

## ECONOMIC RESEARCH – SEPTEMBER 2025

# INVESTMENT INSIGHT US



- ✓ Deterioration in leading indicators
- ✓ Employment shows clear signs of cracking
- ✓ The dilemma intensifies for the Fed
- ✓ The transmission of “tariffs” to prices is finally materializing

## Q4 LOOKS MORE VOLATILE

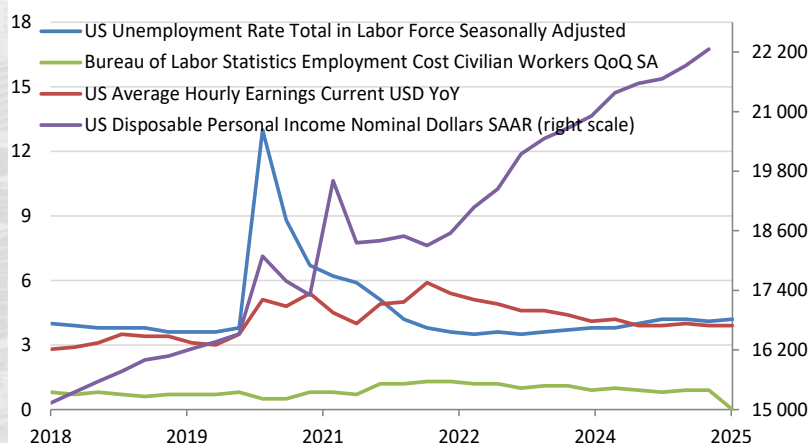
### Manufacturing sentiment decline

Leading indicators confirm an accelerated deceleration in activity. The Richmond Manufacturing Index fell steeply to -17 in September, indicating significant contraction in the industrial base. Concurrently, the ISM Manufacturing Index remains below 50 (at 49.1), validating reduced future output expectations and persistent shrinkage. This trend signals that external uncertainties are now converting into measurable reductions in actual business activity across the industrial landscape.

### Services & consumer confidence fall

The deceleration is spreading from manufacturing into the resilient services economy, with the ISM Services Index exhibiting significant signs of slowing throughout Q3. This malaise is reinforced by a visible erosion of crucial consumer sentiment. The Conference Board's Consumer Confidence indicator dropped notably to 94.2 in September, its lowest reading since April. The sustained decline is primarily due to persistent inflationary concerns and a perceived softening in the labor market outlook, darkening the overall economic outlook.

Unemployment rate, income, labor costs, wages



Sources : Bloomberg, BBGI Group

## Weakening labor demand

The U.S. labor market is exhibiting increasingly clear signs of weakness. The four-week moving average of initial unemployment claims has risen steadily to 237,500 by the end of September. Furthermore, the official employment report recorded a net loss of 32,000 jobs in September, marking the third consecutive month of job reduction over the last four. This confirms a significant pullback in corporate labor requirements, as reinforced by JOLT job openings approaching their recent lows.

## Structural unemployment rise

A deeper structural concern is evidenced by the rise in continuing claims, which have surpassed 1,950,000, indicating increasing difficulty for the unemployed to secure new positions. The overall unemployment rate stands at 4.3%, while the underemployment rate has climbed to 8.1%, its highest level since October 2021. Corporations are now actively adjusting their workforce and slowing hiring in direct response to falling demand, which fully validates scenarios predicting a marked economic slowdown for the end of the year.

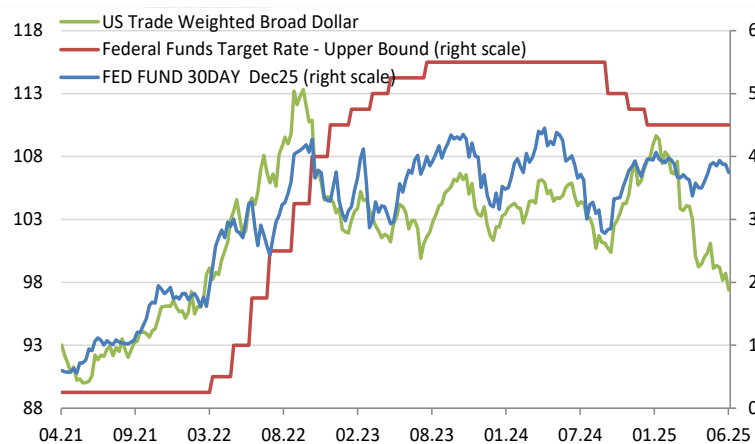
## Fed's policy conflict intensifies

The Federal Reserve (Fed) is caught in an intensifying policy bind between recession risk and the threat of ingrained inflation. The recent rate cut to the 4.00%-4.25% range was characterized as “risk management,” not the start of a monetary easing cycle, due to the labor market deterioration. Chairman Jerome Powell affirmed readiness to support employment but insisted the mission to control inflation is “not yet accomplished.” Core inflation rigidity at 3.1% is a key concern, contrasting sharply with market expectations pricing in high probabilities for further, potentially premature, rate cuts.

## Tariff-driven inflation mounts

Recent data validates mounting inflationary pressures, complicating the Fed's accommodative pivot. The Consumer Price Index (CPI) year-on-year growth accelerated to +2.9% in August, driven significantly by stubbornly high core services inflation (+3.8%). Critically, import price data confirms a major shift in trade dynamics: prices for goods imported from China jumped +0.6% over the month. This indicates Chinese exporters are no longer absorbing the cost of U.S. duties but are passing them onto American importers, an effect estimated to add an aggregate 0.3% to 0.35% to domestic inflation in the coming quarters.

**Fed funds, key interest rates, and USD (trade weighted)**



Sources : Bloomberg, BBGI Group

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