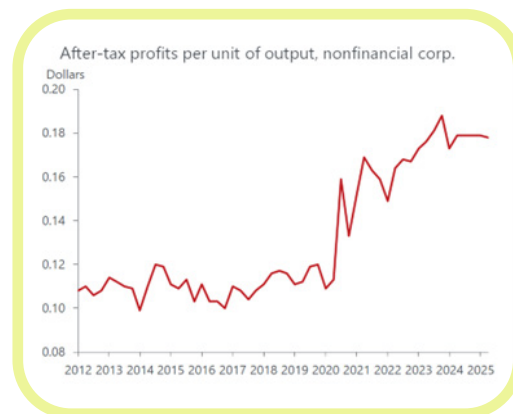


Weekly Economic Commentary

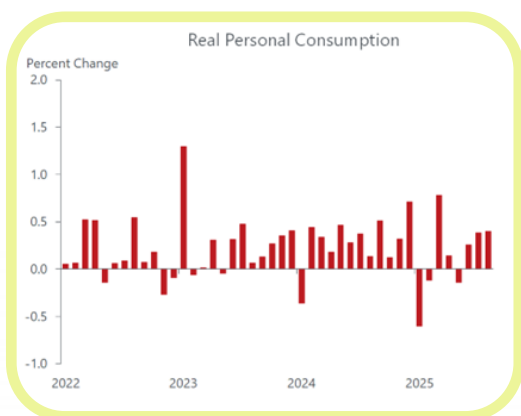
September 26, 2025

The economic tailwinds continue to gather strength, pushing the early-year slog in activity further back in the rear-view mirror. Even the downtrodden housing sector provided some upbeat data this week, joining a bevy of other reports that shows the economy is riding a wave of momentum more powerful than thought. There is still a key missing link to the chain of positive events on the growth front, as a lackluster job market is a major restraining force. While the economy's top line performance and its main drivers – consumer spending and AI investments – continues to forge ahead, there is little sign of renewed life on the labor front. The low hiring/low firing narrative remains firmly in place. The Federal Reserve prefers to look through the windshield rather than the rear-view mirror in making policy decisions; but as in American football, momentum can often be hard to stop. We still expect the next move will be a rate cut but suspect that the Fed might be more inclined to bolster the defensive line with one rather than two cuts this year. For one, inflation continues to run well above the 2 percent target and heading in the wrong direction. For another, the economy does not appear to be buckling under the modestly restrictive rate regime currently in place. The upcoming jobs reports could be the pivotal influence on the Fed's decision.

Highlighting the tailwind at the economy's back was the eye-opening revision of the second quarter's GDP, which now sports a 3.8 percent growth rate for the period, up from the previous estimate of 3.3 percent and the initial tally of 3.0 percent. Importantly, the upward adjustment was not due to more complete data on volatile swing factors, inventories and trade, that can mask fundamental trends. The two main cyclical drivers, consumers and business investment, were primarily responsible for the upgrade. Indeed, real final sales to private domestic purchasers was revised up to a 2.9 percent growth rate from 1.9 percent in the previous estimate, a bigger revision than that for overall GDP.



The one blemish on the GDP report is that the revisions cut a full percentage point from the income side of the ledger, reducing the increase in gross domestic income to 3.8 percent in the second quarter. However, the haircut was not taken from households but from corporations, where an outsized \$58.7 billion was sliced from profits. That still left margins well above their historical average, but there has been no improvement over the past four quarters. Margins actually narrowed a bit in the second quarter for nonfinancial corporations and slipped considerably from their peak in the fourth quarter of 2022, when the post-pandemic inflation surge drove revenues up much faster than costs. That confluence reversed with the subsequent disinflation cycle, and the second quarter mild compression may reflect an early hit to costs from tariffs.



