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Macroeconomics: The Year Behind And A Look Ahead

Six data points showcase what's happening in the U.S. economy that could direct credit union decision-making in the year to come.

Report By

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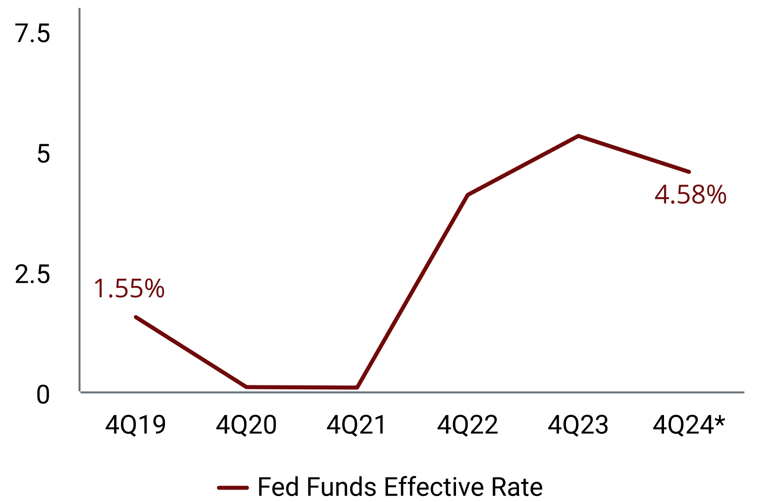
Federal Funds Rate

In the third quarter, the Federal Reserve lowered its benchmark interest rate from 5.25% to 4.75%. It did so again in the fourth quarter to 4.50%.

A further decline in interest rates in 2025 could push credit unions to price assets — such as loans and investments — lower than they have been while also lowering savings rates on term deposits. However, given the long-term nature of lending versus the shorter-term nature of a certificate, the net interest margin might at first move in the credit union's favor.

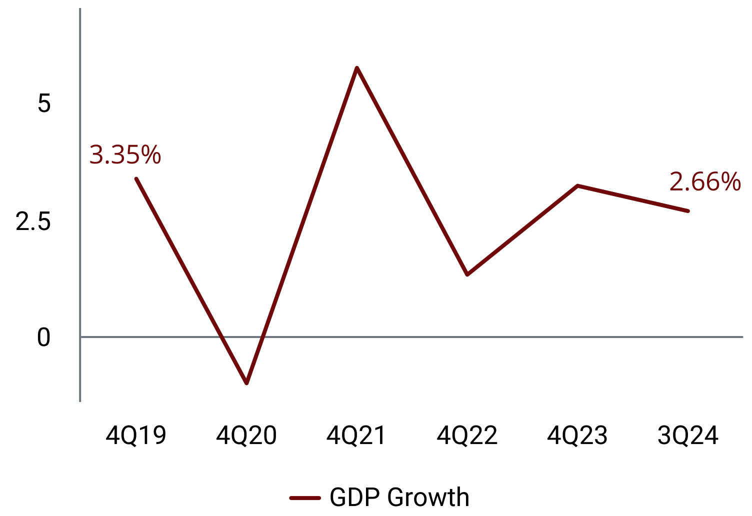


Data as of early December 2024.

Gross Domestic Product

Driven by consumer spending, which collectively makes up two-thirds of the nation's economic activity, GDP has steadily grown since the pandemic-era recession. If the economy continues to grow at this rate, loan demand could increase in the coming year.

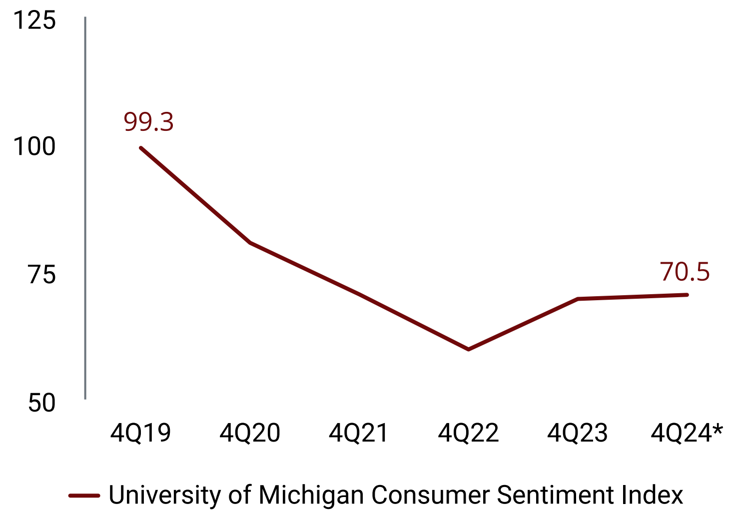
According to the Bureau of Economic Analysis, consumer spending contributed 2.37 percentage points to annual GDP growth. Capital expenditure provided 0.21, the government provided 0.83, and net exports reduced growth by 0.57 percentage points.



