

Chapter 14

The Year in Review and the Years Ahead

The United States' real gross domestic product (GDP) grew 2.0 percent during the four quarters of 2025, down from 2.4 percent growth during the four quarters of 2024, largely reflecting the negative impact of the Federal government shutdown in the fourth quarter of 2025.[1] Strong growth in business fixed investment supported real GDP growth in each quarter of 2025, while the growth of consumer spending was solid, and export growth was positive. Residential investment, however, fell. Core Consumer Price Index (CPI) inflation was 2.6 percent during the 12 months of the year, down 0.6 percentage point from its year-earlier pace. Financial markets were generally orderly, except for some short-lived volatility in April. Interest rates declined over the course of the year, with the 10-year Treasury yield declining 0.4 percentage point and the average 30-year mortgage rate falling about 70 basis points. The Standard & Poor's (S&P) 500 stock market index rose 16.4 percent. In labor markets, private-sector job growth averaged 25,000 per month during 2025, down from a pace of 85,000 per month during 2024, as net immigration declined and the job vacancy rate continued its postpandemic moderation. The unemployment rate was relatively stable in 2025, edging up 0.2 percentage point from the first full month of the Trump Administration in February 2025 to a rate of 4.4 percent in December 2025. Looking ahead, real GDP is expected to grow at an annual rate of 3.0 percent during the 11-year Federal Budget window, with stable inflation and lower interest rates than in 2025.

This review of the economy during 2025 begins by exploring the evolution of GDP and its components. The review continues with the experience with price

[1] This chapter relies on data available on March 24, 2026. All references to economic statistics and trends in this chapter refer to the U.S. economy, unless otherwise specified.

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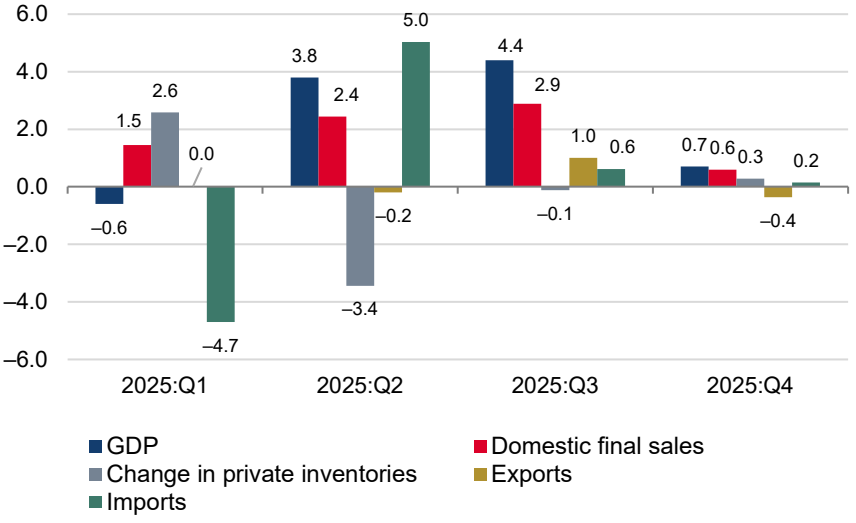
and wage inflation and the real wage. The chapter then describes various elements of how financial and labor markets developed during the year, before presenting prospects for the economy during the years ahead.

Real GDP and Its Components

The path of real GDP growth during 2025 was buffeted by swings in imports and inventory investment. Because new tariffs were expected in April, businesses appear to have imported goods in the first quarter in advance of these tariffs. As a result, the first-quarter increase in imports resulted in a large subtraction from GDP growth. In principle, this subtraction should not have affected the estimate of U.S. national production (which is what GDP is supposed to measure) if all those imported goods were absorbed into inventories or consumed or invested, providing an equal and offsetting boost to GDP. As it turned out, the contribution to GDP growth from increases in inventory investment (2.6 percentage points, at an annual rate) only partially offset the contribution from the increase in imports (–4.7 percentage points); as a result, real GDP fell at an annual rate of 0.6 percent in the first quarter (figure 14-1).

Figure 14-1. Quarterly GDP Growth (%) and Contributions (percentage points)

Seasonally adjusted, annual rate



Source: Bureau of Economic Analysis; CEA calculations.
Note: Domestic final sales include personal consumption, private fixed investment, and government expenditures.

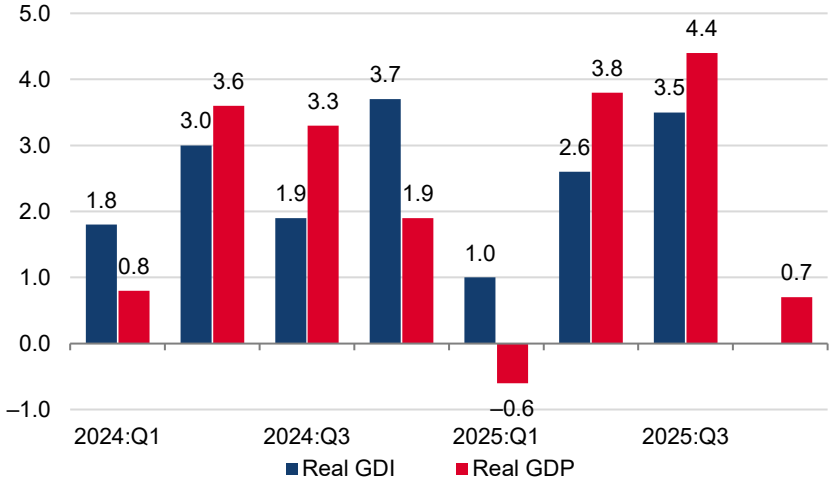
This pattern was largely reversed in the second quarter: imports fell sharply so that their contribution to real GDP was large and positive (5.0 percentage points, at an annual rate). The change in inventory investment fell from a large positive value to a negative one, so that its contribution was a highly negative (−3.4 percentage points, at an annual rate), but only partially offset the import contribution. Estimated real GDP growth was very strong (3.8 percent, at an annual rate) in the second quarter.

Real GDP growth remained strong in the third quarter (4.4 percent), with the increase in the rate of growth accounted for by stronger consumption growth and a surge in exports. Fourth-quarter growth was held down by the 43-day Federal government shutdown, which reduced the contribution of Federal government purchases to real GDP growth by at least 1.16 percentage points. One commonality across all four quarters was strong growth in business investment in equipment and intellectual property, both of which grew roughly 9 percent during the four quarters.

Output may not have actually declined in the first quarter, because the decline in real GDP contrasts with the increase in real gross domestic income (GDI, +1.0 percent), which is an aggregate of all forms of income that should equal GDP but differs because of measurement error (figure 14-2). As measured by GDI, output did not fall in the first quarter, nor did it rise as swiftly in the second and third quarters. During the first three quarters of 2025, real GDP and real GDI grew at a similar annual rate: 2.5 percent for GDP versus 2.4 percent for GDI.

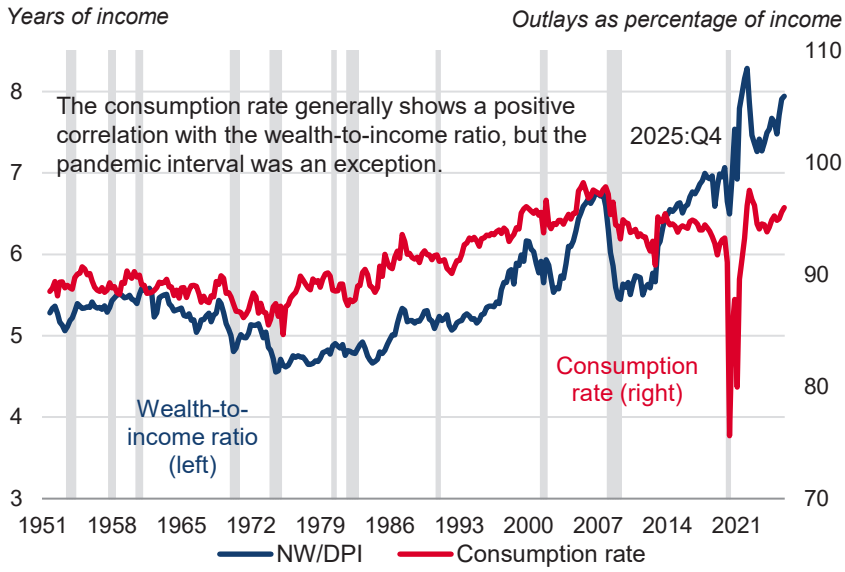
Figure 14-2. Quarterly Real U.S. GDP versus GDI Growth

Percent change, seasonally adjusted annual rate



Source: Bureau of Economic Analysis.
Note: GDI = gross domestic income. GDI for 2025:Q4 was not available at the time of production.

Figure 14-3. Consumption Rate versus Wealth-to-Income Ratio



Sources: Bureau of Economic Analysis; Federal Reserve (Financial Accounts of the United States); National Bureau of Economic Research.
Note: NW/DPI = net worth relative to disposable personal income. Gray bars indicate recessions.

Consumer Spending

Real U.S. consumer spending grew 2.1 percent during the four quarters of 2025, faster than the 1.3 percent growth of real disposable income. The saving rate fell from 4.7 percent in 2024:Q4 to 4.0 percent in 2025:Q4, lower than its 5.8 percent average since 2001.

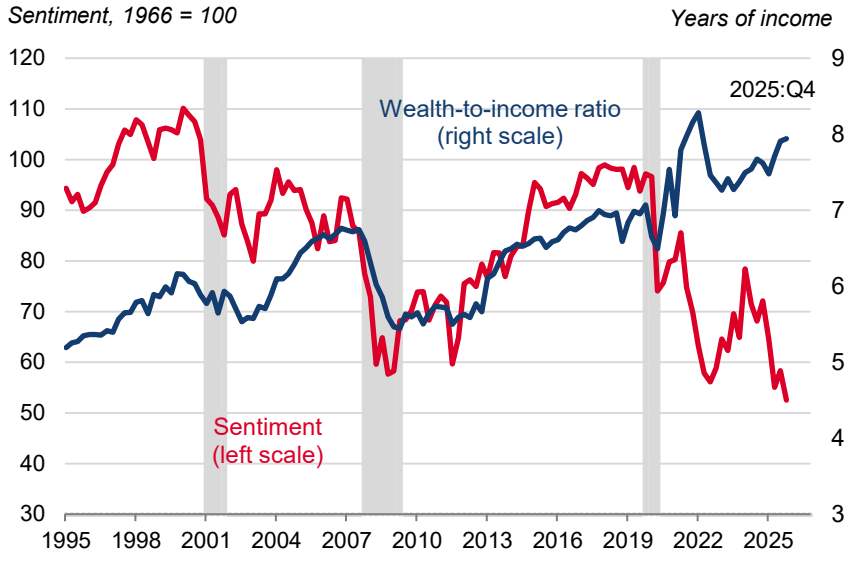
Aside from income, other forces acting on consumer spending included rising household wealth, volatile consumer sentiment, and the new Administration's policies. The ratio of household wealth to income has a positive effect on consumer spending, as can be seen in figure 14-3, where the long history (1951–2019) shows that rising wealth-to-income ratios correlate with a rising fraction of consumer outlays relative to income.[2]

Focusing on the past year, household wealth (especially stock market wealth) increased faster than income, so that the wealth-to-income ratio edged up from 7.6 years of income in 2024:Q4 to 7.9 years in 2025:Q3, nearly the highest level ever (with the exception of 2021). Figure 14-4 shows the dynamics of wealth and consumer sentiment.

