MACRO STRATEGY | Economic Monthly

U.S. Economy: All Noise and No Signal?

November 2025

Key Takeaways

- ISM data suggest that inflation pressure may increase in the near future.
- Recent ADP data showed job gains, but growth was limited to larger firms in specific sectors.
- We're not done with alternative data yet: Government data will likely be affected after reopening due to the interruption of data collection.

Although the government shutdown has officially ended, economic observers and market participants have had over 40 days with virtually no official economic statistics from the government. Moreover, government data will likely still be affected even after the government reopens due to interruptions in the data collection process. The shutdown itself is expected to distort the data, as a significant number of federal workers saw no paychecks, reduced spending and filed for unemployment benefits (that need to be repaid).

How do we (and the Federal Open Market Committee (FOMC)) discern the current state of the economy in this environment? Alternative data will — for better or for worse — remain a key source for some time to come.

Alternative data show potential increases in inflation pressure, and data on the labor market do not give clear direction, creating a lot of uncertainty for the Fed's meeting in December.

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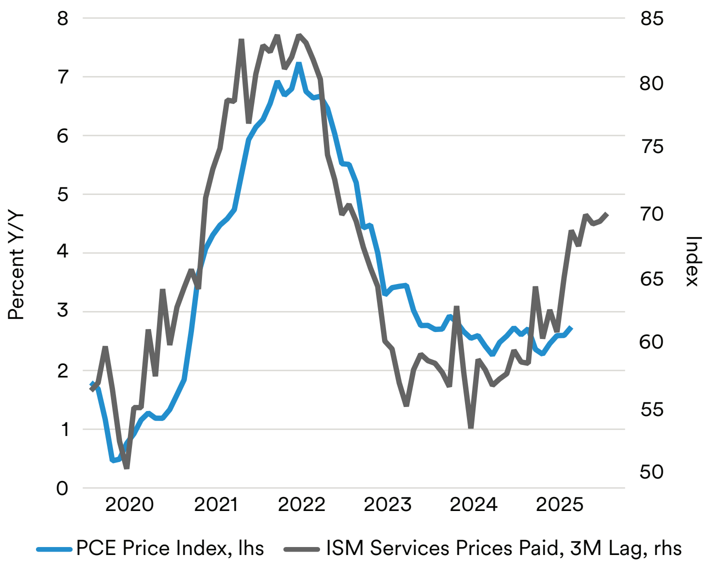
Inflation

The Institute of Supply Management's prices-paid index from the services PMI serves as a good leading indicator for PCE inflation. As shown in chart 1, shifting the prices-paid index three months forward lines it up with year-over-year PCE inflation. The prices-paid index reached 70 in October, a level not seen since July 2022.

Figure 1 | Inflation Pressure Continues



Source: U.S. Bureau of Economic Analysis (BEA), Institute for Supply Management (ISM), MIM. As of 11/12/2025.

The index has risen sharply since the first half of the year, and the last PCE data released for August show the potential beginning of an acceleration. To the extent that services firms can pass on their cost increases to consumers, inflation risk is on the rise.

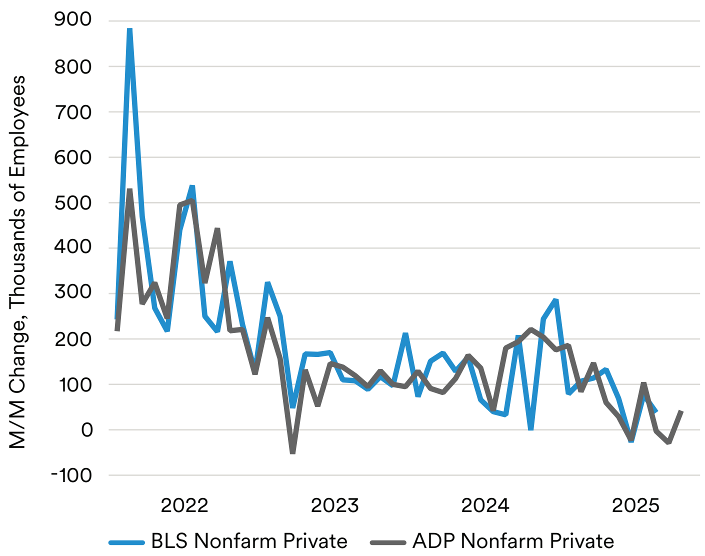
Inflation data are also a good example of data that will be affected even after the government reopens. The Bureau of Labor Statistics collects data for the CPI throughout the full month. Since much of November has already passed without any data collection work, December's data release covering November inflation — if it is released at all — will be produced under different methods from other months. We will probably not have a "normal" CPI release until the new year.

The Labor Market

Data on the labor market paint a more volatile and ambiguous picture.

Both BLS and ADP data have shown a marked decline in monthly job growth over the last year. ADP data are generally more volatile and take longer to produce a signal. The latest ADP data were stronger than the prior two months, but it remains to be seen whether the one-month increase was simply volatility or an actual change in the trend.

