U.S. Economic Comment

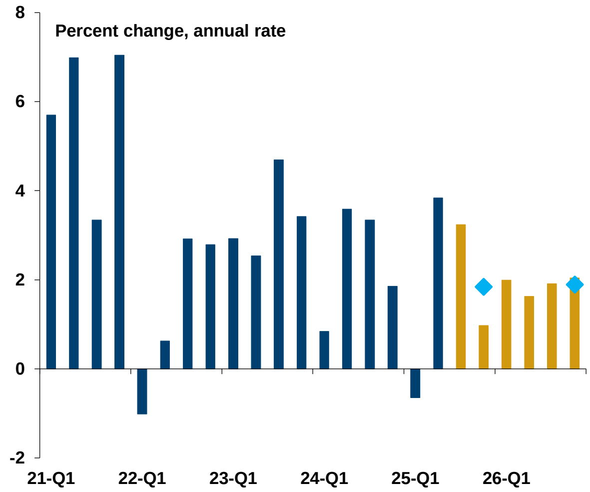
- 2026 outlook: U.S. economy to remain on track, boosted by tailwinds from monetary and tax policy, although downside risks remain
- Monetary policy: further easing expected amid softening labor market and decelerating inflation

Lawrence Werther
lawrence.werther@us.daiwacm.com
+1-212-612-6393
Brendan Stuart
brendan.stuart@us.daiwacm.com
+1-212-612-6172

2026 Forecast Update

The U.S. economy weathered several storms in 2025, including various ongoing disruptions associated with the broad application of tariffs by the Trump administration early in the year and the longest government shutdown in history in Q4. Nonetheless, GDP growth for 2025 appears on track to essentially match potential output for the year (+1.8 percent Q4/Q4 projected). Moreover, although we are a bit more reserved on our projections for 2026 than are Fed officials (house view of +1.9 percent Q4/Q4; chart), we note that the median expectation of policymakers in the December Summary of Economic Projections was +2.3 percent, 50 basis points higher than the September median. A portion of that was related to rebound effects associated with the aforementioned government shutdown, but the key consideration remains that growth is anticipated to be (at the very least) respectable.

GDP Growth*



** The readings for 2025 Q3 through 2026 Q4 (gold bars) are forecasts. The light blue dots are Q4/Q4 projections of 1.8 and 1.9 percent for 2025 and 2026, respectively.*

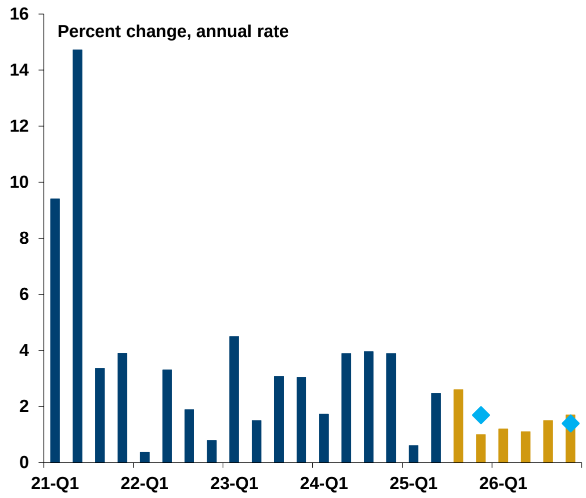
Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America

With the above said, a baseline expectation of solid growth comes with risks. On the point, the consumer sector in the aggregate has performed well, but evidence is increasing that household fatigue with sharply higher prices (versus the pre-pandemic experience) and concern about easing labor market conditions could magnify current trends in spending (i.e., brisk activity by upper income households, but cautious spending by the majority of Americans, the so-called "K-shaped" nature of consumer spending) – and hold significant implications for the mid-term elections and ultimately the Trump administration's agenda. Moreover, regarding business investment, the AI boom has acted as a key catalyst to growth, even as analysts have raised concerned about concentrated investment within the ecosystem, failure to translate capex to significant returns on investment, and possibly stretched market valuations. Finally, on the politics and policy front, tariffs almost certainly will continue to influence international relations, even if the Supreme Court strikes down various levies currently authorized by the International Emergency Economic Powers Act, as the Trump administration could pivot to a new strategy for justification of levies. And, the issue of Fed independence – with its implications for financial markets and the real economy – will soon come to the fore with the president narrowing his focus to a few key candidates to replace Jay Powell as Chair once his term expires in May of next year (or sooner in the unlikely event he resigns prior to then). Thus, we remain guardedly optimistic for 2026 but attuned to evolving risks.

Key Drivers of Growth (Which Face Downside Risks in 2026)

A resilient household sector is the lynchpin of our growth projection for 2026, although, as previously mentioned, we are wary of emerging risks to consumer spending (+1.4 percent Q4/Q4 anticipated in 2026; chart, right). On the positive side, expenditures rebounded sharply in Q2 after modest growth in early 2025, with our tracking estimate for Q3 suggesting that spending is likely to meet or exceed the favorable performance. Supportive of that anticipated growth are wealth positions that are elevated to longer-run norms and manageable debt burdens (charts, below). Additionally, tax certainty codified by the One Big Beautiful Bill Act, along with further reductions (on overtime and tips, along with an increased deduction for state and local taxes and new deduction for auto loans) potentially boosting spending as well.

