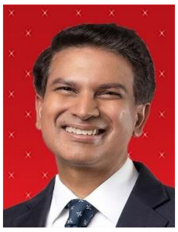
Macro Insights Weekly

US economy's mixed signals

Group Research

October 6, 2025



Taimur Baig
Chief Economist
taimurbaig@dbs.com

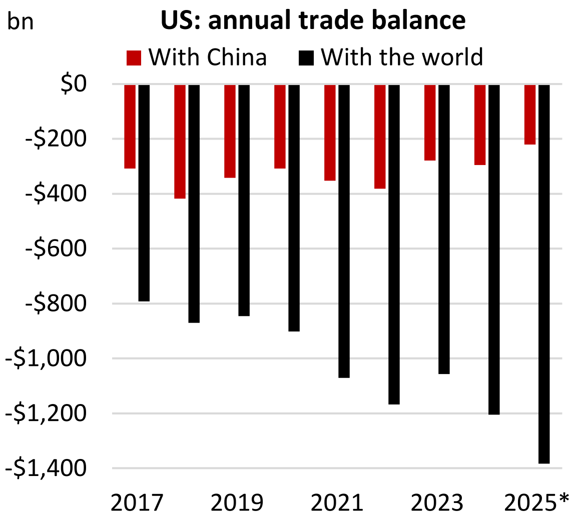
Chua Han Teng
Senior Economist
hantengchua@dbs.com

For Alliance Bank clients, please direct your enquiries to
Malaysia Research +603 2604 3915 general@alliancedbs.com

- *Consumption and spending data point toward a fast-growing US, but labour market data point toward cooling. Taking into account opposing drivers, we see 1.5-2% growth in the coming years.*
- *Consumer sentiment is soft, but spending is robust.*
- *Public sector is beginning to subtract from growth, offset by surging private cap-ex.*
- *Unemployment is low, but firms' hiring intentions have cooled sharply.*
- *Trade and immigration related uncertainties are key drags.*
- *Growth in the 1.5-2% range remains on the cards, although there are plenty of risks in play.*

Chart of the Week: US trade balance

Nearly a decade of trade war has begun to dent China-US trade balance; as per our projections, the 2025 bilateral trade deficit is on course to be the lowest in two decades. But the US's overall trade balance continues to deteriorate, on course to head toward a deficit of USD1.4trln this year, well over 4% of GDP. Reducing trade with China (Jan-July imports: -19%yoy) is resulting in more trade with the rest of the world (Jan-July imports: +11%yoy).



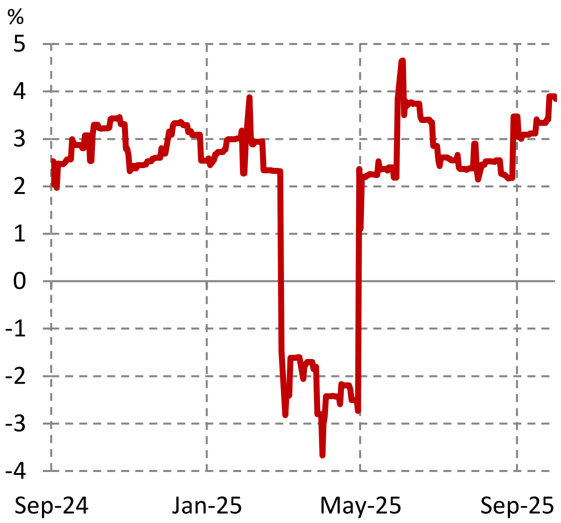
Source: CEIC, DBS. 2025 forecast extrapolated from data available from Jan-July

Commentary: US economy's mixed signals

Yield curves suggest expectations of lower rates to support a slowing economy, while stock markets project rosy times. Jobs data point toward a loss of labour market momentum, but retail sales show consumers still going strong. The US economy is offering decidedly mixed signals going into the final leg of 2025.

First, the good news. We estimate that retail sales are tracking high single digit annualised growth rates. Consumer sentiment may be on the weak side, but the actual spending is robust. Both consumer and business expenditures, despite tariffs, have been strong, with total imports up 11%yoy through July. PMI surveys still point to a modest rate of expansion, although manufacturing appears a tad weaker than services. Public sector's contribution to growth is waning, but it is being offset, for now, by an historic rise in AI-related spending. Putting it altogether, the US economy is far from a recession. In fact, Atlanta Fed's Nowcasting is picking up an increase in economic momentum, driven by surging private investments.

