

THE ECONOMY AT A GLANCE

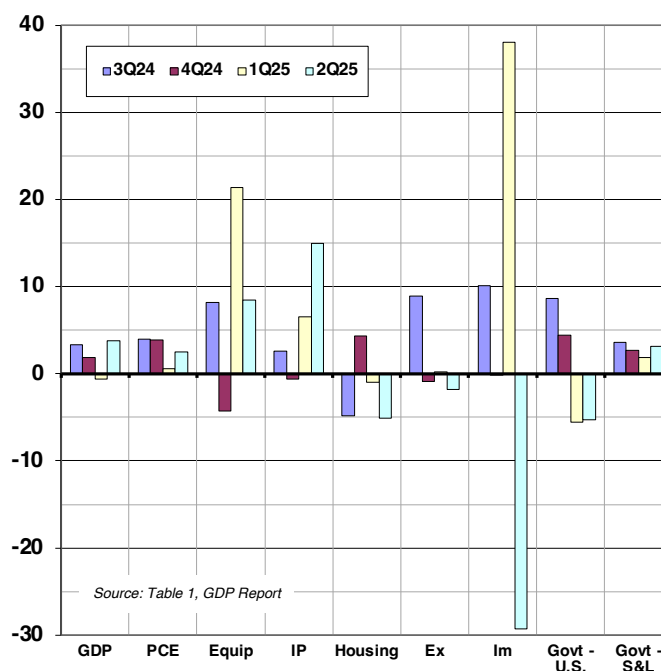
ECONOMIC HIGHLIGHTS

October 6, 2025
Vol. 92, No. 141

WHAT RECESSION? GDP UP 3.8%

Real GDP grew at a revised 3.8% in the second quarter according to the third estimate from the Bureau of Economic Analysis (BEA). Consumer spending and business investment strengthened from last month's second estimate, when the BEA indicated that 2Q GDP grew at an annualized 3.3% pace. Growth in real final sales to private domestic purchasers grew a sturdy 2.9% in 2Q, up from 1.9% in 1Q when GDP declined 0.6%. This measure excludes the recently noisy trade balance, inventories, and government categories, and focuses on core categories of consumer spending and gross private fixed investment. Consumers look much stronger at the end of 2Q than they did at the end of 1Q. Personal consumption expenditures were up 2.5% in 2Q compared with 0.6% in 1Q. The best indicator for future growth may be that the big services component of PCE (47% of GDP) posted 2.6% growth in 2Q, up from an anemic 0.8% in 1Q. The important story in the investment category is artificial intelligence (AI). Intellectual property grew 15% and the equipment category grew 8.5%. Information processing equipment added 22 basis points to GDP; intellectual property products added 78 basis points. AI more than picked up the slack for a 7.5% decline in construction of structures and a 5.1% decline in residential fixed investment (housing), which were a combined 65-basis-point drag on GDP. Transportation equipment added 27 basis points to growth. Outside of core categories, a big decline in goods imports boosted 2Q GDP by about five points, while a decline in inventories, some of which were accumulated before tariffs were implemented, reduced GDP by 3.4 points. Also notable is that nondefense spending by the federal government was down 13%, trimming 38 basis points from 2Q GDP.

GDP GROWTH DRIVERS (%)