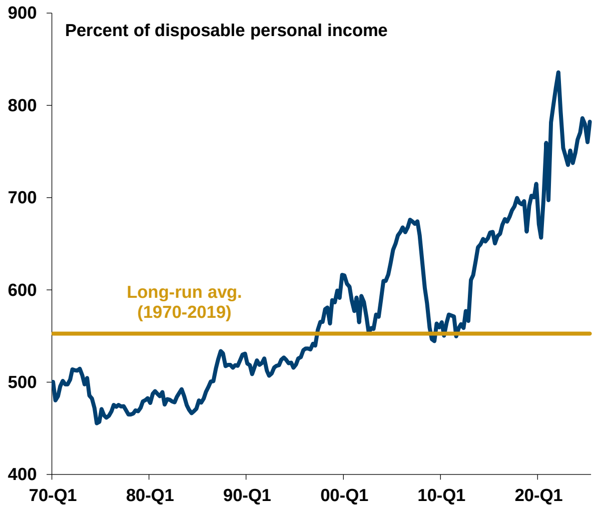
GDP: Personal Consumption Expenditures*



** The readings for 2025 Q3 through 2026 Q4 (gold bars) are forecasts. The light blue dots are Q4/Q4 projections of 1.7 and 1.4 percent for 2025 and 2026, respectively.*

Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America

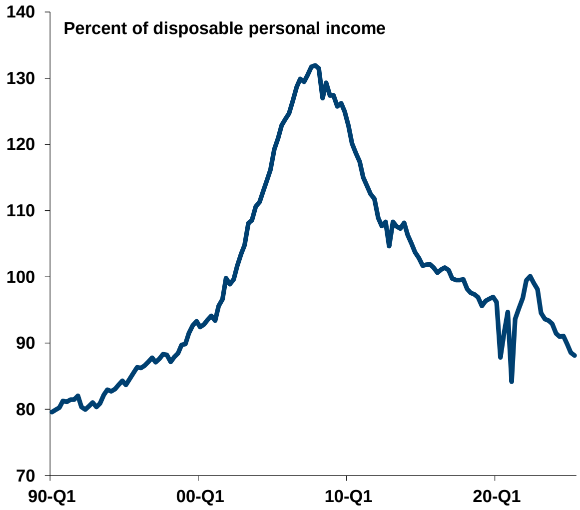
Household Net Worth*



** Household net worth as a share of disposable personal income.*

Sources: Bureau of Economic Analysis, Federal Reserve Board via Haver Analytics; Daiwa Capital Markets America

Household Debt Ratio*

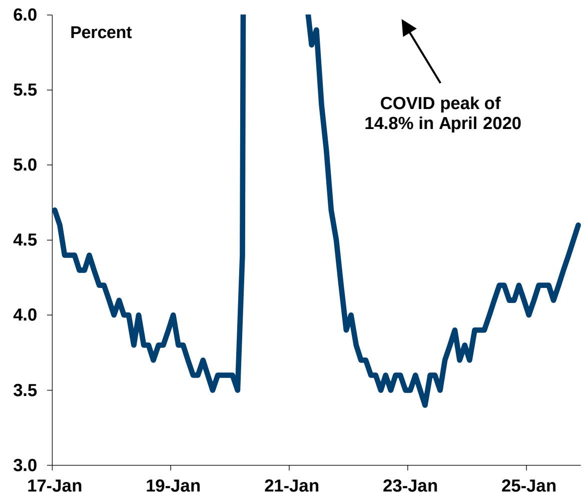


** Household debt as a share of disposable personal income. Debt includes: mortgage loans, consumer credit, and "other" loan debt.*

Sources: Bureau of Economic Analysis, Federal Reserve Board via Haver Analytics; Daiwa Capital Markets America

