

MOODY'S

The U.S. Economic Outlook

Under Unprecedented Uncertainty

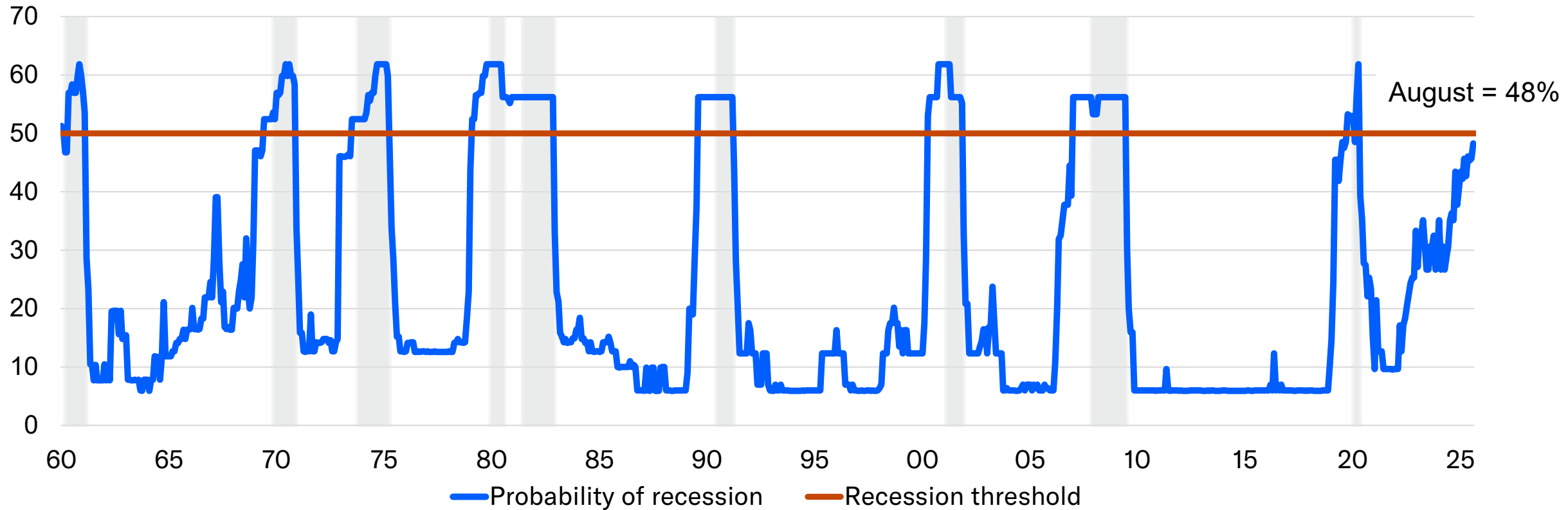
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Mark Zandi, Chief Economist

September 2025

The Economy Should Avoid a Recession...But It Will Be Close...

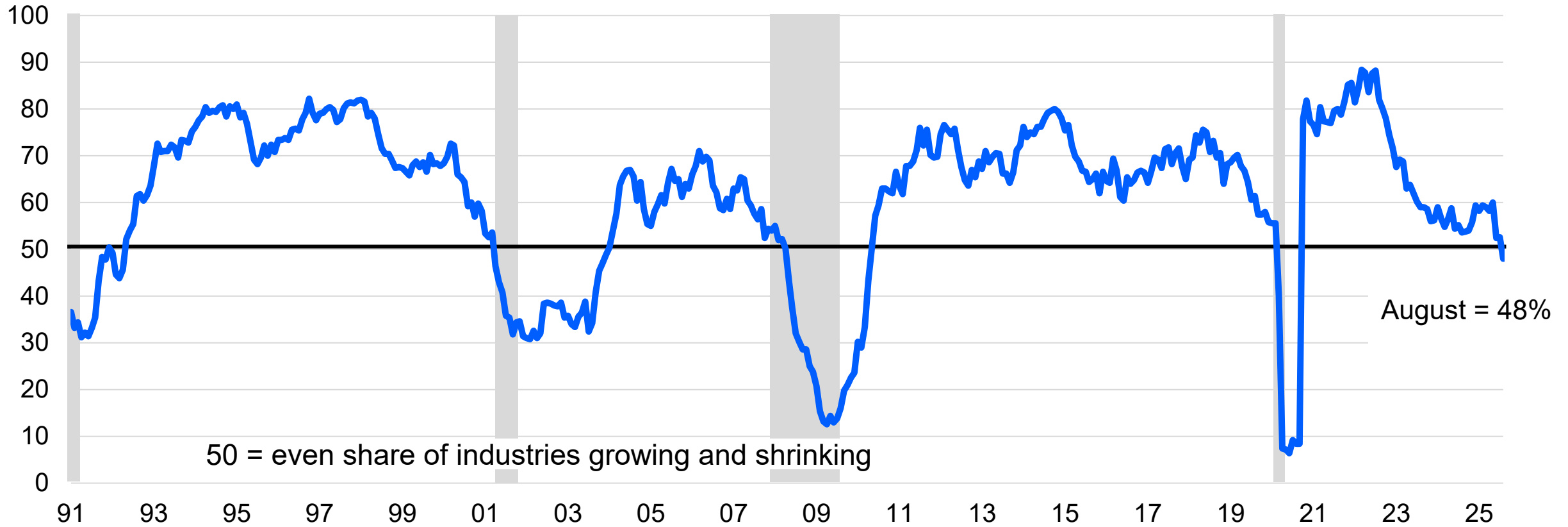
Probability of recession in the next 12 months, %, based on a machine learning model



