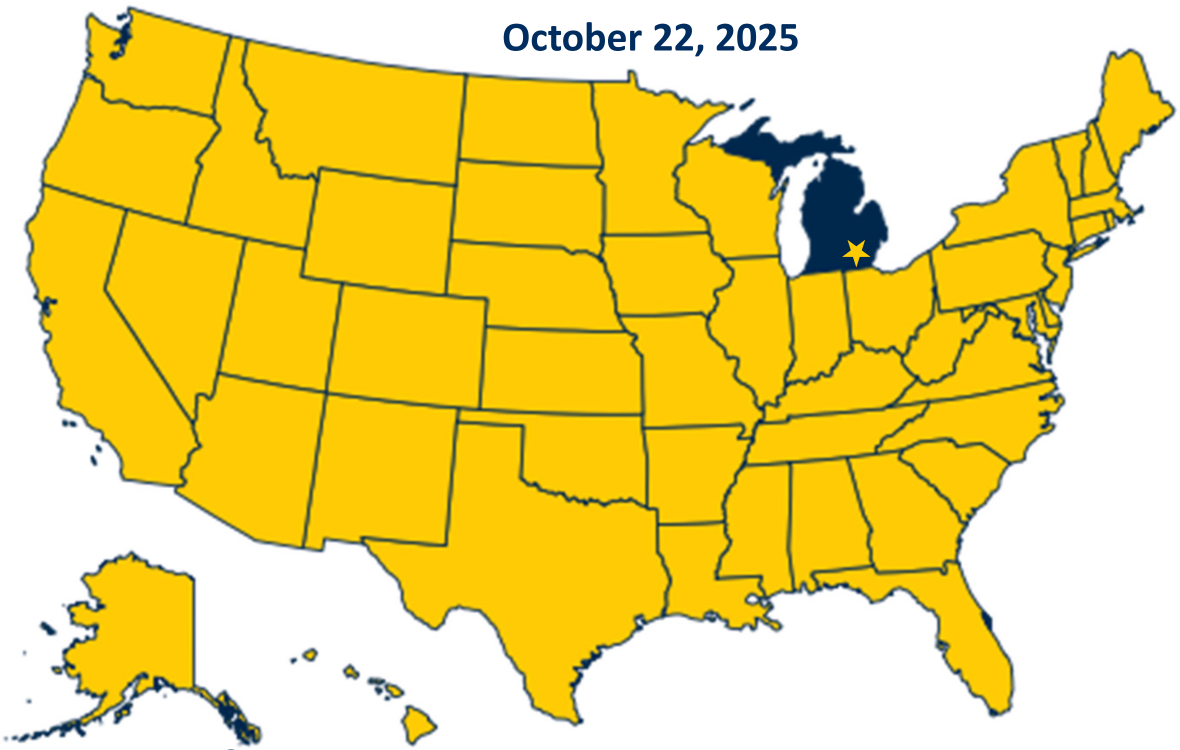
The Economic Outlook for 2025–2027
40th Annual REMI Users' Conference
Ann Arbor, Michigan