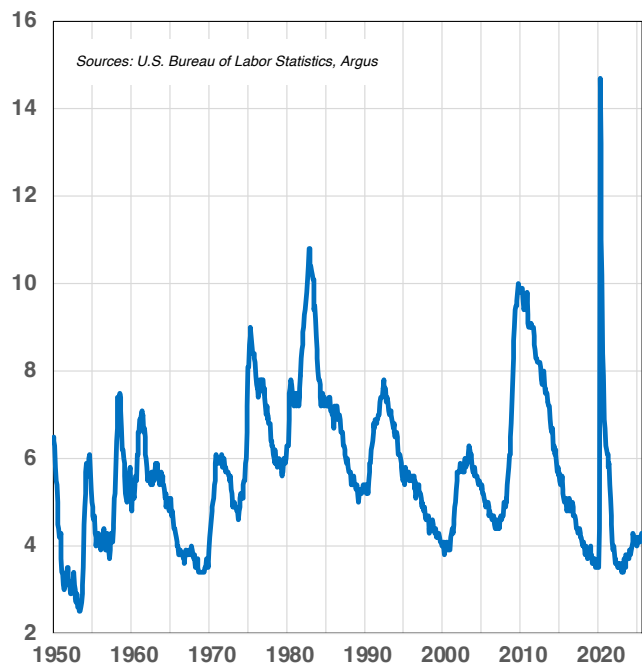


Source: Table 1, GDP Report

THE EMPLOYMENT SITUATION

In the absence of a report from the Bureau of Labor Statistics (BLS) because of the current closure of the U.S. government, we will provide our analysis of the Employment Situation. The September unemployment rate is a low 4.3% (in line with our estimate) based on yesterday's final update of a new indicator from the Federal Reserve Bank of Chicago that combines private data with official labor statistics. The jobless rate is projected to remain at 4.6% or below through 2028 based on even the most cautious projection by Fed governors and Fed bank presidents. Layoffs remain low based on unemployment claims through September 20 and the separations rate in the JOLTS report from the BLS. One reason may be that small business owners, who employ almost half of the private workforce, generally are optimistic that the economy will improve over the next six months according to the National Federation of Independent Businesses (NFIB). One of the biggest challenges and a probable reason that unemployment is not even lower is a shortage of qualified applicants. While the percentage of independent businesses with openings has declined from the post-COVID peak, about a third still have at least one posting. Workers seem concerned about job security and fewer are quitting their jobs, according to the JOLTS report. Those who have lost their job or are joining the labor force are having a difficult time. Continuing claims for unemployment insurance remain stubbornly high and the average duration of unemployment has been creeping higher. Our forecast is for September nonfarm payrolls to increase by 56,000, up from the three-month average of 29,000. The Bloomberg consensus is 51,000, with estimates ranging from -20,000 to 109,000. A report from payroll processor ADP estimated that private sector jobs decreased by 32,000 in September. Revelio Labs, which specializes in workforce analysis, estimated an employment gain of 60,000 jobs. Looking forward, the Atlanta Fed's Nowcast projects solid 3.8% growth in 3Q. That should support employment.

U.S. UNEMPLOYMENT RATE (%)

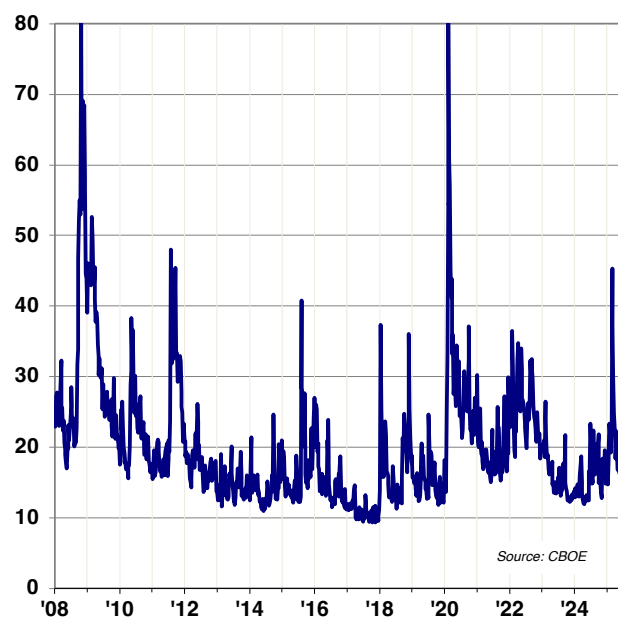


FINANCIAL MARKET HIGHLIGHTS

MARKET CALM HEADING INTO 4Q

After a period of intense market volatility in the spring -- including one point at which the S&P 500 had fallen 19% from its all-time high -- the closely-watched VIX Volatility Index declined back below its historical average of 20. We can't say that the March-April downdraft wasn't unexpected. Indeed, in our 2025 Market Outlook, we noted that investor complacency was high, that tariffs and trade wars could slow the economy, and that stock valuations were susceptible in the event of a sell-off in the IT sector. That was our Bearish Case. Our Base Case called for another year of growth in the U.S. economy (and no recession), declining interest rates and double-digit EPS growth. Since the planks in the Base Case platform are currently in place, there's reason to expect that equity prices can continue to climb through year-end. Back to the market, the current fear index reading is south of 17.0, which is well below historical average and consistent with a bull market. Indeed, during the long bull market in the 2010s, the VIX averaged 18 and even touched lows below 10 in 2017.