Source: Moody's Analytics

....Very Close

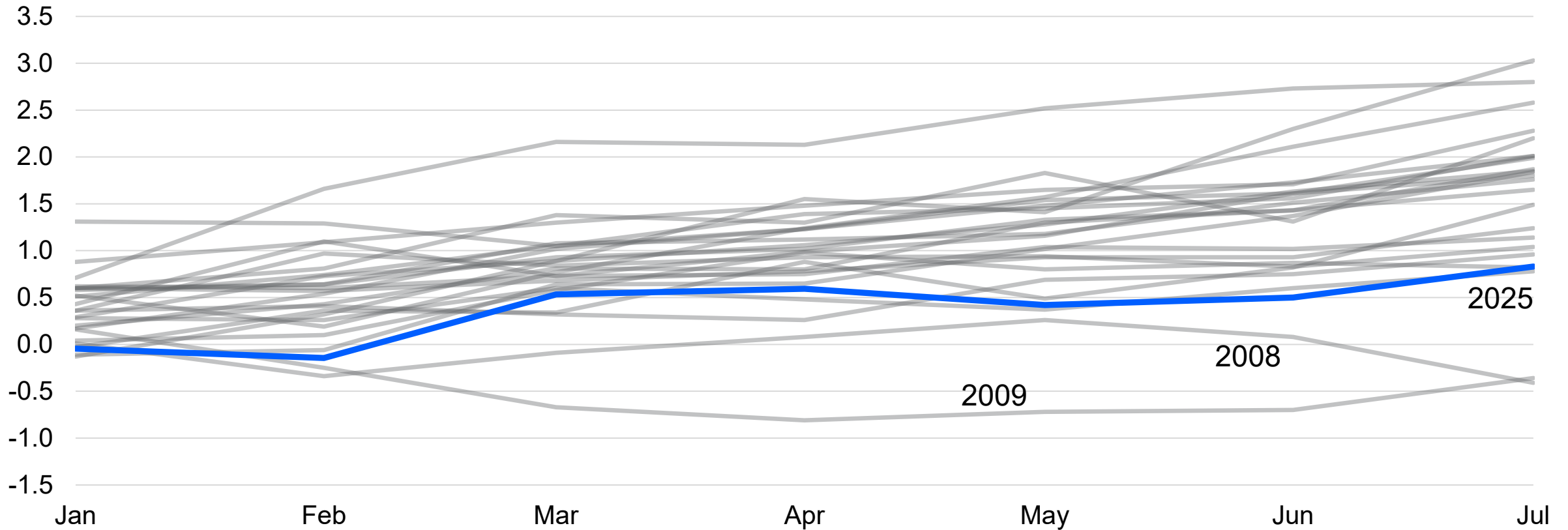
6-month employment diffusion index



Sources: BLS, Moody's Analytics

Cracks Develop in the Consumer Firewall...

