Economic Review - Third Quarter 2025

The state of the general economy can help or hinder a business' prospects by influencing the demand for its goods and services. The economy also affects the availability and price of inputs such as capital and labor. The prevailing economic conditions therefore directly affect the value of a business at a specific point in time. The 128 month economic expansion from June 2009 to February 2020 was the longest since the 1850s. The COVID 19 global pandemic suddenly and severely affected economies and markets around the world, causing the U.S. economy to lose nearly 22 million jobs and go into a recession from February 2020 to April 2020, which was the shortest recession in U.S. history. After returning to growth in May 2020, the U.S. economy rapidly recovered by adding over 12 million jobs during the last 8 months of 2020. Since the beginning of 2021, the U.S. economy has added back nearly 17 million jobs through the third quarter of 2025, representing a cumulative gain of more than 29 million jobs in the 65 months following April 2020.

Summary

The state of the general economy can help or hinder a business' prospects by influencing the demand for its goods and services. The economy also affects the availability and price of inputs such as capital and labor. The prevailing economic conditions therefore directly affect the value of a business at a specific point in time. The 128 month economic expansion from June 2009 to February 2020 was the longest since the 1850s.[1] The COVID 19 global pandemic suddenly and severely affected economies and markets around the world, causing the U.S. economy to lose nearly 22 million jobs and go into a recession from February 2020 to April 2020, which was the shortest recession in U.S. history.[2] After returning to growth in May 2020, the U.S. economy rapidly recovered by adding over 12 million jobs during the last 8 months of 2020. Since the beginning of 2021, the U.S. economy has added back nearly 17 million jobs through the third quarter of 2025, representing a cumulative gain of more than 29 million jobs in the 65 months following April 2020.

The Federal Open Market Committee (the "Committee") of the Federal Reserve held two meetings during the third quarter of 2025: one in July and one in September to discuss the additional measures being taken to support the economy, which include:

- Lowering the target range for the federal funds rate from 4.25 to 4.50 percent to 4.00 to 4.25 percent as of the end of the third quarter of 2025, as the Committee noted the slowing pace of job gains throughout the first nine months of 2025 and overall weakening of the labor market in recent quarters.

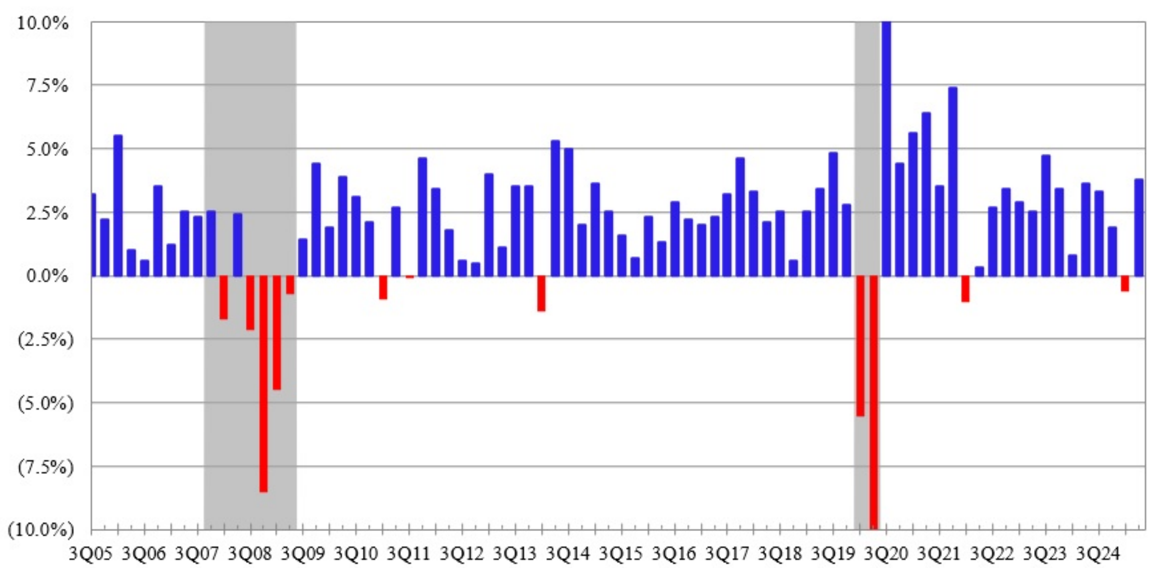
- Assessing the current and incoming economic data when determining the appropriateness of future policy decisions.

- Continuing to reduce the assets held on the Federal Reserve's balance sheet by $40 billion per month.[3]

Gross Domestic Product

The U.S. Bureau of Economic Analysis estimates that real gross domestic product (GDP) the output of goods and services produced by labor and capital located in the United States - increased at an annual rate of 3.8 percent in the second quarter of 2025, following a contraction of 0.6 percent in the first quarter, which broke a streak of 11 consecutive quarters of growth beginning in the second quarter of 2022. In 2024, GDP increased by 2.8 percent, compared to a 2.9 percent increase in 2023, and has risen each of the last four years after the decline in 2020. Quarterly GDP data for the preceding 20 years is shown in the following figure.

