

U.S. ECONOMIC RECAP

FOURTH QUARTER 2025



CURRENT ECONOMIC CONDITIONS COMMENTARY

The [Federal Reserve](#) publishes a report (known as the Beige Book) eight times per year that summarizes current economic conditions throughout the 12 U.S. Federal Reserve Districts. The eighth [Beige Book](#) publication in 2025, which was released on November 26, 2025, highlighted:

- Economic activity showed little change since the previous report;
- Two districts noted a modest decline and one reported modest growth;
- Consumer spending declined further due to a government shutdown, higher-end retail spending remained resilient;
- Auto dealers saw declines in EV sales following the expiration of the federal tax credit;
- Travel and tourism activity reflected little change in recent weeks, some cautious discretionary spending noted;
- Manufacturing activity increased somewhat though tariffs and tariff uncertainty remained a headwind;
- Revenues in the nonfinancial services sector were mostly flat to down, and reports of loan demand were mixed;
- Outlooks were largely unchanged overall, some contacts noted an increased risk of slower activity in coming months, while some optimism was noted among manufacturers.



CONSUMER CONFIDENCE – THE BACKBONE OF THE U.S. ECONOMY

Consumers influence the U.S. economy immensely through their spending and savings decisions. As such, measures of consumer confidence may provide valuable information in discerning the economic outlook.

In the University of Michigan’s December [2025 Survey of Consumer Confidence](#), Chief Economist, Joanne Hsu opined:

“Consumer sentiment confirmed its early month reading, inching up less than two index points from November, within the margin of error. While lower-income consumers posted gains, sentiment for higher-income consumers was little changed. Buying conditions for durable goods fell for the fifth straight month, whereas expectations for personal finances and business conditions rose. Labor market expectations lifted a bit this month, though a solid majority of 63% of consumers still expects unemployment to continue rising during the next year. Despite some signs of improvement to close out the year, sentiment remains nearly 30% below December 2024, as pocketbook issues continue to dominate consumer views of the economy.”



CONSUMER PRICE INDEX (CPI)



The December 2025 Consumer Price Index (CPI) rose 0.3% month-over-month to 2.7%. [An EY report states:](#)

“The December 2025 Consumer Price Index (CPI) report delivered the cleanest read on inflation in three months. That said, the downward bias created by the data-collection gap during the government shutdown and the Bureau of Labor Statistics (BLS) carry-forward methodology will continue to distort inflation data through April. As a reminder, the BLS assumed no price change for a wide range of categories in October, including flat rent and owners’ equivalent rent between April and October last year. In addition, the November CPI was collected late in the month, disproportionately capturing seasonal discounting.”

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MONETARY POLICY

Determined by the Federal Reserve's Federal Open Market Committee (FOMC):

In the December 2025 Statement, the FOMC noted:

- Available indicators suggest that economic activity has been expanding at a moderate pace
- Job gains have slowed this year, and the unemployment rate has edged up through September; recent indicators are consistent with these developments
- Inflation has moved up since earlier in the year and remains somewhat elevated

The Committee seeks to achieve maximum employment and inflation at the rate of 2% over the longer run. Uncertainty about the economic outlook has diminished but remains elevated.

The FOMC is attentive to risks to both sides of its dual mandate. In support of its goals, the Committee decided to lower the target range for the federal funds rate by .25 percent to 3.5% (from 3.75%).



INTEREST RATES (PRIME RATE)

The prime rate is often used as a base rate to price short-term business loans

In 4Q 2025, the prime rate experienced two 0.25 point drops—falling to 7.0% on October 30, 2025, and to 6.75% on December 11, 2025. These drops follow a 0.25 point decline in September of 2025, after the rate held steady at 7.5% since December 2024. The prime rate is posted by a majority of top 25 insured U.S. chartered commercial banks. The Federal Reserve does not control the prime rate, but many banks base their prime rates partly on the target level of the federal funds rate.



