

# Economic outlook for the US, Midwest, and Illinois



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January 16, 2025

THE VIEWS EXPRESSED IN THIS PRESENTATION ARE MY OWN AND DO NOT NECESSARILY REFLECT THOSE OF THE FEDERAL RESERVE BANK OF CHICAGO OR THE FEDERAL RESERVE SYSTEM.

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# Too soon to say much about potential federal policy changes

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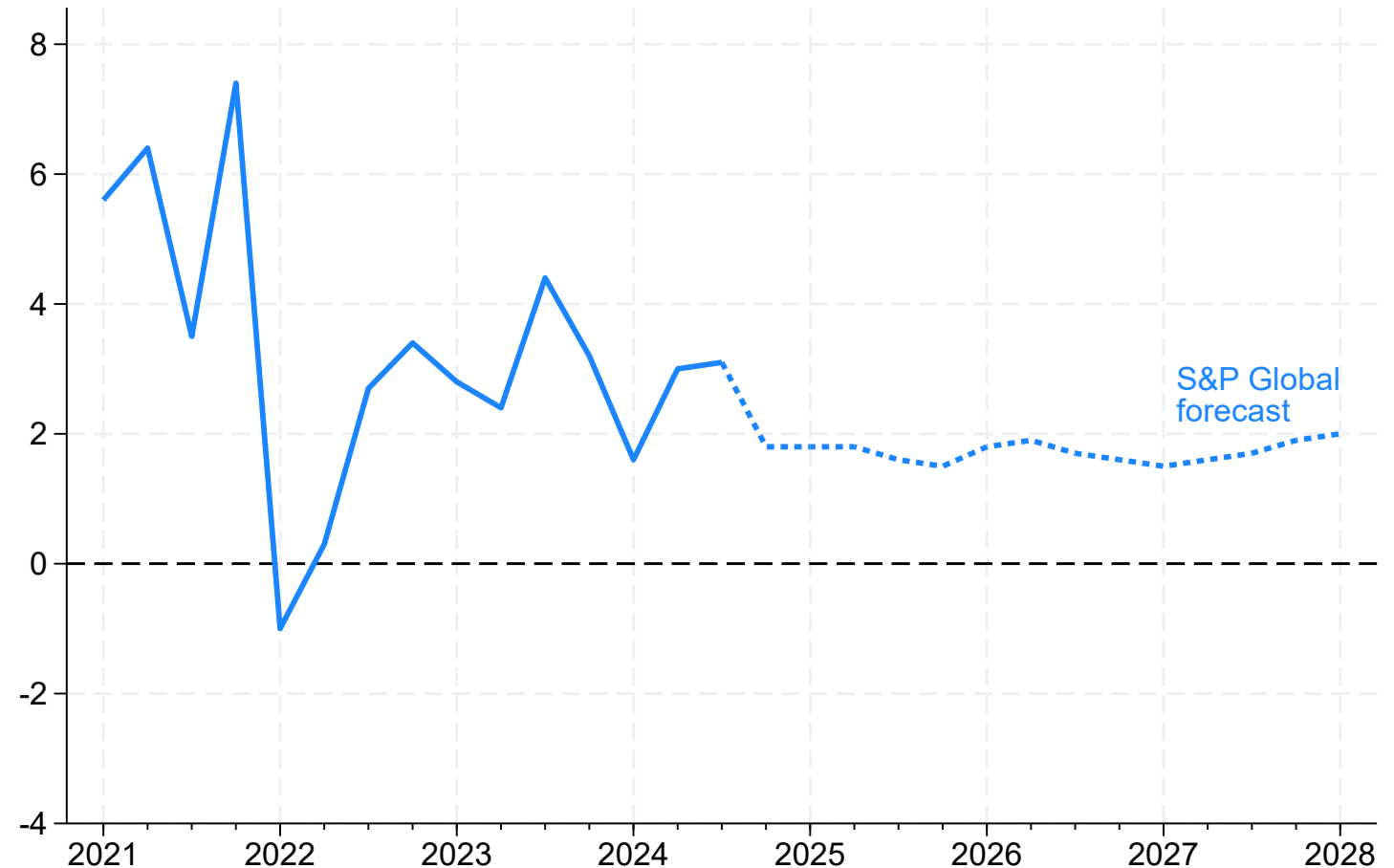
- Many areas where policies could change in 2025
  - Trade, immigration, fiscal, regulatory
- Wide range of possibilities for size and timing of changes
- Approach by staff at Board of Governors staff's for forecast presented at December 2024 FOMC meeting
  - Incorporated new data and considered several policy change scenarios
  - Included “placeholder assumptions” for policy changes in forecast
    - Real GDP growth to be slightly slower than previously forecast
    - Unemployment to be slightly higher than previously forecast
    - Inflation in 2025 to be slightly higher than previously forecast and similar to 2024 rate, “as the effects of the staff's placeholder trade policy assumptions held inflation up.”
  - Full description in [meeting minutes](#)

# S&P Global: Growth expected to be near trend

- Forecast
  - Q1-2025 to Q1-2026: 1.7%
  - Longer Run: 1.8%
- Incorporates guesses on federal policy changes
  - Not specified
- Risks to the forecast
  - Inflation gets stuck above target
  - Labor market softens too much
  - Federal policy changes different from guesses