QUARTERLY U.S. GDP GROWTH
Seasonally Adjusted Annualized Rates; Shaded Bar Indicates Recession

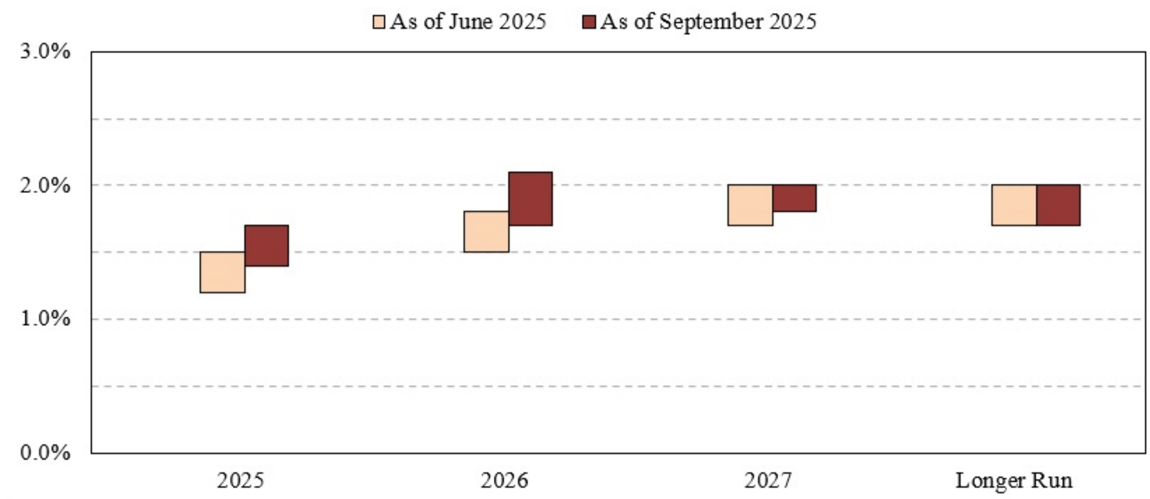


Sources: U.S. Bureau of Economic Analysis and National Bureau of Economic Research. GDP percent change is based on chained 2017 dollars.

Note: For 2Q20 and 3Q20, we note the percentage changes in GDP were (28.1%) and 35.2%, respectively. We keep our range for the figure between (10.0%) and 10.0% in order to maintain an appropriate scale for the remaining quarters over the last 20 years.

The Federal Reserve projects GDP growth of 1.6 percent in 2025, followed by 1.8 percent in 2026, and 1.9 percent in 2027, before settling at 1.8 percent for the longer run. The current projected GDP growth rate of 1.6 percent for 2025 is slightly higher than the June 2025 projection of 1.4 percent, and projected growth for the latter years is marginally improved as well. The improved 2025 GDP growth forecast reflects some abatement of the Committee's concerns from previous months about the economic outlook, particularly regarding global trade. The Committee's projections for GDP growth are presented in the following figure.

U.S. GDP GROWTH ESTIMATES



Sources: Federal Reserve.

Employment

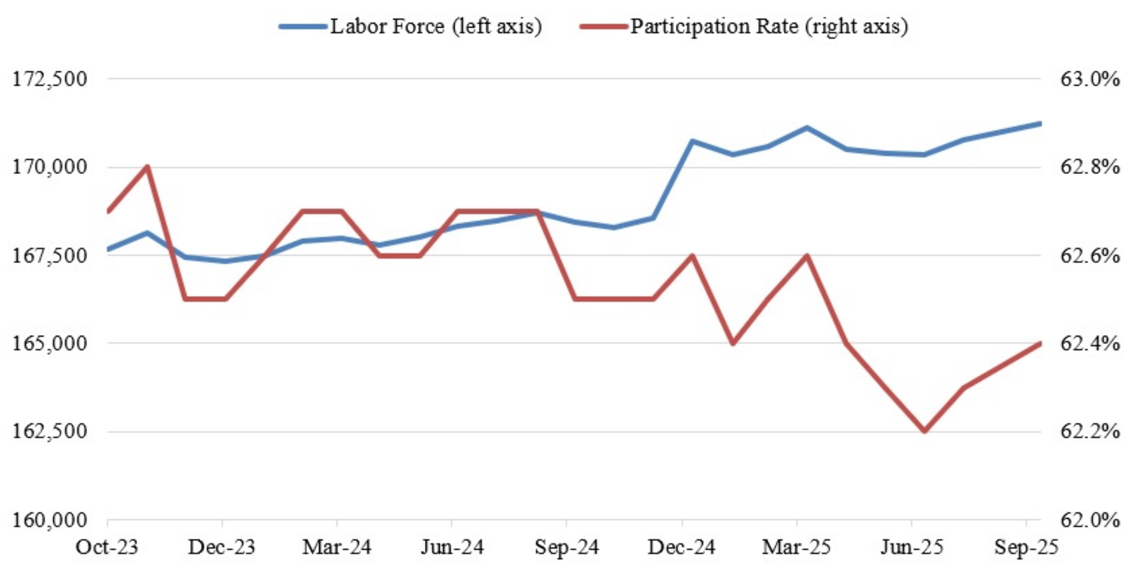
From March 2010 (the end of the 2008 2009 recession) to February 2020, 23.2 million net non farm jobs were created.[4] After the brief recession caused by the coronavirus pandemic eliminated ten years of job growth in just a few months, the economy returned to its pre pandemic levels of employment in June 2022. In the third quarter of 2025, nearly 190,000 jobs were added, compared to approximately 160,000 jobs added in the second quarter of 2025. The slowing rate of job growth in past months, coupled with the sustained rates of layoffs and firings, pushed the unemployment rate up each month during the third quarter of 2025, from 4.1 percent in June to 4.4 percent in September, its highest level since October 2021.

