U.S. Economic Outlook October 2025 Comerica Bank

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Economic Outlook: B
Balance of Risks: ⇩

Fed Forecast to Cut Again at October and December Meetings; Economy May Hit an Air Pocket in the 4th Quarter, But Should Regain Traction in 2026

The Fed finally pivoted to rate cuts in September after a raft of weak jobs releases and downward revisions downgraded their view of the labor market. The August jobs report was considerably weaker than expected, with anemic payrolls growth, downward revisions to prior months, and the unemployment rate edging up to the highest since late 2021. The Preliminary Benchmark Revision released September 9 made further downward revisions to payrolls, and confirmed a weak trend of job growth throughout this year. Following these releases, the Fed cut the federal funds target a quarter percent on September 17. Jobs data since then have continued to disappoint. Payroll processing company ADP reported a 32,000 decline in private employment in September, likely the clearest read on job growth while the federal shutdown delays the BLS' jobs report. Comerica forecasts for the Fed to cut their target rate a quarter percent at both their late October and mid-December decisions, to a range of 3.50% to 3.75% by year-end. The Fed is also forecast to end run-off of their bond holdings ("Quantitative Tightening") in early 2026.

Real GDP has been volatile in 2025, with a modest contraction in the first quarter followed by catchup growth in the second; Comerica forecasts a solid third quarter, as well. Some of this mid-year strength is payback after volatility of imports and inventories fueled the first quarter's drop. Also, consumer spending picked up in the second and third quarters as Americans cashed in on EV subsidies before they lapsed on September 30.

Real GDP is forecast to hit another air pocket in the fourth quarter. Auto sales will take a step back without the subsidies. The federal government shutdown that began October first will be a headwind, too; in prior shutdowns, each week of shutdown shaved 0.1 to 0.2 percentage points from annualized real GDP growth in that quarter, with about half of the foregone growth recovered once the government reopens. Tariff-fueled inflation is another nagging headache for the private sector, squeezing margins, pressuring businesses to slow-roll hiring and investment, and eating into consumers' purchasing power.

Even so, there are even more important tailwinds that will likely help the economy regain traction in 2026. Not only is the Fed cutting rates, fiscal policy will turn expansionary as the July 4 fiscal bill raises spending on defense and immigration enforcement and cuts corporate and individual taxes. Even more importantly, AI is fueling a boom in investment in software, computing equipment, data centers, and electricity generation; the long gestation periods for these projects mean they should continue to propel the economy into 2026 at least. Finally, existing home sales should begin to recover next year as mortgage rates fall and start to unbottle long-pent-up demand, albeit at prices that are a bit lower than the peaks reached in early 2025.

U.S. Economic Outlook, Summary

a = actual f = forecast	4Q'24a	1Q'25a	2Q'25p	3Q'25f	4Q'25f	1Q'26f	2Q'26f	2024a	2025f	2026f	2027f
Real GDP *(Percent Change Annualized)*	1.9	-0.6	3.8	2.4	0.3	1.6	2.5	2.8	1.9	1.8	1.8
CPI *(Percent Change Year-over-Year)*	2.7	2.7	2.5	2.9	2.9	2.8	3.1	3.0	2.8	2.8	2.3
Payroll Jobs *(Average Monthly Diff., Ths.)*	170	174	93	29	23	44	54	161	80	37	30
Unemployment Rate *(Percent)*	4.1	4.1	4.2	4.3	4.2	4.1	4.0	4.0	4.2	4.0	3.6
Federal Funds Rate *(Period Average)*	4.65	4.33	4.33	4.29	3.91	3.58	3.53	5.14	4.21	3.36	2.83
10-Yr. Treasury Rate *(Period Average)*	4.28	4.45	4.36	4.25	4.10	4.09	4.09	4.21	4.29	4.09	4.07