Aspects of the Trump Administration's policies also affected the path of consumer spending during 2025. One of these was the anticipation and

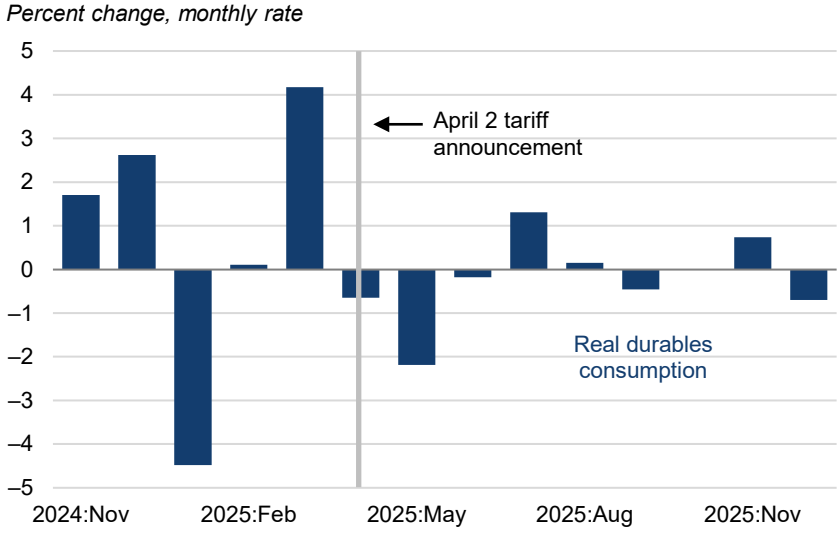
[2] That said, the COVID-19 pandemic period was an exception, as the wealth-to-income ratio increased due to Federal "economic impact payments," which were not fully spent while many services (e.g., restaurants, theaters, and sporting events) were difficult to consume.

Figure 14-4. Opposing Influences on U.S. Consumer Spending



Sources: University of Michigan Survey Research Center; Federal Reserve Financial Accounts of the United States; National Bureau of Economic Research.
Note: Gray bars indicate recessions.

Figure 14-5. U.S. Real Durables Consumption, Monthly Change



Source: Bureau of Economic Analysis.

announcement of tariffs on April 2, 2025. Monthly data show that real consumer spending on durable goods spiked in March—in advance of the expected major announcement on tariffs—and then fell for each of the next three months after the reciprocal tariffs' implementation (figure 14-5).

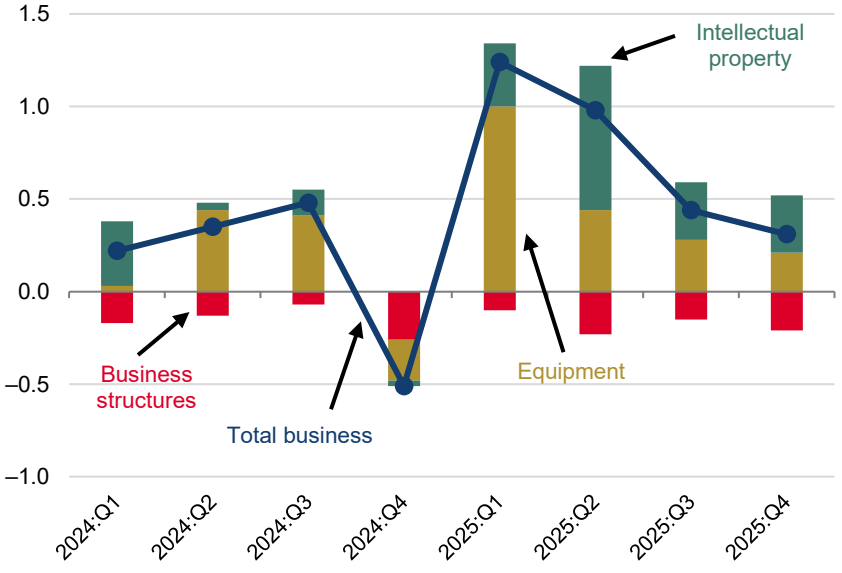
Aspects of the One Big Beautiful Bill Act (OBBBA) also had an influence on income and consumption during 2025, and these are likely to spill over into 2026. These include, but are not limited to, no taxes on tips (retroactive to January 2025), no taxes on overtime (retroactive to January 2025), an increase in the standard deduction, a further deduction increase for seniors reducing taxes on Social Security income, and the temporary enlargement of the deduction for State and local taxes. Further discussion of the boost to output from these policies can be found in chapter 1 of this *Report*.

Business Fixed Investment

During the four quarters of 2025, business fixed investment grew 5.5 percent, faster than real GDP. During those four quarters, investment growth was especially fast in equipment (9.5 percent) and intellectual property (8.1 percent), but was partially offset by declines in structures (5.7 percent) (figure 14-6). Within the equipment component, essentially all the growth was accounted for by information processing equipment (i.e., computers and peripheral equipment

Figure 14-6. Contributions of Business Investment to U.S. GDP Growth

Percentage point contribution to real GDP growth, annualized rate



Source: Bureau of Economic Analysis.

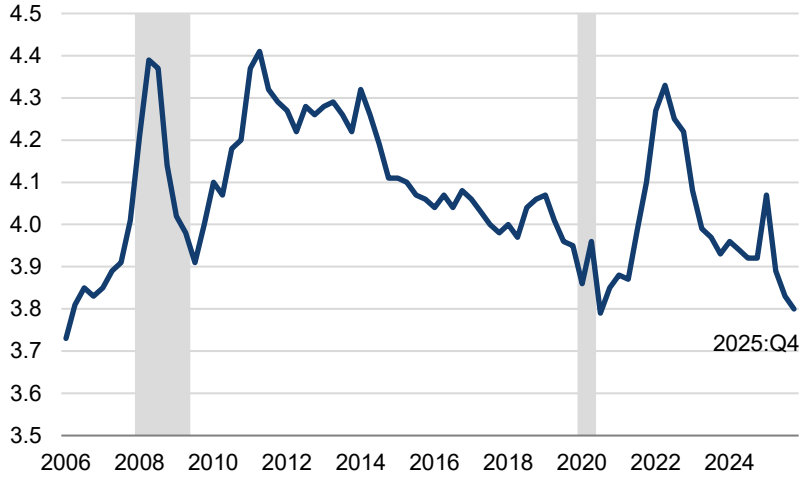
and communications equipment). Within the structures component, the decline was widespread across its subcomponents, with the notable exception of data-center structures, where investment increased by a rapid 20.1 percent. Despite this rapid growth, and leaving aside the value of the computer equipment that is installed inside these data centers, their construction constituted only 0.13 percent of GDP in 2025, and contributed only about 0.03 percentage point to real GDP growth in 2025.[3]

Inventory Investment

Changes in private inventory investment had particularly large effects on real GDP growth dynamics during each of the first two quarters of 2025; at an annual rate, they contributed 2.6 percentage points to growth in the first quarter and −3.4 percentage points to growth in the second quarter. These large movements in inventory investment likely reflect stockpiling behavior among businesses ahead of anticipated changes to tariff policy and inventory liquidation thereafter. After spiking in 2025:Q1, the ratio of nonfarm inventories to final sales of goods and structures fell toward the lower end of the range where this ratio has fluctuated during the past decade, so that inventories were lean with respect to sales by the end of the fourth quarter (figure 14-7). Over the four

Figure 14-7. Ratio of U.S. Nonfarm Inventories to Final Sales of Goods and Structures

Months' supply



Sources: Bureau of Economic Analysis; National Bureau of Economic Research.
Note: Gray bars indicate recessions.

[3] The computer equipment installed inside data centers is not counted in data center structures investment, and those data are not available separately from other uses of computer equipment.

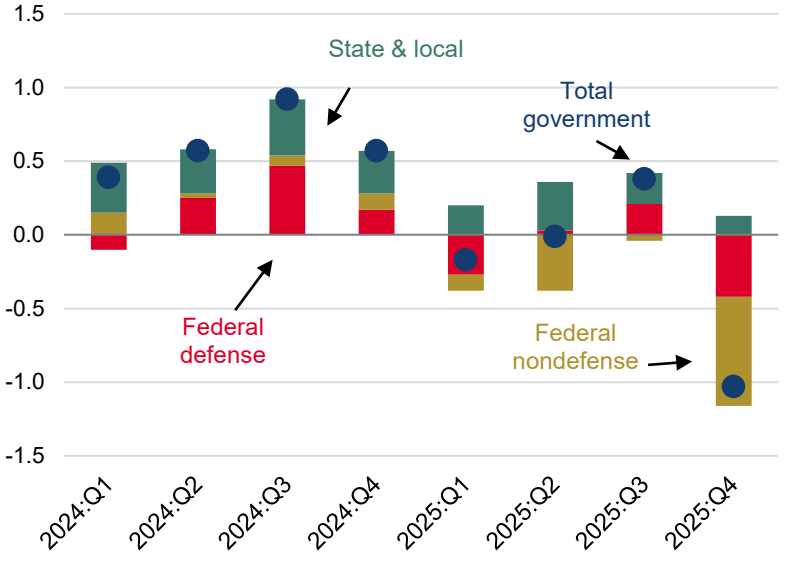
quarters of the year, inventory investment subtracted 0.2 percentage point from real GDP growth.

Government Consumption and Gross Investment

U.S. government consumption and gross investment fell 1.2 percent between 2024:Q4 and 2025:Q4, after having increased 3.6 percent over the four quarters of 2024. On a quarterly basis, Federal expenditures fell in the first and second quarters of 2025, increased in 2025:Q3, and fell markedly in 2025:Q4, largely due to the lapse in appropriations (figure 14-8). Expenditures by State and local governments increased in each quarter of 2025.

Figure 14-8. Government Consumption and Gross Investment, Contributions to Quarterly Real GDP Growth

Percentage points, annual rate



Source: Bureau of Economic Analysis.