After spiking from the effects of the coronavirus pandemic, the unemployment rate has remained below 5.0 percent since September 2021, reflecting the generally positive labor market conditions that have persisted in recent years. The current unemployment rate of 4.4 percent is slightly above the Federal Reserve's estimate of the non cyclical (or "structural") unemployment rate of 4.3 percent for the third quarter of 2025, which is the first time the actual unemployment rate exceeded the non cyclical rate since the third quarter of 2021.[5] Although the current 4.4 percent unemployment rate is marginally above the Federal Reserve's estimate of structural unemployment, the tight gap between the two rates should not result in any immediate adverse effects, especially as the unemployment rate has remained historically low for the past four years.

However, if the unemployment rate continues to increase (or there is a slight decrease in the Federal Reserve's estimate of structural unemployment), this could signal an increased likelihood of a recession or a notable decline in economic activity in the near term. Nevertheless, the current tight spread between the two metrics suggests the labor market is effectively operating at full employment.

In the third quarter of 2025, about 870,000 people joined the labor force, a reversal from the more than 200,000 people who exited the labor force during the second quarter. The labor force participation rate increased from 62.3 percent in June 2025 to 62.4 percent in September 2025, due to the stated large increase in the labor force over the same period.[6] The labor force participation rate has stabilized in recent years at 62.2 to 62.8 percent since October 2023. The labor force and labor force participation rate for the last two years are shown in the following figure.

U.S. LABOR FORCE AND PARTICIPATION RATE
(Amounts in Thousands and Percentages)



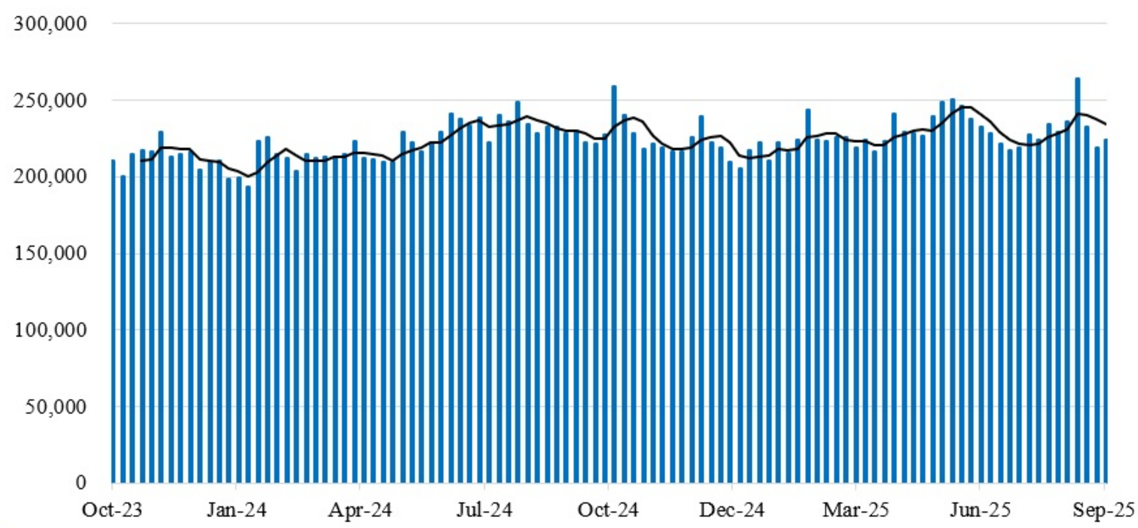
Source: Federal Reserve Bank of St. Louis.

