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Faster Economic Growth, Weaker Hiring Seen

THE OUTLOOK |

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Prospects for U.S. economic growth are looking up, as investment in artificial intelligence booms and risks around tariffs diminish, according to economists surveyed by The Wall Street Journal.

The survey was conducted this month, before President Trump threatened to impose massive tariffs on China. Even as the economists have raised estimates for economic growth, they have lowered prospects for jobs.

Behind the strange dichotomy: Employers are reluctant to hire given political uncertainty and rising costs, even as their investment, especially in AI, is boosting productivity and economic growth.

On average, economists expect gross domestic product adjusted for inflation to increase 1.7% in the fourth quarter this year from a year earlier, up sharply from the July survey average of 1%. For 2026, they still expect growth of 1.9%.

One reason for the upgrade is that while tariffs continue to weigh on the economy, there is more certainty around them. Trump has struck agreements with key trading partners including Japan and the European Union. Tariffs are also having less effect on prices than expected. Economists now expect them to add 0.5 percentage point to year-overyear inflation as measured by the personal-consumption expenditures price index in the fourth quarter, down from 1 percentage point in April's survey.

Even so, the labor market is expected to remain a weak spot. Economists expect employers to create just 15,000 jobs a month in the current quarter, down from more than 50,000 in July's survey. Over the next four quarters, they see growth of about 49,000 jobs a month, down from 74,000 a month in their previous survey.

That slower job growth, however, won't translate into notably higher unemployment, because the Trump administration's crackdown on immigration is reducing the supply of workers. Economists expect the jobless rate to hover around 4.5% over the next year. It was 4.3% in August.

Forecasters put the probability of recession in the next 12 months at 33%, unchanged from July.

The Journal received 64 surveys from academic and business economists between Oct. 3 and Oct. 9. Not every forecaster answered every question. The government shutdown that began Oct. 1 has also cut off the data economists rely on to make forecasts, such as the September employment report.

Economists expect the Federal Reserve to lower interest rates at a slightly faster pace than they did in July. They now see two more quarter-percentage-point cuts from the current 4% to 4.25% range. That tracks the projections of Fed policymakers, who cut rates a quarter point in September and penciled in two more rate cuts this year amid concerns about the abrupt slowing in job growth.

Economists gave high marks to Fed Chair Jerome Powell, even as they predicted that the central bank's independence is likely to diminish as Trump steps up his efforts to take control of interest rates and install loyalists on its policymaking committee.

Powell, whose term as chair ends May 15 next year, got an A or B from 77% of economists, compared with 80% a year ago.

The Journal asked economists to rank which of the 13 candidates the administration has said it is looking at to succeed Powell would be the best candidate and who was most likely to be picked.

They ranked as the best choice Fed governor Christopher Waller, whom Trump appointed to the Fed's board in 2020. Waller has proven a prescient economist with intellectually coherent policy arguments. Second choice was James Bullard, who as president of the St. Louis Fed from 2008 until 2023 often challenged the conventional wisdom inside the Fed. Third choice was Dallas Fed chief Lorie Logan, who as a senior executive at the New York Fed had significant responsibility for developing and managing the tools to implement central bank policy.

With one exception, those weren't the names Trump was thought most likely to actually nominate. The likeliest, in their view, is National Economic Council Director Kevin Hassett, who has been Trump's longest-serving economic adviser and has fused the president's populist trade and immigration policies with traditional establishment GOP views on taxes and regulation. The next were Waller and former Fed governor Kevin Warsh, who was a finalist for the job when Trump selected Powell in 2017 and has since become one of the most outspoken critics of the Powell Fed.

