Ohio Economic Outlook - Q4 2024: Navigating Uncertainty in a Shifting Policy Landscape

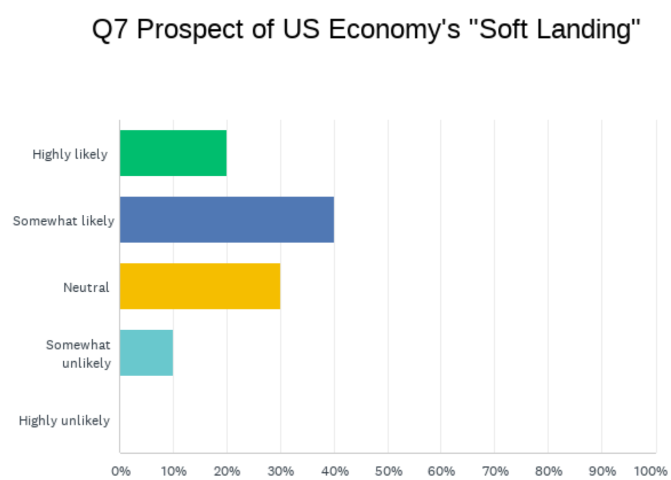
Executive Summary

The Ohio Chamber of Commerce's Economic Advisor Council expresses cautious optimism for the U.S. economy in Q4 2024, tempered by heightened uncertainty surrounding the incoming administration's policy direction. While a "soft landing" remains the most likely scenario for the near term, concerns linger about potential reinflation driven by proposed tariffs and deportation policies. These policies could significantly impact labor markets, supply chains, and overall economic growth.

Ohio's economic outlook mirrors national trends, with moderate growth projections. Workforce challenges persist, and the state faces potential headwinds from technological advancements impacting key sectors like manufacturing and finance. However, opportunities exist to leverage Ohio's strengths, including its lower cost of living and business-friendly environment, to attract investment and talent.

Key Findings:

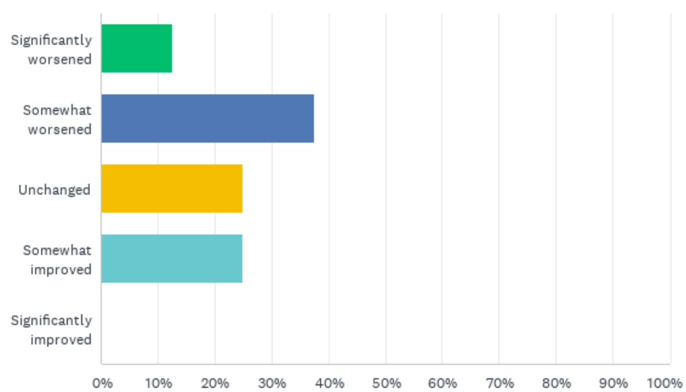
- **Federal Reserve Policy:** The council unanimously agrees that the Fed's tightening cycle is over, barring significant reinflation. The peak federal funds rate was reached in Q2 2024. The Fed initiated rate cuts in Q3, but future monetary policy actions are uncertain. *"The incoming administration's inflationary policies will cause the Fed to first take a wait-and-see approach and then hold off on cuts as inflation ticks up,"* one member cautioned. The Fed's ability to manage inflation amidst potential policy-induced price increases is a key concern.
- **U.S. Economic Outlook:** *"The economy is proving more resilient than many anticipated...,"* suggesting continued growth in the near term. However, the proposed tariffs and deportation policies are significant wildcards. *"Trumpflation" is the primary concern... tariffs are a real Ohio-specific risk"*, as one member put it. Concerns center around increased supply chain costs, labor shortages, and potential retaliatory actions from trading partners, all of which could fuel reinflation.
- **Ohio Economic Outlook:** Real GDP growth projections for Ohio are moderate, but downside risks are prominent. *"Real Ohio GDP Growth is about one percentage point below the national rate. This is because of the expected negative impact on manufacturing supply chains, the*



deportation of immigrant workers, and declines in real personal consumption expenditures (Real PCE) related to an increase in inflation in food, building materials, and manufactured consumer products," one member projected. Workforce challenges are further complicated by potential labor shortages induced by deportation policies.

- **Ohio-Specific Factors:**
  - The manufacturing sector, a significant contributor to Ohio's economy, is particularly vulnerable to disruptions from tariffs and potential retaliatory actions.
  - The finance and insurance sectors face ongoing challenges from technological advancements.
  - Ohio's lower cost of living and business-friendly environment could be crucial advantages in attracting businesses and workers, especially if other states experience more severe economic headwinds.

Q14 How has your outlook changed over the past 3 months on the Real Ohio GDP growth in 2025?



