

Resilience Tested: A Cautious Outlook for the U.S. Economy

Nate Kauffman, Federal Reserve Bank of Kansas City

May 29, 2025



Denver / Oklahoma City / Omaha

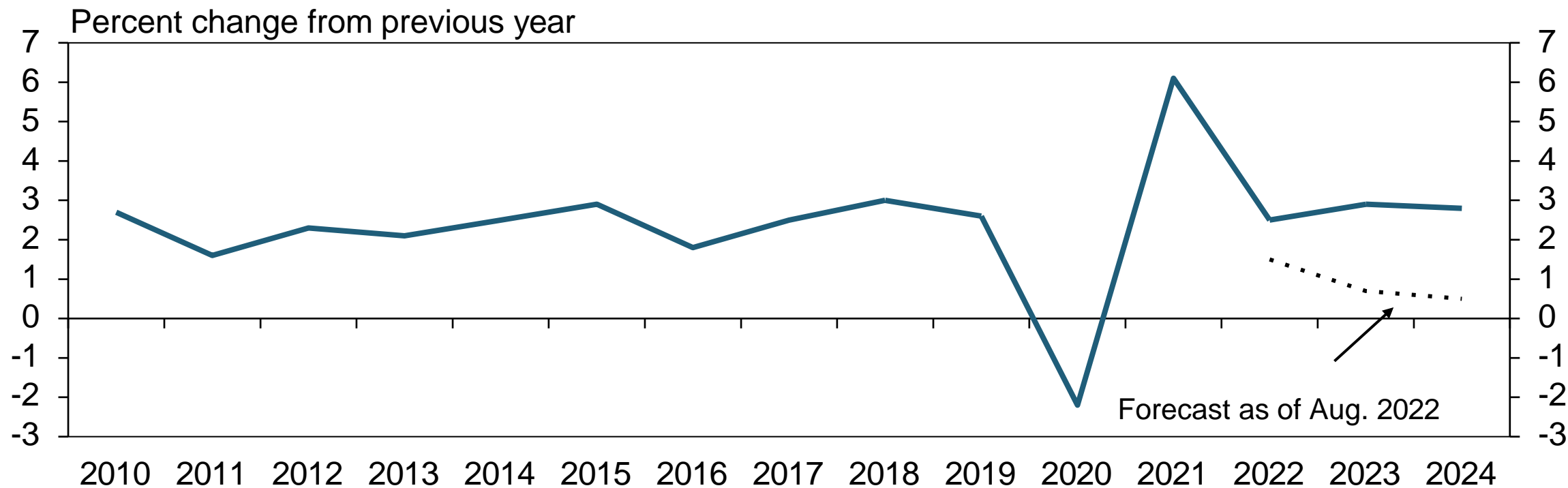
The views expressed here are those of the speaker and do not necessarily reflect the opinions of the Federal Reserve Bank of Kansas City or the Federal Reserve System.

Outlook Themes

- The U.S. economy has been resilient over the past two years, supported by a strong job market and consumer spending.
- Over the past few months, however, consumer spending has slowed and economic activity has softened.
- Although inflation is near the Fed's long-term target, short-run inflation expectations have risen significantly.
- Markets signal heightened growth risks for the months ahead. Longer-term, growth (and interest rates) will depend on a multitude of factors.

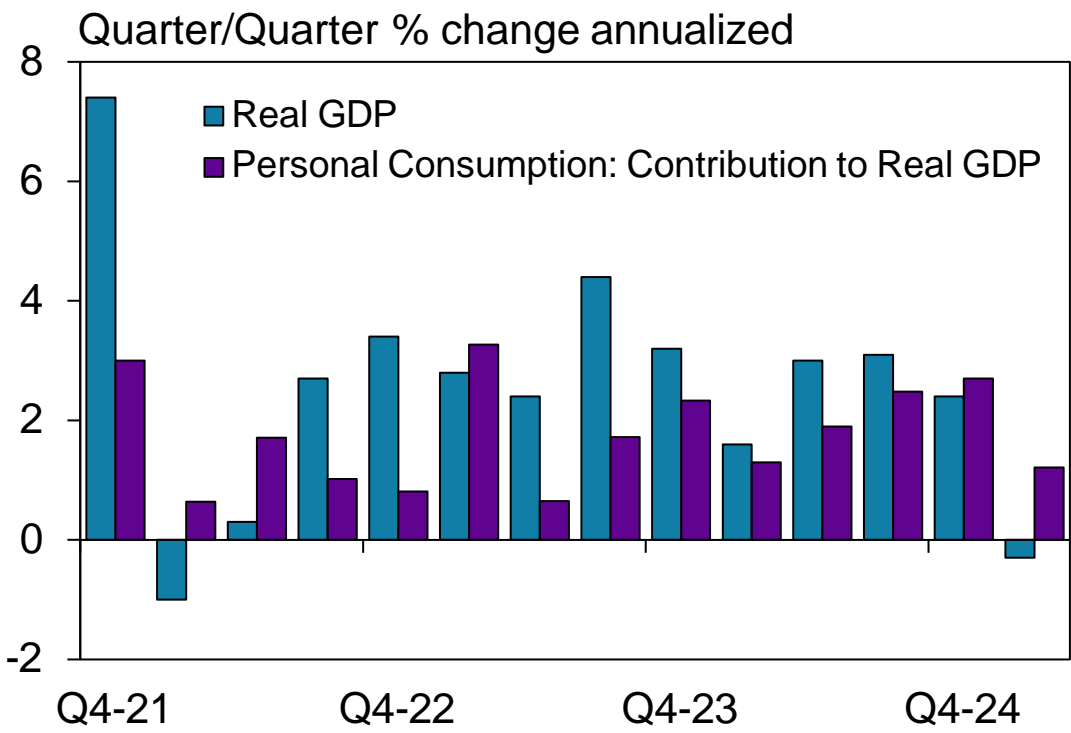
Economic growth in the U.S. has been resilient over the past two years.

U.S. Real GDP Growth

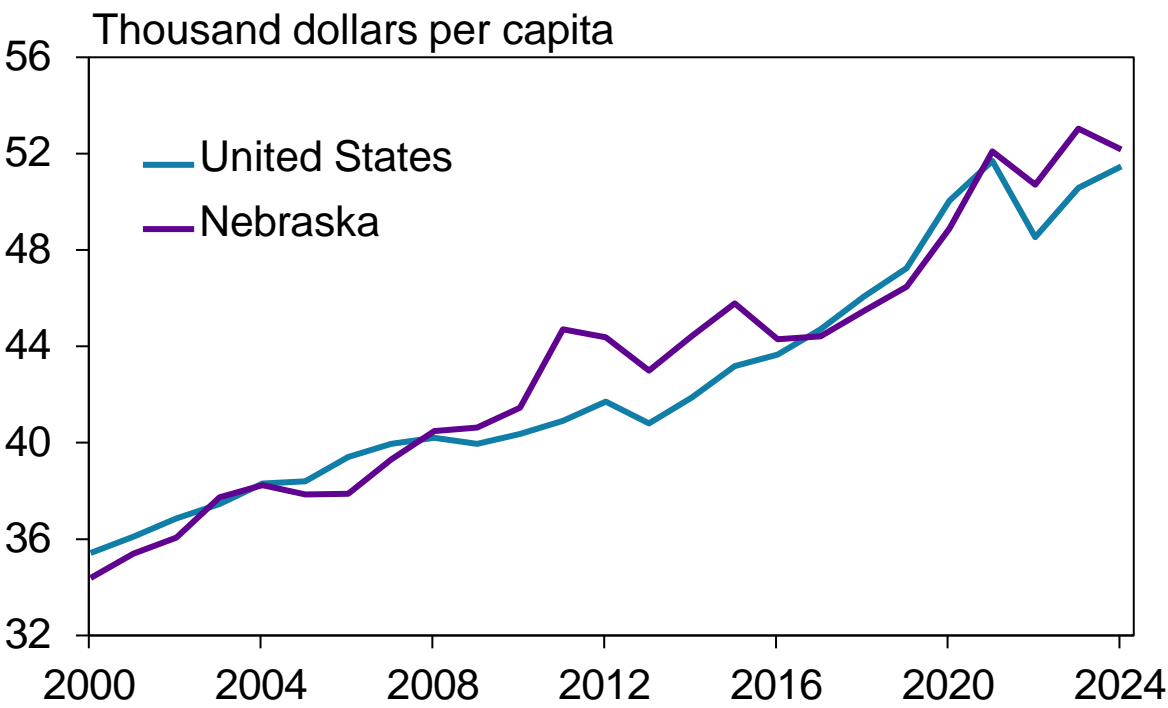


Growth has been powered by the strength of U.S. consumers.

