

MOODY'S

The U.S. Economic Outlook

Under Unprecedented Uncertainty

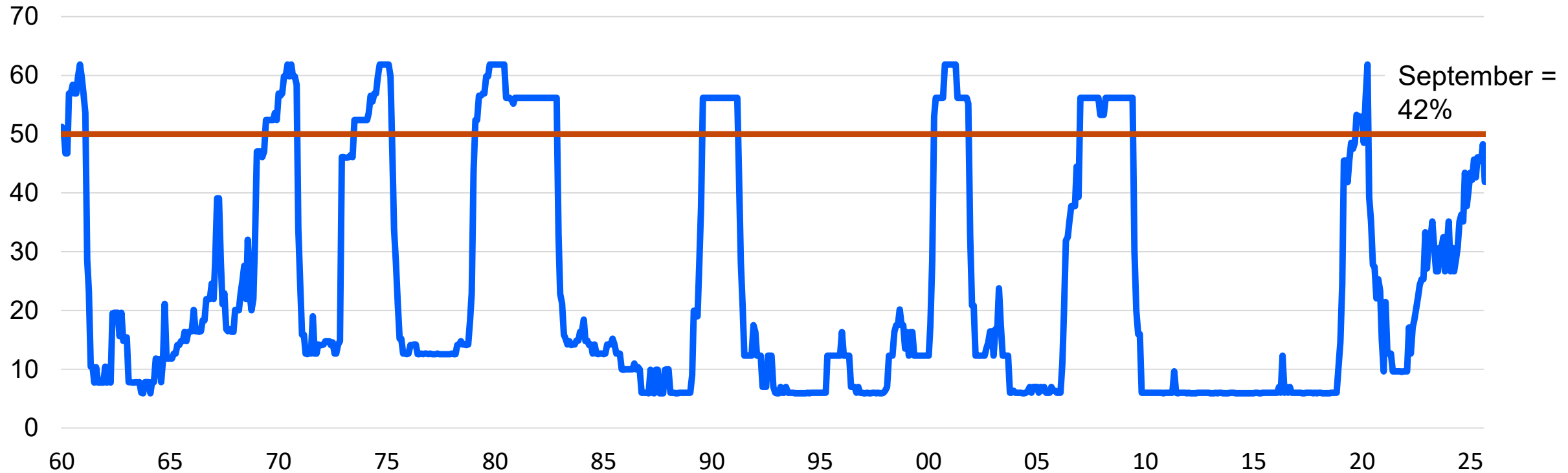
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Mark Zandi, Chief Economist

October 2025

The U.S. Economy Will Avoid a Recession...

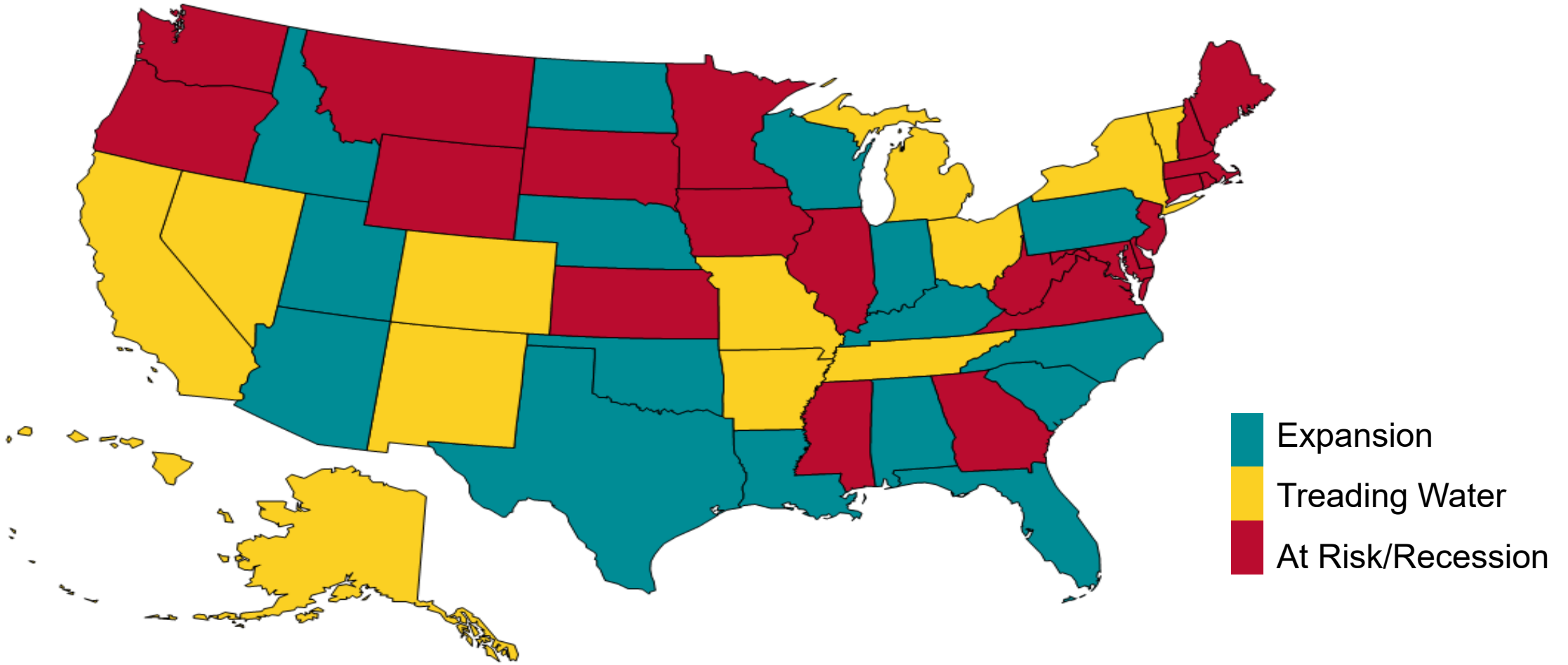
Probability of recession in the next 12 months, %, based on a machine learning model