Figure 2 | Could Job Growth Pick Back Up?



Source: U.S. Bureau of Labor Statistics (BLS), Automatic Data Processing, Inc. (ADP), MIM. As of 11/12/2025.

Even if job growth continues, there are concerns about the distribution of job gains. Of the ten sectors tracked by ADP, five saw job losses in October. Of the five sectors with gains, the net job gains were overwhelmingly from two sectors. Of the 42,000 net new jobs created in October, 25,000 jobs were created in education and health services, and another 47,000 in trade, transportation and utilities. Most of the job gains were also at large firms with over 500 employees.

We expect job growth to stabilize at this lower level, given the lack of dynamism in the labor market and the hesitance of firms to both hire and lay off workers.

Layoff data from Challenger, Gray & Christmas showed a marked spike in non-government layoffs in October — the highest recorded outside the pandemic. But since 2022, the series has been structurally more volatile compared to pre-pandemic times, and it is not clear that there is a trend of increased or widespread layoffs.

What Will the Fed Do?

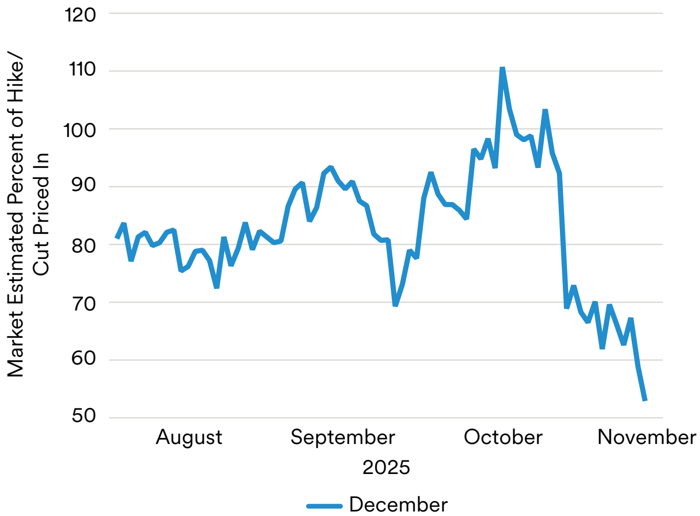
We expect the Fed to cut rates in December, despite the heavily split members, due to prioritizing concerns about the labor market weakening further.

However, uncertainty is high.

Inflation continues to be a concern, and GDP growth may continue to defy expectations: The latest estimate from the Atlanta Fed's GDPNow model estimates Q3 growth at 4%, and Bloomberg's median consensus forecast for the period is now 2.8%.

After the release of the September Summary of Economic Projections, markets fully priced in September and December rate cuts. But now, the probability of a December rate cut is hovering around 53%.

Figure 3 | December Cut Expectations Have Fallen



Source: Bloomberg, MIM. As of 11/13/2025.

U.S. Outlook

Figure 4 | U.S. Forecast

U.S.	2024	2025	2026
Policy Rate	4.25-4.50*	3.75-4.00	2.75-3.00
GDP (Ann. Avg. % Chg.)	2.8*	1.7	1.7
CPI (Dec. Y/Y %)	2.7*	2.8	2.6
10-year Treasury (YE %)	4.57*	4.25	4.25
Unemployment (YE %)	4.1*	4.5	4.3

**Actuals.*
Source: BEA, BLS, Treasury, Federal Reserve, MIM.
As of September 2025.

We expect that growth will be modestly positive throughout 2026. Equity markets are high, and wealthier consumers continue to spend. Large, publicly traded companies are doing well, retaining profit margins and increasing investment even as small businesses continue to feel the effects of tariffs.

We do not expect a substantial rise in the unemployment rate, but we do expect trade, geopolitical and economic uncertainty to keep firms cautious about hiring and expansion, meaning the labor market may not be very dynamic. Younger workers will probably still have a harder time finding a job, and the recently unemployed may struggle to find an equivalent position.

We expect the Fed to continue cutting rates in the near term, even though inflation will likely remain above its 2% target.

Risks to The Outlook

The labor market appears to be in a precarious situation. Businesses have, so far, avoided widespread layoffs, but the lack of hiring means that any rapid increase in layoffs may be followed by a larger-than-expected spike in unemployment.

Additionally, if businesses avoiding layoffs cause significant margin erosion and negatively affect valuations, then the resulting wealth effects may inhibit consumer spending.

The market focus on AI is a risk. With many eggs in one basket, the potential for near-term disappointment is high.

Finally, policy risks remain. Although market reactiveness to tariff announcement has faded, the Supreme Court decision around the International Emergency Economic Powers Act (IEEPA) could result in a new wave of tariff policies. The One Big Beautiful Bill (OBBB) Act is likely to begin affecting the economy with tax refunds in the first half of the year but with unclear effects on the ultimate growth trajectory.

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