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# Economic Outlook for 2025

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- Expecting steady growth in 2025
- Recession possible due to potential major government disruption or geopolitical risks
- Animal agriculture looking up, but most crops face declining prices
- Top risks are geopolitical disruptions, major government reform difficulties, and international trade disputes

## A Recap of 2024

The economy in 2024 was better than expected, avoiding recession with a minimal increase in unemployment as the American consumer struggled early in the year but picked up a little strength in the second half. The Federal Reserve began lowering interest rates as inflation continued a slow fall toward its target of two percent. Oil prices actually declined noticeably, even in the face of continued military conflicts in the Middle East, helping the entire economy to perform a bit better than many had anticipated. Overall, the American economy turned in a solid, but not spectacular performance.

The agricultural economy in 2024 was not that different from the general economy: not hot but not cold either. Commodity prices were generally flat to down. Farmers are finally starting to see some progress on input costs (thanks to oil price declines). Unfortunately, North Carolina agriculture had far more bad weather than good, with droughts followed by excessive rains and damage from both a tropical storm and a hurricane. Many farmers, particularly in western North Carolina were devastated, losing not just

*Source: NC State Extension*

crops but also animals, structures, and equipment. While many farmers will get through 2024 with decent returns, it was a (literal natural) disaster for some, and it wasn't really a great year for any commodities. Farmers are getting tired of waiting for a good year.

## Looking Forward to 2025

The labor market is expected to bump along in 2025 with small gains in total employment, and unemployment holding flat or rising a few tenths of a percent. I don't expect to see rapidly increasing job losses because employers remember the difficulty in hiring workers following the Covid lockdown and will not want to repeat that process. Wage increases will continue to normalize to low single digits, say 2-3% on an annual basis. Average hourly earnings will likely perform worse than the employment numbers as layoffs or slower growth in high-paying sectors such as technology and finance are offset with lower-paying jobs in the leisure and hospitality, education, and services sectors, where job growth is currently concentrated.

Consumer spending has been amazingly resilient for the past two years, helped by the low unemployment rate and wage increases that have made up for at least some of the inflation. Credit card delinquency rates have risen over the past two years but are still quite low compared to historic norms; auto loans have followed a similar pattern. While inflation has definitely impacted consumers' spending and tightened their budget constraints, many of them locked in ultra-low mortgage rates so that the percent of disposable income households are spending on total debt service is historically normal.

*© [alfons] /Adobe Stock*

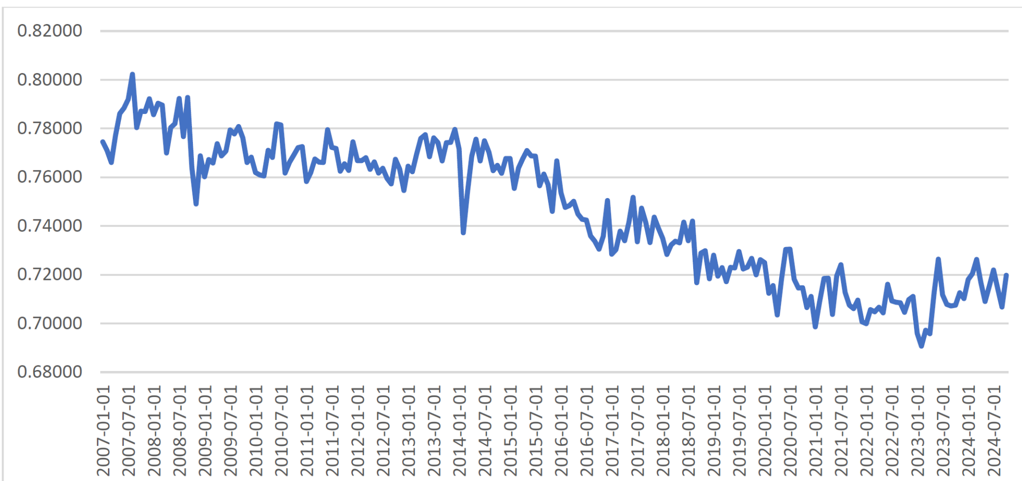
Interest rates will continue to slowly fall through 2025, although not smoothly (they will bounce up and down along the way). This will help support the economy by lowering borrowing costs and help the housing and car markets at least partially return to normal. There are already some signs of both, with inventories of existing homes for sale having risen during 2024 and car manufacturers returning to the practice of offering incentives to lure buyers back to the showrooms. I expect the Federal Reserve to cut interest rates by one percentage point during 2025, most likely roughly once every 12 weeks. However, mortgage rates, auto loans, and credit card rates are only loosely tied to the Federal Reserve's interest rate policies and will not move in lockstep. In fact, the more important factor for mortgage rates will be action in Washington, D.C. on the federal budget deficit. If politicians cannot lower the deficit (preferably by reducing spending), there simply isn't enough money to be lent to allow interest rates to fall to pre-pandemic lows. We are likely to see mortgage rates in the high 5s sometime in 2025, but to get much lower will take a reduction in federal borrowing.