Source: Moody's Analytics

...But It Will Be Uncomfortably Close

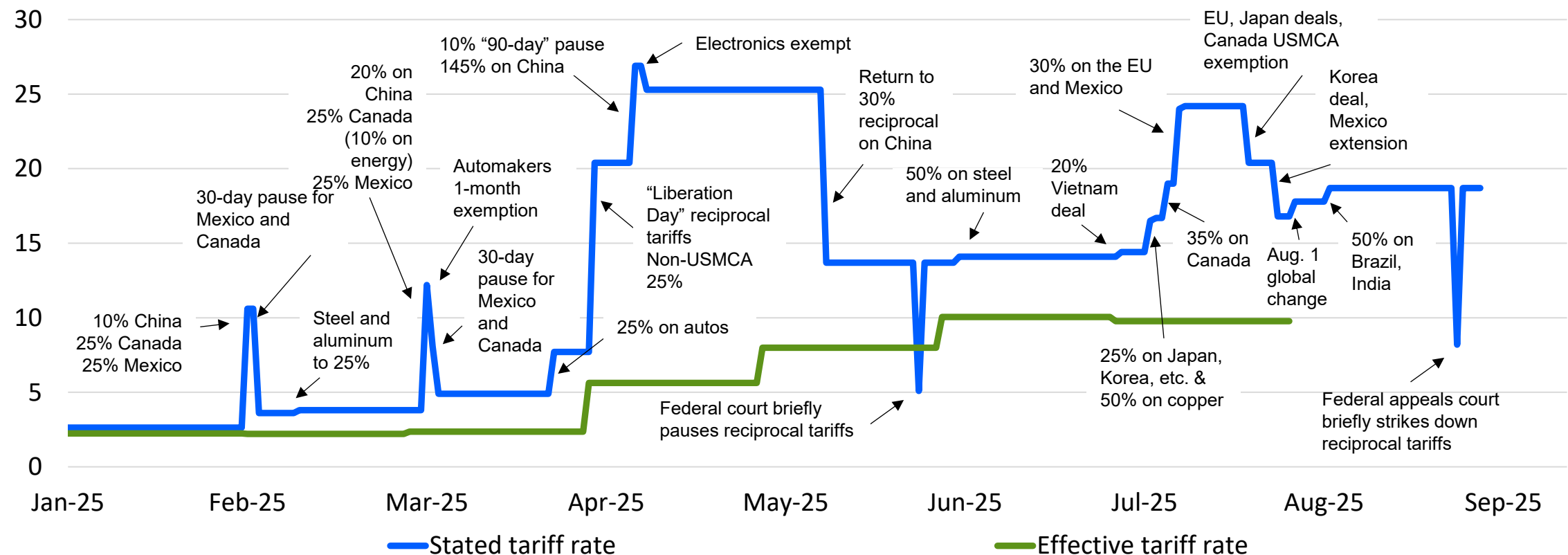
Where state economies are in the business cycle, September 2025



Sources: Moody's Analytics

Tariffs Move Steadily Higher...