A more expansive measure of labor underutilization, including discouraged workers who have left the workforce and part time workers who would prefer full time work, increased from 7.7 percent in June 2025 to 8.0 percent in September 2025, and reached 8.1 percent in August 2025, its highest level since October 2021. The rising unemployment and labor underutilization rates reflect the general softening of the labor market over recent quarters.[7 8]

Initial unemployment claims are viewed as a good proxy for the level of layoffs within the labor market. As the data is published on a weekly basis, it is one of the few sources of economic data that can quickly provide updates on labor market conditions in real time. After spiking to their highest recorded levels due to the effects of the coronavirus pandemic in 2020, initial claims have since retreated and remained historically low in recent years. Initial unemployment claims fell slightly during the third quarter of 2025 to an average of 229,000, compared to an average of 234,000 during the second quarter.[9]

After initial claims fell to a third quarter low of 217,000 for the week ending July 19, 2025, they fluctuated between 219,000 and 236,000 before reaching 264,000 for the week ending September 6, 2025. For the remaining three weeks of the third quarter, initial claims retreated to an average of 225,000. Initial claims have been stable and historically low over the past two years, as indicated by the four week moving average remaining between approximately 200,000 and 250,000 during that time (since data started being collected in 1967, weekly initial claims had averaged approximately 350,000 through 2019). Weekly initial unemployment claims and the four week moving average for the past two years are shown in the following figure.

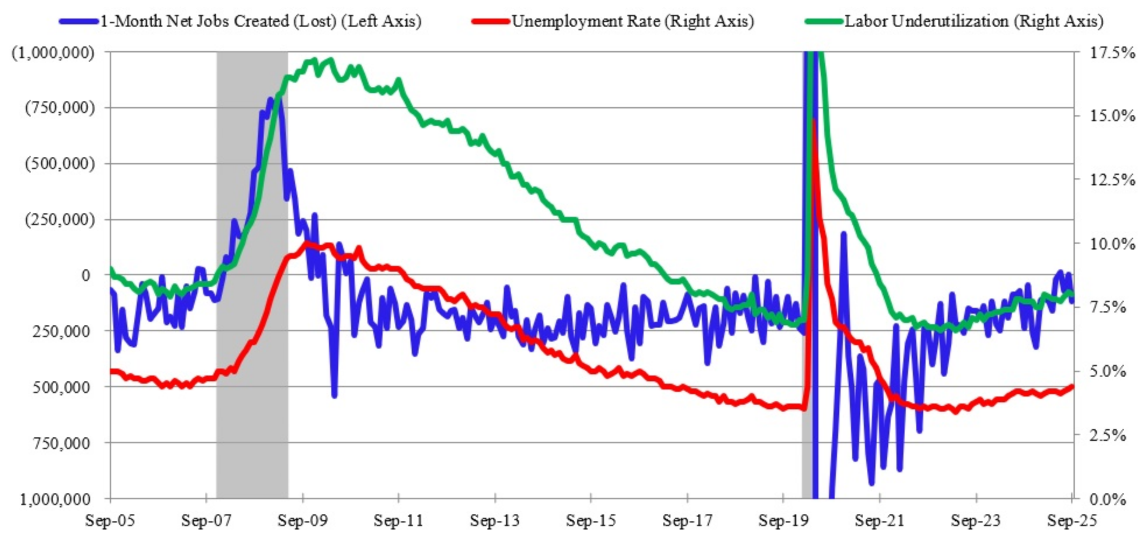
WEEKLY INITIAL UNEMPLOYMENT CLAIMS



Source: Federal Reserve Bank of St. Louis.

Unemployment and underemployment restrain economic growth as consumers are unable or hesitant to spend. The past 20 years of job creation, employment, and underemployment data are presented in the following figure.

MEASURES OF STRESS IN THE LABOR MARKET
Shaded Bar Indicates Recession



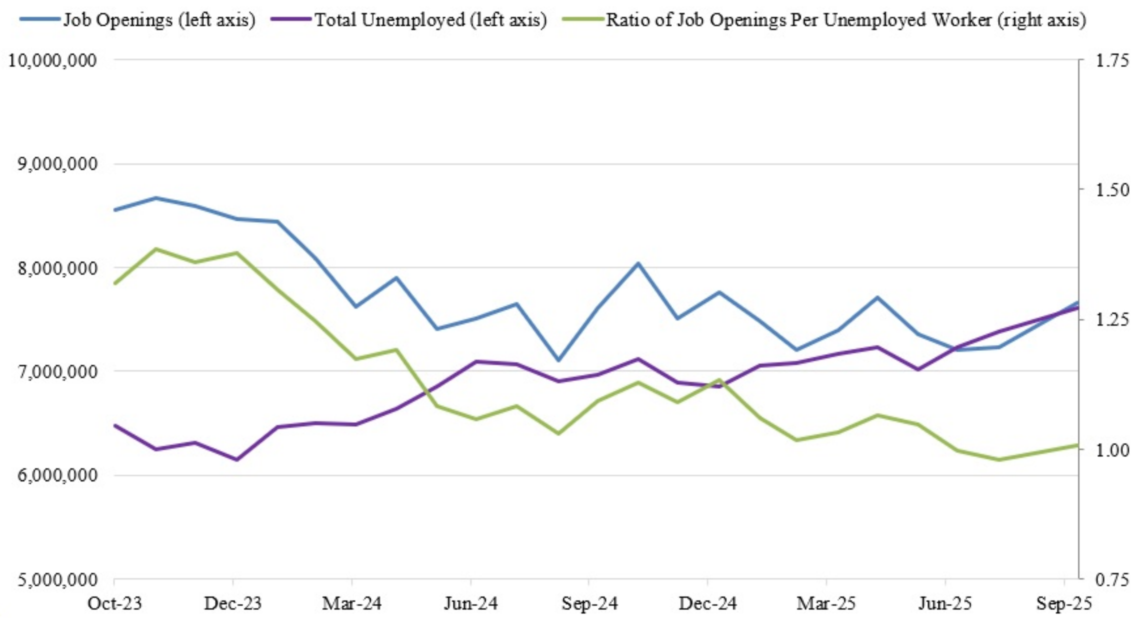
Sources: Department of Labor, Bureau of Labor Statistics, and National Bureau of Economic Research. Data represents non-farm payrolls.