The Federal Government

Federal purchases for consumption and investment ("Federal expenditures") fell 6.5 percent between 2024:Q4 and 2025:Q4, after a 4.5 percent increase over the four quarters ending 2024:Q4. The decline in Federal expenditures was concentrated in nondefense spending, which fell 11.1 percent over the four quarters of 2025, after rising 3.2 percent over 2024. Federal defense expenditures also fell in 2025, by 3.0 percent, after a 5.4 percent increase during 2024. The lapse in appropriations beginning in October 2025 weighed on inflation-adjusted

Federal expenditures over 2025:Q4. While the full effects of the shutdown cannot be isolated, the Bureau of Economic Analysis estimates that the reduction in labor services supplied by Federal employees due to the lapse reduced quarterly real GDP growth by about 1.0 percentage point at an annual rate.[4]

A sizable share of the Federal government's spending arises through transfers, which are not counted as government purchases or investment within the National Income and Product Accounts (NIPAs). Over Fiscal Year (FY) 2025, total Federal outlays equaled $7.0 trillion, up 4.1 percent from FY 2024. Much of the increase in outlays was concentrated in the largest mandatory spending programs—with Social Security benefits, Medicare, and Medicaid each rising more than 8 percent—and in net interest payments on public debt (up 8.3 percent). Total receipts also increased over FY 2025, reaching $5.2 trillion, up 6.4 percent from FY 2024, as increases in individual income taxes (up 9.5 percent) and payroll taxes (up 2.3 percent) more than offset declines in corporate income taxes (down 14.7 percent). Over FY 2025, the Federal deficit was $1.8 trillion, down 2.3 percent from FY 2024, reducing the deficit-to-GDP ratio from 6.2 percent of GDP to 5.8 percent. The Federal debt amounted to 97.4 percent of annual GDP at the end of FY 2025, up 1.4 percentage points from the end of FY 2024.

State and Local Government

State and local government purchases for consumption and investment rose 2.1 percent from 2024:Q4 to 2025:Q4, after a 3.1 percent increase over the four quarters of 2024. Consumption across State and local governments rose 1.9 percent over 2025, after a 2.7 percent increase over 2024. Gross investment across State and local governments rose 2.6 percent over 2025, after a 4.6 percent increase during 2024.

Exports

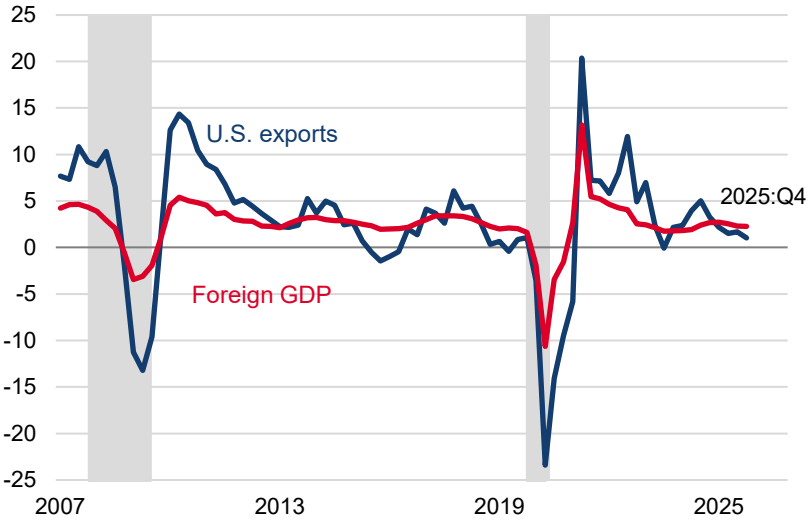
Real exports rose 1.0 percent over the four quarters of 2025, less than their 3.3 percent growth during the four quarters of 2024. Real exports of goods rose 1.9 percent over 2025, while real exports of services fell 0.5 percent. Growth in U.S. exports tends to follow foreign GDP growth; since 2008, both have grown about 2.3 percent, and they tend to vary together over the business cycle (figure 14-9). However, during 2025, the 1.0 percent growth in real U.S. exports was lower than that of real foreign GDP (2.3 percent).

To better capture trends across 2025 as a whole, table 14-1 aggregates exports across the four quarters of 2025, and compares them with exports over

[4] As Federal employees affected by the lapse in appropriations ultimately received back pay within 2025:Q4, nominal Federal compensation was unaffected by the lapse. However, because furloughed employees were unable to execute their work functions, the forgone real activities reduced real Federal expenditures.

Figure 14-9. Growth of Real Foreign GDP and U.S. Exports

Four-quarter growth rates, percent



Sources: Bureau of Economic Analysis; National Bureau of Economic Research; S&P Global Market Intelligence; CEA calculations.
Note: Gray bars indicate recessions. Foreign GDP is trade-weighted.

Table 14-1. Trends in Real U.S. Exports, by Type

Type of exports	Percent change 2025 from 2024*	Percent of total, 2025**
Total	1.6	—
Total goods	1.8	63.5
Capital goods, nonautomotive	9.2	21.6
Industrial supplies and materials	–1.1	21.1
Consumer goods, excluding food and autos	1.6	8.1
Food, feed, and beverages	–2.4	5.0
Automotive vehicles, engines, and parts	–10.2	4.8
Other goods	3.6	3.1
Total services	1.2	36.4
Other business services	2.0	20.4
Travel services	–2.3	6.4
Intellectual property usage	3.5	5.4
Transportation services	4.9	3.2

Sources: Bureau of Economic Analysis; CEA calculations.

Note: *Annual average of 2025 compared with the annual average of 2024. **Shares reflect 2025 four-quarter averages in nominal dollars; series do not sum to 100 percent due to the omission of miscellaneous services.

the four quarters of 2024. The rise in real goods exports over 2025 predominately reflected increases across nonautomotive capital goods, which rose 9.2 percent between the four quarters of 2024 and the four quarters of 2025, while automotive exports (down 10.2 percent) fell the most. The rise in real service exports was more broad-based, with each major type increasing except for travel services (which includes activity by foreign visitors), which fell 2.3 percent between 2024 (as a whole) and 2025 (as a whole).

Imports

Trends in imports over 2025 were strongly influenced by the announcements and implementation of new tariff policies, particularly the reciprocal tariffs implemented in April. Policies implemented in 2025 brought the United States' effective tariff rate to 7.7 percent on average over the 12 months of 2025, the highest level in over 50 years. The reciprocal tariffs, which applied to a broad range of products from nearly all the United States' trading partners,[5] were foreshadowed in the preceding months, notably in a publicly released memorandum to senior trade officials in mid-February (National Archives 2025). Before the reciprocal tariffs' implementation, real goods imports increased by 52 percent at an annual rate in 2025:Q1, reaching a record high, before falling after the tariffs' implementation. To better illustrate these interyear trends, figure 14-10 depicts imports of goods and services at a monthly frequency, in nominal terms.[6] Nominal services expanded at a fairly steady pace throughout 2025, while nominal goods imports fell sharply from March to October, before rebounding in November and December. During the four quarters of 2025, real imports fell 2.0 percent from 2024:Q4, even as, across 2025 as a whole, imports still increased. Aggregating across the four quarters of 2025, real imports were 2.7 percent higher than over the four quarters of 2024, reflecting a 2.5 percent increase in goods imports and a 3.5 percent increase in services imports.

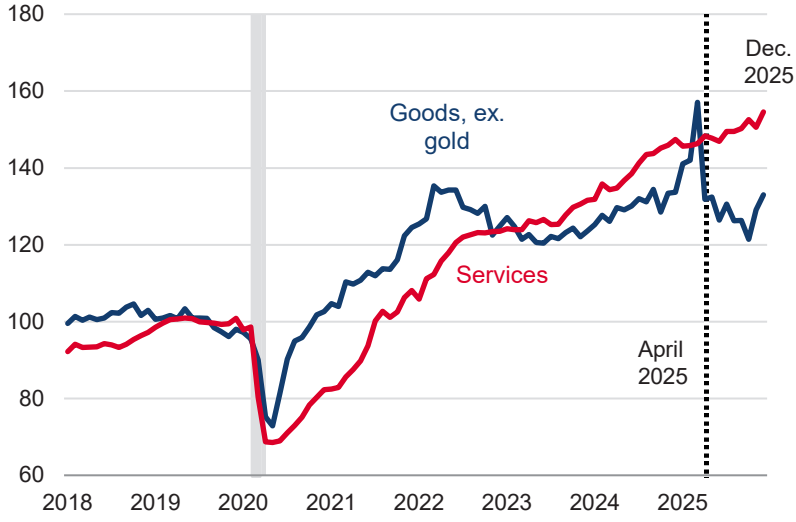
To better reflect the dynamics across the year as a whole, table 14-2 aggregates imports across the four quarters of 2025, and compares them with imports over the four quarters of 2024. As measured within the NIPAs, the rise in real goods imports over 2025 was driven by nonautomotive capital goods, which increased 15.7 percent between 2024 (as a whole) and 2025 (as a whole) and more than offset declines in automotive imports (which were down 10.0 percent); industrial supplies and materials (down 6.7 percent); and food, feed,

[5] The only trading partners that were exempt from the reciprocal tariffs were Canada and Mexico, which were subject to separate tariffs applied to all goods not imported under the United States–Mexico–Canada Agreement.

[6] Monthly trade measures cover a slightly different set of goods than the quarterly measures in the NIPAs. In particular, the NIPA measures exclude transactions of precious metals that do not reflect current production. Also, the monthly trade measures include the five U.S. territories, which are excluded from the NIPAs. To partially address these discrepancies, the measure of goods imports displayed in figure 14-10 excludes imports of nonmonetary gold and of finished metal shapes.

Figure 14-10. Imports of Goods and Services

Index, 100 = 2019 average, current dollars



Sources: Census Bureau; National Bureau of Economic Research; CEA calculations.
Note: Gray bars indicate recessions. Goods imports exclude nonmonetary gold and finished metal shapes. Reciprocal tariffs implemented in April 2025.

Table 14-2. Trends in U.S. Real Imports, by Type

Type of imports	Percent change 2025 from 2024*	Percent of total, 2025**
Total	2.7	—
Total goods	2.5	78.9
Capital goods, nonautomotive	15.7	26.6
Consumer goods, excluding food and autos	0.4	18.9
Industrial supplies and materials	–6.7	14.2
Automotive vehicles, engines, and parts	–10.0	10.0
Food, feed, and beverages	–3.0	5.1
Other goods	16.4	4.0
Total services	3.5	21.1
Other business services	5.2	11.0
Travel services	4.7	4.5
Transportation services	2.9	3.7
Intellectual property usage	–6.8	1.2

Sources: Bureau of Economic Analysis; CEA calculations.