U.S. tariff rate, %

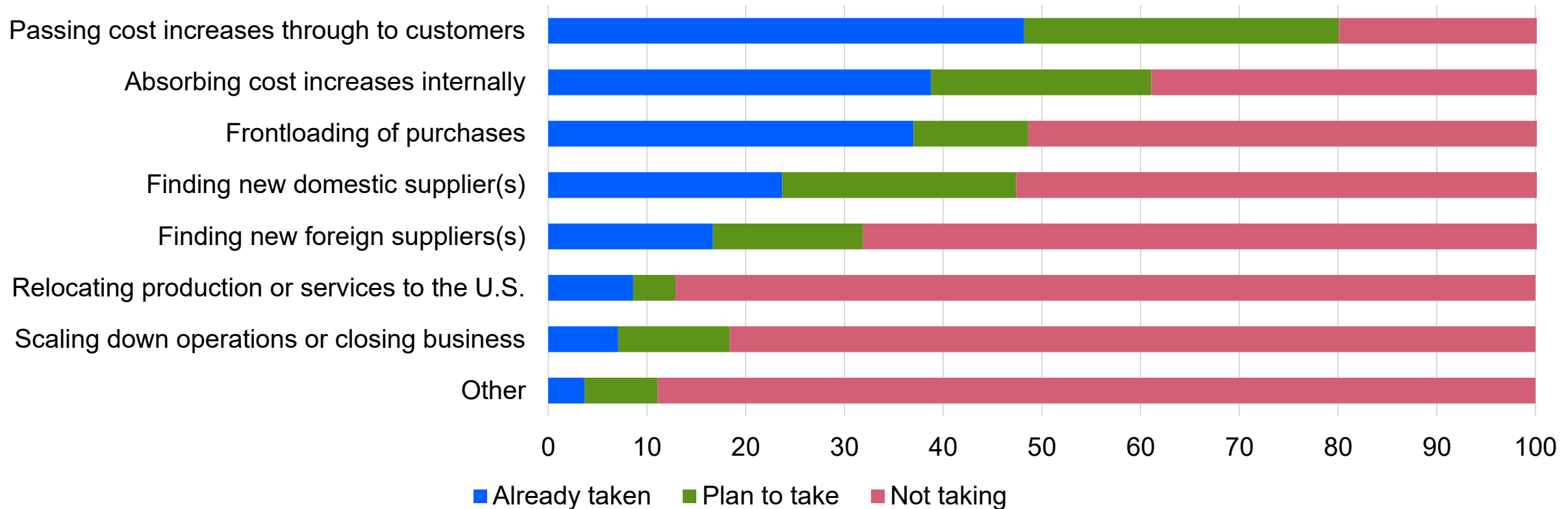


Sources: BEA, various new sources, Moody's Analytics

**Timing based on tariff announcements, not implementation

...Hitting Consumers & Businesses

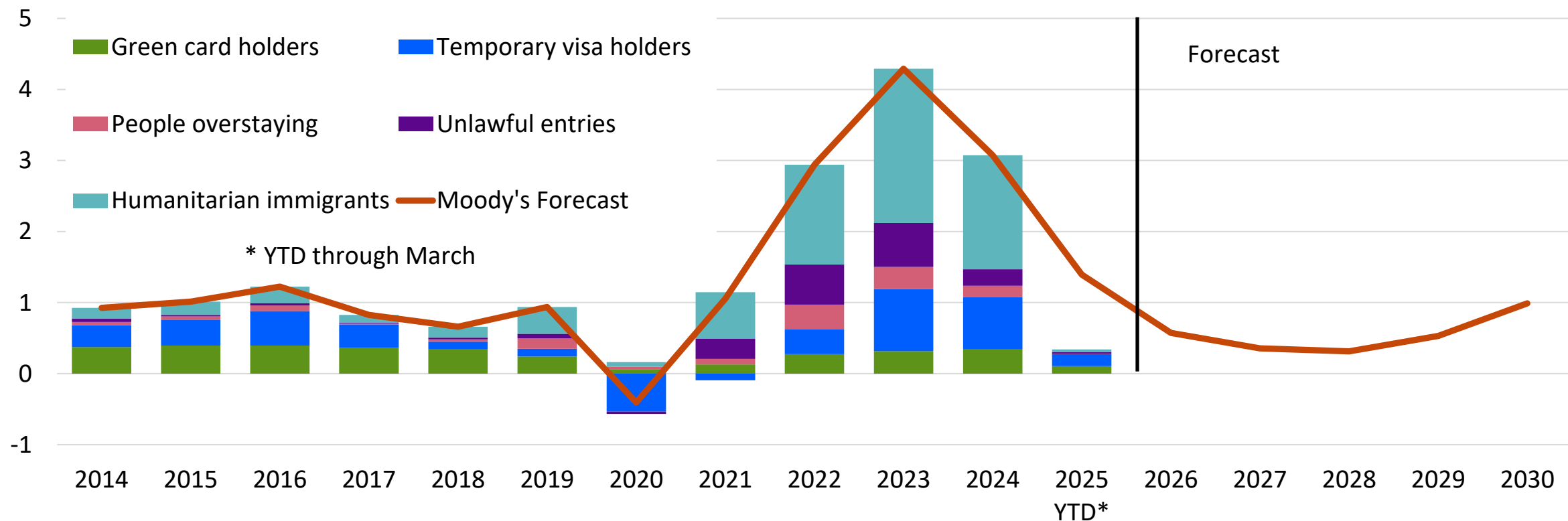
Actions firms are taking in response to higher tariffs, %, August 25, 2025 survey