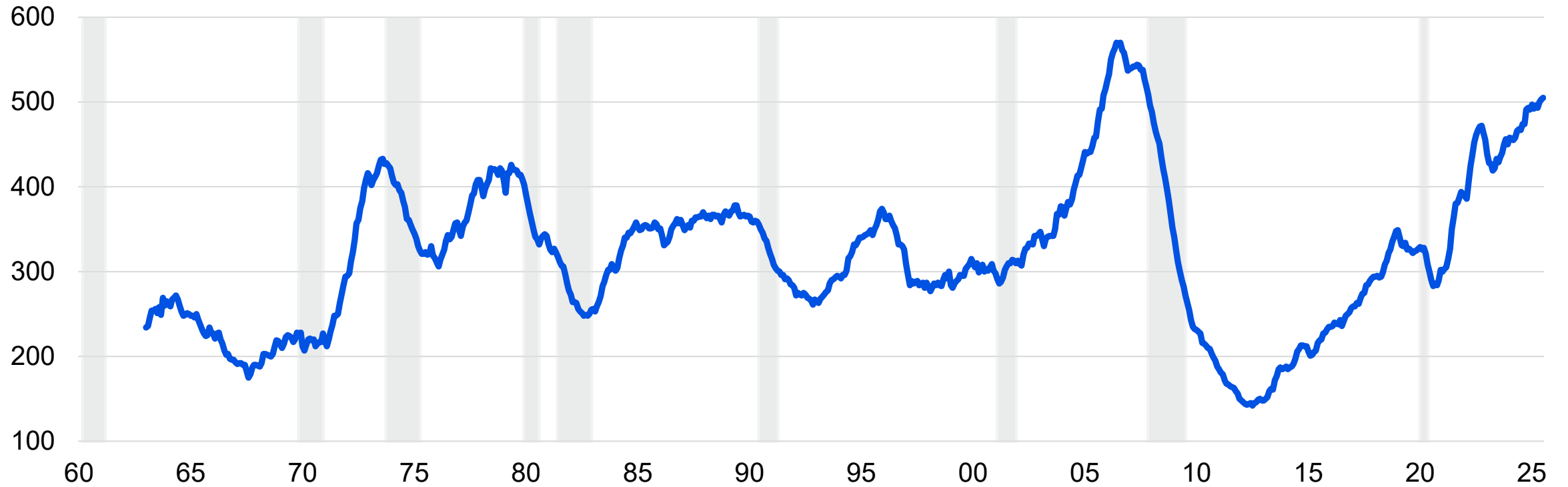
Change in monthly real consumer spending from preceding fourth-quarter average, %



Sources: BEA, Moody's Analytics

...and Housing Becomes More of a Drag

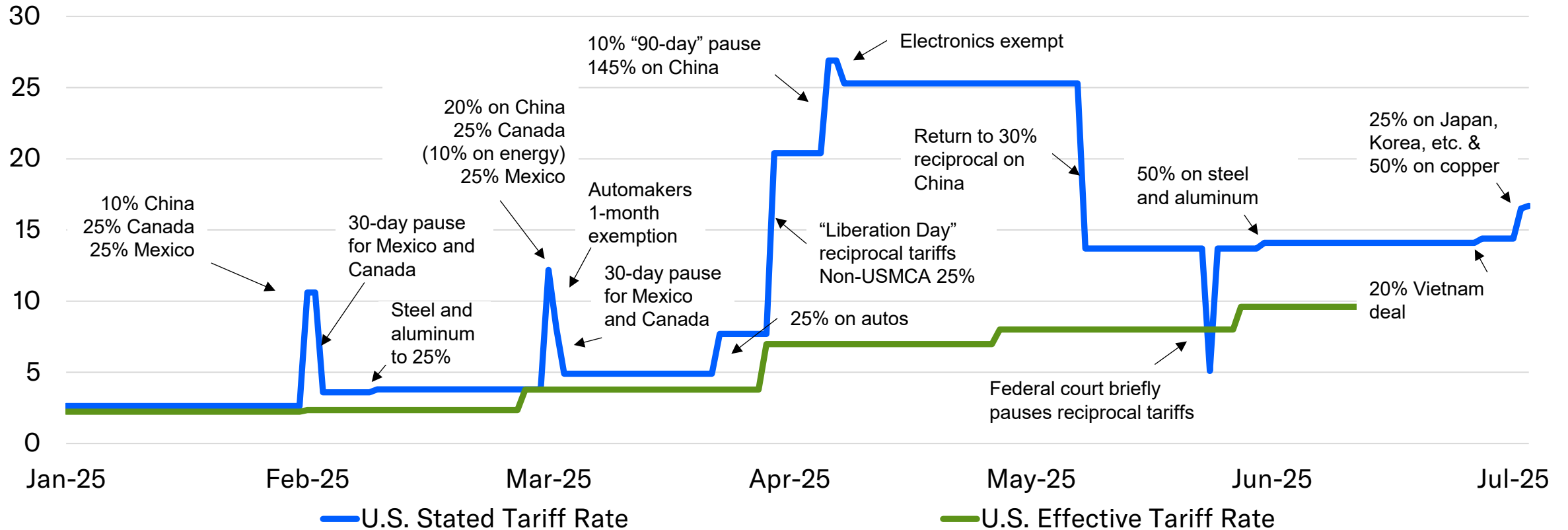
New single-family homes for sale, Thousands



Source: Moody's Analytics

Tariffs Move Steadily Higher...