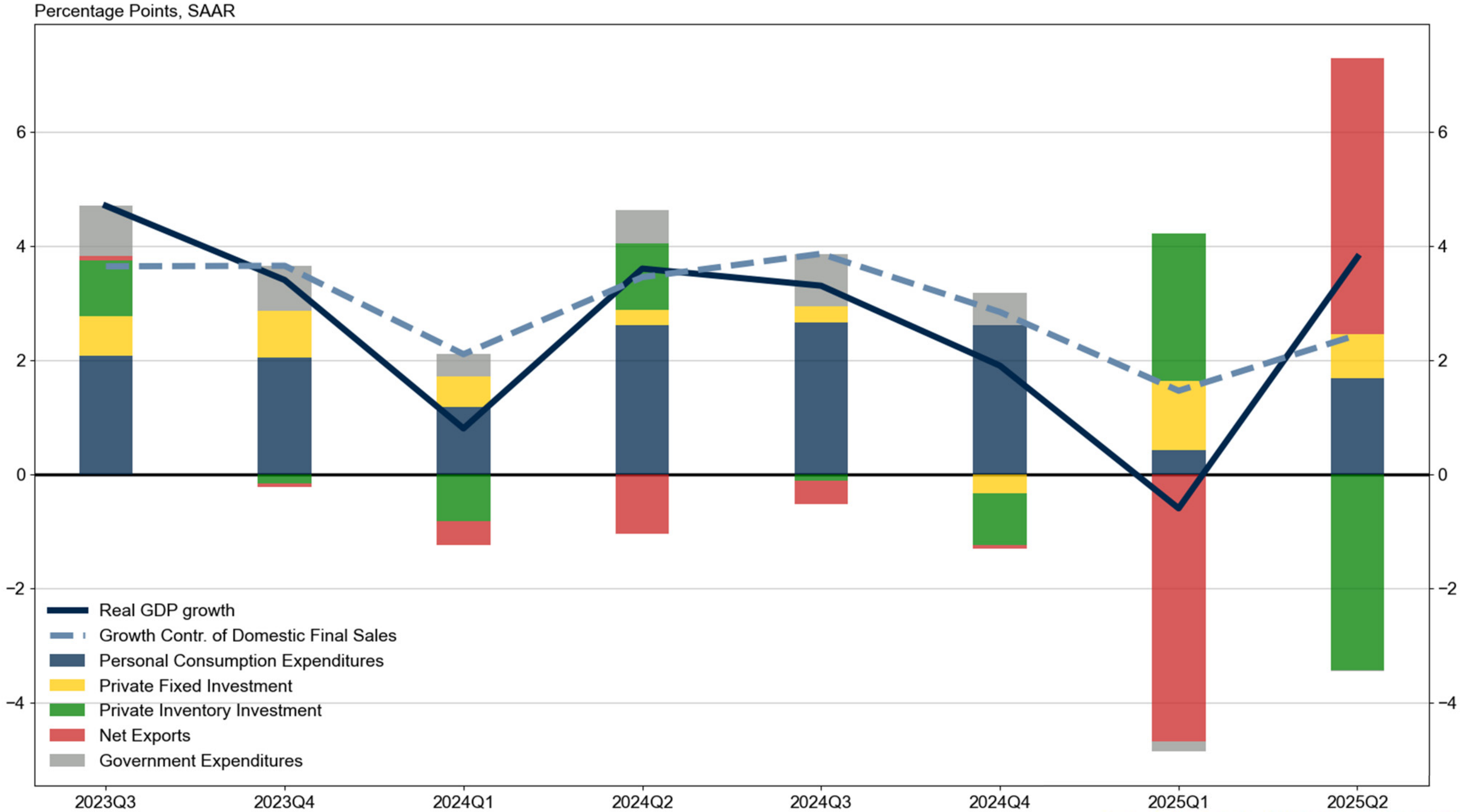
October 22, 2025



Research Seminar in Quantitative Economics

Current State of the U.S. Economy

Real GDP Growth: Trend Is Steadier Than Headline



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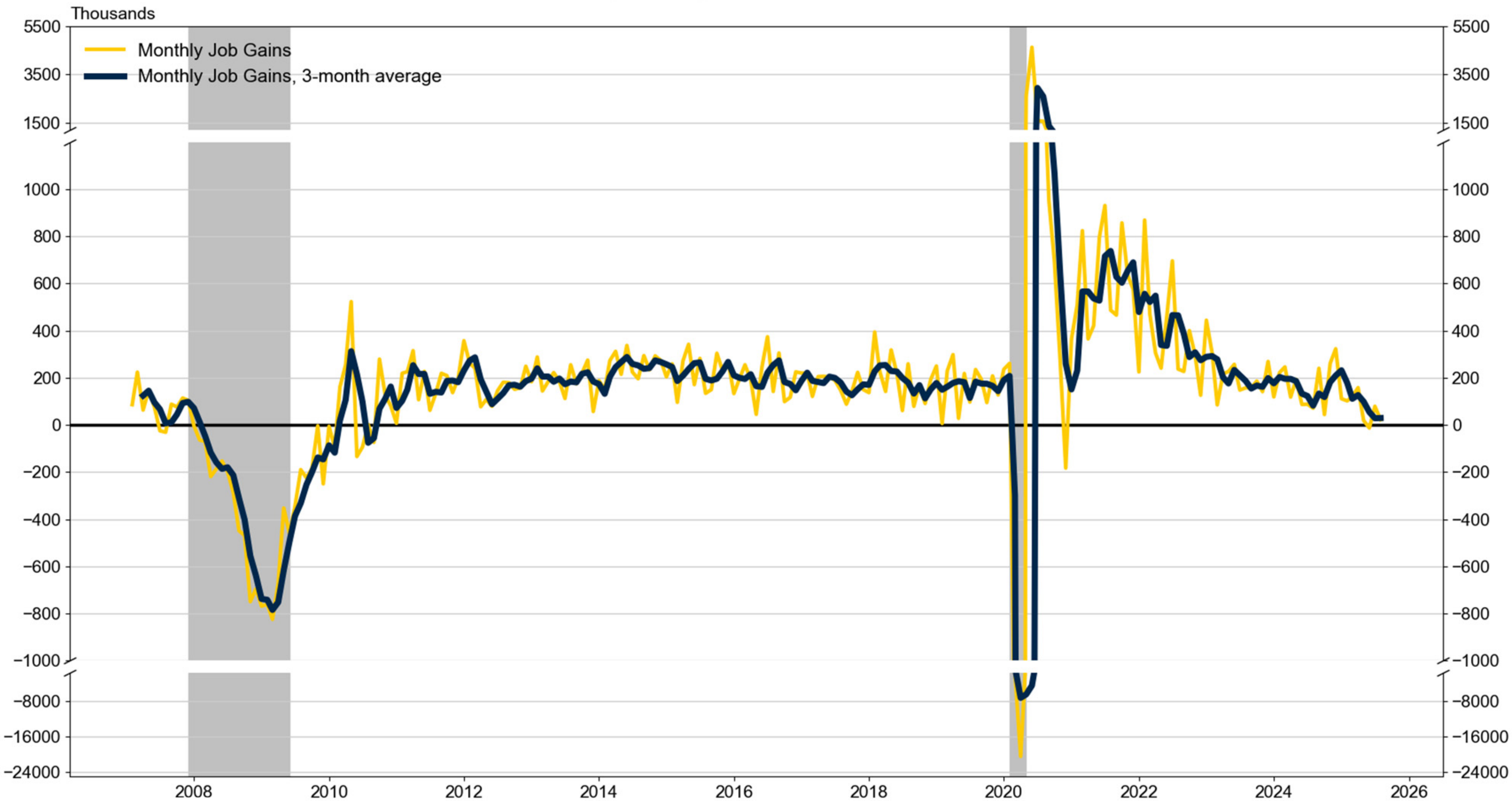
Monthly Payroll Job Gains Slowing Down



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Unemployment Rate Mostly Steady

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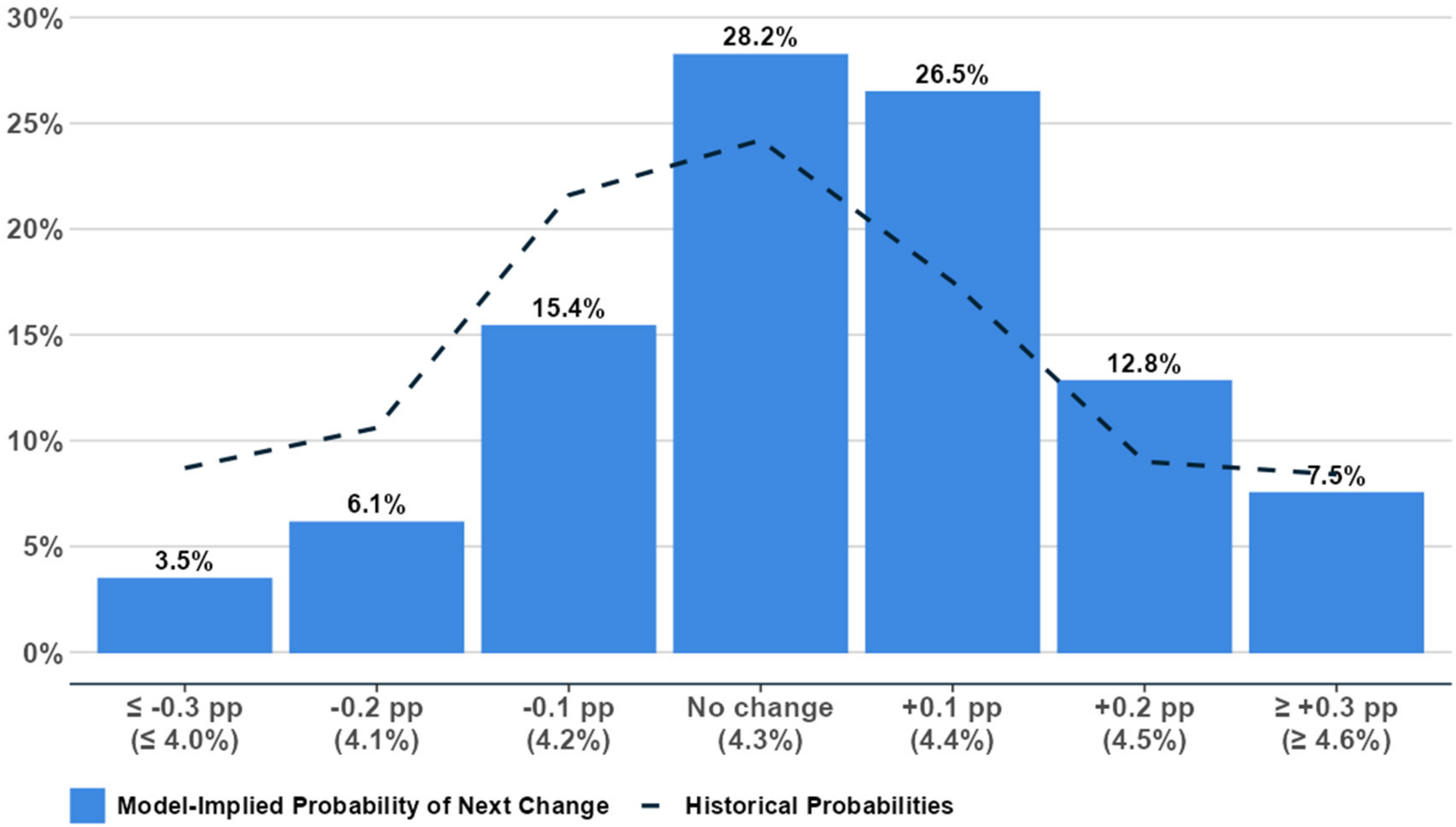
September 2025 BLS Unemployment Rate Probabilities

