

Q4 2025 Economic Overview

Presented by Amwins & Prestige Economics

U.S. economic growth has been strong, although the labor market has softened and inflation remains elevated. Fed Chair Powell has noted trade and immigration policies present risks to inflation and the labor market. October IMF growth forecasts were revised up to reflect that global GDP likely rose by 3.2% in 2025 and 3.1% in 2026 after growing 3.3% in 2024.

U.S. Real GDP growth expanded in Q3 2025 by 4.4%, following a Q2 expansion of 3.8%. The strength in Q2 and Q3 GDP growth were driven in part by import swings and persistent consumption expenditures. Consumption was over 69% of the level of Q3 2025 GDP, which makes the labor market critical for growth. Job gains have been supporting growth, but nonfarm payrolls have slowed. In December, the three-month average of net nonfarm payroll gains slowed to -22,000, while private nonfarm payrolls have a three-month average of +29,000 jobs.

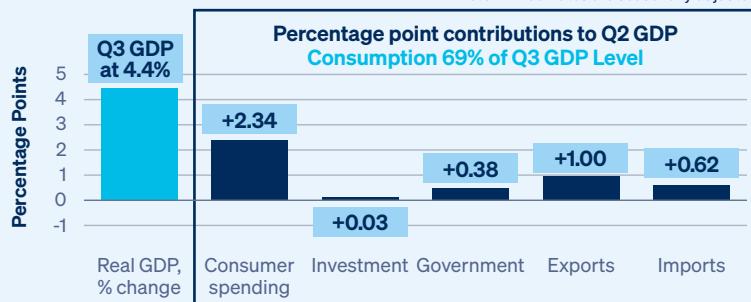
On the upside, wages have been strong and are up \$8.59 per hour since January 2020. The unemployment rate has risen but was still at a low 4.4% in December. Plus, there were over 7.1 million open jobs in November. U.S. consumer debt delinquencies rose to 4.5% in Q3 2025, which was the highest percentage since Q1 2020. However, it is still a relatively low percentage.

Year-on-year consumer inflation eased in 2025, falling to 2.6% from 3.1% in 2024. Nevertheless, inflation remains above the Fed's 2% target with December 2025 year-on-year inflation rates 2.7% for Total CPI and 2.6% for Core CPI. U.S. nonfarm payroll gains have slowed and the unemployment rate has risen. This is why the Fed cut interest rates three times in 2025, despite elevated inflation. Recent FOMC projections imply one rate cut in 2026, although our projection is for two 0.25% rate cuts in 2026.

Q3 2025 U.S. Real GDP Components

Contributions to percent change in Real GDP, 3rd quarter 2025, Real GDP increased 4.4%

Note: Annual rates are seasonally adjusted



Note: Imports are a subtraction in the calculation of GDP; thus, a decrease in imports results in a positive contribution to GDP. Sources: Bureau of Economic Analysis, Prestige Economics

Economic data and Prestige Economics forecasts

	Quarterly Historical Data								Quarterly Forecasts		Annual Historical Data						Annual Forecasts					
	25 Q1	25 Q2	25 Q3	25 Q4	26 Q1	26 Q2	26 Q3	26 Q4	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028				
Real GDP (Year-on-Year)	2.0	2.1	2.3	2.5	3.2	2.9	2.6	2.7	2.6	-2.2	6.1	2.5	2.9	2.8	2.2	2.9	2.9	2.4				
Real GDP (Quarter-on-Quarter)	-0.6	3.8	4.4	2.7	2.1	2.6	2.9	3.5														
Unemployment Rate	4.1	4.2	4.3	4.5	4.6	4.7	4.6	4.5	3.7	8.1	5.4	3.6	3.6	4.0	4.3	4.6	4.5	4.4				
Consumer Price Index	2.7	2.4	2.9	2.8	2.3	2.1	2.0	2.2	1.8	1.3	4.7	8.0	4.1	3.0	2.6	2.2	2.5	2.1				
Core Consumer Price Index	3.1	2.8	3.1	2.8	2.4	2.2	2.0	2.1	2.2	1.7	3.6	6.2	4.8	3.4	2.8	2.2	2.2	2.0				
Fed Funds Rate (Upper Limit)	4.50	4.50	4.25	3.75	3.50	3.25	3.25	3.25	1.75	0.25	0.25	4.50	5.50	4.50	3.75	3.25	3.00	3.00				



Housing overview

Relatively high interest rates and high real estate prices continue to hold back the housing sector.