U.S. tariff rate, %

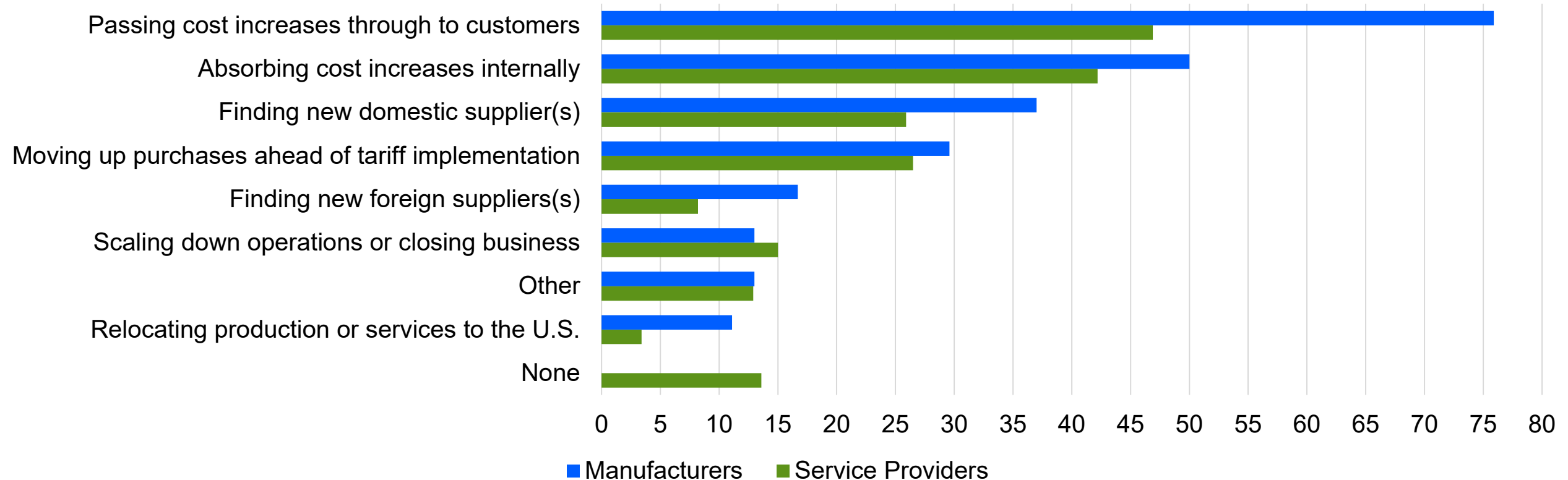


Sources: BEA, various new sources, Moody's Analytics

**Timing based on tariff announcements, not implementation

...Hitting Consumers & Businesses

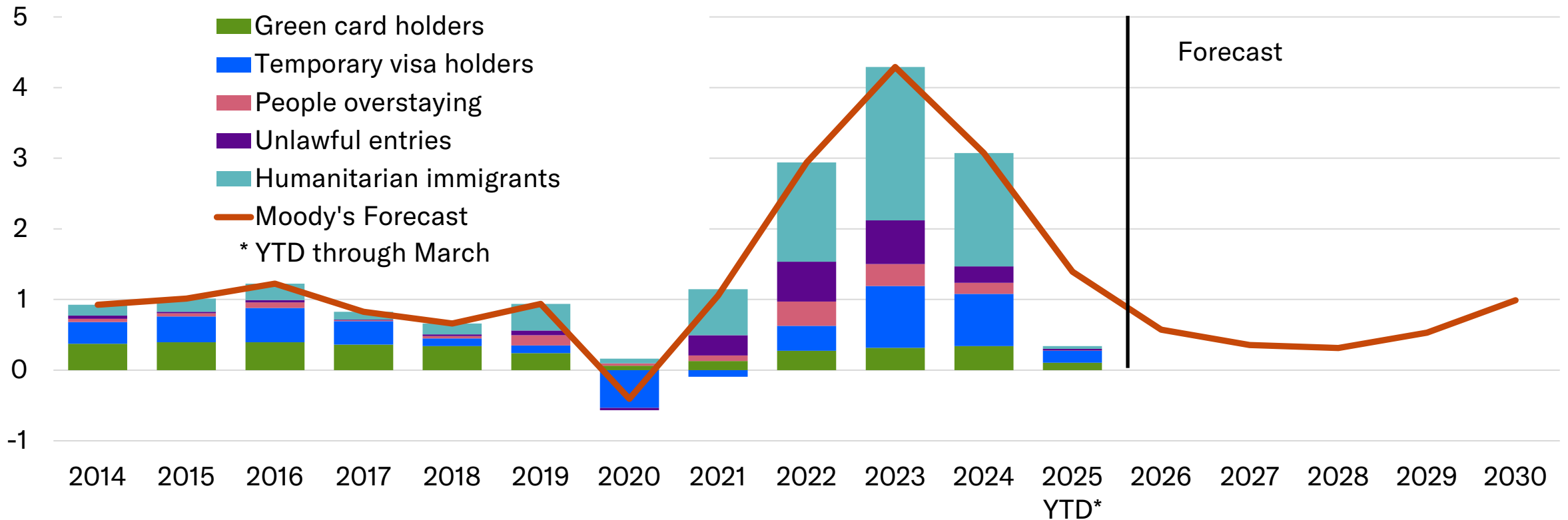
Actions firms are taking in response to higher tariffs, %



Sources: Federal Reserve bank of Dallas, Moody's Analytics

Foreign Immigration Falls Off...

