



WEEKLY ECONOMIC OUTLOOK

Data-driven insights from the U.S. Bank Economics Research Group | December 19, 2025

THE WEEK'S ECONOMY AT A GLANCE

Deck the charts: Inflation's chill and jobs' slow dance

The week's economic data comes with a heavy dose of caveats. Shutdown-related distortions in Consumer Price Index (CPI) and employment reports have muddled the waters, making it harder to gauge true inflation and labor market trends. Headline and core inflation cooled sharply, but much of the weakness reflects technical quirks rather than a clear disinflation signal. On jobs, the combined October/November report looks stable on the surface, yet momentum is fading – and notably, October's unemployment rate wasn't published because the household survey was canceled, adding another layer of uncertainty.

Otherwise, retail sales offered a mixed picture – solid control-group gains in October but signs of cooling into December – while the long-delayed Q3 GDP report is set to confirm strong past growth even as momentum fades. In short, the data fog persists, and decisionmakers will need cleaner readings in early 2026 to chart the next move.

What this means for business: *Uncertainty in the data means uncertainty in policy. If inflation rebounds as distortions unwind or labor slack deepens faster than expected, the Fed's timing on rate cuts could shift – impacting borrowing costs, investment plans and consumer demand. Businesses should stay nimble, monitor high-frequency indicators and prepare for a slower growth environment as we head into 2026.*

Quote of the week

Distortions to the November CPI highlight the Fed's challenges on determining the path for interest rates. Good that they got post-shutdown data. But separating the signal from the noise is no easy task, even for the Fed. That is one more reason for them to stay on hold in January.

Beth Ann Bovino, Chief Economist,
U.S. Bank



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ECONOMIC DATA OF THE WEEK

0.0%

That's the rate of implied inflation in October across many CPI categories, thanks to the Bureau of Labor Statistics' (BLS) "carry-forward" method after the federal shutdown halted data collection – most notably for rents and owners' equivalent rent (OER), which make up roughly one-third of the CPI basket. This technical quirk dragged core CPI down to 2.6% year-over-year (YoY) through November, implying just a 0.06% average monthly increase – well below expectations. The gaps are so large that they make this week's CPI data difficult to interpret, and we could see a re-acceleration in inflation as these methodological distortions unwind. See *additional analysis below*.

ECONOMIC REPORT OF THE WEEK

GDP

Originally slated for October 30, the Bureau of Economic Analysis (BEA) advance estimate of Q3 GDP was delayed by the shutdown and is now scheduled for Tuesday, December 23 – almost two months late. We expect 3.1% quarter-over-quarter annualized growth for the third quarter (see details in our [December forecast](#)), driven by robust consumer spending and a boost from net exports. Current Fed nowcasts also point to solid momentum, with the Atlanta model near 3.5% and the New York Fed estimate around 2.3%. While the data itself is unaffected by the shutdown, the long delay means this report will land in a very different policy context, complicating its relevance for near-term decisions. Looking beyond, we expect Q4 growth to slow as the shutdown's drag on federal spending and delayed contracts ripple through activity, alongside softer consumer outlays – setting the stage for a more moderate pace into early 2026.

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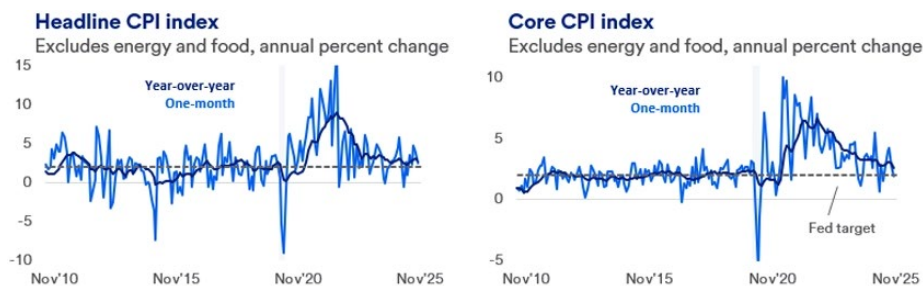
Andrea Sorensen, Economist

ECONOMIC TRENDS: INFLATION OUTLOOK

CPI sleighs the inflation Grinch

As noted above, interpreting this month's CPI is complicated by shutdown-related distortions, making it harder to separate signal from noise. Headline inflation slowed to 2.7% YoY and core to 2.6% YoY – both much cooler than expected and below the last clean read from September (3.0% YoY for each). However, the unusual data collection gap means these figures may not fully capture underlying trends. Because the BLS could not collect October survey data, November's report effectively spans two months, leaving monthly dynamics difficult to interpret and warranting caution in drawing conclusions.

Under the hood, goods inflation appears to have softened notably, led by declines in apparel and recreation commodities, while autos posted only modest gains. Housing components also cooled, supported by very soft readings in rents. Core services excluding housing remained subdued, as airfares fell sharply and health services held steady. Food inflation moderated, while energy stayed firmer – rounding out a mix that appears disinflationary but may overstate the slowdown.