Note: The 1 month net jobs created and labor underutilization rate both briefly exceeded the scale of the figure following the episodic fluctuations from the coronavirus pandemic. We maintain the range of our figure in order to reasonably view the changes that have occurred in each of the metrics for the remainder of the past 20 years.

As the labor market has continued to soften following the extremely favorable conditions that workers experienced in the ensuing recovery from the coronavirus pandemic, the relationship between workers and employers has stabilized in recent quarters. This is indicated by the ratio of unfilled job openings per job seeker remaining between 0.98 and 1.13 since June 2024, after falling from 1.39 to 1.19 between November 2023 and May 2024. Over the last two years, the number of job openings exceeding the number of people looking for work has declined from a surplus of 2.4 million in November 2023 to a shortfall of nearly 160,000 in August 2025, before reaching an excess of just over 50,000 in September 2025.[10]

The maintained tight spread between job openings and job seekers over the last year suggests that the labor market is not as supportive of workers as it has been in previous years. Although the existence of approximately one open job per job seeker still indicates that the labor market is not necessarily flashing recessionary signals, a sustained reversal and widening of this gap (where the number of job seekers exceeds available job openings) would likely signal weakening economic conditions. The relationship between job openings and the total number of people who are unemployed and seeking work over the past two years is shown in the following figure.

JOB OPENINGS COMPARED TO TOTAL UNEMPLOYED
(Amounts in Whole Numbers)



Source: Federal Reserve Bank of St. Louis.

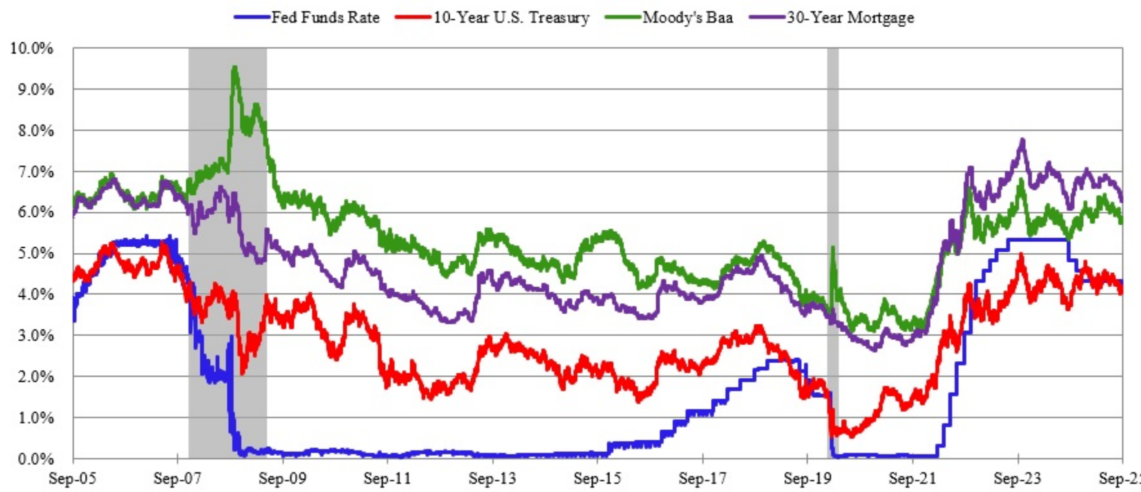
In addition, about 3.1 million workers reportedly quit their jobs in August alone (September data for the rate of quits was never published due to the government shutdown), a level that has remained largely unchanged over the past year and is still considered historically high.[11] The high rate at which workers are quitting their jobs remains a positive sign for the labor market despite weakening data, as workers usually quit their jobs only if they believe they can find (or have already found) a better job. After considering all available labor market data, the Committee still believes that labor market conditions remain generally positive.

Interest Rates

After the Committee decreased the target range for the federal funds rate by 25 basis points in September, interest rates fell in kind. The Committee will continue to weigh developments in the incoming economic data before making additional changes to the target range. As the Committee has repeatedly stated, it will closely monitor incoming data and balance the risks before deciding whether further changes to the target range are necessary.

During the third quarter, the yield on the 10 year U.S. Treasury fell by 8 basis points to 4.16 percent, while the Moody's Baa rate declined by 16 basis points to 5.83 percent, which are both within their general ranges observed in recent years. The 30 year fixed home mortgage rate declined significantly by nearly 50 basis points to 6.30 percent, its lowest level since October 2024. Interest rates will likely continue to closely follow the actions and outlook provided by the Committee. The past 20 years of historical interest rate data are shown in the following figure.

