# Economic & Financial Digest

November 2025

Millennium
CORPORATE CREDIT UNION

# Shutdown Blues

To say that flying blind is a dangerous undertaking would be as obvious as it is true. Yet that is precisely what policymakers are dealing with - at least as of this writing. In the absence of government economic data due to the shutdown, the Federal Reserve is piloting through a fog, not knowing where the runway is to land without crashing. That journey is tough enough when the navigation system is fully operational; but the odds of causing an economic wreck when the dials are cloaked spike considerably. To be sure, there was a lot of air under the economy before things went dark, so the imminent threat of a crash is remote. But the longer the shutdown persists, the closer we get to an irreversible downdraft.

To its credit, the Fed is putting on a game face and staying the course that it was on before Washington stopped functioning on October 1. Two weeks earlier, Fed officials cut rates for the first time this year, concerned over the weakening job market that was clearly on track through August, the last month for which a jobs report was published. Ironically, the data for September has already been collected so as soon as the government reopens those numbers will be published; that prospect, however, is looking less likely before the next Fed's policy-setting committee concludes on October 29. The betting on Wall Street is that another rate cut will be taken at that meeting, whether or not those job numbers are available.

While government reports are missing, there is an array of private sources that the Fed can tap into for guidance. These reports indicate that the economy is still on the course that prevailed before the government doors closed, one that is still chugging along in a "low hiring, low firing" mode, but continuing to forge ahead thanks mainly to a rip-roaring stock market that is goosing the spending of wealthier households. However, each week the shutdown lasts slices 0.1 – 0.2 percent off of the economy's growth rate even as tariffs are pushing prices higher. The data blackout is making it harder to know how this tension is playing out, which makes the odds of a policy miscalculation that much higher.

## The Return of the K

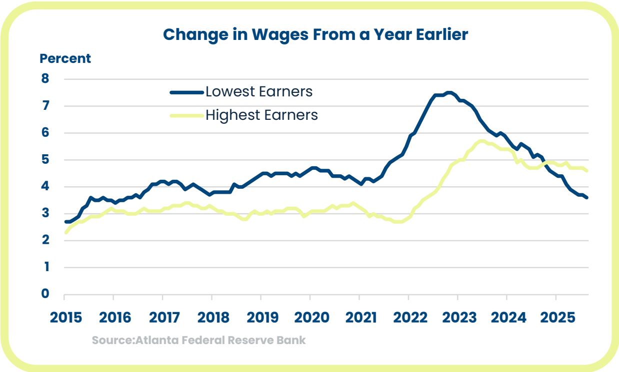
The post-pandemic economy has been one of the most divisive in recent history. And we are not just referring to politics. Recall that the term K-shaped economy captured headlines during the early part of the recovery, describing two diverging arms of the letter "K". On the upper arm the fortunes of wealthier households prospered and were the main engine of economic growth. Middle-to- low income households resided on the lower arm, and they mostly came along for the ride, struggling under accelerating prices and lagging wages.

That scarlet letter soon lost luster as labor shortages and strong demand for workers drove up wages even as inflation receded. The ensuing tight job market from 2021 through most of 2024 enabled those down the income ladder to recoup some ground lost to their wealthier brethren. Indeed, the initial pandemic policy response was highly egalitarian, offering blanket stimulus checks and boosting jobless benefits as well as welfare support.

This year, the trends have reversed. Job growth has stalled out, the fiscal largesse has vanished, inflation has picked up and wage growth has slowed, especially for lower wage earners. But older and wealthier households have continued to flourish, mainly because they hold the vast majority of financial assets that have greatly appreciated and boosted financial wealth. This cohort has been the main driver of spending, particularly for discretionary goods and services, and their spending proclivities have aligned closely with shifts in stock prices.

## Bubble Fears

That raises the question of whether the economy is vulnerable to a market setback, dinging the wealth of its main growth driver - the upper 10 percent of households who account for more than 50 percent of total spending. Many compare the current situation with that of the turn of the century when the dot-com bust ushered in a recession. Underscoring this sentiment is that the stock market rally is being powered by a handful of stocks linked to the AI boom now underway. These so-called Mega stocks comprising less than 10 companies out of the S&P 500 have soared in value and are selling at prices that far exceed the average price earnings ratio on the vast majority of companies included in the index.




The danger of a collapsing wealth effect that would make a deep dent in spending is clearly present. We caution, however, not to make too much out of the comparison with the earlier dot.com bust. For one, the recession that followed in 2001 was one of the mildest on record. What's more, it was caused more by the collapse in over-extended capital spending during the late 1990s than from the bust in high-tech stocks, which was mainly the trigger not the main cause of the downturn. For another, the dot-com boom that preceded the recession was powered by stocks that operated with the flimsiest of earnings prospects, such as the infamous Pets.com that lost money in every quarter and was lauded mainly for its sock-puppet mascot.