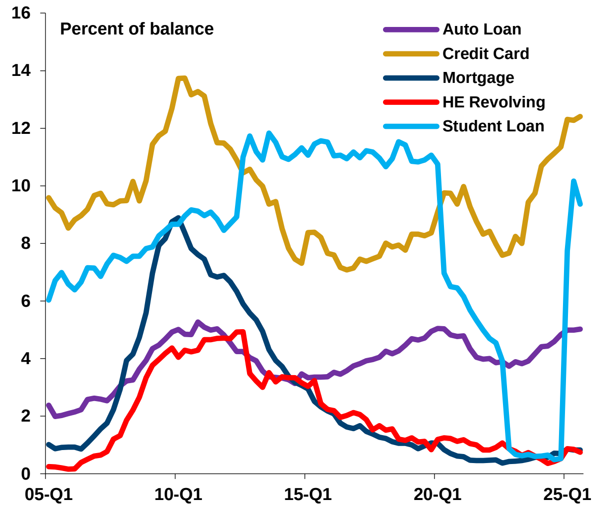
Even amid solid positions and sustainable debt burdens, however, there are emerging warning signs. Consumer confidence is mired in a slump (which thus far has not correlated with aggregate outlay growth), with respondents to various surveys suggesting that concern about the labor market is increasing and that the surge in costs of household essentials in recent years is an ongoing burden. With respect to those concerns, we note the jump in the unemployment rate in recent months (4.6 percent in November, up from 4.0 percent in January 2025), and deterioration in credit performance (note the upward moves in delinquencies for credit cards and auto loans as a share of loans outstanding, as well as the jump in student loan delinquencies after the end of the repayment pause; charts, next page). These developments, in our view, do not necessarily portend a retrenchment in consumer spending, but they do suggest a bifurcation in consumer spending, with affluent households driving growth for a time, and a perceptible slowdown in total outlays around the turn of the year before easier monetary policy contributes to a reacceleration in the job market and an attendant firming in expenditures in the second half of 2026.

Unemployment Rate



Source: Bureau of Labor Statistics via Haver Analytics

Seriously Delinquent Loans*



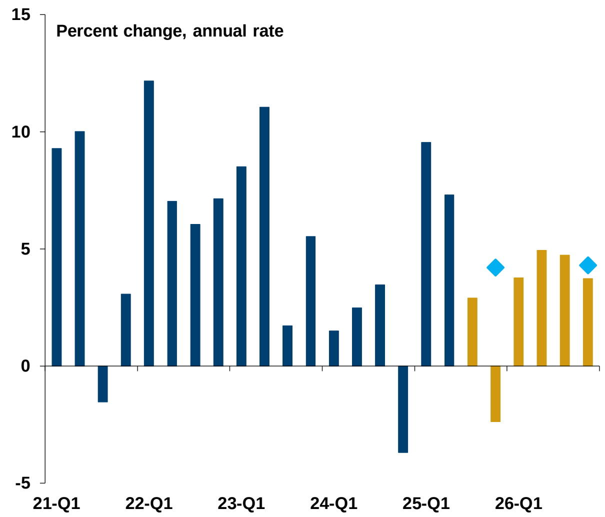
** 90+ days past due as a share of the dollar volume of outstanding loan balances.*

Source: Quarterly Report on Household Debt and Credit, Federal Reserve Bank of New York

We also maintain a relatively optimistic view with respect to the business sector, where we look for Q4/Q4 growth of 4.3 percent essentially matching our expectation for the current year (chart, below left, and table p. 5). Essential to the story has been brisk equipment spending in recent quarters, driven in part by AI-related investment (chart, below right; note that spending on information processing equipment accounted for over 40 percent of total annualized equipment spending in Q2).

Artificial intelligence is indeed transformational technology, and outlays for equipment, intellectual property products (software) and data centers (construction) have sustained the investment story in 2025 thus far. We forecast a similar trajectory in 2026, although we acknowledge that technological change often occurs in fits and starts and shakeout among firms is likely at some point -- themes covered in recent reporting on the sector. All told, and in light of risks from the AI space, we remain constructive on business investment in the near term.

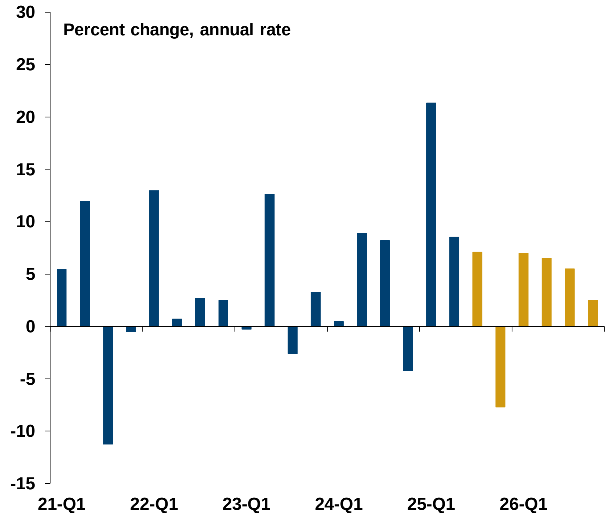
GDP: Private Nonresidential Fixed Investment*



** The readings for 2025 Q3 through 2026 Q4 (gold bars) are forecasts. The light blue dots are Q4/Q4 projections of 4.2 and 4.3 percent for 2025 and 2026, respectively.*

Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America

GDP: Equipment Spending*



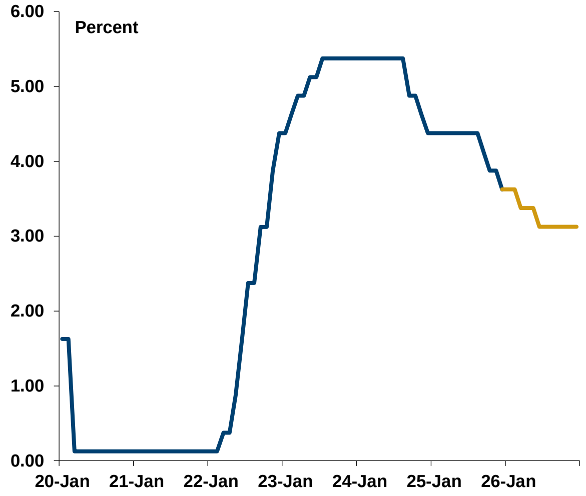
** The readings for 2025 Q3 through 2026 Q4 (gold bars) are forecasts.*

Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America

Monetary Policy

Although the Federal Open Market Committee lowered the target range for the federal funds rate by 25 basis points for the third consecutive meeting in December (year-end target range of 3-1/2 to 3-3/4 percent), the meeting was marked by three dissents (two favoring no change in monetary policy and one supporting a cut of 50 basis points) – underscoring divergent views among policymakers regarding upside risks to the inflation side of the dual mandate and potential downside risks to the labor market. Moreover, that disagreement has left many officials content to wait and see how the data will evolve next year (with Chair Powell noting in his press conference that the federal funds rate is "well positioned" to deal with economic developments); thus, it was unsurprising that the December SEP median for the path of policy settled on only one additional rate reduction next year.

Federal Funds Target Rate*



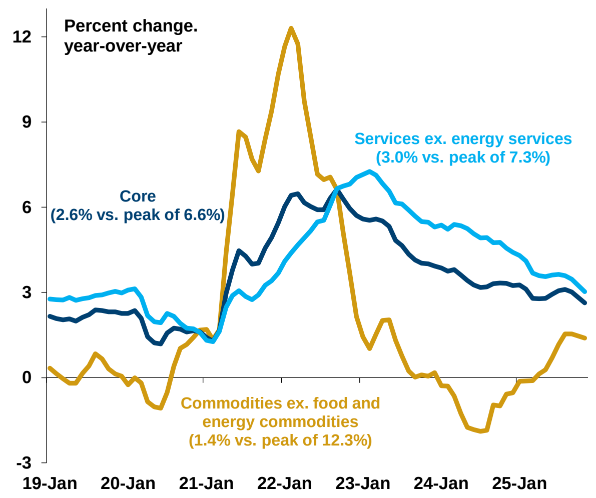
** The gold line is the forecasted path for the federal funds rate through year-end 2026.*

Sources: Federal Reserve Board via Haver Analytics; Daiwa Capital Markets America

We view ourselves as somewhat less sanguine on labor market conditions and a bit more optimistic on the inflation outlook than what is being signaled by Fed officials, which contributes to our expectation of the Committee slashing the target range for the federal funds rate by 50 basis points next year (reductions of 25 basis points at the March and June meetings). We would add that we see risks skewed toward further rate cuts beyond our baseline (an assigned probability a 45 percent chance of 75 basis points in cuts next year versus our baseline of 50).

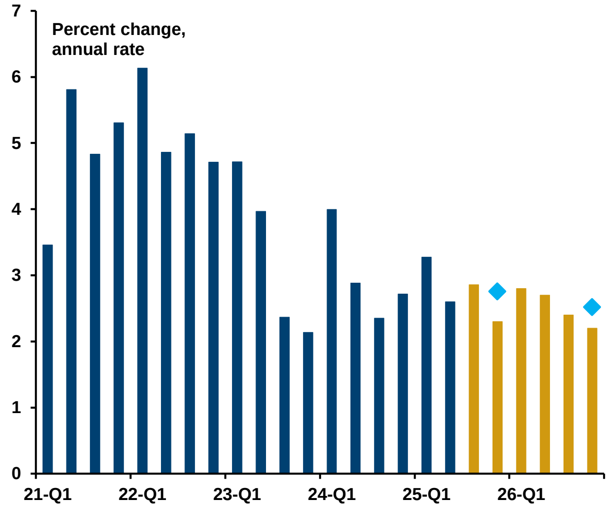
On the inflation side of the mandate, we first note that the disinflationary process aided by previously restrictive monetary policy is now firmly in place, as emphasized by the favorable CPI report on December 18 (the year-over-year change in the headline CPI slowed to 2.7 percent from 3.0 percent in September – October data was unavailable on account of the government shutdown – and the change in the core eased to 2.6 percent from 3.0 percent previously; chart, next page, left). We have some reservations, however, about data collection and methodological issues plaguing the November results (again on account of disruptions from the shutdown), but concerns aside they do underscore what we view as favorable inflation dynamics already in place. That is, pass-through from tariffs has been less than initially feared, cooling in market rents is now more forcefully passing through to consumer price measures (i.e., the owners' equivalent rent of residences and primary rents components), and slowing wage growth has contributed to easing pressure in the prices of non-housing services. Thus, we currently look for core inflation in 2026 to come in at 2.5 percent Q4/Q4, matching the median projection in the December SEP – although we strongly suspect that core PCE inflation may fall below that in 2026 (chart, next page, right). Contrastingly, on the labor market side of the mandate, we highlight the upward drift in the unemployment rate noted above, along with significant slowing in job growth in recent months (55,500 average per month in the first 11 months of 2025 versus 167,700 in 2024) and little evidence of a shift in momentum in underlying conditions. Thus, all considered, we look for developments on both sides of the dual mandate to keep ajar the chance for a shift to neutral, possibly modestly accommodative, monetary policy next year. Similar to last year, the economic outlook remains solid, although subject to a high degree of uncertainty given risks to the outlook.