## Real GDP growth

percent, seasonally adjusted annual rate

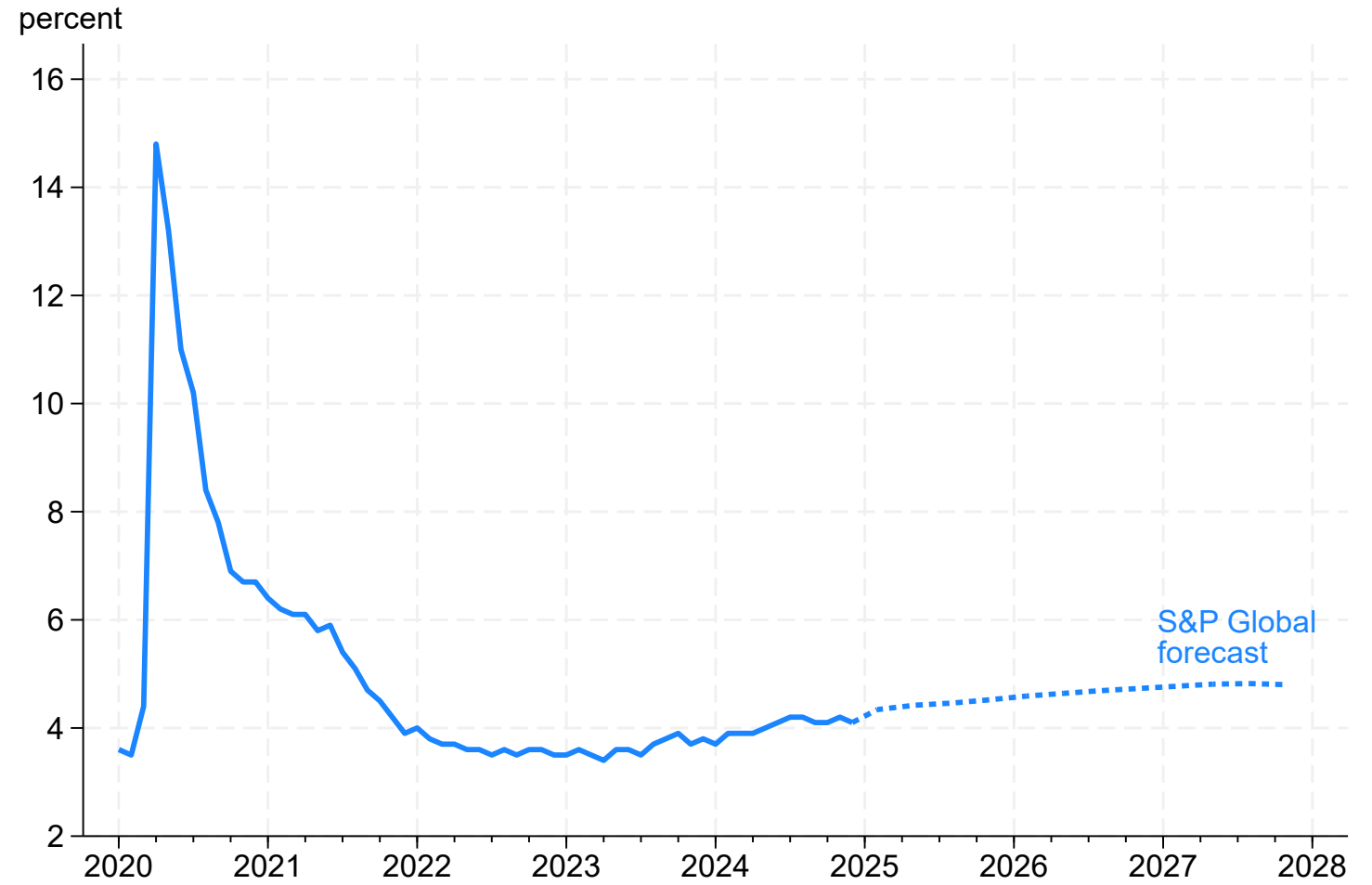


Source: Bureau of Economic Analysis and S&P Global from Haver Analytics

# S&P Global: still in soft landing territory

- Unemployment expected to move above long run rate, but not by far
  - 4.6% in Q1-2026
  - Peak at 4.8% in 2027
  - Longer run: 4.4%

## Unemployment



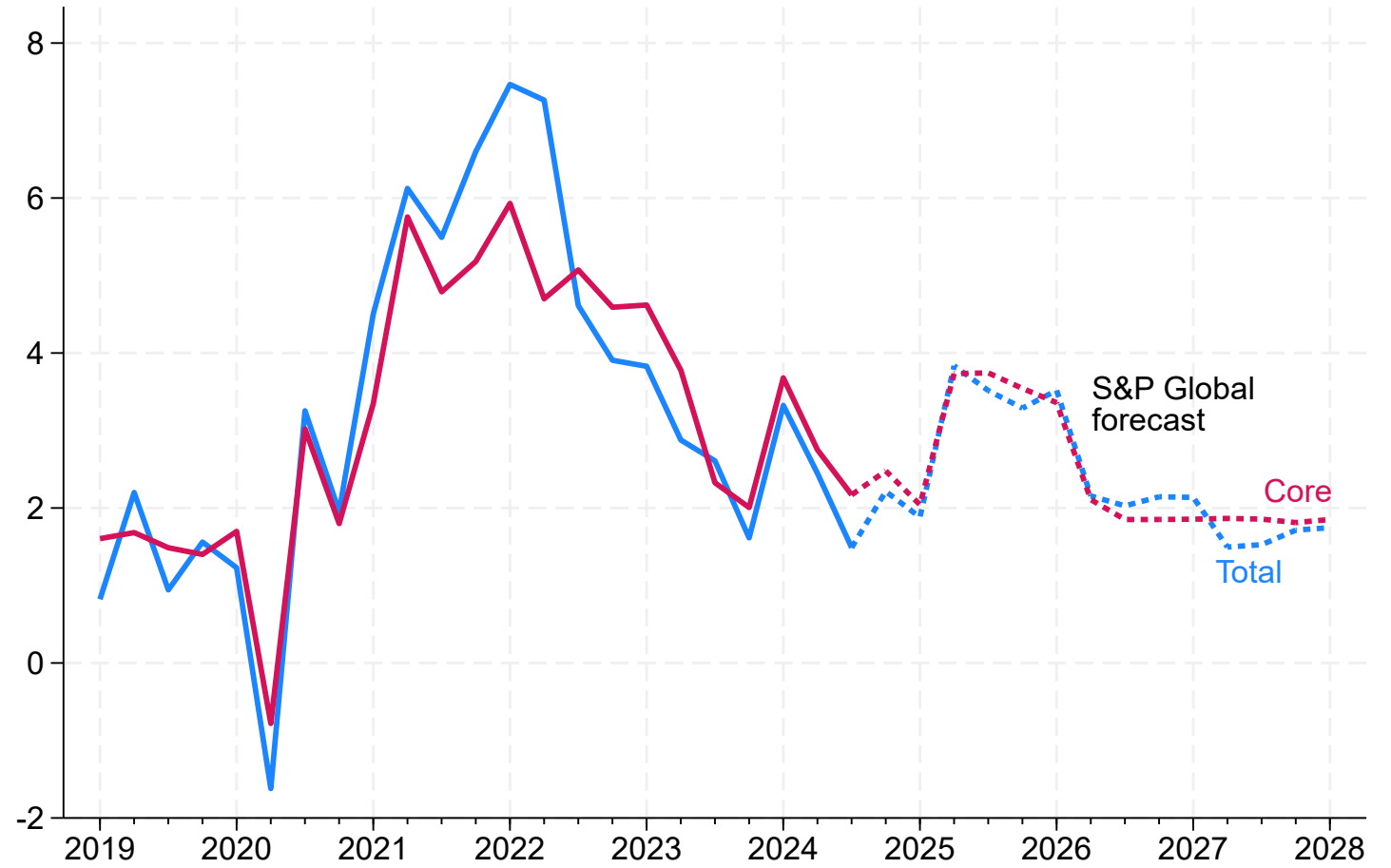
Source: Bureau of Labor Statistics and S&P Global from Haver Analytics

# S&P Global: Inflation could jump for a year

- Forecast for PCE for Q4-2024 to Q4-2025
  - S&P Global: 3.2%
  - Median FOMC participant: 2.5%
- Fed's target: 2.0%