U.S. Bank Economics, Bloomberg, Bureau of Labor Statistics (BLS)

Methodology matters this month. The BLS explicitly noted it could not retroactively collect October survey data, relying instead on non-survey sources and standard imputation/carry-forward techniques for missing price quotes – procedures that can bias measured inflation when an entire month is skipped, particularly in slow-moving series like rents.

Some of the weakness in price pressures may therefore be technical and could see partial payback in December as collection normalizes. Cleaner data should confirm whether the slowing trend in services inflation is genuine – a key milestone for policymakers.

Why it matters? Even allowing for noise, the report nudges the inflation trajectory closer to where the Fed's preferred gauge (core PCE) has been drifting – 2.8% YoY in September – and supports our base case of a cautious but dovish policy stance into early 2026. With labor data softening and inflation risks now more balanced between sticky goods (tariffs, autos) and uneven services disinflation (health services, travel), we think the bar for additional rate cuts remains tied to confirming evidence from incoming data. In short, this CPI doesn't settle the debate, but it reinforces the signal of gradual disinflation amid an economy losing some momentum.

ECONOMIC TRENDS: LABOR LANDSCAPE

A frosty finish: Employment gains chill as year ends

The combined October/November employment report pointed to a labor market that appears stable on the surface but is steadily losing momentum underneath. Nonfarm payrolls dropped by 105,000 in October before rebounding by 64,000 in November, a swing largely driven by federal government separations tied to the DOGE deferred resignation program. The private sector continued to add jobs in both months (+52,000 and +69,000), the silver lining. But cumulative nonfarm payroll growth since April has been nearly flat, averaging just +17,000 per month (with private sector gains averaging +47,000) – a sharp slowdown from more than 200,000 at the start of the year and underscoring a clear stall in labor market momentum. Adding fuel to the fire, Fed Chair Jerome Powell noted last Wednesday that official statistics may be significantly overstating recent job growth.

ECONOMIC TRENDS: LABOR LANDSCAPE

A frosty finish: Employment gains chill as year ends *continued*



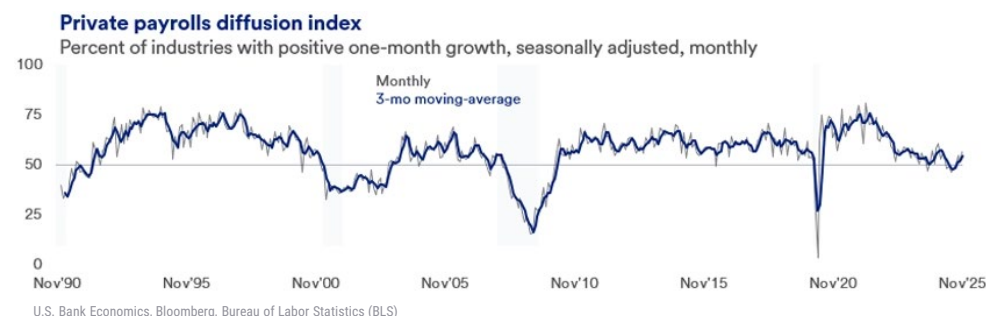
U.S. Bank Economics, Bloomberg, Bureau of Labor Statistics (BLS)

Beneath the headline, hiring remained concentrated to a few resilient sectors. Health care and construction provided most of November's gains, while transportation and leisure-related industries pulled back and manufacturing continued to soften. Wage growth also cooled, with average hourly earnings barely rising and now running at their slowest pace since 2021. Hours worked ticked up slightly, but overall, the picture suggests labor demand is stabilizing rather than accelerating – reducing the risk of wage-led inflation but limiting income growth outside of the strongest service segments.

Signs of rising slack were even more evident in the household survey. After holding steady for much of the year, the unemployment rate climbed to 4.6%, its highest since the pandemic, while the broader U-6 measure of underemployment spiked by 70 basis points to 8.7%. Participation edged up slightly, but more workers were stuck in part-time jobs because they couldn't find full-time work, and short-term layoffs became more common – likely reflecting furloughs tied to the recent government shutdown. The BLS also noted unusually large standard errors and methodological adjustments due to the shutdown, which canceled October's household survey and delayed November processing.

Taken together, higher joblessness and broader underemployment point to softening labor demand, not just statistical noise or idiosyncratic increases in job seekers.

All told, payrolls have stabilized, but labor market slack is building. More households are either unemployed or under-employed, wage growth is back near prepandemic pace, and hiring breadth remains narrow. Critically, the unemployment rate is now above the Fed's highest long-run estimate, signaling that the Committee is no longer meeting its "maximum employment" mandate. While this will keep the Fed focused on the jobs side of the mandate, we think lingering inflation pressures, especially after two dissents for a hold at the December Federal Open Market Committee (FOMC meeting, make March or June more likely than January for the next rate cut. All bets are off, if the December data come in significantly weaker (assuming no government shutdown in January). On growth, rising slack and softer wages imply downside risk to consumer spending as we move into 2026, particularly if announced job cuts begin to translate into realized layoffs beyond what is currently captured in jobless claims.