Decomposition of Core CPI



Source: Bureau of Labor Statistics via Haver Analytics

Core PCE Price Index*



** The readings for 2025 Q3 through 2026 Q4 (gold bars) are forecasts. The light blue dots are Q4/Q4 projections of 2.8 and 2.5 percent for 2025 and 2026, respectively.*
Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America

Economic Outlook*

(Percent change annual rate, unless otherwise noted)

		2025					2026				
Item		**Q1**	**Q2**	**Q3**	**Q4**	**Q4/Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q4/Q4**
1	Gross Domestic Product	-0.6	3.8	3.2	1.0	1.8	2.0	1.6	1.9	2.0	1.9
2	Personal Consumption Expenditures	0.6	2.5	2.6	1.0	1.7	1.2	1.1	1.5	1.7	1.4
3	Business Fixed Investment	9.5	7.3	2.9	-2.4	4.2	3.8	4.9	4.7	3.7	4.3
4	Residential Construction	-1.0	-5.1	-4.8	-4.0	-3.7	-2.5	1.0	2.5	2.8	0.9
5	Change in Business Inventories *(Contribution to growth)*	2.6	-3.4	-0.4	0.9	--	-0.4	0.1	0.2	0.1	--
6	Government Spending	-1.0	-0.1	0.4	-2.4	-0.8	3.1	0.1	0.1	0.0	0.8
7	Net Exports *(Contribution to growth)*	-4.7	4.8	1.6	0.3	--	0.6	0.1	0.0	0.1	--
	Inflation and Unemployment										
8	Headline PCE Price Index *(Annual rate)*	3.4	2.1	2.8	2.4	2.7	2.5	2.2	2.2	2.1	2.3
9	Core PCE Price Index *(Annual rate)*	3.3	2.6	2.9	2.3	2.8	2.8	2.7	2.4	2.2	2.5
10	Unemployment Rate	4.1	4.2	4.3	4.5	--	4.6	4.5	4.4	4.3	--
	Interest Rates (End of Period)										
11	Federal Funds Target (midpoint)	4.38	4.38	4.13	3.63	--	3.38	3.13	3.13	3.13	--
12	3-month Treasury	4.32	4.28	3.95	3.55	--	3.35	3.15	3.15	3.15	--
13	2-year Treasury	3.89	3.72	3.60	3.45	--	3.35	3.30	3.30	3.30	--
14	10-year Treasury	4.23	4.24	4.16	4.10	--	3.95	3.95	4.05	4.05	--
15	30-year Treasury	4.59	4.78	4.73	4.80	--	4.70	4.70	4.80	4.80	--

** Readings on the unemployment rate and interest rates are end-of-period figures. GDP and inflation data for 25-Q3 through 26-Q4 are forecasts.*
Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, Federal Reserve Board, Freddie Mac via Haver Analytics; Daiwa Capital Markets America

Note to readers:

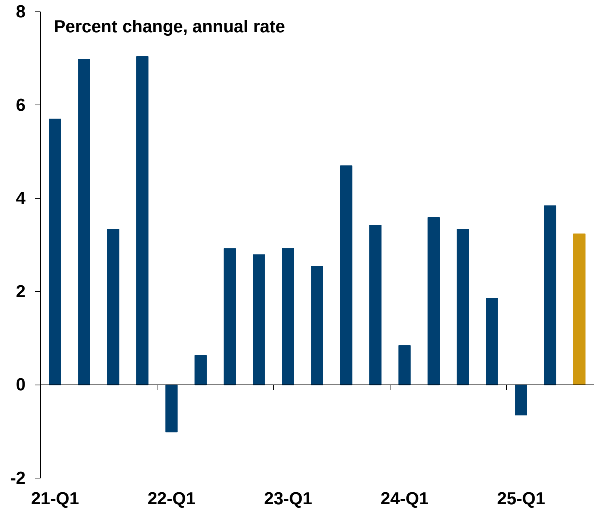
The next U.S. Economic Comment will be published on January 9, 2026. Happy holidays!

The Week Ahead

GDP (2025-Q3) (Tuesday)
Forecast: +3.2%

Data in hand suggest that the U.S. economy grew at a brisk pace in the third quarter of 2025. Consumer spending likely remained solid (+2.6 percent, annual rate, expected) despite easing labor market conditions and a previous price-level shift contributing to higher costs for many household essentials. Furthermore, we look for business fixed investment to register respectable results, with firm capex and investment in intellectual property products offsetting anticipated weakness in nonresidential construction. On the construction front, we also project residential activity to be soft, although the contribution to growth is modest and thus it is unlikely to change the expected tone of the report. Please note that this report was originally scheduled to publish on November 30 but was delayed due to the prior government shutdown.

