Economic view

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From the desk of Chief Economist Beth Ann Bovino

The soft landing...are we there yet?

Heading out on a recent family vacation, the backseat chorus frequently called out, “Are we there yet?” That has been the age-old tradition of bored kids on a long drive for generations and will be the call for many years to come.

It also reminds me of what markets have been waiting for: the soft landing. Will this cycle see a soft landing and when – or will it crash? Expectations of success swing each day on the news, and it makes sense.

Landing the plane is one of the most dangerous parts of flying. That also holds for the economy. Soft landings are difficult to maneuver, which is why we haven’t seen one in 30 years (the last one was in 1995). Heightened policy uncertainty, recently, only magnifies risks.

Continued policy uncertainly, particularly from the tariff war but also tighter immigration and concerns over a Fed mistake, add to concerns that the expansion will contract. Our recession risk remains elevated at 35%, or a one-in-three chance of recession. These are not good odds, given, at any point in time, recession risk is usually about one in seven.

And while a soft landing is a big deal, if you are waiting for the big announcement to cheer, don’t hold your breath.

Soft landings aren’t necessarily ‘called.’ There is no arbiter like the National Association of Economic Research there to make it official. Apparently, it is ultimately considered a soft landing when Fed policy reaches its estimated neutral federal funds rate (which is also in flux), without any hiccups. I currently see the Fed’s neutral rate to be 3.25%. That leaves time for the U.S. economy to make a mistake.

As the economy’s so-called landing gear moves into position, or when there is turbulence, the larger U.S. Bank Economics team focuses on our Business Cycle Dashboard of key leading indicators of economic momentum.

Business cycle dashboard - September 2025		Level of risk (1)			
		Economic indicators updated as of dates below:			
Indicators	**Metric**	**June 18**	**July 18**	**August 21**	**Current**
Financial market expectations					
10Y-3M US Treasury	*Level*	1	2	2	2
S&P 500	*Y/Y%*				
Economic expectation surveys					
Consumer confidence expectations	*Level*	2	2	2	2
ISM non-manufacturing employment index	*Level*		1	2	2
ISM manufacturing employment index	*Level*	2	2	2	2
Rapid response to labor market indicators					
Jobless claims	*3M MA Y/Y%*	1	1		1
Nonfarm payroll growth	*6M MA*	1	2	2	2
Leading real production activities					
Building permits	*Y/Y%*	1	1	1	1
ISM manufacturing new orders index	*Level*	1	1	1	
New orders nondefense capital goods ex aircraft	*Y/Y%*				
Availability of credit and level of financial stress					
Chicago Fed NFCI financial leverage subindex	*Level*				
Chicago Fed NFCI nonfinancial leverage subindex	*Level*				

Color Key

(1) Level of risk: Green is low risk, Red is high risk, and Yellow is neutral

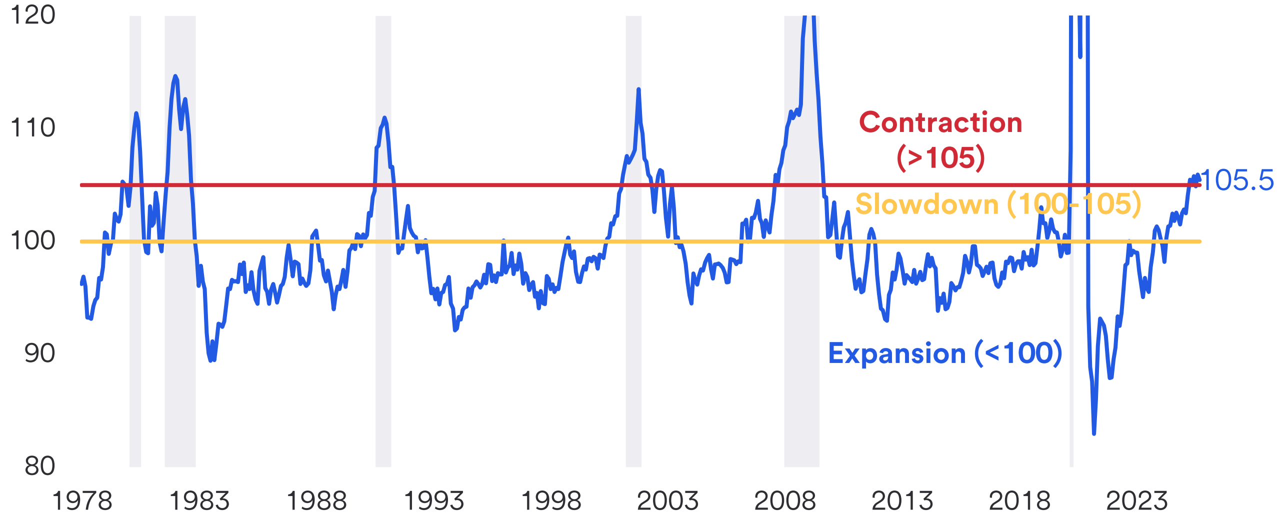
Sources: U.S. Bank Economics Group, Data Pulled from Moody's Analytics Data Buffet

Data updated through September 18th

Our dashboard has indicated business cycle expansion. But since Liberation Day, economic momentum has weakened considerably. Now, four indicators are red (high economic risk) and two are neutral. High economic risk levels have increased since Liberation Day. The percentage of red indicators was 17% in the March report. It climbed to 42% in the September report, highlighting elevated chances of recession.

To capture the impact of the indicators we track into one number, we developed a Business Cycle Indicator (BCI). This index summarizes the direction and status of the dashboard and is calibrated based on the combined predictive effect of indicators on the business cycle.

U.S. Bank Business Cycle Indicator



The BCI currently indicates that the economy has recently tipped into the contractionary phase of the business cycle. That said, this reading is largely driven by the fact that the index generally considers lagged values and how those lagged values relate to current values. This can give it an exaggerated negative bias today.

Moreover, a significant amount of the swing in economic risk is from expectation surveys. All sentiment indicators are in recession risk territory, as businesses and consumers suffer high prices and interest rates. But despite depressed sentiment readings, most leading measures of production remained in positive territory.

Core capital goods orders readings, a leading indicator for business equipment investment, is currently reading a healthy green signal. The ISM manufacturing new orders index is also green as are most leading measures of financial conditions in our dashboard. Financial conditions are strong, with the S&P 500 hitting another all-time high in September and the Chicago Fed NFCI index still reflects loose financial conditions overall. The 10-year/3-month yield curve inversion signals recession risk, though it has given false readings earlier in this expansion.

What has unnerved me (and, apparently, the Fed) are disturbing signs in the labor market. I have long pointed out that the jobs market was the cushion for the U.S. economy. No more. Jobless claims, though still historically low, have accelerated from the lows of 2024, for neutral reading. More concerning, payroll growth is red (high risk), having slowed substantially. Following the August report along with downward revisions in prior months, payrolls for the last three months averaged just 29,000.

Moreover, other leading indicators of the jobs market that did not make our dashboard are also showing signs of stress. Temporary hires have trended lower. Businesses often let temporary workers go before they cut full-time staff. The quit rate has also fallen from a record high in March 2022 to 2.2% in June, signaling less worker bargaining power. As the jobs market softens, people become job huggers instead of job leavers and wages usually drift lower, squeezing workers' purchasing power.

It's striking how things have changed. At the beginning of the year, I thought the U.S. economy would cruise to a soft landing. Now, it looks like we should fasten our seatbelts for a bumpy ride.

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