Economic Research Department

December 2025

Market Monitor – United States

The Fed cut rates again as the labour market softened further

- The Fed cut rates by 25 bps in December, while injecting liquidity for technical reasons.
- Recent data indicated that the labour market has been cooling, with an uptick in unemployment.
- Business surveys and retail sales data revealed a continued expansion in Q4.

The Fed cut rates again in December

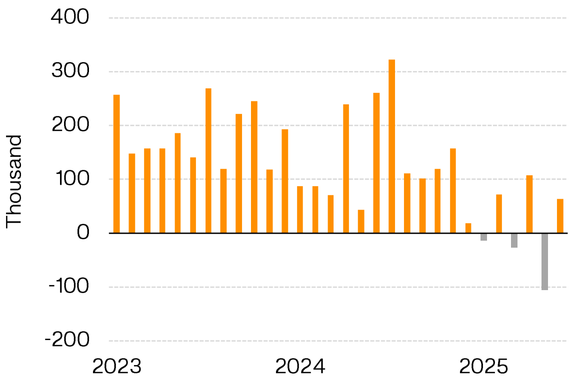
The Fed cut rates again in December amid growing divides. The US Federal Reserve (Fed) lowered the federal funds rate by 25 basis points (bps) to a range of 3.50–3.75% in December. This third consecutive reduction underscored the Fed's pivot toward supporting the labour market, while the decision revealed significant divisions within the Federal Open Market Committee. The vote passed with a 9:3 split, as Governor Stephen Miran dissented in favour of a larger 50 bps cut, while Chicago Fed President Austan Goolsbee and Kansas City Fed President Jeffrey Schmid preferred holding rates steady. Concurrently, the Fed announced plans to purchase USD 40 billion in short-term Treasuries monthly. These operations were implemented for reserve management purposes to maintain market liquidity. Officials stressed these purchases were technical, rather than a shift in monetary policy stance.

The December Summary of Economic Projections (SEP) signalled a slower easing pace ahead. The updated Dot Plot projected one rate cut in each of 2026 and 2027, maintaining the median forecasts at 3.375% and 3.125%. However, the dispersion of views widened, with the rate forecasts for 2026 ranging from 3.875% to 2.125%. Meanwhile, growth projections were revised upward, with GDP growth expected to reach 2.3% in 2026, while inflation forecasts edged lower to 3.0% in 2025 and 2.5% in 2026. Unemployment projections were little changed. Overall, these projections suggested resilience in growth, easing inflation, and steady labour market conditions. During the post-meeting press conference, the Fed Chairman Powell adopted a cautious tone, noting that after a total of 175 bps cuts since September 2024, monetary policy environment is estimated to be within a neutral range, with downside risks to the labour market and upside risks to inflation. He also warned that payroll gains would be overstated, masking an underlying cooling trend in employment.

US labour market strain became more visible

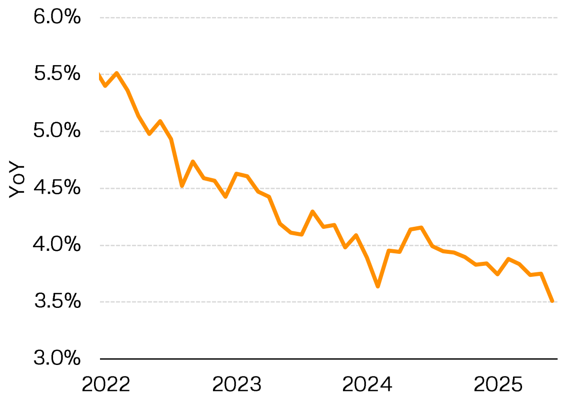
The November US jobs report pointed to further labour market easing. Nonfarm payrolls rose by just 64,000 in November, a modest rebound after October's steep decline of 105,000 (partially due to a plunge in government employment). Besides, the unemployment rate climbed to 4.6% in November, its highest level in more than four years. Health care accounted for the bulk of hiring, adding 46,000 positions, with construction providing additional support. Yet, job creation in other sectors remained weak, with a continued decline in federal government employment. Furthermore, job gains in August and September faced downward revisions, further underscoring the weakness of recent labour trends. In terms of wage growth, average hourly earnings grew by 3.5% year-on-year (YoY) and 0.1% month-on-month (MoM) in November, a notable slowdown from 3.7% YoY and 0.4% MoM in October. With a cooling labour market, moderating wage growth is set to ease underlying inflationary pressures for the US economy, opening the door for further rate cuts in 2026.