Margins are still healthy, but the second quarter did not capture the full impact of tariffs, and the higher costs may become more visible in the data for the second half of the year. Odds are the pressure on companies to pass on the duties to customers will grow. Then the question is how much of the passthrough will price-sensitive consumers accept. More acceptance signals higher inflation – and a slower pace of Fed rate cuts. Alternatively, more resistance by consumers points to more cost-cutting efforts by companies,

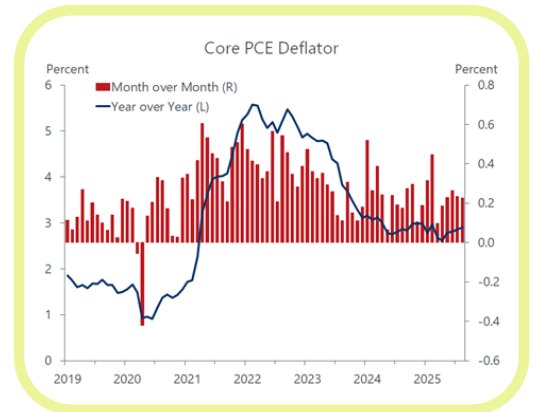
suggesting that layoffs would become more widespread in coming months. That would tilt the Fed's assessment of the "curious balance" in the labor market towards the need for faster rate cuts.

That said, incoming data indicate that the economy still has a good deal of wind in its sails. On the heels of the outsized revisions that pumped up the second quarter's growth rate, the third quarter is taking the baton on running at full speed. That's the message from the August report on personal income and spending, which is dialing up the speed tracker for the July-September period. We are still waiting for the September reports (and revisions) to see if the pace of the first two months has legs. With a possible government shutdown looming next week, another downbeat reading this week

on household sentiment by the University of Michigan and the president's new tariff threats on trucks and pharmaceuticals, the stage is set for some prospective headwinds to brake momentum as the calendar turns to the fourth quarter.

For that to pass, however, consumers would need to start zipping up their wallets, something they have shown no inclination of doing this summer. The retail sales report released last week confirmed that households still have a voracious appetite for goods, and that hunger extended into the service sector as well, according to the more comprehensive personal income and spending report for August. Consumers spent a robust 0.6 percent more on goods and services last month, the strongest in four months, and were little swayed by higher prices. Adjusted for inflation, real purchases increased by a sturdy 0.4 percent and that follows sharp upward revisions to previous months.

With households still spending at a sturdy pace, companies are still able to push through higher prices, covering a good portion of the tariffs. The core personal consumption deflator, the Fed's preferred inflation gauge, increased by another 0.2 percent last month, leaving it at 2.9 percent above its year-earlier level. The good news is that the annual change held steady with the previous month. The bad news is that it held steady with the previous month, keeping sticky inflation intact. Over the past 3-, 6- and 12-month periods, the annualized increase in the core PCE deflator has hovered within 0.1 percent of 2.9 percent. With tariffs still coming and consumers still spending, we expect inflation to pierce the 3 percent threshold well before it starts receding to the Fed's 2 percent target.



Key Financial Indicators

Interest Rates	September 26	Week Ago	Month Ago	Year Ago
3-month Treasury bill	3.96	3.98	4.15	4.59
6-month Treasury bill	3.86	3.94	3.98	4.39
2-year Treasury note	3.65	3.58	3.63	3.57
5-year Treasury note	3.77	3.69	3.70	3.51
10-year Treasury note	4.18	4.14	4.23	3.75
30-year Treasury bond	4.76	4.75	4.93	4.11
30-year fixed mortgage rate	6.30	6.26	6.56	6.08
15-year fixed mortgage rate	5.49	5.41	5.69	5.16
Stock Market				
Dow Jones Industrial Index	46247.29	46315.27	45544.90	42313.00
S&P 500	6643.70	6664.36	6460.26	5738.17
NASDAQ	22484.07	22631.48	21456.00	18119.59
Commodities				
Gold (\$ per troy ounce)	3789.80	3719.2	3516.4	2680.7
Oil (\$ per barrel) - Crude Futures (WTI)	65.19	62.70	64.01	68.62

Key Economic Indicators

	Latest Month/Quarter	Previous Month/Quarter	Two-Months/ Quarters Ago	Average-Past 6 Months or Quarters
New Home Sales (August) - 000s	800	664	676	689
Existing Home Sales (August) - mlns	4.00	4.01	3.93	4.00
Personal Income (August) - % change	0.4	0.4	0.3	0.4
Personal Consumption (August) % change	0.6	0.5	0.5	0.5
Savings Rate (August) - Percent	4.9	5.2	4.9	5.1

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