Corporate Federal Credit Union

Economic Update

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THIS MONTH

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Commentary

The economy kept chugging along in 2025 despite several hurdles. Tariffs dominated the earlier part of the year with President Trump announcing Liberation Day with a slate of "reciprocal" tariffs across the globe. The market did not take the announcement well and equities were down by 15% at their lowest point of the year (on April 8, 2025). The tariff plan was later modified (on several occasions), and the stock market soared to reach an annual return of 16% in 2025. Later in the year, the federal government experienced its longest shutdown ever, which has made it more difficult to gauge the current state of the economy as some data points were never collected and other data was "noisier" than normal. The year may ultimately be best known as a marker to determine the limits of presidential power as the Trump administration pursued several strategies that pushed boundaries.

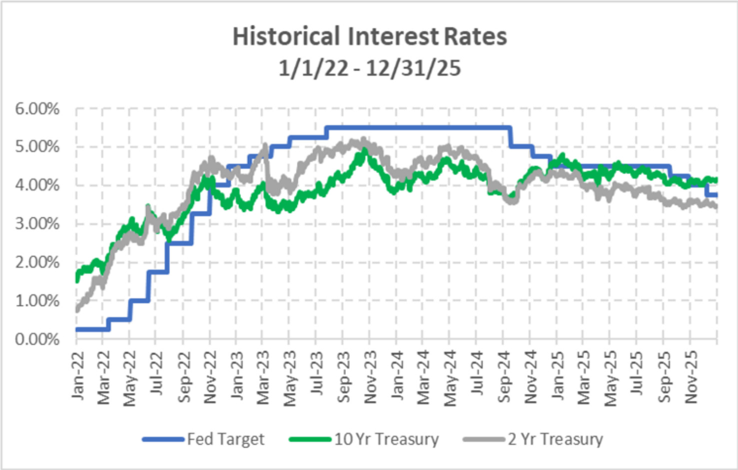
After months of delay, we finally received the federal labor data. Payrolls declined by 105,000 jobs in October and increased by 64,000 jobs in November. At first glance, the October data looks very weak, but much of the weakness was due to the one-off deferred resignations from the Department of Government Efficiency's "fork in the road" program. Those employees were still technically employed until October despite choosing to resign much earlier in the year. Looking at just the private sector, job growth has averaged 75,000 over the past three months. Certainly, a slowdown from the 130,000 average pace from 2024, but likely a pace that would hold the unemployment rate steady in 2026. The unemployment rate did increase from 4.4% in September to 4.6% in November, but that number was distorted by the government shutdown. All told, the labor market stands close to where it did prior to the shutdown. The pace of job growth has moderated but remains solid enough to keep personal consumption elevated.

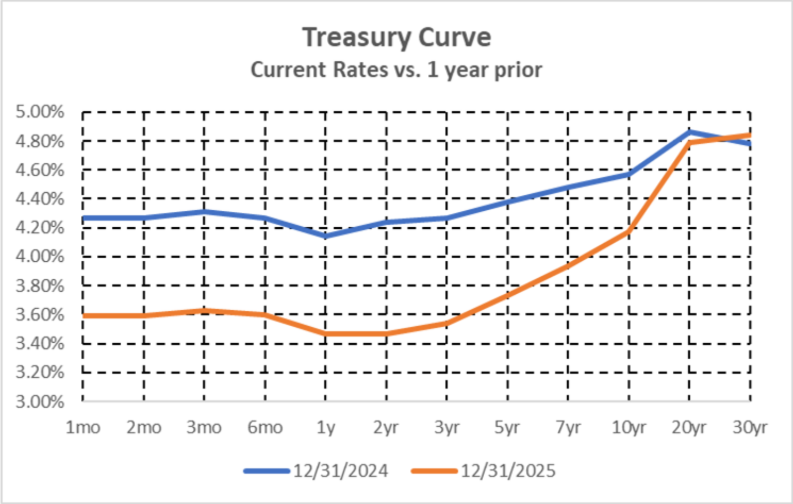
The latest gross domestic product (GDP) data shows an economy still on solid footing. Q3 economic growth came in at a 4.3% annualized pace versus an expectation of 3.3%. For the year, GDP growth has averaged 2.5% versus 2.4% in 2024. Stripping out the impact of inventories and trade, economic growth slowed from 3.0% in 2024 to 2.2% in the first three quarters of 2025. Personal consumption has also slowed (from 3.38% to 2.2%) but remains at a healthy pace.

As we end the year, we see a cooling economy that looks more like one that can achieve steady growth than one that is about to fall off a cliff. Consumer spending should continue to be propelled by robust household wealth driven by years of vigorous gains in equities and housing. We expect the labor market to produce enough growth to keep the unemployment rate near current levels for all of 2026.

