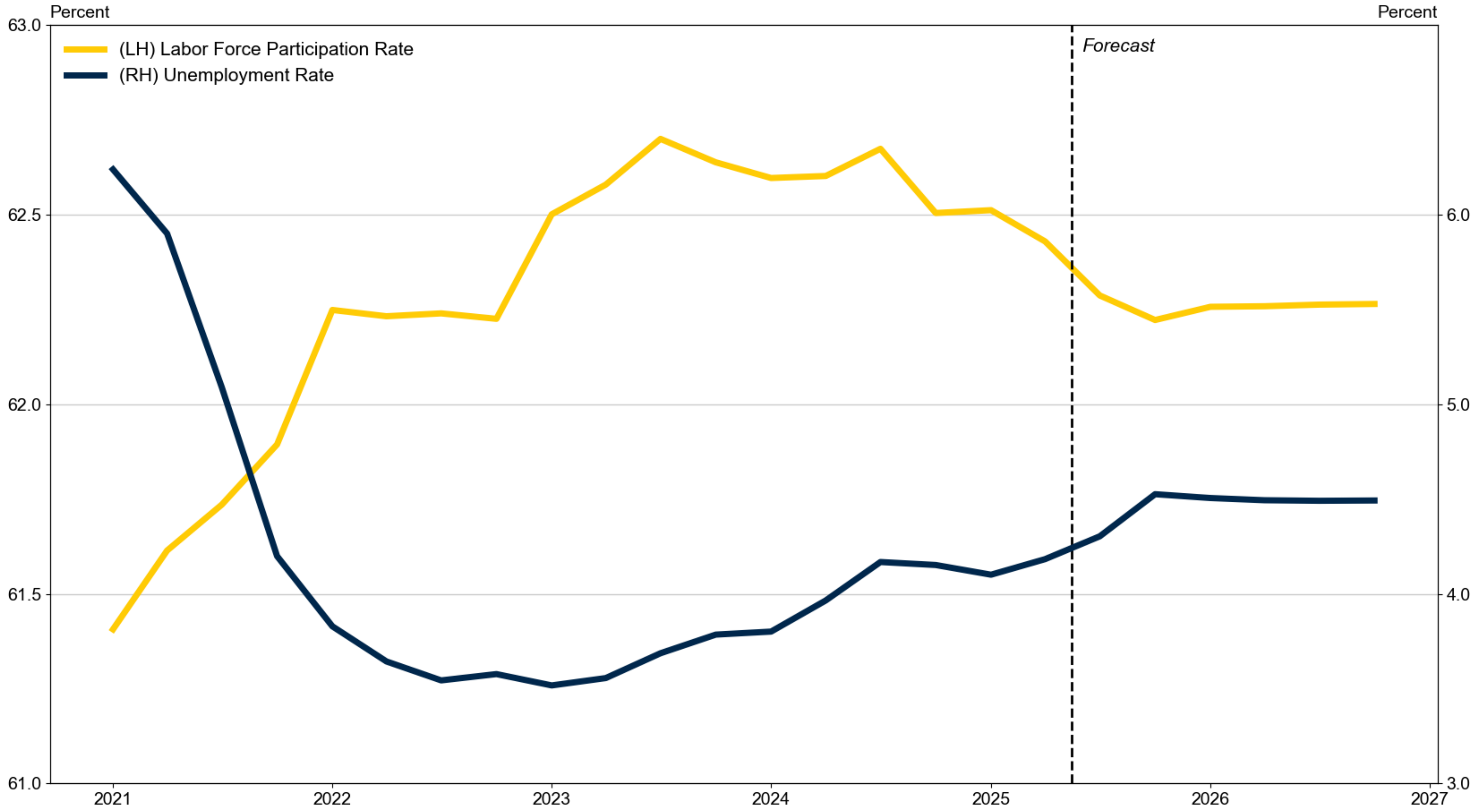
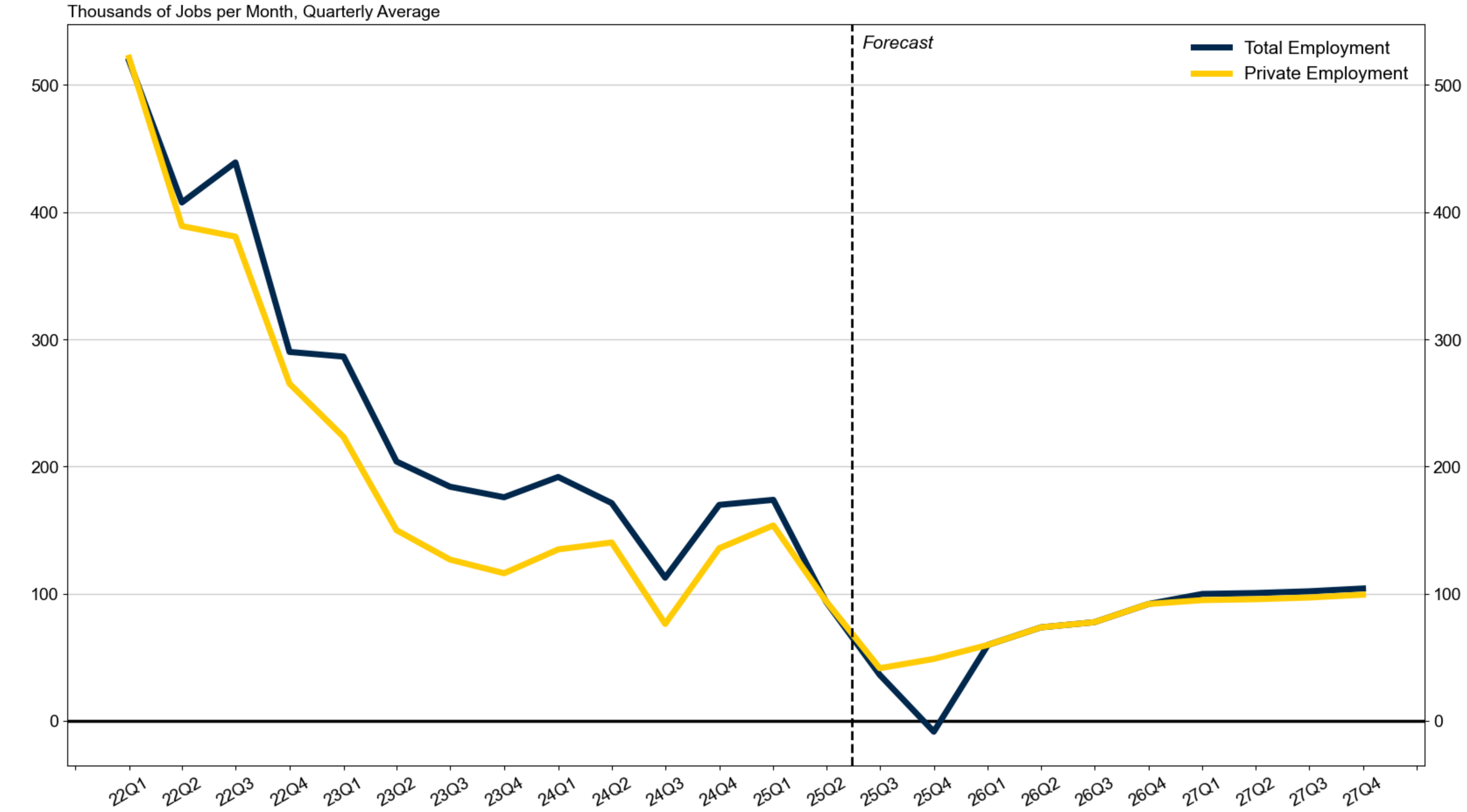
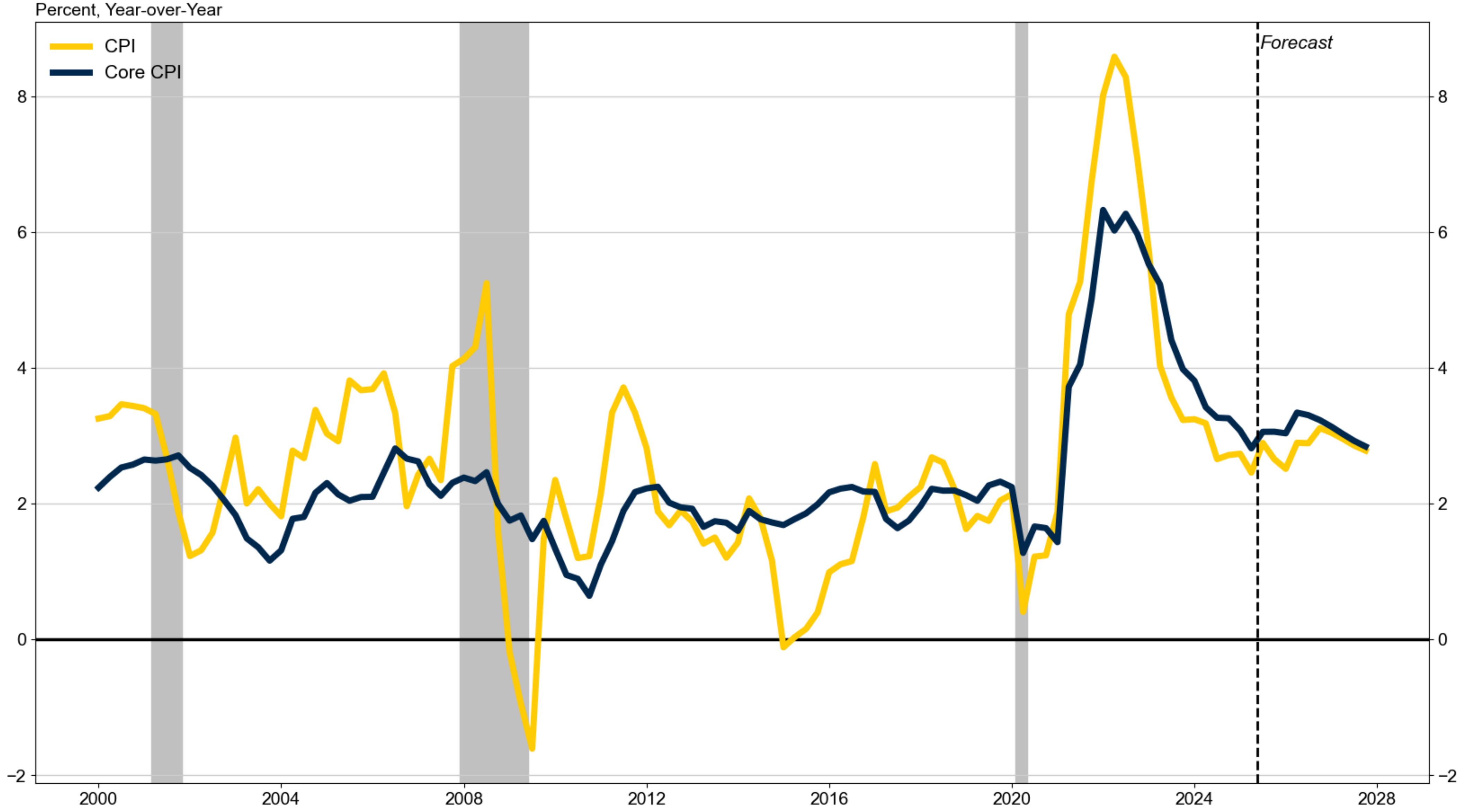