Most of today's high-tech companies linked to the AI-boom are not upstarts but profitable enterprises that have been in business for some time. Whether they are valued properly or in a bubble as some analysts assert is something that only time will tell. But if a collapse in their stock prices occurs it will likely be due to a reassessment of investor perceptions of value than to flimsy fundamentals underpinning their operations, like Pets.com. That's important because unlike the many startups that went out of business during the dot-com bust, the companies making up today's mega stocks will survive a setback in market values. Just as important is that they are unleashing a wave of investment spending that is expected to endure and contribute significantly to the economy's growth going forward.

## It's Not the 1990s

Still, with the artificial intelligence boom playing an outsized role in the economy and stock market, comparisons with the internet-linked dot-com boom in the late 1990s are inevitable. Hopefully, the bust that occurred at the turn of the century will be avoided alongside its lingering ramifications, such as the jobless recovery that followed. But what about the good part, the disinflation of the period that enabled the Fed to keep interest rate low, sustaining growth until "irrational exuberance" fueled speculative behavior and forced its hand, leading to a policy reversal that along with the collapse in stock prices and capital spending ended the expansion?

No doubt, the productivity improvement generated by IT-driven technology helped drive inflation lower during 1990s. But that period also featured other disinflationary forces that played a key role in restraining prices. They included a rapid increase in the labor supply, underpinned by baby boomers entering their working years. The period also saw the peak trend in globalization, with growing competition from low-cost imports restraining the increase in goods prices in the U.S. Finally, after twenty years of receding inflation overseen by a vigilant inflation-fighting Fed, the central bank had earned credibility that it would not allow prices to once again become unmoored, keeping inflationary expectations anchored.

Most of those inflation-dampening forces are not present today. Globalization is in full retreat, thanks to the escalating trade wars this year. The labor supply has flatlined, owing to the crackdown on immigration and a growing wave of retirements among aging boomers. And the tariffs, both past and pending, are poised to put upward pressure on prices for a while longer. The good news is that inflation expectations have not become unanchored, at least not enough to impact behavior that threatens to become a self-fulfilling prophecy. That, in turn, is a key reason the Fed is keeping the door open for further rate cuts.

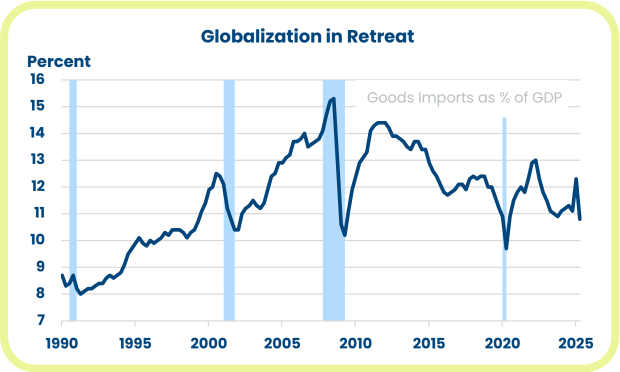
## Something's Gotta Give

Despite the data void due to the government shutdown, it does appear that the economy is on solid footing. The Federal Reserve Bank of Atlanta's GDP tracking tool estimates that the economy grew by an eye-opening 3.9 percent in the third quarter, the fastest pace in two years. It would take a powerful shock to drive the economy underwater from that perch. That said, this top-line growth masks cracks under the hood that are poised to widen.

For one, the divergence between strong GDP and weak hiring is not sustainable. Referring to that divergence, Fed governor Christopher Waller recently opined that "something's gotta give", either job growth picks up or GDP slows down. Indeed, the magnitude and length of the jobs slowdown - to a 27 thousand monthly average over the past four months from 123 thousand over the previous four months - has never happened outside of a recession.

At this juncture, the main driver propping up growth is AI-related investment spending, which is providing more thrust than consumer spending even though investment in software and computers only account for about 5-6% of GDP compared to consumption's share of about 70%. But while it takes a lot of workers to build a data center, it requires few workers to run it. Hence, after the short-term jolt to activity, the demand for labor from this source will fade unless the displaced workers find job opportunities elsewhere. For that to happen, consumers will need to regain the mantle of growth. That would be more likely if spending had broader support than just from the wealthiest 10 percent of households whose burgeoning net worth is driving most of the gains. Keep in mind that the market can take as well as it gives, and the potential of a wealth destroying setback in stock prices could well undercut spending of this critical cohort.

The Fed is keenly aware of the conflicting trends running through the economy, with sturdy top-line GDP growth occurring amid the underbelly of a softening job market. That tension is complicating policy decisions which must weigh the risk of encouraging higher inflation by cutting interest rates against the risk of overseeing a jump in unemployment by keeping rates higher than necessary. At the moment, the Fed is choosing to downplay the inflation risk, believing that the tariff-induced pressure on prices will be brief and fade as the calendar turns to 2026. But the real risk is that policy is being guided by old data due to the government shutdown. The longer the Fed is flying blind, the greater the chance that unseen forces underway will make it regret decisions being made now.