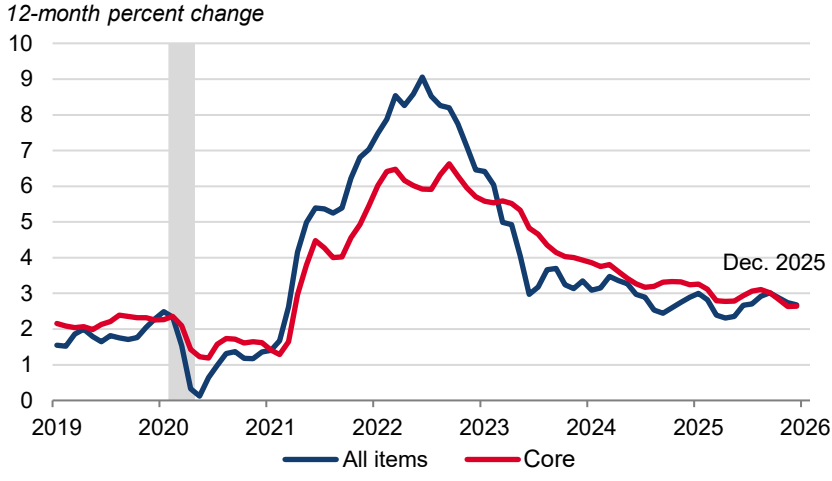
Note: *Annual average of 2025 compared with the annual average of 2024. **Shares reflect 2025 four-quarter averages in nominal dollars; series do not sum to 100 percent due to the omission of miscellaneous services.

and beverages (down 3.0 percent). The increase in real services imports over 2025 predominately reflected a rise in imports of other business services (i.e., business services excluding travel, transportation, or the usage of intellectual property), which rose 4.7 percent between 2024 and 2025. The only major category of services imports to decline was intellectual property usage, which fell 6.8 percent.

Inflation

Inflation, as measured by the headline consumer price index (CPI), edged down 0.2 percentage point, to 2.7 percent, during the 12 months of 2025 from its 2024 rate (figure 14-11). This decrease in the rate of inflation is accounted for by core inflation (i.e., excluding food and energy inflation), which fell 0.6 percentage point in 2025 to 2.6 percent (figure 14-11). Food and energy price inflation both increased in 2025 from their year-earlier pace. Within the core CPI, the contrast between services and goods inflation—as shown in figure 14-12—is notable. Core services inflation fell 1.4 percentage points from its 2024 pace to a 3.0 percent rate during 2025, its third year of slowing inflation. In contrast, core goods inflation rose 2.0 percentage points, to 1.4 percent during 2025.

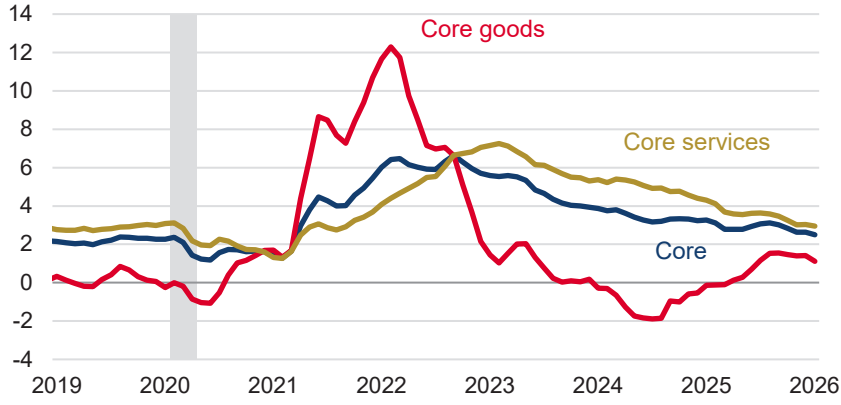
Figure 14-11. Total and Core U.S. Consumer Price Index



Source: Bureau of Labor Statistics; National Bureau of Economic Research; CEA calculations.
Note: October 2025 values are interpolated by the CEA. Gray bars indicate recessions.

Figure 14-12. Core U.S. Consumer Price Index Inflation and Components

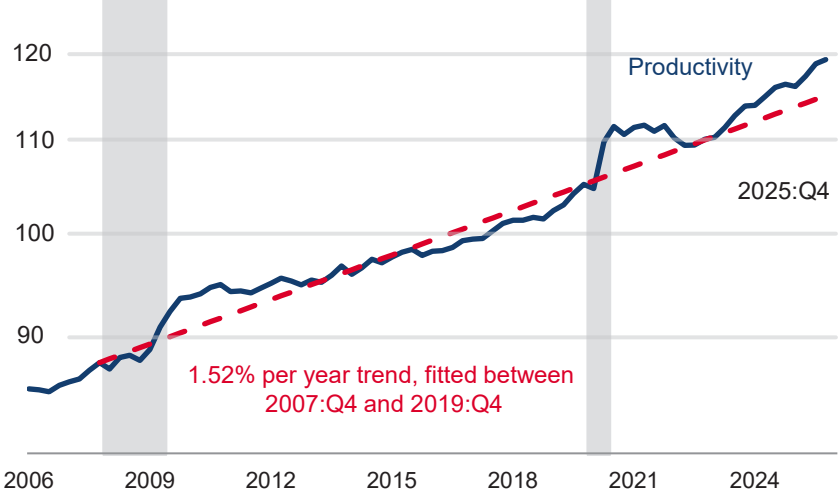
12-month percent change



Sources: Bureau of Labor Statistics; National Bureau of Economic Research; CEA calculations.
Note: October 2025 values are interpolated by the CEA. Gray bars indicate recessions.

Figure 14-13. U.S. Productivity versus Previous Trend

Ratio scale: 2017 = 100



Source: Bureau of Labor Statistics; National Bureau of Economic Research; CEA calculations.
Note: Gray bars indicate recessions.

Productivity and Compensation

The pace of labor productivity growth increased during the current business cycle. Since the business-cycle peak in 2019:Q4, labor productivity has grown at a 2.1 percent annual rate, an increase from the 1.5 percent rate between the business-cycle peaks in 2007:Q4 and 2019:Q4 (figure 14-13).[7]

Nominal average hourly earnings rose 3.7 percent during the 12 months of 2025, down 0.4 percentage point from its year-earlier pace. Nominal hourly compensation, as measured by the Employment Cost Index for private-sector compensation, increased 3.4 percent during the 12 months of 2025, 0.2 percentage point below the year-earlier pace. With labor productivity growing at about a 2.1 percent annual rate (as estimated above), this rate of wage and hourly compensation increase implies an increase in unit labor costs in the range of 1.3 to 1.6 percent per year. At this rate, which is below the rate of price inflation, labor costs are pulling down the rate of price inflation.

Nominal wage increases exceeded consumer price inflation during 2025, and so real average hourly earnings deflated by the Consumer Price Index grew 1.1 percent during 2025. As computed from the Employment Cost Index for compensation, real hourly compensation grew 0.6 percent. In principle, real wages should grow at—or just under—the rate of productivity growth. Box 14-1 discusses the relationship between productivity growth and the real wage in the longer run.

[7] Labor productivity is not measured directly, but it is inferred after dividing output by employee-hours for the nonfarm business sector. This quotient is subject to measurement errors in either output or employee hours. As a consequence, it is difficult to infer major changes in growth from short-term movements in output and employee hours.

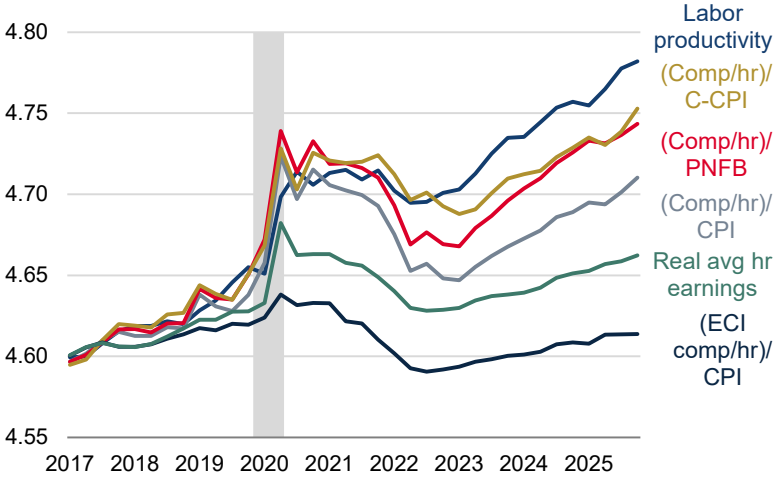
Box 14-1. Productivity and the Real Wage

The real wage should grow along with labor productivity, at least under standard economic theory (and with a Cobb-Douglas production function). In contrast, the real wage has fallen short of labor productivity growth in recent years, as shown in figure 14-i. This box examines two of the measurement issues that partially account for this shortfall: how to measure wages and how to deflate them.

How to measure wages. "Average hourly earnings for all employees" measures just the per-hour wage and salary cost to the employer and comes from the Bureau of Labor Statistics' (BLS) monthly Current Employment Survey. The "real" version of this series is deflated with the official Consumer Price Index for all urban consumers (CPI-U). As can be seen by the lower green line in figure 14-i, the growth of real average hourly earnings has fallen well short of labor productivity growth (by 1.4 percentage points per year) during the last nine years. The metric of real average hourly earnings has two major problems: not including benefits, and deflation with the official CPI (as discussed below).

Figure 14-i. U.S. Real Compensation per Hour, Various Measures

Natural log scale: 2017 = ln(100)



Sources: Bureau of Labor Statistics; Bureau of Economic Analysis; National Bureau of Economic Research; CEA calculations.
Note: C-CPI = Chain Consumer Price Index; PNFB = Price of Nonfarm Business Output; ECI = Employment Cost Index. Gray bars indicate recessions.