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

Foreign Immigration Slides...

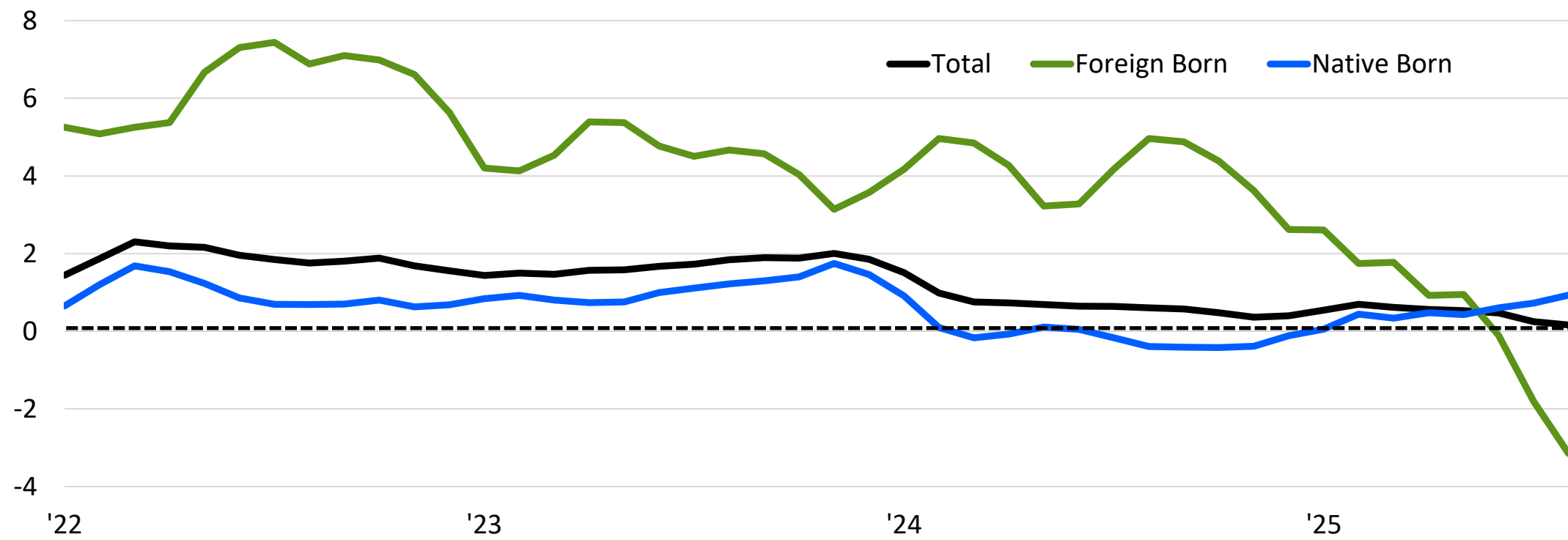
of people, mil



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

...Slamming the Job Market

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



Sources: BLS, Moody's Analytics

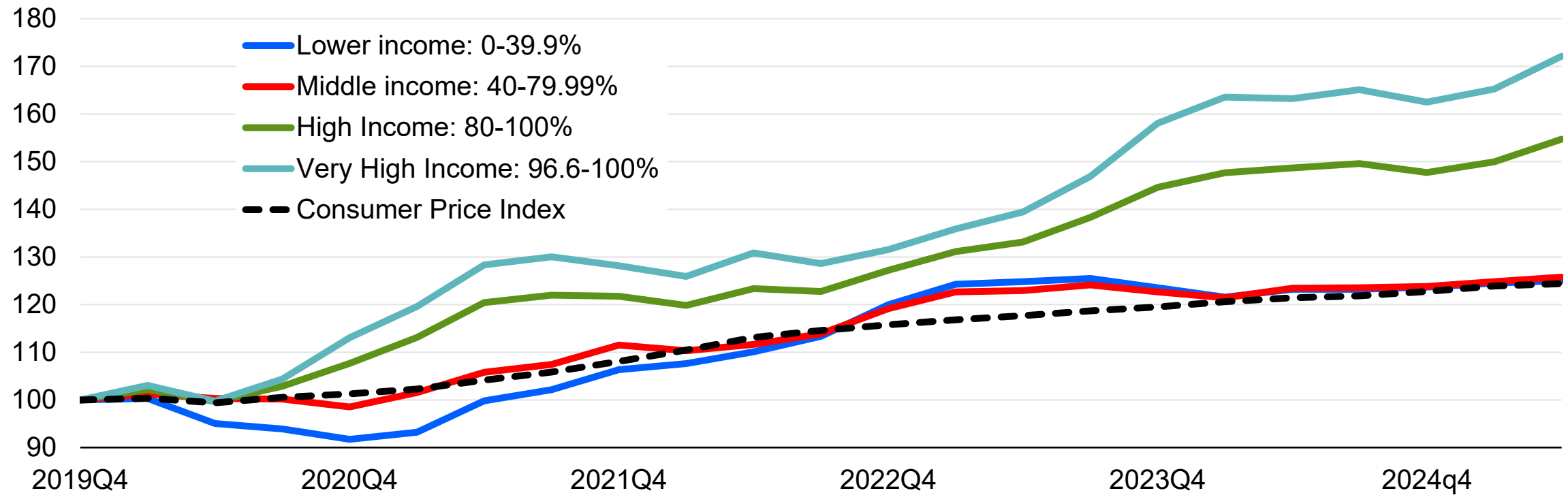
Artificial Intelligence Powers the Stock Market, Capex...

	AI: Direct	AI: Utilities	AI: Capital Equipment	S&P 500 ex-AI
Performance since November 2022				