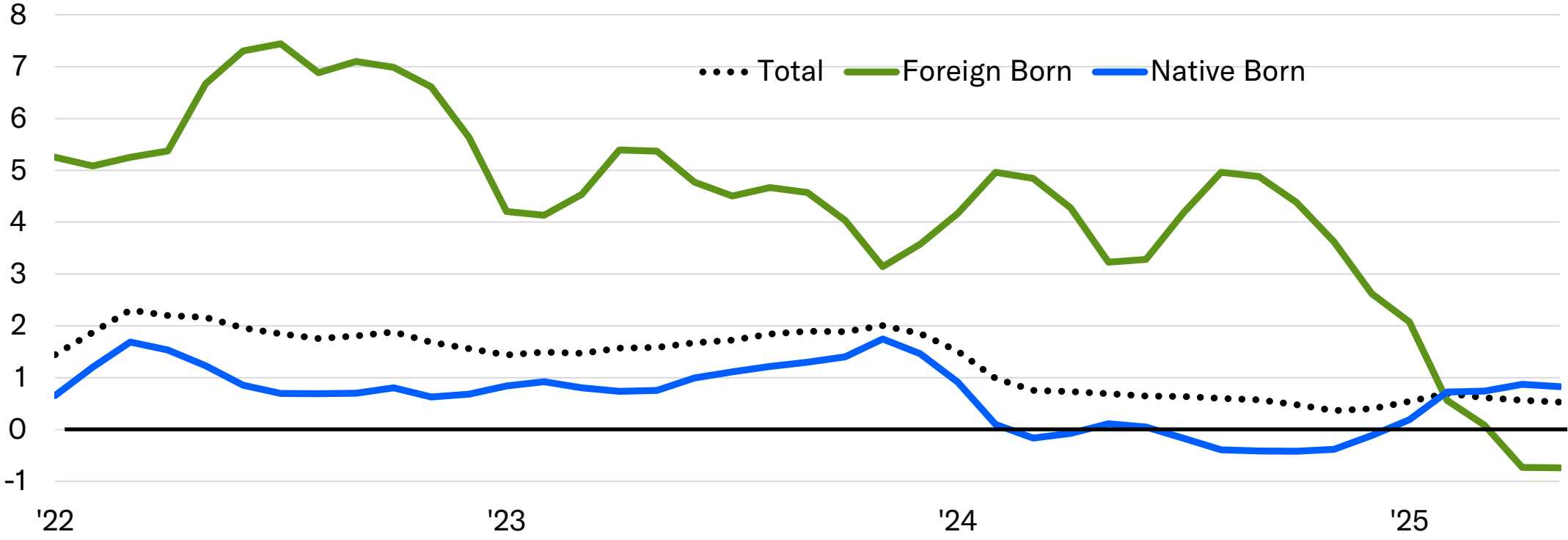
of people, mil



Sources: Department of Homeland Security, Department of State, Customs and Border Protection, Social Security Administration, Congressional Budget Office, TRAC Immigration, Barclays Research, Moody's Analytics

...Weighing Heavily On the Job Market

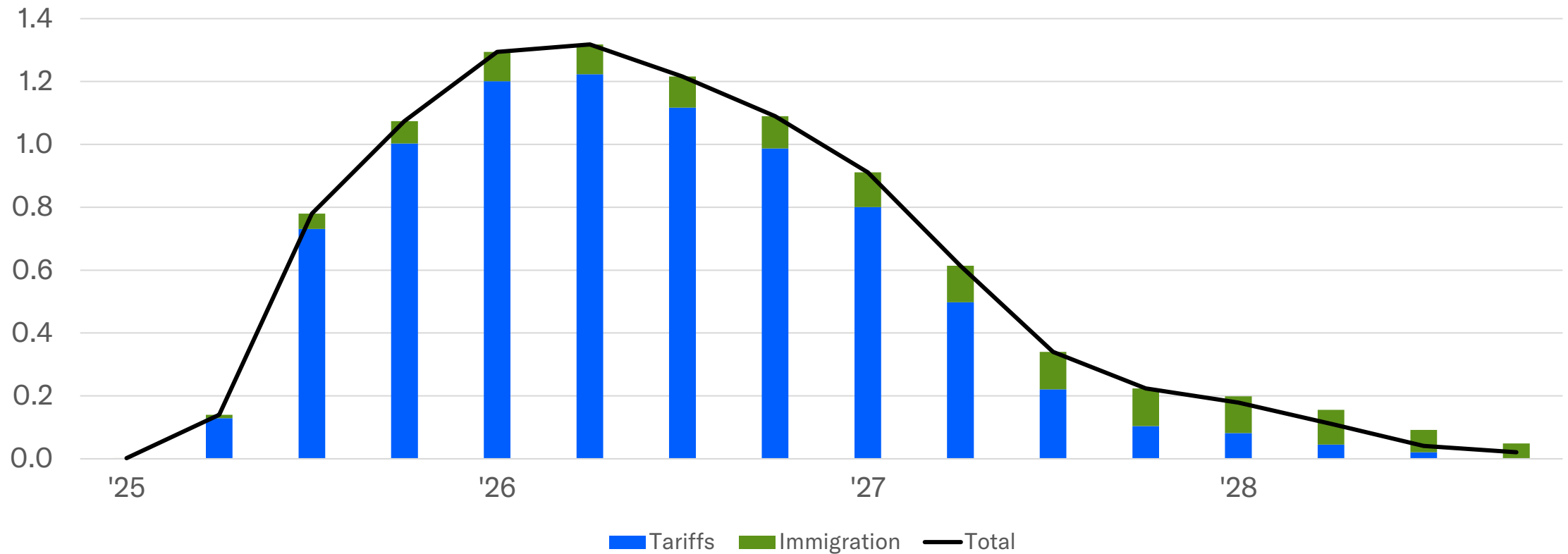
Labor force, % chg yr ago, 3-month ma, adjusted for January 2025 population controls



