

Economic Fundamentals and Financial Developments

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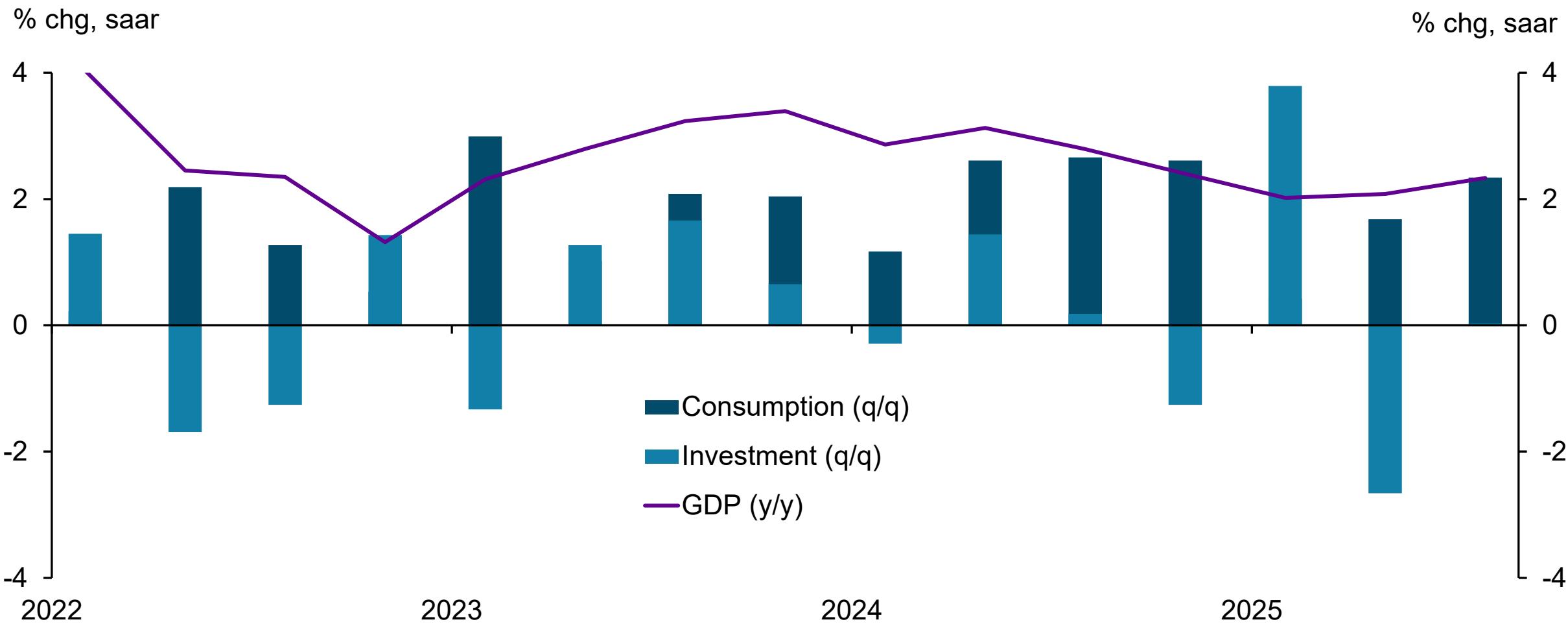
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Outlook Themes

- Overall U.S. economic growth maintained momentum through much of 2025, albeit with some volatility in consumption and business investment.
 - Most regional businesses point to customer demand as the most prominent risk for 2026 and report plans for greater capital expenditures
- Job gains slowed this past year across most sectors of the U.S. economy. Looking ahead to 2026, regional businesses now expect their employment levels will remain mostly unchanged on balance.
 - This marks a downshift in the outlook for job gains even compared to just a few months ago when more firms expected to add staff during 2026.
- The outlooks for wage gains are reportedly tied closely to the changes in the price level or the cost of living.
 - No longer driven by the competitive labor market when wage growth was elevated to attract new hires and retain certain skilled workers.
- Inflation remains elevated.
 - Though housing price growth has normalized, other consumer services and goods are above levels typically consistent with 2 percent inflation.

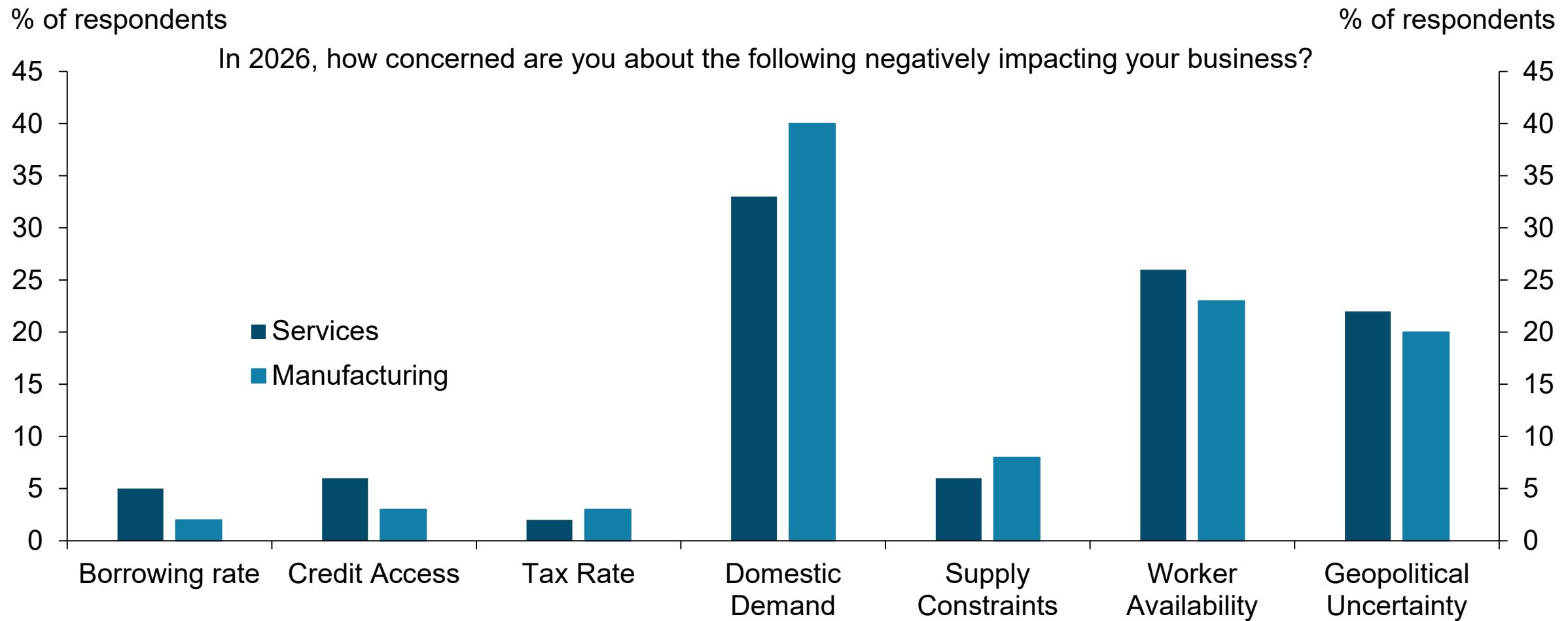
Economic growth remained firm through the third quarter of 2025, driven by volatile private investment and consumer spending