Unemployment and Labor Force



Total and Private Employment Change



Consumer Price Inflation (CPI-U)



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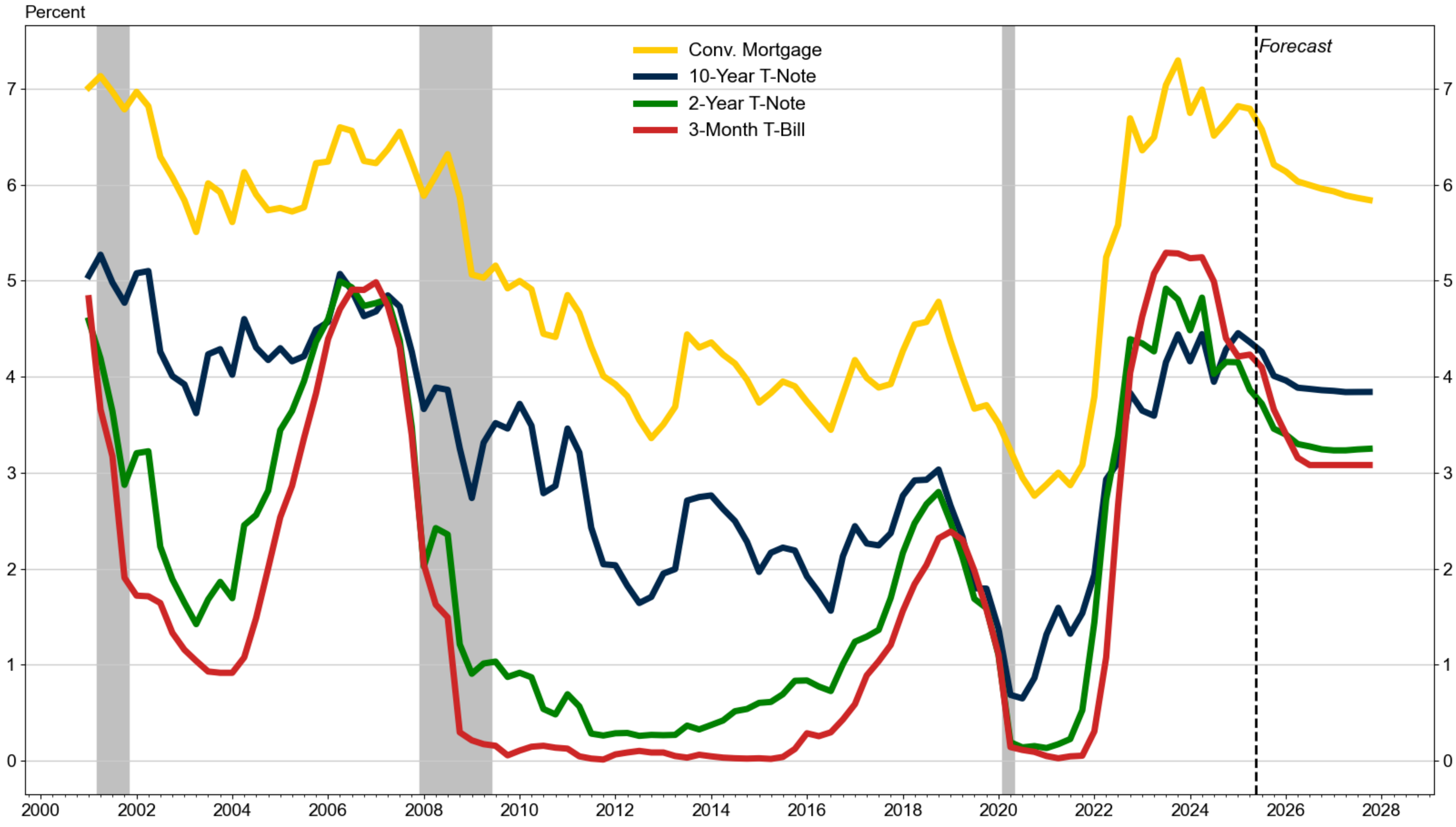
Interest Rates



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