Price return	181%	65%	138%	25%
Earnings growth	124%	15%	58%	9%
EBIT growth	98%	11%	71%	16%
Capex+R&D growth	63%	21%	-14%	4%
Contributions to S&P 500 since November 2022				
Price return	75%	0.9%	0.9%	23%
Earnings growth	79%	0.5%	0.8%	20%
EBIT growth	62%	0.4%	0.9%	36%
Capex+R&D growth	90%	2%	-0.1%	8%

Sources: Bloomberg, JP Morgan, Moody's Analytics

...and Consumer Spending via the Wealth Effect

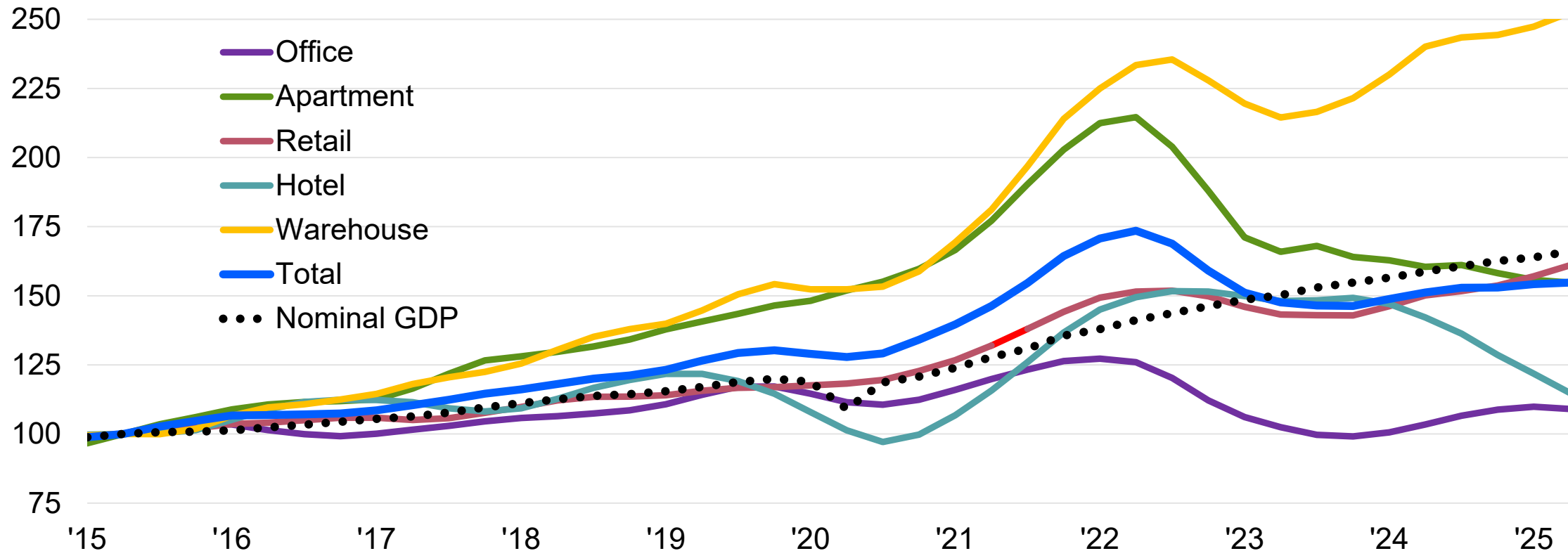
Personal outlays by income group, 2019q4 = 100