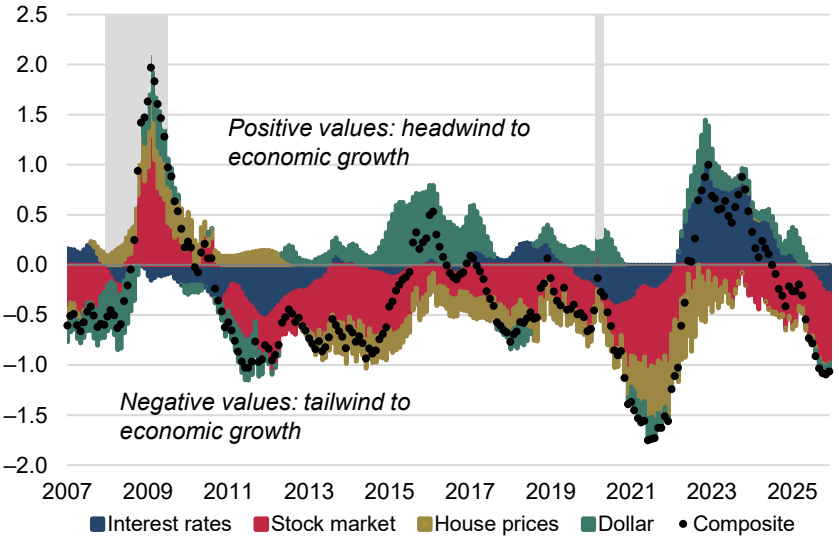
A more complete measure, which also includes benefits, is compensation per hour, as published by the Office of Productivity and Technology (OPT) at the BLS. In addition to wages and salaries, it also includes benefits as recorded in the National Income and Product Accounts (NIPAs). Real hourly compensation is calculated from compensation in the NIPAs, then divided by employee hours, and then deflated by the official CPI, and is shown by the gray line in the figure. This version of real "wage" growth fell 0.9 percentage point per year short of labor productivity growth over the nine years from 2017 to 2025.

Another important measure of real hourly compensation originates from the National Compensation Survey (a survey of employers), which the BLS publishes as the Employment Cost Index for compensation. The shortfall over this interval in this series is 2.0 percentage points per year, the largest of all the methods here (see the black series in figure 14-i). In comparison with the OPT version of real compensation per hour, the larger shortfall for the Employment Cost Index may reflect its construction as a fixed-weighted index by industry and occupation, so it does not pick up the wage gains that come from employees changing jobs; nor does it fully reflect stronger pay gains in growing industries.

How to deflate wages. The shortfall between the OPT measure of real compensation per hour (the gray series) can be reduced by replacing the fixed-weighted CPI, to deflate instead in one of two alternative ways. First, from the employers' point of view, the relevant price is the price of output in the nonfarm business sector, not the price of consumption; so if instead, compensation per hour is deflated by the price index for nonfarm business output (the red line), the shortfall is reduced to about 0.5 percentage point per year. Alternatively, about the same reduction in the shortfall from productivity growth (by 0.4 percentage point per year) can be accounted for if one deflates with the chain-weighted version of the CPI (the gold line). In contrast to the official (fixed-weighted) CPI, the chain-weighted CPI allows substitution. For example, when the price of beef falls relative to that of chicken, consumers will buy more beef and less chicken. Even with these adjustments, real hourly compensation falls short of productivity growth, which is another way of saying that the labor compensation share of GDP has fallen over this interval. (In fact, the labor share has generally fallen during the past 40 years.)

Figure 14-14. Financial Conditions Impulse to Growth and Underlying Components

Percentage point contribution to year–ahead real GDP growth



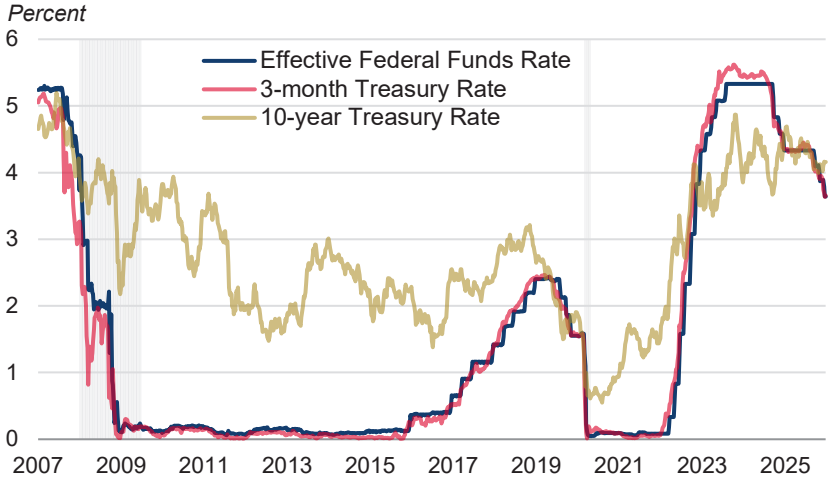
Sources: Ajello et al. (2025), National Bureau of Economic Research; CEA calculations.
Note: Gray bars indicate recessions.

Financial Markets

Financial conditions broadly eased over 2025, generating a modest tailwind to economic growth. Such easing of financial conditions is illustrated by the Financial Conditions Impulse, a composite measure compiled by economists at the Federal Reserve Board of Governors (Ajello et al. 2025). The Financial Conditions Impulse to economic growth is illustrated in figure 14-14, with positive numbers reflecting tightening conditions whereas negative numbers reflect easing conditions. Across 2024, overall financial conditions had a roughly neutral effect on year-ahead GDP growth. Over 2025, they eased to provide a 0.7 percentage point tailwind to GDP growth. The primary factors driving the easing of financial conditions from 2024 to 2025 were lower interest rates and the rise in the stock market.

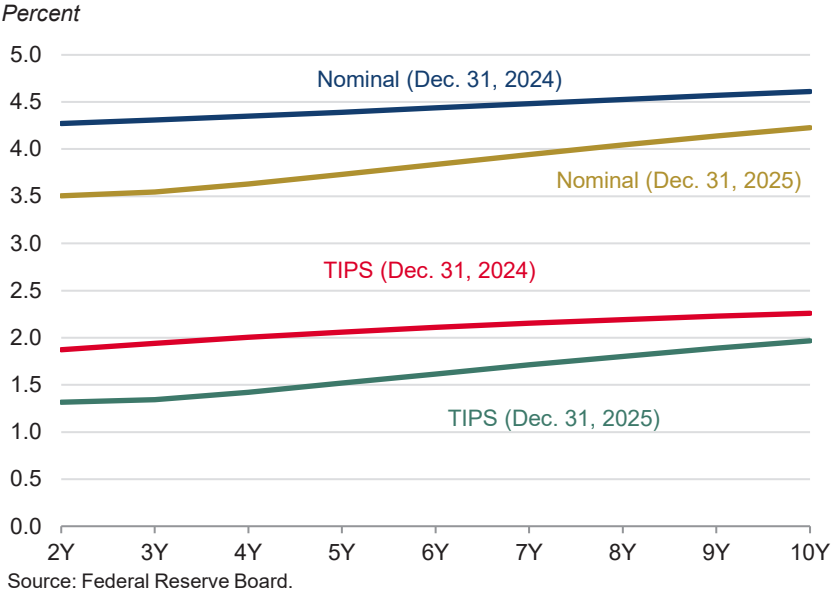
Interest rates fell during the 12 months of the year, on both the short and long ends. Shorter-term interest rates fell more than longer-term ones, with the Federal Funds and three-month Treasury Bill rates both falling 0.7 percentage point, while the yield on 10-year Treasury Notes fell 0.4 percentage point. The drop at the short end occurred mostly during the last four months of the year, while the drop at the long end was mostly in the first half of the year (figure 14-15). The adjustments to interest rates during 2025 left the yield curve more upward-sloping (figure 14-16), after having been inverted after the

Figure 14-15. Key U.S. Interest Rates



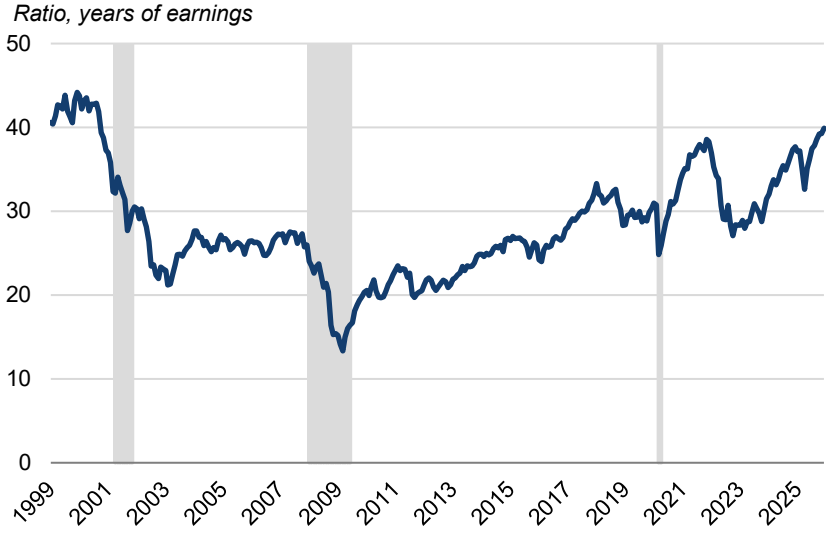
Sources: Federal Reserve Board of Governors; National Bureau of Economic Research.
Note: Gray bars indicate recessions.

Figure 14-16. Nominal and TIPS Treasury Yield Curves



Source: Federal Reserve Board.
Note: TIPS = Treasury Inflation–Protected Securities.

Figure 14-17. Cyclically Adjusted Standard & Poor's Price–to–Earnings Ratio



Sources: Robert Shiller; Haver Analytics; National Bureau of Economic Research.
Note: The cyclically adjusted S&P price–to–earnings ratio is the composite index's price divided by inflation-adjusted average earnings over the past 10 years. Gray bars indicate recessions.

COVID-19-induced recession. Changes to the nominal yield curve were parallel to those for the real yield curve inferred from Treasury Inflation-Protected Securities (usually called TIPS), suggesting that changes to these interest rates over the year predominately reflected adjustments to expected real interest rates.

Equity markets continued to trend upward during 2025. The S&P 500 rose 16.4 percent over the year, after a 23.3 percent increase over 2024. Equity valuations continued to rise relative to earnings. Using Robert Shiller's (2014) cyclically adjusted S&P price-to-earnings ratio (CAPE)—the ratio of the composite S&P 500 price to its average inflation-adjusted annual earnings over the preceding 10 years—averaged 37.1 years of earnings during 2025, up 2.2 years from its 2024 average. On an average annual basis, the CAPE is at its highest level since 2000 (41.7), when the dot-com stock market boom peaked (figure 14-17). One can infer that the market expects a rapid rise in earnings.