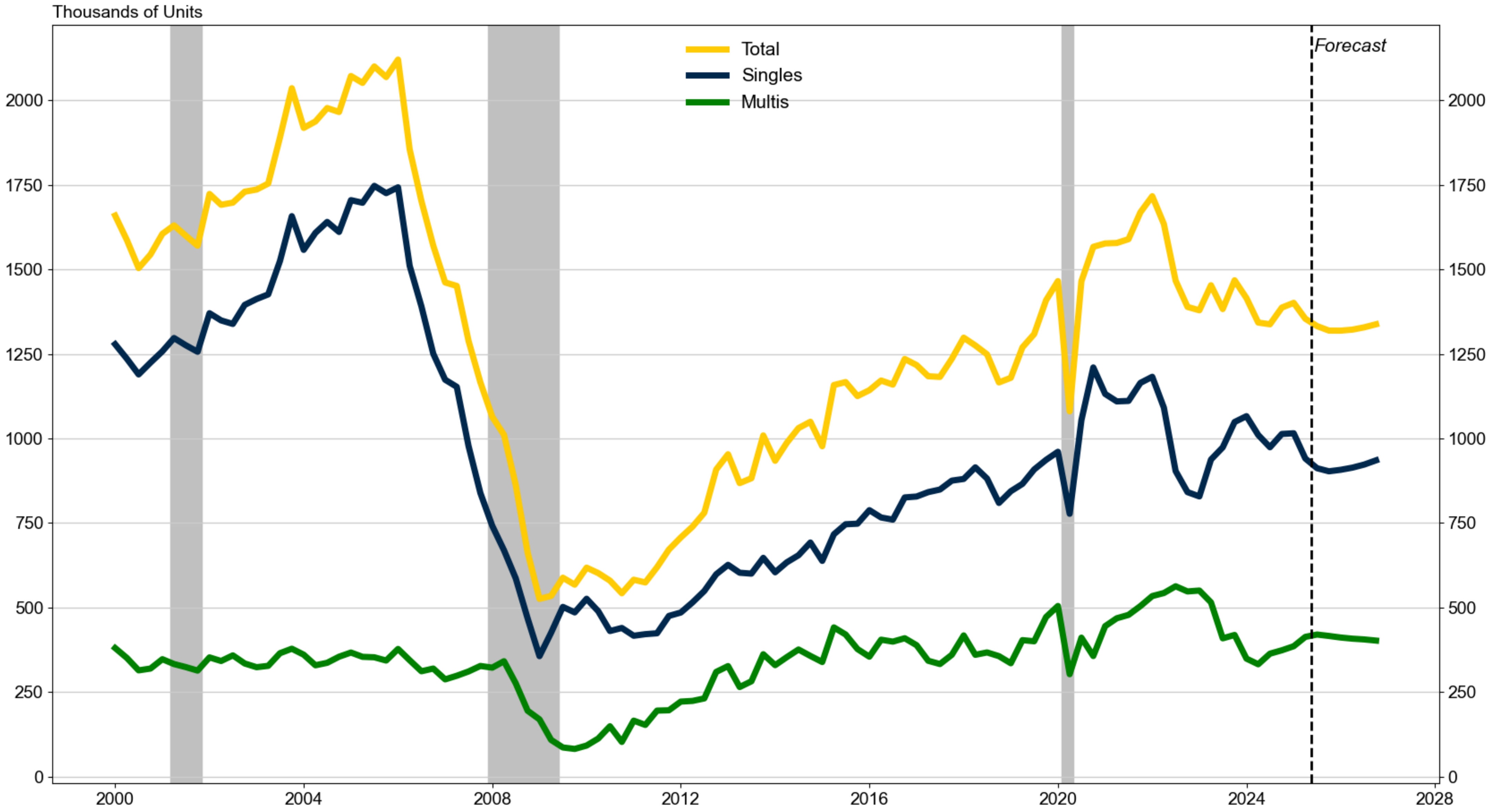
Housing Starts



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