## Personal Consumption Expenditures price index

1-quarter percent change, SAAR

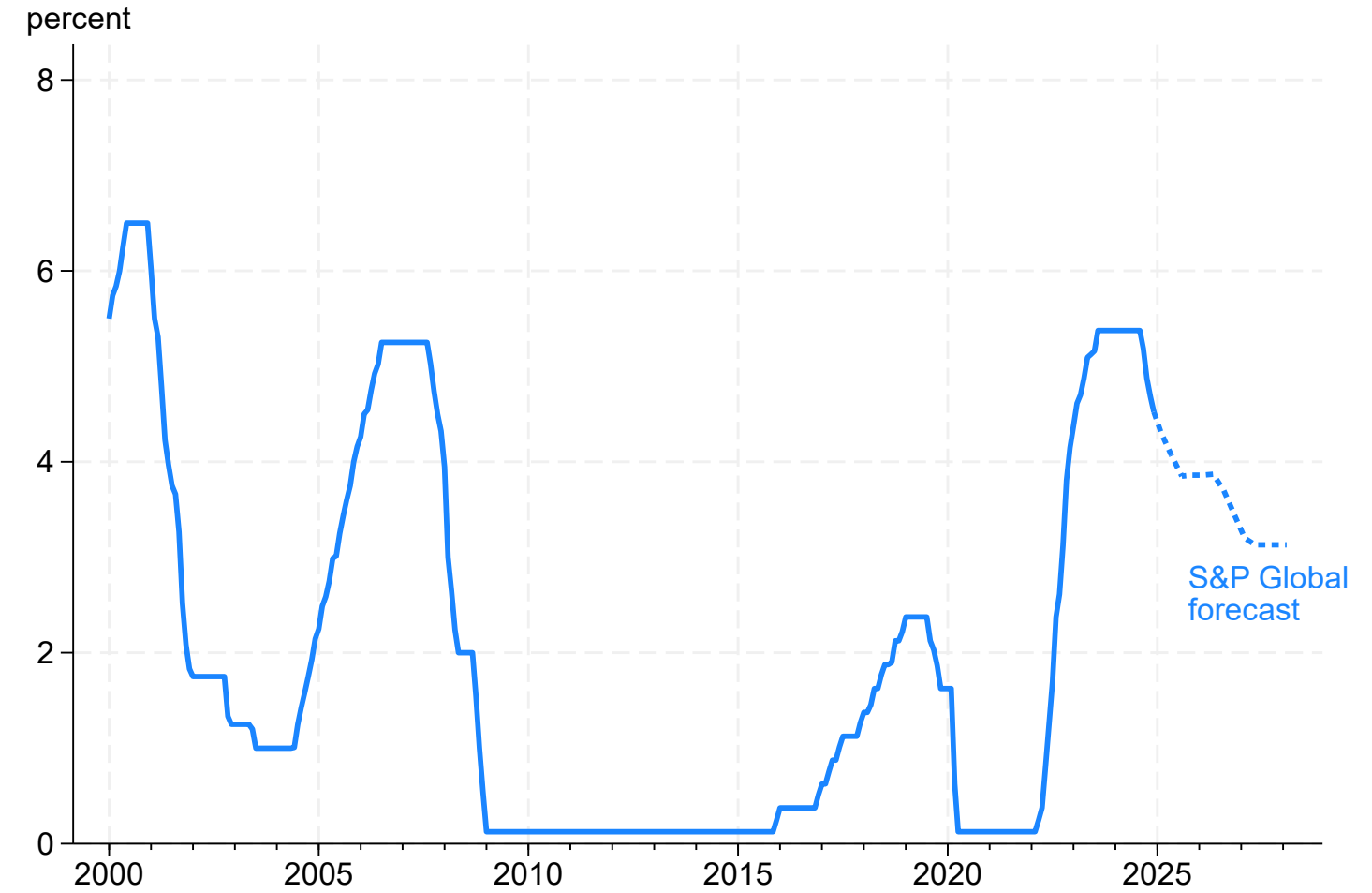


Source: Bureau of Economic Analysis and S&P Global from Haver Analytics

# S&P Global: Fed Funds Rate still on its way down

- Currently at 4.375%
- Q1-2026: 3.875%
- “Neutral”: 3.125%
  - In early 2027
- FOMC views are similar