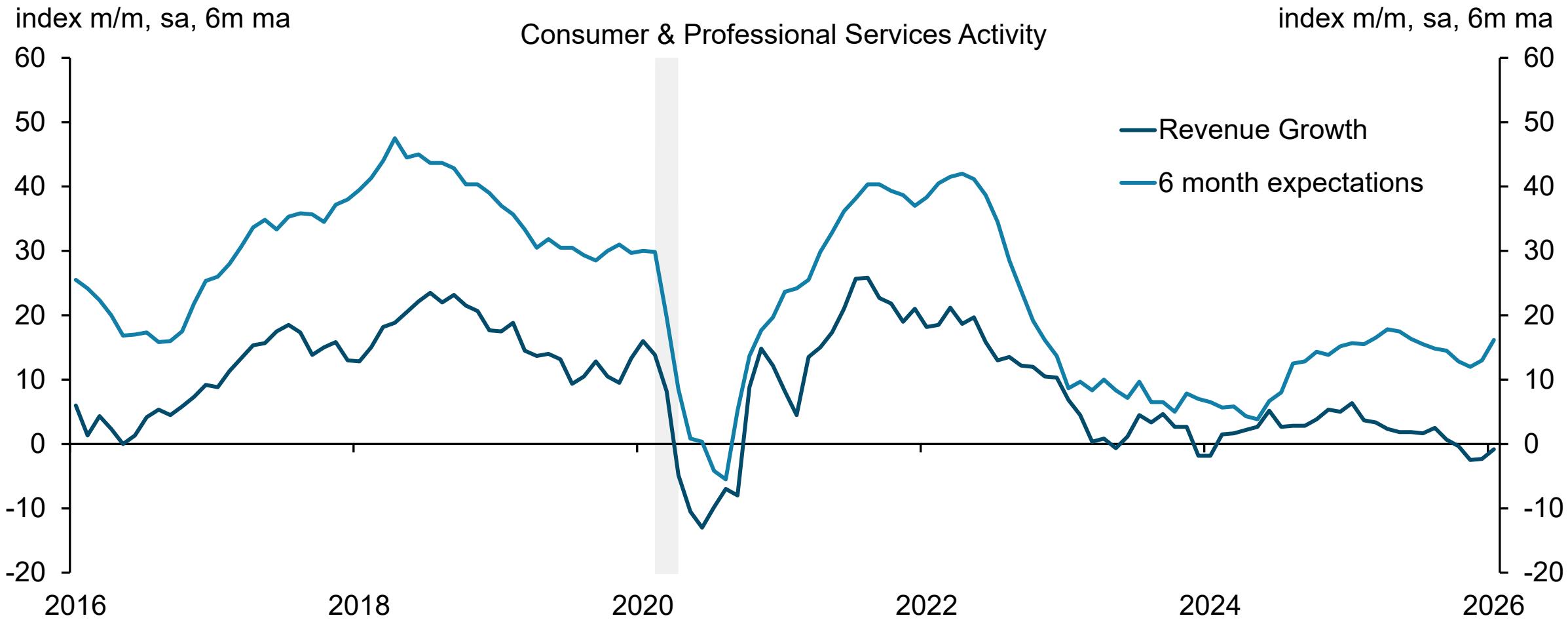
Source: BEA, Haver.

Note: Bars indicated contributions of each component to overall GDP growth in each quarter.

Regional contacts point to concerns about customer demand and geopolitical developments as potential headwinds in 2026

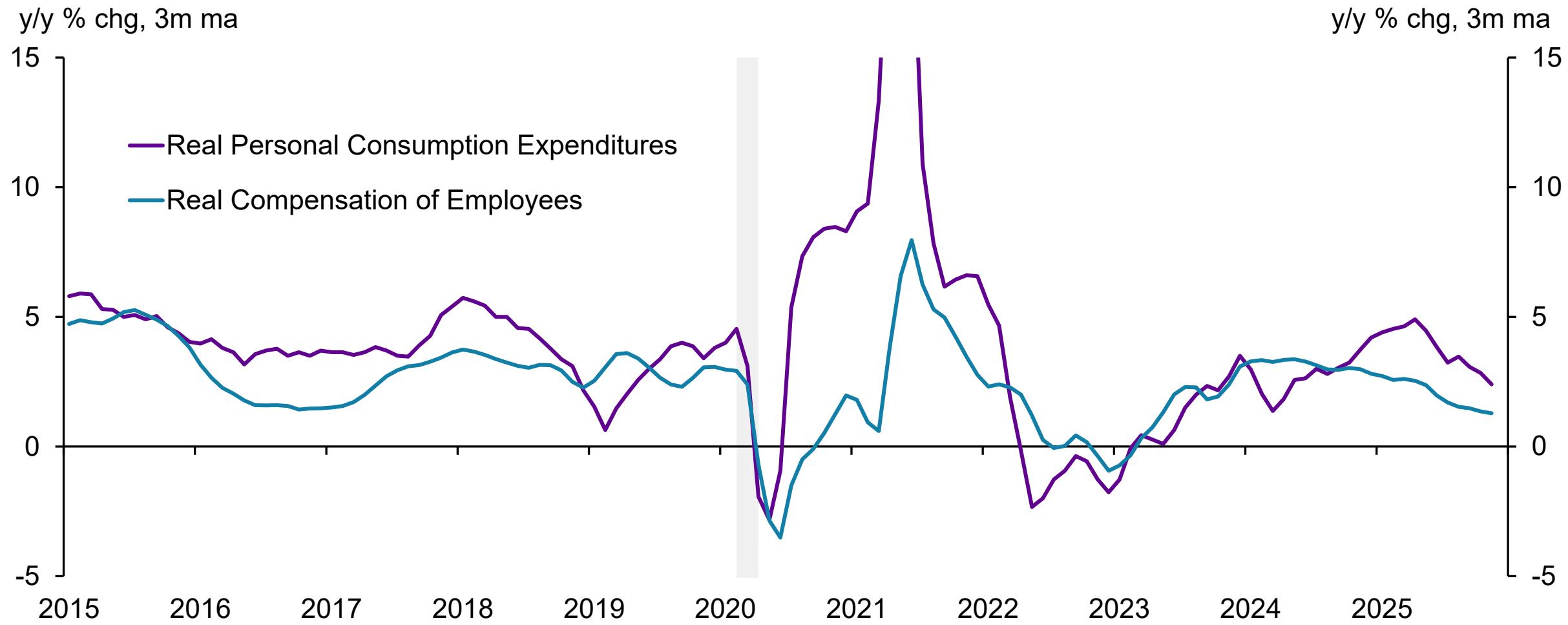


Local and current indicators pointed to some volatility in household spending near year end, but expectations about spending remain firm



Sources: KC Fed Services Survey, Census Bureau, Haver.
Notes: Gray bars indicate recession periods.

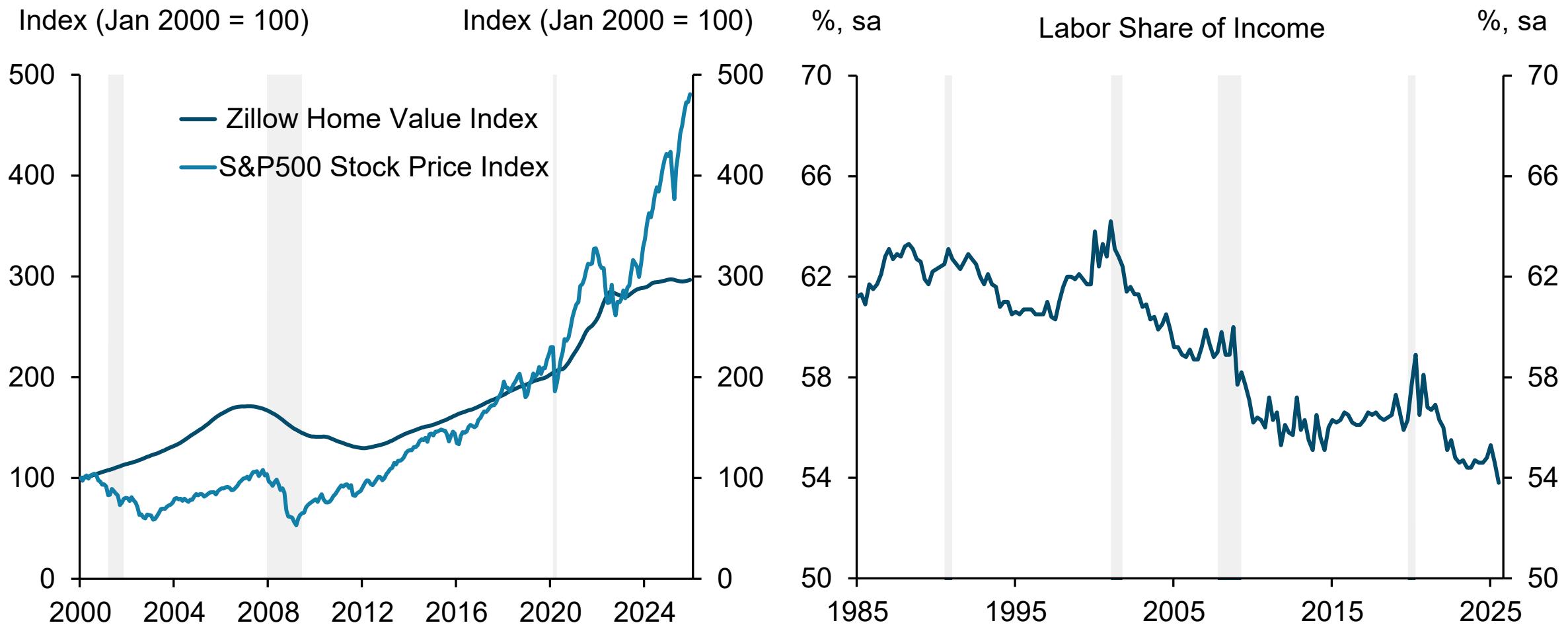
Consumption growth remains consistent with compensation growth