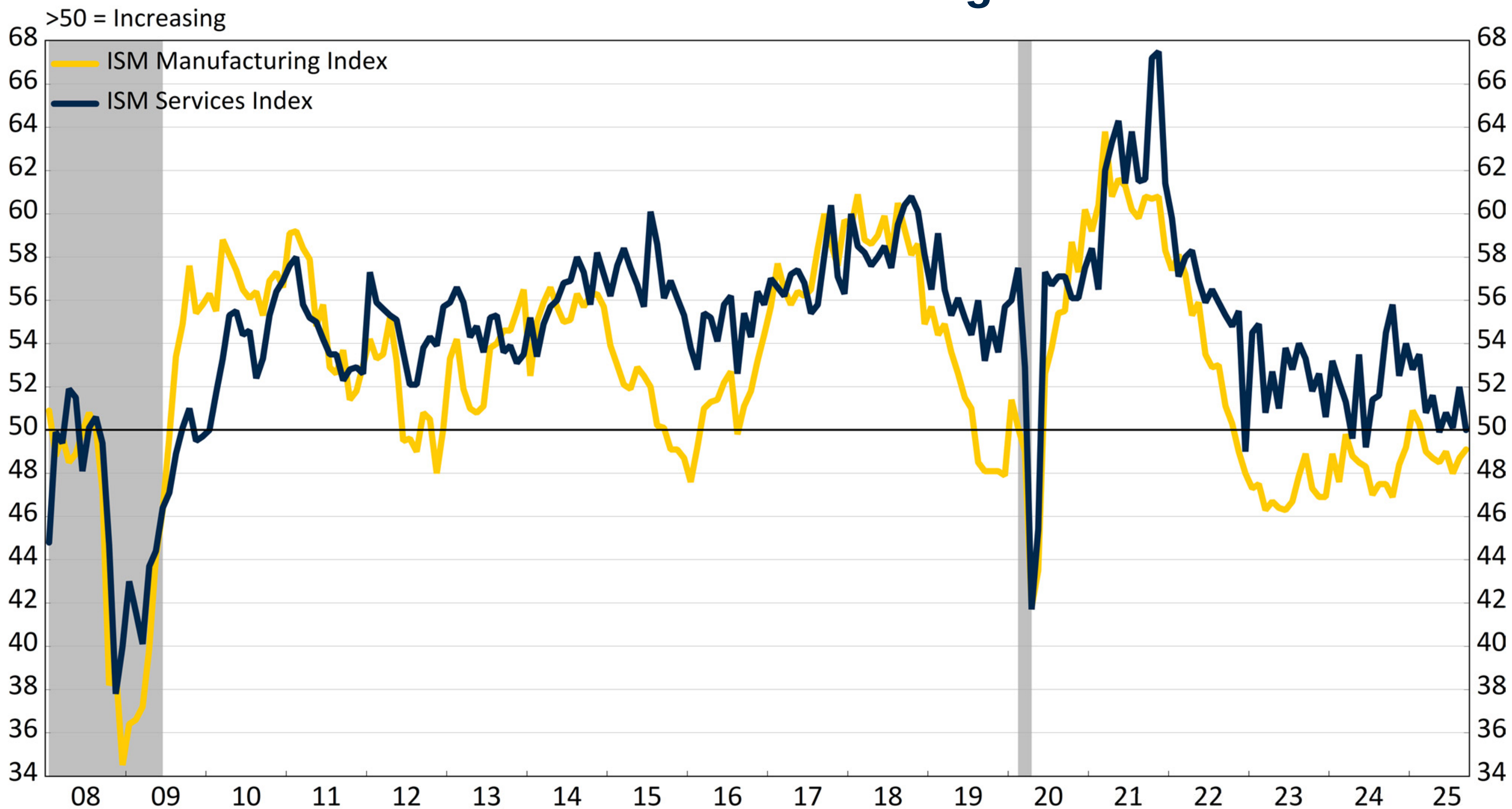


Federal Reserve Bank of Chicago

Notes: Model-implied probability is for the change in the rounded Chicago Fed real-time forecast relative to the most recent BLS unemployment rate. Changes on the x-axis are denoted in percentage points (pp). The dashed line represents the historical distribution of changes in the BLS unemployment rate since the series began in Jan 1948.

Sources: Chicago Fed staff calculations based on data from ADP, Bloomberg, The Conference Board, Google, Haver Analytics, Indeed, Lightcast, Morning Consult, and U.S. Bureau of Labor Statistics (BLS).

Institute for Supply Management Diffusion Indices: Services Are Cooling



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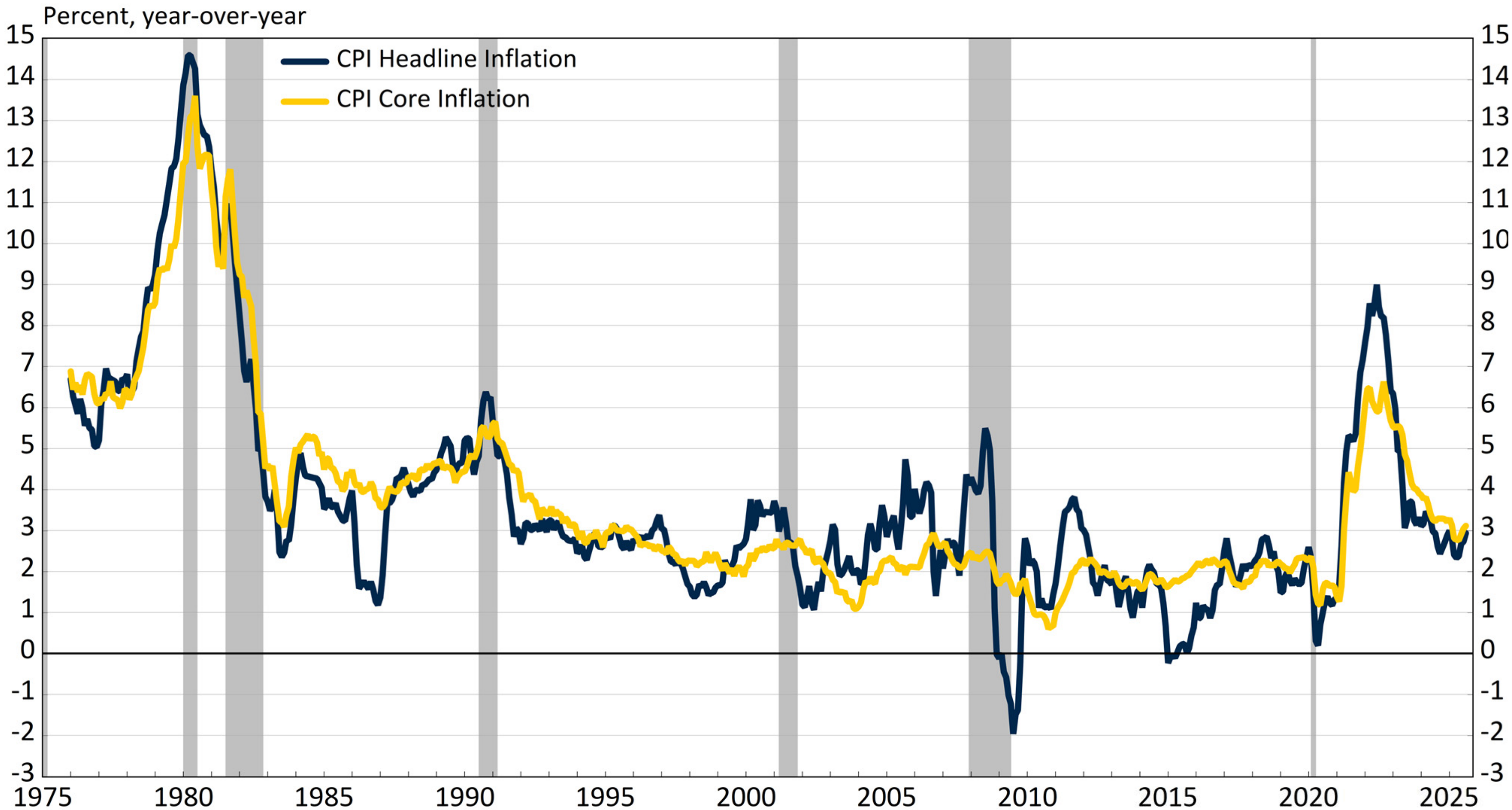
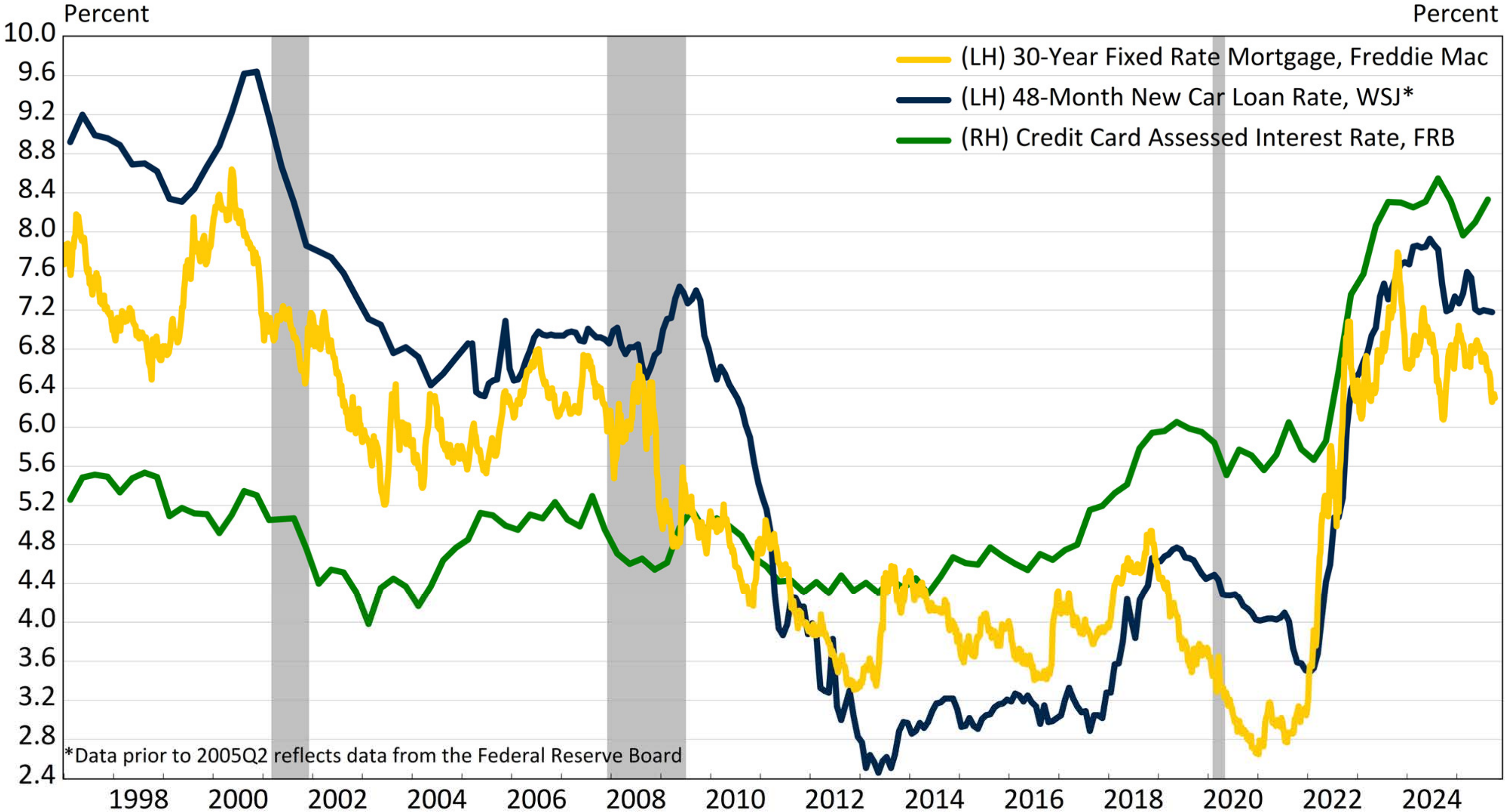
The Disinflation Process Is Stalling Out



