ECONOMIC FORECAST 2025:

Clearing with a chance of showers

A welcome rebound

By Phillip M. Perry

Editor's note:

If you're wondering how the Fed's reduction in interest rates and the Trump administration's tax relief and tariff promises will affect your business profits in 2025, then read Phil Perry's annual forecast, where economists and experts offer their predictions for the year ahead.

Door and access businesses can look forward to a gradually improving operating environment in 2025 thanks to lower interest rates, moderating inflation, and steady (if unspectacular) growth in the nation's overall economic activity.

"We look for real GDP growth of 2.5% in 2025," said Bernard Yaros Jr., lead U.S. economist at Oxford Economics.

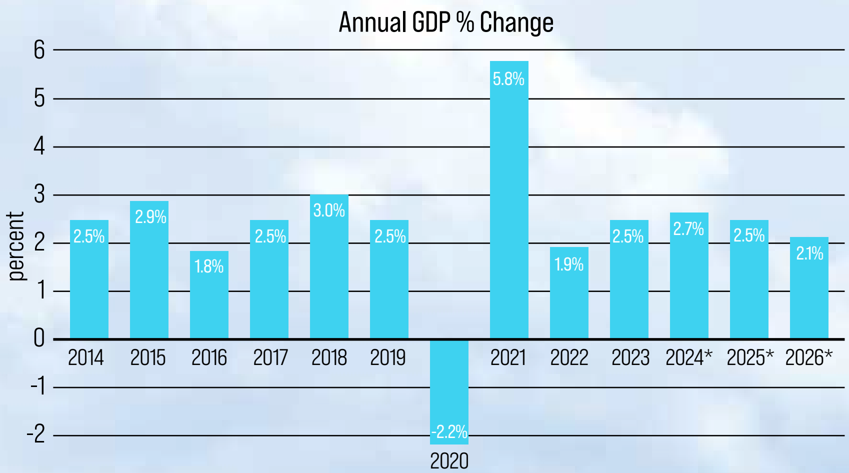
According to economists, the 2.5% boost is close to the nation's "natural growth rate," which supports business activity and maintains full employment. Reduced volatility in the GDP growth pattern in recent years suggests the nation is on a glide path to a "soft landing," avoiding a recession after a lengthy inflationary binge.

Despite the positive figure, the GDP for 2025 is slightly lower than the 2.7% anticipated for the end of 2024. That's because the nation is in a late-stage expansion characterized by a tendency to slow down while maintaining sufficient force to invigorate commercial operations.

U.S. Gross Domestic Product (GDP)

Prepare for a soft landing

GDP is the total value of a nation's goods and services and is the most commonly utilized measure of economic growth. "Real" GDP subtracts the effects of inflation.



Modest growth in the nation's economy will support business profits in 2025.
Sources: World Bank; * = projections by Oxford Economics.

Fair winds

In 2025, door and access business owners can look forward to a decline in both interest rates and inflation — two bugbears that have drained profits in recent times. "We anticipate a federal funds interest rate of 2.75% by the end of 2025, down from a recent 4.75%," said Yaros.

"And we look for inflation to average *2.2% in the final quarter of 2025, which will be within spitting distance of the Fed's 2% target." That's an improvement from the 2.5% inflation level toward the end of 2024. Relief from the costs of interest and inflation will help fatten the bottom lines of businesses everywhere. "We anticipate corporate profits will increase 9.6% in 2024 and 9.0% in 2025, up from their 6.9% gain in 2023," Yaros said.

Reports from the field confirm the economists' optimistic view. "Our members are looking forward to a growth year in 2025 largely from expectations that interest rates will decline," said Tom Palisin, executive director of The Manufacturers' Association. The change in fortunes can't come soon enough, he added. "High interest rates have been putting constraints on many of our members who have been trying to maintain their financial margins, so relief in this area will be helpful."

Healthy employment

The economy does better when people are optimistic, since consumer spending accounts for a large portion of the nation's business activity. While consumers remain troubled by the residual effects of inflation in the form of high prices of gas and groceries, they remain in a fairly good mood. "We look for consumer confidence to move slightly higher in 2025," said Scott Hoyt, senior director of consumer economics for Moody's Analytics.

Why the optimism? Healthy employment levels. "We look for the U.S. unemployment rate to end 2025 at 4.2% and 2026 at 4.2%," said Yaros. That is roughly in line with the 4.1% reported toward the end of 2024. Both the 2024 and 2025 anticipated unemployment numbers fall into the "sweet spot" (3.5% to 4.5%) that balances the dual risks of inflationary wage escalation and economic recession.

Loosening labor shortages

If favorable unemployment figures encourage consumer spending, then employers should also experience relief from the deleterious effects of the past year's tight labor conditions. Indeed, a slowdown in the rate of hiring has already helped loosen the employment market.

"Labor shortages are a thing of the past in most regions," said Bill Conerly, principal of his own Oregon-based consulting firm. "When companies want to hire, they're able to find the people they want, unless they're looking for something really unusual or if they're not willing to pay the required salary."