## Fed Funds Rate

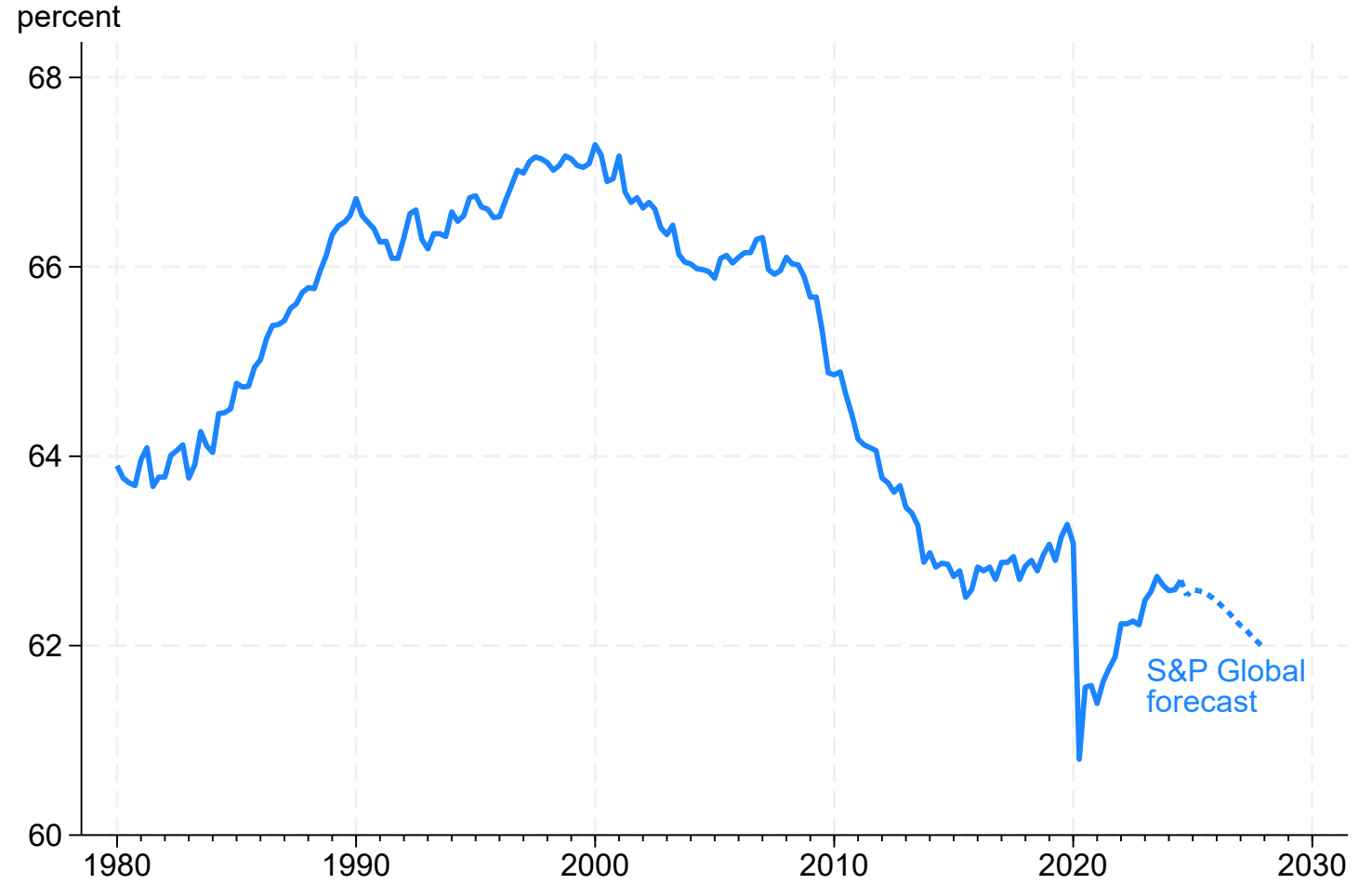


Source: Federal Reserve Board and S&P Global from Haver Analytics

# Labor force participation trending down

- Aging US population

**Labor force participation rate**



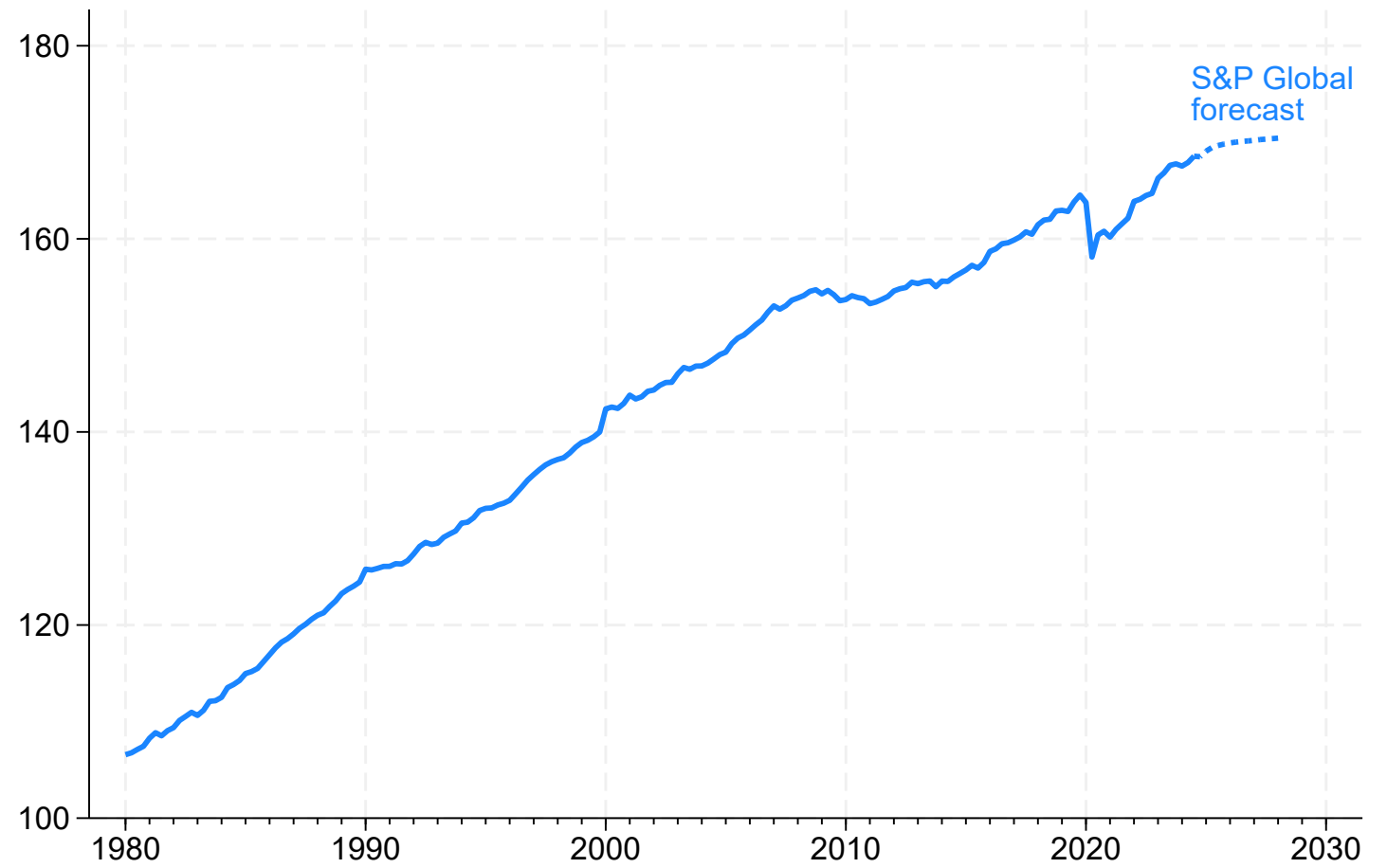
Source: Bureau of Labor Statistics and S&P Global from Haver Analytics