Consumer Interest Rates Are Coming Down but Still High



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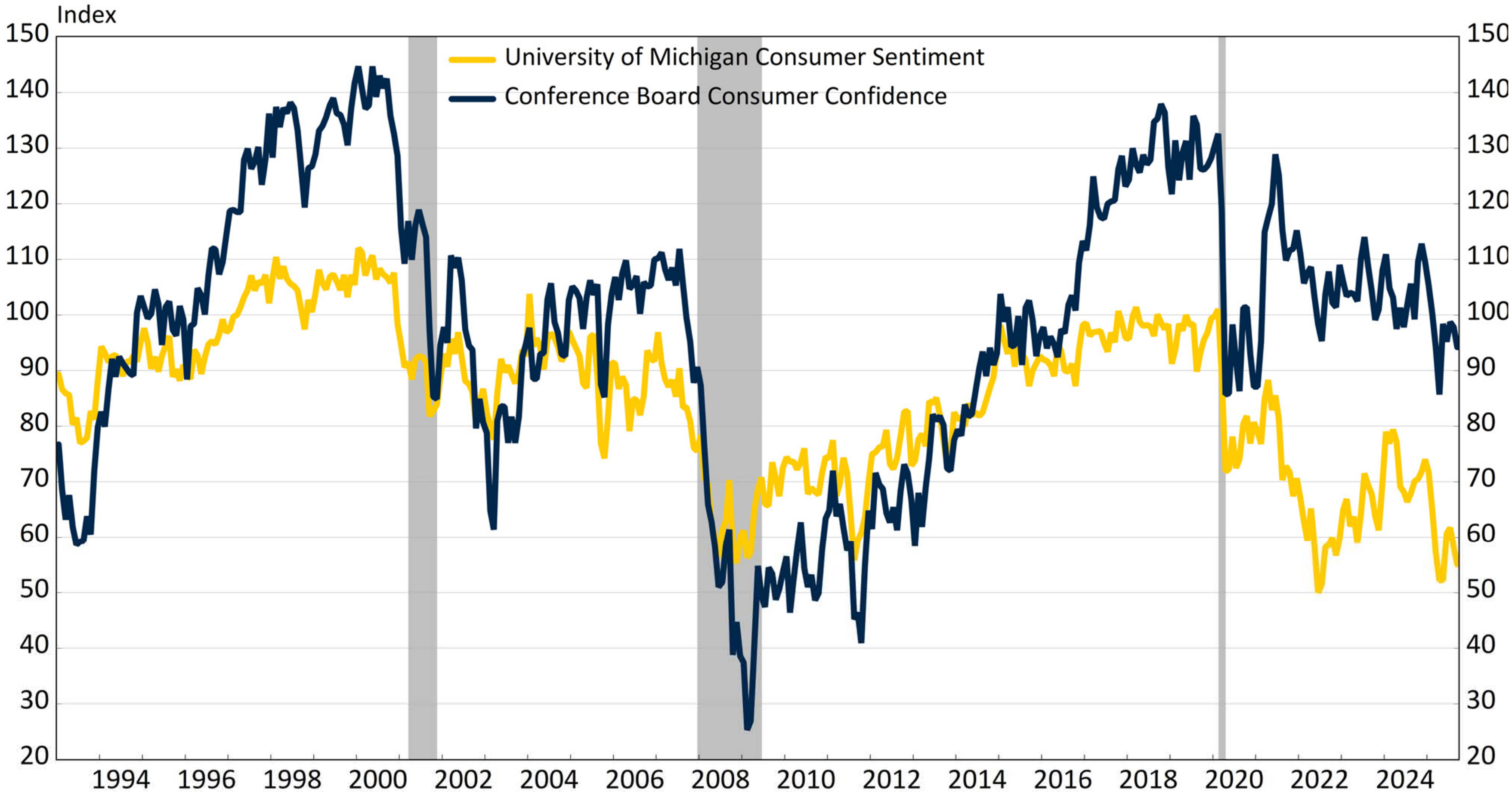
Consumer Sentiment Remains Depressed…



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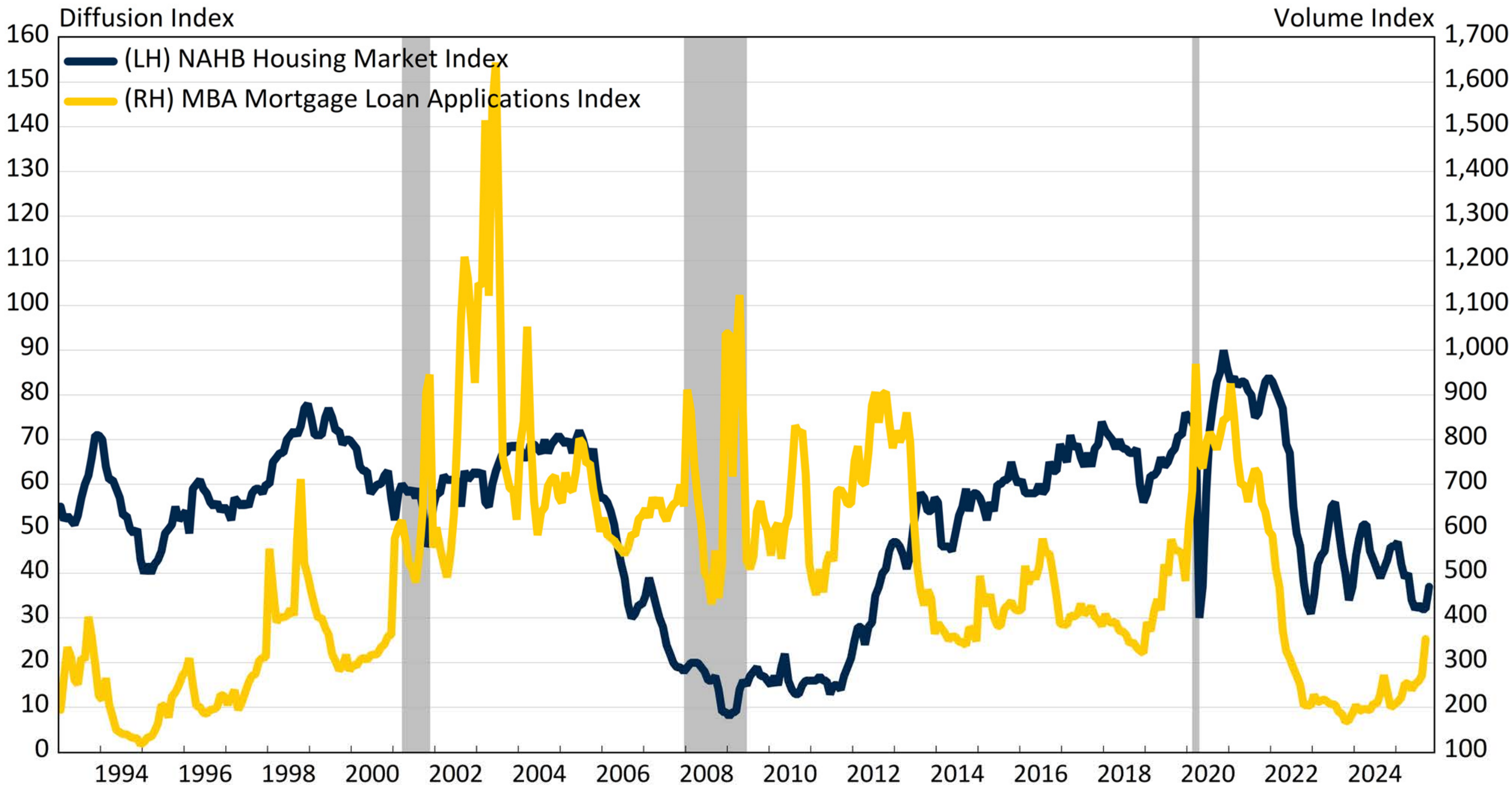
…Homebuilders Too