The U.S. dollar depreciated against foreign currencies during 2025. Relative to other advanced-economy currencies, the dollar traded at 8.1 percent less at the end of 2025 than at the end of 2024 (figure 14-18). Including emerging-market currencies, the dollar fell 6.7 percent over the year. The depreciation was concentrated in March and April, when the dollar fell 6.2 percent relative to other advanced-economy currencies. These declines coincided with the announcement of prominent changes in U.S. trade policy. Even with the dollar's

Figure 14-18. Exchange Value of the U.S. Dollar against Advanced–Economy Currencies



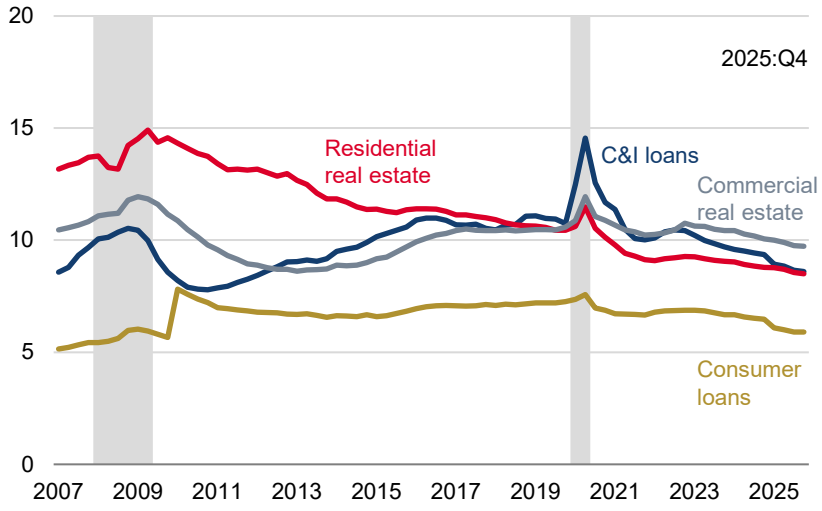
Sources: Federal Reserve Board of Governors; National Bureau of Economic Research; CEA calculations.
Note: Gray bars indicate recessions.

depreciation over 2025, its value is still higher than just before the COVID-19 pandemic. Relative to 2019 averages, the dollar ended 2025 0.9 percent higher when compared with other advanced-economy currencies and 3.7 percent higher when compared with the broader basket of foreign currencies.

Bank lending accounts for a considerable share of credit to individuals and businesses. Household and commercial loans outstanding at banks fell 0.3 percent over the four quarters of 2025 in nominal terms, after 1.5 percent growth during 2024. The 2025 decline was concentrated in commercial and industrial (C&I) lending (down 2.9 percent) and in nonmortgage consumer loans (down 3.8 percent). In contrast, residential and commercial real estate loans both increased over the year by 2.1 percent. Figure 14-19 normalizes loan stocks by annualized GDP to facilitate comparisons over longer horizons, reflecting broader changes in the size of the economy and price level. In 2025:Q4, C&I, consumer, and real estate loan balances at banks were equivalent to 32.7 percent of annualized GDP, down from 34.7 percent in 2024:Q4. Outstanding bank loans to businesses and consumers are also down from prepandemic levels, relative to the size of the overall economy; in 2019:Q4, they amounted to 39.0 percent of annual GDP. These declines from 2019:Q4 levels to 2025 were broad-based, ranging from a decline of 0.9 percentage point across commercial real estate to a decline of 2.1 percentage points for C&I loans.

Figure 14-19. U.S. Outstanding Loan Balances Relative to Annual GDP

Percent of annual GDP

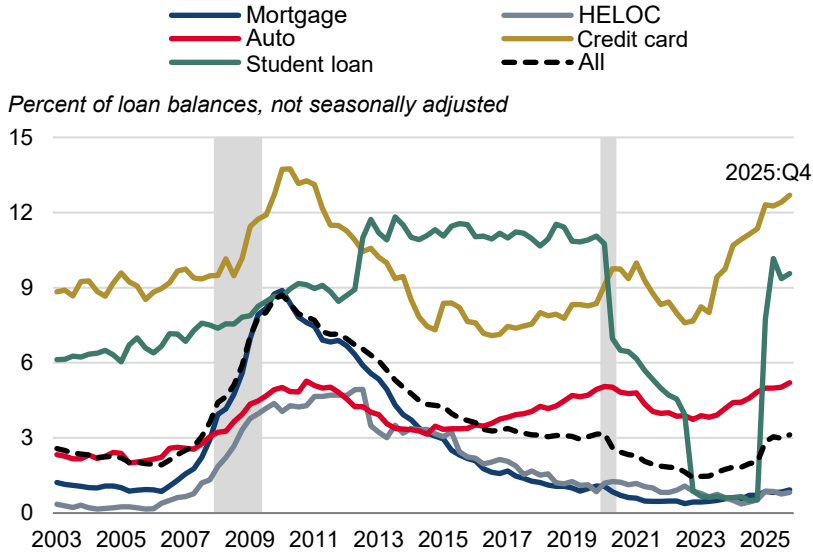


Sources: Federal Reserve Board; Bureau of Economic Analysis; National Bureau of Economic Research.
Note: C&I = commercial and industrial. Loan amounts are for all commercial banks from the Federal Reserve's H.8 release. Gray bars indicate recessions.

Consumer loan delinquency moved higher across loan products in 2025 but especially rose for student loans, reflecting the change in policies for loan forgiveness and forbearance (these policies had previously been obscuring repayment conditions) (figure 14-20; data are not seasonally adjusted). The transition rates into delinquency and serious delinquency were flat across non-housing loan types, with the exception of student debt, which rose.[8] During the COVID-19 pandemic, Federal student loans were placed in forbearance. That forbearance expired in October 2023 and, starting in October 2024, missed payments on Federal student loans were once again reported to credit bureaus. Excluding student loans, the overall serious delinquency rate rose 0.3 percentage point over the year ending in 2025:Q4, to 2.5 percent. While the serious delinquency rate for student loans rose 9.0 percentage points over the year ending in 2025:Q4, at 9.6 percent, it remains below its level in 2019:Q4 (11.1 percent). A combination of house price appreciation and relatively low interest rates that homeowners were able to lock in during the COVID-19 pandemic have helped keep the serious delinquency rate on mortgages below its prepandemic level (1.1 percent in 2019:Q4). Third-party collections were flat in 2025 and

[8] The serious delinquency rate is the share of loan balances that are at least 90 days delinquent or in a severely derogatory status, e.g., repossession, charge off, or foreclosure. The delinquency rate is the share of loans that are at least 30 days late.

Figure 14-20. Consumer Loan Serious Delinquency Rates



Sources: Federal Reserve Bank of New York/Equifax; National Bureau of Economic Research.
Note: Serious delinquency = at least 90 days past due or in a severely derogatory status (repossession, charge off, foreclosure). HELOC = Home equity lines of credit. Gray bars indicate recessions.

remain markedly below pre-COVID levels, even while the average collection amount per person in collections has increased.

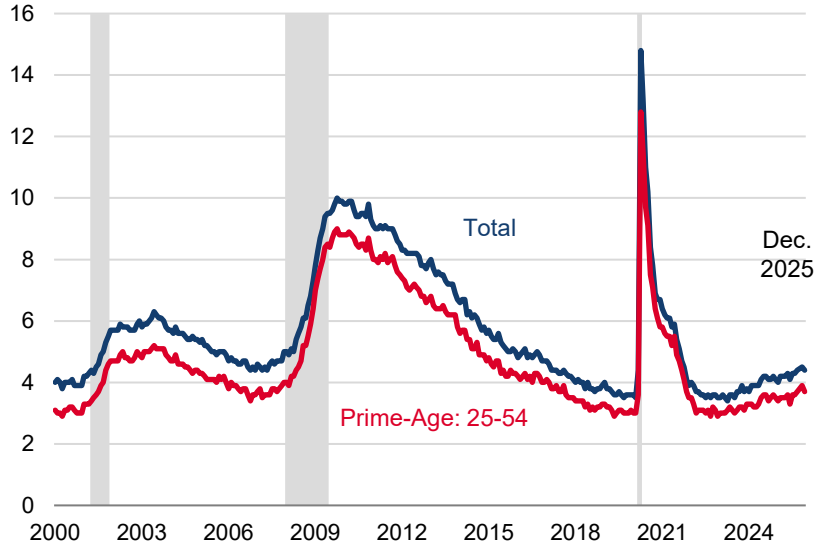
The Labor Market

The U.S. labor market remained largely in balance during 2025. The unemployment rate remained roughly unchanged, and average hourly earnings continued to rise on an inflation-adjusted basis, though the pace of employment growth slowed.

In December, the unemployment rate was 4.4 percent, up 0.3 percentage point from the end of 2024 (figure 14-21) and 0.2 percentage point from the first full month of the Trump Administration in February 2025. Similarly, the unemployment rate for the "prime-age" segment of the population—those age 25 to 54 years—rose 0.2 percentage point, to 3.7 percent. The unemployment rate remains relatively low by historical standards; for example, from 2000 through 2019, the overall unemployment rate averaged 5.8 percent outside recessions, as assessed by the National Bureau of Economic Research, while the prime-age rate averaged 5.0 percent. Additionally, the Labor Force Participation Rate (LFPR) remained fairly stable on net over 2025 (figure 14-22). Across the full adult population, the LFPR averaged 62.4 percent during the year as a whole, slightly lower than during 2024 (0.2 percentage point). The prime-age LFPR in

Figure 14-21. Unemployment Rate

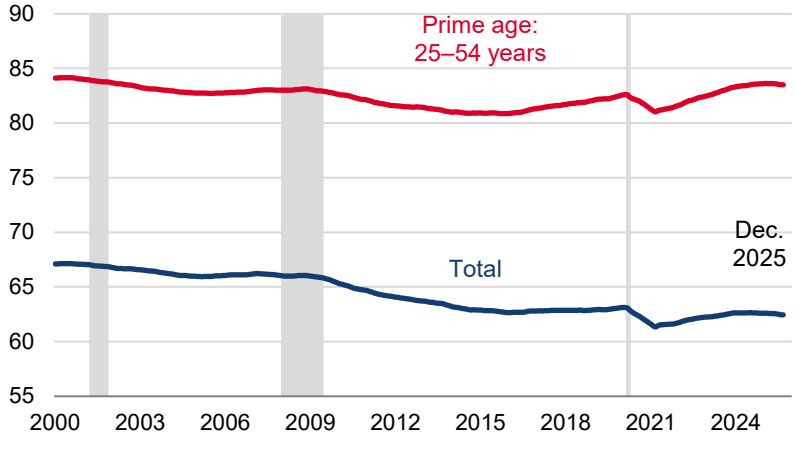
Percent



Sources: Bureau of Labor Statistics; National Bureau of Economic Research.
Note: Gray bars indicate recession.