Fixed Income Outlook

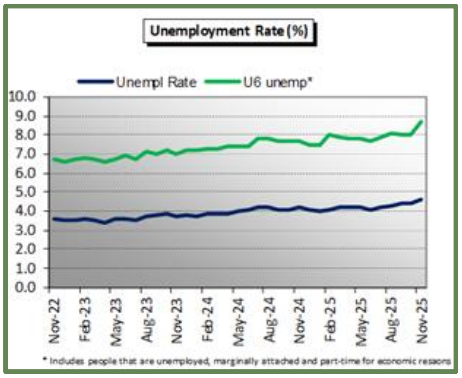
Treasury rates were little changed in December. As expected, the Fed cut rates by 25 basis points at its December 10 meeting. There was little change in the Fed's economic and rate projections from the September projections. The Fed's median projection was one rate cut in 2026 while the market has two cuts priced in. There will be a new Fed chair in 2026 as Powell's chairmanship end in May. His term on the board lasts until 2028. Traditionally, when the chair's term ends, they have stepped down from the board, but this time may be different with the Trump administration already seeking further control of the Fed. In any case, the Fed will have a more dovish makeup in 2026, and we see the odds tilted in favor of more rate cuts than the market expects.





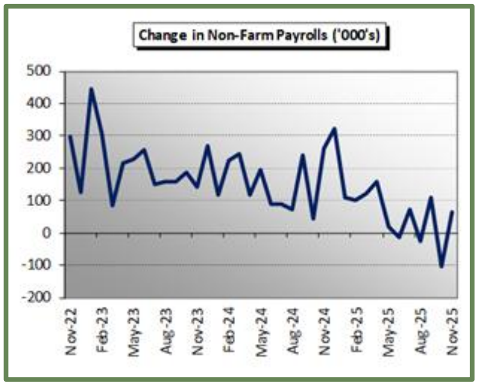
Labor Readings

(Data source: Bloomberg)



Unemployment Rate Rises

The unemployment rate in November rose from 4.4% in September (October was not reported due to the federal government shutdown) to 4.6%. The current level is the highest unemployment rate since September 2021. The underlying details of the report were relatively strong as the main reason for the increase in the unemployment rate was due to an increase in the labor force rather than via job losses.

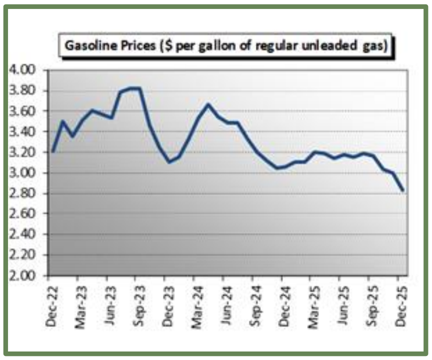


Payroll Growth Remained Muted

Payroll growth for October and November were both released this month. October posted a decline of 105,000 jobs, but much of that weakness was due to a plunge in federal workers who took the Trump administration's deferred resignation offer. November posted a gain of 64,000 jobs. Overall, job growth remained sluggish at the end of 2025.

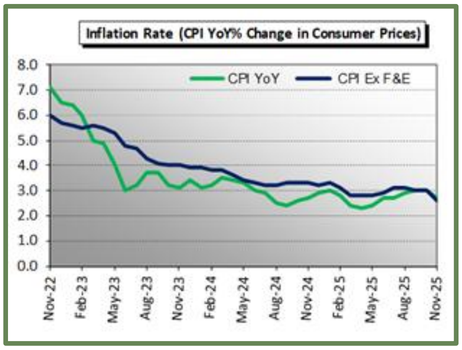
Inflation Readings

(Data source: Bloomberg)



Gasoline Prices Continue to Fall

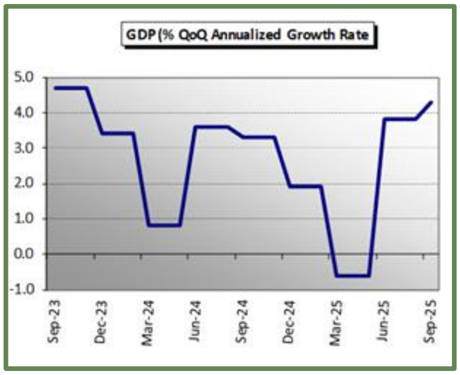
Gasoline prices declined in Q4 of 2025 and closed the year down 7.5%. Prices are now at their lowest level since April 2021.



Consumer Inflation Lower Than Expected

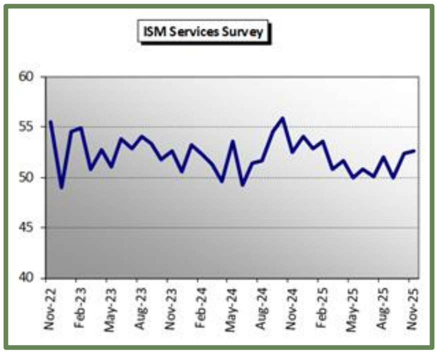
Consumer inflation in November rose less than expected and at the slowest pace in over four years. The year-over-year inflation rate rose 2.7% versus an expected 3.1% increase. The report was skewed by the government shutdown and should therefore be somewhat discounted.

Economic Readings
(Data source: Bloomberg)



Q3 GDP Shows Strong Growth

The initial estimate of Q3 GDP growth came in much higher than expected. The economy grew at a 4.3% annualized pace versus an expected pace of 3.3%. It was the fastest pace in two years. Growth was bolstered by strong consumer and business spending.



Services Survey Shows Improvement

The ISM Services Industry Survey increased in November from 52.4 to 52.6. This is the highest level in nine months. A number above 50 indicates expansion in the services industry.