Sources: BEA, Haver.

Note: Gray bars indicate recession periods.

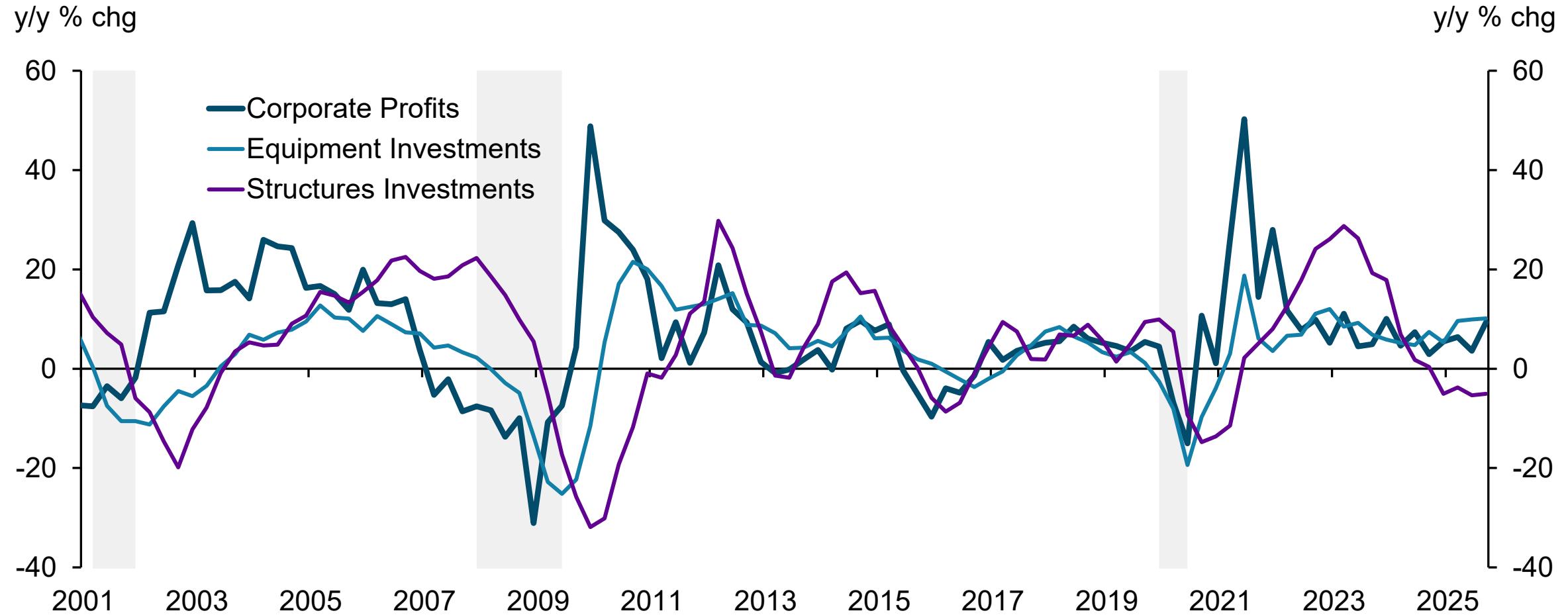
Asset valuations and non-labor earnings are elevated to historic levels



Sources: Standard & Poor's, Zillow, BLS, Haver.

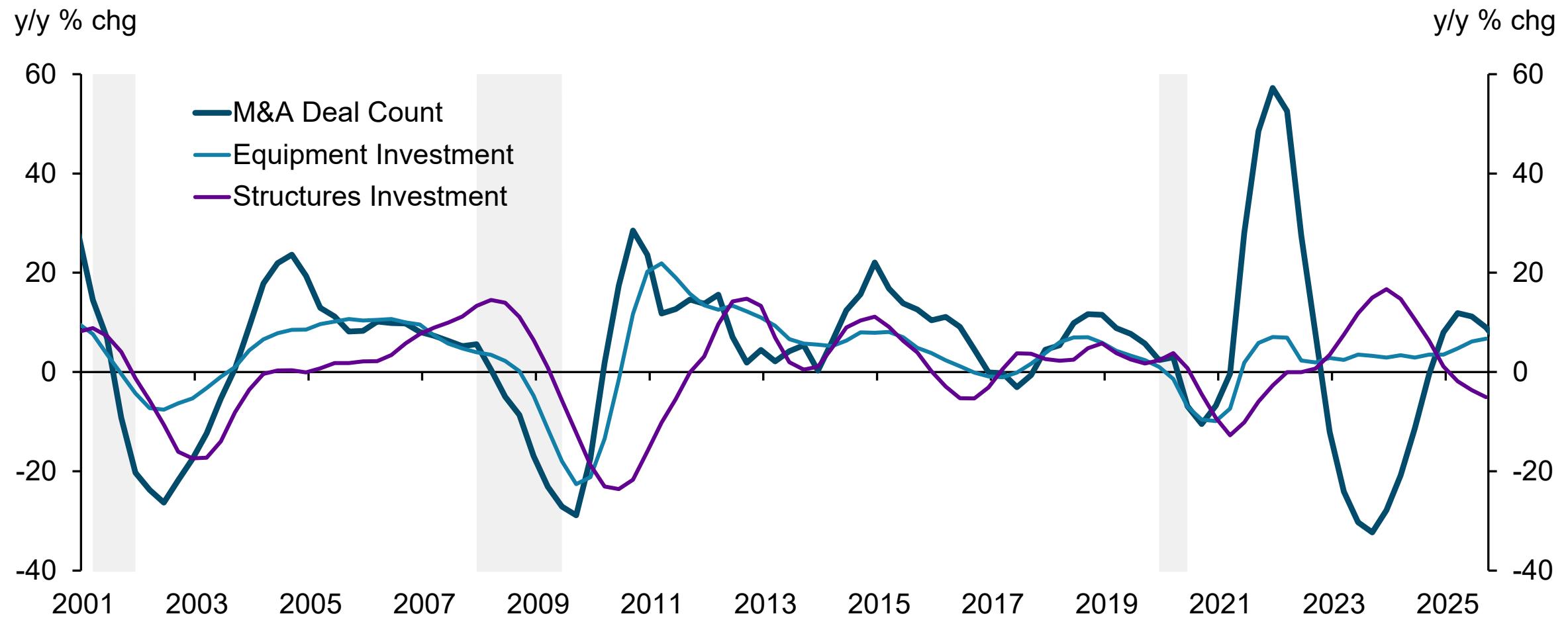
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Stable corporate profits support the outlook for investment



