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Georgia State Forecaster Advises Webinar Attendees to Stay Sharply Focused on Economic Fundamentals and Calibrate When Tariff Battles Take Concrete Shape

Atlanta, Georgia, Feb. 27, 2025 (GLOBE NEWSWIRE) -- The arrival of a new presidential administration always brings change. But the unprecedented speed of directives coming from Washington compelled economic forecaster [Rajeev Dhawan](#) to advise attendees at his Feb. 27 webinar conference to stay focused on the fundamentals of the economy.

"The changing of the guard always brings concrete actions accompanied by angst and speculation, which economists call a signal-to-noise ratio," said Dhawan, who is director of the [Economic Forecasting Center](#) at Georgia State's J. Mack Robinson College of Business. "So, let's look at what the signals are telling us."

Dhawan began with a short-term signal, the spending outlook for the next three to six months.

"American consumer spending patterns are determined by their income, how wealthy they feel, and what has happened in the stock market over the last few years."

"The market has gone up substantially over the last two years, with superlative performance in the last six months. And the Federal Reserve has dropped interest rates by 75 basis points over the past six months, thus lowering the cost of financing for vehicles and durable goods. This gives consumers the fire power to continue to shell out for service-based activities such as travel, airfare, lodging, and dining out," Looking ahead, the forecaster anticipates the Fed will stand pat until the second half of 2025.

“Post-pandemic spending on service-based activities has shown no signs of pulling back in the last six months; the post-Covid desire to travel remains very strong, with no indication of near-term cooling,” Dhawan said. “Aided by the performance of their 401(k) portfolios, people also are spending on healthcare which, all told, is around \$3.3 trillion annually – almost one-fifth of total consumer spending.

Dhawan does not foresee a pullback on healthcare spending. “But, ultimately, spending growth depends on job creation – particularly the addition of white-collar, well-paying, middle-management jobs. Unfortunately, the latest national-level benchmark employment revisions reveal no growth at all in catalyst sectors jobs (corporate, IT, and business to business) in the last 18 months.”

According to Dhawan, the prospects for job growth in the latter part of 2025 appear increasingly cloudy as tariff battles heat up. “At present, the shape and form of tariffs are only a bit clear for China but are still up in the air for our immediate neighbors. Tariffs may or may not happen for our neighbors or may not last that long. This type of uncertainty makes large corporations reliant on global trade reluctant to take on expansion risks.”

Small business employment is half of the economy. Dhawan noted that “although small business confidence has improved markedly since the 2024 presidential election, metrics for capital spending and hiring plans have not budged upward at all. Taken together, a disappointing hiring reality by fall will give the Fed ‘cover’ to step in with rate cuts.”

The forecaster posits that the inflation impact of tariffs via imported goods will be minimal – a one-time jump in prices that may even be mild – and will not be sufficient enough for the Fed to hold back projected rate cuts.

“Our trading partners could reduce the inflation bite of tariffs by weakening their currency,” Dhawan said. So far, prices for oil imported into the country are exempted. (The U.S. is a net exporter of oil – typically finished products – but does import substantial oil from Canada to run Gulf Coast and Midwest refineries.) “If oil imports are no longer exempted from tariffs, inflation will become more pronounced and persistent, and Fed rate cuts will not happen,” he said.

Dhawan anticipates the full impact of “Washington shocks” will be felt in 2026. Despite Fed rates cuts, long-term bond yields will not retreat due to fear of high fiscal deficits, notwithstanding reduction efforts underway in Washington, which Dhawan characterized as more “style than sustained savings at present.” The fiscal deficit will stabilize at 6.5 percent of GDP. But when you add the impact of expectant tariffs that will drop the trade deficit by close to \$100 billion, it will have the unfortunate impact of increasing long bond yields further in 2027. Why? There will be fewer free-floating dollars to channel into the U.S. bond market.

“As for calibration, the battle lines are still being drawn in the ongoing tariff game and should start to become clearer with every passing week,” Dhawan said. “That said, one should analyze the impact of tariffs by changes in long-bond yields rather than indulge in hyperbolic speculation about the availability and cost of goods. That’s why this forecast has a roadmap for adjustment via the trade deficit channel, where a 100-billion-dollar drop will be equivalent to a 50-basis-point rise in long-bond yields.”

Highlights from Rajeev Dhawan’s National Economic Forecast

- **U.S. real GDP growth** on an annual average basis will be 2.4 percent in 2025, 1.5 percent in 2026, and 2.1 percent in 2027.
- **National job growth** will weaken sharply from 123,000 monthly gains in the first half of 2025 to only 78,000 monthly gains in the second half of this year. Following Fed rate cuts that spur investment spending, and digesting tariff changes, job growth will then slowly rebound to 100,900 monthly rate by late 2026. Job growth will be a better 133,000 monthly rate in 2027.
- **CPI inflation** will average 4.0 percent in the first half of 2025 but then moderate sharply to 1.8 percent in the second half of 2025. For the year 2026 it averages 2.0 percent and then rises slightly to 2.2 percent in 2027. After averaging 2.6 percent in 2025, core inflation will drop to 2.0 percent in 2026 and then rise modestly to 2.3 percent in 2027.
- **The 30-year mortgage rate** after averaging 6.9 percent in 2025, will rise to 7.2 percent in 2026, and further to 7.3 percent in 2027.
- **Housing starts** will average 1.345 million in 2025, 1.315 million in 2026, and 1.428 million in 2027.
- **Vehicle sales** after averaging 15.8 million in 2024 will be higher at 16.3 million in 2025. They will then drop to 15.9 million in 2026 and then recover to 16.4 million in 2027.

Attachments

- [Dr. Rajeev Dhawan](#)
- [Georgia State Forecaster Advises Webinar Attendees to Stay Sharply Focused on Economic Fundamentals and Calibrate When Tariff Battles Take Concrete Shape](#)

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