Contribution to U.S. Real GDP

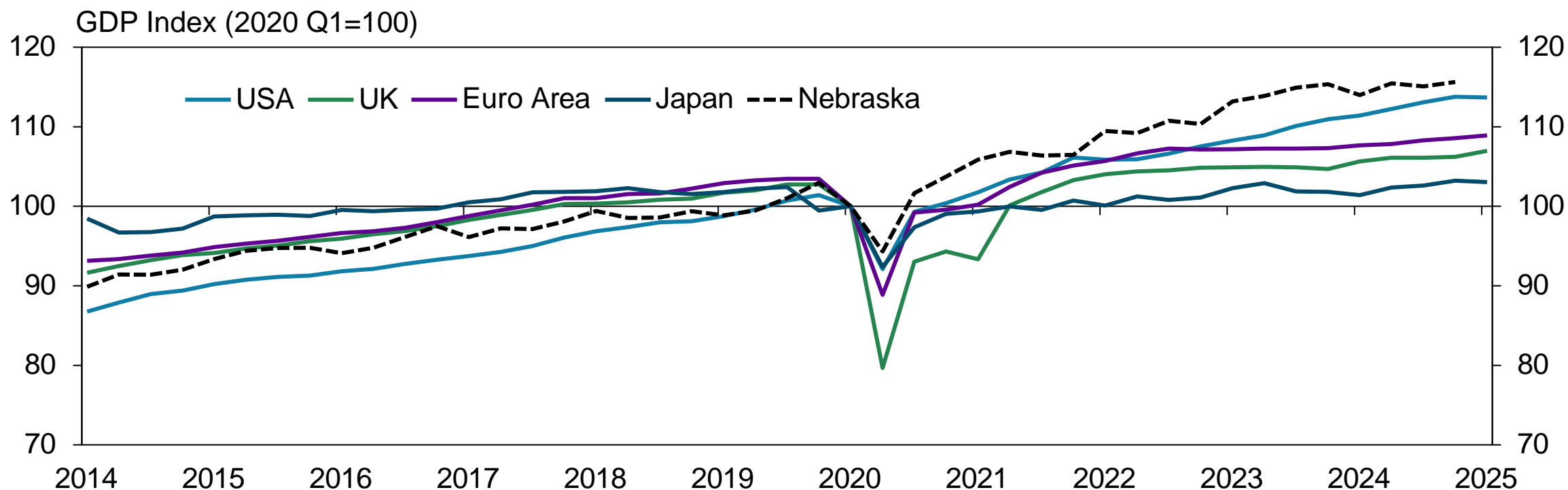


Real Disposable Personal Income



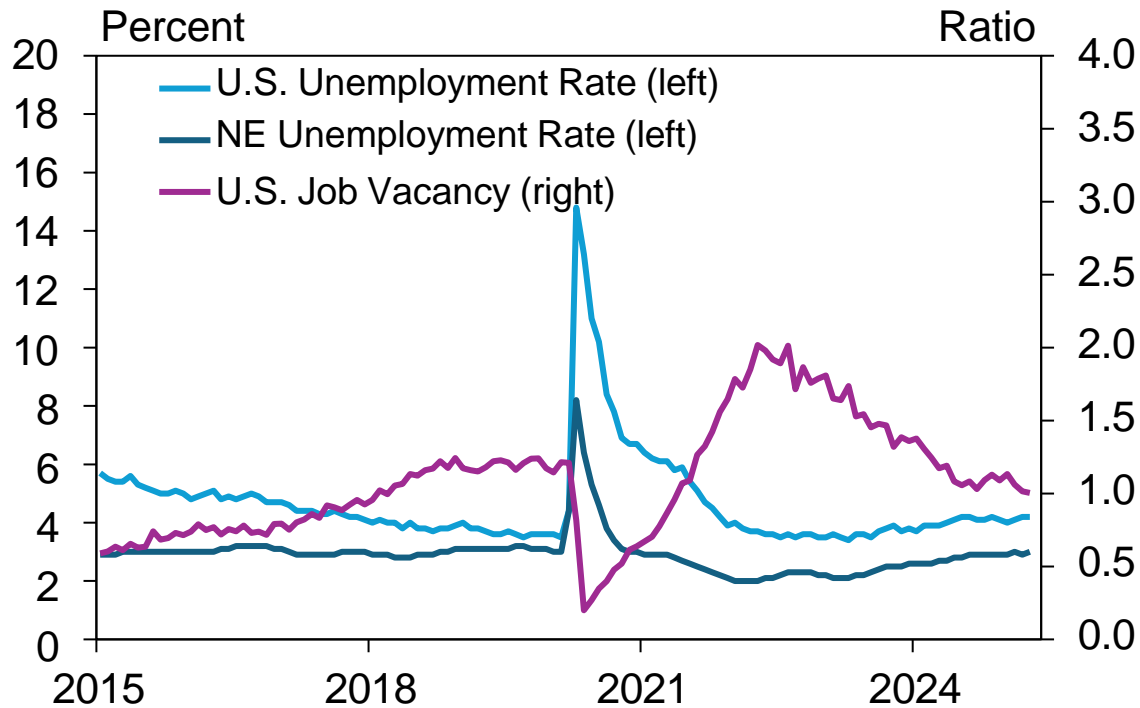
The U.S. economy has outperformed relative to growth in other countries.