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U.S. Economic Outlook

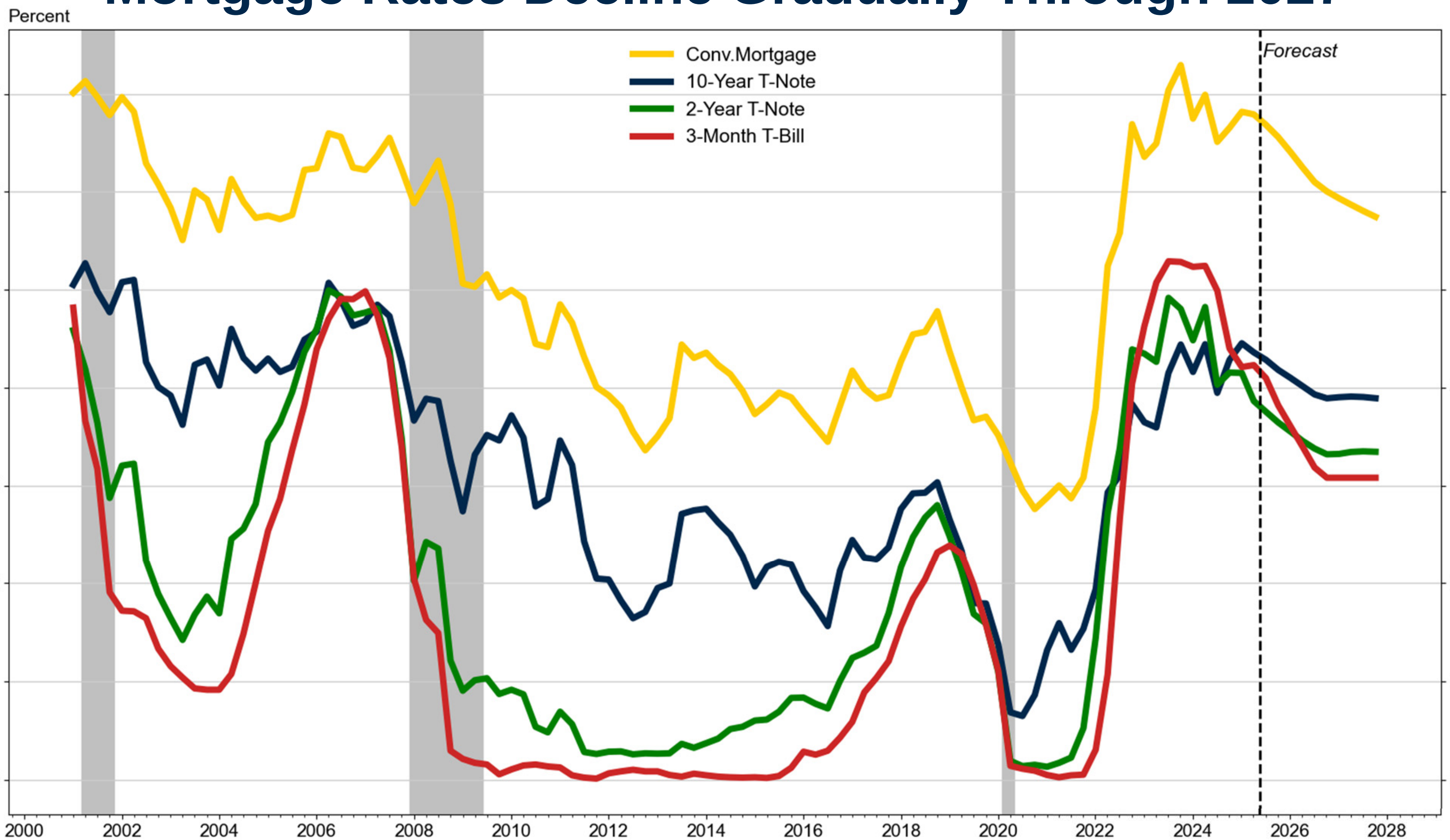
Monetary & Fiscal Policy

- OBBBA will provide short-term stimulus
  - We estimated $200 billion/year of personal and corporate tax cuts, on top of TCJA, starting in 2026
  - Partially offset by reductions in Medicaid and SNAP transfers starting in fiscal 2027
  - Tariff revenues ramping up over 2 years to a permanently higher level of $270 billion/year
    - Federal NIPA deficit settles around 6.0 percent of GDP till the end of fiscal 2027
  - Rule of Thumb: federal shutdown temporarily reduces quarterly annualized real GDP by 0.2 percent per week ($3.75 billion)
- Monetary Policy
  - We project a terminal rate range of 3.25–3.5%; the Fed gets there by end of 2026
  - We expect the Fed to “look through” tariffs

Tariffs… Subject to Change

- All in all, our assumptions result in a 15% effective tariff rate
  - We expect tariffs on most trade partners to settle around 15%
  - We expect tariffs on China to settle around 50%
- Approximately 15% on vehicle imports and 50% steel and aluminum
  - U.S. content exemption continues to apply to USMCA-eligible vehicles and parts
  - Complicated system of rebates over next two years
- Retaliation stays limited
- Tariffs increase price level by roughly 1%, and reduce real GDP by a similar amount

Short Rates Continue To Fall Next Year
Mortgage Rates Decline Gradually Through 2027



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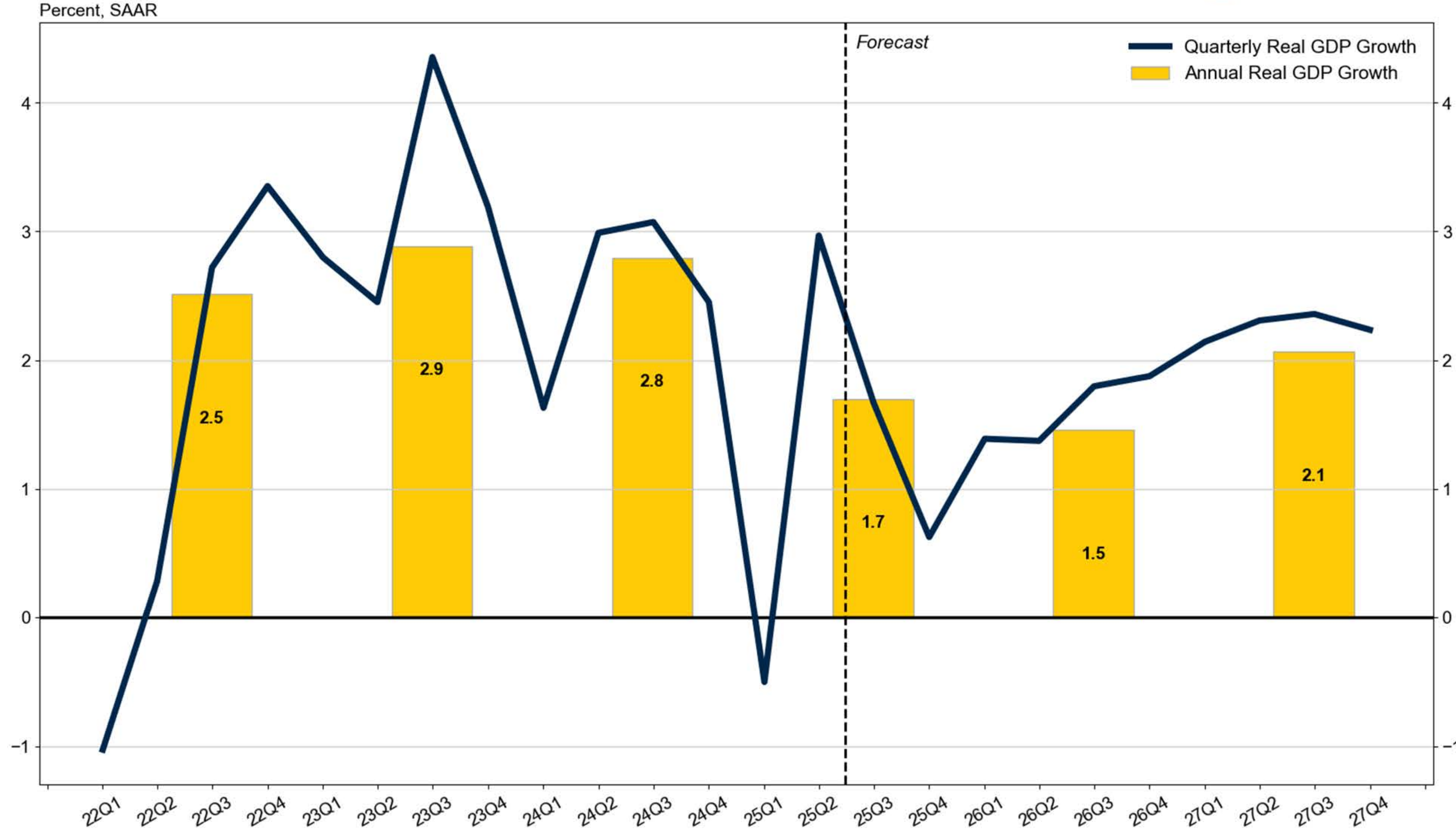
Real GDP Growth Moderates Before Rebounding to Trend