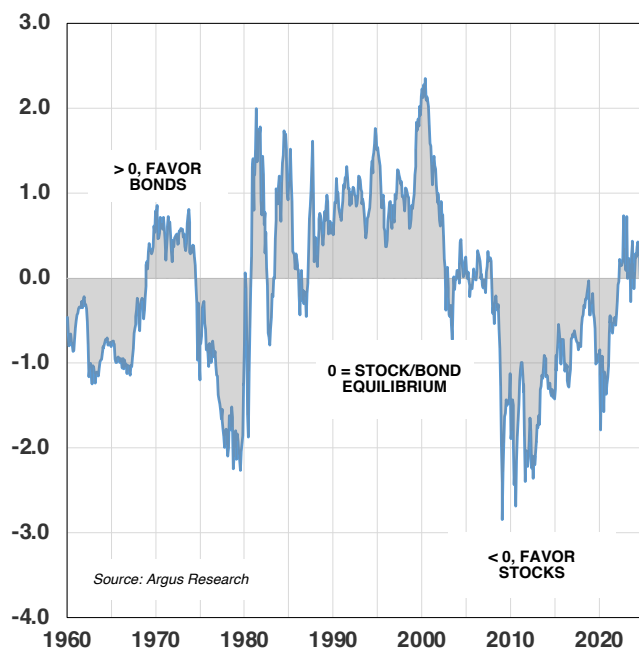
VOLATILITY INDEX (WEEKLY CLOSE)



NEAR RECORD LEVELS, BUT NOT OVERVALUED

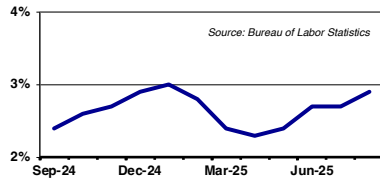
Our Stock Bond Barometer asset-allocation model is indicating that the two major portfolio asset classes are near parity on valuation. The model goes back to 1960 and the output is in terms of standard deviations to the mean, or sigma. The mean reading going back to 1960 is a modest 0.09 sigma premium for stocks, with a standard deviation of 1.05. So stocks normally sell for a slight premium valuation compared to bonds. The current valuation is a 0.26 sigma premium for stocks (not a discount but easily within the normal range and down from 0.41 last month). Other valuation measures show reasonable multiples for stocks. The forward P/E ratio for the S&P 500 is about 22, within the normal range of 15-24. On price/book, stocks are priced at the high end of the historical range of 5.3-1.8, given that IT stocks, which have low capital bases, are the biggest component of the market. The current S&P 500 dividend yield of 1.11% is below the historical average of 2.9%, but the relative reading to the 10-year Treasury bond yield is 26% compared to the long-run average of 39%. On price/sales, the ratio of 3.2 is above the historical average of 1.8, but below the 4.0 multiple at the peak of the dot-com bubble. Further, the gap between the S&P 500 earnings yield and the benchmark 10-year government bond yield is 320 basis points, compared to the historical average of 400. Finally, the ratio of the S&P 500 price to an ounce of gold is 1.8, just below the midpoint of the historical range of 1-3. These measures suggest to us that the stock market, near-record highs, is not yet in danger of entering bubble territory.

STOCK BOND BAROMETER
(STANDARD DEVIATIONS)

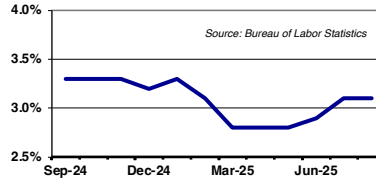


ECONOMIC TRADING CHARTS & CALENDAR

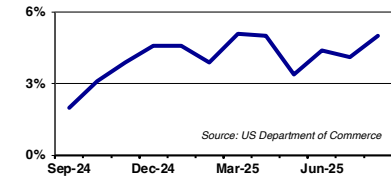
Release: **Consumer Price Index**
 Date: 10/15/2025
 Month: September
 Previous Report: 2.9%
 Argus Estimate: 3.0%
 Street Estimate: 3.1%



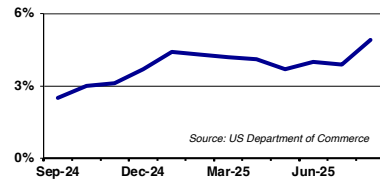
Release: **CPI ex-Food & Energy**
 Date: 10/15/2025
 Month: September
 Previous Report: 3.1%
 Argus Estimate: 3.0%
 Street Estimate: 3.1%



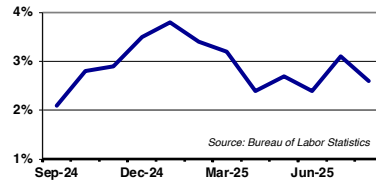
Release: **Retail Sales**
 Date: 10/16/2025
 Month: September
 Previous Report: 5.0%
 Argus Estimate: 4.5%
 Street Estimate: NA