## Outlook for North Carolina in 2025

Declining interest rates should be favorable for the finance, construction, and professional services industries which would be good for North Carolina's economy. However, a lot of recent national employment growth has been in the education and health services and government sectors, and neither of those is a sector where North Carolina has higher than national average employment. Overall, I think North Carolina can match or exceed national economic trends in 2025, mostly due to in-migration from other states. One caution to this is that it is still unclear how much drag there will be on the statewide tourism industry from the cataclysmic damage Hurricane Helene did to western North Carolina. Further, relief efforts will (rightly) focus state government spending and attention on recovery rather than on investments to spur new growth.

North Carolina employment shares are close to national averages in all major industry sectors -always within one percentage point of the national share. However, North Carolina has been adding jobs in higher paying sectors such as information technology, professional and business services, and finance. While a lot of focus is likely to be on manufacturing with President-elect Trump pushing policies designed to bring manufacturing jobs back to the U.S., in North Carolina these jobs do not pay above the statewide average wage so it is unclear this would be a big win for the state's economy (see Figure 1). More importantly, North Carolina is a highly ranked state in its share of production being exported, so it is vital that any trade policies implemented do not result in retaliatory policies by other countries that hurt U.S. exports. Anti-trade policies stand to bring North Carolina an average share of benefits but a larger-than-average share of costs, thus likely being a net loser for our state's economy.

**Figure 1. Manufacturing Wages Relative to North Carolina Average Wages, 2007-2024**




*Source: Bureau of Labor Statistics. Graph is average hourly earnings of production employees: manufacturing in North Carolina divided by average hourly earnings of all employees of private companies in North Carolina.*

Taking this all into account, I expect the economy in 2025 to display steady but unspectacular growth. Consumers seem to be regaining their footing after several years of inflation-related struggles. Businesses are still hiring and are reluctant to lay off workers. Debt burdens are manageable, and interest rates are falling slowly. Overall, if we avoid major geopolitical problems, North Carolina should see reasonable economic conditions in 2025.

## Agriculture in 2025

North Carolina farmers had a mixed year in 2024. Prices and profits weren't that strong unless a farmer marketed at just the right time. The weather was uncooperative: first dry, then too wet. Hurricane Helene caused major damage in western North Carolina to many farms, towns, and people. Recovery is well underway but will take years to complete.

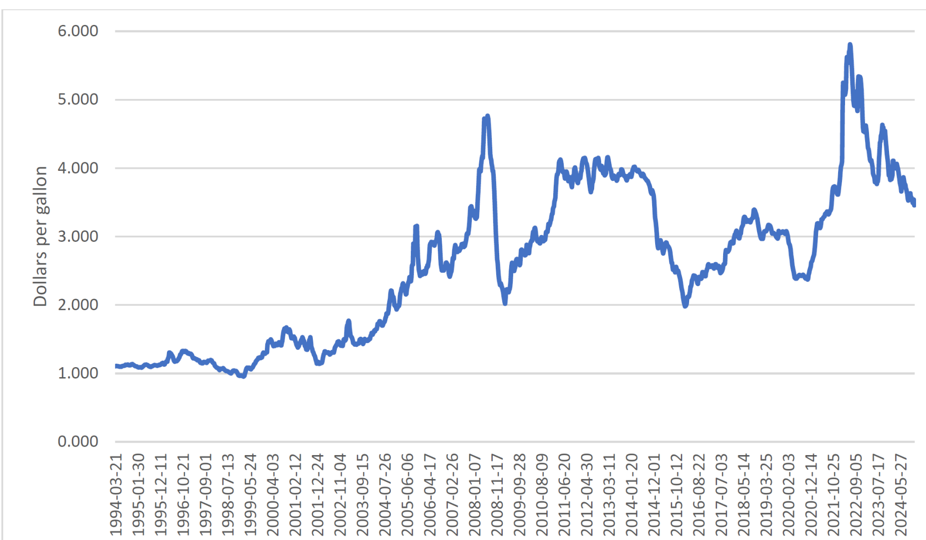
However, 2025 could be a better year, admittedly with an easy comparison to beat. Prices for most non-livestock commodities will be flat to slightly down compared to 2024, but with better weather and lower fertilizer and diesel prices, many North Carolina farmers may have better profitability than in

2024. Tobacco farmers may be a rare bright spot with higher prices expected in 2025 and a chance for better yields than last year when weather hit tobacco fields especially hard. Animal agriculture looks more promising than crops as meat prices are solid to strong and appear poised for further increases in 2025. If bird flu doesn't change things, livestock farmers should be looking forward to 2025.