# Key Economic & Financial Indicators

## Financial Indicators*

| | September | August | July | June | May | April | March | 12-Month Range High | 12-Month Range Low |
|---|---|---|---|---|---|---|---|---|---|
| Prime Rate | 7.38 | 7.50 | 7.50 | 7.50 | 7.50 | 7.50 | 7.50 | 8.00 | 7.38 |
| 3-Month Treasury Bill Rate | 3.92 | 4.12 | 4.25 | 4.23 | 4.25 | 4.21 | 4.20 | 5.20 | 4.20 |
| 5-Year Treasury Note Rate | 3.66 | 3.79 | 3.95 | 3.96 | 4.02 | 3.91 | 4.04 | 4.43 | 3.50 |
| 10-Year Treasury Note Rate | 4.12 | 4.26 | 4.39 | 4.38 | 4.42 | 4.28 | 4.28 | 4.63 | 3.72 |
| 30-Year Treasury Bond Rate | 4.74 | 4.87 | 4.92 | 4.89 | 4.90 | 4.71 | 4.60 | 4.92 | 4.04 |
| Tax-Exempt Bond Yield | 4.96 | 5.22 | 5.27 | 5.24 | 5.22 | 4.40 | 4.30 | 5.27 | 3.83 |
| Corporate Bond Yield (AAA) | 5.21 | 5.35 | 5.45 | 5.46 | 5.54 | 5.45 | 5.29 | 5.54 | 4.68 |
| Conventional 30-Year Mortgage Rate | 6.35 | 6.59 | 6.72 | 6.82 | 6.82 | 6.73 | 6.65 | 6.96 | 6.18 |
| Dow Jones Industrial Average | 45908 | 44765 | 44500 | 42753 | 41864 | 39876 | 42092 | 45908 | 39876 |
| S&P 500 Index | 6584 | 6409 | 6297 | 6030 | 15811 | 5370 | 5684 | 6584 | 5370 |
| Dividend Yield (S&P) | 1.19 | 1.21 | 1.23 | 1.28 | 1.32 | 1.43 | 1.34 | 1.34 | 1.19 |
| P/E Ratio (S&P) | 27.8 | 26.8 | 26.9 | 26.3 | 25.1 | 23.8 | 24.0 | 24.0 | 23.8 |
| Dollar Exchange Rate (vs. Major Currencies) | 120.5 | 121.0 | 120.5 | 121.0 | 122.7 | 124.5 | 126.5 | 129.0 | 120.5 |

***Monthly Averages**

## Economic Indicators

| | September | August | July | June | May | April | March | 12-Month Range High | 12-Month Range Low |
|---|---|---|---|---|---|---|---|---|---|
| Housing Starts (Thousands of Units) | NA | 1307 | 1429 | 1382 | 1282 | 1398 | 1355 | 1514 | 1282 |
| New Home Sales (Thousands of Units) | NA | 800 | 667 | 676 | 627 | 706 | 660 | 800 | 623 |
| New Home Prices (Thousands of Dollars) | NA | 414 | 395 | 404 | 425 | 414 | 413 | 431 | 395 |
| Retail Sales (% Change Year Ago) | NA | 5.0 | 4.1 | 4.4 | 3.4 | 5.0 | 5.1 | 5.1 | 2.0 |
| Industrial Production (% Change Year Ago) | NA | 0.9 | 1.3 | 0.9 | 0.7 | 1.2 | 1.0 | 1.4 | -0.9 |
| Operating Rate (% of Capacity) | NA | 77.4 | 77.4 | 77.7 | 77.5 | 77.6 | 77.7 | 77.7 | 76.8 |
| Inventory Sales Ratio (Months) | NA | | 1.37 | 1.38 | 1.39 | 1.38 | 1.38 | 1.41 | 1.37 |
| Real Gross Domestic Product (Annual % Change) | NA | | | 3.8 | | | -0.6 | 3.8 | -0.6 |
| Unemployment Rate (Percent) | NA | 4.3 | 4.2 | 4.1 | 4.2 | 4.2 | 4.2 | 4.3 | 4.1 |
| Payroll Employment (Change in Thousands) | NA | 22 | 79 | -13 | 19 | 158 | 120 | 323 | -13 |
| Hourly Earnings (% Change Year Ago) | NA | 3.7 | 3.9 | 3.7 | 3.8 | 3.8 | 3.9 | 4.2 | 3.7 |
| Personal Income (% Change Year Ago) | NA | 5.4 | 4.9 | 4.7 | 4.9 | 5.8 | 5.2 | 5.8 | 4.7 |
| Savings Rate (Percent of Disposable Income) | NA | 4.6 | 4.8 | 5.0 | 5.2 | 5.7 | 5.1 | 5.7 | 4.30 |
| Consumer Credit (Change in Blns. Of Dollars) | NA | 0.4 | 18.1 | -4.7 | 7.9 | 16.8 | 64.2 | 64.2 | -109.6 |
| Consumer Prices (% Change Year Ago) | NA | 2.9 | 2.7 | 2.7 | 2.4 | 2.3 | 2.4 | 3.0 | 2.3 |
| CPI Less Food & Energy (% Change Year Ago) | NA | 3.1 | 3.1 | 2.9 | 2.8 | 2.8 | 2.8 | 3.3 | 2.8 |
| Wholesale Prices (% Change Year Ago) | NA | 2.6 | 3.1 | 2.4 | 2.8 | 2.4 | 3.2 | 3.7 | 2.1 |

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