a = actual p = preliminary f = forecast

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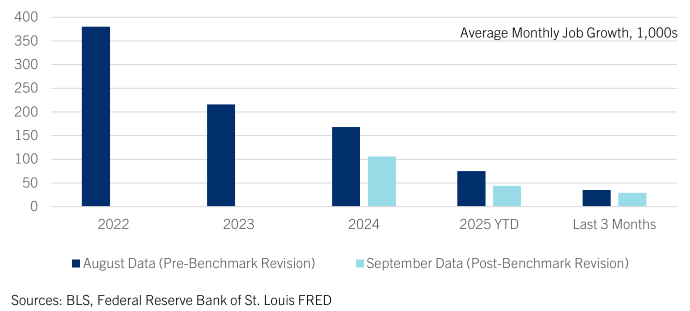
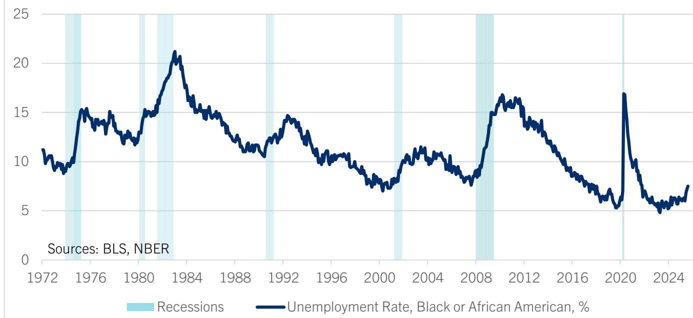
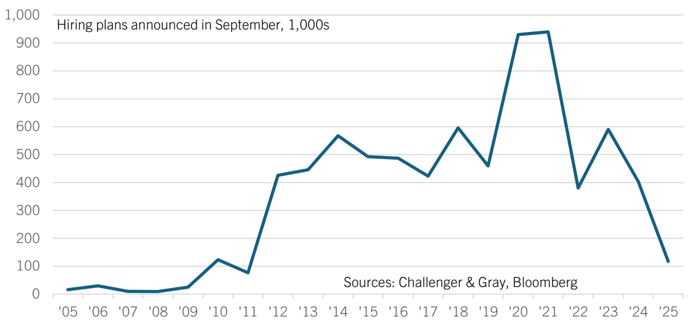
September Jobs Report and Revisions Paint a Weaker Picture of the 2025 Job Market



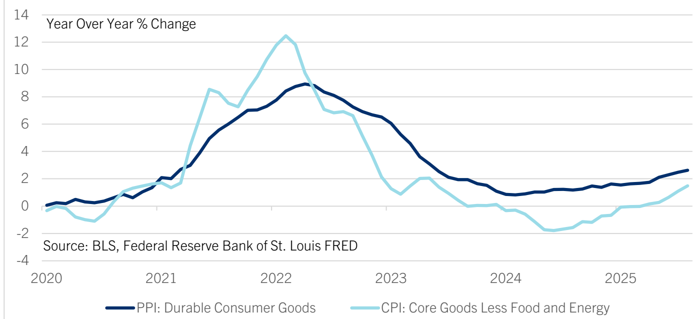
Fed Will Squirm at the Echo Between Rising Black Unemployment and the End of Prior Expansions



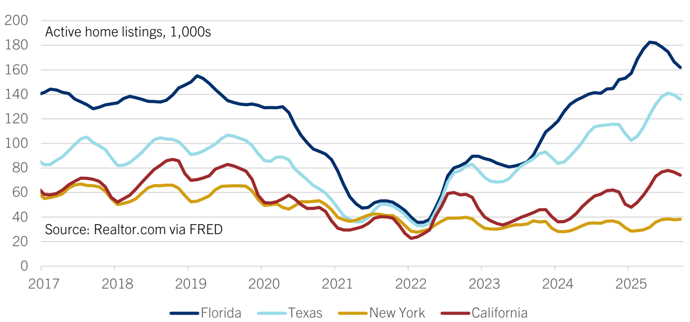
Holiday Season Hiring Intentions at the Lowest since 2011