SELECTED INTEREST RATES
Shaded Bar Indicates Recession



Source: Federal Reserve Statistical Release H.15 (519) Selected Interest Rates.

Stock Market Activity

After broad declines to begin 2025, the major indices added to the gains from a strong second quarter into the third quarter of 2025. Despite some concerning data on employment and inflation, the major stock indices all benefited from the Committee's anticipated 25 basis point cut to the target range for the federal funds rate, as well as strong corporate earnings and the continued cooling of trade tensions throughout the third quarter of 2025.

The NASDAQ Composite has been the most volatile of the indices so far in 2025, being the worst performing index in the first quarter (declining over 10 percent), but swiftly recovering to be the best performing index year to date by gaining over 17 percent. This is largely due to the continued optimism surrounding artificial intelligence related stocks and the Committee's decision to cut the target range for the federal funds rate by 25 basis points, as technology companies are particularly sensitive to changes in interest rates due to their valuations being reliant on future cash flows whose present values are inversely correlated to interest rates.

The Russell 2000 index was the best performing index for the third quarter of 2025, with a return of more than 12 percent. As the index is comprised of smaller companies, they are more sensitive to borrowing rates and access to capital, both of which improved with the Committee's decision to cut the target range for the federal funds rate. In addition, smaller companies are less equipped to handle any costs associated with disruptions to global trade, particularly tariffs. As fears surrounding an escalation of a trade war abated, the outlook for these smaller companies improved as well.

The S&P 500 posted a gain of over 8.0 percent during the third quarter and narrowly trails the NASDAQ Composite's returns year to date. The Dow Jones Industrial Average posted a modest gain of nearly 6.0 percent during the third quarter but still posted a double digit return for the year due to negligible losses during the first quarter followed by a positive second quarter. Despite a return of over 5.0 percent during the third quarter, the S&P 400 remains the worst performing year to date, due to the lack of growth in recent quarters following its first quarter losses.

Inflation remained elevated throughout the third quarter of 2025 and has effectively made no progress in over a year. In addition, the gradual rise in the unemployment rate has raised concerns about the economic outlook. However, market participants ultimately felt that the combination of a decline in the federal funds rate and strong corporate earnings outweighed concerns of inflation and employment.

Gold has continued its strong performance for the year, gaining an additional 17 percent in the third quarter of 2025 alone, bringing its year to date return to over 40 percent. Similarly, silver has appreciated substantially over the year, particularly in the third quarter. The price of silver grew by nearly 30 percent during the third quarter of 2025 and has appreciated by over 50 percent year to date.

Total returns for U.S. stock indices for the third quarter of 2025 and year to date are shown in the following figure.

TOTAL RETURNS OF MAJOR U.S. STOCK INDICES

Index	Third Quarter 2025	Year To Date
S&P 500	8.1%	14.8%
Dow Jones Industrial Average	5.7%	10.5%
NASDAQ Composite (1)	11.2%	17.3%
S&P MidCap 400	5.5%	5.8%
Russell 2000	12.4%	10.4%

Note:
(1) Return represents principal only.

Inflation[12]

Inflation remained a prevalent topic surrounding the U.S. economy throughout the third quarter of 2025. Chairman Powell has reiterated that the Committee will utilize the appropriate tools to fulfill its dual mandate as directed by Congress, which includes stable prices (defined as 2.0 percent annual inflation) and maximum employment. After some initial progress during the first few months of 2025, inflation has increased in the subsequent months through the end of the third quarter of 2025.

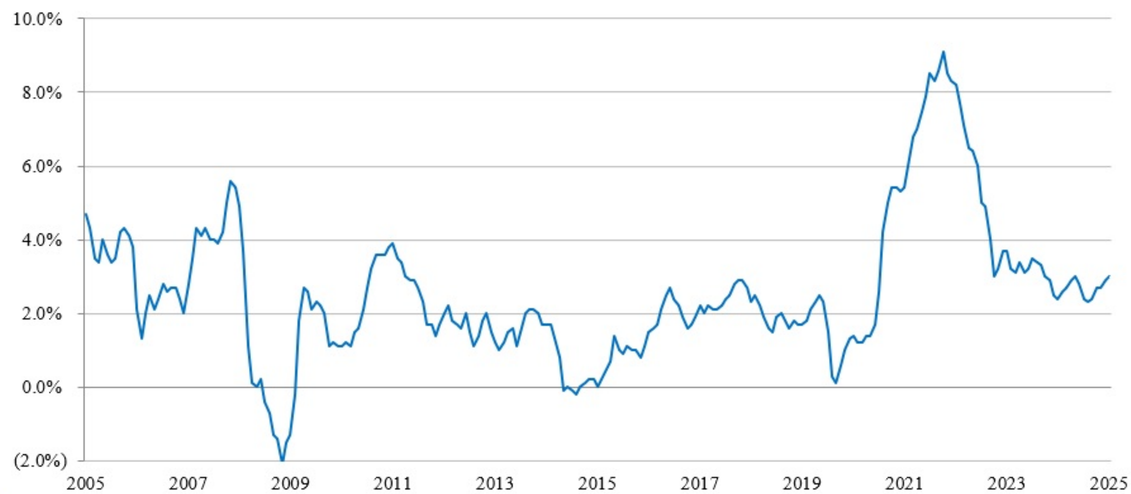
The 12 month change in the consumer price index ("CPI") decreased from 9.1 percent to 3.0 percent between June 2022 and June 2023, before increasing to as high as 3.7 percent in September 2023. Since then, inflation has trended downward and reached as low as 2.3 percent in April 2025, which matches the lowest 12 month increase since February 2021. However, for the following five months, the 12 month change in the CPI gradually increased to 3.0 percent as of September 2025.