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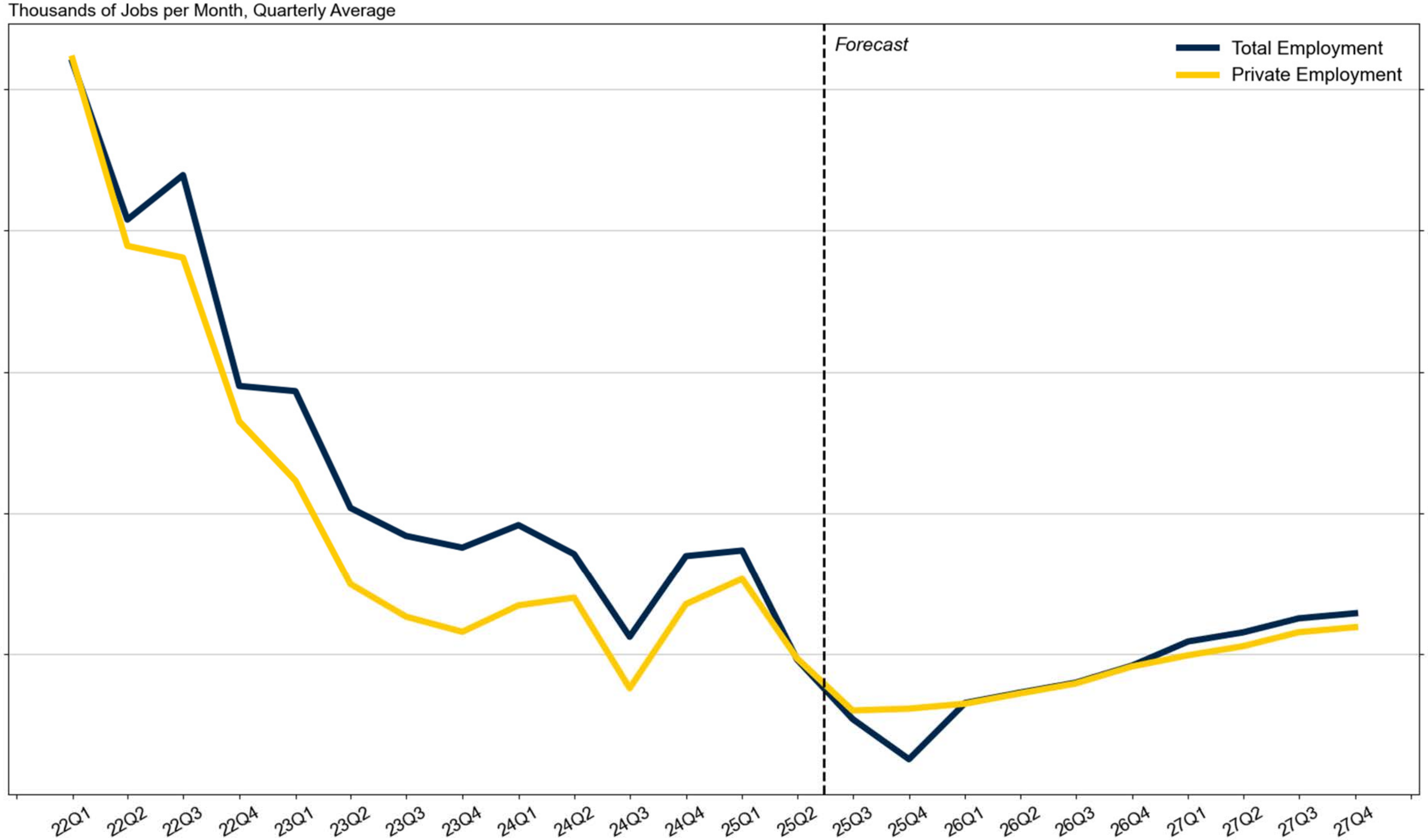
Payroll Employment Growth Improves From 2026



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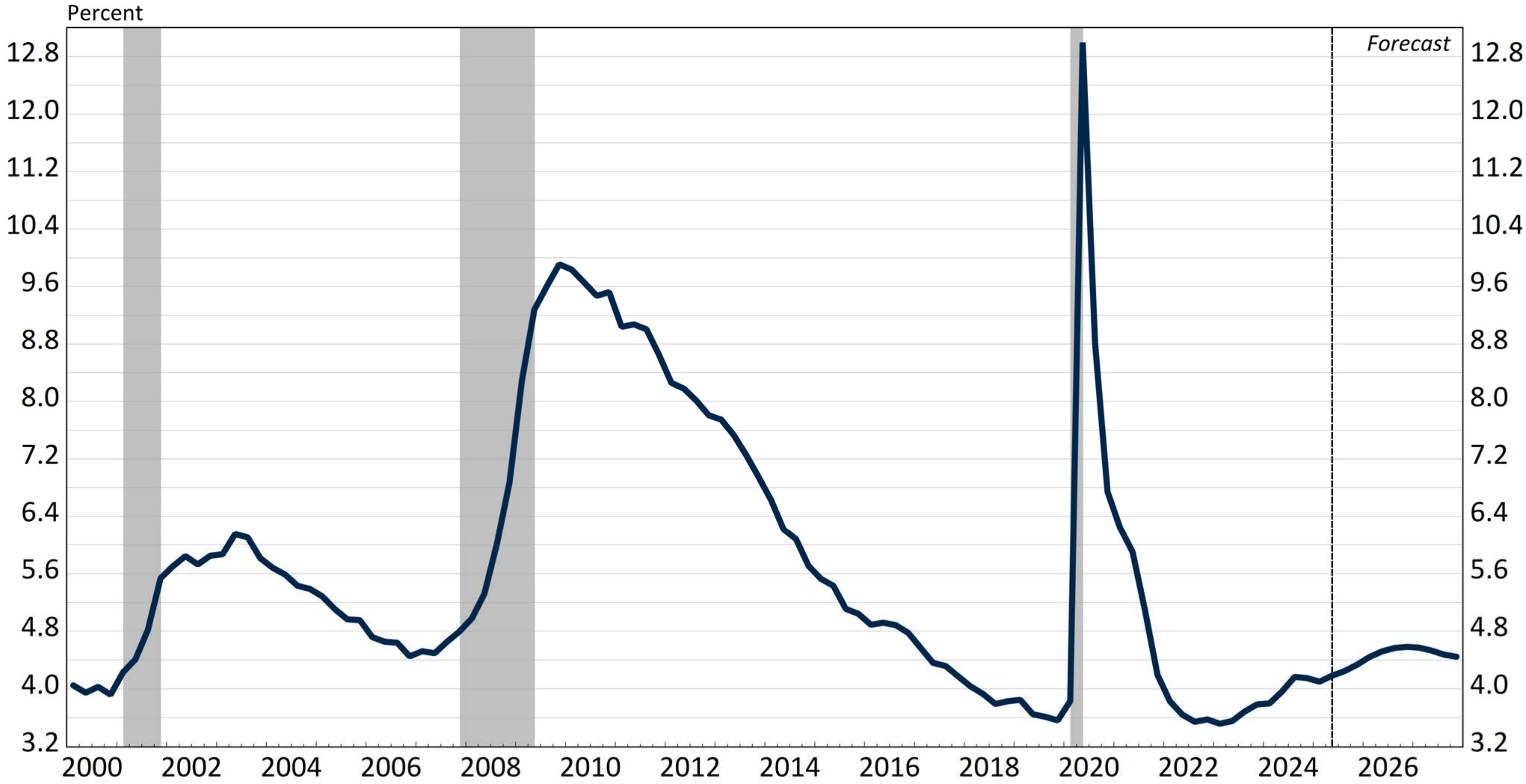
Unemployment Rate Peaks in Late 2026