Change in non-farm payrolls



Source: CEIC

Growth in average hourly earnings



Source: CEIC

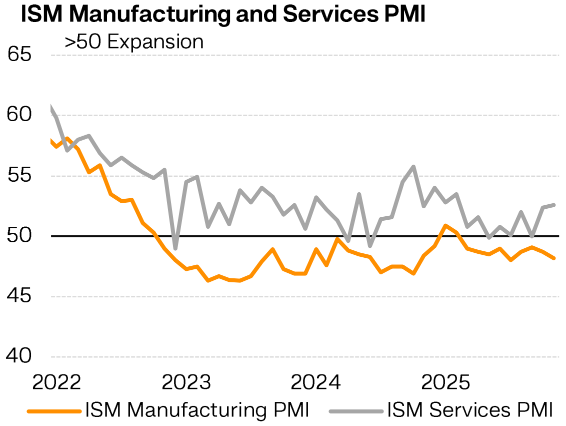
CPI inflation pressures eased in November. Headline CPI inflation eased to 2.7% YoY in November from 3.0% in September (October data unavailable due to the data blackout), while core CPI inflation also slowed to 2.6% YoY from 3.0%. Energy costs led price gains, climbing sharply in November, while softer price gains in food, shelter, transportation services, and medical care services drove inflation down. Overall, the data points to a steady disinflation trend, aligning with the Fed's policy goals.

Surveys and retail sales data revealed a continued expansion in Q4

Surveys pointed to a continued expansion albeit with varying growth paces across sectors. The Institute of Supply Management (ISM) manufacturing purchasing managers' index (PMI) deepened its contraction to 48.2 in November, while the ISM services PMI rose to 52.6. Meanwhile, the US S&P Global manufacturing PMI remained in expansionary territory but edged lower to 51.8 in December, whereas the S&P Global services PMI softened to 52.9. In addition, the University of Michigan's consumer sentiment increased to 53.3 in December, up from 51.0 in November. Overall, these surveys reflected that economic activity has continued to expand, albeit at uneven paces across sectors, reinforcing the broader narrative of moderating economic momentum as 2025 draws to a close.

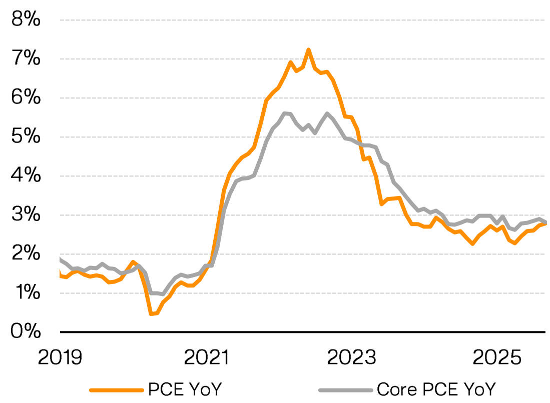
Retail sales revealed resilient core consumer demand in October. Retail sales were flat in October, following a downwardly revised growth of 0.1% MoM in September. Though, excluding cars and other auto parts, retail sales were up 0.4% MoM, showcasing solid underlying spending. Notably, the retail sales control-group, a retail sales measure that feeds into the government's calculation of goods spending for GDP and excludes food services, auto dealers, building materials stores and gasoline stations, expanded by 0.8% MoM in October, the fastest pace in four months.

ISM Manufacturing and Services PMI



Source: Bloomberg, data as of 16/12/2025

US PCE Inflation



Source: Bloomberg, data as of 05/12/2025

Personal consumption expenditures (PCE) stalled in September. The September personal income and outlays report, long delayed by the US government shutdown, was released in early December. Real disposable personal incomes rose 0.1% MoM in September (same pace in August), while real PCE was unchanged (down from 0.2% MoM growth in August). The moderation in consumer spending was largely due to a decline in real goods spending (down by 0.4% MoM in September), while real services spending maintained steady growth of 0.2%. In terms of PCE inflation, headline PCE inflation edged up by 0.1 percentage points (ppts) to 2.8% YoY, while core PCE inflation eased by 0.1 ppts to 2.8% YoY.

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