

Economic Outlook

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Fed Restarts Easing Cycle as Labor Market Stalls



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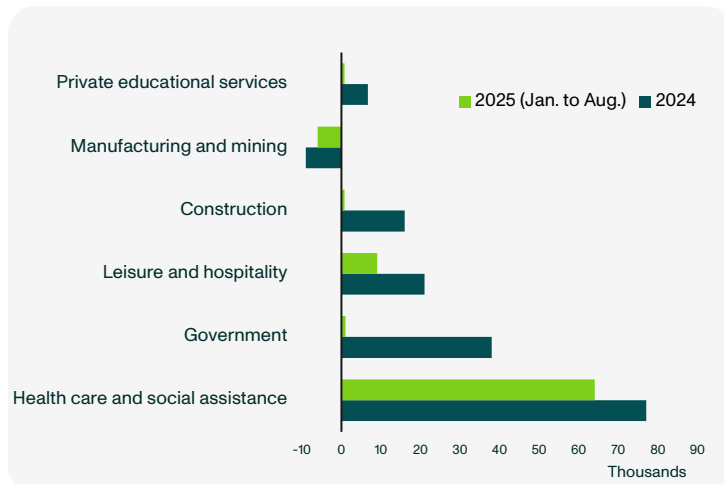
HIGHLIGHTS

- The FOMC is expected to lower the fed funds rate in October and December.
- The labor market has shown notable signs of weakening in recent months.
- Lower interest rates, good consumer balance sheets and fiscal policy tailwinds should extend the economic expansion into 2026.

As forecasted by the Huntington Chief Investment Office, the Federal Open Market Committee (FOMC) lowered the fed funds rate by 25 basis points at the conclusion of its September meeting, bringing the target range to between 4% and 4.25%. The Committee began its current rate-cutting cycle in September 2024 and lowered the fed funds rate by 100 basis points last year at its meetings in September (50 basis points), November (25 basis points) and December (25 basis points). The FOMC then held the fed funds rate steady for five consecutive meetings before restarting its rate-cutting cycle in September 2025.

The updated Summary of Economic Projections (SEP) now calls for two additional rate cuts in 2025, up from one projected in June. Economic growth expectations were revised higher for 2025, 2026 and 2027. The median forecasts for real GDP growth are now 1.6% in 2025, 1.8% in 2026 and 1.9% in 2027, up from 1.4%, 1.6% and 1.8%, respectively, in June.

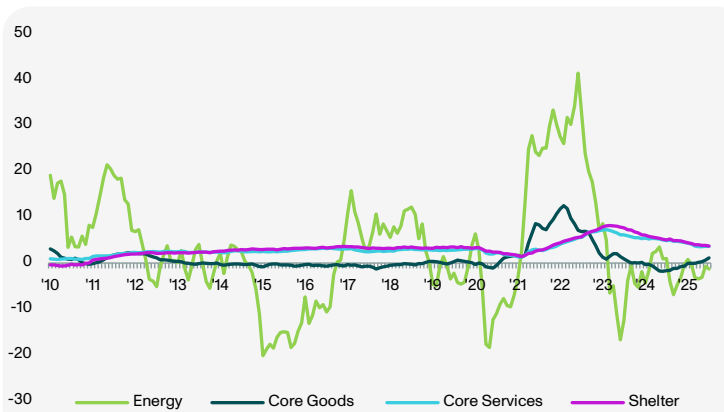
FIGURE 1. AVERAGE MONTHLY JOB CREATION IN 2024 AND 2025
Big decline in government employment this year



Source: BLS

Recent weak labor market data have raised concerns about the U.S. economy, prompting the FOMC to lower the fed funds rate. According to the Bureau of Labor Statistics (BLS), the three-month moving average of job gains slowed to 29,000 in August, down from 209,000 in December 2024. Additionally, the BLS released its preliminary benchmark revision in early September, showing that job creation between April 2024 and March 2025 was 911,000 less than initially reported. Labor supply challenges have worsened this year due to the Trump administration's restrictive immigration policies.