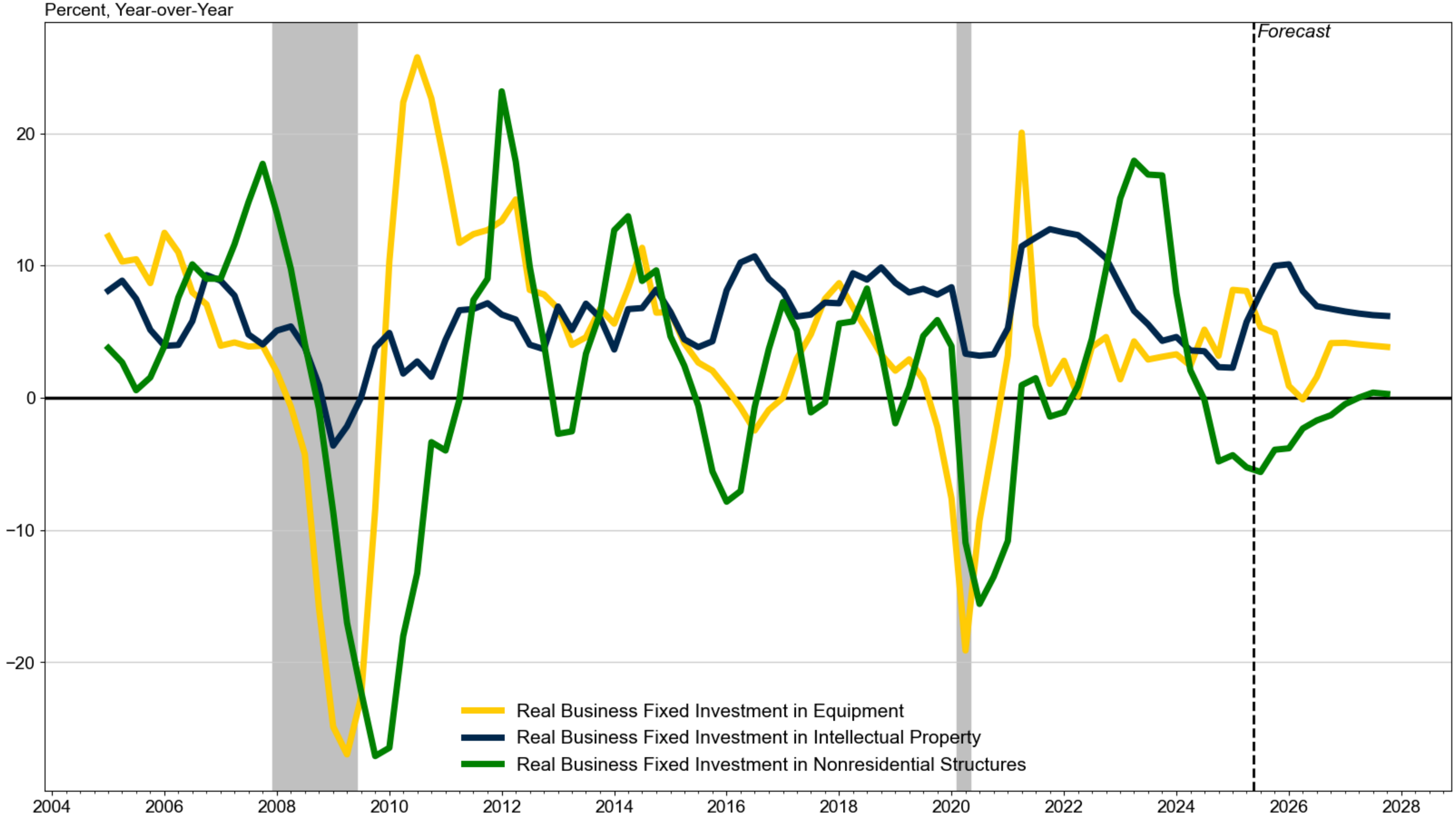
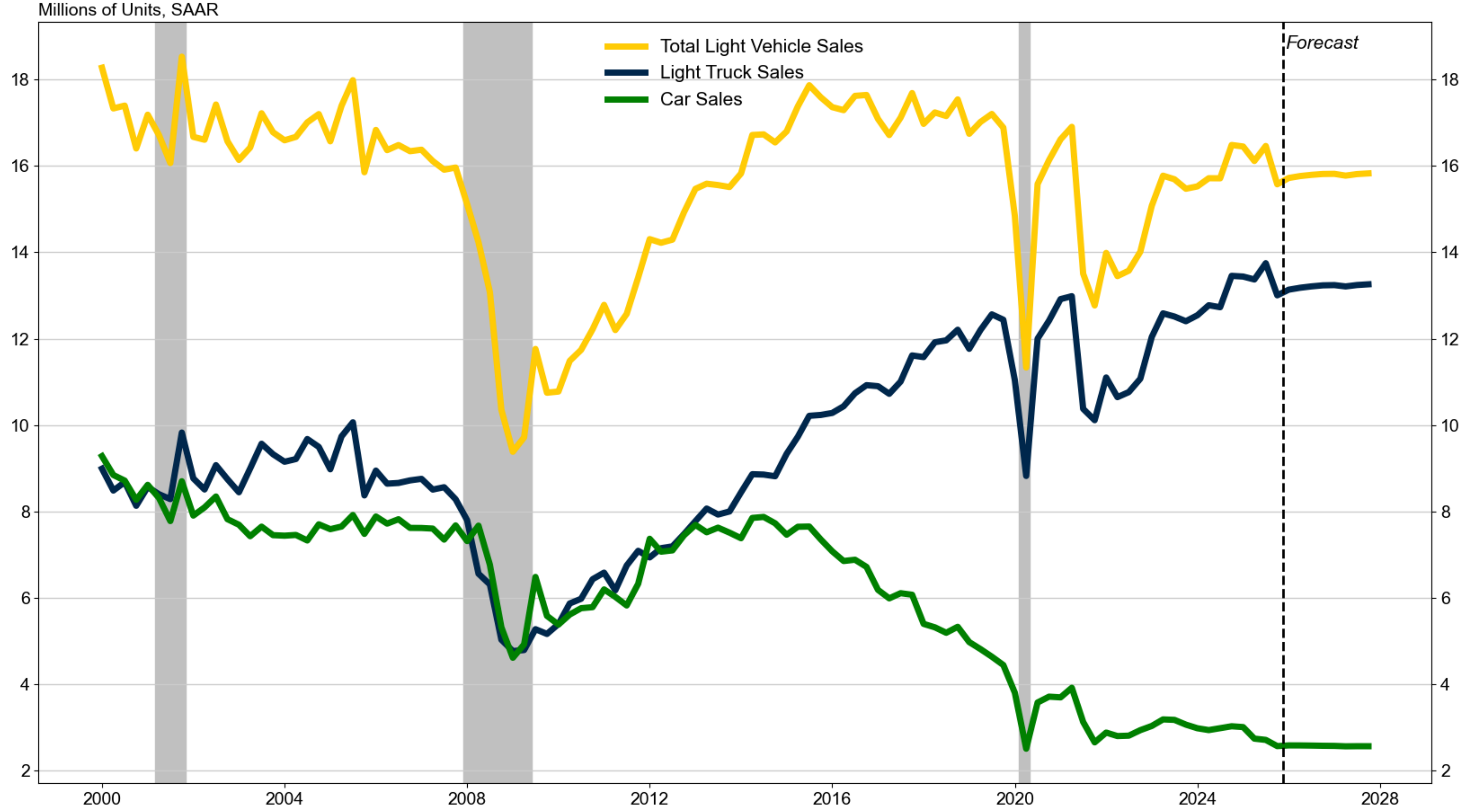
Real Business Fixed Investment Growth



Light Vehicle Sales



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Risks

- Misreading economic momentum
- Immigration
- Trade
- Monetary policy missteps. Changing FOMC stance
- Fiscal Action
- AI
- Geopolitical environment

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