Sources: BLS, Moody's Analytics

Economic Policy Will Lift Inflation...

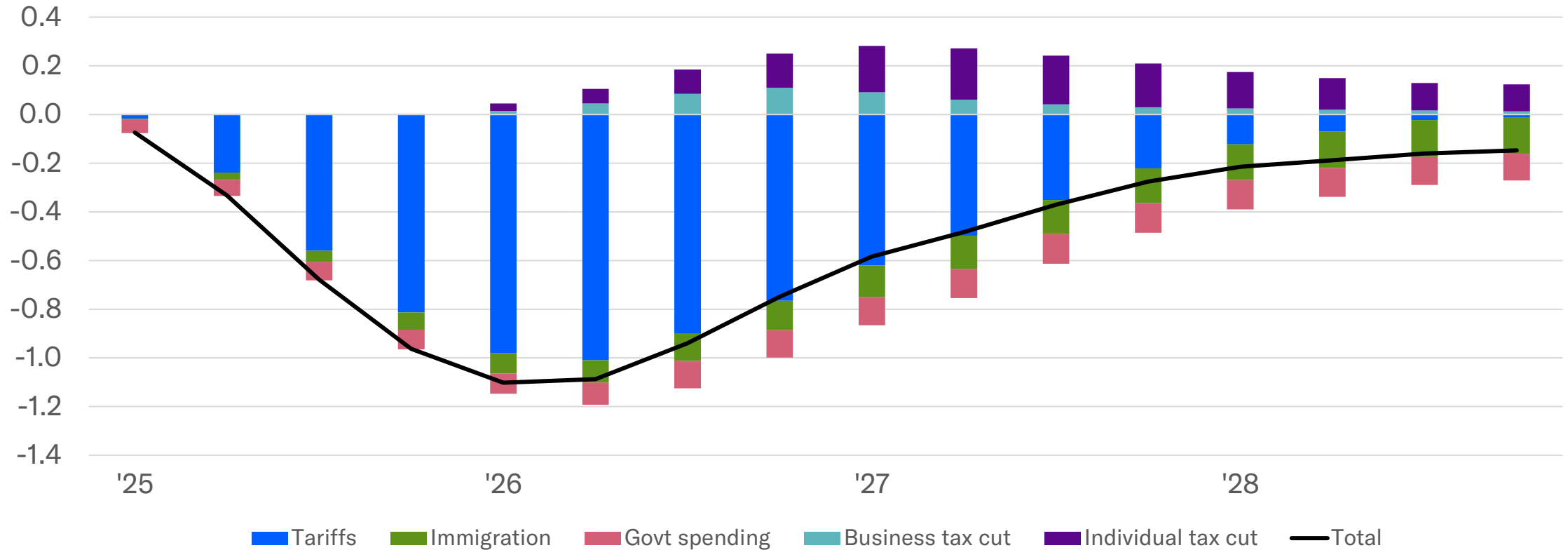
Impact on inflation, % change year ago



Sources: BEA, Moody's Analytics

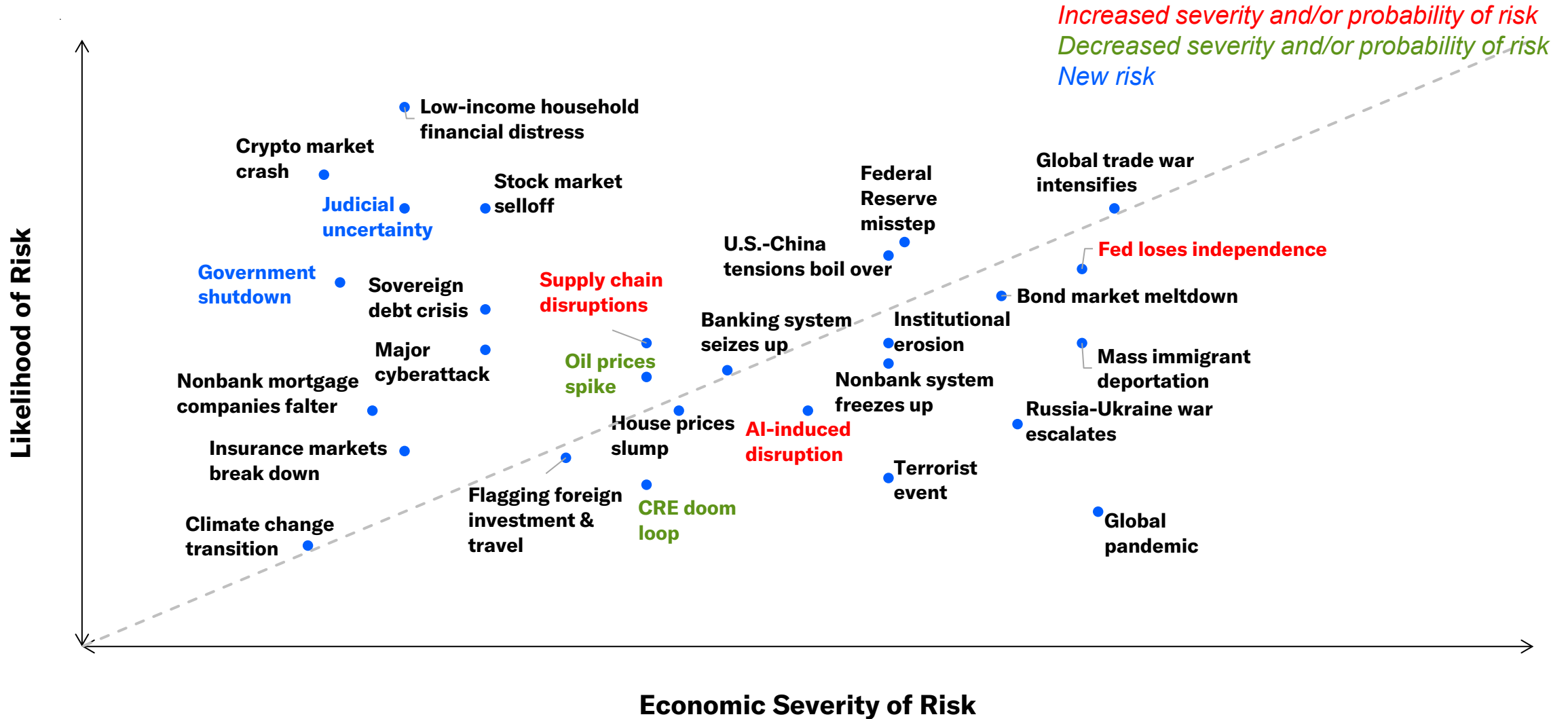