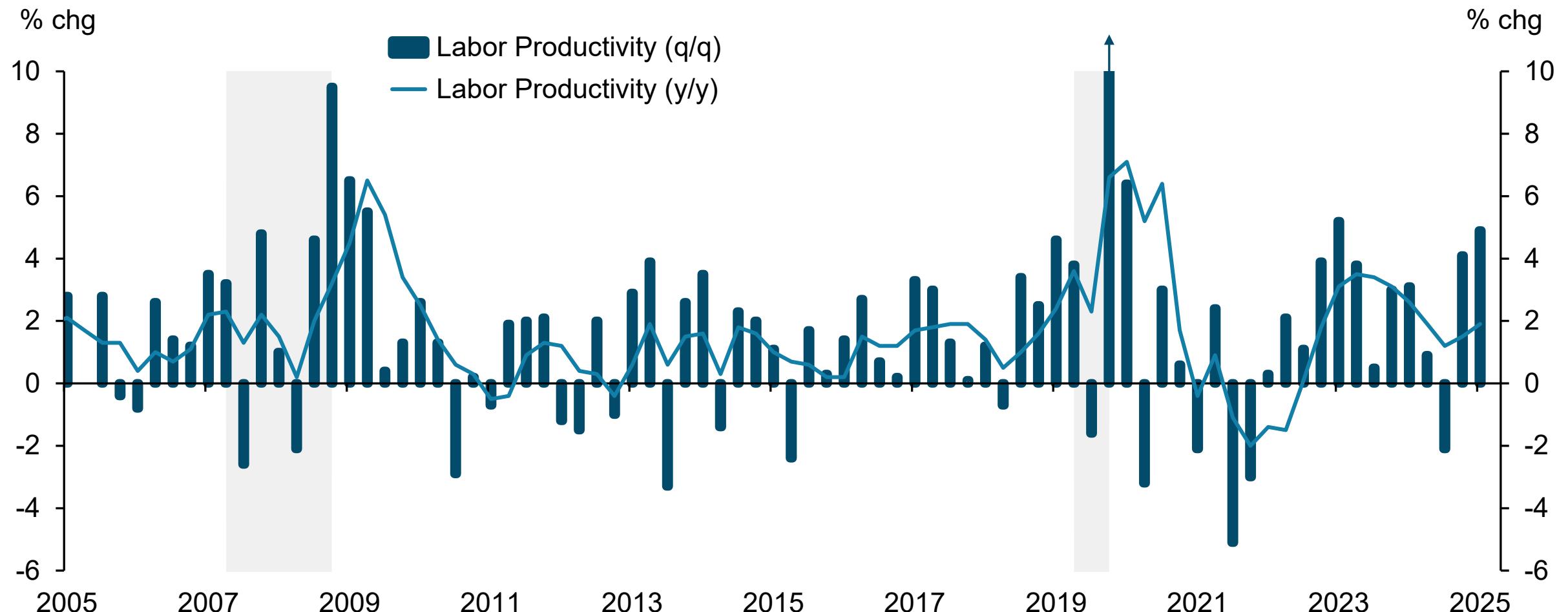
Sources: Bureau of Economic Analysis, Haver.
Note: Gray bars indicate recession periods.

Similarly, deal making activity indicates investment activity is poised to continue



Sources: Bureau of Economic Analysis, Bloomberg, Haver.
Note: Gray bars indicate recession periods.

Productivity growth remains firm in aggregate but is more concentrated within certain industries than in recent years.

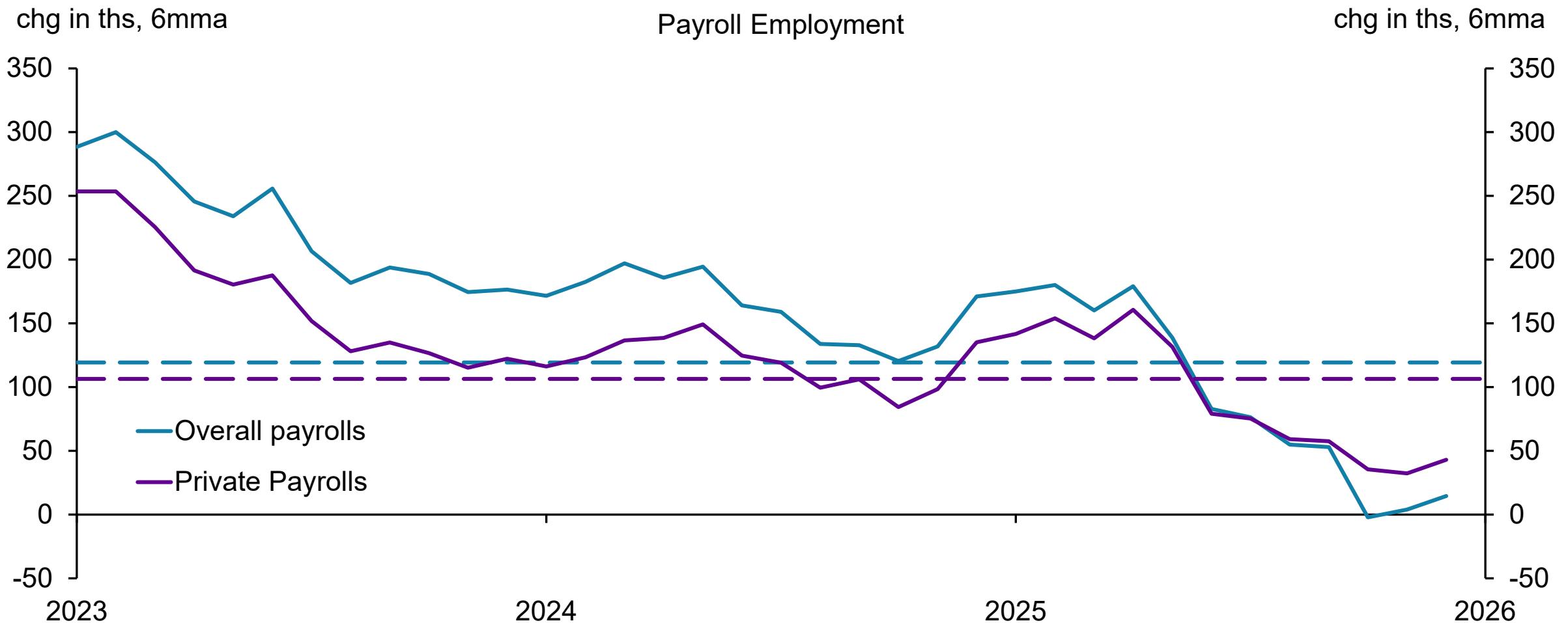


Sources: BLS, Haver.

Notes: Gray bars indicate recession periods.