GDP Growth*

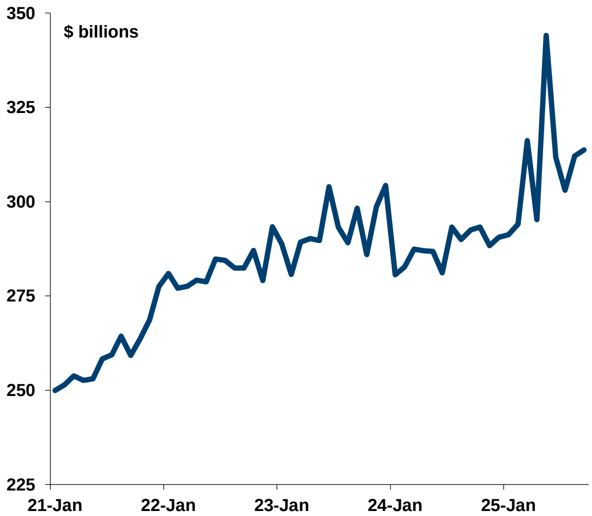


** The gold bar is a forecast for 2025-Q3.*
Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America

Durable Goods Orders (October) (Tuesday)
Forecast: -1.0% Total, +0.2% ex. Transportation

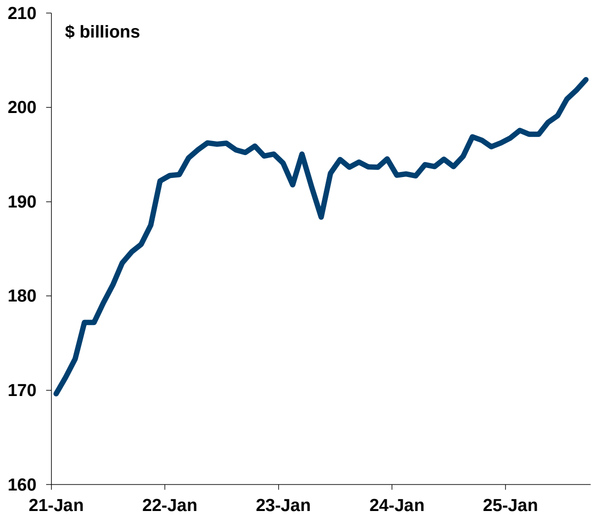
Wide swings in headline durable goods orders in recent years are often driven by month-to-month volatility in the transportation category (specifically the civilian aircraft area). We look for that pattern to continue in October, with data from Boeing indicating a marked decline in aircraft bookings. Averaging through the noise, however, leaves an upward tilt to the series since the spring. Bookings excluding transportation has moved sideways between the fall of 2024 and spring of 2025, but they have turned higher more recently. Please note that this report was originally scheduled to publish on November 26 but was delayed due to the prior government shutdown.

New Orders for Durable Goods



Source: U.S. Census Bureau via Haver Analytics

New Orders for Durable Goods ex. Transport.



Source: U.S. Census Bureau via Haver Analytics

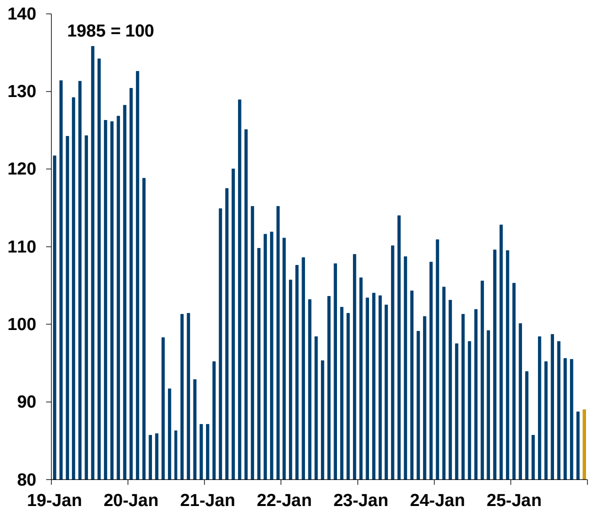
Industrial Production (October/November) (Tuesday)
Forecast: 0.0% Total, -0.1% Manufacturing

Due to the government shutdown, the Federal Reserve Board is set to simultaneously publish October and November estimates for industrial production next week. Cuts in factory employment in the October-November period coupled with flat average weekly hours suggest that the manufacturing component of IP will come in weaker, a result that would worsen an already unimpressive trend. Moreover, with the total rotary rig count and mining employment little changed in the two-month reference period, the mining component is likely to be subdued. All told, we look for a tepid result when the data are published next week.