...And Weigh On the Growth

Impact on real GDP growth, % change year ago



Sources: BEA, Moody's Analytics

What Else Could Go Wrong?



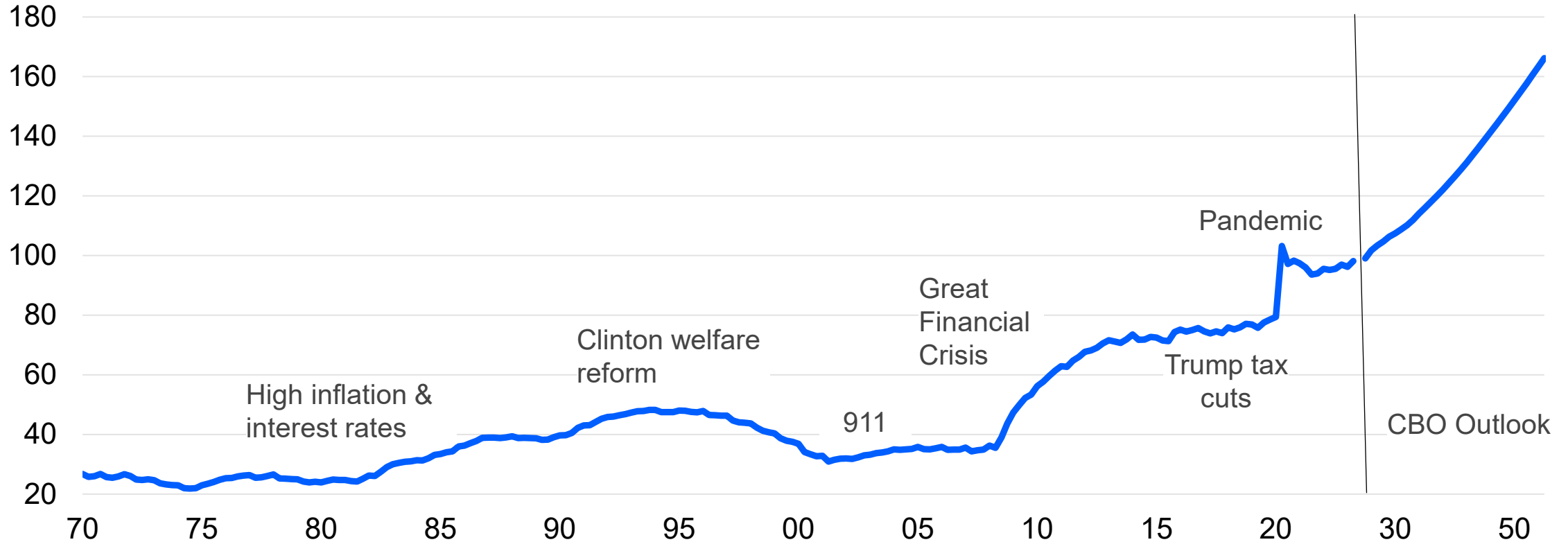
The Bond Market is Fragile...