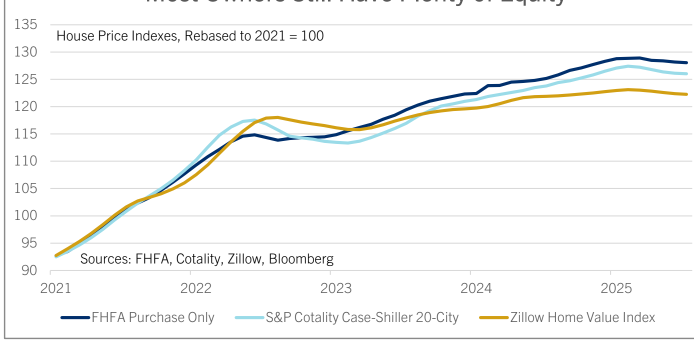
Tariff Costs Are Gradually Working Their Way Through the Supply Chain



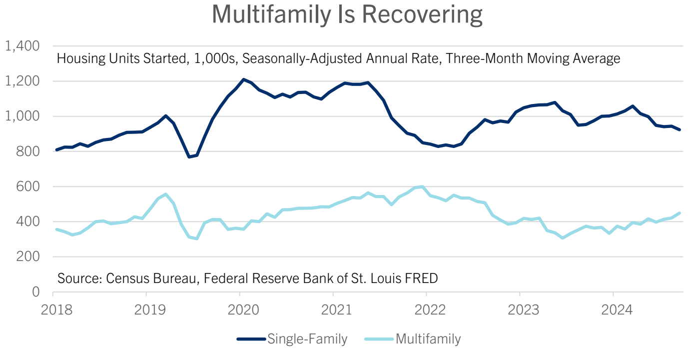
Home Listings Are Rising Nationally, But Are Up the Most in the Sunbelt



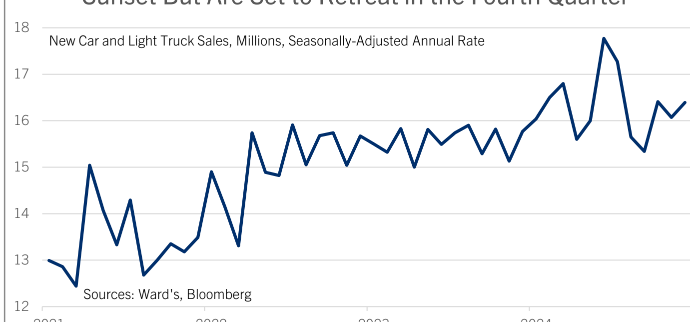
House Prices Down From Early 2025 Peaks But Most Owners Still Have Plenty of Equity



Single-Family Construction Is Slowing But Multifamily Is Recovering



Car Sales Were Strong Ahead of the EV Subsidy Sunset But Are Set to Retreat in the Fourth Quarter



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U.S. Economic Outlook October 2025