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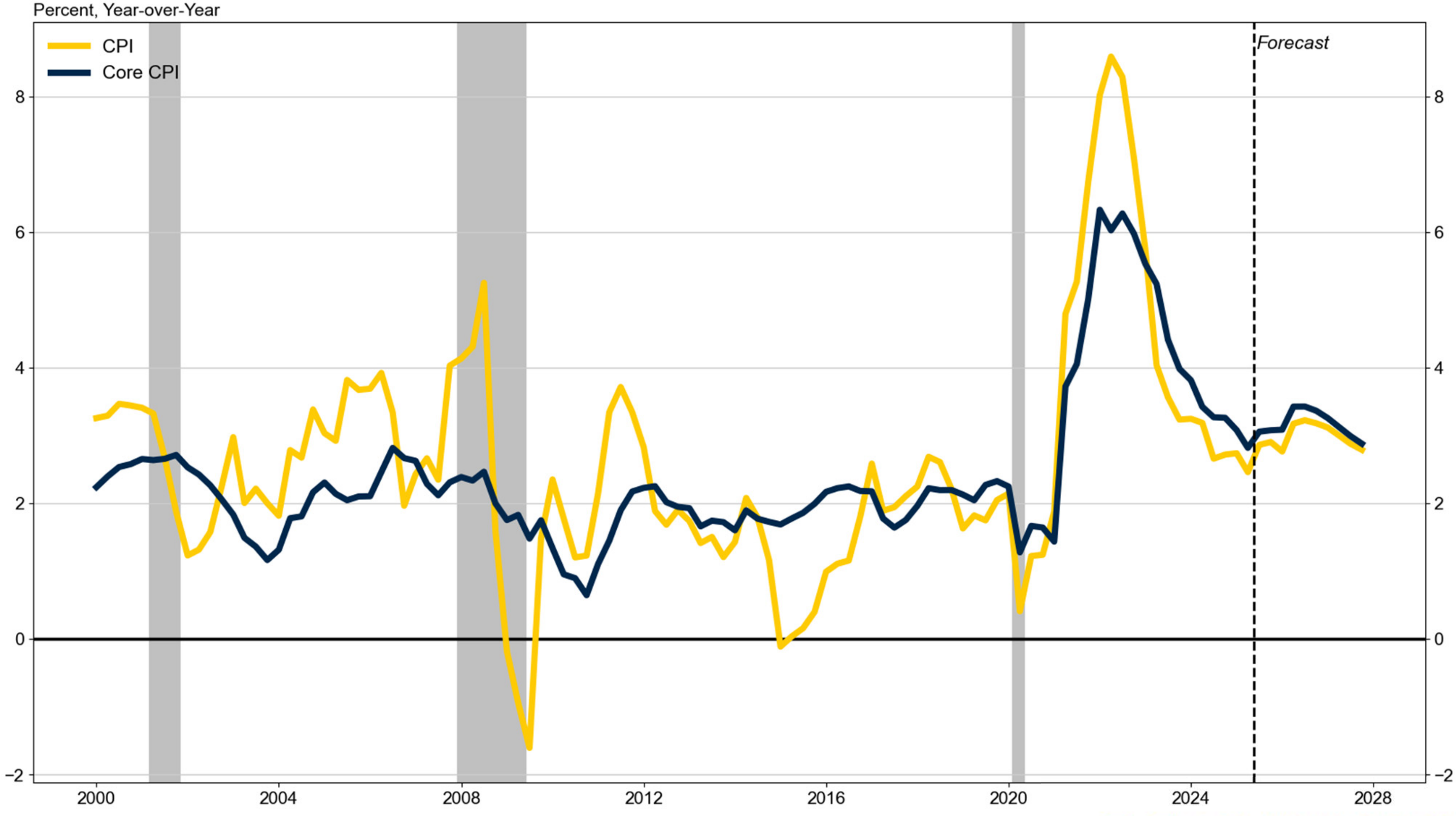
Inflation Hits A Tariff Bump



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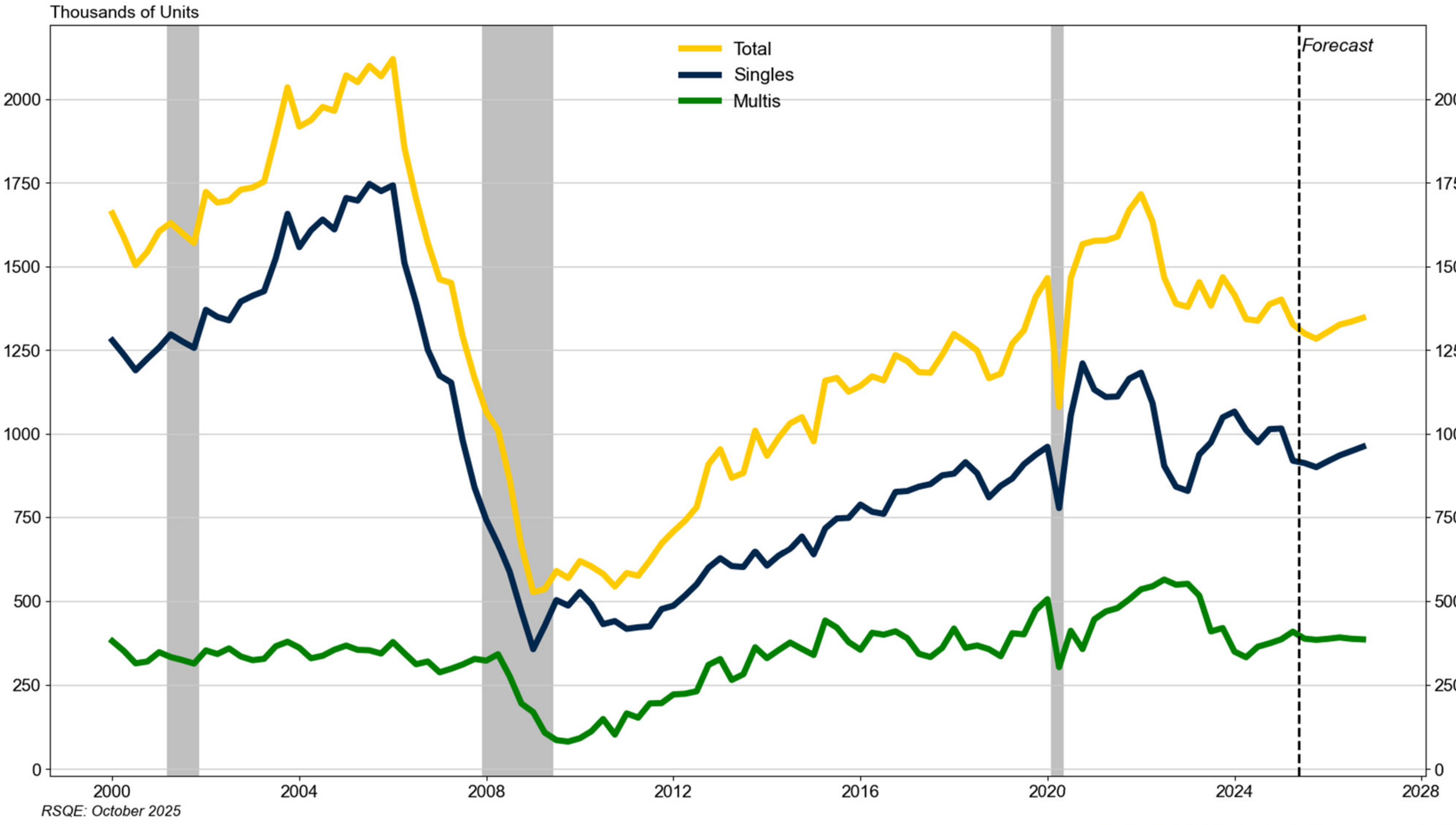
Housing Starts Move Mostly Sideways