In terms of acres planted, I don't expect any big shifts nationally or in North Carolina. Prices won't shift enough to encourage much in the way of different planting behavior, especially in the face of the major theme for 2025: uncertainty over trade policy. Exports are a key driver of overall demand for North Carolina producers of broilers, corn, cotton, pork, soybeans, sweet potatoes, and tobacco. Exactly what will happen concerning international trade policy under the incoming Trump administration is anybody's guess. Right now, we don't know if all the promised tariffs will be levied versus traded for something else in negotiations. If tariffs are placed on other countries' exports to the United States, we don't know if those countries will retaliate. Higher tariffs make imports more expensive; this helps only some fruit and vegetable growers in North Carolina as most commodities don't face competition from imports. Losing export sales due to possible retaliation will hurt the overwhelming majority of farmers as almost all of them produce at least one commodity that relies on exports to keep prices up.

Growers should see more progress on the input cost side as diesel and fertilizer prices continue to fall closer to pre-pandemic levels (see Figures 2 and 3). Further good news on the input cost side can finally be found on labor costs. For producers that rely on H-2A labor, the Adverse Effect Wage Rates (AEWRs) increase expected in 2025 should be just 35 cents per hour, moving the wage from $15.81 to $16.16. After several years of it jumping by about a dollar per hour per year, this will be welcome easing.

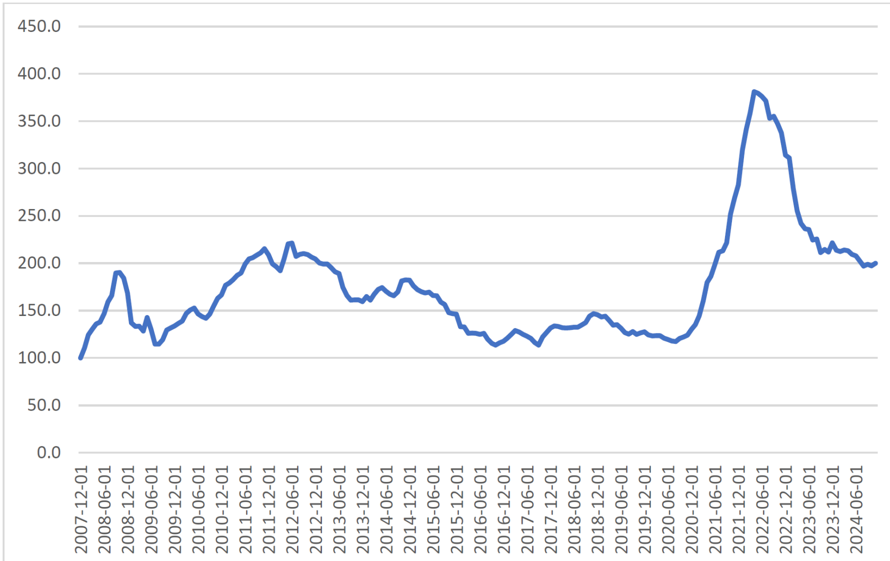
**Figure 2. Diesel Prices, 1994-2024**




*Source: U.S. Energy Information Administration, weighted average weekly sales price from 350 retail outlets.*

While Congress will apparently still be working on the Farm Bill in 2025, there are two pieces of legislation under consideration that could be passed sooner as stand-alone bills. One would roll the H-2A wage back to its 2023 level and freeze it for two or three years (there have been different versions). The second, the Protect Our Produce Act, would provide relief payments for growers of asparagus, bell peppers, blueberries, cucumbers, and squash whenever prices fell below a five-year average due to competition from imports. Both pieces of legislation would be hugely valuable to affected North Carolina growers.

**Figure 3. Fertilizer Import Price Index, 2007-2024**




*Source: Bureau of Labor Statistics, Import price index (end use): Chemicals – Fertilizers. Base year December 2007=100.*

Taken in aggregate and given some reasonable weather, 2025 should be a decent year for North Carolina agriculture. We could see production costs come down a bit more and commodity prices hopefully falling less than production costs for most of North Carolina's major commodities. Things look a bit better for livestock than crops, but given decent weather, efficient farmers should get through 2025 in reasonable shape.

## Summary

In summation, I expect the economy to produce solid growth in 2025, in line with historical averages. I don't think a recession will happen unless it is precipitated by world events such as a trade war or actual war. Businesses are reluctant to lay off workers, so most people will remain employed and will have enough money to spend normally. Inflation will continue a gradual decline back toward to Federal Reserve's 2% per year target and interest rates will fall a little along with inflation, dropping around a percentage point over the course of the year. That will ease credit conditions for businesses and reduce operating expenses for farmers.

Agriculture is hoping to see some more returning to normal in 2025, with oil prices hopefully staying low and fertilizer and chemical prices continuing to fall back toward pre-2020 levels. In North Carolina, we just want to see a normal weather year and no natural disasters. If the weather cooperates and progress continues on production costs, producers in North Carolina should see a decent year for farm income. Not spectacular, but not devastating either. With a little luck, 2025 can be a fair to middling year and after the chaos of the last five years, a boring fair-to-middling year might not feel too bad.

*NC State Economist* is a publication of the Department of Agricultural and Resource Economics
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