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	4Q'24a	1Q'25a	2Q'25p	3Q'25f	4Q'25f	1Q'26f	2Q'26f	2024a	2025f	2026f	2027f
Output											
Nominal GDP *(Billions $ Annualized Rate)*	29,825	30,042	30,486	30,852	31,063	31,382	31,762	29,298	30,611	31,923	33,242
Percent Change Annualized	***4.3***	***2.9***	***6.0***	***4.9***	***2.8***	***4.2***	***4.9***	***5.3***	***4.5***	***4.3***	***4.1***
Real GDP *(Chained 2017 Billions $ Annual Rate)*	23,587	23,548	23,771	23,915	23,934	24,028	24,175	23,358	23,792	24,228	24,674
Percent Change Annualized	***1.9***	***-0.6***	***3.8***	***2.4***	***0.3***	***1.6***	***2.5***	***2.8***	***1.9***	***1.8***	***1.8***
Pers. Consumption Expenditures	16,321	16,346	16,446	16,589	16,581	16,665	16,810	16,088	16,490	16,854	17,268
Percent Change Annualized	***3.9***	***0.6***	***2.5***	***3.5***	***-0.2***	***2.0***	***3.5***	***2.9***	***2.5***	***2.2***	***2.5***
Nonresidential Fixed Investment	3,514	3,595	3,659	3,674	3,680	3,704	3,729	3,519	3,652	3,742	3,831
Percent Change Annualized	***-3.7***	***9.5***	***7.3***	***1.7***	***0.6***	***2.6***	***2.7***	***2.9***	***3.8***	***2.5***	***2.4***
Residential Investment	791	789	779	776	774	781	788	790	779	789	804
Percent Change Annualized	***4.3***	***-1.0***	***-5.1***	***-1.2***	***-1.2***	***4.0***	***3.5***	***3.2***	***-1.4***	***1.3***	***1.9***
Change in Private Inventories	17	172	-18	-9	-74	-45	-25	43	18	-16	-18
Net Exports	-1,069	-1,381	-1,058	-1,091	-1,016	-1,081	-1,151	-1,033	-1,136	-1,172	-1,311
Government Expenditures	4,004	3,994	3,993	4,005	4,018	4,033	4,054	3,945	4,002	4,061	4,130
Percent Change Annualized	***3.3***	***-1.0***	***-0.1***	***1.2***	***1.3***	***1.6***	***2.0***	***3.8***	***1.4***	***1.5***	***1.7***
Federal Fiscal Deficit, $ Trillions, Fiscal Year	--	--	--	--	--	--	--	1.83	2.00	2.21	2.30
As Percent of Annual GDP								***-6.3***	***-6.5***	***-6.9***	***-6.9***
Industrial Prod. Index *(2007=100)*	102.4	103.4	103.8	104.5	104.5	104.9	105.4	102.6	104.0	105.6	107.2
Percent Change Annualized	***-1.2***	***4.1***	***1.6***	***2.4***	***0.1***	***1.6***	***2.0***	***-0.3***	***1.5***	***1.5***	***1.5***
Capacity Utilization (Percent)	77.1	77.6	77.6	77.8	77.6	77.5	77.8	77.6	77.6	77.7	77.4
Prices											
CPI *(Year-Over-Year % Change)*	***2.7***	***2.7***	***2.5***	***2.9***	***2.9***	***2.8***	***3.1***	***3.0***	***2.8***	***2.8***	***2.3***
Core CPI *(Year-Over-Year % Change)*	***3.3***	***3.1***	***2.8***	***3.1***	***3.2***	***3.3***	***3.5***	***3.4***	***3.0***	***3.3***	***2.4***
PCE Price Index *(Year-Over-Year % Change)*	***2.6***	***2.6***	***2.4***	***2.7***	***2.8***	***2.7***	***2.8***	***2.6***	***2.6***	***2.7***	***2.4***
Core PCE Price Index *(Year-Over-Year % Change)*	***3.0***	***2.8***	***2.7***	***2.9***	***3.0***	***3.0***	***3.0***	***2.9***	***2.8***	***3.0***	***2.5***
GDP Price Index *(Year-Over-Year % Change)*	***2.5***	***2.6***	***2.5***	***2.6***	***2.7***	***2.4***	***2.5***	***2.5***	***2.6***	***2.4***	***2.3***
PPI, Final Demand *(Year-Over-Year % Change)*	***3.1***	***3.5***	***2.5***	***2.6***	***2.4***	***2.1***	***2.7***	***2.4***	***2.8***	***2.5***	***2.4***