Falling interest rates are likely to bolster sales and prices in 2026 and 2027.

Total housing starts and building permits fell in Q3 2025 to the slowest pace since Q2 2020.

Meanwhile, multifamily housing starts (with 5 or more units) improved in Q3 2025, rising to the highest level since Q2 2023. This is a noteworthy improvement because multifamily housing starts in 2024 were at the lowest annual level since 2013.

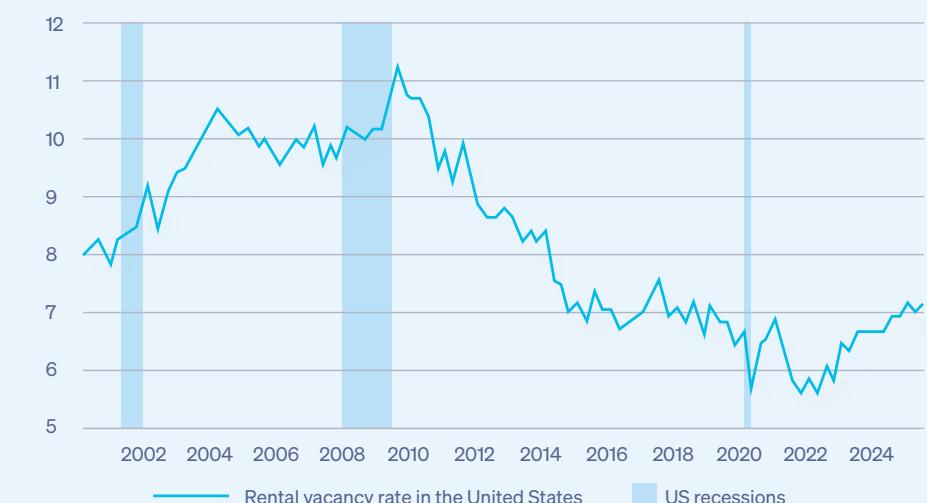
Multifamily building permits (with 5 or more units) fell modestly in Q3 2025. Nevertheless, multifamily permits remain elevated, which is a positive development after the 2024 total annual level of multifamily permits fell to the lowest level since 2018.

New single-family home sales rose in Q3 2025 to the highest level since Q3 2024, and the monthly supply of new single-family homes in inventories fell from 9.1 months to 8.5 months — the lowest level since Q3 2024.

As with most U.S. government economic data, construction spending data has been delayed. In Q3 2025, construction spending rose to \$2.17 billion, which is a modest improvement from Q2 2025. Despite the quarter-on-quarter improvement, Q3 2025 construction spending was still down year-on-year by -1.4%.

The rental vacancy rate for Q3 2025 rose to 7.1% from 7.0% in Q2 2025. Rental vacancy rates have been on the rise over the past few years, including the annual vacancy rate in 2024 of 6.8%, the highest since 2019. The rise in vacancy rates suggests a softening for rental markets after a period of low vacancies in the post-pandemic housing boom. If rental vacancies rise further, rents are likely to come under additional pressure.

Rental Vacancies Rose to 7.1% in Q3 2025



Source: US Census Bureau via FRED®

Housing data

	24 Q4	25 Q1	25 Q2	25 Q3	2019	2020	2021	2022	2023	2024
Rental Vacancies Percentage vacant	6.9%	7.1%	7.0%	7.1%	6.8%	6.3%	6.1%	5.8%	6.5%	6.8%
Total Housing Starts Thousands, seasonally adjusted annual rate	1387	1401	1354	1339	1292	1394	1603	1552	1421	1371
Housing Starts, 5 Units or More Thousands, seasonally adjusted annual rate	354	364	393	443	390	381	462	531	460	337
Total Building Permits Thousands, seasonally adjusted annual rate	1472	1465	1403	1369	1386	1478	1735	1684	1516	1474
Building Permits, 5 Units or More Thousands, seasonally adjusted annual rate	442	424	452	444	480	442	566	653	541	431
New Single-Family Home Sales Thousands, seasonally adjusted annual rate	671	655	665	696	685	830	769	637	665	685
New Single-Family Home Sales Inventories Monthly supply	8.7	9.2	9.1	8.5	5.8	4.6	5.5	8.5	7.9	8.3