# Size of labor force to level off

- Growing population balanced by aging one

## Labor force

millions



Source: Bureau of Labor Statistics and S&P Global from Haver Analytics

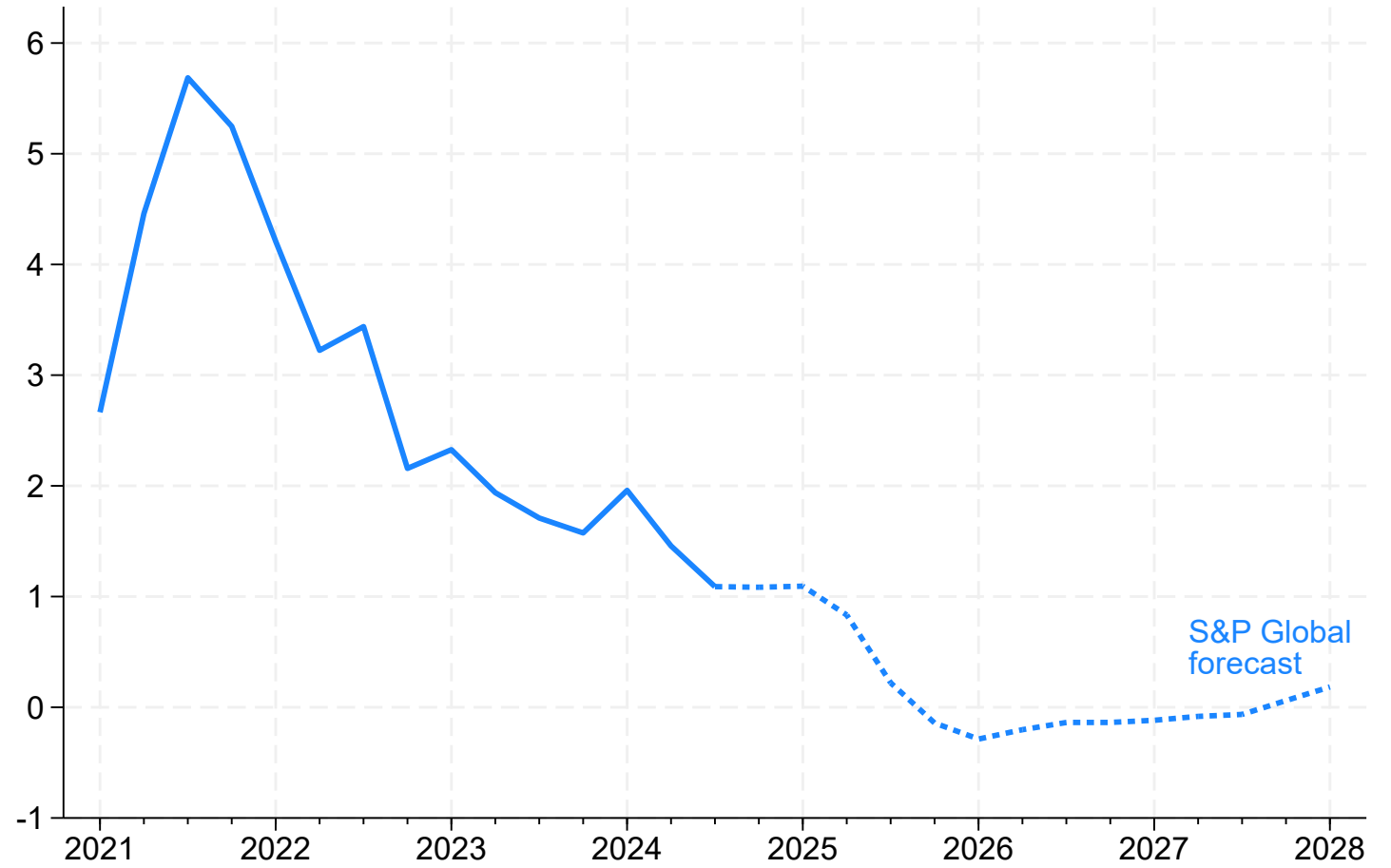


# US employment growth to slow to near zero

- Productivity still growing, so GDP still growing

## Nonfarm payroll employment

1-quarter percent change, SAAR



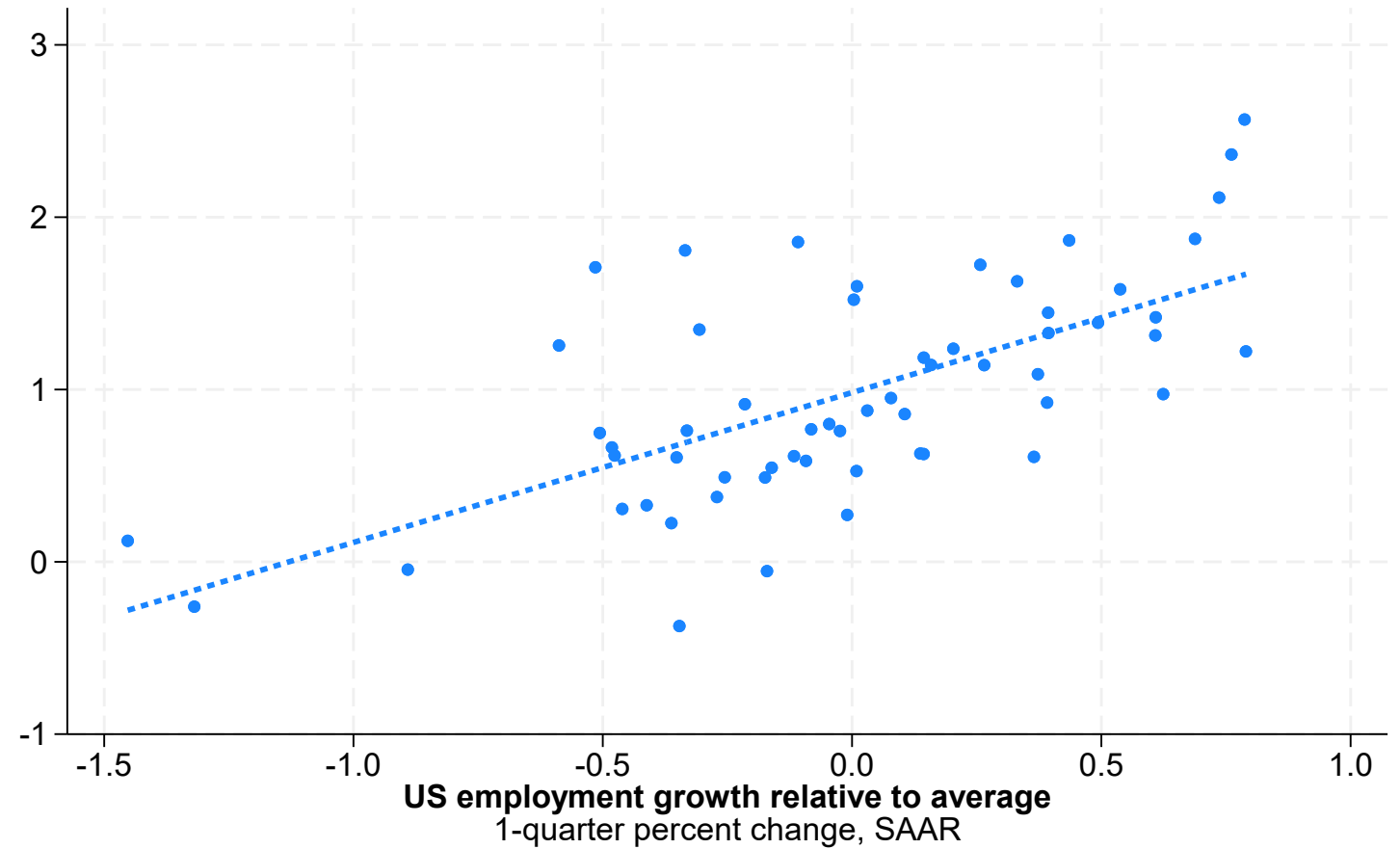
Source: Bureau of Labor Statistics and S&P Global from Haver Analytics

# US and Midwest economies are tightly linked

- Average growth during expansions
  - US: 1.6%
  - Midwest: 1.0%
- 1.00 pp increase in US employment predicts 0.87pp increase Midwest employment

## US and Midwest employment growth during expansions

Midwest employment growth  
1-quarter percent change, SAAR



Source: Federal Reserve Bank of Chicago

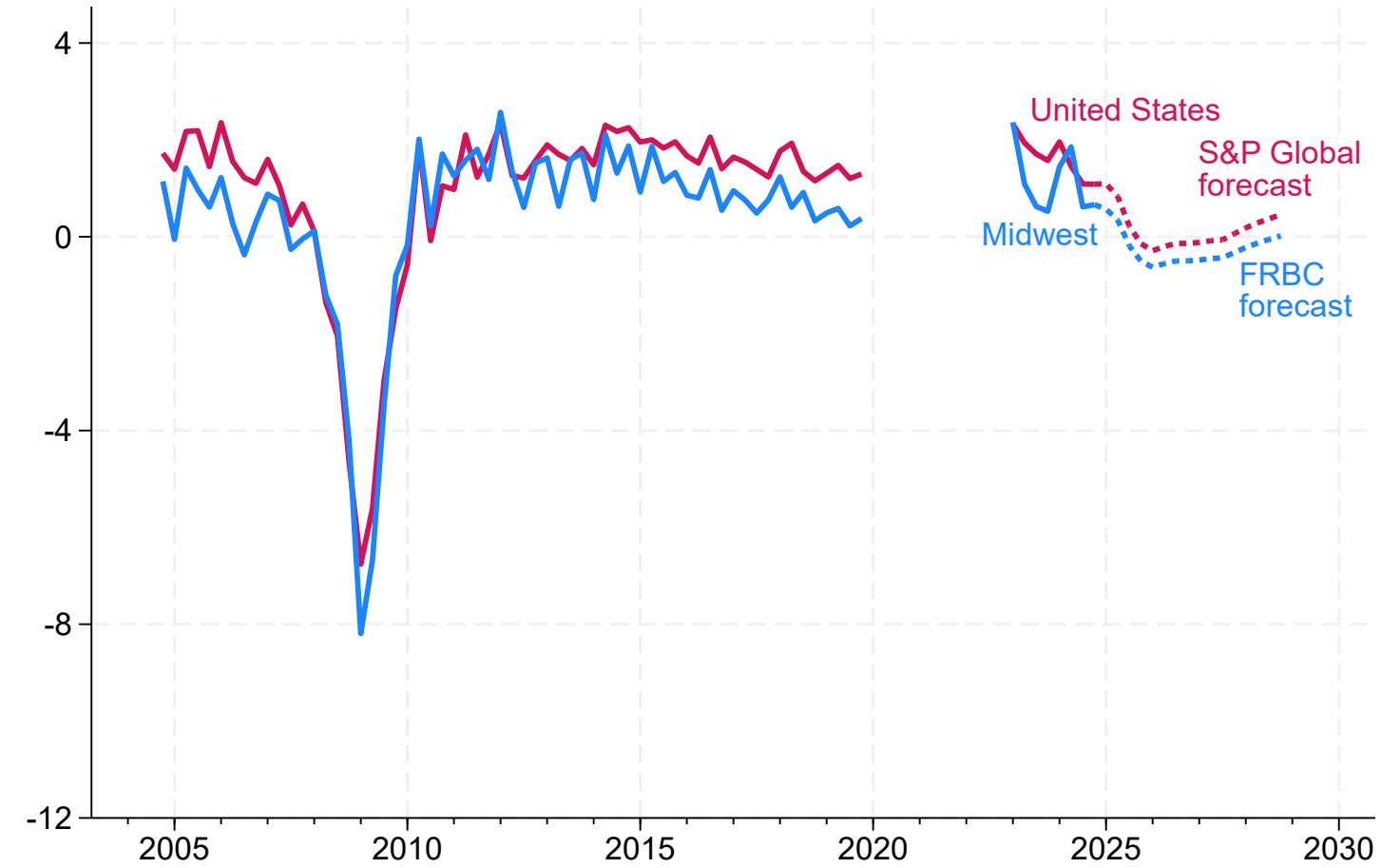
Note: Data are for last 20 years, excluding 2020–22

# Midwest employment growth to slow to near zero

- Forecasted average growth over next 4 quarters
  - US: 0.50%
  - Midwest: 0.05%