Figure 14-22. The United States' Labor Force Participation Rate

Percent, 12-month moving average



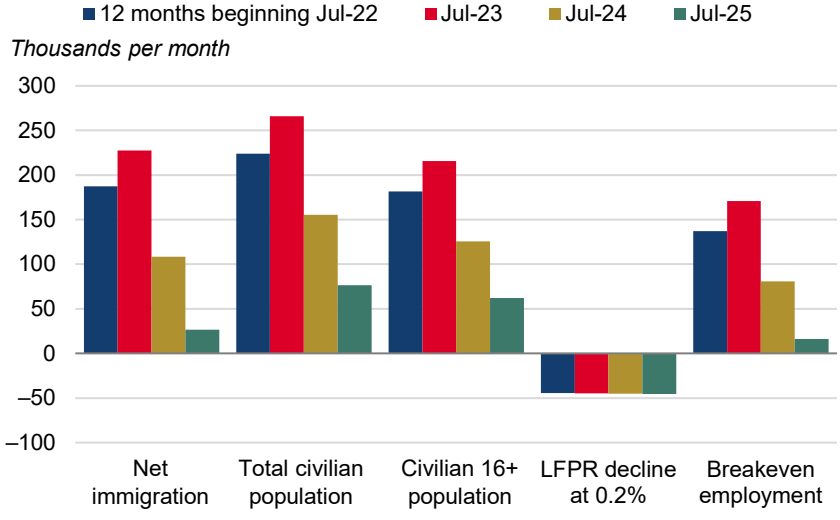
Sources: Bureau of Labor Statistics; National Bureau of Economic Research; CEA calculations.
Note: Gray bars indicate recessions.

2025 was 83.6 percent, unchanged from 2024. While the retirement of the Baby Boom generation has put secular downward pressure on the overall LFPR in recent years, the prime-age LFPR in 2025 was up 1.1 percentage points from its 2019 average, pointing to increased economic engagement for that segment of the population.

Employment growth slowed during 2025. Nonfarm payrolls increased by an average of 10,000 per month, roughly one-twelfth of their monthly increase in 2024 (122,000). Government employment declined an average of 15,000 jobs per month in 2025, in large part reflecting reductions in the Federal workforce. Private-sector employment growth also slowed in 2025, rising an average 25,000 per month, down from 85,000 per month in 2024.

On the supply side, slower employment growth is consistent with the decline in net immigration during the year. Net migration into the United States fell substantially from 2023 to 2025, which ultimately reduced the supply of workers in the U.S. job market. Working with the Census' practice of measuring population figures in July, net immigration increased from 188,000 per month during the 12 months beginning in July 2022 to 228,000 during the 12 months beginning in July 2023, as shown by the lefthand cluster of bars in figure 14-23. Net immigration then plunged during the next two July-to-July intervals, ultimately to 27,000 per month during the 12 months beginning in July 2025.

Figure 14-23. Effect of Declining U.S. Net Immigration on Breakeven Employment Growth



Sources: Census Bureau; CEA calculations.
Note: LFPR = labor force participation rate. This figure uses Census estimates and projections for net immigration and the civilian population for the 12-month period beginning in July of each year. It also uses CEA estimates of the effect on 16+ population and the breakeven employment.

These trends in net immigration importantly affect the pace of population growth. The Census estimates that total population growth slowed from 266,000 during the 12 months that began with July 2023 to 77,000 during the 12 months that began with July 2025 (as shown in the second cluster of bars in figure 14-23). The Census demographers' estimates for the working-age (16+) civilian noninstitutional population were not available when this *Report* was finalized. In the meantime, the figures for the growth of this working-age population are calculated as a constant share of the growth of the total civilian noninstitutional population, as shown in the third cluster of bars in figure 14-23.[9] The resulting estimate for the growth rate of the working-age population during the 12 months that began in July 2025 is 62,000 per month. If the LFPR were to stay constant, this pace of 62,000 per month would also be an estimate of the growth of employment needed to maintain a stable unemployment rate.

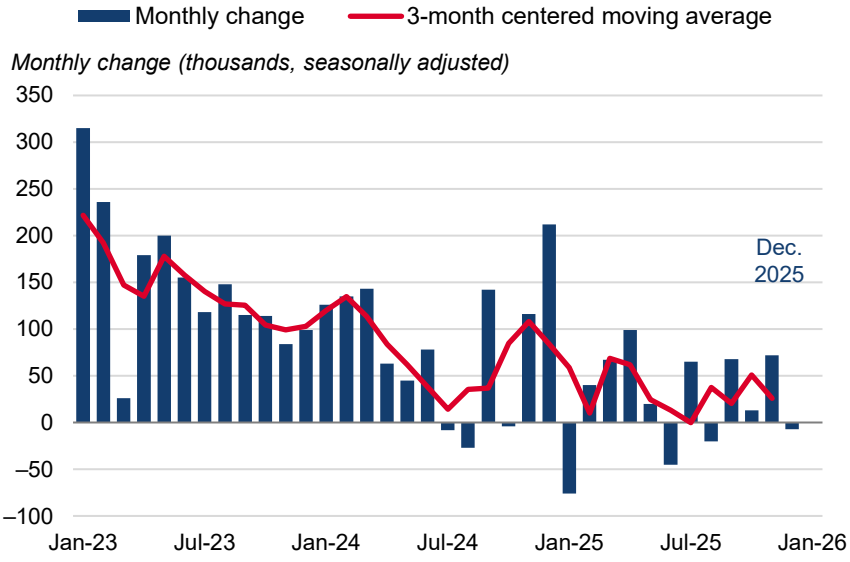
The LFPR is still trending down, however, because of the retirement of the Baby Boom cohorts, and this trend must be factored into the calculation of the breakeven rate. The cohort born in 1961—which was still a Baby Boom year—will reach the common retirement age of 65 this year, and the CEA estimates that the LFPR is on a downward trend of about −0.2 percent per year, or about 45,000 per month (the fourth cluster of bars in figure 14-23). As a result, the breakeven rate in the second half of 2025 may have fallen to roughly 16,000 per month, down from 170,000 two years earlier. To put the diminished rate of job growth in context, it should be remembered that the President's goal is for more of the job growth to go to legal American residents rather than to illegal immigrants.

The decline in the breakeven rate has been noticed by professional forecasters. Nearly all (94 percent) of the professional forecasters surveyed by Blue Chip in December 2025 reported that recent changes in immigration policy were factors in their downward revisions of breakeven employment growth. During 2024, total nonfarm payrolls rose on average 122,000 per month, while private nonfarm payrolls increased by an average 85,000 per month (figure 14-24). Over 2025, total average nonfarm payrolls rose 10,000 per month, while private nonfarm payrolls rose an average 25,000 per month.

On the demand side, metrics for job openings and labor market churn suggest a somewhat less tight labor market after several years of elevated demand for workers. The ratio of job openings to unemployed individuals is a common proxy for the tightness of the labor market, given that it compares a measure of firms' demand for additional workers with the number of people lacking a job and actively searching for one. Over the 12 months of 2025, the job openings per unemployed individual averaged 1.0, down from 1.2 in 2024 (figure 14-25), but still noticeably higher than its average of 0.6 between 2001 and 2019.

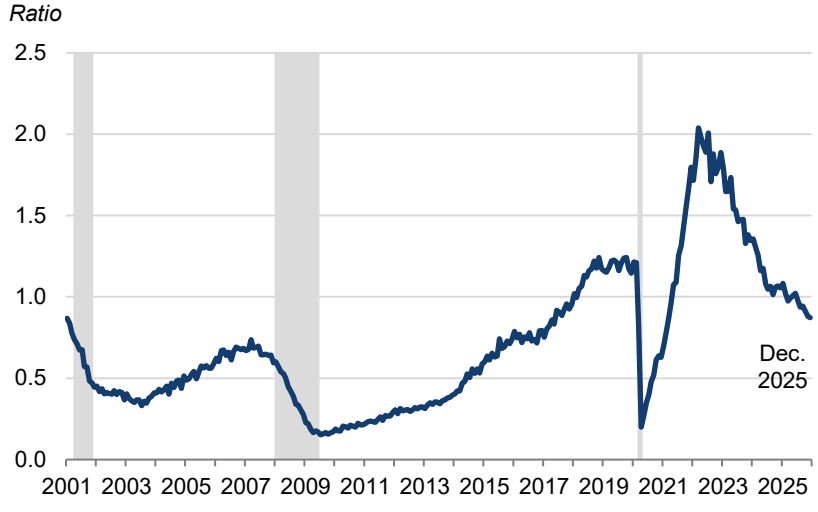
[9] The constant share (81.045 percent) is calculated from the January 2025 ratios of these two populations in last year's (vintage 2024) estimates.

Figure 14-24. Private Nonfarm Employment



Source: Bureau of Labor Statistics; CEA calculations.

Figure 14-25. Job Openings per Unemployed Individual



Sources: Bureau of Labor Statistics; National Bureau of Economic Research; CEA calculations.
Note: Gray bars indicate recessions.

Table 14-3. U.S. Nonfarm Employment, December 2025 from December 2024

Sector	Share of total employment, percent	Average monthly change, thousands	12-monthy growth rate, percent
Trade, transportation, and utilities	18.1	–16	–0.6
Education and health services	17.3	57	2.4
Government	14.8	–15	–0.7
Professional and business services	14.1	–13	–0.6
Leisure and hospitality	10.6	8	0.4
Manufacturing	8.0	–9	–0.8
Financial services	5.8	1	0.1
Construction	5.2	0	0.0
Other services	3.8	4	0.7
Information services	1.8	–4	–1.6
Mining and logging	0.4	–2	–2.7
Total	—	10	0.1

Sources: Bureau of Labor Statistics; CEA calculations.

Note: Shares of total employment reflect averages over 2025.

The incidence of hiring, voluntarily quitting, and layoffs changed little between 2024 and 2025. Relative to 2019, the average hires rate in 2025 was down 0.5 percentage point, while the quits rate was 0.3 percentage point lower.

Employment trends varied markedly across industry supersectors during 2025 (table 14-3). Between December 2024 and December 2025, jobs increased in four supersectors, were little changed in one, and declined in six. Both in percentage and level terms, payrolls rose the most in education and health services (57,000 per month; 2.4 percent over the year); except for education and health services, economy-wide net employment fell by 47,000 jobs per month. Trade, transportation, and utilities experienced the largest decline of any sector in level terms (down 16,000 per month), while mining and logging experienced the largest percentage decline of any sector (down 2.7 percent over the year).

The Forecast for the Years Ahead

The Trump Administration foresees that the United States' macroeconomy will quickly settle into a healthy steady state during 2026, and then will maintain this course during the next 11 years. In this steady state, real GDP growth will average 3 percent, inflation will be steady at a rate consistent with the Federal Reserve's target, the unemployment rate will remain flat, and interest rates will edge down and then stabilize.