Crude Oil, WTI *($/barrel)*	$71	$72	$65	$65	$64	$64	$65	$77	$66	$65	$66
Labor Markets											
Payroll Jobs *(Average Monthly Difference, Ths.)*	170	174	93	29	23	44	54	161	80	37	30
Unemployment Rate *(Percent)*	4.1	4.1	4.2	4.3	4.2	4.1	4.0	4.0	4.2	4.0	3.6
Labor Force Participation Rate *(%)*	62.5	62.5	62.4	62.4	62.3	62.1	62.2	62.6	62.4	62.2	62.0
Average Weekly Hours	34.3	34.2	34.3	34.2	34.2	34.2	34.2	34.3	34.2	34.2	34.1
Personal Income											
Average Hourly Earnings *($)*	35.59	35.92	36.21	36.50	36.78	37.08	37.40	35.06	36.35	37.57	38.94
Percent Change Annualized	***4.4***	***3.7***	***3.3***	***3.3***	***3.1***	***3.3***	***3.5***	***4.0***	***3.7***	***3.3***	***3.7***
Real Disp. Income *(2017 Billions $ Annualized)*	17,843	17,943	18,082	18,129	18,224	18,562	18,816	17,724	18,095	18,818	19,190
Percent Change Annualized	***2.0***	***2.3***	***3.1***	***1.0***	***2.1***	***7.6***	***5.6***	***2.9***	***2.1***	***4.0***	***2.0***
Personal Saving Rate *(Percent)*	4.7	5.1	5.3	5.3	5.5	5.7	5.9	5.4	5.3	5.9	6.5
Housing											
Housing Starts *(Ths., Annual Rate)*	1,387	1,401	1,354	1,296	1,285	1,243	1,249	1,371	1,334	1,235	1,215
Single-Family Housing Starts	1,013	1,015	941	889	881	829	843	1,016	932	825	796
Multifamily Housing Starts	374	386	413	407	404	414	406	355	402	410	419
Exst. SF Home Sales *(Ths., Annual Rate)*	3,767	3,737	3,627	3,625	3,755	3,907	3,947	3,673	3,686	3,984	4,206
New SF Home Sales *(Ths., Annual Rate)*	671	655	670	601	606	574	587	685	633	574	553
FHFA Purchase-Only HPI *(Annual % Change)*	*4.6*	*4.2*	*2.9*	*1.7*	*0.0*	*-1.0*	*-0.9*	*5.4*	*2.2*	*-0.5*	*1.7*
Case/Shiller One-Family HPI *(Annual % Change)*	*3.8*	*3.8*	*2.3*	*0.7*	*-1.1*	*-2.4*	*-1.6*	*5.1*	*1.4*	*-1.0*	*1.9*
Consumer											
Retail & Food Service Sales *(Monthly Avg, Bns)*	712.5	715.3	720.3	734.7	732.5	742.3	757.0	696.9	725.7	761.3	801.1
Percent Change Annualized	***7.5***	***1.6***	***2.9***	***8.3***	***-1.2***	***5.5***	***8.1***	***2.6***	***4.1***	***4.9***	***5.2***
Consumer Confidence® (Conference Board)	110.6	99.8	93.1	95.2	98.8	104.2	107.2	104.5	96.7	108.6	117.0
Car and Light Truck Sales *(Millions)*	16.7	16.6	16.2	16.3	15.0	15.4	16.0	16.0	16.1	15.9	16.2
Financial Indicators (Period Average)											
Federal Funds Rate (Effective)	4.65	4.33	4.33	4.29	3.91	3.58	3.53	5.14	4.21	3.36	2.83
Prime Rate	7.82	7.50	7.50	7.46	7.08	6.75	6.70	8.31	7.38	6.53	6.00
1-Month Term SOFR	4.59	4.31	4.32	4.28	3.86	3.52	3.48	5.11	4.20	3.31	2.80
3-Month Term SOFR	4.50	4.30	4.30	4.20	3.77	3.54	3.42	5.05	4.14	3.23	2.74
1-Yr. Treasury Rate	4.25	4.14	4.03	3.87	3.53	3.38	3.24	4.69	3.89	3.14	2.93
5-Yr. Treasury Rate	4.13	4.25	3.96	3.79	3.60	3.55	3.51	4.13	3.90	3.48	3.40
10-Yr. Treasury Rate	4.28	4.45	4.36	4.25	4.10	4.09	4.09	4.21	4.29	4.09	4.07
30-Yr. Fixed Rate Mortgage	6.65	6.82	6.79	6.53	6.19	6.10	6.00	6.72	6.58	5.96	5.77
Corporate Profits After Tax *(Billions $ Annualized)*	3,689	3,336	3,356	3,409	3,487	3,684	3,781	3,499	3,397	3,812	4,146
Percent Change Annualized	***31.7***	***-33.2***	***2.4***	***6.5***	***9.5***	***24.5***	***11.0***	***7.9***	***-2.9***	***12.2***	***8.8***

a = actual p = preliminary f = forecast *October 6, 2025*

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