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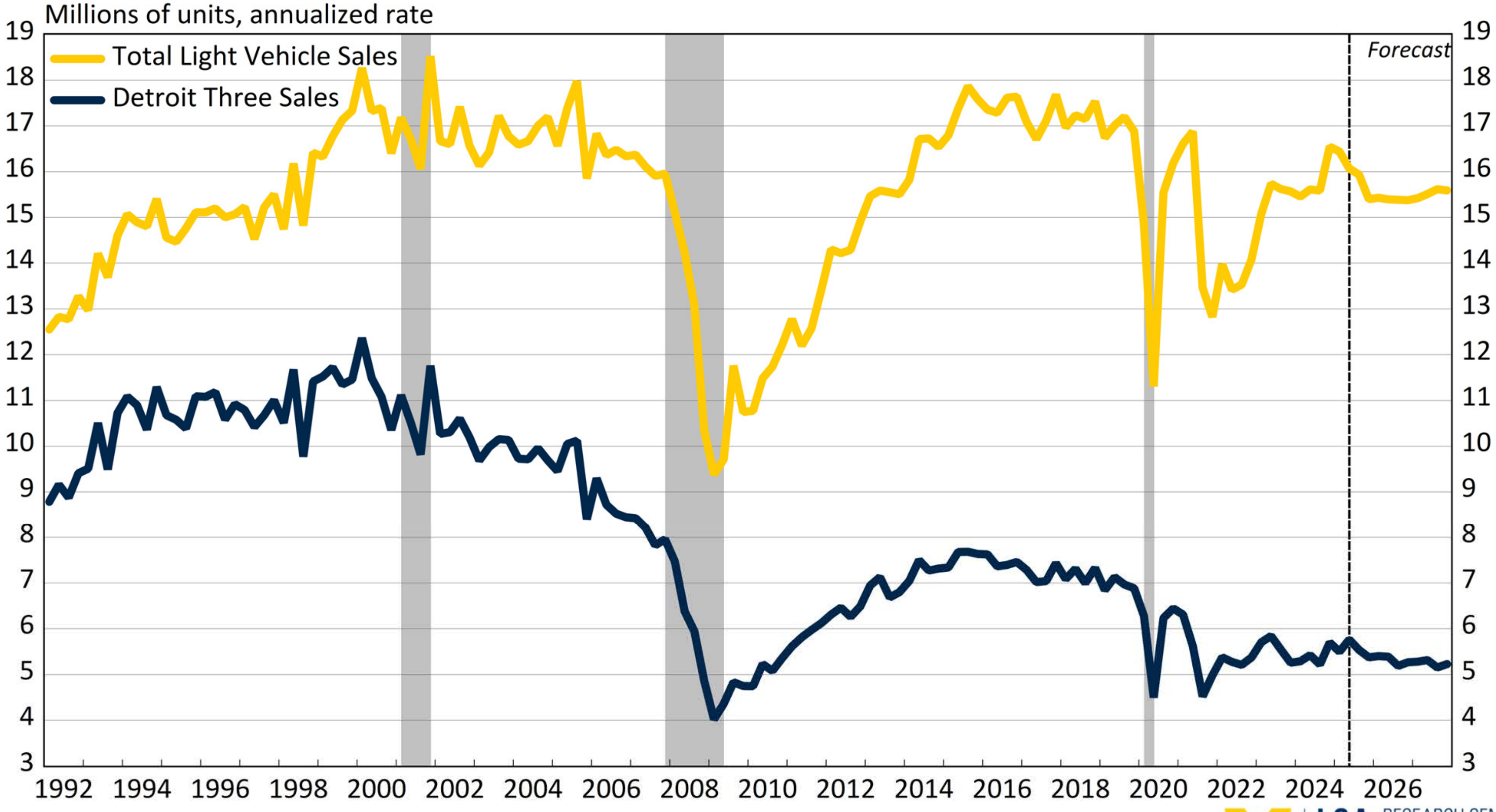
Light Vehicle Sales Get A Flat



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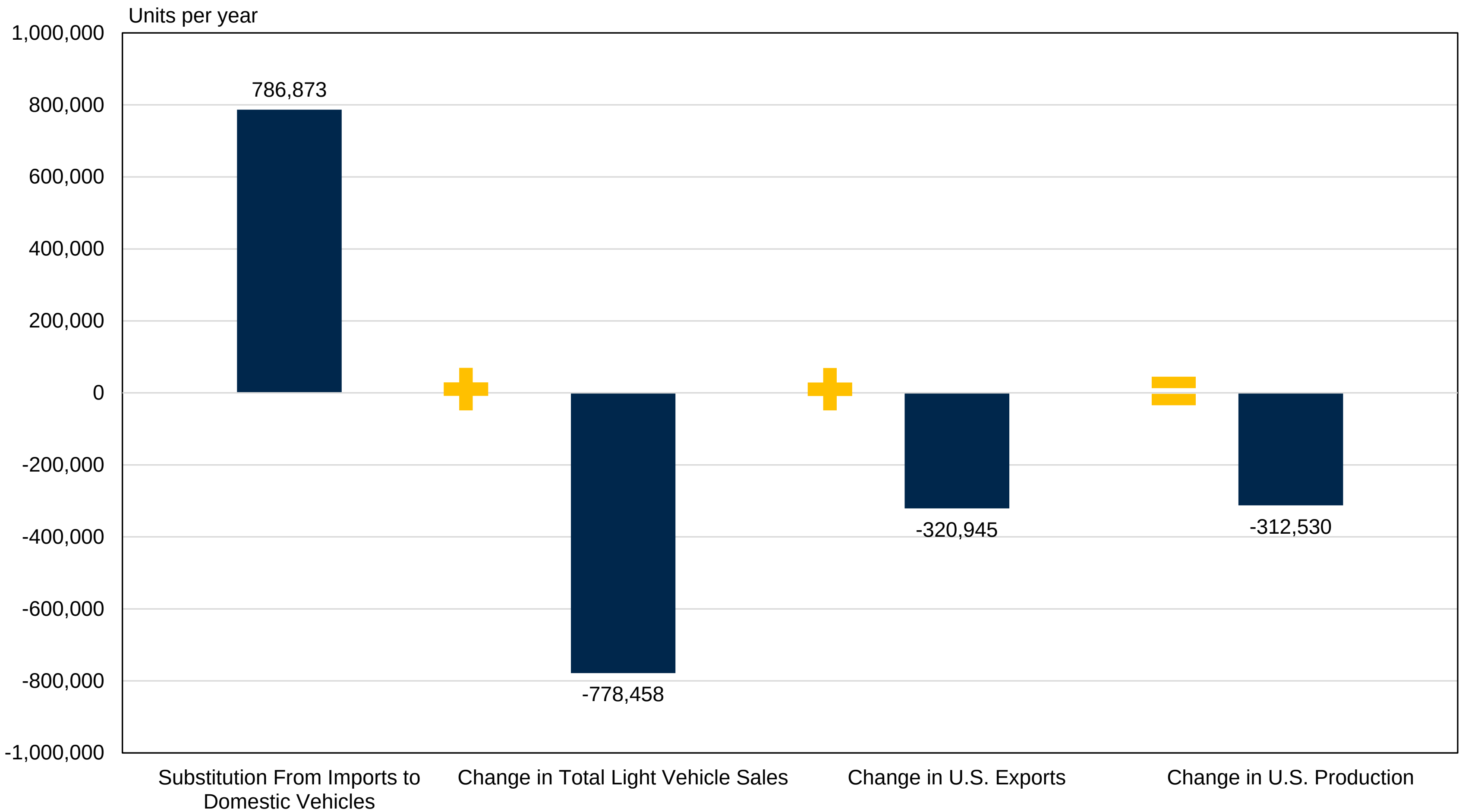
Medium-Term Effects of the 2025 Tariffs on Domestic Auto Production



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The Leading Edge of Economic Forecasting since 1952

SAVE THE DATE!

The 73rd Annual Economic Outlook Conference will take place on November 20–21, 2025 in Ann Arbor. The conference will feature RSQE's forecasts of the U.S. and Michigan economies plus a range of leading speakers from government, academia, and the private sector.

For more information: lsa.umich.edu/econ/rsqe

For Sponsorship information: rsqe-conference@umich.edu