Real Gross Domestic Product

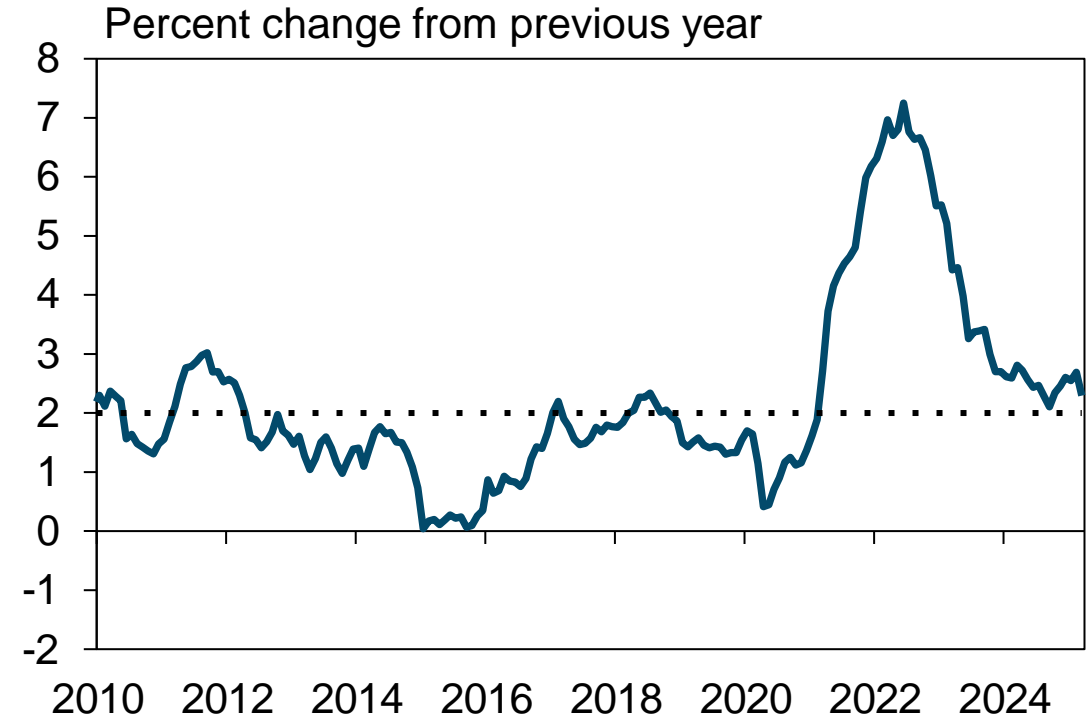


Labor markets have cooled, but unemployment has been low and inflation has trended toward the Fed's target.

U.S. Labor Markets

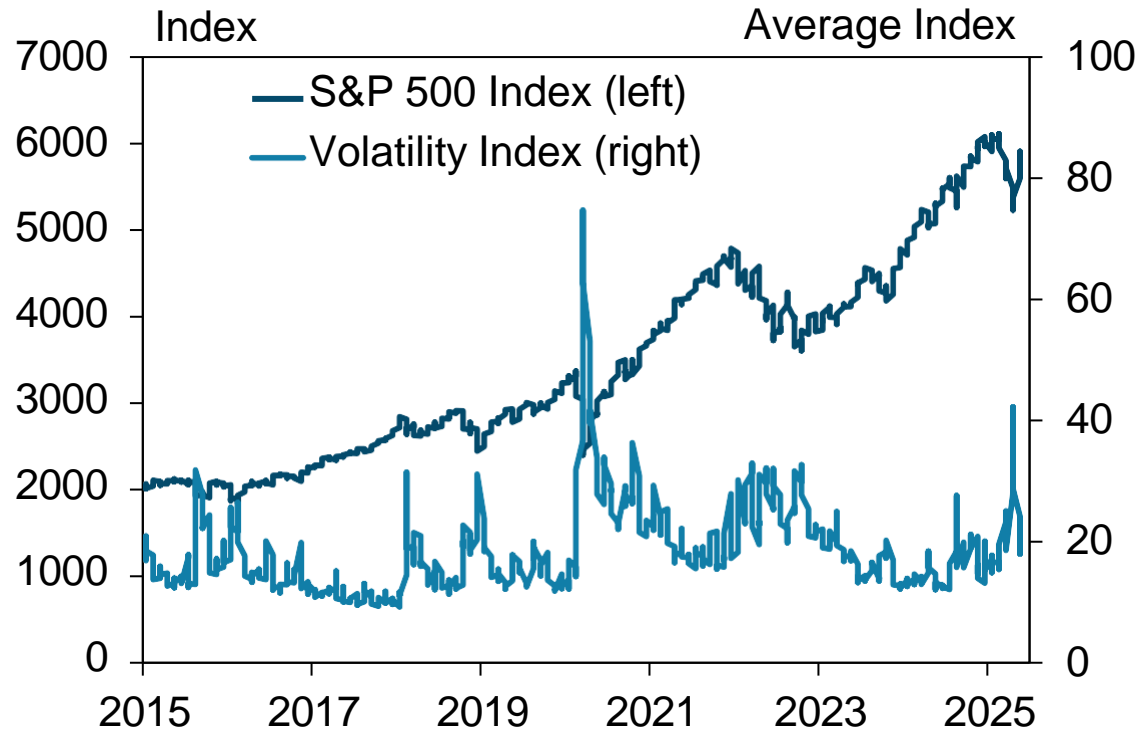


U.S. Inflation

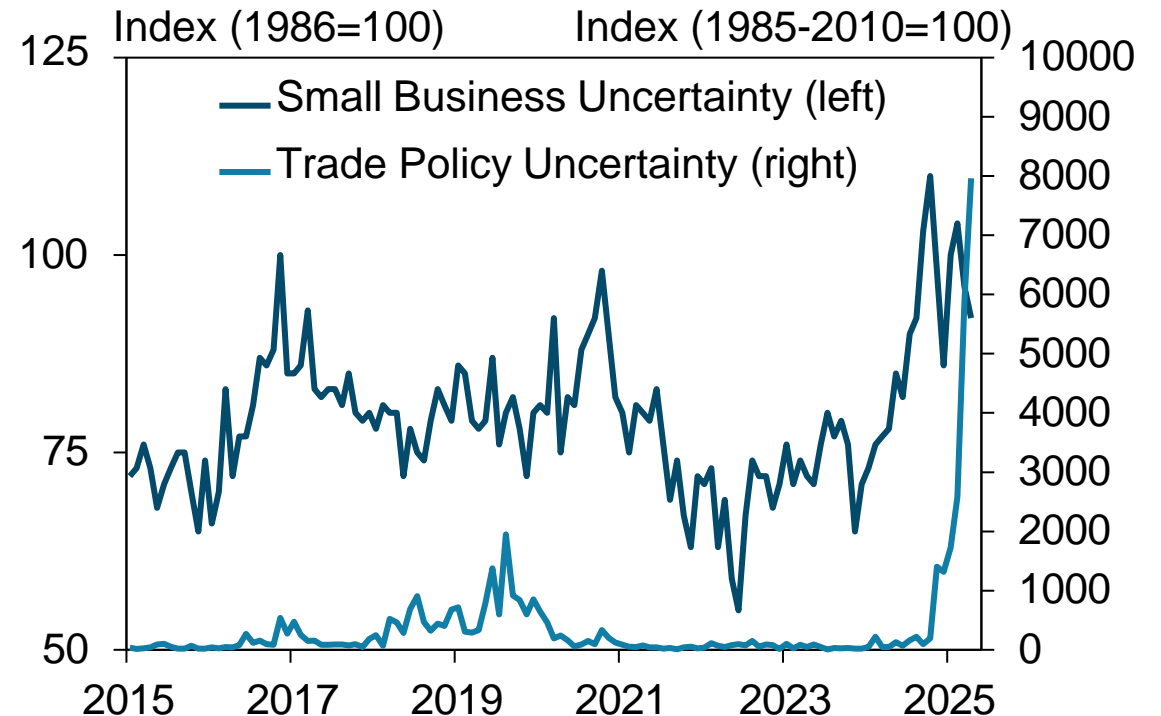


Over the past several weeks, however, financial markets have been volatile alongside heightened uncertainty.