Sources: BLS, Moody's Analytics

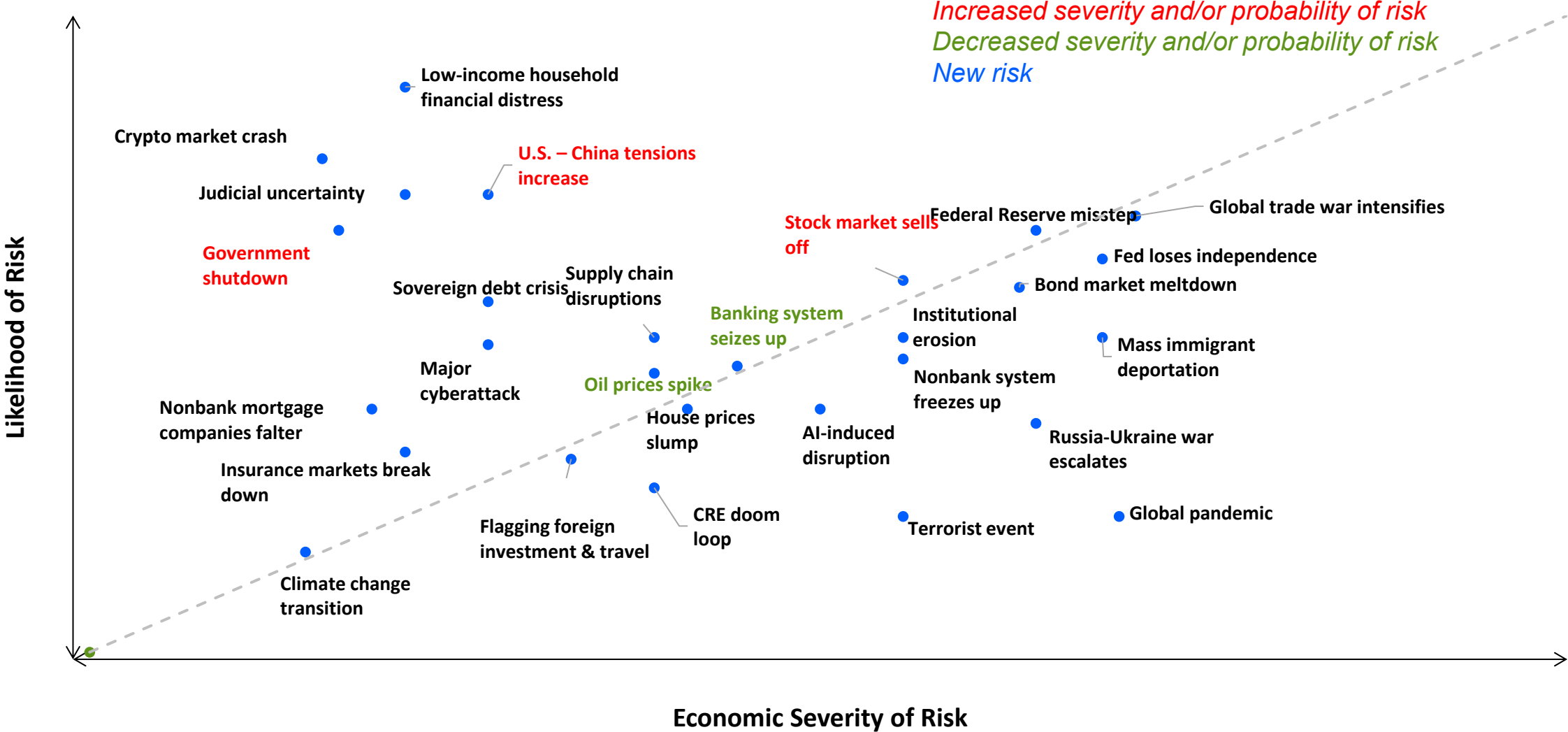
Commercial Real Estate Prices are Near Fair Value