## Nonfarm payroll employment

1-quarter percent change, SAAR



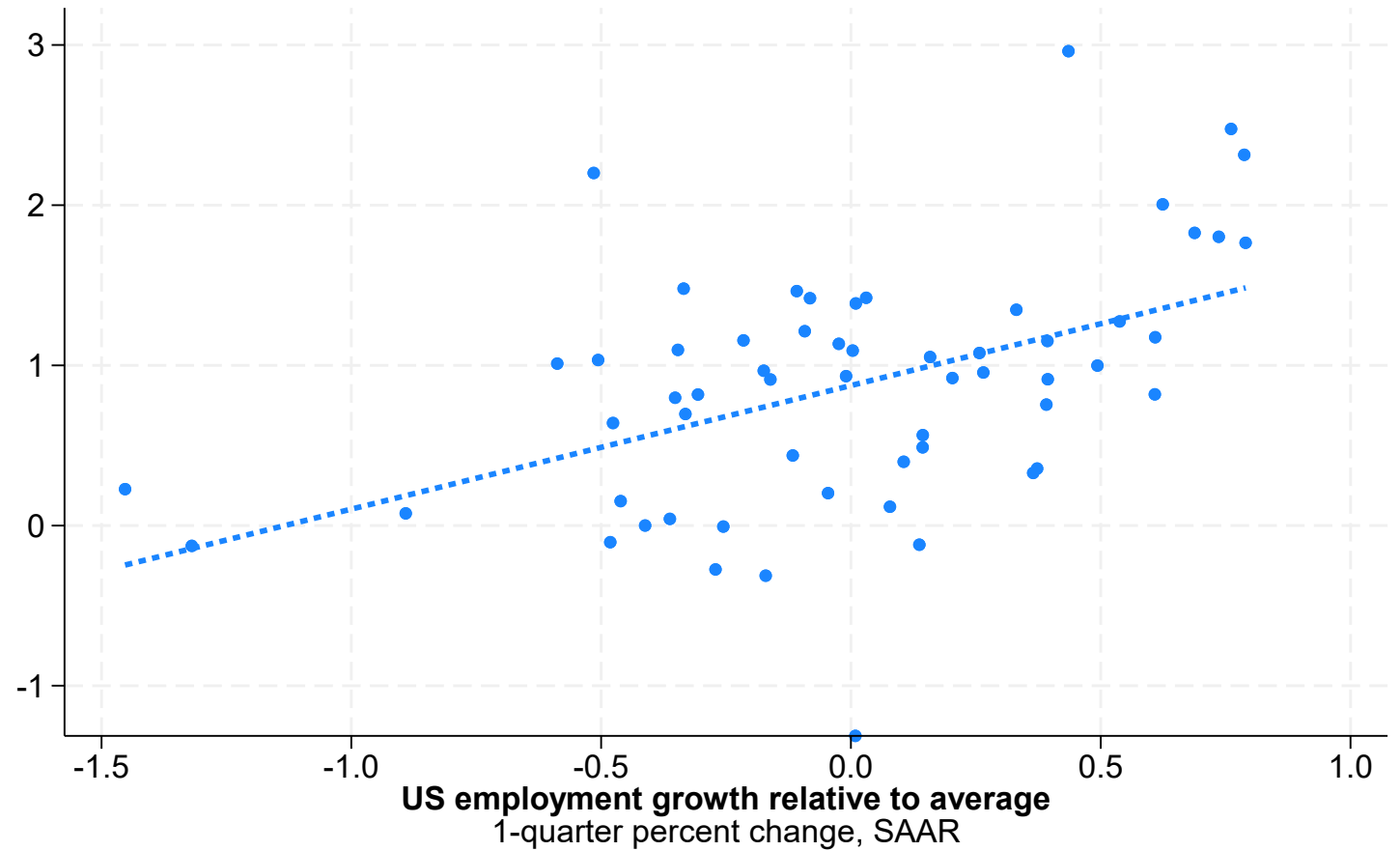
Source: Bureau of Labor Statistics from Haver Analytics

# US and Illinois economies are tightly linked

- Average growth during expansions
  - US: 1.6%
  - Midwest: 0.87%
- 1.00 pp increase in US employment predicts 0.77pp increase Illinois employment

## US and Illinois employment growth during expansions

Illinois employment growth  
1-quarter percent change, SAAR



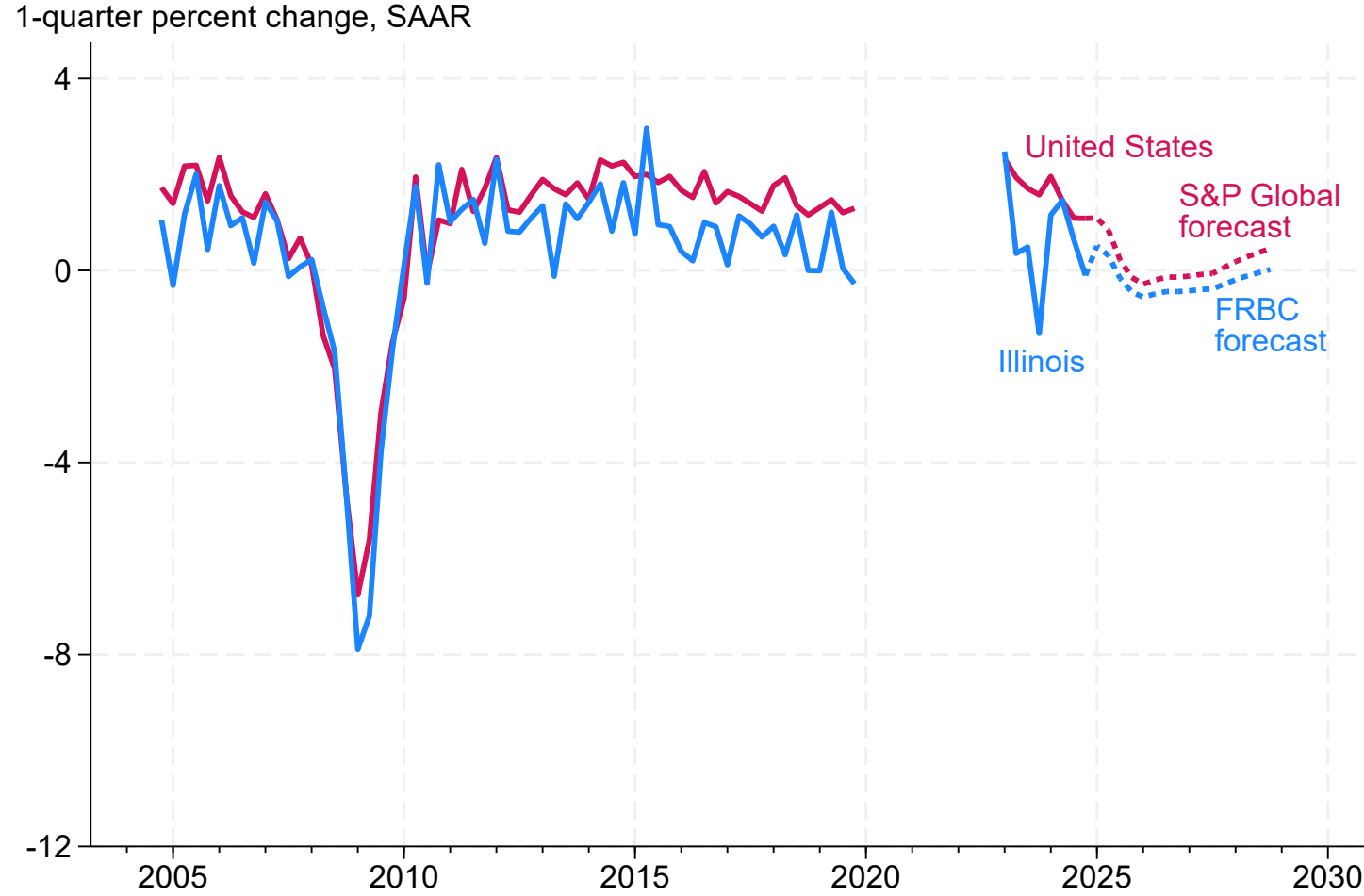
Source: Federal Reserve Bank of Chicago

Note: Data are for last 20 years, excluding 2020–22

# Illinois employment growth to slow to near zero

- Forecasted average growth over next 4 quarters
  - US: 0.50%
  - Illinois: 0.05%

