

## U.S. Economy in Transition: Navigating Toward Slower, Sustainable Growth

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**Washington, D.C.** - The U.S. economy is currently navigating a delicate transition from the post-pandemic boom to a period of more sustainable, albeit slower, growth. This shift is characterized by moderating inflation, a labor market that remains resilient but is showing signs of cooling, and cautious consumer spending. While the Federal Reserve's monetary tightening policies appear to be having the intended effect, uncertainty remains regarding the final phase of disinflation and the timing of any future policy easing. The prevailing forecast is a "soft landing," where inflation is brought under control without triggering a severe recession, though potential downside risks persist.

A key factor influencing the current economic climate is the U.S. government shutdown, which commenced on October 1, 2025. This has led to the suspension of official economic data collection and publication, including the closely watched employment report for September. While some agencies are making efforts to release critical data, such as the Consumer Price Index (CPI), the delay is creating uncertainty for the Federal Reserve, businesses, and households.

### Key Near-Term Indicators

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- **PMI:** Recent Purchasing Managers' Index (PMI) readings indicate a manufacturing sector with activity near the neutral 50-point mark, while the services sector has shown more resilience. The S&P Global Manufacturing PMI for September was 52, a slight decrease from August's 53. The ISM Manufacturing PMI registered 49.1 percent in September, an increase from the previous month but still indicating contraction.
- **Consumer Confidence:** Consumer sentiment has dipped, reflecting concerns about a stalling job market and persistent inflation. The University of Michigan's preliminary Consumer Sentiment Index for October edged lower to 55, from 55.1 in September.
- **Housing:** The housing market is experiencing a slow rebalancing, with high mortgage rates and low inventory being key factors. While new home completions were strong in August, housing permits and starts have lagged, raising concerns about future supply. The fall market is seeing a significant number of sellers cutting prices to attract buyers.
- **GDP:** Nowcasts for third-quarter GDP growth suggest a solid increase, with the median estimate around +2.4%. The Federal Reserve Bank of Atlanta's GDPNow model estimates real GDP growth of 3.8 percent for the third quarter. However, real GDP is expected to slow from 1.8% in 2025 to 1.4% in 2026.
- **Inflation (CPI & PCE):** The annual inflation rate for the 12 months ending in August was 2.9%. While down from its highs, services inflation remains sticky. One-year consumer inflation expectations ticked down to 4.6% in October from 4.7% in September.
- **Labor Market:** The labor market is showing signs of cooling. The unemployment rate rose to 4.3% in August, the highest since October 2021. Initial jobless claims have seen a slight increase, with some economists suggesting a connection to the government shutdown. Nonfarm payrolls increased by only 22,000 in August.

### What to Expect — Timeframe Views

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- **Quarterly:** GDP growth is expected to be below average, with a focus on avoiding a technical recession (two consecutive quarters of negative growth).
- **Monthly:** The release of CPI and Nonfarm Payrolls data will be critical drivers for markets and Federal Reserve policy decisions.
- **Weekly:** Weekly jobless claims will serve as an early warning sign of any stress in the labor market.
- **Daily:** Speeches from Federal Reserve officials, particularly the Chair, are likely to cause immediate market reactions.

### Scenario Outlook

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- **Base Case:** The most likely scenario is a "soft landing," with a modest rise in unemployment and easing inflation. The Federal Reserve may consider interest rate cuts in mid-to-late 2026.
- **Pessimistic Case:** A more pessimistic outlook involves a faltering of consumer spending or an abrupt weakening of the labor market, which could lead to a mild recession and prompt faster easing of monetary policy by the Fed.
- **Optimistic Case:** An optimistic scenario would see a re-acceleration of economic growth, but this could risk higher inflation and lead to a prolonged period of higher interest rates.

### Bottom Line

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The U.S. economy presents a mixed but cautiously optimistic picture. The path forward will be heavily dependent on incoming data, with inflation trends and labor market dynamics being the primary determinants of the Federal Reserve's policy decisions. Close monitoring of consumer spending, services activity, the housing sector, and labor market indicators will be crucial in assessing whether the "soft landing" scenario will materialize. The ongoing government shutdown adds a layer of uncertainty to the economic outlook.

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