Commercial real estates prices, repeat sales, value weighted, 2015q2 = 100

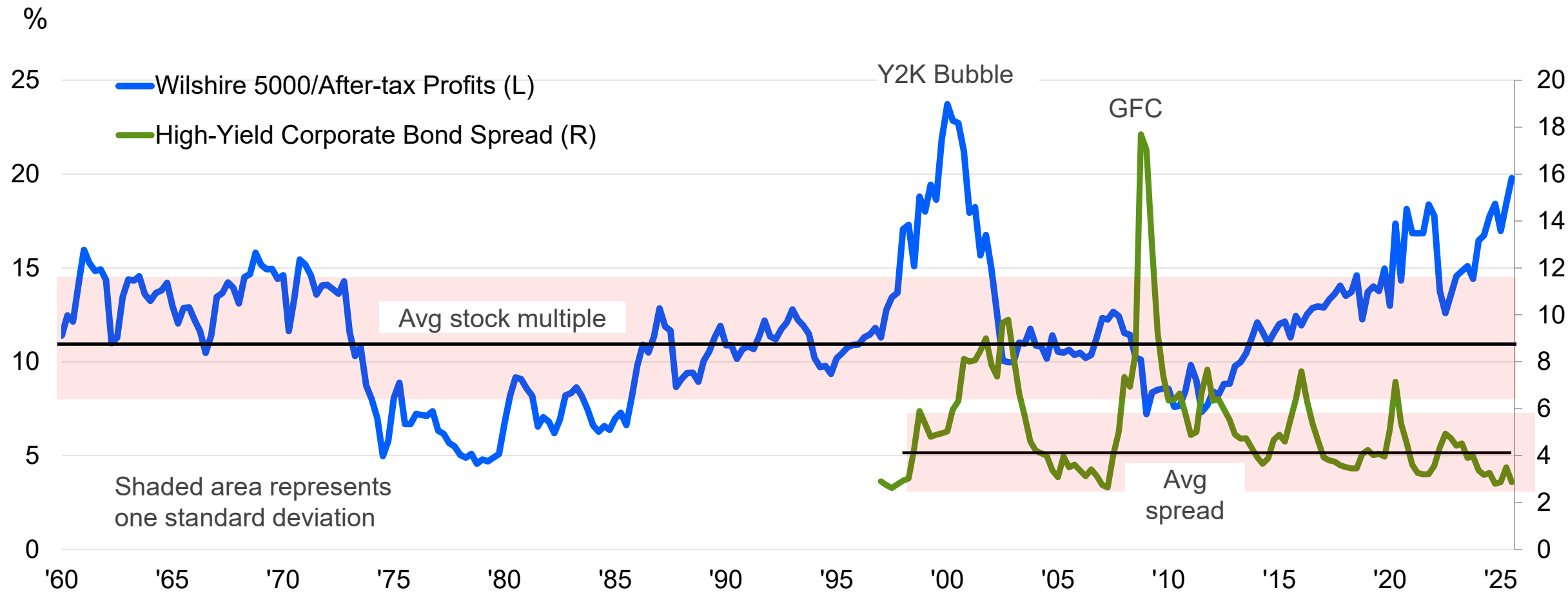


Sources: U.S. Treasury, BEA, Moody's Analytics

What Could Go Wrong?



Asset Markets are Richly (Over) Valued



Sources: Bureau of Economic Analysis, FT, Moody's Analytics

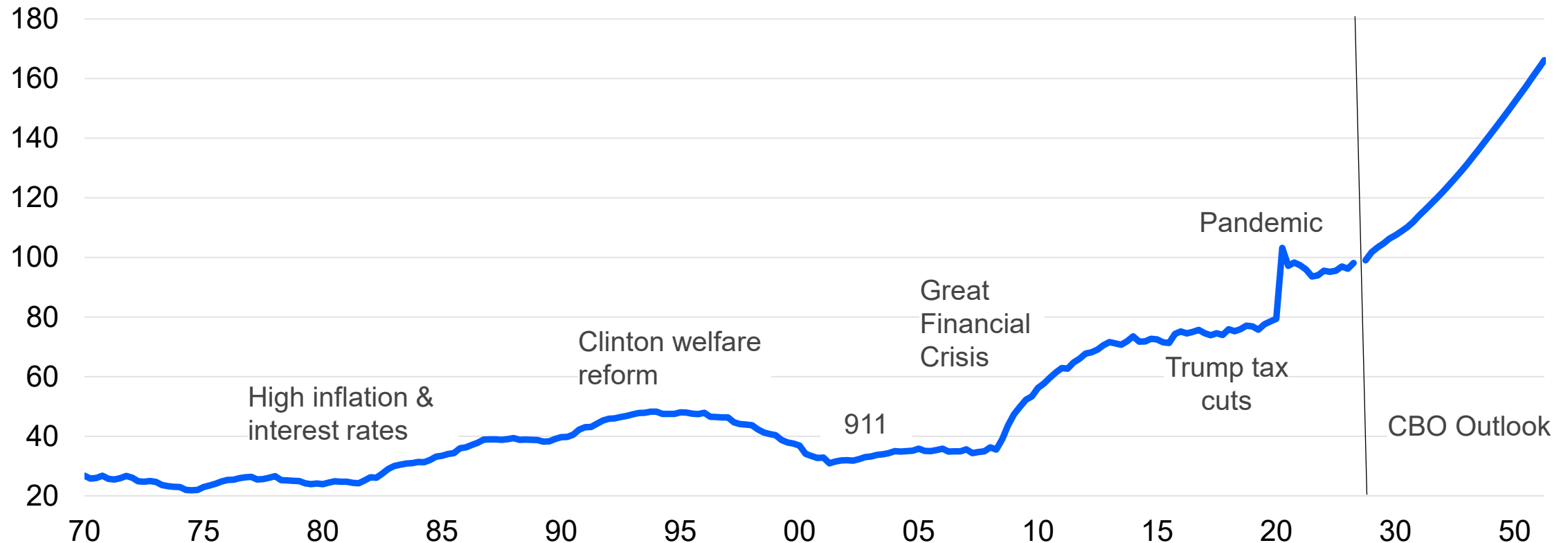
The Bond Market is Fragile...