The Fed's Dual Mandate

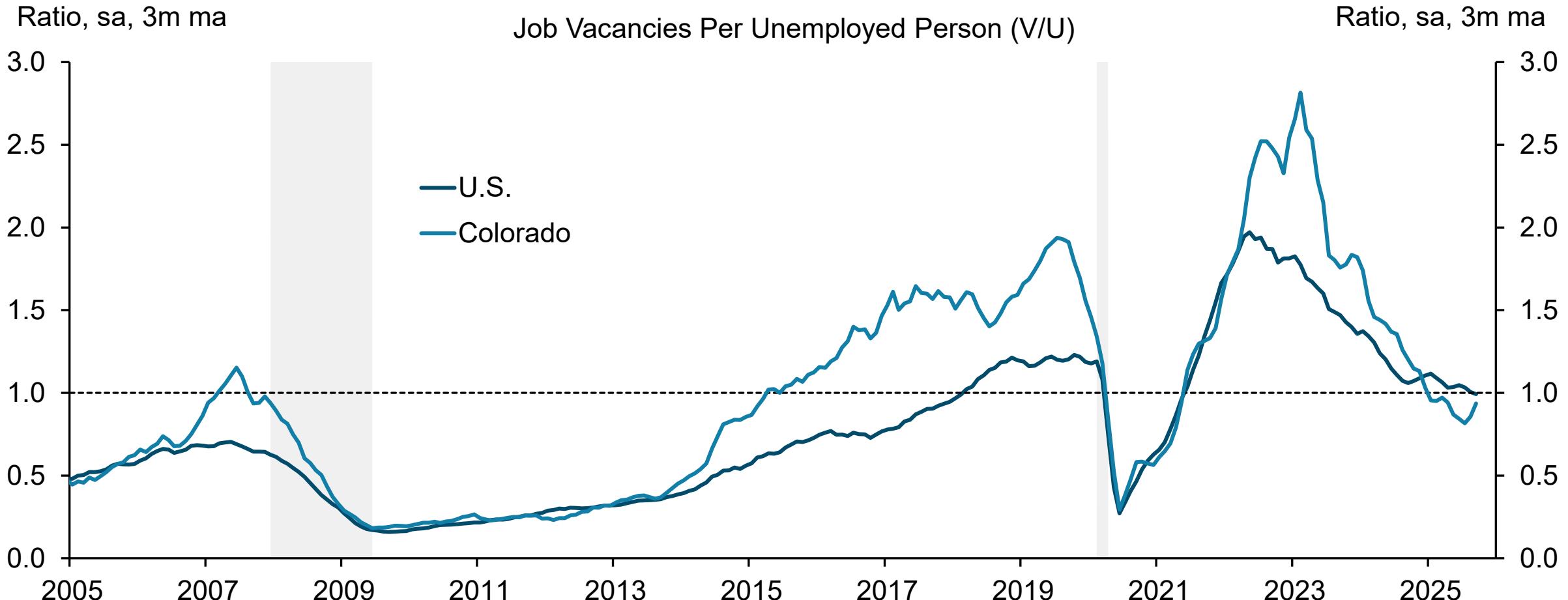
Job growth slowed significantly this year, but so did the number of new jobs needed to keep the labor market in balance



Sources: BLS.

Note: Dashed lines represent 1990-2019 avg.

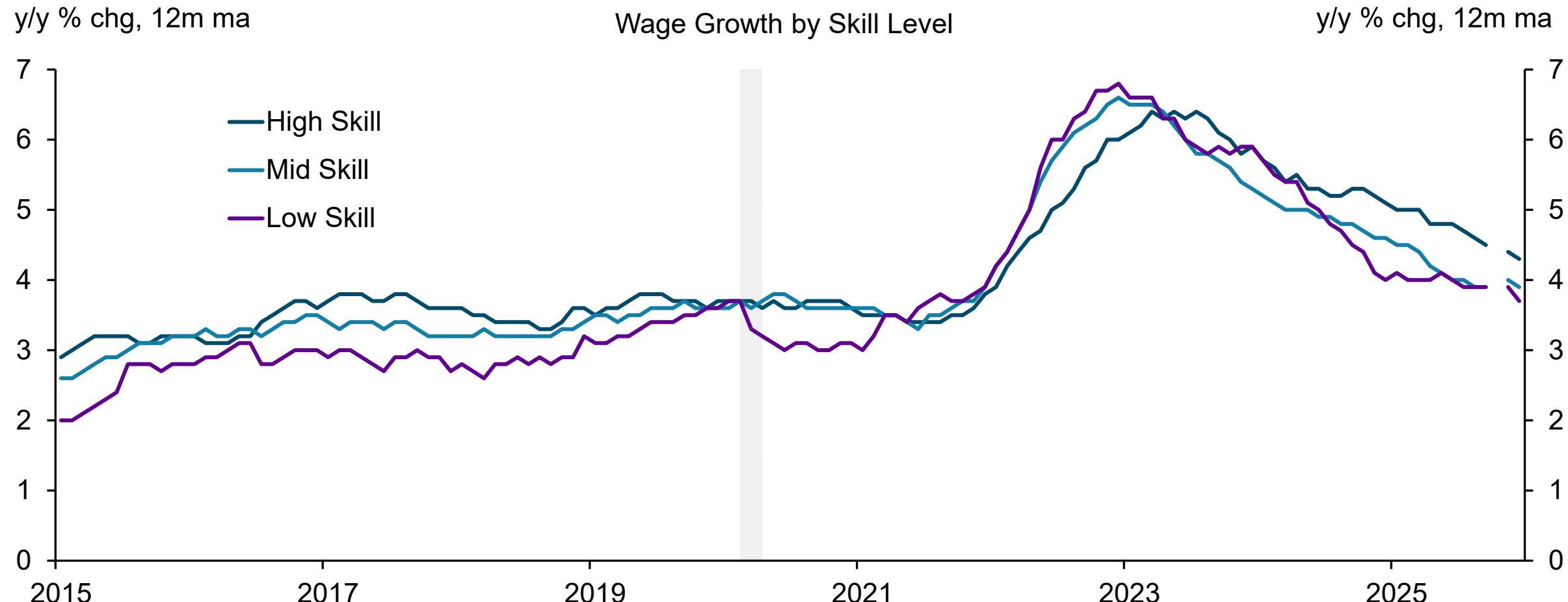
The number of open jobs is generally in balance with the number of job seekers in the U.S.



Sources: BLS, Haver.

Notes: Gray bars indicate recession periods.

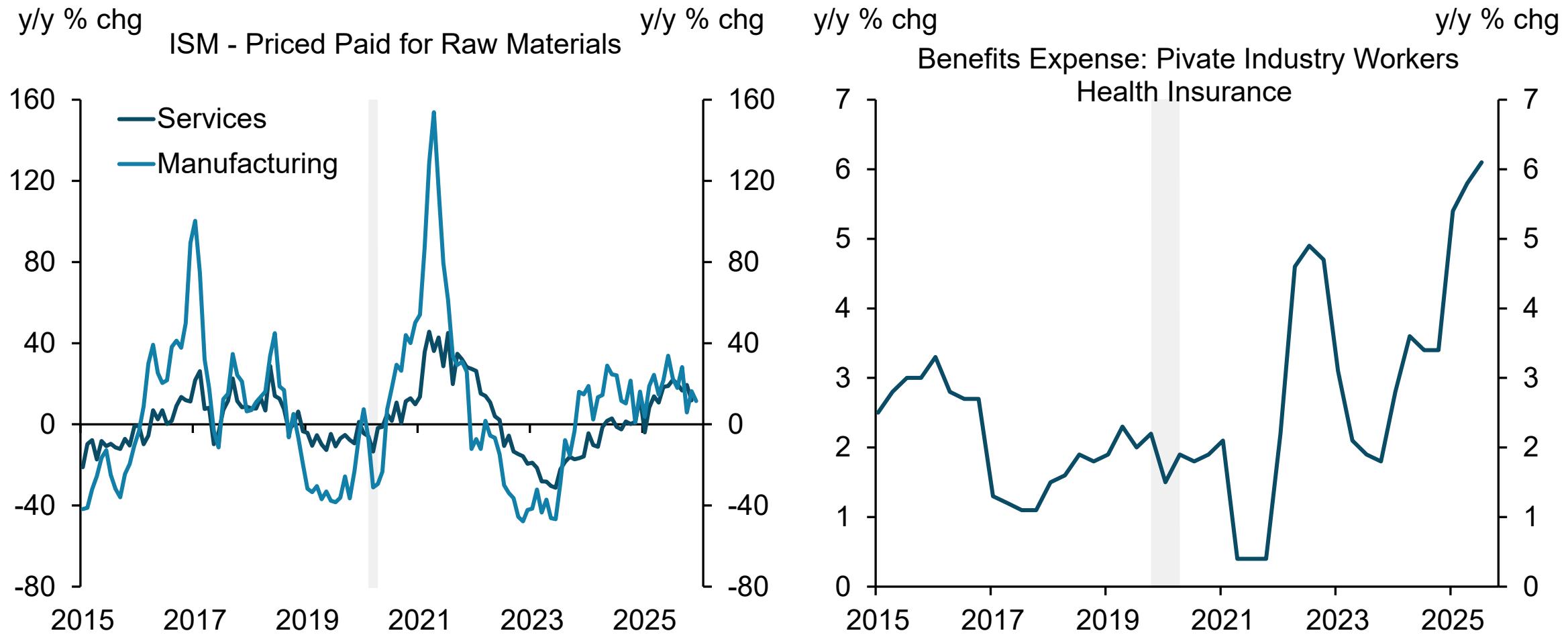
Wage growth has moderated to a level more consistent with productivity and price growth



Sources: Atlanta Fed, Haver.