Additional Considerations:

- Workforce Development: Investing in workforce development and reskilling initiatives is more critical than ever to address potential labor shortages and prepare workers for the jobs of the future. *"Ohio has to concentrate on long-term investments in human capital (workforce training and education),"* one member emphasized.
- Technological Advancement: The rapid pace of technological change, particularly in AI, requires ongoing monitoring and proactive strategies to ensure Ohio remains competitive.
- Policy Uncertainty: The uncertainty surrounding the new administration's policies is a significant concern. *"Volatility in government policies and actions is not typically good for the economy,"* one member noted. Clear and consistent policy making will be crucial for maintaining business confidence and investment.

Conclusion:

The Economic Advisor Council anticipates a more complex and uncertain economic landscape than in previous quarters. While the near-term outlook remains cautiously optimistic, the potential consequences of the proposed tariffs and deportation policies loom large. Ohio must proactively address these challenges by focusing on workforce development, technological adaptation, and fostering a resilient and innovative economy. The council will continue to monitor economic data and policy developments closely, providing updated guidance as the situation evolves.

Economic Advisor Council Survey Responses - Q4 2024

Summary of Verbatim Responses:

The Q4 survey responses indicate a consensus that the Fed's tightening cycle has ended. With the first rate cut already implemented, members anticipate further reductions in the coming quarters, contingent on inflation's path. While a "soft landing" remains the most probable scenario, concerns about a potential recession persist.

Regarding Ohio's economic outlook, projections for real GDP growth are moderate, and the unemployment rate is expected to remain relatively stable. Members highlighted the importance of addressing workforce challenges, adapting to technological advancements, particularly AI, and capitalizing on Ohio's strengths, such as its lower cost of living.

Grouped Verbatim Responses:

These verbatims were edited for grammar and clarity while retaining the intended meaning of the comment.

On Fed Policy:

- "I expect a rate of about 3.25%. The labor market is improving. The inflation could be slightly higher than their target."
- "I'm a bit more concerned now than I was before the election that re-inflation could occur. Prior to the election I assumed a 25 bps cut at each meeting through 2025. That would have put that rate at the end of 2025 around 2.5% or so. While that's still possible, I would err on the side of caution and say it may be a bit bumpier ride than that if labor costs rise due to deportations, and tariffs are implemented. In this case I would say closer to 4%."
- "My understanding is that the Fed originally planned to continue to cut rates slowly from now through the end of 2025. But with the election and a very slight recent increase in

inflation, I think they might skip the planned rate cut this December and slow the process of reducing the Fed rates."

- “CPI inflation remains stubbornly high. But the Federal Reserve responds with interest rate cuts in response to a weaker labor market and increased likelihood of a recession.”
- “While Fed Chairman Powell said that another rate cut is coming due to the successful soft landing of the economy, the future performance is uncertain due to policy changes advocated by the incoming Trump administration. The first is an across-the-board tariff increase of 10%, a possible more considerable increase of up to 60% for China. The second is a proposal to deport migrants, both legal and illegal, during a time of labor shortage.”
- “Inflation still persists and the labor market is tight, which eliminates the case for larger cuts. The US equity market is overshooting and housing is still unaffordable, which makes the case to leave rates alone. However, the Fed may not be able to distance itself from the political pressure to lower rates.”
- “Inflation still persists and the labor market is tight, which eliminates the case for larger cuts. The US equity market is overshooting and housing is still unaffordable, which makes the case to leave rates alone, however the Fed may not be able to distance itself from the political pressure to lower rates.”
- “The incoming administration's inflationary policies will cause the Fed to first take a wait-and-see approach and then hold off on cuts as inflation ticks up. The Fed doesn't want to reverse policy, so [it] will be more likely to hold [rates] too high than continue to cut, knowing they'll need to raise [them] in 3 months.”
- “Expect the outlook to change based on ongoing inflation trends and near-term impacts of new administration policy.”
- “Macroeconomic indicators still suggest a strong economy with indicators of some slowing. Inflation is down though still slightly above the target of 2%. Unemployment rates are fairly steady. The Fed will likely continue to cut rates at a slow pace.”
- “My baseline forecast expects inflation to continue moderating in the remaining months ahead (until Trump policies take effect, at which point there is more uncertainty). The trend of lower inflation has given the Federal Open Market Committee confidence to ease policy. Following November’s 25-basis point cut, I expect another at December’s meeting, and probably January as well, unless we see really strong jobs numbers.”
- “There is a lot of uncertainty, so everyone is guessing here, but I think they will skip the December rate cut and wait until Q1 2025 to reduce rates.”