Consumer Confidence (December) (Tuesday)
Forecast: 89.0 (+0.3%)

Evidence of further softening in the labor market (e.g., the unemployment rate rising 0.2 percentage point to 4.6 percent between September and November, the highest since September 2021) and concerns about elevated prices of household essentials suggest that consumer confidence is poised to remain little changed in December from the subdued result in November. On the point, the projection (if realized) would leave the Conference Board's metric in the low end of the post-pandemic range and only 3.3 points above the five-year low of 85.7 last April. On the topic of employment, we'll be paying close attention to the updated read on the labor market differential, a metric which provides insight into underlying views on job market strength by comparing the share of survey respondents who say that positions are "plentiful" less those who say they are "hard-to-get" (and thus potentially offering a glimpse into future consumer spending). Recall, this measure fell 0.6 percentage point to 9.7 percent in November, an observation only modestly above the four-year low of 8.7 percent recorded last September.

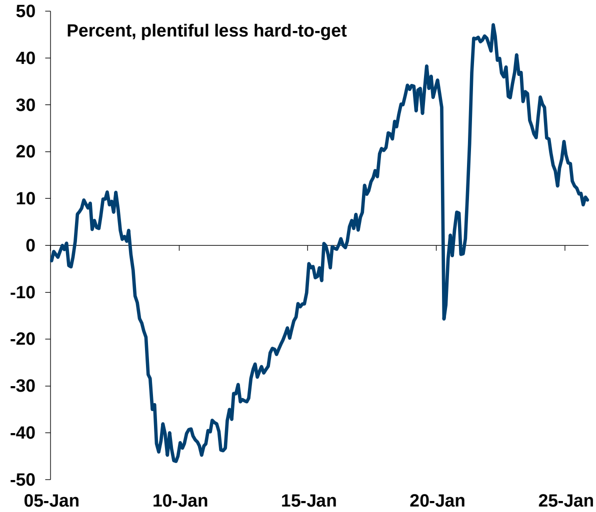
Consumer Confidence*



** The gold bar is a forecast for December 2025.*

Sources: The Conference Board via Haver Analytics; Daiwa Capital Markets America

Labor Market Differential*



** The share of survey respondents who reported that jobs were "plentiful" less those who said they were "hard-to-get."*

Source: The Conference Board via Haver Analytics

Economic Indicators

December 2025 / January 2026

Monday	Tuesday	Wednesday	Thursday	Friday
15	16	17	18	19
EMPIRE MFG Oct 10.7 Nov 18.7 Dec -3.9 **NAHB HOUSING INDEX** Oct 37 Nov 38 Dec 39	**EMPLOYMENT REPORT** Payrolls / Un. Rate Sep 108,000 4.4% Oct -105,000 -- Nov 64,000 4.6% **RETAIL SALES** Total / Ex. Autos Aug 0.5% 0.6% Sep 0.1% 0.1% Oct 0.0% 0.4% **BUSINESS INVENTORIES** Inventories / Sales July 0.1% 1.0% Aug 0.0% 0.0% Sep 0.2% 0.0%		**UNEMPLOYMENT CLAIMS** Initial / Continuing (millions) Nov 22 0.217 1.937 Nov 29 0.192 1.830 Dec 6 0.237 1.897 Dec 13 0.224 N/A **CPI** Total (YoY) / Core (YoY) Sep 3.0% 3.0% Oct -- -- Nov 2.7% 2.6% **PHILADELPHIA FED MFG BUSINESS OUTLOOK** Oct -12.8 Nov -1.7 Dec -10.2 **TIC FLOWS** Long-Term / Total Aug $132.6B $186.0B Sep $173.2B $184.3B Oct $17.5B -$37.3B	**REVISED CONSUMER SENTIMENT** Nov 51.0 Dec(p) 53.3 Dec(r) 52.9 **EXISTING HOME SALES** Sep 4.050 million Oct 4.110 million Nov 4.130 million
22	23	24	25	26
CHICAGO FED NATIONAL ACTIVITY INDEX (8:30)	**GDP (8:30)** GDP / Chained Price 25-Q1 -0.6% 3.6% 25-Q2 3.8% 2.1% **25-Q3(a) 3.2% 2.8%** **DURABLE GOODS ORDERS (8:30)** Aug 3.0% Sep 0.5% **Oct -1.0%** **IP & CAP-U* (9:15)** IP / Cap.Util. Sep 0.1% 75.9% Oct -- -- **Nov 0.0% 75.8%** **CONFERENCE BOARD CONSUMER CONFIDENCE (10:00)** Oct 95.5 Nov 88.7 **Dec 89.0**	**UNEMP. CLAIMS (8:30)**	***CHRISTMAS DAY***	
29	30	31	1	2
PENDING HOME SALES	**FHFA HOUSE PRICE INDEX** **S&P COTALITY CASE-SHILLER 20-CITY HOME PRICE INDEX** **MNI CHICAGO BUSINESS BAROMETER** **FOMC MINUTES**	**UNEMP. CLAIMS**	***NEW YEAR'S DAY***	**CONSTRUCTION**
5	6	7	8	9
ISM MFG. INDEX **VEHICLE SALES**		**ADP EMPLOYMENT** **ISM SERVICES INDEX** **JOLTS DATA**	**UNEMP. CLAIMS** **PRODUCTIVITY & COSTS** **WHOLESALE TRADE** **CONSUMER CREDIT**	**EMPLOYMENT REPORT** **CONSUMER SENTIMENT**

(a) = advance (1st estimate of GDP), (p) = preliminary, (r) = revised

Forecasts in bold. Despite an end to the government shutdown, some economic data are still delayed. We have made best efforts to incorporate revised release schedules from various statistical agencies, although some changes may not be reflected.