Notes: October 2025 data not published. Gray bars indicate recession periods.

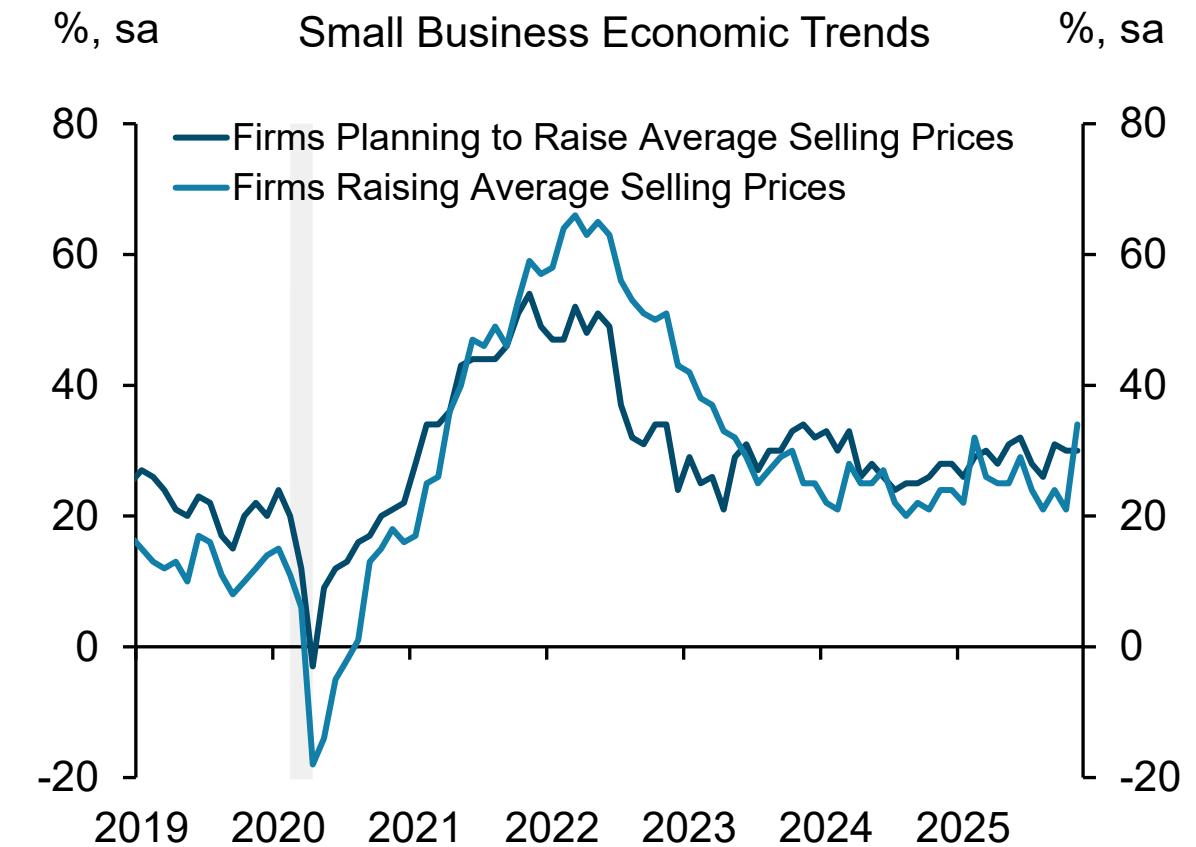
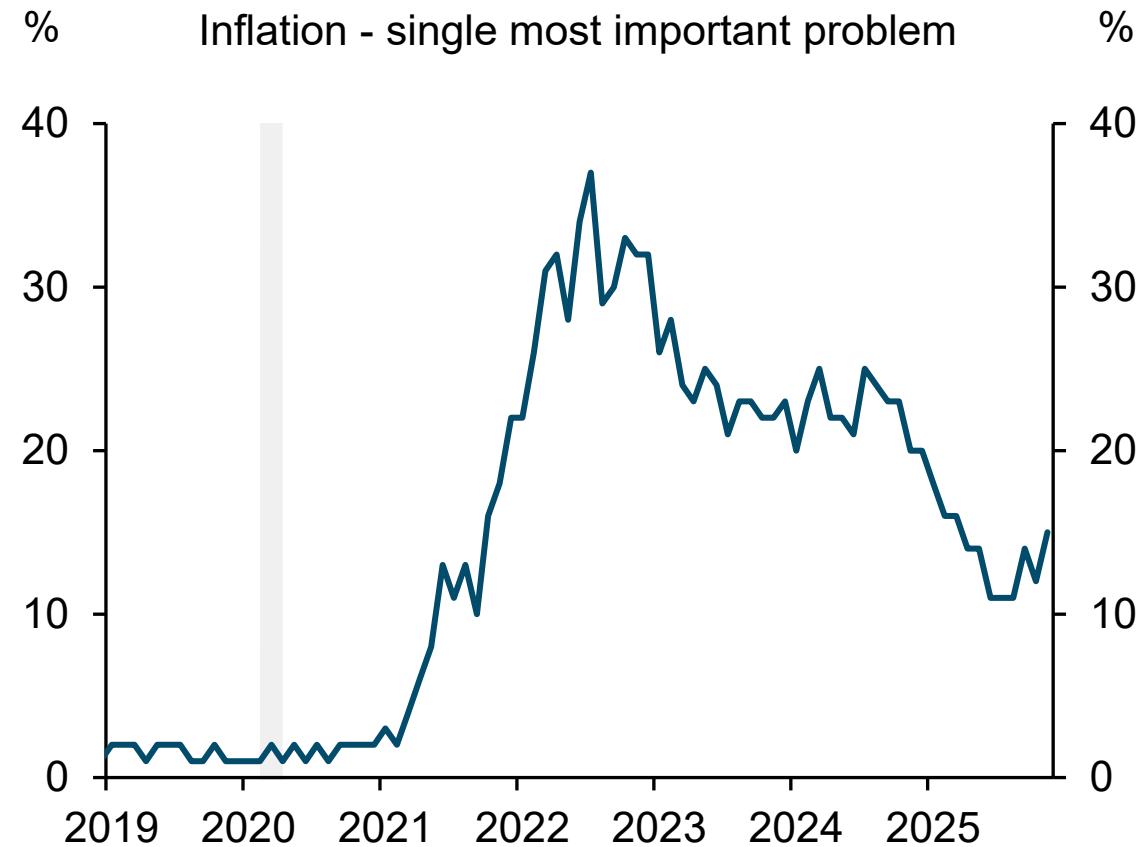
Although wage growth has moderated, growth in materials costs and healthcare benefits are persistent pressures for employers



Sources: ISM, BLS, Haver.

Notes: Gray bars indicate recession periods.