Factors that threaten a well-functioning Treasury bond market

- Primary dealer balance sheets haven't expanded with the amount of debt outstanding
- Trade war threatens U.S. safe-haven and reserve currency status and value of the \$
- Federal Reserve independence is at risk
- Fed exits the bond market via quantitative tightening
- Chinese & Japanese investors turn more circumspect
- Banks are skittish bondholders in the wake of the 2023 banking crisis
- Price-sensitive hedge funds become bigger players
- Potential Treasury debt limit battle and political dysfunction
- Large budget deficits with an issuance shift to short-term Treasuries

...As the Nation is on an Unsustainable Fiscal Trajectory

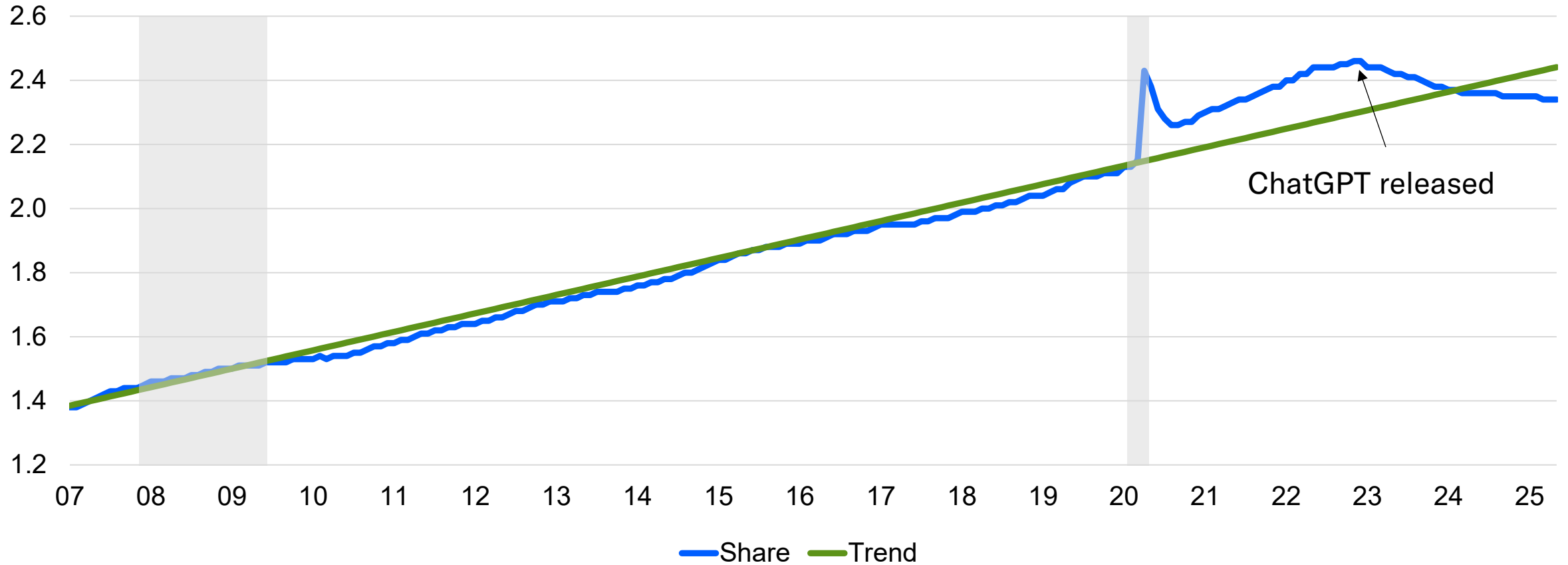
Ratio of U.S. federal debt held by the public and GDP, %



Sources: U.S. Treasury, BEA, Moody's Analytics

Is Artificial Intelligence Friend or Foe?

Technology share of nonfarm payroll employment, %



Sources: BLS, Moody's Analytics

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