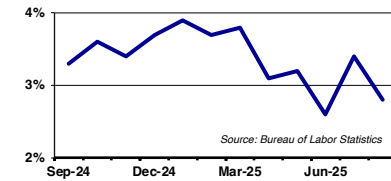
Release: **Retail Sales ex-autos**
 Date: 10/16/2025
 Month: September
 Previous Report: 4.9%
 Argus Estimate: 4.2%
 Street Estimate: NA



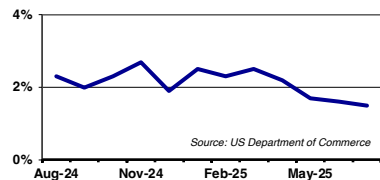
Release: **PPI Final Demand**
 Date: 10/16/2025
 Month: September
 Previous Report: 2.6%
 Argus Estimate: 2.5%
 Street Estimate: NA



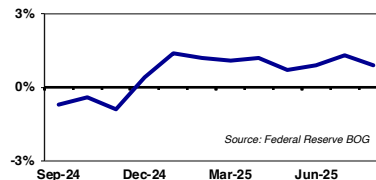
Release: **PPI ex-Food & Energy**
 Date: 10/16/2025
 Month: September
 Previous Report: 2.8%
 Argus Estimate: 2.3%
 Street Estimate: NA



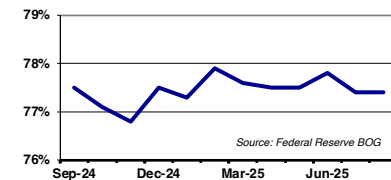
Release: **Business Inventories**
 Date: 10/16/2025
 Month: August
 Previous Report: 1.5%
 Argus Estimate: 1.0%
 Street Estimate: NA



Release: **Industrial Production**
 Date: 10/17/2025
 Month: September
 Previous Report: 0.9%
 Argus Estimate: 1.0%
 Street Estimate: NA

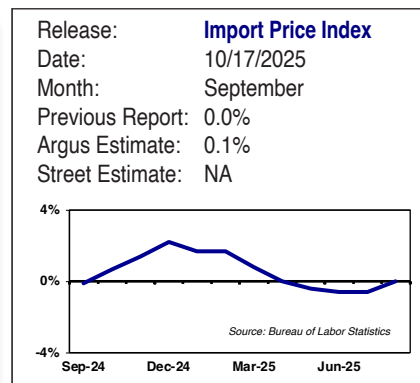
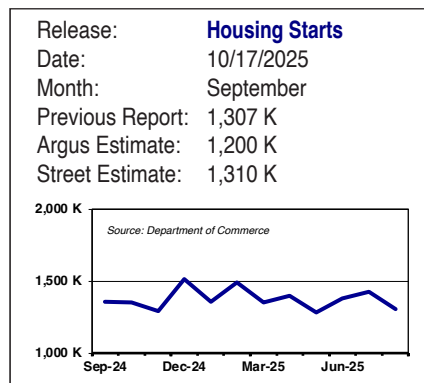


Release: **Capacity Utilization**
 Date: 10/17/2025
 Month: September
 Previous Report: 77.4%
 Argus Estimate: 77.4%
 Street Estimate: 77.4%



Previous Week's Releases and Next Week's Releases on next page.

ECONOMIC TRADING CHARTS & CALENDAR (CONTINUED)



Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
7-Oct	Trade Balance	August	-\$78.3 Bln.	-\$60 Bln.	-\$61 Bln.	NA
	Total Vehicle Sales	September	16.4 Mln.	16.2 Mln.	16.2 Mln.	NA
9-Oct	Wholesale Inventories	August	1.3%	0.7%	NA	NA
10-Oct	U. Michigan Sentiment	October	55.1	56.0	NA	NA
Postponed NA	Construction Spending	August	-2.8%	-3.0%	NA	NA
	Factory Orders	August	1.6%	1.4%	NA	NA
	Nonfarm Payrolls	September	22K	56K	42K	NA
	Unemployment Rate	September	4.3%	4.3%	4.3%	NA
	Average Weekly Hours	September	34.2	34.2	34.2	NA
	Average Hourly Earnings	September	3.7%	3.7%	3.7%	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
20-Oct	Leading Index	August	-0.5%	NA	NA	NA
23-Oct	Existing Home Sales	September	4.00 Mln.	NA	NA	NA
24-Oct	New Home Sales	September	800K	NA	NA	NA

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