Lower wage expectations

Speaking of salaries, softening employment growth has given workers less bargaining power, so employers are experiencing some much-needed relief from the rising trendline of worker wages. Entry-level hourly wage increases came to 3.7% in 2024 at Palisin's member companies, markedly lower than the vigorous 8%-10% levels clocked for each of the previous two years (historically, such increases have tended to settle in the 2.5% to 3.0% range).

National figures concur. "The Employment Cost Index (ECI) is slowing," said Hoyt, referring to a common measure of average worker wages. "We are forecasting 2.8% growth in 2025 compared to 3.9% in 2024 and 4.5% in 2023."

Despite the ongoing de-escalation in the ECI, Hoyt said that it remains healthy enough to support consumer spending — as does the expected increase in the nation's total personal income level, which is an important driver of business activity. Like the ECI, it is expected to follow a familiar 2025 trendline: a healthy increase despite de-escalation. "Mainly because of slower job growth, we have the increase in wage and salary income slowing to 4.7% in 2025 compared to our expectation of 6.6% for 2024 and 5.4% for 2023," said Hoyt.

Maybe there's a looser labor market, but employers are in no hurry to trim their employee rosters. "Employers want to maintain their ability to jump on the growth side once the economy rebounds a little," said Hoyt. "So employment levels have held fairly steady."

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Housing rebounds

Economists expect healthy growth in housing activity — a mighty driver for the economy. "We forecast housing starts to increase by 6.2% in 2025 after falling by 4.7% in 2024 and declining 8.4% in 2023," said Yaros.

Why the rebound? A decline in the cost of money and a concomitant loosening of credit standards. "Lower mortgage rates should help the single-family home market," said Conerly. "It will be a little less painful for people with 3% or 4% mortgages to give them up, sell their current houses, and move up."

Lower interest rates should also reinvigorate commercial construction activity, which is a sector that has been underperforming. "The nonresidential side has a kind of bad reputation right now, especially when people think of downtown office or downtown retail," said Conerly. "But office and retail are doing okay in many suburban areas. And a lot of the retail sector has been under-built. People thought we were totally abandoning going to the store, and it turns out we're not."

Recovery takes time

Many areas of the country may continue to experience lackluster activity when it comes to multifamily residential, hotel, and office construction. A change in fortune will not happen overnight.

"With lower interest rates, there'll be an easier time lining up project financing at acceptable cost," said Anirban Basu, chairman and CEO of Sage Policy Group. "But these things take time. We might see some softness in a meaningful fraction of contractors in 2025. And then perhaps things get a bit better in 2026 as these lower interest rates prompt more activity."

One sector that will do well out of the gate is large-scale infrastructure projects, computer chip and battery manufacturing plants, and data centers. "This is the era of the megaproject," said Basu.

"Future prospects are quite positive for contractors who are able to participate in major public works." Much of this is driven by the re-emergence of industrial policymaking in America, an economic transformation that has led to programs such as the Inflation Reduction Act, the Chips and Science Act, and the Infrastructure Investment and Jobs Act.

All told, while economists expect lower interest rates to fuel a positive turn in business sentiment, they are hedging their

continued on page 44

continued from page 43

bets for 2025. "We look for business investment to rise 4.1% in 2024 and 4.1% in 2025 compared to 6.0% in 2023," said Yaros.

Supply chains

Businesses in all sectors will benefit from a national commitment to reposition supply chains in the United States. "Logistical issues are persuading many CEOs to place production closer to final consumers," said Basu. "There is also a trend toward favoring nations that provide significant protection for intellectual property."

Relief from delivery disruptions can't come soon enough for many operations. "Supply chain issues are still present," said Palisin. "We are seeing shortages around semiconductor chips and some other technological products, as well as chemicals, equipment assemblies, and metal parts. That's causing production delays and late deliveries."

Palisin cites a number of causes for supply chain issues. Over the past year, the nation has lacked sufficient skilled workers to meet production demands. Additionally, high interest rates and slowing growth deterred some companies from investing as much as required into new facilities. "As for the semiconductor situation specifically, there's this huge demand coming up against a shortfall in global supply," said Palisin.

While the U.S. is committed to the reshoring of production, the task of increasing domestic manufacturing and delivery systems will take time. "We are not going to turn things around right away," said Palisin.

The road ahead

The incoming Trump administration promises tax relief measures that should help bolster profits. Economists warn, however, that increased tariffs may reignite inflation and increase the cost of goods sold. They advise keeping a close watch on the following areas in the opening months of 2025:

Interest rates

"Going forward, the major concern for businesses will be the pace of interest rate cuts and where they will end up," said Yaros.

Inflation

"If the consumer price index returns to positive territory, that could throw a monkey wrench into many business plans," said Conerly.

Tariffs

"Tariffs amount to price increases for our members who have to buy materials from abroad," said Palisin.

Geopolitics

"An increasing level of turmoil around the world can disrupt supply chains, increasing shipping costs," said Conerly.

As concerning as these risks are, economists anticipate a fairly benign operating environment in 2025. "The US economy has been remarkably resilient despite all the hits it's taken over the past few years," said Yaros. "We don't anticipate a recession, as the Federal Reserve will be dialing back the restrictiveness of monetary policy and there are no glaring imbalances in the economy." ■

**These figures represent the Federal Reserve's preferred measure of inflation: the "core personal consumption expenditure deflator (PCED)," which strips out volatile food and energy prices.*