The Administration's economic forecast underpins the President's Budget and sets forth its expectations of the major macroeconomic variables over the

Table 14-4. Economic Projections, 2025–36

	Percent change (Q4-to-Q4)				Level (percent)			
		Inflation measures			Unemployment rate		Interest rates	
Year	Real GDP	GDP Price Index	PCE Price Index	CPI	Annual	Q4	3-Month T-Bills	10-Year T-Notes
Actual								
2023	3.4	2.7	2.9	3.2	3.6	3.8	5.1	4.0
2024	2.4	2.5	2.6	2.7	4.0	4.1	5.0	4.2
Forecast								
2025	1.8	3.2	2.8	2.8	4.2	4.2	4.1	4.3
2026	3.5	2.2	2.0	2.3	3.9	3.7	3.2	3.7
2027	3.1	2.0	2.0	2.3	3.7	3.7	3.1	3.5
2028	3.1	2.0	2.0	2.2	3.7	3.7	3.1	3.5
2029	3.1	2.0	2.0	2.2	3.7	3.7	3.1	3.4
2030	3.0	2.0	2.0	2.2	3.7	3.7	3.1	3.3
2031	2.9	2.0	2.0	2.2	3.7	3.7	3.1	3.3
2032	2.9	2.0	2.0	2.2	3.7	3.7	3.1	3.3
2033	2.9	2.0	2.0	2.2	3.7	3.7	3.1	3.3
2034	2.9	2.0	2.0	2.2	3.7	3.7	3.1	3.3
2035	2.9	2.0	2.0	2.2	3.7	3.7	3.1	3.3
2036	2.9	2.0	2.0	2.2	3.7	3.7	3.1	3.3

Sources: Bureau of Economic Analysis; Bureau of Labor Statistics; Department of the Treasury; Office of Management and Budget; CEA calculations.
Note: The forecast is based on data available as of November 4, 2025. The interest rate on 3-month (91-day) Treasury Bills is measured on a secondary-market discount basis.

next 11 years. This forecast is summarized in table 14-4. The Administration finalized its macroeconomic forecast using data available through November 4, 2025. At that moment, GDP data were available only through 2025:Q2, due to the government shutdown, and labor market and price data were also delayed.

Real GDP growth fluctuated during 2025, partially due to the fourth-quarter government shutdown. The Administration expects that the sectors suppressed by the shutdown will bounce back to their trend levels immediately as those components that subtracted from real GDP growth in 2025:Q4 are added back in 2026:Q1. Also boosting real GDP growth for all of 2026 are several provisions of the OBBBA.[10] A partial list of the growth-boosting provisions include a permanent program of 100 percent expensing for equipment investment and for research and development expenditures, the permanent extension of the 199-A passthrough deduction for small businesses, and temporary (five-year) expensing for qualified production property.[11] Although the OBBBA was signed into law by the President on July 4, 2025, these provisions are retroactive to January 21, 2025, when this legislation was first proposed. As a result, the positive effects on real GDP are likely to have begun in 2025 and will spill over into 2026.

The six key supply-side components of this expected 3 percent average annual rate of growth are shown in table 14-5: the population (16 and over), the Labor Force Participation Rate, the employment rate, the workweek, labor productivity growth, and the output per person differential.[12] The levels of these six components multiply together to form an identity for real GDP. Therefore, the growth rates of these six factors approximately sum to the growth rate of real GDP. Each of these growth rates is discussed in turn here.

The Population 16 and Over

Growth of the 16-and-over population has several key components: the number of 15-year-olds who turn 16 every year, deaths, and net immigration. Effects from changes to migration policy deserve a special focus. Customarily, the Trump Administration's population forecast follows the one put together by the demographers at the Social Security Administration (SSA), but their latest forecast was assembled in 2024—before the Administration announced its immigration reforms—and is now out of date, especially with respect to net

[10] See chapter 1 of this *Report* and see the Congressional Budget Office's paper (CBO 2025; see the heading "How H.R.1 Would Affect Real GDP").

[11] In addition to manufacturing, the possibility of 100 percent expensing applies to other forms of production properties such as refining, chemical processing, and agricultural processing.

[12] The output per person differential—when measured as a level—is the ratio of GDP per worker in the economy as a whole to output per worker in the nonfarm business sector. When measured as a growth rate, it is the growth rate of real GDP per worker in the economy as a whole, less the growth rate of output per person in the nonfarm business sector. Productivity growth is best measured in the nonfarm business sector. In contrast, productivity does not grow—by assumption—in the government and household sectors.

Table 14-5. Supply-Side Components of Actual and Potential Real U.S. Output Growth, 1953–2036

	Component	Growth rate (percentage points)					
		1953:Q2 to 2019:Q4	1953:Q2 to 1973:Q4	2001:Q1 to 2007:Q4	2007:Q4 to 2019:Q4	2019:Q4 to 2025:Q2	2025:Q2 to 2036:Q4
		(1)	(2)	(3)	(4)	(5)	(6)
1	Civilian noninstitutional population age 16+	1.4	1.6	1.1	1.0	0.9	0.5
2	Labor force participation rate	0.1	0.2	–0.3	–0.3	–0.2	–0.1
3	Employed share of the labor force	0.0	–0.1	0.1	0.1	–0.1	0.0
4	Average weekly hours (nonfarm business)	–0.2	–0.3	–0.3	–0.1	–0.2	0.0
5	Output per hour (productivity, nonfarm business)	2.1	2.6	2.4	1.6	1.9	2.9
6	Output per worker differential: GDO versus nonfarm**	–0.3	–0.3	–0.5	–0.4	0.1	–0.5
7	Sum: Actual real GDO	3.0	3.7	2.4	1.8	2.3	3.0

Sources: Bureau of Labor Statistics; Bureau of Economic Analysis; Department of the Treasury; Office of Management and Budget; CEA calculations.

Note: All contributions are in percentage points at an annual rate. The forecast jumps off from data available in early November 2025. Total may not add up due to rounding. 1953:Q2, 1990:Q3, 2001:Q1, 2007:Q4, and 2019:Q4 are all quarterly business-cycle peaks. Gross domestic output (GDO) is the average of GDP and gross domestic income. Population, labor force, and household employment have been adjusted for discontinuities in the population series.
**The output-per-worker differential (row 6) is the difference between output-per-worker growth in the economy as a whole (GDO divided by household employment), and output-per-worker growth in the nonfarm business sector.

[a] Real GDO and real nonfarm business output are measured as the average of income- and product-side measures.

migration. The Administration's immigration policy reduced growth of the foreign-born population substantially during 2025. And the Administration's immigration policy will continue to be more restrictive relative to the previous policy.

To arrive at the net migration forecast, the Administration begins with the SSA population growth forecast, and adjusts this forecast downward by 0.4, 0.2, 0.1, and 0.1 percentage point, respectively, during the first four full years of the forecast, 2026-29. For the 11-year forecast, this averages out to a reduction of 0.1 percentage point in the population row (row 1, column 6) of table 14-5 relative to the one that would have been consistent with the latest SSA forecast. The population growth rate of 0.5 percent per year is less than the growth rates in any of the historical intervals shown in table 14-5. It is similar, however, to the average annual rate of population growth during the four years of the first Trump Administration.

The Labor Force Participation Rate

The Labor Force Participation Rate is expected to continue to be weighed down during the next several years by the retirement of the Baby Boom cohorts. Birthrates were elevated from 1946 to 1962, and the retirement of those large Baby Boom cohorts has caused the overall LFPR to drift lower since about 2008. Following the profile of how the LFPR varies with age, the steepest declines—relative to the age of the individual—are between age 62 and age 66. The large 1961 and 1962 birth cohorts are now 65 and 64 years old, respectively. Therefore, substantial retirements—accompanying a diminishing LFPR—are likely for the next several years, even if they would be partially offset by the Administration's policy of lower tax rates that encourage labor force participation. The downward force from these Baby Boom cohorts retiring will diminish after 2028, and so the overall LFPR is likely to stabilize. Averaging the continued near-term declines in the LFPR with the stabilization thereafter results in a LFPR that is likely to edge lower by 0.1 percent per year—on average—during the 11-year projection interval (table 14-5, row 2, column 6).

The Employment Rate

The employed rate (equal to 1 minus the unemployment rate) is projected to rise a bit as the unemployment rate edges lower—during 2026—to 3.7 percent (the rate of unemployment that the Administration considers to be consistent with stable inflation, as shown in table 14-4). But the employed share of the labor force is essentially flat over the 11-year projection interval (row 3, column 6).

The Workweek

The workweek is projected to become stable after a long period of shortening (table 14-5, row 4, column 6). The decline in the workweek in the post-World

War II period reflected the entry of women into the labor force (because women—on average—work shorter workweeks than men) and the long-term decline of factory employment (because the manufacturing workweek is longer than the workweek in other sectors). In the future, however, these factors are less likely to dominate the length of the workweek than during the historical interval, because the female participation rate has plateaued and the manufacturing share of employment is expected to stabilize near its recent levels.

Labor Productivity

Labor productivity growth (measured as output per hour in the nonfarm sector) is projected to average 2.9 percent during the 11-year projection period, notably faster than the 2.1 percent annual growth rate during the years 1953–2019 (table 14-5, row 5, columns 1 and 6). Labor productivity is expected to be boosted by the Administration's policies, such as deregulation (see chapter 2 of this *Report*) and pro-growth OBBBA tax policy leading to increased capital per worker. In addition, increasing use of artificial intelligence is widely expected to boost productivity growth. The United States has experienced long-term growth of labor productivity at such a pace before, most recently during the 15 years 1948–63.

Output per Worker Differential

Finally, the output per worker differential—the difference between the growth rate of output per worker for the economy as a whole and the growth rate of output per worker in the nonfarm business sector—is expected to be negative. This negative value is largely a consequence of the national accounting convention that productivity does not grow in the government and household sectors, while productivity growth is usually positive in the nonfarm business sector. As a result, this differential is negative when measured during long periods. Furthermore, when nonfarm productivity growth is higher than average, the differential is usually more negative than average, so that a more-negative differential partially offsets higher-than-usual nonfarm productivity growth. As a result, the productivity differential is expected to be more negative during the 11-year forecast interval relative to most of the other long periods shown in table 14-5.

Adding It All Up

In sum, the Trump Administration expects real gross domestic output growth during the 11-year projection period to exceed the 2.3 percent average pace during the six years since the last business-cycle peak in 2019:Q4 (table 14-5, row 7, column 5). The higher-than-historic average productivity growth—the result of artificial intelligence and Administration policies of deregulation and pro-growth tax policy that leads to capital deepening—will more than offset lower-than-historic average population growth.

Conclusion

Real GDP grew at a solid 2.0 percent annual rate over the four quarters of 2025, supported by strong growth in business fixed investment and steady growth in consumer spending. Policy, as embodied in the One Big Beautiful Bill Act, played a positive role, given that many of its features were backdated to January 2025, when they were first proposed. Inflation continued to edge lower and real wages showed moderate gains. Financial markets supported growth with large gains in stock market values. Looking ahead, the Administration projects real GDP to grow at a 3.0 percent annual rate, with steady inflation and some further near-term declines in interest rates.