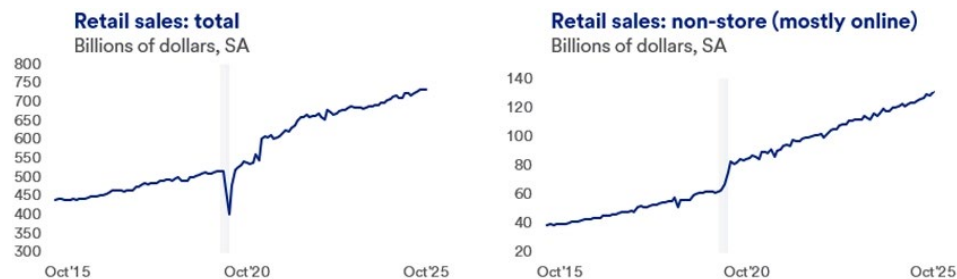


U.S. Bank Economics, Bloomberg, Bureau of Labor Statistics (BLS)

ECONOMIC TRENDS: BUSINESS CYCLE INDICATORS

New Year's resolution: Keep an eye on the consumer

October's retail sales report came in flat, ending a four-month streak of growth. The headline weakness was driven by a pullback in auto and gasoline spending following the expiration of EV tax credits and lower fuel prices, while restaurant and bar sales also slipped. Beneath that, however, retail activity showed surprising strength: the control group – which excludes autos, gas, food services, and building materials and feeds directly into GDP – rose 0.8% month-over-month (MoM), its fastest pace in four months. Gains were broad-based, led by online retailers, department stores and furniture outlets, suggesting early holiday shopping and solid demand for goods as Q4 began.



U.S. Bank Economics, Bloomberg, U.S. Census Bureau

That said, high-frequency indicators paint a more mixed picture. Our U.S. Bank Economics Research Group consumer transactions indicator, along with other real-time spending measures, has softened through early December, signaling a potential year-end slowdown. While we are still assessing how the later timing of Thanksgiving may have shifted holiday spending patterns, the latest data are less encouraging. Combined with rising labor market slack and lingering inflation pressures, we view October's retail sales report as supportive of early-Q4 GDP momentum – yet caution that consumer spending could lose steam in the final stretch if this cooling persists.

Important disclosures provided on last page

ECONOMIC TRENDS: THE WEEK AHEAD

Data and reports we're watching this week: Beyond the backlog

The data backlog from the shutdown is finally clearing, but not without complications.

While the November jobs report looked relatively clean, the CPI release was riddled with gaps so large that its signals are hard to trust. Such distortions from missed data collection are expected to linger well into next year. And it may worsen if the government shuts down again in January. In the meantime, we'll continue to tune out the noise by leaning on high-frequency indicators and private surveys to gauge real-time trends.

Cleaner official data in Q1 will be critical to confirm whether the disinflation narrative and labor market cooling are genuine or just artifacts of this "data fog." For now, the only major release ahead of the holiday break is the long-delayed Q3 GDP report (December 23, 7:30 a.m.). **Q3 GDP is expected to show strong growth (we expect 3.1%; consensus 3.2%)** but arrives in a very different policy context. **Capital goods orders, excluding defense and aircraft, a leading indicator for business equipment investment, is expected to grow by 0.3% MoM in October, after a 0.9% jump the prior month.**

ECONOMIC DATA CALENDAR THIS WEEK

What we’re watching this week, including release dates and projections from the U.S. Bank Economics Research Group.

| U.S. economic calendar - December 22 through December 26 | | | | | | |
|--|-----------|--|--------|----------|-----------|----------|
| Date | Time (CT) | Release | For | USB Econ | Consensus | Previous |
| 12/23/2025 | 7:30 a.m. | GDP (QoQ % Annualized) | 3Q | 3.1 | 3.2 | 3.8 |
| | | Durable goods orders (MoM) | Oct P | -1.4 | -1.5 | 0.5 |
| | | Durable goods ex Transportation (MoM) | Oct P | 0.2 | 0.3 | 0.6 |
| | | Capital goods orders nondefense ex. Aircraft | Oct P | 0.3 | 0.3 | 0.9 |
| | 8:15 a.m. | Industrial production (MoM) | Nov | 0.1 | 0.1 | 0.1 |
| | 9 a.m. | Consumer confidence | Dec | 90.0 | 92.0 | 88.7 |
| 12/24/2025 | 7:30 a.m. | Initial Jobless Claims | Dec 20 | 225.0 | 222.5 | 224.0 |

Sources: Bloomberg, U.S. Bank Economics. Consensus estimates as of Friday, 12/19/2025.

Federal Open Market Committee (FOMC)
Speaker Calendar

December 21, 5 a.m.: Beth Hammack (Cleveland Fed/Non-Voter)

Disclosures

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