## Nonfarm payroll employment



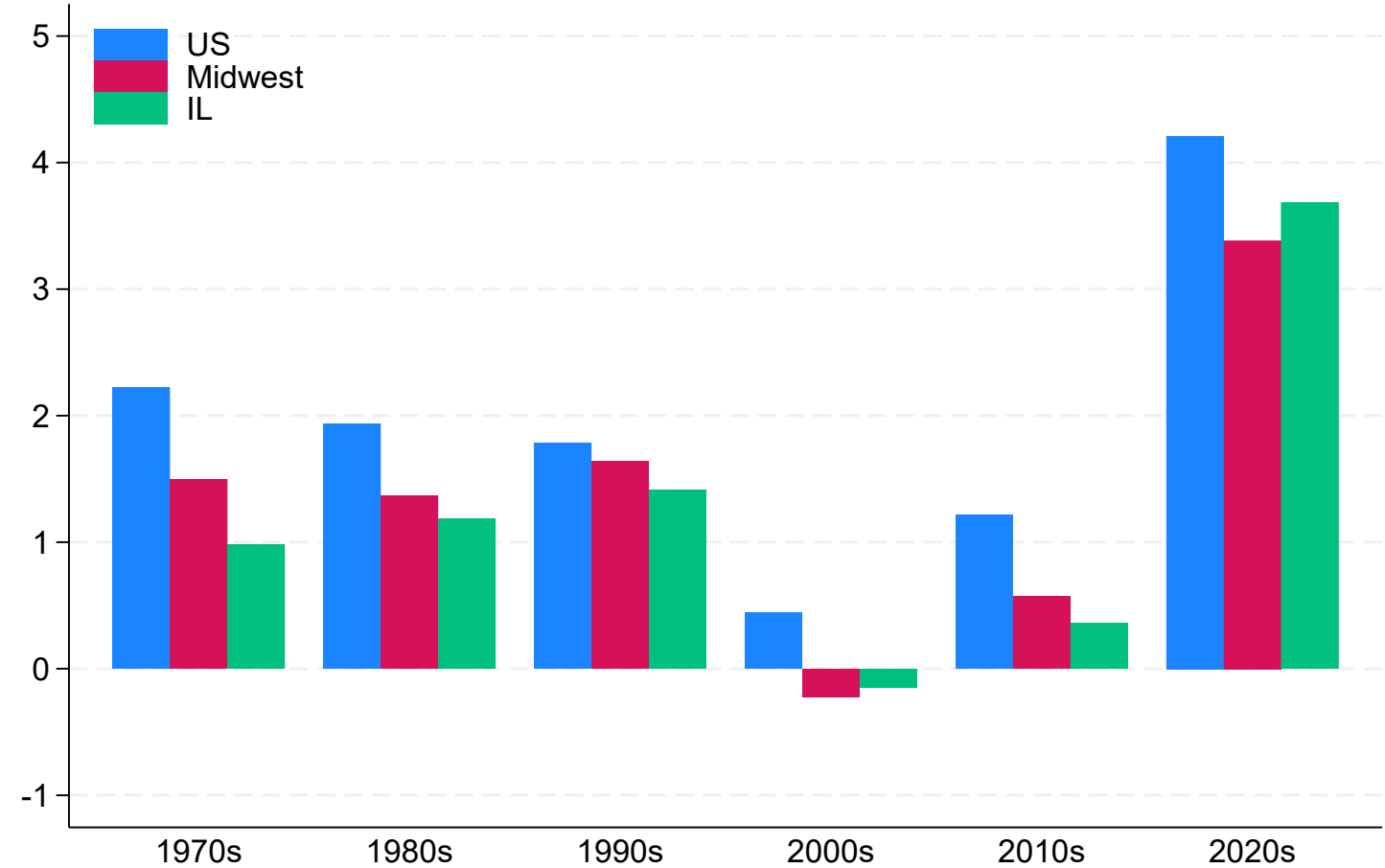
Source: Bureau of Labor Statistics from Haver Analytics