U.S. Equity Markets

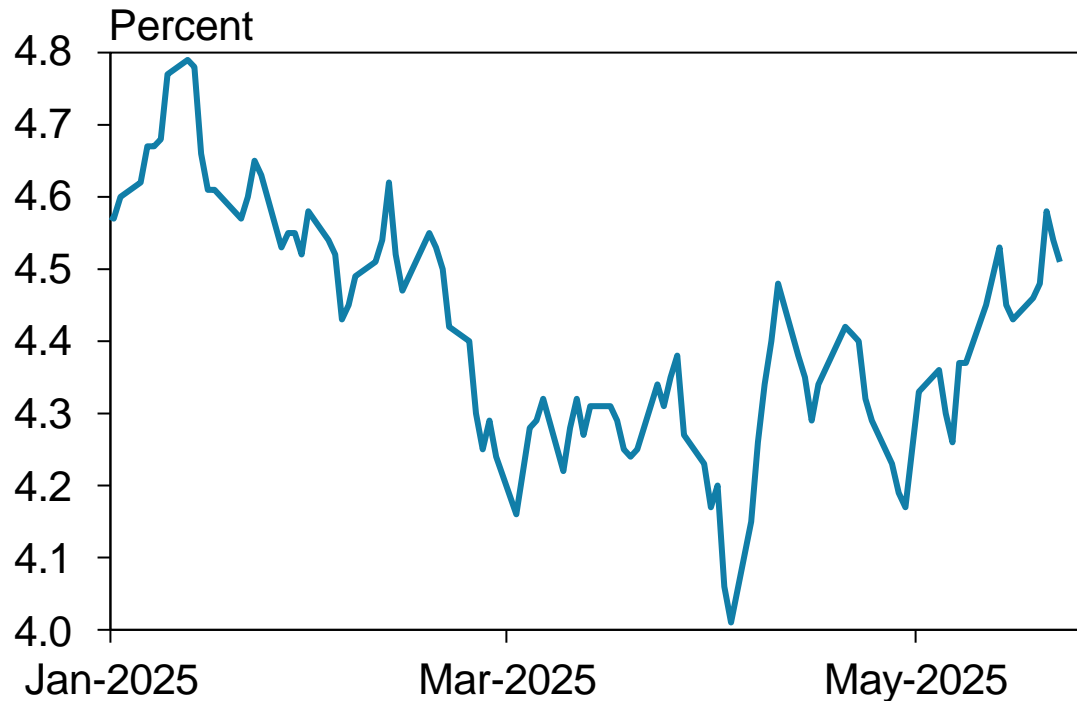


Business and Policy Uncertainty

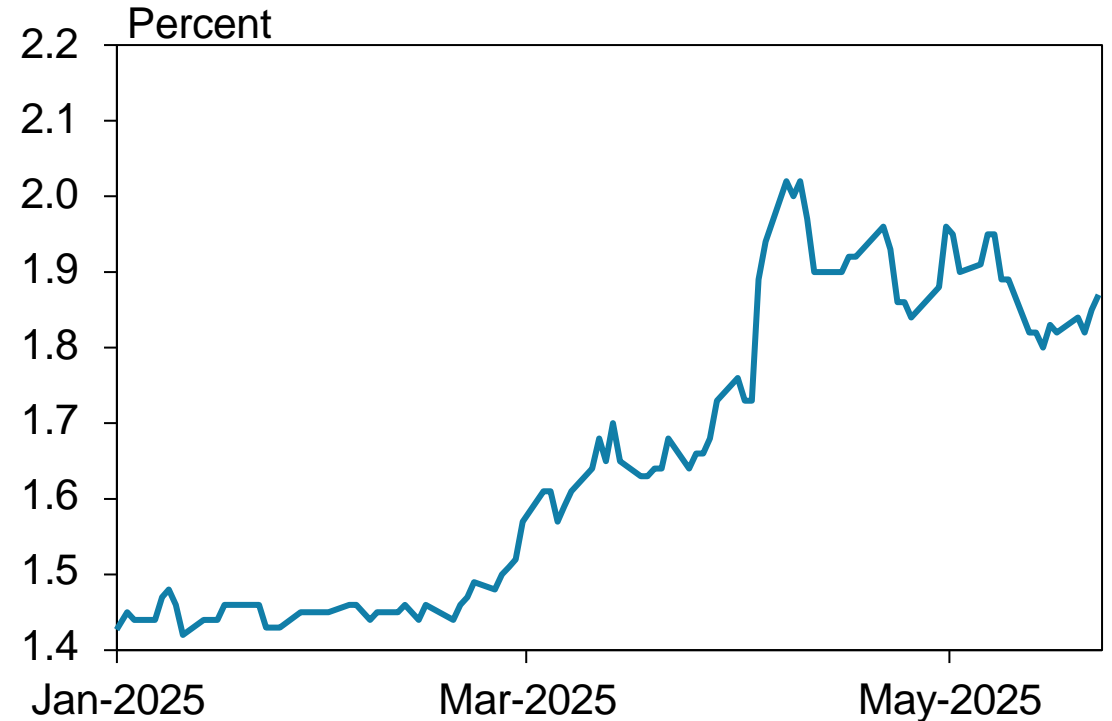


While Treasury yields have trended lower, there has been a recent surge and wider spreads on corporate bonds.