On the Presidential Election Impact:

- "The president is expected to promote economic growth and reduce unemployment. It might come at the cost of inflation. His anti-immigration policies might have harmful effects on the labor market and U.S. firms. With new technology-friendly policies, I expect Ohio to do well. Ohio should also think about policies promoting agricultural production as I expect food prices to increase."
- "In the short run (1-2 years), I think there may be some ‘pain’ in the form of re-inflation due to tariffs and higher labor costs due to deportation. Layoffs at governmental agencies are also a real risk given the stated goal of cutting federal expenditures by

$2T(a likely unrealistic amount). My guess is that some of these policies will be tempered by congress, perhaps limiting their effect on the economy. Over the longer term these policies could create jobs in Ohio as businesses are forced to re-shore supply chains and produce more in the U.S. But really, there are more questions than answers at this point on how these things will play out."

- "Many economists are concerned that tariffs could lead to a recession as soon as summer 2025. That combined with mass deportation could have negative impacts on growth and lead to higher inflation. Ohio will be impacted by these factors as well."
- “Economic policy uncertainty has more than doubled since the election and is now at the highest level since 2021. Tariffs and immigration policy, to the degree implemented, could have devastating effects on inflation and US economic growth. The key is the degree to which they are implemented, and with respect to tariffs, how other countries respond.”
- “A 10% tariff increase will retrigger inflation and decrease personal consumption expenditures. Retaliatory tariffs by our trading partners will cause supply chain disruptions and cost increases. The deficit will balloon if tariffs are coupled with additional federal income tax cuts.”
- “"Trumpflation" is the primary concern based on the president-elect's stated policy positions. The fixed-income market has a negative/very negative outlook on inflation... long-term rates are rising even as short term rates are being cut. Tariffs are a real Ohio-specific risk, as NAFTA/USMCA members account for 57% of Ohio's exports. Retaliatory tariffs were highly targeted during Trump's first term... and industries that are concentrated in states with GOP congressional representatives were the top targets.”
- “Higher growth, stubborn but manageable inflation, Ohio continues to mirror national averages”
- “Tariffs and mass deportations are clearly inflationary. Mass deportations would hamper the labor market, driving down unemployment but increasing supply chain issues (also inflationary) and labor costs (inflationary). Growth would be negatively impacted. Interest rates would remain higher for longer as the Fed does not cut as much. This would negatively impact things like home sales, durable goods sales, and auto sales, all impacting state budgets. Ohio would likely be less impacted than other states but would still see higher inflation and somewhat lower growth than otherwise.”
- “Potential for immense economic impact at both the nation and state level across several dimensions: potential tariffs will lead to inflationary pressure and likely retaliation, deportation policies, if enacted, will reduce [the] labor force and cause disruptions to major food and agriculture sectors, and projected deficit spending increases could lead to slower long-term growth. The combined effect [is] unknown, but could lead to significant market disruptions that more than offset any short-term gains from tax cuts and business spending that results from deregulation. [A] polarized political environment has also significantly increased the risk for domestic terrorism and large-scale civil unrest, which disrupt normal economic activity. For Ohio, potential disruptions to government funding of CHIPS, Tech Hubs, NSF Engines, EDA, and other economic development spending could result in slowing growth in several industries, with the

potential for significant effects of retaliatory tariffs on manufacturing and agricultural industries."

- "Uncertain at best. Campaign rhetoric does not always match actions. Leaning heavily into tariffs, for example, would be disastrous for the economy, but whether that happens is still to be determined. Retaliatory tariffs affecting agriculture, corn and soybeans, would hit Ohio harder than some other states. Volatility in government policies and actions is not typically good for the economy - this is why the Fed communicates its expected actions. Policies that bring short-term gains, lower corporate taxes for example, may not result in longer-term economic gains if it reduces investments in infrastructure and workforce development."
- "The current outlook for business investment and consumer spending are both negative. The positive wealth effect of tax cuts only applies to ~50% of U.S. households... as at least 40% of households currently pay no income taxes. The negative inflationary effects of tariffs, labor supply reductions, and lingering supply chain disruptions apply to 100% of U.S. households because they show up in the form of higher prices. Also, tax cuts are either positive or negative depending on the relative strength of the economy. The tax cuts during the first administration decreased government revenue and increased government debt because consumption was already high and inflation was underreported (i.e., home price inflation was out of control in Ohio as far back as 2015/2016, but it didn't show up in CPI because low-interest rates were skewing the owners' equivalent rent component of the calculation)."
- "In the very short term, it could lead to higher consumer spending from a segment of the population. In the medium term, as the policies are enacted, it would cause inflation and lower growth--lowering business investment and consumer spending."
- "Yes, consumer spending [is] likely to tighten given [the] uncertain economic and societal environment and low likelihood of immediate impact on inflation of household goods prices. Potential bump to business spending from tax cuts or other pro-business policies, but then slowing investment in anticipation of tariffs or other uncertainty about disruptions to [the] economy from ongoing policies. Longer-term, investment [is] likely to shift to state-level and industry consortium-led initiatives in response to federal funding pressures, but subject to international trade dynamics as well as broader emerging international and regional conflicts."