FIGURE 2. YEAR-OVER-YEAR PERCENTAGE CHANGE IN CPI
Goods inflation expected to accelerate further



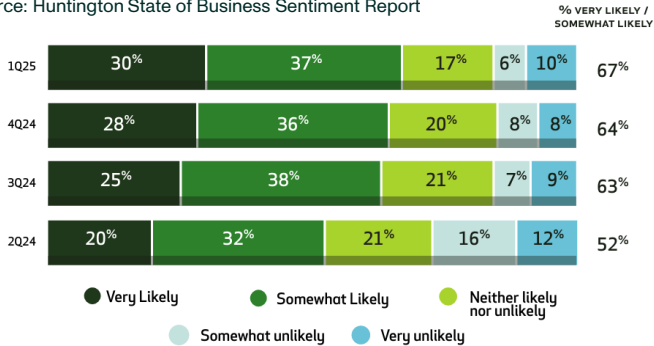
Source: BLS

According to the BLS, the foreign-born labor force participation rate declined 1.2 percentage points in August from a year ago, while the rate for native-born workers decreased by 0.1 percentage point. Given the pullback in labor supply this year, Huntington's Chief Investment Office estimates that the breakeven employment growth rate is between 25,000 and 50,000. Breakeven employment growth represents the pace of job gains needed to keep the unemployment rate steady.

While the U.S. labor market softened over the summer, consumer inflation accelerated. According to the BLS, the Consumer Price Index (CPI) rose 2.9% in August year-over-year, following a 2.7% increase in July. After cooling in early 2025, several inflation measures have accelerated in recent months as businesses pass higher tariff-related costs on to consumers. Based on [Huntington's State of Business Sentiment](#), which surveyed small and middle market business owners in March 2025, 67% of small businesses indicated they were likely to increase prices over the next three to six months, while 64% of middle market businesses stated they would do the same as well.

FIGURE 3. SMALL BUSINESS LIKELIHOOD TO INCREASE PRICES OVER THE NEXT 3-6 MONTHS

Source: Huntington State of Business Sentiment Report



The near-term economic outlook remains positive, though uncertainty remains elevated. Fed rate cuts and good household balance sheets should allow the U.S. economic expansion to continue into 2026. Equity market gains and appreciating home values have improved household wealth this year. Additionally, strong wage growth and supportive fiscal policy should provide a boost to consumers and businesses over the next year.

However, risks to the economic outlook remain tilted to the downside. The FOMC faces a difficult task: stimulating the labor market while containing inflation. A policy misstep could pose a significant risk to the economic outlook. The September rate cut and expectations for further rate cuts over the next couple of years could stoke demand and worsen inflation. Moreover, a political shakeup at the FOMC could lead to aggressive rate cuts in 2026, potentially reigniting inflation. History and academic research show that political pressure to ease monetary policy has often resulted in negative economic outcomes, including faster inflation and weaker growth.

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*Forecast
Historical data sources: Federal Reserve, BLS, BEA and Bloomberg

FIG. 4: BASELINE ECONOMIC OUTLOOK							
	2020	2021	2022	2023	2024	2025*	2026*
Real GDP Annual Growth Rates, 2017 Chained Prices							
Pers. Consumption Expenditures	-2.5	8.8	3.0	2.5	2.8	2.0	1.9
Government Expenditures	3.4	-0.3	-1.1	3.9	3.4	1.6	1.2
Private Investment	-4.5	8.8	6.0	0.1	4.0	1.4	2.0
Exports	-13.1	6.5	7.5	2.8	3.2	1.5	1.0
Imports	-9.0	14.7	8.6	-1.2	5.4	6.0	3.0
Total Real GDP	-2.2	6.1	2.5	2.9	2.8	1.6	2.0
CPI (1982-1984=100), % Change Annualized	1.2	4.7	8.0	4.1	3.0	2.8	2.9
Core CPI (1982-1984 = 100), % Change Annualized	1.7	3.6	6.2	4.8	3.4	3.2	3.4
PCE Price Index (2017=100), % Changed Annualized	1.1	4.2	6.5	3.8	2.5	2.9	3.0
Core PCE Price Index (2017=100), % Change Annualized	1.3	3.6	5.2	4.1	2.8	3.0	3.0
Crude Oil WTI, (\$/barrel)	\$39	\$68	\$95	\$78	\$76	\$65	\$62
Effective Federal Funds Rate, % (Average)	0.37	0.08	1.68	5.02	5.14	4.17	3.69
10-Yr. Treasury Rate, % (Average)	0.92	1.51	3.88	3.88	4.21	4.38	4.20
30-Yr. Fixed Rate Mortgage, %	2.87	3.27	6.66	6.99	6.72	6.20	5.80
Industrial Production (YoY%)	-7.0	4.9	3.4	0.2	0.2	1.0	1.6
Payroll Jobs, Average Monthly Difference, Thousands	-774	606	399	225	168	80	105
Unemployment Rate, Annual Average	8.1	5.4	3.6	3.6	4.0	4.4	4.4
DXY Dollar Index	89.9	95.7	103.5	101.3	104.2	98.0	97.5

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