For the month of September alone, the CPI increased by 0.3 percent, largely driven by increases in costs relating to energy and apparel. After posting the largest monthly decline in March 2025 since May 2020, the CPI has increased each month from April to September, with increases ranging from 0.1 percent to 0.4 percent over those six months.

Core CPI, which excludes oil and food due to their volatility, increased by 3.0 percent over the 12 month period ending September 2025, which is a slight increase from the 12 month change of 2.9 percent in June 2025, but is still towards the lower levels experienced in recent years. After reaching 3.3 percent in January 2025, the 12 month increase in the Core CPI fell each month through March to a four year low of 2.8 percent and remained unchanged in April and May, before elevating to 3.1 percent in July and August, respectively. Throughout the third quarter of 2025, Core CPI rose on a monthly basis by 0.3 percent in July and August, followed by 0.2 percent in September.

Notable items that experienced meaningful price increases in September include gasoline (4.1 percent), apparel (0.7 percent), and food (0.3 percent). For the 12 months ending September 2025, price increases for natural gas (11.7 percent), electricity (5.1 percent), and used vehicles (5.1 percent) were noteworthy as well. The annual change in the CPI for the last 20 years is shown in the following figure.

ANNUAL CHANGE IN THE CPI



Source: Bureau of Labor Statistics.

Inflation Expectations

After the 12 month change in the CPI reached a four year low of 2.3 percent in April 2025, inflation has reversed course in recent months ended the third quarter with a 12 month increase in the CPI of 3.0 percent in September 2025. As a result, inflation expectations among consumers and investors for the near term rose during the third quarter of 2025.

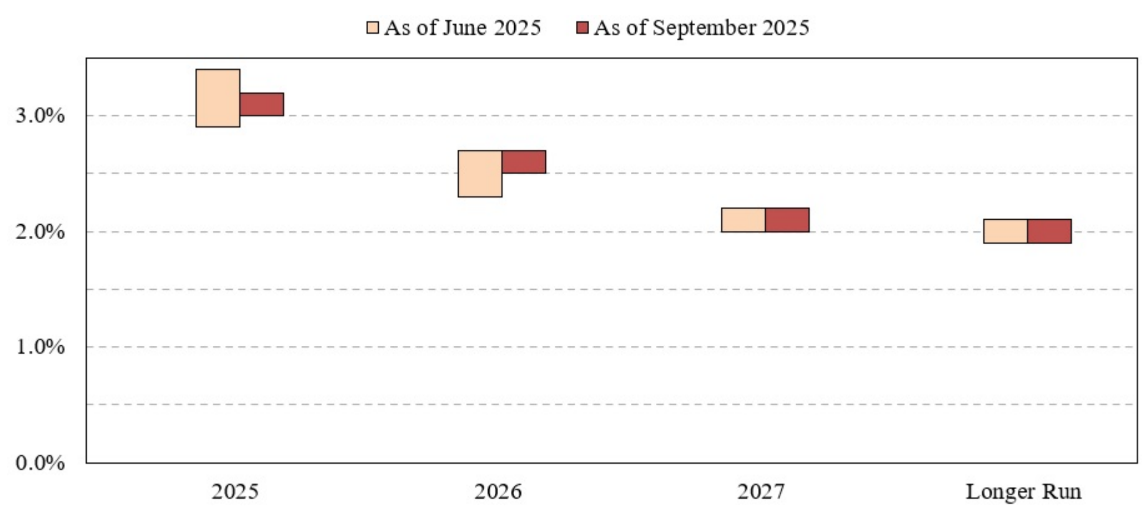
The Federal Reserve monitors inflation expectations because if consumers and businesses anticipate wage and price increases, they can adjust their behavior accordingly, making the expected inflation a reality. Every month, the Federal Reserve Bank of New York publishes expectations of future inflation.[13] Before 2020, one year forward-looking inflation expectations generally remained between 2.5 percent and 3.0 percent since 2015.