On Ohio's Economy:

- "2.7% (Real Ohio GDP Growth for 2025). I expect Ohio to do slightly above the U.S. average [due to] the new president's economic growth-friendly policies."
- "I think we'll see a general slowing (in GDP growth) across the U.S. in 2025, which would be more in line with long-term average growth of around 2% as job growth slows, still-high rates cut into spending a bit, and consumers run off excess savings. If policies prove inflationary, that may not hit until late 2025 or 2026, so perhaps 2025 wouldn't be affected too much. Ohio GDP growth has tracked a bit lower than the U.S. average, so I would anticipate Ohio GDP to be around 1.8% or so."
- "NA (Real Ohio GDP Growth). I worry that the tariff policy of the new administration (if fully implemented), particularly with regard to China, will have significantly negative

effects on Ohio GDP, particularly in the agricultural, industrial parts, and automotive parts industries."

- "Real Ohio GDP growth is about one percentage point below the national rate. This is because of the expected negative impact on manufacturing supply chains, the deportation of immigrant workers, and declines in real personal consumption expenditures (Real PCE) related to an increase in inflation in food, building materials, and manufactured consumer products—other than domestic and imported."
- "Deregulation helps overcome lagged effects of monetary policy restrictiveness."
- "We're currently at about 4.5% (Ohio's average U-3 unemployment rate). For the same reasons stated above, I would expect the unemployment rate to rise a bit in 2025 but avoid a large spike. 4.7% - 5% is probably a reasonable number."
- "Pretty full employment, most trouble at low-wage categories."
- "The Ohio unemployment rate may remain steady, though there is a bit of uncertainty at this point given the uncertainty in government policies next year."
- "Ohio has successfully been continuing to diversify its economy. I would also recommend rethinking agricultural policies and promoting agricultural production."
- "Deregulation of the energy industry, Office CRE performance in Cleveland, Toledo, Akron/Canton, and Youngstown, consumer pulling back at the lower end of the income spectrum, labor shortages due to out-migration, deportations and less immigration, possible layoffs at military bases and federal offices."
- "From what I am hearing, mass deportation could have a negative impact on Ohio's housing/construction, manufacturing and agricultural industries."
- "National macroeconomic public policy changes will swamp Ohio-specific near-term policy changes. Ohio has to concentrate on long-term investments in human capital (workforce training and education) and encourage investment in production capital."
- "Some of the bigger projects that rely on federal funding (i.e., Intel) are clearly at risk, and Ohio is going to be heavily reliant on the Governor to help us keep things moving in the right direction. For example, the Brent Spence Bridge was a local priority that the first administration failed to deliver on. Ultimately, it was Beshear, DeWine, and the outgoing administration that worked together in a constructive and bipartisan manner to make the project a reality. Also, we should proactively analyze and prepare for a situation where Ohio businesses may be targeted with retaliatory tariffs similar to the way Kentucky was targeted during first administration. Canada is Ohio's largest export market for obvious reasons, and the Chamber may want to consider independent, state-level policy actions that help local businesses send the right message to their Canadian customers in terms of Ohio's desire to sell more goods and services into their market."
- "Major implications for Ohio from slowing federal investment in advanced industries - if significant cuts to programs happen, [they are] likely to impact the trajectory of Ohio's traded sector economy. [A] Trade war could also significantly dampen manufacturing and agricultural industry growth but could be partially offset by state investment if programs are developed. [The] Labor market [is] likely to cool significantly, making upskilling and retention key priorities for Ohio-based employers. Warning signs from Intel investment driven by CHIPS funding - [a] combination of Intel contraction and risks to full funding could be a 'canary in the coal mine' for other similar types of efforts amidst major

uncertainty around economic conditions in coming years. [A] Mixed picture for Central Ohio industry cluster growth over the past several years based on recent numbers - [it] remains to be seen if this is a broader industry cluster restructuring or just passing volatility."

- "While manufacturing has seen some resurgence, much of the resurgence has been in the Sunbelt and not the Midwest. Manufacturing seems to be following people. Ohio is falling behind the nation when it comes to population growth."

On Other Considerations:

- "Assessments of risk of broad societal unrest in US are at highest levels in many of our lifetimes due to polarized political climate, increasing income inequality, and controversial policies - coming year will give more clarity as conditions evolve, but potential for economic impacts and market disruptions is significant and near-term."

These grouped verbatim responses provide a more comprehensive view of the council's perspectives and highlight the key factors shaping their economic outlook for Ohio and the nation.