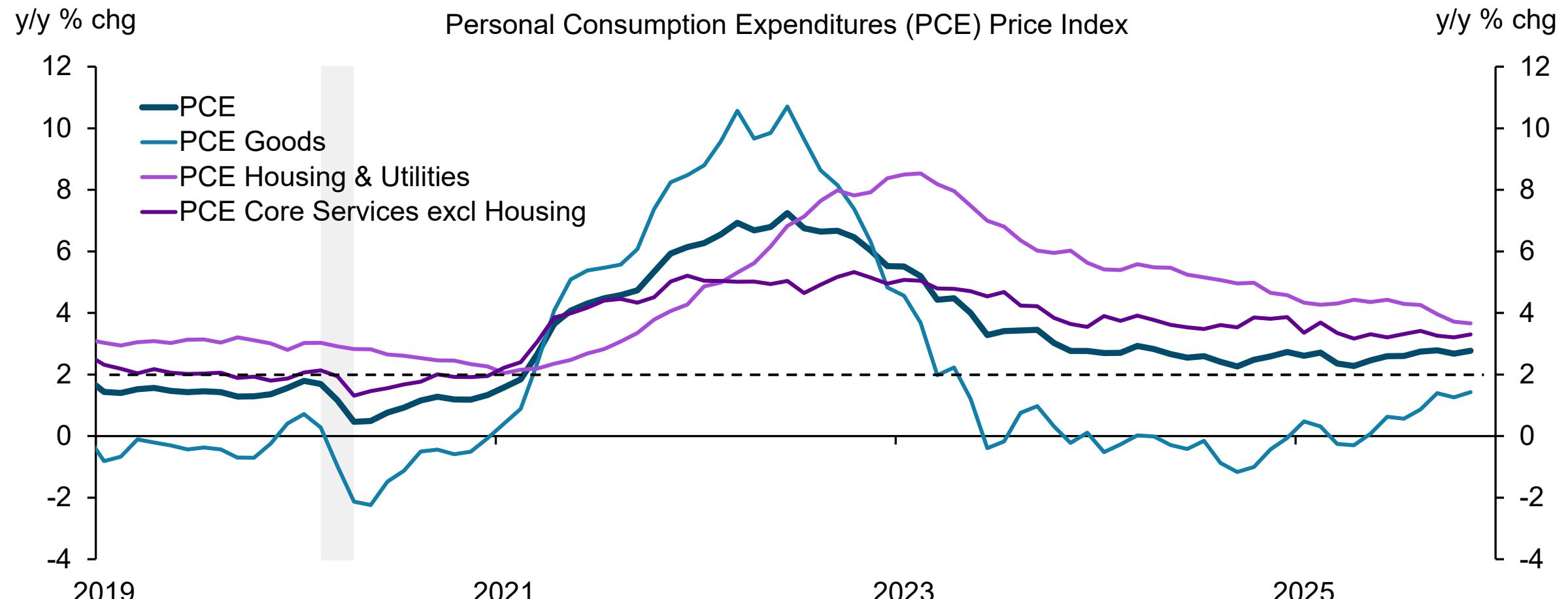
Businesses continue to point to cost pressures as challenges and desire to continue raising prices



Sources: NFIB, Haver.

Note: Gray bars indicate recession periods.

Inflation remains above target, including service prices that historically account for a larger share of price growth in the U.S.

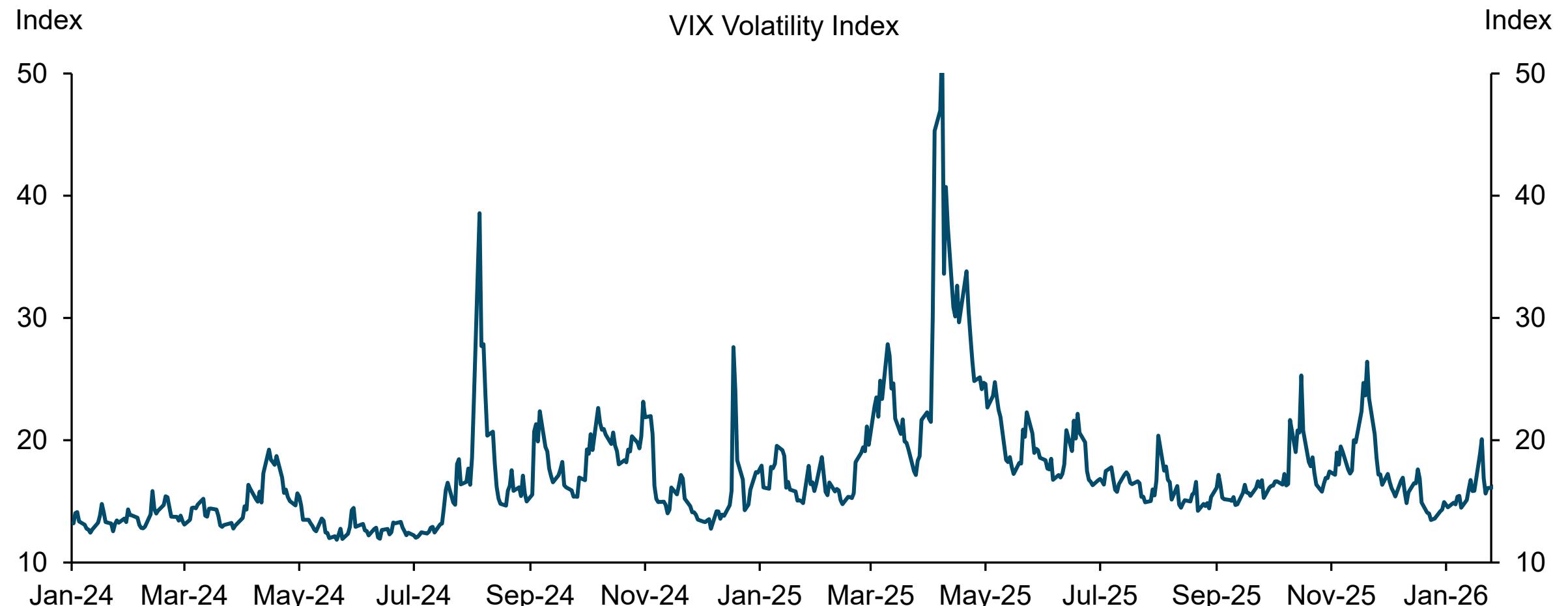


Sources: BEA, Haver.

Notes: Gray bars indicate recession periods.

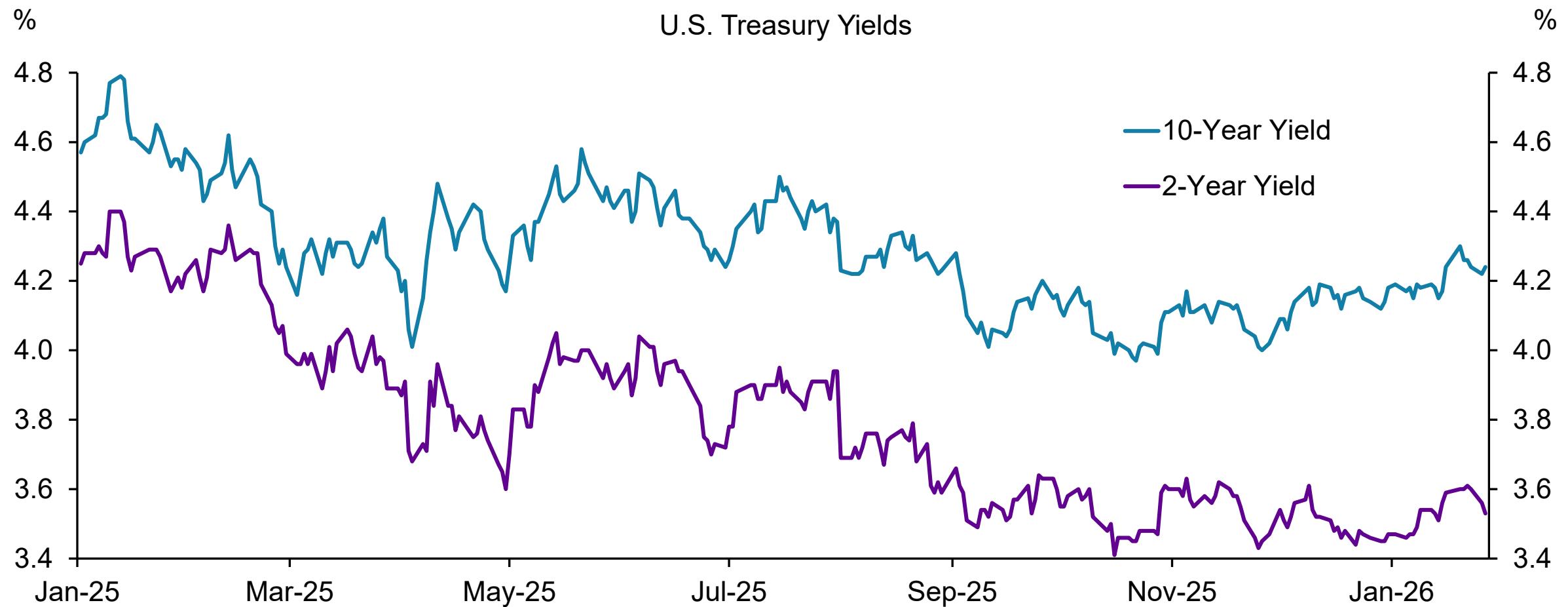
Financial Developments

Policy developments led brief episodes of financial volatility over the past year