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
- Government shutdowns and political dysfunction
- Large budget deficits with an issuance shift to short-term Treasuries

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

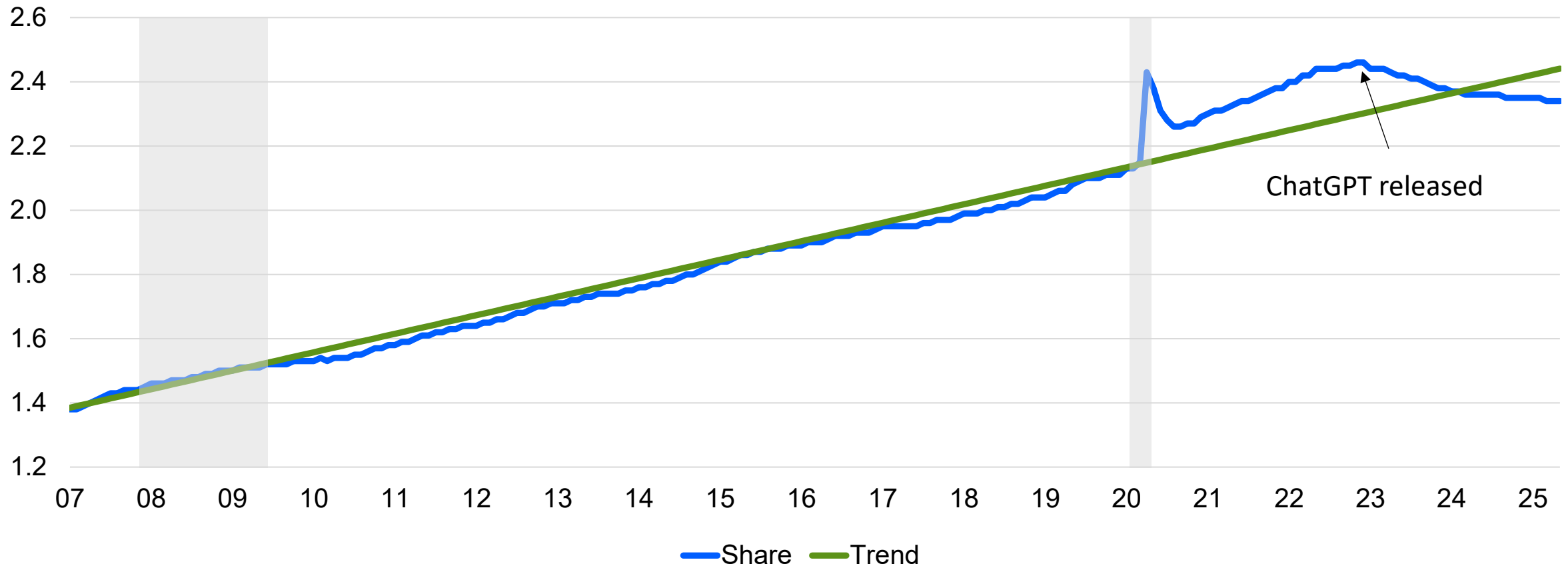
Ratio of U.S. federal debt held by the public and GDP, %



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

Will AI Be More Friend Than Foe?

Technology share of nonfarm payroll employment, %



Sources: BLS, Moody's Analytics

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