Sources: U.S. Census Bureau, Prestige Economics

Spending & cost overview

Personal spending was up in Q3 2025 by 5.4% year on year, which is a solid pace. This pace of consumer demand is likely to support growth, even if labor market data remain mixed and payrolls slow further.

Personal income was up in Q3 2025 by 4.7% year on year, although this was the slowest pace since Q2 2022. This pace represented a deceleration, following the Q2 2025 year-on-year rate of 4.8%.

Average hourly wages continued rising in Q4 2025 to \$36.91 per hour for all private sector workers. Despite the continued rise in absolute wages, there was a deceleration in the year-on-year pace of wage growth, which slowed to 3.7% year on year in Q4 2025 from 3.8% in Q3 2025.

Construction materials costs (PPI) rose by 4.8% year on year in Q3 2025, following a year-on-year rise of 3.2% in Q2 2025. Construction cost pressures continue to reflect rising pressures. There are additional upside price risks due to tariffs and potentially lower interest rates.

The positive expansion in Q3 2025 GDP by 4.4% was driven by positive contributions in consumption, net exports, and government spending. Consumption added 2.34 percentage points to GDP. However, the investment component of GDP was relatively flat in Q3 due to declines in inventories, which had risen significantly in Q1 ahead of the U.S. tariff announcement on April 2. Structures and residential investments also detracted from the investment component of Q3 GDP, although non-residential, non-structures investments in equipment and intellectual property products contributed positively to Q3 GDP growth.



Spending and cost data

	Quarterly Historical Data						Annual Historical Data						
	24 Q3	24 Q4	25 Q1	25 Q2	25 Q3	25 Q4	2019	2020	2021	2022	2023	2024	2025
Personal Spending Year-on-year percent change	5.6%	6.0%	5.7%	5.2%	5.4%		3.6%	-1.4%	13.3%	9.7%	6.5%	5.6%	
Personal Income Year-on-year percent change	5.4%	5.4%	5.1%	4.8%	4.7%		4.8%	6.9%	9.5%	3.0%	6.4%	5.6%	
Average Hourly Wages, Total Private US Dollars	\$35.21	\$35.59	\$35.92	\$36.21	\$36.55	\$36.91	\$28.00	\$29.36	\$30.62	\$32.27	\$33.70	\$35.06	\$36.40
Average Hourly Wages, Total Private Year-on-year percent change	3.8%	4.1%	3.9%	3.8%	3.8%	3.7%	3.3%	4.9%	4.3%	5.4%	4.4%	4.0%	3.8%
Construction Spending Billions, seasonally adjusted annual rate	\$2.20	\$2.19	\$2.16	\$2.15	\$2.17		\$1.39	\$1.50	\$1.65	\$1.90	\$2.07	\$2.19	
Construction Spending Year-on-year percent change	4.5%	1.2%	-0.5%	-2.8%	-1.4%		4.2%	7.9%	10.2%	14.9%	9.1%	5.7%	
30-Year Mortgage Fixed Rates Average percent	6.51%	6.63%	6.83%	6.79%	6.57%	6.23%	3.94%	3.11%	2.96%	5.34%	6.81%	6.72%	6.60%
Construction Materials Costs (PPI) Year-on-year percent change	-2.6%	-0.6%	-1.3%	3.2%	4.8%		0.0%	1.5%	26.9%	12.6%	-2.9%	-1.0%	

Source: U.S. Bureau of Economic Analysis, U.S. Census Bureau, U.S. Bureau of Labor Statistics, Prestige Economics

= Data that is not yet available

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