PUBLIC MARKETS

In public markets, asset prices fluctuate with changes in future expectations.

Stock indices expanded over the final quarter of 2025. The S&P 500 closed on December 31, 2025 up 2.3% (157.04 points) from Q3 2025. The Dow experienced the greatest expansion, increasing 3.6% (1,665.40 points) compared to the prior quarter end. Finally, the NASDAQ similarly followed suit, rising by 2.6% (581.98 points).

FORECAST BASED ON ECONOMIC INDICATORS

In December 2025, members of the FOMC submitted projections of the most likely outcomes for real gross domestic product (GDP) growth, the unemployment rate, and inflation for each year from 2025-2028 and over the longer run. These projections were based on information available at the time, assessment of appropriate monetary policy, and assumptions about other factors likely to affect economic outcomes.

The FOMC's December 2025 Summary of Economic Projections includes the following highlights:

- Real GDP growth is expected to be 1.7% in 2025, 2.3% in 2026, 2.0% in 2027 and 1.9% in 2028
- Federal funds rate, unemployment and PCE inflation rates are projected to edge down from 2025 to 2028
- Long-term real GDP growth is expected to average 1.8%
- The median projections of Federal Reserve data suggest longer-run PCE inflation is expected to approximate 2.0%, consistent with the FOMC's inflation target.

The FOMC will continue to monitor these metrics as they could directly affect the Committee's decision making related to maintaining a 2% inflation rate.

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MARKET IMPLIED INFLATION

The [Federal Reserve Bank of St. Louis](#) posts nominal and inflation-indexed constant maturity treasuries. Taking the difference between nominal yield and inflation-indexed yields provides a market-based estimate for inflation compensation over each maturing period. Below are the December 2025 results:

	5 Year	7 Year	10 Year	20 Year	30 Year
Nominal Treasuries	3.70%	3.92%	4.16%	4.77%	4.82%
Treasury Inflation Protected Securities	<u>-1.47%</u>	<u>-1.69%</u>	<u>-1.93%</u>	<u>-2.38%</u>	<u>-2.61%</u>
Market Implied Inflation	<u>2.23%</u>	<u>2.23%</u>	<u>2.23%</u>	<u>2.39%</u>	<u>2.21%</u>

Source: FRED: Selected Interest Rates Instruments, [December 26, 2025](#)



NEWS FROM THE WHITE HOUSE

Since the change in administration at the beginning of 2025, several issues have been primary topics of discussion: tariffs, the enactment of the One Big Beautiful Bill Act, and the government shutdown.

[Tariffs and trade policy](#) have been a primary discussion topic over the previous year. These policies include broad global duties ranging from 10% to 41% to address trade deficits, alongside sector-specific tariffs of 50% on steel and aluminum and 25% on automobiles and parts.

While the administration has successfully negotiated bilateral framework agreements with key partners (EU, UK, Japan, and South Korea) to provide preferential rates, and has secured a one-year tariff truce with China through November 2026, the trade environment remains characterized by elevated uncertainty to be treated with caution. Significant retaliatory measures from trading partners have impacted U.S. exports, and many ongoing investigations into critical sectors like semiconductors, pharmaceuticals, and robotics suggest the potential for further structural shifts in trade costs. As many of these tariffs are cumulative, they represent a persistent headwind to corporate margins and supply chain stability.

The [One Big Beautiful Bill Act](#) (OBBBA), which was officially passed on July 4, 2025, includes major changes to tax, healthcare, and social policy. The OBBBA makes the Tax Cuts and Job Act permanent, eliminates taxes on tips and overtime, expands the child tax credit, and introduces \$1,000 “Trump savings accounts” for newborns.

The law imposes stricter work requirements for Medicaid and food assistance, which could reduce access to benefits for millions. The OBBBA also repeals student loan forgiveness programs, bans state-level AI regulations for a decade, and ends the IRS Direct File program.