As inflation gradually increased during the third quarter of 2025, so did inflation expectations. One year forward looking inflation expectations rose from 3.0 percent as of June 2025 to 3.4 percent as of September 2025. Despite the increase in one year inflation expectations, three year forward looking inflation expectations have remained effectively unchanged at 3.0 percent since December 2024, which is still above the Committee's longer run target. Three year inflation expectations had remained below 3.0 percent for all of 2024 prior to December, as consumers were confident that longer run inflation would continue to abate closer towards the Committee's 2.0 percent target. However, the lack of improvement in the three year inflation expectations so far in 2025 suggests some pessimism exists among consumers and businesses that long term inflation will ultimately be able to reach the Committee's 2.0 percent target.

Inflation expectations between the one year and three year periods began to diverge during the first quarter of 2025, due to the increased uncertainty that came with the announcement of widespread tariffs, which led consumers, businesses, and investors to expect there to be some upward pressure on prices in the short term. After narrowing somewhat during the second quarter, the gap between the two metrics diverged again during the third quarter of 2025, with one year and three year expectations of future inflation reaching 3.4 percent and 3.0 percent, respectively, as of September 2025.

The Federal Reserve publishes estimates of personal consumption expenditures ("PCE") inflation and Core PCE inflation. In 2025, PCE and Core PCE inflation are projected to be 3.0 percent and 3.1 percent, respectively. Thereafter, it expects inflation to moderate, with projected PCE and Core PCE inflation of 2.6 percent in 2026, 2.1 percent in 2027, and 2.0 percent in the longer run. This supports the Committee's belief that its policies will successfully bring inflation towards its 2.0 percent target. The Committee's range of projections of Core PCE inflation is presented in the following figure.

CORE PCE ESTIMATES



Source: Federal Reserve.

Federal Funds Rate Outlook

The Committee has confirmed its intent to adjust its policies accordingly to achieve stable prices and maximum employment. At its September meeting, the members of the Committee provided their outlook for the target range for the federal funds rate in the coming years. By the end of 2025, all but two members expect the federal funds rate to be between 3.50 to 4.25 percent, suggesting that at least one additional cut of 25 basis points to the federal funds rate before the end of 2025 is likely.

For 2026 through 2028, there is a general consensus among the Committee members, with the strong majority projecting that the target range federal funds rate will settle between 2.75 to 3.75 percent for the following years and into the longer run. This suggests that while there may be some additional cuts to the current target range of 4.0 to 4.25 percent towards the end of 2025 and in early 2026, it appears that, based on the Committee's projections, they anticipate reaching a "neutral" rate for the federal funds rate by the end of 2026. A neutral rate is one that will both suppress elevated levels of inflation while not stifling economic activity to the point of putting upward pressure on unemployment.[14]

Tariffs

Beginning in February 2025, the Trump administration, using the powers under the International Emergency Economic Powers Act of 1977 (IEEPA), announced a variety of tariffs and trade restrictions that the United States would be levying against foreign countries. Thereafter, most announced tariffs were significantly modified, largely through downward revisions to tariff rates or agreements on trade deals with several countries.

As of the end of the third quarter of 2025, there has been much more clarity and stabilization of the Trump administration's trade policies in recent months, and it appears that the global trade market has reached a new equilibrium, as indicated by the lack of volatile swings in equity prices, commodities, or exchange rates during the third quarter. While many of the announced tariffs and trade restrictions remain in place to some degree, the initial shock from the global economy has subsided, and consumers and businesses have adapted accordingly.

Endnotes:

1. National Bureau of Economic Research. <https://www.nber.org/research/data/us-business-cycle-expansions-and-contractions>.

2. Ibid.

3. Board of Governors of the Federal Reserve System, "FOMC Communications Related to Policy Normalization", March 19, 2025.

4. Bureau of Labor Statistics. "Employment, Hours, and Earnings from the Current Employment Statistics survey (National)." <http://data.bls.gov/timeseries/CES0000000001?output_view=net_1mth>.

5. FRED Economic Data, Federal Reserve Bank of St. Louis. <https://fred.stlouisfed.org/series/NROU/>. "The natural rate of unemployment (NAIRU) is the rate of unemployment arising from all sources except fluctuations in aggregate demand."

6. FRED Economic Data, Federal Reserve Bank of St. Louis. <https://fred.stlouisfed.org>.

7. Ibid.

8. "U-6 total unemployed, plus all persons marginally attached to the labor force, plus total employed part time for economic reasons, as a percent of the civilian labor force plus all persons marginally attached to the labor force." Reported on a seasonally adjusted basis.

9. FRED Economic Data, Federal Reserve Bank of St. Louis. <https://fred.stlouisfed.org/>.

10. Ibid.

11. Bureau of Labor Statistics, "Job Openings and Labor Turnover - August 2025," September 30, 2025. <https://www.bls.gov/news.release/archives/jolts_09302025.htm>.

12. Bureau of Labor Statistics, "Consumer Price Index - September 2025," October 24, 2025. <https://www.bls.gov/news.release/archives/cpi_10242025.htm>.

13. Federal Reserve Bank of New York, "Survey of Consumer Expectations." <https://www.newyorkfed.org/microeconomics/sce#/>.

14. Board of Governors of the Federal Reserve System, "Summary of Economic Projections," September 17, 2025. <https://www.federalreserve.gov/monetarypolicy/fomcprojtabl20250917.htm>.