# Growth in Midwest and Illinois slow for decades

- Wage growth has similar pattern

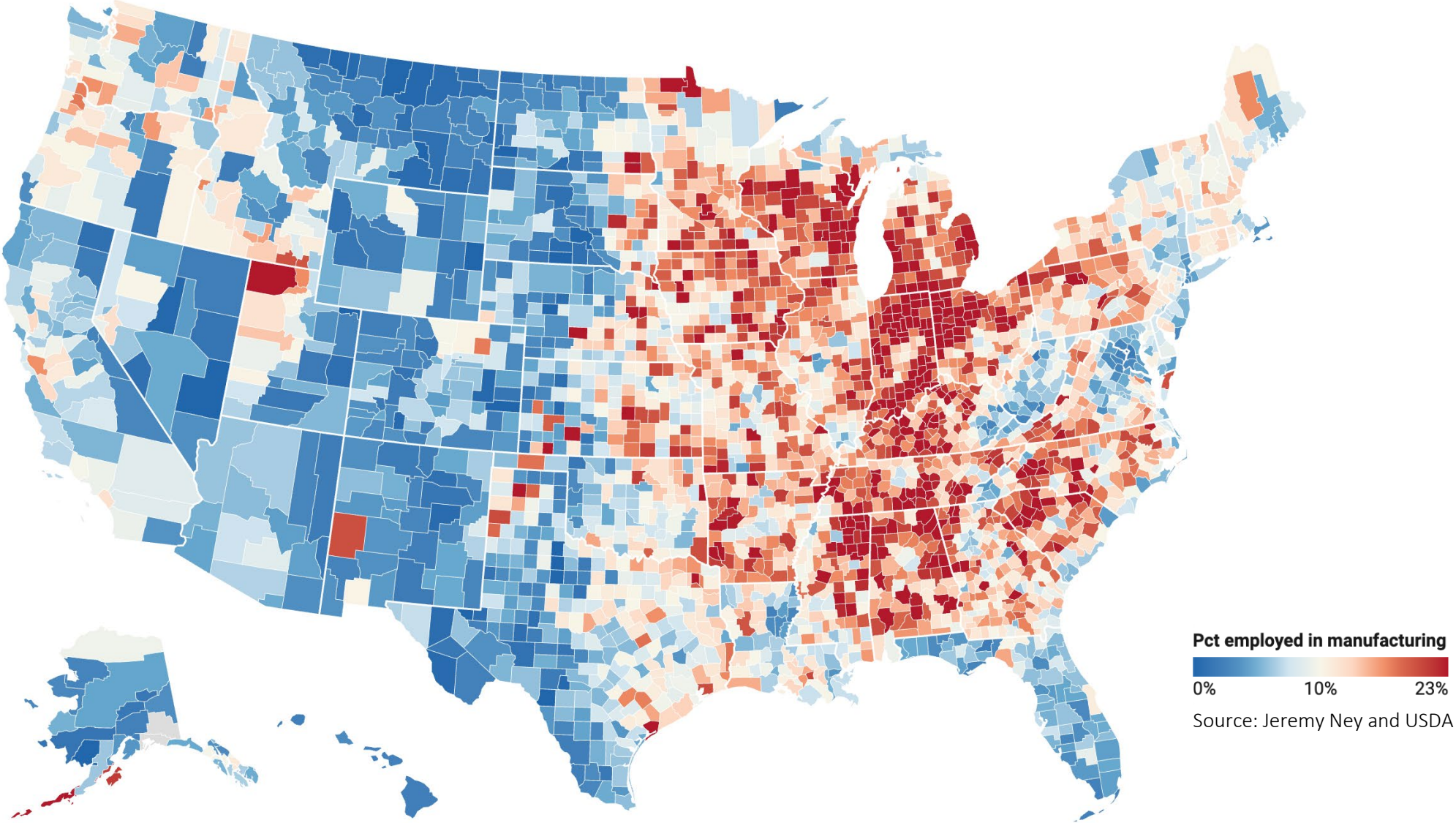
## Employment growth

percent change, annual rate

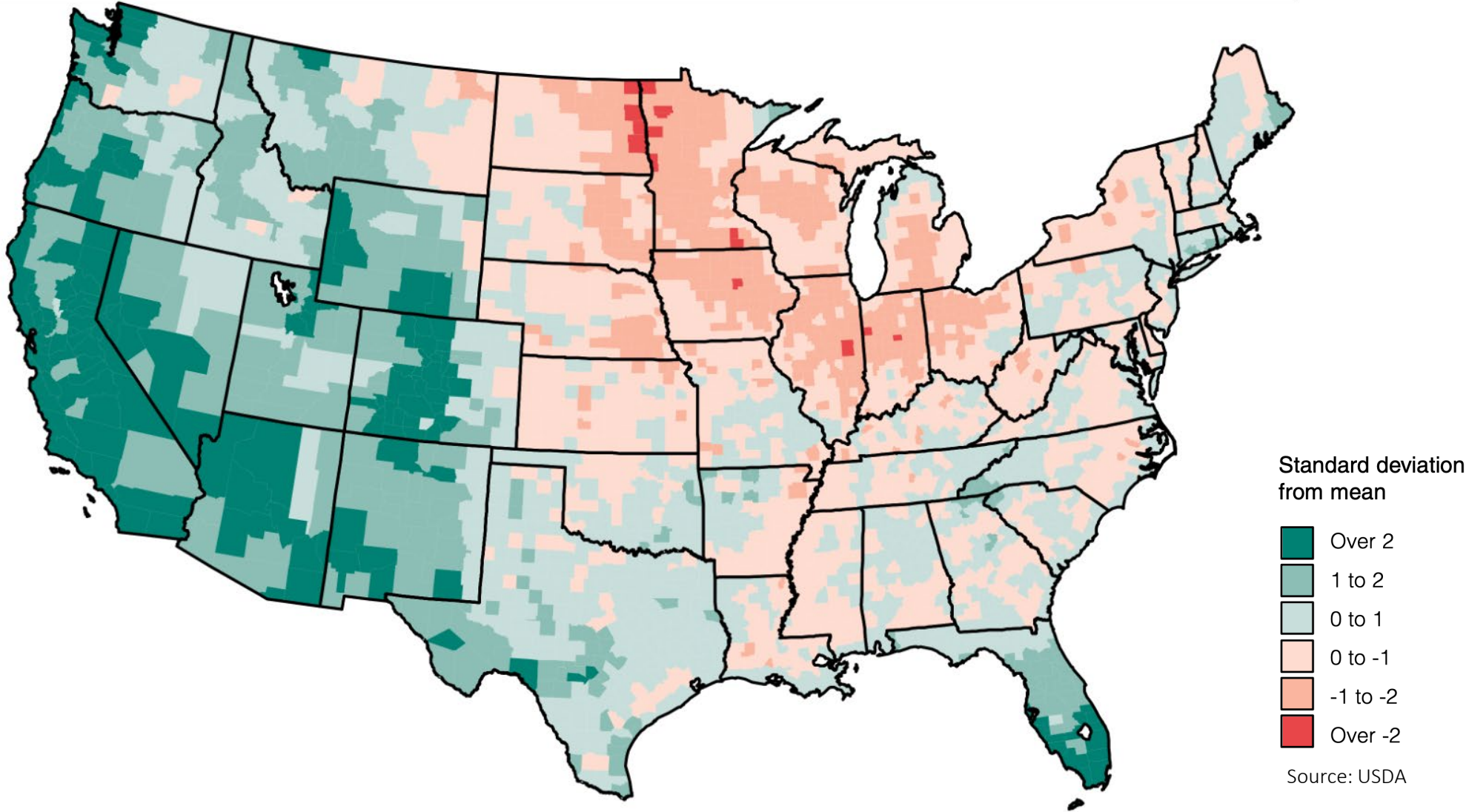


Source: Bureau of Economic Analysis from Haver Analytics

# Midwest concentrated in manufacturing



# Midwest scores lowest on natural amenity scale





# Summary

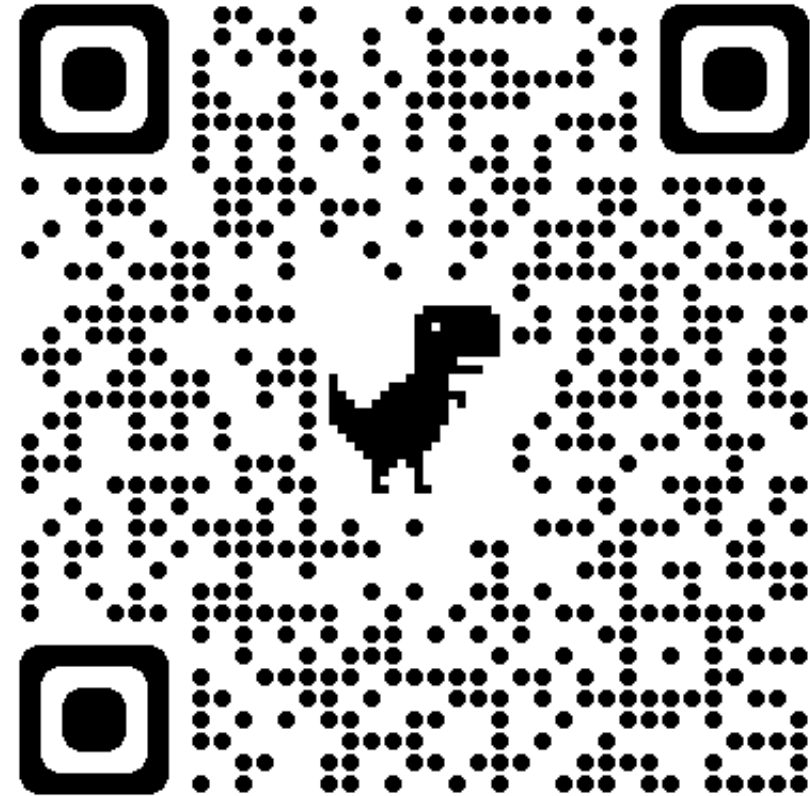
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- The economy is in good shape and we're in soft landing territory
- Difficult to say what federal policy changes we'll see in 2025 and how they'll affect the economy
- Midwest and Illinois short run outlook tightly linked to US
- Midwest and Illinois long run growth likely to stay below US average

# Share your knowledge with us.

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- Fill out our monthly survey to help keep the Fed up to date on what you're seeing.
- Results are shared with the Chicago Fed's president and help inform monetary policy.
- Responses are kept confidential, but aggregate results are made public.



# Q&A

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