Consumer Sentiment

Across the United States, consumer sentiment, Consumer sentiment as measured by the University of Michigan remains relatively low. The baseline rate for the index is 100 but was 70.5 as of October 2024.

Residual impacts of inflation, high interest rates, and dissatisfaction with Washington have led consumers to feel generally uneasy about economic conditions. Although traditional indicators such as GDP growth and unemployment are healthy, many Americans — credit union members included — are not optimistic.

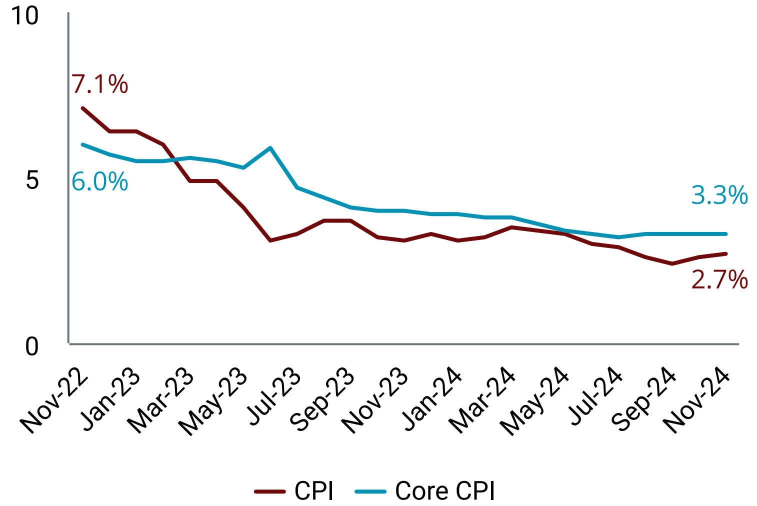


Data as of October 2024.

Inflation

Inflation is inching closer to historic norms; however, prices have not come back down and are unlikely to. Falling prices — or deflation — is an economic phenomenon that many economists consider even more detrimental than inflation.

Economists expect inflation to remain in the 2.5% range in the year ahead. That is lower than the elevated levels of the past few years but higher than the Federal Reserve target rate of 2.0%.

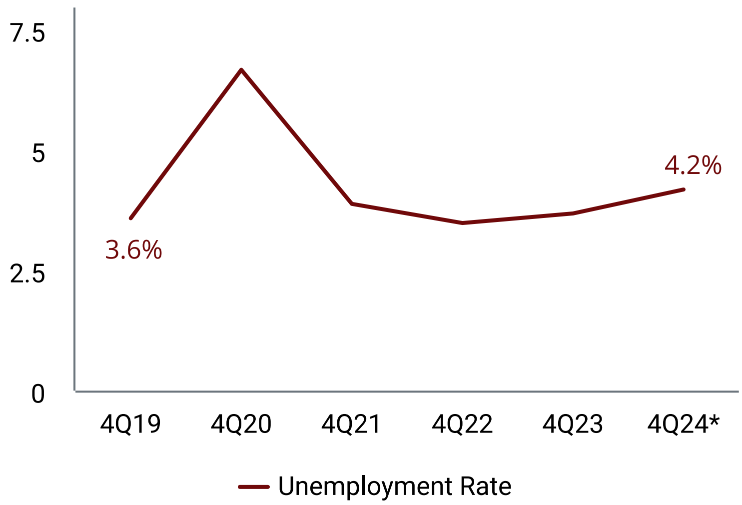


Data represents percentage growth.

Unemployment

The unemployment rate ticked up to 4.2% in November. Many economists expect the economy to hover around this rate in 2025.

Economic growth, stable inflation, and steady payroll expansion continuing into the new year make it unlikely that unemployment will move higher. Meanwhile, the prime-age working rate, or the percentage of Americans between the ages 25 and 54 with a job, was a near-record-high of 80.4% in November.



Data as of November 2024.

Home Building Starts

Home building slumped in 2014 after more than a decade of clawing back from the 2008 recession. Many home builders went out of business in the wake of that recession, which had ramifications across the broader economy. After all, home building creates jobs as well as inventory. When supply drops, it increases prices for would-be homeowners.

Increasing home builds has been a priority for federal, state, and local governments during the past few years. Striking the right balance presents significant consequences for the macroeconomy.