U.S. 10-Year Treasury Yield

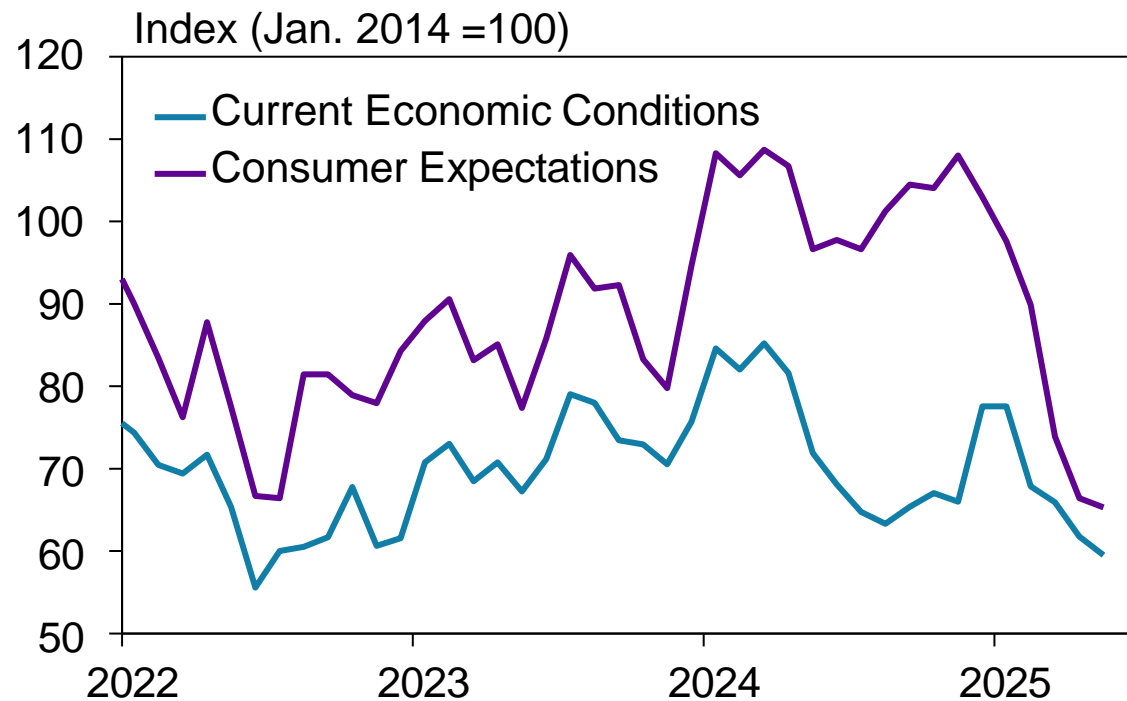


Corporate Bond Yield-to-10 Year Treasury Yield

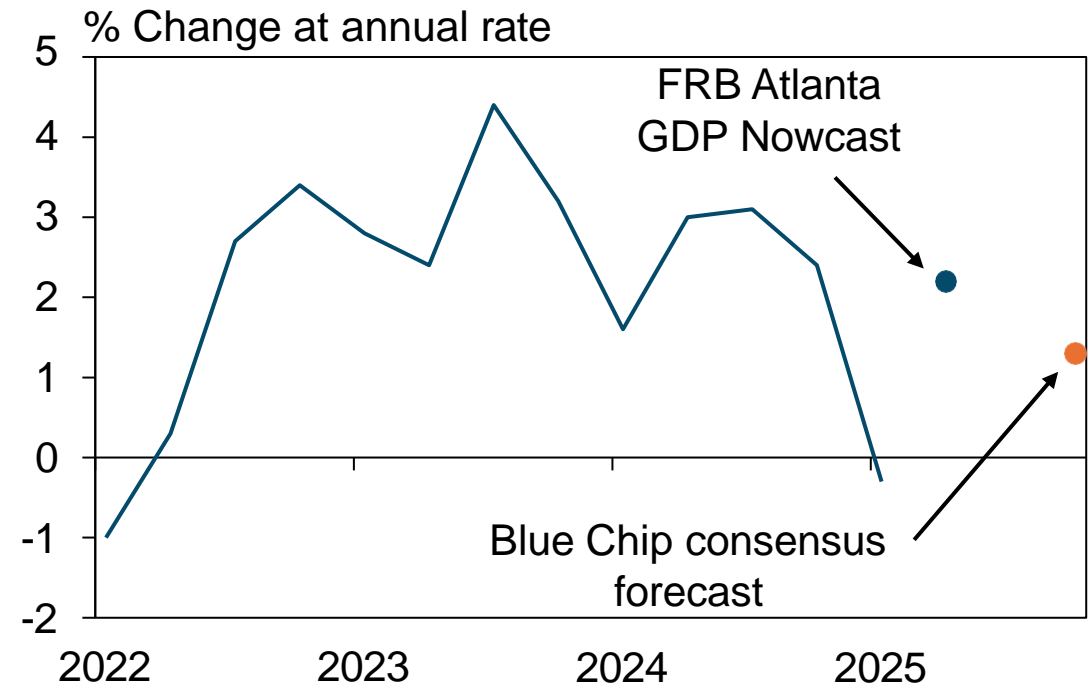


Consumer sentiment has declined sharply, with a pullback in economic growth in the first quarter.

U.S. Consumer Sentiment

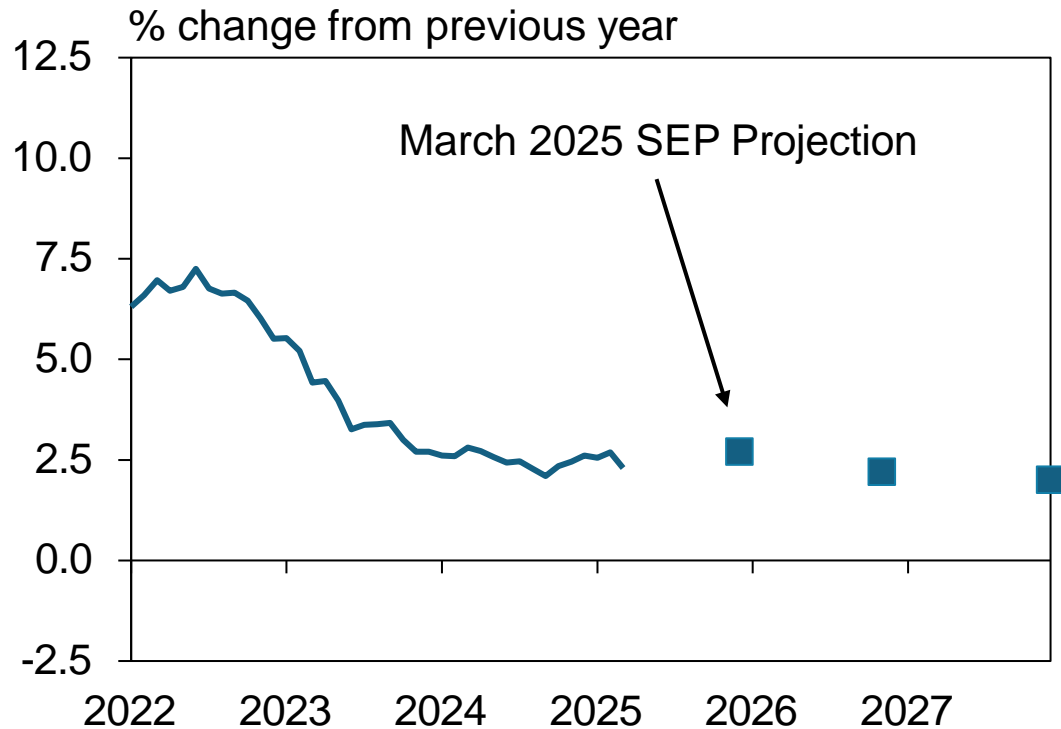


Real GDP

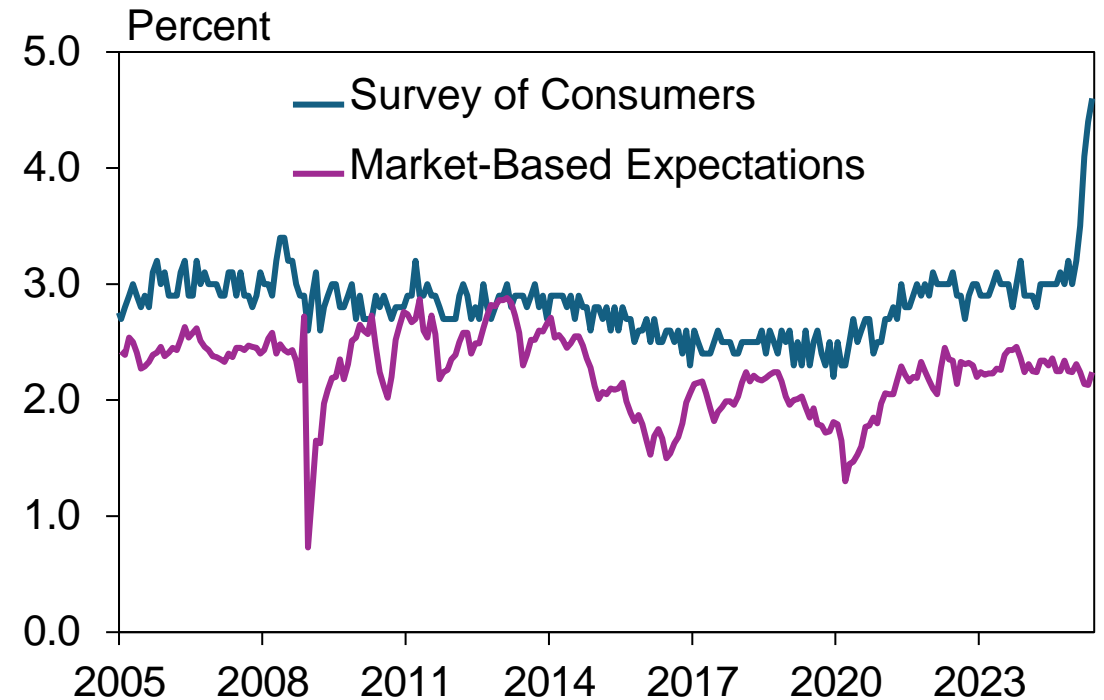


Some inflationary pressures may have also resurfaced with heightened concerns about inflation expectations.