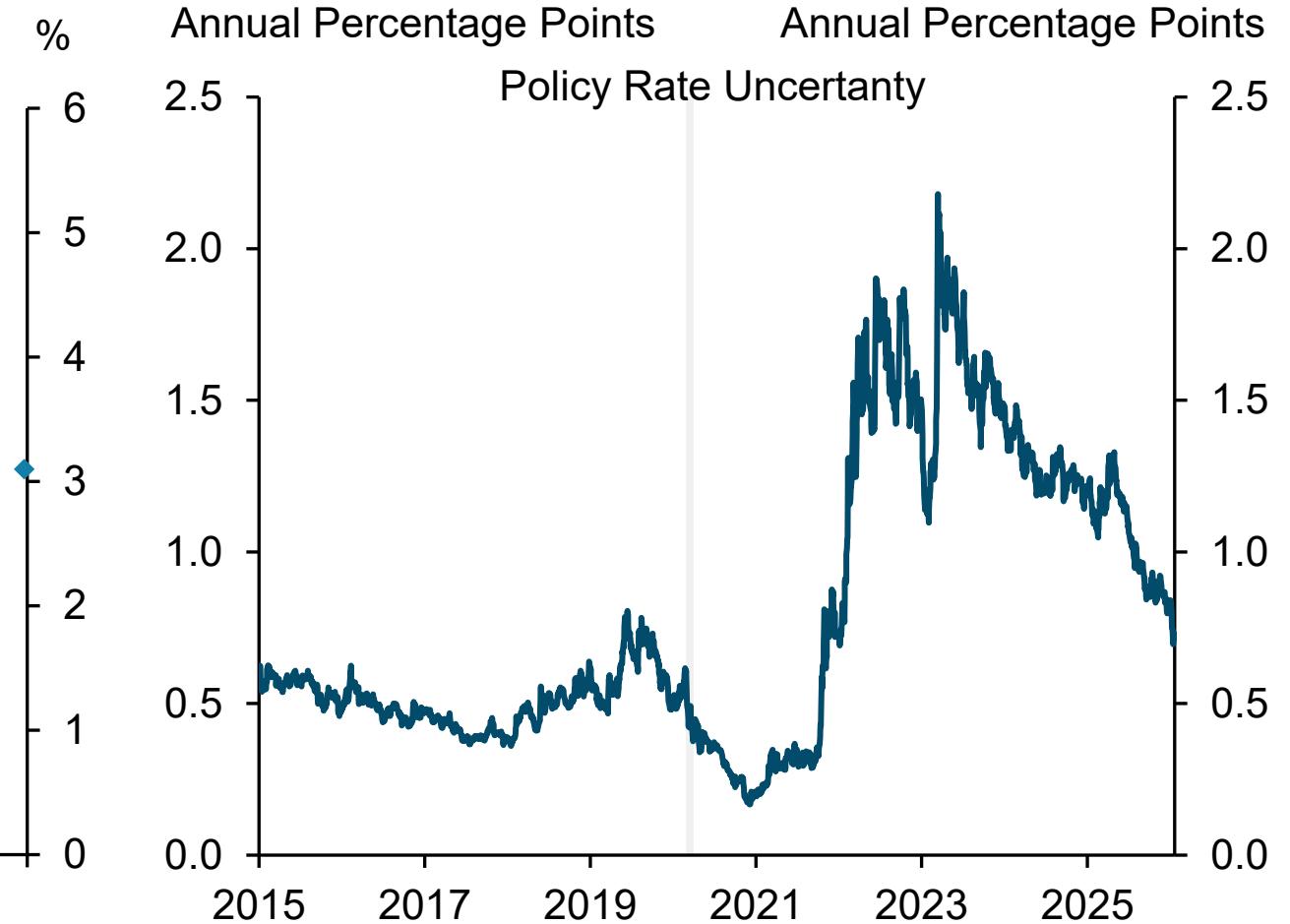
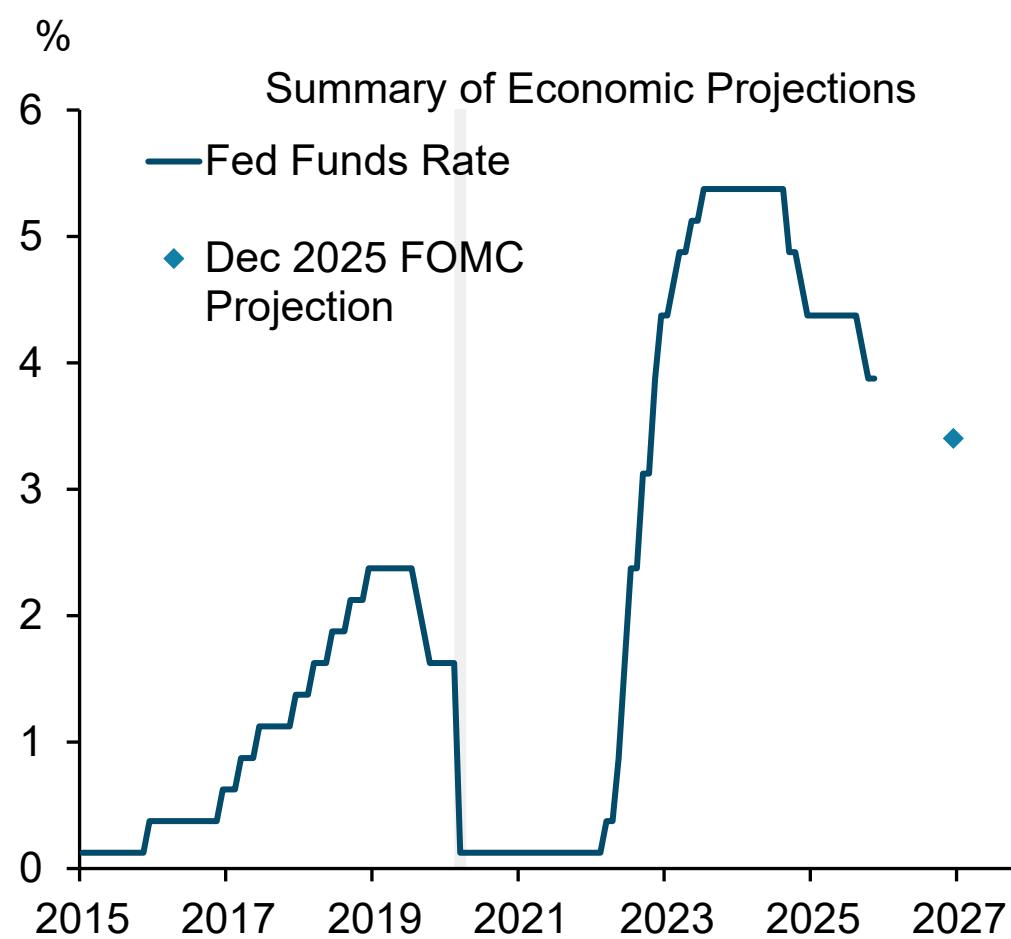


Sources: Chicago Board Options Exchange (CBOE), Haver.

The yield curve steepened over the past year as shorter term rates fell more than longer term rates



Though rates have shown some volatility across the yield curve, expectations about the path of monetary policy have stabilized



Sources: Federal Reserve Board, KC Fed, Haver.

Note: Gray bars indicate recession periods.



Resources from the Kansas City Fed's Economic Research Department

- [Beige Book](#)
Anecdotal information on current economic conditions in the District.
- [Labor Market Conditions Indicators](#)
Two monthly measures of labor market conditions based on 24 labor market variables.
- [Community Connections](#)
Get information on community and economic development trends across the Tenth Federal Reserve District.
- [Kansas City Financial Stress Index](#)
A monthly measure of stress in the U.S. financial system based on 11 financial market variables.

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