National defense and border security see large investments, including \$47B for a border wall and the launch of a “Golden Dome” missile defense system. While it raises the debt ceiling to prevent a default, critics argue that the OBBBA adds to the deficit and disproportionately favors wealthy households.

A [43-day government shutdown](#), which took effect on October 1, 2025, “after lawmakers failed to resolve a budget deadlock, halting some federal operations and putting approximately 750,000 employees on unpaid leave,” marked the longest shutdown in U.S. history. The government reopened on November 13, 2025. “[The impasse](#) resulted in the disruption of government services, with an estimated 1.4 million federal employees furloughed or working without pay.” As the government focuses on the short-term effects, including addressing the backlog of official data and delayed federal payments, it is unclear what the long-term consequences of the shutdown may be.

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CURRENT EMPLOYMENT CONDITIONS – ALL INDUSTRIES

The U.S. labor market, a key indicator of the strength of the economy, has remained relatively unchanged. The FOMC will keep an eye on these trends to review economic conditions.

The Bureau of Labor Statistics (BLS) reported that the December 2025 unemployment rate (4.4%), as well as the number of unemployed persons (7.5 million), changed little from November 2025. The number of people not in the labor force who wanted a job remained at 6.0 million. BLS data showed notable gains in food services and healthcare.

Federal Reserve data indicated a slight decline in employment over the current period, and weaker labor demand in nearly half the Districts. Despite an uptick in layoff announcements, employers noted efforts to limit headcounts with hiring freezes, replacement-only hiring, and attrition rather than layoffs. Companies adjusted hours worked to accommodate higher or lower than expected business volume instead of adjusting the number of employees. A few firms noted that AI replaced entry-level positions or made existing workers productive enough to curb new hiring. Most employers had an easier time finding workers, but some difficulty remained related to certain skilled positions and fewer immigrant workers.

The World Economic Forum in Davos warned that AI is significantly impacting the labor market, noting companies across sectors have already linked nearly 55,000 U.S. layoffs in 2025 to AI adoption, and worker anxiety over job displacement has surged from 28% in 2024 to 40% predicted in 2026. Yet, as the International Monetary Fund also emphasizes, new roles are emerging alongside disappearing ones, and 1 in 10 job postings in advanced economies now requires new skills, especially in technical and managerial fields. This dual impact could result in benefits, but not without uncertainty.



INDUSTRIAL PRODUCTION & MANUFACTURING

The Institute for Supply Management's (ISM) Purchasing Managers Index (PMI) can be used to determine whether the manufacturing sector of the economy is expanding or contracting. A PMI of 47.9% in December 2025, marked the lowest reading in 2025. A reading above 42.3% indicates that the manufacturing economy is generally expanding, while a PMI index below 42.3% denotes general contraction.

The Global Supply Chain Pressure Index (GSCPI), which gauges issues by integrating transportation cost data and manufacturing indicators, rose from -0.16 to 0.51 from November to December 2025. Compared to year-ago levels (-0.22 in December 2024), this GSCPI shows movement towards a generally tighter position in the near future.



HOUSING & NONRESIDENTIAL CONSTRUCTION

The Dodge Momentum Index (DMI) is issued monthly by Dodge Data & Analytics to measure the initial report for nonresidential building projects in planning, which have been shown to lead non-residential construction spending by a full year. Highlights for 2025 include:

- The DMI was 50% higher than in December 2024. The commercial segment was up 45% from year-ago levels, and the institutional segment increased 60% over the same period.
- The DMI includes 34 projects valued at \$100M+. The largest commercial project was a Data Center in OK. The 3 largest institutional projects were 2 hospitals and 1 casino in SC, CA and NM.



Meet the Author: Megan Bablak

As an Analyst with GYF's Business Valuation & Litigation Support Services team, Megan performs risk identification, financial statement analysis, economic and industry research, and financial modeling. She is involved in the process of valuing privately held companies for various purposes. Megan graduated from Pennsylvania State University with a Bachelor of Science in Finance in May 2025.