U.S. Consumer Price Index

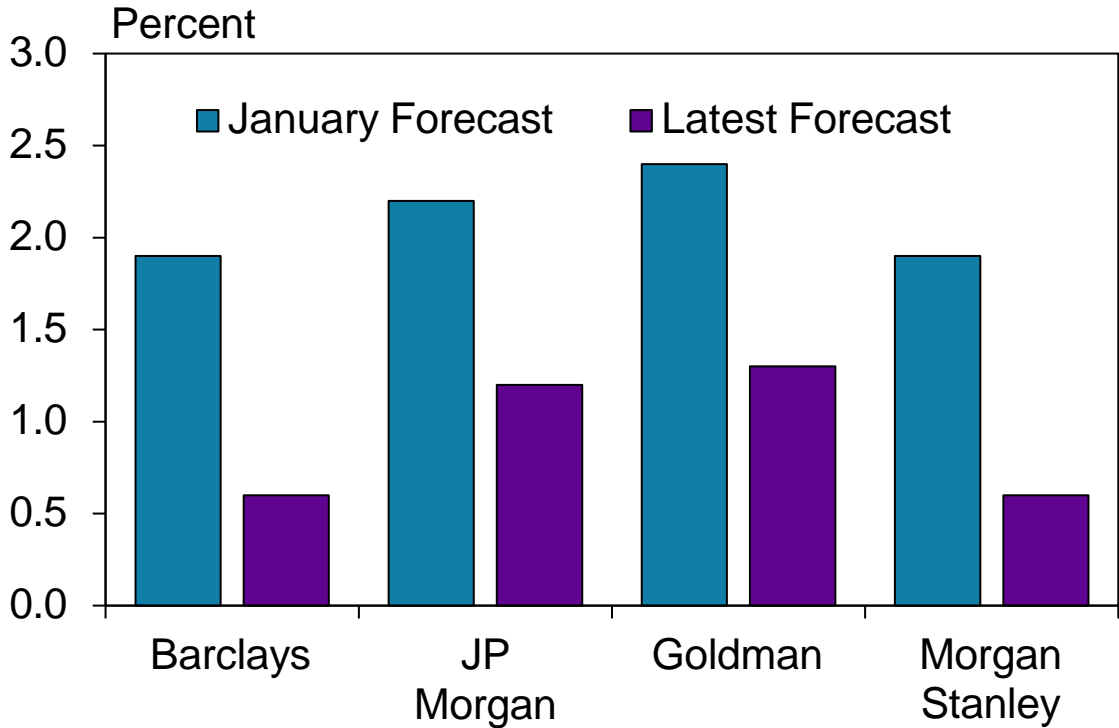


U.S. 5-Year Inflation Expectations

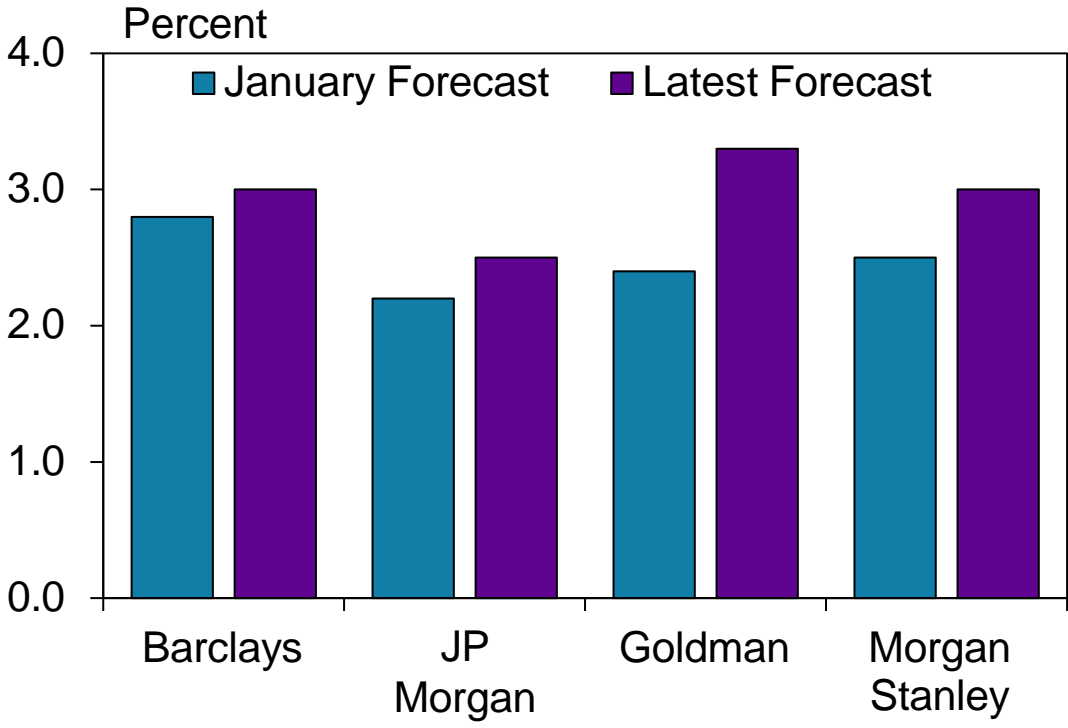


Overall, forecasters have reduced their outlook for growth in 2025 and increased their expectations of inflation.