Treasury Financing

December 2025 / January 2026

Monday	Tuesday	Wednesday	Thursday	Friday
15	**16**	**17**	**18**	**19**
AUCTION RESULTS: Rate / Cover 13-week bills 3.560% 2.68 26-week bills 3.495% 2.84 **SETTLE:** $58 billion 3-year notes $39 billion 10-year notes $22 billion 30-year bonds	**AUCTION RESULTS:** Rate / Cover 6-week bills 3.625% 2.73 **ANNOUNCE:** $69 billion 17-week bills for auction on Dec 17 $80 billion 4-week bills for auction on Dec 18 $80 billion 8-week bills for auction on Dec 18 **SETTLE:** $69 billion 17-week bills $90 billion 4-week bills $80 billion 8-week bills	**AUCTION RESULTS:** Rate / Cover 17-week bills 3.540% 3.27 20-yr bonds 4.798% 2.67	**AUCTION RESULTS:** Rate / Cover 4-week bills 3.580% 3.28 8-week bills 3.585% 3.01 5-yr TIPS 1.433% 2.62 **ANNOUNCE:** $163 billion 13-,26-week bills for auction on Dec 22 $75 billion 6-week bills for auction on Dec 23 $50 billion 52-week bills for auction on Dec 23 $69 billion 2-year notes for auction on Dec 22 $70 billion 5-year notes for auction on Dec 23 $44 billion 7-year notes for auction on Dec 24 $28 billion 2-year FRNs for auction on Dec 23	**SETTLE:** $163 billion 13-,26-week bills $75 billion 6-week bills
22	**23**	**24**	**25**	**26**
AUCTION: $163 billion 13-,26-week bills $69 billion 2-year notes	**AUCTION:** $75 billion 6-week bills $50 billion 52-week bills $70 billion 5-year notes $28 billion 2-year FRNs **ANNOUNCE:** $69 billion* 17-week bills for auction on Dec 24 $80 billion* 4-week bills for auction on Dec 24 $80 billion* 8-week bills for auction on Dec 24 **SETTLE:** $69 billion 17-week bills $80 billion 4-week bills $80 billion 8-week bills	**AUCTION:** $69 billion* 17-week bills $80 billion* 4-week bills $80 billion* 8-week bills $44 billion 7-year notes **ANNOUNCE:** $163 billion* 13-,26-week bills for auction on Dec 29 $75 billion* 6-week bills for auction on Dec 30	***CHRISTMAS DAY***	**SETTLE:** $163 billion 13-,26-week bills $75 billion 6-week bills $50 billion 52-week bills $28 billion 2-year FRNs
29	**30**	**31**	**1**	**2**
AUCTION: $163 billion* 13-,26-week bills	**AUCTION:** $75 billion* 6-week bills **ANNOUNCE:** $69 billion* 17-week bills for auction on Dec 31 $80 billion* 4-week bills for auction on Dec 31 $80 billion* 8-week bills for auction on Dec 31 **SETTLE:** $69 billion* 17-week bills $80 billion* 4-week bills $80 billion* 8-week bills	**AUCTION:** $69 billion* 17-week bills $80 billion* 4-week bills $80 billion* 8-week bills **ANNOUNCE:** $163 billion* 13-,26-week bills for auction on Jan 5 $75 billion* 6-week bills for auction on Jan 6 **SETTLE:** $13 billion 20-year bonds $24 billion 5-year TIPS $69 billion 2-year notes $70 billion 5-year notes $44 billion 7-year notes	***NEW YEAR'S DAY***	**SETTLE:** $163 billion* 13-,26-week bills $75 billion* 6-week bills
5	**6**	**7**	**8**	**9**
AUCTION: $163 billion* 13-,26-week bills	**AUCTION:** $75 billion* 6-week bills **ANNOUNCE:** $69 billion* 17-week bills for auction on Jan 7 $80 billion* 4-week bills for auction on Jan 8 $80 billion* 8-week bills for auction on Jan 8 **SETTLE:** $69 billion* 17-week bills $80 billion* 4-week bills $80 billion* 8-week bills	**AUCTION:** $69 billion* 17-week bills	**AUCTION:** $80 billion* 4-week bills $80 billion* 8-week bills **ANNOUNCE:** $163 billion* 13-,26-week bills for auction on Jan 12 $75 billion* 6-week bills for auction on Jan 13 $58 billion* 3-year notes for auction on Jan 12 $39 billion* 10-year notes for auction on Jan 12 $22 billion* 30-year bonds for auction on Jan 13 **SETTLE:** $163 billion* 13-,26-week bills $75 billion* 6-week bills	

**Estimate*