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The U.S. economy re-accelerated in the third quarter, marking a sharp pivot from the second quarter's moderation. Hiring has stabilized and business surveys remain solid, while fallout from the U.S.–Iran conflict continues to cause inflationary pressure. In response, the Federal Reserve has shifted from holding rates steady to actively raising them. Taken together, the data point to a resilient economy increasingly constrained by sticky inflation and tighter financial conditions.



Economic growth remains strong. Real GDP expanded at a preliminary 3.4% annualized rate in the third quarter, up from 2.2% in the second, driven by inventory investment, consumer spending, and investments tied to the AI infrastructure buildout. Beneath the surface, however, household budgets are showing strain: real disposable personal income edged down 0.3% in September and the saving rate slipped to 3.8%. Looking ahead, momentum remains firm entering year-end, with the Atlanta Fed's GDP Now model pointing to 3.5% annualized growth for the fourth quarter.

The labor market has regained its footing after a choppy summer. Nonfarm payrolls rose by 165,000 in October, easily topping the 60,000 consensus estimate, while August and September figures were revised up by a combined 84,000 jobs. The unemployment rate ticked down to 4.1% even as labor force participation increased, while average hourly earnings rose 3.1% year-over-year, trailing inflation. Overall, the three-month average payroll gain of 137,000 signals a stabilizing labor market absorbing workers without generating excessive wage pressure.

Fed policy has shifted back into tightening mode, and expectations now center on the pace of future hikes. Under Chair Kevin Warsh, the FOMC unanimously raised the federal funds target range by a quarter-point in September to 3.75%-4.00%, marking the Fed's first increase since 2023, before holding rates steady in October. Futures markets now price a December rate hike as highly likely.

Inflation has re-accelerated across both consumers and producers. Headline CPI rose 0.4% in October following a 0.6% jump in September, while core CPI rose 0.3% for a third straight month. Although the BLS omitted official 12-month changes due to missing October 2025 data from last year's government shutdown, estimates place headline inflation near 4.0% and core CPI near 2.8%. Producers are also facing increasing costs: headline PPI rose 0.3% in October, pushing the annual rate to 6.5%, the highest since November 2022, driven heavily by freight and energy costs, while core PPI rose 0.5% to reach 4.9% year-over-year.

Treasury yields have surged and the yield curve has flattened as markets have priced in rate tightening. As of November 13, the 2-year note yield stood at 4.88%, roughly 1.30 percentage points higher than a year ago. Over the same 12-month period, the 10-year yield climbed about 1.00 percentage point to 5.15%. With short-term rates rising faster than long-term rates as the Fed tightens policy, the spread between 2- and 10-year yields has been cut in half over the past year, narrowing from 0.53 to 0.27 percentage points.

The housing market is bearing the brunt of higher rates. The 30-year fixed mortgage rate, which stood at 6.24% a year ago, hit a three-year high of 7.40% in October and remains above 7%. The rate increases have chilled sales: existing-home sales dropped 5.5% in October to a 3.75 million annualized pace, the slowest since August 2010, even as the median home price edged up. Construction is pulling back too, with September housing starts falling 5.2% and single-family permits declining 4.0%.

Forward-looking sentiment and business surveys reflect a resilient but cost-conscious economy. The University of Michigan's preliminary November sentiment index rose 3.0 points to 51.0, in line with a year ago but still 10% below February's pre-conflict reading. Meanwhile, business activity remains solid: the October ISM Manufacturing PMI rose 1.0 point to 55.5 for its 10th straight month of expansion, while Services edged down 0.4 points to 54.5, marking its 28th consecutive month of growth.

Overall, the economy faces a markedly different backdrop than it did at mid-year: growth has re-accelerated and the labor market has firmed, but resurgent inflation has forced the Fed to tighten policy. While a soft landing remains plausible, the runway has narrowed, and achieving it will require energy and freight pressures to cool, the Fed to calibrate hikes without overtightening, and a contracting housing sector to remain contained.

ECONOMIC CHARTS