2025 U.S. GDP Growth Forecasts



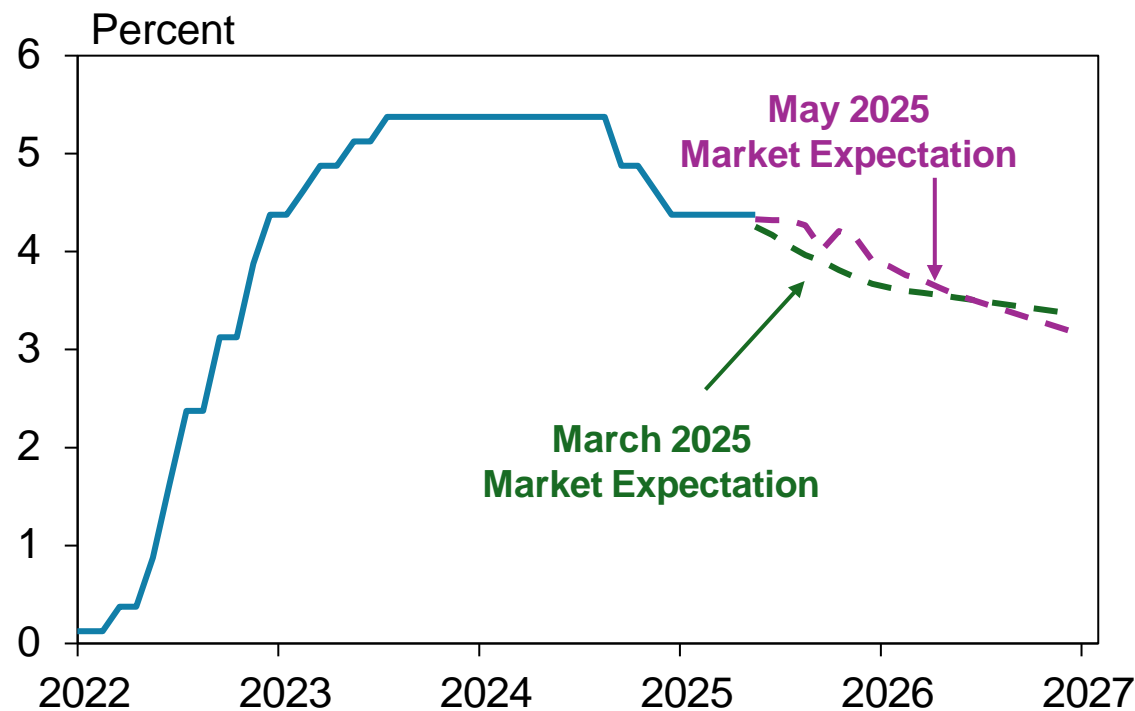
2025 U.S. Inflation Forecasts



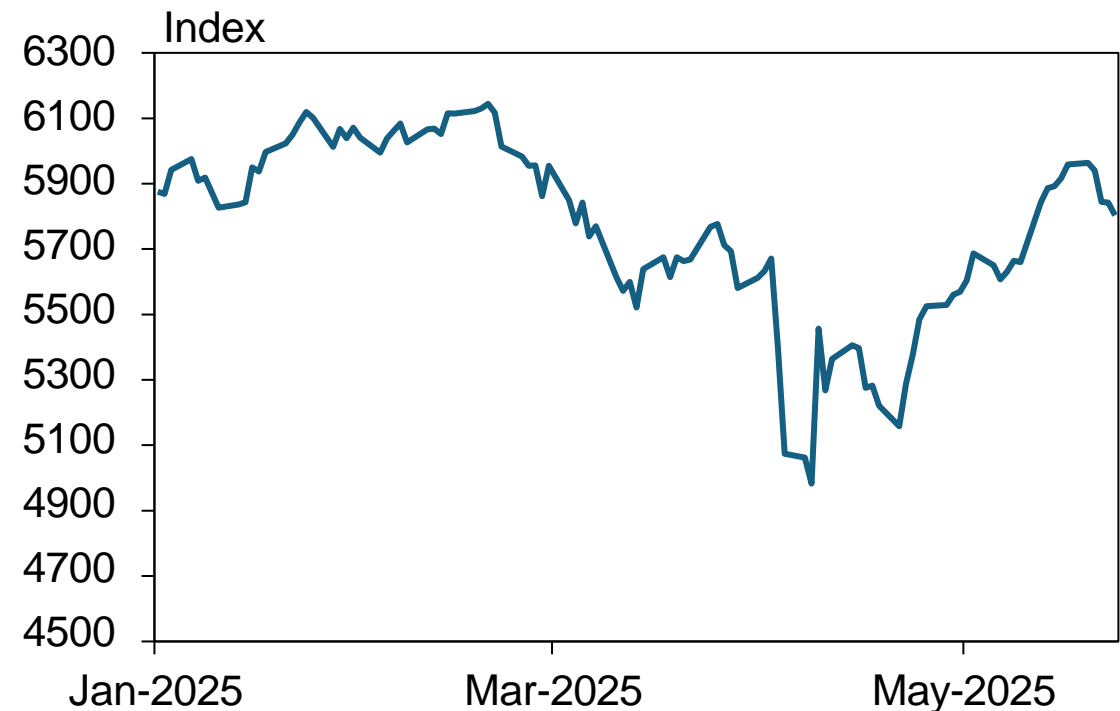
Sources: Barclays, JP Morgan, Goldman Sachs, Morgan Stanley, and Haver Analytics.

Despite potential inflationary pressure, markets have revised their expectations about future changes to interest rates.

Federal Funds Rate



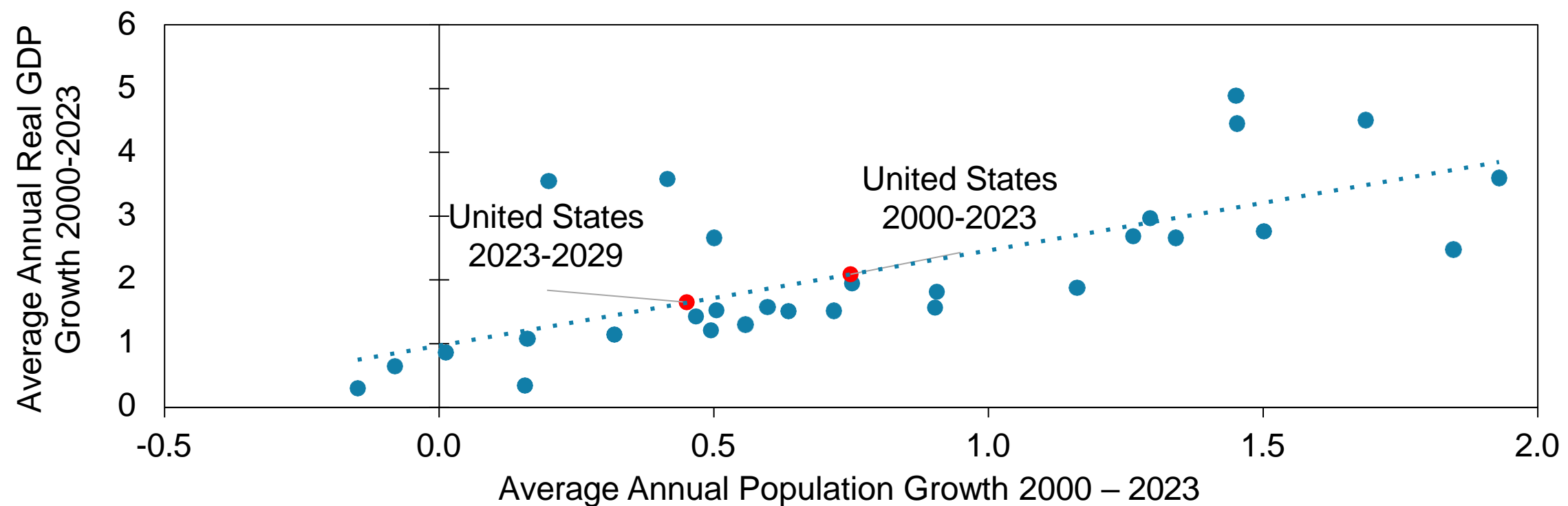
S&P 500



Sources: Federal Reserve Board, Chicago Board of Trade, Standard and Poor's, and Haver Analytics

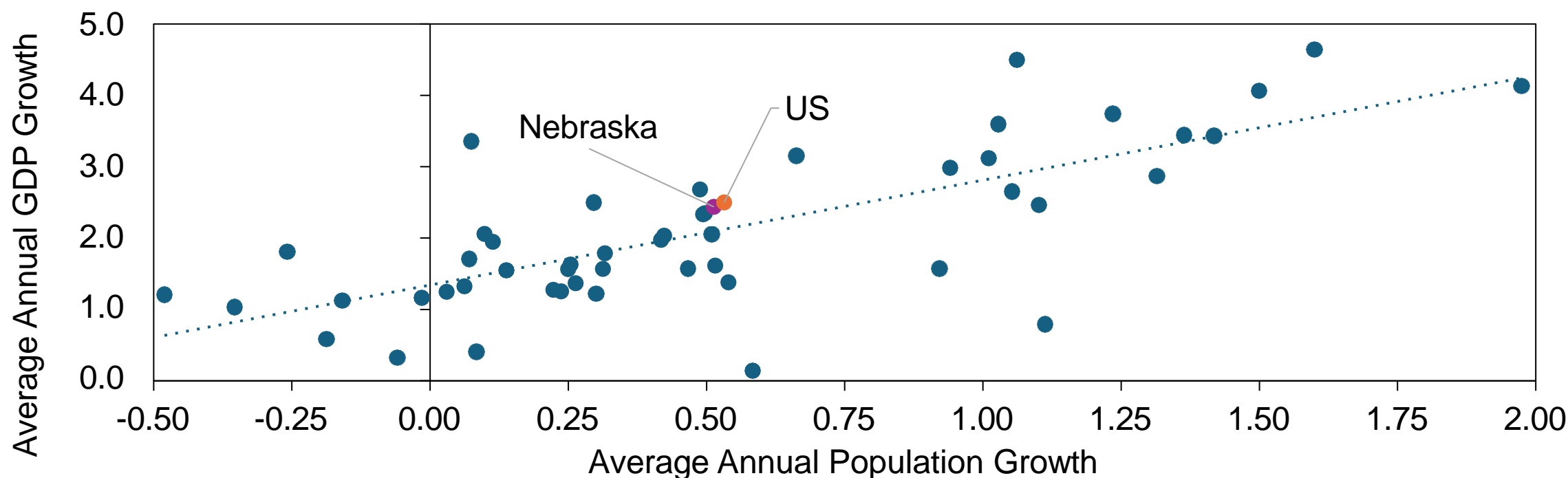
Longer-term, demographics will play a key role in the determination of growth and interest rates.