US GDP Nowcast (Atlanta Fed)



Source: Bloomberg, DBS

But current momentum should not be conflated with the outlook. Policy uncertainties, ranging from tariffs to government shutdown, remain heightened. The job market has cooled a tad, but more critically, many indicators point toward further cooling ahead. Private sector surveys in September reported that companies' hiring plans so far this year were the weakest since 2009. Federal government related job cuts and a rising reluctance to add workers amid AI-induced disruption have been clouding the picture through the course of this year. Immigration measures have also pushed up the cost of hires, adding to the gloom in the near-term jobs picture.

Would Fed rate cuts ameliorate this situation? We have our doubts. Cost of capital is not high on the list of difficulties faced by businesses, and hence a decline in interest rates is unlikely to make matter considerably better. Reduction in policy uncertainty, easing of immigration measures, and a decline in the cost of doing business could help, but we see relatively small chance of these factors working out in the near term. It is possible that favourable treatment of capital expenditure under the 2026 tax laws could usher in a jump in non-tech investment next year, helping the labour market. But even that would require a turnaround in business confidence, which would necessitate a sharp reduction in policy, especially with respect to trade and immigration.

The US economy could readily grow by 1.5-2% in the coming years, just on the back of private sector cap-ex. Even if consumers scale back a tad amid federal level job losses, there are sufficient ingredients in place for recession worries to be put to rest, in our view.

Taimur Baig

Group Research

Economics & Strategy

Taimur BAIG, Ph.D.
Chief Economist
Global
taimurbaig@dbs.com

Wei Liang CHANG
FX & Credit Strategist
Global
weiliangchang@dbs.com

Byron LAM
Economist
China/HK SAR
byronlamfc@dbs.com

Radhika RAO
Senior Economist
Eurozone, India, Indonesia
radhikarao@dbs.com

Nathan CHOW
Senior Economist
China/HK SAR
nathanchow@dbs.com

Violet LEE
Associate
Publications
violetleeyh@dbs.com

Amanda SEAH
Credit Analyst
USD, SGD, AUD
amandaseah@dbs.com

Han Teng CHUA, CFA
Senior Economist
Asean
hantengchua@dbs.com

Tracy Li Jun LIM
Credit Analyst
USD, SGD
tracylimt@dbs.com

Daisy SHARMA
Analyst
Data Analytics
daisy@dbs.com

Ian Haan CHUI
Credit Analyst
USD
ianchui@dbs.com

Teng Chong LIM
Credit Analyst
USD, SGD, AUD
tengchonglim@dbs.com

Joel SIEW, CFA
Credit Analyst
USD, SGD, AUD
joelsiew@dbs.com

Dexter CHUN
Credit Analyst
USD
dexterchun@dbs.com

Eugene LEOW
Senior Rates Strategist
G3 & Asia
eugeneleow@dbs.com

Mervyn TEO
Credit Anaylst
USD, SGD, AUD
mervynteo@dbs.com

Iris GAO
Credit Analyst
USD
irisgao@dbs.com

Lilian LV
Credit Analyst
USD
lilianlv@dbs.com

Samuel TSE
Rates Strategist
Asia
samueltse@dbs.com

Mo JI, Ph.D.
Chief Economist
China/HK SAR
mojim@dbs.com

Tieying MA, CFA
Senior Economist
Japan, South Korea, Taiwan
matieying@dbs.com

Philip WEE
Senior FX Strategist
Global
philipwee@dbs.com

Sources: Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations)

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DBS Bank Ltd., 12 Marina Boulevard, Marina Bay Financial Centre Tower 3, Singapore 018982. Tel: 65-6878-8888. Company Registration No. 196800306E.

DBS Bank Ltd., Hong Kong Branch, a company incorporated in Singapore with limited liability. 18th Floor, The Center, 99 Queen's Road Central, Central, Hong Kong SAR.

DBS Bank (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability. 13th Floor One Island East, 18 Westlands Road, Quarry Bay, Hong Kong SAR

AllianceDBS Research Sdn Bhd (128540 U), 23rd Floor, Menara Alliance Bank, 159 Jalan Ampang, 50450 Kuala Lumpur, Malaysia. Tel.: +603 2604 3915.