GDP Growth vs. Population Growth Across Countries



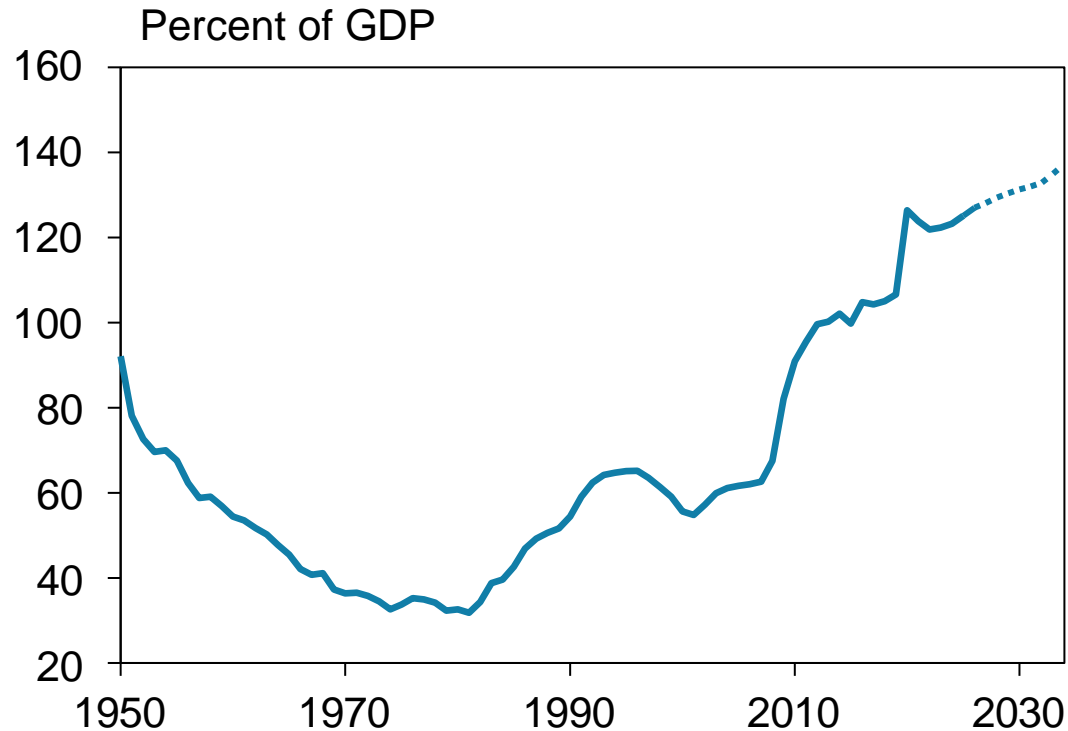
Population growth and economic growth in Nebraska have been similar to the nation.

State GDP Growth vs. Population Growth, 2015 – 2024

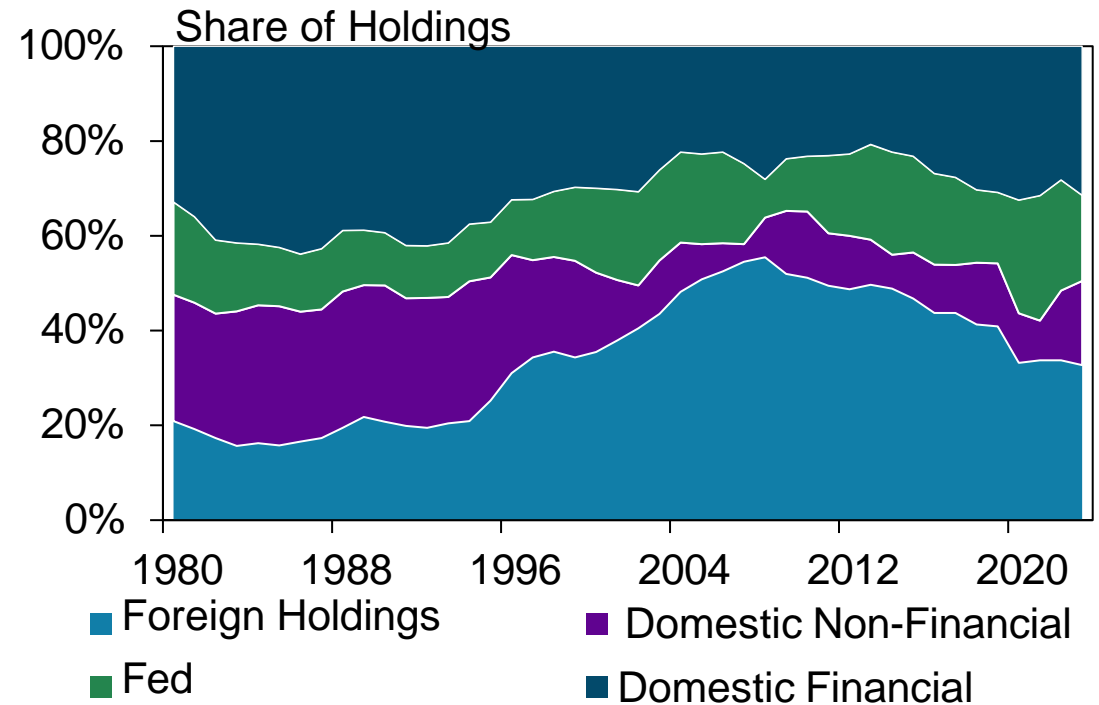


Government debt and demand for U.S. treasuries will also have implications for long-term economic conditions.

U.S. Federal Debt



U.S. Treasury Holdings



There are multiple scenarios over the long-term that will affect the path of economic activity and interest rates.

	Growth	Interest Rates
Productivity Boom	↑	↑
Demographic Decline	↓	↓
Debt Overhang	↓	↑

Concluding Remarks

- Following post-pandemic years of strong economic growth, conditions have weakened in recent months alongside heightened uncertainty.
- Unemployment remains low and could provide ongoing support to consumer spending and economic activity. However, contacts in the region have pointed to signs of slowing.
- The future path interest rates will depend on the relative balance between weaker economic conditions and heightened inflationary pressures.

Questions?

KC Fed Research



Nate Kauffman

Senior Vice President and Omaha Branch Executive

Federal Reserve Bank of Kansas City

nathan.kauffman@kc.frb.org

Thank you!

Email Alerts



Resources from the Kansas City Fed

[Charting the Economy](#)

Timely economic content curated by research staff at the Federal Reserve Bank of Kansas City.

[Labor Market Conditions Indicators](#)

Two monthly measures of labor market conditions based on 24 labor market variables.

[Kansas City Financial Stress Index](#)

A monthly measure of stress in the U.S. financial system based on 11 financial market variables.

[Agriculture and the Economy](#)

The Kansas City Fed is a leader on topics related to the agricultural economy within the Federal Reserve System.

[Subscribe to KC Fed Email Alerts](#)